



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, December 12, 2018

- PM May's leadership of the party will be challenged in confidence vote today ([link](#))
- US yield curve flattens further, reaching new low in the 2-to-10 year segment ([link](#))
- Year-end dollar funding pressures seem to be less acute than last year ([link](#))
- Polls suggest Macron's policy measures should help diffuse tensions in France ([link](#))
- Supportive measures boost Chinese bank lending and bond financing ([link](#))
- India's central bank expected to turn less hawkish under new governor ([link](#))
- Fitch upgrades Paraguay's rating to BB+, with stable outlook ([link](#))

[United States](#)

[Europe](#)

[Emerging Markets](#)



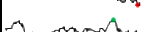
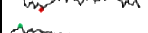

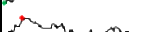





[Market Tables](#)

Leadership in Focus as Markets Turn more Optimistic

Global asset markets are boosted by further signs of progress in trade negotiations between US and Chinese leaders, supported by expectations that PM May will prevail in a challenge to her leadership.

Equities are up 1-2% in the major markets, led by Japan, India, and EMs more broadly. Yesterday, President Trump touted progress with China, which is reportedly planning to cut tariffs on US car imports from 40% to 15% and may be resuming imports of soybeans. On the domestic side, President Trump had a tense meeting with Democrat leaders focused on funding the government beyond the deadline of December 21, raising concerns about a government shutdown among market participants. In the UK, conservative members of parliament have filed a request for a confidence vote on PM May's leadership of the party. Analysts and prediction markets see the PM winning, given the potential disruption of a leadership change at this stage. In India, newly appointed central bank governor Shaktikanta Das is seen as shaping the disposition of the monetary policy committee towards a more balanced and less hawkish policy stance.

Key Global Financial Indicators

Last updated: 12/12/18 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2637	0.0	-6	-3	-1	-1
Eurostoxx 50		3106	1.6	-1	-3	-14	-11
Nikkei 225		21603	2.2	-1	-3	-6	-5
MSCI EM		40	1.9	-5	1	-13	-16
Yields and Spreads			bps				
US 10y Yield		2.89	2.2	-2	-29	49	49
Germany 10y Yield		0.25	2.0	-3	-15	-6	-18
EMBIG Sovereign Spread		396	0	-1	29	108	111
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.2	0.3	0	1	-9	-11
Dollar index, (+) = \$ appreciation		97.2	-0.2	0	0	6	6
Brent Crude Oil (\$/barrel)		61.2	1.7	-1	-13	-3	-8
VIX Index (% change in pp)		21.0	-0.8	0	4	11	10

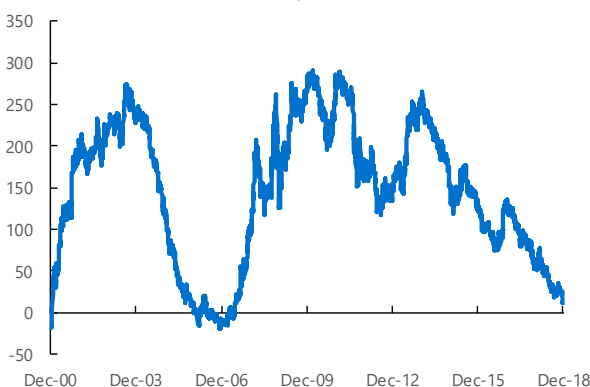
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

[back to top](#)

The Treasury yield curve flattened further on Tuesday, with the 2-to-10-year term spread falling to a new post-crisis low of 11 bps. Front-end Treasury yields rose 3 bps while 10-year Treasury yields closed 2 bps higher at 2.88%. The S&P 500 index closed nearly unchanged on the day, after a volatile session in which initial optimism on trade was wiped out by growing concerns about a government shutdown later this month. The dollar strengthened, with the dollar index (DXY) approaching a year-to-date high. **This morning's US CPI data was released in line with analyst expectations, printing 2.2% for both the headline and the core measure.** US breakeven inflation has fallen over the past month in line with plummeting oil prices, with 5-year breakevens reaching the lowest levels since September last year.

