



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, February 1, 2019






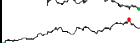




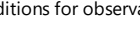
- US nonfarm payrolls show stronger-than-expected job gains in January ([link](#))
- US equities in January had their best monthly performance in 3 years ([link](#))
- Central banks in 2018 bought more gold than they have in 50 years ([link](#))
- Yields rise in Italy on speculation of further fiscal easing ([link](#))
- Chinese stocks rally on changes to margin rules ([link](#))
- **SPECIAL FEATURE: Fintech update (see attachment)**

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Global equity markets rallied strongly in January

Despite poor sentiment and cratering price action at the end of 2018, Q4 earnings have suggested that growth momentum remains fairly strong around the globe. With about 40% of the S&P 500 reporting quarterly results, earnings per share growth is on pace to rise by about 13% yoy. In Europe, with 15% of the index reporting, earning per share growth is on course to rise 4% yoy. Japan by contrast, has so far shown 3% yoy decline in earnings, but revenue growth has been encouraging. In EM, dedicated equity and bond funds have registered strong inflows. With potential progress on trade talks reportedly being made between the US and China -- as well as this week's decision by the Federal Reserve, in which it signalled that it may pause its rate hike campaign -- market participants suggest that there may be scope for a further recovery in global equity prices.

Key Global Financial Indicators

Last updated: 2/1/19 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2704	0.9	2	8	-4	8
Eurostoxx 50		3144	-0.5	-1	5	-12	5
Nikkei 225		20788	0.1	0	4	-11	4
MSCI EM		43	-0.1	3	10	-14	10
Yields and Spreads			bps				
US 10y Yield		2.63	-4.8	-13	-6	-16	-6
Germany 10y Yield		0.15	0.1	-4	-9	-57	-9
EMBIG Sovereign Spread		359	-7	1	-56	100	-55
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		64.2	-0.2	1	3	-11	3
Dollar index, (+) = \$ appreciation		95.5	-0.1	0	-1	8	-1
Brent Crude Oil (\$/barrel)		61.0	0.2	-1	13	-12	13
VIX Index (% change in pp)		16.7	0.1	-1	-9	3	-9

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

United States

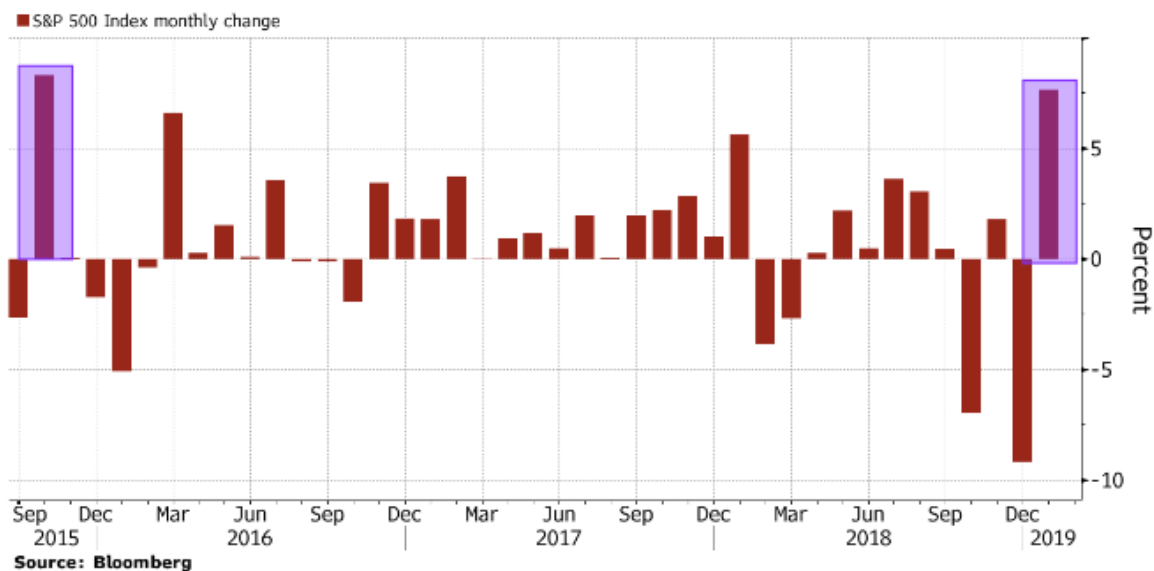
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Nonfarm payrolls for January was much stronger than expected at 304k (vs. 165k cons.), while average hourly earnings were in line with expectations at 3.2% yoy. Monthly, however, wage growth was 0.1% mom, the slowest since October 2017. Unemployment was higher than expected at 4.0% (vs. 3.9% cons.) possibly due to the partial government shutdown. In financial markets, the 10-year Treasury yield was up by 1 bp with yield curve bear-flattening following the headline. The dollar was stronger by 0.1% against the euro. S&P 500 futures ticked higher to recoup the modest losses experienced ahead of the data release.

