







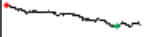
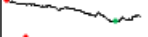




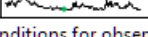
- Non-farm payrolls for October came in stronger than expected ([link](#))
- Euro money markets stable as ECB starts tiering ([link](#))
- Plans for euro area sovereign bond issuance little changed for 2020 ([link](#))
- Japanese bonds rally after yesterday's dovish BoJ forward guidance ([link](#))
- Chinese stocks gain on PMI upside surprise ([link](#))
- Colombia's central bank leaves policy rate unchanged at 4.25% ([link](#))

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Strong US payrolls report pushes back expectations for further Fed easing

Markets are rallying following this morning's non-farm payroll report. Payrolls for October were reported higher than expected at 128k, versus a consensus of 85k, while the unemployment rate ticked higher from 3.5% to 3.6%. The stronger than expected release drove sovereign bond yields and stocks higher with the 10-year US treasury yield rising 5 bps compared to immediately before the release. Before the data release equities had already been moving higher on a better than expected PMI reading from China, which had helped take investors' minds off of trade worries for the time being. US and Chinese trade negotiators are expected to hold a call today, and market participants remain optimistic that at least a short-term deal can get done in the near future.

Key Global Financial Indicators

Last updated: 11/1/19 8:13 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3038	-0.3	1	3	11	21
Eurostoxx 50		3612	0.2	0	3	13	20
Nikkei 225		22851	-0.3	0	4	5	14
MSCI EM		43	1.0	0	5	5	9
Yields and Spreads			bps				
US 10y Yield		1.68	-8.1	-11	5	-145	-100
Germany 10y Yield		-0.41	-0.2	-5	16	-81	-65
EMBIG Sovereign Spread		329	0	1	-14	-38	-85
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.0	-0.1	0	2	-2	-2
Dollar index, (+) = \$ appreciation		97.2	-0.1	-1	-2	1	1
Brent Crude Oil (\$/barrel)		60.0	0.6	-3	2	-18	11
VIX Index (% change in pp)		13.1	-0.1	0	-5	-6	-12

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

United States

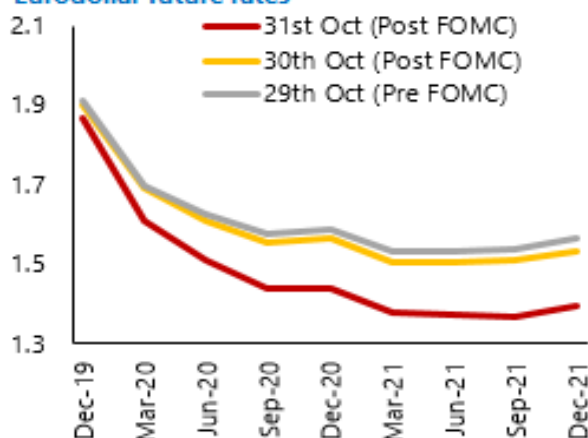
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This morning, non-farm payrolls were reported to have risen 128k in October, higher than the consensus expectations of 85k and the previous print of 136k. The actual release was also higher than the reported “whisper” number among traders (99k according to Bloomberg). Additionally, the prior two months were revised up by 95k. The unemployment rate rose modestly from 3.52% to 3.56%. The strong payroll number comes despite the General Motors strike as well as the census employment impact. According to the report, the automakers payrolls declined 41.6k and the census impact subtracted 20k. In the aftermath of the release, the 2-year treasury yield rose 5bps to 1.57% and the 10-year also rose 5 bps to 1.72, after having declined 2 bps earlier in the morning. Additionally, the yield on the January 2020 Fed Future, which is a barometer for expectations of the December FOMC meeting, rose 2.5 bps to 1.525% after the release. Assuming the effective Fed Funds rate is at 1.57% following this week’s cut (it was 1.82% prior), that would imply only 4.5 bps priced into the December meeting.

Treasuries rallied across the curve yesterday into month-end as early risk-off bid on trade concerns was extended following weak economic data in the US. Chinese officials cast doubts on reaching a comprehensive long-term trade deal with the U.S. even as the two sides get close to signing a “phase one” agreement. Weak manufacturing data added to the decline as Chicago PMI was reported at 43.2 vs consensus expectations of 48.0 and the last print of 47.1. The S&P 500 closed down by 0.3%, and treasury yields declined by 8-10 bps across the curve. The dollar also depreciated by 0.3% and gold rose by 1.1% in a risk-off session. Political uncertainty in the US continued as the House voted yesterday to approve and proceed with its impeachment inquiry.

The market implied policy curve also repriced down significantly on Thursday, with the Dec 2020 Eurodollar rates declining by 13 bps to 1.44%. Citi analysts also highlight that despite the movement recently, market pricing of central bank dovishness seems to be peaking across the major AEs.

Eurodollar future rates

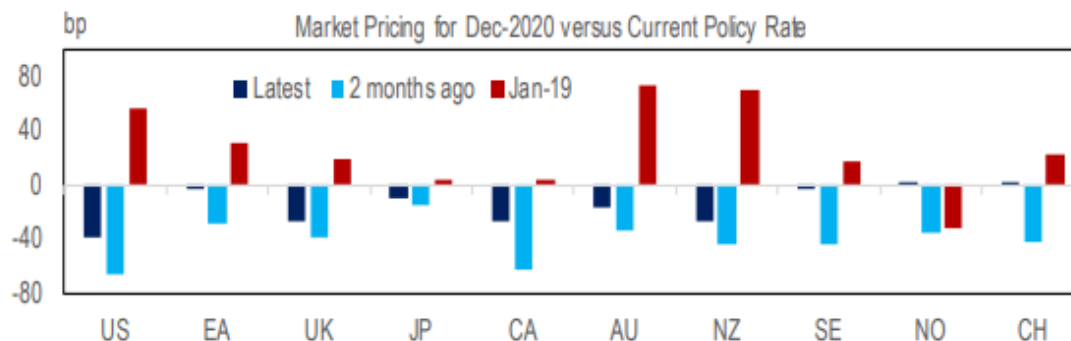


Source: Bloomberg

US equities and 10-yr yields



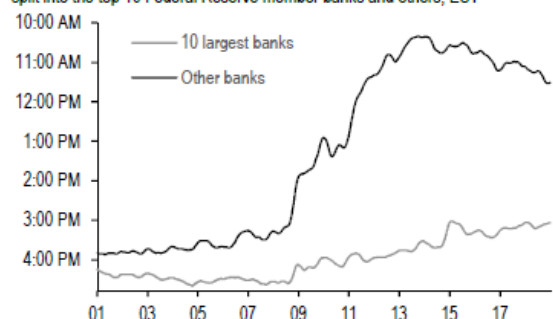
Source: Bloomberg

Figure 1. 'Chart of the Week': Market Pricing Suggests Central Bank Dovishness is Peaking

Note: Lower values suggest more rate cuts/fewer rate hikes. Source: Citi Research

Repo markets continue to be well-behaved, aided by the Fed's liquidity support. However, investor focus remains on the repo volatility episode. **JPM analysts highlighted that intraday volatility in reserve balances acted as a binding constraint on tactical liquidity deployment among large banks.** The analysis pointed out that though globally abundant settlement liquidity has allowed transfers to be completed earlier in the day system-wide, larger banks are still delaying their payments until much later. This implies that typical opening balances might be low enough that they require active intraday liquidity management to avoid over-runs. Furthermore, reserve holdings amongst the largest banks have declined by nearly half even as intraday liquidity demands from cash and securities settlement have increased.

