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- US holiday sales make strongest start since 2013 ([link](#))
- RBNZ raises required capital for banks, but allows more alternative Tier-1 capital ([link](#))
- Bank of Canada leaves policy rates unchanged at 1.75%, as expected ([link](#))
- Banco Central de Chile leaves policy rates unchanged at 1.75% ([link](#))
- Reserve Bank of India left its policy rate unchanged on inflation worries ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## US-China trade negotiations continue to drive global trading sentiment

As market volumes ebb into the holiday season and year-end, price action appears to be increasingly driven by headlines. In recent sessions, market participants have largely attributed small gains and losses to subtle shifts in sentiment around the US-China trade negotiations, though there have been few official developments. More broadly, the longer-term theme of global growth stabilization, which slowly came to the fore in the wake of the downbeat IMF/WB annual meetings, remains intact. However recent US data suggest to many investors that while an imminent recession still seems to be an unlikely outcome, US growth is still relatively tepid compared to last year's pace. The broad US dollar index has declined nearly 1% over the past week but remains within recent trading ranges. Market participants will remain keenly attuned to tomorrow's US nonfarm payroll report for further clues on the outlook for US growth.

Key Global Financial Indicators

Last updated: 12/5/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3113	0.6	-1	1	15	24
Eurostoxx 50		3674	0.4	-1	0	17	22
Nikkei 225		23300	0.7	0	0	6	16
MSCI EM		43	0.2	-1	-3	4	9
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.78	5.8	1	-8	-113	-91
Germany 10y Yield		-0.31	1.0	6	0	-58	-55
EMBIG Sovereign Spread		326	-3	1	5	-71	-88
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		60.3	0.1	1	-1	-3	-3
Dollar index, (+) = \$ appreciation		97.5	-0.2	-1	-1	0	1
Brent Crude Oil (\$/barrel)		63.5	0.9	-1	1	3	18
VIX Index (% change in pp)		14.3	-0.5	3	1	-6	-11

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

## United States

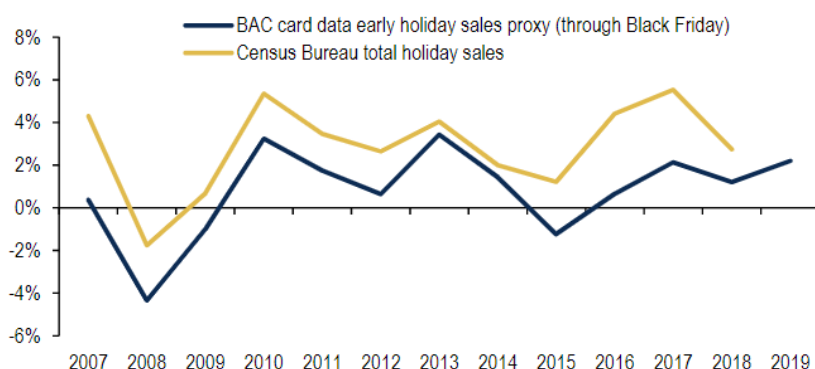
[back to top](#)

**Markets rebounded, as Tuesday's trade pessimism turned to Wednesday's optimism.** Underscoring the vagaries of market sentiment, the price action occurred despite the lack of specific trade developments. The S&P 500 ended three days of losses and Treasury yields unwound part of their earlier decline.

**The ISM non-manufacturing index was weaker than expected at 53.9 (vs. 54.5).** This continues a recent run of weaker-than-expected US data, including the weak ADP print and the disappointing manufacturing PMI data and home sales from last week. The Treasury market was unaffected by the weak data, taking its cue from the risk-on sentiment and partially reversing Tuesday's decline in yields.

**The US holiday shopping season is off to its best start since 2013, according to Bank of America.** Using proprietary data from its customers' credit and debit cards, it estimates that early sales are up 2.2% compared to the same period last year, where "early" sales are defined as the 21 days leading up to and including Black Friday. Using the alternative methodology used by the Census Bureau, this translates into a gain of 4% year-on-year. Last year's promising start was negated by the dip in the stock market, but this year the market is doing much better and the expectation is for a very strong sales season heading into Christmas. The data also show that online sales accounted for 38% of early sales, with online sales up a robust 14% compared to last year but regular store sales up just 2%. In addition, the data suggest that most people will do the bulk of their holiday shopping after Black Friday and closer to Christmas.

