



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, April 12, 2019






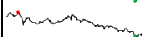


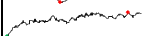


- **JP Morgan kicks off earnings season with highest ROE since 2007 ([link](#))**
- **Strong China credit data boosts risk appetite ([link](#))**
- **Volatility falls across asset classes ([link](#))**
- **Turkish assets continue to slide ([link](#))**

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Risk appetite boosted by Chinese credit data

With the week's key events in the rearview mirror, volatility is falling and risk assets are rising. Yields on benchmark government bonds are 5-7 bps higher over the last 24 hours and risk assets like equities, credit, and emerging market debt are gaining. Despite uncertainty around the growth outlook and the direction of central bank policy, implied volatility is pushing lower. The VIX is back near 12, its lowest level since last September, while G7 FX volatility is gapping towards post-GFC lows last reached in 2014, spurred in part by yesterday's Brexit extension. Early this morning, new data showing significantly stronger credit growth in China helped jumpstart sentiment, sending Treasury and Bund yields higher by around 5 bps each and US equity futures up 0.5%. Shortly thereafter, JP Morgan kicked off US corporate earnings season with strong Q1 results, which may add further support for equity markets. Turkey is bucking the trend, with the currency about 3% weaker so far this week (against positive performance for other EM currencies) after the policy package unveiled earlier failed to ease investor concerns. CDS and external debt spreads are also continuing to widen.

Key Global Financial Indicators

Last updated: 4/12/19 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2888	0.0	0	3	8	15
Eurostoxx 50		3449	0.4	0	4	0	15
Nikkei 225		21871	0.7	0	2	1	9
MSCI EM		44	1.1	0	3	-8	13
Yields and Spreads			bps				
US 10y Yield		2.54	3.2	5	-6	-29	-14
Germany 10y Yield		0.04	5.1	4	-1	-47	-20
EMBIG Sovereign Spread		341	-3	1	-11	46	-73
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	0.0	0	0	-10	2
Dollar index, (+) = \$ appreciation		96.9	-0.3	-1	0	8	1
Brent Crude Oil (\$/barrel)		71.6	1.0	2	7	-1	33
VIX Index (% change in pp)		12.4	-0.6	0	-1	-6	-13

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

United States

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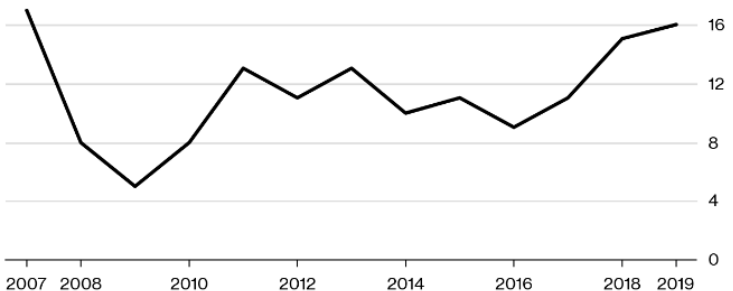
Markets were little changed in lackluster trading on Thursday. With Brexit and the ECB meeting off the agenda, the focus is shifting to the start of the Q1 earnings season with the big six US banks starting off next week. Treasury yields were slightly higher as the 10-year closed just above 2.50%, and the dollar weakened. In other news, jobless claims reached their lowest level since 1969, continuing a long trend of lower than expected jobless and continuing claims. St. Louis Fed president Bullard stated that the Fed's normalization process has ended, while Vice Chair Clarida said Fed policy was "in a good place."

JPMorgan reported robust 1Q19 results this morning. JPMorgan kicked off US banks' 1Q2019 earnings season this morning by announcing net income of \$9.2 bn, +6% yoy and 19% above market consensus. Revenues sharply exceeded expectations; expenses also beat consensus slightly. Overall net interest income beat expectations, driven according to analysts by higher average interest rates relative to previous quarters; deposit margins rose 7bps over 4Q18. Every major business performed well. Robust consumer and community banking (CCB) was supported by positive net interest margin dynamics and by favorable credit card volumes and charge-offs. Fixed income (FICC), equities and investment banking revenues fell year-on-year on subdued client activity levels, but all beat analyst forecasts. **Return on equity came in at 16%, the highest since 2007.** Management comments highlighted continuing robust US economic conditions – strong growth, moderate inflation, and healthy consumer and business confidence. After weak performance relative to peers over 1Q2019, the bank's share price spiked by nearly 4% (and Dow futures rose by more than 150 points) on announcement of the results.

Rising Profitability

JPMorgan's return on shareholders' capital is highest since 2007

Return on common equity, first quarter of each year

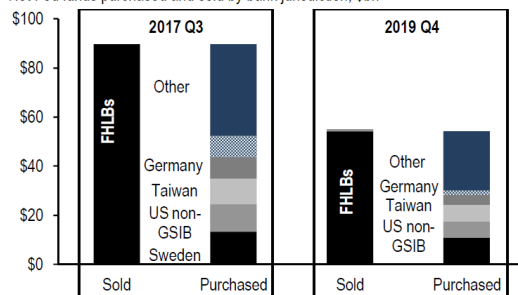


Source: Company filings

Bloomberg

Changes in the Fed Funds market make the benchmark less useful, causing some analysts to question the future of this market and whether the Federal Reserve will continue to use it as a tool of monetary policy. Even at its height, it was a highly technical and unique market with a circumscribed group of borrowers and lenders. The Federal Home Loan Banks (FHLBs) have become the sole lenders in the market, and in prior years borrowing was dominated by large foreign banks trying to earn arbitrage profits by borrowing from the FHLBs and earning the interest on excess reserves (IOER) held at the Fed. However, as the Fed drained liquidity from the system by shrinking its balance sheet, it pushed up the Fed Funds effective rate and reduced the potential arbitrage returns. Today, trading volumes are down by 50% and the borrowers have shrunk to a small and idiosyncratic group including Taiwanese banks and small US banks. Furthermore, the impact of the Fed Funds rate on the broader economy through its effect on more widely used interest rate benchmarks such as repo and LIBOR has declined significantly. Its correlation with these benchmarks was very high prior to the crisis but is much lower today.

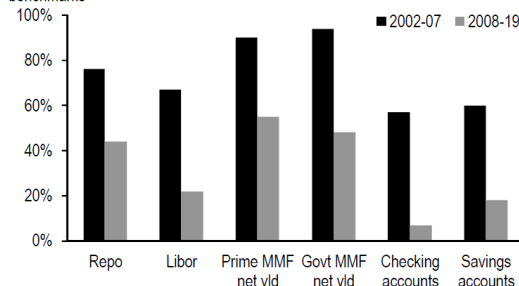
Exhibit 1: As arbitrage returns have shrunk, the purchasers of Fed funds have become an increasingly small and idiosyncratic group
 Net Fed funds purchased and sold by bank jurisdiction; \$bn



Source: J.P. Morgan, FFIEC, FHLB Office of Finance, NYFRB

Exhibit 2: ... and moves in the effective rate are no longer an important driver of broader short-term lending markets

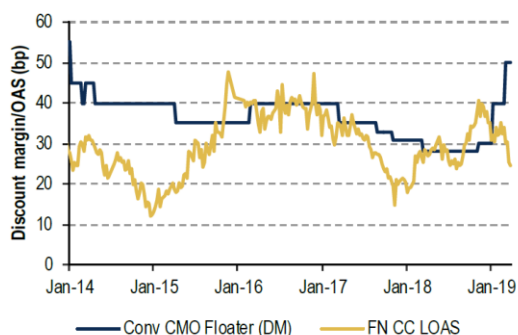
Correlation of 1-month changes in the Fed funds effective rate and other short-term benchmarks



Source: J.P. Morgan, iMoneyNet, Haver Analytics

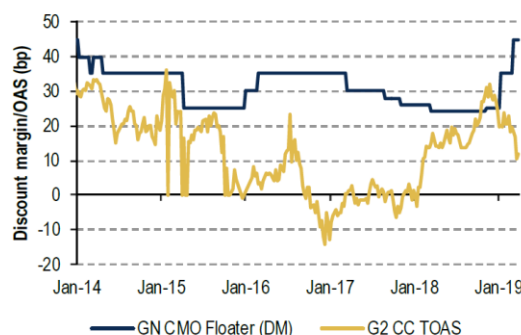
The market for agency collateralized mortgage obligation (CMO) floaters has been negatively impacted by the Fed's dovish tilt. Despite the tightening of spreads in the fixed rate mortgage backed securities (MBS) as part of the overall market rally this year, CMO floater spreads have actually gone the other way and widened. This has occurred for both conventional bonds (issued by Fannie Mae and Freddie Mac) as well as bonds issued by Ginnie Mae (which trade at tighter spreads to conventionals due to their explicit government guarantee). By taking rate hikes off the table for now, the Fed has removed a key source of demand for floaters, which benefit from rising rates. Another factor suppressing demand for floaters is that some more conservative investors are nervous about the future of LIBOR.

