

Market Comment

Soft US jobs data tempers risk-on revival

- US labor markets lost some steam in December but remained firm.** US payrolls increased less than expected in December (145k, Consensus 160k, previous 256k), and data from the previous two months were revised downward. Moreover, average hourly earnings moderated against expectations of stability (2.9% YoY, Consensus 3.1% YoY, Previous 3.1% YoY), suggesting a lack of wage inflation pressure. However, the employment rate remained unchanged at 3.5%. Today's report was in line with our scenario of slowing economic momentum, but nonetheless a healthy labor market.
- France's Industrial activity showed limited impact from protests.** Industry production rose above expectations in France (1.3% YoY, consensus 0.4% YoY, previous -0.1% YoY).
- The UK Parliament approved the withdrawal bill at third reading** (330 to 231) and it is unlikely that the House of Lords will block its passage, allowing the UK to leave the EU on January 31.
- Financial Markets extended the last year-end rally, although this was cut short by a dramatic escalation in US-Iran geopolitical tensions,** which triggered a negative knee-jerk reaction from markets across the board. However, risk-on mood returned to financial markets after both countries seemed to be stepping back from a broader military confrontation. Other factors also led to the improvement in investors' risk appetite, including encouraging economic data, confirmation of the US-China Phase One trade deal next week, and the conviction that central banks stand ready to contain market volatility. Regarding the latter, markets' implied probability of an additional Fed rate cut in 2020 rose above 50%, after having practically vanished at the start of the year.
- Brent oil prices declined to levels around \$65 p/b.** as Middle East risk de-escalated, after hitting as high as \$71.5 p/b after Iran's attack. New US sanctions on Iran will likely aim at the non-oil sector, helping to ease oil prices.
- Sovereign yields recovered from declines early in the** as investors reduced tail risk scenarios surrounding the US-Iran conflict, and returned to the positive trend that began in December last year. However, weaker than expected payrolls as a mild negative impact on bond yields. Peripheral yields moved largely in line with core yields, while Italy's risk premium narrowed at the end of the week.
- In FX, while the JPY lost some ground after geopolitical fears eased but the USD remained supported,** even softer payroll data in US have a short-lived depreciation effect on the US currency. The Euro's appreciation as seen since late last year lost some steam after EU officials warned about the difficulty to reach a comprehensive Brexit agreement by the end of this year. There have been comments by the ECB's Villeroy de Galhau supporting the ECB's asymmetric inflation target, suggesting this might have also weighed on the Euro. EM currencies recovered some ground as tensions in the Middle East de-escalated, with LatAm currencies underperforming. In Asia, the Chinese Yuan (vs USD) traded below CNYUSD7 threshold on trade deal optimism.
- US equity markets hit a new record high,** while volatility remained and the Eurostoxx 50 reached levels close to 2015 heights.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,56	-1,4	4,0	-5	-101
US	1,82	-3,5	3	3	-92
GER (2-yr)	-0,60	-0,5	1,9	4	-1
Germany	-0,20	-2,0	4,4	9	-45
France	0,04	-2,1	1,8	5	-63
Spain	0,44	-1,0	5,5	3	-101
Italy	1,32	-5,7	-2,6	12	-157
Portugal	0,39	-1,1	3,5	4	-132
Greece	1,36	-2,7	-5,0	-1	-297
Japan (2-yr)	-0,14	-1,0	-0,5	-2	1
Japan	0,00	-1,0	1,1	0	-2
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,78	2,1	-4,8	2	-246
Chile	2,88	7,1	18,2	-19	-139
Colombia	6,14	-17,8	-20,0	-15	-54
Mexico	6,84	-4,8	5,0	-3	-178
Peru	3,49	-0,1	2,3	-14	-179
Poland	2,27	-0,9	19,8	28	-58
Russia	6,26	-15,3	-15,9	-32	-226
Turkey	11,16	-37,0	-84,0	-97	-506
India	6,59	6,1	7,7	-17	-100
Indonesia	6,93	-8,8	-10,4	-24	-101

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	24	-0,1	-2,6	-4	-18
Italy	152	-3,7	-7,0	3	-111
Portugal	59	0,9	-0,9	-5	-87
Spain	64	1,0	1,1	-6	-56
2-yr sovereign spread vs Germany					
France	3	0,4	0,2	-1	-10
Italy	53	-1,2	0,2	-5	-57
Portugal	12	-0,1	3,4	3	-29
Spain	22	0,2	-1,7	-4	-16
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	97	-0,4	0	-17	-82
Chile	42	-0,1	1	-7	-12
Colombia	68	-0,7	-3	-10	-63
Argentina	4684	-317,0	-157	-2351	3983
Mexico	74	-1,8	-3	-6	-58
Peru	40	-0,2	0	-10	-44
Poland	58	0,0	-2	-3	-8
Russia	58	0,3	2	-4	-84
Turkey	271	-6,3	-2	-33	-94
China	31	-0,9	1	-7	-30
India	67	0,9	4	-3	-41
Indonesia	63	-1,6	1	-10	-63

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	12	-0,2	-2	-3	-7
VSTOXX	58	0,0	-2	-4	1
EMEFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	0,0	-1	-1	-3
EM FX volatility index	15	-0,9	-3	-2	-6
Credit spread (BAA) (change in bps)	206	3,5	6	2	-36
US bonds volatility index	7	-0,1	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,06	-	-6	4	-11
EZ Inflation expectations (5Y5Y)	1,33	-	1	7	-24
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	41	-2,0	0	-2	-40
EZ	45	-1,4	0	-2	-56
UK	40	-1,0	-2	-3	-54
Large Spanish	32	-0,2	0	-1	-51
Medium Spanish	75	-0,8	-3	-14	-37
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	181	-2,1	7	-10	-9
EZ Non-financial	65	-0,9	1	-3	-28
UK Non-financial	98	-0,6	0	-2	-16

