













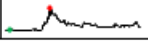
- US long-term rates continue to move higher as the yield curve steepens ([link](#))
- Smaller funding needs point to less dollar funding pressure into the year-end ([link](#))
- Sell-side analysts turn bullish on European equities ([link](#))
- Reserve Bank of New Zealand announced further monetary policy stimulus ([link](#))
- ECB's reversal interest rate estimated around -1% ([link](#))
- Markets in Peru correct after the president was ousted ([link](#))
- **Special Feature: EM Capital Flows Monitor** ([attached](#))

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

Risk appetite rises in quiet markets

Unlike the recent trend, there is so far no major news to drive markets in one direction or another. Instead, amidst the quiet, markets continue their steady march higher, with major equity indices again touching new all-time highs. Although US equity markets will be open today, it is expected trading will be light given the Veterans Day holiday, and US fixed income trading will be closed. Global equity markets are mostly higher so far with European equities generally up between 0.5%-1%. China is one notable exception, with the CSI 300 down 1%, led by tech shares. The Turkish lira is continuing its move higher today after the banking regulator raised the limit of FX swaps. The lira is now up 3% today versus the dollar and has gained over 7% since Friday.

Key Global Financial Indicators

Last updated: 11/11/20 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3546	-0.1	5	2	15	10
Eurostoxx 50		3462	0.6	10	6	-6	-8
Nikkei 225		25350	1.8	7	7	9	7
MSCI EM		48	-1.1	5	4	11	6
Yields and Spreads			bps				
US 10y Yield		0.98	1.6	21	20	-97	-94
Germany 10y Yield		-0.51	-2.4	13	2	-26	-32
EMBIG Sovereign Spread		421	0	17	-10	97	128
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.9	-0.1	2	1	-8	-9
Dollar index, (+) = \$ appreciation		93.0	0.3	0	0	-5	-3
Brent Crude Oil (\$/barrel)		44.7	2.5	8	4	-28	-32
VIX Index (% change in pp)		24.1	-0.7	-6	-1	12	10

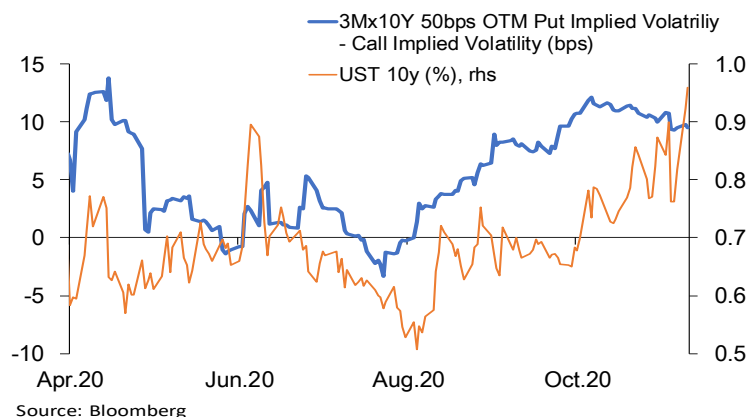
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

[back to top](#)

US long-term rates have continued to move higher with the curve steepening. Treasury 10-year yields reached 0.96%, rising by 30bps quarter-to-date. Market-based expected inflation, breakeven 10-year inflation, went up by 13bps during the same period. Despite the large move, volatility skew still points to higher rates. Out-of-the-money put option implied volatility is more elevated than calls; i.e., option traders pay more insurance premiums for a hedge against higher rates. The demand for the UST 10-year auction Tuesday was not strong, resulting in primary dealers taking down 32% of the issued amount, the highest share since May 2019. Traders are concerned about the smooth digestion of the upcoming \$27 bn 30-year auction Thursday, a test for investors' demand in the long-end.

UST Volatility Skew Points to Higher Rates



Valuation adjustment among sectors continued. Monday's euphoric rally appears to be over, but the margin between winners and losers during the lockdown has continued to narrow in the stock markets; the top five shares continued to lose ground by -2.1%, while the small-cap Russell 2000 was up +1.9% as shares hit hardest during the lockdown continued to outperform. Idiosyncratic factors have reinforced the trend; Amazon fell by -3.4%, facing an antitrust complaint from the European Union. Boeing rallied +5.2% following the headline that regulators could lift the 737 Max grounding next week. S&P 500 moved sideways during the day to close down by 0.1%. Bank shares outperformed the overall index slightly on the back of the steeper yield curve. VIX edged lower to 24.8.

