








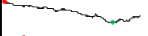





- Trade optimism drives US equities to record highs; Treasury yields rise sharply ([link](#))
- Q3 bank trading revenues stabilize: European banks still losing share ([link](#))
- EC Juncker expects US to not impose tariffs on European autos next week ([link](#))
- Frontier USD sovereign bonds post strong returns amid search for yield ([link](#))
- Indian assets fall after Moody's cuts sovereign rating outlook to negative ([link](#))
- Peru's central bank unexpectedly cuts policy rate 25 bps on weaker global growth ([link](#))

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Sovereign bond yields rise and curves steepen on hopes of trade deal

Global equities are trading off their recent highs this morning as investors remain guardedly cautious about US-China trade talks. Stocks in the US reached new highs yesterday as investors continued to assess progress in US-China trade negotiations, though messaging from both countries remains mixed as to the status of the preliminary agreement. Advanced economy sovereign bond yields moved higher, with benchmark 10-year and 30-year US Treasury yields rising to three-month highs, while expectations for another ECB and Fed rate cut continue to reset. Investors are not pricing in any future ECB rate cut, while the implied probability of another Fed rate cut by year-end is now below 10%, down from about 25% a week ago. Equities in Asia were mixed, while European equities are mostly lower despite comments from EC Juncker that US tariffs on autos are unlikely. In EM, Indian assets underperformed on the Moody's outlook downgrade, while EM assets overall are steady and have responded well to trade headlines with the broad EM equity index up 4% and EMBIG spreads 11 bps tighter for the week.

Key Global Financial Indicators

Last updated: 11/8/19 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3085	0.3	2	7	10	23
Eurostoxx 50		3702	-0.1	2	8	14	23
Nikkei 225		23392	0.3	2	8	4	17
MSCI EM		44	-0.7	4	9	9	13
Yields and Spreads			bps				
US 10y Yield		1.94	8.9	23	41	-130	-74
Germany 10y Yield		-0.23	0.0	15	36	-69	-48
EMBIG Sovereign Spread		313	-6	-11	-37	-43	-101
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.7	-0.4	-1	1	-2	-2
Dollar index, (+) = \$ appreciation		98.3	0.2	1	-1	2	2
Brent Crude Oil (\$/barrel)		61.4	-1.4	0	5	-13	14
VIX Index (% change in pp)		12.8	0.1	1	-7	-4	-13

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

United States

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Equity markets set new records due to positive headlines on the trade front. All the major US indexes ended in record territory. However, once again the intra-day changes were relatively small as markets have learned the lesson that the narrative can change quickly from one day to the next. Meanwhile, US Treasury yields rose sharply as investors pulled back from safe haven assets. However, Thursday's move was a continuation of a broader trend towards higher US Treasury yields which has been ongoing for a month. The move has been orderly so far and interest rate volatility actually declined over the period, as the Bank of America's MOVE US Treasury implied interest rate volatility index fell by 20 points from 82 to 61 by the Wednesday close. However, on Thursday the index was up to 67. Some contacts are growing uneasy as the latest position data show that investors are still net long the bond market and could be taking growing losses, so there is a chance that the US Treasury selloff could intensify and imperil the equity rally.

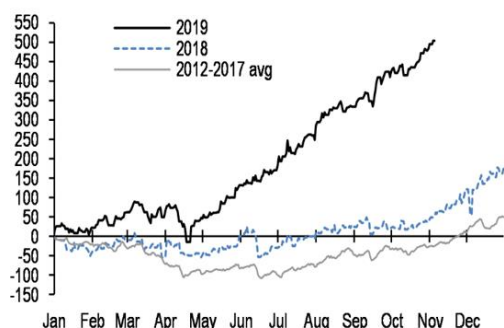
Recent Moves in US Treasuries

Source: Bloomberg

	One Month Change
Two-Year	+ 28 bps
Ten-Year	+ 35 bps
30-Year (long bond)	+ 35 bps
2yr-10yr Yield Spread	+ 15 bps
Five-Year TIPS breakeven	+ 32 bps
Ten-Year TIPS breakeven	+ 19 bps
MOVE interest rate volatility index	- 15 points

