






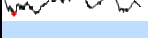






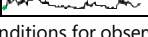
- Trade worries hit markets again ([link](#))
- China's manufacturing activity improves ([link](#))
- FTSE Russel retains Argentina's frontier status ([link](#))
- Turkish banks' funding costs decline ([link](#))
- Puerto Rico makes debt restructuring offer ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Political Developments Weigh on Risk Sentiment

Last week's price action in global financial markets was dominated by political developments, including the opening of an impeachment inquiry against the US President, the UK Supreme Court's ruling invalidating the decision to suspend parliament, and the continued ebbs and flows of US-China trade negotiations. Risk assets traded without clear direction early on but ended the week on a negative note as news about potential US restrictions on capital flows between China and the US weighed on investor sentiment. This followed news that the Trump administration was considering stopping Chinese companies from listing on US exchanges and limiting the exposure of certain US institutional investors to Chinese markets. Although the exact mechanism of doing so was not detailed, investors voiced their concerns about the potentially disruptive effect that this could have on financial markets. Over the weekend, US officials attempted to downplay the risk of any imminent capital flow restrictions on China, but Asian equity markets still traded in overall negative territory this morning, with the Shanghai Composite down by about 1% and the Renminbi continuing its recent slide to 7.14 against the USD.

Key Global Financial Indicators

Last updated: 9/30/19 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2962	-0.5	-1	1	2	18
Eurostoxx 50		3550	0.1	0	4	4	18
Nikkei 225		21756	-0.6	-1	5	-10	9
MSCI EM		41	-0.4	-2	1	-5	4
Yields and Spreads			bps				
US 10y Yield		1.70	-1.2	-3	20	-137	-99
Germany 10y Yield		-0.57	0.4	1	13	-104	-81
EMBIG Sovereign Spread		336	-12	0	-18	-7	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.3	-0.1	0	1	-3	-3
Dollar index, (+) = \$ appreciation		99.3	0.2	1	0	4	3
Brent Crude Oil (\$/barrel)		61.0	-1.5	-6	1	-26	13
VIX Index (% change in pp)		16.9	-0.3	2	-2	5	-8

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

Politics once again takes center stage for world markets this week, as countries such as the US, UK and Israel face greater uncertainty and the trade war continues to simmer. The highlight of the data schedule in the US will be Friday's non-farm payrolls report, with the consensus forecast calling for a gain of 140K jobs and average hourly earnings a gain of 3.2% annualized. The durable goods order on Thursday could also move markets, as could tomorrow's ISM data. In the euro area, today's unemployment data will be followed by the latest readings on euro area CPI tomorrow. Key PMI data will come out on Thursday. In the UK, housing data come out tomorrow and the latest PMIs are due tomorrow and Wednesday. Central bank meetings will be held in Australia (tomorrow), Poland (Wednesday) and India (Friday).

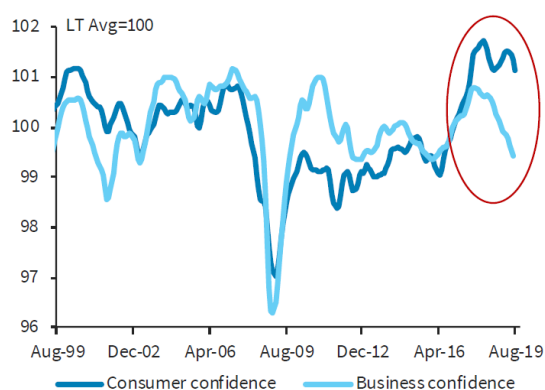
United States

[back to top](#)

The ebbs and flows of the US-China trade war continued to dominate markets on Friday. Stocks gave up early gains and fell into negative territory on news that the administration was mulling putting limits on US investments in Chinese markets, and bond yields went down. Contacts worried that such a move would mark a significant escalation beyond the tariff measures already announced. Tech stocks such as Alibaba were especially hard hit. Analysts noted that the goal of the US administration is still unclear. They also emphasized that such restrictions on capital flows would be difficult to implement in practice. Nevertheless, the mere prospect of such restrictions being put in place is serious cause for concern given that: (1) the market capitalization of Chinese companies trading in the US is about \$1.2 trillion, (2) China accounts for 2.4% of the Global Aggregate bond index or \$1.4 trillion, and (3) Chinese firms represent over 30% of the Bloomberg Barclays EM Corporates Index.

