













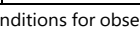
- Additional US MMF reforms are being actively discussed ([link](#))
- Italian bonds remain under pressure ahead of the S&P credit review on Friday ([link](#))
- Europe's first social bonds see record demand ([link](#))
- The Australian and New Zealand dollar weaken on dovish comments from policymakers ([link](#))
- Japanese equities and bonds see strong foreign demand ([link](#))
- China's benchmark loan rates are unchanged as expected ([link](#))
- Chilean peso appreciates on reports of pension fund reallocation into local assets ([link](#))

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Markets cautious amid US stimulus uncertainty

US equity futures opened modestly higher this morning on some hopes for a deal in US stimulus talks, while European bourses were mixed as a string of positive corporate earnings releases were offset by the ongoing concerns about the rise in COVID-19 cases. S&P 500 index futures gained in early trading on speculation differences between democrats and republicans were “narrowing” in talks about a coronavirus relief deal ahead of tonight’s deadline. In Europe, shares in UBS and Swedbank gained on better-than-expected earnings, while shares in Logitech surged on improving sales forecasts. The VIX fell 0.8 percentage points but remains well above historical averages at 28.4, while US Treasury yields were marginally higher. Emerging markets were also mixed this morning, with China’s loan prime rates left unchanged, as expected.

Key Global Financial Indicators

Last updated: 10/20/20 8:13 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3427	-1.6	-3	3	15	6
Eurostoxx 50		3242	0.0	-1	-1	-9	-13
Nikkei 225		23567	-0.4	0	1	5	0
MSCI EM		45	-0.3	-2	2	9	1
Yields and Spreads			bps				
US 10y Yield		0.78	1.0	5	9	-97	-114
Germany 10y Yield		-0.62	1.0	-6	-13	-24	-43
EMBIG Sovereign Spread		404	0	-16	-13	68	111
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.8	0.0	0	-1	-10	-11
Dollar index, (+) = \$ appreciation		93.3	-0.2	0	0	-4	-3
Brent Crude Oil (\$/barrel)		42.6	-0.1	0	-1	-28	-35
VIX Index (% change in pp)		28.4	-0.8	2	3	14	15

