Global Markets Monitor

Monetary and Capital Markets Department

Global Markets Analysis Division

Tuesday, April 9, 2019

- **EU-UK engaged in last minute discussions on possible Brexit extension ([link](#))**
- **HELOC market grows to 11.3% of Canadian consumer debt ([link](#))**
- **Chinese real estate equities rally on easing of residency requirements ([link](#))**
- **China plans to ban cryptocurrency mining ([link](#))**
- **Saudi Aramco bonds attract $100 bn investor bids for expected $10 bn deal ([link](#))**
- **Central Bank of Serbia kept interest rates unchanged at 3%, as expected ([link](#))**
- **Special Feature on China's inclusion in the Benchmark Indices (attached)**

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

Markets firm despite threat of renewed trade tensions

Price action across European bourses and S&P 500 futures was muted this morning despite last minute reports that the US is weighing $11 bn in tariffs against the EU over Airbus aid. These could include civilian aircraft and agricultural goods in a move that threatens to further escalate transatlantic trade tensions. Sovereign bold yields and the dollar were little changed as investors await the outcome of various key meetings this week, including ongoing UK-EU discussions on a Brexit extension as well as the ECB meeting and FOMC minutes tomorrow. Price action in emerging markets was also relatively stable, with Chinese real estate equities outperforming on news of an easing of residency requirements in small cities and the Saudi Aramco bond deal attracting unprecedented investor interest.

Key Global Financial Indicators

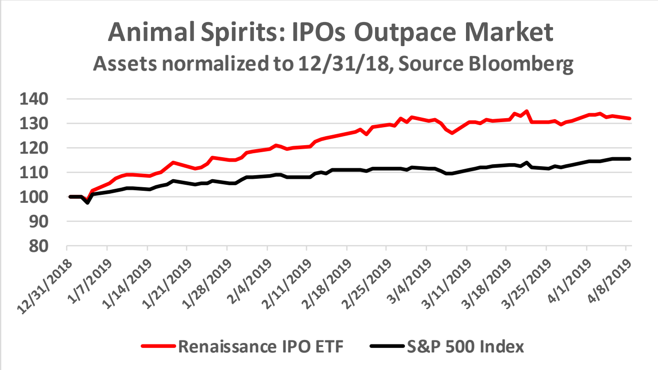
Last updated: 4/9/19 7:57 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2896	0.1	1	6	11	16
Eurostoxx 50		3438	0.0	1	5	1	15
Nikkei 225		21803	0.2	1	4	1	9
MSCI EM		44	0.4	2	7	-6	14
Yields and Spreads					bps		
US 10y Yield		2.52	2.7	5	-11	-26	-16
Germany 10y Yield		0.01	-0.1	6	-6	-50	-24
EMBIG Sovereign Spread		338	-2	-6	-8	39	-76
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.2	0.2	0	1	-10	2
Dollar index, (+) = $ appreciation		96.9	-0.1	0	0	8	1
Brent Crude Oil ($/barrel)		71.0	-0.2	2	8	3	32
VIX Index (%, change in pp)		13.4	0.2	0	-3	-8	-12

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

United States

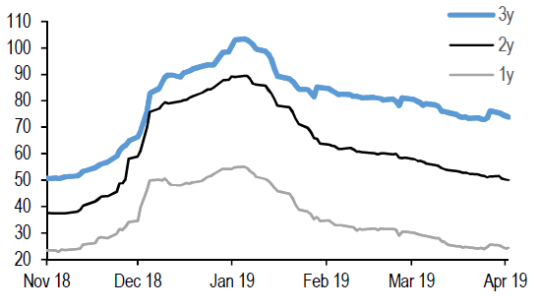
back to top

Local markets were very quiet on Monday as key risk events such as Brexit, China trade, the FOMC minutes and the ECB meeting kept most players on the sidelines. Stocks barely moved, and Treasury yields were only slightly higher. However, the underlying sentiment remained positive with many analysts predicting that the S&P 500 will beat the 2930 record close set on September 20 last year. One symptom of the rally in investor confidence is the strong outperformance of IPO-related stocks. The Renaissance IPO ETF has beaten the S&P 500 so far in 2019, gaining 32% versus less than 16% for the broader index. With more big name IPOs from companies such as Uber, Pinterest and WeWork on the horizon, investors are hoping that stocks can post further gains. Meanwhile, all eyes are on the upcoming Q1 corporate earnings reports, which are expected to begin rolling in soon. Another quarter of better than expected earnings could probably extend the rally further into the year. Meanwhile, oil prices hit their highest level in five months.



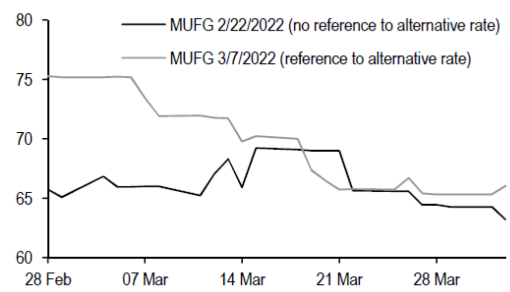
Floating rate notes and bonds are trading well in the US market despite the imminent phaseout of the LIBOR benchmark. Bonds maturing in 2022 when the phaseout is scheduled to be completed have rallied this year along with shorter maturity floating rate paper. In addition, JP Morgan finds that markets are making little distinction between bonds whose documentation refers to an alternative benchmark and those which do not, such as the bonds issued by the Japanese MUFG bank maturing in 2022. Anecdotal evidence suggests that most investors are fairly confident that the legal and documentation challenges of the phaseout will end up being resolved in a timely manner. This may be short sighted as there is considerable scope for uncertainty about the evolution of the language in the new documentation as well as the regulatory framework when the use of LIBOR comes to an end. The market is likely to see more spread widening as 2022 draws nearer.

Exhibit 3: 3y floaters have seen a meaningful rally year-to-date
1y, 2y, and 3y FRNI DMs (bp)



Source: J.P. Morgan

Exhibit 4: Markets are currently making no distinction between bonds that reference an alternative rate versus those that don't
DMs of two MUFG FRNs (bp)



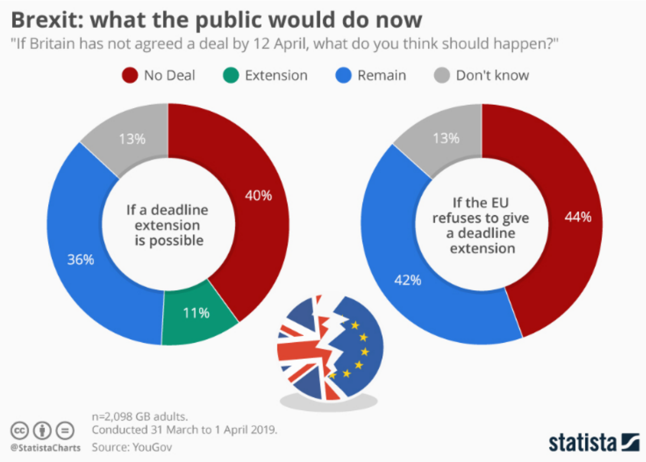
Source: Bloomberg, J.P. Morgan

Europe

back to top

European bourses advanced slightly – EuroStoxx 600 (+0.2%), DAX (0.1%) a – **while UK stocks are flat on the day.** Bank stocks (+0.9%) are outperforming ahead of the ECB meeting tomorrow. **Eurozone government yields were also flat.**

PM May will meet chancellor Merkel and president Macron separately today to request a short Brexit extension to June 30. Headlines regarding the possible outcome of the meetings remain fluid, with raging speculation on whether: (i) the UK will participate in the forthcoming elections to the European parliament; (ii) a second referendum will be held; (iii) Tory and Labour leadership have agreed to propose a customs union to the EU. A recent (small) poll conducted by YouGov indicates UK voters would support for a no-deal Brexit over remaining in the EU. **Sterling (+0.1%) is stable at $1.31 while gilt yields are flat on the day across the yield curve.**

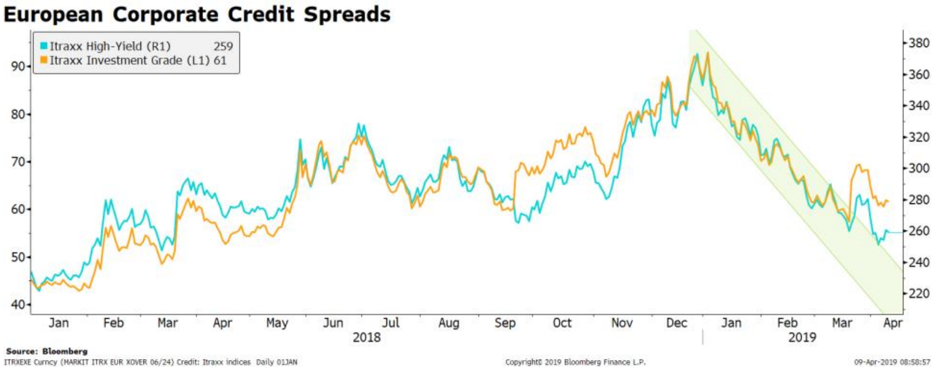


German banks have asked the ECB to implement a tiered deposit rate to alleviate the impact of negative interest rates. The tiered system would exempt some banks from paying (part of) their interest for depositing excess reserves at the ECB (currently charged at -0.40%) possibly above a certain threshold. Analysts have noted, however, that such a system would likely benefit only large banks and that it would signal the ECB's intentions to keep negative rates for longer. **The ECB's General Council meets tomorrow and it is expected to keep policy parameters unchanged**, against a backdrop of lackluster economic activity and slightly weakening inflation expectations.

Figure 1: EUR Inflation Expectations are very low

Source : CitiFX

In **European credit markets,** high-yield and investment grade spreads stood at 259 and 61 bps, respectively. Credit spreads have thus come down from a recent hike and could have resumed their downward trend for the year, possibly on the back of renewed expectation that the ECB will strike a dovish note tomorrow.



Other Mature Markets

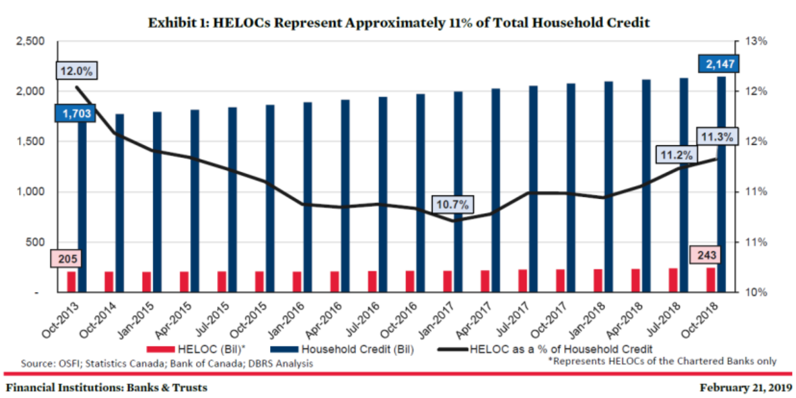
back to top

Japan

Japanese equities (Nikkei +0.2%; Topix -0.1%) were little changed in low volume trading. Sony shares surged over 9% after reports that hedge fund Third Point is looking to build a stake in the Japanese electronics giant. **The yen appreciated for a second straight day (+0.2%), while 10-year JGB yields fell 0.4 bps to -0.059%.**

Canada

Home-Equity Lines of Credit (HELOCs) have grown significantly to become a major source of consumer finance in Canada. According to rating agency DBRS, HELOCs now account for 11.13% of all consumer debt and growth in HELOCs outpaced the growth of mortgages since 2017. These loans can be helpful for consumers, enabling them to consolidate debt at lower rates to reduce interest payments. However, they can also be used to over-borrow as occurred in the US leading up to the financial crisis, where HELOCs saw significant defaults and hit both consumers and banks. Even without a crisis, using HELOCs to maintain household spending in a recession could have widespread negative consequences for financial stability. Some analysts are worried about the spread of HELOCs at such a rapid pace in an economy whose consumer debt ranks near the highest in the world. DBRS has pointed out that HELOCs can help homeowners stay current on their mortgage payments, which makes it harder for lenders to identify credit issues down the road.



Emerging Markets

back to top

Asian equities (+0.5%) rose on net, with varied performance across markets. Indonesia (+0.9%), Thailand (+0.7%) and the tech-heavy Shenzhen index (+0.7%) outperformed. Asian currencies traded in a tight range against the dollar. **Central and Eastern European** bourses also advanced, led by Poland (+0.4%) and Hungary (+0.5%). Stocks in Kuwait (-1.5%), Qatar (-0.4%), and Bahrain (-0.4%) led losses in EMEA. Regional currencies traded within a narrow corridor again today. **Latin American** equity markets were generally higher on Monday. Argentina was the best performer as the Merval rose 1.3%. Colombia (+1%) and Mexico (+1%) also saw gains. Local currencies were mostly stronger, including Brazilian real (+0.6%) and Mexican peso (+0.6%). 10-year government bond yields were generally lower.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/9/19 8:04 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.40	0.3	2	7	-6	14
MSCI Frontier Equities		29.03	0.9	1	3	-17	11
EMBIG Sovereign Spread (in bps)		338	-2	-6	-8	39	-76
EM FX vs. USD		63.22	0.2	0	1	-10	2
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.71	0.1	0	0	-6	2
Indonesian Rupiah		14133	0.2	1	1	-3	2
Indian Rupee		69.30	0.5	-1	1	-6	1
Argentine Peso		43.70	0.5	-2	-6	-54	-14
Brazil Real		3.85	0.6	0	0	-11	1
Mexican Peso		18.94	0.2	2	2	-3	4
Russian Ruble		64.73	0.2	1	2	-6	7
South African Rand		14.03	0.6	1	2	-14	2
Turkish Lira		5.68	0.2	-1	-4	-28	-7
EM FX volatility		8.28	0.0	-0.4	0.1	-0.1	-1.5

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

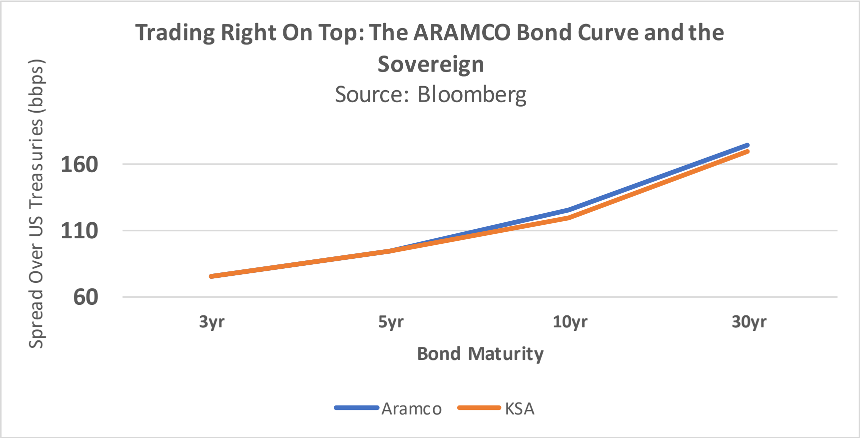
China

Chinese real estate equities (+4.3%) outperformed following plans to ease hukou (residency registration system) restrictions. The National Development and Reform Commission (NDRC) released an urbanization plan, stating that cities with an urban population between 1-3 mn should scrap the hukou this year, while cities with a population of 3–5 mn should "comprehensively relax permanent residency requirements". The easing of hukou restrictions in smaller cities would boost property demand, according to analysts. This is part of a long-term plan to bring 100 mn people into cities over the five years to 2020. **Stocks in Shanghai declined 0.2%, while the tech-heavy Shenzhen index gained 0.7%.**

Separately, **the NDRC is looking to ban bitcoin mining.** According to a draft released on April 8, it added cryptocurrency mining, including bitcoin, to a revised list of industrial activity that the agency wants to phase out. That said, the NDRC did not stipulate a target date or plan on how to eliminate bitcoin mining. The cryptocurrency sector has already been under heavy scrutiny since 2017, with regulators began to ban initial coin offerings and closed local cryptocurrency exchanges.

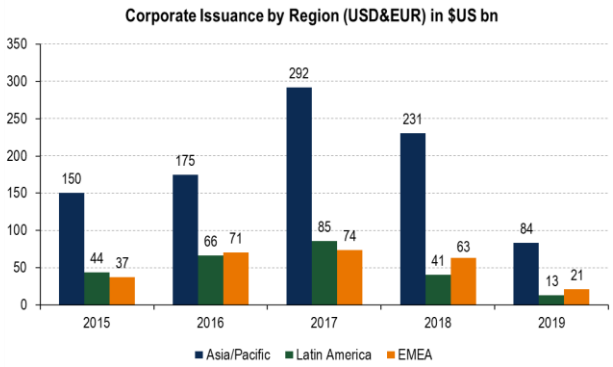
Saudi Arabia

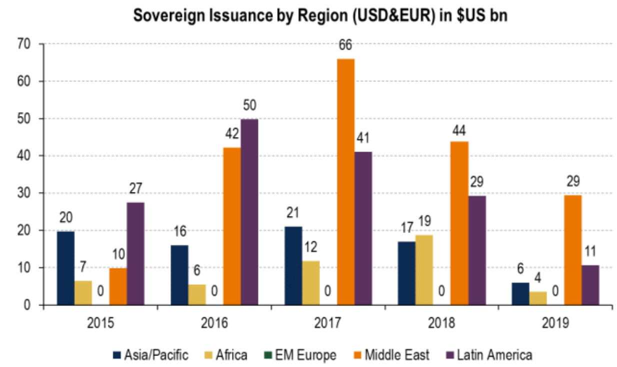
The new Saudi Aramco corporate bond launch attracted as much as $100 bn of bids for the projected issuance of $10 bn bonds. The bonds carry the same credit rating as the sovereign (A+/A1). The investor interest is so strong that the initial marketing spreads for the bonds were right on top of the sovereign curve. This indicates that the market expects Aramco bonds to trade at almost the same spreads over US Treasuries as bonds issued by the Kingdom of Saudi Arabia (KSA). Such pricing is extremely rare as corporate bonds almost always trade at spreads above their sovereigns, as sovereign risk is usually viewed as lower than corporate risk. At launch, the three-year and five-year bonds were quoted at T+75 bps and T+95 bps respectively, the same level at where the equivalent KSA bonds were trading. The 10-year and 30-year bonds were quoted at T+125 and T+175 respectively, just 2-3 bps above the sovereign. There also is a 20-year tranche at T+160, but there is no equivalent maturity KSA bond for comparison (a three-year floating rate tranche was also launched but is not considered here). Saudi Aramco is the world's largest oil company recent and documentation released as part of the road show revealed that is also one of the most profitable entities in the world. Some contacts predicted the deal would be upsized to $15 bn to accommodate the demand. Credit analysts have pointed out that Aramco may have been rated even higher without the sovereign connection, with Fitch projecting a standalone rating of AA+, the same as Exxon Mobil. Given these considerations, the final pricing could end up below the sovereign curve.



EM bond issuance

EM total bond issuance for last week increased to $20.4 bn, from $14.2 bn the week before. EM corporate issuance edged up to $15.4 bn, while sovereign issuance was $5 bn, slightly higher than the week before. The year to date total issuance of $187.4 bn was approximately 4% more than 2018 issuance over the same period, while Latin America (-41%) was the main drag. From a regional perspective, China was the largest EM corporate debt issuer, accounting for 51% ($7.9 bn) of the total. Of the total corporate bonds issued, 77% ($11.9 bn) were investment grade bonds and 19% ($2.9 bn) were high yield bonds. Last week's sovereign issuance was placed by Mexico and Egypt.

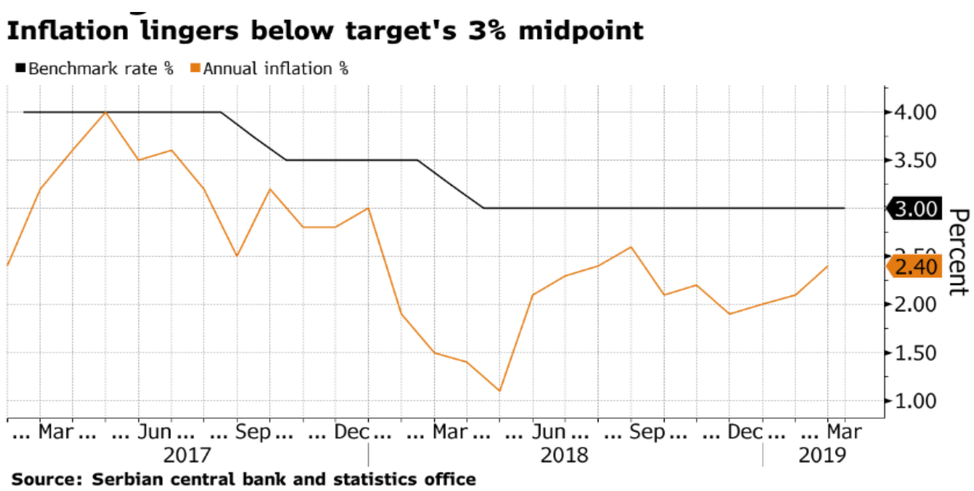




Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

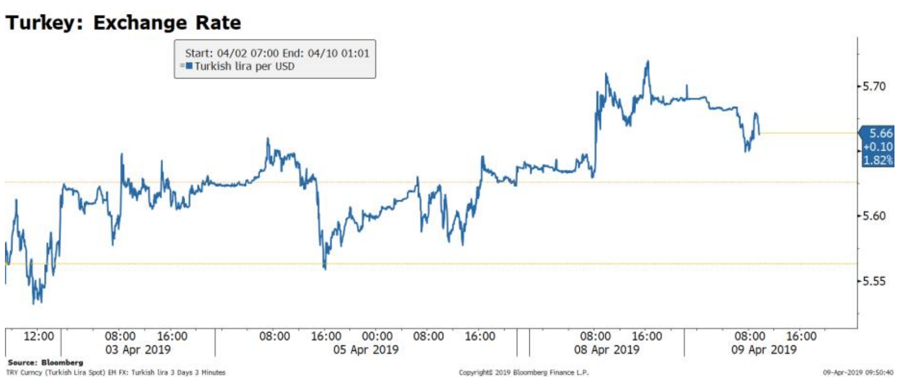
Serbia

The Central Bank of Serbia kept interest rates unchanged at 3%, as expected. The Bank noted that caution in monetary policy was warranted given "slowdown of global economic growth and inflation." Serbian consumer inflation remains below the mid-point of the CBS's 1.5%-4.5% target band. Authorities expect growth is expected to slwo down to about 3.5% in 2019.



Turkey

The Turksih Election Board has rejected Erdogan's request for a full recount of votes in Istanbul. The Board has allowed a partial recount, which held out the narrow victory of the CHP party over Erdogan's AK party. **The lira is 0.4% stronger to the dollar today, while Istanbul's main stock index gained 1.3%.**



Brazil

President Bolsonaro was reportedly forced to replace one of his top ministers following a series of mis-steps and scandals, which raised concerns on the policy agenda. According to press reports, the dismissal of Ricardo Vélez as education minister came as President Bolsonaro attempted to pass a crucial pensions reform package through a split congress, composed of scores of competing interests. The replacement highlighted the turbulence facing President Bolsonaro's administration and would be viewed as a victory of the moderates. Analysts commented that this ministerial firing brought Brazil back to reality and showed that everything was still not solid. Local markets were littled changed on the news as domestic equities and the real finished slightly stronger.

Mexico

Mexico's domestic demand showed a significant recovery early in 2019. Consumption increased 2.2% yoy and 0.3% mom in January after a very weak performance in December 2018, while fixed investment showed a similar positive performance growing 1.1% yoy. Amongst the recovery in fixed investment, construction was the best performer increasing 5.3% mom, showing its best performance since 2016. **Market reaction to the data was optimistic**, with equities finishing 1% higher and the peso appreciating 0.6% against the dollar.

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Global Financial Indicators

Last updated: 4/9/19 7:58 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2896	0.1	1	6	11	16
Europe		3438	0.0	1	5	1	15
Japan		21803	0.2	1	4	1	9
China		3240	-0.2	2	9	3	30
Asia Ex Japan		73	-0.3	2	7	-4	15
Emerging Markets		44	0.4	2	7	-6	14
Interest Rates					basis points		
US 10y Yield		2.52	2.7	5	-11	-26	-16
Germany 10y Yield		0.01	-0.1	6	-6	-50	-24
Japan 10y Yield		-0.05	-0.3	1	-2	-9	-5
UK 10y Yield		1.12	-0.1	11	-7	-29	-16
Credit Spreads					basis points		
US Investment Grade		116	-0.8	-1	-4	17	-31
US High Yield		404	-2.9	-3	-17	47	-117
Europe IG		61	-1.0	-2	-1	3	-27
Europe HY		257	-3.8	-2	-26	-26	-96
EMBIG Sovereign Spread		338	-2.0	-6	-8	39	-76
Exchange Rates					%		
USD/Majors		96.92	-0.1	0	0	8	1
EUR/USD		1.13	0.1	1	0	-8	-2
USD/JPY		111.3	0.1	0	0	-4	-1
EM/USD		63.2	0.2	0	1	-10	2
Commodities					%		
Brent Crude Oil ($/barrel)		71	-0.2	2	8	3	32
Industrials Metals (index)		122	0.2	1	2	-8	12
Agriculture (index)		40	0.0	0	1	-19	-3
Implied Volatility					%		
VIX Index (%, change in pp)		13.4	0.2	0.1	-2.6	-8.4	-12.0
10y Treasury Volatility Index		3.6	0.0	-0.3	0.0	-0.2	-0.9
Global FX Volatility		6.7	0.0	-0.4	-0.6	-0.8	-2.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		346	-1.5	-28	-25	-3	-70
Italy		246	-2.2	-12	2	119	-4
Portugal		121	-0.7	-9	-7	2	-27
Spain		108	0.1	-8	10	35	-9

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

back to top

Emerging Market Financial Indicators

Last updated: 4/9/2019 8:03 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		6.71	0.1	0.2	0	-6	2		3.2	1.3	12	8	-55	4
Indonesia		14133	0.2	0.6	1	-3	2		7.8	5.1	3	-29	98	-40
India		69	0.5	-0.8	1	-6	1		7.5	4.9	10	1	12	5
Philippines		52	0.3	0.8	0	0	1		5.3	-2.0	-8	-19	20	-102
Thailand		32	0.3	0.0	0	-2	2		2.6	0.0	-1	-5	19	-6
Malaysia		4.09	0.1	-0.2	0	-5	1		3.8	0.5	-1	-13	-20	-30
Argentina		44	0.5	-2.2	-6	-54	-14		23.5	-21.4	-20	167	657	45
Brazil		3.85	0.6	0.0	0	-11	1		8.2	5.4	6	-2	-19	2
Chile		664	0.1	1.2	1	-9	5		4.1	-2.0	-6	-17	-61	-33
Colombia		3115	0.3	0.9	2	-11	4		6.1	-4.7	-2	-19	-1	-37
Mexico		18.94	0.2	1.5	2	-3	4		8.1	0.5	-5	-14	77	-63
Peru		3.3	0.2	0.6	1	-2	2		5.3	-0.2	-2	-24	30	-43
Uruguay		34	-0.2	-1.0	-2	-16	-4		10.5	3.2	1	5		-22
Hungary		285	0.0	0.6	-2	-11	-2		2.0	4.6	9	-11	37	-24
Poland		3.80	0.1	0.9	1	-10	-2		2.3	-0.3	2	5	-7	5
Romania		4.2	-0.2	0.6	0	-10	-4		4.2	0.0	7	19	38	-4
Russia		64.7	0.2	0.9	2	-6	7		8.0	-3.6	-7	-9	120	-41
South Africa		14.0	0.6	1.3	2	-14	2		9.3	2.5	6	-10	66	-29
Turkey		5.68	0.2	-1.2	-4	-28	-7		19.0	40.8	6	282	574	209
US (DXY; 5y UST)		96.9	-0.1	-0.4	0	8	1		2.32	-0.3	4	-11	-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		3240	-0.2	2	9	3	30		176	0	0	6	-4	-18
Indonesia		6484	0.9	0	2	4	5		188	-1	-5	-3	12	-48
India		38939	0.6	0	6	15	8		158	-1	3	-6	14	-38
Philippines		7916	0.0	1	2	0	6		87	0	-2	0	-11	-34
Malaysia		1642	-0.1	1	-2	-11	-3		127	0	0	4	3	-35
Argentina		33081	1.3	-1	0	4	9		801	-4	35	47	386	-14
Brazil		97369	0.3	1	2	17	11		244	-2	-5	8	7	-29
Chile		5275	0.4	0	0	-6	3		128	0	-3	3	4	-38
Colombia		1616	1.0	2	8	6	22		179	0	-5	-5	4	-49
Mexico		45436	1.0	4	9	-5	9		295	-1	-12	-15	52	-59
Peru		21436	0.3	2	5	2	11		120	-1	-7	-11	-29	-48
Hungary		42019	0.5	0	4	10	7		105	1	-3	-2	-2	-43
Poland		61146	0.4	0	3	2	6		47	0	-7	2	-4	-38
Romania		8294	0.6	2	6	-6	12		204	0	2	4	64	-17
Russia		2565	0.2	1	4	23	8		212	-2	-8	5	2	-40
South Africa		58123	0.2	2	5	4	10		291	0	-11	-4	44	-74
Turkey		98217	1.3	5	-3	-13	8		474	-4	-7	47	151	45
Ukraine		565	0.1	0	1	56	1		572	-8	-33	-92	130	-215
EM total		44	0.3	2	7	-6	14		338	-2	-6	-8	39	-76

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