

Market Comment

Swing back to 'risk-off' as virus scare grows in Beijing and beyond China

- COVID-19 spillover concerns rattled financial markets as injected cases jumped, particularly in Beijing, Japan and South Korea while leading multinational corporations issued coronavirus warnings for Q1.
- Global coronavirus cases and deaths hit 76,717 and 2,247 respectively, while 18,434 patients recovered. The past two days have seen a dramatic rise in virus cases outside China, mainly in Japan (723 total cases) and South Korea (156 cases). 600 confirmed cases of infections on passengers aboard the Diamond Princess cruise ship are partly responsible for abetting the global contagion. In addition, reports of 36 new COVID-19 cases reported in a single day in Beijing have stoked rumors of possible "Wuhan level" restrictions in the capital city. Meanwhile, abrupt changes to virus detection methodology by Chinese officials continue to fuel uncertainty.
- On the data front, U.S. producer price index for final demand rose unexpectedly in January (0.5% MoM; Cons: 0.1% MoM; Prev: 0.2% MoM) as previous figures were revised upwardly from 0.1% MoM, and boosted by an acceleration in the cost of services.
- Eurozone PMIs surprised positively in Feb despite the C'virus, while slightly disappointing in the U.S. The U.S. Markit Composite preliminary PMI fell to 2013 levels (49.6%; Prev: 0.2%) mainly due to the contraction in services, although manufacturing also dropped. U.S. Existing Home Sales decreased in January, even below market consensus. On the other hand, EZ Composite PMI rose to 51.6 in February (Prior 51.3; Cons: 51.0) led by services, while the manufacturing deterioration continued to ease. Across countries, Germany's PMI remained stable (-0.1pp to 51.1) although manufacturing improved strongly. Annual inflation in the EZ was unchanged at 1.4% YoY in line with consensus estimation.
- Sovereign yields attracted fresh safe-haven flows breaching January's lows, while the 10y U.S. yield hit September's lows, and accentuated its fall following weak PMI data (U.S. 10yr yield -14bps to 1.45%, German Bund -5bps to -0.45%), which were reached when U.S.-China trade tensions escalated significantly. Search for yield compressed Spanish and Portugal risk premium, but HY spreads widened. Currently, the market pencils a 25bps Fed interest cut by summer (92% probability by July and 100% by September), and 75% probability of a cut of around 50 bps by year-end, despite neither the ECB nor the Fed having endorsed further easing of the monetary policy. Both acknowledge the COVID-19 threat but think it is too soon to alter the current policy stance.
- In FX markets, the USD continued to strengthen, led by the risk-off mood, positive data surprises, and relative underperformance by peers. However, the JPY saw a sharp depreciation (-1.6%) as its safe haven status was offset by rising concerns over Japan's growth outlook due to the coronavirus impact, after the economy contracted sharply in 4Q19. The euro fell below 1.08, but clawed back post upbeat Feb PMI data. EM FX depreciated across the board; even the MXN, which has been silent for most of the week, depreciated 2% on Thursday dragged by spillover concerns.
- Equities dropped across the board, except for the Chinese CSI 300 index. The technological sector extended yesterday's losses, and the energy sector underperformed. Elsewhere, implied volatility in equity markets surged (VIX at 17; +3).

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,33	-5,7	-9,6	-20	-116
US	1,45	-6,4	-14	-32	-120
GER (2-yr)	-0,65	0,4	1,5	-5	-8
Germany	-0,45	-0,3	-4,7	-19	-54
France	-0,22	-0,1	-6,1	-21	-73
Spain	0,21	-1,3	-8,1	-20	-96
Italy	0,90	-1,1	-2,6	-45	-195
Portugal	0,22	-1,2	-6,9	-23	-126
Greece	0,96	-1,2	1,7	-41	-285
Japan (2-yr)	-0,17	-1,0	-2,7	-4	1
Japan	-0,06	-1,6	-2,8	-5	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,56	-1,8	12,4	-20	-239
Chile	3,27	1,0	32,1	40	-86
Colombia	5,85	0,4	6,1	-15	-101
Mexico	6,57	2,1	1,5	-29	-167
Peru	3,25	2,0	4,9	-23	-191
Poland	2,07	-5,7	-12,9	-21	-70
Russia	6,08	4,6	-4,1	-17	-237
Turkey	11,71	11,0	59,0	126	-306
India	6,42	0,0	5,2	-22	-100
Indonesia	6,53	0,7	-5,6	-17	-142