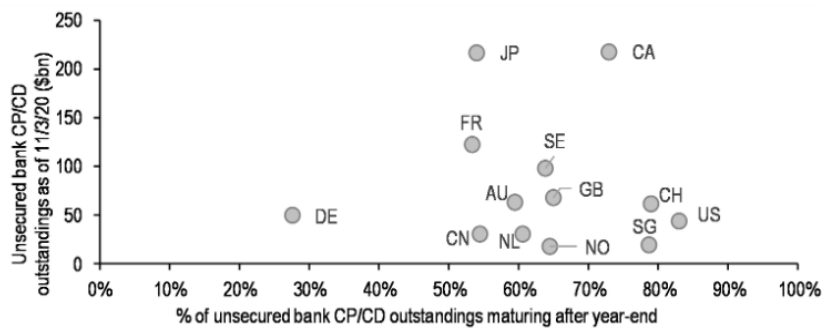


Smaller dollar funding demands suggest less funding pressure into the year-end. According to JPMorgan, 62% of banks' CP/CD outstandings are set to mature next year, on average, up from 45% a

month ago. US banks are furthest, having placed 83% of their CP/CD over the turn. Although Japanese and French banks have somewhat lagged at 50%, in absolute dollar terms, there is less CP/CD that still needs to be rolled before year-end than there was at this point in past years, suggesting less funding pressures heading into year-end, at least for now. Bank issuers appear to be working to structurally reduce their reliance on CP/CD program this year, as evidenced by the substantial decline in outstandings.

Exhibit 3: US banks are farthest along, with 83% placed over the turn

Unsecured bank CP/CD outstandings (\$bn) versus percentage of unsecured bank CP/CD outstandings maturing after year-end, as of 11/3/20



Source: DTCC, J.P. Morgan

Exhibit 2: We think issuers are working to structurally reduce their CP/CD exposures this year as evidenced by the substantial decline in outstandings

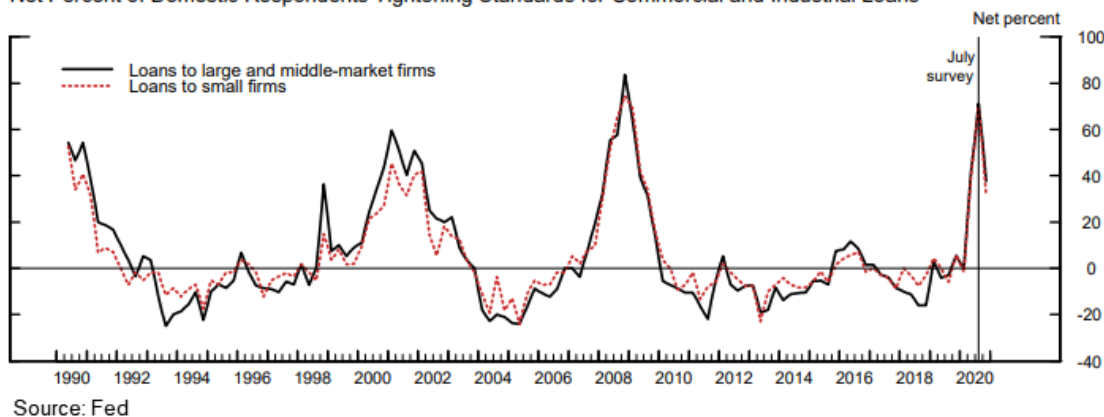
Bank CP/CD outstandings (\$bn)



Source: DTCC, J.P. Morgan

The Fed's Senior Lending Officer Opinion Survey ([link](#)) released Monday showed a further tightening in bank lending standards over the past three months. Banks had tightened significantly in July. The latest report also had questions on loans in forbearance or debt relief (Questions 27-38). 33% of banks reported that more than 5% of their loans to large and medium-sized C&I borrowers were in forbearance, and about 50% of banks said that more than 5% of their CRE loans were in a similar state.

Net Percent of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



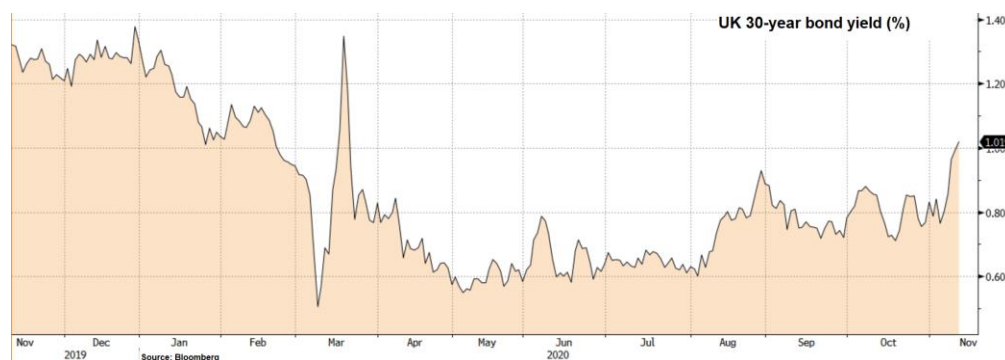
Europe

[back to top](#)

European equities were mostly higher with country indices up around 0.5%. Health care (+1.6%) and utilities (+1.3%) were outperforming the broader index.

The euro (-0.4%) and the sterling (-0.1%) were slightly weaker against the dollar. The sterling lost some ground after media reports confirmed that trade negotiations will overshoot the 15th November “soft” deadline and 19th November is the next realistic date for the conclusion of the talks.

