







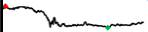

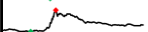




- Global markets rally ahead of US election ([link](#))
- Polls tighten significantly as election begins ([link](#))
- US cuts borrowing estimate for Q4 as rescue package stalls in Congress ([link](#))
- Euro area banks outperform on strong earnings ([link](#))
- Regulators are worried about slow transition away from dollar Libor ([link](#))
- Reserve Bank of Australia cuts rates and announces QE ([link](#))

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## The Moment of Truth

The day of the US election has finally arrived. Global markets seem to be in an optimistic mood, with most countries posting a second day of strong gains and Europe up for a third consecutive day. Markets seem to believe that the election result will be declared quickly, while remaining agnostic about which side wins. A contested election remains the biggest fear, and a delayed result could overturn these optimistic assumptions and trigger a very negative response. US equity futures are doing well with the rest of the market, while oil prices are enjoying a rebound of their own after last week's major selloff. The dollar continued its extended weakening trend and Treasury yields are up, with the benchmark 10-year yield at its highest level since June. For the moment, the growing virus crisis is taking a back seat to political developments ahead of the election.

Key Global Financial Indicators

Last updated: 11/3/20 7:45 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3310	1.2	-3	-1	8	2
Eurostoxx 50		3075	1.8	0	-4	-15	-18
Nikkei 225		23295	1.4	-1	1	2	-2
MSCI EM		45	1.3	-1	3	5	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.87	2.5	10	17	-84	-105
Germany 10y Yield		-0.62	1.8	-1	-9	-24	-44
EMBIG Sovereign Spread		421	0	17	-10	97	128
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		54.5	0.6	0	0	-11	-11
Dollar index, (+) = \$ appreciation		93.6	-0.6	1	0	-4	-3
Brent Crude Oil (\$/barrel)		40.2	3.1	-2	2	-35	-39
VIX Index (% change in pp)		35.7	-1.4	2	8	23	22

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

## United States

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**Despite the tense atmosphere, markets appear to be relatively optimistic about the US election, regardless of the outcome.** The big fear is a contested election that remains unresolved for many months, in which case volatility could move much higher and markets would probably sell off sharply in response. Many analysts think a “Blue Wave” is the most likely outcome, although this became less likely this morning as the latest polling moved Pennsylvania into the “toss-up” category from “leaning Democratic.” A Blue Wave is expected to cause a short term boost to markets, in expectation of a major fiscal stimulus package in the \$2+ trillion range to support the economy. The yield curve will steepen, interest rates will rise, and the dollar will depreciate. Emerging markets could also benefit in this scenario, although a big rise in Treasury yields could be problematic for them. However, the longer term impact could be less positive if there are steep increases in corporate taxes and a push for tighter regulations. If Democrats take the Presidency but lose the Senate again, most expect a smaller \$500-600bn stimulus bill to pass and lower corporate taxes to continue. A “Red Wave” would probably result in a similar outcome.

## Election probability tracker

Table 1: The Election Probability Tracker

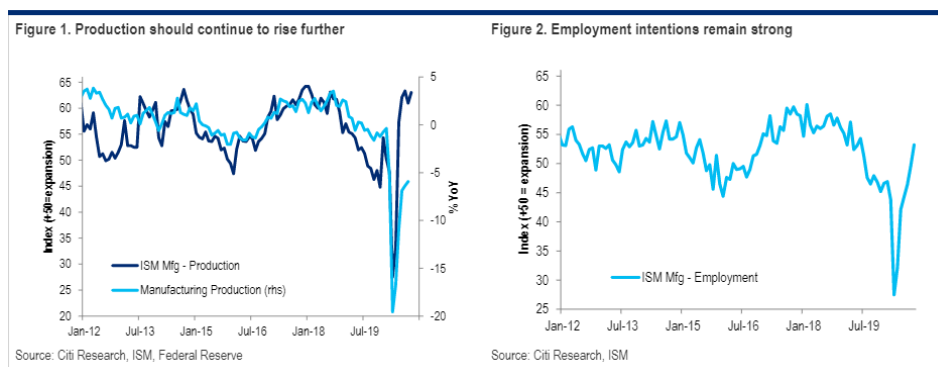
	Latest	One week ago	Four weeks ago
<b>Presidential election</b>			
Prob. of winning presidential election (PredictIt)			
Democrat	63.8%	62.1%	63.7%
Republican	36.2%	37.9%	36.3%
Polling avg. (Real Clear Politics)			
Biden	51.1%	50.8%	50.3%
Trump	43.7%	42.8%	42.9%
<b>Congress scenarios (Iowa Electronic Markets)</b>			
Democratic sweep	60.9%	56.0%	51.4%
Republican sweep	8.6%	15.3%	6.1%
Democratic House, Republican Senate	17.6%	19.4%	23.5%
Republican House, Democratic Senate	0.1%	0.2%	0.1%
Other	12.8%	9.2%	18.8%

