

Market Comment

Geopolitical tensions fade boosting risk-on mood

- Financial markets veered back toward a risk-on mood** after fresh positive news. Regarding tensions in the Middle East, US-Iran seemed to step away from a major military conflict. Iran stated yesterday they were not seeking an escalation or war, while US President, Donald Trump, only imposed economic sanctions without suggesting more military actions. Separately, the Chinese commerce ministry said on Thursday that China will sign the phase-one trade deal in Washington next week (see). Elsewhere, positive economic data in the US and mixed economic data in Europe also contributed to improving market sentiment.
- On Thursday the UK Parliament will approve the terms of the Brexit deal to exit the UE on January 31. On the other hand, the European Union is prepared to start the negotiation framework after Brexit (see) next week. Meanwhile, the ECB's president Christine Lagarde has warned that the Brexit deal is a short-term relief but reaching a EU-UK trade agreement would be a major challenge.
- Robust economic data in the US and mixed in the Eurozone.** Germany's industrial production exceeded expectations in November (1.1% MoM; Cons: 0.8% MoM), while the previous reading was revised upward from -1.7% MoM to -1% MoM amid stronger construction and capital goods production. Meanwhile, the trade balance for November showed a lower-than-expected surplus. On the other hand, US initial jobless claims declined more than expected in the week ending on January 4 (214k; Cons:220k Prev: 223k revised from 222k). In the meantime, China's headline CPI inflation rose to 4.5% YoY in December, flat with the return in the previous month (Cons: 4.7% YoY), mainly driven by the impact of the African swine flu (ASF) which lasted throughout 2019. Nonetheless, PPI increased little in December, but remained negative (-0.5%; Cons:-0.4%; Prev:-1.4%). The high inflation outturns will become a new constraint to China's monetary easing policy this year, which is needed to boost bank lending and buoy domestic demand.
- Fed Vice President Clarida's statement mirrored the latest FOMC statement** suggesting that **the economy is in good shape**, amid strong growth, stable prices, robust labor markets and signs of easing global risk. His statement supports a steady interest rate during 2020.
- Sovereign yields extended the rally that began yesterday after geopolitical tensions de-escalated. In Europe, bond yields also inched up** boosted also by positive Germany's industrial data, while ECB's Lagarde encouraged coordinate fiscal stimulus in the eurozone to encourage economic growth. Peripheral risk premia remained steady, except in Italy, whose risk narrowed, underpinned by risk-on mood.
- In FX markets risk-on mood weighed on the Japanese yen**, which continued yesterday's fall, while boosting the rest of G-7 currencies. However, the GBP slightly depreciated as the Bank of England governor hinted a potential interest rate cut if weakness persisted. On the other hand, the USD consolidated recent appreciation despite the risk-on, amid strong data. EM FX showed minor changes, although currencies from oil-exporting countries underperformed.
- Regarding commodities, Brent oil prices fell from prices reached yesterday after the attack in Irak (from \$70 per barrel to \$65), whereas the price of gold extended yesterday's losses.
- Equity markets increase across the board**, except in Spain, which remained steady. **Equity volatility inched down**, reflecting lower tensions.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,59	1,2	2,4	-6	-96
<b>US</b>	1,89	1,6	1,3	5	-82
GER (2-yr)	-0,59	1,2	0,9	4	-1
<b>Germany</b>	-0,18	2,9	1,0	8	-46
France	0,07	1,5	-1,1	5	-65
Spain	0,45	1,9	0,7	-1	-104
Italy	1,38	-3,5	-3,4	14	-150
Portugal	0,41	1,3	-1,1	1	-137
Greece	1,38	-1,1	-4,1	1	-292
Japan (2-yr)	-0,13	-0,5	0,5	-1	1
<b>Japan</b>	0,01	1,2	2,1	2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,74	-7,4	1,5	-5	-237
Chile	2,81	-0,3	9,6	-32	-143
Colombia	6,32	0,0	-2,2	1	-35
Mexico	6,88	2,0	4,4	-3	-180
Peru	3,50	-0,2	4,4	-14	-179
Poland	2,28	7,1	16,8	27	-58
Russia	6,42	-2,4	0,4	-14	-215
Turkey	11,53	-24,0	-33,0	-58	-457
India	6,53	-2,8	2,8	-18	-100
Indonesia	7,01	-6,5	-1,5	-11	-94

