











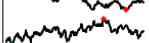


- **US equities reached another record high Friday before sliding lower** ([link](#))
- **FX hedging costs for non-US investors become less expensive** ([link](#))
- **British industrial production declines more than expected** ([link](#))
- **Emerging market bond and equity funds continue to see inflows** ([link](#))
- **North Asian equities gain on US-China trade deal optimism** ([link](#))

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## Asian equities rise as trade deal signing approaches

**Markets are mixed so far this morning as Asian stocks moved higher while many European indices are showing small losses.** US equity futures are pointing to small gains heading into the market open. As fears of Middle East tensions ease, investors are turning their attention to the upcoming signing of the US/China trade deal on Wednesday as well as Q4 earnings releases which will kick off in earnest this week. President Trump has already indicated that he wants discussions of a Phase 2 trade deal to start immediately, raising the prospect that trade news may continue to be a dominant market mover in the months ahead. The British pound is weaker this morning on speculation that the BoE will cut rates in the near future. This was driven by dovish comments from MPC members as well as weaker than expected industrial production data released this morning. Most emerging market currencies are strengthening so far today, with Chile the largest exception. The peso is down about 0.8%, its third straight decline, falling to its lowest level in about a month as the central bank signaled no intervention in the near term.

Key Global Financial Indicators

Last updated: 1/13/20 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3265	-0.3	1	3	26	1
Eurostoxx 50		3785	-0.1	1	1	23	1
Nikkei 225		23851	0.5	1	-1	17	1
MSCI EM		46	0.7	1	3	13	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.84	-3.5	3	1	-86	-8
Germany 10y Yield		-0.18	2.3	11	11	-42	1
EMBIG Sovereign Spread		295	-2	-7	-13	-96	2
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.1	-0.1	0	0	-3	0
Dollar index, (+) = \$ appreciation		97.4	0.1	1	0	2	1
Brent Crude Oil (\$/barrel)		64.9	-0.2	-6	-1	7	-2
VIX Index (% change in pp)		12.8	0.2	-1	0	-5	-1

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

As fears of rising geopolitical risks have faded away, market focus is likely to shift to fundamentals in the week ahead. US large banks are expected to report their Q4 earnings to kick off the season. Notable economic data releases include Q4GDP in China (Thursday, 6.0%yoy cons.), CPI/PPI inflation, industrial production, and retail sales in the US. On the monetary policy front, there are central bank meetings in Turkey (50bps cut exp.), South Africa (unchanged exp.), Korea (unchanged exp.), and Egypt (75bps cut exp.).

## United States

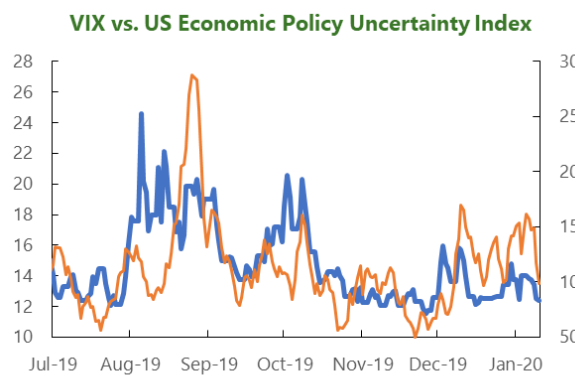
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**The US stock market managed to finish the week higher as geopolitical risks continued to fade.**

Despite a slightly weaker-than-expected US job report, risk-on sentiment overnight supported the Dow Jones Industrial Average, which traded above 29,000 for the first time Friday morning, before sliding lower to close -0.5% down on the day. Gold futures advanced as the US administration has moved to impose new sanctions on Iran, fueling demand for the metal as a haven asset. House Speaker Nancy Pelosi hinted she would send the articles of impeachment against President Trump to the Senate this week. Meanwhile, the betting markets see only a 10% chance that President Trump will leave the office early before the end of his first term.