Chart of the day: BAC early holiday sales trends with Census total holiday sales (% YOY)

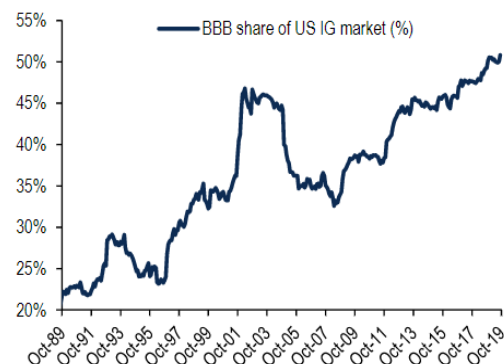


Source: BAC internal data, Census Bureau

Note: Census Bureau holiday sales proxy includes November and December core control retail sales. Core control retail sales are defined as retail sales ex-autos, gas, building materials, and food, based on the as-reported data.

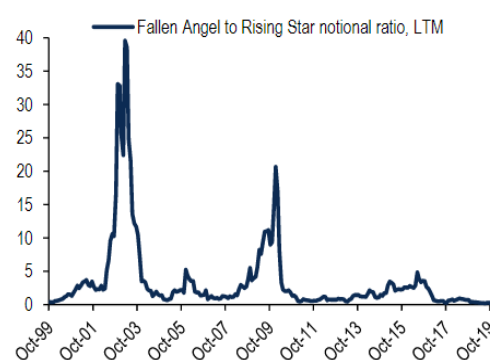
**The ratio of fallen angels to rising stars in the US corporate bond market has fallen close to a record low, reflecting strong credit performance in the market.** Fallen angels are companies that are downgraded below investment grade (investment grade or IG ends at the BBB- credit rating) into high yield territory (BB+ or lower), while rising stars are companies that are upgraded from high yield to investment grade status. The BBB sector in the US has grown to 50% of the IG market from 33% before the global financial crisis. Becoming a fallen angel and losing the BBB status would severely penalize companies through higher funding costs, so companies often fight to retain their IG status.

Figure 12: IG is 50% BBB-rated, up from 20% twenty years ago



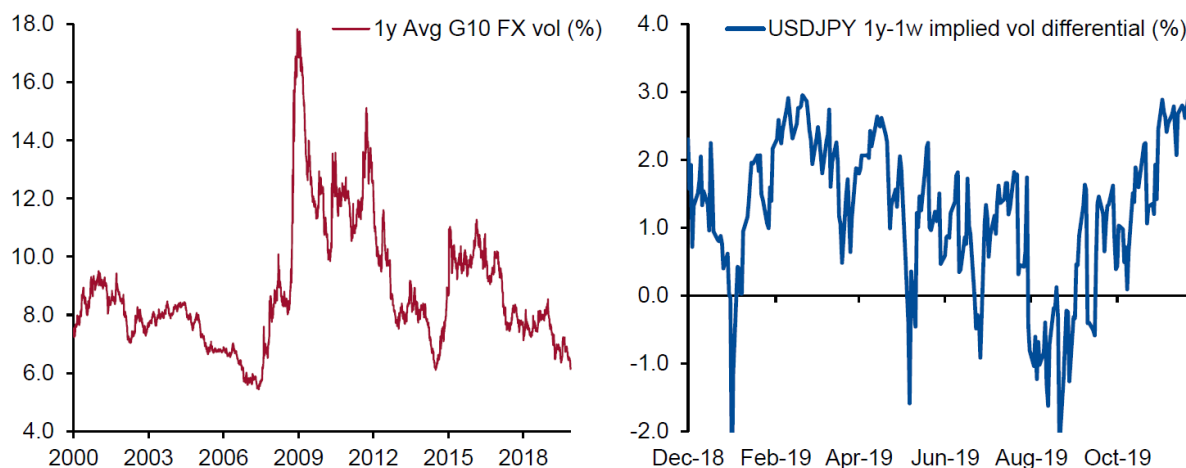
Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research

Figure 13: Near record-low downgrade/upgrade ratio between IG &amp; HY



Note: Fallen Angels are companies downgraded to HY from IG, Rising Stars the opposite.  
Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research

**Although the level of FX volatility remains very low, the forward volatility curve for the US dollar versus other major currencies is very steep.** This implies that markets are pricing much higher forward volatility relative to current realized volatility for the dollar. Credit Suisse thinks this is due to a risk premium built into market expectations with regard to the 2020 Presidential election and fears that a more radical Democratic candidate might win the nomination. The analysts believe that the risk premium will dissipate if a more centrist candidate becomes the Democratic nominee.



