














- **US nonfarm payrolls expanded by 266k in November** ([link](#))
- **Contraction in German industrial production deepened in October** ([link](#))
- **Banco Central de Chile cuts growth forecasts amid protests** ([link](#))
- **Saudi Aramco launches the largest IPO in history** ([link](#))

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## Global markets quiet ahead of US employment report

**US nonfarm payrolls exceed expectations in November.** This morning's data release reinforced the market's current theme of a stabilization in global growth – a theme which had recently become somewhat more dubious following a string of relatively poor data releases in major economies. In the lead up to today's US data release, price action was limited as market participants largely shrugged off poor German industrial production data and the continued decline in Japanese leading indicators. Desk contacts suggested that trading activity was particularly low, as many investors have reduced active risk ahead of year end. Looking ahead to next week, the December FOMC and the UK general election headline what should likely be another quiet holiday season week.

Key Global Financial Indicators

Last updated: 12/6/19 8:21 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3117	0.2	-1	1	16	24
Eurostoxx 50		3662	0.4	-1	-1	20	22
Nikkei 225		23354	0.2	0	0	9	17
MSCI EM		43	0.6	-1	-2	5	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.80	3.6	2	-3	-110	-89
Germany 10y Yield		-0.31	-1.1	6	3	-54	-55
EMBIG Sovereign Spread		324	0	-1	-2	-74	-90
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		60.4	0.1	1	-1	-3	-3
Dollar index, (+) = \$ appreciation		97.5	0.0	-1	-1	1	1
Brent Crude Oil (\$/barrel)		63.4	0.0	1	3	5	18
VIX Index (% change in pp)		14.4	-0.2	2	2	-7	-11

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

## United States

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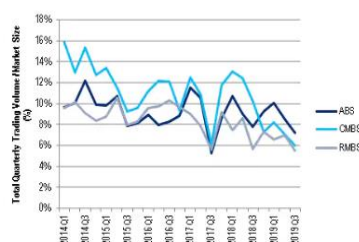
**US non-farm payrolls came in much stronger than expected at 266 K versus the consensus forecast of 180K.** The unemployment rate was 3.5% (vs 3.6%) and average hourly earnings came in at 0.2% (vs. 0.3%). The headline hourly earnings number was 3.1% (vs. 3%). In addition, the October number was revised up to 156K from 128K. Treasuries sold off sharply and the dollar appreciated in the immediate aftermath of the report.

**Markets drifted in directionless trading on Thursday, with no major news stories or economic data.** Stocks ended slightly higher, along with Treasury yields. With December 31 approaching, many institutions are starting to pull back from the markets to take profits and focus more on the many administrative and accounting tasks involved in closing the books for the year.

**US durable goods ex-transportation report was a touch weaker than expected** at 0.5% (vs. 0.6% consensus), as was the headline report (0.5% vs. 0.6%), continuing a recent run of subpar US economic data. The factory orders report was on target at 0.3%.

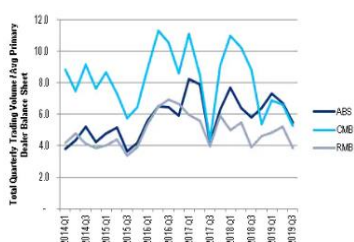
**There are signs of improving liquidity in securitized bond markets in the US, spanning residential mortgage-backed securities (RMBS), commercial MBS (CMBS) and asset-backed securities (ABS).** Citi analysis finds that although turnover in these markets has drifted lower, dealer balance sheet turnover has also gone down, indicating a greater willingness to keep bonds on the balance sheet for a longer period of time. The analysts think this suggests that banks are returning to their pre-crisis business model of providing genuine two-way market making rather than predominantly trading on an agency basis. They also point to the fact that dealer holdings of agency RMBS and also ABS have been trending higher. Finally, the rise in customer bond auctions (BWICs or bids wanted in competition) shows that bondholders have more confidence in the ability of the market to absorb bonds offered for sale. RMBS BWICs now account for 40% of total sales this year, up from 30% in 2018.

