



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, December 6, 2018









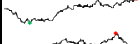

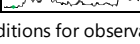
- **Equities sink globally after US-requested arrest of top Chinese tech executive** ([link](#))
- **US equity futures down 4.5% since Monday's close on trade jitters** ([link](#))
- **Oil prices renew tumble as potential OPEC+ output cut deal disappoints** ([link](#))
- **US yield curve inverts between 2- and 5-year tenors amid further flattening** ([link](#))
- **Argentina's central bank revised its monetary policy framework** ([link](#))
- **Chile's central bank kept its key rate on hold at 2.75 percent on Tuesday** ([link](#))

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Global sell-off regains momentum

Equities were sent reeling around the globe by renewed trade fears and falling oil prices. Stock indices in developed and emerging markets declined sharply overnight (-1.5% to -2.5%) and benchmark government bond yields fell as investors priced in further downside risk for US-China trade relations from the US-requested arrest of a top Chinese tech executive in Canada. The renminbi fell 0.5%, partially reversing the rapid gains seen earlier this week after trade talks at the G-20 deal, while EM currencies more broadly are down 0.4%. Renewed declines in oil (-3%) also contributed to negative sentiment as markets lowered their expectations for production cuts from an OPEC-Russia deal.

Key Global Financial Indicators

Last updated: 12/6/18 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2700	0.0	1	-1	3	1
Eurostoxx 50		3078	-2.3	-3	-4	-14	-12
Nikkei 225		21502	-1.9	-3	-3	-3	-6
MSCI EM		41	-2.4	1	0	-9	-13
Yields and Spreads			bps				
US 10y Yield		2.89	0.0	-14	-34	55	48
Germany 10y Yield		0.25	-2.8	-7	-19	-5	-18
EMBIG Sovereign Spread		400	3	-2	32	111	115
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.0	-0.4	-1	-1	-9	-11
Dollar index, (+) = \$ appreciation		97.0	-0.1	0	1	5	5
Brent Crude Oil (\$/barrel)		59.8	-2.9	0	-17	-2	-11
VIX Index (% change in pp)		24.3	3.5	5	4	13	13

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

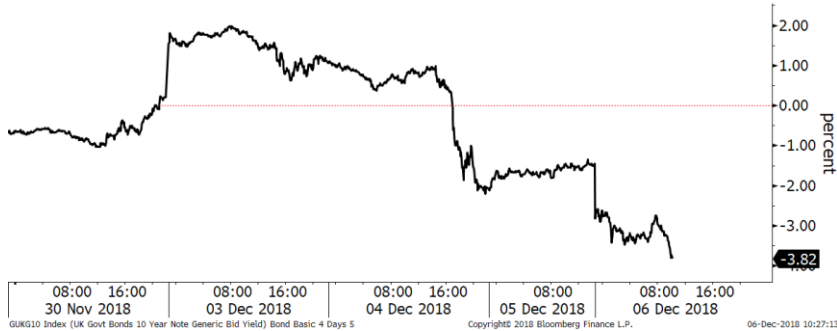
United States

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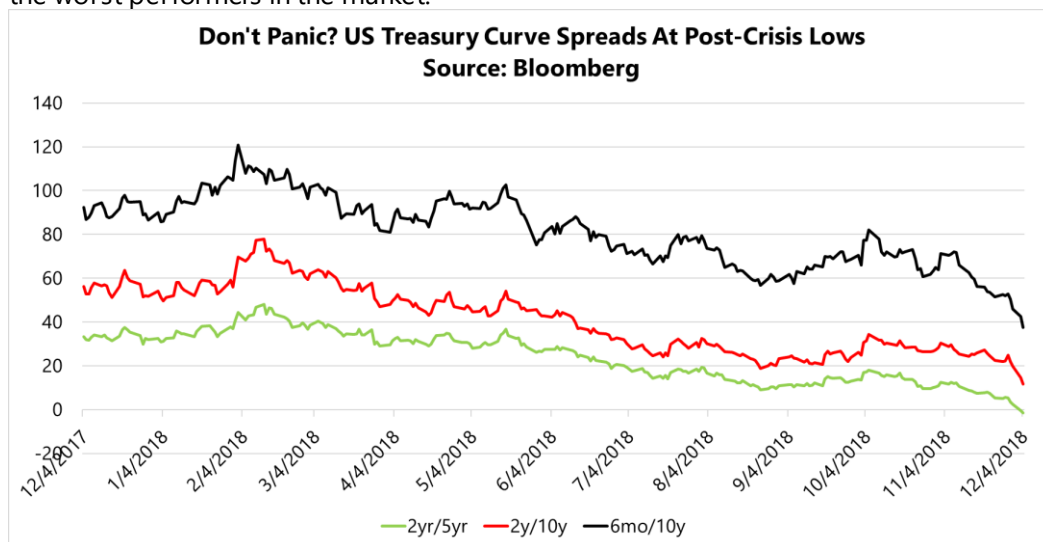
US futures erased yesterday's gains and are sharply lower this morning, down 1.7%. On net, S&P futures are down 5.7% since the peak on Monday following the Trump-Xi meeting at the G20 last weekend. Some noted that the arrest of Chinese telecom Huawei's CFO, who faces extradition to the US, could become an additional challenge in the US-China relationship (see China section). US Treasury yields are down 4 to 2 bps across the 2- to 10-year curve, steepening for the first time in four sessions to 13 bps. In US data this morning, **the ADP survey reported that the economy added just 179K new jobs in November, versus the consensus forecast of 227K jobs.** Treasuries rallied and the dollar weakened following the news.

