













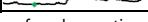
- China's bank non-performing loans hit a record ([link](#))
- Death rates falling in France and Spain despite rising infections ([link](#))
- Brazil reports worst ever GDP contraction ([link](#))
- Russian markets under pressure as political tensions grow ([link](#))
- Turkish lira depreciates to weakest level in history ([link](#))
- Long US Treasury positions at highest in five months ([link](#))
- Small business bankruptcies in US at very low levels despite crisis ([link](#))
- Cyclical sectors hit hardest in US high yield downgrade cycle ([link](#))

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Global rally falters

This week's global rally could come to an end today, as US equity futures point to a pullback from record levels when the market opens, and Chinese markets were hit by news that the US Secretary of State imposed new sanctions. However, Europe is enjoying a second day of strong gains. All week, the US led most global markets higher due to expectations of further central bank support and perceptions that the global pandemic could be receding in many countries. Reports that the US Center for Disease Control (CDC) has told US states to prepare for vaccine distribution by November 1 also supported sentiment yesterday. Treasury and bund yields were little changed but the dollar extended recent gains against the major currencies.

Key Global Financial Indicators

Last updated: 9/3/20 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3581	1.5	3	9	23	11
Eurostoxx 50		3375	1.1	1	4	-1	-10
Nikkei 225		23466	0.9	1	6	14	-1
MSCI EM		45	-0.3	0	4	14	1
Yields and Spreads			bps				
US 10y Yield		0.65	0.5	-10	10	-80	-126
Germany 10y Yield		-0.48	-0.4	-7	5	23	-29
EMBIG Sovereign Spread		412	1	-4	-23	58	119
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.3	-0.1	1	0	-8	-10
Dollar index, (+) = \$ appreciation		93.0	0.2	0	-1	-6	-4
Brent Crude Oil (\$/barrel)		43.5	-2.1	-4	-1	-25	-34
VIX Index (% change in pp)		26.2	-0.3	2	2	7	12

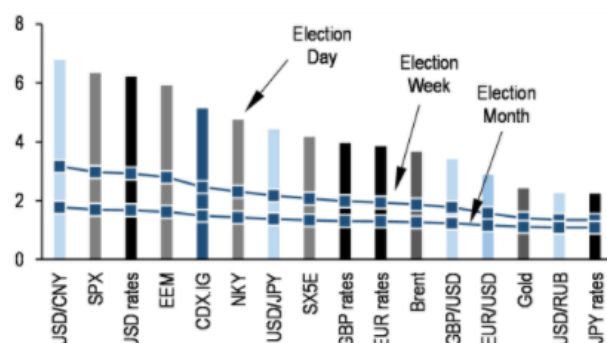
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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US markets continued to set new records, with the S&P 500 registering its largest one day gain in two months. All sectors took part in the rally with out-of-favor sectors such as bank and utility stocks leading the way for a change. Optimism about continued central bank support, hopes of another fiscal aid package, corporate earnings that were better than expected and stronger economic data have all fueled the rally. Markets were also encouraged by news that the CDC told states to prepare vaccine distribution by November 1. However, markets are beginning to price in the chances of a delayed result for the US election, with VIX option prices for the contracts covering November and December at elevated levels.

Excess volatility ratio* on election day inferred from 1- and 3-month ATM implied volatility, pricing as of 8/30/20; unitless



On the data front, the ADP employment report was much weaker than expected (428K jobs added versus the 1000K consensus forecast), although it doubled from the previous month. Moreover, the ADP report and non-farm payrolls in July saw a wide divergence, with payrolls much stronger, so contacts remained relatively sanguine about Friday's upcoming jobs report. Durable goods orders were slightly above forecasts (+114% vs. 11.2%), as were durable goods ex-transportation (2.6% vs. 2.4%), continuing the overall trend of strong US economic data.

This morning's latest US initial jobless claims data came in stronger than expected. Initial jobless claims fell below one million for the first time since mid-March, while continuing claims were slightly lower than expected. The trade deficit was much wider than expected. All eyes are now on tomorrow's eagerly anticipated jobs report, with the consensus forecast calling for 1.35 mn new jobs to be added.