Equities gained further to finish the month up by 8%, the best equity market performance since October 2015. Gains were broad-based, with the S&P 500 rising 0.9% on the day to close at above 2,700, just below 100-day moving average. The VIX index declined to 16.6, the lowest level since last December. The tech sector outperformed on solid earnings reports. On the trade front, President Trump said the trade talks have made "tremendous progress" but "doesn't mean we have a deal." Treasury Secretary Mnuchin and trade representative Lighthizer will visit Beijing early February to have continuous negotiations with China.

S&P Surge

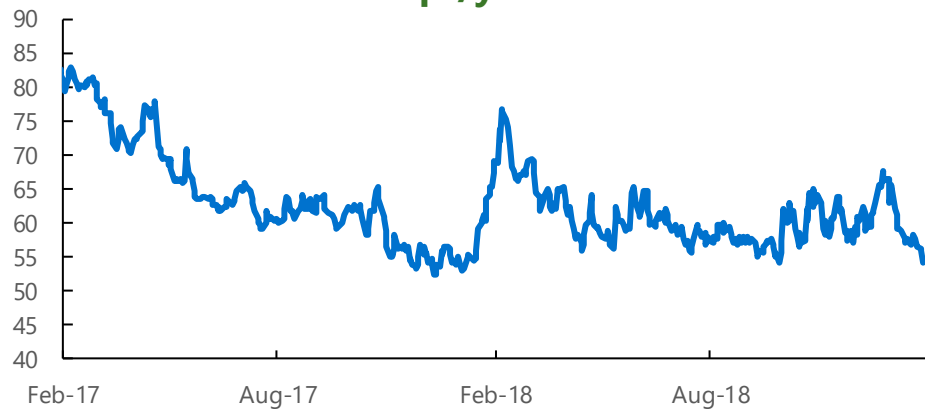
S&P 500 set for best month in more than three years



Jobless claims for the week ending Jan 26 rose sharply to 253k, the highest levels since September 2017 and higher than the consensus expectation of 215k. Although federal workers are not included in the data, government contractors may have been affected by the partial government shutdown for 35 days.

Treasury yields declined by 5 bps across the curve, with 3-month implied volatility on 10-year rates falling to the lowest in one year. Given the emerging view that fewer securities will roll off the Fed's balance sheet than the market had previously forecasted, Treasury's borrowing needs from the market may be smaller than expected, improving supply-demand balances, analysts commented. Eurodollar futures Mar 2019-Mar2020 spread continued to widen to negative territory, implying a 50% chance for a rate cut for a coming year.

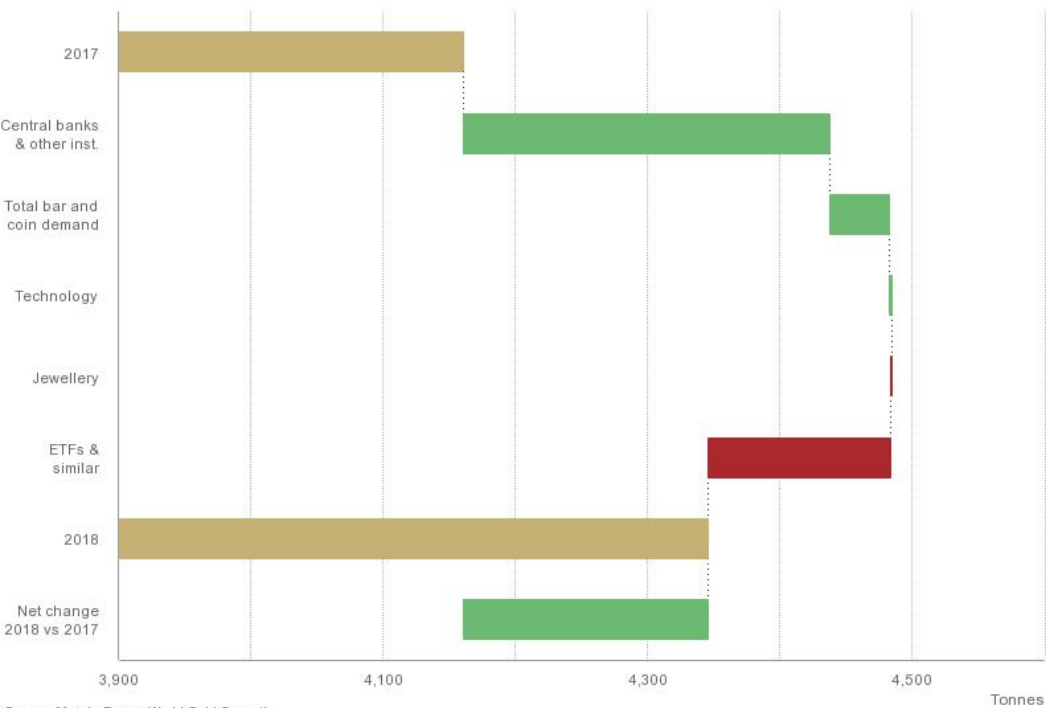
3m Implied Volatility on 10-year Swaption, bps/year



Source: Bloomberg

Central bank buying of gold last year was the largest in 50 years, shifting away from the dollar. According to the World Gold Council, central banks bought a net \$27 bn of gold, as Russia, Turkey, and Kazakhstan increased purchases to diversify their large holdings of dollar reserves amid rising global trade tensions. Other analysts believed that the longest US government shutdown in history is a potential catalyst for resuming the gold bull market, which began almost two decades ago. Gold prices extended gains on Thursday to \$1322/toz, approaching a 3-year high.

4% growth in annual gold demand driven by near-record central bank buying



Source: Metals Focus; World Gold Council

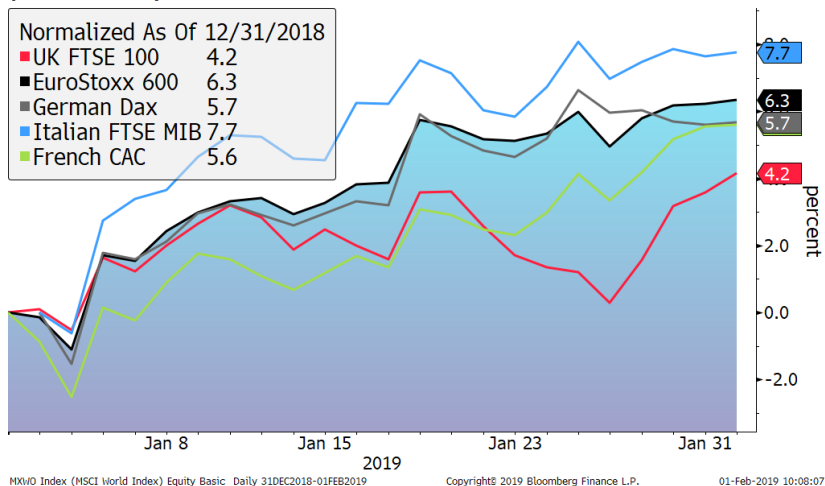
Europe

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Equities are little changed. On the week, the EuroStoxx 600 has risen 0.3%, the fifth consecutive weekly gain. The index has bounced 6.3% from the December lows. Year to date, Italy (+7.7%) is outperforming while the UK (+4.2%) is trailing. After a good start of the year, the banking sub-index is starting to underperform (-0.5% today and -5.0% on the week), in part pressured by more negative headlines about **Deutsche Bank** (-1.8%) and speculation of a merger. Overnight, the bank reported that investors pulled some €7 bn of funds from its asset management business in Q4.

