













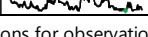
- US Nonfarm payrolls for December came in somewhat weaker than expectations ([link](#))
- US firms increasingly issuing bonds in European markets ([link](#))
- Italian bonds rally on news of electoral reform ([link](#))
- Expectations of BoE rate cut rise on dovish comments by governor Carney ([link](#))
- India is considering loosening foreign investment restrictions. ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Markets edge higher as risks fade

Global equity markets mostly continued their climb higher as fears of rising geopolitical risks continue to fade away. This morning's non-farm payroll report in the US reported adding 145k jobs in December, slightly below the forecast of 160k. The bigger disappointment, however, was on wage growth which grew at its slowest pace since July 2018. Treasury yields initially declined 2 bps on the release, but moved back to unchanged. Crude oil prices have continued to decline, with Brent crude now at its lowest level in nearly a month. Italian sovereign bonds are outperforming so far today on news that government coalition partners have agreed to a new electoral law. Emerging market currencies are mixed so far today with the Indonesian rupiah the outperformer. The rupiah has gained about 2.5% since the start of December to its highest level in more than 1.5 years. The central bank indicated that it has no intention to intervene for now according to Bloomberg.

Key Global Financial Indicators

Last updated: 1/10/20 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3275	0.7	1	5	26	1
Eurostoxx 50		3799	0.1	1	3	24	1
Nikkei 225		23851	0.5	1	2	18	1
MSCI EM		45	0.7	-1	6	11	1
Yields and Spreads			bps				
US 10y Yield		1.85	-1.9	6	1	-89	-7
Germany 10y Yield		-0.18	-0.5	9	11	-44	0
EMBIG Sovereign Spread		294	-1	-10	-21	-92	1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.2	0.0	0	1	-3	0
Dollar index, (+) = \$ appreciation		97.5	0.0	1	0	2	1
Brent Crude Oil (\$/barrel)		65.5	0.2	-5	2	6	-1
VIX Index (% change in pp)		12.5	0.0	-1	-3	-7	-1

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

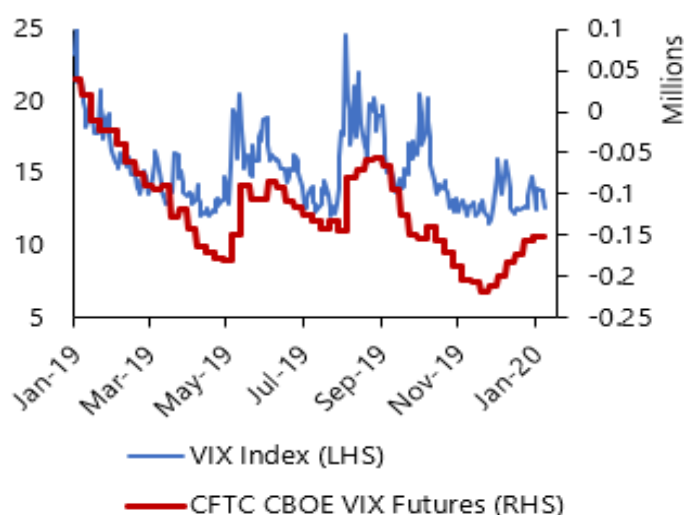
United States

[back to top](#)

The continued calming of the geopolitical and trade environment paved the way for risk assets to gain, with investors also gaining from accommodative comments from central bankers and a good Treasury auction. A string of comments from Fed officials emphasized the economy's strength and their belief that interest rates are at the right level. Fed's vice-chairman, Clarida, said the central bank was "sticking to its guns" and expects to reduce its intervention in the repo markets soon, even as investors' demand for cash remains high. As for trade, the plan to immediately start on phase two talks with China was re-confirmed by President Trump, ahead of the expected signing of the Phase 1 trade deal next week. S&P 500 closed up 0.7%, and VIX declined to 12.5 pts. The short position in VIX futures has also pared down over the last few weeks. The dollar gained against major currencies for a third straight day.

