



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, April 19, 2019








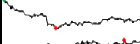
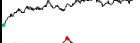

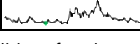
- **BoJ cuts longer-dated bond purchases ahead of the 10-day holiday** ([link](#))
- **Deutsche Bank reportedly mulling alternatives if Commerzbank merger fails** ([link](#))
- **Ukrainian court rules the government's takeover of PrivatBank illegal** ([link](#))
- **WTO rules in favor of US in trade dispute with China** ([link](#))
- **Brazilian equities rally as Petrobras hikes diesel prices** ([link](#))

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Price action muted in holiday trading conditions

Many markets were closed for trading and those that were open saw limited price action. In Japan, the BoJ cut longer-dated bond purchases ahead of the 10-day Golden Week holiday. Elsewhere in Asia, equity markets traded with a moderately positive tone, led by China (+0.6%). Asian currencies were also generally stronger against the dollar, led by Malaysia (+0.5%). Most European markets are closed. In EMEA, Turkish assets were little changed on Friday after underperforming on Thursday. US equity markets will also be closed today.

Key Global Financial Indicators

Last updated: 4/19/19 7:49 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2905	0.2	1	3	8	16
Eurostoxx 50		3499	0.6	2	3	0	17
Nikkei 225		22201	0.5	2	3	0	11
MSCI EM		45	0.1	1	2	-7	14
Yields and Spreads			bps				
US 10y Yield		2.56	-3.4	-1	-5	-35	-12
Germany 10y Yield		0.03	-5.5	3	-6	-51	-22
EMBIG Sovereign Spread		340	4	-4	-3	45	-74
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.1	0.0	0	-1	-10	1
Dollar index, (+) = \$ appreciation		97.3	-0.1	0	1	8	1
Brent Crude Oil (\$/barrel)		72.0	0.5	2	7	-2	34
VIX Index (% change in pp)		12.1	-0.5	-1	-1	-4	-13

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

United States

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US stocks firmed Thursday, with a mixed sectoral picture. Energy stocks slipped 0.5% while industrials gained 1.1%. Private equity firm Blackstone (+7.8%) will join KKR and Ares by converting to a corporation from a publicly traded partnership. Its assets recently topped \$500 bn. Treasury yields slipped while the dollar advanced. Equity markets will be closed today.

Retail sales jumped 1.6% mom (vs +1.0% expected) in March. This was the biggest increase since 2017 and should **give a lift to the Q1 GDP** report which is out April 26th. Core retail sales reports were also solid and also above market expectations. Manufacturing activity as measured by the Markit **PMI** was unchanged (but still expanding) in April. The Conference Board's **leading economic indicators** rose 0.4% in March, in line with expectations. Initial **jobless claims** to 192k to a new 49-year low. Treasury yields jumped in response to the early data releases, but soon declined.

Jobless claims and S&P 500 mirror economy's strength



High-yield fundamentals continue to be stable argues Barclays. It believes the sector is supported by “incremental flows from lower taxes” and notes supply tracking previous years, but the quality of the issuance has improved. Standard & Poor’s reports the 12-month speculative-grade default rate fell to 2.42% in December from 2.69% a month earlier, and compares to 3.14% in December 2017. Index provider ICE notes that high-yield spreads have come down from 535 bps at the beginning of the year to 367 bps currently.

HY Leverage Has Been Stable...

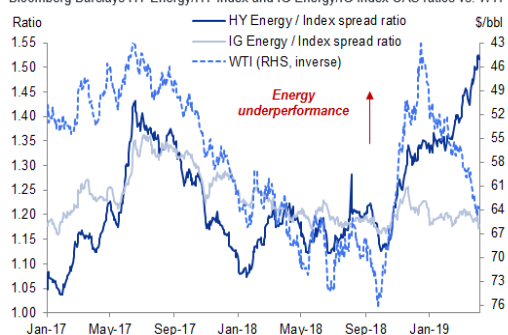


... As Has HY Interest Coverage



But high-yield energy is a weak spot and has underperformed. Goldman Sachs gauges this development was sparked by the sell-off of West Texas intermediate oil in Q4 of last year. The firm points out that the high-yield cohort has higher breakeven costs (\$50/barrel), which were higher than the December 2018 crude oil lows of \$42.5/barrel. Continued underperformance of high-yield energy could constrain the overall high-yield market, as energy represents 14% of the industry Bloomberg Barclays benchmark. Standard & Poor's believes the energy and natural resources sector and consumer services sector will continue at the forefront of defaults this year.

