- **ECB's first week of corporate bond purchase exceeds expectations** (link)
- **China's total social financing data for October comes in below expectations** (link)
- **Chancellor Merkel expresses support for EU-wide deposit insurance proposal** (link)
- **Impact of monetary policy-easing on risk appetite may have started to fade** (link)
- **Effect of ECB tiering on unsecured market trading is minimal, according to policy maker** (link)

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Lull in Trade-Related Headlines Gives Markets a Breather

Financial markets have been trading lightly since the beginning of the week in the absence of significant developments on the trade front. Nevertheless, the outcomes of the ongoing trade negotiations continue to weigh on investors' minds, including the expected decision tomorrow by the US administration on the im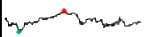position of auto tariffs on Japan and the EU. On the policy front, investors took a positive view on Chancellor Merkel's expression of support for the proposal of her finance minister to establish of an EU-wide deposit insurance scheme. However, some expressed concerns about the impact of a potential change in the risk weighting of sovereign bonds on bank balance sheets. Political risks continue to be of grave concern in Hong Kong, as this week has seen a dangerous flare up in public protests. Meanwhile in the US, market activity was limited yesterday on the occasion of Veterans' Day, but the price action on futures market this morning points to a positive start, in line with European and Asian equity markets.

Key Global Financial Indicators

Last updated: 11/12/19 9:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3087	-0.2	0	4	13	23
Eurostoxx 50		3709	0.3	1	4	16	24
Nikkei 225		23520	0.8	1	8	6	18
MSCI EM		43	0.3	-1	4	11	11
Yields and Spreads			bps				
US 10y Yield		1.94	0.0	8	21	-124	-75
Germany 10y Yield		-0.24	0.5	7	20	-64	-48
EMBIG Sovereign Spread		316	0	-5	-20	-51	-98
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.3	-0.4	-2	-1	-3	-3
Dollar index, (+) = $ appreciation		98.3	0.2	0	0	1	2
Brent Crude Oil ($/barrel)		62.3	0.2	-1	3	-11	16
VIX Index (%, change in pp)		12.7	0.0	0	-3	-5	-13

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

United States

US equity markets edged lower yesterday, dropping from Friday's record close. Investors seem to prefer staying on the sideline for further clarity on trade. With Treasury markets closed for Veteran's day, trading volume was below average.

The positive impact of monetary policy-easing on investor risk appetite may have started to fade. According to Goldman Sachs research, decomposing the Risk Appetite Indicator (RSI) shows that the positive contribution from monetary policy has declined. Conversely, the drag from the growth factor has diminished significantly. Meanwhile, the risk appetite has started to correlate positively with the macro surprise indicator (MAP). The positive correlation indicates that markets have entered a "good news is good news" regime. This follows the "bad news is good news" regime seen earlier this year, when the correlation turned sharply negative, as weak global growth data was offset by expectations of dovish monetary policy response. Going forward, the hurdle for further monetary policy easing is high in the G3 countries, so better growth needs to materialize to support risk appetite.

RAI principal components
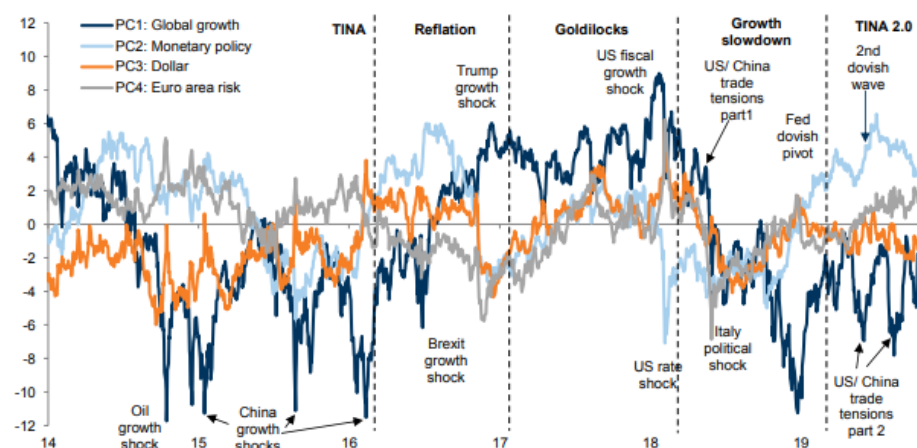
Source: Datastream, Goldman Sachs Global Investment Research

