



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, February 13, 2019

- **S&P 500 makes best start since 1991** ([link](#))
- **Global fund managers are defensive despite strong start to the year** ([link](#))
- **REIT stocks hit record high in US** ([link](#))
- **Riksbank leaves main policy rate unchanged at -0.25% as expected** ([link](#))
- **Santander opts to not call its CoCo (AT1) bond in test for growing market** ([link](#))
- **Ecuador hard currency bond yields fall after IMF announces talks underway** ([link](#))





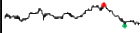



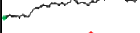

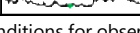
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## Increasing trade optimism spurs risk appetite

**Markets are continuing their advance today as optimism around upcoming trade talks grows.**

Yesterday, President Trump said he is open to letting the current March 1 deadline to raise tariffs "slide a little" as long as the countries are near to an agreement. Talks between senior officials from both countries kick off tomorrow in Beijing. Thanks to the trade optimism, markets are willing to shrug off further negative economic news, as European data showed industrial production falling at a faster than expected pace. Emerging market assets are mostly performing well in line with the broader improvement in risk sentiment. South Africa is the main underperformer on reports that its state-owned electric company needs near term financial support. Ecuador sovereign bond yields fell sharply yesterday after the IMF announced that it is in talks about a financial arrangement.

### Key Global Financial Indicators

Last updated: 2/13/19 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			<b>%</b>				<b>%</b>
S&P 500		2745	1.3	0	6	3	9
Eurostoxx 50		3199	0.3	0	4	-4	7
Nikkei 225		21144	1.3	1	4	0	6
MSCI EM		42	-0.2	-2	4	-11	8
<b>Yields and Spreads</b>			<b>bps</b>				
US 10y Yield		2.69	3.4	-1	-1	-14	0
Germany 10y Yield		0.13	-0.5	-4	-11	-62	-12
EMBIG Sovereign Spread		356	-1	29	-35	64	-58
<b>FX / Commodities / Volatility</b>			<b>%</b>				
EM FX vs. USD, (+) = appreciation		63.5	-0.4	0	0	-10	2
Dollar index, (+) = \$ appreciation		96.8	0.1	0	1	8	1
Brent Crude Oil (\$/barrel)		63.1	1.0	1	4	1	17
VIX Index (% change in pp)		15.3	-0.1	0	-3	-10	-10

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

## United States

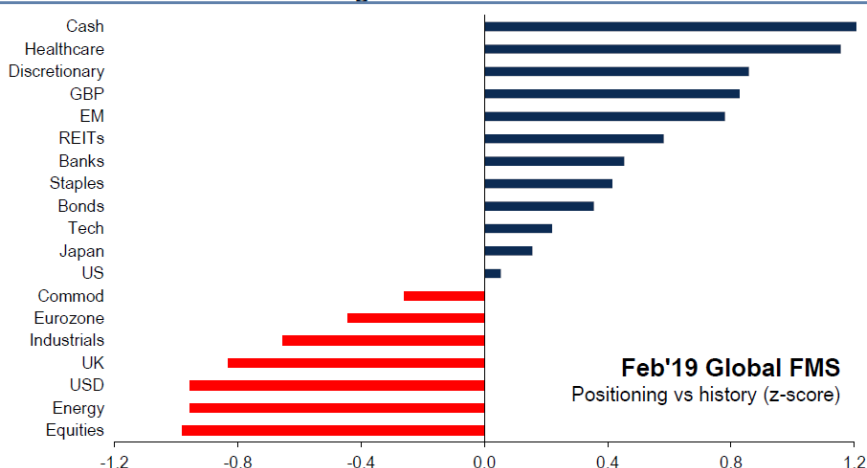
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**This morning, CPI for January came in somewhat stronger than expected.** The headline number was reported at 1.6% y-o-y (consensus 1.5%) thanks in part to an upward revision for December's report. Core CPI also was reported somewhat higher than expected at 2.2% y-o-y (consensus 2.1%). Treasury yields moved higher on the report, with the 2-year rising 3 bps, from 2.51% to 2.54%.

