



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, April 17, 2019








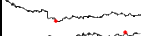


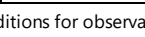
- **Higher-than-expected China GDP, industrial data boost sentiment** ([link](#))
- **Fitch sees another \$10 bn required for Russian bank recapitalization** ([link](#))
- **Argentina fixes FX intervention band as inflation overshoots for third month** ([link](#))
- **European equity implied volatility touches historic lows** ([link](#))
- [Special feature on the G-SIBs' operating performance and balance sheet trends \(attached\)](#)

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## Markets continue edging higher

**Risk assets are eking out further gains in quiet trading, boosted at the margins by strong Chinese data.** Stocks yesterday picked up small gains across developed market bourses, with traders looking on the bright side of mixed earnings reports in the US and betting that trade fears for European autos are overblown. Benchmark government bond yields are slowly regaining ground, retracing from lows following the Fed's dovish pivot in late March, notwithstanding rumors that ECB officials are pessimistic about a growth rebound later this year. The latest catalyst for optimism has for the second time in a week come from China, with strong data out overnight and rumors of new consumption-focused stimulus, which are likely to further soothe lingering concerns about a slowdown there. Emerging markets are also benefiting from the benign environment, with equities higher and external spreads continuing to gradually tighten.

### Key Global Financial Indicators

Last updated: 4/17/19 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		2907	0.1	1	3	7	16
Eurostoxx 50		3470	0.2	1	2	0	16
Nikkei 225		22278	0.3	3	4	2	11
MSCI EM		44	0.7	0	3	-7	14
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.60	3.6	13	1	-23	-8
Germany 10y Yield		0.08	1.3	11	-1	-43	-16
EMBIG Sovereign Spread		335	-2	-8	-12	35	-79
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		63.3	0.2	0	0	-10	2
Dollar index, (+) = \$ appreciation		96.9	-0.1	0	0	8	1
Brent Crude Oil (\$/barrel)		72.1	0.5	0	7	1	34
VIX Index (% change in pp)		12.0	-0.2	-1	-1	-3	-13

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

## United States

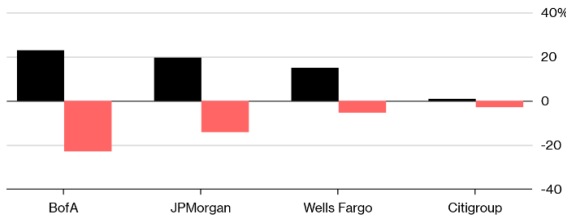
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**Stocks finished higher** Tuesday following mixed results from a series of quarterly earnings reports. **Bank of America** missed revenue targets in reporting trading revenues fell 13% in Q1. Bloomberg gauges that interest rate increases last year have allowed banks to raise their average lending rates by 0.5% ppts last year. But this increasing reliance on their retail business has translated into somewhat higher provisioning costs. **BlackRock**'s assets under management again topped \$6 tn after the firm saw \$65 bn in net inflows in the first quarter.

### Retail Rising

Climbing earnings at consumer banking units outweighed trading declines

■ Consumer unit profit growth ■ Trading unit

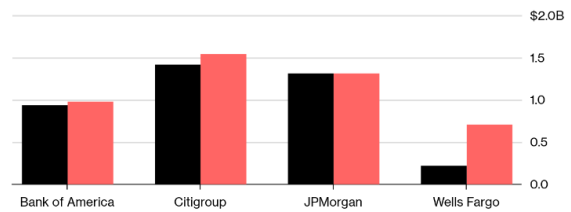


Note: Shows year-over-year change in first-quarter pretax profit at units that house consumer lending and trading operations  
Source: Company filings

