



- Trade fears strike again as US markets retreat on Tuesday ([link](#))
- SOFR issuance in US markets crosses \$300 bn in 2019 ([link](#))
- British pound strengthens as the Tories remain well ahead Labour in the polls ([link](#))
- Australian dollar weakens on softer-than-expected GDP ([link](#))
- EM bond issuance remains strong ([link](#))
- Brazilian GDP growth surprises on the upside in Q3 ([link](#))











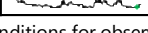
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Markets recover on renewed hopes of a US-China trade deal

European bourses and US equity futures recovered this morning after market sentiment deteriorated sharply on Tuesday as worries about the trade conflict dominated financial markets.

The recovery was predicated on fresh hopes that the US and China are moving closer to a trade deal despite the harsh rhetoric. These hopes, however, could not be attributed to any specific source with Bloomberg just naming “people familiar” with the US-China trade talks. Advanced economy sovereign bond yields rose modestly and the VIX dropped 0.8 percentage points this morning. Elsewhere, the Australian dollar weakened on softer-than-expected GDP while the British pound crossed the \$1.30 (+0.8%) threshold as the Tories remain well ahead Labour in the final days before the December 12th election. In emerging markets, Asian currencies and equities underperformed while Brazilian local assets gained yesterday as GDP growth was stronger-than-expected in Q3.

Key Global Financial Indicators

Last updated: 12/4/19 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3093	-0.7	-1	0	15	23
Eurostoxx 50		3658	1.3	-1	0	15	22
Nikkei 225		23135	-1.0	-1	1	5	16
MSCI EM		42	1.5	-2	-3	3	8
Yields and Spreads			bps				
US 10y Yield		1.74	-10.3	-2	-3	-117	-94
Germany 10y Yield		-0.33	2.0	4	2	-59	-57
EMBIG Sovereign Spread		331	-4	-4	14	-64	-83
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.1	0.3	0	-2	-4	-3
Dollar index, (+) = \$ appreciation		97.7	-0.1	-1	0	1	2
Brent Crude Oil (\$/barrel)		62.1	2.1	-3	0	0	15
VIX Index (% change in pp)		15.1	-0.8	4	2	-6	-10

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

United States

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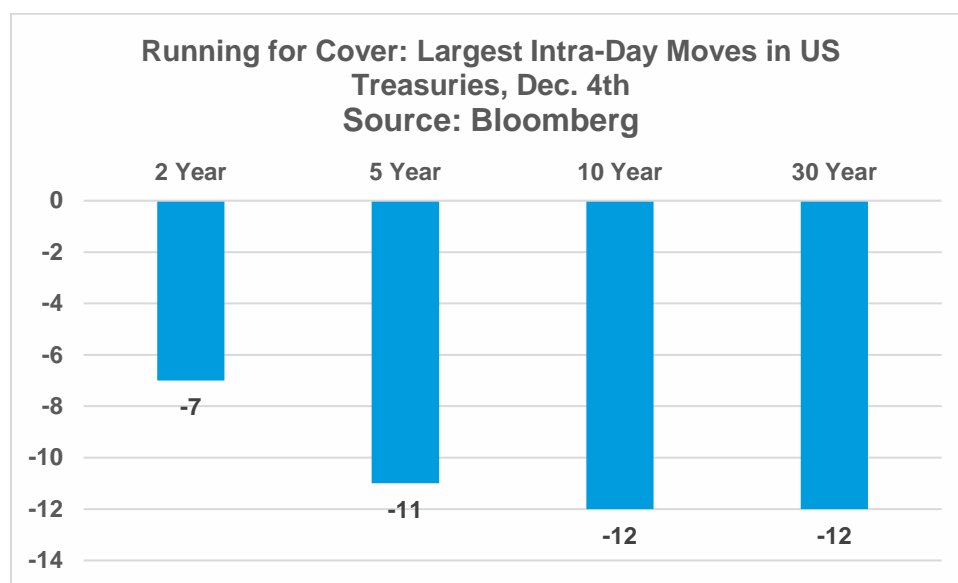
Investors took refuge in Treasuries, bunds, gilts, gold and other safe havens as worries about the trade conflict dominated the markets. Stocks fell for the third consecutive session. The consensus assumption that the December 15 tariffs will be averted is being challenged again. Trade sensitive stocks have significantly underperformed relative to the S&P 500 as measured by Morgan Stanley's trade sensitive equity basket. Recent rhetoric from the US authorities appears to signal a significant escalation against both China and the euro area. Statements over the weekend from China also hinted at a tougher stance by its authorities. Some contacts were skeptical about the recent moves in markets, pointing out that the trade rhetoric was cyclical and that the authorities would likely dial down the rhetoric. Others disagreed, pointing to the heavy trading volume this week as an indication that markets are genuinely worried. Treasury cash volume was 166% of the 10-day moving average and S&P 500 volume was nearly 10% higher. In addition, they noted that valuations of global risk assets such as stocks and corporate bonds are stretched and vulnerable to a correction, with the S&P 500 still just 2% its record close last Wednesday.

