










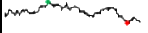

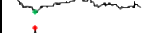
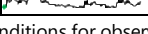
- **Weak US manufacturing data at 10-year low surprise markets** ([link](#))
- **Sharp decline in US breakeven yields signals growing economic worries** ([link](#))
- **ECB launches new short-term benchmark interest rate** ([link](#))
- **Japan's Post Bank increases exposure to US collateralized debt obligations** ([link](#))
- **Peru approaches constitutional crisis** ([link](#))

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

## Disappointing US Data Roils Global Risk Sentiment

**Weaker than expected US manufacturing data have shaken financial markets, leading to a global sell-off in risk assets.** The US ISM Manufacturing print of 47.8 (a 10-year low) raised concerns among investors that escalating political and trade tensions may be materially affecting US economic output, at a time when Europe and Asia have also been showing troubling signs of an economic slowdown. Global equities sold off following the data release, with the S&P 500 dropping by 1.2% yesterday (equity futures also pointing to a negative start this morning) and European, Japanese, as well as Emerging Markets equities all following the US markets lower today. Conversely, safe haven assets have been bid up, with the demand for US Treasuries pushing down yields on 2-Year and 10-Year bonds by about 13 bps and 10 bps, respectively. The Japanese yen has also appreciated by about 1% against the USD and Gold has rallied by close to 2%. Investors' concerns are not likely to be assuaged by the increasingly confrontational tone of the US impeachment proceedings, the lack of breakthroughs in Brexit negotiations and the continued uncertainty surrounding US-China trade relations. All eyes will now be focused on Friday's release of the Non-Farm Payrolls Report for a clearer reading on the state of the US economy.

Key Global Financial Indicators

Last updated: 10/2/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2940	-1.2	-1	0	1	17
Eurostoxx 50		3468	-1.4	-1	1	2	16
Nikkei 225		21779	-0.5	-1	6	-10	9
MSCI EM		41	-1.2	-2	1	-4	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.62	-2.9	-12	13	-144	-106
Germany 10y Yield		-0.54	2.3	3	16	-96	-78
EMBIG Sovereign Spread		347	4	-1	-6	10	-67
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		60.1	0.0	-1	0	-3	-4
Dollar index, (+) = \$ appreciation		99.2	0.1	0	0	4	3
Brent Crude Oil (\$/barrel)		59.1	0.3	-5	1	-30	10
VIX Index (% change in pp)		19.5	0.9	4	0	7	-6

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

## United States

[back to top](#)

**ISM manufacturing data were much weaker than expected, surprising markets and triggering a large move in Treasuries while pushing equity prices lower.** The headline number came in at 47.8 versus the forecast of a 50 print. Numbers below 50 are considered to be in recessionary territory and this is the weakest report since June 2009. The Prices Paid component of the ISM was also weaker than forecasts (49.7 versus 50.5) and also in recessionary territory. Contacts are debating whether the weakness is confined to the relatively small manufacturing sector or whether there is a danger of spillovers to the much larger services sector and employment more generally. Treasuries had been selling off early in the day but the surprising data caused an abrupt reversal, catching some market participants off guard. Stocks were up 0.9% in early trading but after the ISM number the major indexes ended up 1.1-1.3% lower. Yesterday's data are emblematic of the increasingly difficult conditions facing markets, with a global slowdown, the US-China dispute, Brexit, and the latest political developments in Washington. More weak numbers could undercut the widely held belief that the US economy still remains strong even though the rest of the world is decelerating.

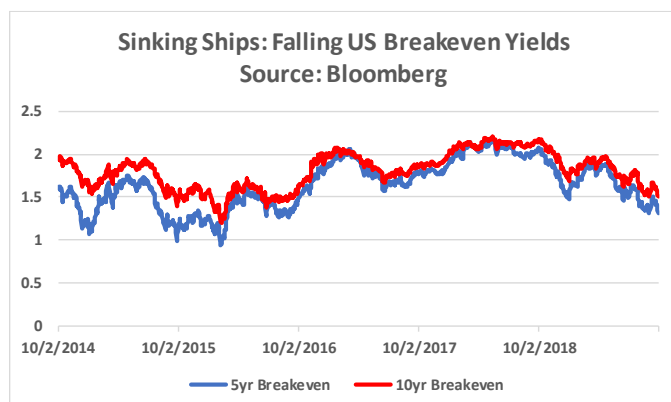
### Intraday Treasury Market Moves

Source: Bloomberg

	Before ISM	After ISM
2yr	+6 bps	-13 bps
5yr	+7 bps	-16 bps
10yr	+8 bps	-15 bps

**ADP employment figure came in slightly below expectations this morning.** The report showed a net increase of 135K jobs in September (versus 140K expected). The ADP figure for August was revised significantly lower to 157K (from 195K previously), introducing further uncertainty about the US labor market and focusing investors' minds on the release of Non-Farm Payrolls Report on Friday. Market reaction to the data print was generally muted.

