








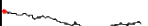

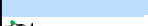



- Options on SOFR futures begin trading with view of further volume support ([link](#))
- Global CLO issuance stays strong; EU CLO new issuance at record high in 2019 ([link](#))
- Italian inflation remains among the weakest in the euro area ([link](#))
- Asian assets rebound as investors discount escalation of Middle East tensions ([link](#))
- Emerging market bond funds see strong inflows for 2019 ([link](#))

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

## Global markets recover as worries over geopolitical tensions fade

The risk-off tone that global markets had exhibited since last Friday lost momentum as geopolitical angst eased and investors shifted focus to some better economic data. While concerns over further escalation in the US-Iran confrontation remains at the forefront for market participants, both risk assets and commodities prices stabilized, allowing the decline in Treasury yields to pause as well. Yesterday, the S&P 500 opened notably lower, but found support throughout the day to close up 0.4% with futures pointing to another modest gain this morning. European and Asian bourses also ended off their lows yesterday and are rebounding this morning. Despite core sovereign yields having declined 4-8 bps amid the initial risk-off moves to start the week, benchmark 10-year yields in the US and Germany had backed up to levels last seen just before the Fed started cutting rates in July, while yield curves have generally continued to steepen. Oil markets have steadily walked back recent gains and have settled around \$68 per barrel, though prices remain near 8-month highs. Although the US dollar is slightly firmer this morning, a relatively upbeat mood on growth prospects into 2020 has seen a broader turn in sentiment toward the US dollar with the USD index depreciating close to 2% over the last month, which has provided some support to EM assets.

Key Global Financial Indicators

Last updated: 1/7/20 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3246	0.4	0	3	27	0
Eurostoxx 50		3769	0.4	1	2	24	1
Nikkei 225		23576	1.6	-1	1	18	0
MSCI EM		45	-0.2	-1	5	13	0
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.80	2.1	-12	-4	-90	-12
Germany 10y Yield		-0.29	-0.4	-11	-1	-51	-11
EMBIG Sovereign Spread		301	-1	8	-18	-102	8
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		60.9	-0.3	-1	1	-3	-1
Dollar index, (+) = \$ appreciation		96.8	0.1	0	-1	1	0
Brent Crude Oil (\$/barrel)		68.2	-1.1	0	6	19	3
VIX Index (% change in pp)		14.0	0.1	-1	0	-7	0

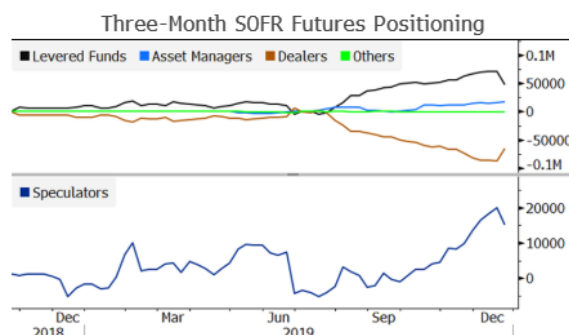
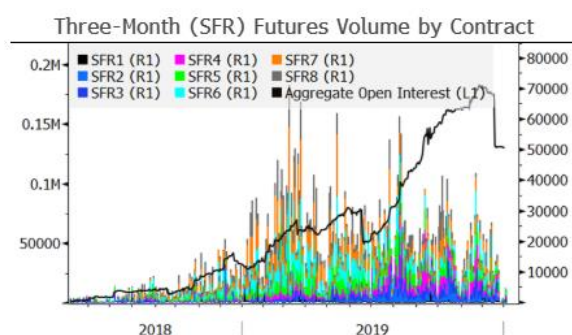
Colors denote tightening/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

