











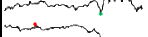

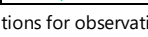
- Banque de France warns of higher risks from corporate debt ([link](#))
- Large consortium of investors warns Brazilian authorities on ESG risks ([link](#))
- US firm equity issuance in Q2 is highest in 20 years ([link](#))
- Japanese authorities struggling to deliver stimulus to firms and household ([link](#))
- The National Bank of Hungary unexpectedly cuts policy rate by 15 bps ([link](#))
- The Reserve Bank of New Zealand kept the policy rate at 0.25%, as expected ([link](#))
- The Bank of Thailand held the policy rate unchanged at 0.5% ([link](#))

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Virus rebound unnerving investors

Markets are in the red this morning on virus and trade anxieties. Global equities are off by nearly 1%, the dollar and other haven assets are bid, and oil is giving up recent gains. The investor pullback appears to be largely driven by the quickening drumbeat of downbeat virus news, along with headlines that the US may seek as much as \$3 bn in tariffs on certain European goods. In the US, surging virus cases in hot spots like Texas, California, Arizona and Florida could delay re-opening and are reportedly already weighing on consumer demand; daily case numbers are also spiking in relative success stories like Japan and Germany, and the situation in many EMs remains grim. Nonetheless, risk appetite globally continues to get a lift from investor exuberance for tech shares. The tech-heavy NASDAQ composite reached a new record high on surging trading volumes, with outperformance relative to the main US S&P index surging towards dotcom bubble levels. Enthusiasm for tech shares often spills over to big Asian tech firms, and by extension, emerging market equities, which are disproportionately represented in major EM-wide indices.

Key Global Financial Indicators

Last updated: 6/24/20 8:31 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3131	0.4	0	6	6	-3
Eurostoxx 50		3248	-1.5	-1	12	-6	-13
Nikkei 225		22534	-0.1	0	11	6	-5
MSCI EM		41	-1.2	3	12	-4	-9
Yields and Spreads			bps				
US 10y Yield		0.73	0.3	-1	7	-129	-119
Germany 10y Yield		-0.40	1.3	0	9	-9	-21
EMBIG Sovereign Spread		465	1	-5	-70	118	172
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.9	-0.5	0	2	-13	-11
Dollar index, (+) = \$ appreciation		96.9	0.3	0	-3	1	1
Brent Crude Oil (\$/barrel)		41.9	-1.8	3	19	-35	-37
VIX Index (% change in pp)		32.6	1.2	-1	4	17	19

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

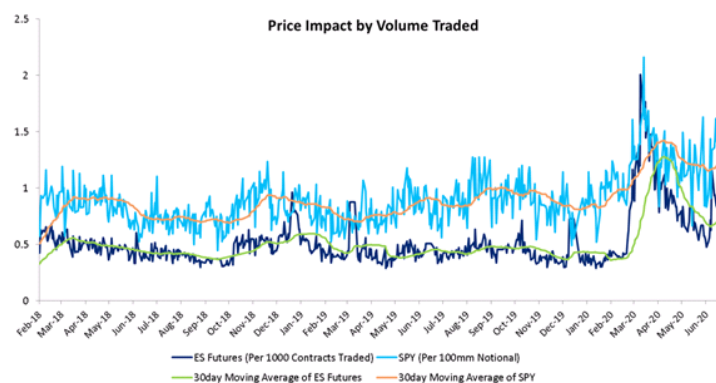
United States

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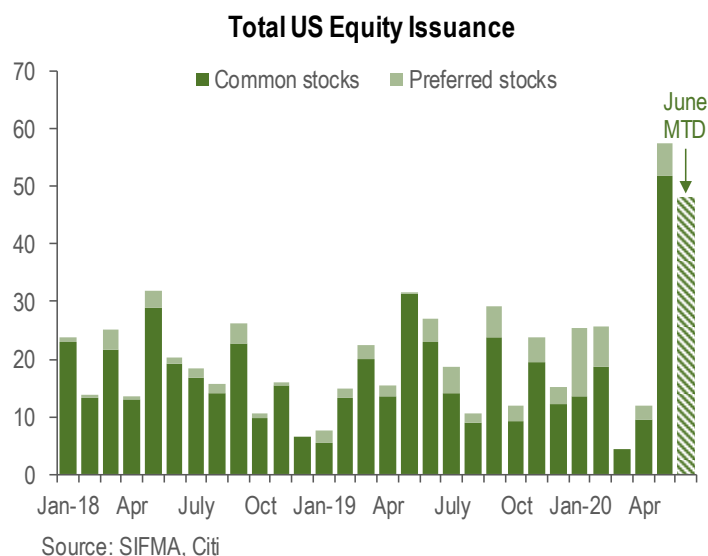
Stocks rallied on hopes of additional fiscal stimulus and stronger than expected PMI data. The NASDAQ set a new record high of 10131, an 8-day winning streak. Trading volume exploded yesterday, up 50% versus the 100-day average, in contrast to a 15% decline in NYSE volume. The S&P 500 added 0.4%, still down 7% from its recent record. Treasuries were again stable with long rates slightly higher. The \$46 bn 2-year note auction (another \$2 bn increase from last month's offering) was well bid. The flash manufacturing PMI rose to 49.6 in June from 39.8, and services PMI rose to 46.7 from 37.5. New orders and employment components for both indices showed significant improvements. Several regional survey (Richmond, New York, Philadelphia) have also shown strong rebound in June, which suggests a high probability for the ISM to rise above 50.



