Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, April 2, 2019

- **US Treasury yield curve dis-inverts amidst broad rise in rates (link)**
- **UK MPs reject all alternative Brexit proposals; all options back on the table (link)**
- **OECD forecasts Italian fiscal deficit rising to 3% of GDP by 2020 (link)**
- **Russian Q4 GDP growth exceeds expectations (link)**
- **Argentina's central bank pledges to keep policy rate above 62.5% in April (link)**
- **Reserve Bank of Australia remains on hold as expected (link)**

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Global risk assets perform well on first day of Q2 2019

Risk assets outperformed, recovering a portion of the losses experienced over the past month. A better-than-expected Chinese Caixan PMI catalyzed a reduction in safe haven flows, with rates rising yesterday up to 10 bps in US Treasuries and 4 bps in Bunds. EM currencies outperformed, led by the South African rand (+2.4% against the US dollar) and the Brazilian real (+1.8% against the US dollar). The MSCI World equity index rose 1.1% and is 13% higher year to date. Yet despite yesterday's rally, sentiment remains cautious, as the global growth outlook is notably more gloomy than it was a few months ago. Geopolitical risks remain as well, with Brexit looking increasingly chaotic and US-Chinese trade talks reportedly making progress but still unresolved. Consistently, the yield on 10-year US Treasuries has declined 25 bps since March 1, while the 10-year Bund yield have fallen 20 bps over this time. The yield on 10-year JGBs has also declined 7 bps.

Key Global Financial Indicators

Last updated: 4/2/19 8:15 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2867	1.2	2	2	11	14
Eurostoxx 50		3400	0.4	2	3	1	13
Nikkei 225		21505	0.0	0	0	1	7
MSCI EM		44	0.3	3	3	-8	12
Yields and Spreads				bps			
US 10y Yield		2.47	9.6	4	-29	-26	-22
Germany 10y Yield		-0.05	-2.1	-3	-23	-54	-29
EMBIG Sovereign Spread		345	2	-7	9	42	-69
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		63.1	0.2	0	0	-11	1
Dollar index, (+) = $ appreciation		97.4	0.2	1	1	8	1
Brent Crude Oil ($/barrel)		69.0	-0.1	1	6	2	28
VIX Index (%, change in pp)		13.5	0.1	-1	0	-10	-12

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

United States

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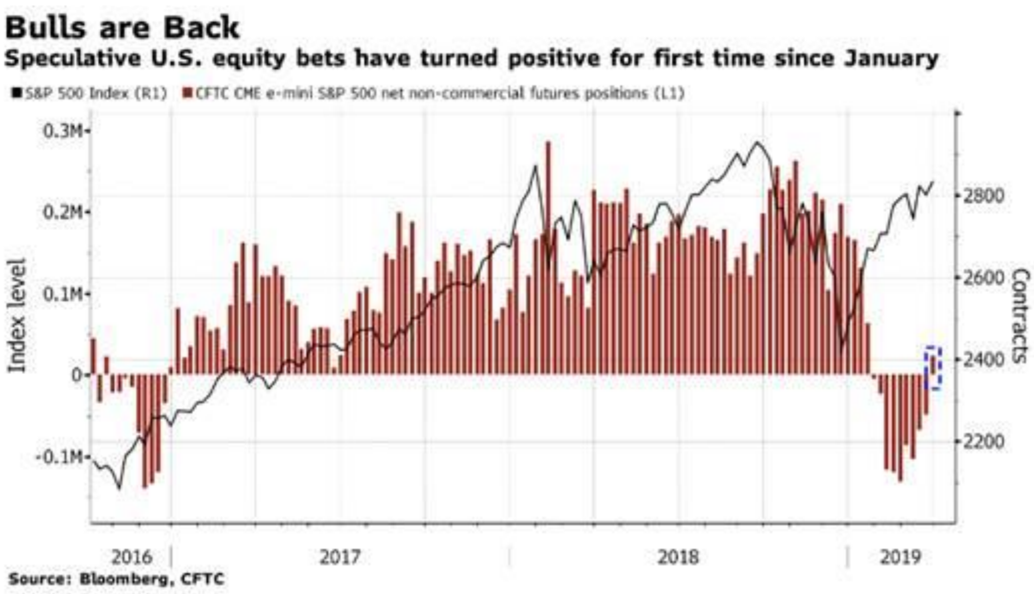
Bond yields rose up to 10 bps through the 10-year sector yesterday, buoyed by the relatively strong Chinese and US PMI data. Markit's measure of PMI was little changed at 52.4, but the more closely followed ISM read improved to 55.3 from 54.2. The Treasury curve steepened and dis-inverted, with the spread between the 10-year note and 3-month bill reaching 11 bps. Expectations for lower rates were also dialed back in Eurodollar futures contacts, as the spread between the implied rates of the December 2019 and December 2020 contracts narrowed to 24 bps, the narrowest spread since the March 20 FOMC meeting.

