

Market Comment

Risk-on ebbs despite strong U.S. payrolls, amid 2019-nCov

- **The risk-on mood extended in developed markets at the end of the week**, with the S&P reaching new record highs, underpinned by positive business surveys as well as continued accommodative monetary policy and upbeat labor data. Moreover, the announcement that China will halve tariffs on U.S. goods in February allayed concerns about resuming U.S.-China trade frictions, although China may ask for some flexibility in its purchase commitments.
- **The Coronavirus epidemic has extended significantly in the past week**. According to the WHO and figures from the Chinese authorities, the virus has already spread to all of the provinces in China and 24 other countries globally. There were around 3100 confirmed cases, and 600 deaths. Still, the WHO said the coronavirus has barely mutated so far. Several European companies warned about the impact of the outbreak in earnings, most of them in the luxury consumption sectors sector, while Airbus also reported some supply chain disruption and Moody's warned that the coronavirus is credit negative for the European beverage sector.
- **Today's macro data showed a rosy U.S. labor market (see), while the manufacturing sector in Germany weakened**. The U.S. payrolls for January soared (225k; Cons: 165k; Prev: 147k from 145k) boosted by an increase in private payrolls (206k; Cons: 155k; Prev: 142k), which offset the drop in manufacturing payrolls (-12k; Cons: -2k; Prev: -5k). Additionally, average hourly earnings marginally improved (0.2%; Cons: 0.3%; Prev: 0.1%). Germany, industrial production fell sharply in Dec (-3.5% MoM; Cons: -0.2%) and exports rose 0.1% MoM (Cons: 0.5% MoM).
- **Sovereign bond yields recovered some ground this week** but remain below pre-coronavirus outbreak levels, suggesting that investors remain cautious. Expectations of further easing (the odds of a Fed rate cut in 2020 hovering around 80%, despite the strong ISM) limit the yield upside. Moreover, the sharp fall in German industrial production and both import and exports weighed heavily on German and European yields at the end of the week. Likewise, U.S. bond markets slightly declined after U.S. payrolls showed a moderation in earning, suggesting low inflation pressure, despite the tight labor markets and supportive accommodative monetary policy.
- **In FX markets, the U.S. dollar appreciated**, boosted by strong manufacturing data, whereas the risk-on mood depreciated the JPY (-1.4% during the week). The GBP depreciated sharply this week on uncertainty about EU-UK trade negotiations. Elsewhere, in EM, Latam currencies recovered some ground this week (aggregate index +0.5%) while the coronavirus continues to weigh on Asian currencies (aggregate index -0.4%) with the RMB below but close to 7 vs USD.
- **Oil prices remain under pressure**, led by concerns about China's demand slowdown, with the OPEC mulling over extending output cuts (see).
- **Markets remained focused on the coronavirus outbreak. However, investors differentiated by region and by sector**, with EM Asia and the oil sector clearly underperforming (S&P +3.7%, Eurostoxx +4.4%, MSCI Latam -0.3%, China -3.5%, Brent -5.3%), suggesting that markets expect a limited and temporary negative economic impact from the virus. VIX declined (by 4 points to 15) but remain above last year's average.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,43	-2,0	11,2	-16	-104
US	1,62	-2,6	11	-26	-102
GER (2-yr)	-0,64	-0,3	3,3	-3	-6
Germany	-0,38	-1,2	5,2	-21	-47
France	-0,13	-1,3	4,7	-18	-67
Spain	0,28	-1,2	4,8	-15	-95
Italy	0,96	-0,1	2,8	-45	-200
Portugal	0,32	-1,7	5,4	-18	-133
Greece	1,13	-1,3	-4,4	-27	-289
Japan (2-yr)	-0,15	-1,7	-0,2	-2	2
Japan	-0,04	-2,1	2,8	-4	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,56	0,4	-14,6	-25	-247
Chile	2,88	0,0	-5,7	7	-124
Colombia	5,87	0,0	-7,1	-44	-103
Mexico	6,65	0,0	3,4	-21	-164
Peru	3,13	-0,2	-17,7	-37	-200
Poland	2,11	-4,4	-3,1	-10	-62
Russia	6,31	1,0	-5,5	-13	-195
Turkey	10,31	6,0	33,0	-146	-377
India	6,43	-1,9	-17,3	-13	-91
Indonesia	6,58	0,1	-10,3	-50	-130

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	-0,1	-0,5	3	-20
Italy	135	1,1	-2,4	-24	-153
Portugal	70	-0,5	0,2	3	-86
Spain *	67	0,0	-0,4	6	-48
2-yr sovereign spread vs Germany					
France	4	-0,4	-1,7	0	-10
Italy	45	1,1	-2,0	-12	-79
Portugal	23	-1,0	0,7	12	-14
Spain	22	0,3	-2,0	0	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	97	1,1	-4	-3	-72
Chile	48	0,2	-2	4	0
Colombia	73	-0,2	-6	2	-46
Argentina	5460	162,8	-584	501	4837
Mexico	77	-0,4	-4	-1	-61
Peru	44	0,1	-2	2	-31
Poland	49	0,3	1	-9	-16
Russia	60	-0,5	-5	0	-76
Turkey	239	1,7	-2	-44	-67
China	35	1,2	-8	1	-22
India	65	-2,4	-2	-2	-38
Indonesia	63	1,2	-5	-3	-51

