









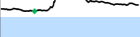



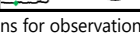
- **Markets rally on vaccine hopes** ([link](#))
- **Brexit talks at key stage** ([link](#))
- **US markets confront derivatives Big Bang** ([link](#))
- **Corporate bonds in US remain more attractive to foreign investors** ([link](#))
- **Markets focus on weaker US banks as financial stocks underperform** ([link](#))
- **India to expand borrowing program** ([link](#))
- **Fitch downgrades Chile to A- with negative outlook** ([link](#))
- **Poland's two-year government bond yield goes negative for the first time** ([link](#))

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Vaccine hopes boost markets

News that a vaccine could be deployed in the UK as early as this year helped markets stage a partial recovery from steep losses from earlier in the week, with Europe making solid gains and US equity futures also moving higher. However, the UK faces rising disputes over lockdowns, as well as a key decision point in the Brexit negotiations after the PM threatened to walk away from talks. In the US, separate townhall meetings for the two Presidential candidates appeared to have little impact on markets so far. The US deadline for the Big Bang transition to SOFR based valuation of Libor derivatives has finally arrived. Tensions persist in Thailand where political protests continue in the capital, although local markets have been relatively unscathed so far. The dollar is weaker on the more positive risk sentiment and Treasury and bund yields are holding steady.

Key Global Financial Indicators

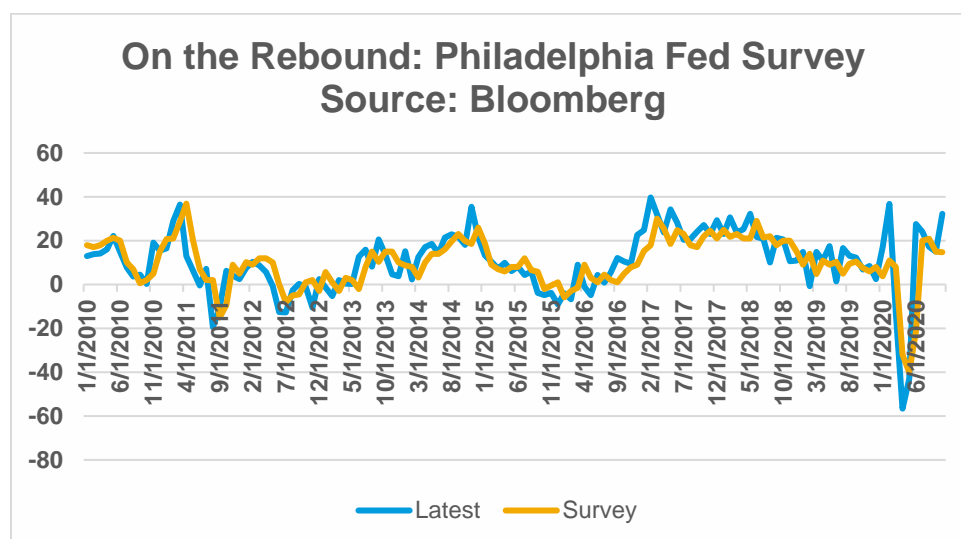
Last updated: 10/16/20 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		3483	-0.2	1	3	17	8
Eurostoxx 50		3231	1.2	-1	-3	-10	-14
Nikkei 225		23411	-0.4	-1	0	4	-1
MSCI EM		45	-0.7	0	1	9	1
Yields and Spreads			bps				
US 10y Yield		0.72	-1.0	-5	3	-102	-120
Germany 10y Yield		-0.63	-2.1	-10	-15	-24	-45
EMBIG Sovereign Spread		404	0	-16	-13	68	111
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.7	0.4	0	-2	-10	-11
Dollar index, (+) = \$ appreciation		93.6	-0.3	1	0	-4	-3
Brent Crude Oil (\$/barrel)		42.8	-0.9	0	1	-28	-35
VIX Index (% change in pp)		26.9	-0.1	1	1	13	13

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

United States

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Markets were down for a third consecutive day, but the moves were quite small despite heavy losses in Europe. A strong early morning selloff was almost totally reversed as the day went on and sentiment improved. Strong corporate earnings provided support. Market conditions remained calm and trading volumes were lower than usual. Investors have given up on a US budget deal before the election, so the continued lack of progress had no impact. Treasuries followed a reverse pattern, rallying early in the session before selling off through the day and ending little changed. Press reports indicated that the Fed might extend the maturities of its support programs in the absence of a fiscal deal. Fed Vice Chair Quarles, who oversees Fed supervisory activities, noted that more reforms may be needed in the money market fund sector. He called March's disruption "particularly disappointing." In other news, the Philadelphia Fed business outlook survey rebounded strongly, well ahead of consensus forecasts (32.3 vs. 14.8) and in contrast to the weak Empire Manufacturing survey earlier in the day. Meanwhile, the Fed's balance sheet grew to a record \$7.15 tn.



This morning's retail sales report was much stronger than expected. Treasury prices were lower in response and equity futures were slightly higher.

US Economic Data 8.30 am October 16, 2020

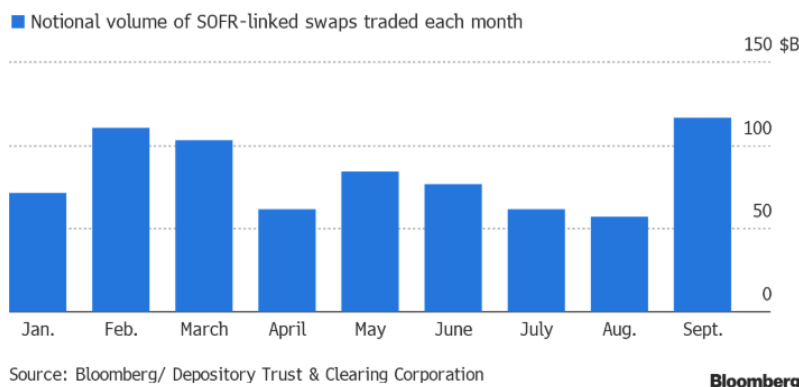
Source: Bloomberg

Data Release	Consensus Forecast	Actual Outcome
Retail sales (September)	+0.8%	+1.9% (+0.6% in August)
Retail sales ex-autos	+0.4%	+1.5% (+0.7% in August)

Today is the deadline for a crucial change in the ongoing transition away from Libor to the new Secured Overnight Funding Rate (SOFR) money market benchmark. Over the weekend, the "Big Bang" involves moving from Libor to SOFR discounting of cash flows in interest rate and other derivatives trades. This involves hundreds of trillions of dollars in underlying transactions, according to Bloomberg, and will involve major valuation changes. It also affects other instruments linked to Libor, such as mortgages and mortgage backed securities, other asset backed securities, leveraged loans, syndicated debt in Asian markets, FX basis swaps, and many more asset classes. There are widespread fears that the subsequent price action in the derivatives market could be very turbulent. The change will result in billions of dollars in cash payments between counterparties and extensive sales of derivative positions, which could test the liquidity of the market.

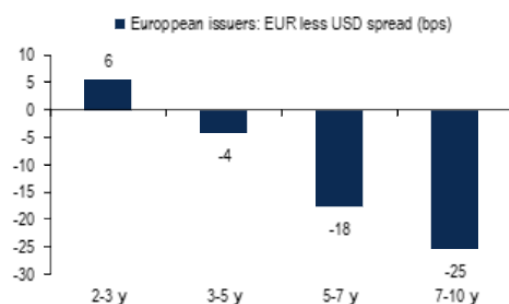
SOFR Is Coming

Trading activity in swaps tied to new benchmark jumped in September



The US corporate bond market remains much more attractive than the European market for euro-based investors. Despite very tight credit spreads, US yields remain higher, and the recent weakness in the dollar has reduced foreign exchange (FX) hedging costs. Using matched maturity cross currency basis swaps, a derivative structure that removes FX risk for the desired maturity, euro-based investors can earn good positive relative spreads compared to euro denominated bonds, whose relative spreads are negative except for the shortest maturities. Contacts think this explains the continued rally in US credit through most of September and October despite the September equity selloff.