S&P 500 Futures

(4-Day Performance)



Markets were closed yesterday in tribute to the late President George H. W. Bush. US stocks took heavy losses on Tuesday as conflicting messages from administration officials and aggressive language from the President rekindled trade fears. Trading volumes were very high, with the S&P 500 volume at 20% above its year-to-date average. Treasury yields extended their recent sharp decline as the 10-year yield finished below 3% for the third consecutive day, ending at 2.91%. This was the first breach of its 200-day moving average since 2017. Investors are now betting that the Fed's rate path will be much more gradual than the current dot plot, with the euro-dollar futures curve pricing just one more hike in 2019 and predicting lower rates in 2020. **The relentless flattening of the Treasury yield curve continued Tuesday,** reaching a new post-crisis record. The two-year/five-year sector became inverted at -2 bps at the bond market close while the two-year/ten-year spread and the six month/ten-year hit 11 bps and 35 bps respectively. The curve flattening was not kind to bank stocks, which came under severe pressure and were the worst performers in the market.



Some analysts believe that inverted yield curves are predictors of recession, and all the nine recessions since 1957 have seen the yield curve invert beforehand. The average time lag between curve inversion and the onset of recession was 14 months. Others disagree, pointing out that curve inversions do not convey information about the economy as such but are merely an indicator that markets expect a slowdown in growth.

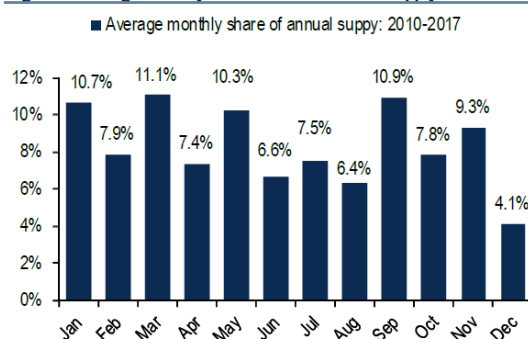
Yield Curve Inversions and US Recessions

Source: Pension Partners

Recession Started	Recession Ended	Curve Inverted	Time to Start of Recession (Months)
8/57	4/58	12/56	8
4/60	2/61	9/59	7
12/69	11/70	12/67	24
11/73	3/75	3/73	8
1/80	7/80	9/78	16
7/81	11/82	9/80	10
7/90	3/91	2/89	17
3/01	11/01	4/00	11
12/07	6/09	1/06	23
		Average	14

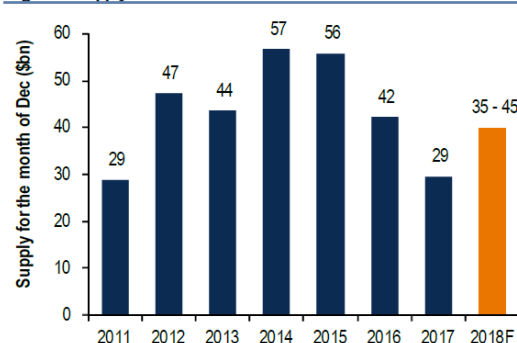
The supply of investment grade (IG) corporate bonds in the US market fell sharply in 2018 relative to the year before. With 11 months of data in the books, Bank of America estimates that total gross supply of new bonds will be in the \$1262-1272 bn range, a yoy decline of 9-10%. However, net supply is estimated to be just \$615-625 bn, a fall of 20-21% yoy. Many analysts expect 2019 new issuance to exhibit a similar pattern as companies face higher funding costs and seek to reduce debt. In an environment where interest rates, credit spreads and volatility are expected to rise, lower bond supply may help to offset part of the negative impact on spreads expected for the IG sector in 2019.

