Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, April 23, 2019

- **Oil extends gains as Saudi Arabia pledges to ensure oil supply (link)**
- **Conservative MPs pressure PM May to resign (link)**
- **Chinese investor nerves rise as stimulus pullback looms (link)**
- **Fed Funds continues climb above IOER (link)**

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Markets continue spring lull

Rising oil prices remain in focus amid otherwise rangebound trading conditions. Many markets are re-opening from the holiday long weekend to sharply higher oil prices, following the US announcement yesterday that it would impose export sanctions on Iranian oil. The price of Brent crude has been extending gains towards $75 even as Saudi Arabia and others pledge to support the market through higher supply. Investors are also keeping an eye on Chinese markets, where bond yields are rising quickly and the equity rally is stalling out due to a perceived shift towards tighter monetary and credit policies. The massive rebound in Chinese stocks this year has provided an important boost to global risk sentiment, and any increase in market volatility there might weigh on investor confidence.

Key Global Financial Indicators

Last updated: 4/23/19 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2908	0.1	0	4	9	16
Eurostoxx 50		3489	-0.3	1	2	0	16
Nikkei 225		22260	0.2	0	3	1	11
MSCI EM		44	-0.4	0	4	-6	13
Yields and Spreads					bps		
US 10y Yield		2.59	2.9	0	15	-39	-10
Germany 10y Yield		0.05	2.7	-1	7	-58	-19
EMBIG Sovereign Spread		337	-1	0	-17	37	-77
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		62.9	-0.1	0	0	-9	1
Dollar index, (+) = $ appreciation		97.3	0.1	0	1	7	1
Brent Crude Oil ($/barrel)		74.1	0.1	4	11	-1	38
VIX Index (%, change in pp)		12.5	0.0	0	-4	-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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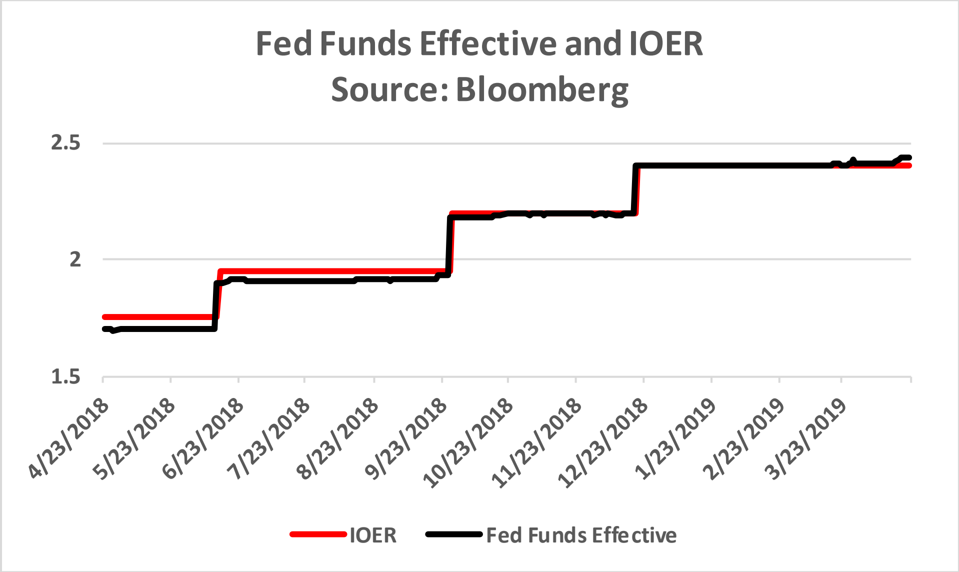
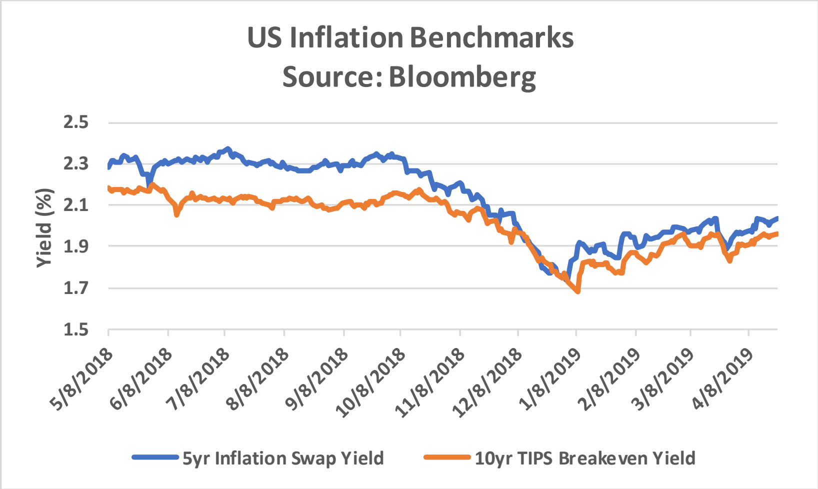
Markets held steady in a quiet holiday session. The oil market was the only newsmaker as the US declared an end to sanctions exemptions for buyers of Iranian oil. Brent was up 3% on the day. Stocks barely moved and interest rates were slightly higher. In the US money markets, the Fed Effective rate (the effective Fed Funds rate) moved up to 2.44%, 4 bps above the Fed's interest on Excess Reserves (IOER) rate of 2.40% and just 6 bps away from the upper end of the Fed's target range of 2.25%-2.50%. The Fed Effective rate exceeded the IOER for the first time since 2008 on the day of the FOMC meeting on March 20. Some analysts are worried that the trend may presage higher borrowing costs in the money markets for banks and other financial entities. At the December 20 FOMC meeting, IOER was raised by just 20 bps versus the 25 bps Fed Funds hike to stop the effective Fed Funds rate from moving above the upper bound of the Fed's 2.25%-2.50% target range. Meanwhile, existing home sales were weaker than expected at 5.21 mn versus the 5.3 mn forecast, a decline of 4.9% mom against the expectations of a more moderate 3.8% decline. This follows a disappointing new home sales report from last week.

