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Market rally continues on vaccine hopes

Markets were up for a second day this week on hopes that the new vaccines will play a major role in the fight against the virus. The news from last night that the US administration recognized President-Elect Biden as the apparent winner of the election was another positive development for market sentiment. Volatility remains subdued and oil prices are joining in the rally. Safe haven assets such as Treasuries and bunds are holding steady, however, as weaker economic data from Europe and the continued spread of the virus in the US reminded markets that the outlook remains highly uncertain. The dollar is also holding firm. Investors around the world will be starting the process of closing the books for the year and positioning themselves for the new year ahead. Most analysts expect a strong economic and market rebound in 2021, but the virus situation remains a major wildcard.

Key Global Financial Indicators

Last updated: 11/24/20 7:40 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3578	0.6	-1	3	15	11
Eurostoxx 50		3497	1.0	1	9	-5	-7
Nikkei 225		26166	2.5	1	11	13	11
MSCI EM		49	0.3	1	6	15	10
Yields and Spreads			bps				
US 10y Yield		0.87	1.2	1	2	-91	-105
Germany 10y Yield		-0.58	0.6	-1	0	-22	-39
EMBIG Sovereign Spread		348	0	17	-10	97	128
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.1	0.0	0	2	-7	-9
Dollar index, (+) = \$ appreciation		92.4	-0.1	0	0	-6	-4
Brent Crude Oil (\$/barrel)		46.4	0.8	6	11	-27	-30
VIX Index (% change in pp)		22.1	-0.5	-1	-5	10	8

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

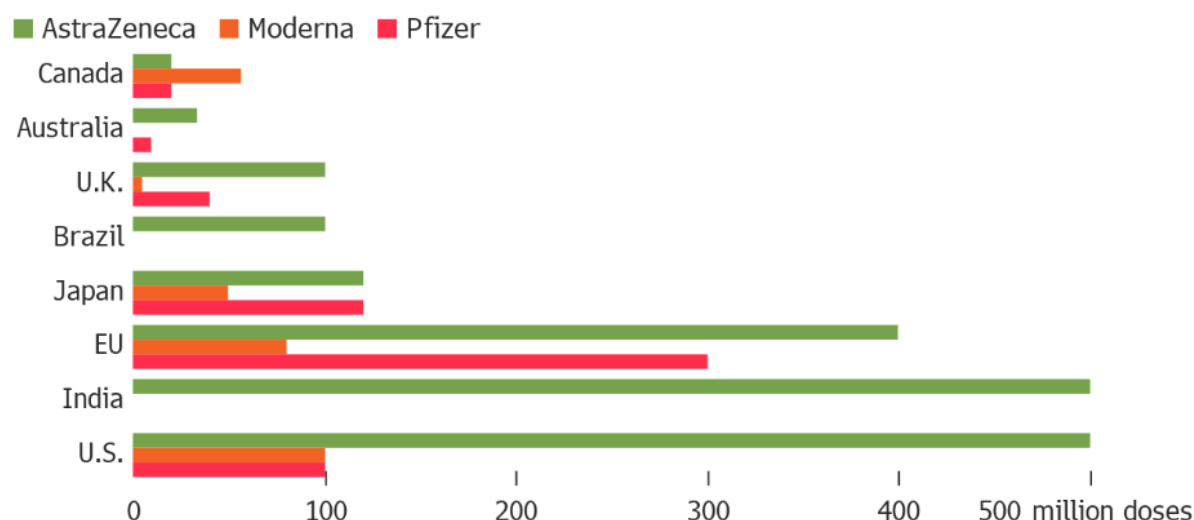
United States

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Optimism on the vaccine front enabled markets to post gains on Monday, but they were modest as the spread of the virus in the US continued to dominate headlines. Companies viewed as benefiting the most from a rapid reopening did best, while Technology shares did less well. Small cap stocks are up 18% so far this month, on track for their best monthly return in history. Many countries have agreed to vaccine deals with some or all of the three companies announcing positive results, raising hopes that widespread vaccinations will help fight the disease around the world and enable a rapid economic recovery. Sentiment was also buoyed by press reports that the incoming Democratic administration might be willing to agree to a smaller stimulus package along the lines proposed by Senate Republicans, making a deal more likely. The President-elect was reported to be worried that a delay in stimulus could raise the odds of a double-dip recession. After the market close, the US General Services Administration recognized President-Elect Biden as the apparent winner of the election, ending an impasse that had delayed the normal transition process between incoming and outgoing administrations. The GSA administrator sent a letter to Mr. Biden giving access to funds and other resources. In aftermarket trading, S&P futures moved higher immediately following the news.

