




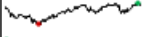

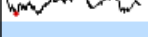
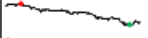
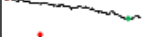


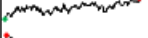

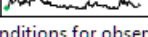
- The New York Fed increased the size of its repo operations amidst high demand ([link](#))
- Japanese and US G-SIBs see LCRs improve most in Q2 2019 ([link](#))
- Global investors allocate away from equities into bonds, with a total flow of \$1 tn ([link](#))
- Industry groups renew warning of Brexit risk to euro-denominated derivatives ([link](#))
- The Philippine central bank lowered its rate for the third time this year to 4% ([link](#))
- The Czech central bank kept interest rates at 2% yesterday, as expected ([link](#))

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Markets mixed amid political noise and positive trade headlines

Markets are trading with little direction today after yesterday's bounce. Equity prices rallied late in the day on Wednesday following renewed optimism on the trade front as president Trump said a deal with China could happen faster than expected. That eased some of the market worries from the nascent impeachment investigation. Having missed the late day bounce yesterday, European markets caught up this morning despite some negative news from individual firms. Although US equity market futures are pointing to a slightly higher opening this morning, treasury yields are edging lower after a sharp rise yesterday. Despite the positive remarks on the trade front, the Shanghai stock index fell 0.9% Thursday after a 1% drop the prior day. The dollar index is edging slightly higher once again today, after rising 0.7% on Wednesday, to a new 2-year high.

Key Global Financial Indicators

Last updated: 9/26/19 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2985	0.6	-1	4	3	19
Eurostoxx 50		3537	0.7	0	6	3	18
Nikkei 225		22048	0.1	0	9	-8	10
MSCI EM		41	0.8	-1	5	-4	5
Yields and Spreads			bps				
US 10y Yield		1.71	9.2	-7	18	-133	-97
Germany 10y Yield		-0.58	-0.7	-8	8	-111	-82
EMBIG Sovereign Spread		346	-2	13	-21	-1	-68
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.6	0.1	0	1	-2	-3
Dollar index, (+) = \$ appreciation		99.1	0.0	1	1	5	3
Brent Crude Oil (\$/barrel)		62.4	-0.1	-3	6	-23	16
VIX Index (% change in pp)		15.6	-0.3	2	-4	3	-10

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

United States

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U.S. stocks rose by 0.6% on Wednesday, led by the tech and bank sectors, amid renewed signs of easing trade tensions and a relief from the impeachment-related volatility. While releasing the transcript of the call with Ukraine, President Trump said that a China deal could happen faster than expected – which boosted risk sentiment. The U.S. and Japan also agreed to the “first stage” of a limited trade deal. The dollar correspondingly appreciated by 0.7% to a 2-year high, gaining against all G-10 currencies. Analysts highlighted that a quarter-end squeeze may also have drawn in demand for dollars, as corporates reportedly bought the greenback to repatriate or hedge into month and quarter-end. Treasury yields bounced back, reversing Tuesday’s move, and were up 5-8 bps across the curve. VIX also declined to 15.9 but remains higher over the week.

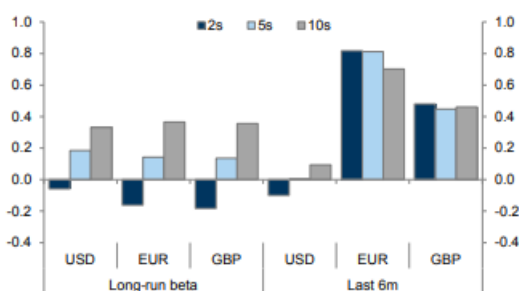
The New York Fed increased the size of its overnight and term repo operations, amidst an oversubscription in the previous operations. The 14-day term repo operation will now have an aggregate limit of \$60bn vs \$30bn earlier. The o/n operation will have a limit of \$100bn from \$75bn before. This morning, the term repo operation was oversubscribed with \$72.8 bn of bids.

Among key data releases on Wednesday, new home sales for Aug grew by 7.1% mom compared with a decline of 12.8% last month, and consensus expectations of 3.8%. This morning, the print of the third and final revision to Q2 US GDP showed 2.0% growth for the quarter, in-line with the last print. Personal consumption grew by 4.6% which compares with consensus estimate of 4.7% y/y.

Goldman analysts highlighted that while the long-run relationship between yield curves and the level of rates is strikingly similar across USD, EUR and GBP rates, recent behavior has been varied. Whereas the US curve has had a generally weak relationship with yield changes, the slope of the European (and to a lesser extent UK) curve has been highly directional with yields, reflected in steepening in sell-offs and flattening in rallies. Analysts indicated that, historically, curves tend to become more strongly directional with yields when policy rates are closer to the Effective Lower Bound, as short rates are increasingly constrained and the long end becomes the main driver of curve moves.

Exhibit 1: While long-run similarities in rate/curve sensitivity are clear, recent behavior has been significantly distinct across markets

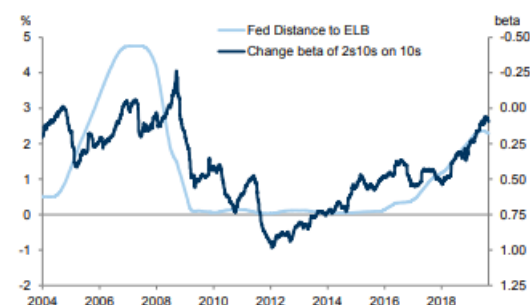
Change beta of 2s10s yield curve on different maturity yields



Source: Goldman Sachs Global Investment Research

Exhibit 2: As the Fed got away from the ELB, the beta of curve on level of rates declined, though cuts imply this should reverse somewhat

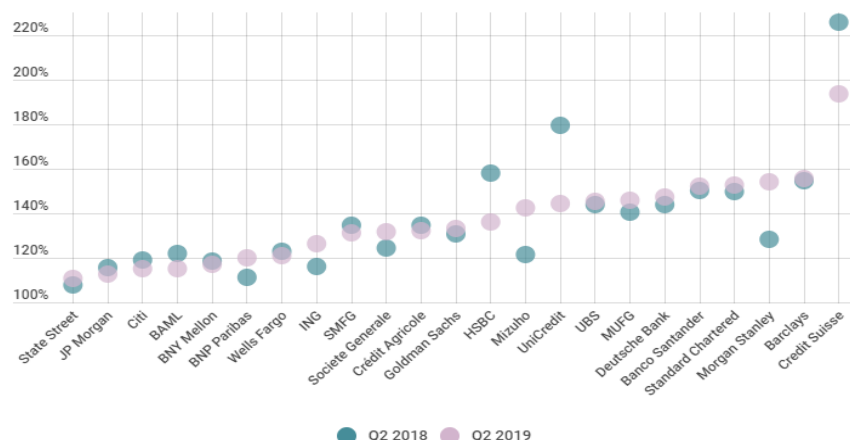
Fed distance to ELB vs 6m rolling change beta of 2s10s USD swap curve on 10y swap (rhs, inv)



Source: Goldman Sachs Global Investment Research

Global systemically important banks (G-SIBs) in Japan and the US improved their liquidity coverage ratios (LCRs) over the 12 months to end-June, while those in the Eurozone, UK and Switzerland saw deterioration. Of the 23 systemic firms (that have reported the data for Q2 2019), a total of 13 banks had higher LCRs vs Q2 2018, and 10 banks reported lower LCRs. Morgan Stanley reported the highest increase year-on-year, with its LCR jumping to 154% from 128.1%. UniCredit saw the largest drop, with its LCR falling to 144.1% from 179%.