Source: PredictIt, Real Clear Politics, Iowa Electronic Markets

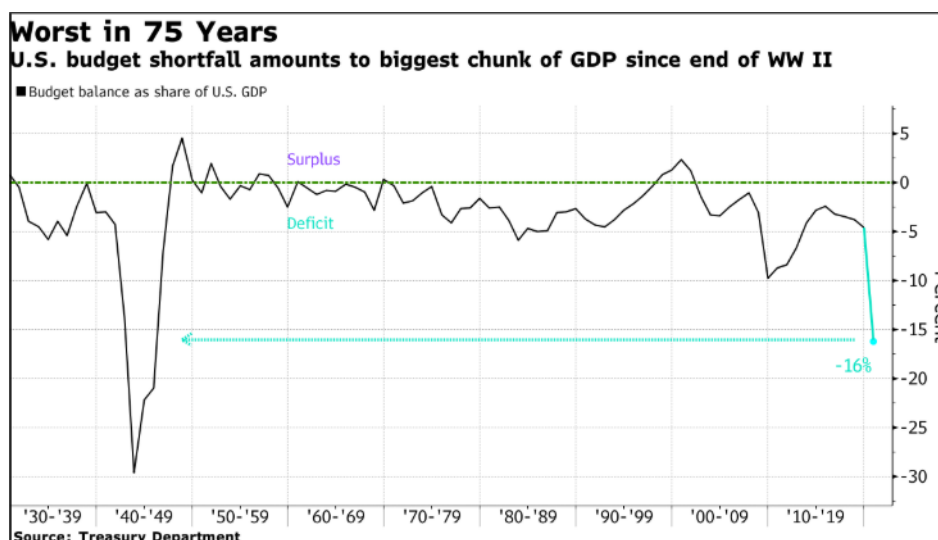
Note: Red- Republican, Blue- Democrat, Purple - split government. We have rescaled the PredictIt and Iowa Electronic Markets data to ensure that the probabilities add up to 100%.

**Source: Bank of America**

**The last Monday before the election saw a rebound in most global markets after the selloff last week.** The US market was no exception with most major indexes equities posting large gains, although lingering worries held the tech sector to a more modest performance. Meanwhile, Treasuries also rallied as investors sought protection ahead of the election. Some analysts are worried that markets have grown too complacent, with the growing virus crisis likely to cause more lockdowns and cause further disruption to the economy. JP Morgan joined several others in downgrading their outlook for the tech sector. The latest US economic data reinforced earlier reports of a strong rebound in the economy. The Markit manufacturing PMI report met forecasts (53.4 vs. the 53.3 consensus forecast), but the ISM manufacturing index was much better than expected (59.3 vs. 56). The worriers fret that these numbers are backward looking and do not reflect the real risk to the economy.



In other news, The US Treasury cut its borrowing estimate for Q4 by almost half to just \$617 bn. This was due to the failure to pass another fiscal stimulus bill. The election could result in a different situation in Q1 2021. Nevertheless, the deficit is at its worst level as a percentage of GDP since World War II and its immediate aftermath, hitting 16%. The Treasury will announce its new auction schedule for Q4 tomorrow at 8.30 am.

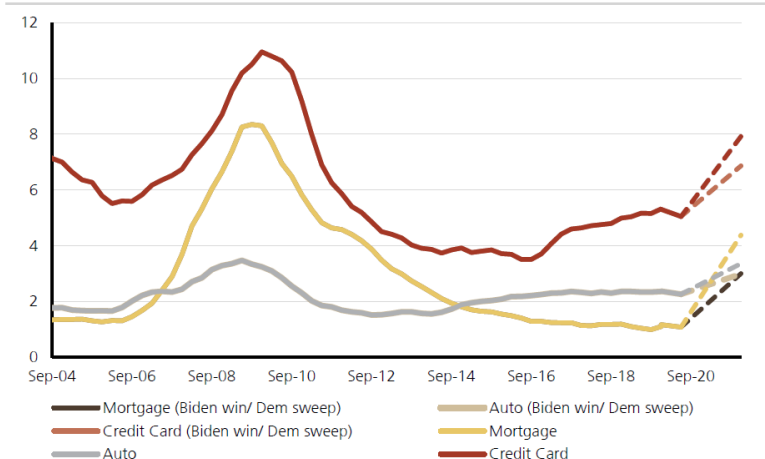


Source: Bloomberg

**Analysts forecast moderately lower long-term profitability under a Biden administration.** Bank of America's US bank analysts estimate that median 'normalized' return on equity of US large-cap banks is 10.8% assumed Biden administration policies, vs. about 11.6% should President Trump remain in office. The analysts assume no significant differences in operating environment. Rather, a Biden administration would impose higher tax rates (average 28%, vs. the current 21%), and allow lower dividend growth and smaller stock buybacks. Under a Biden presidency, therefore, capital retention and buffers might be slightly stronger.