Vaccine Race

Countries hedge their bets by reserving various shot candidates



Source: Duke Global Health Innovation Center, Bloomberg data

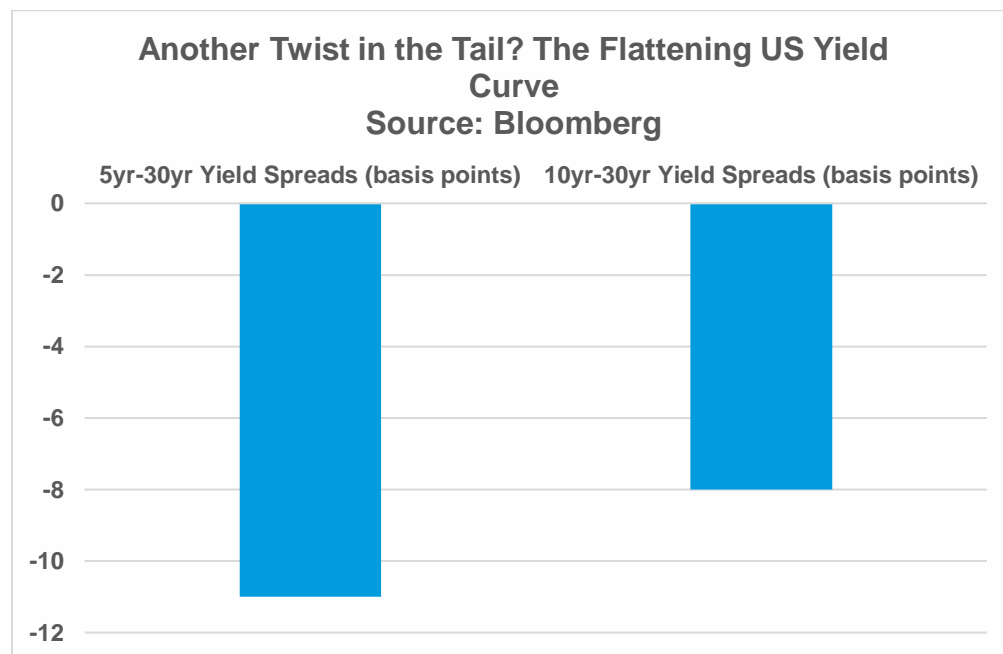
NOTE: Some orders are for "up to" stated doses; Chart excludes Indonesia, Chile, Egypt, Argentina, Ecuador, Switzerland, Costa Rica.

Bloomberg

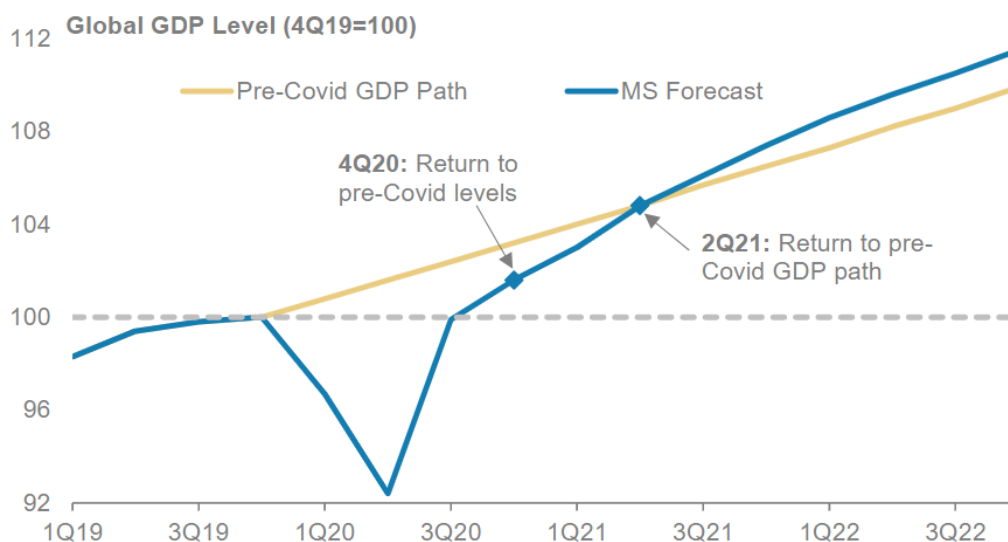
Treasuries sold off as risk assets rallied, although the 10-year is still well below the post-crisis high of 0.96% set on November 10th. The yield curve steepened slightly after two weeks of flattening. Meanwhile, US economic data continued to outperform, with the November Markit manufacturing PMI coming in at 56.7 (versus the consensus forecast of 53) and the services PMI printing at a very strong 57.7 (vs. 55). According to news reports, President-Elect Biden has selected former Fed Chair Janet Yellen as Treasury Secretary, the first woman to hold the position. The former Fed Chair was also the first woman to be selected to lead the Fed as well as the first person to be appointed to all three key economic posts of Chair of the Council of Economic Advisors, Fed Chair and Treasury Secretary. Her selection is seen as a

politically safe choice, as her nomination is more likely to be approved by a potential Republican-majority Senate. The selection appeared to be popular in the financial community as many prominent investors praised the selection, while reform minded analysts also supported the nomination due to her record of being tough on bank regulation.

The US yield curve has flattened over the past two weeks as the failed stimulus talks prompted speculation that the Fed will step up its bond purchases. This has occurred despite the optimism on the vaccine front, which ought to have sparked a rise in yields in expectations of a faster economic recovery. Some analysts speculate that the market is front running a potential Fed move by putting on curve flattening trades that benefit when longer maturity Treasury yields fall faster than shorter maturity yields. They think the Fed will target more of its purchases at the longer end of the yield curve to ease financial conditions in the absence of any major fiscal stimulus. With talks seen as on hold for several months, monetary policy is viewed as being “the only game in town.” The Fed’s decision to return funds to the Treasury on Friday after Secretary Mnuchin announced the end of key stimulus programs boosted speculation that a curve flattening could be imminent. A similar curve flattening move was seen prior to September 2011 when the Fed announced Operation Twist, a move to buy longer maturity Treasuries while selling shorter maturity Treasuries. The curve flattened even more after the Operation Twist program was announced.

