








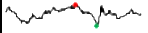





- Record US high yield bond issuance in June and strong returns in Q2 ([link](#))
- The evolution of the US pandemic has diverged from its peers, with reopening delayed or reversed for up to 40% of the population ([link](#))
- German retail sales rebound sharply in May ([link](#))
- Japanese equities fall on weak Q2 Tankan business sentiment survey ([link](#))
- The People's Bank of China cuts re-lending and re-discounting rates ([link](#))
- Colombia's central bank cuts rates by a lower-than-expected 25 bps ([link](#))

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Markets take a breather after a strong Q2

Global equities fell this morning as investors took a breather after a strong Q2 amid continuing concerns about the resurgence of virus cases. US equity futures fell after rallying 1.5% yesterday to close out their best quarter in two decades. European and Japanese bourses also lost ground this morning, with European stocks losing over 1%. The VIX rose 1.1 pts while the dollar was marginally stronger. US Treasury yields rose for the second consecutive trading day, with 10-year yields up another 2 bps this morning. Bund yields also rose, with 10-year yields 5 bps higher after German retail sales rebounded sharply in May. In emerging markets, the PBOC cut re-lending and re-discounting rates while Colombia's central bank cut rates by a lower-than-expected 25 bps yesterday. Elsewhere, China's national security law for Hong Kong SAR came into effect late Tuesday, the eve of the anniversary of Hong Kong's return to China in 1997.

Key Global Financial Indicators

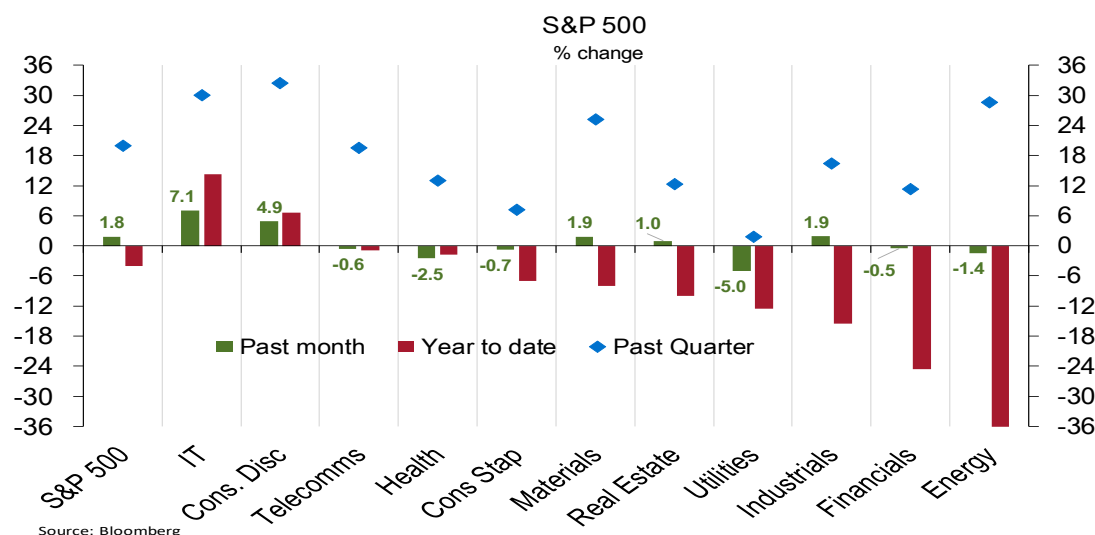
Last updated: 7/1/20 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3100	1.5	-1	1	5	-4
Eurostoxx 50		3185	-1.5	0	3	-9	-15
Nikkei 225		22122	-0.7	-2	0	2	-6
MSCI EM		40	-0.5	-2	4	-7	-11
Yields and Spreads			bps				
US 10y Yield		0.68	3.3	0	2	-134	-124
Germany 10y Yield		-0.41	4.6	3	-1	-5	-22
EMBIG Sovereign Spread		471	-3	0	-40	133	178
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.3	0.1	0	-1	-14	-12
Dollar index, (+) = \$ appreciation		97.6	0.2	0	0	1	1
Brent Crude Oil (\$/barrel)		41.8	1.4	4	9	-36	-37
VIX Index (% change in pp)		31.5	1.1	-2	3	17	18

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

United States

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US equities rallied 1.5% yesterday to close out their best quarter in two decades. Treasuries sold off throughout the curve, with the 10- and 30-year yields up 3 and 4 bps respectively on Tuesday. After surging from the March lows in April and May, the S&P 500 ended June up a more modest 1.8%. The benchmark index is still down 4% in 2020, from a year to date trough of -31% on March 23. Tech and consumer discretionary are the only sectors positive for the year, with the latter boosted by the presence of Amazon and takeout/delivery dining establishments.



