








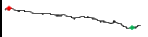


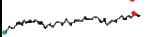


- Fed continues open market operations while US money markets stabilize ([link](#))
- Temporary factors lead to low take-up in first ECB TLTRO III operation ([link](#))
- UK pound has volatile morning on mixed signals around Brexit progress ([link](#))
- Indian equities surge on corporate tax cuts ([link](#))
- PBoC lowers 1-year Loan Prime Rate by 5 bps to 4.2%, as expected ([link](#))
- SARB keeps policy rate unchanged; risks to inflation and growth seen balanced ([link](#))

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Global risk assets edge higher as investors weigh central bank decisions

Overall demand for risk has been tepid as markets continue to mull over the Fed cut interpreted as slightly hawkish, while a few stimulus measures announced in Asia drove some region-specific gains. Safe haven assets caught a modest bid yesterday with Treasury yields down 1 to 3 bps across the curve and the yen has appreciated marginally over the past 2 days. In equities, the S&P 500 traded sideways with performance mixed between sectors, while indexes in Europe edged higher and Asian bourses were paced by 5% gains in India. Overnight, stimulus measures were announced with India cutting its corporate tax rate and China cutting its one-year benchmark Loan Prime Rate. Elsewhere, in the UK a word of optimism on a Brexit deal initially sent the sterling to its strongest level in two months, but a warning from the Irish Deputy PM that the two sides remain far apart has since reversed the gains. Money markets also remained on investors minds as the Fed has continued its support for USD liquidity via special repo operations, and will conduct another this morning for the fourth consecutive day. The moves have calmed the US money markets for now as the benchmark overnight general collateral repo rate fell below 2% for the first time in a year.

Key Global Financial Indicators

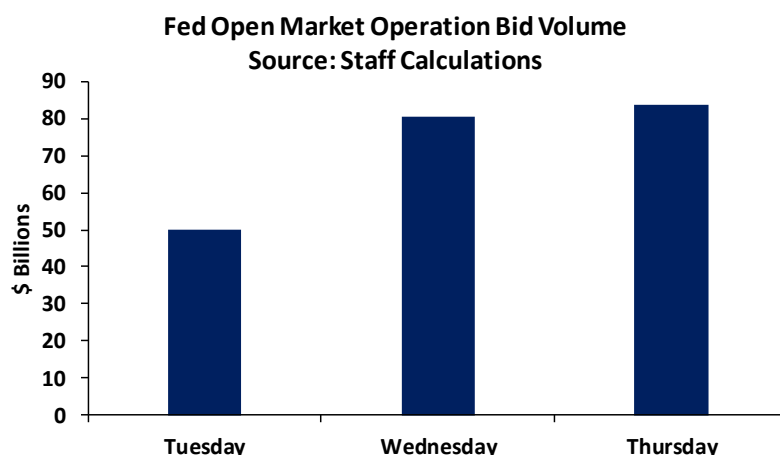
Last updated: 9/20/19 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3007	0.0	0	4	3	20
Eurostoxx 50		3568	0.4	1	7	5	19
Nikkei 225		22079	0.2	1	7	-7	10
MSCI EM		42	-0.7	-1	4	-3	6
Yields and Spreads			bps				
US 10y Yield		1.79	-1.2	-11	23	-127	-89
Germany 10y Yield		-0.51	-0.2	-6	18	-98	-75
EMBIG Sovereign Spread		331	-2	2	-39	-20	-83
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.8	-0.1	-1	0	-2	-2
Dollar index, (+) = \$ appreciation		98.5	0.2	0	0	5	2
Brent Crude Oil (\$/barrel)		64.9	0.7	8	8	-18	21
VIX Index (% change in pp)		13.8	-0.3	0	-4	2	-12

