Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, February 22, 2019

- **US Treasury yields move higher as investors digest central bank meeting minutes (link)**
- **ECB minutes perceived as slightly hawkish; no confirmation on new TLTROs (link)**
- **Asian equities gain ahead of Trump meeting with Chinese Vice Premier (link)**
- **The PBOC signals further targeted stimulus (link)**
- **Mexican central bank meeting minutes indicates vigilance as inflation evolves (link)**

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Global risk assets edge higher on trade optimism

Most major equity markets are marching higher following incremental news on US-China trade talks. Yesterday, US equities slipped lower for the first time this week in reaction to a wave of disappointing economic data. However, S&P 500 futures have climbed higher overnight on trade-related optimism as news outlets confirmed US President Trump and Chinese Vice Premier Liu He will meet today. Investors also continue to decipher recent central bank communications. Treasury yields rose 3-5 bps across the curve as investors interpreted the latest FOMC meeting minutes as a bit more hawkish than the present narrative that markets were assuming. A similar trend was evident in Europe where the ECB January meeting minutes signaled a debate around TLTROs and that a decision on a fresh round of lending may not be imminent. On the other hand, in China the PBOC signaled further targeted stimulus in its quarterly monetary policy report, which drove Chinese stocks to post sharp gains between 2-2.3% and outperform the broader region.

Key Global Financial Indicators

Last updated: 2/22/19 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2775	-0.4	1	5	3	11
Eurostoxx 50		3272	0.3	1	5	-5	9
Nikkei 225		21426	-0.2	3	4	-1	7
MSCI EM		43	1.3	1	4	-13	9
Yields and Spreads			bps				
US 10y Yield		2.68	4.7	1	-6	-24	-1
Germany 10y Yield		0.10	-2.3	0	-13	-60	-14
EMBIG Sovereign Spread		352	0	-3	-20	66	-62
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.6	0.1	0	1	-11	2
Dollar index, (+) = $ appreciation		96.7	0.1	0	0	8	1
Brent Crude Oil ($/barrel)		67.5	0.6	2	10	2	25
VIX Index (%, change in pp)		14.2	-0.2	-2	-7	-4	-11

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

United States

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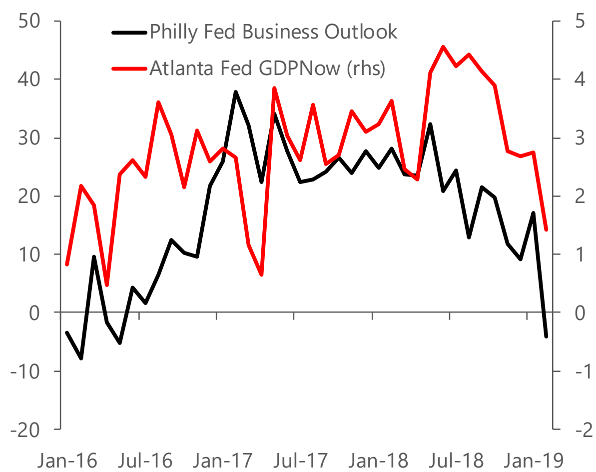
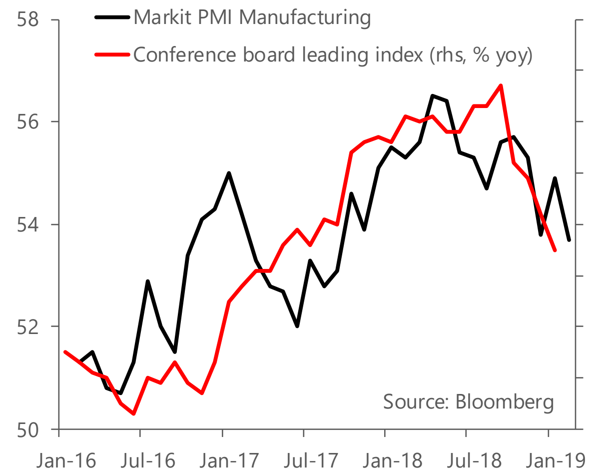
Thursday's heavy data calendar showed continued softening in the manufacturing sector. The **Philly Fed manufacturing index** plunged 21.1 points to -4.1 in February, well below the expected 14 and marking the worst reading since May 2016. New orders component was the key culprit, down to -2.3 from 21.3, the largest monthly decline since October 2008. The **Atlanta Fed GDPNow** forecast for 2018Q4 was further revised down by 0.1 ppts to 1.4% s.a.a.r. The flash reading of the **Markit composite PMI** index rose to 55.8 in February from previous 54.4, with improvements in employment and input price components. The composite was supported by a 2 point increase in the **services PMI** to 56.2, while the **manufacturing PMI** fell 1.2 points to 53.7, undershooting expectations and hitting the lowest level since September 2017.





