








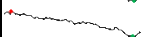





- Chinese GDP comes in at 6.0%, slightly below consensus expectations ([link](#))
- Tomorrow's crucial Brexit vote in UK parliament seen as too close to call ([link](#))
- Turkish assets rally on ceasefire agreement with US ([link](#))
- US earnings expected to rebound after Q3, underpinning investor optimism ([link](#))
- Brazilian equities' 20% gains this year linked to domestic equity flows ([link](#))

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## Investors sit tight ahead of key Brexit vote

**Market movements are limited as investors digest slower Chinese GDP and Brexit developments.** The release of slightly weaker-than-expected Chinese Q3 GDP data weighed on risk sentiment in the Asian session but didn't spill over to other major markets, where many analysts saw it as better than feared. With a critical vote on Brexit set to take place this weekend in the UK parliament, market analysts are talking up the potential for significant market reactions regardless of the outcome. Analysts with one US broker-dealer are noting that successful passage of the deal should mean long-term yield increases of 20 bps in the UK and 10-15 bps in Germany. A French dealer anticipates a failed vote could mean losses of up to 10% in UK equities, as it remains unclear whether the EU would grant another Brexit delay. Market commentary suggests the likely outcome of the vote is too close to call, although betting markets (and FX punters) are giving a slight edge to the deal getting passed.

Key Global Financial Indicators

Last updated: 10/18/19 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2998	0.3	2	0	8	20
Eurostoxx 50		3589	0.0	1	2	12	20
Nikkei 225		22493	0.2	4	2	-1	12
MSCI EM		42	-0.4	3	1	7	8
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.77	1.2	4	-3	-141	-91
Germany 10y Yield		-0.37	3.6	7	14	-79	-61
EMBIG Sovereign Spread		331	-2	-5	-2	-17	-83
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.0	0.2	1	0	-2	-2
Dollar index, (+) = \$ appreciation		97.4	-0.2	-1	-1	2	1
Brent Crude Oil (\$/barrel)		60.3	0.6	0	-5	-24	12
VIX Index (% change in pp)		14.1	0.3	-4	0	-6	-11

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

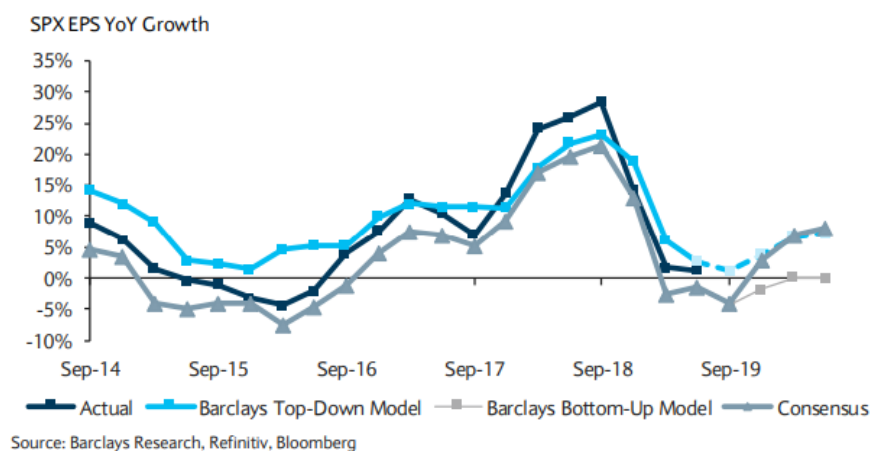
## United States

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**Despite mixed macro data, stocks continued to grind higher on better than expected corporate earnings.** Economic data out this morning was mixed, again showing robust housing market and weakening manufacturing activity (Philly Fed 5.6 vs 7.6 expected; IP -0.4% mom vs -0.2% mom expected). Attention moved to earnings reports for the remainder of the day, with a group of earnings beats from large caps carrying the index higher. The Treasury markets were little changed.

**Corporate earnings are expected to be bottoming out in Q3.** According to consensus forecasts, EPS growth for S&P 500 firms will trough in Q3 before recovering back to 10-12% level next year. Meanwhile, Barclays analysts noted that the divergence between their top-down (based solely on US economic forecasts) and bottom-up models shows that the earnings weakness this year is mainly due to slowing international growth, while domestic economic conditions have held up well.