Separate analyses suggest that 2021 **US household defaults and related bank credit costs would be about 1 percentage point lower in the event of a democratic election sweep** compared with a Republican presidency or divided government. (See chart) This prognosis reflects the view that a democratic sweep would result in a larger COVID relief package (\$1 tn vs. \$450-600bn), and spending on election policies (mainly in 2H2021) driving higher GDP growth and lower unemployment.

Figure 13: US consumer delinquency rates and estimates in election outcomes (Biden win/Dem sweep vs. others; driven by US unemployment rate forecasts)

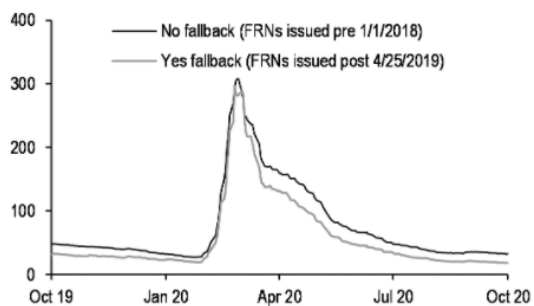


Source: New York Fed Consumer Credit Panel/Equifax, UBS estimates

**US markets seem to be ignoring the upcoming Libor transition deadline in which Libor is scheduled to be eliminated in 13 months (December 2021).** This is worrying regulators who have urged market participants to abandon Libor as quickly as possible and switch to the new Secured Overnight Funding Rate (SOFR) benchmark. Billions of dollars of Libor-indexed derivative and bond transactions continue to be produced despite the looming deadline. In the floating rate note (FRN) market, the spread between bonds with Libor to SOFR fallback provisions to those without has narrowed significantly, suggesting that investors are more focused on buying up the scarce supply of FRNs rather than selecting bonds with secure fallback provisions. Although bonds without fallback language still trade wider than bonds with such provisions, the spread has dwindled to just 10-15 bps.

**Exhibit 3: On average FRNs that do not have fallback language currently trade about 10-15bp wide to the FRNs that do**

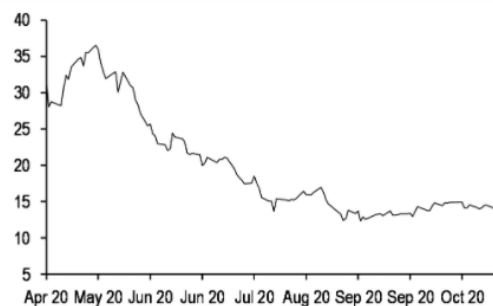
Average DMs of Libor-based FRNs of those with fallback language versus those without (bp)



Source: J.P. Morgan

**Exhibit 4: The spread between those FRNs with fallbacks and those without fallbacks has narrowed this year**

The DM spread between those FRNs with fallbacks and those without fallbacks (bp)



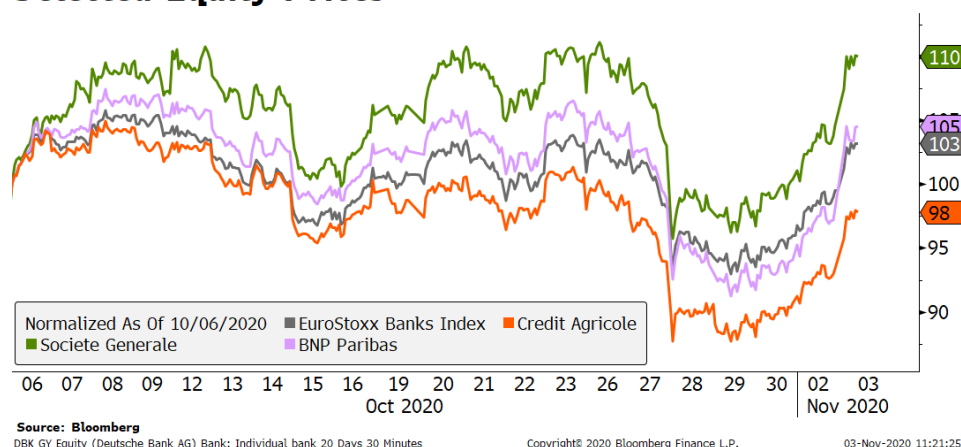
Source: J.P. Morgan

## Europe [back to top](#)

**Local government bonds sold off in step with US Treasuries as equities saw a third day of strong performance.** The DAX was up 1.6%, and the CAC 40 gained 1.9%, with the EuroStoxx 600 up 1.5%. Bank stocks (+3.5%) outperformed again, with strong gains at French banks after BNP beat earnings expectations: BNP (+6.3%), Société Générale (+5.0%), Credit Agricole (+4.8%).

