



- EU and UK agree Brexit pact, but support in UK parliament remains uncertain ([link](#))
- Near-term recession expectations back to year-to-date high in US ([link](#))
- Fed Beige Book points to slower growth and tight labor market in US ([link](#))
- Liquidity squeeze at Korea's largest hedge fund raises contagion concerns ([link](#))
- Colombian court strikes down 2018 tax reform ([link](#))
- **The latest edition of the Global Financial Stability Report has been published ([link](#))**












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Markets lifted on Brexit deal but uncertainty remains

Global risk assets pop on news of a Brexit agreement, but gains are ebbing on uncertain prospects for the agreement's ratification. European stocks led major equity indices as much as 1% higher, 10-year government bond yields jumped 4-10 bps, and sterling spiked 1% early this morning on news that EU and UK negotiators had agreed a deal on Brexit. Price moves quickly retraced however as the Democratic Unionist Party, a member of PM Johnson's majority coalition, announced that they will vote against the deal when it is put to a vote in the UK parliament this Saturday. The pound is now 0.3% lower on the day following news of the DUP's opposition, underscoring investors' shifting views on the deal's prospects for passage.

The October edition of the [Global Financial Stability Report](#) has been published. The report finds that the key vulnerabilities in the global financial system are: rising corporate debt burdens; increasing holdings of riskier and more illiquid assets by institutional investors; and a greater reliance on external borrowing by emerging and frontier market economies.

Key Global Financial Indicators

Last updated: 10/17/19 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2990	-0.2	2	-1	6	19
Eurostoxx 50		3606	0.2	3	2	11	20
Nikkei 225		22452	-0.1	5	2	-2	12
MSCI EM		42	0.1	3	0	4	8
Yields and Spreads			bps				
US 10y Yield		1.76	-3.1	9	-4	-145	-93
Germany 10y Yield		-0.39	0.1	8	9	-85	-63
EMBIG Sovereign Spread		333	-3	-7	-3	-11	-81
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.8	0.3	1	0	-3	-2
Dollar index, (+) = \$ appreciation		97.7	-0.3	-1	-1	2	2
Brent Crude Oil (\$/barrel)		59.1	-0.5	0	-8	-26	10
VIX Index (% change in pp)		13.6	-0.1	-5	-1	-4	-12

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

United States

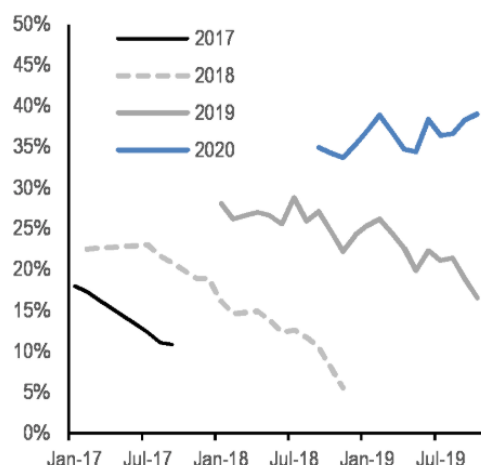
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US stocks fell slightly on lackluster earnings reports and mixed economic data, as investors remain cautious about the prospects for trade negotiations. Earnings reported on Wednesday were characterized as “better than feared”. US retail sales disappointed in September, with total sales falling 0.3% mom and core sales flat on the month (vs. expected +0.3% mom for both). But the housing market remains strong, as the October NAHB housing market index beat estimates. Yesterday, Treasuries pared some of the previous session’s losses with yields down 3 bps across the curve.

The Fed Beige Book pointed to slower growth and a tight labor market. According to the report, growth slowed to a slight-to-modest pace since late August, a downgrade from the previous report. Manufacturing activity edged lower, with some districts citing ongoing trade tensions and slower growth as weighing on activities. Labor markets remain tight and wage growth rose at a moderate pace, with greater wage pressures for lower-skilled positions. Prices rose modestly in most regions, and firms continued to report that they are absorbing higher input costs from tariffs as well as passing costs to consumers. In general, trade and political uncertainty remain the top concerns.

