



- British pound extends gains as polls predict Tory majority ([link](#))
- Green bond issuance approaching \$200 bn this year ([link](#))
- Markets slow to adopt SOFR ([link](#))
- European Commission approves recapitalization of NordLB ([link](#))
- Mexican peso implied volatility has experienced a 5-year low ([link](#))

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

Markets opening softer ahead of important week

Equity markets are slightly lower this morning following a fairly strong day Friday driven by robust **US job growth**. Investors are bracing for an important week on a number of fronts. Several central banks are scheduled to announce rate decisions later in the week, including the Fed and ECB, both of which are widely expected to remain on hold. A number of EM central banks however are expected to cut rates, including Brazil, Russia, Turkey and Ukraine. On Thursday, the UK heads to the polls with increasing expectations for a comfortable Tory victory. Additionally, this week marks the home stretch for trade negotiations between the US and China before increased tariffs are scheduled to go into effect. Oil prices are slipping modestly this morning after reaching their highest levels since September on Friday.

Key Global Financial Indicators

Last updated: 12/9/19 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3146	0.9	0	2	19	25
Eurostoxx 50		3681	-0.3	1	-1	20	23
Nikkei 225		23431	0.3	0	0	8	17
MSCI EM		43	-0.3	1	-1	8	10
Yields and Spreads			bps				
US 10y Yield		1.82	2.6	0	-12	-102	-86
Germany 10y Yield		-0.31	-2.1	-3	-4	-56	-55
EMBIG Sovereign Spread		319	0	-8	6	-83	-95
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.5	0.1	1	0	-3	-3
Dollar index, (+) = \$ appreciation		97.6	-0.1	0	-1	1	1
Brent Crude Oil (\$/barrel)		63.8	-0.9	5	2	3	19
VIX Index (% change in pp)		14.3	0.6	-1	2	-9	-11

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

Christine Lagarde chairs her inaugural ECB meeting on policy rates Thursday, a day after the Fed's rate decision. Both banks are expected to keep rates steady. There will also be rate decisions out of Brazil, Peru, the Philippines, Russia, Switzerland, and Turkey. The US reports CPI (Wednesday), PPI (Thursday) and retail sales (Friday). Germany reports its ZEW survey on business expectations (Tuesday) while Japan releases its quarterly Tankan survey (Thursday). The UK will hold a general election (Thursday) under the shadow of Brexit. New US tariffs on China are scheduled to kick in Sunday.

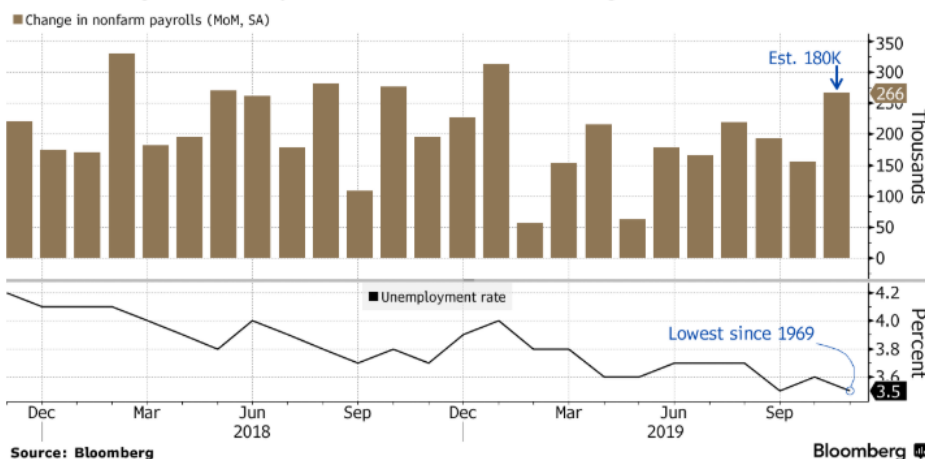
United States

[back to top](#)

Equity markets rose across the board Friday on the back of a strong payrolls report. Major indices all climbed around 1%. November payrolls surprised on the upside (+266k vs 180k expected) and the headline unemployment rate ticked down to 3.5% from 3.6%. Consumer sentiment as measured by the University of Michigan improved in December, with increases in both the current conditions and expectations components. And economic adviser Kudlow noted "progress has been made" on phase one of trade accord. New tariffs are scheduled to kick in on December 15th. The 10-year Treasury yield rose 3 bps to 1.84% as markets adopted a risk-on posture.

