

Market Comment

Financial markets extended recovery amid upbeat economic data

- Risk-on mood continued to sail along on Wednesday, underpinned by positive economic data, the latest developments in fighting the coronavirus and upbeat corporate earnings.** China said it would cut some fees and taxes to companies facing the coronavirus outbreak to curtail the negative impact, while some countries are developing potential treatments and vaccines to deal with the virus. Nevertheless, since the numbers of dead and infected people continue to grow (around 500 deaths and 25,000 confirmed cases), additional airlines have cancelled flights to Hong Kong amid a sharp fall in demand. Moreover, Moody's sources reported that the coronavirus will affect Hong Kong's sovereign credit profile through an impact on households and businesses.
- In terms of the ECB's speeches, the agenda became rather busy.** Yesterday, Bank of Spain governor, Pablo Hernández de Cos, stated that the ECB should adopt a "simple" target inflation of 2% in order to provide "clarity". Today, the ECB's chief economist, Philip Lane, said that the current inflation rate is too low, suggesting that monetary policy should remain accommodative, but he added that fiscal policy will play a key role in stabilizing the economy. On the other hand, he sees a transitory impact on the economy due to the virus outbreak in China, while ECB President, Christine Lagarde, stated that it should be monitored, since they have an impact on the Eurozone's economic outlook. As a result of this uncertainty, she added that "the ECB's forward guidance on interest rates and asset purchases acts as an effective automatic stabilizer" ([see](#)).
- Upbeat data in the U.S. rippled through January.** The non-manufacturing index also rose in January, surpassing expectations (55.5; Cons: 55.1; Prev: 54.9), suggesting a solid services sector. U.S. labor markets also showed a strong outlook, ADP employment unexpectedly accelerated in January (291k; Cons: 157k; Prev: 199k revised from 202k) but the trade deficit balance shrank in December (-\$48.9b; Cons: -\$48.2b; Prev: -\$43.7b revised from -\$43.1b). **Final readings for Markit PMIs in both the Eurozone and the U.S. were revised upward, suggesting that their business activity started 2020 on solid footing. However, China's business activity growth slowed further.** In the Eurozone, retail sales rose in December less than expected (1.3% YoY; Cons: 2.3% YoY; Prev: 2.3% YoY) since previous figures were slightly revised upward from 2.2%. On the negative side, Caixin China services PMI slowed to 51.8 in January from 52.5 (Cons: 52.0), while Composite PMI also decelerated (51.9; Prev: 52.6) as companies cut prices and new orders dipped.
- Sovereign yields extended yesterday's rally amid solid business activity data and the easing of coronavirus fears.** Investors are now focusing on whether central banks will take actions to reduce their economy's damage. Against this backdrop, the odds of an additional Fed interest rate cut this year remains high (80%), while the yield curve slightly steepened.
- In FX markets, the USD continued its appreciation path, boosted by solid ISM services PMI.** Meanwhile, commodity-linked currencies (SEK and AUD) appreciated timidly underpinned by the increase in Brent oil prices, while the other G10 pairs, including safe-haven currencies, depreciated amid dollar strengthening. On the other hand, emerging currencies were generally unchanged and the CNY remained below the 7 threshold.
- Equity markets rose amid economic optimism.** Asian stocks extended yesterday's gains, while implied volatility in equity markets remained at low levels (VIX around 15).

