













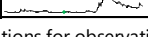
- China reportedly to speed up US farm purchases after high level Hawaii meeting ([link](#))
- Russia cut policy rate by 100 bps to 4.5%, as expected ([link](#))
- Foreign investor exodus from Indian corporate bonds add to credit crunch ([link](#))
- Major CBs to reduce frequency of dollar swap auctions as pressures ease ([link](#))
- US IG issuance in H1 2020 likely to double total for all of 2019 ([link](#))

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

The waiting game

Markets in limbo as investors wait for clues about the future. Risk assets are modestly bid this morning, with equities up roughly 0.5% percent globally and treasury prices edging lower, spurred by headlines suggesting China has agreed to speed up agricultural purchases under its Phase 1 trade agreement with the US. Equities and fixed income markets have however been notably directionless for much of the week, with thin trading volumes reported around the world. This reflects a lull in news flow but also what market observers see as a lack of investor conviction about how COVID – and the official response – will affect earnings, growth, and activity in three months' time, let alone in a year. The story is different in EMs, where local currencies have weakened in recent days, particularly in Latin America, as COVID infections bring new central bank warnings of deeper growth contractions.

Key Global Financial Indicators

Last updated: 6/19/20 8:15 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
S&P 500		3115	0.1	4	7	6	-4
Eurostoxx 50		3296	1.4	5	14	-5	-12
Nikkei 225		22479	0.6	1	10	5	-5
MSCI EM		40	1.2	2	8	-5	-11
Yields and Spreads					bps		
US 10y Yield		0.73	-3.0	3	4	-129	-119
Germany 10y Yield		-0.41	0.1	3	6	-12	-22
EMBIG Sovereign Spread		467	-4	-14	-85	113	174
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		54.8	0.3	-1	3	-12	-11
Dollar index, (+) = \$ appreciation		97.4	0.0	0	-2	0	1
Brent Crude Oil (\$/barrel)		42.5	2.4	10	23	-31	-36
VIX Index (% change in pp)		31.3	-1.6	-5	1	17	18

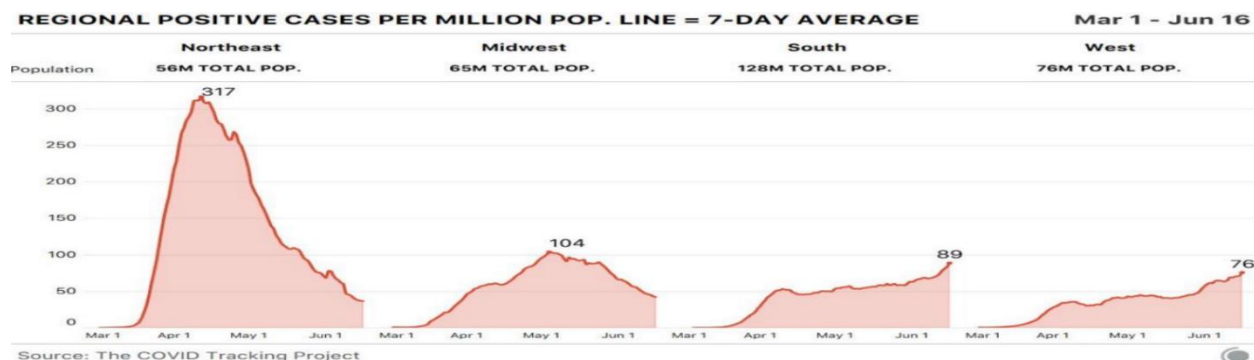
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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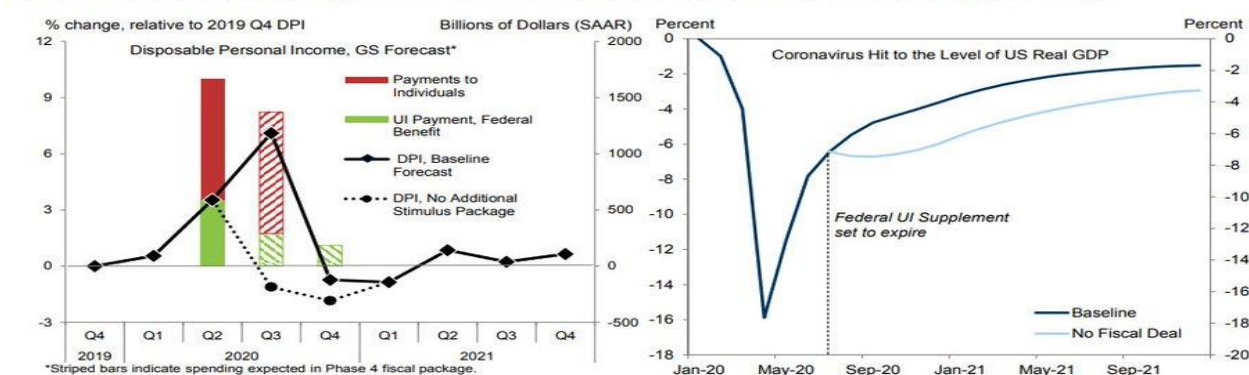
Markets had another quiet day on Thursday as US equities were little changed. The S&P 500 closed 0.1% higher, while the Nasdaq was up 0.3%. Treasuries showed a bit more action, with the yield curve flattening as the 30-year yield fell 6 bps.

