

Market Comment

China takes measure to stabilize markets

- February has brought a cautious tone into the markets as coronavirus fears continue to weigh on global sentiment. After sharp declines experienced last Friday, all eyes were on today's Chinese markets opening, after it had been closed for a week due to the New Year holidays. As expected, the Chinese equity market showed a sharp decline, with most of the 80% of the stocks declining by the 10% daily limit. In addition to the catch up movement, the downturn in China's index came after Hong Kong announced it was closing 11 of its 13 land crossings with the Chinese mainland in order to reduce the spread of the virus (see), and imposing new restrictions on travelers coming from China to the U.S. and Russia.
- Chinese authorities took measures to stabilize markets: PBOC injected 1.2 trillion RMB (\$173.8 bn) in liquidity into the banking system, cut the borrowing rate by 10 bps, and restricted broker activity. China's manufacturing activity went unnoticed for markets, although it moderated slightly less than expected (51.1; Cons: 51.0; Prev: 51.5). The slowdown in manufacturing was mainly driven by a weak increase in new orders that could not offset the drop in exports.
- Solid U.S. economic activity indicators confirmed stronger-than-expected figures in the ISM data: The manufacturing index rose in January above expectations (50.9; Cons: 48.5; Prev: 47.8, revised from 47.2) driven by a larger-than-expected increase in new orders (52.0; Cons: 47.7; Prev: 47.6 revised from 46.8), prices paid (53.3; Cons: 51.0; Prev: 51.7) and a slight growth in employment (46.6; Prev: 45.2 revised from 45.1). Elsewhere, construction spending inched down more than estimated in December (-0.2% MoM; Cons: 0.5% MoM; Prev: 0.7% MoM) as previous figures were revised up marginally from 0.6% MoM.
- Sovereign bonds yield inched up across the board, in line with the slight increase in equity markets after the U.S. 10Y yield hit levels close to August 2019 lows last Friday, when concerns about the U.S.-China trade war heightened. Meanwhile, positive manufacturing figures in the U.S. and Europe also help yield to recover some ground, although German yields remained well-demanded. Moreover, implied probability for a Fed interest cut this year remains around 80%.
- On FX markets, the dollar appreciated against its major pairs lead by the rebound on ISM data. G10 currencies depreciated with the GBP underperforming the rest, on the back of renewed EU-UK frictions. Prime Minister Boris Johnson and the EU chief Brexit negotiator, Michel Barnier, clashed over a post-Brexit trade deal as Britain refused to sign up to "highly ambitious" EU rules to prevent unfair competition (see). Elsewhere, emerging currencies were mixed, with the LatAm currencies generally appreciating, while the CNY depreciated sharply and traded above the psychological 7 threshold.
- Brent prices declined below \$56per barrel, as some estimations suggest that the Chinese crude oil demand could have declined by 20%. Concerns about oil demand may spur additional OPEC+ oil production (see). Furthermore, copper prices were also dragged by concerns about the coronavirus on global growth.
- European and U.S. equity markets recovered some ground today, helped by the Chinese stimulus and strong rebound in ISM manufacturing. Nonetheless, some market measures, such as implied volatility in equity markets, remain at relatively high levels (VIX around 18), suggesting a cautious tone remains in financial markets.

UPDATE 17:30 CET 03 FEBRUARY 2020

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1,34	2,8	-10,0	-23	-120
US	1,52	1,4	-9	-36	-120
GER (2-yr)	-0,67	-0,4	-4,6	-7	-10
Germany	-0,44	-1,0	-5,9	-26	-62
France	-0,18	-0,6	-5,5	-26	-77
Spain	0,24	0,7	-3,9	-20	-100
Italy	0,95	1,1	-9,1	-47	-179
Portugal	0,27	0,7	-3,4	-25	-138
Greece	1,20	2,7	2,1	-23	-271
Japan (2-yr)	-0,14	0,6	-0,1	-1	3
Japan	-0,06	0,9	-1,3	-5	-5
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6,61	-10,2	-13,6	-12	-216
Chile	2,95	0,8	5,3	24	-124
Colombia	5,84	-10,5	-14,5	-50	-104
Mexico	6,61	0,0	-13,0	-22	-180
Peru	3,27	-3,5	-17,9	-19	-190
Poland	2,16	2,4	-5,5	5	-62
Russia	6,37	0,3	1,8	-4	-188
Turkey	10,02	4,0	-9,0	-184	-385
India	6,51	-9,6	-5,1	0	-90
Indonesia	6,70	1,7	-1,6	-33	-117

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	26	0,4	0,4	0	-14
Italy	139	2,1	-3,2	-21	-117
Portugal	72	1,8	2,6	0	-76
Spain *	69	1,7	2,0	5	-38
2-yr sovereign spread vs Germany					
France	5	-0,3	0,4	2	-7
Italy	48	1,1	-0,6	-8	-51
Portugal	24	1,1	4,9	18	-13
Spain	24	-0,2	0,7	2	-8
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	104	3,3	2	6	-62
Chile	52	2,1	1	10	4
Colombia	82	2,7	-1	10	-40
Argentina	6212	168,3	-179	1341	5599
Mexico	84	2,5	-1	6	-52
Peru	48	1,2	0	6	-27
Poland	49	0,2	-2	-10	-17
Russia	64	-0,7	1	9	-70
Turkey	239	-2,1	3	-46	-67
China	43	0,3	5	11	-12
India	65	-1,6	2	-1	-38
Indonesia	68	-0,1	5	6	-44