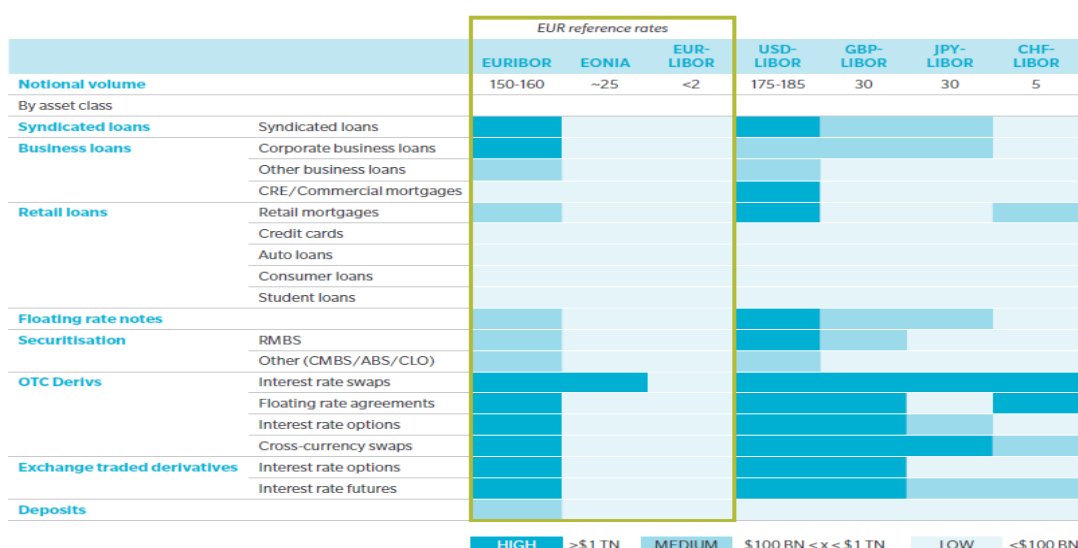
**US breakeven yields have fallen back to levels last seen in 2016, another market indicator of potential weakness in the US economy.** The breakeven yield is the difference between the yield on regular Treasury notes and the yield on the equivalent maturity Treasury Inflation Protected Securities (TIPS) yield. The benchmark five-year and ten-year breakevens are viewed as an important market gauge of future inflation and the health of the economy. Both yields have fallen well below the Fed's targeted inflation level of 25 since the end of last year and the decline has speeded up in recent weeks. Even the recent rally in oil prices due to the attack on Saudi oil fields (which has since reversed) failed to alter this trend.



**The transition away from Libor is an important process currently underway in major global markets.** Libor is one of the most important global financial benchmarks, underpinning over \$300 tn of financial instruments in five currencies (dollars, euros, sterling, Swiss franc and yen). Problems relating to efficiency and transparency and the attendant legal consequences caused regulators worldwide to decide to abolish Libor and replace it with more transparent and efficient benchmarks. Libor will cease to be active by the end of 2021, but a significant number of instruments will still be active as their maturities fall beyond that date. Markets and regulators are working together to develop new benchmarks and their attendant financial instruments, while developing protocols to move pre-existing transactions away from Libor to the new benchmarks. In the US, the Libor replacement nominated by the authorities is the Secured Overnight Financing Rate (SOFR), which is developing rapidly and already has an active market in short term trading and a growing futures market. In the UK, markets are transitioning to a new reformed Sterling Overnight Index Average (SONIA). In the euro area, the new Euro Short Term Rate (€STR) benchmark begins trading today (see details below). There are \$253 bn of SOFR linked bonds outstanding and £37 bn of SONIA linked bonds. Daily trading volume for SOFR futures is \$1-1.4 tn and volumes for SONIA futures are in the £40-60 bn range.

