



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, January 7, 2019



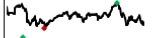





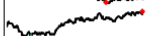
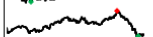

- **Strong US jobs report and dovish Fed commentary led to risk-on rally** ([link](#))
- **French bond spreads widening as protests resurface** ([link](#))
- **Core sovereign bonds outperformed in 2018** ([link](#))
- **Japanese yen crosses have been stable following last week's flash event** ([link](#))
- **Oil prices continue to rebound on supply concerns and dovish Fed** ([link](#))

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

## Tentative stability across markets

Following a volatile year-end, 2019 continues to be marked by a transition to higher volatility and uncertainty, as the market assesses the global growth path going forward. A stronger-than-expected US jobs report, slightly dovish Fed commentary, and China's cut in banks' reserve requirements provided a boost to risk assets on Friday, but that positive sentiment has already started to fade. On net, the week begins with mixed performance in global equities (Japan and EM were higher, Europe was down, and US futures point to a lower opening), lower core sovereign bond yields (with the notable exception of France), the US dollar is broadly weaker, oil prices are higher, and EMBIG spreads are a few basis points wider. Looking at the week ahead, markets will be attuned to any official commentary suggesting a pause in the Fed's rate hiking cycle, with a large number of FOMC speakers and the December minutes due for release. Financial markets also remain focused on political developments: Chinese and US trade officials resume their discussions, the US government shutdown enters its third week with few signs of progress, and the Brexit vote in the UK parliament takes place roughly a week from today.

Key Global Financial Indicators

Last updated: 1/7/19 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2532	3.4	2	-4	-8	1
Eurostoxx 50		3024	-0.6	1	-1	-16	1
Nikkei 225		20039	2.4	5	-8	-15	0
MSCI EM		40	0.1	2	0	-19	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.63	11.4	-5	-21	16	-5
Germany 10y Yield		0.20	-0.8	-4	-5	-24	-4
EMBIG Sovereign Spread		411	3	-3	9	140	-3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		63.3	0.2	2	2	-10	2
Dollar index, (+) = \$ appreciation		95.9	-0.3	-1	-1	0	0
Brent Crude Oil (\$/barrel)		58.0	1.6	11	-6	-14	8
VIX Index (% change in pp)		22.4	1.1	-6	-1	13	-3

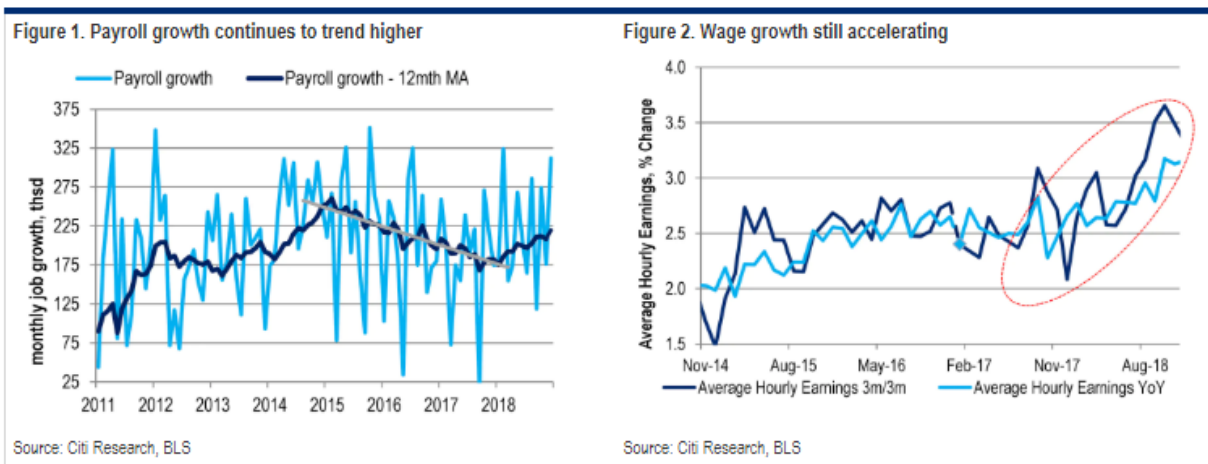
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

[back to top](#)

This week will see key economic releases including the ISM nonmanufacturing report (Monday), which is expected to see a moderation in December. Headline CPI (Friday) for December is expected to moderate from the last month, but core is expected to remain stable at 2.2% yoy. In addition, minutes from the December FOMC meeting will be released on Wednesday. There are several scheduled speaking engagements by Fed officials this week, including from chair Powell and vice chair Clarida. Also, US and China officials resume in-person trade talks this week.

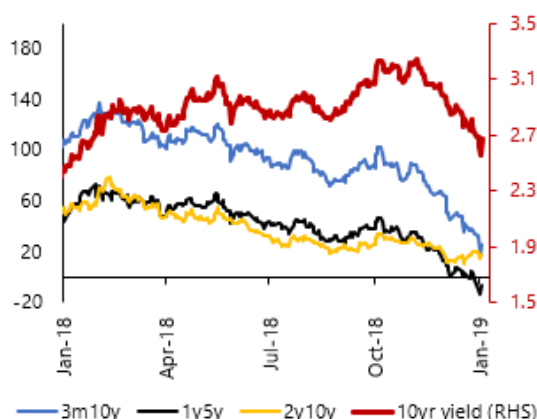
**Friday's stronger-than-expected US payrolls report was the main highlight last week.** 312k jobs were added in December (versus consensus expectations of 184k) and an upwardly revised 176k jobs were added in November. Wages accelerated to 0.4% mom (3.2% yoy), compared to 0.2% mom (3.1% yoy) the previous month. The unemployment rate increased to 3.9% from 3.7%, partly driven by a strong increase in the labor force participation rate. **In a panel discussion, Fed chair Powell highlighted that there is no pre-set path for policy, and the Fed can be "patient" with respect to the pace of interest rate hikes as it assesses risks to the economy.** The commentary, which was perceived as dovish, combined with the strong payrolls report to spur a risk-on move in markets. US equities closed up 3.4%, and US treasury yields rose by 11 bps. Implied interest rate futures show 6 bps of Fed easing for 2019, down from 16 before the employment report.



**The US government shutdown continues** for the third week amid multiple rounds of discussion.

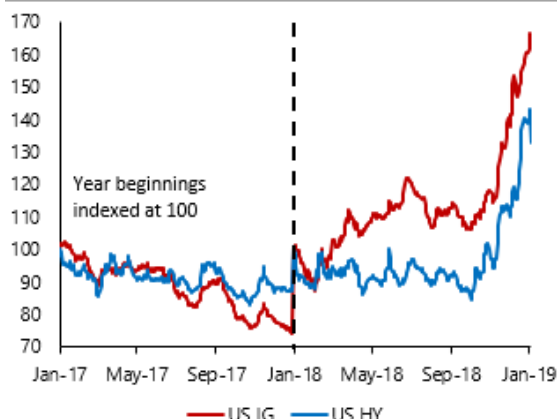
**Treasury yields increased sharply on Friday, with the yield on the 10-year up 11 bps to 2.67% and the 2-year up 12 bps to 2.49%.** The yield curve has flattened by 2 bps year to date, extending the 2018 trend, which saw 2-year yields rise by 57 bps and 10-year yields rise 22 bps. Select parts of the yield curve inverted in 2018, with the slope between 1-year and 5-year yields declining to -8.5 bps by end- 2018. Within credit, US IG and HY spreads declined by 3 bps and 40 bps, respectively, on Friday. This compares with a rise of 56 bps in IG spreads and +147 bps in HY spreads for the year as a whole in 2018.

US: Yield curve slopes (LHS), 10 year yield (RHS)



Source: Bloomberg

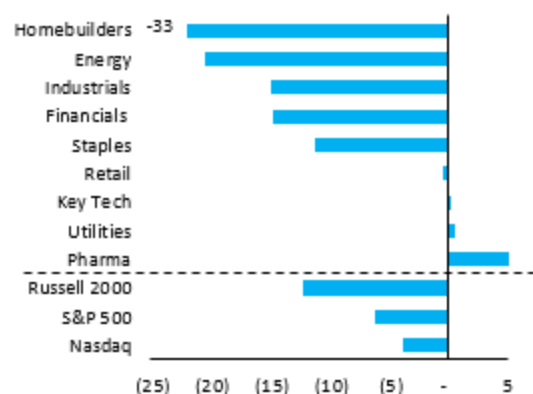
US Corporate Spreads



Source: Bloomberg

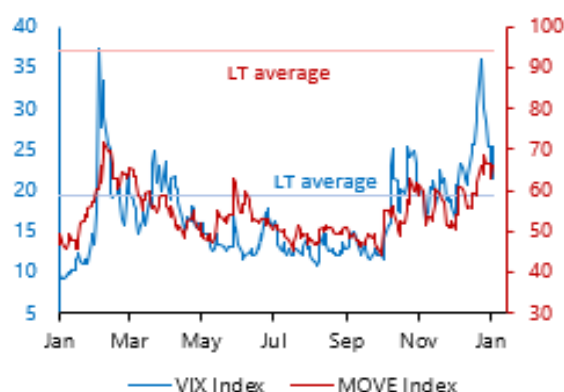
**US equities rallied by 3.4% on Friday, and are up 1% year to date.** This compares with a 6.2% decline in the S&P 500 and -12.2% in the Russell 2000 index in 2018. Among sectors, homebuilders, energy, industrials and financials underperformed, while pharma and utilities outperformed last year. Notwithstanding the negative outturn, the S&P 500 outperformed most other major global equity indices. The price-to-earnings ratio for the S&P 500 ended the year at 17.1, versus 22.3 at 2017-end and a 10-year average of 17.8. Equity implied volatility also increased, with the VIX ending 2018 at 25.4, above the long-term average of 19.3. Volatility also increased in rates, though remains below the long-term average.

Performance in 2018: Key US (Sub) Indices



Source: Bloomberg

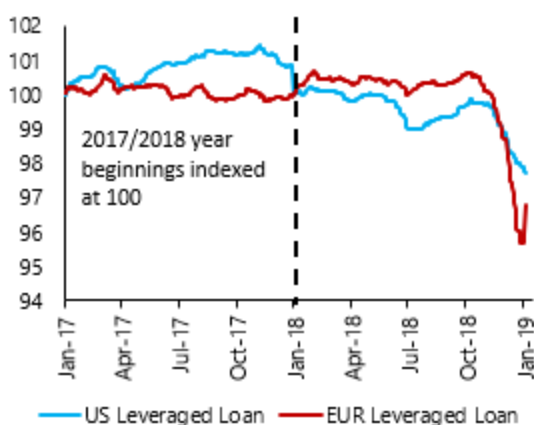
US: Implied volatility for equities and rates



Source: Bloomberg

The leveraged loan market remains a key focus, owing to investor concerns about weaker credit quality and tighter financial conditions (see [IMF blog](#)). Leveraged finance flows (through Dec 26) registered a net outflow of \$3.2 bn in 2018, after a roughly \$10 bn inflow in 2017. Institutional loan supply for Q4 2018 was \$76 bn, the lowest since Q1 2016. New issuance was down 15% from the prior quarter and down 46% from Q2 2018. Prices also remained under pressure in the last quarter and declined by 1.7% and 4.8%, respectively, in the USD and EUR leveraged loan markets.

## Leveraged Loan Markets - Price Performance



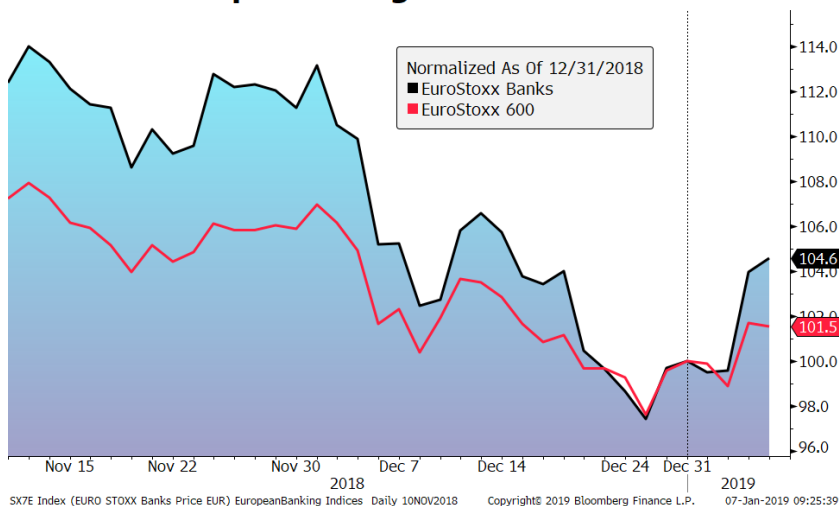
Source: Bloomberg

## Europe

[back to top](#)

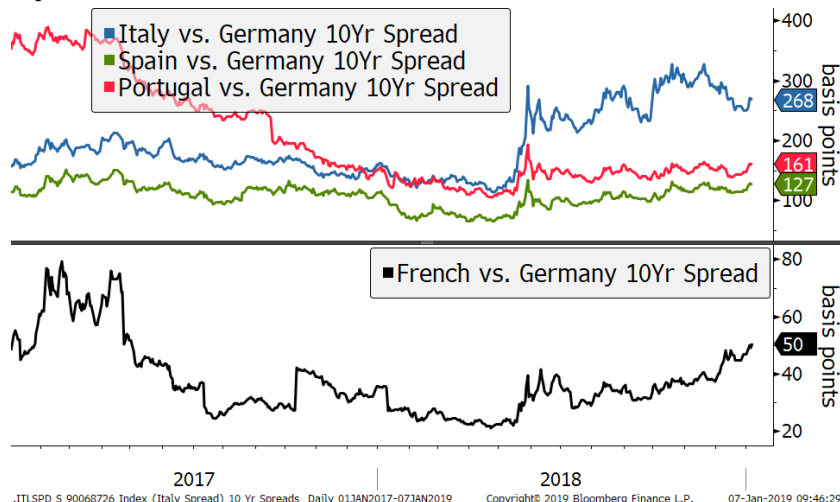
**Regional equity markets are slightly lower this morning, but up since the start the year.** The EuroStoxx index has gained 1.3% year to date (after having declined 17% in 2018), with Italy (+3.0%) leading the gains. Financial sector stocks are outperforming, up 0.2% today and nearly 5% since the start of the year. Of note, the ECB placed **Banca Carige** in temporary administration last week after its plan to raise €400 mn in equity fell through. Analysts note that the bank poses little systemic risk given its small size of €25 bn in assets, but are uncertain on how the situation will be resolved. The government is trying to find a larger bank to take over Carige in an attempt to avoid injecting taxpayer money into the lender or causing losses to depositors and creditors.

## EU Banks Outperforming



**Core yields are mixed since the start of the year.** The 2-year German bund yield is little changed at -0.6% while the 10-year fell 4 bps to 0.20%, following declines of 1 bp and 19 bps, respectively, last year. The 10-year Italy-Germany spread increased about 18 bps last week, but at 268 bps, the spread remains well below the November high of over 320 bps. **Of note, the French spread to German bunds continues to rise, with the 10-year spread now at 51 bps. This marks the highest level since mid-2017 as violent protests against President Macron resurfaced last weekend.** For reference, the French-German spread reached nearly 80 bps in February 2017 during the run-up to the French presidential elections.

## Spreads to German 10-Year



**On the data front, December euro area CPI fell to 1.6% yoy, a touch below expectations and the lowest in eight months.** But the decline was largely driven by lower energy prices, and hence is not expected to impact the policy outlook.

**On Brexit, the UK Parliament is scheduled to vote on the withdrawal plan next week, but no major development has occurred in the last couple of weeks.** As it stands, PM May is still facing the prospect of a defeat. Some analysts noted that the vote could be delayed once again, and the current plan may still be amended, but there are no signs of flexibility from the EU. The Irish border is still the most contentious issue.

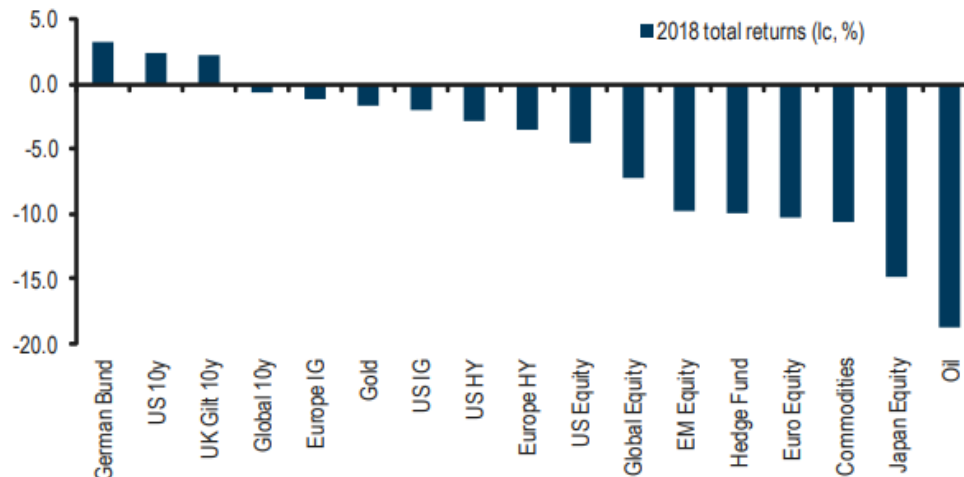
## Other Mature Markets [back to top](#)

### Japan

**Japanese stocks surged, outpacing other Asian bourses following dovish comments from Fed chair Powell.** The Nikkei gained 2.4% and the Topix +2.8% on the back of broad-based gains, with electronics makers and auto-related stocks providing the biggest boosts to the composites. The gains followed a volatile December and losses sustained in 2018. The Topix lost 12.6% in 2018 and the Nikkei shed 15.5% during the overnight session, despite the rebound in risk sentiment, the yen gained (0.4%), reaching 108.13 per dollar, its strongest level since last April. After the flash rally last Wednesday, when the yen gained more than 3% against the dollar over the course of a few minutes, trading has since been more stable. That said, thin trading volumes and limited market liquidity – two of the factors that are seen to have contributed to the dramatic price movement last week – are expected to remain as hurdles to market stability for the new year.

## Global Cross-Asset Performance

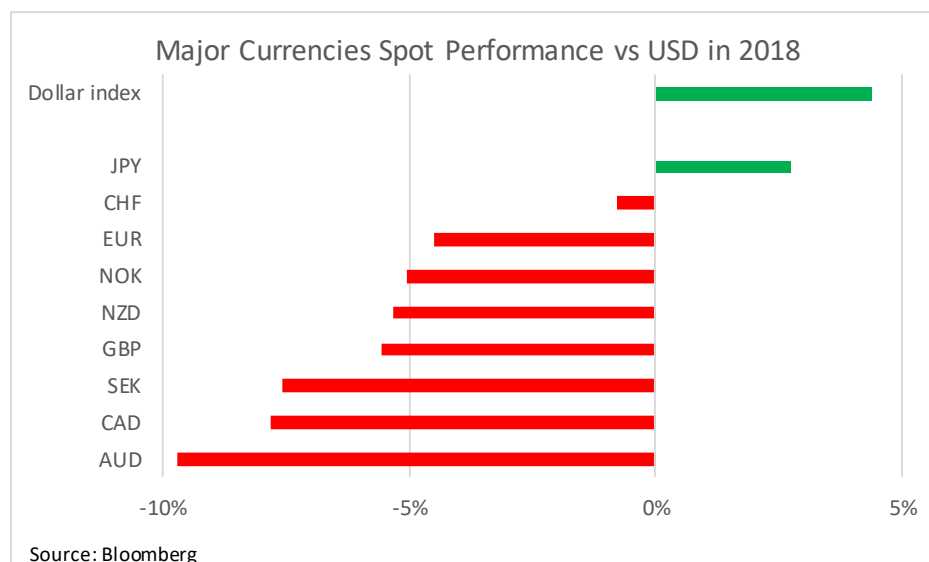
**Looking back to 2018, markets started the year with an exuberant outlook,** bolstered by the US tax reform and strong global PMIs, but the outlook faded as the year progressed owing to a divergence in growth. On net, few asset classes delivered positive returns for the year as a whole. Government bonds were the outperformers in 2018, oil was the worst-performing asset class for the year, while pressure from US-China trade weighed on Chinese equity markets.



Source: Barclays Research

### Major Currency Markets

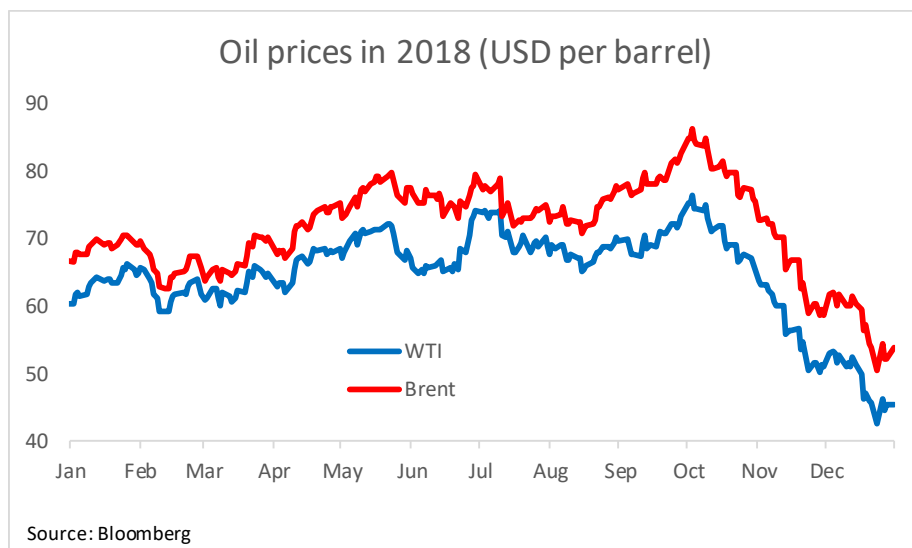
**For 2018, the dollar gained against most other major currencies, as concerns over global growth resurfaced in the second half of the year.** The euro was roughly 5% weaker against the greenback amid doubts over the ECB's ability to tighten monetary policy anytime soon. Sterling exhibited periodic volatility on Brexit headlines, but ended the year just 6% weaker despite the unresolved nature of the country's exit from the EU. Other currencies mostly also showed single digit losses. Safe haven currencies were relative overperformers, with the yen (+2.4%) in positive territory. **Moves have been limited today. The dollar is 0.3% weaker against major currencies.** The DXY index is trading at 95.9, compared to a 2018 high of 97.5. The euro (\$1.14), yen (¥108.1), and sterling (\$1.27) are all slightly stronger.



### Commodities

**Oil prices have continued to rise this morning after a positive start to the year.** WTI and Brent were both more than 2% higher this morning, taking their 2019 gains to 8%. The moves have been attributed to supply concerns in the US as well as some slightly dovish remarks from the Federal Reserve. 2018 was a challenging year for oil prices, however, as they tumbled towards the end of the year after having been in positive territory well into the fourth quarter. WTI and Brent ended the year down 25% and 20%,

respectively. The declines came as general sentiment turned negative in markets and concerns over global growth intensified. Expectations of robust supply going forward also contributed to the declines, which saw oil end the year at levels last seen in the middle of 2017.



## Emerging Markets

[back to top](#)

### Key Emerging Market Financial Indicators

Last updated: 1/7/19 8:16 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		39.69	0.1	2	0	-19	2
MSCI Frontier Equities		26.90	2.5	1	-3	-22	3
EMBIG Sovereign Spread (in bps)		411	3	-3	9	140	-3
EM FX vs. USD		63.26	0.2	2	2	-10	2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.85	0.2	0	0	-5	0
Indonesian Rupiah		14083	1.3	2	3	-5	2
Indian Rupee		69.68	0.1	0	2	-9	0
Argentine Peso		37.34	0.1	1	0	-49	1
Brazil Real		3.70	0.4	5	6	-13	5
Mexican Peso		19.32	0.5	2	5	0	2
Russian Ruble		66.99	0.8	4	-1	-15	4
South African Rand		13.89	0.6	3	2	-11	3
Turkish Lira		5.36	-0.6	-1	-1	-30	-1
EM FX volatility		9.69	1.2	-0.1	-0.4	2.1	-0.1

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

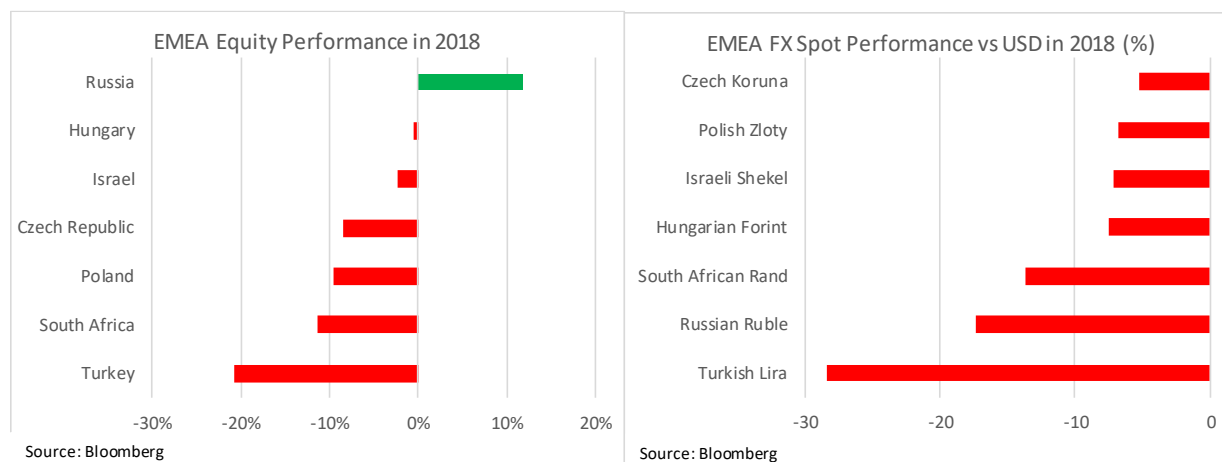
**EMEA** equities saw broad-based gains this morning. Most markets were up 0.5 to 1% while Russia (+1.3%) was the outperformer. Currencies in the region were modestly stronger against the dollar. **Asian** currencies staged broad-based gains against the dollar following comments from Fed chair Powell as well as China's policy easing and optimism over the latest US-China trade negotiation. Equities also rose by approximately 1% across the region. The Indonesian rupiah gained 1.4% to its strongest level since last June, outperforming others. Meanwhile, Bank Indonesia indicated that it planned to directly intervene in the domestic NDF market, using "sizable" amounts through brokers. By contrast, the Indian rupee held steady



against the dollar, underperforming others. Equities also staged broad-based gains. The Korean Kospi led overall gains (+1.3%), while Chinese shares registered a muted performance. Most **Latam** assets saw gains on Friday amid optimism about this week's trade talks between US and China. The Brazilian real (+1.2%) strengthened the most against the US dollar. Among equities, Argentina (+4%) outperformed, followed by Mexico (1%) and Chile (1%).

### Review of EM market performance in 2018

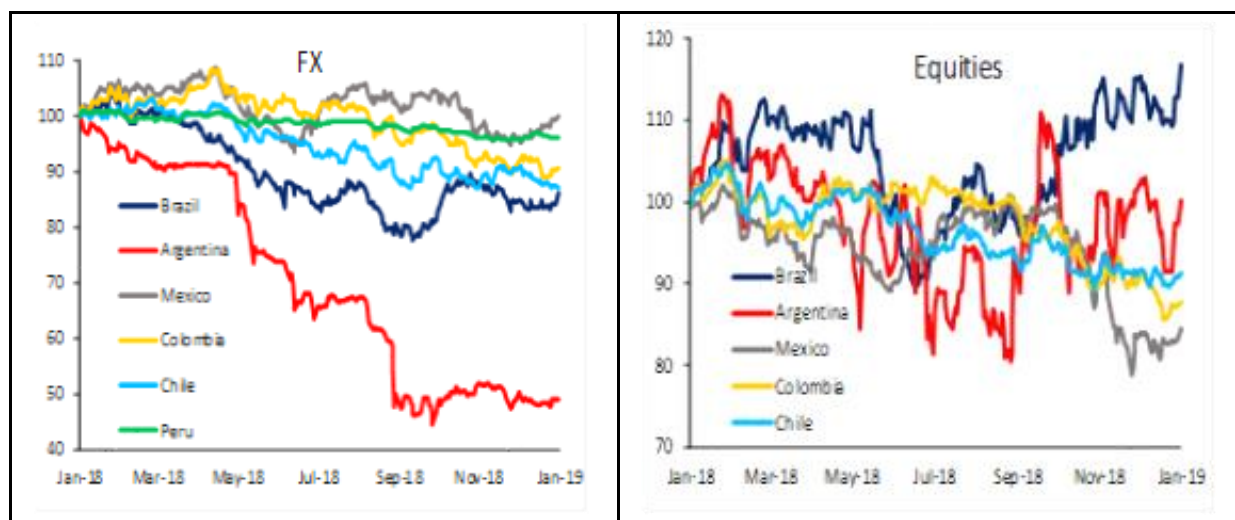
Looking back at 2018, most jurisdictions had a challenging year. For the year as a whole, the MSCI emerging markets index was down just over 16%. EM external sovereign bond yields widened over 140 bps to 415 bps, while EM currencies were mostly weaker against the US dollar – the JPM EM FX index was down 11% for the year. Within **EMEA**, the majority of bourses were in the red, with Turkey among the worst performers as political tensions and economic turmoil weighed on stocks. Most other major markets were in negative territory, including South Africa and Poland. Russian stocks were a rare positive, rising 11% despite a fall in oil prices and geopolitical tensions. Currencies in EMEA also struggled as the dollar exhibited resilience during the year. Turkey was a weak spot, as the lira weakened by almost 30% despite a recovery towards the end of the year. Other currencies were approximately 5-15% lower against the greenback.



In **Asia**, currencies also lost ground relative to the US dollar last year, but fared better than a number of the G10 and major EM currencies. The rupee was the underperformer, losing 9% in 2018 while the Indonesian rupiah lost 6.8%. Although trade tensions weighed on the RMB late last year, the currency on net suffered limited losses relative to other EM currencies, with both the onshore and the offshore RMB losing 5.7% last year. Chinese equities were badly bruised in 2018; the CSI 300 lost 27% in 2018, while the Shanghai Composite lost 26%, making Chinese equities one of the worst performers last year.

**Latam** assets mostly underperformed in 2018, as emerging market currencies depreciated, most notably in Argentina (-51%). The Brazilian real (-16%), Chilean peso (-13%), Colombian peso (-10%), and Peruvian sol (-4%) all weakened against the US dollar as well. Regional equities also saw losses in 2018, with Brazilian equities (+17%) an exception. Equity markets in Mexico (-16%), Colombia (-12%), and Chile (-9%) saw the largest losses in the region.





## China

**In another sign of policy easing, the PBC announced a 100 bps cut in banks' reserve requirements (RRR) on Friday.** The first 50 bps cut will take place on January 15<sup>th</sup> and another 50 bps will take place ten days later, ahead of the lunar new year to help address heightened liquidity demand around the holiday. By analysts' estimates, the 100 bps cut in RRR translates to roughly RMB 800 bn in net liquidity injection, after accounting for maturing MLFs in January, and is equivalent to a RRR cut of 50 bps. Meanwhile, **optimism regarding easing US-China trade tension is rising.** Although no senior officials will attend the China-US trade talks this week, expectations are high for a meeting between President Trump and Vice President Wang at the upcoming world economic forum in late January.

**The RMB gained against the dollar, despite the latest monetary easing.** The onshore CNY gained 0.3%, its biggest gain since early December, and the offshore CNH gained 0.2%. Investors generally expect the RMB to remain near current levels for the next few months while trade negotiations take place, with the currency unlikely to break above the 7RMB/USD level. Meanwhile, equities also gained. The Shanghai Composite rose 0.7% on the day, while the CSI 300 – an index of the top 300 stocks – gained 0.6%. Still, on net, **investors have remained cautious regarding Chinese equities**, with investment analysts citing policy and economic uncertainties as key hurdles in 2019.

## Pricing in a Slowdown

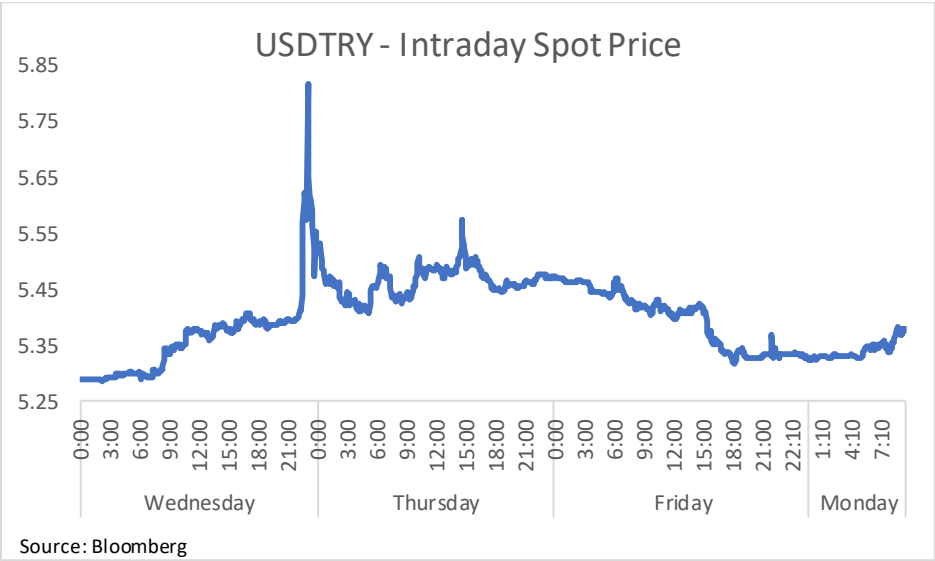
Investors are paying the least since 2014 for Chinese stocks



Source: Bloomberg  
SHSN300 Index (Shanghai Shenzhen CSI 300 Index) Line Chart Daily 08JAN2014-07JA Copyright© 2019 Bloomberg Finance L.P. 07-Jan-2019 15:07:43

Turkey

**The lira has stabilized after its flash crash last week.** A number of currencies, including the lira, saw an outsized move in after-hours trading on Wednesday. The lira weakened as much as 9% at one point against the yen before recovering quickly. The event, which affected other currencies as well, was attributed to low liquidity as very few markets were open at the time, as well as stop losses being triggered and algorithmic selling. Some analysts also cited trade unwinds by Japanese retail investors who had been accumulating lira in the previous weeks. The subsequent session was relatively quiet although the currency has weakened by 1%, to 5.39 against the dollar, this morning.






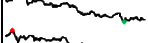



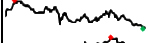





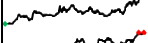









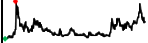


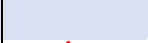


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## Global Financial Indicators

Last updated: 1/7/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2532	3.4	2	-4	-8	1
Europe		3024	-0.6	1	-1	-16	1
Japan		20039	2.4	5	-8	-15	0
China		2533	0.7	2	-3	-25	2
Asia Ex Japan		64	3.3	1	-2	-20	0
Emerging Markets		40	0.1	2	0	-19	2
Interest Rates			basis points				
US 10y Yield		2.63	11.4	-5	-21	16	-5
Germany 10y Yield		0.20	-0.8	-4	-5	-24	-4
Japan 10y Yield		-0.01	2.8	-1	-7	-7	-1
UK 10y Yield		1.24	-4.1	-4	-3	-1	-4
Credit Spreads			basis points				
US Investment Grade		149	-3.1	2	20	58	2
US High Yield		497	-39.8	-25	73	142	-24
Europe IG		89	0.8	2	3	45	2
Europe HY		356	0.1	3	12	130	3
EMBIG Sovereign Spread		411	3.0	-3	9	140	-3
Exchange Rates			%				
Dollar Index (DXY)		95.86	-0.3	-1	-1	4	0
USDEUR		1.14	0.4	0	1	-4	0
USDJPY		108.2	0.3	1	4	5	1
EM FX vs. USD		63.3	0.2	2	2	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		58	1.6	11	-6	-14	8
Industrials Metals (index)		111	0.2	1	-3	-18	1
Agriculture (index)		43	0.3	2	-2	-11	2
Implied Volatility			%				
VIX Index (%, change in pp)		22.4	1.1	-5.9	-0.8	13.2	-3.0
10y Treasury Volatility Index		4.6	-0.4	0.1	0.3	1.2	0.1
Global FX Volatility		9.1	0.1	0.1	0.4	2.1	0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		413	0.0	-3	15	80	-3
Italy		250	0.0	0	-38	93	0
Portugal		148	0.0	0	-7	-2	0
Spain		117	0.0	0	-3	9	0

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: 1/7/2019 8:17 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		6.85	0.2	0.4	0	-5	0		3.1	-0.6	-10	-20	-89	-9	
Indonesia		14083	1.3	2.2	3	-5	2		8.2	1.5	4	12	173	4	
India		70	0.1	0.1	2	-9	0		7.5	2.3	8	-14	2	6	
Philippines		52	0.0	0.1	0	-4	0		6.3	2.0	2	4	149	2	
Thailand		32	0.0	1.1	3	1	1		2.6	1.9	-6	-17	26	-6	
Malaysia		4.11	0.5	0.5	1	-3	0		4.1	0.1	-4	-7	18	-3	
Argentina		37	0.1	0.9	0	-49	1		22.2	-58.2	-81	-87	596	-81	
Brazil		3.70	0.4	4.9	6	-13	5		8.0	-0.4	-15	-67	-82	-15	
Chile		678	0.6	2.3	0	-11	2		4.4	-0.6	-6	-22	-36	-6	
Colombia		3193	1.6	1.9	-1	-10	2		6.6	-1.0	5	-12	38	5	
Mexico		19.32	0.5	1.7	5	0	2		8.5	-13.7	-28	-77	94	-25	
Peru		3.3	0.7	0.8	1	-4	1		5.7	-1.1	1	-8	68	-1	
Uruguay		32	-0.2	-0.2	-1	-12	0		10.7	0.0	-3	-25		-3	
Hungary		281	0.3	-0.3	1	-8	0		2.1	5.8	-7	-20	93	-8	
Poland		3.75	0.4	-0.4	1	-7	0		2.3	6.2	3	-18	-33	2	
Romania		4.1	0.4	-0.4	0	-5	0		4.1	-7.0	-13	-3	33	-14	
Russia		67.0	0.8	3.5	-1	-15	4		8.4	0.8	1	5	113	1	
South Africa		13.9	0.6	3.3	2	-11	3		9.4	-9.0	-14	-14	16	-17	
Turkey		5.36	-0.6	-1.4	-1	-30	-1		17.2	-15.2	11	3	525	27	
US (DXY; 5y UST)		96	-0.3	-0.6	-1	4	0		2.48	-1.7	-3	-21	20	-3	
	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		2533	0.7	2	-3	-25	2		190	5	-4	-4	40	-4	
Indonesia		6287	3.4	2	3	-1	1		232	0	-4	0	75	-4	
India		35850	0.4	-1	0	5	-1		194	-11	1	17	86	-2	
Philippines		7788	0.3	4	4	-11	4		115	3	-6	-3	32	-6	
Malaysia		1679	1	-1	0	-8	-1		161	3	-1	8	55	-1	
Argentina		32303	4.0	13	2	0	7		733	2	-82	4	372	-82	
Brazil		91841	0.3	8	4	16	4		264	1	-9	-6	49	-9	
Chile		5189	1.2	2	2	-9	2		162	4	-4	-1	48	-4	
Colombia		1357	0.6	2	-2	-12	2		217	3	-11	8	53	-11	
Mexico		42455	1.0	3	1	-15	2		345	2	-9	-1	109	-9	
Peru		19469	1	1	0	-6	1		169	4	1	-3	44	1	
Hungary		40285	0.3	3	2	1	3		143	2	-5	-10	58	-5	
Poland		58437	0.8	2	0	-11	1		73	-1	-12	-7	31	-12	
Romania		7673	0.1	3	-12	-4	4		214	-12	-1	-10	101	-7	
Russia		2407	0.0	4	-1	9	2		245	2	-7	-4	83	-7	
South Africa		52300	0.2	0	2	-12	-1		356	3	-9	-10	130	-9	
Turkey		89638	0.9	-1	-4	-23	-2		447	2	18	-31	172	18	
Ukraine		552	0.0	-1	-4	74	-1		817	-1	30	77	418	30	
EM total		23	0.0	0	-1	-15	1		411	3	-3	9	140	-3	

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