



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, December 13, 2018



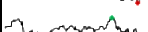





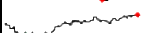


- **UK PM May survives confidence vote 200 to 117** ([link](#))
- **Italian PM Conte lowers Italian 2019 deficit target to 2.04%** ([link](#))
- **ECB confirms end of QE and leaves rates unchanged as expected** ([link](#))
- **Investor's short positions in US credit markets increase** ([link](#))
- **Brazil and Turkey keep rates unchanged as expected** ([link](#))
- **China reportedly revisiting its China 2025 plan to increase foreign access** ([link](#))

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Markets edge higher amid positive political news and easing trade tensions

Equity markets have managed to hold onto slight gains amid signs of improvement in the US-China trade dispute and positive political developments out of Europe. China's resumption of soybean imports from the US initially helped spur a continuation of yesterday's rally. Asian equities rose meaningfully, and European exchanges headed higher. Markets have since trimmed some of those gains as confidence in the trade truce has sputtered, and reports arose that the PBOC has signaled downward pressure on the economy has increased. UK PM May's survival in the confidence vote helped spur the pound higher, but uncertainty prevails surrounding next steps. Italian yields are down sharply following PM Conte's proposal to lower the budget deficit further, with the spread between Italy and German 10-year yields falling to its lowest level since September. In central bank decisions, Norway, Switzerland, Brazil and Turkey all kept rates unchanged in line with analyst expectations.

Key Global Financial Indicators

Last updated: 12/13/18 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2651	0.5	-2	-3	0	-1
Eurostoxx 50		3120	0.4	2	-3	-13	-11
Nikkei 225		21816	1.0	1	0	-4	-4
MSCI EM		40	-0.2	-1	2	-13	-14
Yields and Spreads			bps				
US 10y Yield		2.90	3.1	0	-24	56	49
Germany 10y Yield		0.27	-0.5	4	-14	-4	-15
EMBIG Sovereign Spread		393	-1	-5	24	102	108
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.2	-0.2	0	1	-9	-11
Dollar index, (+) = \$ appreciation		97.0	-0.1	0	0	5	5
Brent Crude Oil (\$/barrel)		59.6	-0.9	-1	-9	-5	-11
VIX Index (% change in pp)		21.4	-0.1	0	1	11	10

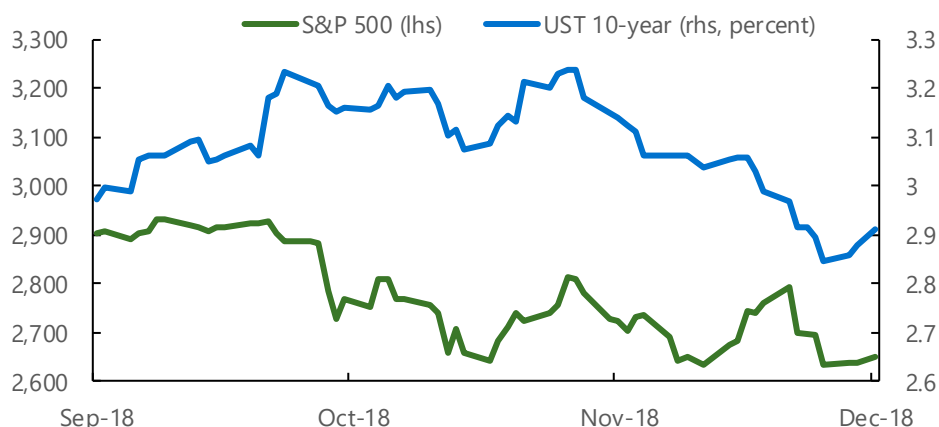
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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Stock market indices extended gains during Wednesday as confidence over May's leadership grew and Huawei's CFO was granted bail. The big three macro positives - US-China trade ceasefire, OPEC plus Russia production cut, and Powell's pivot - seemed to prevail in the market, supporting equity prices marginally higher. The S&P 500 closed at 2,651 up 0.5% on the day and the Nasdaq closed up 1%. The 10-yr treasury yield rose by 3bps to close at 2.91%, and the 2-to-10-year yield curve steepened by 2 bps. Eurodollar futures Dec18-Dec19 spread widened back to 15 bps.

