

Market Comment

Relief rally after dramatic equity fall

- Equities whipsawed and recovered in early afternoon following a sharp drop, driven by increasing covid-19 cases. The virus's rapid spread through countries outside China -Brazil, Croatia, Austria, Greece and Switzerland reported their first cases of coronavirus infection- and growing cases around Europe and Middle East kept investors on edge.
- Nonetheless, the coronavirus situation seems to have improved in China:** Chinese officials reported fewer coronavirus cases in the country on Wednesday than yesterday. Nevertheless, as the number of infections accelerated, Japan, which is expected to hold the 2020 Olympics, asked to delay the event, while Kuwait has suspended flights to Singapore and Japan, and **the U.S. warned Americans to be prepared for coronavirus to spread within the country** (see). Finally, further companies such as Danone and Diageo Plc claimed that the disease outbreak will weigh on their sales in China, moving value chain concerns into consumption imbalances.
- Central banks did not yet endorse further monetary easing in the short term. They acknowledged the downside risk due to the Covid-19, but said it is too soon to change the monetary policy stance. **The ECB's President, Christine Lagarde**, followed on the same page as the German finance minister, encouraging any fiscal measures intended to boost the economy (see). **Fed Vice Chairman, Richard Clarida**, warned that the covid-19 could have a **significant impact on the Chinese economy** and the rest of the world. However, Mr. Clarida also took the opportunity to send a clear signal to markets that the Fed is leaning against rate cuts in the short term.
- Today, there were few relevant economic reports. The new home sales index increased above expectations in January (764k; Cons: 718k; Prev: 708k revised from 694k) amid solid labor market data and lower borrowing costs.**
- 10Y sovereign bond yields rebounded slightly from June-16 [A1] reached yesterday in the U.S., while in Europe, the German 10Y yield recovered above -0.5%. The latter was also boosted by comments** from the Germany Finance Minister planning a suspension of the debt brake. However, 2Y yields extended the declines both in the U.S. and Germany, as markets increased expectations of further monetary policy easing in both the U.S. and Europe, although neither the Fed nor the ECB have endorsed further monetary policy easing in the short term. Markets have brought forward to April the probability of a 25bps interest cuts (70%), while also penciling 100% probability of 50bps in November. On the other hand, the implied probability of a 10bps interest rate cut in the ECB deposit rate in December remained steady around 90%. Peripheral bond yields outperformed the core, with their risk premia widening, especially in Portugal and Spain. Nonetheless, despite the current strain in peripheral bonds, Spain managed to attract strong foreign demand in its 30Y syndicate bond issued yesterday.
- Caution among investors weighed on FX markets** where most currencies depreciated. The DXY recovered from yesterday's drop and appreciated marginally, whereas the JPY remained under pressure. G10 currencies depreciated due to the strengthening of the dollar. Elsewhere, emerging currencies depreciated across the board as risk assets sold off.
- In commodities, Brent oil prices halted the latest drop due to uncertainty and fears regarding the deepening coronavirus crisis. On the other hand, gold prices fluctuate after record prices were reached last week.
- Equities were mixed, as European and U.S. stocks recovered some ground while they broadly fell in Asia. Implied volatility in equity markets retreated (25), although it remained hovering at yearly highs, suggesting investors' concerns remain elevated.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,18	-4,4	-24,1	-26	-132
US	1,34	-1,5	-23	-27	-135
GER (2-yr)	-0,70	-0,4	-5,3	-7	-17
Germany	-0,50	1,1	-8,3	-12	-65
France	-0,23	1,6	-4,6	-10	-78
Spain	0,25	3,6	-2,2	-8	-91
Italy	0,99	-0,1	3,4	-5	-180
Portugal	0,28	3,9	0,2	-3	-118
Greece	1,16	9,8	19,5	-1	-254
Japan (2-yr)	-0,20	-0,1	-4,1	-6	-4
Japan	-0,09	1,7	-4,0	-4	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,71	9,9	21,9	-4	-225
Chile	3,07	-1,7	-4,5	17	-107
Colombia	5,78	1,8	-3,7	-21	-106
Mexico	6,49	1,8	-3,3	-26	-163
Peru	3,27	2,0	7,1	-18	-189
Poland	1,87	-2,9	-26,6	-34	-104
Russia	6,17	0,3	9,5	-18	-234
Turkey	12,10	6,0	85,0	199	-231
India	6,35	1,7	-3,9	-21	-113
Indonesia	6,64	8,4	11,7	-8	-117

