



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Thursday, November 29, 2018

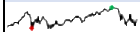
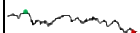


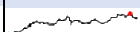
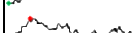



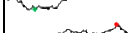

- Fed Chair Powell's remarks perceived as dovish, boosting risk assets ([link](#))
- Federal Reserve releases inaugural Financial Stability Report ([link](#))
- US consumption data for October stronger than expected; inflation marginally lower than consensus ([link](#))
- BoE's impact assessment suggests hard Brexit could cost about 5 to 8% of GDP by 2023 relative to economic partnership scenario ([link](#))
- German police raids Deutsche Bank in money laundering probe ([link](#))

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

## Global Markets Gain on Dovish Fed Comments

**Global risk assets were boosted by Fed Chair Powell's remarks yesterday that were widely perceived as dovish.** Equities gained across the major markets, with the US and the MSCI EM closing about 2.5% higher. The dollar depreciated versus most currencies and 2-year yields declined 3-4 basis points. 10-year Treasury yields were little changed yesterday, but are down 4 bps this morning just above 3%. In today's trading, a more cautious tone has taken hold. Market attention has shifted to Brexit-related developments as PM May discussed the prospect of a "no deal" Brexit scenario, after the Bank of England released its Brexit impact assessment yesterday. The pound is down 0.4% this morning. In the US, equity futures are down 0.2%, paring earlier losses after US consumption data for October came in stronger than expected.

### Key Global Financial Indicators

Last updated: 11/29/18 7:41 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2744	2.3	4	4	4	3
Eurostoxx 50		3182	0.4	2	1	-11	-9
Nikkei 225		22263	0.4	4	5	-1	-2
MSCI EM		41	0.2	5	9	-11	-12
Yields and Spreads			bps				
US 10y Yield		3.02	0.2	-4	-7	63	61
Germany 10y Yield		0.33	-1.8	-4	-5	-5	-10
EMBIG Sovereign Spread		404	1	10	37	117	119
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.8	0.3	0	2	-8	-10
Dollar index, (+) = \$ appreciation		96.8	0.0	0	0	5	5
Brent Crude Oil (\$/barrel)		59.4	1.2	-5	-23	-6	-11
VIX Index (% change in pp)		19.2	0.7	-2	-6	8	8

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

## Commodities

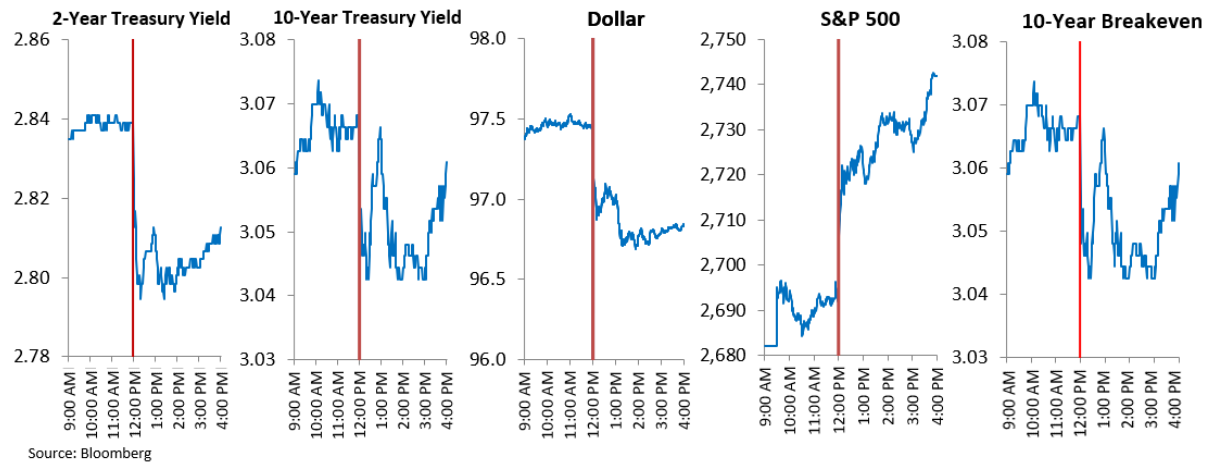
**Oil futures are down over 1% with WTI falling below \$50 per barrel for the first time in over a year.**

Against the background of rising stockpile and production in the US, the latest leg lower has been driven by speculation that OPEC and Russia will not lean as hard against the rising oil supply. The leaders of Russia and Saudi Arabia are set to discuss the issue during the G20 meeting this week.

