



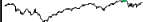






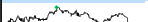



- Investors trim expectations for additional QE by the ECB ([link](#))
- China removes quota limits on foreign investor market access program ([link](#))
- Sterling implied volatility falls further as second snap election vote fails ([link](#))
- US GSE reform back in focus amid signals that profit sweep rules will change ([link](#))
- Mexico's 2020 budget proposal seen by some analysts as unrealistic ([link](#))

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Risk-on fades ahead of ECB

Market momentum is petering out as investors await Thursday's much-anticipated ECB meeting. Global equities are roughly flat this morning and so far this week, and the government bond sell-off of recent days is slowing. The rise in yields has been largely Bund-driven, attributed to investors paring back expectations for the ECB stimulus widely expected to be announced on Thursday, as well as recent signals that German authorities may be open to expansionary fiscal policy. Nevertheless, given relatively contained moves in market-implied policy rate expectations in the US and euro area, the roughly 15 bp rise in 10-year yields in the last week appears to more of a correction from August's huge rally than a shift in the dovish trend.

Key Global Financial Indicators

Last updated: 9/10/19 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2978	0.0	2	2	4	19
Eurostoxx 50		3494	0.0	2	5	6	16
Nikkei 225		21392	0.3	4	3	-4	7
MSCI EM		41	-0.4	3	4	1	6
Yields and Spreads			bps				
US 10y Yield		1.64	8.4	18	-10	-129	-104
Germany 10y Yield		-0.57	1.3	13	0	-97	-81
EMBIG Sovereign Spread		336	2	-18	-3	-37	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.6	0.0	1	-1	0	-3
Dollar index, (+) = \$ appreciation		98.4	0.2	-1	1	3	2
Brent Crude Oil (\$/barrel)		63.1	0.9	8	8	-18	17
VIX Index (% change in pp)		15.7	0.5	-4	-2	2	-10

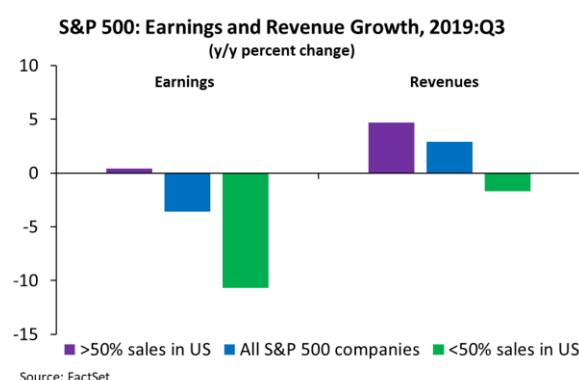
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

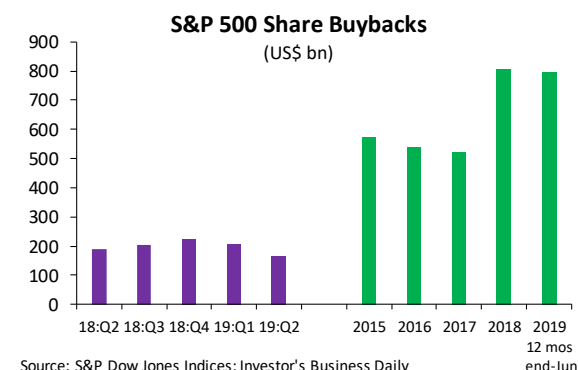
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Stocks finished mixed Monday in a lackluster session. Mortgage giants Fannie Mae and Freddie Mac both jumped over 40% after the government rolled out a series of reform proposals (see below). **Moody's cut Ford's** senior unsecured rating one notch to Ba1 (junk) from Baa3 after trading hours. Treasury yields followed European yields higher, with the 2-year tenor up 5 bps and the 10-year up 8 bps.

With the corporate reporting season winding down, FactSet-reported forecasts show earnings are expected to fall 0.4% y/y in Q2, while Lipper is looking for a 3.2% increase. And FactSet sees earnings falling by 3.6% in Q3 with Lipper expecting a 2.0% decline. **FactSet analysts note that trade tensions and slower economic growth prospects will count as significant factors in the evolving negative growth picture.** Its data shows that companies with high international exposures (where foreign sales > 50%) are expected to see double-digit earnings declines, and that the growth for domestically-oriented companies will be anemic.



The pace of **corporate share buybacks is falling**. S&P Dow Jones reported buybacks fell in Q2 for the second consecutive quarter. Analysts ascribe such trend to depressed profits and the wearing off of tax cut benefits. Dow Jones reports share repurchases are down 10% y/y, paced by tech firms. And Q2 buybacks amounted to \$165.7 bn, compared to \$205.8 bn in Q1, and the record \$223 bn in Q4 of 2018. However, dividends increased in Q2, and should make 2019 the eighth consecutive year of record payouts—albeit the increase is waning.



The Treasury Department released a new plan on reforming mortgage giants **Fannie Mae** and **Freddie Mac**. The plan provides a wide range of legislative recommendations and administration options, but does not identify a particular calendar going forward. Critically, the reform plan asks for an explicit government guarantee to back up the two institutions. It also advises on “preconditions for ending the [governing] conservatorships” which would include the requirement that “appropriate provision has been made to

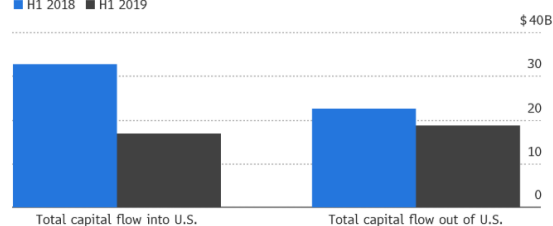
ensure there is no disruption” to the mortgage-backed security market. Sec. Mnuchin also advised that he expected a deal that would **allow Fannie and Freddie to retain some earnings so that they can start rebuilding capital buffers**, after an appellate court ruling Friday made such a deal possible. Shares of both firms jumped nearly 40% on the day, moves attributed largely to the Sec. Mnuchin’s comments.

Foreign investment in US commercial real estate dropped significantly in the first half of 2019. Deals in that period grossed \$16.9 bn according to private consultancy CBRE, down from a record \$32.7 bn in H1 of last year. Slowing economic prospects, growing uncertainty over rates and policies, and a stronger dollar have all combined to provide significant headwinds to prospective foreign investors. Canada remains the largest investor, with Germany and the Gulf states also figuring prominently. Real Capital Analytics advises that international investors became *net* sellers of commercial real estate for the first time since 2012 in H1.

A Pause on Deals

Foreign investment in U.S. commercial property has slowed dramatically

■ H1 2018 ■ H1 2019



Source: CBRE Research, Real Capital Analytics
Note: Transactions include office, retail, industrial, residential/apartment and senior housing. Development sites are excluded.