US Treasury yields rose 3-5 bps and the curve steepened, as markets continued to digest the more hawkish than expected minutes from both the Fed and ECB, while progress around US-China trade talks and potential hedging activity related to large longer-term corporate bond issuance have outweighed a deluge of poor economic data. The 2-year yield rose 3 bps to 2.53%, the 10-year yield 5 bps to 2.69%, and the 30-year yield 5 bps to 3.05%. Fed funds futures started to catch up with the nominals, with the Dec-2019 implied yield up 2 bps to 2.39% and the Dec-2020 yield up 4 bps to 2.18%. However, interest rate volatility remained contained based on both swaptions and the MOVE index. **The Treasury's $8 bn 30-year TIPS auction was solid.** The offering stopped at 1.093%, compared to 1.235% from the $5 bn October sale. The cover ratio was 2.46x, again better than October. Indirect bidders took a record high share of 82%. The strong bid supported breakeven rates despite lower energy prices, with 10-year breakeven yield 2 bps wider to 1.913%. Stock markets finished modestly lower after 9 straight winning days in the NASDAQ and Russell 2000 index. Major indices dropped around 0.4%, led by energy and cyclical sectors. **This morning, S&P 500 futures point to a 0.4% gain at the open in reaction to confirmation that US President Trump and Chinese Vice Premier Liu He will meet today on trade.**

Europe

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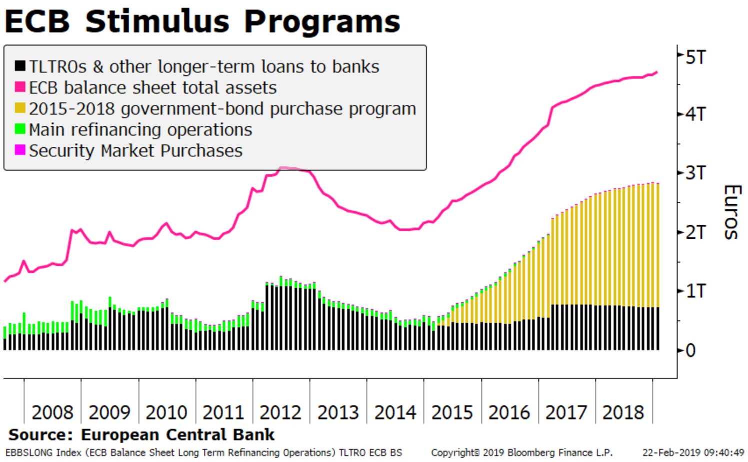
The ECB meeting minutes were perceived as more hawkish than expected. The minutes struck a cautious tone as the board could not draw a "clear-cut conclusion" regarding the medium-term outlook amid heightened uncertainties. Instead, it defers to the March meeting to assess the situation "in more depth". Moreover, the board is not fully committed to implement a new round of financing for banks (TLTROs) yet but urged swift analysis to be done. Still, markets are pricing in a higher likelihood that a new round of TLTROs will be forthcoming before the €700 bn of existing loans matures next year.



