Market Recap 23/02/2020

United States

US markets started the week on Tuesday after remaining closed on Monday for the Presidents Day holiday on an upbeat tone, the bears took over sentiment for the second half of the week leading to losses on the week, with the S&P500 closing at 3,337 shedding 1.1% w/w whilst the Dow-Jones Industrial Average (DJIA) Index finished the week at 28992, down 1.4% over the prior week. With Apple announcing on Tuesday a downward revision of its revenues, investors seem to get increasingly worried about the global impacts of the new coronavirus COVID-19.

The minutes of the Federal Open Market Committee, released on Wednesday of past week, showed the Fed is "cautiously optimistic" about global growth but also mentioned COVID-19 as a risk to its positive outlook. The benchmark rates were unchanged after the meeting, stating that rates are "likely to remain appropriate for a time" with the economic outlook still unchanged. The yield on the benchmark 10-year paper closing the week at 1.52% down 7 basis points compared to one week ago closing, whilst 2-year bond closed at 1.39%, with a change of -3 bps – a further flatting of the curve of 4bps. The inversion of the US yield curve expanded further, measured at the maturities 3M-10Y & 6M-10Y, with the short term rates yielding 6bps and 3bps higher than the 10 year treasuries, respectively.

On the currency side, the Euro/USD closed at 1.0848 with a weekly change of +0.15% whilst the dollar index, which reflects the performance of the dollar against its major peers ended the week at 99.26 on Friday, recording a weekly gain/loss of 0.14%. After a very strong week for the USD, especially against the Euro with EURUSD reaching 1.078 on Thursday after experiencing sharp losses in Friday's trading session.

Eurozone

The Eurostoxx 50 closed at 3,800 shedding roughly 1% on the week, despite eurozone PMI topping estimates and hitting a six-month high on Friday. Especially positive was the PMI reading for the German manufacturing sector, leading the DAX higher intra Friday, but the US markets brought bearish sentiment with the DAX closing at 13,579. The CAC40 closed at 6,029 and FTSEMIB closing at 24,773. A tie-up between Intensa Sanpaolo and UBI would create the 10th-largest bank in Europe by assets if successful. While this my lead to a stronger Intesa, analysts raise concerns about the effects on the health of the Italian banking market this deal would bring.

2Y & 10Y Bunds yielded -0.65% and -0.45% as of Friday, bringing the spread between the two benchmark rates down to 20bps from 27bps a week earlier. 10Y Italian treasuries yielded 0.91%, widening the spread to 10Y bunds to 1.36%.

EURCHF stands at 1.06, EURSEK at 10.54 and EURNOK at 10.07 as of Friday close.

UK

HSBC made negative headlines – again – this week, reporting fourth quarter loss of $5.5 billion which compares to a profit of $1.54 billion a year earlier. The loss was driven by a goodwill impact of $7.35 billion. Further, the bank estimates a $200-500 million impact from the coronavirus in Q1. The FTSE 100 closed at 7,403 (-0,08% w/w) and the FTSE 250 closed at 21,780 (-0.04% w/w). The 2Y Gilts yielded 0.52% and the 10Y Gilts 0.6% as of Friday, a flattening of 2bps compared to the week earlier. GBPUSD closed at 1.295 and GBPEUR at 1.1948.

Rest of the World

The biggest mover in the FX space was USDJPY, with the yen dropping 1.3%, the largest move in 5 months. The yen recovered some of its losses to close at 111.58 on Friday's close.

In Shanghai the SSE Composite Index stood out, gaining 4.18% over the week, closing at 3,039 on Friday, driven by the PBOC cutting its reference point for new loans to further improve liquidity, resulting in a 1.8% jump in the SSE Index on Thursday. The KOSPI 200 instead shed 3.7% on the week, closing at 2,162 as the COVID-19 outbreak accelerates in South Korea. Risk-off sentiment is likely to return to mainland China as Beijing is experiencing a surge in infections. USDCNY broke above the 7 landmark, to close at 7.027.

Gold experienced a rally driven by risk-off sentiment, to close at 1,643. Sanctions on the Geneva-based subsidiary of Russian state oil company Rosneft and the conflict in Libya lead Brent crude oil to close at $58.39 despite continuing demand uncertainties stemming from COVID-19.