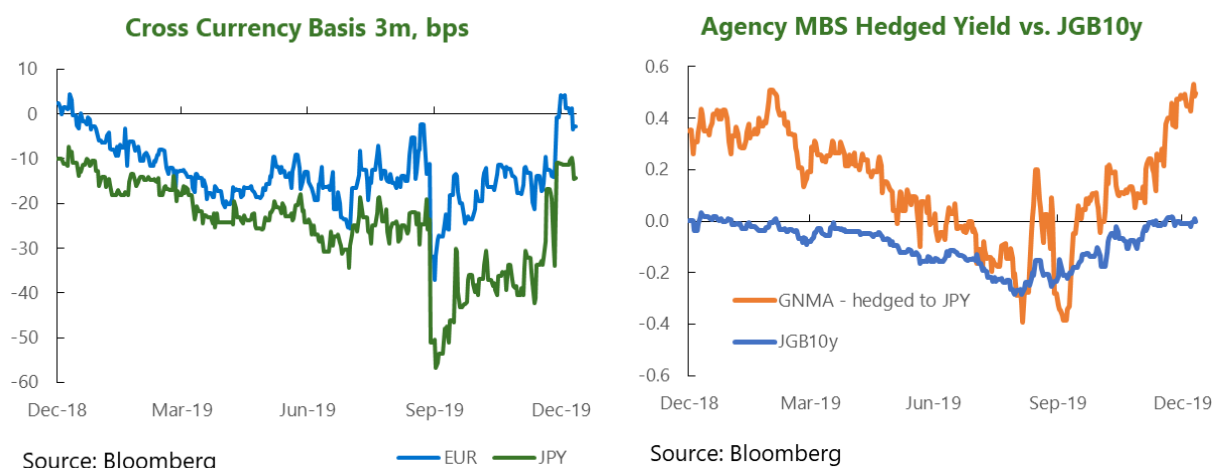


**VIX declined to the lower end of the trading range in line with subdued policy uncertainty.** The continued calming of the geopolitical and trade environment pushed the equity implied volatility index lower. Meanwhile, the cost of insurance against large drops of the S&P 500 remains relatively high, as indicated by the SKEW index, which suggests that investors are cautiously bullish.



**Treasury yields declined Friday with the curve bull-flattening** following a strong 30-year bond auction. Solid investor demand for duration continued despite receding fears for geopolitical risks, outweighing the recent supply pressure from the corporate sector. According to the latest data by CFTC, speculators pared back their short positions on 10-year Treasury futures by 24% in the week ended January 7.

**Hedging cost for non-US investors has become much less expensive.** As the Fed provided \$256 bn of temporary liquidity via open market operation over the end of the year to avoid funding strains, the US repo markets were calm at the end of the year. Correspondingly, international dollar funding cost became cheap across year-end, as indicated by the cross-currency basis. Narrower (less negative) cross-currency basis offers cheaper hedging costs for non-US investors when they purchase USD assets. For example, US agency MBS, Ginnie Mae, currently offers 50bps higher yield than 10-year JGBs on a hedged basis, which may attract yield-hungry Japanese investors.



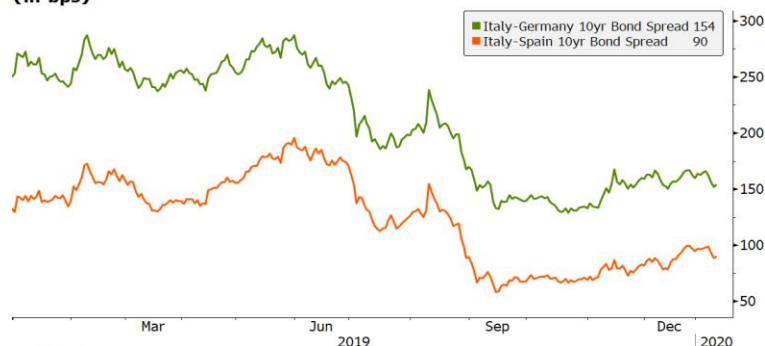
## Europe

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**Equities in core European markets are making mild gains this morning:** DAX (+0.1%), CAC 40 (0.3%), EuroStoxx 600 (+0.1%). Stocks in Italy (-0.3%) and Spain (-0.2%) retreated, however. Bank stocks (-0.5%) underperformed.

