

Market Comment

Equity rally halts as virus fears return

- **Yesterday's upward move spurred by improving developments on coronavirus faded.** Stocks, including Asian equities, fell and government bonds resumed their rally after a sharp rise in coronavirus infections. The appreciation of safe-haven currencies and rising gold prices indicated a strengthening risk-off mood across financial markets. Elsewhere, investor's main attention is on **tomorrow's US Industrial Production and Retail Sales release.**
- Concerns about the coronavirus' spread returned to the markets underpinned **by shifting estimations for counting infections.** Consequently, **reported cases in Hubei soared by 14,840**, while the death toll jumped by 254 ([see](#)). Furthermore, Japan announce its first fatality from the epidemic, becoming the second country to report a death outside of China. Moreover, on Thursday HSBC cut China's economic growth forecast from 5.8% YoY to 4.1% YoY ([see](#)).
- Today's economic calendar seemed bereft of potential market movers. The **US headline inflation slightly increased in January** (2.5% YoY; Cons: 2.4% YoY; Prev: 2.3% YoY) marginally above Fed target expectations of 2%, while its core inflation remained unchanged from the previous year (2.3% YoY; Cons: 2.2% YoY; Prev: 2.3% YoY). On the other hand, jobless claims declined more than expected in the week ended February 1 (1698k; Cons: 1734k; Prev: 1759k) as previous figures were revised upwardly from 1751k.
- **Risk-off mood weighed on sovereign bond yields**, which declined across the board, except for the 10Y UK Gilts yields (+4.0bps). This sudden increase in the UK yields came after UK Chancellor Sajid Javid's resignation, amid arising fiscal policy concerns ([see](#)). Meanwhile, the 10Y UST yield underperformed the rest, as investors seek for safe-haven assets amid increasing global concerns. Elsewhere, ECB's Hernandez de Cos stated that monetary policy will remain highly accommodative. In this context, ECB's probability of a rate cut in 2020 rose to 52%.
- In FX markets, **the JPY received increasing bids thanks to its safe-haven nature**, while the USD was broadly flat. The GBP outperformed its G10 pairs as investors expected higher discretionary fiscal policy with its new finance minister. Additionally, the **Euro extended its depreciation trend to fresh three-year lows.** On the other hand, emerging markets generally depreciated amid risk aversion sentiment.
- In commodities, **Brent oil prices reversed early losses** caused by OPEC and IEA adverse demand prospects. Nevertheless, current increase in prices suggest that investors still remain confident in a supply cut from the main players in the market. Elsewhere, gold prices rose reaching last week's highs.
- **Equities stopped their rally** following reports on sharp increase in China's Coronavirus cases, with China's **CSI 300 index underperforming Asian equities.** Elsewhere, defensive-oriented sectors lead the path, while the energy sector fell to around 0.7%.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.43	-1.0	-1.2	-14	-106
<b>US</b>	1.61	-1.9	-3	-20	-104
GER (2-yr)	-0.65	-0.9	-1.2	-6	-9
<b>Germany</b>	-0.39	-0.9	-1.7	-22	-49
France	-0.15	-0.7	-3.1	-23	-68
Spain	0.30	-1.3	-4.4	-18	-95
Italy	0.90	-1.1	-6.1	-49	-190
Portugal	0.29	-0.8	-4.3	-24	-128
Greece	0.95	-2.8	-19.4	-45	-292
Japan (2-yr)	-0.16	-0.2	-2.3	-3	2
<b>Japan</b>	-0.04	0.1	-1.7	-5	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6.53	3.5	-3.3	-27	-226
Chile	2.93	0.4	4.6	-8	-119
Colombia	5.79	1.2	-8.6	-36	-112
Mexico	6.56	-2.3	-8.8	-27	-181
Peru	3.23	2.5	10.1	-26	-196
Poland	2.23	6.8	7.9	-5	-47
Russia	6.15	-2.6	-14.6	-10	-235
Turkey	11.02	14.0	77.0	17	-349
India	6.43	-4.9	-2.0	-24	-91
Indonesia	6.58	0.9	-0.1	-29	-142

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	24	0.2	-1.4	-1	-19
Italy	129	-0.2	-4.4	-28	-141
Portugal	68	0.1	-2.6	-2	-79
Spain	69	-0.4	-3	-1	-46
<b>2-yr sovereign spread vs Germany</b>					
France	5	0.1	0.4	1	-7
Italy	42	0.9	-1.7	-14	-62
Portugal	22	0.3	-2.8	11	-12
Spain	20	0.5	-2.7	-3	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	97	-1.3	1	-3	-73
Chile	47	-0.7	0	2	-1
Colombia	73	-0.5	0	2	-46
Argentina	5764	-90.1	467	1047	5137
Mexico	76	-1.0	-1	-1	-62
Peru	43	-1.1	-1	1	-31
Poland	49	-0.5	0	-6	-16
Russia	60	-2.4	-1	0	-80
Turkey	269	-2.4	32	6	-39
China	33	-2.1	0	2	-20
India	61	-1.1	-7	-5	-37
Indonesia	61	-1.9	-1	-1	-49

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0.3	-1	2	-2
VSTOXX	13	0.8	0	1	-3
EM EFT volatility Index	18	0.8	-1	3	0
Dollar/euro volatility	5	0.3	1	0	-2
EM FX volatility index	7	-0.1	0	0	-2
Credit spread (BAA) (change in bps)	207	1.9	1	7	-24
US bonds volatility index	64	-1.4	2	11	16
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.03	-	2	-5	-17
EZ Inflation expectations (5Y5Y)	1.23	-	-5	-11	-20
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	36	-0.5	-2	-5	-28
EZ	35	-1.1	-1	-10	-50
UK	39	-1.5	-3	-2	-38
Large Spanish	31	-1.3	0	-1	-38
Medium Spanish	65	3.2	-2	-10	-42
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	175	-0.6	0	-23	-5
EZ Non-financial	62	-1.2	-5	-3	-20
UK Non-financial	94	-1.4	-3	-3	-9