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	27	0,5	3,7	1	-13
Italy	149	-1,2	11,7	7	-115
Portugal	78	2,8	8,5	9	-53
Spain	75	2,5	6	4	-26
2-yr sovereign spread vs Germany					
France	4	0,1	0,0	-1	-5
Italy	55	0,3	8,0	6	-41
Portugal	27	2,4	5,8	7	-2
Spain	25	1,4	5,5	1	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	107	6,8	15	5	-49
Chile	50	2,9	4	0	5
Colombia	81	6,0	10	-2	-26
Argentina	6229	232,3	108	-162	5570
Mexico	82	5,9	9	-2	-42
Peru	47	3,0	5	-1	-23
Poland	49	0,5	1	-1	-16
Russia	67	0,7	7	3	-64
Turkey	304	2,2	44	67	-4
China	40	0,1	5	3	-9
India	62	0,9	2	-1	-32
Indonesia	66	0,2	5	2	-41

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	25	-2,4	11	7	11
VSTOXX	25	-2,9	12	7	10
EM EFT volatility Index	24	-2,2	7	2	6
Dollar/euro volatility	6	0,0	1	1	0
EM FX volatility index	7	0,0	1	1	-1
Credit spread (BAA) (change in bps)	218	1,5	14	14	-7
US bonds volatility index	87	0,5	19	21	41
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,89	-	-10	-12	-39
EZ Inflation expectations (5Y5Y)	1,17	-	-2	-7	-27
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	49	3,3	12	8	-16
EZ	45	2,3	8	0	-28
UK	44	1,9	6	1	-24
Large Spanish	36	2,4	5	3	-23
Medium Spanish	65	-1,7	7	-2	-43
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	178	6,1	17	-27	26
EZ Non-financial	73	3,1	10	6	-2
UK Non-financial	101	3,1	7	4	2

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,42	-1	-2	-3	-11
Euribor 12m	-0,31	-1	-2	-5	-20
Libor 3m	1,64	0	-5	-15	-99
Libor 12m	1,65	0	-14	-25	-123

