








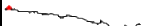





- US economic data releases continue to surprise on the downside ([link](#))
- US term repo operation oversubscribed ([link](#))
- Russian central bank delivers larger-than-expected 50 bps rate cut ([link](#))
- Turkish central bank unexpectedly cut rates by 250 bps ([link](#))
- Thai baht reaches strongest level since 2013 ([link](#))

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Markets cautious amid mixed corporate earnings

European bourses and US equity futures traded in relatively tight ranges this morning as mixed corporate earnings releases kept a lid on positive risk sentiment. Barclays released stronger-than-expected earnings earlier today but Amazon reported its first profit drop in over 2 years. Yesterday, robust results from Microsoft and Tesla were offset by disappointing earnings from Twitter. Sovereign bond yields were little changed this morning and the VIX was slightly lower. Emerging markets were also relatively quiet amid a raft of central bank's interest rate decisions. The Russian, Turkish and Ukrainian central banks cut policy rates by a larger-than-expected amount on easing inflation pressures. Elsewhere, the Thai baht reached its strongest level since 2013. The baht has appreciated 8% this year, more than any other EM currency except the Russian ruble.

Key Global Financial Indicators

Last updated: 10/25/19 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3010	0.2	0	1	11	20
Eurostoxx 50		3612	-0.3	1	3	14	20
Nikkei 225		22800	0.2	2	4	7	14
MSCI EM		42	-0.6	0	3	8	9
Yields and Spreads			bps				
US 10y Yield		1.77	0.2	1	3	-135	-92
Germany 10y Yield		-0.39	1.9	0	19	-78	-63
EMBIG Sovereign Spread		330	-3	-2	-18	-32	-84
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.2	0.1	0	1	-1	-2
Dollar index, (+) = \$ appreciation		97.7	0.0	0	-1	1	2
Brent Crude Oil (\$/barrel)		61.6	-0.1	4	-1	-20	14
VIX Index (% change in pp)		13.6	-0.2	-1	-2	-11	-12

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

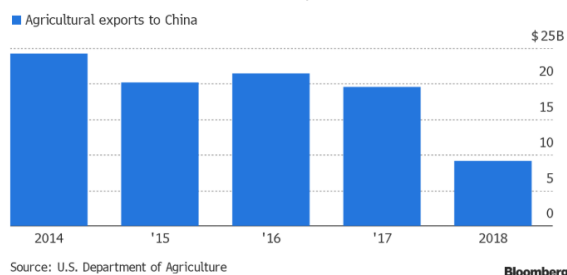
United States

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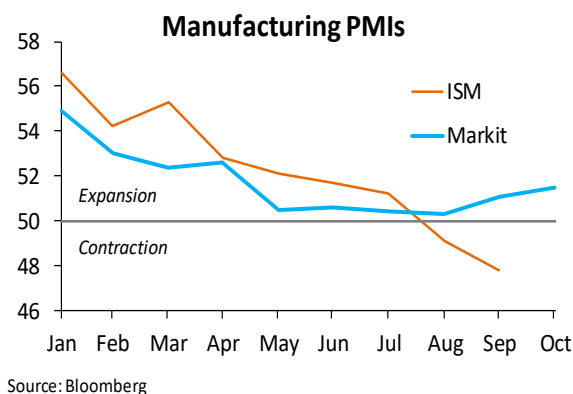
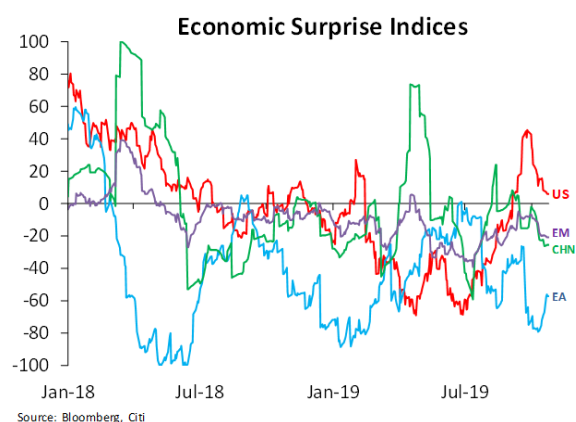
Stocks were mixed Thursday as earnings reports continued to flood the market. Microsoft rose (+2.0%) after releasing robust results, and Tesla jumped (+17.7%) after reporting a profitable quarter. But Twitter (-20.8%) dipped on a disappointing outlook. Bloomberg reports that 82% of S&P 500 companies reporting quarterly results so far have topped estimates, compared to 79% at the end of Q3 last year. A VP Pence speech criticized China's human rights record, but rather than "decoupling" the US "seeks engagement with China and China's engagement with the wider world." The chief trade negotiators for China and the US were scheduled to hold a conference call today. There were news reports China would buy \$20 bn in US agricultural goods on the first year of a new trade deal.

