GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, DECEMBER 11, 2019

- **US, Canada and Mexico sign off on NAFTA successor** (link)
- **Final U.K. poll leaves hung parliament within margin of error** (link)
- **FOMC widely expected to keep rates unchanged today** (link)
- **US investment-grade debt increasingly lower rated** (link)
- **Deutsche Bank retains 2022 ROTE target despite tougher rate environment** (link)
- **Saudi Aramco shares surge 10% on trading debut** (link)

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Trade worries linger ahead of FOMC

Despite reports yesterday that US and Chinese officials are laying the groundwork to extend the December 15 tariff date, markets remain uncertain. The reports of a possible delay reportedly came from anonymous sources while US trade advisor Peter Navarro, when asked about an extension, said "I've got no indication that he's going to do anything other than have a great deal or put the tariffs on." Equity markets are trading with an uneasy footing, with major exchanges little changed this morning. The FOMC will announce its rate decision this afternoon. Unlike many FOMC days, today's enters with relatively little suspense. There is a broad consensus that rates will be left unchanged and changes to the statement will be minor. Attention will be paid to the distribution of the dots however. They are mostly expected to move lower for 2020 and 2021, in line with the October rate cut. However, a significant number of dots above the current level for 2020 could be seen as a hawkish signal.

Key Global Financial Indicators

Last updated: 12/11/19 7:43 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3133	-0.1	1	1	19	25
Eurostoxx 50		3678	0.2	0	-1	20	23
Nikkei 225		23392	-0.1	1	0	11	17
MSCI EM		43	0.7	2	-1	8	10
Yields and Spreads				bps			
US 10y Yield		1.82	2.3	5	-12	-106	-87
Germany 10y Yield		-0.32	-2.1	0	-7	-55	-56
EMBIG Sovereign Spread		315	0	-14	-1	-81	-99
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		60.5	0.1	1	0	-2	-3
Dollar index, (+) = $ appreciation		97.5	0.1	0	-1	0	1
Brent Crude Oil ($/barrel)		63.9	-0.7	1	3	6	19
VIX Index (%, change in pp)		15.7	0.0	1	4	-6	-10

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

United States

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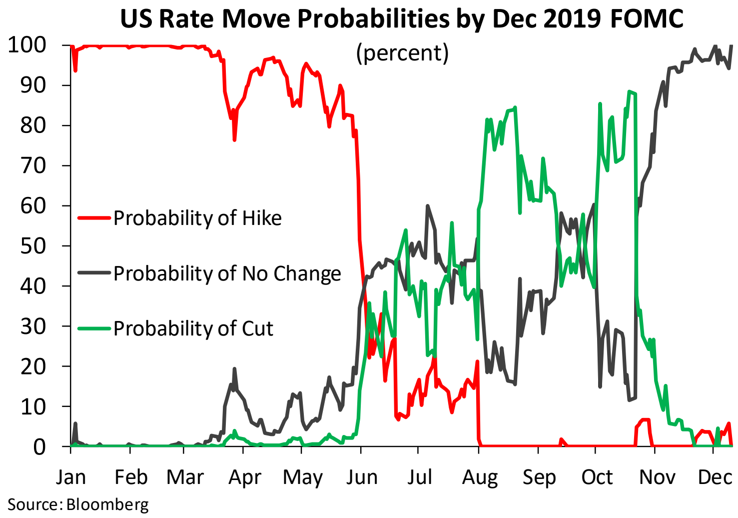
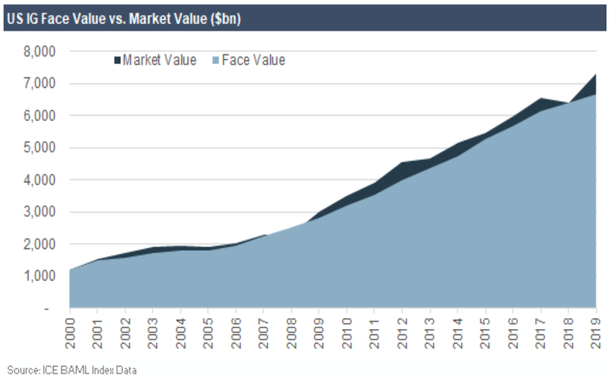
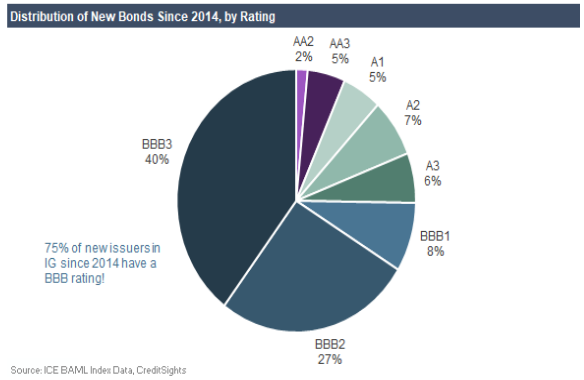
Equity markets weakened slightly yesterday, with investors cautious ahead of a looming December 15th tariff deadline with China. CreditSights reports that the US merchandise trade deficit with China was $369 bn, compared to $99 bn with Mexico. And merchandise trade between the US and China continues to slide, with US imports falling 4.8% m/m in October while exports plunged 17%. The yield curve flattened somewhat Tuesday. The 10-year Treasury reopening had a bid-to-cover ratio of 2.43, matching the October reopening, but below the 6-month average of 2.50. Small business sentiment improved in November, with 61% of respondents advising they intend to boost hiring. CPI reports out this morning came in largely within expectations. Headline November CPI was up 0.3% m/m (vs 0.2% expected) and core CPI up 0.2% (vs 0.2% expected). There was little market reaction to the news.

