

Market Comment

Equity markets to record highs although bond yields see limited gains

Equity markets slightly extended the increases across the board during the week, underpinned by the final agreement on the U.S.-China phase one agreement, the improvement in the U.S. activity data (retail sales and regional PMI) and mixed company earnings. However, European indices were initial laggards, dragged by auto stocks and banking sectors, but hit new record highs on Friday after reassuring Chinese GDP data. Equity volatility remained well contained (VIX around 12), underscoring the risk-on mood across markets.

The U.S. and China signed the much-awaited phase one trade deal on January 15th in Washington. Effective next month, the deal commits China to: 1) buy an additional \$200 billion worth of U.S. goods and services during 2020 and 2021, over its baseline purchases in 2017, 2) refrain from currency manipulation, 3) expedite financial sector liberalization, 4) tighten oversight against IP theft, and 5) refrain from forced technology transfer. In return, the U.S. has agreed to halve tariffs on \$120 billion worth of Chinese imports to 7.5%, while keeping 25% duties on \$250 bn worth of goods unchanged.

On this week's data front, the U.S. economy remained strong but is losing momentum, while the Eurozone's hard data point to stabilization in 4Q19 and China's high frequency activity data signals a slight recovery. The U.S. consumption expectations lost steam, tempering yesterday's optimism after upbeat retail sales data. The U.S. housing is beginning to show signs of strength, but building permits weakened. Industrial production fell more than expected (-0.3% MoM; Cons: -0.2%; Prev: 0.8% revised from 1.1%) with the capacity utilization index declining marginally. In the Eurozone, December's annual inflation held steady (1.3% YoY; Cons: 1.3% YoY; Prev: 1.3%YoY) driven by an increased contribution of transportation sector. Meanwhile, China's full year 2019 GDP growth slowed to a near 30-year low of 6.1% (6.6% in 2018), although within the official target range of 6-6.5%.

Sovereign yields also recovered some ground this week. However, the upside in yields was limited, and safe-haven yield failed to claw back last Friday's declines, which took place on the back of weaker payroll, suggesting investors assessed that the current economic reports reflect the fact that the economy is neither running too hot nor too cold. The European peripheral faces supply pressure, but Spain's and Italy's bonds attracted a record demand from real cash investors (53 bn in orders Spain's 10Y syndicate bond and 43 bn in Italy's 30Y bond). Meanwhile, the disappointing outcomes from UK retail sales, and GDP data have weighed on the 10Y UK gilt, boosting the likelihood of an imminent BoE rate cut (around 75%).

In FX markets, G-10 currencies were broadly steady, with the JPY falling to reach seven-month lows. Meanwhile, the USD marginally appreciated. The details of the U.S.-China phase one trade deal weighed on LatAm currencies (BRL and COP -2%, CLP -1%), whereas they boosted EM Asian FX, while REMB extended its appreciation. The MXN slightly appreciated after the U.S. senate backed the USMCA. The TRY timidly appreciated after the CBRT cut interest rates in line with expectations.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,57	0,4	-0,1	-6	-104
US	1,85	3,9	3	-7	-94
GER (2-yr)	-0,59	0,3	1,3	5	-1
Germany	-0,21	1,3	-0,7	1	-47
France	0,05	1,0	0,9	0	-61
Spain	0,46	-0,3	2,3	3	-88
Italy	1,39	-5,1	6,4	5	-135
Portugal	0,50	-1,7	-0,2	0	-123
Greece	1,42	0,9	6,0	12	-276
Japan (2-yr)	-0,13	-0,7	0,6	-1	4
Japan	0,00	-1,2	0,3	2	-1
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,84	-1,4	3,9	-14	-224
Chile	2,93	0,1	-11,7	17	-138
Colombia	6,07	0,5	-7,0	-17	-97
Mexico	6,84	0,1	0,7	4	-180
Peru	3,49	-0,2	-0,1	-8	-179
Poland	2,33	6,8	6,6	29	-52
Russia	6,26	-3,0	-0,6	-27	-213
Turkey	10,71	9,0	-45,0	-161	-475
India	6,63	2,4	3,9	-8	-68
Indonesia	6,84	-1,3	-9,0	-47	-125

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	-0,3	1,6	-1	-14
Italy	159	-6,4	7,1	4	-88
Portugal	71	-3,0	0,5	-1	-76
Spain	67	-1,6	3,0	3	-41
2-yr sovereign spread vs Germany					
France	4	0,0	0,5	1	-8
Italy	58	-2,9	4,2	1	-33
Portugal	23	-2,0	11,5	14	-20
Spain	24	-0,6	2,1	-1	-11
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	97	-3,6	0	0	-81
Chile	45	0,4	3	5	-5
Colombia	72	-0,1	4	1	-57
Argentina	4545	-108,8	-139	-1303	3885
Mexico	78	-0,1	4	2	-53
Peru	43	-0,1	3	1	-37
Poland	51	0,0	-6	-7	-15
Russia	60	-1,9	2	7	-78
Turkey	244	-9,5	-26	-38	-104
China	31	-0,1	0	-2	-30
India	63	0,5	-4	-6	-45
Indonesia	60	-0,8	-2	-6	-65