The China Syndrome



The 10-year Treasury yield was down by as much as 12 bps at one point in the session, a large move by recent standards and the largest decrease in the 10-year yield since August. The latest JPM Morgan Fund Manager Survey finds that long positions among active managers has gone up to 30% from 20%. Neutrals fell from 50% to 40% and 30% continue to hold short positions. Tuesday's rally in Treasury could have knock-on effects on the still significant number of these managers with short positions, perhaps sparking a short-covering rally and pushing yields down further. In particular momentum investors, who are the fastest movers, are net short the bond market. Tight year end liquidity could also amplify market moves.

This morning, **the ADP employment change was weaker-than-expected** at +67k in November (vs. +135k expected) from a slightly downwardly revised +121k gain in October. US Treasury yields were little changed following the release.



Floating rate notes (FRNs) indexed to the Secured Overnight Financing Rate (SOFR) have steadily gained in market share in 2019 as markets confront the phaseout of the long dominant LIBOR benchmark starting in 2021. There have been over 300 new SOFR-linked FRNs issued this year with a total volume of more than \$300 bn, according to data from JP Morgan and Bloomberg. The government sponsored entities (GSEs) such as Fannie Mae and Freddie Mac and the Federal Home Loan Banks (FHLBs) have been the largest issuers in the SOFR market, accounting for 85% of issuance. The regulator of the FHLBs has mandated that they no longer be involved with LIBOR-linked instruments that mature after 2021. In addition, the US Treasury is exploring the possibility of issuing debt linked to SOFR. These trends should lead to a growing share of the market for SOFR. However, LIBOR-linked issues continue to dominate the overall FRN market, accounting for 77% of securities outstanding. Banks and corporations have been much less eager to step into the SOFR market. On the other hand, 70% of all outstanding LIBOR FRNs mature by March 2022, so private sector market participants will probably be forced to increase their participation in the SOFR market going forward.

Exhibit 11: We estimate 314 SOFR-linked FRNs have been issued thus far, with volumes totaling over \$300bn

SOFR-linked issuance, by sector, tenor (unit as listed)

	Financials		GSEs		SSAs		Non-Financials	
Term	Count	Amt (\$bn)	Count	Amt (\$bn)	Count	Amt (\$bn)	Count	Amt (\$bn)
3M	6	0.5	14	22.7	0	0.0	0	0.0
6M	39	13.4	34	71.4	0	0.0	0	0.0
9M	9	2.8	20	36.7	0	0.0	0	0.0
1Y	67	13.0	45	71.5	0	0.0	1	1.6
18M	6	1.9	26	37.9	0	0.0	0	0.0
2Y	7	3.5	19	18.6	3	2.1	4	2.8
3Y	4	2.1	5	1.7	5	5.0	0	0.0
Total	138	37.2	163	260.6	8	7.1	5	4.4

Source: Bloomberg, J.P. Morgan as of 11/22/2019

US real yields are expected to end close to current levels by the end of 2020, according to forecasts by Morgan Stanley. Their analysts believe that the upcoming election will be the main factor driving inflation expectations and the Treasury Inflation Protected Securities (TIPS) and inflation swap markets. While there is room for significant volatility over the course of the campaign, their prediction is that another period of divided government is the most likely outcome. In these circumstances, there is less chance of a significant change in fiscal policy or other major legislation which could alter inflationary expectations. The US has experienced a united government (one party winning the Presidency as well as control of the House and Senate) in just 10 of the previous 40 years. In addition, oil prices are predicted to be rangebound or even fall slightly in 2020, a stabilizing factor for the TIPS market which is very sensitive to the movement of oil prices.

