



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, April 30, 2019





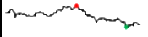
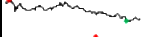

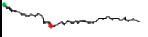


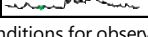
- European stocks slightly weaker despite relatively strong corporate earnings ([link](#))
- Chinese equities gain despite disappointing PMI prints ([link](#))
- Argentine peso rallies on new intervention policy by the BCRA ([link](#))
- Turkish central banks signal the possibility of tightening ([link](#))
- US credit charge-offs at record highs ([link](#))

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Quiet markets on generally benign macro and policy developments

Action in global equity market has been generally subdued today, though European stocks have been trading on the weaker side. This is despite euro area macro releases that mostly met, and in some cases even exceeded, market expectations. US equities set a new record high yesterday, as strong consumer spending boosted investor confidence in future earnings, and subdued inflationary pressures strengthened their expectations of a continued dovish stance by the Fed. Meanwhile, emerging markets continue to be weighed down by a number of risks as investors remain concerned about policy uncertainty in a number of countries, and about the potential impact of the imminent expiration of the US's Iran oil-sanctions waivers. Nevertheless, Chinese markets did retrace some of their losses from last week, despite slightly weaker manufacturing data. And in Argentina, the peso staged a strong rally yesterday as the authorities announced a new intervention policy aimed at stabilizing the currency market.

Key Global Financial Indicators

Last updated: 4/30/19 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2943	0.1	1	4	11	17
Eurostoxx 50		3502	0.0	0	4	-1	17
Nikkei 225		22259	-0.2	0	5	-1	11
MSCI EM		44	-0.3	-1	2	-6	13
Yields and Spreads			bps				
US 10y Yield		2.53	2.7	-3	13	-42	-15
Germany 10y Yield		0.04	3.3	-1	11	-52	-21
EMBIG Sovereign Spread		342	-3	3	-9	31	-72
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.5	0.2	0	0	-9	0
Dollar index, (+) = \$ appreciation		97.5	-0.3	0	0	6	1
Brent Crude Oil (\$/barrel)		73.1	1.4	-2	7	-3	36
VIX Index (% change in pp)		13.0	-0.1	1	-1	-3	-12

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

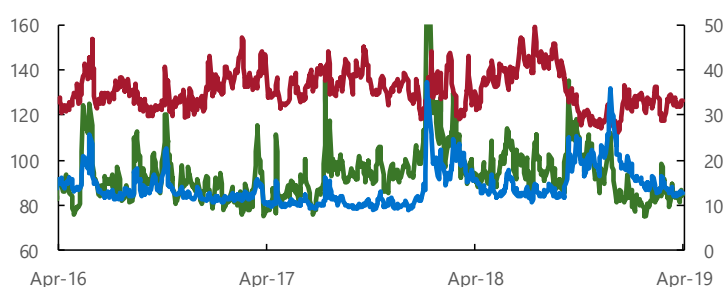
United States

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United States

Equities extended gains to renew the closing high. The market edged higher with banks and tech firms outperforming amid a relatively quiet session. Treasury 10Y yield rose 3bps with the **2-to-10-year yield curve steepening** by 2bps on better-than-expected personal spending data. There was no surprise from the Treasury Borrowing Advisory Committee yesterday, as both quarterly borrowing requirements and coupon offering size for coming quarters were in line with market expectations. Volatility remains low in both the stock and bond market. In the stock market, not only VIX but SKEW, the cost of insuring against large drops of equity price, as well as volatility of VIX, the price of options on VIX, are also very low by historical standards.

VIX, Volatility of VIX (VVIX), and SKEW (index)



