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- A post-Brexit solution to the Northern Irish border in sight (link)
- Deutsche Bank could move three-quarters of its balance sheet to Frankfurt (link)
- Chinese equities decline to lowest level since 2014 on trade tensions (link)
- India announces measures to boost capital inflows (link)
- Turkish bank stocks down on talk of public interference in the sector (link)

<u>US</u> <u>Europe</u> <u>Other Mature</u> <u>Emerging Markets</u> <u>Market Tables</u>

## Trade fears weigh on market sentiment

**Emerging markets are trading with a weaker tone after president Trump threatens tariffs of \$200 bn of Chinese made goods.** EM equities are down across most major exchanges, led by Asia. The Turkish lira is the weakest performer among EMs, while major currencies are mostly stronger against the US dollar. India's government announced several measures to cut the current account deficit, but the announcement failed to stem weakness in the rupee. Core sovereign bond yields are marginally higher, though peripheral spreads are tighter on positive signs in Italy's budget negotiations. Looking at the week ahead, monetary policy meetings are scheduled to be held in Japan, Norway, Switzerland, Brazil, Hungary, and South Africa, though no changes are broadly anticipated outside of a rate hike in Norway. On the data front, in Europe, euro area flash PMI, euro area CPI, and UK inflation data will be released, while in the US there is housing and manufacturing data. Markets will also be focused on political and other events, such as Japan's Liberal Democratic Party election, US-Canada trade talks, and signs of progress in Brexit negotiations.

#### **Key Global Financial Indicators**

Last updated:	Leve	l	Cha				
9/17/18 7:56 AM	Last 12m	Index	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500	المسمديها للمالمرسي	2905	0.0	1	2	16	9
Eurostoxx 50	marky	3346	0.0	1	-1	-5	-5
Nikkei 225	my man	23095	1.2	4	4	16	1
MSCI EM	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	42	-0.1	1	-1	-8	-11
Interest Rates				b	ps		
US 10y Yield	- Managamen	3.01	1.5	8	15	81	61
Germany 10y Yield	morning	0.46	1.3	6	16	3	4
Japan 10y Yield	mund	0.12	0.0	0	2	9	7
FX / Commodities / Volatility				9	%		
Dollar index, (+) = \$ appreciation	man may may	94.7	-0.2	0	-1	3	3
Brent Crude Oil (\$/barrel)	and the state of t	78.6	0.7	2	9	41	18
VIX Index (%, change in pp)	mum	12.6	0.5	-2	0	2	2

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

#### **United States**

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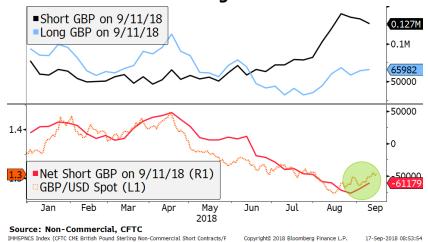
**US** stocks were little changed on Friday, though finished the best week in two months. On the week, the S&P 500 gained 1.2%, marking the largest weekly gain since mid-July, following a 1% drop the prior week. The Dow and NASDAQ each added 0.9% and 1.4%. The rebound was led by tech stocks (+1.8%) while energy stocks (+2%) were buoyed as hurricane Florence spurred expectations for higher fuel demand. **Government bond yields continued to march higher amid a mixed batch of economic data**. Consumer and producer price inflation, as well as retail sales all came in below expectations, but not meaningfully enough to convince markets to change their views on the policy rate path. Over the week, the 2-year yield rose 6 bps to 2.78%, and is at its highest level since June 2008. The 10-year yield also rose 6 bps on the week, and is currently trading above 3%. The FOMC is expected to move ahead with a 25 basis point rate hike later this month, which is fully priced into the fed funds futures market.

