

Financial markets remained steady despite China's GDP release. ECB preview.

- Financial markets were little changed in a low volume trading session as US markets were closed due to Martin Luther King Day. Today's release of **China's 4Q18 GDP** (early this morning) along with the release of **May's "plan B" on Brexit** this afternoon (see) will focus the market's attention. The ECB meeting next Thursday (see preview below), the World Economic Forum at Davos and multiple releases of economic data will be other key events this week.
- After the recent positive performance across developed equity indices, **European stocks opened the week slightly down**, while in Asia, the **mixed release of economic indicators for China had only a mild impact on markets**. China's GDP 4Q18 data confirmed a slowdown (in line with expectations) (see), while the release of industrial production and retail sales data, both above market expectations, partly offset the decline in GDP growth (see).
- **European bond markets remained steady**, with the German 10Y Bund yield hovering around 0.25% and peripheral risk premia broadly steady at their recent lower bound ahead of Thursday's ECB meeting. Developed currencies remained steady (including the GBP), **while emerging currencies depreciated somewhat against the USD as the effect of the dovish shift in the Fed's tone seems to be fading**.
- Today, the **IMF cut slightly its global economic growth forecast** for the current year and 2020 amid, among other things, weaker-than-expected economic data for the euro zone, while signalled escalating US-China trade disputes as risk to the outlook (see).



