



- US Treasury yields dropped 9-16 bps last week ([link](#))
- Italian sovereign bond spreads tighten on regional election results ([link](#))
- Greek yields fall after Fitch upgrades sovereign with positive outlook ([link](#))
- Crude prices decline on global growth slowdown concerns ([link](#))
- EM equities sink as China warns of rapid morphing abilities of coronavirus; death toll rises ([link](#))









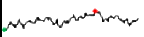


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Risk sentiment deteriorates on concerns about coronavirus

Concerns about the spread of coronavirus drove a broad sell-off in risky assets this morning. Investors are increasingly worried over the ability of national and global health authorities to contain the spread of the deadly virus, and its impact on global growth. The Chinese authorities have warned about the challenging conditions to contain the virus and have extended the lunar New Year holiday to Feb 2. The deterioration in risk sentiment drove European bourses and US equity futures lower while the VIX rose 4 percentage points. Safe havens outperformed, with gold prices (+0.7%) up, the yen (+0.3%) appreciating and sovereign bond yields lower this morning. Elsewhere, EM equities and crude prices dropped.

In the week ahead, US politics will also take center stage ahead of the Iowa primary (Feb 3), alongside the ongoing impeachment trial. The FOMC meeting (Wed) is expected to be a non-event as Fed officials have strongly telegraphed that they will stay on hold. Instead, investors will focus on any adjustment to the IOER and any clarification on Fed's balance sheet plans. Key data include PCE inflation, GDP and durable goods. In Europe, the UK is set to officially leave EU on Friday, while the latest market pricing suggests a 60% probability the BoE cuts rates on Thursday. GDP and inflation data are due across the euro area. In emerging markets, there will be policy meetings in Chile, Colombia and Hungary.

Key Global Financial Indicators

Last updated: 1/27/20 8:27 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3295	-0.9	-1	2	24	2
Eurostoxx 50		3698	-2.2	-3	-2	17	-1
Nikkei 225		23344	-2.0	-3	-2	12	-1
MSCI EM		45	-4.4	-3	-1	6	-1
Yields and Spreads			bps				
US 10y Yield		1.62	-4.9	-20	-26	-114	-30
Germany 10y Yield		-0.37	-3.8	-16	-12	-57	-19
EMBIG Sovereign Spread		317	10	24	21	-41	24
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.3	-0.7	-1	-2	-5	-2
Dollar index, (+) = \$ appreciation		97.9	0.0	0	1	2	2
Brent Crude Oil (\$/barrel)		59.0	-2.8	-10	-13	-4	-11
VIX Index (% change in pp)		18.3	3.8	6	5	1	5

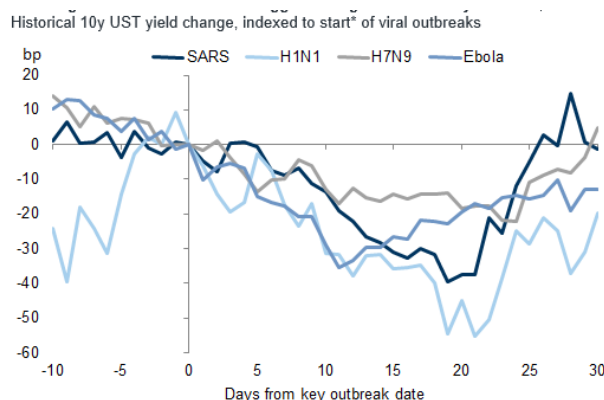
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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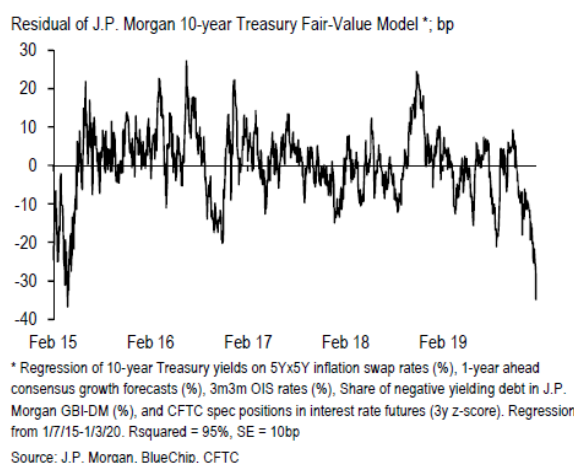
The spread of the deadly coronavirus rattled markets on Friday, sending US stocks lower and fueling demand for safe assets. The S&P 500 and NASDAQ lost over 0.9% with the Dow down 0.6%. All three major stock indices posted their largest weekly declines since last September. Travel-related sectors were among the weakest, including airlines, cruise lines, lodging and luxury retailers. The flash PMIs for January were mixed, with manufacturing PMI falling to 51.7 (vs. expected 52.5) and the services PMI rising to 53.2 (vs. expected 53).