S&P 500 versus UST 10-year



Source: Bloomberg

Investors' short positions in credit markets have been increasing. A record 59% of shares outstanding of the largest high-yield-bond ETF have been sold short, up from about 35% in September, according to data from S&P Global Market Intelligence. According to data from HIS Market, the value of bearish bets on shares of the two largest high-yield-bond ETFs hit a record \$10 bn in recent weeks. Similarly, according to data from Lipper, investors have pulled \$5.4 bn from loan-focused mutual funds since mid-October, including \$4.1 bn in the past three weeks alone. That is a significant turnaround, as investors had purchased \$12 bn of loan-focused mutual funds in the year up to mid-October. In derivatives markets, sellers began to outnumber buyers of the most popular CDS index tracking high-yield bonds in late October. Since then, the measure of sellers to buyers has grown to its highest since 2014, data from Citigroup shows. All these data are consistent with investors' bearish sentiment and corporate bond spread widening to the highest levels since 2016. Continued weakness in credit markets could ultimately drag on the economy by making it difficult for business to fund investments or refinance coming debt maturities.

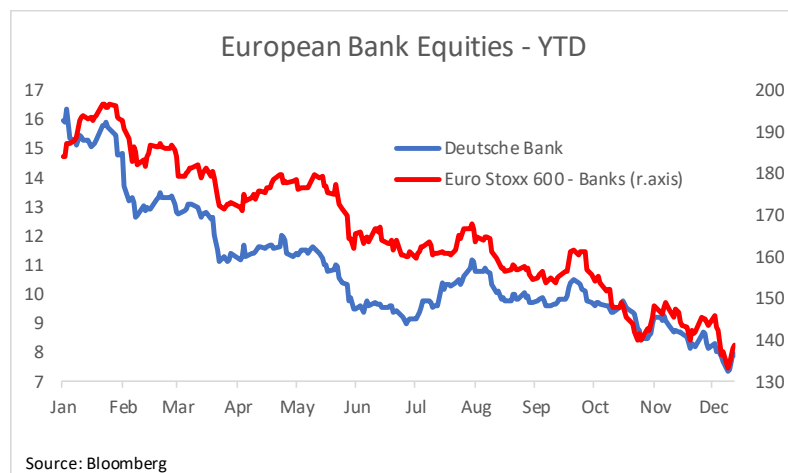
According to the early poll of members of the progressive group MoveOn.org done by NBC, **the most popular potential candidate for liberal voters in the 2020 Democratic presidential contest was Beto O'Rourke** (D-Texas) selected by 15.6% of respondents, followed by former Vice President Joe Biden at 14.9% and Senator Bernie Sanders with 13.1%. MoveOn, which was founded during Bill Clinton's presidency, is one of the largest progressive online organizing groups with millions of members across the country, and its endorsement is coveted by candidates. Political strategists commented it's too early to know how much it means but it is a sign that Democrats don't have a clear frontrunner yet.

Europe

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Equities were modestly lower in most countries this morning. The Euro Stoxx 600 was down 0.2% as energy and IT stocks were firmly in the red. Banks outperformed, advancing by 0.2%. Deutsche Bank fell

1%, however, after intensified speculation of a merger with Commerzbank took the stock 7.8% higher yesterday. Sovereign yields were little changed in most countries. France and Germany were flat while Italian yields were firmly lower on budget news (see below). Gilt yields also declined after large increases yesterday. The 10-year was down 3 bps to 1.25% after yesterday's 9 bps rise.



There was little market reaction as the ECB confirmed the end of its asset purchase program this month. The deposit rate and main refinancing rate will, as expected, be kept at the current rates of -0.4% and 0%, respectively, through the summer of 2019. Analysts focused on the bank's pledge to reinvest maturing debt beyond the date of the first rate increase. The euro was little changed at \$1.138 while sovereign yields showed no reaction to the decision.