Slump in Trade

Trade war has hurt U.S. farmers and exporters



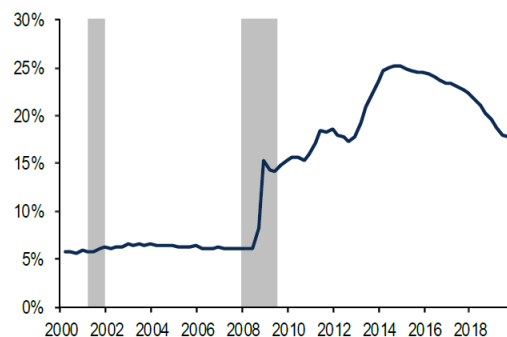
US economic data releases continue to routinely surprise to the downside this month, with a similar trend in emerging markets and China. September durable goods orders came in on the weak side. The headline number was down 1.1% m/m (vs -0.7% expected), while core durables ex-transportation slipped 0.2% (vs -0.2% expected). A proxy for business investment (non-military capital goods orders ex-aircraft) fell for a second straight month. Markit's October manufacturing PMI just came in yesterday evidencing some stabilization. But the ISM PMI index out earlier this month was still flashing contraction. New home sales slipped 0.7% m/m according to government data, even though the median sales prices fell 8.8% y/y. Initial jobless claims dipped to 212k.



The **Treasury completed its third coupon security auction this week** with a \$32 bn 7-year note. The bid-to-coverage ratio was 2.46, compared to a 2.36 six auction average. This follows solid auctions of 2- and 5-year Treasuries earlier this week. Treasury yields ended little changed.

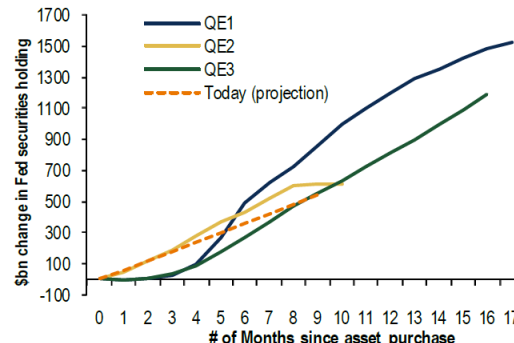
The New York Fed's latest \$45 bn **term repo operation was oversubscribed**. The 14-day term will bring it through end-month, when liquidity conditions typically tighten. The Fed has recently upped the size of both overnight and term repo operations to help avoid episodes of stress in short-term funding markets. As part of this initiative, the **Fed will soon embark on expanding its balance sheet**. Bank of America sees the Fed's holdings in the same fashion as during the three QE episodes, but it agrees with the Fed that the pending expansion is not QE as such, given it is more "technical" in nature since the aim of its forward guidance is different. Its purpose is to provide adequate liquidity and not excess liquidity, and initial buying will be of T-bills and not long-term securities.

Chart 6: Federal Reserve assets, % of GDP



Source: Federal Reserve Board, Bureau of Economic Analysis

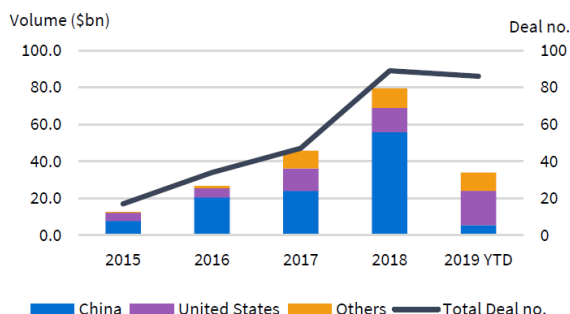
Chart 7: Cumulative change in Fed's securities holdings (\$bn)



Source: Federal Reserve Board

Unicorns are private firms worth over \$1 bn on the verge of going public. Start-up WeWork is much in the news after getting a \$9.5 bn lifeline from SoftBank. The firm's value is now around \$8 bn, having fallen from \$47 bn after a string of problems. But the unicorn market in the US is on the upswing. The US has recovered its mantle from China as the top home of unicorns this year, with Dealogic advising that almost half are from the US, with China having 53 and India 13. Techs predominate the unicorn universe.