The overall stock market liquidity condition has not completely normalized to the pre-COVID level, when measured by the price impact – the amount of price changes per given amount of trading volume. This suggests that stocks may have larger reactions to bouts of one-way trading, for instance when headlines move markets.

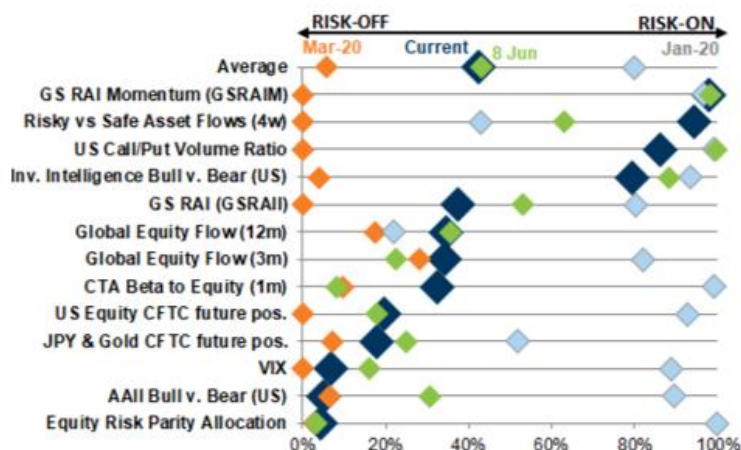


Equity issuance has jumped in Q2. Total issuance topped \$170 bn YTD vs an annual average of \$230 bn since 2009, as companies rushed to raise cash. So far in 2Q, issuance has totaled \$130 bn, which is already the highest quarterly issuance in 20 years. While the low interest rate environment will support debt financing, as seen by the surge in IG and HY issuance, companies will likely take advantage of elevated equity prices to recapitalize. The record share issuance combined with the plummet in buybacks suggests the support for equity prices from corporate demand will likely be limited.



Investor sentiment has moved closer to neutral, from bearish in March, according to analysts. Fund flows, futures positioning, and equity exposure of systematic strategies continue to move away from the very bearish positions in March. On the other hand, other indicators that previously suggested “fear-of-missing-out” on the part of equity investors before market corrected on June 8, have normalized from extreme levels. Overall, this suggests that investors remain cautious about increasing risk exposures.

Positioning indicators (percentiles since 2007)



Source: Goldman Sachs

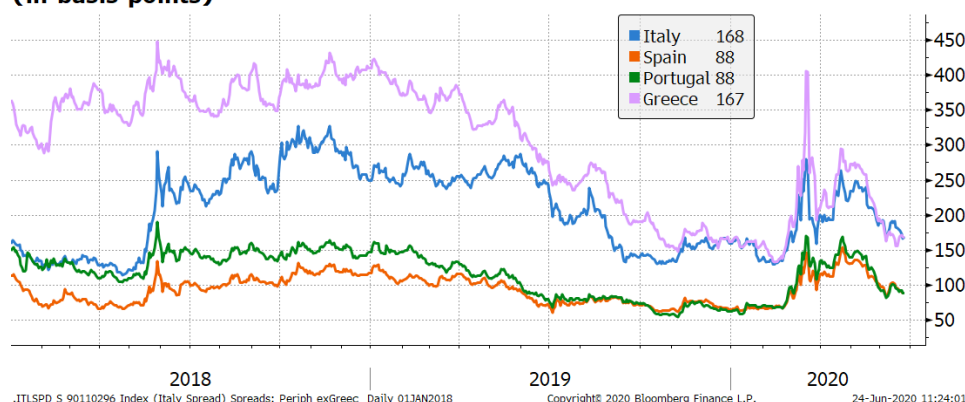
Europe

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Equities moved lower across the continent, largely weighed down by concerning news of a pickup in infections. DAX (-2.2%), CAC 40 (-2.0%), EuroStoxx 600 (-1.8%), Italy's Titans 30 (-1.7%), and Spanish Ibex (-1.9%). Bank stocks (-2.6%) slightly underperformed, after outperforming yesterday.

