Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, April 18, 2019

- **Argentine peso strengthens following price freezes and changes to FX framework (link)**
- **Turkey reportedly using short-term swaps to boost FX reserves (link)**
- **Foreign ownership of Canadian financial corporate bonds continues to increase (link)**
- **European equities stumble on disappointing PMIs (link)**
- **US tax revenue coming in below expectations so far (link)**

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Price action is muted heading into holiday weekend

Global markets traded with a modestly negative tone. Asian equity markets declined up to 1.5%, with market contacts attributing the slightly negative tone to stories of North Korean weapons testing. The German manufacturing index printed at 44.5 for April, failing to recover as much as anticipated. Manufacturing activity was similarly weak in France. Overall, price action has been relatively limited, with core European yields declining up to 3 bps through the 10-year sector. Implied volatility continues to grind lower for major global equity indices and sovereign debt. In currencies, the US dollar continues to broadly strengthen against most major currencies.

Key Global Financial Indicators

Last updated: 4/18/19 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2900	-0.2	0	2	7	16
Eurostoxx 50		3495	0.5	2	3	0	16
Nikkei 225		22090	-0.8	2	2	0	10
MSCI EM		45	-0.4	0	2	-7	14
Yields and Spreads				bps			
US 10y Yield		2.57	0.4	7	-4	-31	-12
Germany 10y Yield		0.05	-3.4	6	-4	-49	-20
EMBIG Sovereign Spread		339	3	-5	-4	44	-75
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		63.0	-0.2	0	-1	-10	1
Dollar index, (+) = $ appreciation		97.3	0.3	0	1	9	1
Brent Crude Oil ($/barrel)		71.8	0.3	1	6	-2	34
VIX Index (%, change in pp)		12.6	0.0	0	0	-3	-13

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

United States

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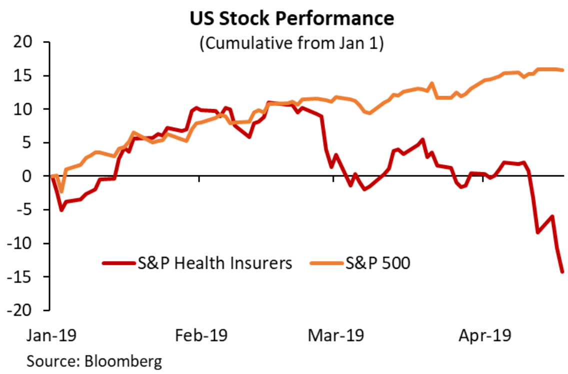
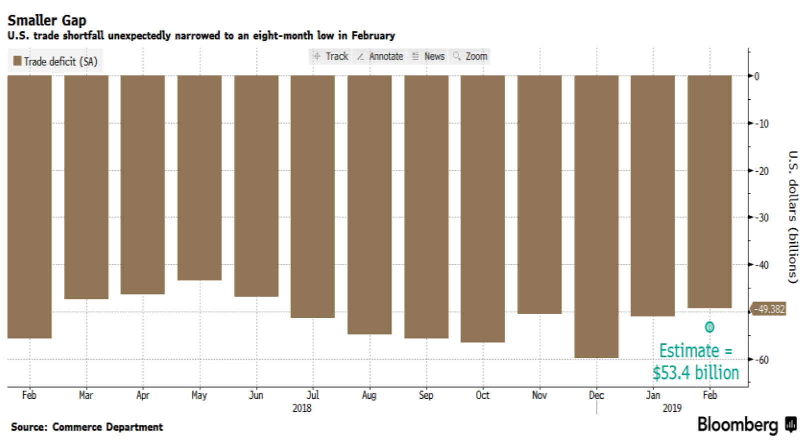
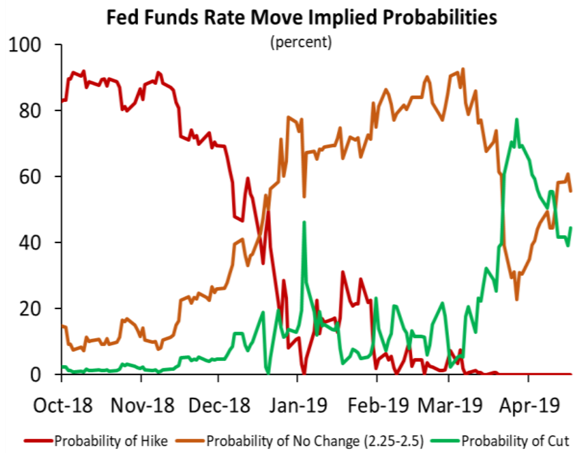
Stocks were mixed Wednesday, showing little direction. One sector that has recently underperformed has been health care, as calls for "Medicare for all" seem to be developing some traction in the political arena and spilling over into markets. The sector fell 2.9% yesterday. And health insurers have lost 15% so far this month. Morgan Stanley rose (+2.6%) after reporting quarterly earnings. Investment bank revenues of $1.15 bn were the weakest among its peers, and 24% lower than the same period in 2018, but bond trading revenues fell less than expected, and the bank saw an increase in wealth-management fees.



