Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, April 11, 2019

- **UK granted Brexit extension until October 31 2019 (link)**
- **FOMC minutes more nuanced than expected (link)**
- **High yield and leveraged loan market yields converge (link)**
- **ECB lending survey points to benign credit dynamics for Europe (link)**

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Markets unmoved as busy day fails to surprise

Markets are broadly stable after an ECB meeting, Fed minutes, and Brexit failed to deliver surprises. Equities are flattish to slightly higher across key markets and and US Treasury yields were lower after after US core CPI came in slightly lower than expected. Despite a cautious tone at the ECB press conference, afternoon headlines focused on ECB officials agreeing that Europe's slowdown had not worsened. The FOMC minutes were seen as less dovish than expected but nonetheless appeared to largely corroborate recent public statements advocating a patient approach. In the UK, the risk of a sudden no-deal Brexit was pushed off yet again as European officials agreed to delay their deadline until October. EM assets remained largely stable outside of Turkey, where CDS widened and the currency is 1.1% weaker against the dollar.

Key Global Financial Indicators

Last updated: 4/11/19 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2888	0.3	1	4	9	15
Eurostoxx 50		3438	0.4	0	4	1	15
Nikkei 225		21711	0.1	0	3	0	8
MSCI EM		45	-0.6	2	5	-7	14
Yields and Spreads				bps			
US 10y Yield		2.48	-3.6	-3	-16	-30	-20
Germany 10y Yield		-0.02	0.2	-2	-9	-52	-27
EMBIG Sovereign Spread		344	1	4	1	43	-70
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		63.2	-0.3	0	0	-10	2
Dollar index, (+) = $ appreciation		97.0	0.1	0	0	8	1
Brent Crude Oil ($/barrel)		71.1	-0.9	2	7	-1	32
VIX Index (%, change in pp)		13.2	-0.1	0	-1	-7	-12

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

United States

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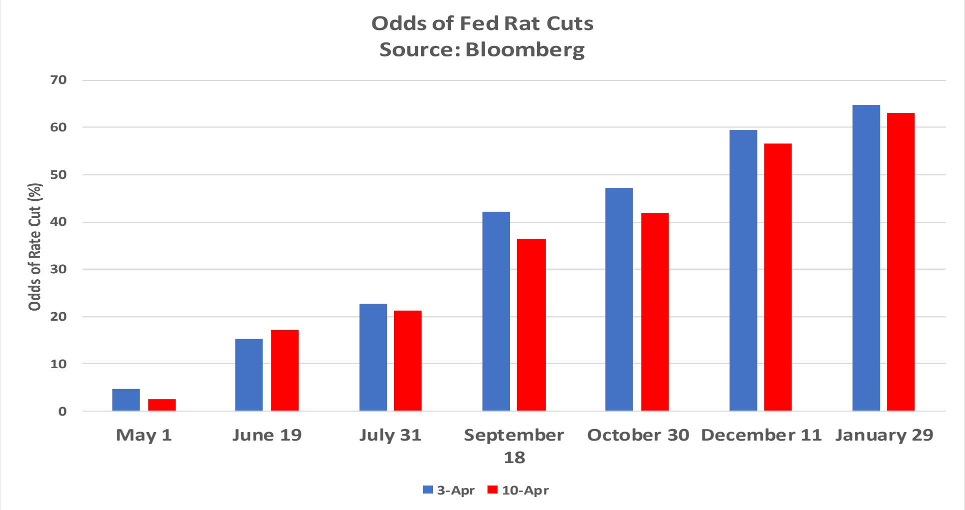
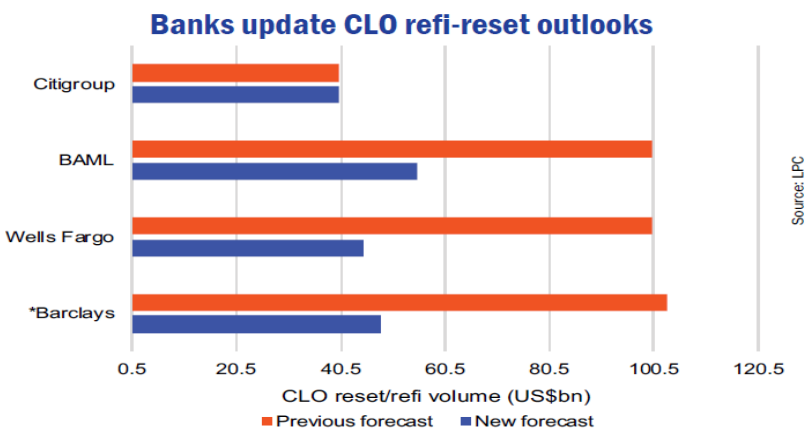
The FOMC minutes were more nuanced than expected after what was viewed as a very dovish FOMC meeting on March 20. While expressing the view that there would likely be no rate hikes through the end of the year, the minutes also noted that several participants thought their rate views could shift in "either direction" depending on the data. Treasuries and equities both pulled back and the dollar appreciated after the news, as people had expected more dovish language from the minutes. However, they soon recovered, and markets ended near their best levels of the day as most agreed that there was a very high bar to further rate hikes this year. Meanwhile, the $24 bn 10-year Treasury auction was extremely well received by the market. Its 2.466% clearing yield was the first below 2.50% since the December 2017 auction. The Fed Funds futures markets indicated that the odds of Fed rate cuts in the July and later Fed meetings went down after the release of the minutes. In other news, **core CPI was weaker than expected,** however the shift was partly due to a change in the data collection methodology for apparel, causing a large one-off reduction in apparel prices that dragged the overall CPI number down.



