













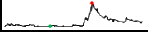
- **US corporate earnings expectations improve as analysts' upgrades pick up pace** ([link](#))
- **European PMIs confirm ongoing recovery from virus-induced slump** ([link](#))
- **UK and EU remain apart as Brexit transition negotiations continue** ([link](#))
- **Asian equities retreat as Chinese authorities close US consulate in Chengdu** ([link](#))
- **Central Bank of Russia lowers policy rate 25 bps and signals further easing** ([link](#))
- **SARB cuts policy rate 25 bps and lowers growth and inflation outlook** ([link](#))

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US-China tensions back in the spotlight

Risk sentiment has pivoted lower as US-China foreign policy retaliations have intensified. Investor optimism has evaporated overnight as diplomatic tensions between the US and China rose following China's decision to close the US consulate in Chengdu in retaliation to the closure of China's consulate in Houston. Asian equities have been pressed lower with Chinese stocks closing down almost 4% in Shanghai and 5% in Shenzhen. European bourses are off nearly 1.5% but recouped steeper declines at the open as stronger than expected preliminary PMI readings helped to confirm the ongoing recovery from the COVID-induced slump. Core sovereign yields are also reacting to the better data with 10-year Bund yields up about 3 bps. Yesterday, the S&P 500 (-1.2%) stumbled amid possible delays in the next US fiscal stimulus package due to differences between members of Congress, and on somewhat mixed economic data with initial jobless gains rising more than expected. Futures are pointing to further declines this morning and longer-maturity US Treasury yields are also lower with the 10-year down 2 bps to 0.58%. Central bank decisions remained in focus in emerging markets with both Russia and South Africa reducing policy rates 25 bps, while local emerging market equities and currencies are weaker across most regions.

Key Global Financial Indicators

Last updated: 7/24/20 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3236	-1.2	1	6	7	0
Eurostoxx 50		3324	-1.4	-1	4	-6	-11
Nikkei 225		22752	-0.6	-1	1	5	-4
MSCI EM		43	-1.7	2	7	1	-4
Yields and Spreads			bps				
US 10y Yield		0.58	-2.0	-4	-10	-146	-134
Germany 10y Yield		-0.45	2.7	-1	-1	-8	-27
EMBIG Sovereign Spread		448	3	-10	-23	119	155
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.6	-0.2	1	2	-12	-9
Dollar index, (+) = \$ appreciation		94.7	0.0	-1	-3	-3	-2
Brent Crude Oil (\$/barrel)		43.4	0.2	1	8	-31	-34
VIX Index (% change in pp)		27.3	1.2	2	-7	15	14

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

United States

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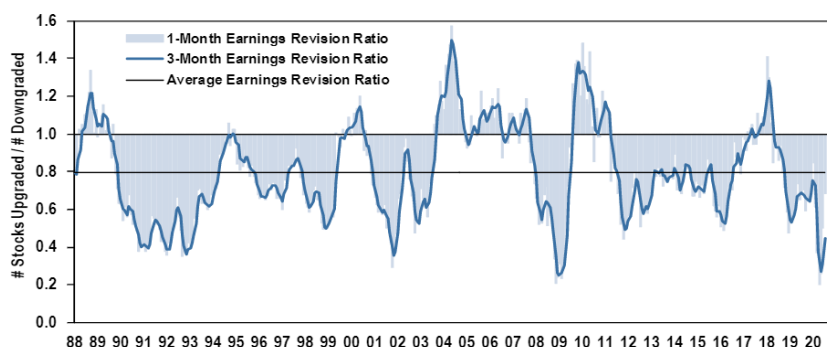
US stocks fell on renewed concerns about economic recovery after the first uptick in the jobless claims since March, while the rollout of the Republican proposal for another \$1 tn pandemic package is reportedly stalled over lingering disagreements, even after Treasury Secretary Mnuchin dropped the payroll tax holiday. The NASDAQ index dropped 2.2%, erasing its weekly gains, and the S&P 500 fell 1.3%. The losses were concentrated in the tech, consumer discretionary and communication sectors, the main drivers of the stock market recovery this year, while defensive and high yielding sectors such as consumer staples and utilities managed to hold on to their small gains. Treasuries rallied and the curve flattened, with 10-year yield down 2 bps to 0.57% and 30-year yield down 6 bps to 1.23%. The dollar weakened to a 2-year low, with the DXY index down 0.2% to 94.8.