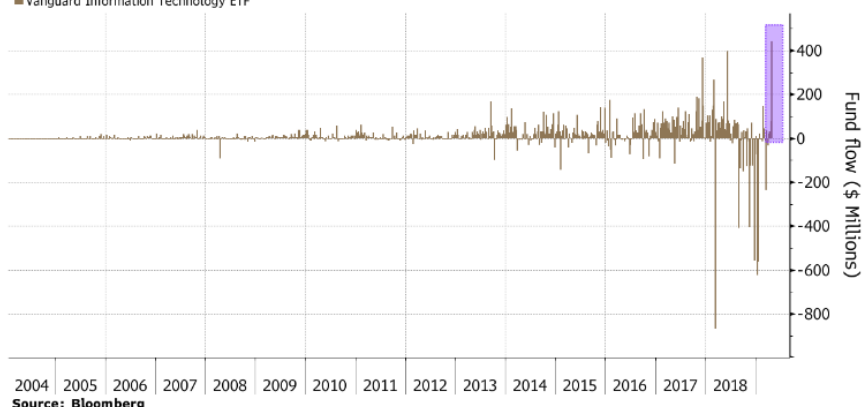
Source: Bloomberg — VVIX (left) — SKEW (left) — VIX (right)

Investors continue to flood into tech shares. US tech stocks saw \$1.3 bn of inflows last week, according to Bank of America Merrill Lynch, including more than \$400 mn that went into the Vanguard Information Technology ETF (VGT, see the chart below). Since the beginning of the year, the S&P 500 information technology sector index has risen by 27% outperforming every other sector. Investors, however, have not taken profit but rather accumulated their long exposures to the industry. Apple Inc., which is set to report earnings on Tuesday, is the VGT's largest holding.

Flooding Into Tech

Vanguard technology ETF sees largest weekly inflow on record

■ Vanguard Information Technology ETF



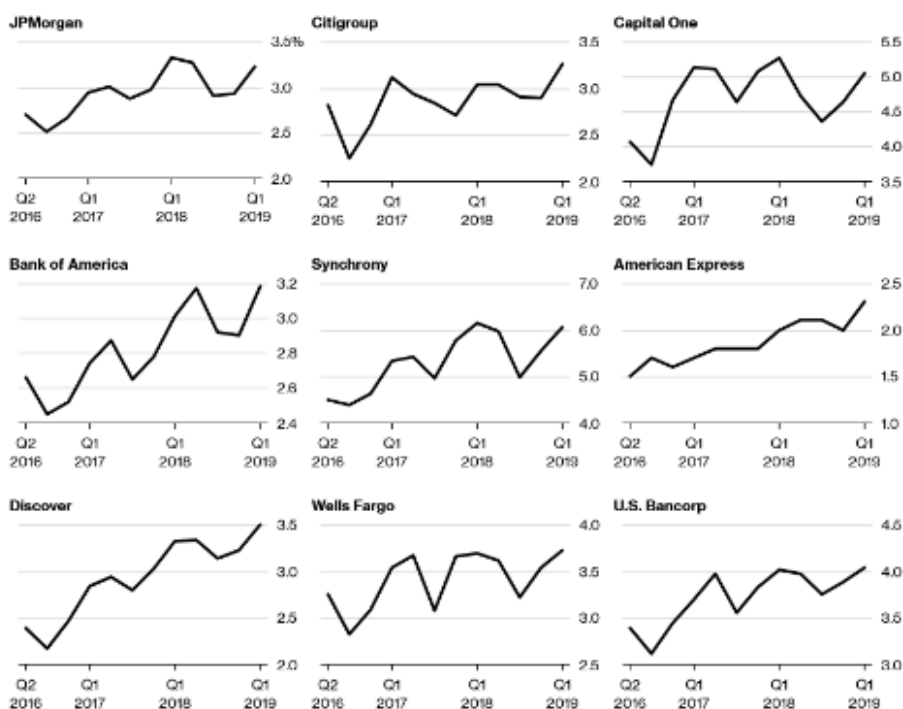
Source: Bloomberg

Credit-card charge-offs hit a seven-year high, just as negative past credit histories start falling off debtors' records. The charge-off rate, the percentage of loans that creditors have decided they could

never collect, rose to 3.8% in the first quarter of 2019, the highest since the second quarter of 2012, according to Bloomberg. Charge-off rates are creeping higher as a result of a “degradation” in credit quality as Richard Fairbank, the CEO at Capital One, commented. He said some customers with negative credit events during the financial crisis are now seeing those problems disappear from their credit-bureau reports, and “this is the time period when there is less information than there once was.”