Global funding rounds for unicorns



Source: Dealogic

Europe

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Euro Area

At yesterday's ECB meeting, **President Draghi warned that downside risks to the euro area economy are prominent** and inflation is muted but the **meeting did not bring any new information**, including on the composition of new net asset purchases starting 1 Nov.

Markets are now pricing in only one ECB rate cut of 10 bps by the end of 2020 (compared to 20 bps at the beginning of October). **Core 10-yr sovereign debt yields are little changed**. German 10-year yields

are trading at -0.38%; French 10-yr OAT yields at -0.09%, and Italian 10-yr BTP yield at 0.92%. European equities (-0.3%) traded lower with the euro flat at 1.11 against the dollar.

IFO leading indicator data suggest some stabilization in the German economy. The headline IFO business climate index stabilized in October (at 94.6 versus 94.5 expected). The expectations index rose to 91.5 (from 90.9 in Sep) but is still tepid. **German household confidence sentiment is at a 3.5-yr low.** GfK's forward-looking indicator suggests that household sentiment will likely worsen again in November.

Long-term 5-year inflation expectations from the ECB's Survey of Professional Forecasters fell to a new all-time low of 1.67% in Q3 (from 1.74%). Euro area 5yr/5-yr inflation swaps trade at 1.21%.

United Kingdom

PM Johnson has asked parliament to vote for elections on 12 Dec on Monday, blaming a “broken parliament” for the Brexit deadlock. If the parliament approves elections, PM Johnson would give the Commons until 6 Nov to discuss and secure his withdrawal agreement. If Labor refuses a new election offer, the government would withdraw the current deal and campaign in favor of elections. The U.K. government needs at least two-thirds of MPs to call early elections.

Opposition parties look unlikely to agree with PM Johnson's proposal as a significant group of parliamentarians prefers more time to study and potentially amend the government's withdrawal bill. Labor leader Corbyn also said that Labor's decision to back elections depends on the length of the Art 50 extension approved by the EU. Meanwhile, **EU leaders are reportedly waiting for more clarity on U.K. elections before committing to an extension draft.** Nevertheless, contacts still consider an Art 50 extension till 31 Jan most likely. The British pound was little changed at 1.28 per USD.

Barclays (+2%) shares rose as the bank said that it was on track to meet its 9% return on equity goal for 2019, boosted by a sharp increase in 2019Q3 investment bank revenues

Other Mature Markets

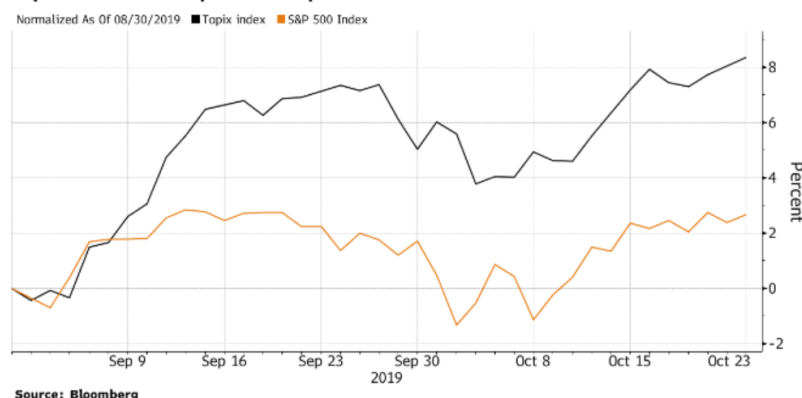
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Japan

Equities (+0.3%) continued their recent outperformance. The Topix stock index has gained close to 8% since the beginning of September. The index shrugged off continued pressure on Softbank following its rescue package for coworking space provider WeWork. Softbank is planning a \$5bn plus write-down to its \$100bn Vision Fund including to its holdings of WeWork and Uber, according to Bloomberg. **The yen and JGBs were stable.**

Return in Favor

Japanese shares outpaced U.S. peers in recent weeks













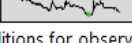
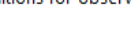