## United States

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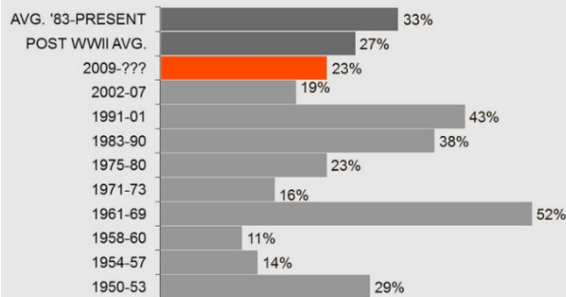
**Fed Chair Powell's dovish remarks were the dominant market event yesterday.** Equities saw a strong rally, with major indices gaining 2.3-3% on the day, pushing them back again into positive territory for the year. Tech stocks (+3.4%) outperformed yesterday, while banks gained 1.7%. The 2-year Treasury yield dipped 3-4 bps while the 10-year yield ended flat.



**Powell** argued that interest rates stand “just below the broad range of estimates of the level that would be neutral for the economy” after stating in October that monetary policy was “a long way from neutral.” He added that he did not gauge there were any major asset classes “where valuations appear far in excess of standard benchmarks.” Futures markets are pricing in an 80% chance of a December rate hike, according to Bloomberg estimates, but the **path next year has become more uncertain**. The spread between the December 2018 and 2019 eurodollar futures contracts has fallen to less than 25 bps, the lowest in six months, and half the difference from mid-October.

### CYCLE NEARS RECORD LENGTH, BUT NOT STRENGTH

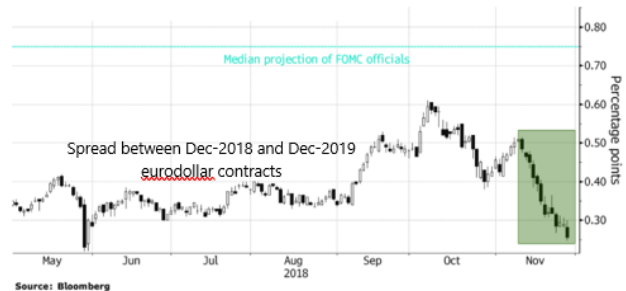
CUMULATIVE REAL GDP % GAIN DURING RECOVERY/EXPANSION



SOURCE: BEA, NBER

### Not So Great Expectations

The market has dialed back how much Fed tightening it's pricing in for 2019

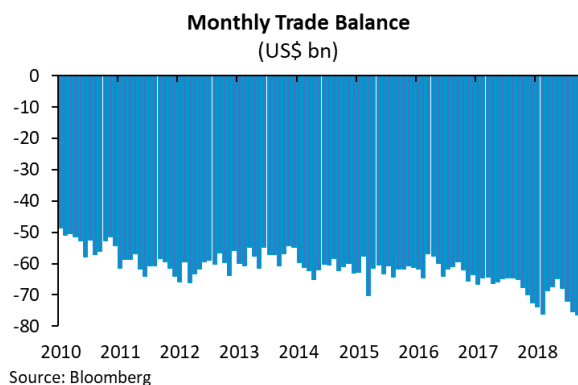


**In this morning's data, US consumption estimates for October came in stronger than expected at 0.6% m/m in nominal terms (vs. 0.4% expected), while real spending rose 0.4% (vs. 0.2% expected).** This puts Q4 GDP tracking estimates on a stronger path than previously expected. **Inflation estimates for October were broadly in line with analyst forecasts**, with the headline PCE deflator up 0.2% m/m (as expected) and the core deflator up 0.1% m/m, one tick short of analyst projections. The immediate market response was limited, with equities gaining slightly and 10-year Treasuries up 1-2 bps.

**The Fed released its inaugural [Financial Stability Report](#).** It highlighted the increase in leveraged lending and the potential for declines abroad as possible risks to financial stability. While noting the financial system was "far more resilient" since the advent of the global financial crisis, it argued that risk appetite and asset valuations appear heightened. The report also found that household borrowing was rising in tandem with incomes, but that corporate debt was "historically high, and there are signs of deteriorating credit standards." The Fed advised the report will be produced twice a year and will be utilized during the annual review this January of whether to implement a countercyclical buffer.

Treasury Secretary **Mnuchin** reportedly asked bond dealers and investors whether they preferred the Fed to normalize monetary policy through raising rates or by shrinking the balance sheet faster. This was reportedly discussed at the quarterly meeting of the Treasury Borrowing Advisory Committee (TBAC) on October 30<sup>th</sup>. Providing target ranges for the federal funds rate has long been the Fed's main policy tool, but recent rate hikes have been criticized by President Trump.

