

Market Comment

Financial markets found some ground

Financial markets found some ground as investors wait for further developments on US-Iran geopolitical conflict. Iran has warned to retaliate against the US but it is currently studying different retaliation scenarios. On the trade front, US-China trade negotiations turned optimistic after **China's Vice Premier Liu confirmed he will be in Washington next week to sign the phase-one trade deal on January 15th**. Economic data also contributed to stabilizing financial markets as manufacturing confidence was slightly revised upward.

Inflation inched up in the Eurozone, while the ISM non-manufacturing suggests the US services sector remained strong in December. Today's economic releases were positive. In the Eurozone, December's inflation estimation rose in line with expectations (1.3% YoY, Consensus 1.3%YoY, Previous 1.0% YoY), while core inflation was unchanged (1.3% YoY; Consensus 1.3%YoY; Previous 1.3%YoY). The acceleration of the eurozone inflation was mainly boosted by higher energy and oil prices. Elsewhere, the Non-Manufacturing Index grew modestly in December (55.0; Consensus: 54.5; Previous; 53.9). The US trade deficit decreased surprisingly in November after being revised downward (-\$43.1b; Consensus: -\$43.6b Previous: -\$46.9b) driven by an increase in exports while imports contracted. Factory orders fell by less than expected to -0.7% in November from 0.3% (revised upward 0.1%).

Sovereign yields leveled off after last week's sharp fall due to the increase in US-Iran geopolitical tensions. Positive prospects about US-China has contributed to stabilize government yields. Meanwhile, financial markets expect the Fed to remain supportive if US-Iran tensions eventually surge. Against this background, implied probability of an additional 25bps Fed interest cut this year has reemerged and it is currently 65%. Elsewhere, Spain's left-wing coalition government (PSOE-Unidas Podemos) won parliamentary support, backed by 167 of the 350 legislators ([see](#)).

Oil prices slightly declined after last week's gains. While current levels seems to be high according to fundamentals, the likelihood of disruptions to Middle East supply maintain the oil prices at this high levels. Nonetheless, oil prices current level are below than those reached in April 2019, when concerns about sanctions against Iran oil exports surged. Elsewhere, gold prices remain steady at high levels, suggesting caution prevails.

Safe-haven currencies were steady overall. Sterling depreciated as dollar gained, due to GBP investors await for the meeting between Prime Minister Boris Johnson and the new European Commission President Ursula von der Leyen this Wednesday. Moreover, the UK government is also pushing to get the Brexit bill through the final Commons stages by the end of Thursday. On the other hand, in emerging markets, the Yuan led the gains amid encouraging trade news, while LatAm currencies generally depreciated.

Asian and European equity markets increased today, while the US is currently moving sideways but equity volatility remained contained (VIX hovering around 14).

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,54	-0,2	-2,7	-7	-100
US	1,80	-0,5	-11,4	-3	-89
GER (2-yr)	-0,62	0,1	-2,3	0	-4
Germany	-0,29	0,1	-10,1	0	-51
France	0,02	-0,2	-10,1	-2	-71
Spain	0,40	0,3	-7,1	-10	-110
Italy	1,38	1,6	-3,5	3	-152
Portugal	0,37	-0,4	-7,7	-6	-146
Greece	1,40	-0,9	-7,2	-12	-299
Japan (2-yr)	-0,12	3,1	1,4	2	5
Japan	-0,01	1,5	0,6	0	1
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,82	-3,0	3,1	4	-236
Chile	2,74	0,3	5,5	-51	-146
Colombia	6,34	0,0	0,0	-15	-45
Mexico	6,82	2,6	-6,7	-16	-172
Peru	3,48	1,1	-4,4	-22	-186
Poland	2,19	11,9	6,9	19	-62
Russia	6,43	0,0	1,3	-13	-236
Turkey	11,92	-16,0	6,0	-12	-399
India	6,56	-1,6	0,0	-11	-108
Indonesia	7,06	-3,4	0,0	-5	-82

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	30	-0,3	0,0	-2	-20
Italy	166	1,5	6,6	3	-102
Portugal	65	-0,5	2,4	-6	-95
Spain	68	0,2	3,0	-10	-60
2-yr sovereign spread vs Germany					
France	3	0,1	1,8	-1	-12
Italy	57	1,5	1,3	-13	-53
Portugal	11	2,6	5,5	3	-25
Spain	24	0,1	2,4	-1	-15
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	98	-1,0	-1	-22	-91
Chile	43	0,3	1	-10	-15
Colombia	71	-0,8	-2	-14	-74
Argentina	5212	-74,8	344	-3448	4471
Mexico	78	-0,8	-1	-8	-65
Peru	41	0,1	0	-12	-48
Poland	58	0,0	0	-4	-10
Russia	60	-0,2	3	-7	-91
Turkey	285	1,6	8	-25	-75
China	34	0,9	3	-5	-32
India	66	0,2	1	-4	-47
Indonesia	66	1,3	3	-8	-71

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	14	-0,3	0	0	-8
VSTOXX	63	0,0	5	-1	2
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	-0,2	0	0	-2
EM FX volatility index	18	-0,7	0	1	-6
Credit spread (BAA) (change in bps)	203	0,5	4	-5	-40
US bonds volatility index	7	-0,1	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,05	-	-2	-3	-9
EZ Inflation expectations (5Y5Y)	1,31	-	-2	8	-23
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	44	1,3	3	-1	-44
EZ	48	1,2	2	0	-60
UK	43	0,2	1	-1	-54
Large Spanish	33	0,8	1	-1	-57
Medium Spanish	75	-2,2	-2	-13	-35
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	180	4,1	12	-13	-20
EZ Non-financial	67	1,4	3	-2	-33
UK Non-financial	99	0,8	4	-1	-21