Key US Economic Data 8.30 am EST July 30, 2020

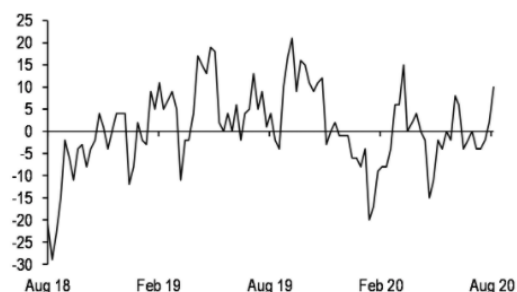
Source: Bloomberg

	Data Print		Consensus Forecast
Initial Jobless Claims	881K		950K
Continuing Claims	13254L		1400K
Trade Balance	-63.6 bn		-58 bn

According to JP Morgan's latest survey, long Treasury positions are at their highest in five months as the dovish Fed reassures markets that interest rates are likely to remain low for a considerable time. If this trend continues, analysts expect the yield curve to steepen modestly through the rest of the year, with the two-year yield forecasted to end the year at 0.20% and the 10-year at 80 bps. The benchmark 10-year Treasury yield has remained very stable, trading within the 0.60%-0.75% range since mid-June. The two-year yield has hovered around 0.12%-0.13% since April. Markets had little difficulty in absorbing the flood of new Treasury issuance, with many recent auctions meeting heavy demand from investors, and interest rate volatility remains very low.

Exhibit 5: ...and long liquidations as our survey had moved to its longest level in 5 months

J.P. Morgan Treasury Client Survey net longs; %



Source: J.P. Morgan

Exhibit 6: We forecast a moderate steepening at the long end over the balance of this year

J.P. Morgan Treasury interest rate rate forecast; %

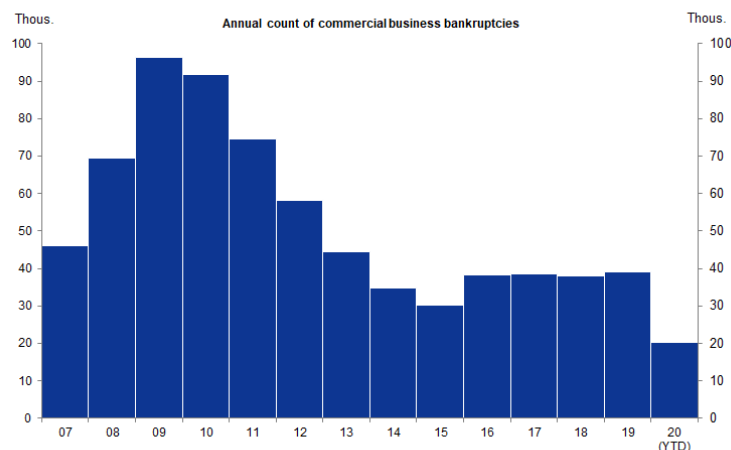
	Actual 28-Aug	1m fwd 28-Sep	4Q20 31-Dec	1Q21 31-Mar	2Q21 30-Jun
Rates					
EFFR	0.08	0.05	0.05	0.05	0.05
LIBOR	0.24	0.25	0.25	0.20	0.20
2y UST	0.13	0.15	0.20	0.20	0.20
3y UST	0.15	0.15	0.20	0.20	0.20
5y UST	0.27	0.30	0.35	0.35	0.35
7y UST	0.50	0.50	0.65	0.70	0.75
10y UST	0.73	0.75	0.80	0.85	0.90
30y UST	1.51	1.55	1.60	1.70	1.75

Source: J.P. Morgan

US small businesses have seen very low levels of bankruptcies this year despite the severity of the economic shock from the COVID-19 crisis. According to the American Bankruptcy Institute, which mainly covers small businesses, 2020 so far has seen lower numbers of bankruptcies than many previous years. According to Goldman, there are two primary causes. First of all, small businesses received much more help from the government than in past recessions. The Paycheck Protection Program (PPP) provided much needed liquidity to these businesses, enabling them to survive despite the economic shock imposed by lockdowns and reduced consumer demand. They did better than many larger companies which were not eligible for the PPP. Although the program ended on August 8, Small Business Administration data show that as of the end of July the PPP approved over \$521 bn in loans, with \$128 bn still available. Within the PPP, most of the lending was to sectors taking the biggest hits in the downturn.