Emerging Markets

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Asian equity markets were mixed today. China outperformed (Shenzhen +1%, Shanghai +0.5%) as markets viewed comments by US VP Pence as positive for trade negotiations although he criticized China over Hong Kong. The worst performing markets today were Thailand (-1.6%) and Indonesia (-1.4%). Asian currencies were marginally stronger, with the Thai baht appreciating the most (+0.3%). In **EMEA**, equities were mixed ranges: Saudi Arabia (+0.3%), Romania (+0.2%), and Bulgaria (+0.2%); Russia (-1.0%), the Czech Republic (-0.9%), and Poland (-0.8%). Currencies were slightly stronger to the dollar. **Latin American equity markets** were mostly higher on Thursday. Argentina outperformed as the Merval index rose 2.1%, and Chile recovered from yesterday's loss (+2.1%). Local currencies were mixed but mainly traded in narrow ranges except for the Argentine peso (-1%).

Key Emerging Market Financial Indicators

Last updated: 10/25/19 8:07 AM	Level Last 12m index	Change				YTD
		1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks		%				%
MSCI EM Equities	 42.40	-0.6	0	3	8	9
MSCI Frontier Equities	 28.19	0.0	0	0	5	8
EMBIG Sovereign Spread (in bps)	 330	-3	-2	-18	-32	-84
EM FX vs. USD	 61.25	0.1	0	1	-1	-2
Major EM FX vs. USD		%, (+) = EM currency appreciation				
China Renminbi	 7.07	0.0	0	1	-2	-3
Indonesian Rupiah	 14038	0.1	1	1	8	3
Indian Rupee	 70.89	0.2	0	0	3	-2
Argentine Peso	 59.60	-1.0	-2	-5	-38	-37
Brazil Real	 4.03	0.3	2	3	-8	-4
Mexican Peso	 19.12	0.1	0	2	2	3
Russian Ruble	 63.82	0.4	0	1	3	9
South African Rand	 14.63	0.5	1	2	0	-2
Turkish Lira	 5.76	0.0	0	-2	-2	-8
EM FX volatility	 7.38	0.0	-0.4	-0.9	-2.6	-2.4

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

Russia

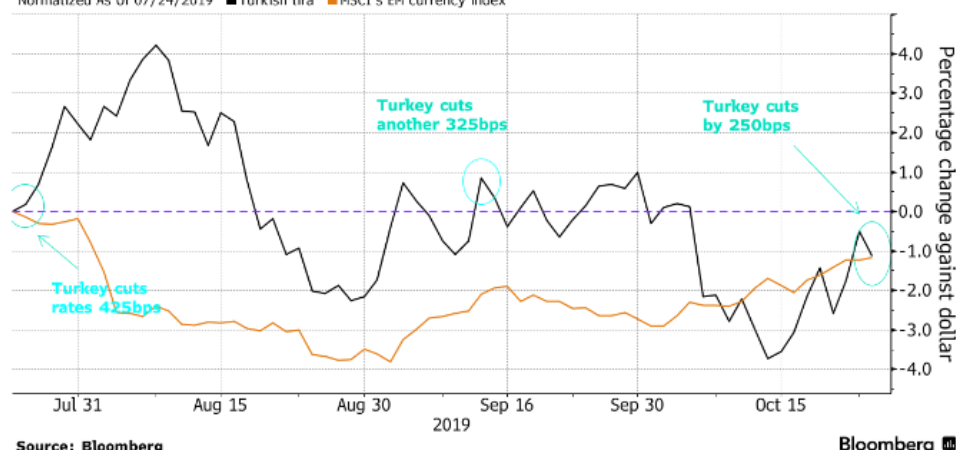
The Bank of Russia cut rates this morning by 50 bps—a larger amount than anticipated by most analysts. The benchmark rate was reduced to 6.5% from 7% against a backdrop of slowing inflation (to below 4% in October and possibly below 3% in coming months according to the central bank). The BoR has cut interest rates 3 times this year. The ruble traded orderly after the announcement, strengthening 0.2% to the dollar.

Turkey

The lira remains steady even a day after the central bank unexpectedly cut rates by 250 bps. The Central Bank of Turkey surprised markets yesterday with a 250 bps-rate cut in the 1-week repo rate, from 16.5% to 14%. The CBT—which argued yesterday that inflation prospects have improved—has reduced interest rates by about 10 percentage points since July. The lira traded flat to the dollar at 5.76, while equities in Istanbul (-0.1%) inched lower. Despite a recent cease-fire in Northern Syria, international investors remain concerned about geopolitical tensions in the region. Recent CBT data reveal a quickening in the pace of capital outflows from Turkey.

