



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, December 10, 2018










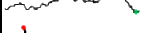
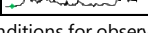
- PM May is reportedly rescheduling Tuesday's Brexit vote in Parliament ([link](#))
- US equity markets tumbled on Friday ([link](#))
- Markets are now pricing in only 10 bps in Fed rate hikes in 2019 ([link](#))
- US dollar repatriation on tax overhaul is likely to be smaller than expected ([link](#))
- OPEC reached agreement for a production cut, boosting oil price ([link](#))
- Asian equities suffer broad-based losses amid escalating trade frictions ([link](#))

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## Markets Cautious as Brexit Headlines add to Investor Concerns

Global markets remain volatile following Friday's renewed sell-off, which reverberated through Asian and European markets today. Japan's Nikkei is down about 2% today and the MSCI EM lost about 1.5%, while losses in Europe are more limited. Futures on the S&P 500 point to a positive market open in the US. **In the UK, PM May reportedly called off tomorrow's Brexit vote in the House of Commons**, looking to reschedule the vote given the prospect of defeat. The news sent the pound and gilt yields lower today. **Friday's OPEC meeting ended with an agreement for a sizeable production cut.** The market welcomed the news as WTI crude oil futures jumped by 3% following the headlines. Oil prices are little changed today.

### Key Global Financial Indicators

Last updated: 12/10/18 8:17 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	 2633	-2.3	-4	-5	-1	-2
Eurostoxx 50	 3049	-0.3	-5	-6	-15	-13
Nikkei 225	 21220	-2.1	-6	-5	-7	-7
MSCI EM	 40	-1.4	-3	0	-13	-15
<b>Yields and Spreads</b>		bps				
US 10y Yield	 2.86	-5.1	-11	-32	48	45
Germany 10y Yield	 0.26	0.9	-5	-15	-5	-17
EMBIG Sovereign Spread	 402	0	11	40	113	117
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	 62.1	-0.2	-1	0	-9	-11
Dollar index, (+) = \$ appreciation	 96.6	0.1	0	0	5	5
Brent Crude Oil (\$/barrel)	 61.3	-0.6	-1	-13	-3	-8
VIX Index (% change in pp)	 23.4	0.2	7	6	14	12

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

**In the week ahead, the ECB's policy meeting on Thursday is expected to confirm that asset purchases will end.** The central bank is set to discontinue QE after spending €2 tn over three years. The EU summit on Thursday-Friday may have to focus on providing an extension to the end-March Brexit deadline. Rate decisions are also scheduled in Norway, Turkey, Peru, and Ukraine on Thursday, and in Russia on Friday. Other important data releases for the week include US CPI on Wednesday as well as US PMIs and the BoJ's Tankan survey on Friday.

**Friday's OPEC meeting ended with an agreement for a sizeable production cut,** taking 1.2 million barrels a day of crude oil out of the market. Non-OPEC countries including Russia take a 0.4 million barrel/day share of the 1.2 million, and the deal is set to last six months and to be reviewed in April next year, according to press reports. The deal was reached after Iran was granted an exemption from the production cut due to US sanctions, which have already weighed on Iranian oil shipments. The market welcomed the news, and WTI crude oil futures jumped by 3% following the headlines, but is little changed today. Energy sector shares, which underperformed heavily since October on the back of lower oil prices, found some relief, though Brent crude is still down nearly 30% since its recent highs in October.

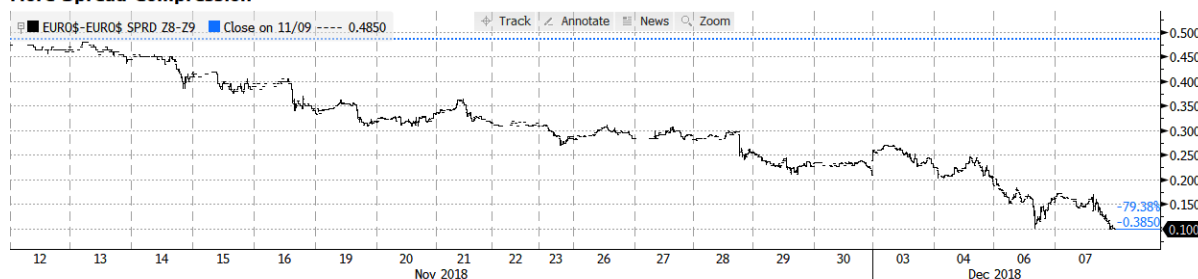
## United States

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**On Friday, US equity markets sold off again, with the S&P 500 falling 2.3%.** White House advisor Navarro's comment that tariffs on Chinese goods would rise if there's no trade deal after a 90-day truce expires, together with headlines regarding the Chinese Huawei case, weighed on the markets. The S&P 500 finished the week down by -4.6%. **Ten-year Treasury yields continued to go lower to 2.85,** down -14 bps for the week, with the 2-to-10-year yield spread now at 13 bps.