**The S&P 500 has made its best start since 1991 and is already up 9.5% this year.** Tuesday was another good day as markets took their cue from the latest trade headlines, rallying on comments from President Trump that he might be flexible on the March 1 tariff deadline if the US and China were close to a deal. The President also mentioned that he did not expect another government shutdown despite his misgivings about the budget deal between Democratic and Republican negotiators, further encouraging investors. Treasury yields were higher, but the 10-year yield remains stuck below the 2.70% ceiling that has prevailed for most of February. Hopes for continued strength in the US economy following the strong jobs report, better than expected Q4 corporate earnings, dovish Fed rhetoric and expectations of a de-escalation of trade tensions have all been cited as reasons for the 2019 US equity rally.

**Global fund managers are intent on playing defense despite the strong rally that has begun the year, according to the latest Fund Manager Survey from Bank of America.** The MSCI World equity index is up nearly 8% year-to-date but fund managers have moved much of their money into cash and shifted their asset allocations to defensive sectors. Allocations to equities are at their lowest since July 2016. Sentiment is quite negative and 34% of investors now believe the S&P 500 reached its current cyclical peak of 2931 back on September 20, up from just 11% of investors in the September 2018 survey. 55% of investors were bearish on global growth and inflation over the coming year, reviving the secular stagnation narrative, which was reinforced by their overweighting of cash as well as healthcare and consumer discretionary stocks. On the brighter side, fund managers have a positive view of emerging markets and think that overall market liquidity is much better than in previous months.

**Exhibit 1: Rotation into "secular stagnation" theme hardens**

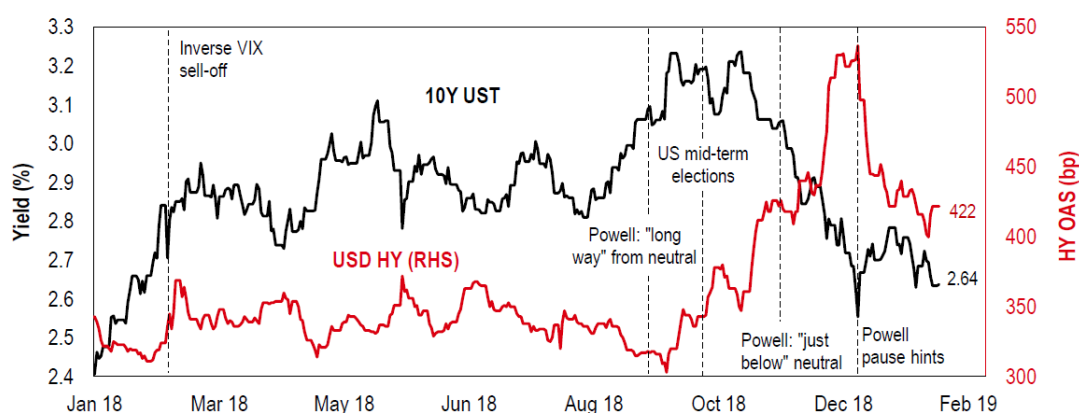


Source: BofA Merrill Lynch Global Fund Manager Survey. \*data since 2006 for commodities & real estate; since 2001 for all others

**US credit markets have also rallied strongly in the new year, largely reversing the sharp selloff of Q4 2018.** High yield spreads went as high as 530 bps during the worst of the selloff but strong buying in the new year has sent spreads back down to 425 bps. However, unlike most risk-on rallies, Treasury yields remain stuck at relatively low levels. Some analysts think credit markets have over-reacted to the Fed's