Exhibit 8: HY Energy has underperformed despite the year-to-date rally in WTI
Bloomberg Barclays HY Energy/HY Index and IG Energy/IG Index OAS ratios vs. WTI



Source: Bloomberg Barclays, Goldman Sachs Global Investment Research

Home purchase applications rose to their highest level since 2010 according to the Mortgage Bankers Association. Bank of America gauges that given this increase, and tied to rising home prices, the coming spring buying season "should lead to more robust net supply" of mortgage-backed securities. There was just \$34 bn of net issuance in Q1, compared with \$99 bn in Q1 2018 and 2017. Mortgage bankers also reported that mortgage credit availability rose for a third consecutive month. Housing reports out this morning disappointed. Housing starts fell 0.3% mom in March (vs +5.4% expected). Building permits also fell 1.7% mom, while the market was expecting a 0.7% increase.

America's would-be homeowners send index to highest since 2010



Source: Bloomberg

Bloomberg

Europe

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There is no movement in asset prices today with exchanges throughout the region closed for holidays. Sovereign bond yields continued to fall yesterday following the disappointing PMI data. On the day, the yield on the 10-year bund and OAT both declined by 6 bps to close at 0.02% and 0.37% respectively. Spreads of southern Europe bonds widened with Italy's spread to Germany increasing by 4 bps and Spain by 2 bps.

Deutsche Bank is considering alternatives in case the intended takeover of Commerzbank does not go through. Bloomberg reports that the bank is considering two potential options, either to mostly stick with the existing plan but accelerate and increase some cost cuts, or a significant strategy shift that would result in large upfront costs for the bank.

Other Mature Markets [back to top](#)

Japan

BoJ surprised markets by cutting longer-dated bond purchases ahead of the 10-day holiday. In Friday's regular operation, the central bank cut purchases of securities in 10- to 25-year tenors by ¥20 bn to ¥160 bn, and those in >25-year tenor by ¥10 bn to ¥40 bn. Analysts noted the move comes as global yields recovered from recent lows and signals the BoJ's intention to keep tapering gradually when the financial environment is favorable. Separately, remarks about a tax-hike delay by a close aid to the PM has attracted attentions, though senior officials have come forward and reiterated no change to the plan unless an economic crisis like the GFC occurs. The 10-year JGB yield rose 1 bp to -0.025% after the move with the yen stable at 111.9 per dollar. The Nikkei closed 0.6% higher supported by technology groups.

Inflation inched higher in March, yet is still well below BoJ's target. The headline national CPI rose 0.5% yoy, as expected, and CPI excluding food rose 0.8% yoy with a marginal upside surprise. These data point are the last key economic indicator before the BoJ's board meeting next week. Markets are expecting no policy changes, but downgrades in economic and inflation outlook. Inflation is likely to slow later this year with downward pressure on mobile service charges and lower education cost from the free education program for younger children.

Off target

Japan national CPI (%yoy)



Source: Bloomberg

Emerging Markets [back to top](#)

Many regional markets were closed for trading and most markets saw limited market movements. In LatAm, Brazilian assets saw gains yesterday, recovering some of the losses seen earlier in the week as Petrobras announced an increase in diesel prices; equities were up 1.3% while the real strengthened by 0.4% against the dollar. In EMEA, Turkish assets were little changed on Friday after underperforming on Thursday. Asian markets traded positively on Friday. There were modest gains across stocks markets, led by China (+0.6%), and currencies were also generally stronger against the dollar, led by Malaysia (+0.5%).

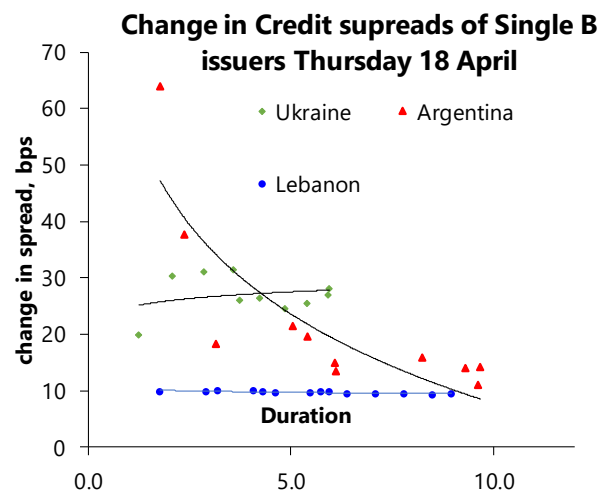
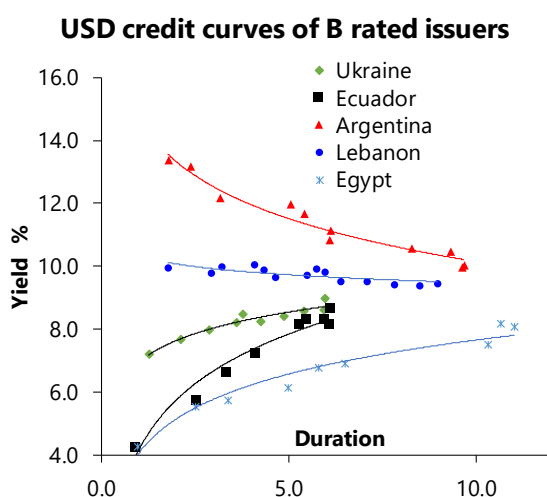
Key Emerging Market Financial Indicators

Last updated: 4/19/19 7:51 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.56	0.1	1	2	-7	14
MSCI Frontier Equities		28.66	-0.5	0	0	-16	10
EMBIG Sovereign Spread (in bps)		340	4	-4	-3	45	-74
EM FX vs. USD		63.09	0.0	0	-1	-10	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.70	0.1	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	0.3	-2	-3	-14	-1
Mexican Peso		18.82	-0.1	0	1	-2	4
Russian Ruble		63.94	-0.1	1	1	-5	8
South African Rand		14.07	-0.1	-1	3	-15	2
Turkish Lira		5.80	0.0	0	-6	-30	-9
EM FX volatility		8.30	0.0	0.1	0.6	0.3	-1.5

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

Ukraine

A judge in Kiev ruled that the government's takeover of PrivatBank was illegal. The **central bank has challenged** the decision in a higher court and there has been no immediate impact on ownership. Reuters reports that the fate of PrivatBank has also loomed over Ukraine's ongoing presidential election campaign, given that its previous owner has publicly supported the candidacy of Volodymyr Zelenskiy, the frontrunner according to the polls, at the election run-off this Sunday. **Ukraine's dollar-denominated bonds underperformed with spreads widening by 25-30bps across the curve.**



Source: Bloomberg

Brazil

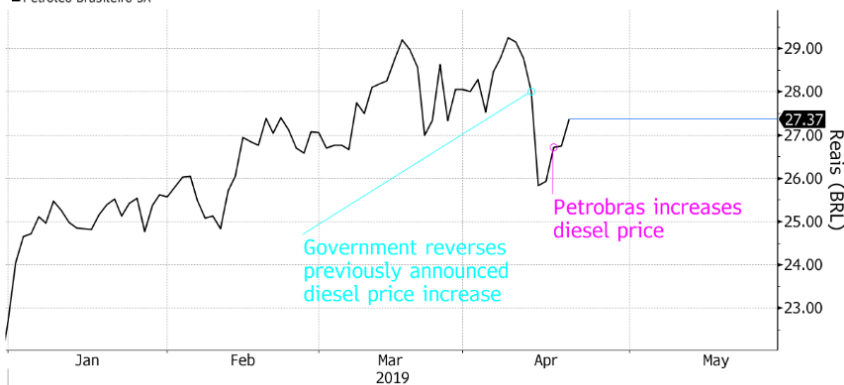
Brazilian assets saw gains today after Petrobras, the state-owned oil giant, announced a diesel price increase; equities were up 1.3% and real strengthened by 0.4% against the dollar. This was an initial step to regain investor confidence and dispel concerns about government intervention. The diesel

