

## Market Comment

# Treasuries yields plunged, hitting historic lows. VIX soared to 32.

- Covid-19 jolts equities and sovereign yields again** as mounting coronavirus cases outside China dashed hopes that the outbreak had been contained. **U.S. Treasury 10Y yield hit historic lows**, dropping below 1.30%. Elsewhere, the WHO stated that the covid-19 has the potential to become a pandemic, while the U.S. warned not to travel to Spain to avoid potential dangers.
- Central banks' officials remained mute, without shedding any light about how to tackle the Covid-19.** However, today's Bank of Korea meeting did not cut interest rates and showed more signs that they would support companies affected by Covid-19. On the other hand, today's speech by Christine Lagarde did not contain any surprises, bearing in mind current market conditions. Instead she assessed the climate change risk, suggesting the ECB will evaluate climate risk in collateral framework, while it is expecting the first banks' climate stress test result by year-end.
- However, **markets increased their expectations of additional interest cuts.** The market penciled a 25bps Fed interest rate cut in March (60% probability) and 100% probability of 50bps interest rate cut in April. In addition, markets have brought forward expectations for ECB interest cuts (90% probability of a 10bps interest cut in September and 100% in October).
- There were some bright spots in the Eurozone's economic data. Economic confidence unexpectedly increased in February** (103.5; Cons: 102.8; Prev: 102.6, revised from 102.8), with improvements also in industry and services. In addition, the U.S. GDP showed weaker revision: **U.S. GDP Annualized QoQ** (2nd estimate) did not bring any surprises, achieving last quarter results and fulfilling market expectations (2.1% QoQ; Cons: 2.1% QoQ; Prev: 2.1% QoQ) underpinned by an upward revision from trade and inventories, while consumer spending was revised down. Preliminary durable goods orders fell 0.2% in January below consensus (-1.4%; Prev: 2.9%), while core durable goods jumped to 1.1% from -0.5%.
- Sovereign yields extended sharp declines across the board.** The 10Y UST yield declined, hitting fresh record lows, with the German yield also following the same path, hovering around 0.55%. In Europe, peripheral bond yields surged further as risk aversion dominated the market. Additionally, the high yield bond spread widened sharply (to 436 bps), hitting October's levels.
- FX market were mixed today, as the **dollar was whipped by worries about the virus spread in the U.S., while the JPY appreciated.** The euro rebounded to early February levels as Germany considers stimulus to boost the economic growth ([see](#)) and solid EZ economic data, whereas the British pound was under pressure after UK Prime Minister Boris Johnson warned Britain is ready to 'walk away' if the EU does not accept a free trade agreement similar to Canada's by June ([see](#)). Despite weaker USD, EM currencies depreciated sharply on the back of the Covid-19 negative spillover effect. On the other hand, the CNY slightly appreciated as China started to show some signs of recovery.
- In commodities, **Brent oil prices showed a huge drop today**, remaining on its downward trend below \$52 per barrel. The risk-off mood weighted on gold prices, recovering some ground on Thursday.
- Equities worldwide were back on the way down dragged by increasing global fears, with the **Eurostoxx index falling to October lows.** Asian equities were mixed, with the CSI300 and the Hang Seng index advancing 0.30%. In this context, the implied volatility index VIX (32 +5 points) continues to rally. Microsoft joined previous companies in warning about the potential impact of the coronavirus on its operations ([see](#)).

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,09	-7,7	-30,2	-38	-143
<b>US</b>	1,29	-4,7	-22	-37	-142
GER (2-yr)	-0,74	-3,6	-8,9	-11	-21
<b>Germany</b>	-0,55	-4,0	-10,1	-21	-73
France	-0,26	-2,7	-4,2	-17	-83
Spain	0,31	5,8	8,2	-6	-87
Italy	1,07	7,6	16,4	4	-168
Portugal	0,37	9,6	13,8	3	-110
Greece	1,25	8,0	27,4	6	-242
Japan (2-yr)	-0,21	-0,7	-5,1	-7	-5
<b>Japan</b>	-0,11	-1,9	-6,7	-7	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,77	-2,8	19,1	12	-224
Chile	3,09	1,2	-16,3	20	-107
Colombia	5,80	-0,1	-4,4	-18	-106
Mexico	6,60	9,1	6,0	-14	-156
Peru	3,26	1,2	3,6	-13	-189
Poland	1,77	-10,9	-35,7	-49	-120
Russia	6,35	18,1	31,4	2	-207
Turkey	12,28	18,0	68,0	231	-217
India	6,38	3,3	-4,4	-20	-103
Indonesia	6,75	11,4	23,2	0	-106