Sources: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

## Europe

[back to top](#)

**Equity markets continued to advance today albeit at a more modest pace.** The DAX was flat while the CAC 40 and EuroStoxx 600 gained 0.5% and 0.3%, respectively. Bank stocks (+0.3%) performed in line with markets.

**Euro area sovereign debt markets trade steadily.** German 10-year yields -0.30% (+1 bp); French OATs are at 0.00% (+1 bp). Other sovereign yields were unchanged.

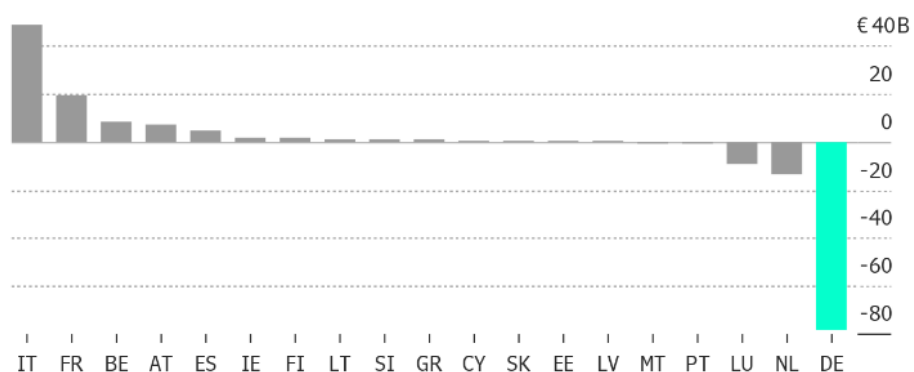
Portugal's FM Mario Centeno announced that the **EU finance ministers have agree to the high-level principles for reforming the European Stability Mechanism.** Mr. Centeno noted that ministers had "laid the ground for upcoming decisions to complete the banking union, including the common deposit insurance." Further details will be agreed upon during the next meetings in 2020.

Separately, the ECB will bring under its direct supervision the subsidiaries of JPMorgan, Morgan Stanley, Goldman Sachs, and UBS, in the expectation that these entities will increase their eurozone operations significantly after Brexit. The ECB will have 117 banks under its supervision at the start of 2020.

**Target 2 Imbalances have declined as banks take advantage of the ECB's tiering policy to reshuffle funds across the eurozone.** October data on Target 2 have shown a €78 bn decline in the Bundesbank's Target 2 balance while that of the central banks of Italy and France have increased by €48 bn and €19 bn respectively. Contacts note that the shifts respond to German banks redirected their excess deposits to under-allocated banks in Italy and France.