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

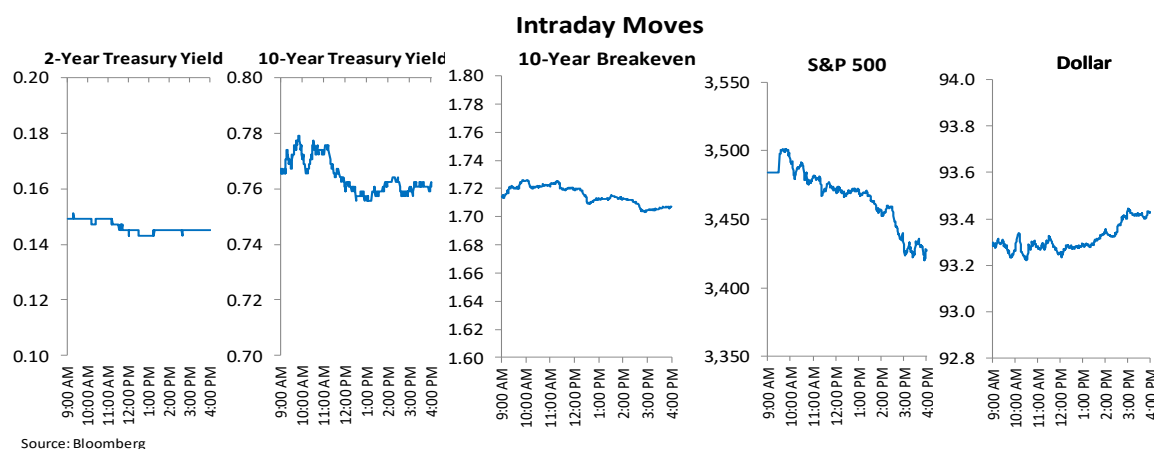
United States

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Equities fell to an almost two-week low on Monday, as the timeframe to reach a compromise on a coronavirus relief deal before the presidential election narrows. Over the weekend, House Speaker Nancy Pelosi set a Tuesday deadline to reach an agreement with the White House. However, disagreement remains on the language of a stimulus package. Even if Pelosi and Treasury secretary Mnuchin can reach a deal, the Republican-controlled Senate has signaled opposition to a large bill and could oppose a possible agreement. Both Mnuchin and Pelosi spoke on Monday afternoon, with Pelosi reportedly tasking committee chairs to reconcile differences with their GOP counterparts on critical areas.

The S&P 500 closed 1.6% lower yesterday and the VIX climbed higher to 29.2 ppts, well above its historical average. The weak performance was broad-based, with tech shares continuing to trade lower and the tech-heavy Nasdaq index declining five days in a row. Analysts argued the antitrust stances of both presidential candidates present risks to tech companies. Given that ongoing structural changes in the economy may lead to even stronger technology firms, the risk of further antitrust scrutiny may only grow from here, whichever candidate wins the election. In the House of Representatives' latest investigation ([link](#)), Democrats compared tech titans to monopolies from "the era of oil barons and railroad tycoons."

US Treasury 10-year yields rose 1.5 bps and the yield curve steepened. Heavy corporate bond issuance seemed to weigh on the market, including a \$4.75 bn multi-tranche offering from T-Mobile. Proxies for option-implied volatility in US Treasuries -such as the MOVE index- climbed to highest level since mid-June. On the economic data front, **September housing starts this morning was weaker-than-expected** (1,415k vs. 1,465k expected) and included a downward revision for the previous month. US Treasury 10-year yields rose 0.5 bps immediately following the release.



Additional reforms for the short-term funding markets are being actively discussed. A virtual SEC roundtable and Fed Vice Chair for supervision Quarles's speech last week both highlighted the structural vulnerabilities that were exposed in short-term funding markets in March. Of note, for money market funds (MMFs), there have suggestions to consider the decoupling of the 30% weekly liquidity assets (WLA) requirement from the board decision to impose fees and/or gates. While the SEC's 2010 and 2014 MMF reforms made important changes, the inclusion of a 30% liquidity test proved problematic during the Covid-triggered market turmoil in March. This has the potential to cause investors to redeem before the so-called "bright line" is crossed, increasing the incentives for 'first-mover advantage' that could lead to investors rushing to redeem before a fund's liquidity resources are depleted. As a result, there could be a need for more guidance on implementing some sort of counter cyclical liquidity buffer that could address this problem. Beyond MMFs, one panelist at the SEC roundtable suggested that regulators should consider including commercial paper (CP) as a form of HQLA. The CP markets remain an unstable source of funding in times of stress.

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Equity markets in Europe lacked direction this morning with Euro STOXX 50 unchanged and main country indices trading within a 0.5% range. At a sector level, **banks stocks were outperforming (+0.8%)** after UBS and Swedbank earnings beat analyst estimates. Energy shares (-0.5%) were underperforming following OPEC+ warning of a precarious market outlook.

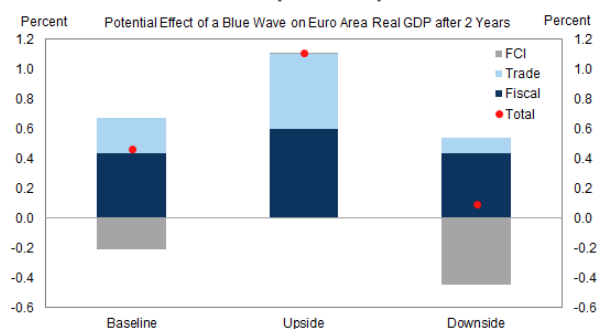
The euro (+0.5%) strengthened back above 1.18 against the dollar and the sterling (+0.1%) was little changed even as **the UK's was delaying the restart of formal trade talks** until EU provides additional concessions. Most analysts expect formal talks to resume by the end of the week.