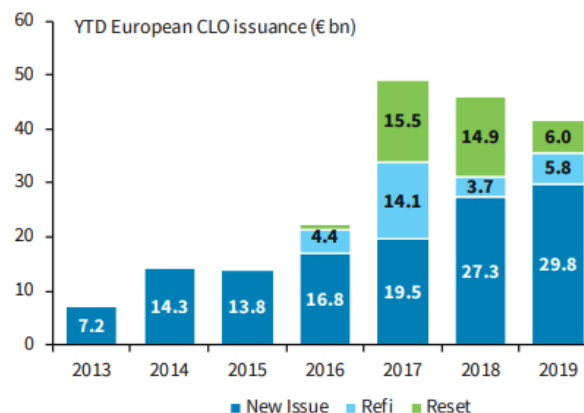
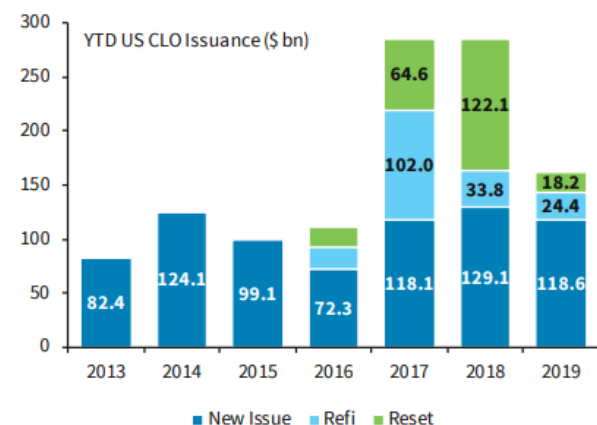
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**Risk-off trades lost momentum throughout yesterday, as investors started to discount the fallout from geopolitical tensions amid relatively strong PMI data.** Major asset classes reversed course, with precious metals and Treasuries paring gains (yields up 1-2 bps across the curve) while the S&P 500 erased earlier losses to close up 0.4%. The gain was led by the tech sector, which ended up 1.4%. The dollar remained under pressure, while emerging markets notched small gains. Amongst key releases, composite PMI for the US rose to 52.7 in Dec (from 52.0 in Nov), helped by an improvement in services PMI from 51.6 to 52.8 in Dec. Options on SOFR futures also debuted today, with reports highlighting at least one straddle was transacted – anticipating an increase in volatility (details below).

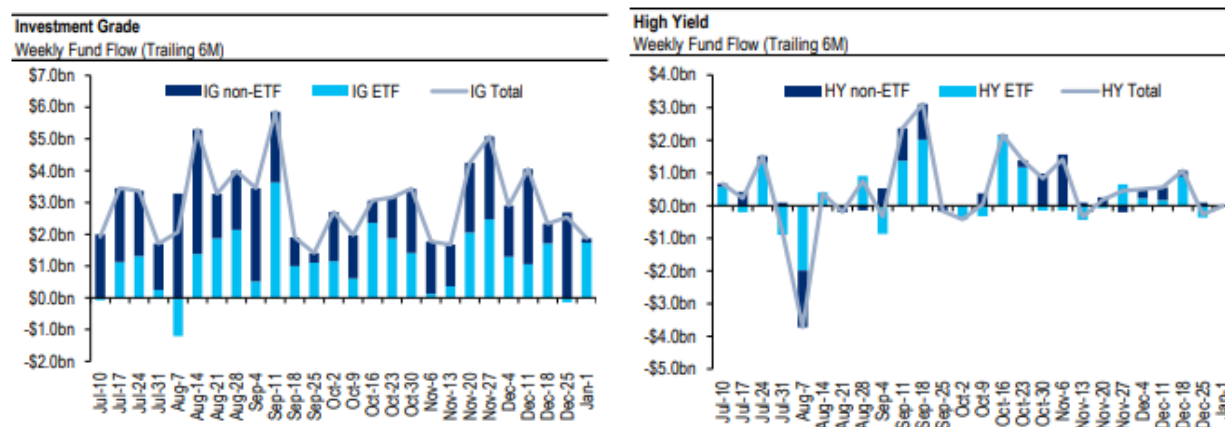
**Options on SOFR futures debuted in trading on Monday**, with analysts highlighting that options trading should help support the futures volume as well. Open interest for aggregate 3-month SOFR contracts has been steadily increasing since their launch in May. It increased rapidly in 2H, peaking at just over 180k contracts in late Nov/early Dec. Most of this volume was concentrated in longer expiration contracts (fifth to eighth contracts) outpacing the near-term contracts. In terms of the positioning, levered funds and asset managers have net longs in the futures, while dealers are net short.



**Collateralized loan obligation (CLO) new issue supply moderated m/m in December in both US and Europe, rounding off an otherwise strong year.** The new issue supply in the US was slightly lower m/m at \$7.8 bn, with European CLOs also slowing to €0.8 bn, bringing full-year new issue supply to \$118.6 bn and €29.8 bn (a post-crisis record), respectively. CLO spreads were also mostly flat to tighter m/m in Dec for both US and Europe. On the year, US BSL AAAs were roughly 9 bps wider, while European AAAs were 10 bps tighter. Barclays analysts also highlighted that fundamentals have deteriorated with a rising exposure of B3 and CCC issues.



**Fund flows remained positive for the US IG corporates in Dec, though it moderated over the last few weeks.** Over the last six months, the flows have been primarily concentrated in the non-ETF category which accounted for around two-thirds of the total flow. On the other hand, HY corporates received relatively minimal flows over the last few weeks per Citi analysts, with a broadly equal split between ETFs and non-ETFs over the last six months.



## Europe

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**Equities (+0.7%) gained as core rates were little changed.** German 10-year bund yields traded at -0.29%, and 10-year OAT yields at +0.02%. The euro was marginally weaker against the USD. Spreads over bunds were little changed today.

**Headline euro area HICP inflation rose to 1.3% y/y in December** (1.0% in Nov), as expected. The increase was largely due to the base effect from energy. Energy inflation rose from -3.2% y/y in November to 0.2% y/y in December. **Core inflation was unchanged at 1.3% y/y, as expected.** German HICP inflation was 1.5% y/y (from 1.2% in November). HSBC points out that Italy continues to lag the Big 4 with the HICP inflation of 0.5% y/y, the weakest inflation rate in the euro area except for Portugal.

## Euro area: Italy continues to lag the other Big 4 in terms of inflation (and most eurozone countries)



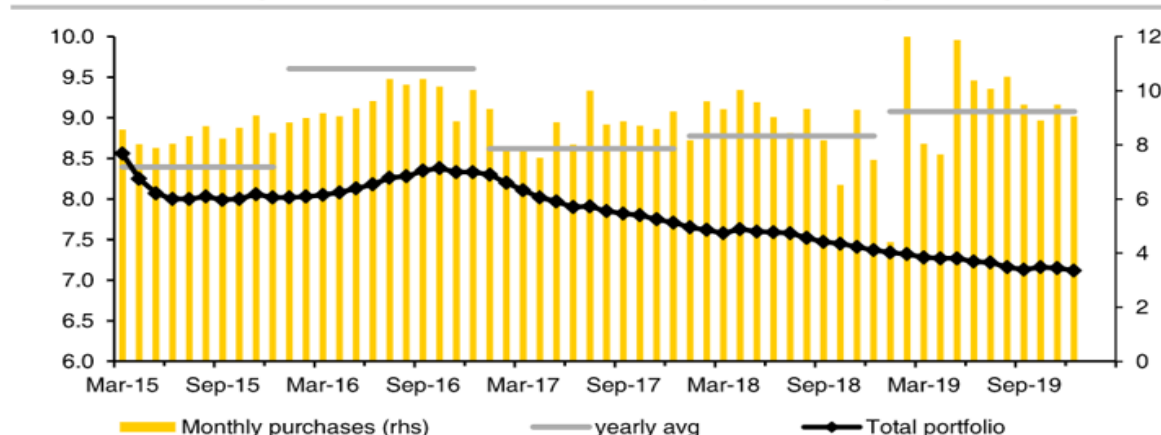
Source: Eurostat, Refinitiv Datastream, HSBC

The ECB is expected to expand the maturity of its monthly sovereign bond purchases in 2020 compared to 2019 and 2018 to limit the mechanical duration decay of its total QE portfolio. In 2019,

the ECB allowed a duration decay of 0.25 years in its PSPP sovereign bond portfolio. Commerzbank calculates that this corresponded to a weighted average duration of monthly PSPP purchases of 9.1 years in 2019.

### ECB: PSPP duration extension in 2019

Weighted average maturity (WAM) of monthly PSPP purchases and average for the calendar years (estimates) and of total portfolio, in years



Source: ECB, Bloomberg, Commerzbank Research

### United Kingdom

**The government set Wednesday 11 March as the date of the Budget** with key focus on “levelling up” U.K. regions. Parliament returns from Christmas recess today to continue work on the Brexit Bill. 10-year gilt yields fully reversed a rise of 5 bps earlier in the session after a revision added £14 bn of gilt issuance to this fiscal year. The pound is little changed at \$1.32.

### Other Mature Markets

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#### Japan

**The yen weakened a touch for a second day as investors discounted the possibility of a full escalation of tensions in the Middle East, despite Iranian threats of retaliation against the US.** Meanwhile, stocks rose (Topix: +1.6%) following overnight gains in the U.S. Electronics and auto makers provided the biggest boost to the Topix, helping the index recover its losses on Monday.

### Emerging Markets

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**Equities rebounded and currencies strengthened broadly against the dollar as investors dialed back concerns about a full escalation of tensions in the Middle East.** The RMB and the Korean won paced gains, with the onshore CNY gaining 0.6% on the day, and the won 0.5% stronger. The **Thai baht** is steady following a Bloomberg report of a Bank of Thailand MPC member who indicated that the central bank will aim to prevent the baht from appreciating beyond the 30 baht-per-dollar level; the baht is currently at THB 30.15/USD, near its strongest level since mid 2013. In the **Philippines**, the peso strengthened 0.4%, extending its appreciation against the dollar for the second day, following the release of the higher-than-expected December CPI. Although December CPI rose to a 6-month high of 2.5%, y/y, BSP Governor Diokno told journalists that the central bank could still lower its policy rate with a 25-bps cut within the first 3 three months of the year. The BSP lowered its key policy rate by 75 bps in 2019.

**EMEA** stocks were mixed, with UAE (+2.0%), Kuwait (+1.30%), and Turkey (+1.1%) benefitting the most from the roll back of global risk-off sentiment. Gains were smaller in Saudi Arabia (+0.5%) and Bahrain (+0.5%), while Egypt (-0.5%) saw losses on mounting geopolitical tensions with Turkey. Most currencies in the region weakened to the dollar with a -0.2% to 0.3% range, except for the Hungarian zloty (-0.6%). **Latin American equity markets** were mixed on Monday. Argentina outperformed as the Merval went up 2.4%, while the Brazil equity index saw losses (-0.7%). Local currencies were mixed but mainly traded in narrow ranges, except for the Chilean peso (-2.1%). 10-year government bond yields were slightly higher among countries.

### Key Emerging Market Financial Indicators

Last updated: 1/7/20 8:11 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		44.82	-0.2	-1	5	13	0
MSCI Frontier Equities		30.19	-1.0	0	0	12	-1
EMBIG Sovereign Spread (in bps)		301	-1	8	-18	-102	8
EM FX vs. USD		60.95	-0.3	-1	1	-3	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.94	0.5	0	1	-1	0
Indonesian Rupiah		13878	0.5	0	1	1	0
Indian Rupee		71.83	0.2	-1	-1	-3	-1
Argentine Peso		59.78	0.1	0	0	-38	0
Brazil Real		4.08	-0.5	-1	1	-9	-1
Mexican Peso		18.87	-0.2	0	2	3	0
Russian Ruble		61.82	0.4	0	3	10	0
South African Rand		14.29	-0.6	-2	3	-3	-2
Turkish Lira		5.97	-0.1	0	-3	-10	0
EM FX volatility		6.68	0.0	0.1	-0.1	-2.8	0.1

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

### Emerging Market Fund Flows

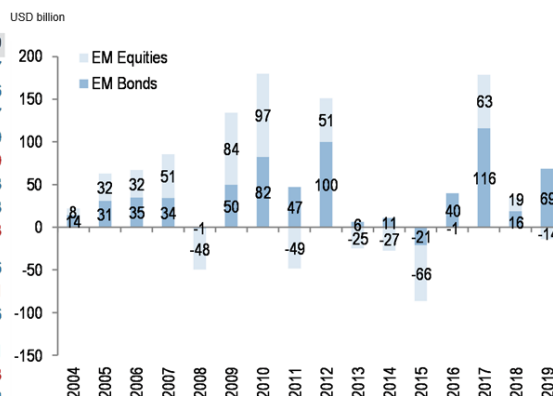
**Both EM bond funds and equity funds saw inflows at the end of 2019, with inflows of +\$1.1 bn and +\$315 mn, respectively.** Of the EM bond funds, hard currency funds maintained the steady inflow demand seen throughout most of the year (+\$692 mn), and local currency funds benefited from inflows for the 5<sup>th</sup> consecutive week (+\$362 mn), mainly driven by non-ETFs. Equity funds ended 2019 with persistent inflows but at a slower pace. Full-year flows to EM bond funds were +\$68.6 bn, while EM equity funds suffered from outflows in 2019 (-\$13.9 bn). Analysts forecast EM bond funds flows to be +\$30 bn in 2020.

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	2019
<b>EM Bonds and Equities</b>	1.4	54.7	
<b>EM Bonds</b>	1.1	68.6	
Hard Ccy	0.7	56.7	
Local Ccy	0.4	11.9	
<b>EM Equities</b>	0.3	-13.9	
US HG	2.6	229.3	
US HY	0.0	26.3	
Global Equities	3.6	-155.3	
<b>EM Bond and Equity ETFs</b>	1.2	18.6	
EM Bond ETFs	0.4	10.1	
EM Equity ETFs	0.8	8.6	
<b>Non-resident EM flows*</b>	-1.2	-0.1	
EM Local Bonds	-0.5	-0.3	
EM Equities	-0.7	0.2	

\*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

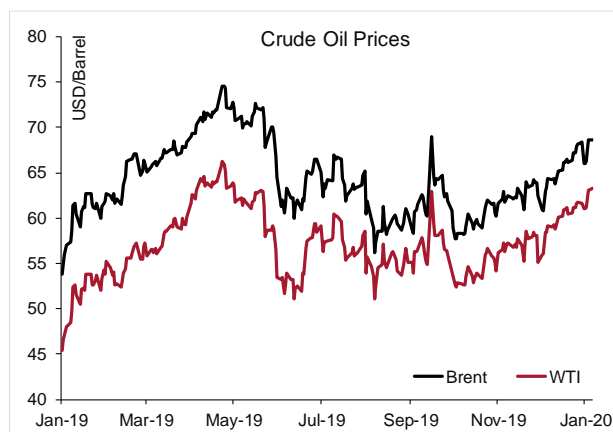
Exhibit 2: Annual EM bond and equity fund flows





## Crude Oil

**Oil prices surged yesterday morning, hitting \$70 per barrel for the first time since September, but steadily walked back gains throughout the day and have settled around \$68 per barrel.** Brent is still up 3.6% since last Friday when the US- Iran tensions first escalated, and the price of WTI has risen 3.1%. Despite increasing Mideast tensions, oil prices steadied yesterday afternoon since there has been no signs yet of a supply disruption, with Brent closing at \$68.6 per barrel (-0.2%) and WTI finishing 0.35% lower.



