






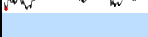
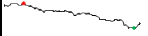






- UK government seeks to pass withdrawal bill in next three days ([link](#))
- Canada's Trudeau re-elected with reduced mandate; to lead minority gov't ([link](#))
- Draft euro area fiscal budgets suggest mild expansion ([link](#))
- Stocks gain amid optimism over progress in US-China trade talks ([link](#))
- Chilean assets weaken on gathering unrest ([link](#))

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## Trade optimism ripples through markets

**Global risk assets were lifted yesterday by constructive signals around US-China trade and positive earnings releases.** Equities in the US and Asia jumped following comments from Pres. Trump that China had started agricultural purchases and that negotiations on an initial trade deal were advancing and will potentially be wrapped up by next month's APEC meeting. Better than expected Q3 earnings releases separately helped buoy equity market sentiment in the US. Positive trade stories in recent days have helped fuel EM asset prices, with equities and FX reaching new three-month highs and CDS spreads tightening, despite concerns of elevated political risk in Chile and other countries. In Brexit news, today will be another important day for PM Johnson's chances of securing passage of a withdrawal bill ahead of the Oct. 31 deadline, after being stymied yesterday in Parliament. While uncertainty remains high, markets broadly appear to still see lower chances of a no-deal Brexit compared to last week, with UK yields and sterling broadly holding on to recent gains.

Key Global Financial Indicators

Last updated: 10/22/19 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3007	0.7	1	0	9	20
Eurostoxx 50		3604	0.1	0	1	13	20
Nikkei 225		22549	0.2	3	2	0	13
MSCI EM		42	0.5	2	2	6	8
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.77	4.6	0	5	-142	-91
Germany 10y Yield		-0.37	-2.9	4	15	-82	-62
EMBIG Sovereign Spread		333	3	0	-2	-18	-81
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.0	0.1	1	1	-2	-2
Dollar index, (+) = \$ appreciation		97.4	0.1	-1	-1	1	1
Brent Crude Oil (\$/barrel)		59.2	0.4	1	-8	-26	10
VIX Index (% change in pp)		14.1	0.1	1	-1	-6	-11

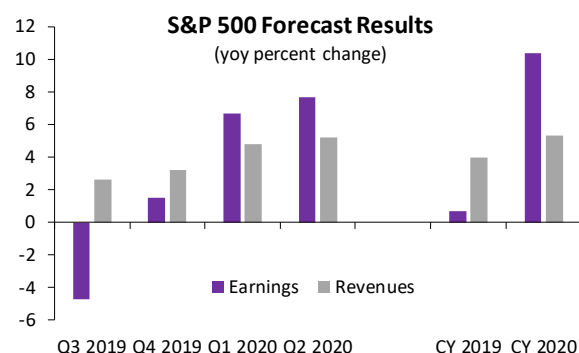
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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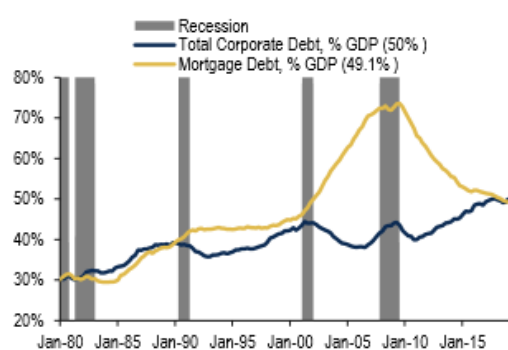
**Equity markets firmed yesterday**, paced by banks (+2.0%) and energy stocks (+1.9%). The tech-heavy Nasdaq was up 0.9%, and the S&P 500 (+0.7%) broke the 3,000 level again. Apple (+1.7%) hit another record high, and recently eclipsed Microsoft as the world's most valuable company as measured by market capitalization. Treasury yields rose 5 bps to 1.80%

This is a **big week for corporate earnings**, with one-quarter of the S&P 500 reporting Q3 results. Earnings are on track to decline for a third straight quarter, but should turn positive in Q4 according to FactSet. For the year as a whole, earnings are forecast to increase by 0.7%, while revenues should grow by 4.0%. So far this quarter, three sectors have seen improvements in their earnings prospects (led by the health care sector), while five have witnessed declines (led by energy).