### Monthly Change in Target2 Balance

Data shows cash leaving Germany for Italy, France

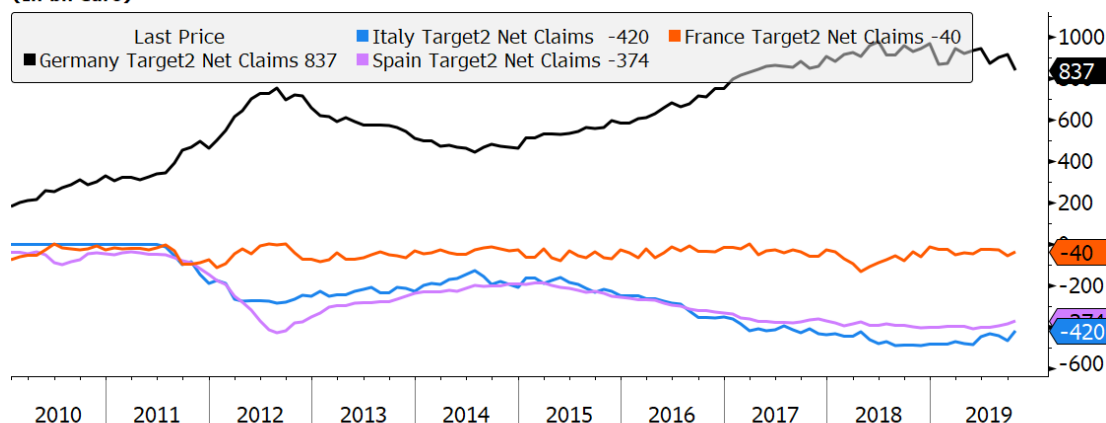


European Central Bank, Bloomberg calculations

Bloomberg

### Target 2 Balances

(In bn euro)



Source: Bloomberg, ECB

.DET2NCLM G Index (Germany Target2 Net Claims) Target2 Daily 01JAN2010-05DEC201

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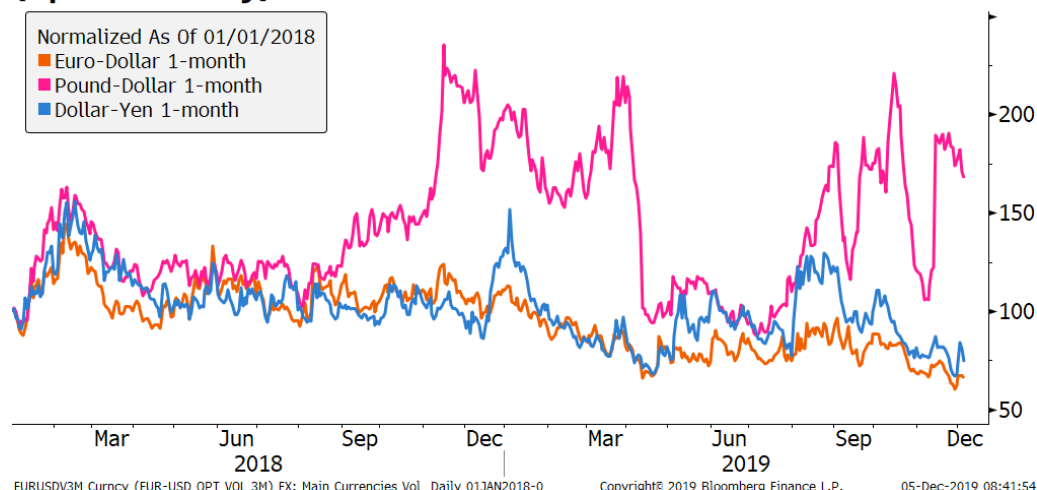
### United Kingdom

**British PM Johnson has vowed to deliver Brexit by Jan 31<sup>st</sup>, 2020** if he wins the Dec. 12<sup>th</sup> election. In his campaign manifesto, Mr. Johnson promises to bring his **EU Withdrawal Agreement back to Parliament for a vote before Christmas this year**. Mr. Johnson has also announced a budget focused on tax cuts for many but introducing measures to tax "internet giants". However, former speaker of the House of Commons, Mr. Bercow sees the PM's Brexit agenda as "utter nonsense."

**Sterling has continued to strengthen, reaching \$1.31 (+0.3%) today.** The **euro (+0.1%)** traded at \$1.11 while the **yen stood unchanged at ¥108.9** to the dollar. Short-term option implied volatility of the euro-

dollar and dollar-yen pairs has trended downwards over the last two years, while the pound's is now close to the highest levels. That said, price action in the spot sterling market has also remained largely contained.

