














- August was the best month for US stocks since April ([link](#))
- ... and worst month for long-term Treasuries since Sep-2018 ([link](#))
- Japan's industrial production stronger than expected, but retail sales still weak ([link](#))
- China's composite PMI improved in August ([link](#))
- EM bond funds continue to see strong inflows ([link](#))

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Markets poised to close the month on a positive note

Equities are looking to end a strong August on a winning streak. S&P 500 futures are following the lead from European shares and indicating a modest gain to start the day. Should the index hold on to the gains, it will mark its 8th straight daily increase, a fitting close to a month which has already seen a rise of over 7%. Japanese markets also closed on a high note. While most of emerging Asia saw losses in Monday trading, the Nikkei rose over 1% on strong economic data as well as a \$6 billion investment by Berkshire Hathaway into Japan's five largest trading conglomerates. Inflation data releases this morning from some European regions continue to highlight disinflation fears in markets, even after last week's Jackson Hole speeches. Even so, the euro 5y5y inflation swap rate is slightly higher this morning to 1.25%, and the 10-year US breakeven inflation rate is up to 1.79%, an 11 bps increase over the past week.

Key Global Financial Indicators							
Last updated: 8/31/20 8:37 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3508	0.7	3	7	20	9
Eurostoxx 50		3310	-0.2	-1	4	-3	-12
Nikkei 225		23140	1.1	1	7	12	-2
MSCI EM		46	1.3	3	5	14	2
Yields and Spreads			bps				
US 10y Yield		0.73	1.3	8	21	-76	-118
Germany 10y Yield		-0.39	1.9	10	13	31	-21
EMBIG Sovereign Spread		421	1	3	-19	67	128
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.4	-0.3	1	0	-8	-10
Dollar index, (+) = \$ appreciation		92.2	-0.2	-1	-1	-7	-4
Brent Crude Oil (\$/barrel)		46.1	0.7	2	6	-24	-30
VIX Index (% change in pp)		24.5	1.5	2	0	6	11

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

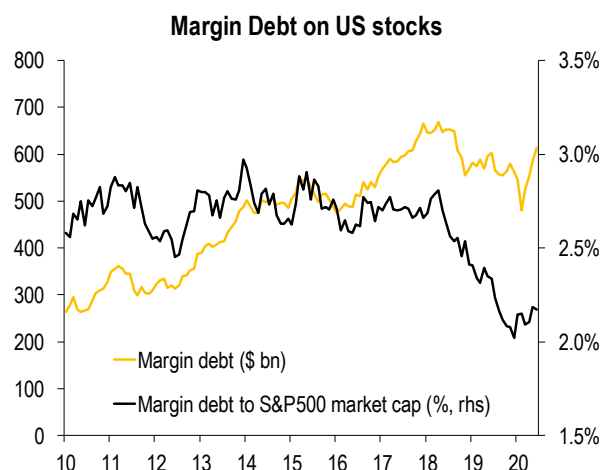
In the week ahead, key US economic data include the ISM, nonfarm payroll and unemployment rate. Several Fed officials are scheduled to speak, and markets will look for any follow-up clarification on the Chair's Jackson Hole speech. Other data include PMI, durable goods orders and jobless claims. In Europe, the European Parliament budget committee will meet on Tuesday on the Union's next multiannual budget for 2021-27, and France will unveil the EUR100bn national recovery plan on Thursday. Italy will report flash Q2 GDP and PMIs are due throughout the region. Central bank meetings will take place in Australia (stable), Colombia (-25 bps) and Chile (stable).