Exhibit 1: US real yield and breakeven forecasts for 2020

	5y BE	10y BE	30y BE	5y Real	10y Real	30y Real	5y	10y	30y
26-Nov-19	1.56	1.64	1.73	0.04	0.11	0.45	1.60	1.75	2.18
2Q20	1.70	1.80	1.85	0.10	0.20	0.65	1.80	2.00	2.50
4Q20	1.60	1.60	1.65	0.00	0.15	0.60	1.60	1.75	2.25

Source: Bloomberg, Morgan Stanley Research

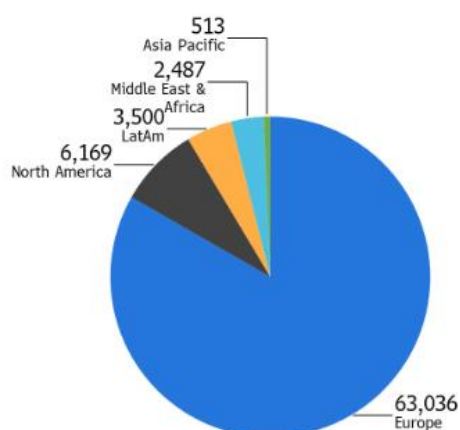
Europe

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Equity markets advanced vigorously, with the DAX adding 0.9%, the CAC 1.1%, and the EuroStoxx 600 0.9%. Stocks in Italy and Spain also did well with gains of 0.9% and 1.3%, respectively. Bank equities (1.5%) slightly outperformed. For the year, bank stocks have gained around 6% in value despite the challenging environment of low rates and weak growth outlook. Lenders in Europe has responded by slashing costs and staff.

Job Losses

European banks have disclosed the higher number of targeted job cuts



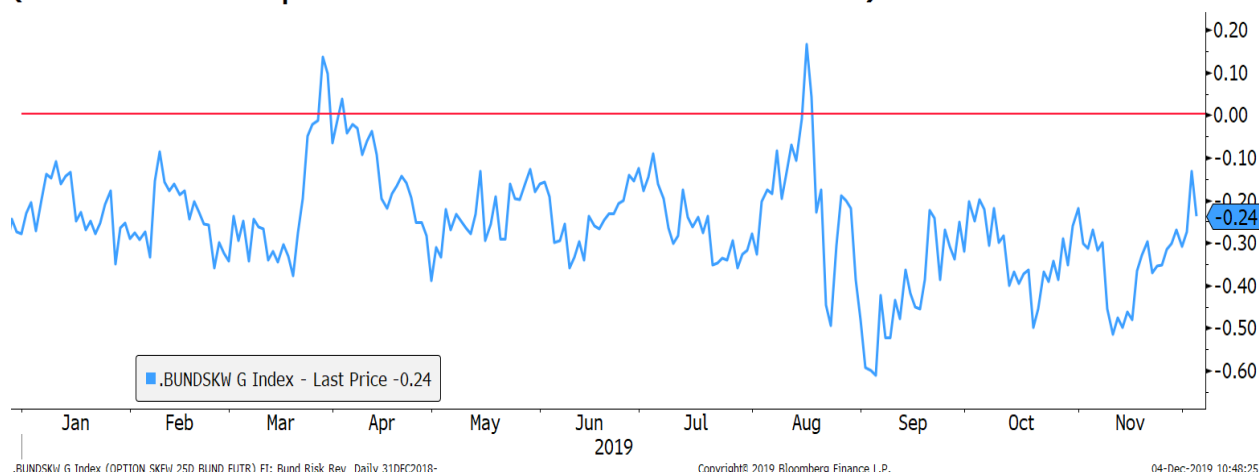
Source: Company filings in 2019

Bloomberg

Sovereign debt yields were little changed today: German 10-year yields at -0.33% (+1 bp); French OATs at -0.2% (+1 bp); Italy at 1.29% (+1 bp); and Spain at +0.42% (+1 bp). Bund risk reversals have become less bearish since November (less negative), suggesting more bond traders see risks increasing (i.e., risk-off positioning) rather than decreasing (i.e., risk-on positioning) in coming weeks.

