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Coronavirus: a new risk factor

The coronavirus epidemic led to a significant increase in risk aversion on financial markets. This event pushed positive economic and geopolitical news to the background, including the “phase 1” trade agreement between the U.S. and China, and a slight rebound in leading economic indicators.

The coronavirus epidemic is rapidly spreading across China. The WHO declared that it is an international public health emergency, like Ebola, Zika and the H1N1 flu. Many cities have been quarantined, and multiple airlines suspended flights to China. Impact on global economy—through Chinese consumption, tourism, and supply disruptions—is potentially high. Indeed, China's contribution to global GDP and growth sharply increased in recent years, to 16% and 40% respectively.

The Sino-US trade deal signed on January 15 temporarily puts an end to trade tensions. This agreement includes a marginal reduction in tariffs, cancelling (i) the planned increase of U.S. taxes on Chinese exports (15% on 160 billion dollars) and (i) part of the tariffs introduced in September (from 15% to 7.5%).

The latest economic statistics are reassuring. The global manufacturing PMI stood at 50.4 in January, its highest level in 9 months. In addition, central banks have maintained a cautious stance towards (i) economic and geopolitical risks and (ii) the absence of a significant inflation recovery.



“Latest economic statistics are reassuring”

- Equity markets recorded negative performances due to the increase in risk aversion from mid-January
- In this context, implied volatility of the U.S. and European indices sharply increased
- Fears over global growth led to a significant decline of sovereign rates
- Variations in foreign exchange markets remained limited
- Oil prices were severely impacted by fears of the coronavirus impact on global demand
- Gold increased due to the rise in risk aversion

		MTD*
INDICES	US (SPX)	-0.2%
	EU (SX5E)	-2.8%
	Japan (NKY)	-1.9%
	China (MSCI)	-4.8%
VOLATILITY	VIX	+5.1 pts
	V2X	+3.2 pts
SOVEREIGN RATES	US-10Y	-41 bps
	Germany-10Y	-25 bps
FOREX	EURUSD	-1.1%
	GBPUSD	-0.4%
	USDJPY	-0.2%
COMMODITIES	Oil	-15.6%
	Gold	+4.7%

*As of 31 January 2020

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