

Market Comment

COVID-19's rapid global spread sends risk assets into a tailspin

- There was a very sharp risk-off mood across global financial markets this week, as COVID-19 spread rapidly beyond China, leading several global firms to issue financial warnings in the wake of potential supply chain and demand disruptions. The Fed and ECB's 'wait and watch' policy signal could have further unnerved market participants, who have brought forward interest rate cut expectations to mitigate the virus' impact. Fed Fund futures price in a 100% probability of a 25bps rate cut in March, and pencil a 50bps cut in June. Separately, OIS rates suggest a 100% probability of a 10bps ECB interest rate cut in summer.
- The China continues to implement policy measures that growth supportive in order to mitigate the impact of the COVID-19 outbreak. PBOC, today, announced an additional RMB 500 bn (USD 71.5 bn) in funding support for SME lending in the wake of the coronavirus impact. This comes on top of the RMB 300 bn re-lending quota already authorized this month.
- Today's calendar was very light for the U.S. Preliminary wholesale inventories fell 0.2% in January (Cons: 0.1%; Prev: -0.3%) with the merchandise trade deficit narrowing as imports declined more than exports. Consumer spending rose below expectations to 0.2% in January (Cons: 0.3%; Prev: 0.4%, revised from 0.3%), while personal income inched up, beating estimations (0.6%; Cons: 0.4%; Prev: 0.1% revised from 0.2%). The MNI Chicago PMI index increased in February, even surpassing market expectations (49; Cons: 46; Prev: 42.9) underpinned by production and supplier deliveries.
- Safe-haven sovereign yields plunged across the board, while carry benefited neither peripheral nor EM bonds. The 10Y U.S. yield hit a new record low (10Y -30bps, to 1.17%), while the short-term yield fell even more sharply (-43.5bps to 0.92%). In Europe, core yields declined across the board led by Germany (2Y -14bps to -0.80% and 10Y -19bps to -0.62), although still above October lows. The risk-off mood weighed more on peripheral bonds, with their risk premium widening sharply (Italy +37 to 172bps, Portugal +30bps to 97 bps and Spain +24bps to 90bps). EM bond yield spreads surged.
- The U.S. dollar lost some ground during the week (USD -0.7%), as COVID-19 cases in the U.S. inched up, while Fed officials' rhetoric belied market expectations of near-term knee-jerk rate cuts. The JPY resumed safe-haven gains, while the Euro edged higher (appreciated 1.1%, to EURUSD 1.1) on positive surprises in EZ economic data alongside expectations of fiscal policy measures to tackle the Covid-19 outbreak. EM FX depreciated across the board despite the weaker USD, with commodity-linked currencies leading the fall as oil prices resumed their downward trend (Brent -13% to \$50/B). The TRY was dragged further by the ongoing Syria conflict.
- Risky assets slumped, with equities declining across the board, while equity volatility skyrocketed (VIX to 49; +32 points) above 2015-highs. Corporate spreads widened (+28 to 236), as did HY bond spreads (+70 bps to 436). Equities extended sharp declines with Asian shares joining the downward trend.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	0,92	-14,3	-43,5	-49	-163
<b>US</b>	1,17	-8,9	-30	-41	-158
GER (2-yr)	-0,80	-5,5	-14,8	-15	-28
<b>Germany</b>	-0,62	-7,2	-18,5	-24	-80
France	-0,30	-4,7	-10,2	-18	-88
Spain	0,28	-3,0	5,4	-7	-92
Italy	1,10	2,5	18,9	15	-163
Portugal	0,35	-2,6	11,2	4	-114
Greece	1,35	10,0	38,6	17	-231
Japan (2-yr)	-0,26	-5,1	-9,2	-12	-11
<b>Japan</b>	-0,16	-4,8	-9,9	-11	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,84	3,8	22,7	13	-221
Chile	3,18	0,0	-6,0	28	-100
Colombia	5,80	0,0	-4,8	-16	-111
Mexico	6,87	19,2	33,5	23	-128
Peru	3,34	-0,5	10,2	-5	-181
Poland	1,79	2,0	-28,0	-44	-120
Russia	6,59	24,3	50,9	27	-184
Turkey	12,60	32,0	89,0	270	-214
India	6,37	-0,6	-5,2	-20	-101
Indonesia	6,95	20,0	42,5	28	-90

