

Market Comment

Equities find support from earnings and bonds as virus concerns increase

- The coronavirus spread further, and the World Health Organization called for a meeting of its Emergency Committee this Thursday.** The number of Chinese people infected rose above the SARS epidemic, while several foreign governments warned about travelling to China. Even some airlines suspended the booking of flights to China. According to a Chinese government economist, the economy could grow 5% YoY or even lower in the first quarter (previous quarter 6.1% YoY) due to the impact of the coronavirus outbreak (see). This will be the lowest rate of growth seen in China. Although most analysts expect that the negative impact of the coronavirus would be offset in coming quarters, the slowdown in China's growth may require additional economic stimulus measures to help the rebound. Some big Chinese banks said they will reduce the interest rate for affected firms.
- On the data front,** the Eurozone M3 money supply growth fell more than expected in December (5.0%; Cons: 5.5% YoY; Prev: 5.6% YoY), led by the decline mainly of marketable instruments. The ECB's report also showed a moderation in the pace of growth of banks' lending to the non-financial corporate sector (3.2%, previous 3.4%). However, the same report showed an increase in banks' lending to households (3.7% vs 3.5%). Meanwhile, Germany's GfK consumer confidence surprisingly increased in February (9.9; Cons: 9.; Prev: 9.7), while January's data were revised up slightly (from 9.6 to 9.7) and due to improvements noticed in economic and income expectations as well as the propensity to buy. The German government revised slightly upward the 2020 GDP growth to 1.1% from 1%, while they see 2021 growth at 1.3%. In the U.S., wholesale inventories unexpectedly fell in December (+0.1% MoM; Cons: 0.1% MoM; Prev: 0.1% MoM).
- Sovereign yield decreased across the board as concerns about the virus keep bond markets well demanded.** The U.S. 10Y bond yields declined, closing at 1.6%, trimming partially yesterday's rebound ahead of today's FOMC monetary policy meeting. While the Fed is expected to keep interest rates on hold, markets have **increased the odds** for an interest rate cut this year (61% probability of 25bps interest rate cut on September 20, and 76% probability of 25bps cut by December 2020). European yields also slid back today, despite the increase in bond supply. Peripheral bonds underperformed today, except the Italian bond, which continued to rise amid easing political tension. As a result, Italy's risk premium narrowed (to 134bps from 137bps).
- In FX markets, the dollar marginally appreciated holding near two-month highs,** while the G10 currencies depreciated across the board. The GBP depreciated ahead of tomorrow's BoE monetary policy meeting. Elsewhere, emerging currencies showed minor changes.
- Equity markets extended yesterday's rebound at the start of the session,** underpinned by positive 4Q19 company earnings reports but trimmed some gains as the FOMC meeting approaches. Market-based risk measures such as implied volatility in the S&P500 (VIX) remain steady around 16.

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

Developed Markets	level	Daily	Week	Month	YoY
US (2-yr)	1.43	-2.8	-9.4	-13	-107
US	1.61	-4.1	-15	-26	-106
GER (2-yr)	-0.64	-1.2	-5.2	-4	-7
Germany	-0.38	-3.5	-11.6	-23	-56
France	-0.12	-3.8	-11.7	-24	-72
Spain	0.30	-1.5	-11.3	-17	-95
Italy	0.96	-7.6	-39.2	-46	-164
Portugal	0.31	-2.7	-14.2	-24	-136
Greece	1.17	-1.7	-19.5	-28	-276
Japan (2-yr)	-0.13	-0.3	-1.3	0	3
Japan	-0.04	0.0	-4.1	-3	-4
Emerging Markets	level	Daily	Weekly	Monthly	YoY
Brazil	6.67	2.6	-8.2	-12	-237
Chile	2.90	0.1	3.1	21	-133
Colombia	5.97	-0.8	-3.1	-37	-105
Mexico	6.70	-4.1	-15.5	-17	-176
Peru	3.39	0.0	-8.1	-14	-192
Poland	2.23	-3.1	-4.4	11	-55
Russia	6.32	0.2	7.5	-9	-206
Turkey	9.90	-7.0	-55.0	-201	-449
India	6.58	-0.5	-6.4	3	-75
Indonesia	6.67	-8.1	-3.2	-44	-149

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YoY
10-yr sovereign spread vs Germany					
France	25	-0.3	-0.1	-2	-16
Italy	133	-4.1	-27.6	-23	-108
Portugal	69	0.8	-2.6	-1	-79
Spain *	68	2.0	0.3	6	-39
2-yr sovereign spread vs Germany					
France	5	0.2	0.8	4	-6
Italy	44	-3.4	-14.9	-11	-39
Portugal	21	-0.1	-1.8	15	-17
Spain	23	1.2	0.9	2	-10
Emerging Markets	level	Daily	Weekly	Monthly	YoY
5-yr sovereign CDS *					
Brazil	99	-7.4	0	-1	-71
Chile	48	-5.6	1	6	-2
Colombia	78	-7.9	3	6	-52
Argentina	6381	-712.7	1185	1431	5734
Mexico	81	-7.6	1	2	-52
Peru	46	-4.4	1	5	-32
Poland	50	-0.7	-1	-9	-16
Russia	64	-2.5	4	8	-68
Turkey	236	-8.7	-11	-43	-89
China	39	-4.7	6	8	-19
India	64	0.4	2	-1	-43
Indonesia	65	-3.5	3	3	-54

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YoY
VIX	16	-0.7	3	1	-2
VSTOXX	14	-0.8	2	0	-2
EM EFT volatility Index	19	-1.4	3	2	-2
Dollar/euro volatility	4	-0.2	0	-1	-2
EM FX volatility index	7	-0.1	0	0	-2
Credit spread (BAA) (change in bps)	208	4.1	10	8	-32
US bonds volatility index	66	-1.1	14	6	17
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	2.01	-	-6	-4	-19
EZ Inflation expectations (5Y5Y)	1.28	-	-3	-5	-22
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US	41	-2.8	3	0	-29
EZ	44	-0.5	-1	-1	-45
UK	44	0.1	2	3	-34
Large Spanish	34	-0.6	0	2	-37
Medium Spanish	67	-1.9	3	-10	-45
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YoY
US Non-financial	206	-7.4	-5	36	15
EZ Non-financial	69	-0.2	4	4	-16
UK Non-financial	99	0.0	1	2	-11

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YoY
ESTR Index	-0.54	0	0	1	n.a.
Euribor 3m	-0.40	0	-1	-1	-9
Euribor 12m	-0.27	0	-3	-3	-16
Libor 3m	1.77	0	-3	-17	-97
Libor 12m	1.83	0	-8	-17	-119

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YoY
S&P500	3288	0.4	-1.0	2.1	23
Dow Jones	28834	0.4	-1.2	1.3	15
Nikkei	23379	0.7	-2.7	-1.2	14
FTSE 100	7491	0.1	-1.1	-1.3	8
EuroStoxx 50	3738	0.5	-0.8	-0.3	18
IBEX	9545	0.6	-0.3	-0.7	5
DAX	13355	0.2	-1.2	0.8	19
CAC	5961	0.6	-0.8	-0.4	20
MIB	24169	0.6	2.0	2.8	22
ASE Athens	931	-0.2	-1.2	1.5	46
MSCI Latam *	100691	1.4	-1.0	-0.3	8
Ibovespa (Brazil)	116267	-0.2	-1.8	0.5	20
Mexbol (Mexico)	44936	0.5	-1.5	2.9	3
Merval (Argentina)	41118	0.7	-2.1	-1.3	14
MSCI EM Europe *	6390	0.5	-3.4	0.1	13
Poland	2098	0.0	-2.3	-2.4	-11
Micex 10 (Russia)	5452	0.6	-2.0	2.0	21
Ise 100 (Turkey)	119689	-0.1	-2.5	4.3	15
MSCI EM Asia *	912	-0.4	-1.7	-0.8	10
Shanghai Com (China)	2977	0.0	-2.8	-2.1	16
Jakarta (Indonesia)	6113	-0.3	-2.0	-3.4	-5
Banking sector	level	Daily	Weekly	Monthly	YoY
US banks	162.1	0.3	-2.4	-0.6	22
JPM	135.3	0.7	-1.0	-2.4	30
Citi	77.5	0.3	-3.2	-2.5	21
BoA	33.4	0.4	-2.9	-5.0	15
MS	54.4	0.8	-2.5	6.8	27
GS	240.2	-1.0	-2.8	4.5	19
EZ banks	82.0	0.3	-0.5	-3.0	11
BNP	49.6	0.3	-1.0	-6.0	17
Crédit Agricole	12.5	-0.1	-1.4	-3.7	23
Deutsche Bank	8.0	1.5	5.5	15.5	-1
ING	10.1	0.1	-3.0	-5.8	-4
Intesa	2.3	0.5	1.7	-1.3	12
SG	29.9	0.3	-1.4	-3.5	6
Unicredit	12.6	0.0	0.5	-2.9	20
UK banks	74.0	0.2	-1.5	-6.5	-5
HSBC	566.8	-0.2	-2.5	-4.9	-13
RBS	221.2	1.5	-0.7	-8.6	-9
Barclays	172.3	0.2	-1.4	-4.4	6
Lloyds	57.5	-3.0	-1.0	-8.9	-1
Large Spanish banks	56.7	0.2	1.5	-3.9	-11
Santander	3.7	4.6	3.9	-0.7	-12
BBVA	4.7	1.6	-0.6	-6.7	-11
Medium Spanish banks	47.9	0.0	-2.3	-8.8	-18
Caixabank	2.6	-0.2	-3.0	-6.4	-22
Sabadell	0.9	0.7	-2.4	-9.4	-7
Bankinter	6.0	-0.2	-1.8	-9.4	-14
Bankia	1.7	-0.5	-2.8	-12.4	-35

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YoY
EURUSD	1.100	-0.2	-0.8	-1.8	-4
GBPUSD	1.301	-0.2	-1.0	-0.8	-1
USDJPY	109.150	0.0	0.6	-0.2	0
DXY	98.150	0.1	0.6	1.5	3
Emerging	level	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	60.24	-0.1	-0.3	-0.6	-38
USDBRL (Brazil)	4.22	-0.7	-0.9	-4.6	-13
USDCLP (Chile)	791.68	-0.4	-2.5	-5.0	-16
USDCOP (Colombia)	3399	-0.4	-1.9	-3.35	-7
USDMXN (Mexico)	18.68	0.2	0.0	1.3	2
USDPEN (Peru)	3.35	-0.2	-0.9	-0.9	0
LACI	50.31	-0.3	-0.8	-2.1	-11
USDRPL (Poland)	3.89	-0.5	-1.9	-2.4	-4
USDRUB (Russia)	62.65	-0.7	-1.3	-1.0	-4
USDTRY (Turkey)	5.96	-0.4	-0.7	-0.3	-12
USDCNY (China)	6.91	0.0	-0.1	1.1	-3
USDINR (India)	71.26	0.1	-0.1	0.1	0
USDIDR (Indonesia)	13634	0.1	0.1	2.1	4
ADXY	104.96	-0.1	-0.4	0.1	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YoY
Brent	59.9	0.7	-5.2	-12	-3
WTx	53	-0.3	-6.0	-14	-2
Copper	256	-0.7	-7.4	-9	-8
Gold	1571	0.3	0.8	4	19
S&P Spot commodity *	400	0.5	-4.3	-9	-2
S&P Brent Spot *	501	0.4	-5.8	-12	-4
S&P Metals Spot *	307	-0.6	-5.5	-6	-8
S&P Agricultural *	299	0.5	-1.5	-1	3

Source: Bloomberg, Datastream and Haver

* With one day delay

* Risk premium affected by the German rollover