United States

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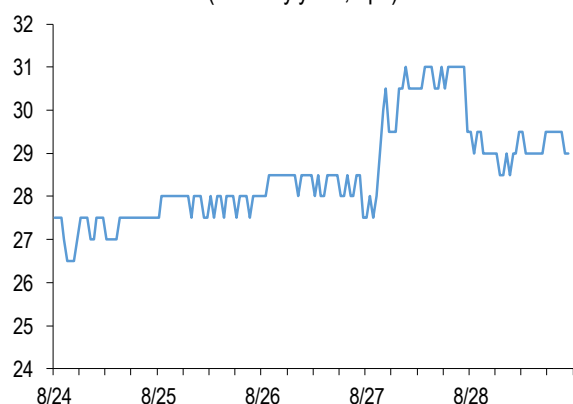
Stocks crawled higher in the waning days of summer. The S&P 500 (+0.7%) posted its seventh consecutive gain through a broad-based rally, as 75% of the index constituents ended the day in green. Investors continued to digest the Fed's new policy framework, pricing in slightly higher inflation over the longer term, as 10-year breakeven rates rose to an 8-month high at 1.78%. The dollar index (DXY) also weakened by the most in a month, down 0.7%. The Treasury curve bull steepened led by the lower short rates, while the long rates closed little changed. In August, US stocks scored their 5th straight monthly gain and largest monthly gain since April, with the S&P500 up 7.2% and NASDAQ up 8.84%. Long-term Treasury yields capped the weakest monthly performance since Sep-2018, with the 10-year yield up 20 bps and the 30-year yields up 32 bps.

Margin debt on US stocks continued to rise in July to \$614bn, reversing a downward trend since May 2018. Relative to market cap, the level of margin debt remains near a post-GFC low. Analysts believe there's room for further margin expansion, which could be a tailwind for more upside in the stock markets.



Vanguard announced it will convert its \$125bn prime retail fund to a government retail money market funds by end September. This is the largest prime retail fund in the US. **Front Eurodollars immediately sold off on the news on Thursday.** Rates have since come back down to 1.5 bps over Wednesday's level. Analysts point out that the decision was largely expected, as the prime fund was essentially run like a government fund. As of end July, more than 75% of the fund's portfolio was invested in rates products, and the remaining holdings in credit products were very short term (27-day weighted maturity). As a result, they do not expect any lingering impact on rate markets or any funding pressures in the CD/CP markets. Earlier this year, Northern Trust and Fidelity each closed one their prime funds, though these funds were much smaller in AUM. **With Vanguard's decision, the prime fund industry will become even more concentrated,** with the top 10 providers dominating 88% of the market share. Going forward, analysts expect other smaller prime fund providers as well as more retail focused providers will follow suit given the limited yield pick-up in prime funds over government funds.

Dec-2020 Eurodollar futures
(intraday yield, bps)

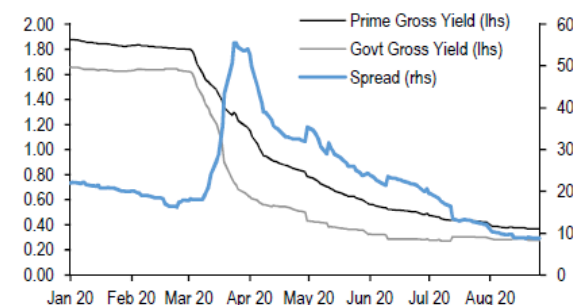


Prime MMF fund sponsor concentration breakout, as of 8/26 (\$bn), adjusted to remove the Vanguard Prime MMF

Fund Sponsor	Prime Inst	Prime Retail	Total Prime	% of Market Total
Top 10	589,981	282,049	872,030	88%
Fidelity	68,045	115,365	183,410	18%
Capital	137,186	-	137,186	14%
Schwab	4,389	109,151	113,539	11%
JPMorgan	93,504	12,614	106,118	11%
Vanguard	94,115	1,417	95,532	10%
BlackRock	84,376	2,940	87,316	9%
Federated Hermes	43,583	33,219	76,802	8%
Morgan Stanley	26,775	-	26,775	3%
UBS	17,953	7,343	25,296	3%
PGIM	20,056	-	20,056	2%
Remaining (21)	91,692	29,903	121,594	12%
Grand Total	681,673	311,952	993,624	100%

Source: Crane Data

Gross yields of prime and govy funds (lhs, %) versus yield spread between prime and govy funds (rhs, bp)



Source: iMoneyNet

Europe

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Equities in Europe are trading higher with France (+1%) and Italy (+0.9%) posting the largest gains. The UK bourse is closed for a holiday.

European sovereign yields are higher with 10-year bunds up 2 bps. The euro is unchanged, while the sterling (-0.3%) is trading slightly weaker against the dollar.

French President Emmanuel Macron praised the ECB for keeping interest rates low and buying sovereign debt saying the alternative is deflation that would cause “political and social chaos.”