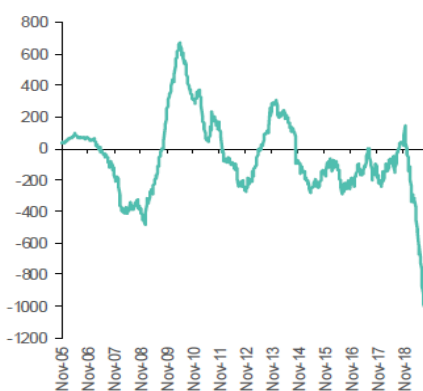
Liquidity Coverage Ratios, year-on-year comparison by GSIB



Source: Risk.net; LCR disclosures; Pillar 3 reports; quarterly reports

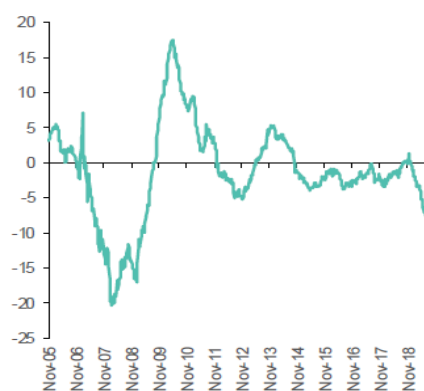
Bernstein analysts highlighted that global investors have made a historical portfolio re-allocation from equities to bonds over the last year. They have sold \$246 bn of global equity funds and bought \$780bn of bond and money market funds. The total flow of \$1 tn, is double the \$500bn flow in 2008. As a proportion of the total AUM the move in 2008 was slightly larger than the current reallocation, but even on this basis, the recent rotation is by far the largest since the financial crisis.

EXHIBIT 1: Global Equity Flow mins Bond and money market flow - 1 Year Rolling (USD bn)



Source: EPFR global, Bernstein analysis

EXHIBIT 2: Global Equity Flow mins Bond and money market flow - 1 Year Rolling (% AUM)



Source: EPFR global, Bernstein analysis

Europe

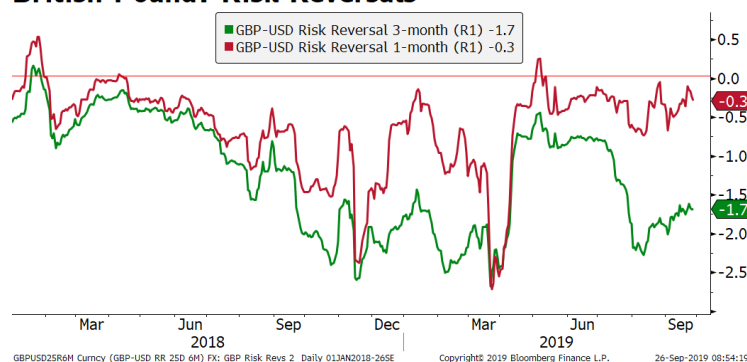
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European equity indices advanced slightly, catching up to yesterday's S&P 500 gains made after European markets had already closed: DAX (+0.5%), CAC 40 (+0.7%), EuroStoxx 600 (+0.6%). Bank stocks (-0.4%) underperformed, weighed by losses at Spanish lenders: Sabadell (-1.9%), CaixaBank (-1.4%), Santander (-0.3%), and BBVA (-0.3%). Sabadell has announced that it does not see a need to make accounting adjustments to its UK unit TSB despite Brexit concerns. Separately, BBVA's CIO Sáenz de Tejada suggested yesterday at a conference that his bank could be considering the acquisition of another medium- to small-size lender.

Stoxx 600 catches up to gains in S&P 500

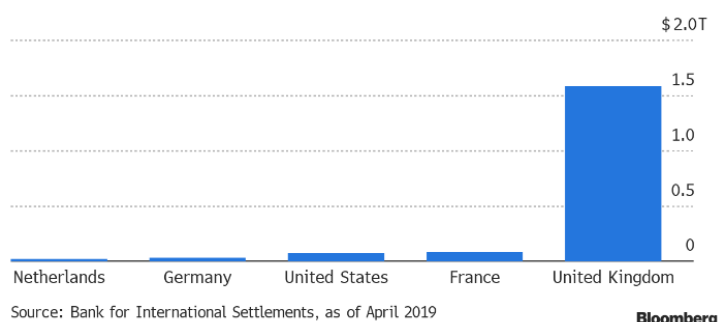
Sovereign debt markets traded steadily again today. German 10-year yields at -0.58% (-1 bp); French at -0.28% (-2 bps); Italian at 0.84% (unch.); Spanish at 0.11% (-1 bp).

PM Johnson has challenged opposition parties to call for a no-confidence vote. Labour leader Corbyn reiterated he would only do so once a Brexit extension has been secured. **The pound (\$1.24) traded flat this morning**, even as the political acrimony surrounding Brexit intensifies in the UK. Three-month GBP-USD risk reversals remain deeply in negative territory, indicating investors' bearish views on sterling.

British Pound: Risk Reversals

Industry groups have renewed their warning that a permanent solution on euro-denominated derivatives trading is needed ahead of Brexit. Although the EU has granted temporary recognition to UK clearinghouses until March 2020, industry leaders said yesterday that private parties would need legal

Euro-denominated derivatives trading by country, daily average



certainly various months ahead of the expiration of equivalency in order to make the proper arrangements for a smooth transition. According to industry representatives, a decision before end-2019 is needed to prevent clearinghouses from having to notify customers to close out positions. London is currently by far the largest market of euro-denominated derivatives, with daily average volumes of over \$1.5 tn.

In **central banking news**, ECB's Sabine Lautenschlaeger has announced her early resignation on Oct. 31st, well ahead of her end-of-term in Jan. 2022. News outlets speculate that the resignation is another indication of growing dissent among the ECB's leadership regarding monetary stimulus. Separately, Banca d'Italia's Fabio Panetta has been nominated to replace Benoît Couré when he steps down at end-2019.

Other Mature Markets

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Japan


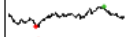





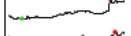

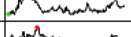
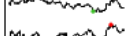


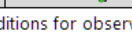
U.S. President Trump and Prime Minister Abe signed a limited trade agreement, halting auto tariffs on Japan's exports for the time being. Meanwhile, in the limited pact, Japan will reduce or eliminate tariffs on certain agricultural products imported from the U.S. The agreement also includes preferential treatment for digital products such as videos and e-book to ensure free data transfer across the two borders. Shares of steelmakers climbed after the trade news though the broader Topix index (+0.2%) and the yen (+0.10%) were both little changed.

Emerging Markets

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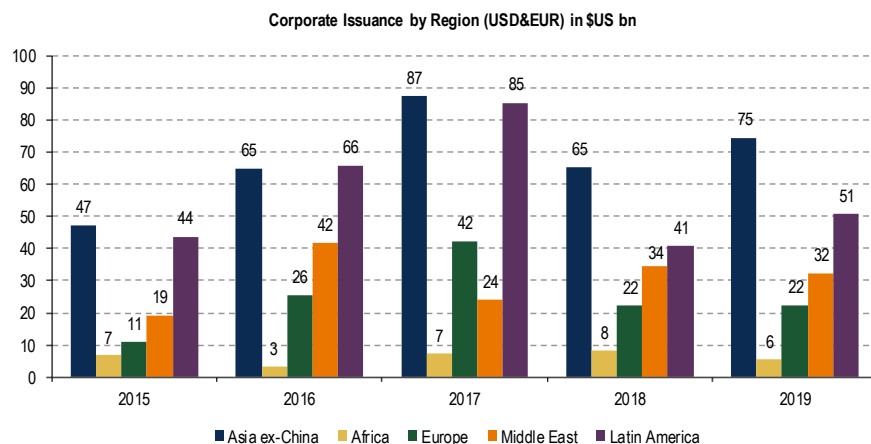
Asia stocks were mixed with Hong Kong shares retreating from intraday highs to modest gains (+0.4%), while Shanghai (-0.9%) and Sydney (-0.5%) bourses fell. U.S. President Trump suggested on Wednesday that a trade deal with China was "possible", though overall market sentiment was little changed. Currencies were also mixed. The Thai baht underperformed, losing 0.3% on the day following the central bank's decision to leave its policy rate unchanged at 1.5% on Wednesday to rein in the currency's appreciation. Meanwhile, the RMB remained stable, with both the onshore CNY and offshore CNH unchanged at RMB 7.13/USD. In **EMEA**, equities gained in Egypt (+1.7%), South Africa (+0.9%), and Russia (+0.6%). Stocks dropped in Bulgaria (-1.0%) and Kuwait (-0.7%). Other bourses saw smaller moves. Most currencies in the region weakened to the dollar, by about 0.2%. **Latin American** stocks mostly saw gains yesterday while currencies mostly depreciated against the dollar. Argentine stocks (+1.4%) saw the biggest gains, reversing its trend for the week, followed by Brazil (+0.6%), while Mexico (-0.2%) saw some losses. Among regional currencies, the Mexican peso (-0.6%) depreciated the most against the dollar, followed by the Chilean peso (-0.5%) and Argentine peso (-0.2%) while the Brazilian real (+0.4%) strengthened against the dollar.