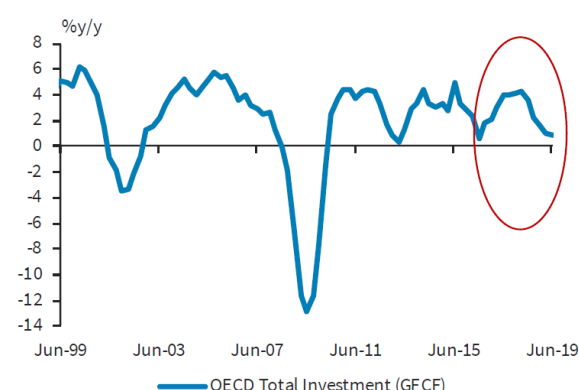
However, over the course of the week, the market moves were relatively small. The S&P 500 was less than 1.2% lower and the Treasury yield curve saw a mild bull steepening as the two-year yield fell 6 bps and the ten-year yield declined by 3 bps. The VIX was quiet for most of the week. Meanwhile, the University of Michigan consumer sentiment index was stronger than expected (93.2 versus 92.1). This is the latest in a string of data showing that US consumers remain upbeat despite the fall in business confidence reported in multiple surveys. Business investment has also been on the decline as growing worries impact longer term business planning.

FIGURE 3
Large gap between consumer and business confidence...



Note: Data for OECD and six non-members. Source: OECD, Haver Analytics, Barclays Research

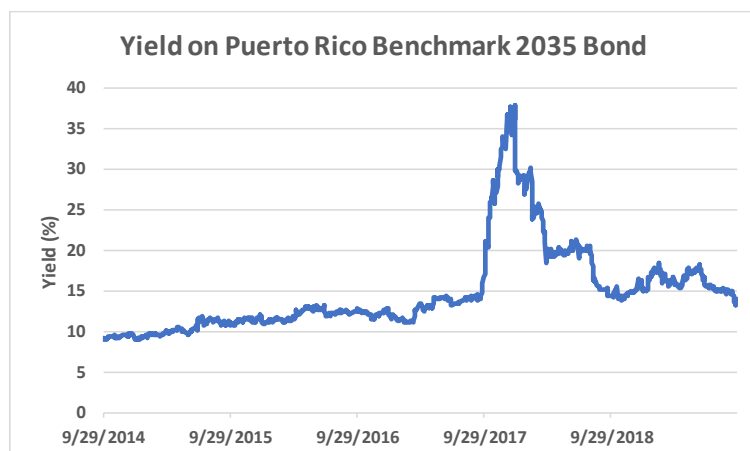
FIGURE 4
...is also reflected in low investment activity



Source: OECD, Haver Analytics, Barclays Research

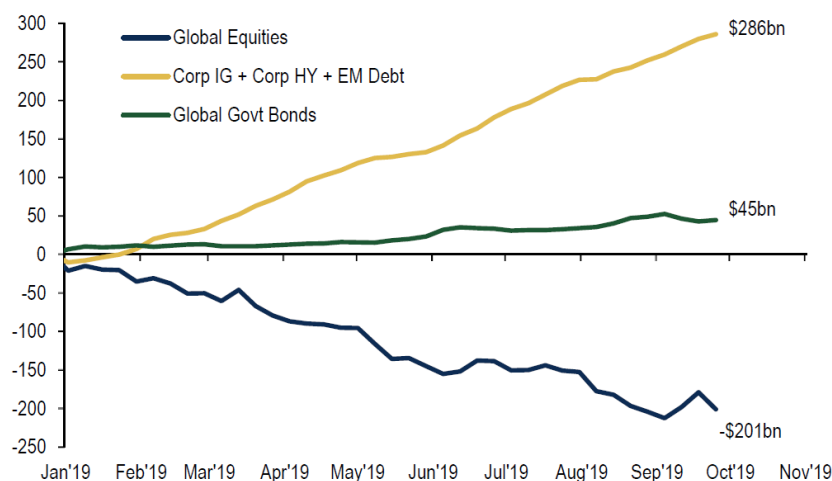
Puerto Rico's Financial Oversight Management Board (FOMB) of Puerto Rico presented a plan to write down \$35 bn of the territory's debt to \$12 bn and restructure part of the \$50 bn in pension liabilities for its public employees. The response from the market in defaulted Puerto Rico bonds was relatively muted, and the benchmark 2035 bond yield was slightly lower. The restructuring offer under the