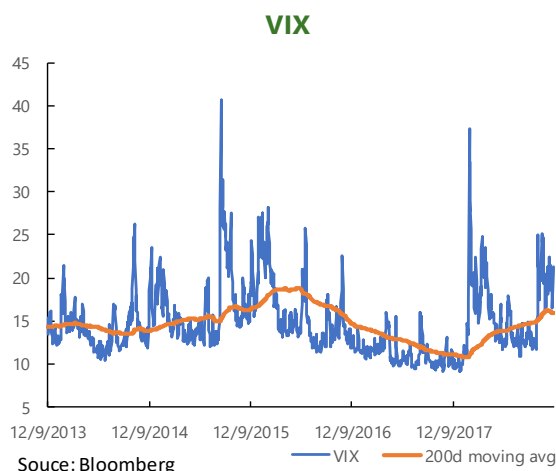
**Regarding the Fed's policy outlook, the eurodollar futures spread between December 2018 and December 2019 narrowed further to 10 bps from 50 bps a month ago,** indicating that markets see substantially less Fed policy tightening next year. Financial markets still see a 69% probability of a rate hike at next week's FOMC meeting, according to Bloomberg estimates.

### More Spread Compression



Source: Bloomberg

**Equity volatility remains high after the spike at the beginning of October.** The VIX, a measure of the option-implied volatility for the S&P 500, stood at 23, above its ten-year average of 18.6, with a slightly inverted term structure, indicating that markets expect the VIX to decline over time. Realized volatility exceeded option-implied volatility.

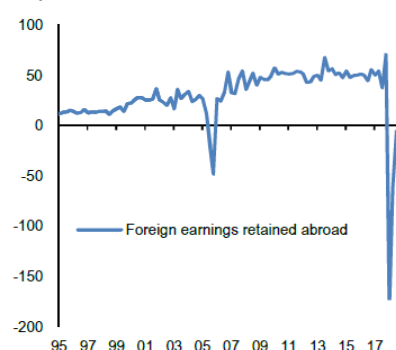


**The amount of US dollar repatriation is likely to be smaller than expected by the Trump administration.**

Morgan Stanley and JPMorgan estimate that companies brought back about \$50 bn to \$100 bn in the third quarter, which would bring the total repatriation back to the US to about \$500 bn so far this year, based on previously released numbers for the first and second quarters from the Commerce Department. This is much smaller than the \$4 tn figure the US administration had put forward. The tax overhaul signed by President Trump last December gave companies an incentive to bring money back to the US by offering a one-time low tax rate on repatriated profits. JP Morgan estimates that roughly half of the repatriated dollars were used for share buybacks, and the rest was used for corporate bond withdrawals and capital expenditures. The US Commerce Department is scheduled to release official third quarter repatriation figures on December 19.

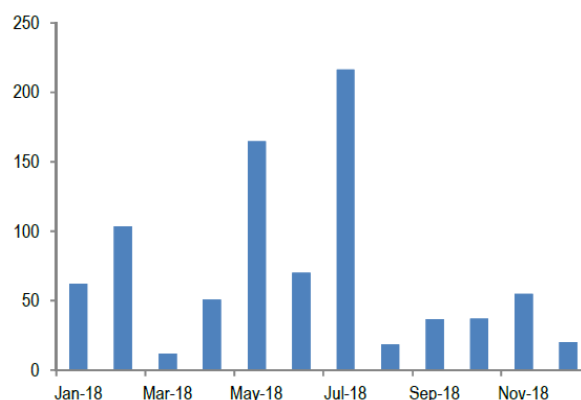
**Figure 1: "Foreign earnings retained abroad"**

In \$bn, quarterly flow based on Table F103 in US Flow of Funds for the "Nonfinancial Corporate Business". Last obs. is Q3'18.