German 10-year bund yields traded 1 bps higher and Southern European spreads continued to widen. The spread **widening in Italian sovereign bonds continues to be a focus of market contacts**, with its spread to 10-year bunds widening by 15 bps from last week lows. **Contacts continue to point to profit taking ahead of the S&P rating (BBB) review on Friday with some concerns emerging of a rating downgrade.**



A democrat “blue wave” in the US could boost European growth despite tighter financial conditions. With two weeks until the U.S. elections, and recent polls suggesting an increased probability of a democrat victory, Goldman Sachs analysts expect higher sovereign yields and a stronger euro if this scenario is realized. That said, the positive spillovers from a potentially large US fiscal package and a friendlier trade policy are seen to offset the expected tighter financial conditions, with the “blue wave” scenario boosting Euro area GDP by 0.5% in 2021-22. Analysts also expect limited implications for the ECB policy stance unless a significant strengthening of the euro is realized.

Exhibit 4: A Blue Wave Would Likely Boost European Growth



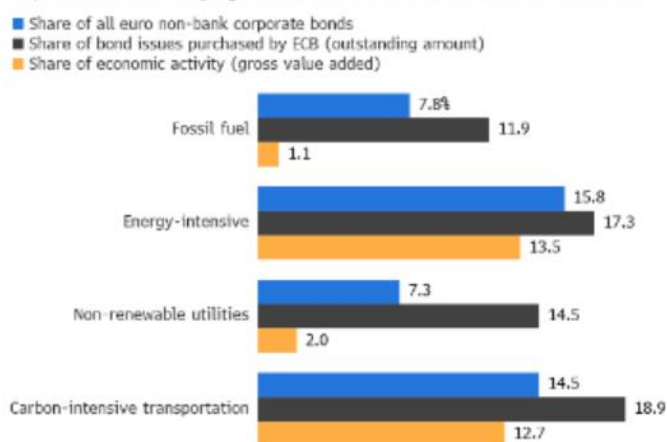
Source: Goldman Sachs Global Investment Research

The European Union's first social bond sale saw record investor demand. The dual tranche placement of 10-year (€10 bn) and 20-year (€7 bn) bonds received total bids in excess of €145 bn and €88 bn respectively. The proceeds will be used to fund the job support program. Coincidentally, the bond placement also pushed Europe's annual primary market issuance above €1.5 tn, setting a record.

ECB's corporate bond purchases are currently skewed towards carbon-intensive sectors, according to a New Economic foundation report. Analysts also point out that the ECB would have €1 tr of corporate bonds to choose from if it excludes carbon intensive companies from its purchase list. Last week, ECB's President Lagarde suggested that the market neutrality of the Corporate Sector Purchase Program (CSPP) could be reviewed as part of the upcoming central bank strategic review. The CSPP has reached €239 bn as of October 16.

ECB's "Carbon Bias"

Report finds bond buying is skewed toward carbon-intensive sectors



Source: New Economics Foundation report based on ECB, Eurostat, and other data

Bloomberg

European largest stock exchange Euronext experienced the biggest outage in more than two years. As a result of a software failure, the exchange halted its equities and derivatives trading for three hours in France, Belgium and the Netherlands on Monday. The incident follows a hardware induced shutdown at the Tokyo exchange earlier this month.