The **trade deficit widened to a record \$77.2 bn** in October, rising more than expected. Imports have ballooned to over \$217 bn owing to a solid demand growth. But exports have dipped from their May highs due to rising tariffs and a relatively strong dollar. About half of the annual \$800 bn US trade deficit in goods is with China.



## Europe

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**Long-term sovereign debt yields are mostly unchanged** at 0.32% for Germany; 0.70% for France; and 3.24% for Italy. **Equities are up about 0.2-0.5% across Europe, while bank stocks (-0.5%) are underperforming, led by drops at Italian banks (-0.8%).** The equity performance of the Italian banking system has tended to mirror that of political risk gauges since end-2016, symptomatic of the perceived risks from the sovereign-bank nexus.

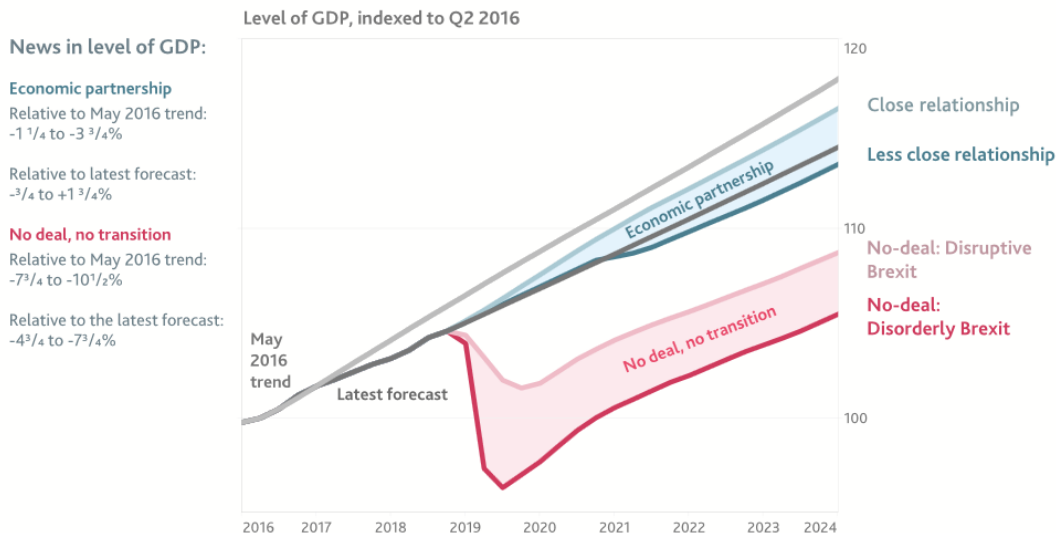
## Eurozone Political Risk Measures

(ISDA Basis: spread between CDS using ISDA's 2014 and 2003 legal definitions)

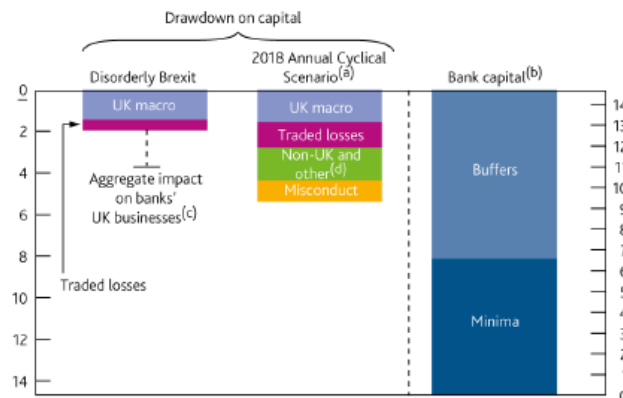


The BoE's [Brexit report](#) released yesterday shows that a disorderly exit could reduce GDP by as much as 10.5% by the end of 2023, relative to the trend as of May 2016. But the loss diminishes to less than 4% under an agreement that maintains close ties. In the short term, the economic cost of a disruptive Brexit—i.e., WTO tariffs and other barriers introduced suddenly—would be about 3% of GDP. A disorderly Brexit would also shave off around 2 percentage points of UK banks' aggregate CET1 capital, via a combination of macroeconomic and financial market effects, such as a 100 bps sudden rise in term premia and a 23% drop in equity values) effects

## Modelled scenarios based on different assumptions about Brexit



**Chart 5.2.1: Comparison of the impact of the disorderly Brexit scenario and 2018 ACS on major UK banks' capital ratios**



Sources: Participating banks' STDF data submissions, PRA regulatory returns, published accounts, Bank analysis and calculations.

