



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, April 26, 2019

- **Decline in Japanese industrial production numbers raises concerns ([link](#))**
- **First estimate for Q1 2019 US GDP much stronger than expected ([link](#))**
- **Pledge by Chinese authorities against currency depreciation shores up RMB ([link](#))**
- **Pressure on Argentine assets continues, though slide is somewhat contained ([link](#))**
- **Deutsche Bank reports continued pressures and subdued outlook ([link](#))**
- **SPECIAL FEATURE: MCM Fintech Update (see attached email)**

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Relative market calm as overall earnings continue to surprise on the upside

Price action in financial markets was relatively muted as investors continued to digest the results of what has been a relatively strong earnings season. In the US, the tech sector has been an outperformer while in Europe, the strong start of the earnings season and the improving macro outlook were somewhat mitigated by continued political uncertainty. In Asia, an unexpected decline in industrial production in Japan raised investor concerns, especially as it came on the heels of a recent unexpected GDP contraction in South Korea. China's equity markets continue to be weighed down by its recently announced more cautious policy stance, while its currency was shored up yesterday by President Xi's pledge against currency depreciation. Political uncertainty continued to weigh on Argentina's markets, though the pressure was somewhat mitigated by a timid return of risk appetite for its significantly discounted assets.

Key Global Financial Indicators

Last updated: 4/26/19 8:41 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2926	0.0	1	4	10	17
Eurostoxx 50		3497	0.1	1	5	0	17
Nikkei 225		22259	-0.2	0	4	0	11
MSCI EM		44	0.2	-2	2	-7	12
Yields and Spreads			bps				
US 10y Yield		2.51	1.4	-5	9	-47	-18
Germany 10y Yield		-0.02	-1.1	-5	-1	-61	-26
EMBIG Sovereign Spread		345	-3	5	-7	38	-69
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.3	0.0	-1	-1	-9	0
Dollar index, (+) = \$ appreciation		98.2	0.0	1	2	7	2
Brent Crude Oil (\$/barrel)		72.8	-2.1	1	7	-3	35
VIX Index (% change in pp)		13.4	0.1	1	-1	-3	-12

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

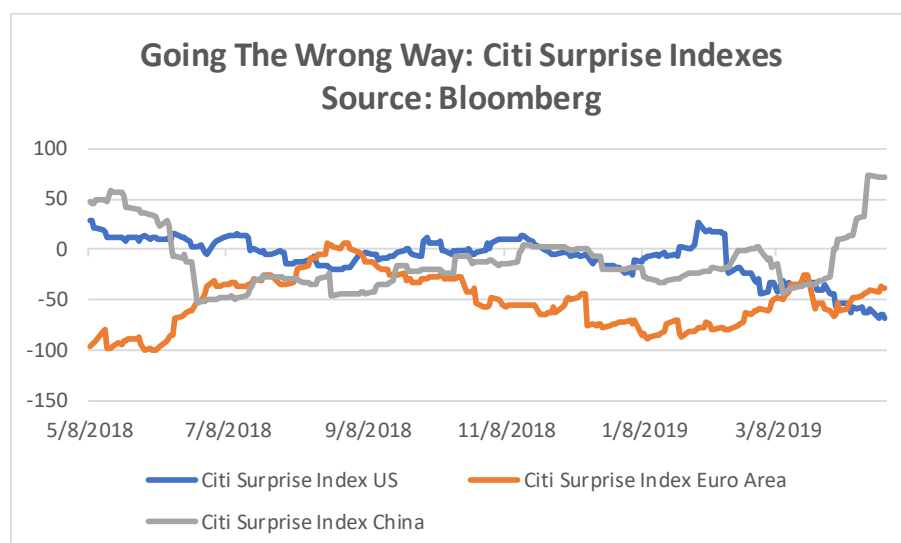
United States

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Strong tech sector earnings drove the Nasdaq to a new record, but the rest of the market lost ground. The S&P was fractionally lower but the Dow saw a larger decline as index member 3M fell sharply after slashing its earnings forecasts. Treasury yields were little changed, with 2.50% once again providing a floor to the 10-year note yield that has held through most of April. The seemingly relentless dollar rally continued, stoking worries among emerging market investors about the potential impact on local currencies, bonds and equities. However, US interest rate futures markets have gone back to predicting a full rate cut in 2019, which could limit the scope for further appreciation.

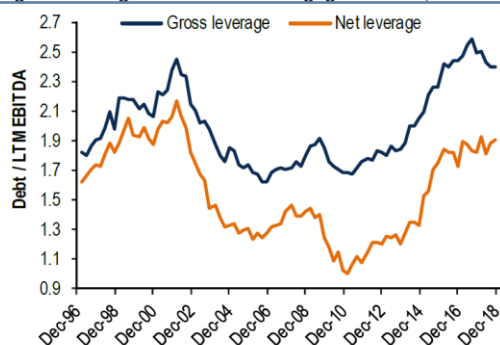
The first estimate for Q1 2019 US GDP came in much stronger than expected at 3.2% versus the consensus forecast of 2.3%. Treasury yields were higher and the dollar stronger in the immediate aftermath.

US durable goods orders for March were stronger than expected, with the widely followed ex-transportation number at 0.4% versus the 0.2% consensus forecast and the headline number at 2.7% (versus 0.8%). Jobless claims were higher than expected while continuing claims came in below forecasts. The durable goods report was an exception to the recent trend of downside economic surprises in the US as economic data have been weaker than expected. After outperforming most other economies in recent years the US is now looking like an outlier compared to the euro area and China, where economic conditions have been improving and data releases are coming in stronger than expected.



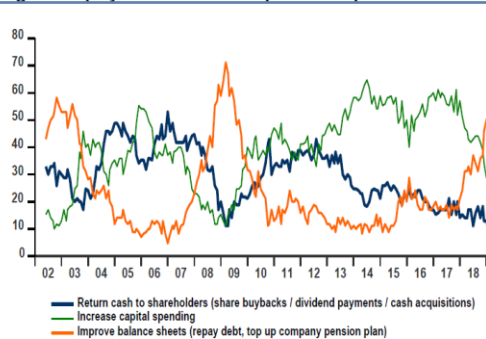
With US corporate debt and leverage levels near cyclical highs, investors think companies should focus more on improving their balance sheets. The latest Bank of America survey of global fund managers shows that even equity investors, who traditionally prefer greater transfers back to shareholders, think balance sheet repair should be a higher priority than share buybacks or dividends. There is a clear sense among market participants that such high corporate debt is not sustainable indefinitely and that debt reduction is essential for the long-term health of US corporations. This view is reflected in corporate valuations, with highly leveraged companies in the S&P 500 trading at a discount to companies with higher levels of cash reserves. The survey found that 43% of investors favored the use of excess cash to pay down debt, versus 33% preferring more capital expenditures and just 16% calling for more cash back to shareholders. This trend displays a distinctly cyclical nature and these levels of credit concerns were last seen in 2008 and 2002.

Figure 4: Leverage for US non-financial high grade Issuers, ex. Utilities



Source: BofA Merrill Lynch Global Research, Bloomberg

Figure 5: Equity investors want companies to improve balance sheets

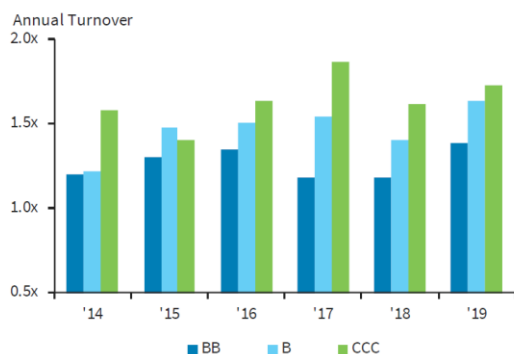


Source: BofA Merrill Lynch Global Research, Global Fund Manager Survey

The US high yield (HY) market has shown signs of improved liquidity in 2019 compared to 2018.

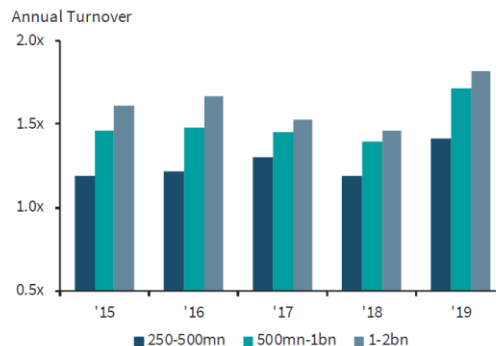
Liquidity has been strongest for higher rated HY bonds such as BBs and Bs versus CCCs. In addition, larger sized bonds enjoyed the highest liquidity. The market has also benefited from strong inflows into retail funds that picked up as the Fed's dovish message percolated through markets and came to be understood by the broader press. These retail funds account for 20% of the market and tend to move in and out of their bond positions more frequently than institutional investors such as pension plans and insurance companies. Consequently, they favor larger and more liquid paper that they can buy and sell at lower transaction costs. Barclays points out that the US HY Very Liquid Index (VLI) which contains only bonds that were issued within the past five years and are \$500 mn or larger has outperformed the broader US HY index by nearly 100 bps in 2019.

FIGURE 3
Turnover Is on Pace to Increase Significantly for BBs and Bs in 2019...



Note: 2019 volumes annualized based on historic cadence of volumes by quarter.
Source: Bloomberg Barclays Indices, MarketAxess

FIGURE 4
...as well as for Bonds with the Greatest Size



Note: 2019 volumes annualized based on historic cadence of volumes by quarter.
Source: Bloomberg Barclays Indices, MarketAxess

Europe

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The EuroStoxx 600 is unchanged with small losses in Spain and Italy offset by small gains in France and Germany. The index is down 0.3% on net for the week. The banking sector in the UK and Europe are underperforming with RBS (-4.5%) and Deutsche Bank (-3.5%) down on disappointing earnings reports and guidance. Still, **this has been a strong start of the Q1 earnings season for European companies.** With 20% of firms having reported, 54% have beat expectations and only 26% have missed. Earnings per

share growth is averaging 3.8% with France, Sweden and Italy outperforming, while the Netherlands and Switzerland are lagging. Analysts note that expectations were low to start with and that the sample is still small to draw too many conclusions.

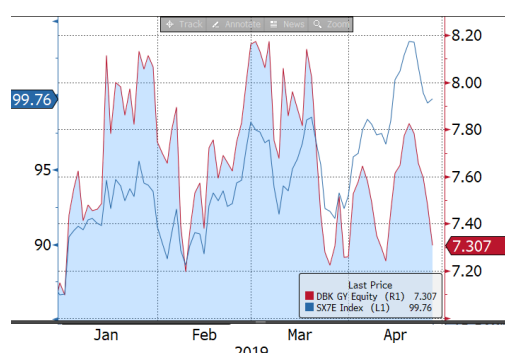
4Q18 EPS Beat, Hit, Miss Growth Table	Report Count	% Count Reported	Results Vs. Expectation			Growth Rate	
			Beat	Hit*	Miss	Start of Season	Current
MSCI Europe	0	21%	54%	20%	26%	1.8%	3.8%
Netherlands	3	23%	67%	33%	0%	-10.5%	-5.2%
Italy	2	12%	50%	0%	50%	9.0%	8.8%
Sweden	14	56%	57%	21%	21%	9.5%	15.1%
U.K.	2	15%	100%	0%	0%	4.5%	5.6%
France	3	18%	67%	0%	33%	15.3%	15.8%
Spain	3	15%	67%	0%	33%	5.1%	6.6%
Switzerland	6	55%	67%	17%	17%	-9.5%	-4.0%
Germany	3	7%	67%	33%	0%	-4.2%	-2.8%

Source: Bloomberg Intelligence, as of Apr. 25, 2019

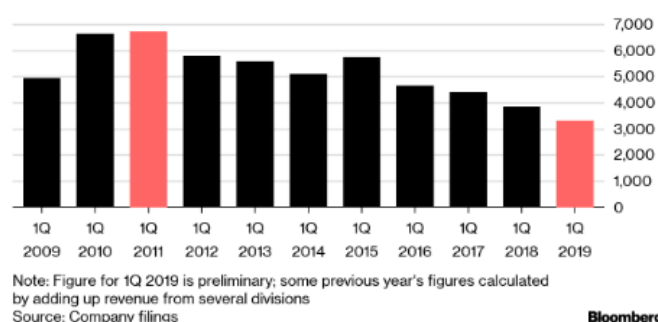
Note: Hit* counted as within +/- 2.5% of consensus estimates; Currency in euros, for index comparability

Deutsche Bank reports continued pressures and subdued outlook in core businesses. The bank's reported 1Q19 adjusted pretax profit of €251 mn was slightly ahead of consensus, driven by lower than expected non-operating losses in the 'corporate center', but operating results disappointed. Group revenues fell by 6% y/y, continuing the long-term revenue decline. This is driven by share losses in Markets businesses, in which Deutsche reported 1Q19 FICC revenues down -21% y/y and Equities down -18% y/y. The Corporate and Investment Bank (with slightly over half of group revenues) reported a pretax loss of €48mn (vs. consensus +€29mn). Consensus sees Deutsche generating consolidated return on tangible equity of 1.5% and 2.8% for 2020E and 2021E. Management now expects 2019 revenues to come in 'essentially flat', down from previous 'slightly higher' guidance. In the wake of yesterday's announced termination of merger discussions with Commerzbank, **analysts expressed concern that today's results conference call provided no indication of fundamental adjustments in the bank's strategic direction.** CET1 ratio came in at 13.7%, +1% q/q and above consensus; but this was driven by a decline in risk-weighted assets on model adjustments; and the CET1 simple leverage ratio fell 20bps q/q. Deutsche common shares are down 2.4% today and have under-performed the EuroStoxx Banks Index by near 10 ppts since the beginning of the year.

Deutsche Bank share price performance vs. Euro Stoxx Bank Index 1Q CIB revenue trend, 2009 to 2019



Source: Bloomberg

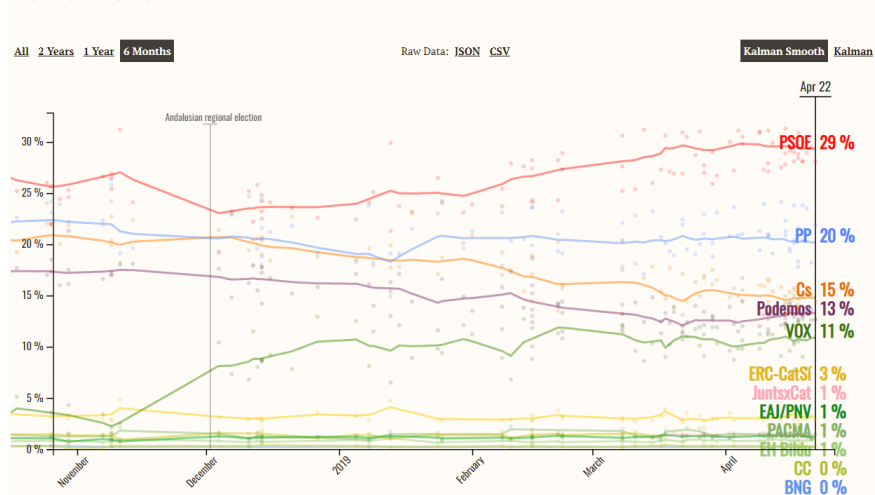


Bloomberg

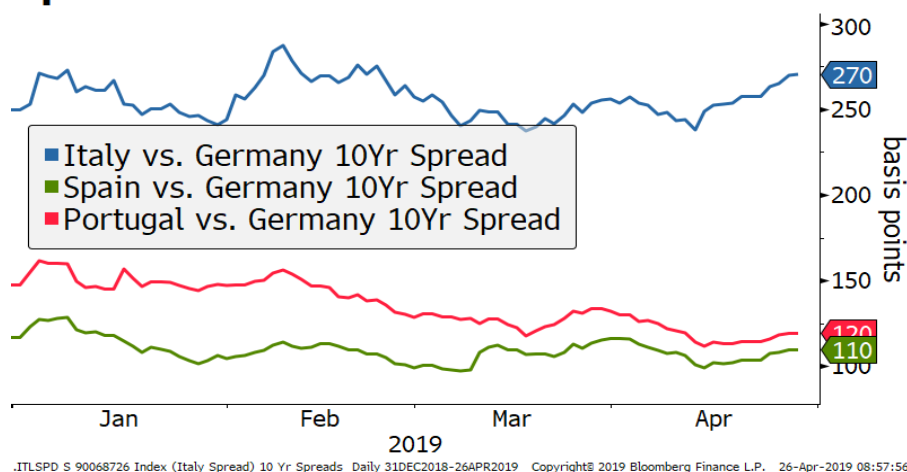
Spain

The elections taking place on Sunday remain highly uncertain and could force major parties into a protracted period of coalition building. The most recent polls suggest that PM Pedro Sanchez's Socialist party is in the lead with just under 30% of votes, but this won't be enough to form a government on their own. But even if the Socialists bring the anti-austerity party Podemos onboard, they may still need the support of a smaller party to govern. There is also the risk of a right-wing coalition forming (PP, Ciudadanos and Vox), or even another election down the road. Spanish assets have not reflected this uncertainty in any obvious way. Stocks have been underperforming only slightly in recent days and sovereign spreads have been widening, but not out of line trends in the region.

Poll of Polls



Spreads to German 10-Year



Other Mature Markets

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Japan

The yen was little changed while equities edged lower amid limited trading heading into the extended Golden Week holiday. The yen held steady at 111.69 while the Topix lost 0.2%. Market contacts noted that the record-long 10-day public holiday starting next week to mark the ascension of the new

emperor could muddy the growth picture – while domestic tourism is expected to rise, factory shut downs over the period could detract from growth. Meanwhile, concerns are rising that the long holiday – and the attendant decline in market liquidity – could lay the groundwork for another “flash crash” as seen during the New Year holidays when the yen was marked by sharp volatility. **Retail investors’ net long yen positions reached a near record high ahead of the Golden Week holiday.** According to the Tokyo Financial Exchange, margin traders’ net long yen positions totaled 208,613 contracts, or \$2.09 bn, as of April 23rd, near a record reached just last week. Market observers noted that these positions are “extended” and could subject the yen to sharp volatility amid thin liquidity.

An unexpected decline in Japan’s March IP, coming on the heels of South Korea’s Q1 GDP contraction, raised concerns that the global slowdown may have yet to turn. Industrial production in March fell 0.9% from a month earlier, compared to expectations for no change. On an annual basis, production slid 4.6%, its sharpest contraction since May 2015. **JGB yields mostly declined** and the yield curve flattened. The 2-year note held steady at -0.16% while the 10-year note fell 1.3 bps to -0.06%.