## FX Volatility: Major Crosses (Option Volatility)



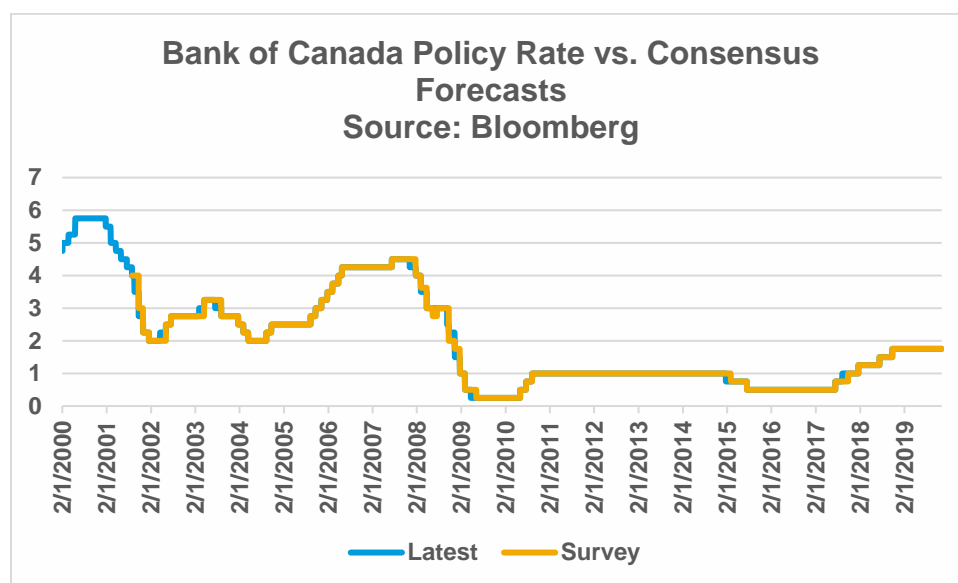
In Brexit preparations, the EU approved yesterday a preliminary [framework](#) for the recovery and resolution of clearing houses. The proposed framework—which is similar to that of banks—aims “at providing national authorities with adequate tools to manage crises and to handle situations involving failures of central counterparties (CCPs),” and sets up three key stages: (i) **preparation** by CCPs and national authorities of recovery plans; (ii) **early intervention** by supervisors; and (iii) **deployment of resolution tools** such as write-downs, cash-calls to clearing members, and the (partial) sale of the CCP. The framework notes that “while in certain limited cases, extraordinary public support may be provided as a last resort, the purpose of resolution actions is to minimize the extent to which the cost of a CCP’s failure is borne by taxpayers, while ensuring that shareholders bear an appropriate part of the losses.” The next step in this legislative process is for the EU presidency to negotiate the adoption of such framework with the European Parliament before it can be implemented.

## Other Mature Markets

[back to top](#)

### Canada

While the Bank of Canada left policy rates on hold at 1.75% as widely expected, changes to the bank’s policy statement suggested less need for additional monetary accommodation. In addition to highlighting the unexpected strength in business investment in the latest GDP print and the upward revisions to previous quarters, the policy statement noted that the economy was “operating near capacity”. This characterization stands in contrast to the October statement, which had pointed to a “modest” output gap. The policy statement also referenced “stronger” wage growth, which is fueling robust consumer spending. Tellingly, the statement also dropped a previous reference to the strength of the Canadian dollar, another sign of a turn to hawkishness. The Canadian dollar appreciated 0.7% on the day and bond yields rose up to 9 bps higher as markets re-calibrated expectations about when the next rate cut might occur. The market assigned a 65.3% probability to a 25 bp rate cut at the September 9, 2020 meeting yesterday but the probability fell to 45.9% after the meeting.



## Japan

**The Japanese authorities are considering a stimulus package to stave off recession.** A reported package of ¥26 tn (USD 239 bn) in local and central government spending will be spread over the coming years. The package will be funded by a supplemental budget of around ¥4.3 tn for the current fiscal year as well as expanded spending for the 2020 fiscal year. That said, some market observers suggested that the level of central government spending may be too small to meaningfully affect growth or market sentiment. **JGB yields edged higher** by as much as roughly 1 bp across the yield curve, with the 2-year note up 0.4 bps to -0.16% and the 10-year note up 1.3 bps to -0.05%. **The yen was steady while the Topix gained a touch** (+0.5%).

## New Zealand




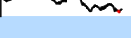








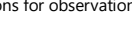

**The RBNZ will require banks to increase capital while extending the window for compliance.** Banks will need to raise capital by NZD 20 bn (\$13 bn) to better withstand economic shocks, but will have 7 years, compared to the 5-year window initially proposed, to build up their buffers. The largest banks will need to raise their high-quality Tier-1 capital to 16% of risk-weighted assets while other banks will need to hold 14%. New Zealand's new requirements will be among the more stringent globally. By comparison, the minimum requirement in Australia is 10.5%, while Basel III standards mandate a 6% buffer. That said, more of the required capital can be met with alternative Tier-1 capital; this softening from the original proposal is seen as reducing the overall cost of the proposals. Share prices of Australia's big-four banks, which are owners of New Zealand's biggest banks, rallied on the news, increasing as much as 2.7% (ANZ). The New Zealand dollar was unchanged.