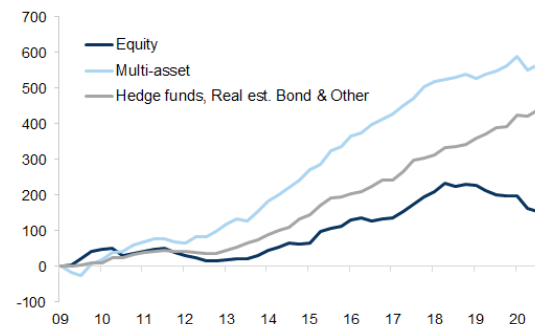
European bond markets were little changed this morning, except for UK gilts (+2 bps). The combination of vaccine-related curve steepening and increased fiscal stimulus has pushed UK’s bond market yields to pre-pandemic levels.



Sell-side analysts are turning increasingly positive on European equities. Aside from the latest progress on the vaccine, the bullish outlook is supported by the ongoing combination of monetary and fiscal stimulus, better than expected Q3 earnings as well as a potential boost from reduced trade protectionism following the U.S. election. Contacts suggest that automobiles, construction and particularly banks have the potential to outperform, especially if the dividend payout restrictions are eased going forward. Analysts also point out that despite that European pure equity funds have continued to see outflows; multi-asset funds and non-resident investors have already started to increase their allocation into European equities.

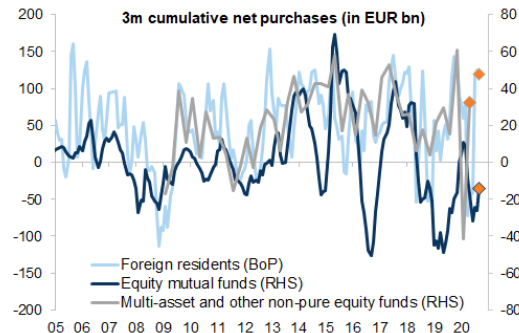
Exhibit 9 : Euro area fund flows by asset class - non-equity funds have seen inflows...

Cumulative flows, EUR bn



Source: Datastream, Goldman Sachs Global Investment Research

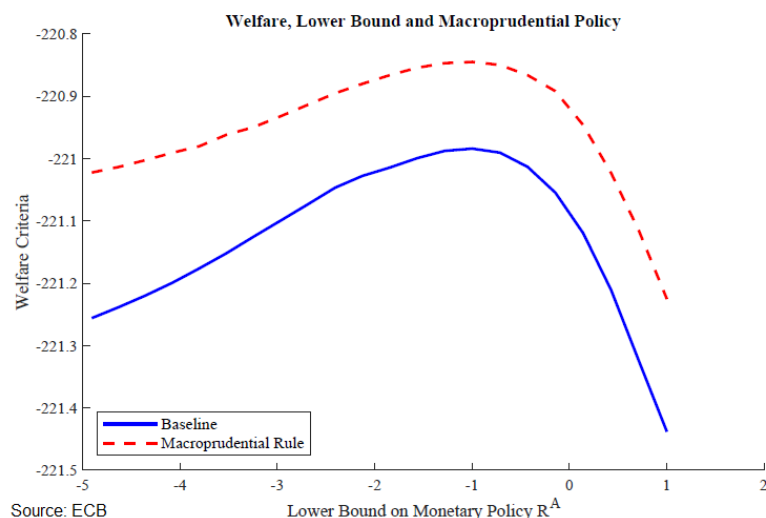
Exhibit 10 : ... but many of those flows are going into European equity, along with foreign buyers



Multi-asset and other non-pure equity funds: last data point Q2 2020

Source: ECB, EPFR, Haver Analytics, Goldman Sachs Global Investment Research

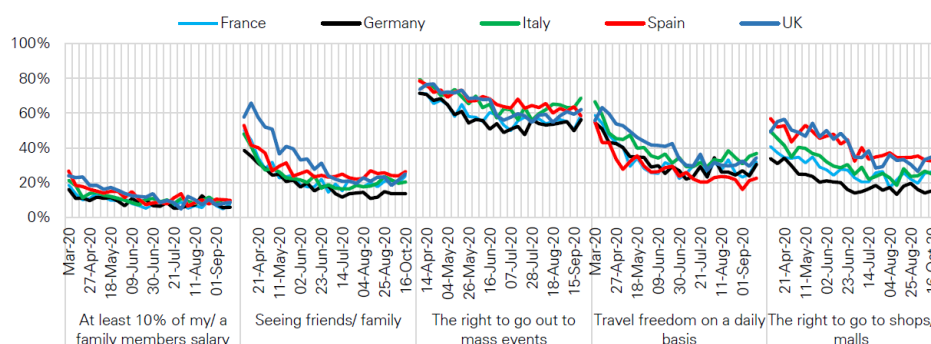
The ECB research department concludes that the reversal interest rate is around -1% per annum. ECB's deposit rate is currently at -0.5%. The working paper further concludes that risk of hitting the reversal rate depends on the capitalization of the banking sector **and macroprudential policy in form of countercyclical capital buffers can help to mitigate the probability of encountering the reversal rate.** Contacts highlight the interesting timing of the publication given the recent comments from ECB's Executive Board members around the potential room to adjust ECB's deposit rate ahead of the next policy meeting on the 10th of December. Markets are currently pricing less than 5 bps of policy rate easing over the next 12 months as compared to 10 bps prior to the recent vaccine-related developments.



