



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, December 14, 2018



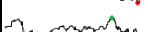








- **EU summit provides no relief for May (updated Brexit Monitor included) ([link](#))**
- **China reports disappointing IP and retail sales data ([link](#))**
- **30-year US Treasury auction receives strong bids from investors ([link](#))**
- **Basel committee seeks changes to leverage ratio ([link](#))**
- **Russian central bank unexpectedly raises rates 25bps on inflation concerns ([link](#))**
- **SPECIAL FEATURE: US Q3 Earnings Results (see attached email)**

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Growth concerns send equity markets lower

Disappointing data from China and Europe this morning is sending equity prices lower. Reported IP and retail sales growth in China both fell to their lowest level in more than a decade. European PMI data also disappointed this morning. Asian equities slumped significantly on the reports despite further positive developments on the trade front as China confirmed that it will reduce tariffs on US cars to 15% from its current 40%. The Brexit situation remains muddled as European leaders refused UK PM May's request for meaningful changes to the Brexit deal. Uncertainty is likely to remain as investors wait for the UK parliament vote on the deal, expected next month. While data disappointed elsewhere, US retail sales for November came in better than expected, with upward revisions in the prior month as well. Combined with the disappointing growth news elsewhere, the dollar index has risen to its highest level in over a year. Consequently, emerging market currencies are weakening, with all major EM currencies lower versus the dollar this morning.

Key Global Financial Indicators

Last updated: 12/14/18 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2651	0.0	-2	-2	0	-1
Eurostoxx 50		3091	-0.7	1	-4	-13	-12
Nikkei 225		21375	-2.0	-1	-2	-6	-6
MSCI EM		40	-2.2	-1	1	-12	-14
Yields and Spreads			bps				
US 10y Yield		2.88	0.3	3	-25	53	47
Germany 10y Yield		0.26	-2.8	1	-14	-6	-17
EMBIG Sovereign Spread		390	-2	-12	14	100	105
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.8	-0.5	-1	0	-10	-11
Dollar index, (+) = \$ appreciation		97.6	0.5	1	1	6	6
Brent Crude Oil (\$/barrel)		60.9	-0.8	-1	-8	-4	-9
VIX Index (% change in pp)		21.8	1.2	-1	1	11	11

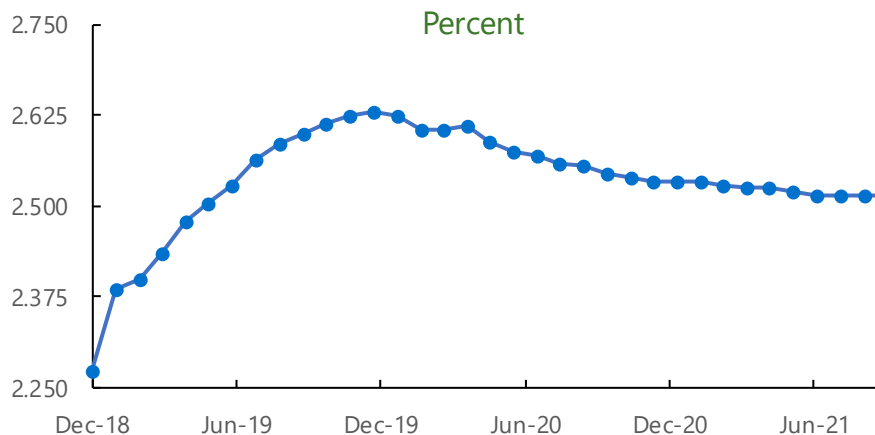
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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Equities were unchanged amid a quiet session Thursday as positive sentiment did not last long. The news overnight that Chinese importers had resumed buying US soybeans could not offset concerns over US-China trade relations. The S&P 500 was unchanged at 2,651, while tech-heavy Nasdaq underperformed, down -0.4% on the day. **The 10-year Treasury yield was unchanged at 2.91% with the 2-to-10-year part of the curve steepening by 1 bp.** The focus now shifts to the Fed and what it will say Wednesday next week. Fed fund futures market currently priced 74% probability for a hike, while it prices only one hike in 2019.

Fed Fund Futures Implied Forward Rate



Source: Bloomberg

30-year bond auction was well received after lackluster 3- and 10-year auctions this week. Both direct bids and indirect bids, proxies for investors' demand, climbed to 12% and 66% from 3% and 59%, respectively, suggesting strong demand from final investors. Investors' inflation outlook could partly explain the strong bid for long bond. 5-year 5-year forward breakeven inflation, market-based long-term expected inflation, has lowered over the past month with the current level below 2%, a year-to-date low.

