





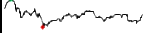








- Government bond yields continue to unwind August declines ([link](#))
- Chinese tariff exemptions leave out US agricultural goods ([link](#))
- Court rules suspension of UK Parliament unlawful, adding to Brexit uncertainty ([link](#))

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Markets edge higher ahead of key ECB decision

Equities rise and bonds continue to give back August gains as markets enter a holding pattern ahead of tomorrow's ECB meeting. Stocks are pushing higher in Asia and Europe on reduced trade pessimism and the unwind in rates, while US equity futures are pointing to a flat open, following a turbulent Tuesday session that ultimately closed unchanged. The key story has been the continued upward march in bond yields, reflecting primarily scattered hints of easing trade and geopolitical risks as well as tempering expectations for what kind of easing package the ECB will deliver tomorrow. The latest Bloomberg analyst survey points to expectations for a 10 bp deposit rate cut, asset purchases of EUR 30 bn/month for 12 months, and tiering of excess reserve rates to help shield banks from negative rates. That said, market participants see risks firmly skewed towards less stimulus, particularly on the asset purchase program, given reports of internal disagreement within the ECB.

Key Global Financial Indicators

| Last updated: 9/11/19 8:08 AM | Level | | Change from Market Close | | | | |
|--------------------------------------|---|--------|--------------------------|--------|---------|------|-----|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| Equities | | | % | | | | % |
| S&P 500 |  | 2979 | 0.0 | 3 | 2 | 3 | 19 |
| Eurostoxx 50 |  | 3517 | 0.5 | 2 | 5 | 6 | 17 |
| Nikkei 225 |  | 21598 | 1.0 | 5 | 4 | -5 | 8 |
| MSCI EM |  | 41 | 0.6 | 4 | 4 | 0 | 6 |
| Yields and Spreads | | | bps | | | | |
| US 10y Yield |  | 1.72 | 8.8 | 26 | -2 | -125 | -96 |
| Germany 10y Yield |  | -0.56 | -1.1 | 12 | 2 | -99 | -80 |
| EMBIG Sovereign Spread |  | 336 | 4 | -10 | -3 | -36 | -78 |
| FX / Commodities / Volatility | | | % | | | | |
| EM FX vs. USD, (+) = appreciation |  | 60.7 | 0.0 | 0 | -1 | 1 | -2 |
| Dollar index, (+) = \$ appreciation |  | 98.7 | 0.3 | 0 | 1 | 4 | 3 |
| Brent Crude Oil (\$/barrel) |  | 62.8 | 0.7 | 3 | 7 | -21 | 17 |
| VIX Index (% change in pp) |  | 15.3 | 0.1 | -2 | -3 | 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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August producer price inflation (PPI) came in this morning at 0.1% m/m (+1.8% y/y), slightly above expectations. Various core measures were also slightly higher than market forecasts. Treasury yields are moving higher on the news. CPI is released tomorrow.

Stocks spent most of Tuesday in the red, but a late surge pushed the Dow and the S&P 500 equity indices into positive territory, but gains were modest. Secretary Mnuchin advised he plans to end the policy whereby **Fannie Mae** and **Freddie Mac** send virtually all their earnings to the government, but opposes a “simple” recapitalization and release of the two institutions from their conservatorship. Both firms lost around 13% after jumping over 40% a day earlier. Apple (+1.2%) rolled out its new iPhones.

The yield on the 10-year Treasury jumped 9 bps to 1.73%. The continued rise in government yields was attributed to a range of small positive signals on trade and geopolitical risks, including reports that senior Chinese officials downplayed further trade tension escalation, another suggesting China’s willingness to buy US agricultural products, and the dismissal of Pres. Trump’s hawkish national security advisor. Bond market supply factors were also cited as driving upward pressure on yields, with the government auctioning \$38 bn in 3-year notes and investment-grade companies continued their surge of bond issuance.

The use of the secured-overnight financing rate (SOFR) continues apace. Financial instruments referencing the LIBOR replacement rate have seen a surge of issuance this summer, with over \$200 bn since June. Government-sponsored enterprises have been the largest issuers, but banks have become increasingly prominent. However, Fitch points out that SOFR “has yet to be used as a lending rate with attendant hedging, repricing and liquidity risks.” Banks advise the lack of a term structure for SOFR stands as a big impediment to issuing SOFR-indexed loans. The Fed gauges that LIBOR was the reference rate for \$200 tn of derivatives, loans and securities at end-year 2016.

Europe

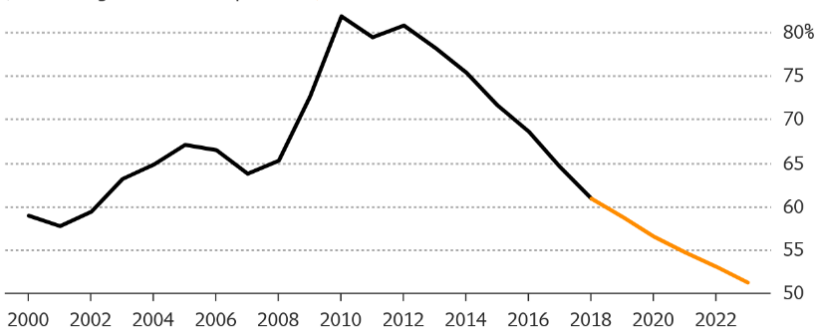
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Yields and equity indices continued to trend higher. Germany’s 10-year yields 4 bps over the last two sessions and nearly 10 bps since the start of the week to -0.54%. The EuroStoxx 600 index is up 0.6% today with the banking sector (1.1%) outperforming.

FM Olaf Scholz said that Germany is ready to act with “many billions” to counteract the risk of recession but, for now, the zero-deficit policy will remain in place. He characterized next year’s budget as expansionary and “includ[ing] much investment.” Nevertheless, projections show a continued decline in the country’s debt relative to GDP (chart). Scholz and Chancellor Merkel have so far held their ground against growing calls for more spending, including from Scholz own SPD party and the IMF.

Germany is set to slash its public debt to 51% of GDP by 2023

Debt to gross domestic product Forecast



Source: Federal Ministry of Finance

Bloomberg

In the UK, Scottish judges have ruled that the suspension of Parliament enacted by PM Boris Johnson is unlawful. Now the Supreme Court will consider whether the “prorogation” was unconstitutional, as argued by over 70 MPs. There was no reaction in UK assets, with the pound stable against the dollar at \$1.24 and the FTSE 100 up 0.9%, roughly in line with moves in Continental Europe.

Other Mature Markets

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Japan

Equities (+1.6%) rose to a two-month high. Bank stocks outperformed (+3.6%) on rising bond yields and exporters benefitted from a weaker yen (-0.2%). **10-year JGB yields rose 2.3 bps to -0.21%.**

Bouncing Back











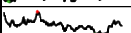



Topix rises to two-month high



Emerging Markets

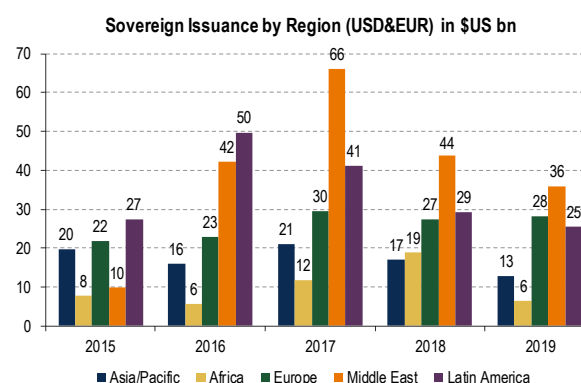
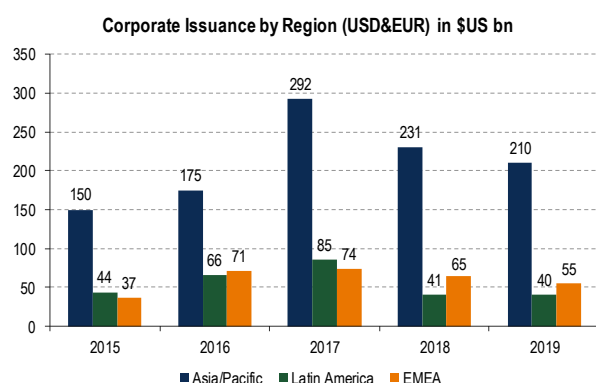
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Asian equities gained (+0.8% on net) with the exception of Chinese markets. Hong Kong (+1.8%), Singapore (+1.2%), and Korea (+0.8%) outperformed. The Hong Kong stock exchange made an unexpected \$36.6bn takeover bid for the London Stock Exchange after local market hours. Regional currencies were little changed. **EMEA** stocks were largely higher, with Russia (+0.7%) and Turkey (+0.6%) posting the largest gains. Saudi Arabia (-2.3%) and Kuwait (-2.1%) were markedly in the red. Currencies in the region traded within a narrow $\pm 0.2\%$ corridor to the US dollar. **Latin American markets** were mixed on Tuesday. Argentina outperformed as the equity index rose 4.6% and the peso was mostly unchanged. Equity markets and currencies in other countries were mainly traded in narrow ranges. 10-year government bond yields rose 9 bps in Mexico and were mixed in other countries.

| Last updated: 9/11/19 8:35 AM | Level | | Change | | | | YTD |
|----------------------------------|---|-------|-----------------------------------|--------|---------|------|------|
| | Last 12m | index | 1 Day | 7 Days | 30 Days | 12 M | |
| Major EM Benchmarks | | | % | | | | % |
| MSCI EM Equities |  | 41.41 | 0.7 | 4 | 4 | 0 | 6 |
| MSCI Frontier Equities |  | 28.26 | 0.1 | -2 | -4 | 2 | 8 |
| EMBIG Sovereign Spread (in bps) |  | 336 | 4 | -10 | -3 | -36 | -78 |
| EM FX vs. USD |  | 60.73 | 0.0 | 0 | -1 | 1 | -2 |
| Major EM FX vs. USD | | | %, (+) = EM currency appreciation | | | | |
| China Renminbi |  | 7.12 | -0.1 | 0 | -1 | -3 | -3 |
| Indonesian Rupiah |  | 14060 | 0.0 | 1 | 1 | 6 | 2 |
| Indian Rupee |  | 71.67 | 0.1 | 1 | -1 | 1 | -3 |
| Argentina Peso |  | 56.03 | 0.0 | -1 | -5 | -33 | -33 |
| Brazil Real |  | 4.07 | 0.4 | 1 | -2 | 2 | -5 |
| Mexican Peso |  | 19.52 | -0.1 | 1 | 0 | -2 | 1 |
| Russian Ruble |  | 65.33 | 0.1 | 1 | 0 | 6 | 6 |
| South African Rand |  | 14.68 | -0.3 | 1 | 4 | 3 | -2 |
| Turkish Lira |  | 5.76 | 0.2 | -2 | -3 | 12 | -8 |
| EM FX volatility |  | 8.27 | 0.0 | -0.3 | -0.1 | -4.5 | -1.5 |

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

EM corporate issuance for last week edged up to \$11.6 bn, from \$3.2 bn the week before, while there was no EM sovereign issuance last week. The year to date total issuance of \$418.1 bn was approximately 19% more than 2018 issuance over the same period. From a regional perspective, China was the largest EM corporate debt issuer, accounting for 31% (\$3.65 bn) of the total, followed by Mexico (\$2.45 bn) and Hong Kong (\$1.8 bn). Of the total corporate bonds issued, 76% (\$8.8 bn) were investment grade bonds and 8% (\$0.9 bn) were high yield bonds.



Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

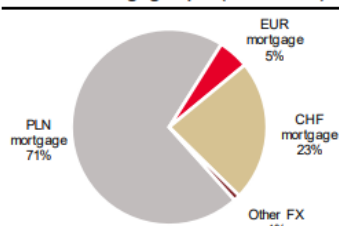
China

Chinese equities (Shanghai -0.4%; Shenzhen -0.9%) declined as Chinese tariff exemptions for selected US goods fell short of expectations. Starting next week, China will for one year suspend tariffs on 16 products including some drugs and chemicals that China itself does not produce. No big ticket items such as pork or soybeans were included in the exemptions, however. China and the United States last week agreed to restart face-to-face talks later this month. **The onshore and offshore RMB were stable on the day.**

Poland

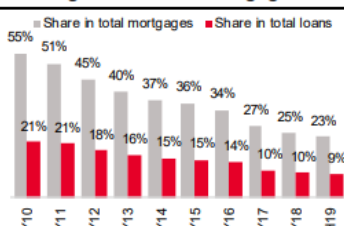
The Central Bank of Poland is expected to keep rates on hold at 1.5% today. Analysts anticipate that governor will play down rhetoric suggesting rate hikes. The zloty weakened slightly this morning to the euro (-0.1%) and the Swiss franc (-0.1%) ahead of the decision. Besides macroeconomic considerations, the decision on interest rates will be important also from a financial stability perspective, as Polish banks still have around 30% of their mortgage portfolios denominated in FX.

Sector – Mortgage split (as of 1H19)



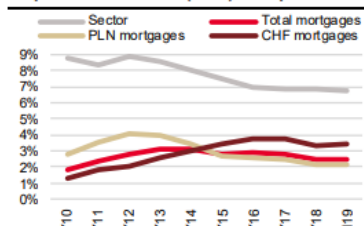
Source: SG Cross Asset Research/Equity, KNF

Declining trend in CHF mortgage share



Source: SG Cross Asset Research/Equity, KNF

Impaired loan ratio (NPL) comparison



Source: SG Cross Asset Research/Equity, KNF

Chile

According to the central bank survey, analysts have changed their expectations on Chile's policy rate. Previously analysts expected the policy rate to remain unchanged at 2% for the next 11 months since the October meeting. Now they expected the Monetary Policy Committee to cut rate by 25 bps to 1.75% at the December meeting. The 11-, 17- and 23-month ahead forecasts were all revised down by 25 bps. As for inflation, analysts' expectations for medium and long-term were mostly unchanged, while they forecasted a 10-bps decline in inflation by the end of 2020.






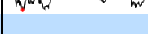












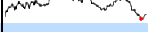










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Global Financial Indicators

| Last updated: 9/11/19 8:08 AM | Level | | Change | | | | YTD |
|----------------------------------|---|--------|----------------------------------|--------|---------|------|-------|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | |
| Equities | | | % | | | | % |
| United States |  | 2979 | 0.0 | 3 | 2 | 3 | 19 |
| Europe |  | 3517 | 0.5 | 2 | 5 | 6 | 17 |
| Japan |  | 21598 | 1.0 | 5 | 4 | -5 | 8 |
| China |  | 3009 | -0.4 | 2 | 8 | 13 | 21 |
| Asia Ex Japan |  | 68 | 0.1 | 4 | 5 | -1 | 6 |
| Emerging Markets |  | 41 | 0.6 | 4 | 4 | 0 | 6 |
| Interest Rates | | | basis points | | | | |
| US 10y Yield |  | 1.72 | 8.8 | 26 | -2 | -125 | -96 |
| Germany 10y Yield |  | -0.56 | -1.1 | 12 | 2 | -99 | -80 |
| Japan 10y Yield |  | -0.20 | 2.2 | 8 | 2 | -31 | -20 |
| UK 10y Yield |  | 0.65 | 1.3 | 16 | 17 | -85 | -63 |
| Credit Spreads | | | basis points | | | | |
| US Investment Grade |  | 134 | 0.7 | -1 | 2 | 32 | -13 |
| US High Yield |  | 454 | 2.4 | -34 | -30 | 115 | -67 |
| Europe IG |  | 49 | 0.2 | 0 | -9 | -12 | -38 |
| Europe HY |  | 246 | 2.5 | -5 | -42 | -34 | -106 |
| EMBIG Sovereign Spread |  | 336 | 4.0 | -10 | -3 | -36 | -78 |
| Exchange Rates | | | % | | | | |
| USD/Majors |  | 98.66 | 0.3 | 0 | 1 | 4 | 3 |
| EUR/USD |  | 1.10 | -0.4 | 0 | -2 | -5 | -4 |
| USD/JPY |  | 107.7 | -0.1 | -1 | -2 | 4 | 2 |
| EM/USD |  | 60.7 | 0.0 | 0 | -1 | 1 | -2 |
| Commodities | | | % | | | | |
| Brent Crude Oil (\$/barrel) |  | 63 | 0.7 | 3 | 7 | -21 | 17 |
| Industrials Metals (index) |  | 119 | 0.3 | 2 | 6 | 4 | 9 |
| Agriculture (index) |  | 37 | -0.1 | 1 | -6 | -12 | -10 |
| Implied Volatility | | | % | | | | |
| VIX Index (% change in pp) |  | 15.3 | 0.1 | -2.1 | -2.7 | 2.0 | -10.2 |
| 10y Treasury Volatility Index |  | 5.1 | 0.2 | -0.3 | -0.1 | 1.6 | 0.5 |
| Global FX Volatility |  | 7.1 | 0.0 | -0.7 | -0.9 | -2.0 | -1.9 |
| EA Sovereign Spreads | | | 10-Year spread vs. Germany (bps) | | | | |
| Greece |  | 226 | 5.7 | 1 | -46 | -140 | -190 |
| Italy |  | 159 | 2.4 | 11 | -79 | -92 | -91 |
| Portugal |  | 83 | 0.2 | -1 | -4 | -63 | -65 |
| Spain |  | 82 | 1.3 | 0 | -2 | -22 | -36 |

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: 9/11/2019 8:37 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 | | 7.12 | -0.1 | 0.4 | -1 | -3 | -3 | | 3.1 | 1.0 | -3 | -2 | -54 | -11 | |
| Indonesia | | 14060 | 0.0 | 0.7 | 1 | 6 | 2 | | 7.4 | -0.9 | -11 | 0 | -132 | -79 | |
| India | | 72 | 0.1 | 0.6 | -1 | 1 | -3 | | 6.7 | 0.0 | 3 | 3 | -158 | -75 | |
| Philippines | | 52 | -0.2 | -0.4 | 0 | 3 | 1 | | 4.4 | 0.0 | -1 | -24 | -181 | -193 | |
| Thailand | | 31 | 0.1 | -0.1 | 1 | 7 | 6 | | 1.7 | 2.7 | 17 | 5 | -116 | -96 | |
| Malaysia | | 4.18 | -0.2 | 0.6 | 0 | -1 | -1 | | 3.4 | 1.3 | 4 | -8 | -76 | -73 | |
| Argentina | | 56 | 0.0 | -1.2 | -5 | -33 | -33 | | 69.9 | 421.1 | 721 | 3715 | 4512 | 4692 | |
| Brazil | | 4.07 | 0.4 | 0.7 | -2 | 2 | -5 | | 6.7 | 2.7 | -9 | 10 | -377 | -145 | |
| Chile | | 712 | -0.1 | 1.6 | 0 | -2 | -3 | | 2.7 | 0.8 | -1 | -7 | -214 | -180 | |
| Colombia | | 3362 | 0.3 | 2.4 | 2 | -8 | -3 | | 5.8 | 3.5 | 0 | 6 | -93 | -75 | |
| Mexico | | 19.52 | -0.1 | 1.0 | 0 | -2 | 1 | | 7.3 | 11.0 | 16 | -6 | -82 | -147 | |
| Peru | | 3.3 | 0.2 | 1.8 | 1 | 0 | 1 | | 4.3 | -0.4 | -7 | -8 | -129 | -142 | |
| Uruguay | | 37 | -0.3 | 0.3 | -2 | -10 | -11 | | 10.9 | -1.6 | -25 | 102 | | 20 | |
| Hungary | | 302 | -0.6 | -1.2 | -4 | -7 | -7 | | 1.2 | -1.4 | 23 | 22 | -129 | -96 | |
| Poland | | 3.94 | -0.4 | -0.1 | -2 | -6 | -5 | | 1.9 | 5.9 | 27 | 18 | -70 | -32 | |
| Romania | | 4.3 | -0.4 | -0.4 | -2 | -7 | -6 | | 3.7 | 0.0 | 14 | 5 | -57 | -50 | |
| Russia | | 65.3 | 0.1 | 1.3 | 0 | 6 | 6 | | 6.9 | 0.6 | -4 | -25 | -200 | -153 | |
| South Africa | | 14.7 | -0.3 | 0.8 | 4 | 3 | -2 | | 9.3 | 0.2 | -2 | -17 | -53 | -31 | |
| Turkey | | 5.76 | 0.2 | -1.6 | -3 | 12 | -8 | | 15.3 | 17.1 | 27 | 58 | -716 | -153 | |
| US (DXY; 5y UST) | | 99 | 0.3 | 0.2 | 1 | 4 | 3 | | 1.58 | -1.0 | 26 | 0 | -129 | -93 | |

| | 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 | | 3009 | -0.4 | 2 | 8 | 13 | 21 | | 186 | -1 | -2 | 2 | 1 | -8 |
| Indonesia | | 6382 | 0.7 | 2 | 2 | 9 | 3 | | 176 | 7 | -6 | -10 | -33 | -60 |
| India | | 37271 | 0.3 | 2 | -1 | -2 | 3 | | 133 | -3 | -6 | -8 | -37 | -63 |
| Philippines | | 7968 | 0.5 | 2 | 1 | 6 | 7 | | 71 | 6 | -10 | -7 | -36 | -50 |
| Malaysia | | 1602 | 0.4 | 1 | -1 | -11 | -5 | | 123 | 0 | -1 | -1 | -11 | -39 |
| Argentina | | 28432 | 4.6 | 23 | -36 | -3 | -6 | | 2084 | -10 | -253 | 1225 | 1342 | 1269 |
| Brazil | | 103032 | -0.1 | 3 | -1 | 38 | 17 | | 225 | 1 | -15 | 5 | -104 | -48 |
| Chile | | 4880 | 0.4 | 3 | -1 | -6 | -4 | | 128 | 2 | -6 | -3 | -10 | -38 |
| Colombia | | 1573 | -0.2 | 0 | 2 | 6 | 19 | | 175 | -2 | 0 | -4 | -10 | -53 |
| Mexico | | 42588 | -0.2 | 2 | 5 | -13 | 2 | | 325 | -4 | -5 | -6 | 44 | -29 |
| Peru | | 19211 | 0.1 | 0 | -1 | 2 | -1 | | 112 | 4 | -5 | -11 | -34 | -56 |
| Hungary | | 40252 | 0.7 | 1 | -1 | 11 | 3 | | 87 | 7 | -20 | -16 | -26 | -61 |
| Poland | | 58021 | 0.2 | 3 | 3 | 1 | 1 | | 21 | 5 | -21 | -13 | -31 | -64 |
| Romania | | 9246 | 0.2 | 0 | 1 | 12 | 25 | | 184 | -7 | -26 | -5 | -2 | -37 |
| Russia | | 2811 | 0.9 | 1 | 5 | 20 | 19 | | 189 | 3 | -9 | -15 | -59 | -63 |
| South Africa | | 56118 | 1.4 | 2 | 1 | 0 | 6 | | 309 | 9 | -3 | -6 | -43 | -56 |
| Turkey | | 101994 | 0.8 | 2 | 3 | 10 | 12 | | 512 | 8 | 5 | 35 | -34 | 83 |
| Ukraine | | 525 | 0.0 | -1 | -2 | -1 | -6 | | 464 | 14 | -11 | -28 | -131 | -323 |
| EM total | | 41 | 0.7 | 4 | 4 | 0 | 6 | | 336 | 4 | -10 | -3 | -36 | -78 |

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

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