Correlation of RAI with global MAP score (weekly changes)
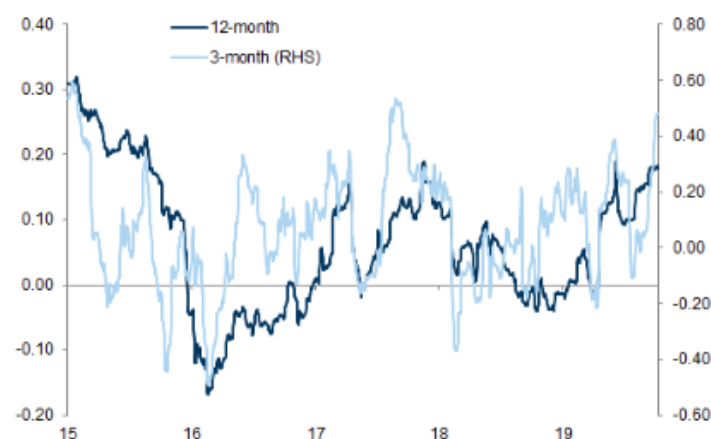
Source: Bloomberg, Goldman Sachs Global Investment Research

While the election is still one year away, **some segment of equity markets already appears sensitive to the election outcome.** Health care sector, especially managed care, has lagged the broader market, as the top Democratic candidates all propose some form of "Medicare for all" policies. Corporates that are sensitive to higher tax rate have also underperformed, albeit only modestly, given the candidates' focus on raising tax revenues, such as corporate and wealth tax. Energy and education sectors will likely come in focus. Antitrust scrutiny will hurt big techs, but this sector has remained resilient so far given stronger than expected earnings, and the fact that changes to antitrust laws could face much higher legislative hurdles. The betting market is currently showing a 75% chance for Democrats to control the house, a 35% chance of them controlling the senate, and a 54% chance of a Democrat as President.

Exhibit 3: Implied Probabilities of House, Senate, and White House Control
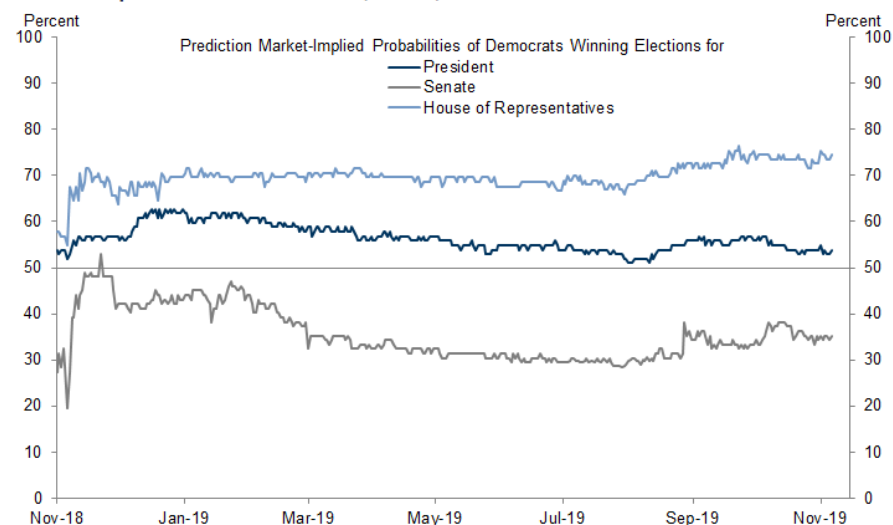
Source: PredictIt, Goldman Sachs Global Investment Research