Figure 35. Market Turnover Drifted Down in 2019



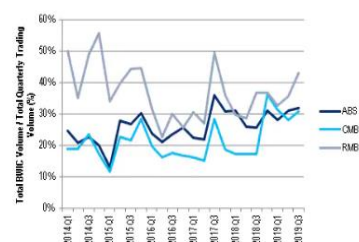
Source: FINRA, NY Fed, SIFMA, Citi Research

Figure 36. Same With Dealer Balance Sheet Turnover



Source: FINRA, NY Fed, SIFMA, Citi Research

Figure 37. But BWIC Activity Gained Momentum

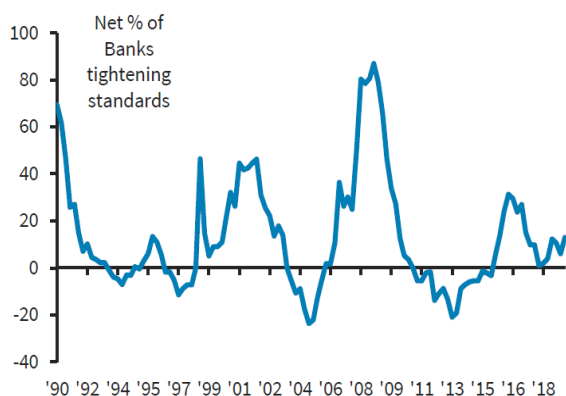


Source: FINRA, NY Fed, SIFMA, Citi Research

**Banks have tightened their credit standards for commercial real estate (CRE) as segments such as shopping malls face mounting challenges.** Barclays looked at the conduit CMBS market, the arena where different originators of CRE loans pool their new loans together and securitize them and found a significant change from the pre-crisis period. Loan-to-value (LTV) ratios are mostly below 65% compared with 70% pre-crisis. In addition, debt service coverage ratios have improved significantly. The analysts forecast similar trends for CRE loans that are kept on the balance sheet.

FIGURE 9

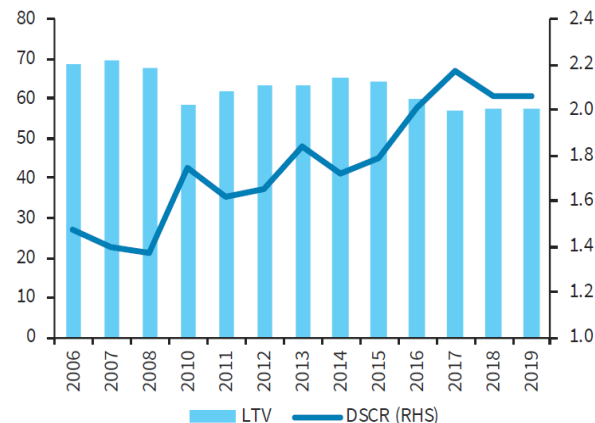
Banks have tightened CRE lending standards in recent years



Source: Federal Reserve

FIGURE 10

Lending is significantly tighter in the CMBS market



Note: Metrics shown for conduit deals. Source: Trepp, Barclays Research

## Europe

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**Equity markets advanced cautiously**, adding 0.2% to the DAX, +0.4% to the CAC 40, and 0.4% to the EuroStoxx 600. The FTSE 100 gained 0.7% on the day Bank stocks (+0.4%) are performing in line with main indices.

**Sovereign debt markets were little changed.** German 10-year yields are at -0.30 % (-1 bp); French OATs are at 0.02% (unch.); Italian at 1.37% (+1 bp); and Spanish at 0.48% (-1 bp). **Italian sovereign spreads have widened somewhat again in recent weeks.** The 10-year BTP spread to Bunds has increased to 167 bps, partly in response to renewed concerns over the stability of the governing coalition in Italy.