(a) The CET1 impact for the ACS is before the conversion of AT1 instruments.

(b) Defined as total aggregate CET1 capital as a proportion of risk-weighted assets.

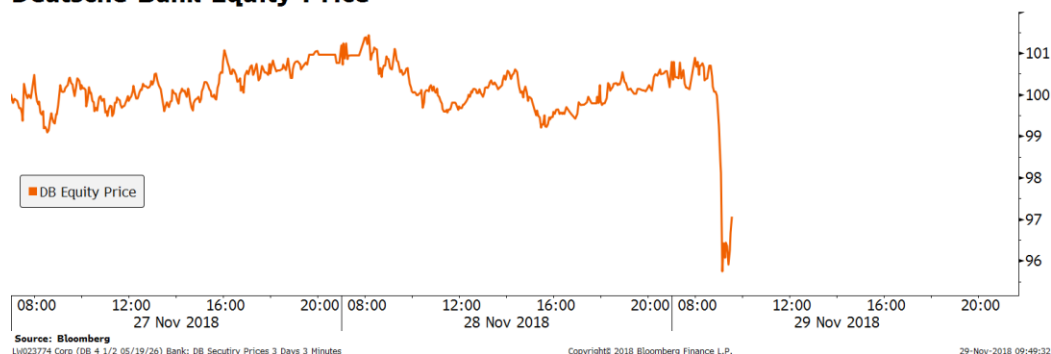
(c) Average impact on banks' UK businesses calculated by scaling the aggregate impact of the disorderly Brexit scenario based on groups' aggregate ratio of global to UK business. This estimates the impact of the scenario as a proportion of groups' aggregate UK RWAs.

(d) Non-UK is computed as a residual in this chart. It includes global elements in the same category as the UK macro-economic impact.

Separately, the BoE also released its **latest stress-test results showing that the country's seven largest lenders are strong enough to continue lending even in the event of a no-deal Brexit**. The report says that none of the institutions need to boost capital and have enough liquidity to survive a major disruption in financial markets. The test included an 8% drop in GDP within a year, a 30% slump in house prices and a drop of 48% in commercial property prices. **UK bank stocks are 0.4% higher this morning, while sterling is 0.4% down this morning, at \$1.28.**

**Equities of Deutsche Bank have plummeted 4% this morning as news emerged that the police are searching the lender's headquarters in Frankfurt in a money laundering probe.** The bank's share price has lost about half of its value this year and CDS spreads on its junior debt have risen to a two-year high today, climbing 11 bps to 383 bps.

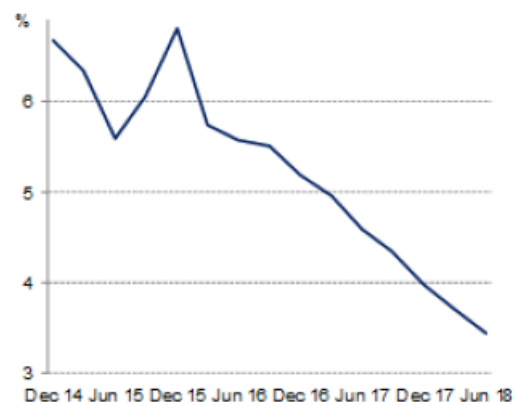
### Deutsche Bank Equity Price



The European Commission **reported** that **NPLs in the European banking system have declined further to an EU average of 3.4% (2018Q2 data)**. The EC noted that, although NPLs have decline in all member states, the situation continues to differ markedly by country.

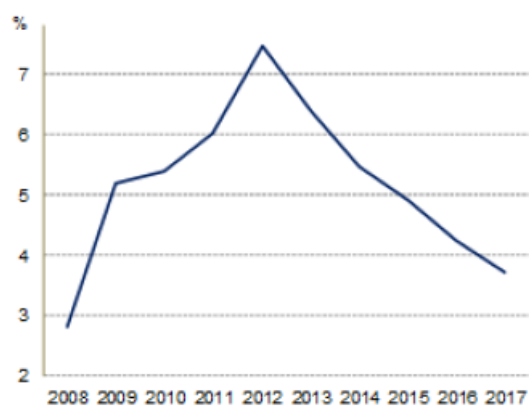
Figures 1 and 2: Non-performing loans ratio in the Union