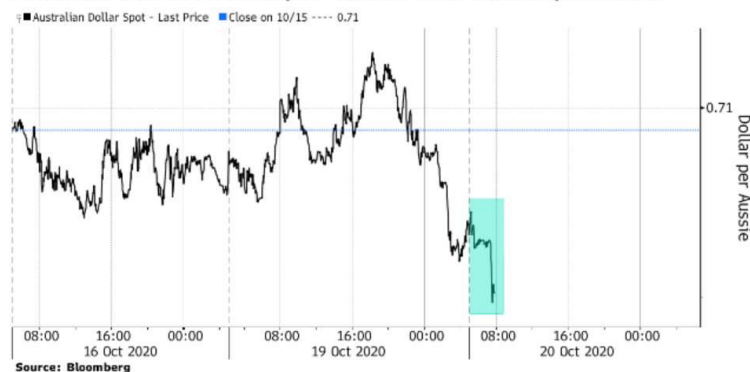
Other Mature Markets

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Australia/ New Zealand

The Australian (-0.5%) and New Zealand dollar (-0.6%) weakened following dovish comments from policymakers. The minutes from the Reserve Bank of Australia (RBA)'s October meeting mentioned that further monetary easing is likely to 'gain more traction' than before as the economy opens up and it also reiterated that addressing high unemployment is an 'important national priority.' Separately, RBA Assistant Governor Christopher Kent said in a speech that there is still room to compress short-term rates and a drop in a benchmark money market rate below zero would not be unexpected. On New Zealand, central bank Governor Adrian Orr said that the authorities are prepared to use a suite of monetary policy tools to counter deflation and are actively engaging lenders. **Australian equities fell (-0.7%) while New Zealand stocks rose (+0.6%).**

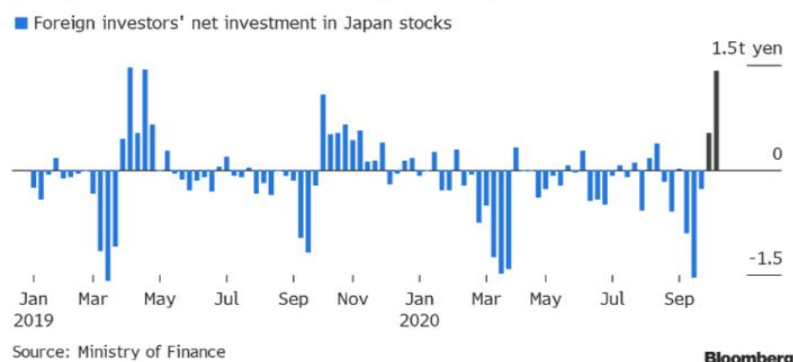
Aussie falls after RBA's Christopher Kent said rates could compress further



Japan

Equities fell (-0.8%) on broad-based losses, with utilities, energy and financials underperforming. Japanese equities saw increased foreign inflows in recent weeks. Foreign investors purchased JPY1.42 tn (\$13.5 bn) worth of Japanese stocks in the week ending October 9 (latest available data). This increased from JPY530.9 bn in the prior week and was the most in over 18 months. **Separately, Japanese government bonds (JGBs) experienced increased Chinese buying.** China-based investors bought Japanese debt for three straight months, registering at JPY2.2 tn (\$21 bn) through August, exceeding this previous high in mid-2016. Analysts attributed the purchases to the uncertain geopolitical environment. **The Bank of Japan could tweak its inflation forecasts in next week's policy meeting according to Bloomberg.** A cut in the inflation projections for the fiscal year ending in March would account for the downward pressure from PM Yoshihide Suga's Go To Travel campaign, which offers subsidized travel. **The yen was little changed and the 10-year JGB yield fell -0.5 bps.**

Foreign investors have been net buyers of Japan stocks in October



Emerging Markets

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Asian equities were flat on net in a quiet trading session. The Philippines (+1.6%) outperformed, gaining for the second straight day while China (Shanghai +0.5%; Shenzhen +1.3%) also gained. Other Southeast Asian markets, including Indonesia (-0.5%), Singapore (-0.5%) and Malaysia (-0.2%), fell.

Asian regional currencies were mixed. EMEA equities were also mixed this morning with indices up in Russia (+.8%) and Poland (+0.4%) while down in the UAE (-1.2%) and Saudi Arabia (-0.6%). **EMEA currencies were little changed** against the dollar. **Latin America's equities were mixed yesterday.** There were moderate losses in Mexico (-0.5) and Peru (-0.3%) and minor gains in Brazil (+0.4%),

Argentina (+0.3%) and Colombia (+0.3%). **Currencies** appreciated in Chile (+1.2%) and Brazil (+0.6%) and remained flat elsewhere.

Key Emerging Market Financial Indicators

Last updated: 10/20/20 8:16 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.43	0.2	-2	2	9	1
MSCI Frontier Equities		26.60	-1.1	-1	4	-6	-12
EMBIG Sovereign Spread (in bps)		404	0	-16	-13	68	111
EM FX vs. USD		54.80	-0.1	0	-1	-10	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.68	0.0	1	2	6	4
Indonesian Rupiah		14658	0.3	0	0	-4	-5
Indian Rupee		73.47	-0.1	0	0	-3	-3
Argentina Peso		77.58	-0.1	-1	-3	-25	-23
Brazil Real		5.60	0.1	-1	-3	-26	-28
Mexican Peso		21.20	0.0	1	1	-10	-11
Russian Ruble		77.98	-0.1	-1	-2	-18	-21
South African Rand		16.53	-0.1	0	1	-11	-15
Turkish Lira		7.90	-0.2	0	-3	-26	-25
EM FX volatility		10.99	0.0	-0.4	-0.3	3.2	4.4

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

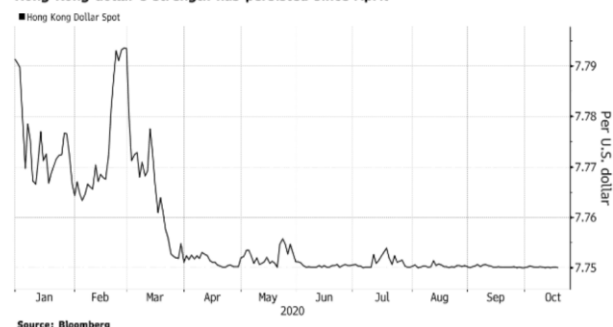
China

China's loan prime rates (LPR) were left unchanged, as expected. The 1-year LPR (benchmark for corporate lending) was held at 3.85% for the sixth straight month since April, while the 5-year rate (benchmark for mortgages) was steady since May. Separately, **new home prices grew at the slowest rate since 2016** with growth easing to 4.5% y/y in September from 4.7% y/y in August. **Equities (Shanghai +0.5%; Shenzhen +1.3%) rose while the RMB was little changed.**

Hong Kong SAR

Demand for Hong Kong dollars remains high on inflows from equity sales including the upcoming Ant Group IPO. The Hong Kong dollar has remained near the strong end of its tight trading range of HKD7.75 to 7.85 per US dollar since April. The authorities have intervened 71 times this year to prevent the currency from strengthening past the trading range, including Monday's HKD26.3 bn (\$3.4 bn) sale, the biggest single day intervention since 2009. Ant Group is seeking to raise \$35 bn in dual listings in Shanghai and Hong Kong SAR with about half to be raised in each market, according to Bloomberg. Ant's IPO could be the world's largest, exceeding Saudi Aramco's record sale of \$29 bn last December-January.