### Higher Provisions

Banks set aside more money for souring consumer loans

■ 1Q 2018 ■ 1Q 2019



Bloomberg

Source: Company filings

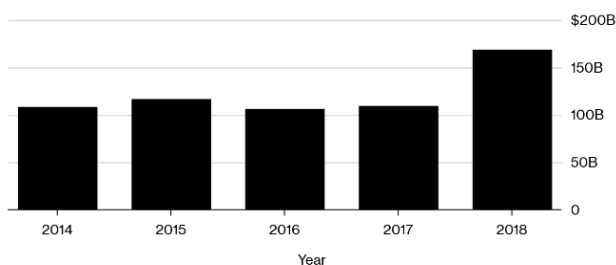
Bloomberg

The ten largest US tech companies repurchased shares worth \$169 bn in 2018, a 55% increase from the year before the tax overhaul according to Bloomberg. And they spent a combined \$50 bn on dividends last year, which was just 1% higher than 2017. TrimTabs gauges **the tech sector as a whole spent \$387 bn on share buybacks last year, more than the triple the 2017 total**. Bloomberg also gauges that US companies repatriated \$664.9 bn in offshore profits last year, but the activity decreased with each succeeding quarter, and with just \$85.9 bn in Q4 according to Commerce Department data. Research from the University of Pennsylvania suggests that some 46% of corporate offshore earnings are in illiquid assets that would be difficult to repatriate without selling.

### Buybacks Soar

U.S. tech giants spent 55 percent more on share repurchases last year

■ Buybacks



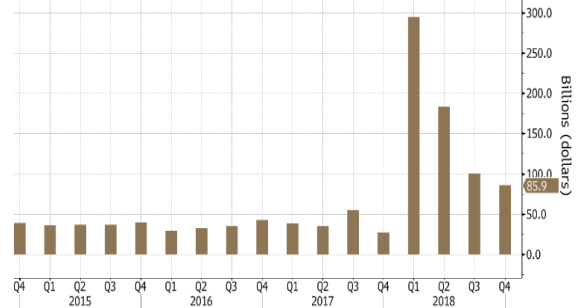
Note: Data reflects spending in the companies' most recent fiscal years that ended in calendar year 2018  
Source: Corporate filings and data compiled by Bloomberg

Bloomberg

### Staying Offshore

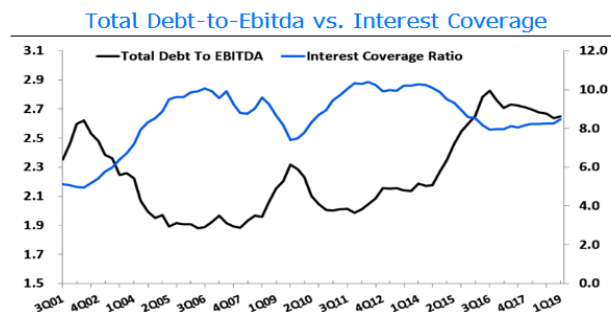
U.S. companies are repatriating less than the \$4 trillion Trump touted

■ Repatriated profits by U.S. companies



Source: U.S. Commerce Department

Bloomberg analysts find that the **balance sheets of investment-grade corporates have improved only marginally over the past few quarters**. It notes that gross leverage and interest coverage measures outside the utility and financial sectors have been trending higher since the end of 2017. It attributes part of this to the increasing prevalence of BBB rated firms, which have grown to 37.5% of the market from 32.5% before the financial crisis.



Source: Bloomberg Intelligence

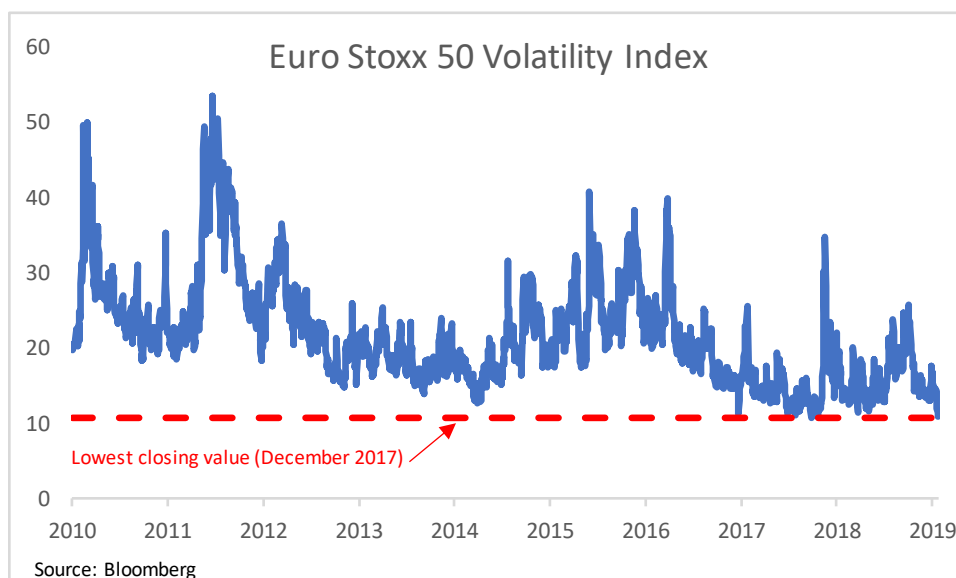
**Treasury yields rose 2-3 bps Tuesday.** Homebuilder sentiment rose to a six-month high in April, owing to a strong labor market, easing mortgage rates and slower house price appreciation. Mortgage rates are 70 bps off their November peak. Industrial production slipped 0.1% mom in March against expectations of a 0.2% gain, largely due to a 2.5% fall in auto production. Manufacturing output is down 1.1% (annualized) in Q1, the worst since late 2017. Capacity utilization came down to 78.8% from a revised 79.0% a month earlier. Chicago Fed president Evans advised the central bank may have to cut rates if inflation falls.

Financial regulator Finra is looking to test the impact of **delaying the disclosure of large corporate bond trades by 48 hours**. The decision follows complaints by market participants that the current rules mandating a 15 minutes delay are impeding liquidity, especially for less-liquid bonds. The proposed delay would apply to trades of more than \$10 mn in investment-grade debt and \$5 mn for speculative-grade debt.

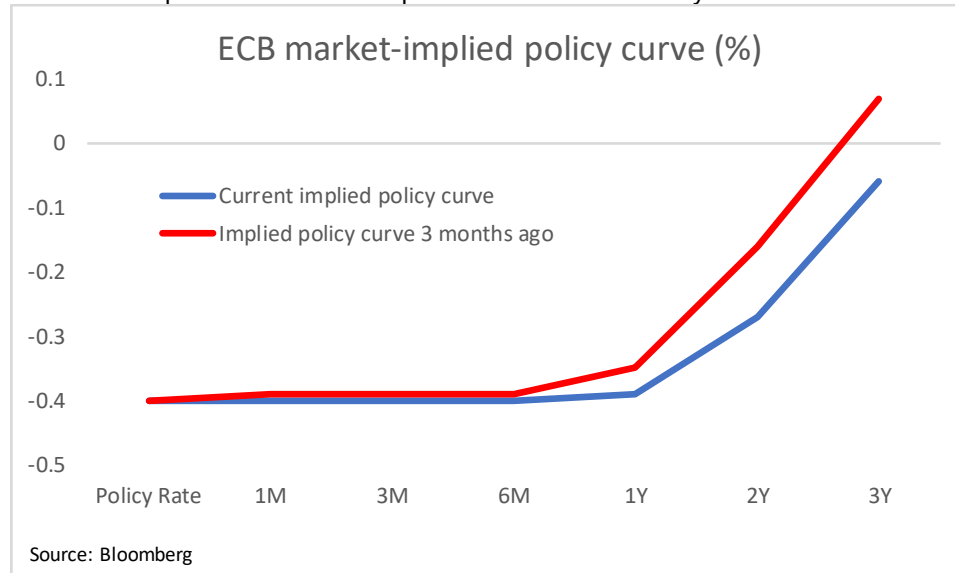
## Europe

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**Equities had another very quiet session with volatility reaching new lows.** The Euro Stoxx 600 opened a hair lower this morning after European shares reached an eight-month high yesterday and volatility approached a record low. Banks continue to outperform, rising by 0.5% and seeing their fifth consecutive day of gains. Sovereign yields are edging higher again, rising by 1-2 bps across the curve, after a flattish day yesterday.



