



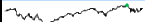






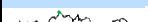



- **US and China agree to resume trade talks in October, buoying sentiment** ([link](#))
- **UK Parliament rejects snap election, debates bill to block no-deal Brexit** ([link](#))
- **Bank of Canada left rates unchanged for a seventh straight meeting** ([link](#))
- **Riksbank leaves interest rates unchanged but signals flatter rate path** ([link](#))
- **JP Morgan to include Chinese bonds in EM bond index, effective February** ([link](#))

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Investors pare August losses on trade relief

Plans for an October resumption of US-China trade talks are helping equities and EM assets extend gains. News that the US and China have agreed to continue negotiations is extending risk market momentum this morning, despite most observers noting that the likelihood of substantive progress towards a deal remains low. Nevertheless, glimmers of hope on trade as well as on Brexit (where investors see reduced risk of imminent crash-out) and Hong Kong's unrest are proving to be enough to propel global equities firmly above their August lows. Bond market investors are comparatively unmoved, however, with recent increases in Bund and Treasury yields barely chipping away at the massive rally seen in August. The combination of better risk sentiment and still-low yields is proving attractive for emerging market investors, as currencies, equities, and external bond spreads are seeing a sizeable two-day rally.

Key Global Financial Indicators

Last updated: 9/5/19 8:19 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2938	1.1	2	3	2	17
Eurostoxx 50		3477	0.8	2	5	5	16
Nikkei 225		21086	2.1	3	2	-7	5
MSCI EM		41	0.3	3	4	-3	4
Yields and Spreads			bps				
US 10y Yield		1.52	0.8	2	-19	-138	-117
Germany 10y Yield		-0.62	5.5	7	-10	-100	-86
EMBIG Sovereign Spread		340	-6	-25	-19	-37	-74
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.6	0.2	1	-1	0	-3
Dollar index, (+) = \$ appreciation		98.2	-0.3	0	1	3	2
Brent Crude Oil (\$/barrel)		61.1	0.7	0	2	-21	14
VIX Index (% change in pp)		16.6	-0.7	-3	-8	3	-9

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

United States

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August ADP employment change released this morning was stronger than expected (+195k vs. +148k cons.). The July number was revised down by -14k to 142k, from 156k. Treasury yields rose 1-2bps across the curve and the dollar marginally strengthened against Euro following the headline. S&P 500 stock futures also traded up slightly, by 0.1%.

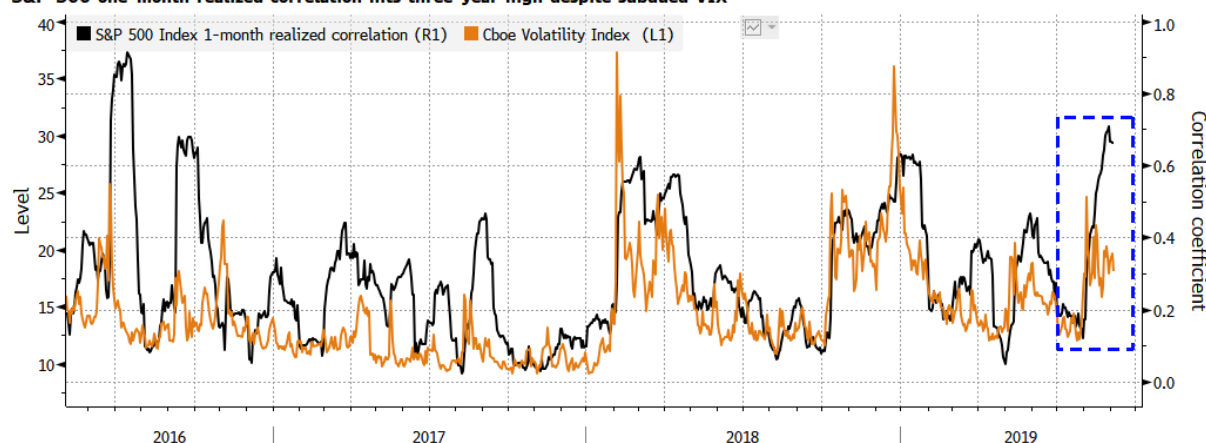
Equities went up amid risk-on sentiment globally following news that the Hong Kong's Chief Executive Carrie Lam will formally withdraw the extradition bill. The S&P 500 fully recouped Tuesday's losses and the VIX index of S&P 500 option volatility dropped by 2.3 points to 17.3. On the data front, the US trade deficit edged lower in July but remained at about the same level as in the second quarter. For the third quarter, trade is thus on track to be neutral for growth, analysts noted.

The Treasury 10-year yield edged up with a curve steepening bias. The Fed's Beige Book reported that, on balance, the economy expanded at a modest pace through the end of August despite continuous concerns regarding tariffs and trade policy uncertainty.

Correlation of S&P500 stocks rose to a 3-year high. Large US shares are moving in tandem more than usual amid growing fears of a trade-war-driven global economic slowdown, analysts said. The higher correlation suggests that the market is primarily driven by macroeconomic and trade concerns rather than idiosyncratic factors of individual names. Meanwhile, the VIX is relatively lower to similar episodes in the past, which some analysts attribute to market participants anxiety being kept in check by expected monetary or fiscal policy support.

All Together Now

S&P 500 one-month realized correlation hits three-year high despite subdued VIX



Source: Bloomberg

Europe

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European equity indices advanced again today as fresh trade talks were announced by the US and China. DAX (+0.9%), CAC 40 (+0.9%), Titans 30 (+0.8%), and Ibex 35 (+1.0%). UK equities, on the other hand, were dragged down by Brexit uncertainties: FTSE 100 (-0.6%), FTSE 250 (-0.2%). Bank stocks (+1.8%) outperformed main indices.

Core European sovereign 10-year yields gained 5 bps to -0.62% in Germany and -0.32% in France. Italian yields also gained (+8 bps to 0.88%)

In Brexit news, **PM Johnson's proposal for snap elections on Oct. 15 was defeated by Parliament last night** (only 298 votes in favor out of 434 needed). Lawmakers will devote the rest of the week to securing

passage of a bill preventing the UK from leaving the EU without a deal and forcing PM Johnson to request another extension from the EU. Then they will seek royal consent for the bill, which would turn it into a law. Labour leader Corbyn has reiterated that his MPs will only support the calling of a general election only once such law is in place. **The pound gained 0.8% today to \$1.23.**

Separately, **governor Carney told the Treasury Select Committee yesterday that the BoE's assessment of the "worst-case no-deal no-transition scenarios has become less severe"** since last November's projections thanks largely to preparations undertaken by the private and public sectors.

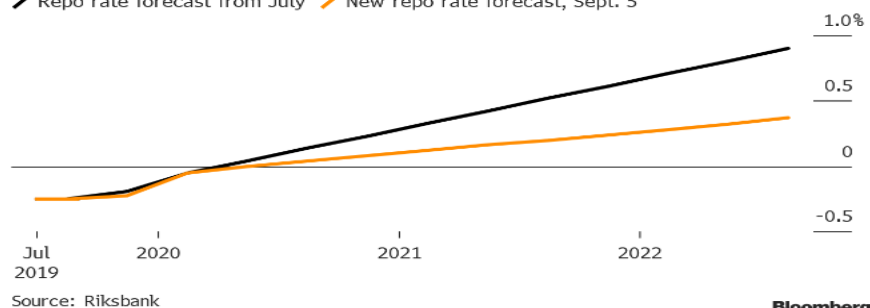
Italian president Mattarella has authorized the formation of a new government, to be sworn in today most likely. The prime minister-designate Mr. Conte has nominated Mr. Roberto Gualteri as the new finance minister. Mr. Gualtieri is currently the chair of the European Parliament Committee on Economic and Monetary Affairs.

The Riksbank left interest rates unchanged at -0.25% this morning, as expected. The central bank noted that a hike by year-end was still likely. However, the bank's future path of interest rates is shallower than in previous forecasts.

Lower Path

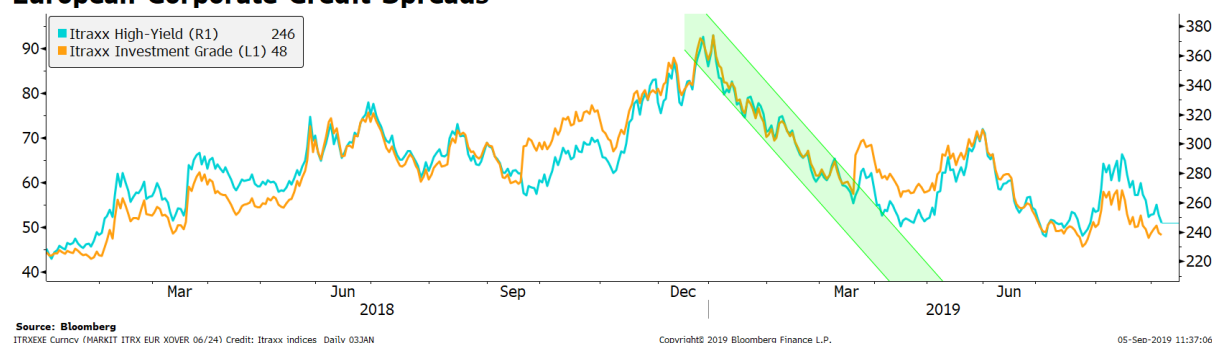
Sweden's Riksbank significantly lowered the rate path for coming years

✓ Repo rate forecast from July ✗ New repo rate forecast, Sept. 5



In **European credit markets**, corporate spreads have continued to tighten over the summer. The iTraxx high-yield index stands now at 246 bps and the investment grade gauge is at 48 bps.

European Corporate Credit Spreads



Other Mature Markets

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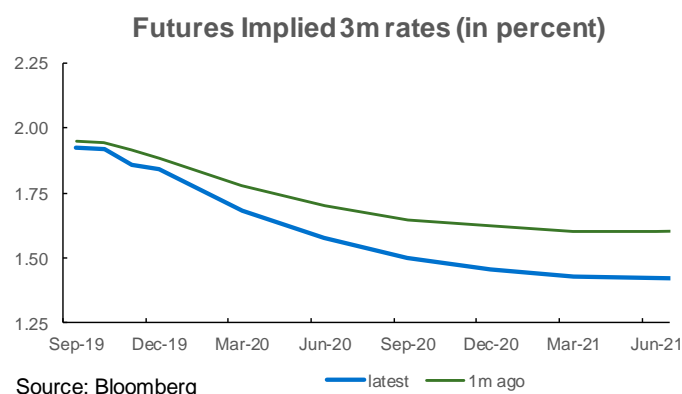
Japan

News of an October resumption in US-China trade talks buoyed market sentiment, chipping at safe-haven demand for the yen while lifting equities. The Topix jumped (+2.1%), posting its biggest gain in 7 weeks while the yen weakened a touch (-0.1%). Demand for the 30-year long bond was robust at the

auction, pushing the 30-year yield down 0.5 bps to 0.12%. While the bid-to-cover ratio at the auction eased from 3.50x previously to 3.45x, the “tail”, or the difference between the average and lowest prices and commonly seen as an indicator of investor demand, narrowed to a four-month low of 0.11. Elsewhere on the yield curve, yields edged higher from multi-year lows seen on Wednesday; the 10-year note rose 1.7 bps to -0.27% and the 2-year note rose 1 bp to -0.30%.

Canada

The Bank of Canada maintained its target for the overnight rate at 1.75%, as expected. The bank left rates unchanged for a seventh straight meeting. Growth in Canada during the second quarter was stronger than expected, the bank said, although some of this strength was seen as likely temporary. An escalation of the US-China trade conflict weighed more heavily on global economic momentum than the bank had projected in their report in July. The overall message was perceived as less dovish than expected as the bank appears to have maintained a tilt towards data dependency. Some investors and analysts had been expecting more explicit signaling of an October rate cut. The Canadian dollar strengthened by 0.8% and 2-year government bond yield rose by 2bps following the decision. Implied yields on three-month bankers' acceptance futures also rose by 1-2bps across tenors, however the futures curve still discounts multiple rate cuts in coming years.



Emerging Markets

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EM assets are higher on the back of improving risk sentiment following signs of a rapprochement between the US and China. Asian bourses gained, with China's Shanghai and Shenzhen Composites outperforming (+0.96% and +0.93%, respectively). Hong Kong shares were the outlier after a technical problem forced its exchange operator to suspend derivatives trading, with shares sliding as much as -2.1% before ending the day unchanged. In FX, the Korean won extended its appreciation by another 0.65%, pacing gains. Meanwhile, the Philippine peso, after recent gains, weakened a touch (-0.1%), underperforming others. **EMEA** equities were also higher across the board, led by South Africa (+0.6%), Russia (+0.6%), and Poland (+0.6%). Currencies were stable, except the Turkish lira (-0.5%). In **Latin America**, most currencies strengthened against the dollar in line with the global risk rally yesterday. The Argentine peso was an exception, staying for a second day mostly unchanged while foreign law bond prices recovered by around 2 percentage points across the curve. Brazil's real was the best performer in FX markets (+1.8% stronger against the dollar) as the progress of the pension reform in the senate remains in line with market expectations. The Colombian peso strengthened by 1.3% against the dollar helped by a rally in oil (+4.3% on Wednesday) after the U.S. announced that it plans to intensify sanctions on Iran and Russia said it would trim production this month.

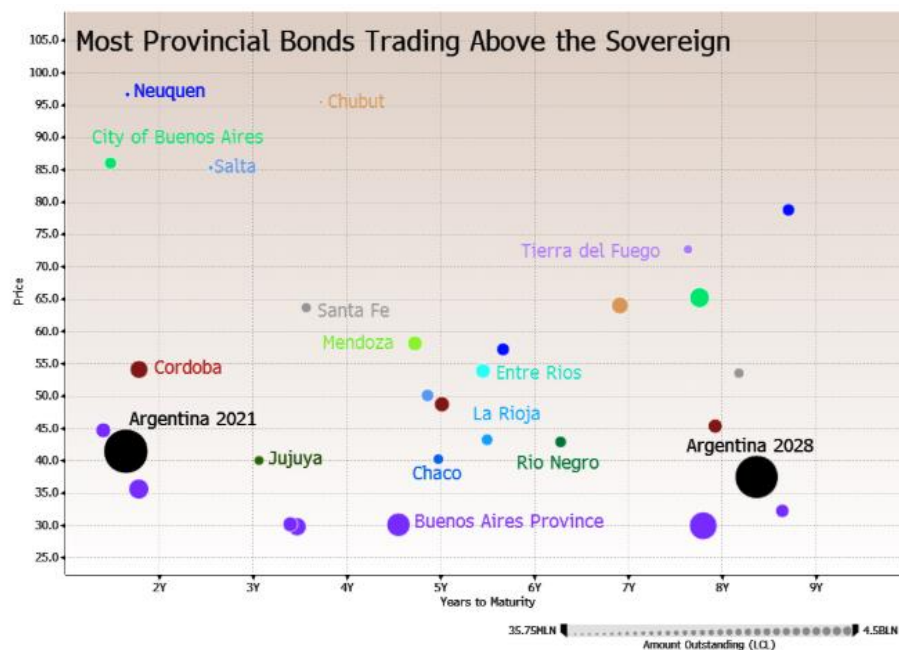
Key Emerging Market Financial Indicators

Last updated: 9/5/19 8:23 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.61	0.3	3	4	-3	4
MSCI Frontier Equities		28.69	-0.5	0	-1	4	10
EMBIG Sovereign Spread (in bps)		340	-6	-25	-19	-37	-74
EM FX vs. USD		60.59	0.2	1	-1	0	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.15	0.0	0	-1	-4	-4
Indonesian Rupiah		14155	0.0	1	1	6	2
Indian Rupee		71.85	0.4	0	-2	0	-3
Argentine Peso		56.01	-1.2	4	-19	-30	-33
Brazil Real		4.08	0.3	2	-3	2	-5
Mexican Peso		19.63	0.5	3	0	-1	0
Russian Ruble		66.01	0.2	1	-1	3	5
South African Rand		14.82	-0.1	3	1	4	-3
Turkish Lira		5.68	-0.3	3	-2	16	-7
EM FX volatility		8.59	0.0	-0.4	-0.8	-4.4	-1.2

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

Argentina

Foreign law bond prices recovered by around two points and now trade around 40% cash price. Most bonds issued by provinces (e.g. energy rich Neuquen) continue to trade at higher cash prices as analyst are still uncertain on whether they will be included in a restructuring plan and/or if a restructuring plan for them will be at better terms compared to the sovereign. One exception is Buenos Aires province, which has issued around half of the debt outstanding. Analysts view it as highly likely to default given its large foreign-currency obligations and weaker credit metrics.



Source: Bloomberg

China

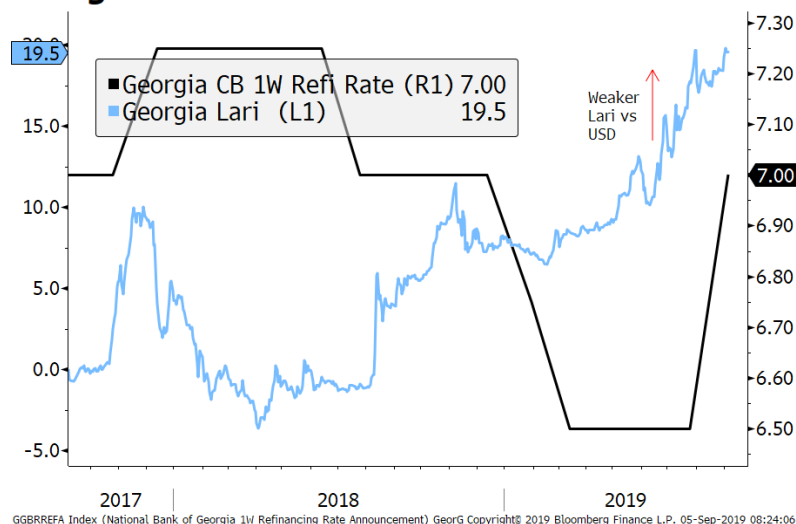
The US and China announced that the next round of trade negotiation will take place in October, though neither side specified an exact date. Although the news reignited investor optimism, skepticism that any substantive progress can be made also remained high. Both the onshore and offshore RMB were unchanged on the day while equities gained. From their recent low in early August, the Shanghai Composite has gained nearly 8% and the high-tech heavy Shenzhen Composite, +11.3%. Meanwhile, **the State Council signaled more stimulus might be necessary to help stabilize growth.** New initiatives could include targeted bank reserve-ratio cuts to reduce borrowing costs. The State Council also called for an accelerated issuance of local government special bonds for infrastructure spending, though the overall fiscal envelope remains the same.

JP Morgan announced that it will include Chinese bonds in the GBI-EM Global Diversified index, effective from February 2020. Index inclusion will be staggered over a 10-month period, with Chinese bonds ultimately taking up a 10% weight in the index. Given the \$202 bn of assets currently tracking the index, the 10% weight translates into roughly about \$20 bn of inflows into China. Analysts noted that with this latest index inclusion – currently the Bloomberg Global Aggregate Index also includes Chinese bonds – the FTSE WGBI could be the next major investment index to include Chinese bonds. Bond inflows have been slower recently. By Bloomberg's estimate, foreign purchases of Chinese government and policy bank bonds totaled RMB23 bn (\$3 bn) in August, well below the peak seen in May (RMB76 bn). On the day, CGB yields were mostly lower: while the 2-year note held steady at 2.65%, the 5-year and 10-year note both fell 2 bps to 2.88% and 2.98%, respectively.

Georgia

The central bank hiked rates by 50 bps to 7.0%, reversing easing earlier in the year after the significant depreciation of the lari. The currency has depreciated over 20% against the dollar since easing started in mid-2018, half of which happened early this year once the bank started cutting again. Officials noted that the main reason for the reversal in policy direction was rising inflationary expectations fueled by the weaker currency. Headline inflation has been accelerating, now at 4.9% y/y, well above the 3% target. The lari is stable after the move, after two weeks of significant depreciation.

Georgia Central Bank Rate








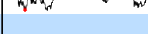
















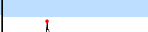


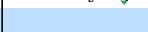



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Global Financial Indicators

Last updated: 9/5/19 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2938	1.1	2	3	2	17
Europe		3477	0.8	2	5	5	16
Japan		21086	2.1	3	2	-7	5
China		2986	1.0	3	6	10	20
Asia Ex Japan		66	2.2	3	5	-5	4
Emerging Markets		41	0.3	3	4	-3	4
Interest Rates			basis points				
US 10y Yield		1.52	0.8	2	-19	-138	-117
Germany 10y Yield		-0.62	5.5	7	-10	-100	-86
Japan 10y Yield		-0.26	1.7	3	-7	-38	-26
UK 10y Yield		0.57	8.0	14	6	-87	-70
Credit Spreads			basis points				
US Investment Grade		135	-0.6	1	2	30	-12
US High Yield		483	-4.7	2	-13	138	-38
Europe IG		48	-0.3	1	-10	-17	-39
Europe HY		246	-5.0	-4	-40	-45	-106
EMBIG Sovereign Spread		340	-6.0	-25	-19	-37	-74
Exchange Rates			%				
USD/Majors		98.17	-0.3	0	1	3	2
EUR/USD		1.11	0.2	0	-1	-5	-4
USD/JPY		106.8	-0.4	0	-1	4	3
EM/USD		60.6	0.2	1	-1	0	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		61	0.7	0	2	-21	14
Industrials Metals (index)		117	0.3	4	5	2	7
Agriculture (index)		37	0.3	-1	-5	-12	-11
Implied Volatility			%				
VIX Index (% change in pp)		16.6	-0.7	-2.7	-8.0	2.7	-8.8
10y Treasury Volatility Index		5.1	-0.1	-0.3	-0.6	1.4	0.6
Global FX Volatility		7.8	0.0	-0.4	-0.4	-1.2	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		221	-4.3	-7	-36	-197	-195
Italy		150	1.7	-18	-58	-105	-100
Portugal		84	0.3	2	4	-66	-64
Spain		82	0.0	3	6	-25	-35

