



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, February 12, 2019


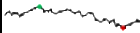


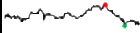
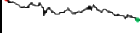




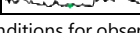
- **US interest rate volatility sharply lower after dovish Fed tilt** ([link](#))
- **US firms with greater global exposure are reporting worse earnings for Q4** ([link](#))
- **China court freezes property stakes of firm following bond default** ([link](#))
- **EM hard currency sovereign issuance was strong in January** ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Markets advance ahead of trade talks and potential deal to avoid US shutdown

Global equity markets are on the rise again this morning as optimism has increased that the US government may avoid another shutdown. Congressional leaders have agreed to a deal in principal that would avert a reprise of the recent month-long government shutdown. The deal, which allocates much less to border fencing than asked for by the administration, would still need approval from President Trump. Otherwise, markets are quiet as they await any news from the upcoming meetings between senior Chinese and US officials scheduled to begin this Thursday. The dollar is taking a breather from its recent run. The dollar index is currently slightly down on the day after having posted 8 straight days of advances. The positive risk sentiment and steadiness of the dollar are allowing most emerging market currencies to advance so far today.

Key Global Financial Indicators

Last updated: 2/12/19 7:37 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2732	0.1	2	7	2	9
Eurostoxx 50		3177	-1.1	1	5	-8	6
Nikkei 225		20751	-0.6	0	4	-4	4
MSCI EM		43	0.7	0	8	-10	10
Yields and Spreads			bps				
US 10y Yield		2.66	2.0	4	-3	-17	-2
Germany 10y Yield		0.12	-4.1	-3	-10	-62	-12
EMBIG Sovereign Spread		351	24	-15	-52	61	-63
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.7	-0.2	-1	1	-10	2
Dollar index, (+) = \$ appreciation		96.5	0.1	1	1	7	0
Brent Crude Oil (\$/barrel)		62.2	-0.8	0	8	-5	16
VIX Index (% change in pp)		16.3	0.9	0	-5	-11	-9

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

United States

[back to top](#)

Markets were little changed in low volume trading on Monday as investors chose to keep their powder dry ahead of a potentially eventful week. The growing prospect of another government shutdown on Friday, the ongoing Brexit drama and the trade talks in Beijing loomed over the markets. Equities were mixed, and Treasury yields were slightly higher. Market participants are also worried about the possibility that the US could impose tariffs on European car manufacturers. Meanwhile, the dollar continued its February rally, with the Bloomberg dollar index stronger by nearly 1.5% so far this month. The New York Fed downgraded its 2019 growth forecast for the US economy to 1.6% from 1.9%, citing tighter financial conditions.

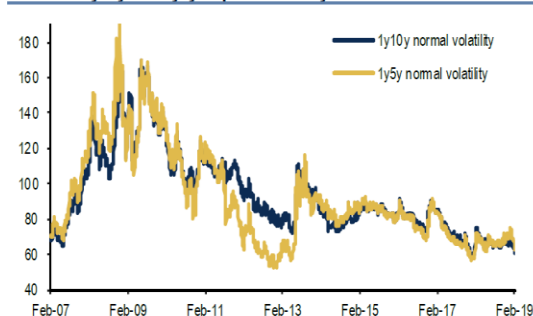
Interest rate volatility in US markets declined sharply after the January 30 FOMC meeting. The Fed's dovish tilt led to extensive re-pricing all along the yield curve and across the volatility surface over the past two weeks. The greatest decline in volatility occurred in shorter maturity interest rate options, as markets came to believe that the short end of the yield curve will hold steady for a while with Fed rate hikes apparently off the table for now. The absence of inflationary pressures and the subdued level of TIPS breakeven yields also supported the trend towards lower volatility, as the Fed is looking for significant increases in inflation before its rate hikes continue. Contacts report that the decline in volatility has led to higher interest in carry trades which typically have good risk adjusted returns during periods of low volatility. Others caution that with volatility for benchmark one-year/ten-year and one-year/five-year swaptions back down to the 2017 lows, bond markets could be vulnerable to a sudden reversal if circumstances change and the Fed is forced to reconsider its recent policy stance.

