



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, November 28, 2018








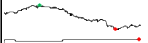


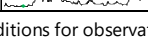
- **BoE to release Brexit study and stress-test results later today ([link](#))**
- **Russia issues its first Eurobond in 5 years ([link](#))**
- **Market-based measures of US inflation continue to tumble along with oil ([link](#))**
- **Trump to push further tariffs on China if weekend talks don't yield deal ([link](#))**

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

## Markets are quiet ahead of Fed Chair speech, Xi-Trump meeting

**Risk assets are largely unchanged as investors await key watchpoints for this week.** Global equities are edging slightly higher, led by small gains in the US, brushing off Pres. Trump's mention of adding further tariffs in the event no trade deal with China is reached this weekend. EM currencies and external spreads are little changed, the dollar remains near 2018 highs, and rates markets are largely steady. After a speech from the Fed vice chair yesterday underscoring the Fed's "data dependence", investors today will be scrutinizing remarks by Fed Chair Powell for indications that US monetary policy tightening may pause next year. Markets are also quiet in anticipation of the Xi-Trump meeting at the G-20 in Argentina this weekend, which will inform the outlook for trade policy. In commodities, oil prices edged lower, unwinding the short-lived rebound of recent days.

### Key Global Financial Indicators

Last updated: 11/28/18 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			<b>%</b>				<b>%</b>
S&P 500		2682	0.3	0	1	2	0
Eurostoxx 50		3181	0.5	1	1	-11	-9
Nikkei 225		22177	1.0	3	5	-1	-3
MSCI EM		41	0.8	0	5	-14	-14
<b>Yields and Spreads</b>			<b>bps</b>				
US 10y Yield		3.06	0.4	0	-1	73	66
Germany 10y Yield		0.35	-0.1	-3	0	1	-8
EMBIG Sovereign Spread		404	3	8	38	116	119
<b>FX / Commodities / Volatility</b>			<b>%</b>				
EM FX vs. USD, (+) = appreciation		62.3	0.2	-1	0	-9	-11
Dollar index, (+) = \$ appreciation		97.4	0.0	1	1	6	6
Brent Crude Oil (\$/barrel)		59.9	-0.5	-6	-23	-6	-10
VIX Index (% change in pp)		18.6	-0.5	-4	-6	9	8

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

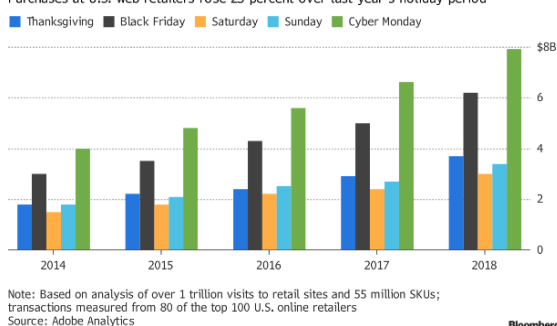
## United States

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**Stock ended 0.3% higher** Tuesday. Stocks were largely listless through most of the session, with investors conflicted by ongoing trade tensions and digesting holiday shopping data. But stocks staged an afternoon rally after White House economic advisor Kudlow advised that the upcoming meeting with president Trump and his Chinese counterpart represented an opportunity to “turn the page” on ongoing trade tensions. Apple was down over 2% in early trading on news the president was considering tariffs on iPhones and other mobile phones made in China. The iPhone accounted for 63% of Apple’s sales in 2018. **Holiday sales** at the nation’s top 80 web retailers jumped to \$24.2 bn, a 23% increase over last year according to Adobe Analytics. Monday’s \$7.9 bn total was the largest online shopping day of all time in the US. Market Research firm eMarketer gauges that overall holiday spending this year should grow by 6% yoy, the biggest increase since 2011.

