



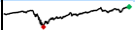









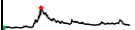
- Dow Jones index tops 30,000 for the first time ([link](#))
- Investor survey flags virus and slowing economy as biggest market risks ([link](#))
- Fed expected to stay on hold until 2023 ([link](#))
- ECB warns of further provisioning needs ([link](#))
- Regulators signal that some EU banks can pay dividends ([link](#))
- France announces phased reopening plan ([link](#))

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Dow 30K: A New Hope

Yesterday, a burst of optimism pushed the Dow over 30,000 for the first time as most US equity indexes set all-time records. Many other global equity markets also rallied strongly in sympathy. The vaccine news from Astra Zeneca was a major boost, and the formal commencement of the US Presidential transition process removed a major source of uncertainty. This morning, markets are taking a breather ahead of a slew of key US economic data which are being released all at once today ahead of the Thanksgiving holiday. In addition, the latest Federal Reserve minutes are due to be released this afternoon. The lockdowns in Europe could be ended relatively soon, although the pandemic is raging unabated in the US, and parts of India are struggling with a surge of new cases. The UK Chancellor has announced new spending plans, while the Brexit negotiations enter a critical stage. The UK Debt Management Office is to issue a record £485.5 bn (\$648 bn) of debt over the course of this fiscal year as unemployment is forecasted to hit 7.5% next year.

Key Global Financial Indicators

Last updated: 11/25/20 7:33 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3635	1.6	1	5	16	13
Eurostoxx 50		3506	-0.1	1	10	-5	-6
Nikkei 225		26297	0.5	1	12	13	11
MSCI EM		50	1.3	2	8	16	11
Yields and Spreads			bps				
US 10y Yield		0.88	-0.5	0	3	-88	-104
Germany 10y Yield		-0.57	-1.1	-2	0	-23	-39
EMBIG Sovereign Spread		345	1	17	-10	97	128
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.2	0.1	0	2	-6	-8
Dollar index, (+) = \$ appreciation		92.2	0.0	0	-1	-6	-4
Brent Crude Oil (\$/barrel)		48.2	0.6	9	15	-24	-27
VIX Index (% change in pp)		22.0	0.4	-2	-6	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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The Dow Jones index closed above 30,000 for the first time in history as previously beaten down sectors such as cyclicals staged a major rally. The share price of Boeing, an early casualty of the virus crisis, was up nearly 9.5% over the previous two days and the Russell 2000 index of small cap stocks also hit an all-time high, as did the S&P 500. The technology-heavy Nasdaq lagged the rest of the market, but it too is not far from its record high set back on September 2. Treasury yields continued to rise, with the benchmark 10-year yield only a few basis points away from the post-crisis high of 0.96% set on November 10. The yield curve saw a second day of curve steepening as longer maturity yields rose faster than short maturity yields.

The arrival of a third viable vaccine appears to have convinced investors markets the worst of the virus crisis will be over by next year, and that the global economy will experience a strong rebound. The vaccines are expected to be fully viable and with no safety issues, while the vaccination program is expected to be a success. A combination of strong consumer demand and robust corporate earnings will push the prices of risk assets such as corporate bonds even higher. In the US, the incoming Biden administration is expected to be pragmatic its dealings with its political rivals and settle for a smaller but still significant stimulus package, which is expected to further boost markets.

Goldman is looking for the S&P 500 to gain another 3% by the end of the year and predicts a 22% rally in 2021 followed by a 7% rally in 2022. It forecasts a 34% increase in corporate earnings per share in 2021. Morgan Stanley is forecasting a 25-30% gain in earnings per share next year, with global GDP growing at 6.4%. Some analysts are worried that markets are “priced to perfection” and are excessively optimistic. They are concerned that any setbacks to these rosy forecasts could trigger a major selloff that could destabilize markets in an environment where economies are still weak.

Path of the market: S&P 500 will end 2021 at 4300

4% gain to 3700 at end of 2020 and then 16% return in 2021 and 7% in 2022



Source: FactSet, Goldman Sachs Global Investment Research

Treasury Secretary Mnuchin is to place \$455 bn in unspent CARES act funds in Treasury's General Fund, which can only be used with "authority based on congressionally issued legislation," Bloomberg reported. This includes \$429 bn taken back from the Fed and \$26 bn given to Treasury for direct loans to businesses. This leaves incoming Treasury Secretary Yellen with less than \$80 bn in the Treasury's Exchange Stabilization Fund over which she would have a degree of discretionary power. The Biden transition team objected to this move when it was announced last week. Meanwhile, Tuesday's Case-Shiller home price data was stronger than expected, but the Conference Board's consumer confidence index came in weaker than expected at 96.1 versus the 98.0 consensus forecast. This morning's economic data were mixed, with jobless claims worse than forecasts but durable goods better than expected. The immediate market response was limited.