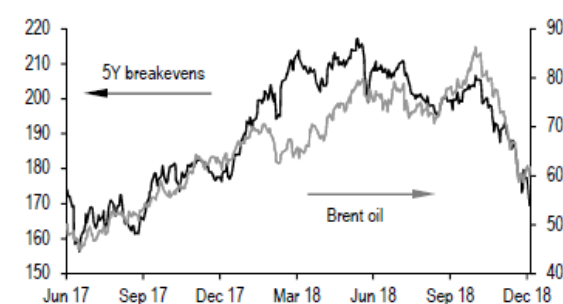
UST 2s10s spread
basis points



Source: Bloomberg

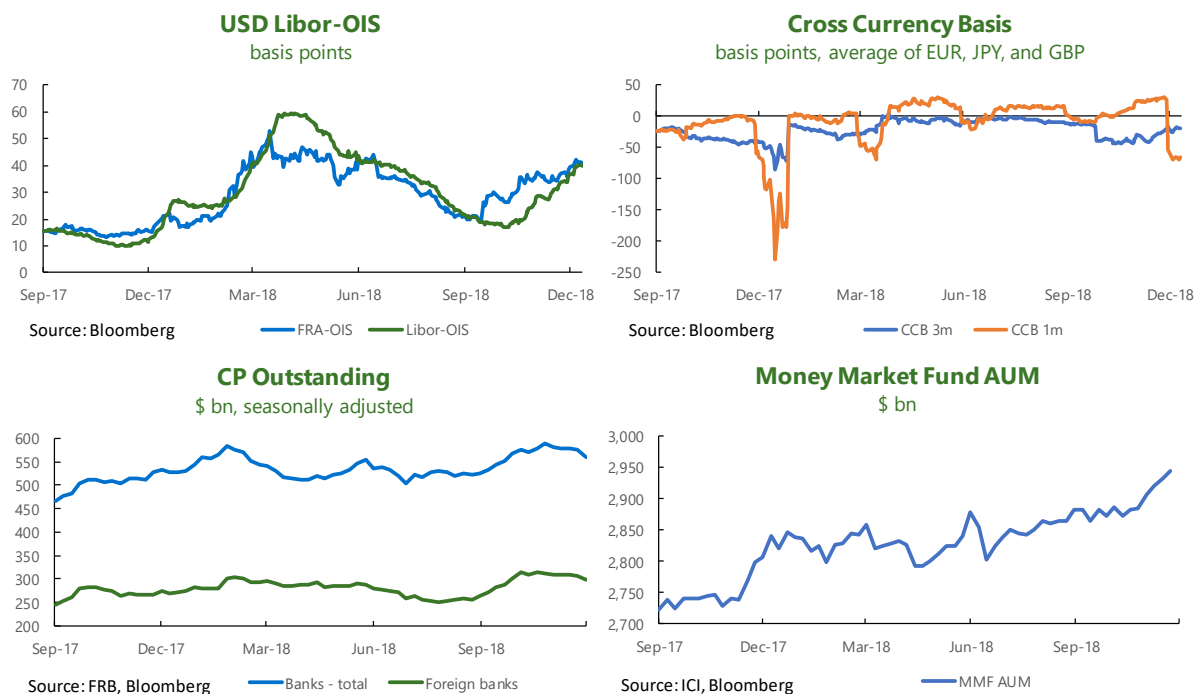
Exhibit 1: Five-year breakevens have fallen to their lowest levels since September 2017 as energy prices have plummeted...

Five-year TIPS breakevens (left axis; bp) versus rolling front Brent oil futures contract price (right axis; \$/bbl)



Source: J.P. Morgan

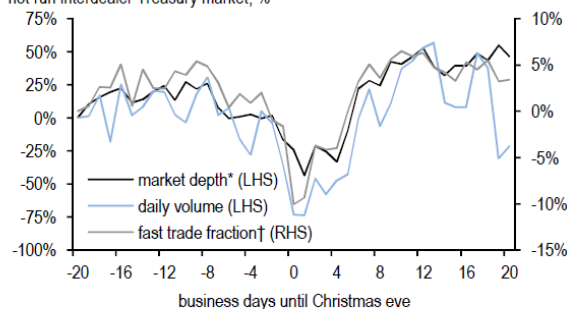
Year-end funding pressures appear to be less acute than last year, at least for now. Libor-OIS spreads are grinding higher both in spot and forward markets as the year-end approaches, and 1-month cross-currency basis spiked as the 1-month window has started covering the calendar year-end. The extent of spread widening, however, has been less acute than last year, and the 3-month cross-currency basis has narrowed somewhat since mid-October (top right), despite tighter financial conditions than last year. A possible explanation for these developments is supply-demand dynamics. Banks' commercial paper outstanding, an indicator of demand for dollar liquidity, appears to be peaking since October (bottom left). Analysts think that banks have taken a more conservative approach to manage their year-end liquidity, which may have resulted in the earlier timing of spread widening relative to prior years. Meanwhile, assets under management of money market funds, an indicator of supply of dollar liquidity, have increased meaningfully (bottom right), possibly due to higher short-term interest rates, with a yield of 2.4% on a risk-free asset viewed as an attractive defensive position.