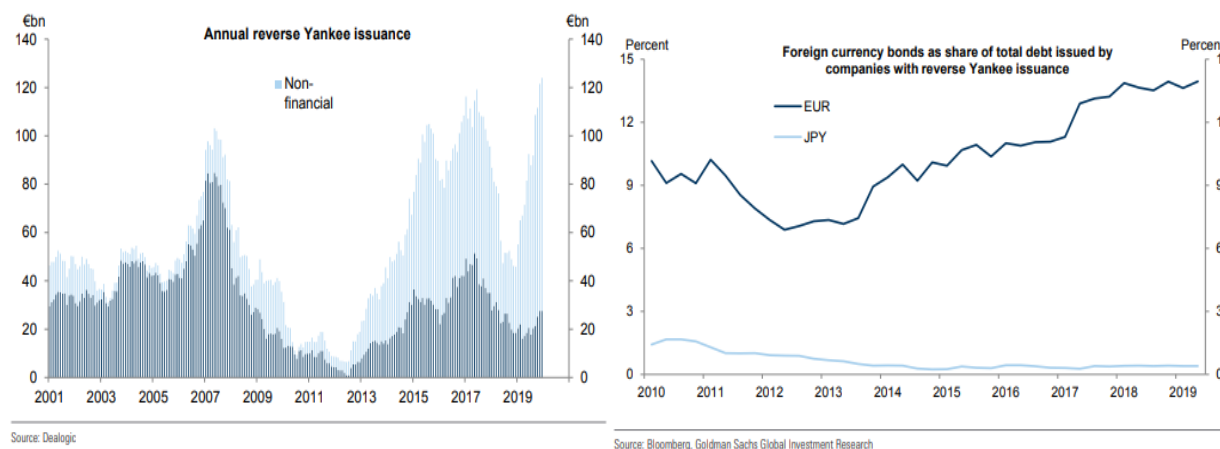
This morning, the change in nonfarm payrolls data for December was reported at 145k, as compared to consensus expectations of 160k and last month's print of 266k. In 2019, payroll employment rose by 2.1 million, down from a gain of 2.7 million in 2018. Unemployment rate was unchanged at 3.5%, and was in line with expectations. Worker's pay, however, came in below expectations rising 2.9% y/y (3.1% consensus), it's lowest y/y rise since July 2018. Treasury yields declined about 2 bps on the initial release, but are currently back to little changed.

