

Market Comment

US-Iran seem to avoid a major conflict

- U.S.-Iran geopolitical tensions.** Iran attacked a U.S. military base in Iraq overnight in retaliation for the previous U.S. attack, although Iran stated that it does not seek escalation of war. Financial markets were steady during the European session, after an initial jolt in the Asian market following the overnight attack, pending a statement from President Trump this afternoon to shed some light on the next steps from the U.S. side. Finally, in his statement, **Trump announced further economic sanctions against Iran** and urged China, Russia and Europe to break away from the nuclear deal. That said, he preferred not to escalate military interventions against Iran.
- On the data front, **economic confidence improved in the Eurozone, while labor markets remained robust in the U.S.** In the Eurozone, economic confidence indicator picked up in December (101.5; Cons: 101.4; Prev: 101.2, revised from 101.3), underpinned by stronger-than-expected services confidence that more than offset the decline in both industrial and business confidences. Moreover, Germany's factory orders surprised to the downside in November (-1.3% MoM; Cons: 0.2% MoM), while the previous reading was revised up from -0.4% MoM to 0.2% MoM, showing that Germany has not yet been able to overcome the slowdown in the industrial sector. On the other hand, the U.S. ADP employment rose more than expected in December (202k; Cons: 160k; previous 124k, revised from 67k).
- Regarding the issue of Brexit, the European **Commission President, Ursula von der Leyen, warned** before her meeting with the UK President, Boris Johnson, **it will be "impossible" to reach a Brexit agreement before the end of 2020, as Johnson hoped.** Nonetheless, the impact of these remarks on UK assets was mute, with GBPUSD volatility declining.
- Brent Oil prices declined**, after hitting level above \$70 per barrel after Iran's attack. However, oil prices slid back after OPEC said it has enough capacity to offset an eventual supply disruption, unless the Iran conflict escalates to a broader conflict. A statement from Iran suggesting that it does not wish to pursue a war also helped to stabilize oil prices, while the U.S. decision not to step up military interventions accelerated the decline in prices. Moreover, Brent's future curve remains in backwardation, despite recent increases. The prices of the Brent oil December futures are hovering around \$62 per barrel.
- Sovereign yields fluctuated, especially the 10Y US Treasury**, which slumped 10bps in the Asian session, but it recovered after investors eased tail risk scenario in US-Iran conflict. In the same line, European bond yields increased, underpinned also by the improvement in the Eurozone economic indicator. Peripheral risk premia were broadly unchanged.
- Signs of stabilization appeared in FX markets.** The Japanese yen depreciated, while the USD was flat ahead of Trump's statement on Iran, but gaining against its G10 pairs. Elsewhere, emerging market currencies broadly appreciated, with the Colombian Peso leading the gains.
- European and U.S. markets rose**, with the S&P 500 leading the gains (VIX index fell from 14 to 13).

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,58	3,6	0,7	-4	-101
US	1,86	4,0	-5,9	4	-87
GER (2-yr)	-0,61	1,8	-0,4	3	-3
Germany	-0,21	4,3	-5,6	7	-43
France	0,05	3,4	-6,7	4	-68
Spain	0,43	3,6	-3,5	-2	-108
Italy	1,41	3,7	0,2	14	-154
Portugal	0,39	2,8	-4,8	0	-143
Greece	1,40	-0,2	-7,3	0	-295
Japan (2-yr)	-0,12	-0,4	1,0	0	2
Japan	0,00	0,3	0,9	0	-1
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,77	-4,0	-1,7	-2	-237
Chile	2,79	-0,3	10,2	-42	-143
Colombia	6,32	-0,9	-2,3	-18	-38
Mexico	6,85	-2,2	-3,8	-5	-175
Peru	3,49	0,3	-3,6	-17	-183
Poland	2,21	1,7	8,6	23	-66
Russia	6,44	1,6	2,9	-12	-234
Turkey	11,77	-15,0	-9,0	-47	-438
India	6,56	0,8	5,7	-10	-97
Indonesia	7,08	1,6	5,0	-5	-87

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	-0,9	-1,1	-3	-25
Italy	162	-0,6	5,8	7	-111
Portugal	60	-1,5	0,8	-6	-100
Spain	64	-0,7	2,1	-9	-65
2-yr sovereign spread vs Germany					
France	4	0,3	2,2	-1	-11
Italy	57	-0,2	1,5	-9	-55
Portugal	11	0,7	6,6	2	-26
Spain	22	-1,5	0,7	-3	-15
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	100	1,7	1	-17	-84
Chile	43	0,9	2	-7	-12
Colombia	71	0,1	-1	-11	-65
Argentina	4959	-253,1	88	-3127	4235
Mexico	78	0,1	0	-4	-57
Peru	42	0,7	0	-9	-44
Poland	58	-0,3	-1	-3	-10
Russia	60	0,4	4	-6	-85
Turkey	283	-2,0	-1	-23	-71
China	33	-1,1	1	-5	-33
India	66	0,2	0	-4	-46
Indonesia	66	-0,1	3	-7	-68

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	13	-0,8	-1	-3	-8
VSTOXX	63	0,0	4	-5	4
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	-1	0	-2
EM FX volatility index	16	-1,5	-1	-1	-6
Credit spread (BAA) (change in bps)	200	-4,0	2	-6	-39
US bonds volatility index	7	0,0	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,02	-	-5	-3	-15
EZ Inflation expectations (5Y5Y)	1,31	-	-9	7	-26
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	44	-0,1	3	1	-41
EZ	47	-0,1	2	0	-61
UK	42	-0,5	1	-1	-55
Large Spanish	33	0,0	1	0	-56
Medium Spanish	74	-1,0	-3	-14	-37
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	182	2,1	9	-10	-11
EZ Non-financial	66	-0,7	2	-2	-31
UK Non-financial	99	-0,7	0	-1	-19