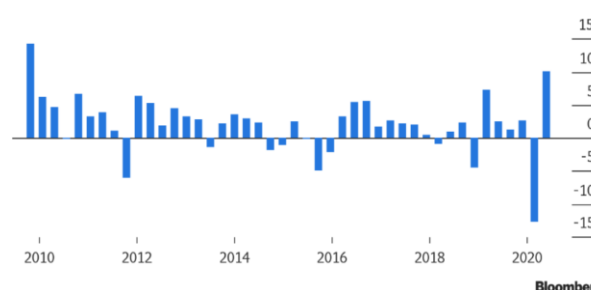
Fed Chair Powell and Secretary Mnuchin offered few major surprises in testimony before the House Financial Services Committee, but they shed some light on future policy priorities. Powell stated the Fed may adjust the Main Street Lending Program to boost its effectiveness, potentially by using an “asset-based” assessment instead of Ebitda as currently. He also noted that about 300 companies have registered to use it. On the Municipal Lending Facility, he stated the Fed is reviewing its standards on whether to allow US territories such as Puerto Rico to access it. The commercial real estate sector was mentioned multiple times, and Mnuchin noted that hotels may get extra support in a future fiscal stimulus bill due to contractual limitations in the CMBS market that are preventing more market-oriented solutions to the severe industry downturn.

The application window for the \$670 bn Paycheck Protection Program closed today with over \$130 bn in unused funds, and no consensus on what to do next. Congress previously eased some of the requirements to give businesses more time to spend their funds, and the program approved 4.8 mn loans worth close to \$520 bn over 3 months.

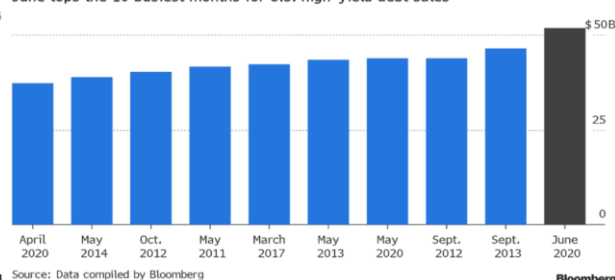
There was record issuance of US high yield bonds in June and, overall, strong returns in Q2. The Fed began purchasing ETFs on May 15 and had accumulated high yield holdings worth \$835 mn as of June 18, out of a total \$6.8 bn in ETF holdings. Energy returned nearly 40% in Q2, though it makes up only about 12% of the overall high yield index.

Best Quarterly Returns Since 2009

Percentage return on Bloomberg Barclays U.S. Corporate High Yield index

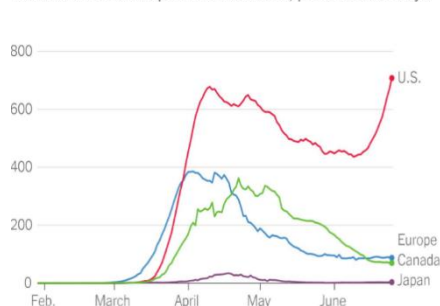
**Breaching \$50 Billion**

June tops the 10 busiest months for U.S. high-yield debt sales

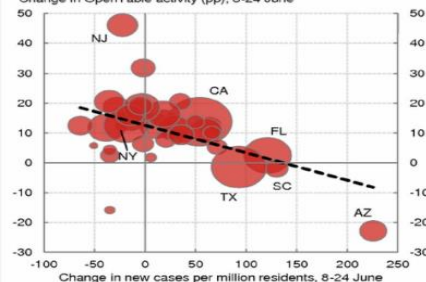


The evolution of the US pandemic has diverged from its peers, with reopening delayed or reversed for up to 40% of the population according to Goldman Sachs analysts. On a per million residents basis, US new daily cases have reversed their decline and now top 700. Moreover, there is increasing evidence that the renewed outbreak has hit economic activity through hours worked and restaurant reservations in new hotspots.