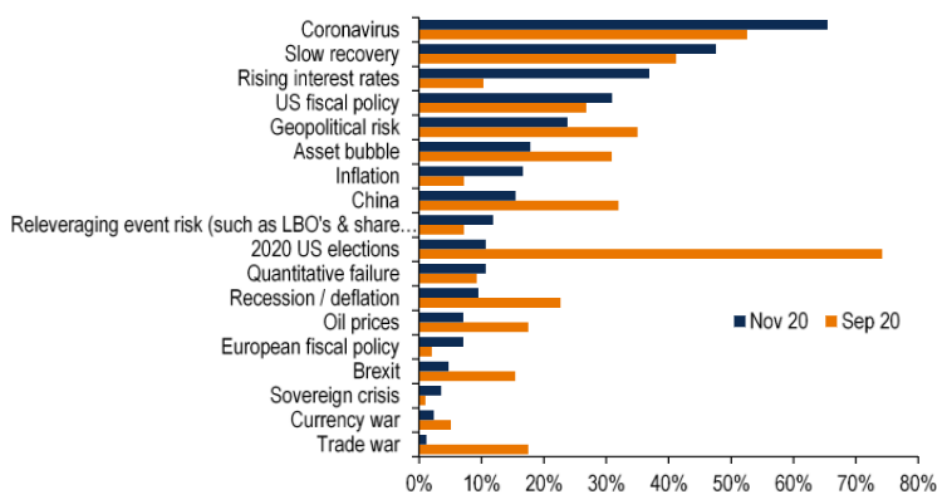
Selected US Data, 8.30am

Source: Bloomberg

Economic Report	Consensus Forecast	Actual Outcome
Jobless claims	+730K	778K
Continuing claims	6000K	6071K
Q3 GDP annualized	33.1%	33.1%
Durable goods	0.8%	1.3%
Durable goods ex-transport	0.5%	1.3%

The latest credit investor survey from Bank of America shows that investors are most worried about the COVID-19 crisis and the risk of a slow recovery for the economy. Rising interest rates were also flagged as an important risk factor. However, the overall tone of the survey was quite bullish. 58% of investment grade (IG) investors surveyed expect credit spreads to tighten further over the next three months, despite the strongest credit rally since 2006 and despite the view that investment grade markets are overvalued. They are also bullish over a six month horizon, although less so over a 12-month horizon. High yield (HY) investors are bullish over all three time frames and they consider the HY market to be fairly valued. HY investors think the CCC sector offers the most value in terms of future performance. Both IG and HY investors are overweight their benchmarks based on their expectations of tighter spreads.

Figure 1: Credit investors: What are your biggest concerns?

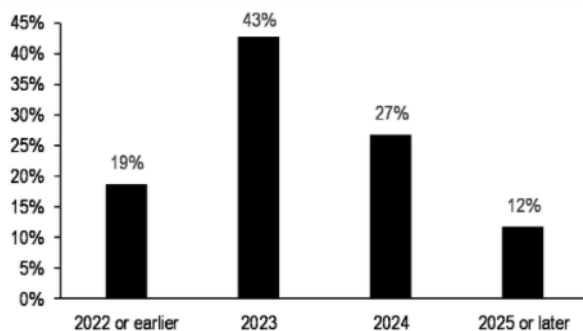


Source: BofA US Credit Investor Survey

A JP Morgan survey found that investors think the Fed will stay out of the picture for the foreseeable future. 43% of those polled thought the Fed would not implement its first rate hike until 2023, with a strong plurality of 37% expecting an even later date in 2024 or 2025. Investors do not expect the Fed to taper its asset purchases until 2022. In addition to these considerations, JP Morgan's analysis finds that 10-year yields have grown less sensitive to economic growth due to the persistently low level of inflation. As a result, they do not expect a major increase in interest rates next year, predicting that the 10-year yield will end 2021 at 1.30%, with a mildly steeper yield curve.

Exhibit 7: Respondents in our outlook survey do not see the Fed liftoff occurring until 2023, with the distribution skewed later...