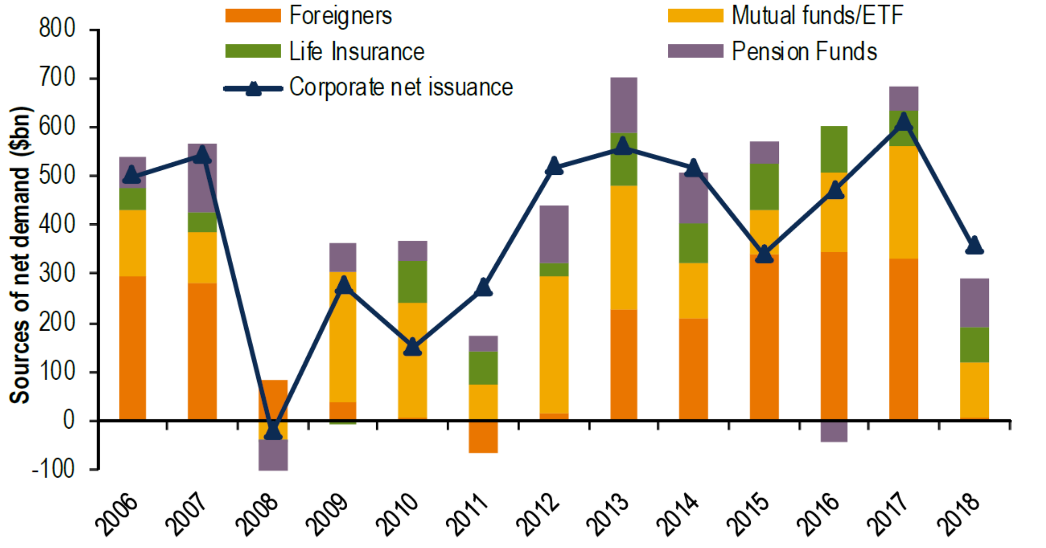


Key inflation market benchmarks are trading around the Fed's target inflation level of 2%. The five-year inflation swap was quoted at 2.04% while the 10-year Treasury Inflation Protected Securities (TIPS) breakeven yield was at 1.96% and has averaged close to 2% over the year. Investor demand for inflation protection has been robust and the TIPS market has already gained 2.9% this year. However, survey data show that long positions in fixed income have reached their highest level in almost 12 months, suggesting that investors are vulnerable to an unexpected rise in interest rates. Although the Fed's dovish tilt at the January and March FOMC meetings raised worries about a slowdown in the economy, recent data have been quite strong. The Atlanta Fed's GDPNow index is near 3% and the Bloomberg Economic Surprise Index has its best one-week gain since October. Oil prices are significantly higher and the move to end sanctions exemptions for buyers of Iranian oil threaten to push prices even higher and further increase inflation risk. There has been a 25% increase in US gasoline prices this year.