Chart 27: FN CC LIBOR OAS tightened YTD while conv floaters widened



Source: BofA Merrill Lynch Global Research

Chart 28: GN CC Tsy OAS tightened YTD while GN floaters widened as well

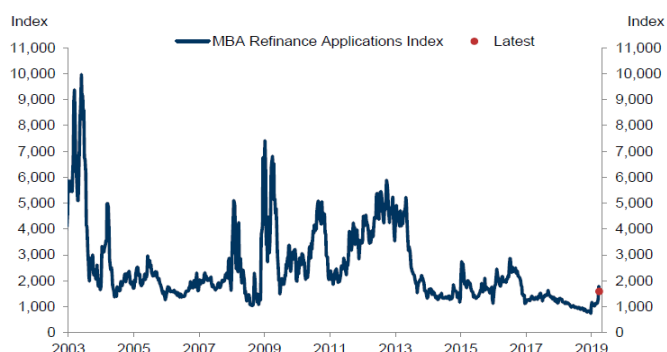


Source: BofA Merrill Lynch Global Research

Convexity hedging flows from MBS investors are predicted to stay low due to limited prepayment and refinancing activity. The homeowners most likely to prepay their mortgages are those who bought homes in 2018 for whom current mortgage rates are significantly lower. Goldman points that this cohort accounts for just 20% of all outstanding mortgages. Among the 80% of homeowners who bought homes earlier, many locked in their financing at rates close to currently prevailing rates and have no incentive to prepay. Others have not prepaid despite multiple opportunities, suggesting that factors other than rate levels govern their prepayment behavior. Investors in MBS are thus less likely to have to engage in extensive additional hedging to protect their portfolios.

Exhibit 1: Refinance activity remains modest relative to long-run historical levels

MBA refinance applications index



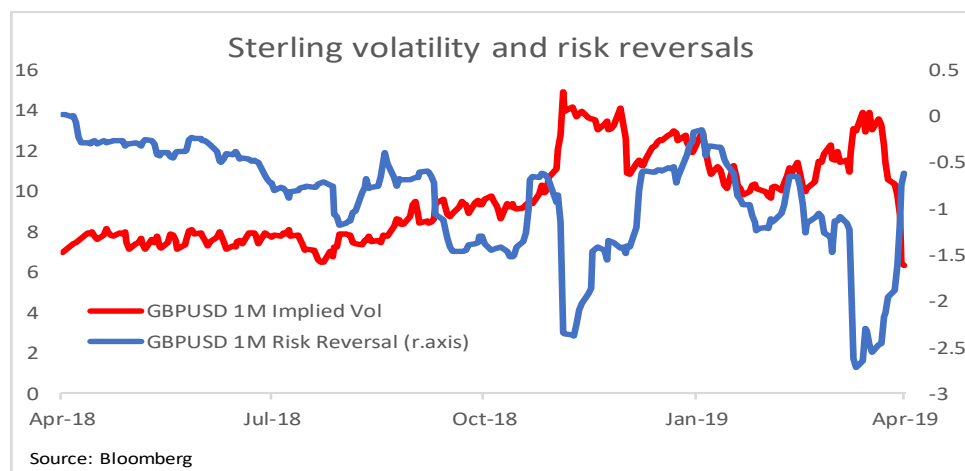
Source: MBA, Goldman Sachs Global Investment Research

Europe

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Equities were little changed this morning, after closing flat yesterday. The Euro Stoxx 600 was up just 0.3% as gains for industrials were offset by health care stock losses. Banks were up by 0.5%, led by UK lenders. **Sovereign yields were higher in most countries with 10-years seeing rises of 2-3 bps.** Greek yields proved the exception with the 10-year down by 4 bps. The continued decline in the country's borrowing costs have led to the 5-year yield now dipping below that of 5-year Treasury yields.

PM May is expected to continue Brexit talks with the Labour party but it remains unclear whether any progress can be expected over the coming weeks. Wednesday's agreement to postpone the Brexit date to October has reduced some of the pressure on the authorities but business uncertainty has nevertheless gone "through the roof", according to Bank of England governor Carney. While the price of sterling has showed little reaction to the various recent Brexit developments, implied volatility at the short end has plummeted as the threat of a no deal scenario has been taken off the table, at least temporarily. Similarly, risk reversals have risen sharply, signifying diminished demand for short sterling positions. However, outflows from UK equity funds have continued for the fourth consecutive week. Investors withdrew over \$300 mn in the week ending Wednesday, bringing the total for the year to more than \$1 bn.



The euro zone is better prepared for a potential crisis now than ten years ago according to ESM head Regling. Speaking at an event in Washington, Regling cited the SSM and the SRB as significant improvements to the region's infrastructure but said that a common deposit insurance fund a euro area budget were still needed. Separately, ECB governing council member Knot said that a new round of central bank funding for banks needed to be "more conservative and less generous" than previous rounds. Details of the new funding are expected to be laid out at upcoming ECB meetings.

Other Mature Markets [back to top](#)

Japan

The yen extended its depreciation (-0.2%) for a second day amid limited trading while equities were mixed. The Topix held steady and the Nikkei gained 0.7%, one of the outperformers in Asia. At its regular bond purchase operations, the BoJ left its purchase amounts unchanged. The benchmark 10-year JGB yield rose 1 bp to -0.06%; the rest of the JGB yield curve was little changed. For the week ahead, March CPI will focus market attention - the headline figure is expected to edge higher from 0.2% yoy to 0.5% yoy while core CPI is likely to remain steady at 0.7% yoy.

Emerging Markets [back to top](#)

Emerging markets saw limited changes in a calm session. Equities in the EMEA region were little changed with Turkey (-0.8%) seeing the largest moves. Local currencies were marginally stronger against the dollar apart from Turkey (-0.7%) which saw a second day of losses. Latin American equity markets suffered losses yesterday with Argentina down 2% and Brazil down 1.3%. Local currencies were mostly weaker, while Peru's central bank kept its benchmark interest rate at 2.75%. In Asia, currencies were little changed against the dollar and equities were mixed amid a dearth of significant news. Of note, **Bangko Sentral ng Pilipinas Governor Diokno indicated that the central bank is considering cutting its policy rate as soon as in the May meeting** as inflation cools. The central bank left the benchmark rate unchanged at 4.75% at its last three meetings as inflation slowed for a fifth consecutive month to 3.3% in March. **The Monetary Authority of Singapore kept its policy setting unchanged** but analysts noted that the statement sounded more dovish than expected as MAS sees the economy growing below potential. The Singapore dollar held steady.

Key Emerging Market Financial Indicators

Last updated: 4/12/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.04	1.1	0	3	-8	13
MSCI Frontier Equities		28.76	0.0	0	1	-18	10
EMBIG Sovereign Spread (in bps)		341	-3	1	-11	46	-73
EM FX vs. USD		63.24	0.1	0	0	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.2	0	0	-6	3
Indonesian Rupiah		14120	0.1	0	1	-2	2
Indian Rupee		69.18	-0.4	0	1	-6	1
Argentine Peso		42.73	0.6	2	-3	-53	-12
Brazil Real		3.88	-0.4	0	-2	-12	0
Mexican Peso		18.75	0.4	2	3	-3	5
Russian Ruble		64.19	0.7	2	2	-3	8
South African Rand		13.93	0.5	1	3	-13	3
Turkish Lira		5.78	-0.8	-3	-6	-29	-9
EM FX volatility		8.10	0.0	-0.2	0.0	-0.3	-1.7

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

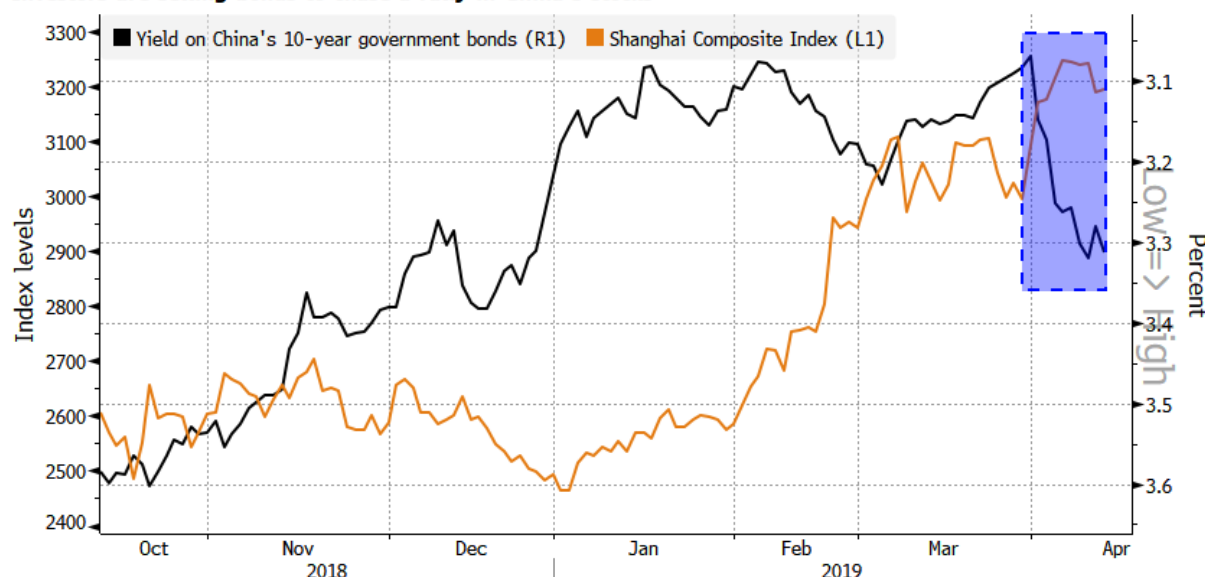
China

Credit data for March blew past expectations. New aggregate financing was RMB 2.86 tn, compared with RMB 700 bn in February and against median estimates of RMB 1.85 tn. New loans were RMB 1.69 tn, against 1.25 tn projected; M2 growth rebounded to 8.6% yoy; and trust loans rose RMB 50 bn, the biggest increase since early 2018. New corporate bonds also grew rapidly. Banker's acceptance grew RMB 137 bn.

CGB yields extended recent increases amid expectations for growth to rebound. Yields for both the 2-year and 10-year central government bonds reached their highest levels since December. Since bottoming out in mid-February, the 2-year note yield had risen by nearly 30 bps to 2.77% while the 10-year note climbed 26 bps since bottoming in late March to 3.32%. Contacts noted that investors have been moving funds out of bonds into equities, as the growth outlook brightened. Meanwhile, traders are pricing in expectations for higher funding costs in the coming months. The 12-month interest-rate swaps rose to 2.70%, its highest level for the year. That said, the 1-month Shibor, at 2.69%, is roughly 20 bps below levels seen in mid-March, while the 3-month Shibor, at 2.76%, has been relatively stable since mid-February. Both the onshore and offshore RMB strengthened 0.1% while the equity bourses were little changed.

Steal the Show

Investors are selling bonds to chase a rally in China's stocks



Source: Bloomberg

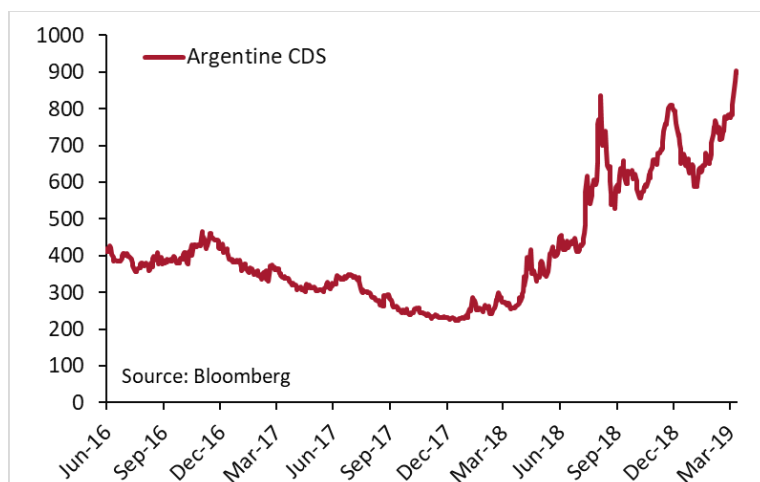
AV670773 Corp (CGB 3 1/4 11/22/28) bonds vs stocks Daily 12OCT2018-12APR2019

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Argentina

Argentina's credit default swaps have been under pressure as the spread on the 5-year contract has widened by 100 bps this month. Uncertainty around the election and the expectations of a high inflation print, combined with a challenging technical position has been the main driver of the move. According to research reports, 25-28% of voters would select neither current Pres. Macri nor Cristina Fernandez de Kirchner for president, but potential alternative candidates had low approval ratings among this group of undecided voters. Therefore, if a third candidate doesn't appear viable, some see increased credit risk as Kirchner's election probability rises.



Mexico

The central bank published the minutes of the March 28 meeting on Thursday. **The discussion focused on the current economic deceleration and the persistence of inflation.** The majority of the board continued to think inflation risks are still on the upside despite some recent intensification of downside risks. In addition, members were increasingly worried about global growth and the possibility of a recession in the U.S.

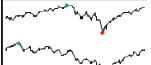
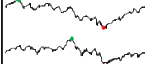
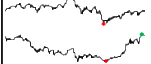
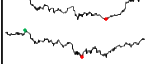

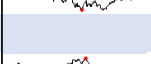

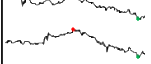


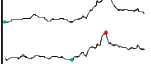
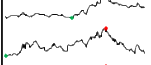
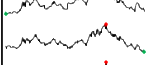

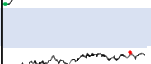





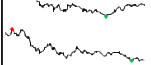





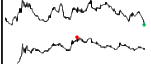

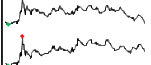
Sudan

The military has overthrown president al-Bashir with a transitional council set to take charge for a two-year period. First vice president and defense minister Ahmed Awad Ibn Auf will head the transitional council according to local reports. Yesterday's move ends the 30-year reign of al-Bashir after protests that have been ongoing since December. Among the reasons for the protest was a spike in consumer prices which saw inflation reach approximately 70%. The situation has been compared to that in Algeria where president Bouteflika stepped down earlier this month after months of protests in the country.

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Global Financial Indicators

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United States		2888	0.0	0	3	8	15
Europe		3449	0.4	0	4	0	15
Japan		21871	0.7	0	2	1	9
China		3189	0.0	-2	4	0	28
Asia Ex Japan		72	-1.0	0	4	-7	14
Emerging Markets		44	1.1	0	3	-8	13
Interest Rates			basis points				
US 10y Yield		2.54	3.2	5	-6	-29	-14
Germany 10y Yield		0.04	5.1	4	-1	-47	-20
Japan 10y Yield		-0.06	-0.1	-3	-3	-9	-6
UK 10y Yield		1.20	4.6	8	3	-26	-8
Credit Spreads			basis points				
US Investment Grade		113	-1.7	-3	-5	17	-34
US High Yield		401	-5.9	-4	-16	55	-120
Europe IG		58	-1.3	-3	-3	2	-30
Europe HY		247	-4.1	-8	-31	-33	-106
EMBIG Sovereign Spread		341	-3.0	1	-11	46	-73
Exchange Rates			%				
USD/Majors		96.86	-0.3	-1	0	8	1
EUR/USD		1.13	0.6	1	0	-8	-1
USD/JPY		112.0	-0.3	0	-1	-4	-2
EM/USD		63.2	0.0	0	0	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		72	1.0	2	7	-1	33
Industrials Metals (index)		122	1.2	0	0	-10	11
Agriculture (index)		40	0.2	-1	0	-19	-3
Implied Volatility			%				
VIX Index (% change in pp)		12.4	-0.6	-0.4	-1.4	-6.1	-13.0
10y Treasury Volatility Index		3.4	-0.2	-0.4	-0.3	-0.3	-1.2
Global FX Volatility		6.2	0.0	-0.6	-0.9	-1.3	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		327	-9.2	-25	-56	-23	-89
Italy		248	9.8	1	-1	118	-2
Portugal		111	-3.3	-14	-17	-8	-37
Spain		99	-2.2	-11	-12	25	-18

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: 4/12/2019 8:12 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	0.2	0.0	0	-6	3		3.3	-0.4	5	13	-48	8
Indonesia		14120	0.1	0.1	1	-2	2		7.8	1.1	7	-23	104	-37
India		69	-0.4	0.1	1	-6	1		7.5	0.3	9	3	-12	6
Philippines		52	0.4	0.9	2	1	2		5.3	2.0	0	-21	21	-102
Thailand		32	0.4	0.5	0	-2	2		2.6	0.0	1	-4	20	-6
Malaysia		4.11	0.0	-0.6	-1	-6	0		3.8	0.0	2	-13	-20	-29
Argentina		43	0.6	1.6	-3	-53	-12		23.4	-25.5	-15	189	636	43
Brazil		3.88	-0.4	-0.1	-2	-12	0		8.2	4.7	4	11	-16	4
Chile		665	-0.5	0.1	1	-10	4		4.1	2.1	-9	-23	-62	-39
Colombia		3120	-0.8	0.3	2	-13	4		6.1	2.7	-8	-18	2	-39
Mexico		18.75	0.4	1.7	3	-3	5		8.1	-2.3	-7	-10	68	-65
Peru		3.3	-0.1	-0.1	0	-2	2		5.4	4.5	7	-15	26	-35
Uruguay		34	-0.5	-1.3	-3	-17	-5		10.5	-8.6	1	3		-22
Hungary		285	0.6	0.6	-2	-11	-2		2.0	3.8	11	-6	52	-18
Poland		3.78	0.6	1.1	1	-10	-1		2.3	0.8	-2	2	-3	4
Romania		4.2	0.5	0.6	1	-10	-3		4.3	-1.0	8	30	49	5
Russia		64.2	0.7	1.7	2	-3	8		7.9	-3.3	-14	-15	64	-47
South Africa		13.9	0.5	1.2	3	-13	3		9.3	5.3	-4	-11	61	-30
Turkey		5.78	-0.8	-2.7	-6	-29	-9		19.3	35.2	51	313	595	239
US (DXY; 5y UST)		96.9	-0.3	-0.5	0	8	1		2.36	5.1	6	-5	-31	-15

	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		3189	0.0	-2	4	0	28		175	-1	0	-5	-2	-19
Indonesia		6406	-0.1	-1	1	2	3		183	-4	-8	-21	13	-53
India		38767	0.4	0	3	14	7		156	-3	-1	-8	21	-40
Philippines		7881	-0.9	0	2	-2	6		82	-5	-7	-18	-13	-39
Malaysia		1630	0.4	-1	-2	-13	-4		126	-1	-1	-4	8	-36
Argentina		31501	-2.0	-2	-6	-2	4		811	-3	27	67	416	-4
Brazil		94755	-1.2	-2	-3	11	8		251	1	5	10	18	-22
Chile		5255	-0.4	-1	-1	-7	3		127	-2	-2	-11	0	-39
Colombia		1612	-0.8	1	5	4	22		176	-4	-5	-17	7	-52
Mexico		44580	-0.7	1	7	-9	7		292	-1	-6	-20	56	-62
Peru		21001	-1.3	-1	1	-1	9		121	-3	-1	-18	-23	-47
Hungary		42924	0.5	3	6	12	10		102	-4	-4	-18	0	-46
Poland		61324	0.3	1	3	2	6		43	-3	-6	-16	-1	-42
Romania		8320	-0.1	1	5	-7	13		205	-1	5	4	69	-16
Russia		2566	0.6	1	4	16	8		207	-5	-9	-8	-9	-45
South Africa		58410	0.4	1	5	3	11		293	-5	-1	-11	52	-72
Turkey		95132	-1.0	-4	-6	-14	4		501	7	38	73	182	72
Ukraine		541	-0.1	-4	-2	47	-3		595	1	1	-47	158	-192
EM total		44	1.1	0	3	-8	13		341	-3	1	-11	46	-73

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