**Sovereign debt yields added 1 bp to 5 bps across tenors, leading to a small steepening of national yield curves.** German yield curve: 2-year +1 bp to -0.58%, 10-year +2 bps to -0.17%. French yield curve: 2-year +1 bp to -0.56%, 10-year +3 bps to 0.07%. Italy yield curve: 2-year +3 bps to -0.03%, 10-year +5 bps to 1.36%.

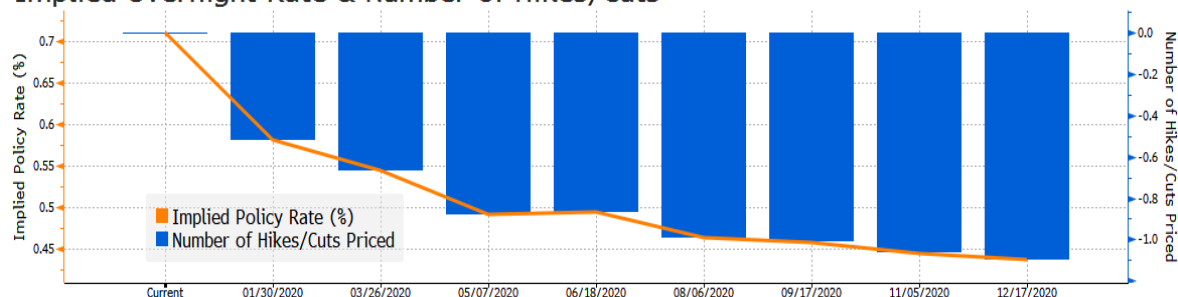
### Italy: Spreads to Other Sovereigns (in bps)



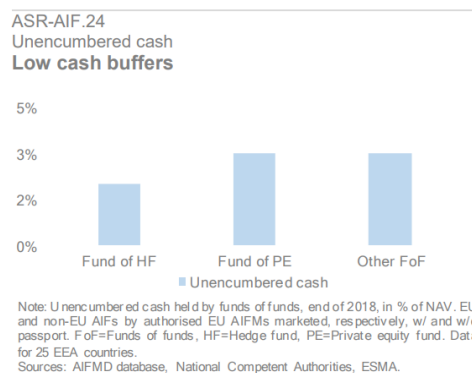
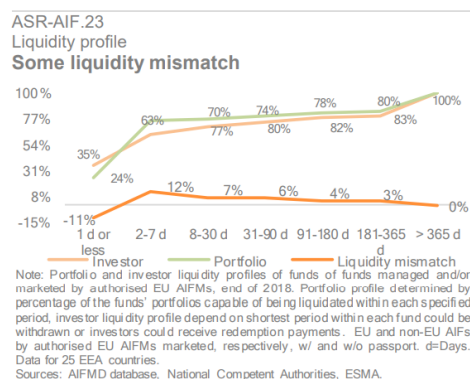
Source: Bloomberg  
CRRTR:US Curncy (FRANCE CDS USD SR SY D14) FI: Ita-Periph Spreads Daily 31DEC20  
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**British industrial production contracted beyond expectations in November:** -1.6% y/y actual versus -1.2% y/y expected. Construction output, on the other hand, expanded at a 2.0% y/y clip, defeating forecasts of a 1.4% contraction. **The pound retreated 0.7%** following the data release today and it's now trading at \$1.29. The weak economic data, plus the latest dovish comments by MPC members Mrs. Tenreyro and Mr. Vlieghe, have pushed up the odds of a rate cut by the BoE at its next meeting on Jan 30<sup>th</sup>. Markets now assign a 52% probability of a cut in rates. The domestic-oriented FTSE 250 added 1.1% today, while the FTSE 100 gained 0.5%.