German Bund Risk Reversals

(25-Delta One-Month Options: Difference Between Call and Put Volatilities)

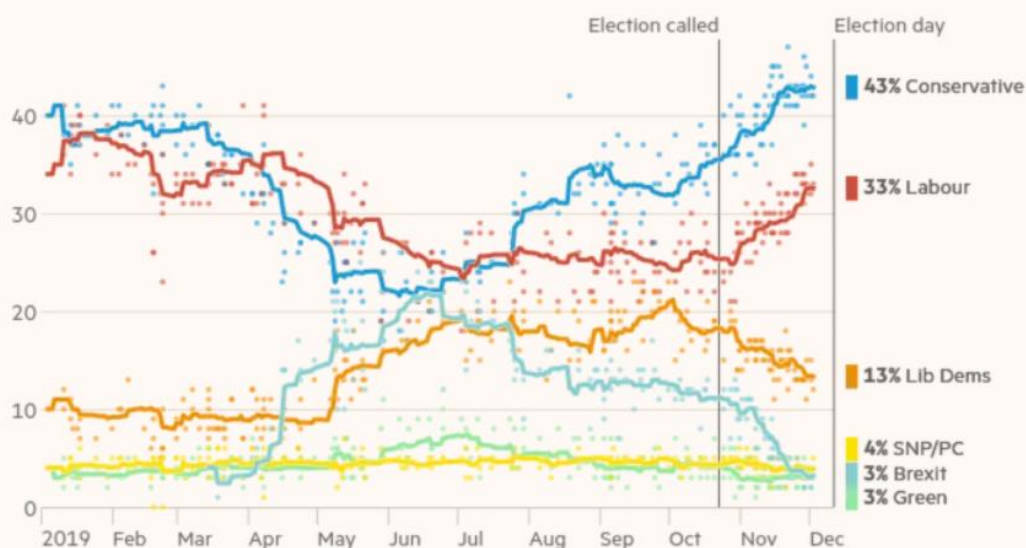


In macro data, **PMI gauges continued to show weakness in Germany, France, and Italy**, as the Composite indices printed below expectations and/or below 50. Germany at 49.4 vs 49.2 expected; France at 52.1 vs 52.7 expected; Italy at 49.6 vs. 50.6 expected.

The British pound crossed the \$1.30 (+0.8%) threshold as the Tories remain well ahead Labour in the final days before the Dec.12th election. The Conservative party seems poised to garner about 43% of support, compared to 33% for Labour. Sterling has struggled to cross the \$1.30 mark since early 2019. The strengthening of the pound is taking place against the **release of weak PMI data for the UK today**: both the Composite and Services PMIs for Nov. stood at 49.3—below the 50-threshold signally an economic expansion.

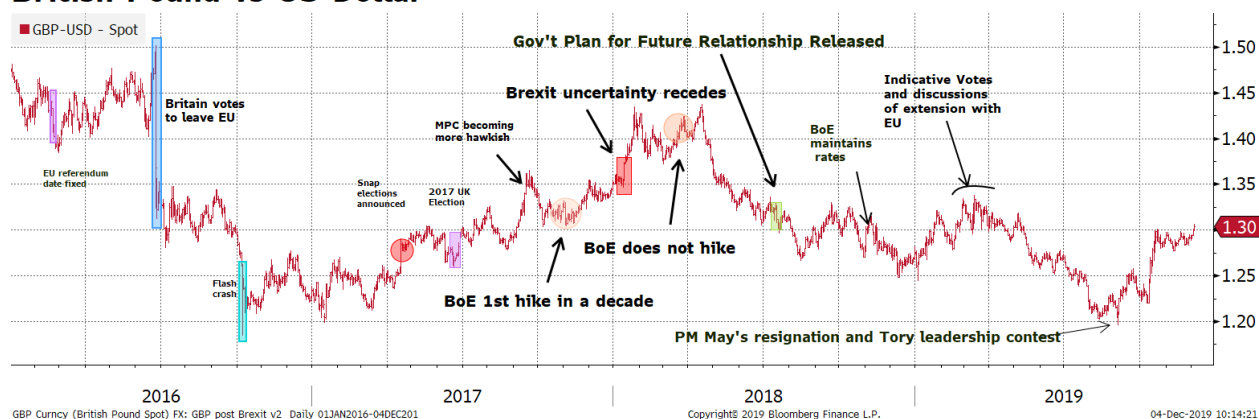
UK poll tracker

Lines represent weighted averages, points represent polls (%)



