






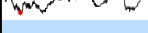

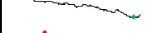


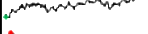
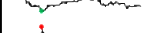
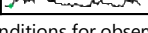
- Positive trade headlines continue to guide markets higher ([link](#))
- US budget deficit tops \$1 trillion so far this fiscal year ([link](#))
- Several core European ECB officials opposed yesterday's decision to restart QE ([link](#))
- Sterling appreciates as Northern Irish DUP signals openness to broader deal ([link](#))
- Japanese bonds sell off the most since August 2018 ([link](#))

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

Trade optimism pushes U.S. stocks near all-time high

Financial markets are on track to finish the week on a strong note, buoyed by further signs of easing trade tensions. Global equity markets are up about 0.5% this morning, with the U.S. S&P 500 poised to open near a record high. China reportedly announced that it is encouraging firms to buy U.S. farm products and will not impose additional tariffs on these products. There were also news reports yesterday that US officials are considering an interim trade deal. The US and China will hold working-level trade meetings next week and face-to-face talks at the ministerial level in Washington thereafter. **Yesterday's ECB meeting initially prompted a decline in bond yields and the euro, but markets reversed sharply later in the day.** The reversal has been partially attributed to news that the decision lacked the buy-in of crucial players, including France, Germany, Denmark, and the Netherlands. Yields continue to rise today, benefiting bank stocks.

Key Global Financial Indicators

Last updated: 9/13/19 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3010	0.3	1	3	4	20
Eurostoxx 50		3550	0.3	2	6	6	18
Nikkei 225		21988	1.1	4	7	-4	10
MSCI EM		42	0.9	2	5	0	8
Yields and Spreads			bps				
US 10y Yield		1.79	3.3	23	9	-118	-89
Germany 10y Yield		-0.50	2.0	14	11	-92	-74
EMBIG Sovereign Spread		331	2	-9	-29	-35	-83
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.3	0.3	1	0	0	-2
Dollar index, (+) = \$ appreciation		98.0	-0.3	0	0	4	2
Brent Crude Oil (\$/barrel)		60.4	0.1	-2	-1	-23	12
VIX Index (% change in pp)		13.9	-0.4	-1	-4	1	-12

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

United States

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In this morning's data, retail sales for August were released broadly in line with expectations. The "control group" measure of retail sales that feeds into the calculation of GDP matched expectations at 0.3% m/m, with the prior month's data revised down a tick to 0.9%. Headline retail sales gained 0.4% m/m in August (0.2% expected). The market reaction was muted.

In yesterday's session, stocks firmed, paced by a rebound in tech stocks. Market sentiment was buoyed by some de-escalation in the US-China trade dispute and another round of stimulus from the ECB. Ten-year Treasuries yields rose 3 bps to 1.77%. Trade between the US and China has slackened since trade tensions fanned dueling tariff announcements.

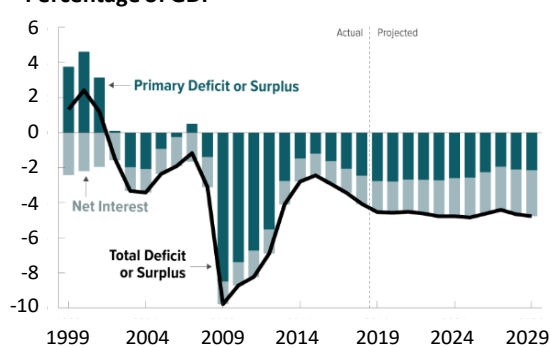
Trading Less

U.S. imports and exports with China have tumbled year-to-date

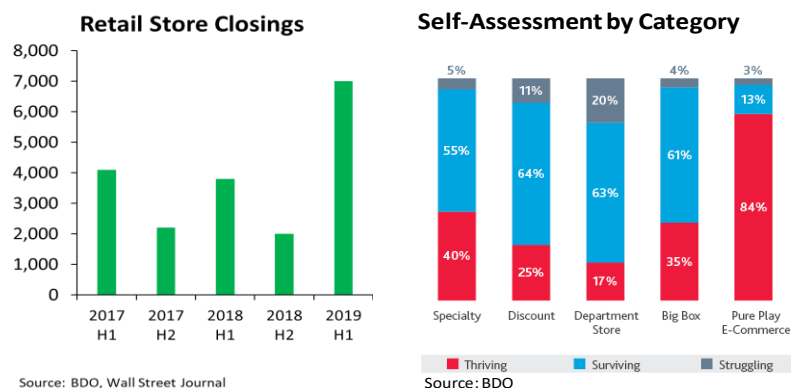


The Treasury announced the budget deficit had exceeded \$1 tn through the first 11 months of the current fiscal year (at \$1.067 trillion, compared to \$898 bn in the same period last year). The August deficit came in at \$200 bn (as expected). But the gap should narrow by the end of the fiscal year in September since quarterly payments are due that month. Still, the Congressional Budget Office projects a \$960 bn budget deficit this year and averages of \$1.2 tn between 2020 and 2029. The budget received a lift from tariff revenues so far this year, which have surged to \$64 bn from \$36.7 bn a year earlier.

Percentage of GDP

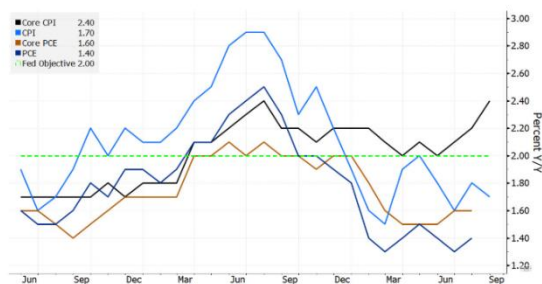


Retailers closed more stores in the first half of this year than in all of 2018. The shift to online shopping and a decline in shopping mall traffic have taken a large toll on traditional brick-and-mortar stores. While some retailers have risen to the challenges of Amazon and cultural changes to shopping habits, many have succumbed, and the consultancy BDO advises the industry will see more bankruptcies and disruption going forward.



Yesterday, the core CPI had been reported at 0.3% m/m for a third straight month in August, pushing up the yearly increase to 2.4%. The increase reflected the largest monthly increase in medical costs since 2016 and the biggest jump in health insurance costs on record. Tariff increases could further add to inflation, possibly reducing the scope for monetary easing. But the Fed is widely expected to cut rates by 25 bps next week.

PCE vs. CPI, Headline vs. Core



Source: BLS, BEA

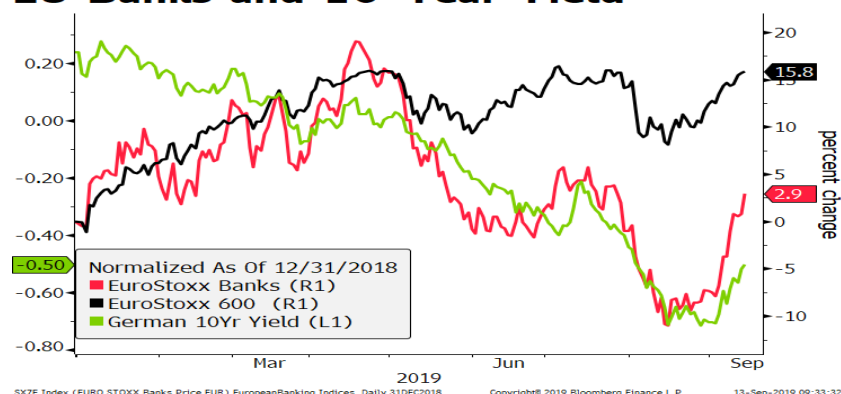
Europe

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Yields continue to trend higher. The 10-year German bund is up 2 bps on the day and 14 bps on the week, half of which happened since the ECB meeting yesterday. Italian longer-dated yields were the outlier in the region, falling 4 bps this week, but the 2-years rise 16 bps, roughly in line with the regional trend.

Equity markets are up modestly across the region. The EuroStoxx 600 is up nearly 1% over the week, with the German Dax (+2.0%) outperforming. Banking sector stocks continued to outperform (+6.5% on the week), propelled by higher yields and the decision of the ECB to implement a tiering system to help reduce the impact of negative rates.

EU Banks and 10-Year Yield

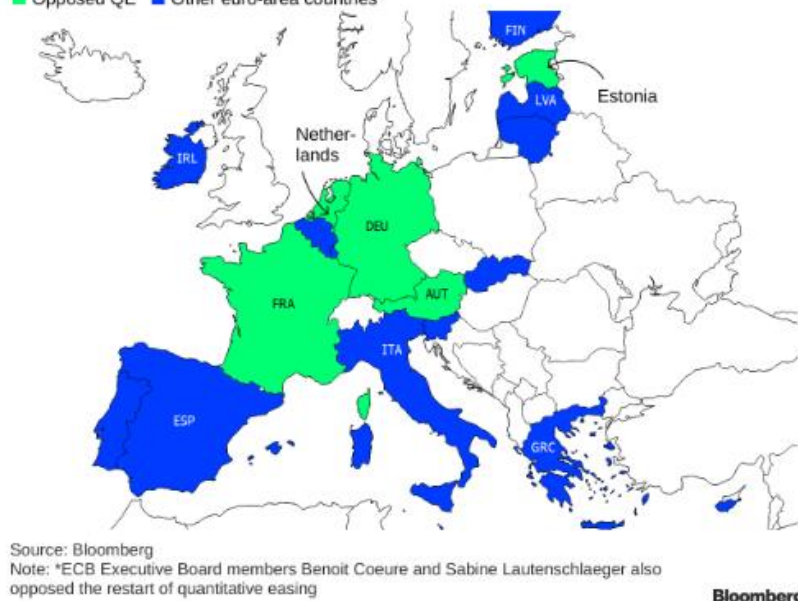


The most important post-ECB meeting development was news that several ECB members of core countries expressed their opposition to the decision to resume bond purchases. Reports suggest that Bank of France Governor de Galhau joined the group of resistance against the new measures, which included policymakers from Germany, Denmark, Austria and the Netherlands, along with Executive Board members such as Sabine Lautenschlaeger and Benoit Coeure.

Resistance Was Futile

Governors from the heartland of the euro opposed the resumption of QE*

■ Opposed QE ■ Other euro-area countries



United Kingdom

Sterling received a boost from news that the Northern Irish DUP may give the UK government some more flexibility. The *Times* claimed it would be prepared to accept parts of the regulatory alignment proposed in the backstop provided Northern Ireland remained within the UK's customs regime. Sterling has appreciated nearly 1% against the dollar to \$1.245. **Separately, reports noted that UK's PM Boris Johnson is trying to persuade Hungarian PM Viktor Orban to vote against postponing Brexit.** Indeed, Hungary's foreign minister suggested that this is a possibility. The EU would require a unanimous vote to ratify the extension.

Other Mature Markets

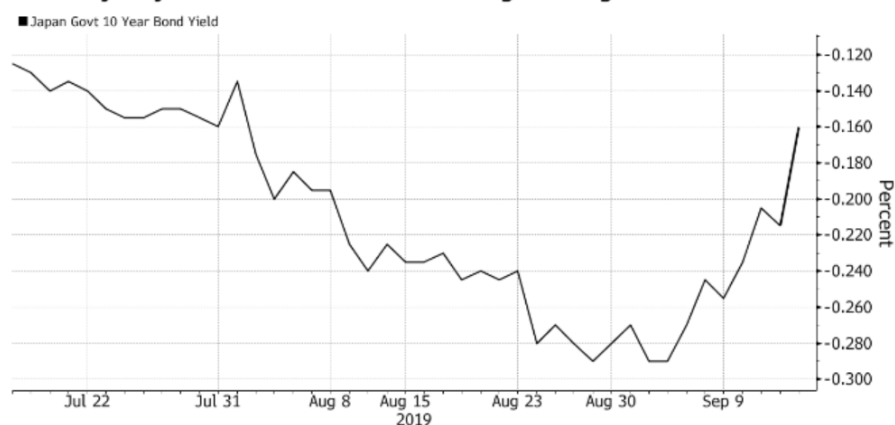
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Japan

Equities continued to advance (+0.9%), capping their best week since July 2016. Real estate and telecom stocks outperformed in heavy volume trading. Analysts ascribed gains to easing concerns over US-China trade tensions. **JGB yields rose strongly across the curve.** 10-year yields jumped 6 bps to -0.16. The sell-off in JGBs comes after the BoJ signaled that it was unconformable with the rapid decline in yields in August. This has prompted market speculation that the BoJ may announce adjustments following the monetary policy meeting next Friday. The yen appreciated marginally.

Bouncing Back

JGB 10-year yield is back within the BOJ's targeted range



Emerging Markets

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Positive trade news buoyed Asian equities (+0.6%). First, Bloomberg reported that Trump administration officials have discussed offering an limited trade agreement to China that would delay and even roll back some U.S. tariffs in exchange for Chinese commitments on intellectual property and agricultural purchases. President Trump later expressed his support in a tweet. Then, Xinhua News Agency reported that China will exempt agricultural products including pork and soybeans from tariffs. Gains in Asian equities were led by Vietnam (+1.1%) and Hong Kong (+1%). Vietnamese stocks were also helped by a surprise interest rate cut today. Chinese markets were closed for a holiday. Regional currencies were little changed, except for the offshore RMB which appreciated 0.4%. In **EMEA**, stocks in South Africa (+0.6%), Poland (+0.4%) and Nahrain (+0.4%) advanced whereas those in Russia (-0.5%) and Hungary (-0.3) saw the largest losses. Most currencies strengthened about 0.5% to the dollar. **Latin American equity markets** were mostly higher on Thursday. Argentina outperformed as the equity index rose 1.7%, followed by Brazil (+0.9%) and Chile. Currencies were mostly stronger but mainly traded in narrow ranges. 10-year government bond yields rose 10 bps in Chile but were lower in other countries.

Key Emerging Market Financial Indicators

Last updated: 9/13/19 7:58 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		42.00	1.0	2	5	0	8
MSCI Frontier Equities		28.07	0.0	-1	-4	1	7
EMBIG Sovereign Spread (in bps)		331	2	-9	-29	-35	-83
EM FX vs. USD		61.29	0.2	1	0	0	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.08	0.5	1	0	-3	-3
Indonesian Rupiah		13965	0.2	1	3	6	3
Indian Rupee		70.93	0.3	1	1	2	-2
Argentine Peso		56.12	0.1	0	-6	-32	-33
Brazil Real		4.06	0.1	1	-2	2	-5
Mexican Peso		19.39	0.2	1	0	-3	1
Russian Ruble		64.19	0.8	2	1	6	9
South African Rand		14.51	0.6	2	4	2	-1
Turkish Lira		5.67	-0.1	1	-2	7	-7
EM FX volatility		8.14	0.0	-0.1	-0.5	-4.0	-1.6

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

Argentina

The central bank's foreign reserves have been shrinking for 32 consecutive trading days, from \$66.3 billion a month ago to \$50.2 billion on Wednesday. The central bank also introduced measures late Wednesday to prevent investors from making profits out of the capital controls. Analysts expect further tightening in Argentina's capital controls in the next weeks. In other news, **Argentina's CPI inflation in August was released at 4% m/m and 54.5% y/y.** According to a recent survey, analysts project inflation to be 5.8% m/m in September. Domestic equities rose 1.7% yesterday and the peso was little changed.



Source: Bloomberg

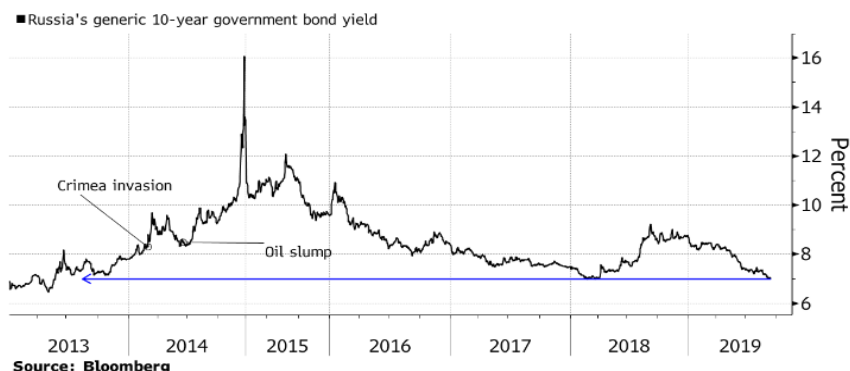
Peru

Peru's central bank kept its reference rate unchanged at 2.5% Thursday. According to a Bloomberg survey, 10 out of 13 economists expected no change while the remaining 3 expected a 25 bps cut. To boost economic growth and mitigate negative effects from the U.S.-China trade war, Peru has lowered the policy rate at last month's meeting. Inflation in August declined to the middle of the central bank's target range. Analysts argued that the central bank still has room for further monetary easing since there is no inflationary pressure.

Russia

Russian long-term sovereign yields have fallen to levels not seen since 2013. The yield on 10-year sovereign bonds started drifting downward in mid-2018 and it is now at 6.98%. Market contacts expect further easing from the Central Bank of Russia, following last week's 25 bps cut in rates (the third reduction in a row). Separately, FM Siluanov reiterated yesterday the government's intention to increase borrowing in currencies other than the US dollar, possibly the yuan. The ruble traded +1% stronger to the dollar, at 64.24/dollar.

Russian sovereign yields lowest since before Crimean crisis



Source: Bloomberg






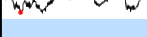

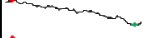






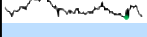
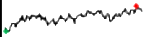
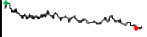





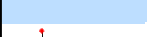
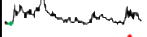


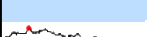

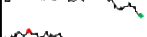
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Global Financial Indicators

Last updated: 9/13/19 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3010	0.3	1	3	4	20
Europe		3550	0.3	2	6	6	18
Japan		21988	1.1	4	7	-4	10
China		3031	0.7	2	8	13	22
Asia Ex Japan		68	0.7	2	6	-2	8
Emerging Markets		42	0.9	2	5	0	8
Interest Rates			basis points				
US 10y Yield		1.79	3.3	23	9	-118	-89
Germany 10y Yield		-0.50	2.0	14	11	-92	-74
Japan 10y Yield		-0.15	5.9	8	8	-27	-16
UK 10y Yield		0.72	4.2	21	22	-79	-56
Credit Spreads			basis points				
US Investment Grade		132	-0.6	-3	0	31	-16
US High Yield		446	-2.5	-24	-34	112	-75
Europe IG		46	0.6	-2	-8	-14	-42
Europe HY		239	3.3	0	-35	-39	-114
EMBIG Sovereign Spread		331	2.0	-9	-29	-35	-83
Exchange Rates			%				
USD/Majors		98.00	-0.3	0	0	4	2
EUR/USD		1.11	0.3	1	-1	-5	-3
USD/JPY		108.0	0.1	-1	-1	4	2
EM/USD		61.3	0.3	1	0	0	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		60	0.1	-2	-1	-23	12
Industrials Metals (index)		119	0.4	1	4	2	9
Agriculture (index)		38	0.3	4	0	-9	-8
Implied Volatility			%				
VIX Index (% change in pp)		13.9	-0.4	-1.1	-3.7	1.5	-11.6
10y Treasury Volatility Index		5.1	0.0	0.0	-0.2	1.8	0.6
Global FX Volatility		7.0	0.0	-0.2	-1.1	-1.7	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		210	3.0	-13	-63	-151	-206
Italy		135	-2.9	-16	-87	-117	-115
Portugal		75	-0.5	-8	-10	-70	-73
Spain		74	0.2	-7	-8	-31	-44

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: 9/13/2019 7:58 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.08	0.5	1.0	0	-3	-3		3.1	1.0	1	1	-55	-9
Indonesia		13965	0.2	0.9	3	6	3		7.4	-3.1	-8	-9	-137	-79
India		71	0.3	1.1	1	2	-2		6.7	0.9	6	8	-155	-70
Philippines		52	0.0	-0.1	1	4	1		4.4	-2.1	-1	-26	-185	-195
Thailand		30	0.0	0.7	1	7	7		1.7	-0.8	13	3	-123	-98
Malaysia		4.16	0.0	0.4	1	0	-1		3.4	0.4	4	-7	-76	-72
Argentina		56	0.1	-0.2	-6	-32	-33		70.4	36.6	284	3157	4545	4736
Brazil		4.06	0.1	1.2	-2	2	-5		6.6	-4.3	-3	1	-378	-150
Chile		708	0.3	0.7	0	-4	-2		2.7	0.1	11	-1	-208	-175
Colombia		3367	0.3	0.4	2	-9	-3		5.7	-1.8	-2	-4	-93	-81
Mexico		19.39	0.2	0.7	0	-3	1		7.3	-5.5	14	-5	-79	-145
Peru		3.3	0.4	1.5	2	0	1		4.3	-1.2	0	-2	-131	-143
Uruguay		36	0.2	0.4	-2	-10	-11		10.8	-7.2	-39	45		6
Hungary		299	0.6	0.1	-3	-7	-6		1.1	-8.3	-11	11	-150	-111
Poland		3.90	0.5	0.8	-1	-6	-4		1.8	-4.5	3	8	-78	-44
Romania		4.3	0.4	0.6	-1	-7	-5		3.6	-9.0	-8	2	-68	-60
Russia		64.2	0.8	2.4	1	6	9		6.8	-3.6	-2	-32	-168	-158
South Africa		14.5	0.6	2.1	4	2	-1		9.2	-7.4	-6	-33	-52	-37
Turkey		5.67	-0.1	0.8	-2	7	-7		14.5	-49.6	-44	-22	-819	-233
US (DXY; 5y UST)		98	-0.3	-0.4	0	4	2		1.65	1.7	22	7	-122	-86

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3031	0.0	2	8	13	22		184	-1	-3	-1	-2	-10
Indonesia		6335	-0.1	0	2	8	2		168	2	-12	-23	-38	-68
India		37385	0.8	2	1	-1	4		132	-4	-2	-13	-39	-64
Philippines		7992	0.6	1	3	6	7		65	3	-9	-14	-38	-56
Malaysia		1601	0.0	0	1	-11	-5		122	1	-1	-2	-12	-40
Argentina		29115	1.7	8	-4	-3	-4		2120	14	91	346	1427	1305
Brazil		104371	0.9	2	1	40	19		218	-1	-16	-10	-112	-55
Chile		4975	0.4	3	3	-7	-3		125	-1	-7	-9	-8	-41
Colombia		1588	0.1	1	2	6	20		171	-1	-5	-12	-8	-57
Mexico		42670	-0.2	0	8	-14	2		314	-2	-16	-28	44	-40
Peru		19417	0.5	0	1	2	0		107	-1	-9	-18	-34	-61
Hungary		40219	0.4	0	-1	11	3		78	-6	-17	-25	-36	-70
Poland		58157	0.5	3	2	1	1		9	-8	-24	-19	-44	-76
Romania		9242	0.2	0	1	13	25		176	-10	-22	-23	-11	-45
Russia		2789	-0.4	0	4	18	18		183	3	-11	-28	-61	-69
South Africa		57205	0.7	3	4	2	8		303	1	-5	-22	-52	-62
Turkey		102748	0.3	4	3	9	13		489	3	-8	-8	-24	60
Ukraine		513	0.0	-3	-4	-3	-8		447	7	-19	-89	-115	-340
EM total		42	1.0	2	5	0	8		331	2	-9	-29	-35	-83

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

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