UPDATE 17:34 CET 05 FEBRUARY 2020

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,43	2,4	2,0	-11	-109
<b>US</b>	1,64	3,8	5	-17	-106
GER (2-yr)	-0,64	1,3	-0,3	-2	-9
<b>Germany</b>	-0,36	3,8	1,6	-11	-52
France	-0,10	3,6	2,1	-12	-68
Spain	0,30	2,8	-0,3	-10	-96
Italy	0,97	2,0	1,8	-39	-189
Portugal	0,34	2,9	2,5	-14	-132
Greece	1,19	-0,2	1,2	-22	-271
Japan (2-yr)	-0,14	1,1	-0,7	1	2
<b>Japan</b>	-0,04	1,2	0,4	-2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,53	-7,4	-18,1	-32	-239
Chile	2,87	-3,1	-2,9	13	-134
Colombia	5,92	-1,2	-3,9	-42	-97
Mexico	6,67	0,8	2,6	-13	-167
Peru	3,18	-3,0	-20,9	-29	-195
Poland	2,20	0,4	-3,2	13	-55
Russia	6,28	-2,4	-4,3	-14	-196
Turkey	10,13	10,0	23,0	-195	-389
India	6,51	0,3	-6,5	-6	-85
Indonesia	6,61	-2,2	-5,4	-49	-113

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	26	-0,2	0,5	-1	-16
Italy	133	-1,8	0,2	-28	-137
Portugal	70	-0,9	0,9	-3	-80
Spain *	66	-1,0	-1,9	1	-44
<b>2-yr sovereign spread vs Germany</b>					
France	4	-0,6	-1,6	1	-8
Italy	44	-1,4	0,2	-11	-61
Portugal	25	0,9	4,2	17	-10
Spain	22	-0,2	-1,3	-1	-9
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	99	-3,5	0	-1	-62
Chile	49	-2,5	1	7	3
Colombia	77	-4,6	-2	5	-38
Argentina	5369	-516,0	-1012	83	4780
Mexico	79	-2,9	-2	1	-50
Peru	45	-1,4	0	4	-26
Poland	49	0,0	-1	-9	-16
Russia	63	-2,2	-2	3	-70
Turkey	238	-3,4	2	-46	-58
China	36	-3,9	-3	3	-17
India	67	0,7	4	1	-36
Indonesia	63	-2,7	-2	-1	-47

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	-0,7	-1	2	0
VSTOXX	14	-0,9	-1	-2	0
EM EFT volatility Index	19	-0,5	0	2	1
Dollar/euro volatility	4	0,0	0	-1	-2
EM FX volatility index	7	-0,2	0	0	-2
Credit spread (BAA) (change in bps)	206	-3,8	0	4	-22
US bonds volatility index	68	-4,6	2	5	21
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,01	-	-8	-6	-23
EZ Inflation expectations (5Y5Y)	1,28	-	2	-3	-22
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	40	-2,4	-1	-3	-23
EZ	39	-2,7	-6	-8	-50
UK	42	-2,2	-2	0	-35
Large Spanish	32	-1,7	-2	-1	-37
Medium Spanish	62	0,2	-5	-15	-46
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	178	-16,0	-28	2	-1
EZ Non-financial	68	-2,0	-1	3	-12
UK Non-financial	98	-1,3	-1	-1	-7

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,40	0	0	-2	-9
<b>Euribor 12m</b>	-0,28	1	-1	-3	-17
Libor 3m	1,74	0	-3	-13	-100
Libor 12m	1,80	0	-6	-20	-118