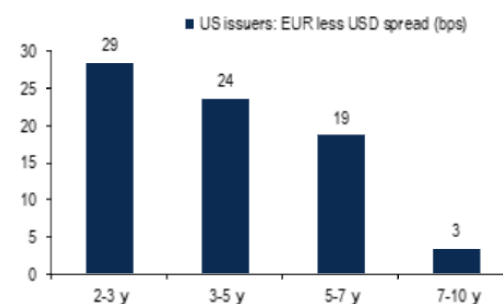
Figure 9: Fully FX-hedged EUR less USD IG bond spread relative value: European issuers



Note: the chart plots issuer-matched spreads on a fully currency hedged basis. We use maturity matched cross currency basis swaps to fully currency hedge principal and interest rate payments, and forward FX rates to fully hedge the stream of spread payments. We also adjust for the difference in quoting conventions with a 3 to 6M Euribor swap.

Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC

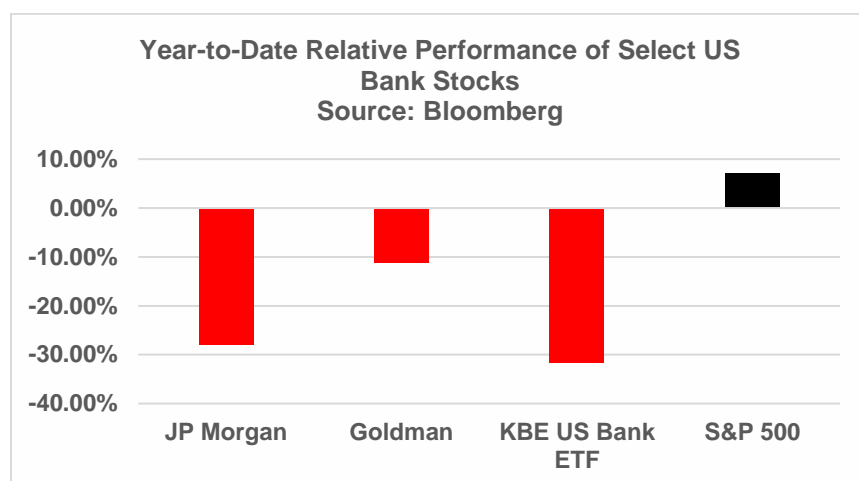
Figure 10: Fully FX-hedged EUR less USD IG bond spread relative value: US issuers



Note: the chart plots issuer-matched spreads on a fully currency hedged basis. We use maturity matched cross currency basis swaps to fully currency hedge principal and interest rate payments, and forward FX rates to fully hedge the stream of spread payments. We also adjust for the difference in quoting conventions with a 3 to 6M Euribor swap.

Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC

Investors have been more focused on the weaker US bank results as financial shares continued to underperform. The negative surprise from Wells Fargo and weak trading revenues at Bank of America drew more attention than the strong results at JP Morgan and Goldman. So far in 2020, the S&P has done much better than Goldman and JP Morgan, the best US banks, while the KBE Bank ETF covering the entire banking sector has done the worst. This is not surprising given that the strong recovery since March 23 was driven almost entirely by the aggressive fiscal support from the US authorities. Now, the valuation logic is reversed: in the environment of persistent uncertainty, earnings reports – regardless of how positive – have only limited meaningfulness as they give little idea of bank's future prospects as the crisis drags on.



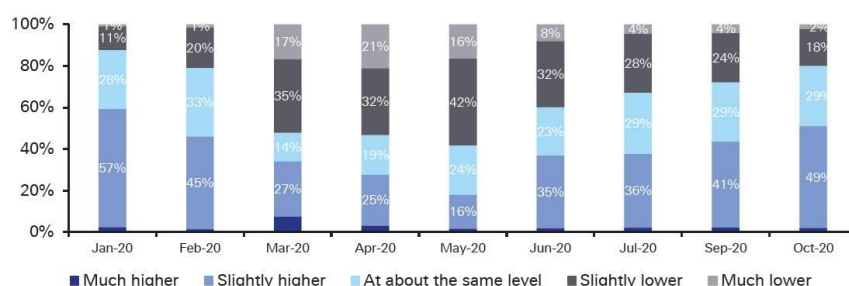
Europe

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Equity markets in Europe recovered this morning with stocks up in France (+1.7%) and the UK (+1.2%). Consumer discretionary goods (+3.0%) were outperforming the broader index mostly with the help of the luxury goods segment. Sentiment was boosted by media reports that was a good chance that the UK would begin administering a vaccine by December, after prior expectations that a vaccine would not be available until next year.