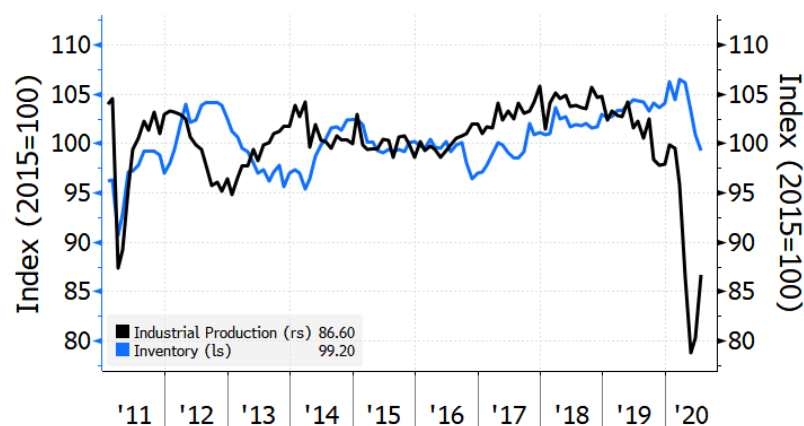
Other Mature Markets

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Japan

Japan's industrial production increased more than expected, while retail sales remain weak. Industrial production increased 8% m/m in July, up from 1.9% in June, better than market expectations (+5%). The gains were driven by autos and IT-related products. Meanwhile, production of machinery and airplane-related products remain weak. Retail sales declined 3.3% m/m in July, weaker than market expectations (2.5% decline). Retail sales fell after a rebound in June (13.1% m/m) as the high level of virus contagion has limited non-urgent spending. Equity prices increased (NIKKEI: +1.1%). The **Japanese yen depreciated** (-0.4%) as traders continued unwinding their long positions since Friday following news that Prime Minister Shinzo Abe will resign.

Industrial Output and Inventory



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Source: Bloomberg.

Emerging Markets

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Asian stock markets retreated today, led by India (-2.6%), Indonesia (-2.0%), and Malaysia (-1.9%). **Currencies are mixed.** The Indonesian rupiah appreciated (+0.5%) on fund inflows as global funds bought government bonds. Meanwhile, the Indian rupee (-0.3%) and Korean won (-0.3%) depreciated. **Indian markets** underperformed following a clash between Chinese and Indian troops along the disputed Himalayan border. **Latin American equity markets** were mostly higher on Friday. Argentina outperformed as the equity index rallied 4.8%, followed by Brazil (+1.5%) and Mexico. Local currencies were broadly stronger. The Brazilian real was the best performer, appreciating 3.3% against the dollar, followed by the Colombian peso (+1.9%) and the Mexican peso (+1.8%). 10-year government bond yields were mainly unchanged.

Key Emerging Market Financial Indicators

Last updated: 8/31/20 8:39 AM	Level	Change					
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		45.55	-0.3	3	5	14	2
MSCI Frontier Equities		25.28	0.4	2	6	-12	-17
EMBIG Sovereign Spread (in bps)		421	1	3	-19	67	128
EM FX vs. USD		55.41	-0.2	1	0	-8	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.84	0.3	1	2	5	2
Indonesian Rupiah		14563	0.5	1	0	-3	-5
Indian Rupee		73.62	-0.3	1	2	-3	-3
Argentine Peso		73.99	-0.1	-1	-3	-22	-19
Brazil Real		5.43	-0.8	3	-4	-23	-26
Mexican Peso		21.85	-0.4	1	2	-8	-13
Russian Ruble		73.97	0.1	1	0	-10	-16
South African Rand		16.76	-1.0	1	2	-9	-16
Turkish Lira		7.35	-0.3	0	-5	-21	-19
EM FX volatility		11.04	0.0	-0.2	0.8	2.2	4.4