Source: Bloomberg

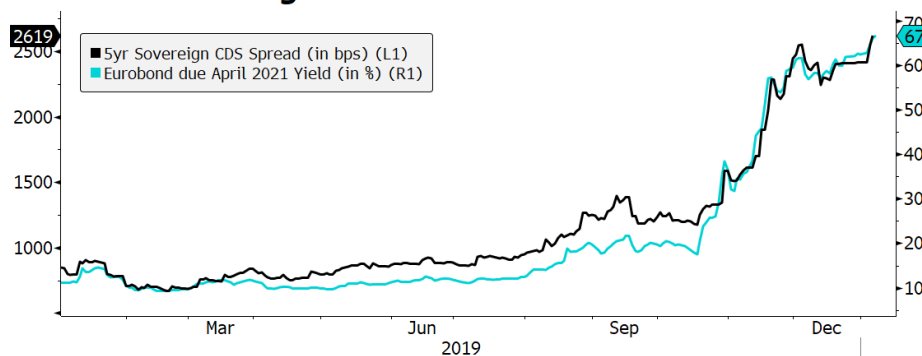
## China

**The value of China's FX reserves edged higher in December.** Reserves rose from US\$3.09 tn in November to US\$3.10 tn in December, a touch lower relative to consensus estimates of US\$3.11 tn. Analysts noted that valuation effects, including the CNY's 0.9% appreciation against the USD, boosted the latest estimate. For reference, the level of FX reserves has remained largely stable since the beginning of last year. On the day, the RMB staged its largest gain in 3 weeks, with the onshore CNY gaining 0.6% and the offshore CNH gaining 0.5% against the dollar; both currencies are at their strongest level since last August.

## Lebanon

**Lebanese sovereign assets remain under pressure**, as the yield on the April 2021 Eurobond has climbed to 67% recently while sovereign 5-year CDS spreads are at 2600 bps. Separately, **Lebanon's "whole economy" PMI index surged to 45.1 in December** from 37.0 in November. Despite the marked improvement, the index remains in contractionary territory.

## Lebanon: Sovereign Asset Prices



Source: Bloomberg

EJ244854 Corp (LEBAN 6 1/4 06/12/25) EM: Lebanon Daily 023AN2019-073AN2020

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**Mexico**

**Mexico's economic data showed that the economy remained weak as the monthly GDP showed a decline of 0.8% y/y in October and headline inflation below the target (+2.8% y/y).** The main drags on GDP were investments (-8.4%) and government expenditure (-3.3%). Despite the below-target headline inflation, core inflation remained above the target at 3.6% yoy. Analysts expect inflation to rebound in January 2020, while recent Banxico meeting minutes indicated that the policy rate could be on hold for the time being. In other news, President AMLO's approval rating rose to 72% in December.

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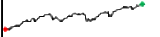













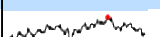



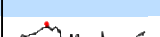


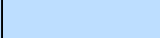



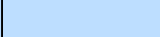


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## Global Financial Indicators

Last updated: 1/7/20 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3246	0.4	0	3	27	0
Europe		3769	0.4	1	2	24	1
Japan		23576	1.6	-1	1	18	0
China		3105	0.7	2	7	23	2
Asia Ex Japan		73	-0.4	0	5	15	0
Emerging Markets		45	-0.2	-1	5	13	0
<b>Interest Rates</b>			basis points				
US 10y Yield		1.80	2.1	-12	-4	-90	-12
Germany 10y Yield		-0.29	-0.4	-11	-1	-51	-11
Japan 10y Yield		-0.01	1.5	1	0	1	1
UK 10y Yield		0.77	0.6	-5	0	-48	-5
<b>Credit Spreads</b>			basis points				
US Investment Grade		106	0.4	9	-6	-42	9
US High Yield		402	0.7	9	-43	-76	9
Europe IG		44	-0.6	0	-3	-42	0
Europe HY		211	-1.2	4	-10	-134	4
EMBIG Sovereign Spread		301	-1.0	8	-18	-102	8
<b>Exchange Rates</b>			%				
USD/Majors		96.82	0.1	0	-1	1	0
EUR/USD		1.12	-0.2	0	1	-3	0
USD/JPY		108.4	-0.1	0	0	0	0
EM/USD		60.9	-0.3	-1	1	-3	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-1.1	0	6	19	3
Industrials Metals (index)		115	0.3	-1	3	4	1
Agriculture (index)		41	-0.3	-2	4	-4	-1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.0	0.1	-0.9	0.3	-7.5	0.2
10y Treasury Volatility Index		4.4	0.1	0.4	-0.2	-0.1	0.2
Global FX Volatility		5.9	0.0	0.0	-0.1	-2.8	0.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		170	0.4	4	-10	-247	4
Italy		166	1.0	6	2	-102	6
Portugal		67	1.4	4	-4	-93	4
Spain		69	1.2	4	-9	-59	4