VIX and futures positioning

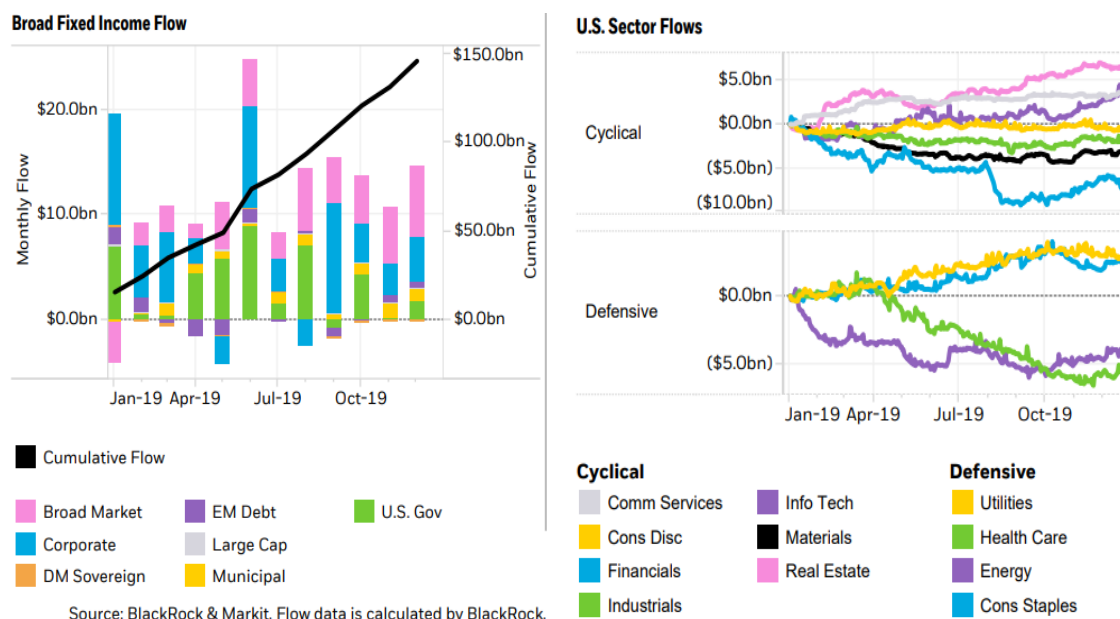


Source: Bloomberg

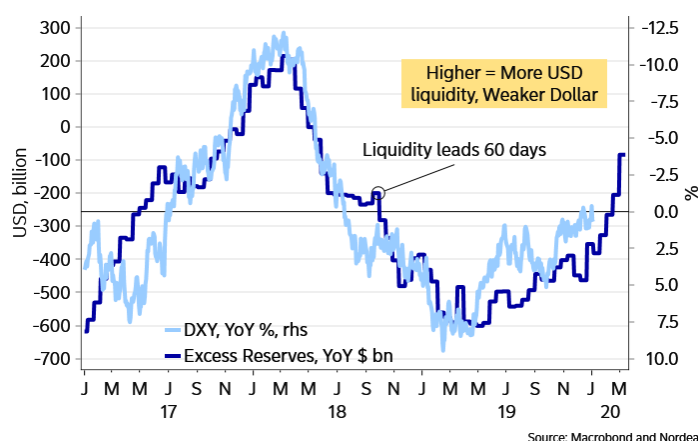
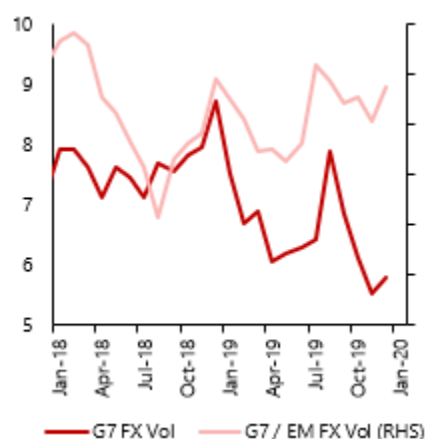
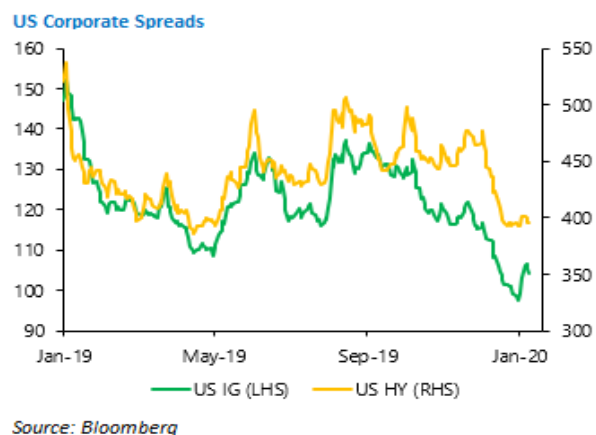
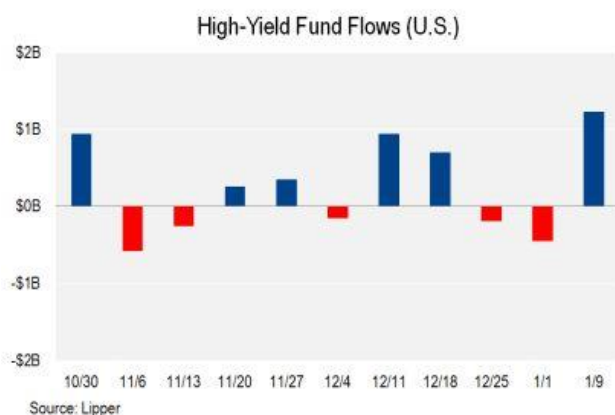
For US-domiciled firms raising new capital there has been a noticeable shift towards the European bond market since 2012—so-called “reverse Yankee” issuance. Analysts highlight that this is facilitated by attractive yields and a match between companies that need to diversify and investors looking for new issuance. Despite its growth, reverse Yankees are still a relatively small share of overall issuance. Goldman analysts also highlighted that such issues also display a highly concentrated usage. Just 7 banks account for 90% of all reverse Yankee issuance in the financial sector. Similarly, the top 10 non-financial issuers account for about 40% of the reverse Yankee market.



