

Market Comment

Virus spread maintains pressure on equity markets

- The risk-off mood intensified on Monday**, underpinned by the multiple outbreaks of the **Coronavirus epidemic (COVID-19)** outside China, raising fears of a global pandemic. Infections spiked in South Korea and Iran, whereas new cases flourished in Afghanistan, Bahrain and Kuwait. In addition, Italy imposed strict quarantines across at least 10 towns as the number of infections rose in the country.
- The ECB's Villeroy and Visco** have pointed out the **need to boost fiscal stimulus in response to the outbreak**. During the G20 meeting of central bankers and finance ministers, Villeroy suggested that monetary policy could not be the only measure to support the economy, while Visco stated that monetary policy is very accommodative and it is uncertain if more can be done. Additionally, Italy's Governing Council member said the outbreak could diminish global growth by 0.1% this year.
- German business sentiment shows resilience against global risks**. IFO business climate rose unexpectedly in February (96.1; Cons: 95.3 Prev: 96.0) suggesting that German economy seems for now, unaffected by the coronavirus outbreak as the economy growth will rise to 0.2% in the first quarter. Nonetheless, companies' assessment of their current situation was slightly worse (from 99.2 to 98.9), while business expectations marginally improved (93.4; Cons: 92.1; Prev: 92.9). On the other hand, **U.S. regional activity data were mixed**: the Chicago Fed National Activity index widened its fall in January (-0.25; Cons: -0.18; Prev: -0.35), while the Dallas Fed Manufacturing Activity unexpectedly increased in February (1.2; Cons: 0.0; Prev: -0.2).
- The risk-off mood weighed on sovereign yields, attracting fresh safe-haven flows while Italy's bond auctions attracted weak demand**. The 10Y UST yield shrank to its lowest level since 2016, while German yields slid following the virus outbreak in Italy. Peripheral yields followed the downward trend while the risk premium widened (Spain +3.4xx bps, Portugal +3.8xx bps). Nevertheless, Italy's yield jumped (+5 bps) with its risk premium widening almost 10.5 bps. Currently, the market expects a 25bps Fed interest cut by summer (100% probability by June), and 90% probability of a cut of around 50 bps by year-end in November. ECB probabilities reflect lower expectations, showing an 85% cut probability by December 2020.
- In FX markets, most currencies depreciated. The JPY recovered some ground after last week's losses thanks to an unexpected drop in the dollar, as the **10Y UST yields reached record lows**. The EUR slightly appreciated following the sudden drop in the USD. Elsewhere, emerging currencies remained under pressure, especially the LatAm currencies and the Turkish Lira.
- In commodities, **Brent oil prices fell 5.2%**, dragged by demand concerns on the back of renewed contagion fears. On the other hand, gold prices surged 1.8% reaching seven-year highs as investors sought shelter in safe-haven commodities.
- Equity markets tumbled worldwide following the wide spread of the coronavirus epidemic beyond China. European stocks dropped most since 2016, **with Italy's MIB index dropping 5.43%**, while the declines were more contained in Asia. Elsewhere, implied volatility increased further (VIX 23 +6 points).

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,25	-10,3	-17,6	-26	-125
US	1,37	-10,4	-22	-37	-130
GER (2-yr)	-0,68	-3,1	-2,3	-7	-11
Germany	-0,48	-5,2	-8,2	-18	-59
France	-0,23	-3,3	-7,1	-18	-76
Spain	0,21	-1,8	-8,1	-15	-96
Italy	0,96	5,3	5,9	-29	-181
Portugal	0,22	-1,4	-6,8	-18	-124
Greece	1,01	4,8	5,9	-33	-278
Japan (2-yr)	-0,17	0,0	-2,4	-4	1
Japan	-0,06	0,0	-2,2	-4	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,61	0,0	14,6	-14	-237
Chile	3,10	-13,8	14,1	20	-103
Colombia	5,85	0,0	7,6	-14	-101
Mexico	6,50	-3,4	-6,0	-33	-166
Peru	3,20	-3,6	1,3	-26	-195
Poland	1,97	-9,3	-24,1	-29	-94
Russia	6,08	0,0	-3,1	-17	-232
Turkey	12,06	35,0	103,0	172	-256
India	6,33	-9,4	-6,1	-27	-108
Indonesia	6,55	2,7	-2,0	-13	-135

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	1,9	1,1	0	-17
Italy	145	10,5	14,1	-12	-122
Portugal	71	3,8	1,4	-1	-65
Spain	69	3,4	0	-2	-36
2-yr sovereign spread vs Germany					
France	4	0,6	-1,0	-1	-8
Italy	52	8,2	7,6	-3	-44
Portugal	22	2,3	-0,4	0	-10
Spain	22	2,7	1,9	-1	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	93	-0,1	-1	-5	-69
Chile	45	-0,7	-1	-2	-2
Colombia	69	-1,3	-2	-8	-43
Argentina	5767	-701,1	-234	300	5118
Mexico	70	-1,6	-4	-10	-62
Peru	41	-1,0	-2	-4	-31
Poland	48	0,0	0	-3	-17
Russia	61	-0,1	3	1	-73
Turkey	286	-0,1	21	47	-31
China	36	1,0	2	2	-16
India	59	-0,8	-1	-4	-33
Indonesia	61	1,5	0	-2	-48

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	23	5,8	9	10	8
VSTOXX	23	6,9	10	9	9
EM EFT volatility Index	24	4,4	7	7	7
Dollar/euro volatility	5	0,5	1	1	0
EM FX volatility index	7	0,2	0	1	-2
Credit spread (BAA) (change in bps)	218	10,4	14	20	-5
US bonds volatility index	75	4,9	12	19	28
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,91	-	-10	-14	-35
EZ Inflation expectations (5Y5Y)	1,18	-	-4	-11	-27
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	39	1,3	3	1	-27
EZ	38	0,6	1	-7	-40
UK	38	0,4	-1	-4	-33
Large Spanish	32	0,4	0	-2	-29
Medium Spanish	64	-0,1	3	-5	-43
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	157	0,6	-5	-53	-147
EZ Non-financial	63	0,7	1	-3	-15
UK Non-financial	95	0,8	0	-2	-7

