Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, April 3, 2019

- **US tech company equity issuance robust in Q1 ([link])**
- **UK government to attempt cross-party approach to break Brexit gridlock ([link])**
- **EM sovereign issuance was robust in March ([link])**
- **Chinese corporate bond defaults surge in 2019 Q1 ([link])**
- **Turkish lira steadies, but 1-week implied volatility remains elevated ([link])**

US | Europe | Other Mature | Emerging Markets | Market Tables

Global markets further retrace recent sell-off

Global equity markets and sovereign debt yields edged higher as progress appears to have been made in some long-simmering geopolitical problems. The next round of trade talks between China and the US starts today, and despite some lingering challenges, such as how to monitor and enforce commitments made by China, investors appear optimistic that a successful conclusion to the talks is approaching. These reports, together with a better-than-expected Caixan Services PMI print, helped lift Asian equity indices. In the UK, PM May stated that the government will now work with the opposition Labour party to pass a Brexit agreement and avoid a no-deal Brexit. If successful, the most likely path would be to pursue a customs union arrangement with the support of the Labour leadership, even if it means alienating many in the PM's own Conservative party. Better-than-expected services PMIs throughout Europe furthered the modest risk-on momentum. Core European rates rose upto 6 bps through the 10-year tenor, with the yield on the German 10-year Bund turning positive for the first time in 8 sessions.

Key Global Financial Indicators

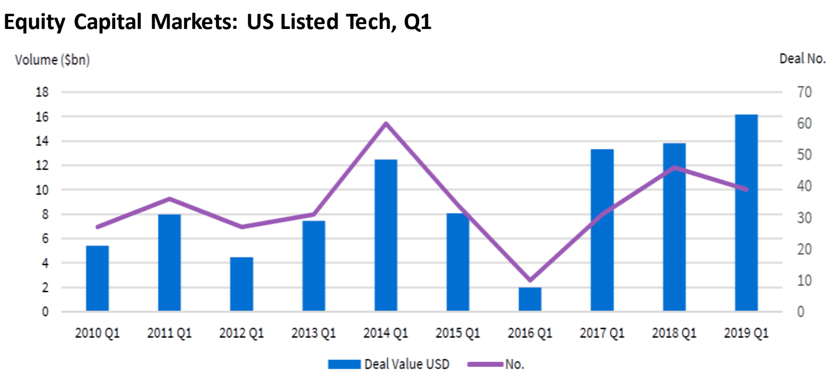
Last updated: 4/3/19 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2867	0.0	2	2	10	14
Eurostoxx 50		3426	0.9	3	3	2	14
Nikkei 225		21713	1.0	2	1	2	8
MSCI EM		43	0.3	2	2	-9	11
Yields and Spreads				bps			
US 10y Yield		2.51	-2.7	15	-24	-26	-17
Germany 10y Yield		0.01	5.6	9	-18	-49	-24
EMBIG Sovereign Spread		341	-3	-17	5	42	-73
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		63.2	0.3	1	0	-11	1
Dollar index, (+) = $ appreciation		97.0	-0.3	0	1	8	1
Brent Crude Oil ($/barrel)		69.6	0.3	3	7	2	29
VIX Index (%, change in pp)		13.0	-0.3	-2	-1	-8	-12

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

United States back to top

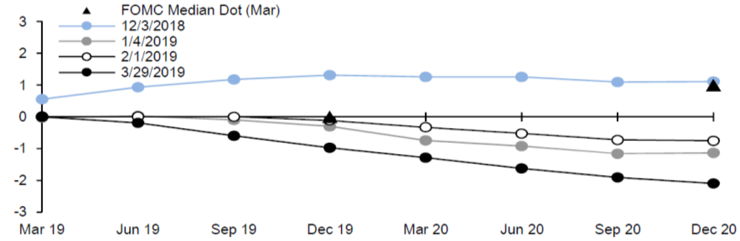
Stocks finished mixed Tuesday. The S&P 500 traded without direction through most of the session and finished unchanged on the day. Equity volatility as measured by the VIX index fell to 13.1 pts yesterday, to near the low for the year. Technology sector shares advanced modestly, and the technology-heavy Nasdaq index finished with a 0.3% gain. That Nasdaq is nearly 19% higher on the year and many tech stocks are now trading near their record highs.

