

Market Comment

Fears over the impact of the virus on the production channels

- Concerns about the spillover of the coronavirus outbreak continued weighing on financial markets, as evidence mounts of companies halting production in affected areas. Today, Russia has announced it will close borders with China. Meanwhile, investors are focusing today's World Health Organization Emergency Committee.
- The U.S. economy maintained the pace of growth in the fourth quarter but shows sign of a slowdown. The U.S. GDP maintained the pace of growth against expectations of a slight moderation (2.1% QOQ SAAR, consensus 2%, previous quarter 2.1%). The advance was led by net exports (export increased while import decreased). However, consumer spending moderated more than expected (1.8%, consensus 2%, previous 3.2%) and investment decreased. Moreover, personal consumption core prices moderated more than expected (1.3% consensus 1.6% prior 2.1% QOQ SAAR). In Europe, Economic confidence increased beyond expectations in January (102.8, consensus 101.8, previous 101.3), extending the rebound that started in November, despite services confidence having moderated more than expected. Preliminary harmonized German CPI grew slightly less than expected in January (1.6% previous 1.7%)
- The Fed sounded slightly more dovish than expected, as the tweak in the outlook for inflation hinted the Fed is not pleased with inflation running below the target (see). The Fed left interest rates unchanged (1.5-1.75%), made a "technical" adjustment and increased the interest paid on excess reserves (IOER +5bp to 1.6%).
- Sovereign bonds continued attracting fresh safe-haven flows. The 10Y U.S. yield slightly extended the declines today, after falling 7bps yesterday, breaking down the 1.6% level, and hitting levels close to October's lows. The market's expectation of an additional Fed interest rate cut in 2020 has been brought forward to July's meeting (64% probability), while markets are taking for granted that a Fed rate cut will take place in 2020 (87% probability of a rate cut in December). Even the odds for a 50bps cut in 2020 rose to 53%. German yields also extended declines today, hitting levels below -0.4%, with peripheral yields and EM market yield also declining.
- Equity markets in Asia showed a dramatic decline, while markets in Europe also traded lower today. In the U.S., company earnings limit equities declined. However, implied volatility in equity markets remained at high levels (VX to 17). Meanwhile, Brent oil prices fell below \$59/B, underpinned by increase in oil inventories and concerns about impact of the virus in China and the global economy. Industry metal commodities prices also reflected the cyclical concerns.
- FX markets showed minor changes, but the risk-off mood pattern prevailed, with safe-haven currencies underperforming. EM FX and commodity-linked currencies depreciated. Elsewhere, the GBP appreciated after the BoE decided to maintain the interest rate unchanged at 0.75%, backed by a majority of the board (7-2 voted to keep rate), the improvement seen in recent data led the BoE Board to wait for further evidence before cutting rates. Nonetheless, the BoE cut the UK growth outlook by half a point in 2020 and 2021 to 0.75% and 1.5%.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1.39	-2.4	-12.5	-18	-107
<b>US</b>	1.56	-2.4	-17	-36	-107
GER (2-yr)	-0.66	-1.8	-5.4	-6	-9
<b>Germany</b>	-0.41	-2.9	-9.8	-26	-56
France	-0.15	-2.3	-8.8	-27	-70
Spain	0.27	-2.9	-8.7	-20	-93
Italy	0.94	-1.2	-31.3	-47	-165
Portugal	0.28	-3.1	-12.2	-27	-134
Greece	1.17	-0.8	-17.0	-30	-271
Japan (2-yr)	-0.14	-1.3	-2.0	-1	2
<b>Japan</b>	-0.06	-1.9	-4.1	-5	-6
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6.73	2.3	-1.2	-5	-213
Chile	2.91	1.9	1.0	23	-128
Colombia	5.94	-1.6	-4.7	-40	-100
Mexico	6.63	-0.7	-19.7	-26	-177
Peru	3.39	-0.5	-7.2	-14	-185
Poland	2.18	-5.2	-8.5	6	-56
Russia	6.35	2.7	9.9	-6	-186
Turkey	9.85	-5.0	-49.0	-201	-397
India	6.56	-1.3	-4.1	1	-72
Indonesia	6.65	-1.9	-3.1	-42	-136