Exhibit 5: Health Care Sector Appears to Expect Chance of Policy Changes
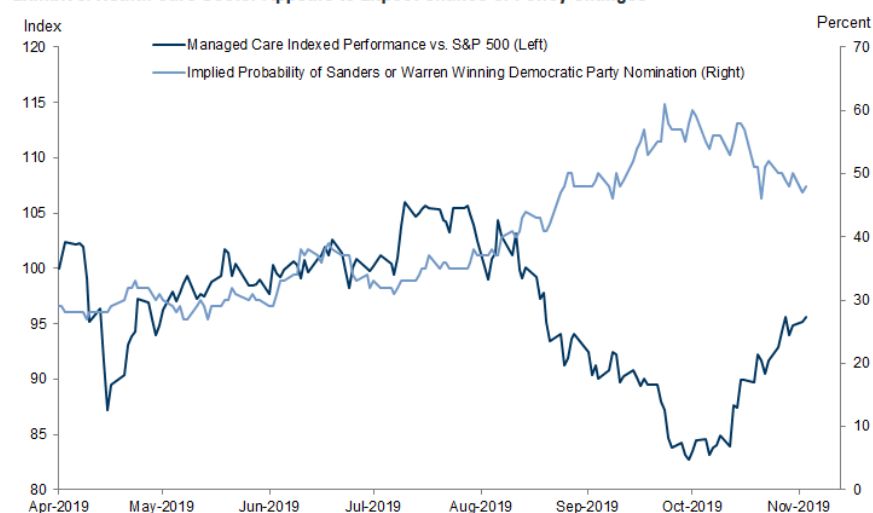
Source: PredictIt, Goldman Sachs Global Investment Research

Europe back to top
Euro Area

Market action is subdued today in the absence of major headlines. Bund yields are little changed, **with** German 10-yr bund yields trading at -0.24%. Italian 10-yr yields are also little changed (up 25 bps in the past week). The euro (-0.1% to 1.102) ticked lower. Italy's 10-yr spread over bunds is little changed today (up 17 bps in past week). Spanish 10-yr spreads are also steady (up 5 bps in past week). European equities (+0.4%) are up, with bank shares rising 1%.

The ZEW index tracking German investor expectations for the next 6 months jumped to -2.1 in November (-13.0 expected), from -22.8 in October. Assessment of current situation remains poor (-24.7 versus -22.3 expected).

Chancellor Merkel expressed her support for the proposal of German FM Scholz on a banking union. Contacts are divided on the proposal. One camp argues that the willingness of German policymakers to discuss a European Deposit Insurance marks a truly historic shift. Others worry that asking for risk weighting of sovereign bond holdings (in return for common deposit insurance) makes the proposal a non-starter as it would imply substantially wider spreads for still fragile economies.

ECB's first week of corporate bond purchase smashed expectations. The central bank bought €2.8 bn of corporate debt in the week to Nov 8, marking the second largest weekly purchase since the inception of the program in 2016. Investors were expecting an average of €3-4 bn of corporate bond purchase per month. Investors speculate that the central bank is front-loading the purchase ahead of December, when market liquidity is typically low.

ECB Corporate Bond Purchase
(€bn, weekly)
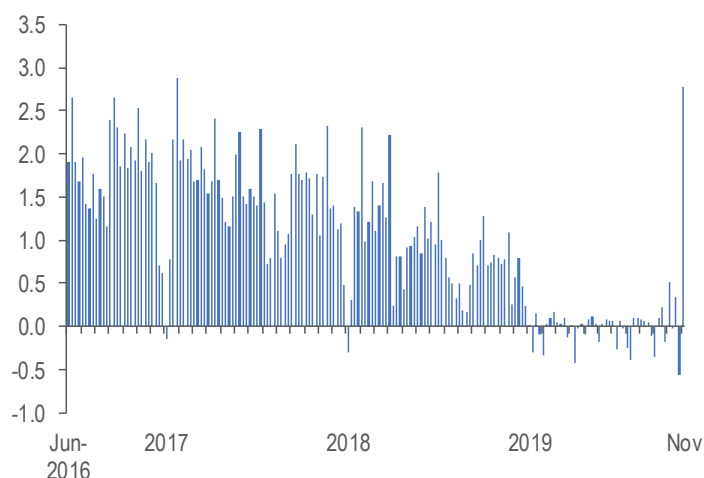
ECB GC member **Coeuré pointed out that unsecured market trading volumes have not changed much since the ECB introduced tiering of excess reserves** as some banks likely prefer to hold on to excess liquidity. In contrast, **there has been a clear reaction in secured (repo) markets as banks prefer to use collateral and central clearing to avoid counterparty risks**.