US Covid-19 trends show strong geographic differentiation, with virus outbreaks moving towards the South and West regions, while the Northeast and Midwest continue to improve.



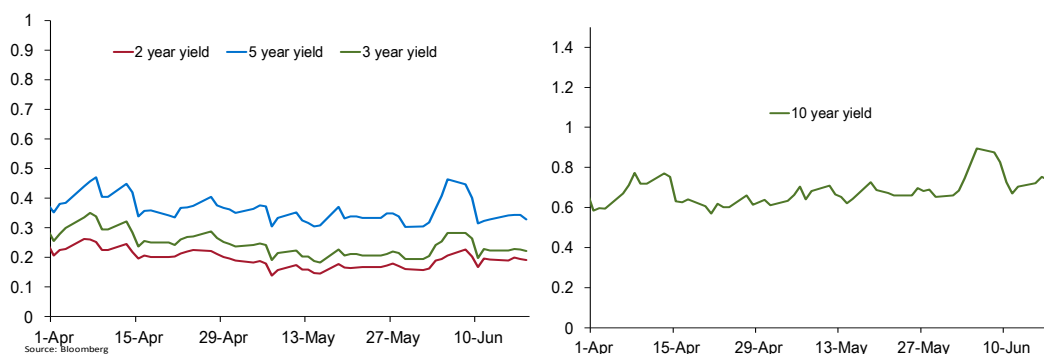
Analysts see the expiration of expanded unemployment benefits in end-July creating a “fiscal cliff” that will weigh on growth. The sluggish improvement in initial and continuing jobless claims has convinced some analysts that personal income and spending metrics will collapse absent additional legislation. House Democrats already passed an extension of the extra \$600 per week in UI benefits through January 2021, however many Senate Republicans believe the program is disincentivizing people from returning to work and leaving the unemployment rate elevated ahead of the November election. Other potential points of conflict for additional stimulus include the question of fiscal aid to states and additional direct payments.

Exhibit 2: Without Further Fiscal Support for Household Income, Second-Round Income Effects Would Weigh on Growth

