

FOMC meeting and US-China trade talks drove markets in the week

- Financial markets finished this week in relative positive mood despite the bulk of positive events during the whole week.** On Monday the US government resumed after the longest shutdown in the US history, but this is only temporary and could continue if they don't reach an agreement over the border ([see](#)). As the week went by, the importance of the events (and its impact on financial markets) increased with the vote of May's plan B, FOMC meeting (more dovish than expected), and the US-China high-level trade talks, which seemed to have made good progress.
- The FOMC, at its January's meeting, kept its benchmark interest rate unchanged** but showed some flexibility in their tightening process (interest rates and balance sheet). According to the market reaction, the FOMC sounded more dovish than was expected, as they started to discount a longer pause for further rate hikes ([see](#)).
- Sovereign yields on core countries at their lower bounds.** US Treasury yields declined sharply, with the 10Y yield hovering 2.65% despite **today's release of positive job data** ([see](#)) and manufacturing ISM figure ([see](#)). The German 10Y Bund also is hovering around its recent lowest yield (0.17%) also dragged by disappointing economic data in Germany ([see](#)) among others indicators. Peripheral risk premia increased this week driven by Italy ([see](#)).
- Developed equity markets ended the week mixed amid a bulk of earning releases:** US stocks recovered from the losses faced early in the week, while European equity indices underperformed somewhat, dragged by certain earning releases. Asian markets benefited especially by optimism on trade negotiations as additional rounds of trade talks will take place in February in order to get a deal before March 1st deadline for further tariffs ([see](#)). Chinese equity indices were able to end with gains despite today's disappointed China's confidence indicators ([see](#)) which did not overshadow yesterday's better-than-expected PMIs ([see](#)).
- The USD depreciated later in the week after the FOMC meeting** which favored the appreciation of the EUR and the JPY, while the GBP suffered from the ongoing uncertainty on Brexit negotiations. The vote on Brexit plan "B" forced May to re-negotiate a new agreement with the EU, but the willingness from the EU seemed limited ([see](#)).
- Meanwhile, Emerging markets benefited from the funding conditions** (weak USD and US Treasury yields subdued). Risk premia (EMBI) decreased and currencies showed mixed movements. The cut in Pemex's credit rating by Fitch weighed on the MXN, while the COP to appreciate after Central Bank of Colombia held interest rates at 4.25% ([see](#)). The commitment of Turkey's Central Bank with tight monetary policy despite lower inflation pressures favored the TRY ([see](#)).