## Sovereign Spreads (in bps)



Source: Bloomberg

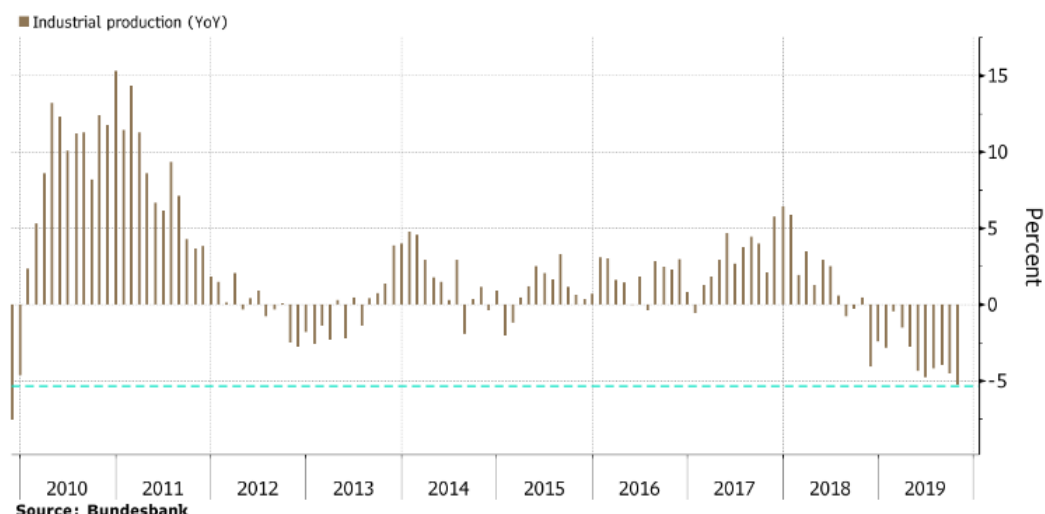
AX390582 Corp (BTPS 3 08/01/29) FI: Ita-Germ Spreads Daily 02JAN2018-06DEC2019

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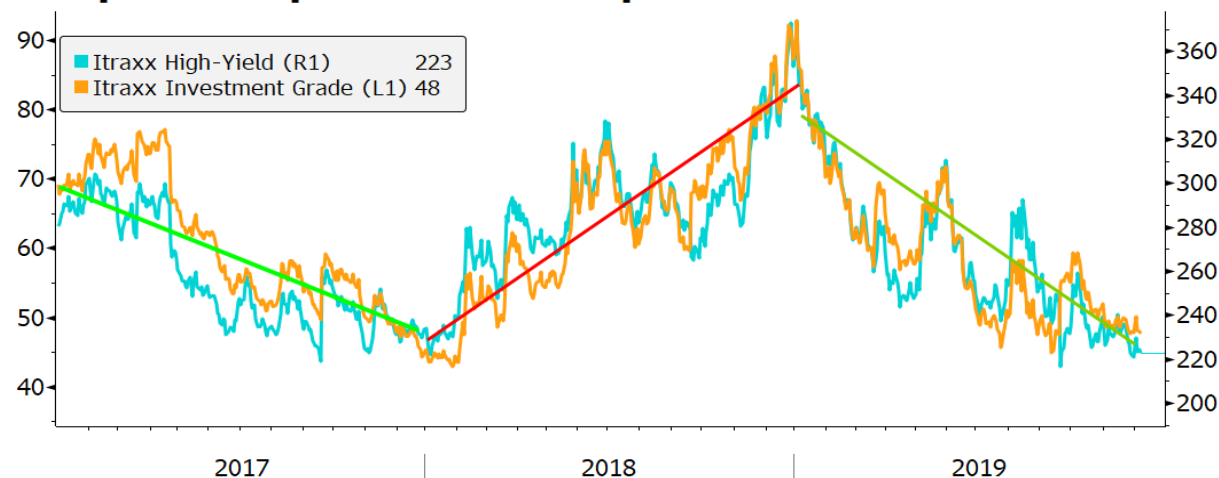
**German industrial production for October acutely disappointed today, printing at -1.7% m-o-m, vs. +0.1% expected.** At annual rates, production contracted at -5.3% (vs. 3.6% forecasted), the largest decline in over a decade.

#### German industrial production is falling at the fastest pace in a decade



In European credit markets, **corporate spreads are poised to close the year reaffirming their downward trend across credit grades.** Both the high-yield and investment-grade gauges have compressed further in recent weeks, and stand now at 223 bps and 48 bps, respectively. These levels are some of the lowest recorded in the iTraxx's history.

#### European Corporate Credit Spreads



ITRXXE Curncy (MARKIT ITRX EUR XOVER 12/24) Credit: Itraxx indices Daily 04JAN

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#### Other Mature Markets

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##### Japan

**JGB yields edged higher following a lackluster bond auction.** After falling by 0.5 to 1.5 bps earlier in the session, yields rose by as much as 3 bps across the curve. Demand for the 30-year bond was in line with the average from the previous 5 auctions, and saw a bid-to-cover ratio of 3.69x. The 30-year bond rose 1 bps to 0.43%, compared to the 2-year note, which rose 2 bps to -0.14% and the 10-year note, up 2

bps to -0.02%. Household spending in October fell 5.1%, y/y, the biggest decline in 3 ½ years. That said, analysts noted that the super typhoon in October made it difficult to assess consumers' reaction to the 2 ppt sales tax hike that took place the same month. The yen was little changed while the Topix edged higher (+0.1%).

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

**Asian** currencies were mixed and equities posted modest gains as investors await the US jobs report. The Indonesia rupiah appreciated 0.2%, pacing gains. The Thai baht underperformed, depreciating 0.2%. In equities, the broad-based gains were led by the Hong Kong Hang Seng (+1.07%) and the Korean Kospi (+1.03%). **EMEA** stocks mostly gained, with the largest advances in Qatar (+0.8%) and South Africa (+0.8%). Polish stocks, on the other hand, were the regional outlier, dropping 1.2%. **Latin American** currencies continued to moderately strengthen across the board, particularly in Chile (+0.7%) and Colombia (+0.6%). Stocks gained around 2% in Argentina and Chile and rose modestly in other countries. Local currency long-term government bond yields declined in Mexico by 3 bps but rose in Brazil by 5 bps.

Key Emerging Market Financial Indicators

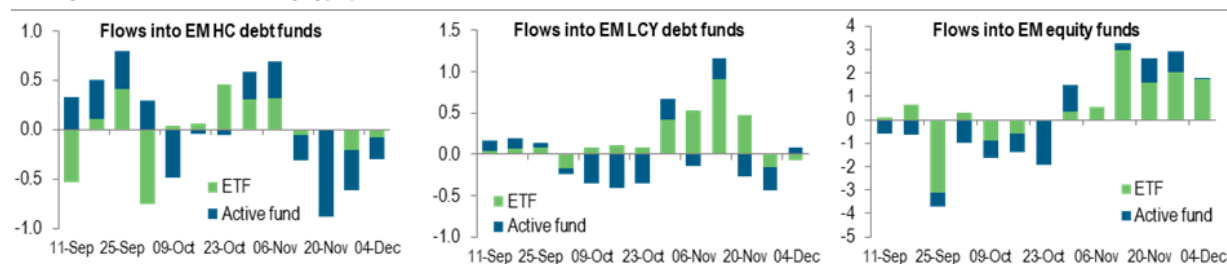
Last updated: 12/6/19 8:24 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.82	0.4	-1	-2	5	10
MSCI Frontier Equities		29.77	-0.1	3	4	7	14
EMBIG Sovereign Spread (in bps)		324	0	-1	-2	-74	-90
EM FX vs. USD		60.42	0.1	1	-1	-3	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.03	0.2	0	0	-2	-2
Indonesian Rupiah		14038	0.2	0	0	3	3
Indian Rupee		71.21	0.1	1	0	0	-2
Argentina Peso		59.96	0.0	0	-1	-37	-37
Brazil Real		4.18	0.1	1	-3	-7	-7
Mexican Peso		19.36	0.0	1	-1	5	2
Russian Ruble		63.77	-0.1	1	0	5	9
South African Rand		14.62	0.2	0	1	-4	-2
Turkish Lira		5.76	-0.1	0	0	-7	-8
EM FX volatility		6.88	0.0	0.1	-0.4	-3.3	-2.9

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

Global investors continued to pour into EM equity funds, while retrenching from fixed income vehicles.

Figure 1: ETFs continue selling EM fixed income; LCY funds received marginal institutional buying interest

Weekly flows into EM funds by type, USD bn



Source: EPFR, Standard Chartered Research

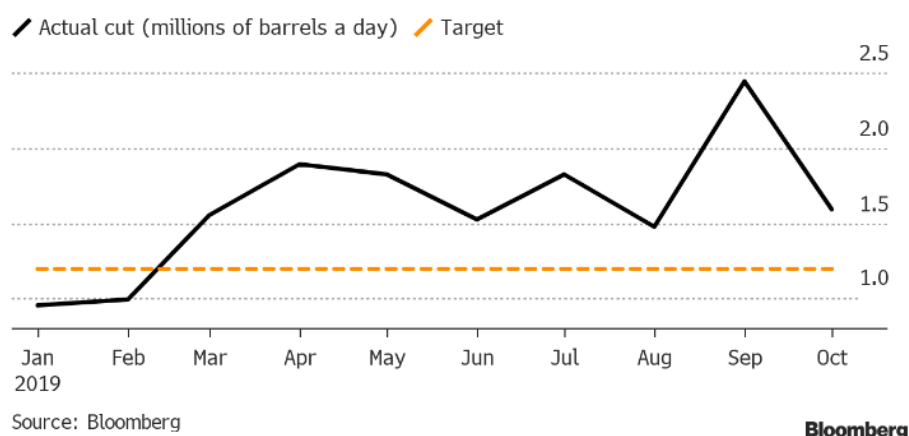
## Saudi Arabia

**Saudi Aramco launched the largest IPO in history, raising \$25.6 bn and breaking the earlier record held by Alibaba's US IPO at \$25 bn in 2014.** Press reports indicated that the offer price was 32 riyals or roughly \$8.53, which yields a valuation for the total company of \$1.7 tn. The shares were launched domestically, and local institutions in Saudi Arabia and the Gulf are expected to be the main buyers after the deal was withdrawn from the US market after a lukewarm response from global investors.

## OPEC

**Crude prices fell 0.3%-0.6% on reports that OPEC is nearing an agreement to redistribute production cuts among members.** The oil cartel is aiming to reduce its target production by a further 500k barrels/day in early 2020. OPEC officials noted that such an agreement would not amount to an actual decline in production but rather an alignment of targets with actual production. Brent traded at \$63.1/barrel (-0.3%) and WTI at \$58.0/barrel (-0.6%).

The OPEC+ cuts have exceeded the group's target for most of this year

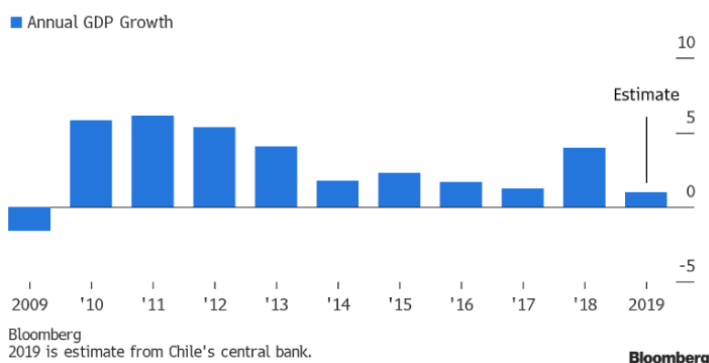


## Chile

**The central bank slashed its growth forecasts yesterday and warned of recession risks amid the ongoing protests.** GDP growth this year was revised down from the previous estimates of 2.25-2.75% to 1%, which would be the slowest pace in ten years (chart). The central bank forecasts economic growth of 0.5-1.5% next year (down from the prior estimates of 2.75-3.75%) and 2.5-3.5% in 2021. The bank said that a political agreement is needed to avoid a recession and a rise in unemployment. The current account deficit is expected to narrow to 0.2% of GDP next year from a five-year high of 3.6% in Q3 because of projected deep declines in imports this and next year. Chilean markets continued to strengthen yesterday on the back of the announced central bank FX support.

### Chile Recession Warnings

Economic growth takes a hit from massive social unrest



**China**

**The PBC injected liquidity into the financial system to support growth.** The central bank offered CNY 300 bn (US\$43 bn) of one-year funding via its medium-term lending facility (MLF) to banks. By analysts' estimates, about CNY 187.5 bn will be used to roll over loans that matured on the day. Meanwhile, the interest rate on the MLF loan was unchanged at 3.25%. The PBC had lowered the 1-year MLF rate by 5 bps to 3.25% in early November, making it the first cut in its loan rate since early 2016. Analysts noted that the PBC's actions suggest that the central bank will maintain a supportive liquidity stance but is unlikely to ease rates aggressively as it seeks to rein in leverage. The onshore CNY (+0.15%) and offshore CNH (+0.13%) both appreciated a touch while CGB yields and the 7-day repo rates were little changed.

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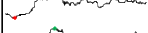

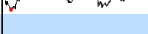









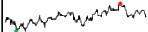






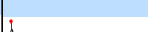
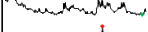

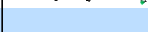



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## Global Financial Indicators

Last updated: 12/6/19 8:21 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3117	0.2	-1	1	16	24
Europe		3662	0.4	-1	-1	20	22
Japan		23354	0.2	0	0	9	17
China		2912	0.4	1	-2	12	17
Asia Ex Japan		70	0.4	-2	-3	6	10
Emerging Markets		43	0.6	-1	-2	5	10
<b>Interest Rates</b>			basis points				
US 10y Yield		1.80	3.6	2	-3	-110	-89
Germany 10y Yield		-0.31	-1.1	6	3	-54	-55
Japan 10y Yield		-0.01	2.2	7	7	-7	-1
UK 10y Yield		0.75	-2.4	5	3	-50	-53
<b>Credit Spreads</b>			basis points				
US Investment Grade		113	0.1	-2	-5	-19	-34
US High Yield		459	0.7	-6	5	21	-62
Europe IG		48	-0.2	0	-2	-39	-40
Europe HY		223	-1.5	2	-12	-125	-130
EMBIG Sovereign Spread		324	0.0	-1	-2	-74	-90
<b>Exchange Rates</b>			%				
USD/Majors		97.45	0.0	-1	-1	1	1
EUR/USD		1.11	-0.1	1	0	-2	-3
USD/JPY		108.6	0.2	1	0	4	1
EM/USD		60.4	0.1	1	-1	-3	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		63	0.0	1	3	5	18
Industrials Metals (index)		110	0.4	-1	-6	-3	1
Agriculture (index)		40	0.7	1	0	-8	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.4	-0.2	1.7	1.7	-6.8	-11.1
10y Treasury Volatility Index		4.5	0.0	0.5	0.2	0.3	-0.1
Global FX Volatility		6.0	0.0	0.2	-0.3	-2.7	-3.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		182	-1.2	1	29	-220	-234
Italy		164	-2.2	5	31	-132	-86
Portugal		72	0.1	-4	17	-86	-76
Spain		78	0.1	1	16	-44	-39