Source: FT poll of polls, updated as of December 4 2019
© FT

British Pound vs US Dollar



Other Mature Markets

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Japan

The yen extended recent appreciation while equities lost ground amid renewed US-China trade tension. President Trump raised the possibility that the initial phase of a US-China trade deal could be delayed. Amid a resurgence of uncertainty, the yen gained 0.2% while the Topix lost 0.2%. Meanwhile, JGB bond yields fell as investors look to tomorrow's regular auction. The 2-year note fell 0.4 bps to -0.17% while the 10-year note fell 2 bps to -0.06%.

The Government Pension Investment Fund looks to rein in short selling from its investment portfolios as it seeks to fulfill its ESG mandate. According to news reports, the public pension fund, the world's largest, indicated that it will no longer allow overseas shares to be lent out from its ¥80 tn (\$733 bn) global equity portfolio. The GPIF noted that it was concerned that it would not be able to exercise "proper stewardship" over its underlying investments, including a lack of transparency over the final borrower and the actual usage of GPIF shares, if were to lend out stocks. That said, GPIF will continue to lend securities from its bond portfolios. Observers noted that the move by the GPIF could significantly reduce liquidity in global equity markets if others follow suit.

Australia

The Australian dollar (-0.4%) suffered its sharpest depreciation in in two weeks as growth fell below expectations. GDP in Q3 grew 0.4%, q/q, below expectations for an increase of 0.5%, though on a year-on-year basis, it grew 1.7%, in line with estimates. The softer-than-expected growth figure, coming on the heels of the RBA's decision to leave its policy rate unchanged yesterday, boosted expectations for rate cuts in the near term. Overnight index swaps suggest that the odds for a rate cut in February rose from 50% on Tuesday to 64% after GDP release. Meanwhile, the Australian dollar suffered its biggest depreciation since late November against the dollar (-0.4%) on the back of the soft GDP print and dampened optimism for a US-China trade deal.








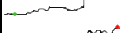





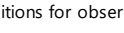
Emerging Markets

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Asian currencies mostly depreciated against the dollar and equities posted broad-based losses as the prospect for a trade deal dimmed once again. The Korean won underperformed (-0.6%), falling to its weakest level in two months as trade headwinds, North Korea-related issues as well concerns over a sluggish economy weighed on the won. Other currencies, including the RMB, were little changed. Meanwhile, the Hong Kong Hang Seng Index underperformed (-1.3%) while Chinese shares were little changed, outperforming others. **Sentiment then recovered in EMEA on speculation that the U.S. and China are still heading towards a deal.** Equities rose across the board, with some noteworthy outperformance in South Africa (+1.0%) and Hungary (+1.9%). The South African rand also rose +0.4%

against the U.S. dollar. **In Latin America, currencies firmed modestly yesterday on a weaker dollar, including a 0.3% appreciation of the Brazilian real boosted by a stronger-than-expected GDP report.** Regional equity markets broadly weakened in tandem with US markets, except Brazilian stocks which were flat. USD and local currency long-term government bond spreads tightened marginally.

Key Emerging Market Financial Indicators

Last updated: 12/4/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.31	1.3	-2	-3	3	8
MSCI Frontier Equities		29.47	0.2	2	3	6	13
EMBIG Sovereign Spread (in bps)		331	-4	-4	14	-64	-83
EM FX vs. USD		60.12	0.3	0	-2	-4	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.05	0.1	0	0	-3	-2
Indonesian Rupiah		14105	0.1	0	-1	1	2
Indian Rupee		71.53	0.2	0	-1	-1	-2
Argentina Peso		59.87	0.1	0	0	-38	-37
Brazil Real		4.20	0.2	2	-4	-8	-7
Mexican Peso		19.51	0.2	0	-2	5	1
Russian Ruble		63.88	0.4	0	-1	5	9
South African Rand		14.56	0.5	1	2	-5	-1
Turkish Lira		5.74	0.1	1	0	-6	-8
EM FX volatility		6.95	0.0	0.1	-0.3	-3.0	-2.8

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

EM Bond Issuance

EM bond issuance has been strong in recent days, dominated by China. The Chinese government and EM private entities have issued a combined \$15.4 bn in debt since November 25 (table). China has also accounted for a large portion of EM issuance by corporates and financials. Latin American and CEEMEA private entities have issued \$0.9 bn and \$1.8 bn, respectively.