Ride-sharing firm Lyft continued its slump after falling below its initial price offering Monday. Lyft's IPO was expected to pave the way for a series of other unicorns (private companies valued at greater than $1 bn) to debut in public markets this year. Still, technology sector equity issuance has been heavy. There were $16.2 bn in issuance in Q1 according to Dealogic—the second highest Q1 amount since the height of the dot.com bubble in 2000. There are currently 15 IPOs in the pipeline with 4 from China. Chinese regulators have recently urged Chinese tech companies to issue domestically rather than conduct US or Hong Kong SAR launches.



Treasury yields fell Tuesday, with the yield on the 2-year note down 3 bps to 2.30% and the 10-year note yield down 3 bps to 2.47%. The spread between the yields of 3-month bills and 10-year Treasury notes is back to single digits (5 bps) following its recent dis-inversion and steepening. OIS (overnight indexed swaps) markets recently are pricing nearly **two rate cuts by the end of 2020** according to JPMorgan analysis. Markets are worried over signs of weaker global growth, Brexit, trade concerns, and geopolitical strains.

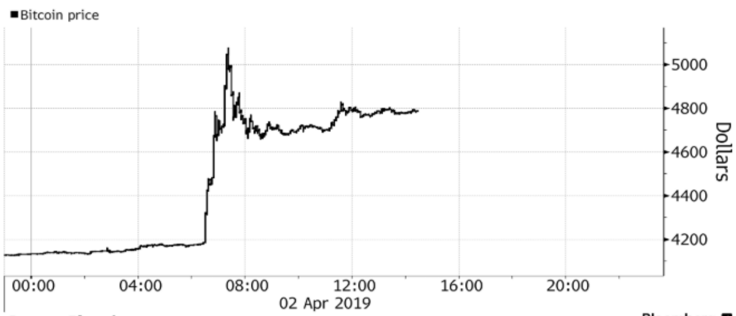
Exhibit 3: OIS markets are now pricing in two full cuts by the end of 2020
Hikes priced into forward OIS timed to FOMC SEP meetings and hikes implied by median dot from the March FOMC Summary of Economic Projections



Source: J.P. Morgan
Note: Assumes the effective Fed funds rate (EFFR) is even with IOER that's set 10bp below the upper end of the target range

Bitcoin surged more than 20% to over $5,000 intraday yesterday. Some reports believe the catalyst was a large mystery purchase. Digital asset values surged $17 bn in under an hour according to CoinMarketCap.com. Bitcoin's value slumped 74% last year according to Bloomberg.

Bitcoin jumps on Tuesday after several months of calm



Source: Bloomberg Bloomberg

Europe

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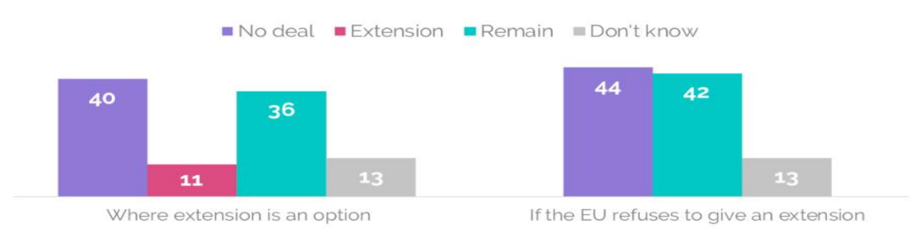
United Kingdom

PM May plans to ask for a short extension for Article 50 and invited the opposition Labour party to work out a joint plan for Brexit. The government would like to pass an agreement bill before May 22 to avoid having to participate in the European Parliament elections. Observers note that a compromise between the parties should lead to a softer Brexit outcome, such as a customs union, and marks a significant reduction in the risk of a no-deal Brexit. A recent poll by YouGov showed that if a deal is not agreed by 12 April and the EU refuses to extend the deadline, 44% of those surveyed would prefer to leave without a deal and 42% would chose to remain (right-hand chart below). The pound has rallied in reaction, appreciating 0.5% over the last two sessions to just under $1.32 against the dollar. Measures of implied volatility declined somewhat but remain elevated.