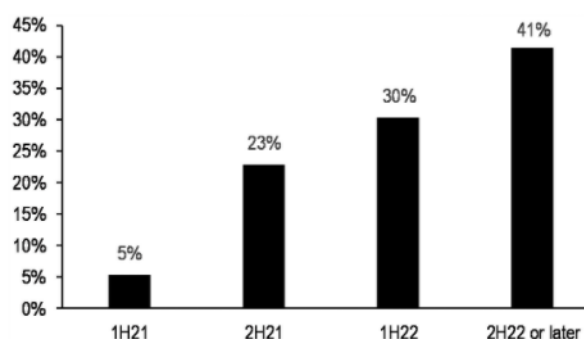
Distribution of investor responses to the following question in our J.P. Morgan US Fixed Income Markets Investor Survey: "When do you expect the Fed is most likely to raise interest rates above the effective lower bound?"; %



Source: J.P. Morgan

Exhibit 8: ...and most investors do not expect the Fed to taper until 1H22 at the earliest

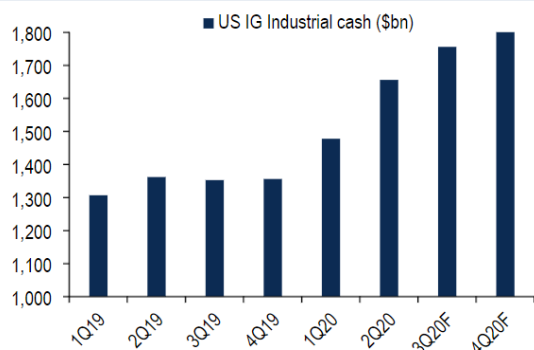
Distribution of investor responses to the following question in our J.P. Morgan US Fixed Income Markets Investor Survey: "When do you expect the Fed to begin to taper its Treasury purchases?"; %



Source: J.P. Morgan

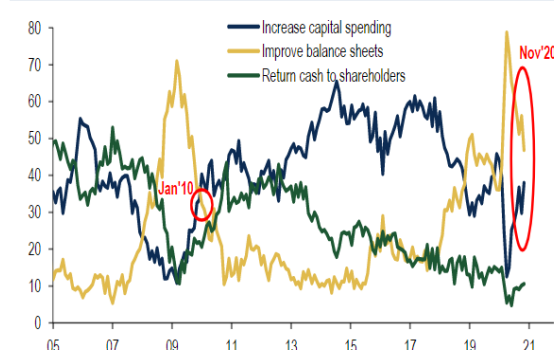
US companies have built up major reserves of cash by issuing record amounts of debt in 2020, which is on track to be the year with the most ever corporate bond issuance. With the exception of a few cash rich companies that did well in the pandemic, most investors expect companies to use these resources for balance sheet repair although a rising number are also calling for more capital expenditure. Even equity investors would rather companies improve their balance sheets rather than return cash through dividends or stock buybacks, as they are equally concerned about the high level of corporate leverage. Companies are expected to issue fewer bonds in 2021 and some are even expected to use their cash to retire outstanding debt.

Figure 3: US IG industrials building a \$500bn cash war chest this year



Source: Bloomberg, BofA Global Research

Figure 4: Global Fund Manager Survey: "what would you most like to see companies do with cash flow?"