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

United States

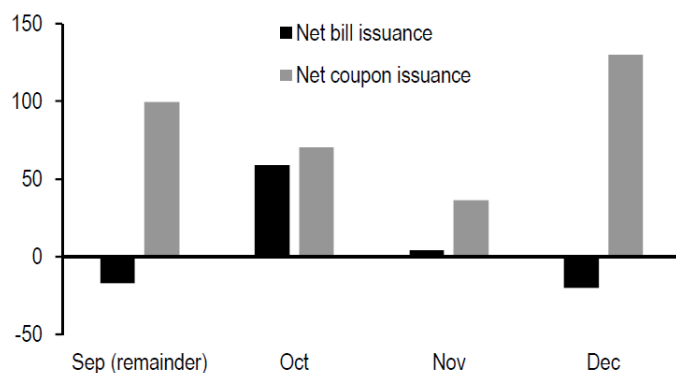
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Markets held steady in quiet trading conditions. The Fed's open market operations (OMOs) appear to have calmed the US money markets for now as the benchmark overnight general collateral repo rate fell below 2% for the first time in a year. The repo rate was quoted at 1.70%-1.75% at the close. Thursday's OMO drew even higher interest than the day before and was more oversubscribed despite conditions in the funding market stabilizing. There was active debate among market participants about whether these ad hoc operations are enough to deal with funding stresses, with many concluding that "organic" growth of the Fed's balance sheet and/or a new standing repo facility will be required as a long term solution. Meanwhile, existing home sales beat consensus forecasts (+1.3% versus -0.7%). This follows a very strong housing starts number earlier in the week, pointing to a strengthening housing sector.



There is a chance that volatility could return to USD funding markets in the weeks ahead due to the recurrence of conditions that sparked the current episode. Once again there will be substantial new supply of Treasuries through the end of the year, with \$230 bn of scheduled net issuance. This is likely to lead to larger dealer balance sheets and a further reduction of reserves in the financial system. These trends will be playing out over another quarter-end later this month as well as year-end, when banks try to shrink their balance sheets as much as they can, taking even more liquidity out of the system. Some hope that money market funds (MMFs) could step in to provide cash to dealers through the repo market, but others point out that the exposure of MMFs to repos has grown much more slowly than dealers' Treasury portfolios, reflecting a lack of interest in greatly increasing their exposure to the repo sector.

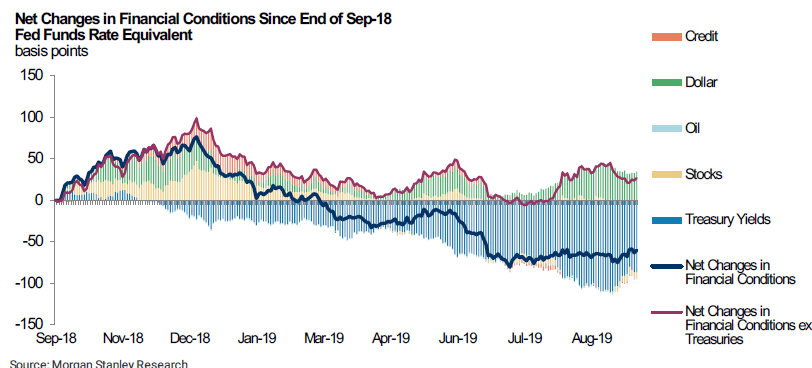
Exhibit 2: Expected net Treasury issuance for the remainder of 2019 (\$bn)



Source: J.P. Morgan

Financial conditions tightened slightly after the FOMC press conference but remain much easier than they were last year. Fed Chair Powell talked about financial conditions a number of times during the press conference, stating that current financial conditions are beneficial for the economy. Analysts estimate that most of the easing in financial conditions has come from lower interest rates, while the strong dollar and higher oil prices are pulling in the other direction. Overall, financial conditions have held fairly steady since the June FOMC meeting. Some have speculated that the gap between the market's interest rate forecasts and the FOMC's more hawkish outlook may have to be closed with more aggressive official rhetoric in the future, which could reverse the trend in financial conditions.