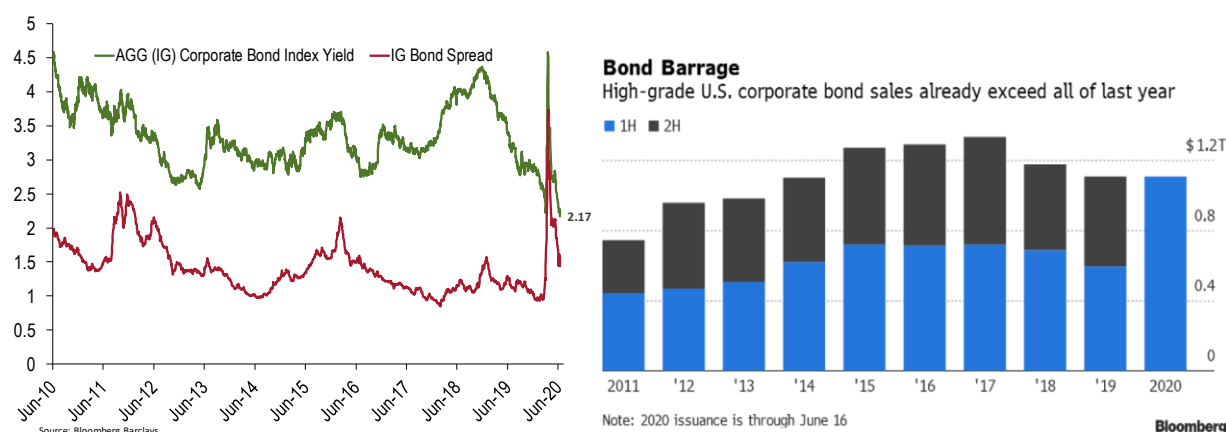


Source: Goldman Sachs Global Investment Research

Treasuries have recently traded in a narrow range amid increased commentary on yield curve control. Fed Chair Powell faced several questions during recent testimony on Capitol Hill about yield curve control, and while noncommittal, he hasn't shut the door on the idea in the same way as negative interest rates. A recent Bloomberg survey of economists found a majority expect yield curve control by the September FOMC meeting, targeting the 2-5 year portion of the Treasury curve. In a question and answer segment, Powell stated, "We're really just educating ourselves on it at this point. It's not something we have at all decided to do....we haven't made any decision to go forward on that. It's a tool". However, with the exception of the 30-year, Treasury yields have barely budged since the end of March, with the 10-year up 3 bps, and 2-, 3-, and 5-year yields about 5-6 bps lower.



Investment grade borrowing costs fall to record lows, while issuance remains at a record pace. The yield on the Bloomberg Barclays US Agg corporate bond index fell below its early March record and hit 2.17% this week. Investment grade issuance surpassed \$1.12 tn year to date, with the \$128 billion of new supply halfway through the month already a June record, according to Bloomberg. The Federal Reserve began purchasing ETFs in May, and this week its Secondary Market Corporate Credit Facility (SMCCF) began buying investment grade bonds directly.



The Fed created its “Eligible Broad Market Index” to work around CARES Act regulations defining “US businesses”, analysts theorize. The Fed was reportedly having trouble certifying that the issuers of individual bonds have a majority of their employees (and operations) based in the United States, as required by the CARES Act. The same provision however makes an exception for “securities that are based on an index or that are based on a diversified pool of securities”. While likely meant to allow for ETF purchases, analysts believe the Fed is using this language to justify purchasing bonds based on its own index and bypassing the certification process.

Europe [back to top](#)

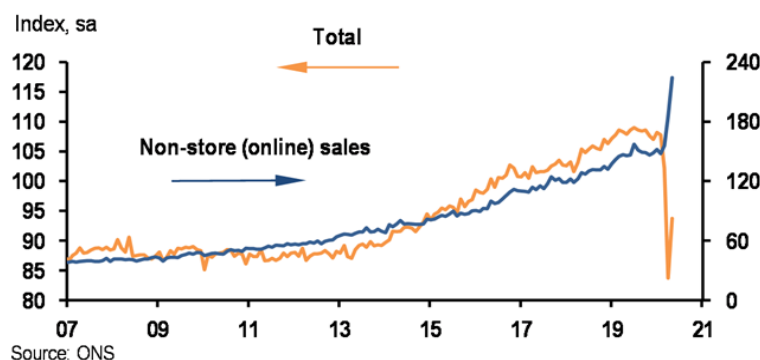
Equity markets continue to gain on easing lockdown measures. DAX (+1.1%), CAC 40 (+1.3%), EuroStoxx 600 (+1.0%), Italy's Titans 30 (+0.8%), and Spanish Ibex (+1.0%).

Bank stocks (0.0%) underperformed the main indices, even as banks' liquidity positions were generously boosted yesterday. Almost 750 Eurozone banks tapped €1.3 tn of ECB liquidity. Market contacts note that so-called periphery banks were some of the most aggressive bidders yesterday, with some of them drawing funds close to their maximum allowance. Based on company comments, Unicredit drew €94 bn, CaixaBank €41 bn, and Intesa €36 bn.

Sovereign yields are unchanged. German 10-year yields at -0.41% (-1 bps); French OATs are at -0.08% (-1 bps); Italian at 1.38% (flat); and Spanish at 0.49% (-2 bps).

High-frequency indicators show signs of recovery in the UK. Retail sales came in at +12% m/m for May, amply surpassing the +6.3% expected. On an annual basis, retail sales contracted at a 13.1% clip, however. The boost to sales was mostly driven by a surge in online purchases, which grew 33.4% m/m. In-shop sales grew 42% m/m, although from a low base. Separately, **consumer confidence rose to -30 in June**, compared to -36 in May, signaling also improvements to the economy.

