







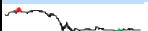






- EU inflation data surprise to the downside ([link](#))
- VIX futures continue to price higher around, and after, US election date ([link](#))
- US bank and corporate credit markets offer diverging risk assessments ([link](#))
- Turkish authorities slash taxes on retail FX purchases and Lira deposits ([link](#))
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Rising political uncertainty further dampens risk sentiment

Risk assets are under pressure today following an arguably acrimonious US presidential debate and amidst news of further stress in the corporate sector. The combative tone of the debate has put investors on edge as they increasingly factor in the possibility of a contested US election. News that Walt Disney will be laying off 28,000 workers in the US – the largest workforce cut since the onset of the pandemic – has further soured market sentiment. European stocks are down by about 0.3% today, while US equity futures are trading 0.5% lower and EM stocks are mixed. 10-Year Treasuries and Bunds are largely unchanged but the US dollar – after losing ground to the majors over the past two sessions – seems to have regained its upward momentum, strengthening by about 0.2% this morning. Meanwhile, the pound is under pressure (-0.2% against the USD) given few signs of progress in the ongoing EU-UK trade negotiations. In EM, the Turkish Lira is on a stronger footing today (+0.4% against USD) on the back of new measures aimed at boosting confidence in the local currency and reducing dollarization pressures.

Key Global Financial Indicators

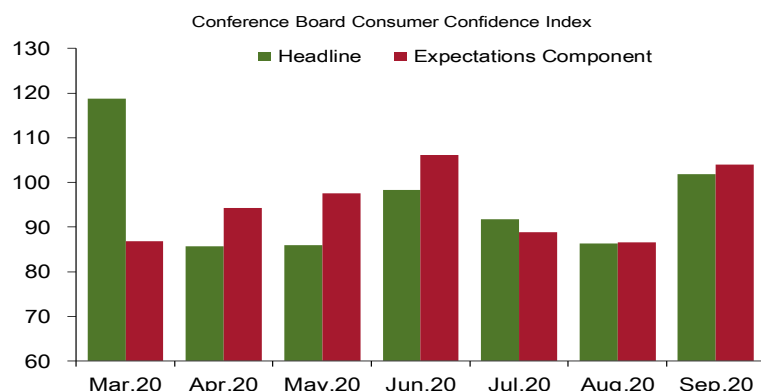
Last updated: 9/30/20 8:33 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3335	-0.5	1	-5	12	3
Eurostoxx 50		3199	-0.5	1	-2	-10	-15
Nikkei 225		23185	-1.5	-1	0	7	-2
MSCI EM		43	-0.1	-1	-3	7	-3
Yields and Spreads			bps				
US 10y Yield		0.64	-0.5	-3	-8	-102	-127
Germany 10y Yield		-0.55	-0.1	-4	-14	3	-36
EMBIG Sovereign Spread		440	3	5	20	102	147
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.2	0.2	0	-2	-10	-12
Dollar index, (+) = \$ appreciation		94.1	0.2	0	2	-5	-2
Brent Crude Oil (\$/barrel)		40.4	-1.6	-3	-11	-34	-39
VIX Index (% change in pp)		26.3	0.1	-2	0	10	13

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

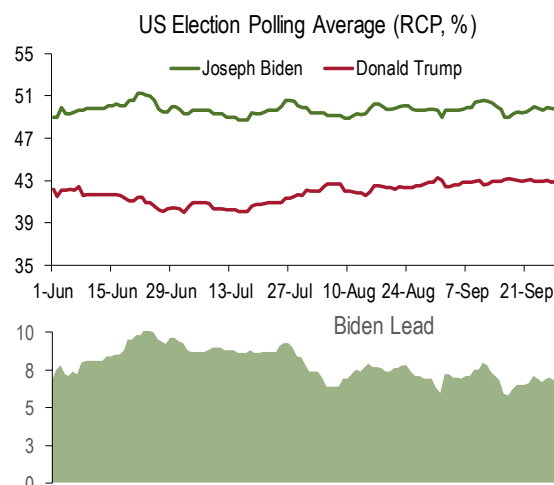
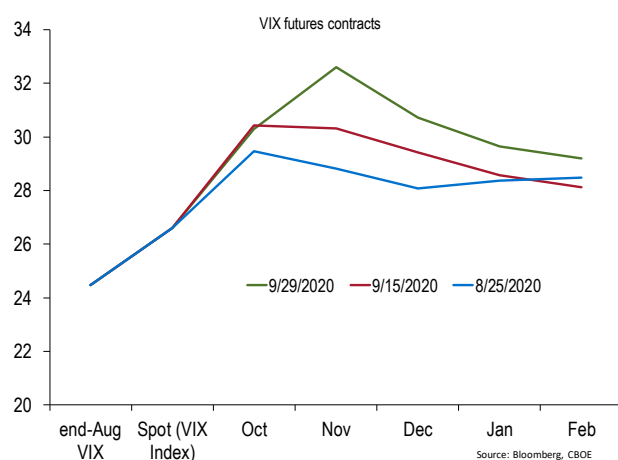
United States

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Equities slipped lower on a relatively quiet day ahead of the first US presidential debate, with the S&P 500 down 0.5% and the Nasdaq 100 losing 0.4%. Treasuries were little changed. **Consumer confidence beat expectations for the best reading since March**, with the Conference Board's headline indicator hitting 101.8 for September (vs consensus 90), up from 84.8. The expectations component was particularly strong at 104, up from 85.2 previously. However, the 2019 average for the headline index was considerably higher at 128.3.

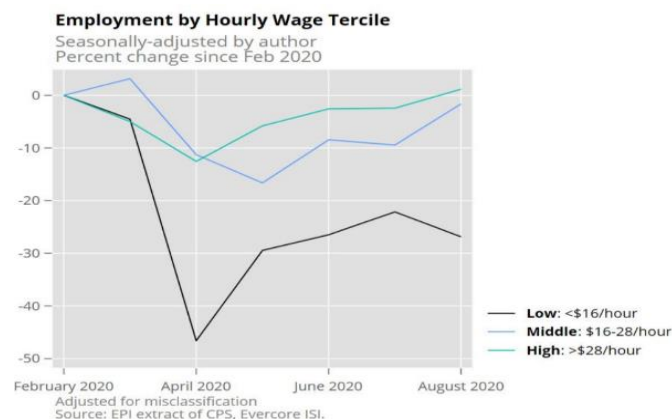
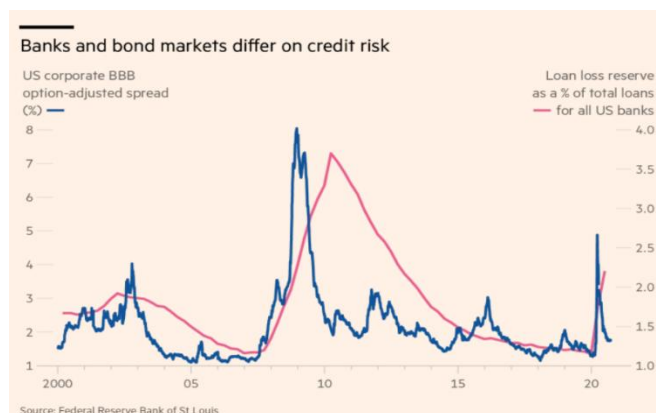


VIX futures continue to price higher around and after the November elections as polls tighten. The “volatility kink” has been more pronounced than during past election cycles, and futures have become more expensive through early 2021 as investors price in greater uncertainty around the aftermath of the election and the mechanics of any transition. Traditionally, risk assets have benefitted as any excess volatility recedes in the interim period after presidential elections once the associated uncertainty has been removed, but the prospect of a contested election (as in 2000) would delay and or prevent such a rally.



Bank and corporate credit markets' risk assessments have diverged. Loan loss reserves have risen by about \$110bn and are now equivalent to 2.2% of loan portfolios at US banks, the highest since the aftermath of the GFC, according to FRED data. Conversely, corporate credit spreads have mostly normalized near long-term averages, though high yield spreads have underperformed a bit. The extraordinary policy support unleashed by the Fed is likely skewing the risk map, easing financial conditions in the corporate sector more directly than for small- and medium-sized enterprises (SMEs). Moreover, risk assessments function differently, as banks are bound by economic models, regulations, and accounting rules, while credit markets eye risk as a relative metric in the search for yield. Even for those banks with

relatively little SME exposure, such as BofA (<10% of its commercial loan book), concerns over consumer-based debt such as credit cards has driven loan provisioning higher regardless. Some analysts remain concerned that evaporating fiscal support and recurring waves of Covid-19 infections have the potential to push the most vulnerable SMEs and consumers past the breaking point in certain segments, with **diverging fortunes among different wage groups becoming more apparent**.

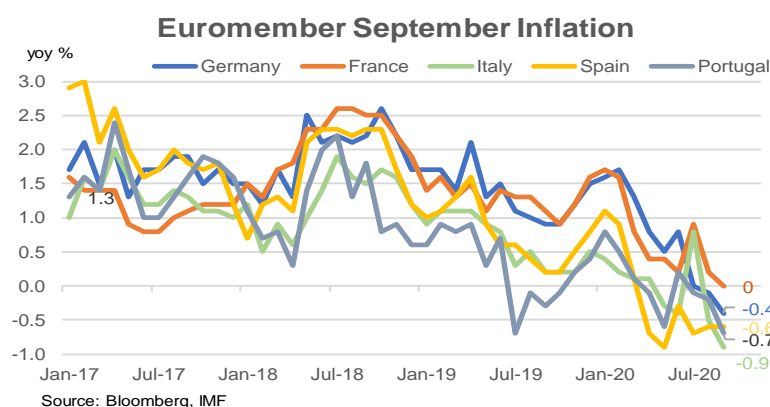


Europe [back to top](#)

Equities in Europe are opening mostly lower with stock markets down in Germany (-0.6%) and France (-0.5%). Information technology (-1.2%) and consumer discretionary (-0.8%) shares are underperforming this morning.

German bund yields are unchanged while the Southern European spreads are 1-2 bps wider from yesterdays close as Germany signals a potential delay in the EU recovery fund on Rule of Law concerns. The euro (-0.3%) and the sterling (-0.3%) are weaker against the dollar on inflation and Brexit-related concerns.

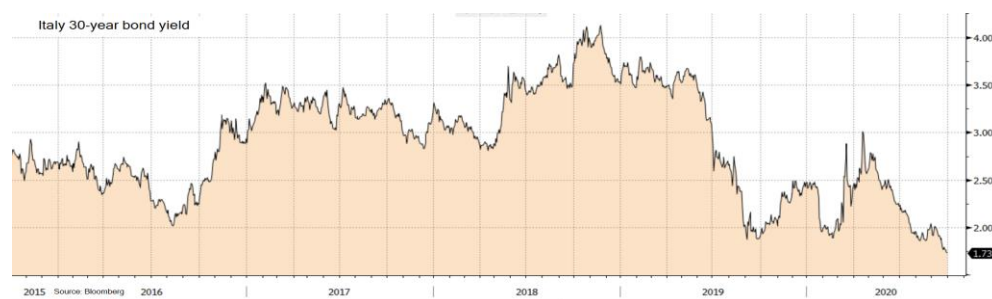
Country level inflation data surprise to the downside. The preliminary September readings suggest that inflation in all major Euro Area members came in below economic consensus and decelerated further to the lowest level in 5-years. Given the limited breakdown of the preliminary data, the extent of the decline in core inflation remains unclear. **Market contacts suggest that the Eurozone aggregate price decline is now more likely to deepen to -0.4% y/y on Friday against the -0.2% earlier market consensus.** The euro (-0.3%), which largely ignored yesterday's German CPI numbers, reacted negatively to the inflation readings this morning as contacts raise the possibility of potential ECB action as early as during its October meeting.



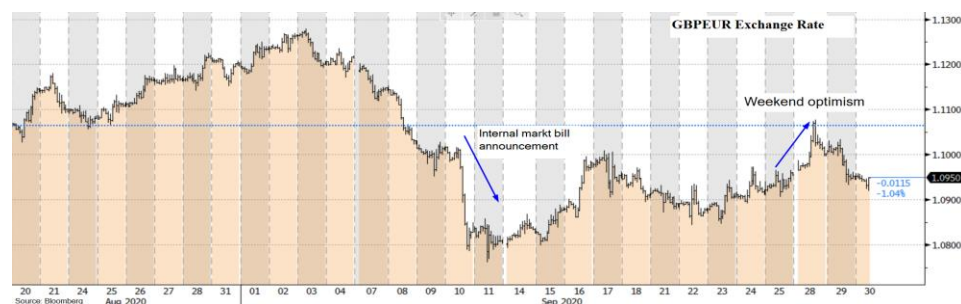
The ECB President signaled that the EU could follow the U.S. in its strategic review and allow inflation to rise above its inflation target in order to compensate for the time that inflation remained below target. If credible, such a strategy could allow the ECB to increase inflation expectations and thereby lower the real interest rates. The euro area market-based inflation expectations have been drifting lower since mid-August as market skepticism grows around both recovery prospects as well as the ECB's urgency in introducing immediate policy action.



The Ministry of Finance of Italy does not expect the deficit to return to 3% until 2023. The 2021 deficit is projected to decline to 7% after hitting 10.8% in 2020. The government expects to receive €209 bn of aid from the EU recovery fund, which should help finance the deficit and reduce its reliance on debt issuance. Contacts suggest that the government's fiscal situation is also supported by current market dynamics, with the yield on Italy's 30-year bond touching an all-time low.



The first day of formal Brexit talks concludes with no further progress on the trade agreement. According to media reports, the EU has rejected the five new draft proposals prepared by the UK ahead of this week's summit. Despite the positive sentiment over the weekend, market contacts are skeptical that an agreement can be reached this week and expect an extension of the self-imposed mid-October deadline. The fade in the optimism was also reflected in the sterling that has now retraced its weekend gains against the euro.



Other Mature Markets

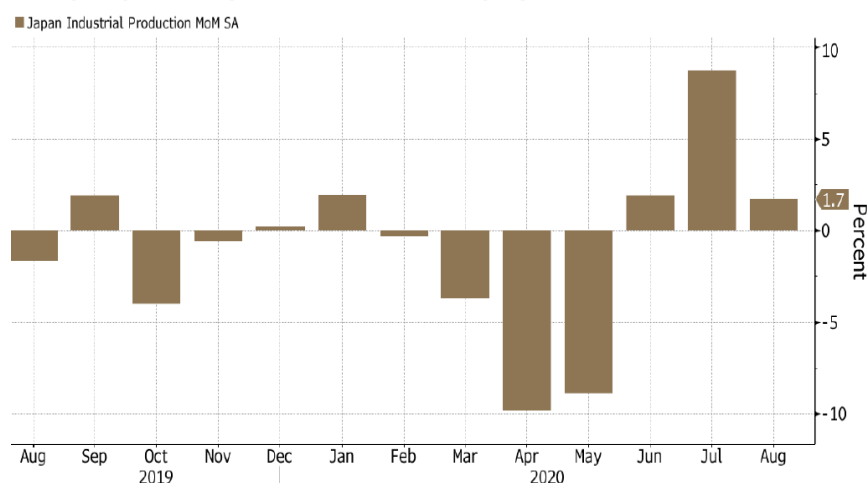
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Japan

Japan's industrial production and retail sales growth in August beat expectations. Industrial production rose by 1.7% m/m in August (versus 1.4% expected) but that was below the 8.7% m/m growth in July. The pickup in industrial production for a third straight month was partly supported by the catching-up of pent-up demand for cars. However, capital goods shipments continued to decline, suggesting that firms were still hesitant to undertake new investment. Retail sales also increased by 4.6% m/m (versus 2.0% expected) and that was up from -3.3% m/m in July. Consumer spending benefited from the government's discount program to boost domestic tourism. Equities fell today (NIKKEI: -1.5%) while the Japanese yen was little changed.

Recovery Gauge

Factory output is a key measure of the economy's performance



Source: Japan's economy ministry

Source: Bloomberg.

Emerging Markets




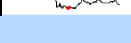
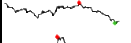



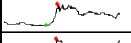



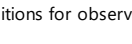

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In Asia, stock markets were mixed today. Equities fell in Thailand (-1.4%), while share prices rose in Korea (+0.9%) and Hong Kong SAR (+0.8%). Most currencies were little changed. The Thai baht depreciated (-0.1%) against the USD, while the Indian rupee appreciated (+0.1%). In Vietnam, the central bank lowered the refinancing rate by 50 bps to 4%.

In EMEA bourses traded mixed again: Russia (-0.3%); Turkey (+0.9%); Poland (-0.7%); Czech Republic (-0.2%). Within the GCC, most stocks advanced, except for Kuwait (-2.2%) following the passing of its ruler yesterday. EMEA currencies mostly weakened to the dollar, by about 0.3% to 0.4%. However, the Russian ruble (+1.0%) and the Turkish lira (+0.4%) both gained, even as tensions in the Nagorno-Karabakh region continue to escalate. The UN Security Council and Russian authorities have called for a de-escalation of the Azeri-Armenian conflict.

In Latin America, equity markets were mostly lower on Tuesday. Brazil underperformed as the equity index fell 1.2%, followed by Chile (-1.1%) and Colombia (-0.9%). Local currencies were mixed but mainly traded in a narrow range. 10-year government bond yields rose 10 bps in Mexico and were generally higher in other countries.

Key Emerging Market Financial Indicators

Last updated: 9/30/20 8:35 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.39	0.4	-1	-3	7	-3
MSCI Frontier Equities		25.53	-1.1	-1	0	-9	-16
EMBIG Sovereign Spread (in bps)		440	3	5	20	102	147
EM FX vs. USD		54.20	0.2	0	-2	-10	-12
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.81	0.1	0	1	5	2
Indonesian Rupiah		14880	0.1	0	-2	-5	-7
Indian Rupee		73.76	0.1	0	0	-4	-3
Argentine Peso		76.12	-0.1	-1	-3	-24	-21
Brazil Real		5.63	0.1	-1	-2	-26	-28
Mexican Peso		22.30	0.7	0	-2	-11	-15
Russian Ruble		78.25	1.0	-2	-5	-17	-21
South African Rand		16.83	0.6	1	1	-10	-17
Turkish Lira		7.78	0.4	-1	-6	-27	-23
EM FX volatility		12.01	0.0	0.0	1.0	3.9	5.4

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

China

China's official PMI further improved in September, exceeding market expectations. Official composite PMI increased to 55.1 in September from 54.5 last month. The manufacturing component increased to 51.5 (up from 51.0) above an expected reading at 51.3, while the non-manufacturing component increased to 55.9 (up from 55.2) above an expect reading 54.7. The **Caixin manufacturing PMI, which is more exports-oriented, was also on the strong side**, with a reading at 53.0 for September (down from 53.1 in August). **Both PMIs suggested that domestic and overseas demand are sustaining China's economic recovery.** New orders, as well as new export orders, improved more than production. For non-manufacturing PMI, the increase was driven by the improvement in services PMI, as construction PMI remained at a strong expansionary level. Equities fell (CSI 300: -0.1%) while the RMB was little changed.

China's PMI: Official and Caixin



Source: Bloomberg.

China set TLAC rules for Chinese G-SIBs. The China Banking and Insurance Regulatory Commission (CBIRC) issued draft rules for public opinions. Chinese G-SIBs would need to meet the TLAC requirements at 16% of risk-weights assets (RWAs) in 2025 and 18% of RWAs in 2028. S&P earlier noted that the four Chinese G-SIBs had an estimated shortfall of 2.25 tn yuan (\$330 bn) to comply with the TLAC rules, and the capital and funding shortfall could rise to 6.51 tn yuan (\$955 bn) by 2024.

Turkey

Turkish authorities have slashed the tax on FX purchases in a bid to boost investor sentiment. The tax on retail purchases of foreign currency—introduced last year—has been cut from 1% to 0.2%. The government has also reduced the withholding tax on deposit accounts in lira in order to support the domestic currency and help stem the steady increase of dollarization in the economy. The lira strengthened 0.5% to the dollar today and stocks advanced 1.1% in Istanbul.

Dollarization

Turks' foreign currency holdings hover near a record high

■ Turkish Residents' FX Holdings



Kuwait

Sheikh Nawaf Al Ahmad Al Sabah has been sworn in as the new ruling emir of Kuwait. Political analysts have highlighted the various economic challenges that Sheikh Nawaf will face, including the highest budget deficit in Kuwait's history and the historically low price of oil. Stocks in Kuwait dropped 2.2% today, underperforming peers in the region.

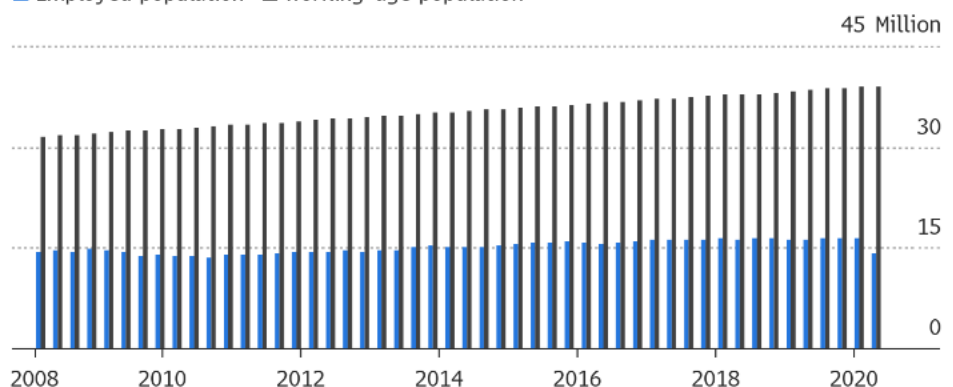
South Africa

Core inflation and job losses increased during the pandemic. The latest CPI data for South Africa show a drop in headline inflation to 3.1% (annual rate) in August, from 3.2% previously. However, core inflation increased to 3.3% y/y from 3.2% the previous month. Separately, the official unemployment rate fell to 23.3% as lockdown restrictions pushed many people out of the labor force. Statistics that correct for people available for work but not looking revealed an unemployment rate of 42% in the second quarter of 2020. It is estimated that 2.2 million jobs have been lost during the pandemic.

Unemployment Crisis

More than half of South Africa's working-age population is jobless

■ Employed population ■ Working-age population



Source: Statistics South Africa

Bloomberg

Egypt

Egyptian debut sovereign green bond drew strong investor interest. The issuance of a \$750 mn green bond attracted orders worth 5 times its nominal value, according to Bloomberg. The 5-year bond was sold at a 5.25% yield, well-below the authorities' target of 5.75%.

Brazil

The government announced a proposal on Monday to fund a new cash-transfer program – dubbed Renda Cidadã (or Bolsa Família 2.0). The proposal is to trim court-ordered payments next year and use part of the money of the Fund for Basic Education Development (Fundeb) to finance the new program. These two measures would free about R\$39 bn (around 0.5% of GDP) to fund the social program. Analysts commented that postponing the liability payment is not a stable funding source for a new permanent program and using money from Fundeb also raised concerns since those funds are excluded from the spending cap. Also, investors were worried that the unconventional methods would jeopardize Brazil's fiscal policy credibility. Markets reacted negatively, as the Brazilian real fell 2% after the announcement, and local interest rates in the 2-4yr tenor spiked on Monday.

Colombia

The central bank published the minutes from the September 25 Monetary Policy Committee meeting, during which the Committee decided to cut the policy rate by 25 bps to a record low of 1.75% in a 4-3 split decision. The minutes revealed that the four members who voted to cut cited low inflation rates and below-target inflation expectations, while the other three members argued that policy risks could increase under a more expansive stance. Also, the minutes highlighted that there are rising financing needs in the public sector. Analysts continue to expect the easing cycle to end soon.









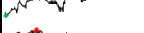
















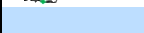



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Global Financial Indicators









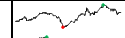
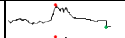


















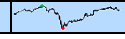
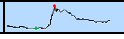

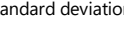






Last updated: 9/30/20 8:33 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3332	-0.5	3	-5	12	3
Europe		3199	-0.5	1	-2	-10	-15
Japan		23185	-1.5	-1	0	7	-2
China		3218	-0.2	-2	-5	11	6
Asia Ex Japan		76	-0.1	-1	-2	15	3
Emerging Markets		43	-0.1	-1	-3	7	-3
Interest Rates			basis points				
US 10y Yield		0.64	-0.5	-3	-8	-102	-127
Germany 10y Yield		-0.55	-0.1	-4	-14	3	-36
Japan 10y Yield		0.02	-0.1	1	-4	23	3
UK 10y Yield		0.19	0.5	-3	-12	-30	-63
Credit Spreads			basis points				
US Investment Grade		135	0.5	3	6	7	38
US High Yield		555	1.0	3	49	91	161
Europe IG		61	0.0	2	6	6	16
Europe HY		353	3.2	19	28	121	145
EMBIG Sovereign Spread		440	3.0	5	20	102	147
Exchange Rates			%				
USD/Majors		94.08	0.2	0	2	-5	-2
EUR/USD		1.17	-0.3	0	-2	7	4
USD/JPY		105.7	0.0	0	0	2	3
EM/USD		54.2	0.2	0	-2	-10	-12
Commodities			%				
Brent Crude Oil (\$/barrel)		40	-1.6	-3	-11	-34	-39
Industrials Metals (index)		116	0.1	1	-3	1	1
Agriculture (index)		38	0.0	-1	0	-1	-7
Implied Volatility			%				
VIX Index (% change in pp)		26.3	0.1	-2.3	-0.1	10.1	12.6
US 10y Swaption Volatility		44.4	0.8	-0.8	-12.7	-35.9	-17.6
Global FX Volatility		9.4	0.0	-0.3	0.3	2.2	3.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		156	-0.1	4	6	-36	-9
Italy		139	-0.5	4	-10	0	-21
Portugal		79	0.6	4	-3	6	16
Spain		77	0.3	4	-3	6	12

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

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Emerging Market Financial Indicators

Last updated: 9/30/2020 8:35 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		6.81	0.1	0.0	1	5	2		3.3	-0.2	2	2	12	12
Indonesia		14880	0.1	-0.4	-2	-5	-7		6.8	1.9	4	5	-53	-29
India		74	0.1	-0.3	0	-4	-3		6.2	-0.5	2	-9	-68	-68
Philippines		48	0.0	0.0	0	7	4		3.6	0.5	1	4	-72	-66
Thailand		32	-0.2	-0.7	-2	-3	-5		1.5	0.8	0	-8	-7	-15
Malaysia		4.16	0.0	-0.1	0	1	-2		2.6	0.5	5	11	-81	-75
Argentina		76	-0.1	-0.6	-3	-24	-21		41.8	19.6	234	-326	-2333	-2078
Brazil		5.63	0.1	-0.6	-2	-26	-28		6.2	7.7	31	71	-18	-7
Chile		789	-0.3	-0.9	-2	-8	-5		2.8	4.3	21	30	-4	-48
Colombia		3887	-0.4	-1.5	-4	-11	-16		5.1	2.0	-2	-21	-56	-86
Mexico		22.30	0.7	0.5	-2	-11	-15		6.0	8.9	12	1	-97	-90
Peru		3.6	-0.2	-1.4	-2	-6	-8		4.2	2.7	0	13	-25	-32
Uruguay		42	0.0	-0.2	0	-13	-12		7.5	4.9	-12	-72	-321	-342
Hungary		312	-0.2	0.5	-5	-1	-5		1.8	2.5	4	9	73	61
Poland		3.88	-0.5	-0.1	-5	3	-2		0.7	-0.6	-3	-14	-107	-116
Romania		4.2	-0.3	0.4	-3	5	3		3.3	0.0	-7	-25	-41	-73
Russia		78.3	1.0	-1.5	-5	-17	-21		5.9	-0.7	6	18	-96	-22
South Africa		16.8	0.6	1.5	1	-10	-17		10.3	-1.3	4	15	85	75
Turkey		7.78	0.4	-1.0	-6	-27	-23		13.1	15.6	-37	-26	-23	144
US (DXY; 5y UST)		94	0.2	-0.3	2	-5	-2		0.25	-0.8	-2	-2	-130	-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		4587	-0.1	-1	-5	20	12		218	-1	1	10	32	42
Indonesia		4870	-0.2	-1	-7	-21	-23		237	2	4	19	50	81
India		38068	0.2	1	-1	-2	-8		233	0	6	14	99	108
Philippines		5864	0.4	0	0	-25	-25		145	2	4	8	65	79
Malaysia		1505	0.1	1	-1	-5	-5		166	0	8	18	43	54
Argentina		42197	0.3	3	-10	45	1		1319	-1	-72	-829	-812	-450
Brazil		93580	-1.1	-4	-6	-11	-19		345	1	5	31	103	130
Chile		3555	-1.1	1	-6	-30	-24		187	0	-1	15	47	54
Colombia		1166	-0.9	-1	-4	-26	-30		270	1	-4	20	84	107
Mexico		37135	-0.3	4	1	-14	-15		519	3	-7	57	201	227
Peru		17881	0.0	1	-4	-9	-13		174	0	-11	25	39	67
Hungary		32823	0.4	1	-6	-19	-29		124	-2	0	-3	25	38
Poland		49207	-0.6	1	-5	-14	-15		29	1	1	5	-4	11
Romania		9038	0.3	-1	0	-6	-9		258	2	-2	-6	65	85
Russia		2911	0.0	0	-2	6	-4		217	1	4	20	24	86
South Africa		54200	-0.6	2	-2	-1	-5		545	6	18	51	215	225
Turkey		1137	1.2	3	5	8	-1		636	-9	-18	34	170	235
Ukraine		500	0.0	0	0	-5	-2		741	9	42	119	230	321
EM total		43	0.4	-1	-3	7	-3		440	3	5	20	102	147

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

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