Trouble Brewing

While still low by historical standards, card charge-offs are creeping higher



Source: Bloomberg Intelligence

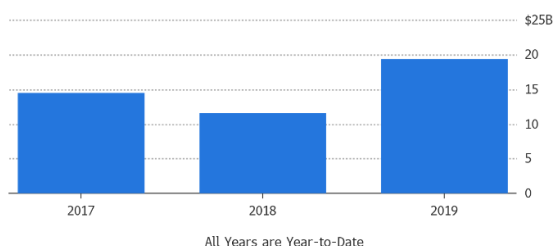
Bloomberg

Direct lending by non-banks hits record pace. Direct lenders, such as investment firms, originate loans to small and medium-sized companies rather than rely on traditional financial intermediaries to structure and distribute the debt. Private debt, through direct lenders, has proliferated as an asset class over the past decade as institutional investors sought greater diversification of their credit portfolios and higher returns in a low-interest rate environment. In 2010, direct lending globally raised less than \$10 bn for the entire year versus a record of almost \$70 bn in 2017. Direct lending has raised \$19 bn so far this year, which is a faster pace than year-to-date in the record year 2017, according to London-based research firm Preqin.

Historic Pace

Direct lending fund capital raise at faster rate than 2017's record year

■ Global direct lending funds

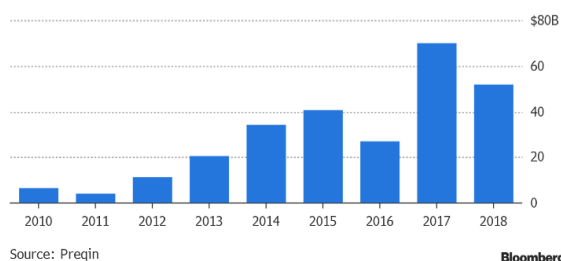


Source: Preqin

Booming Growth

Direct lending funds attract more and more capital

■ Global direct lending fund raises



Source: Preqin

Bloomberg

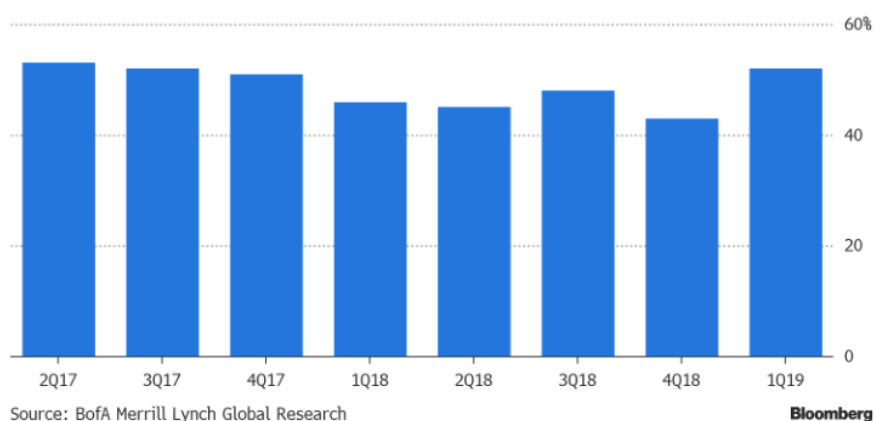
Europe[back to top](#)

European bourses faltered today taking all major indices slightly down: EuroStoxx 600 (-0.2%), DAX (-0.1%), and CAC 40 (-0.4%). Looking ahead, analysts are divided regarding equities' prospects as some note that the number of companies beating earnings expectations is the highest in seven quarters (and above 50%), while others point to forecast misses at some large companies such as Alphabet and Samsung.