5y 5y forward BEI

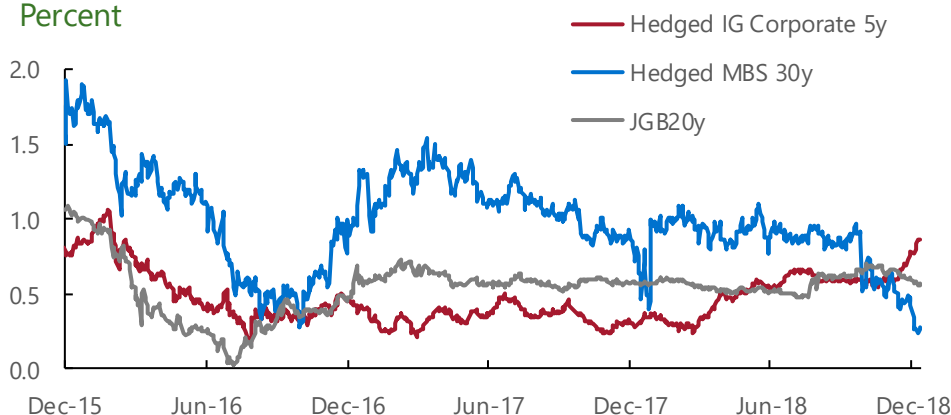


Source: Bloomberg

Corporate bond markets await Asian bid for support. Given the persistent selling pressure on corporate bond markets, US investment grade (IG) corporate bonds have become attractive for foreign investors. For instance, FX-hedged yields of IG corporate bonds—typically hedged for full term to maturity by Japanese investors to focus purely on credit risk exposures—have become much higher than the hedged yields of 30-year agency mortgage-backed securities (MBS)—typically hedged for 1-to-3-month term on rolling basis by them to focus on duration (and convexity) risk exposure. This is the first time since 2016. In other words, credit risk taking is becoming much more attractive than duration risk taking for them. The hedged yields of IG corporates are also meaningfully higher than 20-year JGBs, the main investment products for the local long-term investors such as lifers or pension funds, offering attractive investment opportunities for them.

US bond hedged yields versus JGB 20-year

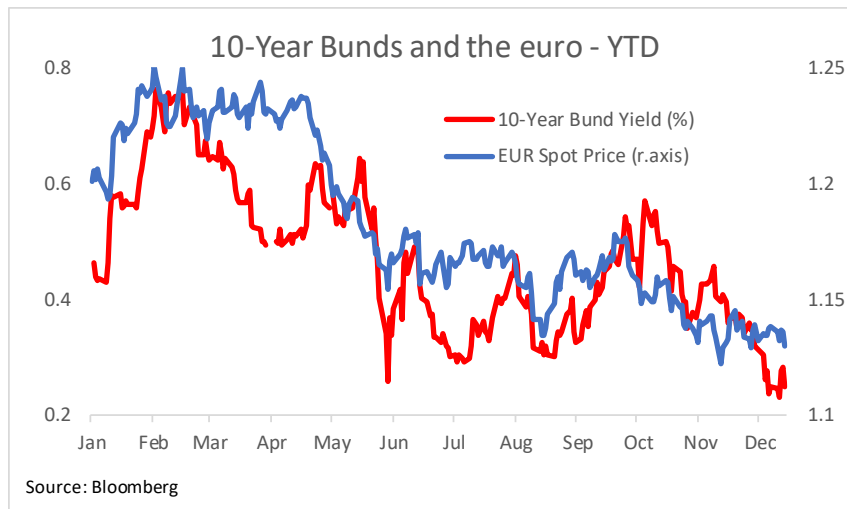
Percent



Europe

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There has been limited reaction in markets to yesterday's ECB meeting. Core yields were unchanged yesterday while 10-years are mostly 2-3 bps lower this morning. The euro was similarly little changed following the meeting but weakened by 0.6% against the dollar today on Brexit fears and a continuation of disappointing data. Preliminary PMI figures for December came in below expectations in France and Germany as well as for the aggregate eurozone.



