Global Markets Monitor
TUESDAY, DECEMBER 3, 2019

GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

- **Renewed trade worries unsettle markets** (link)
- **US economic data on weakening trend** (link)
- **Moody's cuts the outlook for UK banks from 'stable' to 'negative' on Brexit concerns** (link)
- **Reserve Bank of Australia holds interest rates at 0.75%, as expected** (link)
- **EM portfolio flows were positive but slower in November** (link)
- **South African real GDP unexpectedly contracts in 2019Q3** (link)

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Market sentiment deteriorates on renewed trade jitters

European and Asian bourses turned lower and US equity futures fell after president Trump said that he had no deadline to complete a trade deal with China. A flu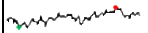rry of trade news in the past 24 hours has contributed to deteriorate market sentiment. On Monday, the US authorities unexpectedly announced plans to reinstate tariffs on steel and aluminum shipments from Brazil and Argentina, and then released plans for levies against $2.4 bn of French imports. In turn, Paris has responded that the EU will issue a "strong riposte" if the tariffs are put in place. Chinese authorities also said they are about to publish a list of American "unreliable entities" that could suffer sanctions. These comments followed the release of weaker-than-expected ISM data in the US yesterday. As a result, US and Euro-area sovereign yields fell this morning and the VIX rose 1.2 percentage points to 16.1, a level not seen since October 10. Elsewhere, EM equities fell while JGB yields rose 2 bps on speculation the Japanese government is planning a new fiscal stimulus package.

Key Global Financial Indicators

Last updated: 12/3/19 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
S&P 500		3114	-0.9	0	2	12	24
Eurostoxx 50		3623	-0.1	-2	0	13	21
Nikkei 225		23380	-0.6	0	2	4	17
MSCI EM		43	-0.2	-1	-2	1	9
Yields and Spreads					bps		
US 10y Yield		1.79	4.3	4	8	-118	-90
Germany 10y Yield		-0.30	-2.3	7	8	-61	-55
EMBIG Sovereign Spread		331	4	-4	7	-60	-83
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		60.0	0.0	0	-2	-5	-4
Dollar index, (+) = $ appreciation		97.8	-0.1	0	1	1	2
Brent Crude Oil ($/barrel)		60.6	-0.6	-6	-2	-2	13
VIX Index (%, change in pp)		16.1	1.2	4	4	0	-9

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

United States

Markets saw a second straight day of declines on renewed worries about trade. The S&P 500 has lost a combined 1.15% over the past two sessions following the record close on Wednesday. However, Treasuries also lost ground despite weak economic data, heightened rhetoric over the weekend in the US-China dispute and the tariff announcements for Brazil and Argentina. This was a continuation of the gradual reversal of a recent trend towards lower yields that saw the 10-year Treasury yield fall to 1.74% last week. The US yield curve has steepened slightly over the past few trading sessions as yields have risen. November saw strong performance in developed market stocks including the US but emerging markets fell victim to weak data and trade worries. Currency depreciation was also a factor for some emerging markets. The especially strong US performance was driven by stronger than expected earnings and the Fed rate cuts.

November 2020 Equity Performance: Selected Markets
Source: Bloomberg and Bank of America

|	Year-to-Date (%)	November Performance (%)
Global Stocks	20	2.3
Developed Market Stocks	21.7	2.6
Emerging Market Stocks	7.7	-0.2%
US Stocks	25.6	3.5
European Stocks	15.6	1.3
Japanese Stocks	14.8	0.6
China	11.7	1.8

The ISM manufacturing report for November was weaker than expected at 48.1 versus the 49.2 consensus forecast. The employment component was especially weak (46.6 versus 48.2) and the weak new orders component (47.2 versus 49) heightened worries among some analysts that the US economy is beginning to slow down from its current GDP growth rate of 2.1% as per the latest Q3 estimate. The manufacturing sector is expected to bear the brunt of the weakness. Construction spending in October was also very weak, declining by 0.8% when analysts were expecting a gain of 0.4%. The widely followed Citi Surprise Index, which measures economic data outcomes against analyst forecasts, shows that US data in aggregate have been getting weaker in relation to consensus forecasts. The US index is still in positive territory but has fallen well below its 2019 peak level in September. In contrast, economic data in China and the euro area have done better than expected, although their indexes are still in negative or contractionary territory. All eyes are now on the US jobs due on Friday, where the average consensus forecast is that the economy added 190K new jobs in the month of November.

