



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, February 19, 2019




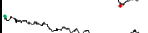







- **US short-term inflation breakevens sharply higher on rallying energy prices** ([link](#))
- **EU threatens retaliation if US imposes punitive tariff on European car imports** ([link](#))
- **BoJ to consider additional easing if the yen strength impacts growth** ([link](#))
- **Seven UK MPs leave Labour Party over Brexit and antisemitism concerns** ([link](#))
- **EM funds experience 6th straight week of inflows** ([link](#))

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

Global markets sell off modestly on US-China and US-EU trade concerns

With the US-imposed deadline of March 1st looming, market participants' attention continues to linger on the odds that the US and China can agree to a new trading framework and avoid an escalation in US duties on Chinese imports. In the week ahead, minutes from both the Fed (Wed) and ECB (Thu) will take center stage, as investors look for further discussions about the Fed's balance sheet normalization, clues about possible changes to forward guidance, and additional policy measures from the ECB. The Fed's policy forum in New York (Fri) will be closely watched, as will the speeches of a few Fed officials scheduled to speak specifically on balance sheet plans. Investors will also keep an eye on any incremental developments from the US-China trade negotiations as talks resume in Washington this week and from the Brexit negotiations in UK parliament. On Friday, Fitch will review Italy's BBB credit rating and its negative outlook. On the data front, the US is scheduled to report durable goods, PMIs, leading index and home sales (all Thu). In the euro area, PMI and inflation reports are due (throughout the week), along with ZEW survey (Tue), final GDP and IFO survey (both Fri) from Germany. Foreign trade data from Japan, Korea and Taiwan are likely to garner attention following surprisingly robust January data from China.

Key Global Financial Indicators

Last updated: 2/19/19 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2776	0.0	3	4	2	11
Eurostoxx 50		3231	-0.4	1	3	-5	8
Nikkei 225		21303	0.1	2	3	-4	6
MSCI EM		42	-0.5	0	1	-15	8
Yields and Spreads			bps				
US 10y Yield		2.66	0.0	-3	-12	-21	-2
Germany 10y Yield		0.10	-1.1	-3	-16	-64	-14
EMBIG Sovereign Spread		358	1	1	-17	73	-56
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.3	0.1	-1	0	-11	2
Dollar index, (+) = \$ appreciation		97.0	0.1	0	1	9	1
Brent Crude Oil (\$/barrel)		66.3	-0.3	6	6	1	23
VIX Index (% change in pp)		16.1	1.2	0	-2	-3	-9

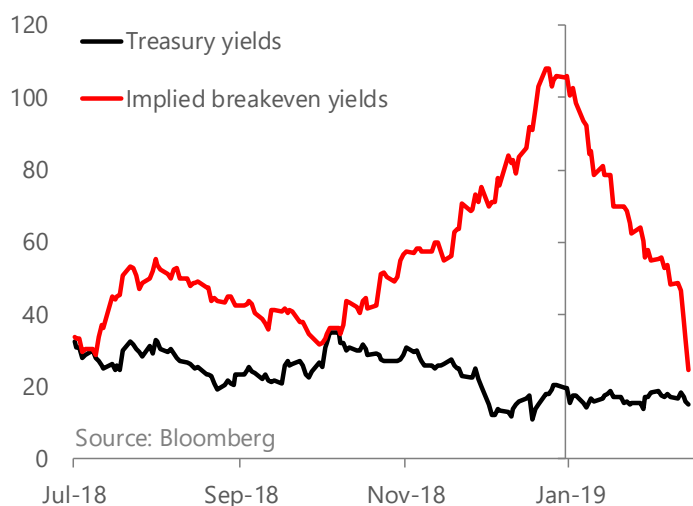
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

[back to top](#)

Treasury yields rose on Friday with the curve flattening, driven by a combination of optimism about US-China trade talks, higher energy prices, and a strong empire manufacturing survey. The 2-year yield underperformed, up 2.5 bps to 2.52%, with the 10-year yield up 1 bp to 2.66%. Fed fund futures markets were little changed, and currently price in less than a 5% chance of a rate hike this year and around a 20% chance of a rate cut in January 2020 FOMC meeting, according to Bloomberg. **TIPS breakeven rates widened across the curve** on higher energy prices led by gasoline and the broader weakness in the dollar. The 2-year breakeven rate jumped 9 bps to 1.62% with the 10-year rate up 1 bp to 1.87%. The 2-10 breakeven curve flattened another 9 bps to 25 bps, down more than 80 bps this year on the back of a near 100 bps reversal in the 2-year rate.

