







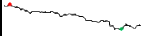






- Sterling softens as Brexit bill timeline is delayed past Oct. 31 deadline ([link](#))
- Risk markets feel chill as bellwether firms warn on policy uncertainty ([link](#))
- Hong Kong stocks fall on reports that Beijing seeks to replace the city's leader ([link](#))
- Hungary's central bank leaves policy rates unchanged, as expected ([link](#))

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Markets edge lower on earnings warnings

Global equity markets are sagging and bonds yields are up after executives at bellwether firms emphasize the role of uncertainty on weakening demand. The mining and machinery maker Caterpillar lowered its earnings forecast for 2019 after a profit miss and blamed heightened “economic uncertainty”, as opposed to customer financial positions, for weakened demand. Semiconductor stocks sold off globally after Texas Instruments cut profit forecasts and warned that trade tensions are driving a pullback in orders from their predominantly industrial and automotive clients. In Brexit news, PM Johnson's Brexit deal with the EU passed a key hurdle only to see lawmakers reject his accelerated timetable for approval, effectively ensuring no deal can be completed before the October 31 deadline. The focus now shifts to the EU, where European Council Pres. Tusk has said he will recommend to member states that the UK be granted the already-requested extension of the Article 50 deadline. Sterling is a touch weaker but is holding on to nearly 5% gains month-to-date, suggesting investor optimism for an eventual deal remains intact.

Key Global Financial Indicators

Last updated: 10/23/19 8:36 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2996	-0.4	0	0	9	20
Eurostoxx 50		3589	-0.4	0	1	14	20
Nikkei 225		22625	0.3	2	2	0	13
MSCI EM		42	0.1	1	2	7	9
Yields and Spreads			bps				
US 10y Yield		1.73	-3.9	-1	0	-144	-95
Germany 10y Yield		-0.41	-3.7	-2	18	-81	-65
EMBIG Sovereign Spread		336	2	0	0	-19	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.1	-0.1	1	1	-2	-2
Dollar index, (+) = \$ appreciation		97.5	0.0	0	-1	2	1
Brent Crude Oil (\$/barrel)		59.2	-0.8	0	-9	-23	10
VIX Index (% change in pp)		14.9	0.5	1	0	-6	-11

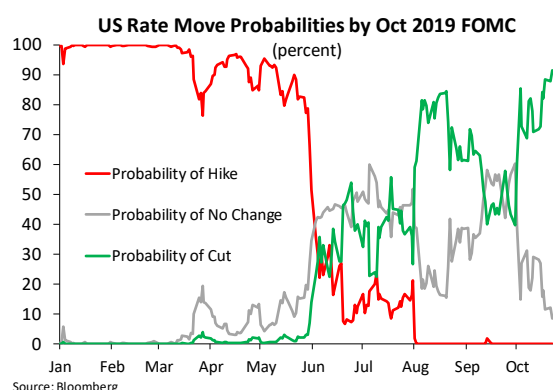
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States

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US equity markets ended lower today, but stocks were trading mixed through most of the session as investors digested Brexit developments and earnings reports. The Nasdaq (-0.7%) underperformed while the S&P 500 lost 0.4%, and the Dow 0.2%. Sectors were mixed, with energy stocks up 1.3% and IT down 1.4%. Facebook slipped 3.9% as more states joined New York's anti-trust probe of the social media giant.

The Fed injected \$99.9 bn of liquidity into financial markets yesterday, with a \$64.9 bn overnight repo operation and a \$35 bn term repo operation that goes until November 5th. The term operation was the first one to be oversubscribed in a month. And the minimum bid rate on the was cut to 1.75% from 1.84% in the previous operation, which analysts saw as indicative of an impending rate cut. **Futures markets are pricing in an 89.4% likelihood of a rate cut** on October 30th according to Bloomberg calculations. In a related development, Democratic presidential contender Warren sent a letter to Secretary Mnuchin posing questions about recent volatility in short-term funding markets.

