

Market Comment
Virus concerns ripple across markets

- A risk-off mood rippled across markets**, underpinned by mounting concerns about the coronavirus' negative spillover effects on global growth, through supply chain disruptions with companies halting production in the affected regions, and suspending travel. Investors sought shelter in bond markets, dragging equity markets and commodities. The latter had a slight spillover effect on HY bonds (spread +12bps).
- This Thursday, **the World Health Organization (WHO) declared the rapidly spreading novel coronavirus outbreak a Public Health Emergency of International Concern**. The WHO stated its confidence in China's capacity to control the outbreak, but raised great concerns over the potential for the virus to spread to countries with weaker health systems. The outbreak has caused 213 deaths in China, with nearly 10,000 cases worldwide.
- The U.S. economy is losing some steam, whereas the EZ showed disappointing growth in 4Q19**. U.S. personal income fell more than expected in December (0.2% MoM; Cons: 0.3% MoM; Prev: 0.4% revised down from 0.5%), while personal spending also weakened in line with expectations (0.3% MoM; Prev: 0.4% MoM). The January Chicago business barometer unexpectedly fell to 42.9 (Cons: 48.9; Prev: 48.2), the lowest level since December 2015. Meanwhile, EZ GDP grew by 0.1% QoQ in 4Q19, slightly below expectations (0.2%) amid weaker support from domestic demand (especially inventories) partly offset by a positive contribution of net exports. Headline inflation accelerated by 0.1pp to 1.4% YoY in Jan driven by higher energy prices while core inflation slowed by 0.1pp to 1.3% YoY driven by lower service inflation. Finally, China's January NBS PMI declined from 50.2 in the previous month to 50, while non-manufacturing NBS PMI increased to 54.1 from 53.5 in the previous month.
- Sovereign yields plunged across the board, due to the virus spillover risks**. Moreover, softer U.S. consumption in 4Q19, jointly with slightly dovish Fed, improved bond demand. The U.S. 10Y yield broke below 1.6% level, while the 10Y yield German yield hit -0.4%, reversing the improvement seen after the trade agreement. The drawdown in nominal yields was led mainly by the term premium (-8bps in the U.S. and -7bps in Germany) and real yields (-5bps in the U.S. and -3bps in Germany). Moreover, market expectations of an additional Fed interest rate cut have been brought forward to July (60% probability of 25bps interest rate cut in July), with a very high probability for a December cut (80%). Even the odds for a 50bp cut in 2020 rose to 53%. In addition, the expectations for an ECB hike this year have disappeared, while markets attach a 50% probability to a rate cut in 2020.
- The cyclical commodity sell-off that gripped markets last Friday rolled into this week**, reflecting anxieties about the impact of the virus on growth. Brent oil prices fell, while industry metal commodities such as copper slumped.
- FX markets show minor changes but moved in a risk-off mood pattern**, with the GBP outperforming this week ahead of today's Brexit resolution. The JPY and the CHF appreciated, while EM depreciated, with commodity-linked currencies bearing the brunt.
- Equity markets tumbled in Asia, while the declines were more contained in the U.S.** due to positive company earnings and expectations of a supportive Fed, if needed. In Europe and Latam, equity markets declined around 2%. Elsewhere, implied volatility increased further (VIX 18 +3 points after fluctuating during the week).

UPDATE 16:05 CET 31 JANUARY 2020
DEBT MARKETS (10Y, %, CHANGE IN BPS)