EU total gross non-performing loans and advances,  
in % of total gross loans and advances, end-of-quarter values



Source: European Central Bank

EU bank total non-performing loans,  
in % of total gross loans, end-of-year values



Source: World Bank - World development indicators

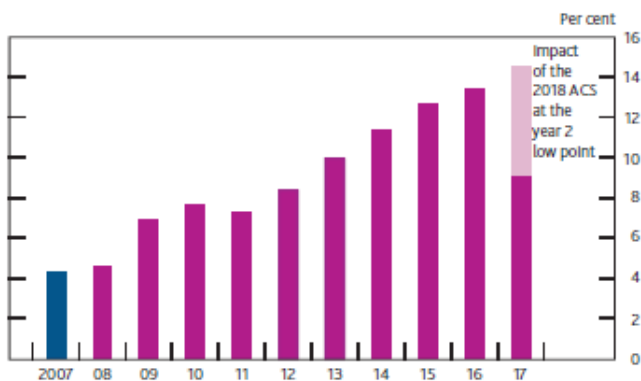
Table 2: Non-performing loans and provisions by Member State <sup>15</sup>

	Gross NPLs and advances (% of total gross loans and advances)		Private sector NPLs* (% of private-sector loans)		Total loss provisions (loans)** (% of total doubtful and non-performing loans)	
	2018Q2	2017Q2	2018Q2	2017Q2	2018Q2	2017Q2
Belgium	2.4	2.8	3.4	4.0	53.9	50.1
Bulgaria	9.2	12.1	14.5	19.2	64.2	54.8
Czech Republic	2.2	2.9	4.1	5.3	65.2	53.1
Denmark	2.5	2.9	2.9	3.2	35.9	38.4
Germany	1.7	2.3	2.8	4.3	83.6	43.6
Estonia	1.8	2.0	2.3	2.5	38.7	44.6
Ireland	8.5	11.6	11.8	15.8	37.6	37.6
Greece	44.9	46.9	48.4	50.6	52.2	49.2
Spain	4.1	5.3	5.2	-	63.3	59.9
France	2.9	3.4	4.0	4.6	65.4	59.7
Croatia	8.7	11.7	13.3	16.5	72.9	68.8
Italy	10.0	12.2	12.9	15.9	59.3	52.9
Cyprus	28.1	33.4	44.7	52.7	48.6	47.1
Latvia	5.9	5.9	8.5	9.3	38.5	43.8
Lithuania	3.1	3.7	3.9	4.9	34.9	36.3
Luxembourg	0.6	0.7	1.8	1.8	49.8	51.6
Hungary	6.7	10.4	9.2	15.3	76.5	66.3
Malta	3.2	3.7	-	6.7	50.0	41.8
Netherlands	2.0	2.3	2.7	3.0	35.0	38.3
Austria	2.9	4.1	4.0	5.7	65.8	62.6
Poland	7.0	6.6	7.5	7.2	67.7	58.0
Portugal	11.7	15.5	12.9	16.2	58.5	49.4
Romania	5.9	8.5	7.6	11.0	77.1	69.4
Slovenia	7.4	11.4	9.9	14.7	67.4	70.4
Slovakia	3.8	4.1	4.2	4.7	84.6	68.9
Finland	1.1	1.4	2.0	2.1	33.2	31.9
Sweden	1.3	1.2	1.5	1.4	34.5	34.8
United Kingdom	1.3	1.6	2.3	2.5	48.3	40.6
<b>European Union</b>	<b>3.4</b>	<b>4.6</b>	<b>-</b>	<b>-</b>	<b>59.0</b>	<b>50.8</b>

Source: European Central Bank, Consolidated Banking Data. Calculations by Commission services

**Chart A.4** Even at the low point of the stress the aggregate CET1 ratio is still more than double what it was before the financial crisis

Aggregate CET1 capital ratio of major UK banks since the financial crisis(a)(b)(c)



Sources: PRA regulatory returns, published accounts, participating banks' STDF data submissions, Bank analysis and calculations.

(a) The CET1 capital ratio is defined as CET1 capital expressed as a percentage of risk-weighted assets. Major UK banks are Barclays, The Co-operative Bank (until 2013), HSBC, Lloyds Banking Group, Nationwide, The Royal Bank of Scotland, Santander UK and Standard Chartered (from 2014). From 2011, data are CET1 capital ratios as reported by banks. Prior to 2011, data are Bank estimates of banks' CET1 ratios.

