



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, April 22, 2019

- The slope of the US yield curve returns to levels seen prior to the March FOMC ([link](#))
- US high yield bond rally sees brisk turnover and strong liquidity ([link](#))
- Falling Euro Area inflation expectations support ECB's recent dovish shift ([link](#))
- EM external debt funds receive net inflows yet again ([link](#))
- Russian domestic demand remains weak despite strong labor and credit markets ([link](#))




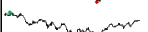






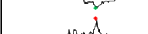
[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Crude oil futures rise as US expected to end Iran sanction waivers

Front month Brent crude oil futures rose up to 2.4% on reports that the US plans to end waivers that currently allow some market participants to purchase Iranian oil. Other OPEC producers are expected to eventually offset the absence of Iranian supply, however some have suggested that they may only increase production cautiously. Producers such as Saudi Arabia rapidly ramped up production this past autumn when the US first reapplied Iran-related sanctions, but the unexpected issuance of waivers contributed to a glut of supply and a subsequent 40% decline in crude oil prices.

This holiday-shortened week is expected to be relatively quiet, with the Bank of Japan meeting on Thursday as the main highlight. The US data calendar is light, with Friday's GDP report the most important release. In the euro area, tomorrow's consumer confidence report and Wednesday's German IFO business confidence survey have the greatest potential to move markets. The UK reports business confidence data and the Japanese employment report is on Thursday. However, this is a very active week for central bank meetings. The Bank of Canada meets on Wednesday, the Riksbank on Thursday and the Colombian central bank on Friday. In the EMEA region, the Turkish central bank meets on Thursday and the Russian central bank on Friday. In Asia, the Indonesian central bank will hold its first post-election meeting on Thursday.

Key Global Financial Indicators

Last updated: 4/22/19 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2905	0.0	1	3	8	16
Eurostoxx 50		3499	0.6	2	3	0	17
Nikkei 225		22218	0.1	0	3	0	11
MSCI EM		45	0.0	1	5	-6	14
Yields and Spreads			bps				
US 10y Yield		2.57	0.0	1	13	-39	-12
Germany 10y Yield		0.03	0.0	-3	-7	-58	-22
EMBIG Sovereign Spread		339	-1	-1	-15	43	-75
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	-0.1	0	-1	-10	1
Dollar index, (+) = \$ appreciation		97.3	0.0	0	1	8	1
Brent Crude Oil (\$/barrel)		73.7	2.3	3	10	-1	37
VIX Index (% change in pp)		13.2	1.1	1	0	-3	-12

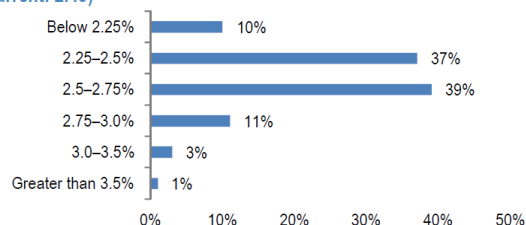
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

[back to top](#)

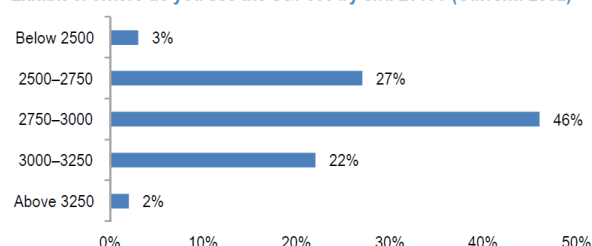
Markets were closed for Easter on Friday. Housing starts were much weaker than expected, coming in at 1139K versus the forecast of 1225K (-0.3% versus +5.4%). This was the weakest report since 2017 and was largely a surprise to analysts because mortgage rates remain relatively low and wage growth has been strong. Housing permits were also well below expectations. One explanation for the weakness was that builders face rising labor costs and high materials costs, making it harder to build new homes that consumers can afford. Meanwhile, the S&P 500 remains tantalizingly close to the all-time record of 2930.75 set on September 20 of last year. The index has managed to climb above 2900 for the first time since October, but despite five consecutive closes above this psychologically important level, the market has been unable to mount a sustained push higher. Some analysts believe the upside for the market is limited, with stocks already having posted gains of nearly 16% already in 2019. Others point to lowered earnings as a headwind for the market. However, other market participants are much more optimistic. The JP Morgan survey at the IMF Spring Meetings found that most of the investors surveyed expected relatively benign market conditions in the months ahead. A significant majority expect US Treasury yields to remain low or even decline, and a large majority expect a decisive move towards the 3000 level for the S&P 500, predicting a strongly positive end to the year.

