











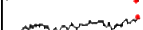


- US job gains disappoint at 130k while wage growth exceeds expectations ([link](#))
- Risk markets extend gains on hopes for progress in US-China trade talks ([link](#))
- US Treasury yields back up as likelihood of a deep rate cut cycle decreases ([link](#))
- UK composition of GDP shows further financial sector contraction ([link](#))
- EM central banks send most dovish signals since 2009, according to analysts ([link](#))
- People's Bank of China lowered its reserve requirements to boost growth ([link](#))
- Russian central bank cuts rates 25 bps to 7%, as expected ([link](#))

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

Risk rally continues, tempered by weakening US job gains

Risk assets are extending this week's gains, buoyed by positive sentiment following the announcement of US-China trade talks. Equities are up about 0.5% in the major markets and credit spreads tightened 1-5 basis points for the major indices. U.S. Treasury yields rose further this morning to 1.6% at the 10-year tenor, gaining 15 bps since early Thursday. This morning's release of US jobs data tempered optimism somewhat as payroll gains disappointed at 130k in August (vs. 160k expected, prior months revised down 20k), with private payrolls 54k below consensus. Wage gains exceeded expectations at 3.2% y/y (vs. 3% expected), tempering hopes for decisive Fed easing. Market focus is now shifting to Chair Powell's speech on the economic outlook in Zurich later today, where investors will look for clues about the timing and number of prospective rate cuts. This will be the last speech before the blackout period for the September 17-18 FOMC meeting, for which markets are pricing in a 25 bps rate cut.

Key Global Financial Indicators

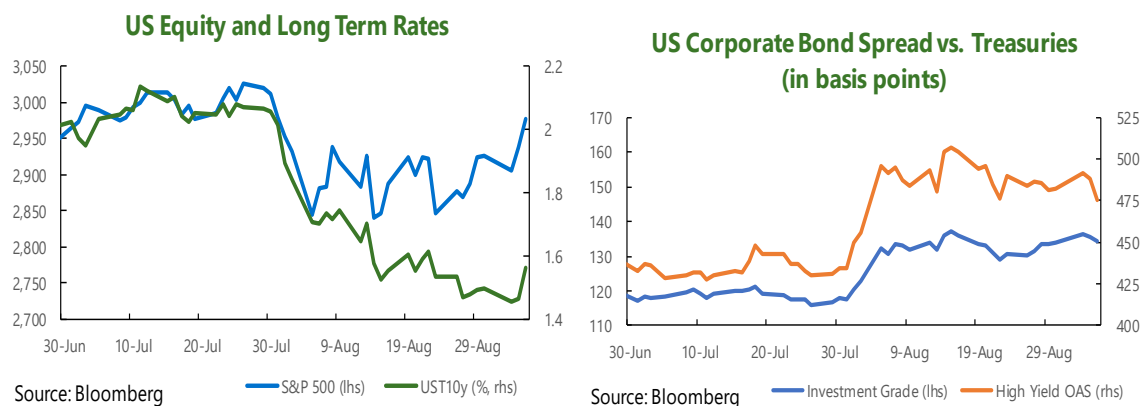
Last updated: 9/6/19 7:53 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2976	1.3	3	3	3	19
Eurostoxx 50		3494	0.3	2	6	6	16
Nikkei 225		21200	0.5	2	3	-6	6
MSCI EM		41	0.4	4	4	-2	5
Yields and Spreads			bps				
US 10y Yield		1.60	9.3	10	-11	-128	-109
Germany 10y Yield		-0.60	-0.4	10	-6	-95	-84
EMBIG Sovereign Spread		337	-1	-17	-16	-41	-77
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.6	0.1	1	-1	0	-3
Dollar index, (+) = \$ appreciation		98.5	0.1	0	1	4	2
Brent Crude Oil (\$/barrel)		59.9	-1.7	-1	2	-22	11
VIX Index (% change in pp)		15.7	-0.5	-2	-4	1	-10