Treasury yields dropped 9-16 bps last week. Analysts showed that the decline is in line with price actions seen during similar episodes in the past (SARS, H1N1, H7N9), which proved to be short-lived. Over 3-4 weeks, 10-year yields dropped 20-40 bps on average. Meanwhile, others noted that the 10-year Treasury yield has continued to decouple from their fundamental drivers, and now appear nearly 35 bps lower than the estimated fair value.



SARS: 2/11/2003, H1N1: 6/11/2009, H7N9: 3/31/2013, Ebola: 9/30/2017

Source: Goldman Sachs Global Investment Research



* Regression of 10-year Treasury yields on 5Yx5Y inflation swap rates (%), 1-year ahead consensus growth forecasts (%), 3m3m OIS rates (%), Share of negative yielding debt in J.P. Morgan GBI-DM (%), and CFTC spec positions in interest rate futures (3y z-score). Regression from 1/7/15-1/3/20. Rsquared = 95%, SE = 10bp

Source: J.P. Morgan, BlueChip, CFTC

Europe

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Equities (-2.1%) followed Asian equities lower. European bank stocks are down -1.2%. The euro is little changed against the USD.

German and French 10-year bond yields fell 4 bps to -0.37% and -0.11% respectively as 10-year U.S. yields are 7 bps lower (at 1.62%).

Italian 10-year sovereign bond spreads fell 15 bps to 141 bps after the center-left PD party won the election in Emilia Romagna (population: 4.4 mn) with a 51% voting share compared to 44% for the rightwing coalition. Turnout jumped compared to 2014 as the election campaign dominated national news flow. **Contacts argue that the victory for the PD party shows that a government crisis is less likely.** In this line of thinking, the PD was able to stem electoral losses and a poorly performing 5-star party is unlikely to call for new elections.

Italy: Regional Elections in Emilia-Romagna

Emilia-Romagna	2020	2014	Difference (percentage points)
Center-left (PD)	51.4	49.1	2.4
Right-wing coalition (including Lega)	43.6	29.9	13.8
5-star movement	3.5	13.3	-9.8
Turnout (%)	67	38	29

Source: Sole24Ore and IMF

In the Italian region of Calabria (population: 2 mn), the right-wing coalition won the regional elections with 55% of the votes compared to 30% for PD and 7% for 5-star.

Analysts also point out that the Italian coalition government is taking a more proactive stance. Last week, the government passed a decree to cut labor taxes from July (broadening the extra monthly payment of €80/m under the Renzi government to those below 26k of income from 2014). Rumors of a new, proportional, electoral law also continue.

Greek 10-year sovereign bond spreads over bunds fell 10 bps to 155 bps after Fitch upgraded Greece's long-term FX rating to BB, two notches below investment grade.

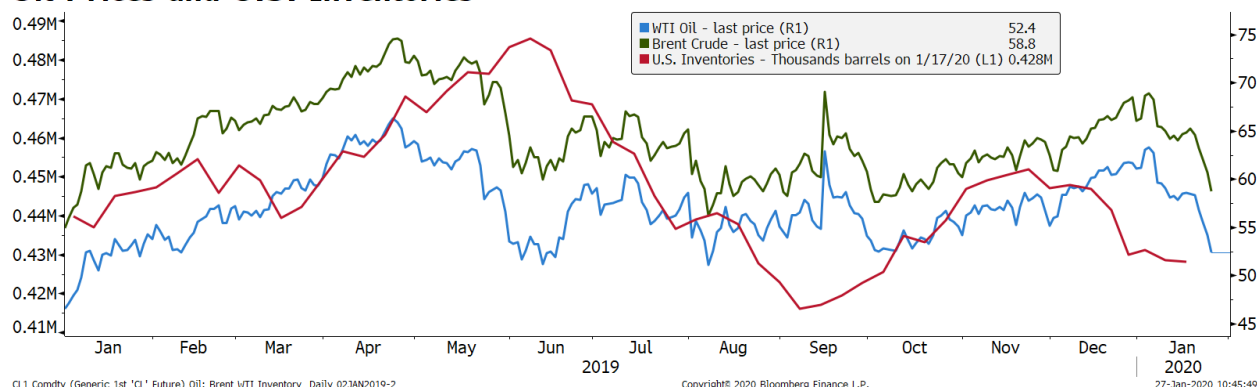
The **headline IFO business climate index in Germany disappointed in January** (at 95.9, compared to 97.0 expected and 96.3 in December) as **did IFO expectations** (at 92.9, compared to 94.8 expected and 93.9 in December).

