



- Virus worries offset positive Q3 earnings as US equities fall and VIX hits 4-month high ([link](#))
- Expectations for Fed to discuss guidance on asset purchases at next week's meeting ([link](#))
- Governments set to tighten restriction measures across Europe ([link](#))
- European bond markets show resilience amid ECB support ([link](#))
- China removes the counter-cyclical factor in daily RMB fixing ([link](#))
- Brazilian yield curve steepens as government response to virus adds to high debt levels ([link](#))

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Risk-off mood prevails as investors fear lockdowns loom amid virus spikes

Amid intensifying COVID-19 outbreaks and associated public health measures, developed market sovereign bond yields and equities are decidedly lower this morning. Global equities have remained on the defensive as worries continued to mount amid the acceleration of COVID-19 infections in the US and Europe, and the potential effects on Q4 growth prospects. The S&P 500 lost 0.3% yesterday and futures point to a further 1.5% decline this morning, while overnight Asian bourses were mixed to mostly lower and European equities are approaching a 5-month low as France and Germany prepare to announce new lockdown measures. The recent volatile market moves have underpinned safe haven assets as 10-year US Treasury yields are now back down to 0.76%, while 10-year Bund yields have fallen to the lowest level since March. The US dollar has also benefited from the risk-off sentiment and the euro has weakened to \$1.17 in the face of forthcoming restrictions to contain the virus spread in the region. EM currencies are broadly depreciating this morning with the EM FX index now weaker by over 1% this week, and market participants are keeping a close eye on the Turkish lira as it hits fresh lows at now 8.28 per USD. The advance in crude oil prices from yesterday has quickly faded overnight (-4%) on a combination of the sell-off in risk assets and weekly inventory figures revealing a sizable buildup in US stockpiles.

Key Global Financial Indicators

Last updated: 10/28/20 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3391	-0.3	-2	1	12	5
Eurostoxx 50		2980	-3.0	-6	-8	-18	-20
Nikkei 225		23419	-0.3	-1	0	2	-1
MSCI EM		46	0.4	0	6	8	2
Yields and Spreads			bps				
US 10y Yield		0.76	-0.7	-6	11	-108	-116
Germany 10y Yield		-0.63	-1.9	-5	-11	-30	-45
EMBIG Sovereign Spread		404	0	-16	-13	68	111
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.4	-0.7	-1	1	-12	-11
Dollar index, (+) = \$ appreciation		93.5	0.6	1	-1	-4	-3
Brent Crude Oil (\$/barrel)		39.7	-3.7	-5	-6	-36	-40
VIX Index (% change in pp)		36.5	3.2	8	10	23	23

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

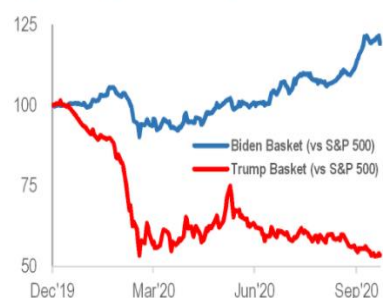
United States

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On Tuesday, US equities moved sideways and were little changed following the sharp declines on Monday. The S&P 500 closed down 0.3% with mixed performance of its constituents: while sectors like Banking, Airlines, and Hotels continued declining, the tech giants outperformed the index with some reporting earnings after the close yesterday (Microsoft beating forecasts) and others this afternoon (Apple, Amazon, Google). The US dollar index (DXY) depreciated 0.1% and US Treasury 10Y yields fell -3 bps. In the US credit markets, investment grade spreads declined -0.5 bps while high yield spreads increased by 4.8 bps. The volatility index (VIX) is now up to 36, the highest level in four months. **This morning, S&P 500 futures point to a 1.5% decline** and 10-year Treasury yields are down to 0.76% as virus fears have hampered risk sentiment.

