









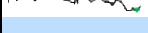



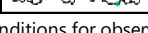
- The VIX Index jumps 4 percentage points on coronavirus fears ([link](#))
- The US Treasury curve flattens as long-dated yields drop ([link](#))
- Strong issuance in US leveraged loan and high yield bond markets ([link](#))
- Japan's Nikkei's 3-month implied volatility rises to its highest level since August 2018 ([link](#))
- EM dedicated bond fund and equities recorded strong inflows in the past week ([link](#))
- EM sovereign issuance picks up after a slow start in first 2 weeks of the year ([link](#))

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Markets cautious on ongoing coronavirus fears

Asian equities continued to fall while European bourses and US equity futures fluctuated as investors weighed the impact of coronavirus. Amid news that Hong Kong announced restrictions on travel from mainland China, option markets took a breather. The VIX index fell 1.7 percentage points this morning, after jumping almost 4 percentage points yesterday to 18.2, above its 1-year average. US Treasury and bund yields traded slightly higher and gold prices fell modestly. In emerging markets, currencies traded mixed while equities declined further. Korean equities (-3.8%) bore the brunt of the selloff as local markets reopened after the holidays. While Chinese markets remained closed for the Spring Festival until February 3, the offshore CNH stabilized, appreciating 0.2% against the dollar after a sharp depreciation on Monday that left the currency at its weakest level since last December.

Key Global Financial Indicators

Last updated: 1/28/20 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3244	-1.6	-3	0	23	0
Eurostoxx 50		3694	0.4	-3	-2	18	-1
Nikkei 225		23216	-0.5	-3	-3	12	-2
MSCI EM		43	0.8	-7	-4	4	-4
Yields and Spreads			bps				
US 10y Yield		1.62	-7.6	-15	-25	-112	-30
Germany 10y Yield		-0.38	0.8	-13	-12	-58	-19
EMBIG Sovereign Spread		314	1	18	18	-45	21
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.3	0.1	-1	-2	-5	-2
Dollar index, (+) = \$ appreciation		98.1	0.1	1	1	2	2
Brent Crude Oil (\$/barrel)		59.5	0.2	-8	-13	-1	-10
VIX Index (% change in pp)		16.6	-1.7	4	3	-2	3

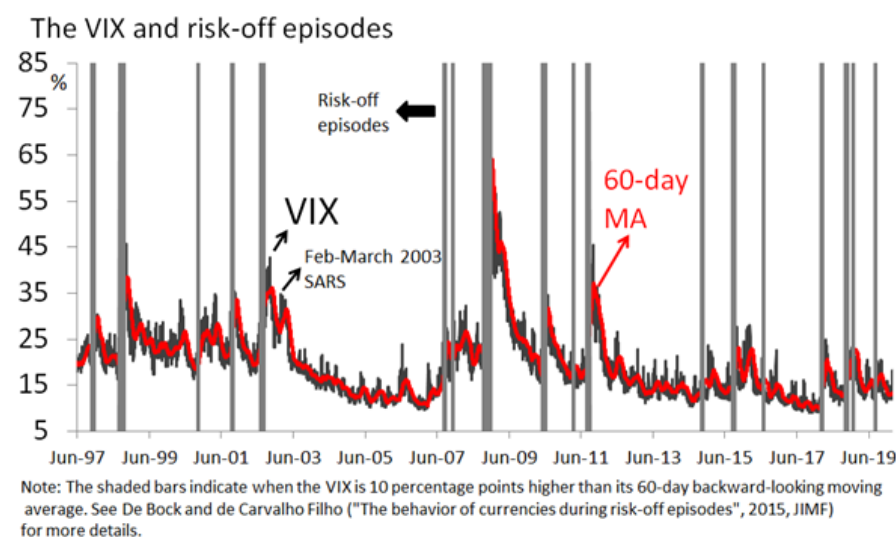
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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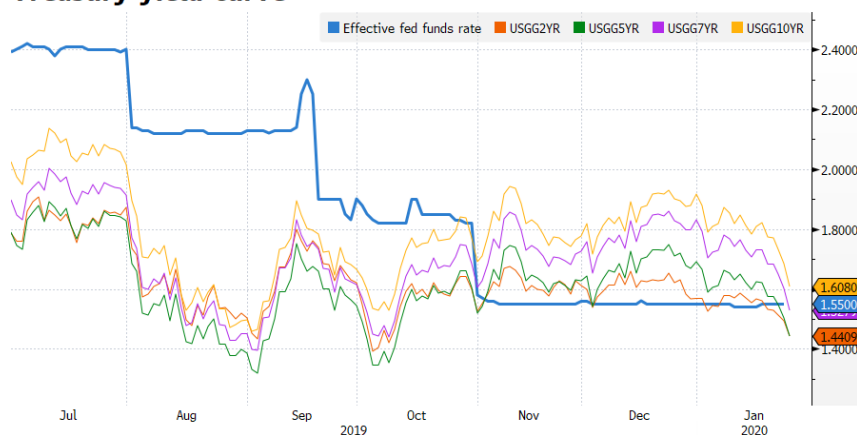
Intensifying concern over the human and economic impact of the deadly coronavirus rattled global markets, as stocks slumped and bonds rallied. All major indices fell over 1.5%, the most in 4 months, while the Dow briefly erased its 2020 gains. The energy sector dropped 2.6% as oil prices slipped to a three-month low. Tech and industrial sectors were among the weakest as investors fled companies that rely on value chains in China and Asia.