Other Mature Markets[back to top](#)**Japan**

Japanese equities succumbed to risk-off sentiment triggered by the spread of coronavirus. The Topix (-1.6%) and the Nikkei (-2.0%) both posted sizeable losses on Monday amid. The yield on the 10-year JGB edged down 2 bps to -0.04%. The yen (+0.4%) strengthened to ¥108.9.

Commodities

Crude prices plummeted over 3% on mounting concerns of a global growth slowdown. Brent traded 3.4% lower to \$58.6/barrel and WTI lost 3.5% to \$52.3/barrel on Monday, reaching 3-month lows. The drop in prices took place as traders envision sharp declines in global demand due to the spread of the coronavirus.










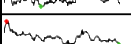



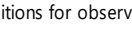
Oil Prices and U.S. Inventories

Emerging Markets

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Equities in all major Emerging Markets dropped on concerns about coronavirus. There were major losses in Thailand (-2.9%), South Africa (-2.4%), Poland (-1.8%) and India (-1.1%), with investors increasingly worried over the ability of national and global health authorities to contain the spread of the deadly virus. This could lead to a slowdown in Chinese and other EM growth. In contrast to equity markets, most EM currencies were stable, except for the weakening of the Russian ruble (-0.8%), South African rand (-0.8%), and the South Korean won (-0.4%). **Latin American** asset mostly experienced losses on Friday as worries about the rapidly spreading virus took over the market. Argentine stocks (-3%) saw the biggest losses, followed by Brazil (-1%) and Mexico (-0.7%). Among regional currencies, the Brazilian real (-0.3%) depreciated the most against the dollar, paring losses as job creation picks up to pre-recession levels and is expected to continue growing this year.

Key Emerging Market Financial Indicators

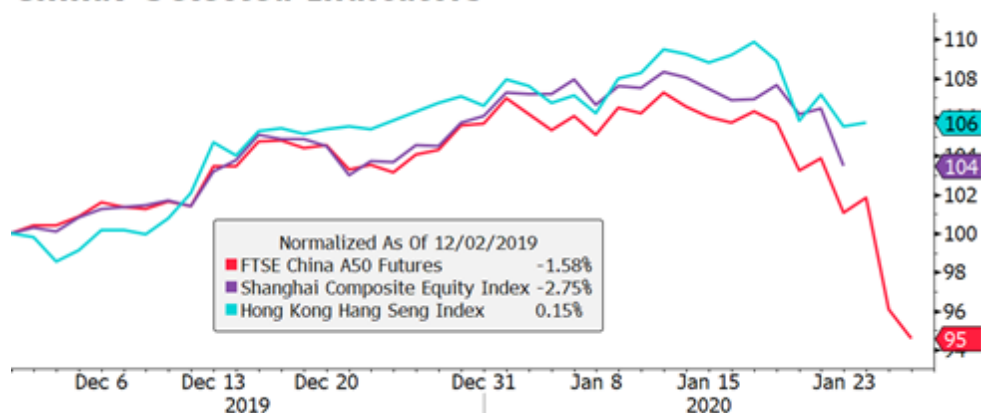
Last updated: 1/27/20 8:29 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.60	-4.4	-3	-1	6	-1
MSCI Frontier Equities		31.17	-0.4	0	3	11	3
EMBIG Sovereign Spread (in bps)		317	10	24	21	-41	24
EM FX vs. USD		60.30	-0.7	-1	-2	-5	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.5	-1	1	-2	1
Indonesian Rupiah		13615	-0.2	0	2	3	2
Indian Rupee		71.44	-0.2	0	0	0	0
Argentine Peso		60.12	0.0	0	0	-38	0
Brazil Real		4.22	-0.8	-1	-4	-11	-5
Mexican Peso		18.92	-0.7	-1	0	1	0
Russian Ruble		62.69	-0.8	-2	-1	6	-1
South African Rand		14.56	-1.1	0	-4	-6	-4
Turkish Lira		5.95	-0.1	-1	0	-10	0
EM FX volatility		6.13	0.5	0.2	-0.4	-2.8	-0.5

Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

Chinese authorities have confirmed well over 2,700 cases of coronavirus as the global death toll tops 80 casualties. Financial markets in mainland China are likely to remain closed for an extra 3 days (until next Monday). Hong Kong markets are due to reopen on Wednesday. Although trading in Chinese equities is halted for the New Year holiday, **equity futures have lost about 7% since Friday and the offshore CNH weakened about 0.8% to the dollar**, reaching 6.99.

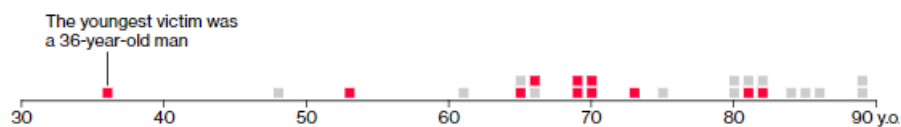
China: Selected Indicators



Deaths in Mainland China

Age and health condition before contracting 2019-nCoV

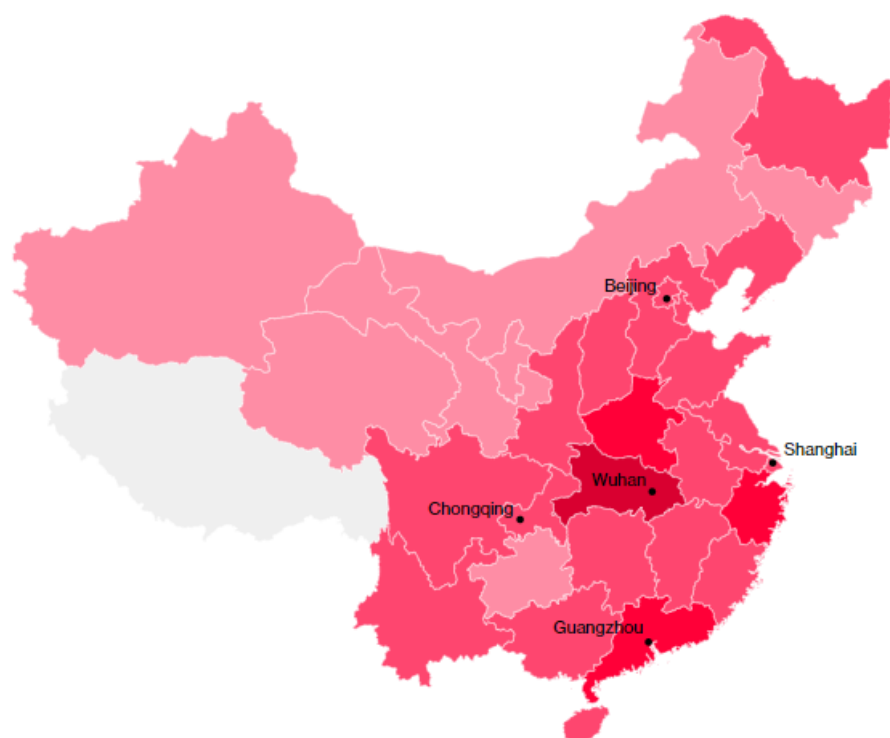
■ Known pre-existing condition ■ No known pre-existing condition



Note: Data as of January 24, 2020, 9:00 PM GMT. Deaths with unknown ages or conditions aren't shown.
Source: National Health Commission of the PRC