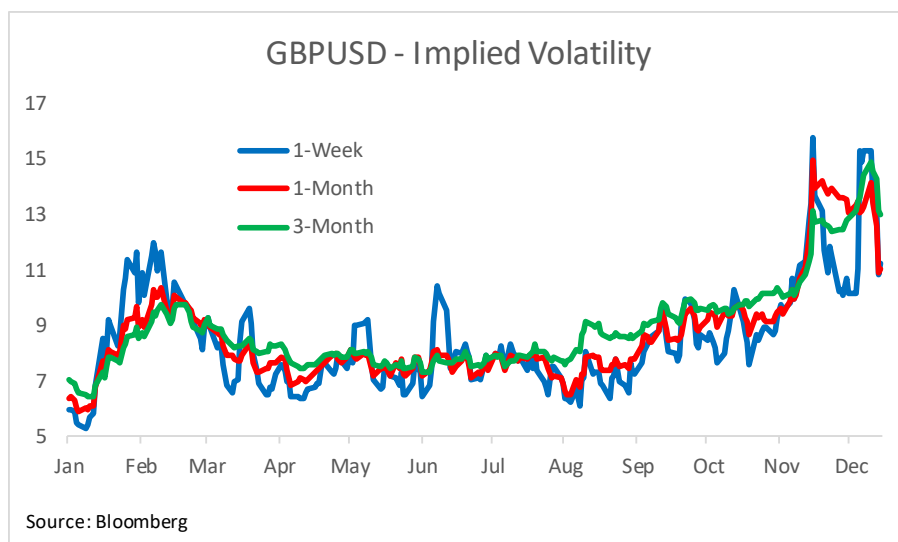
Equities were lower across the board as global growth concerns resurfaced. Most national bourses declined by 1-1.5% while the Euro Stoxx 600 was down 1.2%. All sectors were in the red with IT stocks (-1.9%) and consumer firms (-1.7%) among the worst off. Banks also suffered, declining by 1.7%, as just one out of 48 index members saw gains. Deutsche Bank (-2.5%) and Commerzbank (-4.3%) both saw steep losses, erasing a sizeable part of the gains seen on the recent merger speculation.

PM May was unable to convince EU leaders to make any meaningful changes to the Brexit deal at yesterday's summit. May had been hoping to change the Irish backstop clause which has been a sticking point for her fellow MPs who have said they would vote against the deal. However, EU leaders were adamant that no major changes would be made to the withdrawal agreement. Separately, the government has confirmed that the vote on the Brexit deal will not take place this month. A firm date has not been set but May's spokesperson had previously confirmed that it would take place before January 21. Sterling markets have taken this into account with implied volatility moving sharply around the expected dates of the vote. Sterling weakened by 0.6% against the dollar and is trading just under \$1.26. **We provide an update to our Brexit monitor below that was introduced in our special feature on Friday ([link](#)).).** Over the past week the indicators in the monitor have been mixed. While the currency has weakened, some other indicators have improved slightly with equity volatility, corporate spreads and the UK-US slope differential all slightly lower. Bookmakers odds suggest that the probability of both a no deal Brexit and a second referendum have fallen slightly (2 ppts each) to 27% and 44%, respectively.

Brexit Monitor

	Indicator	Latest reading	1W Change	1M Change	YTD Change
FX markets	1 Sterling spot price	1.26	-1%	-3%	-7%
	2 GBP CFTC net long	-40	-1	7	-52
	3 GBPUSD risk reversal	-2.2	-0.2	-0.3	-1.7
	4 GBPUSD 1M implied vol	11	-2	-2	5
Equity markets	5 FTSE 250 vs FTSE 100	-15%/-12%	-2 ppts	-3 ppts	-3 ppts
	6 FTSE All-Share Banks	3,729	1%	-3%	-18%
	7 CBOE Brexit High 50 excess return	-14%/-12%	16 ppt	-6 ppt	-14 ppts
	8 FTSE Volatility Index	19	-3	-2	11
Bond markets	9 UK 10-Year yield	1.29%	0 bps	-24 bps	+8 bps
	10 UK-US yield curve slope differential	36 bps	-3 bps	-11 bps	+13 bps
	11 Sterling IG Spreads	182 bps	-3 bps	+21 bps	+60 bps
Clearing	12 LCH equity clearing data	106 mn	-	-9%	2%
	13 LCH repo clear data	€7.7 tn	-	-12%	14%
Other	14 Implied probability of a no deal Brexit from bookmakers	27%	-2 ppts	-10 ppts	-6 ppts
	15 Consumer confidence for financial situation (12M ahead)	5.2	-	0.5	2.1
	16 Implied probability of a second referendum from bookmakers	44%	-2 ppts	+11 ppts	+22 ppts

Sources: Bloomberg L.P.; LCH; and IMF staff. Changes are points unless otherwise indicated. LCH data changes represent m-o-m and annualized changes.



