










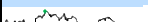



- Turkish lira depreciates on Syrian tensions and US threats ([link](#))
- US places eight Chinese technology companies on a blacklist ([link](#))
- Foreign ownership of US corporate bonds on the rise ([link](#))
- British pound weakens as Brexit outlook darkens again ([link](#))
- Ecuador bond yields rise markedly amid protests and unrest ([link](#))

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

Price action muted as market participants watch headlines

Markets were little changed overnight with few new themes emerging. The most notable price action came in response to news stories related to the longstanding themes of Middle Eastern political conflict, trade tensions and Brexit. The Turkish lira depreciated 2.3% against the US dollar as the announcement of the withdrawal of US troops from Syria raised the prospect of Turkish military intervention there. The lira came under additional pressure as US President Trump threatened to 'obliterate the economy of Turkey' if he judged potential Turkish actions to be excessive. Market participants also continue to monitor trade negotiations between the US and China amid reports that the US is considering restrictions on US investments in Chinese companies. Finally, the British pound has depreciated 0.7% against the euro amid reports that negotiations based on PM Johnson's latest Brexit proposal are proceeding poorly.

Key Global Financial Indicators

Last updated: 10/8/19 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2939	-0.4	-1	-1	2	17
Eurostoxx 50		3435	-1.0	-2	-2	4	14
Nikkei 225		21588	1.0	-1	2	-9	8
MSCI EM		41	-0.3	-1	-2	-1	4
Yields and Spreads			bps				
US 10y Yield		1.52	2.9	-11	-4	-171	-116
Germany 10y Yield		-0.59	-1.5	-3	5	-112	-83
EMBIG Sovereign Spread		351	6	8	11	8	-63
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.3	-0.3	0	-1	-2	-3
Dollar index, (+) = \$ appreciation		98.9	-0.1	0	1	3	3
Brent Crude Oil (\$/barrel)		57.6	-1.3	-2	-6	-31	7
VIX Index (% change in pp)		19.2	1.4	1	4	4	-6

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

United States

[back to top](#)

Equity markets weakened today, with major indices down 0.3-0.5%. Investors this week will increasingly focus on foreign trade when the Chinese vice premier arrives in the US to resume trade talks. Market sentiment dimmed on reports that the China negotiators are not coming to discuss a “commitment on reforming Chinese industrial policy” or “government subsidies.” The US blacklisted eight Chinese entities yesterday. Treasury yields rose yesterday after falling for seven straight sessions.

After foreign ownership of US bonds declined in 2018, inflows have rebounded so far this year. Foreign investors have added around \$25 bn to their US investment-grade portfolios year to date, according to EPFR and JP Morgan, the second highest year since the financial crisis. And the Federal Reserve finds that foreign ownership of US corporate credit reached 29% at end-2017, slumping last year to 27.1%—but has rebounded this year and now stands at 28.2%. This is not entirely surprising considering investors worldwide are confronting \$14 tn of negative yielding debt. TIC data from the Treasury show the most active buyers through June were Japan, Taiwan Province of China, the euro area (ex-Ireland) and Asia (ex-Japan). US investment-grade bonds have returned 13.9% this year, and high-yield bonds 11.0% according to ICE data.

Exhibit 9: IG mutual fund and ETF flows on track for their second-best year post-crisis

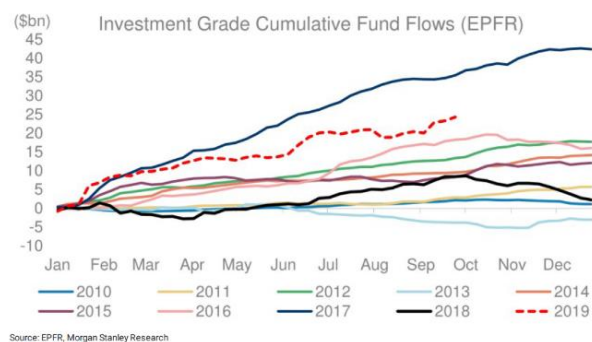
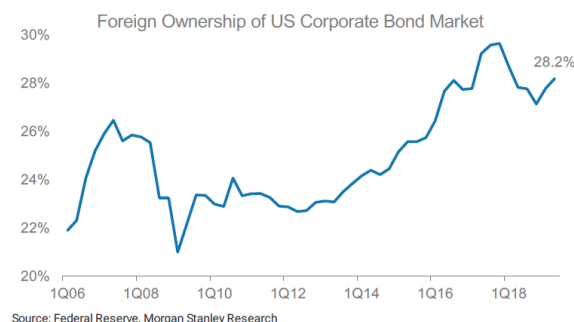
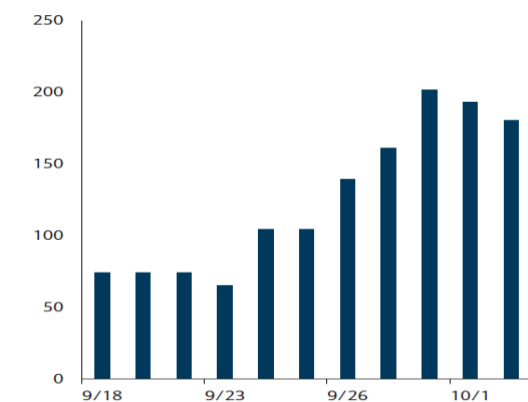