United Kingdom

PM May survived a vote of confidence in her leadership yesterday, but the margin was narrower than many had expected. In total, 200 Conservative MPs voted for her and 117 against as her Brexit strategy continues to divide the party. According to party rules, another confidence vote can now not be held for the next 12 months. Sterling rose throughout the day as markets priced in that May would get the required number of votes. The currency is trading at 1.267 against the dollar, or 1.6% above the recent lows. May is now set to head to Brussels in an attempt to win concessions on the Withdrawal Agreement that could help her get the Brexit deal through parliament despite clear comments from the EU side that the agreement is final.

Italy

PM Conte has proposed to cut the government's deficit target to 2.04% for 2019. The move is the government's latest attempt to reach an agreement with the European Commission after the initial target of 2.4% was rejected by the commission. The move comes amidst the backdrop of an expected widening of the French deficit to approximately 3%, which some analysts say provides Italy with more leverage in its negotiations. The commission will now assess the proposal with a spokesperson for EC president Juncker saying that good progress has been made in the talks. Italian sovereign yields fell by 6-9 bps following the news. The 10-year spread to Bunds narrowed to 267 bps.

Other Europe

The Swiss franc was little changed after the SNB kept interest rates unchanged at -0.75%, as expected. The bank downgraded its inflation forecast and cited a "fragile" external situation. Inflation is

now expected to come in at 0.5% next year, down from 0.8% previously. Growth expectations were also lowered.

The Norges Bank kept interest rates unchanged at 0.75%, as predicted by all 18 analysts surveyed by Bloomberg. In its statement, the bank said that a rate hike was “most likely” in March 2019 given the current assessment of the outlook and balance of risks. The currency appreciated by 0.3% against the euro after the decision, to 9.715.

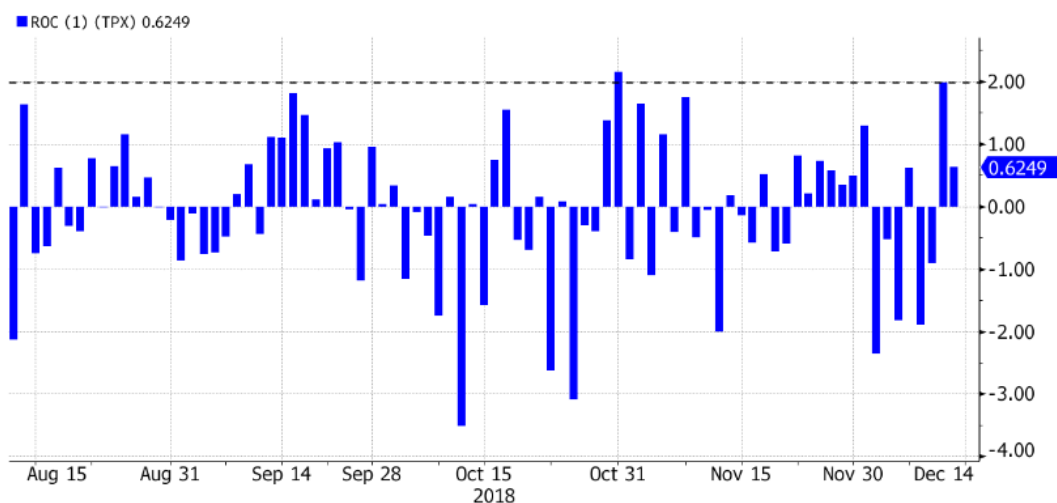
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Japan

Equities advanced (Nikkei 1%, Topix 0.6%) for a second day on heavy trading volumes. Cyclical stocks outperformed, helped by positive headlines on China-US trade and a slightly weaker yen (-0.1%). The JGB yield curve steepened as yields on shorter dated bonds declined. **Ten-year JGB yields rose 0.2 bps to 0.046%.**

Rally Continues

Topix extends gains after rising most since Oct. 31



Source: Bloomberg, Tokyo Stock Exchange

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Equities across emerging markets have gained on renewed hopes that trade tensions will cool off. Asian stocks advanced in China (+1.2%), South Korea (+0.7%), the Philippines (+0.5%), and India (+0.3%). Asian currencies were slightly stronger to the dollar. **EMEA** stocks also advanced on trade optimism – led by Turkey (+1.1%) and the Czech Republic (+0.4%) – while currencies in the region are mostly flat. **Latin American** equities also gained yesterday: Chilean equities (+0.9%) gained the most, followed by Brazil (+0.7%) and Argentina (+0.5%). Amongst currencies, the Brazilian real (+1.2%) strengthened the most against the dollar, followed by the Argentine peso (+0.6%) and the Mexican peso (+0.5%).