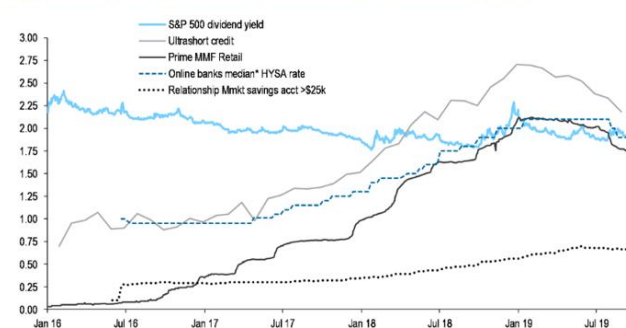
The US money market fund (MMF) sector has grown to \$3 tn in 2019, up 18% so far over 2018. In an environment with an inverted yield curve and a high degree of market uncertainty, MMFs provided an attractive safe haven for investors where returns were stable and higher than bank deposits. Even with the curve having subsequently steepened, MMF's still offer yields that are 100-250 bps above deposits. Now that the Fed is expected to be on hold and the curve continues to steepen, many expect investors may pull back from MMFs. However, history shows that MMFs do not suffer significant outflows until 1-2 years after the Fed cuts rates. JP Morgan predicts that the demand for MMFs will remain strong due to the tightness of credit spreads. If bonds remain expensive, there is less incentive for investors at the short end of the curve to take on more duration or credit risk.

Exhibit 1: YTD cumulative change in taxable MMF balances (\$bn)



Source: JP Morgan and iMoneyNet

Exhibit 5: Net yields paid on ultrashort credit funds, high yield online deposits, prime retail MMFs, and large relationship money market savings accounts, and S&P 500 dividend yield (%)



Source: Morningstar, SNL, iMoneyNet, Bloomberg, J.P. Morgan as of 10/04/19 (ultrashort credit as of 8/31/19)

With the Fed expected to remain on hold and the yield curve steepening significantly since August, markets could be headed into a higher interest rate environment. The FOMC successfully communicated its decision to pause without injecting volatility into the market. Bank of America points out that there have been three instances of manufacturing falling into recessionary territory since the crisis and in each case, they were associated with a tightening of monetary policy. In the 2011 and 2014 slowdowns the Fed stopped balance sheet expansion and the current manufacturing downturn occurred when the Fed stopped expansion and tightened rates. With the market now anticipating that the Fed is pausing from any policy rate changes in the near future and if the trade conflict does head towards resolution, the manufacturing sector could recover as it did in the two previous episodes. If so, the door to higher US Treasury yields could be opened as a new mini-cycle extends the broader post-crisis recovery.

Chart 4: 3m10y and 2y10y curves have steepened significantly since August inversion. Well out of inversion territory. Steepening after the Fed cut suggests Fed was successful on messaging

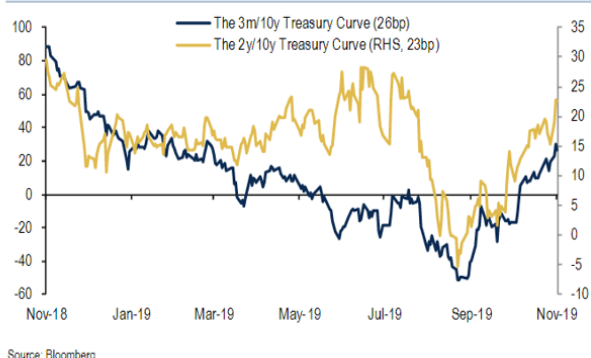
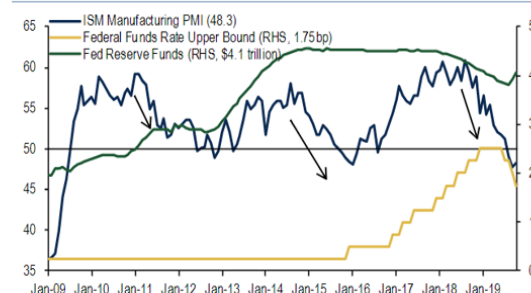
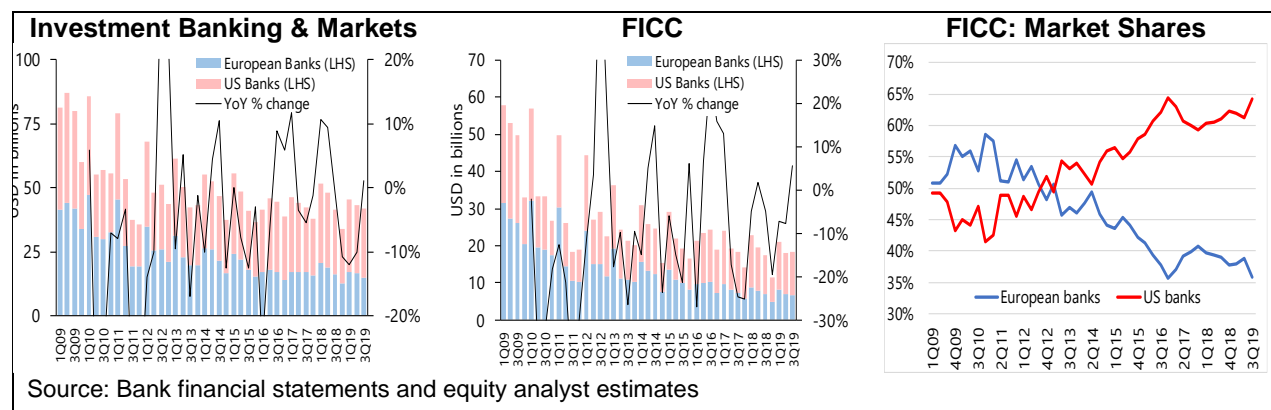