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,41	0	0	-3	-11
Euribor 12m	-0,28	0	1	-4	-18
Libor 3m	1,68	0	-1	-12	-97
Libor 12m	1,73	0	-4	-16	-116

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3243	-2,8	-4,1	-2,5	16
Dow Jones	28069	-3,2	-4,5	-3,7	8
Nikkei	23387	0,0	-0,6	-1,7	9
FTSE 100	7157	-3,3	-3,7	-4,7	0
EuroStoxx 50	3648	-4,0	-5,3	-2,4	11
IBEX	9490	-4,0	-5,3	-0,3	3
DAX	13035	-4,0	-5,4	-2,6	13
CAC	5792	-3,9	-4,8	-3,0	11
MB	23427	-5,4	-6,7	-1,2	15
ASE Athens	818	-8,4	-11,0	-12,9	19
MSCI Latam *	98826	-0,9	-1,2	-3,5	5
Ibovespa (Brazil)	113681	0,0	-1,4	-4,9	17
Mexbol (Mexico)	43682	-2,5	-3,0	-3,9	0
Merval (Argentina)	38602	0,0	-1,5	-6,2	6
MSCI EM Europe *	6310	-0,5	-0,1	-3,7	12
Poland	2001	-4,2	-5,7	-6,9	-16
Micex 10 (Russia)	5392	0,0	-0,6	-1,9	22
Ise 100 (Turkey)	114789	-1,7	-5,0	-6,3	10
MSCI EM Asia *	910	-0,9	-1,4	-2,5	6
Shanghai Com (China)	3031	-0,3	1,6	1,8	2
Jakarta (Indonesia)	5807	-2,3	-1,0	-6,8	-11
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	155,2	-3,5	-6,1	-6,1	17
JPM	132,7	-2,3	-3,4	-2,8	25
Citi	73,1	-4,4	-7,2	-8,4	13
BoA	33,0	-4,1	-5,5	-3,4	13
MS	49,8	-5,0	-10,8	-10,3	18
GS	225,6	-2,2	-4,8	-8,1	14
EZ banks	83,0	-4,2	-7,9	1,3	10
BNP	51,2	-3,8	-5,5	2,5	19
Crédit Agricole	12,7	-3,3	-6,9	1,7	18
Deutsche Bank	8,9	-6,1	-12,4	16,3	15
ING	9,5	-3,7	-11,4	-7,3	-15
Intesa	2,4	-5,8	-6,4	4,8	14
SG	29,9	-3,6	-6,2	-0,8	15
Unicredito	12,6	-4,1	-10,7	0,7	10
UK banks	70,1	-3,6	-5,9	-5,2	-10
HSBC	550,8	-2,0	-6,8	-3,9	-11
RBS	197,8	-3,1	-5,4	-9,7	-24
Barclays	170,0	-5,3	-4,3	-0,9	7
Lloyds	53,1	-4,0	-6,6	-7,5	-12
Large Spanish banks	57,6	-4,1	-7,1	3,5	-10
Santander	3,6	-4,3	-8,4	1,4	-14
BBVA	4,9	-3,9	-6,0	5,3	-7
Medium Spanish banks	46,6	-3,0	-5,1	-4,6	-17
Caixabank	2,6	-3,1	-6,9	-2,0	-14
Sabadell	0,8	-3,2	-2,2	-13,4	-10
Bankinter	5,9	-3,0	-5,9	-2,4	-14
Currency	1,6	-3,6	-4,6	-3,9	-37

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,086	0,1	0,2	-1,8	-4
GBPUSD	1,292	-0,3	-0,7	-1,5	-1
USDJPY	110,540	1,0	-0,6	-0,9	0
DXY	99,238	0,0	0,2	1,6	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	61,84	0,0	-0,4	-2,8	-37
USDBRL (Brazil)	4,39	0,0	-1,4	-5,0	-15
USDCLP (Chile)	807,94	-0,6	-1,8	-3,9	-20
USDCOP (Colombia)	3434	-1,5	-1,1	-2,13	-10
USDMXN (Mexico)	19,12	-1,1	-2,9	-1,5	0
USDPEN (Peru)	3,40	-0,5	-0,7	-2,5	-3
LACI	48,96	-0,6	-1,8	-3,3	-12
USDPPLN (Poland)	3,97	-0,3	-0,9	-3,1	-4
USDRUB (Russia)	65,39	-2,2	-2,9	-5,3	0
USDTRY (Turkey)	6,11	-0,3	-1,1	-3,0	-13
USDCNY (China)	7,03	0,0	-0,7	-1,2	-5
USDINR (India)	72,00	-0,5	-1,0	-1,0	-1
USDIDR (Indonesia)	13872	-0,8	-1,5	-1,7	1
ADXY	103,03	-0,3	-1,2	-1,9	-4

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	55,5	-5,2	-3,8	-11	-14
WTX	51	-4,9	-2,5	-9	-9
Copper	258	-1,3	-0,8	-5	-12
Gold	1673	1,8	5,8	7	26
S&P Spot commodity *	401	-0,7	1,1	-3	-5
S&P Brent Spot *	493	-1,5	1,3	-5	-11
S&P Metals Spot *	303	0,1	-0,6	-5	-12
S&P Agricultural *	298	-0,3	0,6	-2	5

Source: Bloomberg, Datastream and Haver

* With one day delay