



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, February 14, 2019



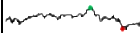
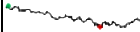


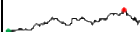

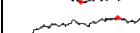


- Global investors flag China trade tensions as biggest tail risk ([link](#))
- Deutsche Bank shares fall on reports of more cuts to US investment banking unit ([link](#))
- UK Parliament expected to vote on giving PM May more time to negotiate with EU ([link](#))
- Asian markets muted despite possible extension of US-China trade deadline ([link](#))
- Russian assets under pressure due to increasing risk of new US sanctions ([link](#))
- South African rand weakens as worries over Eskom mount ([link](#))

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

Markets relatively calm as investors await news from upcoming policy catalysts

Most risk assets are gaining as familiar fundamental forces continue to underpin risk appetite, including the Fed pivot, anticipation of a US-China trade settlement, and averting another US government shutdown. European equities are slightly higher and core yields are moderately lower, while stocks in Asia saw mixed action despite news overnight the US-China trade deadline could be delayed 60 days. US equities advanced modestly amid optimism around a US budget compromise, while Treasury yields moved higher and the US dollar continued to strengthen following some solid inflation prints. US dollar appreciation impacted EMs, though the worst performing markets have also been explained by brewing local political risks. In South Africa, the rand weekend 2% in response to reports that the state-owned electricity company, Eskom, could run out of money in two months in the absence of government help. In Russia, equities are down over 2% on headlines signaling the US is considering further sanctions on the Russian banking and energy sectors, as well as foreign debt.

Key Global Financial Indicators

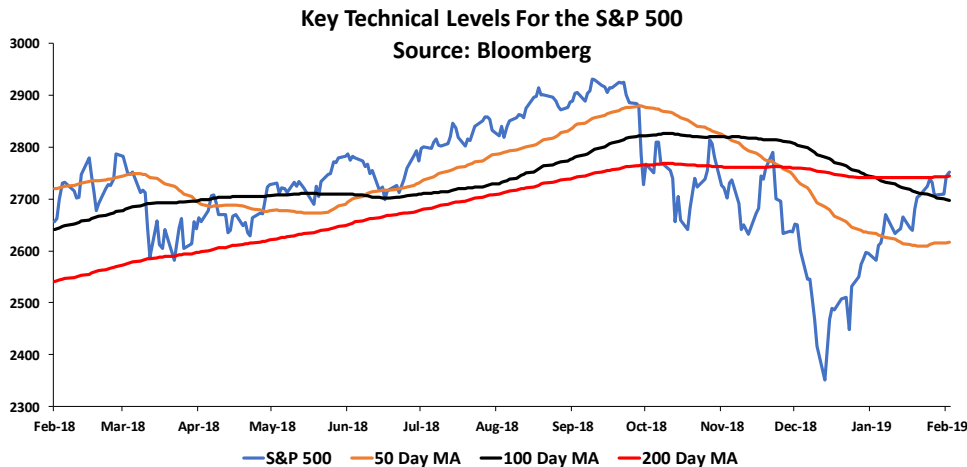
Last updated: 2/14/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2753	0.3	1	7	2	10
Eurostoxx 50		3213	0.3	2	5	-5	7
Nikkei 225		21140	0.0	1	4	0	6
MSCI EM		42	0.0	-2	4	-14	8
Yields and Spreads			bps				
US 10y Yield		2.69	1.4	3	-2	-22	0
Germany 10y Yield		0.11	-1.3	-1	-12	-65	-13
EMBIG Sovereign Spread		352	1	11	-36	61	-62
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	-0.4	-1	-1	-12	1
Dollar index, (+) = \$ appreciation		97.2	0.1	1	2	9	1
Brent Crude Oil (\$/barrel)		64.5	1.3	5	9	0	20
VIX Index (% change in pp)		15.5	-0.1	-1	-4	-4	-10

