



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Friday, February 15, 2019

- **US Treasury yields decline on lingering global growth and trade concerns** ([link](#))
- **UK PM May suffers another setback in Parliament** ([link](#))
- **Spanish elections to be held in April after 2019 budget proposal is rejected** ([link](#))
- **Asian currencies and equities weaken on stalling US-China trade negotiations** ([link](#))
- **Brazilian assets rally as Bolsonaro to send pension reform bill to Congress** ([link](#))
- **Argentine inflation jumps in January and exceeds expectations** ([link](#))
- **Egyptian central bank surprises market with 100 bp policy rate cut** ([link](#))

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## Risk assets trade nervously amid US-China headlines and weaker data

**Global risk assets are mixed as investors have been weighing a combination of geopolitical uncertainties and trends in data divergence.** US stocks were little changed after a volatile session as investors digested some softer macro data releases. The disappointing data, alongside reports that the US and China remain "far apart" on trade reforms, provoked some risk aversion as US Treasury yields fell across the curve, with the benchmark 10-year yield down 5 bps to 2.66%. Headlines on the potential US government shutdown also aggravated markets as US President Trump is expected to sign a budget deal, but declare a state of emergency to secure further funding for the border wall. The souring market sentiment spilled to Asian bourses overnight with major indexes down 0.5-2% across the region, and were further pressured by another mixed batch of Chinese economic data. Brexit-related developments have also not eased any investor anxiety as PM May suffered another defeat in Parliament on her request for more time to renegotiate the Irish border backstop. In EM, Brazilian assets outperformed as the government announced initial parameters for pension reform and will send the bill to congress next week.

### Key Global Financial Indicators

Last updated: 2/15/19 8:11 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		<b>%</b>				<b>%</b>
S&P 500	2746	-0.3	1	5	1	10
Eurostoxx 50	3224	1.3	3	5	-5	7
Nikkei 225	20901	-1.1	1	2	-3	4
MSCI EM	42	-0.2	-1	4	-15	8
<b>Yields and Spreads</b>		<b>bps</b>				
US 10y Yield	2.66	-4.8	3	-5	-25	-2
Germany 10y Yield	0.10	-0.2	1	-11	-66	-14
EMBIG Sovereign Spread	355	0	-5	-34	67	-59
<b>FX / Commodities / Volatility</b>		<b>%</b>				
EM FX vs. USD, (+) = appreciation	63.2	0.1	-1	0	-12	2
Dollar index, (+) = \$ appreciation	97.2	0.2	1	1	10	1
Brent Crude Oil (\$/barrel)	65.3	1.1	5	8	1	21
VIX Index (% change in pp)	15.9	-0.4	0	-3	-3	-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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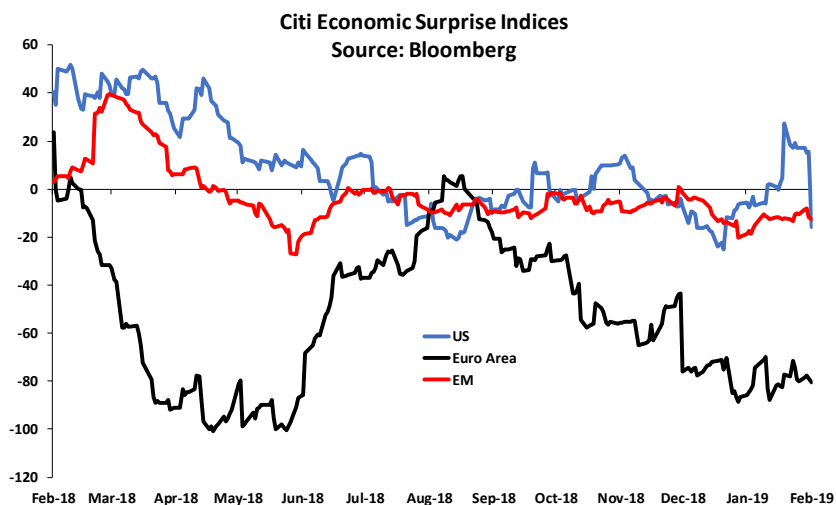
**Treasury yields fell in response to the unexpectedly weak US retail sales data.** The 10-year yield was down 5 bps on the session, once again falling below the 2.70% ceiling that has prevailed for most of February. The downbeat report appeared to validate the FOMC's unexpected dovish pivot at the January 30 meeting and led several banks to mark down their GDP forecasts for Q1 2019 by 0.1-0.3%. Others were more sanguine, arguing that the report was so much at odds with recent data that it was likely to be revised upwards in subsequent months, or that later retail sales reports would be much stronger than expected. Equity futures were pushed lower on the news and the cash markets also opened in the red, but stocks regained some ground later in the day to end mixed, with modest losses on the S&P and Dow and a small gain for the NASDAQ. Markets were unsure how to interpret the news that the President would sign the government funding bill but would also declare a state of emergency to obtain funding for the border wall.

