






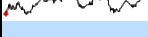
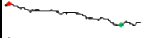





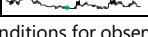
- ECB keeps policy stance unchanged, as expected ([link](#))
- Riksbank leaves repo rate unchanged but signals intention to hike in Dec 2019 ([link](#))
- Japanese banks rapidly expand holdings of foreign CLOs, per BoJ report ([link](#))
- Bank Indonesia lowers its policy rate by 25 bps, as expected ([link](#))
- Chile's central bank cut interest rates by 25 bps to 1.75% ([link](#))
- Indian corporate bond defaults rise to record high ([link](#))

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

All eyes on the ECB press conference

European bourses and US equity futures gained as market participants awaited Draghi's last ECB press conference. In the preceding statement, the ECB kept its policy stance unchanged, as expected. Market sentiment was supported by various upbeat corporate earnings results this morning, which helped offset investor concerns about global growth losing momentum. Daimler and BASF reported better than expected Q3 results while AstraZeneca raised its 2019 sales outlook. In contrast, flash PMI data for October showed that the euro area economy is barely growing. The service sector in the euro area saw the smallest growth in almost 5 years and the manufacturing downturn remains the most severe since 2012. Elsewhere, central banks in both Indonesia and Chile cut policy rates while the Riskbank signaled its intention to hike in December 2019.

Key Global Financial Indicators

Last updated: 10/24/19 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3005	0.3	0	1	13	20
Eurostoxx 50		3618	0.3	1	2	16	21
Nikkei 225		22751	0.6	1	3	3	14
MSCI EM		42	0.3	1	3	10	9
Yields and Spreads			bps				
US 10y Yield		1.75	0.4	0	10	-135	-93
Germany 10y Yield		-0.39	0.7	2	21	-78	-63
EMBIG Sovereign Spread		333	1	0	-14	-32	-81
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.2	-0.1	1	1	-1	-2
Dollar index, (+) = \$ appreciation		97.5	0.0	0	-1	1	1
Brent Crude Oil (\$/barrel)		61.2	0.0	2	-3	-20	14
VIX Index (% change in pp)		13.8	-0.2	0	-3	-11	-12

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

United States

[back to top](#)

US stocks closed higher despite mixed earnings reports yesterday. The S&P 500 gained 0.3% and the Dow Jones added 0.2%. S&P Futures (+0.1%) also point to a positive session today. Investors sifted yesterday through a swathe of earnings reports—some of which clearly beat estimates (such as car maker Tesla) while others disappointed—in an effort to discern the future direction of the economy. Various large blue-chip companies, such as Amazon, are expected to issue reports later this week. **Treasuries traded flat**, with yields inching down only 1 bp across the curve. The 10-year yield is at 1.75% and the 2-year at 1.57%.

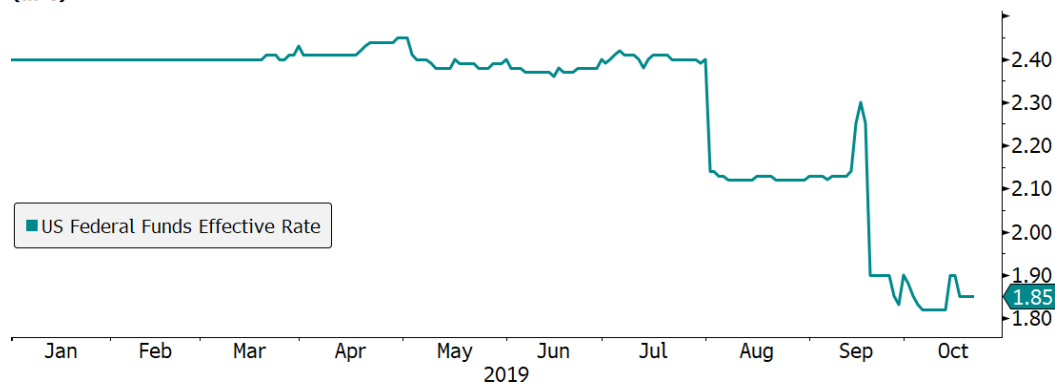
U.S. value stocks rally to record as shares of faster-growing companies falter



The New York Fed announced intentions to boost its repo operations in an effort to stem month-end funding pressures. The Fed's offering will top \$120 bn in overnight repo operations, up from \$75 bn, according to the New York Fed's website. The statement notes that operations to be conducted today (October 24) and on October 29 will amount to at least \$45 bn. The effective Fed Funds rate is unchanged at 1.85%.