**Figure 3: Announced buybacks for S&P500 index companies**

\$bn per month. December obs. is as of 6th Dec.

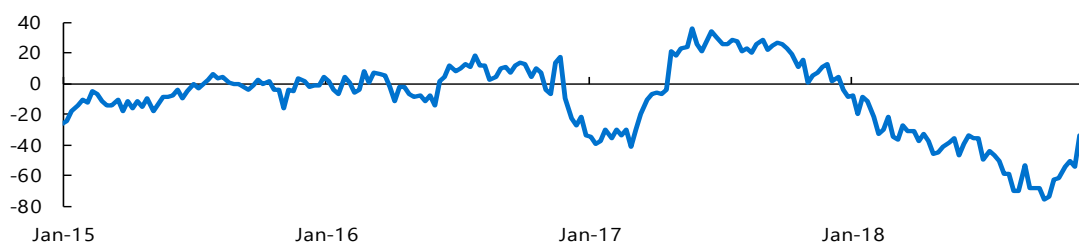


**Speculators' short positions on ten-year Treasury futures decreased to less than half of their peak.**

According to the CFTC's statistics, net short positions of non-commercial agents, thought to be speculators, decreased to \$28 bn as of November 27 from \$76 bn at the end of September. The change in these positions may help explain the sharp decline in long term rates in November. If the pace of short-covering activities continued during the week of December 3, the net short position would have decreased to the levels seen at the beginning of this year, when ten-year Treasury yields were below 2.8%.

### UST 10y futures Open Interest (Non-commercial)

USDbn



source: Bloomberg

**The Nasdaq announced last Thursday that it would launch a corporate bond exchange for listing and trading.** The SEC has already approved this exchange on November 13. Nasdaq group has been successful in the corporate bond trading exchange business in the Nordic region, and they are now trying to bring their experience to US market. Nasdaq Nordic currently lists 1,287 corporate bonds across six exchanges, and the number of listed bonds has grown by more than 80% since 2013. Market participants expect this to contribute to improving market liquidity in the market.

### Europe

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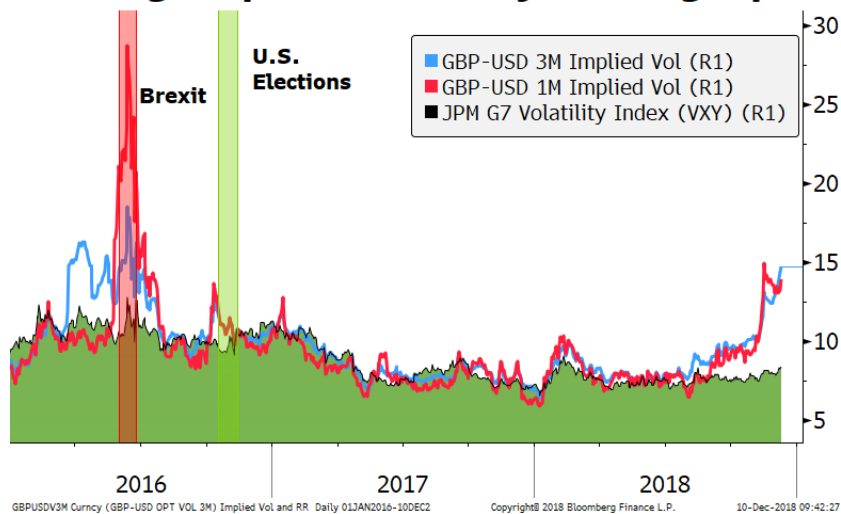
**Equity markets continue to trade with a heavy tone following Friday's sharp declines in US stocks.** The EuroStoxx 600 is down 0.5%, with Germany and Italy underperforming slightly. **Bond yields are little changed in core markets but falling as much as 7 bps in Italy.** The Italian 2-years is trading at 0.67%, well below last month's high of nearly 1.5%.

### United Kingdom

**The UK's House of Commons was scheduled to vote on the EU divorce deal on Tuesday, but according to press reports PM May will reschedule the vote,** given the prospect of defeat. The pound fell to its lowest level in 18 months on the news and Gilt yields hit their lowest since August. PM May will reportedly make a statement on Brexit to Parliament later today, where she is expected to explain her decision to delay the vote.