US corporate bond markets are expected to experience strong demand this year, similar to the situation back in 2016 but with lower net supply providing a stronger boost to the market. The Fed's dovish tilt will also support demand because it reduces the threat of interest rate risk. Analysts expect foreigners, bond funds and bond ETFs to be the dominant buyers, and the data show that foreign is already on pace to match the heavy inflows seen in 2016. Although the spread tightening in 2019 is likely to be more limited than in 2016 given the already tight level of spreads, market technicals are predicted to remain strong through the end of the year.

Figure 1: 2019 is expected to look like 2016, but with less net issuance



Note: The Fed's data covers IG+HY, but obviously IG is the vast majority.
Source: Federal Reserve, BofA Merrill Lynch Global Research

Europe

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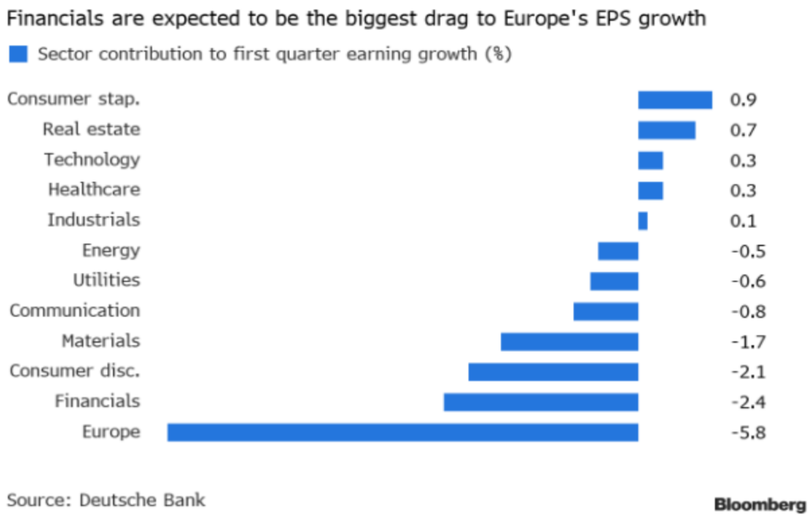
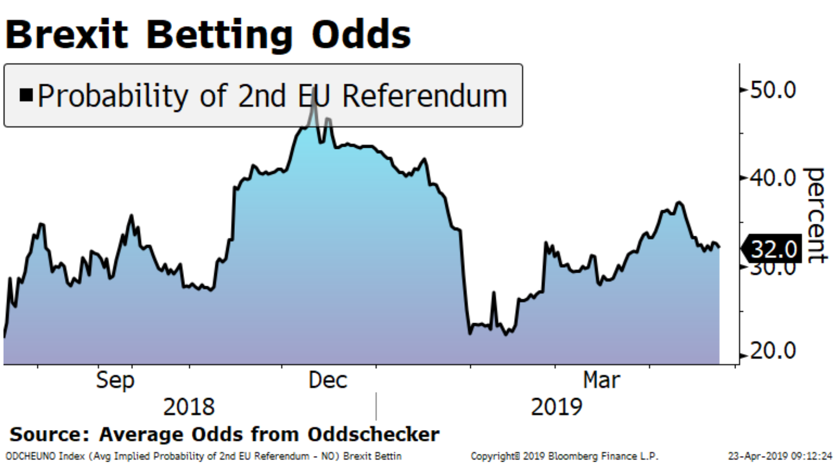
Equity markets are a touch lower with the EuroStoxx 600 down 0.3%. The banking sector (-1.1%) is weighing on European stocks as analysts brace for a downbeat earnings season for the sector, expected to be the major drag for the region in Q1 (chart). **Yields are up across the region,** rising 3 bps in Germany and as much as 7 bps in Italy, in part pressured by higher oil prices.