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	23	0,2	-1,4	-2	-19
Italy	134	-0,8	2,1	-27	-141
Portugal	67	-0,9	-2,2	-4	-72
Spain	66	-1,0	-3	-6	-42
2-yr sovereign spread vs Germany					
France	2	-1,1	-2,4	-3	-9
Italy	43	-1,0	-2,7	-17	-66
Portugal	19	-1,2	-5,0	-4	-14
Spain	19	-0,3	-1,2	-4	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	93	0,8	-4	-6	-72
Chile	46	-0,1	-2	0	-2
Colombia	70	0,8	-2	-5	-46
Argentina	6468	194,1	247	1272	5795
Mexico	72	0,5	-4	-8	-63
Peru	42	0,3	-1	-2	-32
Poland	48	0,0	0	-2	-17
Russia	62	2,4	0	1	-76
Turkey	286	19,3	16	40	-33
China	35	0,5	1	2	-17
India	60	-0,6	-1	-2	-32
Indonesia	59	0,5	-2	-3	-51

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	17	1,5	3	4	4
VSTOXX	16	1,7	3	4	2
EM EFT volatility Index	19	0,5	2	3	2
Dollar/euro volatility	5	-0,3	0	1	-1
EM FX volatility index	7	0,3	0	1	-2
Credit spread (BAA) (change in bps)	216	6,4	11	19	-9
US bonds volatility index	70	1,6	7	18	22
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,94	-	-6	-13	-30
EZ Inflation expectations (5Y5Y)	1,20	-	-4	-11	-23
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	37	1,0	2	0	-28
EZ	37	0,5	1	-8	-40
UK	38	0,0	-2	-5	-33
Large Spanish	31	0,2	-1	-2	-29
Medium Spanish	64	-1,5	-1	0	-43
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	156	-2,1	-8	-55	-133
EZ Non-financial	62	0,4	0	-3	-17
UK Non-financial	94	-0,2	0	-3	-8

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,42	-1	0	-3	-11
Euribor 12m	-0,29	1	1	-5	-18
Libor 3m	1,70	0	0	-11	-96
Libor 12m	1,77	0	-3	-15	-112