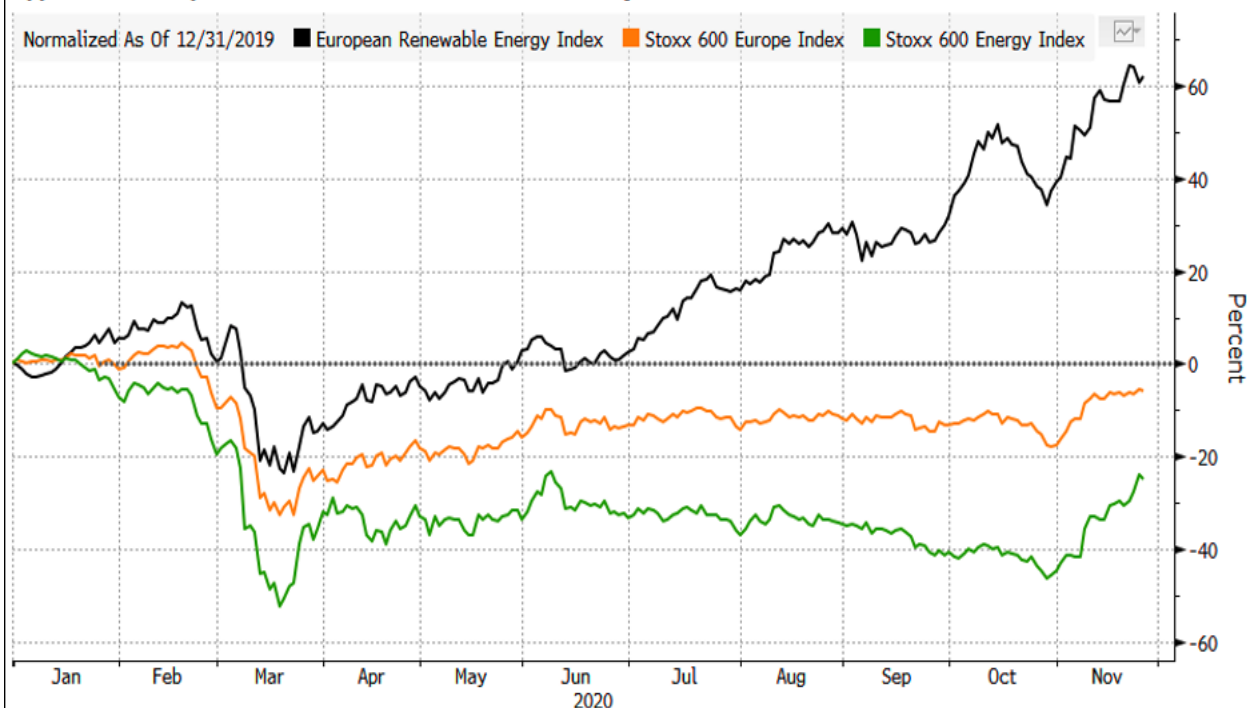
Source: BofA Global Fund Manager Survey

Europe

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European equities opened higher but then drifted to about 0.5% lower on the day with the energy sector (-1.3%) and financials (-1.0%) underperforming as some market analysts pointed to profit taking ahead of the quiet end of the week. While overall equity benchmarks have done well in November, there has been some notable divergence in sector performance with further rotation out of technology and “stay-out-home” sectors to more cyclically leveraged stocks. One group of shares that has continued to consistently outperform is the ESG sector with renewable energy delivering particularly strong performance.

Appetite for European renewables hasn't slowed down this year



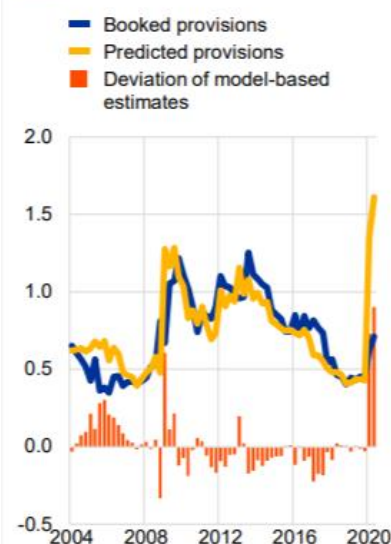
Source: Bloomberg

European bond yields were about 2 bps lower having opened 2 bps higher in the morning. Southern European spreads were mostly unchanged except for Greece where spreads widened 2 bps. The euro (-0.1%) and the sterling (-0.3%) made another unsuccessful attempt to take on the recent highs against the dollar. Contacts also reported some profit taking in the sterling as Brexit-trade comments this morning were somewhat less optimistic for the deal to be signed next week.

The ECB published the Financial Stability Review highlighting increased vulnerabilities amid an uneven economic recovery. The report focuses on number of issues including stretched asset valuations and renewed risk-taking, especially by non-bank financial intermediaries, but also the risks of a potential correction in residential and commercial property markets. Despite solid capital buffers, the banking sector remains in focus with issues such as optimistic provisioning, weak profitability and reemergence of the sovereign-bank nexus highlighted as potential risks. Policy cliff-edge risks are also much in focus amid weak household and corporate balance sheets. **The report highlights that further bad loan provisioning might be necessary** especially as policy support measures are gradually withdrawn.

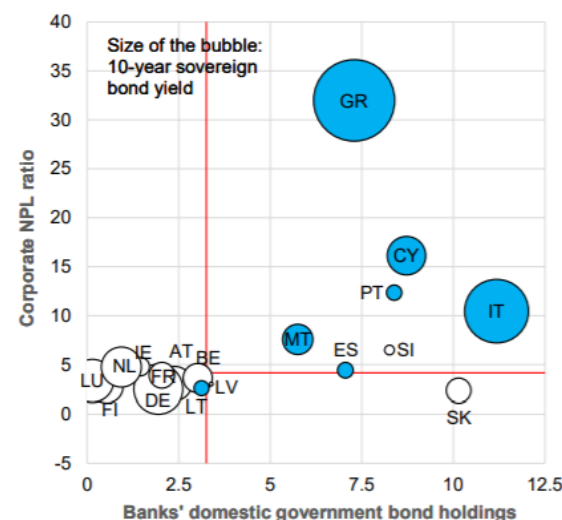
Actual and model-implied provisions of euro area banks

(Q1 2004-Q2 2020, percentage of total loans)



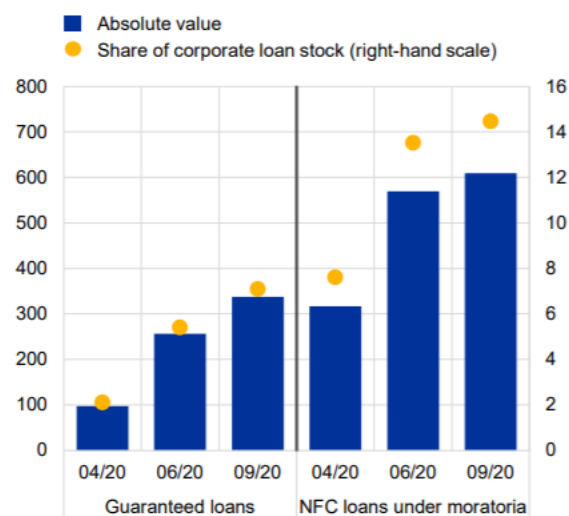
Banks' domestic government bond holdings and corporate NPL ratios across the euro area