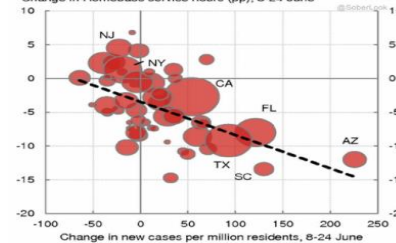
New confirmed cases per million residents, previous seven days

**Fig. 4: Changes in OpenTable activity and the pace of new COVID-19 cases per capita**

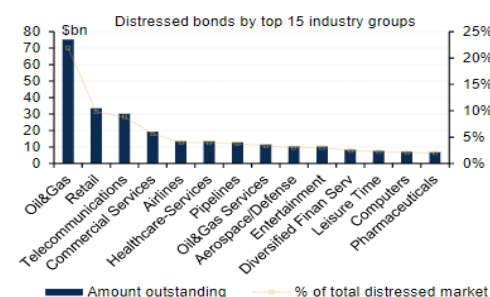
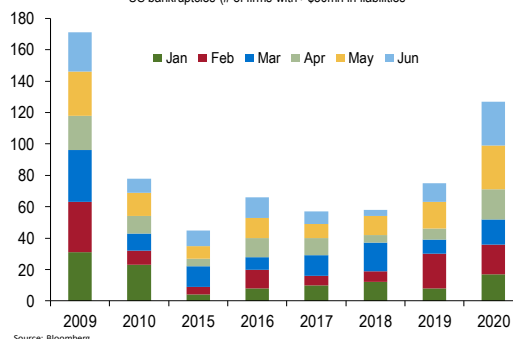
Change in OpenTable activity (pp), 8-24 June

**Fig. 3: Changes in Homebase hours worked and the pace of new COVID-19 cases per capita**

Change in Homebase service hours (pp), 8-24 June



The volume of distressed issuers remains elevated, concentrated in the energy and retail sectors, while bankruptcies continue to accumulate at a post-GFC record pace. The number of distressed issuers in the US with spreads greater than 1000 bps rose to 373 this week, up from 325 a week ago, though still down from a Covid-19 peak of 892 on March 23. The 5-year daily average is 238, according to Bloomberg data. There have been close to 130 bankruptcies of firms with more than \$50 mn in liabilities year to date, which is already higher than 4 out of the last 5 years total. The GFC holds the annual record with 172 such bankruptcies through the first 6 months of 2009.

Chart 4: ... which may be amplified in select industries if solvency issues come to the fore in the coming months**US bankruptcies (# of firms with >\$50mn in liabilities)**

Europe

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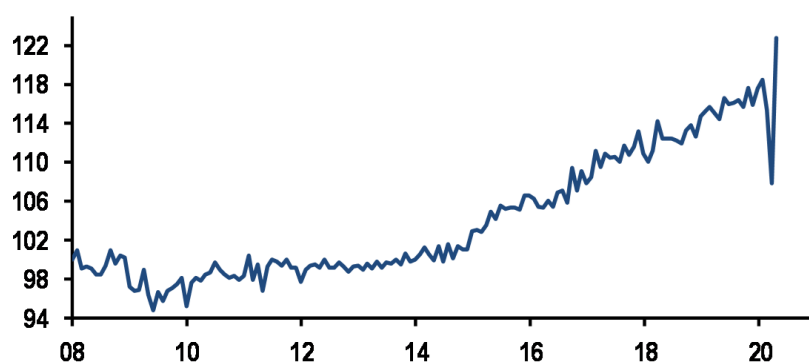
Euro-area

German 10-year bund yields rose 5 bps to -0.41% after retail sales rebounded sharply in May. The euro area manufacturing PMI for June was revised up 0.5 ppt from its flash estimate (to 47.4). Some contacts expect that the euro area economy could outperform the U.S. in 2020H2 thanks to more effective pandemic management and equally robust fiscal and monetary policy support.