GC repo rates for selected countries
(percentage per annum)
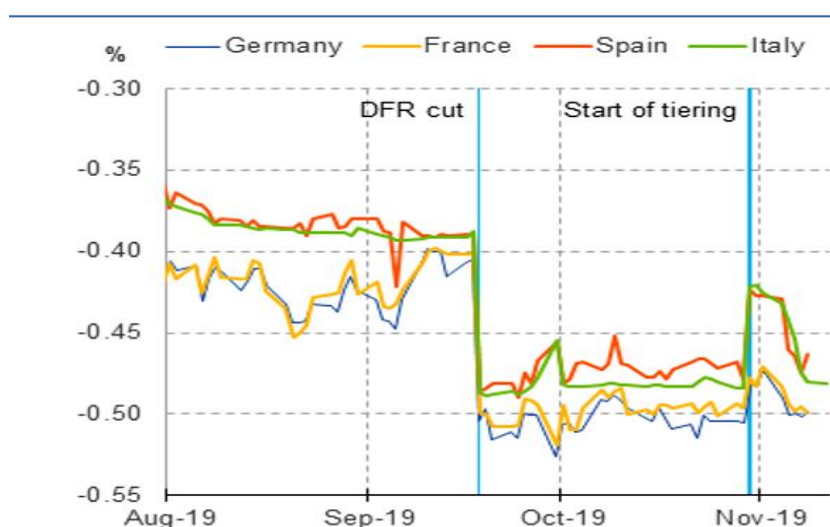
Source: MTS and Brokertec.
Notes: Weighted average GC-rates per country.
Latest observations: 8 November.

United Kingdom
10-yr gilt yields are little changed at 80 bps today, with the pound 0.1% weaker against the USD.
Yesterday, yields rose 3 bps after Nigel Farage announced that the Brexit party will not contest 317 Conservative seats.

Other Mature Markets   back to top
Japan
The Topix index edged higher (+0.3%) while the yen weakened a touch (-0.1%) amid a lull in trade-related news. JGB yields rose by 3 to 5 bps following a lackluster 30-year bond auction. The auction received a bid-cover ratio of 3.66x, compared to an average of 4.08x over the past 12 months. Following the auction, yield on the benchmark 10-year note rose 4 bps to -0.04%, its highest level since late April, while the 2-year note rose 3 bps to -0.18%. The 30-year note ended the day 4 bps higher at 0.47%.
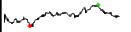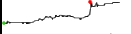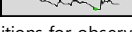
Emerging Markets   back to top
EM currencies were little changed while equities posted modest gains as investors awaited fresh developments on U.S.-China trade negotiations. The Korean won paced gains (+0.5%), partially reversing losses sustained yesterday. Meanwhile, despite ongoing unrest, the Hong Kong Hang Seng Index edged higher (+0.5%) following its 2.6% loss on Monday. Equities also traded in line with broader markets in EMEA, with currencies little changed. Equities outperformed in Turkey (+1.3%) as balance of payment data continues to improve (current account balance of $2.5 bn in Sep compared to $2.2 bn expected). Latin American equity markets were lower on Monday. Equities in Chile (-1.5%), Argentina (-1.4%), and Colombia (-1.2%) fell significantly since Friday. Currency markets were relatively quiet.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				YTD
11/12/19 9:12 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.37	0.4	-1	4	11	11
MSCI Frontier Equities		28.60	0.4	0	2	6	9
EMBIG Sovereign Spread (in bps)		316	0	-5	-20	-51	-98
EM FX vs. USD		60.28	-0.4	-2	-1	-3	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.01	0.0	0	1	-1	-2
Indonesian Rupiah		14054	0.1	-1	1	5	2
Indian Rupee		71.47	-0.3	-1	-1	2	-2
Argentine Peso		59.79	0.1	0	-3	-41	-37
Brazil Real		4.18	-0.7	-4	-1	-10	-7
Mexican Peso		19.16	-0.2	0	1	6	3
Russian Ruble		63.96	-0.1	-1	1	6	9
South African Rand		14.84	0.3	-1	0	-2	-3
Turkish Lira		5.77	0.0	0	3	-5	-8
EM FX volatility		7.29	0.0	-0.1	-0.9	-2.8	-2.5

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

China

New total social financing (TSF) for October came in below expectations with credit growth softening a touch relatively to September. New TSF totaled RMB 619 bn in October, slightly below consensus of RMB 950 bn. Meanwhile, credit growth slowed from 10.7% y/y in September to 10.6% y/y. Analysts noted that the recent tightening on shadow banking likely contributed to moderating credit growth. Notably, off-balance-sheet financing, including trust loans, entrusted loans and undiscounted bank acceptances, fell by RMB 234.4 bn. Asset market reaction was muted: CGB yields were little changed, major equity bourses edged higher by 0.2% while both the onshore and offshore RMB held steady.

Latin America

Sovereign hard-currency bond issuance in Latin America declined steadily over the past three years. From a recent high of $50bn in 2016, the amount of annual issuance has dropped to $30bn during 2018 and 2019. It is also likely to continue to fall to $24bn in 2020, according to Barclays. A similar pattern is projected in other emerging markets, with the exception of Asia where issuance is expected to increase in 2020.

EM sovereign hard-ccy issuance, USD bn
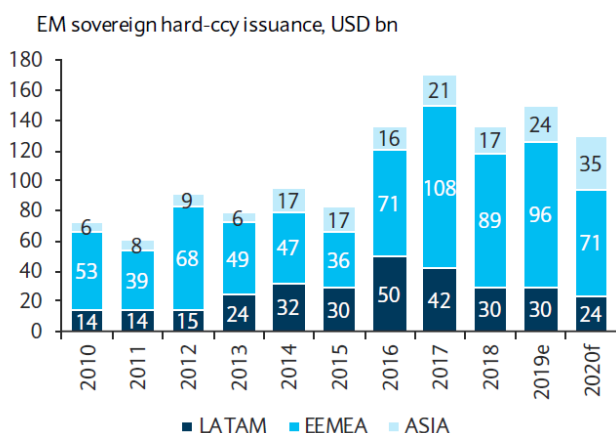
Source: Bloomberg, Barclays Research

Bolivia

Asset prices are reflecting the recent political turmoil. President Evo Morales resigned on Sunday after a disputed election that led to violent crashes and pressure from the armed forces. Since the presidential election on October 20, Bolivia's $1 bn dollar-denominated bonds due in 2028 dropped by more than 5% to 92 cents on the dollar (yield 5.7%) which is lower than the year-to-date average price. It is notable that the country's fundamentals have been weakening for a few years now. Public debt to GDP has increased by 10 ppts since 2015 to 50%, while foreign currency reserves have shrunk significantly over that period. Prolonged political instability in the coming days is likely to influence markets and add to the economic burden.