Concentration of the broad equity index has increased further. The largest 5 stocks in the S&P 500 index now accounts for 22% of the total market cap and 15% of the total earnings, after extraordinary gains in their stock prices this year (+35% YTD). The strength of these stocks helped to lift the index up by 2% YTD, despite the remaining 495 S&P 500 stocks falling by an average 5%. On the other hand, the index is also becoming more vulnerable to any idiosyncratic shock to these top firms. For example, if the top 5 shares fall by 10%, the bottom 100 S&P 500 stocks need to rise collectively by 90% to keep the index flat. Of the top 5 firms, Microsoft reported better than expected Q2 EPS, and the remaining 4 are due to report next Thursday and Friday.



Expectations for corporate earnings continue to improve in July. The earnings revision ratio, the number of analyst upgrades to downgrades, has increased across regions, most notably in US where analysts are issuing more upgrades than downgrades now. Across sectors, diversified financials (1.83), semiconductors (1.59) and tech hardware (0.87) have the highest upward revisions, while banks (0.42), consumer discretionary (0.47) and industrials (0.52) remain the laggards.

Chart 3: Global Earnings Revision Ratio



Source: BofA Global Quantitative Strategy, MSCI, IBES

Europe

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After opening about 2.2% lower across the board, equities managed to recoup some of the losses following the better than expected PMI data. Stock markets remain lower on the day in Germany (Dax -1.5%), France (CAC -1.2%) and the UK (FTSE -1.1%). The high-tech sector is underperforming (-3.5%) as markets assess the implication of Intel production delay on European chip manufacturers.

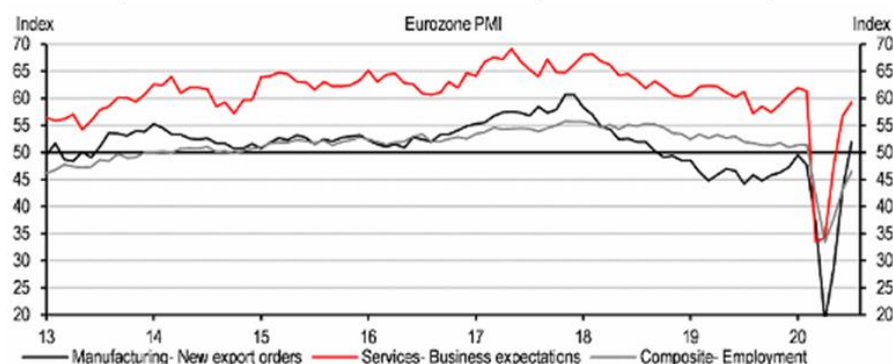
German yields increased by 4 bps after the strong PMI data, dragging most of the European bond markets with them. Southern European spreads are unchanged, while the euro continues to hover around the 1.16 mark against the dollar.

European PMIs confirm a strong recovery momentum in July with both the aggregate and the country level readings surprising consensus estimates. The Eurozone aggregate manufacturing index moved to expansion territory at 51.1 against 47.4 reading in June (50.1 consensus) and service index jumped to 55.1 from 48.3 in June (51 consensus). On the country level, the rebound was particularly strong in Germany. While the jump in service PMI's follows naturally after the easing of the lockdown measures, the manufacturing data also confirms a pick-up in new export orders. Unfortunately, **companies also continue to report further cuts to the labor force, more so in the manufacturing sectors, as firms remain in a cost saving mode.** Market contacts are worried that the labor market headwinds may grow stronger as the government support from short-time work schemes is gradually phased out.