Equity markets firmed Monday, getting a lift from better-than-expect PMI reports out of China. Major regional indices rose around 1.3%, in line with other major markets. The S&P 500 index is now at a 6-month high. A Chinese delegation arriving in the US for trade talks this week could provide further support for stock prices. **Speculative investors have turned bullish on US equities.** According to CFTC data, the net position of non-commercial investors in S&P 500 futures turned positive for the first time since January.



Q1 earnings season is set to begin shortly. Earnings expectations are still fairly modest, with the consensus S&P 500 earnings expectation of $34.07 per share. This represents a 3.2% increase from 2018 Q1. However, earnings growth is expected to be concentrated largely in the healthcare and financial sectors, with other sectors expected to see aggregate declines in earnings relative to 1 year ago.

This morning, the government reported durable goods orders for February slipped 1.6% against an expected 1.8% decline. Durables ex-transportation rose (+0.1%) in line with expectations. There was little market reaction to the news.

Europe

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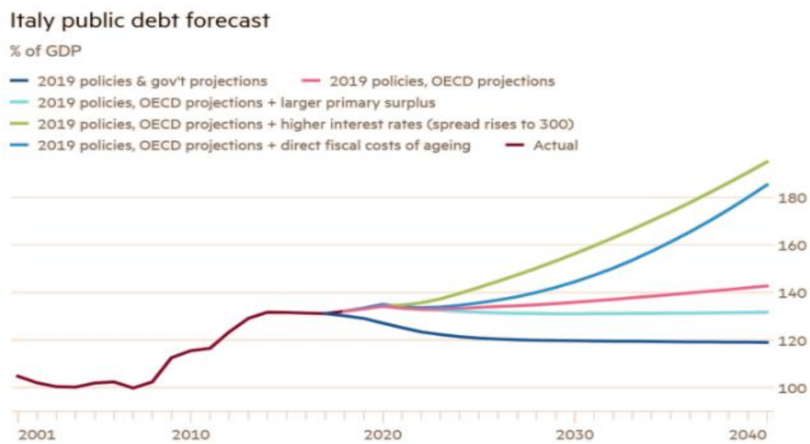
United Kingdom

Sterling depreciated 0.6% against the euro as again Parliament failed to support any of the alternative options to May's Brexit deal. While MPs may still cast more indicative votes later this week, the result of yesterday's session has raised the possibility that PM May might put forward her deal – the Withdrawal Agreement negotiated with the EU -- for the fourth time. The four indicative proposals voted down yesterday included two "soft Brexit" options, a second referendum, and a trigger to revoke Article 50 if no agreement can be reached by the deadline. The custom unions option failed by just three votes.

Meanwhile, the chief Brexit negotiator for the EU, Michel Barnier, suggested that a no-deal Brexit was becoming more likely.

Italy

The OECD's latest forecast points to a worsening picture for Italy's public finances. The institution sees the deficit rising to 2.5% of GDP this year then to 3.0% in 2020, both at odds with the government's forecast for a downward trend in public debt. The OECD projects a baseline increase in public debt to GDP to 144% by 2030, and an increase to 156% if spreads to BTP spreads to Bunds widen to 300 bps. In contrast, the Italian government expects the ratio to fall to 120% over the same period. The OECD's views are premised on more pessimistic outlook towards growth, along with other factors such as a rapidly aging population.



Other Mature Markets

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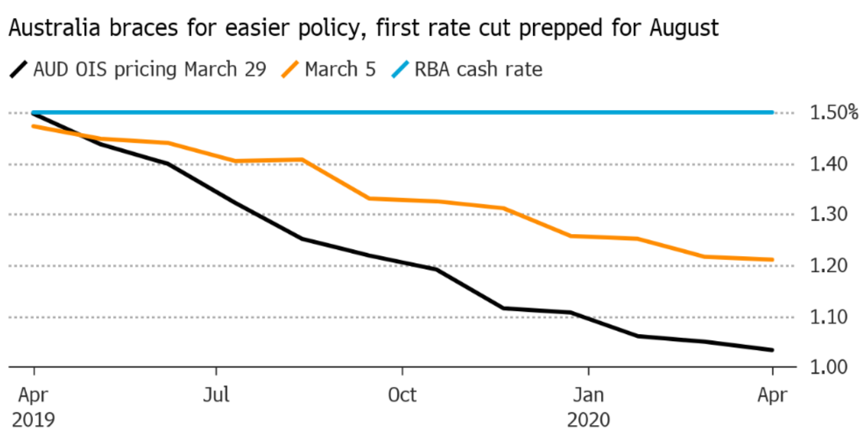
Australia

The Australian dollar depreciated 0.6% after the Reserve Bank of Australia (RBA) held its cash rate at 1.5%. Even though the decision was expected, markets saw the statement by RBA Governor Lowe as more accommodative. It noted that the RBA Board 'will continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time'. In contrast, the March statement mentioned that holding the monetary policy stance unchanged would be consistent with sustainable growth and achieving the inflation target. Additionally, the RBA dropped a reference that the economy will grow by 3% this year. Equities rose 0.4%, while 10-year government bond yields were little changed.



Japan

Japanese equities (Nikkei 0.0%; Topix -0.3%) closed little changed after erasing earlier gains. Gains in tech and financials were offset by declines in real estate and utilities. The yen was unchanged. **10-year JGB yields rose 0.9bps to -0.076%.** This was even though the 10-year auction garnered a bid-to-cover ratio of 5.07, the highest since February 2005 and up from 4.25 during the previous tender on March 5.

Emerging Markets

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EM assets continued to recover from recent losses. Asian stocks extended yesterday's gains but closed well below intraday highs. Chinese equities (Shanghai +0.2%; Shenzhen +0.1%) were roughly flat, following the rally yesterday. The biggest gainers were Singapore (+1%) and the Philippines (+0.5%). Currencies were also relatively stable, except for the Australian and New Zealand dollar, which both depreciated -0.6% against the US dollar. Equities in the EMEA region were little changed this morning, as were local currencies. The exception was Turkey where the lira weakened by 1.7% against the dollar on continued political uncertainty. In Latin America, currencies, CDS and external debt rallied on better-than-expected manufacturing data in China and the US. Brazil led exchange rate appreciation at +1.8%, boosted by signals on pension reform, followed by Mexico and Argentina with +1.5% and +1.4%, respectively. Equities were mixed, with Brazil and Mexico up less than 1% and Argentina down by 1.4%.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/2/19 8:18 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.63	0.3	3	3	-8	12
MSCI Frontier Equities		28.78	1.1	1	1	-18	10
EMBIG Sovereign Spread (in bps)		345	2	-7	9	42	-69
EM FX vs. USD		63.09	0.1	0	0	-11	1
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.72	-0.1	0	0	-7	2
Indonesian Rupiah		14223	0.0	0	-1	-3	1
Indian Rupee		68.75	0.6	0	3	-5	1
Argentine Peso		42.73	1.4	-2	-7	-53	-12
Brazil Real		3.86	-0.3	0	-2	-14	1
Mexican Peso		19.09	0.3	0	1	-4	3
Russian Ruble		65.36	-0.2	-1	1	-12	6
South African Rand		14.13	0.2	2	1	-16	2
Turkish Lira		5.56	-1.3	-4	-3	-29	-5
EM FX volatility		8.75	0.0	0.2	0.5	0.5	-1.0

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

China

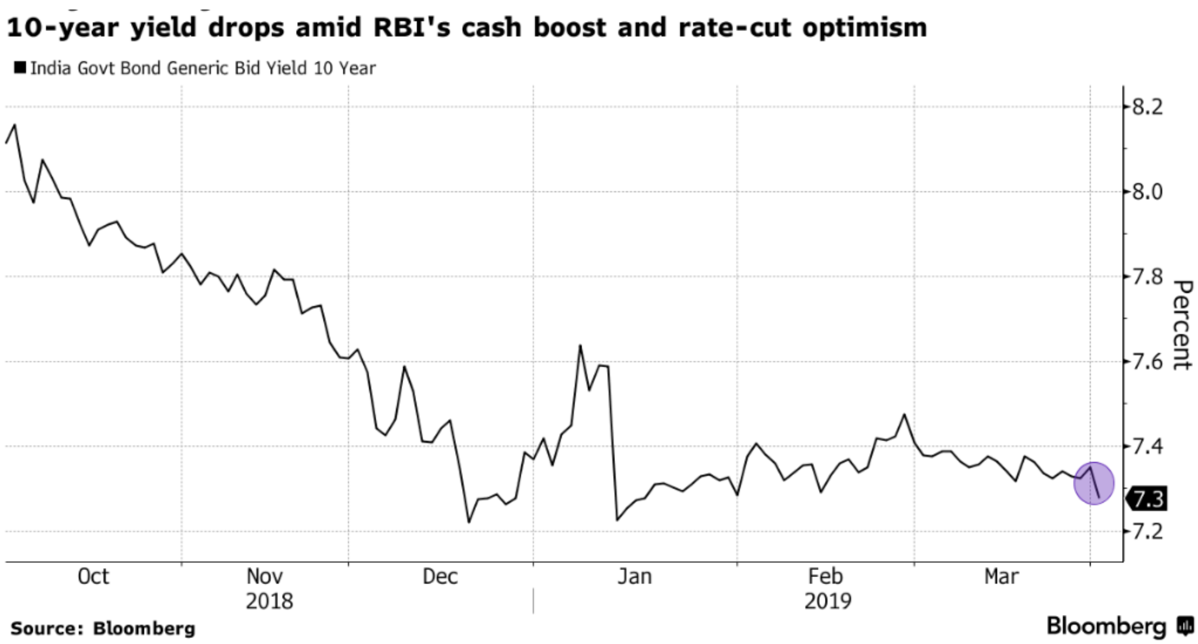
The US and China are inching closer to a trade deal, with both sides aiming to reach a tentative agreement by the end of Chinese Vice Premier Liu He's visit this week, according to the New York Times. A signing ceremony between Trump and Xi could potentially take place later this month. That said, the two sides are still negotiating on two major sticking points: (1) how an agreement will be monitored and enforced and (2) how many of the US' tariffs come off and when. Chinese equities and the RMB were little changed.

Russia

Growth in Q4 came in ahead of expectations. The annualized rate of 2.7% exceeded the consensus expectations of 2.2% with base effects contributing to the pickup. On a sectoral basis, mining, finance and construction drove growth during the quarter although some analysts have struggled with interpretation of the series. The government is said to be targeting a growth rate of 4% per year and a 4% inflation rate. The ruble was stronger on the day, appreciating by 0.8% against the dollar but has reversed approximately half of those gains this morning.

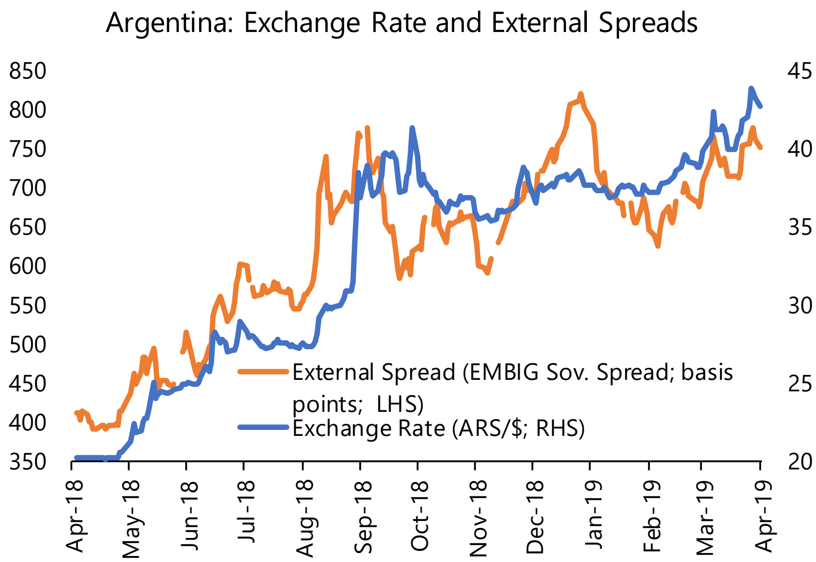
India

India's Supreme Court rejected the RBI's February 12, 2018 circular on debt resolution. The February 2018 directive asked banks to seek loan resolutions if borrowers defaulted by a single day on payment. The central bank also asked lenders to resolve delinquent accounts within 180 days, failing which the case would be taken before the bankruptcy court. This verdict suggests that banks would have flexibility to work with companies to resolve stressed loans. Equities of Indian public sector banks rose 0.8%. Separately, the RBI stated that it will inject $5 bn worth of rupee liquidity on April 23. The upcoming operation will be similar to that conducted on March 26, which will see the central bank repeat a USD-IDR swap auction for tenor of three years. The March 26 swap auction was successful as the RBI received bids worth $16.31 bn. 10-year government bond yields fell 7 bps to 7.3%.



Argentina

The central bank said it would not allow its key interest rate to fall below 62.5% in April. The policy commitment comes in addition to a previous pledge to freeze the money supply until year-end to cool inflation. The Leliq rate, determined by daily auctions for Leliq notes, fell below 60% in January and February. The rate now stands at 68.2%. Some investors expressed confusion about the introduction of a price-targeting policy in addition to the quantity-targeting framework (money supply restriction) now in place. The currency strengthened about 1.4% against the US dollar, in line with EM currencies overall, while the equity market fell 1.4%. The currency touched an all-time low against the dollar last Wednesday at 43.90 per USD.



Source: Bloomberg

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Global Financial Indicators

Last updated: 4/2/19 8:17 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2867	1.2	2	2	11	14
Europe		3402	0.5	2	3	1	13
Japan		21505	0.0	0	0	1	7
China		3177	0.2	6	6	0	27
Asia Ex Japan		72	1.4	3	3	-6	13
Emerging Markets		44	0.3	3	3	-8	12
Interest Rates					basis points		
US 10y Yield		2.47	9.6	5	-28	-26	-21
Germany 10y Yield		-0.05	-2.0	-3	-23	-54	-29
Japan 10y Yield		-0.06	1.1	0	-6	-11	-7
UK 10y Yield		1.00	-4.8	-1	-30	-35	-28
Credit Spreads					basis points		
US Investment Grade		117	-1.3	-9	-3	17	-30
US High Yield		410	3.0	-18	13	46	-111
Europe IG		63	0.4	-5	1	3	-25
Europe HY		258	0.3	-18	-19	-25	-94
EMBIG Sovereign Spread		345	2.0	-7	9	42	-69
Exchange Rates					%		
USD/Majors		97.40	0.2	1	1	8	1
EUR/USD		1.12	-0.1	-1	-1	-9	-2
USD/JPY		111.4	0.0	-1	0	-5	-2
EM/USD		63.1	0.1	0	0	-11	1
Commodities					%		
Brent Crude Oil ($/barrel)		69	-0.1	1	6	2	28
Industrials Metals (index)		122	-0.7	1	0	-6	11
Agriculture (index)		40	-0.1	-2	-2	-17	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.5	0.1	-1.2	-0.1	-10.2	-12.0
10y Treasury Volatility Index		3.9	0.0	-0.6	0.0	-0.4	-0.7
Global FX Volatility		7.2	0.0	0.0	0.1	-0.6	-1.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		374	-0.1	-7	27	-8	-42
Italy		259	5.9	11	4	130	9
Portugal		131	0.4	0	0	19	-17
Spain		116	-0.3	6	15	50	-1

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: 4/2/2019 8:19 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.72	-0.1	-0.1	0	-7	2		3.1	1.5	0	-4	-69	-8
Indonesia		14223	0.0	-0.4	-1	-3	1		7.7	-0.3	3	-21	89	-42
India		69	0.6	0.2	3	-5	1		7.4	0.0	0	-12	-17	-5
Philippines		52	0.1	0.2	-1	-1	0		5.4	2.0	-7	-21	28	-94
Thailand		32	-0.1	-0.4	0	-2	2		2.6	3.0	4	-5	20	-5
Malaysia		4.08	-0.1	-0.3	0	-5	1		3.8	0.3	-5	-18	-18	-29
Argentina		43	1.4	-1.6	-7	-53	-12		23.7	-31.3	-66	213	710	65
Brazil		3.86	-0.2	0.4	-2	-14	1		8.1	-8.9	1	-11	-12	-4
Chile		668	0.5	1.9	-1	-9	4		4.2	1.2	0	-19	-57	-27
Colombia		3143	1.5	-0.3	-1	-11	4		6.2	0.5	5	-26	-5	-35
Mexico		19.09	0.3	0.1	1	-4	3		8.1	1.0	15	-18	74	-58
Peru		3.3	0.3	-0.2	0	-2	2		5.3	-3.7	-1	-28	40	-41
Uruguay		33	0.0	0.1	-2	-15	-3		10.5	-3.9	5	22		-22
Hungary		287	-0.1	-1.5	-3	-11	-3		1.9	5.2	0	-24	37	-33
Poland		3.83	-0.1	-0.6	-1	-11	-3		2.3	2.7	4	-7	-17	4
Romania		4.3	-0.1	-0.7	-2	-11	-4		4.1	5.0	11	-2	25	-11
Russia		65.4	-0.3	-1.5	1	-12	6		8.1	-0.4	18	0	128	-34
South Africa		14.1	0.3	2.1	1	-16	2		9.3	-14.6	-24	-26	69	-34
Turkey		5.56	-1.3	-4.2	-3	-29	-5		18.9	-62.9	96	322	611	204
US (DXY; 5y UST)		97.4	0.2	0.7	1	8	1		2.28	-3.7	8	-27	-26	-23

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3177	0.2	6	6	0	27		175	-1	-1	-3	-6	-19
Indonesia		6476	0.4	0	0	4	5		194	4	0	5	10	-42
India		39057	0.5	2	8	17	8		155	-5	-6	-10	16	-41
Philippines		7879	0.5	0	3	-2	6		90	5	-3	9	-12	-31
Malaysia		1633	0.3	-1	-4	-12	-3		128	1	-1	2	2	-34
Argentina		33007	-1.4	0	-2	6	9		766	2	6	48	346	-49
Brazil		96054	0.7	3	2	13	9		246	2	-4	15	7	-27
Chile		5257	-0.1	1	0	-4	3		131	1	-3	4	4	-35
Colombia		1582	-0.4	-1	4	8	19		183	3	2	-2	2	-45
Mexico		43672	0.9	2	2	-5	5		308	2	10	-9	57	-46
Peru		21076	-0.1	0	3	1	9		127	0	-10	-4	-27	-41
Hungary		42071	0.0	1	5	13	7		108	-1	-17	4	-2	-40
Poland		61100	1.3	2	2	5	6		53	4	-9	8	-2	-32
Romania		8137	-0.1	1	6	-7	10		202	-7	-1	11	59	-19
Russia		2521	0.0	0	2	12	6		220	1	3	13	25	-32
South Africa		57124	0.0	3	2	3	8		302	2	-17	20	52	-63
Turkey		95183	1.2	-2	-8	-17	4		477	4	-13	77	153	48
Ukraine		567	0.7	-2	2	58	1		604	-7	-23	-35	158	-183
EM total		44	0.3	3	3	-8	12		345	2	-7	9	42	-69

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