The latest Deutsche Bank client survey shows that investors are increasingly optimistic about European stock markets. The balance of investors expecting higher equity markets over the next three and twelve months are close to the highs of this year. This is somewhat surprising given the onset of the second wave in Europe. The positive sentiment could be based on vaccine expectations as well as year-end stimulus hopes from both sides of the Atlantic.

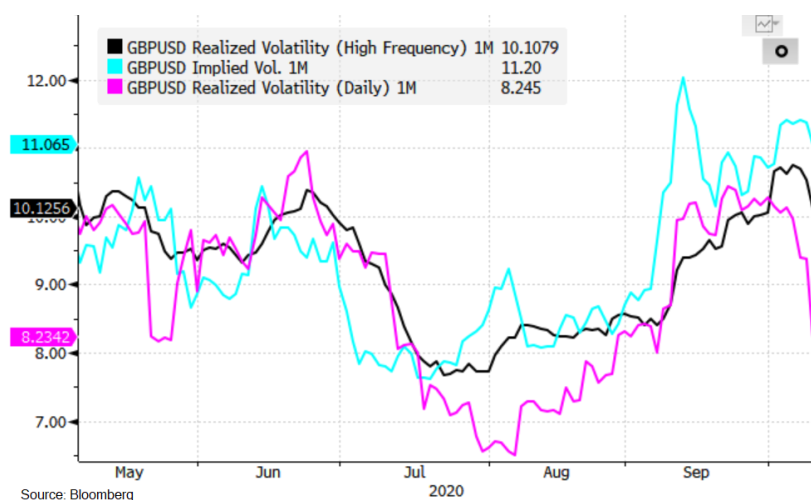
Figure 22: The Stoxx 600 will be ... in three months



Source : dbDIG Survey, Deutsche Bank Research

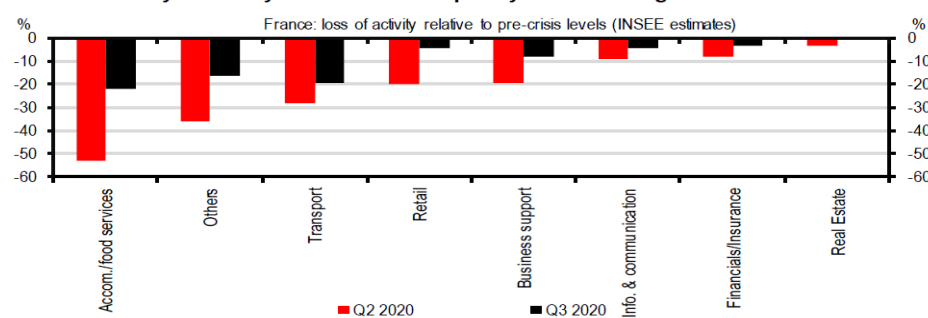
European bond markets have stabilized this morning. Germany's 10-year bund is hovering around yesterday's low of -0.63% and Southern European spreads are mostly unchanged.

The euro (+0.1%) is unchanged with the market focusing on sterling (-0.3%), which continues to experience rather large intraday volatility on the back of Brexit related headlines. The volatility implied by option prices also remains at elevated levels. **Today, the UK Prime Minister Johnson is expected to announce whether Brexit talks will continue after the EC summit, after threatening to withdraw over disputes over areas such as fisheries.** Contacts agree that the UK is unlikely to walk away from the negotiation table at this stage. Separately, it is now confirmed that London will move to the high-risk category on the UK scale with mixing between households prohibited from Friday night onwards.



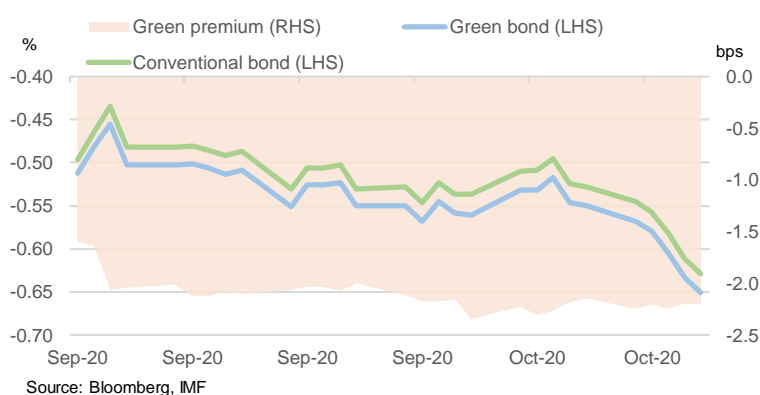
Recent curfews imposed by France are seen to have a limited impact on Q4 GDP. While the measures will affect 16 million people or quarter of French population, analysts conclude that the direct impact should be limited to around 0.5pp of Q4 GDP. That said, the curfew could have indirect negative effects through overall increases in savings rate as well as longer term growth impacts due to larger numbers of insolvencies and layoffs.