**The European Court of Justice confirmed that Britain is free to unilaterally cancel its decision to leave the EU.** The news comes as no surprise after a legal opinion from the ECJ's advocate general to this effect. The discussion surrounding Britain's unilateral withdrawal from Article 50 has kindled hopes of anti-Brexit campaigners about the possibility of a second referendum. The odds of this happening are still remote in the minds of most of our contacts. UK equity markets have performed roughly in line with their European peers (down some 12.5% for the year), but implied volatility for sterling continues to pick up.

## Sterling Implied Volatility Picking Up

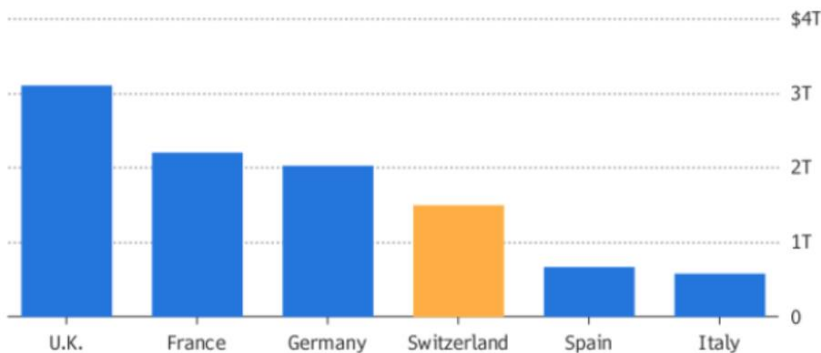


### Switzerland

**The government decided not to agree to a new institutional framework to govern its trading relations with the EU.** Switzerland will now launch a public consultation on the matter until next spring. The decision could lead the EU to withdraw the "equivalence" status for the Swiss stock exchange, preventing EU counterparties to trade there. There was no lasting impact on markets from the news.

Switzerland is home to Europe's fourth-largest stock market

■ Market capitalization



Note: Data as of Dec. 7, 2018  
Source: Bloomberg

Bloomberg

### Other Mature Markets

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#### Japan

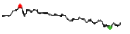





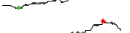
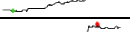






**Equities suffered sizable losses today**, with the Topix shedding 1.9%. Electronics and chemical companies were the biggest contributors to the broad decline. **The yen gained marginally against the dollar** (+0.1%) against a backdrop of renewed U.S.-China trade tensions. Meanwhile, **JGB yields fell**, following Treasuries lower as the JGB curve flattened. The yield on the benchmark 2-year note fell 0.6 bps while the 10-year JGB fell 2 bps to 0.025%, its lowest level since July. **GDP growth in Q3 contracted more than initially estimated** (-0.6%q/q saar final vs. -0.5% in the preliminary estimate), driven by the largest decline in business spending in 9 years following the recent string of natural disasters.

## Emerging Markets

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**In EMEA**, equity markets are uniformly in the red by about 0.6-0.8% today; South Africa (-1.6%) is the main underperformer. Currencies are mostly appreciating in the region, with the lira (+0.4%) outperforming. In Asia, concerns over escalating trade friction between the US and China as well as signs of slowing Chinese growth weighed on currencies and equities. Asian currencies weakened against the dollar, with the Indian rupee (-0.7%) and the South Korean won (-0.6%) underperforming. Major equity indexes in the region lost 1- 2%. Weaker-than-expected economic data from China released over the weekend, including weakening imports and exports in November, added to investor concerns. **In Latin America**, Argentinian (-1.5%) equities declined the most on Friday followed by Brazilian (-0.8%) equities. Most currencies appreciated as lower-than-forecast U.S. job and wage gains weakened the dollar. The Colombian peso appreciated the most, up 1% against US dollar.

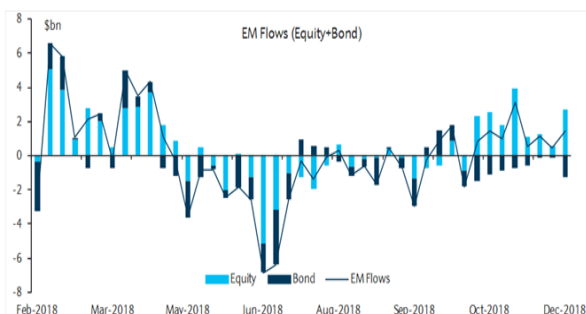
Key Emerging Market Financial Indicators