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	1	n.a.
Euribor 3m	-0,40	0	-1	0	-9
Euribor 12m	-0,25	1	-2	2	-14
Libor 3m	-0,45	0	0	1	-9
Libor 12m	1,85	0	-7	-5	-95

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3275	0,0	1,2	4,2	26
Dow Jones	28858	-0,3	0,8	3,4	20
Nikkei	23851	0,5	0,8	2,0	18
FTSE 100	7588	-0,1	-0,5	5,1	9
EuroStoxx 50	3790	-0,2	0,4	2,8	23
IBEX	9574	-0,1	-0,8	1,9	8
DAX	13483	-0,1	2,0	2,6	23
CAC	6037	-0,1	-0,1	3,0	26
MIB	24021	0,0	1,3	3,7	24
ASE Athens	924	-0,3	0,4	4,5	46
MSCI Latam *	101065	-0,1	-1,4	4,3	11
Ibovespa (Brazil)	116240	0,3	-1,2	4,8	24
Mexbol (Mexico)	44719	0,3	0,2	3,5	2
Merval (Argentina)	42449	1,0	4,8	21,2	24
MSCI EM Europe *	6504	0,8	1,4	6,4	20
Poland	2168	0,5	-0,3	5,9	-7
Micex 10 (Russia)	5503	0,5	1,9	6,4	27
Ise 100 (Turkey)	118664	0,6	4,4	10,0	30
MSCI EM Asia *	928	1,7	0,4	6,8	16
Shanghai Com (China)	3092	-0,1	0,3	5,7	22
Jakarta (Indonesia)	6275	0,8	-0,1	1,5	0
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks					
JPM	163,9	-0,4	0,5	4,5	35
Citi	136,2	-0,9	-1,6	1,5	36
Citi	79,5	-0,7	-0,3	5,2	41
BoA	34,8	-0,6	-0,2	3,5	35
MS	52,4	0,6	2,3	5,9	26
GS	242,6	0,0	4,8	9,7	38
EZ banks					
BNP	85,4	-0,9	-0,3	4,3	18
BNP	52,2	-0,5	-1,5	3,5	27
Crédit Agricole	12,9	-1,1	-1,8	1,7	30
Deutsche Bank	7,7	-0,3	6,1	17,3	3
ING	10,8	-1,5	-0,9	4,0	10
Intesa	2,4	-0,7	0,3	2,0	17
SG	31,4	-1,1	0,3	7,5	9
Unicredito	13,4	-0,9	0,5	4,2	28
UK banks					
HSBC	77,4	-1,3	-2,2	3,5	3
HSBC	584,6	-0,6	-1,6	4,1	-10
RBS	235,3	-1,4	-1,3	3,2	5
Barclays	181,0	-1,0	-1,3	7,3	14
Lloyds	60,3	-2,5	-4,3	-0,3	10
Large Spanish banks					
Santander	58,8	-1,5	-1,7	4,6	-6
Santander	3,7	-1,4	-2,3	4,4	-13
BBVA	5,0	-1,6	-1,1	4,9	0
Medium Spanish banks					
Caixabank	51,3	-1,9	-3,7	1,1	-12
Caixabank	2,8	-2,6	-3,3	4,8	-14
Sabadell	1,0	-2,0	-3,4	0,0	1
Bankinter	6,4	-1,7	-3,5	-0,9	-8
Bankia	1,8	-1,2	-6,2	1,9	-31
CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)	level	Daily	Weekly	Monthly	YoY
Developed					
EURUSD	1,112	0,2	-0,3	-0,1	-3
GBPUSD	1,306	0,0	-0,2	-1,0	2
USDJPY	109,490	0,0	-1,3	-0,8	-1
DXY	97,365	-0,1	0,5	0,3	2
Emerging					
USDARS (Argentina)	59,82	0,0	0,0	0,0	-38
USDBRL (Brazil)	4,07	0,4	-0,4	1,1	-9
USDCLP (Chile)	772,05	-0,6	-2,0	-0,3	-12
USDCOP (Colombia)	3286	-0,9	-0,9	2,75	-5
USDMXN (Mexico)	18,78	0,3	0,7	1,8	2
USDPEN (Peru)	3,33	-0,3	-0,4	1,9	0
LACI	51,11	0,1	-0,1	1,2	-9
USDPLN (Poland)	3,81	0,4	-0,1	1,1	-2
USDRUB (Russia)	60,99	0,5	1,8	3,8	10
USDTRY (Turkey)	5,87	0,0	1,7	-1,2	-8
USDCNY (China)	6,92	0,2	0,7	1,7	-2
USDCINR (India)	70,94	0,4	1,2	-0,1	-1
USDIDR (Indonesia)	13772	0,6	1,1	1,9	2
ADXY	105,39	0,2	0,6	1,4	-1
COMMODITIES (%)	level	Daily	Weekly	Monthly	YoY
Brent	65,4	0,0	-4,7	3	6
WTx	59	-0,5	-6,0	1	13
Copper	283	0,6	1,0	2	7
Gold	1560	0,5	0,5	6	21
S&P Spot commodity *	431	-0,1	-2,9	2	6
S&P Brent Spot *	554	-0,3	-5,1	3	5
S&P Metals Spot *	325	0,1	0,5	2	2
S&P Agricultural *	301	0,6	0,5	4	4

Source: Bloomberg, Datastream and Haver

* With one day delay