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
<b>10-yr sovereign spread vs Germany</b>					
France	24	-1,4	-2,1	-3	-19
Italy	156	-6,4	-4,4	5	-104
Portugal	58	-1,6	-2,1	-7	-91
Spain	63	-1,0	-0,3	-9	-58
<b>2-yr sovereign spread vs Germany</b>					
France	3	-0,7	-0,5	0	-11
Italy	55	-2,0	-1,0	-5	-51
Portugal	12	0,3	5,2	3	-28
Spain	21	-0,8	-1,2	-4	-15
Emerging Markets	level	Daily	Weekly	Monthly	YoY
<b>5-yr sovereign CDS *</b>					
Brazil	97	-2,4	-1	-18	-85
Chile	42	-1,3	0	-7	-13
Colombia	68	-2,2	-3	-11	-68
Argentina	5001	42,1	130	-2039	4270
Mexico	76	-2,2	-2	-6	-59
Peru	41	-1,6	-1	-10	-46
Poland	58	0,0	-1	-3	-9
Russia	58	-2,2	2	-7	-88
Turkey	277	-6,2	-9	-28	-89
China	32	-0,8	1	-6	-31
India	66	-0,3	0	-5	-44
Indonesia	64	-1,3	2	-9	-67

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	13	-0,6	0	-3	-7
VSTOXX	60	0,0	3	-7	3
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,3	-1	0	-3
EM FX volatility index	16	0,1	-1	-1	-5
Credit spread (BAA) (change in bps)	203	-1,6	5	1	-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)	2,10	-	-1	5	-8
EZ Inflation expectations (5Y5Y)	1,31	-	-1	7	-27
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	43	-0,7	2	-1	-38
EZ	47	-0,8	1	-1	-58
UK	41	-0,9	0	-1	-55
Large Spanish	33	-0,8	1	-1	-53
Medium Spanish	75	1,5	-2	-14	-37
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	183	0,7	9	-8	-8
EZ Non-financial	66	-0,1	2	-2	-30
UK Non-financial	98	-0,6	-1	-2	-18

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	1	n.a.
Euribor 3m	-0,39	0	-1	0	-9
<b>Euribor 12m</b>	-0,26	-1	-1	1	-14
Libor 3m	-0,45	0	-1	0	-9
Libor 12m	1,83	0	-3	-1	-95

