

Positive tone extended this week despite Brexit issue remaining stuck

- Financial markets were in a positive mood for the second week in a row. **Recent news of further trade talks by late January between the US and China, (see) coupled with China's latest measures to boost its economy (see) (after the release of disappointing trade figures) were the main drivers for the week.** The rejection of May's Brexit plan and the vote of confidence that May was able to win have had only a mild impact on markets so far, while a presentation for a " plan B" should take place next Monday (see).
- The **positive tone in markets increased sovereign yields in both the US and the EZ**, the former despite comments from Mr. George - a hawkish Fed official - following last week's dovish Fed rhetoric (see) and the latter despite disappointing data from macroeconomic indicators (first estimate for Germany's 2018 GDP (see), CPI final in line for euro zone and worse-than-expected industrial production for November). Moreover, peripheral risk premia narrowed sharply, helped by strong demand at debt auctions (see).
- The **volatility in equity markets receded across the board** and the VIX seems to have stabilized at levels below the 20% threshold. The release of mixed quarterly earnings in the US (mostly banks) and **today's consumer sentiment, well below expectations (see)**, did not cast a shadow on the ongoing positive mood after the Fed's hint of a pause in the tightening process. In fact across the board the banking sector was one of those benefiting most thanks to increasing interest rates. In line with this, the **rally in European equity indices continued this week**, while the latest US investigations of a Chinese company (see) momentarily soured optimism on US-China trade talks which boosted Asian markets.
- The **USD recovered** from last week's drop after dovish Fed rhetoric, **while the euro depreciated amid ongoing uncertainties about Brexit and ahead next week ECB meeting.** Meanwhile, the GBP appreciated in the week despite the high volatility suffered due to the developments on Brexit.
- EM FX markets were mixed in the week.** Latam currencies benefited from the increase in crude oil prices (see) with the main exception of the ARS, which underperformed amid the slightly higher-than-expected inflation figure (see). The **Turkish lira outperformed after Turkey's Central Bank left its interest rate unchanged at 24%** (as expected) which allayed fears about an easing of its monetary policy (see). Concerns about an economic slowdown in China, after the weaker-than-expected figures (see), were overshadowed partially by Chinese stimulus measures, allowing the **CNY to end the session slightly weaker.**