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

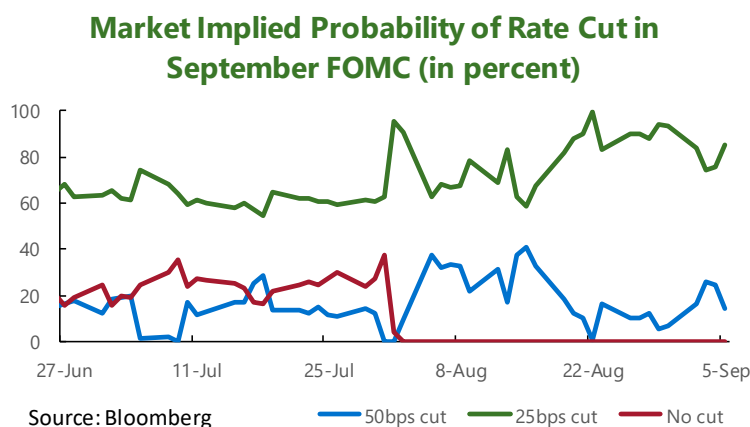
United States

[back to top](#)

Yesterday, risk markets extended their rally yesterday on the latest attempt by US and China to de-escalate a trade conflict that has raised global economic concerns. The S&P 500 rose by 1.3%, the VIX fell a point to 16, and the high-yield corporate bond spread tightened by 12 bps as fears of a trade-war-driven global slowdown eased.



Treasury yields jumped as a deep monetary easing cycle seemed to become less likely. Yesterday's August ADP job report (195k vs. 148k cons.) and ISM non-manufacturing index (56.4 vs. 54.0 cons.) were stronger than expected, in stark contrast to the ISM manufacturing index released on Monday (49.1 vs. 51.3), which signaled contraction. Together with hopes for progress on trade negotiations, the robust August numbers appeared to decrease the likelihood of a deep rate cut cycle. Fed funds futures implied policy rates rose by 7-13 bps across the term structure, and the probability of a 50 bps cut at the upcoming September FOMC meeting dropped to 15% from 24%. 10-year Treasury yields rose by 10 bps to above 1.5%. On the corporate side, a surge in investment-grade corporate bond issuance saw \$54 bn priced by 35 issuers over past two days, the strongest weekly issuance this year, which also played a role for higher long-term rates.



Europe

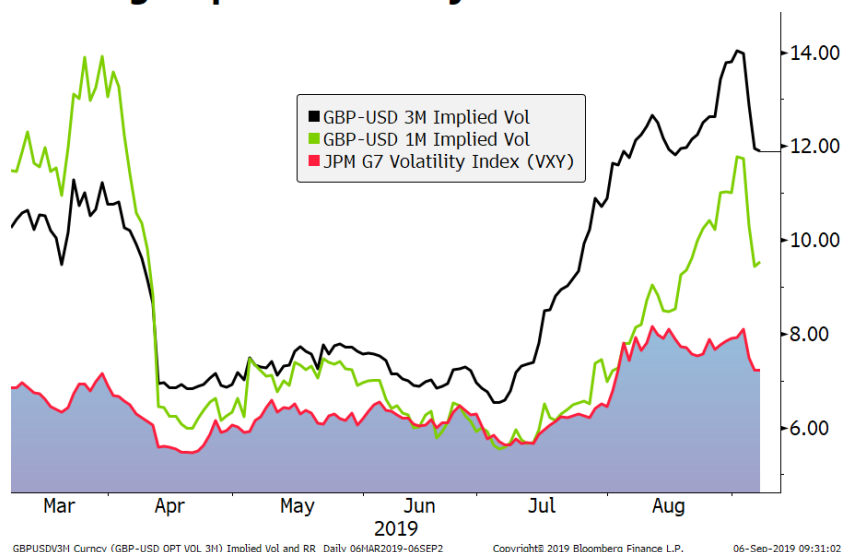
[back to top](#)

United Kingdom

Steeling has appreciated 2% since Tuesday and is trading at the \$1.23 level against the dollar for the first time since late July, as the UK Parliament continues to frustrate PM Johnson's Brexit plans.

Measures of implied volatility have also fallen sharply. The legislation calling for an extension is set to be approved, and it seems unlikely that the PM will be able to call early elections before October 31, though he may still try. In a highly symbolic gesture, Johnson's brother and Universities and Science Minister, Jo Johnson, quit the government. The path ahead is hardly clearer as a result of these developments, but the odds of a no-deal Brexit have declined. Consistently, sterling has appreciated 2% since Tuesday, and.

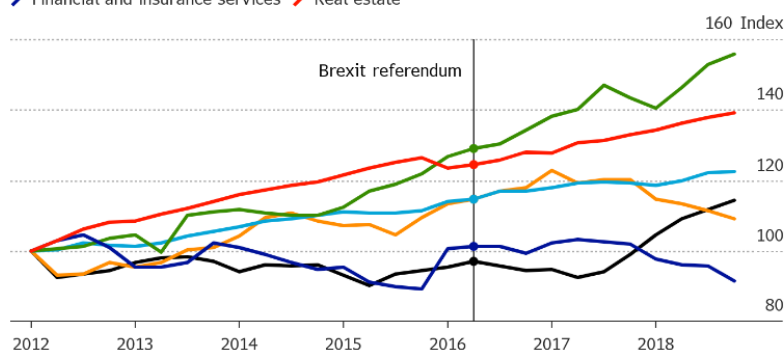
Sterling Implied Volatility



The composition of recently published GDP data shows the impact that Brexit uncertainty has had on financial services. The sector underperformed all other sectors, shrinking by almost 12% over the past two years. In contrast, the telecommunications and IT sectors outperformed by a wide margin. **Separately, data from the Investment Association showed that investors divested from the equivalent of \$1.5 bn in UK equity funds in July, following \$0.9 bn in June.**

London's economic expansion hides wide divergences between sectors

Manufacturing Construction Total services Information and communication
Financial and insurance services Real estate



Source: Office for National Statistics, Bloomberg calculations
Note: Q1 2012 = 100

Europe

Equity markets across the region are in the green with the EuroStoxx 600 up 0.2%, and yields are a touch lower across the region. There was little reaction to German IP coming in at -4.2% y/y in July (vs. -3.9% y/y expected), proving more reasons to be pessimistic about the country's industrial sector.

Other Mature Markets

[back to top](#)

Japan




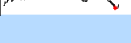

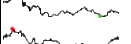


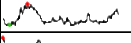



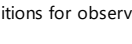

Japanese equities gained (+0.2%) while the yen held steady, as stronger-than-expected US data eased concerns over a global growth slowdown. **Long-dated JGB yields rose while short-dated yields fell modestly.** The 30-year note rose 7 bps to 0.20%, the biggest intraday move since last July and the 2-year note fell 1.4 bps to -0.31% following comments from BoJ Governor Kuroda on bond yields. In an interview with Nikkei, Governor Kuroda noted that yields on long-dated JGBs have “fallen a bit too far,” as such low yields are reducing returns for life insurers and pension funds and have dampened consumer sentiment. On policy options, Governor Kuroda noted that lowering interest rates further into negative territory “is always an option.” On the tools available, the BoJ had previously indicated the possibility of cutting the short-term policy rate, lowering the long-term rate target, boosting asset purchases, and accelerating the expansion of monetary base.

Emerging Markets

[back to top](#)

EM central banks are taking further steps suggesting that a global monetary easing cycle is underway, with the Russian central bank announcing its third 25 bps rate cut today and the People's Bank of China implementing its third reduction of reserve requirements this year. EM asset markets are trading with a positive tone today, with the majority of countries extending this week's gains modestly. Asian equities generally rose and currencies appreciated further against the dollar amid a rebound in risk sentiment. The Indonesian rupiah (+0.4%) paced gains while the Thai baht (-0.4%) underperformed, pulling back from its strongest level since 2013 as foreign investors were net sellers of Thai stocks and bonds this week. **EMEA** bourses and FX markets were mixed on Friday. Stocks in Egypt (+0.6%) and Bahrain (+0.5%) saw the largest advances, while those in Russia (-0.7%) and the Czech Republic (-0.5%) dropped the most. Currencies moved within a tight $\pm 0.1\%$ corridor. In **Latin America**, risk sentiment was positive yesterday on the back of forthcoming U.S. and China trade talks in October. The Chilean peso outperformed EM peers, appreciating by 1.3% against the dollar. Since the imposition of capital controls last Sunday, the Argentine peso has traded in a very narrow range around 56 against the dollar. On Thursday, market participants reported dollar sales by agricultural exporters and public banks that saw limited demand. Foreign law bond prices rallied for a second day in a row by around 2 percentage points and now trade around low 40% cash price.

Key Emerging Market Financial Indicators

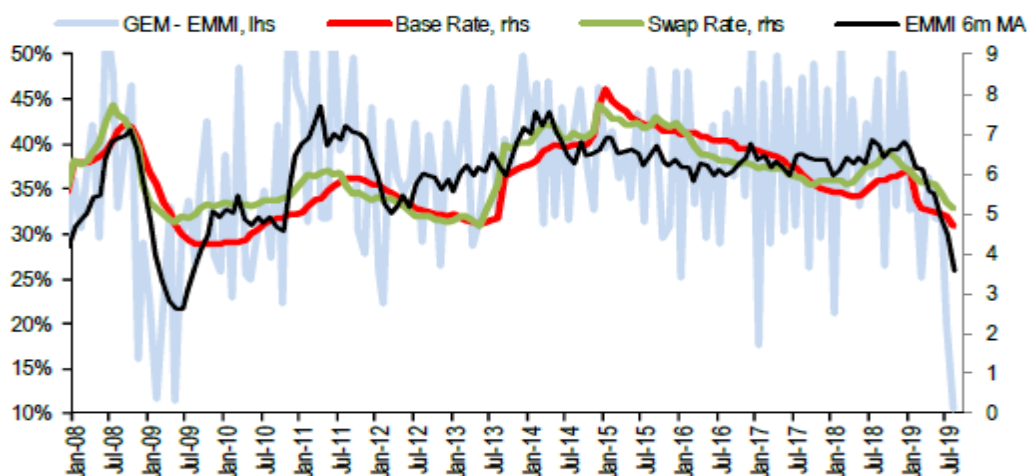
Last updated: 9/6/19 7:46 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.07	0.4	4	4	-2	5
MSCI Frontier Equities		28.47	-0.8	-1	-3	2	9
EMBIG Sovereign Spread (in bps)		337	-1	-17	-16	-41	-77
EM FX vs. USD		60.59	0.1	1	-1	0	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.12	0.5	1	-1	-4	-3
Indonesian Rupiah		14095	0.4	1	1	6	2
Indian Rupee		71.73	0.2	0	-1	0	-3
Argentine Peso		56.02	0.0	3	-19	-31	-33
Brazil Real		4.11	-0.4	1	-3	1	-6
Mexican Peso		19.66	0.4	2	0	-2	0
Russian Ruble		65.90	0.5	1	-1	5	6
South African Rand		14.77	0.8	3	1	4	-3
Turkish Lira		5.71	-0.3	2	-3	15	-7
EM FX volatility		8.52	0.0	-0.4	-0.1	-4.5	-1.3

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

EM Central Banks

BAML analysts estimate that central banks have adopted the most dovish communication since 2009, based on a measure that analyzes the tone in EM central bank statements. The most dovish central bank is the Indian RBI, as measured by the percentage of hawkish terms used in their communications. The only remaining exception is the Czech National Bank where the language continues to be predominantly hawkish. Mexico, Russia and South Africa which were balanced or even hawkish until recently have also shifted dovish.

Chart 1: The language of EM central banks has lately capitulated towards the dovish side



Note: variables weighted by GDP-PPP. Source: Bloomberg, Haver, BofA Merrill Lynch Global Research. The EMMI is an indicative metric only and may not be used for reference purposes or as a measure of performance for a financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Merrill Lynch Global Research. It was not created to act as a benchmark. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

China

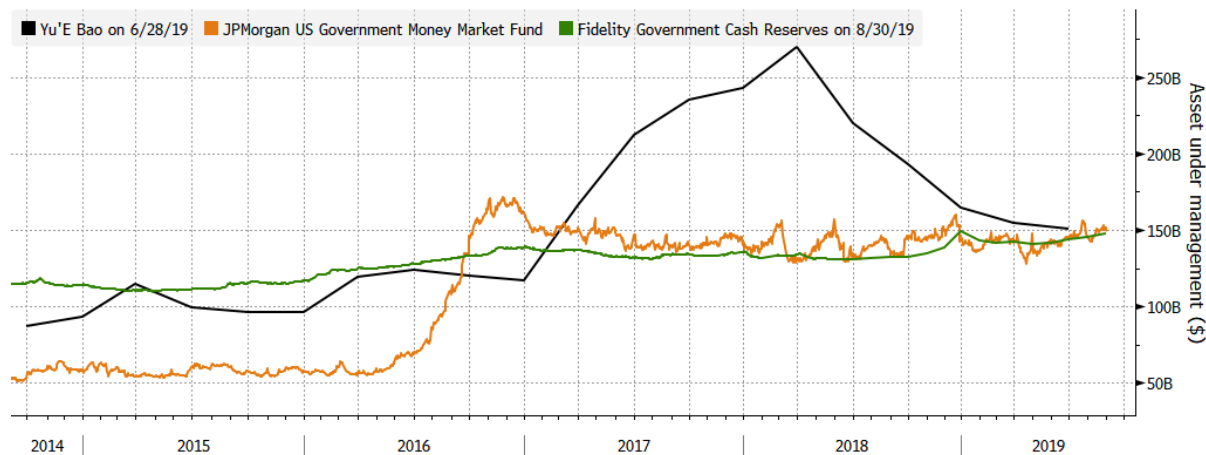
The People's Bank of China announced a 50-bps reduction in banks' required reserve ratio ("RRR"), effective September 16th. In addition, RRR for city commercial banks will be lowered further by 1 ppt, with two 50-bps cuts to be implemented on October 15th and November 15th. The estimated liquidity injection from the rate cut totals to about RMB 900 bn (\$126 bn). In its policy statement, the PBC noted that monetary policy will continue to be "prudent" with "no flood irrigation." Contacts noted that although the rate cut extends recent easing measures – similar moves took place in January and May of this year – it could also put downward pressure on the RMB.

Equity inflows into China rose amid recent market outperformance. By Bloomberg's estimate, overseas investors bought RMB 26.9 bn (\$3.8 bn) of domestic equities this week, the most since February. The Shanghai Composite climbed 3.3% this week, while the small-cap ChiNext index is on the brink of garnering 20% on a year-to-date basis, near the threshold of a bull market. **The RMB also gained.** The onshore CNY appreciated by 0.4%, taking it to CNY 7.11/dollar, its strongest level in two weeks. The offshore CNH gained 0.3% on the day.

Yu'E Bao, currently the world's biggest money-market fund, is on track to lose its crown amid outflows. As of the end of June, the fund had RMB 1.03 tn (\$144 bn) of assets under management (AUM), down from a peak of \$270 bn last March. By Bloomberg's estimate, it is on track to fall behind both the JPMorgan U.S. Government Money Market Fund and the Fidelity Government Cash Reserves fund, which have been hovering around \$150 bn AUM since 2017. Yu'E Bao had once offered annualized returns of nearly 7%, benefitting from relatively-high interbank rates, but tightened financial regulations and oversight of these investment funds since 2017 and rival products such as banks' wealth management products that offered more attractive yields have prompted outflows from the Fund.

Getting Smaller

Yu'E Bao's assets have fallen more than \$120 billion since peak



Source: Bloomberg

TGEUTMM CH Equity (Tianhong YuE Bao Money Market Fund) yuebao Daily 04SEP2014-0

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Fitch downgraded Hong Kong's long-term foreign currency debt on concerns about its governance framework following the recent political turmoil. The Hong Kong dollar weakened initially before ending the day unchanged. The territory's downgrade, from AA+ with a negative outlook to AA, was the first from Fitch since 1995. Recent large-scale protests have raised concerns about capital outflows from the city, long seen as a safe haven and a financial hub.

Russia

The Central Bank of Russia cut rates by 25 bps to 7.0% today, the third interest rate cut in a row. Officials noted that they will “consider the necessity of a further key rate reduction” at the next policy meeting. Markets expect more easing ahead as inflation converges to the target, but some admit the possibility of a pause in the cycle depending on the performance of the currency and external conditions. The central bank also reduced its year-end inflation forecast to 4.0-4.5% from 4.2-4.7%. The market reaction was muted.

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Global Financial Indicators

Last updated: 9/6/19 7:53 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2976	1.3	3	3	3	19
Europe		3494	0.3	2	6	6	16
Japan		21200	0.5	2	3	-6	6
China		3000	0.5	4	8	11	20
Asia Ex Japan		67	1.1	4	5	-3	5
Emerging Markets		41	0.4	4	4	-2	5
Interest Rates			basis points				
US 10y Yield		1.60	9.3	10	-11	-128	-109
Germany 10y Yield		-0.60	-0.4	10	-6	-95	-84
Japan 10y Yield		-0.24	2.3	3	-6	-35	-24
UK 10y Yield		0.55	-5.3	7	3	-87	-73
Credit Spreads			basis points				
US Investment Grade		135	-0.9	1	2	30	-13
US High Yield		475	-12.5	-6	-20	130	-46
Europe IG		48	-0.3	-1	-9	-17	-40
Europe HY		241	-2.9	-11	-39	-49	-112
EMBIG Sovereign Spread		337	-1.0	-17	-16	-41	-77
Exchange Rates			%				
USD/Majors		98.52	0.1	0	1	4	2
EUR/USD		1.10	-0.1	0	-2	-5	-4
USD/JPY		107.0	-0.1	-1	-1	3	3
EM/USD		60.6	0.1	1	-1	0	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		60	-1.7	-1	2	-22	11
Industrials Metals (index)		117	-0.4	3	5	1	7
Agriculture (index)		37	0.1	-1	-5	-13	-11
Implied Volatility			%				
VIX Index (% change in pp)		15.7	-0.5	-2.1	-4.4	1.1	-9.7
10y Treasury Volatility Index		5.1	-0.1	-0.3	-0.3	1.4	0.5
Global FX Volatility		7.5	0.0	-0.6	-0.2	-1.5	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		220	1.1	-14	-39	-186	-196
Italy		152	-1.6	-18	-53	-118	-98
Portugal		82	-1.8	0	3	-70	-66
Spain		80	-2.8	0	3	-29	-37

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 9/6/2019 7:46 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		7.12	0.5	0.6	-1	-4	-3		3.1	-1.9	0	-4	-50	-10
Indonesia		14095	0.4	0.7	1	6	2		7.4	-1.1	-4	-26	-122	-71
India		72	0.2	-0.4	-1	0	-3		6.7	1.5	-3	2	-153	-75
Philippines		52	0.2	0.3	0	4	1		4.4	-0.6	-2	-18	-155	-193
Thailand		31	-0.4	-0.3	0	7	6		1.5	2.5	4	-28	-130	-110
Malaysia		4.18	0.2	0.6	0	-1	-1		3.3	1.0	1	-25	-79	-76
Argentina		56	0.0	3.3	-19	-31	-33		67.5	34.5	423	3668	4344	4452
Brazil		4.11	-0.4	1.5	-3	1	-6		6.7	-1.6	-23	-13	-400	-147
Chile		715	1.2	0.9	1	-4	-3		2.6	3.0	-12	-18	-217	-186
Colombia		3381	0.5	1.7	2	-8	-4		5.7	0.8	-6	-5	-86	-80
Mexico		19.66	0.4	2.1	0	-2	0		7.1	4.5	-5	-41	-90	-158
Peru		3.4	0.1	0.8	0	-2	0		4.3	0.6	-9	-28	-125	-143
Uruguay		37	0.3	0.0	-4	-10	-11		11.2	3.0	7	127		45
Hungary		300	-0.2	0.6	-3	-6	-7		1.2	12.0	18	10	-136	-100
Poland		3.94	-0.1	1.2	-2	-6	-5		1.8	7.3	12	0	-81	-47
Romania		4.3	-0.2	0.1	-2	-7	-5		3.7	7.0	8	-3	-63	-52
Russia		65.9	0.5	1.3	-1	5	6		6.9	0.1	-15	-34	-171	-156
South Africa		14.8	0.8	2.9	1	4	-3		9.3	4.2	-8	-19	-51	-31
Turkey		5.71	-0.3	2.2	-3	15	-7		15.0	6.7	-82	-33	-811	-190
US (DXY; 5y UST)		99	0.1	-0.4	1	4	2		1.46	3.8	8	-5	-128	-105

	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		3000	0.5	4	8	11	20		187	0	0	4	-2	-7
Indonesia		6309	0.0	0	3	9	2		176	3	-10	-25	-35	-60
India		36982	0.9	0	0	-3	3		134	-7	-2	-10	-32	-62
Philippines		7933	0.4	-1	2	4	6		74	1	-9	-17	-38	-47
Malaysia		1604	0.3	1	0	-11	-5		123	1	-1	-1	-17	-39
Argentina		26932	9.2	12	-35	-10	-11		2127	-47	-406	1231	1401	1312
Brazil		102243	1.0	2	0	34	16		229	-4	-13	-1	-102	-44
Chile		4818	1.3	3	1	-7	-6		129	-2	-5	-10	-12	-37
Colombia		1567	0.1	2	4	6	18		173	-1	-7	-26	-12	-55
Mexico		42731	1.0	2	7	-12	3		327	-4	-6	-23	43	-27
Peru		19487	1.3	2	1	3	1		112	-2	-11	-22	-38	-56
Hungary		40164	0.0	1	0	8	3		91	-4	-18	-21	-32	-57
Poland		56599	0.4	0	-1	-3	-2		30	0	-10	-10	-33	-55
Romania		9235	-0.2	0	2	11	25		198	-9	-13	-6	12	-24
Russia		2790	-0.6	2	4	20	18		191	-2	-18	-31	-49	-61
South Africa		55640	0.2	1	1	-3	6		302	-1	-18	-29	-61	-63
Turkey		99542	-0.7	3	0	7	9		492	-3	-38	-7	-82	63
Ukraine		528	-0.1	0	-2	0	-6		462	-3	-45	-59	-153	-325
EM total		41	0.4	4	4	-2	5		337	-1	-17	-16	-41	-77

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

[back to top](#)