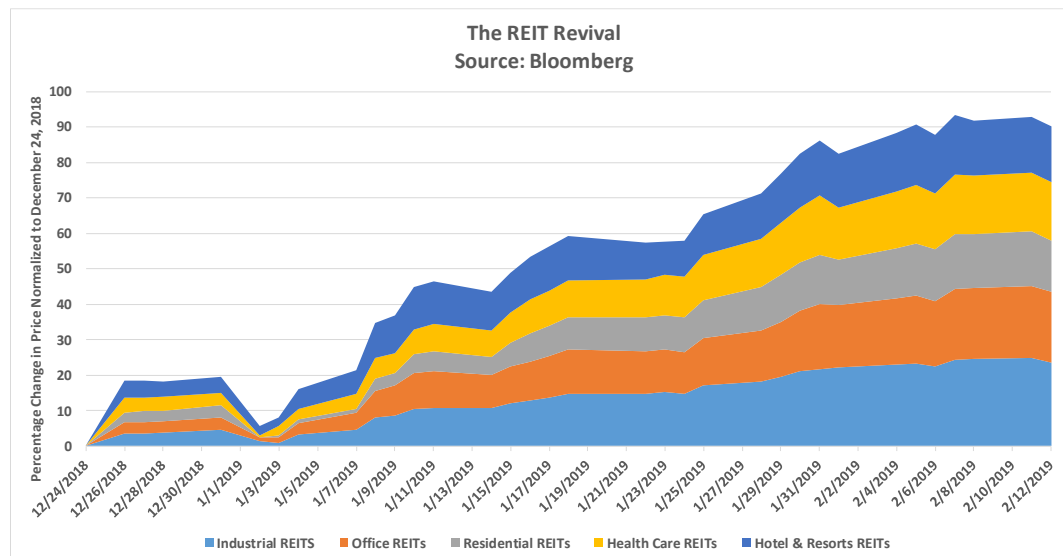
dovish rhetoric on January 30 and are underestimating the impact of the FOMC's balance sheet reduction. According to this view, the Fed's balance sheet drawdown still has some way to go and the Fed's rhetoric was not as dovish as it appeared to be. They worry that credit markets could experience another bout of severe volatility as investors realize their error and start to pull back again. Other analysts take a different view, pointing out that Treasury rates may have been dragged lower by falling bund and gilt yields and that it is the slowdown in Europe which is suppressing G-3 yields.

**Figure 1. Disconnect between Treasuries and High Yield credit**



Source: HSBC, Bloomberg

**A major rally in US real estate investment trust (REIT) stocks has led some analysts to highlight the strength of this sector as a positive sign for the US economy.** These stocks have done significantly better than the overall equity market since the Q4 2018 S&P 500 selloff bottomed out on December 24<sup>th</sup>, and the REIT sector hit a record high on Monday. The analysts lay special emphasis on industrial and office REITs, which have enjoyed the strongest performance, suggesting that this is indicative of strength in the industrial sector. For example, warehouse operating companies have announced robust earnings amid high customer utilization and shortage of warehouse space as the industrial supply chain operates close to full capacity and companies expand and improve their logistical networks.

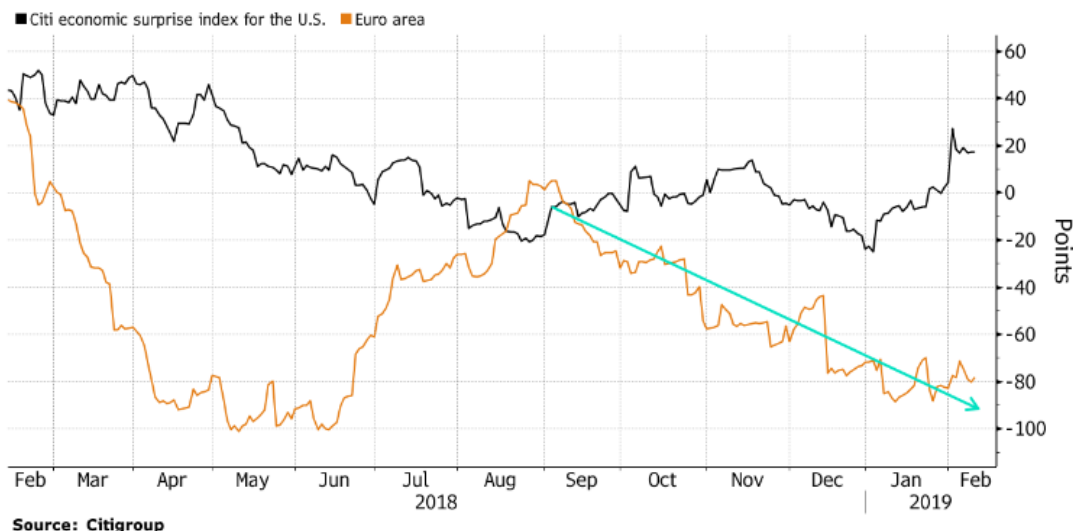


## Europe

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**European bourses are delivering another day of gains**, with the EuroStoxx 600, DAX, and CAC 40 all advancing by about 0.3%. Italian equities are outperforming with advances of almost 1%, while European bank stocks are flat on the day. Despite the equity rally year-to-date, European stocks have lost about 5.5% in value over the last six months on the back of faltering economic data.

### Euro-area economic numbers have consistently missed forecasts

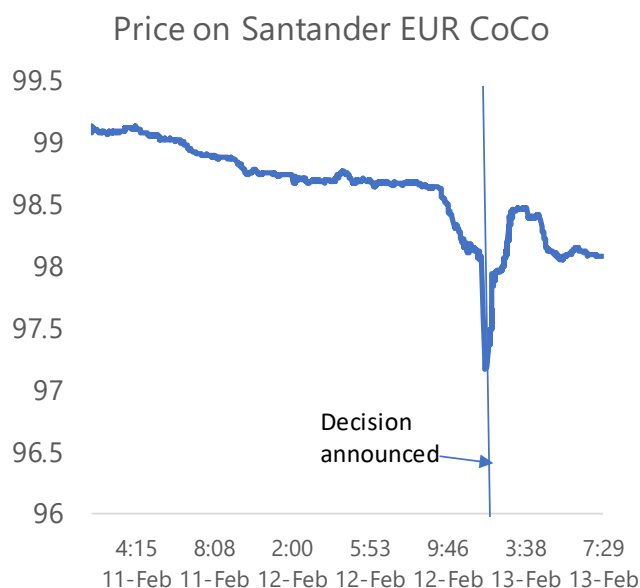


**Euro area sovereign bond markets:** German 10-year yields at 0.12% (-1 bp); France at 0.55% (-1 bp); Italy at 2.81% (-3 bps); Spain at 1.24% (flat).

**The Swedish Riksbank left the repo rate unchanged at -0.25% while signaling a rate hike in 2019H2.** The Swedish krona appreciated about 0.5% to the euro after the announcement.

**Santander decided not to call its perpetual contingent convertible notes yesterday**, with a notional outstanding of €1.5bn. This marked the first real test of the call options that are standard on these so-called CoCo bonds. The market for these "bail-in-able" bonds has flourished since the financial crisis, with about \$340 bn outstanding. The market is expected to grow as regulators phase in MREL/TLAC regimes. The decision to not call the bond caught investors off-guard, especially considering it was not announced until the end of the day on the deadline to make a decision whether to call. The bank's management cited "economic reasons and the need to balance the interests of all investors" for not recalling the bond at the first possible date. Not exercising the option is in the immediate interests of the bank, insofar as the cost to issue a new bond would be greater than the cost of the one outstanding. This is especially true since the bond's coupon will switch next month from a fixed 6.25% to a floating rate, which initially will be below 6%. However, the bank risks longer term costs if it investors shy away from further issuance from the bank. The bank will have another opportunity to call the bond in June (with a decision needed to be made in May). On the announcement, the bond's price dropped from 98.5 cents on the dollar to about 97.3. The price has since recovered most of that decline, but is still below its recent highs, which reflected a high

probability of a call. Similarly, the price of its USD CoCo bond that was issued just last week fell half a point on the news, from 98.5 to 98, increasing the yield by 10 bps.



## Other Mature Markets

### Japan

**Equities extended recent gains while the yen weakened as trade optimism boosted risk sentiment.** The Topix advanced 1.1% while the Nikkei gained 1.3%, with exporter stocks providing the biggest boost. With recent gains, both the Topix and the Nikkei have reached their highest levels since mid-December. Meanwhile, the yen depreciated (-0.13%) to 110.75/dollar, its weakest level for the year.