Slowing Pains: The Citi Surprise Index
Source: Bloomberg, Citigroup

Euro Area — US — China
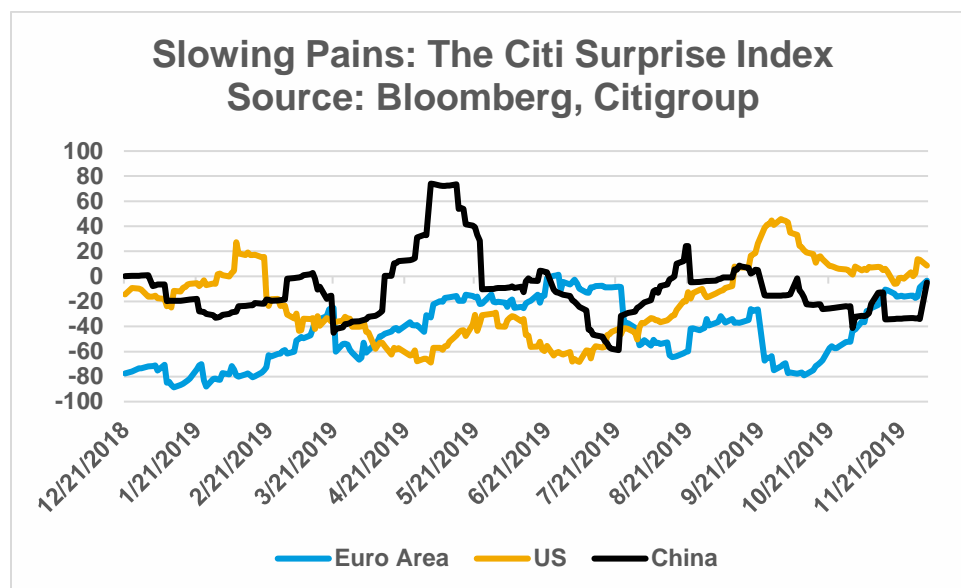
Money market funds (MMFs) have experienced a year of unusually rapid growth in 2019. The total assets under management for money market funds have grown by 19% or $536 bn so far this year to reach a total of $3.38 tn. A variety of factors drove the growth, led principally by an inverted yield curve and volatility in equities and other risk assets. MMFs provided a natural refuge for investors seeking stability and a decent return. In addition, MMFs offered better returns than bank deposits, which led both retail and corporate investors to switch away from banks and put their funds into the funds. Even the start of a new rate cut cycle did not detract from their attractiveness, as inflows continued contrary to the predictions of some analysts.

Exhibit 6: Even accounting for seasonality, this year's MMF inflows were substantially higher than those of prior years
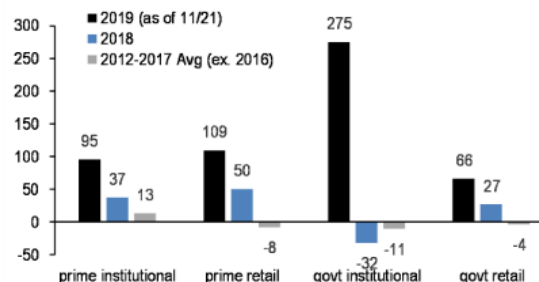
YTD cumulative change in taxable MMF balances ($bn)
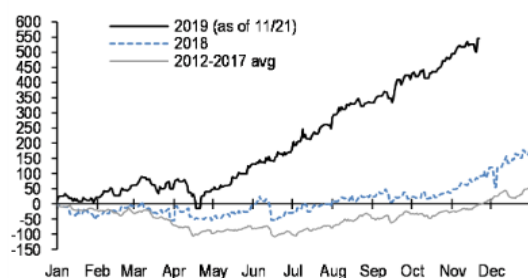
Source: iMoneyNet

Exhibit 7: Flows have been fairly widespread, with significant gains across different types of taxable MMFs

YTD change in different types of taxable MMF AUMs ($bn)


Source: iMoneyNet

Investment grade (IG) bond issuers saw a marked decline in their revenue growth from foreign sales in 2019 due to the impact of the strong dollar, weaker sentiment generated by the trade war and slow global growth. Bank of America estimates that foreign revenues are on pace to shrink by 5.1% on an annualized basis this year. In contrast, foreign revenues grew by as much as 12.1% in 2018. Next year, the analysts think there will be a de-escalation in the trade war following the signing of a 'phase one" deal, and they forecast a pickup in global growth. In keeping with this bullish outlook, they project growth of 9.3% in foreign sales in 2020. This is highly significant as foreign sales account for 31% of total sales for these companies.