Last updated: 12/10/18 8:28 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		39.88	-1.6	-3	0	-13	-15
MSCI Frontier Equities		27.67	-0.9	0	1	-17	-16
EMBIG Sovereign Spread (in bps)		402	0	11	40	113	117
EM FX vs. USD		62.05	-0.3	-1	0	-9	-11
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.91	-0.6	0	1	-4	-6
Indonesian Rupiah		14555	-0.5	-2	2	-7	-7
Indian Rupee		71.34	-0.7	-1	2	-10	-10
Argentine Peso		37.53	-0.4	-3	-5	-54	-50
Brazil Real		3.91	-0.1	-2	-4	-16	-15
Mexican Peso		20.27	0.0	0	0	-6	-3
Russian Ruble		66.48	-0.1	0	2	-11	-13
South African Rand		14.33	-1.1	-4	1	-5	-14
Turkish Lira		5.31	-0.1	-1	3	-28	-28
EM FX volatility		10.21	0.9	0.5	0.2	2.3	2.4

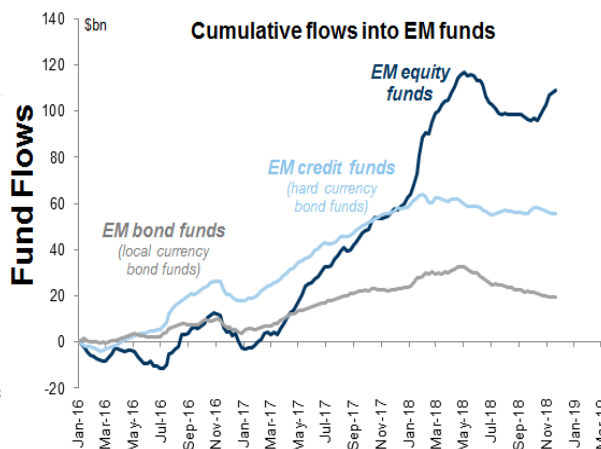
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

**EM dedicated bond funds saw larger outflows last week despite a pickup in returns, while EM equity fund inflows continued for the 5<sup>th</sup> week running.** EM bond fund flows were -\$554 mn, down for the 9<sup>th</sup> week from -\$245 mn. Hard currency funds continue to be the driver of outflows. Cumulative inflows to EM bond markets YTD are now +\$16.2 bn. EM equity fund flows were +\$2.4 bn last week, up from +\$665 mn. ETF inflows jumped to +\$3.1 bn, their highest weekly inflow since January. Cumulative inflows to EM equities YTD are now +\$19.1 bn. Analysts believe that global risk-off mode and the negative performance of EM credit in November have weighed on fund flows lately.

Figure 1: Flows into dedicated EM funds (bond &amp; equity total)