German retail sales rebounded sharply in May, rising +13.9% mom (expectations: +3.5% m/m). Volumes rose 3.8% y/y (-3.2% y/y expected) even though large shops were still shut at the start of May. **Analysts at JP Morgan labeled the data a “proper V.”** Online purchases are still providing a strong boost as clothing sales are rebounding, purchases of IT/communications equipment are back to normal and purchases of building materials and appliances are very strong. **Car registrations were still only around 60% of normal in May** (even though car dealerships opened in May). Citi estimates that **German retailers have recovered about 40% of their pandemic losses.** The German government has also decided to raise the minimum wage to €10.45/hour by 2022 (from €9.35 currently).

German retail sales volumes

1Q08 = 100



Source: Bundesbank, J.P. Morgan

Greek 10-year sovereign spreads (-8 bps to 158 bps) and Italian 10-year spreads (-2 bps to 169 bps) traded lower as investors continue to price out further tensions between the ECB and the German Constitutional Court (GCC) after the German Bundestag reportedly concluded that the ECB has fulfilled the requirements of the GCC ruling on ECB QE. The Greek manufacturing PMI also rose to 49.4 in June from 41 in May.

European equities (-1.4%) fell at the start of Q3 quarter amid news Airbus plans to cut 15,000 jobs. The euro (-0.2% to \$1.12) fell. **Euro area bank equities (-0.9%) traded lower but are still up 2.8% in past 5 days as some European banks such as BNP Paribas are reportedly lobbying to resume dividend payments in 2020Q4.** The ECB's supervisory board voted unanimously to force banks to halt dividend payments in March, but some members warned at the time that extending the call beyond October could undermine market confidence in European banks.

Euro area: Equities and bank equities (Jan 2015: 100)

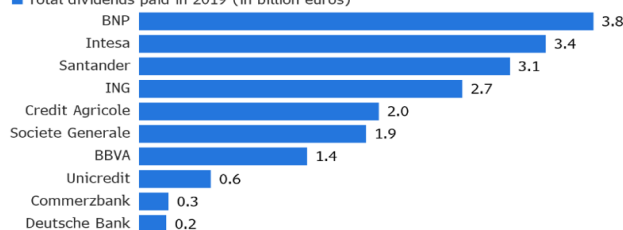


Source: Bloomberg and IMF

Billions Are at Stake

BNP Paribas has made the biggest payouts to investors

■ Total dividends paid in 2019 (in billion euros)



Source: Data compiled by Bloomberg
 Note: Chart shows 10 biggest publicly traded euro area banks by assets; payouts calculated by multiplying 2019 payouts per share with number of shares outstanding as of June 30

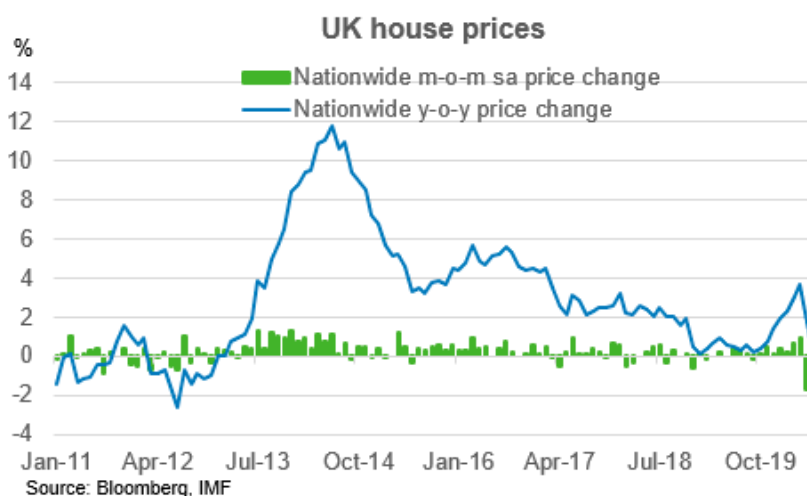
Bloomberg

Reuters reports that **Italy is preparing a €20 bn stimulus package**, that could widen the budget deficit to 11.6% and extend furlough program for industries hit hardest by the pandemic.

United Kingdom

The U.K. is now firmly set to leave the EU by the end of 2020 with or without a deal while EU chief Brexit negotiator Barnier has dismissed the UK's proposal to retain access to the common financial market.

The Nationwide house prices index surprised to the downside falling 1.4% m/m (-0.6% m/m expected) or -0.1% y/y (+0.9% y/y) in June. The housing market outlook remains highly uncertain as on top of Covid-related economic shock, the market continues to face Brexit related headwinds.

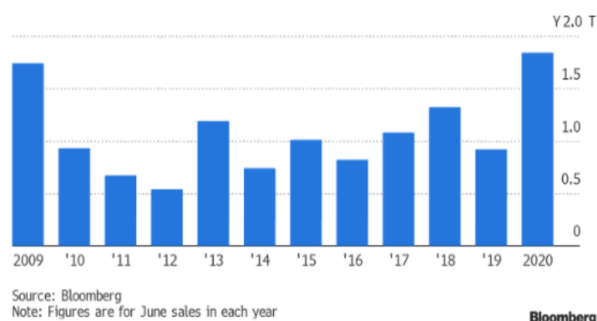


Source: Bloomberg, IMF

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

Equities (Nikkei -0.7%) fell following a weak Q2 Tankan business sentiment survey. Current business condition sentiment for large manufacturers in the survey plunged to -34 in Q2 from -8 in Q1, which was the lowest since the global financial crisis. Separately, Japanese firms issued a record amount of corporate bonds in June at JPY1.84 tn (\$17 bn). In response to the rising COVID-19 cases in recent days, Tokyo's governor said that the government will not reimpose restrictions on businesses based solely on numerical guidelines. Instead, a group of experts will meet weekly to evaluate virus conditions, looking at multiple factors. Tokyo recorded 67 new cases on Wednesday, the highest since the state of emergency was lifted. **The yen weakened -0.3% and the 10-year JGB yield rose +2bps.**

Japanese firms issued the most bonds ever for a month of June



Emerging Markets

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Asian equities rose +0.4% on net. Vietnam (+2.2%) and China (Shanghai +1.4%; Shenzhen +0.8%) outperformed while Korea was flat. Regional currencies were little changed. On COVID-19, Korea's government will start to supply Remdesivir to local hospitals on July 1 after signing an import contract with Gilead. **EMEA equities traded mixed.** Indices were stronger in Qatar (+1.0%) and Saudi Arabia (+0.7%) and weaker in Turkey (-0.8%) and South Africa (-1.3%). EMEA currencies were little changed apart from the Polish zloty (-0.3%). **Latin American markets** were mostly lower on Tuesday. Argentina underperformed as the equity index fell 4%, followed by Chile (-0.8%) and Brazil (-0.7%). Local currencies were mixed but mainly traded in thin ranges, except for the Brazilian real (-1.1%). 10-year government bond yields were mostly lower, dropping 14 bps in Colombia and 12 bps in Brazil.

Key Emerging Market Financial Indicators

Last updated: 7/1/20 8:06 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		39.99	-0.5	-2	4	-7	-11
MSCI Frontier Equities		24.20	0.2	1	2	-19	-20
EMBIG Sovereign Spread (in bps)		471	-3	0	-40	133	178
EM FX vs. USD		54.33	0.1	0	-1	-14	-12
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.07	0.0	0	1	-3	-1
Indonesian Rupiah		14283	-0.1	-1	2	-1	-3
Indian Rupee		75.60	-0.1	0	0	-9	-6
Argentine Peso		70.46	-0.1	-1	-3	-40	-15
Brazil Real		5.47	0.0	-2	-2	-30	-26
Mexican Peso		22.94	0.2	-1	-4	-17	-18
Russian Ruble		71.12	0.1	-2	-3	-12	-13
South African Rand		17.23	0.7	1	1	-18	-19
Turkish Lira		6.86	0.0	0	-1	-18	-13
EM FX volatility		10.54	0.0	0.0	-0.2	2.5	3.9

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

China

The People's Bank of China (PBOC) cut the re-lending and re-discounting rates, effective July 1. According to Xinhua News, the central bank cut the interest rate on re-lending for the agricultural sector and small and medium-sized enterprises by 25 bps for the 3-month, 6-month and 1-year tenors to 1.95%, 2.15% and 2.25%, respectively. The re-lending rate designated for maintaining financial stability will be reduced 50 bps to 1.75%. The re-discounting rate will be lowered 25bps to 2%. **Analysts see limited**

impact from the rate cuts as outstanding bank liabilities via re-lending and re-discounting is relatively small. They amounted to around RMB3.5 tn (\$495 bn), including the quota that was announced and yet to be fulfilled. Separately, the Caixin manufacturing PMI rose to 51.2 (consensus: 50.5) in June from 50.7 in May driven by an increase in new export orders, consistent with the improvement seen in the official manufacturing PMI yesterday. **Equities (Shanghai +1.4%; Shenzhen +0.8%) rose and the RMB was little changed.**