Net inflows into fixed-income ETPs totaled \$149.5bn in 2019. Within this, corporate credit ETPs led the fixed income funds overall with \$54.8bn in net inflows. Of that, investment grade ETPs accounted for most of those inflows, netting \$36.6bn vs HY net inflows of \$17.6bn. **Within the equity space, defensive sector ETPs saw \$0.9bn in net outflows, while cyclical ETPs shed \$4.6bn.** Real-estate ETPs led cyclical inflows while financials saw net outflows. Defensive sector inflows were led by the telecom sector, while outflows were led by healthcare and energy ETPs.



US HY funds saw net inflows worth \$1.1bn this week, the largest inflow to the segment since Oct, according to Lipper data. The gain was split between mutual funds and ETFs, with \$523 mn for the former and \$598 mn for the latter. US HY spreads have been relatively stable this year, while IG spreads rose by around 6 bps.

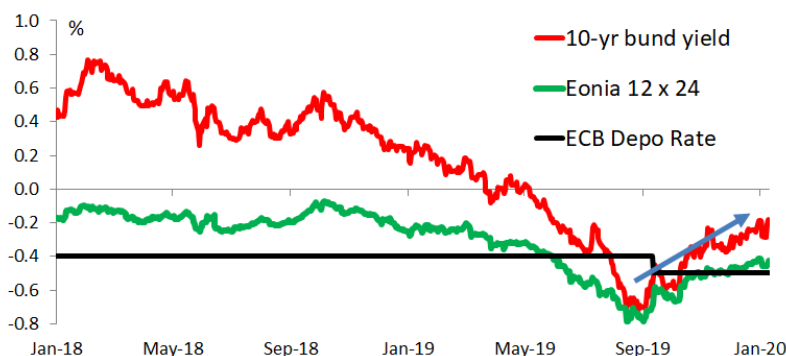


Europe [back to top](#)

Equities (+0.1%) are higher so far today and the euro was marginally weaker against the USD. Industrial output (excluding construction) in France expanded 0.3% mom in November (0.1% expected) or 1.3% yoy (0.4% expected).

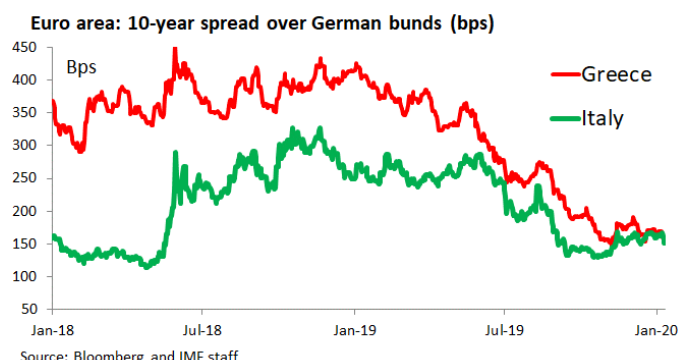
German 10-yr bund yields are trading back at May 2019 levels of -19 bps, up 50 bps from their September lows. Contacts point out that European money markets have been hesitant to price in a hike, but some expect that ECB rate hike speculation may reappear if macro sentiment improves further.

Euro area: German bund yield and EONIA money market rates



Note: A 12x24 contract fixes a rate for the period starting at the end of month 12 and ending at month 24.
Source: Bloomberg and IMF staff

Italian 10-yr spreads to bunds fell 5 bps to 151 bps, leaving Italy with a narrower spread than Greece once again. **Contacts attribute the rally to an agreement between coalition partners 5-star and PD party in favor of a new fully proportional “German-style” electoral law with a 5% threshold.** In contrast, the current electoral law allocated 37% of seats on a first-past-the-post basis and is seen to benefit Lega based on current polls.



Banque de France governor Villeroy called for a symmetrical inflation target ahead of the ECB policy review to be launched at the 23 Jan meeting. The governor also argued in favor of better inflation measures. Turning to current policy, he added that negative rates for individuals are neither probable nor desirable.

United Kingdom

The pound is 0.2% lower and the probability of a BoE rate cut in 2020H1 rose to 60% (from 35%) after **Governor Carney said yesterday that persistent weakness in activity would merit a “relatively prompt response”**.

Lawmakers in the U.K. House of Commons yesterday voted 330 to 231 in favor of the country's Withdrawal Agreement Bill, BBC News reported. The Brexit bill will now be passed to the House of Lords for approval next week. Britain is set to depart from the bloc 31 Jan.