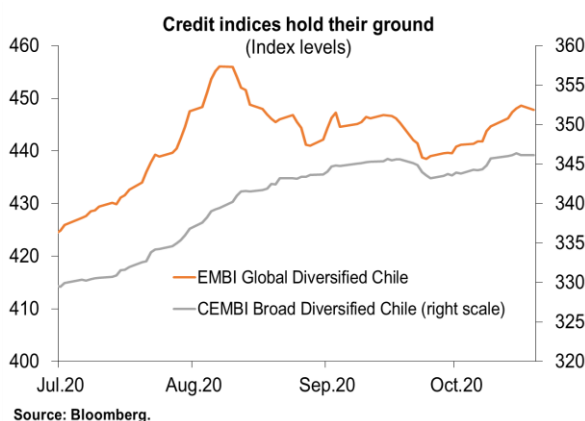
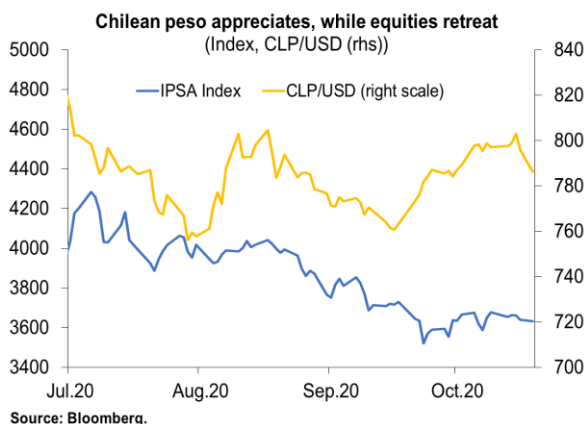
Hong Kong dollar's strength has persisted since April



Chile

The Chilean peso continued to benefit from reports of pension fund reallocation into local assets.

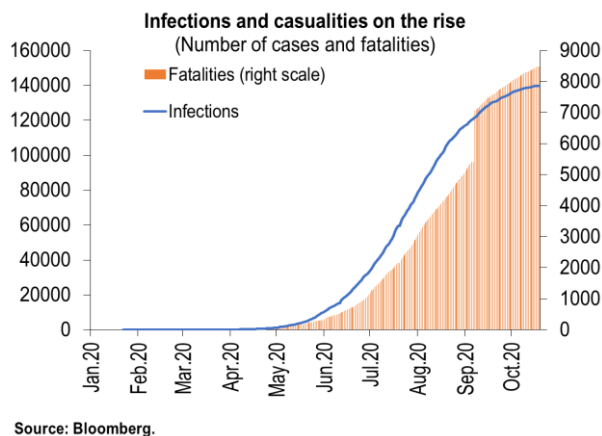
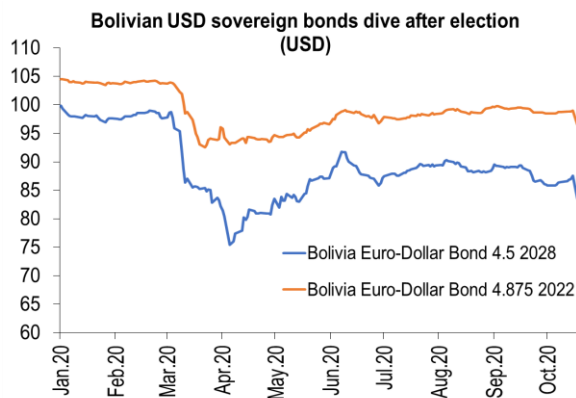
Despite violent protests in several Chilean cities, the peso advanced yesterday for a second consecutive trading day. According to Bloomberg, an influential local advisory company had recommended the reallocation of pension fund savings from funds with high exposure to risk assets, including foreign assets, to eligible less risky pension fund vehicles. The Chilean peso strengthened 2.1% over the last two trading days, the country's equities retreated by 0.8% and Chile's credit spreads stood virtually unchanged.



Bolivia

Bolivian USD sovereign bond prices dropped following the anticipated victory of the socialist party,

with candidate Luis Acre most likely being the designated next Bolivian president. While official results are still pending, the centrist candidate already conceded defeat. The price of the country's 2028 USD sovereign bond dropped by 5% to 82.7 cents on the dollar on Monday. The new government faces a grim task, as Covid-19 still continues to spread through the country, while its economic impact is reported as one of the worst around the globe on a per capita basis. The mortality rate is, according to press reports, higher than in many highly affected advanced economies, while the country's health system was reported to be overwhelmed already back in July and August.

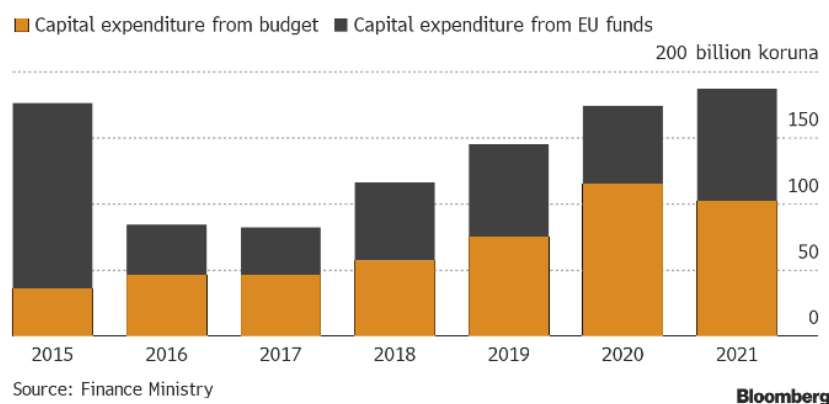


Czech Republic

The cabinet approved a 2021 budget draft that includes record state investment projects. The budget draft envisages a deficit of 320 bn koruna (\$14 bn) in 2021, and includes over \$180 bn in state investment projects, as well as higher pensions, higher salaries for teachers and more spending on health care. However, this projection does not include the impact of a planned personal tax cut. The current budget deficit is running at \$250 bn koruna, still well below the approved \$500 bn for 2020 which was raised again back in July. Separately, CB officials Nidetzky and Benda both indicated that monetary policy will likely remain accommodative and stable for some time, consistent with what is priced in the local swap curve. The Prague stock index gained 0.5% yesterday, while sovereign bonds and the Czech Koruna were little changed.

Fiscal Boost

Government plans largest state investment ever next year













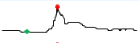














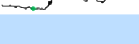



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Global Financial Indicators





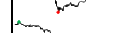




























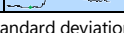




Last updated: 10/20/20 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3431	-1.6	-2	3	15	6
Europe		3242	0.0	-1	-1	-9	-13
Japan		23567	-0.4	0	1	5	0
China		3328	0.5	-1	0	13	9
Asia Ex Japan		79	-0.2	-2	2	17	8
Emerging Markets		45	-0.3	-2	2	9	1
Interest Rates			basis points				
US 10y Yield		0.78	1.0	5	9	-97	-114
Germany 10y Yield		-0.62	1.0	-6	-13	-24	-43
Japan 10y Yield		0.02	0.3	-1	1	15	3
UK 10y Yield		0.18	1.1	-6	0	-53	-64
Credit Spreads			basis points				
US Investment Grade		126	0.5	0	-2	5	28
US High Yield		504	-1.0	2	-13	51	111
Europe IG		55	0.5	3	-3	4	10
Europe HY		331	2.1	14	7	106	124
EMBIG Sovereign Spread		404	0.0	-16	-13	68	111
Exchange Rates			%				
USD/Majors		93.28	-0.2	0	0	-4	-3
EUR/USD		1.18	0.3	1	0	6	5
USD/JPY		105.7	-0.2	0	-1	3	3
EM/USD		54.8	0.0	0	-1	-10	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		43	-0.1	0	-1	-28	-35
Industrials Metals (index)		122	0.7	3	2	5	6
Agriculture (index)		42	0.3	3	5	5	1
Implied Volatility			%				
VIX Index (% change in pp)		28.4	-0.8	2.4	2.6	14.2	14.7
US 10y Swaption Volatility		74.6	0.4	7.6	29.2	-5.6	12.6
Global FX Volatility		8.3	0.0	-0.3	-1.1	1.7	2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		148	3.1	14	-8	-22	-17
Italy		137	1.8	15	-8	6	-23
Portugal		78	1.2	8	-1	20	15
Spain		80	1.2	10	3	17	15

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: 10/20/2020 8:17 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		6.68	0.0	1.0	2	6	4		3.4	-0.5	1	8	15	22
Indonesia		14658	0.3	0.5	0	-4	-5		6.7	-3.4	-15	-9	-58	-46
India		73	-0.1	-0.2	0	-3	-3		6.1	-0.8	1	-12	-77	-82
Philippines		49	0.0	-0.2	0	5	4		3.6	0.5	-3	-8	-74	-73
Thailand		31	-0.3	-0.1	0	-3	-5		1.5	-0.1	-1	1	-11	-14
Malaysia		4.15	-0.2	-0.2	-1	1	-1		2.5	0.1	-5	-10	-95	-89
Argentina		78	-0.1	-0.6	-3	-25	-23		45.5	26.4	378	461	-1106	-1708
Brazil		5.60	0.1	-0.6	-3	-26	-28		6.2	-15.3	-6	28	39	-5
Chile		786	0.0	1.4	-2	-8	-4		2.8	0.8	0	17	-32	-53
Colombia		3844	0.1	-0.3	-1	-10	-14		5.2	4.1	0	22	-53	-76
Mexico		21.20	0.0	0.7	1	-10	-11		6.1	0.9	9	21	-80	-84
Peru		3.6	-0.1	-0.1	-1	-7	-8		4.1	2.6	13	3	-6	-38
Uruguay		43	0.2	-0.6	-1	-13	-13		7.4	-3.4	1	-13	-354	-351
Hungary		310	0.1	-0.6	-1	-4	-5		1.7	0.8	4	-1	57	50
Poland		3.88	0.1	-1.4	-2	-1	-2		0.6	-1.0	-4	-13	-117	-124
Romania		4.1	0.3	0.5	0	3	3		3.2	1.0	-2	0	-57	-76
Russia		78.0	-0.1	-1.2	-2	-18	-21		5.7	-3.2	0	-12	-78	-47
South Africa		16.5	-0.1	-0.4	1	-11	-15		10.2	-3.1	-10	17	84	66
Turkey		7.90	-0.2	0.2	-3	-26	-25		13.2	-14.9	7	-13	-86	152
US (DXY; 5y UST)		93	-0.2	-0.3	0	-4	-3		0.33	0.0	3	5	-123	-136

	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		4793	0.8	-1	1	24	17		214	0	0	-2	27	38
Indonesia		5100	-0.5	-1	1	-18	-19		207	0	-6	-20	30	51
India		40544	0.3	0	4	3	-2		208	0	-1	-13	71	83
Philippines		6113	1.6	3	3	-22	-22		118	1	-6	-16	43	52
Malaysia		1511	-0.5	-1	0	-4	-5		144	2	1	-9	18	32
Argentina		49162	0.3	7	19	54	18		1421	-13	53	163	-636	-348
Brazil		98658	0.4	1	0	-6	-15		299	0	-3	-7	69	84
Chile		3632	-0.2	-1	-3	-30	-22		161	1	-5	-10	29	28
Colombia		1175	0.3	0	-3	-26	-29		229	0	-4	-18	53	66
Mexico		37655	-0.6	-2	5	-13	-14		478	0	4	-1	176	186
Peru		17617	-0.3	-2	-2	-9	-14		141	0	-6	-17	16	34
Hungary		33770	0.5	1	1	-17	-27		112	0	-10	-6	17	26
Poland		48223	0.2	0	-3	-15	-17		17	1	-1	-10	-15	-1
Romania		8857	-0.2	0	-3	-7	-11		233	-3	-4	-17	49	60
Russia		2810	0.5	-1	-5	2	-8		198	3	-2	-6	14	67
South Africa		55215	0.1	0	1	-1	-3		488	5	0	-3	167	168
Turkey		1207	0.1	3	9	23	5		607	1	-5	-7	125	206
Ukraine		509	0.0	0	2	-2	0		709	10	31	61	226	289
EM total		45	0.2	-2	2	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.

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