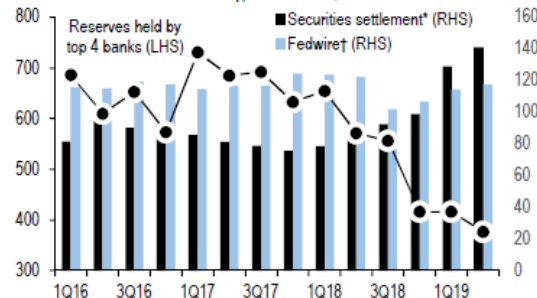
Time before which 50% of daily Fedwire gross payment volumes are completed, split into the top 10 Federal Reserve member banks and others; EST



Note: For details, see [What can we learn from the timing of interbank payments?](#), A. Copeland et al., Liberty Street Economics, 2/25/2019

Source: J.P. Morgan, NYFRB

Reserves held by the four largest banks (LHS) and intraday liquidity demands from securities settlement* and Fedwire†; both axes in \$bn



* Based on the combined actual maximum same-day payment obligation in GSD, MBSD, and NSCC from quarterly IOSCO Quantitative Disclosure.

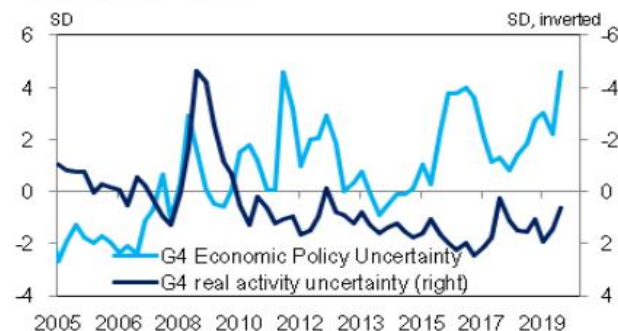
† See Exhibit 1 for details.

Source: J.P. Morgan, FRB, DTCC

Citi analysts highlight that global economic policy uncertainty continues to go up, with the key factors including Brexit delays, trade tensions, impeachment progress in the US, oil-market disruptions and other geopolitical risks. On the other hand, real activity uncertainty remains muted vs historical standards notwithstanding a pickup recently.

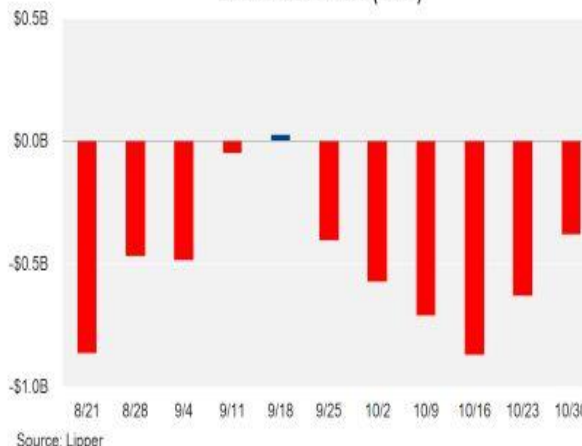
Retail funds investing in U.S. leveraged loans reported an outflow of \$381.1 mn for the week, as per Lipper data. This marks the sixth consecutive week of retail outflows for the asset class, totaling \$3.6 bn over this period. Mutual funds posted a \$474 mn withdrawal, far outweighing an inflow of \$92 mn for loan ETF funds, which reported a second straight week of inflows. This week extends the ytd outflows from the retail loan funds to \$29.7bn.

Figure 7. G4 – Economic Policy Uncertainty and Real Activity Uncertainty (SD), 2005-2019



Note: Real Activity Uncertainty is the first principal component of G4 dispersion in production, consumer and employment expectations. Source: Bloomberg, Haver, Macrobond, PolicyUncertainty.com, Citi Research

Loan Fund Flows (U.S.)



Source: Lipper

Europe

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Markets were little changed ahead of U.S. jobs data. German 10-yr bunds trade unchanged at -0.40%. French 10-yr OAT yields at -0.09%. Italian 10-yr BTP yield are up 2 bps at 0.94%. The euro traded is little changed at 1.114.