Table 5: Implied volatility grid moves since the January FOMC meeting

	1Y	2Y	3Y	5Y	7Y	10Y	30Y
1M	-3.0	-3.4	-2.5	-2.1	-1.1	-0.3	0.2
3M	-5.2	-6.5	-4.0	-2.9	-2.1	-1.2	-0.6
6M	-7.3	-7.8	-5.2	-4.1	-3.3	-2.5	-1.4
1Y	-8.6	-6.6	-5.0	-4.3	-3.5	-2.7	-1.6
2Y	-7.1	-6.0	-4.9	-3.8	-3.2	-2.5	-1.6
3Y	-5.6	-4.9	-4.1	-3.0	-2.5	-2.0	-1.2
4Y	-3.7	-3.7	-3.3	-2.2	-1.9	-1.6	-1.0
5Y	-2.3	-2.3	-2.0	-1.5	-1.4	-1.3	-0.9
10Y	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	0.1
30Y	0.1	0.1	0.1	0.5	0.3	0.0	0.3

Source: BofA Merrill Lynch Global Research

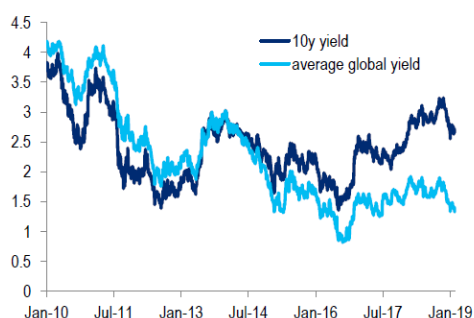
Chart 27: 1y10y and 1y5y Implied volatility



Source: BofA Merrill Lynch Global Research

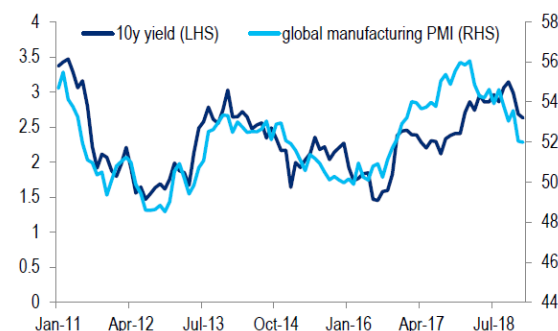
Investors are getting more bullish on developed market government bonds as advanced economy growth prospects appear to be slowing down. A weak industrial sector in Germany, a slowdown in China, the dampening impact of Brexit on the UK economy and a sharp downgrade in estimated growth from the Reserve Bank of Australia have all added to sense of slowing global growth. With inflation expectations either declining (in the euro area) or relatively low (in the US), the outlook for going long duration in bunds, Treasuries, gilts, etc. appears to be favorable. The prospect of a trade war with China provides the potential for ongoing support from the flight-to-safety bid from investors and banks. The latest trade truce is set to expire on March 1 if no new extension or agreement is reached, after which the US is scheduled to raise tariffs on \$200 bn of Chinese goods to 25% from the current level of 10%. US 10-year yields hit a 2018 high of 3.24% on November 11 but fell sharply in subsequent weeks and have remained below the 2.70% level for most of this year.

Figure 4. 10y US yields can be expected to move lower with the gravitational pull of lower global yields (average of German, UK, Canadian and Australian yields) if the trade war carries on



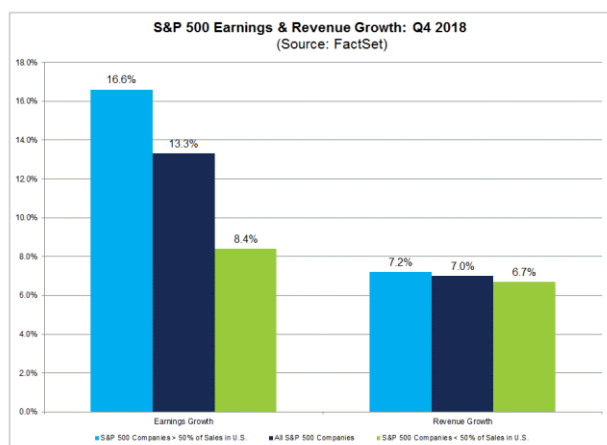
Source: Citi Research

Figure 5. Another way to look at this dynamic – Global manufacturing PMI and 10y yield move together. A trade truce is necessary for 10y yields to move higher