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3169	1,3	-6,4	-2,3	13
Dow Jones	27355	1,0	-6,8	-4,1	5
Nikkei	22426	-0,8	-4,2	-3,9	4
FTSE 100	7042	0,4	-5,6	-5,0	-1
EuroStoxx 50	3577	0,1	-7,5	-2,7	9
IBEX	9307	0,6	-7,7	-0,6	1
DAX	12775	-0,1	-7,4	-3,3	11
CAC	5685	0,1	-7,0	-3,0	9
MI	23405	1,4	-8,1	0,0	14
ASE Athens	811	-2,7	-11,5	-13,3	17
MSCI Latam *	97333	-0,6	-2,7	-4,7	4
Ibovespa (Brazil)	108036	-5,0	-7,3	-5,6	11
Mexbol (Mexico)	43222	0,4	-3,7	-2,1	0
Merval (Argentina)	36792	-4,7	-4,2	-7,1	4
MSCI EM Europe *	6047	-2,5	-3,8	-7,0	7
Poland	1934	-0,6	-8,6	-7,2	-17
Micex 10 (Russia)	5210	0,2	-3,6	-3,0	18
Ise 100 (Turkey)	115171	0,7	-3,4	-4,1	11
MSCI EM Asia *	891	0,3	-2,6	-3,3	3
Shanghai Com (China)	2988	-0,8	0,4	0,4	1
Jakarta (Indonesia)	5689	-2,0	-3,4	-8,9	-13
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	149,0	0,7	-9,7	-6,4	12
Citi	128,2	1,5	-6,8	-2,9	22
BoA	70,0	0,9	-10,3	-8,7	9
MS	31,2	0,5	-10,1	-5,0	6
GS	48,0	-0,1	-14,8	-9,7	13
GS	218,7	0,5	-7,8	-8,2	10
EZ banks					
BNP	80,2	0,0	-9,6	-0,5	3
Crédit Agricole	48,2	-1,0	-10,3	-1,3	9
Deutsche Bank	12,1	-1,1	-9,3	-1,8	9
ING	8,9	1,0	-10,6	14,4	11
Intesa	9,2	0,0	-8,5	-7,7	-21
SG	2,4	2,2	-8,5	5,6	12
SG	28,6	-1,0	-10,2	-4,1	8
Unicredito	12,6	1,1	-11,2	1,8	7
UK banks					
HSBC	69,2	0,7	-4,6	-5,4	-10
RBS	555,0	2,8	-0,7	-0,7	-13
RBS	193,1	-1,1	-6,3	-11,5	-27
Barclays	165,9	0,0	-6,1	-2,8	-1
Lloyds	51,9	-0,2	-8,9	-9,1	-17
Large Spanish banks					
Santander	55,9	0,3	-8,9	3,4	-14
Santander	3,5	1,1	-9,5	2,0	-16
BBVA	4,7	-0,3	-8,4	4,6	-12
Medium Spanish banks					
Caixabank	45,3	0,0	-7,4	-4,8	-21
Sabadell	2,5	-0,4	-8,4	-3,4	-19
Sabadell	0,8	2,8	-6,9	-12,5	-15
Bankinter	5,8	-1,0	-7,1	-1,7	-18
Bankinter	1,6	-0,4	-8,6	-5,3	-40

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,089	0,0	0,8	-1,2	-4
GBPUSD	1,293	-0,6	0,0	-1,0	-3
USDJPY	110,420	-0,2	0,9	-1,4	1
DXY	99,071	0,1	-0,6	1,1	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	62,09	-0,9	-0,6	-3,1	-38
USDBRL (Brazil)	4,43	-0,4	-1,4	-4,9	-16
USDCLP (Chile)	810,25	0,1	-1,4	-2,3	-20
USDCOP (Colombia)	3441	-0,2	-1,6	-1,20	-11
USDMXN (Mexico)	19,16	-0,4	-3,1	-1,3	0
USDPEN (Peru)	3,41	-0,1	-0,9	-2,4	-3
LACI	48,72	-0,4	-1,9	-2,9	-13
USDPLN (Poland)	3,96	-0,1	-0,3	-2,0	-4
USDRLB (Russia)	65,31	0,0	-2,7	-3,6	1
USDTRY (Turkey)	6,16	-0,2	-1,2	-3,5	-14
USDCNY (China)	7,02	-0,1	-0,3	-1,6	-5
USDINR (India)	71,66	0,3	-0,1	-0,3	-1
USDIDR (Indonesia)	13940	-0,4	-1,8	-2,3	1
ADXY	103,20	0,0	-0,7	-1,5	-3

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	54,6	-0,6	-7,6	-8	-18
WTx	50	0,0	-6,3	-6	-12
Copper	258	-0,5	-1,1	-1	-13
Gold	1639	0,2	1,7	4	24
S&P Spot commodity *	383	-1,7	-5,2	-4	-10
S&P Brent Spot *	462	-2,7	-7,6	-7	-19
S&P Metals Spot *	300	0,2	-1,6	-3	-13
S&P Agricultural *	292	0,2	-2,9	-2	4

Source: Bloomberg, Datastream and Haver

* With one day delay