

Market Comment

Caution prevailed as US-China trade talks stumble

- **This week financial markets continued to scale back expectations of a US-China phase-one trade deal.** This, together with softer economic data, particularly from the US and the EZ, extended investor appetite for safe-haven bonds: **core sovereign yields declined further** this week (10Y yield -6bps in the US and -2bps in Germany) with the US yield curve flattening. Search for yield benefited Italy, which risk premium tightened by -2.5bps to 154pbs), although the Spanish risk premium was broadly stable.
- As a result, **markets increased expectations of a Fed rate cut next year** (77% probability of one interest rate cut by the end of 2020). It is also possible that the meeting between Trump and Powell also contributed to the increase in rate cut expectations. However, the odds of an ECB rate cut remain below 40%. **ECB's Lagarde** called for a strong policy mix (supportive monetary policy and higher public investment) and a review of the central bank's strategy. Minutes of the Oct meeting showed a strong agreement to maintain a highly accommodative monetary policy for an extended period of time due to downward risks.
- **November's Markit PMIs were positive in the U.S., but weak in the euro area.** Both manufacturing and services PMIs rose more than expected in the US, underpinned by an improvement in measures of output, new orders and employment. Nonetheless, the Eurozone's Flash composite PMI fell slightly in November (50.3 from 50.6; Cons: 50.9) driven by worsening service confidence (-0.7 to 51.5; Cons: 52.4), despite further stabilization in the manufacturing sector (+0.7 to 46.6; Cons: 46.4). This, along with steady figures in France and the slight improvement in Germany points to a deterioration in the rest of the member states and increases concerns about contagion from weak manufacturing to domestic demand.
- **Minor changes in G-10 currencies.** Most EM currencies slightly depreciated against the USD on the back of lower prospects of a trade deal, led by the Chilean peso due to the ongoing political strains (CLP -2.5%, MXN -1.1%, CNY -0.4%). However, the Turkish lira recovered some ground this week.
- Despite the overall cautious tone, **equity markets declined moderately**, while equity volatility edged up slightly (VIX 13).

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,62	1,1	0,5	3	-87
US	1,77	-0,3	-6,2	0	-92
GER (2-yr)	-0,64	-1,1	-0,2	2	-3
Germany	-0,36	-3,0	-2,1	4	-60
France	-0,04	-2,7	-2,1	5	-75
Spain	0,42	-3,6	-2,5	17	-100
Italy	1,19	1,0	-4,6	25	-156
Portugal	0,41	-1,3	3,7	21	-131
Greece	1,39	-0,9	-8,1	12	-301
Japan (2-yr)	-0,18	1,0	1,3	6	-4
Japan	-0,07	3,1	-0,6	6	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,83	-2,1	12,1	26	-241
Chile	2,90	-2,4	0,3	4	-135
Colombia	6,29	0,1	-1,7	19	-46
Mexico	7,01	-2,1	11,2	15	-163
Peru	3,64	-6,3	-20,5	-2	-172
Poland	2,05	-2,7	-5,1	9	-77
Russia	6,52	-1,1	-7,9	-6	-226
Turkey	12,04	3,0	-1,0	-109	-376
India	6,50	-1,1	-2,5	-1	-87
Indonesia	7,07	-1,9	4,2	0	-95

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	0,3	0,0	1	-15
Italy	154	4,0	-2,5	21	-96
Portugal	76	1,7	5,8	17	-72
Spain	77	-0,6	-0,4	13	-40
2-yr sovereign spread vs Germany					
France	4	-1,0	-0,3	0	-11
Italy	63	1,3	-6,4	19	-46
Portugal	16	-0,2	-1,7	5	-10
Spain	26	-0,2	-1,1	1	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	126	-2,5	3	0	-81
Chile	56	0,1	4	17	-7
Colombia	89	-1,8	6	5	-69
Argentina	6652	-202,9	-1102	489	5846
Mexico	92	-1,9	0	-10	-62
Peru	57	-0,1	3	2	-38
Poland	65	0,0	-1	-2	-3
Russia	70	-0,4	-1	-5	-84
Turkey	304	-1,5	-5	-73	-56
China	41	0,8	1	2	-26
India	72	1,0	0	-1	-41
Indonesia	75	0,1	1	-4	-62

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0,2	1	-1	-12
VSTOXX	62	0,0	0	-11	-5
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	0	-1	-3
EM FX volatility index	17	-0,3	-1	1	-8
Credit spread (BAA) (change in bps)	215	0,3	1	-3	-30
US bonds volatility index	7	-0,1	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,04	-	-1	3	-9
EZ Inflation expectations (5Y5Y)	1,21	-	-3	0	-40
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	49	0,0	2	1	-33
EZ	54	-0,1	-1	2	-51
UK	46	-1,1	-1	1	-48
Large Spanish	39	-0,4	0	-1	-49
Medium Spanish	90	0,2	2	-2	-22
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	215	-10,1	-19	9	1
EZ Non-financial	71	0,3	1	-2	-26
UK Non-financial	101	0,3	0	-1	-18