Other Mature Markets

[back to top](#)

Japan

Equities (+0.4%) rose, ending a volatile week in positive territory. Separately, the decline in Japanese household spending narrowed to -2% y/y in November from -5.1% y/y in October when the sales tax was hiked to 10% from 8%. The yen was little changed and the 10-year JGB yield was stable at -0.009%.

Global FX

G7 FX volatility rose marginally in Dec 2019, but remains compressed vs historical levels. Despite this decline, it has risen relative to EM FX volatility. The dollar gained for the third consecutive day on Thursday and has appreciated by 0.5% this week. Nordea analysts however highlighted that the improved USD liquidity outlook could imply potential headwinds for dollar in the near term – since there is usually a lagged negative passthrough to the USD spot.

Emerging Markets

[back to top](#)

Asian equities (+0.5%) rose in a quiet session. Korea (+0.9%) outperformed, boosted by electronics. Samsung Electronics, a heavy-weight in the KOSPI index and main display supplier for Apple, rose 1.5%,

benefitting from positive Apple news. According to CNBC, Apple iPhone sales in China rose to 3.2 mn in December 2019, growing more than 18% y/y from 2.7 mn in the previous year. Malaysia (-0.3%), the Philippines (-0.3%) and China (-0.1%) bucked the regional trend. Regional currencies were little changed, except for the Indonesian rupiah which rose +0.6% to reach an almost 21-month high.

Fading volatility signals Asian currencies can pick up pace of gains



EMEA equities gained in unison, with the largest gains out of the GCC economies: Saudi Arabia (+2.7%), Kuwait (+1.9%), UAD (+1.3%), Qatar (+1.0%), and Bahrain (+0.8%). Other bourses advanced by about 0.2% to 0.4%. Currencies were mostly unchanged to the dollar. **Latin American equity markets** were mixed on Thursday. Argentina outperformed as the Merval index rose 2.5%, while equities in other countries were mostly lower but traded in thin ranges. Local currencies were mixed as well. The Chilean peso was the main underperformer depreciating 0.7% against the dollar, followed by the Brazilian real (-0.6%). 10-year government bond yields dropped 13 bps in Colombia and were generally lower in other countries.

Key Emerging Market Financial Indicators

Last updated: 1/10/20 8:08 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		45.35	0.7	-1	6	11	1
MSCI Frontier Equities		30.68	1.4	0	2	12	1
EMBIG Sovereign Spread (in bps)		294	-1	-10	-21	-92	1
EM FX vs. USD		61.25	0.0	0	1	-3	0
Major EM FX vs. USD			% (+) = EM currency appreciation				
China Renminbi		6.92	0.1	1	2	-2	1
Indonesian Rupiah		13772	0.6	1	2	2	1
Indian Rupee		70.94	0.4	1	0	-1	1
Argentina Peso		59.82	0.0	0	0	-38	0
Brazil Real		4.07	0.4	0	2	-9	-1
Mexican Peso		18.80	0.2	1	2	2	1
Russian Ruble		61.32	0.0	1	4	9	1
South African Rand		14.24	-0.2	0	4	-3	-2
Turkish Lira		5.88	0.0	2	-1	-8	1
EM FX volatility		6.55	0.0	-0.2	-0.3	-3.0	-0.1

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

India

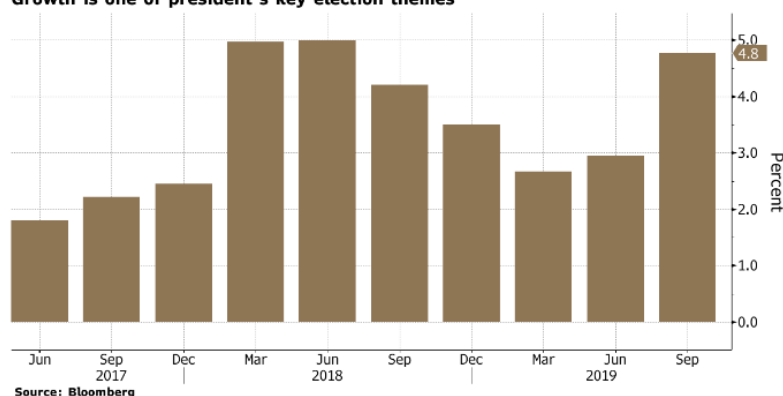
India is considering loosening foreign investment restrictions. According to Bloomberg, the Finance Ministry has suggested to raise the foreign direct investment limit in insurance and pension companies to 74% from the current 49%. It also plans to allow foreign airlines to own Indian carriers and wants to allow 100% foreign investment in railway operations, education and rental housing management firms. The

government aims to increase FDI as a share of GDP to 6% from 2% currently. Stocks rose 0.3% while the Indian rupee was flat.