Source: ECB

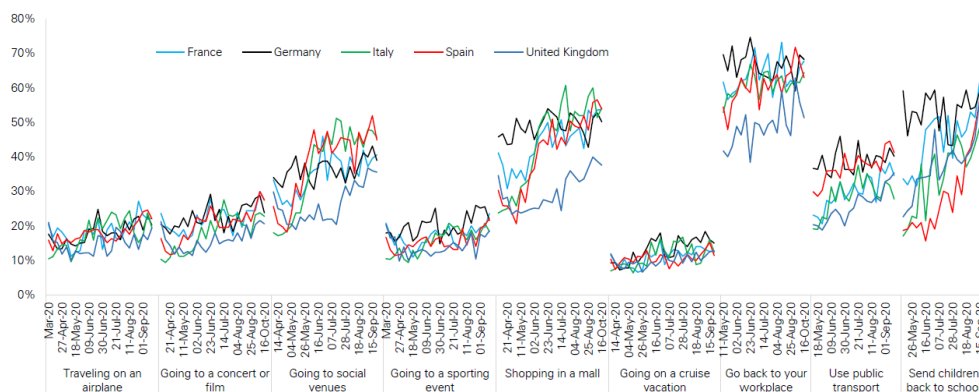
European households remain reasonably supportive of the new lockdown lite measures. According to Deutsche Bank (dbDIG) household survey, over 84% of respondents suggest they are ready to comply with new restrictions. The survey also confirms a strong preference for social rather than economic restrictions, which supports the current policy of keeping workplaces open to possible extent. Households readiness to normalize their life after the end of the lockdown has stalled recently with respondents suggesting they will avoid travel as well as large gatherings even as restrictions ease.

Figure 9: Which would you personally be prepared to give up over the next three months in order to help address growing coronavirus concerns?



Source: dbDIG household survey

Figure 4: Share of respondents who would feel comfortable doing the following within a few weeks of Covid-19 subsiding in the very near future



Source: dbDIG household survey

Other Mature Markets

[back to top](#)

Japan

Equities gained (NIKKEI: +1.8%); The Japanese yen depreciated (-0.2%); government bond yields were broadly stable.

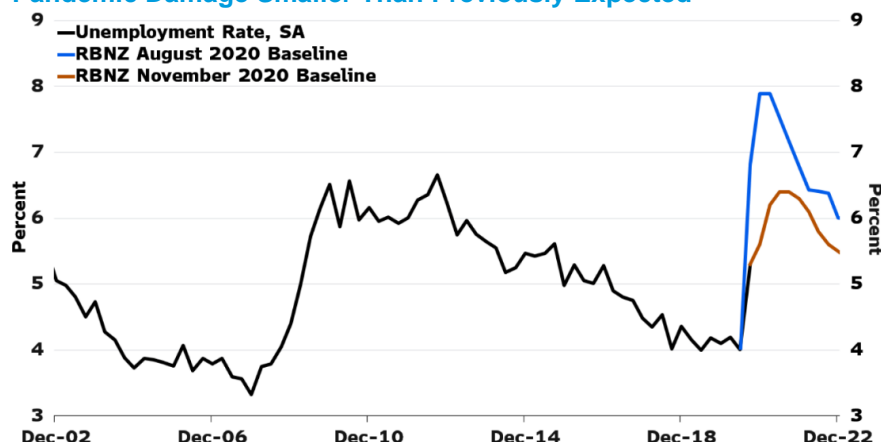
Australia

Equities gained (+1.7%); government bond yields continued rising (10-year: +7.4 bps; 30-year: +5.5 bps); Australian dollar appreciated (+0.2%).

New Zealand

The Reserve Bank of New Zealand (RBNZ) announced further monetary policy stimulus. The RBNZ assessed that the economy has performed better than what was expected at the August policy meeting, including in terms of employment, output and asset prices. However, the pandemic shock remains large and persistent. The RBNZ thus confirmed the establishment of a Funding for Lending Program, which will start in early December. The program will provide funding for three years at the prevailing official cash rate (currently, at 0.25%) to boost credit availability and lower borrowing costs. Additional stimulus could be forthcoming. Market participants now expect that additional monetary stimulus would be in the form of expanding the Funding for Lending Program or asset purchases, with negative interest rates appearing less likely. **Government bond yields rose (2-year: 10.5 bps; 10-year: 14.4 bps); New Zealand dollar appreciated (+0.9%); equities gained (+0.4%).**

Pandemic Damage Smaller Than Previously Expected



Source: Bloomberg.