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	-1	0	n.a.
Euribor 3m	-0,39	0	0	1	-8
Euribor 12m	-0,25	0	0	2	-13
Libor 3m	-0,45	0	0	0	-9
Libor 12m	1,87	0	-4	-1	-93

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3236	-0,3	0,2	2,9	27
Dow Jones	28594	-0,4	0,2	2,1	22
Nikkei	23576	1,6	-0,3	0,9	18
FTSE 100	7574	0,0	0,4	4,6	11
EuroStoxx 50	3756	0,1	0,3	1,7	24
IBEX	9575	-0,3	0,3	2,0	9
DAX	13191	0,5	-0,4	0,2	23
CAC	6014	0,0	0,6	2,4	27
MIB	23675	0,4	0,7	2,1	25
ASE Athens	924	0,5	0,8	5,9	49
MSCI Latam *	101731	-0,5	1,5	5,0	14
Ibovespa (Brazil)	116202	-0,6	0,5	4,6	27
Mexbol (Mexico)	44305	-0,4	1,8	5,6	3
Merval (Argentina)	41030	-1,1	-1,5	12,2	24
MSCI EM Europe *	6420	-0,2	0,6	5,4	19
Poland	2151	-1,1	0,0	3,7	-8
Micex 10 (Russia)	5410	0,0	1,2	5,7	27
Ise 100 (Turkey)	112560	1,0	-1,6	3,4	25
MSCI EM Asia *	914	-1,0	-0,4	5,7	18
Shanghai Com (China)	3105	0,7	1,8	6,6	23
Jakarta (Indonesia)	6279	-0,7	-0,3	2,1	0
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	162,5	-0,3	-0,6	3,1	34
JPM	137,1	-0,8	-1,6	1,5	36
Citi	79,0	-0,5	-1,1	4,2	42
BoA	34,8	-0,1	-1,2	3,4	36
MS	50,8	-0,4	-0,6	2,0	22
GS	236,4	1,0	2,8	5,2	34
EZ banks	85,2	0,3	0,8	4,1	19
BNP	52,7	0,0	-0,3	3,4	29
Crédit Agricole	13,0	-0,2	0,2	3,0	33
Deutsche Bank	7,3	2,0	5,9	12,3	-3
ING	10,9	0,8	2,4	5,0	11
Intesa	2,3	-0,1	-0,4	1,1	15
SG	31,3	0,9	1,1	6,8	10
Unicredit	13,1	0,4	0,8	3,0	25
UK banks	78,8	0,2	0,3	4,8	6
HSBC	584,0	-0,2	-1,3	3,9	-9
RBS	240,8	0,3	0,2	5,6	8
Barclays	182,4	0,8	1,5	7,7	17
Lloyds	63,2	-0,1	1,1	2,8	18
Large Spanish banks	59,1	-0,6	0,5	4,6	-3
Santander	3,8	-0,5	0,7	4,7	-10
BBVA	5,0	-0,7	0,3	4,5	3
Medium Spanish banks	52,9	-0,6	1,3	3,0	-11
Caixabank	2,9	0,7	3,0	4,9	-12
Sabadell	1,1	-0,5	1,0	3,1	2
Bankinter	6,6	-1,5	0,8	0,8	-8
Bankia	1,9	-0,6	0,2	6,5	-28

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,115	-0,4	-0,6	0,8	-3
GBPUSD	1,312	-0,4	-1,0	-0,2	3
USDJPY	108,430	-0,1	0,2	0,1	0
DXY	97,003	0,3	0,6	-0,7	1
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	59,82	0,0	0,1	0,2	-38
USDBRL (Brazil)	4,08	-0,5	-1,5	1,3	-9
USDCOP (Chile)	772,68	-0,1	-2,6	0,7	-12
USDCOP (Colombia)	3264	-0,5	0,72	4,88	-3
USDMXN (Mexico)	18,88	-0,2	0,2	2,2	3
USDPEN (Peru)	3,33	-0,1	-0,5	1,5	1
LACI	51,01	-0,2	-0,8	1,7	-8
USDPLN (Poland)	3,81	-0,7	-0,3	1,6	-2
USD RUB (Russia)	62,01	-0,3	-0,1	2,7	8
USDTRY (Turkey)	5,98	-0,1	-0,4	-3,4	-10
USDCNY (China)	6,94	0,4	0,3	1,3	-1
USDINR (India)	71,83	0,1	-0,6	-0,9	-3
USDIDR (Indonesia)	13878	0,5	-0,1	1,2	1
ADX	104,88	0,1	-0,3	0,9	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	68,3	-0,9	3,5	6	19
WTX	63	-0,9	2,7	6	29
Copper	280	0,1	0,3	3	6
Gold	1570	0,3	3,5	8	22
S&P Spot commodity *	445	0,3	1,9	5	14
S&P Brent Spot *	586	0,5	4,4	7	20
S&P Metals Spot *	325	0,3	0,1	3	1
S&P Agricultural *	299	0,0	-0,9	4	3

Source: Bloomberg, Datastream and Haver

* With one day delay