Serbia

The Serbian Central Bank kept interest rates at 2.25% as growth accelerates. The bank's decision was expected by most market participants, as many believed that the central bank is keen to maintain the dinar's stability ahead of the presidential election. It is estimated that the SCB intervened in the FX market during 2019 in support of the local currency by buying around €3.1 bn, according to Bloomberg data. The SNB maintained its policy stance even as growth has recently climbed to around 4.8%.

Economic Expansion Accelerates
Growth is one of president's key election themes



Mexico

Mexico's inflation printed 0.56% m/m in December, somewhat higher than Bloomberg's consensus forecast (0.51% m/m). In annual terms, consumer prices rose at 2.83% y/y for 2019, below the 3% target. The main driver of the increase was non-core food (1.0%), especially from tomato and pork meat prices. Analysts expected Banxico to deliver another interest rate cut in the next meeting if core inflation shows moderate levels in January. The market didn't react much to the data, with the peso mostly unchanged.

Headline inflation should modestly rebound in next reports



Core inflation trend is only slowly declining



Argentina and Brazil

Both countries reported declining industrial production in November 2019. Argentina's industrial production contracted 4.5% y/y last November, and the main drag was vehicles & transportation equipment (-23.8% y/y). Brazil recorded a 1.25% m/m decline, below the Bloomberg consensus (-0.7%) and erasing all gains recorded last October and September. Analysts expected Argentina to report a positive real GDP despite several disappointing data and Brazil's industrial sector to slowly recover.

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>
Peter Breuer <i>Deputy Division Chief</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Can Sever <i>Economist (Economist Program)</i>
Will Kerry <i>Deputy Division Chief</i>	David Jones <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Sergei Antoshin <i>Senior Economist</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Rohit Goel <i>Financial Sector Expert</i>	Martin Edmonds <i>Senior Data Mgt Officer</i>
Sally Chen <i>Senior Economist</i>	Henry Hoyle <i>Financial Sector Expert</i>	Yingyuan Chen <i>Senior Research Officer</i>
Fabio Cortés <i>Senior Economist</i>	Thomas Piontek <i>Financial Sector Expert</i>	Piyusha Khot <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Patrick Schneider <i>Research Officer</i>	Xingmi Zheng <i>Research Assistant</i>

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 1/10/20 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3275	0.7	1	5	26	1
Europe		3799	0.1	1	3	24	1
Japan		23851	0.5	1	2	18	1
China		3092	-0.1	0	6	22	1
Asia Ex Japan		75	1.0	0	6	13	1
Emerging Markets		45	0.7	-1	6	11	1
Interest Rates							
			basis points				
US 10y Yield		1.85	-1.9	6	1	-89	-7
Germany 10y Yield		-0.18	-0.5	9	11	-44	0
Japan 10y Yield		0.00	-1.0	1	1	-2	1
UK 10y Yield		0.80	-2.1	6	0	-48	-2
Credit Spreads							
			basis points				
US Investment Grade		104	-0.6	1	-9	-39	6
US High Yield		394	-1.6	-7	-42	-56	1
Europe IG		43	-0.3	-2	-5	-40	-2
Europe HY		203	-0.2	-6	-18	-134	-4
EMBIG Sovereign Spread		294	-1.0	-10	-21	-92	1
Exchange Rates							
			%				
USD/Majors		97.48	0.0	1	0	2	1
EUR/USD		1.11	-0.1	-1	0	-4	-1
USD/JPY		109.6	-0.1	-1	-1	-1	-1
EM/USD		61.2	0.0	0	1	-3	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		65	0.2	-5	2	6	-1
Industrials Metals (index)		115	0.0	1	3	4	1
Agriculture (index)		41	0.5	0	3	-3	-1
Implied Volatility							
			%				
VIX Index (% change in pp)		12.5	0.0	-1.5	-3.1	-7.0	-1.2
10y Treasury Volatility Index		4.0	-0.2	-0.1	-0.6	-0.1	-0.1
Global FX Volatility		5.6	0.0	-0.5	-0.5	-3.1	-0.4
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		155	-1.7	-14	-12	-253	-11
Italy		152	-3.7	-10	-2	-111	-8
Portugal		59	0.5	-5	-10	-87	-4
Spain		63	0.3	-3	-12	-56	-2

