

Market Comment

U.S.-Iran conflict rattles financial markets

- **Increasing U.S.-Iran geopolitical tensions quelled markets risk-on mood (see)**, which had prevailed at the end of 2019 and the first trading day of 2020 on the back of easing trade tensions. Moreover, weaker manufacturing data in the U.S. and China also contributed to the increase in investor cautiousness at the end of the week, despite better-than-expected data in the Eurozone.
- **Negative manufacturing data for U.S. this week:** The ISM Manufacturing PMI unexpectedly fell in December (47.2; Cons; 49.0; Prev; 48.1) led by the shrinking in new orders and production. Furthermore, consumer confidence and jobless claims also declined in December, while other regional PMIs showed mixed results. Separately, China Caixin PMI Mfg slightly declined in December, whereas the manufacturing PMI surprised positively. **The Markit Manufacturing PMI was positive in Europe**, with the preliminary CPI in Germany rising more than expected in December (1.5% YoY; Cons:1.4% YoY; Prev: 1.1% YoY), although it is still below the ECB target of 2% for price stability.
- **The U.S.-Iran conflict had a strong impact on the oil markets.** Oil Brent prices jumped (+4% to \$68), underpinned by concerns about supply disruptions on the back of the U.S.-Iran dispute. However, **investors sought shelter in precious metal commodities** (gold prices increased +1.3%)
- **FX markets also reflected certain increases in risk aversion** due to geopolitical tensions, with **safe-haven currencies appreciating** at the end of the week. The USD appreciated and reversed the initial depreciation experienced during the first few days of the week, whereas JPY outperformed its G10 pairs. Elsewhere, the euro depreciated, after reaching levels above 1.12 USD, while the fall was cushioned by higher-than-expected inflation in Germany. On the other hand, FX EM slightly depreciated across the board, even in oil exporting countries underpinned by the risk-off. Elsewhere, Chinese RMB remained below the 7 threshold, suggesting that markets still expect U.S.-China phase one to take place on January 15 as Trump said, although the Chinese authorities did not confirm the date.
- **Bond markets remained well demanded due to risk-off mood/investors caution, amid a light volume.** Sovereign bond yields fell as market risk sentiment worsened (10Y UST -6.6bps, 10Y Ger -6.0bps), reversing recent increases. Moreover, ahead of today's release of the latest FOMC minutes, expectations of further Fed interest rate cuts were brought back to the markets, after being removed early in the week (60% probability of a Fed rate cut in 2020). However, the odds of an ECB rate cut remain below 20%.
- **Geopolitical tensions weighed on equity markets**, which had began the year with a positive tone, heading for new records, led by cyclical sectors especially after a fresh monetary stimulus was announced by China (see). The increase in oil prices weighed on transport sectors. Nonetheless, low trade volume may distort the trend. Equity volatility rose (VIX 13), reflecting some concerns.

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DEBT MARKETS (10Y, %, CHANGE IN BPS)

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,53	-4,0	-5,3	-4	-85
US	1,81	-6,6	-6,5	4	-74
GER (2-yr)	-0,62	-1,9	0,9	1	-1
Germany	-0,28	-6,0	-2,7	3	-44
France	0,02	-5,4	-2,6	3	-63
Spain	0,38	-6,2	-2,6	-6	-105
Italy	1,33	-8,1	-4,1	4	-153
Portugal	0,36	-6,2	-3,2	-2	-141
Greece	1,41	-1,6	-5,2	-14	-300
Japan (2-yr)	-0,13	0,0	-0,7	2	1
Japan	-0,01	0,0	-1,1	3	-1
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,76	3,3	-11,9	-5	-241
Chile	2,70	-1,3	-13,8	-39	-147
Colombia	6,34	0,0	0,0	-15	-41
Mexico	6,80	-3,6	-6,3	-29	-177
Peru	3,47	0,9	-5,4	-28	-188
Poland	2,07	-3,9	-0,8	5	-67
Russia	6,42	1,1	-5,3	-13	-235
Turkey	12,00	14,0	5,0	4	-407
India	6,52	1,2	0,9	5	-91
Indonesia	7,03	0,1	-7,3	-14	-107

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	31	0,6	0,1	0	-20
Italy	162	-2,1	-1,4	1	-109
Portugal	64	-0,2	-0,5	-6	-98
Spain	67	-0,2	0,1	-9	-61
2-yr sovereign spread vs Germany					
France	3	-0,4	-0,1	-1	-11
Italy	54	-2,1	-2,9	-13	-63
Portugal	8	1,6	-0,6	2	-25
Spain	24	1,4	0,5	1	-17
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	97	-1,6	-5	-28	-105
Chile	41	-0,6	-2	-15	-21
Colombia	70	-1,5	-4	-21	-86
Argentina	4841	-29,7	-423	-3711	4054
Mexico	77	-1,1	-3	-15	-76
Peru	40	-1,3	-3	-16	-53
Poland	59	1,1	1	-3	-8
Russia	56	0,2	-1	-13	-100
Turkey	272	-12,9	-7	-47	-91
China	30	-1,3	-2	-10	-39
India	63	-2,7	-5	-7	-51
Indonesia	62	-0,5	-1	-14	-80

