

Market Comment

No love lost for 'risk-on' even as virus fears lure safe havens

- Risk-on mood waned slightly towards the end of the week** as a sharp rise in COVID-19 cases raised doubts over the outbreak's peak. Yet, the markets' broader resilience, with equities hitting new highs during the week, and VIX slipping below 15, reflects expectations of a rebound in Chinese growth post the near-term impact.
- Coronavirus epidemic (COVID-19) continues to wallop China's economy**, which houses 99% of the total 64,441 infected cases, and all but 3 of the 1,383 deaths so far (a death rate of 2.1%), while 6,983 patients have reportedly recovered. The virus has spread to 24 countries globally. This week saw a near twofold increase in total infections, as China began to include 'clinically diagnosed' cases in its figures, leading to a spike of +15,000 in a single day. Also, officials cut the total death toll by 108, which were 'double counted'. **Abrupt changes and accounting errors have raised doubts over Chinese data reliability**, including from U.S. officials.
- Weak growth confirmed in 4Q19 for the EZ while Germany stagnated. U.S. manufacturing data was broadly steady.** German GDP stagnated in 4Q19 (after a slightly upward revised 0.2% QoQ 3Q19) driven by slowing consumption as well as falling exports and equipment investment. The moderation in the EZ growth was confirmed at 0.1% QoQ in 4Q19 (from 0.3%). On the other hand, U.S. retail sales figures were marginally revised downwardly, the core report in January, increased 0.3% in line with expectations (Prev: 0.6% MoM), while the control group was unchanged. Moreover, industrial production declined slightly to -0.3% MoM in January (Cons: -0.2% MoM; Prev: -0.4% MoM) with the capacity utilization index fulfilling consensus estimates. Finally, preliminary U. of Mich. sentiment for February inched up moderately (100.9; Cons: 99.5; Prev: 99.8), consolidating consumption growth.
- Safe-haven bonds remain well demanded this week** amid COVID-19 spillover concerns, with the UST yield hovering around recent lows (10Y yield 1.58%), and the German Bund declining slightly further (to -0.4%), dragged also by weak EZ industrial production. Meanwhile, the search for yield benefited peripheral bonds, with their risk premium narrowing further this week.
- In FX markets, the USD further strengthened**, underpinned by positive economic data and safe-haven flows. The EUR depreciated, hitting levels below EURUSD 1.085, dragged by weak economic data and raising political concerns in Germany. The risk reversal and speculative positions are also turning more negative on the euro. In EM, the RMB appreciated slightly to a whisker below the USDCNY 7 threshold, while idiosyncratic factors weighed on the ARS, the TRY and the BRL. The TRY depreciated (-0.5% in the week) despite the regulator tightening controls on TRY swaps. In Brazil, the central bank intervened to limit BRL depreciation, undermined by weak data and comments from the Finance minister suggesting he is comfortable with a weaker BRL.
- European equities reversed early gains, while U.S. equities opened broadly flat** before President's Day holiday on Monday. In Asia, China's CSI 300 recovered from yesterday's losses.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.42	-2.6	1.7	-14	-110
US	1.58	-3.9	-1	-21	-108
GER (2-yr)	-0.66	-1.1	-1.5	-6	-10
Germany	-0.41	-2.0	-2.1	-21	-51
France	-0.16	-2.0	-2.8	-22	-70
Spain	0.29	-0.9	-3.9	-16	-95
Italy	0.91	0.5	-3.1	-49	-189
Portugal	0.28	-1.2	-3.4	-33	-128
Greece	0.94	-0.5	-11.5	-46	-289
Japan (2-yr)	-0.14	1.7	1.1	-1	3
Japan	-0.03	0.7	1.1	-4	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6.48	-4.0	-16.3	-31	-230
Chile	2.93	0.0	-0.7	-2	-121
Colombia	5.82	2.0	-4.3	-31	-106
Mexico	6.54	-3.6	-9.9	-29	-178
Peru	3.21	-0.1	6.9	-29	-196
Poland	2.19	-4.1	10.1	-5	-50
Russia	6.12	-3.1	-13.2	-18	-230
Turkey	11.12	10.0	72.0	32	-328
India	6.37	-5.3	-6.8	-25	-99
Indonesia	6.58	0.7	-0.2	-30	-146

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	24	0.0	-0.7	-1	-19
Italy	132	2.5	-1.0	-28	-138
Portugal	69	0.8	-1.3	-12	-77
Spain	70	1.1	-2	0	-44
2-yr sovereign spread vs Germany					
France	4	-0.6	0.1	0	-7
Italy	44	1.9	0.9	-13	-55
Portugal	23	1.0	-3.2	-3	-10
Spain	21	0.6	-2.5	-3	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	97	-0.1	0	-5	-69
Chile	47	0.2	0	3	-1
Colombia	72	-0.6	-1	0	-47
Argentina	6221	456.8	761	1532	5594
Mexico	76	0.0	-1	-2	-59
Peru	44	0.3	0	0	-31
Poland	49	0.0	-1	-3	-16
Russia	61	1.2	1	0	-88
Turkey	270	0.4	30	9	-42
China	34	0.7	-1	3	-20
India	61	0.0	-4	-6	-35
Indonesia	62	0.8	-1	0	-50