The market is virtually unanimous the Fed will stand pat today. But Bloomberg metrics indicate a 50% chance of a rate cut by July's FOMC meeting, and a 66% chance by December. A recent CNBC survey found that less than half of respondents forecast a cut next year and 5% expected a hike. Of those expecting a cut, most predicted it would not come until June.



Investment-grade corporate debt continues to grow apace. Using the benchmark ICE BAML index, CreditSights advises the sector now exceeds $7.2 tn, compared to $5.1 tn just five years ago. Banking and health care are the largest constituent sectors. CreditSights notes that over the past five years, duration has lengthened by 0.7 years, and that the option-adjusted spread has fallen by 20 bps. Lower rated BBB rated bonds now account for just over half of the index, and some 75% of new issues since 2014 have been BBB rated.





The US House Judiciary Committee announced two articles of **impeachment** against President Trump. Passage by the full House is expected next week, but the Senate is unlikely to go along with the House vote given the Republican majority.

Europe

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Equities are little changed. German 10-yr bund yields fell 2 bps to -0.32%, and 10-yr OAT yields trade at zero. The euro was little changed against the USD. Italian spreads over 10-yr bunds were little changed at 153 bps, as were Spanish spreads at 75 bps.

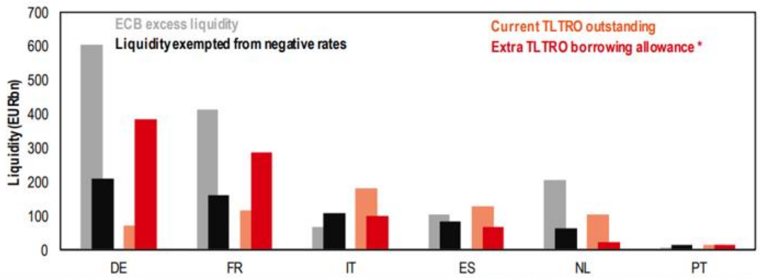
Contacts point out that even after the strong rally of 2019, FX-hedged yields on Brazilian and Italian bonds remain relatively high though differentials with core bond yields have narrowed.

Top Ranked 10Y FX hedged yields out of 31 countries	
In euro currency (date: 11 Dec 2019)	
Brazil	2.35
Chile	1.73
Italy	1.21
Hungary	1.20
Indonesia	0.91
Philippines	0.60
Israel	0.59
Spain	0.42
Korea	0.32
Malaysia	0.23

Note: Calculation locks in hedging costs through 1-yr forwards.
Table shows top 10-yr yields out of sample of 31 countries.
Source: Bloomberg, Sven Helsen (BNP) and IMF

The ECB is meeting tomorrow but **investors will also pay attention to the upcoming TLTRO III auction next week 18 December, the first TLTRO operation after the ECB implemented tiering**. HSBC expects the take-up for the December tranche to be higher than September as some TLRTO II repayments (of €147 bn) are expected to be rolled into a new tranche given higher regulatory constraints as loans become sub 1-year and sub six months.

