









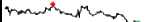




- US dollar hedging costs fall amid increased liquidity from Fed repo operations ([link](#))
- ECB leaves policy stance unchanged; set to announce details on strategy review ([link](#))
- Italian sovereign bonds reverse losses ahead of regional elections ([link](#))
- Bank of Canada maintains policy stance but signals cautiousness around growth ([link](#))
- Chinese equities decline sharply on coronavirus concerns ([link](#))
- Bank Indonesia keeps rates unchanged and cites policy remains accommodative ([link](#))

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Risk sentiment remains fragile while attention turns to central bank decisions

Markets remain focused on the coronavirus in China and the possible economic implications, while also absorbing a number of central banks decisions over the past day. Yesterday, the S&P 500 ended the day flat after earnings-driven momentum was largely offset by commodity price pressures that adversely affected the energy and materials sectors. Crude oil prices have continued to struggle, down over 3% for the week, against the global demand threat posed by the coronavirus, which aggravated existing concerns around expanding US oil production. Overnight, Asian equities traded lower on the persistent concerns about the virus outbreak, while European bourses are only modestly lower. However, market contacts have indicated that absent a serious pandemic, the global economic risks from the virus are limited and is unlikely to be a serious risk-off catalyst. On central banks, the Bank of Canada's policy meeting was interpreted as surprisingly dovish, which pushed markets to price in a higher likelihood of a rate cut this year and drove the CAD 0.7% weaker against the USD. This morning, the ECB remained on hold with no changes in the policy stance and will formally announce the parameters of its strategy review later this morning. EM assets are narrowly mixed, with the only notable price moves in China as the CNY has depreciated 0.4%.

Key Global Financial Indicators

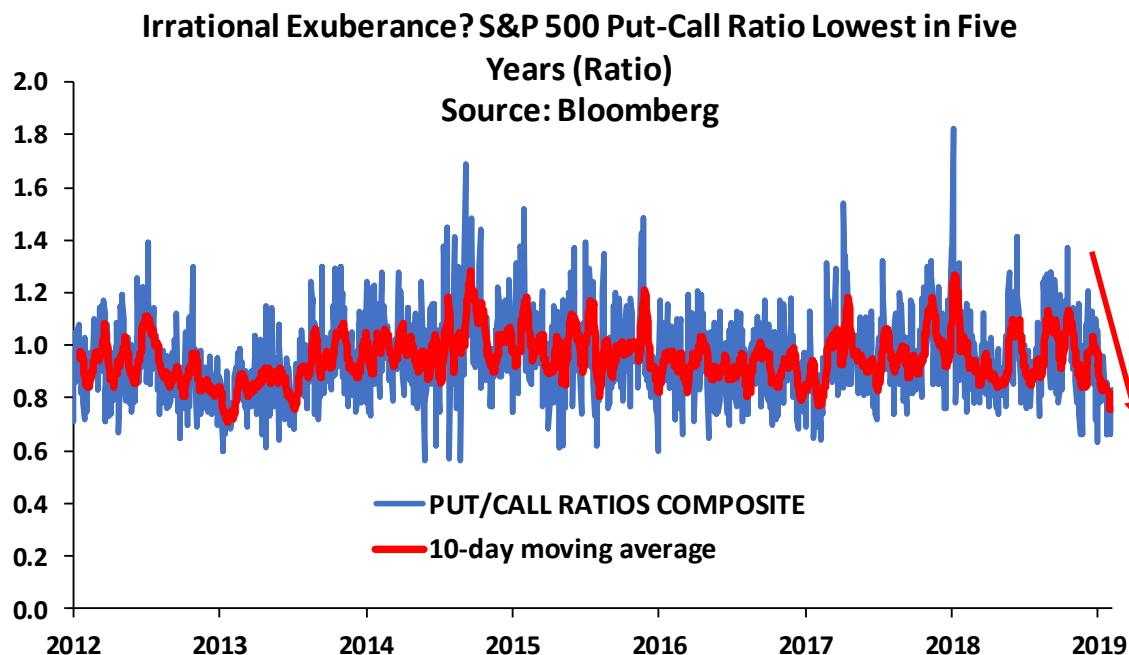
Last updated: 1/23/20 8:10 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 3322	0.0	1	3	26	3
Eurostoxx 50	 3757	-0.3	0	-1	21	0
Nikkei 225	 23795	-1.0	-1	0	16	1
MSCI EM	 45	-0.9	-1	2	11	1
Yields and Spreads		bps				
US 10y Yield	 1.74	-0.5	-6	-19	-100	-17
Germany 10y Yield	 -0.28	-1.6	-6	-3	-50	-9
EMBIG Sovereign Spread	 300	2	9	8	-70	7
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 60.9	0.0	0	0	-4	-1
Dollar index, (+) = \$ appreciation	 97.5	0.0	0	0	1	1
Brent Crude Oil (\$/barrel)	 62.1	-1.7	-4	-6	2	-6
VIX Index (% change in pp)	 13.3	0.4	1	1	-6	0

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

United States

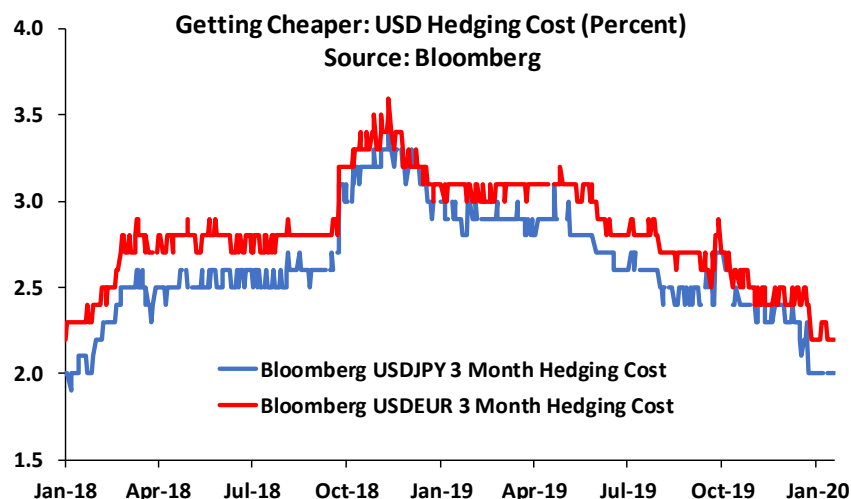
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Stocks made small gains as fears about the coronavirus dissipated. Treasury yields were little changed. Risk assets more broadly have resumed their nearly across-the-board rallies in the new year on expectations of stronger corporate earnings in 2020 and a recovery in the global economy led by China and Germany, among other countries. Oil and other energy related commodities are one of the few sectors to be out of favor. Some analysts have become worried about the sustainability of the market advances, pointing to technical indicators suggesting that valuations could be getting stretched. One widely followed measure is the S&P 500 put to call ratio which is at its lowest level since 2014, showing bullish sentiment is very high by historical standards.



The US corporate bond market is also benefiting from the resurgent risk appetite among investors as the primary market remains red hot. \$108 bn of new deals have already been priced in January amid forecasts of \$120 bn by the end of the month. Yesterday, Citi, Morgan Stanley and Adobe were among the companies selling bonds. In other news, US existing home sales were stronger than expected, up a robust 3.6% in December compared to the consensus forecast of a 1.5% gain. Last week, the housing starts data were also much stronger than expected, while the latest data from Black Knight analytics show that the mortgage delinquency rate has fallen close to an all-time low. These positive surprises have led to speculation that the housing market could do better than most analysts had forecasted and provide a boost to the overall economy.

Fed action to add liquidity to the US repo markets has led to a sharp decline in US dollar hedging costs, making US bond markets more attractive to foreign investors. The Fed's \$256 bn liquidity injections via its term and overnight repo operations have flooded the money markets with extra cash, with cash holders now competing to find opportunities to lend out their money. This has provided foreign investors seeking to borrow dollars to buy US bonds with attractive funding conditions. Bloomberg's three-month FX USD hedging cost indexes for the yen and the euro are at their lowest levels in two years at 1.95% and 2.22% per annum respectively. Contacts report that the new issuance market for dollar bonds has seen a sharp increase in participation by foreign investors this year. Low funding costs has also brought in a flood of European corporates and banks seeking to raise money in the dollar bond market.



Europe

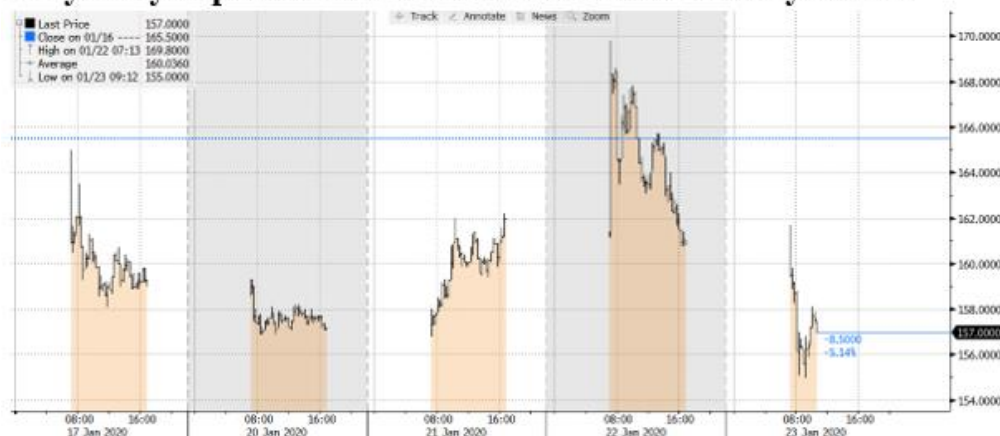
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Equities are little changed, reversing earlier losses (for a year-to-date gain of 1.2%). European bank stocks are up +0.9% (but still down 2.2% year-to-date). The euro was little changed against the USD. Core yields tightened 2 bps ahead of the ECB meeting.

This morning, the ECB left its policy interest rates and bond buying program unchanged, and announced it will provide details about the scope and timetable of the strategy review following President Lagarde's press conference. There was little market reaction to this anticipated outcome, and the attention of financial markets is likely on upcoming announcements related to the central bank's policy review. ECB President Christine Lagarde is expected to announce a launch date for the strategy review and the topics to be covered. When it comes to content, Ms. Lagarde has previously stated she wants the discussion to be "comprehensive", with its "core and center" represented by the definition of the medium-term objective of monetary policy.

10-yr BTP spreads fell 4 bps to 156 bps as 5-star and PD politicians emphasized that Di Maio's resignation as 5-star leader would not alter the government's decision-making process. Italian equities gained +0.6% (up +1.5% year-to-date).

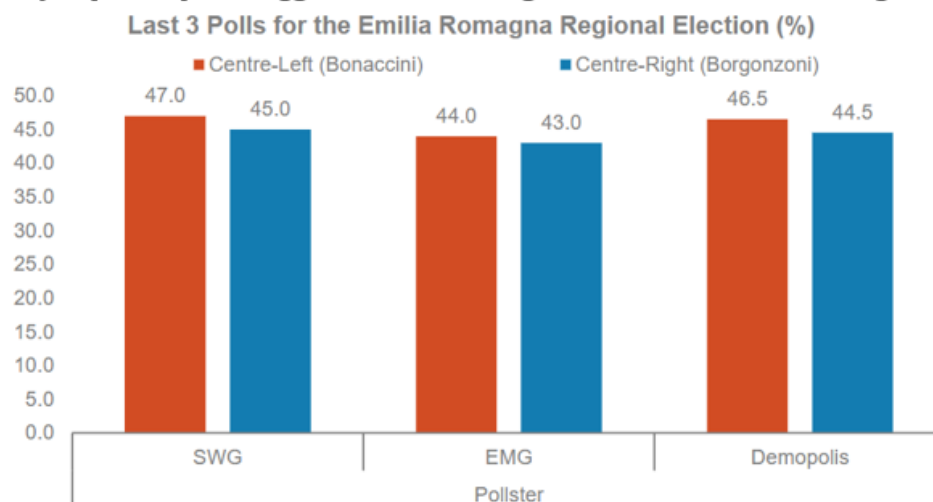
Italy: 10-yr Spreads over bunds fall back to Monday's level



Source: Bloomberg and IMF staff

The quick recovery in Italian bonds suggests that investors do not expect new national elections and a further increase in political uncertainty. Nevertheless, analysts will be closely monitoring the outcome of this weekend's regional elections in Emilia Romagna, a traditional stronghold of the Italian center-left. Center-left and center-right candidates are close in polls.

Italy: Opinion polls suggest divided voting intentions in Emilia Romagna



Source: Opinion polls (SWG, EMG, Demopolis), Morgan Stanley Research

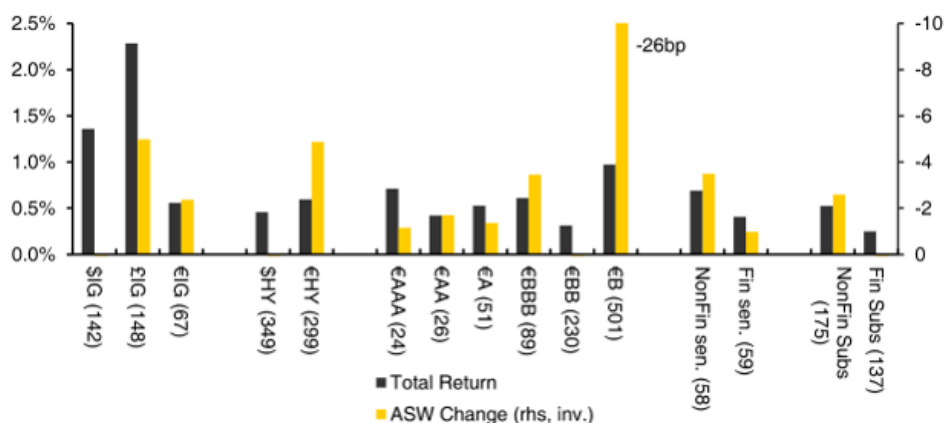
French FM Le Maire said that France and U.S. have agreed on a global digital tax framework, adding that the French digital tax will be delayed until end of 2020, and the U.S. will not impose tariffs on French goods.

Spain's new government announced a 5.5% rise in the minimum wage (to €1108 gross a month) effective immediately as part of a plan to raise the net minimum wage to 60% of average national wage by the end of the legislature.

Commerzbank points out that European high-yield credit had a strong start to the year, both in terms of primary issuance and performance. Single B-rated bonds have tightened 26 bps in 2020 (for a year-to-date return of 1%) with strong primary market activity (€2.2 bn of 4 high-yield deals in 2020).

European Credit Markets: Decent performance of high-yield bonds in 2020

iBoxx € Corporate indices, ytd ASW-change (bp) and total return (%)



Source: Markit and Commerzbank

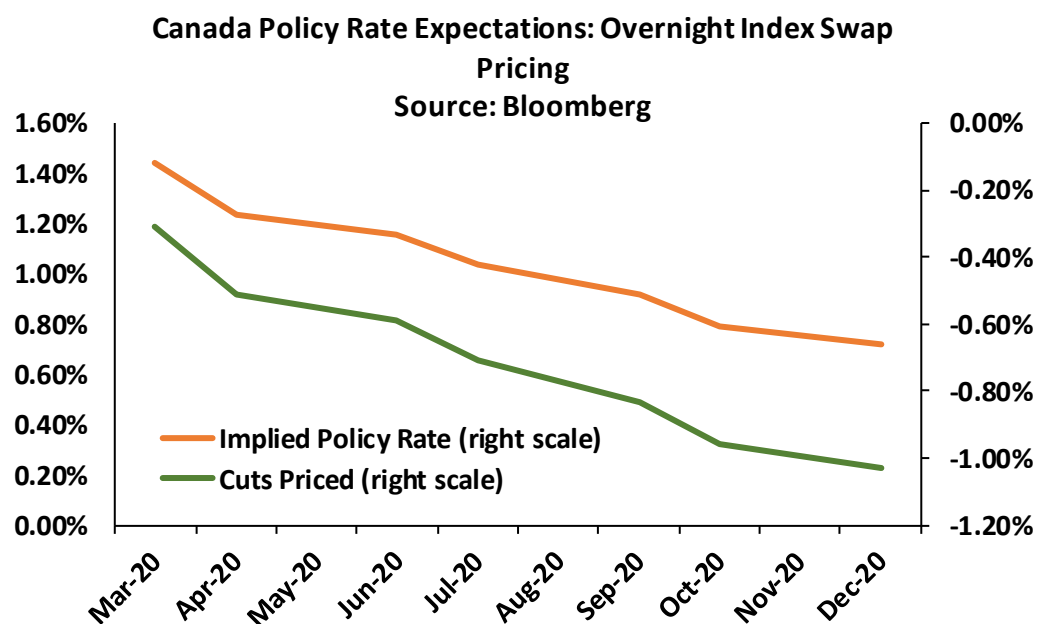
The Norges Bank left rates unchanged at 1.50%, as expected. The communication kept to the recent script of a “balanced” outlook, suggesting that “the policy rate will most likely remain at the present level in the coming period.” The bank ended its 4-hike tightening cycle in September. There was little reaction in NOK or local assets.

Other Mature Markets

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Canada

The Bank of Canada (BoC) stayed on hold at 1.75% as expected but some commentators thought that the statement was less confident about the economy than expected. While keeping the policy rate unchanged for the 10th consecutive meeting, the BoC noted that the weakness seen at the end of last year may extend into 2020. The output gap was also likely wider than it thought last year. This is a change in tone from recent statements where officials stressed the positive aspects of the economy, which had proved more resistant to the slowdown than many other countries. With the highest policy rate among the major developed economies, the door could be opening for a potential rate cut later this year. The Canadian overnight index swap market is pricing 30 bps of a rate cut at the next meeting on March 4, up from nearly zero in recent sessions. The market has priced in a full rate cut by the end of the year. CIBC predicts that rising unemployment will force the Bank to cut at the April meeting. The CAD weakened versus the dollar following the news as USD-CAD reached its strongest level so far this year and Canadian government bond yields were lower.



Japan

Japanese equities followed Chinese peers downwards on concerns over the coronavirus. The Topix (-0.8%) and the Nikkei (-1.0%) saw sizeable losses. The yield on 10-year JGBs edged down 2 bps to 0.02%. The yen (+0.2%) strengthened to ¥109.6.

Emerging Markets

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Equities in the major Asian bourses plummeted on mounting fears over the spread of the coronavirus. Stocks in Shanghai (-2.8), Hong Kong (-1.3%), and South Korea (-0.9%) posted notable losses, while the Philippines (+1.9%) and India (+0.5%) bucked the trend. Stocks in **EMEA** were mixed, with small gains in Turkey (+0.2%), Egypt (+0.2%), and Morocco (+0.1%); and losses in South Africa (-0.8%) and Saudi Arabia (-0.6%). Asian and EMEA currencies weakened to the dollar by about 0.1% to 0.3%. **Latin American** equities closed with gains, partially recovering from the prior day's losses. Equities in Argentina (+1.2%) and Brazil (+1.2%) led the gains, and losses were limited to Chile (-0.5%). Currencies saw modest appreciations in Brazil (+0.8%) and Colombia (+0.6%). Sovereign yields moved up somewhat in most markets but decreased by 6 bps on Brazilian sovereign local currency debt at the 2-year maturity and by 7 bps on Colombian sovereign peso debt at the 10-year maturity.

Key Emerging Market Financial Indicators

Last updated: 1/23/20 8:13 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		45.43	-0.9	-1	2	11	1
MSCI Frontier Equities		31.19	0.0	1	3	12	3
EMBIG Sovereign Spread (in bps)		300	2	9	8	-70	7
EM FX vs. USD		60.88	0.0	0	0	-4	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.93	-0.4	-1	1	-2	0
Indonesian Rupiah		13639	0.1	0	2	4	2
Indian Rupee		71.27	-0.1	0	0	0	0
Argentine Peso		60.09	0.0	0	0	-37	0
Brazil Real		4.17	0.2	0	-2	-10	-3
Mexican Peso		18.72	-0.1	0	1	2	1
Russian Ruble		61.90	-0.1	0	1	7	0
South African Rand		14.38	-0.4	0	-1	-4	-3
Turkish Lira		5.93	-0.1	-1	0	-11	0
EM FX volatility		6.02	0.0	-0.1	-0.4	-3.0	-0.6

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

China

Chinese authorities have placed Wuhan city in lockdown and closed all transportation access to the 11 mn-people city. The move has announced after the death toll from the coronavirus increased to at least 17 reported cases in China and the number of contagious cases continued to spread to seven countries as of now. National authorities are particularly concerned about the risk of contagion during the Lunar New Year travel season, when billions of trips across the country are anticipated. **Chinese equities plummeted, with the Shanghai Composite losing 2.8% and Hong Kong's Hang Seng 1.5%.** The onshore renminbi CNY weakened 0.4% to 6.93 to the dollar and the offshore CNH lost 0.3% to 6.93.

Threat Widens

Coronavirus has spread from China to at least seven other locations

■ Reported a confirmed case



Sources: National and municipal health authorities

Bloomberg

Toll of Asia's Viruses

The most deadly viruses emerged from human contact with live animals

Virus	Dates	Human deaths worldwide	Origin
Asian flu	1957-1958	Estimated 2 million	Mutation in wild ducks combining with a pre-existing human strain
SARS	2002-2003	Almost 800	Thought to be from "animal reservoir," perhaps bats, that spread to other animals such as civet cats
H5N1 Bird flu	1997-	Approximately 455	First detected in geese in China and transmitted to humans from infected birds
H7N9 Bird flu	2013-	Approximately 616	Transmitted from infected poultry to humans at live bird markets

Sources: World Health Organization, Centers for Disease Control and Prevention

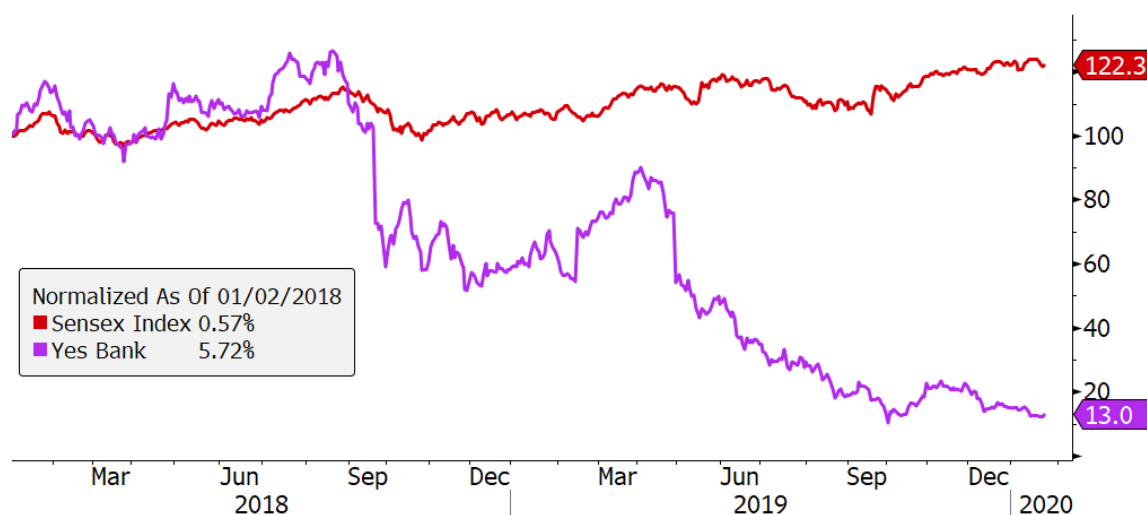
Bloomberg

India

The head of State Bank of India (SBI) anticipates a solution for beleaguered Yes Bank, according to Bloomberg. With a balance sheet of close to \$40 bn, Yes Bank has come under increased investor scrutiny due to concerns over its asset quality and ability to raise fresh equity. About two weeks ago, Yes Bank approved a capital raising of \$1.4 bn but details of the operation have not emerged. The chairman of the government-owned SBI said yesterday on Bloomberg television that he expects a solution to be found to

avoid the failure of the private lender. The equity price of Yes Bank has lost close to 80% in value over the last two years but they posted a 5.6% gain today following the comments by SBI's chairman.

Selected Indian Stock Indices



Source: Bloomberg

SENSEX Index (S&P BSE SENSEX Index) EM: India Daily 02JAN2018-23JAN2020

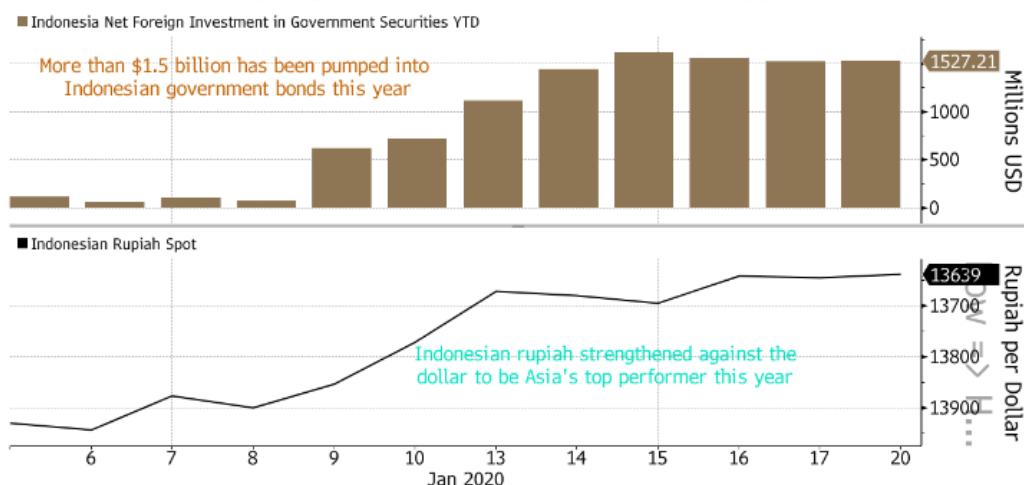
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Indonesia

The central bank kept its main policy rate at 5% as expected. Although inflation has been coming down – and running at 2.7% y/y in December – and growth remains at about 5% y/y, governor Warjiyo expressed some concern about the lack of growth in lending, estimated at only 6.1% for 2019. With this interest rate decision, Bank Indonesia has kept rates on hold for 3 consecutive meetings after delivering 100 bps in rate cuts last year. Indonesia has remained an attractive destination for global investors – drawing over \$1.5 bn in sovereign bond net inflows in 2020 already – while the rupiah has strengthened 2.5% since the beginning of the year.

Investors have been piling into Indonesia amid spike in risk appetite

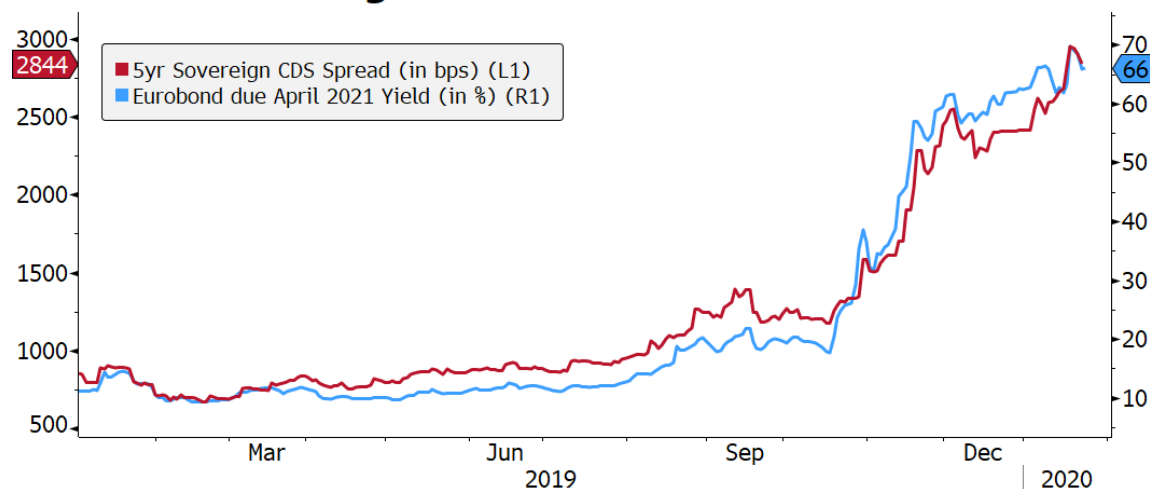


Source: Bloomberg and Indonesian Ministry of Finance

Lebanon

Lebanese assets remain under stress as Eurobond repayment approaches. Lebanon is scheduled to make a \$1.2 bn Eurobond repayment on March 9. The incoming finance minister Ghazi Wazni said that discussions on the repayment of Eurobonds will be on the top of the government's agenda next week. The finance minister also said that he does not expect a devaluation of the Lebanese lira any time soon. The cost of insuring Lebanese sovereign debt against default has now topped 2800 bps.

Lebanon: Sovereign Asset Prices



Source: Bloomberg

EJ244854 Corp (LEBAN 6 1/4 06/12/25) EM: Lebanon Daily 02JAN2019-23JAN2020

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Argentina

S&P downgraded its rating for Argentina's local currency sovereign debt. The rating agency reduced the country's sovereign long-term local currency debt rating from CCC- and the respective short-term debt rating from C to selective default. S&P emphasized concerns over the repayment outlook for Argentina's public debt, as the province of Buenos Aires simultaneously extended the deadline for investors' approval of the postponement of a debt service payment scheduled for January 26. The price of the province's respective USD debt tranche slid over the day by 5% to \$54. These developments also put pressure on the country's federal sovereign offshore USD debt, with respective yields increasing across the entire term curve, 143 bps at the 2-year maturity and 18 bps at the 30-year maturity. The Argentine peso stood firm, while stock markets partially recovered by +1.2% from the previous day's slump.

Buenos Aires's 2021 USD bond, price in \$



Source: Bloomberg





















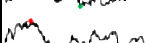

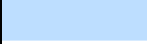



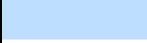


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Global Financial Indicators

Last updated: 1/23/20 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3322	0.0	1	3	26	3
Europe		3757	-0.3	0	-1	21	0
Japan		23795	-1.0	-1	0	16	1
China		2977	-2.8	-3	0	15	-2
Asia Ex Japan		75	0.5	-2	2	13	1
Emerging Markets		45	-0.9	-1	2	11	1
Interest Rates			basis points				
US 10y Yield		1.74	-0.5	-6	-19	-100	-17
Germany 10y Yield		-0.28	-1.6	-6	-3	-50	-9
Japan 10y Yield		-0.02	-1.9	-3	-3	-2	-1
UK 10y Yield		0.62	-1.7	-3	-16	-71	-20
Credit Spreads			basis points				
US Investment Grade		99	0.4	-2	-2	-31	2
US High Yield		398	1.7	10	5	-43	5
Europe IG		44	0.5	1	0	-33	0
Europe HY		215	2.1	8	6	-117	8
EMBIG Sovereign Spread		300	2.0	9	8	-70	7
Exchange Rates			%				
USD/Majors		97.54	0.0	0	0	1	1
EUR/USD		1.11	0.0	0	0	-3	-1
USD/JPY		109.6	0.2	1	0	0	-1
EM/USD		60.9	0.0	0	0	-4	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-1.7	-4	-6	2	-6
Industrials Metals (index)		113	-0.9	-3	-2	0	-1
Agriculture (index)		41	0.0	0	0	-5	-1
Implied Volatility			%				
VIX Index (% change in pp)		13.3	0.4	0.9	0.7	-6.2	-0.5
10y Treasury Volatility Index		4.0	0.0	0.2	-0.2	-0.1	-0.2
Global FX Volatility		5.2	0.0	-0.1	-0.3	-2.7	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		161	-1.4	-1	-9	-234	-4
Italy		156	-5.0	-10	-11	-97	-4
Portugal		71	-0.8	-3	5	-78	8
Spain		66	-1.1	-2	-2	-43	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: 1/23/2020 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		6.93	-0.4	-0.8	1	-2	0		3.1	-2.0	-7	-16	-3	-9
Indonesia		13639	0.1	0.0	2	4	2		6.8	-6.9	-17	-42	-146	-30
India		71	-0.1	-0.5	0	0	0		6.9	-0.4	-4	-1	-66	1
Philippines		51	-0.1	-0.6	0	3	-1		4.3	-2.0	-2	0	-155	-4
Thailand		30	-0.3	-0.3	-1	4	-2		1.6	-0.4	0	-10	-107	-4
Malaysia		4.07	-0.1	-0.2	2	2	1		3.2	-12.5	-13	-23	-87	-19
Argentina		60	0.0	-0.2	0	-37	0		52.7	123.2	-72	-1480	3150	-991
Brazil		4.17	0.2	0.3	-2	-10	-3		6.1	-4.5	-2	-31	-188	-18
Chile		769	0.4	0.9	-2	-13	-2		3.3	2.5	-8	1	-123	1
Colombia		3334	0.0	-0.3	-1	-6	-2		5.7	-4.8	-6	-25	-89	-27
Mexico		18.72	-0.1	0.4	1	2	1		6.9	-2.8	1	-10	-181	-2
Peru		3.3	0.1	0.3	0	1	0		4.4	0.4	-8	-10	-134	-14
Uruguay		37	0.1	0.1	-1	-13	0		10.5	-17.1	-27	-39		-35
Hungary		304	-0.3	-1.2	-2	-8	-3		1.4	3.3	14	24	-81	18
Poland		3.83	-0.2	-0.7	1	-1	-1		2.0	-0.4	1	15	-27	13
Romania		4.3	0.0	-0.4	0	-3	-1		3.9	0.0	1	-14	-57	-10
Russia		61.9	-0.1	-0.4	1	7	0		6.0	0.0	-4	-24	-211	-16
South Africa		14.4	-0.4	0.2	-1	-4	-3		9.5	-1.0	-11	-5	-13	-5
Turkey		5.93	-0.1	-1.2	0	-11	0		10.3	-11.6	-20	-172	-624	-141
US (DXY; 5y UST)		98	0.0	0.2	0	1	1		1.55	-2.3	-7	-20	-102	-14

	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	-2.8	-3	0	15	-2		174	0	1	-2	-7	-2
Indonesia		6249	0.3	-1	-1	-3	-1		167	2	7	10	-35	11
India		41386	0.7	-1	-1	15	0		127	-2	2	-3	-57	2
Philippines		7616	2.0	0	-3	-5	-3		72	-2	2	4	-26	6
Malaysia		1574	-0.2	-1	-2	-7	-1		104	0	2	-7	-40	-8
Argentina		42002	1.2	2	5	21	1		1987	3	180	112	1317	218
Brazil		118391	1.2	1	2	23	2		218	2	10	7	-25	3
Chile		4673	-0.5	-4	-1	-13	0		144	0	7	5	1	11
Colombia		1650	-0.2	0	-1	17	-1		173	1	7	9	-25	10
Mexico		45604	-0.1	3	3	4	5		296	1	4	1	-20	4
Peru		20680	0.3	1	2	6	1		115	1	7	7	-35	8
Hungary		44728	0.3	1	-3	10	-3		96	0	6	11	-38	10
Poland		58490	0.2	-1	2	-4	1		24	0	4	8	-39	6
Romania		10191	0.6	1	3	43	2		182	1	4	9	-35	9
Russia		3164	-0.3	0	4	27	4		142	0	5	11	-75	11
South Africa		57107	-1.4	-2	0	6	0		340	2	15	16	18	20
Turkey		122726	0.0	1	9	23	7		365	-2	-4	-40	-54	-36
Ukraine		505	0.0	0	-1	-9	-1		365	8	8	-50	-313	-55
EM total		45	-0.9	-1	2	11	1		300	2	9	8	-70	7

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

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