Treasury market liquidity will likely fall into year-end. Heading into the December holiday period, Treasury market depth has on average dropped by 50% over the past ten years, according to JPMorgan analysts. Similarly, the share of trading undertaken by principal trading firms via high-frequency trading activity (HFTs) also tends to drop. This suggests that markets are likely to become vulnerable to large price swings into year-end.

Exhibit 3: Market depth pulls back into the December holiday, and HFT strategies also dip as a fraction of total activity; but trade volume likewise drops substantially ...

Percent change in market depth*, daily trade volume and fast trade flows (a measure of HFT activity) heading into the December holiday break for the 10-year hot run interdealer Treasury market; %



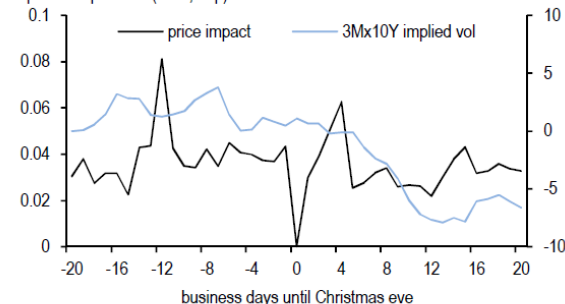
* Market depth is the average size of the top 3 bids/offers in on-the-run Treasuries; we take a snapshot of depth at the onset of every \$100mn in notional traded, and thus form a moving volume-weighted average

† Defined as fraction of \$5mn multi-trade flows in current 10s that occurs in under a hundredth of a second, computed on a daily basis across all hours in the interdealer market.

Source: J.P. Morgan, Brokertec

Exhibit 4: ... and on net—in a normal year—neither price impact nor short-dated implieds tend to rise into the holiday period

Price impact in hot-run 10-year Treasuries (LHS; ticks/\$100mn) and 3Mx10Y implied swaption vol (RHS; abp)



