






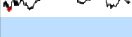






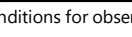
- **US-China trade tensions roil global markets** ([link](#))
- **Fed Chair advises that the central bank will resume buying bonds** ([link](#))
- **Turkish assets underperform on concerns over military incursion into Syria** ([link](#))
- **Ecuador bond yields jump as political crisis deepened** ([link](#))
- **Bank of Thailand raises concerns about baht's strength** ([link](#))
- **Investors continue to pile into US municipal bond markets** ([link](#))

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Political Uncertainties Continue to Dominate Markets

Market sentiment was weighed down yesterday by global political developments, including **US-China trade tensions, Brexit uncertainties and the US impeachment proceedings**. News about the imposition of US restrictions on the issuance of visas to several Chinese officials and the backlisting of 28 Chinese groups fueled market fears of rising US-China trade tensions. This was compounded by renewed news leaks about potential US restrictions on capital flows between the two countries. Global equities were down by about 1% yesterday. However, risk sentiment seemed to improve somewhat this morning on the back of news that China may increase its purchases of US agricultural products as it seeks to fend off a new round of US tariffs set to take effect on October 15. Higher market uncertainty has provided general support for safe haven assets, with yields on 10-year German Bunds and US Treasuries declining by 2 bps and 5 bps, respectively. Treasuries were further supported by the Fed Chairman's announcement that the central bank will soon resume purchases of short-term Treasury debt in order to boost bank reserves and ease the recent stress in funding markets. For the remainder of the week, investors' eyes will likely remain focused on the two-day round of US-China trade talks which start tomorrow.

Key Global Financial Indicators

Last updated: 10/9/19 8:47 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2893	-1.6	-2	-3	0	15
Eurostoxx 50		3465	1.0	2	-1	4	15
Nikkei 225		21456	-0.6	-1	1	-9	7
MSCI EM		40	0.7	-1	-3	-1	3
Yields and Spreads			bps				
US 10y Yield		1.55	-2.9	-5	-9	-166	-113
Germany 10y Yield		-0.57	2.4	-2	2	-112	-81
EMBIG Sovereign Spread		349	-1	0	15	5	-65
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.4	0.3	0	0	-2	-3
Dollar index, (+) = \$ appreciation		99.0	-0.1	0	1	4	3
Brent Crude Oil (\$/barrel)		59.0	1.3	2	-6	-31	10
VIX Index (% change in pp)		19.2	-1.1	-1	4	3	-6

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

United States

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Equity markets slumped yesterday, as trade concerns continued to roil markets. The blue-chip Dow index lost 1.2%, the broader S&P 500 1.6%, and the tech-heavy Nasdaq 1.7%. Financials (-2.0%) and tech stocks (-1.8%) underperformed. The US imposed travel bans on several Chinese officials, while earlier China issued a strong response to a new round of blacklisting Chinese entities. And the US is progressing on restrictions on portfolio flows into China, particularly those by US government pension funds. Such funds are believed to have \$50 bn invested in Chinese assets. There have also been discussions looking at how index providers include Chinese equities in their indices. A high-level Chinese delegation begins trade discussions in the US tomorrow. Bloomberg's China trade sensitive stock index outperformed the S&P 500 in August and September. Although it has recently declined, the index remains above the May trough when trade tensions ramped up.

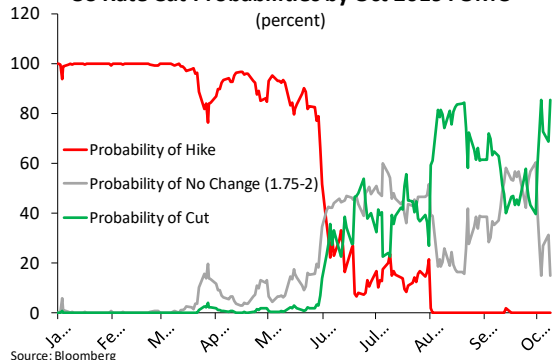
The China Syndrome

■ Morgan Stanley's China Trade Sensitive Basket / SPX Index



Fed chair Powell announced the **Fed would resume buying bonds again** but advised that “this is not QE.” Recent pressures in short-term funding markets saw overnight repo rates jump as high as 10% in September, causing the Fed to inject billions into the market to address the stress in funding markets. He emphasized “that growth of our balance sheet for reserve management purposes should in no way be confused with the large-scale asset purchases programs” prevalent during the financial crisis. It is believed that Treasury bills would make up most of the purchases. Bloomberg Intelligence gauges purchases would likely fall into the \$125-200 bn range. Treasury yields fell after his remarks. The FOMC is meeting October 30th. Futures markets are currently pricing in 80% chance of a rate cut, up from 40% at the end of September.