Retail sales

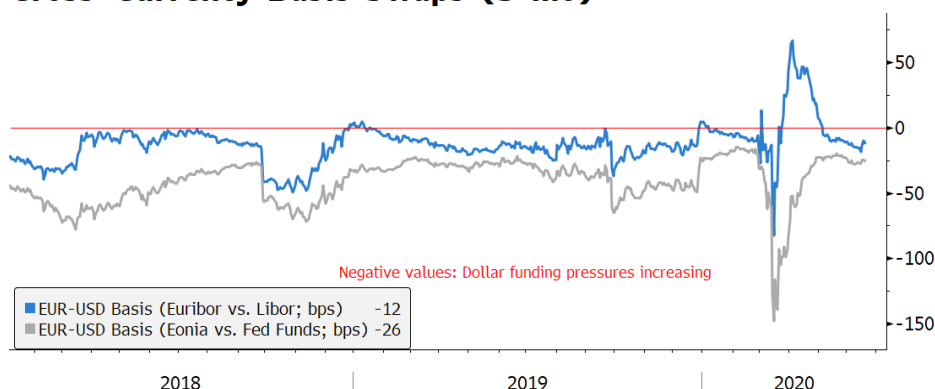


Belgium consumer confidence recovered to -19 in June from -23 the month prior.

The Portuguese government has approved the creation of a state-owned bank to channel funds into the economy and fight the impact of the pandemic. The new bank will in charge of providing state guarantees and long-term investment (debt and equity) to high-risk projects, as well as support exports, according to news outlets. The bank's creation now needs the approval of the European Commission.

The ECB – along with the Bank of England, the Bank of Japan, the Swiss National Bank, and in consultation with the Federal Reserve – [announced](#) they will reduce the frequency of their 7-day dollar auctions from daily to 3 times per week, starting July 1st. The move is justified as dollar funding pressures have abated notably since the onset of the pandemic. Cross-currency basis swap spreads became acutely negative in March, as measured by various interest rates, but have returned to levels considered as ‘non-stress’ even as if there still is a premium for borrowing US dollars (chart). The ECB noted that it stands ready to readjust the frequency of the auctions to support the smooth functioning of US dollar funding markets.

Cross-Currency Basis Swaps (3 mo)



Other Mature Markets

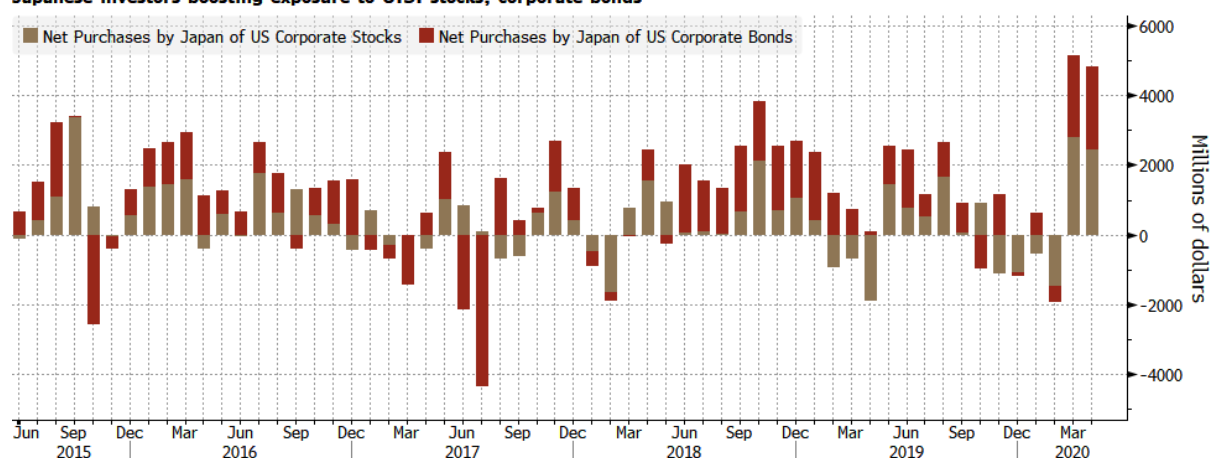
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Japan

Japanese investors are increasing investments in US assets amid expectations for local asset returns to remain low over the medium term. U.S. Treasury data showed that in April, Japan's money managers' purchases of U.S. corporate debt were the highest in 8 years; their purchases of U.S. equities were the second highest in 5 years. Meanwhile, currency swaps that allowed Japanese investors to use yen to fund purchases of U.S. bonds are rising. In late May, the yen-dollar basis for the 30-year FX swaps contract fell to a record low of -76 bps, and last traded at -64 bps on Thursday. Traders noted that such premium for the US dollar suggests broad-based expectations for local returns to remain low for quite some time. The Cabinet Office upgraded its assessment of the economy in its monthly outlook on Friday, noting that the economy has "almost stopped deteriorating" and the slow process of reopening has now begun. **Both the yen and the Nikkei held steady on the day.**

Corporate Exposure

Japanese investors boosting exposure to U.S. stocks, corporate bonds



Source: U.S. Treasury Department

FNETJACS Index (Net Purchases by Japan of US Corporate Stocks) Japan net purchases