European Surprise

The number of companies beating earnings estimates is highest in seven quarters

■ EPS beat



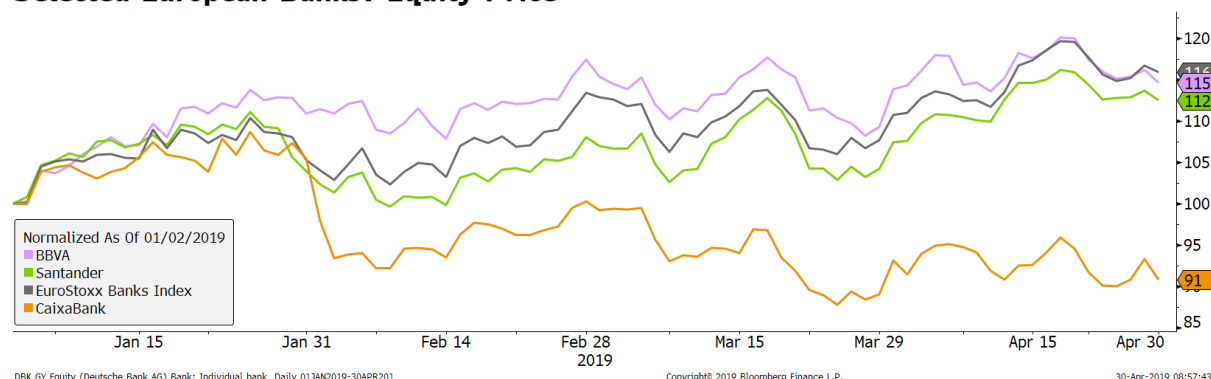
Source: BofA Merrill Lynch Global Research

Bloomberg

Bank stocks (-0.8%) underperformed today, dragged down largely by Spanish lenders. Santander (-1.0%) reported Q1 net income in line with forecasts. However, the bank's results in Spain and the UK were 9% and 11% below expectations, respectively, and offset by better performance in Portugal and the US.

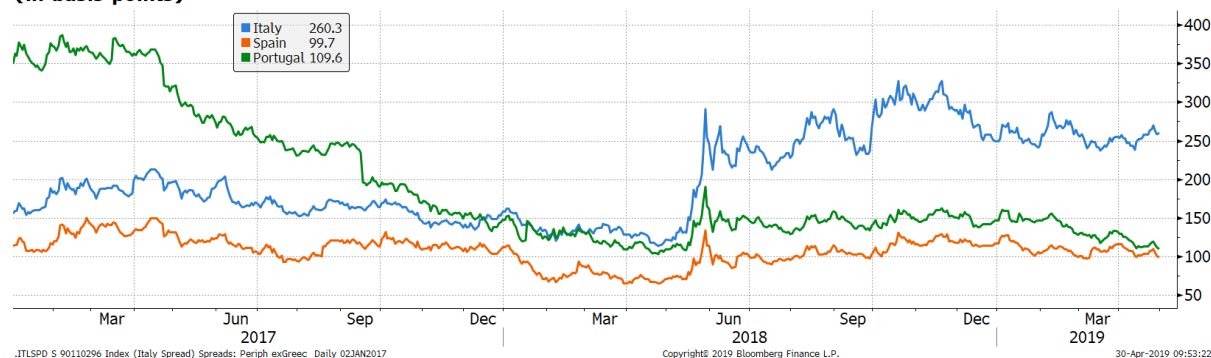
BBVA (-1.3%) reported net income above expectations thanks to lower provisions in Spain and Turkey; results in LatAm were stronger than expected. **CaixaBank (-2.8%)** Q1 net income missed estimates.

Selected European Banks: Equity Price



In eurozone sovereign bond markets, German and French 10-year yields inched higher, with the 10-year rate gaining 3 bps to 0.03% and 0.39%, respectively. Italian yields added 5 bps to 2.64%. Italy's spreads to German bunds remain above 250 bps.

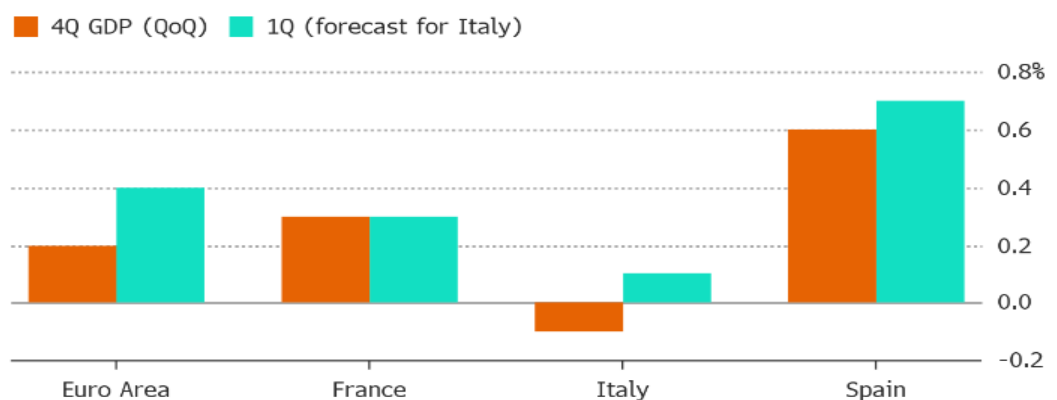
Selected European Sovereign Spreads to 10yr Bunds (in basis points)