Emerging Markets

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Emerging markets saw a mixed session. In Asia, Chinese bourses extended their losses while stocks in other countries were little changed or moderately higher. Currencies in the region were mixed with the Thai baht leading gains (+0.4%) while the Philippine peso underperformed (-0.09%). Appreciation in the Thai baht, Indian rupee (+0.3%) and the RMB (+0.15% for the CNY and +0.12% for the CNH) was attributed by some traders to short covering ahead of the U.S. GDP release later tonight. Equities in the EMEA region were little changed with Hungary (-0.4%) seeing some of the biggest moves. Currencies in the region were flat against the dollar. Latin American equities were mixed yesterday. Brazil’s index rose by 1.6% while other markets in the region were generally lower. Local currencies were mixed as well. The Argentine peso was the main underperformer, depreciating by 2.4% against the dollar to 45.03/USD, a new record low. The Brazilian real (+1.1%) and Mexican peso saw gains.

Key Emerging Market Financial Indicators

Last updated: 4/26/19 8:42 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.71	0.1	-2	2	-7	12
MSCI Frontier Equities		28.38	0.0	-1	0	-15	9
EMBIG Sovereign Spread (in bps)		345	-3	5	-7	38	-69
EM FX vs. USD		62.30	0.0	-1	-1	-9	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.74	0.1	0	0	-6	2
Indonesian Rupiah		14199	-0.1	-1	0	-2	1
Indian Rupee		70.02	0.3	-1	-2	-5	0
Argentine Peso		45.03	-2.4	-7	-7	-55	-16
Brazil Real		3.95	1.1	-1	-2	-12	-2
Mexican Peso		19.00	0.1	-1	1	-1	3
Russian Ruble		64.64	0.0	-1	0	-3	8
South African Rand		14.34	0.5	-2	0	-14	0
Turkish Lira		5.94	-0.2	-2	-10	-32	-11
EM FX volatility		8.45	0.0	0.2	-0.1	0.0	-1.3

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

China

The RMB strengthened following a stronger-than-expected fixing and President Xi's pledge against currency depreciation. The onshore CNY gained 0.15% to 6.735/dollar, rebounding from its two-month low and the offshore CNH appreciated by 0.12% as the PBC set its daily reference rate for the RMB at a stronger-than-expected level. Meanwhile, at the Belt and Road summit, President Xi pledged against RMB depreciation that could "harm other nations". President Xi also noted that the RMB will be kept at a "reasonable, equilibrium level," and the market will play a bigger role in setting the exchange rate. Although most market observers do not see President Xi's remarks as heralding in significant changes to the current currency policy, they generally expect the RMB to strengthen in the near term. Specifically, the RMB is supported by the PBC's less accommodative monetary policy, signs of economic recovery as well as expected foreign portfolio inflows into the bond market. Meanwhile, equities extended their losses. The Shanghai Composite lost 1.2%, bringing its weekly loss to 6% amid concerns that the authorities are paring back stimulus to the economy.

Argentina

Argentine assets declined for a second day, but the sell-off was more contained than earlier in the week. Despite an afternoon comeback, the peso still depreciated on the day to a new record low (45.03, -2.4% against the dollar) amid mounting political worries about the future of President Macri's government as it continues to trail in the polls. In fixed income markets, significantly lower valuations (sovereign USD spreads are about 180 bps wider over the past month) spurred buying by U.S. real money accounts, pushing spreads back down to close somewhat tighter on the day. Analysts commented that the sell-off was exacerbating the country's economic woes as rising borrowing costs and a weakening peso translated into higher inflation expectations that are further eroding support for President Macri's policies.



Source: Bloomberg

Brazil

Brazilian assets rose on the day on positive news regarding pension reforms. The Special Committee responsible for analyzing the pension reform proposal was installed on Thursday at the Lower House, and the government released details regarding expected savings from pension reforms. According to analysts, the proposals would generate estimated savings of R\$1.24 tn (US\$314 mn) for the central government over the next 10 years (versus R\$1.07 tn estimated previously). This is in addition to about R\$351 bn (US\$89 mn) in savings to state governments. Despite the more ambitious targeted savings, the proposed reforms are still expected to face significant opposition in the Lower House. Market reaction was generally positive, with domestic equities finishing 1.6% higher and the real appreciating by 1.1% against the dollar.