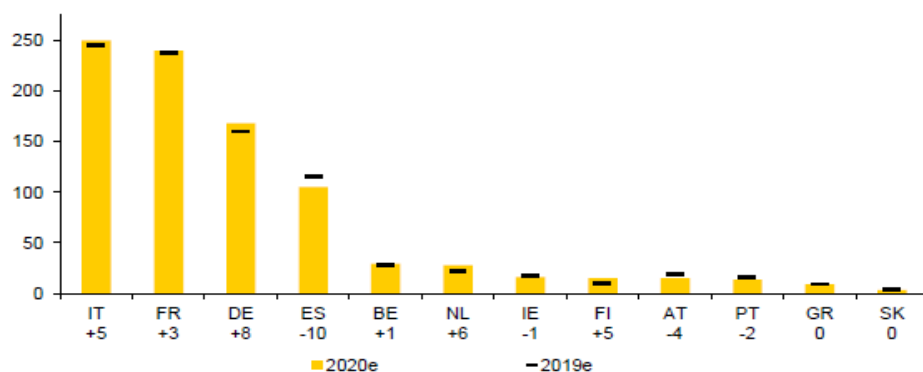
Contacts report that the shift towards ECB tiering of excess reserves has been smooth. The new euro benchmark money market rate €STR fixed unchanged at -54 bps yesterday.

Contacts argue that **lower volumes in yesterday's €STR fixing implies that Southern European banks are hesitant to raise cash in the unsecured market (at negative rates) and park at the ECB** (to fill their 0% allowance). Alternatively, **banks can raise the cash in the repo market.** Indeed, Italian repo rates have moved up 6-7 bps this week, which is seen as a manageable move.

Despite all the talk about fiscal policy, **analysts point out that euro area gross bond issuance is expected to rise just €12 bn in 2020 (to €895 bn from €883 bn in 2019).** ECB purchases will further reduce net supply to -€125 bn from a positive +€153 bn in 2019, according to Commerzbank. Contacts expect that it would take a material increase in the euro area's unemployment rate of a recession in Germany to see material fiscal stimulus (of over +2%GDP).

Italy and France neck-on-neck

Expected gross EGB issuance*, lower numbers show change vs. 2019e, in €bn



Source: Debt agencies, Bloomberg, Commerzbank Research, *) all instruments and currencies

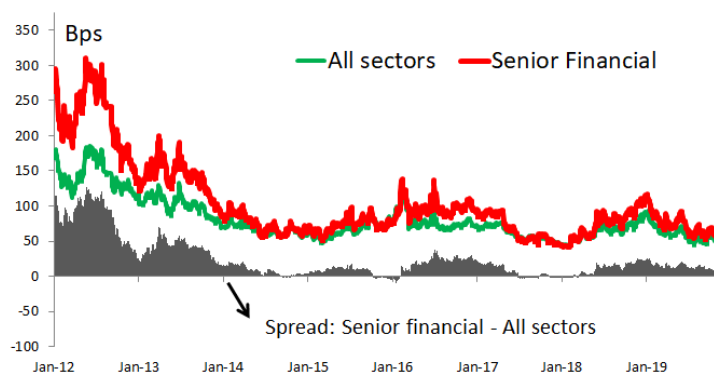
Switzerland

Swiss CPI fell -0.3% yoy (0% expected) or -0.2% mom (0.0% expected). The fall in price pressures was broad, with all subcategories (except other goods & services) recording lower or unchanged price changes. The SNB left its policy rate unchanged at -0.75% on 19 Sep but signaled further easing is possible.

Reuters reports that **ECB President Lagarde will keep aides and potentially the personal adviser to ex-President Draghi.** On Monday, President Lagarde is expected to make her first speaking engagement.

European equities (+0.3%) are up. Bank stock (-0.1%) underperformed and are down 4% in the past 5 days. Despite the underperformance of bank equity, the **spread between the CDS of senior financial debt and other sectors has remained relatively tight at 7 bps.**

Europe: 5-year CDS of Investment-grade Debt



United Kingdom.

The BBC reports that **Dame Minouche Shafik is the government's favorite to replace Governor Carney in January 2020.** Markets are little changed this morning.