Economic data releases today included:

- **France's** Q1 GDP came in at 1.1% year-on-year, matching expectations. CPI inflation for April stood at 1.2% y-o-y.
- **Spain's** Q1 GDP slightly surpassed forecasts, at 2.4% y-o-y vs. 2.3% expected. CPI inflation was 1.5% y-o-y in April, as expected.
- In **Germany**, the unemployment rate stayed at 4.9% in April, while it inched down in **Italy**, at 10.2% from 10.7% a month earlier.
- **Eurozone's** Q1 GDP growth stood at 1.2%.

Euro-area economy grows more than forecast in first quarter

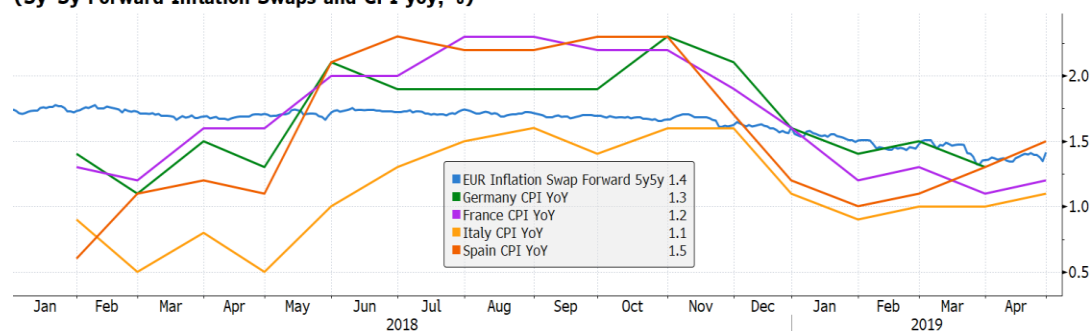


Source: National statistics agencies, Bloomberg survey of economists

Bloomberg

Inflation Expectations and CPI

(5y-5y Forward Inflation Swaps and CPI yoy, %)



Source: Bloomberg

FVISEUSS Index (EUR Inflation Swap Forward 5Y5Y) Infl. Exp: UK, EU Daily 01JAN20

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Emerging Markets

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EM markets are mixed. In Asia, Hong Kong stocks (-0.6%) underperformed even though Chinese equities (Shanghai +0.5%; Shenzhen +0.7%) gained following the weaker official China manufacturing PMI of 50.1 in April versus 50.5 expected and 50.5 in March. Korean equities (-0.6%) fell with weaker than expected industrial production. Regional currencies were little changed, with the Korean won underperforming (-0.8%). **In EMEA, asset prices are mixed.** Poland (-1.0%) and Russia (-0.5%) are underperforming in the equity space, while Turkey (+0.7%) is outperforming. In currency markets, however, the Turkish lira is underperforming (flat) in a session where most currencies are modestly stronger against the dollar. **In Latin America,** the Argentine peso appreciated by 3.5% following exchange rate policy announcements by BCRA but domestic assets remained under pressure (Merval: -3.7%).

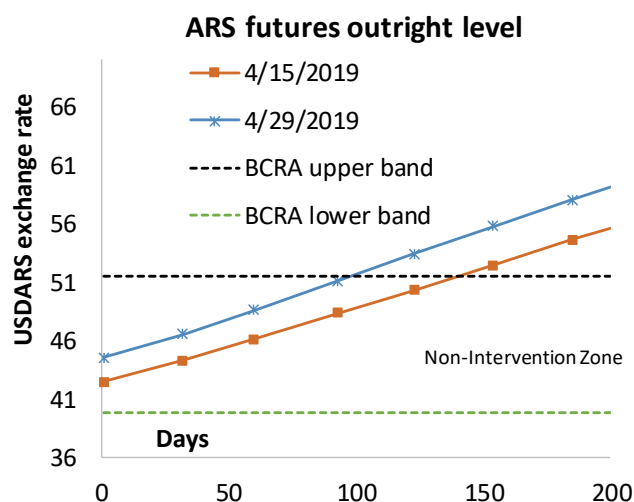
Key Emerging Market Financial Indicators