CLO new issuance estimates for the year are being downgraded, as the rising spreads on the AAA tranches weaken the economics of the new CLO deals. Banks are predicting much lower issuance for deal refinancing and resets. CLO structures work by allocating cash flows according to credit bucket, with the lowest spreads allocated to the AAA investors who take the least credit risk and the most spreads to the equity and junk-rated investors who take the most risk. If spreads on AAA tranches become too wide, there is not enough cash left over to meet the spread requirements of the rest of the tranches. LPC reports that the average spread on US AAA CLOs has reached L+138, which is the highest since

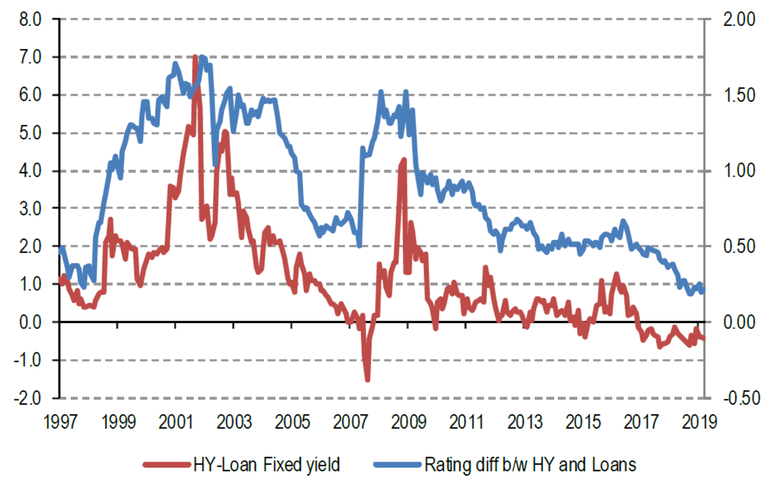


*These numbers mark the midpoint of Barclays' forecast

January 2017. The average spread for senior paper has reached L+145. The Fed's dovish turn has reduced the appeal of floating rate bonds in general, while the heavy supply of new deals in 2018 and worries about an impending economic slowdown have also weighed on investor demand for AAA CLOs.

The spread between the high yield bond market and the leveraged loan market has compressed to the point where both asset classes have similar yields. Some analysts find this to be troubling, as loans are senior to bonds in the creditor hierarchy and should trade at a lower spread. Other analysts are less concerned about the spread convergence between the two asset classes, pointing out that the leveraged loan spreads have widened much more than high yield bond spreads because of the Fed's dovish tilt and other factors which have significantly reduced demand for leveraged loans relative to high yield bonds. They predict that the loan sector will shrink as the rate hike cycle ends and investors begin to set themselves up for a lower rate environment.

Chart 3: Difference in yield (LHS) vs difference in ratings (RHS) b/w bonds and loans



Europe

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European equities: EuroStoxx 600 (flat), DAX (flat), and CAC 40 (+0.6%).

European 10-year sovereign yields: Germany -0.2% (flat); France 0.32% (flat); Italy 2.41% (flat); Spain 1.02% (-2 bps).

EU leaders have agreed a Brexit extension until Oct. 31st, 2019. Brexit could happen before if the Withdrawal Agreement is ratified by both the UK and the EU before then. In that case, exit would take place on the first day of the following month. The joint communiqué notes that the UK has to participate in the May European elections and urges it to "facilitate the achievement of the Union's tasks and shall refrain from any measure which could jeopardise the attainment of the Union's objectives, in particular when participating in the decision-making processes of the Union."

The ECB's 1Q19 Bank Lending Survey (BLS) suggests benign credit dynamics. Underwriting standards for corporate loans have relaxed QoQ, with net 1% of banks easing standards. This is an improvement relative to tightening in 4Q18 and market expectations of tightening in 1Q19. Banks expected further relaxation in 2Q19. Mortgage underwriting, however, has become more restrictive, and demand for loans was less positive: 1Q19 saw demand for loans stabilize – a negative surprise from +9% YoY growth in 4Q18 and following steady increases since 2Q15. The 2Q19 demand outlook is positive for corporates and consumer credit. This relatively encouraging loan environment provides support in an otherwise challenging macro environment. Responding to recent divergence between BLS indicators and more subdued realized loan growth, one bank has supplemented lending standards and credit demand with other factors (for example, bank balance sheet capacity and profitability) to forecast modestly decelerating but still positive Europe-wide loan growth.

	Enterprises						House Purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
	Q1	change vs Q4	expected change in Q2	Q1	change vs Q4	expected change in Q2	Q1	change vs Q4	expected change in Q2	Q1	change vs Q4	expected change in Q2	Q1	change vs Q4	expected change in Q2	Q1	change vs Q4	expected change in Q2
Euro area	-1	green	green	0	red	green	3	red	red	14	green	red	2	green	green	2	red	green
Germany	3	red	green	16	red	red	7	red	green	14	green	green	0	yellow	yellow	6	red	green
Spain	0	yellow	green	-20	yellow	green	11	red	green	11	green	green	10	yellow	green	-20	red	green
France	-4	green	red	0	green	green	-2	red	red	20	green	red	0	red	green	-7	red	green
Italy	0	green	yellow	-20	red	green	10	yellow	yellow	0	red	green	0	yellow	green	0	yellow	green
Netherlands	-24	red	yellow	24	red	green	-32	red	yellow	49	red	red	0	yellow	green	34	green	green

Source: ECB, UBS. Note: **Credit standards**: A positive net percentage balance indicates a larger proportion of banks have tightened credit standards (net tightening). A negative number indicates a net easing of credit standards. **Loan demand**: A positive net percentage balance indicates an increase in loan demand, whereas a negative figure would indicate a decline in loan demand. **Colour code**: Green: improvement; red: worsening; yellow: unchanged.

Other Mature Markets

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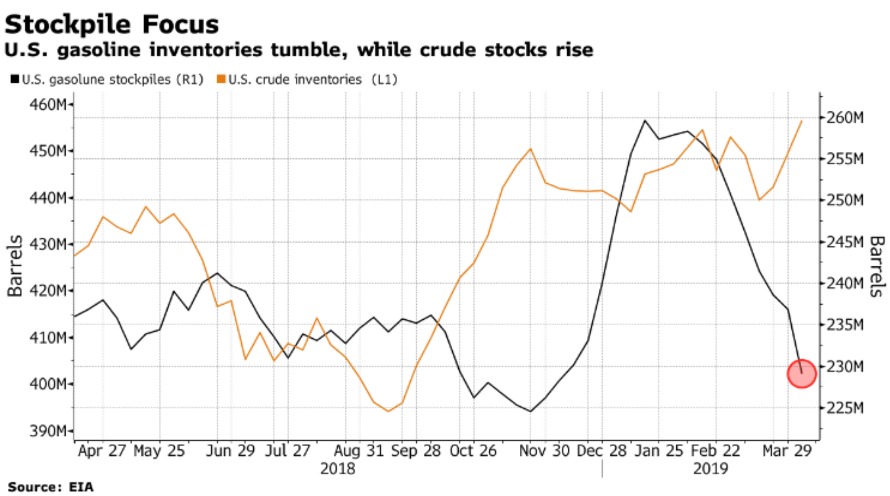
Japan

The yen weakened a touch (-0.1%), paring gains over the previous three sessions. Meanwhile, equities held steady, halting losses sustained recently. Banks and export shares were under pressure, with shares of Nomura underperforming. The price of Nomura stocks fell 3%, bringing losses over the past 6 months to 23%, second only to Societe Generale as a global laggard among major securities firms. At its current level, the Topix index is at its weakest relative to the S&P 500 since Prime Minister Abe took office near the end of 2012, suggesting ebbing enthusiasm for Japanese stocks from overseas investors.

Crude Oil

Crude oil closed at a five-month high yesterday after U.S. government data showed the biggest decline in gasoline stockpiles since 2017, offsetting an increase in crude oil inventories. Domestic fuel stockpiles tumbled more than analysts expected, while crude supplies expanded for a third straight week, according to the Energy Information Administration. Oil has climbed nearly 40% this year as OPEC worked to trim output and helped balance global oil markets. Analysts said that further threats to supply loom due to fighting in Libya, as well as troubles in Venezuela. Gains have remained limited due to fears of a slowing global economy.



Emerging Markets

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Asian currencies remained mixed on the day. The Indian rupee outperformed (+0.3%) as the nation kicked off its election which is widely seen as a referendum on Prime Minister Modi's policies. Meanwhile, the Malaysian ringgit weakened, underperforming (-0.2%). Equities mostly drifted lower, with Chinese shares pacing losses. Analysts attributed losses to growth concerns and profit taking as Chinese bourses slid from their one-year high. In an interview with Bloomberg, New Zealand central bank governor Orr indicated that it's not yet clear whether an interest-rate cut is warranted in May, despite adopting an easing bias in the March meeting. The New Zealand dollar was little changed at 0.676 per dollar. In **EMEA** equities, South Africa (-0.9%) and UAE (-0.7%) saw sizeable losses on lingering global growth concerns. Hungary (+0.3%) and the Czech Republic (+0.3%) led gains on the other hand. Regional currencies were flattish on the day. **Latin American** equity markets were mixed on Wednesday. Argentina was the best performer as the Merval rose 1.3%, while Mexico and Brazil finished slightly lower. Local currencies were mostly stronger, including the Argentine peso (+0.9%) and Brazilian real (+0.7%). Ten-year government bond yields were generally lower.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/11/19 8:58 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.52	-0.7	2	5	-7	14
MSCI Frontier Equities		28.76	0.5	-1	1	-18	10
EMBIG Sovereign Spread (in bps)		343	0	3	0	42	-71
EM FX vs. USD		63.18	-0.4	0	0	-10	1
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.72	0.0	0	0	-7	2
Indonesian Rupiah		14140	0.1	0	1	-3	2
Indian Rupee		68.94	0.3	0	1	-5	1
Argentine Peso		43.00	0.9	0	-4	-53	-12
Brazil Real		3.84	-0.4	0	0	-12	1
Mexican Peso		18.89	-0.4	1	3	-4	4
Russian Ruble		64.55	-0.4	1	2	-3	8
South African Rand		14.03	-0.8	1	2	-15	2
Turkish Lira		5.74	-1.1	-3	-5	-28	-8
EM FX volatility		8.07	0.0	-0.4	-0.1	-0.4	-1.7

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

China

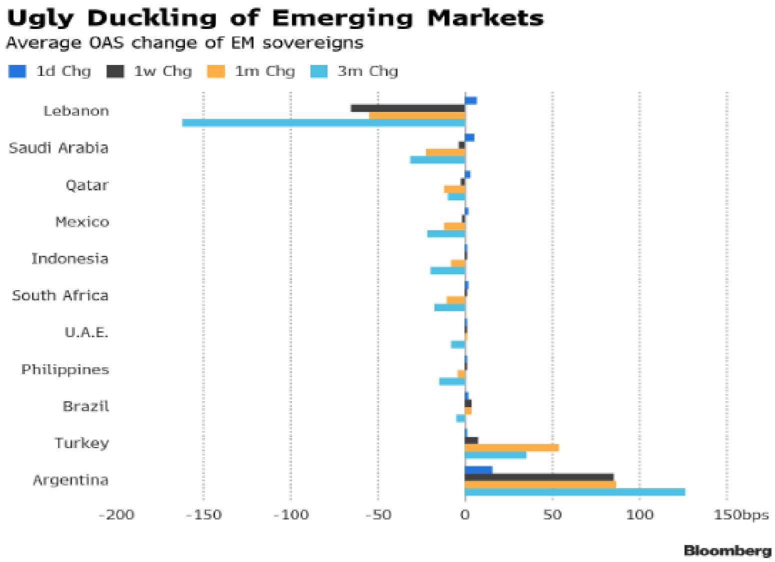
Both the onshore and offshore RMB were little changed at around 6.72 per dollar following news that U.S. and China are near agreement on trade enforcement mechanisms. According to Bloomberg, the U.S. and China will open "enforcement offices" to make sure each side honors the terms of the trade deal under negotiation. Meanwhile, equities slid from a one-year high, reportedly amid concerns that the authorities are not keen to see further increases given the 30% gain in the Shanghai Composite this year. The Shanghai Composite Index slid 1.6%, while the tech heavy Shenzhen Composite lost 2.2%. Meanwhile, yield on the benchmark 10-year central government bond fell 4 bps to 3.26%, the most in nearly 3 months. In a sign that the economy could be stabilizing, March consumer inflation surged, driven by increases in food prices, while PPI rebounded. March CPI rose 2.3%, yoy, its biggest increase in more than a year, compared to 1.5% in February. Meanwhile, March PPI accelerated from 0.1% to 0.4%, yoy.

Turkey

The Turkish lira dropped as much as 1.1% against the dollar today as the country posted a $718 mn current account deficit for February. Equities in Istanbul were 0.4% higher, however. Central bank data also showed that net reserves fell to $27.9 bn in the week ending on April 5, from $29.7 bn the previous week. CDS spreads widened 23 bps and the EMBIG Turkey sovereign spread on external debt widened 6 bps amid reporting that investors were largely underwhelmed by the most recent policy announcements on bank recapitalization.

Argentina

The risk premium on Argentinian sovereign debt continued to rise due to growing concerns on the October presidential elections. The spread on the 5-year credit default swaps continued to rise to 904.7 bps, reaching a new record high since May 2015. The average spread on Argentine sovereign bonds has widened far more than the other big issuers in the Bloomberg Barclays EM Sovereign index. A poll published on Tuesday showed President Macri's approval rating at 25.6% and disapproval at 62.6% as of March. Analysts commented that the best boost to President Macri's chances would be to defeat inflation, currently running at an annualized pace of around 50%. Despite the concerns on policy uncertainty, markets performed well yesterday as equities rose 1.3% and the peso appreciated 0.9% against the dollar.



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Global Financial Indicators

Last updated: 4/11/19 8:05 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2888	0.3	1	4	9	15
Europe		3438	0.4	0	4	1	15
Japan		21711	0.1	0	3	0	8
China		3190	-1.6	-1	5	-1	28
Asia Ex Japan		73	0.3	1	5	-6	15
Emerging Markets		45	-0.6	2	5	-7	14
Interest Rates					basis points		
US 10y Yield		2.48	-3.6	-3	-16	-30	-20
Germany 10y Yield		-0.02	0.2	-2	-9	-52	-27
Japan 10y Yield		-0.06	-0.2	-1	-2	-9	-6
UK 10y Yield		1.12	2.4	4	-6	-27	-16
Credit Spreads					basis points		
US Investment Grade		115	-0.6	-2	-5	18	-32
US High Yield		407	0.8	2	-15	60	-114
Europe IG		59	-1.0	-2	-3	2	-28
Europe HY		251	-3.3	-4	-32	-33	-101
EMBIG Sovereign Spread		344	1.0	4	1	43	-70
Exchange Rates					%		
USD/Majors		97.01	0.1	0	0	8	1
EUR/USD		1.13	-0.1	0	0	-9	-2
USD/JPY		111.2	-0.2	0	0	-4	-1
EM/USD		63.2	-0.3	0	0	-10	2
Commodities					%		
Brent Crude Oil ($/barrel)		71	-0.9	2	7	-1	32
Industrials Metals (index)		121	-0.3	-1	2	-11	11
Agriculture (index)		40	-0.1	-1	2	-18	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.2	-0.1	-0.4	-1.1	-7.1	-12.2
10y Treasury Volatility Index		3.6	-0.1	-0.2	-0.1	-0.1	-1.0
Global FX Volatility		6.5	0.0	-0.4	-0.6	-0.9	-2.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		337	-7.7	-25	-29	-23	-79
Italy		241	-2.7	-12	-8	111	-9
Portugal		116	-2.8	-10	-8	-4	-32
Spain		103	-3.7	-8	-5	26	-14

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: 4/11/2019 9:00 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		6.72	0.0	0.0	0	-7	2		3.3	3.1	9	12	-48	9
Indonesia		14140	0.1	0.3	1	-3	2		7.8	1.8	3	-28	100	-38
India		69	0.3	0.3	1	-5	1		7.5	-0.6	13	1	-3	6
Philippines		52	0.1	0.7	1	0	1		5.3	-1.9	-3	-21	18	-104
Thailand		32	0.0	0.0	0	-2	2		2.6	0.0	0	-5	20	-6
Malaysia		4.11	-0.1	-0.8	-1	-6	0		3.8	-1.2	1	-12	-19	-29
Argentina		43	0.9	-0.3	-4	-53	-12		23.7	16.1	45	191	666	69
Brazil		3.84	-0.5	0.4	0	-12	1		8.1	-8.0	-4	-5	-25	-1
Chile		665	-0.5	0.1	1	-10	4		4.1	-2.5	-12	-25	-66	-41
Colombia		3096	0.3	1.1	3	-11	5		6.1	-3.0	-10	-24	-2	-42
Mexico		18.89	-0.4	1.4	3	-4	4		8.1	-1.5	-8	-14	72	-62
Peru		3.3	0.0	0.1	0	-2	2		5.3	2.0	1	-21	28	-39
Uruguay		34	0.1	-0.4	-2	-17	-5		10.6	7.9	9	13		-14
Hungary		286	-0.3	-0.2	-2	-12	-2		2.0	-1.8	8	-9	47	-22
Poland		3.80	-0.2	0.5	1	-11	-2		2.3	-1.3	-1	3	-7	3
Romania		4.2	-0.2	0.1	0	-11	-4		4.3	7.0	8	29	51	6
Russia		64.6	-0.4	1.4	2	-3	8		8.0	-2.7	-11	-12	66	-44
South Africa		14.0	-0.8	0.7	2	-15	2		9.2	-4.6	-7	-17	55	-36
Turkey		5.74	-1.1	-2.6	-5	-28	-8		18.9	-10.4	-11	277	543	204
US (DXY; 5y UST)		97.1	0.1	-0.2	0	8	1		2.30	3.0	-2	-14	-31	-21

	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		3190	-1.6	-1	5	-1	28		176	1	1	2	-4	-18
Indonesia		6410	-1.1	-1	1	1	3		187	-3	-3	-4	11	-49
India		38607	0.1	0	4	14	7		159	0	1	-5	24	-37
Philippines		7956	-0.7	1	3	0	7		88	-2	1	1	-11	-33
Malaysia		1624	-0.9	-1	-2	-13	-4		127	0	0	4	8	-35
Argentina		32155	1.3	1	-5	0	6		822	4	49	90	418	7
Brazil		95953	-0.4	0	-2	13	9		248	-1	3	17	12	-25
Chile		5278	-0.1	0	0	-6	3		129	-1	0	3	1	-37
Colombia		1625	0.2	2	7	4	23		181	0	2	-1	7	-47
Mexico		44909	-0.5	4	7	-7	8		294	0	-8	-10	55	-60
Peru		21279	0.0	1	3	0	10		123	-2	1	-6	-25	-45
Hungary		42461	0.6	1	4	12	8		106	-1	0	-1	-1	-42
Poland		61269	-0.5	0	3	3	6		46	-4	-4	1	-7	-39
Romania		8313	0.1	2	5	-6	13		206	3	3	6	69	-15
Russia		2560	-0.7	1	4	17	8		212	-2	-4	5	-19	-40
South Africa		58072	-0.6	1	4	3	10		299	5	4	7	51	-66
Turkey		97049	0.0	-1	-4	-11	6		489	6	28	65	160	60
Ukraine		546	0.4	-3	-2	50	-2		594	6	-6	-52	149	-193
EM total		45	-0.8	2	5	-7	14		344	1	4	1	43	-70

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