Exhibit 4: ...Driving foreign ownership of US corporate bonds higher again

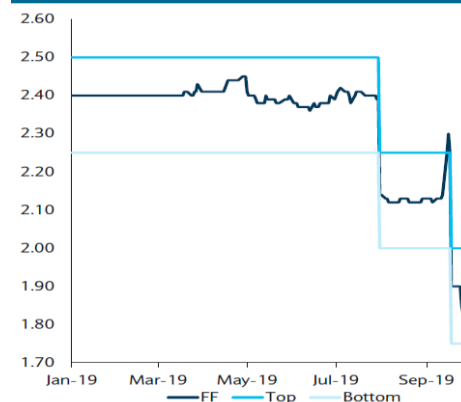


Recent open market operations by the Fed have met with good demand. Barclays notes these operations have temporarily lifted bank reserve levels by almost \$200 bn. The Fed announced last week it will run its term operations through the end of October. Recent Fed actions have been successful in bringing down the Fed funds rate, which spiked above the 2% upper band on September 16th.

Open market operations (\$bn)



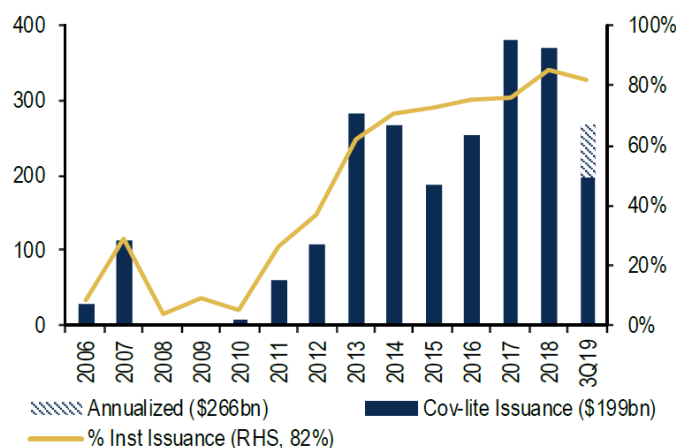
Federal Reserve policy bands (%)



Covenant-lite loans continue to predominate in the institutional loan universe. Bank of America gauges that 82% of institutional loans issued so far this year have had “few to no maintenance covenants.” Covenant-lite affords greater flexibility to borrowers during times of financial stress. Collateralized loan obligations continue to be the biggest buyer of leveraged loans, snapping up over 60% of loans coming to market this year. But Bank of America points out that banks have recently overtaken mutual funds as the second-largest buyer. Mutual fund outflows have translated into that sector’s market share falling to 13% of issuance.

Both headline and core PPI fell 0.3% m/m in September. This was the biggest monthly drop in more than four years. Treasury yields are little changed in wake of the report, but have been falling steadily overnight. CPI comes out Thursday.

Chart 3: Cov-lite continues to be the norm in 2019 loan issuance...



Source: BofA Merrill Lynch Global Research, S&P LCD

Europe

[back to top](#)

Core sovereign debt yields are little changed. German 10-year yields at -0.58% (-1 bps); French 10-year OATs at -0.24% (+3 bps); Italian 10-year BTP yield at 0.85% (-1 bps).

European equities (-1.0%) traded lower with bank stocks (-2.0%) continuing to underperform. In 2019, European stocks have gained 13% but bank stocks traded 5% lower.

German stocks (-3.0%) underperformed today. German industrial production narrowly beat expectations in August but remains weak (-4.0% yoy compared to -4.3% expected).