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
<b>S&amp;P500</b>	3273	0,6	0,5	4,5	27
Dow Jones	28977	0,8	0,4	3,9	21
Nikkei	23740	2,3	0,4	1,4	16
FTSE 100	7598	0,3	-0,1	5,3	10
<b>EuroStoxx 50</b>	3796	0,6	0,1	3,4	24
IBEX	9582	-0,1	-1,1	2,8	9
DAX	13495	1,3	0,8	3,2	24
CAC	6043	0,2	0,0	3,3	26
MB	24017	0,8	0,8	3,9	25
ASE Athens	926	1,3	-0,5	7,5	45
<b>MSCI Latam *</b>	101192	-0,1	1,0	4,5	12
Ibovespa (Brazil)	116208	0,0	-2,0	5,0	24
Mexbol (Mexico)	44466	0,0	0,1	4,3	2
Merval (Argentina)	41359	0,8	0,6	19,3	22
<b>MSCI EM Europe *</b>	6451	0,6	1,2	4,9	20
Poland	2158	2,0	-1,9	5,0	-8
Mcex 10 (Russia)	5476	0,8	2,5	6,4	27
Ise 100 (Turkey)	117990	4,5	1,8	9,2	29
<b>MSCI EM Asia *</b>	913	-0,6	0,0	5,0	17
Shanghai Comex (China)	3095	0,9	0,3	6,1	22
Jakarta (Indonesia)	6274	-0,1	-0,4	1,3	0
Banking sector	level	Daily	Weekly	Monthly	YoY
<b>US banks</b>					
JPM	164,6	0,8	-0,8	4,8	35
Citi	137,4	0,3	-2,6	2,2	37
Citi	80,1	0,9	-1,4	5,7	42
BoA	35,1	0,2	-1,7	4,5	36
MS	52,1	1,0	0,1	4,9	25
GS	242,3	1,9	3,4	9,2	37
<b>EZ banks</b>					
BNP	86,1	0,2	-0,4	5,6	20
BNP	52,4	-0,7	-2,2	4,2	29
Crédit Agricole	13,0	0,1	-1,3	3,1	33
Deutsche Bank	7,7	0,4	5,0	19,0	4
ING	11,0	-0,6	-0,4	5,8	12
Intesa	2,4	1,5	-0,3	3,0	18
SG	31,8	0,0	0,4	9,0	12
Unicredito	13,5	1,4	0,2	5,1	30
<b>UK banks</b>					
HSBC	78,5	-0,1	-1,9	4,3	5
HSBC	588,1	1,2	-1,2	5,2	-9
RBS	238,7	-0,7	-2,3	4,1	8
Barclays	182,9	0,5	-1,3	7,5	17
Lloyds	61,9	-1,5	-2,9	0,6	15
<b>Large Spanish banks</b>					
Santander	59,7	0,4	-1,5	6,0	-4
BBVA	3,8	0,3	-2,5	6,2	-10
BBVA	5,1	0,4	-0,6	5,7	3
<b>Medium Spanish banks</b>					
Caixabank	52,3	-1,6	-2,9	3,5	-11
Sabadell	2,9	-1,2	-1,6	6,8	-12
Sabadell	1,0	-2,4	-2,5	1,2	1
Bankinter	6,5	-0,6	-2,6	3,7	-8
Bankia	1,8	-4,0	-6,9	3,6	-31

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,111	0,0	-0,6	0,1	-4
GBPUSD	1,307	-0,2	-0,6	-0,7	2
USDJPY	109,480	-0,3	-0,8	-0,7	-1
DXY	97,459	0,2	0,6	0,0	2
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	59,82	0,0	0,0	0,0	-38
USDBRL (Brazil)	4,07	-0,3	-1,2	1,7	-10
USDCPL (Chile)	767,42	-0,7	-2,2	1,5	-12
USDCOP (Colombia)	3256	-0,3	0,00	4,61	-4
USDMXN (Mexico)	18,83	-0,1	0,1	2,3	2
USDPEN (Peru)	3,32	-0,2	-0,7	2,3	1
LACI	51,16	-0,2	-0,7	1,9	-9
USDPLN (Poland)	3,82	-0,3	-0,7	1,2	-3
USD RUB (Russia)	61,28	0,0	0,7	3,6	9
USDTRY (Turkey)	5,87	0,7	1,6	-1,0	-7
USDCNY (China)	6,93	0,2	0,5	1,5	-2
USDINR (India)	71,22	0,7	0,2	-0,4	-1
USDIDR (Indonesia)	13854	0,3	0,3	1,2	2
ADXY	105,19	0,2	0,2	1,2	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
<b>Brent</b>	65,3	-0,2	-1,4	1	6
WTx	59	-0,4	-2,9	0	13
Copper	283	0,2	-0,3	3	6
Gold	1550	-0,4	1,3	6	20
S&P Spot commodity *	431	-2,6	-1,3	2	6
S&P Brent Spot *	556	-4,3	-1,4	2	6
S&P Metals Spot *	325	0,2	0,0	2	1
S&P Agricultural *	299	0,0	-1,1	3	2

Source: Bloomberg, Datastream and Haver

\* With one day delay