Confirmed Cases in Mainland China by Province

■ Fewer than 10 ■ 10-100 ■ 101-1000 ■ More than 1000

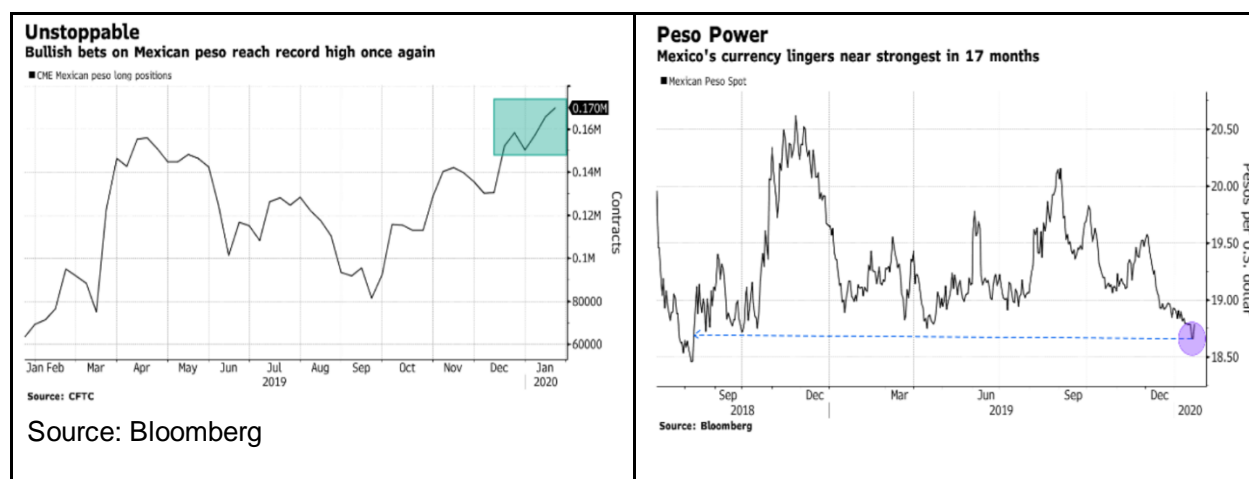


Czech Republic

The Czech National Bank (CNB) is on course to gain extra macroprudential powers. The Czech parliament approved on Friday legislation that would grant the CNB the ability to set limits on the value of real estate collateral for mortgage loans and monthly debt-to-income ratios, among other measures. Real estate prices in the Czech Republic have been expanding at a fast pace in recent years, reaching 9.9% in 2018. Separately, **Fitch's affirmed The Czech Republic's 'AA-' sovereign rating on Friday.**

Mexico

The economy moved from stagnation to a mild contraction in 2019Q4 while the peso's 3-month volatility neared the lowest level since 2014. In November, the economy grew only 0.1% m/m sa as a result of a mild recovery in industrial output. Yet the bullish positions on the peso are near a record high, driven by both the stability of the peso and Mexico's high interest rates. The peso has strengthened by 0.7% so far in 2020, being among the top gainers in EM currencies. Analysts commented that the external demand, that provides support to the manufacturing sector, may be the only source of growth in the coming quarters and the peso could depreciate by 2% by the end of the year. Implied rates from futures were down a few bps on Friday, in line with weaker economic data and falling US yields. Its term structure prices in about 90 bps of monetary policy easing this year with analysts expecting a 25 bps rate cut in February.






















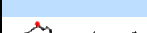

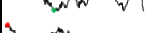
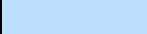



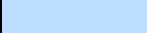


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Global Financial Indicators

Last updated: 1/27/20 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3295	-0.9	-1	2	24	2
Europe		3698	-2.2	-3	-2	17	-1
Japan		23344	-2.0	-3	-2	12	-1
China		2977	-2.8	-3	0	15	-2
Asia Ex Japan		73	-0.8	-4	-1	8	0
Emerging Markets		45	-4.4	-3	-1	6	-1
Interest Rates			basis points				
US 10y Yield		1.62	-4.9	-20	-26	-114	-30
Germany 10y Yield		-0.37	-3.8	-16	-12	-57	-19
Japan 10y Yield		-0.04	-2.4	-5	-4	-4	-3
UK 10y Yield		0.52	-4.4	-13	-24	-79	-30
Credit Spreads			basis points				
US Investment Grade		105	2.5	6	6	-22	8
US High Yield		425	11.4	37	31	-11	32
Europe IG		46	1.7	3	3	-30	2
Europe HY		229	9.2	21	25	-99	22
EMBIG Sovereign Spread		317	10.0	24	21	-41	24
Exchange Rates			%				
USD/Majors		97.89	0.0	0	1	2	2
EUR/USD		1.10	0.0	-1	-1	-4	-2
USD/JPY		109.0	0.3	1	0	0	0
EM/USD		60.3	-0.7	-1	-2	-5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		59	-2.8	-10	-13	-4	-11
Industrials Metals (index)		110	-1.5	-6	-5	-5	-4
Agriculture (index)		40	-1.7	-3	-4	-8	-4
Implied Volatility			%				
VIX Index (% change in pp)		18.3	3.8	6.2	4.9	0.9	4.5
10y Treasury Volatility Index		4.7	0.5	1.2	0.8	0.9	0.6
Global FX Volatility		5.3	0.0	0.1	-0.4	-2.5	-0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		156	-8.6	-8	-16	-233	-10
Italy		142	-14.5	-15	-21	-103	-18
Portugal		69	-2.8	-2	4	-77	6
Spain		66	-2.2	0	0	-38	1