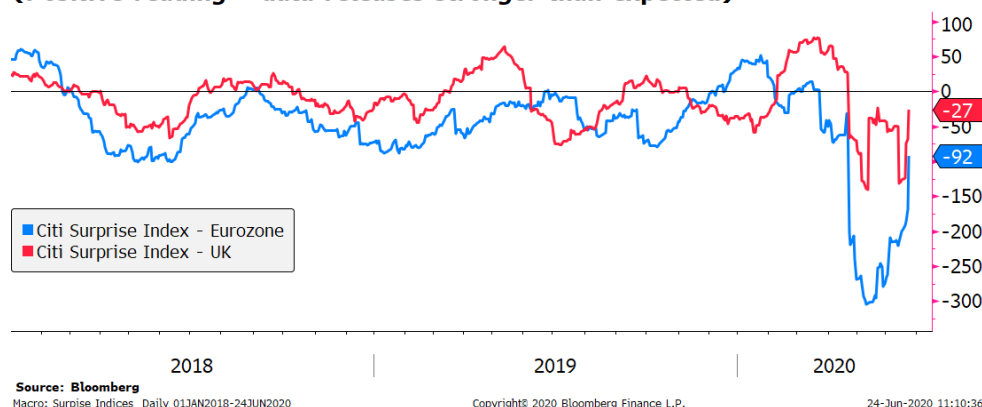
Sovereign debt markets continue to trade sideways, with very small moves across tenors and countries. German 10-year yields at -0.41% (-1 bps); French OATs are at -0.09% (unch.); Italian at 1.27% (+2 bps); and Spanish at +0.47% (unch.).

Selected European Sovereign Spreads to 10yr Bunds (in basis points)



Further signs of economic recovery were provided today by confidence indices in France and Germany. French business confidence increased to 78 in June, from 59 previously; manufacturing confidence came in at 77 from 70. In Germany, the IFO expectations index printed at 91.4, from 80.1; and the IFO current assessment was 81.3, from 78.9. **Overall, recent data prints have tended to surprise on the upside.**

Economic Surprise Indices (Positive reading = data releases stronger than expected)

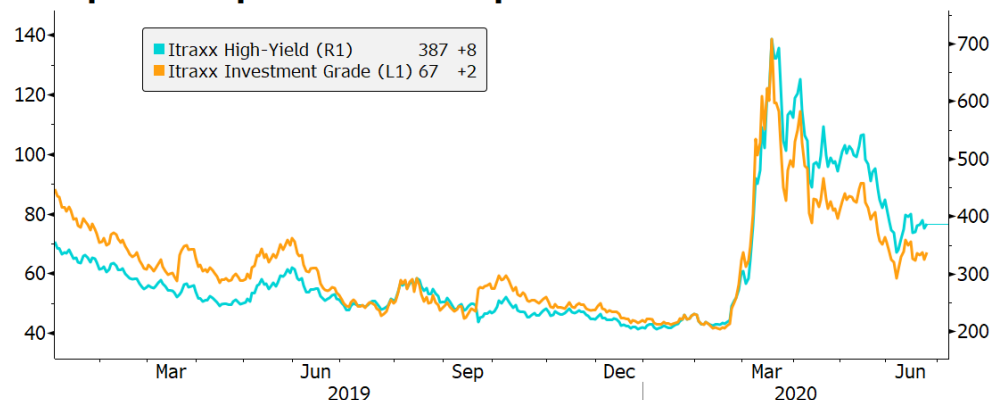


In its latest [financial stability assessment](#), the Banque de France sees an increase in risks related to **companies' indebtedness and from the persistent low rate environment**. The BdF alerted that “through a second-round effect, the deterioration in asset quality could depress the profitability of banks and institutional investors, which could in turn have a detrimental impact on the supply of credit to companies and households.”

Covid-19 related losses for insurers are forecasted at \$50 bn to \$107 bn. Lloyd's on London estimates that global losses from the pandemic could be around \$107 bn. Berenberg analysts, in contrast, have a much lower forecast of about \$50 bn to \$70 bn after accounting for some off-sets such as lower claims from auto accidents. Even at the lowest end of the estimates, a loss of \$50 bn would be the largest single natural catastrophe loss in the last decade. For European insurers, Berenberg estimates the losses to range between \$6 bn to \$10 bn.

In credit markets, **corporate credit spreads have continued to trend downwards, approaching the levels of end-2018**. The downshift in spreads is taking place as in both the investment-grade and the high-yield segments, even as market contacts continue to reiterate concerns about forthcoming corporate debt restructurings and defaults.