**The residential mortgage picture continues to improve.** While corporate debt trends higher, Bank of America notes there has been very significant deleveraging in mortgage debt in recent years. Mortgage debt to GDP peaked at 74% 2009, but has fallen to 49%—the lowest since 2001—and just below the 50% corporate average. Moreover, mortgage rates have fallen to historically low levels, resulting in a lower interest rate burden, and a wave of refinancing. This has translated into mortgage delinquencies falling to 40-year lows and home equity hitting a record high of \$19 tn.

Chart 26: Mortgage debt and corporate debt, % GDP



Source: BofA Merrill Lynch Global Research, Federal Reserve, Preqin, National Bureau of Economic Research, Bureau of Economic Analysis, ICE Data Indices, LLC \*Note: Data is through 1Q19

Chart 27: Mortgage debt service ratio and corporate



Source: BofAML Merrill Lynch Global Research, Federal Reserve, Preqin, National Bureau of Economic Research, Bureau of Economic Analysis, ICE Data Indices, LLC \*Note: Data is through 1Q19

## Europe

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The British pound was little changed around 1.29 per USD as **the U.K. government wants the Commons to pass a 110-page withdrawal bill in the next 3 days**. Yesterday, House Speaker Jon Bercow did not allow a second “meaningful vote” on the withdrawal bill. U.K. equities (+0.5%) are up and 10-yr gilt yields little changed.

Analysts still expect that the U.K. government has a narrow majority of five votes for the Withdrawal Agreement, but the opposition is tabling amendments to derail legislation.

**EU Commissioner Moscovici said that there either will be a deal or an extension by 31 October.**

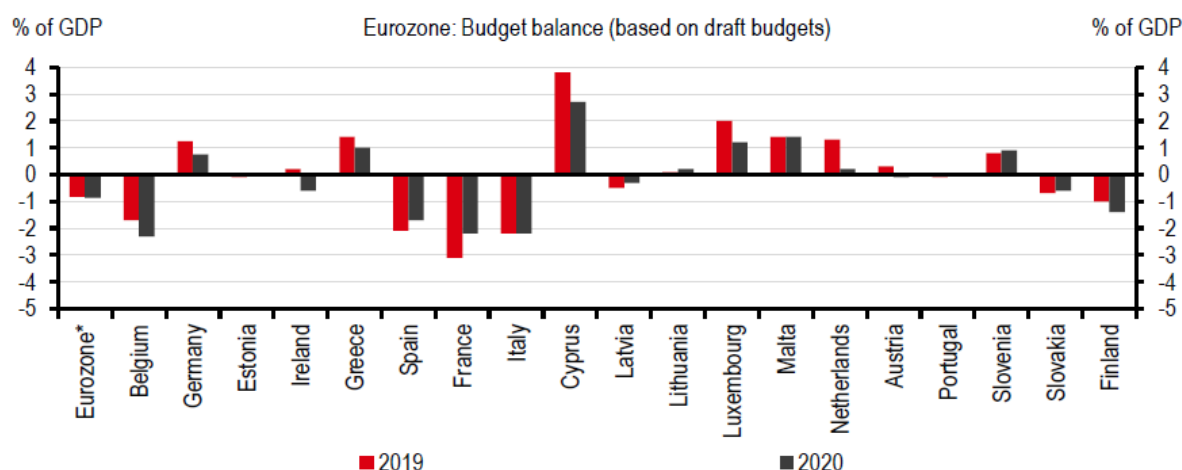
**Contacts are expressing their appreciation of outgoing ECB Pres. Draghi but do not foresee any significant announcement on Thursday.** Expectations are that the President will reiterate that the September package will provide substantial monetary stimulus and point to the need for euro-area wide fiscal stimulus.

