



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, April 29, 2019






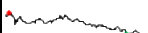

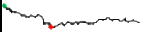



- US equity indices close on an all-time high as volatility declines further ([link](#))
- Socialist Party wins Spanish elections; new government negotiations begin ([link](#))
- Standard & Poor's affirms Italy's rating and 'negative' outlook ([link](#))
- US officials: Trade negotiation with China in "the final laps" ([link](#))
- Argentine assets still under pressure as political risks mount ([link](#))
- Weekly EM bond fund inflows decelerate to their lowest level this year ([link](#))

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## Developed market assets move higher on repressed volatility, but risks remain

While the rally in developed market assets continued last week, emerging markets were weighed down by a stronger US dollar and increased political and policy uncertainty. US equity markets ended the week at an all-time high, supported by stronger-than-expected corporate earnings and declining implied volatility. It is notable that speculative net-shorts against the VIX index were at their highest level on record. US fixed-income markets also performed well, with the yield on 10-year Treasuries dipping slightly below the critical 2.5% support level. This was driven by expectations of downside pressures on policy rates following relatively soft inflation and personal consumption prints. While European assets followed their US counterparts higher, emerging markets ended the week on a negative note. They were weighed down by weaker commodity prices, a strengthening US dollar, and idiosyncratic risks – including the signaling of a tighter policy stance in China and greater political uncertainty in Argentina.

### Key Global Financial Indicators

Last updated: 4/29/19 8:25 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2940	0.5	1	4	10	17
Eurostoxx 50		3488	-0.3	0	4	-1	16
Nikkei 225		22259	-0.2	0	5	-1	11
MSCI EM		44	0.2	-2	2	-7	12
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.51	-3.4	-8	10	-45	-18
Germany 10y Yield		-0.01	1.4	-3	6	-58	-25
EMBIG Sovereign Spread		347	-1	9	-4	38	-67
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.4	0.1	-1	0	-10	0
Dollar index, (+) = \$ appreciation		98.1	0.1	1	1	7	2
Brent Crude Oil (\$/barrel)		71.9	-0.3	-3	5	-4	34
VIX Index (% change in pp)		13.1	0.4	1	-1	-2	-12

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

**This is likely to be an event-heavy week in the US and Europe.** Major focus will be on the FOMC rate decision (Wednesday), with consensus expecting no change in the Fed's policy rate. Amongst other economic releases, the April ISM manufacturing will be released on Wednesday (55.0 expected) and the April nonfarm payroll is expected on Friday (net 185k increase expected). On the corporate earnings front, big names including Apple, Alphabet, and GM are expected to release their reports next week. Beyond the US, the Bank of England is expected to keep rates on hold on Thursday given the lack of inflationary pressures and continued Brexit uncertainty. Other global market releases to lookout for include China's Manufacturing PMI on Monday (55.0 expected), as well as CPI Inflation (Tuesday) and Manufacturing PMI (Thursday) from a few Euro area countries. In Japan, Emperor Akihito abdicates his throne on Tuesday, at the age 85.

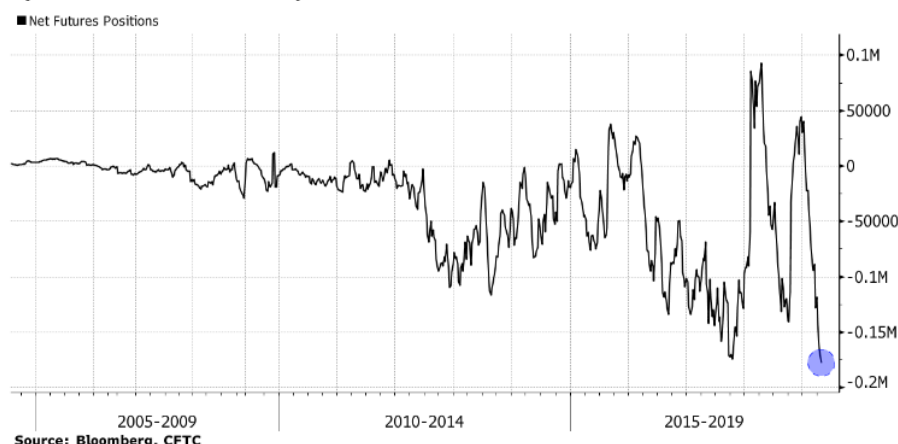
## United States

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**Stock markets finished the week at a new all-time high** on solid earnings results. Market volatility continued to decline, with VIX edging down to 12.7. As of April 23, speculators were net short the volatility index by about 178 thousand contracts – the largest ever short based on CFTC data. Analysts noted that such aggressive betting against stock market volatility index could be evidence of either confidence or complacency.