Core yields were a few basis points higher over the last two sessions but remained flat for the week. German yields are lower this morning (10-year, -2 bps to 0.10%) following a weaker than expect results from the Ifo business sentiment survey. Italian yields are up 4 bps across the curve with some blaming it on positioning ahead of the today's credit review by Fitch ratings. **Equity indices are up slightly on the day, leaving the EuroStoxx 600 to gain 0.5% for the week.**

Other Mature Markets

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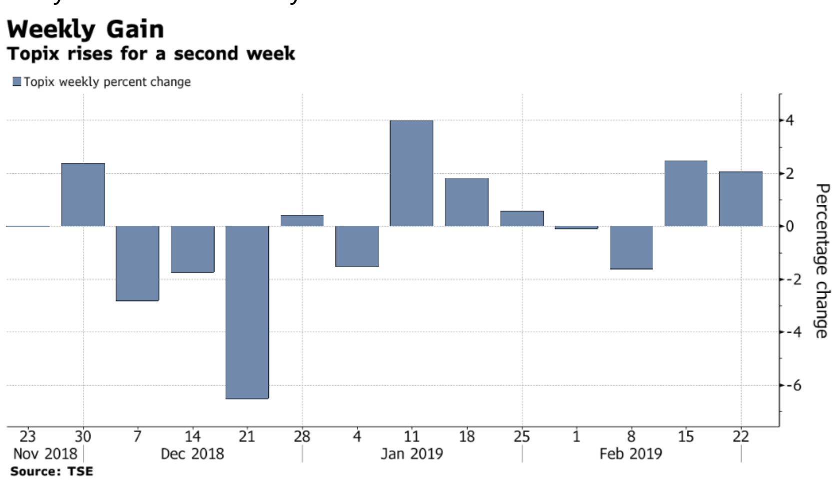
Japan

Equities (Topix -0.2%; Nikkei -0.2%) fell slightly despite tech and telecoms outperforming. Meanwhile, Japan's CPI (all items less fresh food) gained 0.8% yoy in January, from 0.7% yoy in December. While inflation was up slightly, it remains far from the BoJ's 2.0% inflation target. The BoJ would consider extra monetary easing, should a stronger yen affect Japan's inflation and economy, according to comments by BoJ Governor Kuroda in parliament earlier in the week. **10-year JGB yields rose 0.1bps to -0.05%.** The yen was stable today.



Emerging Markets

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Latin American assets were mixed on Thursday. Among equities, Argentina (-1.8%) saw the most losses, while Mexico (+0.9%), Chile (+0.5%) and Brazil (+0.4%), all saw gains. Among regional currencies, the Brazilian real (-0.9%) weakened the most against dollar on speculation that the country's pension bill will face a long debate in Congress, followed by the Colombian peso (-0.4%) and the Chilean peso (-0.2%) as commodity prices halted their rally. **Asian** stocks gained (+0.5%) on incrementally positive news flow on US-China trade negotiations. Dispersion across markets was wide, with Chinese equities strongly outperforming (Shanghai +1.9%, Shenzhen +2.3%), while Indonesia (-0.6%) and Malaysia (-0.5%) posted losses. Asian currencies and bond yields were broadly stable on the day. In **EMEA**, most major bourses are higher, with Turkey and Poland (both +0.7%) outperforming. Currencies were little changed with the only notable move being a 0.5% appreciation of the Ukrainian hryvnia.

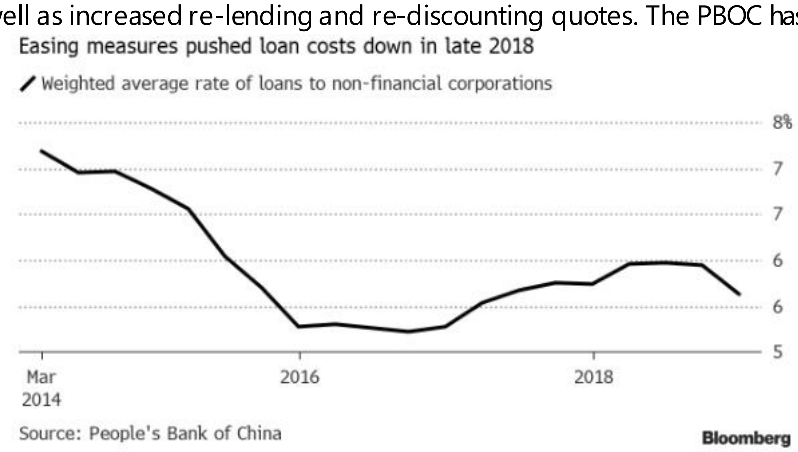
Key Emerging Market Financial Indicators