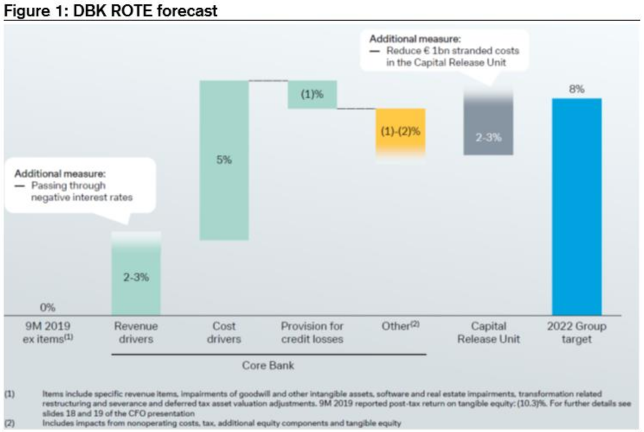
ECB Excess liquidity, liquidity exempted from negative rates and TLTROs



Source: HSBC, ECB, National Central Banks *For latest TLTRO borrowing allowance see ECB's TLTROIII, 3 June 2019

Deutsche Bank retains its 2022 ROTE target of 8% despite deteriorating outlook. Management's update, premised on 9% ROTE by 2022 in core banking (from 4% in 2019 year to date), maintains the profitability forecast announced in July. The revised forecast requires the bank to mitigate deterioration over the past six months in the interest rate and NIM environment which have prompted management to reduce the 2019E revenue target to €22.4 bn, from €25 bn in July. Management arrives at the 2022 forecast thus by raising the outlook for investment banking (FICC revenues have been strong) revenue CAGR from 0% to 2% while lowering estimates for historically more stable Private Bank and Asset Management divisions. The capital outlook has improved modestly: ECB's Pillar 2 Requirement was lowered to 2.5% by 2020, from 2.75%; and management now expects €25 bn of RWA inflation by 2024 (previously 2023). Consensus reported ROTE estimates (currently 2.8%) suggest market skepticism. Deutsche Bank's share price has fallen -6.1% (vs. -1.1% for the European banks index) over the past month and -12% (+3% for the banks index) year to date.

Figure 1: DBK ROTE forecast



Source: Company data

United Kingdom

The British pound (-0.3% to $1.31) slipped as the Tory lead narrowed in the final poll ahead of tomorrow's general election. The Conservative Party is now expected to obtain 43% of votes (339 seats – a 28-seat lead over Labor), down from a maximum of 45% support (and a 68-seat lead over Labor) weeks ago. The model has a margin of error with a range of predicted Tory seats lying between 311 and 367, which would result in a hung parliament at the lower end.

Other Mature Markets

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Japan

Japanese equities slipped with the Topix losing 0.3% and the Nikkei 0.1%. Ten-year JGB yields gained 2 bps to 0.003%. The yen traded flat at ¥108.7.

Moody's has warned that Japanese banks' 2020 prospects are negative due to an older and shrinking population and ultralow interest rates, while the outlook for insurers shows solid profits. In a new report, the agency also notes that small banks will likely fare worse than larger institutions. Life insurers' on the other hand, face a more stable outlook thanks to "solid" underwriting margins, according to Moody's.

Canada

Bank supervisor raises the Domestic Stability Buffer to address vulnerabilities. The Office of the Superintendent of Financial Institutions (OSFI) has informed the country's six biggest banks that it intends to increase their Domestic Stability Buffer by 25 basis points, to 2.25%, effective 30 April 2020. This is the third 25-bps increase in the buffer since disclosure began in June 2018 and reflects the OSFI's judgment that system vulnerabilities are elevated and in some cases increasing while economic conditions remain accommodative. The letter specified three domestic concerns -- consumer indebtedness, corporate and institutional indebtedness, and asset imbalances – and highlighted that global vulnerabilities (trade tensions, leverage) could also spill over into the domestic financial system. Big Canadian banks' share prices fell modestly – from -0.1% for CIBC to -0.5% for Royal Bank of Canada -- against a slightly higher market index.

