Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, April 4, 2019

- **US corporate credit posts strong gains in the first quarter ([link](#))**
- **UK Parliament passes bill forcing the government to request further Brexit extension ([link](#))**
- **Chinese equities gain as trade talks expected to be nearing final stages ([link](#))**
- **Reserve Bank of India cuts policy rate by 25 bps to 6% as expected ([link](#))**
- **Brazilian markets weaken on further political dispute surrounding pension reform ([link](#))**
- **Polish central bank leaves policy rate unchanged and reiterates stable stance ([link](#))**

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

Global risk assets subdued despite further progress on trade talks

The optimistic mood in markets is staying afloat amid hopes that a US-China trade deal is getting closer. Risk appetite remained on a more positive footing yesterday. US equities traded modestly higher after trade optimism was partially stymied by some mixed economic data releases that pulled the indexes down from intraday highs. The risk-on momentum weighed on US Treasuries, where yields rose 3 to 5 bps across the curve and core European yields were up marginally through 10-year tenors. However, markets have paused for a breath this morning as Asian equity indexes saw mixed price action, European bourses are edging lower, and benchmark 10-year yields are slightly lower. In the UK, with PM May reaching out to the Labour party and a further Article 50 extension being requested, a softer and later Brexit still seems to be the most likely scenario, and this is supporting the sterling which remains stronger against the US dollar by about 1% so far this week. EM currency moves have been mostly subdued outside of the Indian rupee depreciating over 1% following the second consecutive 25 bp policy rate cut by the RBI. Economic data releases have been a major focus for investors this week and all eyes will be on the US employment report out tomorrow.

Key Global Financial Indicators

Last updated: 4/4/19 8:02 AM	Level Last 12m	Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2873	0.2	2	3	9	15
Eurostoxx 50		3434	0.0	3	4	3	14
Nikkei 225		21725	0.1	3	0	2	9
MSCI EM		44	-0.7	4	3	-9	12
Yields and Spreads					bps		
US 10y Yield		2.50	5.0	11	-22	-30	-18
Germany 10y Yield		-0.01	-1.9	6	-17	-51	-25
EMBIG Sovereign Spread		340	0	-18	-3	43	-74
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.1	0.0	1	0	-11	1
Dollar index, (+) = $ appreciation		97.2	0.1	0	1	8	1
Brent Crude Oil ($/barrel)		69.6	0.5	3	6	2	29
VIX Index (%, change in pp)		13.8	0.1	-1	-1	-6	-12

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

United States

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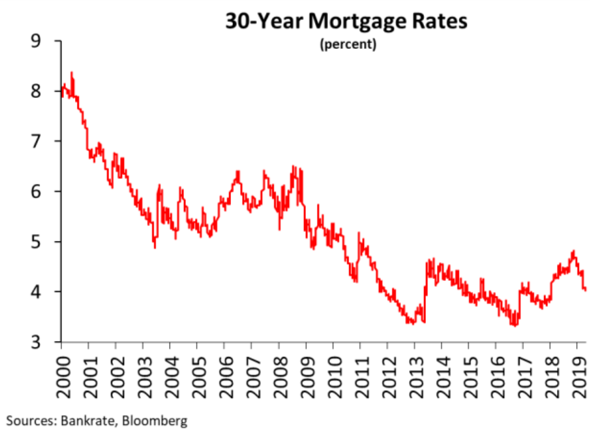
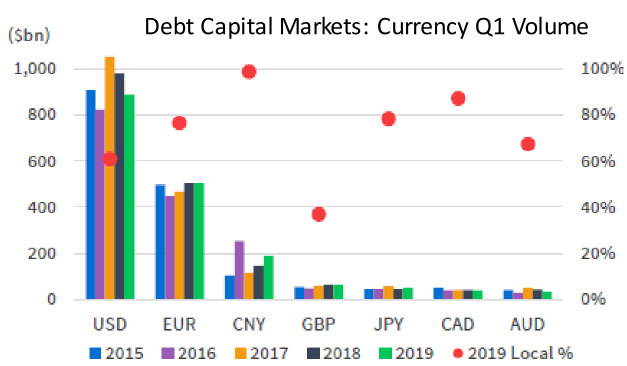
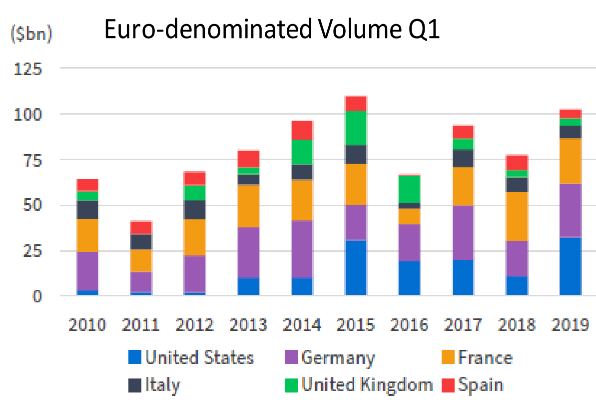
Major stock indexes closed slightly higher Wednesday. The S&P 500 rose for a fourth straight session to a 6-month high, buoyed by upbeat economic reports from China and Europe, and optimism over US-China trade talks. But **sectors were mixed** with materials (+1.3%) outperforming while energy (-1.0%) lagged as oil prices fell following a release by the EIA that showed US oil inventories grew more than expected.