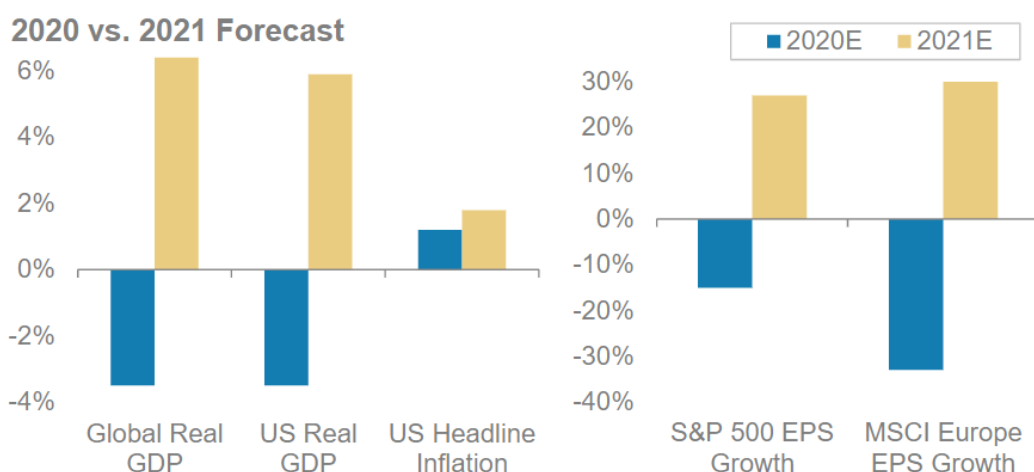


Analysts are almost uniformly bullish on the rebound in 2021. Wall Street forecasts are for the US economy to stage a strong rebound as a successful vaccination program enables the economy to open up rapidly and for normal spending and consumption patterns to return. Inflation is expected to increase but not too rapidly, creating ideal conditions for a continued market rally. Morgan Stanley forecasts that global GDP growth will hit 6.4% in 2021 and that output will reach pre-COVID levels by mid-year. However, several banks including Morgan Stanley and JP Morgan think that a late-year selloff is not out of the question despite the overall bullish stance. One theory is that asset allocators will sell many of their equities to take profits and rebalance their portfolios, rotating their assets into fixed income holdings. JP Morgan estimated such sales could be in the

Exhibit 2: Global Output Set to Return to Pre-COVID-19 Path by the Middle of Next Year

Source: Haver Analytics, IMF, national sources, Morgan Stanley Research forecasts; Note: The pre-COVID-19 GDP path refers to the trajectory that global GDP would have followed prior to the COVID-19 shock and is calculated using Morgan Stanley Research forecasts as of January 21, 2020.

The bullish forecast for the economy is coupled with a prediction that corporate earnings will also be very strong next year. In addition, the projected rally is expected to be broader based than it was in 2020, when a handful of big technology companies accounted for the majority of the gains. 2021 is expected to see other sectors that lagged this year to do well, including banks, energy companies and defensive sectors. Morgan Stanley is forecasting that earnings per share will grow 25-30% over 2020 across the global, with further but smaller gains expected in 2022. The credit markets are also expected to have a robust performance.

Exhibit 3: We Forecast Broad-based Improvement Both in the Real Economy and in Corporate Earnings

Source: Morgan Stanley Research forecasts; Note: We show real GDP and headline inflation here.

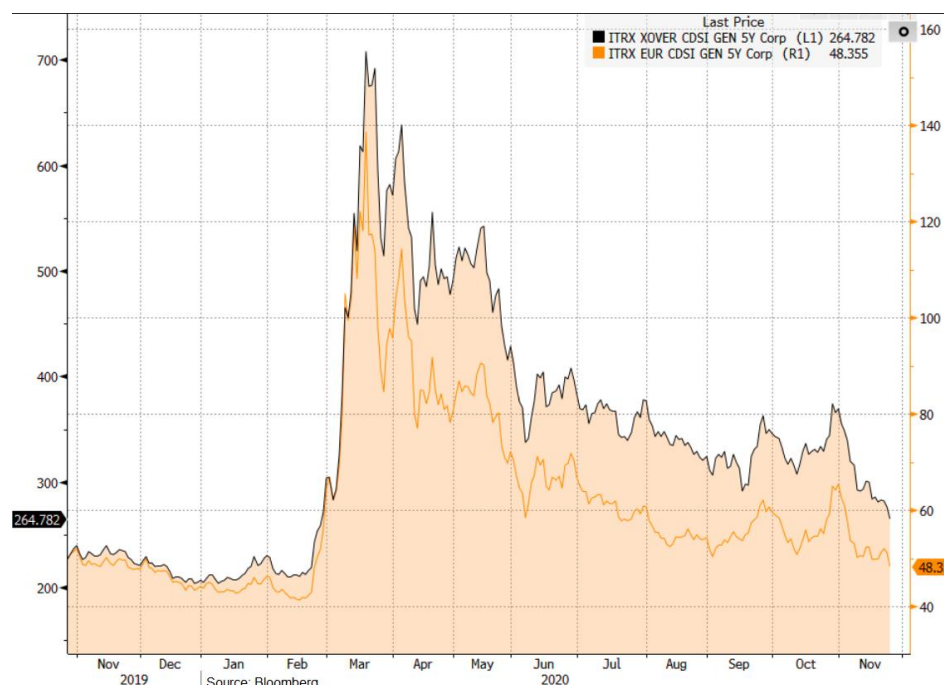
Europe

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European equity benchmarks were trading more than 1% higher with energy shares (+4.5%) and banks (+2.5%) leading the broader index. November has been a good month for European equities with country-level indices recovering most since the start of the pandemic.