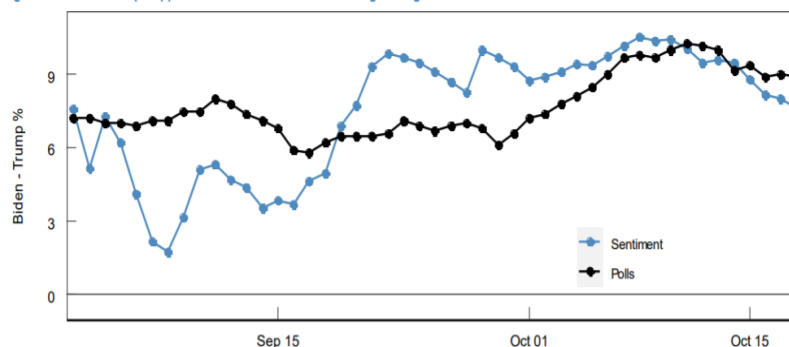
Donald Trump's chances to win the US election remain non-negligible, especially as his electoral campaign is getting more dynamic - yet, markets seem to be pricing-in a policy mix implying the victory of Joe Biden. In particular, considering the assets that would benefit most in the scenario of Biden's victory ("Biden's election basket"; e.g., Alternative Energy / Green Tech stocks) vis-à-vis Trump's election basket (e.g., Traditional Energy / Fossil Fuels), analysts point out that Biden's basket is significantly outperforming Trump's basket - the outperformance spanning beyond the levels that could be explained by current fundamentals. The left chart below illustrates the recently widening gap for the equity baskets, while similar patterns are observed for corporate credit indices. However, various electoral indicators, alternative to traditional polling, suggest that the electoral gap between Biden and Trump may be narrowing: e.g., JPMorgan's analysts point out that Twitter's sentiment indicator is disfavoring Trump less (right chart, blue line) with the effect most pronounced in several "swing states". Correspondingly, the traditional opinion polls may turn out to be somewhat lagged indicators compared to the social media sentiments.

Fig 1: J.P. Morgan Biden vs Trump Baskets



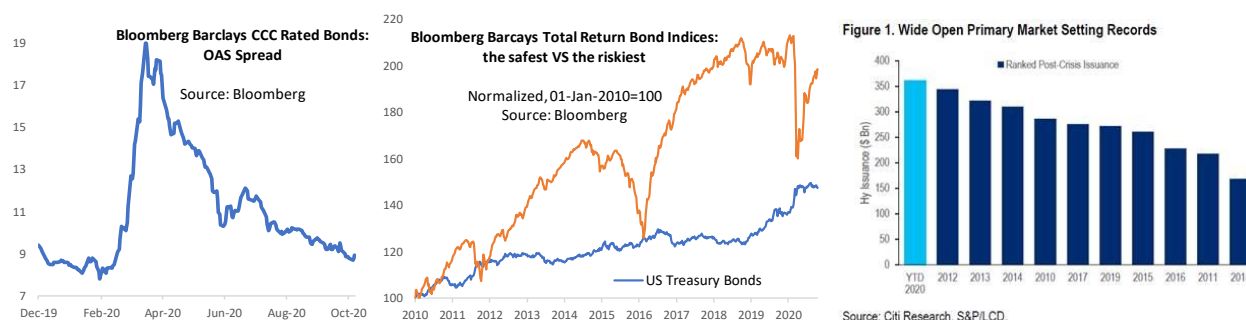
Source: J.P. Morgan US Equity Strategy & Global Quantitative Research

Figure 1: Biden – Trump Support Based on National Level Polling Average and Social Media Sentiment

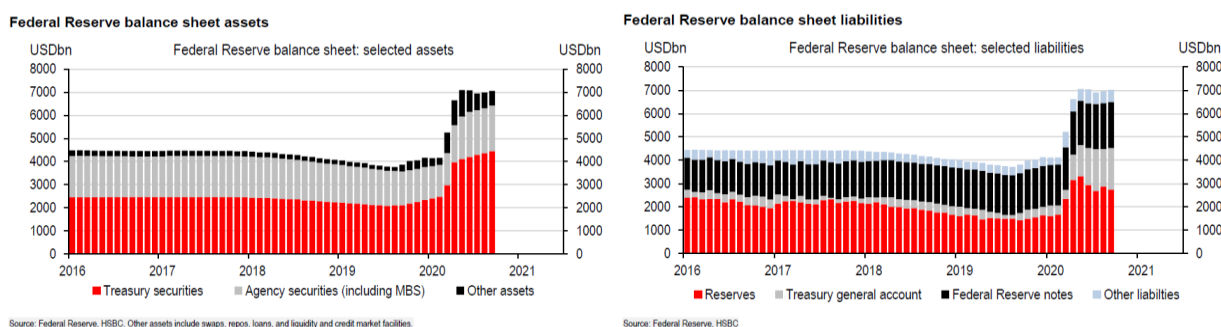


Source: J.P. Morgan, QuantCube, Real Clear Politics

The new “low-for-long” interest rate environment has boosted risky credit markets. A new “search for yield” has contributed to bringing the high yield credit spreads closer to pre-COVID levels (left chart below for CCC-rated bonds). This is despite the significant tail risks arising from potential new outbreaks of COVID-19 and the lack of clarity whether the exhausted fiscal space will allow to contain them in the future. In turn, investors may be somewhat myopic by relying too much on the belief that in the long-run high yield bonds tend to beat safe Fixed Income assets: the middle chart demonstrates that over the long-run even the most risky bond category (CCC-rated bonds) outperforms the US Treasury bonds on the total return basis despite episodes of massive shocks to the high-yield bonds. Yet, the record high volumes of issuance of high-yield bonds in 2020 (right chart) raise alarms that the markets may be over-relying on the expectations of “policy puts” in the event of another bout of market stress.