Figure 7: Average monthly share of annual USD HG supply



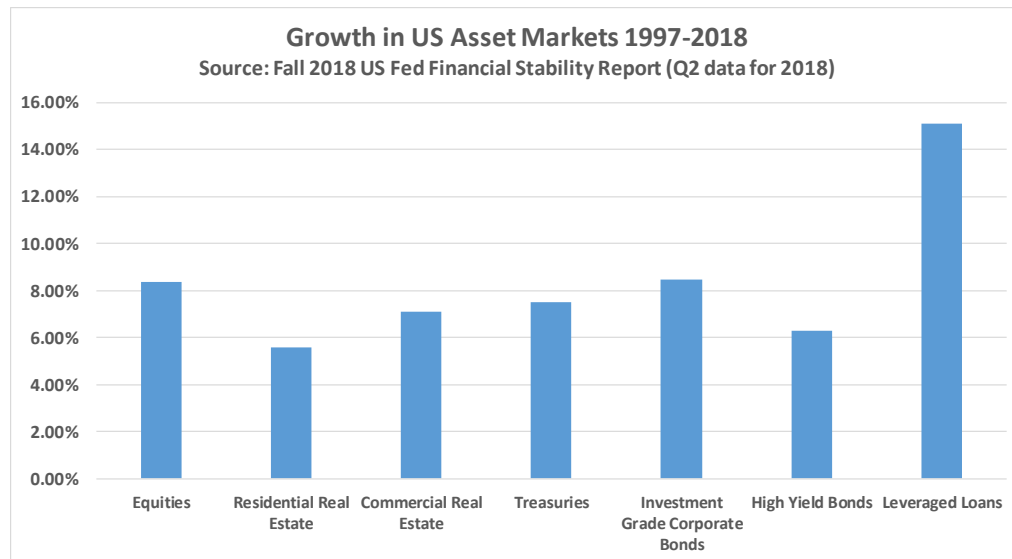
Source: BofA Merrill Lynch Global Research

Figure 8: Supply for the month of December



Source: BofA Merrill Lynch Global Research

The US Federal reserve data show that leveraged loans were the fastest growing asset class in US markets from 1997-2018. Valuations in this and other asset classes were higher than their historical averages, highlighting the risk of a market selloff. Equities were the largest asset class (33.8 tn), followed by residential real estate (33.3 tn) and commercial real estate (21.2 tn). Although leveraged loans were identified as a sector where credit standards are weakening, it remains a relatively small market at just over a trillion in outstanding debt. However, the leveraged loan is expected to grow larger than the high yield bond market in or 2019 or 2020. The Office of the Comptroller of the Currency (OCC) became the latest regulator to flag risks in the sector. Its latest semi-annual Risk Perspective report pointed to "increasing leverage, weaker capital structures, and looser credit arrangements" as signs of deteriorating credit quality.



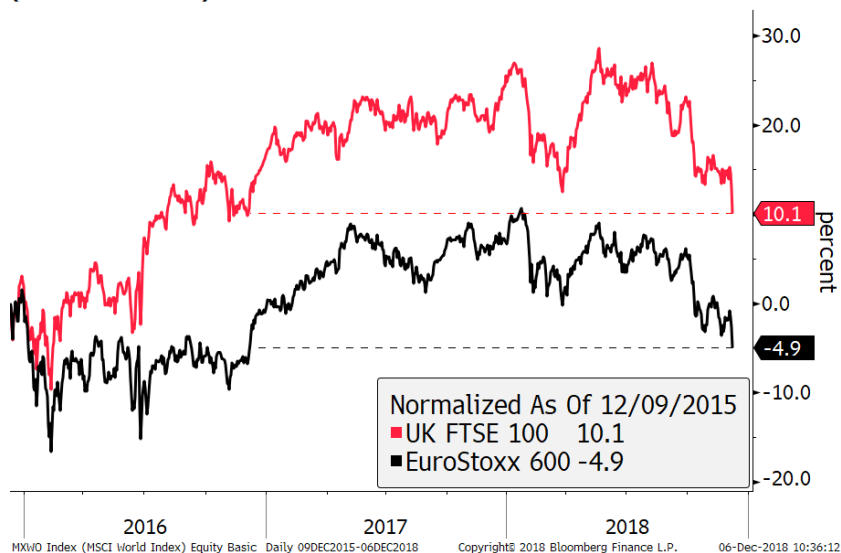
Europe

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The EuroStoxx 600 and the FTSE 100 are down near 2.5% with energy and IT shares leading the decline. Both indices have fallen to levels not seen since late 2016. For comparison, the EuroStoxx is down 5% while the FTSE is up 10% over the last three years. **Yields are down 1-3 bps across core European markets and up a few basis points in Italy.**

European Equity Indices

(3-Year Performance)

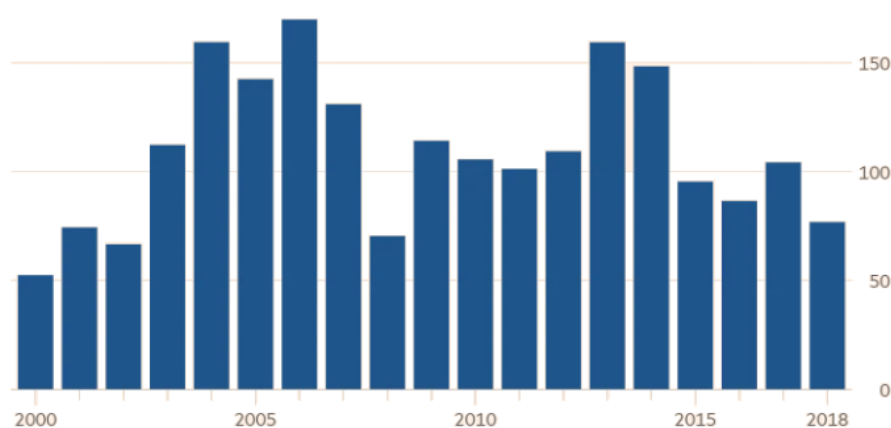


Italy

Bond sales by Italian banks and corporates will likely register the smallest yearly volume since the financial crisis. Firms have sold \$77 bn worth of debt so far this year, according to the FT, as political uncertainty and sovereign debt volatility impact the private sector funding prospects. According to central bank figures, Italian banks need to refinance €110 bn of maturing debt in the next two years.

Bonds sold by end-November by Italian-domiciled companies and banks

\$bn



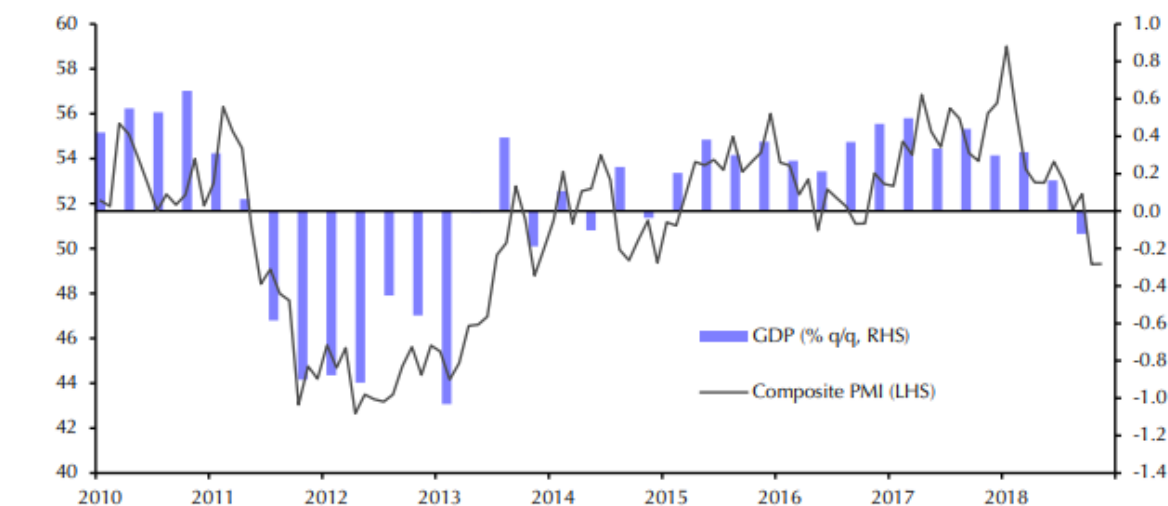
Year to end-November

Source: Refinitiv

© FT

Analysts at Capital Economics warned that Italy is on the brink of a recession. They noted that PMIs and the underlying GDP readings remain very weak, even controlling for temporary factors such as disruptions to car productions. This is on top of the effects from the tighter financial conditions coming from higher yields, which have not yet started to filter through into borrowing costs.