Other Mature Markets

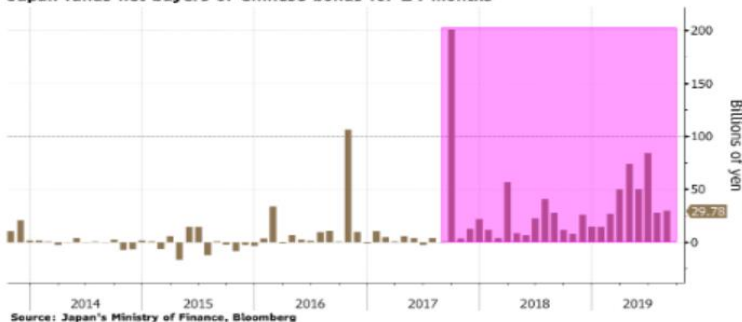
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Japan

Japanese bonds rallied in the wake of yesterday's dovish Bank of Japan (BoJ) forward guidance. 10-year JGB yields dropped 4 bps to -0.19%. In its monetary policy decision yesterday, the BoJ left monetary policy unchanged but indicated its willingness to cut interest rates in the future if necessary. Meanwhile, **Japanese investment funds have been strong net buyers of Chinese bonds since 2017.** The search for yield given negative domestic interest rates has encouraged Japanese investors to load up on foreign securities including US and Chinese corporate debt. To preserve the yield pick-up, investments are often unhedged for currency risk. **Japanese equities were little changed today.**

Gimme Yields


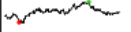








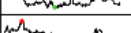



Japan funds net buyers of Chinese bonds for 24 months



Emerging Markets [back to top](#)

Asian equities (+0.4%) gained on positive Chinese data. The North Asian tech supply chain markets outperformed led by Vietnam (+1.7%), China (+1.3%), and Korea (+0.8%). Weak inflation data that suggested a continued slow-down weighed on Thailand (-0.6%) and Indonesia (-0.3%). Asian currencies were little changed. **In EMEA, equities gained in Russia (+0.9%) but sold off in Poland (-1.1%) and Hungary (-1.5%).** The ruble also gained +0.3% with analysts expecting that the currency could gain 2-3% if expectations of higher government spending materialize. **Latin American assets mostly underperformed on Thursday, with the exception of bonds.** Equity markets in Brazil (-1.1%), Mexico (-0.9%), and Chile (-2.8%) fell. The Brazilian real (-0.7%), Mexican peso (-0.8%), and Chilean peso (-0.4%) all fell against the dollar as well, though the Colombian peso strengthened by 0.3%. Conversely, hard currency bonds across the region gained, with yields down between 6-8 bps.

Key Emerging Market Financial Indicators

Last updated: 11/1/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.58	1.0	0	5	5	9
MSCI Frontier Equities		28.27	-0.4	0	1	3	8
EMBIG Sovereign Spread (in bps)		329	0	1	-14	-38	-85
EM FX vs. USD		61.07	0.1	0	2	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.04	0.0	0	2	-2	-2
Indonesian Rupiah		14039	0.0	0	1	8	3
Indian Rupee		70.81	0.2	0	0	4	-1
Argentine Peso		59.65	0.1	0	-3	-40	-37
Brazil Real		4.00	0.4	0	4	-8	-3
Mexican Peso		19.19	0.2	-1	3	5	2
Russian Ruble		63.88	0.4	0	2	3	9
South African Rand		15.11	-0.1	-3	1	-5	-5
Turkish Lira		5.73	-0.2	1	0	-4	-8
EM FX volatility		7.15	0.0	0.0	-1.0	-3.0	-2.6

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

Colombia

Colombia's central bank leaves policy rate unchanged at 4.25% on inflation and peso concern. The central bank maintained its real GDP forecast for 3.2% in 2019, while noting that the output gap should slowly narrow through 2020. In its statement, the policy board highlighted that core inflation stood just above the 3.0% midpoint of the target range, while supply shocks drove a temporary uptick of the headline rate to 3.8% y/y in September. Board members also noted uncertainty about further peso depreciation, with the currency down 4% against the dollar year to date.