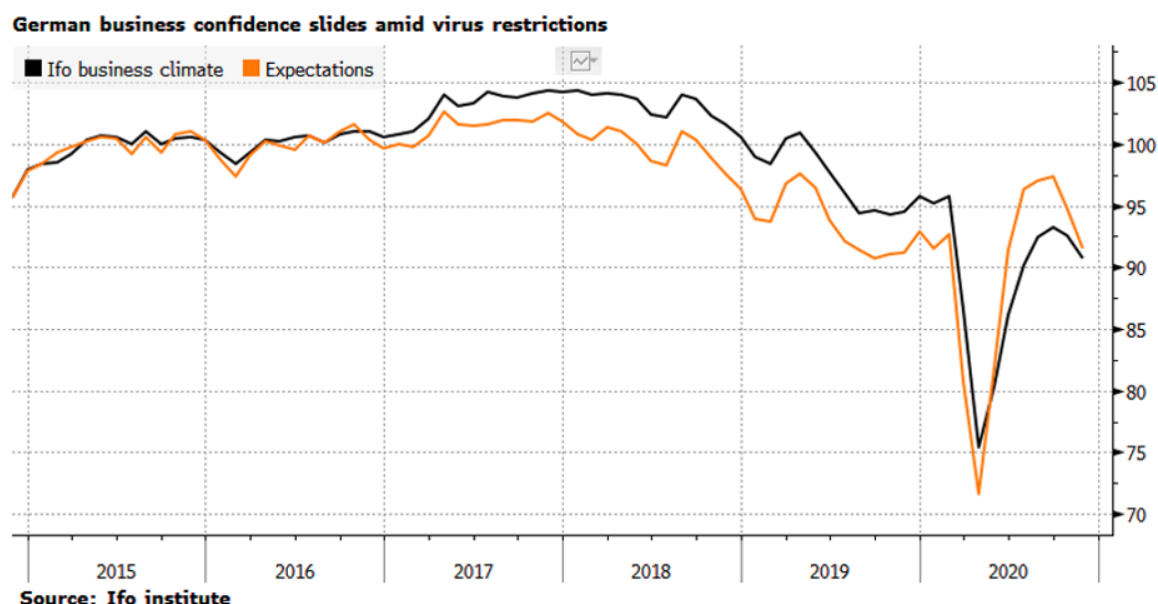


Sovereign bond markets were mostly stable with German 10-year bund 1 bps higher and Italian 10-year bond spread 2 bps tighter. **Corporate credit spreads continued to tighten** with investment grade (ITRX -3bps) and speculative grade (ITRX XOVER -11 bps) benchmarks hitting the lowest levels since the start of the pandemic. The euro (+0.4%) and the sterling (+0.3%) attempted to take on the 1.19 and 1.34 mark against the dollar respectively but failed to break for the second time in the last 24 hours.



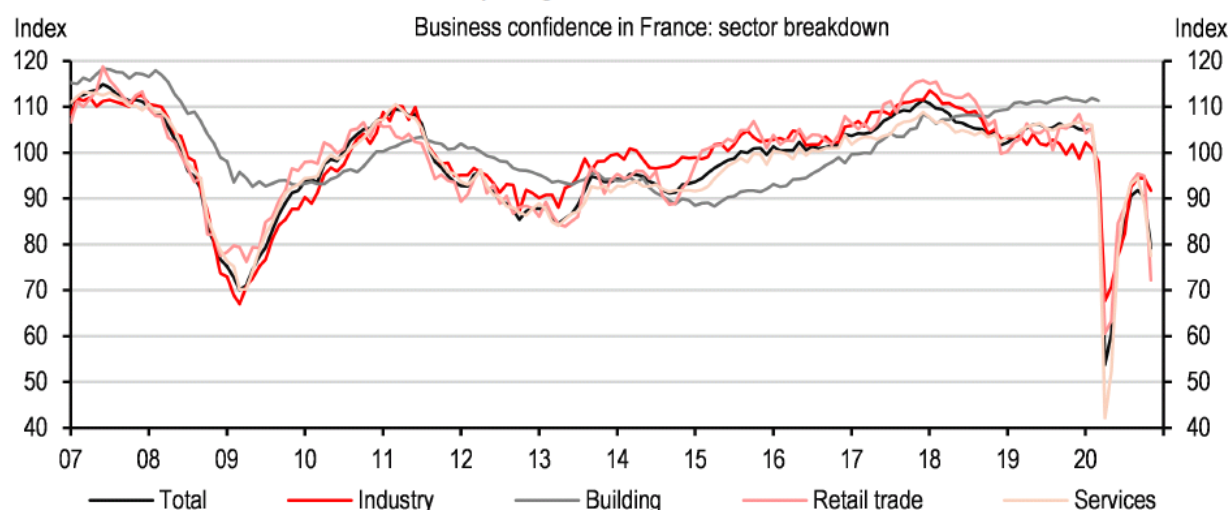
Germany's data was mixed this morning with final Q3 GDP reading revised higher while the November IFO business survey pointing to a drop in optimism amid the spread of the virus. Q3 GDP

was revised to 8.5% qoq growth (8.2% preliminary) with the underlying composition revealing a strong recovery in private consumption (+10.8%), investment (+16%) and exports (+18.1%). In terms of the IFO survey, the current assessment and business climate measure declined moderately while expectations fell more than expected to 91.5 (95 in October), with contacts suggesting that a dip in Q4 GDP growth looks inevitable despite the buoyant manufacturing activity.



French business confidence also surprised to the downside with the sentiment index falling to 79 in November from 90 in October (consensus 84). Retail, service and construction sectors confidence was particularly hit while manufacturing expectations showed only a modest decline. Contacts suggest that the survey results are consistent with a 6% qoq GDP decline in Q4. That said, President Macron is expected to ease some of the lockdown restrictions tonight which could help to boost confidence into the year-end.