US 2-10 slopes (bps)

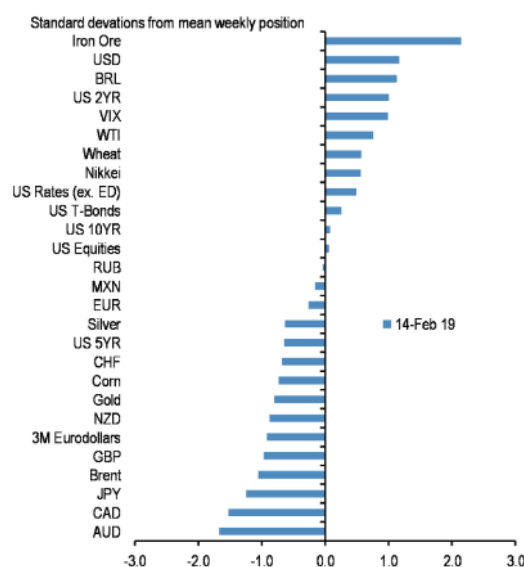


Stocks posted their 3rd consecutive weekly gains on Friday as President Trump's declaration of a national border emergency failed to dampen investor optimism. Sentiment was also supported by an averted government shutdown, trade talk optimism and speculations about easing measures from the Fed, China and ECB. The S&P 500 rose 1.1%, with the Dow and NASDAQ up 1.8% and 0.7%, respectively. Year-to-date, the S&P 500 has rallied 10.7%, in line with the best start of the year since 1990, bringing the PE ratio back up to 18.4x (vs 16.5x historical average from 1955). JPMorgan analysts argued that overall equity markets are still far from overbought levels, based on weekly speculative positions. Instead, Bunds, iron ore, US dollar and Brazilian real are flagged as the most vulnerable asset classes to potential unwinding of overextended long positions.

Investor Speculative Positions

Standard deviation from mean weekly positions

Source: JPMorgan.



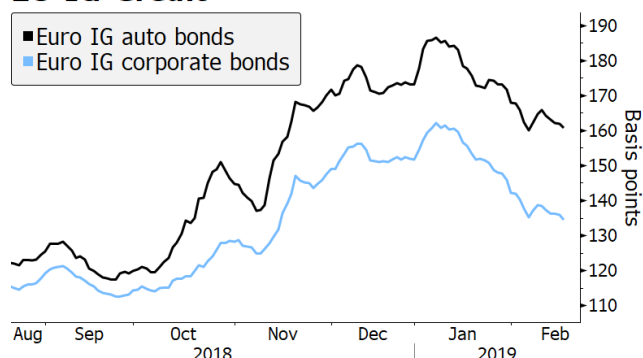
The US Commerce Department submitted its report on the impact of car imports on National Security to President Trump on Sunday. The findings were not published, but the conclusion is widely expected to pave the way for higher tariffs on auto imports to the US. President Trump has 90 days to decide whether to act on the findings. According to media, one of the last drafts of the report proposes general tariffs of 20-25%, targeted tariffs on specific products such as self-driving or electric cars, and specific protections for key sectors of the car industry. In response, the EU has threatened retaliation if US imposes punitive tariffs on European cars. Previously the commission has prepared an undisclosed list of €20 bn in US imports that could be subject to retaliation. According to IFO Institute, German car exports to the US would halve in the long-term to €18 bn if 25% import tariffs were imposed.

Europe

[back to top](#)

Stocks are broadly albeit modestly lower, with the EuroStoxx 600 down 0.4%. HSBC (-3.7%) is the clear underperformer after a downbeat earnings report and lower-than-expected revenues from its wealth management unit. The EuroStoxx **auto-sector** is underperforming, down about 0.7% over the last two sessions as trade tensions with the US begin to rise again (see trade section). These lingering tensions have also created a resilient wedge between auto-sector bond and the broader market for IG debt in Europe (chart).

EU IG Credit



Source: Bloomberg Barclays indexes

LESHOAS Index (Bloomberg Barclays Euro-Aggregate Automotive Average OAS) EU Cred

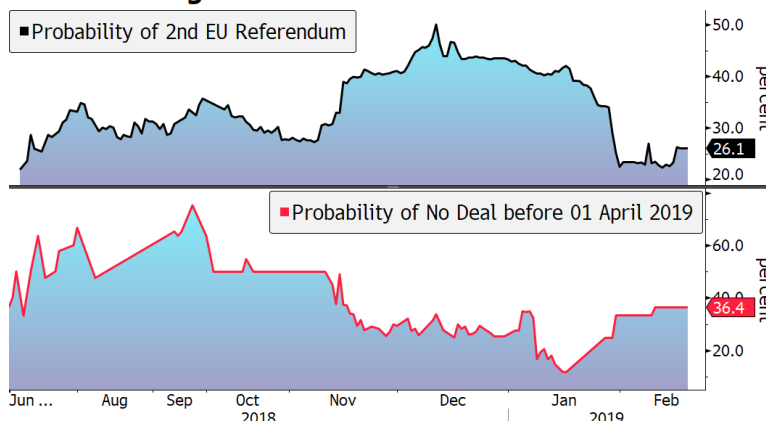
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United Kingdom

Seven MPs have left the Labour Party and more are threatening to leave. All the members of the new group favor a second referendum and are broadly seen as centrist and pro-EU. The move resulted from disagreements with Labour leadership over Brexit and the treatment of anti-Semitism complaints. Implied betting odds are little changed following these events, with chances of a second referendum stable around 26% and that of a no-deal Brexit at 36%. Separately, the idea that the UK will need an extension is gaining traction. EC President Juncker said that, "Any decision to ask for more time lies with the UK. If such a request were to be made, no one in Europe would oppose it." PM May and Juncker will supposedly start working on an annex to the deal to try to find a compromise to the backstop.

Brexit Betting Odds



Source: Average Odds from Oddschecker

ODCHEUN0 Index (Avg Implied Probability of 2nd EU Referendum - NO) Brexit Betting

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Other Mature Markets [back to top](#)


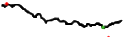



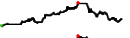



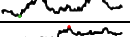



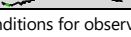
Japan

The yen held steady, paring earlier gains while equities edged higher. Uncertainty over the outcome of the latest U.S.-China trade negotiation – slated to take place in Washington this week – initially boosted the yen by as much as 0.2%. These gains were erased following comments from BoJ Governor Kuroda indicating that the central bank would consider extra monetary easing if a stronger yen were to affect Japan's inflation and economy. Despite recent losses, the yen appreciated by over 2.5% since mid-December. In his response to the Parliament's question regarding the Bo's policy options, Governor Kuroda noted that policy options would include lowering bond yields and increasing asset purchases. The yen held steady at 110.7/dollar. The Topix gained 0.3%, reaching its highest level since mid-December. Meanwhile, Governor Kuroda's comments boosted JGBs with bond yields falling 0.5 to 1 bp across the yield curve. The auction of the 20-year note garnered strong demand, receiving a bid-to-cover ratio of 4.67x, the highest in five years.

Emerging Markets [back to top](#)

Emerging market equities were mixed today. Asian bourses were mixed for a second day, with China and Indonesia steady, Korea (+0.4%) and Malaysia (+0.9%) higher, while Singapore (-0.1%) and Hong Kong (-0.4%) lost ground. Local currencies were little changed against the dollar. In EMEA, most markets saw small losses while currencies were also flat against the dollar. Yesterday, Latin American equities were lower with Brazil (-1%) seeing the biggest losses. Last week, EM assets retreated for a second week in a row (EM FX: -0.5% vs USD, MSCI EM: -0.3%) amid continued global trade concerns and a flare up of idiosyncratic risks (e.g. South Africa, Russia). The South African rand was the worst performer among emerging currencies (-3.2% against USD) on the back of deepening financial woes for the state-owned electricity company Eskom.

Key Emerging Market Financial Indicators

Last updated: 2/19/19 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.09	-0.5	0	1	-15	8
MSCI Frontier Equities		28.85	-0.2	2	3	-17	10
EMBIG Sovereign Spread (in bps)		358	1	1	-17	73	-56
EM FX vs. USD		63.33	0.1	-1	0	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.77	0.0	0	0	-6	2
Indonesian Rupiah		14103	0.0	0	1	-4	2
Indian Rupee		71.36	-0.2	0	0	-10	-2
Argentine Peso		38.73	0.1	-2	-3	-49	-3
Brazil Real		3.72	0.3	0	1	-13	4
Mexican Peso		19.23	0.1	0	0	-4	2
Russian Ruble		66.20	0.1	-1	0	-15	5
South African Rand		14.18	-0.5	-3	-2	-18	1
Turkish Lira		5.31	-0.2	-1	0	-29	0
EM FX volatility		8.85	0.0	0.1	-0.4	0.3	-0.9

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

EM Fund Flows

Last week, fund inflows continued for a 6th week running but at a slower pace. EM bond fund flows were +\$1.2 bn (compared to +\$4.4 bn last week) and EM equity fund flows were +\$1.7 bn (from +\$3.3 bn).