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0.54	0	-1	0	n.a.
Euribor 3m	-0.41	0	-1	-2	-10
<b>Euribor 12m</b>	-0.29	0	-2	-4	-18
Libor 3m	1.70	0	-3	-12	-98
Libor 12m	1.81	0	-2	-15	-110

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3379	0.0	1.0	2.9	23
Dow Jones	29459	-0.3	0.3	1.8	16
Nikkei	23828	-0.1	-0.2	-0.8	13
FTSE 100	7452	-1.1	-0.7	-2.2	4
<b>EuroStoxx 50</b>	3847	-0.2	1.1	1.9	21
IBEX	9910	-0.3	1.0	4.0	11
DAX	13745	0.0	1.3	2.1	24
CAC	6093	-0.2	0.9	0.9	20
MB	24892	0.1	1.6	4.0	25
ASE Athens	920	0.3	-0.1	-0.4	41
<b>MSCI Latam *</b>	101561	1.1	0.8	-0.4	10
Ibovespa (Brazil)	115896	-0.7	0.6	-1.5	18
Mexbol (Mexico)	44811	-1.2	0.7	0.1	5
Merval (Argentina)	38519	-3.5	-5.8	-7.5	3
<b>MSCI EM Europe *</b>	6360	0.8	-0.3	-3.1	14
Poland	2120	-0.3	0.4	-2.9	-9
Micex 10 (Russia)	5428	-0.6	0.3	-1.3	24
Ise 100 (Turkey)	120541	0.4	-1.4	-0.7	18
<b>MSCI EM Asia *</b>	924	1.0	2.7	-2.0	9
Shanghai Com (China)	2906	-0.7	1.4	-6.5	7
Jakarta (Indonesia)	5872	-1.4	-1.8	-6.7	-9
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>					
JPM	137.7	-0.2	0.1	-0.8	34
Citi	79.1	-0.2	0.2	-3.4	27
BoA	34.9	-0.2	0.5	-1.3	23
MS	55.9	-0.6	1.5	5.7	37
GS	238.3	-0.1	-1.4	-3.0	24
<b>EZ banks</b>					
BNP	89.6	0.2	3.5	5.1	27
Crédit Agricole	53.6	0.0	6.3	2.7	33
Deutsche Bank	13.7	0.8	2.5	5.7	39
Deutsche Bank	10.2	2.0	9.2	31.4	38
ING	10.8	-0.6	2.7	0.1	0
Intesa	2.5	0.1	1.6	6.9	27
SG	31.7	0.4	3.5	0.7	33
Unicredito	14.0	-0.7	1.1	4.7	32
<b>UK banks</b>					
HSBC	76.0	-0.4	1.7	-1.1	-2
RBS	589.9	-0.9	2.9	-0.1	-11
RBS	228.7	0.3	1.8	-0.9	-5
Barclays	176.3	-1.7	-0.2	-2.6	12
Lloyds	58.0	1.0	1.9	-1.2	1
<b>Large Spanish banks</b>					
Santander	62.4	-0.5	3.4	8.9	2
Santander	3.9	-0.4	2.8	8.8	-1
<b>BBVA</b>	5.3	-0.6	3.9	9.0	5
<b>Medium Spanish banks</b>					
Caixabank	49.3	0.0	1.3	-3.0	-9
Sabadell	2.9	-0.6	-0.3	4.7	-2
Sabadell	0.9	0.1	1.4	-15.9	-4
Bankinter	6.3	0.5	2.7	-0.7	-5
Bankia	1.7	-0.3	0.6	-4.6	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.085	-0.2	-1.2	-2.5	-4
GBPUSD	1.305	0.7	0.9	0.3	2
USDJPY	109.810	0.3	0.2	0.2	1
DXY	99.024	0.0	0.5	1.7	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	61.39	-0.3	-1.1	-2.2	-38
USDBRL (Brazil)	4.33	0.4	-1.2	-4.7	-14
USDCLP (Chile)	795.43	-0.7	-1.4	-3.0	-16
USDCOP (Colombia)	3382	0.2	-0.1	-2.81	-7
USDMXN (Mexico)	18.65	-0.1	0.1	0.8	3
USDPEN (Peru)	3.39	-0.2	-0.3	-1.8	-1
LACI	49.77	0.1	-0.6	-2.2	-11
USDPLN (Poland)	3.91	-0.1	-0.9	-3.1	-2
USDRLB (Russia)	63.41	-0.3	-0.1	-3.1	5
USDTRY (Turkey)	6.04	0.1	-0.8	-2.6	-13
USDCNY (China)	6.98	-0.1	-0.1	-1.3	-3
USDINR (India)	71.33	0.0	-0.2	-0.6	0
USDIDR (Indonesia)	13694	-0.1	-0.4	-0.1	3
ADXY	104.32	-0.1	0.0	-1.2	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	56.2	0.8	2.4	-13	-13
WTx	51	0.6	1.0	-12	-5
Copper	261	0.0	0.3	-9	-6
Gold	1577	0.7	0.7	2	20
S&P Spot commodity *	392	1.9	1.3	-8	-6
S&P Brent Spot *	476	3.2	1.7	-12	-13
S&P Metals Spot *	306	0.2	0.1	-7	-7
S&P Agricultural *	298	0.8	1.5	-2	4

Source: Bloomberg, Datastream and Haver

\* With one day delay