With the Federal Reserve's balance sheet reaching a record high \$7 tn (left chart below), the question is how long the FOMC intends to maintain its pace of asset purchases. The Federal Open Market Committee (FOMC) will meet on 4-5 November with the discussion expected to be focused on supporting its forward guidance on policy rates by providing more clarity about the role of asset purchases and thereby continue to put downward pressure on borrowing costs across the yield curve. While no significant changes are expected immediately after the meeting, the FOMC may begin discussing the question of how long the current purchase pace of \$120 bn per month should be sustained in 2021 and beyond. An auxiliary question is the potential impact of asset purchases on the liability side of the Fed's balance sheet (right chart) with growing bank reserves held at the Fed and the consequent implications for the composition of assets held within the banking system: analysts expect to hear Chairman Powell's opinion on whether it is considered as a factor that could potentially limit the overall volume of asset purchases over long time horizons.

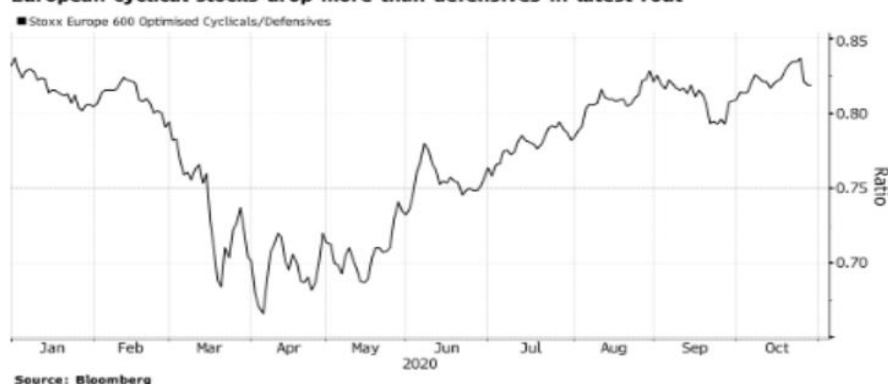


Europe

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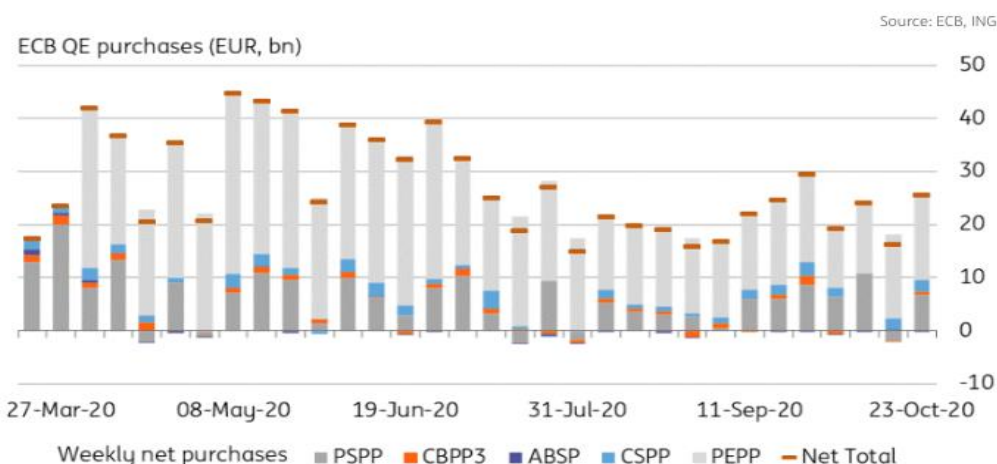
European equities started the day with large losses as most indices were down more than 2.5%. The Euro STOXX 600 benchmark (-2.5%) has now retraced back to May levels with cyclical shares underperforming defensive stocks on new lockdown fears.

European cyclical stocks drop more than defensives in latest rout



The euro (-0.5%) and the sterling (-0.5%) were lower against the dollar.

European bond markets were trading in risk-off mode with German 10-year bund yields declining by 3 bps to -0.64%, the lowest level since March. Southern-European spreads widened with Italy (+7 bps) and Greece (+8 bps) underperforming. While European sovereign credit spreads have given up most of the October tightening, contacts point out that overall market dynamics remain contained with good two-way liquidity. Furthermore, ECB's purchases remain below their potential with a boost in purchases expected should the volatility pick-up further.