The Basel committee has announced that it is looking into tweaks to the leverage ratio to prevent “window dressing”. The 3% leverage ratio requirement has resulted in heightened volatility in money markets and derivative markets around key dates, according to the committee. To prevent this, it is proposing a change to the framework that would see greater disclosure requirements on an average basis for derivatives replacement costs, central bank reserves, and securities financing transactions. The consultation closes in March with any new rules expected to come into force in 2022.

Other Mature Markets [back to top](#)

Japan

The yen posted modest gains (+0.1%) while equities suffered broad-based losses. The Nikkei lost 2.1%, underperforming its Asian peers as risk sentiment soured following the release of weaker-than-expected Chinese retail sales and IP data. **The JGB curve flattened as yields fell 1 to 3 bps across the curve.** The benchmark 2-year note fell 1 bp to 0.16% and the 10-year note fell 2.2 bps to 0.02%. The BoJ reduced its bond purchases for the first time since late September as the benchmark 10-year yield edged towards 0%. It offered to buy ¥430 bn (\$3.8 bn) of securities maturing in the 5-to-10 years range, a decline from ¥450 bn at its previous operation. In recent months, the JGB market has seen steady declines in yields. Analysts noted that a scarcity of cheapest-to-deliver JGBs for futures transactions, combined with strong foreign demand for JGBs, have pushed yield on the 10-year note towards 0%.

Zero Again?

Rally in JGB futures threatens to push benchmark yield back below zero



Emerging Markets

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Asian and EMEA equities suffered sizable and broad-based losses today, as investor caution resurfaced. The latest IP and retail sales data from China underscored further softening in growth. The Shenzhen Composite (-2.5%), the Hong Kong Hang Seng Index (-1.6%), the Korean Kospi (-1.3%) and Turkish stocks (-1.8%) paced declines. **Asian and EMEA currencies also weakened.** The Korean won (-0.7%) and the Turkish lira (-1.8%) underperformed. In **Latin America**, equities broadly saw gains yesterday. Mexican equities (+1.5%) gained the most, followed by Brazil (+1%) and Chile (+0.9%). Currencies mostly experienced losses to the dollar: Mexican peso (-1.2%); Brazilian real (-1%); and Argentine peso (-0.6%).

Key Emerging Market Financial Indicators

Last updated: 12/14/18 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.40	-2.2	-1	1	-12	-14
MSCI Frontier Equities		27.40	-0.1	-2	1	-18	-17
EMBIG Sovereign Spread (in bps)		391	-1	-11	15	101	106
EM FX vs. USD		61.74	-0.5	-1	0	-10	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.90	-0.3	0	1	-4	-6
Indonesian Rupiah		14581	-0.6	-1	1	-7	-7
Indian Rupee		71.90	-0.3	-2	1	-11	-11
Argentine Peso		37.75	0.2	-1	-5	-54	-51
Brazil Real		3.91	-0.6	0	-3	-15	-15
Mexican Peso		20.40	-0.4	-1	0	-6	-4
Russian Ruble		66.69	-0.7	0	1	-12	-14
South African Rand		14.38	-1.4	-1	0	-6	-14
Turkish Lira		5.39	-0.9	-2	1	-28	-30
EM FX volatility		10.06	0.0	-0.1	0.0	2.4	2.2

