



- Asian markets gain, defying concerns over the spread of coronavirus ([link](#))
- Foreign investors reduce flows into Indian sovereign bonds ([link](#))
- Demand for US fixed income remains strong worldwide ([link](#))
- Global fund managers share bullish views for 2020 ([link](#))
- Italian spreads volatile on political concerns ([link](#))
- Saudi Arabia successfully issues a further \$5bn in Eurobonds ([link](#))

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## Market Fears Over Deadly Virus Ease but Concerns Remain

**Extensive efforts by the Chinese government to contain the spread of the new coronavirus seem to have temporarily calmed investor nervousness.** Following an initial negative reaction to the health scare, equity markets in Asia seemed to stabilize today, with Chinese and Korean markets up by about 0.3% and 1.3%, respectively. The easing of investor concerns was also reflected in European equity markets which were little changed following volatile trading sessions over the past two days. US equity futures are also pointing to a positive start. However, Italian debt markets experienced an increase in volatility as investors digested the news about the potential stepping down of the leader of the Five Star Movement, a main partner in the ruling coalition. Meanwhile in the Middle East, Saudi Arabia's issuance of a \$5 bn Eurobond was more than four times over-subscribed; a further testament to investor's strong appetite for high-grade EM debt. Meanwhile, crude oil prices continued their gradual slide (down by about \$2/bbl on the week), largely brushing off recent supply disruptions.

Key Global Financial Indicators

Last updated: 1/22/20 8:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3321	-0.3	1	3	26	3
Eurostoxx 50		3782	-0.2	0	0	22	1
Nikkei 225		24031	0.7	0	1	17	2
MSCI EM		45	0.7	-3	1	11	0
Yields and Spreads			bps				
US 10y Yield		1.78	-4.7	-1	-14	-96	-14
Germany 10y Yield		-0.26	-0.8	-6	0	-49	-7
EMBIG Sovereign Spread		296	0	0	2	-76	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.9	0.1	0	0	-4	-1
Dollar index, (+) = \$ appreciation		97.5	0.0	0	0	1	1
Brent Crude Oil (\$/barrel)		64.1	-0.8	0	-3	4	-3
VIX Index (% change in pp)		12.5	-0.4	0	0	-8	-1

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

## United States

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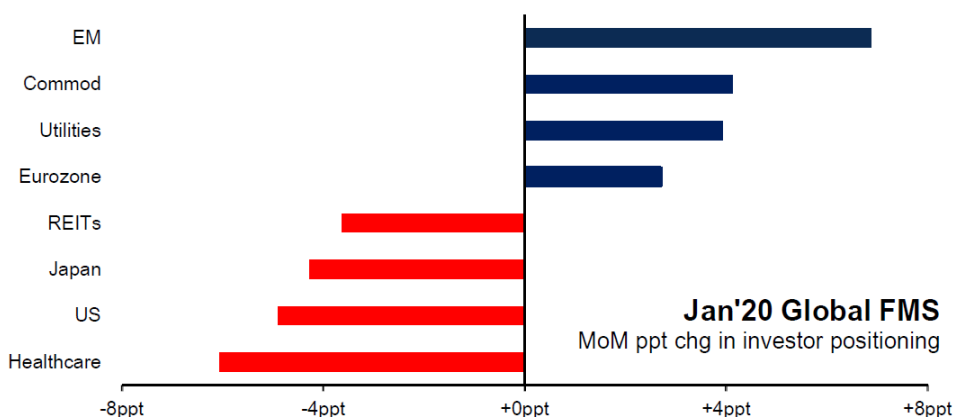
### Markets fell off on worries about the coronavirus, with safe haven assets attracting a strong bid.

However, the moves were relatively small and the S&P 500 finished only slightly below its record close on Friday. The mood among investors remains confident amid expectations that corporate profits will improve this year and that the global economy will speed up again. However, safe haven buying did drive the 10-year Treasury yield to its lowest level of the year. In other news, a survey by PwC ahead of the Davos meetings found that 53% of global CEOs expect the world economy to slow down this year, compared to 29% the previous year. As a caveat, the survey was conducted before the announcement of the Phase 1 trade deal between the US and China. The US primary bond market was busy, with investors snapping up new dollar bonds from French banks and Saudi Arabia. The latter launched seven and 35-year bonds that were soon trading below their issuance spreads in the secondary market (please see below).