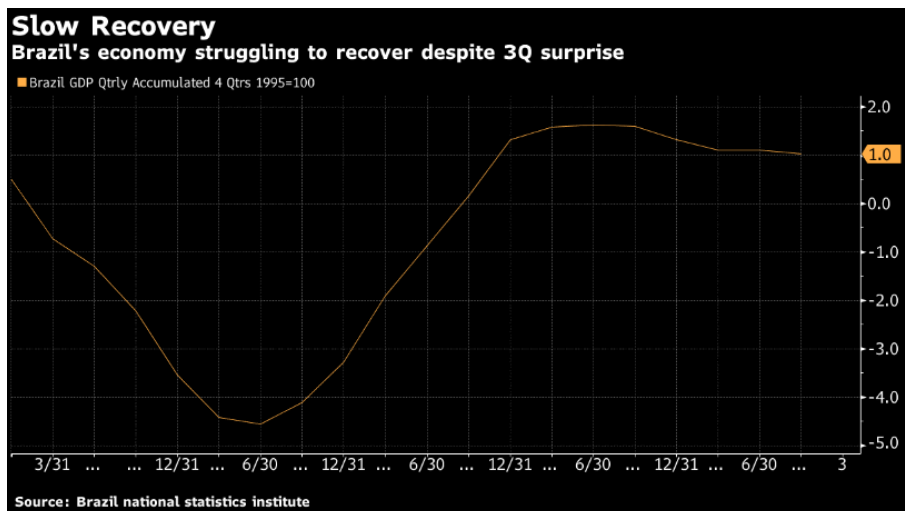
EM Issuance, 11/25-12/3, \$ bn

	Total	Sovereign	Corporate	Financial	Supra	Muni/Local Govt
ASIA (non-Japan)	12.8	6.0	4.7	1.2	0.0	0.9
CHINA	11.0	6.0	3.4	0.8	0.0	0.9
Latam	0.9	0.0	0.9	0.0	0.0	0.0
CEEMEA	1.8	0.0	0.3	0.4	1.1	0.0
EM total	15.4	6.0	5.9	1.6	1.1	0.9

Source: Bloomberg, BondRadar, and IMF staff calculations.

