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- **US stocks recover on revived stimulus hopes** ([link](#))
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- **UK to extend fiscal support in Winter Recovery Plan** ([link](#))
- **Australian banks rally on easing of mortgage regulations** ([link](#))
- **One-month dollar Libor at record low** ([link](#))
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Global markets search for direction

Global risk assets are trading with a negative tone again this morning as investors are confronted by a multitude of challenges. News that stimulus talks could restart in the US allowed its markets to post modest gains yesterday that were followed by stronger rallies in many Asian countries. However, more bad news from Europe on the virus front where further lockdowns are dominating events, stopped markets in their track. European markets are facing another day of heavy losses and US equity index futures are also mostly in the red. Markets showed little reaction to Germany's conservative budget and the new Winter Recovery Plan in the U.K. Oil prices are lower and safe havens such as the yen, bonds and Treasuries are doing well. Some positive news came from emerging markets with China's inclusion to the World Government Bond Index and Turkey's steps to normalize economic policy and ease restrictions on foreign investors.

Key Global Financial Indicators

Last updated: 9/25/20 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3247	0.3	-3	-6	9	0
Eurostoxx 50		3115	-1.4	-5	-6	-11	-17
Nikkei 225		23205	0.5	-1	0	5	-2
MSCI EM		43	-0.5	-4	-5	5	-4
Yields and Spreads			bps				
US 10y Yield		0.66	-0.8	-4	-3	-108	-126
Germany 10y Yield		-0.52	-2.1	-4	-9	5	-34
EMBIG Sovereign Spread		437	-1	30	18	89	144
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.3	-0.4	-2	-1	-10	-12
Dollar index, (+) = \$ appreciation		94.5	0.2	2	2	-5	-2
Brent Crude Oil (\$/barrel)		41.8	-0.4	-3	-9	-33	-37
VIX Index (% change in pp)		29.6	1.1	4	8	14	16

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

United States

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This morning's durable goods report was much weaker than expected in yet another sign that the economic recovery in the US is slowing down. However, markets were little changed immediately following the report. S&P 500 and Dow futures are slightly lower this morning, while Nasdaq futures are slightly higher.

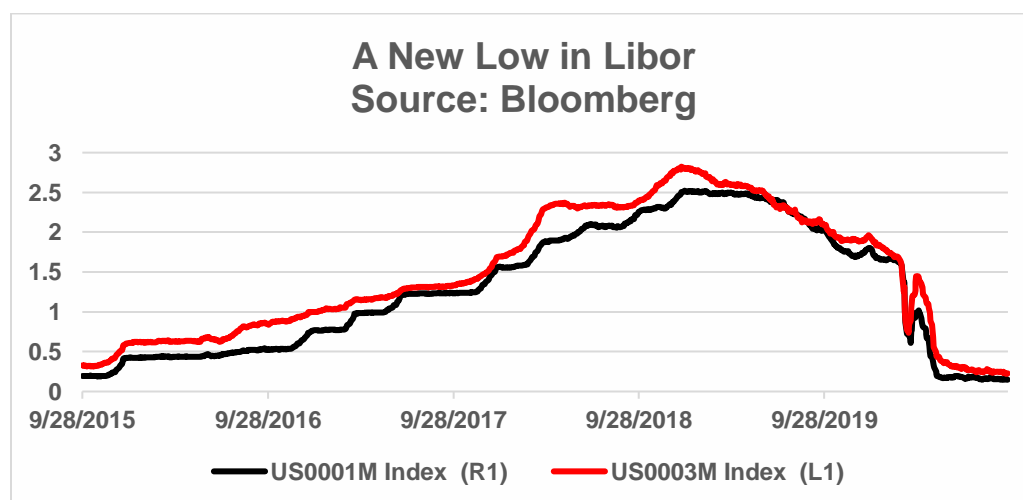
US August Durable Goods Report

Source: Bloomberg

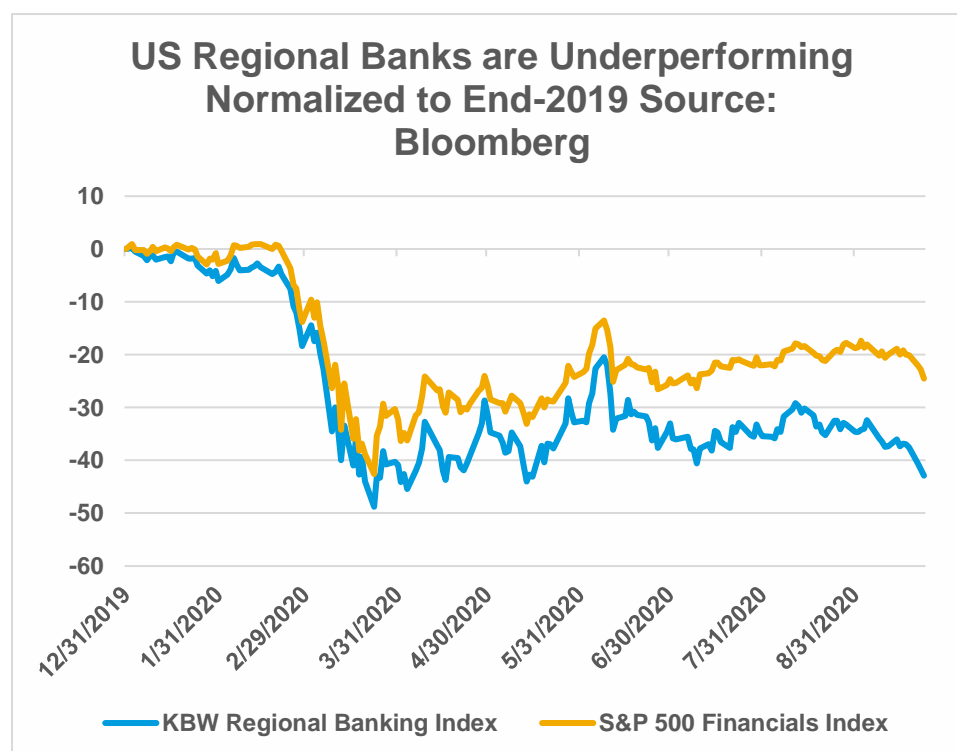
	Consensus Forecast	Actual Data Prints
Durable Goods Orders	+1.3% (July +11.4%)	+0.4%
Durable Goods ex Transport	+1.1% (July +2.6%)	+0.4%

Markets endured a roller coaster ride on Thursday, with a down day in Europe and a disappointing jobless claims report pushing US stocks lower in the morning before news of revived stimulus talks helped them stage a recovery later in the day. U.S. stocks ended slightly higher, as volatility continues to be the dominant force in the markets this month. The S&P 500 closed up 0.3% after swinging between a loss of 0.9% and a gain of 1.3%. Markets were cheered by talk from Speaker Pelosi and Treasury Secretary Mnuchin that they hoped budget discussions could be restarted, and a very strong new home sales report further lifted spirits. There were news stories of a new \$2.4 tn plan that could be voted on in the House as early as next week, down from the \$3.4 tn Heroes bill past back in May. President Trump indicated earlier that he was willing to go as high as \$1.5 tn. Still, these numbers remain far away from the \$500 bn offer from the Senate Republicans. Meanwhile, Treasury yields were slightly lower but remained within the narrow range in which they have been stuck for several days.

One-month dollar Libor, a key US money market benchmark, fell to a record low of 0.14475% on Thursday, a few days after three-month Libor hit its own record low. Market participants are not too worried about this sign of reduced demand in the interbank borrowing market, as they think it is caused by the flood of liquidity from the Fed and large cash inflows from government sponsored enterprises (GSEs) such as the giant housing lenders Fannie Mae and Freddie Mac. The GSEs are known to place large cash balances in the market at mid-month from mortgage prepayments and repayments, before redeploying the cash later in the month. Libor rates are expected to bounce back in the next few days. However, with quarter-end looming and year-end just three months away, the potential for potential funding stresses remain top of mind for markets.

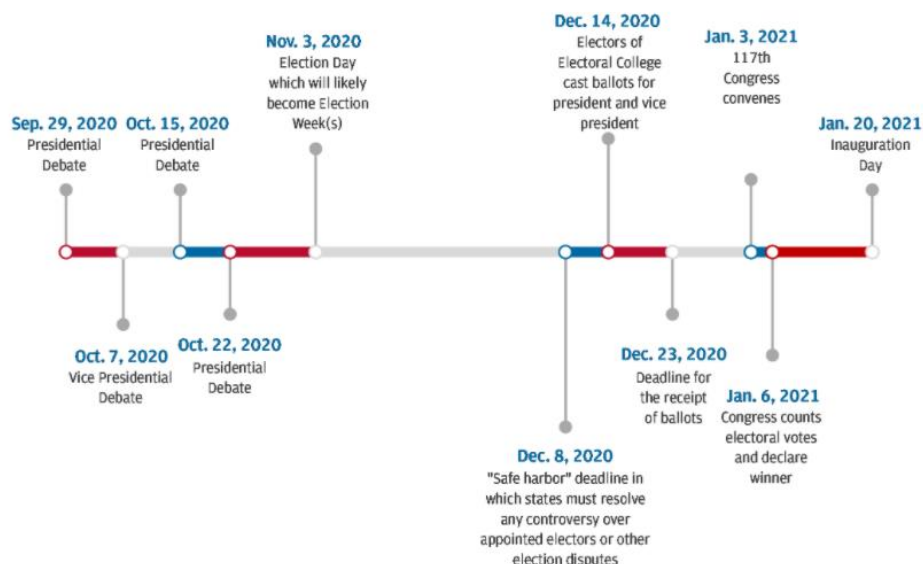


Regional banks in the US are underperforming their larger peers as COVID-19 economic strains weigh on their credit portfolios. Such banks are especially vulnerable because their lending is concentrated in smaller local companies that lack the cash reserves and economic strength to withstand steep and sustained local economic downturns. Loans to malls, commercial real estate, smaller hotel chains, restaurants and other small businesses are at particular risk, and bankruptcies are rising steadily. New York City is a case in point, where investors have grown wary about local banks such as Signature Bank and Community Bankcorp, which are among the five biggest lenders to New York City properties, according to Bloomberg. Landlords are seeing domestic and commercial real estate vacancies climb and many have been forced to renegotiate and accept lower rents from tenants who are growing more reluctant to stay in the city. Many companies are choosing to relocate or shrink their office space as more and more employees grow comfortable with working from home. With prospects bleak for the next 12-24 months, many companies and their lenders face scrutiny on how long they can bear the burden.



With the US election campaign heating up, there is renewed focus on the possibility of a contested election and deeper than usual scrutiny of the official timeline for the counting and validation of the votes. Investors and analysts are also grappling with the possible market implications of the various possible electoral outcomes. Options pricing in the equity and interest rate markets has become very expensive over the November-December period, reflecting the prevailing uncertainty. However, options in the FX market are less expensive. A Democratic sweep would likely be supportive for markets on expectations of larger fiscal stimulus, but this would be counterbalanced by the prospect of higher corporate tax rates. A Trump victory is viewed as an outright positive for risk assets, while a divided government, which is still seen as the most likely outcome, is likely to be a more neutral for markets.

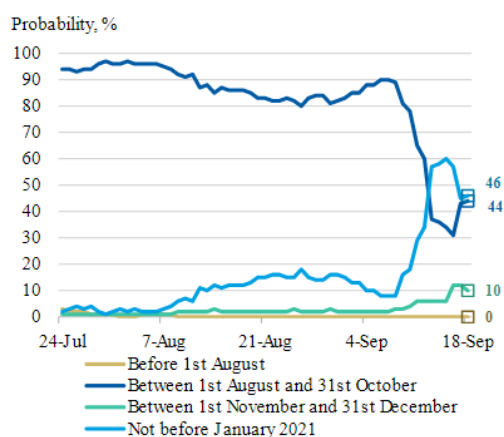
Exhibit 1: Key US political events and electoral reporting timeline



Source: J.P. Morgan Strategic Research

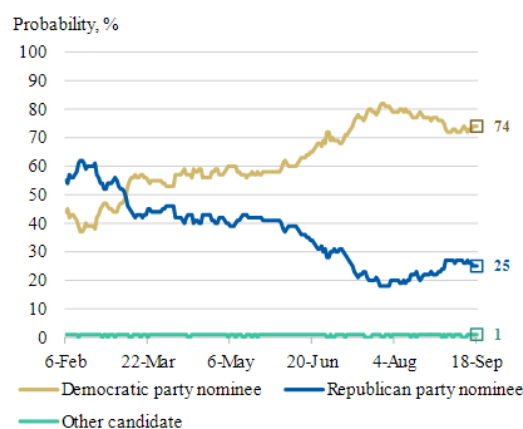
The odds on a new fiscal package from Congress before the election have dwindled, especially due to the upcoming political fight over replacing the late Justice Ginsburg. With the Democratic presidential candidate maintaining a steady lead in both polls and prediction markets, as well as in most battleground states, a new baseline scenario of a post-election fiscal package from a democratic candidate has gradually assumed prominence. Matters could crystallize further after the upcoming Presidential debate on September 29. However, if new stimulus talks actually do begin again mentioned above, the outcome could be quite bullish for markets which had grown increasingly worried that the delay could retard the economic recovery.

Exhibit 1: When will federal legislation providing for \$750 billion or more of new fiscal stimulus become law in the US?



Source: Goodjudgment.com

Exhibit 2: Who will win the 2020 United States presidential election?



Source: Goodjudgment.com

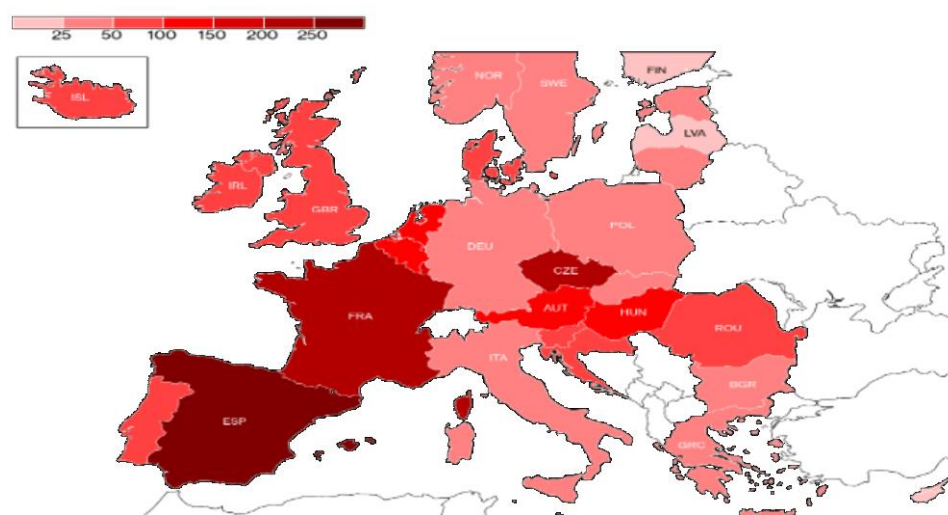
Europe [back to top](#)

Equities in Europe are trading 1.3% lower on the back of renewed lockdown concerns.

German bund yields are lower by 2 bps and Southern European spreads are 1-2 bps wider. The euro (-0.3%) and the sterling (-0.4%) are struggling to recover against the dollar.

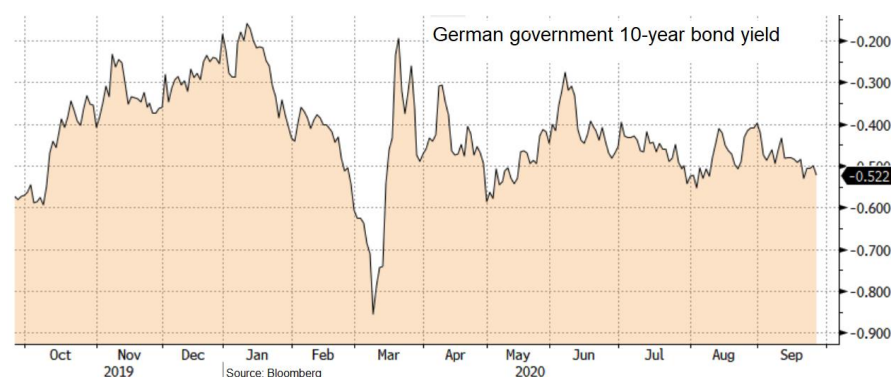
The covid-19 situation continues to deteriorate rapidly across Europe as France and the UK report a record number of new cases. While hospitalizations and fatality rates remain low overall, some regions report a jump in hospitalization cases with intensive care units already at 30-40% utilization in Madrid in Spain and Marseilles in France. On the country level the reintroduction of restriction measures has been limited to bar and restaurant opening curfews, but on a regional level local authorities have opted to shut some public venues completely and also reduce school capacity. Authorities in France and the UK also now more openly warning about risks of another full lockdown although the threshold seems to remain high. Market contacts have also noted that risk asset sensitivity to the virus-related headlines has increased over the last two weeks.

Covid-19 cases per 100,000 people over the past 14 days

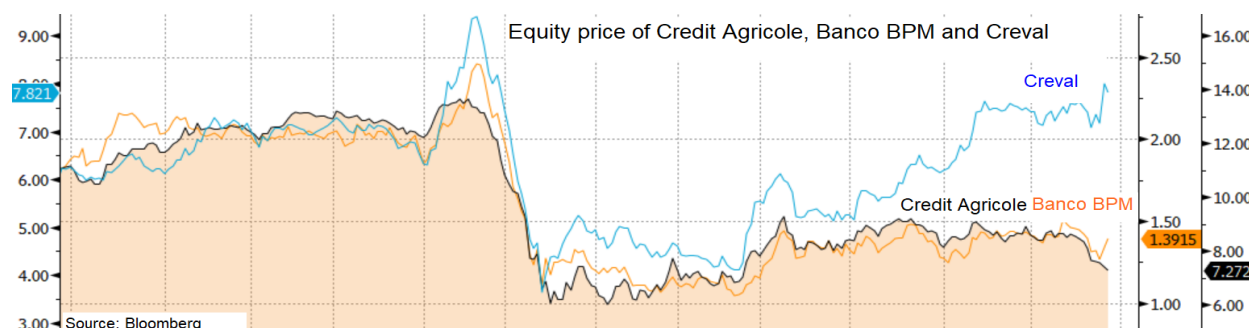


Source: European Centre for Disease Prevention and Control

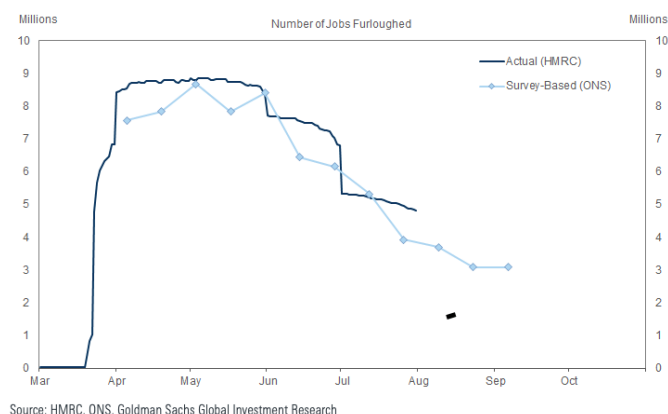
Germany's federal budget for 2021 and 2020 shows a swift return to conservative fiscal policy. While gross borrowing is expected to hit a new record at €419 bn, new borrowing is projected to drop from €217.8bn in 2020 (6.6% of GDP) to €96.2bn in 2021 (2.7% of GDP). Market contacts suggest that the borrowing should be easily covered by the ECB purchases. German bunds were steady after the announcement.



France's second biggest lender Credit Agricole could be looking for acquisitions in Italy. According to media reports, medium sized Banco BPM as well as Credito Valtellinese (Creval) are potential targets. Shares of Banco BPM gained 6% and Creval's 12% while the stock of Credit Agricole was down 3%. Bank consolidation in Italy has gained momentum this year as Intesa is planning to take over Unione di Banche Italiane and Unicredit is being asked to buy a majority stake in Banca Monte dei Paschi. Similarly, in Spain CaixaBank bought Bankia and in Switzerland UBS and Credit Suisse have been reported to be in merger discussions.



U.K. Chancellor Rishi Sunak announced a new Winter Recovery Plan that aims to replace and extend the expiring fiscal support measures. The focus was on the new Job Support Scheme, under which the employee will earn 55% of the wage from their employer and 22% will be provided by the government. **Contacts now expect unemployment to jump to around 9% as the new measures constitute a significant reduction in support to the estimated 3 million of workers remaining in furlough.** Other measures include the extension of the VAT reduction for the hospitality industry until 31 March, further grants for the self-employed as well as extension of measures to ease credit conditions for small and medium enterprises. Total package size including the public services spending are estimated at 1.5% of GDP.



Other Mature Markets

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Japan

Equities gained (NIKKEI: 0.5%) on the back to improving investor sentiment; Japanese yen was little changed.

Australia

Australia will make it easier for banks to approve mortgages and small business loans. As part of an overhaul of responsible lending obligations, the government will allow banks to rely on income and spending information provided by borrowers when assessing loan applications, rather than doing their own lengthy

verifications. The existing regulation places the responsibility for determining the suitability of a loan to banks, making them cautious about extending loans even with borrowing costs currently at record lows. The change will help reduce the lengthy verification procedures that typically account for half of the loan application process. Market analysts noted that the change can help boost credit growth and economic activity. Share prices of major banks increased by between 3% and 7%, driving up the overall equity price index (+1.5%). Australian dollar appreciated (+0.3%).

Share Prices of Major Australian Banks



Source: Bloomberg.

Emerging Markets

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EMEA equities traded higher in Turkey (0.6%) after the regulator eased FX trading restrictions for foreigners. Shares in South Africa (-2%) and Russia (1.4%) fell in line with global risk sentiment. The South African rand (-1.3%) and Russian ruble (-1%) depreciated against the U.S. Angola's central bank ordered lenders to allow borrowers to redenominate FX-linked mortgages to local currency to reduce default risk following a steep depreciation of the kwanza. **Asian stock markets were broadly higher**, led by Indian (+2.3%) and Indonesian (+2.1%) equities. **Asian currencies mostly appreciated**, led by the Indian rupee (+0.4%) and Thai baht (+0.3%). **In Indonesia**, a draft bill to overhaul Bank Indonesia's mandate was reportedly initiated by a broader request from President Joko Widodo to find ways to improve policy responses to the pandemic. **Latin American** assets saw gains on Thursday after a week of underperformance. Stocks in Argentina (+2.2%) gained the most, while the Brazilian real (+1.5%) appreciated the most against the dollar.

Key Emerging Market Financial Indicators

Last updated: 9/25/20 8:08 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				
MSCI EM Equities		42.90	-0.5	-4	-5	5	-4
MSCI Frontier Equities		25.66	0.2	-1	2	-9	-15
EMBIG Sovereign Spread (in bps)		437	-1	30	18	89	144
EM FX vs. USD		54.32	-0.4	-2	-1	-10	-12
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.83	0.0	-1	1	4	2
Indonesian Rupiah		14873	0.1	-1	-2	-5	-7
Indian Rupee		73.61	0.4	0	1	-3	-3
Argentine Peso		75.72	0.0	-1	-3	-25	-21
Brazil Real		5.54	-0.6	-3	-1	-25	-27
Mexican Peso		22.30	-0.7	-5	-2	-12	-15
Russian Ruble		77.59	-0.7	-3	-3	-17	-20
South African Rand		17.08	-0.9	-4	-1	-12	-18
Turkish Lira		7.62	0.0	-1	-3	-26	-22
EM FX volatility		12.16	0.0	0.9	1.1	3.9	5.6

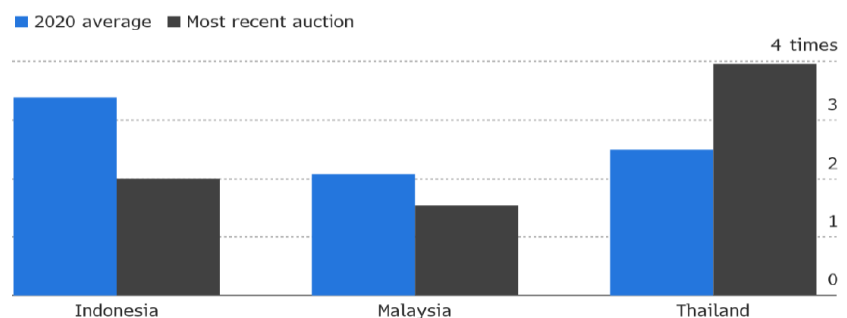
Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Southeast Asia

There are signs of waning demand for some emerging Asian bonds. In recent government bond auctions in Indonesia and Malaysia, the bid-to-cover ratios has fallen to the lowest levels in the last five months. The Philippine government rejected all the bids at two auctions in the past month as investors demanded higher yields than what the government was prepared to accept. Market analysts mentioned a number of factors behind reduced demand for bonds, including more limited demand from local investors who are getting close to filling this year's order books, expectations of no further monetary policy easing, concern about debt monetization, and re-emergence of political risks. The demand for Thai government bonds remains strong.

Thailand Bucks Trend

Bid-to-cover ratios have been declining in Indonesia and Malaysia



Source: Bloomberg. Note: The Philippines has been excluded as the government rejected all bids at the latest bond auction

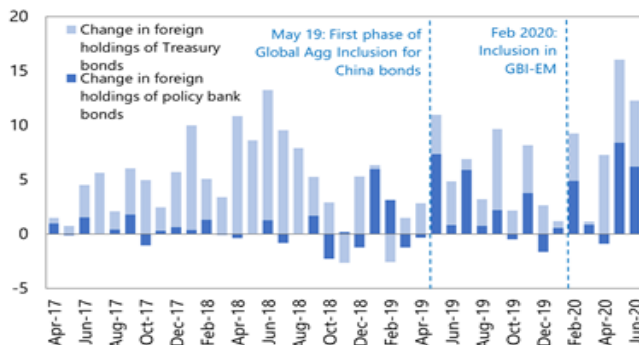
Bloomberg

China

FTSE Russell will include China in its flagship World Government Bond Index (WGBI). Chinese central government bonds will be included in the WGBI in October 2021 and will be subject to a final affirmation in March 2021. The inclusion will be phased in over a period of 12 months. China's inclusion is already underway for the other two major global bond indexes, JP Morgan's GBI-EM index and the Bloomberg Barclays Global Aggregate Index. Market analysts estimated that the index inclusion would attract inflows of about \$120 bn - \$140 bn during the 12-month phase-in period; also see an [IMF blog](#) that discusses the impact of the index inclusion, including spillovers to other emerging markets. In the run up to the FTSE Russell decision, Chinese authorities proposed ways to make it easier for foreign investors to trade bonds and get money out of the country. Bond traders would also be allowed to deal in notes on both interbank markets and stock exchanges. Some market analysts noted that the interest rate differentials with respect to other major economies will be another important factor that supports a strong demand for Chinese government bonds in the coming years.

1. Index-Related Bond Flows to China

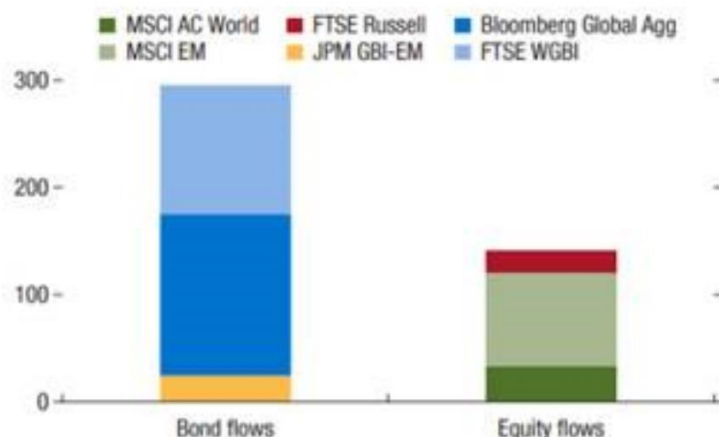
(In billions of U.S. dollar)



Rising tide

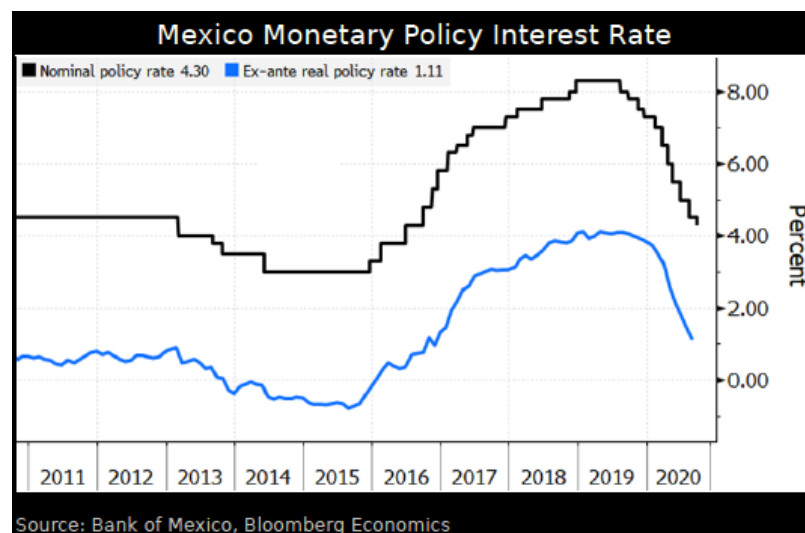
China's inclusion in global benchmark indexes could attract significant flows of foreign investment.

(billions of dollars)



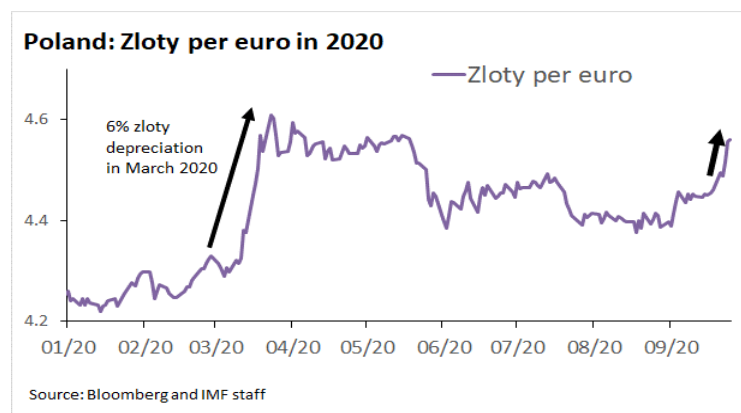
Mexico

Banxico cut the policy rate by 25 bps to 4.25% in a unanimous decision, in line with the market consensus. The committee cited the downside risks to growth and the uncertain outlook on the balance of risks to inflation as reasons for the cut. They also stated that the room for further monetary support is limited. Hence, the decision to decelerate the pace of rate cut after 5 consecutive 50 bps cuts from March to August. The forward guidance is perceived to be somewhat neutral by market analysts, with Banxico stating that monetary policy implementation will depend on the evolution of the factors that impact the outlook for inflation and its expectations. Yields fell across the Mexico dollar sovereign yield curve after the news, with 2-year yields down 9 bps.



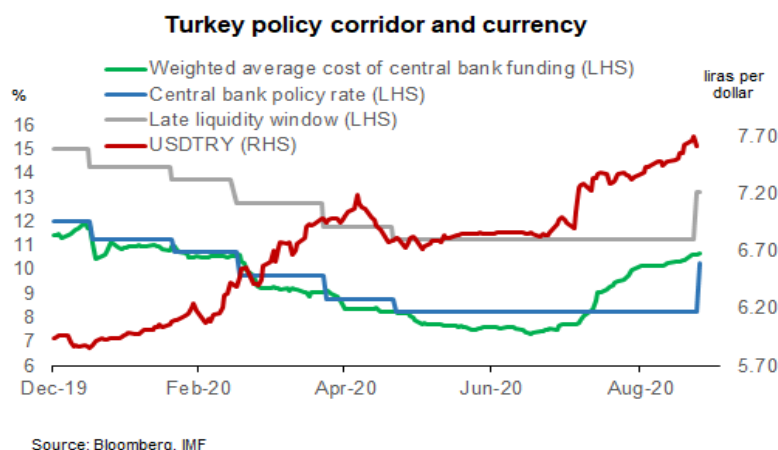
Poland

The zloty has weakened 2.2% against the euro in the past week as contacts argue that yesterday's surprise hike by the National Bank of Hungary will make the Polish currency relatively less attractive for FX traders. According to Bank of America, FX proprietary flow data show that long positioning in the Polish zloty had been relatively stretched compared to the forint and the bank had been recommending that clients short the zloty against the forint. Yesterday, the National Bank of Hungary unexpectedly increased its weekly deposit tender rate by 15 bps to 0.75%. In contrast, the central bank of Poland left its policy rate unchanged at 0.10% recently and reiterated its concerns about a strong zloty. The Hungarian forint has depreciated 1% against the euro in the past week.



Turkey

Bank shares (+2.0%) gained after the bank regulator BDDK eased trading restrictions in derivative and swap transactions for foreign banks. When buying lira from abroad, Turkish banks' swaps and derivative positions can reach as much as 10% of their regulatory capital (up from 1% previously). When selling liras (and receiving U.S. dollars), the limit has been increased to 2% of equity for transactions that will mature in seven days (from 1% previously), 5% for those coming due in 30 days (from 2% previously) and 20% for those that mature in one year (from 10% previously). **Contacts welcome the easing, interpreting it as a signal that authorities will further remove restrictions introduced since 2018.** Before 2018, foreigners such as banks and large multinational corporates supported an active off-shore market for Turkish lira. Yesterday, the Central Bank of Turkey surprised the market by hiking its one-week repo rate 200 bps to 10.25%, bringing its main policy rate closer to the actual weighted average cost of funding (10.65%). **Contacts have generally mixed views on yesterday's hike with some seeing it as a positive step towards normalization while others expect only limited impact on the cost of funding or the exchange rate, pointing out that FX swap auctions by the central bank indicate still substantial demand for collateral in U.S. dollars in the financial system.** Equities traded 1% higher today.



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Global Financial Indicators

Last updated: 9/25/20 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3248	0.3	-2	-6	9	1
Europe		3115	-1.4	-5	-6	-11	-17
Japan		23205	0.5	-1	0	5	-2
China		3219	-0.1	-4	-5	9	6
Asia Ex Japan		75	-1.0	-4	-5	12	2
Emerging Markets		43	-0.5	-4	-5	5	-4
Interest Rates							
			basis points				
US 10y Yield		0.66	-0.8	-4	-3	-108	-126
Germany 10y Yield		-0.52	-2.1	-4	-9	5	-34
Japan 10y Yield		0.01	0.0	0	-2	27	2
UK 10y Yield		0.19	-2.5	1	-7	-34	-63
Credit Spreads							
			basis points				
US Investment Grade		135	2.9	7	5	4	38
US High Yield		561	10.2	46	38	104	168
Europe IG		62	1.5	7	8	7	18
Europe HY		368	15.0	69	40	138	162
EMBIG Sovereign Spread		437	-1.0	30	18	89	144
Exchange Rates							
			%				
USD/Majors		94.55	0.2	2	2	-5	-2
EUR/USD		1.16	-0.3	-2	-2	6	4
USD/JPY		105.5	-0.1	-1	1	2	3
EM/USD		54.3	-0.4	-2	-1	-10	-12
Commodities							
			%				
Brent Crude Oil (\$/barrel)		42	-0.4	-3	-9	-33	-37
Industrials Metals (index)		114	0.1	-5	-2	-1	0
Agriculture (index)		39	0.2	-3	3	1	-7
Implied Volatility							
			%				
VIX Index (%, change in pp)		29.6	1.1	3.7	7.5	13.6	15.8
US 10y Swaption Volatility		44.8	0.4	0.5	-13.0	-36.7	-17.2
Global FX Volatility		9.8	0.0	0.4	0.8	2.6	3.8
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		155	2.5	-1	2	-36	-10
Italy		141	1.4	-4	-5	-1	-19
Portugal		80	1.9	1	-4	7	17
Spain		77	2.1	0	-4	7	12

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: 9/25/2020 8:10 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		6.83	0.0	-0.9	1	4	2		3.2	-0.1	-3	7	11	9
Indonesia		14873	0.1	-0.9	-2	-5	-7		6.8	3.3	3	19	-57	-31
India		74	0.4	-0.2	1	-3	-3		6.2	0.3	-2	-4	-72	-70
Philippines		48	0.2	-0.2	0	8	4		3.6	0.0	-1	2	-72	-66
Thailand		32	-0.1	-1.8	-1	-3	-6		1.5	-0.9	-2	-1	-8	-16
Malaysia		4.17	0.0	-1.4	0	1	-2		2.6	0.7	1	17	-95	-77
Argentina		76	0.0	-0.5	-3	-25	-21		40.9	134.1	-68	-346	-2553	-2168
Brazil		5.54	-0.6	-2.8	-1	-25	-27		5.8	-18.9	11	42	-66	-46
Chile		786	-0.2	-2.9	0	-7	-4		2.7	6.8	12	19	-9	-58
Colombia		3827	0.9	-3.0	1	-10	-14		5.1	-4.5	16	-17	-54	-88
Mexico		22.30	-0.7	-5.2	-2	-12	-15		5.9	-3.1	4	-9	-112	-103
Peru		3.6	-0.5	-1.9	0	-7	-8		4.2	-0.7	12	6	-15	-29
Uruguay		42	-0.1	0.0	1	-13	-12		7.5	-12.4	4	-74	-302	-333
Hungary		312	-0.3	-2.5	-4	-2	-5		1.8	-2.2	9	10	83	62
Poland		3.92	-0.3	-3.8	-5	2	-3		0.8	-2.9	-3	-6	-107	-113
Romania		4.2	-0.2	-2.1	-2	4	2		3.3	1.0	6	-35	-43	-69
Russia		77.6	-0.7	-2.5	-3	-17	-20		5.9	1.3	10	12	-99	-25
South Africa		17.1	-0.9	-4.4	-1	-12	-18		10.2	0.0	25	11	90	73
Turkey		7.62	0.0	-0.8	-3	-26	-22		13.1	-54.3	-10	-61	-100	139
US (DXY; 5y UST)		95	0.2	1.8	2	-5	-2		0.27	-0.8	-1	-3	-134	-142

	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		4570	0.2	-4	-4	18	12		217	0	1	10	28	41
Indonesia		4946	2.1	-2	-7	-20	-21		239	0	12	24	65	83
India		37389	2.3	-4	-4	-3	-9		229	2	9	12	98	104
Philippines		5839	-0.1	-1	-2	-26	-25		147	0	13	22	77	81
Malaysia		1509	0.6	0	-3	-5	-5		165	4	12	18	39	53
Argentina		41876	2.2	5	-10	48	0		1356	6	98	-786	-863	-413
Brazil		97012	1.3	-3	-5	-7	-16		342	3	36	19	106	127
Chile		3571	1.4	-4	-8	-29	-24		188	0	17	15	48	55
Colombia		1180	0.1	-2	-4	-26	-29		274	2	27	24	90	111
Mexico		36217	1.1	0	-5	-16	-17		523	4	44	51	204	231
Peru		17778	1.6	-1	-3	-8	-13		183	3	25	35	62	76
Hungary		32071	0.5	-5	-10	-21	-30		127	6	9	4	32	41
Poland		48205	0.4	-3	-7	-16	-17		24	-4	-3	-4	-10	6
Romania		9017	-0.2	-1	3	-5	-10		267	6	17	4	74	94
Russia		2881	-1.1	-2	-5	4	-5		216	-2	12	17	30	85
South Africa		53053	-2.2	-4	-6	-5	-7		534	-3	43	41	203	214
Turkey		1129	0.9	2	3	10	-1		633	-13	19	13	155	232
Ukraine		500	0.0	0	0	-4	-2		714	-8	66	91	214	294
EM total		43	-0.5	-4	-5	5	-4		437	-1	30	18	89	144

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