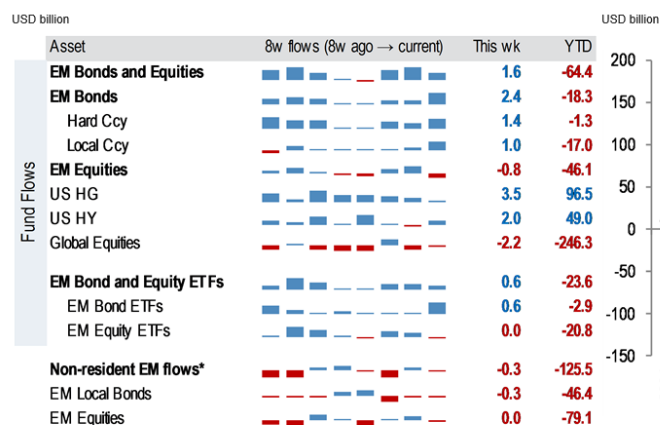
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

EM Fund Flows

EM bond funds continued to see inflows last week (+\$2.4 bn), the greatest inflow since early June, while EM equity funds reverted to outflows last week (-\$839 mn), the largest redemptions in the past two months. Inflows to EM bond funds were mainly driven by hard currency funds (+\$1.4 bn), and local

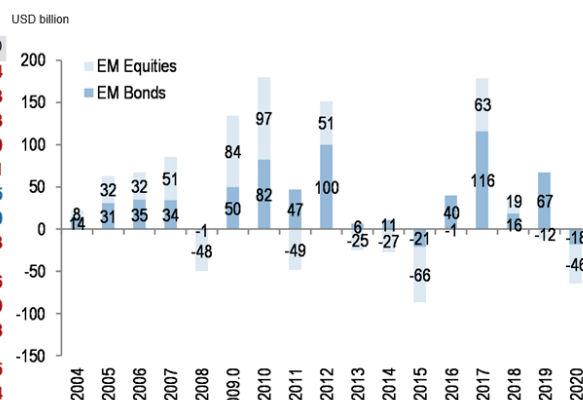
currency funds saw the greatest inflows since February (+\$962 mn). From a regional perspective, Asia ex-Japan equity funds saw the largest outflows in the past ten weeks (-\$707 mn), followed by EMEA (-\$59 mn) and Latin America equity funds (-\$37 mn). Year-to-date flows to EM bonds and equities were -\$18.3 bn and -\$46.1 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows



*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

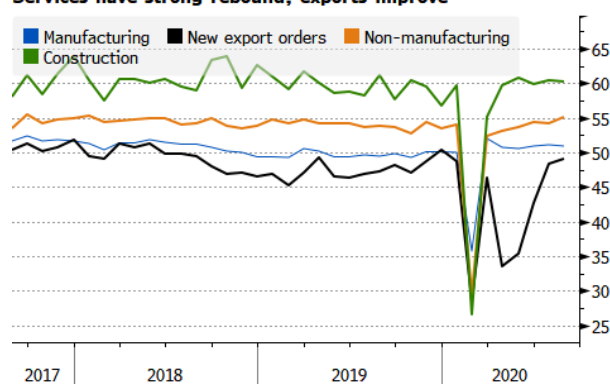


China

China's composite PMI further improved in August to 54.5, up from 54.1 last month. The rebound is driven by the services sector. Services PMI increased to 55.2 in August (from 54.2), the strongest level since early 2018 and stronger than market expectations. Meanwhile, manufacturing PMI slightly fell to 51.0 in August (from 51.1), weaker than market expectations. China's economy continues recovering from the slump, initially benefiting from government-led investment spending. The hard-hit service sector started picking up after containment measures were eased. Equity prices fell (CSI 300: -0.6%); the gain earlier today on economic data was reversed following the clash between Chinese and Indian troops. The Chinese yuan appreciated (+0.3%).

Factory Recovery Slows

Services have strong rebound, exports improve



Source: National Bureau of Statistics

Bloomberg

CPHINDX Index (China Manufacturing PMI SA) CH PMI basic Monthly 31AUG2017-31AUG
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Beijing injected more uncertainty into negotiations over the sale of video app TikTok. China's commerce ministry added speech and text recognition and personalized recommendations to a list of products that require government approval before being sold abroad. ByteDance is now required to seek the Chinese government's sign-off on any deal as it seeks to sell TikTok to potential suitors like Microsoft

and Oracle. Market analysts still see that Beijing's responses to Washington are carefully calibrated to place Beijing on equal footing with the U.S. while not escalating the tension.