Greek 10-year yields rose 7 bps in yesterday's session as traders priced in a discount on new issuance of at least €1 bn of 10-year bonds. The Greek government reportedly intends to meet the 2020 budget target in its budget submission to the EU as analysts await the budgetary implications of the policies of PM Mitsotakis. Greek 10-year bond yields are steady at 1.42% today after reaching an all-time low of 1.31% last month.

Italian FM Gualtieri expects growth of 0.6% in 2020 as the statistical office warned that the short-term-perspectives for Italian production are weak. In its September budget update, the new Italian

government projected an unchanged deficit of 2.2% in 2020. Italy must send its Draft Budgetary Plan to Brussels by 15 October, with details expected later in October.

Analysts will keep an eye on the Eurogroup meeting tomorrow as finance ministers will discuss the replacement of Benoît Cœuré at the ECB Executive Board and countries could also nominate candidates for the replacement of Sabine Lautenschläger at the ECB.

The British pound traded 0.5% weaker as news flow indicated that an agreement on Brexit is unlikely at next week's meeting of European government leaders. Analysts think that Downing Street is working towards an extension, followed by an election with a promise to deliver no-deal Brexit by a certain date.

Deutsche Bank (-2.1%) intends to make about half its 18,000 planned job cuts in Germany. DB employs about 41,700 people in its home market, out of a total of 91,700.

Other Mature Markets

[back to top](#)

Japan

The yen held steady, after weakening a touch earlier in the day, as news of impending China-US trade talks boosted sentiment. Meanwhile, JGB yields rose, with the 2-year note up 1 bp to -0.33% and the 10-year note up 2 bps to -0.21%. Equities also advanced with the Topix Index 0.9% higher on the day; shares of electric appliance and chemical companies provided the biggest boosts to the equity bourse.

Emerging Markets

[back to top](#)

Asian currencies strengthened against the dollar and most bourses gained on optimism that the US-China trade negotiation is moving forward. A high-level delegation led by Vice Premier Lu He will visit Washington DC on Thursday, though expectations for concrete results are limited. The South Korean won paced gains (+0.28%) while the Malaysian ringgit underperformed (-0.04%). In a meeting with parliament, Bank of Korea Governor Lee sounded cautious notes regarding prospects for the Korean economy and indicated that growth could fall short of the central bank's 2.2% forecast for 2019 and 2.5% for 2020. **EMEA** equities were mixed. Turkey (-1.7%) saw the largest losses amid conflicting diplomatic statements regarding the US' backing of potential Turkish military incursions into Syria. Stocks also dropped in Saudi Arabia (-0.9%), Hungary (-0.6%), and Romania (-0.4%). Poland (+0.3%), Kuwait (+0.2%), and Egypt (+0.2%) posted gains. Most currencies in the region weakened to the dollar by about 0.1%. In **Latin America**, markets turned mostly negative on Monday, with equities and currencies falling across the region. Chile's equity index was the exception, up (0.2%), while Colombia (-0.2%), Peru (-0.2%), Mexico, (-1.0%), and Brazil (-1.9%) all declined. On the currency front, the Brazilian real led the way by dropping -1.2% against the dollar, with smaller moves from Colombia (-0.5%), Mexico (-0.4%), Argentina (-0.2%), and Peru (-0.1%).

Key Emerging Market Financial Indicators

Last updated: 10/8/19 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.63	-0.3	-1	-2	-1	4
MSCI Frontier Equities		28.06	-0.2	0	-1	-1	7
EMBIG Sovereign Spread (in bps)		351	6	8	11	8	-63
EM FX vs. USD		60.27	-0.3	0	-1	-2	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.15	0.0	0	0	-3	-4
Indonesian Rupiah		14162	0.0	0	-1	7	2
Indian Rupee		71.03	-0.2	0	1	4	-2
Argentine Peso		57.84	-0.2	0	-3	-35	-35
Brazil Real		4.11	0.0	1	0	-8	-5
Mexican Peso		19.62	-0.2	1	0	-3	0
Russian Ruble		65.26	-0.4	0	0	2	6
South African Rand		15.28	-0.7	0	-3	-3	-6
Turkish Lira		5.84	0.0	-2	-1	5	-9
EM FX volatility		8.17	0.0	0.1	-0.1	-2.4	-1.6