Update 16:30 CET 01 February 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.51	4.8	-10.0	4	2
US	2.68	5.0	-8.0	6	-1
GER (2-yr)	-0.57	-0.9	0.7	4	4
Germany	0.17	1.8	-2.6	-6	-14
France	0.57	1.8	-2.6	-8	-14
Spain	1.23	2.9	-0.6	-18	-25
Italy	2.73	13.7	7.7	3	-2
Portugal	1.64	2.2	-0.7	-21	-22
Greece	3.93	5.8	-15.3	-6	-47
Japan (2-yr)	-0.17	-0.9	-0.5	-3	-3
Japan	-0.01	-1.7	-0.9	-2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.80	-6.1	-28.5	-39	-44
Chile	4.20	0.3	-4.5	1	-6
Colombia	6.94	0.0	-11.3	20	18
Mexico	8.41	1.1	3.6	-20	-23
Peru	5.23	0.1	-6.4	-12	-13
Poland	2.75	1.7	-7.2	-2	-8
Russia	8.22	1.0	-16.2	-56	-56
Turkey	13.87	5.0	-102.0	-218	-193
India	7.38	9.7	5.1	2	1
Indonesia	7.89	-11.7	-21.5	-15	-13
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	41	0.0	0.0	-2	0
Italy	256	11.9	10.3	9	12
Portugal	148	0.4	1.9	-15	-9
Spain	106	1.1	2.0	-12	-12
2-yr sovereign spread vs Germany					
France	12	0.2	0.4	-2	-3
Italy	97	13.2	10.0	-10	-12
Portugal	37	1.1	-3.2	10	11
Spain	32	0.7	-0.1	-7	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	165	-2.7	-6	-40	-42
Chile	47	-1.4	-2	-16	-16
Colombia	123	-2.7	-5	-34	-35
Argentina	622	-22.2	2	-178	-184
Mexico	135	0.4	4	-19	-20
Peru	75	-0.9	-2	-20	-20
Poland	65	0.0	0	-2	-3
Russia	130	-4.3	-1	-22	-24
Turkey	302	-16.1	-13	-55	-58
China	54	-3.0	-6	-13	-14
India	104	-3.1	-3	-7	-9
Indonesia	111	-5.7	-10	-27	-27
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	-0.2	-1	-7	-9
VSTOXX	14	-0.7	0	-9	-9
EM EFT volatility Index	20	0.1	1	-4	-5
Dollar/euro volatility	6	-0.2	0	-2	-1
EM FX volatility index	9	-0.1	0	-1	-1
Credit spread (BAA) (change in bps)	239	-5.0	5	-10	-6
US bonds volatility index	50	1.5	-3	-13	-17
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.25	-	10	16	12
EZ Inflation expectations (5Y5Y)	1.51	-	-1	-5	-10
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	63	-2.8	-8	-18	-19
EZ	98	-3.0	-8	-18	-22
UK	75	-2.1	-5	-16	-19
Large Spanish	67	-2.2	-6	-16	-21
Medium Spanish	111	0.5	-3	-2	-2
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	186	-2.8	-8	-18	-19
EZ Non-financial	82	-3.0	-8	-18	-22
UK Non-financial	107	-2.2	-5	-11	-12
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	1	1	0
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.11	0	0	1	1
Libor 3m	2.74	0	-3	-7	-6
Libor 12m	3.02	0	-1	2	1
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,713	0.3	1.8	8.1	8
Dow Jones	25,164	0.7	1.7	7.8	8
Nikkei	20,788	0.1	0.1	3.9	4
FTSE 100	7,008	0.6	2.9	4.1	4
EuroStoxx 50	3,162	0.1	0.0	5.6	5
IBEX	8,991	-0.7	-2.1	5.2	5
DAX	11,146	-0.2	-1.2	5.3	6
CAC	5,011	0.4	1.7	6.9	6
MIB	19,555	-0.9	-1.3	6.7	7
ASE Athens	641	1.0	1.2	5.9	5
MSCI Latam *	94,129	0.7	0.2	8.9	9
Ibovespa (Brazil)	97,500	0.1	-0.2	7.1	11
Mexbol (Mexico)	43,990	0.0	0.8	4.1	6
Merval (Argentina)	36,331	0.0	4.4	16.8	20
MSCI EM Europe *	5,699	0.3	1.1	7.4	8
Poland	2,387	0.3	-0.5	3.7	5
Micex 10 (Russia)	4,535	0.0	0.9	8.3	8
Ise 100 (Turkey)	102,937	-1.1	1.1	15.8	13
MSCI EM Asia *	841	0.8	2.6	7.2	8
Shanghai Com (China)	2,618	1.3	0.6	6.2	5
Jakarta (Indonesia)	6,539	1.2	1.1	5.6	6
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	131.4	0.4	-0.9	11.4	14
JPM	104.4	0.8	0.9	5.1	7
Citi	64.1	-0.6	0.1	19.7	23
BoA	28.6	0.5	-3.3	14.6	16
MS	42.4	0.3	-1.3	5.0	7
GS	198.9	0.4	-0.9	15.6	19
EZ banks	71.1	-1.1	-5.5	4.1	3
BNP	40.8	-0.5	-5.2	4.3	3
Crédit Agricole	9.9	-0.4	-4.4	6.5	5
Deutsche Bank	7.6	-1.8	-6.5	6.4	9
ING	10.3	-0.5	-3.6	9.8	9
Intesa	2.0	-1.6	-4.9	3.0	1
SG	26.5	-2.3	-7.3	-3.3	-5
Unicredit	9.9	-2.2	-10.3	1.0	0
UK banks	76.8	0.0	-1.3	5.8	5
HSBC	637.1	-0.3	-0.1	-1.5	-2
RBS	242.0	0.5	-0.5	11.7	12
Barclays	157.8	-0.3	-3.9	4.7	5
Lloyds	57.9	0.1	-1.1	13.6	12
Large Spanish banks	62.3	-1.0	-5.4	6.2	7
Santander	4.1	-1.6	-8.0	2.2	2
BBVA	5.1	-0.5	-3.0	10.3	11
Medium Spanish banks	55.1	-4.0	-8.7	-3.5	-4
Caixabank	3.1	-6.6	-9.4	-1.6	-3
Sabadell	0.9	-8.5	-15.3	-8.6	-9
Bankinter	6.8	-0.9	-7.5	-3.3	-4
Bankia	2.5	-2.6	-4.4	-2.2	-3
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.146	0.1	0.4	1.0	0
GBPUSD	1.31	-0.3	-0.9	3.7	2
USDJPY	109.43	-0.5	0.1	-0.5	0
DXY	95.60	0.0	-0.2	-1.3	-1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	37.22	0.2	-0.4	1.1	1
USDBRL (Brazil)	3.67	-0.6	2.8	3.2	6
USDCLP (Chile)	654.98	-0.1	1.9	6.5	6
USDCOP (Colombia)	3107	0.0	1.4	4.1	5
USDMXN (Mexico)	19.16	-0.3	-0.9	2.1	3
USDPEN (Peru)	3.33	-0.2	0.3	1.0	1
LACI	56.44	-0.2	1.0	3.0	4
USDPLN (Poland)	37.74	-0.4	0.5	1.2	0
USDRUB (Russia)	65.63	-0.4	0.6	5.4	6
USDTRY (Turkey)	5.22	-1.0	1.0	3.5	1
USDCNY (China)	6.74	-0.7	0.1	1.8	2
USDINR (India)	71.26	-0.2	-0.1	-1.5	-2
USDIDR (Indonesia)	13948	0.2	1.0	3.7	3
ADXY	106.28	-0.5	0.1	1.0	1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	61.5	-0.6	-0.2	12	14
WTx	54	0.9	1.1	17	20
Copper	278	-0.3	1.6	6	6
Gold	1318	-0.3	1.1	3	3
S&P Spot commodity *	408	-0.6	-0.4	8	9
S&P Brent Spot *	518	-1.1	-1.2	11	13
S&P Metals Spot *	336	0.5	1.0	8	5
S&P Agricultural *	289	-0.2	-0.6	2	2

Source: Bloomberg, Datastream and Haver

* With one day delay