European Corporate Credit Spreads



Source: Bloomberg

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Other Mature Markets

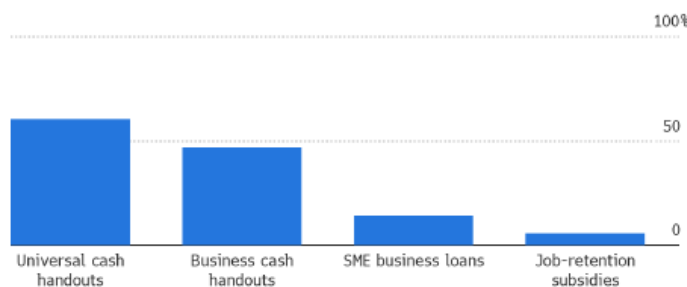
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Japan

Japanese authorities are struggling to deliver stimulus to firms and households. Japan's pandemic response package (\$2.2 trillion) is among the world's largest support programs, but its delivery has been slow. Almost 40% of the funds for cash handouts to households have not reached people despite their approval in late April. As for business loans and job-protection subsidies, 14% of funds earmarked for SME lending has been lent out, and 6% of aid to maintain payrolls has reached firms. The delay to delivery the relief is partly attributed to limited government capacity, with the Japanese government employing the smallest share of total workers in the OECD. **Super-long JGB yields rose ahead of a 20-year auction.** There is speculation that the Bank of Japan will not increase its purchases of super-long bonds when JGB issuance in that part of the curve could increase in the near future. The JGB spread between 30-year and 10-year widened to 57 bps, the highest since October 2019. Equities declined modestly (NIKKEI: -0.1%; TOPIX: -0.4%); the yen was little changed.

Delayed Relief

Japan has struggled to deliver its coronavirus support

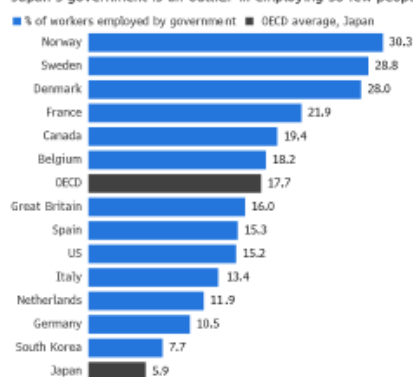


Sources: Economy, labor and internal affairs ministries; Small and Medium Enterprise Agency

Bloomberg

Too Small?

Japan's government is an outlier in employing so few people



Source: Organisation for Economic Cooperation and Development, 2019 report

Bloomberg

Source: Bloomberg.

New Zealand

The Reserve Bank of New Zealand (RBNZ) held its official cash rate at 0.25%, in line with market expectations. The size of the Large-Scale Asset Purchase Program was maintained at NZD 60 billion (\$39 billion). The RBNZ noted that the country's success in containing COVID-19 allowed it to emerge from a nationwide lockdown earlier than expected; nevertheless, the continued border closure would continue weighing on tourism and broader economic activity. The RBNZ is prepared to provide additional stimulus as necessary, with its staff working towards ensuring that a broad range of monetary policy tools would be deployable in coming months, including a term lending facility and foreign asset purchases. The kiwi dollar depreciated (-1.0%), reversing the recent appreciation trend. Equities gained (+1.1%); the 10-year government bond yield increased 3 bps.

New Zealand Dollar (per USD)



Source: Bloomberg.

Emerging Markets

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Asian equity markets were mixed today. Indonesian (+1.8%) and Korean (+1.4%) equities led the gain, while Philippine equities underperformed (-1.7%). **Currencies mostly gained**, led by Korean won (+0.8%). **The Indonesian market outperformed** on the news that the government would extend 30 trillion rupiah (\$2.1 billion) in credit to state banks at lower interest to support lending; the rupiah appreciated (+0.2%). **Korean assets also outperformed on waning geopolitical risks.** North Korean leader Kim Jong Un suspended military action plans against the south. **EMEA equities were mostly weaker** with indices down in Poland (-1.2%), South Africa (-1.1%) and UAE (-1.0%). Egypt (+2.5%) and Russia (+1.0%) outperformed. **Currencies were little changed** with the exception of the Hungarian forint (-0.6%) and the South African rand (-0.5%) trading weaker on local stories. **Latin American** assets mostly outperformed on Tuesday. Stocks in Argentina (+1%) gained the most, followed by stocks in Chile (+0.8%), Brazil (+0.7%) and Mexico (+0.3%). Amongst regional currencies, the Brazilian real (+2%) appreciated the most against the dollar, followed by Colombian peso (+1%) and Mexican peso (+0.4%).