Last updated: 4/30/19 8:18 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.97	-0.3	-1	2	-6	13
MSCI Frontier Equities		28.14	-0.5	-2	-1	-16	8
EMBIG Sovereign Spread (in bps)		342	-3	3	-9	31	-72
EM FX vs. USD		62.46	0.2	0	0	-9	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.73	0.0	0	0	-6	2
Indonesian Rupiah		14259	-0.4	-1	0	-2	1
Indian Rupee		69.56	0.7	0	-1	-4	0
Argentine Peso		44.35	3.5	-5	-2	-54	-15
Brazil Real		3.93	0.3	0	-2	-11	-1
Mexican Peso		18.97	0.2	0	1	-1	4
Russian Ruble		64.38	0.1	-1	1	-2	8
South African Rand		14.29	0.2	0	-1	-13	0
Turkish Lira		5.96	-0.3	-2	-8	-32	-11
EM FX volatility		8.13	0.0	-0.1	-1.1	-0.2	-1.6

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

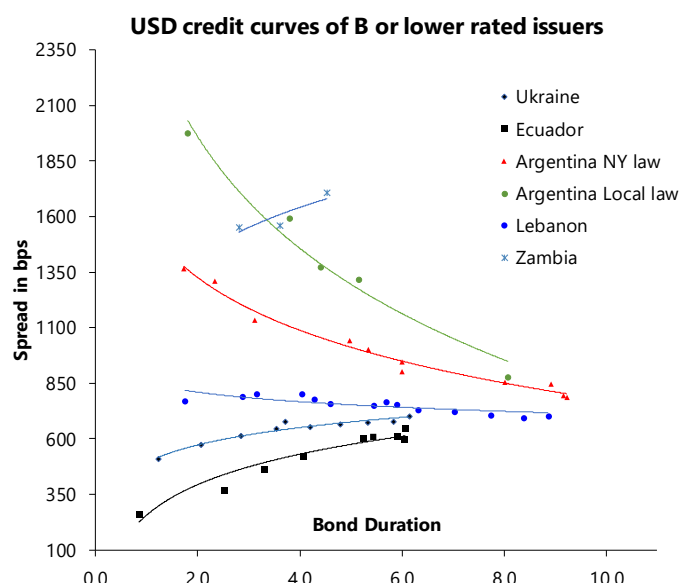
Argentina

The Central Bank of Argentina (BCRA) announced changes in their FX intervention strategy. The initial market reaction was positive, with the peso appreciating by 3.5% against the dollar and yields on dollar bonds declining led by the front end (2021: -160bps to 16.1%). Local assets (equities and bonds) traded weaker on the day (Merval: -3.7%, Lecap curve yields: +300bps) amid continued poor liquidity conditions. The BCRA announced that going forward it can intervene within the non-intervention zone (NIZ), and the amount and frequency will depend on market dynamics. The BCRA also announced that FX sales above the NIZ's upper band would be increased from \$150 mn to up to \$250 mn a day. In all cases, the money base target will be reduced by the amount of pesos absorbed from the FX sales. Analysts highlighted that the announcement acts as a positive "circuit breaker" in the peso market, given the recent negative feedback dynamics between the FX market and inflation and political developments.



Source: Bloomberg

The pension system fund (FGS) administered by the state (Anses) plans to buy Argentine short-term bonds such as the local-law dollar bond that matures in 2020, according to Bloomberg sources. FGS has a limit of exposure to public securities, but currently it could incorporate at least AR\$30b in its portfolio according to Bloomberg sources. Local law bonds are trading at large discount compared to NY law bonds.