Chart 5: Manufacturing sector in 3rd post-crisis down cycle due to Fed's 2016-2018 tightening move (higher rates, shrinking balance sheet). 2019 policy pivot - lower rates, expanding balance sheet - may be starting a forth mini-cycle



3Q19 investment bank results show revenue pool stabilized and European banks continued to lose share. 3Q19 was a solid quarter for global investment banks' markets and advisory revenues. Total revenues – including secondary market trading and brokerage in fixed income, currency and commodities (FICC) and equities, plus underwriting and M&A advisory services – grew 1.1% y/y, recovering sharply from the -10% y/y decline the previous quarter. This was driven by very robust FICC revenues (+5.6% y/y, from -7.7% the previous quarter), which overcame continued weak results in equities (-7% y/y). The total revenue pool has shrunk sharply across all categories, particularly fixed income, since 2009. In addition, the US investment banks continue to take share across all markets categories, with their share of FICC jumping to 66% in 3Q19 from 61% the previous quarter and more modest share gains in equities. Several European G-SIBs continue to restructure their markets businesses. Most recently, Deutsche Bank has effectively discontinued and no longer reports results in its equities business. The MSCI European Banks index has declined 5% over the past 12 months, compared with +10% increase in the S&P US Banks index.

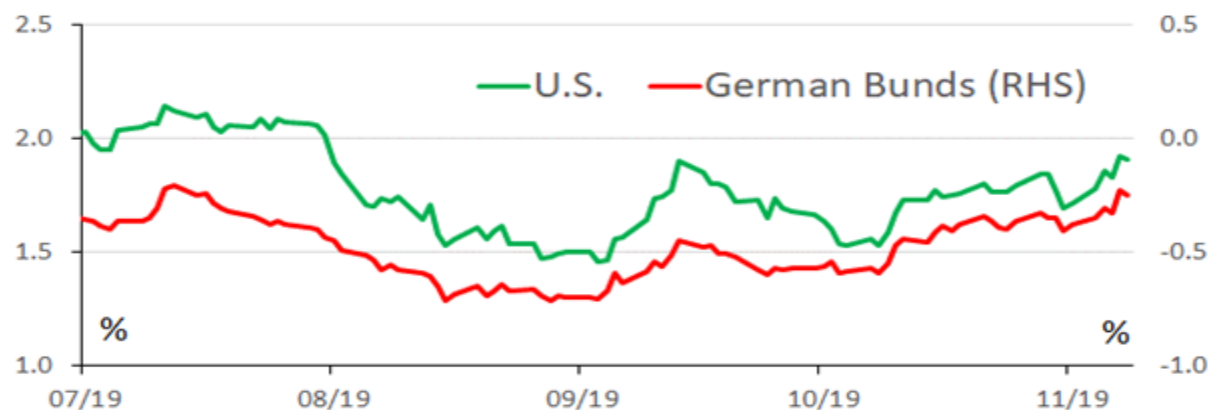


Europe

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Core bond yields are little changed after trading sharply higher this week on trade optimism. German 10-yr bund yields trade at -0.25%, and are up 12 bps in the past 5 days (compared to +19 bps for U.S. 10-yr rates). 10-yr OAT yields are at -0.04%. Italian 10-yr BTP yield are up 2 bps at 1.19% even as Italy was buying back €2 bn of short-term bonds. 10-yr Italian spreads to bunds are 5 bps higher at 145 bps. The euro traded is little changed but fell 1% in the past week to 1.103 against the dollar, in line with broader USD strength.

Core rates: 10-yr U.S. and German Bund Yields



Source: Bloomberg and IMF staff

Outgoing EC President Juncker said that the U.S. will not impose any tariffs on European cars next week, adding that he is “a fully informed man.” However, European equities (-0.1%) edged lower.

Bank shares fell 0.7% today as investors digest the quid-pro-quo asked by German FM Scholz in return for progress on European bank deposit insurance (EDIS). Contacts worry that asking for risk weighting of sovereign bond holdings and tax harmonization will imply little progress on EDIS. Bank stocks are still up 5% on the week.

