













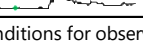
- Foreign buying of Japanese stocks picks up ([link](#))
- US bankruptcy filings reaccelerate in September ([link](#))
- Foreign ownership of European sovereign bonds declines through 2020 ([link](#))
- London Stock Exchange reportedly nears sale of Borsa Italiana to Euronext ([link](#))
- Inflation slows down unexpectedly in Hungary ([link](#))

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

## Improving Odds of US Fiscal Support Buys Risk Sentiment

**Global risk assets continued to be fueled by rising expectations of further US fiscal support in the near-term.** Following a strong performance yesterday, US equity futures are again pointing to a positive start this morning, spurred by hopes for the passage of a limited stimulus package before the US presidential election as well as by an easing of concerns over the risk of a contested outcome, as Biden continues to pull away in the polls. A Democratic sweep is being increasingly viewed as a positive for the economy, with the rise in fiscal spending and easing of trade tensions expected to outweigh expected tax increases. These developments, along with increased optimism about the potential outcome of Brexit negotiations, have also reflected positively on European equities, which are trading about 0.7% higher on the day. This is despite continued concerns about the spike in Covid-19 infection rates in Europe; as France unveils additional restrictions today and the UK is expected to soon follow suit. US Treasuries are trading slightly up this morning after a volatile session yesterday on the back of news headlines. However, the 10-Year Treasury yield (at 0.77%) is still up 7 bps on the week, versus +2 bps for the German Bunds.

Key Global Financial Indicators

Last updated: 10/8/20 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3419	1.7	2	3	18	6
Eurostoxx 50		3249	0.5	2	-1	-5	-13
Nikkei 225		23647	1.0	2	2	10	0
MSCI EM		45	1.1	2	4	13	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.77	-1.8	9	9	-76	-115
Germany 10y Yield		-0.52	-2.2	2	-2	8	-33
EMBIG Sovereign Spread		414	-2	-16	-6	64	121
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		54.7	0.1	0	-1	-9	-11
Dollar index, (+) = \$ appreciation		93.7	0.0	0	0	-6	-3
Brent Crude Oil (\$/barrel)		42.8	1.9	5	8	-27	-35
VIX Index (% change in pp)		27.8	-0.3	1	-4	8	14

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

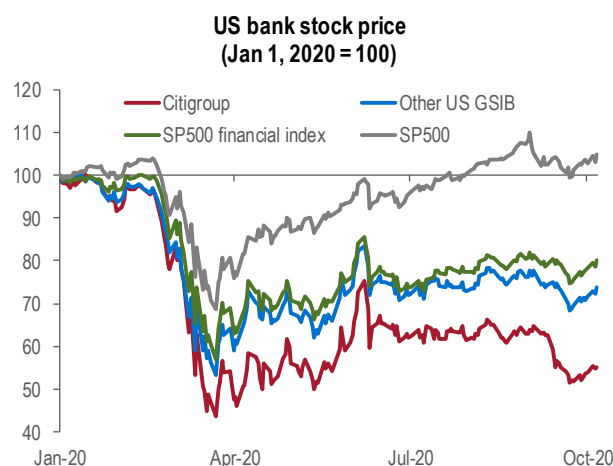
## United States

[back to top](#)