### Implied Overnight Rate & Number of Hikes/Cuts



**The European Securities and Markets Authority (ESMA) estimates that alternative investment funds (AIF) have expanded to about €5.8 tn in 2018** (+11% from 2017). In its [2020 Annual Report](#), ESMA highlighted the liquidity mismatches present in many of these investments, noting that investors in Funds of Funds – which account for 14% of all AIF – are typically able to redeem 35% of their net asset value (NAV) in one day, while “only 24% of assets could be liquidated within this time frame.” Similarly, ESMA said that real estate funds face a “structural vulnerability as the maturities of assets and liabilities are not aligned.” ESMA also estimate that funds of funds have low cash buffers.



## Other Mature Markets

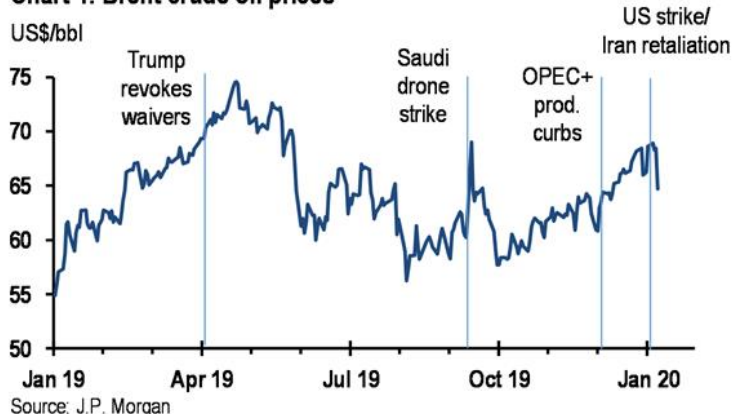
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### Commodities

**Oil prices have stabilized as US-Iran tensions have receded.** Brent (+0.2%) and WTI (+0.2%) traded at \$65/barrel and \$59/barrel on Monday. Despite the return of quiet trading conditions, analysts remain wary of a possible re-escalation of tensions, with various studies (cf. JP Morgan research) estimating a potential increase in oil prices of over \$80/barrel in the worst-case scenarios. In their words, “an attack on oil production in Iraqi Kurdistan would be relatively minor even if it lasted for six months, removing just 55mn barrels from output (roughly 0.3% of global output) with little impact on oil prices (+4%). By contrast, blocking the Strait of Hormuz for six months would remove 1,825mn barrels (10% of supply) from the market, lifting oil prices by \$83/bbl (or 126%). In between these extremes are scenarios that consider

additional military actions in Iraq and Iran that would reduce production in those countries from one to six months.”

**Chart 1: Brent crude oil prices**



**Table 1: Oil market, scenario impact analysis**

	Scenario impact (mbd)	1 month disruption			6 month disruption		
		Bbl (mn)	Price impact		Bbl (mn)	Price impact	
			\$/bbl	%		\$/bbl	%
Iraqi Kurdistan	-0.3	-9	+0	+1	-55	+2	+4
Total Iraq	-4.5	-131	+6	+9	-785	+36	+54
Total Iraq, Iran	-4.8	-146	+7	+10	-876	+40	+60
Strait Hormuz	-10.0	-304	+14	+21	-1,825	+83	+126

Source: J.P. Morgan general equilibrium oil market model

## Japan

Japanese markets were closed for a holiday. The yen depreciated 0.4%.

## Emerging Markets [back to top](#)

**Asian equities (+0.7%) rose amid positive risk sentiment ahead of the expected signing of the phase-one US-China trade deal.** Hong Kong (+1.1%), Korea (+1.0%) and China (Shanghai +0.8%; Shenzhen +1.4%) outperformed. Southeast Asian markets, notably Malaysia (-0.4%), Vietnam (-0.3%), and Singapore (-0.2%), fell. Regional currencies appreciated, led by outperformance by the Indonesian rupiah (+0.7%) and the Korean won (+0.5%). **EMEA equities mostly gained**, led by Kuwait (+1.9%), Turkey (+1.4%), UAE (+0.8%), and Saudi Arabia (+0.7%). Currencies traded within a narrow  $\pm 0.1\%$  corridor to the US dollar. **Latin American equity markets** were mostly higher on Friday. Chile outperformed as the equity index rose 2.0%, followed by Argentina (+1.7%) and Mexico. Local currencies were mixed. The Chilean peso underperformed (-0.6%), followed by the Colombian peso (-0.5%), while the Mexican peso saw gains. 10-year government bond yields were mixed as well.