11. The recovery of activity in the French hospitality sector could grind to a halt in Q4 2020



Italy is taking steps towards selling its first green bond as the government is assessing its environmental funding needs. According to media reports, it remains unclear if the Treasury will manage to place the bond in 2020. There are no details yet with regards to the pricing of the bond but a recent green bond placement by Germany has stabilized around 2 bps below the conventional benchmark.

German conventional and green 10-year bond



Other Mature Markets

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Japan

Finance Minister Taro Aso came out against additional cash handouts to households. He said that the premise for cash handouts was to quickly provide support to household during an emergency, but Japan is no longer officially in a state of emergency. The cabinet decided to use ¥549 bn yen (\$5.2 bn) of reserves from extra budgets to fund the government's furlough program, strengthen domestic supply chains, and support workers in the agricultural and fishery sectors. Equities declined (NIKKEI: -0.4%); the Japanese was slightly stronger against the dollar.

Emerging Markets

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Eastern European bourses gained, with Poland up the most. In the Middle East, Saudi Arabia was down the most. Currencies across the regions traded within a narrow range. **Asian stock markets were mostly lower (Korea -0.8%) but India was up 0.7% and currencies were mixed.** In Thailand, protests continued amidst the ban on gatherings, weighing on market sentiment. In Korea, the unemployment rate increased more than expected to 3.9% in September from 3.2% in August. **Latin American equity markets** were mixed on Thursday. Argentina outperformed again as the Merval gained 2%, while Colombia saw losses (-0.5%). Local currencies were little changed. The 10-year government bond yields rose 17 bps in Brazil.

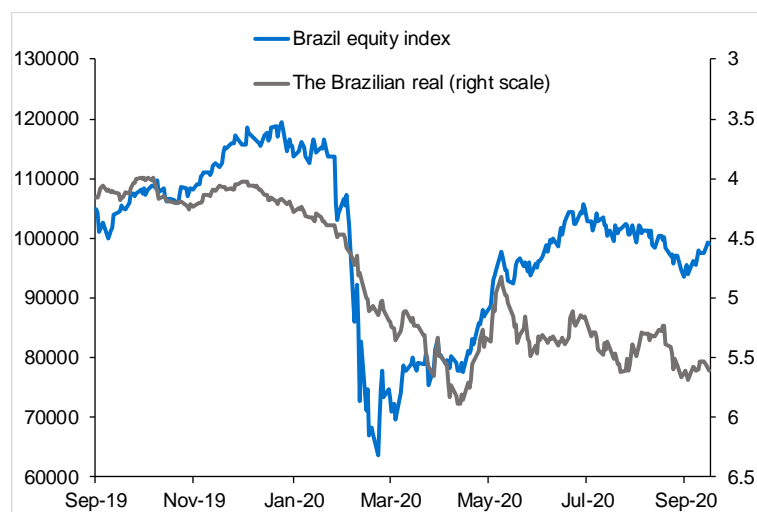
Key Emerging Market Financial Indicators

Last updated: 10/16/20 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.40	0.9	0	1	9	1
MSCI Frontier Equities		26.79	1.0	1	4	-4	-12
EMBIG Sovereign Spread (in bps)		404	0	-16	-13	68	111
EM FX vs. USD		54.68	0.4	0	-2	-10	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.70	0.4	0	1	6	4
Indonesian Rupiah		14698	-0.1	0	1	-4	-6
Indian Rupee		73.35	0.0	0	0	-3	-3
Argentine Peso		77.48	0.0	0	-3	-25	-23
Brazil Real		5.62	-0.1	-2	-7	-26	-28
Mexican Peso		21.20	0.3	0	-1	-9	-11
Russian Ruble		77.99	0.0	-2	-4	-18	-21
South African Rand		16.51	0.8	0	-2	-9	-15
Turkish Lira		7.95	-0.1	-1	-6	-26	-25
EM FX volatility		11.12	0.0	-0.3	-0.1	3.2	4.5