In economic news, both headline and core **retail sales** data decelerated more than expected in August to 0.1% mom and 0.2% mom, respectively, but sizable upward revisions to July imply a stronger pace of consumer spending in Q3. Softness in the August report was broad-based, with slower growth reported in nine out of the thirteen major categories. **Import prices** fell more than expected by 0.6% mom in August. Along with a downward revision to July data, the annual rate fell markedly to 3.7% yoy from 4.9% yoy. Import prices from China continued to rise (0.2% yoy) for the seventh consecutive month, after being subdued between 2014 and 2017. **Export prices** came in slightly softer than expected as well, down 0.1% mom with the annual rate down to 3.6% yoy. **Industrial production** beat estimates, rising 0.4% mom in August, with July's reading revised upward as well.

# **Europe** back to top

The EU is considering a plan to have border checks along the Northern Irish border conducted by British officials instead of EU inspectors. The plan, along with complementary schemes and some concessions by the UK, could help move ahead this contentious part of Brexit negotiations. Officials will meet this Wednesday in Salzburg. The recent favorable headlines about Brexit negotiations helped the pound appreciate 1% month to date against the dollar and led to a notable cut in speculative short positions (as per IMM data).

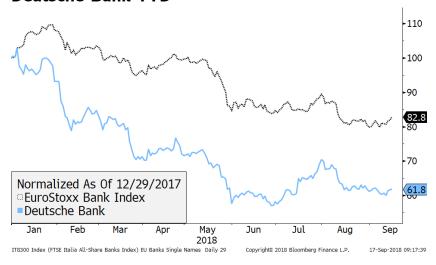
## **Short Positions on Sterling Start to Decline**



Reports suggest that Deutsche Bank (-0.2%) could move about three-quarters of its €600 bn UK balance sheet to Frankfurt. The plan is a reaction to increased pressure by EU regulators about its post-

Brexit UK operations. Official demands are supposedly becoming so onerous that the bank could transform its UK arm into a subsidiary. **Separately, UBS has chosen Frankfurt as its post-Brexit hub.**But the bank will have a multi-location strategy in the region, strengthening offices in Madrid, Paris and Milan, and it will "execute for worst case scenario."

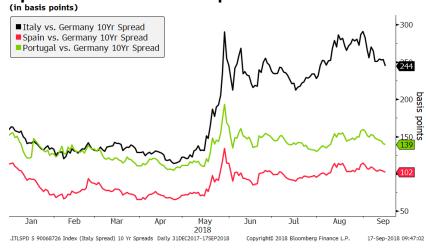
## **Deutsche Bank YTD**



#### **Europe**

Core bond yields are unchanged, but Italian yields are down as much as 11 bps on continued positive headlines around budget negotiations. The latest from local media claims that FM Tria will secure an upper limit of 1.6% for the 2019 deficit. S&P raised its outlook for Portugal from neutral to positive, while maintaining its credit rating at BBB-. The move was based on an improved economic growth outlook, lower public deficits and falling public debt, and it opens the door for an upgrade in the next six months. There was little market reaction.

# Spreads in Southern Europe



**The EuroStoxx is unchanged with Italy and Portugal (both +0.3%) outperforming.** It has also been a strong start of the week for bank stocks, with the sub-index up 0.7%. Still, the EuroStoxx banks sub-index is down 17% this year, compared with a decline of 1.7% for the EuroStoxx 600.

**Emerging Markets** 

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### **Key Emerging Market Financial Indicators**

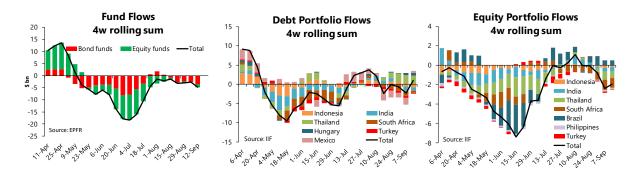
Last updated:	Leve	el					
9/17/18 7:56 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Prices/Returns of Major EM Be	enchmarks			%			
MSCI EM Equities	my	41.96	-0.1	1	-1	-8	-11
MSCI Frontier Equities		27.65	-0.2	0	-4	-12	-17
Hard Currency Sovereign Debt	may mark	822.27	0.1	1	0	-4	-4
Local Currency Sovereign Debt	- Andrew	16.04	-0.2	1	-2	-18	-15
Major EM FX vs. USD			%, (+				
China Renminbi		6.87	0.0	0	0	-4	-5
Indonesian Rupiah	**************************************	14890	-0.6	0	-2	-11	-9
Indian Rupee	***************************************	72.42	-0.4	0	-4	-11	-12
Argentine Peso	• • • • • • • • • • • • • • • • • • • •	39.94	0.0	-6	-25	-57	-53
Brazil Real	مرمعسس	4.17	0.0	-2	-6	-25	-21
Mexican Peso	morning	18.86	0.2	2	0	-6	4
Russian Ruble		68.15	-0.2	4	-2	-15	-15
South African Rand	manum	14.99	-0.4	1	-2	-11	-17
Turkish Lira	ملسس	6.24	-1.2	4	-4	-44	-39
Dollar vs. Mature FX (DXY index)	man marke	94.71	-0.2	0	-1	3	3

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

Last week, emerging market assets (MSCI EM: +1%, EMBIG spread: -13bps, EM FX vs USD: 1%) gained for the first week in three, as the central bank of Russia unexpectedly raised interest rates and the Turkish central bank hiked by more than forecast. On Friday, EM currencies and equities declined marginally against the dollar following a report that President Donald Trump intends to push ahead with tariffs on an additional \$200 bn of Chinese products. The Turkish lira depreciated by 1.5% as president Erdogan resumed his critique on rate hikes, but the currency still ended up almost 4% higher on the week following the central bank's rate hike on Thursday. The Russian ruble strengthened, halting a three-week decline, appreciating by 0.4% on Friday (and 2.6% over the week), boosted by an unexpected rate hike by the central bank. Argentina's peso was the worst EM performer (-7.4% on the week). Last week, the IMF said it would delay a \$3 bn disbursement to Argentina until negotiations conclude, while the government announced that an improved IMF agreement will be reached in the next two weeks.

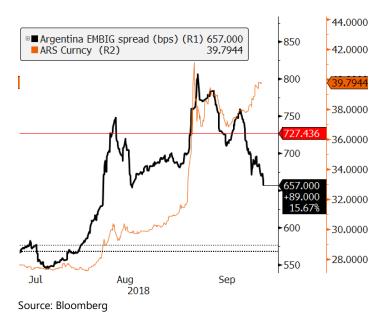
**EM bond and equity fund outflows accelerated last week.** Based on EPFR flows, EM bond fund flows were -\$1.6 bn during the latest week, compared to -\$0.6 bn during the previous week. EM equity fund flows were -\$1.2 bn (versus -\$0.2 bn the previous week). **Non-resident EM portfolio outflows were smaller last week.** According to IIF estimates, debt flows were +\$0 bn (versus -\$1.3 bn the previous week), with outflow pressures easing in India and Indonesia and inflows continuing in Thailand. EM equity flows were -\$0.7 bn (-\$0.8 bn the previous week).

<sup>&</sup>lt;sup>1</sup> Sample of countries as shown in the charts.



### **Argentina**

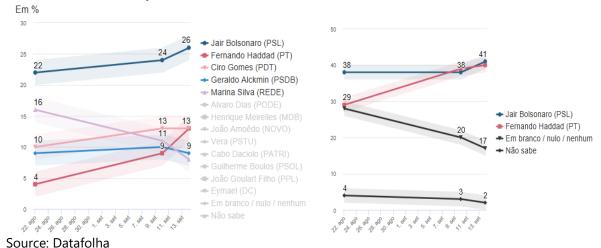
Credit spreads tightened (EMBIG spreads -37 bps) and the peso was marginally weaker (-0.4%) on Friday. As the negotiations with the IMF continue, this week, markets will be focused on budget negotiations and the LEBAC rollover. Argentina is expected to present new budgetary measures to congress on Monday. The FT reported that even though the government appeared 20 votes short of a majority for the budget, over the last week, powerful governors assured president Macri that there will be "no problem" in the end. BCRA announced further details in its campaign to reduce the outstanding stock of LEBACs and to concentrate ownership in local banks. On September 18, the BCRA will offer ARS 150 bn in LEBACs to non-banking participants against maturing holdings ARS 300 bn in LEBACs. The FM plans to offer additional treasury bills at that time, providing non-bank market participants with alternative instruments into which to rollover. In order to contain the peso liquidity injection from the LEBAC rollover operation, the BCRA announced that it would raise reserve requirements for banks by 5 percentage points, effective September 19. The central bank estimates that the net effect of all its measures will lead to a contraction of peso liquidity of ARS 100 bn.