European corporate credit markets have also been relatively resilient to the emergence of the second virus wave. While benchmark iTraxx indices have widened both for the investment grade and speculative grade credit markets by about 10 bps and 50 bps from October lows, the move has been contained and contacts note investors' appetite remains solid despite record supply. This year, the issuance of investment grade bonds is likely to exceed €400 bn and speculative grade bonds €150 bn. Despite those record numbers, the credit spread compression through ECB purchases and low default rates amid wider policy support continues to attract inflows into European credit.

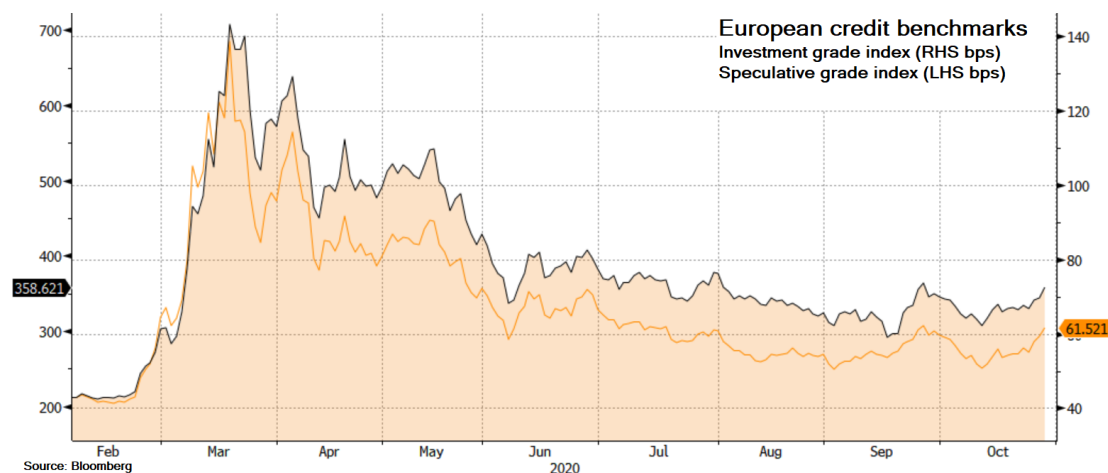
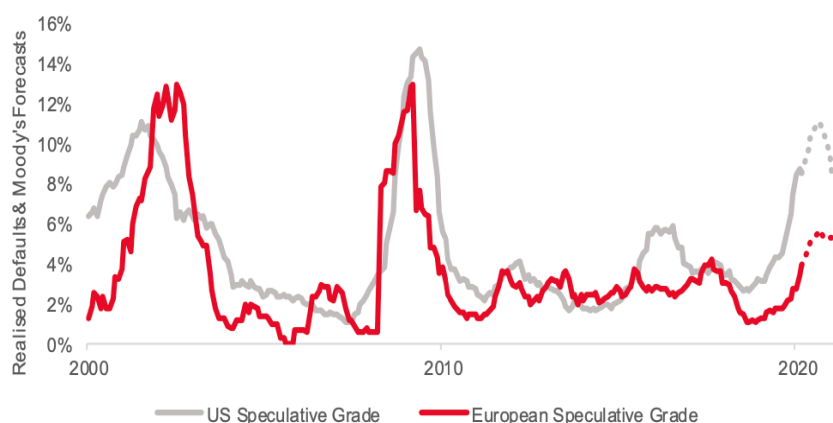
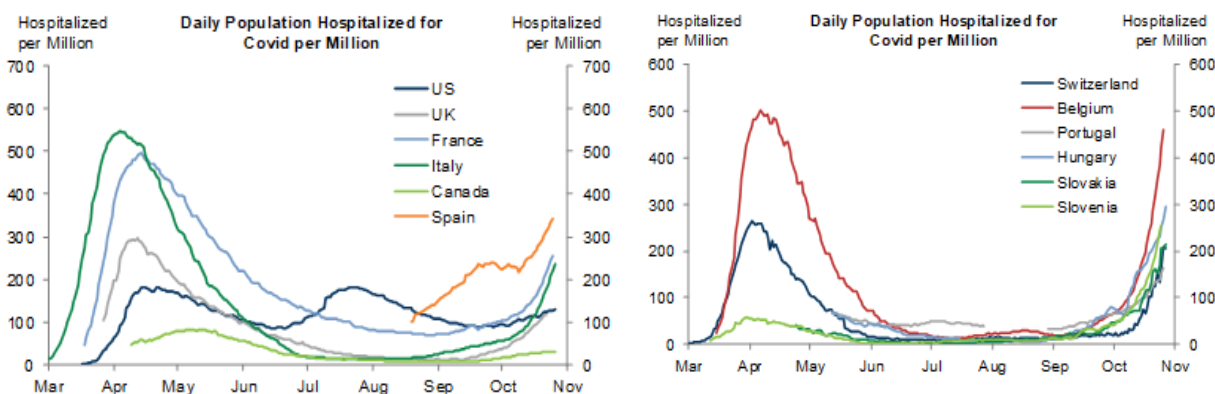