If a Brexit deal is not agreed by 12 April and the EU refuses to extend the deadline, Brits are split 44% vs 42% on leaving without a deal or remaining
If Britain has not agreed a deal by April 12th, what do you think should happen? %



YouGov | yougov.com 31 March - 1 April 2019

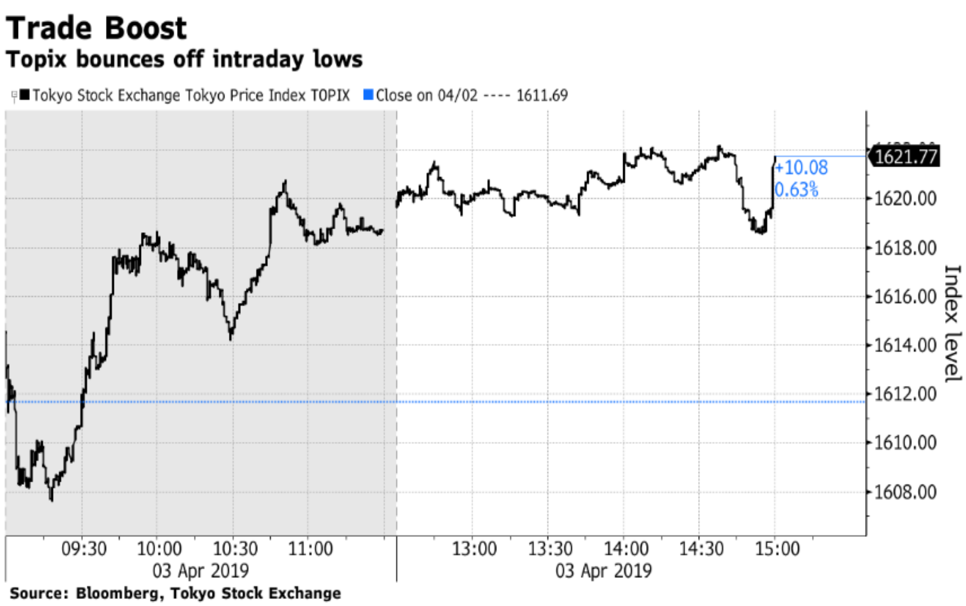
Europe

Equity markets are broadly higher with the EuroStoxx 600 rising 0.7% led by the German Dax (+1.2%). The UK FTSE 100 is underperforming (+0.2%) weighed by the stronger sterling. Yields are up across the region rising 5 and 7 bps at the back end of the German and UK curve. The 10-year Bund yield is trading at 0.01%, after having spent eight sessions in negative territory. Of note, the yield on investment-grade euro debt continues to decline and is now at a 1-year low around 0.8% (Barclays Agg yield to worst index).

Other Mature Markets back to top

Japan

Japanese equities (Nikkei +1.0%; Topix +0.6%) gained on positive trade headlines. Stocks recovered from losses early in the trading session, led by cyclicals. This was despite weaker services PMI, which fell to 52.0 in March from 52.3 in February. The yen weakened 0.2%, while 10-year JGB yields rose 0.2 bps to -0.073%.



Emerging Markets back to top

Emerging markets have enjoyed a relatively positive session today. Asian equities (+1.0%) rose, boosted by positive trade news and better-than-expected Chinese services PMI data. Chinese (Shanghai +1.2%; Shenzhen +0.8%), Hong Kong (+1.2%), Korean (1.2%) and Singaporean (+1.0%) stocks were the biggest gainers. Asian currencies appreciated, with the Philippine peso (+0.7%) outperforming, while others broadly strengthened 0.1-0.2%. EMEA equities saw another quiet session with most indices up by about 0.5%. Poland (+1.1%) was the strongest performer. Currencies in the EMEA region were slightly stronger against the dollar. Latin American markets were quiet yesterday, with currencies slightly softer against the dollar, led by Mexico (-0.4%) and Chile (-0.2%). Equities were generally lower across the region, led by Argentina (-1.4%).

Key Emerging Market Financial Indicators

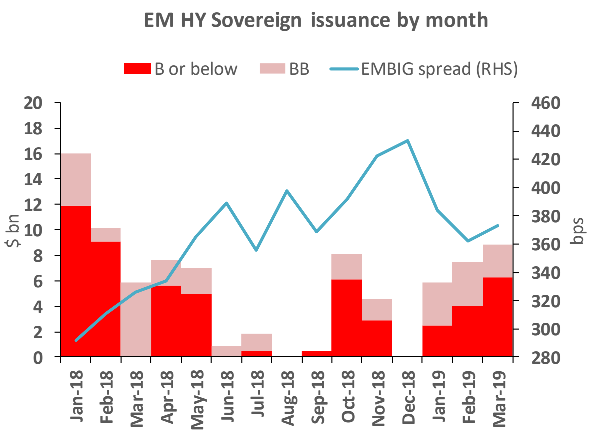
Last updated:	Level		Change				
4/3/19 8:11 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		43.49	0.3	2	2	-9	11
MSCI Frontier Equities		28.74	-0.1	1	1	-19	10
EMBIG Sovereign Spread (in bps)		341	-3	-17	5	42	-73
EM FX vs. USD		63.18	0.3	1	0	-11	1
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.71	0.2	0	0	-6	3
Indonesian Rupiah		14223	0.0	0	-1	-3	1
Indian Rupee		68.43	0.5	1	4	-5	2
Argentine Peso		42.73	1.4	-2	-7	-53	-12
Brazil Real		3.84	0.4	4	-2	-13	1
Mexican Peso		19.15	0.4	1	1	-5	3
Russian Ruble		65.23	0.1	-1	1	-12	6
South African Rand		14.15	0.4	3	1	-16	1
Turkish Lira		5.61	0.0	-5	-4	-29	-6
EM FX volatility		8.64	0.0	-0.6	0.4	0.4	-1.1

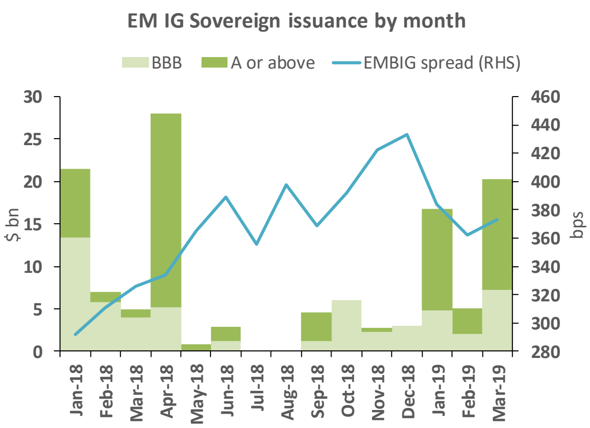
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

EM Sovereign Issuance

Last week, EM Sovereign issuance was relatively subdued with only Sharjah (UAE) ($1 bn) and Romania ($3.4 bn) coming to the market.

After a strong pick up in issuance in March, sovereign issuance this year stands at $68 bn, slightly above the previous record levels of 2017 and 2018. Like last year, issuance is driven by highly rated GCC issuers ($20bn so far in 2019). **Issuance by low rated issuers increased for a third month in a row** in March with Ghana issuing $3 bn, Sri Lanka $2.4 bn and Benin making its debut issuance with $0.6 bn.

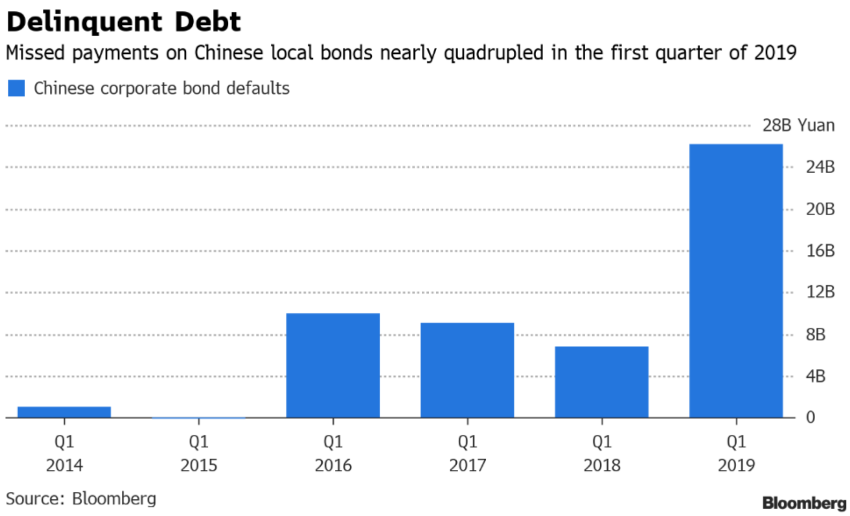




China

Chinese equities (Shanghai +1.2%; Shenzhen +0.8%) were buoyed by positive trade news and services PMI. According to the FT, top US and Chinese officials have resolved most issues standing in the way of a trade deal, corroborating with the New York Times report yesterday. That said, both sides have yet to agree on the terms of an enforcement mechanism and the fate of existing tariffs. Separately, China's Caixin Services PMI accelerated to 54.4 in March from 51.1 in February, led by improvements in new business. It was the highest print since January 2018 (54.7) and also beat Bloomberg consensus of 52.3.

This brought the Composite PMI to 52.9 in March, picking up from 50.7 previously. **The onshore and offshore RMB strengthened 0.2%.**



Chinese corporate bond defaults surged in 2019Q1. According to Bloomberg, Chinese firms missed payments on CNY26.2 bn of local bonds, almost quadrupling that in 2018Q1. This was also the third highest quarter of bond defaults in history as profitability remained weak. **Chinese AAA 10-year corporate bond spread have widened 7.6 bps year-to-date to 119.4 bps.**

Colombia

Analysts see potential ratings pressure for the sovereign after fiscal rule changes were announced last Friday. Colombia's Finance Ministry announced that budget deficits of 2.7% and 2.4% of GDP would be allowable for 2019 and 2020 according to the Fiscal Rule Committee, after factoring in both the outperformance of oil prices and additional spending needs related to Venezuelan migrants. This creates deficit slippage of 0.3 and 0.1 percentage points of GDP relative to original deficit targets, which were not as large as the 0.5 some analysts feared. Nonetheless, Fitch Ratings noted the decision "undermines the credibility" of the fiscal rule and fiscal policy in general, and other analysts noted that a downgrade from Moody's may follow. Since Friday, the currency strengthened 1% but hard currency bonds declined -0.8%.

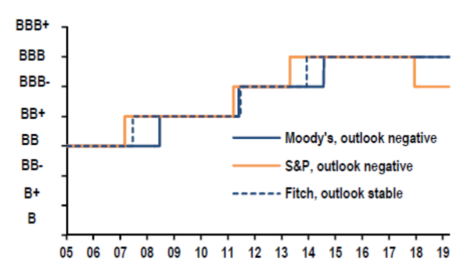
Table 1: Fiscal Rule Committee's adjustments to the targets

% of GDP

	2018	2019	2020
Original deficit target	3.1	2.4	2.2
Rule mandated (better oil)	3.1	2.2	1.9
Permitted by committee	3.1	2.7	2.3
Implied Venezuela allowance		0.5	0.4
Slippage versus original plan		0.3	0.1