(Q2 2020, Oct. 2020, percentage of total assets, percentage of total corporate loans)



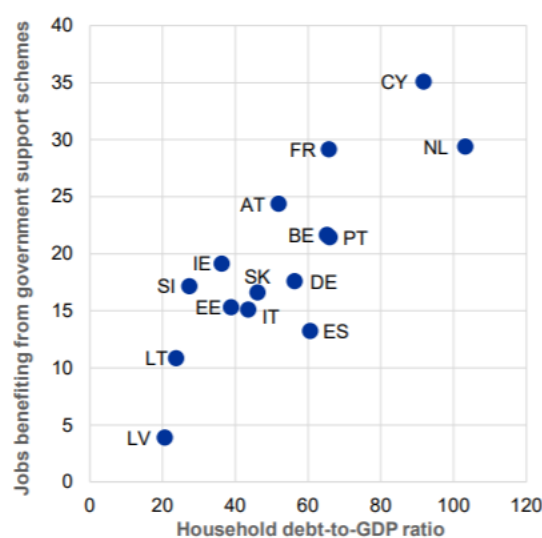
Share of euro area banks' corporate loan books affected by guarantees and moratoria

(€ billions, percentages)



Household debt-to-GDP ratio and the share of jobs benefiting from government support

(May 2020, Q2 2020, percentages)

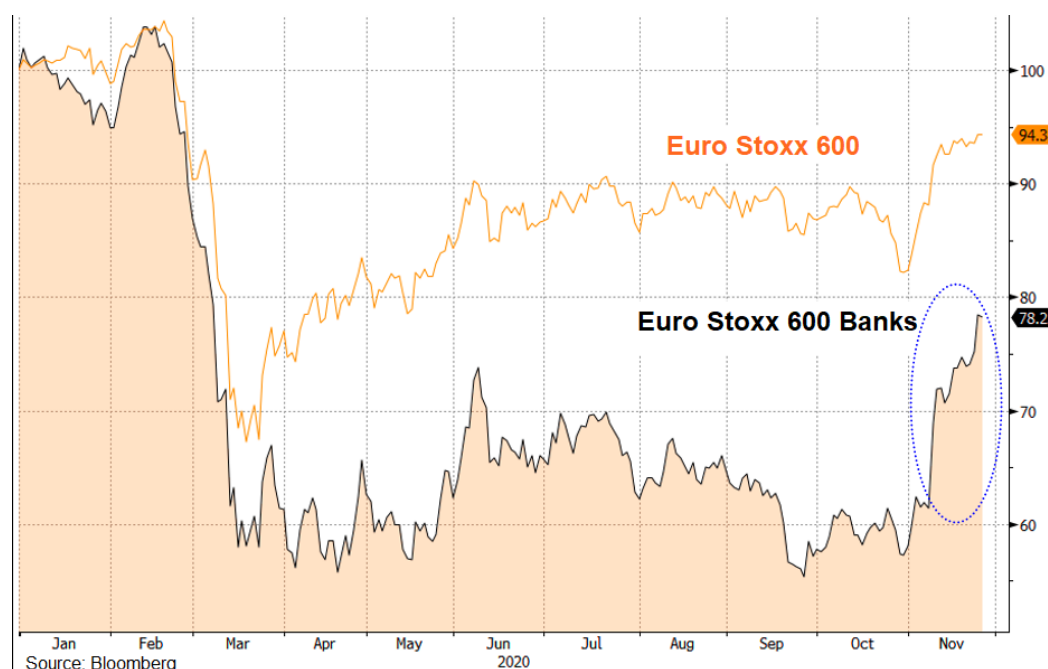


Sources: European Banking Authority, national authorities, Eurostat, ECB and ECB calculations.

Notes: Left panel: data on guaranteed loans capture information for the five largest euro area countries in terms of GDP, i.e. Germany, Italy, France, Spain and the Netherlands. Right panel: no data on jobs supported by government measures are available for Greece, Luxembourg, Malta or Finland, while the latest available data points from April were used for Cyprus and Italy.

Separately, the ECB's Mersch signaled that some European banks could be allowed to pay dividends in 2021. The central bank could move away from a blanket ban to a case-by-case approach for banks with strong balance sheets allowed to return capital to shareholders. According to the Financial Times, a formal decision on dividend policy will not be announced until after the ECB meeting on the 10th of December.