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: 12/6/2019 8:24 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		7.03	0.2	0.0	0	-2	-2		3.2	-0.6	0	-9	-5	3	
Indonesia		14038	0.2	0.5	0	3	3		7.2	-1.4	4	16	-92	-94	
India		71	0.1	0.7	0	0	-2		6.9	10.2	10	5	-66	-56	
Philippines		51	0.2	0.2	0	4	3		4.3	-0.4	-3	-4	-200	-203	
Thailand		30	0.2	-0.4	0	8	7		1.7	-0.1	-6	4	-108	-97	
Malaysia		4.16	0.2	0.5	-1	0	-1		3.4	0.0	0	-4	-74	-70	
Argentina		60	0.0	-0.1	-1	-37	-37		91.8	67.6	478	3477	6864	6882	
Brazil		4.18	0.1	1.3	-3	-7	-7		6.2	3.2	-8	40	-244	-194	
Chile		780	0.4	3.8	-5	-13	-11		3.8	19.8	50	47	-79	-62	
Colombia		3443	0.4	2.1	-3	-7	-5		5.9	-6.2	-22	15	-77	-59	
Mexico		19.36	0.0	0.9	-1	5	2		7.1	-4.7	-5	20	-213	-163	
Peru		3.4	0.0	0.5	-1	0	0		4.6	1.0	5	17	-123	-117	
Uruguay		38	-0.1	0.2	-1	-15	-14		11.2	-0.1	-8	35	28	51	
Hungary		298	0.1	2.0	1	-5	-6		1.1	-2.3	7	-6	-127	-110	
Poland		3.85	-0.1	1.6	0	-2	-3		1.8	-0.3	1	0	-69	-47	
Romania		4.3	-0.1	0.8	0	-5	-6		4.2	0.0	6	35	-3	-8	
Russia		63.8	-0.1	0.9	0	5	9		6.3	1.3	0	3	-217	-215	
South Africa		14.6	0.2	0.3	1	-4	-2		9.7	2.2	2	19	6	10	
Turkey		5.76	-0.1	-0.1	0	-7	-8		11.9	6.8	-10	-30	-522	-495	
US (DXY; 5y UST)		97	0.0	-0.8	-1	1	1		1.62	-1.1	0	-1	-113	-89	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	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	YTD
								basis points						
China		2912	0.4	1	-2	12	17		182	-1	0	3	-10	-12
Indonesia		6187	0.6	3	0	1	0		176	1	-2	-7	-54	-60
India		40445	-0.8	-1	0	15	12		128	2	1	2	-49	-68
Philippines		7802	0.1	1	-3	4	4		85	3	1	-6	-34	-36
Malaysia		1568	0.3	0	-2	-7	-7		123	1	2	0	-31	-39
Argentina		35443	2.2	4	-4	11	17		2386	2	113	23	1663	1571
Brazil		110622	0.3	2	2	25	26		236	1	-2	2	-34	-37
Chile		4746	1.9	5	3	-7	-7		151	0	1	4	-12	-15
Colombia		1615	0.2	1	-3	16	22		183	0	-5	-2	-29	-45
Mexico		42216	0.1	-2	-4	1	1		320	-1	0	1	-26	-34
Peru		19770	0.0	-1	-1	2	2		126	1	-1	-8	-46	-42
Hungary		44133	-0.3	1	2	11	13		98	1	-2	-2	-52	-50
Poland		55701	-1.2	-3	-6	-5	-3		26	1	0	-4	-52	-59
Romania		9976	0.2	1	3	15	35		191	-1	-5	7	-33	-30
Russia		2907	0.2	-1	-2	20	23		154	1	-5	-25	-91	-98
South Africa		55199	0.8	0	-4	9	5		351	1	0	13	-2	-14
Turkey		108959	0.3	2	8	17	19		428	-5	-11	-22	-44	-1
Ukraine		510	0.0	0	-1	-11	-9		501	-1	6	33	-224	-286
EM total		43	0.4	-1	-2	5	10		324	0	-1	-2	-74	-90

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

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