United States-Effective Fed Funds Rate

(in %)



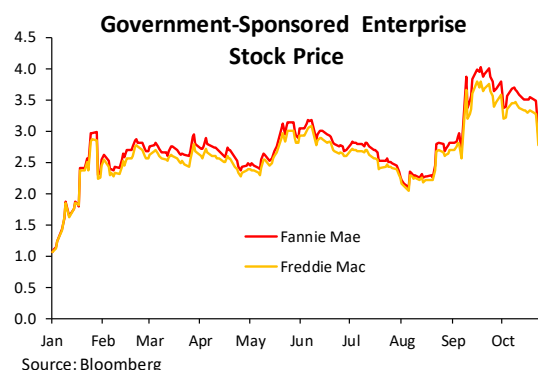
.USGE10 G Index (US-Germany 10-Year Spread) FI: US Fed Funds Daily 31DEC2018-24

Copyright© 2019 Bloomberg Finance L.P.

24-Oct-2019 12:10:50

Goldman Sachs gauges that **elections next year will dent share buyback activity**. It believes the uncertainty associated with the electoral outcome, and the resulting policy implications “will likely lead corporate managers to adopt a wait-and-see approach to cash spending.” It expects buyback activity to slip 2% on a net basis to \$470 bn. Share buybacks have been one of the pillars of the ongoing equity rally.

Shares of **Fannie Mae** and **Freddie Mac** both continued to fall Wednesday, with each losing over 10%. This follows a congressional hearing where their regulator advised the government would “wipe out” their shareholders if needed. The Trump administration had expressed its interest in ending the conservatorship of the two mortgage giants in a reform plan the administration put out last month.



Europe

[back to top](#)

Euro Area

The ECB kept its policy stance unchanged, as expected. It left the main refinancing rate at 0%, the deposit facility rate at -0.5% and confirmed bond-buying to start at €20 bn/month from November 1. **Core 10-yr sovereign debt yields are little changed ahead of President Draghi’s last press conference.** German 10-year yields are trading at -0.38%; French 10-yr OAT yields at -0.08%, and Italian 10-yr BTP yield at 0.95%. Euro area 5yr/5-yr inflation swaps trade at 1.21%. European equities (+0.5%) traded higher with the euro unchanged.

Flash PMI data for October show that the euro area economy is barely growing. According to Markit, euro area composite PMI of 50.2 in October implies quarterly growth of just 0.1%.

IHS Markit Eurozone PMI and GDP



The **service sector in the euro area saw the smallest growth in almost 5 years** as the **manufacturing downturn remains the most severe since 2012**. The euro area services PMI was 51.9 (51.8 expected) with manufacturing at 45.7 (46 expected). **Forward-looking PMI survey data were also concerning as PMI price pressures were the weakest since 2009**. Optimism about “future prospects” fell to its lowest level since 2013 on global trade tensions, Brexit and gloomy economic forecasts. **Exports remain a key divergence between France and Germany**. French data suggests growth in new business from abroad while German exports remain in decline. France’s Manufacturing PMI was 50.5 compared to 41.9 for German manufacturing.

The weak PMI data vindicates cautious bond investors. Contacts report that the limited fiscal stimulus at the euro area level planned for 2020 is unlikely to off-set concerns about stagnating growth and low inflation.

United Kingdom

The British pound was little changed at 1.29 per USD. **The Labor party has reiterated its support for a General Election once the EU has agreed an Art 50 extension.**

EU member states want to offer an Art 50 extension but disagree on the length. President Macron is reportedly backing a tight deadline of 15 Nov whereas Germany and EU Council President Tusk are proposing an extension to 31 Jan.

Sweden

The Riksbank left its repo rate unchanged at -0.25% today (as expected) **but signaled its intention to hike in December 2019**. Nevertheless, the outlook update shows that the Riksbank acknowledges an economic slowdown. GDP forecasts were revised lower to 1.3% in 2019 (-0.2ppt), 1.2% in 2020 (-0.3ppt), 1.6% (-0.3ppt) in 2021 and a new growth forecast of 1.8% was added for 2022. **After bringing the repo rate to zero in December, analysts expect the central bank to pause throughout 2020.** The krona was little changed against the euro today.