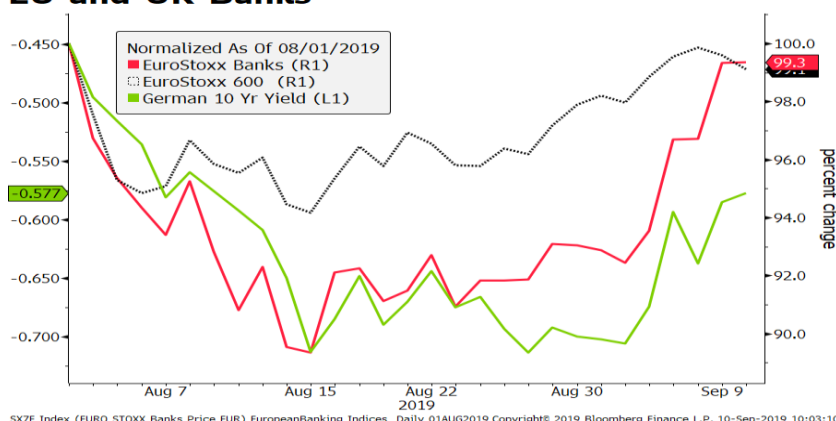
Bloomberg

Europe

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Yields continue to tick higher across the region, in part tracking the moves in the US, but also following ECB speakers pushing back against additional QE. At least four officials—Jens Weidmann, Klaas Knot, Villeroy de Galhau, and Madis Muller—have expressed reservations about delivering the bond purchases that markets expect in this Thursday’s meeting. Analysts are still mostly calling for at least a 10-bps cut in the deposit rate along with some €30-45 bn in new purchases, but conviction about the latter has been waning. This is in part due to questions about its effectiveness in stimulating the region’s economy, but also the negative impact of further easing on the banking sector. Indeed, there has been increasing discussions about implementing a tiering system to shield part of banks’ excess deposits from negative rates (as done in Switzerland, Denmark and Japan). The result has been rising bond yields and the outperformance of the banking sector in Europe. **More broadly, the EuroStoxx 600 index is down 0.4% on the day, with banking stocks gaining 0.6%.**

EU and UK Banks

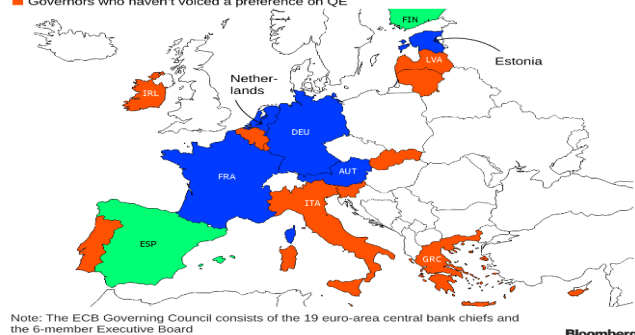


5X7E Index (EURO STOXX Banks Price EUR) European Banking Indices Daily 01AUG2019 Copyright © 2019 Bloomberg Finance L.P. 10-Sep-2019 10:03:10

Coalition of the Unwilling

Euro-area central bank chiefs are divided on quantitative easing

■ Governors likely to oppose immediate QE
 ■ Governors likely to back immediate QE
■ Governors who haven't voiced a preference on QE

**United Kingdom****PM Johnson's Brexit strategy was rebuffed again before Parliament was suspended for five weeks.**

Parliament has signed into law the anti-no deal Brexit bill mooted last week, requiring PM Johnson to seek a three-month Brexit extension to January 31. MPs rejected another bid for snap elections, voted to force the government to publish details of its no-deal Brexit plan, and the Speaker of the House of Commons, John Bercow, stepped down after a decade in the role. From today, parliament is suspended for five weeks. Johnson's strategy is now to seek a modified deal at the EU Summit in mid-October while at the same time preparing to leave without a deal. Local assets and the pound are little changed on the day.

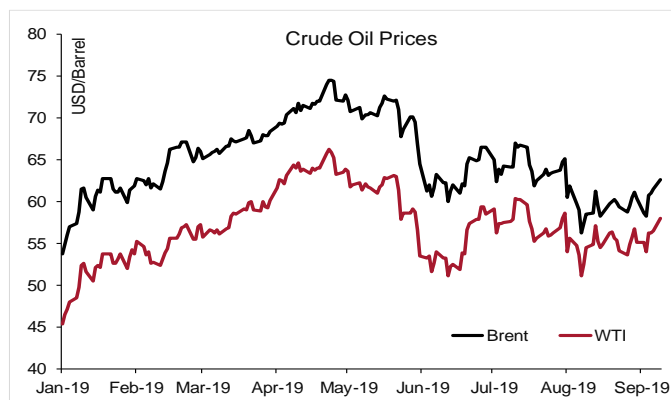
Other Mature Markets[back to top](#)**Japan**

Japan's Topix gained 0.4% and the Nikkei 0.3%, buoyed by a 3.7% rally in bank stocks. Analysts attribute banks' outperformance to the rebound in long-term US yields, which alleviates the pressure on banks' profit margins. **The yield on the 10-year JGB increased 3 bps to -0.22%.**

PM Abe is expected to reshuffle his cabinet this week, in a bid to maintain support for his government as he plans tax hikes. According to news outlets, FM Taro Aso and Chief Cabinet Secretary Yoshihide Suga are expected to remain in their posts. Mr. Aso's government has planned an increase in the sales tax from 8% to 10%, effective Oct. 1 2019.

Crude Oil

Oil prices went up on Monday as Saudi Arabia's new energy minister signaled further OPEC+ cuts, extending gains for the 4th consecutive days.



The November Brent advanced \$1.17 to \$62.71 per barrel, and WTI for October delivery ended the day \$1.33 higher at \$57.85 per barrel. In addition to the optimistic news on OPEC policy, Iraq's oil minister also promised to trim production for the next few months after satisfying local demand for electricity.

Source: Bloomberg

Emerging Markets

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Emerging market bourses and currencies delivered another mixed performance today. Asia saw the largest losses in Vietnam (-0.4%) and the Philippines (-0.4%) while South Korea's Kospi (+0.6%) and India's Sensex (+0.4%) posted clear gains. In **EMEA**, stocks in Hungary (-0.9%) and Saudi Arabia (-0.9%) paced the losses; Poland (+0.5%) and Romania (+0.4%) gained. Currencies were mostly stronger to the dollar, within a 0.1% to 0.5% range. **Latin American equity markets** were mixed on Monday. Argentina underperformed as Merval index fell 1.8%, while Chile (+0.8%) and Colombia (+0.6%) saw gains. Local currencies were generally weaker, with the Brazilian real down 0.9% and the Colombian peso down 0.6%. 10-year government bond yields were mostly higher.

Key Emerging Market Financial Indicators

Last updated: 9/10/19 8:49 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.38	-0.2	3	4	1	6
MSCI Frontier Equities		28.24	-0.7	-2	-4	2	8
EMBIG Sovereign Spread (in bps)		337	3	-17	-2	-36	-77
EM FX vs. USD		60.66	0.1	1	-1	1	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.11	0.2	1	-1	-4	-3
Indonesian Rupiah		14053	-0.1	1	1	6	2
Indian Rupee		71.71	0.0	0	-1	1	-3
Argentina Peso		56.01	-0.3	0	-19	-33	-33
Brazil Real		4.10	0.0	2	-3	0	-5
Mexican Peso		19.53	0.2	2	0	-1	1
Russian Ruble		65.43	0.2	2	0	8	6
South African Rand		14.67	0.7	3	4	4	-2
Turkish Lira		5.78	-0.5	-1	-4	12	-8
EM FX volatility		8.22	0.0	-0.7	-0.2	-4.7	-1.6

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

China

Chinese authorities announced this morning the removal of the Qualified Foreign Institutional Investor (QFII) and the RMB Qualified Foreign Institutional Investor (RQFII) quota limits to further open domestic capital markets. The move was seen by analysts as symbolic given that foreign investors had only used a little more than a third of the existing \$300 bn quota, and other foreign investor market access channels such as Bond Connect and Stock Connect have gained favor in recent years.

In macro data, China's producer price index dropped further into contraction territory. The PPI fell 0.8% y-o-y in August, adding to concerns about a slowing economy. Analysts expect further cuts by the PBoC to the required reserve ratio (RRR)—which was cut on Friday to the lowest since 2007—and the medium-term lending facility (MLF), in order to provide stimulus to the economy.

China's CPI nears the 3% target while PPI weakens further



The onshore yuan strengthened 0.3% to 7.101 per dollar, while the off-shore gained 0.2% to 7.101. **Chinese stocks slid today**, as Shanghai's Composite Index lost 0.1% and the Shenzhen CSI 300 was down 0.3%.

Mexico

The AMLO administration submitted the 2020 budget to Congress on Sunday, which targets a 2.0% (midpoint) growth in real GDP and 13% rise in oil production (the projected end-2019 level). Analysts commented that the underlying assumptions were too optimistic which may lead to lower than projected revenue growth. In the other news, **Mexico's inflation printed -0.02% m/m in August and the annual rate fell to 3.2% y/y**, reaching the lowest level since 2016. The slowdown in inflation was mainly driven by energy prices (-2% y/y) and perishable food (-1.5% y/y). Core inflation remained stable at 3.8%. Analysts expected further rate cuts by the end of this year. Market reaction was muted, with both domestic equity and the peso flat on the day.

Figure 1: Core stickiness should prevent headline inflation from further decline



Source: INEGI, Barclays Research

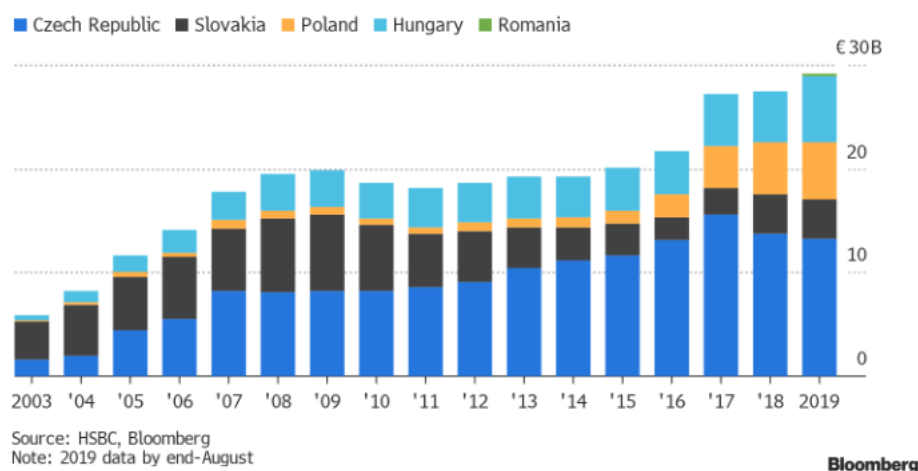
Figure 2: Core inflation trend has remained close to the upper band of Banxico's target



Source: INEGI, Barclays Research

Covered bond issuance in Eastern Europe swells to record highs. According to Bloomberg data, the outstanding amount of covered bonds in the region is nearing €30bn this year, largely thanks to new issuances over recent years by lenders from Poland, Slovakia, and Hungary. Analysts expect strong issuance to continue on the back of ultra-low global rates and aggressive search for yield by investors.

East Europe's covered debt pile swells to a record this year



Source: HSBC, Bloomberg
Note: 2019 data by end-August

Bloomberg






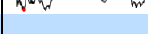









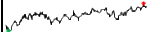
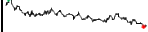












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Global Financial Indicators

Last updated: 9/10/19 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2978	0.0	2	2	4	19
Europe		3494	0.0	2	5	6	16
Japan		21392	0.3	4	3	-4	7
China		3021	-0.1	3	9	13	21
Asia Ex Japan		67	0.4	3	5	-1	6
Emerging Markets		41	-0.4	3	4	1	6
Interest Rates			basis points				
US 10y Yield		1.64	8.4	18	-10	-129	-104
Germany 10y Yield		-0.57	1.3	13	0	-97	-81
Japan 10y Yield		-0.22	3.0	6	0	-34	-22
UK 10y Yield		0.60	0.9	19	12	-87	-68
Credit Spreads			basis points				
US Investment Grade		133	0.2	-3	1	30	-14
US High Yield		460	-0.5	-32	-24	116	-61
Europe IG		49	1.0	-1	-9	-12	-39
Europe HY		243	3.0	-16	-46	-38	-110
EMBIG Sovereign Spread		336	2.0	-18	-3	-37	-78
Exchange Rates			%				
USD/Majors		98.44	0.2	-1	1	3	2
EUR/USD		1.10	-0.1	1	-2	-5	-4
USD/JPY		107.4	-0.1	-1	-2	4	2
EM/USD		60.6	0.0	1	-1	0	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		63	0.9	8	8	-18	17
Industrials Metals (index)		117	-0.4	3	4	2	7
Agriculture (index)		37	0.7	0	-6	-13	-11
Implied Volatility			%				
VIX Index (% change in pp)		15.7	0.5	-3.9	-2.2	1.6	-9.7
10y Treasury Volatility Index		4.9	0.1	-0.4	-0.3	1.3	0.3
Global FX Volatility		7.2	0.0	-1.1	-0.8	-1.9	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		221	1.4	-12	-51	-159	-195
Italy		153	-0.1	-5	-85	-98	-97
Portugal		83	0.0	0	-4	-65	-65
Spain		80	-0.2	-1	-4	-25	-37