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

Brazil

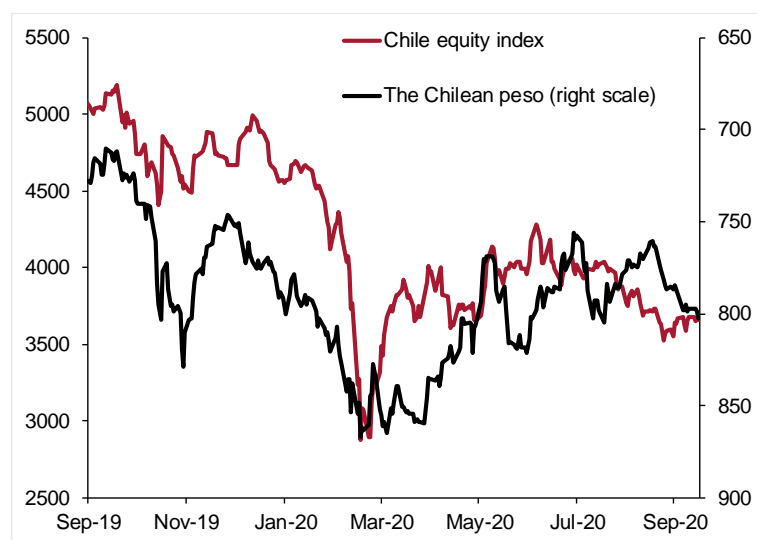
Brazil's real economic activity expanded 1.06% m/m sa in August, below the Bloomberg consensus of 1.7%. The main drivers were the gradual easing of social distancing protocols and fiscal stimulus. In annual terms, real GDP fell 3.9% y/y in August (vs. -4.3% y/y in July). Analysts expected the Brazil economy continues to recover more rapidly, but the domestic coronavirus situation, weak labor market, and potentially less aggressive fiscal support in coming months have clouded the outlook. Stocks were slightly lower yesterday and the real depreciated 0.4% against the dollar.



Source: Bloomberg

Chile

Fitch downgraded Chile's credit ratings to A- and revised the outlook to stable from negative, two notches lower than the other two major credit rating agencies. Chile now stands at A+/A1/A-. According to a statement, the downgrade reflected the increasing government debt burden due to the social protests last year and the ongoing coronavirus pandemic. Fitch forecasted a fiscal deficit of 8.5% GDP in 2020 and 5.1% in 2021 (vs. 2.8% of GDP in 2019). Chilean assets were slightly lower yesterday, as domestic equities were mostly unchanged, and the peso depreciated 0.5% against the dollar. **The central bank kept its policy rate unchanged at 0.5% on Thursday, as expected.** The bank's statement noted that the policy rate would stay at its minimum level for a greater part of the monetary policy horizon of two years. Also, the central bank said it would maintain current non-conventional measures.



Source: Bloomberg

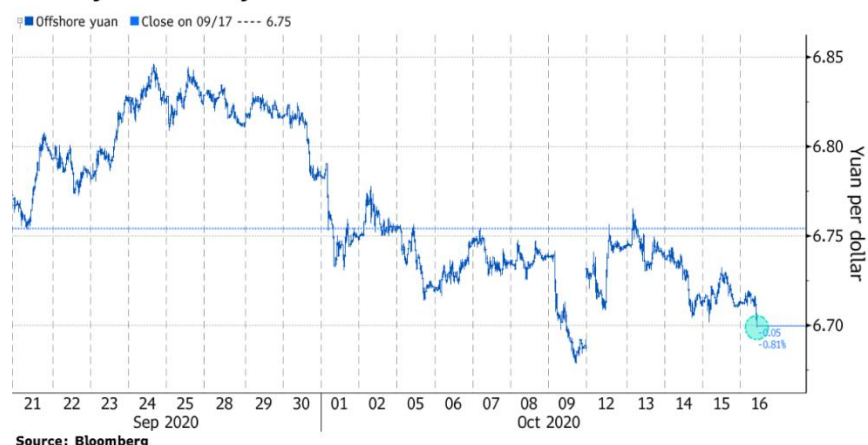
China

The RMB continued appreciating against the dollar. The currency has been appreciating most of this week, falling below 6.7 RMB per dollar. According to Bloomberg, currency traders were positioning for a stronger-than-expected set of economic data (GDP, industrial production, and retail sales) due next

Monday. Some market participants expect more measures to curb currency appreciation in the near future, including tweaking the fixing formula. Today, the currency gained another 0.4%.