## Key Emerging Market Financial Indicators

Last updated: 1/13/20 8:09 AM	Level		Change				YTD
	Last 12m	Index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		45.59	0.7	1	3	13	2
MSCI Frontier Equities		30.76	0.3	1	3	12	1
EMBIG Sovereign Spread (in bps)		295	-2	-7	-13	-96	2
EM FX vs. USD		61.13	-0.1	0	0	-3	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.89	0.4	1	1	-2	1
Indonesian Rupiah		13673	0.7	2	2	3	1
Indian Rupee		70.86	0.1	2	0	0	1
Argentine Peso		59.81	0.0	0	0	-38	0
Brazil Real		4.12	-0.6	-1	0	-10	-2
Mexican Peso		18.79	0.0	0	1	1	1
Russian Ruble		61.19	-0.3	1	3	10	1
South African Rand		14.37	0.0	-1	1	-4	-3
Turkish Lira		5.86	0.3	2	-1	-7	2
EM FX volatility		6.41	0.2	-0.3	-0.3	-3.1	-0.2

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

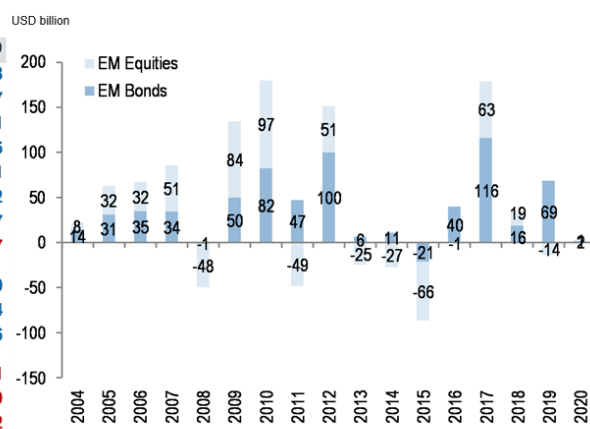
## EM Fund Flows

**EM bond fund continued to benefit from inflows (+\$1.7 bn) last week, and EM equity saw inflows as well (+\$1.1 bn).** Among bond funds, inflows to hard currency funds were +\$1.1 bn last week, while local currency funds saw inflows for the 6<sup>th</sup> consecutive week (+\$577 mn). The main driver for the inflows of EM equity funds was ETFs (+\$1.6 bn), while non-ETF suffered from redemptions (-\$534 mn).

Exhibit 1: Weekly Cross-Asset Flows

USD billion		8w flows (8w ago → current)		This wk	YTD
Fund Flows	Asset				
	EM Bonds and Equities			2.8	2.8
	EM Bonds			1.7	1.7
	Hard Ccy			1.1	1.1
	Local Ccy			0.6	0.6
	EM Equities			1.1	1.1
	US HG			5.2	5.2
	US HY			0.7	0.7
	Global Equities			-4.7	-4.7
	EM Bond and Equity ETFs			2.0	2.0
	EM Bond ETFs			0.4	0.4
	EM Equity ETFs			1.6	1.6
	Non-resident EM flows*			-1.1	-1.1
	EM Local Bonds			-0.8	-0.9
	EM Equities			-0.2	-0.2

Exhibit 2: Annual EM bond and equity fund flows



\*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

## China

**Equities (Shanghai +0.8%; Shenzhen +1.4%) were led higher by US-China trade optimism, with tech outperforming.** The US and China are expected to sign the phase-one trade deal on January 15 and the details are slated to be released this week, according to US Treasury Steven Mnuchin. He stated that China's commitments in the deal were unchanged during the translation process. China is still looking to purchase \$40 bn - \$50 bn worth of US agricultural products annually and a total of \$200 bn of US goods over two years. Donald Trump also wants phase-two of negotiations to start "right away". In addition, **the US Treasury Department is proposing to revive semi-annual talks with China to discuss the economic relationship between the two sides**, according to Bloomberg. However, this would be separate

from the phase-two talks. **The onshore (+0.4%) and offshore RMB (+0.3%) strengthened, appreciating past CNY6.9/USD for the first time since July-August 2019.**