US Rate Cut Probabilities by Oct 2019 FOMC

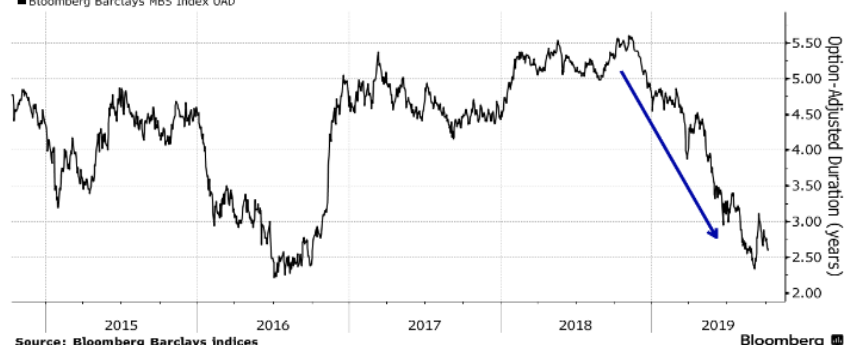


Ten-year Treasury yields have fallen over 100 bps since mid-April. The benchmark closed at 1.53% Tuesday. This has fed into mortgage markets. **Refinancings** recently made up 58% of total mortgage applications. Mortgage delinquencies fell below 5% in early 2018 and now stand at 4.53%, and forecloses have fallen to 0.9% of all loans. Mortgage investors have also seen an impact as prepayments have climbed. The duration of Barclays benchmark mortgage-backed security index has fallen by 2.6 years, a decline of over half since November.

Disappearing Act

Mortgage universe duration drops amid rate rally

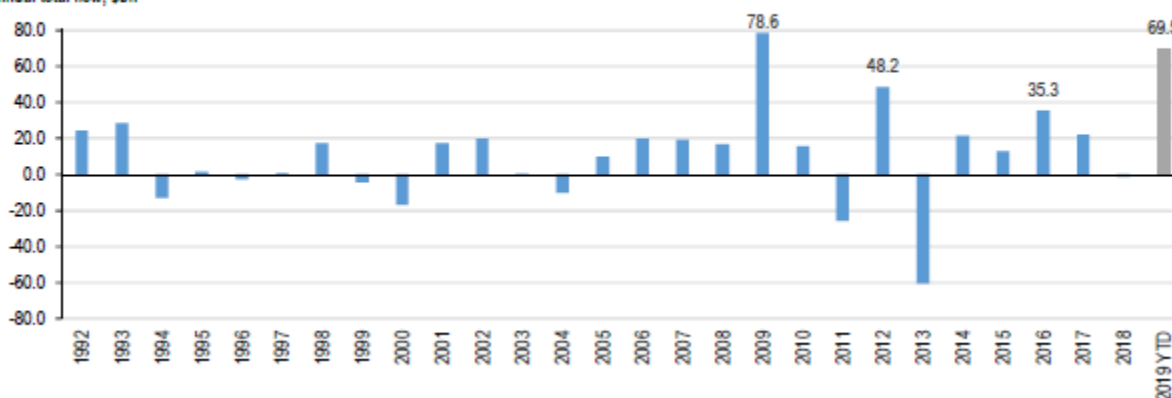
■ Bloomberg Barclays MBS Index OAD



Investors continue to pile into municipal bond markets. The benchmark ICE municipal index has returned about 8% so far this year. And credit spreads (63 bps) are around 10-year lows. JP Mortgage expects issuance next week to total \$10.6 bn, 157% more than the 5-year average of \$6.8 bn. Lipper reported municipal bond enjoyed net inflows of \$1.1 bn in September, marking that the 39th consecutive week of inflow. Year to date, inflows have totaled \$69.5 bn; running a record high for the period and on track to rival the full-year record of \$78.6 bn in 2009.