Table 1: Eurozone Flash PMI*

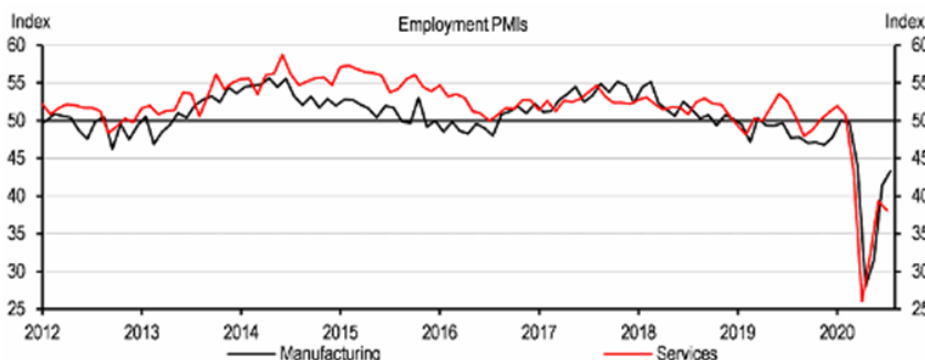
			12M Trend	Jul-20	Jun-20	12M Avg.
Eurozone						
	Composite	↑		54.8	48.5	44.6
	Manufacturing	↑		51.1	47.4	45.4
	Services	↑		55.1	48.3	45.0
Germany						
	Composite	↑		55.5	47.0	44.8
	Manufacturing	↑		50.0	45.2	43.3
	Services	↑		56.7	47.3	46.1
France						
	Composite	↑		57.6	51.7	45.4
	Manufacturing	↓		52.0	52.3	47.9
	Services	↑		57.8	50.7	45.2

Source: IHS Markit. *Key: If below 50, text is highlighted in red. Arrows correspond to the change on the previous month.



Source: IHS Markit, Refinitiv Datastream, HSBC

Economic activity in the UK showed similar dynamics with a strong expansion in both manufacturing (53.6) and services (56.6), the strongest readings since December 2018 and June 2015 respectively. While there has been an expansion in new orders, new export orders continue to contract. Similarly to the Eurozone, employment indicators continued to point to further headcount reductions.



Source: IHS Markit

The UK retail sales also delivered a positive surprise as consumption rebounds close to pre-COVID levels. Sales increased by 13.9% month on month in June against 8.3% consensus expectations, bringing the year on year decline to just 1.6% as compared to 13.1% decline in May. Non-food store sales remain about 15% below the pre-COVID levels, although the non-essential stores were only allowed to re-open on the 14th of June. Market contacts suggest that concern remains around the sustainability of the recovery as the pent-up demand abates in the coming months. The high-frequency indicators continue to suggest that the pace of normalization seems to be stalling in July.



The UK and Europe remain wide apart in terms of their Brexit positions as negotiators conclude the fifth round of trade talks. The key differences remain in areas such as post-Brexit competition rules, including rules around state support to companies, as well as fishing rights. Official negotiations will resume on the 17th of August and continue throughout September as **both sides see the EU summit in October as the potential deadline** for an agreement that still has to be ratified by all EU governments.

Other Mature Markets

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Japan

The Japanese yen appreciated (+0.4%) on safe-haven flows amid the deteriorating market sentiment. Equity and bond markets were closed in Japan today.

Australia








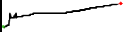






Australia's flash PMI composite improved in July. The flash PMI composite rose to 57.9, up from 52.7 in June. The increase in the composite was driven by an improvement in services PMI, which rose to 58.5 from 53.1. Meanwhile, manufacturing PMI increased by a smaller margin to 53.4. This was a second consecutive month of expansion. Equities fell (-1.2%); Australian dollar depreciated (-0.3%) amid the broader risk-off tone.