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,37	-4,8	-13,0	-20	-114
US	1,53	-5,3	-15	-39	-115
GER (2-yr)	-0,66	-0,7	-5,1	-6	-8
Germany	-0,43	-2,5	-9,6	-28	-60
France	-0,17	-2,4	-9,8	-29	-74
Spain	0,24	-3,3	-11,0	-23	-99
Italy	0,93	-0,8	-29,8	-48	-181
Portugal	0,27	-1,2	-11,1	-28	-137
Greece	1,17	0,7	-13,7	-30	-275
Japan (2-yr)	-0,14	0,1	-1,8	-1	3
Japan	-0,07	-0,8	-4,6	-6	-5
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,67	-2,0	-5,3	-12	-202
Chile	2,92	0,1	1,2	23	-127
Colombia	5,95	-0,2	-1,5	-39	-96
Mexico	6,65	0,0	-17,0	-24	-177
Peru	3,37	-0,4	-9,0	-16	-181
Poland	2,15	-2,9	-10,6	3	-61
Russia	6,36	1,0	10,1	-5	-187
Turkey	9,98	13,0	-7,0	-188	-389
India	6,60	4,5	2,1	10	-77
Indonesia	6,68	3,3	5,4	-35	-121

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	0,1	-0,2	-1	-15
Italy	137	1,7	-20,2	-20	-122
Portugal	70	1,3	-1,5	0	-78
Spain *	67	-0,8	-1,4	5	-39
2-yr sovereign spread vs Germany					
France	5	-0,6	-1,6	3	-7
Italy	46	0,5	-9,5	-9	-54
Portugal	21	-0,4	0,7	17	-17
Spain	24	0,2	0,4	3	-8
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	101	4,9	2	2	-64
Chile	49	3,2	1	7	2
Colombia	79	4,0	-1	7	-44
Argentina	6043	297,1	356	1173	5421
Mexico	81	3,4	-1	3	-54
Peru	46	2,0	0	5	-29
Poland	48	-0,4	-2	-10	-17
Russia	65	0,9	1	10	-65
Turkey	241	4,9	2	-43	-60
China	43	2,6	6	11	-11
India	67	1,4	3	1	-38
Indonesia	68	2,6	4	6	-42

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	18	2,2	3	4	2
VSTOXX	17	0,5	4	3	3
EM EFT volatility Index	22	1,0	3	4	2
Dollar/euro volatility	4	0,1	0	-1	-2
EM FX volatility index	7	0,4	1	0	-2
Credit spread (BAA) (change in bps)	212	5,3	12	14	-21
US bonds volatility index	71	4,9	11	13	22
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,06	-	-2	-2	-22
EZ Inflation expectations (5Y5Y)	1,26	-	-3	-14	-25
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	41	0,8	2	0	-22
EZ	42	-0,6	-4	-3	-44
UK	44	-0,1	1	2	-31
Large Spanish	33	0,6	-1	1	-34
Medium Spanish	72	3,7	4	-5	-39
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	206	3,5	-4	32	20
EZ Non-financial	70	1,6	3	6	-12
UK Non-financial	100	2,1	2	1	-7

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	-1	n.a.
Euribor 3m	-0,39	1	-1	-1	-9
Euribor 12m	-0,28	-1	-3	-4	-17
Libor 3m	1,78	0	-2	-13	-96
Libor 12m	1,85	0	-5	-15	-114