Figure 3: IG sales growth (excl. finance, energy and utilities)
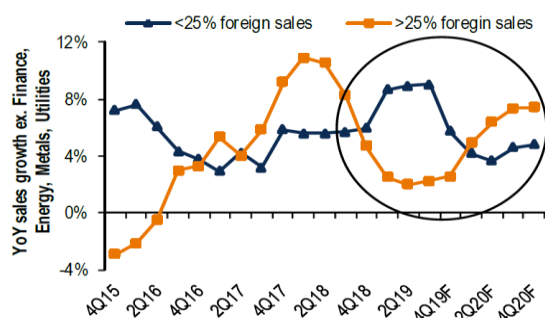
Source: BofA Merrill Lynch Global Research, FactSet.

Figure 4: Estimated purely domestic and global revenue growth for US IG issuers (excl. finance, energy and utilities)
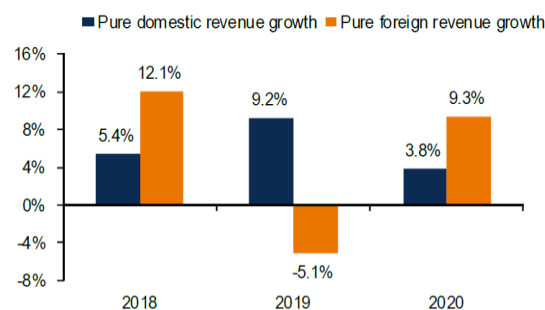
Source: BofA Merrill Lynch Global Research

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Core equity markets edged lower on renewed concerns over forthcoming tariffs among major global trading partners. The CAC 40 (-0.5%), EuroStoxx 600 (-0.1%) and the FTSE 100 (-0.1%) all lost, while the DAX added 0.4%. Bank stocks (-0.1%) performed largely in line with main indices. **Unicredit (+0.7%)** bucked the downward trend after it announced €2 bn-worth of share buybacks and staff cuts of about 8,000 (over 9% of its workforce) and the closure of over 500 branches.

Sovereign debt yields dropped about 2-3 bps on risk-off sentiment across countries and tenors. German 10-year yields at -0.29% (2 bps); French OATs are at 0.00% (2 bps); Italy at 1.36% (+1 bp); Spain at 0.46% (-3 bps).

Eurozone finance ministers will meet this week to discuss a potential euro-wide deposit insurance among other measures. The meeting will also be attended by ECB president Lagarde, who is expected to renew her calls for more fiscal stimulus. The current eurozone budged proposal stands ate €12.9 bn for the next 7-year period, which amounts to €1.9 bn/year to be split among the 19 members—an amount most see as insufficient to reignite growth in a meaningful way. FMs, in turn, are rumored to be preparing complains on the detrimental impact that negative policy rates are having on national pension systems, according to Bloomberg sources.

Fiscal Stimulus
12 euro-area economies seen with budget balances exceeding 0.5% deficit
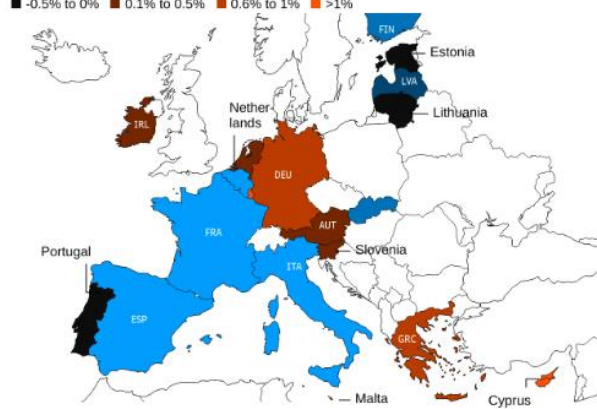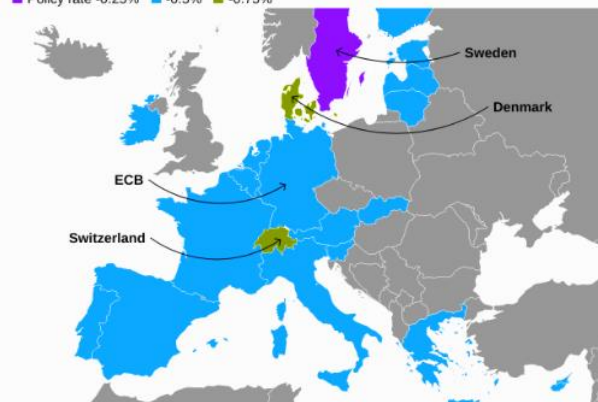