**BNP Paribas reported better-than-expected Q3 results**, as revenue from trading activities surged 36% (€1.25 bn increase vs €1.0 bn expected) and net income came in at €1.9 bn vs €1.5 bn forecasted. The bank is setting aside €1.2 bn to cover forthcoming loan losses.

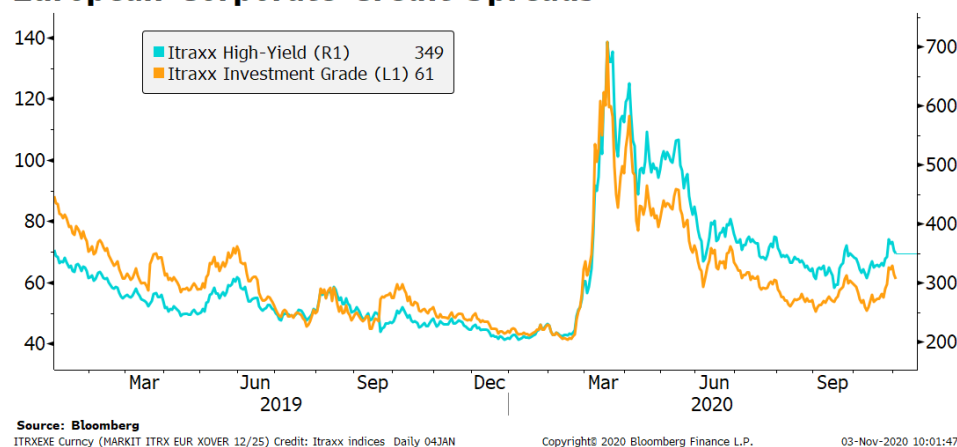
## Selected Equity Prices



**Monte dei Paschi (MPS) stocks gained a further 4.4% this morning**, adding to yesterday's 8.3% advance. MPS equities were boosted by news that its board of directors is considering a capital increase in the range of €1.2bn to €1.8 bn.

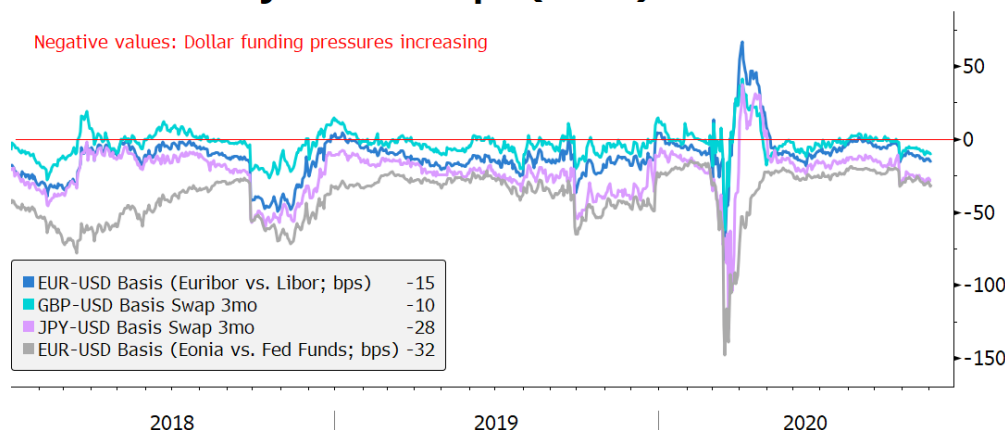
In **credit markets**, high yield (HY) and investment grade (IG) spreads retraced some of their increase of last week. The HY spread is at 349 bps and the IG at 61 bps, still well below the highs seen earlier this year. In **money markets**, dollar funding pressures have increase slightly for the euro-, yen-, and pound-dollar pairs. The widening of the cross-currency basis swaps, however, tends to follow a cyclical pattern through the year and become more negative towards year's end.

## European Corporate Credit Spreads



## Cross-Currency Basis Swaps (3 mo)

Negative values: Dollar funding pressures increasing



Source: Bloomberg

EUBSC Currency (EURUSD BS (3M VS 3M) 3M) Mon Mkt: XC Basis Swp 3M Daily 01JAN2018-

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**Eurozone banks will likely face further headwinds from further compression of the mortgage and corporate lending margins as well as lackluster loan growth.** As noted by SG Research, interest rates for mortgages and corporate loans fell notably during March-April thanks largely to government-issued guarantees. Besides thin margins, banks' profitability prospects are also weighed down by loan growth falling rapidly behind deposit growth.

## Other Mature Markets

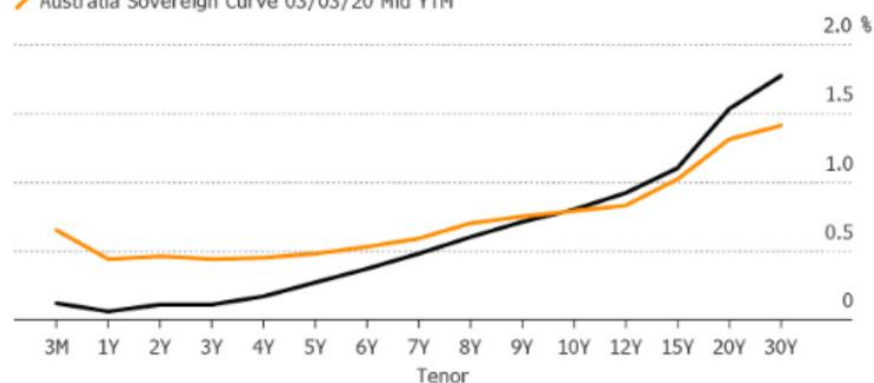
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### Australia

**The Reserve Bank of Australia (RBA) lowered its cash rate, target yield for the 3-year government bond and interest rate on the Term Funding Facility to 0.1% from 0.25%, as expected.** The central bank also announced that it will buy AUD100 bn (\$70.4 bn) of government bonds with maturities of around 5 to 10 years over the next six months. The purchases will be carried out in the secondary market through regular auctions and they will include federal government and state/territories securities with an expected 80/20 split. The RBA committed to buy bonds in whatever quantity is required to achieve the 3-year yield target and this would be in addition to the AUD100 bn. **The RBA's board 'is not expecting to increase the cash rate for at least three years and will remove the 3-year yield target prior to any tightening.'** RBA projects GDP growth of 6% over the year to June 2021 and 4% in 2022 and expects the unemployment rate to peak slightly below 8% (compared to 10% previously). Underlying inflation is forecast to be 1% in 2021 and 1.5% in 2022, below the 2 to 3% target range. **The Australian dollar weakened -0.2% and the yield curve flattened (10-year -5.1bps; 3-year -2.3bps).**

RBA announces A\$100 billion bond program, targeting 5 to 10 years

Australia Sovereign Curve 13:08 11/03/20 Mid YTM  
 Australia Sovereign Curve 03/03/20 Mid YTM



Bloomberg

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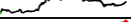


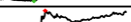



**Separately, China is expected to extend bans on various Australian exports.** From Friday, the barley, sugar, red wine, timber, coal, lobster, copper ore and copper concentrates could fall under restrictions, according to the South China Morning Post. The ban would take place even if the goods have been paid for and have arrived at ports. A ban on wheat is also likely to follow but the date has not been set yet.

**Japanese markets were closed for a holiday.**

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**Most EM equity markets were higher and their currencies stronger.** The Turkish lira and the Argentine peso were the primary exceptions, with both currencies under severe pressure. Brazil and Mexico were closed yesterday.

Key Emerging Market Financial Indicators

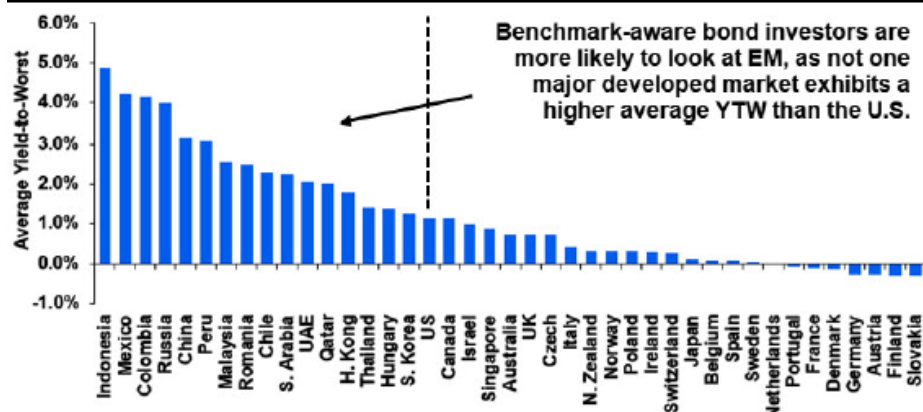
Last updated: 11/3/20 7:40 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.28	1.6	-1	3	5	1
MSCI Frontier Equities		26.08	-0.8	-2	1	-9	-14
EMBIG Sovereign Spread (in bps)		421	0	17	-10	97	128
EM FX vs. USD		54.53	0.6	0	0	-11	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.68	0.2	0	2	5	4
Indonesian Rupiah		14585	0.4	0	1	-4	-5
Indian Rupee		74.41	0.0	-1	-1	-5	-4
Argentine Peso		78.68	-0.5	-1	-2	-24	-24
Brazil Real		5.68	1.2	1	-2	-29	-29
Mexican Peso		21.16	1.0	-1	1	-9	-11
Russian Ruble		79.34	1.5	-3	-2	-20	-22
South African Rand		16.04	1.1	1	3	-8	-13
Turkish Lira		8.52	-1.1	-4	-9	-33	-30
EM FX volatility		11.79	0.0	0.5	0.1	4.6	5.2

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

## EM Debt

**Demand for EM debt demand could be boosted by the continued global search for yield.** Sixteen out of the 41 countries with at least 0.1% weighting in the Bloomberg Barclays Global Aggregate benchmark have a higher average yield-to-worst (YTW) than the US, and all of them are EM economies. According to Bloomberg analysts, creditors looking to maximize carry may be drawn to Indonesia (4.9%), Mexico (4.2%), Colombia (4.2%) and Russia (4%), as they are the only countries with an average YTW of more than 4%.

