

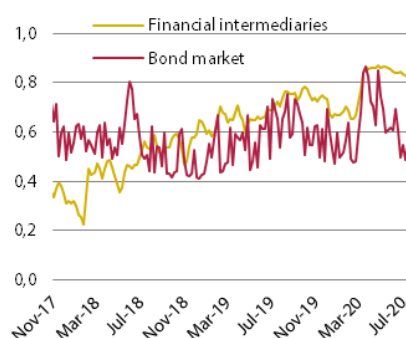
## THE CNMV MARKET STRESS INDICATOR HAS FALLEN IN RECENT WEEKS BUT IT STILL REMAINS AT HIGH LEVELS

6 August 2020

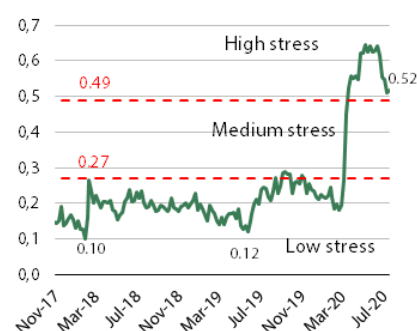
- The stress level of the financial system, which recorded its most significant increase in just a few weeks at the beginning of the crisis reaching 0.65 points, has fallen to levels slightly higher than 0.50 points, which is still above the threshold considered as high level.
- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis.

The Spanish National Securities Market Commission (CNMV) has published the [July 2020 Financial Stability Note](#), which shows that the stress level experienced in the financial system pursuant to the Coronavirus crisis has decreased, although it still remains at high levels. Specifically, the indicator has fallen from maximums close to 0.65 points at the beginning of May to 0.51 points in mid-July. This figure represents a high stress level (above 0.49) and is due to segments such as financial intermediaries in a context of high correlation between different segments of the system.

### Stress indicators in the financial intermediary and bond segments



### Total stress indicator



The note also highlights the complexity of the macroeconomic situation in Spain, where GDP has plunged by 18.5% in the second quarter of the year. For the year as a whole, forecasts indicate falls in activity above 10%, although forecasts are subject to a high degree of uncertainty due to new outbreaks of the virus in different regions and the potential renewal of certain restrictive measures. A substantial deterioration of public accounts is also expected, with a deficit that

For further information:

[CNMV](#) Communications Department

Tel.: 91 5851530 - [comunicacion@cnmv.es](mailto:comunicacion@cnmv.es)

could increase up to levels of 10-14% of GDP and public debt to levels of 115-124% of GDP. The main challenges under these circumstances are related to the need to reduce the number of unemployed people and safeguarding the sustainability of public finances in the medium term, following the demanding efforts in terms of costs.

After the turbulence in March, equity markets stabilised and were even slightly bullish in May as the economic activity restarted. The publication at the beginning of June of new more negative forecasts on the severity and duration of the global recession cut short this trend, although markets rose in the second quarter as a whole. In the year to date, the main index of the Spanish market had fallen by 21.6% as of 15 July, a larger fall than those of other European indices (Eurostoxx 50: -9.8%, Mib 30: -13.7%, Cac 40: -14.5% and Dax 30: -2.4%). The greater importance in the Spanish market of consumer service companies (which include leisure, tourism and catering), and of banks, and their unfavourable evolution compared to other similar European companies partially explains this difference.

With regard to the restrictive measures adopted on the creation or increase of net short positions, which ended on 18 May, the CNMV has not detected any significant impact on the evolution of prices, volatility or the trading of shares subject to the ban, and has only detected a certain loss of liquidity (measured through the bid-ask spreads), which moderated over time.

The collective investment industry has also gradually recovered following the peak of redemptions during the most turbulent times of the first quarter. These redemptions, which in March totalled around 5.500 billion euros, and which were dealt with without significant difficulties, decreased in April and May to 400 million euros, and in June and the first few days of July inflows of funds were recorded. During these months, the CNMV, which has remained in constant contact with management companies, has focused on the valuation and assessment of the liquidity of assets and has recalled the tools available to manage the liquidity of these schemes, as well of the convenience, in certain cases, of valuating at bid price or of using swing pricing mechanisms.

In the current scenario, there are still numerous and different in nature sources of risks. In the financial environment, liquidity risk and market risk are still a concern, although the former is easing due to the various fiscal and monetary measures implemented by Governments and central banks. Another issue of ongoing concern is the evolution of

For further information:

[CNMV](#) Communications Department

Tel.: 91 5851530 - [comunicacion@cnmv.es](mailto:comunicacion@cnmv.es)

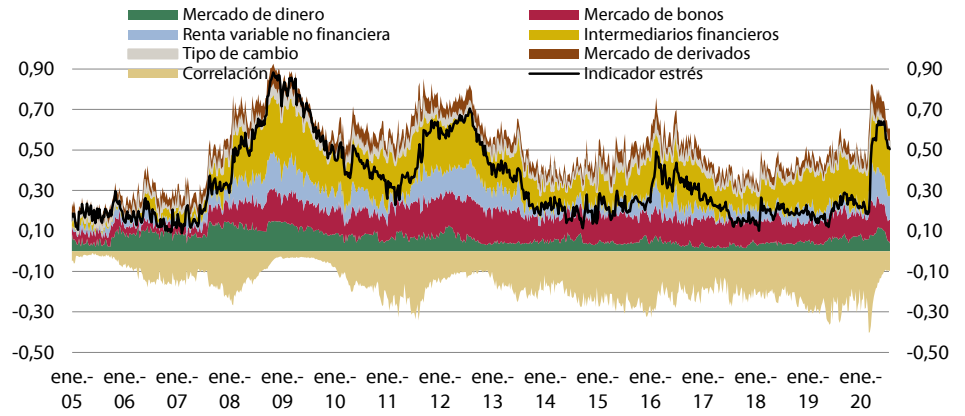




agents' credit risk, in a macroeconomic context of difficulties for companies, which eventually could result in downgrades of credit ratings. These downgrades which, for now, have not been numerous but which should be subject to ongoing monitoring, may have a significant impact on the companies concerned, on financial markets and, under certain circumstances, on financial stability.

*The **Financial Stability Note** presents a broad set of indicators, including most notably the Spanish financial market stress indicator and what are known as colour maps (also known as heat maps). The first one provides a real-time measurement of systemic risk in the Spanish financial system, ranging from 0 to 1, which is obtained by weighted aggregation of the stress levels estimated in the following six segments: variable income, fixed income, financial intermediaries, currency markets, derivatives and the foreign exchange market. Heat maps allow us to visualise the changes witnessed in the various risk categories.*

### The Spanish financial markets stress indicator



Complete document: [Financial Stability Note No.15, July 2020](#)