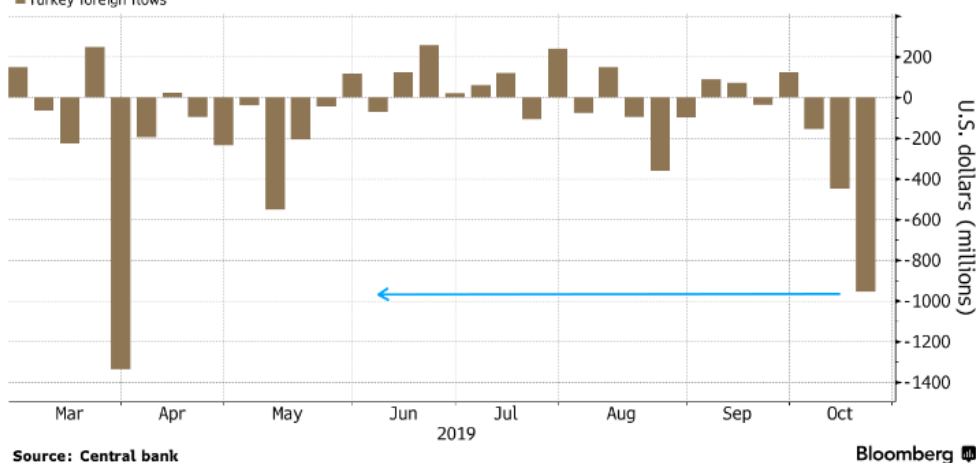
The lira's barely budged even after 10 percentage points of rate cuts

Normalized As Of 07/24/2019 ■ Turkish lira ■ MSCI's EM currency index



Foreign investors fled Turkish assets at fastest pace in seven months

■ Turkey foreign flows



Ukraine

The Central Bank of Ukraine delivered a larger-than-expected rate cut yesterday. The policy rate was lowered by 100 bps to 15.5% from 16.5%, compared to consensus expectations of only a 50 bps cut. The Central Bank noted a slow down of inflation to 7.5% in September, towards the 5% target as rationale for its decision.

Thailand

The Thai baht (+0.3%) reached its strongest level since May 2013 despite efforts by the authorities to arrest the baht's appreciation. The baht has appreciated 8% this year, more than any other EM currency except the Russian ruble. **The baht's REER is approaching levels prior to the 1997 crisis.** Analysts attribute the baht's strength to a significant current account surplus, weak domestic investment, anemic inflation, and large foreign reserves. The Bank of Thailand has repeatedly expressed its concern over baht strength and implemented measure to curb capital inflows including a reduced cap on non-resident bank accounts. The central bank has also announced a relaxation of capital outflow restrictions. **Equities sold off today (-1.6%)** making the Bangkok bourse one of the worst performers in Asia this year.

Philippines

The Bangko Sentral ng Pilipinas (BSP) announced another 100bp cut to its reserve requirement ratio (RRR). The cut will take effect in December, bringing the reserve requirement down by 400bps this year to 14% by year-end. According to governor Diokno, the announced reduction is aimed at ensuring sufficient money supply to support the economy. Economic growth and bank credit have slowed markedly this year. Stocks declined 0.4% and the peso appreciated 0.2%.