Last updated: 2/22/19 8:11 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		42.57	1.3	1	4	-13	9
MSCI Frontier Equities		28.75	0.5	0	4	-18	10
EMBIG Sovereign Spread (in bps)		352	0	-3	-20	66	-62
EM FX vs. USD		63.57	0.1	0	1	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.72	0.0	1	1	-5	2
Indonesian Rupiah		14058	0.1	1	1	-3	2
Indian Rupee		71.14	0.2	0	0	-9	-2
Argentine Peso		39.40	0.3	-2	-5	-49	-4
Brazil Real		3.75	0.4	-1	2	-13	3
Mexican Peso		19.23	0.3	0	0	-3	2
Russian Ruble		65.53	0.1	1	2	-14	6
South African Rand		14.01	0.1	1	0	-17	2
Turkish Lira		5.33	-0.2	-1	0	-29	-1
EM FX volatility		8.86	0.0	0.1	-0.2	0.4	-0.9

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

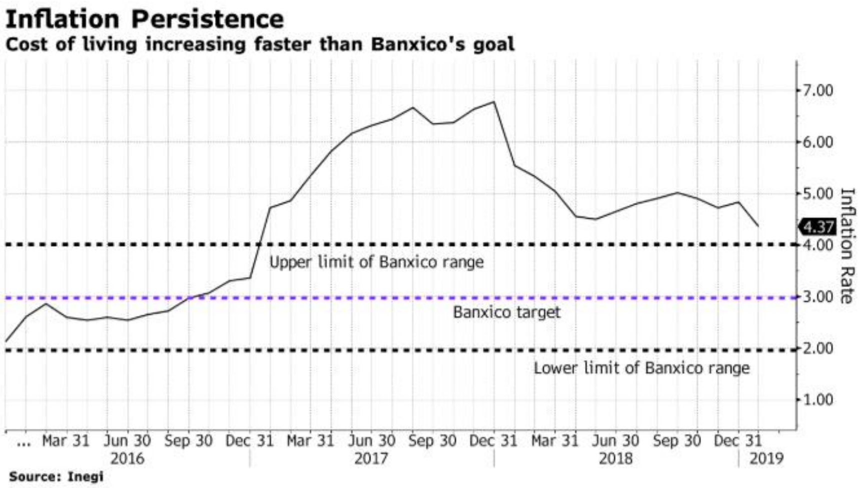
China

The PBOC signaled further targeted stimulus in its quarterly monetary policy report. The central bank will enhance the combination of monetary policy tools such as targeted reserve-ratio cuts, targeted medium-term lending facilities, as well as increased re-lending and re-discounting quotes. The PBOC has already cut the RRR by 100 bps in January. While emphasizing countercyclical measures, the report also stated that the authorities will not resort to 'flood-like' stimulus, a message that they have been communicating since the second half of 2018. **Chinese stocks (Shanghai +1.9%; Shenzhen +2.3%) outperformed the region.**



Mexico

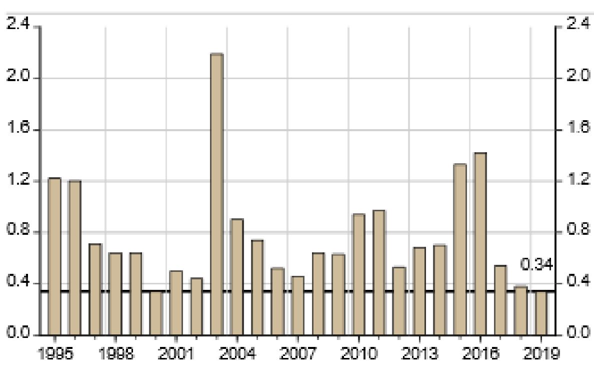
The minutes from the MPC's latest meeting showed that the board still sees the balance of risks for inflation on the upside following risks from potential energy price pressures, higher wage revisions, global trade protectionism or fiscal deterioration in Mexico. Amid those risks they highlighted the potential for another downgrade of Pemex's credit rating. This event could negatively affect the conditions for external financing in the country and the overall performance of the financial markets. Analysts believe that if core inflation remains sticky, Banxico is likely to keep the rate at the current level.