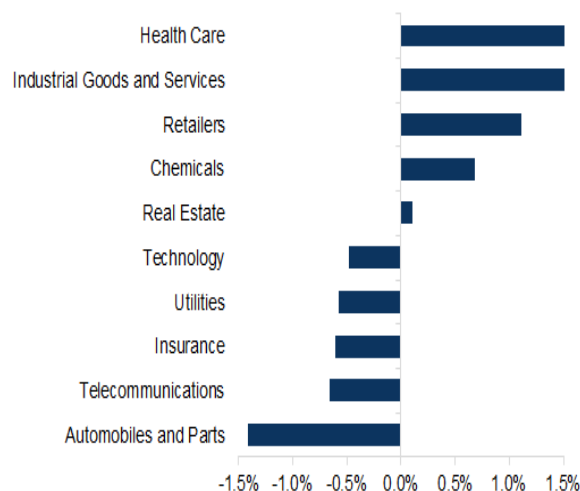
Chart 1: Business indicators fell in November, putting them close to June's levels



Germany confirmed the overhaul of the DAX index following the Wirecard AG scandal. The proposed measures include addition of 10 new companies to bring the total to 40 firms as well as stricter requirements around quarterly financial statements and audited annual reports. Analysts have pointed out that while the move is a positive step to restore confidence in the benchmark, it's unlikely to significantly change the industry weighting and revenue exposure of the index. The change will have a much bigger impact on the mid-cap index (MDAX), which is expected to lose 10 of its largest firms representing about 45% of the index capitalization.

Exhibit 3: Limited impact on the DAX...

Theoretical changes in sector weights of the DAX Index

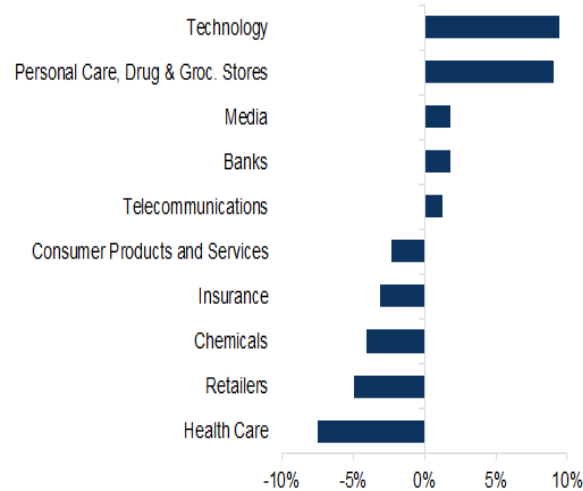


ICB: Industry Classification Benchmark

Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 4: ... more on the MDAX

Theoretical changes in sector weights of the DAX Index



ICB: Industry Classification Benchmark

Source: Datastream, Goldman Sachs Global Investment Research

Other Mature Markets

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Japan

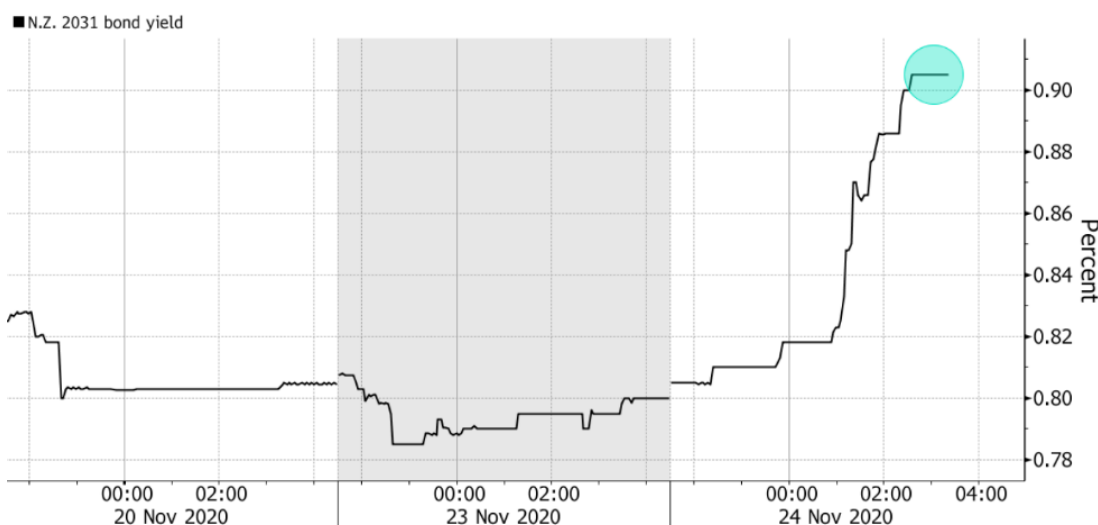
Japanese equities rose (NIKKEI: +2.5%) on vaccine optimism. Japanese markets reacted positively after reopening following the long weekend. Meanwhile, **national and regional authorities look to tighten measures to contain the spread of the virus.** Tokyo saw a sharp increase in severe COVID-19 cases. Prime Minister Suga said that the “Go to Travel” subsidy program will be suspended temporarily in areas where COVID-19 cases are rising. The government lacks the legal means for a harsh lockdown, but it has been effective in requesting businesses and people to voluntarily take measures to contain the spread of the virus. **The Japanese yen appreciated (+0.2%).**

New Zealand

The government proposed amending the central bank's remit to include house price stability. Finance Minister Grant Robertson issued a letter to the Reserve Bank of New Zealand (RBNZ), expressing concerns over how low interest rates have driven up house prices. Based on the proposal, house price stability would become a factor for the RBNZ's conduct of monetary policy. Market reactions were forceful, swinging from pricing in negative rates to almost erasing expectations for a rate cut. Markets are now pricing just a 25% chance of a rate by end-2021, compared to over 50% before today. **Government bond yields increased (10-year: +9.4 bps); New Zealand dollar appreciated (+1.1%).**

Safe as Houses

Bond yields jump as prospect of additional bond buying could be dimmed



Source: Bloomberg

Emerging Markets

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Most stock markets were higher on vaccine optimism, with notable gains in Brazil (1.3%) and India (+1%). Latin American currencies were generally weaker, with the Chilean peso (-1.3%) doing worst. Most EMEA currencies appreciated, with the exception of the Turkish lira (-1.1%, see below). Thailand's finance minister urged the Bank of Thailand for more short-term actions to moderate currency appreciation. In Indonesia, the government shortened year-end holidays amid a surge in COVID-19 cases, adding some downward pressure on the currency.

