







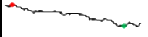





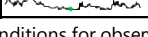
- Bank of America report solid 3Q19 results; BNY Mellon performance was mixed ([link](#))
- US non-financial corporate leverage declines after adjusting for accounting change ([link](#))
- Bank of Korea cuts its policy rate to a record low amid softening growth ([link](#))
- Turkish equities fall as N.Y. prosecutors indict Halkbank ([link](#))
- Ecuador bond yields rise as government reverses decree on fuel subsidies ([link](#))

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Markets mixed amid renewed US-China tensions

US equity futures fell and European stocks traded cautiously as risk sentiment was buffeted by the passing of US legislation deemed to support Hong-Kong's protesters. Chinese authorities threatened with "strong countermeasures" if the US legislation is enacted. The VIX rose by 0.3 percentage points, US Treasury yields fell and the US dollar strengthened marginally this morning. Elsewhere, the earnings season rolled on with Bank of America beating expectations and BNY Mellon reporting mixed Q3 results. In emerging markets, the Bank of Korea cut its policy rate to a record low amid softening growth while Turkish equities (-1.6%) were under pressure after New York prosecutors filed a six-count indictment against Turkish bank Halkbank for violating sanctions against Iran.

Key Global Financial Indicators

Last updated: 10/16/19 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2996	1.0	4	0	7	19
Eurostoxx 50		3605	0.2	4	2	11	20
Nikkei 225		22473	1.2	4	2	0	12
MSCI EM		42	-0.5	4	0	3	7
Yields and Spreads				bps			
US 10y Yield		1.74	4.2	15	-11	-143	-95
Germany 10y Yield		-0.42	-0.2	13	6	-91	-66
EMBIG Sovereign Spread		334	1	-16	0	-14	-80
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		60.5	0.0	0	-1	-4	-3
Dollar index, (+) = \$ appreciation		98.4	0.1	-1	0	3	2
Brent Crude Oil (\$/barrel)		58.8	0.1	1	-15	-28	9
VIX Index (% change in pp)		13.8	0.3	-6	-1	-4	-12