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0.1	-1	2	-1
VSTOXX	13	0.0	0	1	-1
EM EFT volatility Index	17	-0.6	-2	3	0
Dollar/euro volatility	5	0.0	1	0	-2
EM FX volatility index	7	0.0	0	0	-2
Credit spread (BAA) (change in bps)	210	3.9	5	9	-18
US bonds volatility index	64	0.0	-2	13	18
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.05	-	4	-2	-15
EZ Inflation expectations (5Y5Y)	1.23	-	-4	-11	-21
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	36	0.1	-1	-4	-29
EZ	36	0.7	1	-9	-49
UK	40	1.1	0	-1	-37
Large Spanish	32	1.0	2	-1	-37
Medium Spanish	65	0.4	-2	-5	-43
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	164	-10.6	-10	-41	-15
EZ Non-financial	62	0.6	-3	-3	-19
UK Non-financial	94	0.4	-2	-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	-11
Euribor 12m	-0.29	-1	-2	-4	-19
Libor 3m	1.70	0	-3	-14	-99
Libor 12m	1.81	0	-3	-15	-110

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3375	0.0	1.4	2.6	22
Dow Jones	29389	-0.1	1.0	1.2	14
Nikkei	23688	-0.6	-0.6	-1.0	13
FTSE 100	7426	-0.4	-0.5	-2.8	3
EuroStoxx 50	3840	-0.2	1.1	1.9	18
IBEX	9945	0.4	1.4	4.6	9
DAX	13738	-0.1	1.7	2.3	22
CAC	6072	-0.3	0.7	0.7	18
MB	24855	-0.2	1.5	4.6	23
ASE Athens	923	0.3	1.4	-0.6	41
MSCI Latam *	100750	-0.8	0.6	-1.3	7
Ibovespa (Brazil)	114696	-0.8	0.8	-1.5	18
Mexbol (Mexico)	45072	0.1	1.5	1.4	5
Merval (Argentina)	38840	0.4	-5.8	-5.8	4
MSCI EM Europe *	6336	-0.4	0.0	-2.7	14
Poland	2114	-0.3	0.2	-2.4	-10
Micex 10 (Russia)	5395	-0.6	-0.2	-2.0	22
Ise 100 (Turkey)	120267	-0.2	-0.6	-0.6	17
MSCI EM Asia *	922	-0.2	1.4	-2.2	9
Shanghai Com (China)	2917	0.4	1.4	-5.6	9
Jakarta (Indonesia)	5867	-0.8	-2.0	-7.2	-9
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	164.8	-0.5	0.2	-0.1	25
Citi	137.1	-0.6	-0.1	0.3	30
BoA	78.5	-0.7	-0.3	-3.4	22
MS	34.7	-0.5	0.3	0.1	19
GS	55.7	-0.4	1.3	5.3	33
237.3	-0.4	-0.3	-3.2	-20	
EZ banks					
BNP	89.2	-0.5	2.0	6.4	22
Crédit Agricole	53.5	-0.1	3.2	5.0	27
13.5	-1.5	0.1	5.4	32	
Deutsche Bank	10.2	0.1	7.0	34.7	32
ING	10.7	-0.5	1.4	1.3	-3
Intesa	2.5	-0.5	0.9	7.7	22
SG	31.8	0.3	4.0	2.6	29
Unicredito	13.8	-1.3	-0.4	6.1	23
UK banks					
HSBC	74.5	-2.0	-0.6	-1.8	-5
586.7	-0.5	0.9	-0.5	-12	
RBS	213.9	-6.5	-4.0	-4.9	-14
Barclays	176.0	-0.2	-0.7	-1.4	10
Lloyds	56.9	-2.0	1.1	-1.6	-3
Large Spanish banks					
Santander	62.0	-0.5	1.1	9.9	-1
3.9	-0.1	2.0	9.8	-4	
BBVA	5.3	-0.9	0.4	9.9	1
Medium Spanish banks					
Caixabank	49.0	-0.5	0.2	-1.9	-12
2.8	-1.2	-2.7	4.4	-6	
Sabadell	0.9	-0.2	1.3	-13.8	-9
Bankinter	6.3	-0.2	2.1	1.4	-9
Bankia	1.7	-0.9	-0.7	-4.7	-33

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.085	0.1	-0.9	-2.7	-4
GBPUSD	1.302	-0.2	1.0	-0.2	1
USDJPY	109.750	0.1	0.0	0.1	1
DXY	99.053	0.0	0.4	1.9	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	61.45	-0.1	-1.1	-2.4	-37
USDBRL (Brazil)	4.31	1.1	0.2	-2.9	-14
USDCLP (Chile)	792.77	0.3	-0.2	-2.2	-16
USDCOP (Colombia)	3376	0.0	1.2	-2.30	-7
USDMXN (Mexico)	18.58	0.1	1.0	1.2	4
USDPEN (Peru)	3.38	0.1	0.2	-1.7	-2
LACI	49.94	0.4	0.4	-1.3	-11
USDPLN (Poland)	3.92	0.0	-0.3	-3.2	-2
USDRLB (Russia)	63.57	0.1	0.8	-3.4	4
USDTRY (Turkey)	6.05	-0.1	-0.5	-2.8	-13
USDCNY (China)	6.99	-0.1	0.2	-1.4	-3
USDINR (India)	71.37	-0.1	0.0	-0.8	0
USDIDR (Indonesia)	13693	0.0	-0.1	0.0	3
ADXY	104.18	-0.1	0.3	-1.4	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	57.2	1.5	5.0	-11	-14
WTx	52	1.1	3.4	-10	-6
Copper	261	-0.3	2.0	-9	-7
Gold	1581	0.3	0.7	2	20
S&P Spot commodity *	394	0.5	2.0	-7	-7
S&P Brent Spot *	480	0.9	3.4	-11	-15
S&P Metals Spot *	309	0.8	2.2	-6	-7
S&P Agricultural *	297	-0.4	0.3	-2	3

Source: Bloomberg, Datastream and Haver

* With one day delay