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 1/27/2020 8:31 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.91	0.5	-0.7	1	-2	1		3.0	0.0	-9	-14	-5	-11
Indonesia		13615	-0.2	0.2	2	3	2		6.8	-2.4	-18	-43	-148	-34
India		71	-0.2	-0.5	0	0	0		6.8	-1.5	-4	-2	-72	-3
Philippines		51	-0.1	0.2	0	3	0		4.2	-1.6	-3	-3	-158	-6
Thailand		31	-0.5	-1.2	-2	3	-3		1.5	-1.3	-7	-8	-104	-6
Malaysia		4.06	0.3	-0.1	2	2	1		3.1	-1.0	-15	-25	-90	-22
Argentina		60	0.0	-0.2	0	-38	0		54.6	76.6	75	-639	3318	-803
Brazil		4.22	-0.8	-0.7	-4	-11	-5		6.1	-0.9	-9	-25	-188	-18
Chile		786	-1.1	-2.2	-5	-14	-4		3.4	6.4	12	7	-108	11
Colombia		3401	-1.0	-2.0	-3	-7	-3		5.6	-4.2	-8	-31	-94	-31
Mexico		18.92	-0.7	-1.4	0	1	0		6.9	-2.5	-4	-12	-165	-8
Peru		3.3	-0.1	-0.1	0	1	0		4.4	0.3	-4	-7	-136	-14
Uruguay		37	0.1	0.3	-1	-13	0		10.4	-6.5	-30	-52	7	-48
Hungary		306	-0.4	-1.5	-4	-9	-4		1.3	-4.4	-2	16	-85	10
Poland		3.87	-0.3	-1.3	-2	-3	-2		2.0	-1.0	-8	13	-26	11
Romania		4.3	0.0	-0.7	-1	-4	-2		3.9	0.0	-2	-12	-60	-11
Russia		62.7	-0.8	-1.7	-1	6	-1		6.0	0.9	0	-22	-209	-16
South Africa		14.6	-1.1	-0.4	-4	-6	-4		9.5	-0.9	0	3	3	0
Turkey		5.95	-0.1	-0.5	0	-10	0		10.0	-21.8	-47	-188	-613	-172
US (DXY; 5y UST)		98	0.0	0.3	1	2	2		1.44	-6.1	-18	-23	-116	-25

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2977	0.0	-3	0	15	-2		175	0	2	-1	-2	-1
Indonesia		6133	-1.8	-2	-3	-5	-3		177	8	15	14	-16	21
India		41155	-1.1	-1	-1	14	0		132	5	6	1	-51	7
Philippines		7588	-0.5	0	-3	-6	-3		81	7	10	8	-12	15
Malaysia		1573	0.0	-1	-2	-8	-1		105	1	2	-4	-30	-7
Argentina		39918	-3.0	-6	-4	15	-4		2109	28	276	338	1444	340
Brazil		115480	-1.0	-3	-1	18	0		231	7	22	15	-4	16
Chile		4601	-0.2	-4	-1	-15	-1		153	4	14	15	14	20
Colombia		1648	0.0	-1	-1	16	-1		183	7	16	15	-12	20
Mexico		45142	-0.7	-1	2	3	4		311	8	16	15	0	19
Peru		20319	-1.1	-2	-1	2	-1		124	5	15	12	-20	17
Hungary		44004	-1.2	-1	-4	7	-5		107	6	17	17	-23	21
Poland		57563	-1.8	-3	-1	-5	0		34	6	14	14	-25	16
Romania		10155	-0.6	1	3	42	2		189	4	13	12	-29	16
Russia		3080	-2.0	-4	1	23	1		154	6	16	18	-57	23
South Africa		55886	-2.4	-5	-3	3	-2		357	12	28	28	51	37
Turkey		121180	-0.8	-1	7	19	6		376	8	6	-32	-18	-25
Ukraine		506	0.0	0	-1	-8	-1		405	27	49	-15	-238	-15
EM total		45	-4.4	-3	-1	6	-1		317	10	24	21	-41	24

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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