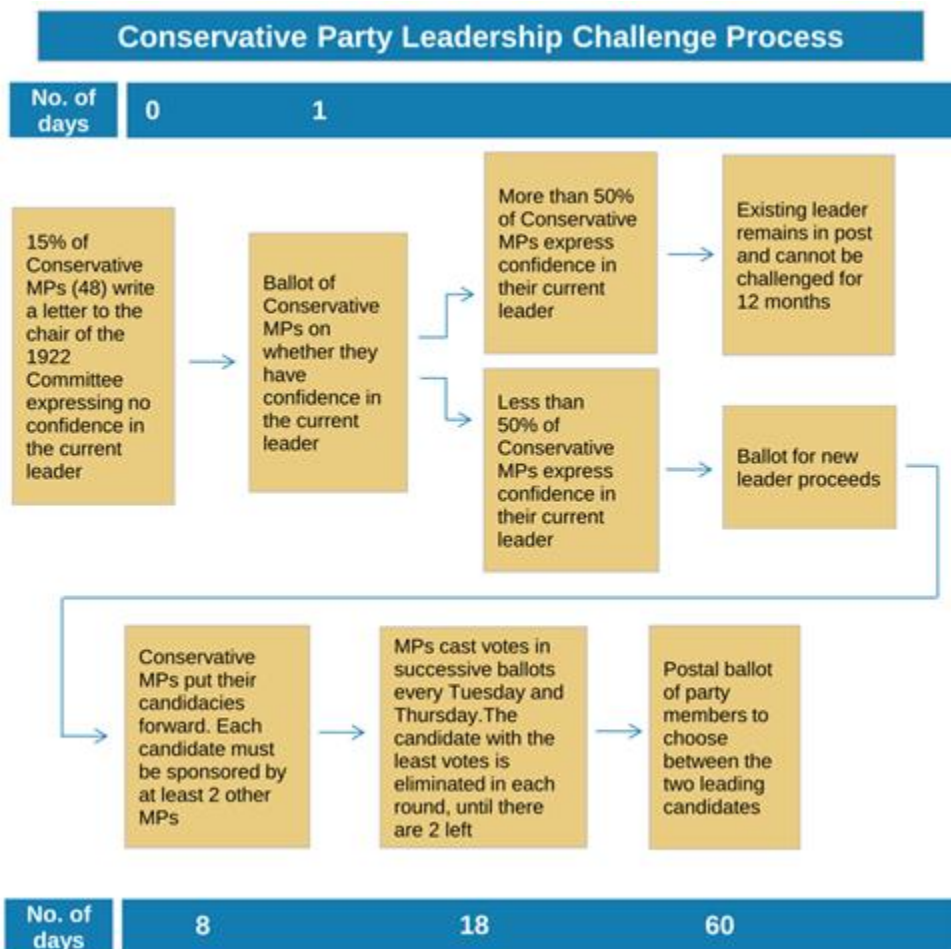
Note: price impact defined as the observed average price move per \$100mn of traded volume. The sign of the move is corrected for flow imbalance (positive for a price increase when buys outnumber sells, and negative when sells outnumber buys). For details, see Drivers of price impact and the role of hidden liquidity, J. Younger et al., 1/13/17.

Source: J.P. Morgan, Brokertec

Europe

[back to top](#)

The government confirmed that at least 48 Conservative MPs submitted letters calling for PM May's resignation as party leader, triggering a confidence vote. The vote is scheduled for today from 6-8 pm local time. Most observers expect May to win the vote. JPMorgan, for example, sees around 200 of the 315 Conservative MPs voting in her favor, since the prospect of leadership change would be very disruptive. Contacts at Morgan Stanley agree with this assessment, highlighting that a May victory would reduce the risk of a no-deal outcome, but a defeat would raise the odds of early elections and a hard Brexit. **Consistent with this view, there has been no negative reaction in UK assets.** The pound is up 0.3%, gilt yields are little changed, and the FTSE 100 is up 1.0%.



Separately, the FT reports that the EU is planning to grant temporary market access to UK clearing houses in the event of a no-deal Brexit. The draft decision would give the institutions temporary equivalence to allow EU investors to continue clearing derivatives in the UK.

Europe

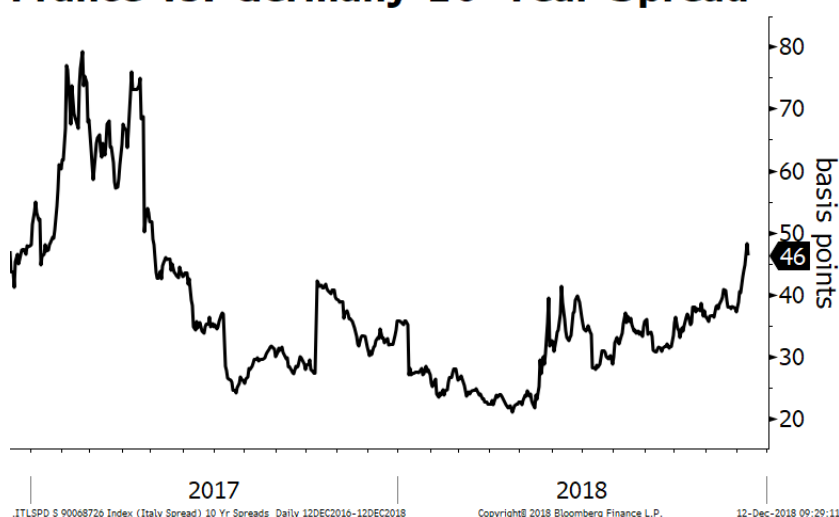
The EuroStoxx index is up nearly 1%, adding to yesterday's 1.5% gain. The French CAC is outperforming (+1.5%) as traders hope for a de-escalation of protests after President Macron's policy announcements earlier this week. **Fixed income markets are little changed in the region with yields rising slightly in Germany and falling a couple of basis points in France and Italy.** Of note, Italian local media report that Lega is considering early elections for as soon as March, but officials have denied it. In

addition, the latest reports for the revised budget target is of 2.05%-2.08%, compared with the original proposal of 2.4%.

France

The 10-year French-German spread has moderated a couple of basis points today but remains elevated at 46 bps. Observers believe that while the measures announced by Macron may not be enough to completely quell protests, they are likely to attenuate them. A recent poll shows that 55% of those surveyed are satisfied with the measures, while 42% want the end of blockages, up 12 ppts from last week. Italian Deputy PM Di Maio was quick to call for punishment against the expansionary measures, saying the EC should "also open a case against France, if the rules apply to all." However, European Economic and Financial Affairs commissioner Pierre Moscovici commented that Macron's plan could be acceptable on a "limited, temporary and exceptional" basis.

France vs. Germany 10-Year Spread



Emerging Markets

[back to top](#)

Bourses in Asia closed mostly higher today, with India, South Korea and Taiwan all rising more than 1%, while the Shanghai Comp advanced 0.3%. Currencies were stable across the region, though the Indian rupee (-0.2%) underperformed slightly, weighed down by speculation that the new central bank governor will bring a more dovish stance. The rupee has depreciated some 1.5% since the start the week. **In EMEA**, equity markets are mixed, falling nearly 0.5% in Turkey and Russia but rising around 0.5-1.0% in other major bourses. Currencies are mostly little changed, with the only notable price action being a 0.5% fall of the Ukrainian hryvnia. **Latin American** assets were mixed yesterday. Argentine and Brazilian equities rose 0.6% reversing the trend of the past two sessions, while Mexico's benchmark index was down more than 1%. The Argentine peso weakened another 0.4% against dollar while the Brazilian real strengthened 0.6% as the central bank auctioned 2 FX credit-lines yesterday and the Mexican peso strengthened by 0.5% against dollar.

Key Emerging Market Financial Indicators

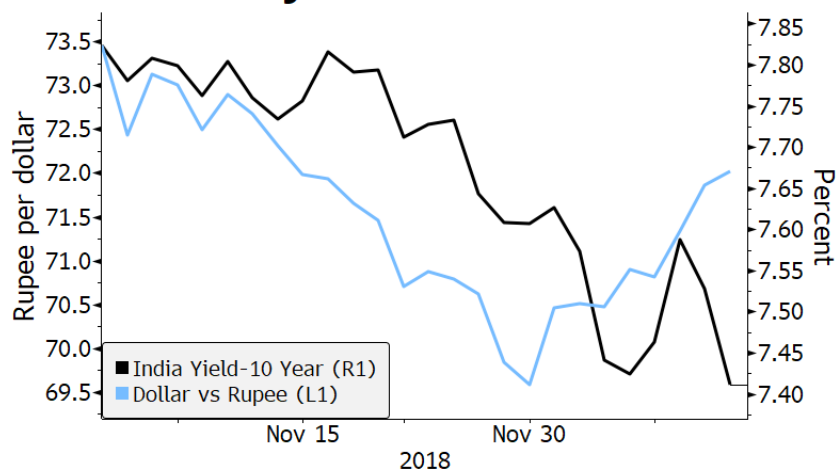
Last updated: 12/12/18 8:13 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		39.76	1.9	-5	1	-13	-16
MSCI Frontier Equities		27.45	0.1	-2	1	-18	-17
EMBIG Sovereign Spread (in bps)		396	0	-1	29	108	111
EM FX vs. USD		62.18	0.3	0	1	-9	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.89	0.2	0	1	-4	-6
Indonesian Rupiah		14598	0.1	-1	2	-7	-7
Indian Rupee		72.02	-0.2	-2	1	-11	-11
Argentine Peso		37.69	0.3	0	-6	-54	-51
Brazil Real		3.87	0.9	0	-3	-14	-14
Mexican Peso		20.06	0.7	2	1	-4	-2
Russian Ruble		66.32	0.1	0	2	-11	-13
South African Rand		14.22	0.9	-3	2	-4	-13
Turkish Lira		5.37	0.0	-1	2	-28	-29
EM FX volatility		10.11	0.0	0.1	0.0	2.3	2.3