Source: European Commission November forecast

Bloomberg

Negative Rate Policy in Europe
Four central banks in the region have sub-zero rates

Source: ECB, SNB, Riksbank, Danmarks Nationalbank

Bloomberg

Moody's has cut the outlook for UK banks from 'stable' to 'negative' on Brexit concerns. The rating agency noted that prolonged Brexit uncertainty had weighed on the banks' operating environment, pushing down their profitability and asset quality. Moody's believes that even if the EU and the UK reach a free-trade agreement, the benefits of the deal won't be large enough to compensate the negative economic impact of Brexit. Adding to British banks' woes are the low-rate environment and fierce competition in the mortgage market. **UK bank equities (-1.1%) severely underperformed continental peers today**, led by losses at Standard (-2.2%) and HSBC (-1.3%)—two lenders that are heavily sensitive to developments in global trade.

Selected European Banks: Equity Price

Normalized As Of 01/02/2019   ■ UniCredit   ■ HSBC   ■ Standard Chartered   ■ EuroStoxx Banks Index
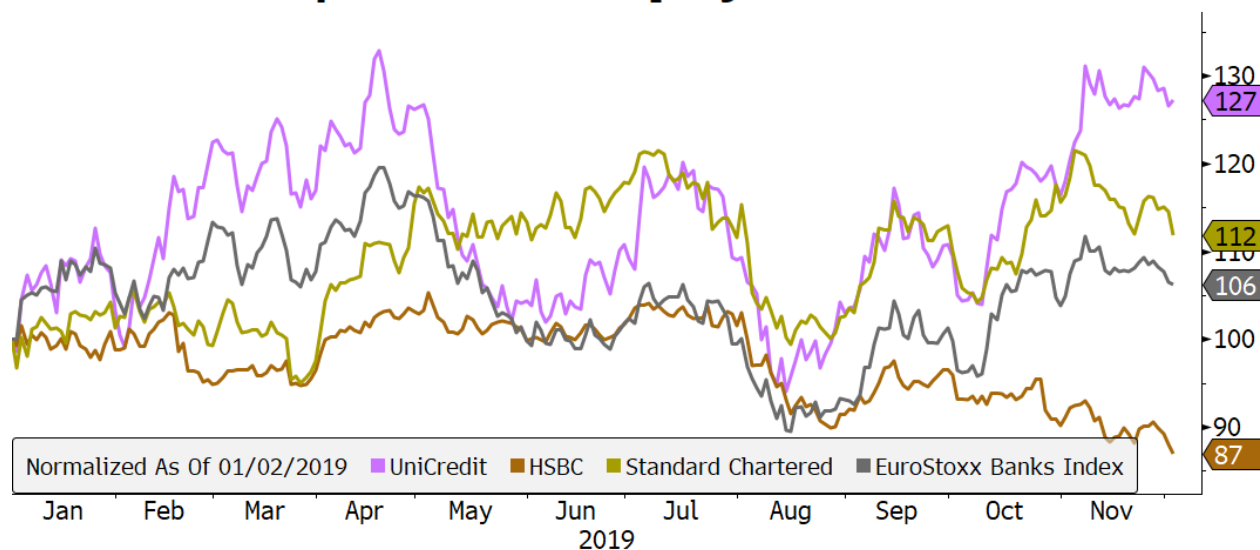
DBK GY Equity (Deutsche Bank AG) Bank: Individual bank Daily 01JAN2019-03DEC201   Copyright© 2019 Bloomberg Finance L.P.   03-Dec-2019 11:25:54

Other Mature Markets   back to top

Australia

The Reserve Bank of Australia (RBA) left its cash rate unchanged at 0.75%, in line with expectations. The RBA remained on hold as it continues to assess the impact of the 75bps rate cuts this year, mentioning in its statement that there are 'long and variable lags in the transmission of monetary policy.' The RBA left the door open for further easing, saying that 'the board is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time'. **Rates and currency markets appeared to focus on the RBA's assessment that some global risks have declined with 10-year bond yields rising 10 bps to 1.2% and the Australian dollar appreciating 0.4%. Equities fell -2.2%, the most in two months**.