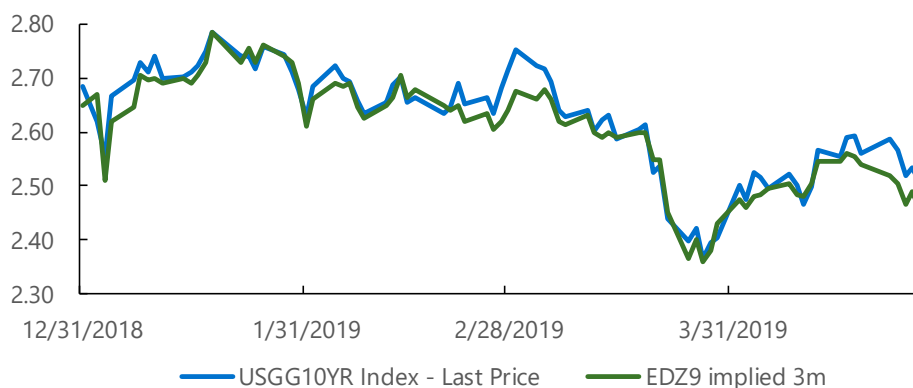
### VIX Positioning

**Speculators' net short VIX positions are at an all-time record**



**Treasury yields dropped on growing expectation for the Fed to ease.** 10-year Treasury yield initially spiked up by a couple of basis points following the stronger-than-expected GDP headlines in the morning, but soon dropped to below 2.5% as investors digested the fact that more than half of the growth 1Q2019 was driven by inventory accumulation and net exports. Conversely, domestic demand was much softer than the headline growth figures seemed to indicate. This, along with a softer-than-expected core inflation print on Friday and a slightly weaker-than-expected PCE deflator number this morning, has increased market expectations of further easing by the Fed, according to market contacts. The yield on the December 2019 Eurodollar futures contract dropped by 5bps.

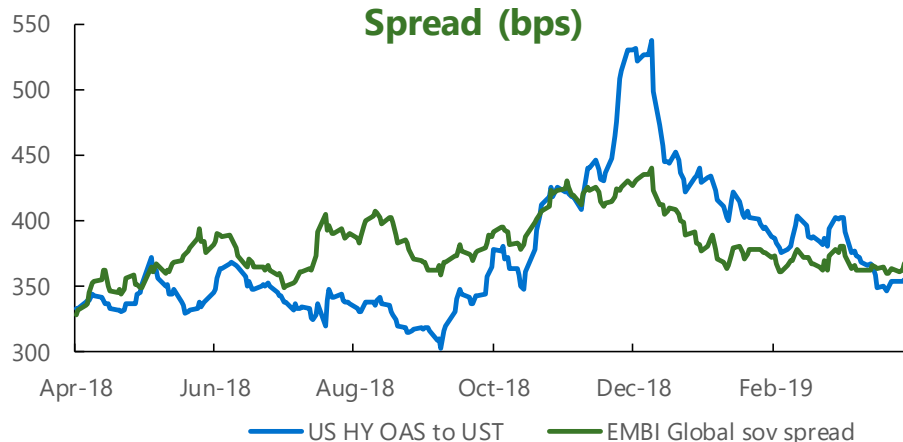
### US Treasury 10y and Eurodollar futures implied 3m rate (%)