Source: Finance Ministry and J.P. Morgan

Figure 4: Colombia's sovereign ratings



Source: S&P, Fitch and Moody's

Source: JP Morgan

EM Sovereign Issuance

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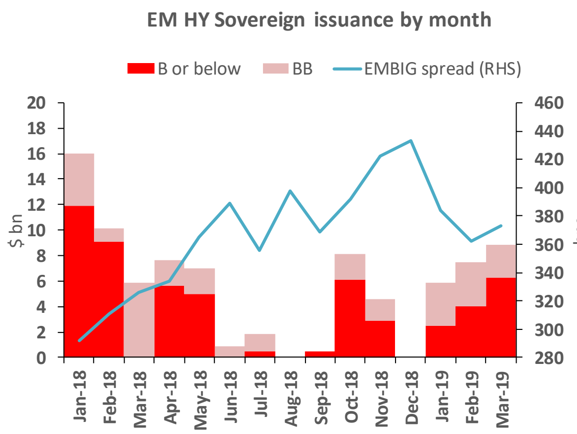
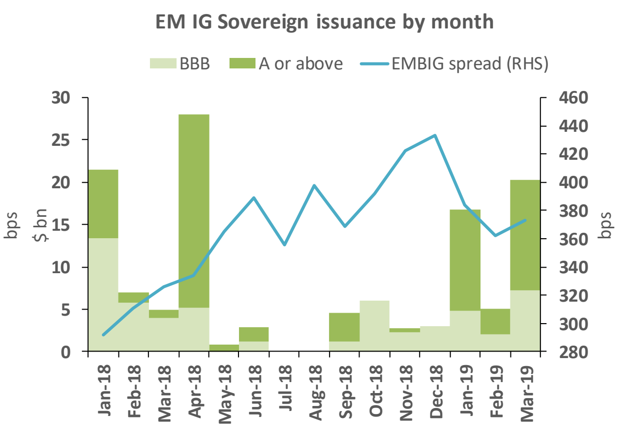
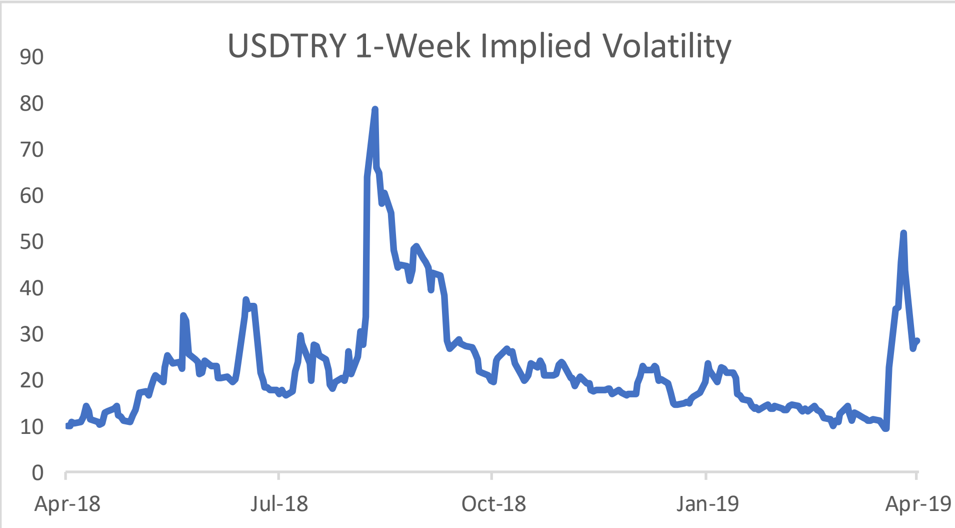




Turkey

The lira was steady as inflation in March came in slightly above expectations. The annual increase of 19.71% was slightly above the consensus of 19.63% and follows a peak of over 25% last year. The absence of disinflation is likely to prevent significant monetary easing by the central bank in coming months while renewed lira volatility has complicated the bank's task further according to analysts. The currency stabilized this morning and was rangebound after a 2.2% weakening yesterday. Implied volatility levels have also retracted somewhat following the weekend's elections but remain elevated.



Source: Bloomberg

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Global Financial Indicators

Last updated: 4/3/19 8:10 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2867	0.0	2	2	10	14
Europe		3427	0.9	3	3	2	14
Japan		21713	1.0	2	1	2	8
China		3216	1.2	6	7	3	29
Asia Ex Japan		72	-0.2	3	3	-7	13
Emerging Markets		43	0.3	2	2	-9	11
Interest Rates					basis points		
US 10y Yield		2.51	-2.7	15	-24	-26	-17
Germany 10y Yield		0.01	5.4	9	-18	-50	-24
Japan 10y Yield		-0.05	1.7	2	-4	-8	-5
UK 10y Yield		1.08	7.3	6	-22	-28	-20
Credit Spreads					basis points		
US Investment Grade		117	0.5	-4	-2	17	-30
US High Yield		406	-4.6	-26	9	46	-115
Europe IG		61	-1.6	-7	-1	1	-26
Europe HY		254	-4.9	-24	-23	-35	-99
EMBIG Sovereign Spread		341	-3.0	-17	5	42	-73
Exchange Rates					%		
USD/Majors		97.03	-0.3	0	1	8	1
EUR/USD		1.12	0.3	0	-1	-8	-2
USD/JPY		111.5	-0.2	-1	0	-4	-2
EM/USD		63.2	0.3	1	0	-11	1
Commodities					%		
Brent Crude Oil ($/barrel)		70	0.3	3	7	2	29
Industrials Metals (index)		123	0.9	1	1	-6	12
Agriculture (index)		41	0.5	0	-1	-17	-2
Implied Volatility					%		
VIX Index (%, change in pp)		13.0	-0.3	-2.1	-0.5	-8.1	-12.4
10y Treasury Volatility Index		4.0	0.1	-0.6	0.1	0.0	-0.6
Global FX Volatility		7.1	0.0	-0.4	0.1	-0.6	-1.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		365	-8.3	-21	19	-10	-50
Italy		251	-6.2	-2	-4	122	1
Portugal		127	-3.8	-7	-4	13	-21
Spain		113	-3.2	0	12	44	-4