Emerging Markets

[back to top](#)

Asian stock markets were mixed today. Korean (+1.4%), Indian (+1.0%) and Indonesian (+0.9%) equities gained. Meanwhile, share prices dropped in China (CSI 300: -1.0%), led by IT firms (-3.4%). Malaysian equities (-0.3%) also retreated. **Government bond yields continued rising in some markets,** notably in Singapore (10-year: +9 bps). **Asian currencies were mixed.** Thai baht (+0.6%) and Korean won (+0.5%) appreciated, while Malaysian ringgit (-0.3%) and Indian rupee (-0.3%) depreciated. **EMEA bourses traded mixed again today as impetus from vaccine hopes fades.** Stocks were higher in Russia (+0.8%); Turkey (+1.0%); Poland (+0.9%); and the Czech Republic (+0.2%). Losses took place in Kuwait (-1.6%), Egypt (-0.7%), and Hungary (-0.2%). Currencies were mixed as well but within a narrow range, except for the Turkish lira 1% surge after FX restrictions were eased. **Equities in most of the major LATAM markets continued to rise on Tuesday.** While Mexico (1.9%), Brazil (1.5%), and Chile (1.2%) closed in green, Peru's equity index was down 6.5% due to the ongoing political crisis. The synchronous run-up in the regional currencies post the US elections seems to have come to a halt. Peruvian sol, Brazilian real and Chilean peso depreciated due to domestic factors, however, the currencies of Mexico and Colombia appreciated to a smaller extent of 0.1% and 0.5%. According to a Bloomberg report, Argentina seeks to negotiate for an extended fund facility program with the IMF in upcoming talks this week. This program allows the borrowing countries a longer repayment schedule, albeit with stricter economic reforms

Key Emerging Market Financial Indicators

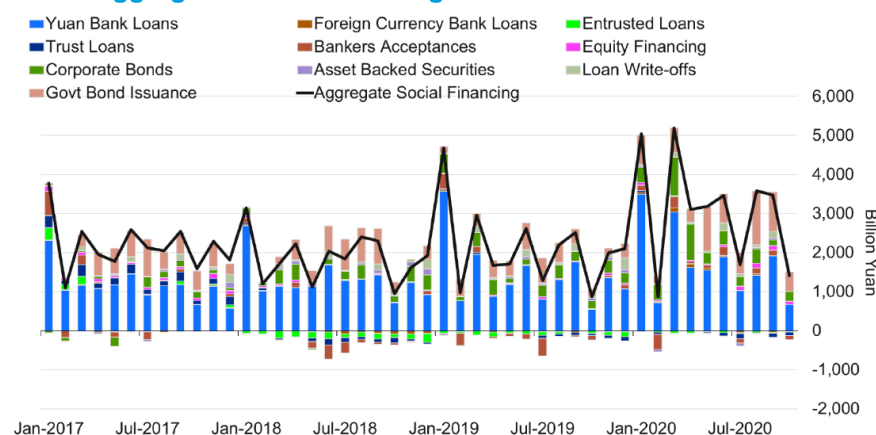
Last updated: 11/11/20 8:13 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		47.71	-0.7	5	4	11	6
MSCI Frontier Equities		27.53	0.9	4	3	-4	-9
EMBIG Sovereign Spread (in bps)		421	0	17	-10	97	128
EM FX vs. USD		55.90	-0.1	2	1	-8	-9
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.62	-0.1	0	2	6	5
Indonesian Rupiah		14085	-0.2	3	4	0	-2
Indian Rupee		74.38	-0.3	0	-1	-4	-4
Argentine Peso		79.45	0.0	-1	-3	-25	-25
Brazil Real		5.42	-0.2	4	2	-24	-26
Mexican Peso		20.41	-0.4	3	4	-6	-7
Russian Ruble		76.54	0.0	1	1	-17	-19
South African Rand		15.66	-0.2	1	5	-5	-11
Turkish Lira		7.89	3.4	7	0	-27	-25
EM FX volatility		10.69	0.0	-0.3	-0.7	3.4	4.1

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

China

China's credit growth moderated in October in line with expectations. Aggregate financing amounted to 1.42 tn yuan (\$215 bn), down from 3.48 tn yuan in September, reflecting the decline in government bond issuance and seasonal factors (public holidays in October). Banks extended new loans in an amount of 690 bn yuan (\$104 bn). The share of new lending to firms declined markedly, indicating some tighter funding conditions for corporates. **Share prices of Chinese tech firms further declined from yesterday.** The decline in share prices of major tech giants (Alibaba, Tencent, JD.com, Meituan, and Xiaomi) continued after the government issued draft rules to curb monopolistic powers of internet companies.

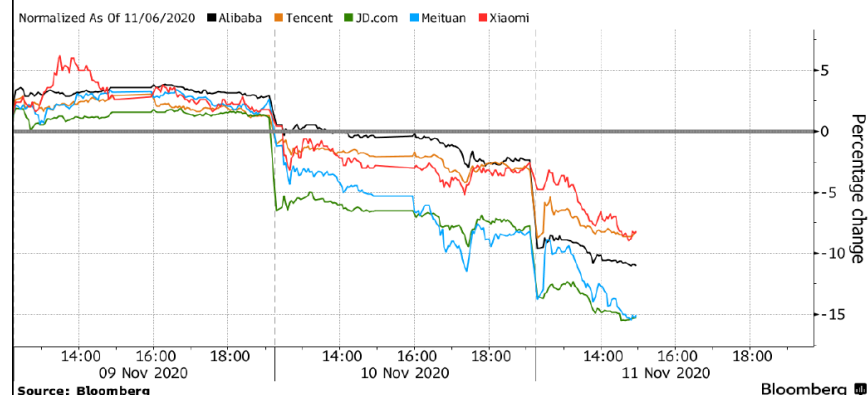
China Aggregate Social Financing



Source: Bloomberg.