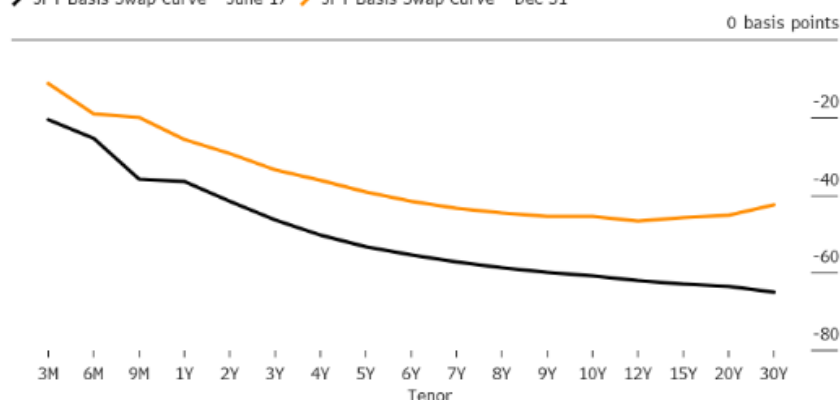
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Swap Shop

Widening longer-dated JPY basis swap curve suggests increased yen supply

JPY Basis Swap Curve - June 17 (black line) JPY Basis Swap Curve - Dec 31 (orange line)



Source: Bloomberg



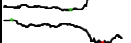
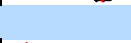


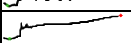





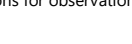

Bloomberg

Emerging Markets

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Asian currencies were mixed and equities modestly higher on limited trading. News that China plans to accelerate its purchases of American farm goods to comply with phase one of the US-China trade deal lifted sentiment. Still, concerns for a resurgence of COVID cases lingered. **The Chinese authorities noted that the peak of the outbreak has passed.** Beijing reported 25 new infections on Friday, lower than at the start of the week, although the capital remains under partial lockdown. The Thai baht outperformed on the day (+0.3%) while the Indonesia rupiah was the laggard (-0.2%). In equities, the Shanghai Composite (+0.96%) paced gains while increases elsewhere were more modest. **Latin American equities printed mixed, currencies depreciated, and most sovereign yield curves enjoyed modestly narrower spreads to the US.** Equities printed mixed with gains in Brazil (0.6%) and losses in Argentina (-6.1%) and Mexico (-0.7%). Currencies depreciated across the board, especially in Brazil (-2.7%), Chile (-2.3%) and Mexico (-1.8%). Most treasury curves took the lead of a lower and flatter US curve, with spreads continuing to narrow modestly. Brazil deviated from this trend, as the local currency debt curve edged higher, with the spreads widening by 7 bps on 2-year 24 bps on 10-year debt. **EMEA markets continued to trade risk-on with global sentiment.** Equities outperformed in Turkey (+1.2%), Russia (+1.2%), and South Africa (+1.3%). Stocks were underperforming in Israel (-0.8%) and Egypt (-0.5%). Currencies traded flat apart from the ruble (+0.5%) and the South African rand (+0.3%), which gained the most ground to the dollar. Bonds were little changed except for Russia, where the local bond curve rallied 7 bps on the back of the dovish CBR statement.

Key Emerging Market Financial Indicators

Last updated: 6/19/20 8:18 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		39.93	1.2	2	8	-5	-11
MSCI Frontier Equities		23.86	0.6	1	5	-18	-21
EMBIG Sovereign Spread (in bps)		467	-4	-14	-85	113	174
EM FX vs. USD		54.73	0.3	-1	3	-12	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.08	0.2	0	0	-2	-2
Indonesian Rupiah		14100	-0.2	0	5	1	-2
Indian Rupee		76.19	-0.1	0	-1	-9	-6
Argentine Peso		69.74	-0.1	-1	-3	-38	-14
Brazil Real		5.36	0.3	-6	7	-28	-25
Mexican Peso		22.59	0.7	-1	5	-16	-16
Russian Ruble		69.33	0.8	1	5	-8	-11
South African Rand		17.34	0.8	-2	6	-17	-19
Turkish Lira		6.86	0.0	-1	-1	-16	-13
EM FX volatility		10.81	0.0	0.7	-0.4	2.5	4.2

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

India

Global investors slashed holdings of India's corporate bonds to a 5-year low, adding to cash crunch concerns as a record amount of bonds come due this year. Data from National Securities Depository indicated that overseas investors reduced their holdings in Indian corporate debt for a fifth straight month to INR 1.6 tn (\$21 bn), near a five-year low. Analysts noted that funding options for many firms are shrinking. Most sources of capital, including bank credit, mutual funds' debt investments and dollar bond issuance are now only available to those with the highest credit ratings, lifting spreads between AAA and AA firms and slowing the amount of non-AAA debt issuance to its slowest pace in years. Meanwhile, those that depended on offshore debt issuance face fresh challenges amid rupee depreciation. The rupee has weakened by

about 6.3% against the dollar this year, the biggest drop for the period since 2008. On the day, the currency weakened a touch (-0.05%) while local bond yields fell by as much as 3 bps across the curve.