Japan

10-year bond yields rose 2.2bps to -0.039% on weak auction demand. The sale of 10-year bonds garnered bid-to-cover ratio of 3.28, the lowest in more than three years, and fell from 3.62 at the previous offering last month. Separately, **the Japanese government is planning a stimulus package worth JPY25 tn, according to NHK, which analysts view as larger than expected.** Equities fell -0.5%, driven by underperformance of railway and autos, while the yen was unchanged.

Yields extend rise as slump in auction demand deepens

■ Japan 10 Year Bond Auction Results Bid Cover Ratio (R1) ■ Japan Generic Govt 10Y Yield (L1)

Source: Bloomberg
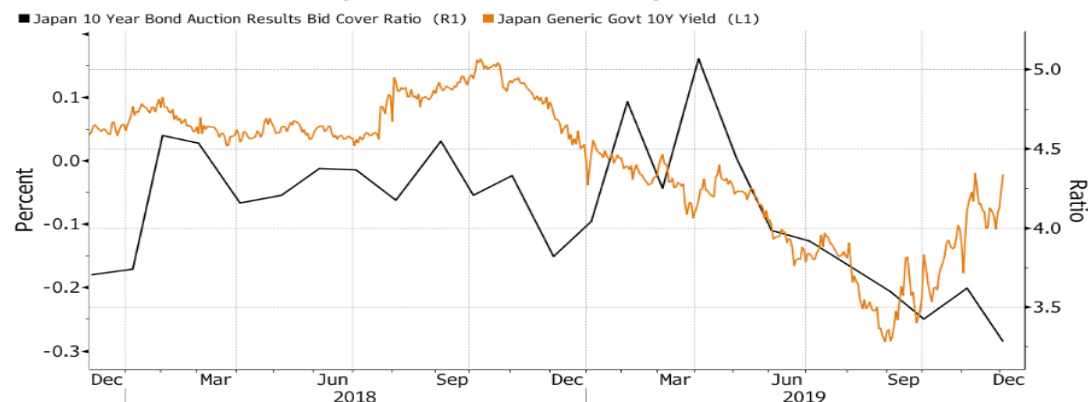
Emerging Markets   **back to top**

Asian equities (-0.5%) fell on renewed worries over US-China trade talks, partly stemming from China's planned blacklist of US corporations**.** Vietnam (-0.6%) led losses, even though China (Shanghai +0.3%; Shenzhen +0.5%) rose after recovering from earlier losses. Regional currencies were little changed with the biggest moves in the Korea won (-0.3%) and the Philippine peso (+0.3%). **Equities in EMEA fell in line with global markets.** In contrast, Turkish equities (+0.4%) rose as November inflation printed below expectations, firming expectations of further easing by the central bank before year-end. **The South African rand (-0.6%) underperformed after GDP unexpectedly contracted. In Latin America, the Chilean peso and Brazilian real strengthened 0.8% and 0.4%, respectively, propped up by their central banks' policy support** and a modest rebound in oil prices, while other currencies remained little changed. Brazilian equity markets managed to close 0.6% higher despite the tariff announcement by the US, but Mexican and Argentine stocks fell 0.7% and 3.1%, respectively. Long-term bond spreads widened marginally.

Key Emerging Market Financial Indicators

| Last updated:	Level		Change				
12/3/19 8:01 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			**%**				**%**
MSCI EM Equities		42.53	-0.1	-1	-2	1	9
MSCI Frontier Equities		29.42	0.7	2	3	5	13
EMBIG Sovereign Spread (in bps)		331	4	-4	7	-60	-83
EM FX vs. USD		59.99	0.0	0	-2	-5	-4
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		7.06	-0.3	0	0	-2	-3
Indonesian Rupiah		14115	0.1	0	-1	1	2
Indian Rupee		71.69	0.0	0	-1	-2	-3
Argentine Peso		59.89	0.1	0	0	-39	-37
Brazil Real		4.20	0.4	1	-4	-8	-8
Mexican Peso		19.60	-0.1	0	-2	4	0
Russian Ruble		64.16	0.1	0	-1	4	8
South African Rand		14.64	-0.6	1	1	-6	-2
Turkish Lira		5.73	0.1	0	0	-8	-8
EM FX volatility		6.82	0.0	-0.2	-0.4	-2.9	-3.0

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

EM Flows

EM portfolio flows were positive but marginally slower in November, based on IIF data. EM portfolio flows amounted to $20 bn last month, down from $25 bn in October. This year, EM portfolio flows totaled

$261 bn year-to-date, which is a $70 bn increase over the same period in 2018. Debt flows shrank to $16 bn, equity flows to EM ex. China turned negative, but equity flows to China doubled to $8 bn (figure). The decrease in debt flows was broad-based across EM regions. Flows to Asia continue to dominate, with debt flows at $7.4 bn and equity flows at $7.3 bn (table).