Figure 1. Retail sales slowed much more than expected



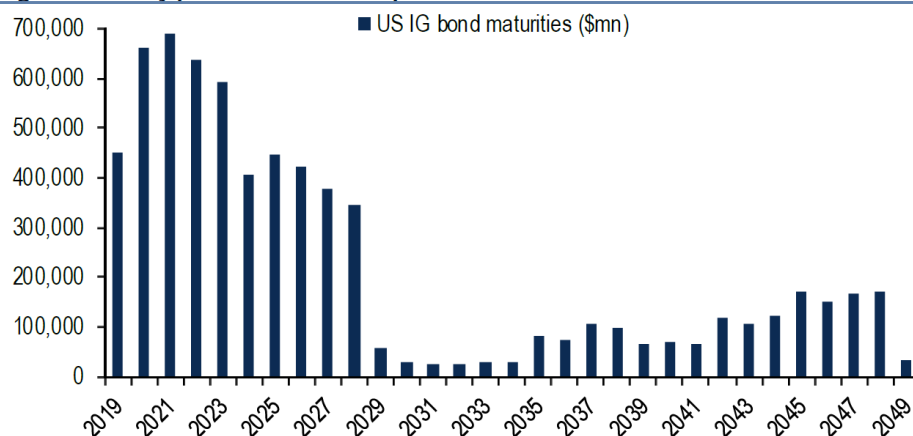
Source: Citi Research, Census Bureau

**Negative economic surprises have taken hold through much of the global economy, and the widely followed Citi Economic Surprise Indexes are trending downwards in most parts of the world.** Euro area economic data have surprised on the down side for much of the past 12 months and emerging market surprises have scraped along near zero for much of the time. However, the latest retail sales report has now pushed the US into the negative zone as well. Some are worried that weakening data could derail the strong rally that risk assets have enjoyed so far in 2019, while the optimists argue that accommodative central banks will push the markets higher for some time to come.



**The new bond deal from AT&T (BBB/Baa2) with \$5 bn of 10 and 20-year bonds reminded investors of the large amount of new supply likely to hit the US investment grade (IG) market in the weeks ahead.** The company issued the bonds to address maturities in 2020 and 2021, and these years are scheduled to see a high volume of bond maturities for the market as a whole. Companies unnerved by the near-shutdown of the IG new issue market in Q4 2018 are rushing to print new deals, and the size and longer maturities of the new issuance could push IG credit spreads wider. Other large BBB issuers like Verizon and Anheuser-Busch Inbev have also come to market with large longer maturity deals, highlighting the risk. This week has already seen \$40 bn of new IG supply.

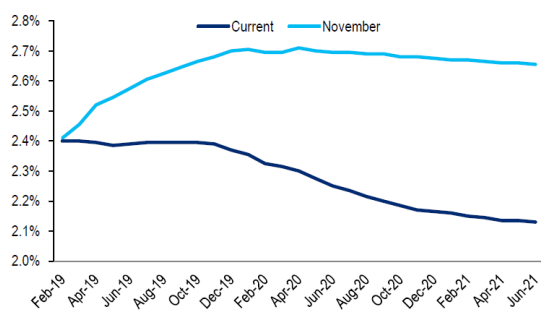
**Figure 1: Maturity profile of the US IG corporate bond market**



Source: BofA Merrill Lynch Global Research

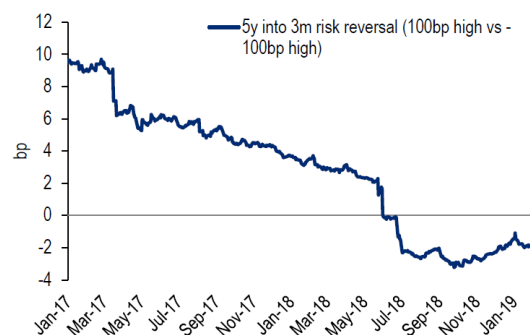
**The US high yield corporate debt market has seen a tilt back towards bonds this year at the expense of leveraged loans.** Loans were very popular among investors over the past few years as the Fed was firmly committed to its rate hiking cycle, and floating rate leveraged loans were expected to benefit from higher payments over time as interest rate moved higher. However, the new policy environment is much more dovish, and the Fed Funds futures market now projects no rate hikes in 2019 and expects a rate cut in 2020. In the interest rate swaption market, investors are now seeking protection against lower interest rates in contrast with previous years when they sought protection against higher rates, pushing swaption risk-reversals into negative territory.