Exhibit 2: Financial Conditions Moving Broadly Sideways



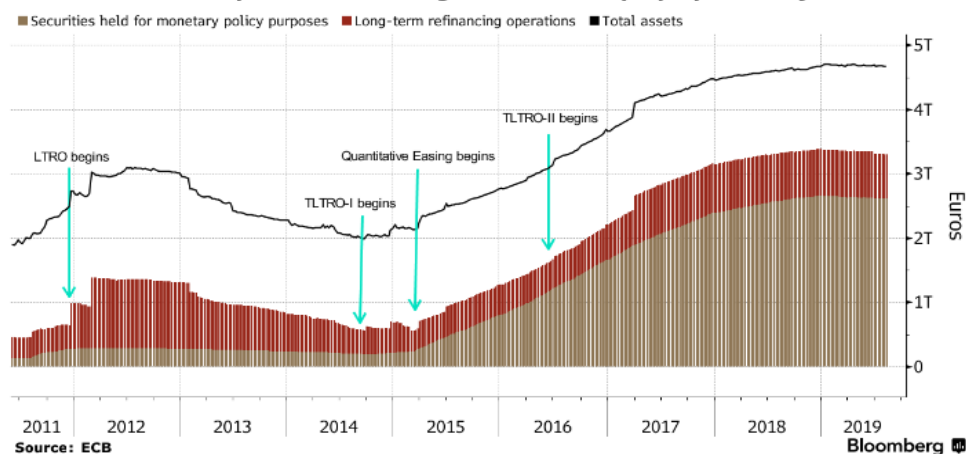
Europe

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European equities are little changed today: DAX (-0.1%), CAC 40 (unch.), EuroStoxx 600 (+0.2%). Bank stocks (+0.3%) are slightly outperforming. In sovereign debt markets, **yields were unchanged across virtually all sovereign curves in eurozone.** Ten-year German bunds are at -0.51% (unch.).

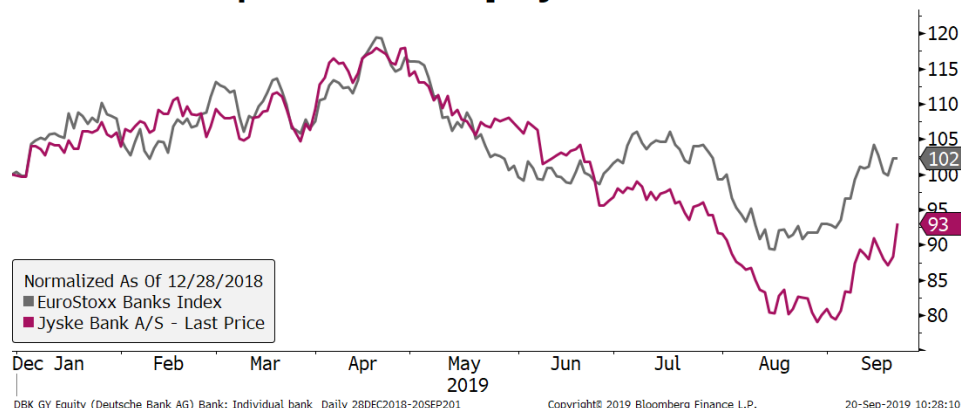
European banks took little advantage of the latest ECB TLTRO operation. Reportedly, only 28 lenders participated in yesterday's offer for 3-year loans from the ECB at rates as low as -0.5%. The take-up amounted to only \$3.8 bn (vs. an expected range of \$20 bn-\$100 bn), with banks such as Intesa, Unicredit, and BBVA suggesting they did not participate in the operation. Contacts note, however, that the paltry demand could largely be due to temporary factors: banks have not had time to alter their funding plans in response to the new terms announced by the ECB last week, and they are also awaiting the kick-off of the rate tiering system on Oct. 30.

ECB has used asset purchases and long-term loans to prop up economy



Denmark's second largest lender, Jyske Bank, announced today it will impose a negative interest rate on deposits larger than \$111,000. The Danish banks expects policy rates to remain below zero for 8 more years and hence its sees "a need to share that bill with some of our clients." The main policy rate in Denmark is currently at -0.75%. Jyske's stock price is trading 5.5% higher this morning.

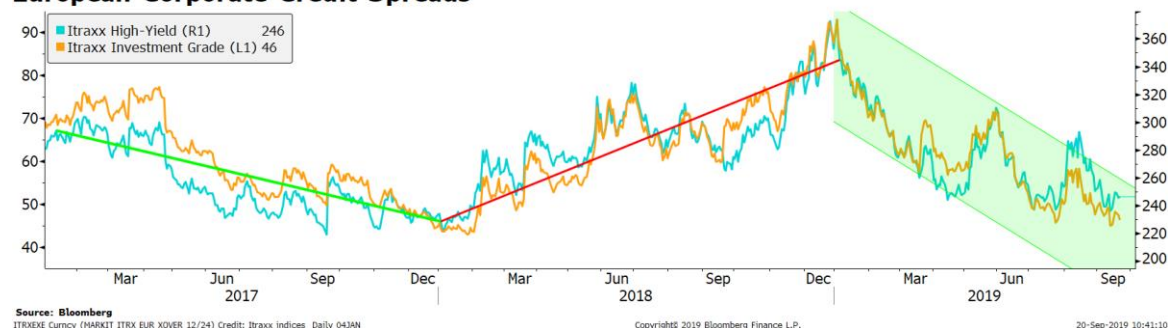
Selected European Banks: Equity Price



The pound initially appreciated from its 3-year low earlier this month on somewhat positive Brexit news. EC president Juncker said in British television that a Brexit deal was possible before Oct 31st. PM Johnson is reportedly preparing a set of new options regarding the N. Irish backstop to be sent to Brussels early October. However, the rally in the pound pulled back as the Irish Deputy PM warned a Brexit deal may not be as close as expected, and the pound is now slightly weaker this morning (-0.1%). Separately, the UK Supreme Court has stated it will announce its ruling on whether prorogation of Parliament is lawful early next week: political analysts are divided on the prognostics of the legal decision.

Spreads in European corporate credit markets appear to have consolidated their 2019 downward trend on the back of renewed central bank dovishness. The ITraxx high-yield index is trading now at 247 bps and the investment grade gauge is at 46 bps.

European Corporate Credit Spreads



Other Mature Markets

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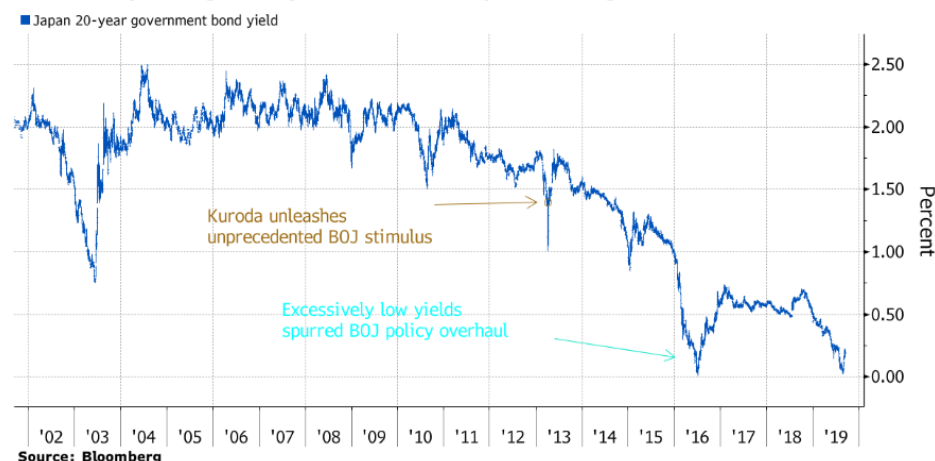
Japan

The yield curve steepened following the Bank of Japan (BoJ)'s cuts to bond purchases. JGB bond yields on the 10-year, 20-year and 30-year rose 0.6bps, 1.1bps and 2.4bps respectively to -0.22%, 0.19% and 0.34%. The BoJ reduced the amount of bonds it bought across three maturity zones (5-10 years, 10-25 years and 25+years) by a total of JPY50 bn. This marked the first time the central bank cut purchases

in three segments simultaneously since introducing its yield-curve control in 2016. Equities and the yen were little changed.

Yield Compression

Slide in super long-term yields threaten Japan's savings



Emerging Markets

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Asian equities (+0.6%) gained, led by the surge in India's stock market (+5.2%) on forthcoming corporate tax cuts. Equities in Korea (+0.5%), China (+0.2%), and Singapore (+0.2%) also rose. Other Southeast Asian bourses underperformed. Regional currencies appreciated, led by the Korean won and the Malaysian ringgit (both +0.5%). **EMEA** stocks were mixed: strong gains in Saudi Arabia (+1.4%) and Kuwait (+1.3%), and losses in Russia (-0.6%) and Bulgaria (-0.3%). Currencies were little changed. Later today, the Central Bank of Ghana is expected to keep rates on hold at 16.0%, while analysts are divided regarding the Nigerian central bank decision (policy rates is currently at 13.5%). **Latin American markets were steady yesterday**, with the major moves limited to Argentina's 1.1% increase. While the Brazilian real kept depreciating (-1.4%), other regional currencies remained flat.

Key Emerging Market Financial Indicators

Last updated: 9/20/19 8:09 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		41.57	-0.7	-1	4	-3	6
MSCI Frontier Equities		27.86	-0.4	-1	-4	-2	7
EMBIG Sovereign Spread (in bps)		331	-2	2	-39	-20	-83
EM FX vs. USD		60.76	-0.1	-1	0	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.09	0.1	0	0	-3	-3
Indonesian Rupiah		14055	0.1	-1	2	6	2
Indian Rupee		70.95	0.5	0	1	2	-2
Argentine Peso		56.57	-0.1	-1	-3	-31	-33
Brazil Real		4.16	0.1	-2	-3	-2	-7
Mexican Peso		19.46	0.0	0	2	-3	1
Russian Ruble		63.83	0.3	1	4	4	9
South African Rand		14.85	-0.2	-2	3	-4	-3
Turkish Lira		5.70	0.2	0	0	9	-7
EM FX volatility		8.27	0.0	0.1	-0.5	-3.4	-1.5

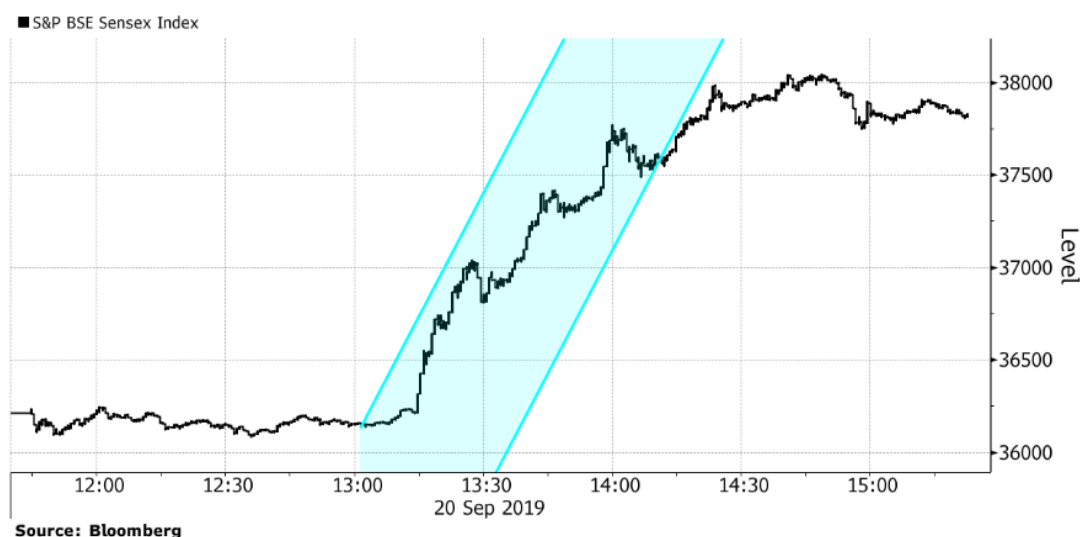
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

India

The Indian government unexpectedly cut the corporate tax rate to boost weakening economic growth. Finance Minister Nirmala Sitharaman announced that the tax rate on domestic companies will be reduced to 22% from 30%. The effective new rate will be 25.2% including all additional levies. The new tax structure will be applicable from the current fiscal year that began on April 1. **Equities rallied +5.2% while the 10-year bond yield rose 16bps to 6.79%. The Indian rupee appreciated 0.4%.**

Sensex Surges

India's benchmark stock index jumps after corporate tax cut



China

The People's Bank of China (PBoC) lowered its 1-year benchmark lending rate LPR (Loan Prime Rate) by 5bps to 4.20% from 4.25%, while keeping the 5-year LPR unchanged at 4.85%. This was in line with market expectations. Analysts expect further monetary easing via more interest rate cuts amid a slowing economy. **The 10-year bond yield was little changed. The offshore and onshore RMB appreciated +0.3% and +0.1%.** The PBoC announced that it is issuing RMB10 bn worth of 6-month CNH bills, a tool to drain liquidity in the offshore market to limit RMB depreciation pressures. The PBoC has also been fixing the currency at a stronger-than-expected rate.

Separately, trade negotiators from the US and China resumed face-to-face trade talks in Washington. The talks began on Thursday and will continue on Friday. They are expected to lay the ground-work for top-level negotiations between U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steven Mnuchin and Vice Premier Liu He in October in Washington.

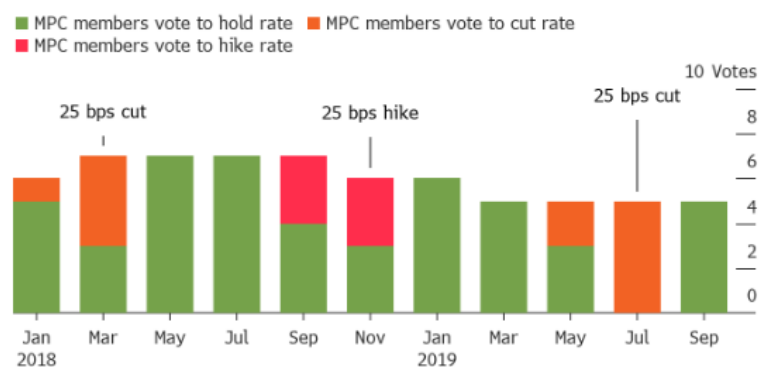
South Africa

The South African Reserve Bank (SARB) kept its policy rate unchanged at 6.50% in a unanimous decision. The MPC assesses the risks to the inflation and near-term growth outlook as balanced, while there are ongoing concerns about risks to medium-term growth and employment prospects. The MPC statement emphasised that future decisions remain highly data-dependent, sensitive to the assessment of the balance of risks to the outlook, and will seek to look through temporary price shocks. The SARB expects global monetary policy to remain accommodative over the medium term, but cautioned that market

expectations of further accommodation appear high, creating ongoing risk of market volatility should these not materialise. Markets were little changed following the announcement.

Change of Direction

South Africa's MPC's vote went from a unanimous cut to a unanimous hold

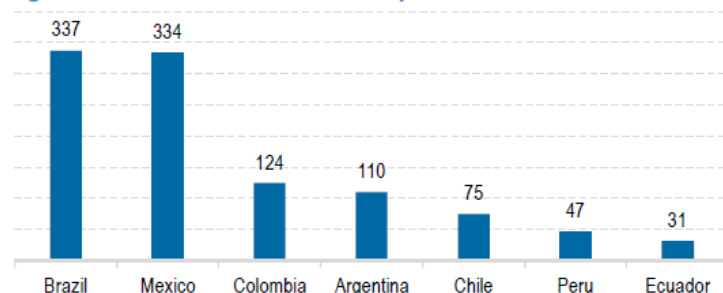


Bloomberg

Brazil

Almost half of all Brazilian Fintechs reportedly provide unsecured loans to clients. S&P analysts cite a report by Valor Econômico that cites unsecured loans are among the most relevant products of Brazilian Fintech companies. Unsecured loans to individuals are provided by 42% of Fintechs, claiming that their sophisticated technology allows them to lower risk and cater to demand which would not be available to banks. In total, Fintechs granted USD 1.2 bn in loans in 2019, registering growth of 48.6% in this business line. Together with their Mexican peers, Brazilian Fintech represented the majority of regional players in Latin America in 2018.