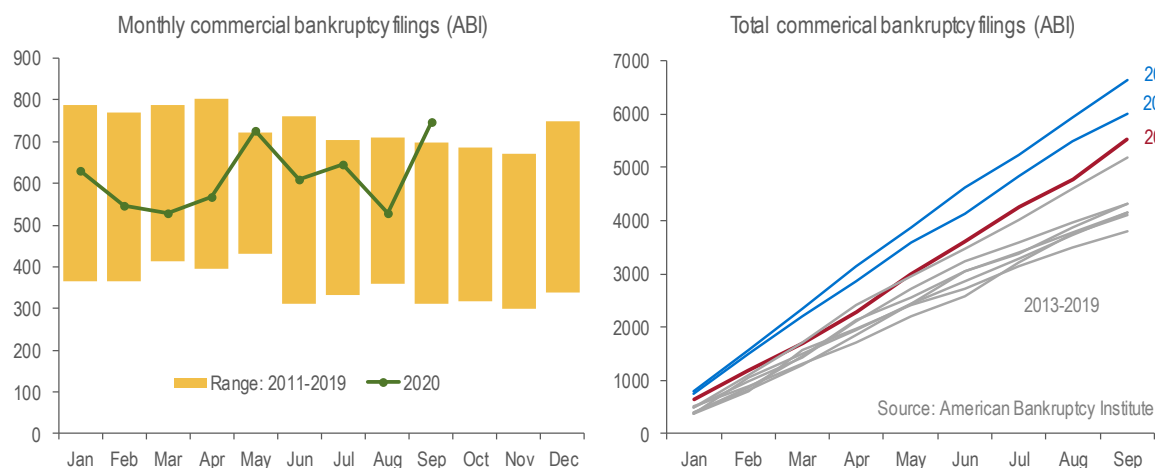
Renewed optimism regarding a stimulus deal sent US stocks to a one-month high, while Treasuries and the dollar retreated. The House Speaker signaled her openness to a stand-alone airline relief bill but still resisted a bill to issue \$1200 stimulus checks, indicating that that would be insufficient to address the current impact of the pandemic. Major indices rose nearly 2%, with all sectors in the green and the airlines component surging 3.7%. The Treasury yield curve steepened as long rates rose by 6 bps. The minutes of the September FOMC provided few new insights, mainly documenting the discussion around the adjusted forward guidance and suggesting little urgency to adjust the asset purchase program. Consistent with public comments, most participants believed that the size of the current fiscal stimulus was not sufficient. Moreover, yesterday's record-size \$35 bn 10-year note auction was on par with recent averages. The note was awarded at 0.765%, matching the when-issued yield. The investor take-up (78%) and cover ratio (2.47x) were both in line with recent bidding metrics.

**Initial jobless claims** came in at 840K for the week ending October 3 (versus 820K expected and 849K for the previous week). Continuing claims, at 10.976 mn were lower than expected (11.4 mn). Markets' reaction to the news was limited.

**Regulators issued \$400 mn in fines and imposed business restrictions on Citigroup over deficiencies in risk controls.** The Office of the Comptroller of the Currency (OCC) issued the \$400 mn penalty with respect to Citibank, and demanded that Citigroup, the holding company, seek regulator's approval for major acquisitions. The OCC also reserved the right to implement additional business restrictions and/or require changes in senior management should the deficiencies be left unaddressed. At the same time, the Fed is also in the process of taking enforcement action against Citigroup, demanding that the bank correct several longstanding deficiencies that had been flagged over 5 years ago. Shares of Citigroup and Wells Fargo are the weakest among the US GSIBs, vastly lagging their peers and the broader index.

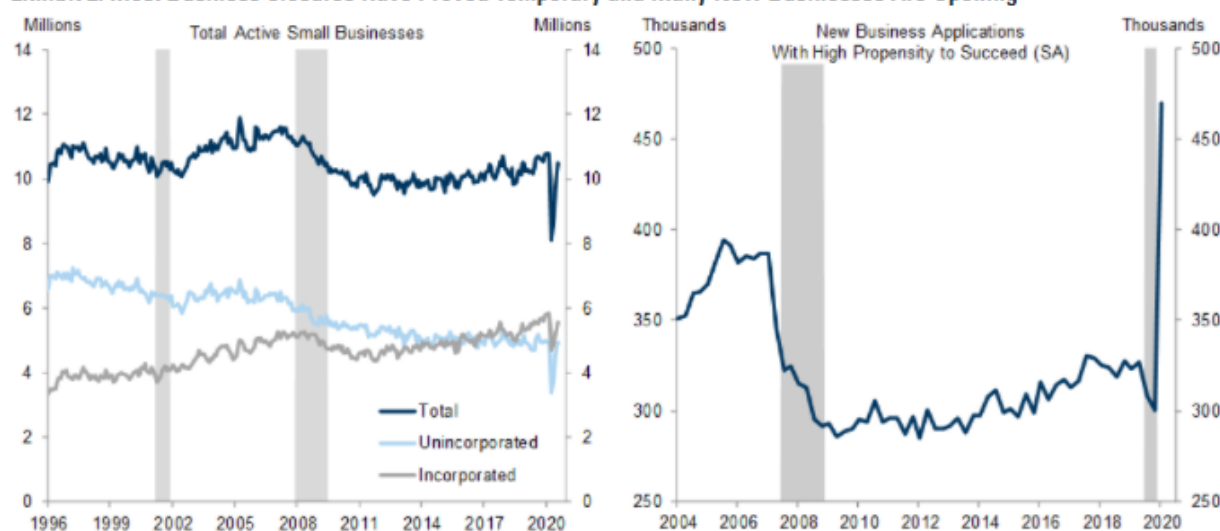


**Bankruptcy filings reaccelerated in September after a brief slowdown.** According to the American Bankruptcy Institute, total commercial bankruptcy filings totaled 747 in September (up from 528 in August). Year-to-date, bankruptcy filings are running at the fastest pace since 2013, with a running total of 5,529. However, analysts cautioned that the case counts could also reflect recent changes to the US bankruptcy codes, which makes it easier for companies to file for strategic defaults without having to prove insolvency.



