

Investment Weekly

This week in detail

The first estimate of US Q3 GDP came in at a solid 3.5% qoq annualised, beating consensus expectations of 3.3%

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The week ahead

In the coming week, US inflation and labour market data are highlights of the calendar

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Market moves

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Equities

Global stock markets fell on mixed Q3 earnings, global growth concerns and lingering political uncertainty

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Bonds

US Treasuries and European government bonds advanced on heightened risk aversion; Italian bonds retreated amid budget concerns

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Currencies

The US dollar rose against most currencies; the British pound underperformed amid domestic political concerns

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Commodities

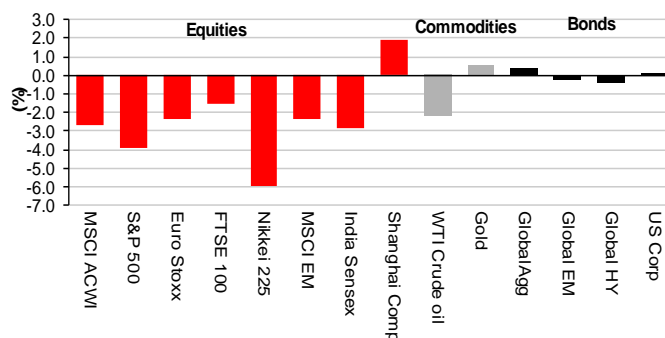
Oil prices fell as Saudi Arabia pledged to meet any supply shortfalls

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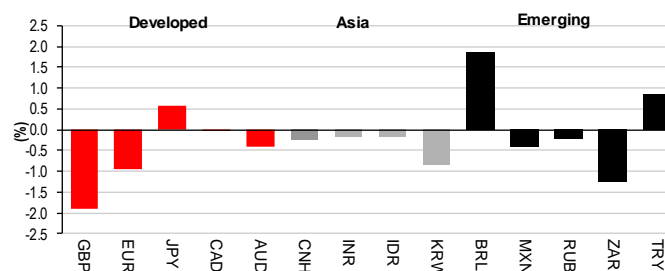
Market data

Market trends

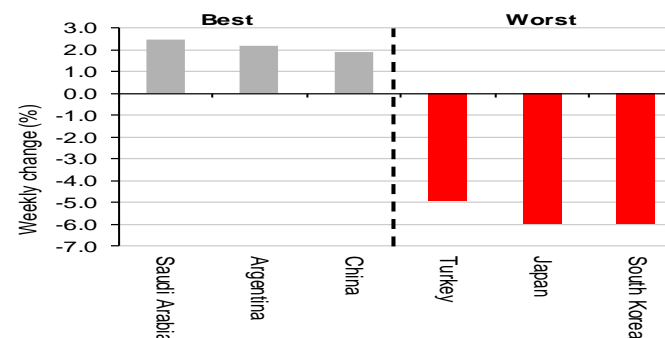
Movers and shakers



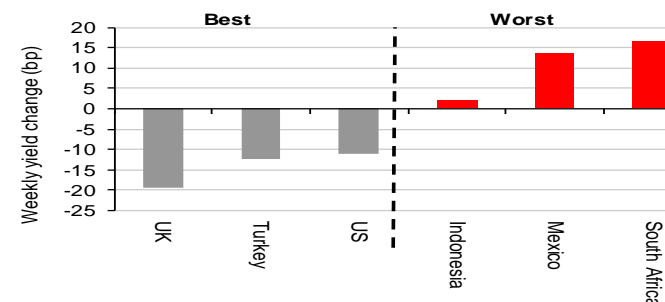
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 26 October 2018. All the above charts relate to 19/10/2018 – 26/10/2018.

Past performance is not an indication of future returns.