FOMB plan for this bond is a 65% reduction of principal, indicating that the recent trading price of 60 cents on the dollar could be too high. Press reports indicated that some bondholders and insurance guarantee companies are likely to contest the plan, and some market participants may be wagering that the eventual outcome will be better for bondholders. Yields on Puerto Rico bonds have been relatively stable since the default in 2016, only spiking up after Hurricane Maria hit the island in 2017. No US state or territory had defaulted since the Great Depression, and the US Congress had to pass a special law (known as Promesa) to allow the island government to declare bankruptcy. The FOMB was created under the auspices of this legislation. Some analysts view Puerto Rico as a test case for other fiscally troubled US states which could attempt similar measures to restructure their debt.



Risk-off flows resumed as markets grapple with increased global political and economic uncertainty. Although stocks are trading close to record levels, sentiment remains weak and investor surveys show that cautious pessimism is the dominant approach. Last week saw \$9.2 bn of flows into bonds while investors pulled \$22 bn out of the equity market, according to Bank of America. Gold has been another favored safe haven investment, attracting \$2.8 bn of inflows. The price of gold recently crossed \$1550, its highest level since 2013, although it has subsequently pulled back below \$1500. So far in 2019 investors have withdrawn over \$200 bn from stocks in favor of perceived safer investments. Bank of America's sentiment indicator shows that investors are "extremely bearish."

Chart 1: Risk-off flows resume



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global.

Europe

[back to top](#)

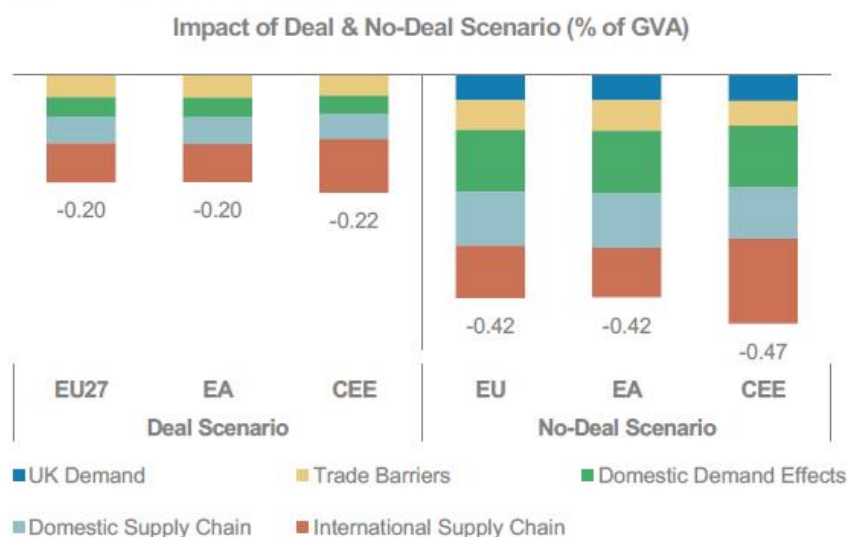
Equity markets are slightly higher: DAX (+0.1%), CAC 40 (0.2%), EuroStoxx 600 (0.1%). Bank stocks (1.1%) are strongly outperforming after Draghi said that the ECB can do more to boost inflation and reiterated calls for fiscal policy to be more supportive.

Sovereign debt markets: German 10-year yields at -0.56% (+1 bp); French OATs at -0.26% (+1 bp). According to local newspapers, the **Italian government is aiming for a deficit of 2.1%-2.3% of GDP in 2020** as it will seek to pass a €30 bn budget in parliament. Italian bonds traded in line with European peers today: 10-year yields at 0.83% (+1 bp).