Chart: Italy's GDP & Composite PMI



Sources: Thomson Reuters, Markit

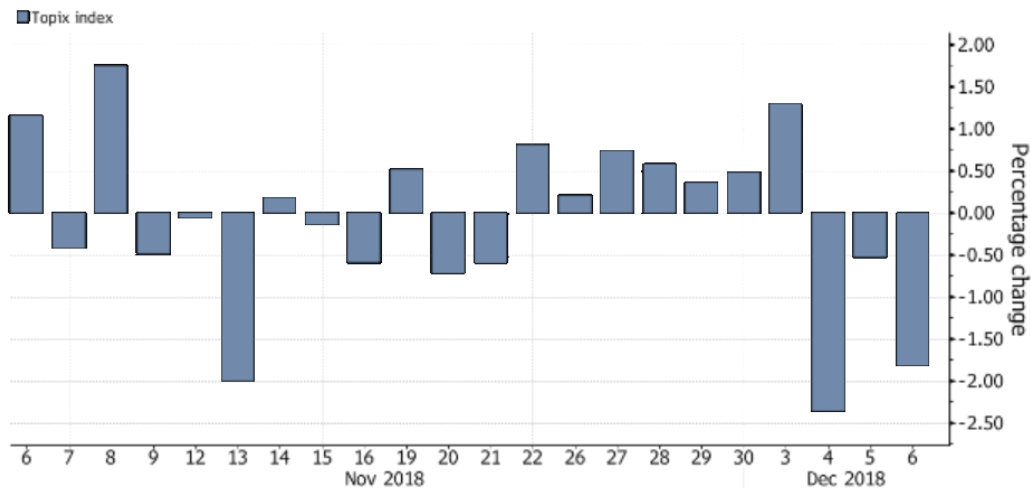
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Japan

Equities declined (Nikkei -1.9%, Topix -1.8%) on heavy trading volumes while the yen appreciated (+0.2%). Technology stocks underperformed after weak smart phone supplier sales. Meanwhile, the December Tankan business survey suggests that the economic conditions for large firms slightly worsened compared with three months ago, especially in the manufacturing sector due to uncertainty over the global economy. **Ten-year JGB yields fell 0.7 bps to 0.05%.**

Reversal

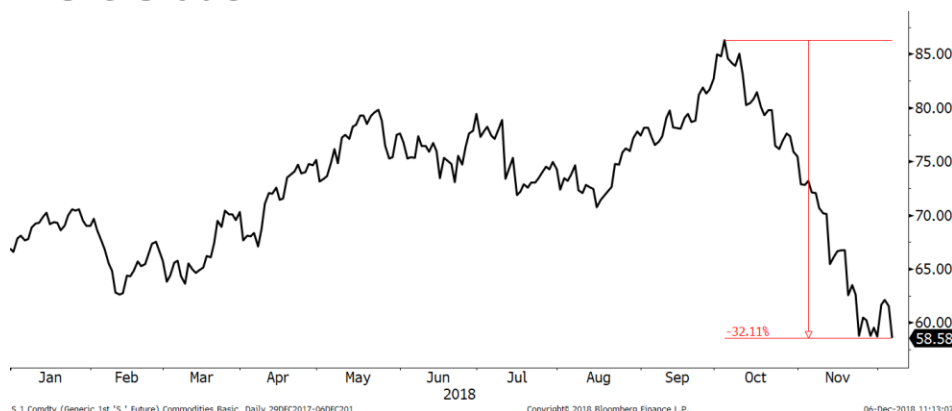
Three-day drop in Topix erases the previous 4.5%, 7-day gain



Commodities

Crude futures are down nearly 5% after Saudi officials at the OPEC meeting signaled no output cut agreement has yet been reached. The Kingdom's energy minister also noted that any production cut shouldn't be "overly large", probably around 1 mn barrels per day. Brent fell below \$60 per barrel on the news, down over 7% from Tuesday's high, and 32% below the October high.

Brent Crude



Emerging Markets

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Asian equities sold off (1.5-2.3%) led by technology stocks on the arrest of Huawei's CFO, pessimism over the Trump-Xi trade truce, weak smart phone supplier sales and concerns over the ongoing inversion of the US yield curve. Currencies depreciated against the dollar with Indonesia (-0.8%) and South Korea (-0.6%) leading losses. Sovereign yield fell across Asia with the exception of Indonesia and the Philippines. In EMEA, equities were broadly lower falling 2% in Russia and Poland. Higher yielding currencies were lower on the day, with the South African rand and the Turkish lira falling around 1%. Latin American bourses and currencies were mixed yesterday but in narrow ranges. The exception was the Chilean peso, falling 0.8%.