Key Emerging Market Financial Indicators

Last updated: 6/24/20 8:33 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.80	-1.2	3	12	-4	-9
MSCI Frontier Equities		24.04	1.5	2	4	-19	-21
EMBIG Sovereign Spread (in bps)		465	1	-5	-70	118	172
EM FX vs. USD		54.89	-0.5	0	2	-13	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.07	-0.2	0	1	-3	-2
Indonesian Rupiah		14130	0.2	0	4	0	-2
Indian Rupee		75.73	-0.1	1	0	-8	-6
Argentine Peso		70.04	-0.1	-1	-3	-39	-15
Brazil Real		5.19	-0.7	1	5	-26	-22
Mexican Peso		22.57	-0.6	-1	0	-15	-16
Russian Ruble		69.09	-0.4	1	4	-9	-10
South African Rand		17.33	-0.5	-1	2	-17	-19
Turkish Lira		6.86	-0.1	0	-1	-15	-13
EM FX volatility		10.43	0.0	-0.4	-0.5	2.2	3.8

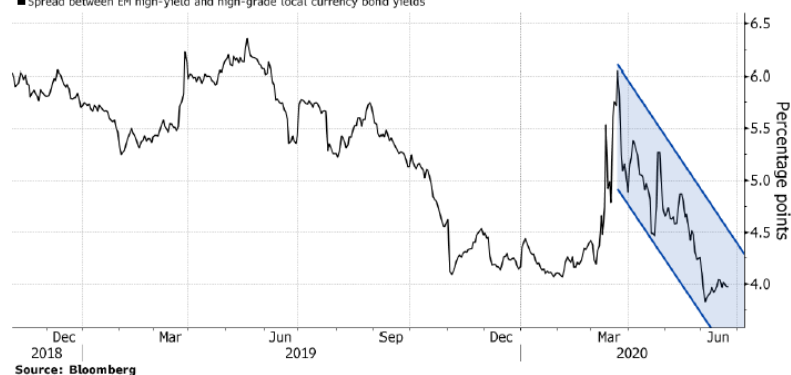
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

The yield spread between EM local currency investment-grade and junk government bonds has narrowed in the second quarter and is now below pre-pandemic levels. The compression in part reflects the combined index weighting of Brazilian and South African local rates (over 80%) in the Bloomberg high-yield indices, as both nations have trimmed policy rates to a record low this year. Analysts suggest that the gap may soon reverse course as the recent run of risk-on sentiment wobbles amid concerns over a fresh wave of coronavirus infections. With benchmark rates in both countries at all-time lows, the bar has been set higher for further aggressive easing measures.

Risky Bets

Junk bond spreads over high grade fixed-income are below pre-pandemic levels

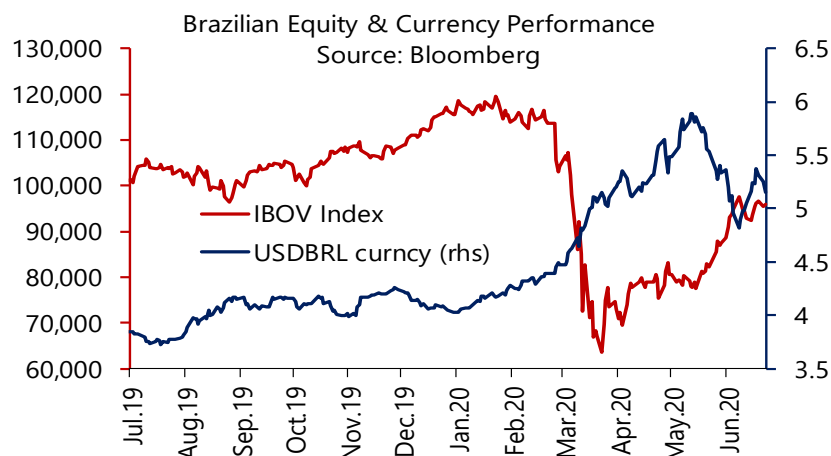
■ Spread between EM high-yield and high-grade local currency bond yields



Brazil

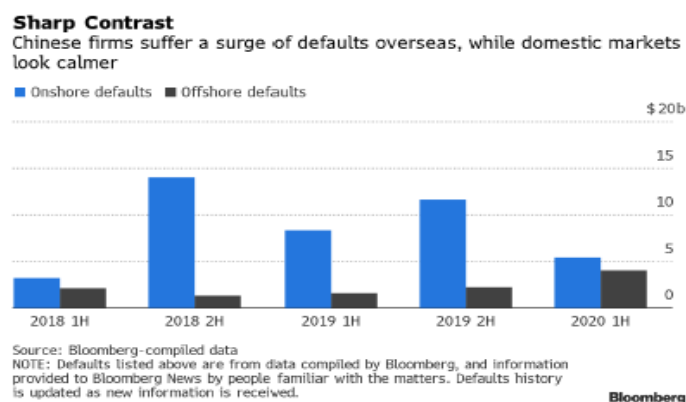
Institutional investors with AUM of \$3.7 tn are exerting pressure on Brazil to strengthen environmental protections and adherence to ESG standards. A group of money managers represented by Norway's Storebrand ASA said Brazil's failure to protect its forests may force them to reconsider their investments, reports Bloomberg. The funds singled out a proposal in Brazil to legalize the private occupation of public lands, mostly concentrated in the Amazon. The investor group warned they view it as risky to operate in a country that neglects climate and environmental concerns and that the proposal could lead to Brazilian sovereign bonds being deemed as high-risk.