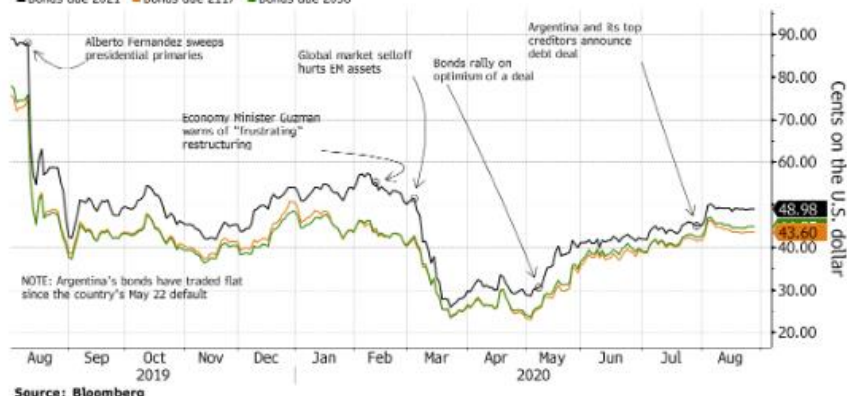
Argentina

Argentina will announce today whether its \$65 bn foreign debt restructuring was accepted by most of the creditors. The deal is expected to prevent the country from its ninth sovereign debt default and costly lawsuits. Though the deal is about to be approved, some analysts warned that the nation still faces severe problems, such as GDP contraction, hyperinflation, and economic policy uncertainty, which would significantly affect debt sustainability. Argentine equity markets railed last Friday (+4.8%), and the peso was mostly unchanged.

Done Deal

Argentina's bonds have rallied from May lows ahead of Friday's deadline

■ Bonds due 2021 ■ Bonds due 2117 ■ Bonds due 2036



Turkey's Q2 GDP declined by 9.9% yoy, though fared better than consensus expectations of a 10.7% yoy contraction. The severity of the shock was more evident in seasonally and working day-adjusted figures, which showed a decline of 11% in the second quarter from the previous three months, making it the steepest contraction in statistics going back to 1998. The worst-affected sectors were manufacturing, where activity shrunk by more than 18 percent on a quarterly basis, and services, which contracted by 25 percent. Analysts highlighted that the positive surprise was in-part driven by the strong sovereign credit stimulus, though that has contributed to pressures on the currency as well. **Turkish Lira has depreciated by 11% this year and maintained its depreciation of around 0.3% vs the US dollar today after the data release.** Turkish equities are down 1.1% today, underperforming the peers.

Virus Slump

Turkey's economy contracted the most in over a decade

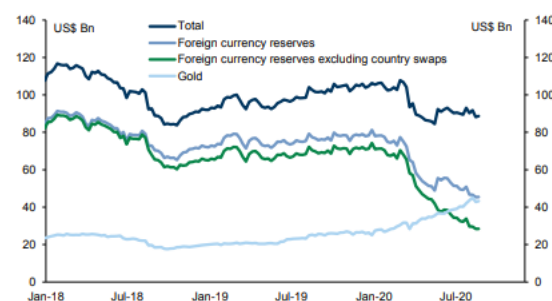
■ TR GDP Chain Linked YoY



Foreign currency reserves (reserves excluding gold) in Turkey were unchanged at US \$45.4bn over the week ending Aug 23, after declining by almost US\$35.8bn ytd. Central bank gross reserves edged up marginally by US \$0.5bn to US \$88.7bn, after falling by US \$17.6bn ytd. TRY deposits in the banking system fell by TRY 37.5bn to TRY 1,538.7bn. FX deposits edged down by US \$0.5bn to US \$241.7bn over the course of a week. Analysts highlighted that FX interventions have likely continued based on net foreign assets remaining relatively stable amid increased FX sales by the government to the TCMB funded by FX borrowing and the contribution from rediscount credits to reserves.

