

Market Comment

Risk-of mood weighed on sovereign bond yields

- Markets traded in a risk-off fashion on the back of rising worries about a deadly virus in China (see), amid the lack of relevant economic news. Equity markets slipped, reversing yesterday's gains. In addition, during the Davos summit, the U.S. President Donald Trump showed his willingness to reach a deal with Europe after agreeing to a truce on French digital taxes yesterday.
- The Bank of Japan decided to keep policy unchanged as expected, though upgraded its growth forecast for 2020 (0.9% compared with a previous estimate of 0.7%). The BoJ will maintain its short-term rate at -0.10%, while leaving its target for long-term yields hovering around 0%.
- Investors became optimistic about the Eurozone's growth outlook, while the UK released solid labor market data. In the Eurozone, ZEW survey expectations rose in January (25.6; Prev: 11.2) as the same indicator for Germany grew more than estimated (26.7; Cons: 15.0; Prev: 10.7). Furthermore, Germany's assessment of the current situation declined in January less than in December (-9.5; Cons: -13.5; Prev: -19.9). This strong rise in expectations was underpinned by rising hopes of a better trade backdrop. Furthermore, the UK unemployment rate remained at 3.8% in November in line with consensus, while job gain increased sharply above expectations (208k; Cons: 110k; Prev: 24k).
- Sovereign bond yields declined across the board, with the 10Y UST leading the falls amid increasing fears about the spreading virus in China. Meanwhile, Italy's risk premia surged, as the Italian senate committee decided to initiate the prosecution of the League party chief, Matteo Salvini (see).
- There is no tension in U.S. money markets: the Fed 14-D term repo auction was undersubscribed (submitted \$32.15b; maximum \$35bn), as was the overnight action (submitted \$58.626bn; maximum \$120bn), suggesting an absence of liquidity strains in the money markets.
- The virus outbreak in China weighed on the CNY, which depreciated against the USD, although it was still trading below the CNYUSD 7 threshold reached after signing phase one trade deal with the U.S. Nonetheless, the market risk-off mood boosted the appreciation of safe-haven currencies (JPY and CHF), whereas GBP outperformed its G10 pairs driven by robust labor data that trimmed rate cut bets. The EUR marginally appreciated following better-than-forecast results in the Eurozone, although ended up flat. Elsewhere, emerging currencies mostly depreciated.
- In commodities, oil prices reversed yesterday's gains (Brent \$64.7 per barrel) as investors did not seem to fret about Monday's supply disruptions in Libya.
- Equity markets halted the rally they had been holding over the last week, with the S&P500 and Eurostoxx declining, although volatility remained low (VIX 12). **Hong Kong's Hang Seng index fell -2.81%.**

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,54	-2,1	-3,1	-9	-105
US	1,78	-4,4	-3	-14	-96
GER (2-yr)	-0,58	0,5	0,0	5	1
Germany	-0,25	-3,2	-7,9	-3	-49
France	0,01	-2,9	-7,3	-4	-63
Spain	0,42	-2,3	-5,7	-2	-91
Italy	1,37	1,8	-2,4	-4	-137
Portugal	0,47	-2,5	-6,8	-6	-126
Greece	1,38	-3,4	-1,8	-8	-275
Japan (2-yr)	-0,12	-0,3	-0,2	-3	4
Japan	0,01	-0,5	-1,1	-1	0
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,79	-4,0	-1,1	-26	-232
Chile	2,87	-0,1	-13,3	4	-144
Colombia	6,07	0,7	-7,2	-17	-96
Mexico	6,84	0,6	0,6	-10	-181
Peru	3,46	-1,5	-3,4	-12	-183
Poland	2,29	-5,3	0,8	21	-57
Russia	6,26	1,1	0,8	-27	-214
Turkey	10,62	-15,0	-23,0	-154	-474
India	6,64	-0,4	-2,7	4	-66
Indonesia	6,76	-5,7	-10,9	-41	-135

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	0,3	0,6	-1	-15
Italy	162	5,0	5,5	0	-88
Portugal	72	0,7	1,1	-2	-78
Spain *	67	0,9	2,2	1	-43
2-yr sovereign spread vs Germany					
France	4	-0,2	0,8	2	-8
Italy	59	2,0	3,5	-1	-33
Portugal	22	-1,4	11,0	13	-21
Spain	22	-0,7	-0,4	-3	-13
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	98	0,3	-2	-5	-71
Chile	46	0,1	1	2	-2
Colombia	73	0,3	2	-2	-50
Argentina	4656	0,0	-61	-1121	4013
Mexico	79	0,3	2	-3	-47
Peru	44	0,2	1	1	-32
Poland	51	0,0	-4	-8	-15
Russia	60	-0,2	0	2	-71
Turkey	248	1,2	-15	-35	-81
China	30	0,2	-1	-3	-29
India	61	0,0	-5	-7	-45
Indonesia	60	0,0	-1	-4	-62

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	12	0,4	0	0	-8
VSTOXX	50	0,0	-3	-5	-5
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	0,0	0	0	-3
EM FX volatility index	14	0,0	-1	-1	-7
Credit spread (BAA) (change in bps)	204	4,4	4	8	-34
US bonds volatility index	6	0,0	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,08	-	0	-2	-12
EZ Inflation expectations (5Y5Y)	1,31	-	-4	-1	-23
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	38	0,1	-3	-3	-32
EZ	44	-0,1	-1	0	-46
UK	41	-0,2	1	0	-39
Large Spanish	33	0,4	1	1	-38
Medium Spanish	67	-1,8	-7	-10	-46
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	214	5,3	16	33	29
EZ Non-financial	65	-0,2	0	0	-23
UK Non-financial	97	0,0	0	1	-14