price increase will be 4.5%-5.1% at the pump. Petrobras's preferred shares rose as much as 3.3% to 27.6 reais. Analysts had been waiting for Petrobras to announce fuel price adjustments to see if the government would follow through on its pledge to respect the company's autonomy. Now the company is selling diesel domestically at prices roughly in line with international parity.

Paring Losses

Petrobras pares recent drop as co. seeks to recover market confidence

■ Petroleo Brasileiro SA



Source: Bloomberg

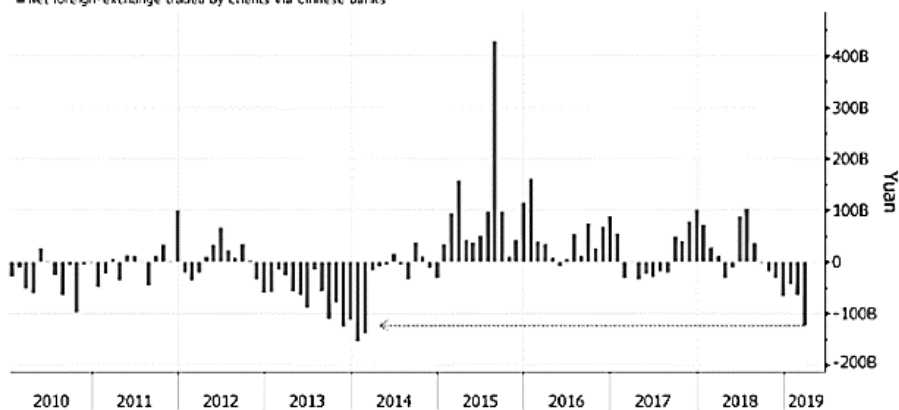
China

Forward markets show strong demand in RMB in response to progress on trade talks and improving economic data. Chinese investors sold net 122 bn RMB (\$18 bn) worth of foreign currency in the forwards market in March, the most since February 2014. Demand for RMB is especially strong among corporates, according to analysts from China Merchant Bank. The currency has appreciated 2.7% against the dollar this year and has been stable around 6.7 since March.

Booming Appetite

China investors net sold most foreign currency in forwards market since 2014

■ Net foreign-exchange traded by clients via Chinese banks



Source: Bloomberg, SAFE

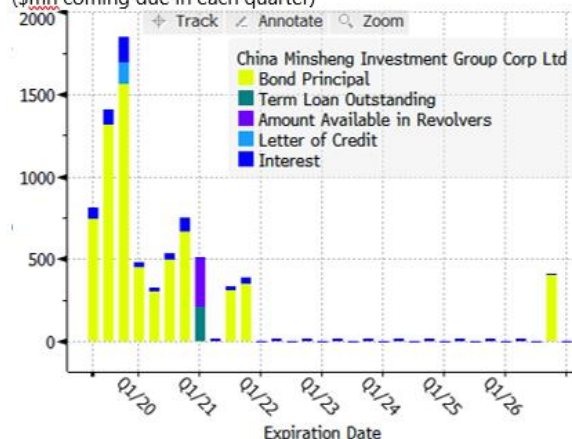
The US won a WTO case against China on agricultural imports, as the WTO found flaws in China's procedures to impose trade restrictions. The ruling could increase US farmers' access to China. The US Department of Agriculture previously estimated that China's action prevented \$3.5 bn worth of crops being imported. China can appeal the case in the next 60 days. If the ruling is upheld, China must revise its quota program or face potential retaliation from US.

Bloomberg reported that the WTO will rule against China's dispute with the EU on market economy status. The WTO decided that China did not automatically qualify for market economy status in 2016, paving the way for countries to have more scope to apply anti-dumping duties on Chinese goods on a case by case basis. China could still settle the complaint before the judgement is made public. The ruling has important implications for the US which is subject to a nearly identical dispute from China. The case is also seen as a key negotiating chip in the US-China trade talks, in which the US administration has reportedly asked China to withdraw the disputes against the EU and US as part of the settlement agreement.

China Minsheng Investment Group's dollar bonds have been placed under default after cross defaults were triggered on missing payments and a potential demand by its affiliate to repay \$640 mn loans. The decision relates to the company's \$500 mn 2019 note and its \$300 mn 2020 bond. The group is one of the largest private investment conglomerates in China and has been struggling to repay its \$34 bn debt after a spending spree on investment and acquisitions. Separately, Citic Guoan Group Co., a state-linked conglomerate, was downgraded after asset seizures, while Tewoo Group, one of the largest commodities traders in the nation, sought support from lenders to extend its debt.

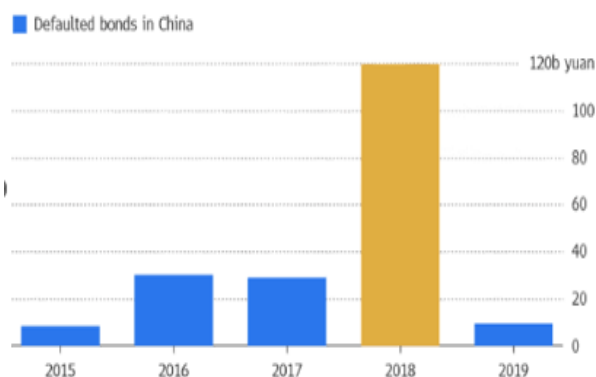
Debt Maturity Wall

(\$mn coming due in each quarter)



Record Defaults

Missed bond payments quadrupled in 2018



NOTE: 2019 is YTD
Source: Bloomberg

Bloomberg

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Global Financial Indicators

Last updated: 4/19/19 7:50 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2905	0.2	1	3	8	16
Europe		3499	0.6	2	3	0	17
Japan		22201	0.5	2	3	0	11
China		3271	0.6	3	6	5	31
Asia Ex Japan		73	-0.2	1	3	-5	15
Emerging Markets		45	0.1	1	2	-7	14
Interest Rates			basis points				
US 10y Yield		2.56	-3.4	-1	-5	-35	-12
Germany 10y Yield		0.03	-5.5	3	-6	-51	-22
Japan 10y Yield		-0.03	-0.3	3	1	-7	-3
UK 10y Yield		1.20	-3.9	5	0	-22	-8
Credit Spreads			basis points				
US Investment Grade		110	0.7	-3	-8	14	-37
US High Yield		393	4.7	-8	-16	70	-128
Europe IG		58	0.0	1	0	3	-30
Europe HY		247	0.0	3	-13	-29	-106
EMBIG Sovereign Spread		340	4.0	-4	-3	45	-74
Exchange Rates			%				
USD/Majors		97.34	-0.1	0	1	8	1
EUR/USD		1.12	0.1	0	-1	-9	-2
USD/JPY		111.9	0.0	0	0	-4	-2
EM/USD		63.1	0.0	0	-1	-10	1
Commodities			%				
Brent Crude Oil (\$/barrel)		72	0.5	2	7	-2	34
Industrials Metals (index)		120	-1.1	0	-2	-15	10
Agriculture (index)		40	0.7	-1	-2	-18	-4
Implied Volatility			%				
VIX Index (% change in pp)		12.1	-0.5	-0.9	-1.5	-3.9	-13.3
10y Treasury Volatility Index		3.6	-0.1	0.1	0.1	-0.2	-1.0
Global FX Volatility		6.2	0.0	-0.1	-0.5	-1.1	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		329	4.8	5	-37	-15	-87
Italy		258	4.5	9	18	140	8
Portugal		115	1.6	3	-6	9	-33
Spain		105	2.0	5	-3	36	-13