Bank stocks rallied 1.5% on the open but reversed as much as 3% following the Financial Stability Review provision warnings. That said, the Euro Stoxx 600 banking sector benchmark has significantly outperformed the broader index in November with sell-side analysts generally issuing positive recommendations in anticipation of recover in the broader economy.



French President Macron announced a three-stage reopening plan with non-essential shops opening on Saturday the 28th of November, followed by lifting of the curfew on entertainment venues and cultural institutions on the 15th of December. Restaurants and bars won't be allowed to reopen until 20th of January with country-wide travel remaining restricted. Some contracts pointed out that the reopening was somewhat slower than they had anticipated. Germany is expected to announce its reopening plan later today.

Other Mature Markets

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Japan

Services PPI inflation dropped below zero for the first time since 2013. Services PPI declined 0.6% year-on-year in October, down from an increase of 1.3% in September. Tokyo plans to ask residents to avoid non-essential outdoor activities and will request bars and restaurants to close early amid a sharp increase in severe COVID-19 cases. Japanese equities gained (NIKKEI: +0.5%). The yen was little changed.

Off the Cliff

Japan's services producer price index falls at fastest pace since 2012



Source: Bloomberg.

New Zealand

The Reserve Bank of New Zealand (RBNZ) clarified its monetary policy outlook. Following the government's proposal to include house price stability as a factor in the conduct of monetary policy, Governor Adrian Orr noted that the RBNZ will work constructively with the government but did not commit to any changes. He also clarified that the RBNZ only wants to be operationally ready for implementing negative interest rates. Government bond yields further increased (10-year: +6 bps) as markets saw a lower likelihood for negative rates. Equities increased (+0.9%).

Emerging Markets

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Emerging market equities were mixed as vaccine optimism faltered. Currencies traded in a narrow range. In Indonesia, Governor Perry said that Bank Indonesia will focus on supporting economic growth amid falling inflation and a stronger rupiah.

Key Emerging Market Financial Indicators

Last updated: 11/25/20 7:40 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		49.85	-0.6	2	8	16	11
MSCI Frontier Equities		27.93	0.9	2	3	-3	-8
EMBIG Sovereign Spread (in bps)		345	1	17	-10	97	128
EM FX vs. USD		56.23	0.0	0	2	-6	-8
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.58	0.2	0	2	7	6
Indonesian Rupiah		14144	0.1	-1	4	0	-2
Indian Rupee		73.91	0.1	0	0	-3	-3
Argentine Peso		80.69	-0.4	-1	-3	-26	-26
Brazil Real		5.37	0.2	0	5	-21	-25
Mexican Peso		20.09	-0.3	1	4	-3	-6
Russian Ruble		75.61	0.0	0	1	-15	-18
South African Rand		15.25	-0.3	1	6	-3	-8
Turkish Lira		7.97	0.3	-3	1	-28	-25
EM FX volatility		10.21	0.0	-0.2	-0.7	3.2	3.6

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

Argentina

Argentina's economic activity expanded by 1.9% month-on-month (m/m) in September (vs. +1.6% in August), in line with market expectations. In annual terms, economic activity contracted by 6.9% year-on-year (y/y) (vs. the -8.6% consensus). Exports shrank 21.6% y/y to \$4.6 bn in October, and imports only declined 2.8% y/y to \$4.0 bn, reflecting that the government's new currency controls have negatively impacted exporters. As a result, Argentina posted a trade surplus of just \$612 mn in October, compared to almost \$1.5 bn in the past three months.

Dwindling Cushion

Argentina's trade surplus has narrowed dramatically in recent months



Brazil and Mexico

Brazil's IPCA-15 inflation printed at 0.81% m/m in November, above the 0.72% Bloomberg consensus forecast. In annual terms, inflation accelerated to 4.22% y/y, above the target of 4.0% for the first time since February. **In contrast, Mexico's inflation reported a lower-than-expected 0.04% m/m in November, below the 0.23% Bloomberg consensus forecast.** Annual inflation decelerated to 3.43% y/y. Analysts commented that Brazil should monitor potential inflationary pressures and strive to keep inflation well anchored. Analysts also stated that it's likely for Banxico to resume the easing cycle in the near future. Both Brazilian and Mexican stocks gained in step with the big global rally.