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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.61	0.0	7.9	-6	13	
US	2.78	0.0	8.2	-2	10	
GER (2-yr)	-0.58	0.1	1.6	2	3	
Germany	0.26	-0.6	2.5	-3	-5	
France	0.66	-0.4	1.6	-2	-5	
Spain	1.37	1.9	-5.4	-1	-11	
Italy	2.76	2.5	-8.8	2	1	
Portugal	1.75	2.4	-7.2	-4	-11	
Greece	4.16	-2.4	-14.3	-13	-24	
Japan (2-yr)	-0.17	-0.2	-1.9	-2	-3	
Japan	0.01	-0.8	-0.9	-2	1	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.11	2.9	-0.7	-32	-13	
Chile	4.33	2.5	6.7	4	8	
Colombia	7.03	-1.5	2.9	26	28	
Mexico	8.67	2.6	11.1	3	3	
Peru	5.28	0.0	-1.2	-14	-8	
Poland	2.85	-0.1	11.9	-3	3	
Russia	8.37	-1.6	-11.9	-44	-41	
Turkey	15.36	-10.0	-50.0	-66	-44	
India	7.32	1.1	9.7	5	-5	
Indonesia	8.10	1.2	9.5	12	8	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	40	0.2	-0.9	1	-1	
Italy	250	3.1	-11.3	5	6	
Portugal	150	3.0	-9.7	-1	-7	
Spain	111	2.5	-7.9	2	-6	
2-yr sovereign spread vs Germany						
France	11	-0.7	-2.6	-5	-4	
Italy	92	1.9	-10.3	-11	-16	
Portugal	43	0.2	2.4	19	17	
Spain	35	0.2	-3.6	-3	-2	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	171	-6.5	-12	-31	-36	
Chile	47	-2.9	-7	-11	-16	
Colombia	125	-4.5	-11	-12	-34	
Argentina	645	-14.7	-40	-121	-161	
Mexico	127	-4.2	-11	-14	-28	
Peru	76	-4.2	-8	-13	-19	
Poland	67	0.7	1	-1	-1	
Russia	134	-3.5	-9	-10	-20	
Turkey	331	-17.2	-38	-27	-28	
China	59	-2.3	-4	-6	-9	
India	107	-0.6	-1	-6	-7	
Indonesia	123	-2.3	-4	-10	-15	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	18	0.0	-1	-11	-8	
VSTOXX	15	1.1	-3	-5	-8	
EM EFT volatility Index	19	0.0	-2	-7	-6	
Dollar/euro volatility	6	0.2	0	0	-1	
EM FX volatility index	9	0.0	0	0	0	
Credit spread (BAA) (change in bps)	240	0.0	-7	13	-6	
US bonds volatility index	54	0.3	-2	-5	-13	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.15	-	-3	-4	2	
EZ Inflation expectations (5Y5Y)	1.55	-	1	-3	-5	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	71	-4.4	-13	-4	-11	
EZ	104	-3.6	-11	-6	-15	
UK	79	-0.9	-12	-10	-15	
Large Spanish	72	-2.1	-10	-7	-16	
Medium Spanish	108	-8.1	-7	1	-5	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	187	-4.4	-13	-4	-11	
EZ Non-financial	88	-3.6	-11	-6	-15	
UK Non-financial	111	-1.0	-2	-5	-8	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	-1	-1	-2	
Euribor 3m	-0.31	0	0	0	0	
Euribor 12m	-0.12	0	0	1	0	
Libor 3m	2.76	-1	-3	-3	-4	
Libor 12m	3.03	2	1	-2	2	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,671	0.0	3.4	8.2	7	
Dow Jones	24,706	0.0	3.3	8.1	6	
Nikkei	20,719	0.3	1.8	1.6	4	
FTSE 100	6,971	0.0	1.7	3.9	4	
EuroStoxx 50	3,124	-0.3	2.3	4.1	4	
IBEX	9,038	-0.3	2.5	5.1	6	
DAX	11,136	-0.6	2.6	4.9	5	
CAC	4,868	-0.2	2.2	3.7	3	
MB	19,639	-0.4	2.4	5.7	7	
ASE Athens	619	0.3	-1.7	0.9	1	
MSCI Latam *	93,427	0.8	2.2	9.6	8	
Ibovespa (Brazil)	95,288	-0.8	0.9	11.7	8	
Mexbol (Mexico)	44,259	0.0	2.0	6.2	6	
Merval (Argentina)	35,043	-0.2	3.8	19.8	16	
MSCI EM Europe *	5,594	1.1	2.0	4.5	6	
Poland	2,358	-0.8	1.3	2.2	4	
Micex 10 (Russia)	4,483	0.0	2.6	6.6	7	
Ise 100 (Turkey)	97,955	-0.5	6.4	6.6	7	
MSCI EM Asia *	819	0.9	2.0	3.6	5	
Shanghai Com (China)	2,611	0.6	2.9	2.9	5	
Jakarta (Indonesia)	6,451	0.4	1.4	4.4	4	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	132.9	0.0	7.3	16.1	15	
JPM	104.6	0.0	3.6	8.4	7	
Citi	63.1	0.0	7.1	20.8	21	
BoA	29.3	0.0	11.1	21.5	19	
MS	43.7	0.0	2.8	12.3	10	
GS	202.5	0.0	13.3	20.3	21	
EZ banks	73.9	-0.6	2.4	6.9	7	
BNP	42.3	-0.4	1.6	7.4	7	
Crédit Agricole	10.2	-0.9	2.7	7.9	8	
Deutsche Bank	8.0	-0.2	7.0	14.0	15	
ING	10.4	-0.6	5.1	11.0	10	
Intesa	2.0	0.0	2.9	4.8	5	
SG	28.3	-1.2	-2.6	1.2	2	
Unicredito	10.6	-0.3	2.3	4.2	7	
UK banks	78.1	-0.5	3.2	8.7	7	
HSBC	65.0	-0.3	1.7	0.0	0	
RBS	241.8	-1.5	4.0	16.4	12	
Barclays	165.0	-0.5	3.7	11.6	10	
Lloyds	58.0	0.0	4.4	13.7	12	
Large Spanish banks	64.7	-0.1	3.4	10.6	11	
Santander	4.3	-0.2	2.3	9.2	9	
BBVA	5.2	0.1	4.4	11.9	12	
Medium Spanish banks	58.5	-1.1	1.6	-0.2	2	
Caixabank	3.3	-0.5	0.8	0.5	4	
Sabadell	1.0	-1.8	2.4	3.1	4	
Bankinter	7.0	-1.0	3.4	-3.0	0	
Bankia	2.6	-1.6	-1.4	-0.8	0	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.137	0.1	-0.9	-0.7	-1	
GBPUSD	1.29	0.2	0.3	1.9	1	
USDJPY	109.61	0.2	-1.3	1.5	0	
DXY	96.33	0.0	0.7	0.1	0	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	37.73	-0.4	-2.0	0.8	0	
USDBRL (Brazil)	3.76	-0.2	-1.7	2.2	3	
USDCLP (Chile)	672.45	-0.4	0.1	2.8	3	
USDCOP (Colombia)	3126	0.0	0.5	4.3	4	
USDMXN (Mexico)	19.19	-0.5	-1.1	-3.7	-2	
USDPEN (Peru)	3.32	-0.1	0.6	0.8	1	
LACI	55.68	-0.3	-1.0	2.7	3	
USDPLN (Poland)	3.77	0.2	-0.7	-0.6	-1	
USDRUB (Russia)	66.38	-0.3	1.0	2.9	4	
USDTRY (Turkey)	5.32	0.1	2.3	-1.3	-1	
USDCNY (China)	6.80	-0.3	-0.4	1.3	1	
USDINR (India)	71.28	-0.1	-0.5	-2.2	-2	
USDIDR (Indonesia)	14227	-0.3	-0.7	1.7	1	
ADXY	105.55	-0.1	-0.5	0.7	0	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	62.6	-0.1	6.2	15	16	
WTX	54	-0.1	6.4	17	18	
Copper	271	-1.0	2.5	0	3	
Gold	1281	-0.1	-0.9	2	0	
S&P Spot commodity *	413	1.8	3.4	8	10	
S&P Brent Spot *	533	2.3	5.8	15	16	
S&P Metals Spot *	327	1.2	2.8	1	2	
S&P Agricultural *	292	0.5	1.1	1	3	