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3348	-0,8	-1,0	0,8	20
Dow Jones	28946	-0,9	-1,5	-0,8	11
Nikkei	23387	-0,4	-1,3	-2,7	9
FTSE 100	7403	-0,4	-0,3	-2,2	3
EuroStoxx 50	3793	-0,8	-1,3	0,6	16
IBEX	9875	-0,6	-0,8	3,1	7
DAX	13573	-0,7	-1,2	0,4	18
CAC	6019	-0,7	-0,8	0,1	15
MIB	24818	-1,0	-0,2	4,7	22
ASE Athens	893	-2,2	-3,2	-5,3	32
MSCI Latam *	99688	-1,1	-1,1	-2,0	6
Ibovespa (Brazil)	113308	-1,1	-0,9	-4,3	16
Mexbol (Mexico)	44960	0,4	-0,1	-1,4	3
Merval (Argentina)	38635	-0,8	0,0	-8,0	5
MSCI EM Europe *	6339	-0,4	0,1	-4,1	13
Poland	2089	-0,5	-1,2	-2,7	-11
Micex 10 (Russia)	5403	-0,6	0,0	-2,9	22
Ise 100 (Turkey)	116829	1,0	-2,8	-4,8	13
MSCI EM Asia *	919	-0,3	-0,3	-0,9	7
Shanghai Com (China)	3040	0,3	4,2	-0,7	8
Jakarta (Indonesia)	5882	-0,8	0,2	-5,7	-10
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	161,5	-1,2	-2,3	-2,7	23
JPM	136,0	-1,1	-1,1	-0,5	30
Citi	77,3	-1,2	-1,9	-3,5	21
BoA	34,5	-1,1	-1,1	0,3	18
MS	52,9	-1,6	-5,3	-5,3	27
GS	229,6	-1,3	-3,2	-7,1	17
EZ banks	86,8	-1,0	-2,8	5,3	17
BNP	53,1	-0,4	-1,2	5,9	27
Crédit Agricole	13,2	0,1	-2,4	4,3	25
Deutsche Bank	9,7	-2,1	-5,2	27,5	27
ING	9,9	-1,8	-7,8	-5,0	-11
Intesa	2,5	-1,0	0,7	10,7	24
SG	31,1	-0,4	-2,0	2,5	23
Unicredito	13,3	-3,1	-4,3	5,7	19
UK banks	72,8	-0,8	-1,9	-3,0	-6
HSBC	560,1	0,1	-4,2	-3,6	-10
RBBS	205,0	-1,3	-3,8	-7,9	-20
Barclays	179,8	-0,8	2,2	2,9	15
Lloyds	55,7	-1,5	-1,6	-4,1	-7
Large Spanish banks	59,8	-1,1	-3,3	7,0	-5
Santander	3,8	-1,9	-3,8	5,5	-9
BBVA	5,1	-0,3	-2,9	8,3	-3
Medium Spanish banks	48,0	-0,2	-1,5	-2,1	-14
Caixabank	2,7	0,3	-3,5	0,3	-10
Sabadell	0,9	0,0	1,6	-10,7	-7
Bankinter	6,1	-0,4	-2,5	0,5	-12
Currencies	1,7	-0,9	0,4	-1,6	-34

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,086	0,7	0,3	-2,1	-4
GBPUSD	1,296	0,6	-0,6	-1,4	-1
USDJPY	111,590	0,5	-1,6	-1,6	-1
DXY	99,291	-0,6	0,2	1,8	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	61,84	-0,1	-0,1	-2,9	-37
USDBRL (Brazil)	4,38	0,3	-2,0	-4,5	-14
USDCLP (Chile)	806,28	0,1	-1,8	-4,2	-19
USDCOP (Colombia)	3396	0,2	-0,1	-1,86	-9
USDMXN (Mexico)	18,93	-0,5	-2,0	-1,3	1
USDPEN (Peru)	3,39	-0,1	-0,4	-2,3	-3
LACI	49,21	-0,1	-1,7	-3,0	-12
USDRPL (Poland)	3,95	0,5	-0,7	-3,2	-3
USDRUB (Russia)	64,18	0,0	-1,0	-3,6	2
USDTRY (Turkey)	6,11	-0,2	-0,8	-3,0	-13
USDCNY (China)	7,03	-0,1	-0,6	-1,8	-4
USDIND (India)	71,66	0,0	-0,4	-0,6	-1
USDIDR (Indonesia)	13760	-0,1	-0,5	-0,8	2
ADXY	103,28	-0,1	-0,9	-2,0	-3

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	58,4	-1,6	1,8	-8	-13
WTX	53	-1,1	2,2	-6	-7
Copper	260	0,2	-0,2	-6	-12
Gold	1646	1,7	3,9	6	24
S&P Spot commodity *	403	-0,1	1,8	-4	-6
S&P Brent Spot *	500	0,1	2,8	-6	-13
S&P Metals Spot *	303	-0,6	-0,8	-7	-12
S&P Agricultural *	299	-0,8	0,9	-2	4

Source: Bloomberg, Datastream and Haver

* With one day delay