Tech Slide

Chinese tech stocks plunge amid Beijing regulatory crackdown



Source: Bloomberg

Bloomberg

China and Hong Kong SAR

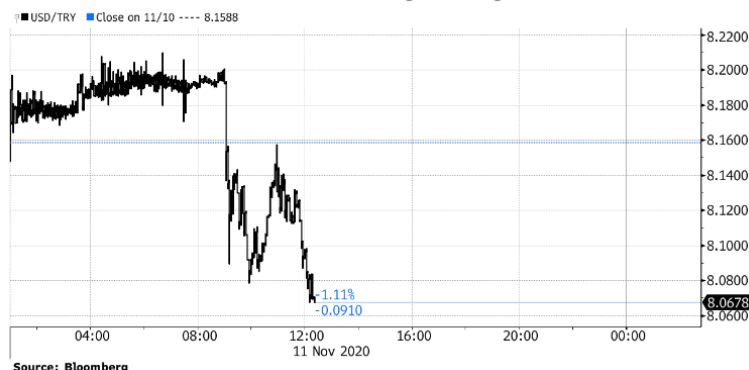
Hong Kong lawmakers are required to show their patriotism. China's top legislative body passed a measure that required Hong Kong lawmakers to show their patriotism. Four sitting pro-democracy lawmakers were disqualified from the legislature as a result of Beijing's new directive. Reportedly, the remaining opposition lawmakers plan to resign, which would effectively eliminate political opposition in the legislature for the first time since the handover from Britain in 1997. **Equities fell (-0.3%), driven by Chinese tech firms. The Hong Kong dollar remained strong (+0.01%).**

Turkey

The banking regulator (BDDK) raised the limit on the amount of FX swaps between local and foreign traders. The move, which reverses some of the restrictions imposed previously, will allow foreign investors to hold more liras via lira-dollar swaps. The BDDK [stated](#) that "as a continuation of the normalization steps

taken recently,” the limits for local banks paying lira and receiving FX in swaps was raised to 5% to 30% of regulatory capital, depending on the maturity of the contract. **The lira surged 1.0% following the announcement and is now up 3% on the day.** Market observers are increasingly expecting a rate hike at the CBT’s next meeting on Nov. 19th.

Turkish lira reversed losses to more than 1% gain on regulator decision

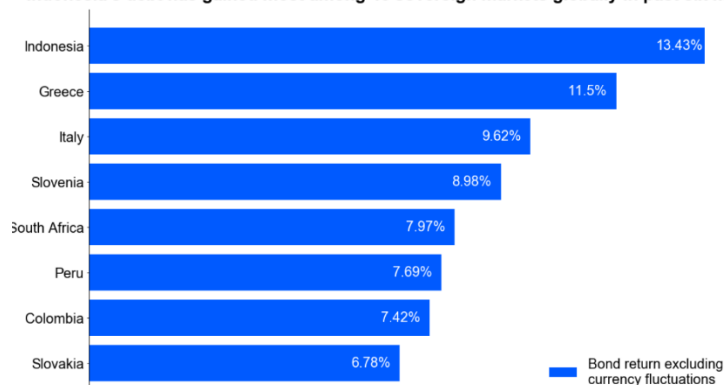


Indonesia

Global funds are favoring Indonesian bonds. Some market analysts noted that as U.S. election risks waned and the COVID-19 vaccine showed some promise, investors’ focus turned from havens to high-yielding assets that are primed to benefit from a global recovery. Indonesian government debt is among the best outperformers in the past six months and remains attractive. Positioning in Indonesian bonds in global portfolio is still relatively light. Market participants expected more fund flows into Indonesian bonds, which would in turn support the currency’s strength. **Government bond yields declined 34 bps (10-year) in the past week; Indonesian rupiah depreciated 0.2% today after appreciating 3.4% in the past week.**

World Champion

Indonesia's debt has gained most among 46 sovereign markets globally in past six months