## Emerging Markets [back to top](#)

**EM currencies mostly gained against the dollar while equities edged higher as a more positive outlook on the US-China trade negotiation buffeted sentiment.** News outlets reported that despite strident rhetoric related to Hong Kong SAR and Xinjiang, the U.S. and China are inching closer to a phase-one trade deal, which could be completed before tariffs are set to increase on December 15<sup>th</sup>. The news boosted EM Asian currencies, with the Philippine peso (+0.5%) pacing gains while the HK dollar, which held steady, underperformed. EMEA stocks mostly gained, led by Qatar (+0.9%), Turkey (+0.7%), and Poland (+0.6%). Other bourses saw smaller gains, except Russia (-0.3%), Morocco (-0.2%), and South Africa (-0.1%) which underperformed regional peers. Currencies mostly strengthened against the dollar by about 0.1% to 0.2%. In Latin America, most currencies continued to firm, including a 2.0% appreciation in

the Chilean peso, supported by a rally in commodity prices. Regional equities benefited from a rebound in US markets, with Argentina, Brazil, and Chile up 5.9%, 3.4%, and 1.2%, respectively. Local currency long-term government bond yields declined in Brazil and Mexico by 5 bp and 3 bps, respectively.

Key Emerging Market Financial Indicators

Last updated: 12/5/19 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.63	0.2	-1	-3	4	9
MSCI Frontier Equities		29.80	1.1	3	5	7	14
EMBIG Sovereign Spread (in bps)		326	-3	1	5	-71	-88
EM FX vs. USD		60.29	0.1	1	-1	-3	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.04	0.1	0	0	-3	-2
Indonesian Rupiah		14068	0.3	0	-1	2	2
Indian Rupee		71.29	0.3	0	-1	-1	-2
Argentina Peso		59.87	0.0	0	0	-37	-37
Brazil Real		4.22	-0.2	0	-5	-8	-8
Mexican Peso		19.39	0.2	0	-1	6	1
Russian Ruble		63.80	0.2	0	-1	4	9
South African Rand		14.66	-0.4	0	1	-6	-2
Turkish Lira		5.76	-0.1	0	0	-8	-8
EM FX volatility		6.92	0.0	0.0	-0.4	-3.1	-2.9

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

## Chile

**The Chilean central bank kept the policy rate on hold at 1.75% yesterday amid concerns about both inflation risks and growth.** The board voted unanimously to hold rates steady. Ten of the 18 analysts in the Bloomberg panel expected a quarter-point cut in rates. Swap markets were reportedly anticipating less than a 50% chance of a rate cut. The decision was made amid a contraction in output after 6 weeks of protests on one hand, while on the other hand, a 12% year-to-date decline in the currency raised concerns about inflation. The peso has rebounded 5.3% since November 28, following the central bank's announcement of a \$20 bn FX intervention program. However, the protests continue to cloud the outlooks for growth and employment and depress business sentiment.

## India

**The RBI left its policy rate unchanged, against the consensus expectation for a 25 bp cut.** The MPC maintained that its policy stance remains "accommodative" and kept the benchmark repo rate steady at 5.15%. That said, contacts noted that the RBI appears to have left the door open for future cuts. Specifically, the RBI noted that "there is monetary policy space for future action," but it is taking a pause given concerns over the "evolving growth-inflation dynamics". The RBI lowered its GDP forecast for the year ending Q1 2020 from 6.1% to 5%, while raising its headline inflation forecast to 4.9% - 5.1%, well above its medium-term target. Sovereign bond yields rose following the rate decision. Yield on the benchmark 10-year note rose 11 bps to 6.58%, while the rupee was little changed.