Source: EPFR Global, Barclays Research



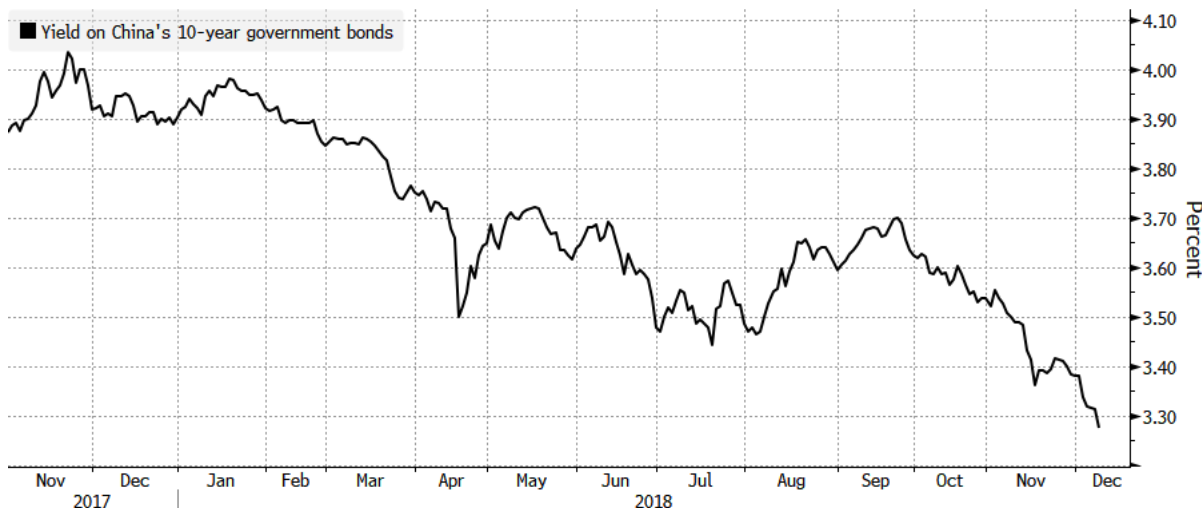
## China

**The RMB lost ground against the dollar amid escalating trade tension with the US as well as new evidence of a softening economy.** The onshore CNY lost 0.5% and the offshore CNH lost 0.4%, both pushing above the 6.91/USD level for the first time in more than a week. Adding to concerns regarding the outlook for Chinese corporates is news that Japan's top three telecom carriers — NTT Docomo, SoftBank and KDDI — will ban telecommunications equipment by Huawei and ZTE. Still, despite these developments, a growing number of investment strategists expect limited RMB depreciation in the coming months with the RMB to remain below the 7 RMB/USD level as the US and China commit to trade negotiations.

Amid slowing inflation and data pointing to weakening domestic as well as foreign demand, **central government bond (CGB) yields have declined further.** The 3-year note fell 5 bps to 2.8% and the 10-year note fell 3 bps to 3.27%, its lowest level since last March. On a year-to-date basis, the 10-year note yield has declined by 63 bps, making CGBs one of the best performers globally. At the same time, softening growth has prompted the PBC to lower the reserve requirement ratio 4 times this year, helping reduce the 1-month interest rate from 4.9% at the beginning of the year to about 2.8% currently.

## Plunging Yield

Chinese government debt has been a bright spot amid easing bets



Source: Bloomberg

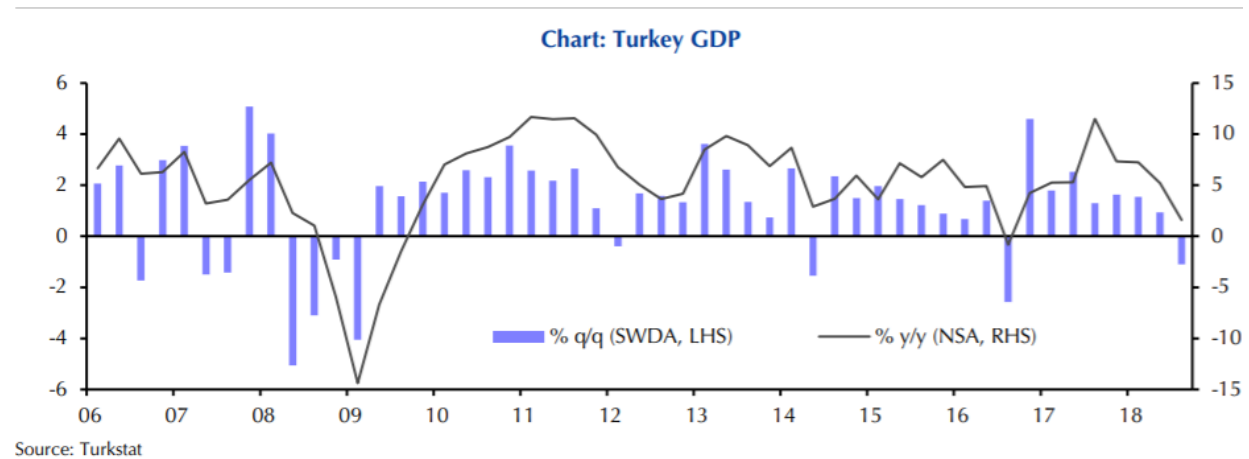
AT965438 Corp (CGB 3.54 08/16/28) yield Daily 01NOV2017-10DEC2018