Key Emerging Market Financial Indicators

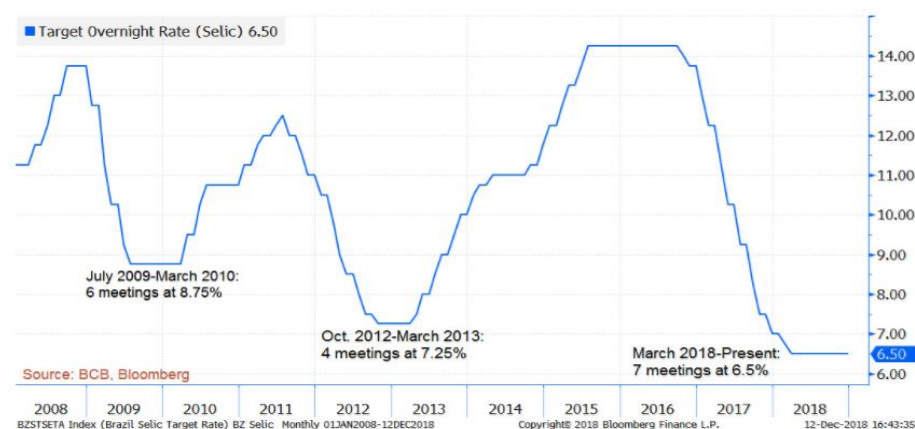
Last updated: 12/13/18 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.41	-0.2	-1	2	-13	-14
MSCI Frontier Equities		27.44	0.0	-1	2	-18	-17
EMBIG Sovereign Spread (in bps)		393	-1	-5	24	102	108
EM FX vs. USD		62.21	-0.2	0	1	-9	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	1	-4	-5
Indonesian Rupiah		14497	0.7	0	2	-6	-6
Indian Rupee		71.69	0.5	-1	1	-10	-11
Argentine Peso		37.58	0.0	0	-4	-54	-50
Brazil Real		3.88	-0.6	0	-2	-14	-15
Mexican Peso		20.15	-0.4	1	2	-6	-2
Russian Ruble		66.39	0.1	1	3	-12	-13
South African Rand		14.18	-0.5	-1	2	-5	-13
Turkish Lira		5.37	-0.4	0	2	-29	-29
EM FX volatility		10.12	0.0	0.0	0.0	2.5	2.3

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

Brazil

The central bank unanimously decided to maintain the Selic policy rate at 6.5%, as widely expected.

Analysts noted that the bank board statement was similar to the previous one, keeping a data-dependent message and a dovish tone, pointing to higher risk of weaker activity due to better short-term inflation dynamics and lower risk on the reform front. The statement on activity repeated that recent economic activity indicators continue to show a gradual economic recovery. The Copom also highlighted that the external scenario remains challenging for EMs, due to an increase in risk aversion, ongoing normalization of interest rates in some advanced economies and concerns over global trade. This was the last meeting under Ilan Goldfajn, who will step down from his position in the coming month.



Turkey

The Turkish lira reversed losses after the central bank kept interest rates unchanged. The currency had depreciated by as much as 0.8% earlier in the session but initially erased those losses and traded 0.5% stronger against the dollar after the announcement. It has since declined again to be 0.4% weaker versus the dollar. The headline interest rate thus stays at 24%, as expected by all 24 analysts surveyed by

Bloomberg. The turnaround in the currency was attributed to relief that the central bank avoided easing policy as well as the tone of the bank's statement where risks to price stability were said to continue to prevail. Analysts suggest that easing may be possible next year as the turnaround in the country's current account continues and pass-through from lira weakness to inflation is set to decline.