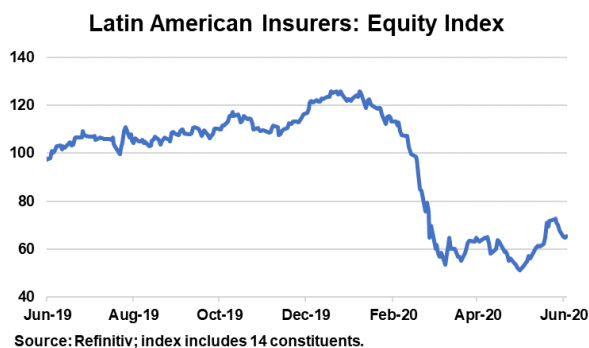
Out of Favor

Foreign funds have cut India corporate bond holdings to near five-year low



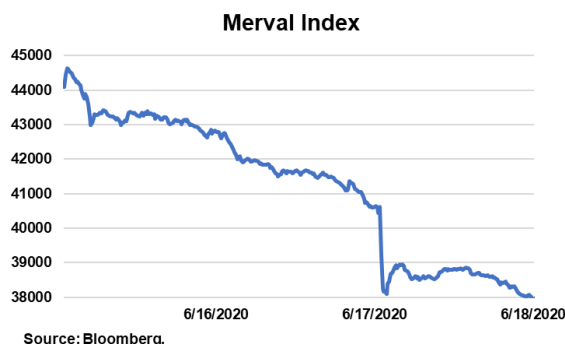
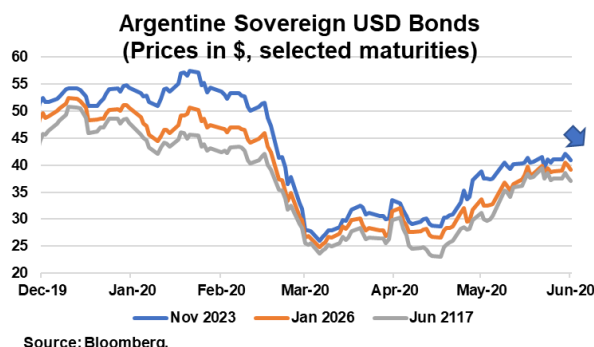
Latin American insurers

Rising default risks in Latin America hurt regional insurers. The rating agency Fitch sees the weakening profitability and capital positions of the region's insurers pushing up default risks on speculative grade bonds. Fitch has so far taken negative rating actions on one-third of 12 rated insurers within the region due to increased risky asset ratios and/or leverage. Expectations for further downgrades of Latin American sovereigns would exacerbate ratings pressures as local insurers have significant exposure to sovereign-related investments. An index of Latin American insurers remains roughly 50% lower than pre-COVID levels.



Argentina

Local markets sold off after restructuring talks between local officials and creditors hit an impasse. Statements from both parties Wednesday night indicated that the Argentine side had not accepted creditors' latest restructuring proposal, citing revisions that were "largely inconsistent with the debt sustainability." Argentine euro bonds reacted with price declines, while spreads to US treasuries jumped by 45 bps on the long and 105 bps on the short end. Local equity markets slumped sharply (-6.1%), in part reflecting intensified COVID-19 spread and continued decline in wheat prices (-1%), bringing the Merval index's loss since the start of the week to 12.3%.



Russia

The CBR cut its policy rate by 100 bps to a historical low of 4.5% and suggested further easing could follow in the upcoming meetings. The recent weak economic data had recently shifted the market pricing and consensus from 75 bps to 100 bps making the cut in line with expectations. **The tone of the statement may have been somewhat more dovish than the market expected** with local government bonds rallying 7 bps after the meeting. The forward rate agreement market was little changed, with the 12x15 forward contract at 4.30%, suggesting an even lower terminal policy rate.