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

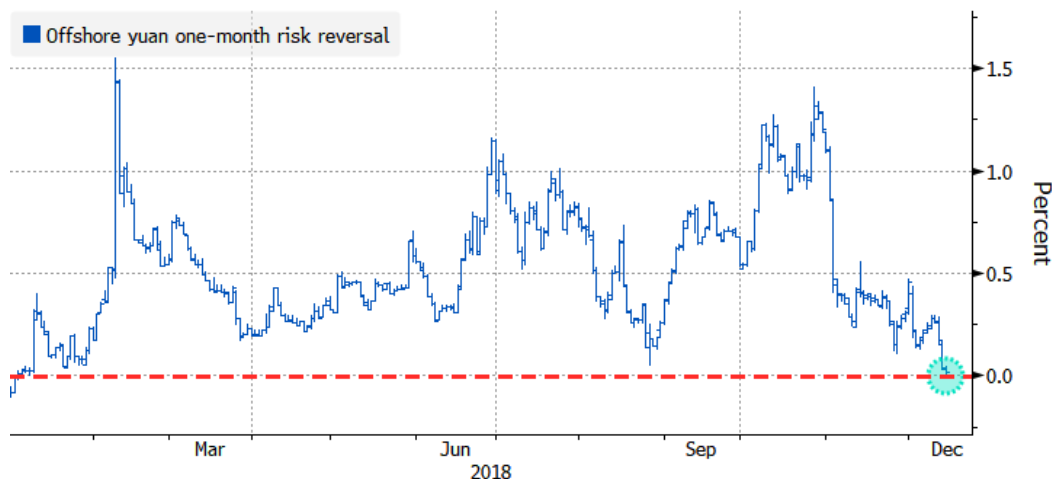
China

November IP and retail sales were below estimates, underscoring strains from a slowing economy.

November IP growth decelerated to a 10-year low of 5.4% yoy, while retail sales, at 8.1% yoy, was the lowest since January 2002. In response, Chinese equities suffered broad-based losses (Shanghai Composite: -1.5%; Shenzhen Composite: -2.5%) while the RMB lost ground (onshore CNY: -0.3%; offshore CNY: -0.4%). Despite today's losses, **options market pricing suggests reduced bearish bets against the RMB** following the Trump-Xi meeting at the G20. The one-month risk reversal – the difference in volatility between out-of-the-money calls and out-of-the-money puts – for the offshore CNH fell to its lowest level since January; this suggests that interest in betting on further depreciations in the CNH has declined.

Signs of Optimism

Indicator of sentiment in options market shows traders are less bearish on yuan



Source: Bloomberg

USD/CNH25R1M Curmcy (USD-CNH OptVol RR 25D 1M) CNH RR Daily 31DEC2017-14DEC2018

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14-Dec-2018 13:21:03

The Central Bank of Russia (CBR) hiked its key policy rate unexpectedly by 25bps. The key rate is now at 7.75%, as the CBR noted that inflation was approaching its 4% target. The CBR also noted that going forward, tax increases and the impact of trade sanctions could push prices even higher. Stocks in Moscow are 0.8% lower this morning – somewhat underperforming peers in the region – while the ruble (-0.2%) has weakened slightly to the dollar.

Russian inflation will accelerate further next year on tax hike



Source: Federal Statistics Service, Bloomberg survey

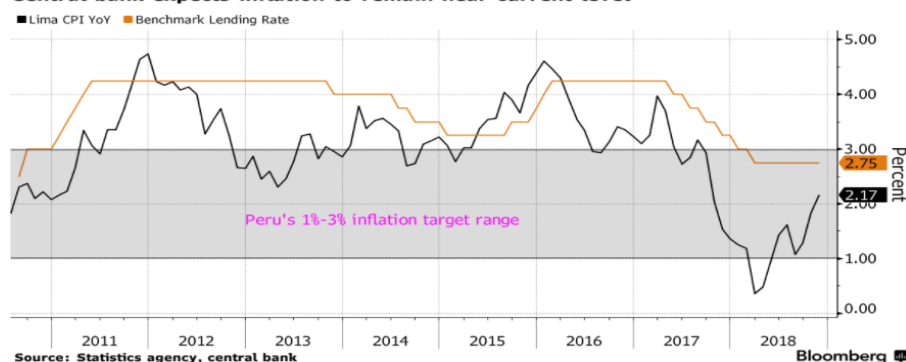
Bloomberg

Peru

The central bank decided to maintain the policy rate at 2.75%, as widely expected. Analysts noted that the rates remain unchanged at an eight-year low as the board is under no pressure to raise rates given inflation remains under control. Peru is increasingly relying on domestic demand to fuel growth after global trade tensions triggered a drop in the price of copper, its biggest export. The Peruvian sol has strengthened nearly 1% against dollar since the end of November, to a level last seen in late October.