Chart 4: 2000 and 2009 were very different to 2020



Source: SG Cross Asset Research/Credit

Europe edges closer to a full lockdown as rapidly rising hospitalization rates raise concerns over ability of the healthcare system to deal with the second wave. Despite being on the lower end in terms of new cases and hospitalizations, **Germany pushed for tighter restrictions** including closing of bars, restaurants, sport and leisure facilities until the end of November. In France, where the situation is more severe, President Macron is expected to announce new containment measures on Thursday. The details remain unclear, but media reports that a month-long lockdown is on the table, albeit more flexible than the one in spring. Belgium could also see a lockdown announced by the weekend as the country has overtaken Czech Republic in terms of new cases per capita.



France consumer confidence eased less than expected in October, but forward-looking components confirm downside risks for Q4. The headline Insee survey reading declined to 94 (95 September, 93 consensus), suggesting a level of resilience despite tightening restrictions. That said, forward looking indicators such as future living standards and future unemployment showed a bigger deterioration. Contacts also point out that the survey does not capture the latest round of restrictions as the cut-off date was 19 of October.

Chart 4: Consumer spending recovered sharply in Q3 but the outlook for Q4 is far more uncertain

Source: INSEE

Other Mature Markets

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Japan

Market participants expect the Bank of Japan (BOJ) to keep the policy rate unchanged this week.

One market analyst noted that the BOJ will focus on providing support to the corporate sector. More recently, the BOJ has accelerated its corporate bond purchases while moderating its commercial paper purchases. This suggested a shift to providing longer-term funding from an initial focus on addressing liquidity stress. **Equities declined (NIKKEI: -0.3%); Japanese yen appreciated (+0.1%).**

Australia

CPI inflation turned positive in 2020Q3. CPI increased 0.7% y/y, slightly higher than an expected rise of 0.6% y/y, reversing a decline of 0.3% y/y in 2020Q2. The inflation rebound was very narrowly based, with four components of the CPI basket (8.6% of the basket) driving the increase in CPI. The price swing was largely due to the unwinding of free childcare programs; other major drivers were petrol prices and pre-school and primary education costs. Broad-based inflationary pressures are still lacking. Market participants still expected the Reserve Bank of Australia to further ease monetary policy. **Australian dollar was little changed; government bond yields declined (10-year: 2 bps); equities gained (+0.1%).**

Child's Play

Price spike from unwind of free child care programs









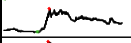



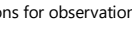



Source: Bloomberg.

Emerging Markets [back to top](#)

Asian stock markets were mixed today. Indian (-1.5%) and Singaporean (-0.9%) equities led the decline, while share prices rose in China (CSI 300: +0.8%) and Korea (+0.6%). **Most Asian currencies depreciated**, led by Korean won (-0.5%). Thai baht (+0.3%) and Malaysian ringgit (+0.3%) outperformed. **In Thailand**, the parliament will consider the process of amending the constitution in a bid to appease protestors. Equities gained (+0.3%). **In Malaysia**, the monarch expressed full confidence in Prime Minister Muhyiddin Yassin and called on lawmakers to support the government's 2021 budget. **The Hong Kong Monetary Authority continued intervening to curb the currency's strength.** Fund inflows ahead of Ant Financial's mega IPO added pressures on the currency peg more recently. **EMEA equities saw large losses** with indices down in Poland (-3%), Turkey (-2.2%) and Russia (-2%). **EMEA currencies depreciated** against the dollar with the Turkish lira (-1.5%) and the Russian ruble (-1.4%) underperforming. **Latin American equities fell yesterday, with the MSCI Latam down 1.1%, on rising concerns about a surge in coronavirus cases in the region.** Brazilian and Mexican stocks dropped 1.4% and 0.6%, respectively. Regional currencies were mixed, with the Brazilian real down 1.5% and the Chilean peso up 0.4%. Government bond yields were also mixed, with Brazilian yields up 9 bps and Mexican yields down 5 bps.