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	18	-1,1	0	5	2
VSTOXX	16	-0,9	-1	4	2
EM EFT volatility Index	21	-2,3	-1	4	2
Dollar/euro volatility	4	-0,2	0	-1	-2
EM FX volatility index	7	0,1	0	0	-2
Credit spread (BAA) (change in bps)	212	-1,5	8	14	-19
US bonds volatility index	73	1,9	6	16	24
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2,00	-	-1	-11	-27
EZ Inflation expectations (5Y5Y)	1,26	-	2	-7	-25
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	42	0,5	2	1	-22
EZ	41	-0,4	-4	-4	-48
UK	43	0,0	1	2	-34
Large Spanish	33	-0,2	-1	1	-35
Medium Spanish	65	-6,5	-2	-12	-44
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	204	-2,0	-1	30	19
EZ Non-financial	71	0,8	5	7	-12
UK Non-financial	99	0,6	2	1	-7

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,39	0	1	-1	-9
Euribor 12m	-0,29	-1	-3	-4	-18
Libor 3m	1,75	0	-3	-15	-98
Libor 12m	1,81	0	-6	-17	-116

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3255	0,9	0,3	-0,1	19
Dow Jones	28426	0,6	-0,4	-1,5	13
Nikkei	22972	-1,0	-1,6	-2,9	10
FTSE 100	7336	0,7	-1,0	-3,5	4
EuroStoxx 50	3662	0,6	-0,4	-3,5	16
IBEX	9405	0,4	0,4	-3,0	5
DAX	13044	0,5	-1,2	-2,6	17
CAC	5837	0,5	-0,4	-3,4	17
MB	23443	0,9	0,1	-1,7	20
ASE Athens	903	-0,8	-3,5	-2,9	40
MSCI Latam *	98811	-1,6	-3,3	-1,3	5
Ibovespa (Brazil)	115005	1,1	0,5	-3,0	17
Mexbol (Mexico)	44108	0,0	-0,1	-0,7	1
Merval (Argentina)	41217	2,8	4,1	0,3	11
MSCI EM Europe *	6281	-1,2	-3,4	-1,5	10
Poland	2073	0,3	-0,5	-5,8	-13
Micex 10 (Russia)	5303	-0,6	-1,3	-0,8	17
Ise 100 (Turkey)	119243	0,1	-0,8	2,9	17
MSCI EM Asia *	878	-0,7	-4,7	-3,9	4
Shanghai Com (China)	2747	-7,7	-7,7	-11,0	5
Jakarta (Indonesia)	5884	-2,9	-5,8	-6,6	-10
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	159,9	1,2	0,4	-3,7	21
JPM	133,8	1,1	1,4	-5,2	28
Citi	75,4	1,3	-1,7	-7,2	18
BoA	33,2	1,0	0,9	-7,0	15
MS	53,0	1,4	-0,3	1,8	25
GS	240,9	1,3	1,2	2,8	22
EZ banks	80,6	0,7	-0,1	-6,8	15
BNP	48,4	0,7	-1,0	-9,7	21
Crédit Agricole	12,3	0,9	0,2	-6,4	27
Deutsche Bank	8,1	-1,9	4,9	10,6	6
ING	9,9	0,4	-0,8	-10,7	-3
Intesa	2,3	1,8	1,3	-4,0	16
SG	29,3	0,4	-1,5	-7,3	14
Unicredito	12,2	1,0	-1,1	-9,5	26
UK banks	72,8	0,4	-0,5	-9,0	-6
HSBC	557,5	1,0	-0,3	-6,3	-13
RBS	217,7	-0,3	-0,2	-10,9	-11
Barclays	169,7	1,0	-0,6	-8,4	7
Lloyds	56,5	-0,5	-1,0	-11,3	-2
Large Spanish banks	55,6	0,1	2,7	-8,3	-12
Santander	3,6	0,2	2,4	-7,9	-12
BBVA	4,7	0,0	3,0	-8,6	-10
Medium Spanish banks	46,4	0,6	-2,4	-13,7	-13
Caixabank	2,7	0,9	2,1	-8,1	-9
Sabadell	0,8	0,6	-13,4	-23,4	-4
Bankinter	5,9	0,1	-0,6	-12,6	-11
Bankia	1,7	1,6	0,1	-15,3	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1,106	-0,3	0,4	-1,0	-3
GBPUSD	1,300	-1,5	-0,4	-1,1	0
USDJPY	108,550	-0,2	0,3	0,0	1
DXY	97,792	0,4	-0,2	1,0	2
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60,45	-0,2	-0,5	-1,0	-39
USDBRL (Brazil)	4,24	0,9	-0,8	-5,2	-14
USDCLP (Chile)	788,79	1,5	0,3	-4,8	-17
USDCOP (Colombia)	3408	0,4	-0,3	-4,47	-9
USDMXN (Mexico)	18,81	0,2	0,5	0,1	2
USDPEN (Peru)	3,38	0,2	-1,4	-2,4	-1
LACI	50,07	0,6	-0,2	-2,8	-11
USDPLN (Poland)	3,89	-0,4	-0,2	-2,4	-4
USDRLB (Russia)	63,74	0,4	-1,2	-3,2	3
USDTRY (Turkey)	5,98	0,0	-0,7	-0,4	-13
USDCNY (China)	7,02	-1,6	-1,6	-0,8	-4
USDINR (India)	171,37	0,0	0,1	0,0	1
USDIDR (Indonesia)	13742	-0,6	-0,9	1,1	2
ADXY	103,96	-0,6	-0,7	-1,0	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	54,8	-5,7	-7,6	-17	-12
WTx	50	-2,2	-5,1	-18	-8
Copper	252	0,0	-3,0	-11	-10
Gold	1579	-0,7	-0,2	3	20
S&P Spot commodity *	389	-0,8	-2,4	-11	-6
S&P Brent Spot *	482	-1,2	-3,3	-15	-9
S&P Metals Spot *	302	0,0	-2,3	-7	-11
S&P Agricultural *	293	-0,4	-1,5	-3	1

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover