



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, February 25, 2019


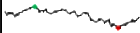








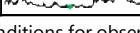
- Chinese equities surge over 5% on US tariff delay amid “substantial progress” in trade negotiations ([link](#))
- Fed officials outline plans to review policy framework ([link](#))
- Key US bond market volatility measures approach historic lows ([link](#))
- PM May sets March 12 as date for Parliament vote on forthcoming Brexit deal ([link](#))
- Fitch’s maintains Italy’s sovereign rating at BBB with negative outlook ([link](#))
- BoJ considers monetary easing options if inflation does not pick up ([link](#))

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## US tariff delay gives further boost to global market rally

**Markets are starting the week on a strong note, boosted by hopes that US-China trade talks will lead to an agreement.** Chinese equities gained more than 5%, US stock futures are trading 0.5% higher, and most other major equity markets are also up 0.3 to 0.8%. US President Trump tweeted yesterday that he will delay the increase in tariffs to 25% from 10% on \$200 bn of Chinese goods that had been scheduled for March 1. He cited “substantial progress” in the negotiations in areas like “intellectual property protection, technology transfer, agriculture, services, currency and many other issues.” His announcement raised hopes among investors that trade frictions could be resolved, providing a further boost to an equity rally that has already lifted global stocks 11% year-to-date. US 10-year bond yields rose 2-3 bps overnight to 2.68% while the dollar depreciated modestly against major currencies.

### Key Global Financial Indicators

Last updated: 2/25/19 7:59 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2793	0.6	2	5	2	11
Eurostoxx 50		3280	0.3	1	4	-5	9
Nikkei 225		21528	0.5	1	4	-2	8
MSCI EM		43	0.8	2	2	-13	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.68	-4.0	1	-8	-19	-1
Germany 10y Yield		0.11	1.6	0	-8	-54	-13
EMBIG Sovereign Spread		351	-2	-6	-7	64	-63
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		63.9	0.3	1	0	-11	3
Dollar index, (+) = \$ appreciation		96.4	-0.2	-1	1	7	0
Brent Crude Oil (\$/barrel)		66.2	-1.4	0	7	-2	23
VIX Index (% change in pp)		13.8	0.2	-1	-4	-3	-12

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

**In the week ahead, markets will closely watch any further statements on US-China trade negotiations while keeping an eye on Brexit and other potential market movers.** The continued economic slowdown in Asia is in the spotlight as analysts forecast falling PMIs in China, lower growth in India and weakening industrial production in Japan. Fed Chair Powell is due to make his next semi-annual presentations to Congress tomorrow and Wednesday. The Bank of Korea meets on Thursday and is expected to stay on hold at 1.75%. The UK Parliament is scheduled to hold a vote on the withdrawal agreement on Wednesday.

**The highlights of the US data calendar this week will be durable goods on Wednesday, the latest Q4 GDP estimate on Thursday, and PCE inflation and the ISM manufacturing on Friday.** The PCE report will draw special interest as it is the Fed's preferred inflation measure and the market is in the process of reassessing its view of the likely path of interest rates. In the euro area, some key confidence measures come out on Wednesday, but Friday will again draw the most interest when the widely followed PMI data are due. The UK also reports PMIs on Friday and in Japan there will be CPI, PMI and employment data on Thursday. Chinese PMI data and Brazilian and Indian GDP are due on Thursday.

## United States

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**On Friday, US equity markets rose on hopes that a trade deal is near and on reports that the March 1 tariff deadline would be postponed.** However, Treasury yields fell as fresh lows in euro area bond yields dragged their global peers down. Dovish speeches from several FOMC members also helped (see below). The 10-year bund yield was back below 10 bps at the Friday close, while the China 10-year yield was at a two-year low near 3%. Some worry that low rates worldwide signal a broadening slowdown in the global economy and that markets are at risk for a selloff. However, US equity investors shrugged off these concerns as the S&P 500 posted its fourth consecutive week of gains and is now up 11.4% for the year. The Dow and Nasdaq have not seen a single down week this year, the longest since May 1995 and May 2009, respectively. US mid-cap and small-cap stocks have risen even higher this year and all sectors have shared in the rally.

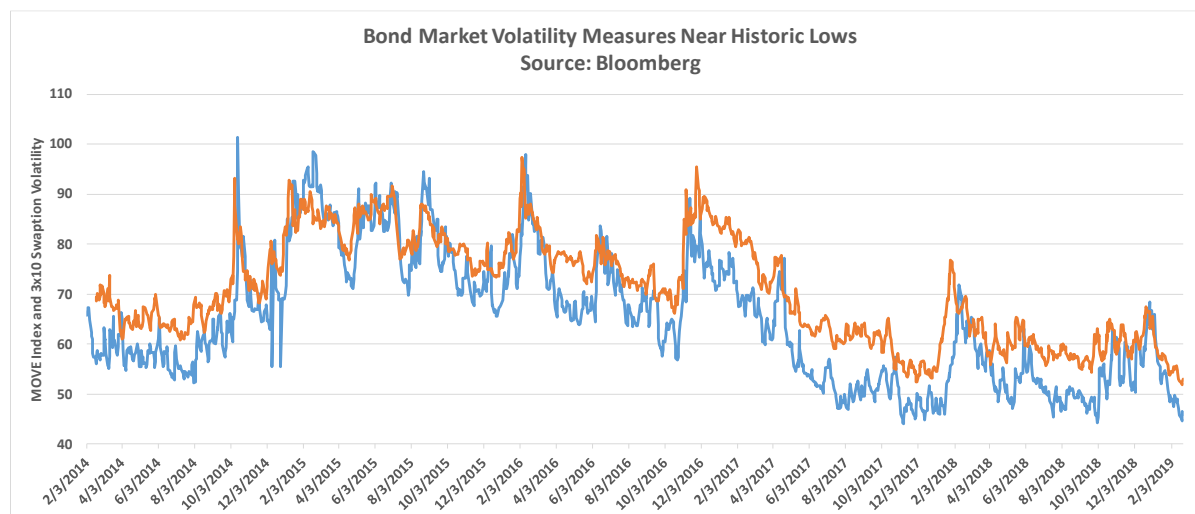
### Year-To-Date Performance (Friday 4pm close)

S&P 500	+11.4%
Dow	+11.6%
Nasdaq	+13.5%
S&P 400 Mid Cap	+16.3%
Russell 2000 Small Cap	+17.9%

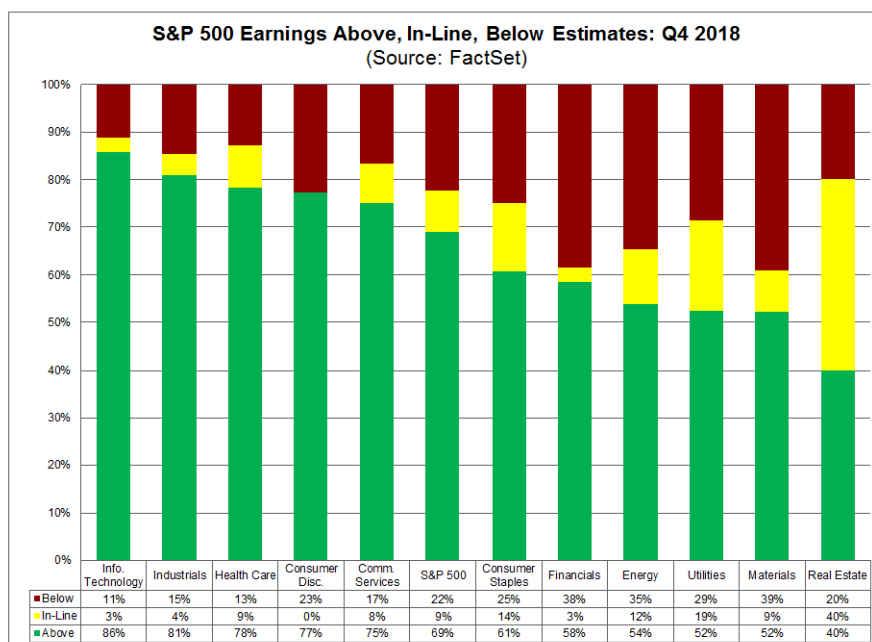
**At a New York Fed policy conference on Friday, Vice Chair Clarida outlined the Fed's plans to review its policy framework in response to prolonged low rates and continued low inflation.** The review will cover strategy, tools and communications and the conclusions will be published in 2020H1. Vice Chair Quarles said it might be appropriate to operate with a sizable quantity of reserves to buffer against possible shortages. While repeating that the balance sheet runoff is likely to stop this year, he said the committee is considering holding the balance sheet "fixed for some time" to allow reserves to gradually approach target levels.

**Key bond market volatility measures such as the MOVE index and benchmark three-month/ten-year swaption volatility are near historic lows.** The eurodollar and Fed Funds futures markets continue to predict zero rate hikes in 2019 and forecast lower rates in 2020. The market currently views the Fed as highly dovish after the recent shift in communications. Some analysts are worried that the market is overly

complacent and has tilted too far to the dovish side since the January 30 FOMC meeting. They point to the latest FOMC minutes which were not as dovish as expected and warn that the market could be at risk of a significant volatility shock. Other analysts express a dissenting view, arguing that the economy is slowing down faster than most realize and that the Fed is ahead of the market in predicting a slowdown. If true, this would imply a continuation of the low volatility trend for bonds as interest rates remain lower than expected.



**Q4 US corporate earnings were lower than recent historical averages.** Of the 89% of the S&P 500 that have reported so far, 69% were able to beat their earnings per share (EPS) estimates, which is lower than the average over the past five years. The results in terms of overall revenue were more mixed. Although an above-average 61% of companies beat their revenue forecasts, they beat their forecasts by just 1.1% on average, which is also below the five-year average. Contacts think the post-Christmas rally is being driven more by perceptions of Fed policy changes and technical factors than fundamentals.



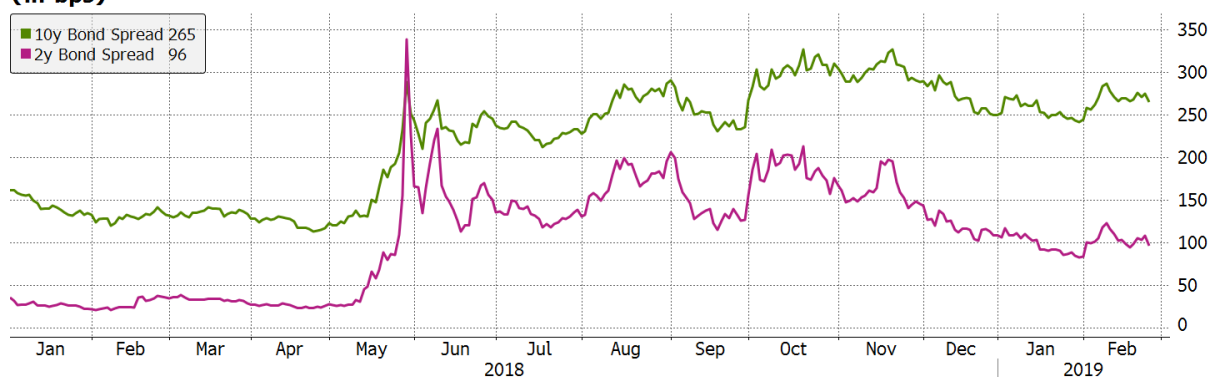
## Europe

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**European bourses are higher across the board**, following gains in China (EuroStoxx 600 +0.2%, Germany's DAX +0.3%, and France's CAC 40 +0.4%). Italian equities are outperforming with gains of 1%. Bank equities (+1.3%) also opened the week higher. The UK's FTSE 100 is 0.2% higher, while the FTSE 250 lost 0.4% this morning.

**Italian bonds have rallied following Fitch's decision to maintain the sovereign rating at BBB with a negative outlook.** The yields on 2- and 10-year bonds have dropped 10 bps to 0.41% and 8 bps to 2.76%, respectively. The agency warned, however, that "uncertainty over fiscal forecasts beyond 2019" remains a source of concern. **Core Eurozone sovereign bond markets are steady:** German and French 10y bonds inched up 2 bps to 0.11% and 0.53%, respectively.

### Italy-Germany Sovereign Spreads (in bps)



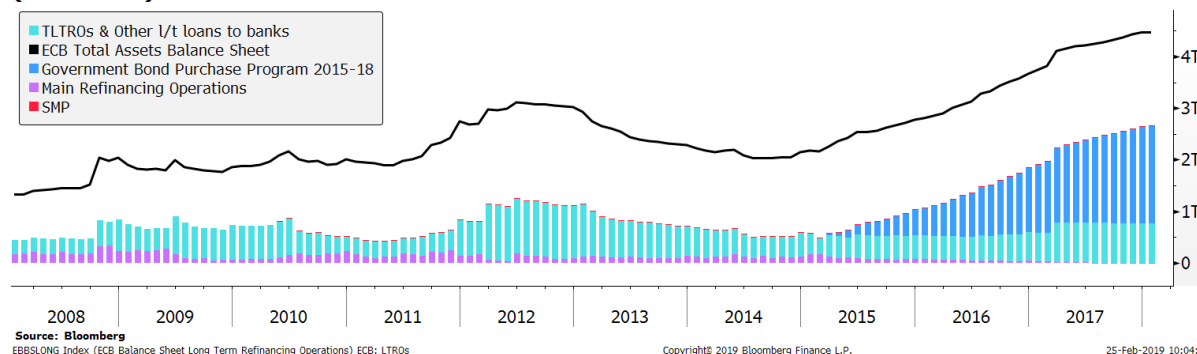
**PM May has set March 12 as the date for Parliament to vote on a forthcoming Brexit deal still being negotiated with the EU.** Prospects for May's success seem slim as the British premier faces strong opposition from the EU to re-negotiate the withdrawal agreement, and dwindling MP support in the UK:

