

Market Comment

Virus contagion concerns breaks 'risk on' mood

- The risk-on mood has halted as the virus outbreak in China has raised fears of a global contagion, amid an absence of relevant economic data until today's PMI releases in the Eurozone and the U.S. In a negative knee-jerk reaction, investors sought shelter in bond markets and sold commodities and transportation sector stocks, as this episode evoked grim memories from China's 2003 SARS crisis. Equity markets partially recouped their losses towards the end of the week, encouraged by positive EZ PMI data, the rapid emergency action taken by the Chinese authorities to contain the virus and the fact that the WHO has so far stopped short of declaring the current outbreak a global emergency ([see](#)).
- Elsewhere, Davos World Economic Forum 2020 annual meetings, where the central theme was "Stakeholders for a Cohesive and Sustainable World". Conversations centered around pressing global issues, including climate change, gender equality, geopolitics and global risks. On the trade front, France and the U.S. agreed to postpone the digital tax until the end of the year, preventing U.S. tariff hikes on French products, although positions remain far apart. Separately, Trump and Von der Leyen tried to give a more optimistic view on a possible U.S.-EU trade deal before the U.S. presidential elections, but significant differences remain and the threat of higher car tariffs remains on the table.
- Eurozone PMIs point to a continuation of weak growth at the beginning of the year, but more optimism on recovery ahead:** the EZ composite PMI remained unchanged in January (50.9; Cons: 51.2) as the improvement in the index for manufacturing (47.8 up from 46.3) was offset by a worsening in services (52.2 down from 52.8), which reflects French strikes and weakness elsewhere, except in Germany. However, leading components improved and the German ZEW also reinforced the positive outlook.. The U.S. Markit PMI declined more than expected (51.7, consensus 52.5, previous 52.4).
- Sovereign yields dropped across the board during the week, hitting pre-trade agreement levels. Apart from the safe-haven flows, bond supply factors also boosted U.S. long-term bonds and flattened the U.S. yield curve, especially after the U.S. Treasury Secretary said ultra-long issuance won't happen in the near term. Implied probability of further 25bps Fed interest cut this year rose to 67% (from 57%). In addition, implied probability of an ECB interest rate hike in 2020 slid back to 8% from 17% last week, as markets read the ECB's policy statement as more dovish than expected. There was a slight search for yield in bond markets, which benefited peripherals. That said, Italy's bonds were volatile, ahead of this Sunday's regional election in Emilia-Romagna. EM bonds yields also declined.
- Safe-haven currencies appreciated. As expected, the virus outbreak news took its toll on the Chinese RMB and EM markets, especially those more exposed to China. The euro depreciated, with most of its depreciation taking place after Ms. Lagarde's press conference.
- Commodity prices fell sharply. Oil prices declined around 4% this week. In addition to oil oversupply risks, contagion fears increased global cyclical risk premium. Moreover, cyclical commodities such as copper plunged as well.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,49	-1,9	-6,5	-13	-111
US	1,69	-3,8	-13	-21	-106
GER (2-yr)	-0,61	-0,8	-2,2	1	-3
Germany	-0,33	-2,3	-11,6	-12	-52
France	-0,07	-1,5	-11,8	-14	-67
Spain	0,35	-0,8	-11,3	-9	-88
Italy	1,23	-2,7	-14,9	-20	-142
Portugal	0,38	-2,5	-12,0	-15	-127
Greece	1,31	-2,6	-10,9	-15	-278
Japan (2-yr)	-0,13	-0,1	0,5	-1	4
Japan	-0,02	-0,3	-2,3	0	-2
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,70	-4,4	-8,1	-27	-238
Chile	2,90	-0,1	2,6	6	-134
Colombia	5,98	-1,1	-7,4	-27	-107
Mexico	6,82	-0,9	-0,8	-9	-155
Peru	3,45	-0,7	-3,2	-10	-185
Poland	2,25	-0,8	-8,1	17	-57
Russia	6,26	0,8	0,6	-23	-213
Turkey	10,05	-29,0	-66,0	-178	-484
India	6,58	-1,7	-4,2	1	-75
Indonesia	6,63	-5,2	-21,0	-51	-148

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	0,8	-0,2	-1	-15
Italy	156	-0,4	-3,3	-8	-90
Portugal	71	-0,2	-0,4	-2	-75
Spain *	68	1,5	0,3	4	-36
2-yr sovereign spread vs Germany					
France	4	-0,1	-0,2	3	-7
Italy	55	-0,5	-3,2	-6	-32
Portugal	20	-1,8	-3,7	9	-20
Spain	23	0,2	-0,7	0	-8
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	99	1,3	2	-3	-72
Chile	48	1,4	3	5	-1
Colombia	80	2,6	8	5	-49
Argentina	5688	220,5	1143	300	5068
Mexico	82	1,6	4	1	-49
Peru	46	1,2	3	4	-31
Poland	51	-0,3	-1	-8	-15
Russia	64	3,4	4	7	-67
Turkey	240	0,3	-4	-39	-75
China	36	2,5	5	5	-23
India	63	0,3	0	-5	-44
Indonesia	64	1,2	4	1	-56

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	13	0,3	1	1	-4
VSTOXX	55	0,0	6	-3	3
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	0,0	0	0	-2
EM FX volatility index	17	1,1	3	2	-3
Credit spread (BAA) (change in bps)	203	3,8	3	6	-32
US bonds volatility index	6	0,0	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,06	-	-4	-2	-10
EZ Inflation expectations (5Y5Y)	1,29	-	-4	-7	-22
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	39	0,7	0	-3	-32
EZ	45	0,0	0	0	-46
UK	43	0,2	1	1	-38
Large Spanish	33	-0,2	0	1	-39
Medium Spanish	68	-1,5	-4	-9	-46
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	210	1,1	8	25	20
EZ Non-financial	67	0,6	1	2	-21
UK Non-financial	98	0,2	0	1	-14