### Thanksgiving's Online Shopping Weekend

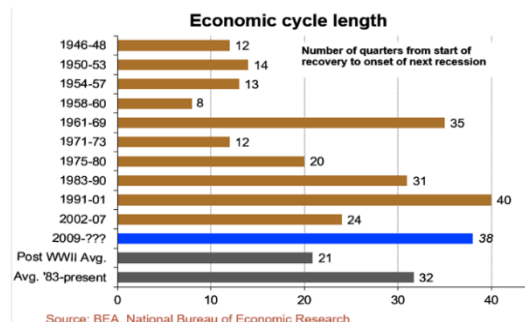
Purchases at U.S. web retailers rose 23 percent over last year's holiday period



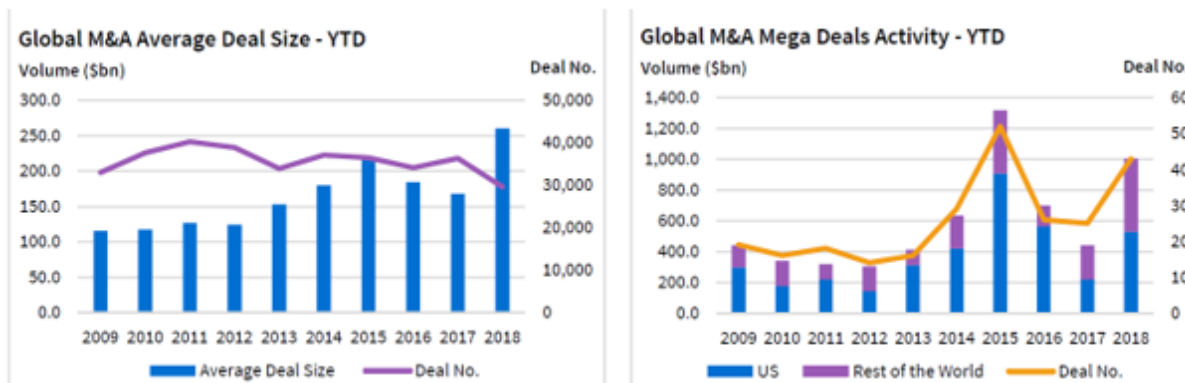
**Treasury yields ended little changed** Tuesday. The \$40 bn 5-year auction drew a bid-to-coverage ratio of 2.49, up from the 2.3 previously, and the 2.88% yield was the lowest since August. The Conference Board reported that consumer confidence slipped somewhat in November, coming off an 18-year high, as slumping stock prices and trade tensions erode the underpinnings of a solid job market and tax cuts. Housing market data continues to show signs of cooling: US home prices rose 5.15% yoy in September according to CoreLogic Case Schiller data. This is the slowest pace in almost two years, and the sixth straight deceleration. Price data from the government’s housing authority revealed a 0.2% mom increase in September, half the expected gain. **Breakeven inflation rates, a measure of market expectations for inflation, fell an additional 4 bps** at the 5-year tenor. This extends the QTD decline to 30 bps, and is roughly consistent with the decline in commodity prices over the same period.

**The Fed’s Vice Chair Clarida advised the Fed is “much closer” to a neutral interest rate** than it was when it started hiking rates in December of 2015, but that it should also follow a “gradual” approach in its hiking regimen, and that such should also be “data dependent.” He went on convey he **expected the expansion to continue into next year** and become the longest on record. This echoes recent comments by Fed chair Powell that “there’s really no reason to think that this cycle can’t continue for quite some time.”

### Unending Cycle? U.S. Cycles in Quarters



Standard & Poor's notes that global **M&A activity** was up 30.9% yoy in Q3, to \$819.1 bn. However, it warns that dealmaking will be more tempered going forward due to high stock market volatility, rising interest rates, and geopolitical conditions. So-called mega deals in mergers and acquisitions (those exceeding \$10 bn) have rebounded this year. Mega deals were on the decline after 2015, but have accounted for more than one quarter of M&A volumes so far this year. And they have also helped push up the average global deal size to a record \$260 mn. US-targeted firms represent just over half of all 2018 mega deals. Dealogic notes companies have been increasingly using these transactions to diversify their business lines, and that only 37% of mega deals were in the same industry in 2018, bucking the previous trend of more horizontal integration.