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

United States

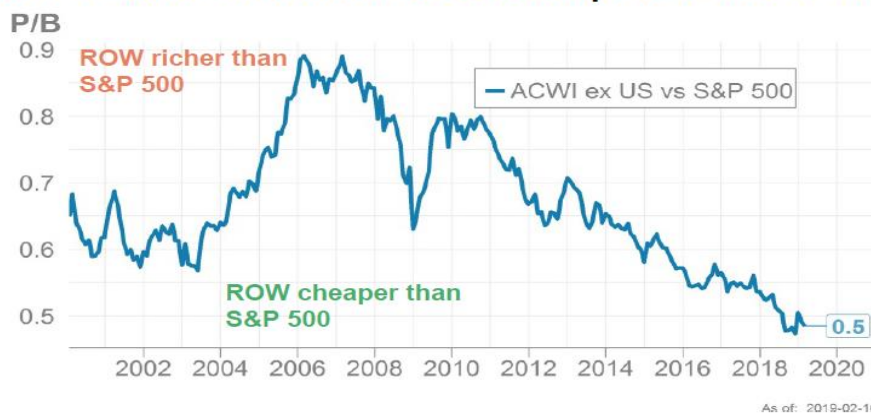
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US equities posted a fourth consecutive day of gains on continued hopes of lower trade tensions and the avoidance of a government shutdown. Stocks gave back some of their intra-day gains on news that Senator Rubio planned to introduce legislation to tax equity buybacks on the same basis as dividends. Nevertheless, the S&P 500 has now broken through its 200-day moving average, an important technical indicator monitored by many investors. After suffering a drawdown of more than 19% over the September-December period last year, the index has staged a rally of over 14% and is now trading roughly 6% below the record close of 2941 on set on September 20th. A dovish Fed, better than expected Q4 US corporate earnings, and ongoing strength in US data are all being cited as potential explanations for the rally,



According to data from the last four years, the index usually suffers a decline after hitting its 200-day moving average. **Analysts point out that US stocks are expensive relative to global peers** on an earnings-per-share basis, and several banks are predicting that the US market could pull back from this level. By some measures, US stocks are at their most expensive in two decades compared to stocks in the rest of the world. Meanwhile, Treasury yields were slightly higher on the day, while the yield curve flattened. **This morning, retail sales ex-autos came in much weaker than expected** at -1.8% mom versus the forecast of a flat report. The overall number was also much weaker at -1.2% mom (vs. the +0.1% mom forecast). Core PPI was 0.3% mom (vs. the 0.2% mom forecast). **Treasury yields fell in response to the weaker retail sales data, with the benchmark 10-year yield down 4 bps to 2.65%.**

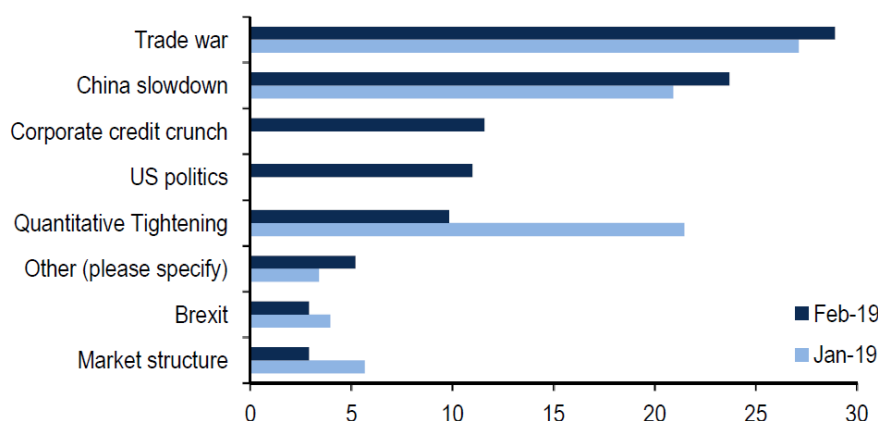
RoW Relative Valuations to US Cheapest in Two Decades



Source: Morgan Stanley Research, Bloomberg

Global investors think a potential trade war with China is the greatest tail risk for financial markets, according to Bank of America's fund manager survey. An economic slowdown in China and a corporate credit crunch in the US were identified as other prominent tail risks. The China trade issue has been consistently flagged as the biggest risk since the middle of 2018 when trade rhetoric was at its height, but the overall level of concern is lower now than in the summer when as many as 60% identified the trade war as the biggest risk. Quantitative tightening has dropped down the list following Fed Chair Powell's American Economic Association speech in early January and the subsequent dovish FOMC statement at the January 30 meeting.

Exhibit 24: What do you consider the biggest "tail risk"?