Source: Bloomberg

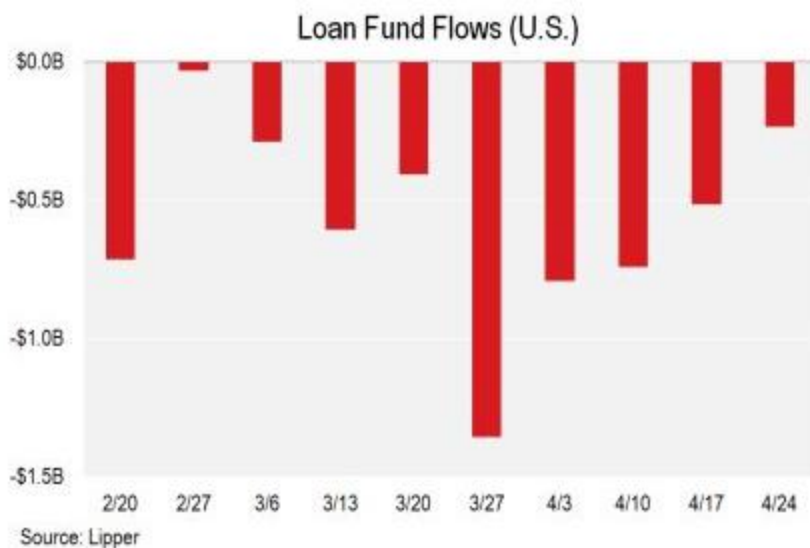
**US high yield corporate bond spreads are narrower than EMBI Global spreads.** US corporate bond markets have rebounded since the sell-off late last year, with solid demand from investors and lower net supply providing a stronger boost to the market. The Fed's dovish tilt has also played a role. The recent outperformance relative to emerging market sovereigns may have been due to a less dovish policy stance by Chinese policy makers, a stronger dollar, and the fact that a few large issuers in emerging markets, such as Argentina and Turkey, are currently under strain.

### US High Yield Spread vs. EMBI Global Spread (bps)



Source: Bloomberg

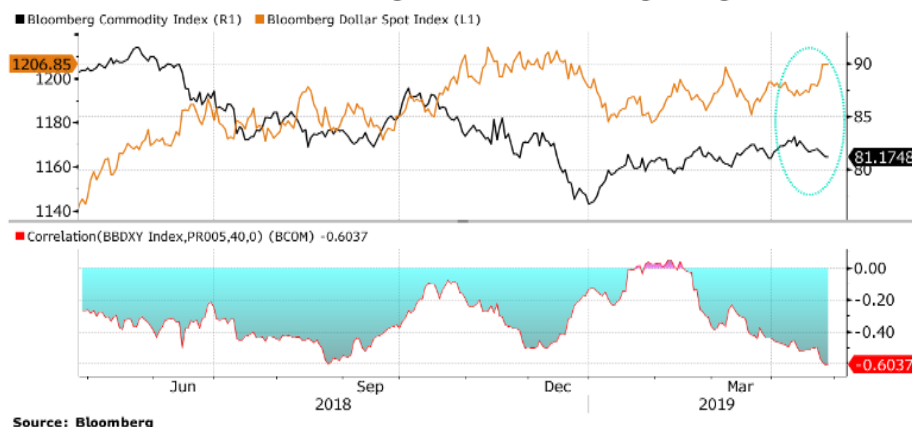
**Loan fund flows have shown signs of improvement.** Despite continued outflows for 23 consecutive weeks, cash withdrawals from US loan funds dropped to \$237 mn for the week ending April 24, their lowest level in eight weeks, according to Lipper. This may be partly due to the relatively well-performing US assets which have been supported by a strong dollar. ETF flows were positive for the second straight week, at \$37 mn, reportedly.



**Commodity prices fell on the stronger dollar and a potentially less dovish Chinese policy stance.** The Bloomberg commodity index fell to a six-week low, as the dollar spot index rose to the highest level year-to-date. The 40-day rolling correlation between the dollar and commodity indices is now at the most negative in a year which, according to contacts, reflects a pessimistic outlook on demand, fueled by a sign of possible tightening of monetary conditions in China, insinuated by the Politburo leadership last week.

### Dollar Shackles

**Commodities and dollar see their negative correlation strengthening**



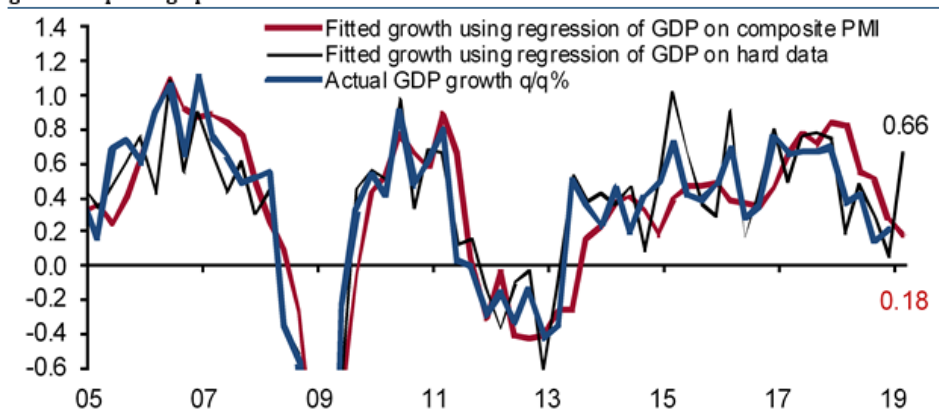
## Europe

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**The major European bourses edged down about 0.4% today:** EuroStoxx 600 (-0.3%), DAX (-0.4%), and CAC 40 (-0.4%). Bank stocks are outperforming, gaining 0.2% on the day. **Euro area sovereign bond markets are steady.** German 10-year bunds at -0.003% (-2 bps); French at 0.36% (-2 bps); Italy at 2.58% (flat); Spain at 1.00% (-2 bps); Portugal at 1.11% (-1 bp). The euro traded at \$1.12 (+0.1%) and sterling at \$1.29 (+0.1%). **Moreover, major data releases are expected this week**, including inflation and GDP prints for France, Italy, Spain, Germany, and the Eurozone as a whole. For the later, and despite repeated

disappointments through 2018, some analysts are hopeful that recent improvements in Q1 high-frequency indicators are boding well for overall activity.

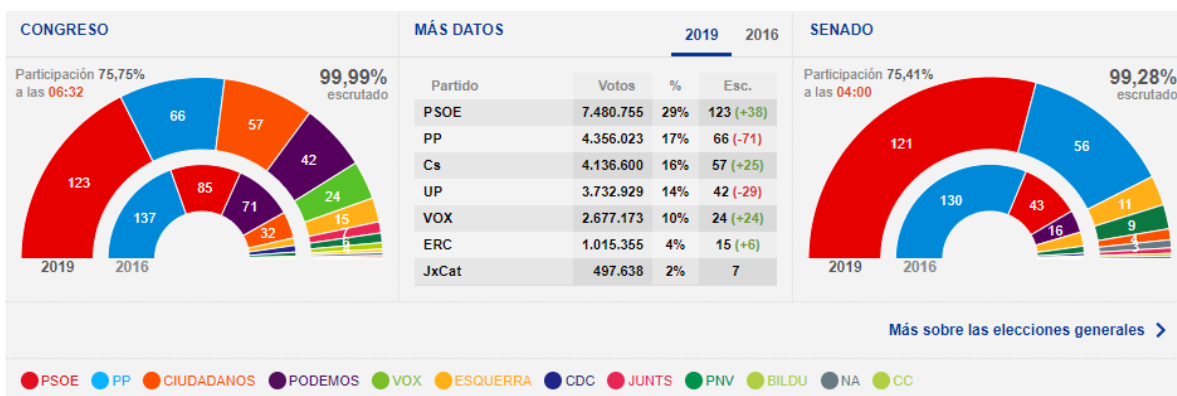
**Figure 1: Business surveys point to subdued economic activity in Q1 – but hard data suggest that growth is picking up**



Source: Credit Suisse, Markit, Eurostat, the BLOOMBERG PROFESSIONAL™ service

## Spain

**The socialist party (PSOE) won the elections in Spain, obtaining 123 seats in the 350-seat parliament and 29% of the votes.** The center-right party PP unexpectedly dropped even beyond the worst forecast, garnering only 17% of the vote (66 seats in congress). Far-right party Vox obtained 10% of support (24 seats). The split outcome of the election will likely now lead to protracted negotiations to form government. **The Ibex 35 index was 0.4% lower on Monday**, underperforming European peers. Sovereign yields were unchanged.



## Italy

**Standard & Poor's affirmed Italy's 'BBB/A-2' rating and 'negative' outlook on Friday.** The agency noted that "current economic and fiscal settings have put public debt on an upward path" and that Italy enjoys a relatively long-dated debt profile. However, S&P expects the economy to stagnate in 2019 and fears that new policies could add rigidity to the labor market. Italian 2-year and 10-year yields are 2 bps

lower this morning, at 0.51% and 2.56% respectively. **The Titans 30 stock index is 0.5% higher while Italian bank equities have climbed about 2%**, outperforming peers.

### United Kingdom

**On Brexit news**, S&P and Fitch's ratings both have said that the risk of 'no-deal' Brexit has not abated despite the extension to October. Negotiations between the Tories and the Labour Party for a Brexit deal continue this week. Commentators note that the conservative party is keen on securing an agreement before the European elections on May 23<sup>rd</sup>.

### Other Mature Markets [back to top](#)








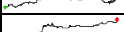


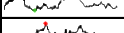



#### Japan

**The yen was steady while other markets were closed during the extended Golden Week holiday.** On trade, the FT reported that US hopes of completing a deal with Japan by end-May were dented. According to the newspaper, Japanese Prime Minister Abe is unlikely to agree to greater US access to the country's agricultural market ahead of the upper house elections in July, a key US demand for a trade deal. Meanwhile, the FT reported that the US has not been willing to make any concessions.

### Emerging Markets [back to top](#)

**Stocks and currencies weakened substantially during the week (e.g. MSCI EM: -1.5% vs. +1.2% for S&P 500) as market turmoil in Argentina and Turkey added to investor concerns of slower economic growth in Asia.** Asian equities (+0.5%) gained on net but performance across markets varied. Chinese equities (Shanghai -0.8%; Shenzhen -2.4%) underperformed due to weakness in small caps and concerns over stimulus withdrawal as the economy stabilizes. Meanwhile, Korea (+1.7%), Singapore (+1.5%), and Hong Kong (+1.0%) posted the biggest gains. Regional currencies were broadly stable. In **EMEA**, most indices are down slightly but Czech Republic (-2.6%) is the outlier. The selloff followed reports claiming that PM Babis is discussing plans to impose additional taxes on selected industries, including banks. Currencies are little changed with the South African rand (+0.5%) the only notable mover. In **Latin America**, the main underperformer was Argentina with the currency depreciating by 1.9% against the dollar on Friday and by 8.9% over the week.

Key Emerging Market Financial Indicators

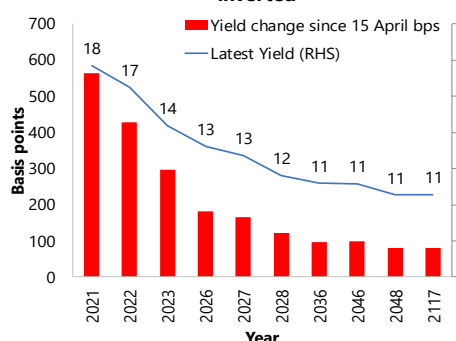
Last updated: 4/29/19 8:28 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		43.88	0.2	-2	2	-7	12
MSCI Frontier Equities		28.28	-0.4	-1	-1	-15	8
EMBIG Sovereign Spread (in bps)		347	-1	9	-4	38	-67
EM FX vs. USD		62.44	0.1	-1	0	-10	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.73	-0.1	0	0	-6	2
Indonesian Rupiah		14209	-0.1	-1	0	-2	1
Indian Rupee		70.02	0.3	-1	-2	-5	0
Argentine Peso		45.90	-1.9	-9	-7	-55	-18
Brazil Real		3.93	0.1	0	0	-11	-1
Mexican Peso		18.93	0.1	-1	3	-1	4
Russian Ruble		64.51	0.4	-1	2	-2	8
South African Rand		14.33	0.4	-1	1	-13	0
Turkish Lira		5.94	0.0	-2	-6	-32	-11
EM FX volatility		8.32	1.6	0.0	-0.9	0.0	-1.5

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

## Argentina

**The Argentine peso underperformed all other EM currencies on Friday and last week depreciating by 1.9% and by 8.9% respectively against the dollar.** The main underperformer among Argentine assets has been the front end of the dollar credit curve, with bond prices converging to 70% - 80% of par value across the curve, as investors pay closer attention to emerging risks ahead of the upcoming elections. Investors' focus on political risks seems to have increased, as polls have shown a continued deterioration over the past two weeks in President Macri's ratings vis-à-vis Cristina Kirchner. Pollsters such as Isonomia, Aragón, and RTD give a 8-9pp voting intention lead to Cristina Kirchner in a second-round run-off, while others, such as Synopsis, project a tighter race when taking into consideration "undecided" voters.

**Argentina's credit curve has become more inverted**



Source: Bloomberg

## Second-round

	Date	Macri	CFK	Undecided	Macri-CFK gap
Synopsis	Mar	50.8	49.2	n.a.	1.6
Rouvier	Mar	38.0	38.6	23.4	-0.6
Isonomia	Mar	42.0	43.0	15.0	-1.0
Aragón	Apr	33.6	41.3	25.0	-7.7
Synopsis	Apr	49.1	50.9	n.a.	-1.8
Rouvier	Apr	37.1	41.1	21.8	-4.0
Isonomia	Apr	36.0	45.0	20.0	-9.0

Source: JPMorgan

## EM Fund Flows

**Fund flows last week showed the first EM hard currency bond fund outflows of the year, driven by ETF redemptions.** EM bond fund inflows decelerated to their lowest level this year following hard currency fund redemptions (driven by ETFs), while EM equity funds saw modest outflows. EM bond fund flows were \$222 mn (from +\$784 mn). EM equity fund flows were -\$105 mn (from +\$ 294mn). **Year to date flows to EM bonds and equities are still at very strong levels: +\$38 bn and +\$23 bn, respectively.**

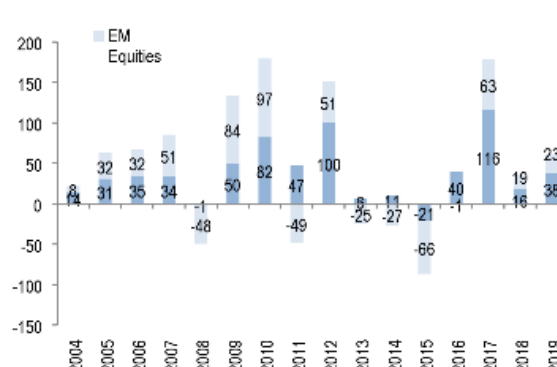
### Exhibit 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		0.1	60.8
EM Bonds		0.2	37.7
Hard Ccy		-0.4	29.5
Local Ccy		0.6	8.2
EM Equities		-0.1	23.0
US HG		5.9	61.7
US HY		-0.5	16.9
Global Equities		-4.1	-4.8
EM Bond and Equity ETFs		-0.3	28.8
EM Bond ETFs		-0.4	7.8
EM Equity ETFs		0.1	20.9
Non-resident EM flows*		0.8	27.9
EM Local Bonds		0.0	6.4
EM Equities		0.8	21.5

### Exhibit 2: Annual EM bond and equity fund flows

USD billion



\*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg



## China

**Equities underperformed, led by losses in small caps and worries that policy support would be pared back amid signs of economic recovery.** Other than the decline in tech, brokers also underperformed as the authorities crack down on margin trading. The overall weak equity performance came amid a rebound in industrial profits, rising 13.9% y/y in March. The rise marked the end of four months of contraction and was also the biggest increase since August 2018. Upstream sectors and autos led the recovery of sales in the industrial sector. **China 10-year government bond yields rose 2 bps to 3.42% as bonds are set for their worst month since 2010.** The onshore and offshore RMB were steady.

**US Treasury Secretary Mnuchin stated that trade negotiations with China are in 'the final laps', according to NYT.** He stated that talks are nearing a point that they could either produce a deal or end with no agreement. The two biggest remaining sticking points are the enforcement mechanism and whether the US would agree to remove all, or at least most of the tariffs on Chinese imports. Mnuchin and US Trade Representative Lighthizer will be in Beijing for negotiations starting from tomorrow, followed by a visit by Chinese Vice Premier Liu He to Washington, starting on May 8.

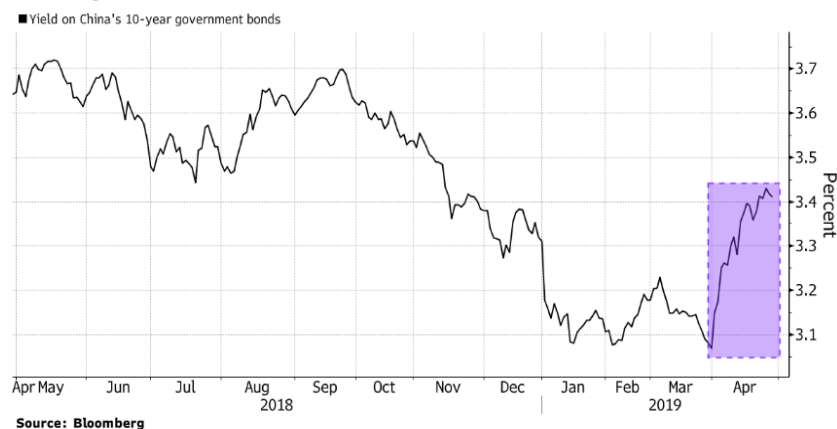
## Bad Omen

**China stocks lose ground as Shanghai benchmark dips below key 3,100 level**



## A Tough Month

**China's government bonds set for worst month since October 2010**




























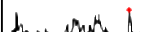





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## Global Financial Indicators













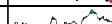
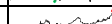

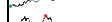








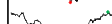

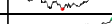
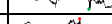








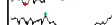

Last updated: 4/29/19 8:27 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2940	0.5	1	4	10	17
Europe		3488	-0.3	0	4	-1	16
Japan		22259	-0.2	0	5	-1	11
China		3062	-0.8	-5	-1	-1	23
Asia Ex Japan		72	0.3	-2	2	-6	14
Emerging Markets		44	0.2	-2	2	-7	12
<b>Interest Rates</b>			basis points				
US 10y Yield		2.51	-3.4	-8	10	-45	-18
Germany 10y Yield		-0.01	1.4	-3	6	-58	-25
Japan 10y Yield		-0.04	0.0	-1	4	-10	-4
UK 10y Yield		1.15	0.6	-5	15	-30	-13
<b>Credit Spreads</b>			basis points				
US Investment Grade		110	0.1	-1	-8	11	-37
US High Yield		399	-0.2	6	-20	59	-122
Europe IG		58	-0.8	0	-7	4	-29
Europe HY		249	-1.2	2	-20	-22	-104
EMBIG Sovereign Spread		347	-1.0	9	-4	38	-67
<b>Exchange Rates</b>			%				
USD/Majors		98.06	0.1	1	1	7	2
EUR/USD		1.12	0.0	-1	-1	-8	-3
USD/JPY		111.7	-0.1	0	-1	-2	-2
EM/USD		62.4	0.1	-1	0	-10	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		72	-0.3	-3	5	-4	34
Industrials Metals (index)		118	-0.4	-1	-4	-12	8
Agriculture (index)		39	0.1	-1	-2	-21	-6
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.1	0.4	0.7	-0.6	-2.3	-12.3
10y Treasury Volatility Index		3.8	0.2	0.3	-0.6	0.0	-0.7
Global FX Volatility		6.5	0.1	0.4	-0.9	-0.9	-2.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		332	-0.4	3	-49	-4	-84
Italy		260	-0.8	2	4	143	10
Portugal		113	-2.1	-2	-19	5	-35
Spain		102	-2.7	-3	-15	33	-16