Key Emerging Market Financial Indicators

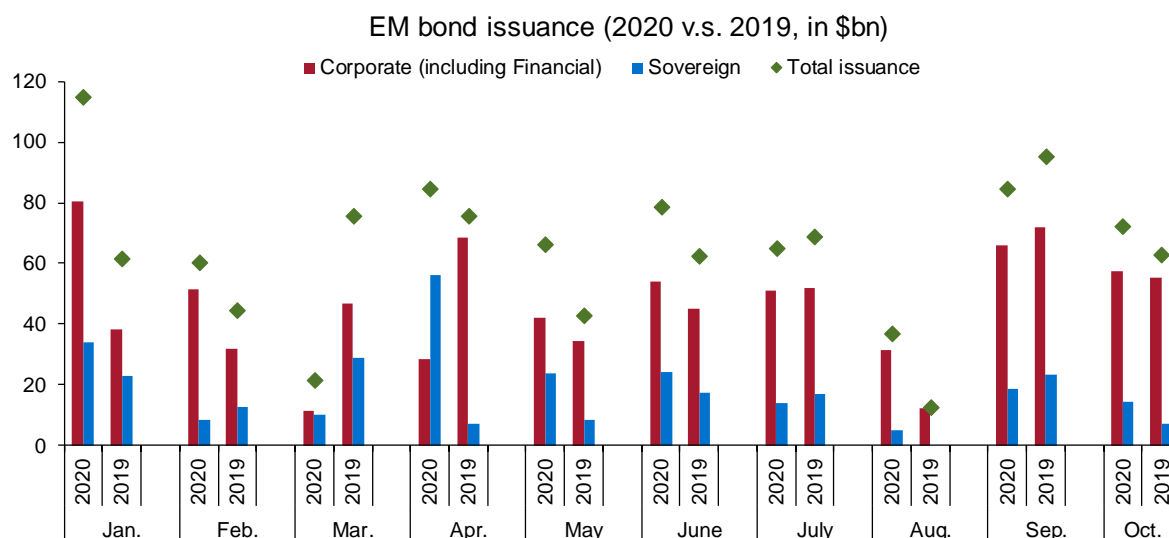
Last updated: 11/24/20 7:44 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		49.19	0.5	1	6	15	10
MSCI Frontier Equities		27.69	0.2	1	2	-4	-9
EMBIG Sovereign Spread (in bps)		348	0	17	-10	97	128
EM FX vs. USD		56.06	0.0	0	2	-7	-9
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.59	0.0	0	2	7	6
Indonesian Rupiah		14155	0.0	-1	3	0	-2
Indian Rupee		74.00	0.1	1	0	-3	-4
Argentine Peso		80.36	-0.1	-1	-3	-26	-25
Brazil Real		5.42	0.2	-2	4	-22	-26
Mexican Peso		20.12	0.2	1	4	-3	-6
Russian Ruble		76.07	0.1	0	0	-16	-19
South African Rand		15.38	0.2	0	6	-4	-9
Turkish Lira		7.94	-0.7	-3	2	-28	-25
EM FX volatility		10.30	0.0	-0.2	-0.6	3.3	3.7

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

EM Bond Issuance

EM corporate issuance (including financial issuance) last week edged up to \$15.8 bn, from \$11.3 bn the week before, and EM sovereign issuance increased to \$9.1 bn last week, from \$5.2 bn the week before. The year-to-date total issuance of \$726.6 bn was around 12% higher than the 2019 issuance over the same period (\$649.6 bn). From a regional perspective, Saudi Arabia was the largest EM corporate debt

issuer last week, accounting for 50.3% (\$7.9 bn) of the total, followed by China (\$1.8 bn) and Russia (\$1.3 bn). Last week's sovereign issuance came from China (\$4.7 bn), Mexico (\$3.6 bn), and Uzbekistan (\$0.8 bn). Month-to-date corporate issuance and sovereign issuance were \$28.6 bn and \$14.4 bn, respectively.



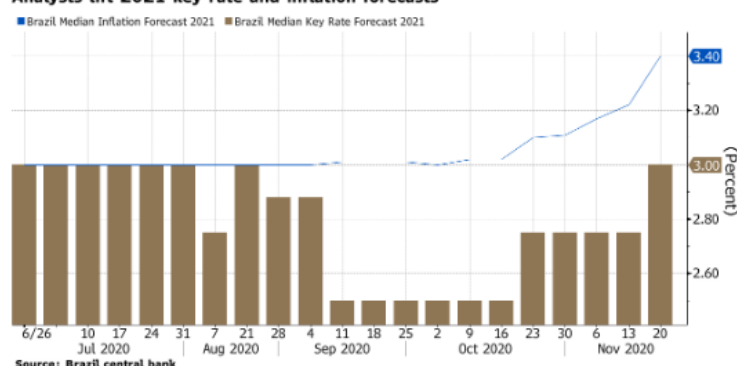
Source: Bond Radar, Bloomberg

Brazil

Economists revised up their forecasts for both inflation and the Selic rate in 2021. According to the central bank's survey published on Monday, the median inflation expectation for year-end 2021 rose by 18 bps to 3.4% (below the 3.75% target). The median expectation for the policy rate for year-end 2021 rose by 25 bps to 3.0%. Analysts also raised the 2021 GDP growth forecast to 3.4% (3.31% before). Brazilian assets were mixed yesterday, with equities rising 1.3% and the real depreciating 0.8% against the dollar.