**Several ECB officials expressed doubts about a rebound in global growth, according to Reuters, weighing on bond yields in intra-day trading.** The officials cited weakness in China and trade tensions as reasons why activity may remain subdued this year, which would in turn have an impact on the bank's monetary policy outlook. At its last meeting, the bank acknowledged the slowdown and said that the growth outlook was tilted to the downside but expected adverse effects from weak external demand to unwind. Markets have continued to reduce their expectations of future interest rate increases with negative rates now expected to remain in place for at least 3 more years.



**The Central Bank of Ireland has requested an activation of its systemic risk buffer from the government.** The buffer would impose additional capital requirements on banks to safeguard against tail risks. Governor Lane said that, in addition to Brexit, such events could include shocks due to the economy's large reliance on multinationals. The calibration of the buffer would be based on an assessment of the benefits and costs of the tool.

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

### Japan

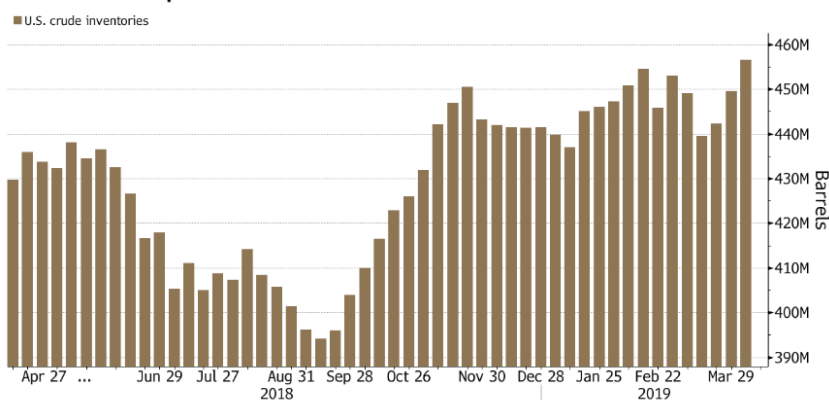
**The yen was little changed while equities edged higher.** Market sentiment was buffeted by a stronger-than-expected Q1 GDP from China and attention on the US-Japan trade negotiation currently underway. The Topix and the Nikkei each gained about 0.2% while the yen hovered around ¥112/USD. March exports shrank for a fourth month while increased shipments to the U.S. heightened concerns that Japan's trade outlook depends on its ongoing negotiation with the U.S. Japan's economy minister Moteji indicated he would be back in the U.S. next week to meet U.S. Trade Representative Lighthizer and that discussions will be at an accelerated pace to reach a deal quickly.

### Commodities

**Oil prices are edging higher once again, extending the year's +40% gains, as investors weigh tightening global supplies against expectations for another boost in U.S. crude inventories.** Futures in New York gained 1% on Tuesday. Stockpiles are already at the highest since 2017. Oil has rallied around 40% this year as the OPEC and allied producers including Russia cut output, while involuntary losses in Iran, Venezuela and Libya have further restricted supply.

## Rising Inventories

U.S. crude stockpiles are forecast to increase for a fourth week.



## Emerging Markets

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**Sentiment in emerging markets was boosted by strong GDP and industrial production data in China.**

The RMB surged ahead of its Asian peers, with both the onshore and offshore yuan appreciating 0.4%. Equities rose 0.3% (Shanghai Composite) to 0.7% (Shenzhen Composite). Other Asian equities experienced modest gains while currencies were little changed on the day. EMEA equities saw another quiet day with most bourses marginally higher. Turkey (+1%) outperformed while South Africa (-0.4%) was a rare case of a market in negative territory. Currencies in the region were slightly stronger against the dollar. Latin American equities saw gains yesterday amid renewed confidence about corporate earnings and global growth whereas currencies mostly weakened against a stronger dollar. Argentine equities (+2%) saw the biggest gains, followed by Brazil (+1%) and Mexico (+1%). Among regional currencies, the Argentine *peso* (-1.7%) weakened the most, followed by the Brazilian *real* (-0.8%) and the Colombian *peso* (-0.8%).

### Key Emerging Market Financial Indicators

Last updated: 4/17/19 8:11 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		44.46	0.7	0	3	-7	14
MSCI Frontier Equities		28.82	-0.3	1	0	-17	10
EMBIG Sovereign Spread (in bps)		335	-2	-8	-12	35	-79
EM FX vs. USD		63.29	0.2	0	0	-10	2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.69	0.3	0	0	-6	3
Indonesian Rupiah		14085	-0.2	0	1	-2	2
Indian Rupee		69.61	-0.3	0	-2	-6	0
Argentine Peso		42.35	-1.7	2	-5	-52	-11
Brazil Real		3.89	0.4	-2	-2	-12	0
Mexican Peso		18.83	0.2	0	1	-4	4
Russian Ruble		63.88	0.3	1	1	-4	9
South African Rand		13.98	0.4	0	3	-14	3
Turkish Lira		5.75	0.3	-1	-5	-29	-8
EM FX volatility		8.18	0.0	0.1	0.3	0.1	-1.6

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

## China

**Higher-than-expected Q1 GDP and industrial output allayed growth concerns and boosted market sentiment.** GDP in Q1 rose 6.4% yoy, matching last quarter's pace and exceeded estimates (+6.3%, yoy). Industrial production was up 8.5% yoy, easily beating forecasts for a 6.4% increase. Retail sales also produced a slight beat, growing 8.7% yoy vs 8.4% expected. The RMB surged, appreciating 0.4%. Yield on the benchmark 10-year CGB rose 5 bps on the week to 3.41%, its highest level for the current on-the-run paper. Equities rose 0.3% (Shanghai Composite) to 0.7% (Shenzhen Composite), boosted in part by share prices of carmakers. Carmakers' equity prices rose on speculation that the authorities are considering relaxing controls over the number of automobile licenses in major cities. Bloomberg reported that a consultation paper from China's NDRC (National Development and Reform Commission) mentioned easing strict restrictions over licenses as well as measures to encourage purchases of new-energy vehicles.

## Money market rates rose amid heightened cash demand heading into the peak April-May tax season.

The overnight borrowing rate rose to a four-year high as cash supply tightened amid increased demand. The overnight repo rate rose 11 bps on the day – and 35 bps on the week – to 2.98%, its highest level since April 2015. The 7-day rate, by contrast, was lower at 2.79%, having fallen 8 bps on the day, though it remains 12 bps higher relative to last Friday. Contributing to the tightness in the overnight rate was limited liquidity injection from the PBC. By Bloomberg's estimate, the PBC injected RMB 200 bn via its medium-term lending facility (MLF) -- less than the RMB 366.5 bn that was drained from the banking system with the maturity of a separate MLF operation.

## Turkey

**At least one lender borrowed from the central bank's late-liquidity window according to the bank's latest data, pointing to potential liquidity stresses in the banking system.** The borrowing, which amounted to TRY 3 bn, represents the first use of the facility for 10 months. The borrowing rate at the window is 27% compared to the policy rate of 24%, resulting in limited appeal for lenders under normal circumstances. The facility is anonymous, but analysts keep a close eye on its use as a barometer for liquidity conditions in the banking system.

## Russia

**The government may need to spend a further \$10 bn in the next two to three years on its banking sector clean-up, according to Fitch.** The country has already spent approximately \$80 bn in the last six years, according to the rating agency, as it has recapitalized and closed out almost 500 banks in total. The efforts, required due to poor corporate governance and asset quality, have "managed to effectively stop capital outflows via doubtful transactions". On the markets, the ruble has continued to appreciate gradually. It was slightly stronger against the dollar this morning, dipping below 64 for the first time in almost a month.

## Argentina

**The central bank announced it will target a fixed FX band for the rest of the year after inflation overshoot expectations.** Inflation rose 4.70% m/m (4.05% m/m expected) in March, exceeding expectations for the third consecutive month. The annual inflation rate accelerated to 54.7%, up from 51.3% in February and 47.6% at end-2018. President Sandleris announced that the central bank will no longer allow its target range for the *peso* to weaken every day but will fix it at 39.75-51.45 per dollar for the rest of the year. At the same time, the bank will no longer seek to weaken the *peso* if it appreciates through the bottom of that band. President Macri is expected to announce new measures to rein in rising prices on Wednesday, including some form of price controls on basic food items. The *peso* weakened by 1.7% against dollar, the most among EM peers. Yields on Argentine bonds due 2024 rose 12bps following the inflation announcement.



## Chile

**The central bank's MPC unanimously decided to hold the policy rate at 3%, citing inflation as measured by the new CPI index was lower than expected.** The MPC minutes indicated the intention to keep the policy rate unchanged for next 2 quarters. Analysts are now expecting only one 25bp hike during 2019, most likely in October, but risks are skewed to an even longer period before the next rate hike.


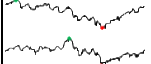





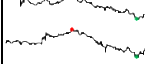


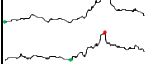
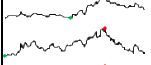
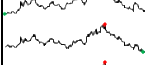





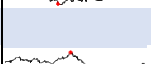

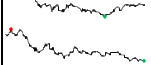





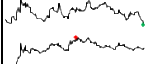

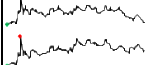
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## Global Financial Indicators

Last updated: 4/17/19 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2907	0.1	1	3	7	16
Europe		3470	0.2	1	2	0	16
Japan		22278	0.3	3	4	2	11
China		3263	0.3	1	8	6	31
Asia Ex Japan		73	0.7	0	4	-5	15
Emerging Markets		44	0.7	0	3	-7	14
<b>Interest Rates</b>			basis points				
US 10y Yield		2.60	3.6	13	1	-23	-8
Germany 10y Yield		0.08	1.3	11	-1	-43	-16
Japan 10y Yield		-0.01	1.6	5	3	-5	-1
UK 10y Yield		1.24	1.9	14	3	-20	-4
<b>Credit Spreads</b>			basis points				
US Investment Grade		109	-0.3	-6	-9	14	-38
US High Yield		386	-2.8	-19	-24	56	-135
Europe IG		58	-0.5	-2	-1	5	-30
Europe HY		246	-3.2	-9	-21	-23	-107
EMBIG Sovereign Spread		335	-2.0	-8	-12	35	-79
<b>Exchange Rates</b>			%				
USD/Majors		96.94	-0.1	0	0	8	1
EUR/USD		1.13	0.2	0	0	-9	-1
USD/JPY		112.0	0.0	-1	0	-4	-2
EM/USD		63.3	0.2	0	0	-10	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		72	0.5	0	7	1	34
Industrials Metals (index)		121	0.7	0	1	-12	11
Agriculture (index)		40	0.2	-2	-3	-18	-4
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		12.0	-0.2	-1.3	-0.9	-3.2	-13.4
10y Treasury Volatility Index		3.6	0.1	-0.1	-0.1	0.2	-1.0
Global FX Volatility		6.2	0.0	-0.4	-0.6	-1.1	-2.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		323	-0.9	-22	-48	-29	-93
Italy		254	1.2	10	13	129	4
Portugal		113	-0.3	-6	-10	2	-35
Spain		103	1.2	-4	-7	32	-14

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

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 4/17/2019 8:09 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		6.69	0.3	0.4	0	-6	3		3.3	2.6	9	19	-36	15
Indonesia		14085	-0.2	0.3	1	-2	2		7.7	-2.9	-4	-13	91	-44
India		70	-0.3	-0.5	-2	-6	0		7.5	0.9	2	6	-9	8
Philippines		52	0.1	0.4	2	1	2		5.3	-0.3	3	-12	23	-99
Thailand		32	0.2	-0.1	0	-2	2		2.6	0.0	0	-6	22	-6
Malaysia		4.13	0.0	-0.6	-1	-6	0		3.8	3.4	3	-6	-19	-25
Argentina		42	-1.7	2.5	-5	-52	-11		22.5	-79.7	-105	-75	519	-52
Brazil		3.89	0.4	-1.6	-2	-12	0		8.2	2.0	-2	21	-10	5
Chile		663	0.1	0.2	0	-10	5		4.1	0.8	3	-16	-55	-35
Colombia		3164	-0.8	-1.9	-2	-14	3		6.2	4.8	7	-4	14	-31
Mexico		18.83	0.2	-0.1	1	-4	4		8.2	3.9	4	-4	74	-57
Peru		3.3	-0.1	-0.1	0	-2	2		5.4	0.6	7	1	27	-34
Uruguay		34	-0.3	-0.7	-2	-17	-5		10.5	0.6	0	-3		-21
Hungary		283	0.2	0.8	-2	-11	-1		2.1	-2.8	9	-3	54	-12
Poland		3.78	0.2	0.5	0	-11	-1		2.3	-0.8	-3	-2	-15	2
Romania		4.2	0.1	0.1	0	-11	-4		4.3	0.0	6	18	41	5
Russia		63.9	0.3	0.6	1	-4	9		8.0	0.5	-3	-8	73	-44
South Africa		14.0	0.4	-0.4	3	-14	3		9.3	3.5	4	-12	67	-27
Turkey		5.75	0.3	-1.3	-5	-29	-8		19.8	14.6	79	312	659	293
US (DXY; 5y UST)		96.9	-0.1	0.0	0	8	1		2.41	0.5	14	2	-28	-10

	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		3263	0.3	1	8	6	31		174	-1	-1	-3	-5	-20
Indonesia		6482	0.0	0	0	3	5		177	-3	-13	-21	5	-59
India		39276	0.0	1	3	14	9		153	-4	-6	-8	15	-43
Philippines		7835	0.1	-2	0	1	5		83	0	-7	-16	-20	-38
Malaysia		1621	-0.5	-1	-4	-14	-4		126	0	-1	-4	9	-36
Argentina		32290	1.7	2	-5	3	7		812	2	-6	88	414	-3
Brazil		94333	1.3	-2	-5	12	7		242	-1	-7	0	8	-31
Chile		5261	0.5	0	-1	-7	3		125	0	-5	-8	-2	-41
Colombia		1581	0.6	-2	0	2	19		174	-1	-7	-15	0	-54
Mexico		45009	0.9	0	7	-8	8		293	-1	-1	-14	54	-61
Peru		21140	0.6	-1	1	-1	9		117	-3	-8	-20	-28	-51
Hungary		42769	-0.1	1	3	12	9		104	-1	-3	-17	1	-44
Poland		61304	0.4	0	1	2	6		40	-2	-10	-18	-7	-45
Romania		8259	0.1	-1	5	-7	12		199	-5	-4	-1	65	-22
Russia		2571	0.4	0	4	17	9		200	-1	-14	-14	-26	-52
South Africa		58739	-0.3	1	5	3	11		284	-2	-10	-20	44	-81
Turkey		97608	0.8	1	-6	-10	7		487	-17	4	67	160	58
Ukraine		541	1.2	-1	-4	46	-3		565	-8	-23	-60	130	-222
EM total		44	0.7	0	3	-7	14		335	-2	-8	-12	35	-79

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