#### Onshore yuan strengthened past 6.9/dollar first time in five months

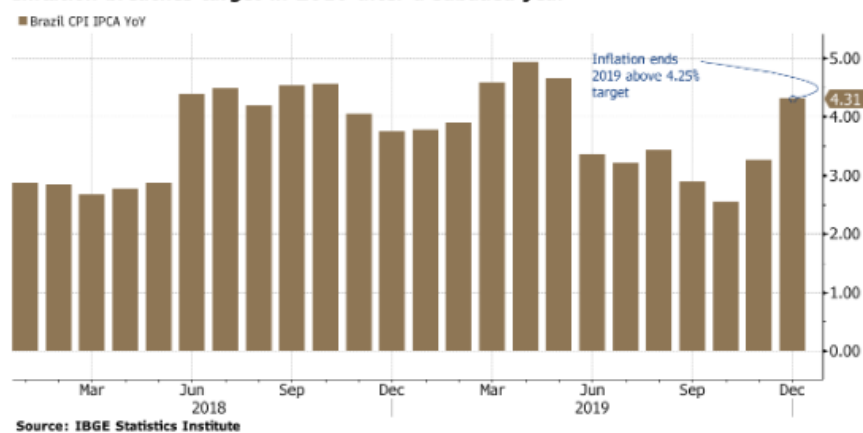


## Brazil

**Brazil's IPCA Inflation rose 1.15% in December, higher than the Bloomberg consensus forecast (+1.08%).** In annual terms, the consumer prices ended 2019 at 4.31 y/y, marginally above the 4.25% target. The main driver of the increase was food (3.38%), especially from the jump of price increases in beef, bean, and tomatoes. Analysts commented that Brazil's central bank is unlikely to deliver another interest rate cut in early 2020 with the above-target inflation. The market didn't react much to the data, with domestic equities slightly lower, and the peso mostly unchanged.

#### Above Target

Inflation breaches target in 2019 after a subdued year



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## Global Financial Indicators

Last updated: 1/13/20 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3265	-0.3	1	3	26	1
Europe		3785	-0.1	1	1	23	1
Japan		23851	0.5	1	-1	17	1
China		3116	0.8	1	5	22	2
Asia Ex Japan		75	0.6	2	4	15	2
Emerging Markets		46	0.7	1	3	13	2
Interest Rates							
			basis points				
US 10y Yield		1.84	-3.5	3	1	-86	-8
Germany 10y Yield		-0.18	2.3	11	11	-42	1
Japan 10y Yield		0.00	-1.0	1	1	-2	1
UK 10y Yield		0.73	-3.7	-4	-6	-56	-9
Credit Spreads							
			basis points				
US Investment Grade		103	-0.2	-3	-6	-40	5
US High Yield		394	-2.6	-8	-31	-59	0
Europe IG		43	0.0	-2	-3	-39	-1
Europe HY		206	0.5	-6	-9	-136	-1
EMBIG Sovereign Spread		295	-2.0	-7	-13	-96	2
Exchange Rates							
			%				
USD/Majors		97.45	0.1	1	0	2	1
EUR/USD		1.11	0.0	-1	0	-3	-1
USD/JPY		109.9	-0.4	-1	0	-2	-1
EM/USD		61.1	-0.1	0	0	-3	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		65	-0.2	-6	-1	7	-2
Industrials Metals (index)		116	-0.2	1	2	4	1
Agriculture (index)		41	-0.3	0	2	-3	-1
Implied Volatility							
			%				
VIX Index (% change in pp)		12.8	0.2	-1.1	0.1	-5.4	-1.0
10y Treasury Volatility Index		3.7	-0.3	-0.6	-0.4	-0.3	-0.4
Global FX Volatility		5.5	0.0	-0.5	-0.4	-3.0	-0.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		154	-1.3	-15	-10	-252	-11
Italy		155	2.6	-10	0	-107	-5
Portugal		60	0.4	-6	-6	-87	-3
Spain		64	0.4	-4	-6	-56	-1