**Permanent business closures have been much less widespread than feared.** The number of active small businesses dropped sharply in April but have largely recovered by August. While this indicates that most closures proved to be temporary, it also reflects the surprising surge in new business formation.

**Exhibit 2: Most Business Closures Have Proved Temporary and Many New Businesses Are Opening**



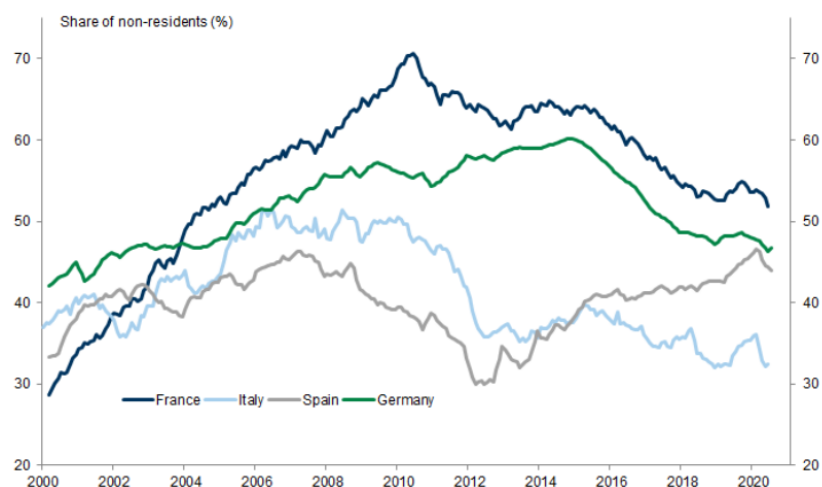
Source: Department of Commerce, Goldman Sachs Global Investment Research

## Europe [back to top](#)

**Equity markets edged higher.** DAX (+0.7%), CAC 40 (+0.5%), EuroStoxx 600 (+0.6%), Italy's Titans 30 (+0.8%), and Spanish Ibex (+1.2%). Bank stocks (+2.5%) outperformed main indices again.

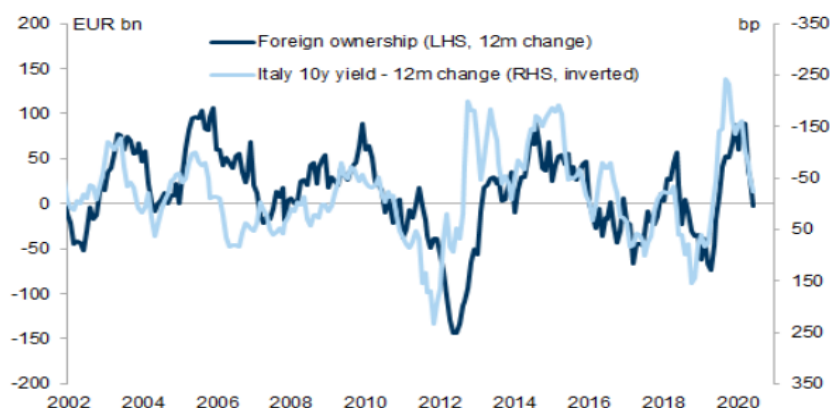
**Sovereign debt traded sideways again today.** German 10-year yields at -0.50% (-1 bp); French OATs are at -0.24% (-1 bps); Italian at 0.77% (-1 bp); and Spanish at 0.20% (-4 bps). Researchers at Goldman Sachs note that **foreign ownership of European sovereign bonds has declined through 2020** while the ECB stepped up purchases. Changes in foreign ownership, they note, is closely linked to bond pricing.

Exhibit 1: Foreign ownership is a key differentiator across the EMU-4



Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 2 : Foreign ownership is closely linked to price-setting



Source: Haver Analytics, Goldman Sachs Global Investment Research

**The Spanish government unveiled a new €72 bn stimulus plan to tackle the impact of the pandemic.** The new spending will take place between 2021 and 2023 and will be financed largely from Spain's share in the EU recovery fund. Separately, finance minister Mrs. Calviño announced a reduction of 12% in the government's target for net debt sales in 2020. The new target is about €115 bn. **Yields on Spanish 10-yr bonds dropped 4 bps to 0.20% today.**

**The London Stock Exchange (LSE) is reportedly nearing the sale of Borsa Italiana to Euronext for \$5 bn.** With Borsa Italiana, Euronext would account for ¼ of all equity trading in Europe as well as access to Borsa-owned MTS—a platform to trade government bonds. The sale would help redraw the map of equities trading across Europe, which is facing pressures from Brexit in coming months. In fact, London could lose more than half of its stock trading if an equivalency regime between the EU and the UK is not agreed upon. Last year, the EU withdrew equivalency from Switzerland, effectively banning the trading of EU-listed securities on Swiss exchanges.