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)						
4/3/2019	Level		Change (in %)					Level		Change (in basis points)				
8:12 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		6.71	0.2	0.3	0	-6	3		3.2	3.0	3	-1	-67	-5
Indonesia		14223	0.0	-0.4	-1	-3	1		7.7	1.2	2	-20	94	-41
India		68	0.5	0.7	4	-5	2		7.4	-3.5	-6	-15	-21	-8
Philippines		52	0.7	0.9	-1	0	1		5.3	-7.3	-14	-28	22	-102
Thailand		32	0.1	0.5	0	-2	2		2.6	-1.1	4	-6	18	-6
Malaysia		4.08	0.1	-0.2	0	-5	1		3.8	1.0	-3	-17	-17	-28
Argentina		43	1.4	-1.6	-7	-53	-12		23.7	0.0	-178	213	710	65
Brazil		3.84	0.5	4.1	-2	-13	1		8.1	-0.9	-4	-12	-18	-5
Chile		668	0.8	2.3	-1	-10	4		4.2	-1.7	-1	-21	-59	-29
Colombia		3146	-0.1	0.3	-2	-11	3		6.2	4.2	6	-22	-4	-30
Mexico		19.15	0.4	1.1	1	-5	3		8.1	-0.4	9	-18	68	-58
Peru		3.3	-0.1	-0.1	0	-3	2		5.3	2.5	0	-26	39	-38
Uruguay		34	-0.5	-0.5	-3	-16	-4		10.5	-0.9	5	21		-23
Hungary		285	0.7	-0.1	-2	-11	-2		1.9	-1.6	1	-26	35	-35
Poland		3.82	0.5	0.0	-1	-10	-2		2.3	-0.8	1	-7	-17	3
Romania		4.2	0.4	0.0	-1	-10	-4		4.2	8.0	14	6	33	-3
Russia		65.2	0.1	-0.6	1	-12	6		8.1	1.0	16	1	130	-33
South Africa		14.1	0.4	3.2	1	-16	1		9.3	4.6	-23	-21	74	-30
Turkey		5.61	0.0	-5.0	-4	-29	-6		19.2	27.7	92	349	638	232
US (DXY; 5y UST)		97.0	-0.3	0.3	1	8	1		2.32	3.5	17	-23	-27	-19

	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		3216	1.2	6	7	3	29		174	-2	2	-4	-6	-20
Indonesia		6476	0.0	0	0	4	5		191	-2	-2	2	13	-45
India		38877	-0.5	2	8	17	8		157	2	-8	-8	17	-39
Philippines		7895	0.2	0	3	-2	6		89	0	-2	8	-7	-32
Malaysia		1643	0.6	0	-3	-11	-3		127	0	1	1	3	-35
Argentina		33007	0.0	0	-2	6	9		754	-12	-36	36	335	-61
Brazil		95387	-0.7	0	1	13	9		246	-3	-12	15	11	-27
Chile		5209	-0.9	1	-1	-6	2		129	-2	-6	2	5	-37
Colombia		1580	-0.2	-2	4	6	19		180	-4	-6	-5	4	-48
Mexico		43325	-0.8	1	2	-7	4		304	-3	-3	-13	57	-50
Peru		21106	0.1	0	3	1	9		123	-4	-16	-8	-27	-45
Hungary		42148	-0.2	2	5	11	8		104	-4	-13	0	-6	-44
Poland		61815	1.2	3	3	5	7		48	-6	-10	3	-8	-37
Romania		8150	0.1	0	6	-7	10		203	2	3	13	57	-18
Russia		2543	0.5	2	3	12	7		215	-5	-8	8	28	-37
South Africa		57810	1.1	3	3	5	10		297	-5	-30	15	52	-68
Turkey		94614	1.1	3	-8	-17	4		473	-8	-39	73	155	44
Ukraine		564	-0.3	-2	2	57	1		598	-7	-36	-41	154	-189
EM total		43	0.3	2	2	-9	11		341	-3	-17	5	42	-73

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