Opposite Directions

Brazil's annual inflation speeds up while Mexico's eases



China

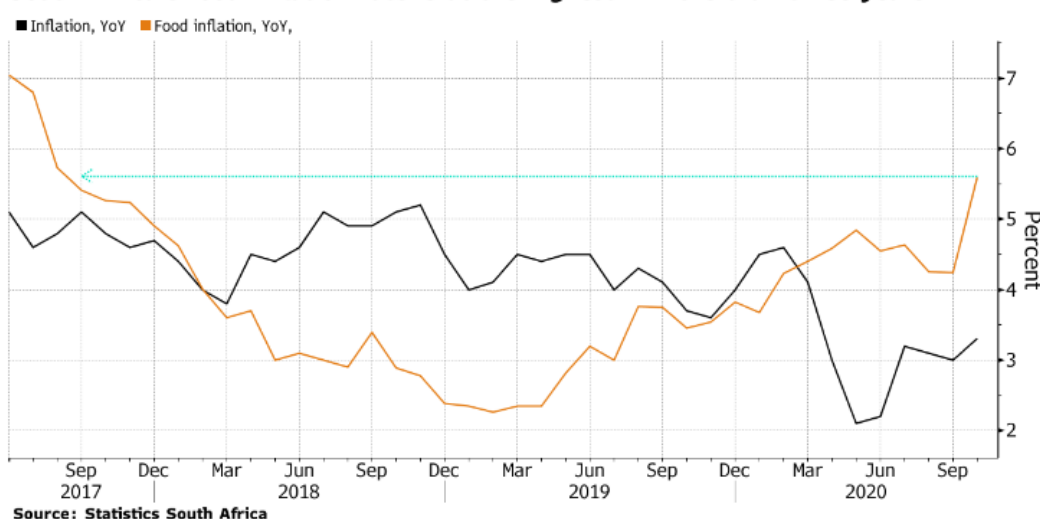
China sought to recalibrate economic ties with its neighbors. Foreign Minister Wang Yi visited Japan and will travel to Korea next. China and Japan agreed to restart two-way travel by end-November, bring the Regional Comprehensive Economic Partnership (RCEP) into force quickly, and move forward on a trilateral trade deal with Korea. Both sides, however, re-stated their differences over disputed islands in the East

China Sea. A leading Chinese vaccine developer seeks approval for public use for its drug. China National Biotech applied for an authorization from Chinese regulators. The application includes data from the Phase III testing conducted in the Middle East and South America. While its vaccine has been given to hundreds of thousands of people in China under an emergency use program, no testing information has been disclosed to the public.

South Africa

South African inflation accelerated on the back of rising food costs. Headline inflation came in at 3.3% year-on-year for October, from 3.0% in September. Core inflation printed at 3.4% in October from 3.3% the month prior. Despite the increase in the headline gauge, inflation remains within the 3% to 6% target band of the Reserve Bank of South Africa (RBSA). Given ongoing economic weakness from COVID-19 and moderate inflation trends, the RBSA kept interest rates unchanged last week, while signaling possible increases next year.

South Africa's food inflation rate is at the highest in more than three years



List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina <i>Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Dmitri Petrov <i>Financial Sector Expert</i>
Nassira Abbas <i>Deputy Division Chief</i>	Deepali Gautam <i>Research Officer</i>	Thomas Piontek <i>Financial Sector Expert</i>
Antonio Garcia-Pascual <i>Deputy Division Chief</i>	Rohit Goel <i>Financial Sector Expert</i>	Patrick Schneider <i>Research Officer</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Can Sever <i>Economist (Economist Program)</i>
Sergei Antoshin <i>Senior Economist</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Henry Hoyle <i>Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Yingyuan Chen <i>Financial Sector Expert</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Dmitry Yakovlev <i>Senior Research Officer</i>
Han Teng Chua <i>Economic Analyst</i>	Phakawa Jeasakul <i>Senior Economist</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Fabio Cortés <i>Senior Economist</i>	Piyusha Khot <i>Research Assistant</i>	Xingmi Zheng <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Natalia Novikova <i>Senior Economist</i>	