Treasury yields rose yesterday, with the 2-year yield up 4 bps to 2.34% and the 10-year up 5 bps to 2.52%. Mortgage applications surged 18.6% last week, as mortgage rates continued to fall, with the 30-year fixed rate closing in on 4%. Refinancings jumped by 38.5%. In other economic news, ADP reported private sector firms added 129k jobs in March (vs 175k expected). Service sector activity as measured by both Markit and ISM showed further expansion in March. The key payrolls report comes out tomorrow, with investors looking to see if February's 20k increase was a fluke. **This morning, Treasury yields are slightly lower across the curve, with the 10-year yield down 2 bps, while S&P 500 futures are flat.**



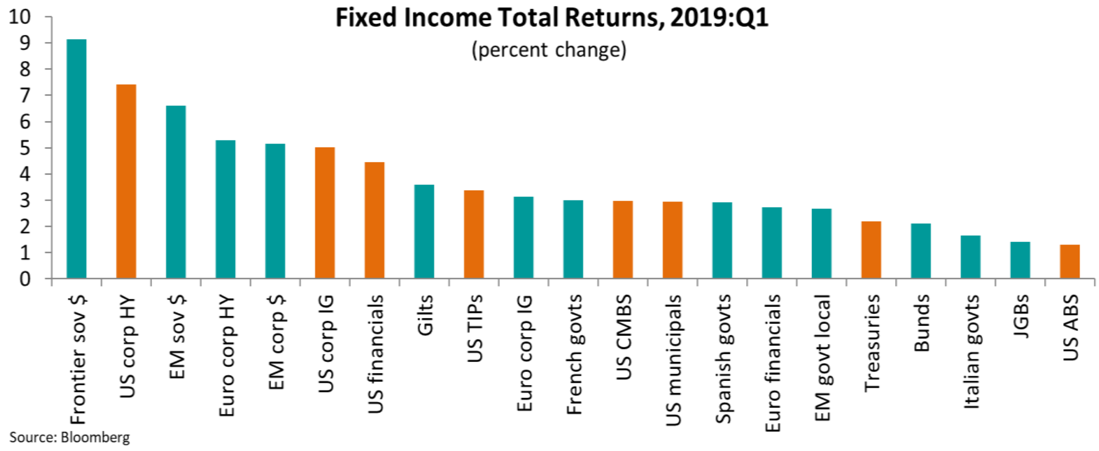
Bond issuance in US dollars totaled $886.4 bn in Q1 according to Dealogic, with 61% sold by domestic issuers. Bank of America has led underwriting so far this year, with an 8.8% market share according to Bloomberg. Euro-denominated bond issuance totaled $503.9 in Q1, with 76% issued by locals. US corporates sold $32.3 of euro-denominated debt, besting German and French issuance. Foreign borrowers issued 63% of sterling-denominated bonds. And for the first time, debt based on SONIA for floating rate tranches surpassed the volume of such using Libor.





Source: Dealogic

US corporate credit assets had a strong quarter. Frontier, emerging, and US and Euro area high-yield bonds outperformed their higher-rated fixed income peers. Frontiers returned over 9% in Q1. US high-yield bonds returned 7.4% while US investment-grade bonds posted just a 3.2% increase. US corporate high-yield spreads tightened 128 bps and investment-grade spreads 32 bps according to ICE indices. US-focused bond funds took in $56 bn in Q1, while US high-yield funds saw inflows of $12 bn according to EPFR Global.



