Market Recap 08/03/2020

US

US market ended another wild trading week with a slight gain after last Friday substantive losses. S&P500 closed at 2,972.37, with a weekly gain of 0.61%. Dow-Jones Industrial Average Index (DJIA) was up 1.79% reaching 25,864.78. The demand for haven assets is rising and the bets are increasing for the Federal Reserve to cut interest rates again.

US Federal Reserve has cut half a percentage point this week. The policy of cutting rates is aimed to provide stimulus for investors to buy a broader range of assets amid the decline in Treasury yields. Future markets implied the future reduction of another half during the meeting scheduled on March 17-18. There is also a 68% chance that the cut of another 25 bps will follow in April implied in the market.

Yields on the US Treasury note have tumbled by 39 bps, even more than during the previous week, and reached record lows of 0.77%, whilst 2-year US Treasury note closed at 0.53% going down by 40 bps, meaning that the curve flattened by 1 bps.

The Vix index showed a nine-year high on Friday reaching 42 points, which is a clear sign of increased "fear" in the market.

On the currency side, the EUR/USD closed at 1.1286, with a weekly gain of 2.36%. Dollar index, which reflects the performance of the dollar against its major peers, was down 2.08%, reaching 96.09.

US Democratic primaries continue, with Joe Biden and Bernie Sanders becoming the front runners as a result of Super Tuesday, whilst Michael Bloomberg, Pete Buttigieg and Amy Klobuchar suspended their campaigns and supported Joe Biden.

Europe

Coronavirus negative impact on markets continues with the surge in the number of cases in Italy and continuation of spread of the virus across Europe. The European Equity Indexes continued to lose value and fell to their lowest level since the financial crisis, although the speed has slowed down compared to the previous week. Eurostoxx 50 decreased to 3,232.07, a weekly loss of 3.91%. CAC40 dropped by 4.14% to 5,139.11. The DAX was down 3.37%, closing at 11,541.87, and FTSEMIB recorded a weekly loss of 3.50% going down to 20,799.89. Airline industry and cinema stocks are facing significant pressure.

European Commission has claimed that Italy and France are at risk of slipping into recession. On Wednesday International Monetary Fund expressed concerns about the impact of coronavirus on the global economy and claimed that it would be forced to cut its forecast on global economic growth to below than 2.9% recorded last year.

Bond market saw a further decrease in yields. Germany's 10-year bond yield reached a new record-low of -0.71%, -10 bps compared to the previous week, while 2-year bond dropped to -0.86%, with a change of -9 bps. Italian

10-year bond yield decreased to 1.07% losing by 5 bps since last Friday. France 10-year government bond yield was down by 7 bps, reaching -0.36%.

On the currency side in Europe, EUR/CHF closed at 1.0537 with a change of -1.00%. The EUR/SEK closed at 10.6048 with a weekly change of 0.17%, whilst the EUR/NOK gained 0.86%, closing at 10.4501.

UK

UK stock indices were in line with the negative trend, prompted by coronavirus spread. FTSE100 closed at 6,462.55 with a weekly loss of 1.79%, while FTSE250 was down by 3.02%, reaching 18,746.51. Airline industry has suffered the most due to the virus outbreak with first failure seen on Wednesday evening - the collapse of a UK carrier Flybe.

The first round of negotiations between UK and EU on a trade deal took place in Brussels and, according to Michel Barnier, EU's chief negotiator, the disagreements are seen on the matter of competition, justice policy, fishing and overall deal structure.

UK bonds yields showed negative dynamics, with 10-year Gilt down 20 bps, closing at 0.24% on Friday and 2-year Gilt closing at 2 years record-low 0.09% with a change of -23 bps.

The GBP/USD closed at 1.3047 gaining 1.80% from last Friday closure. The GBP/EUR weakened and reached 1.1563 with a weekly loss of 0.52%.

Rest of the World

Japan's Nikkei225 was down 1.86%, closing at 20,749.75, while the Topix index fell by 2.61% to 1,471.46, showing that the negative trend spurred by uncertainty in the market slowed down, as compared to the previous week.

On the currency side, the USD/JPY decreased by 2.56% to 105.32, while EUR/JPY closed at 118.90 with a slight decrease of 0.23%.

China's CSI 300 index gained 5.04%, reaching 4,138.51, showing the signs of recovery and investors prepared for more relief measures regarding containment of coronavirus. Hang Seng Index remained roughly the same at 26,146.67, gaining 0.06% since last week.

On Friday the Asian Development Bank made the assessment of the possible impact of coronavirus on the China's economic growth, stating that the virus could wipe out 1.7 pp off China's economic growth (in a worst case scenario) and reduce GDP by 0.4 pp.

The EUR/CNY gained 1.68%, reaching the level of 7.8404, while the off-shore EUR/CNH saw a similar rise of 1.61%, closing at 7.8193. The USD/CNY was down 0.86%, finishing on Friday at 6.932, whilst the off-shore USD/CNH showed a decline by 0.73% and ended at 6.928.

Energy was the worst performing sector due to the failure to reach agreement on production cuts during the OPEC meeting in Vienna. The current production restrictions expire at the end of March and will not be prolongated and expanded to 1.5 mln barrels as was previously supposed. As a result, oil prices crushed, with WTI down 23.08% to 2.00 and Brent crude dropping by 9.16% to 45.50.

Gold gained 5.6% over the week, which is best performance since 2011, spurred by the turmoil in equity markets and the collapse in government bond yields, with increased demand for safer investments.

TAGS: Europe, UK, USA, Market Recap, Yield, EUR-USD, GBP-EUR, USD-JPY, China, Japan, Gold, Oil, Brent