Global Markets Monitor
Monetary and Capital Markets Department
Global Markets Analysis Division
Friday, April 5, 2019

- **US nonfarm payrolls show strong gains at 196k; wage growth lower than expected (link)**
- **US leverage loan covenant quality hits weakest level on record (link)**
- **ECB meeting minutes highlight concerns around growth and subdued inflation (link)**
- **Cross-party Brexit talks inconclusive; PM May requests 3-month extension (link)**
- **US-China trade headlines signal further progress; Chinese equity futures gain (link)**
- **Rising inflation expectations sustain pressure on Argentine assets (link)**

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Stronger data and trade talks boost investor risk sentiment

The US jobs report posted solid gains for March, while investors remain somewhat wary around an elusive US-China trade deal. The US employment report rebounded from the soft February number and beat expectations at +196k, but wage growth underwhelmed. The better data did not disturb Treasury yields this morning which are up 1 to 2 bps across the curve, led by real rates, after drifting slightly lower yesterday, while core European yields are also higher. FOMC policy rate expectations were also little changed, with markets pricing in about a 50% probability of a cut by year end. Most global equity markets remain rangebound this morning with Asian and European bourse mixed between modest gains and losses, and S&P 500 futures are trending higher. Although US-China trade headlines have remained mostly positive this week, authorities sent mixed signals yesterday varying from a deal potentially coming in weeks to there still being major issues to resolve in the agreement. Elsewhere, it was the usual suspects exhibiting the largest movements, with the sterling depreciating 0.7% over the last day as markets await whether PM May is able to pull off her proposed 3-month extension deal. In EM, Brazilian stocks were up close to 2% thanks to positive developments on the government pension plan overhaul, while the Argentine peso has weakened over 1% amid rising inflation expectations.

Key Global Financial Indicators

Last updated: 4/5/19 8:04 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2879	0.2	2	3	8	15
Eurostoxx 50		3444	0.1	3	4	0	15
Nikkei 225		21808	0.4	3	0	1	9
MSCI EM		44	0.5	4	3	-8	13
Yields and Spreads				bps			
US 10y Yield		2.54	-0.9	13	-18	-30	-15
Germany 10y Yield		0.02	2.1	9	-15	-51	-23
EMBIG Sovereign Spread		338	-2	-13	-7	46	-76
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		63.1	0.0	1	0	-10	1
Dollar index, (+) = $ appreciation		97.3	0.0	0	0	8	1
Brent Crude Oil ($/barrel)		69.0	-0.5	1	5	1	28
VIX Index (%, change in pp)		13.5	-0.1	0	-1	-5	-12

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

United States

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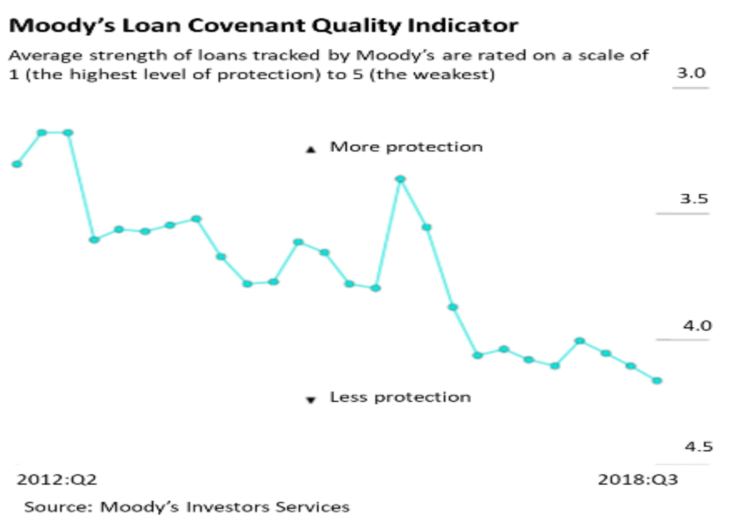
US stocks were mixed Thursday, with the Nasdaq declining from a 6-month high. Investors have been attuned to developments in the ongoing US-China trade negotiations, with President Trump advising there could be a trade deal within the next 4 weeks. President Trump will reportedly nominate Herman Cain to the Fed. He has a long corporate career and ran for the Republican presidential nomination in 2012—and he served as the director of the Kansas City Fed in the 90s**. On data releases yesterday, weekly jobless claims fell to a 49-year low of 202k** against 215k expected. Claims peaked at 665k during the recession in March 2009. Treasury yields were little changed yesterday.

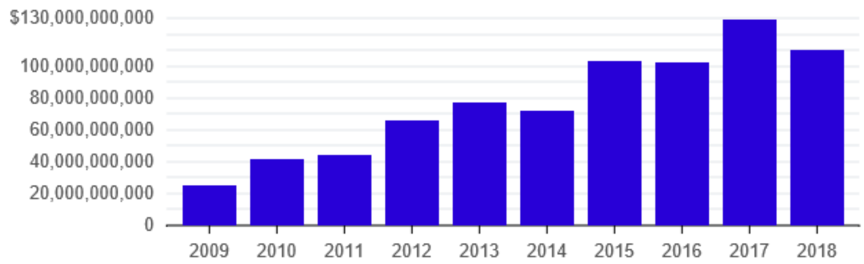
This morning's US labor report showed stronger-than-expected job gains in March. Nonfarm payrolls for March was stronger than expected at 196k (vs. 177k consensus). The net revision to the prior months gains was only +3k more to 28k. Wage growth underwhelmed expectations, however, posting gains of 0.1% mom and 3.2% yoy, both lower than expected with consensus pointing to 0.3% mom and 3.8% yoy. The unemployment rate was unchanged 3.8% while the labor force participation rate drifted slightly lower to 63% from 63.2%. Treasury yields were up 1 to 2 bps across the curve after the release, while the dollar weakened marginally and equity futures point to a 0.3% gain at the open.

Moody's advised that US leveraged **loan covenants are generally at or near their weakest** since the firm began tracking such nearly a decade ago. UBS gauges that in the event of default, lenders are likely to recover only half their money rather than historical averages of 75-80%, due to the eroded covenant quality. But private equity firms note that fewer and/or weaker covenants gives a company more flexibility to address episodes of financial stress. Separately, Bloomberg noted that the supply of distressed debt rose by $13 bn in March, after two straight months of declines. Distressed bonds accounted for 6.1% of the benchmark ICE high-yield index, 3 ppts lower than a year earlier—and far below the February 2016 peak of 27%.



Syndicated lending fell to a 3-year low of $399 bn in Q1 according to Thomson Reuters. This is down 36% from a year earlier and 39% from Q4. Bloomberg notes the lackluster supply story has been compounded by demand concerns as expectations for rising interest rates have faded amid the recent central bank pivots. **Leveraged lending also fell** 56% qoq in Q1. Preqin notes that (non-bank) **direct lending has been growing** in recent years. Direct lending began with hedge funds and private equity funds, but now involves other investors such as insurance firms. Deloitte believes that North America is the biggest market for direct lending, representing 61% of the global market.

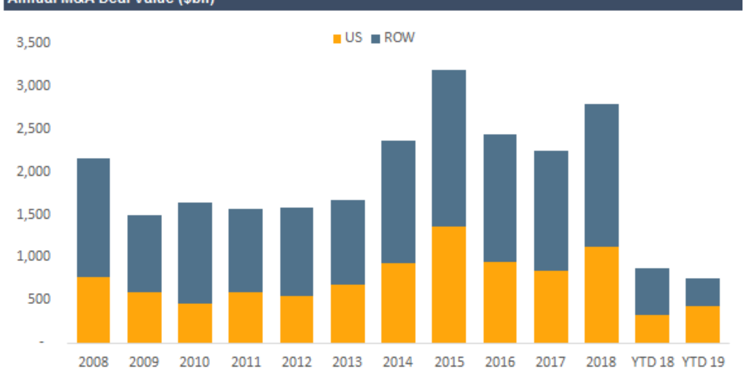
Global private debt fund raising has skyrocketed in recent years



Source: Preqin

US merger and acquisition (M&A) deals are up 37% year to date from a year earlier. CreditSights gauges that US deals have amounted to $429 bn this year, or about 57% of the global total. Citigroup notes that M&A activity was close to $3 tn in 2018, the third highest year, and a 20% increase from a year earlier. But Citi expects M&A activity will likely fall ~10% this year given "the economic environment remains uncertain, trade and other tensions unnerve geopolitical relationships, and heightened volatility drives wild swings in the equity markets."

Annual M&A Deal Value ($bn)



Source: CreditSights, dealogic

Europe

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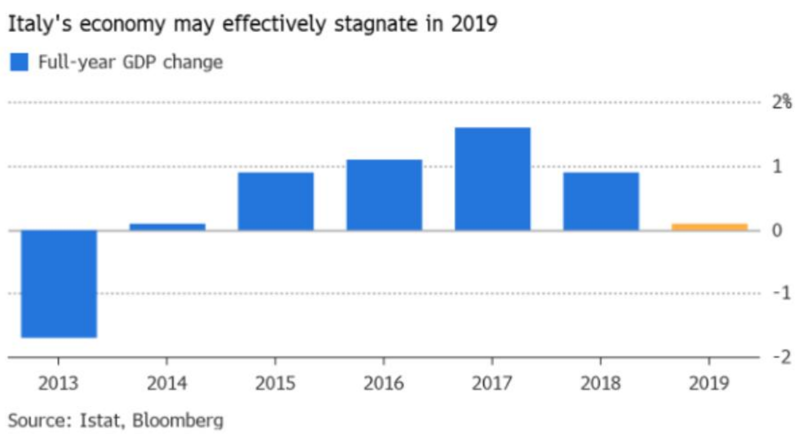
Markets are little changed across the region. The EuroStoxx 600 is flat on the day but up 2.5% for the week. Yields are rising slightly in core markets and falling a couple of basis points in Italy. The German 10-year is up 8 bps on net this week, despite some downbeat data, currently at 0.01%. **The ECB's minutes of the March 7 meeting highlighted growth concerns and subdued inflation trends**, which underpinned the committee's decision to extend forward guidance. Recall that in that meeting the ECB decided to undertake a third round of TLTRO while indicating that rates are now likely to remain unchanged until end-2019.

Italy

The government approved a series of measures to spur growth. The Growth Decree includes initiatives to boost private investment and to safeguard products "Made in Italy." The decree still needs to be approved by parliament and has already received some criticism from the EC. The Italian government is also discussing possible measures to reimburse depositors for savings lost in bank failures, as well as Lega's flat tax plan. Separately, **reports claim that the government will cut its growth forecast to 0.1% from 1.0% for the year**, while updating the budget deficit projection to 2.3% from 2.04% previously.

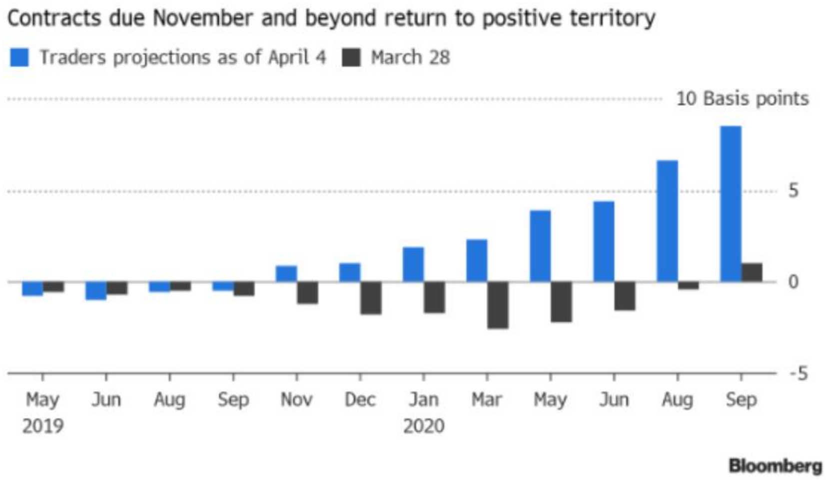


Brexit

There has been a trickle of mixed Brexit news overnight. PM May has just **requested a 3-month Brexit extension**, in which the UK would not participate in the European Elections (full letter here). In contrast, EC President Donald Tusk was preparing to offer the UK a 12-month flexible extension that would end on ratification of the withdrawal treaty. Any extension requires unanimous agreement between the UK and the 27 other EU member states, which will be discussed at a summit in Brussels next Wednesday. The pound is little changed on the news.

While little concrete progress has been made between PM May and opposition leader Jeremy Corbyn, reports claim they are discussing a "confirmatory referendum" amongst the possible options. If enacted, this would give the public a vote to endorse or reject the agreed exit deal—but to be clear, this is by no means confirmed. If the two sides do not agree on a way forward, parliament is expected to resume its indicative votes ahead of next week's deadline for the UK to present a deal. There has also been some talk of **members of the House of Lords using a filibuster to try to stall the approval of the Cooper Bill** (the bill forces the government to request an extension, see yesterday's GMM). But contacts have not highlighted this as a major risk; the bill is expected to make it through the final stages of ratification early next week.

The reduced odds for a no-deal scenario has led to an increase in implied policy rates for the BoE. Futures for most months beyond September 2019 flipped from implying easing to tightening. There is still less than 10 bps of hikes priced in for 2020, according to Bloomberg's pricing model (chart). In addition, analysts at GS revised down their "no deal" probability from 15% to 10%. The bank sees the odds of a "modified Brexit deal" as having increased from 45% to 50%, while the chance of a "no Brexit" remains at 40%.



Other Mature Markets

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Japan

Japanese equities (+0.4%) rose, advancing to fresh one-month highs. On a sectoral basis, utilities and chemicals outperformed. Meanwhile, labor cash earnings dropped 0.8% yoy in February from a downwardly revised rate of -0.6% yoy in January and Bloomberg consensus projection of an increase of 0.9% yoy. However, analysts cautioned against reading too much into the weak data print given recent adjustments to the sample. 10-year JGB yields fell 0.7 bps to -0.058% while the yen was unchanged.

Emerging Markets

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Asian equities were stable on net; Chinese onshore and Hong Kong markets are closed for a holiday. That said, China equity futures rose 1.3% on further positive trade developments. Australian stocks (-0.8%) posted the biggest loss, while most other markets traded in a narrow range of +/- 0.4%. Regional currencies were broadly stable. **EMEA bourses** were largely in the green, with strong advances in Kuwait (+1.2%) and Saudi Arabia (+0.9%); only Polish and Hungarian stocks were slightly down (-0.1%). Regional currencies were stable trading within a very narrow corridor. In **Latin America**, currencies and external spreads were mostly mixed or little changed aside from Argentina, where the *peso* fell 1.3%, CDS widened 10 bps, dollar bond spreads rose 19 bps. Other regional currencies saw modest gains and equities generally rose, led by Brazil (+1.9%) and Mexico (+1.4%).

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/5/19 8:08 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.06	0.5	4	3	-8	13
MSCI Frontier Equities		28.87	-0.2	2	0	-18	10
EMBIG Sovereign Spread (in bps)		338	-2	-13	-7	46	-76
EM FX vs. USD		63.12	0.0	1	0	-10	1
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.72	-0.1	0	0	-6	2
Indonesian Rupiah		14133	0.3	1	0	-3	2
Indian Rupee		69.23	-0.1	0	2	-6	1
Argentine Peso		43.41	-1.3	1	-8	-54	-13
Brazil Real		3.85	0.1	2	-2	-13	1
Mexican Peso		19.13	0.1	2	1	-5	3
Russian Ruble		65.32	0.3	0	1	-12	7
South African Rand		14.08	0.3	3	1	-15	2
Turkish Lira		5.59	0.1	0	-4	-27	-5
EM FX volatility		8.44	0.0	-0.8	0.3	0.3	-1.3

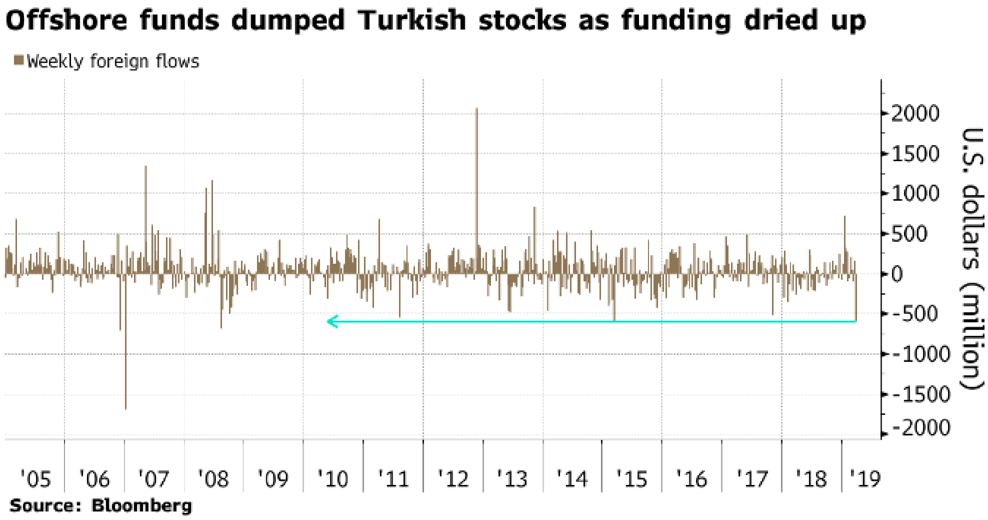
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

China

Chinese equity futures gained 1.3% as the US and China continue to make a move toward a trade deal. According to Xinhua News, Chinese Vice Premier Liu He met US President Trump yesterday, passing a message from Chinese President Xi pushing for an early conclusion of negotiations. Xinhua further added that the **two sides had "reached new consensus on such important issues as the text" of a trade agreement.** That said, Xinhua also mentioned that "the remaining issues are hard nuts to crack." Meanwhile, Trump said that any trade deal is probably still weeks away, but both countries were making progress on something that could be "very monumental." **Chinese onshore markets were closed for holiday, and the offshore RMB strengthened 0.1%.**

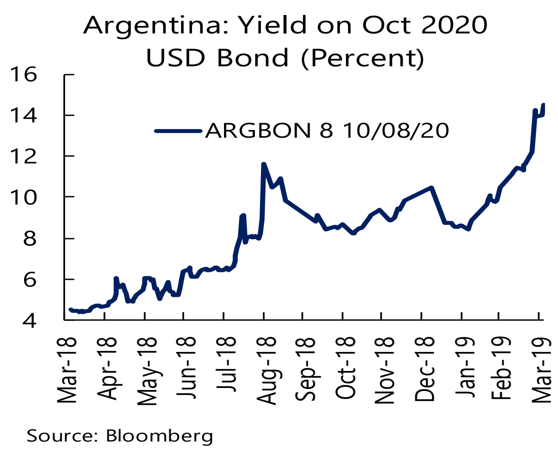
Turkey

The Turkish lira is slightly weaker today while equities gained 0.7%. The lira has thus stabilized somewhat following a period of turbulence around the recent municipal elections. Data released yesterday show that offshore funds divested about $602 mn last week, as Turkish authorities enacted further measures in support of the lira. Year-to-date, however, foreign investors have acquired $878 mn worth of Turkish equities and sold $1.6 bn of treasuries. Separately, senior managers at the EBRD said the bank stood ready to assist Turkish banks to dispose of their NPL portfolios. The EBRD would thus be open to help set up special purpose vehicles (SPVs) that would market the Turkish banks' bad loans.



Argentina

The country's 2020 bond has emerged as the bellwether for investors' jitters about the October 27 election. The yield on the Bonar 2020, a 5-year USD-denominated bond designated as a local market benchmark bond, rose to a record 14.3% on Tuesday. This is some 900 bps above similar securities maturing in 2019, in part because it is the first bond maturing after the presidential election (the last 2019 bonds mature on October 8, several weeks before the election takes place). **Weak economic data, peso depreciation, and a new central bank survey showing expectations for rising inflation and policy rates have all weighed on sentiment.** The *peso* fell 1.3% against the dollar in Thursday's trading and foreign currency bond spreads widened 19 bps.



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Global Financial Indicators

Last updated: 4/5/19 8:05 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2879	0.2	2	3	8	15
Europe		3444	0.1	3	4	0	15
Japan		21808	0.4	3	0	1	9
China		3247	0.9	8	6	4	30
Asia Ex Japan		73	0.5	4	3	-6	14
Emerging Markets		44	0.5	4	3	-8	13
Interest Rates					basis points		
US 10y Yield		2.54	-0.9	13	-18	-30	-15
Germany 10y Yield		0.02	2.1	9	-15	-51	-23
Japan 10y Yield		-0.03	1.5	5	-4	-8	-3
UK 10y Yield		1.13	4.5	13	-16	-29	-15
Credit Spreads					basis points		
US Investment Grade		116	-0.7	-3	-3	17	-31
US High Yield		405	0.2	-23	4	47	-116
Europe IG		61	-0.5	-4	0	3	-27
Europe HY		253	-2.3	-16	-22	-30	-100
EMBIG Sovereign Spread		338	-2.0	-13	-7	46	-76
Exchange Rates					%		
USD/Majors		97.29	0.0	0	0	8	1
EUR/USD		1.12	0.1	0	-1	-8	-2
USD/JPY		111.7	0.0	-1	0	-4	-2
EM/USD		63.1	0.0	1	0	-10	1
Commodities					%		
Brent Crude Oil ($/barrel)		69	-0.5	1	5	1	28
Industrials Metals (index)		122	0.0	-1	0	-6	12
Agriculture (index)		41	-0.5	2	-1	-17	-2
Implied Volatility					%		
VIX Index (%, change in pp)		13.5	-0.1	-0.3	-1.3	-5.5	-12.0
10y Treasury Volatility Index		3.8	0.0	-0.6	0.1	-0.1	-0.8
Global FX Volatility		7.0	0.0	-0.5	-0.1	-0.6	-2.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		354	-8.2	-27	-1	5	-62
Italy		249	-3.5	-7	-5	122	-1
Portugal		126	-0.4	-6	-3	12	-22
Spain		110	-1.7	-7	11	39	-8

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: 4/5/2019 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	3.9	13	6	-56	3
Indonesia		14133	0.3	0.8	0	-3	2		7.7	-3.0	-8	-22	96	-44
India		69	-0.1	-0.1	2	-6	1		7.4	3.9	1	-11	-9	-3
Philippines		52	0.2	0.7	0	0	1		5.3	-0.6	-5	-29	20	-102
Thailand		32	-0.3	-0.4	0	-2	2		2.6	-1.0	5	-9	18	-7
Malaysia		4.09	-0.2	-0.2	0	-5	1		3.8	-1.5	-1	-20	-20	-31
Argentina		43	-1.3	0.5	-8	-54	-13		23.6	34.6	-367	207	681	59
Brazil		3.85	0.1	1.7	-2	-13	1		8.2	-2.5	3	-7	-22	0
Chile		665	0.1	2.2	-1	-9	4		4.2	-1.3	-1	-24	-59	-30
Colombia		3133	-0.1	1.9	-1	-11	4		6.2	0.3	3	-24	-4	-32
Mexico		19.13	0.1	1.6	1	-5	3		8.1	-3.2	4	-19	82	-57
Peru		3.3	0.0	0.7	0	-2	2		5.3	-1.3	-6	-27	36	-41
Uruguay		34	0.4	0.0	-3	-16	-4		10.5	-0.6	-1	22		-23
Hungary		286	-0.1	0.2	-2	-11	-2		1.9	0.9	12	-22	36	-29
Poland		3.82	0.1	0.5	0	-10	-2		2.3	1.5	8	-3	-10	6
Romania		4.2	0.0	0.5	-1	-10	-4		4.2	-1.0	17	8	37	-3
Russia		65.3	0.3	0.5	1	-12	7		8.1	0.3	7	0	130	-33
South Africa		14.1	0.3	3.0	1	-15	2		9.3	2.4	-17	-16	66	-27
Turkey		5.59	0.1	-0.3	-4	-27	-5		18.8	-26.0	-167	293	589	189
US (DXY; 5y UST)		97.3	0.0	0.0	0	8	1		2.34	1.9	11	-19	-30	-17

	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	0.0	8	6	4	30		175	0	-1	-4	-5	-19
Indonesia		6474	-0.3	0	1	5	5		188	-2	-8	-5	15	-48
India		38862	0.5	0	7	16	8		157	-1	-1	-9	20	-39
Philippines		7873	0.2	-1	3	-2	5		85	-2	-6	-5	-7	-36
Malaysia		1642	-0.2	0	-3	-11	-3		127	0	-2	2	2	-35
Argentina		32142	1.2	0	-5	1	6		770	-3	-2	23	363	-45
Brazil		96313	1.9	2	2	13	10		242	-3	-7	4	13	-31
Chile		5284	1.2	0	1	-6	3		128	-1	-4	-3	7	-38
Colombia		1590	0.0	1	5	5	20		178	-1	-6	-11	8	-50
Mexico		43937	1.4	2	4	-8	6		300	-2	-9	-19	62	-54
Peru		21287	0.6	1	4	1	10		119	-3	-11	-16	-22	-49
Hungary		41898	0.1	1	3	10	7		103	-3	-15	-6	0	-45
Poland		61081	-0.7	2	2	3	6		46	-4	-13	-4	-2	-39
Romania		8195	0.3	2	4	-8	11		200	-2	-7	7	62	-21
Russia		2539	0.1	2	3	11	7		214	-2	-13	2	39	-38
South Africa		57879	0.3	3	4	4	10		292	-3	-22	-3	53	-73
Turkey		98468	0.1	5	-5	-14	8		455	-6	-39	35	140	26
Ukraine		563	-0.4	-2	0	55	1		594	-6	-38	-64	162	-193
EM total		44	0.5	4	3	-8	13		338	-2	-13	-7	46	-76

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