Figure 396: Number of Fintech Companies for Selected Countries



Source: Finnovistas Fintech Radar.

Source: JP Morgan

Mexico

Mexican insurers show strong growth in business and profits. S&P analysts point to [El Economista](#) reporting that, based on Comisión Nacional de Seguros y Fianzas (CNSF) data, the Mexican insurance industry registered real growth of 8.6% in written premiums during the first half of 2019 compared to the first half of 2018, outperforming Mexico's Q2 y/y real GDP growth of 0.3% by far. Annual growth of 13.5% 7.2%. The sector's profits increased by 5.3%, implying a return on equity of 13%. These figures bode well

for the country's insurance sector, which according to Bloomberg has ample space to grow, as its penetration rate of 2.3% lags behind the Latin American average of slightly above 3%. While few stand-alone insurers appear to be traded in Mexican stock markets, those with available pricing date have gained over the first half of 2019.

Stock Prices of Selected Mexican Stand-alone Insurers (Mexican peso)



Source: Bloomberg

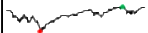

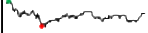



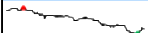
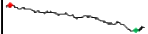
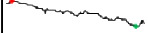



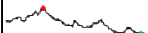

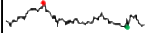

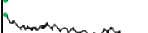
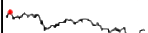

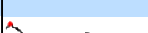


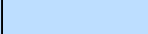



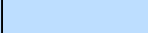
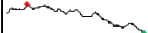

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Global Financial Indicators

Last updated: 9/20/19 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3007	0.0	0	4	3	20
Europe		3568	0.4	1	7	5	19
Japan		22079	0.2	1	7	-7	10
China		3006	0.2	-1	4	10	21
Asia Ex Japan		68	-0.5	-1	4	-5	6
Emerging Markets		42	-0.7	-1	4	-3	6
Interest Rates			basis points				
US 10y Yield		1.79	-1.2	-11	23	-127	-89
Germany 10y Yield		-0.51	-0.2	-6	18	-98	-75
Japan 10y Yield		-0.21	0.5	-5	3	-33	-21
UK 10y Yield		0.65	0.9	-12	19	-94	-63
Credit Spreads			basis points				
US Investment Grade		130	-0.9	-1	-4	32	-17
US High Yield		443	-1.3	2	-53	116	-78
Europe IG		46	-1.1	1	-6	-22	-41
Europe HY		247	1.9	9	-27	-19	-105
EMBIG Sovereign Spread		331	-2.0	2	-39	-20	-83
Exchange Rates			%				
USD/Majors		98.46	0.2	0	0	5	2
EUR/USD		1.10	-0.1	0	-1	-6	-4
USD/JPY		108.0	0.1	0	-2	4	2
EM/USD		60.8	-0.1	-1	0	-2	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		65	0.7	8	8	-18	21
Industrials Metals (index)		117	0.6	-2	4	0	7
Agriculture (index)		38	-0.1	0	2	-9	-9
Implied Volatility			%				
VIX Index (% change in pp)		13.8	-0.3	0.0	-3.7	2.0	-11.7
10y Treasury Volatility Index		5.3	-0.3	0.2	-0.4	1.8	0.8
Global FX Volatility		7.3	0.0	0.2	-0.7	-1.3	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		185	-4.0	-19	-84	-176	-231
Italy		139	-0.1	6	-67	-102	-111
Portugal		75	-2.2	-2	-6	-66	-73
Spain		74	-1.5	-1	-5	-30	-43

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: 9/20/2019 8:10 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		7.09	0.1	-0.2	0	-3	-3		3.1	0.9	4	7	-50	-6	
Indonesia		14055	0.1	-0.6	2	6	2		7.3	0.3	-2	-8	-111	-82	
India		71	0.5	0.0	1	2	-2		6.8	-0.4	2	-1	-148	-68	
Philippines		52	0.4	0.0	1	4	1		4.4	-0.2	2	-8	-182	-193	
Thailand		30	0.2	0.0	1	6	7		1.6	-0.4	-10	1	-135	-108	
Malaysia		4.17	0.6	-0.1	0	-1	-1		3.4	5.4	7	13	-65	-65	
Argentina		57	-0.1	-0.8	-3	-31	-33		72.3	47.8	198	2736	4805	4933	
Brazil		4.16	0.1	-1.8	-3	-2	-7		6.5	-8.1	-19	-22	-385	-169	
Chile		716	0.0	-0.8	0	-4	-3		2.8	0.0	9	8	-198	-167	
Colombia		3385	-0.3	-0.5	1	-11	-4		5.7	-2.3	-4	6	-97	-86	
Mexico		19.46	0.0	-0.3	2	-3	1		7.1	-10.6	-16	-8	-95	-161	
Peru		3.4	-0.1	-0.9	1	-2	0		4.4	2.7	13	6	-119	-129	
Uruguay		37	-0.1	-0.9	-1	-10	-12		10.6	-5.1	-16	-44		-9	
Hungary		302	-0.2	-0.9	-2	-9	-7		1.1	-0.2	-4	18	-161	-115	
Poland		3.95	-0.5	-1.2	-1	-8	-5		1.8	-1.0	1	12	-74	-43	
Romania		4.3	-0.1	-0.6	-1	-8	-6		3.7	0.0	8	14	-57	-52	
Russia		63.8	0.3	0.8	4	4	9		6.9	-3.6	2	-31	-155	-156	
South Africa		14.9	-0.2	-1.8	3	-4	-3		9.3	-1.6	8	-26	-39	-29	
Turkey		5.70	0.2	-0.3	0	9	-7		14.5	9.5	-4	-103	-654	-237	
US (DXY; 5y UST)		98	0.2	0.2	0	5	2		1.66	0.4	-9	23	-129	-85	

	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		3006	0.2	-1	4	10	21		183	0	-1	-1	-2	-11
Indonesia		6231	-0.2	-2	-1	5	1		165	-2	3	-28	-30	-71
India		38015	5.3	2	2	2	5		132	1	0	-7	-33	-64
Philippines		7871	-0.5	-2	0	10	5		64	-2	5	-21	-32	-57
Malaysia		1597	0.1	0	0	-11	-6		119	0	-2	-7	-11	-43
Argentina		30414	1.1	4	12	-12	0		2081	-40	-91	221	1456	1266
Brazil		104339	-0.2	0	5	34	19		221	0	4	-21	-101	-52
Chile		5073	0.0	4	6	-5	-1		130	0	4	-8	-2	-36
Colombia		1594	-0.2	0	3	7	20		171	-1	-1	-21	-5	-57
Mexico		43017	-0.1	1	8	-13	3		310	-2	-2	-43	44	-44
Peru		19491	-0.1	0	2	0	1		113	0	1	-15	-25	-55
Hungary		41000	0.2	2	2	13	5		87	1	18	-25	-23	-61
Poland		57849	-0.4	-1	3	-1	0		21	-1	20	-20	-22	-64
Romania		9442	0.9	2	4	13	28		183	1	8	-18	11	-38
Russia		2783	-0.4	0	4	16	17		178	-4	1	-35	-51	-74
South Africa		56430	0.5	-1	4	0	7		304	-2	10	-26	-20	-61
Turkey		100042	-0.3	-3	4	4	10		477	-3	-5	-48	28	48
Ukraine		518	0.3	1	-3	-4	-7		469	-1	26	-77	-78	-318
EM total		42	-0.7	-1	4	-3	6		331	-2	2	-39	-20	-83

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

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