Exhibit 2: By contrast, the pace of bankruptcies among small businesses has remained subdued

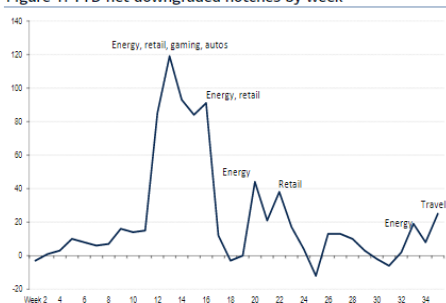
Annual count of commercial business bankruptcies



Source: American Bankruptcy Institute, Goldman Sachs Global Investment Research

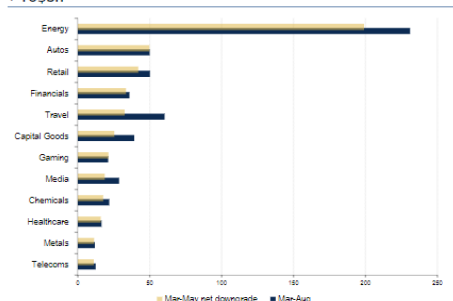
US high yield (HY) downgrades have hit the sectors most impacted by the pandemic. Energy, retail, gaming and autos bore the brunt of the earliest downgrades, while more recently travel companies (mainly cruise lines) are seeing the most downgrades along with energy. Over the period from March to May, there were \$550 bn of downgrades into and within the HY space. Since May, all sectors have seen further downgrades or remain at May levels, with no improvements. CCC issuers are still having trouble getting access to the primary bond market despite record HY issuance over the spring and early summer. However, the credit spread over Treasuries for the HY market as a whole has fallen below 500 bps and CCC spreads finally appear to be turning the corner in recent days. Nevertheless, Bank of America forecasts more CCC defaults in the months ahead as these companies run out of funding. They expect the annual HY default rate for the year to be 6%, down from their earlier forecast of 7% but still high by historical standards.

Figure 1: YTD net downgraded notches by week



Source: BofA Global Research, Fitch, Moody's, S&P

Figure 2: Selected sector net downgraded volume in this cycle, >10\$bn



Source: BofA Global Research, Fitch, Moody's, S&P

Europe

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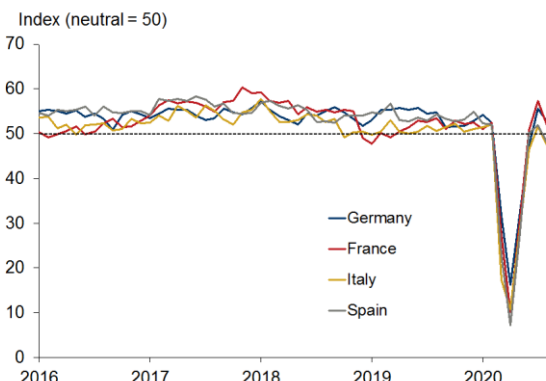
Euro area

European stocks (+1.1%) edged higher, with bank stocks (+2%) outperforming.

France announced its recovery plan “France Relance” for a total of €100 bn (4% of 2019GDP). The plan includes wage subsidies, tax cuts for business and funding for environmental projects.

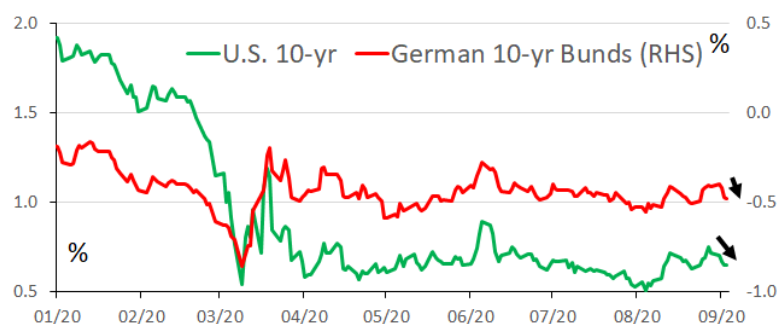
The euro (-0.3% to \$0.1820) edged lower as **August PMIs point to some potential divergence across economies.** Germany's services PMI was better than expected at 52.5 (50.8 expected) but the data disappointed in Italy at 47.1 (49.5 expected) and Spain at 47.7 (48 expected).

Eurozone: Service PMIs



Source: Oxford Economics/IHS Markit

10-yr bund yields (at -0.48%) are little changed but have reversed last week's increase to -0.40%.

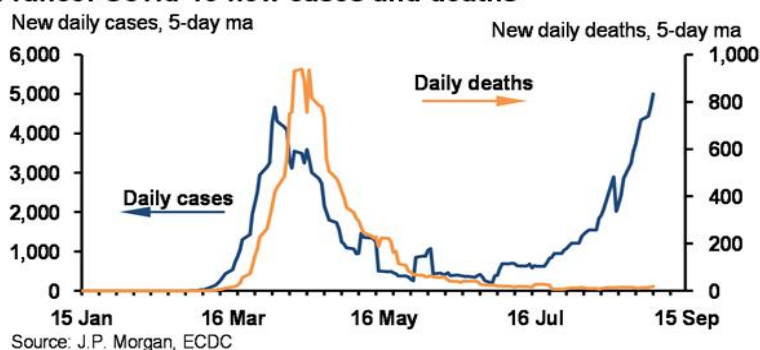
Core Rates trade lower in September

Source: Bloomberg and IMF staff

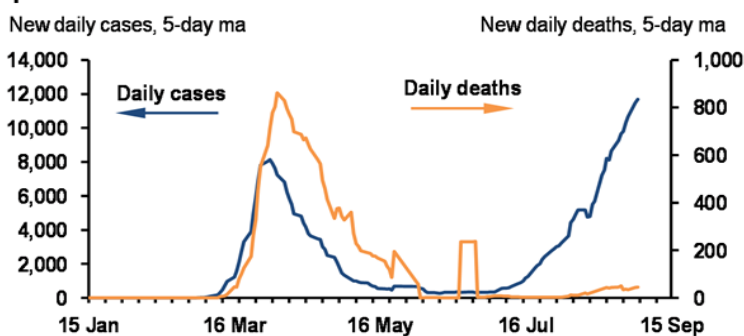
Italian and Spanish spreads were steady as services PMI slid back into contractionary territory in August.

Greek 10-yr spreads are also unchanged at 161 bps after rising 10 bps in the past 5 days after **Greece raised €2.5 bn euros in a syndicated tap of a bond due June 2030**, priced at a yield of 1.187%.

Analysts point out that new infections are close to or above the spring peak in France and Spain, but that fatalities have barely picked up. The case fatality rate—daily deaths divided by daily cases—in the March-May period was 18.5% in France and 11.2% in Spain. The most recent readings for August are 0.4% in France and 0.4% in Spain. J.P. Morgan sees several reasons why morbidity and mortality are much lower now than they were back in the spring. First, increased testing helps to identify milder and asymptomatic cases. Second, older individuals appear to be self-shielding now, reflecting a recognition of their greater vulnerability, with a dramatic decline in the average age of newly infected individuals. Finally, improved treatment of seriously ill patients has reduced the mortality rate for those that are hospitalized.

France: Covid-19 new cases and deaths

Source: J.P. Morgan, ECDC

Spain: Covid-19 new cases and deaths

Source: J.P. Morgan, ECDC

United Kingdom

The British pound (-0.5%) fell as media headlines signal no progress on Brexit discussions, with EU chief negotiator Barnier saying that he is “worried and disappointed.”

U.K. shares (+0.7%) traded higher but underperformed European equities.

10-yr U.K. gilt yields fell 7 bps in September, in line with global markets. Yesterday, BoE Deputy Governor Ramsden said that the BOE has the capacity to increase the pace and size of its bond-buying program if needed.

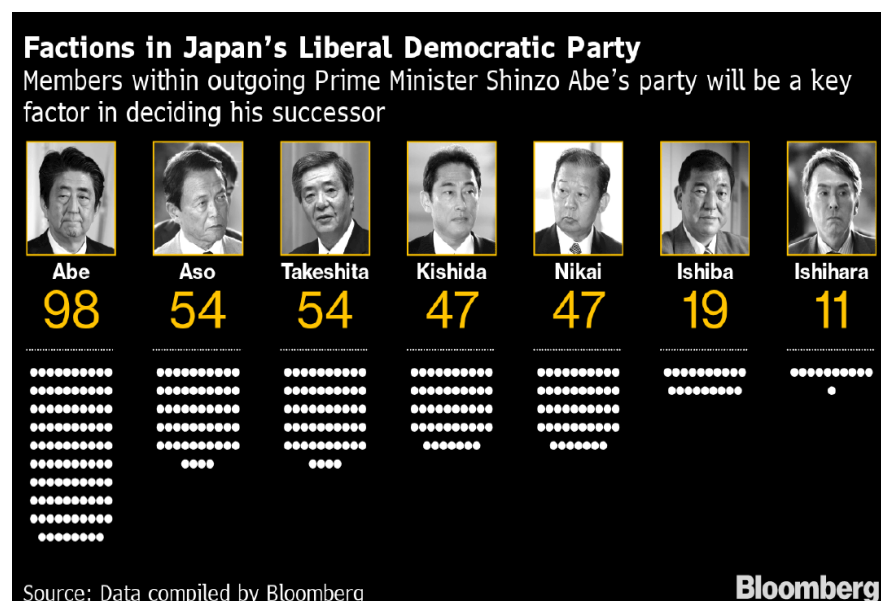
Other Mature Markets

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Japan

Yoshihide Suga, leading the race for Japan’s Prime Minister job, vowed to keep Abenomics in place.

Suga, Chief Cabinet Secretary, appeared to have racked up an almost insurmountable lead over his two declared rivals for a party election set for September 14. The party election will be based on an expedited voting system that favors lawmakers. Suga has secured support from five of LDP’s seven biggest factions, excluding those led by Ishiba and Kishida, bringing his tally to 276 votes, enough to secure leadership of the ruling party. Market analysts noted that any sign of a departure from the path of Abenomics could send the yen surging and stocks sliding, triggering a re-evaluation of the outlook for the nation. Market reactions have been positive so far. **PMI readings for August remained in a contractionary territory**, with composite at 45.2 (up from 44.9 in July), services at 45.0 (unchanged), and manufacturing at 47.2 (up from 46.6). Japanese yen depreciating (-0.1%); equities gained (NIKKEI: +1.0).



Australia

PMI reading for August remained in a contractionary territory. Composite PMI increased to 49.0 (up from 48.8 in July), with services PMI at 49.0 (up from 48.1) and manufacturing PMI at 53.6 (down from 53.9). Equities increased (+0.8%); Australian dollar depreciated (-0.5%).

Emerging Markets

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EMEA equity markets are mixed with and currencies are mostly trading sideways although the lira (-0.7%) is at its weakest ever against the dollar. **Asian stock markets were mixed today, and currencies were weaker.** China also lower in reaction to new sanctions from the US. **In Korea**, the government will announce a plan for a second cash handout as early as September 6. This will target mom-and-pop store owners, jobless people, and people suffering from floods. **In Thailand**, the currency has weakened on equity fund outflows due to concerns about policy disruptions and political instability, with net foreign sales for five consecutive days. **In India**, PMI composite increased to 46.0 in August from 37.2 in July, still in a contractionary territory. **Latin American equity markets** were mixed on Wednesday and local currencies were mostly unchanged, except for the Brazilian real (+1%).

Key Emerging Market Financial Indicators

Last updated: 9/3/20 8:15 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		45.18	-0.7	0	4	14	1
MSCI Frontier Equities		25.94	0.4	3	7	-10	-15
EMBIG Sovereign Spread (in bps)		412	1	-4	-23	58	119
EM FX vs. USD		55.30	-0.1	1	0	-8	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.84	0.0	1	2	5	2
Indonesian Rupiah		14778	-0.2	-1	-1	-4	-6
Indian Rupee		73.48	-0.6	0	2	-1	-3
Argentine Peso		74.32	-0.1	-1	-2	-25	-19
Brazil Real		5.37	-0.5	4	-1	-22	-25
Mexican Peso		21.77	0.0	2	4	-8	-13
Russian Ruble		75.32	0.0	-1	-3	-11	-18
South African Rand		16.77	0.3	2	3	-10	-17
Turkish Lira		7.44	-0.7	-1	-7	-23	-20
EM FX volatility		11.29	0.0	0.2	0.6	2.4	4.7

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

Brazil

Brazil's real GDP reported a record contraction of 9.7% qoq in 2020Q2 (-9.2% consensus) on Tuesday, as the coronavirus-related lockdowns and restrictions have negatively impacted economic activities. In annual terms, the economy fell 11.4% yoy in the second quarter, and the main drags were household consumption and investment. According to reports, the central bank forecasted 2020 GDP to fall 5% and expected the economy to rebound 4% in 2021. Markets didn't react much to the data. The real posted gains for two consecutive days, and the real implied volatility was mostly unchanged.

Record Plunge

Brazil's economy shrinks on effects of virus outbreak



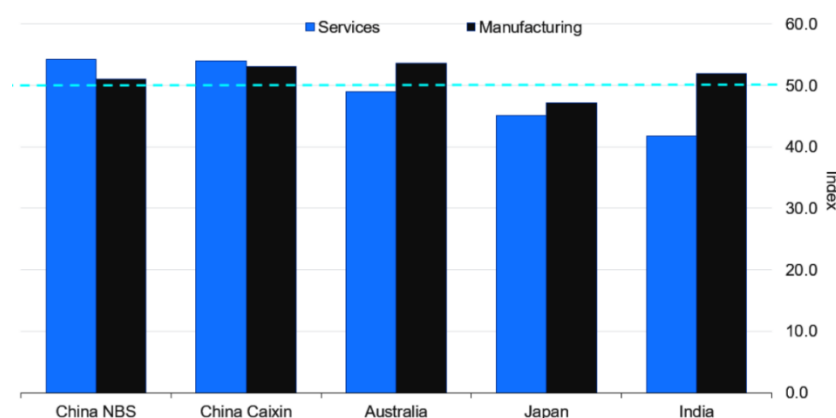
Source: Brazil statistics institute
*12-month accumulated

Bloomberg

China

Caixin services PMI dropped marginally to 54.0 in August from 54.1 in July. The August reading was slightly better than market expectations. Among major economies in Asia, China is the only country that still sees services PMI in an expansionary territory. The rise in new COVID-19 cases has hurt domestic activity in other countries as lockdown or containment measures were reintroduced and as consumers voluntarily opt for social distancing. Equities declined (CSI 300: -0.6%); Chinese yuan was little changed.

Asia Manufacturing Vs Services PMIs



Source: Bloomberg.

Chinese banks' nonperforming loans (NPLs) hit a record 2.7 tn RMB (\$395 bn, or 1.5% of total loans).

Chinese banks' profits fell as they made additional provisions for growing NPLs. The amount of provisions made by Chinese banks were larger than those made by U.S. and European banks. At the same time, Chinese banks' ability to build buffers by making money has been severely constrained. To prop up the economy, authorities called on banks to forgo 1.5 tn yuan (\$220 bn) in profits by providing cheap financing, deferring payments, and increasing lending to struggling small businesses. As a result, banks' capital ratios declined, driven by both falling net income and the expansion of their balance sheets. Share prices of Chinese banks have significantly underperformed the Chinese market index year-to-date.

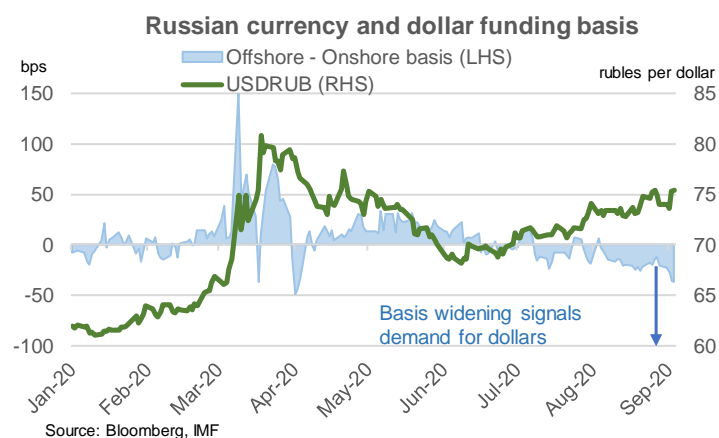
Colombia

The central bank published the minutes from the Aug. 31 MPC meeting on Tuesday. At that meeting, the central bank cut its policy rate by 25 bps to a record low of 2%. The minutes highlighted the improvements in global financial conditions and the further decline in the current account deficit. However, the authorities also acknowledged that there is little room for additional rate cuts while reiterating that future decisions will depend on new information. Analysts expected this easing cycle to end soon. Both equity and currency markets showed an upward trend recently.

Russia

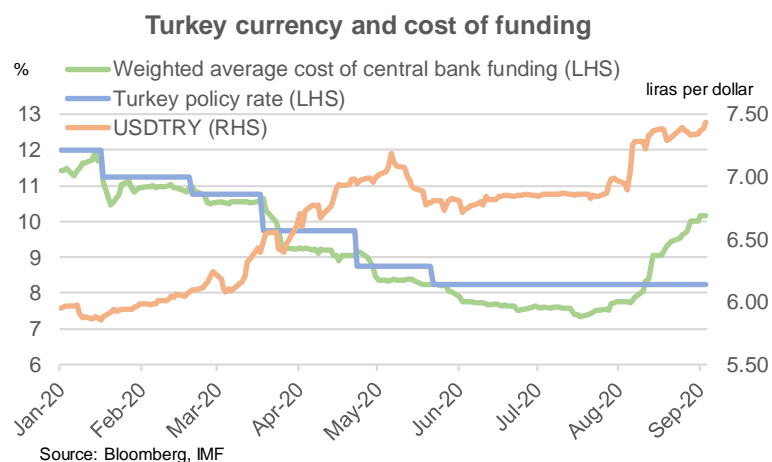
Valuations came under pressure as Germany reported that the opposition leader Alexey Navalny was poisoned by the military-grade nerve agent Novichok. The same nerve agent was at the center of the 2018 poisoning in Salisbury (UK) and triggered a long-lasting diplomatic conflict between the UK and Russia. Market contacts are primarily concerned with the potential implications for the Nord Stream 2 gas

pipeline project from Russia to Germany. Germany's NATO allies including the U.S. as well as Chancellor Angela Merkel's own party members have called for the project to be reviewed until an investigation is carried out in Russia. **The equity market sold off by 1.7% and the ruble depreciated by 2% after the headlines but have managed to stabilize this morning.** The bond market reaction was more muted with local 10-year government bond yields 16 bps higher and international bond credit spreads widening by around 6 bps. **Contacts suggest that the news had a disproportionately big effect on the currency market as the onshore dollar liquidity situation continues to show signs of deterioration** as is evident from the widening of the basis between onshore and offshore cost of ruble funding.



Turkey

August inflation numbers came roughly in line with consensus with headline at 11.77% yoy, unchanged from the July reading, while core inflation accelerated by 78bps to 11.03% yoy. **The Central Bank of Turkey's liquidity tightening has pushed the weighted average cost of funding to 10.15%** as of Wednesday, another 40bps increase from last week and 190bps above the main policy rate. **Despite the tightening measures the lira is coming under renewed pressure and depreciating 0.7% to 7.44,** a new all-time high against the dollar. Market contacts suggest that there has been relatively little activity by international investors and the pressure on the currency remains domestically driven. **State banks have reportedly supported the lira this morning, although less decisively than in the past.**





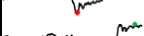


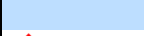


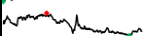
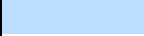








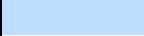










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Global Financial Indicators

Last updated: 9/3/20 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3565	1.5	2	8	23	10
Europe		3373	1.1	1	4	-1	-10
Japan		23466	0.9	1	6	14	-1
China		3385	-0.6	1	1	16	11
Asia Ex Japan		79	0.0	0	5	22	8
Emerging Markets		45	-0.3	0	4	14	1
Interest Rates			basis points				
US 10y Yield		0.65	0.3	-10	10	-81	-127
Germany 10y Yield		-0.48	-0.3	-7	5	23	-29
Japan 10y Yield		0.04	-0.3	0	1	32	5
UK 10y Yield		0.24	1.2	-9	14	-16	-58
Credit Spreads			basis points				
US Investment Grade		123	0.1	-6	-6	-13	26
US High Yield		499	-0.6	-7	-26	8	106
Europe IG		51	0.1	-3	-8	1	7
Europe HY		315	7.7	-6	-47	58	108
EMBIG Sovereign Spread		412	1.0	-4	-23	58	119
Exchange Rates			%				
USD/Majors		93.04	0.2	0	-1	-6	-3
EUR/USD		1.18	-0.4	0	0	8	5
USD/JPY		106.5	-0.3	0	-1	-1	2
EM/USD		55.3	-0.1	1	0	-8	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		44	-2.0	-3	-1	-25	-34
Industrials Metals (index)		118	-1.2	0	4	3	3
Agriculture (index)		38	-0.2	1	6	4	-7
Implied Volatility			%				
VIX Index (% change in pp)		26.3	-0.3	1.8	2.0	6.6	12.5
US 10y Swaption Volatility		52.0	-1.2	-5.8	0.9	-35.0	-10.0
Global FX Volatility		9.1	0.0	0.3	0.2	0.8	3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		160	-0.7	10	-1	-72	-5
Italy		144	-0.8	1	-9	-14	-16
Portugal		82	-0.2	1	-5	-1	19
Spain		80	-0.1	1	-6	-1	15

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: 9/3/2020 8:16 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		6.84	0.0	0.8	2	5	2		3.3	3.2	4	19	16	12
Indonesia		14778	-0.2	-0.8	-1	-4	-6		6.8	2.9	10	-4	-65	-34
India		73	-0.6	0.5	2	-1	-3		6.1	0.3	-15	15	-62	-78
Philippines		49	-0.1	0.1	1	8	4		3.6	0.6	-3	-6	-77	-69
Thailand		31	-0.3	-0.5	-1	-3	-6		1.5	-0.8	4	15	3	-8
Malaysia		4.14	0.0	0.7	2	2	-1		2.4	-2.4	-4	-2	-91	-93
Argentina		74	-0.1	-0.6	-2	-25	-19		44.2	-25.5	-6	109	-1439	-1843
Brazil		5.37	-0.5	3.7	-1	-22	-25		5.5	5.6	-10	52	-140	-77
Chile		771	0.0	2.0	-1	-6	-2		2.5	8.3	4	7	-20	-77
Colombia		3656	0.6	4.9	3	-6	-10		4.9	-5.9	-38	-24	-84	-101
Mexico		21.77	0.0	1.7	4	-8	-13		6.0	-1.1	-9	8	-114	-95
Peru		3.5	-0.3	1.0	0	-4	-6		4.1	6.5	-4	16	-29	-42
Uruguay		43	-0.1	0.3	0	-14	-12		8.2	3.8	-3	-54	-304	-270
Hungary		303	-0.3	-0.6	-3	-1	-3		1.7	1.7	4	22	67	52
Poland		3.75	-0.6	-0.5	0	6	1		0.8	-0.7	-3	8	-88	-107
Romania		4.1	-0.4	-0.2	0	5	4		3.4	0.0	-12	-35	-26	-60
Russia		75.3	0.0	-0.5	-3	-11	-18		5.8	10.4	-4	22	-115	-36
South Africa		16.8	0.3	1.6	3	-10	-16		10.0	2.3	-14	-12	67	48
Turkey		7.44	-0.7	-1.1	-7	-23	-20		13.0	-0.6	-76	83	-247	128
US (DXY; 5y UST)		93	0.2	0.0	-1	-6	-3		0.25	-0.2	-6	3	-108	-144

	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		4817	-0.6	2	1	25	18		212	0	5	0	23	36
Indonesia		5281	-0.6	-2	5	-16	-16		222	3	13	-7	35	66
India		38991	-0.2	0	6	7	-5		212	-5	-3	-23	73	87
Philippines		5773	0.6	-3	1	-26	-26		137	-1	12	8	53	71
Malaysia		1515	-1.4	-2	-4	-5	-5		146	0	-2	-11	21	34
Argentina		44878	-3.6	-2	-15	94	8		2161	5	17	36	-352	392
Brazil		101911	-0.3	1	-1	2	-12		303	1	-15	-20	58	88
Chile		3815	1.7	-2	-3	-19	-18		174	1	3	-5	38	41
Colombia		1258	0.2	3	11	-19	-24		243	1	-12	-4	62	80
Mexico		37054	-1.2	-2	-1	-11	-15		451	1	-14	-42	116	159
Peru		18487	-1.0	1	5	-4	-10		149	0	0	3	28	42
Hungary		34874	1.3	-2	1	-11	-24		128	-1	8	-25	18	42
Poland		51455	0.2	-2	0	-9	-11		24	-2	4	-12	-20	6
Romania		9080	0.8	2	8	-2	-9		258	-7	-6	-9	46	85
Russia		2936	-0.7	-3	0	6	-4		202	1	9	-11	-3	71
South Africa		55027	-1.5	-3	-1	1	-4		487	0	-1	-40	164	167
Turkey		1082	-0.2	-2	-4	9	-5		596	13	-7	-55	76	195
Ukraine		500	0.0	0	0	-5	-2		616	8	-8	-71	124	196
EM total		45	-0.7	0	4	14	1		412	1	-4	-23	58	119

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

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