Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, August 2, 2019

Please note that the Global Markets Monitor will be on summer break starting next week and will resume on September 3, after Labor Day.

- **Treasury yields hit a record low since 2016 as president Trump's fresh tariff tweet reignites trade tensions (link)**
- **US non-farm payrolls rise 164k in July, almost matching expectations of 165k (link)**
- **Japan removes South Korea from preferential trade whitelist (link)**
- **China pledges retaliation following Trump's additional tariffs (link)**
- **S&P affirmed Argentina's sovereign rating at B, outlook remains stable (link)**

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Risk sentiment deteriorates sharply on renewed trade tensions

Global equity markets suffered large losses and core sovereign bond yields fell after president Trump's threatened to impose 10% tariffs on the remaining $300 bn worth of Chinese imports, which does not include the $250 bn already tariffed at 25%. Major equity indices such as the Euro Stoxx (-2.6%) and the Nikkei (-2.1%) fell significantly while the VIX reached a 2-month high as risk sentiment deteriorated. Safe haven flows drove German 10-year bund yields lower (-4 bps) to -0.49%, a record historical low, and US Treasury 10-year yields continued their decline (-4 bps) following yesterday's large drop (-12 bps). Elsewhere, EM equity markets and currencies were under pressure on the renewed trade tensions. China pledged countermeasures to Trump's fresh tariff threat, but did not elaborate, and the removal of Korea from Japan's preferential trade whitelist and Korean threats of retaliation added to the negative sentiment.

Key Global Financial Indicators

Last updated: 8/2/19 8:19 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2954	-0.9	-2	-1	4	18
Eurostoxx 50		3400	-2.6	-4	-3	-2	13
Nikkei 225		21087	-2.1	-3	-3	-6	5
MSCI EM		41	-2.7	-4	-5	-7	5
Yields and Spreads			bps				
US 10y Yield		1.86	-12.1	-21	-11	-112	-82
Germany 10y Yield		-0.49	-4.4	-12	-13	-95	-74
EMBIG Sovereign Spread		336	3	9	-5	8	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.8	-0.4	-1	-2	-4	-1
Dollar index, (+) = $ appreciation		98.2	-0.2	0	2	3	2
Brent Crude Oil ($/barrel)		62.0	2.5	-2	-1	-16	15
VIX Index (%, change in pp)		18.0	0.1	6	5	6	-7

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

United States

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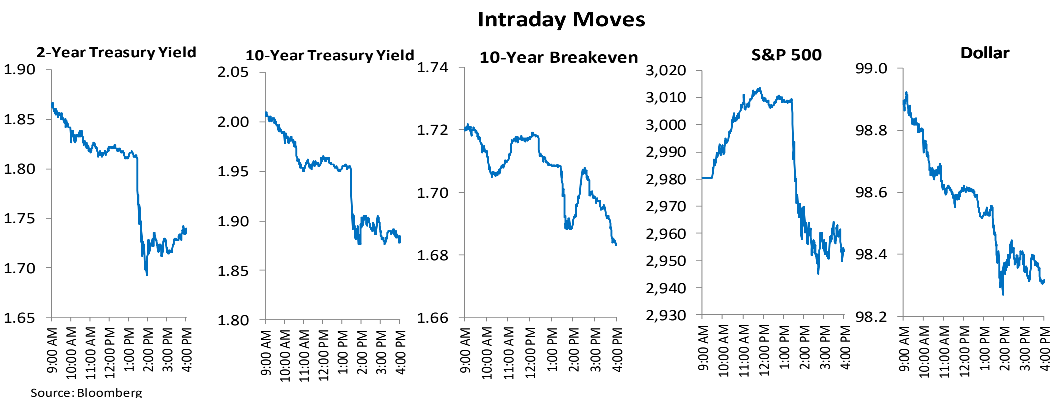
A new tariff shock sent Treasury yields to the lowest since 2016. US president Trump tweeted yesterday that the US would start, on September 1, putting an additional tariff of 10% on the remaining $300 bn of goods and products imported from China, which does not include the $250 bn already tariffed at 25%. He added later that he might raise tariffs beyond 25% if trade negotiations with China remain stalled. Prior to the headline, Treasury 10-year yields had already started slipping early Wednesday following a weak Chicago PMI (44.4 versus 51.0 cons.), and an extended decline early Thursday after weak manufacturing ISM (51.2 versus 52.0 expected). The pace of decline in Treasury yields accelerated on the new tariff headline in the afternoon to close at 1.89%, down 12 bps on the day. Investors' concerns about the Fed's ability to stimulate inflation have also played a role. Ten-year breakeven inflation fell by 6 bps to 1.69%, and WTI oil futures plunged by 7%. The tariff tweet sent most risky assets lower, the dollar weaker against major currencies and volatility and gold prices higher. The S&P 500 was down by 0.9% on the day, with the VIX surging to 17.9.



This morning, **US non-farm payrolls was in line with expectations** in July (164k versus 165k consensus). The previous month was revised lower to 193k from 224k. Unemployment was slightly higher at 3.7% (versus 3.6% cons.). Average hourly earnings were up to 3.2% yoy (versus 3.1% cons.). Separately, the trade deficit was worse than expected at $55.2 bn (versus $54.6 bn consensus) In financial markets, S&P500 futures fell modestly following the news but Treasury 10-year yields and the dollar were almost unchanged.

Central bank reserve managers continued to increase their gold holdings. They added 374 tons in the first six months as not only regular buyers -such as Russia and China- but also Poland made a large purchase, according to the World Gold Council. Analysts noted that their buying was not just opportunistic, and authorities sought to diversify away from the dollar. A recent survey of central banks showed 54% of respondents expect global holdings of gold to climb in the next 12 months. The result suggested that central banks were buying gold as a store of value, diversification, and, in some instances, to protect themselves from political risk. Gold futures gained 1.2% this morning at $1449/ozt, up 10% year-to-date.

Europe

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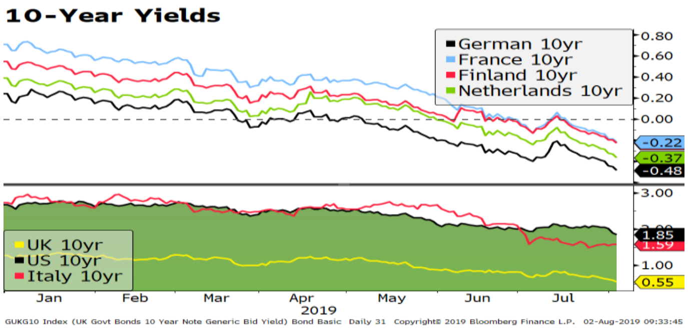
Equities fell across the board and core yields were lower following the sharp moves in the US. The EuroStoxx 600 was down nearly 2%, with the largest losses seen in German and France (both down 2.5%). The regions banking sub-index was down 3%, pressured lower by falling yields. **Sovereign bond yields were down 1-9 bps in Germany with the 10-years now at -0.49%, a record historical low, after declining for 12 out of the last 13 sessions.** Fixed income markets across the region witnessed moves of similar magnitudes except for Italy, where yields were marginally lower.



In the UK, the parliamentary majority held by the Conservative Party was cut to one after a bi-elections in Wales. The newly available seat went to the Liberal Democrats after the sitting Conservative MP was caught up in an expense reporting scandal. It's hard to extrapolate a national trend from a single constituency, but analysts noted how the event demonstrates the risk of calling general elections. In this case, the Conservatives would have won the seat if it were not for votes falling off to the Brexit Party.

Other Mature Markets

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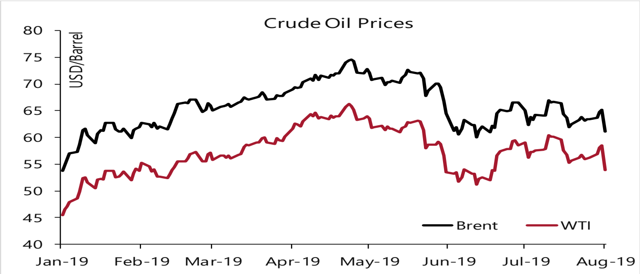
Japan

Equities (-2.2%) posted their worst daily loss since March. In heavy volume trading, electronics and autos were the biggest drags on the index. Adding to the uncertainty, **Japan decided to remove South Korea from its whitelist of countries that benefit from minimum trade restrictions and procedures**, effective from August 28. Korea said that it would retaliate. Analysts expect the move to affect about 900 or more products, with items such as chemicals, plastics and materials likely to be the most disruptive for Korea's supply chain. The latest escalation in the spat between the two countries follows the earlier removal of preferential export rules for key Japanese components to Korean semiconductor manufacturers. **The yen strengthened 0.4% while 10-year JGB yields fell 3.5 bps to -0.18%.**

Commodities

Oil prices fell sharply on Thursday as president Trump escalated the US-China trade war by posting a new tariff threat to China. Brent futures prices plunged 7% yesterday to $60.50 per barrel. WTI prices fell 8% to $53.95 per barrel, the largest daily drop since February 2015. Analysts commented that the slow progress of the US-China trade negotiations has dragged down the oil market for several months and raised concerns about the global economic outlook.



Source: Bloomberg

Emerging Markets

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EM equity markets and currencies were under pressure on the renewed trade tensions. In addition to president Trump's threat to impose 10% tariffs on the remaining $300 bn worth of Chinese imports, the removal of Korea from Japan's preferential trade whitelist and Korean threats of retaliation added to the negative sentiment. **Asian equities** (-1.7%) were broadly lower with Hong Kong (-2.4%) and Taiwan Province of China (-1.7%) paced losses, while China (Shanghai -1.4%; Shenzhen -1.5%) also performed poorly. Regional currencies broadly depreciated, led by the Korean won (-0.8%), while the Thai baht strengthened (+0.5%) in line with its recent haven status. Sovereign bond yield fell substantially across Asia. In **EMEA**, equity markets were down across the region. South Africa (-2.1%) and Russia (-1.1%) declined the most. In FX markets, most currencies depreciated against the dollar over the last two sessions, notably the South African rand (-2.4%), the Ukrainian Hryvnia (-1.8%), and the Russian ruble (-1.7%), but most of the moves came late in yesterday's session. **Latin American** equity markets were suffered losses on Thursday. Colombia saw the biggest declines as the equity index fell 1.6%, followed by Argentina (-1.5%) and Mexico (-1.3%). Local currencies depreciated on the escalated trade war between the U.S. and China, and the Argentine peso underperformed (-1.1%). 10-year government bond yields were generally higher.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
8/2/19 8:22 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.95	-3.0	-4	-5	-7	5
MSCI Frontier Equities		29.38	-1.0	-2	-2	-1	12
EMBIG Sovereign Spread (in bps)		336	3	9	-5	8	-78
EM FX vs. USD		61.77	-0.4	-1	-2	-4	-1
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.94	-0.6	-1	-1	-1	-1
Indonesian Rupiah		14185	-0.5	-1	0	2	1
Indian Rupee		69.60	-0.8	-1	-1	-1	0
Argentine Peso		44.36	-1.1	-2	-4	-38	-15
Brazil Real		3.87	-0.7	-2	0	-3	0
Mexican Peso		19.34	-0.5	-2	-2	-4	2
Russian Ruble		65.32	-1.5	-3	-3	-3	6
South African Rand		14.70	-0.2	-3	-4	-9	-2
Turkish Lira		5.60	0.1	1	1	-9	-6
EM FX volatility		7.14	0.0	0.2	-0.7	-3.0	-2.6