Seasonally-adjusted German exports rose 1.5% mom (0.3% expected) and imports 1.3% (0.0% expected) in September, pushing up the monthly trade surplus to €21.1 bn (from €16.4 bn).

United Kingdom

10-yr gilt yields edged 2 bps higher today and are up 10 bps in the past week at 0.77% (in line with moves in European core rates). **Traders are pricing in 16-bps of cuts in the Bank Rate over the coming year.**

Markets did not materially move after parties outlined fiscal spending plans. The Chancellor announced a new set of fiscal rules designed to balance the current budget but allow borrowing for capital projects of up to 3% of GDP. Labor plans to introduce a £250 bn National Transformation Fund with an additional £150 bn in spending on schools and healthcare.

Other Mature Markets

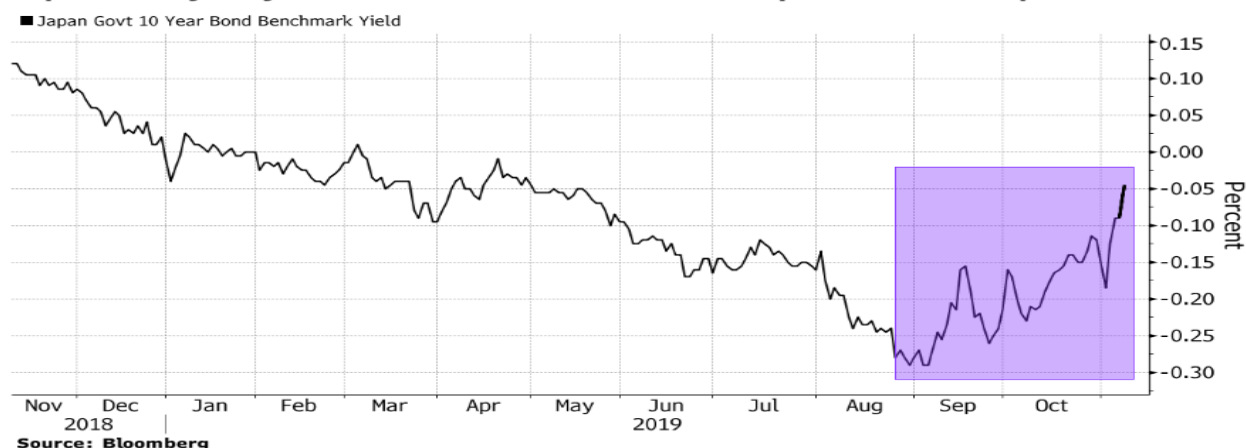
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Japan

The 10-year JGB yield rose 1.4 bps to -0.07%, the highest level since May and is headed for its biggest weekly increase in six years (+12 bps). This came amid reduced appetite for safe assets as US-

China trade tensions eased. Separately, **Japanese Prime Minister Shinzo Abe called for extra spending to support the economy** at a time when it is negatively impacted by the sales tax hike implemented in October. Economy Minister Yasutoshi Nishimura added that the size of the package will be decided after a discussion of the measures. This would be the first economic stimulus since 2016. **Equities (+0.3%) rose while the yen was little changed.**

Japan's 10-year yield has risen more than 20 basis points from a Sept. low



Emerging Markets

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Asian equities (-0.4%) fell, with Singapore and Hong Kong (both -0.7%) underperforming. Regional currencies weakened, with the Indian rupee (-0.4%) depreciating by the most following Moody's decision to lower the sovereign's rating outlook to negative from stable. **EMEA equity markets** were mixed today, with firm gains in the Czech Republic (+0.7%), Egypt (+0.6%), and Saudi Arabia (+0.6%), while Hungary (-0.8%), Russia (-0.7%), and South Africa (-0.6%) underperformed. Currencies traded slightly weaker to the dollar by only about 0.1%. **Latin American** equities firmed yesterday in tandem with US gains, with Argentina, Brazil, and Chile all gaining over 1%. Currencies were generally steady, although the Brazilian real depreciated 0.4%.

