

Market Comment

Fed intervention failed to calm markets, as core bond yields fell further

- Global policy response, including an aggressive inter-meeting Fed rate cut, failed to reassure investors**, unnerved by the alarmingly rapid outbreak of Covid-19 beyond China and its impact on global growth and financial stability, particularly on liquidity and funding conditions for small and medium corporates.
- Encouraging data in the Eurozone in early year, but before C'virus outbreak.** In Germany, factory orders rebounded in January (5.5% MoM; Cons: 1.4% MoM; Prev: -2.1%) supported by a sharp recovery in foreign demand. On the other hand, **U.S. payrolls rose in February** (273k; Cons: 175k; Prev: 273k, revised from 225k) amid better-than-expected private payrolls and a sharp increase in manufacturing payrolls. Additionally, the unemployment rate was little changed at 3.5% (Cons: 3.6%; Prev: 3.6%).
- U.S. and German yields hit historical lows.** The U.S. yield declined sharply across the board, led by shorter tenors (U.S. 2Y 0.47% -44bps, 10Y 0.72% -43bps), as markets pencil in another 50bps rate cut at Fed's March meeting; while the odds of a 75bps cut by this summer rose close to 100% after the Fed's Kaplan's rhetoric. The German 10Y yield fell below August 2019 lows (-0.71%, -10bps), while OIS futures price in 90% probability of a 10bps interest rate cut at the ECB's meeting next week and a 100% probability of an additional 10 bps rate cut by this summer.
- Investor's appetite for peripheral or EM bonds remains low.** Peripheral risk premia widened sharply as virus infection cases jumped in Italy (179bps, +7bps, Portugal 101bps, +5bps, and Spain 93bps, +4bps), leading the Italian government to announce an increase in spending equivalent to 0.35% of GDP.
- Importantly, corporate spreads widened very quickly back to Friday's levels.** While the levels are still below end-2018, the negative dynamic seen in risk indicators may continue to boost widening credit spreads and also poses a risk for high leveraged assets, such as leveraged loans.
- Markets' risk indicators escalated further: VIX soared to high levels of 2011 (VIX 48 -after hitting intra-day levels of 50). Brent prices fell, a bellwether of cyclical risk, below 46\$/b (-9%) -despite the production cuts.
- In FX markets, increasing Fed **interest cut expectations weighed on the USD** (-2.2%), and boosted the euro (EURUSD 1.13, +2.6%), while the JPY and the CHF also attracted safe-haven flows. **EM FX depreciated across the board** (with the exception of TRY, which appreciated as geopolitical risk fell), despite weaker USD and lower U.S. yield. **In India, the rupee sank** (USDINR 73.78, +0.32%) as vulnerabilities in India's troubling banking sector came to the fore after RBI placed Yes Bank - a private bank - under a moratorium owing to "serious deterioration in the financial position of the bank".
- Equity markets slide** as COVID-19 uncertainty weighed; sector performance remained defensive, while the banking sector was heavily hit during the week, especially in Europe (U.S. banks -7%, EZ banks -13%), by a downward trend in yields.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	0,47	-12,5	-44,0	-97	-110
US	0,72	-19,1	-43	-93	-120
GER (2-yr)	-0,87	-0,4	-9,1	-22	-26
Germany	-0,71	-2,4	-10,3	-35	-52
France	-0,34	0,7	-5,6	-24	-46
Spain	0,21	0,1	-6,8	-14	-25
Italy	1,07	0,5	-2,9	11	-34
Portugal	0,30	0,3	-5,3	-4	-14
Greece	1,42	13,7	9,0	24	-5
Japan (2-yr)	-0,29	-3,3	-3,0	-15	-16
Japan	-0,14	-1,8	2,3	-10	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,87	13,4	19,1	39	8
Chile	2,66	-0,9	-51,8	-22	-2
Colombia	5,84	5,6	3,9	-6	-50
Mexico	6,42	5,4	-42,0	-25	-47
Peru	3,11	4,7	-33,7	-4	-41
Poland	1,65	-5,9	-14,5	-55	-47
Russia	6,60	31,7	-0,1	32	19
Turkey	11,29	18,0	-131,0	116	-57
India	6,19	-5,1	-18,5	-32	-37
Indonesia	6,77	20,8	-18,4	16	-30

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	37	3,1	4,7	11	6
Italy	179	2,9	7,4	46	19
Portugal	101	2,7	5,0	31	38
Spain	93	2,5	4	22	27
2-yr sovereign spread vs Germany					
France	16	4,6	5,3	11	13
Italy	91	8,3	17,2	46	34
Portugal	48	3,0	5,7	22	41
Spain	41	0,6	5,6	18	18
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	134	23,8	11	35	34
Chile	70	11,2	11	21	29
Colombia	103	15,5	10	27	31
Argentina	8097	1055,3	811	2727	3229
Mexico	105	16,0	10	25	26
Peru	70	10,9	14	25	29
Poland	51	0,0	1	2	-7
Russia	89	12,7	13	26	32
Turkey	340	18,6	16	102	63
China	50	5,0	4	13	18
India	75	0,7	12	8	9
Indonesia	91	4,8	12	27	28

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	48	8,7	8	33	35
VSTOXX	43	9,9	1	29	29
EM EFT volatility Index	36	6,2	-7	17	19
Dollar/euro volatility	8	1,2	2	5	3
EM FX volatility index	8	0,2	0	2	2
Credit spread (BAA) (change in bps)	272	19,1	36	64	74
US bonds volatility index	97	7,4	-13	33	39
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,69	-	-20	-33	-38
EZ Inflation expectations (5Y5Y)	1,04	-	-8	-25	-29
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	68	5,1	8	28	27
EZ	64	7,7	11	25	18
UK	54	4,1	5	11	13
Large Spanish	45	4,9	6	14	13
Medium Spanish	75	-3,5	6	13	-2
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	229	33,9	37	51	61
EZ Non-financial	99	10,1	18	31	35
UK Non-financial	113	2,8	9	15	17

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,47	0	-5	-7	-9
Euribor 12m	-0,35	1	-4	-7	-10
Libor 3m	1,00	0	-58	-74	-91
Libor 12m	0,94	0	-57	-84	-106

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2935	-2,9	-0,7	-12,0	-9
Dow Jones	25444	-2,6	0,1	-13,1	-11
Nikkei	20750	-2,7	-1,9	-11,0	-12
FTSE 100	6463	-3,6	-1,8	-13,6	-14
EuroStoxx 50	3232	-3,9	-2,9	-14,4	-14
IBEX	8376	-3,5	-4,0	-13,8	-12
DAX	11542	-3,4	-2,9	-14,4	-13
CAC	5139	-4,1	-3,2	-14,1	-14
MB	20800	-3,5	-5,4	-14,2	-12
ASE Athens	685	-6,0	-4,9	-25,7	-25
MSCI Latam *	91071	-3,5	0,7	-9,5	-9
Ibovespa (Brazil)	97991	-4,1	-5,9	-15,5	-15
Mexbol (Mexico)	41692	-1,5	0,9	-6,9	-4
Merval (Argentina)	35410	-3,7	1,2	-13,1	-15
MSCI EM Europe *	5687	-1,1	-2,7	-10,4	-11
Poland	1765	-3,2	-0,2	-16,9	-18
Micex 10 (Russia)	4725	-2,4	-1,6	-12,8	-12
Ise 100 (Turkey)	109601	-2,0	3,4	-10,4	-4
MSCI EM Asia *	890	1,1	1,3	-0,7	-3
Shanghai Com (China)	3035	-1,2	5,4	7,7	-1
Jakarta (Indonesia)	5499	-2,7	-0,7	-7,2	-13
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	126,5	-4,4	-7,2	-23,6	-23
JPM	106,8	-6,3	-8,0	-22,4	-23
Citi	60,6	-4,5	-4,5	-23,1	-24
BoA	25,6	-4,3	-10,1	-26,2	-27
MS	41,5	-2,5	-7,8	-24,5	-19
GS	192,8	-3,0	-4,0	-21,1	-16
EZ banks	63,5	-4,2	-13,0	-24,6	-25
BNP	38,5	-4,9	-12,0	-22,4	-27
Crédit Agricole	9,3	-3,7	-14,0	-28,7	-28
Deutsche Bank	6,8	-3,8	-14,0	-18,0	-2
ING	7,5	-4,5	-12,4	-26,7	-29
Intesa	2,0	-3,4	-10,1	-19,3	-16
SG	21,4	-6,1	-16,4	-29,3	-31
Unicredito	10,0	-1,8	-13,7	-22,4	-24
UK banks	58,8	-2,6	-9,1	-20,6	-25
HSBC	493,8	-2,5	-5,7	-13,2	-17
RBS	157,3	-2,2	-12,0	-29,0	-35
Barclays	130,9	-2,8	-12,0	-24,3	-27
Lloyds	45,7	-2,8	-9,0	-20,1	-27
Large Spanish banks	47,8	-2,4	-7,7	-18,9	-19
Santander	3,0	-2,7	-8,5	-19,8	-18
BBVA	4,0	-2,2	-7,0	-18,2	-19
Medium Spanish banks	38,8	-1,9	-7,8	-19,2	-26
Caixabank	2,2	-2,5	-5,9	-22,0	-22
Sabadell	0,7	-2,1	-12,0	-16,3	-33
Bankinter	4,9	-1,9	-7,7	-19,0	-25
Currencies	1,3	-1,4	-7,7	-22,4	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,131	0,7	2,6	2,9	1
GBPUSD	1,300	0,4	1,4	0,0	-2
USDJPY	105,320	0,8	2,4	4,3	3
DXY	95,965	-0,9	-2,2	-2,4	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	62,47	-0,1	-0,4	-3,0	-4
USDBRL (Brazil)	4,64	-0,6	-3,7	-8,6	-13
USDCLP (Chile)	826,47	-0,4	-0,7	-5,8	-9
USDCOP (Colombia)	3593	-1,5	-1,9	-6,42	-9
USDMXN (Mexico)	20,20	-0,8	y tie	-7,9	-6
USDPEN (Peru)	3,48	-1,4	-0,6	-3,3	-5
LACI	46,81	-1,0	-2,5	-7,1	-9
USDPLN (Poland)	3,80	0,8	3,2	1,5	0
USDRUB (Russia)	68,40	-1,2	-2,3	-8,0	-9
USDTRY (Turkey)	6,10	0,1	2,4	-1,9	-2
USDCNY (China)	6,93	0,1	0,9	0,6	0
USDINR (India)	73,78	-0,6	-2,2	-3,5	-3
USDIDR (Indonesia)	14243	-0,5	0,5	-3,9	-3
ADXY	103,93	0,0	0,4	-0,5	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	45,9	-8,2	-9,1	-17	-30
WTx	42	-8,3	-5,9	-17	-31
Copper	256	-0,8	0,7	-1	-8
Gold	1669	-0,2	5,2	7	10
S&P Spot commodity *	365	-1,3	1,9	-5	-16
S&P Brent Spot *	425	-2,2	0,6	-10	-24
S&P Metals Spot *	301	0,0	1,0	-1	-7
S&P Agricultural *	287	-0,9	0,4	-3	-5

Source: Bloomberg, Datastream and Haver

* With one day delay