Source: Citi Research; Haver

The latest earnings reports show that S&P 500 companies with greater global exposure did worse in Q4 than companies with less global exposure. These results are based on the two-thirds of companies in the index that have reported so far. Earnings growth for companies with more than 50% of sales in the US was almost double the earnings growth of companies with less than 50% of sales domestically. A strong dollar and worries about a trade war were among the most common explanations cited by company management teams. Some also blamed disruptions to their supply chains as downstream companies maneuvered to relocate manufacturing capacity outside China. Front-loading of imports from China ahead of sanctions appear to have leveled off. Results for revenue growth were more evenly distributed. Meanwhile, analysts expect the same outcome for companies in Q1 2019, predicting 6.7% earnings growth for companies with less global exposure versus a much weaker 1.9% for companies with more international exposure.



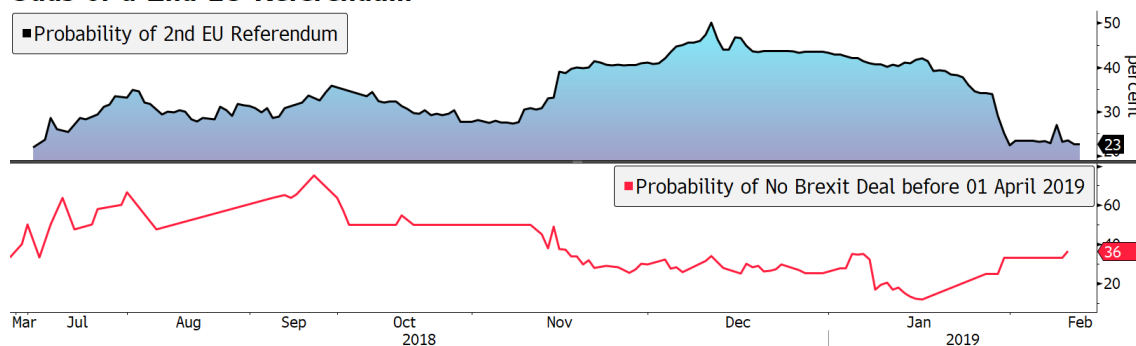
Europe

[back to top](#)

European equity indices are higher across countries: EuroStoxx 600 (+0.6), DAX (1.2%), and CAC 40 (1.0%). Bank equities (+0.6%) are slightly underperforming. **Euro area sovereign bond markets are steady.** German 10-year bonds at 0.13% (+1 bps); French at 0.56% (flat); Italian at 2.85% (-5 bps).

There have been no new developments overnight on Brexit. Speculation continues whether PM May will manage to muster enough support to pass an amended version of the Withdrawal Agreement. No date for the vote has been set. The odds of a second referendum remain relatively low while that of a no-deal outcome continue to increase, according to betting markets.

Odds of a 2nd EU Referendum



Source: Average Odds from Oddschecker
ODCHEUNO Index (Avg Implied Probability of 2nd EU Referendum - NO) Brexit 2nd Re

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Eurozone finance ministers have endorsed Philip Lane as the next ECB chief economist. Dr. Lane – current governor of the Central Bank of Ireland – is expected to take up his post in late May 2019.

Other Mature Markets

Japan

Japanese equities rallied on the first day of trading following the long weekend while the yen weakened amid reports of a tentative deal among U.S. lawmakers to avert another federal government shutdown. The Topix gained 2.2% and the Nikkei rose 2.6%, outperforming other Asian bourses. Meanwhile, the yen depreciated by 0.15% amid a rebound in risk sentiment. **In its effort to halt a decline in bond yields, the BoJ reduced its bond purchases for the first time in two months.** It offered to buy ¥180 bn (\$1.6 bn) of securities maturing in 10-to-25 years at today's regular operation, compared to ¥200 bn previously. JGB yields rose following the announcement, though the benchmark 10-year yield, at -0.025% (+1.3 bps) remained in the negative territory. It had fallen to -0.05% on January 4th, its lowest level since November 2016.