Year to date flows into EM bonds and equities are now +\$16bn (incl. \$7bn from ETFs) and +\$18bn (including \$15 bn from ETFs), respectively.

Exhibit 1: Weekly Cross-Asset Flows

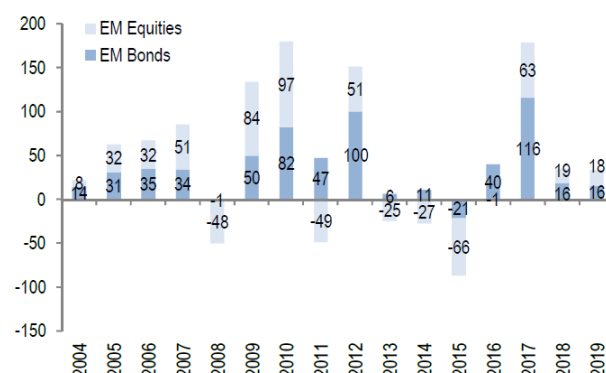
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		2.9	33.9
EM Bonds		1.2	15.8
Hard Ccy		0.8	11.7
Local Ccy		0.4	4.1
EM Equities		1.7	18.1
US HG		1.1	6.9
US HY		0.6	9.4
Global Equities		0.0	-18.7
EM Bond and Equity ETFs		1.7	21.7
EM Bond ETFs		0.4	6.9
EM Equity ETFs		1.3	14.8
Non-resident EM flows*		1.1	18.9
EM Local Bonds		0.3	9.3
EM Equities		0.8	9.6

*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

Exhibit 2: Annual EM bond and equity fund flows

USD billion



EM issuance

Last week, sovereign issuance picked up substantially to \$6 bn from \$0.5 bn the week before. The main highlight was the debut issuance of 5-year and 10-year bonds by Uzbekistan for \$1 bn in total. Both issues priced around 60 bps tighter compared to initial guidance. The Initial books approached \$8.7 bn, according to comments made by domestic officials. Final orders declined substantially after the yield tightening to \$3.8 bn. Turkey also placed a 3-year \$2 bn Sukuk with majority of demand coming from investors in the Middle east.

Weekly issuance:

Week	Sov + Corp			Sov	Corp	Financial	Other
	Global EM	IG	HY				
17-Feb	9.2	4.1	5.1	5.8	3.4	2.3	1.5
10-Feb	2.6	1.3	1.3	0.5	2.1	0.0	1.2
3-Feb	8	4	4	1	7	3	0
27-Jan	9	1	5	3	6	2	1
20-Jan	8	6	2	3	5	5	1
13-Jan	19	14	4	15	3	1	0
6-Jan	1	0	1	0	1	0	0

Source: Bondradar, Note: red color depicts 25% percentile over last 52 weeks








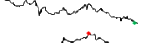



















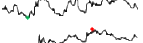
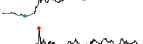
China

The RMB is little changed ahead of the latest round of US-China trade negotiation in Washington this week. The onshore CNY held steady at 6.76/dollar and the offshore CNH was unchanged at 6.77/dollar. Although President Trump called the most recent round of negotiations in Beijing "very productive" and is considering a 60-day extension beyond the March 1st deadline for negotiations, key differences remain and the threat of further escalation in the trade war remains a possibility.