This week in detail

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Tuesday 23 October	Brazil	IBGE Inflation IPCA-15 (yoy)	Oct	4.6%	4.5%	4.3%
Wednesday 24 October	Sweden	Riksbank Interest Rate Decision	Oct	-0.5%	-0.5%	-0.5%
	Eurozone	Markit Composite PMI	Oct P	53.9	52.7	54.1
	US	New Home Sales (mom)	Sep	-0.6%	-5.5%	3.0%
	Canada	Bank of Canada Interest Rate Decision	Oct	1.75%	1.75%	1.50%
Thursday 25 October	Germany	Ifo Business Climate Index	Oct	103.2	102.8	103.7
	Eurozone	ECB Interest Rate Decision	Oct	-0.40%	-0.40%	-0.40%
	US	Durable Goods Orders (mom)	Sep P	-1.5%	0.8%	4.6%
	US	Pending Home Sales (mom)	Sep	0.0%	0.5%	-1.9%
Friday 26 October	Russia	Central Bank of Russia Interest Rate Decision	Oct	7.5%	7.5%	7.5%
	US	GDP Annualised (qoq)	Q3	3.3%	3.5%	4.2%
	US	University of Michigan Index of Consumer Sentiment	Oct F	99.0	98.6	99.0

P – Preliminary, Q – Quarter, F – Final

In the US, the first estimate of Q3 GDP showed growth of 3.5% qoq annualised, beating consensus expectations of 3.3%

In the **US**, the first estimate of Q3 GDP showed growth of 3.5% qoq annualised, beating consensus expectations of 3.3%. In particular, consumption was very strong, at 4.0%, while inventory accumulation effectively offset a drag from net exports. This could reflect the impact of front-loading of imports ahead of the imposition of tariffs on imports from China.

New home sales slipped 5.5% mom in September, a sharper decline than the expected -0.6% mom. This took the annualized rate to 553,000, compared to the current trend of 631,000. Hurricane disruptions may have impacted the latest release, but the prior three reports were also revised downwards. More positively, **pending home sales** (residential contract signings) increased 0.5% mom in September, higher than expectations of a flat reading, although annual growth remained negative. Overall, the housing market has softened amid higher mortgage costs and rising residential prices, but demand is unlikely to slacken substantially given a healthy job market and improved household finances. Finally, **durable goods orders** rose 0.8% mom in September (consensus: -1.5% mom), boosted by an unexpected jump in military aircraft orders. Subtracting the volatile transportation component, new orders edged up only 0.1% mom.

As expected, the **Bank of Canada** raised its overnight rate by 25 bps to 1.75%. The policy outlook remained hawkish, in line with economic growth tracking close to capacity and on-target core inflation. However, the official statement surprised investors by commenting on the need to bring policy to a “neutral stance” and removing the phrase “gradual” for the future tightening path.

The European Central Bank stated that risks to the outlook were still seen as “broadly balanced”

As expected, the **European Central Bank (ECB)** kept policy on hold at its October meeting, including forward guidance that quantitative easing would be terminated by the end of the year and rates would be on hold until the end of next summer. Risks to the growth outlook were still seen as broadly balanced, despite a recent weakening of activity indicators and lingering global trade tensions. Meanwhile, ECB President Mario Draghi stated the ECB’s confidence that inflation would converge to target was based on a “tighter and tighter” labour market and evidence of sustained wage inflation. Finally, Draghi stated his confidence that a compromise could be found between the Italian government and the European Commission on Italy’s budget plans. The flash **eurozone PMIs** for October fell sharply, with the composite index declining 1.4 points to 52.7 (53.9 expected), the lowest level since September 2016. The decline was driven by both services and manufacturing, but overall remains consistent with robust GDP growth (+0.3% qoq according to data provider Markit). Furthermore, there have been some disruptions in the German auto sector due to new emission-testing standards. **Germany’s Ifo Business Climate Index** fell to 102.8 in October, below expectations (103.2) and the 12-month moving average (103.6). Momentum in the index has flagged in 2018 amid rising trade tensions and Brexit concerns, and similar to the PMIs, may have been affected by the auto sector. Nevertheless, the index remains elevated by historical standards.