According to a Bloomberg poll of 36 analysts, **analysts expect the ECB to cut the depo rate by 10 bps in Jun 2020 (from Jan 2020 in the previous survey) and ECB QE to run for at least two years** (based on median expectations of 36 analysts). The **median estimate of the total QE buying space is €320 bn** (16 months at €20bn/month), with an average of €450 bn (22.5 months). The median answer on when the ECB might have to change QE rules is Sep 2020.

ECB QE will resume at a pace of €20 bn/month from 1 Nov. The ECB two-tier system will be implemented 30 Oct.

Despite President Draghi's call for fiscal policy to take charge, HSBC calculates that **draft 2020 budgetary plans submitted to the EC point only to a mild fiscal expansion of 0.4% GDP (net of interest savings) in the euro area**. The overall fiscal deficit should increase from about 0.8% GDP in 2019 to 0.9% GDP in 2020, with the bulk of extra spending on domestic consumption.

**Chart 1. The draft 2020 budgets point to a small widening of the eurozone deficit next year**



Source: HSBC calculations based on countries' draft budgetary plans. Note: \* Bottom-up calculations based on information submitted by the individual countries

HSBC estimates that **an additional fiscal impulse of at least 1% GDP would be needed to bring euro area growth back to potential**. The bank expects euro area real growth of 0.7% in 2020 (compared to 1.4% in the Oct WEO and around 1.3% based on estimates of member states).

**Core 10-yr sovereign debt yields fell 2 bps.** German 10-year yields are trading at -0.37%; French 10-yr OAT yields at -0.06%, and Italian 10-yr BTP yield at 0.93%.

**Italian 10-yr spreads have been trading relatively tight to bunds** ahead of the resumption of ECB QE. Investors assume that the ECB will have to take a flexible interpretation of the capital key given the open-ended of ECB QE, and this will benefit Italy. Today, 10-yr spreads fell 4 bps to 129 bps.

**Retail demand for Italian bonds appears strong** as the Italian treasury received €1.96 of bids for 8-yr inflation-linked notes in the first of a 3-day offering.

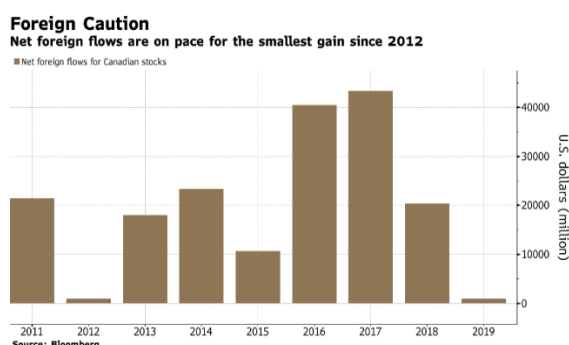
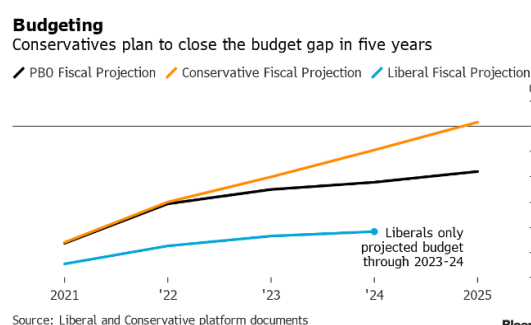
European bank stocks (-0.4%) edged lower after the recent rally. European equities are little changed.

## Other Mature Markets

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### Canada

**PM Trudeau was re-elected in federal elections but will have to lead a minority government.** As PM Trudeau and the Liberal party failed to win a majority, they are expected to govern with the (social-democratic-like) New Democratic Party (NDP), pushing the current progressive Liberal platform further left. The Liberals are expected to seek higher government deficits and to introduce further measures to facilitate home buying. Analysts suggest Canada's beleaguered energy sector may have some reason to be concerned as the NDP is anti-pipeline. The Canadian dollar had been appreciating in the run-up to the elections and **there was little market reaction on the news**. Foreign investment flows have been anemic this year, and are down 95% from last year. Market attention will increasingly be focused on the October 30<sup>th</sup> meetings by both the Fed and BoC, competing with the electoral outcome for the investor spotlight.



### Japan

Markets were closed for a holiday as new emperor Naruhito takes the throne.

## Emerging Markets

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Asian equities rose amid optimism over progress in US-China trade talks. Korea (+1.2%) and China's tech heavy Shenzhen index (+1%) led gains as trade-sensitive tech stocks outperformed. India (-0.6%) dropped against the regional trend as Infosys plunged 15% following allegations of unethical accounting practices. Asian currencies and bond yields were mixed with no large movements. **In EMEA, investor focus remains on Turkey as Presidents Erdogan and Putin are meeting and the cease-fire expires ends later today.** Stocks generally traded with a positive tone, gaining about 1% in Istanbul, Hungary, Poland and Russia.

**Latin American equity markets were mostly higher on Monday except for Chile.** Argentina was the main outperformer as the Merval index went up 1.8%, followed by Brazil (+1.2%) and Colombia (+1.2%). Chile suffered notable losses (-4.6%) as riots and protests led to a state of emergency. Local currencies were generally weaker, with the Chilean peso down 2.1% and the Colombian peso down 0.8%. 10-year government bond yields were mostly higher.

Key Emerging Market Financial Indicators

Last updated: 10/22/19 8:22 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			<b>%</b>				<b>%</b>
MSCI EM Equities		42.36	0.5	2	2	6	8
MSCI Frontier Equities		28.13	-0.2	0	1	5	8
EMBIG Sovereign Spread (in bps)		333	3	0	-2	-18	-81
EM FX vs. USD		61.01	0.1	1	1	-2	-2
<b>Major EM FX vs. USD</b>			<b>%, (+) = EM currency appreciation</b>				
China Renminbi		7.08	-0.1	0	1	-2	-3
Indonesian Rupiah		14041	0.3	1	0	8	2
Indian Rupee		70.94	0.3	1	0	4	-2
Argentina Peso		58.50	-0.3	-1	-3	-38	-36
Brazil Real		4.12	0.2	1	1	-11	-6
Mexican Peso		19.11	0.1	1	2	2	3
Russian Ruble		63.76	0.0	1	0	2	9
South African Rand		14.68	0.6	1	2	-2	-2
Turkish Lira		5.83	0.5	1	-2	-3	-9
EM FX volatility		7.75	0.0	-0.2	-0.5	-2.0	-2.0

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

## Chile

**Chilean assets tumbled on Monday as the country suffered its worst civil unrest since the 1980s.**

The riots and protests were triggered by a 3% rise in metro fares but spread rapidly, despite the policy's suspension, fueled by what observers say is longstanding popular dissatisfaction with the high level of income inequality. The government has declared a state of emergency and President Sebastian claimed the country was "at war". **Domestic equities fell 4.6% yesterday, the largest one-day drop since November 2017, and the peso weakened 2.1% against the dollar.** Peso implied volatility spiked 8.5% on Monday, suggesting investors see increasing uncertainty in the country.