Emerging Markets

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Asian stock markets retreated across the board, led by China (-4.0%), Hong Kong (-2.3%) and Thailand (-1.2%). Most currencies also depreciated, led by the Korean won (-0.5%) and Thai baht (-0.3%). Deteriorating market sentiment stemmed from renewed concerns about the global economic recovery (after a pickup in the US jobless claims) and the escalation of China-US tensions. **In Thailand, June exports data showed a decline by 23% y/y, larger than expected** (a 15% decline). Thai markets underperformed today also because of increased political uncertainty with the ongoing cabinet reshuffling. **Most EMEA bourses followed Asian equities lower this morning.** By country: Hungary (-0.9%); Poland (-0.8%); Czech Republic (-1.5%); Egypt (-0.9%). Currencies traded within a very narrow corridor of $\pm 0.1\%$, with the largest move in the region being the weakening of the Russian ruble (-0.4%) and the South African rand (-0.6%) after both nation's central banks cut rates. **Latin American equities were mixed, currencies depreciated, and sovereign yield widened.** Equity indexes declined in Brazil (-1.9%) and Argentina (-0.5%), while gaining in Colombia (+1.1%) and Chile (+1%), with Colombian equities potentially profiting from higher natural gas prices (+5.9%). Currencies depreciated 1.8% in Brazil, 0.8% in Colombia and 0.7% in Mexico. Against a flatter US Treasury yield curve, sovereign spreads to the US increased for most countries' sovereign dollar debt as well as Brazilian (+22 bps on 10-year bonds) and Mexican local currency debt (+14 bps on 10-year bonds).

Key Emerging Market Financial Indicators

Last updated: 7/24/20 8:14 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.18	-1.7	2	7	1	-4
MSCI Frontier Equities		23.48	-1.0	-3	-3	-22	-23
EMBIG Sovereign Spread (in bps)		447	2	-11	-24	118	154
EM FX vs. USD		55.57	-0.2	1	2	-12	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.02	-0.2	0	1	-2	-1
Indonesian Rupiah		14610	-0.2	1	-3	-4	-5
Indian Rupee		74.83	-0.1	0	1	-8	-5
Argentine Peso		71.83	-0.1	-1	-2	-41	-17
Brazil Real		5.24	-0.4	3	2	-28	-23
Mexican Peso		22.47	0.2	0	1	-15	-16
Russian Ruble		71.87	-0.6	0	-4	-12	-14
South African Rand		16.74	-0.5	0	4	-17	-16
Turkish Lira		6.85	-0.1	0	0	-17	-13
EM FX volatility		9.74	0.0	0.2	-0.8	2.8	3.1

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

China

China retaliated by closing the US consulate in Chengdu. The Chinese Foreign Ministry said that the measure is a legitimate and necessary response to the unjustified act by the US related to the closure of the Chinese consulate in Houston. The consulate covers Sichuan, Yunnan, Guizhou and Chongqing, and serves as a key post for monitoring developments in Tibet. The tit-for-tat consulate closures further exacerbated the increasingly fraught relationship between China and the US, which has worsened on multiple fronts from trade to the handling of the COVID-19 pandemic and Hong Kong's national security law. Asian markets reacted negatively across the region. Chinese equities declined 4% and the yuan depreciated (onshore: -0.3%; offshore: -0.2%).

U.S. Officials Await Retaliation for Houston Consulate Closure

A total of roughly 700 diplomats are normally assigned to the U.S. embassy and five consulates in China

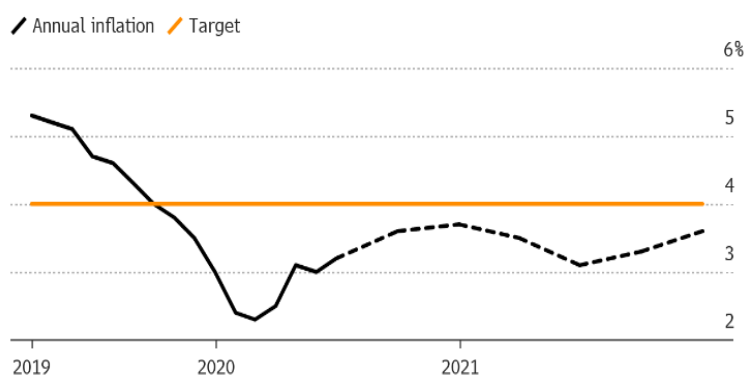


Source: Bloomberg.