The Brazilian central bank sees the benchmark interest rate as close to its lower limit, and that any future reduction in its record-breaking easing cycle will be “residual.” In the meeting minutes from the June 16-17 policy meeting, the bank’s board said second quarter economic data corroborates views of a sharp drop in GDP with only a partial recovery in May and June. Still, the fragile state of Brazil’s fiscal accounts limits space for more easing, policymakers noted. Brazil has cut rates by 425 bps in nearly a year amid a prolonged period of weak growth and below-target inflation that’s been exacerbated by the COVID-19. The Brazilian real strengthened by 2% against the dollar yesterday, with benchmark equities up 0.7%. The sovereign yield curve was little changed.



China

Defaults of Chinese firms in the offshore (foreign currency) bond market have increased sharply in 2020, albeit from a low base. The onshore picture looks more benign, with the total value of defaults in the first half of the year falling 31% to 38 billion yuan (\$5.4 billion) this year. Meanwhile debt failures in the dollar market have jumped nearly 150% to \$4 billion, already above the total 2019 figure. The divergence between yuan and dollar bond defaults in part underscores the highly favorable cheap borrowing conditions onshore. According to analysts, it also reflects onshore authorities’ increasing inclination to use measures like debt extensions and swaps for troubled borrowers, which would be classified as defaults in the offshore market. **The People’s Bank of China injected additional liquidity of 180 billion yuan today**, brining total net liquidity injection to 500 billion yuan this week. Equities gained (+0.4%); the yuan depreciated (-0.3%); and the 1-year government bond yield fell 5 bps.



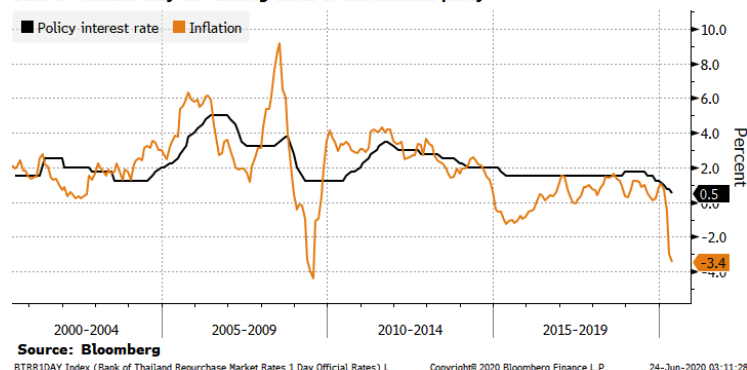
Source: Bloomberg.

Thailand

The Bank of Thailand (BOT) held its benchmark interest rate unchanged at 0.5%, in line with market expectations. The decision to keep the benchmark interest rate at its all-time low comes as two of the main growth drivers—tourism and trade—take a severe hit. The BOT revised down its real GDP growth forecasts to -8.1% for 2020 (from -5.3%). Such a decline would be worse than the contraction during the Asian crisis. The May trade data also showed a large slump as expected, with exports declining 22.5% y/y (forecasts: -5.8%) and imports falling 34.4% y/y (forecasts: -18%). The BOT also expressed concerns about the strong baht which has appreciated 3.7% in the past month. The government considered extending the state of emergency, which will expire on June 30, but would ease restrictions as much as possible. The spread of the coronavirus has been under control, with the continuing trend for no local transmissions. Equities gained (+1.0%); currency appreciated (+0.4%).

