



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, April 1, 2019











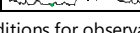
- US stocks post double-digit returns in Q1 despite recent losses ([link](#))
- US corporate earnings expected to decline in Q1 ([link](#))
- UK PM May considers a fourth attempt to pass her Brexit deal ([link](#))
- Asian equities rally on recovery in manufacturing PMIs led by China ([link](#))
- EM bond fund flows hit a 7-week high while equity flows remain volatile. ([link](#))

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## Chinese PMI fuels overnight rally but mood remains cautious

**Higher-than-expected Chinese PMI kicked off an overnight rally in global markets.** Concerns over a potential global slowdown receded, at least temporarily, as the Chinese Caixian improved to 50.8. Major equity indices rose 1 to 2% in Asia and Europe, while core European sovereign bond yields rose up to 3 bps through the 10-year sector. EM currencies have broadly strengthened against the US dollar, led by a 2% strengthening of the South African rand. Regarding upcoming data, the week will kick off with the monthly gauges of manufacturing activity (PMIs) for most major developing and emerging economies, allowing investors to better gauge the extent of the global economic slowdown that has been showing up in other measures recently. Further guidance will be provided by US durable goods numbers out Tuesday, German factory orders and industrial production, and the US payrolls report late on Friday. Markets will also remain focused on China-US trade talks and the continuing drama surrounding Brexit. There will be central bank policy decisions in Australia (Tuesday), Poland (Wednesday), and India (Thursday).

### Key Global Financial Indicators

Last updated: 4/1/19 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2834	0.7	1	1	7	13
Eurostoxx 50		3372	0.6	2	2	0	12
Nikkei 225		21509	1.4	3	0	0	7
MSCI EM		43	1.2	1	1	-11	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.44	1.0	5	-31	-29	-24
Germany 10y Yield		-0.04	3.1	-1	-22	-54	-28
EMBIG Sovereign Spread		346	-5	-12	10	43	-68
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.9	0.6	0	-1	-11	1
Dollar index, (+) = \$ appreciation		97.1	-0.2	1	1	8	1
Brent Crude Oil (\$/barrel)		68.7	1.6	2	6	-2	28
VIX Index (% change in pp)		13.9	0.2	-2	0	-6	-11

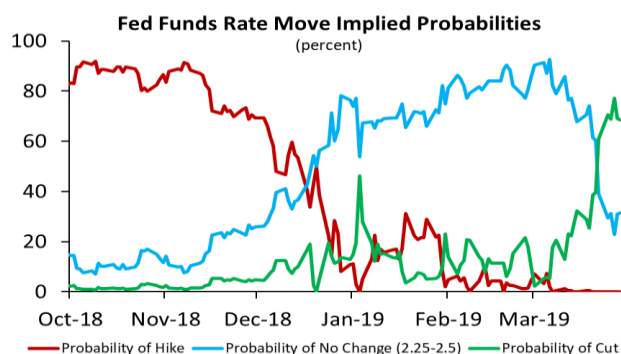
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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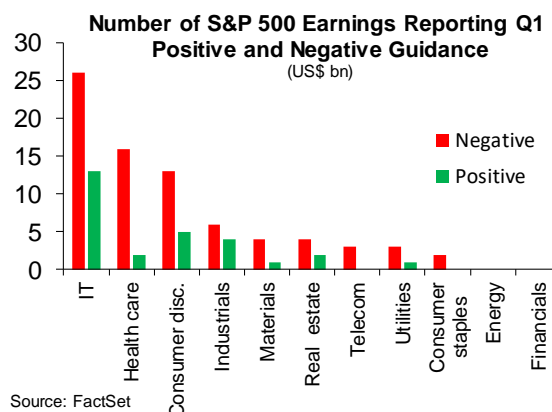
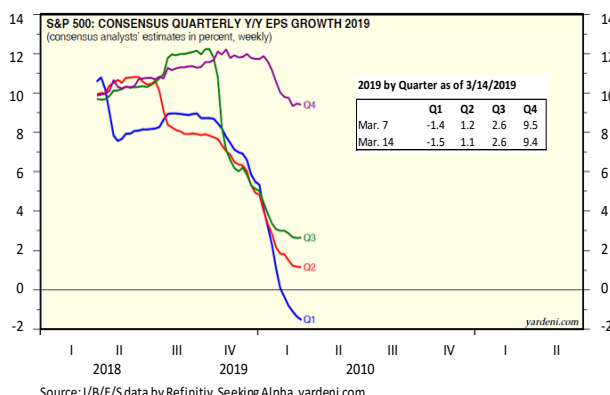
**Stocks continued to recover** Friday, with major indices rising 0.5 to 0.8%. Despite some recent losses, stocks have had a banner quarter and have posted double-digit returns. The Dow Industrial index is up 11.2%, the S&P 500 13.1%, and the tech-heavy Nasdaq 16.5%.