In Brexit news, there has been little progress in talks between PM May and the opposition Labour party, while many Conservatives continue to call for her resignation. The Labour party remains divided about—amongst other issues—support for a second referendum. Betting odds place the probability of a second referendum at 32%, up from near 20% February but well below the near 50% peak in December. In the background, some Conservative party members continue to pressure May to resign. Reports suggest that some MPs are considering altering the party rules to make it easier to change its leader, and then have a vote on June 12.



Other Mature Markets back to top

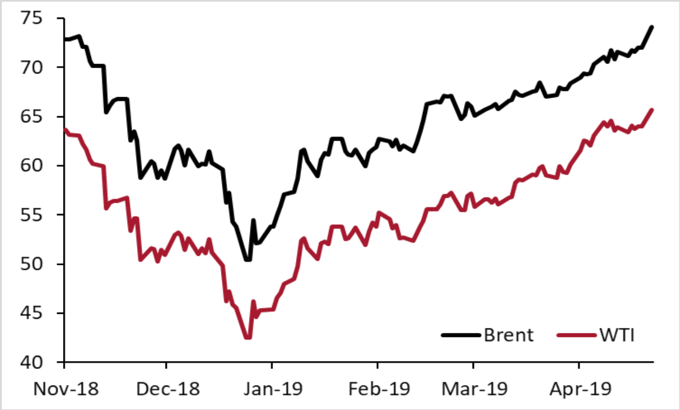
Japan

JGBs traded flat on Tuesday, with the 10-year yield staying at -0.028%. Equities in Tokyo were up: Nikkei (+0.2%) and Topix (+0.3%).

Crude Oil

Oil prices soared to their highest level since last November as the US has stepped up pressure on Tehran by announcing an end to the waivers that have allowed major oil importing nations to buy from Iran. This move has raised questions about the ability of other oil producers to fill the gap, and as a result, Brent crude went up 3% to above $74 a barrel for the first time in six months. Analysts commented that Brent crude is likely to reach $75-80 a barrel but it could easily surpass this level. In addition, analysts pointed out that the impact of oil price changes on US economic growth has been muted by the shale boom of the past decade, however, rising fuel prices would raise concern among US consumers.

Crude Oil Prices



Source: Bloomberg

Emerging Markets

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EM asset prices generally softened over the last 24 hours. Asian equities were mostly lower in the Tuesday session, with the largest losses seen in China's Shanghai Index (-0.5%) and India's Sensex (-0.2%). Stock indices in Vietnam (+0.2%) and South Korean (+0.2%) bucked the trend. Regional currencies depreciated slightly to the U.S. dollar. **EMEA bourses were also down**, led by Bulgaria (-0.8%) and the UAE (-0.4%). Russia (+0.5%) was the only major regional market posting gains today. Currencies depreciated by about 0.1%-0.3% to the dollar. In the **Ukraine**, the hryvnia lost 0.2% to the dollar after having strengthened 0.9% yesterday following the landslide victory of Volodymyr Zelenksiy in the country's presidential elections. Local stocks were about 0.2% higher. **Latin American equity markets were mixed** on Monday. Argentina suffered notable losses as the Merval fell 3.9%, while Colombia (+1%) saw gains. Local currencies were mostly weaker. In currency markets, Argentina was the main underperformer, depreciating by 1% against the dollar, as investors are still digesting a pick-up in inflation in March and the government's counter-measures.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/23/19 8:09 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.27	-0.4	0	4	-6	13
MSCI Frontier Equities		28.65	0.0	-1	1	-15	10
EMBIG Sovereign Spread (in bps)		337	-1	0	-17	37	-77
EM FX vs. USD		62.87	-0.1	0	0	-9	1
Major EM FX vs. USD					**%, (+) = EM currency appreciation**		
China Renminbi		6.72	-0.1	0	0	-6	2
Indonesian Rupiah		14080	0.0	0	1	-1	2
Indian Rupee		69.63	0.1	0	-1	-5	0
Argentine Peso		42.26	-1.0	-1	-1	-52	-11
Brazil Real		3.94	0.0	-1	-2	-12	-1
Mexican Peso		18.89	-0.3	0	1	0	4
Russian Ruble		63.78	0.0	0	0	-3	9
South African Rand		14.21	-0.4	-1	1	-13	1
Turkish Lira		5.84	-0.3	-1	-5	-30	-9
EM FX volatility		8.28	0.0	0.1	-0.1	-0.1	-1.5

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

China

Chinese investors have become wary of a shift towards tightening in the policy stance following comments by the Politburo last week. The yield on the 10-year bond has remained above 3.4% on Monday and Tuesday – a level not seen since November 2018. The increase in yields followed comments by Politburo leadership that re-affirmed a focus on deleveraging and avoiding housing market speculation, a sign of possible tightening of monetary conditions. Analysts also noted nervousness amongst equity investors after the CSI 300 Index had closed 2.3% lower yesterday. The index is 0.2% weaker today.

China's 10-year sovereign bond yield jumps to highest since November

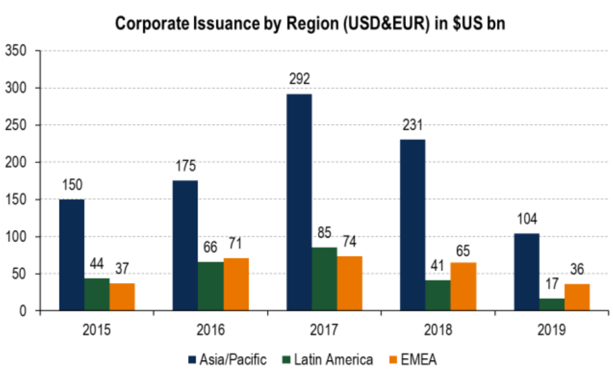
Source: Bloomberg

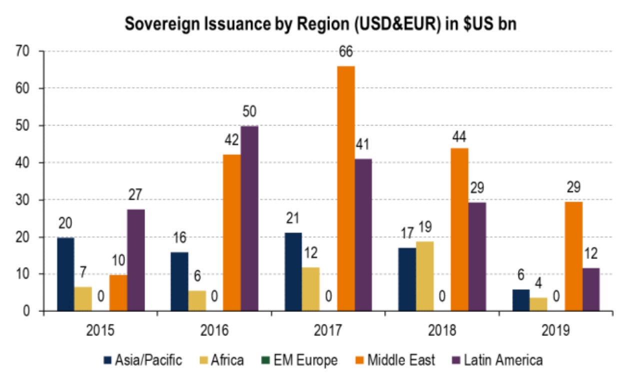
Turkey

The Turkish Treasury will issue $4.2 bn in new debt to recapitalize state-owned banks. Part of the debt issuance will be in the form of a EUR 3.3 bn zero-coupon euro-denominated bond with a 4.61% annual interest rate, according to a statement by the finance ministry. Proceeds from the debt sale will be distributed as follows: Ziraat Bank will obtain $1.6 bn; Halkbank: $1 bn; Vakifbank: $788 mn; and Eximbank and Turkiye Kalkinma will each get $169 mn. State-owned Islamic banks will receive $450 mn. **Stocks in Istanbul were about 0.9% lower this morning and the lira about 0.1% weaker to the dollar.**

EM bond issuance

EM corporate issuance for last week largely declined to $11.2 bn, from $29.9 bn the week before, while there was no EM sovereign issuance last week. The year to date total issuance of $229.5 bn was approximately 6% less than 2018 issuance over the same period, while Latin America (-36%) was the main drag. From a regional perspective, China was the largest EM corporate debt issuer, accounting for 44% ($4.9 bn) of the total. Of the total corporate bonds issued, 65% ($7.3 bn) were investment grade bonds and 29% ($3.2 bn) were high yield bonds.

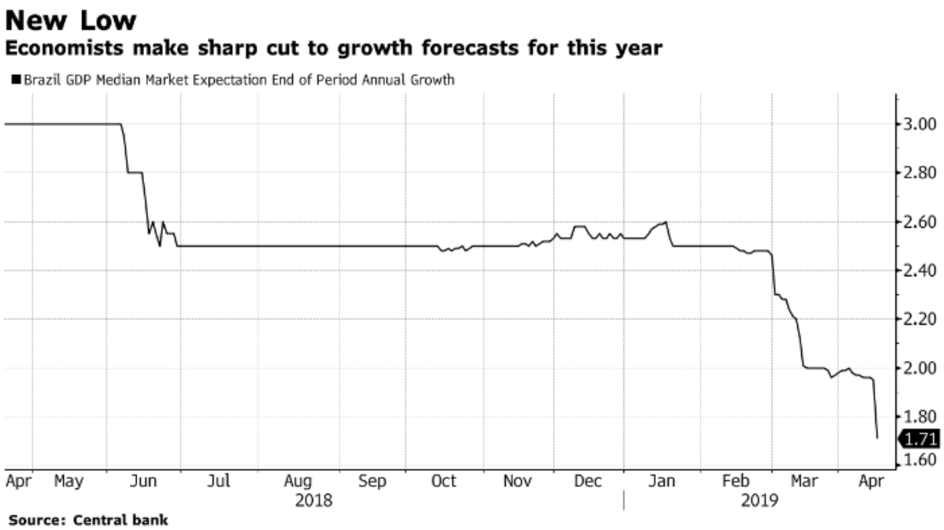




Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

Brazil

Brazil analysts cut their 2019 growth forecasts further in a signal of mounting investor pessimism in Latin America's largest economy. According to a central bank survey of analysts published yesterday, Brazil's economy will grow by 1.71% this year, down from 1.95% the week before and 3% a year ago. Analysts also lowered their 2020 growth forecasts for the fifth straight week. Market reaction was muted, with equities and the peso finishing little changed.



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Global Financial Indicators

Last updated: 4/23/19 8:03 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2908	0.1	0	4	9	16
Europe		3489	-0.3	1	2	0	16
Japan		22260	0.2	0	3	1	11
China		3199	-0.5	-2	3	4	28
Asia Ex Japan		73	-0.8	-1	5	-4	14
Emerging Markets		44	-0.4	0	4	-6	13
Interest Rates					basis points		
US 10y Yield		2.59	2.9	0	15	-39	-10
Germany 10y Yield		0.05	2.7	-1	7	-58	-19
Japan 10y Yield		-0.03	0.3	-1	4	-10	-3
UK 10y Yield		1.23	3.1	1	21	-31	-5
Credit Spreads					basis points		
US Investment Grade		111	1.2	2	-11	15	-36
US High Yield		393	0.4	4	-34	67	-128
Europe IG		58	0.5	0	-11	3	-29
Europe HY		247	0.5	-2	-35	-28	-105
EMBIG Sovereign Spread		337	-1.0	0	-17	37	-77
Exchange Rates					%		
USD/Majors		97.34	0.1	0	1	7	1
EUR/USD		1.12	-0.1	0	-1	-8	-2
USD/JPY		111.9	0.0	0	-2	-3	-2
EM/USD		62.9	-0.1	0	0	-9	1
Commodities					%		
Brent Crude Oil ($/barrel)		74	0.1	4	11	-1	38
Industrials Metals (index)		120	0.0	-2	0	-13	9
Agriculture (index)		40	-0.1	-2	-3	-18	-5
Implied Volatility					%		
VIX Index (%, change in pp)		12.5	0.0	0.1	-4.0	-3.9	-13.0
10y Treasury Volatility Index		3.6	0.0	0.1	-0.7	-0.3	-1.0
Global FX Volatility		6.2	0.0	0.0	-1.1	-1.4	-2.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		327	-2.3	3	-51	-13	-89
Italy		263	4.9	10	16	147	13
Portugal		115	-0.2	1	-13	9	-33
Spain		106	1.2	4	-3	38	-12