## Emerging Markets

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**EM assets rallied in sympathy with the positive risk sentiment in US markets following President Trump's trade comments** (EM FX benchmark: 0.5% against USD, MSCI EM: 0.8%). In **Latin America**, Brazil's real led currency gains (+1.2% against USD) as President Bolsonaro is expected to leave the hospital as soon as today, spurring hopes that a pension reform bill will go to Congress. Ecuador's bond yields declined by 50-70bps across the curve as the IMF announced that it is in dialogue with the authorities for a financial arrangement. **Asian currencies gained slightly while equities posted broad-based increases** amid optimism regarding progress in U.S.-China trade talks. President Donald Trump indicated a possible delay in raising tariffs on Chinese imports beyond the March 1<sup>st</sup> deadline if the two sides are near an agreement. The Shanghai Composite outperformed, gaining 1.8% on the day. The RMB appreciated 0.2%. In **EMEA**, bourses were mostly lower bucking the global trend, with Russia (-1.3%) underperforming. Currencies are unchanged, with the most notable move seen in the South African rand, depreciating 0.5% against the dollar.

## Key Emerging Market Financial Indicators

Last updated: 2/13/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.37	-0.2	-2	4	-11	8
MSCI Frontier Equities		28.80	1.6	1	4	-14	10
EMBIG Sovereign Spread (in bps)		355	-2	28	-36	63	-59
EM FX vs. USD		63.54	-0.4	0	0	-10	2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.76	0.1	0	0	-6	2
Indonesian Rupiah		14059	0.1	-1	0	-3	2
Indian Rupee		70.81	-0.1	1	0	-9	-1
Argentine Peso		38.03	-0.1	-1	-3	-47	-1
Brazil Real		3.73	-0.3	-1	-1	-11	4
Mexican Peso		19.34	-0.4	-1	-2	-4	2
Russian Ruble		65.76	0.2	0	2	-12	5
South African Rand		13.88	-0.8	-2	-1	-14	3
Turkish Lira		5.25	0.0	-1	4	-27	1
EM FX volatility		8.80	0.0	-0.1	-0.8	0.1	-1.0

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

## China

**The RMB strengthened for a second day following conciliatory signals from President Trump on the US-China trade negotiation.** The onshore CNY gained 0.14% to 6.76/dollar while the offshore CNH held steady at 6.77/dollar. The RMB has seesawed in a tight range recently amid trade uncertainty. The CNY gained 2.6% in January to 6.7/dollar amid a softening dollar only to pare that gain by half in the first two trading days in February. Analysts noted that a prolonged trade truce without meaningful resolution to the underlying issues could weigh on the RMB and force it to weaken in the weeks ahead. Amid such uncertainty, contacts noted that positions in the currency have been relatively light recently.

## What's Next?

China's yuan nears critical juncture as trade talks get underway



Source: Bloomberg, CFETS

CNY Curncy (China Renminbi Spot) cny Daily 01JUN2018-13FEB2019

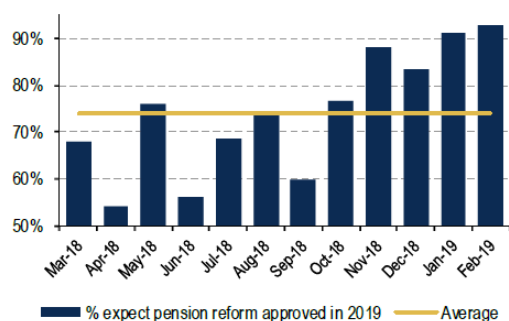
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## Brazil

**Optimism on Brazil's reform agenda continues to increase.** 93% of the Fund Managers surveyed by BofAML see the pension reform being approved in 2019 compared to a low of 53% in mid-2018. One third of the investors see the approval in H1 2019 compared to 22% in December. 82% of them think Brazil will regain its investment grade during President Bolsonaro's government, compared to 67% in the prior survey. About 90% of investors see equity benchmark Ibovespa index ending the year above current levels (~96k), and 29% of investors see it above 120k, vs. only 9% last month