**Figure 2. Fed Funds Futures Now Expect a Cut in 2020...**



Source: Citi Research, Bloomberg.

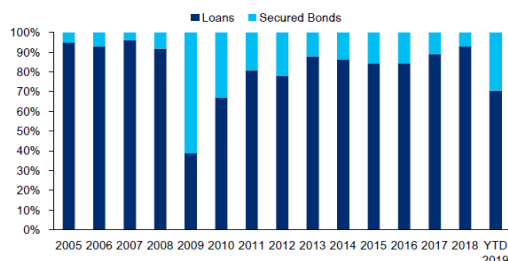
**Figure 3. ...While Option Traders Protecting Downside Risk to Rates**



Source: Citi Research, Bloomberg.

**So far in 2019, the share of secured high-yield bonds in new issuance is up to 30% versus leveraged loans (usually first-lien and also secured), compared to just 10% in 2018 and analysts expect this share to grow through the course of the year.** Other technical factors such as the presence of call protection also favors bonds over leveraged loans in a falling rate environment.

**Figure 1. Secured Bonds Regaining Share From Loans**



Source: Citi Research, S&P/LCD

## Europe

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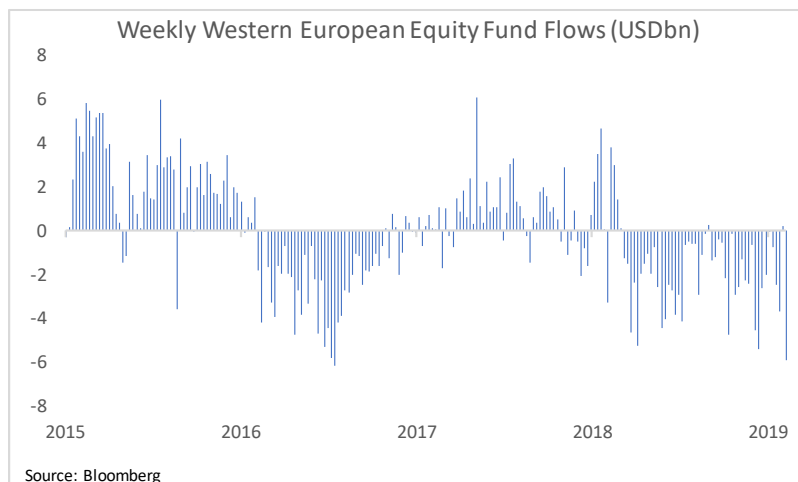
**Equities were higher despite losses in Asia and the US.** The Euro Stoxx 600 was up 0.7% while banks outperformed with a 1% gain. SHB and BBVA saw robust demand yesterday as they issued the first AT1 instruments since Santander decided not to call its bond on Tuesday. **Sovereign bond yields were little changed, except in Italy where the 10-year BTP was up by 6 bps.** The move came on average volumes and limited news, taking the spread to Bunds to 275 bps.

**PM May suffered another loss yesterday as parliament rejected her symbolic motion on the Brexit strategy for the coming weeks.** Several pro-Brexit Conservative MPs abstained from the vote, resulting in a 303-258 loss, as they felt the motion would take “no deal” off the table. The motion itself is non-binding, however, and is not expected to change May’s approach leading up to the March 29 deadline. The loss was seen as a symbolic one and an indication that the government still has problems in uniting the Conservative party. The next steps in the process are expected on February 26 and 27 when May delivers another statement and MPs get another chance to table amendments. The pound was slightly weaker yesterday but is flat this morning at \$1.28.

**The Bank of England is more likely to ease policy than tighten it in a “no deal” Brexit, according to MPC member Vlieghe.** Bank officials had previously stressed that a “no deal” scenario could see a policy move in either direction depending on the relative effect on demand, supply, and the exchange rate. However, in a speech yesterday, Vlieghe stated that “an easing or an extended pause in monetary policy is more likely to be the appropriate policy response than a tightening”. He also provided estimates showing that the Brexit vote had already cost the UK economy 2% of GDP.

**Spanish PM Sanchez called a snap election this morning.** The vote will be held on April 28, following the government’s inability to get its budget through parliament. Sanchez will seek to renew his mandate but faces tough opposition from the right-leaning opposition parties. In addition to the budget, the government’s approach to separatists in Catalonia remains a key battleground as the opposition criticizes Sanchez for reaching out to separatists. Market reaction was limited with sovereign yields flat and equities up 0.6% following wider European developments.

**European equities saw their largest outflows this week since the Brexit vote.** EPFR data showed outflows of \$5.9 bn in the week ending Wednesday – the second worst on record since the series began in 2000. Analysts attribute the moves to Brexit worries and general growth concerns in the region. Within the total, German equity funds saw their fifth consecutive week of withdrawals while UK funds saw their outflows reach \$1 bn for this quarter so far.



## Other Mature Markets [back to top](#)

### Japan

**The yen gained while equities fell for the first time in 4 days** as negative signals from the US-China trade negotiation and the rapid deceleration in China's PPI weighed on sentiment. News that the US and China have been unable to come to an agreement regarding structural reforms in China cooled the optimism that had been building earlier in the week. The yen appreciated by 0.13%, while the Topix, which had gained 3.3% over the past three sessions, fell 0.8%.

## Emerging Markets [back to top](#)

**Emerging-market currencies pared losses against the US dollar (EM FX benchmark: +0.1%) as the Brazilian government (real: +1.1% against the USD) announced the details of its pension reform proposal.** The Mexican peso also outperformed yesterday strengthening against the dollar (+0.9%) ahead of today's expected announcement of financial support measures for Pemex. The Colombian peso underperformed (-0.9% against the dollar) despite the rally in oil (+1.2%) as Moody's said that the tax reform "fell short" and the country faces a "challenging" fiscal outlook. **Asian** currencies mostly weakened against the dollar and equities suffered broad-based losses (from -0.4% to -1.3%) following negative signals from the latest round of US-China trade negotiation. US and China have reportedly been unable to bridge their differences regarding China's structural reform. The Indonesian rupiah underperformed (-0.4%), extending recent losses to its weakest level in two weeks as the unexpected widening in its trade deficit weighed on the rupiah's performance. The news flow was light in **EMEA**. Equities are mostly higher, aside from Turkey (-0.5%). Currencies are little changed aside from the South African rand appreciating 0.5%.

## Key Emerging Market Financial Indicators

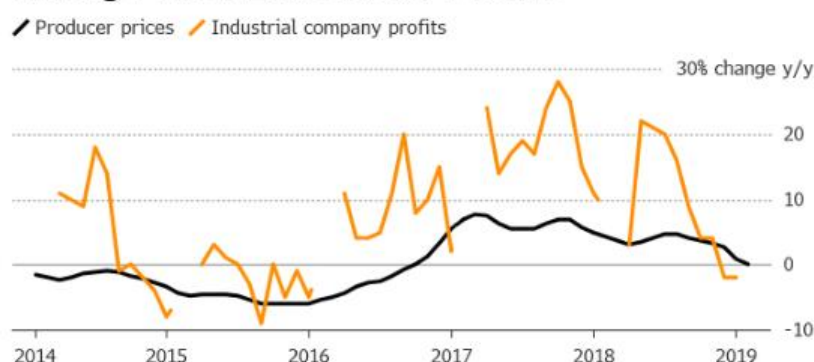
Last updated: 2/15/19 8:17 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.15	-0.2	-1	4	-15	8
MSCI Frontier Equities		28.91	0.7	3	5	-17	11
EMBIG Sovereign Spread (in bps)		355	0	-5	-34	67	-59
EM FX vs. USD		63.25	0.1	-1	0	-12	2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.77	0.0	0	0	-6	2
Indonesian Rupiah		14149	-0.4	-1	0	-4	2
Indian Rupee		71.23	-0.1	0	0	-10	-2
Argentine Peso		38.26	-0.1	-1	-3	-49	-2
Brazil Real		3.72	0.0	0	0	-13	4
Mexican Peso		19.33	-0.4	-1	-2	-4	2
Russian Ruble		66.68	0.0	-1	0	-15	5
South African Rand		14.12	0.1	-4	-3	-18	2
Turkish Lira		5.27	0.1	0	3	-29	0
EM FX volatility		8.88	0.0	0.0	-0.5	0.3	-0.9