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
4/23/2019	Level		Change (in %)					Level		Change (in basis points)				
8:08 AM	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		6.72	-0.1	-0.1	0	-6	2		3.4	1.1	4	21	-13	16
Indonesia		14080	0.0	0.0	1	-1	2		7.7	4.4	0	3	81	-42
India		70	0.1	0.0	-1	-5	0		7.6	5.9	8	16	-23	14
Philippines		52	-0.1	-0.6	1	1	1		5.3	-0.1	-1	-15	21	-100
Thailand		32	-0.2	-0.4	-1	-1	1		2.6	0.4	3	4	22	-3
Malaysia		4.13	0.1	0.1	-1	-6	0		3.9	0.2	12	7	-15	-17
Argentina		42	-1.0	-1.5	-1	-52	-11		22.2	-0.6	-104	-158	499	-77
Brazil		3.94	0.0	-0.8	-2	-12	-1		8.1	-1.6	-3	-3	-7	0
Chile		664	-0.3	-0.1	2	-9	5		4.1	0.4	-2	-11	-57	-38
Colombia		3156	0.1	-0.5	-1	-11	3		6.2	2.2	1	4	9	-35
Mexico		18.89	-0.3	-0.1	1	0	4		8.2	1.7	6	12	67	-55
Peru		3.3	-0.3	-0.3	0	-2	2		5.4	-1.3	-3	1	20	-37
Uruguay		34	-0.3	-1.1	-3	-17	-6		10.5	0.9	2	7		-20
Hungary		285	-0.3	-0.7	-2	-10	-2		2.0	0.0	-9	16	48	-18
Poland		3.81	-0.3	-0.7	-1	-10	-2		2.3	0.0	1	6	-17	3
Romania		4.2	-0.2	-0.3	-1	-10	-4		4.3	0.0	-1	25	31	4
Russia		63.8	0.0	0.5	0	-3	9		8.0	0.4	2	4	91	-43
South Africa		14.2	-0.4	-1.2	1	-13	1		9.3	0.0	-4	-29	62	-34
Turkey		5.84	-0.3	-1.2	-5	-30	-9		19.4	6.1	-27	207	659	252
US (DXY; 5y UST)		97.3	0.1	0.4	1	7	1		2.39	0.0	-2	14	-43	-12

	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		3199	-0.5	-2	3	4	28		174	0	-1	-2	-5	-20
Indonesia		6463	0.7	1	-1	2	4		175	-1	-5	-21	1	-61
India		38565	-0.2	-1	1	12	7		154	-1	-3	-7	18	-42
Philippines		7819	-0.2	-1	-2	1	5		82	0	-1	-17	-19	-39
Malaysia		1627	0.3	0	-2	-13	-4		126	0	0	-3	8	-36
Argentina		30787	-3.9	-2	-6	0	2		845	-2	35	77	444	30
Brazil		94588	0.0	2	1	10	8		244	0	1	-8	14	-29
Chile		5234	-0.5	0	0	-8	3		125	-1	0	-10	0	-41
Colombia		1591	1.1	-1	0	1	20		173	-1	-2	-15	2	-55
Mexico		45381	-0.3	2	7	-6	9		291	-1	-3	-11	42	-63
Peru		20874	-0.3	-1	-1	-3	8		120	-1	0	-21	-23	-48
Hungary		42760	-0.1	0	2	11	9		101	-2	-4	-26	1	-47
Poland		60856	-0.1	0	0	0	5		40	-1	-2	-24	-2	-45
Romania		8396	-0.1	2	5	-6	14		199	-1	-5	-1	71	-22
Russia		2589	0.2	1	4	15	9		200	-1	-1	-22	-7	-52
South Africa		59195	0.0	1	4	3	12		293	3	7	-21	48	-72
Turkey		95953	0.0	1	-4	-14	5		497	-4	-7	17	184	68
Ukraine		551	3.1	3	0	49	-1		596	3	23	-40	138	-191
EM total		44	-0.4	0	4	-6	13		337	-1	0	-17	37	-77

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