#### Brazil

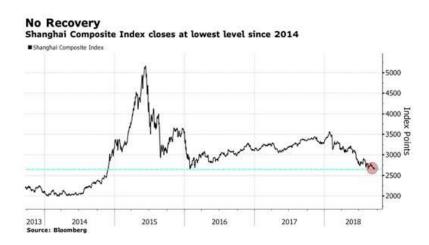
Support for presidential candidate Fernando Haddad increased from 9% to 13% in the first opinion poll published since he officially replaced ex-president Lula da Silva as the Workers' Party candidate. The market-friendly candidate, Jair Bolsonaro, led the survey with 26% of votes, up from 24%. Ciro Gomes' voting intentions remained stable, at 13%. Investors are paying increasing attention to poll scenarios for a runoff. The Datafolha poll showed Bolsonaro would trail Gomes, Silva and Alckmin in

a second round, while Haddad and Bolsonaro were almost tied at 40% vs. 41%, respectively. Bolsonaro's rejection rating rose to 44% from 43%, the highest among all candidates, while Haddad's also increased to 26% from 22%. Bolsonaro's son told a Rio de Janeiro radio station last week that his father is in no shape for campaigning before the first-round vote. Brazil's first round election will take place on Oct. 7 and a runoff, if necessary, will be held on Oct. 28.



#### China

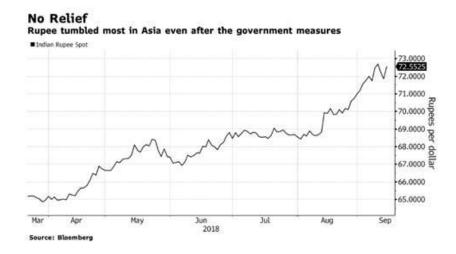
Equities fell to the lowest level since 2014 amid heightened trade tensions. The Shanghai Composite index closed 1.1% lower, while the Shenzhen Composite Index fell 1.5%, as president Trump told aides to proceed with tariffs on an additional \$200 bn of Chinese imports, according to a WSJ report. Meanwhile, China's house prices rose at the fastest pace in nearly two years, accelerating by 1.5% mom in August. The price increase was broad-based, with tier 2 and tier 3 cities recording the largest gains. The PBoC unexpectedly injected \$38.6 bn into the financial system via its one-year medium-term lending facility. Money market rates were little changed following the operation. Bond yields closed 0.7bps lower. Both the offshore and onshore yuan were little changed.



#### India

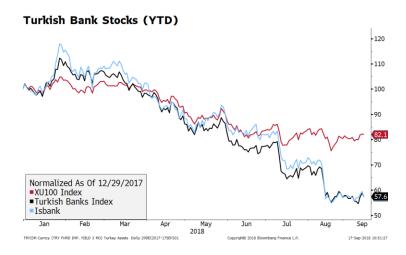
The rupee fell 1% despite the government's newly proposed measures to encourage capital inflows and reduce the current account deficit. The measures include: (1) encouraging inflows into rupee-denominated overseas bonds by exempting these bonds from withholding taxes and lifting restrictions on market-making by Indian banks; (2) removal of single-exposure limit of 20% on foreign portfolio investors

in corporate bonds; (3) encouraging manufacturing firms to raise short-term external commercial borrowings. The government expects these measures to boost capital inflows by \$8-10 bn, but the persistent weakening of the rupee suggests that the newly proposed measures fell short of investor expectations. Measures to curb non-essential imports and to boost exports will be announced at a later date. Notably, the government reaffirmed its commitment to a fiscal deficit of 3.3% of GDP in FY2019. Equities fell 1.2%. Bond yields rose 1.8 bps.



### **Turkey**

President Erdogan called for some shares of Isbank (-3.9%), the country's largest listed bank, to be transferred to the Treasury. Erdogan has criticized the bank because the opposition party CHP holds a 28% stake in it and has four board members. The stake originates in a transfer of ownership from Mustafa Ataturk, founder of the Turkish republic and the CHP party. Isbank is down over 40% year-to-date, but its performance has been broadly in line with the country's main banking index. Separately, unconfirmed reports claim that the government is preparing a set of measures to help lenders cope with NPLs. This could include transferring bad loans to a specialized entity.



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# **Global Financial Indicators**

Last updated:	Leve	el					
9/17/18 7:56 AM	Last 12m	Latest	1 Day	7 Days	nge 30 Days	12 M	YTD
Equities				9	%		%
United States	يفسهم بعالع كمرسد	2905	0.0	1	2	16	9
Europe	morning	3346	0.0	1	-1	-5	-5
Japan	month	23095	1.2	4	4	16	1
China	- more properties	2652	-1.1	-1	-1	-21	-20
Asia Ex Japan	moundance	70	-0.1	1	0	-5	-9
Emerging Markets	my	42	-0.1	1	-1	-8	-11
Interest Rates				basis	points		
US 10y Yield	- Company	3.01	1.5	8	15	81	61
Germany 10y Yield	morty	0.46	1.3	6	16	3	4
Japan 10y Yield	munde	0.12	0.0	0	2	9	7
UK 10y Yield	- market	1.54	1.1	7	31	23	35
Credit Spreads					points		
US Investment Grade	www.	101	-0.3	-3	-1	-8	9
US High Yield	munder	331	-2.9	-13	-15	-57	-44
Europe IG	manne	60	0.5	-1	-11	10	16
Europe HY	mulu mun	281	0.1	1	-24	60	48
EMBIG Sovereign Spread	and the same	356	-2.0	-17	-9	68	71
Exchange Rates				9	%		
Dollar Index (DXY)	mannen	94.71	-0.2	0	-1	3	3
USDEUR	morning	1.17	0.3	1	2	-2	-3
USDJPY	- July Mary Mary	112.0	0.0	-1	-1	0	1
EM FX vs. USD	and the same	60.9	-0.1	1	-2	-14	-13
Commodities					%		
Brent Crude Oil (\$/barrel)		79	0.7	2	9	41	18
Industrials Metals (index)	my war	114	-1.1	-1	-3	-9	-18
Agriculture (index)	warm.	42	-0.3	-3	-6	-16	-12
Implied Volatility				9	%		
VIX Index (%, change in pp)	mhum	12.6	0.5	-1.6	0.0	2.4	1.6
10y Treasury Volatility Index	washing	3.2	-0.2	-0.4	-0.7	-0.6	-0.4
Global FX Volatility	moraman	8.7	0.0	-0.4	-0.3	0.2	1.3
EA Sovereign Spreads			10-Yea	ar spread v	s. Germany	(bps)	
Greece	and market	404	-5.1	-16	-30	-140	-8
Italy	me me	288	-10.7	-4	-25	80	86
Portugal	must be a second	184	-1.3	-4	-1	-96	-10
Spain	Roman Johnson	149	-0.1	3	4	-12	-8

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

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# **Emerging Market Financial Indicators**