Exhibit 1: Progress in the reforms update

Reform	Progress	Developments	Next steps
Social Security Reform	→	Special Committee installed. Details of savings revealed	Discussions at the Special Committee to start on 7 April
Tax Reform	→	First commissions to study the proposal to be created	Presentation to Congress
Central Bank Independence	→	Bolsonaro signs BCB autonomy bill to be sent to Congress	Initial discussions in Congress
Trade openness	←→	Waiting for details	Presentation to Congress

Note: moving forward (→); moving backwards (←); stagnated (←→).

Source: MCM, local news, BofA Merrill Lynch Global Research

Russia

The central bank kept interest rates unchanged at its meeting today. The benchmark rate thus remains at 7.75% as expected by all 36 analysts polled by Bloomberg. In its statement, the bank said that easing could be possible in the coming months if the economy continues to perform according to forecast. Inflation rose to 5.3% in March. The ruble was little changed following the decision and was 0.15% weaker against the dollar on the day.











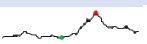















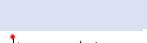


Ukraine

The central bank lowered interest rates by more than expected yesterday. Analysts had projected a 25 bps move but the bank decided to cut by 50 bps to 17.5%. The move came after inflation continued to ease in March, declining to 8.6% y-o-y which represents the lowest rate since September 2016. Elsewhere, investors are still mulling the implications of last weekend's elections which saw comedian Volodymyr Zelenskiy take the presidency in a landslide. So far, markets have been calm with the hryvnia little changed this week.

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Global Financial Indicators

Last updated: 4/26/19 8:42 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2926	0.0	1	4	10	17
Europe		3497	0.1	1	5	0	17
Japan		22259	-0.2	0	4	0	11
China		3086	-1.2	-6	3	0	24
Asia Ex Japan		72	-0.3	-2	3	-5	13
Emerging Markets		44	0.2	-2	2	-7	12
Interest Rates			basis points				
US 10y Yield		2.51	1.4	-5	9	-47	-18
Germany 10y Yield		-0.02	-1.1	-5	-1	-61	-26
Japan 10y Yield		-0.04	-0.9	-1	3	-10	-4
UK 10y Yield		1.14	-1.3	-5	14	-36	-13
Credit Spreads			basis points				
US Investment Grade		110	-0.1	0	-11	12	-37
US High Yield		397	0.4	4	-32	57	-124
Europe IG		59	-0.8	1	-9	4	-28
Europe HY		251	-4.3	4	-26	-22	-102
EMBIG Sovereign Spread		345	-3.0	5	-7	38	-69
Exchange Rates			%				
USD/Majors		98.21	0.0	1	2	7	2
EUR/USD		1.12	0.2	-1	-1	-8	-3
USD/JPY		111.7	0.0	0	-1	-2	-2
EM/USD		62.3	0.0	-1	-1	-9	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73	-2.1	1	7	-3	35
Industrials Metals (index)		118	0.3	-1	-2	-13	8
Agriculture (index)		39	0.0	-2	-4	-19	-6
Implied Volatility			%				
VIX Index (% change in pp)		13.4	0.1	1.3	-1.3	-2.9	-12.1
10y Treasury Volatility Index		3.8	0.0	0.3	-0.7	-0.2	-0.8
Global FX Volatility		6.7	0.0	0.6	-0.5	-0.9	-2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		333	1.6	4	-48	-3	-83
Italy		265	-4.3	8	17	150	15
Portugal		117	-2.3	2	-13	8	-31
Spain		108	-2.2	3	-3	40	-10