Exhibit 3: Notional outstanding balances by reference rate

Order of magnitude  
US\$ Trillion



Source: Oliver Wyman analysis, data as available as of December 2017 and updated to reflect estimates from the 2nd and 3rd meetings of the working group on euro risk-free rates

## Europe

[back to top](#)

**European equities plunged on the back of recent weak global manufacturing data on lingering political uncertainties.** DAX (-1.2%), CAC 40 (-1.5%), EuroStoxx 600 (-1.4%). Bank stocks (-1.0%) slightly outperformed. **Equities in the UK also performed poorly** as a flurry headlines suggest PM Johnson's new Brexit proposal will not be accepted by the EU (see below). The FTSE 100 dropped 1.8% and the FTSE 250 1.1%.

**Core sovereign debt markets were largely stable.** German 10-year yields -0.54% (+2 bps); French OATs -0.24% (+2 bps).

On the Brexit front, **PM Johnson is expected to announce a take-it-or-leave-it offer on the Irish border to the EU today.** The leaked proposal would set up "two borders for four years." The arrangement will thus entail a 'regulatory' border between Great Britain and Northern Ireland in the Irish Sea and customs checks between the Republic of Ireland and Northern Ireland. Therefore, goods traveling from Great Britain into

Northern Ireland, and from Northern Ireland into Ireland, would be checked to ensure they comply with EU regulations. The borders will be effective until 2025. Irish authorities have described the plan as “worrying and concerning.” **The pound is trading 0.5% lower today at \$1.22, while 10-year gilt yields gained 3 bps to 0.50%.** Amid the acrimonious political rhetoric, researchers at JP Morgan see **higher chances of a general election (60% chance) and a Brexit extension (85% chance).**

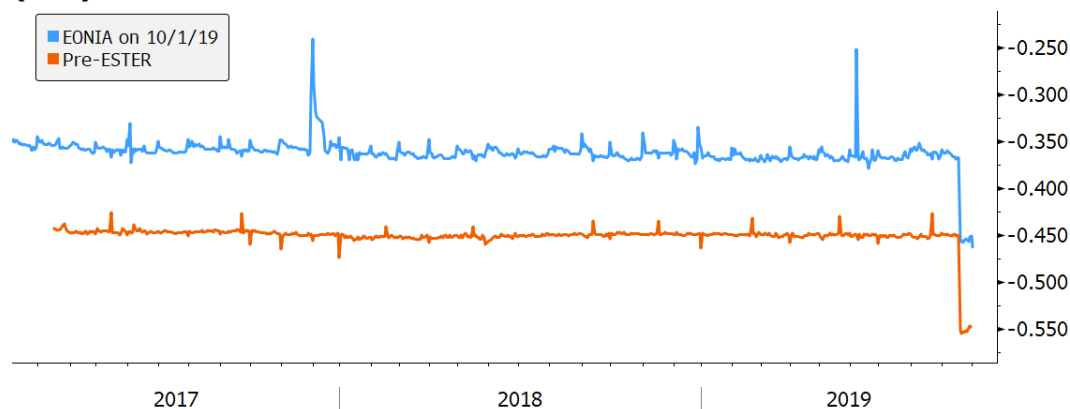
### Scenarios for Brexit at end October 2019

Scenario	Probability (%)	Old probability (%)
No deal, reversion to WTO norms to govern trade	10	25
Exit on terms specified by Withdrawal Agreement	5	15
As currently configured	0	5
With "softer" political declaration	0	5
With modified/time-limited Irish backstop	5	5
Further Article 50 extension, owing to:	85	60
General election	60	30
Second referendum	10	10
Other	10	20

Source: J.P. Morgan

The ECB **launched** today its new short-term benchmark interest rate **ESTER (€STR)**. The rate fixed at -0.54%, in line with the new ECB deposit rate of -0.50%. The rate calculation was based on over 400 transactions with notional of €36 bn and among 32 banks. Most traders expect a smooth transition into the new benchmark regime given (i) the long pre-ESTER period designed by the ECB (since March 2017) and (ii) the existing EONIA infrastructure which will be used for ESTER. EONIA will be phased out on Jan. 3, 2022.