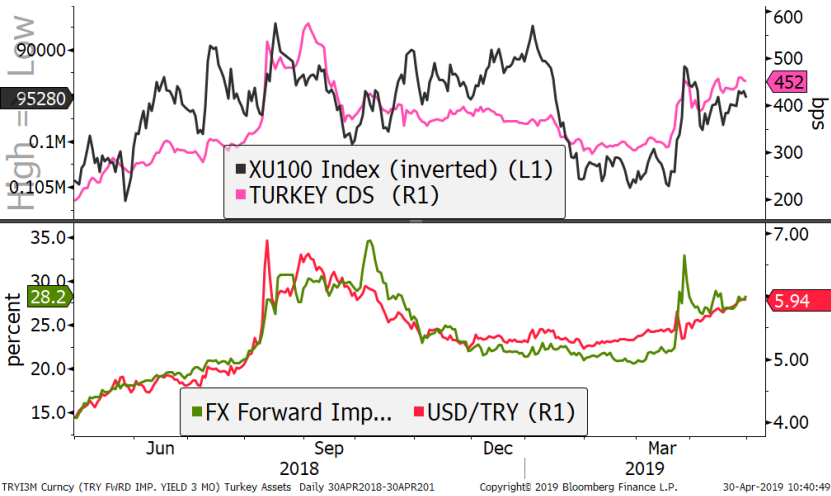
China

Equities rose (Shanghai +0.5%; Shenzhen +0.7%) despite across-the-board misses in the April PMIs. The official manufacturing PMI cooled to 50.1 in April versus expectations of 50.5 and 50.5 in March, while the Caixin manufacturing PMI also softened to 50.2 versus estimates of 50.9 and 50.8 in March. The official non-manufacturing PMI came in at 54.3 compared with expectations of 54.9 and 54.8 in March. Analysts attributed the stock market gains in spite of disappointing PMIs to hopes that the data prints will lead policy makers to maintain accommodative policy settings for longer. **10-year government bond yields fell 2.3bps to 3.39% while the RMB was unchanged.**

Turkey

The central bank said that tightening is still possible despite last week's statement (widely seen as dovish), but the lira did not react. The bank's inflation projections were left unchanged at 14.6% for this year and 8.2% for 2020 in its quarterly report. Contacts commented that the updated language was unconvincing and not a credible explanation for the change tone seen in the statement. Asset prices in Turkey continue to get hit as investors question the policy environment and central bank credibility. The lira is down over 11% year to date while local yields and CDS prices continue to rise.

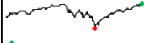





















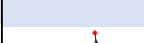




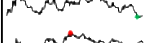

Turkish Asset Prices



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Global Financial Indicators

Last updated: 4/30/19 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2943	0.1	1	4	11	17
Europe		3502	0.0	0	4	-1	17
Japan		22259	-0.2	0	5	-1	11
China		3078	0.5	-4	0	0	23
Asia Ex Japan		72	0.4	0	2	-5	14
Emerging Markets		44	-0.3	-1	2	-6	13
Interest Rates			basis points				
US 10y Yield		2.53	2.7	-3	13	-42	-15
Germany 10y Yield		0.04	3.3	-1	11	-52	-21
Japan 10y Yield		-0.04	0.0	-1	4	-10	-4
UK 10y Yield		1.20	4.2	-3	20	-22	-8
Credit Spreads			basis points				
US Investment Grade		110	0.4	-1	-7	12	-37
US High Yield		395	-1.2	2	-24	55	-126
Europe IG		58	0.0	0	-5	3	-30
Europe HY		247	0.0	1	-11	-24	-105
EMBIG Sovereign Spread		342	-3.0	3	-9	31	-72
Exchange Rates			%				
USD/Majors		97.54	-0.3	0	0	6	1
EUR/USD		1.12	0.3	0	0	-7	-2
USD/JPY		111.3	0.3	0	0	-2	-1
EM/USD		62.5	0.2	0	0	-9	0
Commodities			%				
Brent Crude Oil (\$/barrel)		73	1.4	-2	7	-3	36
Industrials Metals (index)		119	0.3	0	-3	-11	9
Agriculture (index)		39	0.5	-1	-3	-21	-6
Implied Volatility			%				
VIX Index (% change in pp)		13.0	-0.1	0.7	-0.7	-2.9	-12.4
10y Treasury Volatility Index		4.0	-0.1	0.1	-0.4	0.1	-0.6
Global FX Volatility		6.5	0.0	0.2	-1.0	-1.0	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		334	3.4	6	-47	3	-82
Italy		253	-5.2	-10	-3	130	3
Portugal		108	-3.9	-8	-24	-3	-40
Spain		98	-3.1	-10	-19	26	-20