Consensus as well as our bottom-up and top-down models project that 2019Q3 will be the trough in SPX EPS growth



**The Treasury bill auctions saw investors favoring 8-week bills over 4-week bills, as the latter are ineligible for Fed's reserve management bill purchase.** The \$55 bn 4-week bills were sold at 1.72%, above the prevailing market price, with a below-average 2.5x cover ratio. The \$40 bn 8-week bills were sold at 1.665%, right at the prevailing market price, with an above-average 2.99x cover ratio.

**Analysts have raised several other market implications from the Fed's bill purchase program.**

- Fed's purchase changes the Treasury supply outlook. Q4 issuance is already expected to be smaller than usual given the higher than expected Treasury cash balance. Assuming Fed maintains \$60 bn/month purchase through end-March, the net reduction in bill supply could range between \$110-\$240 bn over the next 6 months. The impact will be much larger if the purchase extends into Q2, when bill issuance typically falls by an average of \$200 bn over the quarter due to tax receipts.
- The reduction in bill supply could push bill rates lower, especially given the relatively high purchase frequency. The Fed's initial schedule suggests that the purchase will take place roughly every other business day for the next 6 months at \$7.5 bn per day, which represents about 6% of average daily bill trading volume.
- The decline in bill supply and rates could push some investors into repo markets. Analysts noted that money market funds and foreign official institutions have already increased their repo allocations after the overnight repo rate moves above the 3-month bill rate this summer. Foreign official institutions typically use the foreign RRP programs which mechanically drain the bank reserves, consequently adding pressure on overnight repo rates.
- Balance sheet constraints and need for term-funding will likely keep year-end funding pressure elevated.

## Europe

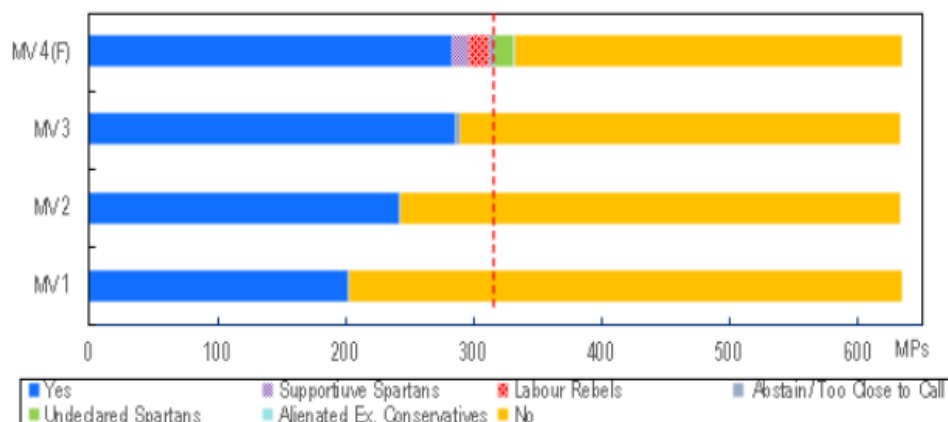
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**European equities traded mixed within narrow ranges today**, with the EuroStoxx 600 (+0.0%) roughly at yesterday's opening level prior to the Brexit deal's agreement. DAX (+0.3%), CAC 40 (-0.1%), FTSE 100 (-0.1%), FTSE 250 (+0.3%). Bank stocks (+0.5%) slightly outperformed the main indices.

**Sovereign debt markets traded steady, with yields adding about 3-4 bps in most countries.** The sharp spike in German bund yields seen yesterday following the Brexit deal news was completely unwound as investor attention focused on the significant remaining obstacles to its becoming law. In today's session, yields are rising, with the German 10-year at -0.38% (+3 bps); French at -0.08% (+3 bps); Gilts at 0.72% (+4 bps); Italian at 0.90% (+1 bp)

**Jockeying by pro-Remainers and Brexiters is in full swing in the UK ahead of tomorrow's vote on the new Brexit deal.** The outcome is too close to call and will hinge on whether a fraction of the so-called Spartans (Tory rebels) will support the agreement. **If the deal is passed** by the UK's parliament, then it'll move to the EU parliament for ratification. **If it fails**, PM Johnson will be forced to request an extension to Art. 50. It is unclear whether such an extension will be granted. There have been conflicting statements in this regard from top EU leaders, with Juncker saying that there is not scope for another delay while Tusk stated that an extension would be possible.