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

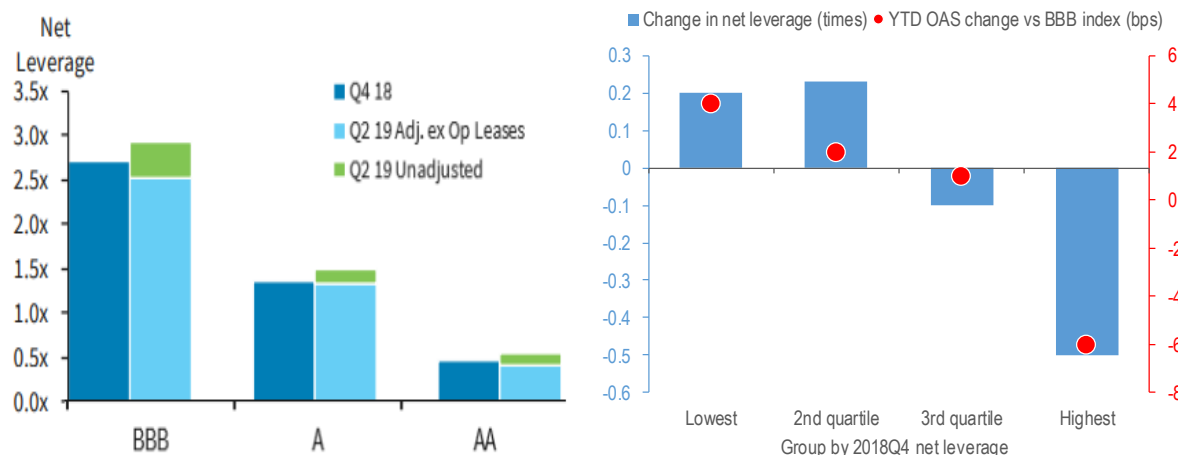
United States

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US stocks rallied on Tuesday as solid 3Q earnings results outweighed higher trade uncertainty, with major indices up by around 1%. Healthcare (+1.8%) and financial (+1.3%) sectors were in the lead thanks to earnings-driven demand while rate sensitive sectors pulled back (utilities -0.3%; consumer staples -0.4%). Underscoring the limited scope of agreement in last week's US-China trade truce, China reportedly wants a rollback in US tariffs before committing to buy up to \$50bn of US agricultural products. Treasury yields rose in a steepening move as risk sentiment improved, with 2-year yield up 3 bps to 1.62% and the 10-year yield up 4 bps to 1.78%. Oil prices fell for a second day (WTI crude -1.5%; Brent -1.3%) on lingering concerns about Chinese demand. Additional headwinds came from IMF cutting global growth forecasts.

This morning, **US retail sales unexpectedly dropped**, showing a 0.3% mom decline vs the expected 0.3% mom increase, but the prior reading was revised up by 0.2 ppts. Similarly, core sales contracted 0.1% mom vs the expected 0.2% mom increase. The 10-year Treasury yield dropped 3 bps immediately following the release. On the earnings front, **Bank of America reported solid 3Q19 results** this morning. Net income (net of a non-cash charge) came in at \$7.5 bn, up from \$6.7 bn in 3Q18 and above consensus market expectations. Total revenue was up slightly YoY, while the market had expected a slight decline. Net interest income rose 3% YoY on 6% growth in average loans driven by residential mortgages and a 4 bps decline in net interest margin (vs. expected -6 bps). FICC revenues were flat (slightly weaker than US peers), while equities revenue rose 13% YoY. Investment banking advisory fees were robust. Disclosures highlight rising technology investments and growth of the digital customer base and on-line transaction volumes, including 13% YoY growth in mobile logins. The bank's shares are trading up about +2.2% on yesterday's close. **BNY Mellon reported mixed 3Q19 results**, with EPS of \$1.07 well ahead of consensus \$0.99 but considerable earnings "noise". Revenues were in-line with expectations on solid transaction servicing fees but light net interest income. Net interest margins fell sharply, down 12 bps QoQ.

US investment grade (IG) non-financial corporates have reduced leverage this year, especially in the BBB-rated segment. While the headline net leverage shows an increase from 2.3x in 2018Q4 to 2.5x in 2019Q2, analysts noted that the increase is artificially inflated by a 2019 GAAP accounting change that requires operating leases to be accounted for as liabilities. After adjusting for the change, net leverage has in fact declined to 2.2x, almost in line with long-term averages. In addition, BBB-rated firms have delevered the most in the IG universe to 2.5x of net leverage. More importantly, within the BBB-rated segment, the deleveraging is most pronounced in the highly leveraged firms, who have on average reduced net leverage by 0.5x. As a result, these firms have outperformed this year with spreads tightening 6 bps more than the overall BBB index (-47 bps YTD).

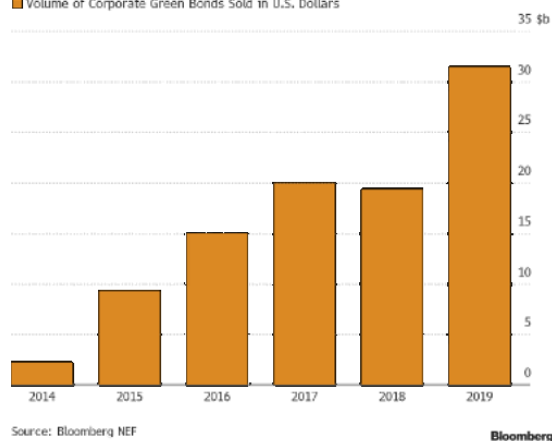


US green bond issuance jumped this year, but the overall volume remains small. Green bond issuance from US IG corporate has increased over 60% to about \$30 bn so far this year, on track to close the year at a record. The market has expanded 15 times over the last six years. Many new IG-rated issuers are tapping the market, such as Verizon (\$1 bn) and Pepsi (\$1 bn). Nevertheless, the total volume remains small, compared to over \$1 tn in both US IG and HY markets, which limits the liquidity in the secondary market.