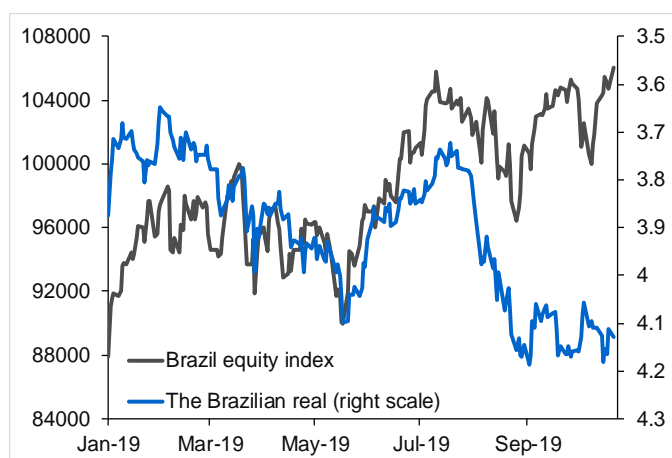
Source: Bloomberg

## China

**Stocks advanced after US and Chinese comments fueled optimism over a trade deal.** Shenzhen gained 1% and the SOE and bank-heavy Shanghai index rose 0.5%. China's Vice Foreign minister said today that China and the US have achieved some progress in trade talks and any problem could be resolved as long as both sides respected each other. Yesterday, President Trump stated that negotiations are advancing, and that China has started buying US agricultural goods, an aspect of the “phase one” deal both sides reached earlier this month. **The Chinese currency and bond yields were little changed.**

## Brazil

**Brazil economists cut the inflation forecasts for the 4th consecutive week and expected further monetary easing.** According to a central bank survey published yesterday, the Selic rate was expected to be 4.5% (estimated 4.75% last week) by the end of 2019. Inflation rate forecasts dropped to 3.26% from 3.28% in 2019 and 3.66% from 3.73% in 2020. Brazilian assets showed signs of recovery, with domestic equities reaching a year-to-date high and the real was generally stable.



Source: Bloomberg

## Turkey

Equities (+1%) and the lira (+0.3%) were firmer. The 5-day cease-fire in Northern Syria will end tonight. France asked for an extension of the cease-fire, whereas Germany proposes an internationally controlled security zone. Analysts are also waiting for the outcome of today's meeting between presidents Putin and Erdogan.

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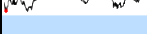


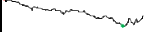













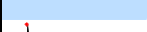





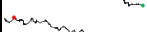
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## Global Financial Indicators

Last updated: 10/22/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3007	0.7	1	0	9	20
Europe		3604	0.1	0	1	13	20
Japan		22549	0.2	3	2	0	13
China		2954	0.5	-1	-2	11	18
Asia Ex Japan		69	1.0	2	2	6	8
Emerging Markets		42	0.5	2	2	6	8
<b>Interest Rates</b>			basis points				
US 10y Yield		1.77	4.6	0	5	-142	-91
Germany 10y Yield		-0.37	-2.9	4	15	-82	-62
Japan 10y Yield		-0.13	0.0	4	8	-28	-13
UK 10y Yield		0.73	-2.1	4	10	-80	-55
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	0.4	-3	-9	17	-28
US High Yield		452	2.6	0	5	103	-69
Europe IG		51	0.0	-2	-5	-23	-37
Europe HY		226	0.6	-10	2	-69	-127
EMBIG Sovereign Spread		333	3.0	0	-2	-18	-81
<b>Exchange Rates</b>			%				
USD/Majors		97.42	0.1	-1	-1	1	1
EUR/USD		1.11	-0.2	1	1	-3	-3
USD/JPY		108.6	0.0	0	-1	4	1
EM/USD		61.0	0.1	1	1	-2	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		59	0.4	1	-8	-26	10
Industrials Metals (index)		116	-0.2	-1	-1	-3	6
Agriculture (index)		40	0.9	1	5	-9	-4
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.1	0.1	0.5	-1.2	-5.6	-11.3
10y Treasury Volatility Index		5.4	0.1	0.0	-0.2	1.5	0.8
Global FX Volatility		6.6	0.0	-0.3	-0.6	-1.5	-2.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		165	-2.5	-18	-23	-224	-251
Italy		129	-3.7	-6	-15	-175	-121
Portugal		58	-0.1	-2	-19	-98	-90
Spain		63	-0.3	-2	-13	-62	-55

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: 10/22/2019 8:23 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	0.0	1	-2	-3		3.2	1.7	1	9	-32	3
Indonesia		14041	0.3	0.9	0	8	2		7.2	-2.9	-9	-11	-152	-93
India		71	0.3	0.9	0	4	-2		6.8	0.0	2	-4	-122	-62
Philippines		51	-0.2	0.8	2	5	3		4.3	-0.1	-1	-6	-227	-199
Thailand		30	-0.1	0.4	1	8	7		1.6	0.6	5	3	-133	-104
Malaysia		4.19	-0.2	0.1	0	-1	-1		3.4	0.4	0	-7	-69	-68
Argentina		58	-0.3	-0.8	-3	-38	-36		57.1	53.1	-47	-1121	3645	3410
Brazil		4.12	0.2	1.4	1	-11	-6		5.8	0.4	-13	-57	-312	-234
Chile		725	0.1	-1.2	0	-6	-4		3.1	4.9	31	33	-174	-134
Colombia		3448	-0.6	-0.4	0	-11	-6		5.8	4.1	7	12	-96	-75
Mexico		19.11	0.1	0.7	2	2	3		6.9	2.4	8	-14	-129	-179
Peru		3.3	0.0	0.9	1	0	1		4.2	3.8	3	-20	-154	-149
Uruguay		37	-0.1	-0.5	-2	-12	-13		11.1	17.9	27	44	49	37
Hungary		296	-0.2	1.6	3	-5	-6		1.1	0.5	3	8	-164	-108
Poland		3.84	-0.2	1.2	4	-3	-3		1.8	1.2	4	-2	-78	-44
Romania		4.3	-0.2	0.8	1	-5	-5		3.8	1.0	2	11	-80	-42
Russia		63.8	0.0	0.9	0	2	9		6.4	-5.1	-15	-47	-196	-203
South Africa		14.7	0.6	1.5	2	-2	-2		9.4	4.2	6	1	-44	-21
Turkey		5.83	0.5	1.5	-2	-3	-9		14.0	-3.5	-139	-45	-603	-284
US (DXY; 5y UST)		97	0.1	-0.9	-1	1	1		1.59	-2.3	-1	-1	-146	-92

	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2954	0.5	-1	-2	11	18		186	-1	-2	3	3	-8
Indonesia		6225	0.4	1	0	7	1		178	2	6	8	-28	-58
India		38964	-0.9	2	2	14	8		134	-3	1	-1	-28	-62
Philippines		7955	0.8	1	1	10	7		78	2	9	8	-29	-43
Malaysia		1574	0.2	1	-1	-9	-7		123	-2	-3	3	1	-39
Argentina		32551	1.8	2	8	14	7		2137	8	198	39	1471	1322
Brazil		106022	1.2	2	1	24	21		229	2	-2	1	-28	-44
Chile		4953	-4.6	-4	-2	-3	-3		134	1	1	3	3	-32
Colombia		1598	1.2	0	0	11	20		176	2	0	1	-10	-52
Mexico		43405	0.5	0	0	-8	4		299	1	-8	-11	26	-55
Peru		19285	-0.6	-1	-1	2	0		123	2	-3	6	-24	-45
Hungary		41524	0.7	2	1	12	6		96	7	4	4	-20	-52
Poland		57863	0.8	2	1	2	0		31	6	4	5	-26	-54
Romania		9579	0.1	0	1	11	30		184	-1	-1	-2	1	-37
Russia		2782	0.8	2	-1	21	17		183	3	-2	1	-35	-69
South Africa		56106	0.0	1	-1	7	6		317	1	-3	6	7	-48
Turkey		98018	1.0	3	-2	4	7		489	-1	-9	6	49	60
Ukraine		522	-0.1	-1	0	-7	-7		465	-3	-24	-9	-86	-322
EM total		42	0.5	2	2	6	8		333	3	0	-2	-18	-81

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

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