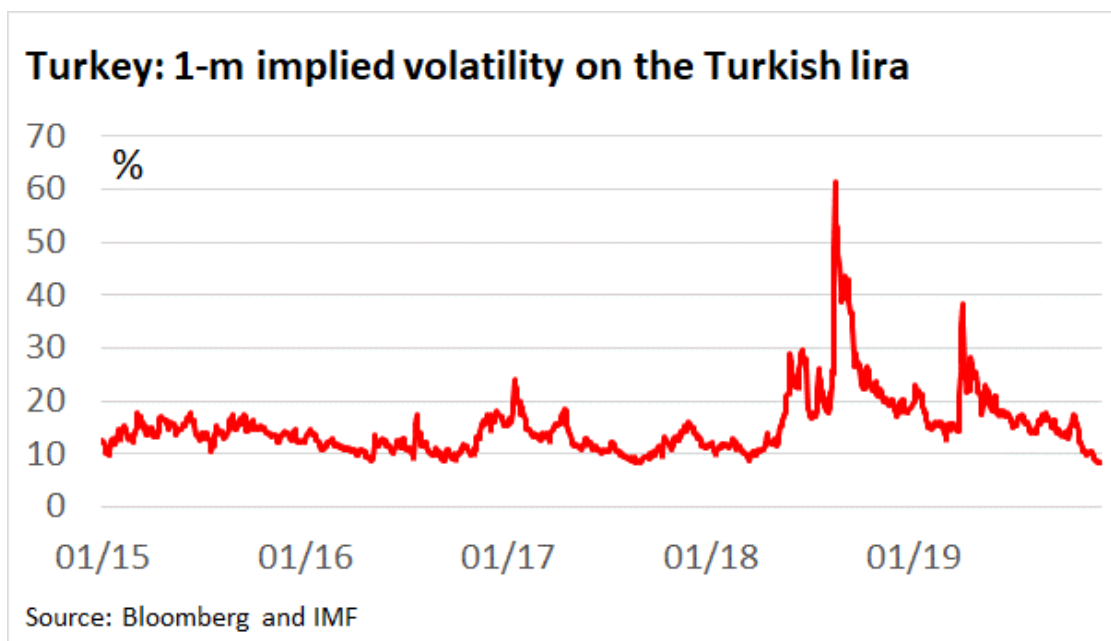
Brazil

Brazilian local assets gained as GDP growth was stronger than expected in Q3. GDP rose 0.6% qoq, above the consensus of 0.4%. On a yearly basis, GDP expanded 1.2%, exceeding the expected 1.0% yoy. In addition, 2018 GDP growth was revised up to 1.3%. Economic growth was reportedly supported by a 2% qoq rise in investment and a 1.3% increase in agricultural output. In contrast, government spending declined 0.4% qoq and exports slid 2.8%. Commentators noted that the upward revisions may help reduce the market's perceptions of the risk of a recession. However, the pace of the recovery has been slow (figure). Despite the deterioration in global market sentiment caused by the renewed trade concerns, domestic equities (+0.6%) gained and the real (+0.3%) strengthened to the dollar on Tuesday.



Turkey

The lira was little changed as equities gained +0.6%. **Volatility in the Turkish lira has steadily edged lower in recent months.** The move is in line with a broader trend of lower volatility in global currency markets but has nevertheless surprised some traders given the lira's high levels of volatility earlier in the year. Such large swings can imply large mark-to-market changes in a trading book. Over the weekend, Bloomberg reported that Morgan Stanley is investigating a suspected mispricing of securities linked to the Turkish lira to conceal losses of up to \$140 mn.



Saudi Arabia

Aramco is expected to announce its final IPO price tomorrow. Bloomberg reports that the company intends to price its IPO at the higher end of the marketed range, for a valuation of \$1.7 tn. The IPO would raise \$25.6 bn in that case, making it the largest USD IPO on record according to Bloomberg.























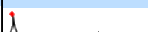






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Global Financial Indicators

Last updated: 12/4/19 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3093	-0.7	-1	0	15	23
Europe		3658	1.3	-1	0	15	22
Japan		23135	-1.0	-1	1	5	16
China		2878	-0.2	-1	-3	8	15
Asia Ex Japan		69	-0.6	-3	-3	3	9
Emerging Markets		42	1.5	-2	-3	3	8
Interest Rates			basis points				
US 10y Yield		1.74	-10.3	-2	-3	-117	-94
Germany 10y Yield		-0.33	2.0	4	2	-59	-57
Japan 10y Yield		-0.04	-1.6	7	14	-11	-4
UK 10y Yield		0.73	5.7	5	0	-55	-55
Credit Spreads			basis points				
US Investment Grade		116	-0.7	0	-3	-13	-31
US High Yield		474	-3.1	9	21	50	-47
Europe IG		49	-1.5	1	0	-33	-39
Europe HY		226	-3.7	3	0	-103	-127
EMBIG Sovereign Spread		331	-4.0	-4	14	-64	-83
Exchange Rates			%				
USD/Majors		97.66	-0.1	-1	0	1	2
EUR/USD		1.11	0.0	1	0	-2	-3
USD/JPY		108.7	0.0	1	0	4	1
EM/USD		60.1	0.3	0	-2	-4	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		62	2.1	-3	0	0	15
Industrials Metals (index)		110	0.5	-3	-7	-5	1
Agriculture (index)		39	0.4	0	-1	-9	-6
Implied Volatility			%				
VIX Index (% change in pp)		15.1	-0.8	3.6	2.3	-5.6	-10.3
10y Treasury Volatility Index		4.6	0.2	0.5	0.4	0.6	0.0
Global FX Volatility		6.1	0.0	0.3	-0.3	-2.3	-2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		187	-4.5	8	32	-211	-229
Italy		161	-2.3	3	27	-128	-89
Portugal		70	-1.5	-5	11	-85	-78
Spain		76	-0.3	-1	10	-47	-42