Russia

The Central Bank of Russia (CBR) delivered a smaller-than-expected cut this morning. Although markets were already anticipating the CBR's third cut in a row, monetary authorities surprised with an only 25 bp rate reduction to 4.25%. The CBR statement noted, however, its willingness to delivering further cuts if needed. Within the span of one year, the CBR has already reduced its main policy rate by 325 bps. **The ruble traded 0.4% lower to the US dollar this morning, while equities in Moscow were flat on the day.**

Russian inflation has been below the central bank's goal all year



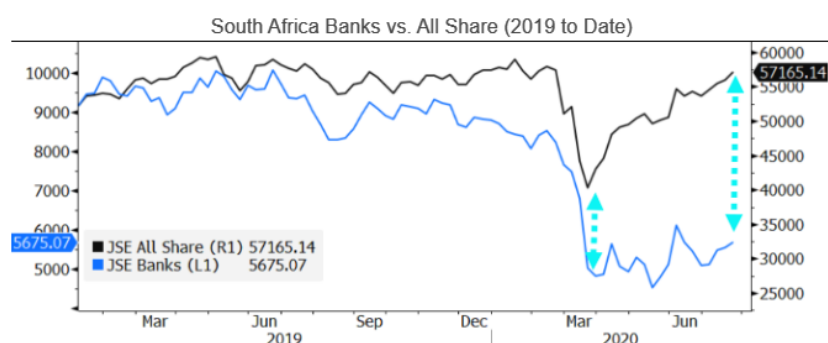
Source: Federal Statistics Service, Bloomberg survey for forecast

Bloomberg

South Africa

The South Africa Reserve Bank (SARB) cut the repo rate 25 bps to 3.50% yesterday, as expected.

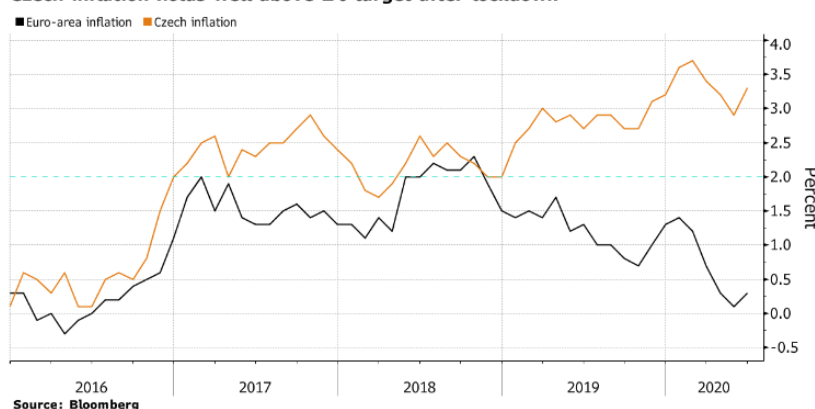
The cut is the fifth one in a row, as the central bank tries to fight off the effects of the pandemic on the economy. The central bank revised its growth estimate lower from -7% to -7.3% in 2020 and from 3.8% to 3.7% in 2021, as well as its inflation estimate for 2020 to 3.3% from 3.5%, previously. This was largely due to its view that the on-going lock-down, although being gradually eased, would continue to hamper the recovery for the remainder of the year. Separately, analysts note that the slow pace of economic recovery in South Africa could bode very poorly for domestic banks. Bloomberg research estimates point to a **reduction of bank profits in the order of 15% to 25% if a weaker-than-expected recovery leads to an additional 30 bps of loan charge-offs** compared to the current consensus. Stocks of South African banks have lagged the performance of the Johannesburg All Share Index.



Czech Republic

Czech indicators of economic confidence improved markedly in July. The Business Confidence gauge came in at -3.7 from -16.1 in June, whereas the Consumer Confidence Index stood at -5.1, notably recovering from the -15.1 printed in June. With the recovery seemingly in train, and domestic inflation still above the 2% mark – even after a 3-month lockdown – some market analysts are predicting a rate hike in H2 2021. The market consensus, however, is still that the Central Bank will keep rates on hold until 2022.

Czech inflation holds well above 2% target after lockdown

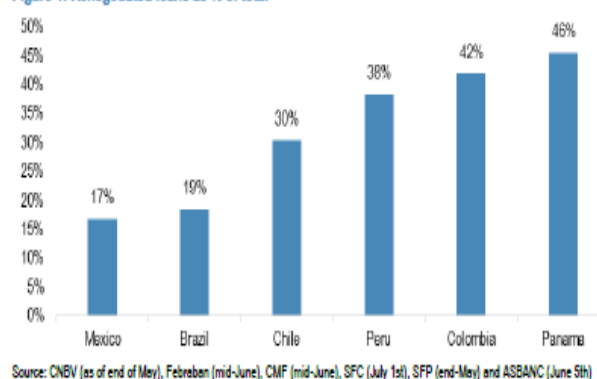


Latin America's Banking System

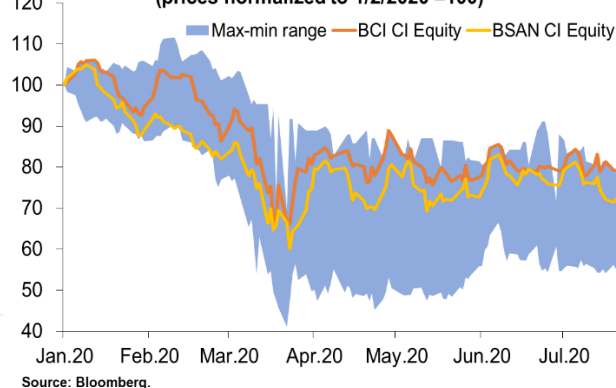
Chilean banks' lower exposure to COVID-19 risks helps their equities to outperform those of their peers. Among Latin America's major banks J.P Morgan assesses Chilean institutions are best prepared to withstand the pressures due to COVID-19, followed by their peers in Brazil, Mexico, Peru and Colombia.

Markets appear to share this perception, as equities of Chilean banks performed YTD in the upper part of the range spanned by major Latin American financial institutions. Four factors matter for the assessment. First, Chilean banks face less severe macroeconomic conditions than banks elsewhere. In addition, Chilean and Peruvian governments provided ample health support and fiscal stimulus, more than three times as high than in Brazil and almost five times as high than in Mexico and Colombia. Second, while banks renegotiate loans or defer loan payments across the region, affected loan volumes are higher in Andean economies, but are offset in Peru and Chile by ample government support of up to 10% of GDP. Third, while all countries provided banks with liquidity through lower reserve requirements, broader collateral eligibility for repos and credit lines, and FX swaps, only Brazil, Chile and Mexico also supported bank capitalization by temporarily relaxing capital buffers. Fourth, based on excess capital and liquidity beyond regulatory required levels, risk exposures, and the strictness of local regulatory capital requirements, J.P. Morgan ranks banks' loss absorption capacity highest in Mexico, followed by Peru, Chile, Brazil and finally Colombia.

Figure 1: Renegotiated loans as % of total



Latin American major banks: equity performance (prices normalized to 1/2/2020 = 100)

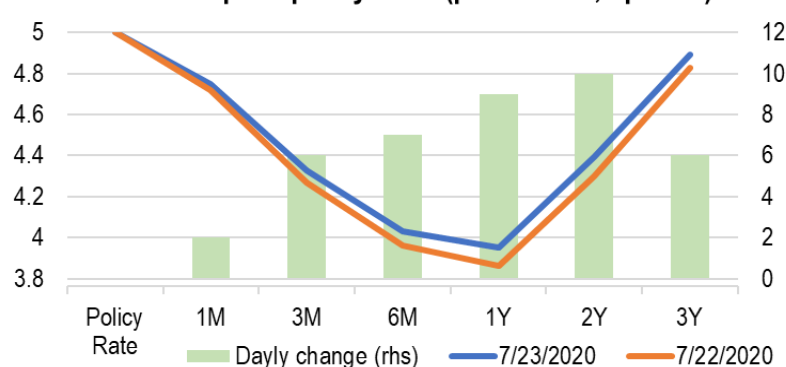


Source: J.P. Morgan.