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
<b>10-yr sovereign spread vs Germany</b>					
France	26	0.6	1.0	-1	-15
Italy	135	1.7	-21.5	-22	-109
Portugal	69	-0.2	-2.4	-1	-78
Spain *	68	0.0	1.1	6	-37
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0.4	1.0	4	-6
Italy	46	1.8	-9.3	-10	-38
Portugal	21	0.6	-0.3	16	-14
Spain	24	0.3	0.6	3	-7
Emerging Markets	level	Daily	Weekly	Monthly	YoY
<b>5-yr sovereign CDS *</b>					
Brazil	96	-2.8	-2	-3	-72
Chile	46	-1.3	-1	5	-3
Colombia	75	-3.3	-2	3	-51
Argentina	5746	-634.9	279	879	5102
Mexico	78	-3.4	-3	-1	-57
Peru	44	-1.5	-1	3	-32
Poland	49	-0.9	-2	-9	-16
Russia	64	-0.1	4	8	-70
Turkey	236	0.8	-3	-40	-81
China	40	1.1	6	9	-17
India	65	1.4	2	0	-42
Indonesia	66	0.6	3	3	-51

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	17	1.0	4	4	1
VSTOXX	16	2.0	3	2	1
EM EFT volatility Index	21	1.8	4	4	1
Dollar/euro volatility	4	0.0	0	-1	-2
EM FX volatility index	6	-0.2	0	0	-3
Credit spread (BAA) (change in bps)	209	2.4	10	11	-29
US bonds volatility index	66	0.6	11	8	16
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2.04	-	-1	-3	-21
EZ Inflation expectations (5Y5Y)	1.26	-	-3	-7	-25
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	41	-3.1	2	0	-25
EZ	42	-2.5	-3	-3	-45
UK	44	-0.5	1	3	-33
Large Spanish	32	-2.0	-1	0	-37
Medium Spanish	68	1.3	-1	-8	-42
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	203	-3.4	-7	35	14
EZ Non-financial	69	-0.4	2	4	-15
UK Non-financial	97	-1.2	0	2	-12

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0.54	0	0	-1	n.a.
Euribor 3m	-0.40	0	-1	-2	-9
<b>Euribor 12m</b>	-0.28	-1	-3	-3	-17
Libor 3m	1.78	0	-3	-14	-96
Libor 12m	1.85	0	-9	-17	-117