Source: BofA Merrill Lynch Global Fund Manager Survey

Europe

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Euro area sovereign bond markets are unchanged. Equities are posting another day of small gains while hitting a 3-month high: EuroStoxx 600 (+0.4%), DAX (+0.3%), and CAC 40 (+0.3%). Bank stocks (-0.6%) are underperforming.

Deutsche Bank (-2.1%) shares plummeted on alleged disagreements between its management and main owners regarding the future of DB's US investment banking unit. The [FT](#) reported that at least four of DB's top 10 stakeholders have called on the bank's CEO to further shrink the bank's loss-making operations in the US. Some third-party analysts have estimated that DB loses about 25 cents for every dollar of investment banking business it conducts in the US. In 2018Q4, DB's RoE was -2.2%. Separately,

Commerzbank (+1.8%) strongly outperformed peers after reporting better-than-expected earnings in Q4. Profits were €113 mn, compared to €75 mn a year ago. Reported CET1 ratio stood at 12.9%.

Deutsche Bank: key moments

Share price (€)

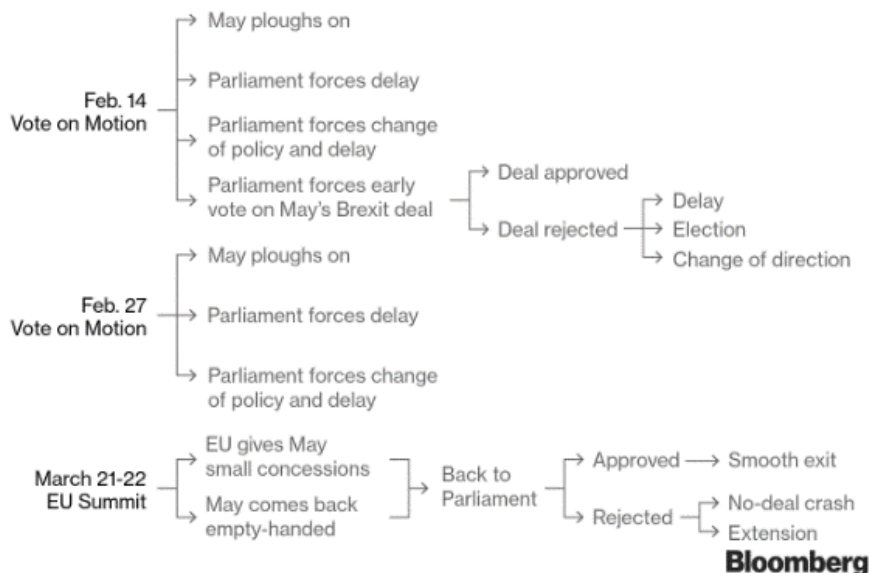


Source: Refinitiv (formerly Thomson Reuters)
© FT

The UK Parliament is scheduled to vote today on a non-binding motion to give PM May more time to renegotiate a Brexit deal with the EU. Commentators believe the vote may come out unfavorably for May as some pro-Brexit Tories want to maintain a “no-deal outcome” as a negotiation card with the EU. Possible amendments to the Withdrawal Agreement are expected to be very limited as Parliament is scheduled to vote on these on Feb. 27th (see chart). Concurrently, there is a growing number of voices from UK-based industries admonishing against the impact of a hard-Brexit, including top representatives from car-maker Ford and the Confederacy of British Industry. **UK financial assets are in line with peers today:** FTSE 100 (+0.3%), FTSE 250 (flat), 10-year gilts at 1.16% (-2 bps), and sterling at \$1.28 (-0.1%).

What Next for Brexit?