Mexico

Rising inflation drives an increase in market-implied policy rate expectations and the sovereign yield curve. Mexico's inflation printed at 3.6% y/y, slightly higher than expected (3.55%) and above the 3.5% reported two weeks ago. On bi-weekly basis the most important drivers included transportation, including gasoline, clothing, health items and services outside of housing and education. The increase pushes inflation into the direction of the upper end of Banxico's target corridor for inflation, which is centered at 3%, plus or minus 100 bps. Mexico's implied policy rate curve moved up yesterday, and spreads of sovereign dollar and peso bonds also rose.

Mexico: Implied policy rates (percent lhs, bps rhs)



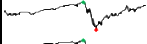




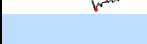

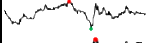



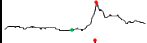




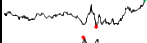












List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina <i>Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Patrick Schneider <i>Research Officer</i>
Will Kerry <i>Deputy Division Chief</i>	Rohit Goel <i>Financial Sector Expert</i>	Jochen Schmittmann <i>Senior Economist</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Can Sever <i>Economist (Economist Program)</i>
Sergei Antoshin <i>Senior Economist</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Henry Hoyle <i>Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Yingyuan Chen <i>Financial Sector Expert</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Han Teng Chua <i>Economic Analyst</i>	Phakawa Jeasakul <i>Senior Economist</i>	Piyusha Khot <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Dmitri Petrov <i>Financial Sector Expert</i>	Xingmi Zheng <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Thomas Piontek <i>Financial Sector Expert</i>	

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Global Financial Indicators

Last updated: 7/24/20 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3236	-1.2	1	6	7	0
Europe		3324	-1.4	-1	4	-6	-11
Japan		22752	-0.6	-1	1	5	-4
China		3197	-3.9	-1	7	9	5
Asia Ex Japan		74	-0.5	1	7	6	1
Emerging Markets		43	-1.7	2	7	1	-4
Interest Rates			basis points				
US 10y Yield		0.58	-2.0	-4	-10	-146	-134
Germany 10y Yield		-0.45	2.7	-1	-1	-8	-27
Japan 10y Yield		0.02	0.0	-1	0	17	3
UK 10y Yield		0.14	1.3	-3	-5	-54	-69
Credit Spreads			basis points				
US Investment Grade		130	0.1	-5	-21	13	33
US High Yield		551	0.1	-35	-61	114	158
Europe IG		59	0.7	-3	-11	13	14
Europe HY		351	10.8	-17	-48	113	143
EMBIG Sovereign Spread		448	3.0	-10	-23	119	155
Exchange Rates			%				
USD/Majors		94.70	0.0	-1	-3	-3	-2
EUR/USD		1.16	0.1	2	3	4	4
USD/JPY		106.3	0.6	1	1	2	2
EM/USD		55.6	-0.2	1	2	-12	-9
Commodities			%				
Brent Crude Oil (\$/barrel)		43	0.2	1	8	-31	-34
Industrials Metals (index)		110	-1.4	1	8	-5	-4
Agriculture (index)		36	0.1	0	4	-11	-13
Implied Volatility			%				
VIX Index (% change in pp)		27.3	1.2	1.6	-6.5	15.3	13.5
10y Treasury Volatility Index		52.5	0.4	-1.7	-14.3	-7.3	-9.5
Global FX Volatility		7.5	0.0	0.1	-1.0	1.0	1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		153	-2.7	-12	-18	-85	-13
Italy		147	0.5	-15	-24	-40	-13
Portugal		81	-0.1	-6	-9	1	18
Spain		80	-0.1	-5	-11	8	15


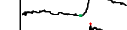
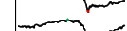
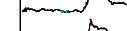

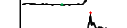

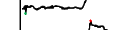

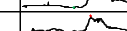
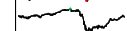

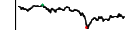


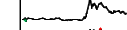

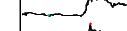

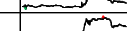
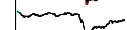