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	-1	0	n.a.
Euribor 3m	-0,39	0	-1	0	-8
Euribor 12m	-0,25	0	0	3	-13
Libor 3m	-0,46	0	-1	0	-9
Libor 12m	1,88	0	-4	-2	-92

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3258	0,6	0,8	3,9	27
Dow Jones	28792	0,7	0,9	3,2	21
Nikkei	23205	-1,6	-1,9	-1,0	15
FTSE 100	7575	0,0	0,4	4,7	10
EuroStoxx 50	3773	0,4	0,7	2,7	23
IBEX	9591	0,1	0,4	2,5	8
DAX	13320	0,7	0,5	1,6	23
CAC	6031	0,3	0,9	3,3	26
MIB	23832	0,5	1,4	3,8	25
ASE Athens	914	-1,1	-0,3	5,8	46
MSCI Latam *	101310	-0,4	1,1	4,5	13
Ibovespa (Brazil)	116463	-0,2	0,7	4,9	27
Mexbol (Mexico)	44316	0,4	1,8	5,6	2
Merval (Argentina)	40825	-0,7	-2,0	12,1	24
MSCI EM Europe *	6415	-0,1	0,6	4,6	19
Poland	2116	-1,4	-1,6	2,4	-9
Mcex 10 (Russia)	5435	0,5	1,7	5,3	28
Ise 100 (Turkey)	112876	0,2	-1,4	3,8	24
MSCI EM Asia *	919	0,5	0,6	5,7	17
Shanghai Comex (China)	3067	-1,2	0,5	5,2	21
Jakarta (Indonesia)	6226	-0,5	-1,2	0,6	-1
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks					
JPM	163,7	1,2	0,1	4,5	36
Citi	137,1	0,9	-1,6	2,0	36
Citi	79,8	1,3	-0,2	5,9	44
BoA	35,0	1,1	-0,6	4,5	37
MS	51,6	1,4	1,0	4,1	25
GS	239,0	1,5	3,9	7,7	36
EZ banks					
BNP	86,0	0,8	1,8	5,1	20
BNP	52,8	0,2	-0,1	4,0	29
Crédit Agricole	13,0	0,5	0,6	3,1	33
Deutsche Bank	7,7	3,4	11,1	17,5	1
ING	11,1	1,4	3,6	5,7	11
Intesa	2,3	-0,3	-0,4	1,8	16
SG	31,8	1,0	2,4	8,3	11
Unicredito	13,3	1,3	2,4	4,6	29
UK banks					
HSBC	78,5	-0,4	-0,1	3,7	5
HSBC	581,3	-0,4	-1,8	3,7	-10
RBS	240,3	-0,1	0,0	4,5	6
Barclays	182,0	-0,6	1,3	6,0	16
Lloyds	62,8	-0,5	0,5	1,1	17
Large Spanish banks					
Santander	3,8	0,1	0,8	4,7	-11
BBVA	5,1	1,0	1,5	6,3	4
Medium Spanish banks					
Caixabank	53,1	0,2	1,6	3,7	-11
Sabadell	2,9	0,0	3,1	6,0	-12
Sabadell	1,1	1,1	2,6	4,3	3
Bankinter	6,6	-0,1	0,7	1,1	-9
Bankia	1,9	0,0	0,4	6,7	-29

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,112	-0,3	-0,8	0,5	-3
GBPUSD	1,311	-0,1	-1,1	-0,3	3
USDJPY	109,060	-0,6	-0,3	-0,5	0
DXY	97,286	0,3	0,9	-0,4	1
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	59,82	0,0	0,1	0,2	-37
USDBRL (Brazil)	4,04	0,6	-0,4	2,4	-8
USDCOP (Chile)	762,16	0,9	-1,2	1,8	-11
USDCOLP (Colombia)	3243	1,0	1,37	5,43	-3
USDMXN (Mexico)	18,77	0,7	0,7	2,5	3
USDPEN (Peru)	3,32	0,2	-0,1	1,8	1
LACI	51,42	0,6	0,0	2,3	-8
LADPLN (Poland)	3,81	-0,2	-0,4	1,6	-1
USDRUB (Russia)	61,47	0,8	0,8	3,4	9
USDTRY (Turkey)	5,92	0,9	0,5	-1,8	-7
USDCNY (China)	6,95	0,0	0,3	1,3	-1
USDINR (India)	71,71	0,2	-0,7	-0,9	-2
USDIDR (Indonesia)	13900	-0,2	-0,2	0,8	2
ADXY	105,05	0,2	0,0	1,2	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	65,7	-3,8	-0,5	2	12
WTx	60	-4,4	-1,8	2	20
Copper	280	-0,1	0,3	2	5
Gold	1559	-1,0	2,7	7	21
S&P Spot commodity *	442	-0,5	1,4	5	12
S&P Brent Spot *	581	-0,9	3,4	7	16
S&P Metals Spot *	324	-0,1	0,0	3	1
S&P Agricultural *	299	-0,1	-1,0	4	3

Source: Bloomberg, Datastream and Haver

* With one day delay