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	0	-8
Euribor 12m	-0,24	0	0	1	-13
Libor 3m	-0,45	0	0	0	-8
Libor 12m	1,80	0	-1	-11	-97

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3326	-0,1	1,3	3,3	26
Dow Jones	29317	-0,1	1,3	3,0	20
Nikkei	23865	-0,9	-0,7	0,2	16
FTSE 100	7608	-0,6	-0,2	0,3	10
EuroStoxx 50	3787	-0,3	0,3	0,3	22
IBEX	9604	-0,6	0,8	-0,7	6
DAX	13551	0,0	0,7	1,7	22
CAC	6046	-0,5	-0,1	0,4	25
MIB	23852	-0,6	-0,3	-0,6	23
ASE Athens	942	0,2	2,0	5,6	50
MSCI Latam *	103130	0,1	1,1	2,4	11
Ibovespa (Brazil)	118174	-0,6	0,5	2,7	24
Mexbol (Mexico)	45526	-0,8	1,7	2,3	4
Merval (Argentina)	42134	-2,1	1,2	9,1	24
MSCI EM Europe *	6633	0,5	1,1	5,2	19
Poland	2158	-0,9	-1,1	1,4	-9
Micex 10 (Russia)	5635	-0,1	2,4	6,0	26
Ise 100 (Turkey)	123556	0,8	1,8	11,1	24
MSCI EM Asia *	942	-0,2	0,0	3,6	15
Shanghai Com (China)	3052	-1,4	-1,8	1,6	18
Jakarta (Indonesia)	6238	-0,9	-0,9	-0,2	-3
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	166,3	-1,2	-0,2	2,8	27
JPM	137,6	-0,4	-0,8	0,3	34
Citi	80,5	-0,8	-1,7	2,5	30
BoA	34,4	-1,0	-2,7	-1,7	18
MS	55,4	-3,6	4,9	9,4	31
GS	247,8	-0,7	0,9	8,3	25
EZ banks	82,9	-0,5	-2,8	-3,6	14
BNP	50,1	-0,8	-3,9	-6,4	21
Crédit Agricole	12,7	-0,7	-1,5	-2,6	26
Deutsche Bank	7,5	0,9	-3,1	6,1	-5
ING	10,4	-0,9	-3,1	-4,6	0
Intesa	2,3	-0,5	-1,7	-4,1	14
SG	30,4	-0,6	-3,3	-3,2	9
Unicredito	13,0	0,4	-3,1	-3,6	25
UK banks	75,4	-0,1	-1,8	-4,4	-2
HSBC	584,5	-1,3	-1,0	-2,6	-9
RBS	225,0	1,0	-2,5	-7,4	-6
Barclays	174,4	-0,4	-3,7	-2,3	7
Lloyds	58,4	0,9	-0,6	-6,3	2
Large Spanish banks	56,4	-0,5	-1,4	-6,7	-12
Santander	3,6	-0,6	-0,2	-5,5	-16
BBVA	4,7	-0,4	-2,4	-7,8	-8
Medium Spanish banks	49,3	-1,9	-3,0	-8,5	-15
Caixabank	2,7	-3,0	-0,9	-5,4	-16
Sabadell	1,0	-2,3	-5,6	-10,9	-5
Bankinter	6,2	-0,8	-2,7	-9,0	-12
Bankia	1,7	-2,6	-4,1	-10,7	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,109	0,0	-0,3	0,1	-2
GBPUSD	1,304	0,3	0,2	0,3	1
USDJPY	109,940	0,2	0,0	-0,5	-1
DXY	97,552	-0,1	0,2	-0,1	1
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60,10	-0,2	-0,1	-0,5	-38
USDBRL (Brazil)	4,20	-0,3	-1,7	-2,5	-9
USDCLP (Chile)	773,29	-0,5	-0,3	-2,6	-13
USDCOP (Colombia)	3351	-0,5	-1,9	-0,5	-6
USDMXN (Mexico)	18,71	-0,2	0,4	1,2	2
USDPEN (Peru)	3,32	-0,1	0,1	-0,1	0
LACI	50,57	-0,3	-0,6	-0,9	-9
USDPLN (Poland)	38,81	0,3	-0,6	0,7	-1
USDRUB (Russia)	61,79	-0,3	-0,6	0,8	8
USDTRY (Turkey)	5,93	-0,2	-0,8	0,1	-10
USDCNY (China)	6,90	-0,5	-0,2	1,6	-1
USDINR (India)	71,21	-0,1	-0,5	-0,1	0
USDIDR (Indonesia)	13669	-0,2	0,1	2,3	4
ADXY	105,37	-0,3	-0,2	0,8	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	64,7	-0,8	0,3	-2	5
WTx	58	-0,4	0,1	-4	11
Copper	281	-1,5	-2,4	0	4
Gold	1557	-0,2	0,7	5	21
S&P Spot commodity *	427	0,0	-0,2	-1	5
S&P Brent Spot *	545	0,0	0,5	-2	4
S&P Metals Spot *	329	0,0	0,1	1	1
S&P Agricultural *	304	0,0	-0,1	2	5

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover