



- **US stocks set new record high as economic data exceed forecasts** ([link](#))
- **Chinese purchases lag commitments in US trade deal** ([link](#))
- **Consumers in US face challenges as emergency benefits expire** ([link](#))
- **US corporates run down cash balances as confidence rises** ([link](#))
- **German government extends job furlough scheme** ([link](#))
- **S&P estimates China's big four banks face funding shortage** ([link](#))
- **Hungarian central bank boosts asset purchases** ([link](#))
- **Russian markets under pressure as dollar liquidity tightens** ([link](#))

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Global markets take a pause

Markets appear to be treading water after several days of gains, with US stocks marking yet another record close yesterday. Markets were lower in the Asia-Pacific region, while Eastern Europe is higher and the euro area is mixed. US equity futures are little changed. All eyes are on tomorrow's virtual Jackson Hole Federal Reserve conference, where Fed Chair Powell is due to make an important speech in the morning. The decision of the German government to extend its furlough scheme boosted sentiment. Euro area spreads tightened as the EC's proposal on SURE loans instills confidence that EU solidarity is on track. US Treasury yields are higher for a third consecutive day, while oil prices declined. The Russian ruble is attracting attention as the currency depreciates sharply despite dollar weakness in the face of the Belarus unrest and the Democratic lead in the US election.

Key Global Financial Indicators

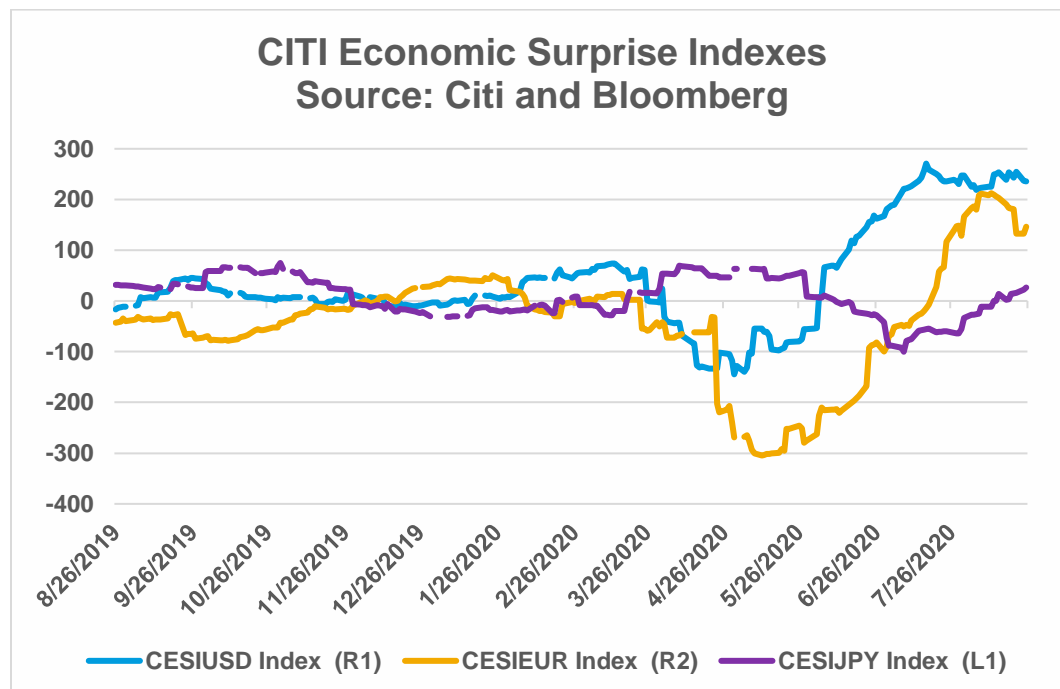
Last updated: 8/26/20 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3444	0.4	2	7	20	7
Eurostoxx 50		3335	0.2	1	1	0	-11
Nikkei 225		23291	0.0	1	2	15	-2
MSCI EM		45	1.0	1	5	16	1
Yields and Spreads			bps				
US 10y Yield		0.72	3.3	4	13	-82	-120
Germany 10y Yield		-0.40	2.8	7	5	26	-22
EMBIG Sovereign Spread		419	0	0	-28	52	126
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.8	-0.1	0	-2	-9	-11
Dollar index, (+) = \$ appreciation		93.2	0.2	0	-1	-5	-3
Brent Crude Oil (\$/barrel)		45.7	-0.3	1	5	-22	-31
VIX Index (% change in pp)		21.2	-0.8	-1	-5	2	7

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

United States

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Most major US equity indexes saw a fourth consecutive day of gains to continue a solid summer rally despite worse-than-expected consumer confidence surveys for August. The S&P 500 and Nasdaq set new records for a third consecutive day. However, the Dow was slightly lower. This morning, US durable goods orders were much stronger than expected at 11.2% (versus the 4.2% consensus forecast), the latest data point in a series of stronger than expected US economic reports. The widely followed Citi economic surprise index for the US is now close to an all-time high. The Conference Board's headline index fell to a 6-year low at 84.8 yesterday, down from 92.6 in July and below the previous pandemic low of 85.7 in April, a rare outlier in this promising economic trend. The S&P500 gained 0.4%, while the Nasdaq was up 0.8%. The S&P500 is now up 5% in August and 11% since the end of June. Treasuries sold off, with long-dated yields up 3-4 bps on the day, as the 10-year yield rose to 0.684%.



US and Chinese officials released cooperative statements on the Phase 1 trade deal, bolstering near-term market sentiment, but year to date Chinese purchases have lagged obligations under the deal, according to Peterson Institute calculations. The unfulfilled commitments may raise downside risks for renewed trade tensions as the election approaches, according to some analysts.

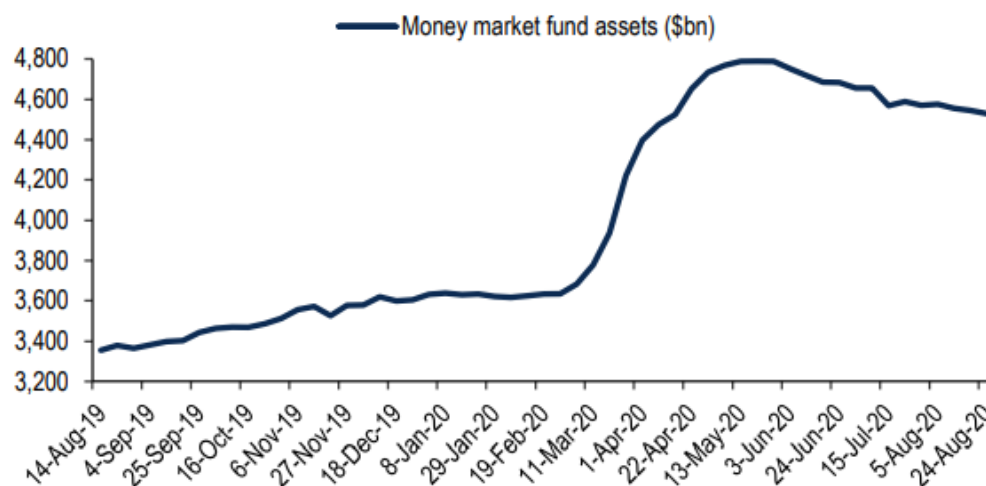
c. US exports by product type, billions USD



Damage from expiration of unemployment benefits may be simmering below the surface despite stable topline data. Markets have been surprised by stable high frequency consumer spending data following the expiration of the expanded \$600 benefit at end-July. Indeed, Chase credit card spending data has held steady in recent weeks, down about 10% from the previous year. However, analysts have noted that about 75% of unemployment benefits are funneled through pre-paid debit cards, where spending has collapsed more recently, according to Factiveus. Given the expected lag (as accumulated savings are run down), some expect consumer spending to turn sour in September and October absent a new stimulus. August retail sales to be released mid-September will provide the first comprehensive look at spending since the expiration of the benefits and are likely to draw extra attention this time around. **The moratorium on evictions from federally financing housing has also expired, raising another challenge.**

Money market fund (MMF) assets are declining as companies have begun spending the cash they raised at the height of the COVID-19 crisis. The volume of assets has declined by sever hundred billion dollars since they peaked back in May. According to Bank of America, investment grade US companies are starting to spend the \$360 bn of cash they had accumulated via bond sales during the crisis due to growing confidence that the worst of the virus is in the past. This confident outlook is based on the conviction that the economic recovery will soon be underway. The rapid decline in US infections is a key driver for growing optimism in markets.

Figure 1: Slowly declining money market fund assets



Source: Crane, ICI, BofA Global Research

Billion-dollar bankruptcies are piling up at record pace ahead of 2009. As of mid-August, a record 45 US companies with assets of more than \$1 bn have filed for Chapter 11 bankruptcy, surpassing 2009 at the same point in time. Among a broader set of companies with greater than \$50 mn in liabilities, the pain has been particularly pronounced in retail and restaurants, as compared to 2009 when the finance sector came under greater strain. Blue-chip brands such as JCPenney, Brooks Brothers, and Neiman Marcus have all declared bankruptcy this year.

Europe

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Euro area

European stocks (+0.4%) edged higher. French consumer sentiment was unchanged in August (in line with expectations) whereas the decision of the German government to extend its furlough scheme boosted sentiment.

The euro (-0.2%) continues to trade around the \$1.18 handle. 10-yr bund yields (at -0.42%) are up 2 bps after closing a noticeable 6 bps higher yesterday, the largest 1-day increase since May.

Spreads tightened as the EC's proposal of SURE loans instills confidence that EU solidarity is on track. Italian 10-yr spreads tightened 4 bps to 142 bps. 10-yr spreads also fell in Greece (-2 bps to 152 bps) and Spain (-3 bps to 79 bps). Spanish PM Sanchez ruled out a new national lockdown but gave the regions the power to impose local lockdowns.

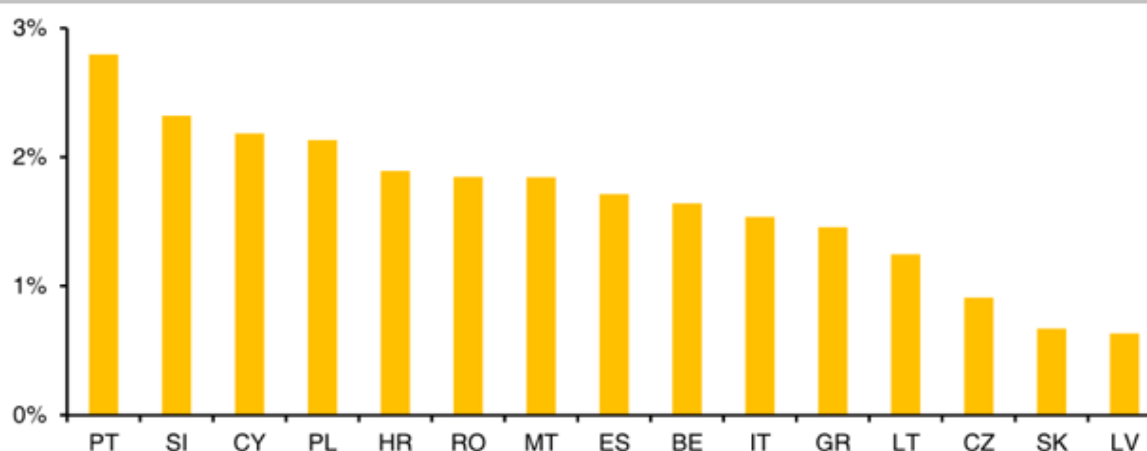
The Germany government agreed on several extensions to existing corona measures. The maximum duration of furloughing will rise from 12 months to 24 months until 31 December 2021. The €10bn (0.3% of GDP) estimated to be necessary for the extension will not be funded by future social security contributions of employers and employees, but by a taxpayer grant. Analysts at Citi expect the number of furloughed German workers to have dropped sharply from the May peak of 6.7 mn.

French consumer confidence remained stable in August at 94 (as expected). Nevertheless, concerns about future unemployment and living standards remains high, which analysts expect to weigh on private consumption.

The EC has allocated €87.3 bn of the temporary loan Support to mitigate Unemployment Risk in an Emergency (SURE). The proposal looks particularly favorable for Portugal (in % of GDP). The EU will issue bonds with an average maturity of 15 year (via the EC). The maximum average maturity of the loans will be 15 years, but tranches may be much longer provided the average does not exceed 15 years.

EU Loans to Support to mitigate Unemployment Risks in an Emergency (SURE).

Approved SURE loans relative to 2019 GDP, in %

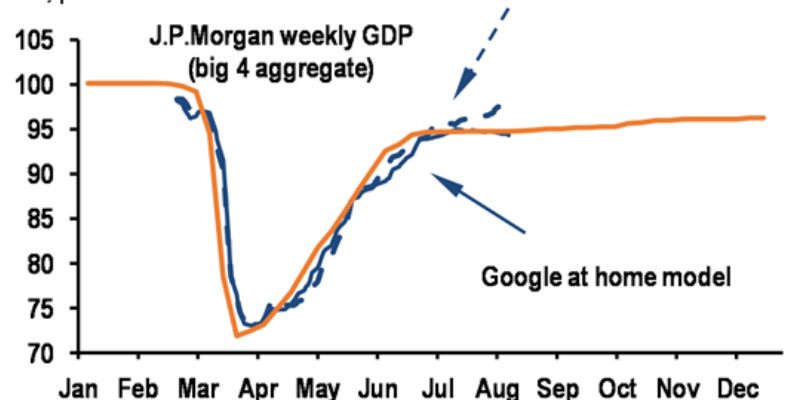


Source: EU, Commerzbank Research

J.P. Morgan estimates that mobility data are consistent with their view that GDP in the big four euro area economies is currently around 5% below normal. Mobility models suggest that activity was around 25%-30% below normal during the lockdowns in late March and April. Activity then rose to 16%-17% below normal in May and to 8%-9% below normal in June.

Euro area: J.P. Morgan activity models

Idx, pre-virus baseline is 100



Source: Google, J.P. Morgan

United Kingdom

Equities (-0.2%) edged lower as government officials continue to dismiss calls to extend the coronavirus furlough schemes beyond October. Employers will be asked to pay a portion of the wages of furloughed workers from next week, before the scheme is closed in October. HMRC estimates show that on average 8.3 mn people relied on the scheme during Q2, with 6.8 mn still using the scheme at the end of June. The British pound was little changed.

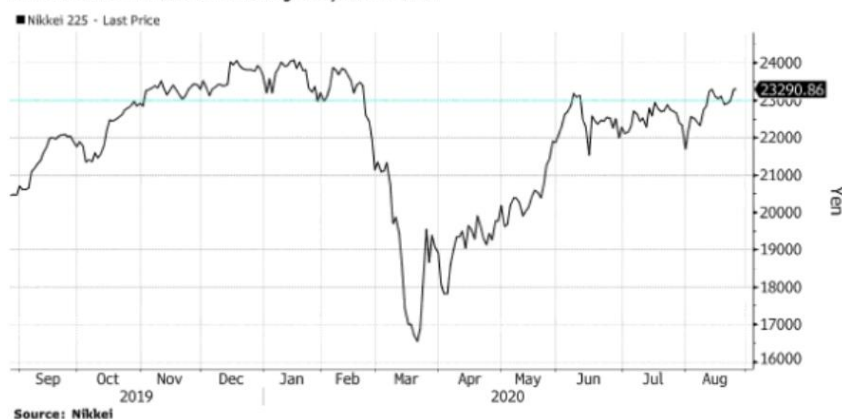
Other Mature Markets

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Japan

Equities were unchanged as real estate weakness was offset by tech strength. Prime Minister Abe plans to hold a press conference this Friday to discuss his health in what will be his first extended public speaking appearance since June. On COVID-19, Japan is considering how to make social-distancing rules more binding as it confronts a second wave of coronavirus cases larger than the one that prompted a state of emergency in April-May, Economy Minister Yasutoshi Nishimura said. Any emergency declaration in the future could be targeted to specific areas or industries, said Nishimura, who heads Japan's virus response. 10-year JGB yield rose 1bp to -0.01% while the yen was unchanged.

Nikkei 225 hovers above key 23,000 mark



Emerging Markets [back to top](#)

EMEA equity markets are little changed apart from Turkey (+0.8%) and the UAE (-0.7%). **EMEA currencies are trading mixed** with the South African rand (+0.5%) outperforming while the Russian ruble (-0.8%) and the Hungarian forint (-0.6%) continuing to underperform. **Asian equities were flat on net with few news catalysts.** China (Shanghai -1.3%; Shenzhen -1.9%) fell while Taiwan POC (+0.6%) rose. Regional currencies were broadly stable except for strength in the Thai baht (+0.4%). On COVID-19, Indonesia's capital Jakarta plans to ease social distancing measures by reopening cinemas soon despite a rising number of cases. Singapore and Taiwan POC tightened quarantine requirements for arrivals from Korea in response to rising virus cases there. **Latin American equity markets were mixed on Tuesday.** Equities in Colombia (2.1%) have advanced, whereas the Chilean (-1.6%) equities have lost value. Currency markets were relatively quiet.

Key Emerging Market Financial Indicators

Last updated: 8/26/20 8:22 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.22	0.1	1	5	16	1
MSCI Frontier Equities		25.09	0.5	2	6	-12	-17
EMBIG Sovereign Spread (in bps)		419	0	0	-28	52	126
EM FX vs. USD		54.84	-0.1	0	-2	-9	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.89	0.3	0	1	4	1
Indonesian Rupiah		14678	-0.2	1	-1	-3	-6
Indian Rupee		74.30	0.0	1	1	-3	-4
Argentine Peso		73.81	-0.1	-1	-2	-25	-19
Brazil Real		5.54	-0.6	0	-7	-25	-27
Mexican Peso		21.95	-0.2	1	0	-9	-14
Russian Ruble		75.81	-0.7	-3	-6	-13	-18
South African Rand		16.80	0.3	3	-2	-9	-17
Turkish Lira		7.35	0.5	-1	-7	-21	-19
EM FX volatility		11.05	0.0	-0.2	1.2	1.8	4.5