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	31	2,5	8,3	6	-8
Italy	172	9,7	37,4	39	-83
Portugal	97	4,6	29,7	28	-34
Spain	90	4,2	24	17	-12
<b>2-yr sovereign spread vs Germany</b>					
France	9	0,0	5,7	2	0
Italy	74	9,3	30,3	30	-13
Portugal	43	5,3	23,8	22	16
Spain	36	5,1	16,3	12	10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	123	10,3	30	24	-32
Chile	59	6,2	13	11	13
Colombia	93	9,7	23	15	-14
Argentina	7286	1063,0	818	905	6612
Mexico	94	9,4	22	13	-30
Peru	56	6,2	13	10	-14
Poland	50	0,3	1	0	-15
Russia	75	7,8	14	11	-53
Turkey	324	17,6	38	88	23
China	46	5,9	11	7	-4
India	63	1,4	3	-1	-29
Indonesia	79	10,9	20	14	-25

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	49	9,6	32	32	35
VSTOXX	45	10,3	29	31	32
EM EFT volatility Index	42	8,8	23	23	24
Dollar/euro volatility	7	0,7	2	3	1
EM FX volatility index	7	0,2	1	1	-1
Credit spread (BAA) (change in bps)	236	8,9	28	29	13
US bonds volatility index	93	5,6	18	26	45
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,87	-	-7	-22	-43
EZ Inflation expectations (5Y5Y)	1,12	-	-7	-14	-38
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	7,8	22	18	-2
EZ	53	6,6	15	8	-19
UK	49	6,1	12	5	-14
Large Spanish	39	3,1	7	5	-18
Medium Spanish	69	1,7	5	2	-33
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	193	13,4	37	-13	42
EZ Non-financial	81	6,9	19	12	8
UK Non-financial	104	2,5	10	6	6

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,42	0	-1	-3	-11
<b>Euribor 12m</b>	-0,31	-1	-2	-4	-20
Libor 3m	1,61	0	-7	-16	-100
Libor 12m	1,61	0	-15	-22	-125