Data source: Bloomberg
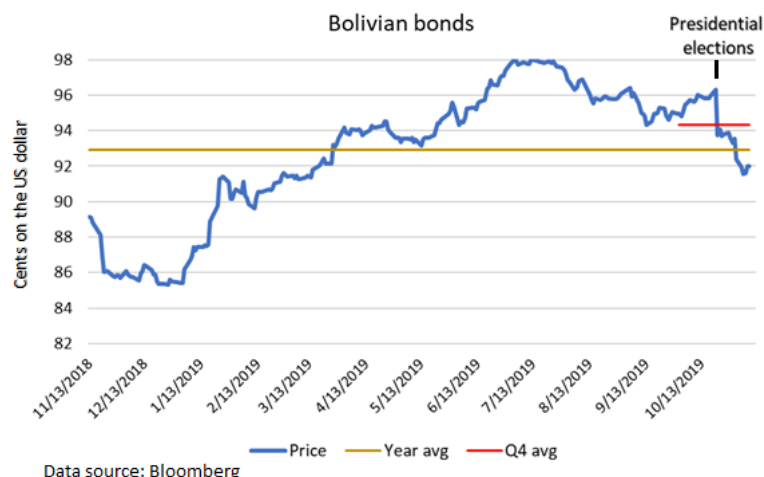
Mexico

Pemex bonds have been rising from their lows in November 2018, partly due to investors` search for yield. The state oil company Pemex drove dollar debt sales by Mexican corporates in the third quarter. While dollar debt issuance by Mexican companies recorded a sharp increase in Q3 2019 ($12.1bn), Pemex's issuance alone during that period ($7.5bn) accounted for more than half of that value.

Data source: Bloomberg
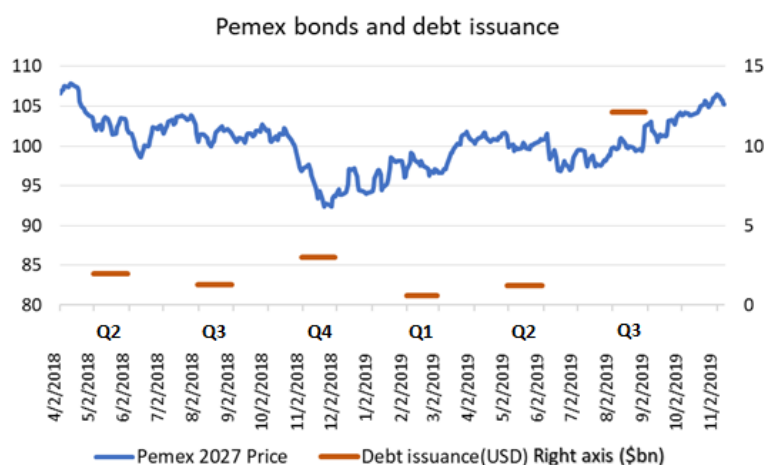
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Global Financial Indicators

Last updated: 11/12/19 9:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
United States		3087	-0.2	0	4	13	23
Europe		3709	0.3	1	4	16	24
Japan		23520	0.8	1	8	6	18
China		2915	0.2	-3	-2	11	17
Asia Ex Japan		71	-1.1	0	5	12	11
Emerging Markets		43	0.3	-1	4	11	11
Interest Rates				basis points			
US 10y Yield		1.94	0.0	8	21	-124	-75
Germany 10y Yield		-0.24	0.5	7	20	-64	-48
Japan 10y Yield		-0.02	4.3	10	16	-14	-2
UK 10y Yield		0.81	0.1	4	11	-64	-47
Credit Spreads				basis points			
US Investment Grade		117	0.2	-2	-9	11	-31
US High Yield		447	0.8	-1	-12	83	-74
Europe IG		48	-0.1	0	-7	-23	-39
Europe HY		232	1.8	3	-13	-63	-121
EMBIG Sovereign Spread		316	0.0	-5	-20	-51	-98
Exchange Rates				%			
USD/Majors		98.35	0.2	0	0	1	2
EUR/USD		1.10	-0.2	-1	0	-2	-4
USD/JPY		109.2	-0.1	0	-1	4	0
EM/USD		60.3	-0.4	-2	-1	-3	-3
Commodities				%			
Brent Crude Oil ($/barrel)		62	0.2	-1	3	-11	16
Industrials Metals (index)		116	-0.2	-2	-1	2	6
Agriculture (index)		39	0.1	-1	-1	-9	-6
Implied Volatility				%			
VIX Index (%, change in pp)		12.7	0.0	-0.2	-2.9	-4.7	-12.8
10y Treasury Volatility Index		4.8	0.0	0.6	-0.6	1.0	0.2
Global FX Volatility		6.4	0.0	0.0	-0.6	-2.0	-2.6
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		164	2.8	12	-25	-238	-252
Italy		148	-2.7	14	10	-156	-102
Portugal		60	0.1	4	-4	-95	-88
Spain		68	0.3	4	0	-52	-50