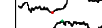










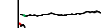








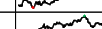
















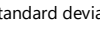
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 9/5/2019 8:23 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		7.15	0.0	0.0	-1	-4	-4		3.1	1.8	1	-5	-46	-9
Indonesia		14155	0.0	0.6	1	6	2		7.4	-0.9	8	-13	-79	-71
India		72	0.4	-0.1	-2	0	-3		6.7	0.0	3	8	-141	-73
Philippines		52	0.0	0.5	0	3	1		4.4	0.0	0	-15	-154	-192
Thailand		31	0.0	0.3	1	7	6		1.5	-0.7	-2	-37	-131	-113
Malaysia		4.19	0.4	0.7	0	-1	-1		3.3	0.0	-1	-24	-72	-76
Argentina		56	-1.2	3.6	-19	-30	-33		58.6	2.2	516	2794	3385	3555
Brazil		4.08	0.3	2.2	-3	2	-5		6.9	5.7	11	21	-354	-128
Chile		724	0.3	-0.2	0	-4	-4		2.7	0.0	1	-15	-205	-174
Colombia		3397	1.4	2.4	2	-9	-4		5.8	4.8	9	12	-77	-73
Mexico		19.63	0.5	2.6	0	-1	0		7.1	0.6	-4	-41	-79	-158
Peru		3.4	0.7	0.7	0	-2	0		4.4	-0.2	-1	-20	-113	-134
Uruguay		37	0.0	-0.1	-4	-10	-12		11.2	0.0	11	136		49
Hungary		298	0.2	0.6	-2	-5	-6		1.0	0.0	-2	-16	-147	-117
Poland		3.93	0.1	1.1	-2	-5	-5		1.7	0.8	-5	-14	-87	-57
Romania		4.3	0.1	-0.1	-1	-7	-5		3.7	-1.0	0	-17	-65	-58
Russia		66.0	0.2	0.8	-1	3	5		6.9	-3.0	-13	-35	-149	-150
South Africa		14.8	-0.1	3.3	1	4	-3		9.3	-6.1	-8	-9	-22	-27
Turkey		5.68	-0.3	2.8	-2	16	-7		15.4	-36.2	-100	16	-853	-144
US (DXY; 5y UST)		99	0.4	1.3	1	4	3		1.38	-0.8	0	-28	-136	-113

	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		2930	1.0	1	2	8	17		187	1	4	5	2	-7	
Indonesia		6262	0.6	0	-1	5	1		187	6	-7	-1	-3	-49	
India		36563	-0.2	-2	-1	-5	1		139	3	-4	6	-21	-57	
Philippines		7805	0.7	1	-4	0	5		83	2	-8	1	-25	-38	
Malaysia		1592	0.0	-1	-2	-13	-6		124	1	-2	5	-12	-38	
Argentina		26195	6.9	1	-37	-9	-14		2577	44	574	1744	1806	1762	
Brazil		100626	1.5	4	-2	32	14		243	2	-1	26	-95	-30	
Chile		4772	0.9	3	-2	-9	-7		135	1	-4	3	-5	-31	
Colombia		1561	0.3	3	1	2	18		181	2	-11	-8	-3	-47	
Mexico		42108	1.2	5	5	-15	1		334	1	-25	-4	53	-20	
Peru		19280	-0.1	3	-2	-1	0		123	1	-6	-4	-25	-45	
Hungary		39213	0.3	0	-3	6	0		107	2	-6	-4	-17	-41	
Poland		56112	0.1	0	-4	-7	-3		40	2	-1	-8	-22	-45	
Romania		9257	0.2	0	2	11	25		212	2	0	29	32	-9	
Russia		2768	0.4	4	3	18	17		205	-3	-11	-6	-30	-47	
South Africa		54558	1.2	1	-3	-7	3		321	2	-12	3	-15	-44	
Turkey		99176	-0.1	2	-1	6	9		520	-7	-14	45	-78	91	
Ukraine		528	0.0	0	-2	0	-6		495	-9	-41	5	-109	-292	
EM total		41	0.3	3	4	-3	4		340	-6	-25	-19	-37	-74	

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

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