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: 4/19/2019 7:52 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		6.70	0.1	0.0	0	-6	3		3.4	-1.4	9	21	-12	17
Indonesia		14045	0.3	0.7	1	-2	2		7.7	-1.9	-9	-13	88	-46
India		69	0.4	-0.6	-1	-5	1		7.5	0.8	3	9	-14	8
Philippines		52	0.1	0.0	2	1	2		5.3	0.0	2	-13	19	-100
Thailand		32	0.0	-0.1	0	-2	2		2.6	-1.5	3	-2	22	-3
Malaysia		4.13	0.2	-0.5	-1	-6	0		3.9	3.8	14	4	-11	-16
Argentina		42	1.2	2.7	-4	-52	-10		22.2	0.0	-119	-103	495	-76
Brazil		3.93	0.3	-1.7	-3	-14	-1		8.2	-8.3	-2	20	-5	2
Chile		662	-0.2	0.4	1	-10	5		4.1	-1.3	0	-20	-58	-39
Colombia		3158	0.0	-1.2	-2	-14	3		6.1	0.0	2	-10	8	-37
Mexico		18.82	-0.1	-0.3	1	-2	4		8.2	0.0	8	-3	74	-57
Peru		3.3	0.0	0.1	0	-2	2		5.4	0.0	-1	-3	17	-36
Uruguay		34	-0.3	-1.1	-3	-17	-6		10.5	0.0	1	-3		-21
Hungary		285	0.1	-0.1	-3	-12	-2		2.0	-4.3	1	-2	50	-18
Poland		3.81	0.1	-0.5	-1	-11	-2		2.3	0.3	-1	1	-9	3
Romania		4.2	0.1	-0.5	-1	-11	-4		4.3	-1.0	-1	23	45	4
Russia		63.9	-0.1	0.5	1	-5	8		8.0	2.2	5	0	86	-43
South Africa		14.1	-0.1	-0.7	3	-15	2		9.3	-1.8	-4	-21	63	-34
Turkey		5.80	-0.1	-0.4	-6	-30	-9		19.3	13.0	5	270	651	244
US (DXY; 5y UST)		97.3	-0.1	0.4	1	8	1		2.37	0.0	-1	-5	-38	-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		3271	0.6	3	6	5	31		174	0	-2	-3	-4	-20
Indonesia		6507	0.0	0	0	2	5		178	-1	-3	-11	7	-58
India		39140	0.0	1	2	14	9		155	-1	-1	-1	22	-41
Philippines		7835	0.0	-2	0	1	5		85	1	-2	-9	-12	-36
Malaysia		1622	0.1	0	-4	-14	-4		126	0	-1	-2	9	-36
Argentina		32037	0.0	0	-8	2	6		854	0	48	128	455	39
Brazil		94578	1.4	0	-5	10	8		247	0	0	13	15	-26
Chile		5262	-0.3	0	-1	-8	3		127	1	-2	-5	5	-39
Colombia		1574	0.0	-3	-2	1	19		177	2	-3	-10	6	-51
Mexico		45525	0.0	1	8	-7	9		294	0	2	-8	49	-60
Peru		20938	0.0	0	-1	-2	8		122	-1	2	-9	-23	-46
Hungary		42810	0.0	0	2	11	9		105	-3	4	-14	9	-43
Poland		60910	0.0	0	0	0	6		42	-2	0	-12	-1	-43
Romania		8336	0.7	1	5	-7	13		200	1	-5	2	69	-21
Russia		2565	0.1	0	3	15	8		203	0	-3	-5	-10	-49
South Africa		59222	0.0	2	4	3	12		292	0	0	-9	54	-73
Turkey		97047	0.2	1	-7	-13	6		503	0	3	84	193	74
Ukraine		533	-0.2	-1	-6	44	-5		594	-1	8	-18	144	-193
EM total		45	0.1	1	2	-7	14		340	4	-4	-3	45	-74

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