Exhibit 3: Thus far in 2019, year-to-date inflows are at record highs and would be the second highest compared with historical full year results. Year-to-date inflows into municipal bond funds have been running at a record pace for 34 consecutive weeks

Annual total flow, \$bn



Source: JP Morgan

Europe

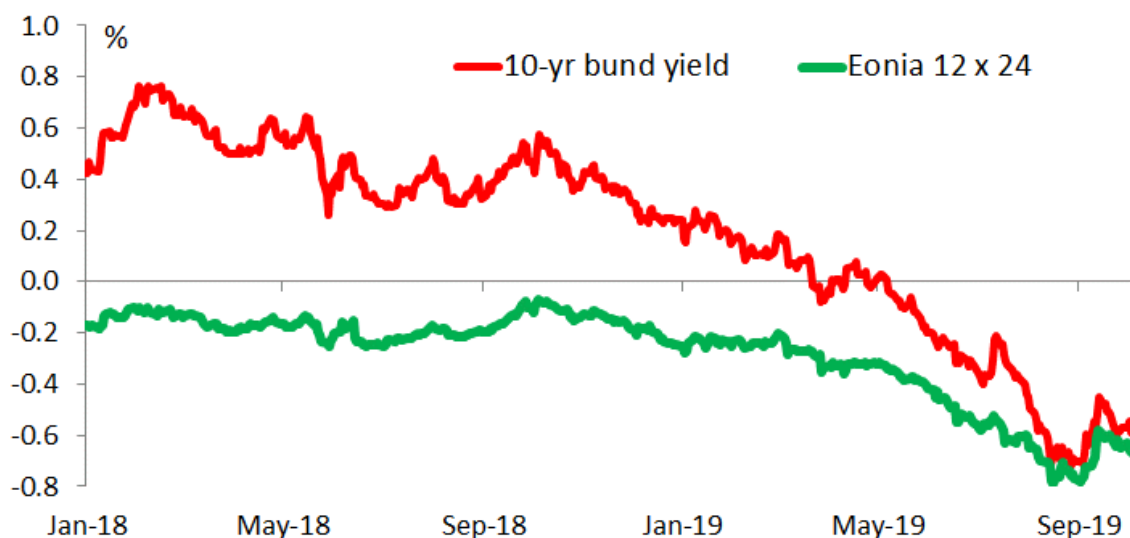
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U.K. stocks (+0.5%) are up after PM Johnson described a call with the Irish PM as constructive. Further talks between the two are expected for Thursday and Friday. The British pound is little changed against the USD. **European equities** (+0.7%) traded higher with bank stocks (+0.4%) continuing to lag the broader market. German stocks (+0.8%) also gained. **Core sovereign debt yields backed up 2-3 bps.** German

10-year yields are at -0.56% (+3 bps); French 10-yr OAT yields traded at -0.3% (+3 bps); Italian 10-yr BTP yield at 0.86% (+2 bps).

Weak data and geopolitical uncertainties continue to cement expectations of ECB easing in early 2020, providing an anchor for core euro area government bond yields. In the past year, the spread between 10-yr bund yield and unsecured euro area money market has narrowed sharply (chart). Currently swap markets are pricing in another 10 bps cut in the ECB depo market by end of the first quarter of 2020 (from the ECB's current deposit rate of -50 bps).

Euro area: German bund yield and EONIA money market rates



Note: A 12x24 contract fixes a rate for the period starting at the end of month 12 and ending at month 24.

Source: Bloomberg and IMF staff

For the first time in its history, Greece sold €488 mn of 3-month T-bills at a negative yield of -2 bps. Yesterday, Greece sold €1.5 bn of 10-yr bonds at a yield of 1.5% (book: €7.6 bn). The Greek debt management agency reports that 87% of the issuance went to real money investors (with 13% going to hedge funds). Greek 10-yr bond yields are steady at 1.44% today. Greek 10-yr euro debt is trading at a spread of 201 bps over 10-yr German bunds.

In line with strong demand for euro area fixed income, **Italy has reportedly received \$10 bn of orders for its first sale of U.S. dollar-denominated bonds since 2010.** Italian 10-yr euro debt is trading at a spread of 144 bps over 10-yr German bunds.

Analysts will keep an eye on the Eurogroup meeting today for news on new appointments to the ECB Executive Board.

Other Mature Markets

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Japan

Both the yen and equities lost ground on the day. The yen depreciated by 0.1% while the TOPIX shed 0.3%. News that renewed tensions between the U.S. and China could derail the upcoming trade negotiations weighed on sentiment. The move was led by a decline in the share price of electronics and machinery companies, which followed US markets lower.