Sources: Bloomberg, Intercontinental Exchange

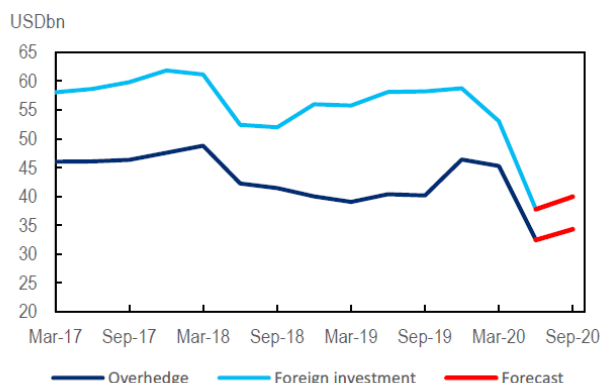
Bloomberg

Brazil

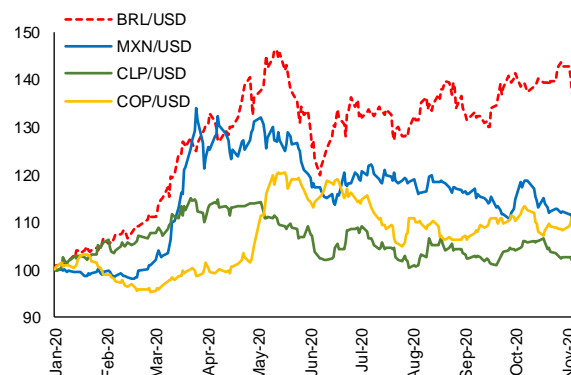
The Brazilian real weakened further on Tuesday and is likely to remain vulnerable in the near term. The currency has shed 0.66% in the current week, paring the 6.4% appreciation in the week ending on Nov 6th. Analysts attribute the recent correction to USD buying pressures from financial institutions that are unwinding overhedging positions as they transition into the new tax law. Until recently, Brazil did not tax the FX gain/losses on foreign investments but did tax the FX movements in their hedges. This resulted in overhedging. Earlier this year, the country passed a new law that addressed this mismatch and mandated

the institutions to unwind 50% of their overhedging positions in 2020. Hence, these institutions now have an incentive to unwind their excessive hedging positions when the currency gains. Citi estimates, about USD14-15 bn overhedging positions are to be offloaded by the end of 2020. Hence, the currency is likely to face bouts of material sell offs for the rest of the year and could invite intervention from the central bank. There is also a broader consensus that the currency is facing headwinds on concerns of fiscal balance deterioration.

Overhedge at the end of Sept is expected at USD 34 bn.



Real has depreciated the most since Jan amongst its major regional peers.



Note: In panel 2 currencies are indexed with Jan 1, 2020 as base.

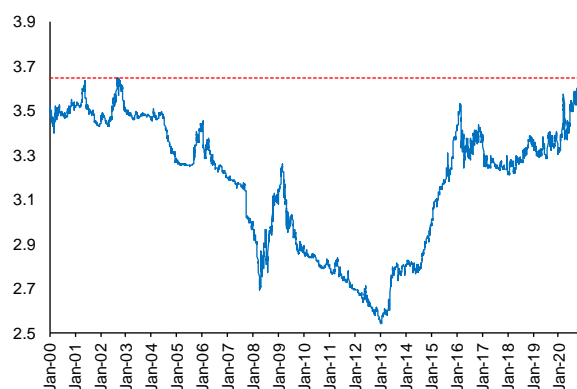
Sources: Citi Research, Bloomberg, BCB, Itau IR, BB IR, Bradesco IR, Santander IR, Bloomberg and IMF Staff calculations.

Petrobras posts encouraging 3Q results. The oil major reported strong volume growth in 3Q2020 as recovery in fuel consumption was better than expected. Sales for the quarter came in at 9.5mn m³, up 20.8% sequentially. The company also registered significant margin improvement, which along with volume growth drove 3Q EBITDA up 78.8% to 819mn BRL.

Peru

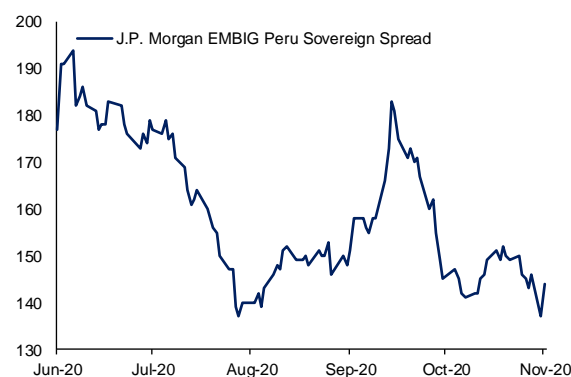
Markets in Peru react to surprising exit of the president with disappointment but not panic. Factoring in the political risk ushered by impeachment of the president, S&P/BVL Index shed 6.5% on Tuesday and the sol slumped to 3.63/USD, a level last seen 18 years ago. However, the currency has been under pressure since the COVID outbreak. Given the country's history of political turmoil, analysts anticipate investors to not react sharply to these developments just yet and wait for the incoming president to announce his cabinet. JP Morgan's EMBIG Sovereign Spread for Peru widened nominally on Tuesday.

PEN weakens further and inches close to its 18-year low.



Source: Bloomberg

Bond spread widen but not drastically.









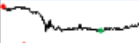







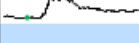
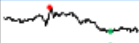