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Global Financial Indicators

Last updated: 11/25/20 7:38 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3635	1.6	1	5	16	13
Europe		3506	-0.1	1	10	-5	-6
Japan		26297	0.5	1	12	13	11
China		3362	-1.2	0	3	16	10
Asia Ex Japan		87	1.3	2	8	23	18
Emerging Markets		50	1.3	2	8	16	11
Interest Rates			basis points				
US 10y Yield		0.88	-0.5	0	3	-88	-104
Germany 10y Yield		-0.57	-1.1	-2	0	-23	-39
Japan 10y Yield		0.02	-0.4	0	-2	10	3
UK 10y Yield		0.31	-1.6	-2	3	-38	-51
Credit Spreads			basis points				
US Investment Grade		108	-2.0	-5	-15	-13	10
US High Yield		435	-10.6	-17	-66	-40	41
Europe IG		49	-0.1	-1	-9	0	5
Europe HY		268	2.9	-14	-72	38	61
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates			%				
USD/Majors		92.23	0.0	0	-1	-6	-4
EUR/USD		1.19	-0.1	0	1	8	6
USD/JPY		104.5	0.0	-1	0	4	4
EM/USD		56.2	0.1	0	2	-6	-8
Commodities			%				
Brent Crude Oil (\$/barrel)		48	0.6	9	15	-24	-27
Industrials Metals (index)		129	-0.5	1	6	15	12
Agriculture (index)		44	0.1	0	4	13	7
Implied Volatility			%				
VIX Index (%, change in pp)		22.0	0.4	-1.8	-5.5	10.2	8.2
US 10y Swaption Volatility		54.5	0.3	-0.5	-16.8	-10.5	-7.5
Global FX Volatility		7.6	0.0	-0.2	-0.8	1.6	1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		125	1.9	3	-25	-46	-40
Italy		118	0.2	-3	-16	-34	-42
Portugal		59	-0.5	-1	-16	-14	-4
Spain		64	0.1	0	-13	-12	-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: 11/25/2020 7:41 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.58	0.2	-0.2	2	7	6		3.4	-0.7	3	11	22	29
Indonesia		14144	0.1	-0.5	4	0	-2		6.3	-2.6	-1	-38	-89	-87
India		74	0.1	0.4	0	-3	-3		6.0	-2.2	-4	-5	-84	-92
Philippines		48	0.0	0.2	1	6	5		3.7	2.1	5	11	-64	-63
Thailand		30	0.0	-0.1	3	0	-2		1.4	0.0	-2	-3	-30	-16
Malaysia		4.09	0.0	0.0	2	2	0		2.6	0.4	4	7	-83	-80
Argentina		81	-0.4	-0.8	-3	-26	-26		53.2	6.8	45	559	-4407	-939
Brazil		5.37	0.2	-0.1	5	-21	-25		6.7	-4.5	34	35	51	45
Chile		770	0.3	-1.6	1	3	-2		2.8	0.1	-1	11	-69	-53
Colombia		3638	0.3	0.2	5	-6	-10		5.1	0.8	-8	-11	-91	-82
Mexico		20.09	-0.3	1.2	4	-3	-6		5.9	-3.4	-16	-20	-118	-104
Peru		3.6	-0.1	-0.2	0	-6	-8		3.9	0.5	-10	-21	-58	-58
Uruguay		43	0.1	0.2	0	-11	-12		7.4	-0.6	-8	2	-382	-348
Hungary		304	-0.2	0.1	2	0	-3		1.6	1.1	-2	-14	55	43
Poland		3.76	-0.2	0.3	3	4	1		0.6	0.4	2	-1	-120	-126
Romania		4.1	-0.1	0.3	1	6	4		2.9	0.0	-2	-34	-107	-112
Russia		75.6	0.0	0.5	1	-15	-18		5.5	0.2	0	-9	-67	-58
South Africa		15.3	-0.3	1.4	6	-3	-8		9.8	-4.7	-7	-39	14	24
Turkey		7.97	0.3	-3.4	1	-28	-25		12.3	7.7	-4	-118	44	65
US (DXY; 5y UST)		92	0.0	-0.1	-1	-6	-4		0.39	-0.5	0	1	-122	-130

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		4911	-1.3	0	4	27	20		214	-1	3	0	39	38
Indonesia		5679	-0.4	2	11	-6	-10		192	1	1	-20	11	36
India		43828	-1.6	-1	8	7	6		170	-2	-3	-36	43	45
Philippines		7002	-1.5	-1	8	-10	-10		111	0	-1	-14	24	45
Malaysia		1598	1.2	0	7	0	1		127	-1	7	-19	7	15
Argentina		54136	5.1	6	3	62	30		1371	2	14	-54	-935	-398
Brazil		109786	2.2	2	8	1	-5		265	1	-4	-38	30	50
Chile		4197	1.6	2	10	-10	-10		153	1	3	-13	3	20
Colombia		1271	1.8	3	8	-21	-24		219	1	6	-22	34	56
Mexico		42736	1.1	2	10	-2	-2		423	0	-11	-52	102	131
Peru		19481	2.9	5	8	-2	-5		153	1	10	4	24	46
Hungary		38972	-0.2	2	16	-12	-15		103	0	0	-2	2	17
Poland		53216	-0.2	2	11	-8	-8		7	-1	-3	-7	-21	-11
Romania		9292	-0.4	4	6	-5	-7		206	-2	0	-25	10	33
Russia		3127	1.0	2	11	6	3		179	1	1	-15	15	48
South Africa		57744	0.0	1	4	2	1		418	0	-4	-57	70	98
Turkey		1337	1.2	3	12	27	17		511	4	10	-97	79	110
Ukraine		501	0.0	0	0	-3	-2		530	4	-44	-187	43	110
EM total		50	-0.6	2	8	16	11		421	0	17	-10	97	128

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