## Equities Exodus

More than half of stock trading in London is at risk of shifting to Europe



**\$14.7bn**

All stocks traded in London



**\$8.5bn**

EU stocks traded in London

Source: Cboe Europe

Bloomberg

**German insurer Allianz will no longer provide full capital guarantees to policyholders from 2021 onwards.** Instead, the guaranteed amount will be reduced from about 100% to between 60% to 90% of new premiums paid. Analysts note that the move—which is a clear credit positive for Allianz—could be a trend-setter for an industry that needed to review its business model given the low-for-longer rate environment. Commerzbank analysts have noted that “the German life insurance industry is affected more profoundly by prevailing low interest rates than other European life insurance markets due to the design of traditional products, which involves ultra-long product duration and high interest guarantees.” **Allianz equities gained 0.6% today.**

## Other Mature Markets

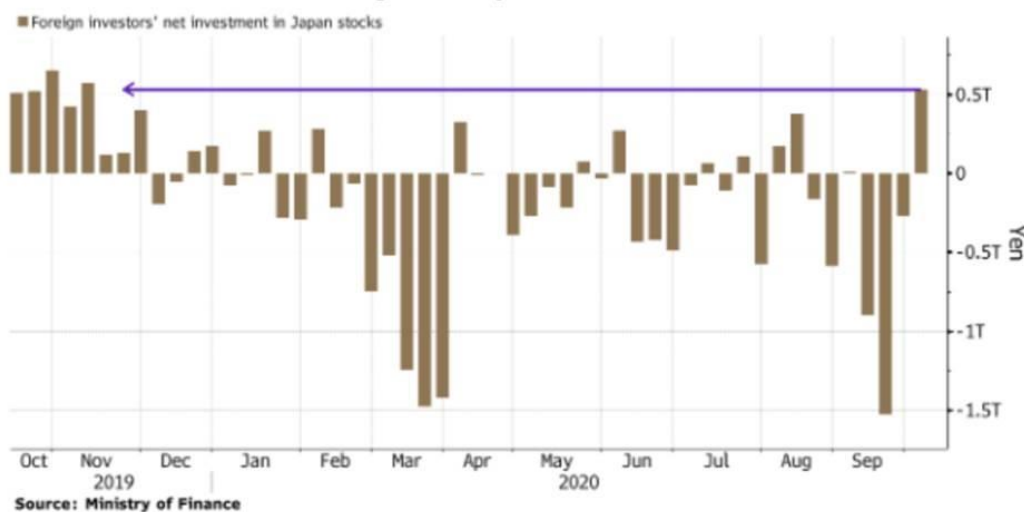
[back to top](#)

### Japan

**Equities gained (+0.5%) with all major sectors advancing.** For the year, the Topix index remains in negative territory with a loss of -3.8%. Foreign buying of Japanese stocks picked up notably last week, with the largest inflows for the year. The yen and JGB yields were broadly stable.

### Dabbling Back In

Overseas investors turn net buyers of Japanese stocks for week ended Oct. 2











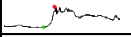



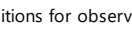

## Emerging Markets [back to top](#)

In **Asia, equities** continued to advance after the strong overnight session in the US. Strength was broad based across markets for a net gain of 0.7%. Chinese markets are still closed for the holidays. Currencies were little changed except for the Korean won (+0.4%).

In **EMEA, equities** are trading mixed with indices up in Israel (+1.2%) and Saudi Arabia (+0.6%) but down in Poland (-0.6%) and South Africa (-0.4%). EMEA **currencies** are mostly trading on the stronger side, except for the Turkish lira (-0.4%) which traded as low as 7.94 against the dollar this morning.

In **Latin America**, the **Mexican peso** continues to be the bellwether currency around US elections and stimulus developments. After leading losses on Tuesday following concerns that the fiscal stimulus package may be delayed, it led gains on Wednesday (appreciating by 0.8%) while the local stock market index rose by 1.3%. After market close, the **Peruvian Central bank** announced its decision to keep the reference rate unchanged at 0.25% as expected.

Key Emerging Market Financial Indicators

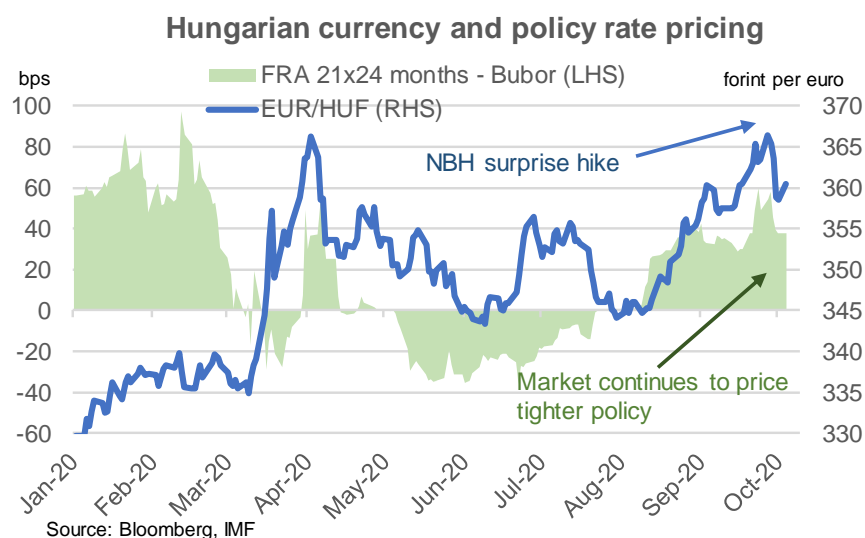
Last updated: 10/8/20 8:06 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		45.15	0.2	2	4	13	1
MSCI Frontier Equities		26.60	0.8	4	6	-5	-12
EMBIG Sovereign Spread (in bps)		413	-3	-17	-7	63	120
EM FX vs. USD		54.73	0.2	0	-1	-9	-11
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.79	0.4	0	1	5	3
Indonesian Rupiah		14710	0.0	1	0	-4	-6
Indian Rupee		73.24	0.1	0	0	-3	-3
Argentine Peso		77.09	0.0	-1	-3	-25	-22
Brazil Real		5.59	0.3	1	-4	-27	-28
Mexican Peso		21.40	0.7	2	2	-8	-12
Russian Ruble		77.47	0.7	0	-2	-16	-20
South African Rand		16.59	0.2	0	2	-8	-16
Turkish Lira		7.93	-0.5	-2	-6	-26	-25
EM FX volatility		11.63	0.0	0.0	0.3	3.4	5.0

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

## Hungary

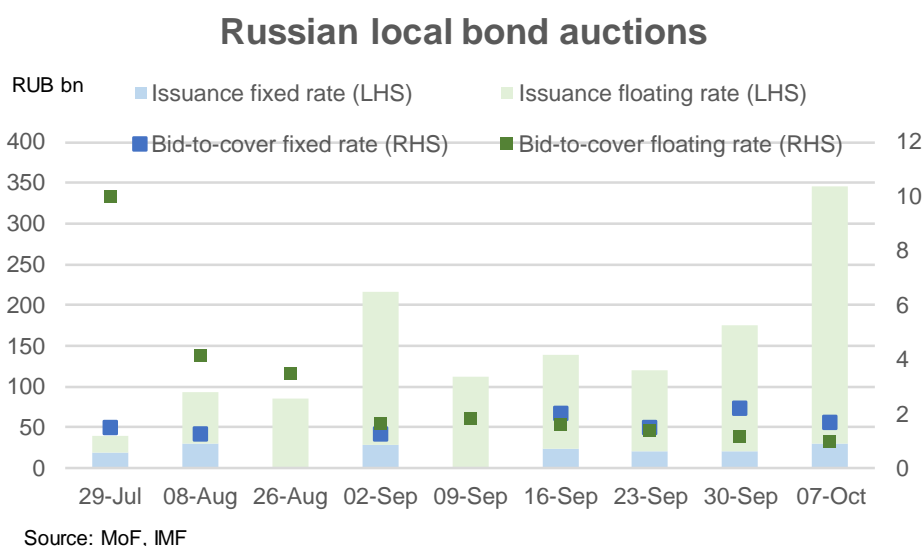
**Inflation slowed in September, giving the CB room for additional flexibility in monetary policy.** The increase in headline prices decelerated to 3.4% y/y last month, from 3.9% in August (vs. 3.9% consensus) and core inflation dropped by 0.7 ppts, primarily on the back of services prices. Rising domestic prices and domestic currency weakness were two of the major drivers for the recent hawkish shift by the National Bank of Hungary (NBH). Contacts believe that the slowdown in inflation as well as the stabilization of the forint strengthen the case for more asset purchases by the NBH. The central bank had already announced this week that it will expand the scope of its asset purchase program to include state-guaranteed debt. It also indicated that it would increase the ownership limit of individual securities to 50% from 33%. The forint strengthened by 0.4% against the euro and domestic yield declined 5-10 bps after today inflation reading.