Emerging Markets

[back to top](#)

The main benchmarks of EM stocks and currencies declined on Monday amid continued dollar strength in February (EM FX benchmark: -0.6% against USD, MSCI EM: -0.2%). In **Latin America**, the Mexican peso was the main underperformer depreciating by 1.2% against the dollar as markets await the details of the PEMEX financial package later this week. **Asian** currencies were mixed and traded in a narrow range against the dollar. The Indian rupee outperformed, appreciating by 0.5% on the back of expected inflows from foreign investors involved in a telecom investment's venture in India. Price action elsewhere were limited. Equities were similarly mixed. Chinese and Korean bourses rose (Shanghai: +0.7%; Kospi: +0.9%) while Indonesia fell (Jakarta Composite: -0.9%). In **EMEA**, equity markets are broadly higher, led by South Africa (up 1.0%), while currencies are unchanged.

Key Emerging Market Financial Indicators

Last updated: 2/12/19 7:50 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.02	0.7	-2	3	-11	8
MSCI Frontier Equities		28.35	0.0	1	3	-15	8
EMBIG Sovereign Spread (in bps)		359	-2	9	-32	70	-55
EM FX vs. USD		63.67	0.4	-1	1	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.77	0.3	0	0	-7	2
Indonesian Rupiah		14068	-0.2	-1	0	-3	2
Indian Rupee		70.72	0.6	1	0	-9	-1
Argentine Peso		37.95	-0.3	-2	-3	-47	-1
Brazil Real		3.73	0.8	-2	-1	-11	4
Mexican Peso		19.24	0.4	-1	-1	-3	2
Russian Ruble		65.56	0.4	0	2	-12	6
South African Rand		13.78	0.2	-3	0	-13	4
Turkish Lira		5.26	0.4	-1	4	-28	1
EM FX volatility		8.98	0.0	0.2	-0.6	0.0	-0.8

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

EM Hard Currency Sovereign Issuance

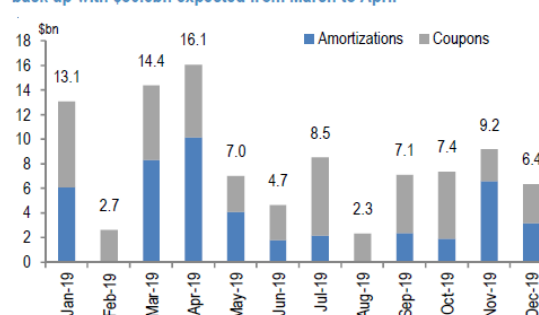
Improved EM risk sentiment along with front-loaded coupons/redemptions at the start of the year helped primary issuance of EM sovereigns with supply totaling \$22bn in January (5y January average \$21bn). The only sovereign issuer so far in February has been Paraguay (Ba1/BB/BB) that issued a \$0.5bn bond maturing in 2050 with a coupon of 5.4%. Following the strong start of the year, JP Morgan revised up their 2019 sovereign supply forecast slightly to \$122bn from \$119bn. Positive revisions include increases in Ukraine to \$1.5bn and Ghana to \$3bn due to higher fiscal demands. Political uncertainty in Sri Lanka and delayed IMF program in Pakistan led them to decrease their issuance forecast for these two countries by \$1-1.5bn

Exhibit 19: Financing needs look manageable for EM sovereigns at \$13bn for the year, down from the average of \$66bn in the last 3 years