China

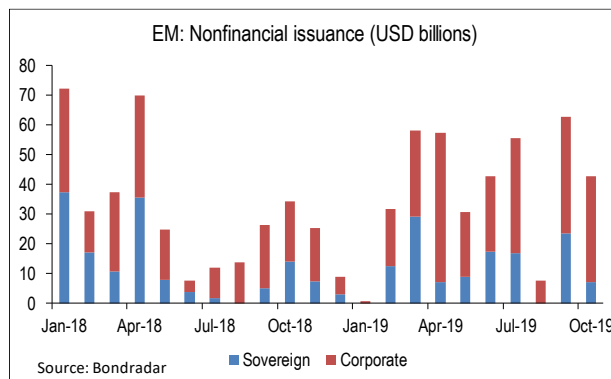
Equities rallied after a stronger-than-expected Caixin manufacturing PMI release. The tech-heavy Shenzhen index gained 1.3% and stocks in Shanghai advanced 1%. Sentiment was buoyed by a strong October Caixin manufacturing PMI print (51.7 vs consensus expectation of 51). The Caixin PMI surveys more small and medium-sized enterprises and export-oriented enterprises located in eastern coastal regions compared to the official PMI. Separately, **the sharp intra-day drop in the dollar bonds of two state-owned conglomerates shows investors' uneasiness with refinancing risks among conglomerates.** Bonds in Tsinghua Unigroup and in Founder sold off sharply before Credit Suisse extended two of its loans to Tsinghua.

South Africa

The rand and equities were little changed ahead of Moody's widely watched ratings decision later today. The BER manufacturing PMI increased to 48.1 in October (41.8 expected) from an upwardly revised 45.1 (originally 41.6) in September, signaling a deterioration but at a slower pace.

EM issuance

Emerging market bond issuance slowed to \$42.7 billion in October, but remains ahead of 2018 YTD, according to Bondradar. Corporates (nonfinancial) did the bulk of the work, placing just over \$35 billion. In sovereigns, Saudi Arabia led the way with a \$2.5 billion dollar issuance, followed by Indonesia and Côte d'Ivoire at \$2 billion and \$1.9 billion respectively. Year to date, 2019 issuance for nonfinancial corporates and sovereigns remains about 10% percent higher than 2018.




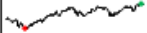


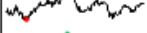
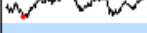

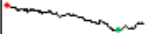
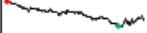













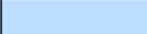



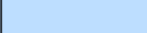
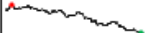
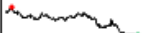
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Global Financial Indicators

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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3038	-0.3	1	3	11	21
Europe		3612	0.2	0	3	13	20
Japan		22851	-0.3	0	4	5	14
China		2958	1.0	0	2	14	19
Asia Ex Japan		69	-0.3	1	5	6	9
Emerging Markets		43	1.0	0	5	5	9
Interest Rates			basis points				
US 10y Yield		1.68	-8.1	-11	5	-145	-100
Germany 10y Yield		-0.41	-0.2	-5	16	-81	-65
Japan 10y Yield		-0.18	-4.3	-4	-3	-30	-18
UK 10y Yield		0.63	0.3	-5	16	-82	-65
Credit Spreads			basis points				
US Investment Grade		121	-0.4	2	-7	13	-26
US High Yield		463	-0.8	16	-8	88	-58
Europe IG		51	-0.6	1	-4	-20	-36
Europe HY		238	-1.2	10	4	-52	-114
EMBIG Sovereign Spread		329	0.0	1	-14	-38	-85
Exchange Rates			%				
USD/Majors		97.24	-0.1	-1	-2	1	1
EUR/USD		1.12	0.0	1	2	-2	-3
USD/JPY		108.0	0.0	1	0	4	2
EM/USD		61.0	-0.1	0	2	-2	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		60	0.6	-3	2	-18	11
Industrials Metals (index)		117	0.2	0	2	1	7
Agriculture (index)		39	0.0	0	1	-9	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.1	-0.1	0.5	-5.4	-6.2	-12.3
10y Treasury Volatility Index		4.4	0.1	-0.4	-1.3	0.1	-0.2
Global FX Volatility		6.4	0.0	0.2	-0.9	-1.9	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		160	2.7	3	-33	-224	-256
Italy		135	2.0	4	-7	-163	-115
Portugal		58	0.7	0	-16	-91	-90
Spain		65	0.6	1	-7	-52	-52