In the UK, the Conservative party will meet Monday through Wednesday for its annual conference. **On the Brexit front,** the secretary of the exchequer Sajid Javid declared yesterday that no Brexit is worse than no-deal Brexit and that the government would be “thinking about a fiscal and other economic policy response” in case of a no-deal Brexit. News outlets speculate that Mr. Javid will disclose a £16.6 bn “no-deal guarantee” to compensate business, universities, and charities for the shortfall of EU grants, among other measures. The chancellor also pointed to possible forthcoming measures by the independent BoE. Separately, last week, MPC member Michael Saunders said that the BoE could cut rates if Brexit uncertainty continues. **The pound traded 0.2% stronger to the dollar** today, at \$1.23, while **gilt yields were unchanged across the maturities:** 2-year at 0.39%; 10-year at 0.50%.

Researchers at Morgan Stanley estimate **the cost of a no-deal Brexit at about 2% of GDP for the UK and 0.4% for the EU.** A deal outcome would have costs of 0.8% and 0.2%, respectively.

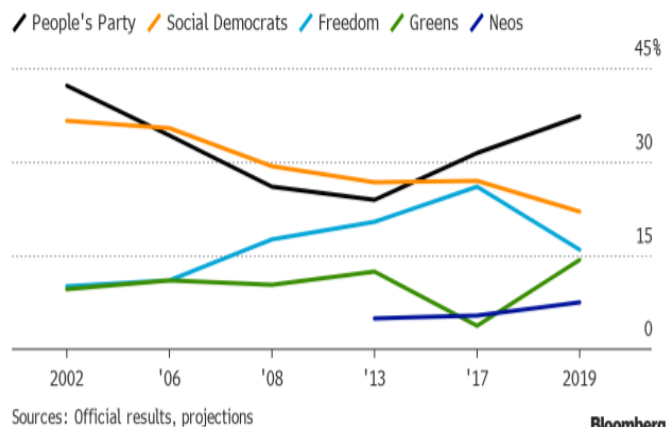
Exhibit 1: A no-deal Brexit could reduce euro area GDP by ~0.4% over one year, more or less twice as much as the impact of a deal Brexit once a trade arrangement is in place



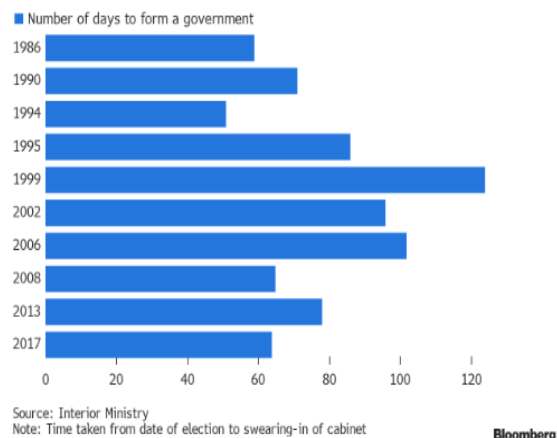
Source: WIOD, Morgan Stanley Research calculations; Note: The EU and EA aggregates show the weighted effect on GVA in the respective member states; the CEE aggregate shows the weighted effect on GVA in Bulgaria, Croatia, Poland, the Czech Republic, Hungary, Romania, Estonia, Lithuania, Latvia, Slovakia and Slovenia.

Austrian voters granted a resounding victory to conservative leader Sebastian Kurz. Support for the People's Party reached about 38% in yesterday's general election (from 31.5% in 2017), while the Socialists lost 5 percentage points to 21.5%. Despite Kurz's victory, political analysts expect a drawn out process before a new government is in place.

Fragmented Austrian parliament makes forming a government a challenge



It usually takes months for Austrian parties to agree on a coalition



Other Mature Markets

[back to top](#)

Japan

Equities (-1.0%) fell amid US-China trade uncertainties and poor Japanese data. Japan's industrial production fell -1.2% m/m in August, from +1.3% m/m in July, missing expectations of +0.5%. This was the second decline in three months, with steel, flat-panel making equipment and cars contributing the most to the drop. Separately, the Bank of Japan (BoJ)'s summary of opinions for the September monetary policy meeting showed that the nine-member board debated the feasibility of boosting stimulus. Some mentioned the need to communicate that the BoJ is considering all policy measures, including cutting the short-term policy interest rate, lowering the target level of 10-year JGB yields, expanding asset purchases, and accelerating the expansion of the monetary base. **The yen was little changed while 10-year JGB yields rose 2.2bps to -0.23%.**

Emerging Markets

[back to top](#)

Asian equities were mixed, with a small loss on net across the region (-0.1%). China (Shanghai -0.9%; Shenzhen -1.1%) led losses following a report that the Trump administration is considering ways to limit US investors' portfolio flows into China. Korea (+0.6%) and Hong Kong (+0.5%) outperformed. In **EMEA**, equities were mostly down but by less than 0.5% in most bourses: Bulgaria (-0.5%), South Africa (-0.4%), Hungary (-0.3%). Saudi Arabia (+0.7%) bucked this trend and posted gains despite a 1.2% drop in Brent prices (at \$61.2/barrel). Currencies in Asia and EMEA were stable. **Latin American** markets weakened slightly last Friday on the back of political uncertainty in the US and a decline in oil and some agricultural prices. Equities edged lower in Brazil, Colombia, and Mexico, but rose in Chile on higher copper prices. Currencies traded in narrow ranges. Government bond yields were, on average, little changed, except a 200+ bp decline in the Argentine 2-year USD bond yield. Some analysts expressed skepticism about potential US capital measures on China, though some market segments weakened.

Key Emerging Market Financial Indicators

Last updated: 9/30/19 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.64	-0.4	-2	1	-5	4
MSCI Frontier Equities		28.01	-0.1	0	-3	-2	7
EMBIG Sovereign Spread (in bps)		336	-12	0	-18	-7	-78
EM FX vs. USD		60.32	-0.1	0	1	-3	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.14	-0.3	0	0	-4	-4
Indonesian Rupiah		14195	-0.2	-1	0	5	1
Indian Rupee		70.87	-0.4	0	1	3	-2
Argentine Peso		57.33	-0.2	-1	-2	-31	-34
Brazil Real		4.16	0.1	0	1	-3	-7
Mexican Peso		19.70	0.0	-1	2	-5	0
Russian Ruble		64.90	-0.3	-2	3	0	7
South African Rand		15.19	-0.4	-2	0	-6	-6
Turkish Lira		5.65	0.5	1	3	5	-6
EM FX volatility		8.20	1.0	-0.1	-0.7	-2.2	-1.6

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

China

Equities (Shanghai -0.9%; Shenzhen -1.1%) declined after reports that the Trump administration is mulling ways to restrict US investor exposure to China. The fall came amid thin liquidity ahead of the week-long National Day holiday. According to Bloomberg, hawks in the White House are considering a potential ‘financial decoupling’ of the US and China. Options reportedly include imposing limits on investments in Chinese markets by US public pension funds and capping the value of Chinese companies included in indexes managed by US firms. Another deliberation was to stop Chinese companies from listing on American exchanges, even though this was denied by US Treasury assistant secretary for public affairs, Monica Crowley in a statement over the weekend. Chinese state media, The Global Times, responded that US investment curbs would “have significant repercussions for the Chinese and US economies, as well as their companies, in the future.”

Separately, China’s manufacturing activity improved and beat expectations, despite being in contraction for the fifth straight month. The official and private Caixin/Markit manufacturing purchasing managers’ indices (PMI) rose to 49.8 and 51.4 in September, respectively, from 49.5 and 50.4 in August, higher than analysts’ estimate of 49.6 and 50.2. The improvement was driven by an uptick in output, new orders and new export orders.

Steady Charge

Domestic Chinese financial assets held by overseas entities



Argentina

FTSE Russell decided to retain Argentina's frontier status because of capital controls, based on Bloomberg reporting. The index provider removed the country from its secondary EM watchlist after the imposition of capital controls by the government in early September. FTSE Russell said that the country has a history of capital controls and to be considered for an upgrade in its status Argentina, has to lift capital controls and assure the index provider that it will not introduce them again. Separately, Bloomberg analysts noted that there are positive factors which could ease the economic cost of Argentina's adjustment. First, Argentina has reportedly done half its external and fiscal rebalancing. Second, the wedge between the official exchange rate and the blue-chip rate swap (a proxy for the currency in the absence of capital controls) is smaller than it had been during the Kirchner administration (figure). Third, easy global financial conditions support capital flows which may reach Argentina if there is a market-friendly reform agenda.

ARS Artificially Low Since Capital Controls

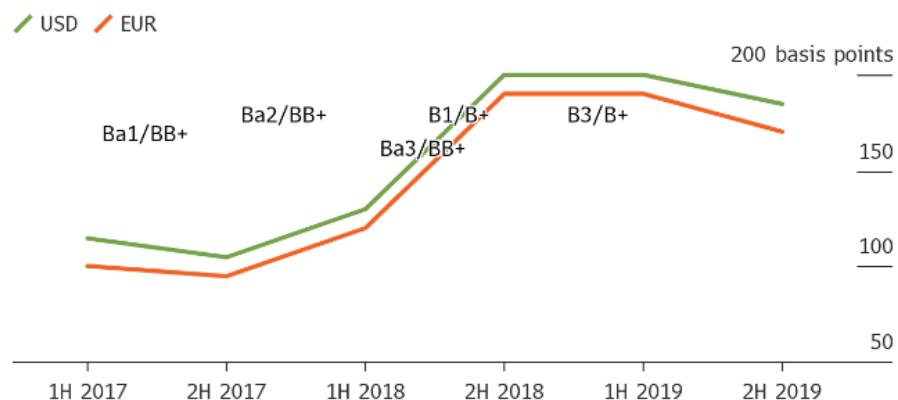


Source: Bloomberg

Turkey

A strengthening lira, lower global rates, and the progressive clean-up of banks' balance sheets is lowering the cost of borrowing for Turkish banks. The recent effort by local financial authorities to push banks to reclassify \$8 bn-worth of NPLs is having a positive effect on banks' costs of funding, according to analysts. Such improvements are also being reflected in Turkish sovereign CDS costs, which have come down about 150 bps since early June this year. Nonetheless, the lower funding costs also respond to increasingly aggressive search for yield by global investors, as the interest rate outlook in advanced economies becomes dovish again.

Turkish banks pay lower rates on debt even with worse credit ratings



Note: Based on average margin of 367-day loans for Akbank, Isbank, TEB, Vakifbank. Credit ratings are from Moody's, S&P and Fitch

Bloomberg

Sovereign Ratings

In rating news, last Friday, **S&P upgraded Ukraine's sovereign rating to B** (from B-) thanks to the nation's improving economic and fiscal outlooks. **Fitch Ratings upgraded Serbia's rating to BB+** from BB and cut **Saudi Arabia's rating** by one notch to A on rising geopolitical risks, both with “stable” outlooks. **Moody's changed the outlook on Slovakia to ‘stable’** from ‘positive’ as the country's performance is lagging that of its peers.

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Global Financial Indicators

Last updated: 9/30/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2962	-0.5	-1	1	2	18
Europe		3550	0.1	0	4	4	18
Japan		21756	-0.6	-1	5	-10	9
China		2905	-0.9	-2	1	3	16
Asia Ex Japan		66	-1.4	-2	1	-7	4
Emerging Markets		41	-0.4	-2	1	-5	4
Interest Rates			basis points				
US 10y Yield		1.70	-1.2	-3	20	-137	-99
Germany 10y Yield		-0.57	0.4	1	13	-104	-81
Japan 10y Yield		-0.21	2.2	-1	6	-34	-22
UK 10y Yield		0.49	-1.1	-6	1	-109	-79
Credit Spreads			basis points				
US Investment Grade		128	-0.9	0	-6	31	-19
US High Yield		459	-2.0	12	-23	131	-62
Europe IG		56	-0.2	1	7	-11	-31
Europe HY		236	1.7	12	-17	-38	-117
EMBIG Sovereign Spread		336	-12.0	0	-18	-7	-78
Exchange Rates			%				
USD/Majors		99.27	0.2	1	0	4	3
EUR/USD		1.09	-0.3	-1	-1	-6	-5
USD/JPY		108.0	0.0	0	-2	6	2
EM/USD		60.3	-0.1	0	1	-3	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-1.5	-6	1	-26	13
Industrials Metals (index)		116	0.4	-1	1	-4	6
Agriculture (index)		38	0.4	0	2	-9	-8
Implied Volatility			%				
VIX Index (%, change in pp)		16.9	-0.3	2.0	-2.0	4.8	-8.5
10y Treasury Volatility Index		5.3	-0.1	-0.3	0.1	2.0	0.8
Global FX Volatility		7.2	0.1	-0.1	-0.9	-1.0	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		192	1.2	0	-41	-180	-224
Italy		139	-0.4	-2	-31	-128	-111
Portugal		74	-0.2	-2	-9	-67	-74
Spain		73	0.3	0	-8	-30	-45

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 9/30/2019 8:08 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.14	-0.3	-0.4	0	-4	-4		3.1	0.7	1	5	-49	-5
Indonesia		14195	-0.2	-0.8	0	5	1		7.4	-3.9	5	-3	-94	-78
India		71	-0.4	0.1	1	3	-2		6.9	-0.8	2	23	-128	-56
Philippines		52	0.1	0.7	1	4	1		4.4	0.1	-1	2	-208	-194
Thailand		31	0.2	-0.3	0	5	6		1.5	0.0	-3	2	-133	-110
Malaysia		4.19	0.0	-0.2	0	-1	-1		3.4	-5.1	-7	8	-66	-68
Argentina		57	-0.2	-1.2	-2	-31	-34		65.2	-80.3	-317	1017	4146	4214
Brazil		4.16	0.1	0.2	1	-3	-7		6.4	-1.7	-2	-48	-360	-179
Chile		726	0.1	-0.6	0	-10	-5		2.9	2.8	5	14	-198	-162
Colombia		3460	-0.3	-1.3	0	-14	-6		5.6	2.4	0	-7	-93	-87
Mexico		19.70	0.0	-1.1	2	-5	0		7.0	5.0	-6	-20	-92	-171
Peru		3.4	0.1	-0.7	0	-2	0		4.4	0.7	-1	5	-126	-129
Uruguay		37	0.0	-0.3	-1	-10	-12		10.7	0.0	2	-19		-5
Hungary		307	-0.2	-0.7	-2	-9	-9		1.1	2.8	3	12	-157	-114
Poland		4.01	-0.2	-0.5	-1	-8	-7		1.8	-0.5	-4	14	-80	-47
Romania		4.4	-0.2	-0.8	-1	-7	-7		3.7	0.0	-3	-1	-65	-56
Russia		64.9	-0.3	-1.6	3	0	7		6.9	0.3	1	-18	-142	-156
South Africa		15.2	-0.4	-1.9	0	-6	-6		9.4	0.1	4	4	-18	-18
Turkey		5.65	0.5	1.3	3	5	-6		13.4	-23.1	-112	-286	-669	-352
US (DXY; 5y UST)		99	0.2	0.7	0	4	3		1.57	1.1	-3	19	-138	-94

	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		2905	-0.9	-2	1	3	16		186	1	2	-1	3	-8
Indonesia		6169	-0.4	-1	-3	3	0		184	0	17	-2	-1	-52
India		38667	-0.4	-1	4	7	7		134	5	-1	-4	-28	-62
Philippines		7779	-0.5	-1	-3	7	4		77	-1	10	-6	-19	-44
Malaysia		1584	0.0	-1	-2	-12	-6		123	-3	3	-1	-6	-39
Argentina		28878	2.5	-4	17	-14	-5		2157	0	-5	-376	1536	1342
Brazil		105078	-0.2	0	4	32	20		237	-2	8	-5	-49	-36
Chile		5100	1.5	1	6	-3	0		139	0	5	5	15	-27
Colombia		1585	-1.0	-1	2	5	20		183	-2	8	3	16	-45
Mexico		42858	-0.3	-2	1	-13	3		317	-1	4	-16	60	-37
Peru		19750	0.6	2	3	1	2		132	-1	16	9	0	-36
Hungary		40705	-0.5	0	2	10	4		96	1	4	-13	-14	-52
Poland		57133	-0.9	0	1	-3	-1		31	-1	4	-9	-16	-54
Romania		9590	-0.1	0	4	14	30		194	2	8	-24	22	-27
Russia		2751	-0.3	-1	0	11	16		191	1	13	-18	-40	-61
South Africa		54844	-0.7	-3	-1	-2	4		325	-3	11	5	4	-40
Turkey		105501	0.3	5	9	6	16		463	-2	-16	-67	10	34
Ukraine		525	0.0	1	0	-2	-6		506	4	26	-1	-43	-281
EM total		41	-0.4	-2	1	-5	4		336	-12	0	-18	-7	-78

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

[back to top](#)