(b) Capital figures are year end.

(c) The impact of the 2018 ACS does not include the conversion of AT1 instruments.

## Other Mature Markets

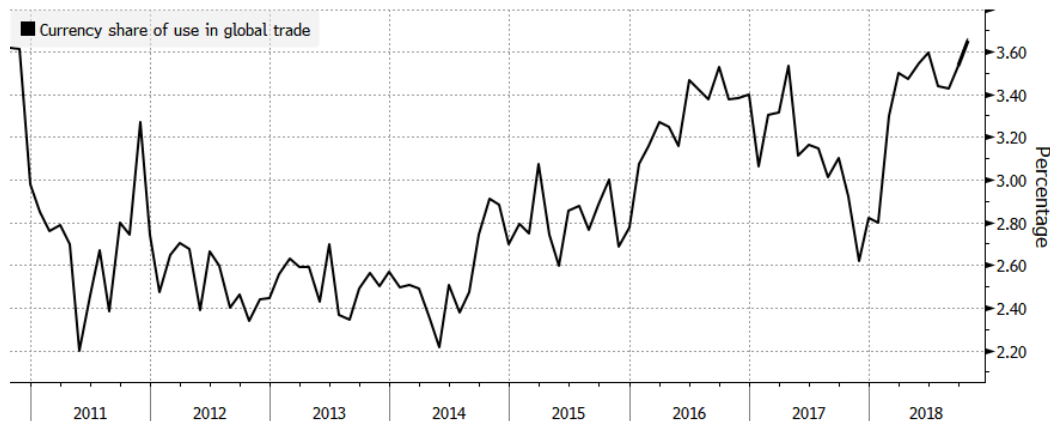
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### Japan

**The yen gained alongside other Asian currencies while equities rose for a fifth day.** Comments from Fed Chair Powell lifted investor sentiment. The yen gained 0.3% to 113.34 per dollar while the Topix rose 0.4%, led by services and pharmaceutical shares. According to SWIFT, the use of yen in global trade transactions rose to 3.65% of total, the highest for the currency since late 2010, when SWIFT first began to track this data. The yen is the fourth most used currency in trade invoicing following the dollar, euro and sterling.

### Yen in Global Transactions

Japanese currency's use in global trade at highest level in records to 2010



Source: Swift

SWFTJPY Index (Share of Payments via SWIFT in JPY (%)) Swift YEN Monthly 31OCT2

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## Emerging Markets

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**Major EM benchmarks advanced (MSCI EM: +2.4%, EMBIG spread: -2bps) following Fed Chair Powell's dovish comments yesterday.** In **Latin America**, the Mexican peso was the best performer (+1%), supported by a relatively hawkish quarterly inflation report. On the opposite spectrum the Colombian peso depreciated (-0.2%) for a fourth day amid a decline in oil prices and market uncertainty about the new Financing Law that was sent to Congress. In **Asia**, currencies staged broad-based gains against the dollar with the Indonesian rupiah (+1.1%) and the Indian rupee (+1.0%) outperforming. Asian equities also gained, led by the Indonesian Composite (+1.9%), but Hong Kong (-0.9%) and Chinese shares (Shanghai: -1.3%; Shenzhen: -2.2%) erased earlier gains to end the day lower. The RMB strengthened 0.2% to 6.95. Equity indices are mixed across **EMEA**, falling slightly in energy exporting countries in the Middle East and Russia, while rising between 0.5-1.2% across major markets in the rest of the region on better risk sentiment. Currencies were mostly stronger against the dollar, led by the Turkish lira (+1.2%).

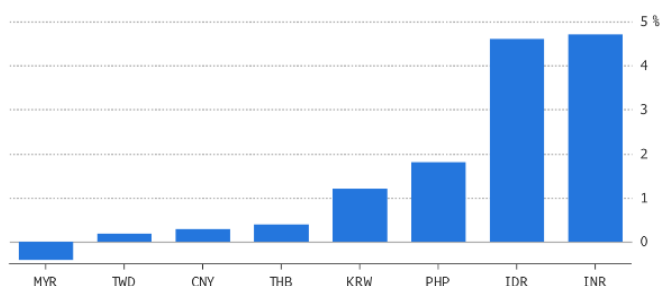
### Key Emerging Market Financial Indicators