**COUNTRY RISK (BP, CHANGE IN BPS)**

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	29	1,3	5,9	3	-10
Italy	162	11,6	26,5	24	-95
Portugal	92	13,6	23,9	24	-37
Spain	86	9,8	18	15	-14
<b>2-yr sovereign spread vs Germany</b>					
France	8	3,5	4,7	3	-1
Italy	64	8,8	20,8	17	-27
Portugal	38	10,1	17,5	16	9
Spain	31	5,2	10,8	8	4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	112	5,1	20	6	-41
Chile	52	2,0	6	-1	8
Colombia	84	2,8	14	-3	-23
Argentina	6223	-5,5	-51	-871	5562
Mexico	85	2,5	13	-4	-37
Peru	49	2,1	7	-1	-19
Poland	49	0,2	1	-1	-16
Russia	67	0,8	8	1	-62
Turkey	306	2,6	39	62	4
China	40	-0,5	5	-4	-10
India	62	-0,2	1	-2	-33
Indonesia	68	2,8	10	0	-37

**RISK INDICATORS**

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
<b>VIX</b>	32	4,9	17	16	18
VSTOXX	35	10,2	21	20	21
EM EFT volatility Index	31	4,2	13	11	12
Dollar/euro volatility	6	0,6	1	2	1
EM FX volatility index	7	0,1	1	1	-1
Credit spread (BAA) (change in bps)	224	4,7	18	21	0
US bonds volatility index	87	-0,4	17	21	40
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,89	-	-6	-12	-40
EZ Inflation expectations (5Y5Y)	1,16	-	-4	-11	-32
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	52	2,8	15	8	-11
EZ	46	0,5	9	1	-26
UK	43	-0,4	6	-1	-23
Large Spanish	36	-0,8	4	1	-22
Medium Spanish	67	2,5	1	-2	-36
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	179	1,3	21	-34	31
EZ Non-financial	74	2,0	12	5	1
UK Non-financial	102	0,4	7	3	3

**INTERBANK MARKETS (% CHANGE IN BPS)**

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,43	0	-2	-2	-12
<b>Euribor 12m</b>	-0,30	0	-1	-3	-20
Libor 3m	1,61	0	-6	-14	-101
Libor 12m	1,61	0	-12	-19	-126