## Russia

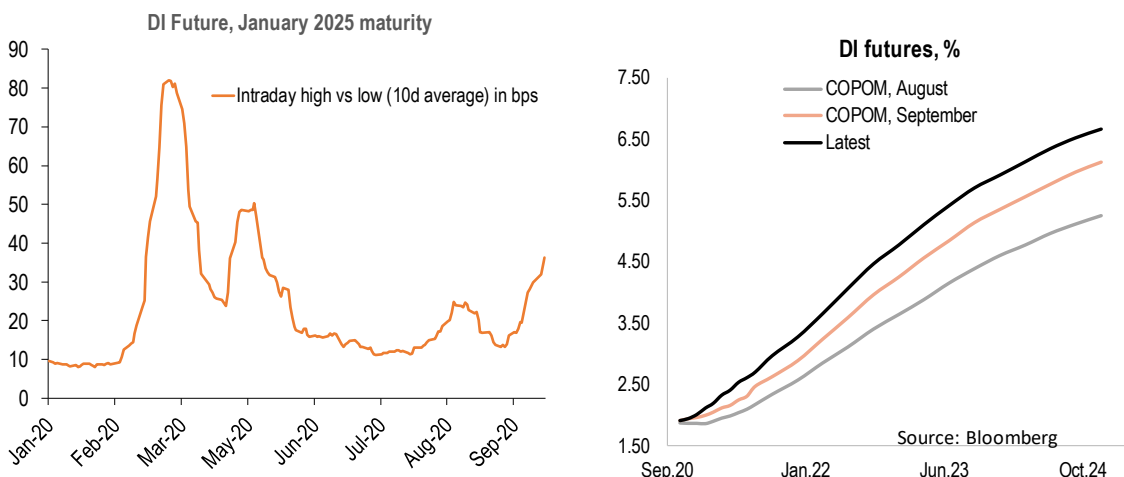
**The Ministry of Finance placed a record 345 bn ruble (\$4.5 bn) of bonds in its local bond auction.** The placement covered 17% of the Q4 issuance plan. The government issued 3 tn of bonds in the first three quarters of 2020 and plans to issue 2 tn in the final quarter. Some analysts have been skeptical that such record volumes could be placed in the domestic market, but contacts suggest that abundant ruble liquidity and focus on floating rate notes should help the government reach its borrowing target. Some contacts also see the **increased floating note issuance as beneficial for the development of a deep domestic interest rate swap market tied to Ruonia**, a Russian equivalent of SOFR in the U.S. and ESTR in Europe.



## Brazil

**The real (-0.3%) and DI futures were little changed on Wednesday, but intraday volatility remained high.** Developments around the new social program “Renda Cidadã” and potential extensions of other social programs have been the main driver in local markets over the last few weeks given their important fiscal implications. Volatility continued Wednesday as local press suggested that emergency social programs will be extended to mid-2021. The Economy Minister later in the day played down this speculation

by saying that he hasn't authorized any discussion for extending programs beyond December. The President stated that decisions around funding the new social program will only be taken after municipal elections in November and stressed his "mutual loyalty" with the Economy Minister. Over the last few weeks, the DI (Interbank Deposit) futures curve has continued to steepen as investors are becoming increasingly concerned that BCB might have to backtrack on its forward guidance if it perceives that fiscal responsibility is at risk.