## Russia

**According to Bloomberg News, Russia may not issue any foreign debt in 2020.** Reportedly, the Head of the Debt department at the Russian Ministry of Finance, Mr. Vyshkovsky, said yesterday in an interview that he did not "rule out that we will only borrow at the local market in the near term," given the new US sanctions on Russia. Representatives from the Russian finance ministry are expected to meet with Euroclear in coming months to explore options, Bloomberg reports. The ruble strengthened 0.1% to the

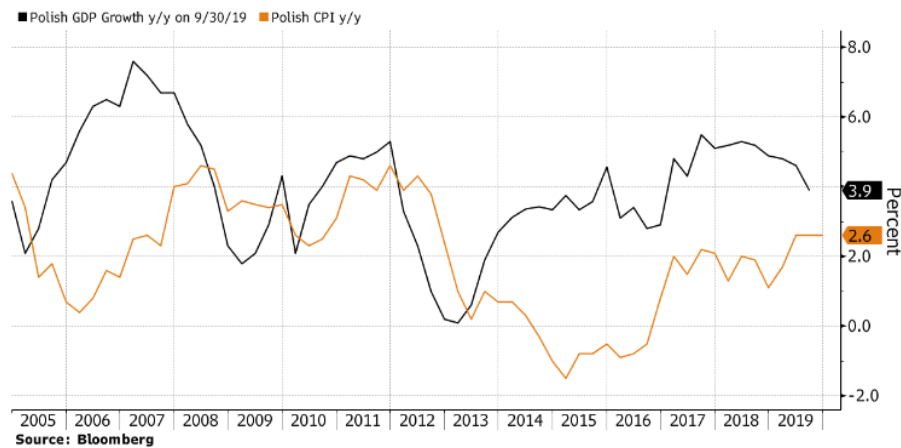
dollar today while yields on Russian 5-year ruble-denominated sovereign debt were unchanged at 6.2%. The yield on the one-year dollar-denominated bond dropped from 2.39% to 1.87%.

## Poland

**The central bank left the policy rate unchanged at 1.50%, as expected.** The decision has come against the background of mounting concerns about a growth slowdown. Analysts note that the diverging dynamics between economic growth and inflation may prove difficult to navigate for the central bank.

### Growth vs. Inflation

**Economic expansion slows as inflation accelerates**



## Turkey

**The Central Bank of Turkey has [announced](#) it will hold 12 meetings in 2020**, instead of only 8 as it has done since 2017. Some analysts worry the higher number of meetings may give rise to more opportunity for political interference in the conduct of monetary policy. The Turkish lira is 0.3% weaker to the dollar today.

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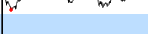























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## Global Financial Indicators

Last updated: 12/5/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3113	0.6	-1	1	15	24
Europe		3674	0.4	-1	0	17	22
Japan		23300	0.7	0	0	6	16
China		2899	0.7	0	-3	9	16
Asia Ex Japan		69	0.6	-2	-3	4	9
Emerging Markets		43	0.2	-1	-3	4	9
<b>Interest Rates</b>			basis points				
US 10y Yield		1.78	5.8	1	-8	-113	-91
Germany 10y Yield		-0.31	1.0	6	0	-58	-55
Japan 10y Yield		-0.03	1.0	5	9	-9	-3
UK 10y Yield		0.76	1.9	8	-2	-56	-52
<b>Credit Spreads</b>			basis points				
US Investment Grade		115	-0.4	-1	-4	-15	-33
US High Yield		463	-1.6	-2	14	39	-58
Europe IG		47	-0.6	0	-1	-35	-40
Europe HY		223	-0.5	1	-6	-108	-130
EMBIG Sovereign Spread		326	-3.0	1	5	-71	-88
<b>Exchange Rates</b>			%				
USD/Majors		97.47	-0.2	-1	-1	0	1
EUR/USD		1.11	0.2	1	0	-2	-3
USD/JPY		108.9	0.0	1	0	4	1
EM/USD		60.3	0.1	1	-1	-3	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		64	0.9	-1	1	3	18
Industrials Metals (index)		110	0.1	-3	-7	-5	1
Agriculture (index)		39	0.3	1	-1	-9	-6
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.3	-0.5	2.6	1.2	-6.4	-11.1
10y Treasury Volatility Index		4.5	-0.1	0.3	0.2	0.5	-0.1
Global FX Volatility		6.1	0.0	0.2	-0.3	-2.4	-2.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		183	-2.6	4	32	-205	-232
Italy		162	1.1	2	28	-117	-88
Portugal		71	1.1	-6	15	-81	-78
Spain		77	1.0	-1	13	-42	-41

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

Data source: Bloomberg.