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

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## Emerging Market Financial Indicators

Last updated: 1/13/2020 8:09 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		6.89	0.4	1.2	1	-2	1		3.1	-1.8	-3	-11	4	-2
Indonesia		13673	0.7	2.0	2	3	1		7.0	-3.9	-13	-19	-117	-12
India		71	0.1	1.5	0	0	1		6.9	3.8	7	-10	-63	1
Philippines		50	0.3	1.3	0	4	0		4.3	4.8	0	5	-191	1
Thailand		30	0.1	-0.2	0	6	-2		1.5	-1.5	-1	-15	-115	-8
Malaysia		4.06	0.3	1.0	2	1	1		3.3	0.0	-2	-11	-75	-6
Argentina		60	0.0	0.0	0	-38	0		50.1	-82.7	-1151	-3812	2777	-1252
Brazil		4.12	-0.6	-1.3	0	-10	-2		6.2	1.1	-5	5	-192	-7
Chile		778	-0.8	-0.8	-2	-14	-3		3.5	6.4	20	-22	-99	20
Colombia		3279	-0.2	-1.0	3	-4	0		5.8	-4.2	-23	-20	-77	-20
Mexico		18.79	0.0	0.3	1	1	1		6.9	-4.1	2	-6	-180	-3
Peru		3.3	-0.3	-0.5	2	0	-1		4.4	-2.4	-3	-5	-125	-9
Uruguay		37	0.3	0.3	2	-12	0		10.8	-0.7	-2	-43	19	-8
Hungary		300	0.0	-1.9	-1	-7	-2		1.2	-1.3	5	13	-98	-2
Poland		3.81	0.1	-0.7	1	-2	0		2.0	0.3	16	22	-29	13
Romania		4.3	0.1	-0.7	0	-5	-1		3.9	-2.0	-7	-23	-23	-10
Russia		61.2	-0.3	1.0	3	10	1		6.0	-10.8	-14	-26	-219	-13
South Africa		14.4	0.0	-1.1	1	-4	-3		9.5	-1.7	2	-19	9	0
Turkey		5.86	0.3	1.8	-1	-7	2		11.0	-38.0	-88	-99	-626	-70
US (DXY; 5y UST)		97	0.1	0.8	0	2	1		1.65	1.5	4	-1	-88	-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		3116	0.8	1	5	22	2		174	-2	-3	-5	-14	-2
Indonesia		6297	0.3	1	2	-1	0		161	-3	-4	-8	-53	5
India		41860	0.6	3	2	16	1		127	1	1	4	-64	2
Philippines		7777	0.0	-1	-1	-2	0		72	-4	-2	-5	-32	6
Malaysia		1585	-0.4	-1	1	-6	0		105	-1	-4	-10	-51	-7
Argentina		42740	1.7	6	16	26	3		1864	46	-78	-250	1160	95
Brazil		115503	-0.4	-1	3	23	0		211	-2	-10	-8	-45	-4
Chile		4993	2.0	2	2	-7	7		140	-1	3	-5	-11	7
Colombia		1655	0.1	-1	1	19	0		169	-1	1	0	-30	6
Mexico		44660	0.2	0	1	3	3		295	-2	-1	-13	-46	3
Peru		20447	0.1	0	2	4	0		111	-1	-2	-6	-44	4
Hungary		45194	-0.4	1	-1	11	-2		90	-2	-3	-5	-48	4
Poland		58940	0.4	1	4	-1	2		19	-2	-4	-4	-45	1
Romania		10015	0.6	2	1	38	0		173	2	-5	-13	-35	0
Russia		3130	0.2	2	4	28	3		141	-2	-7	0	-89	10
South Africa		57433	-0.1	0	1	7	1		326	2	1	-24	-6	6
Turkey		120395	1.5	8	9	31	5		393	-4	-16	-24	-55	-8
Ukraine		512	0.0	0	0	-9	0		375	-5	-21	-58	-377	-45
EM total		46	0.7	1	3	13	2		295	-2	-7	-13	-96	2

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

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