














- **US stocks lead yesterday's sell-off in equities** ([link](#))
- **US bans imports from three Xinjiang-based companies, as Asian equities fall** ([link](#))
- **Investors anxious about new UK draft bill that amends EU withdrawal agreement** ([link](#))
- **High yield issuance in US remains strong** ([link](#))
- **Continued depreciation of Turkish Lira raises investor concerns** ([link](#))

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Stock Markets Stabilize After Recent Selloff

Following a sharp drop in global equities over the past week, led by US stocks, markets seemed to regain their footing today, although some emerging markets remain under pressure. The previous trading session had seen US equities continue their slide, with the S&P 500 down by a further 3% (7% WTD) and the tech-heavy Nasdaq 100 down by 5% (11% WTD). Stock markets also declined by 1% in Europe (2% WTD) and in EM (3% WTD). Moreover, oil came under renewed pressure (crude down 6% on the day and 13% WTD) over concerns about weaker demand going forward. However, investor sentiment seemed to improve this morning, with European equities registering small gains, US futures pointing to a positive start and oil prices trading slightly up. Nevertheless, Asian markets, which have been relatively less affected by the recent sell-off, are trading on the weaker side. Meanwhile, the US dollar continued its rally against major and EM currencies (about 1% stronger WTD). Advanced economy sovereign bonds are slightly bid this morning (10Y Treasury and Bund yields up 2 bps) though they remain largely range-bound.

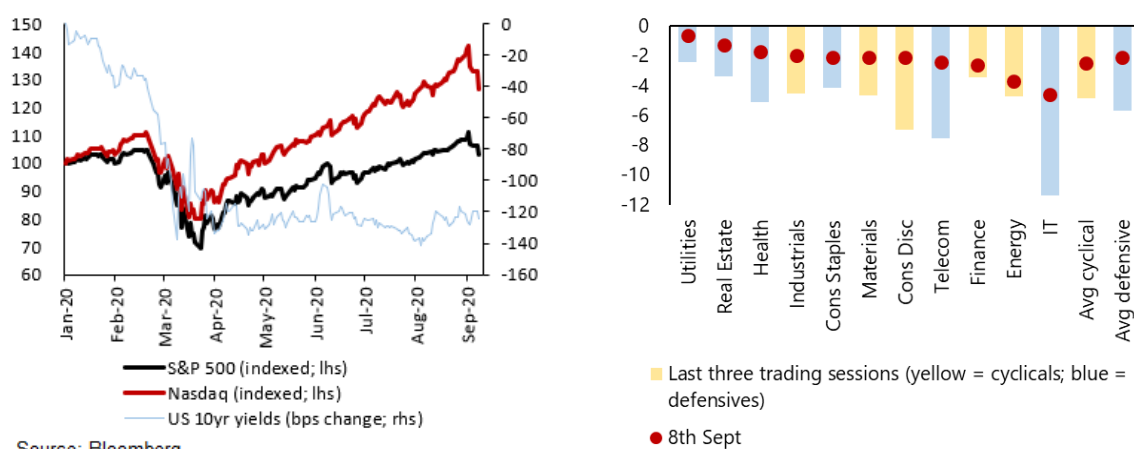
Key Global Financial Indicators							
Last updated: 9/9/20 8:28 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3332	-2.8	-5	-1	12	3
Eurostoxx 50		3302	1.1	-1	2	-6	-12
Nikkei 225		23033	-1.0	-1	3	8	-3
MSCI EM		44	-1.7	-2	-1	6	-3
Yields and Spreads			bps				
US 10y Yield		0.68	0.5	4	12	-96	-123
Germany 10y Yield		-0.48	1.4	-1	3	10	-30
EMBIG Sovereign Spread		419	-1	8	-2	85	126
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.3	0.4	-1	1	-9	-10
Dollar index, (+) = \$ appreciation		93.6	0.1	1	0	-5	-3
Brent Crude Oil (\$/barrel)		40.2	1.1	-9	-9	-36	-39
VIX Index (% change in pp)		30.4	-1.1	4	8	15	17

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

United States

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U.S. technology shares continued to plummet while crude declined sharply, leaving the global stock markets in a sea of red on Tuesday. The tech and energy sectors took down the S&P 500 Index, which closed down by 2.8%, amid intra-day volatility. Nasdaq index was down by 4.8% yesterday (with big tech stocks down 7%), extending the decline in the last three trading sessions to almost 11.0%. Select sub-indices like semi-conductor equipment were down more than 9%, following reports that U.S. sanctions could spread to businesses like SMIC, China's largest chip fabricator. Despite the recent decline however, Nasdaq is up 27% YTD, outperforming the S&P 500 by 24%. Tensions between the U.S. and China were also back in focus today after President Trump said he plans to end America's reliance on China. Trump also threatened to punish any American companies that create jobs overseas and forbid those that do business in China from winning federal contracts. Global growth concerns amid a second wave of virus cases, led to a decline in commodities with Brent crude oil futures down by 6% yesterday and extending its 9% decline last week. Correspondingly, the energy equipment sector in the US was down more than 5% yesterday. The broader risk-off environment led to a strong appreciation of dollar and a rally in US treasuries with yields down by 3-4 bps at the longer end of the curve.



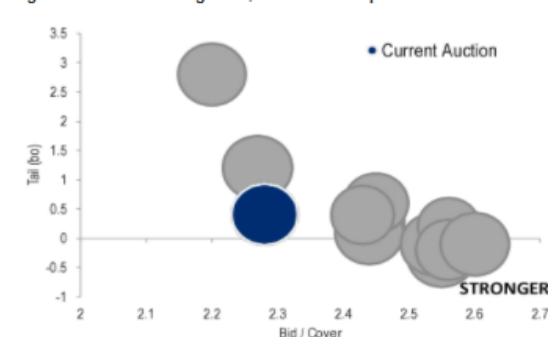
Treasuries rallied on Tuesday despite a strong IG credit issuance slate that included fifteen names and several multi-tranche offerings. Market contacts highlighted that the long-end faces a more difficult test over Wednesday and Thursday with \$35b 10-year and \$23b 30-year reopenings (+\$6b and +\$4b vs previous reopenings). This is especially relevant as the demand metrics for the Treasury 3-year note auction on Tuesday were on the weak side as it drew a record low 0.17% yield. The bid/cover ratio came in at 2.28 which is at the 18th percentile of the past 12 auctions. Direct participants comprised 13% of the auction, which is at the 27th percentile of the past 12 auctions. Indirect participants comprised 50.7% of the auction, which is at the 36th percentile of the past 12 auctions. This left the dealer take-down to be 36.3%, which is at a relatively high 64th percentile. Analysts also highlighted that there was a modest decline in final investor demand during auctions in August, particularly at the 20y and 30y tenors. The elevated treasury market volatility is also likely to play a key role in the auction results.

Figure 1. Today's Auction Ratings: Citi's Auction Strength Indicator

Auction Strength Indicator						
30%	Current Auction	Percentile	Previous	1Y Average	1Y Max	1Y Min
Bid/Cover	2.28	18%	2.44	2.44	2.60	2.20
Dealer Percentage (%)	36.3	64%	30.7	34.72	44.03	27.09
Indirect Percentage (%)	50.7	36%	57.0	51.42	57.02	43.92
Direct Percentage (%)	13.0	27%	12.3	13.86	23.83	3.71
Tail / Through (bp)	0.4	64%	0.3	0.44	2.80	-0.30

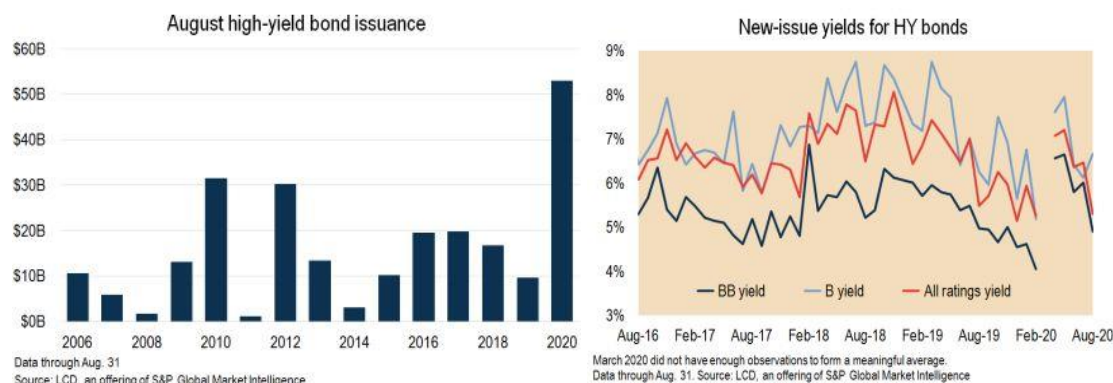
Source: Citi Research, US Treasury

Figure 2. Auctions at a glance, bubble size represents non-dealer bids



Source: Citi Research, US Treasury

Against a backdrop of sharply lower borrowing costs, the U.S. high-yield bond market set another issuance record in August, with \$52.9 bn of volume in what is typically a quiet month. Analysts highlighted that it was the busiest August on record by far. For reference, the issuance volume totaled \$9.7 bn in August 2019, amid heightened recession fears and trade tensions between the U.S. and China. A breakdown of new-issue yields by credit quality shows borrowing costs for BB rated notes declined 111 bps mom, for a 4.9% average in August, the lowest for the ratings segment since February. Conversely, B rated bonds averaged a 6.66% new-issue yield in August, up 54 bps from one month prior, and the most since May.



Europe

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Euro area

European stocks (+0.6%) traded higher, with bank stocks (-0.3%) underperforming.

10-yr bund yields are little changed as the euro (-0.2% to \$1.176) depreciated ahead of tomorrow's ECB meeting. Broad consensus is that the **ECB will set the stage for an increase in QE in December** but not announce any additional easing at tomorrow's meeting.

The **ECB has asked banks to deliver on Brexit preparations** adding that units in the EU need to aim to be "structurally profitable" as well as "operationally self-standing" in key areas, and not overly reliant on parent companies.

Incoming trade Commissioner Dombrovskis says that the EU will have to impose tariffs on U.S. goods unless the U.S. removes tariffs over Airbus aid.

Southern European spreads tightened. Italian 10-yr spreads fell 3 bps to 149 bps with Greek 10-yr spreads also 3 bps lower at 164 bps. Spanish 10-yr spreads fell 2 bps to 80 bps.

Credit strategists at SocGen expect that fiscal and monetary support is only delaying defaults in Europe, which they expect to reach 7-10% next year.

Euro area: SocGen expects defaults to reach 7-10% but not until 2021



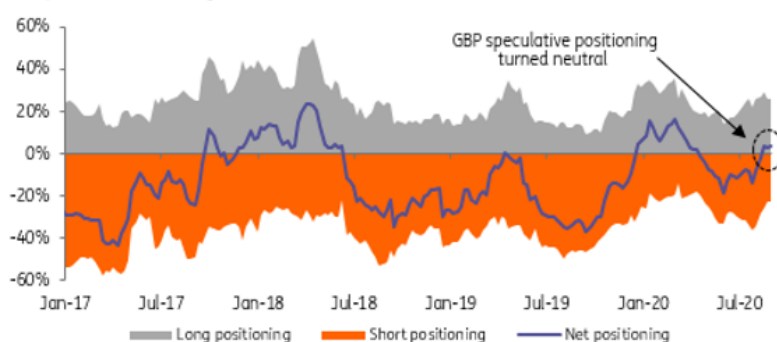
Source: SocGen

United Kingdom

The UK government will reportedly publish a draft bill later today in which it plans to revoke its commitment to keep Northern Ireland aligned with EU customs rules. Northern Ireland Minister Lewis admitted to Parliament that an attempt to rewrite any portion of the deal would “break international law, in a very specific and limited way.” The British pound (-0.3%) fell below \$1.30. The pound had depreciated 3% in the past 3 days with some analysts expecting further weakness as speculative positioning in the currency could turn negative (from neutral currently).

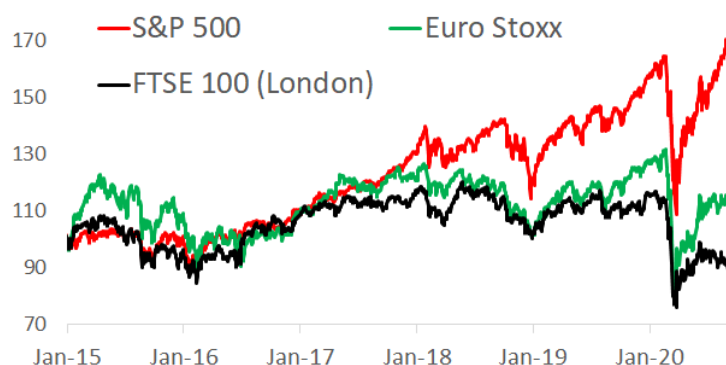
UK: Speculative Positioning in the British Pound

GBP/USD speculative positioning, as % of open interest (as of 1st August 2020). Negative number means the speculative community is net short GBP vs USD



Equities (+1%) traded higher despite news that the government plans to ban social gatherings of more than six people in England to restrain the spread of covid-19. U.K. equities have lagged euro area and U.S. stocks so far in 2020.

Equities: UK versus euro area and U.S. (Jan 2015: 100)



Source: Bloomberg and IMF

Other Mature Markets

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Japan

Equities fell -1% with Softbank continuing to underperform (-2.9%). Investors have been selling Softbank following reports of the firm's large long call option positions in US tech names. Chief Cabinet Secretary Yoshihide Suga, who is front-runner to take over Abe as the next prime minister, said that a snap election should currently not be called in light of the COVID-19 pandemic. **10-year JGB yield fell -0.9bps while the yen was unchanged.**

Nikkei 225 holds above its key moving averages



Source: Nikkei, Bloomberg

Emerging Markets

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Asian equities fell -1% this morning with all markets in the red. Chinese stocks underperformed, especially the tech-heavy Shenzhen index (-3.2%). Currencies were little changed. On COVID-19, Thailand said that it would finalize an entry plan for foreign visitors by October. This would allow visitors coming through its international airports to travel freely after a mandatory 14-day quarantine. **In EMEA,** stocks are trading mixed with equity market up in Poland (+1.1%) but lower in Israel (-0.7%) and the UAE (-0.7%). EMEA currencies are reversing yesterday's losses with the South African rand (+1.3%) and the Russian ruble (+0.6%) trading stronger. The Turkish lira (-0.2%) remains an exception as it continues to slide against the dollar. **In Latin America,** equities traded lower yesterday, while currencies depreciated and yields on sovereign dollar debt increased. Following US and European markets, equities closed lower in the region, with the largest losses taking place in Mexico (-1.6%) and Brazil (-1.2%). Currencies depreciated against the dollar by 1.1% in Brazil, 0.8% in Mexico and 0.6% in Colombia, partly driven by lower oil prices. Chile's August inflation came in at 2.4% y/y, largely unchanged from July and in line with market consensus. The

region's sovereign dollar yield curves moved higher, with yields increasing by 8 bps in Mexico, 5 bps in Brazil and around 2 bps in other countries.

Key Emerging Market Financial Indicators

Last updated: 9/9/20 8:30 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.57	0.8	-2	-1	6	-3
MSCI Frontier Equities		25.13	-1.9	-2	4	-11	-17
EMBIG Sovereign Spread (in bps)		419	-1	8	-2	85	126
EM FX vs. USD		55.29	0.4	-1	1	-9	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.84	0.0	0	2	4	2
Indonesian Rupiah		14799	-0.2	0	-1	-5	-6
Indian Rupee		73.54	0.1	-1	2	-2	-3
Argentine Peso		74.71	-0.1	-1	-2	-25	-20
Brazil Real		5.33	0.6	0	3	-23	-24
Mexican Peso		21.68	0.4	0	4	-10	-13
Russian Ruble		75.78	0.7	0	-3	-14	-18
South African Rand		16.72	1.3	1	6	-12	-16
Turkish Lira		7.50	-0.1	-1	-3	-23	-21
EM FX volatility		11.38	0.0	0.1	-0.2	3.2	4.8

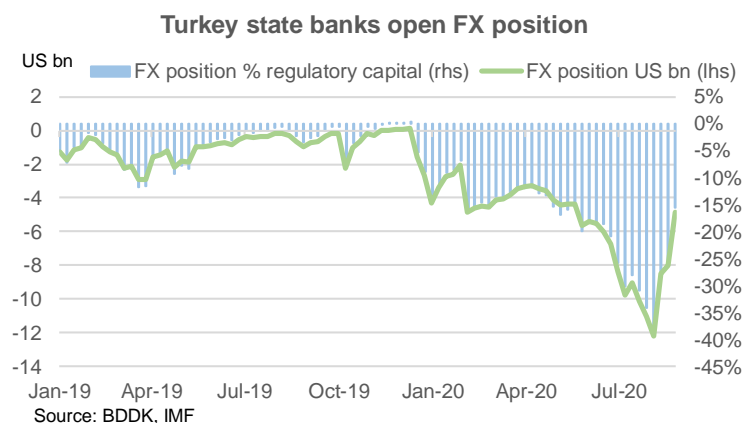
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

The US banned imports from three Xinjiang-based companies and plans to add additional curbs. According to Bloomberg, the US Customs and Border Protection (CBP) said that imports from six additional firms will be banned. The CBP mentioned that this is to address China's alleged repressive policies against Uighurs. **Separately, China's consumer price inflation moderated in August and producer price deflation eased.** Consumer prices cooled to 2.4% y/y from 2.7% y/y due to food prices (11.2% y/y versus 13.2% y/y). Producer prices fell -2% y/y, which was the slowest pace of decline in five months, reflecting the recovery in oil and industrial metal prices. **Equities (Shanghai +1.9%; Shenzhen -3.2%) fell while the RMB was little changed.**

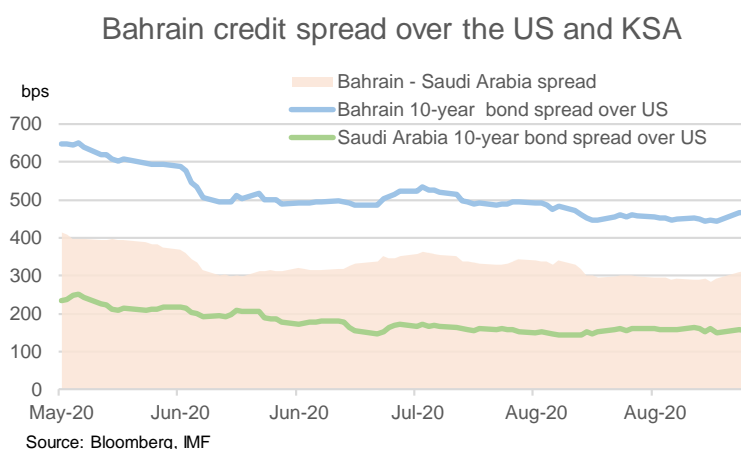
Turkey

The continued depreciation of the Turkish lira coupled with a drop in state banks' open FX position has left investors wondering about a possible strategic change in Central Bank of Turkey (CBT) monetary and FX policy. After depreciating by more than 5% in July, the Turkish lira has already weakened another 2% in September and is now trading close to an all-time low of 7.50 lira per dollar. This has coincided with about 250 bps of policy tightening through the liquidity channel as well as a sharp drop in Turkish state banks' open FX position. The net long lira and short dollar position has declined from peak \$12bn (40% regulatory capital) to \$5bn (15% regulatory capital). Market contacts have noted that state banks have remained net sellers of dollars but have scaled back their activity. Some contacts suggest that the change in the FX position may come from operations with the Turkey Treasury and is aimed to protect banks against further weakening of the lira in a form public burden sharing.



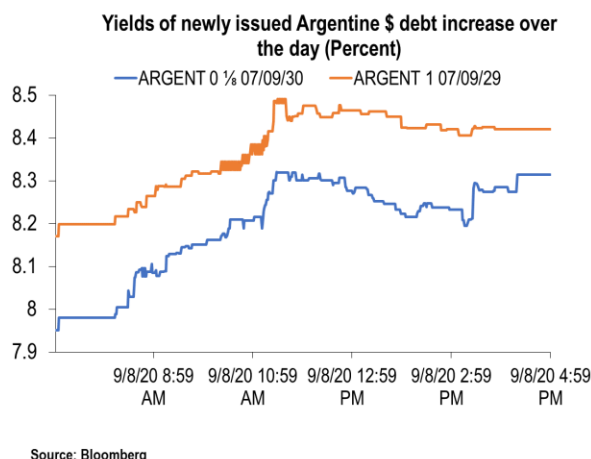
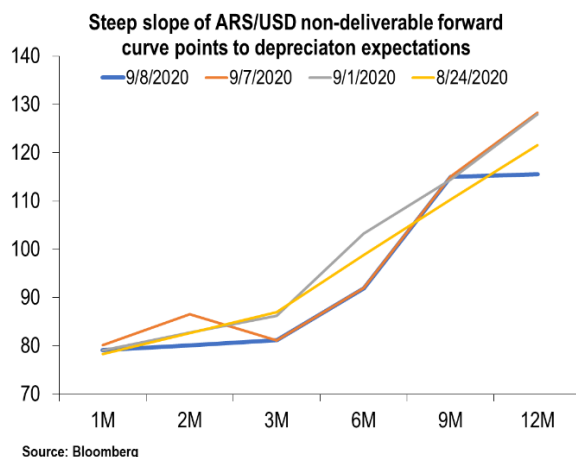
Bahrain

The Kingdom of Bahrain is looking to tap the international bond market for the second time this year. The government is looking to place a 7-year Islamic and a 12-year conventional dollar bond at around 4.5% and 5.75% respectively, dropping the 30-year issuance due to elevated costs. Bahrain has already placed \$2bn of international bonds in May and since then the credit spreads have tightened around 200bps but remain elevated as compared to regional peers. Bahrain is the lowest rated credit in the GCC (S&P B+) and due to the covid-19 is highly dependent on fiscal support from its GCC partners.



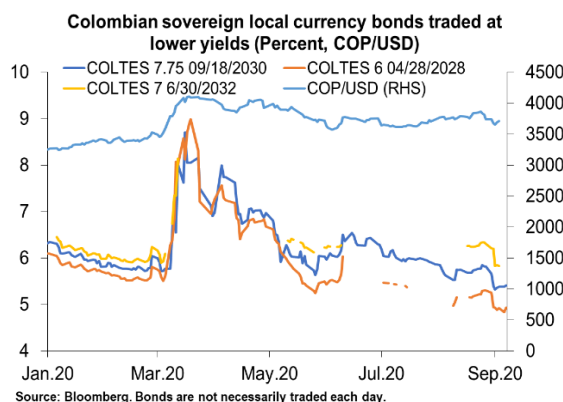
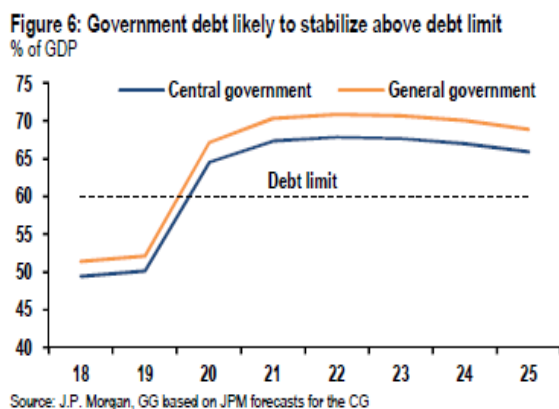
Argentina

Newly issued sovereign dollar bonds traded lower, as inflation expectations remain entrenched. J.P. Morgan analysts cite high-frequency inflation figures of one of the leading Argentine economic forecasters showing an acceleration of inflation to 2.6% m/m in August, compared to 1.9% in July. As inflation is kept down by a variety of regulated prices, monthly inflation in unregulated prices is estimated at 4.8% m/m, or 60.8% y/y. The accelerating inflation reflects the country's rapid monetary expansion mainly fueled by direct central bank lending to the treasury (equivalent to 7.5% of GDP over the last 12 months). Market expectations of a weaker Argentinian peso are reflected in the gap between the official exchange rate the one derived from assets simultaneously traded in peso and USD markets, as well as in the steep positive slope of Argentina's non-deliverable currency forwards. Against this inflationary background the dollar bonds newly issued by the Argentine sovereign in the process of its recent debt restructuring faced already some headwinds: respective yields increased over the first trading day by around 36bps to levels of 8.31% for a bond maturing in 2030 or by 25 bps to 8.42% for a bond maturing in 2029.



Colombia

The current strength of Colombian local currency bonds may motivate government plans for additional debt issuance. However, despite the positive momentum generated from last week's inclusion of Colombian sovereign local currency bonds into Barclay's Global Aggregate, J.P. Morgan analysts warn that the fiscal burden of Covid-19 already threatens to push Colombia's debt over the limit of 60% of GDP which markets tend to view as an elevated level for the country. While the suspension of the Colombia's fiscal rule allowed the government to run a deficit of 8.2% of GDP in 2020, the flip side is that there has been a rapid buildup in the public debt. Yesterday's August print of -25.4 in the consumer confidence index, up from -32.7 in July, may impact the government's decision to issue more debt as it signals a potential, albeit moderate, relaxation in demand stress factors, thereby lowering the need for additional fiscal impulses.



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Global Financial Indicators

Last updated: 9/9/20 8:29 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3349	-2.8	-5	0	12	4
Europe		3302	1.1	-1	2	-6	-12
Japan		23033	-1.0	-1	3	8	-3
China		3255	-1.9	-4	-3	8	7
Asia Ex Japan		76	-1.8	-2	0	13	3
Emerging Markets		44	-1.7	-2	-1	6	-3
Interest Rates			basis points				
US 10y Yield		0.68	0.5	4	12	-96	-123
Germany 10y Yield		-0.48	1.4	-1	3	10	-30
Japan 10y Yield		0.03	-0.9	-1	2	28	4
UK 10y Yield		0.20	1.5	-3	6	-39	-62
Credit Spreads			basis points				
US Investment Grade		131	-0.1	8	7	-2	34
US High Yield		520	-0.5	20	10	59	127
Europe IG		54	0.2	4	0	6	10
Europe HY		314	-14.7	7	-34	74	107
EMBIG Sovereign Spread		419	-1.0	8	-2	85	126
Exchange Rates			%				
USD/Majors		93.57	0.1	1	0	-5	-3
EUR/USD		1.18	0.0	-1	0	7	5
USD/JPY		106.2	-0.2	0	0	1	2
EM/USD		55.3	0.4	-1	1	-9	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		40	1.1	-9	-9	-36	-39
Industrials Metals (index)		117	-0.2	-2	3	-1	2
Agriculture (index)		38	-0.1	0	9	4	-7
Implied Volatility			%				
VIX Index (%, change in pp)		30.4	-1.1	4.2	8.2	15.1	16.6
US 10y Swaption Volatility		59.6	2.6	6.4	9.5	-18.4	-2.4
Global FX Volatility		9.5	0.0	0.4	0.2	2.3	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		163	-4.5	1	10	-57	-3
Italy		149	-3.1	5	6	-4	-11
Portugal		83	-2.3	1	3	0	20
Spain		80	-2.1	0	1	0	15

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: 9/9/2020 8:31 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		6.84	0.0	-0.1	2	4	2		3.3	-0.1	9	17	24	18
Indonesia		14799	-0.2	-0.4	-1	-5	-6		6.8	-0.7	-1	-2	-68	-38
India		74	0.1	-0.7	2	-2	-3		6.2	5.3	8	18	-54	-70
Philippines		49	-0.2	-0.2	1	7	4		3.6	1.0	3	-3	-73	-66
Thailand		31	0.2	-0.5	-1	-2	-4		1.5	0.3	-1	15	-6	-8
Malaysia		4.17	-0.1	-0.6	1	0	-2		2.5	1.5	2	10	-88	-88
Argentina		75	-0.1	-0.6	-2	-25	-20		44.6	-13.4	15	138	-2104	-1802
Brazil		5.33	0.6	0.2	3	-23	-24		5.5	12.8	7	38	-120	-76
Chile		771	0.3	0.0	4	-7	-2		2.6	2.0	12	15	-6	-74
Colombia		3738	-0.6	-1.6	1	-10	-12		5.0	2.3	0	-2	-67	-95
Mexico		21.68	0.4	0.4	4	-10	-13		6.0	0.7	-3	8	-112	-96
Peru		3.5	-0.1	-0.4	1	-5	-6		4.1	-1.0	9	-2	-17	-40
Uruguay		43	-0.3	0.0	0	-14	-12		7.8	-11.5	-29	-51	-316	-303
Hungary		304	-0.1	-0.6	-3	-2	-3		1.7	3.6	3	25	52	54
Poland		3.78	0.0	-1.5	-1	4	0		0.8	-1.6	0	7	-99	-106
Romania		4.1	0.0	-1.0	0	4	3		3.3	3.0	-6	-22	-38	-66
Russia		75.8	0.7	-0.5	-3	-14	-18		5.8	5.8	16	29	-106	-31
South Africa		16.7	1.3	0.5	6	-12	-16		10.1	4.9	9	-2	77	55
Turkey		7.50	-0.1	-1.4	-3	-23	-21		13.3	8.4	37	-27	-188	165
US (DXY; 5y UST)		94	0.1	0.8	0	-5	-3		0.27	0.5	2	4	-123	-142

	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		4585	-2.3	-5	-3	15	12		213	1	1	5	27	37
Indonesia		5149	-1.8	-3	0	-19	-18		220	-1	1	0	49	64
India		38194	-0.4	-2	0	3	-7		215	3	-2	-6	75	90
Philippines		5933	-1.7	3	1	-25	-24		133	-2	-5	15	65	67
Malaysia		1497	-1.5	-3	-5	-7	-6		146	0	0	1	23	34
Argentina		45482	-0.5	-2	-13	67	9		2148	-2	-8	57	88	379
Brazil		100050	-1.2	1	-3	-3	-13		308	-3	6	-2	81	93
Chile		3826	-0.7	0	-4	-21	-18		170	-3	-3	5	42	37
Colombia		1232	-0.9	-2	8	-22	-26		249	-3	7	21	75	86
Mexico		36071	-1.5	-4	-5	-15	-17		473	-2	23	1	146	181
Peru		18103	-0.5	-3	1	-6	-12		149	-1	0	10	38	42
Hungary		35430	1.0	3	-1	-12	-23		119	-3	-10	-14	32	33
Poland		50305	1.5	-2	-3	-13	-13		27	1	1	-3	2	9
Romania		9096	-0.2	1	6	-1	-9		251	5	-14	-1	54	78
Russia		2884	-0.2	-2	-3	4	-5		209	-5	8	20	19	78
South Africa		54716	0.5	-2	-4	-1	-4		496	1	9	-16	190	176
Turkey		1096	0.6	1	3	9	-4		607	8	24	-79	103	206
Ukraine		500	0.0	0	0	-5	-2		638	2	30	-50	183	218
EM total		44	0.8	-2	-1	6	-3		419	-1	8	-2	85	126

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

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