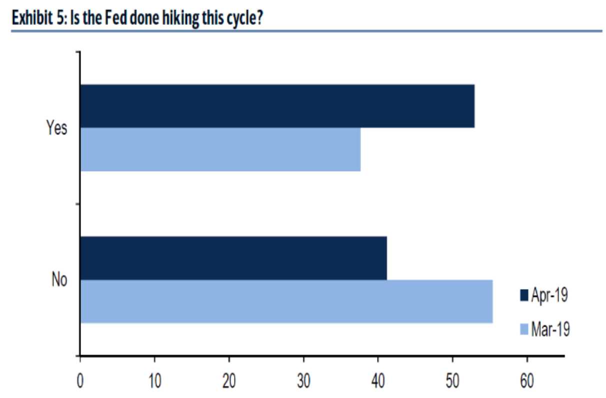
The **trade deficit narrowed** to a lower-than-expected $49.4 bn in February, the narrowest level in eight months, owing to a 1.1% gain in exports against just a 0.2% increase in imports. The Chinese merchandise trade gap also narrowed to $30.1 bn. The trade data should give a lift to Q1 GDP, but analysts also point out that some trade may have been brought forward to avoid what had been a scheduled rise in tariff rates on Chinese goods. The Wall Street Journal reported that the US and China plan two more rounds of high-level talks and may possibly sign a deal in late May.



The Fed's **Beige Book,** released yesterday, gave an upbeat assessment of the economy, showcasing that economic activity continued to grow at a "slight-to-moderate" pace. Labor markets remain tight with a shortage of skilled labor, with wages growing at about the same rate as last year. Philadelphia Fed president Harker advised he sees "at most" one rate hike in in 2019, and another in 2020. And Bank of America Merrill Lynch's survey of global fund managers found they are more certain the Fed is inclined not to hike rates. Futures markets are currently pricing in a 44.4% probability of a 25 bp cut by the December FOMC meeting.

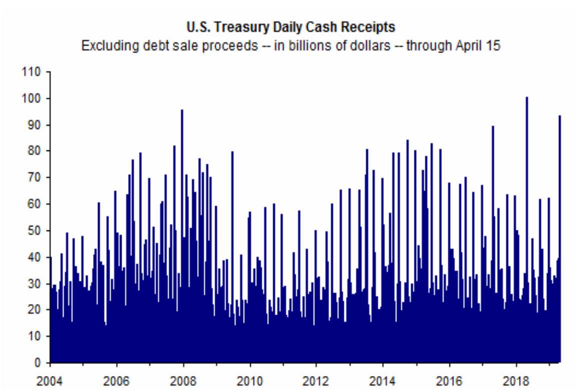


Source: Bloomberg



Source: BofA Merrill Lynch Global Fund Manager Survey

Federal tax revenues have been disappointing so far. Wrightson advises that tax collections have been softer than expected “virtually across the board.” Electronic tax payments have totaled $35 bn and corporate tax payments $30 bn, against Wrightson’s forecasts of $44 bn and $42 bn, respectively. The firm also noted employment tax withholdings mid-month of $19 bn and the Treasury’s cash balance of $318 bn were also on the low side of expectations. The weak revenue stream could bring forward of the ‘drop dead’ deadline for the debt ceiling this fall. The Congressional Budget Office is projecting the deficit will come in around $897 bn this year and exceed $1 tn every year from 2022 on. It further advises the recent tax overhaul is likely to add $1.85 tn to the national debt over an 11-year period.



Source: Wrightson

Bloomberg advises that there is some **$142 bn in debt outstanding by tech firms that is at risk of being downgraded**—either by having at least one negative outlook or being on negative watch. This is down $30 bn since January. But downside risks may persist if the industry continues to engage in cash-finance merger activity and as cyclical demand slows. There was some $400 bn of merger activity last year involving the tech sector. There are currently $86 bn of pending transactions and $25 bn in proposed deals.

This morning, the government reported that March retail sales came in stronger (+1.6% mom) than the expected 1.0% increase. Sales ex-autos also bested market forecasts. Separately, initial jobless claims came in ab 192k. Treasury yields are up 2 bps on the news.

Europe

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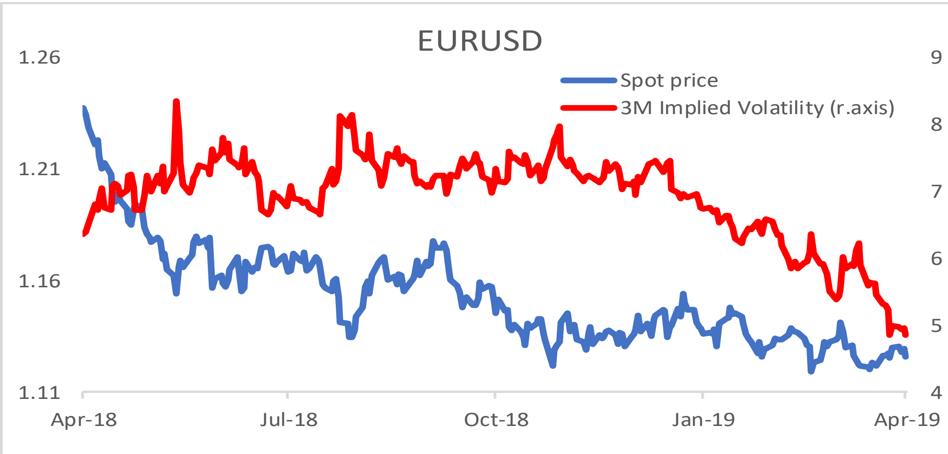
Equities dipped as April PMI data disappointed. The manufacturing print for the eurozone was below expectations at 47.8 while services also came in below consensus. The Euro Stoxx 600 declined by 0.2% and was on track for its first session in the red since Tuesday last week before recovering most of the losses. **Sovereign yields were lower across the board**, particularly in the long end. French and German 10-years saw the biggest moves, declining by 4 bps. The euro was also lower but remains rangebound against the dollar amid limited volatility.



Source: Bloomberg

Italy would oppose any proposal to move away from zero-risk weights on government bonds, according to economy minister Tria. Speaking in parliament, Tria said that the move would disrupt markets and "alter regular market functioning". Elsewhere, media reports continue to focus on the government's relationship with the Bank of Italy with nominations to the bank's board and the management of its gold reserves under the spotlight recently. On the markets, yields declined moderately after four days of gains. The 10-year spread to Bunds remains in the 250-bps region but has been creeping up in recent sessions.

Other Mature Markets

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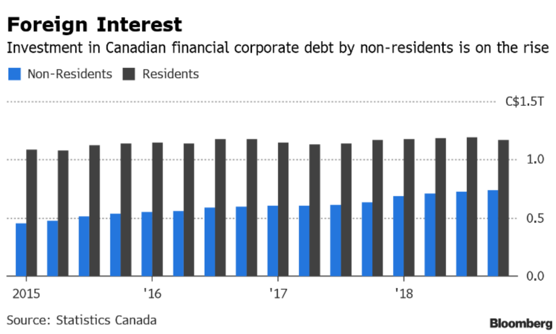
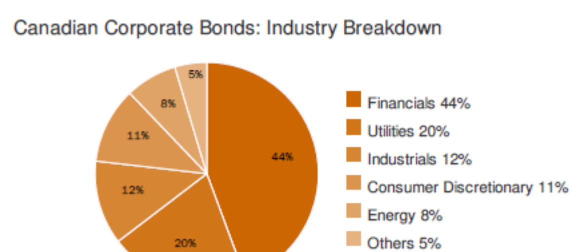
Canada