Europe

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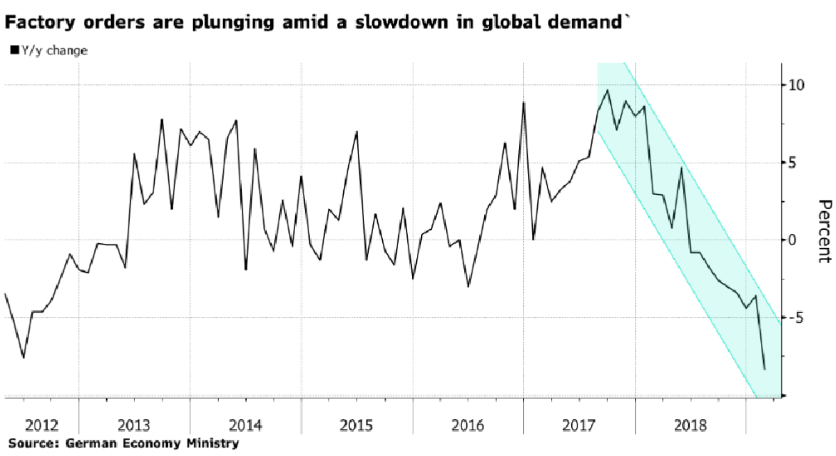
Stocks are slightly down and yields little changed across the region. The EuroStoxx 600 is down 0.4%, the first decline in four sessions. Yields are down a few basis points in core markets and up 2 basis points in Italy. There was little reaction to a much lower-than-expected decline in German factory orders in February, which showed the fastest decline in a decade (-8.4% yoy).



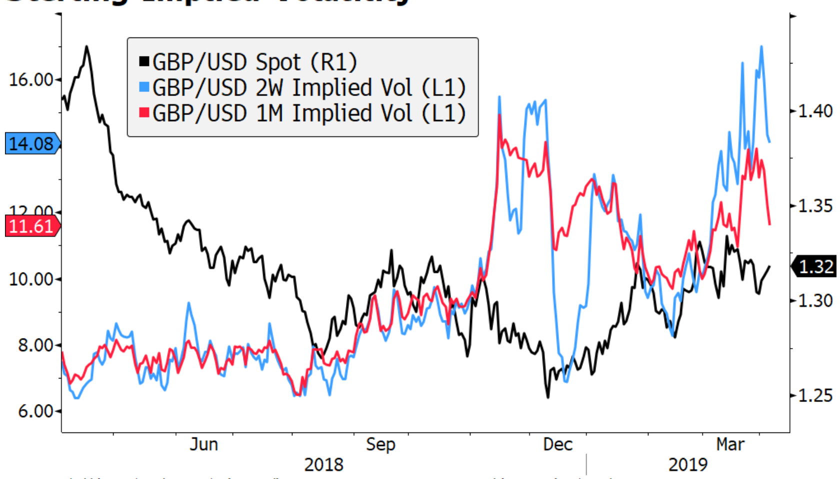
The European Securities and Markets Authority (ESMA) launched its third central counterparties stress test exercise. The test includes the new component of concentration risk, along with credit stress, liquidity stress, and reverse credit stress. ESMA will look into the 16 clearinghouses authorized in the EU. UK-based firms LCH, ICE Clear Europe, and LME Clear will be included in the exercise unless there is a no-deal Brexit. (More details here.)

United Kingdom

By a single vote, parliament passed the bill drafted by Yvette Cooper which forces the PM to propose an extension to Article 50. The bill is aimed at reducing the probability of a no-deal Brexit. But of course, the EU must still approve any extension request. In parallel, talks between PM May and opposition leader Jeremy Corbyn have been characterized as "constructive" on options including keeping the UK in a customs union, with both sides showing "flexibility and a commitment to bring the current Brexit uncertainty to a close." **Two more ministers resigned from the PM's cabinet,** including Brexit minister Chris Heaton-Harris who is oppose to a further extension to Article 50. In the 22 months since the 2017 general elections, there have been 33 ministerial resignations, most of them over disagreements relating to Brexit. Analysts at Citi noted increased odds that PM May could resign and general elections take place.

Separately, BoE governor Carney commented that the risk of a no-deal Brexit is now "alarmingly high," adding that some claims about how the UK could manage such a situation as "absolute nonsense." **Still, sterling has appreciated in every session this week totaling about 1%** to near $1.32 against the dollar—but note that the pair is still well within recent ranges. Implied volatility has also declined in recent sessions but remains very elevated.

Sterling Implied Volatility



GBP Curncy (British Pound Spot) GBP and Volume Daily 03APR2018-04APR2019 Copyright© 2019 Bloomberg Finance L.P. 04-Apr-2019 08:58:50

Other Mature Markets

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Japan

Japanese equities (Nikkei +0.1%; Topix -0.1%) were little changed amid rotation from defensives to cyclicals. Utilities led losses, but were offset by gains in tech and materials. Regarding banks, Japan's Council on Investments for the Future, led by Prime Minister Shinzo Abe, wants to make mergers of regional banks easier. It wants to allow mergers to go ahead on a limited basis if the move can prevent a regional bank from incurring large losses and if the newly merged bank ensures that it will not unfairly raise lending rates. The yen was flat while 10-year JGB yields fell 1.2 bps to -0.067%.

Emerging Markets

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Asian equities (-0.3%) were mixed. Chinese (Shanghai +0.9%; Shenzhen +0.4%) stocks extended their gains as trade talks appear to approach the final stages. Philippine (-0.5%), Thai (-0.3%), Indian (-0.2%) and Hong Kong (-0.2%) stocks fell. Asian currencies were little changed, except for the Indian rupee (-1.1%). The Indian rupee fell after the Reserve Bank of India cut its policy rate by 25 bps to 6% to support the economy as it sees rising headwinds both domestically and globally. **EMEA** equity markets mostly gained today, led by Kuwait (+1.2%), Turkey (+0.8), and UAR (+0.7%). Hungary (-0.4%) and Russia (-0.3%) suffered small losses. Regional currencies depreciated to the dollar albeit by small amounts. In **Latin America**, Brazilian pension reform prospects were the key focus in an otherwise directionless day for trading, with the country's assets weakening modestly in reaction to the latest signs of difficulty for the long-awaited reforms. Regional currencies were mixed, with Brazil and Argentina weaker (-0.5% and -0.3%, respectively) despite a strong backdrop for EM currencies. Equity markets saw Argentina (-3.8%) and Brazil (-1.0%) falling notably while others posted small gains. Local bond yields moved slightly higher and external spreads tightened.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/4/19 8:06 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		43.79	-0.7	4	3	-9	12
MSCI Frontier Equities		28.93	0.7	2	2	-18	11
EMBIG Sovereign Spread (in bps)		340	0	-18	-3	43	-74
EM FX vs. USD		63.05	0.0	1	0	-11	1
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.72	-0.1	0	0	-6	2
Indonesian Rupiah		14182	0.3	0	0	-3	1
Indian Rupee		69.16	-1.1	0	3	-6	1
Argentine Peso		42.85	-0.3	2	-7	-53	-12
Brazil Real		3.86	0.3	1	-2	-14	0
Mexican Peso		19.20	0.1	1	1	-6	2
Russian Ruble		65.34	-0.2	-1	1	-12	7
South African Rand		14.13	0.1	3	1	-16	2
Turkish Lira		5.62	0.1	-1	-4	-29	-6
EM FX volatility		8.61	0.0	-0.8	0.4	0.3	-1.2

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

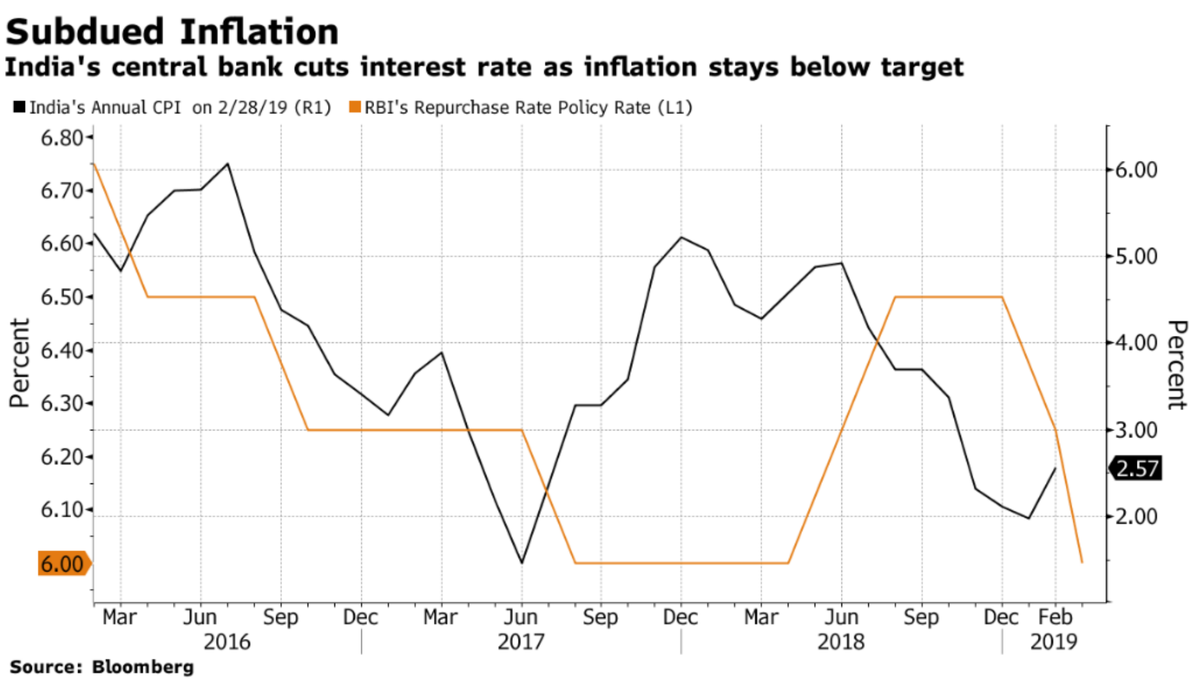
China

Chinese equities (Shanghai +0.9%; Shenzhen +0.4%) extended their gains amid positive trade developments and further tax cuts. According to Bloomberg, with trade talks nearing their final stages, US President Trump will meet Chinese Vice Premier Liu He today. White House economic adviser Larry Kudlow told reporters that negotiators are "making good headway." Under the proposed agreement, China reportedly would commit by 2025 to purchase more US commodities, such as soybeans and energy products. Also, China would allow 100% foreign ownership for US companies operating in China. The text will also include benchmarks, likely set at 90 days and 180 days after signing, by which China is asked to fulfill key pledges.

Separately, China announced further tax cuts, aimed at spurring consumption. The State Council announced yesterday that the government will lower the postal tax for food, medicines, textiles and electronic equipment. Additionally, the Economic Information Daily reported that the government is drafting policies to boost the incomes of farmers, owners of small businesses and scientific researches. **The onshore and offshore RMB were steady.**

India

The Reserve Bank of India (RBI) lowered its policy rate by 25 bps to 6.00%, as expected. Four out of six members of the Monetary Policy Committee voted in favor of the reduction, marking a back-to-back interest rate reduction. The rate cut is aimed at supporting the economy, with the statement mentioning that the domestic economy is facing headwinds, especially on the global front, and there is a need to spur private investment. The RBI downgraded its GDP growth forecast for FY2019/20 to 7.2% from 7.4% previously. It also revised down its inflation forecasts for the April-September period to 2.9-3.0% from February's projection of 3.2-3.4%. Additionally, RBI Governor Das stated that the RBI will ensure adequate liquidity by using all tools. He also said that **the central bank "will take necessary steps including issuance of a revised circular as may be necessary for expeditious resolution of stressed assets."** The statement follows the rejection of previous RBI guidance on bad debt resolution by India's supreme court. The Indian rupee weakened -1.1%, while 10-year government bond yields rose 7 bps to 7.34%.

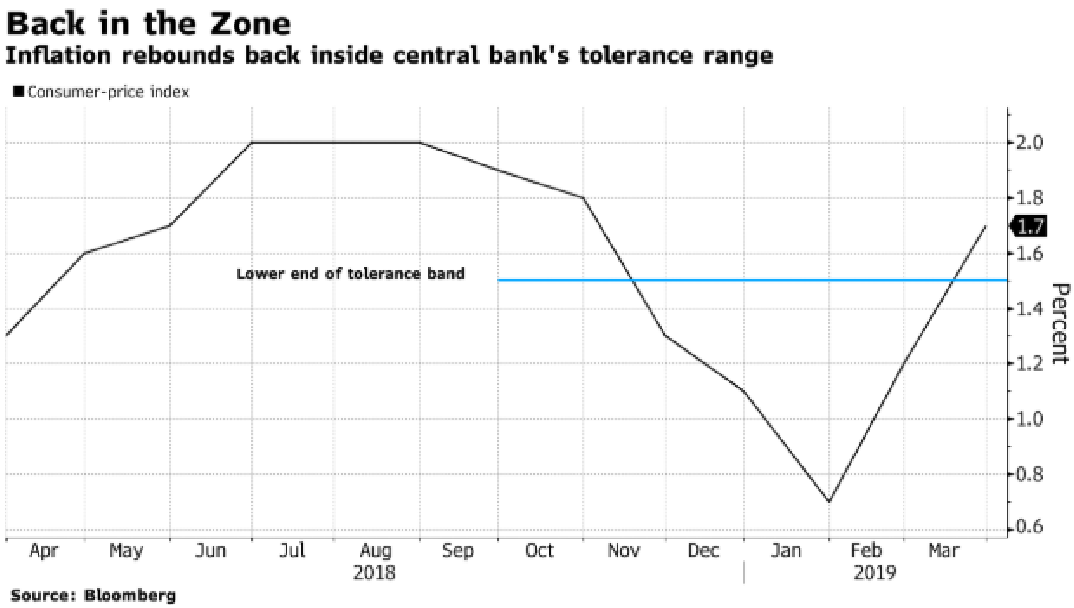


Brazil

Investors reacted negatively to the latest sign of political difficulty surrounding the country's long-awaited pension reforms. Economy Minister Guedes spoke on the topic in a Lower House hearing that was reportedly marked by occasional shouting and heated cross-talk with opposition lawmakers, and few expressions of support for the reform proposal from government allies. The *real* fell nearly 1% and stocks fell 2% intra-day afterwards, erasing early gains. Signs of brewing trouble for pension reform have pushed stocks 5.5% lower since the mid-March peak. The currency also depreciated as much as 5.8% over the same time period but last week retraced more than half of losses.

Poland

The National Bank of Poland (NBP) left its policy rate and forward guidance unchanged. The NBP left its policy rate unchanged at 1.5%, in line with expectations, and the communication was broadly similar to the March meeting. The Council maintained its assessment that "inflation will remain at a moderate level" in the quarters to come, and that "inflation net of food and energy prices continues to be low". In the press conference following the meeting, NBP President Glapinski suggested that it may be up to the next MPC (whose term is scheduled to be in early 2022) to change rates, which is consistent with his recent statements that rates may not change under the current MPC. Polish equities are up over 1% since the meeting, while the currency is little changed.



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Global Financial Indicators

Last updated: 4/4/19 8:03 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2873	0.2	2	3	9	15
Europe		3434	0.0	3	4	3	14
Japan		21725	0.1	3	0	2	9
China		3247	0.9	8	7	4	30
Asia Ex Japan		72	0.9	4	4	-6	14
Emerging Markets		44	-0.7	4	3	-9	12
Interest Rates					basis points		
US 10y Yield		2.50	5.0	11	-22	-30	-18
Germany 10y Yield		-0.01	-1.9	6	-17	-51	-25
Japan 10y Yield		-0.04	0.1	5	-5	-8	-5
UK 10y Yield		1.09	-1.3	9	-19	-28	-19
Credit Spreads					basis points		
US Investment Grade		117	-0.4	-4	-3	17	-30
US High Yield		404	-6.3	-27	7	44	-117
Europe IG		62	0.9	-7	0	2	-26
Europe HY		256	4.8	-24	-21	-34	-97
EMBIG Sovereign Spread		340	0.0	-18	-3	43	-74
Exchange Rates					%		
USD/Majors		97.18	0.1	0	1	8	1
EUR/USD		1.12	-0.1	0	-1	-9	-2
USD/JPY		111.4	0.1	-1	0	-4	-2
EM/USD		63.1	0.0	1	0	-11	1
Commodities					%		
Brent Crude Oil ($/barrel)		70	0.5	3	6	2	29
Industrials Metals (index)		122	-0.7	1	1	-5	12
Agriculture (index)		41	0.5	1	-1	-16	-2
Implied Volatility					%		
VIX Index (%, change in pp)		13.8	0.1	-0.6	-0.8	-6.3	-11.6
10y Treasury Volatility Index		3.8	-0.2	-1.0	-0.1	-0.2	-0.8
Global FX Volatility		7.1	0.0	-0.6	-0.1	-0.6	-1.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		364	-1.2	-21	12	3	-52
Italy		254	0.9	-1	-4	130	4
Portugal		125	-1.1	-9	-6	13	-23
Spain		112	-1.4	-4	10	45	-6