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

India

The rupee weakened slightly while yields declined on speculation that the RBI's new leader could be more dovish. A former economic affair minister, Shaktikanta Das, was appointed as the new governor after the sudden resignation of the central bank's former head. Analysts at Barclays comment that current MPC disposition has been on the hawkish end of the spectrum, but Das will tilt it towards a more balanced stance since he casts the tie-breaking vote. Some analysts argued that Das is likely to be more sympathetic to the government, which could pose a potential risk to the institution's independence. The local 10-year yield is down around 15 bps over the last two sessions while the currency has depreciated 1% against the dollar, but equities are up more than 2% over the period.

India Currency and Bond Yields



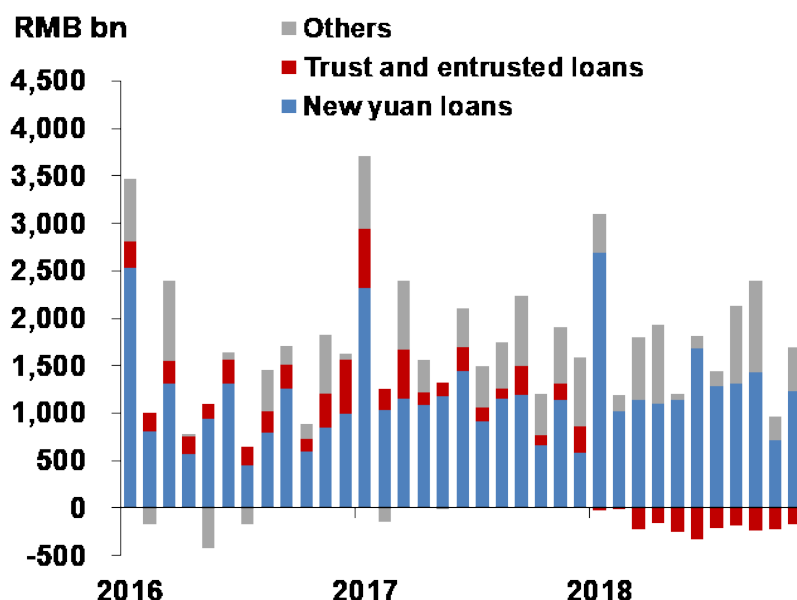
Source: Bloomberg

GIN10YR Index (India Govt Bond Generic Bid Yield 10 Year) India Daily 01NOV201 Copyright© 2018 Bloomberg Finance L.P. 12-Dec-2018 11:42:16

China

Supportive policy measures boosted Chinese bank lending and bond financing while shadow credit shrank further. Total social financing came in stronger than expected at RMB 1,519 billion in November, up from RMB 743 billion in October, mainly driven by a stronger increase in renminbi bank loans. Shadow credit, as measured by trust and entrust loans, continued to shrink over the past eleven months with Chinese authorities pushing forward to de-risk the financial system. Bond financing rebounded during the last month, as the government asked banks to support corporate bond issuance particularly by smaller firms.

China's Total Social Financing by Component



Source: PBoC.

The Chinese equity market rose on further signs of easing of US-China trade tensions. The Chinese government is planning to lower tariffs for US automobile imports from 40% to 15%, while President Trump noted that China had resumed importing soybeans from the US. Meanwhile, Huawei's CFO Meng was granted bail by a court in Canada also alleviated worries of deterioration of US-China diplomatic relationship over the near term. The Shanghai Composite and Shenzhen small-cap ChiNext gained 0.3% and 0.7%, respectively. In the currency market, the renminbi strengthened 0.14% to 6.89 against the US dollar in the onshore market, while the offshore CNH appreciated by 0.33%.