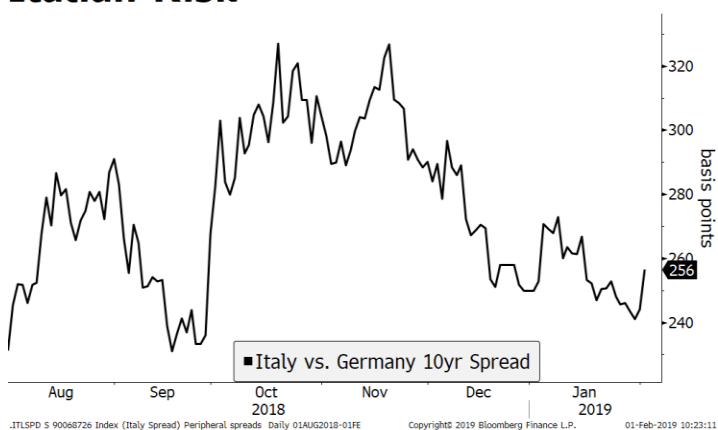
European Equity Indices

(YTD Performance)



Yields in Italy are up as much as 15 bps across the curve on speculation of further fiscal easing. This follows recent downbeat economic data and an article in the local press suggesting the government may engage in countercyclical policy. The 10-year Italy vs Germany bond spread is up about 14 bps over the last two sessions at 256 bps, but still considerably lower than the October high of 327 bps. Yields are a few basis points higher across the rest of the region.

Italian Risk



In Brexit news, regulators published a memorandum of understanding agreeing to continue the practice of "delegation" for asset managers. The agreement between the European Securities and Markets Authority (ESMA) and the U.K.'s Financial Conduct Authority (FCA) will allow funds domiciled and regulated in another EU country to be managed out of London.

Other Mature Markets

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Japan













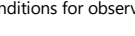

Equities were little changed (Topix -0.2%; Nikkei +0.1%) despite a slew of weak earnings reports including from Nomura (-4%). Tech and health care stocks outperformed. On the macro data side, the January manufacturing PMI was revised up to 50.3 from the flash estimate of 50. The unemployment rate edged down slightly to 2.4% in December and the job-offer-to-application remained at 1.63, the highest level since 1974. Yields on 10-year JGBs fell -2.3 bps to -0.031% following US Treasuries lower. The yen was little changed on the day.

Emerging Markets

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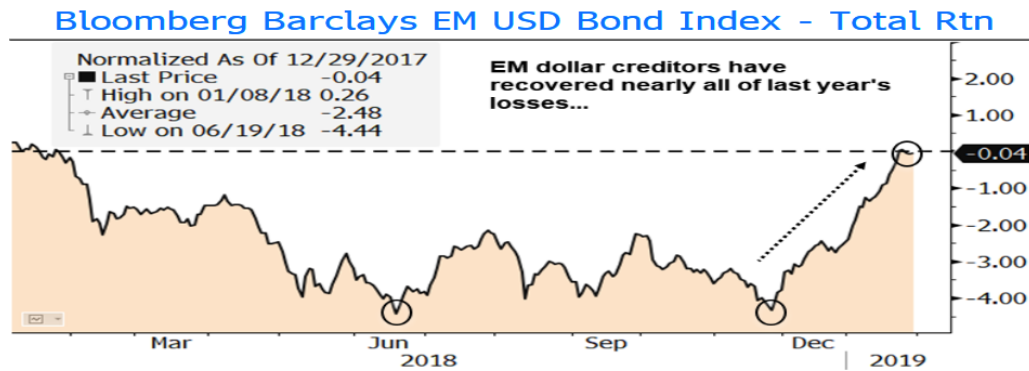
Emerging markets had a mixed session after yesterday's gains. Equities in EMEA were little changed with Hungary (-0.6%) among the biggest movers. The same applied for currencies in the region. A slight weakening in the South African rand (-0.7%) was the most notable change. In Asia, equities were mixed with China (+1.3%) among a select few that saw a non-trivial move on supportive rule changes by the regulator and positive trade talk sentiment. Most local currencies were marginally weaker against the dollar. Yesterday, Latin American assets had a good day benefitting from the positive sentiment in global markets. Mexican (+0.9%) and Argentine (0.8%) equities led the gains, followed by Brazil (+0.4%) and Chile (0.3%). Among regional currencies, Chilean peso (+2%) and Colombian peso (+1.8%) strengthened the most against dollar, followed by the Brazilian real (+0.9%) and Argentine peso (+0.5%).

Key Emerging Market Financial Indicators

Last updated: 2/1/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.10	-0.1	3	10	-14	10
MSCI Frontier Equities		28.28	-0.2	1	8	-20	8
EMBIG Sovereign Spread (in bps)		359	-7	1	-56	100	-55
EM FX vs. USD		64.15	-0.2	1	3	-11	3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.74	-0.6	0	2	-7	2
Indonesian Rupiah		13948	0.2	1	3	-4	3
Indian Rupee		71.26	-0.2	0	-3	-10	-2
Argentine Peso		37.27	0.1	-1	1	-48	1
Brazil Real		3.67	-0.5	3	6	-14	6
Mexican Peso		19.13	-0.1	-1	3	-4	3
Russian Ruble		65.50	-0.2	1	6	-15	6
South African Rand		13.33	-0.6	2	8	-11	8
Turkish Lira		5.22	-1.0	1	1	-28	1
EM FX volatility		8.85	0.0	-0.1	-1.0	0.6	-0.9

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

This month's surge has erased almost all of last year's losses in emerging market dollar debt. It has taken just 1 month for the benchmark Bloomberg Barclays EM U.S. Dollar Bond index to retrace the entirety of last year's 2.5% loss. The Bloomberg Barclays index has had just 5 down years in its 25-year history, with 2018 exhibiting the smallest full-year loss on record. Bloomberg also suggests that a more dovish Fed could reduce the illiquidity premium embedded in emerging market credit spreads, causing high yield to outperform investment grade peers.

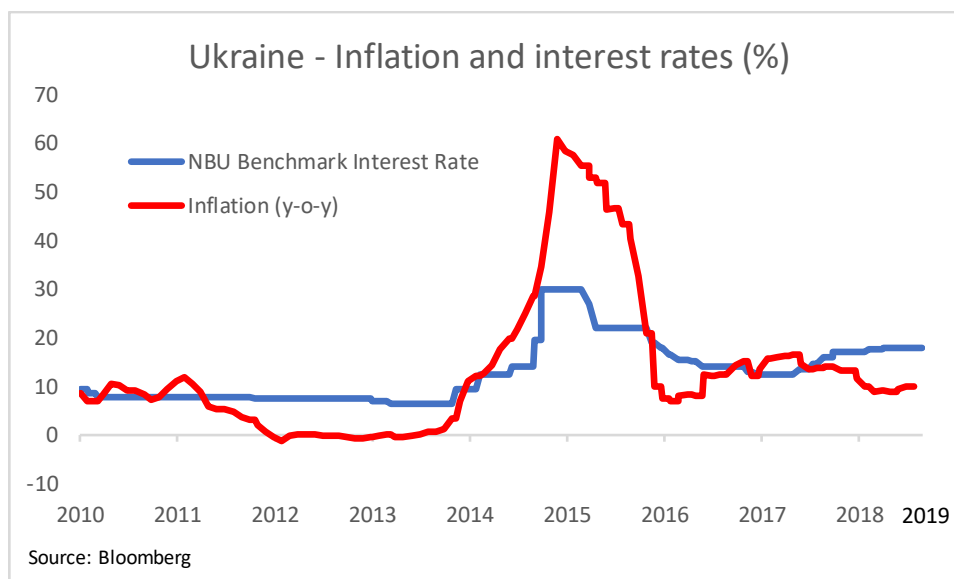


China

Chinese equities outperformed Asian markets on proposed changes to margin rules. The Shanghai index gained 1.7% and the Shenzhen index rallied 2.8%. Tech stocks led gains on both bourses boosted by a possible easing of listing requirements for the sector. Reports that China is scrapping liquidation level requirements in margin trading provided support. The stock exchanges are drafting revisions to rules of margin trading and short selling, which may allow brokerages to negotiate levels that trigger forced liquidation with clients, instead of a universal level of 130%. Meanwhile, the Caixin manufacturing PMI dropped to 48.3 from 49.6 in December, the lowest level since February 2016. New orders fell further into contractionary territory even as new export orders surprisingly rose above 50 likely related to the tentative US-China trade truce. The onshore and offshore yuan depreciated 0.5%.