**Economic data released on Friday generally had a positive tone.** New home sales jumped 4.9% mom in February to an 11-month high. Freddie Mac reported that 30- year fixed mortgage rates had their biggest one-week fall in a decade, falling to 4.06% from 4.28% a week earlier. Consumer sentiment as measured by the University of Michigan rose in March. The gains were entirely due to households with incomes in the bottom two-thirds of the income distribution. Personal spending rose just 0.1% in January, reflecting weaker auto sales. The core PCE deflator fell 0.1% mom in January. Fed funds futures markets are now gauging a 68.5% probability of a 25 bp rate cut by the December FOMC meeting, up from just 2.3% at the beginning of March. White House chief economic advisor Kudlow called for the Fed to "immediately" cut interest rates by 50 bps.



**February retail sales slipped 0.2% mom in February against expectations of a 0.2% increase.** Core sales ex-autos and gas did even worse, falling 0.6%. The report suggests consumer spending may be circumscribed as a growth-driver in Q1. Yields fell 2 bps on the 10-year Treasury in response to the news.

**Corporate earnings are expected to fall in Q1.** Analysts were gauging earnings would grow 5.5% yoy at the end of 2018, but are now expecting a 1.5% yoy decline according to Reuters. And FactSet is now gauging earnings will fall 3.9% yoy. Over 100 companies in the S&P 500 have issued earnings guidance for Q1. Of these, 77 have issued negative guidance and 28 positive. FactSet notes that the percentage of companies reporting negative earnings guidance (73%) is above the 5-year average of 70%. The IT and health care sectors are mostly to blame.

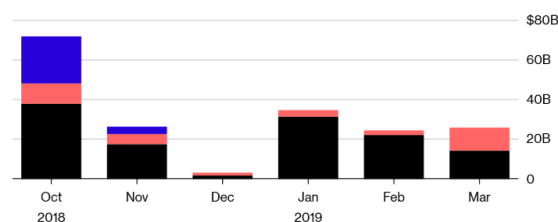


**Leveraged loan** activity is slowing. Bloomberg data indicate loan launch volume fell to \$5.5 bn last week from \$8.0 bn a week earlier. Refinancing activity dominated loan deals last month, with \$11.3 bn in refinancing deals – four times the amount in February. UBS advised it was “growing more concerned” about eroding leveraged loan fundamentals and gauged that spreads would widen to 450 bps by year-end from 400 bps now. Loan funds sustained \$1.36 bn in outflows in the latest week according to Lipper. Outflows for the year now total \$9.5 bn.

### Refi Resurrection

Opportunistic deals drove U.S. leveraged loan issuance in March

■ New money ■ Refinancing ■ Repricing



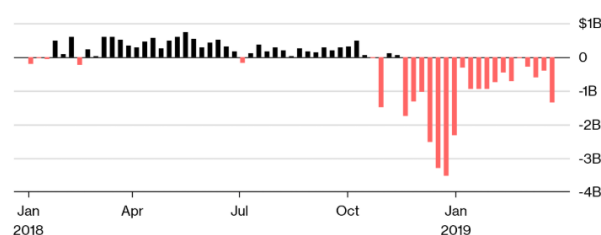
NOTE: March 2019 shows launches from March 1-27; other months are in full  
Source: Bloomberg

Bloomberg

### Outflows Accelerate

Investors pulled cash from U.S. loan funds for 19th straight week

■ Net U.S. loan fund flow



Source: Lipper

Bloomberg

## Europe

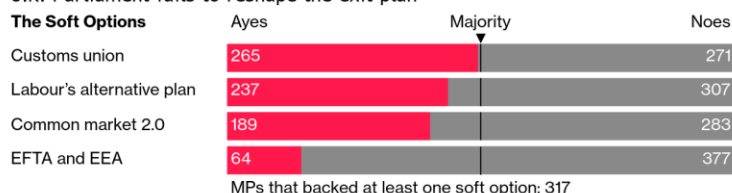
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### United Kingdom

**After PM May's proposal was rejected for the third time last Friday, the House of Commons will hold a series of "indicative votes" to seek a majority path to break the Brexit gridlock.** Commentators believe that if any option is to pass Parliament today, the most likely would be for the UK to remain in the customs union, a proposal that was nearly approved last week (chart). However, these votes are non-binding and just a way to show a potential path forward. In parallel, reports claim that PM May is considering bringing her proposal back to Parliament for a fourth time while threatening dissenting Conservative MPs with an even softer Brexit if they do not fall in line. Parliament must decide by April 12 or face the prospect of a no-deal Brexit or request a longer delay (implying that the UK will be part of the European Parliament elections). After the defeat on Friday, the EC released a press statement saying that a no-deal Brexit on April 12 "is now a likely scenario," and that the EU is "fully prepared" for it. EC President Juncker added that the commission had a great deal of "patience with our British friends, but patience can also run out."

### Motions on Brexit

U.K. Parliament fails to reshape the exit plan



### Referendum, Emergency Brake



### Previous Support for May's Deal

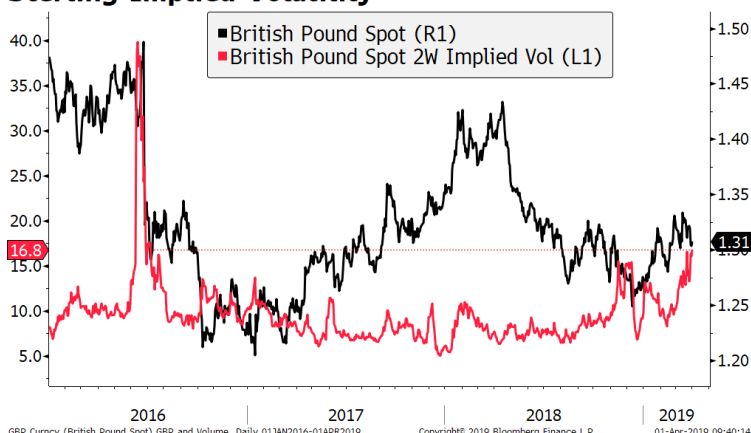


Sources: Parliamentary Digital Service

Bloomberg

**Sterling has been little changed over the last two session, but implied volatility has shot higher.** The currency has been holding above the \$1.30 against the dollar since mid-February and is now trading at \$1.3070. Its two-week implied volatility, however, has spiked to nearly 17%, the highest level since the EU referendum in mid-2016.

### Sterling Implied Volatility



## Europe

**Stock markets are broadly higher with the EuroStoxx up 1.1%.** Financial sector stocks are outperforming, up 1.6% led by Unicredit (+2.8%) and BBVA (+2.6%). Yields are a few basis points higher across the region. The 10-year bund is trading at -0.04%, after reaching -0.09% at the lows of last week.

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

### Japan

**Japanese equities (Nikkei +1.4%; Topix +1.5%) rose with cyclicals outperforming.** The increase however came amid mixed domestic data. Japan's final manufacturing PMI figure of 49.2 for March still reflected the worst quarterly performance since Q2 of 2016, even after its upward revision from the flash figure of 48.9 (also higher than February's 48.9). Additionally, the BoJ's Tankan survey showed that business conditions across all firms fell to 12 in March from 16 in December. Although the score for non-manufacturing companies held steady at 15, manufacturers acted as a drag, falling to 7 from 16 in December. **The yen weakened 0.1% and 10-year JGB yields rose 1.4 bps to -0.086%.**

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

**In Asia, investor sentiment was buoyed by a rebound in manufacturing PMIs, led by China.** Gains in equities (+1.0%) were led by Chinese stocks (Shanghai +2.6%; Shenzhen +3.6%). Besides China, Hong Kong (+1.8%) and Korea (+1.3%) were among the top performers. Regional currencies were little changed, while sovereign yields increased slightly. **In EMEA, South African assets outperformed after Moody's decided not to downgrade the country or revise its outlook.** The rand was 1.4% stronger against the dollar while equities rose by 1.2%. Other equities and currencies in the region were broadly higher, except Turkey where the lira shed over 2% after yesterday's local elections (see Turkey section). **In Latin America, Argentinian equities and FX outperformed for a second day in a row on Friday.** The peso was still the weakest among EM currencies on a weekly basis depreciating by 3.5% against the dollar.

## Key Emerging Market Financial Indicators

Last updated: 4/1/19 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.92	1.2	1	1	-11	10
MSCI Frontier Equities		28.46	0.3	0	0	-19	9
EMBIG Sovereign Spread (in bps)		346	-5	-12	10	43	-68
EM FX vs. USD		62.94	0.7	0	-1	-11	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.0	0	0	-6	2
Indonesian Rupiah		14229	0.1	0	-1	-3	1
Indian Rupee		69.16	0.3	0	2	-6	1
Argentine Peso		43.32	0.7	-4	-10	-54	-13
Brazil Real		3.88	1.0	-1	-3	-15	0
Mexican Peso		19.25	0.9	-1	0	-5	2
Russian Ruble		65.64	0.2	-3	0	-12	6
South African Rand		14.17	2.3	1	0	-16	1
Turkish Lira		5.52	0.8	0	-3	-28	-4
EM FX volatility		9.14	-0.9	0.6	0.9	1.2	-0.6

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

## EM Fund Flows

**EPFR bond fund inflows jumped to a 7-week high (led by hard currency), while EM equity fund flows were negative.** EM bond fund flows were up \$2.3 bn (from \$1.5 bn last week); EM equity fund flows were down \$0.6 bn (from up \$0.4 bn). Hard currency bond funds inflows surged helped by hard currency ETF inflows (+\$0.5 bn) after two weeks of outflows. EM equity fund flows remain volatile overall while ETF equity inflows were stable (+0.5 bn) but non-ETF outflows accelerated to -\$1.1 bn (from flat last week).

Exhibit 1: Weekly Cross-Asset Flows

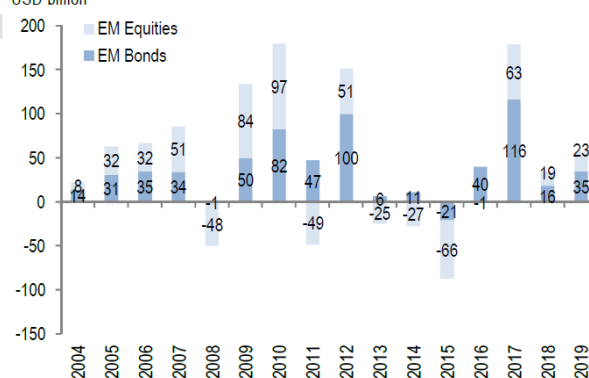
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		1.7	57.5
<b>EM Bonds</b>		2.3	34.7
Hard Ccy		1.9	27.4
Local Ccy		0.4	7.3
<b>EM Equities</b>		-0.6	22.8
US HG		3.2	37.2
US HY		0.5	12.9
Global Equities		-7.3	-5.6
<b>EM Bond and Equity ETFs</b>		1.4	28.8
EM Bond ETFs		0.9	8.5
EM Equity ETFs		0.5	20.4
<b>Non-resident EM flows*</b>		2.0	24.3
EM Local Bonds		0.3	8.6
EM Equities		1.6	15.7

\*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

Exhibit 2: Annual EM bond and equity fund flows

USD billion



## China

**Chinese equities (Shanghai +2.6%; Shenzhen +3.6%) rose to a 1-year high following a recovery in manufacturing PMIs that beat expectations.** The official and Caixin manufacturing PMIs returned to expansionary territory of 50.5 and 50.8 in March, respectively, from 49.2 and 49.9 in February. These figures indicated tentative signs of stabilization in industrial activity and were above Bloomberg consensus expectations of 49.6 and 50.0. The improvement in both numbers were driven by a rebound in new orders, reflecting an improvement in domestic demand. New export orders also increased, even though they

remained contractionary at 47.1 for the official gauge. **10-year government bond yields rose 6.2 bps to 3.12%, while the onshore and offshore RMB were stable.**

## China Gains

**Chinese stocks extend their winning run into the second quarter**

Normalized As Of 10/08/2018 ■ Shanghai Composite Index ■ ChiNext Index ■ MSCI World Index

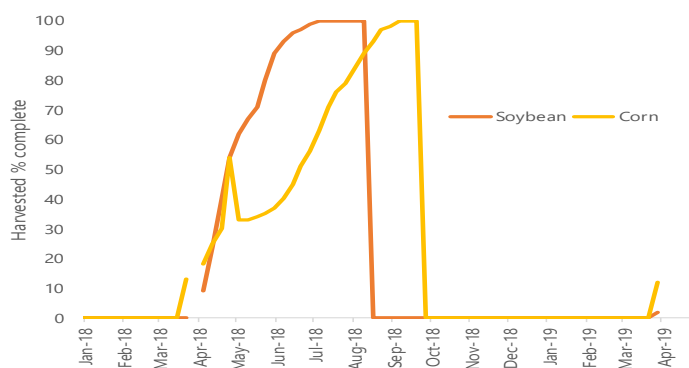


Source: Bloomberg

## Argentina

**The Argentine peso underperformed all other EM currencies last week and last month, depreciating by 3.5% and 10% respectively against the dollar.** Price action has improved over the last two trading sessions, on rising optimism that FX volatility will decline with the upcoming treasury USD auctions in mid-April, the recent regulatory BCRA measures, and seasonal agricultural dollar inflows. The Buenos Aires Grain Exchange said on Friday that a delay in the soybean harvest is significant with only 2% of the soybean harvest collected, versus an average of 5.1% at the same stage in the previous five years. On the positive side the corn harvesting pace has been fast this year. **The supply of crop dollars in the Argentine FX market in March was the lowest in the year,** with a daily average of \$56 mn, according to a group that represents agricultural trading companies. **FX crop sales are expected to increase significantly this week** according to analysts and it was already reported to be \$141.5 mn on Friday.

**Argentina Crop harvesting pace**



Source: Bloomberg

**Turkey**

**President Erdogan's AKP party saw losses in local elections yesterday.** The president's party lost control of the capital Ankara while both the AKP and the opposition declared victory in a tightly-fought race in Istanbul. AKP's losses were attributed to a slowdown in growth and employment, as well as soaring inflation, while the party itself said it would challenge the results after claiming widespread invalid votes and irregularities. The opposition parties were also unhappy with the process, claiming that the state-run news agency stopped reporting results for Istanbul as the race grew tighter. Commenting late last night, president Erdogan conceded some defeats and said that an "important economic reform program" was on the agenda. The lira resumed weakening this morning and was down as much as 2.3% against the dollar before recovering those losses.

**Ukraine**

**Comedian Volodymyr Zelenskiy won the first round of the presidential elections with 30.2% of the vote.** Zelenskiy will face incumbent Petro Poroshenko in the second round after Poroshenko got 16.7%, although not all votes had been counted. Zelenskiy had performed well in polls leading up to the election but still performed better than expected as voters issued a strong rebuke of establishment politicians. The runoff will take place on April 21 with issues of corruption, a weak recovery, and the role of the military expected to continue to dominate the agenda. According to Goldman Sachs, the results will probably be positive for markets and boost inflows into local debt as former prime minister Tymoshenko failed to reach the runoff.

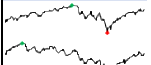
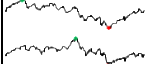
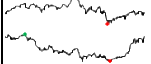

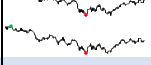


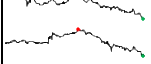


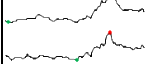
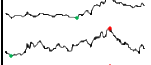


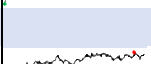

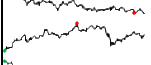



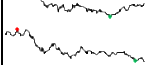





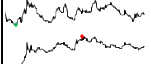

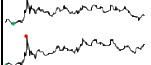
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## Global Financial Indicators

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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2834	0.7	1	1	7	13
Europe		3373	0.6	2	2	0	12
Japan		21509	1.4	3	0	0	7
China		3170	2.6	4	6	0	27
Asia Ex Japan		71	1.1	2	2	-9	11
Emerging Markets		43	1.2	1	1	-11	10
<b>Interest Rates</b>			basis points				
US 10y Yield		2.44	1.0	5	-31	-29	-24
Germany 10y Yield		-0.04	3.1	-1	-22	-54	-28
Japan 10y Yield		-0.07	0.8	1	-7	-12	-8
UK 10y Yield		1.02	1.7	3	-28	-33	-26
<b>Credit Spreads</b>			basis points				
US Investment Grade		118	-1.5	-5	-1	18	-29
US High Yield		414	-5.1	-24	17	54	-107
Europe IG		63	-1.7	-6	1	4	-24
Europe HY		264	-5.4	-19	-16	-19	-89
EMBIG Sovereign Spread		346	-5.0	-12	10	43	-68
<b>Exchange Rates</b>			%				
USD/Majors		97.14	-0.2	1	1	8	1
EUR/USD		1.12	0.1	-1	-1	-9	-2
USD/JPY		111.0	-0.1	-1	1	-5	-1
EM/USD		62.9	0.6	0	-1	-11	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		69	1.6	2	6	-2	28
Industrials Metals (index)		124	0.8	3	1	-4	13
Agriculture (index)		40	0.3	-2	-2	-18	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.9	0.2	-2.4	0.4	-6.0	-11.5
10y Treasury Volatility Index		4.4	0.0	0.1	0.5	0.2	-0.2
Global FX Volatility		7.4	0.0	0.1	0.4	-0.3	-1.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		375	-5.2	-4	29	-7	-40
Italy		256	0.5	3	1	127	6
Portugal		131	-0.8	-1	1	20	-17
Spain		117	0.6	4	16	51	0

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: 4/1/2019 8:08 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		6.71	0.0	0.0	0	-6	2		3.1	0.6	-4	-4	-71	-9
Indonesia		14229	0.1	-0.3	-1	-3	1		7.7	-6.0	2	-18	89	-42
India		69	0.3	-0.3	2	-6	1		7.4	-0.2	-3	-15	-17	-5
Philippines		53	0.1	-0.1	-1	-1	0		5.3	1.2	-12	-23	26	-96
Thailand		32	0.0	-0.5	0	-2	2		2.6	3.9	-1	-6	16	-8
Malaysia		4.08	0.0	-0.3	0	-5	1		3.8	0.3	-6	-18	-19	-30
Argentina		43	0.7	-3.5	-10	-54	-13		24.0	-329.5	14	276	741	96
Brazil		3.88	1.0	-0.7	-3	-15	0		8.2	7.9	2	4	-3	5
Chile		674	0.8	0.9	-2	-10	3		4.2	0.8	-1	-18	-58	-28
Colombia		3189	-0.3	-1.7	-3	-12	2		6.2	-0.5	4	-25	-5	-35
Mexico		19.25	0.9	-1.2	0	-5	2		8.1	2.0	8	-20	73	-59
Peru		3.3	0.1	-0.6	-1	-3	2		5.4	-1.5	1	-24	43	-37
Uruguay		33	0.5	0.3	-2	-15	-3		10.5	3.2	9	29		-18
Hungary		286	0.2	-2.2	-3	-11	-2		1.8	2.7	-5	-28	31	-38
Poland		3.83	0.3	-0.8	-1	-11	-2		2.3	2.8	4	-9	-19	1
Romania		4.2	0.3	-0.8	-2	-11	-4		4.1	4.0	5	1	20	-16
Russia		65.6	0.2	-2.5	0	-12	6		8.1	5.8	12	-2	128	-34
South Africa		14.2	2.3	0.9	0	-16	1		9.4	-10.2	-15	-9	84	-20
Turkey		5.52	0.9	0.5	-3	-28	-4		19.5	-88.9	222	404	672	267
US (DXY; 5y UST)		97.1	-0.1	0.6	1	8	1		2.27	3.7	9	-29	-29	-24

	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		3170	2.6	4	6	0	27		176	0	0	-2	-5	-18
Indonesia		6453	-0.2	1	-1	4	4		194	-2	-6	5	10	-42
India		38872	0.5	3	8	18	8		160	2	-1	-5	21	-36
Philippines		7840	-1.0	0	3	-2	5		90	-1	-9	9	-12	-31
Malaysia		1629	-0.9	-1	-4	-13	-4		129	0	-1	3	3	-33
Argentina		33466	1.7	2	-1	8	10		767	-5	-3	49	347	-48
Brazil		95415	1.1	2	1	12	9		245	-4	-7	14	6	-28
Chile		5259	0.9	1	0	-5	3		131	-1	-5	4	4	-35
Colombia		1588	1.1	-3	5	9	20		181	-3	-11	-4	0	-47
Mexico		43281	0.8	2	2	-6	4		305	-4	1	-12	54	-49
Peru		21098	0.6	0	3	3	9		126	-4	-17	-5	-28	-42
Hungary		41931	0.6	1	4	13	7		113	-5	-18	9	3	-35
Poland		60412	1.2	1	1	3	5		54	-5	-11	9	-1	-31
Romania		8137	1.1	2	6	-7	10		209	2	9	15	66	-12
Russia		2517	0.8	1	2	11	6		223	-4	2	16	28	-29
South Africa		57197	1.3	3	2	3	8		305	-9	-16	23	55	-60
Turkey		94550	0.8	-5	-8	-18	4		478	-16	-11	78	154	49
Ukraine		564	-1.6	2	2	59	1		615	-17	-24	-24	169	-172
EM total		43	1.2	1	1	-11	10		346	-5	-12	10	43	-68

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