Key Emerging Market Financial Indicators

Last updated: 11/8/19 8:06 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.08	-0.7	4	9	9	13
MSCI Frontier Equities		28.54	-0.2	1	2	4	9
EMBIG Sovereign Spread (in bps)		314	-5	-10	-36	-42	-100
EM FX vs. USD		60.75	-0.3	-1	1	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.99	-0.2	1	2	-1	-2
Indonesian Rupiah		14014	-0.1	0	1	4	3
Indian Rupee		71.29	-0.4	-1	0	2	-2
Argentina Peso		59.64	-0.1	0	-3	-40	-37
Brazil Real		4.13	-0.6	-3	-1	-9	-6
Mexican Peso		19.17	-0.2	0	2	5	3
Russian Ruble		63.87	-0.5	-1	2	5	9
South African Rand		14.81	-0.4	2	3	-5	-3
Turkish Lira		5.75	0.0	-1	1	-5	-8
EM FX volatility		7.15	0.0	0.0	-1.1	-2.8	-2.6

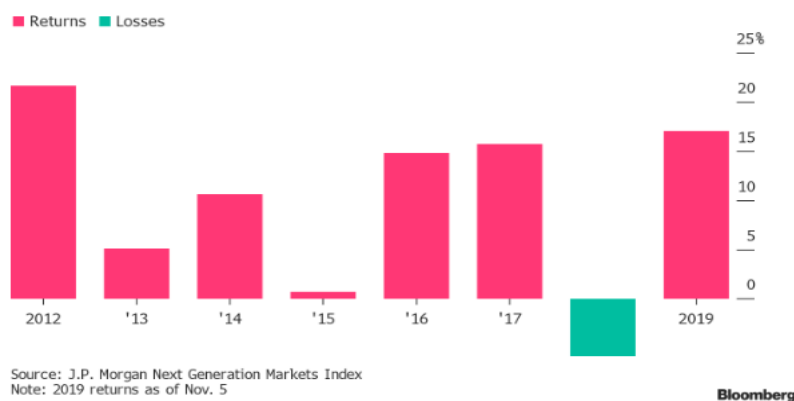
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Frontier Market Bonds

Hard currency bonds issued by frontier economies have performed strongly this year. JP Morgan's sovereign frontier market bond index is up 17.0% so far in 2019, the best results in seven years, and the African sub-index is up 19.2%. By comparison, the broader emerging market EMBI Global index is up just 12.2%. With some \$12.5 tn in negative-yielding securities outstanding globally, frontier markets are more appealing to investors in their proverbial search for yield. Frontier bond yields average 6.3%, or about 118 bps over emerging markets overall.

Search for Yield

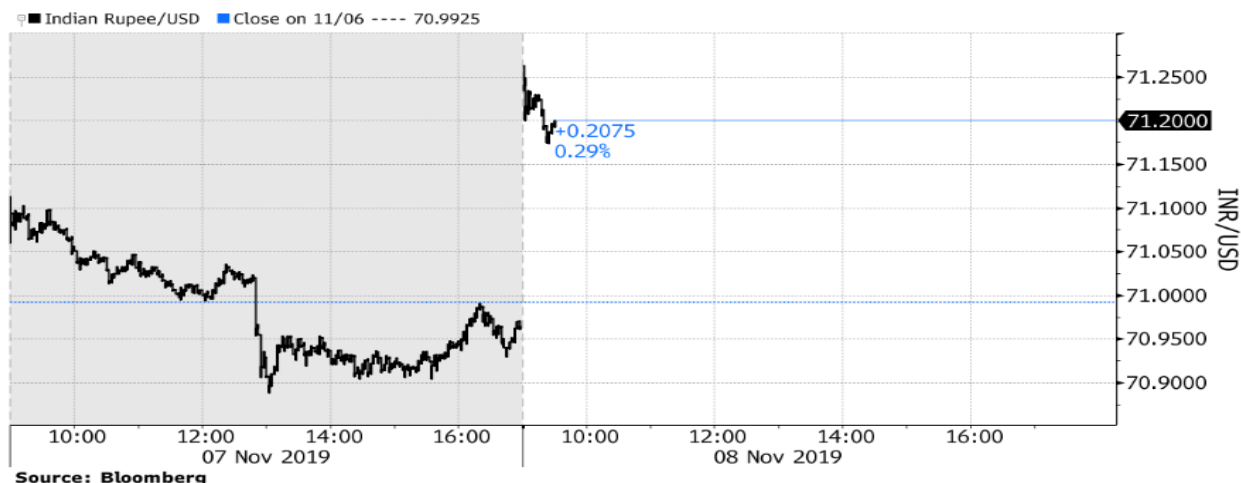
Frontier dollar bonds are set for their best year since 2012 as Fed cuts rates



India

India's sovereign rating outlook was lowered by Moody's to negative from stable, while the issuer rating of Baa2 was maintained. The revision was a surprise to analysts. The statement cited concerns that economic growth will remain significantly lower than in the past, which partly reflected lower government and policy effectiveness at addressing longstanding economic and institutional weaknesses. A failure for nominal GDP to recover to high rates would see the government face difficulty in preventing a rise in debt burden from already high levels, according to Moody's. **The Indian rupee depreciated -0.4%, the most in Asia, while equities (-0.3%) fell.**