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2879	-3,4	-13,8	-12,1	3
Dow Jones	24759	-3,9	-14,6	-13,8	-5
Nikkei	21143	-3,7	-9,6	-9,6	-2
FTSE 100	6490	-4,5	-12,3	-13,3	-9
<b>EuroStoxx 50</b>	3308	-4,3	-12,9	-11,5	0
IBEX	8658	-3,6	-12,4	-9,3	-7
DAX	11826	-4,4	-12,9	-11,4	2
CAC	5268	-4,1	-12,6	-11,5	0
MB	21862	-4,1	-11,8	-9,5	6
ASE Athens	720	-6,3	-19,3	-22,6	1
<b>MSCI Latam *</b>	90479	-2,4	-9,2	-10,1	-2
Ibovespa (Brazil)	100309	-2,6	-11,8	-13,1	6
Mexbol (Mexico)	40153	-3,5	-10,4	-11,0	-6
Merval (Argentina)	34136	-3,5	-11,6	-15,4	1
<b>MSCI EM Europe *</b>	5847	-3,6	-7,8	-8,5	4
Poland	1763	-4,8	-15,6	-16,0	-24
Micex 10 (Russia)	4768	-4,8	-11,6	-12,5	8
Ise 100 (Turkey)	105994	-4,0	-9,3	-11,4	3
<b>MSCI EM Asia *</b>	879	-0,4	-4,4	-3,6	3
Shanghai Com (China)	2880	-3,7	-5,2	-3,2	-4
Jakarta (Indonesia)	5453	-4,2	-8,2	-10,8	-15
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	134,5	-3,8	-16,4	-16,2	2
JPM	115,7	-4,7	-14,8	-13,8	11
Citi	62,0	-3,8	-18,9	-19,0	-4
BoA	28,0	-3,9	-18,6	-15,2	-5
MS	44,2	-2,6	-15,6	-17,6	4
GS	198,9	-3,3	-13,8	-17,2	0
<b>EZ banks</b>	72,3	-4,9	-16,5	-11,7	-8
BNP	43,3	-4,7	-18,7	-12,6	-4
Crédit Agricole	10,7	-5,9	-18,6	-14,0	-4
Deutsche Bank	7,8	-6,2	-18,3	-2,4	-5
ING	8,5	-3,7	-13,9	-15,6	-27
Intesa	2,2	-4,3	-13,1	-5,6	2
SG	25,3	-5,2	-18,5	-15,1	-6
Unicredito	11,4	-4,9	-13,5	-9,7	-5
<b>UK banks</b>	63,7	-3,3	-12,4	-13,8	-20
HSBC	514,5	-2,8	-8,5	-9,1	-16
RBS	175,4	-4,4	-14,1	-20,6	-33
Barclays	147,9	-4,2	-17,7	-14,0	-9
Lloyds	49,3	-2,2	-11,0	-14,3	-22
<b>Large Spanish banks</b>	51,2	-4,8	-14,7	-9,6	-21
Santander	3,3	-3,8	-13,0	-11,2	-23
<b>BBVA</b>	4,3	-5,7	-16,1	-8,2	-20
<b>Medium Spanish banks</b>	41,8	-4,5	-13,1	-12,6	-28
Caixabank	2,3	-5,5	-15,0	-12,0	-26
Sabadell	0,8	-2,4	-10,2	-17,5	-21
Bankinter	5,3	-5,1	-13,2	-10,6	-26
<b>Currencies</b>	1,4	-4,9	-16,3	-15,1	-47

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,097	-0,3	1,1	-0,4	-3
GBPUSD	1,283	-0,5	-1,1	-1,5	-3
USDJPY	108,140	1,3	3,2	0,8	3
DXY	98,566	0,1	-0,7	0,6	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	62,21	-0,1	-0,6	-3,2	-36
USDBRL (Brazil)	4,50	-0,3	-2,6	-6,2	-16
USDCLP (Chile)	818,63	-0,5	-1,9	-3,3	-20
USDCOP (Colombia)	3547	-1,3	-4,6	-4,44	-13
USDMXN (Mexico)	19,79	-1,4	y tie	-5,5	-3
USDPEN (Peru)	3,45	-0,6	-2,0	-3,2	-4
LACI	47,74	-0,9	-3,1	-5,1	-14
USDPLN (Poland)	3,94	-0,4	0,2	-1,3	-4
USDRLB (Russia)	67,52	-1,8	-5,3	-7,4	-4
USDTRY (Turkey)	6,24	-0,6	-2,4	-4,5	-14
USDCNY (China)	6,99	0,2	0,5	-1,2	-4
USDINR (India)	72,18	-0,9	-0,7	-1,3	-2
USDIDR (Indonesia)	14318	-2,0	-3,9	-4,8	-1
ADXY	103,25	0,0	-0,1	-1,6	-3

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	50,6	-3,1	-13,6	-15	-22
WTx	45	-4,9	-16,1	-16	-20
Copper	252	-2,0	-3,8	-1	-14
Gold	1605	-2,5	-2,4	2	24
S&P Spot commodity *	368	-2,2	-8,1	-8	-13
S&P Brent Spot *	440	-2,0	-10,7	-12	-21
S&P Metals Spot *	297	-0,8	-2,1	-2	-14
S&P Agricultural *	287	-1,5	-3,8	-3	3

Source: Bloomberg, Datastream and Haver

\* With one day delay