Emerging Markets

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Equities across Asia gained in unison. Bourse indices in Shanghai (+0.2%), the Philippines (+0.6%), South Korea (+0.4%), and India (+0.4%) all gained, partly spurred by hopes of a delay in the imposition of US sanction on Chinese good on Dec 15th. Currencies trade steadily this morning but slightly to the downside against the dollar, weakening about 0.1% to 0.3% in most countries. In **EMEA**, stock performance across emerging Europe was disappointing, while equities gained in most of the Middle East and Africa: Romania (-0.7%), Poland (-0.7%), and Czech Republic (-0.4%); Saudi Arabia (+1.1%), UAE (+1.0%), South Africa (+0.4%), Morocco (+0.4%). **Latin American** equities markets were mixed yesterday. Equities in Mexico (+1.6%) and Peru (+0.7%) saw large increases, while Argentine equities (-4.8%) fell sharply. The currency markets were quiet.

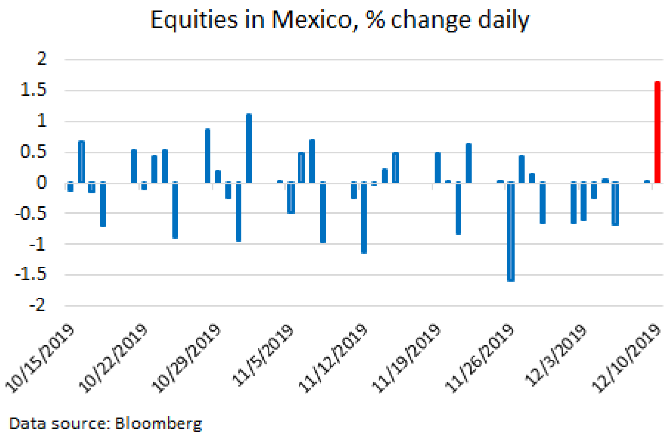
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
12/11/19 8:14 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		43.05	0.8	2	-1	8	10
MSCI Frontier Equities		29.98	0.2	2	5	9	15
EMBIG Sovereign Spread (in bps)		315	0	-14	-1	-81	-99
EM FX vs. USD		60.56	0.2	1	0	-2	-3
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		7.04	-0.1	0	0	-2	-2
Indonesian Rupiah		14038	-0.1	0	0	4	3
Indian Rupee		70.84	0.1	1	1	1	-2
Argentine Peso		59.73	0.2	0	0	-37	-37
Brazil Real		4.12	0.8	2	1	-5	-6
Mexican Peso		19.22	0.2	1	-1	5	2
Russian Ruble		63.57	-0.1	1	1	5	9
South African Rand		14.76	0.2	-1	1	-3	-3
Turkish Lira		5.81	-0.1	-1	-1	-8	-9
EM FX volatility		6.82	0.0	-0.1	-0.5	-3.3	-3.0

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

Mexico

The United States, Canada and Mexico all signed off on the successor to NAFTA yesterday. Representatives of the three countries met in Mexico to pen proposed amendments that have the subject of months of negotiations. The way was cleared after US House Democrats advised they would support the deal. Legislators in the three countries will take the next steps. Mexican stocks advanced 1.6% on the day, the largest one-day increase since mid-October. Canadian stocks were little changed. The Mexican peso and Canadian dollar were also little changed.



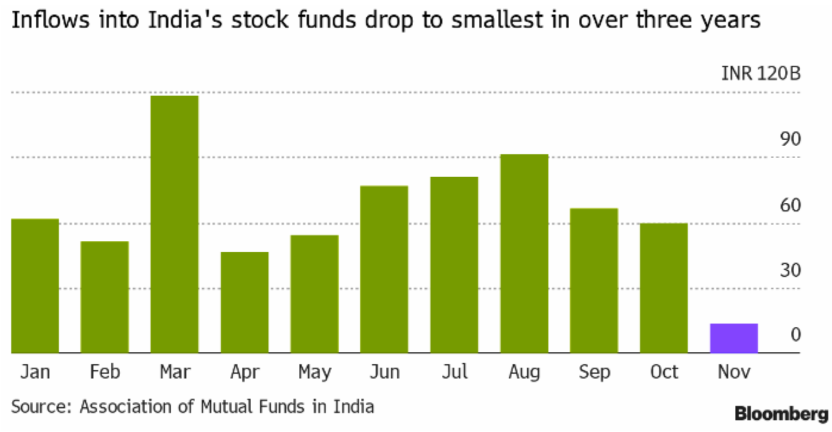
China

Chinese equities traded mixed even as a delay in the Dec 15th US tariffs could be at play. Chinese officials are reportedly expecting that US may push back the date for imposing a 15% tariff on a list of Chinese imports – worth about $160 bn – as negotiations continue. The Shanghai Composite edged up 0.2% at market close, while the Shenzhen Composite dipped 0.4% with the tech segment underperforming. In FX, both CNY and CNH were little changed, trading around 7.038-7.039 against US dollar.

Chinese social financing expanded at an 11% annual clip in November. New increase in total social financing (TSP) including loans, shadow credit, bond and equity financing came in stronger-than-expected, at RMB1.75 trillion in November versus market consensus of RMB1.49 trillion. The increase was mainly driven by stronger bank lending to corporates, while shadow credit such as trust and entrusted loans continued to shrink. The market reaction to the data was relatively calm as growth in the stock of TSP, which is regarded as a gauge of credit conditions, remained steady at 10.7% in November from a year ago. Breakdown by component shows that bond financing continued to expand at a solid pace underpinned by active issuance of corporate bonds despite concerns over the credit quality of low-rated issuers.

India

Standard & Poor's has warned of a possible sovereign downgrade if the Indian fiscal stance does not improve. The agency noted that "fiscal metrics, including the fiscal deficit, annual change in net general government indebtedness, and net government debt stock, are weak." S&P also expressed concerns over India's growth prospects. India's current sovereign rating stands at 'BBB-'. Yields on the 10-year bond increased 5 bps to 6.75% on Wednesday, following outflows by international investors worth an estimated $530 mn on Tuesday, according to Bloomberg data. Similarly, inflows into India's stock market have reduced in recent months. Nonetheless, equities gained 0.4% today.



Saudi Arabia

Saudi Aramco's shares surged 10% on its trading debut. The company's market value has thus increased to $1.9 tn, following its recent IPO which raised nearly $26 bn. The FT reports that Saudi authorities have asked local institutions and wealthy families to buy Aramco's shares in an effort to buoy the company's value. **The main equity index in Riyad added 1.1% today.**