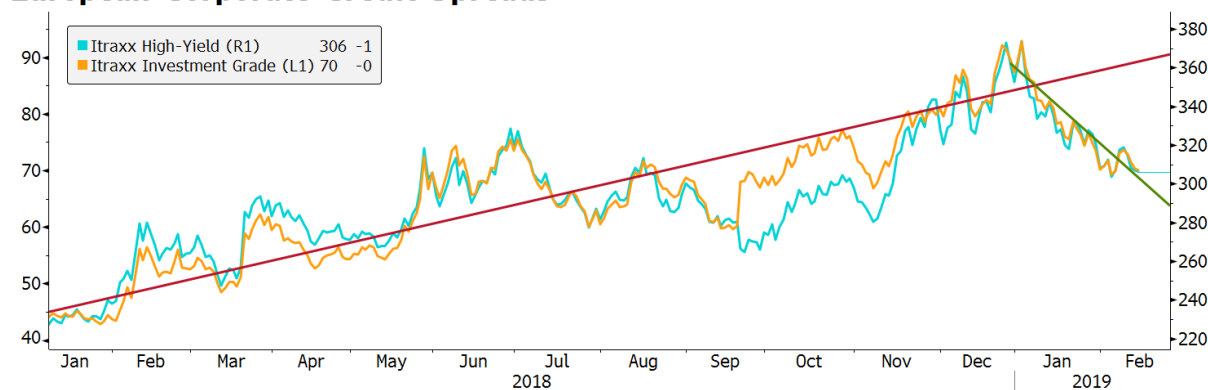
May hasn't set a date to put the deal itself to another vote in Parliament. But lawmakers still have a few opportunities to change the course of the divorce.



German 2018Q4 GDP came in weaker than anticipated at 0.0% on a quarterly basis (vs. 0.1% expected) and at 0.6% year-on-year (vs. 0.7% expected).

In European credit markets, corporate spreads have continued to trend lower year-to-date, taking the HY spread to 306 bps and the IG to 70 bps.

European Corporate Credit Spreads



Other Mature Markets [back to top](#)

Japan

The yen was unchanged while equities were similarly steady. At 111.08/dollar, the yen has depreciated by more than 3.0% since early January, reaching its weakest level for the year. Meanwhile, equities were little changed following sizable gains totaling about 3% over the previous two sessions. Although risk sentiment continues to improve amid optimism regarding the US-China trade negotiation, the impetus to stake out large bets has weakened given the still-uncertain outcome. **The Japanese economy expanded by an annualized rate of 1.4% last quarter**, rebounding from the sharp 2.6% contraction in Q3 when several natural disasters, including large floods, an earthquake and a typhoon, weighed on activities. Market reaction was limited.

Emerging Markets [back to top](#)

Main EM benchmarks declined on Wednesday (EM FX benchmark: -0.9% against USD, MSCI EM: -0.7%) **as the dollar strengthened.** In **Latin America**, Brazil's real was the main underperformer (-1.3% against USD) reversing Tuesday's gain. **Asian currencies mostly weakened amid renewed strength in the US dollar, while the latest headlines regarding trade extension garnered limited reaction.** The Singapore dollar (+0.1%) outperformed while the RMB held steady. Other Asian currencies mostly depreciated with the Philippine peso (-0.5%) and the Indian rupee (-0.3%) pacing losses. **Equity trading was muted with most bourses little changed.** The US administration is weighing the possibility of postponing the March 1st deadline for tariff increases for 60 days to allow the US-China trade negotiation more time. Optimism regarding a possible trade deal had lifted regional equities in recent days; this latest news offered little new impetus to push bourses higher. **EMEA** equities are mostly lower, falling 2.3% in Russia on news of sanctions, but rising 0.3% in South Africa despite negative news relating to the national energy company Eskom financing. Currencies are mostly lower, with the Russian ruble and the South African rand falling around 0.5%.

Key Emerging Market Financial Indicators

Last updated: 2/14/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.07	0.0	-2	4	-14	8
MSCI Frontier Equities		28.72	-0.3	1	5	-16	10
EMBIG Sovereign Spread (in bps)		352	1	11	-36	61	-62
EM FX vs. USD		62.96	-0.5	-1	-1	-12	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.78	-0.2	0	0	-6	2
Indonesian Rupiah		14090	-0.2	-1	0	-3	2
Indian Rupee		71.17	-0.5	0	0	-10	-2
Argentine Peso		38.18	0.0	-1	-3	-48	-1
Brazil Real		3.79	-0.9	-2	-3	-15	2
Mexican Peso		19.47	-0.2	-2	-2	-5	1
Russian Ruble		67.06	-0.8	-2	0	-15	4
South African Rand		14.18	-0.8	-4	-3	-17	1
Turkish Lira		5.32	-0.7	-1	2	-29	-1
EM FX volatility		8.91	0.0	0.0	-0.5	0.1	-0.9

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

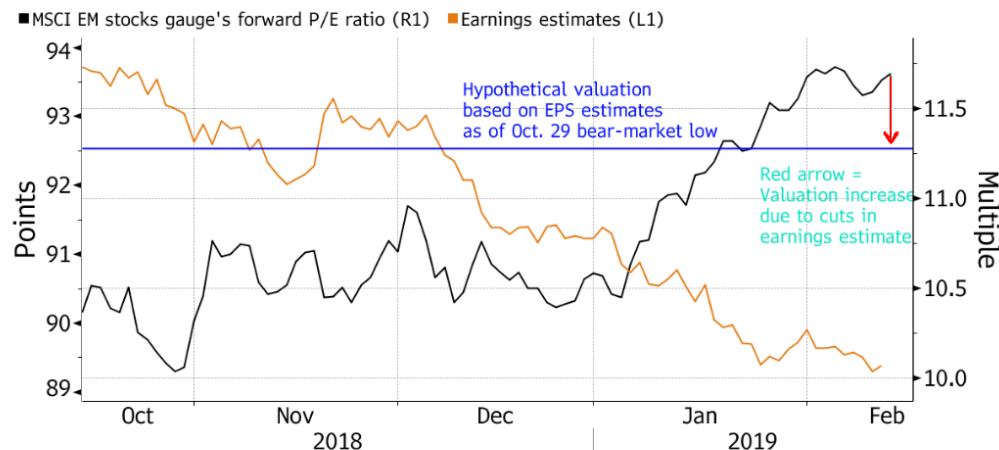
Emerging Markets Equities

EM equities have advanced 12% from their low in October 2018 and have continued to see strong inflows, especially from ETFs, while analysts are reducing profit projections toward a 15-month low.

Analysts have been cutting their MSCI EM earnings estimates since April 2018 as currency losses eroded investors dollar returns and companies began reporting financial results below forecasts. The MSCI EM index now trades at 11.7 times projected 12-month earnings, compared to 10 times in October. Of that change, according to Bloomberg, a multiple of 1.2 came from price moves and 0.5 from depressed earnings estimates.

Value in Valuation

A small part of valuation surge came from cuts to profit outlook



Source: Bloomberg

China

The RMB is little changed as the US considers the possibility of a 60-day extension to the March 1st trade negotiation deadline. The onshore CNY weakened a touch (-0.15%) while the offshore CNH held steady, with both trading around the 6.78/dollar level. Meanwhile, January exports rebounded unexpectedly (+9.1% yoy), compared to a contraction of 4.4% yoy in December. Shipments ahead of the Lunar New Year holiday likely boosted activities; contacts noted that lackluster January manufacturing PMIs in many of China's major trading partners suggest that the outlook for global demand remains soft.

The yield spread between AAA and junk bonds reached its widest level in nearly 7 years, underscoring growing investor risk aversion. A rising number of bond defaults and credit events - including recent financial troubles facing Minsheng Investment Group, a large conglomerate - combined with slower economic growth have boosted demand for securities with high credit ratings. Central and local government bonds as well as corporate bonds with AAA ratings have benefited from investors' flight to safety. Meanwhile, corporate credits rated AA-, considered "junk" in China, have fallen out of favor. Many of these papers are sold by smaller private companies that have faced tightened financial conditions in recent months. The yield spread between AAA and AA- bonds widened to 300 bps, a level last seen in early 2012.

Wider Spread

Yield gap between China's top-rated and junk bonds jumps to largest in seven years



Source: ChinaBond, Bloomberg

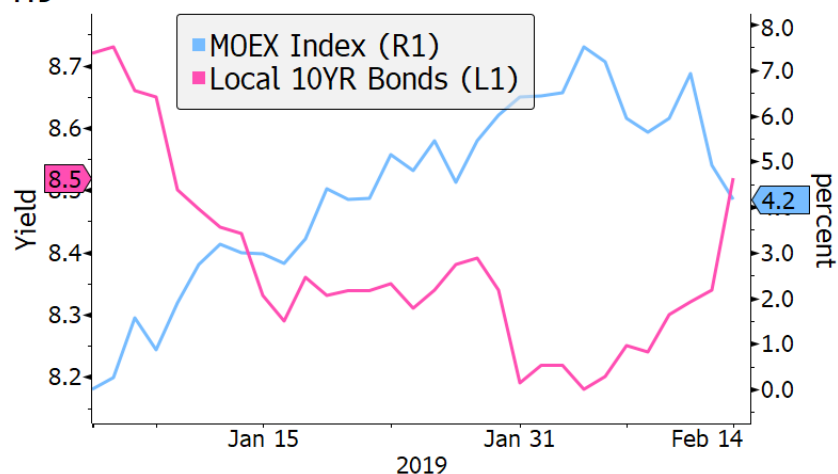
CNCB05 Index (ChinaBond Corporate Bond Yield Curve (AA-) 5Y YTM) yield spread D Copyright© 2019 Bloomberg Finance L.P. 14-Feb-2019 15:07:41