Figure 1. Vote Projections – Past Votes on UK Ratification of UK-EU Brexit Deals



Notes MV stands for meaningful vote, referring to the 3 previous House of Commons votes on the deal proposed by Theresa May (15/01/2019; 12/03/2019; 29/03/2019). Source: Citi Research, House of Commons

**The European Securities and Markets Authority (ESMA) [has found](#) that the UK's and Cyprus' regulators lag behind peers** regarding the integration of European Market Infrastructure Regulation (EMIR) data quality controls into their overall supervisory approach, and their ability to assess and analyze EMIR data.

**Table 1: Outcome of assessment by the peer review of the six NCAs in respect of EMIR data quality supervision**

NCA	NCA's supervisory approach to EMIR data quality	Integration of EMIR into NCA's overall supervisory approach	NCA's assessment and analysis of data
AFM			
AMF			
BaFin			
CBol			
CySEC			
FCA			

Note: NCA = National Competent Authorities

**Credit Suisse (-0.1%) will charge a negative rate of -0.75% on Swiss franc accounts** with more than CHF2 mn (\$2 mn), starting on Nov 15 2019 for corporates and on Jan 2020 for private clients. A rate of -0.85% will be charged on accounts topping CHF10 mn (\$10 mn).

## Other Mature Markets

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### Japan

**The yen held steady and equities softened as a weaker-than-expected Q3 GDP print from China dented sentiment in an otherwise quiet day.** Meanwhile, PM Abe's cabinet approved draft legislation to impose more stringent rules on foreign investments in Japan's equity market. The measures target specifically foreign state-owned firms while asset managers including hedge funds and activist funds will be exempted. The planned rules, once ratified, will require overseas investors to report in advance their intention of buying more than 1% of shares in companies related to Japan's national security; the current threshold is 10%. Some market participants worried that the planned rules could impede foreign investment and reduce domestic market liquidity while others noted that as the rules exempt many asset managers, the impact could be limited.

## Emerging Markets

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**Asian equities reversed early gains to end the day mostly weaker following a softer-than-expected Q3 GDP from China.** The Shanghai Composite lost 1.3%, underperforming other bourses while the RMB was little changed. Currencies were mixed. **In EMEA, Turkey continues to dominate headlines following the cease-fire announcement in Northern Syria.** Stocks in Istanbul gained 4% but equities traded lower in Poland (-0.6%), Hungary (-0.4%) and South Africa (-0.3%). Latin American markets were mixed on Thursday. Equities in Brazil (-0.4%) and Mexico (-0.3%) were down modestly, while Chile (0.5%) and Colombia (0.1%) moved higher.

## Key Emerging Market Financial Indicators

Last updated: 10/18/19 8:31 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.20	-0.4	3	1	7	8
MSCI Frontier Equities		28.10	0.2	0	0	4	7
EMBIG Sovereign Spread (in bps)		331	-2	-5	-2	-17	-83
EM FX vs. USD		61.04	0.2	1	0	-2	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.08	-0.1	0	0	-2	-3
Indonesian Rupiah		14148	0.0	0	-1	7	2
Indian Rupee		71.15	0.0	0	0	3	-2
Argentine Peso		58.32	0.1	-1	-3	-38	-35
Brazil Real		4.15	0.3	-1	-1	-10	-7
Mexican Peso		19.19	0.1	1	1	0	2
Russian Ruble		63.96	0.3	0	0	3	8
South African Rand		14.77	0.4	0	-1	-2	-3
Turkish Lira		5.78	0.8	2	-2	-3	-9
EM FX volatility		7.83	0.0	-0.3	-0.4	-1.9	-1.9