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 12/5/2019 8:05 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		7.04	0.1	-0.1	0	-3	-2		3.2	-0.7	1	-8	-8	3	
Indonesia		14068	0.3	0.2	-1	2	2		7.2	-2.7	5	14	-85	-93	
India		71	0.3	0.4	-1	-1	-2		6.8	-1.3	-2	-2	-86	-66	
Philippines		51	0.3	-0.2	-1	4	3		4.3	-2.5	-3	-4	-200	-202	
Thailand		30	-0.1	-0.4	0	8	7		1.7	-5.2	-6	7	-108	-97	
Malaysia		4.17	0.2	0.1	-1	0	-1		3.4	-0.7	0	-3	-74	-70	
Argentina		60	0.0	-0.2	0	-37	-37		91.2	32.9	417	3414	6809	6815	
Brazil		4.22	-0.2	-0.1	-5	-8	-8		6.2	-5.6	-15	40	-249	-197	
Chile		783	1.0	5.8	-4	-14	-11		3.6	5.6	30	26	-98	-82	
Colombia		3469	0.1	1.3	-5	-9	-6		6.0	-9.2	-16	27	-69	-53	
Mexico		19.39	0.2	0.4	-1	6	1		7.1	-3.1	-1	24	-211	-158	
Peru		3.4	0.3	0.1	-1	0	0		4.6	-0.1	4	20	-124	-118	
Uruguay		38	-0.5	0.5	-1	-15	-14		11.2	0.1	-8	32	29	51	
Hungary		298	0.3	2.4	0	-4	-6		1.1	3.9	8	-3	-120	-108	
Poland		3.85	0.2	1.8	0	-2	-3		1.8	2.5	3	4	-67	-47	
Romania		4.3	0.1	1.1	0	-5	-6		4.2	0.0	12	33	3	-8	
Russia		63.8	0.2	0.4	-1	4	9		6.3	-2.8	2	0	-212	-216	
South Africa		14.7	-0.4	0.3	1	-6	-2		9.7	-5.6	3	17	11	8	
Turkey		5.76	-0.1	0.0	0	-8	-8		11.9	-3.8	-22	-27	-527	-502	
US (DXY; 5y UST)		97	-0.2	-0.9	-1	0	1		1.60	0.2	-3	-6	-119	-91	

	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2899	0.7	0	-3	9	16		183	0	1	4	-7	-11
Indonesia		6152	0.6	3	-2	0	-1		177	-1	-2	0	-51	-59
India		40780	-0.2	-1	1	14	13		126	-10	-1	-2	-51	-70
Philippines		7791	-0.3	0	-5	2	4		85	0	-1	6	-32	-36
Malaysia		1564	0.2	-1	-3	-7	-8		122	0	1	0	-29	-40
Argentina		34692	5.9	2	-6	9	15		2365	-3	100	59	1636	1550
Brazil		110301	1.2	2	1	24	26		238	-2	1	10	-31	-35
Chile		4673	3.4	3	-1	-9	-8		152	-2	3	8	-8	-14
Colombia		1612	1.4	1	-3	14	22		187	-2	-1	7	-26	-41
Mexico		42192	-0.2	-2	-3	1	1		325	-2	6	11	-21	-29
Peru		19767	0.0	-1	-1	1	2		128	-1	1	-1	-43	-40
Hungary		44297	0.5	1	2	9	13		99	-2	0	3	-48	-49
Poland		56359	0.4	-2	-5	-6	-2		28	-1	3	-4	-46	-57
Romania		9967	0.2	1	3	14	35		192	-9	-4	4	-32	-29
Russia		2893	-0.3	-1	-2	18	22		155	-3	-5	-20	-88	-97
South Africa		54877	-0.3	-1	-4	6	4		352	-2	2	18	1	-13
Turkey		108686	0.9	1	8	16	19		435	-4	-2	-14	-35	6
Ukraine		511	0.0	0	-1	-11	-9		505	-1	11	41	-218	-282
EM total		43	0.2	-1	-3	4	9		326	-3	1	5	-71	-88

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

[back to top](#)