China's national security law for Hong Kong SAR came into effect late Tuesday, the eve of the anniversary of Hong Kong's return to China in 1997. The 35-page law was made available after it came into effect. The legislation allows for life sentences on charges including secession, subversion, terrorism and collusion with foreign forces. The Hong Kong police said that it already made two arrests under the new law. The two arrests relate to a flag and sign calling for Hong Kong independence.

HIGHLIGHTS FROM HONG KONG'S NATIONAL SECURITY LAW:

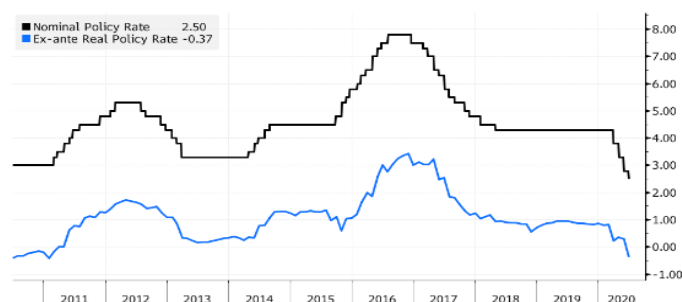
- All four crimes carry maximum sentences of life.
- Applies to actions after the law's implementation.
- Covers Hong Kong residents or companies and non-residents anywhere.
- Terrorism charges include "serious disruption" of transportation networks.
- Collusion provision includes advocates of foreign sanctions.
- Subversion includes overthrowing Hong Kong government organs and attacking its offices.
- Violators are barred from seeking or holding public office for an unspecified period.
- Gives Beijing power to prosecute "complex" cases relating to foreign influence or other "serious circumstances."
- Allows closed trials in cases involving state secrets or other subjects "not fit for open trial."
- Allows justice minister to opt out of jury trials in some cases.
- Grants immunity to Chinese agents performing duties in Hong Kong.
- Calls for stronger "management" of news agencies and foreign NGOs.

Source: Bloomberg

Colombia

The central bank cut its key rate by 25 bps to 2.5% on Wednesday, while a 50-bps cut was widely expected according to a Bloomberg survey. In a press conference after the meeting, the central bank's governor said that the decision was driven by fears of capital outflows, which would trigger instability in the financial system. Even though Colombia is facing the most severe economic deterioration in history due to the coronavirus pandemic, the central bank chose to remain cautious about its policy rate. Analysts commented that Colombia is close to the end of the easing cycle. Colombian local markets were quiet yesterday, with both the domestic equities and the peso mostly unchanged.

Colombia Monetary Policy Interest Rate



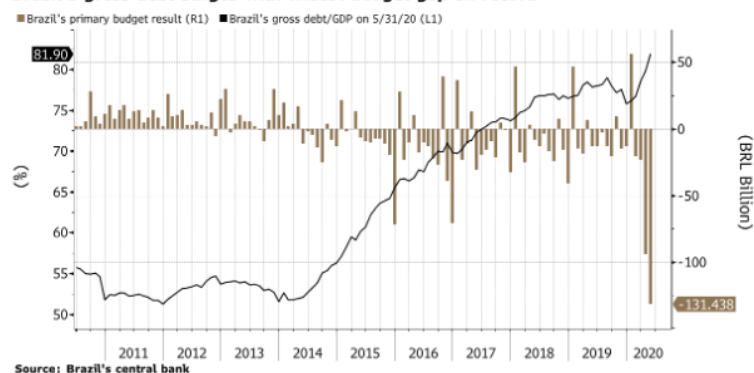
Source: Banco de la Republica, Bloomberg Economics

Brazil

Brazil's monthly budget deficit hit a new record high, as the government largely increased spending to mitigate the economic impact of the COVID-19 pandemic. The country posted a R\$131.4 bn (\$24 bn) primary fiscal deficit in May, bring the primary fiscal balance to -3.9% of GDP on a 12-month trailing basis. Gross debt surged to a record high of 82% of GDP in May. Analysts expected the fiscal account and public debt situation to continue deteriorating in 2020, due to the combined effect of declining tax income and rising funding needs. Brazilian assets saw losses yesterday, with the equity index falling 0.7% and the real depreciating 1.1% on the dollar.

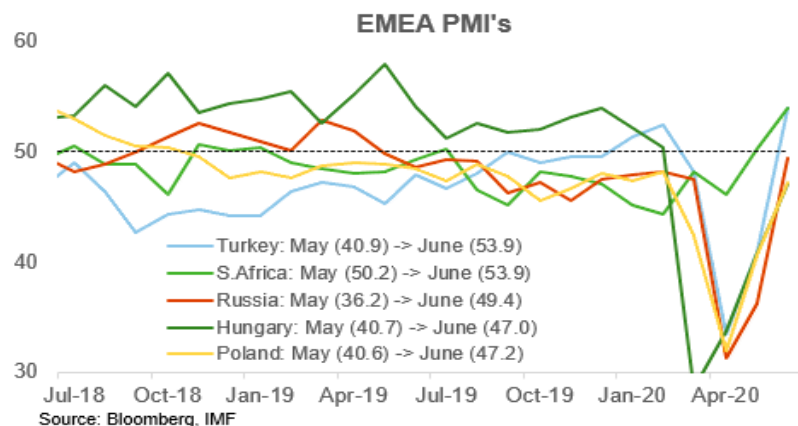
Fiscal Woes

Brazil's gross debt surges with widest budget gap on record



EMEA

EMEA June manufacturing PMI's surprised to the upside across the region. The surveys indicated that manufacturing activity almost stopped declining in Poland, Hungary and Russia. Manufacturing activity also started to recover in Turkey and South Africa. The increase in the PMI's readings is primarily driven by the jump in the new orders as the economies ease lockdown measures.



EMEA MoF's continued their post-Covid debut in the international bond market. Poland issued €2 bn of 3-year notes, €1 bn more than initially anticipated as investors submitted almost €6 bn worth of bids. Jordan issued a total of \$1.75 bn of 5-year and 10-year notes with investors demand exceeding \$6bn. Ukraine seems to be next in line with the MoF announcing a 12-year USD eurobond issue while extending maturities of 2021 and 2022 bonds in a switch auction sized up to \$750 mn.

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Global Financial Indicators

Last updated: 7/1/20 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3100	1.5	-1	1	5	-4
Europe		3185	-1.5	0	3	-9	-15
Japan		22122	-0.7	-2	0	2	-6
China		3026	1.4	2	4	-1	-1
Asia Ex Japan		69	-0.3	-2	5	-2	-6
Emerging Markets		40	-0.5	-2	4	-7	-11
Interest Rates			basis points				
US 10y Yield		0.68	3.3	0	2	-134	-124
Germany 10y Yield		-0.41	4.6	3	-1	-5	-22
Japan 10y Yield		0.05	1.9	3	3	19	6
UK 10y Yield		0.21	3.5	2	-2	-61	-62
Credit Spreads			basis points				
US Investment Grade		150	-3.4	2	-24	30	53
US High Yield		646	-1.5	49	-4	206	253
Europe IG		67	-0.1	-3	-4	15	22
Europe HY		382	-0.4	-17	-31	133	175
EMBIG Sovereign Spread		471	-3.0	0	-40	133	178
Exchange Rates			%				
USD/Majors		97.57	0.2	0	0	1	1
EUR/USD		1.12	-0.3	0	1	-1	0
USD/JPY		107.5	0.4	0	0	1	1
EM/USD		54.3	0.1	0	-1	-14	-12
Commodities			%				
Brent Crude Oil (\$/barrel)		42	1.4	4	9	-36	-37
Industrials Metals (index)		104	-0.8	1	5	-7	-9
Agriculture (index)		36	1.0	3	3	-13	-14
Implied Volatility			%				
VIX Index (% change in pp)		31.5	1.1	-2.3	3.3	17.5	17.8
MOVE Index		54.1	1.2	-0.8	-0.9	-12.4	-4.1
Global FX Volatility		8.2	0.0	-0.2	0.4	1.7	2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		157	-10.2	-14	-36	-109	-9
Italy		169	-2.4	-2	-20	-64	9
Portugal		90	-2.6	1	-1	13	28
Spain		91	-0.7	1	-6	22	26