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Global Financial Indicators

Last updated: 2/19/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2776	0.0	3	4	2	11
Europe		3232	-0.4	1	3	-5	8
Japan		21303	0.1	2	3	-4	6
China		2756	0.0	3	6	-14	10
Asia Ex Japan		68	-0.5	0	2	-14	7
Emerging Markets		42	-0.5	0	1	-15	8
Interest Rates			basis points				
US 10y Yield		2.66	0.0	-3	-12	-21	-2
Germany 10y Yield		0.10	-1.1	-3	-16	-64	-14
Japan 10y Yield		-0.03	-0.6	-2	-4	-9	-3
UK 10y Yield		1.16	-0.2	-2	-19	-44	-11
Credit Spreads			basis points				
US Investment Grade		120	-1.0	-2	-22	32	-27
US High Yield		420	-5.1	-14	-32	67	-101
Europe IG		68	0.4	-3	-7	16	-19
Europe HY		297	1.1	-12	-21	33	-56
EMBIG Sovereign Spread		357	0.0	0	-18	72	-57
Exchange Rates			%				
Dollar Index (DXY)		97.01	0.1	0	1	9	1
USDEUR		1.13	-0.2	0	-1	-9	-2
USDJPY		110.7	-0.1	0	-1	-4	-1
EM FX vs. USD		63.3	0.1	-1	0	-12	2
Commodities			%				
Brent Crude Oil (\$/barrel)		66	-0.2	6	6	1	23
Industrials Metals (index)		117	0.6	0	3	-16	7
Agriculture (index)		42	0.0	0	-2	-14	1
Implied Volatility			%				
VIX Index (% change in pp)		16.0	1.1	0.0	-1.8	-3.4	-9.4
10y Treasury Volatility Index		3.4	-0.2	-0.2	-0.4	-1.1	-1.2
Global FX Volatility		7.9	0.0	0.1	-0.3	-0.7	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		369	1.9	-12	-23	15	-47
Italy		273	7.1	2	26	142	23
Portugal		141	0.5	-10	-6	12	-7
Spain		111	-0.4	1	3	34	-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: 2/19/2019 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.77	0.0	0.1	0	-6	2		3.1	0.7	0	-1	-90	-15
Indonesia		14103	0.0	-0.2	1	-4	2		8.1	-4.6	6	-20	135	-8
India		71	-0.2	-0.3	0	-10	-2		7.5	0.6	2	-7	-25	7
Philippines		52	0.2	-0.3	1	0	1		5.7	0.0	1	-19	91	-62
Thailand		31	0.1	0.3	2	1	4		2.6	0.8	2	-5	25	-2
Malaysia		4.08	0.1	-0.1	1	-5	1		4.0	1.1	1	-6	-6	-12
Argentina		39	0.1	-1.9	-3	-49	-3		20.1	0.1	-57	-110	448	-290
Brazil		3.72	0.3	-0.3	1	-13	4		7.8	10.1	-20	-27	-89	-38
Chile		660	0.2	0.2	2	-10	5		4.4	0.0	3	-16	-49	-12
Colombia		3127	0.0	0.0	0	-9	4		6.4	1.9	-5	-14	2	-10
Mexico		19.23	0.1	0.2	0	-4	2		8.4	-1.3	-11	-28	67	-30
Peru		3.3	0.2	0.4	0	-2	1		5.6	-0.1	1	-9	68	-12
Uruguay		33	-0.1	-0.1	0	-13	-1		10.2	0.0	1	-4		-48
Hungary		282	-0.3	-0.4	-1	-11	-1		2.1	-0.4	5	-9	44	-14
Poland		3.84	-0.3	-0.5	-2	-13	-3		2.2	0.5	-1	-8	-49	-6
Romania		4.2	-0.3	-0.3	-1	-11	-4		4.1	-2.0	-6	-33	4	-16
Russia		66.2	0.1	-0.5	0	-15	5		8.1	-1.7	9	3	125	-32
South Africa		14.2	-0.5	-2.9	-2	-18	1		9.6	-1.6	5	-1	82	-1
Turkey		5.31	-0.2	-1.1	0	-29	0		15.3	-2.0	6	-130	332	-159
US (DXY; 5y UST)		97	0.1	0.3	1	9	1		2.49	-0.7	-1	-14	-14	-2

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2756	0.0	3	6	-14	10		184	1	2	6	25	-10
Indonesia		6495	0.0	1	1	-3	5		201	0	3	-2	34	-35
India		35353	-0.4	-2	-3	5	-2		167	-5	-9	-23	54	-29
Philippines		7834	-1.0	-2	-3	-10	5		93	1	4	-4	-8	-28
Malaysia		1707	1	1	1	-8	1		130	1	2	-14	22	-32
Argentina		37355	-0.3	1	6	12	23		689	1	21	18	295	-126
Brazil		96510	-1.0	0	0	14	10		236	1	-3	-6	16	-37
Chile		5372	-0.5	0	-2	-5	5		137	1	2	-4	20	-29
Colombia		1483	-0.4	1	6	-2	12		197	1	3	4	23	-31
Mexico		42981	0.0	-1	-3	-12	3		322	1	5	10	91	-32
Peru		20346	0	1	4	-2	5		144	0	2	-4	12	-24
Hungary		40365	-0.7	0	-3	3	3		115	1	5	-15	14	-33
Poland		59606	0.0	-2	-1	-5	3		54	1	5	-3	-8	-31
Romania		7731	-0.4	3	7	-7	5		197	2	-2	-14	72	-24
Russia		2461	-0.5	-3	-1	9	4		228	1	9	12	70	-24
South Africa		55015	-0.4	2	2	-6	4		307	1	-2	-16	78	-58
Turkey		101145	-0.6	-3	3	-13	11		412	1	-3	-12	122	-17
Ukraine		566	0.0	0	2	68	1		711	1	-29	23	297	-76
EM total		42	-0.5	0	1	-15	8		357	0	0	-18	72	-57

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