Erasing Loss

China's yuan rallies beyond 6.7 for first time in a week



India

The Indian government expanded its market borrowing plan by 1.1 tn rupee (\$15 b). Total borrowing of the central government was raised for a second time this year to 13 tn rupee (\$177 bn). Additional borrowing will be passed on to the states as a back-to-back loan and will have no impact on the general government's deficit. This aims to help the states close their financing shortfalls as a result of declining state tax revenues. The additional borrowing of 1.1 tn will be split equally between 3-year and 5-year bonds. Some analysts noted that this additional borrowing does not change the country's fiscal outlook, while others viewed that shorter-end bonds could become under pressures in the near term. Government bond yields rose (5-year: +10 bps; 10-year: +4bps). Equities gained (+0.7%); the Indian rupee was little changed.

Indian Government Bond Yields



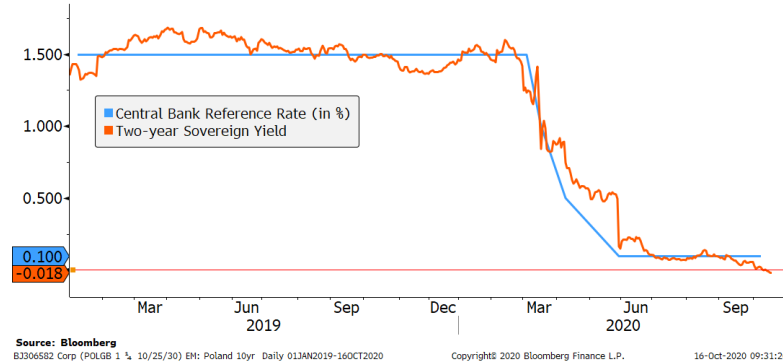
Source: Bloomberg.

Poland

Two-year sovereign yields fell into negative territory for the first time, trading at -0.001% today. Polish yields have fallen 148 bps this year, and market analysts expect that the central bank will be forced

to loosen monetary policy in coming meetings as Covid-19 infections continue to surge. Policy rates, however, have been on hold at 0.1% for the last four meetings. **Core inflation for September** will be released later today. The consensus forecast is a slight acceleration to 4.2% y/y from 4.0% in August. The zloty (-0.1%) weakened marginally against the dollar today.

Poland: Selected Indicators
































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Global Financial Indicators

Last updated: 10/16/20 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3486	-0.2	0	3	17	8
Europe		3231	1.2	-1	-3	-10	-14
Japan		23411	-0.4	-1	0	4	-1
China		3336	0.1	2	2	12	9
Asia Ex Japan		79	-1.0	0	1	16	8
Emerging Markets		45	-0.7	0	1	9	1
Interest Rates							
			basis points				
US 10y Yield		0.72	-1.0	-5	3	-102	-120
Germany 10y Yield		-0.63	-2.1	-10	-15	-24	-45
Japan 10y Yield		0.02	0.0	-1	0	18	3
UK 10y Yield		0.16	-1.7	-12	-5	-55	-66
Credit Spreads							
			basis points				
US Investment Grade		126	0.5	-2	-2	3	29
US High Yield		510	-0.1	6	-4	55	117
Europe IG		56	0.0	4	2	3	12
Europe HY		336	-0.3	19	42	102	130
EMBIG Sovereign Spread		404	0.0	-16	-13	68	111
Exchange Rates							
			%				
USD/Majors		93.61	-0.3	1	0	-4	-3
EUR/USD		1.17	0.2	-1	-1	6	5
USD/JPY		105.3	0.2	0	0	3	3
EM/USD		54.7	0.4	0	-2	-10	-11
Commodities							
			%				
Brent Crude Oil (\$/barrel)		43	-0.9	0	1	-28	-35
Industrials Metals (index)		120	0.5	1	1	4	5
Agriculture (index)		42	0.7	2	7	7	1
Implied Volatility							
			%				
VIX Index (%, change in pp)		26.9	-0.1	0.5	0.9	13.2	13.1
US 10y Swaption Volatility		66.6	0.9	-2.0	16.6	-13.1	4.6
Global FX Volatility		8.5	0.0	-0.1	-1.0	1.7	2.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		142	-1.3	2	-13	-36	-23
Italy		130	-1.0	5	-16	-2	-30
Portugal		75	-0.9	4	-2	16	12
Spain		76	-0.4	5	1	12	10