Source: Dealogic

## Europe

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**Sovereign debt remain steady for a second day.** Yields are unchanged for the 10-year bonds of Germany 0.34%; France 0.72%; and Spain 1.55%. Italian 10-year yields dropped 4 bps to 3.24%, taking the spread to 10-year bunds to 290 bps. **Gilt yields are also mostly unchanged** at 1.37% (-2 bps) for the 10-year bond and 0.75% (-2 bps) for the 2-year.

### Italy-Germany Sovereign Spreads (in bps)



Source: Bloomberg  
CFRTR1US Curncy (FRANCE CDS USD SR 5Y D14) FI: Ita-Germ Spreads Daily 290EC2017

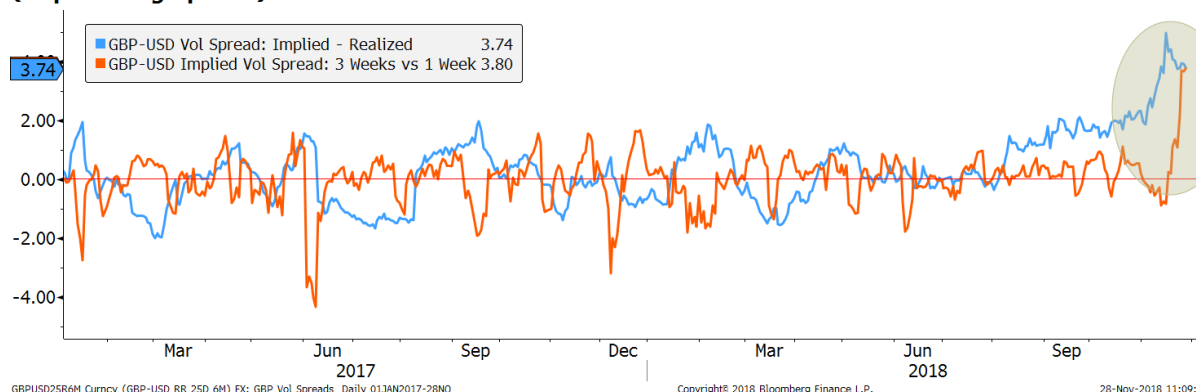
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**European equities are mixed withing a narrow corridor:** DAX (+0.2%), EuroStoxx (+0.2%), Titans 30 (-0.1%), and Ibex (+0.4%). Banks stocks are flat on the day.

**FX markets also traded quietly today**, as the euro and yen remain flat to the dollar. Sterling strengthened 0.4% to the dollar, at \$1.28. Currency trading signals a surge in pound volatility ahead of the 'meaningful vote' in the UK parliament on December 11.

## British Pound: Volatility Spreads (in percentage points)



**Several British public authorities will release studies on the impact of various Brexit arrangements for the UK economy later today.** The Bank of England, Her Majesty's Treasury, and the Financial Conduct Authority are set to issue reports with estimates of various Brexit outcomes. Local [press](#) report that the cross-government analysis will argue that under a no-deal scenario, the UK would lose around 7.6% of GDP in the next 15 years. The majority of analysts expect the Withdrawal Agreement to be rejected on December 11, which could plunge the pound to the \$1.25 level. **The BoE will also publish its Financial Stability Report and its latest bank stress-test results this afternoon.**

## Forecast for Sterling on Parliament Vote

Median of survey results

Scenario	Chance (%)	Level of the pound (\$)
Rejects divorce agreement	55	1.25
Approves divorce agreement	45	1.34

The following banks' and asset managers' forecasts were included in the survey: Amundi, Banque L. Odier, CIBC, Commerzbank, Credit Agricole, Eurizon SLJ Capital, ING, Manulife, Mizuho, NatWest Markets, Rabobank, RBC, SEB, Societe Generale, Toronto Dominion Bank, UBP and Unicredit