Key Emerging Market Financial Indicators

Last updated: 12/6/18 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.02	-2.3	1	0	-9	-13
MSCI Frontier Equities		27.73	-0.8	1	1	-16	-16
EMBIG Sovereign Spread (in bps)		400	3	-2	32	111	115
EM FX vs. USD		62.05	-0.3	-1	-1	-9	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.89	-0.5	1	0	-4	-6
Indonesian Rupiah		14520	-0.8	-1	2	-7	-7
Indian Rupee		70.90	-0.6	-1	3	-9	-10
Argentine Peso		37.74	-0.6	0	-6	-54	-51
Brazil Real		3.91	-1.0	-1	-4	-17	-15
Mexican Peso		20.59	-0.4	-2	-4	-8	-5
Russian Ruble		66.99	-0.7	-1	-1	-12	-14
South African Rand		14.09	-1.7	-3	0	-4	-12
Turkish Lira		5.37	-0.8	-4	0	-28	-29
EM FX volatility		9.99	0.0	-0.1	0.0	1.9	2.1

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

IIF analysts estimated that portfolio inflows to EMs jumped to \$33.9 bn in November, helped by a stronger appetite for EM debt and Chinese equities. Portfolio equity inflows rebounded to \$12 bn in November, buoyed by the strongest inflows to Chinese equities (\$8.5 billion) since May. EM bonds attracted \$21.8 billion in inflows—the most since April—broadly spread across EM regions. Analysts highlighted that total non-resident portfolio flows ytd are estimated at \$195 bn—nearly \$160 bn lower than Nov 2017, but better than 2015 (\$88 bn) and 2016 (\$142 bn).

Chart 1: Net Non-Resident Portfolio Inflows to EMs



Source: National sources, IIF

China

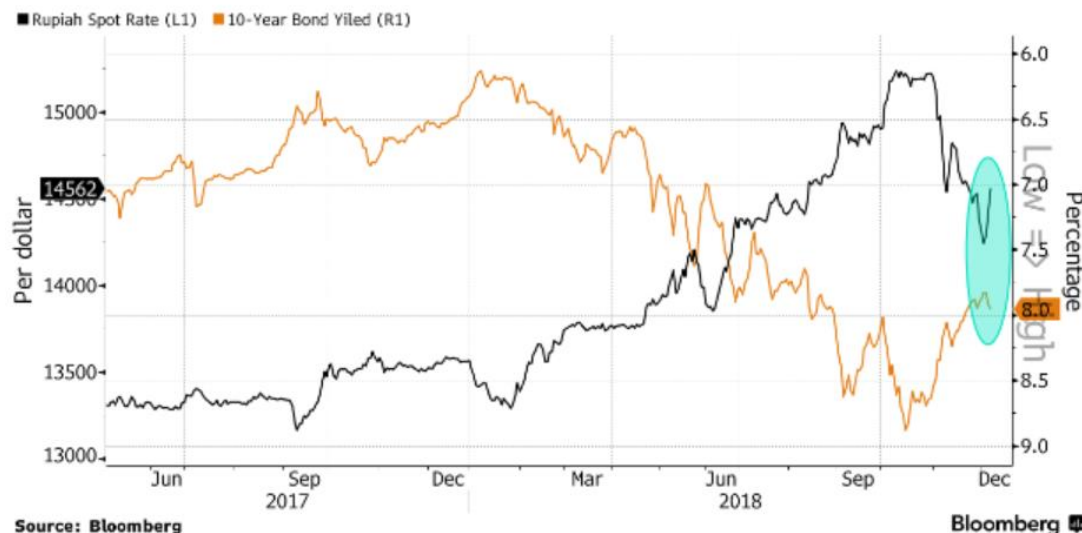
Equities declined on trade pessimism and the arrest of the Huawei CFO over potential violations of U.S. sanctions on Iran. Stocks in Shanghai declined 1.7%, while the more tech heavy Shenzhen index fell 2.2%. The arrest of Huawei's CFO raised concerns that the company might find itself in a similar situation as ZTE, the Chinese telecommunications equipment manufacturer, that was severely affected by a US ban earlier in the year. Huawei is not listed, but its dollar bonds fell immediately after the arrest. **The onshore and offshore yuan depreciated 0.4%.**

Indonesia

The central bank intervened in support of the currency and bond markets as risk-off sentiment weighed on Indonesian assets. Pressure on the rupiah prompted Bank Indonesia to intervene in spot and forward markets for the first time in more than a month. The rupiah depreciated 0.8% on the day, making it the worst performing currency in Asia. In a statement, the central bank said that it sees the current weakness as temporary and related to a knee-jerk sell-off in global equity markets. Indonesian 10-year government bond yields rose 6 bps, while equities outperformed the region declining 0.3%.