### BB Global Aggregate Yield-To-Worst (by Country)



Source: Bloomberg Intelligence

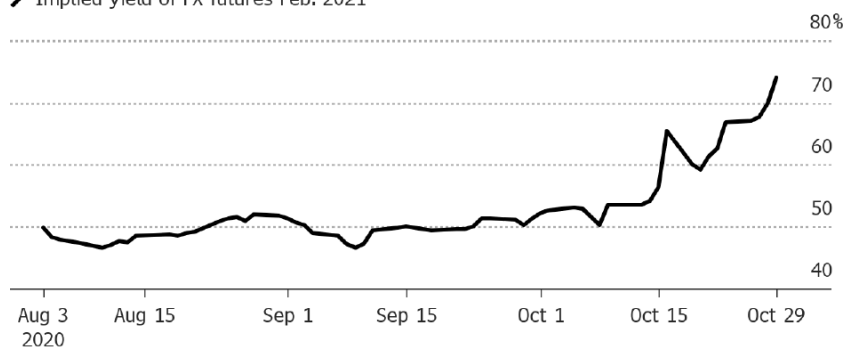
## Argentina

**The demand for local government notes that are linked to the US dollar has surged, and futures contracts are pricing in a peso devaluation of nearly 80% as economic imbalances worsen.** Officials sold \$1.7 bn in dollar-linked securities last week which, accounting for about half of total funds raised, following a \$1.8 bn sale earlier in October, according to Bloomberg. The notes are purchased in pesos, but they are tied to the US dollar and pay out in local currency at the exchange rate of the day when the securities mature. If the peso depreciates in line with market expectations, the government could owe an additional \$1.9 bn to investors when the bonds issued in October and November mature, according to Bloomberg analysts. However, the government has insisted that it won't pursue a big one-time devaluation. The currency's value is ranging from 78 pesos per dollar through official channels to over 170 pesos per dollar in sales on the parallel market, the widest exchange-rate gap in more than three decades. The peso has already depreciated by 25% against the dollar this year.

### Stairway to Heaven

Expected devaluation of ARS jumped after additional controls

Implied yield of FX futures Feb. 2021



Source: Rofex

Bloomberg

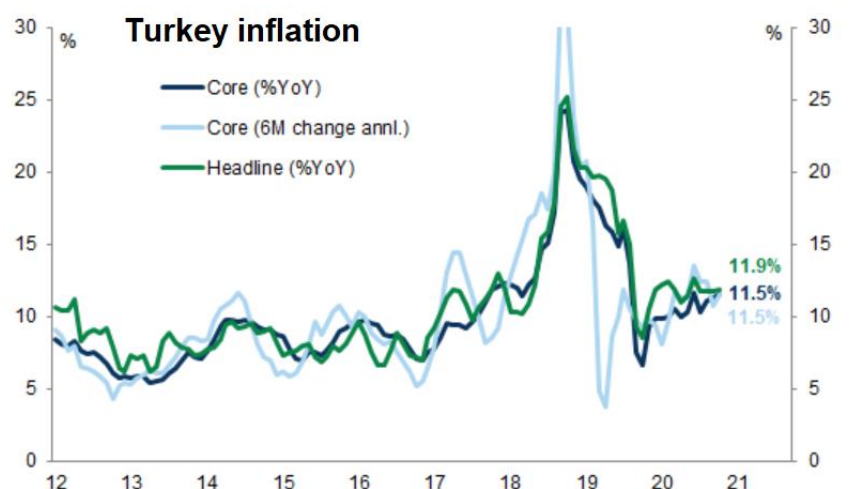
## Malaysia

**Bank Negara Malaysia (BNM) held the Overnight Policy Rate (OPR) at a record low of 1.75%, in line with expectations.** It was the second straight meeting that the central bank kept its key policy rate unchanged, having cut by 125bps from January to July. Like in September, BNM assessed the monetary policy stance to be 'appropriate and accommodative.' BNM kept its 2020 growth forecast within the earlier forecasted range of -3.5% to -5.5%. Economic activity improved in 2020Q3 but the recovery in Q4 could be affected by targeted measures to contain COVID-19. Next year, growth is projected to improve further but the recovery is likely to be uneven across sectors. BNM continues to expect inflation to remain negative on average in 2020 due to low oil prices but average higher in 2021. **The ringgit was little changed, the 10-year bond yield rose +4bps and equities fell (-0.3%) after a reversal from earlier losses.**

## Turkey

**October headline inflation increased in line with consensus, but core inflation surprised to the downside.** The headline price growth accelerated to 11.89% yoy from 11.75% in September. Core inflation saw a similar increase to 11.48% yoy, below consensus estimate of 11.80%, primarily on softer clothing prices. Contacts continue to see inflation peaking around 14% yoy in Q2 2021 as the renewed weakness in the Turkish lira is offsetting the somewhat softer than expected price momentum over the last few months. Meanwhile, the Central Bank of Turkey increased the interest rates on its FX-swap borrowing facility from 11.75% to 13.25%. Contacts expect further increase in the weighted average cost of funding over the next few days.