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

## China

**The RMB extended its recent depreciation while equities fell as the prospect of a protracted US-China trade negotiation and a sharp deceleration in PPI dented investor optimism.** The onshore CNY weakened by 0.1% while the offshore CNH shed 0.17%, with both currencies bouncing within recent ranges. Meanwhile, amid policy easing and increased cash supply after the Lunar New Year, **the interbank 7-day repo rate (volume weighted average price) reached its lowest level since March 2015 (2.12%).** In addition to an uncertain trade negotiation outcome, the sharp deceleration in January PPI, coming on the heels of decelerations seen over the past 6 months, deepened concerns over the growth outlook and disinflationary pressure in China. January PPI decelerated for a seventh month to 0.1% yoy (consensus: +0.9% yoy), raising concerns that already-weak corporate profits could fall further.

## Falling Prices Bode Ill for Profits



Note: Profit data isn't released in January and February  
Source: National Bureau of Statistics

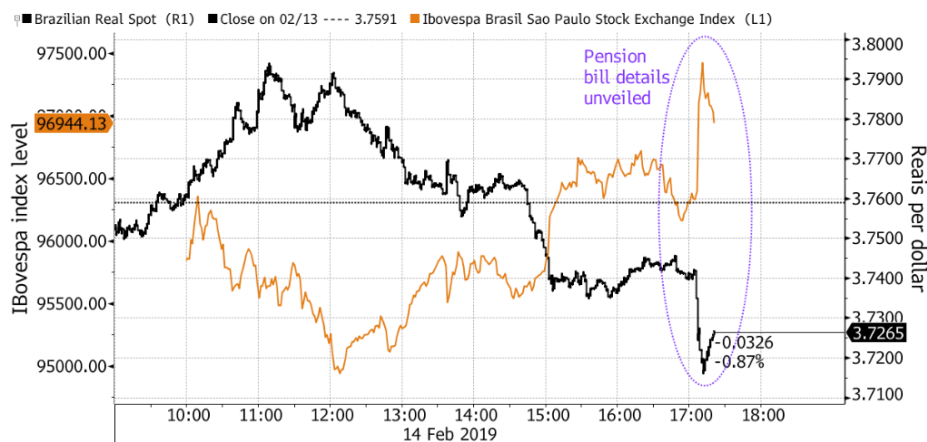
Bloomberg

## Brazil

**Moody's announced that the current pension reform bill is in line with their expectations and their rating (Ba2, Stable) already assumes a passing of the bill in 2019.** The bill will be sent to Congress on February 20 and includes a minimum retirement age of 65 years for men, 62 for women and a transition period of 12 years until the rules come into full effect. **Brazilian assets extended gains as markets welcomed the plan.** The real was the best performer among emerging-market currencies (+1.1%) and domestic equities rallied 2.2%.

## Markets Rally

**Stocks and the currency gained after details of the pension reform**

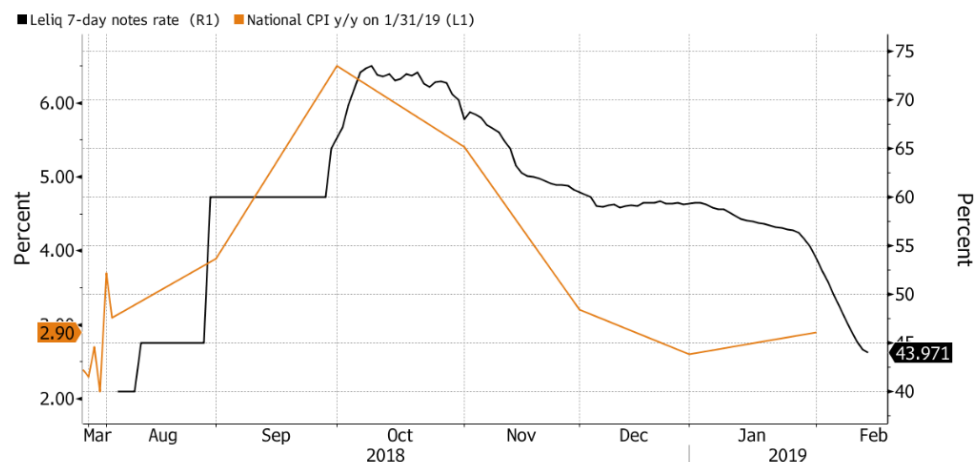


## Argentina

**The CPI rate in January came in well above consensus expectations at 2.9% mom (consensus: 2.5%) and 49.3% yoy.** The release came in after market close, and the exchange rate was roughly unchanged on the day. The key monetary interest rate (Leliq) has decreased by more than 11 percentage points in the past two weeks to a five-month low of 44% helped by the more favorable external backdrop and the reduced volatility in the exchange rate market. Economists surveyed by the central bank earlier in the month were forecasting the end-of-year inflation at 29% and the Leliq rate at 37%.

## Inflation Surprise

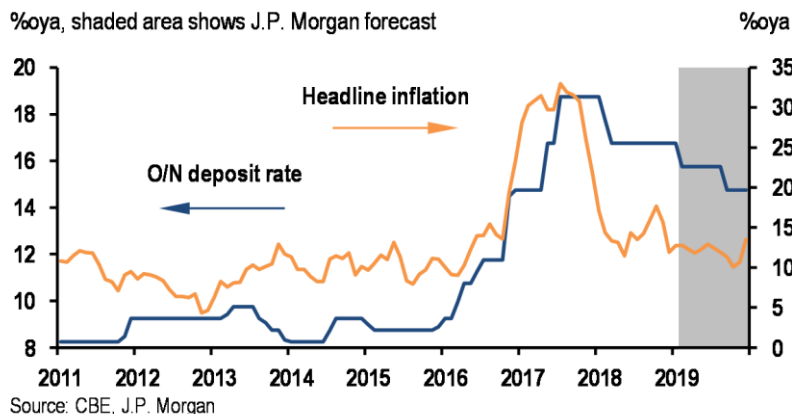
**Price increases accelerate in Argentina even as traders bet on declines**



## Egypt

**The central bank unexpectedly cut its policy rate by 100 bps to 15.75%, while markets were expecting no change.** The move comes against the backdrop of increased portfolio inflows and a stronger pound (+2% ytd). The bank noted that the monetary conditions remain tight, even though inflation is tracking above 12% (vs. a target of 9%  $\pm$  3% for end-2020). Analysts at JPM are expecting the bank to deliver another 100 bps in cuts, but only after subsidy cuts are implemented in June. The Egyptian pound appreciated close to 0.5% over the last two sessions and the main equity index is little changed.

**Figure 1: Egypt headline inflation and CBE policy rate**






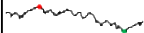

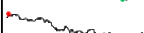










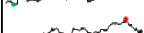


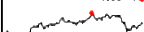





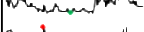

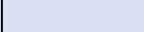



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## Global Financial Indicators

Last updated: 2/15/19 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2746	-0.3	1	5	1	10
Europe		3224	1.3	3	5	-5	7
Japan		20901	-1.1	1	2	-3	4
China		2682	-1.4	2	4	-16	8
Asia Ex Japan		69	0.0	0	5	-13	8
Emerging Markets		42	-0.2	-1	4	-15	8
<b>Interest Rates</b>			basis points				
US 10y Yield		2.66	-4.8	3	-5	-25	-2
Germany 10y Yield		0.10	-0.2	1	-11	-66	-14
Japan 10y Yield		-0.02	-0.7	1	-3	-9	-2
UK 10y Yield		1.16	0.6	1	-10	-49	-12
<b>Credit Spreads</b>			basis points				
US Investment Grade		121	0.9	-1	-22	31	-26
US High Yield		423	-2.1	-11	-29	70	-98
Europe IG		71	-0.1	-3	-10	18	-16
Europe HY		307	-1.8	-12	-28	39	-46
EMBIG Sovereign Spread		355	0.0	-5	-34	67	-59
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		97.18	0.2	1	1	10	1
USDEUR		1.13	-0.3	-1	-1	-10	-2
USDJPY		110.5	0.0	-1	-2	-4	-1
EM FX vs. USD		63.2	0.1	-1	0	-12	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		65	1.1	5	8	1	21
Industrials Metals (index)		116	0.7	-2	5	-17	6
Agriculture (index)		42	0.4	-1	0	-14	1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.9	-0.4	0.1	-2.8	-3.3	-9.6
10y Treasury Volatility Index		3.6	0.0	0.0	-0.4	-1.2	-1.0
Global FX Volatility		7.9	0.0	0.0	-0.5	-0.8	-1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		375	-0.5	-18	-31	10	-40
Italy		277	7.3	-10	10	147	27
Portugal		147	0.0	-9	2	17	-1
Spain		115	0.6	0	-4	40	-3