China

Equities in China and Hong Kong gained the most in Asia on optimism that US-China trade tensions can be reduced. Stocks in Hong Kong advanced 1.3% and Shanghai gained 1.2%, both on heavy trading volumes. **The WSJ reported that China is revisiting the Made in China 2025 plan to increase access for foreign companies** in a move to resolve trade tensions with the US. Separately, China has restarted soy bean imports from the US. The onshore and offshore yuan appreciated 0.1% against the dollar.

Mexico

Mexico City Airport Trust (MEXCAT) responded to investor concerns by improving the bond buyback proposal, which was followed by a rally in bond prices. The statement was released Tuesday evening. In subsequent trading on Wednesday, the bonds due in 2026 and 2047 jumped from 87 to 92.6 and 85 to 92.5, respectively. Bloomberg notes that the improved offer, which is still capped at \$1.8 billion of a total \$6 billion outstanding, includes a buyback price of par plus accrued and unpaid interest as well as a consent payment for investors who enter the deal before December 19. Analysts believe that there is a good chance the bondholders might accept the offer.

Vote of Confidence

Early reaction shows investors happier with new buyback offer.



Indonesia

The authorities are considering lowering taxes on income from longer-term sovereign bonds to reduce market volatility and deepen financial markets. Foreign investors currently pay a 20% tax on Indonesian bonds, except those from jurisdictions with tax treaties. Locals are taxed at 15%. Indonesia relies heavily on foreign investors who are holding close to 40% of its sovereign bonds. Bond yields on 10-year local-currency paper have risen 163bps this year, while the rupiah has depreciated 6.8% against the dollar. On the day, yields on Indonesian local currency bonds declined slightly, while yields on the country's USD bonds dropped 8 bps. The rupiah was Asia's best performing currency on the day appreciating 0.7


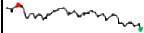
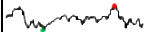

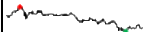
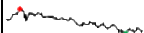





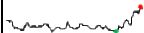











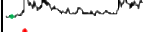





Poland

Poland's premier Morawiecki won a confidence vote 231-181 yesterday. The positive outcome for Mr. Morawiecki was as expected. Polish stocks were flat today, and the zloty was unchanged to the euro at 4.29.

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Global Financial Indicators

Last updated: 12/13/18 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2651	0.5	-2	-3	0	-1
Europe		3120	0.4	2	-3	-13	-11
Japan		21816	1.0	1	0	-4	-4
China		2634	1.2	1	-1	-20	-20
Asia Ex Japan		66	1.5	-2	2	-14	-14
Emerging Markets		40	-0.2	-1	2	-13	-14
Interest Rates			basis points				
US 10y Yield		2.90	3.1	0	-24	56	49
Germany 10y Yield		0.27	-0.5	4	-14	-4	-15
Japan 10y Yield		0.06	0.2	-1	-6	1	1
UK 10y Yield		1.26	-2.2	1	-26	4	7
Credit Spreads			basis points				
US Investment Grade		136	-2.3	7	30	41	44
US High Yield		433	-8.0	9	69	59	58
Europe IG		78	-2.7	-9	7	30	33
Europe HY		320	-8.3	-28	26	86	86
EMBIG Sovereign Spread		393	-1.0	-5	24	102	108
Exchange Rates			%				
Dollar Index (DXY)		96.98	-0.1	0	0	4	5
USDEUR		1.14	0.0	0	1	-4	-5
USDJPY		113.5	-0.2	-1	0	-1	-1
EM FX vs. USD		62.2	-0.2	0	1	-9	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		60	-0.9	-1	-9	-5	-11
Industrials Metals (index)		114	0.3	0	1	-9	-17
Agriculture (index)		43	0.0	1	2	-8	-9
Implied Volatility			%				
VIX Index (% change in pp)		21.4	-0.1	0.2	1.4	11.2	10.3
10y Treasury Volatility Index		4.0	-0.3	0.0	-0.1	0.6	0.5
Global FX Volatility		8.7	0.0	-0.1	0.2	1.5	1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		395	-4.4	-7	-10	0	26
Italy		262	-10.6	-35	-42	113	103
Portugal		141	-3.3	-17	-13	-16	-11
Spain		112	-3.0	-10	-8	-6	-2