Weakening Again

Bank Indonesia is intervening to prop rupiah as slide resumes



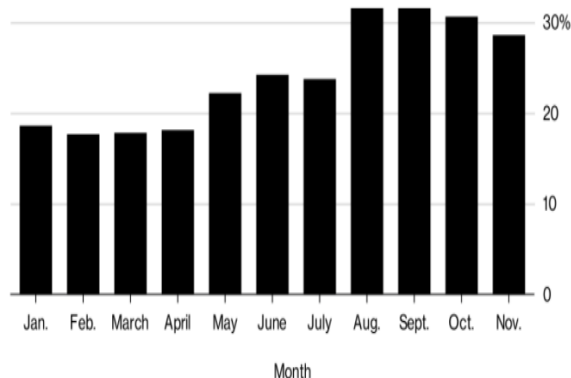
Argentina

The central bank removed the 60% floor on the Leliq rate. The authorities highlighted that they overachieved the monetary base targets by ARS 19 bn and ARS 15 bn in October and November, respectively. Furthermore, this decision comes one day after the inflation expectations declined for a second consecutive month. Analysts surveyed in November by the central bank forecast consumer prices will rise 28.6% over the next 12 months, down from 30.6% estimated in October and represents a 4 ppts decline since Aug end. The board also lowered the crawl pace of the FX intervention bands to 2% per month for 1Q19 (from 3% monthly this quarter). **Argentine Peso remained broadly unchanged today after depreciating by 2.3% vs the US dollar yesterday.**

Cooling Down

Inflation expectations in Argentina are finally falling, a key feat in the IMF deal

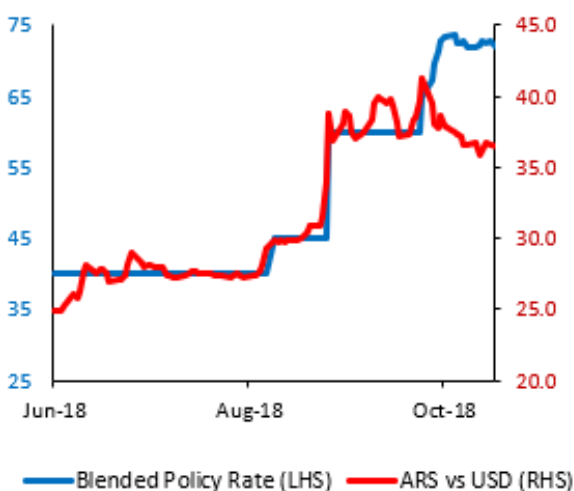
■ 12-Month Inflation Expectations



Argentina Central Bank Survey

Bloomberg

Argentina: Policy Rate and Currency (vs USD)



Source: Bloomberg

Chile

The central bank maintained its key rate at 2.75 percent, in line with expectations. Comments indicated that the central bank expects to gradually remove monetary stimulus, though inflation levels continue to remain subdued and within target. Analysts have highlighted that IPoM's base scenario assumes that the policy rate will continue to increase in the coming months and be at the neutral level in the first half of 2020 (neutral level remains at 4-4.5%). However, markets are pricing a slower rise in rates and expect it to reach 4% beyond 2020.

Under Control

Chile's key rate left unchanged as inflation expectations remain at target

■ Analyst forecast for inflation 11 months ahead ■ Chile Monetary Policy Rate











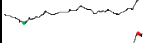
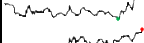



















Source: Central Bank of Chile

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Global Financial Indicators

Last updated: 12/6/18 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2700	0.0	1	-1	3	1
Europe		3078	-2.3	-3	-4	-14	-12
Japan		21502	-1.9	-3	-3	-3	-6
China		2605	-1.7	1	-2	-21	-21
Asia Ex Japan		67	-2.1	1	2	-9	-12
Emerging Markets		41	-2.4	1	0	-9	-13
Interest Rates			basis points				
US 10y Yield		2.89	0.0	-14	-34	55	48
Germany 10y Yield		0.25	-2.8	-7	-19	-5	-18
Japan 10y Yield		0.06	-0.2	-2	-7	1	2
UK 10y Yield		1.28	-3.9	-9	-26	5	9
Credit Spreads			basis points				
US Investment Grade		129	3.1	6	22	33	38
US High Yield		424	11.6	-2	60	48	49
Europe IG		85	3.0	5	16	37	40
Europe HY		344	13.6	1	60	109	111
EMBIG Sovereign Spread		400	3.0	-2	32	111	115
Exchange Rates			%				
Dollar Index (DXY)		97.01	-0.1	0	1	4	5
USDEUR		1.14	0.1	0	-1	-4	-5
USDJPY		112.8	0.3	1	1	0	0
EM FX vs. USD		62.0	-0.4	-1	-1	-9	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		60	-2.9	0	-17	-2	-11
Industrials Metals (index)		114	-1.9	-1	-1	-8	-18
Agriculture (index)		43	-0.6	1	-1	-11	-10
Implied Volatility			%				
VIX Index (% change in pp)		24.3	3.5	5.5	4.3	13.2	13.2
10y Treasury Volatility Index		4.0	0.2	0.1	-0.7	0.2	0.5
Global FX Volatility		8.5	0.0	0.0	0.3	0.8	1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		397	9.4	2	6	-54	29
Italy		289	10.2	0	-8	145	130
Portugal		154	2.5	3	8	-4	3
Spain		120	2.2	2	5	7	6