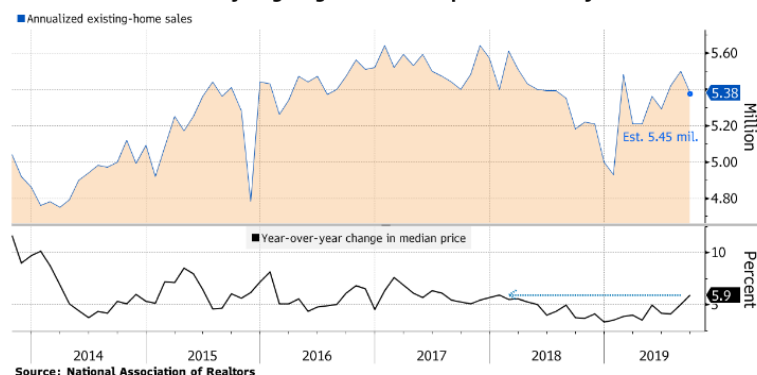


CME Group is delaying the transition of swaps based on the effective fed funds rate to the Secured Overnight Financing Rate (SOFR) to October 2020 from July.

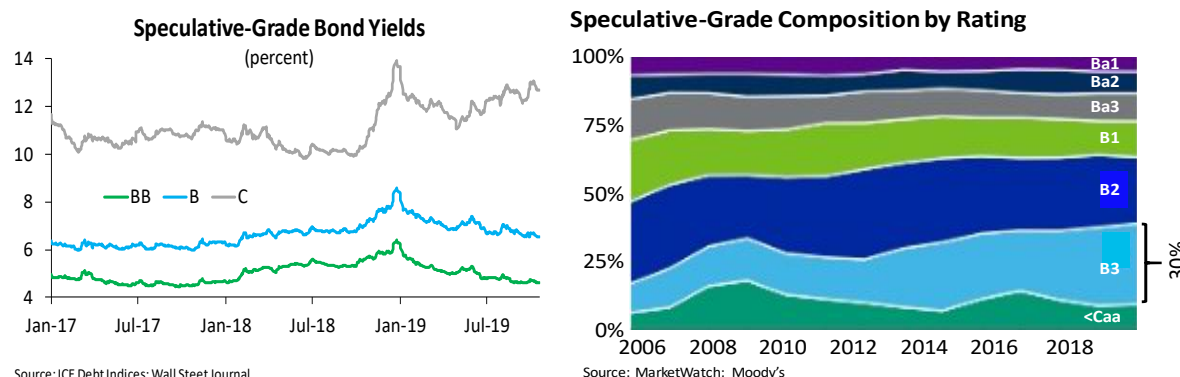
Lean housing supply is contributing to higher prices and slowing sales. Sales of existing homes fell in September by 2.2% m/m. The inventory of existing homes is down 2.7% y/y to the smallest September level since 1999, and marks the fourth straight yearly decline, even as home building has been on the upswing. The median sales price is up 5.9% y/y, offsetting higher incomes and historically low mortgage rates.

Prices Blunting Progress

U.S. home sales cooled by largest gain in median price since early 2018



Lower-rated corporate bonds are becoming increasingly stressed. S&P noted in a recent report that rating downgrades have risen notably recently, and have been outpacing upgrades for three months running by the largest amount in a decade. Yields are rising on C rated bonds, while falling on higher rated B and BB bonds, a phenomenon also happening in the leveraged loan market. Lower-rated B3/B- bonds have also been growing their shares in benchmark indices. Still, default rates are low and below the long-term average, with Moody's advising the rate was 3.2% for the 12 months at end-September—but further weakening of the credit quality at the lower end of the spectrum could see defaults rise.



Energy firms make up nearly half of the bonds trading below 80 cents on the dollar, according to the WSJ. Ongoing problems in the energy sector, such as the decline of coal and persistently low crude prices, have had an outsized impact due to the preponderant share of energy bonds in high-yield space. Health care and pharmaceuticals companies are the second largest chunk of these bonds, followed by telecoms.