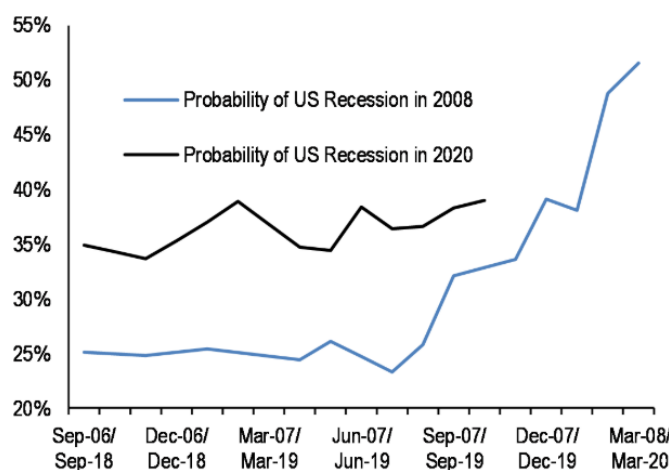
Expectations for a 2020 recession are back to YTD high, accordingly to the October Blue Chip Economic Indicators survey. The average probability assigned by economists for a 2020 recession rose to 39%, surpassing the previous high recorded in February, also marking the highest for this cycle after successive increase each year. What is more striking is that the expected probabilities of a 2020 recession from the 2019 monthly surveys are significantly higher than the expected probabilities of a 2008 recession from the 2007 monthly surveys. The latter only started to rise exponentially in Dec-2007, before hitting the peak in Feb-2018 when recession materialized already.

Average expected probability of US recession taking place in each year

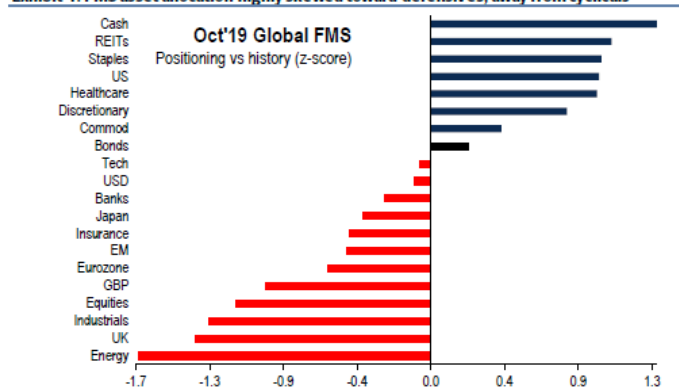


Source: JPMorgan.

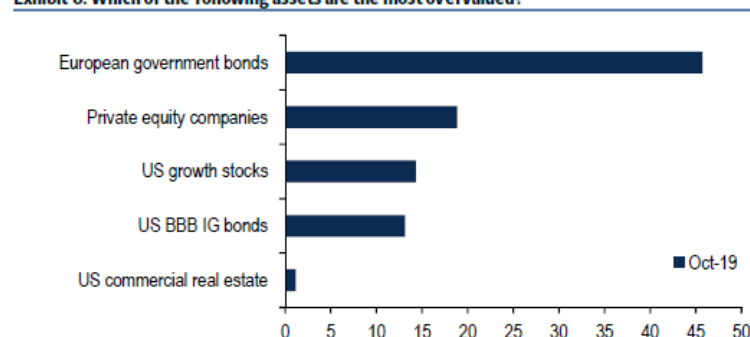
Average expected probability of US recession in 2020 vs in 2008 (based on surveys conducted during 2019 and 2007 respectively)



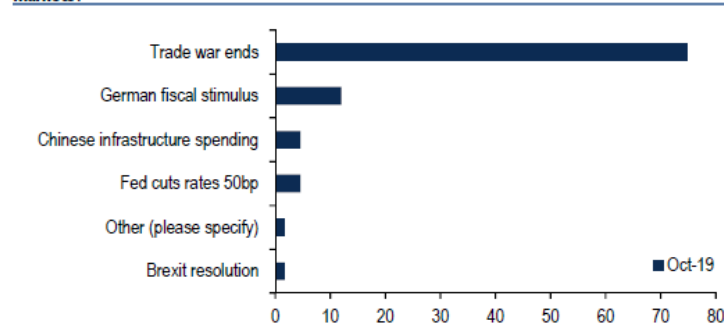
Bank of America’s **latest survey of global fund managers reveals very defensive positioning in asset allocation**. Investors see European sovereign bonds as the most overvalued, followed by private equity. In terms of policies to support growth, a resolution of the trade war and fiscal stimulus out of Germany are considered as the most effective policies.