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

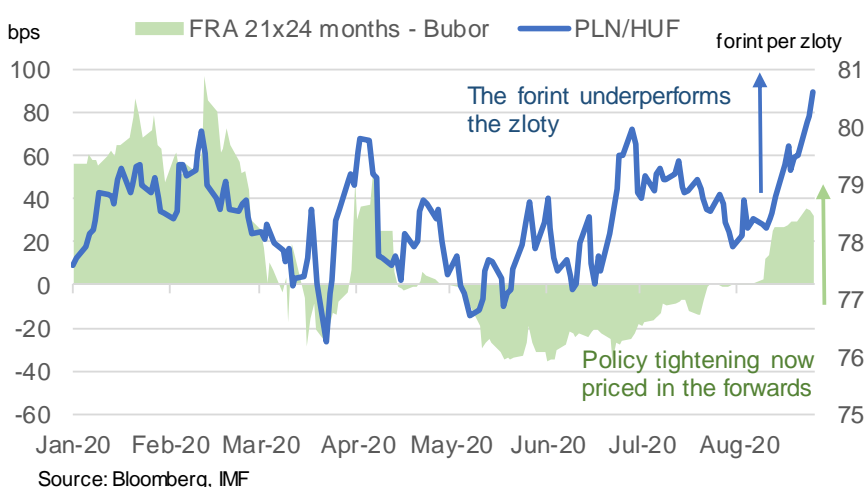
China

China's big four banks face large funding gaps to meet international total loss-absorbing capacity (TLAC) standards according to S&P estimates. Industrial and Commercial Bank of China Ltd., Bank of China Ltd., China Construction Bank Corp. and Agricultural Bank of China Ltd., all considered globally-systematically important banks (G-SIBs), had a total shortage of RMB2.25 tn (\$323 bn) in 2019 to comply with TLAC standards. S&P estimates that the gap could grow to as much as RMB6.51 tn by 2024 as the pandemic has eroded banks' earnings capacity. The banks have until Jan 1 2025 to meet the standards set by the Financial Stability Board. **Separately, Ant Group, the online payment provider backed by Alibaba, filed the prospectus for its IPO that may raise up to \$30 bn.** According to the Financial Times, the company plans to sell at least 10% of its shares through a dual offering in Hong Kong and Shanghai with a potential valuation of \$200 bn - \$300 bn. The offering could exceed the record \$29.4 bn raised by Saudi Aramco last year. **Equities (Shanghai -1.3%; Shenzhen -1.9%) fell while the RMB appreciated +0.3%.**

Hungary

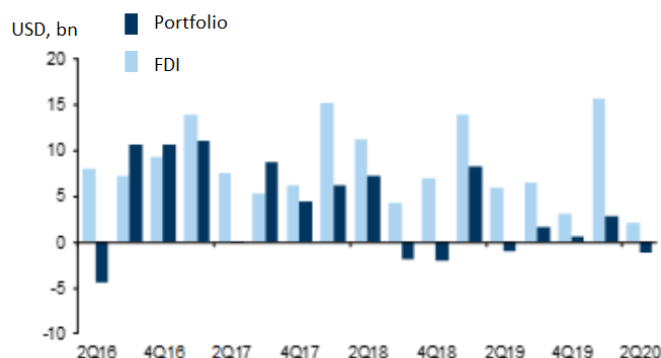
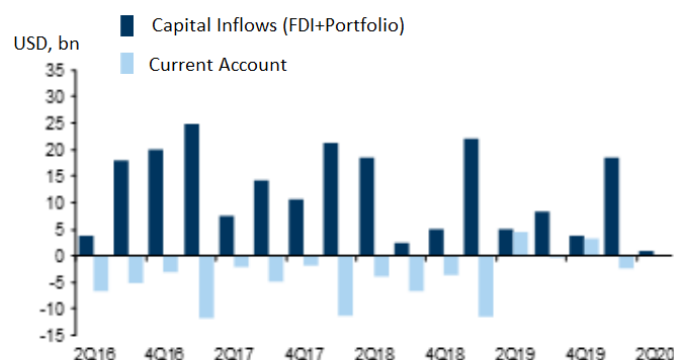
The National Bank of Hungary left its policy rate unchanged at 0.60% as expected but surprised investors by boosting its government bond purchases. The weekly purchases will be increased to HUF 40bn from an average of HUF 15bn in August. Since the announcement of the program in April, the central bank has bought HUF 194bn (0.4% GDP) of government bonds, boosting its purchases after the July rates meeting in response to steepening of the bond yield curve. This time the asset purchase pace increase is explicitly tied to the widening of the budget deficit. **Contacts have increasingly focused on Hungary after the jump in July inflation to 3.8% yoy from 2.9% in June (3.1% consensus).** The inflation jump was relatively broad-based but may have been distorted by lockdown measures and it remains unclear whether the jump is persistent or transitory in nature. Since the July inflation reading, 2-year interest rate forward agreements have priced in 35 bps of policy rate tightening while the Hungarian forint has depreciated by 3% against the euro, notably underperforming its CEE peers.