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 1/10/2020 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+)= EM appreciation						% p.a.					
China		6.92	0.1	0.6	2	-2	1		3.1	-0.5	0	-9	5	-1
Indonesia		13772	0.6	1.1	2	2	1		7.1	-6.5	-7	-16	-112	-8
India		71	0.4	1.2	0	-1	1		6.8	-2.4	2	-11	-66	-3
Philippines		51	0.2	1.0	0	3	0		4.3	-1.1	-5	0	-193	-4
Thailand		30	0.2	-0.2	0	6	-2		1.5	3.9	-3	-13	-114	-6
Malaysia		4.08	0.4	0.6	2	1	0		3.3	0.5	-4	-10	-77	-6
Argentina		60	0.0	0.0	0	-38	0		50.9	-373.9	-1114	-3699	2863	-1169
Brazil		4.07	0.4	-0.4	2	-9	-1		6.2	-3.4	-5	6	-185	-8
Chile		770	-0.3	-1.7	1	-12	-2		3.4	5.6	15	-32	-105	13
Colombia		3254	0.1	0.0	5	-4	1		5.8	-7.5	-20	-15	-68	-16
Mexico		18.80	0.2	0.6	2	2	1		6.9	1.4	4	-1	-179	1
Peru		3.3	-0.2	-0.6	2	1	0		4.5	-1.6	2	-4	-122	-6
Uruguay		37	0.3	-0.4	1	-13	0		10.8	-0.1	-7	-38	13	-7
Hungary		301	-0.4	-1.8	-1	-7	-2		1.2	1.6	3	16	-96	-1
Poland		3.83	-0.1	-0.6	1	-2	-1		2.0	4.8	13	23	-30	12
Romania		4.3	-0.1	-0.6	0	-6	-1		3.9	-3.0	-8	-23	-21	-8
Russia		61.3	0.0	1.2	4	9	1		6.1	-0.7	-3	-15	-211	-3
South Africa		14.2	-0.2	0.4	4	-3	-2		9.5	0.7	5	-13	7	2
Turkey		5.88	0.0	1.6	-1	-8	1		11.4	-33.4	-30	-68	-592	-32
US (DXY; 5y UST)		97	0.0	0.7	0	2	1		1.65	0.0	6	-3	-91	-4

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
									basis points					
China		3092	-0.1	0	6	22	1		175	-1	-2	-7	-11	-1
Indonesia		6275	0.0	-1	1	-1	0		160	0	-10	-9	-48	4
India		41600	0.4	0	3	15	1		126	3	-2	-1	-67	1
Philippines		7777	-0.3	-1	1	-3	0		72	0	-9	-5	-29	6
Malaysia		1591	-0.3	-1	2	-5	0		105	-1	-5	-14	-53	-7
Argentina		42036	2.5	2	21	23	1		1862	-1	-85	-339	1154	93
Brazil		115947	-0.3	-1	5	24	0		212	0	-12	-15	-40	-3
Chile		4906	-0.2	1	3	-7	5		140	1	2	-10	-8	7
Colombia		1654	-0.2	0	3	19	-1		167	1	-4	-9	-28	4
Mexico		44572	0.2	0	5	2	2		294	1	-5	-19	-45	2
Peru		20420	0.2	-1	2	4	-1		110	1	-9	-12	-42	3
Hungary		45584	0.2	-1	3	12	-1		88	0	-8	-5	-46	2
Poland		58600	0.3	-1	5	-1	1		18	0	-7	-2	-46	0
Romania		9953	0.1	0	1	35	0		172	3	-3	-15	-35	-2
Russia		3121	0.1	2	6	28	2		141	-1	-9	-5	-81	10
South Africa		57369	0.5	-1	4	8	0		316	2	-14	-37	-8	-4
Turkey		119033	0.9	5	10	31	4		393	-1	-16	-34	-51	-8
Ukraine		511	0.0	0	0	-9	0		381	0	-17	-76	-366	-39
EM total		45	0.7	-1	6	11	1		294	-1	-10	-21	-92	1

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

[back to top](#)