Exhibit 1: FMS asset allocation highly skewed toward defensives, away from cyclicals

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 8: Which of the following assets are the most overvalued?

Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 7: Which of the following policies in the next 6-months would be most bullish for equity markets?

Source: BofA Merrill Lynch Global Fund Manager Survey

Europe

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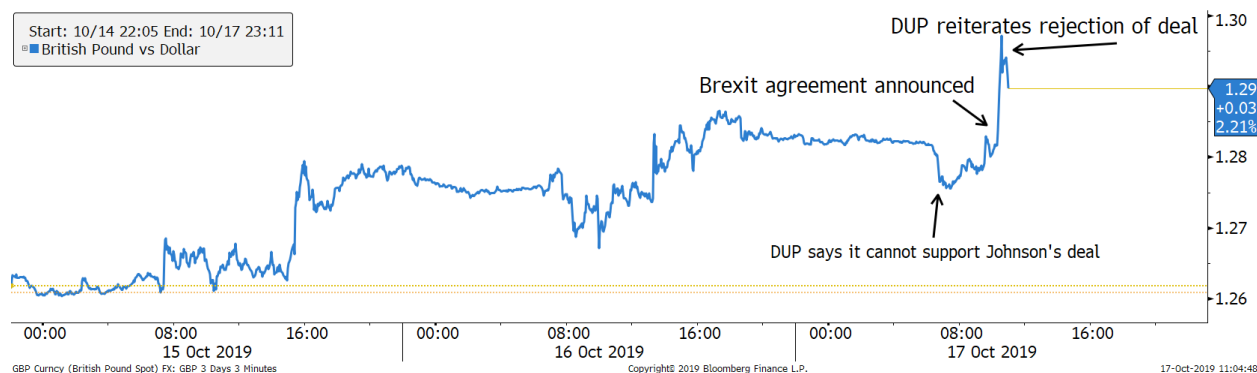
EU and UK negotiators have just announced they have agreed a Brexit deal that will be put to the European Commission and the British parliament for approval in coming days. A press conference to announce the outcome of the EU summit discussion on the Brexit deal is planned for 7pm today (Brussels time). Northern Ireland's **DUP party has said it will not support the deal** and would vote against in on Saturday. The DUP opposes the idea of a customs border in the Irish sea and the application of European VAT rates in Northern Ireland, among other measures. Support from the 10 DUP MPs is critical for Johnson to succeed in passing his plan through parliament.

Equities gained sharply following news of a Brexit agreement between EU and UK negotiators: DAX (+1.0%), CAC 40 (+0.5.), EuroStoxx 600 (+0.7%). Bank stocks (+1.3%) are outperforming.

Core Eurozone sovereign yields added 3-4 bps: German 10-year yields at -0.34% (+4 bps); French at -0.06% (+3 bps); Italian at 0.92% (unch.); Spanish at 0.28% (+3 bp).

UK assets also posted gains: FTSE 100 (+0.6%), FTSE 250 (+1.1%); 10-year gilt yields at 0.75% (+4 bps). **Sterling** reversed earlier losses triggered by the DUP's rejection of the Brexit deal; The pound is now trading at **\$1.29 (+0.7%)**.

British Pound vs UD Dollar



Other Mature Markets

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Japan

The yen was little changed while equities edged lower in a quiet session. News flow was dominated by discussions of a **Finance Ministry proposal from last week that seeks to impose stricter rules on foreign investment in local equities.** Under the proposal, foreign investors are required to report in advance if they plan on buying more than 1% of shares in companies related to national security; the current threshold is 10%. The bill had been approved by the ruling LDP and is awaiting approval from the cabinet and both houses of parliament. Once ratified, changes could be put into place in the new fiscal year starting next April. Critics of the new rule worried that it effectively raises the risk premium of investing in Japan as foreign investors could face additional expenses and legal risks. Moreover, as foreign investors make up roughly 70% of the domestic equity market trading volume, their reduced participation could reduce overall market liquidity.






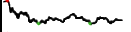
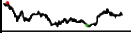
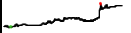
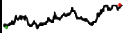





Korea

A liquidity squeeze at Lime, South Korea's largest hedge fund, is underscoring risks associated with investing in illiquid assets and raising concerns about possible contagion. Lime, which holds about \$4 bn in assets, began freezing withdrawals from \$710 mn of funds that invested in convertible bonds last week. There is growing concern that Lime's liquidity crunch – precipitated by losses in its convertible bond holdings and its inability to quickly liquidate assets - could trigger outflows in other hedge funds. According to one dealer's estimate, investors pulled about KRW 400 bn (\$337 mn) from hedge funds in September, the first net outflow this year. Convertible bonds, which total about \$11 billion in April, were primarily bought by domestic hedge funds; there is growing concern that losses associated with these holdings could be wider than reported.

Emerging Markets [back to top](#)

Asian currencies mostly appreciated against the dollar while equities posted mixed results in a muted session. The HK Hang Seng Index outperformed (+0.7%), boosted by shares of property developers as proposals from Chief Executive Carrie Lam to ease the city's housing crunch were seen as lifting the real estate market further. Meanwhile, Korea (-0.2%) and Singapore (-0.3%) underperformed. **In EMEA, Turkey continues to dominate headlines ahead of a visit by Vice-President Pence.** Nevertheless, the Turkish lira and equities were little changed compared to equity gains in Hungary (+0.6%), South Africa (+0.6%) and Poland (+0.5%). Turning to Latin America, the Chilean and Colombian pesos continued their recent underperformance as the Chinese yuan weakened amid renewed uncertainties on a trade deal. Both currencies are 1% weaker against the dollar this week, while the Mexican peso has strengthened by 0.5%.

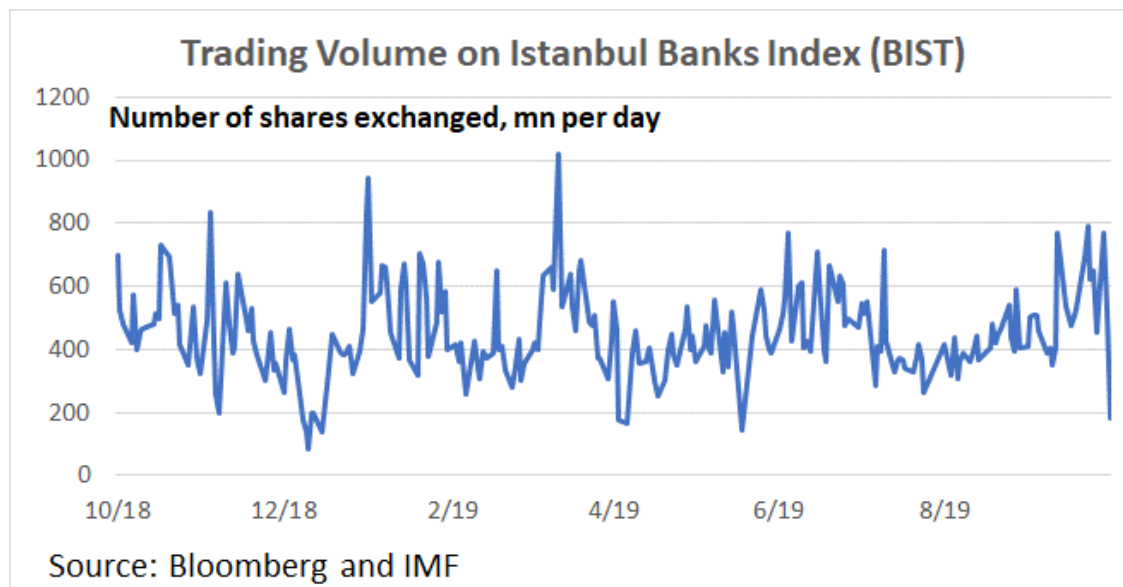
Key Emerging Market Financial Indicators

