



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, April 10, 2019

- **US core CPI slightly weaker-than-expected in March** ([link](#))
- **Fed proposes changes to governance of foreign banks** ([link](#))
- **Record Japanese investment boosts US corporate bonds** ([link](#))
- **ECB keeps interest rates unchanged, as expected** ([link](#))
- **European data releases surprise on the upside** ([link](#))
- **Turkish FM announces fresh government capitalizations into state-owned banks** ([link](#))

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Markets cautiously optimistic ahead of busy day

European bourses and S&P 500 futures held steady this morning following the release of the ECB monetary policy announcement and US CPI in a busy day, when the FOMC minutes will be also released and EU leaders meet to decide on a Brexit extension. The ECB kept interest rates unchanged, as expected, while US core CPI was slightly weaker-than-expected in March. The morning was also busy with various data releases in Europe, which largely surprised on the upside. The dollar, oil prices and sovereign bond yields were little changed while the VIX index fell slightly to 14.0 percentage points. In emerging markets, Asian and EMEA equities and currencies traded in relatively narrow ranges to end the day mixed. Concerns about a global economic slowdown and an escalation in trade tensions weighed on risk sentiment while key data releases ahead kept investors sidelined.

Key Global Financial Indicators

Last updated: 4/10/19 8:15 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		2878	-0.6	0	5	8	15
Eurostoxx 50		3427	0.3	0	4	0	14
Nikkei 225		21688	-0.5	0	3	0	8
MSCI EM		44	0.7	2	6	-8	13
Yields and Spreads			bps				
US 10y Yield		2.50	-2.2	-2	-13	-30	-18
Germany 10y Yield		-0.01	0.3	-2	-8	-52	-25
EMBIG Sovereign Spread		340	1	0	-6	42	-74
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.3	0.2	0	1	-9	2
Dollar index, (+) = \$ appreciation		96.9	-0.1	0	0	8	1
Brent Crude Oil (\$/barrel)		70.9	0.4	2	8	0	32
VIX Index (% change in pp)		14.0	-0.3	0	-2	-6	-11

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

United States

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Tuesday was another relatively quiet day, but the major indexes posted moderate losses on renewed trade worries. The S&P 500's eight-day winning streak finally came to an end although the index remains in striking distance of the record close set on September 20, 2018. Treasury yields dipped noticeably earlier in the session and the 10-year yield fell back below 2.50% for a while, but the bonds ended the session with only slight gains. The FOMC minutes due later today will be a major focus for markets following the FOMC's unexpectedly dovish turn at the March 20 meeting.

This morning, **US core CPI came in at 0.1% versus the 0.2% forecast, with the annualized number at 2% (vs. 2.1%).** The headline numbers were 0.4% (vs. 0.4%) and 1.9% (vs. 1.8%). The market reaction was muted.

The Federal Reserve proposed changes in the governance of foreign banks in the U.S to calibrate the regulatory and supervisory standards governing foreign banks' US operations, in part by grouping them into categories. On average, the proposed framework would relax capital requirements and stress testing frequency while tightening liquidity requirements. However, changes will vary across banks, from potential tightening for Category II/III banks to meaningful relief for GSIBs that fall into Category IV. Final quantitative capital and liquidity rules were not specified, pending additional data. The proposed framework focuses largely on combined U.S. operations (CUSO) and intermediate holding company (IHC) levels, largely eschewing the introduction of formal liquidity regulations and strengthened host-country supervision of foreign bank branches – a choice against which Governor Brainard dissented. This proposal did not appear to have a strong immediate market impact; G-SIBs' share prices were little changed.

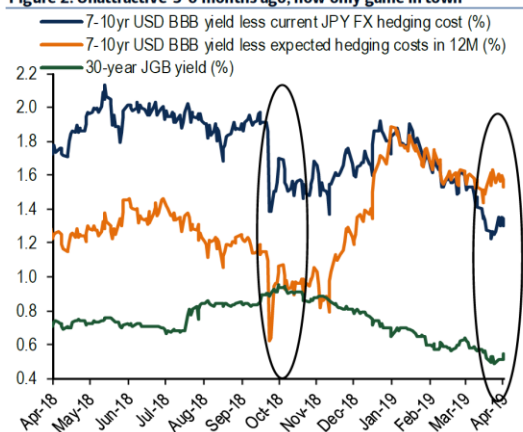
List of Firms and Projected Categories (based on estimated data)¹