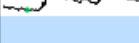



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Global Financial Indicators

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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3559	-0.1	3	2	15	10
Europe		3462	0.6	10	6	-6	-8
Japan		25350	1.8	7	7	9	7
China		3342	-0.5	2	2	15	10
Asia Ex Japan		83	-1.2	4	4	17	13
Emerging Markets		48	-1.1	5	4	11	6
Interest Rates							
			basis points				
US 10y Yield		0.98	1.6	21	20	-97	-94
Germany 10y Yield		-0.51	-2.4	13	2	-26	-32
Japan 10y Yield		0.04	-0.4	0	1	10	5
UK 10y Yield		0.40	-0.1	19	12	-41	-42
Credit Spreads							
			basis points				
US Investment Grade		114	0.5	-12	-13	-3	16
US High Yield		442	0.3	-75	-62	-4	49
Europe IG		50	-0.9	-8	-1	1	5
Europe HY		288	-3.4	-51	-20	58	81
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates							
			%				
USD/Majors		93.04	0.3	0	0	-5	-3
EUR/USD		1.18	-0.4	0	0	7	5
USD/JPY		105.5	-0.2	-1	0	3	3
EM/USD		55.9	-0.1	2	1	-8	-9
Commodities							
			%				
Brent Crude Oil (\$/barrel)		45	2.5	8	4	-28	-32
Industrials Metals (index)		124	-0.3	1	4	7	8
Agriculture (index)		43	0.3	4	6	11	5
Implied Volatility							
			%				
VIX Index (% change in pp)		24.1	-0.7	-5.5	-0.9	12.0	10.3
US 10y Swaption Volatility		58.0	0.0	-4.4	-12.0	-13.0	-4.0
Global FX Volatility		8.0	0.0	-0.2	-0.6	1.7	2.0
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		133	0.1	-17	-7	-28	-33
Italy		121	-3.3	-11	-4	-29	-38
Portugal		63	-0.5	-7	-8	3	0
Spain		66	-1.1	-7	-4	-1	1

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 11/11/2020 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		6.62	-0.1	0.5	2	6	5		3.4	2.0	4	4	6	22
Indonesia		14085	-0.2	3.4	4	0	-2		6.4	5.4	-18	-42	-62	-72
India		74	-0.3	0.5	-1	-4	-4		6.0	4.2	1	-4	-80	-83
Philippines		48	0.0	0.3	0	5	5		3.6	0.0	-1	2	-70	-69
Thailand		30	0.0	2.2	3	0	-2		1.5	2.9	0	0	-25	-13
Malaysia		4.13	-0.3	0.8	0	0	-1		2.5	5.2	-5	-2	-89	-85
Argentina		79	0.0	-0.5	-3	-25	-25		51.3	31.8	58	952	-1130	-1134
Brazil		5.42	-0.2	4.5	2	-24	-26		6.2	5.7	-38	-4	20	-4
Chile		758	-0.2	-0.1	5	0	-1		2.8	-1.0	6	-1	-52	-54
Colombia		3643	-0.3	4.7	5	-8	-10		5.2	5.6	-15	5	-62	-71
Mexico		20.41	-0.4	2.6	4	-6	-7		6.0	0.2	-28	-4	-100	-96
Peru		3.6	-1.2	-0.9	-1	-7	-9		4.0	7.0	1	-1	-45	-51
Uruguay		43	-0.3	0.4	0	-12	-13		7.5	-1.9	-10	14	-344	-338
Hungary		303	-0.5	2.2	0	0	-2		1.7	4.2	-6	1	44	48
Poland		3.81	-0.3	1.6	-1	2	-1		0.7	4.1	6	-5	-126	-124
Romania		4.1	-0.4	0.3	0	4	3		3.0	7.0	-3	-28	-92	-101
Russia		76.5	0.0	1.3	1	-17	-19		5.6	2.8	-30	-9	-67	-55
South Africa		15.7	-0.2	1.4	5	-5	-11		9.8	1.3	-45	-58	16	23
Turkey		7.89	3.4	6.8	0	-27	-25		13.4	-4.0	-106	24	130	175
US (DXY; 5y UST)		93	0.3	-0.4	0	-5	-3		0.45	0.0	13	12	-129	-124

	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		4905	-1.0	2	5	26	20		205	0	-6	-10	30	29
Indonesia		5510	0.9	8	9	-10	-13		185	0	-33	-27	15	29
India		43594	0.7	7	8	8	6		172	-7	-36	-37	42	47
Philippines		7024	-0.2	9	18	-12	-10		103	-1	-23	-20	23	37
Malaysia		1570	-0.3	7	3	-2	-1		130	-2	-20	-20	11	18
Argentina		51819	4.4	9	13	54	24		1347	1	-82	4	-1092	-422
Brazil		105067	1.5	7	8	-3	-9		264	-1	-25	-35	39	49
Chile		3977	1.2	13	8	-14	-15		147	0	-23	-15	6	14
Colombia		1213	0.0	5	2	-26	-27		201	0	-28	-31	28	38
Mexico		40405	1.9	8	5	-7	-7		418	0	-42	-53	108	126
Peru		17667	-6.5	-1	-2	-11	-14		140	0	-6	-5	16	33
Hungary		37764	1.1	9	12	-12	-18		95	0	-20	-23	5	9
Poland		51280	0.0	9	4	-13	-11		7	-1	-12	-13	-16	-11
Romania		9066	0.0	3	3	-7	-9		209	5	-28	-28	26	36
Russia		3019	0.7	8	7	2	-1		173	0	-30	-23	8	42
South Africa		57787	0.2	8	5	3	1		413	-6	-55	-71	87	93
Turkey		1274	2.5	9	9	24	11		508	-42	-131	-99	80	107
Ukraine		500	0.0	0	0	-3	-2		582	-6	-59	-80	131	162
EM total		48	-0.7	5	4	11	6		421	0	17	-10	97	128

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

[back to top](#)