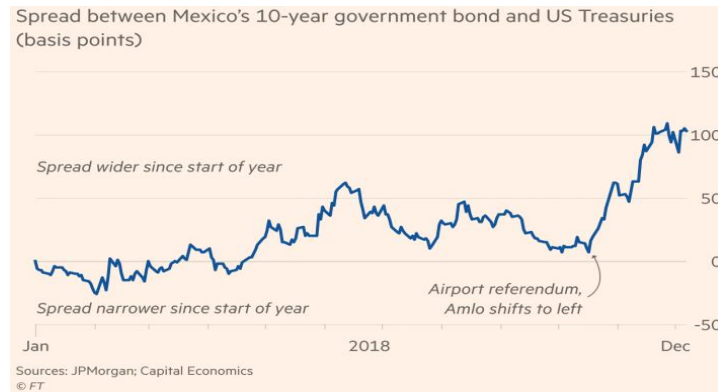
Paraguay

Fitch Ratings upgraded the rating for Paraguay's Long-Term Issuer Default Ratings to 'BB+' from 'BB' and changed its outlook from Positive to Stable. According to Fitch, the upgrade reflects the sovereign's demonstrated resilience to external shocks and favorable growth performance. Paraguay's growth has averaged 4.3% over the last five years. Fitch forecasts Paraguay's economy to grow at 3.9% in 2019-2020. Analysts think that structural factors remain Paraguay's key rating constraints, reflected in governance indicators and GDP per capita.

Mexico

The spread between Mexico's government bonds and US Treasuries has widened substantially in




















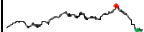



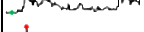
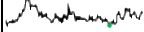
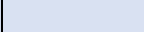



recent months, reflecting policy uncertainty in the context of the incoming administration. The peso has depreciated nearly 8% against the dollar since late October after President Lopez Obrador cancelled the airport project and last week decided to suspend oil auctions for three years. Given that Mexico's sovereign debt has the largest weight in the widely followed JPMorgan EMBI Global Diversified index, emerging market investors are closely following the new government's plans and actions, including the new government's debut budget due by December 15.



List of GMM Contributors (Global Markets Analysis Division, MCM Department)
Anna Ilyina*Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***Deputy Division Chief***Sergei Antoshin***Senior Economist***John Caparusso***Senior Financial Sector Expert***Sally Chen***Senior Economist***Fabio Cortés***Senior Economist***Mohamed Jaber***Senior Financial Sector Expert***David Jones***Senior Financial Sector Expert***Sanjay Hazarika***Senior Financial Sector Expert***Rebecca McCaughrin***Senior Financial Sector Expert***Juan Solé***Senior Economist***Jeffrey Williams***Senior Financial Sector Expert***Akihiko Yokoyama***Senior Financial Sector Expert***Dimitris Drakopoulos***Financial Sector Expert***Tryggvi Gudmundsson***Economist***Henry Hoyle***Financial Sector Expert***Robin Koepke***Economist***Thomas Piontek***Financial Sector Expert***Jochen Schmittmann***Economist***Ilan Solot***Financial Sector Expert***Nour Tawk***Economist***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Rohit Goel***Research Officer***Piyusha Khot***Research Assistant***Xingmi Zheng***Research Assistant*

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 12/12/18 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2637	0.0	-6	-3	-1	-1
Europe		3106	1.6	-1	-3	-14	-11
Japan		21603	2.2	-1	-3	-6	-5
China		2602	0.3	-2	-1	-21	-21
Asia Ex Japan		65	0.7	-5	3	-14	-15
Emerging Markets		40	1.9	-5	1	-13	-16
Interest Rates			basis points				
US 10y Yield		2.89	2.2	-2	-29	49	49
Germany 10y Yield		0.25	2.0	-3	-15	-6	-18
Japan 10y Yield		0.06	0.5	-1	-6	1	1
UK 10y Yield		1.23	3.9	-9	-23	0	4
Credit Spreads			basis points				
US Investment Grade		138	-2.1	9	32	43	47
US High Yield		441	-6.0	17	77	65	66
Europe IG		83	-3.0	1	11	36	38
Europe HY		336	-11.2	6	42	104	103
EMBIG Sovereign Spread		396	0.0	-1	29	108	111
Exchange Rates			%				
Dollar Index (DXY)		97.20	-0.2	0	0	3	6
USDEUR		1.13	0.2	0	1	-3	-6
USDJPY		113.4	0.0	0	0	0	-1
EM FX vs. USD		62.2	0.3	0	1	-9	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		61	1.7	-1	-13	-3	-8
Industrials Metals (index)		114	0.0	-2	0	-9	-18
Agriculture (index)		43	0.5	0	1	-8	-9
Implied Volatility			%				
VIX Index (% change in pp)		21.0	-0.8	0.2	3.6	11.1	9.9
10y Treasury Volatility Index		4.3	-0.1	0.3	0.5	0.6	0.8
Global FX Volatility		8.7	0.0	0.2	0.3	1.4	1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		402	-1.8	14	0	-5	33
Italy		274	-14.9	-4	-30	135	115
Portugal		143	-9.1	-8	-12	-9	-8
Spain		114	-6.8	-5	-7	-1	0