Looming Risks

Analysts lift 2021 key rate and inflation forecasts



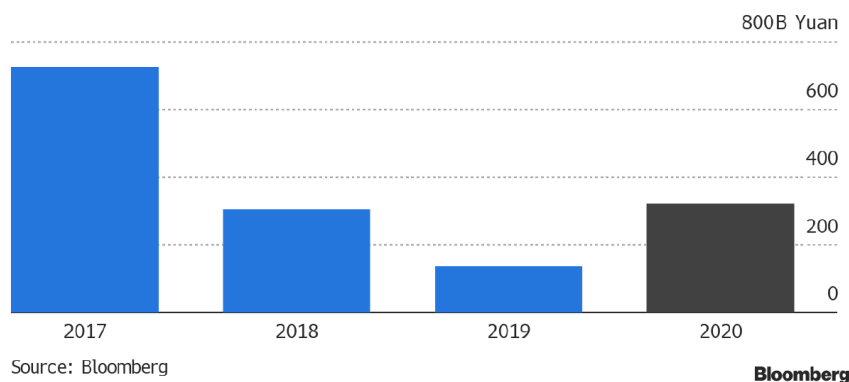
China

Private share placements are booming this year. The relaxation of rules in February has helped revive private share placements, with 151 deals raising 321 bn yuan (\$49 bn) so far this year, the most since 2017. The new rules raised the maximum allowable share discount to 20%, shortened the lock-up period to six months, and expanded the maximum number of investors to 35. Private offerings have surpassed other equity-linked fundraising tools like public placements, right issues and convertible bonds in volume. There are more than 500 private share placements in the pipeline, seeking the raise at least 709 bn yuan (\$108 bn). Some market analysts noted that recent corporate bond defaults may encourage lower-rated firms struggling to issue bonds to tap funding from the equity market instead. Previously, private placements

were a preferred tool for listed companies to sell additional shares, before regulatory concerns led to a crackdown in 2017. **RMB appreciated (+0.2%); equities declined (CSI 300: -0.6%).**

Better Place

The volume of private placements picked up after rule changes in Feb.



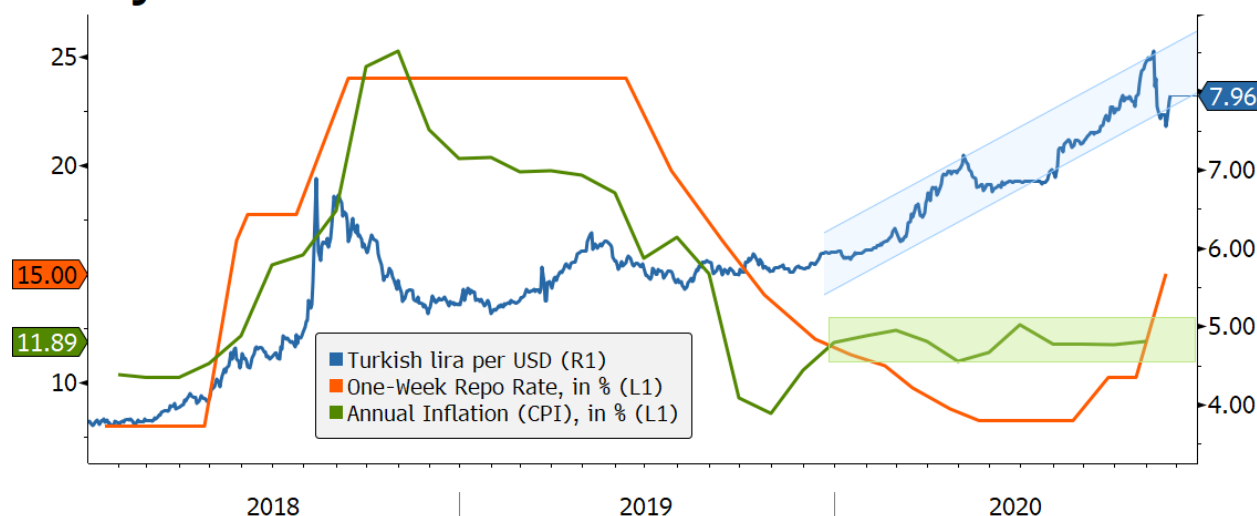
Hong Kong SAR plans to expand the scope of its southbound Stock Connect with mainland China.

According to Bloomberg, Chief Executive Carrie Lam is expected to announce the measure in her policy address tomorrow. The measure would expand the scope to include companies with dual listings and biotech firms. Share prices of Chinese tech giants, such as Alibaba, JD.com and NetEase, jumped on the news as the measure would enable mainland investors to directly buy these shares for the first time.

Turkey

Turkish banking regulator BDDK announced it will repeal the so-called asset ratio in a bid to continue “normalizing” policy. The ratio was introduced as a measure to support credit and it effectively compels banks to extend credit and buy government debt or face fines. Turkish equities (+0.3%) strengthened but the lira weakened (-1.1%) following the announcement. Contacts note that the weakening of the lira is driven by local retail and corporates still buying FX (dollarization) on the expectation that the central bank will continue to build reserves. Analysts are increasingly expecting another hike of the policy rate in support of the lira. Separately, **the Turkish Treasury will sell its first 10-year bond since July 2018.** The bond will be sold later today with maturity 2030 and paying 11.7%.