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: 11/12/2019 9:13 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		7.01	0.0	0.0	1	-1	-2		3.3	-0.2	-1	10	-16	10
Indonesia		14054	0.1	-0.6	1	5	2		7.0	0.8	-4	-28	-124	-111
India		71	-0.3	-1.0	-1	2	-2		6.9	1.5	5	3	-99	-59
Philippines		51	0.3	-0.6	2	5	4		4.3	0.0	0	0	-238	-198
Thailand		30	0.0	-0.5	0	9	7		1.7	0.6	14	19	-117	-90
Malaysia		4.14	0.0	-0.3	1	1	0		3.4	0.9	-2	-1	-74	-69
Argentina		60	0.1	-0.2	-3	-41	-37		62.6	1.5	556	499	3885	3957
Brazil		4.18	-0.7	-4.4	-1	-10	-7		6.0	-4.9	18	-1	-283	-219
Chile		788	-3.6	-5.1	-10	-13	-12		3.3	0.0	-12	45	-154	-120
Colombia		3370	-0.9	-1.7	2	-6	-4		5.9	0.0	14	17	-96	-65
Mexico		19.16	-0.2	0.1	1	6	3		6.9	-2.3	6	8	-195	-177
Peru		3.4	-0.3	-1.1	0	0	0		4.5	-0.1	10	24	-140	-128
Uruguay		38	-0.2	-0.5	-1	-13	-14		10.9	0.0	2	11	26	21
Hungary		303	-0.2	-1.4	-1	-5	-8		1.2	-0.9	6	9	-152	-98
Poland		3.88	-0.2	-0.7	0	-1	-4		1.9	0.0	15	11	-67	-36
Romania		4.3	-0.1	-0.6	0	-4	-6		3.9	0.0	8	13	-41	-33
Russia		64.0	-0.1	-0.7	1	6	9		6.3	3.4	2	-29	-237	-214
South Africa		14.8	0.3	-0.6	0	-2	-3		9.6	1.6	10	26	-16	1
Turkey		5.77	0.0	-0.3	3	-5	-8		12.1	-2.5	-2	-227	-551	-477
US (DXY; 5y UST)		98	0.2	0.4	0	1	2		1.74	-0.5	8	19	-129	-77

	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		2915	0.2	-3	-2	11	17		174	-1	-5	-14	-11	-20
Indonesia		6181	0.5	-1	1	7	0		170	0	-7	-9	-45	-66
India		40345	0.0	0	6	16	12		130	8	2	-5	-37	-66
Philippines		8012	0.0	-2	2	16	7		81	1	2	6	-27	-40
Malaysia		1610	0.1	0	3	-5	-5		119	0	-3	-6	-20	-43
Argentina		33661	-1.4	-10	6	14	11		2467	28	161	578	1847	1652
Brazil		107528	0.7	-1	4	26	22		224	-1	-4	-10	-32	-49
Chile		4468	-1.5	-6	-13	-13	-12		142	1	-2	6	0	-24
Colombia		1636	0.0	-1	3	15	23		173	0	-7	-5	-23	-55
Mexico		43596	-0.2	-1	1	1	5		310	0	-4	-1	0	-44
Peru		19767	-0.4	-2	3	4	2		123	-1	-6	-3	-34	-45
Hungary		43406	0.9	0	8	14	11		89	-1	-7	-3	-38	-59
Poland		59339	0.2	0	4	4	3		22	-1	-10	-7	-33	-63
Romania		9709	-0.1	0	2	12	31		184	3	-9	-19	1	-37
Russia		2956	-0.2	0	9	24	25		164	-1	-11	-26	-73	-88
South Africa		56360	0.3	-2	1	8	7		328	2	-6	3	-8	-37
Turkey		103974	0.8	3	5	14	14		426	-2	-23	-65	-5	-3
Ukraine		518	0.0	0	-2	-14	-7		449	-2	-15	-46	-178	-338
EM total		43	0.4	-1	4	11	11		316	0	-5	-20	-51	-98

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

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