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: 12/12/2018 8:13 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		6.89	0.2	-0.5	1	-4	-6		3.2	-0.5	-9	-24	-77	-76
Indonesia		14598	0.1	-1.3	2	-7	-7		8.4	0.2	29	8	159	174
India		72	-0.2	-2.2	1	-11	-11		7.6	-0.5	-3	-23	29	15
Philippines		53	0.1	0.0	1	-4	-5		6.3	0.7	0	-42	147	143
Thailand		33	0.1	-0.2	1	-1	-1		2.7	1.0	-2	-17	38	42
Malaysia		4.18	0.0	-0.7	0	-3	-3		4.1	0.7	-1	-2	18	22
Argentina		38	0.3	-0.5	-6	-54	-51		23.3	9.7	28	-39	752	731
Brazil		3.87	0.9	0.0	-3	-14	-14		8.6	-0.9	-6	-18	-29	-41
Chile		679	0.6	-0.8	1	-4	-9		4.6	0.6	-3	-21	-31	-19
Colombia		3186	0.1	-0.3	0	-5	-6		6.7	3.9	-2	-16	28	40
Mexico		20.06	0.7	2.2	1	-4	-2		9.1	-4.5	-12	22	171	145
Peru		3.4	0.2	0.6	0	-4	-4		5.9	0.4	11	5	62	67
Uruguay		32	-0.1	-0.6	1	-10	-11		11.0	-4.0	6	33		241
Hungary		285	0.3	0.0	1	-6	-9		2.3	-0.3	1	-41	101	107
Poland		3.79	0.3	-0.3	1	-5	-8		2.4	-1.2	-4	-15	-22	-26
Romania		4.1	0.2	-0.1	1	-4	-5		4.1	-8.0	-5	-24	23	25
Russia		66.3	0.1	0.4	2	-11	-13		8.4	0.0	4	-23	103	112
South Africa		14.2	0.9	-2.6	2	-4	-13		9.8	-1.1	28	8	7	53
Turkey		5.37	0.0	-0.7	2	-28	-29		18.1	41.2	103	52	592	620
US (DXY; 5y UST)		97	-0.1	0.2	0	3	6		2.75	1.2	-3	-28	58	55

	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		2602	0.3	-2	-1	-21	-21		191	6	1	6	46	39
Indonesia		6116	0.6	0	6	1	-4		230	1	2	15	61	64
India		35779	1.8	0	3	8	5		186	6	9	17	78	76
Philippines		7488	0.5	-2	8	-10	-13		116	3	-1	8	21	21
Malaysia		1663	1	-1	-2	-4	-7		150	6	-1	11	40	40
Argentina		30941	0.6	-3	5	13	3		756	2	27	136	376	406
Brazil		87681	0.6	-2	3	19	15		266	1	-3	10	34	32
Chile		5078	0.7	-1	-1	1	-9		160	0	0	18	41	41
Colombia		1373	-0.3	-2	-3	-7	-9		199	0	-14	3	21	25
Mexico		40898	-1.1	-2	-6	-14	-17		326	-8	-20	16	81	81
Peru		19245	0	-1	2	0	-4		162	-3	-9	5	28	25
Hungary		39779	-0.2	-2	4	5	1		144	-2	-3	17	60	56
Poland		57338	0.7	-4	1	-8	-10		70	8	-4	15	31	23
Romania		8552	-0.3	-2	-1	13	10		221	-7	-3	35	104	107
Russia		2382	-0.5	-3	0	10	13		242	0	-1	5	61	64
South Africa		51753	1.1	0	-1	-10	-13		358	1	7	22	85	104
Turkey		90434	-1.5	-4	-1	-17	-22		459	-3	-11	28	162	170
Ukraine		573	-0.2	0	-4	88	82		742	3	19	115	273	287
EM total		24	0.0	-4	1	-10	-11		396	0	-1	29	108	111

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