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)								
9/17/2018	Leve	ı		Change	e (in %)			Level		Change (in basis points)						
7:56 AM	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 a	ppreciation				% p.a.							
China	~~~	6.87	0.0	-0.2	0	-4	-5	Jany Jany	3.6	-0.6	5	14	-8	-33		
Indonesia	**************************************	14890	-0.6	-0.3	-2	-11	-9	- The state of the	8.7	-4.6	0	63	193	205		
India		72	-0.4	0.2	-4	-11	-12	فرستهم بمعسب	8.3	0.0	7	29	134	82		
Philippines	or a resulting	54	0.0	-0.6	-2	-5	-8		6.2	1.8	21	22	137	138		
Thailand	and which	33	0.1	0.5	2	1	0	وسسرسر	2.9	2.9	8	14	66	61		
Malaysia	my war	4.14	0.0	0.3	-1	1	-2	~~~~~	4.1	-1.1	-2	5	29	22		
Argentina	·	40	0.0	-6.2	-25	-57	-53		24.9	0.9	31	237	982	890		
Brazil	مرسلاسي	4.17	0.0	-2.1	-6	-25	-21	~~~	10.6	17.3	4	53	184	158		
Chile	manage process	687	0.0	1.3	-3	-9	-10	Marine	4.8	-1.6	-2	-1	39	-1		
Colombia	who was a series of the series	3023	0.0	2.0	0	-4	-1	when wall	6.6	-3.2	-2	2	25	34		
Mexico	manne	18.86	0.2	2.2	0	-6	4	المستهم المستماليسي	8.0	-6.5	-1	16	107	32		
Peru	and my man	3.3	0.0	0.7	0	-2	-2	mande	5.6	0.6	6	9	19	38		
Uruguay	~~	33	0.5	-1.2	-4	-12	-13	~~~	11.4	-5.1	-37	98		280		
Hungary	my	279	0.3	0.6	1	-7	-7	~~~~~~	2.6	-0.1	5	-2	94	134		
Poland	month	3.69	0.4	0.9	2	-3	-6	of here was	2.6	-1.0	-4	4	-2	-9		
Romania	aray mark	4.0	0.2	0.3	2	-3	-2	~~~~~~	4.3	0.0	-3	-12	152	49		
Russia	- Augustus	68.2	-0.2	3.5	-2	-15	-15		8.5	-2.8	-28	32	99	120		
South Africa	man man	15.0	-0.4	1.4	-2	-11	-17	and the same of th	9.7	-4.1	-5	9	49	38		
Turkey	المسا	6.24	-1.2	3.5	-4	-44	-39		21.6	-116.5	-104	-167	1098	962		
US (DXY; 5y UST)	mayne	95	-0.2	-0.5	-1	3	3	- Marine	2.89	2.1	7	12	112	69		

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level			Chan	ge (in %)			Level		C	s)					
	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 poir	nts							
China	- ton	2652	-1.1	-1	-1	-21	-20	سيدامه معالم	185	1	-1	0	36	33		
Indonesia	- Awyor	5824	-1.8	0	1	-1	-8	month	195	-6	-14	0	23	29		
India	Mary Mary Mary Mary Mary Mary Mary Mary	37586	-1.3	-2	-1	16	10	manne	167	-3	3	11	36	57		
Philippines	mynn	7414	0.0	-2	-2	-9	-13	way franch ha	106	3	-3	-3	14	11		
Malaysia	- James	1804	0.6	0	1	1	0	- who	132	-2	-5	-3	0	22		
Argentina	mymmy	30177	0.5	1	15	27	0	هو سد سد	655	-1	-92	-18	273	305		
Brazil	~~~~~~	75429	1.0	-1	-1	0	-1	~~~~~^^	330	1	5	30	82	96		
Chile	www.	5354	-0.2	3	2	3	-4	Mrayaraharry	133	0	-6	-10	6	14		
Colombia	mount	1498	-0.2	2	-2	0	-1	months park March	173	-1	-12	-10	-15	-1		
Mexico	and white have	49612	-0.2	1	3	-1	1	munden	266	-1	-16	-13	25	21		
Peru	many	18935	-0.2	0	-3	4	-5	mywater	139	-1	-10	-16	-2	2		
Hungary	whom	35880	-1.1	-4	-2	-6	-9	and the same	111	1	-6	-22	19	23		
Poland	morning	57249	-0.7	-1	-2	-11	-10	may may have	48	-2	-7	-23	-2	1		
Romania	- What	8183	0.2	-2	0	2	6	manument	177	-2	-6	-4	50	63		
Russia	morning	2368	0.3	1	5	15	12	- Mary	234	-2	-7	-8	66	56		
South Africa	Morrow	56016	-1.0	-1	-1	1	-6	manne	326	-3	-23	-4	68	72		
Turkey	who were	94425	-0.4	3	6	-12	-18	Mura	465	-10	-76	-75	189	176		
Ukraine		532	0.2	0	3	83	69	my MM	542	-5	-44	-42	102	87		
EM total	mann	25	0.5	1	0	-3	-5	and the same	355	-3	-18	-10	67	70		

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