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	1	n.a.
Euribor 3m	-0,40	0	0	0	-9
Euribor 12m	-0,28	0	-1	1	-16
Libor 3m	-0,46	0	3	4	-10
Libor 12m	1,90	0	-1	-4	-90

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3106	0,1	-0,5	3,4	24
Dow Jones	27822	0,2	-0,7	3,7	19
Nikkei	23113	0,3	-0,8	2,2	15
FTSE 100	7335	1,3	0,4	1,0	9
EuroStoxx 50	3690	0,3	-0,6	2,3	23
IBEX	9270	0,6	0,1	-1,2	9
DAX	13169	0,2	-0,6	2,9	25
CAC	5896	0,3	-0,7	4,3	25
MB	23278	0,0	-1,3	4,1	27
ASE Athens	891	0,9	0,7	2,1	45
MSCI Latam *	95729	0,7	0,9	-0,2	11
Ibovespa (Brazil)	108126	0,6	1,5	0,5	23
Mexbol (Mexico)	43310	0,1	-0,2	-0,5	4
Merval (Argentina)	34057	2,4	6,9	3,9	12
MSCI EM Europe *	6198	-0,1	0,0	3,0	17
Poland	2189	0,4	-2,0	-0,9	-4
Micex 10 (Russia)	5129	0,2	-0,1	4,4	22
Ise 100 (Turkey)	106588	-0,2	1,1	6,8	17
MSCI EM Asia *	862	-0,9	0,1	1,8	10
Shanghai Com (China)	2885	-0,6	-0,2	-1,9	16
Jakarta (Indonesia)	6100	-0,9	0,0	-2,0	-2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	154,4	0,8	0,5	4,8	34
JPM	130,9	0,8	1,1	4,6	34
Citi	74,5	0,9	0,2	2,9	43
BoA	33,2	1,0	0,7	5,6	35
MS	49,0	0,3	0,0	6,7	24
GS	220,0	0,8	-0,1	4,1	32
EZ banks	82,2	0,6	0,7	5,0	19
BNP	51,7	0,3	2,0	7,7	31
Crédit Agricole	12,7	0,7	0,5	7,1	34
Deutsche Bank	16,7	1,1	2,0	-6,7	-4
ING	10,5	1,4	-0,3	1,9	12
Intesa	2,3	-0,3	0,4	3,4	21
SG	28,6	1,4	0,5	8,1	3
Unicredito	12,5	0,1	0,3	7,0	26
UK banks	75,1	1,5	0,3	-2,2	3
HSBC	580,3	1,9	1,2	-5,0	-10
RBS	223,6	1,3	-0,5	-4,3	3
Barclays	169,4	0,7	-0,8	2,2	13
Lloyds	59,8	1,8	1,0	-0,8	15
Large Spanish banks	56,9	1,2	1,0	-5,5	-3
Santander	3,6	1,6	1,5	-9,0	-9
BBVA	4,8	0,7	0,6	-2,3	3
Medium Spanish banks	50,2	1,5	3,0	-0,3	-13
Caixabank	2,7	1,2	2,7	4,3	-15
Sabadell	1,0	1,1	4,3	-1,0	3
Bankinter	6,3	1,9	2,6	-1,3	-11
Bankia	1,8	2,1	3,2	-4,5	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,104	-0,2	-0,1	-0,8	-4
GBPUSD	1,284	-0,6	-0,4	-0,5	1
USDJPY	108,700	-0,1	0,1	0,0	1
DXY	98,138	0,1	0,1	0,7	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,80	0,0	-0,2	-1,4	-37
USDBRL (Brazil)	4,18	0,3	0,2	-3,5	-7
USDCPL (Chile)	796,94	-0,2	-2,5	-8,9	-13
USDCOP (Colombia)	3406	0,4	0,59	-0,38	-4
USDMXN (Mexico)	19,39	0,0	-1,1	-1,4	1
USDPEN (Peru)	3,39	-0,3	-0,6	-1,2	0
LACI	49,80	0,1	-0,6	-2,8	-8
USDPLN (Poland)	3,89	-0,2	-0,6	-1,4	-4
USD RUB (Russia)	63,79	-0,1	0,0	0,2	9
USDTRY (Turkey)	5,71	-0,3	0,6	0,4	-7
USDCNY (China)	7,04	-0,1	-0,4	0,4	-2
USDINR (India)	71,71	0,1	0,1	-1,1	-3
USDIDR (Indonesia)	14092	0,0	-0,1	-0,4	2
ADXY	103,80	-0,2	-0,5	0,0	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64,0	0,1	1,1	5	19
WTx	58	-0,3	1,2	4	29
Copper	261	-0,3	-0,8	-2	-1
Gold	1463	-0,1	-0,4	-2	14
S&P Spot commodity *	421	1,3	0,1	2	12
S&P Brent Spot *	536	2,4	0,9	3	17
S&P Metals Spot *	314	-0,6	-1,3	-4	-2
S&P Agricultural *	284	-0,2	-0,4	-1	0

Source: Bloomberg, Datastream and Haver

* With one day delay