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: 2/15/2019 8:17 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		6.77	0.0	-0.4	0	-6	2		3.0	-0.3	-2	-5	-91	-16	
Indonesia		14149	-0.4	-1.3	0	-4	2		8.1	9.8	17	-14	142	-5	
India		71	-0.1	0.1	0	-10	-2		7.5	2.4	-4	1	-23	3	
Philippines		52	-0.1	-0.7	-1	-1	0		5.7	0.0	1	-35	92	-62	
Thailand		31	0.3	0.6	2	0	4		2.6	0.5	2	-3	25	-4	
Malaysia		4.09	-0.3	-0.4	0	-5	1		3.9	-0.1	-5	-9	-8	-15	
Argentina		38	-0.1	-1.1	-3	-49	-2		19.9	-34.9	-58	-194	446	-314	
Brazil		3.72	0.0	0.4	0	-13	4		7.8	-4.8	-11	-30	-101	-40	
Chile		666	0.2	-1.0	1	-11	4		4.4	-0.3	-5	-12	-47	-12	
Colombia		3152	-0.6	-1.1	0	-9	3		6.4	-2.8	0	-8	-1	-9	
Mexico		19.33	-0.4	-1.3	-2	-4	2		8.5	-8.0	6	-14	66	-22	
Peru		3.3	0.0	-0.4	0	-2	1		5.6	0.9	5	-7	73	-9	
Uruguay		33	-0.1	0.0	0	-12	-1		10.2	0.0	0	-27		-48	
Hungary		283	-0.2	-0.4	0	-12	-1		2.1	0.4	8	3	46	-16	
Poland		3.85	-0.4	-1.0	-2	-14	-3		2.2	-0.6	-1	1	-52	-6	
Romania		4.2	-0.4	-0.5	-3	-11	-4		4.1	-4.0	-14	-23	8	-13	
Russia		66.7	0.0	-1.3	0	-15	5		8.2	12.8	19	3	124	-24	
South Africa		14.1	0.1	-3.5	-3	-18	2		9.7	0.8	31	20	61	8	
Turkey		5.27	0.1	-0.4	3	-29	0		15.4	14.9	22	-126	332	-145	
US (DXY; 5y UST)		97	0.2	0.6	1	10	1		2.48	1.0	4	-5	-17	-3	

	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		2682	-1.4	2	4	-16	8		182	-3	-3	-3	25	-12	
Indonesia		6389	-0.5	-2	0	-3	3		196	-2	-3	-16	30	-40	
India		35809	-0.2	-2	-1	4	-1		172	3	-8	-17	65	-24	
Philippines		7909	-1.0	-2	-1	-8	6		92	-2	-2	-14	-8	-29	
Malaysia		1689	0	0	1	-8	0		127	-1	-6	-26	19	-35	
Argentina		37386	0.9	4	11	17	23		673	-5	1	-22	277	-142	
Brazil		97989	2.3	3	4	16	11		236	-2	-9	-18	12	-37	
Chile		5388	-0.2	0	0	-4	6		137	-3	-3	-12	20	-29	
Colombia		1477	0.3	1	6	-2	11		197	-1	0	-1	24	-31	
Mexico		42725	1.0	-2	-2	-12	3		317	-2	-2	-17	85	-37	
Peru		20226	0	0	4	-3	5		144	-1	-2	-8	11	-24	
Hungary		39854	-0.1	0	-2	3	2		115	-1	2	-23	19	-33	
Poland		59886	0.9	-1	1	-5	4		52	-4	-4	-11	-5	-33	
Romania		7680	0.5	2	9	-7	4		196	3	0	-15	71	-26	
Russia		2484	0.9	-1	2	10	5		234	11	9	9	75	-18	
South Africa		54506	0.0	2	2	-8	3		313	4	6	-16	77	-52	
Turkey		102009	-0.1	0	9	-12	12		410	4	-4	-50	116	-19	
Ukraine		566	0.0	2	1	68	1		734	2	15	3	310	-53	
EM total		42	-0.2	-1	4	-15	8		355	0	-5	-34	67	-59	

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