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Global Financial Indicators

Last updated: 12/11/19 8:14 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3133	-0.1	1	1	19	25
Europe		3678	0.2	0	-1	20	23
Japan		23392	-0.1	1	0	11	17
China		2924	0.2	2	0	13	17
Asia Ex Japan		70	0.4	2	-1	8	10
Emerging Markets		43	0.7	2	-1	8	10
Interest Rates					basis points		
US 10y Yield		1.82	2.3	5	-12	-106	-87
Germany 10y Yield		-0.32	-2.1	0	-7	-55	-56
Japan 10y Yield		0.00	1.6	4	7	-5	0
UK 10y Yield		0.78	-1.9	4	-3	-41	-50
Credit Spreads					basis points		
US Investment Grade		113	0.2	-4	-4	-28	-35
US High Yield		437	-6.6	-40	-10	-11	-84
Europe IG		48	0.5	0	-1	-38	-40
Europe HY		223	1.9	0	-7	-124	-129
EMBIG Sovereign Spread		315	0.0	-14	-1	-81	-99
Exchange Rates					%		
USD/Majors		97.54	0.1	0	-1	0	1
EUR/USD		1.11	-0.1	0	0	-2	-3
USD/JPY		108.7	0.0	0	0	4	1
EM/USD		60.5	0.1	1	0	-2	-3
Commodities					%		
Brent Crude Oil ($/barrel)		64	-0.7	1	3	6	19
Industrials Metals (index)		112	0.4	2	-4	-2	3
Agriculture (index)		40	-0.2	2	2	-7	-4
Implied Volatility					%		
VIX Index (%, change in pp)		15.7	0.0	0.9	3.6	-6.1	-9.7
10y Treasury Volatility Index		4.6	-0.1	0.0	-0.1	0.3	0.1
Global FX Volatility		6.1	0.0	0.0	-0.3	-2.6	-2.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		168	1.2	-18	7	-235	-248
Italy		153	-0.8	-7	2	-136	-97
Portugal		68	-1.1	-2	8	-85	-80
Spain		74	-1.2	-1	7	-46	-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: 12/11/2019 8:15 AM	Exchange Rates: Level		Change (in %)					Local Currency Bond Yields (GBI EM): 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		7.04	-0.1	0.2	0	-2	-2		3.2	-0.3	-1	-7	1	3
Indonesia		14038	-0.1	0.5	0	4	3		7.2	-1.1	-6	16	-117	-96
India		71	0.1	1.0	1	1	-2		7.0	2.4	18	13	-65	-47
Philippines		51	-0.2	0.3	0	4	3		4.3	-0.2	-4	-6	-201	-204
Thailand		30	0.2	0.1	0	8	7		1.7	0.0	-4	-5	-104	-96
Malaysia		4.16	0.0	0.3	0	0	-1		3.4	0.4	0	1	-71	-69
Argentina		60	0.2	0.3	0	-37	-37		88.2	30.7	-262	2565	6496	6520
Brazil		4.12	0.8	2.2	1	-5	-6		6.1	1.8	-11	12	-249	-203
Chile		776	0.3	1.9	-2	-12	-11		3.7	-3.3	12	45	-88	-75
Colombia		3398	0.2	2.2	-2	-6	-4		5.9	0.8	-13	9	-67	-57
Mexico		19.22	0.2	1.1	-1	5	2		7.0	0.9	-20	-1	-220	-175
Peru		3.4	-0.7	-0.3	-1	-1	-1		4.5	-1.5	-8	3	-142	-125
Uruguay		38	-0.3	-0.9	-1	-15	-15		11.2	5.0	0	30	19	51
Hungary		299	-0.1	0.1	1	-4	-6		1.0	1.6	-5	-19	-130	-117
Poland		3.87	-0.1	-0.2	0	-2	-3		1.8	1.6	2	-12	-65	-48
Romania		4.3	-0.2	-0.1	0	-5	-6		4.1	-2.0	-3	22	-3	-11
Russia		63.6	-0.1	0.5	1	5	9		6.3	0.4	-3	1	-216	-216
South Africa		14.8	0.2	-1.2	1	-3	-3		9.7	3.4	-3	11	-15	11
Turkey		5.81	-0.1	-1.1	-1	-8	-9		12.0	-7.6	9	-16	-576	-490
US (DXY; 5y UST)		98	0.1	-0.1	-1	0	1		1.68	-0.8	8	-7	-106	-83

	Equity Markets: Level		Change (in %)					Bond Spreads on USD Debt (EMBIG): 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		2924	0.2	2	0	13	17		181	-1	-2	6	-4	-13
Indonesia		6180	-0.1	1	1	2	0		168	-1	-10	-2	-61	-68
India		40413	0.4	-1	0	15	12		123	-4	-13	-7	-57	-73
Philippines		7786	0.6	0	-3	5	4		76	-1	-9	-4	-37	-45
Malaysia		1563	0.1	0	-3	-5	-8		115	-4	-7	-4	-29	-47
Argentina		34657	-4.8	6	3	12	14		2198	-3	-170	-241	1444	1383
Brazil		110672	-0.3	0	2	28	26		227	0	-13	2	-38	-46
Chile		4769	0.2	3	3	-6	-7		149	-1	-5	8	-11	-17
Colombia		1603	-0.2	-1	-2	17	21		177	1	-12	4	-22	-51
Mexico		42633	1.6	1	-2	4	2		314	1	-13	4	-20	-40
Peru		19926	0.7	1	1	4	3		123	1	-6	-1	-42	-45
Hungary		44343	0.2	1	3	11	13		94	1	-7	4	-52	-54
Poland		55387	-0.4	-1	-6	-3	-4		20	0	-9	-3	-42	-65
Romania		9812	-0.7	-1	1	14	33		186	-1	-15	3	-42	-35
Russia		2951	0.6	2	0	23	25		146	0	-12	-19	-96	-106
South Africa		55599	0.3	1	-1	9	5		353	0	-1	27	-4	-12
Turkey		108035	0.0	0	5	18	18		428	1	-11	0	-34	-1
Ukraine		510	0.0	0	-2	-11	-9		455	-2	-51	4	-284	-332
EM total		43	0.8	2	-1	8	10		315	0	-14	-1	-81	-99

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

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