Climate Friendly

Green bond issuance from high-grade companies has risen over 62% YTD

Volume of Corporate Green Bonds Sold in U.S. Dollars



Europe

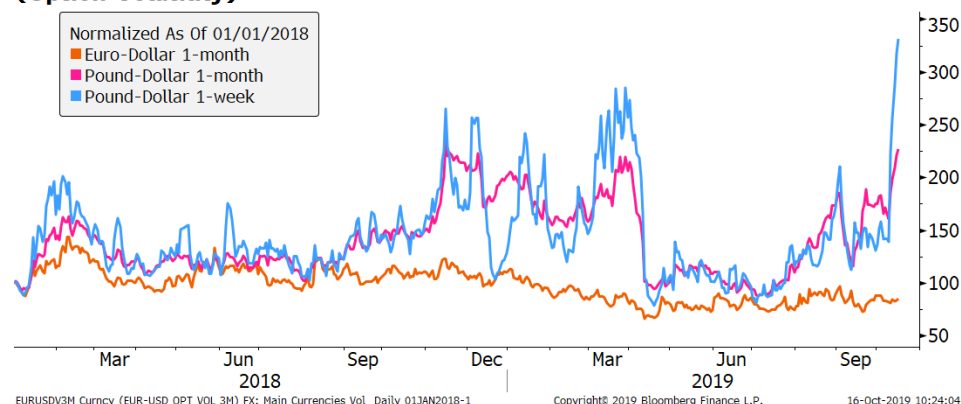
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European stocks traded cautiously as investors await news from Brexit negotiations. The DAX gained 0.1% but the CAC 40, EuroStoxx 600 (%), Titans 30, and Ibex 35 all moved down 0.1%. Bank stocks (-0.2%) slightly underperformed. **UK-based equity indices also underperformed**, with the FTSE 250 shedding 0.8% and the FTSE 100 losing 0.2%.

German and French 10-year yields were steady at -0.42% (-1 bp) and -0.13% (-2 bps), respectively. Spanish 10-year yields were flat on the day at 0.22%. Italian yields shed 4 bps to 0.89%.

In FX markets, **the pound's volatility at the one-week horizon continued to surge**. Sterling traded today at \$1.27 (-0.7%) while the euro was stable at \$1.10 (-0.1%).

FX Volatility: Major Crosses (Option Volatility)



On the Brexit front, there has been a heavy news flow of conflicting reports about whether a breakthrough in negotiations will be attained this week. In the UK, the media reports on last-minute efforts by PM Johnson to secure support from Tory and DUP MPs for his Brexit deal. **No concrete measures nor official positions have been announced**, however.

Other Mature Markets

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Japan

The yen strengthened while equities extended their gains as markets were buffeted by reports of new U.S.-China tension. The yen appreciated 0.2% against the dollar, its first gain in five sessions while the Topix rose 0.7%. China indicated that it would “retaliate” if the U.S. passes a bill that supports Hong Kong’s pro-independence protesters. Meanwhile, BoJ Governor Kuroda indicated that he expects the central bank’s balance sheet to continue to expand amid further large-scale easing until its inflation target of 2% is achieved. JGB bond yields rose on the day, with the 2-year note up 1.6 bps to -0.28% and the 10-year note up 1 bps to -0.17%.