The flash eurozone composite PMI for October fell to the lowest level since September 2016

The week ahead

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 29 October	US	PCE Core (yoy)	Sep	2.0%	2.0%
	Japan	Jobless Rate	Sep	2.4%	2.4%
Tuesday 30 October	Eurozone	GDP (seasonally adjusted, qoq)	Q3 A	0.3%	0.4%
		S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index (yoy)	Aug	-	5.9%
	Mexico	GDP Seasonally Adjusted (qoq)	Q3 P	-	-0.2%
	Japan	Industrial Production (mom)	Sep P	-0.2%	0.2%
Wednesday 31 October	Japan	Bank of Japan Interest Rate Decision	Oct	-0.1%	-0.1%
	Brazil	COPOM Interest Rate Decision	Oct	6.5%	6.5%
	China	Official Manufacturing PMI	Oct	50.8	50.8
	Eurozone	CPI Estimate (yoy)	Oct	2.1%	2.1%
	Eurozone	Unemployment Rate	Sep	8.0%	8.1%
Thursday 01 November	UK	Bank of England Interest Rate Decision	Nov	0.75%	0.75%
	US	ISM Manufacturing Index	Oct	59.4	59.8
Friday 02 November	US	Change in Nonfarm Payrolls (000s)	Oct	190	134

P – Preliminary, Q – Quarter, A – Advance

In the coming week, the US October employment report and September core personal expenditures inflation release will be in focus

US

US **nonfarm payrolls** are expected to grow by 190,000 jobs in October, well above the prior month's relatively soft print amid hurricane-related disruptions. The unemployment rate is forecast to hold at 3.7%, and importantly for the US Federal Reserve (Fed) policy outlook, average hourly earnings are anticipated to rise above 3.0% yoy for the first time since April 2009.

The Federal Open Market Committee's preferred **inflation** gauge, the **PCE core**, is anticipated to hold steady at 2.0% yoy in September. With inflation now at target, and wage growth ticking higher, the Fed is likely to remain on its gradually tightening path.

Turning to housing, the **S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index** is forecast to rise 0.2% mom in August. US house price growth has cooled slightly this year amid a slowing market, although the longer-term trend in prices remains positive.

The **ISM Manufacturing Index** is pencilled in to ease 0.4 points to 59.4 in October, remaining not far below the 14-year high reached in August (61.3). The manufacturing sector may be feeling the adverse impact of rising input costs.

Europe

The **Bank of England's Monetary Policy Committee** is anticipated to keep policy on hold at its November meeting. Forward guidance remains for "limited and gradual" tightening, implying a near-term rate hike is unlikely following August's 25bp increase.

The advance estimate of **eurozone Q3 GDP** is anticipated to show a slight slowdown from H1's 0.4% qoq rate of expansion, down to 0.3%. This comes amid higher oil prices and lingering global trade tensions, as well as disruptions in the German auto industry.

The flash estimate for **eurozone inflation** in October is expected to hold at 2.1% yoy, just above the ECB's target. Meanwhile, core inflation may edge up slightly, by 0.1 percentage points to 1.0% yoy, mainly due to base effects.

Emerging markets and Japan

The **Bank of Japan** is likely to keep its policy on hold at its October meeting. Inflation momentum remains subdued, while the bank's latest Tankan survey data showed weaker sentiment. Any downward revisions to its GDP and CPI forecasts should be minimal.

Japan's jobless rate is expected to have remained unchanged at 2.4% in September, as the pickup in employment has been matched by a continued rise in participation.

Japan's industrial production may have fallen 0.2% mom, largely as a result of supply-side disruptions caused by natural disasters. Inventory adjustment pressures in some industries may have also weighed.

Eurozone GDP growth is anticipated to moderate in Q3

Market moves

Equities

Global stock markets fell on mixed Q3 earnings, global growth concerns and lingering political uncertainty

Bonds

US Treasuries and European government bonds advanced as heightened risk aversion fuelled perceived “safe-haven” demand; Italian bonds retreated amid continued budget concerns

Currencies

The US dollar rose against most currencies; the British pound underperformed amid domestic political concerns

Commodities

Oil prices fell as Saudi Arabia pledged to meet any supply shortfalls

Equities

US stocks sold off this week, with the S&P 500 Index finishing 3.9% lower amid mixed Q3 corporate earnings reports and much weaker than expected September new home sales, fuelling anxiety about future economic growth. At the sector level, energy shares performed poorly amid a drop in oil prices, and industrial stocks came under pressure amid disappointing earnings results. In Canada, the S&P/TSX Composite Index also fell (-3.8%) as the Bank of Canada raised its overnight rate and its policy outlook remained hawkish.

European stocks also retreated with the EURO STOXX 50 Index closing 2.4% lower. Risk appetite was dented by worries about corporate earnings and geopolitical issues. Disappointing PMI data in the region and ongoing tensions between Italy’s government and the European Commission over the budget for 2019 also weighed. Germany’s DAX underperformed (-3.1%) in the region and Italy’s FTSE MIB Index shed 2.1%. Meanwhile, the UK’s FTSE 100 Index gained 1.0% on the back of sterling weakness.

Asian stock markets outside China fell sharply this week, amid increasing concern about the outlook for corporate earnings and a slowdown in the global economy, while worries over US-China trade tensions and geopolitical risks persisted. Japan’s Nikkei 225 Index dropped 6.0%, India’s SENSEX slid 2.8% and Korea’s KOSPI fell 6.0% on the back of disappointing Q3 GDP growth and a slew of downbeat earnings reports. China’s Shanghai Stock Exchange Composite Index ended a volatile week higher (+1.9%), as sentiment was supported by pledges by the Chinese government to help private enterprises with funding and to ready more measures to support the economy and financial markets.

Bonds

US 10-year Treasuries advanced this week (yields fell) in a flight-to-quality move amid equity weakness, the retreat in crude oil prices and as fed fund futures saw a modest decline in Fed hike expectations throughout 2019. Overall, 10-year yields fell 12 bps to 3.08% and two-year yields closed 10 bps lower at 2.81%. Meanwhile, Canadian 10-year yields closed down 11 bps to 2.39% despite some hawkish commentary from the Bank of Canada.

Core **European government bonds** also rose (yields fell), buoyed by perceived “safe-haven” demand amid the heightened risk-off market sentiment and continued budget concerns in Italy. Benchmark German 10-year bund yields fell 11 bps to 0.35% while UK equivalent yields fell 19 bps to 1.38% amid the looming Brexit uncertainty. 10-year Italian bonds underperformed as the European Commission rejected the country’s budget proposals, putting the government under pressure to respond within the next three weeks.

Currencies

The US dollar rose against most major currencies this week, supported by perceived “safe-haven” demand amid dampened risk appetite. The **euro** was also hit (-1.0%) by economic growth and Italy-related concerns, both acknowledged by ECB President Mario Draghi at Thursday’s policy meeting. The **British pound** underperformed (-1.9%) amid ongoing domestic policy concerns and Brexit uncertainty.

Most **emerging market Asian currencies** weakened against a broadly stronger US dollar this week, led by the Thai baht and Korean won, amid subdued risk appetite and equity outflows. However, weakness in many currencies was limited by lower oil prices and/or foreign bond inflows. The Chinese yuan edged lower, as the People’s Bank of China (PBoC) weakened the daily reference rate, although it pared its loss slightly after the PBoC said it will continue to take macro-prudential measures to stabilise expectations in the foreign exchange market and keep the yuan at a reasonable equilibrium level. The Japanese yen rose versus the US dollar, boosted by demand for “safe-haven” assets.

Commodities

Crude oil prices fell this week, amid US dollar strength and weak risk appetite, with big losses occurring on Tuesday as Saudi Arabia pledged to meet any supply shortfalls. Meanwhile, industry data show US crude stockpiles continued to expand. WTI fell 2.4% to USD67.60 a barrel.

Gold prices rose this week (+0.5% to USD1,233 per troy ounce), despite a stronger US dollar, on the back of perceived “safe-haven” demand amid risk-off market sentiment.

Market data

Equity Indices	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World									
MSCI AC World Index (USD)	481	-2.7	-8.5	-7.9	-2.6	-6.3	551	474	14.5
North America									
US Dow Jones Industrial Average	24,688	-3.0	-6.4	-3.3	5.5	-0.1	26,952	23,243	15.5
US S&P 500 Index	2,659	-3.9	-8.5	-6.3	3.8	-0.6	2,941	2,533	16.3
US NASDAQ Composite Index	7,167	-3.8	-10.3	-8.7	9.3	3.8	8,133	6,550	20.9
Canada S&P/TSX Composite Index	14,888	-3.8	-7.9	-9.5	-6.3	-8.1	16,586	14,732	14.4
Europe									
MSCI AC Europe (USD)	422	-2.6	-10.2	-10.8	-11.6	-13.5	524	417	12.9
Euro STOXX 50 Index	3,135	-2.4	-8.7	-10.7	-13.8	-10.5	3,709	3,091	13.0
UK FTSE 100 Index	6,940	-1.6	-7.6	-9.4	-7.3	-9.7	7,904	6,852	12.2
Germany DAX Index*	11,201	-3.1	-9.6	-12.6	-14.7	-13.3	13,597	11,051	12.2
France CAC-40 Index	4,967	-2.3	-9.9	-9.4	-8.9	-6.5	5,657	4,897	13.2
Spain IBEX 35 Index	8,730	-1.8	-8.3	-10.7	-15.6	-13.1	10,643	8,628	11.6
Italy FTSE MIB Index	18,683	-2.1	-13.7	-14.5	-18.1	-14.5	24,544	18,411	10.2
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	466	-3.1	-11.4	-14.2	-14.7	-18.2	617	462	11.8
Japan Nikkei-225 Stock Average	21,185	-6.0	-11.9	-6.2	-2.6	-6.9	24,448	20,347	14.9
Australian Stock Exchange 200	5,665	-4.6	-8.5	-9.3	-4.2	-6.6	6,374	5,625	14.3
Hong Kong Hang Seng Index	24,718	-3.3	-11.1	-14.1	-12.4	-17.4	33,484	24,589	10.3
Shanghai Stock Exchange Composite Index	2,599	1.9	-7.4	-9.8	-23.7	-21.4	3,587	2,449	10.6
Hang Seng China Enterprises Index	10,059	-1.6	-8.4	-8.7	-12.1	-14.1	13,963	9,958	7.7
Taiwan TAIEX Index	9,489	-4.3	-13.5	-13.8	-11.6	-10.8	11,270	9,401	12.4
Korea KOSPI Index	2,027	-6.0	-13.3	-11.4	-18.3	-17.8	2,607	2,009	8.3
India SENSEX 30 Index	33,349	-2.8	-8.7	-9.8	0.6	-2.1	38,990	32,484	18.1
Indonesia Jakarta Stock Price Index	5,785	-0.9	-1.5	-2.7	-3.5	-9.0	6,693	5,558	15.1
Malaysia Kuala Lumpur Composite Index	1,683	-2.8	-6.4	-4.7	-3.1	-6.3	1,896	1,658	16.3
Philippines Stock Exchange PSE Index	7,064	-1.2	-2.8	-7.8	-14.6	-17.5	9,078	6,791	16.5
Singapore FTSE Straits Times Index	2,972	-3.0	-8.2	-10.7	-11.4	-12.7	3,642	2,956	12.1
Thailand SET Index	1,629	-2.3	-6.9	-4.3	-4.7	-7.1	1,853	1,585	15.0
Latam									
Argentina Merval Index	29,370	2.4	-13.5	0.6	5.5	-2.3	35,462	24,618	8.8
Brazil Bovespa Index*	85,720	1.8	9.0	8.0	12.9	12.2	88,318	69,069	13.0
Chile IPSA Index	5,124	0.1	-3.9	-5.9	-7.1	-7.9	5,895	4,847	15.9
Colombia COLCAP Index	1,397	-3.8	-6.0	-9.1	-5.0	-7.7	1,598	1,384	12.6
Mexico S&P/BMV IPC Index	45,803	-3.4	-7.7	-7.4	-6.5	-7.2	51,121	44,429	15.7
EEMEA									
Russia MOEX Index	2,293	-2.2	-5.5	0.0	12.0	8.7	2,502	2,038	5.2
South Africa JSE Index	50,838	-2.4	-10.1	-10.4	-13.2	-14.6	61,777	50,033	12.0
Turkey ISE 100 Index*	90,542	-6.1	-8.7	-4.5	-15.6	-21.5	121,532	84,655	6.8

*Indices expressed as total returns. All others are price returns.

Equity Indices - Total Return	1-week Change (%)	1-month Change (%)	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	-2.7	-8.4	-7.4	-4.7	-0.7	23.9	33.4
US equities	-2.2	-7.0	-4.6	2.2	7.0	36.0	64.0
Europe equities	-2.6	-10.1	-10.4	-11.2	-9.0	6.4	2.5
Asia Pacific ex Japan equities	-3.1	-11.4	-13.6	-16.2	-12.3	16.6	12.3
Japan equities	-4.6	-10.6	-8.5	-8.7	-4.5	15.3	25.6
Latam equities	-1.4	5.2	-0.9	-3.7	-4.1	40.6	-11.8
Emerging Markets equities	-2.3	-9.2	-12.4	-16.3	-12.3	17.3	3.9

All total returns quoted in USD terms and subject to one-day lag.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Emerging Latin America Total Return Index, and MSCI Emerging Markets Total Return Index

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bond indices - Total Return	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	514	0.3	-0.1	-0.2	0.7	-0.1
JPM EMBI Global	766	-0.3	-1.3	-2.2	-4.3	-5.2
BarCap US Corporate Index (USD)	2,804	0.1	-1.0	-0.7	-2.2	-3.4
BarCap Euro Corporate Index (Eur)	245	0.1	0.2	-0.4	-0.5	-0.6
BarCap Global High Yield (Hedged in USD)	465	-0.4	-1.0	-0.5	-0.6	-0.8
Markit iBoxx Asia ex-Japan Bond Index (USD)	192	-0.1	-0.6	-0.3	-2.0	-2.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	243	-0.6	-1.2	-0.6	-3.3	-3.5

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Currencies (vs USD)	Latest	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.14	1.15	1.17	1.16	1.17	1.20	1.26	1.13	-1.0
GBP/USD	1.28	1.31	1.32	1.31	1.32	1.35	1.44	1.27	-1.9
CHF/USD	1.00	1.00	1.04	1.01	1.00	1.03	1.09	0.99	-0.1
CAD	1.31	1.31	1.30	1.31	1.28	1.26	1.34	1.23	0.0
JPY	111.91	112.55	112.73	111.23	113.98	112.69	114.73	104.56	0.6
AUD	1.41	1.40	1.38	1.36	1.31	1.28	1.42	1.23	-0.4
NZD	1.53	1.52	1.50	1.47	1.46	1.41	1.56	1.34	-1.0
Asia									
HKD	7.84	7.84	7.81	7.85	7.80	7.81	7.85	7.79	0.0
CNY	6.94	6.93	6.88	6.79	6.64	6.51	6.97	6.24	-0.2
INR	73.47	73.33	72.62	68.67	64.82	63.87	74.48	63.25	-0.2
MYR	4.18	4.16	4.14	4.06	4.23	4.05	4.24	3.85	-0.5
KRW	1,142	1,132	1,118	1,120	1,125	1,067	1,145	1,054	-0.9
TWD	30.99	30.93	30.69	30.56	30.24	29.73	31.17	28.96	-0.2
Latam									
BRL	3.64	3.71	4.03	3.75	3.30	3.31	4.21	3.12	1.9
COP	3,180	3,079	2,999	2,883	3,015	2,986	3,197	2,685	-3.3
MXN	19.36	19.28	18.84	18.63	19.20	19.66	20.96	17.94	-0.4
EEMEA									
RUB	65.60	65.46	65.87	62.95	57.85	57.69	70.84	55.56	-0.2
ZAR	14.60	14.41	14.14	13.24	14.24	12.38	15.70	11.51	-1.3
TRY	5.59	5.64	6.11	4.86	3.82	3.80	7.24	3.72	0.8

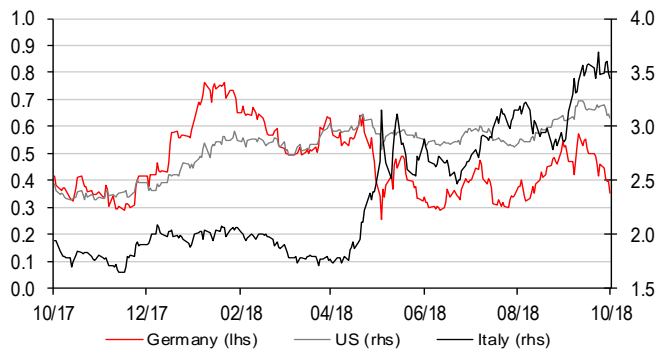
Bonds	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	1-week Basis Point Change *
US Treasury yields (%)							
3-Month	2.32	2.30	2.19	1.98	1.10	1.38	2
2-Year	2.81	2.90	2.81	2.68	1.61	1.88	-10
5-Year	2.91	3.05	2.94	2.86	2.08	2.21	-14
10-Year	3.08	3.19	3.05	2.98	2.46	2.41	-12
30-Year	3.31	3.38	3.18	3.10	2.97	2.74	-7
10-year bond yields (%)							
Japan	0.11	0.14	0.12	0.09	0.07	0.04	-4
UK	1.38	1.58	1.59	1.28	1.38	1.19	-19
Germany	0.35	0.46	0.53	0.40	0.41	0.42	-11
France	0.74	0.84	0.84	0.70	0.82	0.78	-10
Italy	3.44	3.48	2.86	2.70	1.94	2.01	-4
Spain	1.57	1.73	1.52	1.36	1.53	1.56	-16
China	3.55	3.58	3.66	3.55	3.79	3.90	-2
Australia	2.60	2.68	2.73	2.68	2.75	2.63	-9
Canada	2.39	2.50	2.42	2.29	2.03	2.05	-11

*Numbers may not add up due to rounding

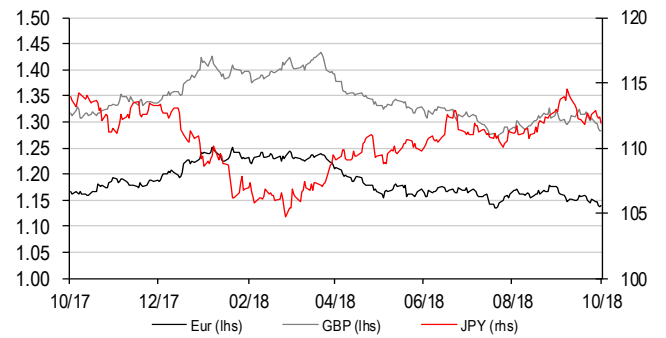
Commodities	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,233	0.5	3.2	0.9	-2.7	-5.4	1,366	1,160
Brent Oil	77.7	-2.6	-3.8	2.9	36.4	22.1	87	56
WTI Crude Oil	67.6	-2.4	-5.3	-0.1	29.6	16.5	77	52
R/J CRB Futures Index	196	-0.8	0.8	0.3	5.1	0.8	207	183
LME Copper	6,226	0.1	-0.9	-1.0	-10.9	-14.1	7,348	5,773

Market Trends

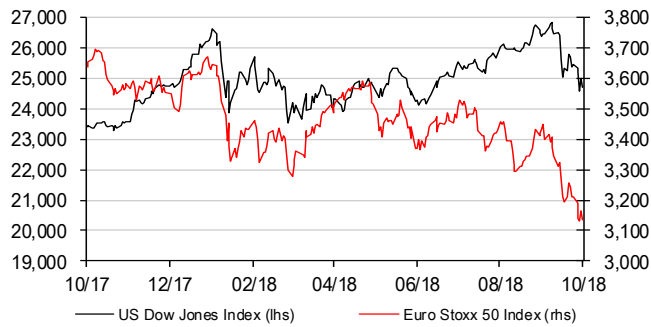
Government bond yields (%)



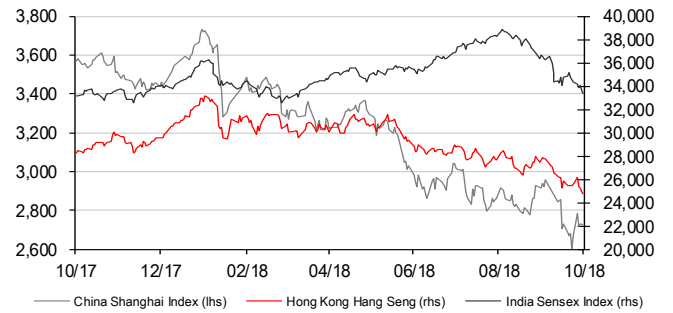
Major currencies (versus USD)



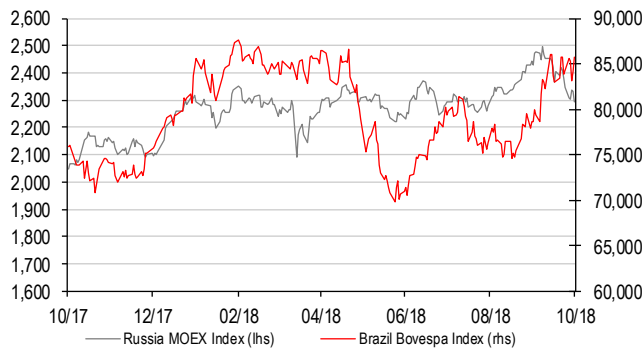
Global equities



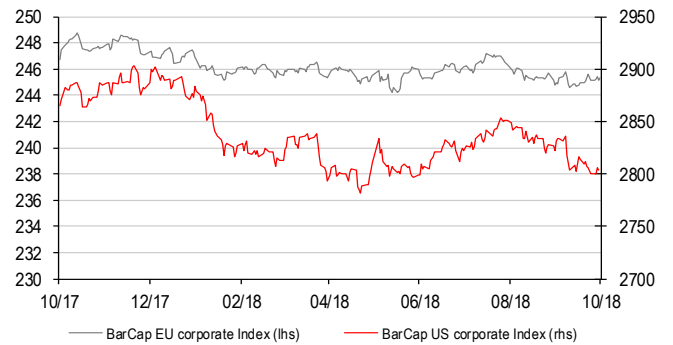
Emerging Asian equities



Other emerging equities



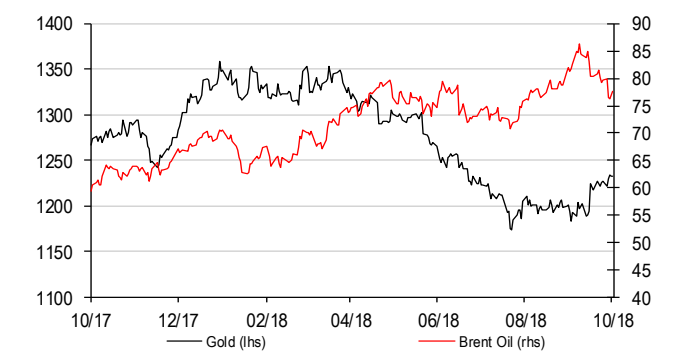
Global credit indices



Emerging market spreads (USD indices)



Commodities (USD)



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