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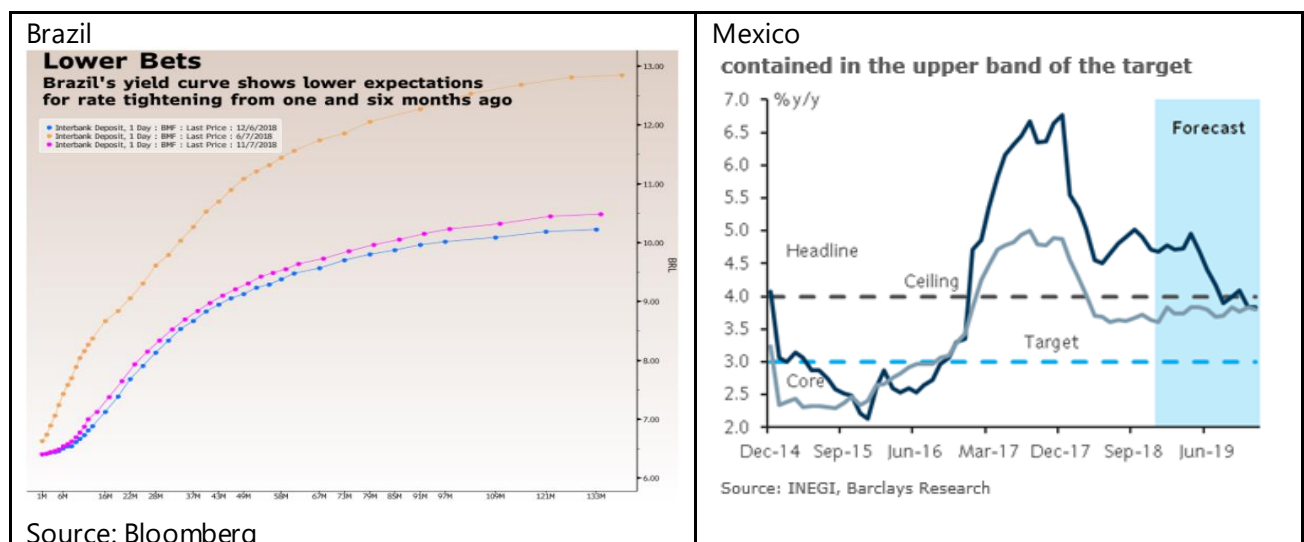
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## Turkey

**Q3 GDP disappointed at 1.6% yoy, considerably less than the 2.2% forecast by economists.** Analysts noted that household consumption (worth about two-thirds of the economy) grew at the slowest pace since 2016. Exporters benefited from the weaker currency, but the overall impact of the volatility and higher rates this year took its toll. Capital Economics, for example, forecasts that the economy will contract 0.5% next year. There was little market impact from the data.



**In Latin America, CPI data releases and their implications were the main theme on Friday.** Inflation dynamics displayed divergent trends with Brazil's inflation decelerating more than expected, Chile in line with expectations, and Mexico seeing faster inflation than expected. **Brazil's inflation rate fell to 4.05% y/y (vs expected 4.2%) in November** (after 4.6% y/y in October). Some market analysts believe that Brazil's benign inflation print may lead the central bank to hold interest rates at their recent low throughout 2019. In Mexico, the inflation rate fell to 4.7% in November (vs. 4.6% expected). Details of Mexico's 2019 budget proposal due this week by the new government will be important to watch for market analysts.



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## Global Financial Indicators

Last updated: 12/10/18 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2633	-2.3	-4	-5	-1	-2
Europe		3049	-0.3	-5	-6	-15	-13
Japan		21220	-2.1	-6	-5	-7	-7
China		2585	-0.8	-3	-1	-21	-22
Asia Ex Japan		65	-1.8	-3	1	-14	-15
Emerging Markets		40	-1.4	-3	0	-13	-15
<b>Interest Rates</b>			basis points				
US 10y Yield		2.86	-5.1	-11	-32	48	45
Germany 10y Yield		0.26	0.9	-5	-15	-5	-17
Japan 10y Yield		0.04	-1.6	-4	-8	-1	-1
UK 10y Yield		1.23	-3.5	-8	-26	-5	4
<b>Credit Spreads</b>			basis points				
US Investment Grade		138	5.6	10	33	42	46
US High Yield		441	0.4	29	77	62	66
Europe IG		87	1.1	7	15	39	42
Europe HY		349	4.8	29	54	117	116
EMBIG Sovereign Spread		402	0.0	11	40	113	117
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.62	0.1	0	0	3	5
USDEUR		1.14	0.4	1	2	-3	-5
USDJPY		112.7	0.0	1	1	1	0
EM FX vs. USD		62.1	-0.2	-1	0	-9	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		61	-0.6	-1	-13	-3	-8
Industrials Metals (index)		114	-0.5	-2	0	-8	-18
Agriculture (index)		43	-0.3	0	1	-9	-9
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		23.4	0.2	6.9	6.0	13.8	12.4
10y Treasury Volatility Index		4.4	0.1	0.5	0.5	0.8	0.8
Global FX Volatility		8.8	0.1	0.5	0.6	1.2	1.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		399	0.4	9	1	-22	30
Italy		284	-4.3	0	-16	149	125
Portugal		153	-1.7	4	0	3	2
Spain		120	-0.7	1	0	10	6