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

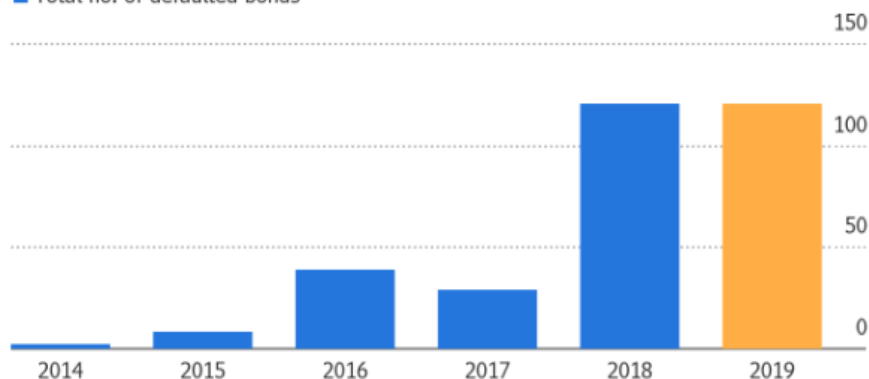
## China

**China's Q3 GDP fell below expectations to its slowest pace since the early 1990s.** Growth slowed to 6.0%, y/y, down from 6.2% in Q2 (expectations: +6.1%, y/y). External headwind from trade tension with the U.S. as well as weak global manufacturing demand, combined with the ongoing regulatory tightening of the financial sector weighted on growth. **Amid slowing growth, the number of bond defaults is on track to meet the record set last year.** By Bloomberg's estimate, missed payments totaled RMB 102.9 bn (\$14.6 bn) so far this year, approaching the all-time high of RMB 122 bn seen last year. Some 45 companies have defaulted on a year-to-date basis, compared to 40 in 2018. Analysts noted that the increase in defaults reflects both a slowing domestic economy as well as policymakers' growing willingness to allow over-leveraged firm to fail. For example, in July, 13 government agencies issued a joint statement warning that "zombie companies" should not be offered "non-compliant" subsidies or loans just to be kept afloat.

## Almost There

The number of defaulted bonds hits 2018's record high of 120

■ Total no. of defaulted bonds



Source: Bloomberg

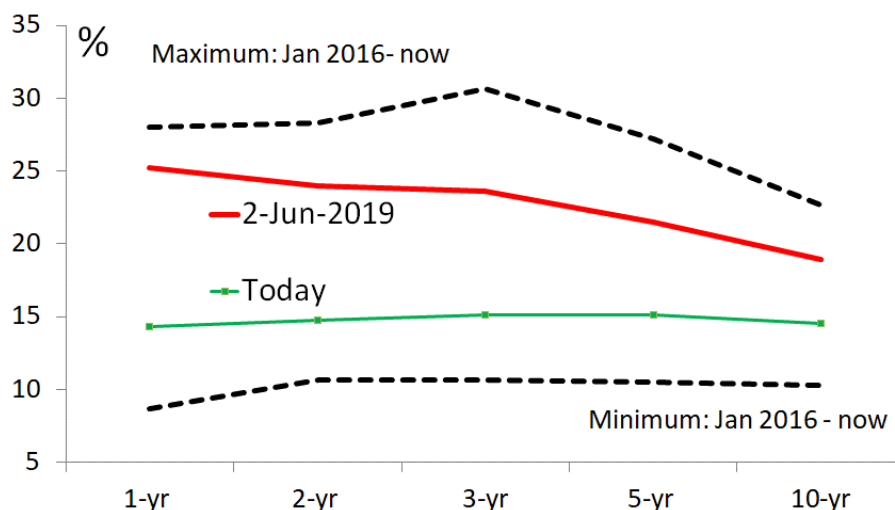
Note: 2019 year-to-date as of Oct. 18th

Bloomberg

## Turkey

**Stocks in Istanbul (+4%) rallied after Turkey agreed a 5-day cease-fire in Northern Syria with the US.** Bank stocks traded 6% higher. The lira is up 1% against the US. as Vice President Pence also promised that no additional sanctions would be imposed on Turkey as part of the agreement. **Analysts nevertheless pointed out that questions remain on regional stability after the ceasefire. Turkish bonds also gained; the 1-yr local currency yield fell 160 bps to 14.32% ahead of next week's central bank meeting.** The WEO expects CPI inflation of 12% yoy at the end of 2020.

### Turkey: Local currency sovereign bond yields since Jan 2016



Source: Bloomberg and IMF staff

## Brazil

**Brazilian equities have surged close to 20% in 2019 on the back of record inflows from local investors.** Inflows to Brazilian equity funds have hit 47.7 billion reais (\$11.5 billion) year to date, already surpassing the previous 2017 high. Foreign investors have been more cautious, with net outflows totaling 4.1 billion reais, according to Bloomberg. Despite sluggish economic growth—analysts have downgraded 2019 growth forecasts from 2.5% to just 0.9% since the beginning of the year—policy easing may be spurring retail investors to redeploy funds from low yielding savings accounts. Analysts also cited pension reform as a reason for greater optimism about the long-term economic outlook.