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: 9/10/2019 8:50 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		7.11	0.2	1.0	-1	-4	-3		3.1	-0.9	-3	-3	-53	-12
Indonesia		14053	-0.1	1.2	1	6	2		7.4	-5.5	-7	1	-122	-78
India		72	0.0	-0.4	-1	1	-3		6.7	-1.5	-2	3	-150	-75
Philippines		52	-0.4	0.4	0	4	1		4.4	0.1	-2	-24	-172	-193
Thailand		31	0.0	0.0	1	7	6		1.7	6.3	15	2	-117	-98
Malaysia		4.17	0.2	1.2	0	-1	-1		3.4	0.0	2	-9	-77	-74
Argentina		56	-0.3	0.0	-19	-33	-33		65.7	10.4	716	3294	4109	4271
Brazil		4.10	0.0	1.7	-3	0	-5		6.7	-2.1	-20	7	-389	-148
Chile		715	0.0	1.6	0	-3	-3		2.7	4.8	-6	-8	-214	-181
Colombia		3372	-0.5	2.2	1	-8	-3		5.7	5.2	-5	2	-90	-79
Mexico		19.53	0.2	2.3	0	-1	1		7.1	4.4	1	-17	-91	-158
Peru		3.3	-0.2	1.7	1	0	1		4.3	2.9	-8	-7	-129	-142
Uruguay		36	-0.2	0.9	-3	-10	-11		10.9	-6.9	-27	104		22
Hungary		300	-0.5	0.1	-4	-7	-7		1.3	5.3	22	23	-127	-95
Poland		3.93	-0.1	0.8	-2	-5	-5		1.9	6.6	19	12	-76	-38
Romania		4.3	-0.2	0.5	-2	-7	-5		3.7	2.0	8	5	-59	-50
Russia		65.4	0.2	2.1	0	8	6		6.9	0.1	-4	-25	-197	-154
South Africa		14.7	0.7	2.9	4	4	-2		9.3	-1.2	-4	-17	-44	-31
Turkey		5.78	-0.5	-0.8	-4	12	-8		15.2	-4.6	-27	41	-694	-170
US (DXY; 5y UST)		98	0.1	-0.6	1	3	2		1.50	0.3	17	-8	-132	-101

	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		3021	-0.1	3	9	13	21		187	1	-2	3	1	-7
Indonesia		6337	0.2	1	1	9	2		177	6	-10	-9	-32	-59
India		37145	0.0	-1	-1	-2	3		136	-4	-3	-5	-28	-60
Philippines		7929	-0.4	2	1	4	6		73	5	-11	-5	-36	-48
Malaysia		1596	-0.5	-1	-1	-11	-6		123	0	-2	-1	-14	-39
Argentina		27176	-1.7	4	-39	-8	-10		2144	84	-369	1285	1397	1329
Brazil		103181	0.2	3	-1	35	17		228	1	-17	8	-97	-45
Chile		4861	0.8	3	-1	-7	-5		127	-1	-9	-4	-12	-39
Colombia		1577	0.6	1	3	7	19		175	1	-6	-4	-10	-53
Mexico		42662	-0.1	1	6	-13	2		327	0	-8	-4	45	-27
Peru		19193	-0.8	0	-2	2	-1		112	1	-9	-11	-37	-56
Hungary		40072	-1.0	2	-1	8	2		89	2	-21	-14	-28	-59
Poland		57904	0.4	3	3	0	0		25	0	-19	-9	-30	-60
Romania		9242	0.1	0	1	11	25		191	-6	-21	2	8	-30
Russia		2786	0.0	0	4	19	18		192	2	-13	-12	-49	-60
South Africa		55311	-0.4	1	0	-2	5		308	2	-15	-7	-41	-57
Turkey		101164	0.5	2	2	10	11		510	6	-10	33	-31	81
Ukraine		522	-1.0	-1	-3	-2	-7		458	3	-34	-34	-128	-329
EM total		41	-0.2	3	4	1	6		337	3	-17	-2	-36	-77

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

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