Key Emerging Market Financial Indicators

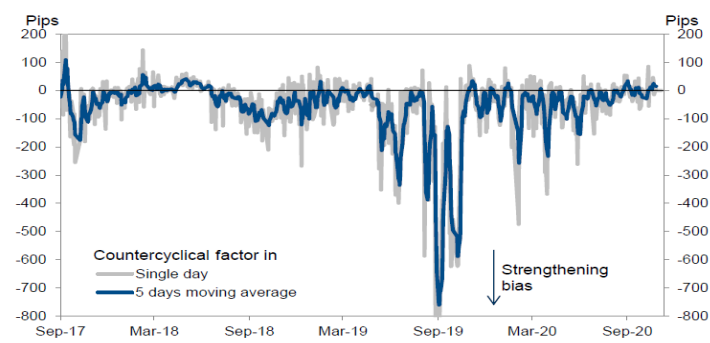
Last updated: 10/28/20 8:16 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.92	-1.1	0	6	8	2
MSCI Frontier Equities		26.51	-0.3	-1	3	-6	-13
EMBIG Sovereign Spread (in bps)		404	0	-16	-13	68	111
EM FX vs. USD		54.38	-0.7	-1	1	-11	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.72	-0.2	-1	1	5	4
Indonesian Rupiah		14625	0.2	0	2	-4	-5
Indian Rupee		73.87	-0.2	0	0	-4	-3
Argentina Peso		78.30	-0.1	-1	-3	-24	-24
Brazil Real		5.75	-0.7	-2	-1	-31	-30
Mexican Peso		21.29	-1.3	-1	5	-10	-11
Russian Ruble		78.39	-1.4	-2	1	-19	-21
South African Rand		16.37	-1.0	0	4	-11	-14
Turkish Lira		8.28	-1.1	-6	-6	-31	-28
EM FX volatility		11.26	0.0	0.3	-0.9	4.1	4.7

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

China

China removed the counter-cyclical factor (CCF) in the daily RMB fixing. The China Foreign Exchange Trade System (CFETS) announced that banks stopped using the CCF in their fixing models. The adjustment would make the fixing more transparent and market driven. The CCF was first introduced in May 2017 to rein in depreciation and then set to zero in January 2018 amid strong RMB appreciation. The CCF was re-applied in August 2018 due to depreciation pressures. In recent weeks, the CCF removal has been expected amid continued RMB appreciation. Some market analysts noted that the direct market effect would be limited given that the CCF has been limited recently. Others expected that the CCF removal would lead to greater two-ways exchange rate volatility. RMB depreciated (onshore: -0.1%; offshore: -0.04%).

Exhibit 1: The countercyclical factor has been muted in recent three months



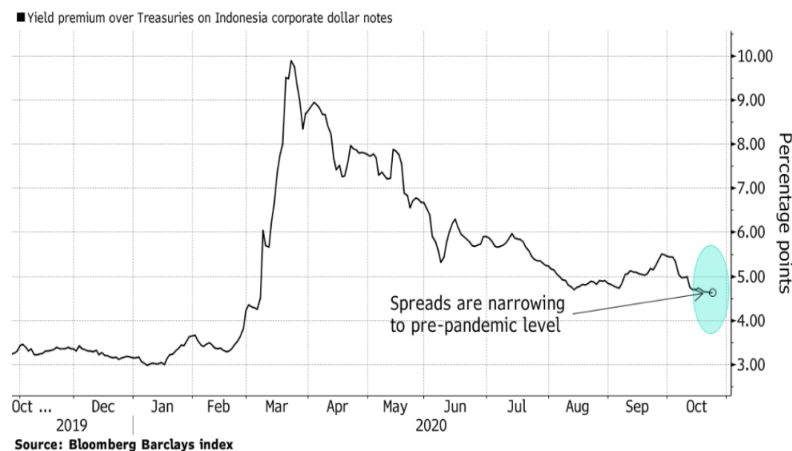
Source: Goldman Sachs Global Investment Research

Indonesia

Indonesia USD corporate bond spreads continued tightening. Average spreads on Indonesian USD corporate bonds declined 83 bps this month, outperforming other emerging market USD securities. The rally has been supported by strong global demand for high-yielding assets and improving investor sentiment following the newly passed law that seeks to revive foreign investment.