Emerging Markets

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Asian currencies were under pressure this morning after U.S. legislation supporting Hong Kong’s pro-independence protesters was passed by the House of Representatives. The offshore CNH depreciated 0.4% against the dollar, underperforming its peers. Chinese stocks underperformed, with the Shanghai Composite down 0.3% and the tech-heavy Shenzhen Composite 0.4% lower. **In EMEA, news of the indictment of Turkish bank Halkbank by N.Y. prosecutors ahead of a visit by Vice-President Pence dominated headlines.** Turkish equities (-2%) traded lower as stocks were little changed elsewhere. In Latin America, the Brazilian real was again the main underperformer (-1.3% against the dollar) as the outlook of lower rates has reduced the currency’s carry attractiveness. Chilean and Colombian pesos weakened by half a percent against the dollar, weighed down by weaker copper and oil prices.

Key Emerging Market Financial Indicators

Last updated: 10/16/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.92	-0.4	4	0	3	7
MSCI Frontier Equities		28.08	-0.1	1	0	2	7
EMBIG Sovereign Spread (in bps)		334	1	-16	0	-14	-80
EM FX vs. USD		60.53	0.0	0	-1	-4	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.10	-0.2	0	0	-3	-3
Indonesian Rupiah		14172	0.0	0	-1	7	2
Indian Rupee		71.44	0.2	-1	0	3	-2
Argentine Peso		58.27	-0.4	-1	-3	-37	-35
Brazil Real		4.18	0.1	-2	-2	-11	-7
Mexican Peso		19.25	0.0	2	1	-3	2
Russian Ruble		64.24	0.1	1	0	2	8
South African Rand		14.98	-0.6	1	-2	-5	-4
Turkish Lira		5.90	0.2	-1	-3	-4	-10
EM FX volatility		7.94	0.0	-0.3	-0.2	-1.7	-1.8

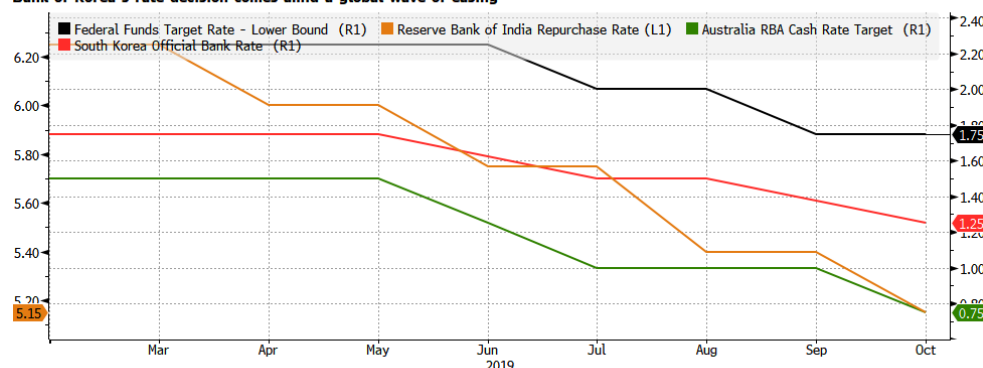
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Korea

The Bank of Korea lowered its policy rate by 25 bps to 1.25%, taking it back to the record low level seen in 2016. Citing the possibility for growth to weaken further than expected, the BoK lowered its policy rate for the second time this year. In July, the BoK had forecasted growth to reach 2.2%, y/y, in 2019. Moreover, the central bank left open the possibility for more rate cuts, noting that BoK still “has room” to reduce rates “if needed”. That said, two BoK members dissented in favor of no change in rates, suggesting that the hurdle to further rate cuts could be high. The Korean won depreciated 0.2% against the dollar while short-dated sovereign bond yields rose. The 1-year note rose 4 bps to 1.12% while the 5-year note rose 2 bps to 1.37%.

Downward Path

Bank of Korea's rate decision comes amid a global wave of easing



Source: Bloomberg

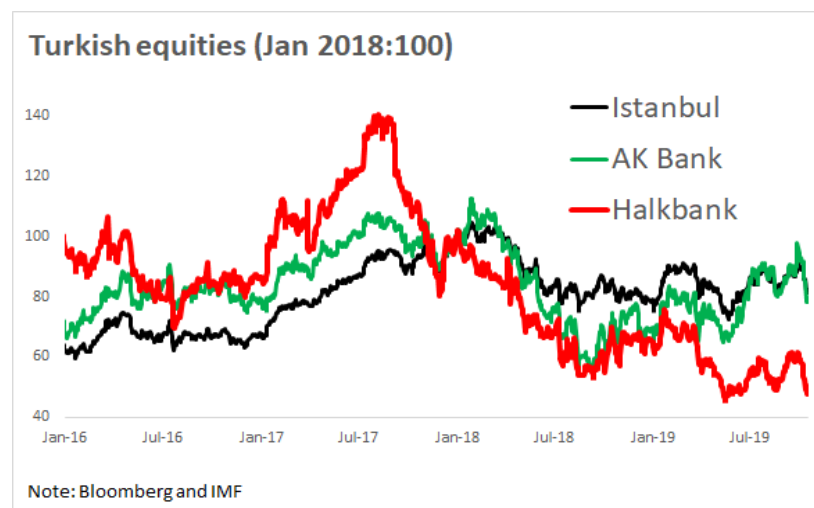
FDTRFTRL Index (Federal Funds Target Rate - Lower Bound) fed-bok-rates Monthly

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Turkey

Turkish equities (-1.6%) were under pressure this morning after the Southern District of New York filed a six-count indictment against Turkish bank Halkbank for violating sanctions against Iran. Halkbank (-5%) fell as much as 7% in morning trading as the tone of the indictment was sharper than previously expected, and pointed to audacious conduct by the bank supported and protected by high-ranking Turkish government officials. The indictment is seen as a further deterioration in U.S.-Turkish relations ahead of a visit by Vice-President Pence and Secretary of State Pompeo. In response to the indictment, the Turkish stock exchange banned short selling in 7 banks, including Halkbank. The Turkish lira was little changed against the USD at 5.90 as analysts report that Turkish state banks have been actively selling USD to support the lira. The yield on the 2-yr Turkish government bond rose 48 bps to 16.31%.



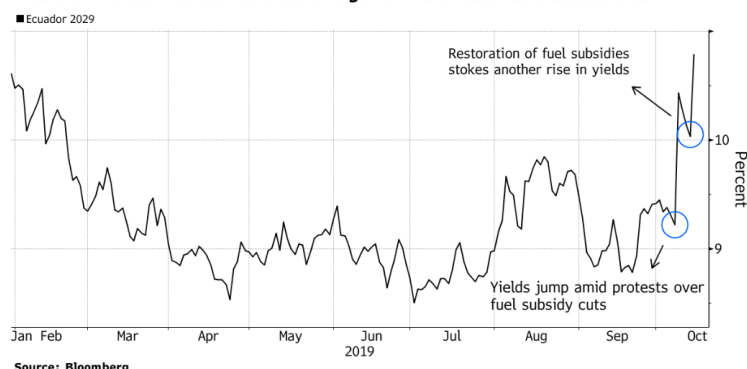
Note: Bloomberg and IMF

Ecuador

Bonds sold off given investor concerns that Sunday's reversal on fuel subsidies by the government will put the country's adjustment plan in question. The yield on the 2029 dollar bond rose by 50bps to 10.5%, the highest level since the bond was issued in January 2019. Trading on dollar bonds restarted on Tuesday for the first time since President Moreno announced late Sunday an end to the October 1 decree to scrap subsidies on diesel and gasoline. Meanwhile, Petroamazonas's crude output has fallen by 128k barrels per day due to damage at oilfields according to the Resources Ministry. The ministry separately reported total output of 185k barrels per day for October 14, down from close to 550k ahead of the protests.

Yield Spike

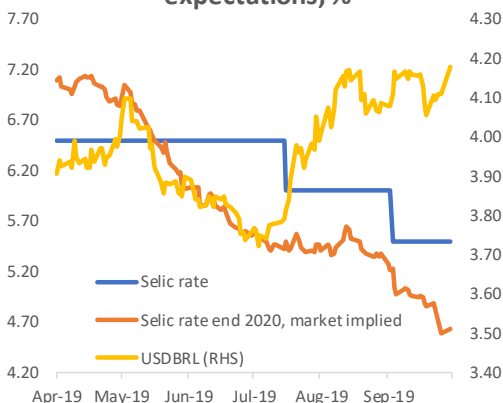
Yields on Ecuador bonds rise after the government restores fuel subsidies



Brazil

The real weakened by another 1.3% against the dollar to 4.18 on Tuesday (vs. an all-time low of 4.20) while swap rates halted their decline. End-2020 implied selic rates rose by 6bps to 4.63% after an over 30bps drop in the previous 5 sessions to an all-time low of 4.57%. Analysts highlight that the prospects of decreasing carry without a clear signal of the end of the easing cycle by the BCB poses an uphill battle for currency valuations, which have lost their correlation to overall risk sentiment and the domestic policy progress. Beyond short-term valuation pressures, analysts see encouraging dynamics for the currency with the approval of the oil auctions in November and moderation of outflows related to re-payment of USD debt. Sentiment on Tuesday was also affected by Reuters headlines that police are investigating the head of President Jair Bolsonaro's party as part of a probe into alleged campaign financing irregularities.

BRL, Policy rate and end 2020 expectations, %



Source: Bloomberg

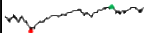






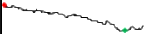
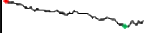













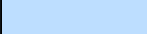



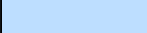
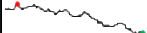

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Global Financial Indicators

Last updated: 10/16/19 8:02 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2996	1.0	4	0	7	19
Europe		3605	0.2	4	2	11	20
Japan		22473	1.2	4	2	0	12
China		2979	-0.4	2	-2	17	19
Asia Ex Japan		68	0.9	4	0	4	7
Emerging Markets		42	-0.5	4	0	3	7
Interest Rates			basis points				
US 10y Yield		1.74	4.2	15	-11	-143	-95
Germany 10y Yield		-0.42	-0.2	13	6	-91	-66
Japan 10y Yield		-0.16	0.8	4	-1	-31	-16
UK 10y Yield		0.65	-4.3	19	-4	-96	-63
Credit Spreads			basis points				
US Investment Grade		123	-2.9	-10	-8	21	-24
US High Yield		452	-7.7	-36	10	103	-69
Europe IG		53	0.2	-5	7	-19	-34
Europe HY		235	-0.8	-17	-9	-54	-118
EMBIG Sovereign Spread		334	1.0	-16	0	-14	-80
Exchange Rates			%				
USD/Majors		98.36	0.1	-1	0	3	2
EUR/USD		1.10	-0.1	1	0	-5	-4
USD/JPY		108.7	0.1	-1	-1	3	1
EM/USD		60.5	0.0	0	-1	-4	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		59	0.1	1	-15	-28	9
Industrials Metals (index)		115	-1.0	0	-2	-4	5
Agriculture (index)		39	-0.4	0	2	-12	-6
Implied Volatility			%				
VIX Index (% change in pp)		13.8	0.3	-6.5	-0.9	-3.8	-11.6
10y Treasury Volatility Index		5.3	0.0	0.1	-0.7	1.6	0.7
Global FX Volatility		6.9	0.0	-0.2	-0.3	-1.1	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		181	-1.3	-16	-21	-198	-234
Italy		130	-5.5	-12	-2	-166	-120
Portugal		59	-0.6	-9	-16	-86	-89
Spain		64	-0.3	-6	-10	-51	-53