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: 11/1/2019 8:13 AM	Exchange Rates							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	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.04	0.0	0.4	2	-2	-2		3.3	0.2	8	14	-16	13		
Indonesia		14039	0.0	0.0	1	8	3		7.1	-1.9	-12	-29	-154	-107		
India		71	0.2	0.1	0	4	-1		6.8	-1.4	-2	-6	-115	-64		
Philippines		51	0.3	1.3	3	5	4		4.3	-0.2	-1	-4	-230	-199		
Thailand		30	0.0	0.0	1	9	7		1.6	-0.4	2	7	-132	-104		
Malaysia		4.17	0.3	0.5	1	0	-1		3.4	-4.8	0	4	-69	-65		
Argentina		60	0.1	-0.1	-3	-40	-37		56.8	-41.3	40	-938	3551	3377		
Brazil		4.00	0.4	0.0	4	-8	-3		5.8	5.3	-7	-55	-287	-235		
Chile		751	-1.3	-3.1	-3	-8	-8		3.4	0.0	30	55	-142	-108		
Colombia		3380	0.3	0.8	3	-5	-4		5.7	-6.9	0	4	-116	-81		
Mexico		19.19	0.2	-0.7	3	5	2		6.9	-2.6	-3	-14	-200	-186		
Peru		3.3	0.0	0.1	1	1	1		4.5	0.5	14	7	-151	-127		
Uruguay		37	0.1	-0.1	-1	-12	-13		11.0	-16.6	-20	34	13	25		
Hungary		294	0.1	0.8	4	-4	-5		1.1	6.9	7	6	-159	-106		
Poland		3.81	0.2	1.3	5	-1	-2		1.8	-3.8	0	-3	-82	-50		
Romania		4.3	0.1	0.7	2	-4	-5		3.8	0.0	1	8	-73	-41		
Russia		63.9	0.4	0.0	2	3	9		6.3	2.6	-5	-55	-205	-211		
South Africa		15.1	-0.1	-3.2	1	-5	-5		9.6	5.9	27	18	-38	0		
Turkey		5.73	-0.2	0.8	0	-4	-8		12.4	-34.7	-59	-84	-703	-449		
US (DXY; 5y UST)		97	-0.1	-0.6	-2	1	1		1.51	-1.0	-11	2	-145	-100		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)						Level		Change (in basis points)					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
									basis points							
China		2958	1.0	0	2	14	19		178	1	-8	-9	-6	-16		
Indonesia		6207	-0.3	-1	1	6	0		184	-2	10	-6	-38	-52		
India		40165	0.1	3	5	17	11		131	2	-2	0	-38	-65		
Philippines		7977	0.0	0	3	12	7		86	-3	10	3	-28	-35		
Malaysia		1593	-0.3	1	0	-7	-6		121	-1	0	-3	-15	-41		
Argentina		34995	3.3	5	16	12	16		2290	1	120	125	1655	1475		
Brazil		107220	-1.1	0	3	21	22		233	-1	8	-14	-20	-40		
Chile		4744	0.0	-3	-6	-7	-7		142	0	9	-1	0	-24		
Colombia		1633	0.0	1	3	18	23		183	-1	13	-7	-3	-45		
Mexico		43337	-0.9	-1	1	-5	4		320	0	24	-4	13	-34		
Peru		19905	1.1	2	3	5	3		131	0	8	-10	-25	-37		
Hungary		42160	0.0	-1	5	13	8		102	-2	10	-2	-23	-46		
Poland		57783	0.0	0	2	4	0		33	-5	6	-7	-31	-52		
Romania		9616	1.0	-1	1	12	30		193	6	7	-1	-1	-28		
Russia		2919	0.9	2	6	24	23		179	-3	0	-19	-43	-73		
South Africa		56570	0.3	3	3	6	7		350	1	43	11	5	-15		
Turkey		97930	-0.5	-2	-6	6	7		458	0	11	-15	14	29		
Ukraine		522	0.0	0	-1	-9	-7		468	-4	18	-46	-147	-319		
EM total		43	1.0	0	5	5	9		329	0	1	-14	-38	-85		

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

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