Bloomberg

**The European Union is considering a measure to reduce the capital hit from NPL recognition.** Bloomberg reports that the European Parliament is considering a bill to reduce the hit to bank capital related to "massive disposals" of bad loans. Under current rules, a sale of bad assets at an unexpectedly low price triggers adjustment in the assessed values of all NPLs retained on a bank's books, increasing loan-loss reserves and reducing bank equity. The proposed new measure, which would apply to debt sales after 23 November 2016 and expire in three years, would exempt banks from the revaluation of retained NPLs in the event a bank disposes of more than 20 percent of its gross NPL stock. EU Ministers are expected to discuss this proposal when they meet on December 4. Italian banks, which hold €174 billion of NPLs, the highest among European countries, traded up +5% yesterday.

## Other Mature Markets [back to top](#)

### Japan

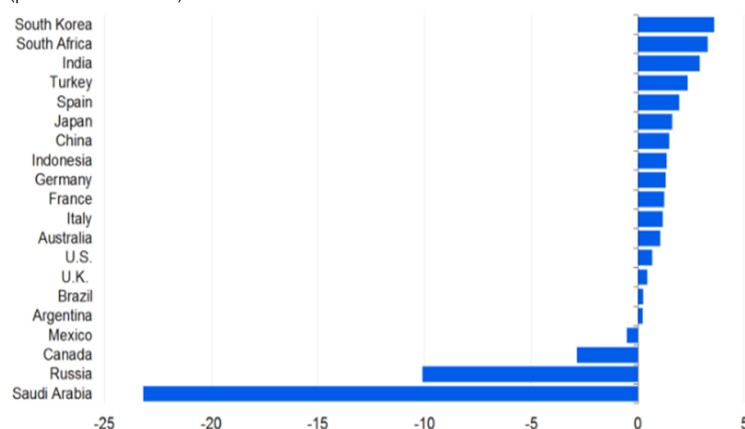
**The yen was little changed at 113.8 and hovered near its weakest level in two weeks amid limited trading.** Traders noted that uncertainty regarding the outcome of the upcoming Trump-Xi meeting has limited trading, keeping the dollar-yen currency pair in a range since the end of October. Meanwhile, **equities rose**, supported by widely-held but cautious optimism that the Trump-Xi meeting could result in a truce and halt further increases in tariffs. The Nikkei rose 1% and the Topix, 0.6%, boosted by gains in technology and telecommunications shares. **The JGB yield curve steepened amid gains in equities.** The 2-year note was unchanged at -0.15% while yield on the benchmark 10-year note rose 1 bps to 0.09% and the 30-year bond reached 0.82% after rising by 2 bps.

### Commodities

With global oil prices down over 30% from their October highs, there will be a varying impact on countries depending on their relative oil trade balance (see chart below). Korea and South Africa are set to be among the biggest winners while Russia and Saudi Arabia stand to lose out. Capital Economics gauges that every \$10/barrel fall in oil prices boosts income by 0.5-0.7% of GDP in major emerging market oil importers, and the same metric will cause a 3-5% loss of GDP in most Gulf economies. There are reports that Saudi Arabia has upped its production to 11.2 mn b/d as it tried to accommodate customers preparing for a disruption in Iranian supplies. A Bloomberg survey finds that OPEC and its allies are expected to agree to production cuts when they meet next week. **Crude oil prices dropped about 0.8%.**

#### Net Oil Importers/Exporters

(percent of 2017 GDP)



Sources: Bloomberg, BP, IMF

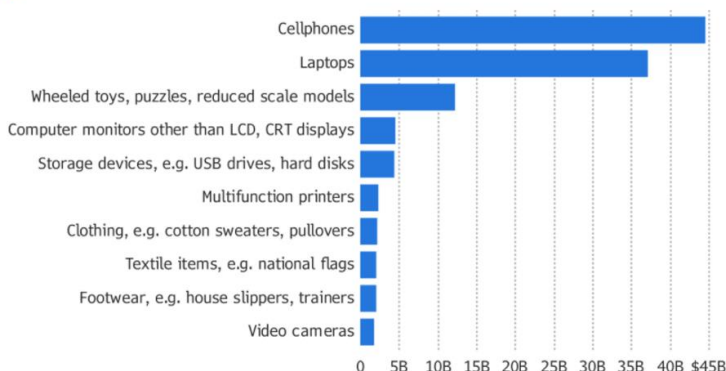
## Emerging Markets [back to top](#)

**Major EM benchmarks moved sideways on Tuesday as investors assess the prospects of a China-US trade deal this week.** US President Trump indicated in an interview that if negotiations with Chinese leadership fail to produce a trade deal he may place duties on imports that have escaped levies including cellphones and laptops. **In LatAm currencies and equities outperformed rest of EM**, with the Brazilian real appreciating (+1.7%) after the central bank stepped up its FX auctions. The positive reaction of the currency to the auctions strengthened the view of analysts that recent decline was driven by seasonal outflow tied to corporate dividend payments. The Mexican peso strengthened (+0.7%) as President-elect Lopez Obrador's team moved to reassure markets on their economic policies. Finally, on the back of positive risk sentiment in the region and BCRA's successful rollover of LELIQ's the Argentinian peso appreciated by 1.4%. **EMEA equity indices are mostly higher by about 0.5%**, with South Africa (+1.2%) outperforming and Russia (+0.6%) continuing to recover from recent losses. Regional currencies are mixed in narrow ranges. **Asian currencies and equities were little changed.** The Korean won is flat as the Bank

of Korea is widely expected to raise its target interest rate by 25 bps to 1.75% on Friday. By contrast, the Malaysian ringgit is down 0.3% as equity outflows continued apace. According to Bloomberg, overseas investors sold US\$97 mn of Malaysian equities in November, following the sale of US\$341 mn in October. The MSCI Asia ex Japan is unchanged following a 1.4% increase yesterday.

Consumer goods will be top target if U.S. imposes tariffs on remaining Chinese imports

■ Value of top U.S. imports from China which haven't been hit with tariffs yet (2017)



Note: Item descriptions for reference only and are not exhaustive of category  
Source: United States International Trade Commission

Bloomberg

### Key Emerging Market Financial Indicators

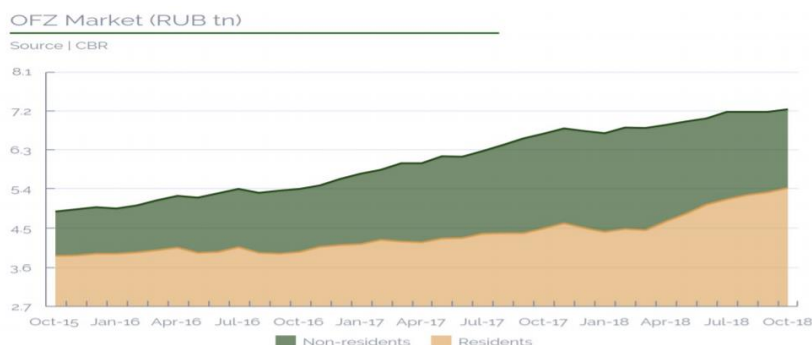
Last updated: 11/28/18 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		40.51	0.8	0	5	-14	-14
MSCI Frontier Equities		27.43	0.6	1	2	-17	-17
EMBIG Sovereign Spread (in bps)		404	3	8	38	116	119
EM FX vs. USD		62.30	0.2	-1	0	-9	-11
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.95	0.0	0	0	-5	-6
Indonesian Rupiah		14529	-0.1	1	5	-7	-7
Indian Rupee		70.62	0.2	1	4	-9	-10
Argentine Peso		38.30	0.7	-5	-4	-55	-51
Brazil Real		3.85	0.6	-1	-4	-17	-14
Mexican Peso		20.42	0.3	-1	-2	-9	-4
Russian Ruble		67.30	-0.3	-2	-2	-13	-14
South African Rand		13.94	-0.1	0	6	-2	-11
Turkish Lira		5.25	0.4	1	6	-24	-28
EM FX volatility		10.17	0.0	0.0	0.2	2.3	2.3

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

## Russia

**The government successfully issued its first Eurobond in five years.** It sold €1bn in a 7-year placement yesterday at 3.0%. The yield was the upper end of the price guidance, with demand impacted by the escalation of the conflict with the Ukraine and threat of sanctions. Analysts noted the issue was likely intended to maintain a benchmark for corporate issuance rather than for financing needs. **On the domestic fixed income markets, heightened geopolitical tensions led the Finance Ministry to cut in half this week's intended local debt (OFZ) offer to RUB 10 bn.** This will bring issuance to a cumulative RUB105 bn since the start of October. While analysts doubt the government will reach its target of RUB310

bn for the quarter, this won't have a significant effect for the budget given the significant surplus. Also of note, **the share of non-resident ownership of OFZs declined further** to 25.0% in October from 25.8% in September (see chart). Non-residents have sold RUB544 bn OFZ bonds since the escalation of sanction risks in April. Yields are little changed today with the 2-year OFZ at 8.0% and the 10-year at just under 9.0%.



## China

**The RMB remains little changed ahead of the Trump-Xi meeting**, with both the onshore CNY and offshore CNH at 6.954. **Equities rose**, in line with gains seen elsewhere in Asia. The Shanghai Composite rose 1.1% and the Shenzhen Composite rose 1.4%. Ping An Fund Management is reportedly looking to raise RMB 1 bn (\$144 mn) for its first exchange-traded Chinese bond fund. According to Bloomberg, the ETF, which will track an index of the most-active Chinese sovereign bonds, will be the largest of its kind in the country. The ETF will be traded on the Shanghai Stock Exchange and will open for subscription early next month.

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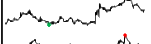











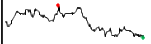








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## Global Financial Indicators

Last updated: 11/28/18 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2682	0.3	0	1	2	0
Europe		3181	0.5	1	1	-11	-9
Japan		22177	1.0	3	5	-1	-3
China		2602	1.1	-2	0	-22	-21
Asia Ex Japan		66	0.2	1	6	-15	-14
Emerging Markets		41	0.8	0	5	-14	-14
<b>Interest Rates</b>			basis points				
US 10y Yield		3.06	0.4	0	-1	73	66
Germany 10y Yield		0.35	-0.1	-3	0	1	-8
Japan 10y Yield		0.10	0.8	1	-1	6	5
UK 10y Yield		1.38	-0.9	-1	0	13	19
<b>Credit Spreads</b>			basis points				
US Investment Grade		123	2.6	1	16	24	31
US High Yield		426	4.0	1	46	43	51
Europe IG		79	-0.6	2	4	31	35
Europe HY		337	-2.4	17	36	104	104
EMBIG Sovereign Spread		404	3.0	8	38	116	119
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		97.36	0.0	1	1	4	6
USDEUR		1.13	0.0	-1	-1	-5	-6
USDJPY		113.8	0.0	-1	-1	-2	-1
EM FX vs. USD		62.3	0.2	-1	0	-9	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		60	-0.5	-6	-23	-6	-10
Industrials Metals (index)		113	0.5	-2	-4	-12	-18
Agriculture (index)		42	0.6	0	-3	-12	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.6	-0.5	-3.9	-5.6	8.5	7.5
10y Treasury Volatility Index		3.9	-0.1	-0.5	-0.8	0.3	0.4
Global FX Volatility		8.5	0.0	-0.1	0.1	1.1	1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		399	-4.5	-29	4	-100	30
Italy		292	-1.8	-17	-17	148	133
Portugal		153	-0.3	-6	-2	-6	1
Spain		120	-0.7	-6	-2	8	6

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

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 11/28/2018 8:11 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		6.95	0.0	-0.4	0	-5	-6		3.4	0.6	2	-18	-65	-62
Indonesia		14529	-0.1	0.5	5	-7	-7		8.1	4.9	-11	-61	126	150
India		71	0.2	1.2	4	-9	-10		7.8	0.4	-4	-22	51	31
Philippines		53	0.0	-0.4	2	-4	-5		6.4	4.3	-12	-18	159	157
Thailand		33	0.1	-0.3	1	-1	-1		2.8	1.2	-4	-13	45	50
Malaysia		4.20	-0.3	-0.2	-1	-2	-4		4.2	0.5	0	3	19	27
Argentina		38	0.7	-5.3	-4	-55	-51		23.7	-0.5	-18	340	795	772
Brazil		3.85	0.6	-1.5	-4	-17	-14		8.6	2.3	5	-13	-31	-41
Chile		672	0.5	-0.6	3	-4	-8		4.7	0.0	-2	-13	-17	-10
Colombia		3264	0.0	-2.3	-2	-8	-9		6.8	3.5	0	-3	47	55
Mexico		20.42	0.3	-0.9	-2	-9	-4		9.3	4.5	20	98	205	165
Peru		3.4	0.0	0.1	-1	-4	-4		5.7	-2.4	-6	-14	37	49
Uruguay		32	0.0	0.0	1	-11	-11		10.8	-1.5	-15	0		218
Hungary		287	-0.2	-1.7	-1	-9	-10		2.4	-3.3	-19	-21	116	115
Poland		3.80	0.0	-0.7	0	-7	-8		2.6	-1.1	-2	5	-15	-14
Romania		4.1	-0.1	-0.8	-1	-5	-6		4.3	-5.0	-9	-32	40	45
Russia		67.3	-0.3	-2.3	-2	-13	-14		8.6	-5.9	10	18	111	127
South Africa		13.9	-0.1	-0.2	6	-2	-11		9.7	7.7	-5	-23	-13	35
Turkey		5.25	0.4	1.2	6	-24	-28		16.8	9.1	-67	-281	414	486
US (DXY; 5y UST)		97	0.0	0.5	1	4	6		2.89	0.0	0	-2	83	68

	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		2602	-0.2	-2	0	-22	-21		189	-1	3	-3	46	37
Indonesia		5991	0.9	1	4	-1	-6		228	-1	-3	6	56	62
India		35717	1.4	1	7	6	5		173	0	1	4	60	63
Philippines		7382	5.0	2	5	-11	-14		113	-1	-2	-8	14	18
Malaysia		1687	-2	-1	0	-2	-6		151	0	7	15	41	41
Argentina		30921	1.4	4	5	15	3		703	0	21	31	348	353
Brazil		88221	-1.1	1	3	19	15		275	0	7	12	42	41
Chile		5130	0.0	0	0	1	-8		157	2	4	15	31	38
Colombia		1383	1.5	0	-1	-4	-9		217	-3	4	27	39	43
Mexico		39807	1.3	-5	-13	-16	-19		351	1	8	64	119	106
Peru		18999	0	0	2	-4	-5		166	0	1	9	29	29
Hungary		39538	3.5	0	10	1	0		148	2	5	20	56	60
Poland		57558	-0.5	2	7	-10	-10		71	-2	2	2	27	24
Romania		8587	-1.0	1	2	10	11		212	3	4	15	77	98
Russia		2377	-2.8	1	4	11	13		250	1	9	24	67	72
South Africa		52084	-4.8	1	2	-13	-12		368	4	1	31	93	114
Turkey		94331	-1.2	2	4	-8	-18		483	13	14	35	163	194
Ukraine		579	-1.1	1	3	91	84		744	27	65	149	285	289
EM total		24	-2.1	1	5	-11	-9		404	3	8	38	116	119

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