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: 12/10/2018 8:32 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		6.91	-0.6	-0.4	1	-4	-6		3.2	-1.8	-8	-24	-72	-73
Indonesia		14555	-0.5	-2.1	2	-7	-7		8.2	2.2	11	-3	141	157
India		71	-0.7	-1.2	2	-10	-10		7.5	3.0	-13	-34	27	7
Philippines		53	-0.2	-0.9	1	-5	-5		6.3	-0.4	-6	-42	146	143
Thailand		33	0.1	0.2	0	-1	-1		2.7	-1.0	-6	-17	38	41
Malaysia		4.17	-0.1	-0.2	0	-2	-3		4.1	0.1	-4	-4	17	22
Argentina		38	-0.4	-2.7	-5	-54	-50		23.2	-8.0	26	-64	737	715
Brazil		3.91	-0.1	-1.7	-4	-16	-15		8.5	-3.4	-1	-15	-38	-48
Chile		676	-0.1	-1.1	2	-3	-9		4.6	0.2	-4	-21	-33	-20
Colombia		3158	-0.1	1.2	1	-5	-5		6.6	-4.0	-9	-14	32	38
Mexico		20.27	0.0	0.5	0	-6	-3		9.1	-5.0	-10	43	177	147
Peru		3.4	0.2	0.4	0	-4	-4		5.9	4.5	11	1	56	62
Uruguay		32	0.0	-0.5	1	-10	-11		11.0	5.8	15	39		244
Hungary		283	0.3	0.4	1	-6	-9		2.3	2.9	1	-32	103	107
Poland		3.76	0.3	0.2	2	-5	-7		2.5	3.6	1	-12	-21	-22
Romania		4.1	0.2	0.5	2	-3	-5		4.2	-5.0	-8	-20	37	34
Russia		66.5	-0.1	0.0	2	-11	-13		8.4	-6.1	-1	-3	102	112
South Africa		14.3	-1.1	-4.4	1	-5	-14		9.7	-4.2	12	2	-12	37
Turkey		5.31	-0.1	-1.1	3	-28	-28		17.6	13.6	60	9	529	564
US (DXY; 5y UST)		97	0.1	-0.4	0	3	5		2.72	2.7	-10	-32	58	51

	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		2585	-0.8	-3	-1	-21	-22		193	-1	6	9	46	41
Indonesia		6111	-0.2	0	4	1	-4		232	0	9	21	61	66
India		34960	-2.0	-4	-1	5	3		183	3	8	17	75	73
Philippines		7348	-1.5	-2	5	-12	-14		120	2	10	17	23	25
Malaysia		1663	-1	-2	-3	-3	-7		153	0	7	17	42	43
Argentina		31550	-1.5	0	5	18	5		729	0	29	114	362	379
Brazil		88033	-0.8	-2	3	21	15		270	0	4	20	36	36
Chile		5087	-0.5	-1	-2	4	-9		164	1	3	24	45	45
Colombia		1382	-0.5	-2	-3	-5	-9		209	0	1	17	33	35
Mexico		41870	-0.3	0	-5	-12	-15		346	0	4	41	102	101
Peru		19405	0	1	2	1	-3		173	1	8	19	37	36
Hungary		39811	1.1	-2	3	4	1		152	-1	6	30	66	64
Poland		57843	-0.6	-2	2	-7	-9		78	-2	5	22	38	31
Romania		8641	-0.5	-1	0	12	11		226	1	10	41	112	113
Russia		2410	-0.8	-1	0	15	14		250	1	12	20	79	72
South Africa		50460	-1.1	-3	-5	-13	-15		367	1	18	40	85	113
Turkey		92721	-1.2	-2	0	-14	-20		479	1	20	55	172	190
Ukraine		576	0.2	0	-3	90	83		739	-1	28	126	273	284
EM total		24	0.0	-2	0	-10	-11		402	0	11	40	113	117

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