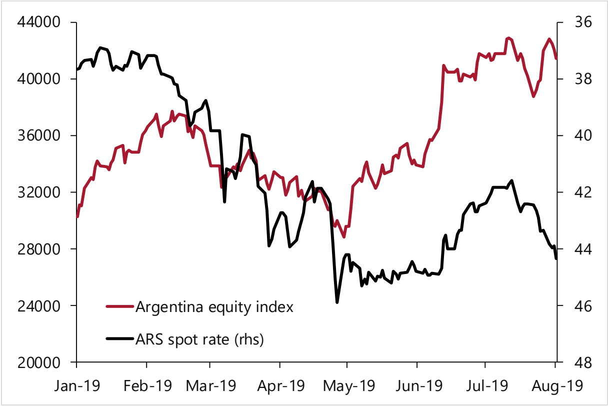
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

China

Chinese equities (Shanghai -1.4%; Shenzhen -1.5%) fell on the renewed trade tensions. In response to president Trump's fresh tariff threat, **China pledged countermeasures, but did not elaborate**. Analysts expect China to retaliate via both tariff and non-tariff measures on US companies. China could reinstate tariffs on US autos that it previously rolled back as a goodwill gesture. Non-tariff actions could include limiting exports of key raw materials such as rare earths to the US, setting quotas on US imports, raising barriers of entry into the Chinese market for US firms and products, and adding US companies to the "unreliable entities list." **The onshore RMB weakened -0.6% while the offshore counterpart depreciated -0.2%.**

Argentina

Rating agency S&P affirmed Argentina's sovereign rating at B and said its outlook remains stable on Thursday**.** In the statement, S&P stated that Argentina's outlook reflected their assumption of broad policy continuity through the national elections later this year, with a new administration set to take office at the end of 2019. They also pointed out that the new administration should continue working on implementing policies to stabilize the economy and lower inflation. Argentina assets suffered losses yesterday as domestic equities fell 1.5% and the peso closed 1.1% weaker to the dollar.



Source: Bloomberg

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Global Financial Indicators

Last updated: 8/2/19 8:20 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		2954	-0.9	-2	-1	4	18
Europe		3400	-2.6	-4	-3	-2	13
Japan		21087	-2.1	-3	-3	-6	5
China		2868	-1.4	-3	-6	4	15
Asia Ex Japan		66	-2.1	-4	-6	-7	5
Emerging Markets		41	-2.7	-4	-5	-7	5
Interest Rates				basis points			
US 10y Yield		1.86	-12.1	-21	-11	-112	-82
Germany 10y Yield		-0.49	-4.4	-12	-13	-95	-74
Japan 10y Yield		-0.16	-3.3	-2	-2	-29	-17
UK 10y Yield		0.55	-4.3	-14	-17	-83	-73
Credit Spreads				basis points			
US Investment Grade		121	0.5	5	3	23	-26
US High Yield		453	3.6	23	16	118	-68
Europe IG		54	3.8	7	4	-9	-33
Europe HY		269	14.2	27	24	-22	-84
EMBIG Sovereign Spread		336	3.0	9	-5	8	-78
Exchange Rates				%			
USD/Majors		98.21	-0.2	0	2	3	2
EUR/USD		1.11	0.1	0	-2	-4	-3
USD/JPY		106.8	0.5	2	1	5	3
EM/USD		61.8	-0.4	-1	-2	-4	-1
Commodities				%			
Brent Crude Oil ($/barrel)		62	2.5	-2	-1	-16	15
Industrials Metals (index)		112	-1.8	-2	1	-6	2
Agriculture (index)		39	0.4	-3	-4	-14	-7
Implied Volatility				%			
VIX Index (%, change in pp)		18.0	0.1	5.9	5.1	5.8	-7.4
10y Treasury Volatility Index		4.8	-0.1	0.6	0.4	1.0	0.2
Global FX Volatility		6.9	0.0	0.5	0.6	-1.1	-2.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		254	4.8	11	-1	-108	-161
Italy		206	3.1	12	-14	-39	-44
Portugal		80	0.2	-2	6	-55	-68
Spain		75	0.5	0	9	-25	-43