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: 10/16/2020 8:10 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		6.70	0.4	-0.1	1	6	4		3.4	1.4	9	7	15	22
Indonesia		14698	-0.1	0.0	1	-4	-6		6.7	-5.6	-10	-5	-55	-40
India		73	0.0	-0.3	0	-3	-3		6.0	-0.9	-10	-14	-76	-83
Philippines		49	0.1	-0.6	-1	6	4		3.6	-2.0	-5	-8	-75	-74
Thailand		31	0.1	-0.6	0	-3	-5		1.5	0.4	0	3	-7	-13
Malaysia		4.15	0.1	-0.4	0	1	-1		2.5	-0.4	-5	-7	-95	-89
Argentina		77	0.0	-0.5	-3	-25	-23		44.2	146.4	268	220	-1428	-1839
Brazil		5.62	-0.1	-1.6	-7	-26	-28		6.3	15.2	2	60	27	3
Chile		796	0.9	0.1	-4	-10	-5		2.8	1.0	-2	18	-9	-54
Colombia		3849	-0.3	-0.2	-4	-10	-15		5.1	-2.2	-8	29	-60	-81
Mexico		21.20	0.3	-0.3	-1	-9	-11		6.1	2.6	-4	19	-84	-88
Peru		3.6	0.2	-0.1	-1	-6	-8		4.1	1.8	7	3	-7	-39
Uruguay		43	-0.2	-0.4	-1	-13	-13		7.4	2.1	7	-20	-349	-347
Hungary		310	0.3	-2.9	-2	-3	-5		1.7	0.4	-1	-4	57	50
Poland		3.88	0.1	-2.7	-3	0	-2		0.6	-1.1	-6	-16	-114	-124
Romania		4.2	0.2	-0.9	-1	3	3		3.2	1.0	-4	0	-59	-77
Russia		78.0	0.0	-1.6	-4	-18	-21		5.7	3.6	4	-9	-84	-43
South Africa		16.5	0.8	-0.2	-2	-9	-15		10.3	-0.3	-8	24	94	76
Turkey		7.95	-0.1	-0.9	-6	-26	-25		13.4	9.3	13	62	-193	168
US (DXY; 5y UST)		94	-0.2	0.6	0	-4	-3		0.30	-1.1	-3	2	-126	-139

	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		4792	-0.1	2	3	22	17		215	-1	0	-2	27	39
Indonesia		5103	0.0	1	1	-17	-19		211	1	-1	-13	34	55
India		39983	0.6	-1	2	4	-3		208	4	1	-14	76	83
Philippines		5898	-0.7	-1	-1	-25	-25		121	1	-2	-10	47	55
Malaysia		1504	-0.7	-2	-2	-5	-5		142	-1	-8	-10	16	30
Argentina		48239	2.0	8	14	57	16		1395	-13	52	209	-619	-374
Brazil		99054	-0.3	4	-1	-6	-14		299	-3	0	1	67	84
Chile		3662	-0.1	0	-1	-29	-22		162	0	0	-7	28	29
Colombia		1166	-0.5	-2	-3	-26	-30		228	-2	-4	-14	50	65
Mexico		38059	0.1	-1	4	-13	-13		473	-1	2	4	165	181
Peru		17691	-0.8	-2	-2	-9	-14		142	0	-3	-13	14	35
Hungary		33265	0.6	-1	-3	-18	-28		116	0	-2	-5	22	30
Poland		48211	1.5	-2	-3	-15	-17		21	-2	1	-9	-9	3
Romania		8885	1.2	0	-4	-7	-11		241	5	-1	-9	59	68
Russia		2801	-0.6	-1	-6	2	-8		200	0	4	-3	13	69
South Africa		55052	0.4	0	-2	-2	-4		496	-3	12	7	173	176
Turkey		1185	0.4	2	7	26	4		619	-5	12	20	114	218
Ukraine		510	0.0	2	2	-3	0		703	-4	41	69	208	283
EM total		45	0.9	0	1	9	1		404	0	-16	-13	68	111

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