Foreigners owned C$735.8 bn of Canadian financial corporate debt at the end of last year. Since the beginning of 2015, **international investors have increased their holdings of financial corporates** by C$279.8 bn, compared with just a C$83.2 bn increase by domestic investors. Toronto-Dominion recently came to market with a €1.5 bn 5-year bond which was three times oversubscribed. Financial sector bond issuance constituted nearly half of all corporate issuance last year according to Bloomberg data.





Source: Bloomberg

Japan

The yen strengthened while equities posted losses amid thin volume and caution over North Korea's latest weapon test. The yen appreciated 0.2% while the Topix shed close to 1% and the Nikkei lost 0.8%. **Members of the LDP party raised the possibility of delaying the sales tax hike currently slated for October**. Koichi Hagiuda, acting secretary general of PM Abe's Liberal Democratic Party indicated that the government could postpone for a third time a sales tax increase if economic conditions deteriorate. Hagiuda added that the authorities will examine the results of the BoJ's Tankan survey in June before reaching a decision.

Emerging Markets back to top

Emerging market assets retreated on dampened global sentiment. In Asia, currencies were mixed and equities retreated from their six-month high amid thin volumes and renewed caution regarding the latest weapon test in North Korea. Korea (Kospi: -1.4%; Kosdaq: -1.7%) underperformed following dovish sentiment from the Bank of Korea. Among currencies, the Indonesian rupiah paced gains (+0.3%) as incumbent President Joko Widodo is projected to win a second term, offering policy continuity. EMEA equities retreated this morning. Turkey (-1.3%) saw the largest losses but Hungary (-0.9%) and Poland (-0.8%) were also lower. Local currencies depreciated against the dollar with Turkey (-1.7%) again the worst performer. Latin American assets were widely mixed yesterday. Brazilian assets saw the biggest losses as a key vote on pension reform was delayed amid pushback from centrist parties; equities were down 1% and the real weakened by 0.8% against dollar. Argentine equities were down 0.8% whereas the peso strengthened by 1.2% as market investors showed some confidence in new policies announced. Among other regional assets, Mexican equities (+1.2%) saw the most gains amongst peers.

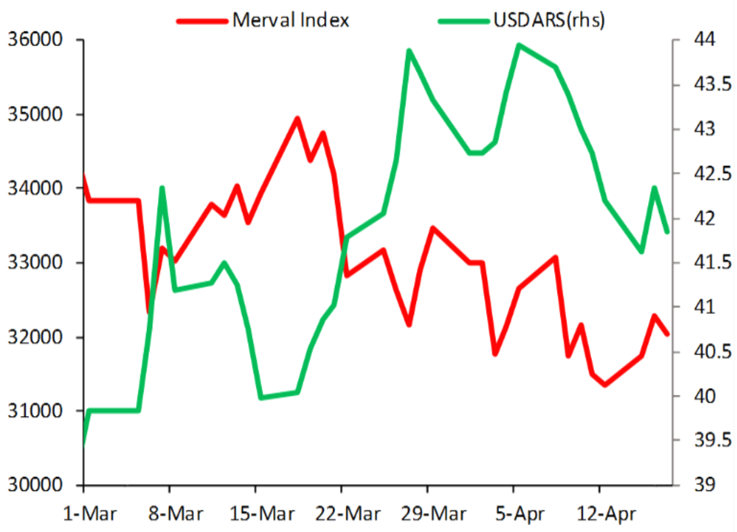
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/18/19 8:07 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.59	-0.4	0	2	-7	14
MSCI Frontier Equities		28.81	0.0	0	0	-17	10
EMBIG Sovereign Spread (in bps)		339	3	-5	-4	44	-75
EM FX vs. USD		63.05	-0.2	0	-1	-10	1
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.71	-0.3	0	0	-6	3
Indonesian Rupiah		14045	0.3	1	1	-2	2
Indian Rupee		69.36	0.4	-1	-1	-5	1
Argentine Peso		41.86	1.2	3	-4	-52	-10
Brazil Real		3.93	0.2	-2	-4	-14	-1
Mexican Peso		18.87	-0.3	0	1	-4	4
Russian Ruble		63.97	-0.2	1	1	-5	8
South African Rand		14.08	-0.7	-1	3	-15	2
Turkish Lira		5.83	-1.4	-2	-6	-31	-9
EM FX volatility		8.23	0.0	0.1	0.5	0.2	-1.5

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

Argentina

The peso strengthened 1.2% against the dollar following the government's agreement with companies to freeze prices to control inflation and the central bank's changes to the FX-framework. The government froze prices on products from sugar to milk for the next 6 months and halted price hikes on gas, electricity and public transportation. Mobile phone operators also agreed to not boost prices for five months. Additionally, more loans and supermarket discounts will be provided to pensioners. Economy Minister Dujovne said the government wasn't freezing prices to cool inflation, as the previous populist government often did, but rather the short-term measures were meant to ease the financial burden on Argentines suffering the second recession in 3 years. President Macri, who faces re-election on Oct. 27, has seen his approval ratings fall to the lowest of his tenure.



Source: Bloomberg

Turkey

The central bank has increased its FX reserves with the use of short-term swaps according to the Financial Times. The paper reported that the funding is coming from local banks in one-week tenors that are bolstering the central bank's gross reserves. The FT's calculations suggest that net foreign assets excluding swaps were as low as $11 bn this month compared to a headline number of just under $25 bn. The lira has been depreciating gradually in recent sessions but saw a sharp weakening of 1.7% to the dollar this morning.

China

The U.S.-China trade negotiation is reportedly close to conclusion. Bloomberg reported that senior U.S. and Chinese officials are increasing face-to-face talks in an effort to reach a deal by early-May and signed by President Trump and President Xi later that month. The **RMB pared gains from yesterday**, with the onshore CNY depreciating by 0.3% on the day and the offshore CNH 0.4% weaker. **CGB yields rose further**. The 2-year benchmark note rose 6 bps to 2.87%, its highest level for the current on-the-run note. The 10-year note rose another 1 bp to 3.36%, compared to the historic high of 3.41% seen for the note two days ago. Meanwhile, **money market rates eased** following recent increases. The overnight repo rate fell 16 bps to 2.81% and the 7-day rate fell by another 3 bps from yesterday to 2.76%.

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Global Financial Indicators

Last updated: 4/18/19 8:07 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2900	-0.2	0	2	7	16
Europe		3495	0.5	2	3	0	16
Japan		22090	-0.8	2	2	0	10
China		3250	-0.4	2	5	5	30
Asia Ex Japan		73	0.4	0	3	-5	16
Emerging Markets		45	-0.4	0	2	-7	14
Interest Rates			basis points				
US 10y Yield		2.57	0.4	7	-4	-31	-12
Germany 10y Yield		0.05	-3.4	6	-4	-49	-20
Japan 10y Yield		-0.03	-2.1	3	1	-7	-3
UK 10y Yield		1.22	-1.6	7	2	-19	-6
Credit Spreads			basis points				
US Investment Grade		110	0.1	-5	-9	14	-38
US High Yield		388	2.0	-18	-22	62	-133
Europe IG		57	-0.7	-1	-1	4	-30
Europe HY		248	0.1	-2	-18	-23	-104
EMBIG Sovereign Spread		339	3.0	-5	-4	44	-75
Exchange Rates			%				
USD/Majors		97.28	0.3	0	1	9	1
EUR/USD		1.13	-0.4	0	-1	-9	-2
USD/JPY		111.9	0.1	0	0	-4	-2
EM/USD		63.0	-0.2	0	-1	-10	1
Commodities			%				
Brent Crude Oil ($/barrel)		72	0.3	1	6	-2	34
Industrials Metals (index)		120	-1.2	-1	-1	-17	9
Agriculture (index)		40	0.0	-2	-3	-19	-5
Implied Volatility			%				
VIX Index (%, change in pp)		12.6	0.0	-0.4	-0.5	-3.0	-12.8
10y Treasury Volatility Index		3.7	0.1	0.1	0.1	0.0	-0.9
Global FX Volatility		6.1	0.0	0.0	-0.6	-1.1	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		327	2.4	-9	-39	-20	-89
Italy		254	0.5	16	17	135	4
Portugal		112	-0.8	-2	-6	5	-36
Spain		102	-0.3	1	-5	34	-15

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: 4/18/2019 8:08 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	-0.3	0.2	0	-6	3		3.4	3.3	10	22	-29	18
Indonesia		14045	0.3	0.7	1	-2	2		7.7	0.0	-6	-13	91	-44
India		69	0.4	-0.6	-1	-5	1		7.5	0.0	2	6	-11	8
Philippines		52	-0.1	0.3	2	1	2		5.3	-0.6	4	-13	22	-100
Thailand		32	-0.1	0.2	0	-2	2		2.6	4.3	5	-2	25	-2
Malaysia		4.14	-0.2	-0.7	-2	-6	0		3.9	5.4	10	0	-14	-20
Argentina		42	1.2	2.7	-4	-52	-10		22.2	-23.7	-145	-98	496	-76
Brazil		3.93	0.2	-1.8	-4	-14	-1		8.2	4.8	11	26	-3	10
Chile		661	0.2	0.1	1	-10	5		4.1	-2.3	3	-18	-57	-37
Colombia		3158	0.2	-2.0	-2	-14	3		6.1	-5.6	5	-9	8	-37
Mexico		18.86	-0.2	-0.1	1	-4	4		8.2	0.2	6	-3	74	-57
Peru		3.3	0.0	-0.1	0	-2	2		5.4	-2.0	3	-1	19	-36
Uruguay		34	-0.3	-1.1	-3	-17	-6		10.5	0.3	-7	-3		-21
Hungary		285	-0.7	0.6	-3	-12	-2		2.1	-1.8	9	-5	54	-13
Poland		3.80	-0.6	0.0	0	-11	-2		2.3	1.0	-1	-1	-12	3
Romania		4.2	-0.4	-0.2	-1	-11	-4		4.3	0.0	-1	18	44	5
Russia		64.0	-0.2	1.0	1	-5	8		8.0	-0.9	-1	-9	79	-45
South Africa		14.1	-0.7	-0.5	3	-15	2		9.3	-5.7	3	-18	62	-32
Turkey		5.83	-1.5	-1.6	-6	-31	-9		19.2	-61.8	27	250	609	231
US (DXY; 5y UST)		97.3	0.3	0.1	1	9	1		2.37	-2.8	6	-4	-36	-14

	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		3250	-0.4	2	5	5	30		174	0	-2	-3	-4	-20
Indonesia		6507	0.4	0	1	4	5		179	1	-8	-13	9	-57
India		39140	-0.3	1	3	14	9		156	3	-3	-5	19	-40
Philippines		7835	0.0	-2	0	1	5		87	3	0	-7	-10	-34
Malaysia		1620	-0.1	0	-4	-14	-4		126	0	-1	-2	9	-36
Argentina		32037	-0.8	0	-8	2	6		838	3	24	115	441	23
Brazil		93285	-1.1	-3	-7	9	6		246	3	-4	9	16	-27
Chile		5275	0.3	0	-1	-7	3		127	1	-2	-5	5	-39
Colombia		1574	-0.5	-3	-2	1	19		177	2	-3	-10	6	-51
Mexico		45525	1.1	1	8	-7	9		293	1	0	-8	54	-61
Peru		20938	-1.0	-2	0	-2	8		123	2	-1	-12	-20	-45
Hungary		42694	-0.7	0	1	10	9		107	2	1	-13	8	-41
Poland		60711	-0.7	-1	0	0	5		44	3	-2	-11	-2	-41
Romania		8272	0.0	-1	5	-7	12		199	0	-7	0	62	-22
Russia		2555	-0.5	0	3	14	8		203	2	-9	-8	-12	-49
South Africa		58989	0.1	1	4	2	12		292	7	-6	-10	55	-73
Turkey		97011	-1.2	1	-7	-13	6		503	18	9	87	188	74
Ukraine		534	-0.9	-1	-5	44	-5		583	13	-11	-32	152	-204
EM total		45	-0.4	0	2	-7	14		339	3	-5	-4	44	-75

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