Expansive Stance

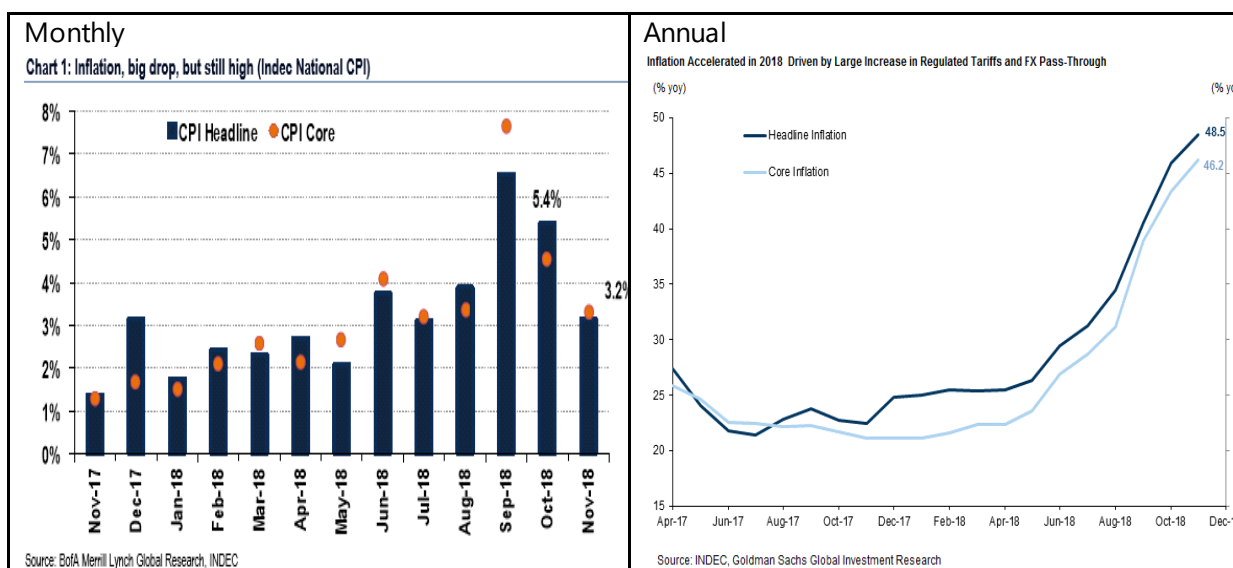
Central bank expects inflation to remain near current level



Argentina

The national CPI printed at 3.2% (vs expected 2.8% mom) in November from 5.4% the month before.

Despite the moderation of monthly inflation, the annual inflation rate accelerated further to a new high at 48.5% in November, up from 45.9% in October, and 24.8% at end-2017. The latest inflation data supports the central bank and government's view that inflation peaked in September at 6.5% mom and will likely resume its downward trend. Analysts noted that the intensifying domestic demand recessionary dynamics and broad currency stability are gradually exerting a moderating force on inflation.



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*

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Global Financial Indicators

Last updated: 12/14/18 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2651	0.0	-2	-2	0	-1
Europe		3091	-0.7	1	-4	-13	-12
Japan		21375	-2.0	-1	-2	-6	-6
China		2594	-1.5	0	-1	-21	-22
Asia Ex Japan		66	0.2	0	2	-13	-14
Emerging Markets		40	-2.2	-1	1	-12	-14
Interest Rates			basis points				
US 10y Yield		2.88	0.3	3	-25	53	47
Germany 10y Yield		0.26	-2.8	1	-14	-6	-17
Japan 10y Yield		0.04	-2.2	-2	-8	-2	-1
UK 10y Yield		1.26	-3.3	-1	-25	8	7
Credit Spreads			basis points				
US Investment Grade		134	-1.4	2	25	40	43
US High Yield		433	0.1	-5	51	54	58
Europe IG		80	0.5	-5	7	32	35
Europe HY		332	5.6	-13	31	95	98
EMBIG Sovereign Spread		390	-2.0	-12	14	100	105
Exchange Rates			%				
Dollar Index (DXY)		97.57	0.5	1	1	4	6
USDEUR		1.13	-0.7	-1	0	-4	-6
USDJPY		113.5	0.1	-1	0	-1	-1
EM FX vs. USD		61.8	-0.5	-1	0	-10	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-0.8	-1	-8	-4	-9
Industrials Metals (index)		113	-1.0	-2	-1	-11	-19
Agriculture (index)		43	-0.3	-1	1	-8	-9
Implied Volatility			%				
VIX Index (% change in pp)		21.8	1.2	-1.4	0.5	11.3	10.8
10y Treasury Volatility Index		3.8	-0.2	-0.4	-0.4	0.3	0.3
Global FX Volatility		8.3	0.0	-0.4	-0.1	1.2	1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		399	3.6	1	-12	19	30
Italy		271	3.6	-17	-38	123	112
Portugal		140	0.5	-15	-17	-11	-12
Spain		114	0.5	-6	-8	1	0