Blowout Report

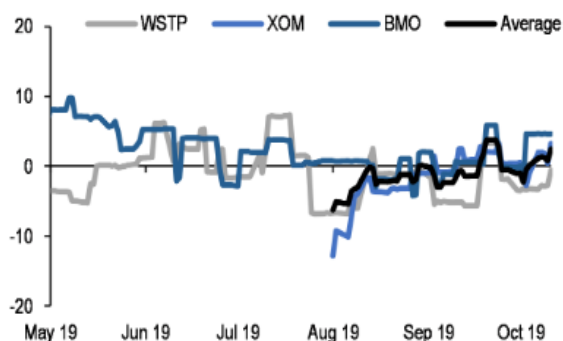
U.S. economy added 266,000 workers in November as jobless rate fell



Markets have been slow to adopt the Secured Overnight Financing Rate (SOFR) which the US authorities created as a replacement for Libor, which is scheduled to be phased out in 2022. Although over \$300 bn of SOFR-linked floating rate notes (FRNs, also known as floaters) were issued in 2019, most of the issuers were government sponsored entities such as Fannie Mae and Freddie Mac and the Federal Home Loan Banks (FHLBs), and 77% of all floaters issued this year were linked to Libor. The latest JP Morgan investor survey finds that 80% of all investors believe Libor will still be around after 2021. Many cited the high volatility in the repo market in September as a case for having a different benchmark than SOFR and preferring Libor. Investors continue to purchase Libor floaters because 70% of all bonds outstanding mature in 2022 and the last coupon resets in 2021. Analyzing a sample of "perfect pairs," i.e., bonds with the same issuer and maturity, JP Morgan finds that there is little difference in the discount margins of floaters with or without the new ARRC fallback language that defines how the bonds will behave after Libor ends. However, this reluctance to engage with the end of Libor is likely to change as the deadline nears.

Exhibit 14: There is generally little spread differential between bonds that have the recommended fallback language vs. those that don't

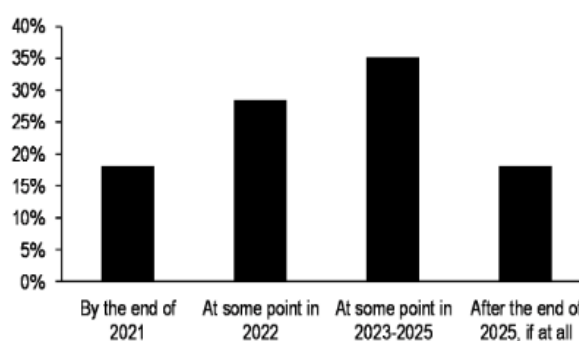
DM of bonds that have no fallback language minus DM of bonds that have fallback language, perfect pair bonds that mature post end of 2021 (bp)



Source: J.P. Morgan

Exhibit 15: Our fixed income outlook survey reveals that over 80% of survey respondents believe Libor will continue to be a functioning benchmark post end of 2021

J.P. Morgan Fixed Income Markets 2020 Outlook Survey, responses to the question, "When do you expect US dollar Libor will cease to exist as a functioning benchmark?" (%)



Source: J.P. Morgan

Europe [back to top](#)

Core bond yields edged 1-2 bps lower. German 10-yr bund yields fell 2 bps to -0.31%, and 10-yr OAT yields to 0.01%. The euro (+0.1% to \$1.107) firmed against the USD. Equities (-0.15) are little changed.

In Germany, the Grand Coalition will start renegotiations before the Christmas break. The SPD party in congress confirmed new leadership over the weekend and confirmed support for far-ranging reforms including longer unemployment payments, a higher minimum wage of €12/h (from €9.35 in 2020) and rent freezes in large cities.

EC determines that Germany's planned recapitalization of NordLB does not violate state-aid rules. German state-owned lender Norddeutsche Landesbank (NordLB) has seen its CET1 ratio fall to 6.5% at end-September, from 11.9% a year ago and less than half the German bank average, due to continued massive losses on its shipping portfolio. In response, the state government owners planned to inject €3.6bn of new equity, a step that would increase the bank's CET1 ratio to 14%. Such recapitalizations require that the European Commission determine that the transaction was conducted on terms that would be acceptable to a private investor. NordLB has submitted a restructuring plan that aims to return the bank to profit in 2020, shrink its balance sheet about 30% by 2024, and roughly halve its headcount. The bank also has committed to exit lending relationships with the shipping industry, a key customer base. This approval may be a positive signal for the prospective restructurings of other fragile state-owned banks in Germany and elsewhere in Europe.