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
<b>S&amp;P500</b>	3260	-0.4	-2.0	0.9	21
Dow Jones	28678	-0.2	-1.7	0.5	15
Nikkei	22978	-1.7	-3.4	-2.9	11
FTSE 100	7382	-1.4	-1.7	-2.1	6
<b>EuroStoxx 50</b>	3691	-1.2	-1.2	-1.5	17
IBEX	9478	-0.7	-0.4	-0.7	5
DAX	13157	-1.4	-1.7	-0.7	18
CAC	5872	-1.4	-1.7	-1.8	18
MB	23781	-1.6	0.3	1.2	21
ASE Athens	921	-1.1	-1.9	0.5	45
<b>MSCI Latam *</b>	100418	-0.3	-1.9	0.2	7
Ibovespa (Brazil)	113150	-1.9	-5.3	-2.2	16
Mexbol (Mexico)	44807	-0.7	-1.5	2.9	2
Merval (Argentina)	39992	-0.9	-2.8	-4.0	10
<b>MSCI EM Europe *</b>	6401	0.2	-2.3	0.3	13
Poland	2080	-0.9	-3.2	-3.3	-13
Micex 10 (Russia)	5390	-1.1	-1.9	0.9	19
Ise 100 (Turkey)	119850	0.1	-2.2	4.7	15
<b>MSCI EM Asia *</b>	906	0.6	-2.9	-1.2	9
Shanghai Com (China)	2977	0.0	0.0	-2.4	15
Jakarta (Indonesia)	6058	-0.9	-2.8	-3.8	-6
Banking sector	level	Daily	Weekly	Monthly	YoY
<b>US banks</b>	159.7	-0.5	-3.4	-2.4	22
JPM	134.1	-0.1	-1.8	-3.8	30
Citi	75.8	-0.9	-5.0	-5.1	18
BoA	32.9	-0.2	-3.5	-6.5	16
MS	52.7	-1.8	-5.1	3.1	25
GS	240.1	0.0	-2.2	4.4	21
<b>EZ banks</b>	81.2	-0.8	-0.9	-3.9	13
BNP	48.9	-1.2	-2.1	-7.5	19
Crédit Agricole	12.3	-1.2	-1.7	-5.0	23
Deutsche Bank	8.3	4.2	8.2	20.2	7
ING	10.0	-0.6	-2.3	-6.2	-3
Intesa	2.3	-1.2	1.0	-2.4	15
SG	29.5	-1.1	-2.2	-4.9	9
Unicredito	12.4	-2.0	-1.4	-4.9	23
<b>UK banks</b>	73.9	0.0	-0.1	-6.0	-4
HSBC	563.0	-0.6	-1.7	-4.9	-12
RBS	221.5	0.3	1.1	-7.8	-8
Barclays	171.5	-0.3	0.0	-4.5	8
Lloyds	57.9	0.7	0.9	-7.3	0
<b>Large Spanish banks</b>	56.6	-0.1	1.7	-3.8	-10
Santander	3.7	-1.1	2.6	-1.7	-11
<b>BBVA</b>	4.7	0.9	1.0	-5.5	-9
<b>Medium Spanish banks</b>	47.9	0.2	-2.0	-8.4	-17
Caixabank	2.6	1.0	-1.3	-5.8	-20
Sabadell	0.9	-0.2	-2.9	-9.1	-4
Bankinter	5.9	-0.1	-2.4	-9.0	-13
<b>Currencies</b>	1.7	0.5	-1.3	-11.8	-34

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
<b>EURUSD</b>	1.103	0.2	-0.2	-1.6	-4
GBPUSD	1.311	0.7	0.1	-1.1	0
USDJPY	108.770	0.2	-0.7	-0.1	0
DXY	97.865	-0.1	0.2	1.5	2
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60.25	0.0	-0.3	-0.6	-38
USDBRL (Brazil)	4.26	-0.8	-2.1	-5.5	-14
USDCLP (Chile)	796.19	-0.6	-2.5	-5.4	-18
USDCOP (Colombia)	3413	-0.7	-1.5	-3.69	-9
USDMXN (Mexico)	18.79	-0.5	-1.1	-1.7	2
USDPEN (Peru)	3.37	-0.6	-1.4	-1.6	-1
LACI	49.98	-0.6	-1.2	-2.8	-12
USDPLN (Poland)	3.89	0.1	-1.2	-2.4	-4
USDRLB (Russia)	63.30	-1.4	-2.2	-2.1	-3
USDTRY (Turkey)	5.98	-0.4	-0.8	-0.5	-14
USDCNY (China)	6.91	0.0	0.5	0.8	-3
USDINR (India)	71.49	-0.3	-0.3	-0.2	-1
USDIDR (Indonesia)	13657	-0.2	-0.1	1.5	2
ADXY	104.67	-0.3	-0.4	-0.5	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
<b>Brent</b>	58.5	-2.2	-5.7	-11	-6
WTx	52	-2.2	-6.1	-15	-3
Copper	253	-0.8	-7.1	-9	-9
Gold	1581	0.3	1.1	4	20
S&P Spot commodity *	399	-0.4	-3.6	-9	-2
S&P Brent Spot *	501	0.2	-3.9	-11	-3
S&P Metals Spot *	303	-1.0	-5.0	-6	-10
S&P Agricultural *	297	-0.8	-2.5	-2	3

Source: Bloomberg, Datastream and Haver  
\* With one day delay  
\* Risk premium affected by the German rollover