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: 12/6/2018 8:10 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	-0.5	0.7	0	-4	-6		3.3	-3.4	-8	-24	-69	-70
Indonesia		14520	-0.8	-0.9	2	-7	-7		8.1	5.7	-6	-32	134	150
India		71	-0.6	-1.5	3	-9	-10		7.5	-9.5	-18	-33	28	8
Philippines		53	-0.1	-0.7	0	-4	-6		6.3	0.0	-8	-34	146	143
Thailand		33	-0.3	0.2	0	-1	-1		2.7	0.0	-7	-15	40	44
Malaysia		4.17	-0.3	0.5	0	-2	-3		4.1	-0.5	-4	-2	20	23
Argentina		38	-0.6	0.0	-6	-54	-51		23.2	12.9	-32	-35	756	717
Brazil		3.91	-1.0	-1.3	-4	-17	-15		8.6	-2.2	13	3	-23	-37
Chile		678	-0.7	-1.2	0	-3	-9		4.6	0.4	-5	-15	-24	-16
Colombia		3175	-0.4	2.0	-1	-5	-6		6.7	1.6	-12	-21	44	44
Mexico		20.59	-0.4	-1.7	-4	-8	-5		9.2	-2.5	-9	58	186	155
Peru		3.4	0.1	-0.1	0	-4	-4		5.8	0.1	9	-11	47	56
Uruguay		32	-0.3	0.5	2	-10	-10		10.9	1.1	17	26		236
Hungary		285	-0.1	-0.4	-1	-7	-9		2.4	5.1	-11	-28	109	111
Poland		3.78	0.0	-0.4	0	-5	-8		2.5	1.3	-7	-7	-21	-21
Romania		4.1	0.1	-0.3	-1	-4	-5		4.2	6.0	-10	-18	36	36
Russia		67.0	-0.7	-1.1	-1	-12	-14		8.4	6.0	-9	8	104	115
South Africa		14.1	-1.7	-3.0	0	-4	-12		9.6	6.6	-3	-10	-9	32
Turkey		5.37	-0.8	-3.8	0	-28	-29		17.1	2.5	30	17	487	520
US (DXY; 5y UST)		97	-0.1	0.2	1	4	5		2.76	-2.7	-9	-30	63	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		2605	-1.7	1	-2	-21	-21		193	3	4	6	49	41
Indonesia		6115	-0.3	0	3	1	-4		230	2	7	11	57	64
India		35312	-1.6	-2	1	8	4		177	-1	4	10	67	67
Philippines		7535	2.3	2	5	-7	-12		119	2	12	-2	20	24
Malaysia		1683	0	-1	-1	-2	-6		154	3	8	17	47	44
Argentina		31780	-0.6	3	1	20	6		736	7	33	124	375	386
Brazil		88131	0.5	-2	-1	20	15		272	3	2	16	40	38
Chile		5127	-0.1	-1	-2	5	-8		163	3	8	17	43	44
Colombia		1408	0.6	2	0	-3	-7		216	3	4	19	39	42
Mexico		41895	0.1	2	-10	-11	-15		350	4	12	42	109	105
Peru		19530	0	2	1	1	-2		174	3	12	10	36	37
Hungary		40008	-1.6	0	6	6	2		150	3	-2	24	57	62
Poland		58816	-1.5	1	3	-5	-8		77	3	2	21	33	30
Romania		8688	-0.7	1	1	13	12		224	8	12	36	102	110
Russia		2400	-1.8	0	-1	13	14		246	3	-5	20	63	68
South Africa		50559	-2.2	-2	-7	-13	-15		353	2	-13	9	75	99
Turkey		92629	-1.4	-3	-2	-12	-20		472	2	-9	38	168	183
Ukraine		574	0.0	-1	-2	89	82		725	2	-20	113	264	270
EM total		24	0.0	1	0	-6	-8		400	3	-2	32	111	115

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