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3325	0,8	1,6	2,4	22
Dow Jones	29116	1,1	1,3	1,4	15
Nikkei	23320	1,0	-0,3	0,5	12
FTSE 100	7485	0,6	0,0	-1,2	4
<b>EuroStoxx 50</b>	3779	1,2	1,1	0,7	18
IBEX	9711	1,6	1,7	1,1	7
DAX	13480	1,5	1,0	2,7	19
CAC	5994	1,0	0,7	-0,3	18
MB	24238	1,6	0,3	2,8	21
ASE Athens	921	0,5	-1,1	0,1	41
<b>MSCI Latam *</b>	100596	1,3	-0,1	-1,6	6
Ibovespa (Brazil)	116848	1,1	1,3	0,0	23
Mexbol (Mexico)	45098	0,1	-0,1	1,4	3
Merval (Argentina)	41194	0,4	2,1	-0,7	12
<b>MSCI EM Europe *</b>	6344	1,1	-0,7	-1,4	10
Poland	2123	0,8	1,2	-2,3	-12
Micex 10 (Russia)	5422	0,6	-0,5	0,2	19
Ise 100 (Turkey)	122321	0,2	2,2	9,8	19
<b>MSCI EM Asia *</b>	896	2,4	-1,7	-2,9	6
Shanghai Com (China)	2818	1,3	-5,3	-8,6	8
Jakarta (Indonesia)	5979	1,6	-2,2	-5,5	-8
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	164,6	1,7	2,6	1,0	26
JPM	136,4	0,8	1,6	-1,3	32
Citi	78,4	2,5	2,5	-1,3	23
BoA	34,7	3,1	5,0	-0,6	21
MS	54,6	1,0	1,6	6,9	29
GS	244,2	0,9	1,7	4,4	24
<b>EZ banks</b>	84,4	2,7	3,1	-0,6	15
BNP	49,8	0,9	0,5	-5,6	19
Crédit Agricole	13,1	4,0	5,1	0,7	29
Deutsche Bank	8,3	1,1	3,5	14,9	5
ING	10,3	2,3	2,5	-4,9	-7
Intesa	2,4	4,2	5,6	4,7	20
SG	30,4	2,6	1,9	-2,2	15
Unicredito	12,9	2,4	2,0	-1,5	25
<b>UK banks</b>	74,0	0,2	0,2	-5,9	-6
HSBC	568,6	0,9	0,4	-2,8	-13
RBS	221,5	-0,2	0,3	-7,7	-11
Barclays	173,0	0,6	0,6	-4,4	7
Lloyds	57,2	-0,5	-0,5	-9,6	-2
<b>Large Spanish banks</b>	58,8	2,7	3,8	-1,1	1
Santander	3,8	2,5	2,0	0,2	-8
<b>BBVA</b>	4,9	2,8	5,4	-2,2	-6
<b>Medium Spanish banks</b>	48,0	2,2	0,4	-9,9	-12
Caixabank	2,8	4,3	6,7	-2,7	-5
Sabadell	0,8	-0,2	-12,0	-21,0	-5
Bankinter	6,1	2,5	2,3	-9,0	-9
Bankia	1,7	1,0	1,9	-11,3	-33

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,100	-0,4	-0,1	-1,7	-3
GBPUSD	1,299	-0,3	-0,2	-1,4	0
USDJPY	109,720	-0,2	-0,6	-1,2	0
DXY	98,232	0,3	0,2	1,6	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	60,59	0,9	-0,6	-1,3	-38
USDBRL (Brazil)	4,26	-0,1	-0,8	-4,5	-13
USDCLP (Chile)	778,17	0,4	1,7	-0,8	-16
USDCOP (Colombia)	3359	0,1	0,9	-3,36	-8
USDMXN (Mexico)	18,61	0,3	0,5	1,2	3
USDPEN (Peru)	3,36	0,1	-0,5	-1,0	-1
LACI	50,31	0,2	0,0	-1,6	-11
USDPLN (Poland)	3,86	0,3	0,8	-2,1	-2
USD RUB (Russia)	62,94	0,1	-0,6	-1,3	5
USDTRY (Turkey)	5,99	-0,1	-0,5	-0,3	-13
USDCNY (China)	6,97	0,4	-0,9	0,0	-3
USDINR (India)	71,22	0,1	0,1	1,0	0
USDIDR (Indonesia)	13690	0,2	-0,4	1,9	2
ADXY	104,44	0,1	-0,5	-0,3	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	56,0	3,8	-6,4	-19	-11
WTX	52	3,9	-3,4	-19	-5
Copper	258	1,4	1,1	-8	-9
Gold	1558	0,3	-1,2	0	19
S&P Spot commodity *	380	-0,3	-4,6	-14	-8
S&P Brent Spot *	459	-0,9	-8,4	-22	-14
S&P Metals Spot *	299	0,8	-1,4	-8	-12
S&P Agricultural *	294	0,3	-0,9	-2	1

Source: Bloomberg, Datastream and Haver

\* With one day delay

\* Risk premium affected by the German rollover