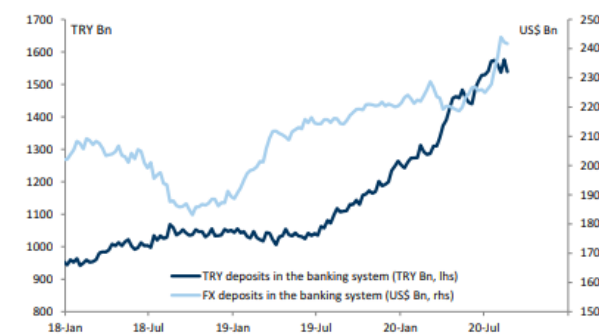
Exhibit 1: Foreign Currency Reserves Were Stable in the Week to August 23

Central Bank Reserves



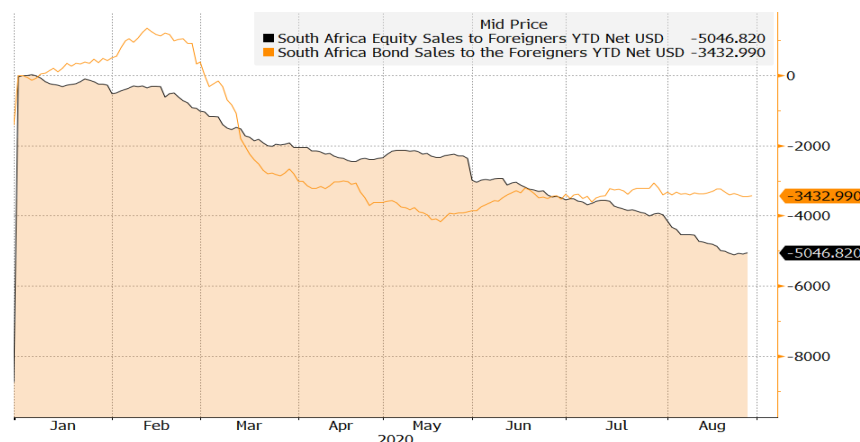
Source: Goldman Sachs Global Investment Research, Haver Analytics

Exhibit 4: The Sharp Rise in FX Deposits Stalled in the Last Two Weeks



Source: Goldman Sachs Global Investment Research, Haver Analytics

Portfolio flows to South Africa have stabilized now, after the sharp outflows witnessed during the Covid-19 sell-off, per data from local exchanges. YTD, there have been debt outflows of almost \$3.4bn and equity outflows of almost \$5.1bn. Debt flows recovered in particular starting mid-May, seemingly in parallel with a recovery in global financial sentiment. Equity flows, on the other hand, have remained relatively weaker and stabilized only in the last few days.