Turkey: Selected Variables



Source: Bloomberg

TRY Currency (Turkish Lira Spot) EM FX: Turkish Lira Daily 02JAN2018-24NOV2020

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Global Financial Indicators

Last updated: 11/24/20 7:41 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3578	0.6	-1	3	15	11
Europe		3497	1.0	1	9	-5	-7
Japan		26166	2.5	1	11	13	11
China		3403	-0.3	2	4	18	12
Asia Ex Japan		86	0.2	1	6	23	17
Emerging Markets		49	0.3	1	6	15	10
Interest Rates			basis points				
US 10y Yield		0.87	1.2	1	2	-91	-105
Germany 10y Yield		-0.58	0.6	-1	0	-22	-39
Japan 10y Yield		0.03	1.3	0	-2	10	4
UK 10y Yield		0.32	0.1	-1	4	-39	-50
Credit Spreads			basis points				
US Investment Grade		110	-1.1	-3	-13	-11	12
US High Yield		445	-4.7	-8	-55	-29	52
Europe IG		49	-2.3	-1	-9	0	5
Europe HY		266	-9.9	-20	-73	37	60
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates			%				
USD/Majors		92.39	-0.1	0	0	-6	-4
EUR/USD		1.19	0.2	0	0	8	6
USD/JPY		104.6	0.0	0	0	4	4
EM/USD		56.1	0.0	0	2	-7	-9
Commodities			%				
Brent Crude Oil (\$/barrel)		46	0.8	6	11	-27	-30
Industrials Metals (index)		129	1.1	2	6	15	13
Agriculture (index)		44	-1.1	0	3	12	6
Implied Volatility			%				
VIX Index (% change in pp)		22.1	-0.5	-0.6	-5.4	9.8	8.3
US 10y Swaption Volatility		55.6	0.4	2.5	-15.7	-9.4	-6.4
Global FX Volatility		7.7	0.0	-0.1	-0.8	1.6	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		124	-0.8	1	-26	-51	-41
Italy		118	-2.4	-2	-15	-36	-42
Portugal		60	-0.4	0	-15	-16	-3
Spain		64	-1.4	0	-13	-13	-2

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: 11/24/2020 7:46 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		6.59	0.0	-0.4	2	7	6		3.4	-2.2	5	12	22	29
Indonesia		14155	0.0	-0.7	3	0	-2		6.3	-1.7	-5	-36	-86	-84
India		74	0.1	0.6	0	-3	-4		6.0	0.9	-3	-2	-82	-89
Philippines		48	0.1	0.2	1	5	5		3.7	1.5	3	9	-66	-65
Thailand		30	-0.2	-0.8	3	-1	-2		1.4	-1.0	-2	-3	-30	-16
Malaysia		4.09	0.1	0.4	2	2	0		2.6	0.5	4	6	-84	-80
Argentina		80	-0.1	-0.7	-3	-26	-25		53.1	0.0	80	552	-4413	-946
Brazil		5.42	0.2	-1.8	4	-22	-26		6.7	10.0	34	40	55	49
Chile		770	0.1	-0.7	1	3	-2		2.8	-1.7	-2	10	-69	-53
Colombia		3648	-0.4	-0.3	4	-6	-10		5.1	-1.3	-8	-11	-91	-83
Mexico		20.12	0.2	0.8	4	-3	-6		5.9	-2.1	-10	-16	-115	-101
Peru		3.6	-0.3	1.7	0	-6	-8		3.9	-8.9	-26	-22	-58	-59
Uruguay		43	0.3	0.5	0	-11	-12		7.4	-2.3	-8	3	-381	-348
Hungary		305	0.0	0.1	2	0	-3		1.6	0.7	0	-15	54	41
Poland		3.76	0.3	0.6	3	4	1		0.6	3.0	2	-1	-121	-126
Romania		4.1	0.2	0.0	0	6	4		2.9	-2.0	-5	-34	-107	-112
Russia		76.1	0.1	0.3	0	-16	-19		5.5	-0.2	1	-10	-67	-58
South Africa		15.4	0.2	0.1	6	-4	-9		9.8	5.3	2	-34	19	29
Turkey		7.94	-0.7	-2.9	2	-28	-25		12.3	23.6	-11	-126	37	57
US (DXY; 5y UST)		92	-0.1	0.0	0	-6	-4		0.40	1.0	1	2	-123	-130

	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		4974	-0.6	2	5	29	21		213	-2	2	-1	38	37
Indonesia		5701	0.9	3	12	-7	-10		194	2	-1	-18	14	38
India		44523	1.0	1	9	10	8		172	1	-1	-34	45	47
Philippines		7109	-1.0	2	10	-9	-9		114	2	-1	-11	29	48
Malaysia		1578	-1.2	-2	6	-1	-1		127	0	-1	-19	8	15
Argentina		51492	0.0	3	-2	53	24		1369	-6	20	-56	-879	-400
Brazil		107379	1.3	1	6	-1	-7		267	1	-6	-36	33	52
Chile		4131	1.9	2	8	-13	-12		153	2	-1	-13	1	20
Colombia		1248	0.7	1	6	-23	-25		217	2	2	-24	34	54
Mexico		42267	0.9	4	9	-3	-3		428	-1	-8	-47	107	136
Peru		18925	0.6	3	5	-5	-8		150	1	5	1	22	43
Hungary		38755	1.1	3	15	-12	-16		105	0	0	0	4	19
Poland		52979	0.5	2	11	-8	-8		9	0	-2	-5	-16	-9
Romania		9343	1.8	6	6	-4	-6		208	-4	6	-23	12	34
Russia		3071	0.8	1	9	4	1		181	1	0	-13	19	50
South Africa		57638	0.9	1	4	2	1		420	-1	-4	-55	74	100
Turkey		1317	0.2	5	11	24	15		507	-1	-7	-101	81	106
Ukraine		501	0.0	0	0	-3	-2		540	-8	-37	-177	58	120
EM total		49	0.5	1	6	15	10		421	0	17	-10	97	128

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