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	13	0,9	0	-1	-12
VSTOXX	57	0,0	2	-6	-9
EM EFTT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,2	1	0	-2
EM FX volatility index	17	-0,3	1	-1	-9
Credit spread (BAA) (change in bps)	209	6,6	12	-2	-40
US bonds volatility index	7	0,0	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,14	-	9	8	7
EZ Inflation expectations (5Y5Y)	1,32	-	1	12	-22
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	41	-0,1	0	-6	-43
EZ	45	0,0	0	-4	-60
UK	42	0,5	0	-3	-52
Large Spanish	32	-0,1	0	-4	-57
Medium Spanish	77	0,0	0	-13	-35
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	174	-0,4	-11	-24	-33
EZ Non-financial	64	-0,2	0	-5	-34
UK Non-financial	98	-0,8	2	-3	-22

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,38	-1	1	1	-8
Euribor 12m	-0,24	1	1	3	-12
Libor 3m	-0,45	0	2	1	-9
Libor 12m	1,90	0	-5	2	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3238	-0,6	-0,1	4,0	32
Dow Jones	28614	-0,9	-0,1	3,5	26
Nikkei	23657	0,0	-0,8	2,3	18
FTSE 100	7623	0,2	-0,3	6,0	14
EuroStoxx 50	3770	-0,6	-0,3	3,0	28
IBEX	9640	-0,5	-0,6	4,0	13
DAX	13213	-1,3	-0,9	0,5	27
CAC	6035	-0,1	0,0	4,1	31
MB	23716	-0,5	-0,2	3,0	30
ASE Athens	920	-1,1	0,0	3,5	52
MSCI Latam *	102538	2,4	0,9	7,5	16
Ibovespa (Brazil)	117967	-0,5	1,2	6,9	29
Mexbol (Mexico)	44542	0,2	0,6	5,6	6
Merval (Argentina)	40506	-1,5	-2,8	16,8	30
MSCI EM Europe *	6415	0,6	1,0	6,1	21
Poland	2174	-1,2	1,0	4,4	-3
Micex 10 (Russia)	5402	1,1	0,6	7,3	28
Ise 100 (Turkey)	113684	-1,9	0,0	5,6	30
MSCI EM Asia *	925	1,2	1,4	7,2	20
Shanghai Com (China)	3084	0,0	2,6	7,1	25
Jakarta (Indonesia)	6323	0,4	0,1	3,1	2
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	163,1	-1,7	-0,3	5,8	41
JPM	138,3	-2,0	-0,6	4,5	42
Citi	79,9	-1,6	0,3	7,7	52
BoA	35,0	-1,7	-0,9	5,6	43
MS	51,1	-1,8	0,0	4,6	29
GS	231,6	-1,2	0,4	7,3	37
EZ banks	85,5	-1,2	0,7	5,8	26
BNP	52,9	-1,4	-0,2	5,1	36
Crédit Agricole	13,1	-0,8	0,4	5,8	41
Deutsche Bank	7,3	-1,2	5,1	12,1	2
ING	10,9	-1,2	1,4	5,8	16
Intesa	2,4	-1,2	-0,1	2,7	24
SG	31,2	-1,3	0,5	8,3	14
Unicredito	13,3	-1,6	1,2	5,8	38
UK banks	79,2	-1,0	-0,3	6,7	10
HSBC	594,8	-0,1	-0,5	6,4	-7
RBS	239,5	-2,0	-1,3	7,6	12
Barclays	182,9	-1,2	0,8	9,4	22
Lloyds	63,0	-1,1	-0,3	4,0	23
Large Spanish banks	59,7	-1,5	0,6	6,8	1
Santander	3,8	-1,7	1,1	6,9	-5
BBVA	5,0	-1,3	0,1	6,6	8
Medium Spanish banks	53,3	-1,0	1,4	4,7	-6
Caixabank	2,9	-0,7	2,1	5,6	-8
Sabadell	1,1	-1,2	0,8	3,7	7
Bankinter	6,7	-0,7	1,2	3,6	-4
Bankia	1,9	-2,1	2,1	8,4	-23

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,116	-0,1	-0,1	0,8	-2
GBPUSD	1,308	-0,5	0,0	-0,2	4
USDJPY	108,000	0,5	1,3	0,8	0
DXY	96,829	0,0	0,1	-0,8	1
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	59,83	0,0	0,0	0,1	-37
USDBRL (Brazil)	4,04	-0,5	0,1	4,1	-7
USDCOP (Chile)	756,42	-0,7	-1,2	4,6	-8
USDCOL (Colombia)	3256	0,0	1,39	6,61	0
USDMXN (Mexico)	18,86	-0,1	-0,1	3,0	4
USDPEN (Peru)	3,31	-0,3	0,1	2,1	2
LACI	51,35	-0,3	0,0	3,4	-7
USDPLN (Poland)	3,80	-0,1	0,4	1,7	-1
USD RUB (Russia)	61,95	-0,4	0,3	3,2	11
USDTRY (Turkey)	5,97	-0,2	-0,3	-3,7	-8
USDCNY (China)	6,97	0,0	0,4	1,2	-1
USDINR (India)	71,81	-0,6	-0,6	-0,4	-2
USDIDR (Indonesia)	13930	-0,3	0,2	1,3	3
ADXY	104,77	-0,2	0,1	1,1	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	68,7	3,6	0,7	9	23
WTx	63	3,4	2,5	8	34
Copper	279	-1,5	-1,7	6	9
Gold	1549	1,3	2,6	5	20
S&P Spot commodity *	437	0,1	-0,8	4	15
S&P Brent Spot *	564	0,4	-0,9	5	18
S&P Metals Spot *	325	0,2	-0,7	4	4
S&P Agricultural *	302	0,0	0,2	5	5

Source: Bloomberg, Datastream and Haver

* With one day delay