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: 4/30/2019 8:19 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		6.73	0.0	-0.1	0	-6	2		3.4	-0.4	2	27	-20	18
Indonesia		14259	-0.4	-1.3	0	-2	1		7.9	0.9	13	14	74	-28
India		70	0.7	0.1	-1	-4	0		7.5	0.0	-5	14	-33	9
Philippines		52	0.4	0.2	1	0	1		5.2	0.1	-8	-12	-8	-108
Thailand		32	0.0	0.0	-1	-1	2		2.6	-0.7	0	5	15	-3
Malaysia		4.13	0.0	-0.2	-1	-5	0		3.8	1.2	-9	4	-36	-26
Argentina		44	3.5	-4.7	-2	-54	-15		26.6	-21.5	431	258	848	354
Brazil		3.93	0.3	-0.2	-2	-11	-1		8.2	1.7	7	2	-2	7
Chile		680	-0.7	-2.3	0	-10	2		4.1	2.6	2	-8	-61	-36
Colombia		3248	-0.3	-3.3	-2	-14	0		6.3	6.1	18	18	24	-17
Mexico		18.97	0.2	-0.4	1	-1	4		8.2	4.7	5	9	74	-50
Peru		3.3	0.2	-0.2	0	-2	2		5.3	-4.9	-3	-3	-2	-40
Uruguay		35	0.0	-1.2	-4	-18	-7		10.8	6.2	30	28		10
Hungary		288	0.4	-0.8	0	-10	-3		2.1	3.0	4	25	52	-13
Poland		3.82	0.5	-0.1	0	-8	-2		2.3	2.3	5	7	-8	8
Romania		4.2	0.4	0.0	0	-9	-4		4.3	0.0	-3	17	19	1
Russia		64.4	0.1	-1.1	1	-2	8		7.9	-5.2	-4	-13	89	-47
South Africa		14.3	0.2	-0.2	-1	-13	0		9.4	-0.8	11	-3	58	-23
Turkey		5.96	-0.3	-2.3	-8	-32	-11		20.8	26.1	144	129	804	396
US (DXY; 5y UST)		97.5	-0.3	-0.1	0	6	1		2.31	0.2	-5	8	-48	-20

	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		3078	0.5	-4	0	0	23		174	0	0	-2	-6	-20
Indonesia		6455	0.5	0	0	8	4		177	0	-1	-19	-4	-59
India		39032	-0.1	1	1	12	8		150	-6	-4	-10	8	-46
Philippines		7953	0.7	2	0	2	7		74	-6	-10	-17	-28	-47
Malaysia		1642	0.3	1	0	-12	-3		125	0	-1	-4	5	-37
Argentina		28827	-3.9	-6	-14	-4	-5		932	-9	65	160	502	117
Brazil		96188	-0.1	2	1	12	9		243	-1	1	-6	2	-30
Chile		5170	-0.4	-1	-2	-9	1		125	0	-1	-7	-5	-41
Colombia		1590	-0.5	0	0	2	20		173	-1	0	-11	-7	-55
Mexico		44957	0.0	-1	4	-7	8		287	-1	-3	-22	24	-67
Peru		20887	0.2	0	-1	-3	8		124	-1	2	-6	-30	-44
Hungary		42607	0.3	-1	2	11	9		101	-2	-2	-17	-10	-47
Poland		60234	-1.0	-1	1	1	4		44	1	1	-15	-12	-41
Romania		8418	0.0	1	5	-5	14		194	-4	-5	-14	49	-27
Russia		2559	-0.4	-1	2	11	8		197	-1	-3	-30	-5	-55
South Africa		58717	0.1	-1	4	1	11		305	0	10	-9	52	-60
Turkey		95564	1.1	0	2	-8	5		501	-3	2	7	182	72
Ukraine		560	0.0	5	-2	18	0		641	-11	37	9	157	-146
EM total		44	-0.3	-1	2	-6	13		342	-3	3	-9	31	-72

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