

## Market Recap 29/02/2020

### *United States*

The US markets experienced the worst week since 2008 due to a massive sell off caused by coronavirus uncertainty. S&P500 closed at 2954.22 with a weekly loss of a staggering 11.50% whilst the Dow-Jones Industrial Average (DJIA) Index finished the week at 25.409, down 12.00% over the prior week.

If financial markets continue to plummet and the virus continues to spread, the Fed might need to intervene in the form of “emergency interest rate cuts”. Even though this is just a rumour for now, the inability to contain the virus expansion in the following weeks might turn a, 2008 reminiscent, emergency cut into a reality. The Trump administration has also entertained the idea of a fiscal stimulus in the form of tax cuts to combat the economic impact of the virus.

US Treasuries also collapsed this week reaching record lows. Specifically, the yield on the benchmark 10-year paper closing the week at 1.15%, -31 basis points compared to one week ago closing, whilst 2-year bond slid to 0.93%, with a change of -42 bps, meaning that the curve flattened by 22 basis points.

On the currency side, the EUR/USD closed at 1.10250 with a weekly change of +1.63% whilst the dollar index, which reflects the performance of the dollar against its major peers ended the week at 98.13 on Friday, recording a weekly loss of 1.23%.

Friday’s market closure in combination with the pessimistic market sentiment suggests that the sell off will most likely continue next week. As fear grows, more capital should be expected to flow out of the market at an even faster rate. The only factor that might halt pessimism would be positive coronavirus news, like vaccine developments.

Arguably, the most interesting news in this week’s chaotic equities market has been Chesapeake Energy which dropped more than 30%. The CEO of the company, Doug Lawler, tried to remove concerns in its annual report filed this week by mentioning that a reverse stock split will likely be executed to maintain the stock trading on the NYSE. He also told analysts that he maintains confidence in the boards and company’s leadership and is not considering the possibility of bankruptcy. Investors clearly were not as optimistic pushing the price per share down nearly by 50% to 0.2\$ and closing at 0.28\$ on Friday evening.

The final Democratic Debate before the South Carolina primary was held on Tuesday with Sanders taking most of the heat due to being, arguably, the major frontrunner. Even though the debate could be characterized as uneventful the topics that were mostly discussed included gun control, the coronavirus and Trump’s response to it. On Friday, President Trump particularly on the topic of COVID-19 told reporters that “the Fed must get involved soon to rectify the situation.”

On Wednesday the auction for the newly issued 15-year Treasury bond took place, with the bond oversubscribed merely by 1.1x the amount offered due to falling yields. Specifically, the yields to maturity rate was 14.5%, the lowest since the fourth quarter of 2018 and the weighted average for successful bids was 93.9%.

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## ***Eurozone***

The European Equity Indexes also had one of the worst weeks in history because of the rising coronavirus concerns. Specifically, Eurostoxx 50 dropped to 3,329.50, a weekly loss of 12.30%. The DAX followed with a slightly greater decrease of 12.40%, closing on Friday at 11,890.35. CAC40 tumbled 11.92% closing at 5,309.9 and FTSEMIB closed, on Friday, at 21,984.21 with an 11.32% drop.

The bond market also saw a significant decrease in yields. Germany's 10-year bond yield reached a 5-month low of -0.61%, -18 bps compared to one week ago, whilst the 2-year bond slid to -0.78%, with a change of -15 bps, meaning that the curve flattened by 17 basis points. The Italian 10-year bond was one of the few that has remained strong with a positive yield of 1.10% rising 19 basis points since last Friday. The spread between the German and Italian 10-year bond yield spiked 35 bps nearly tapping the high of December, 2019.

On the currency side in Europe, EUR/CHF closed at 1.06408 with a weekly change of +0.32%. the EUR/SEK closed at 10.58570 with a weekly change of +0.81%, whilst the EUR/NOK pair made a staggering 3.00% gain closing at 10.34902 on Friday.

## **UK**

The UK indexes tumbled along with the US and European ones. FTSE100 closed at 6,580.61 and FTSE250 Index finished the week at 19,330.92, both suffering a weekly loss of 11.23%.

UK bonds experienced a similar drop in yields. Specifically, the yield on the benchmark 10-year Gilt closed the week at 0.44% -13 basis points compared to one week ago, whilst 2-year bond slid to 0.32%, with a change of -20 bps, meaning that the curve flattened by 12 basis points.

The GBP/USD pair closed at 1.28132 with a weekly change of -1.13%. The GBP/EUR saw a similar drop, finishing on Friday at 1.1625, with a loss of 2.82% over the prior week.

## ***Rest of the World***

### Japan

Japan being heavily impacted by the coronavirus saw the Nikkei225 index dropping to 21,143, a 9.63% loss over the prior week. The Topix index closed at 1,510.9 with a similar weekly loss of 9.73%.

The Bank of Japan is evidently concerned with the spreading of the virus since it was reported that it has asked major banks how prepared they are for a worsening of the outbreak. On the currency side, the USD/JPY pair realized a decrease of 3.6%, closing at 108.71. Similarly, the EUR/JPY pair closed at 119.48, a 1.58% weekly loss.

### China

Chinese Markets, due to China being the center of the virus outbreak, have been bleeding for the past weeks. This week was no different. Specifically, the Shanghai Composite Index closed at 2,880.30 with a 5.21% decrease The Hang Seng Index followed with a slightly smaller decrease of 4.35%, closing on Friday at 26,130. It is important to

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mention that these weekly numbers are not representative of the damage the virus has done to the Chinese markets since the outbreak began spreading there long before than any other country.

The EUR/CNY pair closed at 7.7100 with a weekly change of +1.82%. The offshore pair EUR/CNH saw a similar rise of 1.46% reaching 7.6949. The USD/CNY finished on Friday at 6.9905, with a gain of 0.50% over the prior week, whilst the USD/CNH closed at 6.9774, a loss of 0.95%.

COVID-19 shook the commodity market as well providing great volatility for traders. Amid fear and uncertainty, the price of oil dropped very significantly. USOIL and BRENT experienced a weekly drop of 15.65% and 15.47% this week reaching 45.26 and 50.1, respectively. Gold was a major driver for volatility with the spot price (XAUUSD) tapping 1689.6 and then tumbling down to 1586.542, a more than 1000\$ drop, where it closed signalling a 3.50% loss for the week. Copper (XCUUSD) also lost 2.55% within the week, finishing on Friday at 2.53472.

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

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