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0,1	-4	2	-1
VSTOXX	13	0,0	-4	-1	-3
EM EFT volatility Index	19	0,0	-4	3	0
Dollar/euro volatility	4	-0,1	0	0	-2
EM FX volatility index	7	0,1	0	0	-2
Credit spread (BAA) (change in bps)	211	2,6	-2	7	-18
US bonds volatility index	61	-2,8	-12	1	12
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,01	-	1	-8	-18
EZ Inflation expectations (5Y5Y)	1,28	-	2	-3	-16
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	37	-0,5	-4	-7	-29
EZ	36	-1,0	-6	-12	-54
UK	39	-1,8	-4	-3	-40
Large Spanish	30	-1,0	-3	-3	-40
Medium Spanish	67	0,4	-5	-7	-41
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	174	-1,1	-32	-8	-8
EZ Non-financial	65	-1,9	-5	-1	-18
UK Non-financial	97	0,0	-2	-2	-9

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,40	0	-1	-1	-9
Euribor 12m	-0,27	0	1	-2	-16
Libor 3m	1,74	0	-2	-14	-96
Libor 12m	1,83	0	1	-12	-112

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3346	0,0	3,7	2,9	24
Dow Jones	29380	0,0	4,0	2,2	17
Nikkei	23828	-0,2	2,7	2,7	17
FTSE 100	7484	-0,3	2,7	-1,2	6
EuroStoxx 50	3801	-0,1	4,4	0,8	21
IBEX	9791	-0,2	4,5	2,1	11
DAX	13525	-0,4	4,2	1,5	24
CAC	6040	0,0	4,0	0,1	22
MB	24432	-0,2	5,1	2,5	26
ASE Athens	917	-0,5	0,7	0,3	41
MSCI Latam *	100100	-0,6	-0,3	-1,2	9
Ibovespa (Brazil)	115190	0,0	1,3	-0,9	21
Mexbol (Mexico)	44493	0,0	0,9	0,1	3
Merval (Argentina)	40906	0,0	2,0	-0,3	12
MSCI EM Europe *	6339	-0,6	-0,2	-1,2	12
Poland	2105	-0,3	1,9	-0,5	-11
Mcex 10 (Russia)	5370	-0,8	0,7	-1,2	20
Ise 100 (Turkey)	122012	-0,2	2,4	8,1	19
MSCI EM Asia *	915	1,7	3,5	-0,4	8
Shanghai Com (China)	2876	0,3	-3,4	-6,2	10
Jakarta (Indonesia)	6000	0,4	-1,0	-4,5	-8
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	165,2	0,0	4,6	1,2	29
Citi	137,6	0,0	4,0	0,5	36
BoA	79,0	0,0	6,1	-0,5	27
MS	34,7	0,0	5,6	-0,9	23
GS	55,0	0,0	5,3	6,7	35
EZ banks					
BNP	241,8	0,0	1,7	1,7	26
Crédit Agricole	86,5	-0,1	8,1	0,6	24
Deutsche Bank	50,5	0,2	5,2	-4,3	27
ING	13,4	0,3	9,2	2,7	40
Intesa	9,3	-0,5	12,0	20,8	29
SG	10,5	-0,2	6,6	-5,5	-2
Unicredito	2,5	-0,2	9,8	5,5	25
UK banks					
HSBC	30,5	-0,4	4,3	-4,1	27
RBS	13,8	-0,4	14,4	3,7	35
Large Spanish banks					
Santander	74,3	-0,6	2,5	-5,4	-3
BBVA	57,0	0,6	4,6	-0,7	-10
CaixaBank	221,9	-1,2	1,6	-7,7	-7
Bankinter	174,8	-1,1	4,1	-4,0	12
Sabadell	56,4	-1,0	-0,8	-10,2	-1
Maixam Spanish banks					
Santander	60,4	0,2	8,7	1,5	-1
BBVA	3,8	0,0	7,7	1,9	-3
CaixaBank	5,1	0,4	9,6	1,2	1
Sabadell	48,3	-0,7	4,6	-9,1	-9
Bankinter	2,9	-0,3	8,6	-0,7	-1
CaixaBank	0,8	-0,8	3,0	-21,4	-1
Bankinter	6,1	-1,0	3,6	-7,8	-7
Bankia	1,7	-0,8	3,2	-11,4	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,096	-0,2	-1,2	-1,3	-3
GBPUSD	1,293	0,0	-2,1	-1,3	0
USDJPY	109,940	0,0	-1,4	-0,7	0
DXY	98,599	0,1	1,2	1,3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	60,68	0,0	-0,6	-1,4	-38
USDBRL (Brazil)	4,28	0,0	0,0	-5,1	-13
USDCLP (Chile)	783,95	0,0	2,1	-2,8	-16
USDCOP (Colombia)	3380	0,0	1,2	-3,93	-8
USDMXN (Mexico)	18,69	0,0	0,8	0,7	2
USDPEN (Peru)	3,38	0,0	0,3	-1,8	-2
LACI	49,98	-0,2	0,5	-2,5	-11
USDPLN (Poland)	3,89	-0,3	-0,4	-2,0	-2
USDRLB (Russia)	63,67	-0,5	0,5	-3,8	3
USDTRY (Turkey)	5,99	0,0	-0,1	-1,3	-12
USDCNY (China)	6,99	-0,2	-1,1	-0,6	-3
USDINR (India)	71,36	-0,2	0,0	0,5	0
USDIDR (Indonesia)	13,675	-0,3	-0,1	1,6	2
ADXY	104,12	-0,2	-0,4	-0,8	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	55,1	0,3	-5,3	-16	-11
WTx	51	0,2	-1,0	-14	-3
Copper	260	0,0	3,1	-8	-8
Gold	1565	-0,1	-1,5	1	19
S&P Spot commodity *	387	0,2	-0,4	-10	-5
S&P Brent Spot *	467	-0,6	-3,0	-16	-12
S&P Metals Spot *	306	0,5	1,5	-6	-8
S&P Agricultural *	294	-0,3	0,2	-2	2

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover