



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, April 15, 2019

- **US corporate earnings in focus with growth continuing on per share basis** ([link](#))
- **Chinese corporates drive record hard currency bond issuance in Asia** ([link](#))
- **Petrobras suspends planned fuel price hike at request of Brazil's president** ([link](#))
- **US may retain some tariffs in China trade deal, according to reports** ([link](#))












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

Markets drift at start of quiet week

Markets are edging higher at the start of a relatively quiet and holiday-shortened week. Most key risk assets are adding slightly to gains from late last week after strong Chinese lending, better-than-expected European industrial production, and solid earnings from JPM boosted markets. US and German yields are holding on to Friday's increases this morning after Treasuries retraced to their March FOMC levels and Bunds exited negative territory. This week, US earnings season gets into full swing, however earnings forecasts are relatively subdued so analysts see the bar as set fairly low. In emerging markets, Brazilian assets were buffeted after Pres. Bolsonaro intervened to cancel a planned fuel price hike, while in Turkey local and foreign currency sovereign bond yields continue to move higher. In China, strong lending data and positive signals on trade are reportedly fueling investor jitters that the PBOC will end stimulus early, which is sending yields higher and snuffed out an intra-day equity rally.

The week is to be fairly light in terms of data releases, with equity markets closed on Friday in the US, UK and Germany for the Easter holiday. US earnings results will be a focus, highlighted by most of the big financials. Other US data will include portfolio flows (Monday), industrial production (Tuesday), trade balance (Wednesday), retail sales and leading indicators (Thursday), and housing (Friday). In Europe, Germany releases its ZEW survey (Tuesday), with several major European countries reporting CPI (Wednesday), and composite PMIs (Thursday). The Bank of Korea is expected to keep rates on hold (Thursday). And there will be key elections in Indonesia (Wednesday) and India (Thursday). The US and Japan will convene trade talks this week.

Key Global Financial Indicators

Last updated: 4/15/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2907	0.7	1	3	9	16
Eurostoxx 50		3451	0.1	0	2	0	15
Nikkei 225		22169	1.4	2	3	2	11
MSCI EM		44	-0.1	0	3	-7	14
Yields and Spreads			bps				
US 10y Yield		2.57	6.8	4	-2	-26	-12
Germany 10y Yield		0.07	1.3	6	-2	-44	-17
EMBIG Sovereign Spread		339	-1	-1	-8	43	-75
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	0.0	0	0	-9	2
Dollar index, (+) = \$ appreciation		96.8	-0.1	0	0	8	1
Brent Crude Oil (\$/barrel)		71.0	-0.8	0	6	-2	32
VIX Index (% change in pp)		12.4	0.3	-1	-1	-5	-13

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

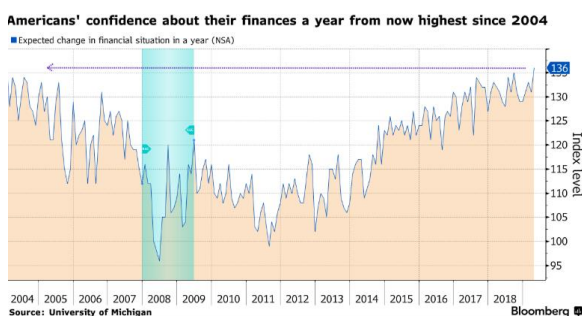
United States

[back to top](#)

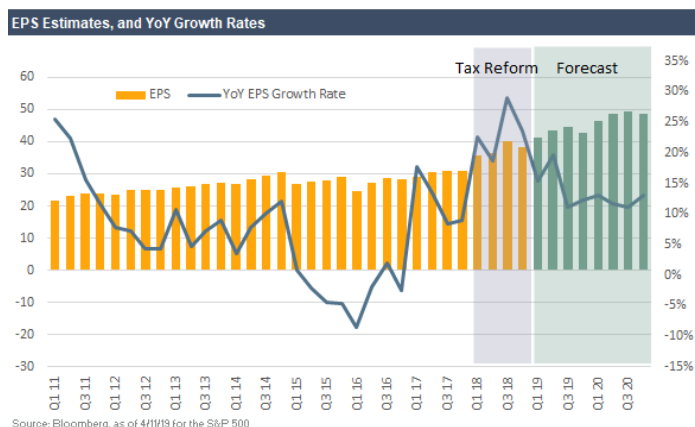
Stocks firmed Friday, with the blue chip Dow Jones Industrial index outperforming (+1.0%). Stocks got a boost from upbeat China data, a robust bank earnings report, and a big energy deal. JPMorgan rose (+4.7%) following a solid earnings report. Anadarko surged (+32.0%) after agreeing to a \$33 bn takeover by Chevron (-4.9%). Share prices of independent shale producers jumped in anticipation the Anadarko deal could spark further acquisitions.

Today is tax day in the US. The Institute on Taxation and Economic Policy released a report that some **60 companies in the S&P 500 paid no federal taxes** in 2018 on \$79 bn in pretax income. This is about twice as many companies as in recent years. Congress reckons the Trump corporate tax cuts from 35% to 21% will save corporations around \$1.35 tn over the next decade. The Treasury department recently advised the fiscal 2019 deficit will likely reach \$1.1 tn.

Import prices jumped in March for a second straight month. The University of Michigan's gauge on consumer sentiment slipped in April, owing to a weaker long-term outlook. The Michigan report also found that Americans were the most upbeat about their finances in 15 years. Yields on the 10-year Treasury rose 6 bps Friday, in line with similar moves in France, Germany, and the UK.

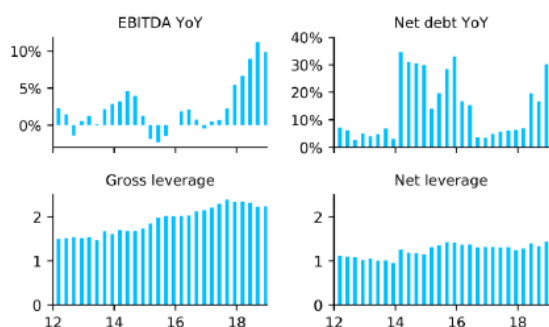


FactSet finds that analyst surveys indicate **earnings growth** will slip 4.2% in Q1, but will increase by 3.6% for the year as a whole. But looking at a different measure, CreditSights advises analysts expect **earnings per share growth** will rise 14.5% yoy to another record. The firm gauges that the biggest threats to this robust projection are tariff impacts, wage pressures, and being able to pass along higher prices to customers.



Citigroup finds that US firms have seen their **gross leverage positions generally improve** over the past few years, but notes their **net leverage positions have worsened slightly**. It points to the large drawdown in cash and marketable securities as the main driver. Citi also finds that net leverage is increasing across most sectors apart from energy. Consequently, the bank sees this as a "broad-based lack of urgency in addressing the risks of a cycle turn." And it believes lower-rated investment-grade firms will be hit harder when the cycle does make a turn for the worse.

Figure 3. Net leverage increasing with net debt growth faster than earnings growth

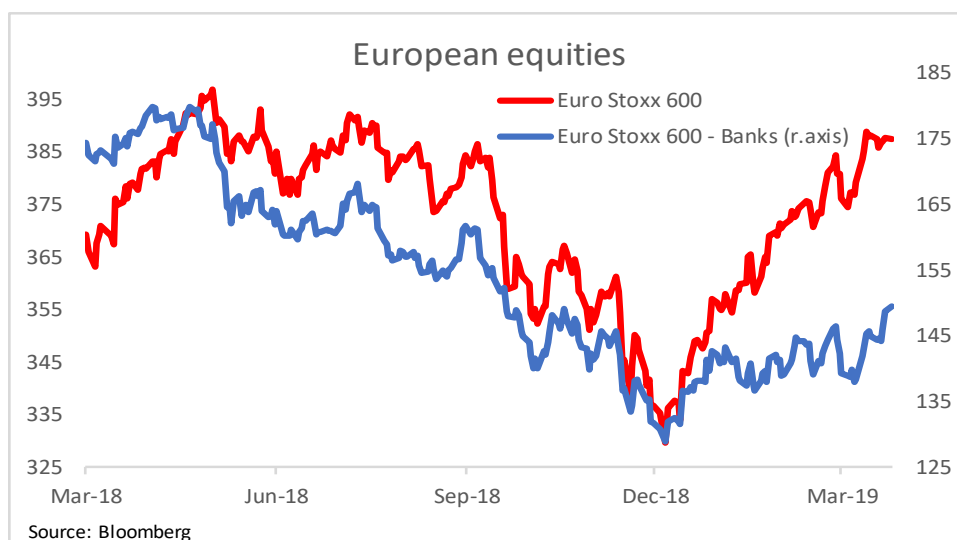


Source: Citi Research; Bloomberg Financial LP

Europe

[back to top](#)

Equities opened the week little changed (+0.2%). The Euro Stoxx 600 index was flat as gains in communication and bank stocks were offset by losses in consumer stocks. A rise of 0.6% among bank stocks saw their three-day gain reach 3.7% as the sector continues to reverse its underperformance versus the broader index. Commerzbank (+2.4%) and Deutsche Bank (+1.7%) both saw strong gains as merger talks continued. According to local reports, the banks will decide by April 26 whether they want intensify merger negotiations. **Sovereign yields were slightly higher.** Most 10-year benchmarks were 1-2 bps higher after large rises on Friday. The 10-year Bund yield reached 0.06%, having exited negative territory on Friday.



Brexit talks between the government and the Labour party will continue but will not “drag out”, according to Cabinet Office minister Liddington. The talks have yielded little substantive progress so far but the two negotiating teams are expected to take stock once parliament resumes after its Easter break. Representatives of both parties have said that the talks remain the best chance of securing Brexit progress although a parliamentary vote on possible solutions could still be presented as an alternative. UK markets remain very calm with short-dated sterling volatility levels dipping to their lowest since January 2018.

Social Democrats narrowly became the largest party in yesterday's elections in Finland with 17.7% of votes. Upcoming coalition talks will be complicated, however, as the far-right Finns party and the National Coalition also got approximately 17% each. The gains for the three largest parties came at the expense of PM Sipilä's Centre party which lost more than a third of its seats. Any new government may require four parties to work together, given the widely split vote, with health care and the welfare system expected to feature prominently in any upcoming talks.

Other Mature Markets [back to top](#)

Japan

Japanese equities (+1.4%) rose as cyclicals outperformed defensives. Financials led gains amid the bear steepening of the JGB yield curve. **10-year JGB yields rose 2.3 bps to -0.036% while 2-year yields increased 1.1 bps to -0.17%.** US Treasury Secretary Steven Mnuchin called for a currency clause in a trade deal with Japan, which would be aimed at preventing deliberate manipulation of the yen to boost exports, according to NHK. Initial talks on a US-Japan trade deal are scheduled to begin today, but the Japanese side has downplayed expectations for a quick agreement with Finance Minister Taro Aso noting that the US is “too busy with China”. **The yen was stable.**

Nikkei 225 breaks above 200-day moving average



Source: Nikkei, Bloomberg







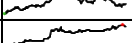

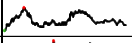



Emerging Markets [back to top](#)

Emerging markets saw a quiet start to the week. Asian equities (+0.1%) gained slightly on net, but performance across markets was mixed. Chinese equities (Shanghai -0.3%; Shenzhen -0.8%) declined after

erasing gains early in the trading session while Taiwan Province of China (+0.7%) and Indonesia (+0.5%) led gains. Regional currencies were broadly stable, with the Korean won outperforming (+0.6%).

Stocks in the EMEA region were mostly flat while currencies were a fraction stronger against the dollar, excluding the Turkish lira (-0.3%). Latin American stocks were mostly lower on Friday. Brazilian equities (-2%) saw the biggest losses while Argentina (-0.5%) and Colombia (-0.4%) also declined. Local currencies were mixed with the Argentine *peso* (+1.3%) strengthening but the *real* (-0.6%) weakening amid news that Petrobras backtracked on a fuel price increase and that a key lawmaker is under investigation.

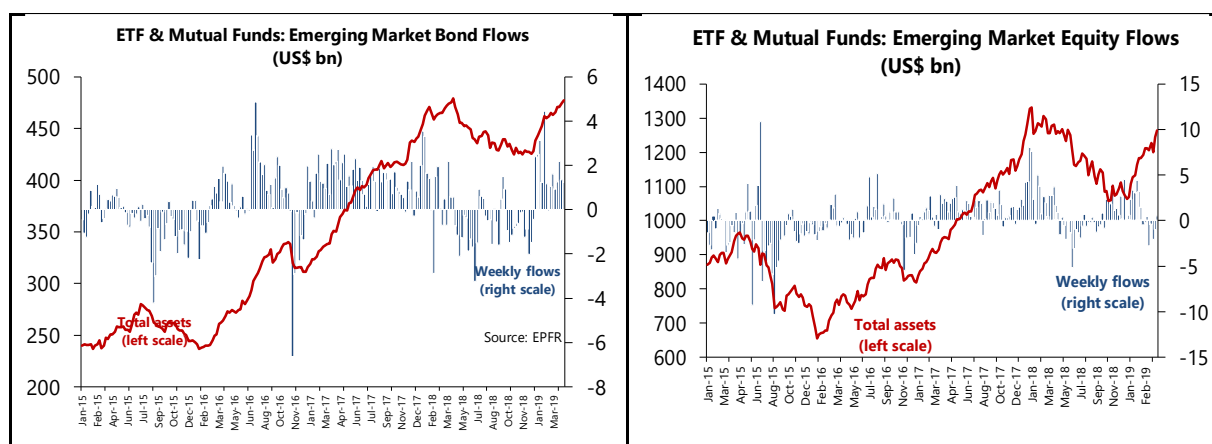
Key Emerging Market Financial Indicators

Last updated: 4/15/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.36	-0.1	0	3	-7	14
MSCI Frontier Equities		28.85	0.3	0	1	-17	10
EMBIG Sovereign Spread (in bps)		339	-1	-1	-8	43	-75
EM FX vs. USD		63.25	0.0	0	0	-9	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.0	0	0	-6	3
Indonesian Rupiah		14063	0.4	1	1	-2	2
Indian Rupee		69.42	-0.4	0	0	-6	0
Argentine Peso		42.19	1.3	4	-2	-52	-11
Brazil Real		3.88	-0.1	-1	-2	-12	0
Mexican Peso		18.78	-0.2	1	2	-4	5
Russian Ruble		64.29	0.0	1	1	-5	8
South African Rand		13.99	-0.1	1	3	-14	3
Turkish Lira		5.80	-0.4	-2	-6	-29	-9
EM FX volatility		8.25	0.2	0.0	0.4	-0.1	-1.5

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

Emerging Markets

Inflows into EM bond funds remained steady and EM equity funds saw the first week of inflows since early-March. According to EPFR data, bond funds had net inflows of \$1.27 bn while equity funds registered inflows worth \$0.57 bn last week. The cumulative inflows to EM bonds have amounted to \$24 bn in 2019 while equities have remained under pressure this year with cumulative inflows of \$13 bn. Analysts believe that the lower yield environment in developed markets means the risks for EM assets and fund flows remain skewed to the upside in the near-term.



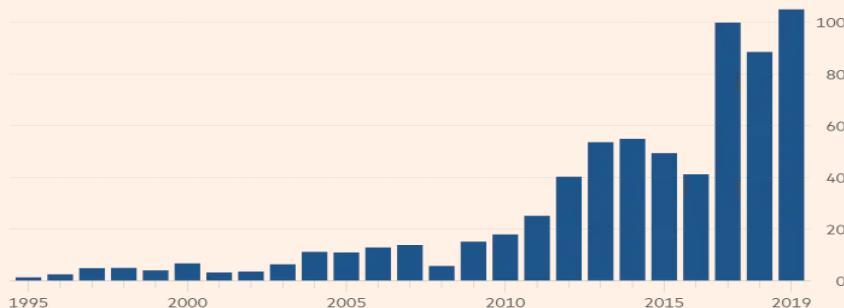
China

Equities (Shanghai -0.3%; Shenzhen -0.8%) declined, despite better economic data and positive news on trade. Credit data for March beat expectations with total social financing rising at close to 11% y/y. On trade, the US relaxed demands that China curb industrial subsidies as a condition for a trade deal, according to Reuters. The US side appears to be set to maintain at least \$50 bn in tariffs, and is now focused on requesting the Chinese to shift their own retaliatory tariffs away from agricultural products, in a bid to strengthen Pres. Trump's standing with US farmers. The US is also focusing on other areas including forced technology transfers, improving intellectual property protection and widening access to China's markets. Both sides are getting close to the final round of concluding issues, according to US Treasury Secretary Mnuchin. **The onshore and offshore RMB were unchanged.**

Chinese issuers are driving record hard currency bond issuance in Asia. Up until April 11, issuance in Asia ex Japan reached \$105 bn, marking an increase of approximately 20% y/y, according to Dealogic and the FT. Issuance has been supported by lower interest rates and easier granting of offshore bond issuance quota by the Chinese authorities. China Evergrande Group, the second largest real estate developer in China, is the biggest dollar-bond issuer in Asia excluding Japan, having sold \$6.7 bn year-to-date. Meanwhile, Chinese tech company Tencent is tapping the bond markets for \$5 bn in the largest deal of the year thus far in Asia.

Asia's international debt market kicks off 2019 with a bang

Value of dollar, euro and yen bonds issued in Asia ex-Japan year to date* (\$bn)



*As of April 11, excludes issuance from foreign and supranational agencies or related groups
Source: Dealogic
© FT

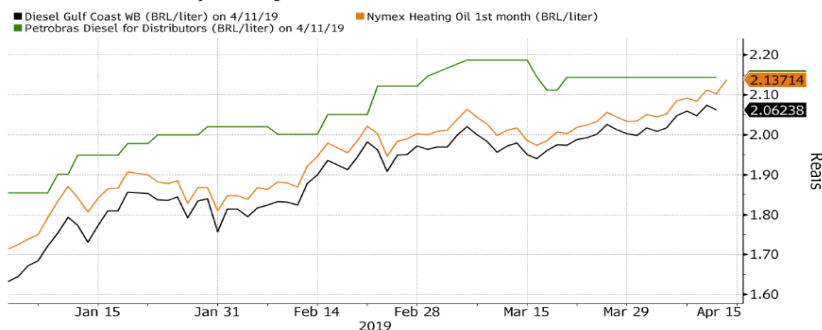
Brazil

Petrobras canceled a planned increase in wholesale diesel prices on the orders of Pres. Bolsonaro.

The news sent shockwaves across Brazilian markets as it revived fears of the interventionist policies by previous governments that analysts blame for fueling inflation and hurting the economy in recent years. Following the news, Petrobras shares plunged more than 8%, the *real* weakened by 0.6% against dollar and benchmark equity index fell by 2%.

Price Freeze

Decision to wait on price adjustment revives memories of intervention



Source: Data compiled by Bloomberg

Bloomberg

List of GMM Contributors (Global Markets Analysis Division, MCM Department)
Anna Ilyina*Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***Deputy Division Chief***Evan Papageorgiou***Deputy Division Chief***Sergei Antoshin***Senior Economist***John Caparusso***Senior Financial Sector Expert***Sally Chen***Senior Economist***Fabio Cortés***Senior Economist***Mohamed Jaber***Senior Financial Sector Expert***David Jones***Senior Financial Sector Expert***Sanjay Hazarika***Senior Financial Sector Expert***Juan Solé***Senior Economist***Jeffrey Williams***Senior Financial Sector Expert***Akihiko Yokoyama***Senior Financial Sector Expert***Dimitris Drakopoulos***Financial Sector Expert***Tryggvi Gudmundsson***Economist***Henry Hoyle***Financial Sector Expert***Robin Koepke***Economist***Thomas Piontek***Financial Sector Expert***Rohit Goel***Financial Sector Expert***Jochen Schmittmann***Economist***Ilan Solot***Financial Sector Expert***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Piyusha Khot***Research Assistant***Xingmi Zheng***Research Assistant*

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 4/15/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2907	0.7	1	3	9	16
Europe		3451	0.1	0	2	0	15
Japan		22169	1.4	2	3	2	11
China		3178	-0.3	-2	5	1	27
Asia Ex Japan		73	1.0	0	4	-5	15
Emerging Markets		44	-0.1	0	3	-7	14
Interest Rates			basis points				
US 10y Yield		2.57	6.8	4	-2	-26	-12
Germany 10y Yield		0.07	1.3	6	-2	-44	-17
Japan 10y Yield		-0.03	3.1	2	1	-6	-3
UK 10y Yield		1.24	2.4	12	3	-20	-4
Credit Spreads			basis points				
US Investment Grade		111	-2.5	-6	-8	16	-36
US High Yield		391	-9.6	-16	-25	54	-130
Europe IG		57	0.5	-5	-3	4	-30
Europe HY		248	4.5	-13	-22	-22	-105
EMBIG Sovereign Spread		339	-1.0	-1	-8	43	-75
Exchange Rates			%				
USD/Majors		96.84	-0.1	0	0	8	1
EUR/USD		1.13	0.1	0	0	-9	-1
USD/JPY		112.0	0.0	0	0	-4	-2
EM/USD		63.2	0.0	0	0	-9	2
Commodities			%				
Brent Crude Oil (\$/barrel)		71	-0.8	0	6	-2	32
Industrials Metals (index)		121	-0.5	0	1	-10	11
Agriculture (index)		40	0.2	0	-1	-18	-3
Implied Volatility			%				
VIX Index (% change in pp)		12.4	0.3	-0.8	-0.5	-5.1	-13.1
10y Treasury Volatility Index		3.5	0.0	-0.2	-0.3	-0.1	-1.1
Global FX Volatility		6.3	0.0	-0.5	-0.5	-1.1	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		322	-2.4	-26	-50	-38	-94
Italy		247	-1.3	-1	6	119	-3
Portugal		113	1.3	-9	-10	-1	-35
Spain		101	1.7	-7	-9	28	-16

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 4/15/2019 8:07 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	0.2	0	-6	3		3.3	0.6	6	13	-46	9
Indonesia		14063	0.4	0.7	1	-2	2		7.8	2.0	10	-15	104	-35
India		69	-0.4	0.4	0	-6	0		7.5	1.7	7	5	-9	8
Philippines		52	0.0	1.0	2	1	2		5.3	-2.0	-4	-21	20	-104
Thailand		32	0.1	0.4	0	-2	2		2.6	0.4	0	-4	22	-6
Malaysia		4.11	0.1	-0.3	0	-5	1		3.8	-0.1	2	-12	-22	-29
Argentina		42	1.3	4.1	-2	-52	-11		23.4	-6.4	-30	119	621	37
Brazil		3.88	-0.1	-0.9	-2	-12	0		8.2	3.8	11	20	-8	8
Chile		661	0.6	0.6	1	-10	5		4.1	1.9	-6	-21	-59	-37
Colombia		3116	0.1	0.3	1	-13	4		6.1	1.1	-6	-15	1	-38
Mexico		18.78	-0.2	1.0	2	-4	5		8.0	-2.6	-4	-10	67	-67
Peru		3.3	0.0	-0.1	0	-2	2		5.4	-0.7	7	-12	29	-36
Uruguay		34	0.1	-1.0	-3	-17	-5		10.5	5.4	8	8		-17
Hungary		283	0.4	0.7	-2	-12	-1		2.1	6.4	17	0	56	-12
Poland		3.78	0.2	0.7	0	-11	-1		2.3	0.4	-1	3	-5	4
Romania		4.2	0.1	0.1	0	-11	-4		4.3	0.0	9	23	47	5
Russia		64.3	0.0	0.9	1	-5	8		7.9	0.4	-9	-13	81	-47
South Africa		14.0	-0.1	0.9	3	-14	3		9.3	0.2	1	-15	63	-30
Turkey		5.80	-0.4	-2.0	-6	-29	-9		19.6	32.0	103	327	647	271
US (DXY; 5y UST)		96.9	-0.1	-0.2	0	8	1		2.39	0.5	6	-1	-29	-13

	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		3178	-0.3	-2	5	1	27		175	-1	-1	-2	-3	-19
Indonesia		6435	0.5	0	0	3	4		182	1	-7	-16	13	-54
India		38906	0.4	1	2	14	8		155	-1	-4	-9	22	-41
Philippines		7788	-1.2	-1	0	-1	4		84	3	-3	-15	-14	-37
Malaysia		1631	0.1	-1	-3	-13	-4		127	0	0	-3	9	-35
Argentina		31357	-0.5	-4	-8	-1	4		807	1	2	83	409	-8
Brazil		92875	-2.0	-4	-6	10	6		246	-1	0	4	12	-27
Chile		5240	-0.3	0	-2	-7	3		126	-1	-2	-7	4	-40
Colombia		1605	-0.4	0	2	4	21		176	0	-3	-13	5	-52
Mexico		44686	0.2	-1	6	-8	7		293	1	-3	-14	55	-61
Peru		21100	0.5	-1	1	0	9		120	0	-1	-17	-23	-48
Hungary		42886	-0.1	3	4	12	10		104	3	0	-17	1	-44
Poland		61054	0.1	0	1	1	6		43	1	-4	-15	-6	-42
Romania		8295	0.3	1	6	-6	12		201	-4	-2	1	68	-20
Russia		2561	0.1	0	3	18	8		205	-1	-9	-9	-17	-47
South Africa		58208	-0.3	0	4	3	10		290	-2	-1	-14	49	-75
Turkey		95899	-0.1	-1	-7	-13	5		512	12	34	92	194	83
Ukraine		535	-0.4	-5	-5	44	-4		584	-2	4	-41	151	-203
EM total		44	-0.1	0	3	-7	14		339	-1	-1	-8	43	-75

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