Last updated: 10/17/19 8:31 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.04	0.1	3	0	4	8
MSCI Frontier Equities		28.05	-0.1	0	-1	3	7
EMBIG Sovereign Spread (in bps)		333	-3	-7	-3	-11	-81
EM FX vs. USD		60.77	0.2	1	0	-3	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.08	0.2	1	0	-2	-3
Indonesian Rupiah		14155	0.1	0	0	7	2
Indian Rupee		71.17	0.4	0	1	3	-2
Argentine Peso		58.35	-0.1	-1	-4	-38	-35
Brazil Real		4.16	-0.1	-1	-2	-11	-7
Mexican Peso		19.19	0.1	1	1	-2	2
Russian Ruble		64.01	0.2	1	1	2	8
South African Rand		14.85	0.6	1	-1	-4	-3
Turkish Lira		5.89	-0.1	-1	-3	-5	-10
EM FX volatility		7.92	0.0	-0.3	-0.3	-1.6	-1.9

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

Turkey

Equities (-0.3%) and the lira were little changed ahead of a visit by Vice-President Pence and Secretary of State Pompeo. Following the news of the indictment against Halkbank on Tuesday, Bloomberg reports that the Trump administration had tried to broker a deferred prosecution agreement earlier in 2019, which was refused by Turkish officials. **Turkish banks (-0.3%) edged lower with yesterday's trading volume at a four-month low following a short-selling ban on bank stocks.** Halkbank equity (-1%) underperformed somewhat after closing 4% lower yesterday. The lira remains relatively stable as regulators have reportedly advised some local lenders to not offer lira liquidity in the off-shore money market. Turkish central bank governor Uysal will reportedly not attend the IMF Annual meetings.



Colombia

After Wednesday's market close, the constitutional court struck down the 2018 tax reform based on procedural errors. Analysts had warned that a law reversal would be negative for growth and investor confidence. The court made the voiding of the law valid only from 2020 onwards, thus providing the government with some time to come up with a replacement. President Duque said the government will present a bill to congress as soon as possible. Minister Carrasquilla has claimed that growth rate could be 1 percentage point lower per year if the law is turned down. The law was also relevant to portfolio flows given it reduced the withholding tax on foreign bondholder profits to 5% to 14%. Morgan Stanley expects that a full reversal of the law can potentially lead to some rating pressure. Colombia is currently rated Baa2, Stable by Moody's, BBB-, Stable by S&P and BBB, Negative by Fitch.






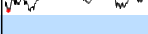

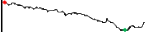














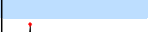




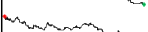
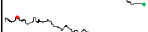
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Global Financial Indicators