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: 4/26/2019 8:43 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		6.74	0.1	-0.5	0	-6	2		3.4	1.3	3	28	-14	20
Indonesia		14190	0.0	-1.0	0	-2	1		7.8	6.2	14	13	64	-32
India		70	0.3	-1.0	-2	-5	0		7.6	1.5	4	17	-28	13
Philippines		52	-0.1	-0.8	0	0	1		5.3	-1.7	-3	-16	7	-103
Thailand		32	0.4	-0.5	-1	-1	2		2.6	-0.2	1	7	17	-2
Malaysia		4.13	0.1	0.0	-1	-5	0		3.8	-4.7	-11	-3	-38	-27
Argentina		45	-2.4	-7.1	-7	-55	-16		25.6	59.4	337	130	819	261
Brazil		3.95	0.1	-0.5	-2	-12	-2		8.2	2.9	3	9	-16	4
Chile		674	0.2	-1.8	1	-11	3		4.1	1.1	0	-12	-66	-39
Colombia		3233	-1.2	-2.2	-3	-13	1		6.3	4.6	13	16	15	-24
Mexico		19.00	0.1	-1.1	1	-1	3		8.2	1.1	9	25	66	-48
Peru		3.3	-0.1	-0.9	-1	-3	1		5.4	-2.2	0	4	4	-36
Uruguay		35	-0.3	-0.8	-3	-18	-6		10.8	2.2	26	33		5
Hungary		289	0.3	-1.4	-2	-10	-3		2.1	3.5	3	19	47	-14
Poland		3.85	0.2	-1.0	-1	-9	-3		2.3	2.4	3	6	-16	6
Romania		4.3	0.1	-0.9	-1	-10	-5		4.3	0.0	-3	23	17	1
Russia		64.6	0.0	-0.9	0	-3	8		8.0	1.7	3	13	95	-39
South Africa		14.3	0.5	-2.0	0	-14	0		9.4	5.2	18	-6	55	-16
Turkey		5.94	-0.2	-2.2	-10	-32	-11		20.4	51.5	105	242	758	349
US (DXY; 5y UST)		98.2	0.0	0.7	1	7	2		2.29	-3.5	-8	9	-52	-22

	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		3086	-1.2	-6	3	0	24		174	-3	0	-2	-7	-20
Indonesia		6401	0.4	-2	-1	8	3		180	-2	2	-14	-3	-56
India		39067	0.9	0	2	13	8		154	-1	-1	-7	15	-42
Philippines		7868	-0.3	0	0	3	5		82	-2	-3	-11	-20	-39
Malaysia		1638	0.2	1	-1	-12	-3		127	0	1	-2	5	-35
Argentina		29557	-0.6	-8	-9	0	-2		911	-25	57	151	492	96
Brazil		96552	1.6	4	1	12	10		246	0	-1	-4	14	-27
Chile		5170	-0.6	-2	0	-9	1		126	0	-1	-8	-1	-40
Colombia		1600	0.0	2	0	3	21		173	-2	-4	-8	-4	-55
Mexico		45027	0.0	0	5	-7	8		292	1	-2	-6	35	-62
Peru		20700	0.0	-1	-2	-4	7		126	-1	4	-11	-24	-42
Hungary		42919	-0.3	0	3	12	10		106	-1	1	-19	-5	-42
Poland		60608	-0.1	-1	1	2	5		45	2	3	-17	-13	-40
Romania		8416	0.0	2	5	-6	14		198	-1	-2	-5	56	-23
Russia		2554	-0.3	0	2	12	8		202	-1	-1	-15	-5	-50
South Africa		58707	-0.2	0	6	2	11		308	2	16	-11	62	-57
Turkey		94253	-0.3	-3	-3	-12	3		513	1	10	23	201	84
Ukraine		560	-0.1	5	-4	19	0		645	-2	51	18	181	-142
EM total		44	0.1	-2	2	-7	12		345	-3	5	-7	38	-69

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