Rupee falls most in Asia after Moody's cut ratings outlook



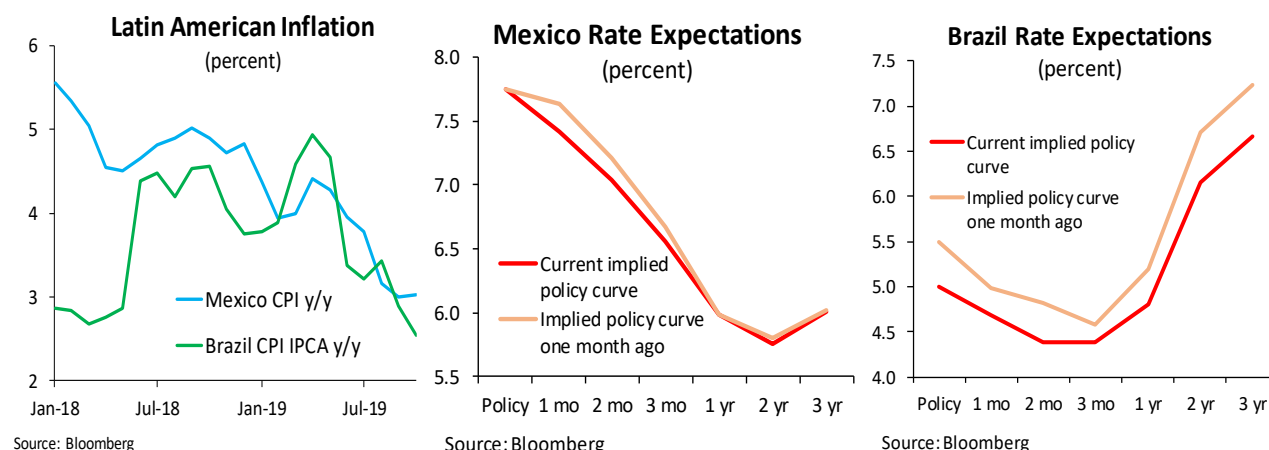
Malaysia

Bank Negara Malaysia (BNM) announced a 50 bp cut to its statutory reserve requirement (SRR) ratio to 3%. This follows a decision by the monetary policy committee just a few days prior to leave the overnight

policy rate unchanged at 3%. Similar to past SRR decisions that were made off-cycle, BNM again stressed that the SRR “is an instrument to manage liquidity and is not a signal on the stance of monetary policy.” The BNM also said that today's decision was “undertaken to maintain sufficient liquidity in the domestic financial system”. The Malaysian ringgit is trading 0.3% weaker against the dollar this morning following the announcement.

Latin American Inflation

The inflation profile of the region's two biggest economies continues to paint a subdued picture. Brazil's benchmark IPCA index slipped to 2.54% y/y in October, while Mexican CPI ticked higher to 3.02%. Economic growth has been anemic and confidence has been flagging in both countries. This should give their central banks some policy space to cut rates in the short-term. Analysts widely expect Mexico to cut rates to 7.50% from 7.75% on November 14th. And Bloomberg gauges Brazil's policy rate will be cut to 4.5% by the end of the year. The Mexican peso was little changed yesterday while the Brazilian real depreciated 0.7% after falling 2.0% the day before.



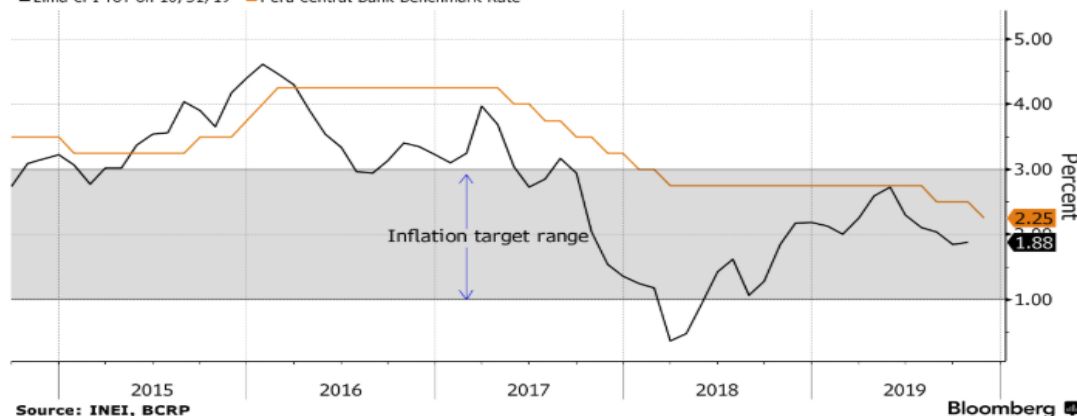
Peru

The central bank unexpectedly cut its policy rate by 25 bps to 2.25% yesterday. The policy rate cut follows a similar reduction in August and brings the rate to its lowest levels since 2010. The central bank's board highlighted that weaker global growth has hurt demand for the nation's copper and has dampened private investment. Analysts had been divided on whether policymakers would keep rates on hold or deliver a 25 bp rate cut. The currency was little changed for three days leading up to yesterday's decision.