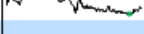



















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Global Financial Indicators

Last updated: 8/31/20 8:38 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3508	0.7	2	7	20	9
Europe		3310	-0.2	-1	4	-3	-12
Japan		23140	1.1	1	7	12	-2
China		3396	-0.2	0	3	18	11
Asia Ex Japan		79	1.1	3	6	21	8
Emerging Markets		46	1.3	3	5	14	2
Interest Rates							
			basis points				
US 10y Yield		0.73	1.3	8	21	-76	-118
Germany 10y Yield		-0.39	1.9	10	13	31	-21
Japan 10y Yield		0.05	-0.8	2	3	32	6
UK 10y Yield		0.31	-2.5	11	20	-13	-51
Credit Spreads							
			basis points				
US Investment Grade		129	-0.1	-1	-2	-5	32
US High Yield		505	-1.1	-19	-29	23	112
Europe IG		54	0.0	1	-6	5	10
Europe HY		324	0.0	-2	-53	72	117
EMBIG Sovereign Spread		421	1.0	3	-19	67	128
Exchange Rates							
			%				
USD/Majors		92.22	-0.2	-1	-1	-7	-4
EUR/USD		1.19	0.2	1	1	9	6
USD/JPY		106.0	-0.5	0	0	0	3
EM/USD		55.4	-0.3	1	0	-8	-10
Commodities							
			%				
Brent Crude Oil (\$/barrel)		46	0.7	2	6	-24	-30
Industrials Metals (index)		119	0.3	3	7	4	4
Agriculture (index)		39	1.2	5	6	3	-7
Implied Volatility							
			%				
VIX Index (% change in pp)		24.5	1.5	2.1	0.0	5.5	10.7
US 10y Swaption Volatility		57.0	-1.4	3.2	6.1	-29.0	-5.0
Global FX Volatility		9.1	0.0	0.0	0.7	1.0	3.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		149	-2.4	-9	-13	-84	-17
Italy		144	-1.5	0	-10	-26	-16
Portugal		80	-0.8	-4	-7	-2	17
Spain		79	0.0	-3	-8	-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: 8/31/2020 8:39 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		6.84	0.3	1.1	2	5	2		3.2	1.2	7	23	15	10
Indonesia		14563	0.5	0.7	0	-3	-5		6.8	6.4	14	-7	-67	-34
India		74	-0.3	1.0	2	-3	-3		6.3	1.9	14	34	-41	-59
Philippines		48	0.1	0.5	1	8	5		3.6	0.2	-2	-8	-78	-70
Thailand		31	0.1	1.3	1	-1	-4		1.5	5.2	9	14	4	-6
Malaysia		4.16	0.2	0.3	2	1	-2		2.5	1.8	9	5	-83	-85
Argentina		74	-0.1	-0.6	-3	-22	-19		45.1	8.4	38	49	-1460	-1752
Brazil		5.43	-0.8	3.3	-4	-23	-26		5.5	-13.7	3	34	-146	-78
Chile		778	0.0	0.7	-3	-7	-3		2.5	1.9	0	-10	-19	-78
Colombia		3753	1.7	2.2	-1	-7	-12		5.3	-1.2	9	14	-48	-65
Mexico		21.85	-0.4	0.7	2	-8	-13		6.0	-2.8	7	17	-113	-91
Peru		3.5	0.9	1.4	-1	-4	-6		4.1	-4.6	-11	11	-33	-46
Uruguay		43	0.2	1.0	0	-14	-12		8.2	-5.8	-2	-90	-291	-270
Hungary		297	0.2	0.5	-2	2	-1		1.7	3.5	3	24	77	53
Poland		3.68	0.0	1.2	2	8	3		0.9	3.2	7	8	-76	-102
Romania		4.1	0.2	1.2	1	6	5		3.5	0.0	-22	-16	-12	-48
Russia		74.0	0.1	0.8	0	-10	-16		5.7	-2.1	-5	26	-131	-40
South Africa		16.8	-1.0	1.3	2	-9	-16		10.1	-1.1	1	5	77	60
Turkey		7.35	-0.3	0.3	-5	-21	-19		13.4	-11.0	-22	151	-258	170
US (DXY; 5y UST)		92	-0.2	-1.2	-1	-7	-4		0.28	0.8	-1	7	-111	-141

	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		4816	-0.6	1	3	27	18		211	3	4	-2	24	35
Indonesia		5238	-2.0	-1	2	-17	-17		216	-2	2	-17	30	60
India		38628	-2.1	0	3	3	-6		219	3	2	-20	83	94
Philippines		5884	0.0	-2	-1	-26	-25		135	-2	12	4	52	69
Malaysia		1525	0.0	-3	-5	-5	-4		148	0	1	-10	24	36
Argentina		46397	4.8	-2	-6	89	11		2149	1	5	-120	-384	380
Brazil		102143	1.5	1	-1	1	-12		313	-1	-9	-14	71	98
Chile		3874	-0.4	-2	-4	-19	-17		172	0	-1	-12	38	39
Colombia		1226	0.1	2	8	-21	-26		249	-1	5	-4	69	86
Mexico		37794	0.4	-1	2	-11	-13		461	-1	-7	-35	128	169
Peru		18420	0.4	1	5	-4	-10		149	0	0	-2	26	42
Hungary		35070	0.7	-3	1	-12	-24		127	0	2	-28	18	41
Poland		51802	-0.8	-1	3	-9	-10		26	2	-2	-8	-14	8
Romania		8997	1.7	3	7	-3	-10		265	2	-1	-2	49	91
Russia		2990	0.3	-1	3	9	-2		197	0	1	-20	-12	66
South Africa		55579	-0.9	-2	0	1	-3		494	6	-8	-22	163	174
Turkey		1085	-1.4	-2	-4	12	-5		602	-1	-24	-19	70	201
Ukraine		500	0.0	0	0	-5	-2		628	6	6	-54	121	208
EM total		46	-0.3	3	5	14	2		421	1	3	-19	67	128

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

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