Exhibit 1. Net Non-Resident Portfolio Inflows to EMs

USD billion; monthly flows through November 2019
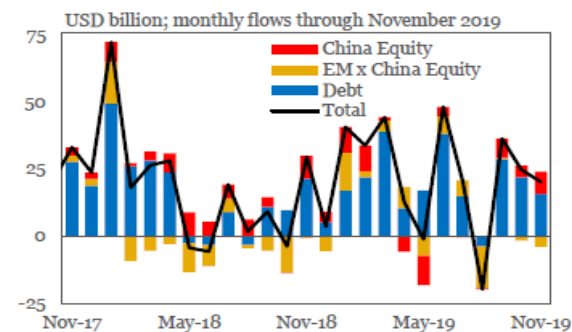
Source: Haver, IIF

Region	Debt flows	Equity flows
EM Asia	7.4	7.3
Latam	3.7	-2.4
AFME	2.9	-1.2
EM Europe	1.9	0.6
Source: IIF Capital Flows Tracker.		

China

Equities (Shanghai +0.3%; Shenzhen +0.6%) gained, recovering from earlier losses despite concerns that trade talks with the US might be affected by disputes over Xinjiang and Hong Kong. Chinese state media reported that the government would be publishing a list of "unreliable entities" soon, which could result in sanctions against US companies. The consideration to speed up the publication of the list was in response to a bill by the US that requires sanctions against Chinese officials who are involved in alleged abuses of Uighur Muslims in Xinjiang. **On Hong Kong, President Trump said that trade talks with China had been complicated by legislation that he signed last week.** The legislation would place sanctions on officials who undermine Hong Kong's semi-autonomy status from China. In response to the legislation, China will no longer allow US navy ships to visit Hong Kong and also threatened to impose sanctions on four US-based non-governmental organizations. **The onshore and offshore RMB were unchanged.**

South Africa

The rand (-0.8%) and equities (-0.6%) sold off after GDP unexpectedly contracted 0.6% qoq annualized (no change expected) from 3.2% qoq annualized growth in 2019Q2. Even though markets are not pricing in a cut yet, analysts at Morgan Stanley expects the central bank to cut its repo rate 25 bps in January given the softer-than-expected October inflation and persistent weakness in mining and manufacturing.

Another Contraction
### South African GDP has shrunk more often than it's expanded since the start of 2018

■ GDP growth, annualized (QoQ)
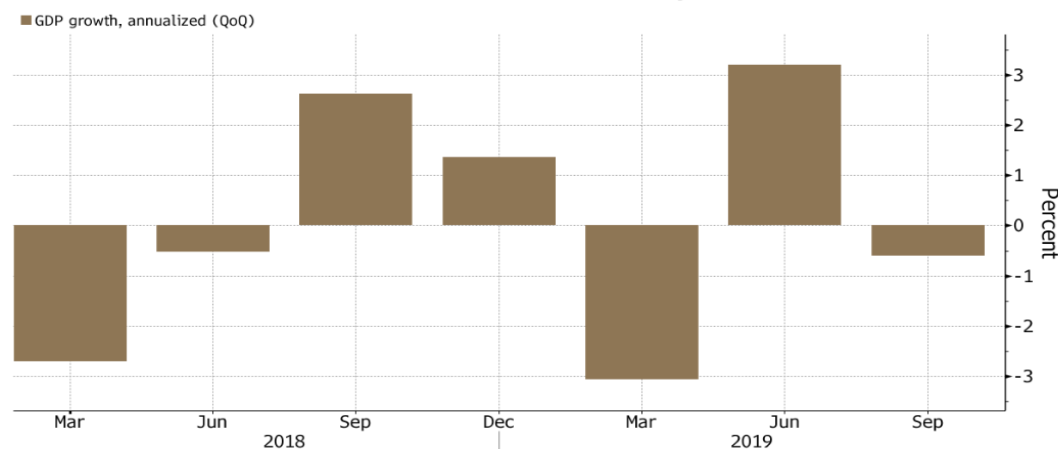
Source: Statistics South Africa

Turkey

Local yields shifted 3-8 bps lower after inflation was lower than expected in November at 10.56% yoy (11.00% yoy expected) or 0.4% mom (0.8% mom expected). Yesterday's data releases showed that real GDP growth unexpectedly slowed to 0.4% qoq. The central bank of Turkey is meeting 12 Dec and analysts expect the CBRT to maintain an easing bias. The lira was little changed and equities (+0.4%) rose.