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

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Emerging Market Financial Indicators

Last updated: 7/1/2020 8:07 AM	Exchange Rates							YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						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		7.07	0.0	0.2	1	-3	-1		2.9	0.3	-6	24	-33	-20	
Indonesia		14283	-0.1	-1.1	2	-1	-3		7.2	-2.9	-3	-21	-23	10	
India		76	-0.1	0.2	0	-9	-6		6.0	-1.6	-3	-5	-94	-84	
Philippines		50	0.0	0.3	1	2	2		4.0	-3.8	-9	-27	-84	-27	
Thailand		31	-0.2	-0.4	2	-1	-4		1.4	0.1	-5	1	-86	-22	
Malaysia		4.29	0.0	-0.3	1	-4	-5		2.8	-2.8	-4	5	-83	-55	
Argentina		70	-0.1	-0.6	-3	-40	-15		44.6	-60.2	-27	-64	1591	-1800	
Brazil		5.47	0.0	-2.2	-2	-30	-26		5.3	5.9	0	-12	-157	-94	
Chile		821	-0.2	-0.3	-3	-17	-8		2.6	4.8	19	21	-75	-69	
Colombia		3758	-0.1	-1.5	-1	-15	-13		5.5	-8.9	0	16	-25	-44	
Mexico		22.94	0.2	-0.6	-4	-17	-18		6.0	-5.5	-14	-30	-162	-97	
Peru		3.5	-0.3	-0.5	-3	-7	-6		4.4	1.6	3	8	-48	-15	
Uruguay		42	-0.4	-0.1	3	-17	-11		10.2	2.5	5	-21	-33	-72	
Hungary		316	-0.3	-1.2	-2	-9	-7		1.5	2.5	-1	-2	-10	34	
Poland		3.98	-0.5	-0.4	-1	-5	-5		0.8	-3.0	-3	9	-124	-106	
Romania		4.3	-0.2	-0.3	1	-3	-1		3.7	1.0	-1	-7	-39	-31	
Russia		71.1	0.1	-2.2	-3	-12	-13		5.5	16.7	24	23	-173	-57	
South Africa		17.2	0.7	0.9	1	-18	-19		10.1	7.5	-14	28	89	58	
Turkey		6.86	0.0	0.0	-1	-18	-13		10.5	7.6	6	-81	-641	-119	
US (DXY; 5y UST)		98	0.1	0.4	0	1	1		0.29	0.3	-2	-1	-150	-140	

	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		3026	1.4	2	4	-1	-1		229	1	1	-12	48	53
Indonesia		4914	0.2	-1	3	-23	-22		262	-2	4	-15	76	106
India		35414	1.4	2	6	-11	-14		248	3	12	-10	100	123
Philippines		6210	0.0	0	5	-23	-21		161	-2	-1	-3	83	95
Malaysia		1514	0.9	1	2	-10	-5		191	1	6	-13	63	79
Argentina		38687	-4.0	-5	-3	-7	-7		2499	5	-15	-125	1687	730
Brazil		95056	-0.7	-1	7	-6	-18		373	-1	1	-11	144	158
Chile		3959	-0.8	-2	7	-22	-15		210	-2	0	-15	77	77
Colombia		1112	0.1	-3	0	-28	-33		291	0	-10	2	116	128
Mexico		37716	-0.1	-1	2	-13	-13		526	-1	0	0	200	234
Peru		16878	1.5	0	7	-19	-18		181	-1	2	-9	59	74
Hungary		35567	-0.6	-4	-1	-12	-23		172	-5	5	-14	84	86
Poland		49280	-0.6	-2	1	-18	-15		49	0	-2	-16	12	31
Romania		8664	0.1	0	0	-2	-13		290	-2	6	-33	106	117
Russia		2743	0.0	-1	0	-2	-10		211	-6	8	6	12	80
South Africa		53663	-1.3	-1	5	-8	-6		533	-1	20	-38	257	213
Turkey		115527	-0.8	1	8	16	1		590	-2	-3	-41	134	189
Ukraine		499	0.0	0	0	-9	-2		615	-25	-27	-110	113	195
EM total		40	-0.5	-2	4	-7	-11		471	-3	0	-40	133	178

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

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