Russia

The US senate re-introduced legislation for sanctions against Russia. The legislation was brought forth by a bipartisan group of senators for a second attempt to pass it. The revised version also calls for restrictions on sovereign debt and state banks, in addition to sanctions on oil and LNG production and state-related energy projects outside Russia. Some analysts see a material chance that this legislation will pass, albeit in a more diluted form given the strong lobby from companies doing business with Russia. Local yields have risen and the country's main equity index is down about 2% over the last two sessions.

Russian Assets

YTD



MICKRU10 Index (MICEX Russia Zero Cpn 10 Year) Russia Assets Daily 29DEC2018-14

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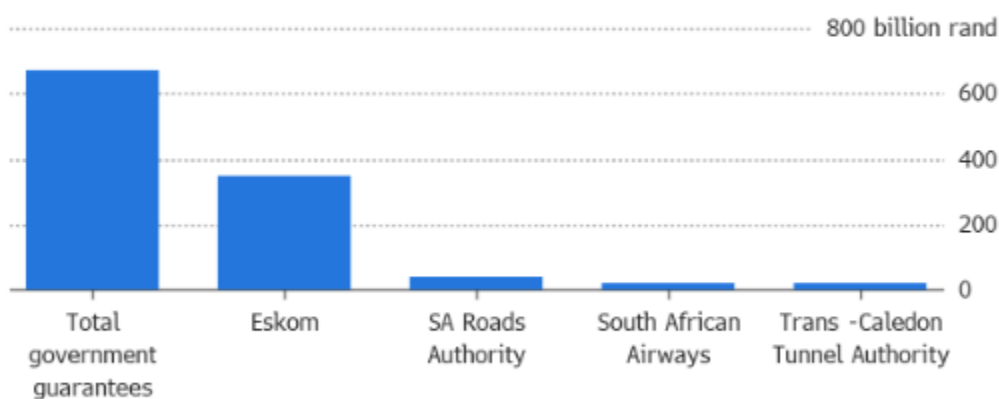
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South Africa

Reports presented to lawmakers showed that the state-owned electricity company, Eskom, could run out of money in two months without government help. Eskom expects to report a loss of about ZAR20 bn for the year through March, and has racked up ZAR420 bn in debt. It is expected that the South African government will announce more measures over the next few days to address the challenges at Eskom. The South African rand has been the worst performing emerging market currency over the last 5 days, depreciating 3.5% against the dollar.

Why Eskom Matters

Power utility accounts for more than half of South African state-backed debt



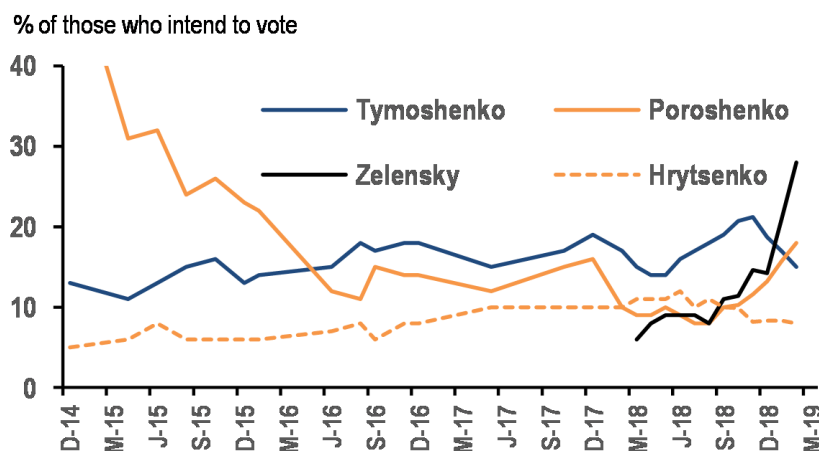
Note:

Source: Medium-Term Budget Policy Statement

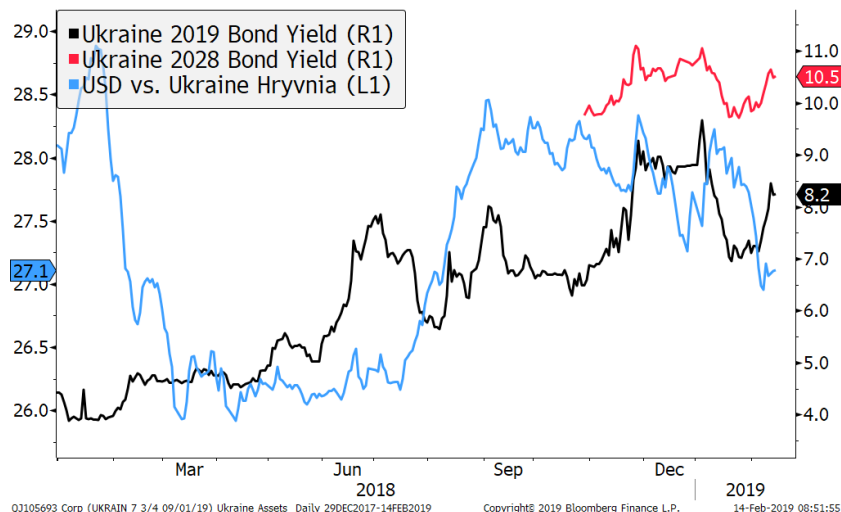
Bloomberg

Ukraine

Observers still regard the March 31 presidential election as highly uncertain, but comedian Volodymyr Zelensky seems to be widening his lead. His advantage over incumbent Poroshenko and candidate Tymoshenko widened to over 10 ppts. A runoff suggests Zelensky has better chances of winning, but it is still hard to tell. Analysts at JPM note that the policy direction under any leader aside from Poroshenko will be hard to predict, but it will be difficult for the other two candidates to deviate a lot from a conservative path given the need to maintain the IMF program. Still, they see the recent fundamental improvements in the Ukraine economy and budget position as enough to help the country withstand a short-lived political crisis. In the medium-term, however, any government still has to face large gross external financing needs. Eurobond yields have been increasing in recent months but remain well below the highs in December. The currency has appreciated close to 4% since early January, in line with the global risk rally.







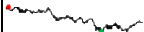
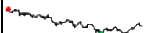








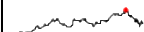








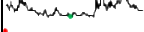


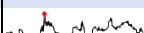


Ukraine Assets



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Global Financial Indicators


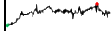
















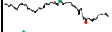



















Last updated: 2/14/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2753	0.3	1	7	2	10
Europe		3213	0.3	2	5	-5	7
Japan		21140	0.0	1	4	0	6
China		2720	-0.1	5	7	-15	9
Asia Ex Japan		69	-0.1	-1	6	-12	8
Emerging Markets		42	0.0	-2	4	-14	8
Interest Rates			basis points				
US 10y Yield		2.69	1.4	3	-2	-22	0
Germany 10y Yield		0.11	-1.3	-1	-12	-65	-13
Japan 10y Yield		-0.01	-0.8	-1	-3	-8	-2
UK 10y Yield		1.16	-2.7	-2	-14	-49	-12
Credit Spreads			basis points				
US Investment Grade		120	-0.7	1	-22	28	-27
US High Yield		422	-2.7	3	-31	49	-99
Europe IG		70	0.0	-3	-12	15	-17
Europe HY		307	-0.1	-11	-35	33	-46
EMBIG Sovereign Spread		352	1.0	11	-36	61	-62
Exchange Rates			%				
Dollar Index (DXY)		97.22	0.1	1	2	9	1
USDEUR		1.13	0.0	-1	-2	-10	-2
USDJPY		111.0	0.0	-1	-3	-4	-1
EM FX vs. USD		63.0	-0.4	-1	-1	-12	1
Commodities			%				
Brent Crude Oil (\$/barrel)		64	1.3	5	9	0	20
Industrials Metals (index)		116	0.4	-3	5	-17	6
Agriculture (index)		42	-0.3	-1	0	-13	2
Implied Volatility			%				
VIX Index (% change in pp)		15.5	-0.1	-0.8	-3.5	-3.7	-9.9
10y Treasury Volatility Index		3.6	-0.1	0.0	-0.5	-1.7	-1.0
Global FX Volatility		7.8	0.0	-0.1	-0.6	-0.8	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		375	-3.6	-14	-32	3	-41
Italy		267	0.9	-17	6	136	17
Portugal		147	-0.5	-8	2	15	-1
Spain		112	1.3	0	-6	37	-5