Ukraine

The central bank kept its benchmark interest rate at 18% yesterday, as expected. In its statement, the bank said that continued tight monetary conditions were "necessary to maintain the existing reasonably tight monetary conditions in order to ensure that inflation returns to its target range in Q1 2020". However, governor Smoliy recently told lawmakers that "there are grounds" to ease policy soon. The bank's current inflation target is a 5% inflation rate compared to a reading in December of 9.8%. On the GDP front, the bank expects growth to moderate this year to 2.5%, from 3.3% last year, in part due to tight monetary and fiscal policy as well as slowing global growth.

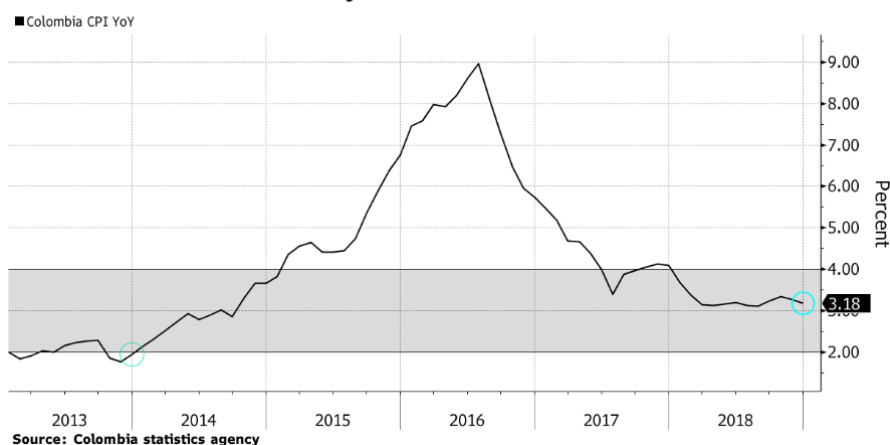


Colombia

The central bank decided to keep its policy rate unchanged at 4.25% as inflation remains in the target zone. The decision was in line with economist expectations surveyed by Bloomberg. Analyst expect 50 bps of hikes for 2019. Consumer prices rose 3.2% last year, close to the mid-point of the target range of 2 to 4%, while inflation expectations have fallen since the bank's December meeting. Recent data shows that the economy is gaining momentum amid a rebound in consumer spending. The Colombian benchmark equity index is up 9% so far this year and the peso has strengthened by 4% against dollar. The central bank said that it would buy 1 bn of dollars from the government on Feb. 1 to reinforce its reserve accumulation program and said it will continue its auctions of currency put options this month. The bank is trying to boost its \$47 bn reserve pile ahead of a possible reduction in its flexible credit line with the IMF from 2020, reports Bloomberg.

Under Control





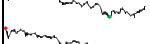






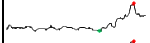

















2018 inflation was lowest for 5 years



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Global Financial Indicators

Last updated: 2/1/19 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2704	0.9	2	8	-4	8
Europe		3144	-0.5	-1	5	-12	5
Japan		20788	0.1	0	4	-11	4
China		2618	1.3	1	5	-24	5
Asia Ex Japan		69	0.9	3	9	-14	9
Emerging Markets		43	-0.1	3	10	-14	10
Interest Rates			basis points				
US 10y Yield		2.63	-4.8	-13	-6	-16	-6
Germany 10y Yield		0.15	-0.1	-5	-9	-57	-9
Japan 10y Yield		-0.01	-1.7	-1	-2	-11	-2
UK 10y Yield		1.21	-0.7	-9	-7	-32	-7
Credit Spreads			basis points				
US Investment Grade		122	-2.5	-7	-25	40	-25
US High Yield		437	-0.9	1	-84	107	-84
Europe IG		72	2.2	-2	-15	29	-15
Europe HY		315	6.4	-6	-38	75	-38
EMBIG Sovereign Spread		359	-7.0	1	-56	100	-55
Exchange Rates			%				
Dollar Index (DXY)		95.52	-0.1	0	-1	8	-1
USDEUR		1.15	0.2	1	0	-8	0
USDJPY		108.9	0.0	1	1	0	1
EM FX vs. USD		64.2	-0.2	1	3	-11	3
Commodities			%				
Brent Crude Oil (\$/barrel)		61	0.1	-1	13	-13	13
Industrials Metals (index)		118	-0.2	1	8	-16	8
Agriculture (index)		43	0.4	0	3	-11	3
Implied Volatility			%				
VIX Index (% change in pp)		16.8	0.2	-0.7	-8.7	3.3	-8.7
10y Treasury Volatility Index		3.8	0.0	-0.2	-0.8	-0.7	-0.8
Global FX Volatility		7.9	0.0	0.1	-1.1	-0.1	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		383	10.1	-7	-33	84	-33
Italy		262	18.5	17	12	138	12
Portugal		150	2.6	4	2	27	2
Spain		107	2.7	4	-10	39	-10