Last updated: 10/17/19 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2990	-0.2	2	-1	6	19
Europe		3606	0.2	3	2	11	20
Japan		22452	-0.1	5	2	-2	12
China		2977	0.0	1	0	16	19
Asia Ex Japan		68	0.2	3	0	6	8
Emerging Markets		42	0.1	3	0	4	8
Interest Rates			basis points				
US 10y Yield		1.76	-3.1	9	-4	-145	-93
Germany 10y Yield		-0.39	0.1	8	9	-85	-63
Japan 10y Yield		-0.15	1.0	5	0	-30	-15
UK 10y Yield		0.69	-1.9	11	0	-88	-58
Credit Spreads			basis points				
US Investment Grade		123	-0.1	-6	-8	23	-24
US High Yield		453	-2.1	-19	10	113	-68
Europe IG		52	-0.4	-4	4	-21	-35
Europe HY		231	-3.3	-17	-19	-60	-122
EMBIG Sovereign Spread		333	-3.0	-7	-3	-11	-81
Exchange Rates			%				
USD/Majors		97.73	-0.3	-1	-1	2	2
EUR/USD		1.11	0.4	1	0	-3	-3
USD/JPY		108.7	0.0	-1	-1	4	1
EM/USD		60.8	0.3	1	0	-3	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		59	-0.5	0	-8	-26	10
Industrials Metals (index)		115	-0.1	-2	-1	-4	5
Agriculture (index)		40	0.7	2	4	-11	-5
Implied Volatility			%				
VIX Index (% change in pp)		13.6	-0.1	-5.1	-0.9	-3.8	-11.9
10y Treasury Volatility Index		5.2	-0.1	-0.1	-0.6	1.5	0.6
Global FX Volatility		6.8	0.0	-0.2	-0.4	-1.2	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		178	-0.1	-14	-20	-208	-238
Italy		131	-0.5	-12	-9	-178	-119
Portugal		59	-0.5	-8	-20	-90	-89
Spain		64	0.3	-5	-12	-54	-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: 10/17/2019 8:31 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		7.08	0.2	0.5	0	-2	-3		3.2	0.1	4	10	-36	3
Indonesia		14155	0.1	0.0	0	7	2		7.3	-1.4	-9	-9	-155	-89
India		71	0.4	-0.1	1	3	-2		6.8	-1.3	2	0	-125	-65
Philippines		51	0.4	0.7	2	5	2		4.3	0.0	0	-8	-226	-198
Thailand		30	0.2	0.4	1	7	7		1.6	0.5	5	-6	-137	-108
Malaysia		4.18	0.4	0.2	0	-1	-1		3.4	0.0	1	3	-67	-68
Argentina		58	-0.1	-0.6	-4	-38	-35		57.5	-98.0	15	-1411	3508	3451
Brazil		4.16	-0.1	-1.2	-2	-11	-7		5.9	-11.0	-28	-75	-300	-224
Chile		715	0.2	0.4	0	-6	-3		2.9	1.1	12	6	-203	-161
Colombia		3459	-0.2	0.2	-3	-12	-6		5.8	3.1	14	7	-96	-74
Mexico		19.19	0.1	1.4	1	-2	2		6.9	2.3	9	-42	-117	-180
Peru		3.4	0.1	0.1	-1	-1	0		4.2	-1.8	-3	-18	-158	-155
Uruguay		37	0.0	-0.4	-2	-12	-13		10.9	0.1	-3	11	40	18
Hungary		298	0.6	1.1	1	-6	-6		1.1	2.2	10	2	-170	-107
Poland		3.85	0.4	1.6	2	-3	-3		1.8	1.9	9	-9	-78	-46
Romania		4.3	0.4	1.1	0	-5	-5		3.8	0.0	1	11	-80	-42
Russia		64.0	0.2	0.7	1	2	8		6.5	1.4	-15	-31	-178	-187
South Africa		14.9	0.6	1.3	-1	-4	-3		9.4	2.6	1	5	-40	-24
Turkey		5.89	-0.1	-1.0	-3	-5	-10		15.5	18.1	137	82	-441	-139
US (DXY; 5y UST)		98	-0.2	-0.9	0	2	2		1.57	1.0	8	-9	-149	-94

	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		2977	0.0	1	0	16	19		187	-1	-4	3	6	-7
Indonesia		6181	0.2	3	-1	5	0		177	0	-3	6	-22	-59
India		39052	1.2	3	7	12	8		135	3	0	0	-30	-61
Philippines		7931	0.2	2	0	12	6		75	1	-1	7	-31	-46
Malaysia		1575	0.0	1	-2	-10	-7		126	0	-1	5	3	-36
Argentina		30759	-1.8	2	2	7	2		2013	-1	137	-106	1353	1198
Brazil		105423	0.9	4	1	23	20		229	-3	-10	8	-22	-44
Chile		5150	-0.1	2	2	0	1		133	-1	-5	2	9	-33
Colombia		1580	0.0	-1	-1	7	19		177	-1	-4	0	1	-51
Mexico		43538	0.7	2	0	-9	5		307	-1	-8	-12	53	-47
Peru		19355	-0.3	2	-1	0	0		124	-4	-3	7	-16	-44
Hungary		40665	0.6	3	0	9	4		92	-2	-5	6	-22	-56
Poland		57102	0.4	2	-2	0	-1		26	-4	-4	5	-37	-59
Romania		9532	0.2	1	3	10	29		185	3	-13	3	2	-36
Russia		2743	0.0	1	-3	14	16		184	-3	-10	1	-28	-68
South Africa		56346	0.5	2	-1	8	7		320	-3	-13	16	11	-45
Turkey		93488	-0.7	-5	-8	-6	2		501	-4	-1	12	59	72
Ukraine		526	0.0	0	2	-6	-6		495	0	-7	28	-66	-292
EM total		42	0.1	3	0	4	8		333	-3	-7	-3	-11	-81

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

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