Rallying Further

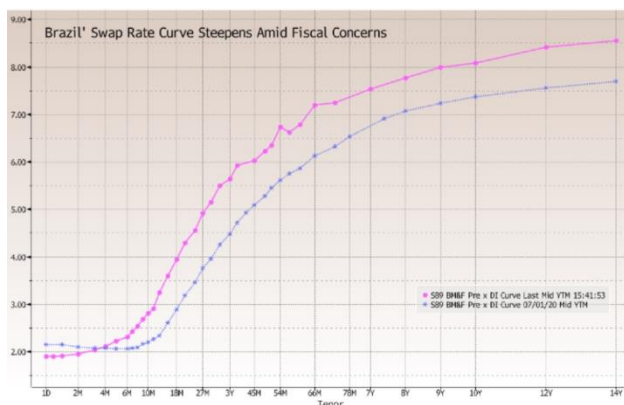
Indonesian corporate dollar bonds spreads continue to tighten



Source: Bloomberg Barclays index

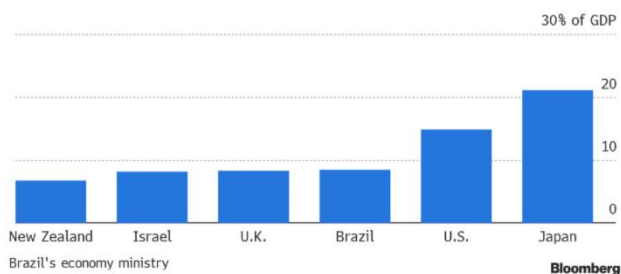
Brazil

Investors are increasingly concerned about high government debt levels, based on Bloomberg reporting. Brazil's fiscal policy response was initially praised given its sheer size and focus on poverty reduction. However, investors have become concerned about how the country will pay for it, offloading stocks (down 14% ytd) and the currency (down almost 30% ytd) and becoming reluctant to buy medium- and long-term bonds. As a result, the yield curve has steepened (figure). Brazil's stimulus package amounts to 8.4% of GDP—comparable to those of some of the richest nations (figure) rather than its speculative-grade peers. The primary fiscal deficit is now estimated at 12.1% of GDP and debt is projected to reach 95% of GDP for year-end, having risen 30 ppts of GDP in the last five years. The debt loads—while lower than in some advanced economies—are very concerning for Brazil to investors. Yields on 10-year bonds rose 9 bps yesterday and 26 bps on a weekly basis.



Big Spenders

Brazil's pandemic response rivals those of some rich nations



Kuwait

The central bank held the benchmark discount rate at 1.5% but lowered interest rates of other monetary policy instruments by 0.125%, for the entire interest rate yield curve up to 10-year term.

The instruments include, the repo, CBK bonds, the term-deposits system, direct intervention instruments, as well as public debt instruments. The bank said it would keep the discount rate at 1.5%, maintaining the existing cap for loans extended to customers in Kuwaiti dinars. The country is facing the highest budget deficit in its history, brought on by the drop in oil prices and the pandemic.

Real Low

Adjusted for inflation, Kuwait's discount rate is starting to fall again

■ Kuwait Central Bank Discount Rate - Kuwait Consumer Price Index YoY% on 8/31/20














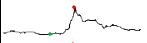










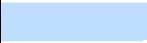
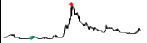





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Global Financial Indicators




















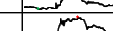












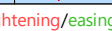
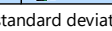




Last updated: 10/28/20 8:09 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3376	-0.3	-2	1	11	4
Europe		2980	-2.9	-6	-8	-18	-20
Japan		23419	-0.3	-1	0	2	-1
China		3269	0.5	-2	2	10	7
Asia Ex Japan		80	0.7	0	6	16	9
Emerging Markets		46	0.4	0	6	8	2
Interest Rates			basis points				
US 10y Yield		0.76	-0.7	-6	11	-108	-116
Germany 10y Yield		-0.63	-1.8	-5	-11	-30	-45
Japan 10y Yield		0.03	-0.6	-1	0	15	4
UK 10y Yield		0.22	-1.5	-3	2	-51	-61
Credit Spreads			basis points				
US Investment Grade		123	-0.7	-2	-13	4	26
US High Yield		520	4.2	16	-37	76	127
Europe IG		63	3.6	8	3	13	19
Europe HY		363	19.4	35	18	135	156
EMBIG Sovereign Spread		404	0.0	-16	-13	68	111
Exchange Rates			%				
USD/Majors		93.47	0.6	1	-1	-4	-3
EUR/USD		1.17	-0.5	-1	1	6	5
USD/JPY		104.4	0.1	0	1	4	4
EM/USD		54.4	-0.7	-1	1	-11	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		40	-3.8	-5	-7	-36	-40
Industrials Metals (index)		121	-0.1	-2	4	2	6
Agriculture (index)		42	-1.6	-1	8	6	0
Implied Volatility			%				
VIX Index (% change in pp)		36.5	3.2	7.9	10.3	23.4	22.8
US 10y Swaption Volatility		71.0	0.0	-3.0	26.8	-1.0	9.0
Global FX Volatility		8.7	0.0	0.1	-0.9	2.4	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		166	11.1	15	9	10	0
Italy		139	7.2	2	-2	5	-21
Portugal		78	3.6	1	-1	20	15
Spain		81	3.3	1	3	17	15