Last updated: 11/29/18 8:21 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		41.48	0.3	5	9	-11	-12
MSCI Frontier Equities		27.65	0.8	2	4	-16	-17
EMBIG Sovereign Spread (in bps)		404	1	10	37	117	119
EM FX vs. USD		62.90	0.4	0	2	-8	-10
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.94	0.2	0	0	-5	-6
Indonesian Rupiah		14383	1.0	1	6	-6	-6
Indian Rupee		69.85	1.1	1	5	-8	-9
Argentine Peso		38.41	0.1	-5	-4	-55	-52
Brazil Real		3.85	0.1	-1	-3	-16	-14
Mexican Peso		20.20	0.5	1	-1	-8	-3
Russian Ruble		66.32	1.0	-1	-1	-12	-13
South African Rand		13.63	1.1	1	8	0	-9
Turkish Lira		5.16	1.3	3	8	-23	-26
EM FX volatility		10.10	0.0	0.0	0.0	2.2	2.3

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

### Better Days

Rupee and rupiah lead emerging Asian currencies higher in November



Source: Bloomberg

Bloomberg

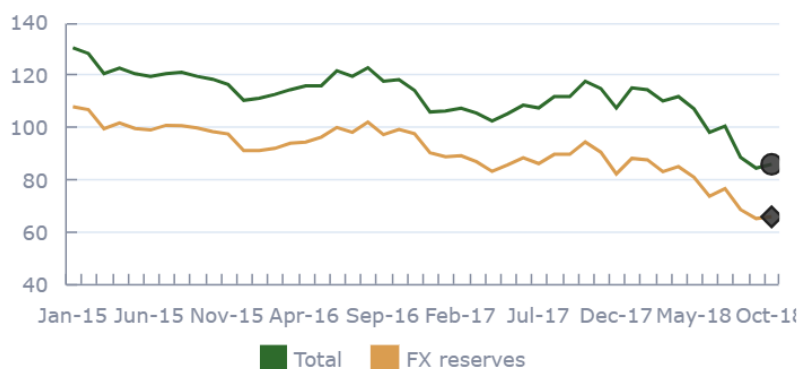


## Turkey

**The central banks' gross FX reserves grew by 1.7% m/m to \$86.2 bn at end-October, according to CBT data.** The build-up was in part driven by \$1.9 bn worth of receipts from repayments of export credits, along with the higher required reserve holdings for banks. Some recovery in foreign capital inflows has likely contributed as well. Analysts believe that the gradual increase in FX reserves could continue in the near term given the outlook for improving external accounts and signs of recovering of investor interest. The data had no sustained impact on asset prices.

### International reserves (USD bn)

Source | Central bank of Turkey (CBT)



## Mexico

**Despite yesterday's rally (Mexbol: +3%, CDS spread: -10 bps), the domestic equity benchmark is trading at a significant discount while credit spreads price in more rating downgrades.** According to Bloomberg valuation data based on earnings forecasts, the Mexbol index is currently trading at a 23% discount to the S&P 500 Index, the lowest level since 2008, while the overall index level is at its lowest level since 2014. The valuation gap has widened following a number of non-market friendly actions in recent weeks (e.g., the cancellation of the airport construction project and policy initiatives regarding banking fees, mining and the pension system). With regards to credit spreads, Citigroup analysts highlight that a downgrade by Moody's from A3 to Baa1 – in line with the other two rating agencies – would have limited impact given that spreads are currently pricing in even more aggressive downgrades.

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## Global Financial Indicators

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<b>Equities</b>			%				%
United States		2744	2.3	4	4	4	3
Europe		3182	0.4	2	1	-11	-9
Japan		22263	0.4	4	5	-1	-2
China		2567	-1.3	-3	1	-23	-22
Asia Ex Japan		67	2.2	5	10	-12	-12
Emerging Markets		41	0.2	5	9	-11	-12
<b>Interest Rates</b>			basis points				
US 10y Yield		3.02	0.2	-4	-7	63	61
Germany 10y Yield		0.33	-1.8	-4	-5	-5	-10
Japan 10y Yield		0.08	-1.8	-2	-3	5	3
UK 10y Yield		1.34	-3.4	-9	-6	1	15
<b>Credit Spreads</b>			basis points				
US Investment Grade		126	2.9	6	19	28	34
US High Yield		420	-6.0	2	40	38	45
Europe IG		79	-1.2	0	4	31	35
Europe HY		340	-3.1	12	39	109	107
EMBIG Sovereign Spread		404	1.0	10	37	117	119
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.83	0.0	0	0	4	5
USDEUR		1.14	0.1	0	0	-4	-5
USDJPY		113.3	0.3	0	-1	-1	-1
EM FX vs. USD		62.8	0.3	0	2	-8	-10
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		59	1.2	-5	-23	-6	-11
Industrials Metals (index)		114	0.2	-1	-2	-11	-17
Agriculture (index)		42	-0.2	0	-1	-12	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.2	0.7	-1.6	-5.5	8.5	8.1
10y Treasury Volatility Index		3.8	-0.1	-0.5	-0.8	0.2	0.3
Global FX Volatility		8.5	0.0	0.0	0.2	1.1	1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		395	-4.3	-28	12	-115	26
Italy		290	-0.2	-18	-6	150	132
Portugal		151	-1.5	-7	1	-4	-1
Spain		118	-1.4	-9	1	8	4