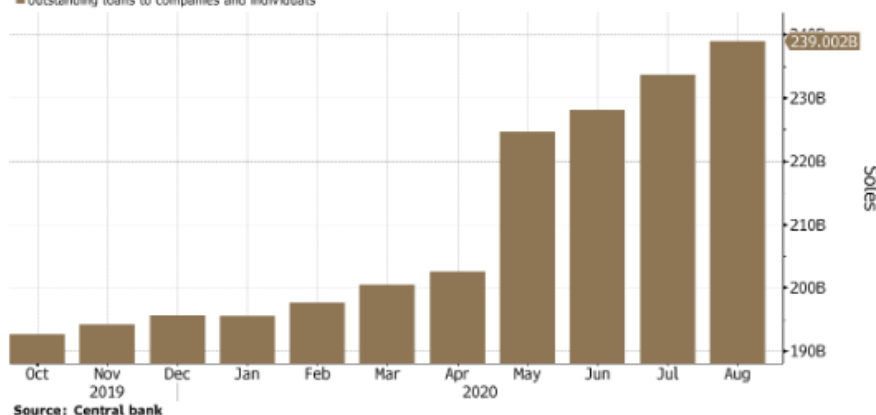
## Peru

**The central bank kept the rate unchanged at 0.25% as expected by market analysts.** The central bank continues to provide the its Sol 60 bn loan guarantee program. The board reiterated its readiness to expand monetary stimulus using different methods. CPI rose by 1.8% y-o-y in September and has exceeded analysts' expectations for all but two of the last seven months. In its latest statement, the board expects the inflation rate to be around the lower limit of the 1-3% target band in 2020 and 2021. In its statement last month, the central bank had stated that inflation would fall below the target range.

## Credit Boom

### Peru's Reactiva program fuels surge in bank lending

■ Outstanding loans to companies and individuals



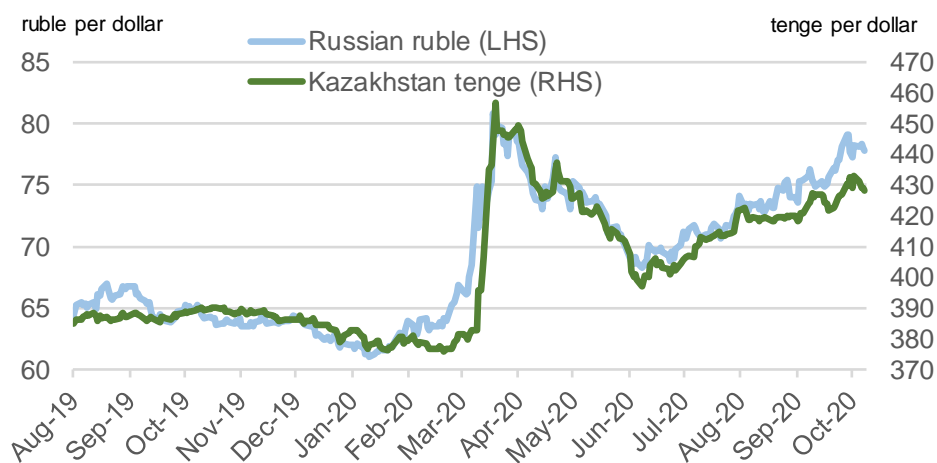
## Kazakhstan

**The National Bank of Kazakhstan resumed currency intervention in September.** For the first time since March, the central bank sold \$232 mn of reserves to support the tenge. This comes on top of the \$551 mn sold by the sovereign fund under its regular guaranteed transfers as well as \$300 mn sale by the



quasi-sovereign firms. Furthermore, the central bank indicated that it will sell the proceeds (in Russian ruble) that the Ministry of Finance recently raised in a debut 40 bn ruble bond sale. The tenge weakened by 2.8% against the dollar in September, but notably outperformed the Russian ruble.

### Kazakhstan and Russia exchnage rate



Source: Bloomberg, IMF

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## Global Financial Indicators

Last updated: 10/8/20 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3426	1.7	1	3	18	6
Europe		3249	0.5	2	-1	-5	-13
Japan		23647	1.0	2	2	10	0
China		3218	-0.2	-2	-6	11	6
Asia Ex Japan		79	1.4	3	4	21	8
Emerging Markets		45	1.1	2	4	13	1
<b>Interest Rates</b>			basis points				
US 10y Yield		0.77	-1.8	9	9	-76	-115
Germany 10y Yield		-0.52	-2.2	2	-2	8	-33
Japan 10y Yield		0.04	-0.3	2	0	24	5
UK 10y Yield		0.30	-0.7	6	11	-12	-53
<b>Credit Spreads</b>			basis points				
US Investment Grade		129	-2.5	-6	1	0	32
US High Yield		514	-7.7	-32	7	36	121
Europe IG		52	-1.0	-7	-2	-7	8
Europe HY		315	-1.9	-28	-14	56	108
EMBIG Sovereign Spread		414	-2.0	-16	-6	64	121
<b>Exchange Rates</b>			%				
USD/Majors		93.68	0.0	0	0	-6	-3
EUR/USD		1.18	0.0	0	0	7	5
USD/JPY		106.0	0.0	0	0	1	2
EM/USD		54.7	0.1	0	-1	-9	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		43	1.9	5	8	-27	-35
Industrials Metals (index)		117	0.5	4	0	1	2
Agriculture (index)		41	1.1	4	7	6	0
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		27.8	-0.3	1.1	-3.7	7.5	14.0
US 10y Swaption Volatility		68.9	0.3	21.7	11.9	-15.5	6.9
Global FX Volatility		8.9	0.0	-0.1	-0.6	1.8	2.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		141	-1.9	-14	-26	-63	-24
Italy		128	0.2	-8	-24	-16	-32
Portugal		72	-1.0	-7	-14	1	9
Spain		72	-1.6	-5	-10	0	7

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

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 10/8/2020 8:07 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		6.79	0.4	0.3	1	5	3		3.3	0.0	0	-5	9	13
Indonesia		14710	0.0	0.8	0	-4	-6		6.8	0.7	-5	8	-48	-29
India		73	0.1	-0.1	0	-3	-3		6.2	-0.4	-3	3	-63	-72
Philippines		48	0.1	0.2	0	7	5		3.6	-1.2	3	-2	-71	-69
Thailand		31	0.2	1.3	1	-2	-4		1.5	1.7	1	-5	-2	-14
Malaysia		4.15	0.1	-0.1	0	1	-2		2.5	-1.1	-7	4	-93	-86
Argentina		77	0.0	-1.2	-3	-25	-22		41.4	-0.8	100	-327	-1989	-2116
Brazil		5.59	0.3	0.9	-4	-27	-28		6.3	0.4	27	96	-2	8
Chile		793	0.3	-0.7	-3	-9	-5		2.8	1.5	-2	22	-2	-54
Colombia		3839	-0.2	-0.2	-3	-10	-15		5.3	1.4	8	31	-36	-66
Mexico		21.40	0.7	2.0	2	-8	-12		6.1	-0.5	6	15	-78	-82
Peru		3.6	0.4	0.9	-1	-5	-7		4.1	-4.7	-10	-1	-17	-39
Uruguay		43	0.0	0.0	0	-13	-12		7.3	-1.8	-12	-63	-347	-355
Hungary		304	0.4	0.4	0	0	-3		1.8	1.9	-2	10	77	60
Poland		3.81	0.0	0.1	-1	4	0		0.7	-1.8	-2	-12	-97	-116
Romania		4.1	-0.1	0.1	-1	5	3		3.3	1.0	-1	-5	-51	-74
Russia		77.5	0.7	-0.2	-2	-16	-20		5.7	-1.7	-13	-3	-100	-40
South Africa		16.6	0.2	0.1	2	-8	-16		10.4	-0.4	16	38	108	89
Turkey		7.93	-0.5	-2.3	-6	-26	-25		13.0	29.1	16	-27	-49	129
US (DXY; 5y UST)		94	0.1	0.0	0	-5	-3		0.33	-1.1	6	6	-102	-136

	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		4587	0.0	-1	-5	20	12		216	-1	-1	4	27	40
Indonesia		5039	0.7	1	-4	-17	-20		218	4	-14	-3	28	62
India		40183	0.8	6	5	7	-3		217	-6	-17	5	85	92
Philippines		5943	1.3	0	-2	-23	-24		130	5	-9	-5	44	64
Malaysia		1519	2.0	2	0	-3	-4		156	1	-9	10	31	44
Argentina		44740	0.7	8	-2	48	7		1375	0	25	-775	-711	-394
Brazil		95526	-0.1	1	-5	-4	-17		308	-2	-25	-3	52	93
Chile		3588	-0.9	-1	-6	-29	-23		167	0	-14	-6	25	34
Colombia		1174	0.5	1	-5	-26	-29		245	-2	-19	-7	57	82
Mexico		37419	1.3	0	4	-12	-14		481	-3	-24	6	155	189
Peru		17959	-0.9	0	-1	-7	-13		155	-1	-16	5	23	48
Hungary		33502	-0.2	0	-4	-15	-27		118	1	-5	-4	10	32
Poland		49844	-0.7	2	1	-11	-14		22	3	-3	-4	-21	4
Romania		8889	0.2	-1	-2	-6	-11		243	-3	-11	-3	41	70
Russia		2841	-0.1	-2	-2	5	-7		199	-1	-8	-15	-5	68
South Africa		54486	-0.5	0	0	0	-5		495	-6	-35	0	151	175
Turkey		1149	-0.3	0	5	13	0		620	11	0	21	129	219
Ukraine		500	0.0	0	0	-5	-2		688	-14	-36	52	173	268
EM total		45	0.2	2	4	13	1		413	-3	-17	-7	63	120

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

[back to top](#)