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: 12/4/2019 8:14 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		7.05	0.1	-0.3	0	-3	-2		3.2	0.3	1	-8	-9	4
Indonesia		14105	0.1	-0.1	-1	1	2		7.3	-0.9	8	15	-80	-90
India		72	0.2	-0.2	-1	-1	-2		6.8	-1.0	0	0	-88	-65
Philippines		51	0.0	-0.3	-1	3	3		4.3	-0.1	-1	-1	-202	-200
Thailand		30	-0.1	-0.2	0	8	7		1.7	0.0	-2	14	-107	-92
Malaysia		4.18	0.0	-0.1	-1	-1	-1		3.4	0.5	1	-1	-75	-69
Argentina		60	0.1	-0.1	0	-38	-37		90.8	18.1	144	3398	6788	6782
Brazil		4.20	0.2	1.5	-4	-8	-7		6.2	-5.2	-9	48	-232	-192
Chile		800	0.4	2.4	-7	-17	-13		3.6	8.0	28	20	-104	-88
Colombia		3482	0.6	0.8	-5	-9	-7		6.1	-3.4	-14	36	-60	-43
Mexico		19.51	0.2	0.1	-2	5	1		7.2	-1.3	0	31	-199	-155
Peru		3.4	0.1	-0.1	-2	0	-1		4.6	-3.3	8	9	-123	-117
Uruguay		38	0.2	0.7	-1	-15	-14		11.2	-7.0	-8	33	40	51
Hungary		299	0.2	2.4	-1	-4	-6		1.1	-11.9	7	-6	-126	-112
Poland		3.86	0.1	1.5	-1	-2	-3		1.8	-4.7	-1	1	-69	-50
Romania		4.3	0.0	1.4	-1	-5	-6		4.2	1.0	17	32	-7	-8
Russia		63.9	0.4	0.1	-1	5	9		6.3	-2.4	5	3	-207	-213
South Africa		14.6	0.5	1.4	2	-5	-1		9.7	3.5	5	9	18	14
Turkey		5.74	0.1	0.6	0	-6	-8		11.9	-7.2	-6	-33	-492	-498
US (DXY; 5y UST)		98	-0.1	-0.7	0	1	2		1.57	2.6	-6	-2	-122	-94

	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		2878	-0.2	-1	-3	8	15		183	0	8	6	-8	-11
Indonesia		6113	-0.3	1	-1	-1	-1		180	-3	0	5	-47	-56
India		40850	0.4	0	1	13	13		136	6	8	8	-42	-60
Philippines		7816	-0.5	0	-3	1	5		87	-1	3	11	-28	-34
Malaysia		1561	-0.1	-2	-3	-8	-8		122	1	2	3	-29	-40
Argentina		32757	-2.1	2	-12	2	8		2399	-4	134	119	1670	1584
Brazil		108956	0.0	1	0	23	24		242	-4	6	20	-28	-31
Chile		4505	-0.2	-2	-6	-13	-12		153	0	3	14	-11	-13
Colombia		1590	-0.5	0	-3	14	20		192	-3	3	16	-21	-36
Mexico		42295	-0.6	-1	-3	1	2		331	-2	10	20	-15	-23
Peru		19759	-1.4	-1	-2	2	2		131	-2	3	6	-40	-37
Hungary		43693	1.5	0	2	7	12		103	-1	3	8	-46	-45
Poland		56392	0.4	-3	-5	-5	-2		31	-1	6	3	-46	-54
Romania		9927	0.5	1	3	13	34		201	9	1	8	-15	-20
Russia		2906	0.8	-1	-1	19	23		161	-3	1	-12	-83	-91
South Africa		55086	1.1	-2	-3	5	4		359	-4	8	32	4	-6
Turkey		107357	0.6	1	7	14	18		441	-9	2	-6	-23	12
Ukraine		511	0.0	-1	-2	-11	-9		511	-10	21	54	-202	-276
EM total		42	1.3	-2	-3	3	8		331	-4	-4	14	-64	-83

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

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