**STOCK MARKETS (%)**

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3049	-2,2	-9,6	-6,9	10
Dow Jones	26467	-1,8	-9,4	-7,9	2
Nikkei	21948	-2,1	-6,5	-5,5	3
FTSE 100	6796	-3,5	-8,6	-9,1	-4
<b>EuroStoxx 50</b>	3456	-3,4	-9,6	-7,1	5
IBEX	8986	-3,6	-9,5	-5,3	-3
DAX	12367	-3,2	-9,5	-7,2	7
CAC	5496	-3,3	-9,3	-7,3	5
MB	22799	-2,7	-9,1	-5,1	10
ASE Athens	769	-5,2	-15,8	-17,6	9
<b>MSCI Latam *</b>	92749	-4,7	-8,0	-6,6	-1
Ibovespa (Brazil)	104335	-1,3	-8,9	-10,4	9
Mexbol (Mexico)	42021	-1,7	-6,1	-6,0	-2
Merval (Argentina)	35206	-3,3	-9,6	-13,8	2
<b>MSCI EM Europe *</b>	6065	0,3	-4,7	-4,6	7
Poland	1851	-4,3	-11,9	-11,8	-21
Micex 10 (Russia)	5011	-3,8	-7,8	-7,5	13
Ise 100 (Turkey)	110418	-4,1	-4,5	-7,8	6
<b>MSCI EM Asia *</b>	882	-1,0	-4,3	-3,6	2
Shanghai Com (China)	2991	0,1	-1,3	0,5	2
Jakarta (Indonesia)	5536	-4,3	-6,6	-9,7	-15
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	142,1	-3,1	-13,1	-12,1	8
JPM	122,9	-2,9	-10,6	-8,5	18
Citi	66,0	-3,3	-15,7	-14,6	3
BoA	29,4	-4,0	-15,6	-11,5	1
MS	46,2	-2,2	-14,1	-14,5	10
GS	210,3	-2,6	-9,7	-13,3	7
<b>EZ banks</b>	76,0	-5,3	-13,2	-7,0	-3
BNP	45,4	-5,9	-14,8	-8,2	1
Crédit Agricole	11,4	-6,2	-13,7	-8,9	1
Deutsche Bank	8,3	-6,4	-15,9	5,4	2
ING	8,8	-3,8	-12,1	-12,3	-24
Intesa	2,3	-3,9	-10,3	-0,7	6
SG	26,7	-6,4	-14,4	-10,4	-1
Unicredito	12,0	-4,4	-12,5	-5,1	0
<b>UK banks</b>	65,8	-4,9	-10,3	-10,8	-18
HSBC	529,3	-4,6	-5,4	-6,8	-14
RBS	183,4	-5,0	-11,7	-15,8	-31
Barclays	154,4	-6,9	-14,8	-10,2	-6
Lloyds	50,4	-3,0	-11,0	-12,6	-21
<b>Large Spanish banks</b>	53,8	-3,8	-11,0	-2,4	-19
Santander	3,4	-3,6	-11,2	-3,7	-20
<b>BBVA</b>	4,5	-4,1	-10,9	-1,2	-17
<b>Medium Spanish banks</b>	43,7	-3,5	-9,0	-8,7	-25
Caixabank	2,4	-3,5	-10,0	-7,3	-23
Sabadell	0,8	-3,1	-7,4	-14,7	-19
Bankinter	5,6	-3,2	-8,5	-6,3	-22
<b>Currency</b>	1,5	-5,5	-12,6	-11,2	-44

**CURRENCIES (% RED FOR CURRENCY DEPRECIATION)**

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,098	0,9	1,8	-0,4	-3
GBPUSD	1,288	-0,2	0,0	-1,1	-3
USDJPY	110,160	0,2	1,8	-0,9	1
DXY	98,578	-0,4	-1,3	0,6	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	62,13	-0,1	-0,6	-3,1	-37
USDBRL (Brazil)	4,47	-0,4	-1,8	-6,2	-16
USDCLP (Chile)	814,83	-0,6	-1,0	-3,2	-20
USDCOP (Colombia)	3505	-1,3	-2,9	-3,40	-12
USDMXN (Mexico)	19,37	-0,5	y tie	-3,3	0
USDPEN (Peru)	3,43	-0,6	-1,1	-2,7	-4
LACI	48,30	-0,6	-1,9	-4,3	-13
USDPLN (Poland)	3,94	0,7	0,8	-1,6	-4
USDRLB (Russia)	66,12	-1,1	-3,0	-5,9	0
USDTRY (Turkey)	6,18	-0,4	-1,4	-3,9	-14
USDCNY (China)	7,00	0,3	0,3	-1,3	-4
USDINR (India)	71,56	0,1	0,1	-0,3	-1
USDIDR (Indonesia)	14025	-0,6	-2,0	-2,7	0
ADXY	103,40	0,2	0,0	-1,6	-3

**COMMODITIES (%)**

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	51,5	-3,6	-13,2	-13	-22
WTx	47	-4,5	-13,5	-13	-19
Copper	254	-1,3	-2,0	-1	-14
Gold	1650	0,6	1,9	5	26
S&P Spot commodity *	376	-1,7	-6,7	-6	-12
S&P Brent Spot *	449	-2,7	-10,2	-10	-20
S&P Metals Spot *	299	-0,3	-1,2	-2	-13
S&P Agricultural *	291	-0,4	-2,6	-3	5

Source: Bloomberg, Datastream and Haver

\* With one day delay