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: 12/14/2018 8:08 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		6.90	-0.3	-0.4	1	-4	-6		3.2	1.7	-3	-21	-78	-74
Indonesia		14581	-0.6	-0.7	1	-7	-7		8.3	-6.5	8	-8	147	163
India		72	-0.3	-1.5	1	-11	-11		7.5	-2.9	0	-32	16	3
Philippines		53	-0.8	-0.7	0	-5	-6		6.3	-0.4	0	-44	146	143
Thailand		33	-0.1	0.1	0	-1	-1		2.8	1.8	3	-15	39	45
Malaysia		4.19	-0.2	-0.5	0	-2	-3		4.1	0.1	0	-5	18	22
Argentina		38	0.2	-1.0	-5	-54	-51		23.3	6.0	9	-54	743	732
Brazil		3.91	-0.6	-0.1	-3	-15	-15		8.4	-15.8	-23	-46	-56	-67
Chile		686	-0.6	-1.6	0	-7	-10		4.6	1.7	3	-17	-33	-17
Colombia		3190	-0.6	-0.1	0	-6	-6		6.6	-2.6	-8	-25	25	33
Mexico		20.40	-0.4	-0.7	0	-6	-4		9.1	-5.6	-13	3	163	139
Peru		3.4	0.2	0.7	1	-4	-3		5.9	1.6	8	0	62	65
Uruguay		32	-0.2	-0.5	1	-11	-11		10.9	-2.3	-3	26		235
Hungary		287	-0.8	-1.0	-1	-7	-10		2.4	2.2	7	-40	101	111
Poland		3.81	-0.7	-1.0	0	-6	-9		2.4	0.4	-5	-20	-28	-31
Romania		4.1	-0.7	-1.1	0	-5	-6		4.1	-3.0	-17	-31	26	22
Russia		66.7	-0.7	-0.4	1	-12	-14		8.4	0.4	-4	-28	104	114
South Africa		14.4	-1.4	-1.5	0	-6	-14		9.8	2.4	12	4	9	53
Turkey		5.39	-0.9	-1.6	1	-28	-30		18.4	6.7	100	117	610	650
US (DXY; 5y UST)		98	0.5	1.1	1	4	6		2.72	-3.7	3	-24	58	51

	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		2594	-1.5	0	-1	-21	-22		192	1	-2	8	45	40
Indonesia		6170	-0.1	1	5	1	-3		219	-6	-13	1	45	53
India		35963	0.1	1	2	8	6		186	-2	6	17	71	76
Philippines		7524	0.0	1	9	-11	-12		110	-2	-8	0	10	15
Malaysia		1662	-1	-1	-2	-6	-8		151	1	-2	12	41	41
Argentina		31020	-0.2	-3	6	14	3		757	8	28	114	396	407
Brazil		87429	1.0	-1	2	21	14		259	4	-11	0	21	25
Chile		5156	0.8	1	0	1	-7		158	1	-5	15	37	39
Colombia		1365	-0.7	-1	-3	-7	-10		198	2	-11	-4	21	24
Mexico		41513	1.5	-1	-2	-14	-16		326	4	-20	-4	78	81
Peru		19201	0	-1	1	3	-4		159	-1	-13	0	20	22
Hungary		39938	-0.3	1	2	3	1		141	1	-12	8	50	53
Poland		58668	-0.5	1	3	-7	-8		75	3	-5	12	34	28
Romania		8566	-0.3	-1	0	13	10		213	-3	-13	17	92	99
Russia		2362	-0.7	-3	-1	10	12		240	0	-9	1	55	62
South Africa		51251	-1.0	0	-1	-11	-14		351	0	-15	12	75	97
Turkey		89741	-1.8	-4	-4	-18	-22		449	-8	-29	16	147	160
Ukraine		557	-0.9	-3	-8	82	77		720	-11	-20	80	256	265
EM total		24	0.0	0	1	-8	-9		391	-1	-11	15	101	106

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