INTERBANK MARKETS (% change in bps)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	1	n.a.
Euribor 3m	-0,39	0	1	1	-8
Euribor 12m	-0,26	-1	-2	-1	-14
Libor 3m	-0,45	0	0	1	-8
Libor 12m	1,79	0	-3	-16	-97

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3323	-0,1	-0,2	3,1	25
Dow Jones	29129	-0,1	-0,7	2,2	18
Nikkei	23827	0,1	-0,9	0,2	15
FTSE 100	7605	1,3	-0,9	-0,4	12
EuroStoxx 50	3783	1,2	-0,7	0,2	20
IBEX	9581	0,7	-1,0	-0,8	4
DAX	13593	1,5	0,5	2,2	20
CAC	6031	1,0	-1,1	0,0	22
MB	23981	1,2	-0,7	0,3	21
ASE Athens	949	1,0	1,5	4,0	50
MSCI Latam *	102943	0,5	1,2	2,1	10
Ibovespa (Brazil)	118629	-0,8	0,1	2,4	21
Mexbol (Mexico)	45386	-0,2	-0,9	2,8	4
Merval (Argentina)	40874	-0,6	-3,5	2,4	17
MSCI EM Europe *	6500	-0,8	-0,8	2,3	15
Poland	2154	0,3	-1,0	0,5	-10
Micex 10 (Russia)	5492	0,0	-2,4	2,7	22
Ise 100 (Turkey)	122142	-0,3	0,5	7,8	20
MSCI EM Asia *	923	-1,1	-1,8	1,4	13
Shanghai Com (China)	2977	0,0	-3,2	-0,2	14
Jakarta (Indonesia)	6244	0,2	-0,7	-1,0	-3
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	163,3	-1,2	-3,0	0,7	23
JPM	134,8	-1,3	-2,4	-2,0	30
Citi	78,7	-1,4	-3,0	0,1	23
BoA	33,7	-1,1	-2,8	-4,2	14
MS	54,9	-1,1	-4,5	8,4	28
GS	243,3	-0,9	-2,5	5,8	21
EZ banks	82,3	0,4	-2,0	-3,6	9
BNP	50,1	0,2	-1,3	-5,5	16
Crédit Agricole	12,6	1,0	-1,9	-3,0	22
Deutsche Bank	7,9	2,2	3,5	13,7	-3
ING	10,2	-0,1	-3,5	-5,2	-4
Intesa	2,3	0,5	-2,5	-5,1	10
SG	30,3	0,4	-1,2	-2,9	6
Unicredito	12,5	-0,8	-5,3	-6,6	13
UK banks	75,3	1,8	-0,8	-5,1	-3
HSBC	580,6	1,3	-2,3	-3,1	-9
RBS	225,5	2,9	0,4	-7,1	-7
Barclays	174,5	1,7	-0,4	-3,1	6
Lloyds	58,4	1,8	-0,1	-7,9	0
Large Spanish banks	55,3	-0,6	-3,5	-7,0	-16
Santander	3,6	-0,4	-3,3	-5,3	-19
BBVA	4,6	-0,7	-3,6	-8,5	-13
Medium Spanish banks	48,4	-1,0	-4,4	-8,3	-20
Caixabank	2,7	-0,2	-3,8	-5,7	-22
Sabadell	1,0	-0,9	-3,9	-7,9	-9
Bankinter	6,0	-1,8	-4,9	-9,3	-18
Bankia	1,7	-0,6	-6,1	-12,2	-35

CURRENCIES (% change in bps)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,103	-0,3	-0,6	-0,6	-3
GBPUSD	1,307	-0,4	0,4	0,8	-1
USDJPY	109,380	0,1	0,7	0,0	0
DXY	97,920	0,2	0,3	0,3	2
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60,10	0,0	-0,2	-0,7	-38
USDBRL (Brazil)	4,18	-0,3	-0,5	-2,6	-10
USDCLP (Chile)	776,42	0,0	-0,5	-3,2	-14
USDCOP (Colombia)	3378	-0,5	-1,3	-2,31	-7
USDMXN (Mexico)	18,84	-0,4	-1,0	0,2	1
USDPEN (Peru)	3,32	-0,1	-0,1	-0,2	1
LACI	50,48	-0,3	-0,6	-1,3	-10
USDRPL (Poland)	3,86	-0,5	-1,0	-0,6	-3
USDTRB (Turkey)	61,99	-0,1	-1,0	-0,3	6
USDTRY (Turkey)	5,94	-0,1	-0,9	0,0	-11
USDCNY (China)	6,91	0,5	-0,7	1,1	-2
USDINR (India)	71,33	-0,1	-0,3	-0,1	0
USDIDR (Indonesia)	13583	0,4	0,5	2,9	4
ADXY	105,24	0,2	-0,5	0,6	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	60,7	-2,2	-6,5	-10	-2
WTx	54	-2,4	-7,4	-11	1
Copper	268	-1,6	-5,8	-5	-2
Gold	1573	0,6	1,0	5	20
S&P Spot commodity *	414	-1,2	-3,1	-5	1
S&P Brent Spot *	522	-1,9	-4,3	-7	-1
S&P Metals Spot *	319	-1,6	-2,9	-2	-4
S&P Agricultural *	304	0,2	0,2	2	5

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover