



- Off-balance sheet exposures at US systemic banks climbed to \$4.27 trillion ([link](#))
- New York Fed's term repo auction oversubscribed ([link](#))
- Mexico cut the benchmark interest rate by 25 bps amid economic stagnation ([link](#))
- FTSE Russell opted not to include China in its Global Bond Index ([link](#))
- Malaysia stays on watch list for exclusion from the Global Bond Index ([link](#))

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## Markets edging higher amidst little conviction

There has been little move in markets this morning as investors await developments on several fronts. Equity markets are moving somewhat higher on little news while bond yields are little changed. US markets dipped slightly on Thursday on continued political headlines, with the testimony of the director of national intelligence and release of the whistleblower report. Markets though largely continue to waive off the possibility of large risk that could emanate from the controversy and instead are more focused on potential news on the trade front. Uncertainty continues in the short-term funding market, especially as quarter-end approaches. Despite doubling the size of the NY Fed's 14-day repo auction, it was again oversubscribed. In emerging markets, FTSE Russell announced its latest country classification review for its widely followed Government Bond Index. Despite optimism that it would be included in the near future, China was left off on concerns of market liquidity.

Key Global Financial Indicators

Last updated: 9/27/19 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2978	-0.2	-1	4	2	19
Eurostoxx 50		3546	0.4	-1	5	3	18
Nikkei 225		21879	-0.8	-1	7	-8	9
MSCI EM		41	0.5	-1	5	-5	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.72	-4.5	0	25	-133	-97
Germany 10y Yield		-0.57	1.1	-5	12	-110	-81
EMBIG Sovereign Spread		344	-5	9	-28	-1	-70
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		60.5	0.1	0	1	-3	-3
Dollar index, (+) = \$ appreciation		99.2	0.0	1	1	4	3
Brent Crude Oil (\$/barrel)		61.9	-1.3	-4	4	-24	15
VIX Index (% change in pp)		15.6	-0.5	0	-5	3	-10

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

## United States

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The dollar continued to rally amid ongoing month- and quarter-end demand. It rebounded after losing ground in the NY session yesterday morning amid strong short cover flows, ongoing Fed repo operations, a softer open for U.S. stocks, and the investigation of the whistle-blower complaint against president Trump. The S&P closed down 0.2%, recovering 0.5% off the session lows. Treasury yields were down 2-5 bps across the curve, on persistent political uncertainty and strongly received Treasury supply. Crude moved higher, reversing a fall and ending up 0.5%, after the U.S. announced deployment of support troops and Patriot missiles to Saudi Arabia.

**Among key data releases this morning, durables goods orders grew by 0.2% in August vs 2.0% in July and consensus expectations of a 1% decline.** Ex-transportation, the growth was at 0.5%, vs -0.4% in July and consensus expectations of 0.2%. Additionally, the PCE deflator for August grew 0.1% m/m compared to consensus forecasts of a 0.2% rise. However, the year-on-year rise was in line with expectations at 1.8% due to upward revisions in prior months. Treasury yields fell slightly on the news to unchanged on the day after the 10-year had risen by nearly 2 bps prior to the release.

**The operation for 14-day repurchase agreements on Thursday was oversubscribed --** attracting \$72.8 bn in bids -- even after the NY Fed doubled the maximum size of the offering to \$60 bn. The overnight operation, conversely, attracted just \$50.1 bn of bids, around half the \$100 bn maximum offering. Analysts note that the continued oversubscription of the term repo, reflects the funding concerns going into the quarter-end. Analyst estimates of the amount needed to fix the cracks in the repo market range from roughly \$200 bn to \$500bn. Two former Fed officials also reportedly said that the central bank might need to do \$250 bn of outright Treasury purchases to prevent further pain in U.S. money markets. The NY Fed did not change the maximum size for the operations for Friday.

**Bernstein analysts highlight that the significant outflows from global equity funds (\$246bn) have been swamped by corporate buying.** This could partially explain why global equities are up 16% ytd, despite the outflows per the analysts. Global corporates have announced \$820bn of buybacks ytd (or \$650bn if issuance is netted off). Furthermore, there is another \$1.3tn of total M&A which could have spurred the demand for equities.

EXHIBIT 5: Corporates buy (a lot) more equities than traditional investors: Annual buying of global equities by source (USD bn)

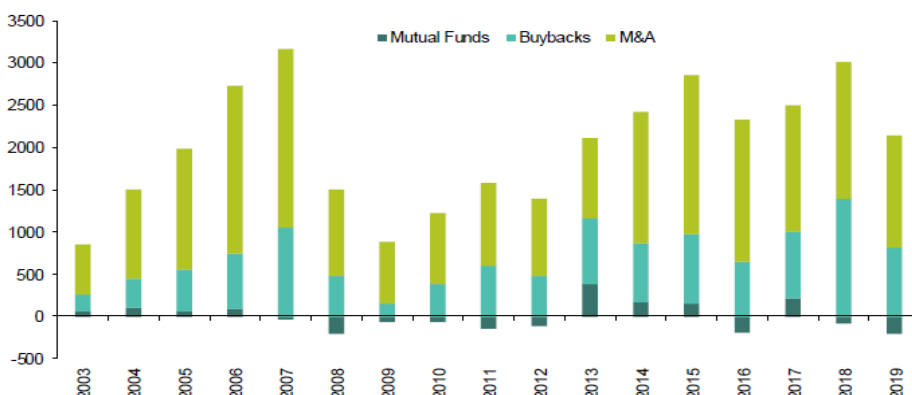
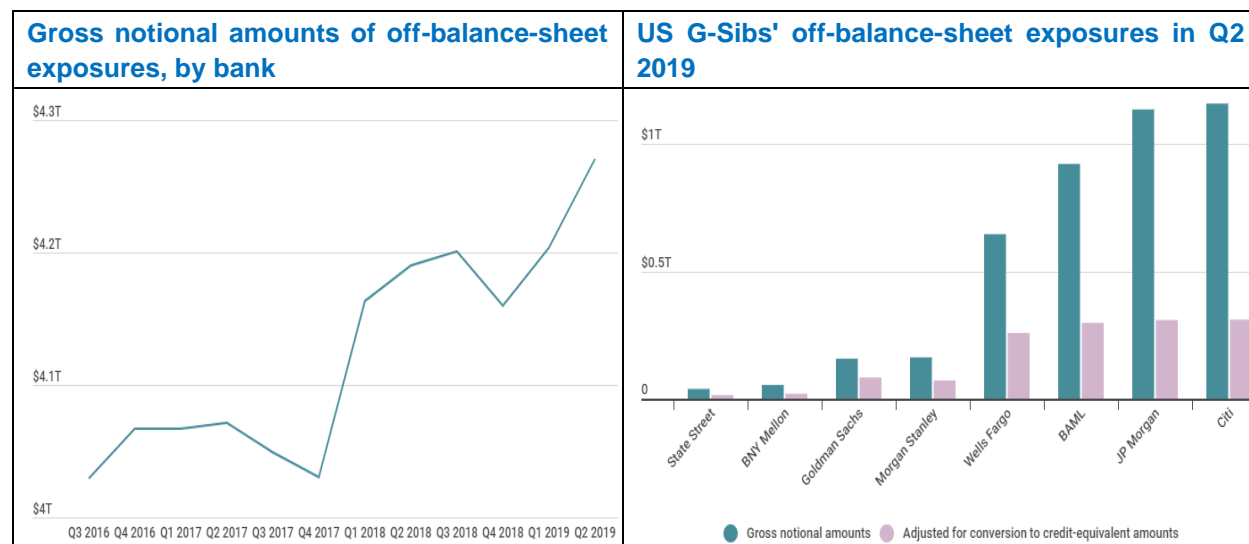


Chart shows annual value of stock buyback announcements, total value of announced M&A deals above USD 500 million which have completed or are pending and total mutual fund and ETF investor flows. All in developed markets.  
Source: US Federal Reserve, Datastream, EPFR global, Bloomberg, Bernstein analysis

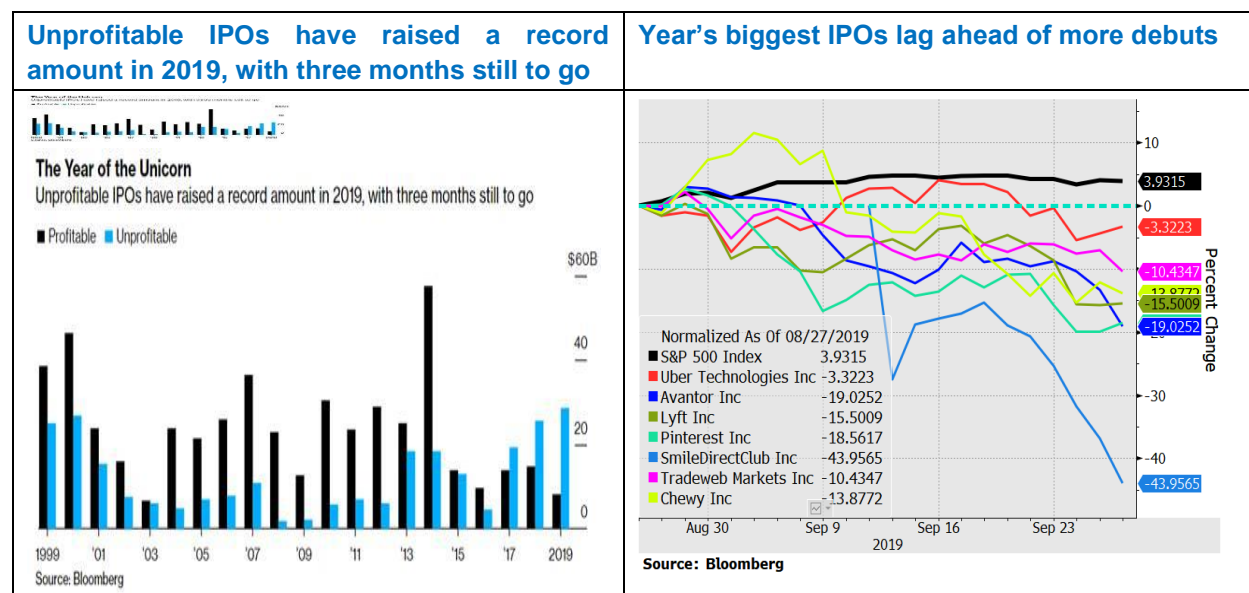
**Off-balance sheet exposures at US systemic banks climbed to \$4.27 trillion, up nearly 2% on the previous quarter.** Bank of America Merrill Lynch saw the largest increase in these exposures, adding \$22.7 bn (2.5%) to \$921 bn. JP Morgan saw an increase of \$17.6 bn (1.6%) to \$1.13 tn on the quarter,

while Citi added \$10.7 bn (0.9%) to reach \$1.16 tn. In contrast, BNY Mellon reported lower exposures on the quarter prior, down \$1.1 bn (2%) to \$54 bn. Off-balance-sheet items accounted for 9.7% of the banks' aggregate leverage exposure, once adjustments for conversion to credit-equivalent amounts were taken into account.



Source: Risk.net; FFIEC 101 reports

**Bloomberg analysis shows that unprofitable companies are raising money in initial public offerings at the fastest pace since the dot-com bubble**, as 107 more firms are slated to go public in 2019. Analysts also indicated that unprofitable IPOs have outperformed the market by an average of 27 percentage points in their first month, since 2017. However, the sentiment seems to have soured recently, as 2019's biggest IPOs have lagged the broader index significantly over the last month.



## Europe

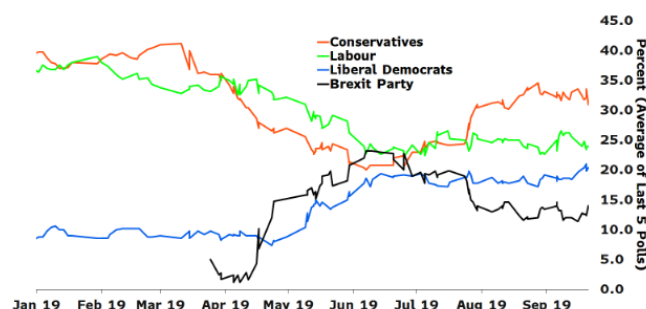
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**Equity markets are poised to close the week in the green.** DAX (+0.5%), CAC 40 (+0.2%), EuroStoxx 600 (+0.4%). Bank stocks (+1.3%) are strongly outperforming, thus reversing most of their poor performance earlier this week.

**Sovereign debt markets are trading steadily again today.** German 10-year yields are at -0.58% (unch.); and French OATs are at -0.28% (unch).

**On the Brexit front,** as the political debate continues, **the Tory party continues to lead in the polls.** Together with the Brexit Party, they would obtain about 45% of voters' support. Separately, **the Federation of Small Business estimates that only 1 in 5 of small businesses are ready for Brexit.** The FSB noted that the large degree of unpreparedness responds to the legal uncertainties still surrounding the possible Brexit outcomes. Various initiatives are emerging to help small companies cope with Brexit. The City of Liverpool is establishing a £15 mn Brexit Resilience Fund to assist small businesses with temporary difficulties. A similar fund exists in Wales, and the British government has given £200 mn to state-owned British Business Banks for Brexit-related loans to SMEs.

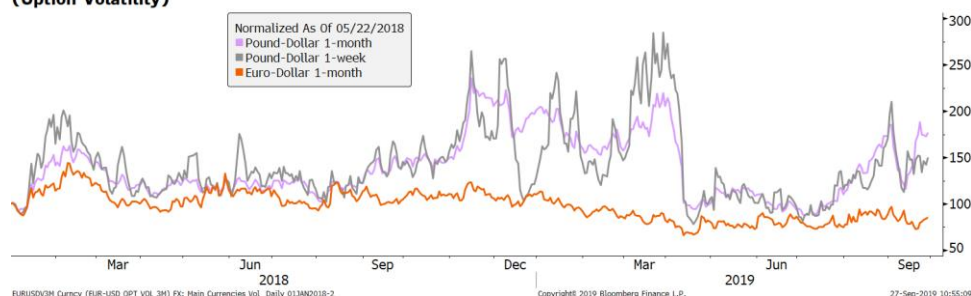
### Conservatives Lead the Polls



Source: Britain Elects, Bloomberg Economics

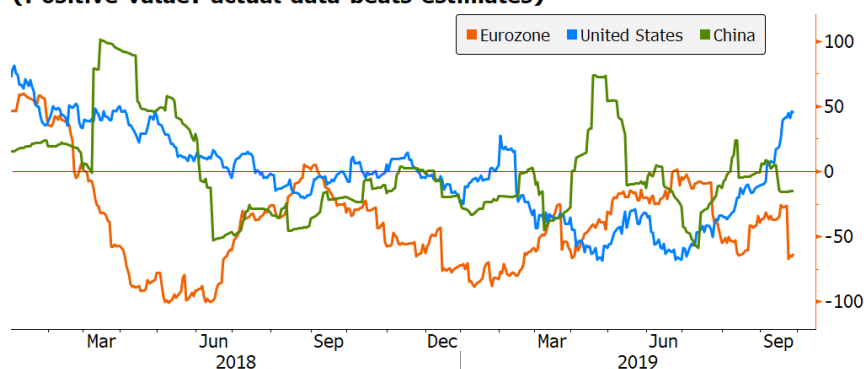
**Sterling traded at \$1.23 (-0.3%) today after MPC member Saunders hinted the BoE may cut rates next.** The euro is at \$1.09 (+0.1%).

### FX Volatility: Major Crosses (Option Volatility)



In macro data, the **European confidence index for Sept. dropped to a four-year low of 101.7**, from 103.1 in August and vs. 103.0 expected. France's consumer spending for August came in at -0.4% y-o-y, vs -0.1% expected. The disappointing readings add to the recent swath of data that has come in below forecasts.

## Economic Data Surprise Index (Positive value: actual data beats estimates)



Source: Citigroup

CESTEUR Index (Citi Economic Surprise Index - Eurozone) Macro: Surprise Index D

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## Other Mature Markets

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### Japan

**The yen held steady while equities fell amid limited trading and a dearth of significant news.** The Topix fell by nearly 1.2% while JGB yields rose as overseas investors sold a record amount of securities last week. Bloomberg reports that a significant cause of the fall in equity prices today is that more than half of the firms in the Topix began trading ex-dividend today (so those purchasing shares today do not have rights for the upcoming dividend payments). According to data from the Ministry of Finance, foreign investors sold ¥3.15 tn (\$29 bn) of JGBs over that period, likely spurred by profit taking as well as local-bond redemptions. JGBs worth ¥21.3 tn matured last week while the yield on the 2-year note had dipped to -0.34%, its lowest level in three years

### Green Finance

**The BIS has launched a USD-denominated open-ended fund for central bank investments in green bonds.** The fund is structured according to Swiss law and will be managed in-house by the BIS. The BIS noted that the goal of this initiative is to “promote green finance through sizeable climate-friendly investments and support the adoption of best market practices to deepen the green bond market.”


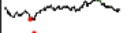
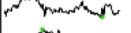


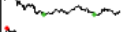
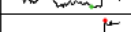


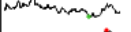
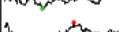

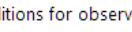

## Emerging Markets

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**Asian currencies were mostly steady while regional equities slipped as political uncertainty in the U.S. limited risk appetite.** The Philippine peso was the outlier, appreciating 0.4% against the dollar, outperforming others. **EMEA stocks** in Turkey (+1.9%), Egypt (+1.9%), and Romania (+1.1%) posted large gains. Bulgaria (-0.7%) and Kuwait (-0.6%), on the other hand, saw the largest losses in the region. Currencies were little changed. **Latin American stocks mostly saw gains yesterday while currencies mostly depreciated against the dollar for a second day.** Brazilian stocks (+0.8%) saw the biggest gains, followed by Chile (+0.4%), while Argentina (-0.2%) saw some losses. Among regional currencies, the Mexican peso (-0.5%) depreciated the most against the dollar for the second day. The Brazilian real (-0.5%) depreciated as the central bank quarterly inflation report sees inflation remaining below target in the next 2 years as it eases monetary policy to help boost a weak economy. The Colombian peso (-0.4%) also weakened against the dollar.



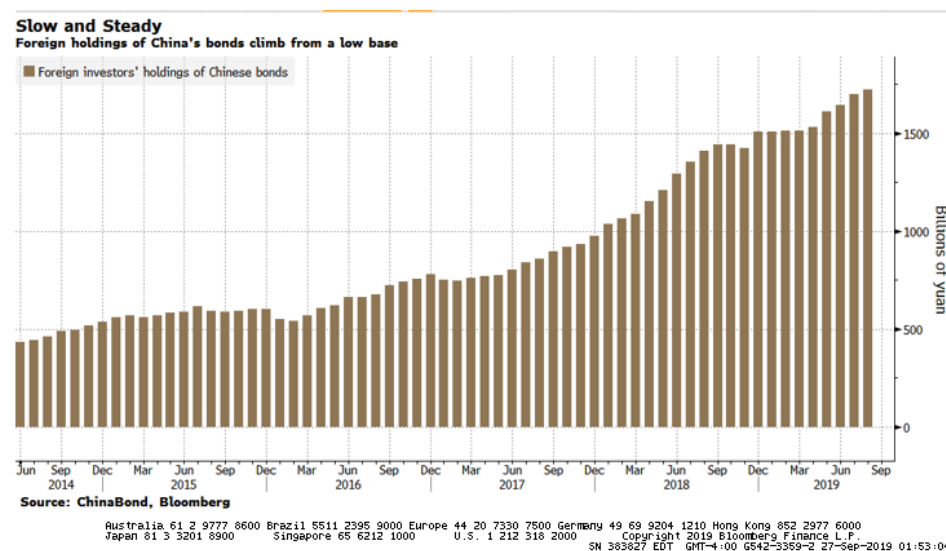
## Key Emerging Market Financial Indicators

Last updated: 9/27/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		41.17	0.5	-1	5	-5	5
MSCI Frontier Equities		28.03	-0.9	1	-2	-2	7
EMBIG Sovereign Spread (in bps)		344	-5	9	-28	-1	-70
EM FX vs. USD		60.48	0.1	0	1	-3	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.13	0.1	-1	0	-3	-3
Indonesian Rupiah		14173	-0.1	-1	1	5	2
Indian Rupee		70.57	0.4	1	1	3	-1
Argentine Peso		57.21	-0.3	-1	-3	-33	-34
Brazil Real		4.16	0.3	0	-1	-4	-7
Mexican Peso		19.62	0.3	-1	2	-4	0
Russian Ruble		64.34	-0.1	-1	3	2	8
South African Rand		15.06	-0.3	-1	2	-6	-5
Turkish Lira		5.66	0.2	2	3	6	-6
EM FX volatility		8.14	0.0	-0.1	-1.0	-2.6	-1.6

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

## China

**FTSE Russell opted not to include China in its Global Bond Index.** FTSE Russell demurred on adding China's domestic debt to its flagship World Government Bond Index, noting that further improvements to bond liquidity, increased flexibility in FX execution and the settlement of transactions are necessary; China will remain on the FTSE's watchlist. In the meantime, Goldman Sachs estimated that China could miss out on \$6 bn to \$7.5 bn of investment inflows on a monthly basis as a result of the exclusion. Currency market reaction was limited with both the onshore and offshore RMB holding steady at around the 7.12/USD level. The 2-year note was similarly unmoved, holding steady at 2.63%.



## Malaysia

**FTSE Russell will keep Malaysia on a watchlist for exclusion from its World Government Bond Index.** Although Bank Negara Malaysia has introduced several initiatives to deepen onshore markets,

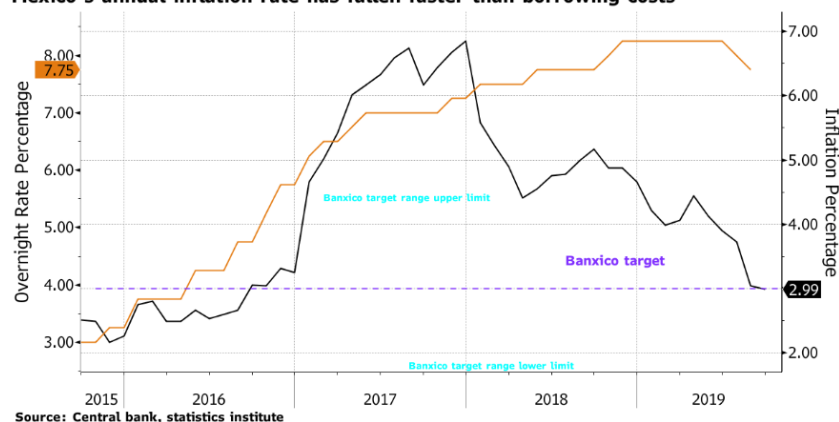
FTSE signaled that more is needed to widen market access. Market observers noted that BNM's ongoing ban on offshore currency trading likely played a role in FTSE's decision, and further currency market liberalization measures are likely necessary. Malaysia's debt and its currency have been under pressure since April, when FTSE first indicated that it may exclude ringgit bonds due to concerns over market accessibility. Earlier in the month, the ringgit weakened to MYR 4.22/dollar, its weakest level in almost 2 years before recovering to the current level of MYR 4.19/dollar. Meanwhile, at 3.36%, the 10-year bond is 167 bps above comparable Treasuries, its widest level in nearly two years.