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: 10/16/2019 8:05 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						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		7.10	-0.2	0.5	0	-3	-3		3.2	-0.2	3	12	-35	2	
Indonesia		14172	0.0	0.0	-1	7	2		7.3	-2.4	-5	1	-160	-87	
India		71	0.2	-0.5	0	3	-2		6.8	-0.3	3	6	-128	-64	
Philippines		52	0.1	0.4	1	5	2		4.3	-0.2	-1	-7	-225	-198	
Thailand		30	0.1	-0.2	0	7	6		1.5	0.5	4	-10	-139	-109	
Malaysia		4.19	-0.1	0.0	-1	-1	-1		3.4	0.3	1	3	-68	-68	
Argentina		58	-0.4	-0.7	-3	-37	-35		58.5	91.1	-62	-1305	3590	3549	
Brazil		4.18	0.1	-1.6	-2	-11	-7		6.0	7.8	-29	-72	-304	-213	
Chile		719	-0.4	0.7	-1	-7	-3		2.8	2.3	12	5	-205	-163	
Colombia		3452	-0.5	0.1	-3	-10	-6		5.7	4.3	12	1	-103	-78	
Mexico		19.25	0.0	1.7	1	-3	2		6.9	4.7	2	-44	-122	-182	
Peru		3.4	0.0	0.5	-1	-1	0		4.2	-0.9	-9	-15	-162	-153	
Uruguay		37	-0.3	-0.6	-2	-12	-13		10.9	7.9	8	5	40	18	
Hungary		302	-0.3	0.8	0	-8	-7		1.1	1.7	9	-2	-178	-109	
Poland		3.90	-0.2	1.1	1	-5	-4		1.8	0.1	9	-14	-81	-48	
Romania		4.3	-0.1	0.4	0	-7	-6		3.8	2.0	2	12	-82	-42	
Russia		64.2	0.1	1.0	0	2	8		6.5	0.1	-19	-32	-185	-188	
South Africa		15.0	-0.6	1.3	-2	-5	-4		9.3	0.5	-6	7	-49	-26	
Turkey		5.90	0.2	-0.6	-3	-4	-10		15.3	-11.8	164	75	-475	-157	
US (DXY; 5y UST)		98	0.1	-0.8	0	3	2		1.56	-3.3	16	-14	-146	-95	

	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		2979	0.0	2	-2	17	19		188	0	-6	4	4	-6	
Indonesia		6170	0.0	2	-1	6	0		176	4	-13	7	-25	-60	
India		38599	0.2	1	4	10	7		132	-1	-3	5	-32	-64	
Philippines		7915	1.8	3	-1	13	6		73	4	-11	9	-35	-48	
Malaysia		1575	-0.6	2	-2	-9	-7		126	0	-5	5	2	-36	
Argentina		31334	0.7	1	3	6	3		1949	10	-63	-272	1317	1134	
Brazil		104490	0.2	5	1	22	19		232	1	-15	15	-19	-41	
Chile		5157	-0.8	2	2	0	1		132	-1	-7	3	4	-34	
Colombia		1579	-0.4	-1	-1	7	19		175	-1	-10	0	-2	-53	
Mexico		43245	0.4	2	1	-10	4		307	0	-15	-10	53	-47	
Peru		19406	-0.7	1	0	0	0		125	-1	-6	10	-18	-43	
Hungary		40576	-0.1	3	-1	8	4		92	0	-11	12	-25	-56	
Poland		56953	-0.6	1	-3	0	-1		28	1	-11	10	-37	-57	
Romania		9540	-0.4	0	3	11	29		182	-3	-20	8	1	-39	
Russia		2734	-0.5	1	-4	13	15		186	1	-14	6	-32	-66	
South Africa		55695	1.6	2	-4	5	6		322	2	-17	24	-4	-43	
Turkey		93894	-1.6	-6	-8	-5	3		503	5	8	17	58	74	
Ukraine		526	0.0	0	2	-5	-6		490	1	-22	49	-75	-297	
EM total		42	-0.4	4	0	3	7		334	1	-16	0	-14	-80	

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

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