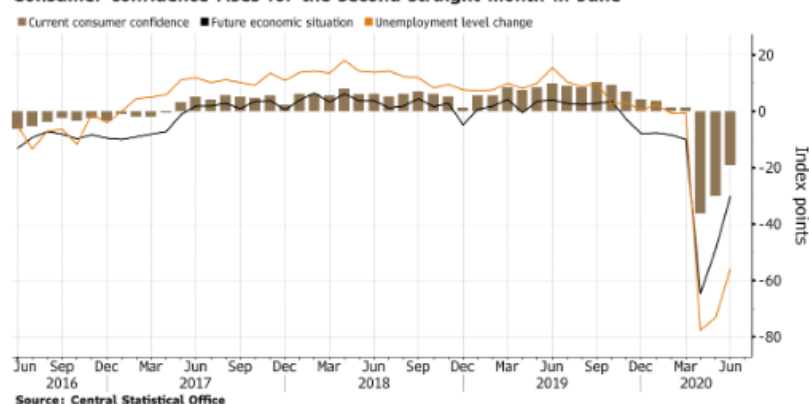


Poland

Poland's consumer confidence rebounded for the second month, on the back of unprecedented government and central bank support. Consumer confidence rose to -19.4 in June from -30.1 in May. Moreover, according to the June consumer confidence report, 93% of Poles remain worried about the virus' impact on the economy (compared to 97% in May and 99% in April). In other economic news, Poland's employment contracted 1.4% m/m in May, up from a 2.4% contraction in April but below the market expectation (-0.7%).

Optimism Returning

Consumer confidence rises for the second straight month in June



Official comments around the Polish zloty once again caught investors' attention as the NBP 28 May meeting minutes explicitly linked the **recent policy easing to the need to deter further strengthening of the zloty**. The NBP statement noted that *"the interest rate reduction will limit the risk of a further appreciation of the Polish zloty against the main currencies."* However, the MOF took an opposing view yesterday stating that the national currency was too weak.

South Africa

South Africa's government is seeking 1.5 trillion rand (\$86 billion) of infrastructure investment over the next decade, according to the nation's largest specialist fixed-income fund. At the end of May, the infrastructure commission had presented several projects to president Ramaphosa. Since the governments' borrowing ability has been curtailed by its loss of investment-grade status, official sources are hoping that private investors will participate in infrastructure projects. Some analysts believe that asset managers and banks would be supportive if the projects are well structured and managed.

Analysts note that over the last two weeks the local bond market has been under pressure **as investors are bracing for the 24 June revised budget announcement** where the fiscal deficit is expected to be increased from current 6.8% of GDP towards 13% of GDP. South Africa has the steepest EM local rates curve and thereby attracts mostly carry-seeking investors. However, market-making contacts suggest that investors prefer to position using interest rate swaps of up to 5-year maturity rather than the bond market. Such dynamic renders the MOF's bond issuance plans even more challenging.









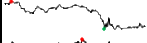










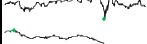




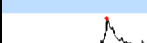
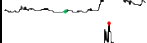





List of GMM Contributors

Global Markets Analysis Division, MCM Department

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

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Europe		3296	1.4	5	14	-5	-12
Japan		22479	0.6	1	10	5	-5
China		2968	1.0	2	2	2	-3
Asia Ex Japan		69	0.3	3	6	0	-6
Emerging Markets		40	1.2	2	8	-5	-11
Interest Rates			basis points				
US 10y Yield		0.73	-3.0	3	4	-129	-119
Germany 10y Yield		-0.41	0.1	3	6	-12	-22
Japan 10y Yield		0.02	-0.1	1	1	16	3
UK 10y Yield		0.25	2.2	4	1	-62	-57
Credit Spreads			basis points				
US Investment Grade		148	-0.7	-11	-45	18	51
US High Yield		592	-0.8	-24	-122	143	199
Europe IG		65	-1.6	-4	-17	10	21
Europe HY		375	-9.5	-24	-115	119	168
EMBIG Sovereign Spread		467	-4.0	-14	-85	113	174
Exchange Rates			%				
USD/Majors		97.41	0.0	0	-2	0	1
EUR/USD		1.12	0.0	0	3	0	0
USD/JPY		106.8	0.1	1	1	1	2
EM/USD		54.8	0.3	-1	3	-12	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		42	2.4	10	23	-31	-36
Industrials Metals (index)		104	0.8	2	6	-7	-10
Agriculture (index)		35	0.6	0	1	-16	-15
Implied Volatility			%				
VIX Index (% change in pp)		31.3	-1.6	-4.8	0.8	17.0	17.5
10y Treasury Volatility Index		4.7	-0.3	0.0	0.0	-0.1	0.6
Global FX Volatility		8.8	0.0	0.1	0.1	2.2	2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		167	-1.1	-5	-65	-110	2
Italy		179	0.2	-10	-31	-61	19
Portugal		89	-0.8	-12	-33	5	27
Spain		91	-1.8	-13	-20	21	25