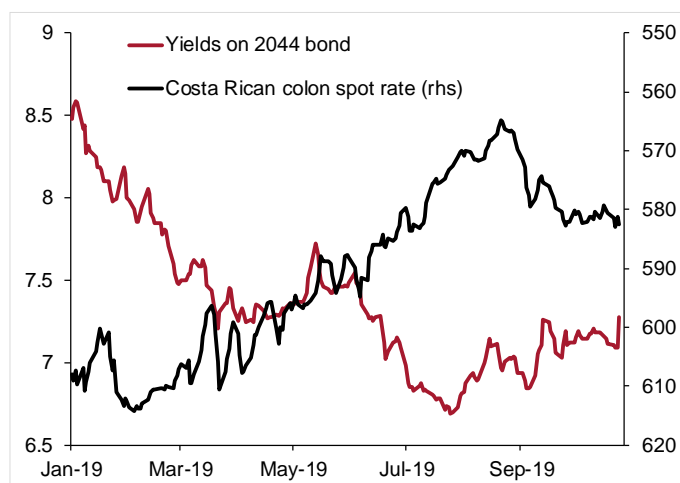
Gaining and Gaining

The baht's almost as strong as it was before its crash in 1997



Costa Rica

Minister of Finance Aguilar resigned on Wednesday evening after the comptroller general of Costa Rica officially accused her of authorizing an unbudgeted public debt payment last year. The comptroller general recommended a 30-day suspension to Mrs. Aguilar, despite the C\$1.5 bn payment was made to avoid a government default. Market contacts commented that credit rating agencies are watching carefully, as all three major agencies hold a negative outlook to the B+/B1 sovereign debt. Costa Rican bond suffered losses yesterday on the news, indicating increasing concerns from investors. The yields on the government's 2044 sovereign bond rose 18 bps to 7.3%, and Costa Rica's benchmark sovereign EMBI Global bond sub-index rose 19 bps to 488 bps. The domestic equity and currency markets were little changed, with equities flat during the day and the colon slightly weaker against the dollar.

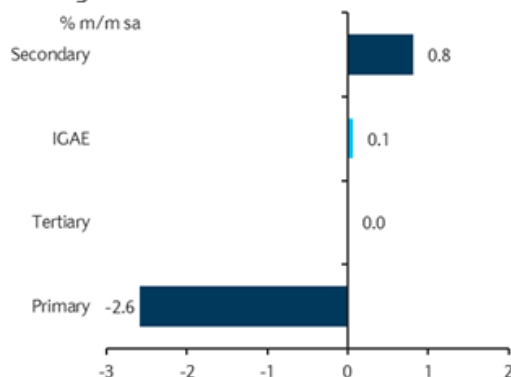


Source: Bloomberg

Mexico

Mexico's economic activity printed 0.08% m/m sa in August, lower than consensus forecast (+0.5% m/m sa). In annual terms, the GDP contracted 0.85% y/y and the main drag was the decline in primary activities (-2.6% m/m sa) and a muted services sector. In a separate data release, Mexico's bi-weekly CPI rose 0.4% 2w/2w, also lower than market expectations. The main drivers of the increase were energy (+3.1% 2w/2w) and core prices (+0.13% 2w/2w). Analysts commented that the slowing inflation signaled increasing odds of a 25-bps rate cut in November. Domestic equities went up 0.5% yesterday, and the peso was little changed.

Weaker than expected report on the back of muted growth in services



Source: INEGI, Barclays Research

Inflation has stabilized at target



Source: INEGI, Barclays Research

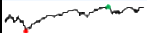






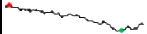














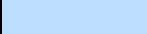



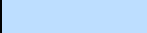
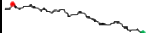
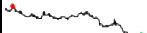
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Global Financial Indicators