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

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## Emerging Market Financial Indicators

Last updated: 4/29/2019 8:30 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						YTD
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.73	-0.1	-0.3	0	-6	2		3.4	-1.5	3	27	-19	19
Indonesia		14209	-0.1	-0.9	0	-2	1		7.9	2.8	17	13	68	-29
India		70	0.3	-1.0	-2	-5	0		7.5	-3.4	1	12	-35	9
Philippines		52	0.1	-0.1	1	-1	1		5.2	-5.5	-8	-20	-3	-108
Thailand		32	0.1	-0.2	-1	-1	2		2.6	-0.4	1	8	15	-2
Malaysia		4.13	0.0	-0.1	-1	-5	0		3.8	0.0	-10	-2	-40	-27
Argentina		46	-1.9	-8.8	-7	-55	-18		26.8	115.3	452	133	877	376
Brazil		3.93	0.1	0.2	0	-11	-1		8.2	0.5	3	6	-11	5
Chile		675	0.1	-1.8	1	-11	3		4.1	0.4	0	-11	-64	-39
Colombia		3238	-0.2	-2.4	-3	-13	0		6.3	0.3	14	13	17	-23
Mexico		18.93	0.1	-0.5	3	-1	4		8.2	-6.7	2	13	63	-55
Peru		3.3	0.3	-0.5	0	-2	2		5.4	0.1	1	3	3	-35
Uruguay		35	-0.4	-1.2	-4	-18	-7		10.8	-1.3	25	32		4
Hungary		289	-0.1	-1.6	-1	-10	-3		2.0	-2.0	1	19	48	-16
Poland		3.85	0.1	-1.2	0	-9	-3		2.3	-0.3	3	4	-12	5
Romania		4.3	0.2	-0.8	0	-9	-5		4.3	0.0	-3	18	19	1
Russia		64.5	0.4	-1.1	2	-2	8		8.0	-2.4	1	7	89	-42
South Africa		14.3	0.4	-1.2	1	-13	0		9.4	-5.6	12	-15	59	-22
Turkey		5.94	0.0	-1.9	-6	-32	-11		20.6	20.5	124	230	777	370
US (DXY; 5y UST)		98.1	0.1	0.8	1	7	2		2.29	0.7	-9	6	-51	-22

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		3062	-0.8	-5	-1	-1	23		173	-1	-1	-3	-5	-21
Indonesia		6426	0.4	0	-1	9	4		179	-2	3	-17	-3	-57
India		39067	0.0	0	1	12	8		156	2	1	-9	15	-40
Philippines		7897	0.4	1	0	2	6		82	-2	0	-9	-21	-39
Malaysia		1637	-0.1	1	0	-12	-3		124	-1	-2	-5	4	-38
Argentina		30001	1.5	-6	-10	0	-1		985	16	138	213	566	170
Brazil		96236	-0.3	2	1	11	9		245	-1	1	-4	7	-28
Chile		5192	0.4	-1	-1	-9	2		126	0	0	-6	-3	-40
Colombia		1598	-0.1	0	1	2	21		173	0	-1	-11	-6	-55
Mexico		44975	-0.1	-1	4	-7	8		289	-1	-3	-20	30	-65
Peru		20846	0.7	0	-1	-3	8		125	-1	4	-5	-26	-43
Hungary		42614	-1.0	0	2	11	9		104	-5	1	-14	-8	-44
Poland		60754	-0.4	0	2	2	5		44	-3	3	-15	-14	-41
Romania		8416	0.0	2	5	-6	14		198	0	-1	-2	56	-23
Russia		2565	0.1	-1	3	12	8		201	-2	0	-26	-2	-51
South Africa		58599	-0.5	-1	4	2	11		307	-2	17	-7	58	-58
Turkey		94724	-0.1	-2	1	-12	4		509	-4	8	15	192	80
Ukraine		560	0.0	5	-2	18	0		650	-1	57	18	173	-137
EM total		44	0.2	-2	2	-7	12		347	-1	9	-4	38	-67

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