Turkey: Local currency sovereign bond yields since Jan 2016
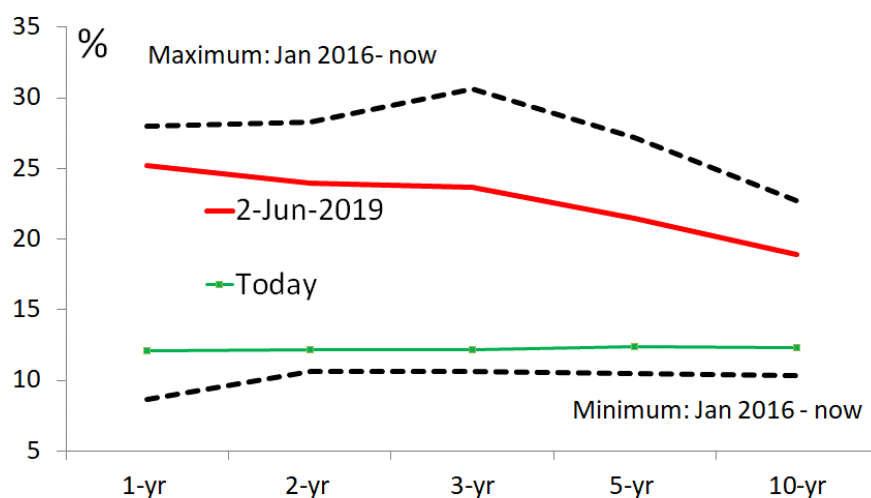
Source: Bloomberg and IMF staff

Tariffs: Brazil and Argentina

US tariffs on Brazil and Argentina may slow down their exports more, analysts note. President Trump announced he would reinstate tariffs on steel and aluminum exports from Brazil and Argentina. Bloomberg analysts noted that this would contribute to a slowdown in exports and a widening current account deficit in Brazil. So far this year, exports have reportedly declined 7.2% year-to-date, and the 12-month trade surplus has fallen to $47.5 bn from $58 bn in 2018. The country reportedly exported $4.5 bn in steel and aluminum products to the US last year, which represents 29% of Brazil's total exports of these items and 1.9% of Brazil's overall exports. Commentators noted that the tariffs would not have a significant impact on growth, and would not be devastating for the overall trade balance, but could weaken the metals sector. In addition, analysts noted that Brazil's and Argentina's exports of soybeans and other agricultural products to China exceed their metals exports to the US by the factors of over 10 and 3, respectively.
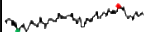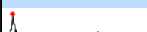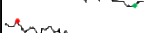
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Global Financial Indicators

Last updated: 12/3/19 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3114	-0.9	0	2	12	24
Europe		3632	0.1	-2	0	13	21
Japan		23380	-0.6	0	2	4	17
China		2885	0.3	-1	-2	9	16
Asia Ex Japan		69	-0.3	-1	-1	2	9
Emerging Markets		43	-0.2	-1	-2	1	9
Interest Rates			basis points				
US 10y Yield		1.78	4.3	4	7	-119	-90
Germany 10y Yield		-0.30	-2.2	7	8	-61	-55
Japan 10y Yield		-0.02	2.3	7	15	-11	-3
UK 10y Yield		0.73	-0.5	8	7	-58	-54
Credit Spreads			basis points				
US Investment Grade		116	0.2	-3	-5	-13	-31
US High Yield		466	1.0	-6	4	42	-55
Europe IG		50	1.3	2	2	-29	-37
Europe HY		231	5.3	4	5	-90	-122
EMBIG Sovereign Spread		331	4.0	-4	7	-60	-83
Exchange Rates			%				
USD/Majors		97.81	-0.1	0	1	1	2
EUR/USD		1.11	-0.1	0	0	-2	-3
USD/JPY		108.8	0.2	0	0	4	1
EM/USD		60.0	0.0	0	-2	-5	-4
Commodities			%				
Brent Crude Oil ($/barrel)		61	-0.5	-6	-2	-2	13
Industrials Metals (index)		110	-0.6	-1	-7	-5	1
Agriculture (index)		39	0.4	0	-1	-9	-6
Implied Volatility			%				
VIX Index (%, change in pp)		15.7	0.8	3.8	3.4	-0.8	-9.8
10y Treasury Volatility Index		4.4	0.2	0.2	0.3	0.6	-0.2
Global FX Volatility		5.9	0.0	0.0	-0.5	-2.4	-3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		188	7.5	13	31	-202	-228
Italy		167	3.9	13	30	-117	-83
Portugal		71	-3.6	-4	12	-79	-77
Spain		76	-1.3	0	10	-43	-42