Other Mature Markets

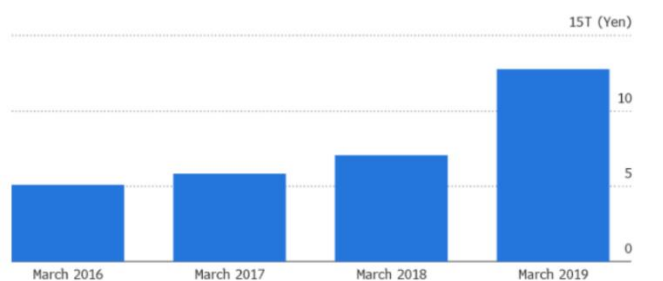
[back to top](#)

Japan

Banks are vulnerable to a price drop in collateralized loan obligations (CLOs), according to the BoJ’s latest financial system report. Japanese banks have rapidly expanded their exposure to CLOs in the search for higher yielding investments. They now own about 15% of outstanding CLOs globally,

CLOs Surge

Japanese banks buy more foreign credit products as low domestic rates hurt



Source: Bank of Japan
Note: The figure covers major banks, Japan Post Bank, and a central organization of financial cooperatives, according to the BOJ.


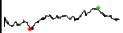



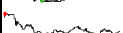

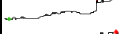
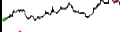
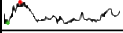
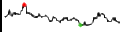



Bloomberg

according to BoJ estimates. The BoJ highlighted that banks mostly hold AAA-rated CLOs limiting default risks. The BoJ report also pointed out falling bank profitability due to prolonged low interest rates, increased risk taking by regional banks, and rapid credit growth to the real estate sector. **Equities rose (+0.3%) led by financials and capital goods producers.** Sentiment was supported by a smaller than expected decline in October flash PMIs. **The yen and JGBs were stable.**

Emerging Markets [back to top](#)

Asian equities gained 0.3% on net. Most bourses advanced with the biggest gains in Indonesia (+1.3%) and Hong Kong (+0.9%). Chinese equities were stable. Asian currencies were little changed except for the Philippine peso (-0.5%). In **EMEA**, gains in most bourses outsized losses in a few countries. Turkey (+1.1%) led the gainers, followed by Hungary (+0.8%), the Czech Republic (+0.7%), and Russia (+0.6%). Poland (-0.2%) and Bulgaria (-0.2%) saw the largest losses in the region. Currencies traded mostly flat to the dollar. **Latin American equity markets** were mostly lower on Wednesday. Chile underperformed as the main equity index fell 1.7%, followed by Argentina (-1.5%). Local currencies were mostly stronger. The Brazilian real strengthened 1.2% on the approval of long-awaited pension reform, followed by the Colombian peso (+1.1%). Ten-year government bond yields rose in Chile and were slightly lower in other countries.

Key Emerging Market Financial Indicators

Last updated: 10/24/19 8:11 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.40	0.3	1	3	10	9
MSCI Frontier Equities		28.18	-0.3	0	0	6	8
EMBIG Sovereign Spread (in bps)		333	1	0	-14	-32	-81
EM FX vs. USD		61.22	-0.1	1	1	-1	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.07	-0.1	0	1	-2	-3
Indonesian Rupiah		14059	-0.2	1	0	8	2
Indian Rupee		71.03	-0.2	0	0	3	-2
Argentina Peso		58.98	-0.5	-1	-3	-38	-36
Brazil Real		4.04	0.0	3	3	-8	-4
Mexican Peso		19.11	0.0	0	2	3	3
Russian Ruble		64.01	-0.1	0	0	3	8
South African Rand		14.64	0.1	1	2	0	-2
Turkish Lira		5.78	-0.7	1	-1	-1	-8
EM FX volatility		7.54	0.0	-0.3	-0.6	-2.4	-2.2

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

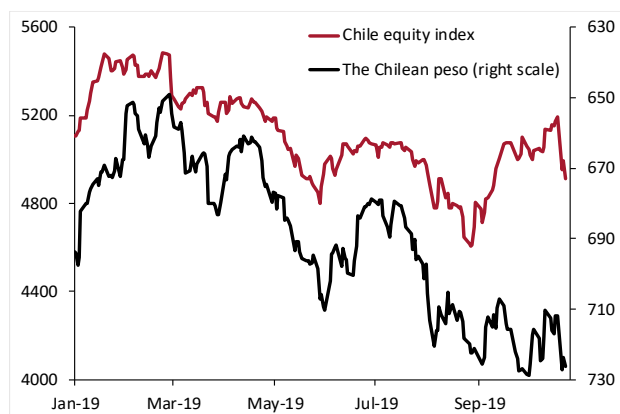
Indonesia

Bank Indonesia (BI) lowered its policy rate by 25bps for the fourth straight month today, to 5%, as expected. The central bank cited its desire to support growth pre-emptively, manageable inflation, and still-attractive returns on domestic assets as the key factors behind its decision. **Equities rallied (+1.3%), while the rupiah and bond yields were little changed.**

Chile

Chile's central bank cut its interest rate by 25 bps to 1.75% on Wednesday amid a domestic economic growth slowdown and falling consumer prices. Ongoing civil unrest and weaker international demand for copper also brought concerns on the growth outlook. In other news, the protests continued to spread out despite President Piñera apologized and announced a package of social measures including

raising minimum income and pensions and providing higher health coverage. Domestic equities fell 1.7% during the day, and the peso slightly weaker against the dollar.



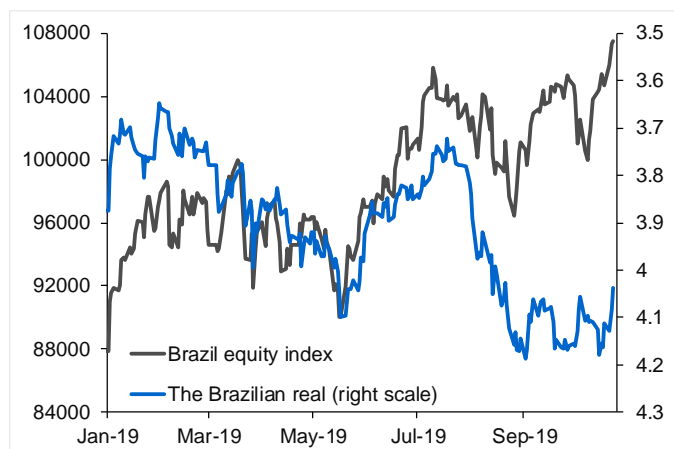
Source: Bloomberg

India

Corporate bond defaults rose to a record high this year amid slowing economic growth and stress in the shadow banking sector. Indian firms defaulted on \$1.1 bn of local-currency and international bonds so far this year. Those firms that delayed or missed debt payments in 2019 still have \$17 bn of bonds and loans outstanding, according to Bloomberg. India's shadow banking sector has been under pressure since the unexpected default of IL&FS Group, a large infrastructure financier, last year. The risk premium on financing companies' borrowings remains elevated with some names trading at distressed levels. Earlier this month the Reserve Bank of India lowered its FY 2020 growth projection to 6.1% from 6.9% previously. Indian equities and the rupee were broadly stable on the day.

Brazil

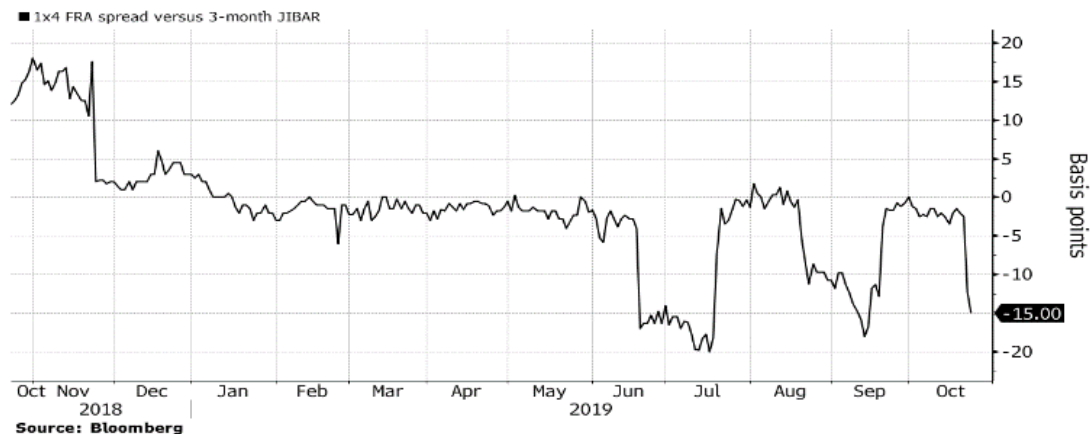
Brazil's long-awaited pension reform was approved at the Senate in a final vote late Tuesday night (60 votes in favor and 19 against). The reform aims to save R\$800 bn (\$194 bn) in the next 10 years by raising retirements ages, increasing the minimum time for contribution to the system, and introducing specific rules designed for rural workers and teachers. The bill will come into effect after confirmation from Congress. According to research reports, the approval of the reform is expected to stabilize gross debt around 81% of GDP and improves fiscal accounts. Though the importance of the agenda is widely seen and accepted, analysts warned that Brazil should push through other reforms and introduce additional fiscal measures. Domestic equities surged to a record high, and the real appreciated 1.2% against the dollar.



South Africa

Markets increase expectations for a rate cut and the rand strengthen somewhat, following softer-than-expected inflation. Price growth data released yesterday showed September core inflation at its lowest in 8 years, printing at 4.0% y-o-y, from 4.3% y-o-y in August. Headline CPI printed at 4.1% y-o-y, also below consensus and below the 4.3% y-o-y in the previous month. The pricing of forward-rate agreements (FRAs) suggests now that traders assign a 50% chance to a 25 bps-rate cut next month. The rand is trading 0.1% stronger today.

Markets pricing in a rate cut at the SARB's November interest rate decision



Slovenia

Slovenia's parliament has approved a law that may force the central bank to cover bank bail-in costs. The new bill was passed by 46 to 34 votes and would make the central bank liable for bail-in payments related to the 2013 bank rescues. Bailed-in debt is estimated at about €600 mn. The Central Bank of Slovenia and the ECB have expressed their opposition to the law, which will be challenged at the nation's constitutional court, Reuters reports.









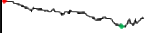













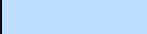



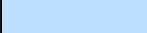

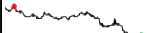
List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina <i>Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Jochen Schmittmann <i>Senior Economist</i>
Peter Breuer <i>Deputy Division Chief</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
Will Kerry <i>Deputy Division Chief</i>	David Jones <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Sergei Antoshin <i>Senior Economist</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Martin Edmonds <i>Senior Data Mgt Officer</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Rohit Goel <i>Financial Sector Expert</i>	Yingyuan Chen <i>Senior Research Officer</i>
Sally Chen <i>Senior Economist</i>	Henry Hoyle <i>Financial Sector Expert</i>	Piyusha Khot <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Thomas Piontek <i>Financial Sector Expert</i>	Xingmi Zheng <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Patrick Schneider <i>Research Officer</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: 10/24/19 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3005	0.3	0	1	13	20
Europe		3618	0.3	1	2	16	21
Japan		22751	0.6	1	3	3	14
China		2941	0.0	-1	-1	13	18
Asia Ex Japan		69	-0.1	0	2	11	8
Emerging Markets		42	0.3	1	3	10	9
Interest Rates			basis points				
US 10y Yield		1.75	0.4	0	10	-135	-93
Germany 10y Yield		-0.39	0.7	2	21	-78	-63
Japan 10y Yield		-0.14	-0.4	1	10	-27	-14
UK 10y Yield		0.68	-1.0	0	15	-78	-60
Credit Spreads			basis points				
US Investment Grade		120	0.1	-1	-11	16	-27
US High Yield		452	0.3	1	-6	83	-69
Europe IG		50	-0.5	-3	-5	-25	-37
Europe HY		228	-0.5	-7	3	-71	-125
EMBIG Sovereign Spread		333	1.0	0	-14	-32	-81
Exchange Rates			%				
USD/Majors		97.53	0.0	0	-1	1	1
EUR/USD		1.11	0.0	0	1	-2	-3
USD/JPY		108.6	0.1	0	-1	3	1
EM/USD		61.2	-0.1	1	1	-1	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		61	0.0	2	-3	-20	14
Industrials Metals (index)		118	0.6	2	2	-1	8
Agriculture (index)		40	0.3	0	4	-9	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.8	-0.2	0.1	-3.2	-11.4	-11.6
10y Treasury Volatility Index		5.1	-0.1	-0.1	-0.6	0.4	0.5
Global FX Volatility		6.4	0.0	-0.2	-0.8	-1.8	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		164	-2.6	-15	-29	-226	-251
Italy		130	-2.7	1	-13	-191	-120
Portugal		59	0.2	1	-15	-99	-89
Spain		64	0.0	1	-7	-59	-53

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 10/24/2019 8:13 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	-0.1	0.1	1	-2	-3		3.3	0.3	3	12	-31	6
Indonesia		14059	-0.2	0.7	0	8	2		7.2	-2.6	-10	-20	-157	-99
India		71	-0.2	0.2	0	3	-2		6.8	-1.6	3	-8	-121	-63
Philippines		51	-0.6	0.0	2	5	2		4.3	-0.1	0	-5	-227	-198
Thailand		30	0.1	0.1	1	9	7		1.6	0.0	4	7	-135	-104
Malaysia		4.19	0.0	-0.1	0	0	-1		3.4	0.1	1	-7	-69	-67
Argentina		59	-0.5	-1.1	-3	-38	-36		56.2	8.7	-135	-1218	3597	3315
Brazil		4.04	0.0	3.2	3	-8	-4		5.8	-6.9	-7	-58	-293	-231
Chile		724	0.4	-1.6	0	-5	-4		3.1	-12.6	27	35	-171	-135
Colombia		3393	1.1	1.9	1	-8	-4		5.8	-3.3	-1	12	-100	-76
Mexico		19.11	0.0	0.5	2	3	3		6.9	-1.2	2	-6	-138	-178
Peru		3.3	0.1	0.5	0	0	1		4.3	3.7	13	-8	-152	-142
Uruguay		37	0.1	-0.1	-2	-12	-13		11.1	13.8	21	46	41	39
Hungary		296	-0.4	0.6	2	-4	-5		1.1	0.0	-6	9	-169	-113
Poland		3.84	-0.1	0.1	3	-2	-3		1.8	-1.6	-4	-6	-80	-51
Romania		4.3	0.0	0.1	1	-4	-5		3.8	-1.0	-1	7	-82	-43
Russia		64.0	-0.1	0.2	0	3	8		6.3	-2.1	-22	-53	-198	-209
South Africa		14.6	0.1	1.4	2	0	-2		9.3	1.3	-4	-3	-43	-27
Turkey		5.78	-0.7	0.9	-1	-1	-8		13.2	-63.3	-228	-109	-762	-367
US (DXY; 5y UST)		98	0.0	-0.1	-1	1	1		1.57	-1.9	0	4	-137	-94

	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		2941	0.0	-1	-1	13	18		186	-1	-1	2	-7	-8
Indonesia		6340	2.8	3	3	11	2		178	2	0	1	-39	-58
India		39020	0.9	1	0	15	8		132	-2	-3	4	-34	-64
Philippines		7951	2.2	0	1	12	6		80	2	4	4	-36	-41
Malaysia		1571	-0.8	0	-1	-7	-7		123	0	-3	2	-3	-39
Argentina		32775	0.7	7	18	16	8		2137	-6	123	-88	1450	1322
Brazil		107544	-0.3	2	4	29	22		231	1	1	-6	-35	-42
Chile		4911	-0.8	-5	-2	-4	-4		134	0	1	-5	-6	-32
Colombia		1613	-0.4	2	1	14	22		176	1	-3	-9	-12	-52
Mexico		43546	0.4	0	1	-5	5		299	1	-6	-25	17	-55
Peru		19503	-0.7	1	1	5	1		126	1	0	2	-29	-42
Hungary		42200	3.9	4	3	13	8		96	2	3	0	-29	-52
Poland		57954	1.1	1	1	5	0		33	1	6	2	-34	-52
Romania		9640	0.7	1	2	12	31		186	-2	1	0	-1	-35
Russia		2853	3.9	4	4	22	20		183	1	-1	-6	-45	-69
South Africa		55879	1.9	0	0	10	6		317	0	-4	-14	-6	-48
Turkey		100995	-3.8	6	-1	9	11		464	1	-35	-17	2	35
Ukraine		522	-0.6	-1	0	-7	-7		462	-5	-24	-46	-131	-325
EM total		42	0.3	1	3	10	9		333	1	0	-14	-32	-81

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

[back to top](#)