Source: Bloomberg, Datastream and Haver
* With one day delay

Central Bank Annex

ECB preview

■ The ECB is expected to leave monetary policy unchanged at its January meeting while confirming that the balance of risks has turned to the downside.

■ The cautious tone could be reinforced on the back of disappointing data, some moderation of inflation expectations and growing risks due to global concerns and euro zone slowdown, despite the stabilization in financial markets and the partial easing of concerns about protectionism. Particularly, the ECB could acknowledge that risks are now tilted to the downside, an additional dovish tweak to the tone at the December meeting, when the central bank admitted that the balance of risks was moving to the downside. In this way the ECB could open the door to altering its forward guidance on rates in the coming months.

■ On economic activity, indicators over the last month disappointed again, especially those related to the manufacturing sector and trade, suggesting that the slowdown in global demand has been weighing on euro zone growth since the middle of last year. Manufacturing confidence worsened further due to increasing uncertainty about global growth, protectionism and Brexit, but also spread to the other sectors. Positive data stem from the rebound in retail sales, an improving labour market and lower oil prices, which suggest that the resilience of private consumption remains. This, together with the poor growth figures in Germany, indicate that euro zone GDP would not have rebounded after the fading of some one-off factors and it could have grown by around 0.3% QoQ in 4Q18. Regarding prices, core inflation remained broadly steady at 1.1% in December, while headline inflation slowed again to 1.6% driven by the sharp moderation in energy prices. All in all, the ECB is likely to be more cautious as faster and larger-than-expected moderation in the euro zone seems to take root amid heightening downward risks, which could prevent the expected gradual trend in core inflation.

■ Regarding other monetary policy issues, the central bank should give some clues about the possibility of a new LTRO. At this meeting any announcement may still be premature, as at the last meeting Mr Draghi revealed that the committees had just started work on liquidity issues. In particular, we expect the ECB to announce an extension of TLTROs by March or June 2019, in order to avoid a liquidity cliff in the coming year (when a large repayment of past TLTROs should take place).