Category I U.S. GSIBs	Category II ≥ \$700b U.S. assets or ≥ \$75b in cross-jurisdictional activity	Category III ≥ \$250b U.S. assets or ≥ \$75b in NBA, wSTWF, or off- balance sheet exposure	Category IV Other firms with \$100b to \$250b U.S. assets	Other firms \$50b to \$100b in U.S. assets
	Barclays* Credit Suisse* Deutsche Bank* Mizuho* MUFG* Toronto-Dominion*	HSBC Royal Bank of Canada UBS	Banco Santander Bank of Montreal† BBVA BNP Paribas† BPCE† Société Générale† Sumitomo Mitsui†	Bank of China Bank of Nova Scotia Canadian Imperial Crédit Agricole I & C Bank of China Norinchukin Rabobank

The US corporate bond market has been supported by very strong inflows from Japanese investors.

The rally in corporate spreads in 2019 was partly driven by record levels of foreign bond purchases in Q1 of over ¥8.2 tn, with both banks and insurance companies taking in a significant amount of new bond issuance. The sharp decline in US dollar hedging costs has been a major driver of these investment flows. Foreign investors typically hedge their dollar bond purchases by entering into short term forward FX contracts and rolling them forward as they mature. With markets predicting a Fed rate cut in the next 12 months, foreign investors can anticipate a 25 bps reduction in hedging costs compared to the period of rate hikes six to nine months ago when they had to reckon with a rise in hedging costs of 75 bps. This 100 bps swing makes US corporate bonds highly attractive relative to bonds in Japan.

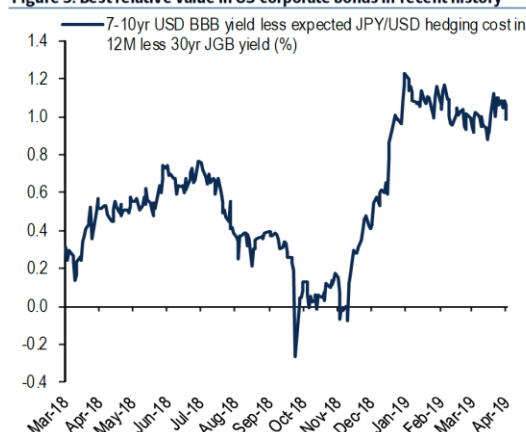
Figure 2: Unattractive 5-6 months ago, now only game in town



Note: Dollar hedging cost is the annualized cost of rolling 3-month forward FX rates. We compute the 12-month ahead dollar hedging cost by adding the difference between the 12th and the 1st Fed funds futures.

Source: BofA Merrill Lynch Global Research, ICE Data Indices, LLC, Bloomberg

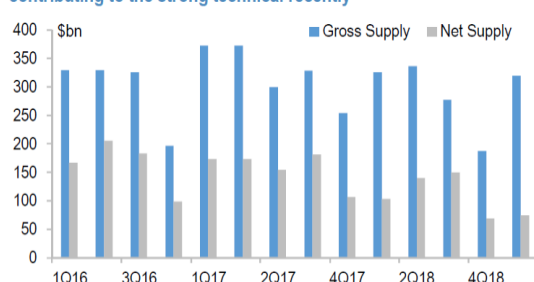
Figure 3: Best relative value in US corporate bonds in recent history



Source: BofA Merrill Lynch Global Research, ICE Data Indices, LLC, Bloomberg

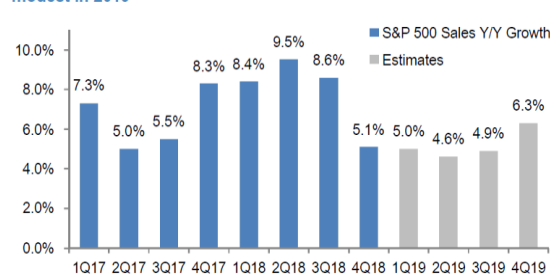
The rally in US corporate bonds has also been helped by the low yield environment and the limited net supply of new bonds. The sector has nearly erased all the losses from the drawdown in Q4 2018. Net supply in Q1 2019 was down 28% from the past year to \$74 bn. Q4 2018 and Q1 2019 saw the lowest net issuance since Q3 2011. Going forward, analysts expect net issuance to remain low for the rest of the year, which should be supportive for spreads. However, weak corporate earnings could turn into a headwind for the market if lower earnings expectations are realized. FactSet estimates that earnings projections for Q1 are now down to \$37.33/share from \$40.21/share at the beginning of the year, the largest such decline since Q1 2016. Revenue forecasts have also been downgraded.

Exhibit 6: HG net supply over the past two quarters has been light, contributing to the strong technical recently



Source: J.P. Morgan, I/BES data from Thomson Reuters Refinitiv

Exhibit 7: Revenue growth for S&P500 companies is expected to be modest in 2019



Europe

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As anticipated, the **ECB's Governing Council left interest rates on its main refinancing operations and marginal lending and deposit facilities unchanged**, at 0.00%, 0.25% and -0.40% respectively. The ECB noted that it **expects rates to remain at this level at least through the end of 2019**. The Governing Council also noted its intention to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program for an extended period of time past the date when it starts raising the key ECB interest rates. **The euro was marginally stronger at \$1.13 after the announcement.**

Ahead of the ECB monetary policy announcement, **European equities gained slightly on the day**: EuroStoxx 600 (+0.2%), DAX (0.4%), and CAC 40 (+0.4%). Bank stocks (+0.1%) underperformed. **Sovereign**

yields are again little changed today: German 10-year at -0.00% (+1 bp); France at 0.34% (flat); Italy at 2.39% (-3 bps); Spain at 1.06% (-1 bp).

EU leaders meet today to discuss a possible extension to the Brexit deadline beyond Apr. 12 (summit starts at 6pm CET). Leaked reports are contradictory, with some claiming that the EU would be willing to grant the UK a long extension, while others suggest that European leaders are uncomfortable with the idea of allowing the UK to participate in forthcoming European elections and key decisions for the bloc. **Amid a very fluid political situation, financial assets have remained stable, with the pound consistently trading around \$1.31 (+0.2%) and 10-year gilts at 1.11% (+1 bp).**

British Pound vs US Dollar

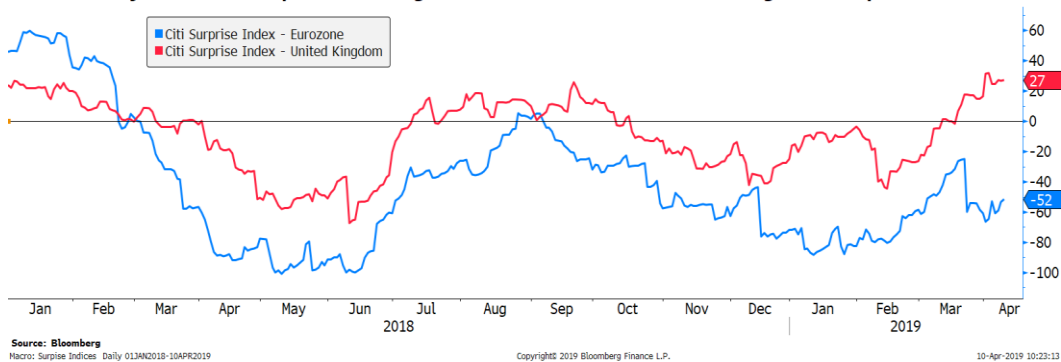


European data today exceeded forecasts. Releases included:

- **France** February manufacturing production: +2.8% yoy vs. +1.0% expected.
- **Italy** February industrial production (work-day adjusted): +0.9% yoy vs. -1.1% expected.
- **UK** February monthly GDP: +0.2% mom vs. 0.0% expected; industrial production: +0.1% yoy vs. -0.9% expected; construction output: +3.3% yoy vs. +2.3% expected.

Economic Surprise Indices

(elaborated by Citi Research: positive reading means data releases have been stronger than expected)



The ECB has nominated **Yves Mersch as new vice chair of the Single Supervisory Mechanism** (succeeding Sabine Lautenschläger). The appointment awaits confirmation by the European Parliament.

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Japan














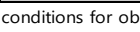
Japanese equities fell while the yen held steady amid renewed concerns over global growth slowdown and an escalation in trade conflicts. The Topix shed 0.7% with drags from electronics makers and pharmaceutical companies. Meanwhile, news that the U.S. Administration is considering tariffs on Airbus reportedly took investors by surprise and weighed on sentiment. The yen was unchanged (¥111.15/dollar) after trading in a tight range as investors were sidelined ahead of key events later in the day, including ECB's policy decision as well as the Fed's March meeting minutes. **JGB yields fell modestly**, following US Treasury yields lower. The benchmark 2-year note is currently yielding -0.18% and the 10-year note, -0.07%. Commenting on the benchmark 10-year note's slide into negative territory during a session with the parliament, BoJ Governor Kuroda noted that negative bond yields do not pose a challenge for the central bank's yield curve control policy and that it intends to maintain its large-scale monetary stimulus for some time.

Emerging Markets [back to top](#)

Asian equities and currencies traded in a narrow range to end the day mixed. Concerns about a global economic slowdown and an escalation in trade tensions weighed on risk sentiment while key data releases ahead kept investors sidelined. The Philippine peso outperformed, appreciating 0.5% on the day while the Malaysian ringgit paced losses (-0.2%). In a speech, RBA Deputy Governor Debelle noted that resolving the tension between a solid jobs market and slowing economic growth will be central to the future path of monetary policy, with the RBA in a wait-and-see mode. The Australian dollar appreciated (+0.3%) to 0.715, its strongest level since March. In EMEA, equities advanced by about 0.2-0.3% in most countries, while currencies also slightly strengthened to the dollar, including the Turkish lira (+0.2%). **Latin American** equity markets suffered losses on Tuesday. Argentina was the main underperformer as the Merval fell 4% amid political concerns; Brazil (-1.1%) and Mexico (-0.6%) also saw losses. Local currencies mainly traded in narrow ranges, while the Argentine peso outperformed (+0.7%).

Turkey

Key Emerging Market Financial Indicators

Last updated: 4/10/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.31	0.7	2	6	-8	13
MSCI Frontier Equities		28.63	-1.4	0	2	-19	9
EMBIG Sovereign Spread (in bps)		340	1	0	-6	42	-74
EM FX vs. USD		63.28	0.2	0	1	-9	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.72	-0.1	0	0	-6	2
Indonesian Rupiah		14153	-0.1	0	1	-3	2
Indian Rupee		69.12	0.3	-1	1	-6	1
Argentine Peso		43.39	0.7	-2	-5	-53	-13
Brazil Real		3.84	0.3	1	0	-11	1
Mexican Peso		18.86	0.4	2	3	-3	4
Russian Ruble		64.59	0.6	1	2	-2	7
South African Rand		13.95	1.0	1	3	-14	3
Turkish Lira		5.69	0.2	-1	-4	-28	-7
EM FX volatility		8.14	0.0	-0.5	-0.1	-0.3	-1.6

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

Turkish Finance Minister Mr. Albayrak announced fresh government capitalizations into state-owned banks. The FM unveiled a package of measures to restart the economy and that include the creation of two government SPVs to purchase NPLs from beleaguered state-owned lenders. To establish

the SPVs the government could issue up to \$4.9bn in new government bonds, according to the draft plan. The lira was stable after the announcement, strengthening 0.2% to the dollar. Domestic stocks dropped 0.3%.

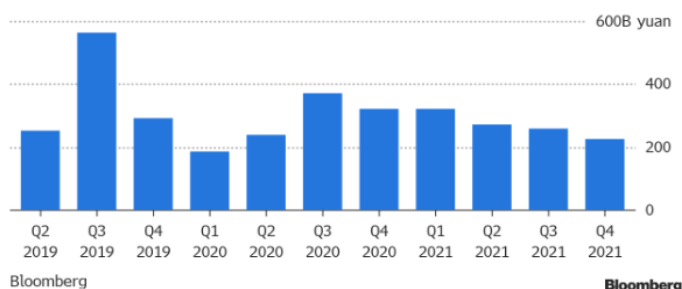
China

A large amount of puttable bonds up for early redemption has raised concerns for credit bond market distress. A record RMB 1.1 tn (\$164 bn) of bonds with put options are becoming exercisable from now until the end of 2019, based on Bloomberg data. Puttable debt allows bondholders to demand repayment even though the notes do not mature until much later. In exchange for the possibility of early redemption, bond issuers were able to receive lower funding costs to compensate for the cost of the put option. Bloomberg noted that in recent months, a number of firms with puttable bonds have delayed their payments, citing financing difficulties. By Fitch's estimate, rough 20% of outstanding onshore non-financial corporate bonds have a put option. Meanwhile, investor sentiment regarding China's growth outlook has improved, with growth expected to rebound in the second half of the year. **The Shanghai Composite held steady on the day, having gained 31% from its low in January.** Both the onshore and offshore RMB weakened slightly by 0.08% on day, with the onshore CNY at 6.717/dollar and the offshore CNH at 6.724.

Early Redemption Peak

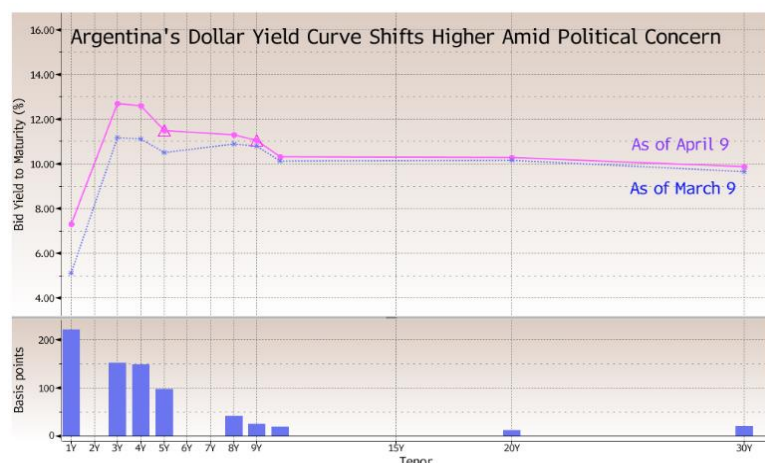
1.1 trillion yuan local bonds will become puttable this year

■ Yuan bonds puttable each quarter



Argentina

The risk premium on Argentinian sovereign debt hit the highest level since president Macri took office more than three years ago. The spread on the 5-year sovereign credit default swaps rose to 904 bps, the highest since May 2015, and yields on the government's 2024 dollar sovereign bond benchmark rose 6 bps to 14.59%, a 4-year high. Analysts commented that the economy was showing signs of improvement, but the market was likely to ignore the slow-moving economic factors and focused on the ongoing political uncertainty ahead of the October general elections. Economists surveyed by Bloomberg expected Argentina's recession to ease this year, with GDP contracting 1%, and growth of 2.5% for 2020. Domestic equities fell 4% while the peso was 0.7% stronger on Tuesday.



























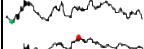

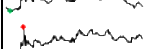


Source: Bloomberg

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Global Financial Indicators

Last updated: 4/10/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2878	-0.6	0	5	8	15
Europe		3427	0.3	0	4	0	14
Japan		21688	-0.5	0	3	0	8
China		3242	0.1	2	9	2	30
Asia Ex Japan		73	0.0	2	7	-6	15
Emerging Markets		44	0.7	2	6	-8	13
Interest Rates			basis points				
US 10y Yield		2.50	-2.2	-2	-13	-30	-18
Germany 10y Yield		-0.01	0.3	-2	-8	-52	-25
Japan 10y Yield		-0.05	-0.5	-1	-2	-9	-6
UK 10y Yield		1.12	1.6	2	-7	-29	-16
Credit Spreads			basis points				
US Investment Grade		116	-0.2	-2	-4	17	-31
US High Yield		406	-0.1	1	-16	59	-115
Europe IG		60	-0.5	0	-2	3	-27
Europe HY		255	-3.2	3	-28	-26	-98
EMBIG Sovereign Spread		340	1.0	0	-6	42	-74
Exchange Rates			%				
USD/Majors		96.92	-0.1	0	0	8	1
EUR/USD		1.13	0.1	0	0	-9	-2
USD/JPY		111.2	0.0	0	0	-4	-1
EM/USD		63.3	0.2	0	1	-9	2
Commodities			%				
Brent Crude Oil (\$/barrel)		71	0.4	2	8	0	32
Industrials Metals (index)		121	-0.3	-1	1	-10	11
Agriculture (index)		40	-0.1	0	1	-19	-3
Implied Volatility			%				
VIX Index (% change in pp)		14.0	-0.3	0.3	-2.0	-6.4	-11.4
10y Treasury Volatility Index		3.7	0.0	-0.3	0.1	-0.1	-0.9
Global FX Volatility		6.6	0.0	-0.4	-0.7	-0.8	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		344	-2.7	-20	-27	-10	-71
Italy		241	-2.0	-12	-2	113	-9
Portugal		119	-1.7	-7	-9	-2	-29
Spain		107	-2.0	-7	8	32	-11