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3260	-0,7	-1,1	0,9	20
Dow Jones	28548	-1,1	-1,5	0,0	14
Nikkei	23205	1,0	-2,6	-1,9	12
FTSE 100	7308	-1,0	-3,7	-3,1	4
EuroStoxx 50	3659	-0,8	-3,2	-2,3	15
IBEX	9410	-0,7	-1,6	-1,5	4
DAX	13047	-0,8	-3,9	-1,5	17
CAC	5828	-0,7	-3,3	-2,5	16
MB	23311	-2,0	-2,7	-0,8	19
ASE Athens	911	-1,1	-3,9	-0,6	42
MSCI Latam *	100379	0,0	-2,5	0,2	7
Ibovespa (Brazil)	113652	-1,6	-4,0	-1,7	16
Mexbol (Mexico)	44466	-0,9	-1,5	2,1	2
Merval (Argentina)	40229	-0,4	0,8	-3,5	10
MSCI EM Europe *	6354	-0,7	-2,2	-0,3	11
Poland	2057	-1,1	-4,5	-4,3	-14
Micex 10 (Russia)	5341	-0,9	-2,7	-0,1	18
Ise 100 (Turkey)	119453	-0,3	-2,2	4,4	16
MSCI EM Asia *	884	-2,4	-4,2	-3,2	5
Shanghai Com (China)	2977	0,0	0,0	-2,4	14
Jakarta (Indonesia)	5940	-2,8	-4,9	-5,7	-9
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	159,5	-1,8	-1,6	-2,4	22
JPM	133,8	-1,5	0,5	-4,0	29
Citi	75,5	-2,5	-3,7	-5,5	19
BoA	32,9	-1,6	-1,8	-6,5	16
MS	52,8	-2,0	-3,3	3,2	26
GS	240,8	-1,4	-0,5	4,7	23
EZ banks	80,2	-1,2	-2,2	-5,0	13
BNP	48,3	-1,3	-3,3	-8,6	18
Crédit Agricole	12,2	-0,3	-2,6	-5,3	24
Deutsche Bank	8,4	0,6	6,8	20,9	9
ING	9,9	-1,7	-3,6	-7,8	-4
Intesa	2,2	-1,9	-1,3	-4,2	15
SG	29,2	-1,0	-3,2	-5,8	10
Unicredito	12,0	-2,8	-3,2	-7,5	23
UK banks	72,5	-1,9	-3,3	-7,8	-6
HSBC	553,2	-1,7	-4,5	-6,5	-13
RBS	217,9	-1,6	-2,5	-9,3	-11
Barclays	168,8	-1,6	-2,7	-6,1	6
Lloyds	56,5	-2,5	-2,8	-9,6	-3
Large Spanish banks	55,8	-1,4	1,4	-5,1	-11
Santander	3,6	-2,5	0,9	-4,2	-12
BBVA	4,7	-0,3	1,9	-5,8	-10
Medium Spanish banks	46,5	-2,8	-3,5	-11,0	-15
Caixabank	2,6	0,3	-0,4	-5,5	-14
Sabadell	0,8	-11,7	-13,4	-19,7	-7
Bankinter	5,9	-0,6	-0,7	-9,6	-12
Currencies	1,6	-2,3	-2,9	-13,8	-34

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,106	0,2	0,3	-1,4	-3
GBPUSD	1,315	0,4	0,6	-0,8	1
USDJPY	108,690	0,2	0,5	0,1	1
DXY	97,635	-0,2	-0,2	1,2	2
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60,33	-0,1	-0,4	-0,8	-38
USDBRL (Brazil)	4,27	-0,6	-2,2	-5,8	-14
USDCLP (Chile)	798,08	-0,2	-2,6	-5,6	-18
USDCOP (Colombia)	3424	-0,3	-1,7	-3,98	-10
USDMXN (Mexico)	18,89	-0,6	-0,5	0,1	1
USDPEN (Peru)	3,38	-0,2	-1,5	-1,9	-1
LACI	49,80	-0,5	-1,5	-3,1	-12
USDPLN (Poland)	3,89	0,1	-0,7	-2,4	-4
USDRUB (Russia)	63,87	-1,0	-2,7	-3,0	3
USDTRY (Turkey)	5,98	-0,2	-0,7	-0,6	-13
USDCNY (China)	6,91	0,0	0,0	0,8	-2
USDINR (India)	71,36	0,2	0,0	-0,2	0
USDIDR (Indonesia)	13655	0,0	-0,5	1,5	2
ADXY	104,58	-0,2	-0,7	-0,5	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	58,2	-0,2	-4,2	-12	-7
WTx	52	-0,8	-4,5	-15	-6
Copper	253	0,1	-5,9	-10	-9
Gold	1584	0,6	0,8	4	20
S&P Spot commodity *	392	-1,7	-3,5	-10	-5
S&P Brent Spot *	488	-2,7	-4,3	-13	-9
S&P Metals Spot *	302	-0,6	-4,6	-7	-10
S&P Agricultural *	295	-0,8	-2,0	-2	1

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover