



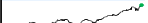







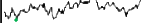

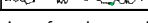
- Chinese assets sell off on renewed coronavirus fears ([link](#))
- Lebanon's 5-year CDS spreads widen ahead of Eurobond maturities ([link](#))
- Italian 10-year yields narrow to tightest spread against Bunds since May 2018 ([link](#))
- Above-target inflation raising Hungarian rate expectations ([link](#))
- Chile's monetary policy rate expected to remain unchanged in 2020 ([link](#))

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Virus fears return as Chinese officials change reporting methodology

Virus headlines continued to drive global markets overnight. The number of officially confirmed new coronavirus cases in Hubei province, where the outbreak originated, increased by 14,840 (45%) to almost 50,000 after the authorities added a new category of "cases confirmed by clinical diagnosis." Separately, market participants discussed diverging global growth prospects. Yesterday's disappointing European industrial production data contributed to increased chatter about the potential for another recession in Italy as well as a further slide in Euro area 5-year forward inflation expectations. By contrast, US growth data have been reasonably strong, as evidenced by the rebound in December ISM manufacturing data. The broad dollar index has steadily risen in February and is now 1.6% higher month to date.

Key Global Financial Indicators

Last updated: 2/13/20 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3379	0.6	1	3	23	5
Eurostoxx 50		3817	-1.0	0	1	19	2
Nikkei 225		23828	-0.1	2	0	13	1
MSCI EM		45	-0.8	2	-3	7	0
Yields and Spreads			bps				
US 10y Yield		1.60	3.3	-5	-25	-111	-32
Germany 10y Yield		-0.39	-1.4	-2	-23	-52	-21
EMBIG Sovereign Spread		305	0	2	11	-46	12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		59.7	0.0	-1	-2	-6	-3
Dollar index, (+) = \$ appreciation		99.0	-0.1	0	2	2	3
Brent Crude Oil (\$/barrel)		55.4	-0.7	1	-14	-13	-16
VIX Index (% change in pp)		15.2	1.4	0	3	-1	1

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

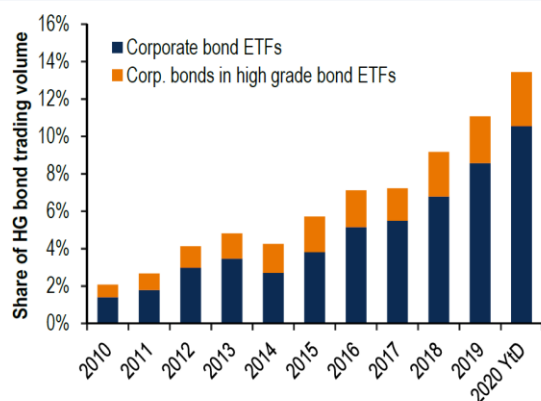
United States

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Stocks rallied yesterday on hopes that virus-related risks could start to abate. The S&P 500 and Nasdaq registered their third consecutive record closes and the Dow also set a record closing mark. The three-month/ten-year Treasury curve inversion was eliminated again as the Treasury curve steepened for a second consecutive day. The curve inverted for the first time since October 2019 on January 31 and was inverted several times subsequently. Meanwhile, the \$27 bn 10-year note auction was well received by the market with the clearing yield coming in below the pre-auction when issued (WI) trading yield, a sign of strong demand.

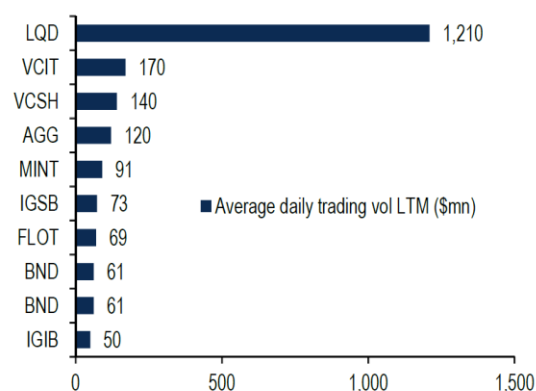
The growth of fixed income exchange traded funds (ETFs) may have enhanced liquidity in US corporate bond markets. The ETF-linked volume of investment grade (IG) bond trading has grown steadily over the years, both in corporate bonds and the overall IG market. The bulk of the trading volume is concentrated in the largest US IG corporate bond ETF, the iShares iBoxx IG Corporate Bond ETF which has grown to \$35 bn in assets (ticker symbol LQD). However, the other ETFs together in aggregate also account for a sizeable amount of trading volume. Only registered bonds that are at least \$750 mn in size and issued from large capital structures are eligible for inclusion in LQD. Off-the-run trading of bonds that are not eligible for inclusion in LQD have much lower trading volumes than eligible bonds.

Figure 3: Increasing share of IG trading in bond ETFs



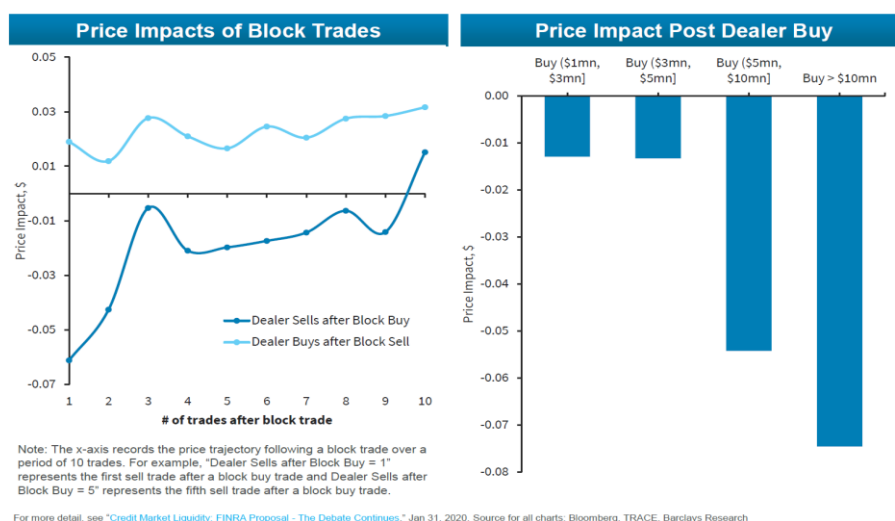
Note: Corp. bonds in HG bond ETFs refers to the corporate bond part of broader HG fixed income ETFs. Based on the top ETFs by AUM, currently 36.
Source: BofA Global Research, EPFR Global, Bloomberg

Figure 4: IG bond trading is very concentrated in LQD



Source: BofA Global Research, Bloomberg.

New disclosure proposals to increase transparency and liquidity for US corporate bond trading could have mixed results for the market. The Financial Industry Regulatory Authority (FINRA), the US financial industry's self-regulatory body, has proposed changes to its TRACE (Trade Reporting and Compliance Engine) reporting rules for bond trades which would entail increasing the reporting threshold for block trades (i.e., larger size trades) from \$5 mn to \$10 mn for investment grade bonds and from \$1 mn to \$5 mn for high yields bonds. There will also be a 48-hour delay in the reporting of block trades. Analysis by Barclays shows that block trades can have adverse consequences for dealers as prices can move them against them soon afterwards when they buy bonds, although the negative impact dissipates with subsequent trades in the security involved. Consequently, the 48-hour delay could be beneficial by preserving a degree of confidentiality for block transactions and improve liquidity through greater buy-in from dealers. On the other hand, the delay in reporting would pose challenges to mutual funds and ETFs which need to calculate their net asset value every day, thereby reducing transparency.



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US CPI came in at 0.1% versus the 0.2% consensus forecast. The core number excluding food and energy was on target at 0.2%. The headline numbers were 2.5% (vs 2.4%) and 2.3% (vs. 2.2%) respectively. The market response was muted.

Europe

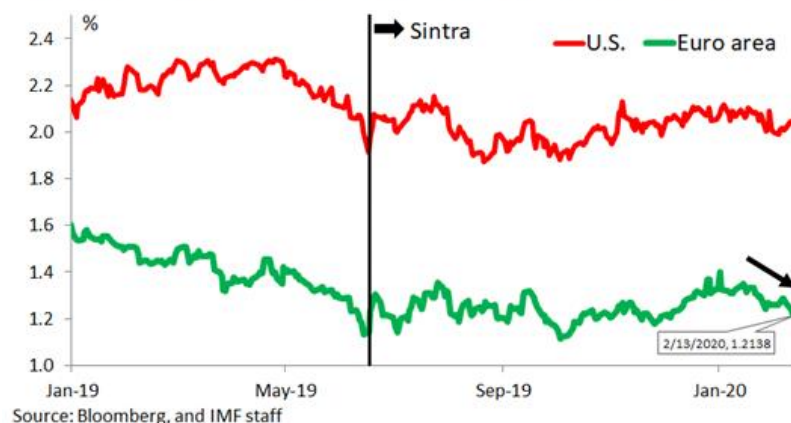
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Equities (-1.1%) followed Asian markets lower while the euro was little changed at \$1.087. Ten-year French and German yields fell 3 bps to -0.17% and -0.41% respectively.

The rally in Southern European bonds continued and spread to maturity-matched German Bunds narrowed further even as Italian Deputy FM warned that the government's 2020 growth target of 0.6% is at risk. Market chatter has increased about the likelihood that Italy may be heading into its 4th recession in a decade. 10-year Italian yields fell 5 bps to 0.87% and Greek 10-year yields are 5 bps lower at 0.92%.

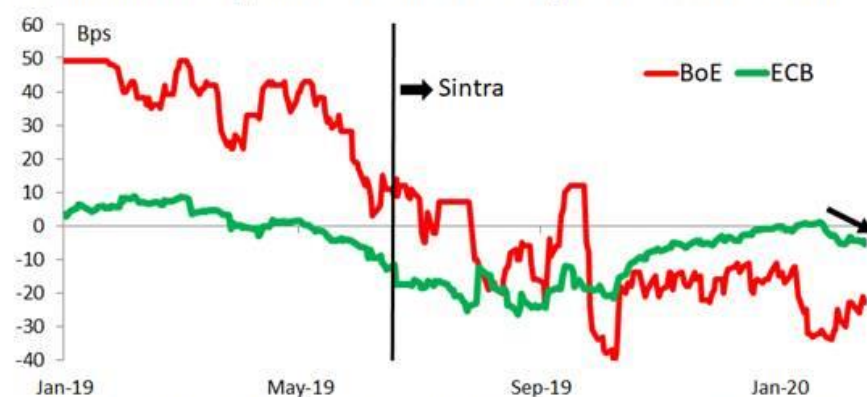
Market-based measures for inflation expectations in the euro area have edged lower in response to disappointing euro area data (such as industrial production reported yesterday) and coronavirus concerns. Euro area 5-year 5-year forward inflation swaps trade 18 bps below the 2020 high of 1.40%.

Inflation Expectations: Five-year Forward Five-year Inflation Swaps (%)



The weaker data have also led contacts to contemplate a potential ECB rate cut. Market are currently pricing in 5 bps of cuts in the next 12 months (from no change expected mid-January).

Central Banks: Basis points of rate hikes or cuts priced in next 12 months



Note: Chart shows basis points of rate hikes or cuts priced for the next 12 months. A positive number represents a hike, a negative number a cut.

Source: Bloomberg, Credit Suisse and IMF staff

France's unemployment rate fell to a 10-year low of 7.9% in Q4 (ILO measure).

United Kingdom

UK house prices rose at their fastest pace in almost three years as the January RICS House Price Survey rebounded to +17% from -2% in December. This number tracks the increase in housing prices less the decrease.

The British pound (+0.6% to \$1.304) firmed on speculation of more fiscal spending after chancellor of exchequer Sajid Javid resigned. 10-year gilt yields are 3 bps higher at 0.64%. UK equities are 1.8% lower ytd compared to gains of 4.6% for U.S. equities and 2.6% for European equities.

Other Mature Markets

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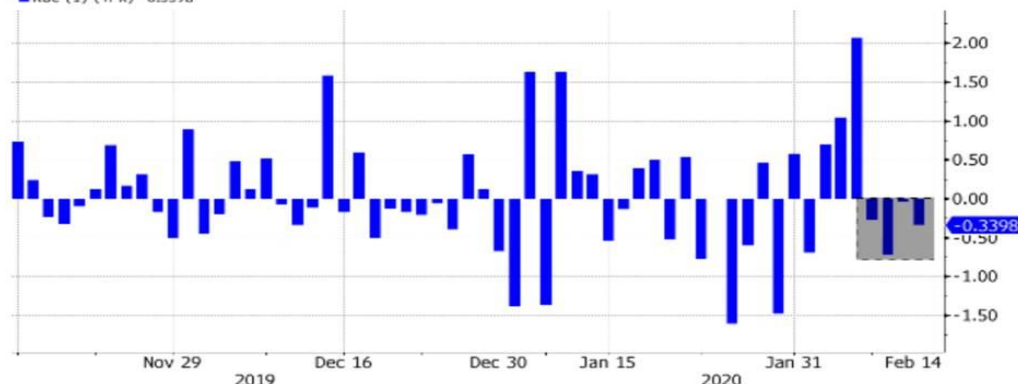
Japan

Equities (-0.3%) fell for the fourth consecutive day amid virus uncertainty. Telcos and heavy machinery underperformed. The yen strengthened +0.3% while 10-year JGB yield rose 0.6bps to -0.039%.

In the Red

Topix drops for fourth straight day

■ ROC (1) (TPX) -0.3398





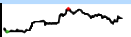








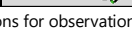


Source: Bloomberg, Tokyo Stock Exchange

Emerging Markets [back to top](#)

Asian equities (-0.1%) fell on virus uncertainty as the number of cases in China jumped following a methodology revision. China (-0.7%) and Indonesia (-0.7%) underperformed while the Philippines (+0.3%) and Taiwan Province of China (+0.2%) rose. **Regional currencies depreciated on net, driven by weakness in the South Korea won (-0.3%) and Indonesian rupiah (-0.2%).** EMEA equities mostly gained, notably in South Africa (+0.6%), Romania (+0.5%), and Hungary (+0.3%). Stocks in Istanbul, however, fell about 0.4% and the lira weakened 0.2% further to the US dollar. Other currencies in the region were stable, except the Russia ruble (-0.7%). **Latin American equity markets** were mostly higher on Wednesday. Brazil outperformed as the equity index went up 1.1%, followed by Colombia (+0.9%) and Mexico (+0.7%). Local currencies were mixed. The Colombian peso strengthened 1%, while the Brazilian real weakened 0.5% against the dollar. 10-year government bond yields were mixed as well.

Key Emerging Market Financial Indicators

Last updated: 2/13/20 8:13 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.77	-0.8	2	-3	7	0
MSCI Frontier Equities		30.05	0.0	0	-2	5	-1
EMBIG Sovereign Spread (in bps)		305	0	2	11	-46	12
EM FX vs. USD		59.68	0.0	-1	-2	-6	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.98	-0.2	0	-1	-3	0
Indonesian Rupiah		13694	-0.1	0	0	3	1
Indian Rupee		71.33	0.0	0	-1	-1	0
Argentina Peso		61.23	-0.2	-1	-2	-38	-2
Brazil Real		4.34	0.2	-1	-5	-13	-7
Mexican Peso		18.63	0.0	0	1	4	2
Russian Ruble		63.55	-0.5	0	-4	5	-3
South African Rand		14.85	0.0	0	-3	-5	-6
Turkish Lira		6.06	-0.2	-1	-3	-13	-2
EM FX volatility		6.74	0.0	0.2	0.3	-2.2	0.1

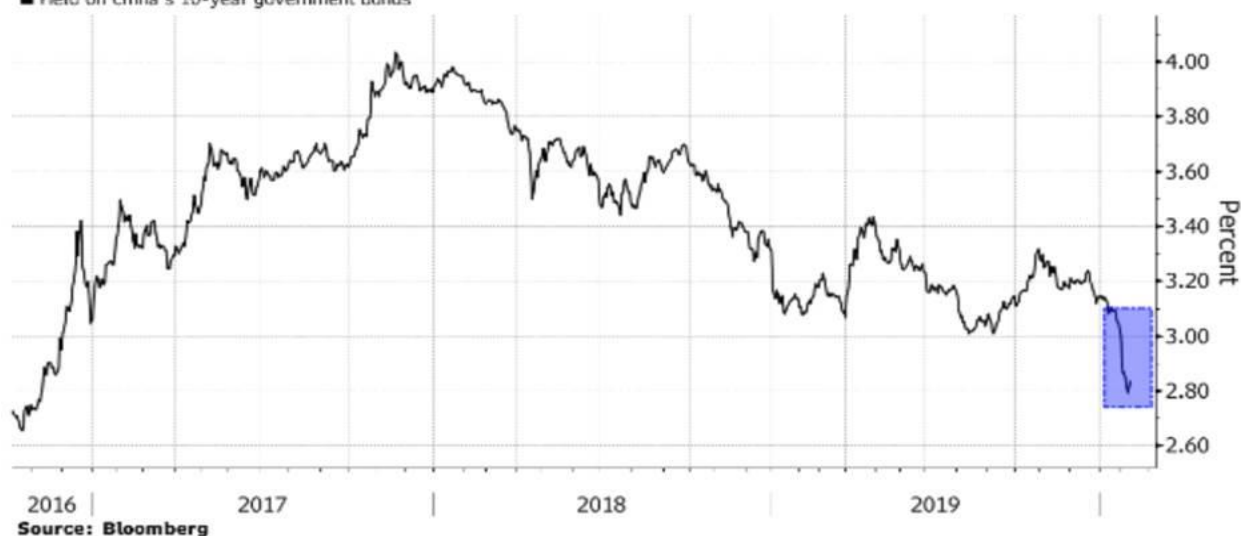
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

Equities (-0.7%) dropped as investor concerns rose amid a surge in virus cases from a methodology change. The number of officially confirmed new coronavirus cases in Hubei province, where the outbreak originated, increased by 14,840 (45%) to almost 50,000 after the authorities added a new category of 'cases confirmed by clinical diagnosis'. The spike reversed the decline in new cases over the past two days. The additional number of deaths in the province more than doubled to 242. The authorities also extended business shutdowns in the province until February 21. **The onshore and offshore RMB (both -0.1%) weakened while 10-year bond yield fell 1.2 bps to 2.82%.**

China's government bonds rally on bets PBOC will ease to combat virus

■ Yield on China's 10-year government bonds

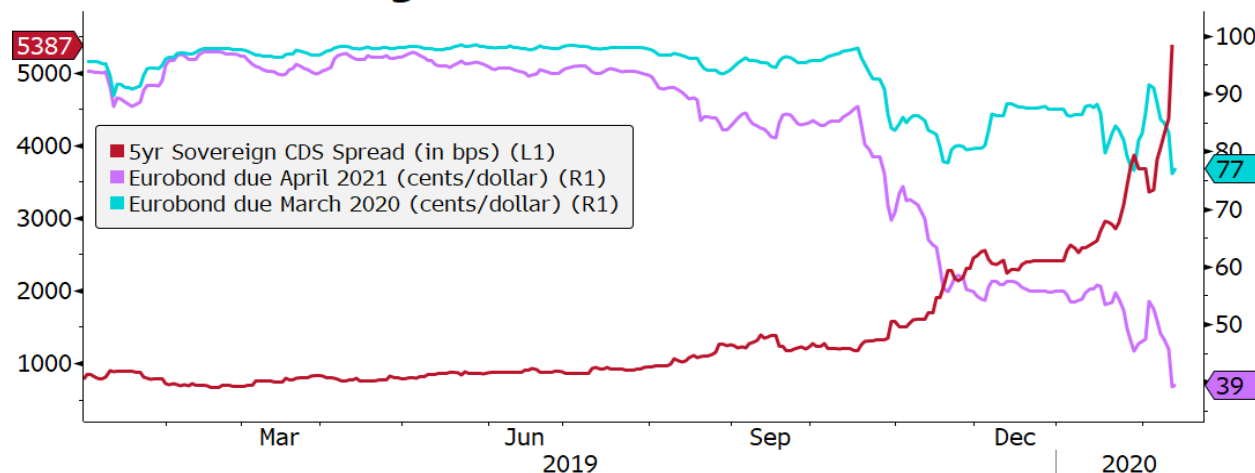


China aims to support the economy through stimulus amid the ongoing virus outbreak. According to Bloomberg, the authorities look to keep monetary policy flexible, make greater use of fiscal policy and promote large foreign investment projects, following a meeting of top leaders. They also aim to provide stronger support to companies producing virus-prevention goods through credit extensions and lower interest rates. On the fiscal side, they are prioritizing the investment of special bonds by local governments, making good use of investments within the central government budget and speeding up the construction of major projects. The authorities are also planning to reduce taxes to reduce headwinds for corporates.

Lebanon

Lebanese sovereign CDS spreads have continued to widen as key Eurobond repayment dates approach. Five-year sovereign CDS spreads topped the 5,300 bps mark on Thursday, while the price of the soon-due March 2020 Eurobond is at about 77 cents on the dollar. The Lebanese authorities have requested technical assistance from the IMF. Separately, news emerged that various distressed-debt investment firms were forming a group to enhance discussions with the Lebanese authorities on possible restructuring options.

Lebanon: Sovereign Asset Prices



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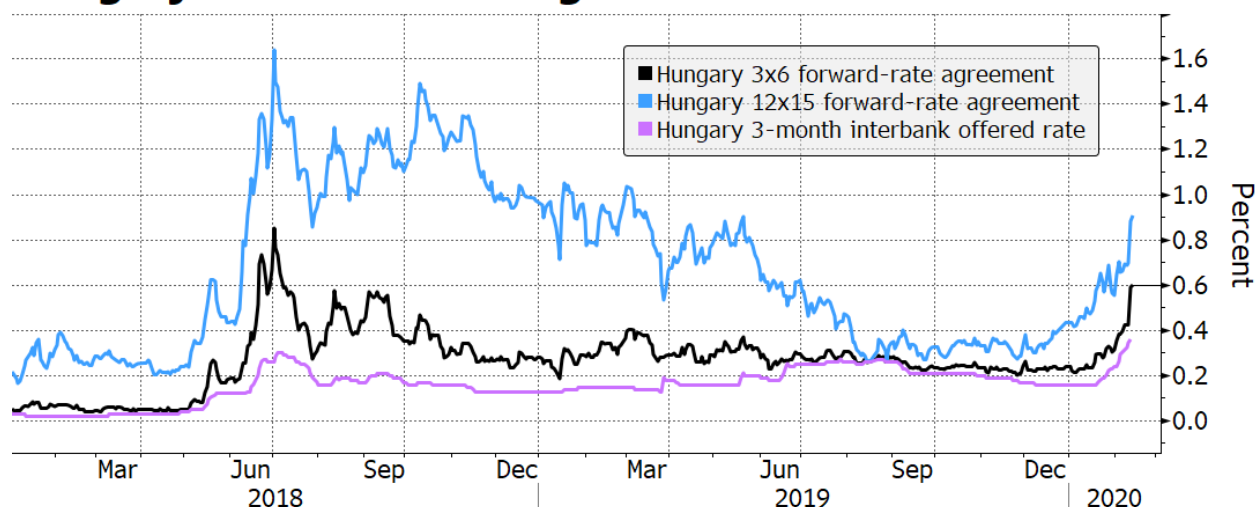
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Hungary

Headline inflation in January surprised to the upside, bolstering speculation of forthcoming policy rate cuts. Headline CPI printed at +4.7% year-on-year, from 4.0% the previous month. The acceleration in price growth was mostly due to food costs and higher taxes on tobacco. Core inflation edged higher by 0.1 percentage points to 4.0% y/y. As headline CPI is now above the central bank's target band and the forint continues to weaken, analysts speculate that the central bank will have to tighten monetary conditions further in coming meetings – a view most market participants share. Forward-rate agreements has been climbing since early this year.

Hungary Forward-Rate Agreements



Source: Bloomberg

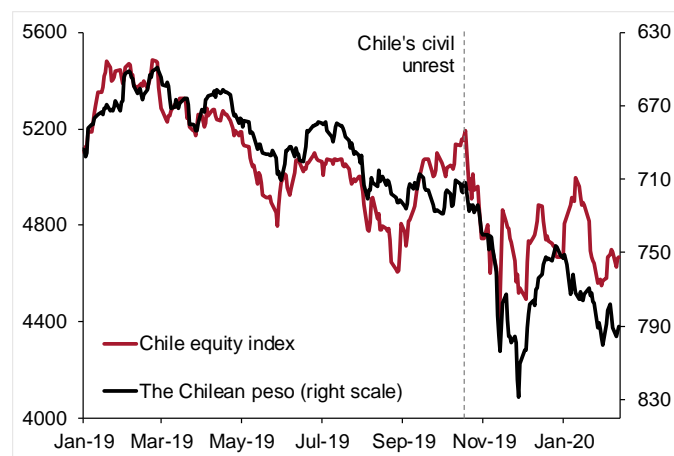
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Chile

According to the central bank survey, analysts continued to expect no further rate cut in 2020 while downgrading inflation and GDP growth forecasts. Analysts revised down their 11-month-ahead inflation forecast to 3.0% (3.2% before) and lowered the real GDP growth forecast to 2.2% (2.5% before) for 2021. Reports pointed out that the country still faces predictable weakness in private consumption in the short term and continuing deterioration of labor market conditions. Chilean assets have been volatile since the outbreak of civil unrest last October, and the currency implied volatility remained 17% higher than the pre-uprising level.



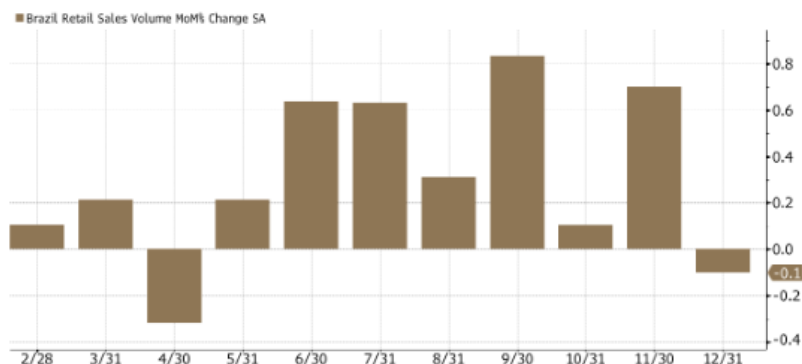
Source: Bloomberg

Brazil

Brazil reported declining core retail sales in December at -0.1% m/m, below market expectations (+0.2% m/m). Broad retail contracted (-0.83% m/m) as well, below consensus forecasts at -0.4% m/m. The main drags were office equipment (-10.9% m/m) and pharmaceutical & medical products (-2.0% m/m). Despite the disappointing data, analysts remained optimistic about private consumption outlook. Markets didn't react much to the data, with domestic equities finishing 1.1% higher and the real slightly weaker against the dollar.

Broken Streak

Brazil retail sales decline in December



Source: Brazil's National Statistics Institute, IBGE




















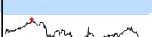


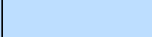



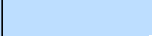


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Global Financial Indicators

Last updated: 2/13/20 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3379	0.6	1	3	23	5
Europe		3817	-1.0	0	1	19	2
Japan		23828	-0.1	2	0	13	1
China		2906	-0.7	1	-7	7	-5
Asia Ex Japan		74	1.4	3	-3	8	1
Emerging Markets		45	-0.8	2	-3	7	0
Interest Rates			basis points				
US 10y Yield		1.60	3.3	-5	-25	-111	-32
Germany 10y Yield		-0.39	-1.4	-2	-23	-52	-21
Japan 10y Yield		-0.03	0.0	-2	-3	-3	-2
UK 10y Yield		0.64	3.3	6	-11	-54	-18
Credit Spreads			basis points				
US Investment Grade		104	0.5	1	2	-16	7
US High Yield		414	3.0	-3	22	-8	21
Europe IG		42	0.6	-1	-1	-28	-2
Europe HY		215	4.7	2	8	-92	8
EMBIG Sovereign Spread		305	0.0	2	11	-46	12
Exchange Rates			%				
USD/Majors		98.95	-0.1	0	2	2	3
EUR/USD		1.09	-0.1	-1	-2	-4	-3
USD/JPY		109.7	0.4	0	0	1	-1
EM/USD		59.7	0.0	-1	-2	-6	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		55	-0.7	1	-14	-13	-16
Industrials Metals (index)		107	-0.1	-1	-8	-7	-6
Agriculture (index)		40	-0.4	1	-4	-7	-4
Implied Volatility			%				
VIX Index (% change in pp)		15.2	1.4	0.2	2.8	-0.5	1.4
10y Treasury Volatility Index		4.3	-0.2	0.2	0.6	0.7	0.1
Global FX Volatility		5.4	0.0	0.0	-0.1	-2.5	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		132	-3.1	-19	-23	-246	-33
Italy		127	-2.4	-7	-27	-139	-33
Portugal		68	-0.4	-3	9	-80	5
Spain		67	-1.5	1	4	-44	2

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: 2/13/2020 8:13 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		6.98	-0.2	-0.2	-1	-3	0		2.9	3.1	1	-23	-15	-26	
Indonesia		13694	-0.1	-0.4	0	3	1		6.7	-4.9	-12	-33	-134	-45	
India		71	0.0	-0.2	-1	-1	0		6.6	0.0	-12	-24	-87	-23	
Philippines		50	0.1	0.5	0	3	0		4.1	0.5	0	-17	-154	-16	
Thailand		31	-0.1	0.1	-3	1	-5		1.4	1.7	-2	-10	-117	-18	
Malaysia		4.14	-0.1	-0.4	-2	-2	-1		2.9	-10.8	-22	-40	-106	-45	
Argentina		61	-0.2	-1.0	-2	-38	-2		60.0	-77.9	268	996	3965	-256	
Brazil		4.34	0.2	-1.4	-5	-13	-7		5.9	-4.7	-3	-32	-202	-39	
Chile		793	-0.4	-1.2	-2	-16	-5		3.5	1.1	4	-3	-89	16	
Colombia		3393	-0.1	-0.4	-4	-7	-3		5.5	-0.2	-7	-22	-91	-42	
Mexico		18.63	0.0	0.2	1	4	2		6.7	1.3	-8	-25	-185	-28	
Peru		3.4	0.3	-0.5	-1	-1	-2		4.3	3.3	1	-14	-133	-23	
Uruguay		38	-0.4	-1.1	-1	-14	-2		9.9	-15.2	-42	-88	-31	-96	
Hungary		310	0.7	-0.8	-3	-9	-5		1.4	9.2	6	23	-63	21	
Poland		3.91	-0.1	-0.9	-3	-2	-3		1.9	3.9	-1	-10	-32	2	
Romania		4.4	-0.1	-1.2	-2	-4	-3		3.7	-4.0	-14	-22	-46	-32	
Russia		63.5	-0.5	-0.3	-4	5	-3		5.9	-4.0	-9	-12	-213	-26	
South Africa		14.8	0.0	0.5	-3	-5	-6		9.5	0.7	7	-6	-8	-6	
Turkey		6.06	-0.2	-1.2	-3	-13	-2		10.9	1.1	76	-12	-435	-82	
US (DXY; 5y UST)		99	-0.1	0.5	2	2	3		1.42	-3.1	-4	-23	-110	-27	

	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		2906	-0.7	1	-7	7	-5		169	0	-1	-5	-13	-7
Indonesia		5872	-0.7	-2	-7	-9	-7		163	-4	-6	4	-31	7
India		41460	-0.3	0	-1	15	0		131	-3	-2	4	-43	6
Philippines		7403	0.3	-1	-5	-7	-5		70	-2	-2	-1	-17	4
Malaysia		1539	-0.2	-1	-3	-9	-3		107	0	-3	2	-19	-5
Argentina		39936	0.3	-2	-5	8	-4		2087	120	174	260	1424	318
Brazil		116674	1.1	1	-1	22	1		205	1	-8	-5	-33	-10
Chile		4645	0.2	-1	-6	-14	-1		141	-2	0	2	7	8
Colombia		1660	0.9	0	0	13	0		167	0	0	0	-25	4
Mexico		45338	0.7	1	1	7	4		297	1	-1	2	-22	5
Peru		20059	0.5	-2	-2	0	-2		114	0	-2	4	-26	7
Hungary		44636	0.4	1	-2	11	-3		107	0	3	19	-2	21
Poland		57647	-0.9	0	-3	-4	0		33	-1	2	15	-19	15
Romania		10072	0.7	0	0	31	1		177	-6	-2	4	-18	4
Russia		3109	-0.4	0	-1	25	2		141	-1	-5	2	-77	10
South Africa		57745	0.0	0	0	6	1		336	0	8	11	34	16
Turkey		120527	0.4	-1	0	19	5		389	0	30	-2	-12	-12
Ukraine		528	0.0	2	4	-7	4		364	2	-3	-5	-365	-56
EM total		45	-0.8	2	-3	7	0		305	0	2	11	-46	12

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

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