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	12	-0,1	0	0	-6
VSTOXX	50	0,0	-3	-3	-3
EMEFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	0	0	-2
EM FX volatility index	14	-0,7	-1	-1	-4
Credit spread (BAA) (change in bps)	195	-3,9	-5	-3	-43
US bonds volatility index	6	-0,2	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,06	-	-1	-4	-17
EZ Inflation expectations (5Y5Y)	1,33	-	1	3	-22
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	39	-1,8	-2	-2	-37
EZ	45	-0,7	0	1	-49
UK	41	0,2	1	1	-39
Large Spanish	33	-0,3	1	1	-41
Medium Spanish	72	-0,4	-3	-6	-44
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	203	0,5	22	15	13
EZ Non-financial	66	-0,3	1	1	-23
UK Non-financial	97	-0,1	0	1	-15

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,39	0	0	1	-8
Euribor 12m	-0,24	1	1	3	-13
Libor 3m	-0,45	0	0	0	-8
Libor 12m	1,84	0	-1	-7	-94

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3323	0,2	1,8	4,1	24
Dow Jones	29371	0,2	1,9	4,0	19
Nikkei	24041	0,5	0,8	0,4	16
FTSE 100	7678	0,9	1,2	1,8	10
EuroStoxx 50	3805	0,8	0,4	1,8	21
IBEX	9678	1,1	1,1	0,6	7
DAX	13512	0,6	0,2	2,2	21
CAC	6098	1,0	1,0	2,3	25
MIB	24114	0,7	0,4	2,1	22
ASE Athens	934	0,2	1,1	3,2	51
MSCI Latam *	101733	0,7	0,7	2,7	10
Ibovespa (Brazil)	117818	1,0	2,0	3,1	23
Mexbol (Mexico)	45373	0,2	1,6	0,6	3
Merval (Argentina)	42622	0,6	-0,3	13,3	21
MSCI EM Europe *	6549	0,7	0,7	4,0	18
Poland	2180	0,3	0,5	2,2	-8
Micex 10 (Russia)	5623	1,4	2,2	6,5	25
Ise 100 (Turkey)	121475	0,4	2,4	9,9	23
MSCI EM Asia *	940	0,3	1,3	3,4	16
Shanghai Com (China)	3075	0,0	-0,5	1,9	18
Jakarta (Indonesia)	6292	0,1	0,3	0,8	-2

Banking sector

	level	Daily	Weekly	Monthly	YoY
US banks					
JPM	137,9	0,5	1,3	-0,1	32
Citi	81,3	0,4	2,6	4,3	29
BoA	34,8	0,2	0,2	-0,9	19
MS	56,8	0,7	8,8	12,2	30
GS	248,9	-0,3	2,8	8,0	23
EZ banks					
BNP	50,9	0,5	-2,5	-4,5	20
Crédit Agricole	12,9	0,9	0,1	-2,1	25
Deutsche Bank	7,6	-0,2	-1,1	8,4	-5
ING	10,6	0,2	-0,9	-3,0	2
Intesa	2,3	0,6	-0,9	-1,2	15
SG	30,6	0,1	-2,5	-0,9	7
Unicredito	13,2	0,6	-1,5	-0,7	24
UK banks					
HSBC	595,6	0,8	1,9	-0,6	-9
RBS	224,9	1,3	-4,4	-9,6	-8
Barclays	175,7	-0,6	-2,9	-5,1	6
Lloyds	58,4	0,8	-3,2	-7,8	1
Large Spanish banks					
Santander	3,7	1,1	-1,2	-3,2	-16
BBVA	4,8	0,8	-3,4	-5,3	-7
Medium Spanish banks					
Caixabank	2,8	1,4	0,1	-1,3	-16
Sabadell	1,0	0,3	-1,2	-5,7	-4
Bankinter	6,3	1,1	-1,9	-5,2	-11
Bankia	1,8	1,5	-0,1	-3,4	-30

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,110	-0,4	-0,2	-0,2	-2
GBPUSD	1,302	-0,4	-0,3	-0,4	1
USDJPY	110,160	0,0	-0,6	-0,6	0
DXY	97,565	0,3	0,2	0,2	1
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60,02	-0,1	-0,3	-0,3	-37
USDBRL (Brazil)	4,18	0,1	-1,9	-2,7	-10
USDCLP (Chile)	773,18	0,3	-0,1	-2,7	-13
USDCOP (Colombia)	3321	0,1	-1,5	0,17	-6
USDMXN (Mexico)	18,74	0,2	0,3	1,2	2
USDPEN (Peru)	3,32	0,1	0,3	0,5	0
LACI	50,67	0,1	-0,7	-0,4	-9
USDPLN (Poland)	3,82	-0,6	-0,4	0,8	-1
USD RUB (Russia)	61,48	0,3	-0,7	1,9	8
USDTRY (Turkey)	5,89	-0,6	-0,2	0,6	-10
USDCNY (China)	6,86	0,2	0,9	2,1	-1
USDINR (India)	71,09	-0,3	-0,2	-0,2	0
USDIDR (Indonesia)	13645	0,0	0,9	2,5	4
ADXY	105,75	0,1	0,4	1,2	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	64,8	0,3	-0,3	-2	3
WTx	59	0,1	-0,8	-4	9
Copper	286	0,2	1,4	1	4
Gold	1556	0,2	-0,4	5	21
S&P Spot commodity *	426	0,1	-1,0	-2	3
S&P Brent Spot *	543	0,9	-1,1	-2	2
S&P Metals Spot *	329	0,0	0,9	2	1
S&P Agricultural *	299	-1,6	-1,3	0	2

Source: Bloomberg, Datastream and Haver

* With one day delay