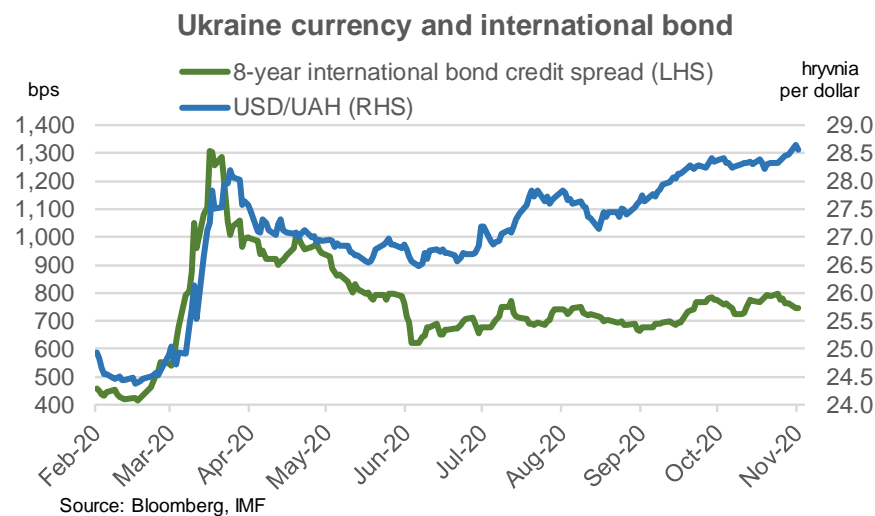




Source: Haver Analytics, Goldman Sachs Global Investment Research

### Ukraine

**Political tensions continue to rise as President Volodymyr Zelensky threatened to dissolve the parliament.** Last week, President Zelensky submitted a bill asking the parliament to dissolve the Constitutional Court (CC) and annul the recent CC ruling against the anti-corruption bodies. The CC ruled to outlaw the criminal liability for providing incorrect information in asset e-declarations, which resulted in the closure of hundreds of criminal cases against public officials. The court's move was seen as highly controversial according to analysts, as it reverses earlier gains in the fight against the corruption. At the same time, President Zelensky's proposal to dismiss the CC would be unconstitutional and the Venice Commission has already warned against such action. The Ukrainian hryvnia renewed its depreciation after the CC ruling, trading at a three-year low of 28.65 against the dollar. By contrast, credit spreads on Ukraine external bonds have tightened over the last week, as contacts point out that risks around the delay of further loans from multilateral creditors have been already priced-in, while they see limited chances of snap elections after the weak performance of President Zelensky's party at the recent local elections.



Source: Bloomberg, IMF

## List of GMM Contributors

*Global Markets Analysis Division, MCM Department*













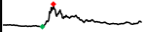









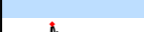


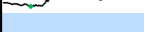
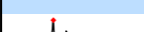

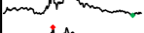
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<b>Anna Ilyina</b> <i>Division Chief</i>	<b>Dimitris Drakopoulos</b> <i>Financial Sector Expert</i>	<b>Dmitri Petrov</b> <i>Financial Sector Expert</i>
<b>Nassira Abbas</b> <i>Deputy Division Chief</i>	<b>Deepali Gautam</b> <i>Research Officer</i>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

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## Global Financial Indicators

Last updated: 11/3/20 7:47 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3310	1.2	-3	-1	8	2
Europe		3075	1.8	0	-4	-15	-18
Japan		23295	1.4	-1	1	2	-2
China		3271	1.4	1	2	11	7
Asia Ex Japan		80	1.5	0	3	13	8
Emerging Markets		45	1.3	-1	3	5	1
<b>Interest Rates</b>			basis points				
US 10y Yield		0.87	2.5	10	17	-84	-105
Germany 10y Yield		-0.62	1.8	-1	-9	-24	-44
Japan 10y Yield		0.05	0.0	1	2	22	6
UK 10y Yield		0.24	2.4	1	0	-42	-58
<b>Credit Spreads</b>			basis points				
US Investment Grade		127	0.6	3	-8	7	30
US High Yield		529	-2.4	17	-11	67	135
Europe IG		61	-2.1	2	4	12	17
Europe HY		348	-10.0	5	14	121	141
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
<b>Exchange Rates</b>			%				
USD/Majors		93.60	-0.6	1	0	-4	-3
EUR/USD		1.17	0.5	-1	-1	5	4
USD/JPY		104.7	0.0	0	1	4	4
EM/USD		54.5	0.6	0	0	-11	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		40	3.1	-2	2	-35	-39
Industrials Metals (index)		122	0.9	0	6	3	6
Agriculture (index)		42	1.0	-1	6	5	1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		35.7	-1.4	2.4	8.1	23.4	22.0
US 10y Swaption Volatility		74.7	-3.0	3.7	7.5	14.2	12.7
Global FX Volatility		9.0	0.0	0.3	0.0	2.6	3.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		150	-6.4	-4	-2	-7	-15
Italy		134	-4.6	3	2	-3	-26
Portugal		71	-2.7	-4	-5	12	8
Spain		74	-2.6	-4	-2	8	8