More Stimulus

Central bank cuts key rate for second time in four months

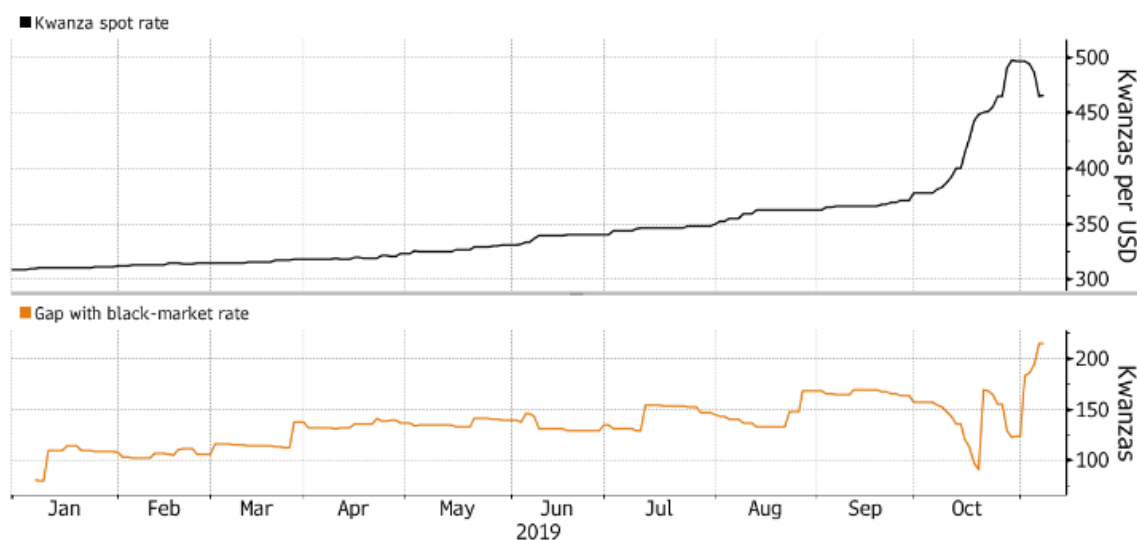
■ Lima CPI YoY on 10/31/19 ■ Peru Central Bank Benchmark Rate



Angola

The gap between the official Kwanza rate and the black market continues to widen. After the central bank removed its trading-range limit of 2% at kwanza auctions this week, the spread between the official and black market rates has reached 33%. **Nonetheless, the kwanza has appreciated about 8% to the US dollar in November.** The central bank governor announced on Wednesday that the currency's value would be determined by market forces going forward but that the central bank would remain vigilant about "market behavior." The measure follows IMF advice to allow more flexibility to exchange rate determination.

Angola's currency is paring losses after free-float slump



Source: Bloomberg, kinguilahoje.com























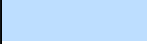



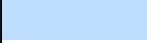


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Global Financial Indicators

Last updated: 11/8/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3085	0.3	2	7	10	23
Europe		3702	-0.1	2	8	14	23
Japan		23392	0.3	2	8	4	17
China		2964	-0.5	0	2	12	19
Asia Ex Japan		72	0.6	4	10	10	13
Emerging Markets		44	-0.7	4	9	9	13
Interest Rates			basis points				
US 10y Yield		1.94	8.9	23	41	-130	-74
Germany 10y Yield		-0.23	0.0	15	36	-69	-48
Japan 10y Yield		-0.05	1.4	13	15	-17	-5
UK 10y Yield		0.81	1.5	15	39	-76	-47
Credit Spreads			basis points				
US Investment Grade		116	-1.5	-5	-13	12	-31
US High Yield		443	-2.3	-18	-45	91	-78
Europe IG		49	0.0	-2	-11	-19	-39
Europe HY		233	0.5	0	-26	-49	-120
EMBIG Sovereign Spread		313	-6.0	-11	-37	-43	-101
Exchange Rates			%				
USD/Majors		98.32	0.2	1	-1	2	2
EUR/USD		1.10	-0.2	-1	1	-3	-4
USD/JPY		109.4	-0.1	-1	-2	4	0
EM/USD		60.7	-0.4	-1	1	-2	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-1.4	0	5	-13	14
Industrials Metals (index)		118	-0.5	0	2	2	8
Agriculture (index)		39	-0.2	0	1	-9	-5
Implied Volatility			%				
VIX Index (% change in pp)		12.8	0.1	0.5	-7.5	-3.9	-12.6
10y Treasury Volatility Index		4.9	0.7	0.5	-0.4	0.9	0.4
Global FX Volatility		6.3	0.0	-0.1	-0.8	-1.8	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		159	11.1	2	-46	-229	-257
Italy		150	9.8	12	6	-144	-100
Portugal		61	7.1	2	-10	-87	-87
Spain		66	4.7	1	-5	-49	-51