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

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Emerging Market Financial Indicators

Last updated: 10/28/2020 8:18 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.72	-0.2	-1.0	1	5	4		3.3	-0.6	-3	7	7	17
Indonesia		14625	0.2	0.2	2	-4	-5		6.6	-0.2	-1	-19	-56	-51
India		74	-0.2	-0.4	0	-4	-3		6.0	0.5	-6	-17	-82	-88
Philippines		48	0.0	0.4	0	6	5		3.6	-0.1	-1	-8	-76	-74
Thailand		31	0.2	0.2	2	-3	-4		1.5	0.2	-1	2	-9	-13
Malaysia		4.15	0.3	-0.3	0	1	-2		2.5	1.1	6	-9	-93	-84
Argentina		78	-0.1	-0.8	-3	-24	-24		48.6	44.3	298	664	-816	-1399
Brazil		5.75	-0.7	-2.4	-1	-31	-30		6.4	4.8	29	58	53	12
Chile		775	-0.5	0.9	1	-7	-3		2.6	0.8	-9	-9	-46	-65
Colombia		3810	0.1	0.3	2	-11	-14		5.3	-0.3	9	18	-39	-64
Mexico		21.29	-1.3	-0.8	5	-10	-11		6.1	-2.4	1	14	-86	-87
Peru		3.6	-0.1	-0.2	0	-8	-8		4.1	-4.1	-8	-7	-27	-41
Uruguay		43	-0.2	-0.1	-1	-12	-13		7.4	1.8	1	-20	-379	-350
Hungary		313	-1.2	-2.0	0	-6	-6		1.7	-2.8	-1	-6	66	53
Poland		3.95	-1.4	-2.4	0	-2	-4		0.6	-2.7	-6	-16	-119	-130
Romania		4.2	-0.6	-1.1	0	3	3		3.2	0.0	-3	-11	-62	-79
Russia		78.4	-1.4	-2.1	1	-19	-21		5.7	2.2	3	-19	-60	-45
South Africa		16.4	-1.0	-0.3	4	-11	-14		10.1	0.4	-7	-16	86	61
Turkey		8.28	-1.1	-5.6	-6	-31	-28		14.0	14.0	89	143	127	235
US (DXY; 5y UST)		94	0.6	1.0	-1	-4	-3		0.32	-0.8	-3	6	-134	-137

	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	
			1 Day	7 Days	30 Days	12 M		basis points						
China		4737	0.8	-1	3	21	16		213	-1	-2	-6	28	37
Indonesia		5128	0.0	1	5	-18	-19		219	2	10	-19	49	63
India		39922	-1.5	-2	5	2	-3		207	1	0	-27	77	82
Philippines		6378	-0.6	2	9	-20	-18		128	-1	7	-19	54	62
Malaysia		1495	-0.3	0	-1	-5	-6		150	1	5	-16	29	38
Argentina		46708	-5.8	-6	11	41	12		1474	12	25	130	-787	-295
Brazil		99606	-1.4	-1	5	-8	-14		313	5	15	-27	91	98
Chile		3697	-0.2	-2	3	-25	-21		176	3	14	-11	45	43
Colombia		1163	-1.2	-1	-1	-28	-30		247	4	14	-20	75	84
Mexico		38001	-0.6	-1	2	-13	-13		473	4	-12	-38	186	181
Peru		18158	1.8	2	2	-7	-12		153	1	7	-20	33	46
Hungary		32347	-2.0	-4	-2	-23	-30		112	-1	5	-16	22	26
Poland		45862	-2.8	-4	-8	-21	-21		17	1	1	-13	-10	-1
Romania		8676	-1.2	-1	-4	-10	-13		240	3	7	-23	58	66
Russia		2715	-1.7	-3	-7	-5	-11		204	2	10	-15	29	73
South Africa		53179	-1.7	-4	-3	-5	-7		486	0	5	-53	183	166
Turkey		1127	-2.2	-7	1	13	-2		644	13	53	-1	205	243
Ukraine		501	0.0	0	0	-4	-2		720	10	3	1	274	300
EM total		46	-1.1	0	6	8	2		404	0	-16	-13	68	111

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

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