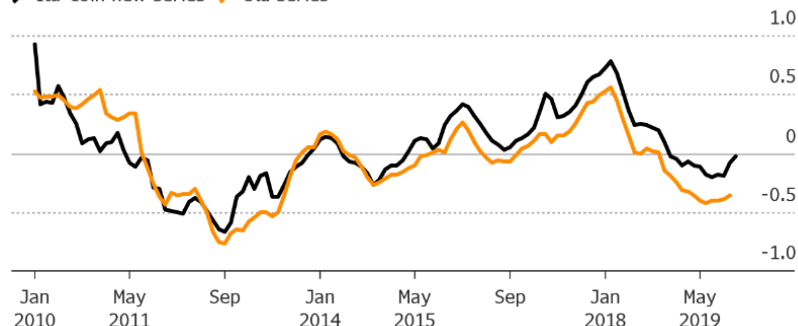
Italian spreads over 10-yr bunds fell 5 bps to 159 bps as the coalition government reportedly agreed on the 2020 Budget and PM Conte said that debt reduction is a key priority. The Italian Senate is scheduled to vote on the draft budget this week. Spanish 10-yr spreads over bunds fell 1 bp to 77 bps.

The inclusion of services data to the Bank of Italy's coincident indicators led to a noticeable improvement in the indicator.

Services Help

Bank of Italy revised up its economic indicator to include services

Ita-coin new series Old series



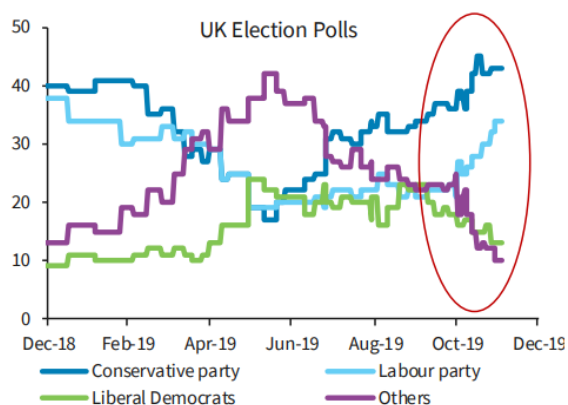
Source: Bank of Italy
Ita-coin provides monthly real-time estimates of the trend in economic activity, drawing on a large number of variables.

Bloomberg

United Kingdom

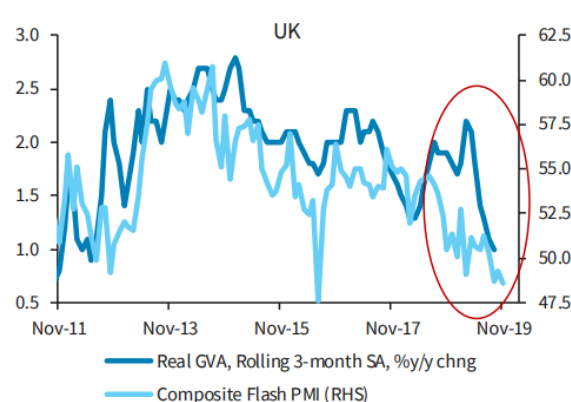
The pound is up +0.2% (at \$1.32) as polls continue to suggest a comfortable Tory majority. YouGov expects a comfortable majority of 359 seats (42 more than in the 2017 election). The official exit poll will be released at 10 PM U.K. time on Thursday. This poll could be market-moving as it accurately predicted the outcome in the 2017 election.

UK polls see the Conservative party leading...



Source: YouGov, Bloomberg, Barclays Research

...while recent indicators suggest a sharper slowdown



Source: ONS, IHS Markit, Haver Analytics, Barclays Research

Regardless of the polls, contacts emphasize that the country's medium-term outlook will not become clear after Thursday's general election as any government will have to start the complex process of defining the future trade relationship.

Other Mature Markets

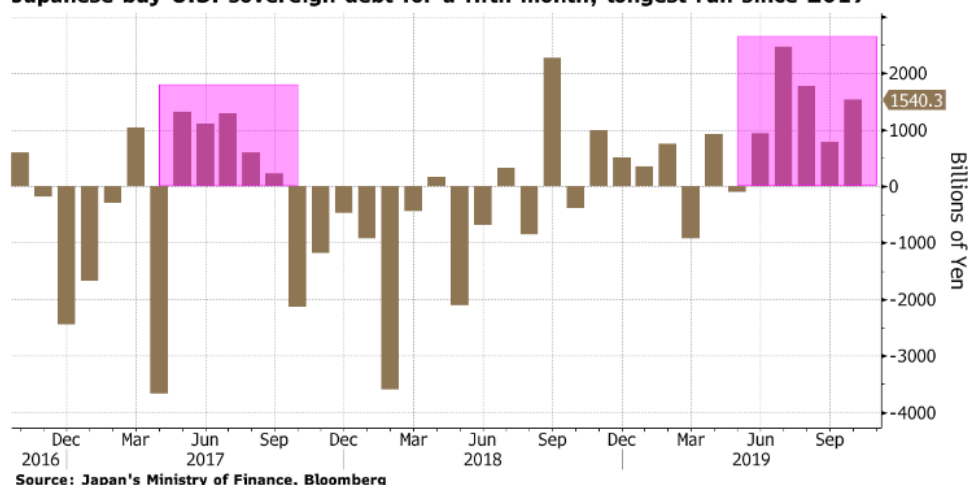
[back to top](#)

Japan

Japanese equities advanced slightly after Q3 GDP was revised up to 1.8% q/q from 0.2% q/q. The main revisions were in private consumption, private investment and inventories – although growth in most GDP components were indeed increased somewhat. The revision took the Nikkei index up 0.3% and the Topix 0.5% higher (establishing a new 14-month high). Ten-year JGB yields traded flat at -0.002%. The yen (+0.1%) was also little changed at ¥108.5.

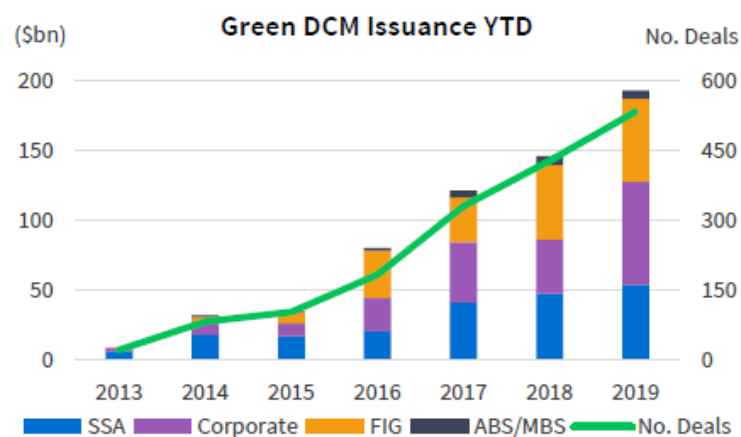
Japanese investment funds shifted portfolios towards US treasuries and away from core European sovereigns in October. New balance of payments data reveal acquisitions of US treasuries worth about \$14 bn as yields rebounded somewhat in the US. Investors were also attracted by the higher yields in Spain (buying \$2.1 bn of sovereign and corporate debt) and in Italy (buying \$489 mn of sovereign paper). In contrast, Japanese funds shed \$6.2 bn-worth of German paper.

Japanese buy U.S. sovereign debt for a fifth month, longest run since 2017



Green Bonds

Green bond issuance continues to increase. Global issuance so far this year has come to \$193.2 bn, and Dealogic reckons that green bonds have accounted for 2.9% of total issuance this year. And debut currency and debut product issues increased to \$50.1 bn this year compared to \$45.4 bn in 2018. The corporate sector is the largest sector, nearly doubling this year to \$73.5 bn. Analysts also point to the short-term nature of most green issuance, suggesting the market is somewhat cautious of the green market place. Germany is planning to come to the market with a **“twin” structure** bond that has both a green and an ordinary tranche with the same coupon and tenor, which should provide further market analysis of how green and conventional debt compares.



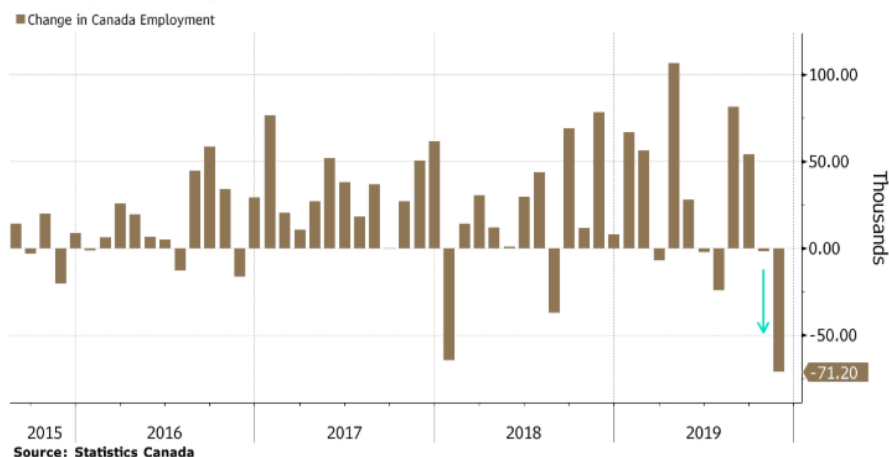
Canada

Employment fell for a second straight month. The November drop of 71k was the largest since 2009. And the unemployment rate jumped to 5.9% from 5.5% a month earlier, which was also the biggest increase since 2009. The private sector was responsible for the lion's share of job losses, while both self-employed

and public-sector unemployment were little changed. At its rate decision earlier last week, the Bank of Canada advised that a healthy labor market will promote consumption and prove a source of resilience from ongoing trade tensions. For the year overall, job growth has been strong. The Canadian dollar depreciated by 0.6% to the US dollar Friday.

Cracks in Canada Employment

Economy shed 71K jobs in November



Emerging Markets

[back to top](#)

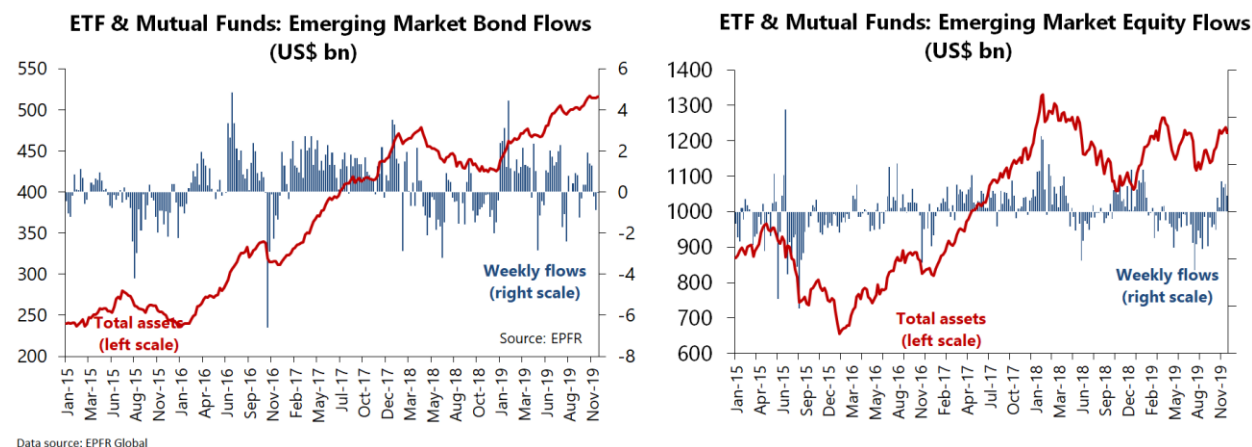
Emerging market equities opened the week with a mixed performance. In **Asia**, gains were seen for stocks in South Korea (+0.3%), Vietnam (+0.3%), and – to a smaller degree – Shanghai (+0.1%) and India (+0.1%). Equities were also mixed, as the Korean won (-0.4%) and the Philippine peso (-0.1%) lost ground to the dollar, while the Thai baht (+0.1%) strengthened somewhat. China's offshore CNH and onshore CNY rates were steady at 7.03 and 7.04, respectively. In **EMEA**, equities advanced in Saudi Arabia (+1.1%), Kuwait (+0.6%), and Russia (+0.1%); while those of Poland (-0.4%), the Czech Republic (-0.4%), and Qatar (-0.9%) lost. Currencies in the region traded mix within narrow corridors. **Latin American** equity and currency markets were mostly higher on Friday; led by equities in Argentina (+3.2%), Brazil (+0.5%), and Peru (+0.5%); and the Brazilian real (+1.1%) and the Colombian peso (+1%), the Chilean peso (+0.4%) and the Mexican peso (+0.3%). Government bond yields were relatively stable. Of note, Latin American currencies have underperformed EM peers in the second half of 2019 following social unrest and political instability in several countries in the region. JP Morgan's Latin America Currency Index decreased 10% at from July through late November. Although there was a strong recovery (~2%) last week, it is still well below its July value. **In the week ahead, various EM central banks are expected to cut policy rates**, including in Brazil (50 bps cut to 4.5% on Wednesday), Turkey (150 bps cut to 12.5% on Thursday), Ukraine (100 bps cut to 14.5% on Thursday), Russia (25 bps cut to 6.25% on Friday). Also, **Argentina's president-elect Alberto Fernandez will take office on Tuesday.**

Key Emerging Market Financial Indicators

Last updated: 12/9/19 8:20 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.07	-0.3	1	-1	8	10
MSCI Frontier Equities		30.05	0.9	3	6	9	15
EMBIG Sovereign Spread (in bps)		319	0	-8	6	-83	-95
EM FX vs. USD		60.54	0.1	1	0	-3	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.04	-0.1	0	0	-2	-2
Indonesian Rupiah		14010	0.2	1	0	4	3
Indian Rupee		71.05	0.2	1	1	0	-2
Argentine Peso		59.93	0.0	0	0	-37	-37
Brazil Real		4.15	-0.2	2	0	-5	-6
Mexican Peso		19.28	0.1	2	-1	5	2
Russian Ruble		63.71	-0.1	1	0	5	9
South African Rand		14.61	0.1	0	2	-2	-2
Turkish Lira		5.81	-0.5	-1	-1	-8	-9
EM FX volatility		6.80	0.0	0.0	-0.4	-3.3	-3.0

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

Emerging market funds experienced weak bond outflows and relatively smaller equity inflows last week. Bond flows (-\$0.1 bn) were negative for the third week, after strong positive flows for three weeks until mid-November. Equity flows (+\$1.7 bn) were positive for the sixth consecutive week, but lower relative to the average of previous three weeks (+\$2.9 bn).



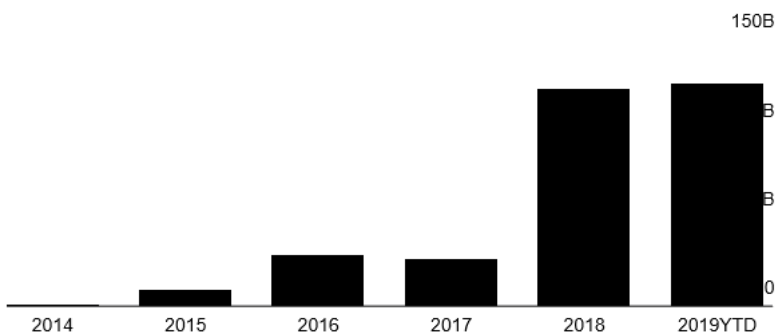
China

Growing default risk of borrowers supported by local governments drives up yields of corporate bonds. A local government financing vehicle (LGFV) in Inner Mongolia will reportedly miss a principal repayment on its RMB1 bn-bond after investors exercised the put option embedded in the security last Friday. This raised concerns over the creditworthiness of LGFV bonds which is assumed to be implicitly backed by local governments. Meanwhile, a state asset manager owned by the Tianjin government is struggling to repay its offshore US dollar bond with a face value of \$2.1 bn, and the municipal authority is now overseeing the case. According to data compiled by Bloomberg, the amount of bond defaults by onshore Chinese company has hit a record high of RMB150 bn year to date. Yields of LGFV bonds moved up today particularly for borrowers from poorer provinces, while yields of 10-year central government bond were little changed.

Record Defaults

China's onshore company bond defaults hit new high

■ Defaulted amount



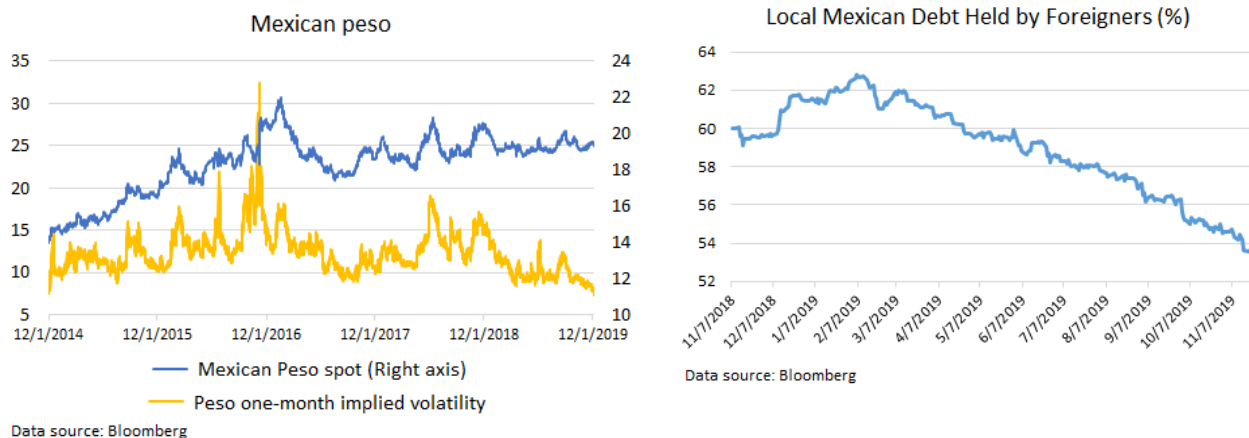
Source: Bloomberg

Chinese equity markets were little changed as investors are waiting for new clues on the progress of US-China trade negotiation. The Shanghai and Shenzhen Composite Indices were virtually flat, while the tech-heavy ChiNext dipped 0.3% at market close. In the currency market, both CNY and CNH weakened by 0.1% against US dollar.

Mexico

Mexican peso implied volatility experienced a 5-year low last week despite regional and global risks.

One-month implied volatility by peso options decreased to around 7.9% last Wednesday, the lowest value since December 2014. It has continued to test record low values (~7.5%) on Thursday and Friday. This recent trend is remarkable and could be driven by peso's still high. Hence, further changes in the policy rate in 2020 may alter this trend. Additionally, an important factor to watch is the decreasing trend in the proportion of local Mexican debt held by foreigners.



Turkey

The Turkish central bank modified banks' reserve requirements in order to incentivize the growth of long-term loans. The [new rules](#) allow banks with "strong" long-term commercial loan growth – as defined in the regulations – to benefit from a 2% reserve requirement, whereas other lenders must adhere to the 7% rate. Separately, the central bank is expected to cut rates later this week in a bid to foster credit growth even further. **The Turkish lira (-0.5%) underperformed EM peers today following the policy decisions.** Equities in Istanbul dropped 0.2% while bank stocks (-0.5%) underperformed the main indices.

Turkey: Equity Indices

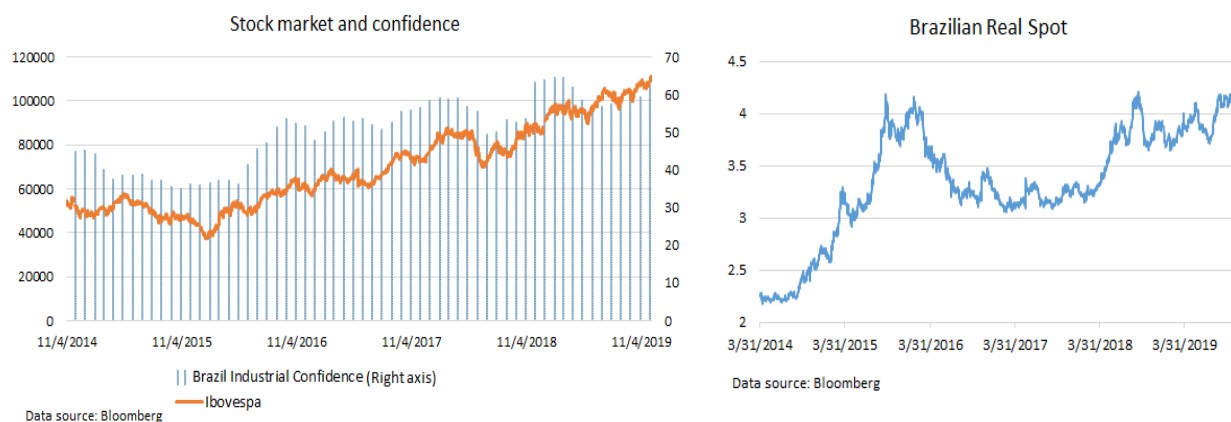


Kazakhstan

The Kazakh central bank left interest rates unchanged at 9.25%, as expected. Policy rates have stayed at this level since September, when the CBK raised rates unexpectedly in response to higher-than-anticipated food prices.

Brazil

The gains in the equity markets and recently increased industrial confidence in Brazil contrast with weak performance across the region. Equity markets have been testing high values and have seen more than a 20% increase since January of 2019. Although the fact that the Brazilian real has depreciated (~8%) against the dollar during the same period could have driven a fraction of this increase, the performance of equity markets was still above that of other countries in the region. Other key drivers could be reform progress and accommodative policy (150bps cut in 2019) supporting growth recovery.



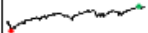






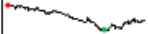







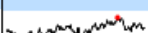






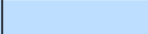



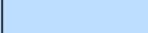


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Global Financial Indicators

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China		2914	0.1	1	-2	12	17
Asia Ex Japan		70	0.8	1	-2	8	11
Emerging Markets		43	-0.3	1	-1	8	10
Interest Rates			basis points				
US 10y Yield		1.82	2.6	0	-12	-102	-86
Germany 10y Yield		-0.31	-2.1	-3	-4	-56	-55
Japan 10y Yield		0.00	0.4	4	5	-6	-1
UK 10y Yield		0.76	-1.5	2	-3	-51	-52
Credit Spreads			basis points				
US Investment Grade		113	0.1	-3	-3	-25	-34
US High Yield		445	0.6	-20	-1	5	-76
Europe IG		47	0.0	-2	-2	-41	-40
Europe HY		220	-0.5	-6	-10	-136	-133
EMBIG Sovereign Spread		319	0.0	-8	6	-83	-95
Exchange Rates			%				
USD/Majors		97.58	-0.1	0	-1	1	1
EUR/USD		1.11	0.1	0	0	-2	-3
USD/JPY		108.5	0.1	0	1	4	1
EM/USD		60.5	0.1	1	0	-3	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		64	-0.9	5	2	3	19
Industrials Metals (index)		111	-0.2	0	-6	-3	2
Agriculture (index)		40	0.3	1	0	-9	-5
Implied Volatility			%				
VIX Index (% change in pp)		14.3	0.6	-0.6	2.2	-9.0	-11.2
10y Treasury Volatility Index		4.7	0.1	0.3	0.0	0.3	0.1
Global FX Volatility		6.0	0.0	0.1	-0.3	-2.7	-3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		174	-5.9	-6	14	-224	-242
Italy		159	-4.8	-4	13	-129	-91
Portugal		70	-0.8	-4	11	-85	-78
Spain		77	-1.4	-1	11	-44	-41

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 12/9/2019 8:20 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		7.04	-0.1	0.0	0	-2	-2		3.2	0.6	0	-6	-3	3
Indonesia		14010	0.2	0.8	0	4	3		7.2	-1.2	-2	13	-98	-96
India		71	0.2	0.9	1	0	-2		6.9	5.6	14	13	-57	-50
Philippines		51	-0.1	0.4	0	4	3		4.3	-1.0	-4	-5	-201	-204
Thailand		30	0.1	-0.1	0	9	7		1.7	1.4	-3	6	-105	-96
Malaysia		4.16	0.0	0.5	0	0	-1		3.4	0.0	1	-4	-72	-70
Argentina		60	0.0	0.1	0	-37	-37		91.3	-57.9	291	3419	6800	6824
Brazil		4.15	-0.2	1.7	0	-5	-6		6.1	-8.8	-11	22	-246	-203
Chile		770	1.1	4.3	-1	-12	-10		3.8	-6.1	35	46	-80	-69
Colombia		3409	0.4	2.9	-2	-6	-5		5.9	-1.4	-20	14	-76	-60
Mexico		19.28	0.1	1.5	-1	5	2		7.0	-4.6	-9	18	-215	-168
Peru		3.4	0.1	0.8	-1	0	0		4.5	-2.4	-7	13	-127	-119
Uruguay		38	0.0	0.0	-1	-15	-14		11.2	-0.1	-3	28	26	51
Hungary		299	0.0	0.1	1	-5	-6		1.0	-5.3	-7	-10	-125	-116
Poland		3.87	0.0	0.1	0	-2	-3		1.8	-1.0	0	-1	-65	-48
Romania		4.3	0.1	-0.1	0	-5	-6		4.2	-1.0	5	31	-7	-9
Russia		63.7	-0.1	0.8	0	5	9		6.2	-1.7	-2	2	-222	-217
South Africa		14.6	0.1	-0.5	2	-2	-2		9.7	-1.6	-1	15	-5	9
Turkey		5.81	-0.5	-1.1	-1	-8	-9		11.9	2.0	-8	-34	-550	-493
US (DXY; 5y UST)		98	-0.1	-0.3	-1	1	1		1.66	-0.5	2	-9	-103	-85

	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		2914	0.1	1	-2	12	17		182	0	0	7	-12	-12
Indonesia		6194	0.1	1	0	1	0		172	-1	-5	5	-60	-64
India		40487	0.1	-1	0	13	12		126	-2	-1	-1	-54	-70
Philippines		7780	-0.3	-1	-4	4	4		82	2	-2	7	-36	-39
Malaysia		1563	-0.4	0	-3	-7	-8		122	0	1	3	-31	-40
Argentina		36562	3.2	6	7	16	21		2323	2	-79	-113	1594	1508
Brazil		111167	0.5	2	3	26	26		232	1	-8	9	-38	-41
Chile		4719	-0.2	5	1	-7	-8		151	5	2	12	-12	-15
Colombia		1612	-0.2	1	-2	17	22		181	2	-8	10	-28	-47
Mexico		41939	-0.7	-2	-4	0	1		315	1	-11	7	-31	-39
Peru		19874	0.5	-1	0	2	3		126	2	0	5	-46	-42
Hungary		44259	0.1	2	2	12	13		95	1	-1	9	-58	-53
Poland		55608	-0.7	-2	-6	-4	-4		23	1	-2	3	-57	-62
Romania		9964	-0.1	1	3	15	35		187	-4	-7	-1	-39	-34
Russia		2941	0.4	1	-1	21	24		149	-1	-10	-14	-100	-103
South Africa		55289	0.0	1	-2	8	5		350	2	0	26	-16	-15
Turkey		109118	0.2	1	6	16	20		429	4	-9	3	-49	0
Ukraine		510	0.0	0	-2	-11	-9		465	-31	-40	16	-275	-322
EM total		43	-0.3	1	-1	8	10		319	0	-8	6	-83	-95

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

[back to top](#)