Brazil

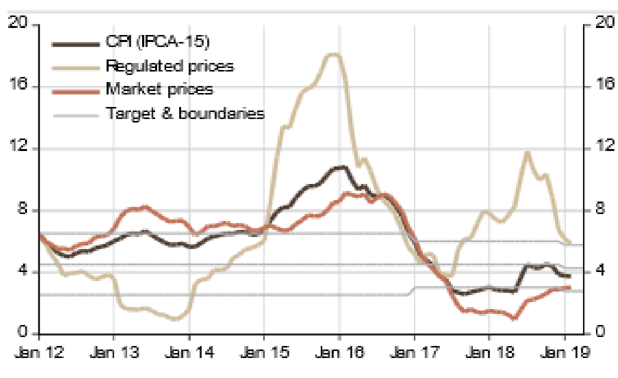
February mid-month inflation rose 0.34% mom (vs expected +0.36% mom) as falling gasoline prices kept prices in check, while 12-month core inflation was 3.73%, its slowest pace since June. Annual inflation remains more than a half point below this year's 4.25% target, with economists expecting consumer prices to rise only slightly by year-end. Market analysts expect a gradual economic recovery to contribute to higher services prices, while also considering some depreciation of real because of the recent strengthening of the US dollar.

Figure 3: February IPCA-15 inflation (% MoM)



Source: IBGE and UBS

Figure 1: IPCA-15 and IT boundaries (% YoY)



Source: IBGE, BCB and UBS

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Global Financial Indicators

Last updated: 2/22/19 8:09 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2775	-0.4	1	5	3	11
Europe		3272	0.3	1	5	-5	9
Japan		21426	-0.2	3	4	-1	7
China		2804	1.9	5	9	-14	12
Asia Ex Japan		69	-0.2	1	5	-11	9
Emerging Markets		43	1.3	1	4	-13	9
Interest Rates					basis points		
US 10y Yield		2.68	4.7	1	-6	-24	-1
Germany 10y Yield		0.10	-2.3	0	-13	-60	-14
Japan 10y Yield		-0.04	0.1	-2	-4	-9	-4
UK 10y Yield		1.16	-4.2	0	-16	-39	-12
Credit Spreads					basis points		
US Investment Grade		123	1.0	2	-9	37	-24
US High Yield		417	-2.5	-8	-13	77	-104
Europe IG		66	-0.3	-3	-13	12	-22
Europe HY		289	-3.2	-11	-41	20	-63
EMBIG Sovereign Spread		352	0.0	-3	-20	66	-62
Exchange Rates					%		
Dollar Index (DXY)		96.67	0.1	0	0	8	1
USDEUR		1.13	-0.1	0	0	-8	-1
USDJPY		110.9	-0.2	0	-1	-4	-1
EM FX vs. USD		63.6	0.1	0	1	-11	2
Commodities					%		
Brent Crude Oil ($/barrel)		68	0.6	2	10	2	25
Industrials Metals (index)		121	1.1	5	7	-13	11
Agriculture (index)		42	0.3	1	-1	-14	2
Implied Volatility					%		
VIX Index (%, change in pp)		14.2	-0.2	-2.0	-6.6	-4.5	-11.2
10y Treasury Volatility Index		3.6	0.1	0.0	-0.6	-1.2	-1.0
Global FX Volatility		7.7	0.0	-0.1	-0.3	-0.7	-1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		371	4.5	-1	-18	5	-44
Italy		278	7.1	8	27	141	28
Portugal		138	-0.6	-8	-11	6	-10
Spain		107	-0.8	-7	-3	26	-11