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: 1/7/2020 8:11 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		6.94	0.5	0.3	1	-1	0		3.1	-0.4	2	-8	5	0
Indonesia		13878	0.5	-0.1	1	1	0		7.2	2.3	-2	-4	-103	3
India		72	0.2	-0.6	-1	-3	-1		6.9	4.9	0	-9	-65	-2
Philippines		51	0.4	-0.2	0	3	0		4.3	-3.5	1	2	-204	-3
Thailand		30	-0.1	-0.7	0	6	-1		1.5	-4.1	-10	-17	-107	-10
Malaysia		4.09	0.3	0.0	2	1	0		3.3	-2.4	-6	-10	-77	-6
Argentina		60	0.1	0.2	0	-38	0		60.1	-143.7	-245	-3110	3795	-245
Brazil		4.08	-0.5	-1.3	1	-9	-1		6.3	4.6	9	15	-173	2
Chile		776	-0.4	-3.1	0	-12	-3		3.3	-0.1	0	-49	-112	0
Colombia		3260	0.1	0.5	5	-2	1		6.0	0.0	3	7	-58	3
Mexico		18.87	-0.2	0.3	2	3	0		6.9	1.6	-4	-14	-157	-4
Peru		3.3	-0.3	-0.2	2	1	0		4.4	-2.5	-6	-10	-128	-8
Uruguay		37	-0.4	-0.5	1	-13	0		10.8	1.8	-4	-40		-4
Hungary		296	-0.6	-0.4	1	-6	0		1.1	-0.1	-6	7	-101	-7
Poland		3.80	-0.5	-0.1	2	-1	0		1.9	0.0	-4	6	-44	-4
Romania		4.3	-0.2	-0.2	1	-5	0		4.0	-2.0	-4	-20	-15	-5
Russia		61.8	0.4	0.3	3	10	0		6.1	0.5	1	-12	-229	1
South Africa		14.3	-0.6	-2.1	3	-3	-2		9.5	0.5	1	-17	8	-1
Turkey		5.97	-0.1	-0.4	-3	-10	0		12.0	7.3	22	1	-520	26
US (DXY; 5y UST)		97	0.2	0.1	-1	1	0		1.60	-1.0	-10	-7	-94	-10

	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		3105	0.7	2	7	23	2		176	-1	0	-6	-9	0
Indonesia		6279	0.4	-1	1	0	0		163	-2	7	-10	-64	7
India		40869	0.5	-1	1	14	-1		125	-1	-3	-1	-69	0
Philippines		7841	0.5	0	0	1	0		75	1	9	-5	-35	9
Malaysia		1611	0.8	0	3	-4	1		108	-1	-4	-14	-48	-4
Argentina		41470	2.4	-2	13	26	0		1944	2	175	-377	1227	175
Brazil		116878	-0.7	0	5	27	1		221	0	6	-10	-33	6
Chile		4880	0.9	5	3	-6	5		137	0	4	-9	-17	4
Colombia		1676	0.0	1	4	24	1		168	0	5	-11	-36	5
Mexico		44495	-0.3	1	6	4	2		297	1	5	-17	-35	5
Peru		20568	0.1	0	3	6	0		113	0	6	-11	-46	6
Hungary		44674	0.0	-3	1	10	-3		94	1	8	0	-43	8
Poland		58588	0.0	2	5	1	1		24	1	6	2	-44	6
Romania		9903	0.4	0	-1	29	-1		175	-4	-1	-12	-39	1
Russia		3079	0.0	2	5	28	1		149	1	18	-1	-91	18
South Africa		57498	0.5	0	4	11	1		321	-4	1	-27	-30	1
Turkey		113137	1.5	-1	4	26	-1		404	-5	3	-21	-38	3
Ukraine		510	0.0	0	0	-8	0		397	1	-23	-99	-415	-23
EM total		45	-0.2	-1	5	13	0		301	-1	8	-18	-102	8

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

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