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Asian currencies were mixed amid renewed tension between the U.S and China. The Thai baht paced gains (+0.3%), reaching its strongest level in 6 years while the Malaysian ringgit underperformed (-0.1%). Equities mostly fell as tension between the U.S. and China flared ahead of trade talks scheduled later in the week. In addition to blacklisting Chinese companies, discussions from the U.S. administration on restricting financial flows into China, including asking index companies such like MSCI and Bloomberg Barclays to reduce the weight of Chinese companies in investment indexes as well as limiting public pensions' investments in Chinese assets have raised the possibility of financial decoupling between the economies. In **EMEA**, stock performance was split between bourses in Central and Eastern Europe (positive moves) and those in Africa and the GCC (negative moves). Equities in the Czech Republic (+0.5%), Russia (+0.3%), and Hungary (+0.2%) led gains; while Saudi Arabia (-1.2%), Kuwait (-0.7%), and Egypt (-0.6%) paced the losses. Currencies were flat to slightly stronger to the dollar (+0.1% to +0.2%). **Turkish assets underperformed peers:** equities were 0.7% lower and the lira weakened 0.2% to the dollar. **Latin American** markets were largely in the red for the second straight day, following US and European equities on Tuesday. Mexico (-1.0%) and Brazil (-0.6%) were the biggest losers of the day other than Argentina, while others had more modest losses. Currencies were mixed, with the Chilean peso dropping 0.9% against the dollar after a soft inflation print, and the Brazilian real gaining 0.3%.

Key Emerging Market Financial Indicators

Last updated: 10/9/19 8:43 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		40.34	0.7	-1	-3	-1	3
MSCI Frontier Equities		27.92	-0.5	0	-1	0	7
EMBIG Sovereign Spread (in bps)		349	-1	0	15	5	-65
EM FX vs. USD		60.38	0.2	0	0	-2	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.13	0.2	0	0	-3	-4
Indonesian Rupiah		14175	-0.1	0	-1	7	2
Indian Rupee		71.07	-0.1	0	1	5	-2
Argentine Peso		57.85	0.0	0	-3	-35	-35
Brazil Real		4.08	0.3	1	0	-9	-5
Mexican Peso		19.56	0.4	1	0	-3	0
Russian Ruble		64.89	0.5	0	1	2	7
South African Rand		15.16	0.8	1	-3	-4	-5
Turkish Lira		5.83	0.0	-2	-1	5	-9
EM FX volatility		8.20	0.0	0.1	0.0	-2.4	-1.6

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

Thailand

The Bank of Thailand raised the prospect of taking measures to halt the baht's appreciation as the currency reached its strongest level in 6 years. In the just-released meeting minutes from its September 25th policy meeting, the central bank noted its concern on the impact of a strong baht on economic growth. It indicated that greater currency appreciation could exert "additional pressure" on softening domestic demand, particularly on export-related sectors. The central bank will therefore "closely monitor developments of exchange rates, capital flows, and ... consider implementing additional measures." The baht has gained 7.3% against the dollar thus far this year, making it the best performer in Asia, far outpacing the yen which, as the runner up, appreciated by about 2.3% over the same period.

Turkey

Turkish assets underperformed peers as concerns over a military incursion into Syria mount

Equities in Istanbul dropped 0.7% this morning and the Banks Index fell 1.3% as news that Turkish troops had entered northern Syria spread. The lira was relatively stable, weakening only about 0.2% to the dollar. According to various news outlets, the value of the lira has been propped by dollar sales worth as much as \$1 bn in the last two days by Turkish state banks.

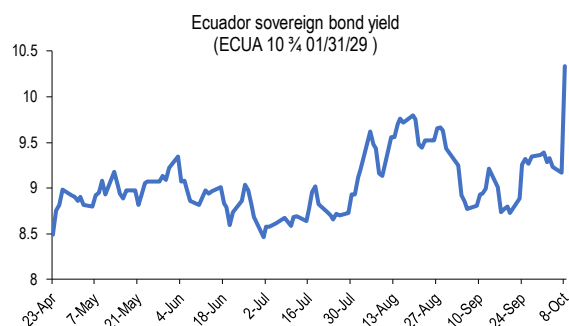


Sources: Conflict Monitor by IHS Markit, areas of control as of Sept. 30, 2019; Office of the Turkish President

Bloomberg

Ecuador

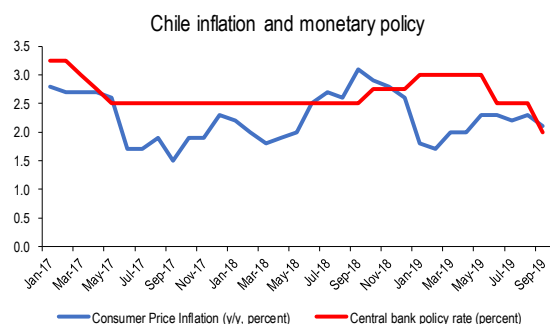
Ecuador bond yields jumped over 100 bps on Tuesday as the political crisis deepened, with yields on the benchmark 2029 sovereign bond rising from 9.17% at the start of trading to a high of 10.33% Tuesday afternoon. After widespread protests began last week for a fuel price hike, the market reaction was initially fairly muted through Monday afternoon, but late Monday night into Tuesday morning, the political crisis escalated, as President Moreno announced a potential coup attempt forced him to leave the capital of Quito to run the government from Guayaquil. In addition, government officials confirmed that protesters had disrupted oil production and sabotaged a key pipeline for several hours, putting at risk around 165,000 barrels per day (close to 25% of total output) according to state oil producer Petro Amazonas, though most production was close to being restored by late Tuesday. The sharp bond sell-off is likely related to investor fears that Ecuador would back off the fuel price increase and potentially lose access to IMF financial disbursements, or that President Moreno would be forced to step down and a less market-oriented regime comes back to power. Analysts say Moreno has given no indication he will change course on fuel subsidies, though the government is reportedly negotiating other arrangements with the protesters.



Chile

Chilean inflation slowed in September, with financial markets expecting a rate cut in late October.

Chilean inflation came in below survey expectations at 2.1% y/y (0.0% m/m) in September, and has been below the central bank's 3.0% target for 23 of the last 24 months. Transport and house goods prices fell 0.4% m/m in September, while food prices were unchanged despite an ongoing drought. Although Chile's monthly economic activity indicator for August came in stronger-than-expected and consensus forecasts expect inflation to pick to 2.9% in 2020, most analysts still believe the central bank will cut the benchmark policy rate by 25 bps at the October 23 meeting to 1.75%. Moreover, interest rate futures suggest a further 25 basis points in easing within the next 6 months. The Chilean peso fell 0.9% against the dollar on the day, though bearish headlines on China US tensions may have played a role as well.



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Global Financial Indicators

Last updated: 10/9/19 8:41 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2893	-1.6	-2	-3	0	15
Europe		3465	1.0	2	-1	4	15
Japan		21456	-0.6	-1	1	-9	7
China		2925	0.4	-1	-3	7	17
Asia Ex Japan		66	-0.6	0	-3	0	3
Emerging Markets		40	0.7	-1	-3	-1	3
Interest Rates			basis points				
US 10y Yield		1.55	-2.9	-5	-9	-166	-113
Germany 10y Yield		-0.57	2.4	-2	2	-112	-81
Japan 10y Yield		-0.20	0.1	-4	5	-36	-20
UK 10y Yield		0.45	2.9	-6	-15	-127	-83
Credit Spreads			basis points				
US Investment Grade		132	-0.9	2	-1	33	-15
US High Yield		483	-4.9	-3	23	146	-38
Europe IG		58	-1.6	0	10	-13	-30
Europe HY		253	-5.6	11	14	-32	-99
EMBIG Sovereign Spread		349	-1.0	0	15	5	-65
Exchange Rates			%				
USD/Majors		99.03	-0.1	0	1	4	3
EUR/USD		1.10	0.2	0	-1	-4	-4
USD/JPY		107.4	-0.3	0	0	5	2
EM/USD		60.4	0.3	0	0	-2	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		59	1.3	2	-6	-31	10
Industrials Metals (index)		116	-0.1	0	-2	-5	6
Agriculture (index)		39	0.6	1	7	-9	-5
Implied Volatility			%				
VIX Index (% change in pp)		19.2	-1.1	-1.4	3.9	3.2	-6.3
10y Treasury Volatility Index		5.3	0.0	-0.3	0.4	1.2	0.7
Global FX Volatility		7.1	0.0	-0.2	-0.1	-1.3	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		200	-4.6	9	-19	-203	-216
Italy		143	-0.3	-1	-9	-149	-107
Portugal		68	-2.7	-5	-14	-74	-80
Spain		70	-1.3	-1	-10	-35	-47

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: 10/9/2019 8:44 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		7.13	0.2	0.3	0	-3	-4		3.2	0.3	0	11	-42	0		
Indonesia		14175	-0.1	0.2	-1	7	2		7.3	1.7	-3	-9	-120	-82		
India		71	-0.1	0.0	1	5	-2		6.8	0.0	-3	7	-133	-67		
Philippines		52	0.0	0.3	0	5	2		4.3	0.1	-2	-4	-209	-197		
Thailand		30	0.2	1.1	1	9	7		1.5	1.6	-1	-8	-144	-112		
Malaysia		4.20	-0.1	0.0	0	-1	-2		3.4	-2.1	1	5	-69	-69		
Argentina		58	0.0	-0.3	-3	-35	-35		59.1	-221.9	-703	-650	3590	3610		
Brazil		4.08	0.3	1.2	0	-9	-5		6.3	-4.3	-4	-39	-299	-185		
Chile		725	0.0	0.1	-1	-6	-4		2.7	-4.7	-13	11	-210	-174		
Colombia		3453	0.0	1.2	-2	-12	-6		5.6	-2.7	-3	-5	-103	-89		
Mexico		19.55	0.4	1.2	0	-3	0		6.9	-2.5	-15	-22	-123	-184		
Peru		3.4	0.0	0.2	-1	-2	0		4.3	0.0	-15	1	-147	-144		
Uruguay		37	0.0	-0.4	-2	-12	-13		10.8	2.2	10	-19	42	10		
Hungary		304	0.2	0.1	-2	-7	-8		1.0	0.0	-10	-18	-173	-118		
Poland		3.94	0.2	1.1	0	-5	-5		1.7	0.5	-10	-12	-96	-57		
Romania		4.3	0.2	0.1	-1	-6	-6		3.8	3.0	3	8	-84	-44		
Russia		64.9	0.5	0.5	1	2	7		6.7	-0.6	-15	-15	-182	-169		
South Africa		15.2	0.8	0.8	-3	-4	-5		9.4	6.7	-5	9	-49	-20		
Turkey		5.83	0.0	-2.2	-1	5	-9		13.7	18.8	15	-156	-841	-321		
US (DXY; 5y UST)		99	-0.1	0.0	1	4	3		1.36	1.0	-7	-14	-169	-115		

	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		2925	0.4	-1	-3	7	17		192	3	3	6	10	-2
Indonesia		6029	-0.2	0	-5	4	-3		190	0	0	19	0	-46
India		38178	1.7	-1	3	11	6		135	3	0	-5	-25	-61
Philippines		7681	-1.0	1	-4	9	3		84	-2	2	16	-18	-37
Malaysia		1551	-0.5	-2	-3	-13	-8		127	2	0	4	3	-35
Argentina		30257	-2.2	1	11	2	0		2077	-9	-105	17	1418	1262
Brazil		99981	-0.6	-4	-3	16	14		253	-3	2	26	-6	-20
Chile		5041	-0.2	0	4	-5	-1		142	0	-3	14	21	-24
Colombia		1590	-0.4	1	1	6	20		186	-2	-6	12	15	-42
Mexico		42535	-1.0	-1	0	-12	2		325	-1	-1	-2	70	-29
Peru		19232	0.0	0	0	-1	-1		130	-2	-11	19	-2	-38
Hungary		39595	0.3	0	-2	7	1		106	-2	-3	19	-2	-42
Poland		56298	0.1	1	-2	-3	-2		43	0	-1	18	-7	-42
Romania		9498	0.1	1	3	11	29		202	0	4	5	32	-19
Russia		2719	0.4	0	-2	11	15		202	-2	-1	12	-15	-50
South Africa		54463	-0.1	1	-2	1	3		342	-2	-3	36	23	-23
Turkey		101119	-0.7	-2	1	5	11		491	0	8	-13	14	62
Ukraine		525	-0.5	0	0	-4	-6		515	0	-20	60	-40	-272
EM total		40	0.7	-1	-3	-1	3		349	-1	0	15	5	-65

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

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