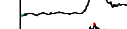

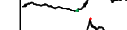






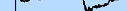
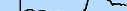
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 7/24/2020 8:15 AM	Exchange Rates						YTD	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		7.02	-0.2	-0.4	1	-2	-1		3.0	-1.1	-8	3	-16	-11
Indonesia		14610	-0.2	0.6	-3	-4	-5		6.9	-4.2	-14	-33	-36	-20
India		75	-0.1	0.3	1	-8	-5		5.9	-0.6	0	-15	-77	-96
Philippines		49	0.1	0.2	1	4	3		3.8	-1.3	-9	-36	-94	-55
Thailand		32	0.0	0.1	-3	-3	-5		1.4	-0.1	-3	-5	-68	-22
Malaysia		4.26	-0.1	0.0	0	-3	-4		2.5	-2.3	-7	-37	-114	-89
Argentina		72	-0.1	-0.6	-2	-41	-17		45.8	8.9	-130	94	1568	-1678
Brazil		5.24	-0.4	2.9	2	-28	-23		5.3	4.2	4	2	-127	-93
Chile		767	0.2	2.8	7	-10	-2		2.5	-15.9	-19	13	-57	-75
Colombia		3668	-0.8	-0.7	1	-13	-11		5.2	-3.2	-1	-32	-41	-75
Mexico		22.47	0.2	0.3	1	-15	-16		5.9	2.9	0	-18	-164	-101
Peru		3.5	-0.3	-0.4	0	-6	-6		4.0	-5.3	-14	-34	-44	-52
Uruguay		42	0.5	3.5	-1	-20	-12		9.5	0.0	-12	-60	-45	-137
Hungary		299	0.0	3.4	5	-2	-1		1.5	0.8	-19	-6	13	29
Poland		3.79	0.2	3.2	4	1	0		0.8	1.6	0	-4	-104	-107
Romania		4.2	0.1	1.8	3	2	3		3.7	-7.0	-13	-2	-13	-32
Russia		71.9	-0.6	0.0	-4	-12	-14		5.4	0.8	-7	9	-174	-72
South Africa		16.7	-0.5	-0.3	4	-17	-16		10.0	-10.9	-23	-23	88	49
Turkey		6.85	-0.1	0.2	0	-17	-13		11.3	-1.1	-14	82	-484	-43
US (DXY; 5y UST)		95	-0.1	-1.4	-3	-3	-2		0.27	-0.2	-1	-5	-154	-142

	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		3197	-3.9	-1	7	9	5		214	-1	-6	-14	37	38
Indonesia		5083	-1.2	0	2	-20	-19		246	-1	-9	-12	76	90
India		38129	0.0	3	9	1	-8		239	-1	-13	3	104	114
Philippines		6003	-0.4	-1	-3	-26	-23		143	0	-11	-19	73	77
Malaysia		1590	-1.0	0	6	-4	0		163	-4	-12	-22	47	51
Argentina		48408	-0.5	7	20	22	16		2227	3	-116	-287	1416	458
Brazil		102293	-1.9	2	8	-2	-12		348	3	-8	-24	142	133
Chile		3984	1.0	0	-1	-20	-15		196	-1	-5	-14	67	63
Colombia		1182	1.1	2	5	-26	-29		263	1	-7	-38	93	100
Mexico		37433	0.0	3	-1	-9	-14		503	2	-6	-23	175	211
Peru		17268	0.1	4	3	-17	-16		164	0	-6	-15	47	57
Hungary		35183	-1.1	0	-5	-15	-24		158	-3	-6	-9	65	72
Poland		51493	-0.8	1	2	-15	-11		32	-1	-6	-19	-5	14
Romania		8575	0.0	1	-1	-4	-14		269	-10	-23	-15	84	96
Russia		2854	0.1	3	2	6	-6		214	5	8	11	25	83
South Africa		55758	-0.6	0	2	-3	-2		517	11	-10	4	247	197
Turkey		118864	-0.2	0	4	15	4		589	5	-21	-4	133	188
Ukraine		500	0.0	0	0	-7	-2		636	6	-19	-6	189	216
EM total		43	-1.7	2	7	1	-4		447	2	-11	-24	118	154

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

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