Chart 10: % of participants that see the social security reform approved by 2019

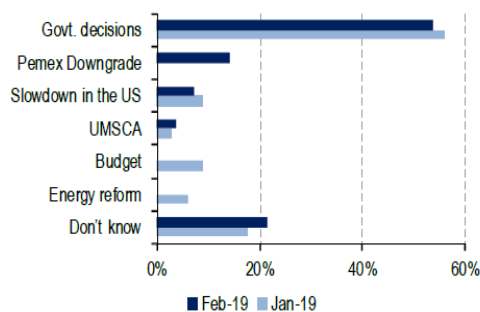


Source: BofA Merrill Lynch LatAm Fund Manager Survey

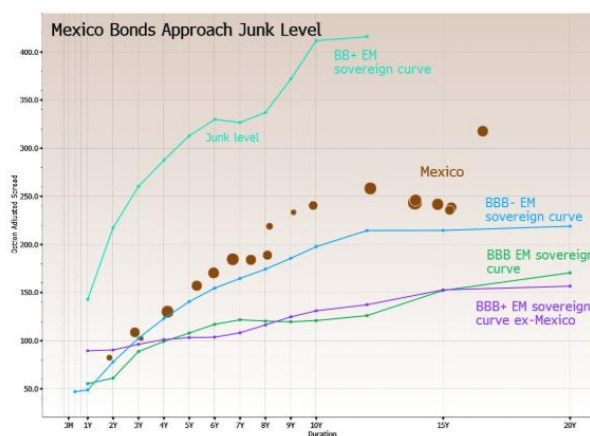
## Mexico

**Investors are notably more pessimistic on Mexico at the BofAML survey as PEMEX bonds continue to price a significant risk of a rating downgrade.** Over two-thirds of participants believe Mexico will lose its investment grade, up from 41% last month. The biggest tail risks are still government decisions, unchanged from the last survey. Investors remain cautious on Mexican equities (only 11% believe they will outperform, down from 18% last month) and uncertainty is at highest level since the start of the survey.

Chart 15: What is the biggest tail risk in Mexico?



Source: BofA Merrill Lynch LatAm Fund Manager Survey



Source: Bloomberg

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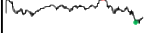

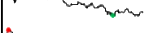






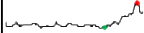











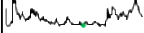





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## Global Financial Indicators

Last updated: 2/13/19 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2745	1.3	0	6	3	9
Europe		3199	0.3	0	4	-4	7
Japan		21144	1.3	1	4	0	6
China		2721	1.8	6	7	-15	9
Asia Ex Japan		69	0.7	-2	5	-10	8
Emerging Markets		42	-0.2	-2	4	-11	8
<b>Interest Rates</b>			basis points				
US 10y Yield		2.69	3.4	-1	-1	-14	0
Germany 10y Yield		0.13	-0.5	-4	-11	-62	-12
Japan 10y Yield		-0.01	0.7	1	-2	-8	-1
UK 10y Yield		1.19	0.2	-3	-10	-43	-9
<b>Credit Spreads</b>			basis points				
US Investment Grade		121	-1.3	2	-22	33	-26
US High Yield		423	-1.1	4	-29	51	-98
Europe IG		70	-1.0	1	-12	14	-17
Europe HY		306	-2.4	-1	-37	26	-47
EMBIG Sovereign Spread		356	-1.0	29	-35	64	-58
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.83	0.1	0	1	8	1
USDEUR		1.13	-0.2	-1	-1	-8	-1
USDJPY		110.7	-0.2	-1	-2	-3	-1
EM FX vs. USD		63.5	-0.4	0	0	-10	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		63	1.0	1	4	1	17
Industrials Metals (index)		116	0.0	-3	4	-15	6
Agriculture (index)		42	-0.2	-2	0	-13	2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.3	-0.1	0.0	-2.9	-9.6	-10.1
10y Treasury Volatility Index		3.7	0.0	0.1	-0.3	-1.7	-0.9
Global FX Volatility		7.8	0.0	0.0	-0.7	-0.7	-1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		378	-2.2	5	-28	15	-37
Italy		267	-4.3	-3	5	133	17
Portugal		146	-4.2	-4	0	8	-2
Spain		110	-0.4	1	-10	33	-7