### Rotation to Equities

Brazil equity funds have seen an inflow of 47.7 billion reais this year



**Mexico**

**US and Mexican officials express increased optimism about passage of USMCA before the end of the year**, after a day of meetings in Washington, DC. Finance Minister Herrera stated he hopes the US Congress will vote on the trade bill by early November, in an interview on Thursday. Trump advisor Larry Kudlow also announced that he believes the bill will pass before Thanksgiving (late November). In a letter to the US House of Representatives, Mexico's President Lopez Obrador (known as AMLO) pledged close to \$1 billion to implement new labor regulations domestically, a key concern for Democratic interest groups. AMLO also pledged to raise real wages by 2% annually, even with large minimum wage hikes over the last year (100% in border regions) being cited by central bank officials as a key reason for elevated core inflation that has prevented more aggressive policy easing. Market reaction has been limited.



## List of GMM Contributors

*Global Markets Analysis Division, MCM Department*

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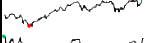



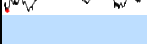











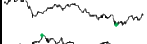




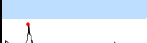






<b>Anna Ilyina</b> <i>Division Chief</i>	<b>Dimitris Drakopoulos</b> <i>Financial Sector Expert</i>	<b>Jochen Schmittmann</b> <i>Senior Economist</i>
<b>Peter Breuer</b> <i>Deputy Division Chief</i>	<b>Mohamed Jaber</b> <i>Senior Financial Sector Expert</i>	<b>Juan Solé</b> <i>Senior Economist</i>
<b>Will Kerry</b> <i>Deputy Division Chief</i>	<b>David Jones</b> <i>Senior Financial Sector Expert</i>	<b>Jeffrey Williams</b> <i>Senior Financial Sector Expert</i>
<b>Evan Papageorgiou</b> <i>Deputy Division Chief</i>	<b>Sanjay Hazarika</b> <i>Senior Financial Sector Expert</i>	<b>Akihiko Yokoyama</b> <i>Senior Financial Sector Expert</i>
<b>Sergei Antoshin</b> <i>Senior Economist</i>	<b>Frank Hespeler</b> <i>Senior Financial Sector Expert</i>	<b>Martin Edmonds</b> <i>Senior Data Mgt Officer</i>
<b>John Caparusso</b> <i>Senior Financial Sector Expert</i>	<b>Rohit Goel</b> <i>Financial Sector Expert</i>	<b>Yingyuan Chen</b> <i>Senior Research Officer</i>
<b>Sally Chen</b> <i>Senior Economist</i>	<b>Henry Hoyle</b> <i>Financial Sector Expert</i>	<b>Piyusha Khot</b> <i>Research Assistant</i>
<b>Fabio Cortés</b> <i>Senior Economist</i>	<b>Thomas Piontek</b> <i>Financial Sector Expert</i>	<b>Xingmi Zheng</b> <i>Research Assistant</i>
<b>Reinout De Bock</b> <i>Economist</i>	<b>Patrick Schneider</b> <i>Research Officer</i>	

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## Global Financial Indicators

Last updated: 10/18/19 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2998	0.3	2	0	8	20
Europe		3589	0.0	1	2	12	20
Japan		22493	0.2	4	2	-1	12
China		2938	-1.3	-1	-2	18	18
Asia Ex Japan		69	0.6	3	1	9	8
Emerging Markets		42	-0.4	3	1	7	8
<b>Interest Rates</b>			basis points				
US 10y Yield		1.77	1.2	4	-3	-141	-91
Germany 10y Yield		-0.37	3.6	7	14	-79	-61
Japan 10y Yield		-0.15	0.1	7	8	-27	-16
UK 10y Yield		0.73	5.1	2	9	-81	-55
<b>Credit Spreads</b>			basis points				
US Investment Grade		121	-0.2	-4	-10	21	-26
US High Yield		451	-0.3	-8	8	104	-70
Europe IG		48	1.4	-1	-3	-12	-39
Europe HY		248	4.4	5	-22	-34	-104
EMBIG Sovereign Spread		331	-2.0	-5	-2	-17	-83
<b>Exchange Rates</b>			%				
USD/Majors		97.45	-0.2	-1	-1	2	1
EUR/USD		1.10	0.2	0	0	-6	-4
USD/JPY		108.6	0.1	0	0	3	1
EM/USD		61.0	0.2	1	0	-2	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		60	0.6	0	-5	-24	12
Industrials Metals (index)		116	-1.4	-2	2	1	6
Agriculture (index)		38	-0.9	2	0	-7	-8
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.1	0.3	-3.5	0.1	-6.0	-11.4
10y Treasury Volatility Index		6.0	0.1	1.1	0.0	2.7	1.4
Global FX Volatility		7.2	0.0	0.1	-0.9	-1.5	-1.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		199	-3.2	-21	-66	-159	-217
Italy		140	7.5	-17	-68	-99	-110
Portugal		77	1.9	-6	-3	-60	-71
Spain		76	1.8	-5	-1	-27	-42