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: 4/4/2019 8:08 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		6.72	-0.1	0.3	0	-6	2		3.2	3.8	8	3	-62	-1
Indonesia		14182	0.3	0.4	0	-3	1		7.7	0.0	1	-20	95	-41
India		69	-1.1	0.3	3	-6	1		7.4	0.7	-4	-15	-17	-7
Philippines		52	-0.2	1.0	-1	0	1		5.3	-0.2	-10	-28	21	-102
Thailand		32	-0.2	0.0	0	-2	2		2.6	-0.1	5	-6	19	-6
Malaysia		4.08	-0.1	-0.1	0	-5	1		3.8	-1.4	-5	-18	-19	-30
Argentina		43	-0.3	2.4	-7	-53	-12		23.2	-40.5	-377	172	651	24
Brazil		3.86	0.3	1.0	-2	-14	0		8.2	7.6	-16	-4	-16	3
Chile		666	0.1	2.7	-1	-9	4		4.2	0.2	1	-21	-59	-29
Colombia		3129	0.5	1.8	-1	-11	4		6.2	-1.4	4	-23	-5	-32
Mexico		19.20	0.1	0.7	1	-6	2		8.2	4.1	9	-14	78	-54
Peru		3.3	0.4	0.6	0	-2	2		5.3	-1.8	-6	-27	37	-40
Uruguay		34	-0.5	-0.1	-3	-16	-4		10.5	1.0	8	22		-22
Hungary		285	-0.1	0.2	-2	-11	-2		1.9	4.4	15	-21	38	-30
Poland		3.82	-0.1	0.2	-1	-10	-2		2.3	1.6	7	-6	-17	4
Romania		4.2	0.0	0.3	-1	-10	-4		4.2	1.0	18	7	35	-2
Russia		65.3	-0.2	-0.6	1	-12	7		8.1	0.0	11	1	128	-33
South Africa		14.1	0.1	3.4	1	-16	2		9.3	0.6	-22	-21	70	-29
Turkey		5.62	0.1	-1.1	-4	-29	-6		19.0	-16.9	-83	332	619	215
US (DXY; 5y UST)		97.2	0.1	0.0	1	8	1		2.31	-2.0	9	-22	-31	-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		3247	0.9	8	7	4	30		175	0	0	-4	-4	-19
Indonesia		6495	0.3	1	0	4	5		190	0	-6	-2	15	-46
India		38685	-0.5	0	7	17	7		158	1	-2	-7	23	-38
Philippines		7854	-0.5	0	2	-2	5		88	-1	-3	0	-6	-33
Malaysia		1645	-1.3	0	-3	-9	-3		127	-1	-1	0	3	-35
Argentina		31765	-4.0	-3	-6	1	5		757	2	-33	26	342	-58
Brazil		94491	-0.9	3	0	12	8		245	2	-8	10	13	-28
Chile		5223	-1.0	0	0	-6	2		129	0	-2	-2	6	-37
Colombia		1591	0.7	1	5	6	20		181	1	-5	-8	10	-47
Mexico		43340	0.0	1	2	-9	4		301	1	-4	-20	58	-53
Peru		21152	-0.6	1	3	1	9		123	1	-6	-12	-24	-45
Hungary		41941	0.0	1	3	13	7		107	3	-13	-1	1	-41
Poland		61837	2.9	3	3	6	7		52	4	-7	3	2	-33
Romania		8181	1.9	1	5	-7	11		203	-1	-5	12	63	-18
Russia		2533	0.0	2	2	12	7		216	1	-7	6	34	-36
South Africa		57765	3.0	3	3	6	10		297	1	-27	5	53	-68
Turkey		95945	-3.9	4	-8	-16	5		466	-2	-46	50	147	37
Ukraine		564	0.1	-1	1	57	1		601	3	-39	-48	155	-186
EM total		44	-0.7	4	3	-9	12		340	0	-18	-3	43	-74

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