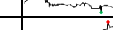
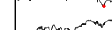



























Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 11/8/2019 8:08 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		6.99	-0.2	0.7	2	-1	-2		3.3	0.1	-4	10	-19	10
Indonesia		14014	-0.1	0.2	1	4	3		7.1	-0.5	-2	-26	-117	-109
India		71	-0.4	-0.7	0	2	-2		6.8	1.2	2	5	-104	-62
Philippines		50	0.0	0.5	3	4	4		4.3	-0.2	0	-1	-238	-199
Thailand		30	-0.1	-0.7	0	8	7		1.7	4.4	7	17	-122	-97
Malaysia		4.13	-0.3	0.7	1	1	0		3.4	-1.4	-2	0	-74	-67
Argentina		60	-0.1	0.2	-3	-40	-37		62.5	544.9	573	118	3870	3950
Brazil		4.13	-0.6	-3.3	-1	-9	-6		6.0	6.8	17	-38	-272	-218
Chile		747	-0.7	-0.9	-3	-9	-7		3.3	-5.7	-12	49	-153	-121
Colombia		3337	-0.5	-0.3	3	-6	-3		5.8	5.7	13	18	-95	-69
Mexico		19.17	-0.2	-0.2	2	5	3		6.9	7.4	8	4	-177	-178
Peru		3.3	0.1	0.2	1	1	1		4.5	4.0	-1	16	-139	-128
Uruguay		38	-0.1	-0.2	-1	-13	-14		10.9	-1.9	-4	13		21
Hungary		302	-0.4	-2.8	1	-7	-7		1.2	4.5	5	17	-146	-101
Poland		3.86	-0.2	-1.4	2	-2	-3		1.9	9.9	13	20	-69	-37
Romania		4.3	-0.3	-1.4	0	-5	-6		3.9	5.0	6	12	-48	-35
Russia		63.9	-0.5	-0.5	2	5	9		6.2	-1.5	-10	-52	-223	-220
South Africa		14.8	-0.4	1.6	3	-5	-3		9.6	4.7	-2	25	-9	-2
Turkey		5.75	0.0	-0.7	1	-5	-8		12.1	-20.7	-32	-141	-542	-481
US (DXY; 5y UST)		98	0.2	1.1	-1	2	2		1.75	2.0	21	40	-134	-76

	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		2964	-0.5	0	2	12	19		175	-2	-2	-14	-4	-19
Indonesia		6178	0.2	0	2	3	0		168	-7	-14	-22	-39	-68
India		40324	-0.8	0	7	14	12		122	-5	-9	-10	-44	-74
Philippines		8066	-0.1	1	4	15	8		76	-1	-6	-10	-23	-45
Malaysia		1610	0.0	1	3	-6	-5		119	-5	-1	-6	-12	-43
Argentina		35869	1.0	6	19	17	18		2361	1	69	275	1754	1546
Brazil		109581	1.1	1	10	28	25		221	-6	-6	-35	-27	-52
Chile		4665	1.6	-2	-7	-11	-9		140	-8	-2	-2	6	-26
Colombia		1656	-0.1	1	4	16	25		174	-9	-7	-14	-14	-54
Mexico		44120	0.7	2	4	0	6		309	-7	-6	-17	6	-45
Peru		20141	0.4	1	5	4	4		122	-8	-8	-10	-27	-46
Hungary		43314	-0.7	3	10	12	11		87	-2	-13	-21	-31	-61
Poland		59336	-0.3	3	5	3	3		19	1	-11	-24	-32	-66
Romania		9684	0.0	1	2	13	31		181	-7	-12	-22	-5	-40
Russia		2970	-1.2	3	10	22	25		164	-9	-13	-40	-55	-88
South Africa		56842	-1.1	0	4	5	8		323	-7	-21	-21	2	-42
Turkey		103445	-0.1	5	2	11	13		424	-4	-32	-67	14	-5
Ukraine		518	0.0	-1	-2	-13	-7		448	-3	-11	-67	-153	-339
EM total		44	-0.7	4	9	9	13		314	-5	-10	-36	-42	-100

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

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