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
2/22/2019	Level		Change (in %)					Level		Change (in basis points)				
8:11 AM	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		6.72	0.0	0.8	1	-5	2		3.1	0.2	3	-1	-88	-13
Indonesia		14058	0.1	0.6	1	-3	2		8.1	5.9	-5	-23	131	-11
India		71	0.2	0.1	0	-9	-2		7.5	-0.5	1	-9	-38	4
Philippines		52	0.2	0.7	2	0	1		5.6	-0.1	-5	-23	84	-67
Thailand		31	-0.4	-0.2	2	1	4		2.6	0.9	3	-3	24	-1
Malaysia		4.08	0.0	0.2	1	-4	1		4.0	0.8	4	-5	-7	-12
Argentina		39	0.3	-2.0	-5	-49	-4		21.2	59.3	132	-2	536	-182
Brazil		3.75	0.4	-1.2	2	-13	3		7.8	2.5	7	-19	-78	-32
Chile		652	0.3	1.8	3	-9	6		4.3	-0.2	-2	-18	-50	-13
Colombia		3116	0.3	0.8	1	-8	4		6.4	1.3	0	-13	2	-9
Mexico		19.23	0.3	0.1	0	-3	2		8.4	-1.9	-10	-34	66	-33
Peru		3.3	0.1	0.7	0	-2	2		5.6	1.3	-2	-9	65	-11
Uruguay		33	0.0	-0.2	0	-13	-1		10.3	4.0	5	1		-43
Hungary		281	-0.2	0.4	0	-10	0		2.0	4.0	-2	-17	41	-18
Poland		3.83	-0.2	0.1	-1	-12	-2		2.2	2.6	-2	-9	-52	-7
Romania		4.2	-0.1	-0.2	0	-10	-3		4.2	2.0	7	-33	18	-6
Russia		65.5	0.1	1.2	2	-14	6		8.1	-2.6	-6	5	128	-31
South Africa		14.0	0.1	0.5	0	-17	2		9.6	7.5	-8	-1	102	0
Turkey		5.33	-0.2	-0.9	0	-29	-1		15.7	4.4	28	-84	381	-117
US (DXY; 5y UST)		97	0.1	-0.2	0	8	1		2.51	-0.7	1	-7	-15	0

	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		2804	1.9	5	9	-14	12		182	1	0	-1	21	-12
Indonesia		6501	-0.6	2	1	-1	5		201	4	2	-5	40	-35
India		35871	-0.1	0	-2	6	-1		164	0	-8	-21	54	-32
Philippines		7962	0.4	1	-1	-6	7		91	2	-1	-8	0	-30
Malaysia		1721	-1	2	1	-7	2		126	1	0	-20	15	-36
Argentina		35852	-1.8	-4	5	8	18		708	0	19	21	305	-107
Brazil		96932	0.4	-1	2	12	10		240	1	4	-8	12	-33
Chile		5439	0.5	1	1	-5	7		136	3	-1	-10	10	-30
Colombia		1478	0.0	-1	5	-4	12		194	1	-3	-4	19	-34
Mexico		43578	0.9	2	0	-11	5		330	2	9	12	95	-24
Peru		20423	-1	1	5	-1	6		143	1	-1	-8	10	-25
Hungary		40661	-0.1	1	-1	5	4		113	1	-1	-23	17	-35
Poland		60300	0.6	1	1	-4	5		54	3	2	-10	-4	-31
Romania		7759	-1.2	1	8	-6	5		199	0	3	-14	83	-22
Russia		2490	0.8	0	1	7	5		222	3	-7	6	67	-30
South Africa		56021	1.0	3	4	-4	6		298	2	-10	-25	73	-67
Turkey		103287	0.8	1	4	-12	13		416	4	8	2	125	-13
Ukraine		555	-0.1	-2	0	65	-1		677	-6	-41	13	248	-110
EM total		43	1.3	1	4	-13	9		352	0	-3	-20	66	-62

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