Key Emerging Market Financial Indicators

Last updated: 9/26/19 8:26 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.18	0.8	-1	5	-4	5
MSCI Frontier Equities		28.28	0.7	1	-1	-2	8
EMBIG Sovereign Spread (in bps)		346	-2	13	-21	-1	-68
EM FX vs. USD		60.60	0.2	0	1	-2	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.13	0.0	0	0	-4	-4
Indonesian Rupiah		14165	-0.1	-1	1	5	2
Indian Rupee		70.88	0.2	1	2	2	-2
Argentine Peso		57.06	-0.3	-1	-3	-33	-34
Brazil Real		4.13	0.5	1	1	-2	-6
Mexican Peso		19.53	0.2	0	2	-4	1
Russian Ruble		64.12	0.1	0	3	3	8
South African Rand		14.93	0.4	-1	2	-5	-4
Turkish Lira		5.66	0.2	1	3	8	-7
EM FX volatility		8.24	0.0	0.0	-1.1	-3.0	-1.5

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

Total EM bond issuance for last week was \$12 bn, down from the week before, with YTD total at \$450 bn. Total corporate bond issuance for last week was moderated to \$11.3 bn from the week before, while sovereign issuance was at \$0.5 bn. The year to date corporate issuance of \$340 bn is approximately 28% more than the 2018 issuance over the same period. From a regional perspective, China was the largest EM corporate debt issuer. \$7.2 bn (64%) of the total corporate issuance for last week were investment grade bonds and \$3.4 bn (30%) were high yield bonds. Last week's sole sovereign issuance was placed by Armenia.



Source: BofA Merrill Lynch Global Research, Bond Radar

Philippines

The Philippine central bank lowered its benchmark interest rate by 25 bps to 4.0% amid benign inflation and softening growth. The overnight reverse repo rate, at 4.0%, has seen three reductions this year. Earlier in the week, BSP governor Diokno lowered the central bank's inflation forecast for 2019 to 2.5%, signaling an impending rate cut as he noted that the bank's goal is to keep inflation within a 2%-4% target band. The August CPI print, at +1.7%, y/y, was the slowest in nearly three years, while growth softened to 5.5%, y/y, Q2, the weakest in more than four years. The peso gained 0.17% against the dollar, outperforming its Asian peers on the day.

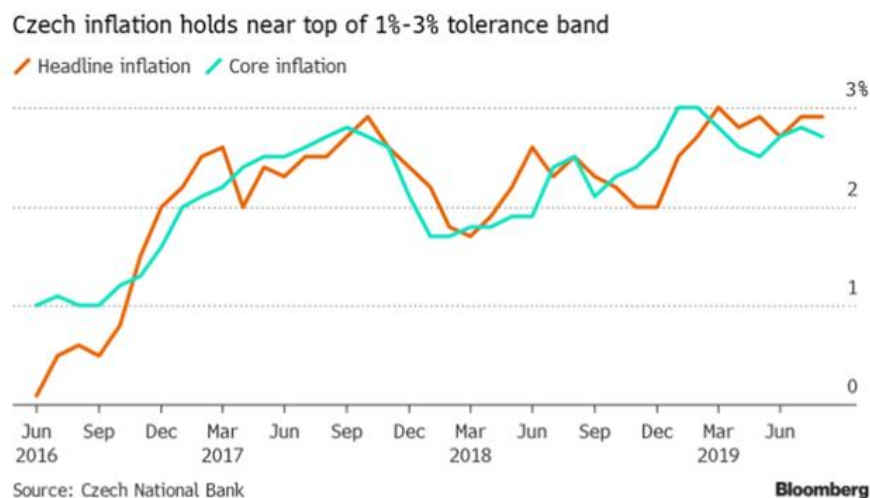
Poised to Reverse Course?

Easing food prices have pressured down Philippine inflation



Czech Republic

The Czech central bank kept interest rates at 2% yesterday, as expected. Governor Rusnok noted that the decision to hold rates had not been straightforward, with some MPC members wanting to raise rates. The CCB has kept rates on hold for three times now, following 8 previous hikes. The outlook for monetary policy going forward remains challenging given opposing forces at play: Inflation remains at the top of the desired target range for the CCB, while global growth is slowing down. **The Czech koruna weakened 0.4% to the euro today.**



Argentina

5 Funds have notified the Emerging Markets Traders Association (EMTA) of a divergence between the official ARS/USD fixing and where the currency can be traded, impacting the settlement of NDF contracts. The funds have noted that in order to actually sell pesos, the prevailing rate is best measured using the blue-chip swap rate instead of the official rate. According to the claimants, the settlement rate (ARS MAE, i.e., the official rate) no longer reflects the prevailing bid and offer rates in a standard size financial transaction for same-day settlement in the Buenos Aires marketplace. If the divergence continues for an additional 30 days, alternative methods of calculating the settlement price will be used.

Widening Gap

Peso blue-chip swap is near record lows after capital controls



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Global Financial Indicators

Last updated: 9/26/19 8:18 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2985	0.6	-1	4	3	19
Europe		3537	0.7	0	6	3	18
Japan		22048	0.1	0	9	-8	10
China		2929	-0.9	-2	2	4	17
Asia Ex Japan		67	-0.1	-1	4	-5	5
Emerging Markets		41	0.8	-1	5	-4	5
Interest Rates			basis points				
US 10y Yield		1.71	9.2	-7	18	-133	-97
Germany 10y Yield		-0.58	-0.7	-8	8	-111	-82
Japan 10y Yield		-0.25	0.9	-3	2	-37	-25
UK 10y Yield		0.54	0.6	-10	6	-105	-74
Credit Spreads			basis points				
US Investment Grade		130	-0.3	0	0	33	-17
US High Yield		454	0.4	10	-30	124	-67
Europe IG		55	-0.4	8	3	-13	-32
Europe HY		228	-3.5	-17	-45	-42	-125
EMBIG Sovereign Spread		346	-2.0	13	-21	-1	-68
Exchange Rates			%				
USD/Majors		99.06	0.0	1	1	5	3
EUR/USD		1.09	-0.1	-1	-1	-7	-5
USD/JPY		107.6	0.1	0	-1	5	2
EM/USD		60.6	0.1	0	1	-2	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-0.1	-3	6	-23	16
Industrials Metals (index)		116	-0.1	-1	3	-4	6
Agriculture (index)		38	0.5	1	2	-9	-8
Implied Volatility			%				
VIX Index (% change in pp)		15.6	-0.3	1.6	-3.7	2.7	-9.8
10y Treasury Volatility Index		5.4	-0.2	0.0	-0.2	1.9	0.8
Global FX Volatility		7.3	0.0	0.0	-1.0	-1.1	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		193	1.6	4	-69	-159	-223
Italy		142	-0.1	2	-57	-92	-108
Portugal		74	0.8	-3	-9	-63	-74
Spain		72	1.2	-4	-8	-28	-45







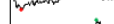

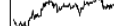



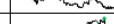
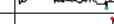

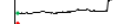
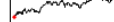










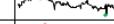










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Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 9/26/2019 8:26 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	
	vs. USD		(+) = EM appreciation					% p.a.						
China		7.13	0.0	-0.4	0	-4	-4		3.1	0.6	1	3	-52	-6
Indonesia		14165	-0.1	-0.7	1	5	2		7.4	3.0	8	6	-96	-74
India		71	0.2	0.6	2	2	-2		6.9	0.8	14	18	-133	-54
Philippines		52	0.1	0.0	0	4	1		4.4	-0.3	-1	-2	-202	-194
Thailand		31	-0.1	-0.3	0	6	6		1.5	1.2	-2	-7	-134	-110
Malaysia		4.19	-0.1	-0.1	0	-1	-1		3.5	-3.7	11	9	-58	-60
Argentina		57	-0.3	-1.0	-3	-33	-34		66.6	19.2	-522	1484	4308	4364
Brazil		4.13	0.5	1.0	1	-2	-6		6.4	-4.4	-13	-26	-375	-174
Chile		724	0.5	-1.1	-1	-8	-4		2.8	1.6	2	11	-201	-165
Colombia		3433	0.1	-1.7	0	-13	-5		5.6	3.0	-4	-5	-97	-87
Mexico		19.53	0.2	-0.4	2	-4	1		7.0	-1.6	-21	-12	-104	-171
Peru		3.4	-0.3	0.0	1	-1	1		4.4	2.7	-1	1	-130	-133
Uruguay		37	-0.2	-0.3	-1	-11	-12		10.6	8.7	-3	-45		-7
Hungary		306	-0.2	-1.6	-3	-10	-9		1.0	4.2	-4	-3	-163	-118
Poland		4.01	-0.1	-1.9	-2	-9	-7		1.8	-1.4	-3	1	-80	-45
Romania		4.3	0.1	-0.9	-2	-8	-6		3.7	-1.0	1	7	-59	-51
Russia		64.1	0.1	-0.2	3	3	8		6.9	-0.7	-3	-18	-146	-155
South Africa		14.9	0.4	-0.8	2	-5	-4		9.4	9.5	13	4	-30	-15
Turkey		5.66	0.2	1.1	3	8	-7		13.8	-28.8	-61	-221	-710	-308
US (DXY; 5y UST)		99	0.0	0.8	1	5	3		1.59	-1.8	-7	17	-135	-92

	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		2929	-0.9	-2	2	4	17		185	-4	2	0	-4	-9
Indonesia		6230	1.4	0	0	6	1		177	3	10	-11	-15	-59
India		38990	1.0	8	4	7	8		125	-6	-6	-18	-42	-71
Philippines		7896	0.0	0	0	9	6		74	4	8	-10	-24	-47
Malaysia		1593	0.2	0	0	-11	-6		122	-4	3	-4	-9	-40
Argentina		28212	1.4	-6	9	-17	-7		2209	-10	88	389	1598	1394
Brazil		104481	0.6	0	8	33	19		233	-3	12	-8	-62	-40
Chile		5006	0.1	-1	8	-6	-2		138	-2	8	0	7	-28
Colombia		1596	0.3	0	5	7	20		180	-4	8	-9	6	-48
Mexico		43014	-0.2	0	7	-13	3		316	-3	4	-39	59	-38
Peru		19392	0.1	-1	4	-1	0		123	2	10	-2	-13	-45
Hungary		40368	-0.5	-1	2	12	3		91	-4	5	-19	-21	-57
Poland		57297	0.4	-1	2	-4	-1		29	-5	7	-9	-16	-56
Romania		9525	0.2	2	5	14	29		185	-8	3	-27	16	-36
Russia		2773	0.5	-1	4	14	17		186	0	4	-31	-45	-66
South Africa		55360	0.9	-2	3	-2	5		332	1	26	2	9	-33
Turkey		102253	-0.4	2	5	3	12		472	-6	-8	-63	18	43
Ukraine		525	0.4	2	0	-2	-6		491	-9	21	-51	-59	-296
EM total		41	0.8	-1	5	-4	5		346	-2	13	-21	-1	-68

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

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