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.60	3.4	5.6	-5	11
US	2.78	2.5	7.5	2	9
GER (2-yr)	-0.58	0.7	0.4	2	3
Germany	0.26	1.5	1.9	-4	-4
France	0.66	1.2	-0.9	-5	-5
Spain	1.34	-2.2	-10.3	-4	-13
Italy	2.72	-4.4	-13.3	-5	-2
Portugal	1.73	-3.2	-12.0	-6	-14
Greece	4.19	-3.3	-11.4	-11	-21
Japan (2-yr)	-0.17	0.2	-1.7	-2	-2
Japan	0.02	1.0	-0.1	-2	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.08	-8.1	-10.2	-49	-15
Chile	4.32	3.3	5.0	-2	7
Colombia	7.04	-0.7	9.5	24	28
Mexico	8.72	5.8	10.8	3	8
Peru	5.28	-0.3	-0.7	-20	-8
Poland	2.85	2.9	8.2	-5	3
Russia	8.39	-2.6	-7.4	-49	-39
Turkey	15.46	13.0	-57.0	-75	-34
India	7.31	3.3	-27.8	9	-6
Indonesia	8.09	-1.0	10.8	9	6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	-0.3	-2.8	-1	-1
Italy	246	-5.9	-15.2	-1	2
Portugal	147	-4.7	-13.9	-2	-9
Spain	108	-3.7	-12.2	0	-9
2-yr sovereign spread vs Germany					
France	11	-0.5	-2.2	-5	-4
Italy	90	-2.9	-17.0	-15	-19
Portugal	42	-2.4	2.1	18	16
Spain	34	-1.1	-4.6	-4	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	178	-2.7	-5	-21	-30
Chile	50	-1.1	-3	-6	-13
Colombia	129	-2.7	-4	-5	-29
Argentina	660	-6.1	-27	-103	-146
Mexico	131	-2.7	-5	-7	-23
Peru	80	-1.1	-3	-8	-15
Poland	66	-0.7	0	-2	-2
Russia	138	0.5	-6	-7	-16
Turkey	348	-6.1	-19	-26	-11
China	61	1.3	-2	-3	-7
India	107	0.6	-1	-4	-6
Indonesia	125	2.0	-3	-7	-12
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	17	-0.6	-1	-8	-8
VSTOXX	14	-0.9	-3	-5	-9
EMEFT volatility Index	19	-0.8	-1	-7	-6
Dollar/euro volatility	6	0.0	0	0	-1
EM FX volatility index	9	0.0	0	0	0
Credit spread (BAA) (change in bps)	240	-2.5	-2	12	-5
US bonds volatility index	53	1.5	-3	-6	-13
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.22	-	3	3	9
EZ Inflation expectations (5Y5Y)	1.55	-	0	-5	-5
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	75	-0.3	-9	1	-7
EZ	108	-1.0	-10	-6	-12
UK	80	-2.0	-15	-10	-14
Large Spanish	74	-1.4	-11	-6	-14
Medium Spanish	116	0.3	7	3	3
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	190	-0.3	-9	1	-7
EZ Non-financial	89	-1.0	-10	-6	-12
UK Non-financial	112	-0.4	-3	-4	-7
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	0	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.12	0	0	1	0
Libor 3m	2.78	0	-2	-1	-2
Libor 12m	3.03	0	1	-3	2
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,656	0.8	2.3	6.0	6
Dow Jones	24,561	0.8	2.4	5.3	5
Nikkei	20,666	1.3	1.5	-1.5	3
FTSE 100	6,969	2.0	0.7	3.0	4
EuroStoxx 50	3,131	2.0	2.0	2.6	4
IBEX	9,073	1.8	2.2	3.5	6
DAX	11,170	2.3	2.6	3.7	6
CAC	4,879	1.8	2.0	2.1	3
MIIB	19,691	1.1	2.1	4.0	7
ASE Athens	617	0.1	-2.9	-0.3	1
MSCI Latam *	92,731	0.7	1.3	8.2	7
Ibovespa (Brazil)	96,078	0.8	2.6	12.1	9
Mexbol (Mexico)	44,129	0.4	1.3	6.6	6
Merval (Argentina)	34,694	1.3	2.4	15.8	15
MSCI EM Europe *	5,534	0.4	1.3	4.0	5
Poland	2,375	0.7	1.7	1.4	4
Micex 10 (Russia)	4,483	1.4	2.5	6.1	7
Ise 100 (Turkey)	98,455	1.7	7.4	6.4	8
MSCI EM Asia *	811	0.1	1.5	3.0	4
Shanghai Com (China)	2,596	1.4	1.7	1.8	4
Jakarta (Indonesia)	6,448	0.5	1.9	6.0	4
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	131.7	0.6	8.1	14.1	14
JPM	103.8	0.9	3.9	6.7	6
Citi	62.7	0.3	10.5	18.6	20
BoA	29.1	0.3	11.7	20.2	18
MS	43.1	1.4	3.3	9.7	9
GS	199.5	0.2	12.7	17.9	19
EZ banks	74.3	1.8	3.0	2.9	8
BNP	42.5	2.6	2.7	4.0	8
Crédit Agricole	10.3	1.7	4.4	4.6	9
Deutsche Bank	7.9	2.1	6.6	5.6	14
ING	10.5	3.6	6.7	6.3	11
Intesa	2.0	1.2	1.3	0.9	5
SG	28.6	0.3	-0.9	-1.1	3
Unicredito	10.6	0.2	0.2	-1.3	7
UK banks	78.4	2.8	4.4	7.5	8
HSBC	649.6	1.7	0.3	-0.5	0
RBS	245.5	3.6	8.8	17.0	13
Barclays	165.4	3.2	5.2	9.2	10
Lloyds	58.0	3.4	6.1	11.1	12
Large Spanish banks	64.6	2.6	2.3	8.7	11
Santander	4.3	2.0	1.4	7.4	9
BBVA	5.2	3.1	3.1	9.9	12
Medium Spanish banks	59.4	1.6	2.8	-0.8	3
Caixabank	3.3	0.5	2.5	-0.7	5
Sabadell	1.1	3.0	3.4	2.3	6
Bankinter	7.1	2.0	4.2	-0.3	2
Bankia	2.6	1.3	0.2	-5.1	2
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.136	-0.2	-0.9	-0.1	-1
GBPUSD	1.29	-0.7	0.4	2.3	1
USDJPY	109.64	-0.3	-1.1	2.6	0
DXY	96.32	0.3	0.7	-0.7	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	37.64	0.1	-2.0	1.9	0
USDBRL (Brazil)	3.75	-0.1	-1.0	3.9	3
USDCLP (Chile)	669.72	0.2	0.7	2.7	4
USDCOP (Colombia)	3122	0.4	0.5	3.0	4
USDMXN (Mexico)	19.05	-0.2	0.5	5.6	3
USDPEN (Peru)	3.31	0.4	1.1	1.2	2
LACI	55.92	-0.1	-0.2	3.9	3
USDPLN (Poland)	3.78	-0.3	-0.9	-0.2	-1
USDRUB (Russia)	66.24	0.1	1.0	1.8	5
USDTRY (Turkey)	5.34	0.1	2.3	-1.1	-1
USDCNY (China)	6.78	0.0	-0.2	1.7	1
USDINR (India)	71.19	-0.2	-1.0	-1.1	-2
USDIDR (Indonesia)	14178	0.1	-0.9	1.8	1
ADXY	105.75	-0.1	-0.4	1.2	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	62.8	2.6	3.8	10	17
WTx	54	2.9	3.9	14	18
Copper	271	0.4	1.6	0	3
Gold	1283	-0.7	-0.3	3	0
S&P Spot commodity *	406	-0.1	0.8	3	8
S&P Brent Spot *	521	-0.3	0.9	6	14
S&P Metals Spot *	323	1.0	1.0	-1	1
S&P Agricultural *	290	0.3	0.2	0	2

Source: Bloomberg, Datastream and Handv

* With one day delay