Last updated: 10/25/19 8:02 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3010	0.2	0	1	11	20
Europe		3612	-0.3	1	3	14	20
Japan		22800	0.2	2	4	7	14
China		2955	0.5	1	0	13	18
Asia Ex Japan		69	0.2	0	3	9	8
Emerging Markets		42	-0.6	0	3	8	9
Interest Rates			basis points				
US 10y Yield		1.77	0.2	1	3	-135	-92
Germany 10y Yield		-0.39	1.9	0	19	-78	-63
Japan 10y Yield		-0.14	0.3	-1	12	-25	-14
UK 10y Yield		0.66	3.4	-5	12	-78	-62
Credit Spreads			basis points				
US Investment Grade		120	-0.2	-2	-11	15	-27
US High Yield		452	-0.5	-1	-2	83	-69
Europe IG		51	-0.1	-2	-5	-24	-36
Europe HY		232	-0.2	-1	0	-68	-121
EMBIG Sovereign Spread		330	-3.0	-2	-18	-32	-84
Exchange Rates			%				
USD/Majors		97.67	0.0	0	-1	1	2
EUR/USD		1.11	0.0	-1	2	-2	-3
USD/JPY		108.6	0.0	0	-1	4	1
EM/USD		61.2	0.1	0	1	-1	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-0.1	4	-1	-20	14
Industrials Metals (index)		118	0.1	1	2	0	8
Agriculture (index)		39	-0.1	0	3	-8	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.6	-0.2	-0.7	-2.4	-10.7	-11.9
10y Treasury Volatility Index		4.8	-0.3	-0.5	-0.7	0.5	0.2
Global FX Volatility		6.3	0.0	-0.3	-0.9	-1.9	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		161	-3.1	-9	-30	-223	-255
Italy		131	-0.3	0	-11	-179	-119
Portugal		58	-1.1	-1	-16	-97	-90
Spain		63	-0.8	1	-7	-56	-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: 10/25/2019 8:05 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.07	0.0	0.2	1	-2	-3		3.2	-0.2	4	12	-30	5
Indonesia		14038	0.1	0.8	1	8	3		7.2	3.2	-5	-19	-149	-95
India		71	0.2	0.4	0	3	-2		6.8	0.4	1	-7	-118	-62
Philippines		51	0.2	0.1	2	5	3		4.3	0.1	1	-4	-227	-198
Thailand		30	0.3	0.3	1	9	7		1.6	-2.1	-1	4	-136	-106
Malaysia		4.18	0.0	0.0	0	0	-1		3.4	2.2	3	-9	-67	-65
Argentina		60	-1.0	-2.1	-5	-38	-37		56.4	21.5	-153	-1008	3608	3337
Brazil		4.03	0.3	2.1	3	-8	-4		5.9	3.0	6	-59	-299	-228
Chile		724	0.0	-1.7	0	-5	-4		3.1	-3.9	8	28	-175	-139
Colombia		3406	-0.4	1.3	1	-7	-4		5.7	-5.4	-3	9	-111	-81
Mexico		19.12	0.1	-0.1	2	2	3		6.9	-4.6	-6	-13	-149	-182
Peru		3.3	-0.1	0.0	0	0	1		4.3	1.2	12	-5	-157	-140
Uruguay		37	0.0	-0.1	-2	-12	-13		11.2	6.3	39	61	47	45
Hungary		296	0.2	0.1	3	-4	-5		1.1	0.2	-5	10	-163	-113
Poland		3.85	0.1	-0.5	4	-2	-3		1.8	0.5	-3	-6	-76	-50
Romania		4.3	0.1	-0.5	1	-4	-5		3.8	1.0	1	8	-81	-42
Russia		63.8	0.4	-0.2	1	3	9		6.4	2.8	-17	-51	-199	-206
South Africa		14.6	0.5	1.1	2	0	-2		9.3	-0.3	-2	-3	-64	-27
Turkey		5.76	0.0	0.5	-2	-2	-8		13.0	-23.2	-218	-111	-740	-390
US (DXY; 5y UST)		98	0.0	0.4	-1	1	2		1.59	0.3	2	-2	-137	-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	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2955	0.5	1	0	13	18		186	-1	-1	-3	-1	-8
Indonesia		6252	-1.4	1	2	9	1		176	-2	-1	2	-40	-60
India		39058	0.1	0	1	16	8		133	1	-3	2	-34	-63
Philippines		7923	-0.4	0	0	14	6		78	-2	3	8	-36	-43
Malaysia		1570	-0.1	0	-1	-7	-7		122	-40	-4	-4	-5	-40
Argentina		33476	2.1	5	19	14	11		2111	-4	54	-108	1440	1296
Brazil		106986	-0.5	2	2	27	22		228	-1	-2	-8	-35	-45
Chile		5015	2.1	-3	0	-2	-2		134	-1	2	-6	-4	-32
Colombia		1616	0.2	2	1	16	22		173	-1	-3	-11	-12	-55
Mexico		43777	0.5	1	2	-5	5		298	-2	-4	-21	18	-56
Peru		19601	0.5	2	1	5	1		124	-1	-1	3	-30	-44
Hungary		42150	-0.8	4	4	15	8		95	-1	0	0	-29	-53
Poland		57448	-1.0	1	1	4	0		30	-3	-2	-4	-33	-55
Romania		9646	0.3	1	2	14	31		185	0	0	-8	-6	-36
Russia		2861	-0.6	4	4	23	21		182	0	-2	-4	-45	-70
South Africa		55225	-0.5	-1	1	7	5		314	-3	-7	-17	-8	-51
Turkey		100294	-0.1	2	-2	7	10		451	-9	-31	-27	-10	22
Ukraine		522	0.0	0	0	-7	-7		453	-8	-30	-47	-139	-334
EM total		42	-0.6	0	3	8	9		330	-3	-2	-18	-32	-84

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

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