## Mexico

**Banxico cut its benchmark interest rate by 25 bps to 7.75%, its second consecutive cut. The cut was widely expected by market participants, after inflation slowed to the 3% target amid economic stagnation.** The decision though was not unanimous as 2 of the 5 members voted for a 50 bps reduction. The central bank said that the risks for the economy remain biased toward slower-than-expected growth in the first half of year. The board also said that it will be focused on the currency's impact on inflation, the Federal Reserve, economic slack and cost pressures. Analysts believe the belly of Mexico's peso bond and swaps curves may flatten slightly on the expectation of swifter cuts ahead. The peso maintained its loss following the decision, depreciating 0.5% against the dollar Thursday.

### Inflation and Rates

Mexico's annual inflation rate has fallen faster than borrowing costs



Source: Bloomberg

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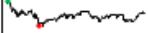




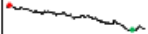
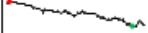
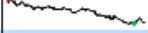





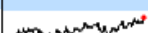

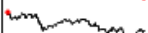

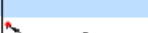


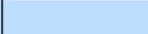



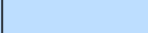
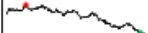

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## Global Financial Indicators

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United States		2978	-0.2	-1	4	2	19
Europe		3546	0.4	-1	5	3	18
Japan		21879	-0.8	-1	7	-8	9
China		2932	0.1	-2	1	5	18
Asia Ex Japan		67	-0.1	-1	4	-6	5
Emerging Markets		41	0.5	-1	5	-5	5
<b>Interest Rates</b>			basis points				
US 10y Yield		1.72	-4.5	0	25	-133	-97
Germany 10y Yield		-0.57	1.1	-5	12	-110	-81
Japan 10y Yield		-0.24	1.1	-3	3	-36	-24
UK 10y Yield		0.51	-0.5	-11	1	-108	-76
<b>Credit Spreads</b>			basis points				
US Investment Grade		130	-0.5	1	-2	33	-17
US High Yield		456	-1.8	9	-30	128	-65
Europe IG		56	0.1	2	6	-11	-31
Europe HY		232	-0.6	15	-34	-34	-121
EMBIG Sovereign Spread		344	-5.0	9	-28	-1	-70
<b>Exchange Rates</b>			%				
USD/Majors		99.16	0.0	1	1	4	3
EUR/USD		1.09	0.1	-1	-1	-6	-5
USD/JPY		108.1	-0.2	0	-2	5	1
EM/USD		60.5	0.1	0	1	-3	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		62	-1.3	-4	4	-24	15
Industrials Metals (index)		115	0.5	-1	3	-3	6
Agriculture (index)		38	0.0	1	2	-9	-8
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.6	-0.5	0.3	-4.7	3.2	-9.9
10y Treasury Volatility Index		5.4	-0.1	0.1	-0.1	2.1	0.8
Global FX Volatility		7.2	0.0	0.0	-0.8	-1.1	-1.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		191	-2.1	3	-61	-161	-225
Italy		141	0.6	-3	-42	-95	-109
Portugal		74	-1.6	-3	-6	-60	-74
Spain		73	-0.3	-3	-5	-25	-45

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: 9/27/2019 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.13	0.1	-0.5	0	-3	-3		3.1	0.2	0	5	-51	-5
Indonesia		14173	-0.1	-0.8	1	5	2		7.4	-0.1	8	5	-94	-74
India		71	0.4	0.5	1	3	-1		6.9	-1.2	13	21	-131	-55
Philippines		52	0.5	0.1	1	4	1		4.4	0.0	-1	-2	-209	-194
Thailand		31	0.0	-0.5	0	6	6		1.5	-0.9	-3	0	-134	-110
Malaysia		4.19	0.2	-0.4	0	-1	-1		3.5	-3.3	2	12	-61	-63
Argentina		57	-0.3	-1.1	-3	-33	-34		66.0	-69.0	-639	1256	4273	4295
Brazil		4.16	0.3	-0.3	-1	-4	-7		6.4	-3.3	-8	-39	-365	-178
Chile		726	0.2	-1.1	0	-9	-4		2.8	0.7	2	10	-201	-164
Colombia		3448	-0.4	-1.8	0	-13	-6		5.6	-1.8	-3	-7	-98	-89
Mexico		19.62	0.3	-0.9	2	-4	0		7.0	-5.5	-16	-22	-102	-176
Peru		3.4	-1.0	-0.9	0	-2	0		4.4	3.2	-1	4	-125	-130
Uruguay		37	0.1	-0.2	-1	-10	-12		10.7	1.9	4	-43		-5
Hungary		307	0.2	-1.2	-3	-9	-9		1.0	2.0	-2	-1	-160	-116
Poland		4.01	0.1	-1.0	-2	-9	-7		1.8	-1.4	-4	6	-78	-46
Romania		4.3	0.1	-0.8	-2	-8	-7		3.7	-5.0	-4	2	-64	-56
Russia		64.3	-0.1	-0.5	3	2	8		6.9	-0.7	0	-19	-149	-156
South Africa		15.1	-0.3	-0.8	2	-6	-5		9.4	-3.6	11	0	-26	-18
Turkey		5.66	0.2	1.5	3	6	-6		13.6	-20.8	-91	-285	-714	-329
US (DXY; 5y UST)		99	0.0	0.7	1	5	3		1.61	2.8	1	23	-135	-90

	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		2932	0.1	-2	1	5	18		185	-3	2	2	-1	-9
Indonesia		6197	-0.5	-1	-1	5	0		180	1	10	-14	-10	-56
India		38823	-0.4	2	3	7	8		129	4	-3	-8	-34	-67
Philippines		7819	-1.0	-1	1	7	5		75	2	5	-16	-23	-46
Malaysia		1584	-0.6	-1	0	-12	-6		123	-1	3	-3	-7	-39
Argentina		28168	-0.2	-7	14	-16	-7		2208	-33	110	205	1618	1393
Brazil		105319	0.8	1	8	-32	20		235	-1	7	-9	-52	-38
Chile		5026	0.4	-1	9	-6	-2		137	-2	6	-2	5	-29
Colombia		1601	0.3	0	5	7	21		181	0	6	-11	13	-47
Mexico		42985	-0.1	0	6	-13	3		317	-3	7	-42	62	-37
Peru		19631	1.2	1	4	0	1		124	1	7	-5	-9	-44
Hungary		40804	0.7	-1	4	12	4		91	2	-1	-22	-21	-57
Poland		57683	0.5	0	3	-3	0		28	-8	2	-13	-17	-57
Romania		9631	1.1	2	4	14	30		192	7	9	-17	20	-29
Russia		2768	-0.2	-1	4	12	17		186	-2	4	-30	-46	-66
South Africa		55292	0.0	-1	3	-1	5		327	-6	16	-6	5	-38
Turkey		104654	2.7	4	9	4	15		459	-12	-24	-75	5	30
Ukraine		525	0.0	1	-1	-3	-6		479	-14	5	-57	-71	-308
EM total		41	0.5	-1	5	-5	5		344	-5	9	-28	-1	-70

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

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