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: 8/2/2019 8:21 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		6.94	-0.6	-0.8	-1	-1	-1			3.2	-0.7	-1	-7	-27	0
Indonesia		14185	-0.5	-1.2	0	2	1			7.5	9.9	30	10	-39	-63
India		70	-0.8	-1.0	-1	-1	0			6.7	2.3	-3	-28	-126	-75
Philippines		51	-0.5	-0.7	-1	3	2			4.6	-2.8	-9	-30	-144	-175
Thailand		31	0.5	0.4	-1	8	5			1.9	-1.7	-8	-29	-81	-69
Malaysia		4.16	-0.3	-0.9	0	-2	-1			3.6	0.7	0	-2	-46	-49
Argentina		44	-1.1	-2.2	-4	-38	-15			30.7	41.7	30	196	1060	770
Brazil		3.87	-0.7	-2.3	0	-3	0			6.6	-1.3	0	-18	-281	-151
Chile		705	-1.2	-1.3	-4	-9	-2			2.9	-1.4	-13	-46	-192	-154
Colombia		3340	-1.8	-3.7	-4	-13	-3			5.7	5.9	12	-5	-86	-80
Mexico		19.34	-0.5	-1.5	-2	-4	2			7.6	1.1	4	4	-24	-115
Peru		3.3	-0.7	-0.9	-1	-2	1			4.6	3.2	17	-24	-91	-114
Uruguay		35	-0.7	-1.3	1	-12	-6			9.9	5.5	0	-56		-85
Hungary		295	0.2	-0.3	-3	-6	-5			1.3	-3.1	2	-26	-106	-88
Poland		3.88	0.2	-0.9	-3	-5	-4			1.9	0.5	8	-13	-65	-36
Romania		4.3	0.2	-0.5	-2	-6	-5			3.9	8.0	19	-21	-71	-34
Russia		65.3	-1.5	-3.0	-3	-3	6			7.2	3.6	9	-9	-40	-126
South Africa		14.7	-0.2	-2.8	-4	-9	-2			9.4	1.9	17	19	24	-16
Turkey		5.60	0.1	1.2	1	-9	-6			15.3	9.4	-39	-124	-378	-159
US (DXY; 5y UST)		98.2	-0.2	0.2	2	3	2			1.67	-1.2	-18	-7	-118	-84

	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		2868	-1.4	-3	-6	4	15		181	0	4	1	-4	-13
Indonesia		6340	-0.6	0	-1	5	2		187	-1	17	1	4	-49
India		37118	0.3	-2	-7	0	3		145	15	14	1	-10	-51
Philippines		8130	0.4	-1	0	5	9		81	-4	14	2	-20	-40
Malaysia		1627	-0.8	-2	-4	-9	-4		118	-1	2	-8	-15	-44
Argentina		41411	-1.5	4	-1	43	37		826	9	33	18	260	11
Brazil		102126	0.3	-1	2	28	16		218	4	17	-14	-51	-55
Chile		4941	-0.6	-1	-1	-8	-3		131	-1	4	-3	-2	-35
Colombia		1538	-1.6	-3	0	1	16		187	3	18	9	6	-41
Mexico		40347	-1.3	-1	-7	-18	-3		335	2	8	8	61	-19
Peru		19863	-0.5	-5	-4	-2	3		126	0	12	4	-16	-42
Hungary		40471	0.0	-1	-1	12	3		110	4	18	19	-1	-38
Poland		58549	-0.5	-3	-3	-2	1		48	2	11	8	-8	-37
Romania		9105	-0.2	2	4	14	23		200	16	18	18	37	-21
Russia		2700	-1.1	-1	-4	18	14		208	4	22	5	20	-44
South Africa		56390	-1.5	-2	-3	0	7		317	-1	28	36	49	-48
Turkey		100399	-1.5	-2	0	6	10		474	6	28	10	49	45
Ukraine		537	-0.7	-1	-2	5	-4		493	15	29	-26	-7	-294
EM total		41	-3.0	-4	-5	-7	5		336	3	9	-5	8	-78

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