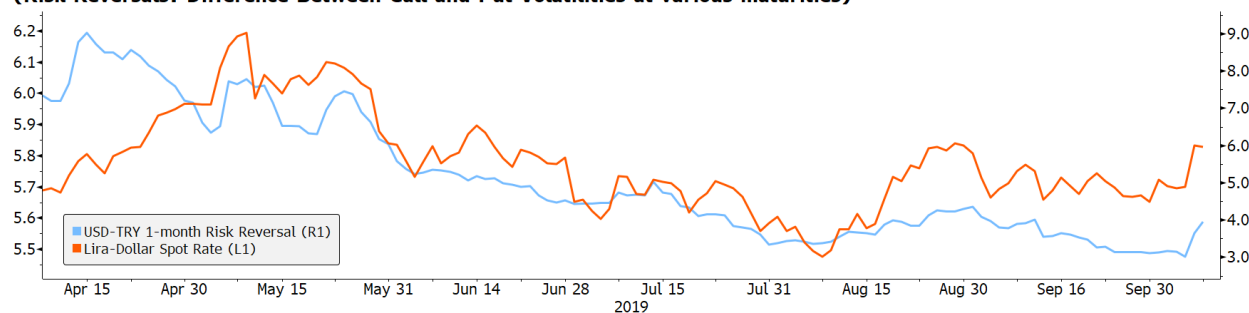
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Turkey

Yesterday, the Turkish lira weakened 2.3% against the US dollar following a threat of economic retaliation by US President Trump in response to possible Turkish military actions in Syria. The lira retraced some of yesterday's losses this morning amid unconfirmed news of retail account sales of dollars and recently traded at 5.81/dollar, or 0.3% stronger than yesterday's close. According to Bloomberg, retail account dollar sales had amounted to over \$200 mn by early-morning London time. One-month dollar-lira risk reversals have increased almost 1 percentage point in recent days, as traders become more bearish on the lira.

Dollar-Lira Exchange Rate and Risk Reversals

(Risk Reversals: Difference Between Call and Put Volatilities at various maturities)



Turkish second largest lender, **Akbank successfully raised \$810 mn in a syndicated loan.** The loan was issued in US dollars (\$402 mn) and euros (€374 mn), with a one-year maturity and at Libor+225 bps and Euribor+210 bps. The deal – which was oversubscribed at \$1 bn – is expected to be the first one in a series of funding transactions by Turkish banks in coming weeks. Shares of Akbank traded 0.8% lower today,

adding to yesterday's 1.8% decline. Other Turkish banks were also down today: Yapi (-1.7%), Garanti (-2.0%).

Turkey: Equity Indices

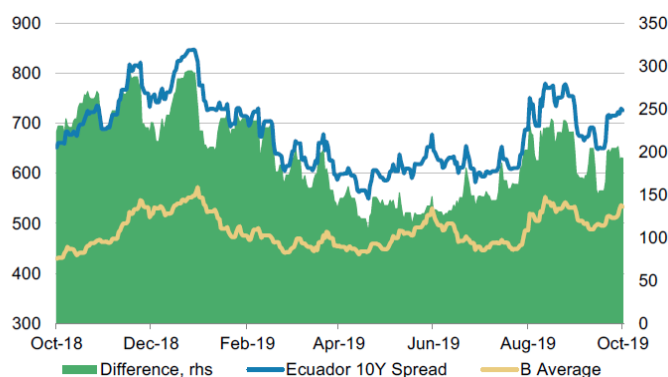


China

The U.S. administration placed eight Chinese technology companies on a blacklist, potentially complicating the upcoming US-China trade negotiation. The companies are accused of human rights violations against Muslim minorities in the far-western region of Xinjiang. Among the companies cited are two video surveillance companies -- Hikvision and Dahua Technology -- estimated to control as much as a third of the global market for video surveillance. Also blacklisted are SenseTime and Megvii Technology, both considered at the forefront of artificial intelligence technology. Entities on the list are prohibited from doing business with American companies without licenses from the U.S. government. Onshore trading of Hikvision and Dahua were suspended on Tuesday. Hikvision shares were last traded at CNY 32.3, having gained 36% from its lowest level for the year, seen in late May; Dahua shares last traded at CNY 17.3, a gain of 39% over the period.