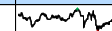





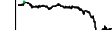

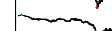



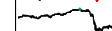



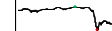




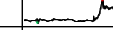



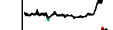

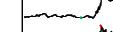

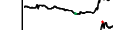

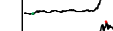




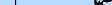

Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 6/19/2020 8:18 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		7.08	0.2	0.1	0	-2	-2		3.0	0.9	6	-38	-31	-19
Indonesia		14100	-0.2	0.2	5	1	-2		7.3	-1.3	-2	-41	-45	17
India		76	-0.1	-0.5	-1	-9	-6		6.1	-3.6	-2	-11	-88	-81
Philippines		50	0.2	0.2	1	4	1		4.1	0.4	1	-37	-90	-17
Thailand		31	0.3	0.0	3	1	-4		1.5	-1.6	5	14	-83	-14
Malaysia		4.27	0.3	-0.1	2	-2	-4		2.9	0.2	0	5	-84	-50
Argentina		70	-0.1	-0.6	-3	-38	-14		47.7	-22.8	-146	419	1781	-1489
Brazil		5.36	0.3	-5.8	7	-28	-25		5.4	13.9	14	-57	-177	-89
Chile		816	-2.3	-3.5	1	-15	-8		2.5	-18.6	-23	-3	-100	-84
Colombia		3753	-0.1	0.5	3	-13	-12		5.6	-11.0	-25	6	-24	-33
Mexico		22.59	0.7	-1.4	5	-16	-16		6.1	-4.0	-9	-7	-160	-80
Peru		3.5	-0.8	-1.8	-3	-5	-6		4.3	-3.6	-2	6	-52	-18
Uruguay		43	-0.6	0.7	3	-17	-13		10.2	7.7	8	-100	-71	-69
Hungary		308	0.2	-0.1	4	-7	-4		1.7	-3.3	6	16	10	51
Poland		3.97	0.1	-0.5	5	-4	-4		0.9	-2.6	3	-3	-109	-97
Romania		4.3	0.0	-0.6	3	-2	-1		3.7	0.0	1	-27	-30	-27
Russia		69.3	0.8	0.8	5	-8	-11		5.3	-2.0	-10	5	-213	-84
South Africa		17.3	0.8	-1.5	6	-17	-19		10.2	-6.1	18	15	86	70
Turkey		6.86	0.0	-0.6	-1	-16	-13		10.6	8.4	-21	-121	-787	-112
US (DXY; 5y UST)		97	0.0	0.1	-2	0	1		0.35	1.5	2	2	-141	-134

	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		2968	1.0	2	2	2	-3		227	0	-2	-18	47	51	
Indonesia		4942	0.3	1	9	-22	-22		254	-3	-12	-57	60	98	
India		34732	1.5	3	15	-11	-16		239	-3	4	-62	88	114	
Philippines		6315	-0.5	-2	14	-21	-19		156	-2	-3	-16	74	90	
Malaysia		1507	0.2	-3	6	-10	-5		188	1	-6	-54	57	76	
Argentina		37991	-6.1	-18	-4	-5	-9		2599	-19	26	-184	1776	830	
Brazil		96125	0.6	2	19	-4	-17		373	-3	-4	-55	133	158	
Chile		3991	-0.1	0	7	-21	-15		210	0	-6	-38	73	77	
Colombia		1139	0.0	2	7	-26	-31		287	-5	-9	-51	101	124	
Mexico		37633	-0.7	2	5	-13	-14		500	-6	-19	-86	167	208	
Peru		16948	-0.4	2	10	-17	-17		182	-1	-8	-39	55	75	
Hungary		37540	0.1	0	6	-8	-19		166	1	-1	-46	68	80	
Poland		50497	0.1	1	10	-15	-13		50	-2	-7	-41	-2	32	
Romania		8721	0.1	0	4	2	-13		287	4	-12	-53	97	114	
Russia		2766	1.5	1	2	0	-9		207	0	-9	-19	-2	76	
South Africa		54484	1.0	2	5	-7	-5		496	-1	-25	-94	194	176	
Turkey		113711	1.1	4	11	21	-1		569	-3	-14	-88	34	168	
Ukraine		499	0.0	0	0	-10	-2		619	-2	-13	-112	74	199	
EM total		40	1.2	2	8	-5	-11		467	-4	-14	-85	113	174	

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

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