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: 4/10/2019 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.72	-0.1	-0.1	0	-6	2		3.3	1.0	10	9	-51	5
Indonesia		14153	-0.1	0.5	1	-3	2		7.8	-0.1	1	-30	96	-40
India		69	0.3	-1.0	1	-6	1		7.5	0.8	14	2	8	6
Philippines		52	0.2	0.4	1	0	1		5.3	0.0	-1	-19	20	-102
Thailand		32	0.1	-0.1	0	-2	2		2.6	0.0	0	-5	20	-6
Malaysia		4.11	-0.4	-0.7	0	-6	1		3.8	2.4	0	-11	-18	-28
Argentina		43	0.7	-1.5	-5	-53	-13		23.5	7.7	-12	175	654	53
Brazil		3.84	0.3	0.8	0	-11	1		8.2	4.8	12	3	-16	7
Chile		664	0.0	1.4	1	-9	5		4.1	-5.1	-9	-22	-65	-38
Colombia		3103	0.4	1.4	2	-10	5		6.1	-2.0	-8	-21	-4	-39
Mexico		18.86	0.4	1.9	3	-3	4		8.1	2.0	-3	-12	79	-61
Peru		3.3	-0.2	0.5	0	-2	2		5.3	1.2	-3	-23	28	-41
Uruguay		34	-0.5	-1.0	-3	-17	-5		10.5	0.1	2	5		-22
Hungary		285	0.3	-0.2	-2	-12	-2		2.0	3.5	14	-7	45	-20
Poland		3.80	0.2	0.5	1	-11	-2		2.3	-0.5	2	4	-6	5
Romania		4.2	0.1	0.3	0	-11	-4		4.2	3.0	2	22	41	-1
Russia		64.6	0.6	1.0	2	-2	7		8.0	-0.2	-8	-9	100	-41
South Africa		14.0	1.0	1.4	3	-14	3		9.3	-2.4	-1	-13	61	-31
Turkey		5.69	0.2	-1.1	-4	-28	-7		19.0	5.2	-17	287	578	215
US (DXY; 5y UST)		96.9	-0.1	-0.2	0	8	1		2.30	-0.2	-2	-13	-32	-21

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
									basis points						
China		3242	0.1	2	9	2	30		176	2	1	6	-3	-18	
Indonesia		6478	-0.1	0	1	2	5		188	-2	-2	-3	16	-48	
India		38585	-0.9	-1	5	14	7		159	1	2	-5	20	-37	
Philippines		8009	1.2	2	3	1	7		87	-2	-2	0	-10	-34	
Malaysia		1639	-0.2	0	-2	-12	-3		127	2	-1	4	5	-35	
Argentina		31743	-4.0	-4	-4	-1	5		816	0	61	62	409	1	
Brazil		96292	-1.1	1	1	14	10		245	0	2	9	10	-28	
Chile		5282	0.1	1	0	-6	3		128	-1	-1	3	1	-38	
Colombia		1621	0.3	3	8	5	22		179	0	-1	-5	6	-49	
Mexico		45152	-0.6	4	9	-7	8		293	0	-7	-17	54	-61	
Peru		21273	-0.8	1	4	1	10		121	0	-1	-10	-27	-47	
Hungary		42034	-0.1	0	4	11	7		105	-1	1	-2	-1	-43	
Poland		61395	0.5	-1	3	3	6		48	3	0	3	-4	-37	
Romania		8300	0.0	2	6	-6	12		203	-1	0	3	63	-18	
Russia		2585	0.6	2	4	19	9		212	0	-3	5	-21	-40	
South Africa		58303	0.8	1	5	3	11		292	0	-4	-3	43	-73	
Turkey		97618	-0.5	3	-4	-12	7		476	1	8	49	150	47	
Ukraine		542	-2.1	-4	-3	50	-3		581	8	-17	-83	136	-206	
EM total		44	0.7	2	6	-8	13		340	1	0	-6	42	-74	

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