### Interest Rate Benchmarks: EONIA and Pre-ESTER (in %)

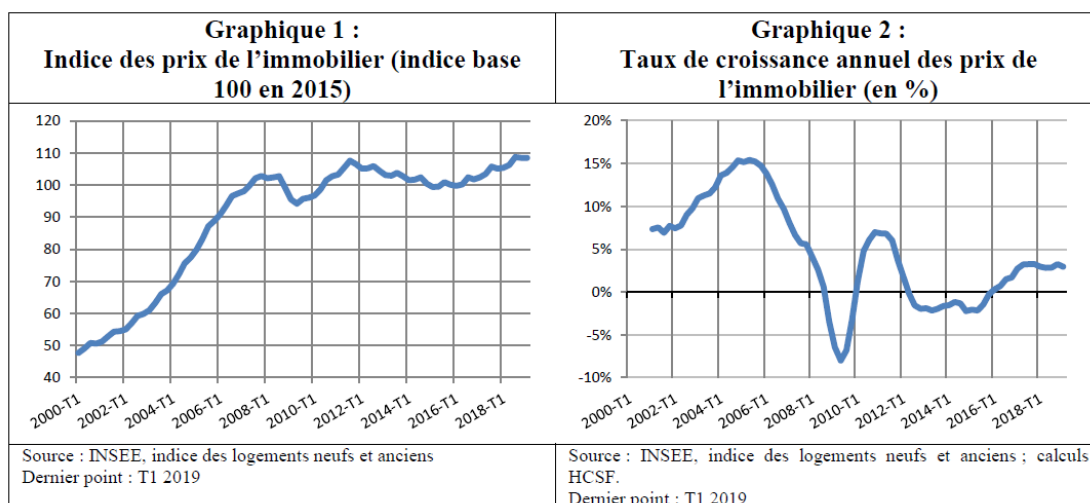


Source: Bloomberg  
S0133FS 1Y1Y BLC Curncy (EUR Eonia Forward 1Y1Y) Rates: EONIA Index Daily 02FEB

Copyright© 2019 Bloomberg Finance L.P.

02-Oct-2019 10:44:49

The French Financial Stability Board has **published** its analysis of risks in the real estate sector. The Board did not find clear signs of overvaluation and believes there are no first-order risks for financial stability. It noted, however, the increase in some lending practices (e.g., longer maturities and higher indebtedness levels) that could lead to rising risks.



**The Danish Systemic Risk Council has recommended raising the countercyclical capital buffer rate for banks from 1.5% to 2% by end-2020.** Mortgage rates in Denmark have fallen in recent months to historical lows.

## Other Mature Markets

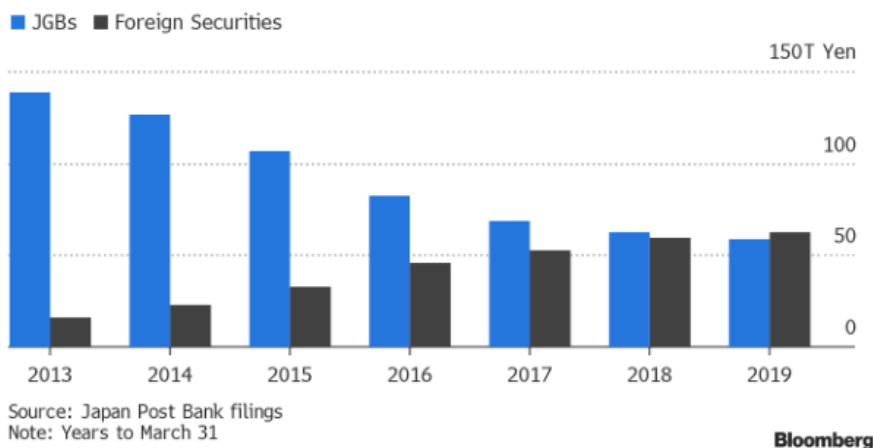
[back to top](#)

### Japan

**Japanese equities were gripped by risk-off sentiment**, pushing the Topix and Nikkei indices 0.5% lower today. Investors' sentiment was weakened by recent poor manufacturing data out of some of the major economies. **The 10-year yield on JGBs dropped 2 bps to -0.16%.**

**Japan's Post Bank is reportedly increasing its exposure to US collateralized debt obligations (CDOs).** According to news outlets, Post Bank is seeking to shift its investment strategy away from mutual funds heavily invested in US corporate debt and into higher-rated CDO tranches. Post Bank's CDO investments are thus seen as safer than its existing corporate loans as the former offer higher ratings and have longer maturities than corporate loans. Post Bank is one of the Japan's largest institutional investors, with a portfolio of about \$2 tn, 30% of which is invested in foreign assets. **Equities of Japan Post Bank are 0.3% higher today.**




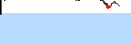






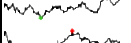

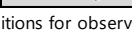

### Foreign securities overtook JGBs in Japan Post's portfolio last year



## Emerging Markets [back to top](#)

**Emerging markets equities plunged today weighed by mounting concerns about global manufacturing activity.** Asian bourses saw large losses in South Korea (-2.0%), Philippines (-1.9%), China (-1.0%) and India (-1.0%). Other bourse saw smaller losses, of about 0.6%-0.8%. **EMEA** equities also plunged across the region, with large losses in Poland (-1.5%), South Africa (-1.4%), Czech Republic (-1.3%), and Bulgaria (-1.3%). Currencies, on the other hand remained remarkably stable, with moves in the  $\pm 0.3\%$  range. **Latin American markets** generally weakened on negative sentiment in the US. Brazilian and Mexican equities lost 0.7% and 0.2%, respectively. The political turmoil in Peru sent stocks 1.8-2.6% lower. Regional currencies weakened by up to 0.6% (Argentina, Peru). Government bond yields edged higher, except a 5 bp decline in the Brazilian 10-year bond yield.

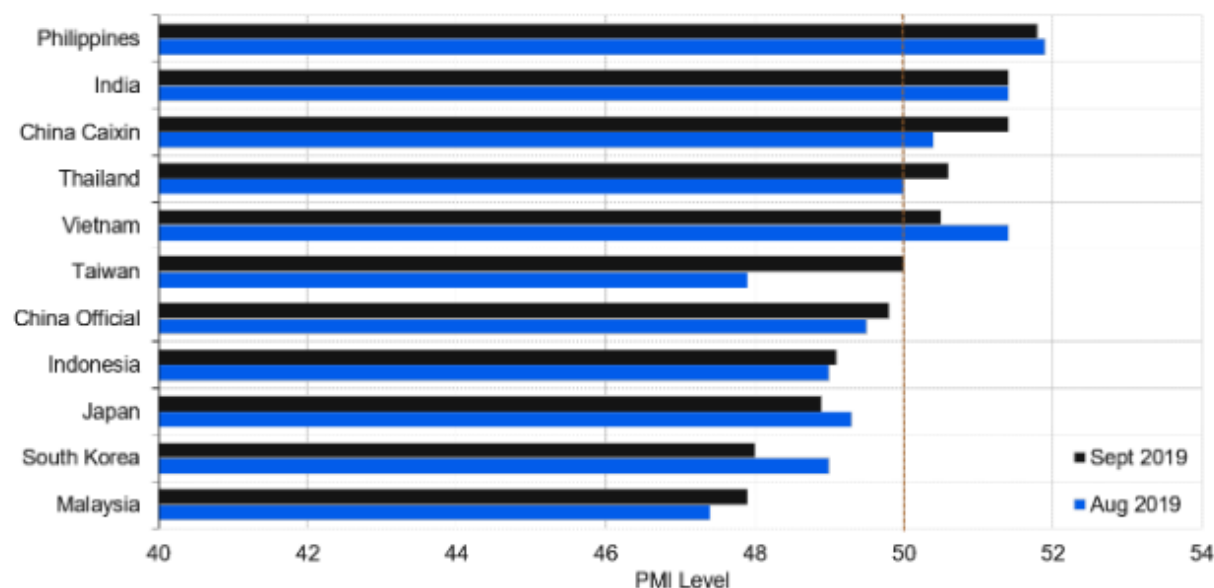
Key Emerging Market Financial Indicators

Last updated: 10/2/19 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		40.58	-1.2	-2	1	-4	4
MSCI Frontier Equities		28.02	-0.4	0	-3	-2	7
EMBIG Sovereign Spread (in bps)		347	4	-1	-6	10	-67
EM FX vs. USD		60.06	0.0	-1	0	-3	-4
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.15	-0.4	0	0	-4	-4
Indonesian Rupiah		14197	0.1	0	0	6	1
Indian Rupee		71.08	-0.3	0	0	3	-2
Argentina Peso		57.65	-0.1	-1	-3	-32	-35
Brazil Real		4.17	-0.3	-1	0	-6	-7
Mexican Peso		19.82	0.0	-1	2	-5	-1
Russian Ruble		65.18	0.1	-2	2	0	7
South African Rand		15.25	0.5	-2	0	-6	-6
Turkish Lira		5.73	-0.1	-1	1	5	-8
EM FX volatility		8.12	0.0	-0.1	-0.7	-2.1	-1.7

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

## Asia

**Gauges of manufacturing activity disappointed in various Asian economies.** Widely-followed PMI indicators remained in contractionary territory in September in China, Japan, South Korea, Indonesia, and Malaysia. Even Vietnam, which remains in expansionary mode, saw a large drop in activity. The poor performance of the manufacturing sector across these emerging markets adds to mounting concerns among global investors about an economic slowdown in the US and Europe.



### China

In **China FX trading**, the onshore CNY traded at 7.14 (-0.4% weaker to the dollar) while the off-shore rate stood little changed at 7.15 (-0.1%).

### Peru

The country approached a constitutional crisis after President Vizcarra dissolved parliament, based on Bloomberg reporting. The opposition-controlled Congress earlier approved a no-confidence vote that demanded the suspension of President Vizcarra. Analysts expect that in the coming weeks either President or Congress will prevail. In the meantime, Peruvian assets are anticipated to take losses, especially given that foreign ownership of local bonds is high, and the instability may require additional FX hedging. Corporates are reportedly more protected, as most firms are in energy, mining, and utilities.

### Poland

**The Polish central bank kept interest rates at 1.5%, as expected.** The CBP maintained record-low rates even as growth is above 4% a year and the government contemplates new spending measures. The CBP will hold a press briefing later today. The zloty was slightly stronger to the euro this morning at 4.36/euro (+0.2%).



## List of GMM Contributors

*Global Markets Analysis Division, MCM Department*

---

<b>Anna Ilyina</b> <i>Division Chief</i>	<b>Mohamed Jaber</b> <b>Senior Financial Sector Expert</b>	<b>Juan Solé</b> <i>Senior Economist</i>
<b>Peter Breuer</b> <i>Deputy Division Chief</i>	<b>David Jones</b> <i>Senior Financial Sector Expert</i>	<b>Ilan Solot</b> <i>Financial Sector Expert</i>
<b>Will Kerry</b> <i>Deputy Division Chief</i>	<b>Sanjay Hazarika</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>Frank Hespeler</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>Rohit Goel</b> <i>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>Henry Hoyle</b> <i>Financial Sector Expert</i>	<b>Yingyuan Chen</b> <i>Senior Research Officer</i>
<b>Sally Chen</b> <i>Senior Economist</i>	<b>Robin Koepke</b> <i>Economist</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>Dimitris Drakopoulos</b> <i>Financial Sector Expert</i>	<b>Jochen Schmittmann</b> <i>Senior Economist</i>	

---

**Disclaimer:** This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.



## Global Financial Indicators

Last updated: 10/2/19 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		2940	-1.2	-1	0	1	17
Europe		3468	-1.4	-1	1	2	16
Japan		21779	-0.5	-1	6	-10	9
China		2905	-0.9	-2	1	3	16
Asia Ex Japan		66	-0.6	-2	1	-5	4
Emerging Markets		41	-1.2	-2	1	-4	4
<b>Interest Rates</b>			basis points				
US 10y Yield		1.62	-2.9	-11	13	-144	-106
Germany 10y Yield		-0.54	2.3	3	16	-96	-78
Japan 10y Yield		-0.16	-1.5	9	10	-29	-17
UK 10y Yield		0.52	4.6	-2	10	-101	-76
<b>Credit Spreads</b>			basis points				
US Investment Grade		128	0.2	-3	-6	31	-19
US High Yield		474	2.5	20	-9	150	-47
Europe IG		56	1.2	0	7	-13	-31
Europe HY		238	3.5	6	-14	-41	-115
EMBIG Sovereign Spread		347	4.0	-1	-6	10	-67
<b>Exchange Rates</b>			%				
USD/Majors		99.22	0.1	0	0	4	3
EUR/USD		1.09	0.0	0	0	-5	-5
USD/JPY		107.5	0.2	0	-1	6	2
EM/USD		60.1	0.0	-1	0	-3	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		59	0.3	-5	1	-30	10
Industrials Metals (index)		114	-0.3	-1	0	-6	5
Agriculture (index)		39	-0.4	2	5	-9	-6
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		19.5	0.9	3.5	0.5	7.4	-6.0
10y Treasury Volatility Index		5.7	0.4	0.0	0.4	2.2	1.1
Global FX Volatility		7.2	0.0	0.0	-0.9	-1.0	-1.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		190	-2.1	-1	-41	-198	-225
Italy		143	0.3	1	-24	-160	-108
Portugal		72	-2.0	-1	-12	-76	-76
Spain		70	-1.2	0	-13	-41	-47










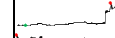













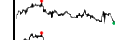




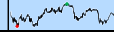

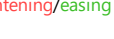
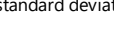






Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 10/2/2019 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		7.15	-0.4	-0.4	0	-4	-4		3.2	0.0	6	10	-44	0
Indonesia		14197	0.1	-0.3	0	6	1		7.4	-0.1	-2	-8	-78	-78
India		71	-0.3	-0.1	0	3	-2		6.8	-5.2	-8	10	-131	-63
Philippines		52	-0.1	0.5	0	4	1		4.3	-0.9	-2	-4	-208	-196
Thailand		31	0.0	-0.4	0	6	6		1.5	0.2	0	1	-135	-111
Malaysia		4.19	0.0	-0.1	0	-1	-1		3.4	-0.6	-14	6	-68	-70
Argentina		58	-0.1	-1.3	-3	-32	-35		66.1	-1.6	-31	761	4195	4314
Brazil		4.17	-0.3	-0.6	0	-6	-7		6.3	-0.3	-10	-47	-364	-180
Chile		729	0.0	-0.1	-1	-10	-5		2.9	1.5	5	13	-195	-161
Colombia		3496	-0.5	-1.7	-1	-14	-7		5.7	-0.3	4	-8	-95	-86
Mexico		19.82	0.0	-1.3	2	-5	-1		7.0	2.7	0	-10	-91	-169
Peru		3.4	-0.6	-1.4	1	-2	-1		4.4	4.9	7	5	-121	-129
Uruguay		37	-0.2	-0.7	-1	-10	-13		10.7	9.0	16	-49	24	0
Hungary		306	0.4	-0.1	-1	-9	-8		1.1	3.3	14	8	-152	-109
Poland		4.00	0.1	0.1	-1	-7	-7		1.8	0.7	-3	11	-79	-47
Romania		4.3	-0.1	-0.2	-1	-7	-7		3.8	2.0	3	10	-55	-47
Russia		65.2	0.1	-1.6	2	0	7		6.9	0.9	0	-8	-135	-155
South Africa		15.3	0.5	-1.7	0	-6	-6		9.4	2.4	9	5	-22	-16
Turkey		5.73	-0.1	-1.0	1	5	-8		13.5	28.7	-57	-229	-616	-336
US (DXY; 5y UST)		99	0.1	0.2	0	4	3		1.47	-2.0	-14	8	-148	-104

	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		2905	0.0	-2	1	3	16		188	1	-1	2	5	-6
Indonesia		6055	-1.3	-1	-4	3	-2		188	-2	14	7	4	-48
India		38305	0.0	-2	3	5	6		135	4	4	-4	-28	-61
Philippines		7611	-1.7	-4	-4	7	2		80	-3	10	-1	-15	-41
Malaysia		1575	-0.9	-1	-2	-12	-7		126	2	0	3	-3	-36
Argentina		30066	3.4	8	15	-8	-1		2171	6	-48	-362	1541	1356
Brazil		104053	-0.7	0	3	27	18		251	4	15	10	-31	-22
Chile		5043	-0.3	1	6	-5	-1		143	0	3	9	20	-23
Colombia		1582	0.3	-1	1	5	19		190	0	6	11	22	-38
Mexico		42937	-0.2	0	2	-13	3		325	1	6	-8	68	-29
Peru		19250	-1.8	-1	0	-2	-1		142	1	21	20	9	-26
Hungary		39799	-0.8	-2	0	8	2		107	3	12	2	-5	-41
Poland		56115	-1.3	-2	-1	-5	-3		41	1	7	3	-7	-44
Romania		9506	-0.5	0	3	12	29		199	5	5	-14	30	-22
Russia		2740	-0.7	-1	-1	12	16		201	3	15	-7	-9	-51
South Africa		54282	-1.2	-1	-1	-2	3		343	4	12	24	46	-22
Turkey		103444	-0.4	1	5	5	13		481	8	3	-46	46	52
Ukraine		525	0.0	0	-1	-2	-6		530	16	30	26	-26	-257
EM total		41	-1.2	-2	1	-4	4		346	3	-2	-7	9	-68

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

[back to top](#)