Exhibit 5: Where do you see the 10-year UST at end-2019?
(Current: 2.49)



Source: J.P. Morgan.

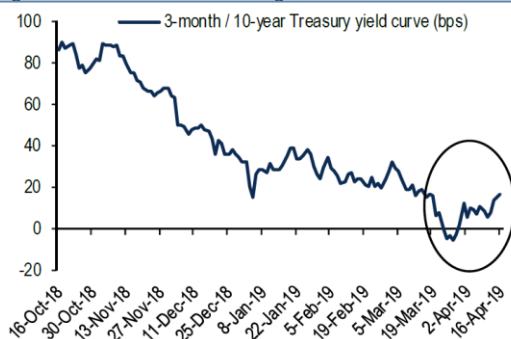
Exhibit 6: Where do you see the S&P500 by end-2019? (Current: 2882)



Source: J.P. Morgan.

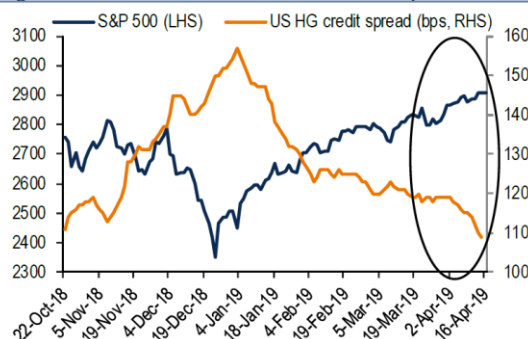
The 3-month/10-year yield spread, which had fallen into an inverted state, is now back to its pre-March 20 FOMC level. The inversion was triggered by the Fed's accommodative tilt and by very weak manufacturing PMI numbers from the euro area, which led markets to worry that a recession might be much closer than expected. The subsequent steepening of the curve was prompted by a slew of more positive data such as the lowest US jobless claims since 1969 and a rebound in US car sales, as well as positive economic surprises from other parts of the world. The rebound in China's exports and its stronger PMI data buoyed market sentiment, as did stronger than expected euro area services PMI data. Investors perceived a "Cinderella" situation, with the Fed on the sidelines but the economy stronger than initially feared, pushing stocks higher and credit spreads lower.

Figure 1: Post-March 20-FOMC flattening in curve now reversed ...



Source: Bloomberg, BofA Merrill Lynch Global Research

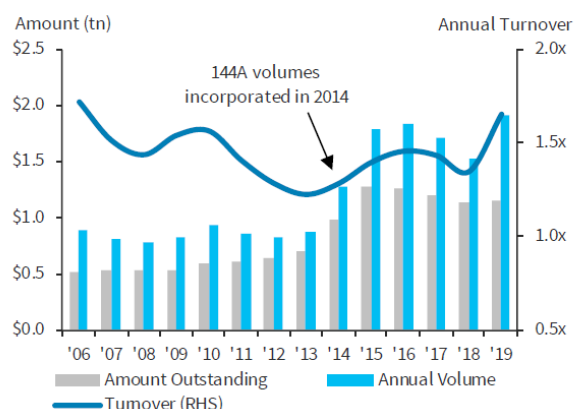
Figure 2: ... while risk-assets have rallied over the same period



Source: Bloomberg, Bloomberg-Bardays, BofA Merrill Lynch Global Research

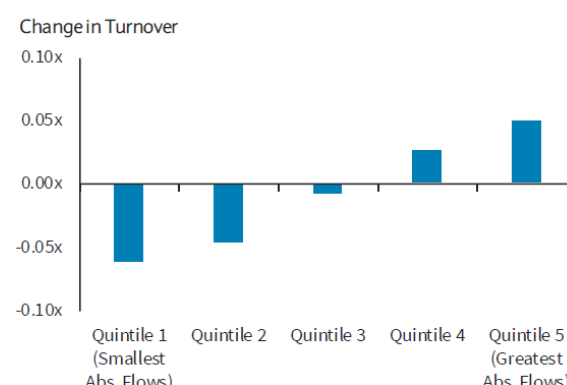
The rally in the US high yield (HY) corporate bond market was accompanied by an increase in market turnover and liquidity. Turnover has already reached the highest level since 2006. Annualizing Q1 2019 volume and adjusting for historical seasonal patterns leads Barclays to conclude that turnover could hit 1.7x compared to 1.4x in the two previous years. This trend is especially notable in view of the reduction of supply in the HY market. Barclays also finds that retail demand has been a significant cause of the higher turnover. Their data show that high turnover tends to be associated with high retail flows, with low turnover months occurring when flows are lower and vice versa. Q4 2019 saw flows in the highest quintile based on historical data.

FIGURE 1
High Yield Volume and Turnover in 2019 Are on Pace to Near Recent Highs



Note: 2019 volumes annualized based on historic cadence of volumes by quarter.
Source: Bloomberg Barclays Indices, MarketAxess

FIGURE 2
Quarters with Significant Retail Flows Result in Increased Turnover



Source: Bloomberg Barclays Indices, MarketAxess, Lipper

Europe

[back to top](#)

European markets remained closed for trading on Monday amid limited market-relevant news. The euro was broadly steady at 1.12 against the dollar. The British pound traded little changed at 1.30 against the dollar.

Market and survey-based measures of inflation expectations in the Euro Area have declined significantly in recent months. Two-year ahead inflation expectations from the ECB's survey of professional forecasters now stand at 1.6%, while 5-year expectation are at 1.8%. Swap-based measures of breakeven inflation expectations have declined even further, reaching 1.2% for the one-year inflation rate five-years ahead. JP Morgan analysts argue that the decline is partly explained by lower realized inflation, with the core measure reaching 0.8% oya in March, may reflect the lagged response of consumer prices to the business cycle. The continued decline in actual and expected inflation supports the ECB's recent dovish shift, which pushed the expected time of the first rate hike further into the future. Private sector analysts expect headline inflation to remain broadly stable around 1.4% y/y in coming quarters according to Bloomberg's consensus estimates, while ECB staff projections foresee a gradual rise to around 1.7%.

Figure 1: Euro area ECB inflation expectations and core inflation

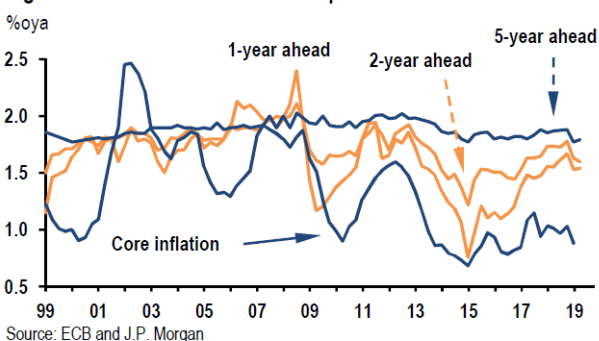
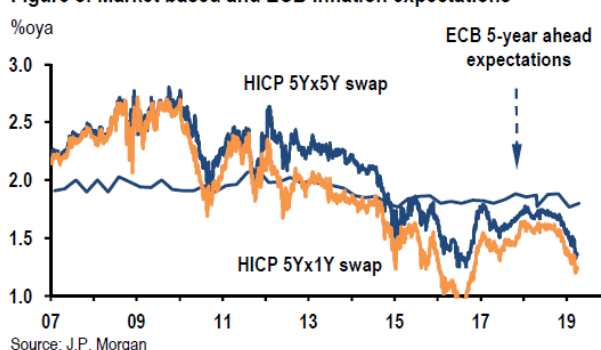


Figure 3: Market-based and ECB inflation expectations



Other Mature Markets [back to top](#)

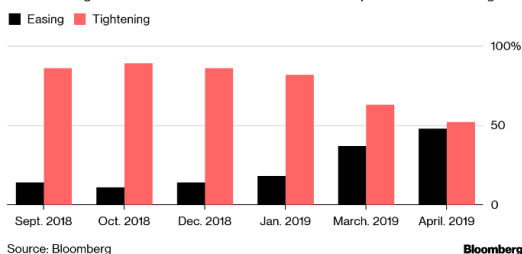
Japan

Japanese stocks inched up +0.1% in thin trading. Trading was light as the US and many European markets were closed on Friday and Japan approaches the 10-day 'golden week' holiday starting April 27th.

The market increasingly expects the BOJ will ease policy soon. A Bloomberg poll of 48 economists revealed that about half now expect the Bank of Japan to ease monetary policy. Of these, about a third expect the BOJ to announce accommodative 'forward guidance', a commitment to maintain low rates over a long period, by October 31st; and three expect easing at the BOJ's next meeting ending April 25th. Market consensus has shifted dramatically since January, driven by continued sub-1% inflation in Japan and recent easing by other major central banks.

Narrowing Gap








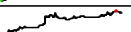






An increasing number of economists sees BOJ's next step as additional easing



Emerging Markets [back to top](#)

Many regional markets were closed for trading. Most markets in Latin American and Emerging Europe were closed for trading on Monday, while those in Turkey and most Asian markets traded down mainly on the back of news about the potential elimination of Iran oil sanction waivers by the US administration in two weeks' time. The move, which is expected to be announced on Monday, drove up Brent oil prices by close to 3% and negatively impacted emerging markets, especially oil-importing one. Tragic events in Sri Lanka over the weekend also weighed on investor sentiment. As a result, most Asian equity markets declined on Monday, led by China (-2.3%), Indonesia (-1.4%) and India (-1%), while Asian currencies were also weaker against the USD across the board. Equity markets were also down in Hungary (-0.5%) and Turkey (-0.7%), while in oil-exporting countries market reaction was mixed, with Russian equity markets trading up by 0.7% and those in Saudi Arabia declining by 0.5%.

Key Emerging Market Financial Indicators

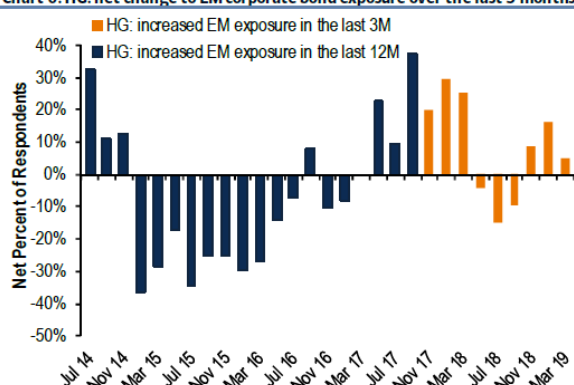
Last updated: 4/22/19 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		44.56	0.0	1	5	-6	14
MSCI Frontier Equities		28.66	-0.5	0	1	-16	10
EMBIG Sovereign Spread (in bps)		339	-1	-1	-15	43	-75
EM FX vs. USD		63.01	-0.1	0	-1	-10	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	-0.1	0	0	-6	2
Indonesian Rupiah		14078	-0.2	0	1	-1	2
Indian Rupee		69.67	-0.5	0	-1	-5	0
Argentine Peso		41.86	1.2	3	-4	-52	-10
Brazil Real		3.93	0.1	-1	0	-12	-1
Mexican Peso		18.82	-0.2	0	1	1	4
Russian Ruble		63.79	0.4	1	1	-3	9
South African Rand		14.11	-0.4	0	3	-13	2
Turkish Lira		5.83	-0.3	0	-1	-30	-9
EM FX volatility		8.33	0.7	0.2	-0.1	0.2	-1.4

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

EM Fund Flows

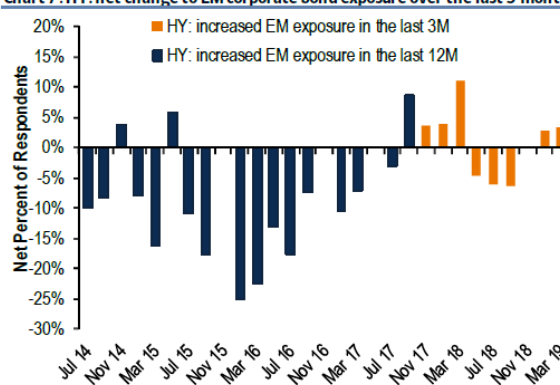
EM external debt (EXD) experienced inflows for the 15th consecutive week, the longest period in 2 years, while local markets debt (LDM) flows were also positive again. Global investment grade corporate investors are moving back into EM, although EM allocations are still lower than they were in 2017. In March, a net 5% of high-grade investors reported higher allocations to EM over the last 3 months compared to a net 16% reporting higher EM allocations in January. For high-yield, investors reported a net 3% increasing EM allocations over the last 3 months, the same level compared with January.

Chart 6: HG: net change to EM corporate bond exposure over the last 3 months?



Source: BofA Merrill Lynch Global Research

Chart 7: HY: net change to EM corporate bond exposure over the last 3 months?



Source: BofA Merrill Lynch Global Research

China

Politburo meeting suggests possible halt to policy accommodation; financial assets decline. A statement from China's politburo economic meeting on April 19th concluded that the economy performed much better than expected in Q1 and that downward growth pressures are primarily structural in nature. This prompted a recalibration of policy priorities back toward structural reforms, deleveraging and macro-prudential measures (e.g., to control housing market speculation). Analysts broadly agree that the

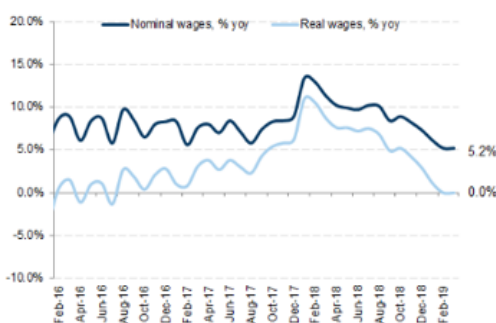
committee's monetary policy statement indicates a halt to accommodation. Chinese equities fell on Monday, led by property developers, banks and insurers. The yield on sovereign notes rose to 3.4%, the highest since November.

India

RBI April monetary policy meeting minutes suggest more room for easing. Minutes from the April meeting reveal that 4 of 6 monetary policy committee members supported the announced 25 bps policy rate cut. As importantly, committee members' comments suggest to analysts that policy doves continue to focus on downside risks to growth, that one hawkish member has softened his stance over the past two months, and that another has clearly shifted from a hawkish to a dovish voting position on the basis that inflation continues to undershoot expectations. Market trading implies a 27 bps policy rate decline over the next six months.

Russia

Recent data point to relatively weak domestic demand, despite tightening labor markets and strong credit growth. While retail sales grew by 1.6% y/y (as expected) in March, real wage growth remained flat (0.9% expected) for the second month. These figures, together with weaker-than-expected industrial production numbers earlier last week point to the existence of considerable slack in the economy. On the plus side, unemployment (4.7% vs 4.9% expected) continued its downward trend in March, dropping by close to 1 ppt since January 2016. The weakness in domestic demand continued despite strong credit growth, which S&P Global expects to continue at a healthy, albeit slightly weaker pace in 2019, as stagnating real disposable income starts to weigh on credit demand.



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Global Financial Indicators

Last updated: 4/22/19 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2905	0.0	1	3	8	16
Europe		3499	0.6	2	3	0	17
Japan		22218	0.1	0	3	0	11
China		3215	-1.7	1	4	5	29
Asia Ex Japan		73	-0.2	1	5	-4	15
Emerging Markets		45	0.0	1	5	-6	14
Interest Rates			basis points				
US 10y Yield		2.57	0.0	1	13	-39	-12
Germany 10y Yield		0.03	0.0	-3	-7	-58	-22
Japan 10y Yield		-0.03	-0.1	-1	4	-9	-3
UK 10y Yield		1.20	0.0	-2	1	-32	-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	#N/A N/A	-1	-12	2	-30
Europe HY		247	#N/A N/A	-1	-34	-28	-106
EMBIG Sovereign Spread		339	-1.0	-1	-15	43	-75
Exchange Rates			%				
USD/Majors		97.33	-0.1	0	1	8	1
EUR/USD		1.12	0.0	0	0	-8	-2
USD/JPY		111.9	0.0	0	-2	-3	-2
EM/USD		63.0	-0.1	0	-1	-10	1
Commodities			%				
Brent Crude Oil (\$/barrel)		74	2.4	3	10	-1	37
Industrials Metals (index)		120	-0.2	-2	-2	-16	9
Agriculture (index)		40	-0.4	-2	-3	-18	-4
Implied Volatility			%				
VIX Index (% change in pp)		13.2	1.2	1.2	-0.3	-2.7	-12.2
10y Treasury Volatility Index		3.6	-0.1	0.1	0.1	-0.2	-1.0
Global FX Volatility		6.2	0.1	0.0	-1.1	-1.2	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		329	0.0	6	-49	-16	-87
Italy		258	0.0	6	11	139	8
Portugal		115	0.0	1	-13	8	-33
Spain		105	0.0	2	-4	36	-13

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: 4/22/2019 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	-0.1	0.0	0	-6	2		3.4	-1.4	9	21	-12	17
Indonesia		14078	-0.2	-0.1	1	-1	2		7.7	-1.9	-9	-13	88	-46
India		70	-0.5	-0.4	-1	-5	0		7.5	0.8	3	9	-14	8
Philippines		52	-0.6	-0.6	1	1	1		5.3	0.0	2	-13	19	-100
Thailand		32	-0.2	-0.3	0	-1	1		2.6	-1.5	3	-2	22	-3
Malaysia		4.13	0.0	-0.6	-2	-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	0.1	-1.4	0	-12	-1		8.2	-8.3	-2	20	-5	2
Chile		662	0.0	-0.2	1	-10	5		4.1	-1.3	0	-20	-58	-39
Colombia		3158	0.0	-1.3	-2	-13	3		6.1	0.0	2	-10	8	-37
Mexico		18.82	-0.2	0.2	1	1	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		284	0.1	-0.4	-1	-10	-2		2.0	-4.3	1	-2	50	-18
Poland		3.81	0.1	-0.6	0	-10	-2		2.3	0.3	-1	1	-9	3
Romania		4.2	0.0	-0.5	-1	-10	-4		4.3	-1.0	-1	23	45	4
Russia		63.8	0.4	0.8	1	-3	9		8.0	2.2	5	0	86	-43
South Africa		14.1	-0.4	-0.5	3	-13	2		9.3	-1.8	-4	-21	63	-34
Turkey		5.83	-0.3	-0.4	-1	-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		3215	-1.7	1	4	5	29		174	0	-2	-3	-4	-20
Indonesia		6415	-1.4	0	-1	1	4		177	-1	-6	-19	9	-59
India		38645	-1.3	0	1	12	7		155	-1	-1	-1	22	-41
Philippines		7832	0.0	-2	-1	1	5		84	-1	-1	-15	-10	-37
Malaysia		1622	0.0	-1	-3	-14	-4		126	0	-1	-2	9	-36
Argentina		32037	0.0	0	-8	2	6		853	-1	46	85	453	38
Brazil		94578	0.0	0	-5	10	8		246	-1	0	-6	16	-27
Chile		5262	0.0	0	-1	-8	3		126	-1	-1	-9	5	-40
Colombia		1574	0.0	-3	-2	1	19		176	-1	-1	-12	7	-52
Mexico		45525	0.0	1	8	-7	9		293	-1	-5	-9	48	-61
Peru		20938	0.0	-1	0	-2	8		121	-1	-1	-20	-20	-47
Hungary		42810	0.0	0	2	11	9		104	-1	-1	-23	7	-44
Poland		60910	0.0	0	0	0	6		42	-2	0	-12	-1	-43
Romania		8363	0.1	1	4	-6	13		200	1	-5	2	69	-21
Russia		2575	0.4	1	3	15	9		202	-1	-3	-20	-11	-50
South Africa		59222	0.0	2	4	3	12		292	0	2	-22	57	-73
Turkey		96211	-0.7	1	-4	-13	5		502	-1	-10	22	196	73
Ukraine		532	-0.2	0	-4	44	-5		594	-1	8	-18	144	-193
EM total		45	0.0	1	5	-6	14		339	-1	-1	-15	43	-75

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