Ecuador

The yield on Ecuador's benchmark 2029 bond rose 56 bps to 9.724% as the government moved out of the capital in response to concerns over a possible coup. Widespread protests and a general transport strike broke out in Ecuador last week in response to government efforts to substantially reduce the budget deficit, in line with the \$4.2 billion (36 months) IMF Extended Fund Facility agreed in early 2019. Last week, President Moreno elected to raise fuel prices, and subsequently instituted a state of emergency after the unrest escalated and disrupted the normal course of business. The nationwide transit strike organized by labor groups ended late Friday, but broader protests have continued into Monday. Hard currency sovereign bond yields ticked up modestly on Thursday but have since eased as investors interpreted the end of the transit strike as a win for the government, thereby increasing the likelihood of financial disbursements from the IMF in the coming program review round. However, as Morgan Stanley analysts highlighted, the spread on Ecuador's sovereign debt remains considerably wider than most other single B-rated sovereigns, with a steeper curve as well, which could leave longer maturity debt prices more susceptible to shifting political outcomes or ratings changes in either direction.

Exhibit 1: Ecuador still around 200bp cheap to single Bs...

Source: Bloomberg, Morgan Stanley Research

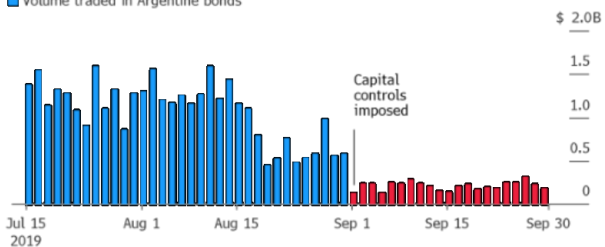
Argentina

Argentina's capital markets have struggled in wake of political and financial shocks. Activity in Argentina's financial markets has shrunk substantially since the surprise August primary vote that upended the nation's political and economic outlook. Assets under management by locally-based banks, brokerages, and mutual funds have fallen over 25% since mid-August, according to Bloomberg. Moreover, the volume of transactions across asset classes has fallen sharply after fairly robust growth from mid-2016 through 2018. The volume of Argentine bonds traded has fallen to barely \$300 million from upwards of \$1-1.5 billion since authorities reimposed capital controls in early September. Currency transactions have also unsurprisingly plummeted by at least 50% over the same time period according to Bloomberg, while the roughly 15% gap between the official and "blue chip swap" exchange rate is making asset valuations in the market more cumbersome. Daily equity volume began slowing in late 2018 as the economic situation failed to improve rapidly enough and has fallen from around \$30 million in 2017 to barely \$10 million over the last few weeks.

Off a Cliff

Bond market has been reduced to a third after FX controls

■ Volume traded in Argentine bonds



Source: Mercado Abierto Electrónico

Bloomberg

Hungary

Hungarian inflation slowed down below the central bank's target in September. Headline CPI printed at 2.8% y-o-y, from 3.1% the month prior. Core inflation stood at 3.9%. The forint weakened 0.1% to the euro this morning.

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Global Financial Indicators

Last updated: 10/8/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2939	-0.4	-1	-1	2	17
Europe		3435	-1.0	-2	-2	4	14
Japan		21588	1.0	-1	2	-9	8
China		2914	0.3	-2	1	3	17
Asia Ex Japan		66	-0.6	0	-2	0	4
Emerging Markets		41	-0.3	-1	-2	-1	4
Interest Rates			basis points				
US 10y Yield		1.52	2.9	-11	-4	-171	-116
Germany 10y Yield		-0.59	-1.5	-3	5	-112	-83
Japan 10y Yield		-0.20	2.1	-5	4	-36	-20
UK 10y Yield		0.42	-3.6	-6	-9	-126	-86
Credit Spreads			basis points				
US Investment Grade		131	1.4	3	-4	32	-16
US High Yield		483	5.5	12	13	156	-38
Europe IG		58	0.4	3	11	-14	-29
Europe HY		256	3.9	22	17	-34	-96
EMBIG Sovereign Spread		351	6.0	8	11	8	-63
Exchange Rates			%				
USD/Majors		98.91	-0.1	0	1	3	3
EUR/USD		1.10	0.1	0	-1	-4	-4
USD/JPY		106.9	0.3	1	0	6	3
EM/USD		60.3	-0.3	0	-1	-2	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		58	-1.3	-2	-6	-31	7
Industrials Metals (index)		115	-0.6	0	-2	-4	5
Agriculture (index)		39	-0.3	-1	5	-11	-7
Implied Volatility			%				
VIX Index (% , change in pp)		19.2	1.4	0.7	4.2	4.4	-6.2
10y Treasury Volatility Index		5.2	0.1	-0.1	0.4	1.0	0.7
Global FX Volatility		7.1	0.0	-0.1	-0.1	-1.3	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		204	4.1	12	-19	-207	-211
Italy		143	0.3	1	-8	-161	-107
Portugal		71	0.1	-3	-12	-73	-77
Spain		72	0.6	0	-9	-34	-46