Hungarian currency and policy rate pricing



Mexico

The current account printed at a small \$5 mn surplus during the second quarter of 2020, which was lower than market expectations. It is also significantly worse than the \$4.4 bn surplus in the same quarter of 2019. This low number was mainly driven by the decline in non-oil trade surplus and the decrease in international travel receipts. Remittances from abroad may have been another factor for the weak number. The peso was slightly stronger versus the dollar yesterday.



Russia

The Russian financial markets have come under pressure on the back of growing geopolitical risks and deterioration of onshore dollar liquidity. Market contacts suggest that the combination of a Democrat lead in the U.S. election, political tension in Belarus and the recent incident with the opposition leader Alexey Navalny have resulted in non-resident outflows out of the domestic bond market. **Furthermore, contacts suggest that there has been a notable drop in local exporters' dollar selling since July and some evidence of a dollar liquidity scarcity from the widening of the spread between on-shore and off-shore overnight cost of funding.** The Russian ruble has weakened by 3.5% against the dollar since the beginning of August, despite the on-going broader dollar weakness. The 10-year government bond yield has increased by 40 bps in August, while interest rate forward agreements are now pricing in 35 bps of policy rate tightening on a 1-year horizon. However, the local equity market was slightly higher today.








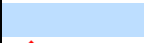



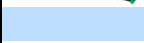
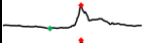



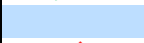



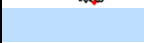










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Global Financial Indicators

Last updated: 8/26/20 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3448	0.4	2	7	20	7
Europe		3335	0.2	1	1	0	-11
Japan		23291	0.0	1	2	15	-2
China		3330	-1.3	-2	4	16	9
Asia Ex Japan		79	1.2	2	6	23	7
Emerging Markets		45	1.0	1	5	16	1
Interest Rates			basis points				
US 10y Yield		0.72	3.3	4	13	-82	-120
Germany 10y Yield		-0.40	2.8	7	5	26	-22
Japan 10y Yield		0.05	1.1	1	3	31	6
UK 10y Yield		0.29	2.8	6	15	-19	-53
Credit Spreads			basis points				
US Investment Grade		130	0.1	-1	-1	0	33
US High Yield		513	-1.7	-16	-36	28	119
Europe IG		55	0.2	0	-5	2	11
Europe HY		327	-1.6	-9	-30	56	120
EMBIG Sovereign Spread		419	0.0	0	-28	52	126
Exchange Rates			%				
USD/Majors		93.21	0.2	0	-1	-5	-3
EUR/USD		1.18	-0.4	0	0	6	5
USD/JPY		106.3	0.1	0	-1	0	2
EM/USD		54.8	-0.1	0	-2	-9	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		46	-0.3	1	5	-22	-31
Industrials Metals (index)		117	0.5	-1	6	5	2
Agriculture (index)		37	0.0	1	4	0	-10
Implied Volatility			%				
VIX Index (%, change in pp)		21.2	-0.8	-1.3	-4.6	1.9	7.5
US 10y Swaption Volatility		58.0	0.2	4.5	6.9	-28.6	-4.0
Global FX Volatility		9.0	0.0	-0.3	1.2	0.8	3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		151	-2.4	-6	-1	-111	-15
Italy		143	-3.0	4	-2	-56	-17
Portugal		80	-3.9	-1	-1	-4	17
Spain		78	-3.2	2	-2	-2	13