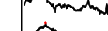

































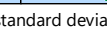
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 10/18/2019 8:31 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		7.08	-0.1	0.1	0	-2	-3		3.2	-1.0	3	9	-36	2	
Indonesia		14148	0.0	-0.1	-1	7	2		7.3	-1.7	-10	-8	-145	-90	
India		71	0.0	-0.2	0	3	-2		6.8	2.3	2	0	-123	-63	
Philippines		51	0.2	0.6	2	5	2		4.3	-0.3	0	-7	-228	-199	
Thailand		30	0.0	0.3	1	8	7		1.6	2.9	6	0	-131	-105	
Malaysia		4.19	-0.2	0.0	0	-1	-1		3.4	-0.2	0	2	-68	-68	
Argentina		58	0.1	-0.6	-3	-38	-35		57.9	38.9	14	-1388	3649	3489	
Brazil		4.15	0.3	-1.0	-1	-10	-7		5.8	-9.5	-33	-72	-299	-234	
Chile		710	0.3	0.1	1	-5	-2		3.0	15.1	23	20	-189	-146	
Colombia		3451	0.2	0.2	-2	-11	-6		5.7	-4.0	5	3	-99	-78	
Mexico		19.19	0.1	0.7	1	0	2		6.9	2.8	8	-33	-117	-177	
Peru		3.3	0.4	0.5	0	0	1		4.2	1.8	3	-19	-156	-153	
Uruguay		37	0.0	-0.4	-2	-12	-13		10.8	-12.1	-12	15	23	6	
Hungary		297	0.3	1.4	2	-5	-6		1.1	-1.3	3	1	-161	-108	
Poland		3.85	0.1	1.4	2	-2	-3		1.8	-0.4	6	-9	-76	-47	
Romania		4.3	0.1	0.9	1	-4	-5		3.8	-1.0	0	8	-81	-43	
Russia		64.0	0.3	0.4	0	3	8		6.5	-2.4	-6	-36	-181	-189	
South Africa		14.8	0.4	0.0	-1	-2	-3		9.3	-1.9	1	-2	-39	-25	
Turkey		5.78	0.8	1.8	-2	-3	-9		15.2	-33.0	81	51	-418	-172	
US (DXY; 5y UST)		97	-0.2	-0.9	-1	2	1		1.58	0.3	2	-10	-145	-93	

	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		2938	-1.3	-1	-2	18	18		186	-1	-2	2	4	-8	
Indonesia		6192	0.2	1	-1	6	0		176	-2	-3	11	-21	-60	
India		39298	0.6	3	7	13	9		136	1	4	1	-25	-60	
Philippines		7885	-0.6	0	0	10	6		74	-2	-1	11	-31	-47	
Malaysia		1571	-0.2	1	-2	-10	-7		127	1	2	7	4	-35	
Argentina		31995	4.0	5	6	13	6		2014	0	125	-82	1350	1199	
Brazil		105016	-0.4	3	0	25	19		229	-1	-5	9	-30	-44	
Chile		5172	0.4	1	2	1	1		132	-1	-4	1	4	-34	
Colombia		1579	-0.1	0	-1	8	19		178	-1	0	1	-6	-50	
Mexico		43480	-0.1	1	1	-8	4		304	-1	-7	-13	41	-50	
Peru		19299	-0.3	1	-1	1	0		124	-2	-2	8	-23	-44	
Hungary		40607	-0.3	1	-1	8	4		93	0	1	8	-22	-55	
Poland		56963	-0.6	0	-2	1	-1		29	2	0	9	-32	-56	
Romania		9567	0.1	0	3	11	30		186	1	-6	3	4	-35	
Russia		2757	0.3	2	-2	16	16		183	-1	-7	2	-34	-69	
South Africa		56077	0.1	1	0	8	6		319	-2	-6	17	11	-46	
Turkey		98398	3.7	-1	-3	1	8		479	-20	-12	-3	39	50	
Ukraine		522	-0.6	-1	1	-7	-7		481	-5	-14	21	-80	-306	
EM total		42	-0.4	3	1	7	8		331	-2	-5	-2	-17	-83	

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

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