The **VIX index jumped 4 percentage points to 18.2 yesterday, above its 1-year average.** For now, the change in the VIX is still smaller than on Aug 5 2019 when U.S. equities sold off due to souring US-China relations as well as during the U.S. equity sell-off of late 2018.



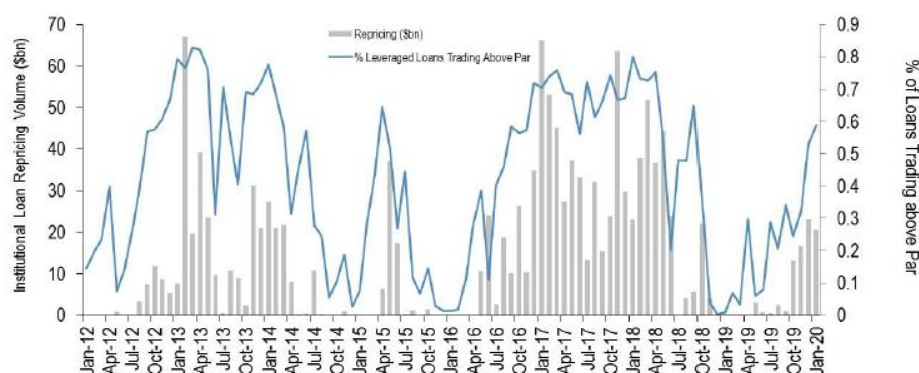
The demand for safe assets pushed Treasury rates sharply lower again and flattened the yield curve. The 2-year yield dropped 5 bps to 1.44% and the 10-year yield fell 8.5 bps to 1.59%, both at a 4-month low. YTD, the yield curve has flattened sharply, with rates on 1- to 7-year notes trading below effective Fed funds rates.

Treasury yield curve



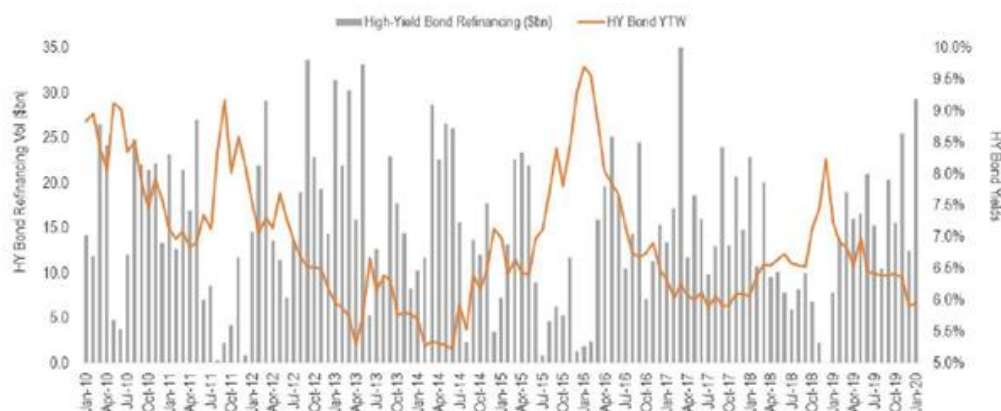
The Treasury's auction suggests investors unwillingness to incur much duration risk. While the 2-year auction was in line with recent sales, the 5-year auction was fairly weak. The award rate tailed by 1 bp, with a below average cover ratio and very low share of direct bidders.

January saw strong issuance of leverage loans amid high demand. Gross and net institutional loan issuance totaled \$32.6 bn and \$3.2 bn month-to-date with the bulk attributable to re-pricing (\$20.5 bn). The forward calendar for leveraged loans has increased to a record high (\$94 bn) behind a wave of re-pricing (\$56 bn). Analysts warn that a material pickup in re-pricing volume would put many CLO portfolios under pressure. Re-pricing mechanically tightens the spread of the underlying loan, thus compresses the yields that the CLO portfolio earns. The most recent wave of loan repricing started in 2016, when the weighted average spread (WAS) of CLOs was trading around 400 bps. By the time the wave ended in late 2018, the weighted average spread fell to 345 bps, when loans at or above par value steeply dropped to near 0%. The current WAS is around 350 bps.



Source: JPMorgan

There were very strong primary market activities in HY bond markets as well. Over \$14 bn issuance priced in the past week, following an 8-week high of \$12 bn in the prior week. YTD, HY bond issuance totals \$34.6 bn, mostly for refinancing purposes (\$29 bn). For reference, HY primary markets priced an average of \$26 bn in January since 2010.



Europe

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Equities are little changed in a quiet day for European data releases (down -0.9% ytd). European bank stocks (-0.3%) fell.

The euro is little changed against the USD hovering just above \$1.10.

Italian 10-yr spread to bunds are 3 bps lower at 140 bps, following yesterday's rally. Greek and Spanish spreads were little changed. German and French 10-yr bond yields fell 2 bps to -0.40% and -0.14% respectively as 10-yr U.S. yields are 4 bps lower (at 1.58%).

EU Brexit negotiator Barnier insisted on the adherence to rules on state aid and labor markets as preconditions to any deal with the U.K. He added that “much more” time will be needed than 11 months to build a new trading relationship, and that the EU will “never, never, never” compromise on the single market.

ECB Governing Council member Mersch warned of the risk of elevated asset prices. Mersch believes that asset prices are currently at very elevated levels and that risks of a correction are increasing. Nevertheless, the euro area outlook still warrants highly accommodative monetary policy.

Other Mature Markets

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Japan

Japanese equities remain under pressure as markets continue to digest the implications of the coronavirus. Both the Nikkei and the Topix lost another 0.6% on the day, erasing their year-to-date gains. Moreover, investors are getting increasingly anxious about the virus' economic impact. The cost of options protecting against swings in equities surged with the **Nikkei's 3-month implied volatility rising to its highest level since August 2018.** The yen was little changed, weakening by 0.1% on the day.

Virus Volatility

Gauge of Nikkei 225 options cost has risen to highest since August



Source: Bloomberg

VNXY Index (Nikkei Stock Average Volatility Index) vnxy Daily 14AUG2019-28JAN20

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Emerging Markets

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EM currencies traded mixed while equities slid further as investors reassess the magnitude of coronavirus' damage. Korean equities (-3.8%) bore the brunt of the selloff as local markets reopened after the holidays. The offshore CNH stabilized, appreciating 0.2% against the dollar after a sharp depreciation on Monday that left the currency at its weakest level since last December. Meanwhile, Chinese equity futures fell again, losing almost 1% after its 6% plunge on Monday as China reported a further increase in the number of infections and the death toll. **Across EMEA**, the larger equity sell offs were seen in the Czech Republic (-1.4%), Hungary (-0.7%), and South Africa (-0.5%). **The central bank of Hungary is expected to keep rates on hold today.** The forint (-0.1%) is trading sideways ahead of the decision. **Latin American assets continued to experience losses as the risk-off mood took over the markets.** Brazilian stocks (-3%) saw the biggest losses, followed by Mexico (-0.7%), Chile (-2%) and Argentina (-1%). Among regional currencies, Chilean peso (-2%) and Colombian peso (-1%) depreciated the most against the dollar as all major commodities were down due to concerns over global growth outlook. Brazilian real and Mexican peso also depreciated by 0.7% against the dollar.

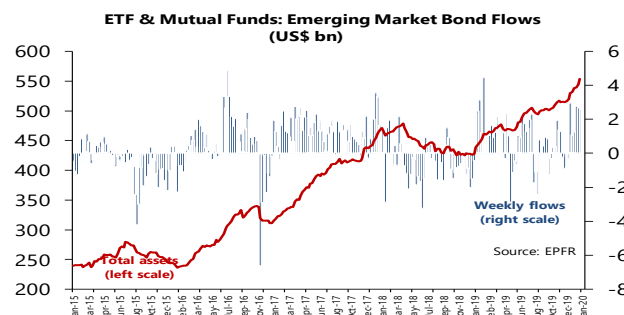
Key Emerging Market Financial Indicators

Last updated: 1/28/20 8:15 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.06	0.7	-7	-4	4	-4
MSCI Frontier Equities		30.64	-1.7	-2	1	9	1
EMBIG Sovereign Spread (in bps)		314	1	18	18	-45	21
EM FX vs. USD		60.36	0.1	-1	-2	-5	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.5	-1	1	-2	1
Indonesian Rupiah		13644	-0.2	0	2	3	2
Indian Rupee		71.34	0.1	0	0	0	0
Argentine Peso		60.10	0.1	0	0	-38	0
Brazil Real		4.20	0.3	0	-4	-10	-4
Mexican Peso		18.83	0.4	0	1	1	0
Russian Ruble		62.63	0.6	-1	-1	6	-1
South African Rand		14.65	-0.3	-1	-4	-7	-4
Turkish Lira		5.95	-0.1	0	0	-10	0
EM FX volatility		6.64	0.0	0.6	0.1	-2.4	0.0

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

Flows

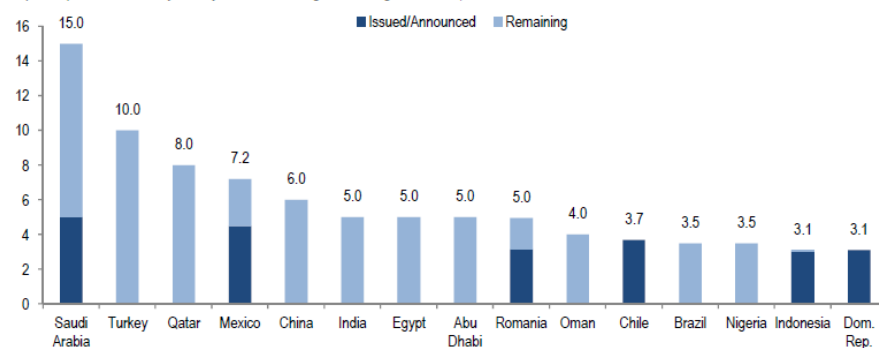
EM dedicated bond funds (+\$2.6 bn) and equities (+\$4 bn) recorded strong inflows over the past week. YTD flows to EM bonds and equities are +\$9 bn and +\$12 bn respectively, according to EPFR data. Inflows accelerated to their highest level in 5 weeks, with both hard currency and local funds maintaining inflow momentum since mid-December. The retrenchment of US Treasury yields month-to-date is helping to keep push factors for EM flows firm.



Issuance

EM sovereign issuance picked up last week after a slow start in the first 2 weeks of January. The total sovereign issuance was \$18.7 bn last week out of which, \$14.8 bn was investment grade. JP Morgan analysts forecast Saudi Arabia, Turkey and Qatar to lead sovereign bond issuance this year. Meanwhile, total EM corporate bond issuance held strong at \$21.6 bn, with \$12 bn being high yield. EM corporate bond supply already reached a new monthly record of \$69.3 bn in the first three weeks of January, exceeding the \$68.4 bn peak from April last year.

Top 15 expected issuance by country in 2020 according to J.P. Morgan forecasts, \$bn

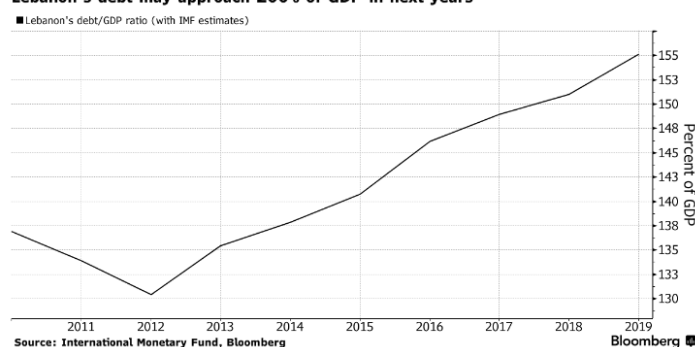


Source: J.P. Morgan.

Lebanon

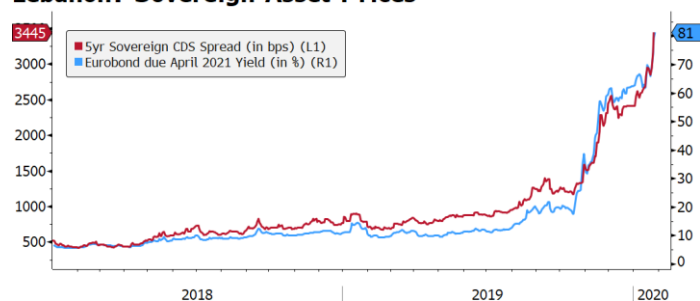
Lebanon's 2020 fiscal budget was approved yesterday ahead of the government decision on how to repay \$1.2 bn Eurobond coming due on March 9. As Lebanese public debt continues to mount, investors are growing concerned about the nation's ability to honor its commitments, including the more than \$30 bn owed to international investors. The debt to GDP ratio has reached 155%, while pricing of sovereign assets show mounting fears of default.

Lebanon's debt may approach 200% of GDP in next years



Source: International Monetary Fund, Bloomberg

Lebanon: Sovereign Asset Prices



Source: Bloomberg
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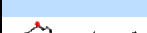

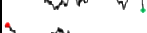
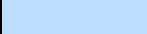



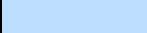


List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina <i>Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Jochen Schmittmann <i>Senior Economist</i>
Will Kerry <i>Deputy Division Chief</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Can Sever <i>Economist (Economist Program)</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	David Jones <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
Sergei Antoshin <i>Senior Economist</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Sally Chen <i>Senior Economist</i>	Rohit Goel <i>Financial Sector Expert</i>	Yingyuan Chen <i>Senior Research Officer</i>
Han Teng Chua <i>Economic Analyst</i>	Henry Hoyle <i>Financial Sector Expert</i>	Piyusha Khot <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Thomas Piontek <i>Financial Sector Expert</i>	Xingmi Zheng <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Patrick Schneider <i>Research Officer</i>	

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Global Financial Indicators

Last updated: 1/28/20 8:16 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3244	-1.6	-3	0	23	0
Europe		3694	0.4	-3	-2	18	-1
Japan		23216	-0.5	-3	-3	12	-2
China		2977	-2.8	-3	0	15	-2
Asia Ex Japan		71	-3.4	-7	-4	5	-4
Emerging Markets		43	0.8	-7	-4	4	-4
Interest Rates			basis points				
US 10y Yield		1.62	-7.6	-15	-25	-112	-30
Germany 10y Yield		-0.38	0.8	-13	-12	-58	-19
Japan 10y Yield		-0.04	0.5	-4	-4	-4	-3
UK 10y Yield		0.53	2.1	-10	-23	-74	-29
Credit Spreads			basis points				
US Investment Grade		105	-1.1	6	6	-21	8
US High Yield		438	-0.2	44	45	-3	45
Europe IG		46	-0.5	2	2	-31	1
Europe HY		226	-3.5	14	20	-102	18
EMBIG Sovereign Spread		314	1.0	18	18	-45	21
Exchange Rates			%				
USD/Majors		98.09	0.1	1	1	2	2
EUR/USD		1.10	-0.1	-1	-2	-4	-2
USD/JPY		109.1	-0.1	1	0	0	0
EM/USD		60.3	0.1	-1	-2	-5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		59	0.2	-8	-13	-1	-10
Industrials Metals (index)		108	0.3	-6	-6	-5	-5
Agriculture (index)		40	-0.4	-2	-4	-7	-4
Implied Volatility			%				
VIX Index (% change in pp)		16.6	-1.7	3.7	3.1	-2.3	2.8
10y Treasury Volatility Index		4.8	0.5	1.3	0.9	1.0	0.7
Global FX Volatility		5.6	0.0	0.3	-0.1	-2.3	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		156	-0.7	-7	-16	-230	-10
Italy		137	-4.8	-25	-26	-109	-22
Portugal		70	1.0	-1	6	-74	7
Spain		66	-0.3	-1	0	-35	1


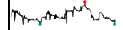








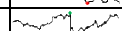



























Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 1/28/2020 8:14 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	-7	-9	-6	-11
Indonesia		13644	-0.2	0.2	2	3	2		6.9	11.7	-2	-29	-135	-22
India		71	0.1	-0.2	0	0	0		6.8	-1.7	-7	-3	-71	-4
Philippines		51	0.1	0.4	0	3	0		4.2	0.5	-3	-3	-155	-6
Thailand		31	-0.4	-1.4	-3	2	-4		1.5	-2.5	-7	-9	-108	-9
Malaysia		4.09	-0.7	-0.4	1	1	0		3.1	0.0	-15	-23	-91	-22
Argentina		60	0.1	0.0	0	-38	0		55.6	98.7	172	-594	3425	-704
Brazil		4.20	0.3	0.4	-4	-10	-4		6.0	-4.0	-13	-23	-192	-22
Chile		787	0.5	-1.7	-4	-15	-4		3.4	-2.8	9	9	-110	8
Colombia		3393	0.2	-1.1	-3	-7	-3		5.7	6.2	-6	-26	-87	-25
Mexico		18.83	0.4	-0.3	1	1	0		6.8	-2.5	-7	-10	-159	-10
Peru		3.3	-0.2	-0.4	-1	1	-1		4.4	0.2	-4	-7	-134	-14
Uruguay		37	-0.4	0.1	-1	-13	0		10.4	0.0	-30	-52	8	-48
Hungary		306	-0.1	-1.6	-4	-9	-4		1.3	1.5	-1	18	-82	11
Poland		3.88	-0.1	-1.7	-2	-3	-2		2.0	-2.9	-11	11	-30	8
Romania		4.3	-0.1	-0.7	-2	-4	-2		3.9	-3.0	-4	-15	-76	-14
Russia		62.6	0.6	-1.2	-1	6	-1		6.0	5.0	5	-13	-207	-11
South Africa		14.7	-0.3	-1.0	-4	-7	-4		9.6	6.9	11	15	15	7
Turkey		5.95	-0.1	-0.2	0	-10	0		10.1	7.6	-46	-168	-594	-164
US (DXY; 5y UST)		98	0.1	0.6	1	2	2		1.46	1.7	-12	-22	-112	-23

	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		176	7	2	0	-2	0
Indonesia		6111	-0.4	-2	-3	-5	-3		178	2	15	15	-17	22
India		40967	-0.5	-1	-1	15	-1		129	-3	3	0	-48	4
Philippines		7469	-1.6	0	-4	-7	-4		82	2	9	9	-13	16
Malaysia		1552	-1.3	-2	-4	-9	-2		105	8	1	-4	-31	-7
Argentina		39605	-0.8	-8	-5	14	-5		2133	-12	201	362	1446	364
Brazil		115300	-3.3	-1	-1	21	0		228	2	16	12	-8	13
Chile		4570	-1.7	-3	-2	-16	-2		152	1	11	14	12	19
Colombia		1624	-1.5	-2	-2	14	-2		180	0	9	12	-16	17
Mexico		44134	-2.2	-4	0	1	1		308	-2	13	12	-3	16
Peru		19964	-1.7	-4	-3	1	-3		123	1	11	11	-22	16
Hungary		43775	-0.4	-1	-5	6	-5		107	7	13	17	-19	21
Poland		57375	0.5	-2	-1	-5	-1		33	14	11	13	-23	15
Romania		10120	0.1	0	2	44	1		198	9	22	20	-18	25
Russia		3109	0.8	-3	2	26	2		153	1	13	17	-58	22
South Africa		55911	0.0	-4	-3	4	-2		350	-2	15	21	44	30
Turkey		120229	0.1	-3	6	19	5		370	0	-6	-38	-24	-31
Ukraine		506	0.0	0	-1	-8	-1		395	3	32	-25	-249	-25
EM total		43	0.8	-7	-4	4	-4		314	1	18	18	-45	21

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

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