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: 12/3/2019 8:04 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		7.06	-0.3	-0.3	0	-2	-3		3.2	0.6	1	-8	-9	4
Indonesia		14115	0.1	-0.2	-1	1	2		7.3	4.6	11	16	-83	-89
India		72	0.0	-0.3	-1	-2	-3		6.8	0.9	2	1	-86	-64
Philippines		51	0.1	-0.3	-1	3	3		4.3	0.0	0	-1	-203	-200
Thailand		30	0.0	-0.2	0	8	7		1.7	0.9	-3	14	-106	-92
Malaysia		4.18	0.1	0.2	-1	0	-1		3.4	0.8	1	-2	-76	-70
Argentina		60	0.1	0.1	0	-39	-37		90.6	230.6	-172	3380	6774	6764
Brazil		4.20	0.4	0.9	-4	-8	-8		6.3	5.3	1	53	-226	-187
Chile		799	0.5	0.0	-7	-16	-13		3.5	8.2	12	12	-111	-96
Colombia		3507	0.0	-0.9	-5	-9	-7		6.1	0.2	-1	40	-61	-40
Mexico		19.60	-0.1	-0.4	-2	4	0		7.2	5.0	6	32	-206	-154
Peru		3.4	0.4	-0.1	-2	0	-1		4.6	-2.5	13	13	-116	-114
Uruguay		38	0.4	0.3	-1	-15	-14		11.3	4.6	8	40	42	58
Hungary		299	0.2	1.9	-1	-5	-6		1.2	8.6	15	6	-111	-100
Poland		3.87	0.1	1.0	-1	-3	-3		1.8	3.8	-1	6	-64	-45
Romania		4.3	-0.1	0.6	-1	-5	-6		4.2	5.0	19	31	-10	-9
Russia		64.2	0.1	-0.3	-1	4	8		6.3	3.6	8	5	-211	-211
South Africa		14.6	-0.6	1.1	1	-6	-2		9.7	1.0	1	6	13	10
Turkey		5.73	0.1	0.4	0	-8	-8		12.0	-6.1	2	-26	-501	-491
US (DXY; 5y UST)		98	0.0	-0.4	1	1	2		1.60	-3.9	1	6	-121	-91

	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		2885	0.3	-1	-2	9	16		182	0	6	5	-5	-12
Indonesia		6134	0.1	2	-1	0	-1		180	3	-1	-2	-43	-56
India		40675	-0.3	0	1	12	13		130	3	1	2	-45	-66
Philippines		7855	-0.3	2	-2	4	5		87	3	0	5	-23	-34
Malaysia		1562	-0.5	-1	-2	-8	-8		122	1	2	2	-24	-40
Argentina		33447	-3.1	0	-6	5	10		2403	1	127	111	1703	1588
Brazil		108928	0.6	2	1	21	24		244	4	7	17	-22	-29
Chile		4505	-0.8	-1	-5	-13	-12		151	2	1	9	-10	-15
Colombia		1598	-0.8	0	-3	14	21		193	4	4	12	-15	-35
Mexico		42544	-0.6	-2	-3	1	2		330	4	9	15	-12	-24
Peru		20044	-0.2	0	1	4	4		130	4	0	0	-35	-38
Hungary		43144	-0.5	-1	2	6	10		100	4	-3	0	-46	-48
Poland		56507	-0.7	-3	-2	-5	-2		28	3	-1	-2	-45	-57
Romania		9902	0.0	1	3	13	34		192	-2	-5	-1	-25	-29
Russia		2901	-0.7	-1	-1	19	22		163	4	-1	-14	-75	-89
South Africa		54414	-0.7	-3	-4	4	3		356	6	3	12	7	-9
Turkey		108710	0.6	3	10	14	19		444	6	10	-12	-15	15
Ukraine		510	0.1	-2	-2	-12	-9		514	9	23	55	-197	-273
EM total		43	-0.1	-1	-2	1	9		331	4	-4	7	-60	-83

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

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