### Global fund managers are bullish on markets, according to the latest survey from Bank of America.

The bank's proprietary sentiment index stands at 6.9 on a scale where 8.0 represents euphoric sentiment. The analysts interpret this as an indicator that the global market still has room to rally despite the strong gains made in 2019. Investors expect this year's performance to differ from that of last year, most notably with respect to the expected underperformance of the US relative to emerging markets and the euro area. The healthcare sector is expected to face pressure on worries about policy changes under a potential new US President. The equity overweight among fund managers has moved up to 32% from 31% in the previous survey. Historical data show that market peaks tend to occur when survey's equity overweight hits 50%.

#### Exhibit 1: Jan FMS show investors bullish, but not euphoric



Source: BofA Global Fund Manager Survey

### The relative stability of US yields is an indication of the continued strong investor appetite for US fixed income assets.

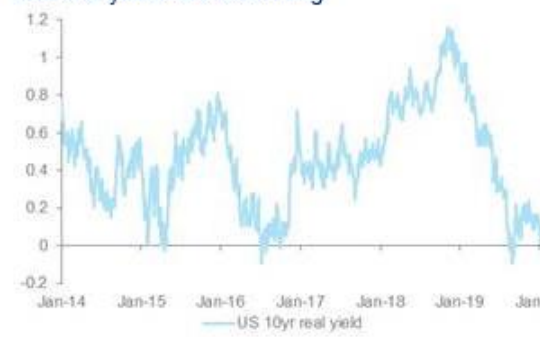
US yields have remained rangebound despite stronger economic data in recent weeks, which many had expected would push yields higher. The 10-year Treasury yield started the year at 1.92% and has moved lower through most of the month so far. The yield advantage provided by US bonds and the continued stability of the dollar are strong attractions for foreign buyers and domestic demand for US paper remains robust. The projected decline in net Treasury issuance in 2020 despite the burgeoning budget deficit is also expected to boost demand and keep a lid on interest rates. However, Citi analysts believe the scope for yields to decline much further is limited by the level of real yields in the US, which are close to zero. Accordingly, they are calling for rangebound trading to continue in the weeks ahead.

US 10s are rangebound with an upward slope



Source: CitiFX, Bloomberg

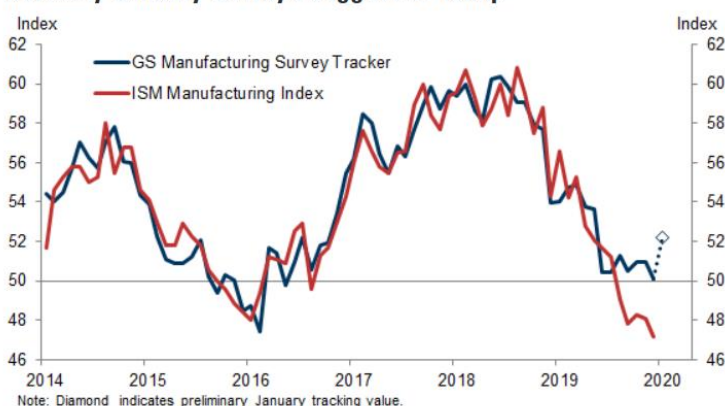
Low real yields are bottoming



Source: CitiFX, Bloomberg

**The US manufacturing sector was weak last year but the most recent data hint that a recovery could be beginning.** Manufacturing did badly on a global basis in 2019 due to factors including weak business sentiment, the trade war, slowing economies in China and Germany, the slowdown in the worldwide automobile market and (for the US) the troubles faced by Boeing due to the grounding of the 737 Max aircraft. This year, the rebound in the Philadelphia Fed and Empire manufacturing surveys gives some observers hope that a turnaround could be near. Signs of stabilization in Germany and China are also positive signs. The consensus market expectation that the dollar will hold steady or even weaken slightly this year could also boost US manufacturing. However, this view assumes that trade war tensions remain subdued and it is not clear that business sentiment has turned away from its pessimistic view.

**Exhibit 1: Manufacturing Has Weakened Substantially Over the Last Two Years, but Early January Surveys Suggest a Pickup**



Source: Institute for Supply Management, Goldman Sachs Global Investment Research

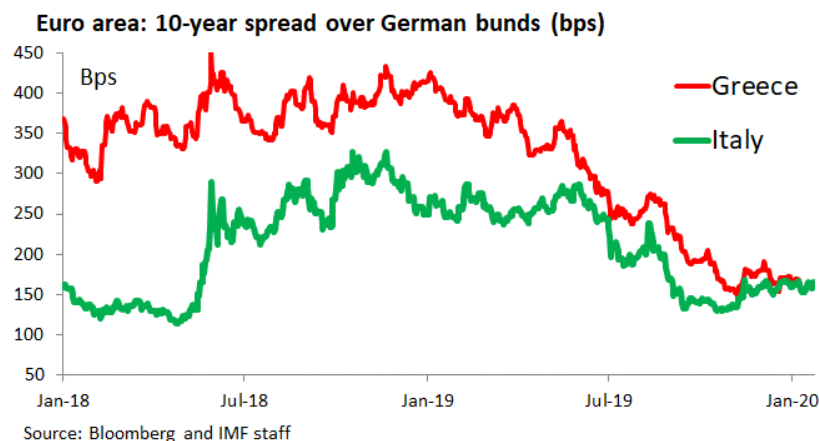
## Europe

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**In the euro area**, equities (-0.2%) edged lower while the euro was little changed against the USD. Core yields were also little changed as Italian spreads widened 8 bps to 170 bps before largely reversing the losses (spreads currently at 164 bps).

**Italian 10-yr spreads over bunds widened 8 bps to 170 bps** (compared to January lows of 152 bps) following news that 5-star leader DiMaio plans to resign. Spreads widened 5 bps yesterday, which contacts attributed to some profit taking. In contrast, **today's volatility is clearly attributed to political risks and concerns on the longevity of the current coalition following regional elections** in Emilia-

Romagna and Calabria coming Sunday. Moreover, **Italian equities (-0.5%) are lagging other equity markets.**



**The ECB is meeting tomorrow.** Investors expect the ECB to leave policy unchanged but will be paying close attention to any potential shifts in its assessments of the balance of risks after December's outlook update. **Investors also expect details on process and a timeline for the ECB's strategic review.**

**French business confidence disappointed at 104 in January** (105 expected, from a downwardly revised 105 in December). **Manufacturing sentiment also disappointed at 100** (101 expected) with **December's sentiment data substantially revised downwards** (to 98 from 102).

## Other Mature Markets

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### Japan




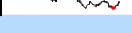




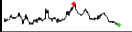



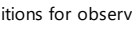

**Positive risk sentiment returned to Japanese equities as investors' worries about the coronavirus seem to moderate.** Both the Topix (+0.5%) and the Nikkei (+0.7%) indices posted advances today. The yield on the 10-year JGB was flat at 0.002%. The yen (-0.1%) weakened slightly to ¥110.0 and safe-haven demand for the currency eased

## Emerging Markets

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**Asian equities gained, defying growing concerns over the spread of the coronavirus.** Stocks in Shanghai added 0.3% today, while those in Hong Kong advanced a whopping 1.3% on the day. South Korea (+1.2) and Vietnam (+0.5%) also posted gains, as Indian equities (-0.5%) fared lower. **South Korean gains were also prompted in part by a better-than-expected Q4 GDP print at +2.2% y/y.** Currencies mostly strengthened to the US dollar – reversing some of yesterday's losses – led by the South Korean won (+0.5%) and the Philippine's peso (+0.3%). Across **EMEA**, bourses also posted gains but of smaller magnitude and only of up to 0.3% in South Africa (-2.0%). Currencies were stable. **Latin American** equities declined, and yields trended higher. Latam stocks joined the global downward trend with equities declining in Argentina (-3.6%), Brazil (-1.5%), Chile (-2.5%), Mexico (-0.6%) and Peru (-0.6%). Currencies depreciated against the US dollar in Brazil (-0.6%), Chile (-0.5%) and Colombia (-0.6%). Yields for sovereign USD debt increased for the Argentine sovereign between 226 bps at the two-year horizon, moved up by 5 bps for 2-year debt of the Brazilian sovereign and declined by 16 bps on 2-year Colombian sovereign USD debt. Yields on local currency sovereign debt remained roughly flat.

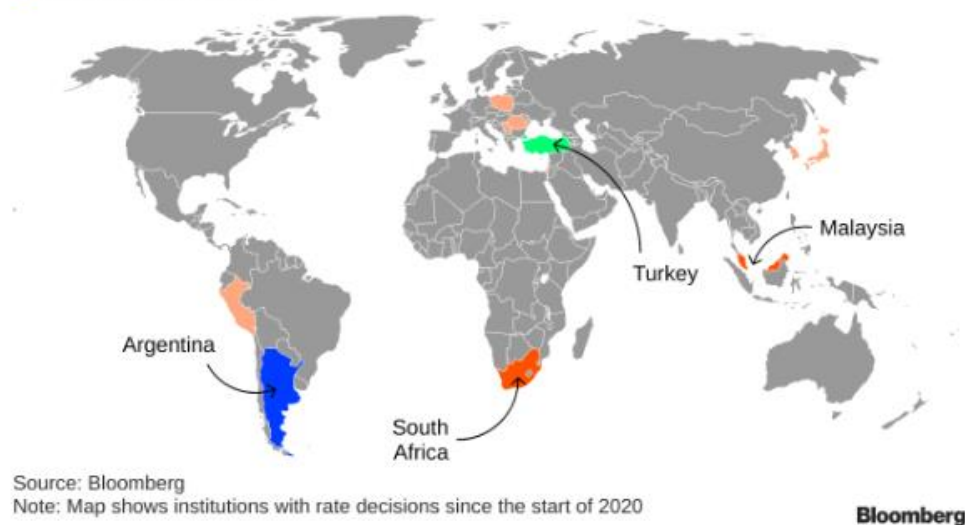
## Key Emerging Market Financial Indicators

Last updated: 1/22/20 8:55 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		45.06	0.7	-3	1	11	0
MSCI Frontier Equities		31.20	-0.1	1	3	13	3
EMBIG Sovereign Spread (in bps)		296	0	0	2	-76	3
EM FX vs. USD		60.87	0.1	0	0	-4	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.90	0.1	0	2	-1	1
Indonesian Rupiah		13646	0.2	0	2	4	2
Indian Rupee		71.20	0.0	-1	0	0	0
Argentine Peso		60.10	0.0	0	0	-38	0
Brazil Real		4.20	0.4	0	-3	-9	-4
Mexican Peso		18.70	0.4	0	1	2	1
Russian Ruble		61.95	-0.1	-1	1	7	0
South African Rand		14.39	0.8	0	-1	-3	-3
Turkish Lira		5.92	0.2	-1	0	-10	0
EM FX volatility		6.08	0.0	-0.2	-0.4	-3.0	-0.5

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

**Various EM central banks have already softened their monetary policy stance in 2020**, including major EM economies such as Turkey, South Africa, and Argentina. Analysts expect the central banks of Indonesia and Pakistan to be next on the list of rate cutters.

■ Rate left unchanged so far 
 ■ 25 basis points of cuts 
 ■ 75 basis points of cuts 
 ■ 500 basis points of cuts



## China

**The Chinese National Health Commission has warned of heightened risks of contagion as the travel season starts in China.** The virus has already claimed 9 lives and infected over 440 people in China alone. There have been reported cases in Thailand, Taiwan, Japan, South Korea, Macau and the US. After a day



of losses in most Asian markets, **Chinese equities regained lost ground with Shanghai's Index adding 0.3% and Hong Kong's Hang Seng gaining 1.3%.**

## India

**Foreign investors sell Indian sovereign bonds as expectations of higher government debt increase.** According to recent data, global investors have disposed of about \$1.5 bn of Indian bonds so far this year. Various analysts attribute the sales to traders' concerns about a possible announcement by PM Modi on Feb. 1<sup>st</sup> of intentions to increase sovereign borrowing substantially. **India's 10-year bond traded flat at 6.63% on Wednesday, while the rupee gained marginally to the US dollar to 71.2.**

### Foreign funds are headed for the first outflow in four months



## Malaysia

**Bank Negara Malaysia unexpectedly cut rates 25 bps to 2.75%.** The MPC delivered a pre-emptive cut noting downside risks in the global economy as well as delays in the implementation of local projects which could threaten domestic growth. The latest inflation figures showed core inflation standing at 1.4% y/y in December. The ringgit dropped 0.2% to the US dollar on Wednesday trading.

## Mexico

**Unexpectedly low unemployment figures delivered some support for the stock market.** The Dec 2019 unemployment rate came in at 2.9%, down from 3.4% and below the Bloomberg consensus of 3.4%, JP Morgan analysts maintained their cautious stance on the Mexican labor market, emphasizing that December unemployment data is frequently quite volatile. Still, the data release may have delivered some support for the country's equity markets which showed a more muted reaction to yesterday's downward tick in global stock markets than several other economies in the region. In this context, yesterday's five-fold oversubscription to a \$5 bn bond issuance by Pemex appeared to indicate robust investor appetite for paper from the country's main oil producer, which markets regard as backed by the sovereign.

## Unemployment and underemployment rates

%, sa, both axes



Source: INEGI

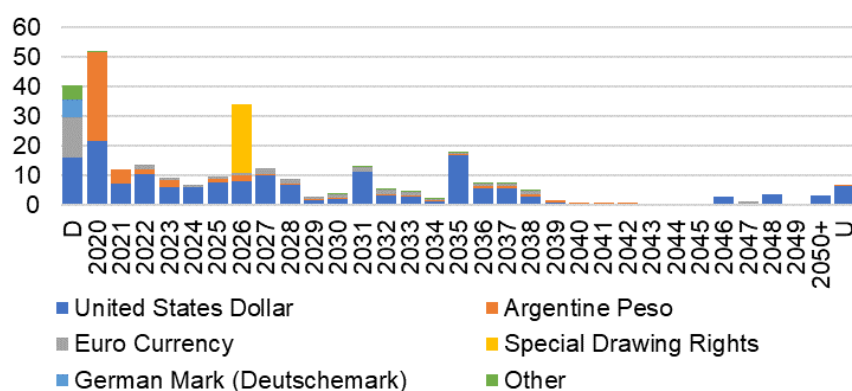
Source: JP Morgan.

## Argentina

**Planned legislative action on national debt repayment was controversially received by markets.**

According to Bloomberg news the Argentine Congress will receive today a bill outlining a plan to address the country's debt crisis and to render payments "sustainable" according public officials. The Argentine government is also not planning to offer a bail-out for the USD 250mn debt of the province of Buenos Aires due next week. With a substantive portion of the country's sovereign debt due in 2020, USD sovereign debt yields increased by about 226 bps for 2-year maturities over the past two trading sessions. Moreover, the Merval equity index dropped by about 3.5% yesterday, compared to a 1.7% decline in the global emerging markets equity index. The Argentine peso was virtually unchanged against the US dollar.

## Maturity Distribution of Outstanding AR Sovereign Debt, \$ bn



Source: Bloomberg; Note: D = in default, U = undisclosed maturity

## Saudi Arabia

**The Kingdom of Saudi Arabia has successfully issued a further \$5bn in Eurobonds.** The issue – which attracted over \$23 bn in bids – was broken down into various tranches: 7-year \$1.25 bn tranche at 85 bps over US Treasuries; 12-year \$1 bn at 110 bps over UST; and 35-year \$2.75 bn yielding 3.84%. It is expected that Saudi Arabia will need around \$32 bn in fresh funding throughout 2020, as its budget deficit expands. About 45% of the funding needs will be covered by international sukuk and bond issuances.

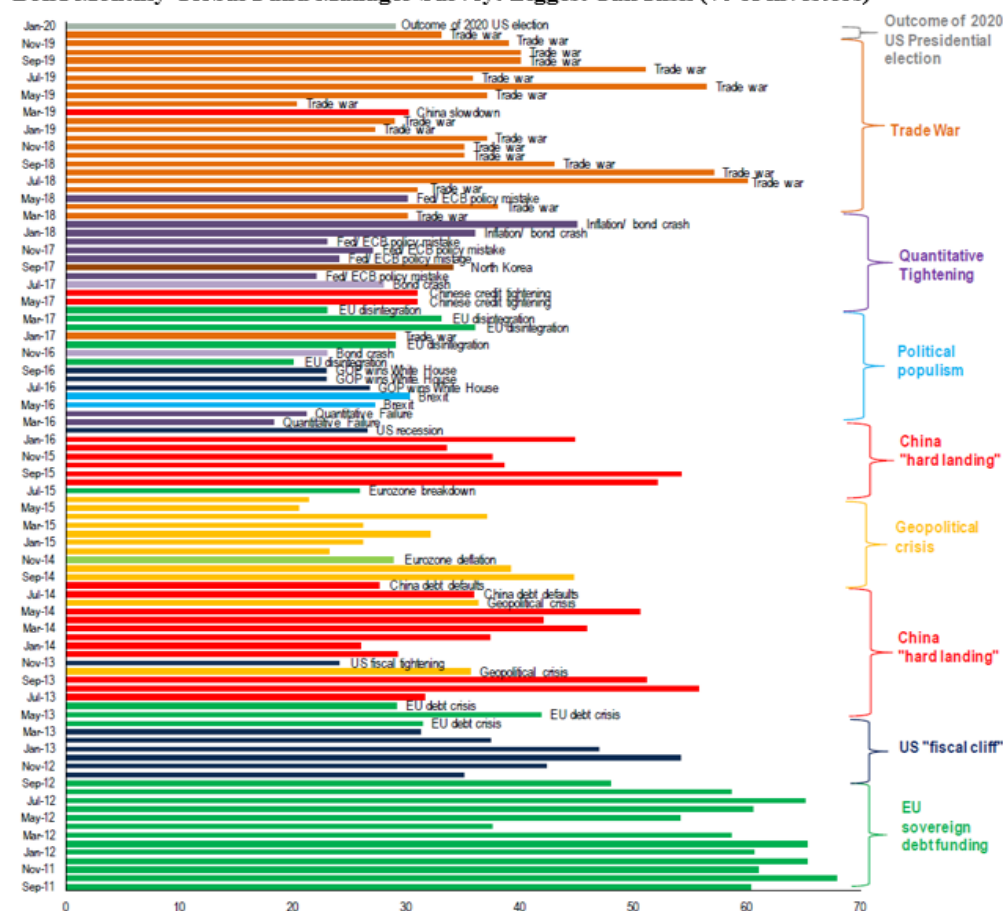
### The kingdom's spreads have dropped in the past two weeks

■ Spread over USTs of Saudi sovereign dollar bonds



Turning to global tail risks, a recent investors' survey now identifies the "outcome of the 2020 U.S. presidential elections" as #1 tail risk, with "trade war" falling to number #2 with a 22% voting share, followed by "bond bubble pops" at 20%.

### BofA Monthly Global Fund Manager Survey: Biggest Tail Risk (% of investors)



Source: BofA Global Fund Manager Survey. Survey period: 9-16 Jan 2020. 202 participants with \$630 bn AUM.



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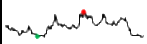










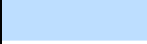



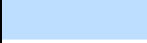


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## Global Financial Indicators

Last updated: 1/22/20 8:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3321	-0.3	1	3	26	3
Europe		3782	-0.2	0	0	22	1
Japan		24031	0.7	0	1	17	2
China		3061	0.3	-1	2	19	0
Asia Ex Japan		74	-2.7	-3	2	13	1
Emerging Markets		45	0.7	-3	1	11	0
<b>Interest Rates</b>			basis points				
US 10y Yield		1.78	-4.7	-1	-14	-96	-14
Germany 10y Yield		-0.26	-0.8	-6	0	-49	-7
Japan 10y Yield		0.00	-0.3	-1	-1	0	1
UK 10y Yield		0.65	2.2	0	-13	-67	-17
<b>Credit Spreads</b>			basis points				
US Investment Grade		99	-0.1	-3	-3	-33	1
US High Yield		393	-0.7	2	-2	-48	0
Europe IG		44	0.1	0	-1	-35	-1
Europe HY		213	1.0	4	4	-118	6
EMBIG Sovereign Spread		296	0.0	0	2	-76	3
<b>Exchange Rates</b>			%				
USD/Majors		97.51	0.0	0	0	1	1
EUR/USD		1.11	0.1	-1	0	-2	-1
USD/JPY		110.0	-0.1	0	-1	-1	-1
EM/USD		60.9	0.1	0	0	-4	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		64	-0.8	0	-3	4	-3
Industrials Metals (index)		115	-0.4	-1	0	2	1
Agriculture (index)		41	0.7	0	0	-4	-1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		12.5	-0.4	0.1	0.0	-8.3	-1.3
10y Treasury Volatility Index		3.8	-0.2	0.0	-0.1	-0.5	-0.4
Global FX Volatility		5.3	0.0	-0.1	-0.3	-2.8	-0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		163	0.1	4	-8	-226	-2
Italy		165	3.1	5	-1	-86	5
Portugal		72	0.7	2	5	-77	9
Spain		68	0.4	2	-2	-42	2

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: 1/22/2020 8:56 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		6.90	0.1	-0.2	2	-1	1		3.1	-2.6	-5	-14	0	-7
Indonesia		13646	0.2	0.4	2	4	2		6.9	-3.3	-9	-36	-138	-23
India		71	0.0	-0.5	0	0	0		6.9	-1.0	-6	-1	-69	1
Philippines		51	0.2	-0.3	0	4	-1		4.3	1.2	-1	2	-159	-2
Thailand		30	0.0	-0.4	-1	5	-1		1.6	-2.1	2	-10	-108	-4
Malaysia		4.07	0.1	0.2	2	2	1		3.3	-0.3	-1	-11	-74	-7
Argentina		60	0.0	-0.2	0	-38	0		51.5	-237.8	-150	-1604	3026	-1114
Brazil		4.20	0.4	-0.3	-3	-9	-4		6.1	-4.7	-4	-27	-190	-13
Chile		773	0.0	0.3	-2	-13	-3		3.3	-0.6	-14	-1	-123	-1
Colombia		3348	0.2	-1.5	-1	-6	-2		5.7	-3.2	-7	-21	-82	-22
Mexico		18.70	0.4	0.5	1	2	1		6.9	3.6	2	-8	-178	1
Peru		3.3	0.0	0.1	0	0	0		4.4	-4.2	-8	-10	-133	-14
Uruguay		37	0.1	0.0	-1	-13	0		10.7	0.0	-10	-21	42	-18
Hungary		303	-0.4	-1.4	-1	-8	-3		1.3	2.6	10	21	-86	15
Poland		3.82	-0.2	-0.8	1	-1	-1		2.0	-5.5	-1	16	-27	14
Romania		4.3	0.1	-0.5	0	-3	-1		3.9	0.0	-1	-14	-61	-10
Russia		61.9	-0.1	-0.8	1	7	0		6.0	0.5	0	-24	-210	-16
South Africa		14.4	0.8	0.0	-1	-3	-3		9.5	-0.1	-9	-4	-13	-4
Turkey		5.92	0.2	-0.8	0	-10	0		10.4	-11.1	-21	-160	-614	-129
US (DXY; 5y UST)		98	0.0	0.3	0	1	1		1.58	0.5	-2	-15	-100	-11

	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		3061	0.3	-1	2	19	0		173	-1	-2	-3	-10	-3
Indonesia		6233	-0.1	-1	-1	-4	-1		164	1	0	5	-42	8
India		41115	-0.5	-2	-1	13	0		129	3	5	-1	-56	4
Philippines		7469	0.0	-3	-4	-7	-4		73	0	-2	4	-26	7
Malaysia		1578	-0.6	0	-2	-7	-1		103	-1	-1	-6	-43	-9
Argentina		41486	-3.6	0	7	22	0		1933	1	115	24	1246	164
Brazil		117662	-1.5	1	2	24	2		213	1	-3	1	-35	-2
Chile		4693	-2.5	-4	-1	-13	0		142	1	1	3	-4	9
Colombia		1653	-0.2	0	1	18	-1		172	1	2	7	-26	9
Mexico		45637	-0.6	2	3	4	5		294	-1	-3	-3	-24	2
Peru		20612	-0.6	1	1	6	0		113	1	0	5	-38	6
Hungary		44500	0.8	0	-2	9	-3		94	0	1	8	-42	8
Poland		58486	-0.2	0	2	-2	1		23	1	1	7	-41	5
Romania		10109	0.1	0	2	41	1		182	5	5	8	-32	8
Russia		3182	-0.9	2	6	29	4		140	0	-2	6	-76	9
South Africa		57997	0.0	0	1	7	2		336	1	8	11	13	16
Turkey		122818	-0.6	2	10	23	7		368	-8	-5	-38	-46	-33
Ukraine		506	0.0	0	-1	-9	-1		360	-3	-5	-68	-304	-60
EM total		45	0.7	-3	1	11	0		296	0	0	2	-76	3

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

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