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

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## Emerging Market Financial Indicators

Last updated: 2/13/2019 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.76	0.1	-0.3	0	-6	2		3.0	-0.7	-2	-4	-92	-15	
Indonesia		14059	0.1	-1.0	0	-3	2		8.0	-0.3	5	-19	135	-14	
India		71	-0.1	1.1	0	-9	-1		7.5	1.4	-10	0	-20	7	
Philippines		52	0.0	0.5	0	0	1		5.7	0.5	-4	-50	92	-62	
Thailand		31	-0.1	-0.2	2	0	3		2.6	0.0	2	-6	22	-3	
Malaysia		4.07	0.2	0.6	1	-3	2		4.0	-0.8	-7	-9	-6	-14	
Argentina		38	-0.1	-1.3	-3	-47	-1		20.4	-29.5	-10	-175	499	-263	
Brazil		3.73	-0.3	-0.7	-1	-11	4		7.9	-8.3	14	-21	-98	-27	
Chile		661	-0.1	-1.0	2	-10	5		4.4	2.6	-4	-13	-47	-12	
Colombia		3133	-0.2	-0.9	0	-7	4		6.4	-2.9	3	-6	7	-8	
Mexico		19.34	-0.4	-1.2	-2	-4	2		8.5	-1.8	8	-20	75	-21	
Peru		3.3	0.1	-0.2	0	-2	1		5.6	2.0	4	-7	76	-11	
Uruguay		33	0.0	-0.3	0	-12	0		10.2	-0.5	-2	-37		-49	
Hungary		282	-0.2	-0.4	0	-10	-1		2.0	1.8	3	-6	41	-17	
Poland		3.83	-0.2	-1.2	-2	-12	-2		2.2	0.2	-1	-1	-53	-4	
Romania		4.2	-0.1	-0.6	-3	-10	-3		4.1	0.0	-19	-3	13	-10	
Russia		65.8	0.2	0.2	2	-12	5		8.0	-0.4	7	-15	106	-42	
South Africa		13.9	-0.8	-2.4	-1	-14	3		9.5	0.6	21	6	47	-6	
Turkey		5.25	0.0	-0.7	4	-27	1		15.2	0.5	14	-185	319	-164	
US (DXY; 5y UST)		97	0.1	0.5	1	8	1		2.50	0.5	0	-3	-4	-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		2721	1.8	6	7	-15	9		183	1	10	-5	23	-11
Indonesia		6419	-0.1	-2	1	-2	4		199	1	29	-15	30	-37
India		36034	-0.3	-3	0	5	0		174	-2	0	-18	57	-22
Philippines		7920	-1.1	-2	0	-8	6		89	0	39	-15	-12	-32
Malaysia		1685	0	0	0	-8	0		129	1	4	-27	20	-33
Argentina		37686	1.8	1	11	25	24		666	-2	33	-38	243	-149
Brazil		96338	1.9	2	3	19	10		236	-3	21	-20	-2	-37
Chile		5388	0.2	-1	1	-2	6		136	1	16	-15	15	-30
Colombia		1474	0.4	-1	6	-2	11		195	1	31	-4	15	-33
Mexico		43114	-0.4	-3	-1	-10	4		318	1	28	-23	74	-36
Peru		20125	0	-2	3	-2	4		142	0	29	-13	5	-26
Hungary		40034	-1.0	-1	-2	4	2		112	2	16	-26	11	-36
Poland		59842	-1.2	-2	1	-5	4		55	6	3	-9	-10	-30
Romania		7618	1.2	2	5	-6	3		195	-3	2	-14	69	-26
Russia		2492	-1.6	-2	2	11	5		220	1	20	-10	55	-32
South Africa		54075	0.2	-1	1	-5	3		310	1	48	-22	65	-55
Turkey		102285	-1.4	0	12	-11	12		406	-9	47	-42	106	-23
Ukraine		566	0.0	2	1	68	1		745	5	98	-7	332	-42
EM total		42	-0.2	-2	4	-11	8		355	-2	28	-36	63	-59

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