	USD billion	2016	2017	2018	2019YTD	2019F
a	Gross issuance (b + c)	145.8	178.3	149.9	22.0	121.9
b	New issuance	130.1	156.0	140.2	21.5	121.4
c	Taps	15.6	22.4	9.7	0.5	0.5*
d	Estimated cash flows (e + f)	71.7	89.7	87.8	13.7	98.8
e	Amortizations	30.7	43.3	37.2	6.1	46.8
f	Coupons	41.0	46.5	50.6	7.6	52.0
g	Buybacks	9.8	8.1	9.6	0.4	10.0
h	Net issuance (a - e - g)	105.3	126.9	103.1	15.6	65.2
i	Net financing (h - f)	64.3	80.5	52.5	7.9	13.2

Source: J.P. Morgan, Bloomberg. * 2019 tap forecast is YTD figure and data as of COB 06-Feb-19

Exhibit 18: Sovereign cashflow in February to slow to \$2.7bn but picks back up with \$30.5bn expected from March to April



Source: J.P. Morgan







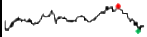
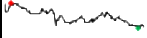



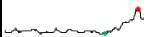









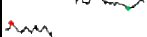
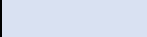



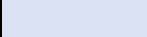


China

A Shanghai Court froze Minsheng Investment Group's stake in two property ventures, exacerbating its funding difficulties. According to Bloomberg, Shanghai's Financial Court seized Minsheng's stakes in two investments – one of which holds a prime-locale land plot in Shanghai – with a combined valuation of RMB 13.2 bn (\$1.9 bn). Debt outstanding for the conglomerate totaled about \$34 bn as of last June with most of it due this year; it had missed its payment on a RMB 3 tn bond (about \$441 bn) that matured on January 29th. Minsheng, founded in 2014 to help private enterprises expand globally, is one of the largest conglomerates in China and holds one of the most sizable debt loads for China's private companies. If it were to default, it would mark one of the highest profile bond defaults to date. The rest of China's capital market appeared undisturbed. Equities rose modestly while the RMB appreciated by about 0.2% both onshore and onshore. **Central government bond yields fell** for the actively-traded 3- and 5-year notes. Contacts noted that policy easing and upcoming inclusion of RMB-denominated central bank and policy bank bonds in the Bloomberg Barclays Global Aggregate Index have lifted demand for these bonds.

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Global Financial Indicators

Last updated: 2/12/19 7:38 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2732	0.1	2	7	2	9
Europe		3177	-1.1	1	5	-8	6
Japan		20751	-0.6	0	4	-4	4
China		2618	1.3	1	4	-24	5
Asia Ex Japan		69	-0.9	1	8	-9	9
Emerging Markets		43	0.7	0	8	-10	10
Interest Rates			basis points				
US 10y Yield		2.66	2.0	4	-3	-17	-2
Germany 10y Yield		0.12	-4.1	-3	-10	-62	-12
Japan 10y Yield		-0.01	0.5	-1	0	-8	-1
UK 10y Yield		1.18	-3.3	-4	-7	-37	-9
Credit Spreads			basis points				
US Investment Grade		119	0.0	-5	-30	37	-28
US High Yield		423	3.9	-15	-55	79	-98
Europe IG		73	2.8	2	-13	25	-15
Europe HY		316	9.0	8	-29	66	-37
EMBIG Sovereign Spread		351	24.0	-15	-52	61	-63
Exchange Rates			%				
Dollar Index (DXY)		96.51	0.1	1	1	7	0
USDEUR		1.13	-0.2	-1	-1	-8	-1
USDJPY		109.7	0.3	-1	-1	0	0
EM FX vs. USD		63.7	-0.2	-1	1	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-0.8	0	8	-5	16
Industrials Metals (index)		119	-0.2	1	7	-11	9
Agriculture (index)		43	-0.4	1	1	-11	3
Implied Volatility			%				
VIX Index (% change in pp)		16.3	0.9	-0.3	-5.1	-11.4	-9.1
10y Treasury Volatility Index		3.7	0.1	-0.1	-0.8	-1.5	-0.9
Global FX Volatility		7.8	0.0	0.0	-0.9	-0.8	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		384	10.2	12	-32	90	-32
Italy		281	10.8	37	13	160	31
Portugal		154	3.8	7	-6	27	6
Spain		112	2.4	7	-16	45	-6