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: 2/14/2019 8:09 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		6.78	-0.2	-0.5	0	-6	2		3.0	-0.1	-2	-5	-92	-16
Indonesia		14090	-0.2	-0.8	0	-3	2		8.0	-1.3	11	-21	131	-15
India		71	-0.5	0.4	0	-10	-2		7.5	-5.8	-12	-6	-26	1
Philippines		52	-0.5	-0.2	0	0	0		5.7	0.2	-3	-50	92	-62
Thailand		31	-0.1	-0.3	2	0	4		2.6	-1.0	1	-7	23	-4
Malaysia		4.08	-0.2	-0.1	1	-4	1		3.9	-1.4	-8	-10	-8	-15
Argentina		38	0.0	-0.9	-3	-48	-1		20.2	-16.6	-57	-191	483	-279
Brazil		3.79	-0.9	-2.0	-3	-15	2		7.8	-8.2	1	-29	-107	-35
Chile		666	-0.4	-1.7	1	-11	4		4.4	0.3	-4	-13	-46	-12
Colombia		3155	-0.8	-1.2	0	-9	3		6.5	1.9	6	-5	8	-6
Mexico		19.47	-0.2	-2.0	-2	-5	1		8.6	6.8	15	-13	77	-14
Peru		3.3	-0.3	-0.5	0	-2	1		5.6	0.7	3	-6	74	-10
Uruguay		33	0.1	-0.2	0	-12	0		10.2	1.6	-2	-36		-48
Hungary		283	0.0	-0.7	-1	-12	-1		2.0	1.5	7	-5	44	-16
Poland		3.85	0.0	-1.4	-3	-13	-3		2.2	-0.9	-1	-2	-53	-5
Romania		4.2	0.0	-0.7	-3	-11	-4		4.2	1.0	-13	-2	15	-9
Russia		67.1	-0.8	-1.7	0	-15	4		8.0	4.3	9	-10	109	-37
South Africa		14.2	-0.8	-3.9	-3	-17	1		9.7	12.8	30	19	53	7
Turkey		5.32	-0.7	-1.0	2	-29	-1		15.3	4.7	5	-180	311	-160
US (DXY; 5y UST)		97	0.1	0.7	2	9	1		2.51	-1.5	5	-2	-12	0

	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		2720	-0.1	5	7	-15	9		184	2	4	-3	27	-10	
Indonesia		6420	0.0	-2	1	-3	4		195	1	18	-15	30	-41	
India		35876	-0.4	-3	0	5	-1		169	-5	-5	-23	54	-27	
Philippines		7991	0.9	-1	0	-7	7		90	3	11	-16	-6	-31	
Malaysia		1689	0	0	1	-8	0		127	1	9	-28	20	-35	
Argentina		37039	-1.7	1	10	17	22		666	3	7	-33	251	-149	
Brazil		95933	-0.3	2	2	15	9		241	3	13	-14	2	-32	
Chile		5384	0.0	-1	0	-3	5		137	3	15	-12	18	-29	
Colombia		1473	-0.1	0	6	-3	11		194	2	17	-3	10	-34	
Mexico		42284	-1.9	-4	-3	-13	2		321	2	23	-15	79	-33	
Peru		20155	0	-2	2	-3	4		142	2	17	-11	1	-26	
Hungary		40068	-0.4	0	-1	4	2		113	4	9	-25	19	-35	
Poland		59800	-0.3	-1	1	-6	4		52	0	-3	-12	-2	-33	
Romania		7675	-0.1	2	11	-6	4		193	-2	0	-17	65	-28	
Russia		2472	-0.6	-2	1	9	4		220	2	15	-9	59	-32	
South Africa		54810	0.5	2	2	-5	4		306	4	28	-26	62	-59	
Turkey		102374	0.7	0	11	-10	12		403	2	19	-45	103	-26	
Ukraine		565	-0.1	2	1	68	1		729	0	44	-22	305	-58	
EM total		42	0.0	-2	4	-14	8		352	1	11	-36	61	-62	

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