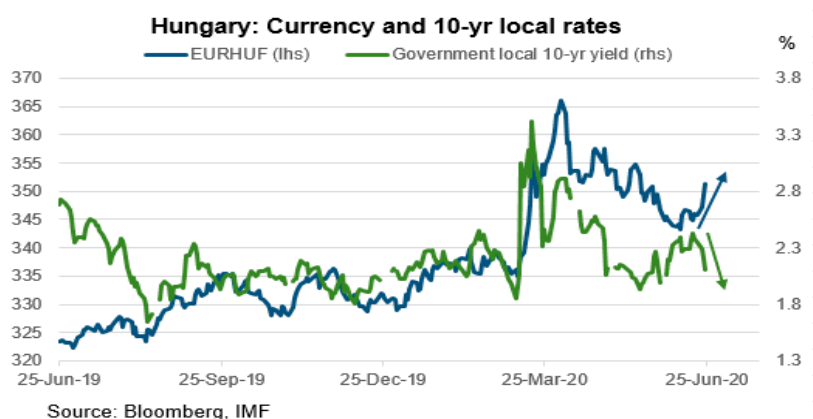
Near Zero

Bank of Thailand may be reaching limits of conventional policy



Hungary

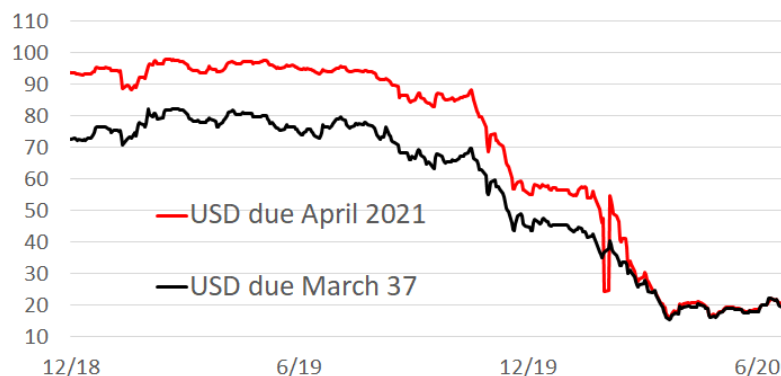
The National Bank of Hungary (NBH) unexpectedly reduced its base rate by 15bp to 0.75%, while keeping the rest of its interest rate corridor unchanged. The central bank suggested the cut was a “fine tuning” and not the start of an easing cycle. At the same time the NBH signaled that the one-week deposit rate will be lowered in tandem, adding to loosening monetary conditions. **The decision came as a surprise to contacts, both in terms of timing and in terms of tools,** as traders had anticipated a gradual easing of short-end liquidity conditions rather than a policy rate cut. The local bond curve shifted 15 bps lower in response to the rate cut while the Hungarian forint depreciated. Contacts report increasing interest to go short the Hungarian forint against the euro even as they expect 10-yr rates to increase on budget concerns.



Lebanon

Local media reports suggest that the Lebanese pound has continued to weaken rapidly on the parallel market. The Lebanese pound traded above 6000 per U.S. dollar in the parallel market yesterday for a 15% depreciation from last week and a 75% depreciation compared to the official peg. The official exchange rate peg stands at 1507 per U.S. dollar, but the Central Bank of Lebanon has made efforts to stabilize the exchange rate below 4000 per U.S. dollar including through administrative measure such as setting a unified exchange rate at the exchange houses. Lebanese bonds continued to trade at distressed levels implying recovery rates around 20%.

Lebanon: Cash Prices on USD bonds



Source: Bloomberg and IMF

South Africa

Headline inflation came in line with the expectations at 3.0% yoy, but core inflation surprised to the downside at 3.2% yoy as compared to 3.5% consensus estimate. The interest rate derivative market reaction was relatively muted with short-end forward rate agreements moving lower by 2bps. The market is currently pricing about 80% of probability of a 25bp cut in the 23rd July meeting. **Overall the bond market remains cautious ahead of the budget update due today 2pm London time (9:00am US eastern time).**

List of GMM Contributors

Global Markets Analysis Division, MCM Department

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

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Europe		3248	-1.5	-1	12	-6	-13
Japan		22534	-0.1	0	11	6	-5
China		2980	0.3	1	6	-1	-2
Asia Ex Japan		70	0.9	3	12	1	-4
Emerging Markets		41	-1.2	3	12	-4	-9
Interest Rates			basis points				
US 10y Yield		0.73	0.3	-1	7	-129	-119
Germany 10y Yield		-0.40	1.3	0	9	-9	-21
Japan 10y Yield		0.02	0.1	-1	2	17	3
UK 10y Yield		0.23	1.9	4	6	-59	-59
Credit Spreads			basis points				
US Investment Grade		149	1.1	1	-34	25	51
US High Yield		599	1.8	17	-85	159	206
Europe IG		66	1.5	2	-14	12	22
Europe HY		381	3.1	8	-102	124	174
EMBIG Sovereign Spread		465	1.0	-5	-70	118	172
Exchange Rates			%				
USD/Majors		96.93	0.3	0	-3	1	1
EUR/USD		1.13	-0.3	0	3	-1	1
USD/JPY		106.7	-0.2	0	1	1	2
EM/USD		54.9	-0.5	0	2	-13	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		42	-1.8	3	19	-35	-37
Industrials Metals (index)		102	-0.6	0	6	-9	-11
Agriculture (index)		35	-0.1	-1	1	-17	-16
Implied Volatility			%				
VIX Index (% , change in pp)		32.6	1.2	-0.9	4.4	17.3	18.8
10y Treasury Volatility Index		4.7	-0.3	0.0	0.0	-0.3	0.6
Global FX Volatility		8.5	0.0	-0.2	0.2	1.7	2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		166	-3.7	8	-54	-108	1
Italy		168	1.5	-13	-40	-78	8
Portugal		88	-1.1	-5	-34	5	25
Spain		89	0.6	-6	-22	17	24