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: 2/1/2019 8:13 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.74	-0.6	0.2	2	-7	2		3.1	-1.7	-1	-13	-92	-13
Indonesia		13948	0.2	1.0	3	-4	3		8.1	-20.7	-19	-6	156	-6
India		71	-0.2	-0.1	-3	-10	-2		7.5	-2.8	-5	7	-13	7
Philippines		52	-0.2	0.6	0	-1	1		5.7	-1.8	-8	-56	99	-56
Thailand		31	-0.2	0.8	4	0	3		2.6	-1.7	0	-5	29	-5
Malaysia		4.10	0.3	1.2	1	-5	1		4.0	-0.8	0	-6	4	-6
Argentina		37	0.0	-0.7	1	-48	1		20.9	-33.9	-49	-210	540	-210
Brazil		3.67	-0.6	2.8	6	-14	6		7.8	-17.1	-19	-39	-98	-39
Chile		658	-0.5	1.4	5	-9	5		4.4	-3.6	-5	-3	-39	-3
Colombia		3112	-0.2	1.3	5	-10	5		6.4	-9.8	-17	-10	17	-10
Mexico		19.13	-0.1	-0.7	3	-4	3		8.5	-8.0	-5	-25	83	-25
Peru		3.3	0.7	0.6	1	-3	1		5.6	-13.5	-13	-12	82	-12
Uruguay		32	0.0	0.3	0	-13	0		10.3	-6.5	-1	-41		-41
Hungary		277	-0.3	0.5	1	-11	1		2.1	-3.9	-7	-14	60	-14
Poland		3.73	-0.1	0.9	0	-11	0		2.2	-3.0	-5	-7	-55	-7
Romania		4.1	-0.2	0.7	-2	-10	-2		4.4	-4.0	-12	13	46	13
Russia		65.5	-0.2	0.8	6	-15	6		7.9	-13.6	-12	-48	89	-48
South Africa		13.3	-0.6	2.2	8	-11	8		9.3	-14.1	-18	-29	13	-29
Turkey		5.22	-1.0	1.1	1	-28	1		14.8	-67.6	-129	-206	310	-206
US (DXY; 5y UST)		96	-0.1	-0.3	-1	8	-1		2.44	0.3	-16	-7	-13	-7

	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		2618	1.3	1	5	-24	5		188	1	11	-3	38	-6
Indonesia		6539	0.1	1	6	-1	6		196	-1	3	-41	52	-40
India		36469	0.6	1	1	2	1		181	-5	-2	-15	80	-15
Philippines		8144	1.7	1	9	-7	9		100	2	7	-20	22	-21
Malaysia		1684	0	-1	0	-10	0		139	-1	4	-23	45	-23
Argentina		36327	0.8	4	20	5	20		672	1	7	-142	298	-143
Brazil		97690	0.4	0	11	14	11		238	3	3	-35	23	-35
Chile		5420	0.3	0	6	-8	6		145	-2	6	-20	42	-21
Colombia		1447	-0.2	2	9	-8	9		190	0	-5	-37	38	-38
Mexico		43988	0.8	1	6	-13	6		332	2	21	-24	114	-22
Peru		20191	1	3	4	-4	4		145	1	1	-23	29	-23
Hungary		40494	-0.9	-1	3	1	3		127	-11	-3	-21	55	-21
Poland		60364	0.0	0	5	-8	5		66	-4	7	-15	30	-19
Romania		7008	0.8	-1	-5	-16	-5		213	-7	-6	-8	109	-8
Russia		2520	0.0	1	6	9	6		221	-3	10	-31	76	-31
South Africa		53813	-0.6	0	2	-9	2		296	-14	-10	-66	85	-69
Turkey		102815	-1.2	1	13	-14	13		392	-20	-2	-37	123	-37
Ukraine		552	0.1	0	-1	64	-1		673	-24	30	-110	298	-114
EM total		43	-0.1	3	10	-14	10		359	-7	1	-56	100	-55

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