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 2/12/2019 7:51 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.77	0.3	-0.4	0	-7	2		3.0	-1.3	-1	-4	-91	-15
Indonesia		14068	-0.2	-0.8	0	-3	2		8.0	4.1	5	-19	138	-14
India		71	0.6	1.2	0	-9	-1		7.5	-1.4	-12	-1	-22	5
Philippines		52	0.1	0.5	0	0	1		5.7	0.0	-5	-51	94	-63
Thailand		31	0.3	-0.2	2	1	3		2.6	-0.5	2	-6	22	-3
Malaysia		4.08	-0.1	0.4	1	-3	1		4.0	-1.0	-6	-8	-4	-13
Argentina		38	-0.3	-2.1	-3	-47	-1		20.7	21.5	-21	-145	529	-233
Brazil		3.73	0.8	-1.6	-1	-11	4		8.0	-1.3	26	-13	-90	-18
Chile		659	0.6	-1.2	2	-9	5		4.3	-2.9	-8	-16	-50	-15
Colombia		3140	-0.8	-1.7	0	-8	4		6.5	4.1	6	-4	8	-5
Mexico		19.24	0.4	-1.0	-1	-3	2		8.5	12.9	5	-18	74	-19
Peru		3.3	-0.3	-0.1	0	-2	1		5.6	1.0	0	-9	70	-13
Uruguay		33	0.0	-0.4	1	-12	-1		10.2	0.0	-1	-37		-49
Hungary		281	0.9	-1.0	0	-10	0		2.0	4.6	0	-8	41	-19
Poland		3.83	0.1	-1.9	-2	-11	-2		2.2	1.4	-3	-1	-55	-5
Romania		4.2	0.2	-1.0	-3	-10	-3		4.1	2.0	-17	-3	13	-10
Russia		65.6	0.4	0.1	2	-12	6		8.0	2.9	4	-14	105	-41
South Africa		13.8	0.2	-2.9	0	-13	4		9.5	17.2	17	6	41	-6
Turkey		5.26	0.4	-1.1	4	-28	1		15.2	5.8	21	-185	315	-165
US (DXY; 5y UST)		97	-0.1	0.9	1	7	1		2.50	3.2	-1	-3	-6	-1

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
									basis points						
China		2672	0.7	3	5	-15	7		181	-2	-3	-7	22	-13	
Indonesia		6426	-1.1	-1	1	-1	4		197	-1	9	-17	25	-39	
India		36154	-0.7	-1	0	5	0		176	0	2	-16	57	-20	
Philippines		8010	-0.6	-1	1	-6	7		89	-3	2	-15	-14	-32	
Malaysia		1687	0	0	0	-8	0		127	-2	-6	-29	18	-35	
Argentina		37024	1.0	0	9	23	22		673	-7	37	-31	258	-142	
Brazil		95607	-1.0	-3	2	18	9		242	-3	11	-14	6	-31	
Chile		5375	-0.1	-2	0	-3	5		136	-1	-3	-15	16	-30	
Colombia		1468	0.0	-2	6	-3	11		196	-3	11	-3	15	-32	
Mexico		43285	0.2	-1	-1	-10	4		319	-4	10	-22	79	-35	
Peru		20138	-1	-2	3	-1	4		142	-3	6	-13	5	-26	
Hungary		40109	0.8	-1	-2	5	2		110	-1	-8	-28	11	-38	
Poland		60324	0.1	-1	2	-4	5		49	-2	-3	-15	-13	-36	
Romania		7467	1.3	1	3	-8	1		198	-1	-2	-12	69	-23	
Russia		2531	0.9	-1	4	14	7		219	-3	-3	-11	61	-33	
South Africa		53944	1.1	0	1	-4	2		310	-3	23	-22	71	-55	
Turkey		104000	-0.3	2	13	-9	14		416	-2	19	-32	119	-13	
Ukraine		554	-0.2	-1	-1	65	-1		741	6	61	-11	328	-46	
EM total		42	0.7	-2	3	-11	8		359	-2	9	-32	70	-55	

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