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

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## Emerging Market Financial Indicators

Last updated: 11/29/2018 8:22 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		6.94	0.2	-0.2	0	-5	-6		3.4	-0.5	1	-18	-67	-62
Indonesia		14383	1.0	1.4	6	-6	-6		8.2	6.9	-2	-54	135	156
India		70	1.1	1.2	5	-8	-9		7.7	-5.9	-10	-28	45	25
Philippines		52	0.3	-0.1	2	-4	-5		6.4	-6.1	-13	-24	153	151
Thailand		33	0.2	0.1	1	-1	-1		2.8	0.9	0	-12	47	51
Malaysia		4.18	0.4	0.3	0	-2	-3		4.2	0.2	0	3	19	27
Argentina		38	0.1	-5.2	-4	-55	-52		23.5	-24.1	-38	316	769	748
Brazil		3.85	0.1	-1.2	-3	-16	-14		8.5	-9.5	2	-23	-35	-50
Chile		668	1.1	0.1	3	-4	-8		4.7	-0.6	-3	-14	-16	-11
Colombia		3260	0.5	-2.2	-2	-8	-8		6.8	0.3	4	-3	54	56
Mexico		20.20	0.5	0.5	-1	-8	-3		9.3	-1.2	25	97	201	164
Peru		3.4	0.2	0.1	-1	-4	-4		5.7	-1.7	-5	-16	40	47
Uruguay		32	0.1	0.3	2	-10	-11		10.8	0.6	-15	1		219
Hungary		284	0.2	-0.8	1	-7	-9		2.5	7.0	-7	-14	122	122
Poland		3.77	0.1	0.0	1	-6	-8		2.6	0.4	-2	6	-12	-13
Romania		4.1	0.0	0.0	0	-4	-5		4.3	1.0	-8	-31	35	46
Russia		66.3	1.0	-1.0	-1	-12	-13		8.5	-2.6	8	15	110	124
South Africa		13.6	1.1	0.9	8	0	-9		9.7	-0.6	2	-23	-9	35
Turkey		5.16	1.3	2.9	8	-23	-26		16.8	4.4	-60	-276	408	490
US (DXY; 5y UST)		97	-0.1	0.0	0	4	5		2.83	-3.7	-6	-9	72	62

	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		2567	-1.3	-3	1	-23	-22		190	2	2	5	46	38
Indonesia		6107	1.9	2	6	1	-4		225	-2	-6	6	57	59
India		36170	1.3	3	6	8	6		175	2	1	6	65	65
Philippines		7368	-0.2	1	4	-11	-14		109	-2	-6	-8	16	14
Malaysia		1696	1	0	1	-1	-6		147	-3	2	16	38	37
Argentina		31139	0.7	3	8	16	4		701	-1	20	27	344	351
Brazil		89136	1.5	2	6	23	17		272	1	5	7	41	38
Chile		5126	-0.3	0	1	2	-8		159	4	6	20	35	40
Colombia		1385	0.1	0	-1	-4	-8		215	1	3	21	40	41
Mexico		40989	3.0	-1	-7	-14	-17		345	-5	1	44	114	100
Peru		19207	1	0	3	-3	-4		167	3	2	11	34	30
Hungary		39788	0.3	1	10	2	1		154	3	12	27	68	66
Poland		58103	0.8	2	7	-8	-9		76	4	5	10	32	29
Romania		8610	0.4	1	1	10	11		220	8	15	24	92	106
Russia		2407	1.1	2	4	13	14		252	2	15	24	73	74
South Africa		51602	-0.6	1	1	-15	-13		367	-1	7	24	84	113
Turkey		94978	1.0	3	5	-7	-18		482	-1	16	39	163	193
Ukraine		579	0.2	0	4	90	84		747	3	77	152	289	292
EM total		25	0.0	5	8	-8	-7		404	1	10	37	117	119

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