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: 10/8/2019 8:05 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		7.15	0.0	0.0	0	-3	-4		3.2	0.0	0	11	-44	0
Indonesia		14162	0.0	0.4	-1	7	2		7.3	-0.2	-5	-11	-116	-83
India		71	-0.2	-0.2	1	4	-2		6.8	2.2	-9	7	-140	-67
Philippines		52	0.3	0.4	0	5	2		4.3	-0.4	-3	-4	-209	-197
Thailand		30	0.3	0.8	1	8	6		1.5	-0.7	-3	-9	-142	-114
Malaysia		4.19	0.0	0.0	0	-1	-1		3.4	4.0	2	7	-67	-67
Argentina		58	-0.2	-0.4	-3	-35	-35		61.3	-357.5	-483	-428	3812	3832
Brazil		4.11	0.0	1.3	0	-8	-5		6.3	4.7	0	-34	-341	-180
Chile		721	-0.4	1.1	-1	-5	-4		2.8	-0.4	-7	16	-205	-169
Colombia		3452	-0.5	0.8	-2	-12	-6		5.7	2.0	-1	-3	-104	-86
Mexico		19.62	-0.2	1.1	0	-3	0		6.9	3.4	-10	-20	-124	-182
Peru		3.4	-0.1	-0.4	-1	-2	0		4.3	-7.4	-10	1	-147	-144
Uruguay		37	-0.2	-0.7	-2	-11	-13		10.8	1.0	17	-21	40	8
Hungary		304	-0.2	0.8	-2	-7	-8		1.0	1.1	-6	-18	-169	-118
Poland		3.94	0.1	1.6	-1	-5	-5		1.7	-1.1	-10	-13	-96	-57
Romania		4.3	0.1	0.4	-1	-6	-6		3.8	1.0	2	5	-73	-47
Russia		65.3	-0.4	-0.1	0	2	6		6.7	-6.4	-13	-15	-172	-169
South Africa		15.3	-0.7	0.3	-3	-3	-6		9.3	3.9	-9	3	-52	-27
Turkey		5.84	0.0	-1.9	-1	5	-9		13.5	18.2	25	-174	-830	-340
US (DXY; 5y UST)		99	-0.1	-0.2	1	3	3		1.35	-4.1	-14	-8	-172	-116

	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		2914	0.3	-2	1	3	17		190	0	3	3	10	-4
Indonesia		6040	-2.1	-2	-4	5	-3		192	5	2	12	5	-44
India		37532	0.0	-3	1	9	4		132	-5	1	-8	-28	-64
Philippines		7757	-0.3	0	-2	10	4		86	5	3	12	-12	-35
Malaysia		1559	0.0	-2	-3	-12	-8		126	0	2	3	5	-36
Argentina		30941	-2.8	6	12	1	2		2112	4	-53	83	1439	1297
Brazil		100573	-1.9	-4	-2	17	14		271	3	24	37	3	-2
Chile		5051	-0.8	0	5	-5	-1		143	2	0	11	26	-23
Colombia		1597	0.2	1	2	8	20		189	3	-1	13	19	-39
Mexico		42952	0.4	0	1	-11	3		328	3	4	-2	71	-26
Peru		19232	-0.2	-2	-1	-1	-1		132	3	-9	16	7	-36
Hungary		39504	-0.7	-2	-2	7	1		112	4	8	17	6	-36
Poland		56112	0.2	-1	-1	-2	-3		47	8	7	14	-2	-38
Romania		9495	-0.5	-1	3	11	29		203	-3	9	5	32	-18
Russia		2706	-1.5	-2	-3	10	14		206	5	8	12	-8	-46
South Africa		54625	-0.4	-1	-2	1	4		346	6	7	38	30	-19
Turkey		101207	-3.7	-3	2	5	11		495	15	22	-2	20	66
Ukraine		526	0.0	0	0	-4	-6		518	5	4	52	-35	-269
EM total		41	-0.3	-1	-2	-1	4		351	6	8	11	8	-63

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

[back to top](#)