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: 11/3/2020 7:43 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		6.68	0.2	0.4	2	5	4		3.3	-0.9	0	5	1	18
Indonesia		14585	0.4	0.3	1	-4	-5		6.6	0.8	0	-25	-48	-51
India		74	0.0	-0.9	-1	-5	-4		6.0	0.9	3	-13	-77	-85
Philippines		48	0.1	-0.1	0	4	5		3.6	0.0	2	-5	-73	-72
Thailand		31	0.2	0.6	1	-3	-4		1.5	1.0	0	2	-10	-13
Malaysia		4.16	0.0	0.2	0	0	-2		2.5	-0.6	-4	-6	-95	-88
Argentina		79	-0.5	-0.5	-2	-24	-24		50.5	14.9	237	975	-631	-1206
Brazil		5.68	1.1	0.4	-2	-29	-29		6.5	0.0	17	16	74	24
Chile		760	1.0	1.4	5	-3	-1		2.7	-0.9	8	5	-67	-57
Colombia		3872	-0.2	-1.5	0	-14	-15		5.4	0.0	7	14	-33	-57
Mexico		21.17	1.0	-0.8	1	-9	-11		6.2	0.0	11	10	-66	-74
Peru		3.6	0.0	-0.3	0	-8	-8		4.1	-3.3	-6	-14	-38	-43
Uruguay		43	-0.1	-0.7	-1	-13	-13		7.6	-0.1	21	17	-333	-330
Hungary		311	1.3	-0.5	-2	-5	-5		1.8	-0.7	2	2	62	57
Poland		3.90	1.3	-0.4	-2	-2	-3		0.6	-0.5	-1	-11	-116	-128
Romania		4.2	0.5	-0.6	-1	3	3		3.1	-1.0	-15	-20	-78	-94
Russia		79.4	1.5	-2.6	-2	-20	-22		5.9	8.9	23	9	-38	-24
South Africa		16.0	1.1	1.0	3	-8	-13		10.3	5.4	17	1	66	78
Turkey		8.52	-1.1	-3.9	-9	-33	-30		14.3	5.4	42	158	210	263
US (DXY; 5y UST)		94	-0.6	0.7	0	-4	-3		0.39	1.1	6	10	-116	-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		4778	1.2	2	4	21	17		212	0	-2	-6	35	36
Indonesia		5159	0.9	1	5	-17	-18		217	-4	0	-18	35	61
India		40261	1.3	-1	4	0	-2		209	0	3	-23	81	84
Philippines		6336	0.2	-2	6	-21	-19		126	-3	-3	-17	44	60
Malaysia		1461	-0.3	-2	-3	-8	-8		151	0	2	-17	31	39
Argentina		47468	4.8	-4	9	33	14		1458	-9	-4	101	-834	-311
Brazil		93952	0.0	-7	0	-13	-19		303	-5	-5	-30	76	88
Chile		3571	0.9	-3	-3	-25	-24		173	-3	0	-6	31	40
Colombia		1137	0.0	-3	-2	-31	-32		239	-7	-4	-23	58	76
Mexico		36988	0.0	-4	1	-16	-15		476	-6	7	-31	161	184
Peru		17773	1.7	0	-1	-11	-13		147	-4	-5	-22	17	40
Hungary		33809	2.2	2	1	-20	-27		105	-3	-8	-16	5	19
Poland		46413	2.7	-2	-5	-20	-20		16	0	0	-9	-14	-2
Romania		8628	0.8	-2	-3	-10	-14		244	4	7	-8	51	70
Russia		2781	1.6	1	-2	-5	-9		203	-5	1	-5	26	72
South Africa		53534	1.7	-1	-1	-6	-6		473	-10	-13	-56	129	153
Turkey		1128	-0.3	-1	-1	15	-1		650	4	19	33	194	249
Ukraine		500	0.0	0	0	-4	-2		648	-27	-62	-76	189	228
EM total		45	1.7	-1	3	5	1		421	0	17	-10	97	128

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