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: 12/13/2018 8:06 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		6.88	0.0	0.0	1	-4	-5		3.2	-0.3	-6	-24	-79	-76
Indonesia		14497	0.7	0.2	2	-6	-6		8.3	-4.9	19	-6	153	169
India		72	0.5	-1.1	1	-10	-11		7.5	-8.4	-1	-32	19	6
Philippines		53	0.0	0.2	1	-4	-5		6.3	0.5	1	-42	147	144
Thailand		33	0.2	0.5	1	-1	0		2.7	1.0	-1	-17	38	43
Malaysia		4.18	0.1	-0.3	0	-2	-3		4.1	-0.4	-1	-3	18	22
Argentina		38	0.0	0.3	-4	-54	-50		23.3	-5.7	9	-45	740	726
Brazil		3.88	-0.6	0.2	-2	-14	-15		8.5	-10.1	-14	-29	-45	-51
Chile		680	-0.4	-0.3	2	-5	-10		4.6	-0.2	-3	-21	-33	-19
Colombia		3171	0.5	-0.3	0	-4	-6		6.6	-4.0	-8	-20	20	36
Mexico		20.15	-0.4	1.0	2	-6	-2		9.1	0.0	-10	22	171	145
Peru		3.4	0.1	0.6	0	-4	-4		5.9	-3.6	7	2	60	63
Uruguay		32	0.0	-0.5	1	-10	-11		11.0	-3.4	1	29		237
Hungary		284	0.0	-0.1	1	-6	-9		2.3	1.1	-3	-39	100	109
Poland		3.77	0.0	-0.3	1	-6	-8		2.4	-5.1	-10	-20	-29	-31
Romania		4.1	0.1	0.0	1	-4	-5		4.1	0.0	-11	-26	27	25
Russia		66.4	0.1	0.7	3	-12	-13		8.4	0.8	-1	-27	104	113
South Africa		14.2	-0.5	-1.0	2	-5	-13		9.8	-2.2	19	1	-2	51
Turkey		5.37	-0.4	-0.5	2	-29	-29		18.4	22.9	123	117	611	643
US (DXY; 5y UST)		97	-0.1	0.2	0	4	5		2.76	-1.2	0	-23	65	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		2634	1.2	1	-1	-20	-20		191	1	-1	6	40	39
Indonesia		6178	1.0	1	6	2	-3		226	-3	-4	11	52	60
India		35930	0.4	2	2	9	5		188	2	11	19	80	78
Philippines		7523	0.5	0	10	-10	-12		113	-2	-6	6	12	18
Malaysia		1676	1	0	-1	-4	-7		151	2	-3	13	36	41
Argentina		31081	0.5	-2	9	15	3		745	4	22	108	381	395
Brazil		87411	0.6	-2	3	20	14		258	-2	-12	0	21	24
Chile		5112	0.9	0	0	0	-8		159	0	-4	17	37	40
Colombia		1374	0.1	-1	-1	-7	-9		196	0	-16	-3	16	22
Mexico		40898	0.0	-2	-6	-14	-17		324	1	-22	-1	76	79
Peru		19246	0	-1	1	0	-4		161	0	-11	4	23	24
Hungary		39804	-0.2	0	4	4	1		140	-3	-10	13	52	52
Poland		58545	0.9	0	3	-6	-8		71	2	-7	16	24	24
Romania		8561	-0.1	-1	-1	13	10		216	-5	-8	30	99	102
Russia		2369	-0.1	-2	0	11	12		241	-1	-4	4	55	63
South Africa		51975	0.7	2	0	-9	-13		352	-5	-1	17	75	98
Turkey		91017	1.1	-2	-2	-16	-21		458	0	-14	28	157	169
Ukraine		568	-1.1	-1	-7	86	80		731	-10	6	104	263	276
EM total		24	0.0	-1	1	-9	-9		393	-1	-5	24	102	108

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