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: 8/26/2020 8:24 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.89	0.3	0.4	1	4	1		3.2	3.0	7	18	9	6
Indonesia		14678	-0.2	0.6	-1	-3	-6		6.6	-0.9	-5	-28	-73	-51
India		74	0.0	0.7	1	-3	-4		6.2	-1.1	15	29	-51	-67
Philippines		49	0.0	0.1	2	8	4		3.6	1.7	-1	-10	-74	-66
Thailand		31	0.3	-0.2	0	-2	-5		1.5	0.2	3	6	-15	-15
Malaysia		4.17	0.0	0.1	2	1	-2		2.4	0.2	-1	-5	-99	-93
Argentina		74	-0.1	-0.6	-2	-25	-19		44.2	-18.7	-29	-166	-761	-1841
Brazil		5.54	-0.6	0.2	-7	-25	-27		5.4	5.6	6	22	-124	-83
Chile		786	-0.3	1.2	-2	-8	-4		2.5	-0.3	-3	0	-19	-78
Colombia		3868	-0.3	-2.2	-5	-11	-15		5.3	3.0	6	5	-42	-68
Mexico		21.95	-0.2	0.7	0	-9	-14		6.0	1.3	8	9	-112	-93
Peru		3.6	0.0	-0.6	-2	-6	-8		4.2	2.3	7	21	-20	-32
Uruguay		43	0.5	-0.2	-1	-15	-13		8.3	-0.1	5	-78	-282	-260
Hungary		301	-1.0	-2.2	-2	-2	-2		1.7	-1.6	4	21	64	50
Poland		3.74	-0.6	-0.6	0	5	1		0.8	2.4	0	2	-96	-104
Romania		4.1	-0.4	-0.5	0	4	4		3.6	-9.0	-18	-11	-9	-43
Russia		75.8	-0.7	-3.5	-6	-13	-18		5.8	4.1	4	37	-125	-33
South Africa		16.8	0.3	2.8	-2	-9	-17		10.1	-4.0	-1	1	69	59
Turkey		7.35	0.5	-0.9	-7	-21	-19		13.9	22.7	-1	265	-209	223
US (DXY; 5y UST)		93	0.2	0.4	-1	-5	-3		0.31	1.6	3	3	-111	-138

	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		4706	-1.2	-1	4	25	15		207	0	-1	-7	22	31
Indonesia		5340	0.0	2	5	-14	-15		216	1	2	-30	28	60
India		39074	0.6	1	2	4	-5		217	0	2	-21	74	92
Philippines		5931	-0.4	-4	-1	-25	-24		128	3	7	-14	44	62
Malaysia		1550	-0.3	-2	-3	-3	-2		148	1	1	-11	22	36
Argentina		46579	-0.3	0	-4	80	12		2143	1	-9	-76	323	374
Brazil		102118	-0.2	0	0	6	-12		326	3	4	-19	85	111
Chile		3898	-1.6	-3	-3	-16	-17		171	-2	0	-26	33	38
Colombia		1231	2.1	6	5	-19	-26		253	3	8	-11	64	90
Mexico		38250	0.6	-2	2	-5	-12		473	1	-2	-33	118	181
Peru		18252	-0.2	-1	6	-3	-11		146	-2	-1	-18	21	39
Hungary		35598	0.0	-3	1	-10	-23		123	0	-4	-35	13	37
Poland		52010	0.1	0	1	-7	-10		24	-4	-6	-8	-14	6
Romania		8826	0.5	2	3	-2	-12		262	-2	0	-9	49	88
Russia		3033	0.1	-1	6	14	0		200	1	13	-13	-17	69
South Africa		56056	-0.1	-1	1	4	-2		489	-4	-3	-28	159	169
Turkey		1092	0.0	-3	-8	12	-5		616	-4	-7	27	81	215
Ukraine		500	0.0	0	0	-5	-2		630	7	3	-6	88	210
EM total		45	0.1	1	5	16	1		419	0	0	-28	52	126

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