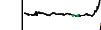

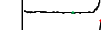



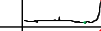



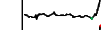

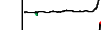

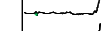

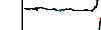

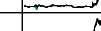
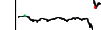



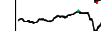

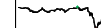






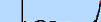


Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 6/24/2020 8:33 AM	Exchange Rates							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	-0.2	0.2	1	-3	-2		3.0	5.6	13	43	-25	-14
Indonesia		14130	0.2	-0.3	4	0	-2		7.3	-4.0	-6	-27	-30	13
India		76	-0.1	0.6	0	-8	-6		6.1	-0.1	-4	-3	-88	-81
Philippines		50	0.4	0.1	2	3	1		4.1	-0.9	-1	-31	-87	-19
Thailand		31	0.2	1.0	4	-1	-4		1.4	-0.7	-2	14	-83	-17
Malaysia		4.27	0.1	0.3	2	-3	-4		2.8	-0.7	-2	6	-80	-52
Argentina		70	-0.1	-0.6	-3	-39	-15		44.9	-8.0	-351	-180	1591	-1772
Brazil		5.19	-0.7	0.7	5	-26	-22		5.3	-7.0	-2	-52	-157	-94
Chile		824	-0.7	-3.3	-2	-17	-9		2.4	-3.2	-33	14	-96	-88
Colombia		3701	0.9	1.2	2	-13	-11		5.5	2.6	-27	21	-24	-43
Mexico		22.57	-0.6	-1.0	0	-15	-16		6.1	1.1	-10	-23	-161	-83
Peru		3.5	-0.4	-1.1	-3	-6	-6		4.3	-0.5	-1	12	-45	-18
Uruguay		42	0.6	1.1	3	-17	-11		10.1	0.9	0	-49	-41	-77
Hungary		312	-0.9	-1.6	3	-9	-5		1.5	-9.0	-16	-8	-7	35
Poland		3.95	-0.3	0.6	5	-5	-4		0.9	1.1	-4	-18	-120	-103
Romania		4.3	-0.3	0.1	3	-4	-1		3.7	-1.0	-3	-35	-27	-30
Russia		69.1	-0.4	0.9	4	-9	-10		5.3	0.4	-4	4	-200	-81
South Africa		17.3	-0.5	-0.7	2	-17	-19		10.2	8.3	3	31	92	72
Turkey		6.86	-0.1	-0.2	-1	-15	-13		10.4	-1.8	-14	-86	-664	-125
US (DXY; 5y UST)		97	0.3	-0.2	-3	1	1		0.34	1.1	0	1	-141	-135

	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		2980	0.3	1	6	-1	-2		228	0	0	-14	48	52	
Indonesia		4965	1.8	0	9	-21	-21		252	-1	-5	-39	65	96	
India		34869	-1.6	4	14	-11	-15		236	2	-6	-36	89	111	
Philippines		6189	-1.7	-1	12	-23	-21		156	-2	-2	-16	82	90	
Malaysia		1503	-0.3	-2	5	-10	-5		185	0	-3	-46	56	73	
Argentina		40804	1.1	-6	0	2	-2		2495	25	-65	-270	1639	726	
Brazil		95975	0.7	3	17	-6	-17		365	2	-2	-38	130	150	
Chile		4032	0.8	1	8	-21	-14		206	0	-4	-26	73	73	
Colombia		1143	-1.6	-1	8	-27	-31		296	3	-2	-7	116	133	
Mexico		38218	0.2	1	7	-13	-12		514	2	9	-37	178	222	
Peru		16951	0.2	0	10	-18	-17		176	-1	-10	-25	52	69	
Hungary		37510	-0.2	-1	7	-7	-19		163	3	-1	-50	79	77	
Poland		50948	-0.9	1	11	-15	-12		49	-5	-3	-41	7	31	
Romania		8705	0.0	0	1	1	-13		284	1	-1	-56	109	111	
Russia		2792	0.0	2	3	1	-8		197	0	-8	-17	-6	66	
South Africa		54681	-1.4	1	9	-7	-4		502	8	14	-70	216	182	
Turkey		115503	0.1	4	12	21	1		585	7	15	-41	76	184	
Ukraine		499	0.0	0	0	-9	-2		631	2	22	-100	113	211	
EM total		41	-1.2	3	12	-4	-9		465	1	-5	-70	118	172	

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

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