Europe [back to top](#)

The British pound was little changed around 1.29 per USD **after British parliamentarians voted for a second reading of the Withdrawal Agreement (329-299) but rejected the motion for an accelerated timetable for approval (322-308).** The rejection of the U.K. government's parliamentary timetable means full passage of the bill will not be completed by the October 31 Brexit deadline and so makes an Article 50 extension highly likely as parliament continues to discuss the bill. **10-yr gilt yields fell 4 bps to 0.67%** and U.K. equities (+0.6%) gained.

The moves shift the focus back to the EU, whose leaders must decide whether to accept an extension. **European Council President Tusk will recommend EU leaders to accept the U.K.'s request for extension** (reportedly to 31 Jan).

According to the European Commission (EC), budget plans of many countries are not in line with EU rules, but contacts nevertheless expect the EC to approve budgets. The EC has asked France and Italy for further clarifications and issued budget warnings to Finland over its spending, and to Spain, Portugal and Belgium, who have submitted incomplete budget plans because of recent elections.

For 2020, Italy targets a budget deficit of 2.2% GDP, implying a structural deterioration of 0.1% of GDP against a recommended structural improvement of 0.6% GDP. France is also targeting a budget deficit of 2.2% GDP for 2020, with 0.2% GDP of interest savings used for additional spending.

Core 10-yr sovereign debt yields fell 4 bps. German 10-year yields are trading at -0.40%; French 10-yr OAT yields at -0.10%, and Italian 10-yr BTP yield at 0.90%.

Retail demand for Italian bonds appears strong as the Italian treasury received €3 bn of bids for 8-yr inflation-linked notes after two days.

Bond sales by Italian banks hit a 5-yr year-to-date high of €26 bn, more than double 2018's full-year total.

European equities are little changed.

Germany has confirmed the nomination of Isabel Schnabel, a professor of financial economics at the University of Bonn, as an ECB Executive Board member.

Other Mature Markets

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Japan





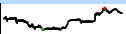
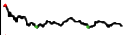





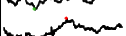
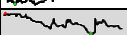
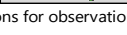
Equities rose (+0.6%) on net as gains in defensive stocks offset losses in the tech sector. Shares in Softbank dropped 2.5% after the company announced its \$6.5bn rescue takeover package for coworking space provider WeWork. According to Bloomberg, the BoJ is considering lowering its forecast for growth and inflation this year following its monetary policy meeting on Oct 31. Markets are pricing a 10bps reduction in the policy rate in October. **JGB yields fell across the curve with the 10-year yield declining 1bp to -0.15%. The yen depreciated 0.1%.**

Emerging Markets

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Asian equities declined 0.4%, weighed by weakness in the semiconductors sector following a revenue warning by Texas Instruments. Tech-heavy indices in North Asia and Singapore declined the most, while India posted a small gain. Regional currencies were stable except the Philippine peso (+0.4%). In **EMEA**, most bourses traded lower, led by losses in Egypt (-0.9%) and Bulgaria (-0.6%). Hungary (+1.5%) and Turkey (+1.3%) bucked the trend and posted notable gains. Most currencies weakened to the dollar, by about 0.1% to 0.3%. **The Central Bank of Turkey meets tomorrow**, with some analysts expecting a rate cut as large as 100 bps. **Latin American markets** were mostly higher on Tuesday. Argentina outperformed as the equity index went up 2.2%, followed by Brazil (+1.3%) and Colombia (+1%). Local currencies were mostly stronger to the dollar. The Brazilian real saw the largest gains (+1.1%), followed by the Colombian peso (+0.5%).

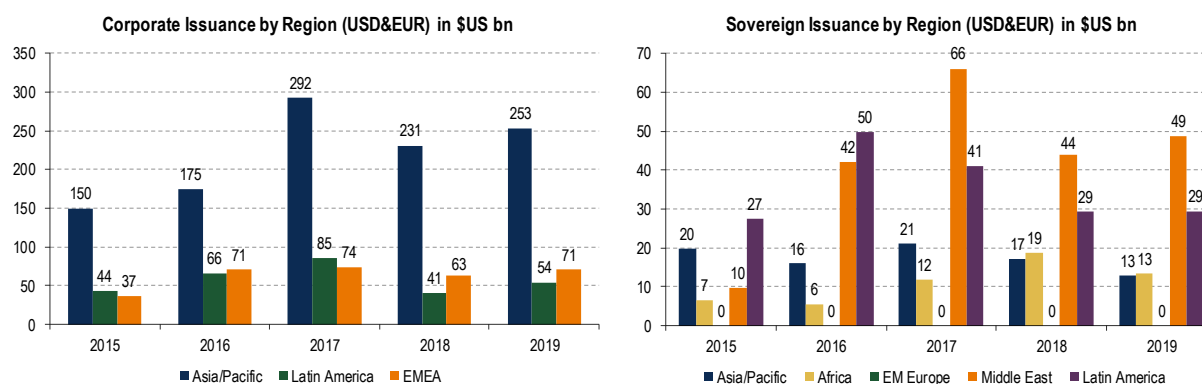
Key Emerging Market Financial Indicators

Last updated: 10/23/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.39	0.2	1	2	7	9
MSCI Frontier Equities		28.26	0.5	1	0	5	8
EMBIG Sovereign Spread (in bps)		335	1	-1	-1	-20	-79
EM FX vs. USD		61.07	-0.1	1	1	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.07	0.0	0	1	-2	-3
Indonesian Rupiah		14032	0.1	1	0	8	3
Indian Rupee		70.91	0.0	1	0	4	-2
Argentine Peso		58.66	-0.3	-1	-3	-38	-36
Brazil Real		4.08	0.0	2	2	-10	-5
Mexican Peso		19.18	-0.1	0	2	1	2
Russian Ruble		63.91	-0.3	0	0	3	9
South African Rand		14.67	-0.6	2	2	-3	-2
Turkish Lira		5.78	0.5	2	-1	-1	-9
EM FX volatility		7.66	0.0	-0.3	-0.6	-2.3	-2.1

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

EM Bond Issuance

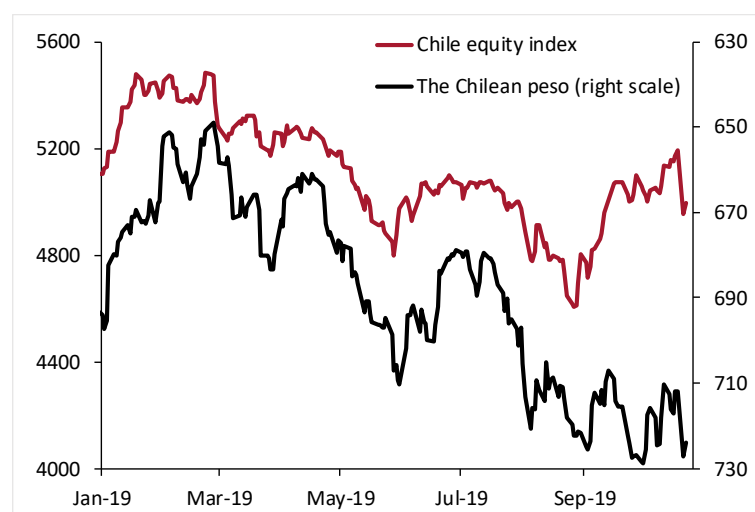
EM corporate issuance last week declined to \$8.2 bn, from \$13.4 bn the week before, while EM sovereign issuance fell from \$1.9 bn the week before to \$0.8 bn. The year to date total issuance of \$519.5 bn was approximately 26% more than the 2018 issuance over the same period. From a regional perspective, China was the largest EM corporate debt issuer last week, accounting for 52% (\$4.3 bn). Of the total corporate bonds issued, 73% (\$6 bn) were investment grade bonds and 23% (\$1.9 bn) were high yield bonds. Last week's sovereign issuance was placed by the UAE.



Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

Chile

Chilean assets recovered slightly yesterday despite no clear progress in resolving the crisis. Domestic equities went up 0.8% and the peso was slightly stronger. According to press reports, President Sebastian hinted last night that the government would cut regulated prices, with no further details provided. Analysts commented that asset prices would still under pressure for the next few days. In other news, Chile's central bank is meeting tomorrow, and the market is expecting a 25-50 bps cut.



Source: Bloomberg

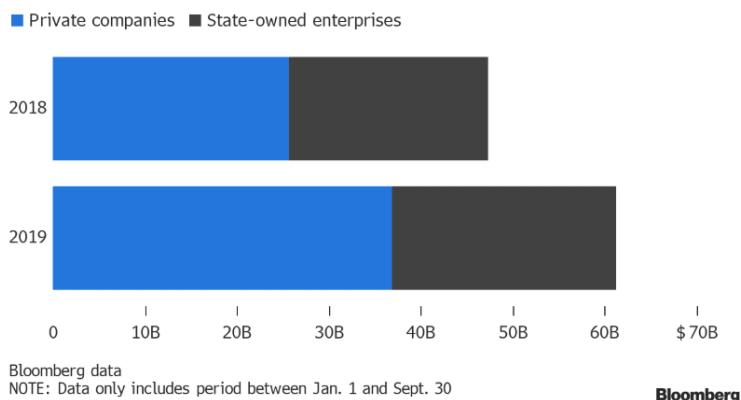
China

Chinese stocks closed lower on weakness in the telecommunication sector. The Shanghai Composite dipped 0.4% while the tech-heavy ChiNext Index slipped by close to 1%. The onshore and offshore RMB

were little changed. Separately, **offshore borrowing by Chinese firms through syndicated loans surged this year**. According to Bloomberg, Chinese companies borrowed a record \$61bn in the offshore syndicated loan market during the first three quarters of this year, up 54% from the same period in 2018. Analysts see outbound mergers and acquisitions and attractive financing terms as key drivers of the strong pick-up in external borrowing. Most of the borrowers are leading market players such as Tencent and Alibaba, with private enterprises taking the lead over state-owned enterprises in the offshore syndicated loan market.

On The Rise

Chinese POE borrowings take larger slice of offshore loan volumes



Hong Kong SAR

Beijing is considering replacing Chief Executive Carrie Lam by an interim candidate before March next year, according to the FT. Possible successors may include the ex-Chief Executive of HKMA Norman Chan and the ex-Chief Secretary of HKSAR Henry Tang. However, **China's foreign ministry denied the report.** It said that it was a political rumor with ulterior motives, and reiterated that the Chinese central government is in full support of Carrie Lam. Meanwhile, the **Hong Kong SAR government has officially withdrawn the controversial amendment bill to the extradition law** at the Legislative Council today, after four months of city-wide protests against the bill. **Stocks in Hong Kong dropped 0.8%.**

Hungary

The Hungarian National Bank left policy rates unchanged yesterday, as expected. The HNB held the benchmark rate at 0.9% and the overnight deposit rate at -0.05%, arguing that more time was needed to assess the direction of inflation. The HNB added that risks to the inflation outlook had become more asymmetric and tilted to the downside, given the slowdown in European and global growth. The Hungarian forint (+0.1%) gained to the euro today, outperforming regional peers who slightly weakened to the dollar.

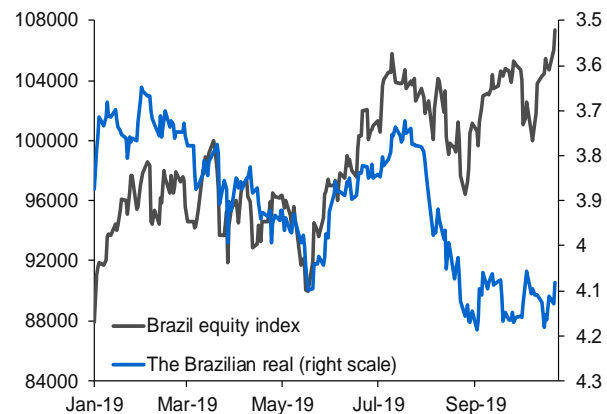
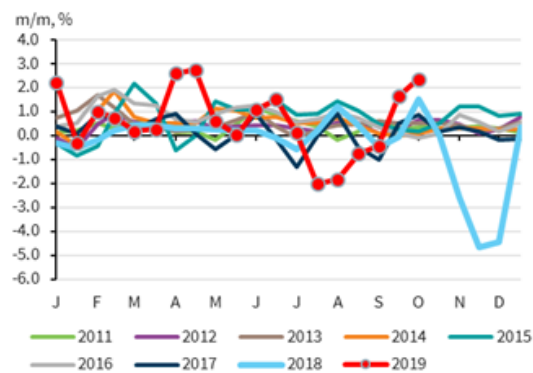
Price pressures have eased in Hungary, removing the case for tightening



Brazil

Brazil's bi-weekly inflation printed at 0.09% m/m in October, slightly higher than the consensus forecast (0.03% m/m). In annual terms, the inflation declined from 3.22% y/y in September to 2.72% y/y this month, but still higher than estimates of 2.67% y/y. The main driver of the increase was personal care items (+2.4% m/m, 2.5% of the CPI basket), while food prices printed the negative number (-0.25% m/m). Analysts have lowered the inflation and Selic rate forecasts early this week. Market reaction to the inflation data was positive, with domestic equities up 1.3% and the real 1.1% stronger against the dollar.

Figure 2: Personal care items strike again







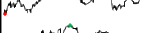
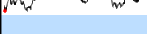

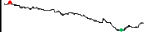














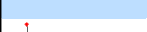





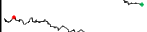
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Global Financial Indicators

Last updated: 10/23/19 8:36 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2996	-0.4	0	0	9	20
Europe		3589	-0.4	0	1	14	20
Japan		22625	0.3	2	2	0	13
China		2942	-0.4	-1	-1	13	18
Asia Ex Japan		69	-0.2	1	2	8	8
Emerging Markets		42	0.1	1	2	7	9
Interest Rates			basis points				
US 10y Yield		1.73	-3.9	-1	0	-144	-95
Germany 10y Yield		-0.41	-3.7	-2	18	-81	-65
Japan 10y Yield		-0.14	-1.0	3	7	-29	-14
UK 10y Yield		0.67	-4.1	-4	12	-80	-61
Credit Spreads			basis points				
US Investment Grade		120	0.4	-3	-8	17	-27
US High Yield		455	1.9	0	8	96	-66
Europe IG		51	0.5	-2	-4	-25	-36
Europe HY		230	3.9	-4	6	-72	-123
EMBIG Sovereign Spread		336	2.0	0	0	-19	-78
Exchange Rates			%				
USD/Majors		97.54	0.0	0	-1	2	1
EUR/USD		1.11	-0.1	0	1	-3	-3
USD/JPY		108.5	0.0	0	-1	4	1
EM/USD		61.1	-0.1	1	1	-2	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		59	-0.8	0	-9	-23	10
Industrials Metals (index)		116	-0.1	1	-1	-2	6
Agriculture (index)		39	-0.4	0	3	-10	-5
Implied Volatility			%				
VIX Index (% change in pp)		14.9	0.5	1.2	0.0	-5.8	-10.5
10y Treasury Volatility Index		5.2	-0.2	-0.1	-0.3	1.1	0.6
Global FX Volatility		6.5	0.0	-0.3	-0.8	-1.7	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		170	4.4	-8	-22	-221	-246
Italy		132	3.2	1	-9	-186	-118
Portugal		59	0.5	0	-17	-101	-89
Spain		64	0.7	0	-9	-62	-54

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: 10/23/2019 8:11 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		7.07	0.0	0.3	1	-2	-3		3.2	1.9	3	11	-31	5	
Indonesia		14032	0.1	1.0	0	8	3		7.2	-2.8	-9	-14	-155	-96	
India		71	0.0	0.7	0	4	-2		6.8	0.6	3	-3	-121	-61	
Philippines		51	0.4	1.1	2	5	3		4.3	0.9	0	-5	-226	-198	
Thailand		30	-0.1	0.1	0	8	7		1.6	0.2	4	3	-135	-104	
Malaysia		4.19	0.0	0.2	0	-1	-1		3.4	0.5	1	-6	-69	-67	
Argentina		59	-0.3	-0.7	-3	-38	-36		56.1	-103.7	-242	-1225	3589	3307	
Brazil		4.08	0.0	1.7	2	-10	-5		5.9	9.5	-11	-48	-287	-224	
Chile		726	-0.4	-1.3	-1	-6	-4		3.2	11.4	40	44	-161	-122	
Colombia		3431	0.5	0.6	0	-10	-5		5.8	2.9	5	15	-93	-72	
Mexico		19.18	-0.1	0.1	2	1	2		7.0	2.2	5	-11	-142	-177	
Peru		3.3	-0.3	0.5	0	-1	1		4.3	3.3	8	-17	-153	-145	
Uruguay		37	-0.1	-0.2	-2	-12	-13		11.0	-11.9	7	32	34	25	
Hungary		296	0.0	1.5	3	-5	-5		1.1	-4.8	-4	4	-169	-113	
Poland		3.85	-0.2	0.6	4	-3	-3		1.8	-4.5	-1	-6	-82	-49	
Romania		4.3	0.0	0.3	1	-5	-5		3.8	0.0	0	11	-81	-42	
Russia		63.9	-0.3	0.3	0	3	9		6.3	-3.5	-19	-50	-194	-207	
South Africa		14.7	-0.6	1.9	2	-3	-2		9.3	-7.3	-2	-6	-43	-28	
Turkey		5.78	0.5	1.8	-1	-1	-9		13.8	-19.5	-146	-64	-647	-303	
US (DXY; 5y UST)		98	0.0	-0.5	-1	2	1		1.56	-2.8	0	-4	-145	-95	

	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		2942	-0.4	-1	-1	13	18		186	0	-2	2	-3	-8
Indonesia		6258	0.5	1	1	8	1		178	-1	1	11	-33	-58
India		39059	0.2	1	0	15	8		134	0	2	-1	-32	-62
Philippines		7934	-0.3	0	1	10	6		80	1	6	13	-30	-41
Malaysia		1569	-0.3	0	-2	-8	-7		122	-1	-4	2	-6	-40
Argentina		33263	2.2	6	14	17	10		2225	4	211	63	1560	1410
Brazil		107381	1.3	3	3	26	22		232	2	0	3	-24	-41
Chile		4993	0.8	-3	-1	-2	-2		135	1	1	1	0	-31
Colombia		1613	1.0	2	1	13	22		177	2	-1	2	-7	-51
Mexico		43364	-0.1	0	0	-7	4		298	1	-10	-15	25	-56
Peru		19403	0.6	0	0	4	0		127	3	-1	11	-22	-41
Hungary		41846	0.0	3	3	13	7		96	-1	2	4	-23	-52
Poland		57867	-0.2	2	2	4	0		35	3	5	8	-27	-50
Romania		9634	0.1	1	1	11	30		187	4	5	1	4	-34
Russia		2802	0.0	2	1	22	18		185	1	-2	7	-35	-67
South Africa		55477	-0.8	-1	0	8	5		319	1	-4	5	7	-46
Turkey		99073	1.2	5	-1	6	9		478	-7	-27	-1	33	49
Ukraine		522	0.0	-1	0	-7	-7		470	4	-25	-10	-91	-317
EM total		42	0.2	1	2	7	9		335	1	-1	-1	-20	-79

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

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