- Over the weekend, three top conservative MPs joined the eight Labour MPs who recently formed a new party. The defections from the Tory side bring the government's effective majority in parliament to only 8.
- Regarding the re-negotiation of the withdrawal agreement, the EU has repeatedly stated that it would not reopen the terms already offered and that were rejected by the UK Parliament in recent weeks. Nonetheless, and according to some news outlets, the EU would be open to considering an extension to Brexit that would keep Britain within the EU until 2021. There are also unconfirmed reports that three EU officials have acknowledged that granting a long extension to the UK would be preferable, as a short one would not be enough to break the deadlock.

**Top ECB officials believe that there is no urgent need to decide on a new TLTRO.** At separate conferences last week, Governing Council members Nowotny and Villeroy indicated that the ECB is in no rush to decide whether a TLTRO 3 operation is forthcoming. Mr. Nowotny noted that such a decision could be taken towards the summer, while Mr. Villeroy said that the ECB would look at the overall needs of eurozone banks rather than those of a particular jurisdiction. He added, however, that the central bank would examine all options, including new LTROs. European banks are facing the expiration of about \$800 bn worth of cheap funding from the ECB starting in June 2020. The expectation of most of our market

contacts is that the ECB will conduct a new TLTRO to avoid a sudden tightening of financial conditions in the eurozone at a time when macroeconomic data is faltering.

### ECB Asset Program (in tn euros)



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

#### Japan

**In an interview with the Asahi newspaper BoJ Governor Kuroda outlined four monetary easing options if there is lack of progress with inflation moving towards the target:** (1) lowering short-term rates further into negative territory, (2) cutting the long-term yield target below zero percent, (3) buying more assets including government bonds or (4) increasing the pace of expansion of the monetary base. By contrast, according to Reuters, Koichi Hamada, an economic adviser to Prime Minister Shinzo Abe, stated that the BoJ can abandon its 2% inflation target or suspend efforts to meet it, should the job market tighten enough. He is considered among the key architects of the Abenomics policies, which are based on the three arrows of monetary loosening, fiscal stimulus and structural reforms. He also mentioned that the BoJ's ultra-loose monetary policy is progressing well despite inflation still below 1%. In today's trading, Japanese equities gained (Topix +0.7%; Nikkei +0.5%) and 10-year JGB yields rose 0.4 bps to -0.04%. The yen depreciated 0.2% against the US dollar.

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

**Asian equities (+0.7%) rose on progress in US-China trade negotiations and tariff deadline extension.** Chinese equities strongly outperformed (Shanghai +5.4%; Shenzhen +5.3%) with gains in other Asian markets were more muted at below 1%. Regional currencies were mostly stable against the dollar, with the Korean won's 0.6% appreciation and the offshore renminbi's 1% depreciation standing out. **EMEA** bourses also gained, with advances in Turkish (+1.5%) and Bulgarian (1.4%) stocks leading the way. EMEA currencies also strengthened to the dollar by about 0.3%. **Latin American equities rallied on Friday**, with Argentina up 2.2% and other major economies up 0.4%-1.0%, on the back of rising stock prices in the US and early signs of progress in US-China trade negotiations. Regional currencies strengthened 0.5%-0.8% across the board on a slightly weaker dollar and higher commodity prices. 10-year government bond yields fell 3 bps in Brazil and were mainly stable elsewhere. In other economic news, **Paraguay's central bank cut its policy rate by 25 bps to 5%.**

## Key Emerging Market Financial Indicators

Last updated: 2/25/19 8:01 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		43.04	0.9	2	2	-13	10
MSCI Frontier Equities		28.91	0.6	0	3	-18	11
EMBIG Sovereign Spread (in bps)		351	-2	-6	-7	64	-63
EM FX vs. USD		63.90	0.3	1	0	-11	3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.69	0.4	1	1	-6	3
Indonesian Rupiah		14018	0.3	1	1	-3	3
Indian Rupee		70.98	0.2	1	0	-9	-2
Argentine Peso		39.19	0.9	-2	-4	-49	-4
Brazil Real		3.73	0.5	0	1	-13	4
Mexican Peso		19.05	0.5	1	0	-2	3
Russian Ruble		65.38	0.0	1	1	-15	7
South African Rand		13.88	0.9	2	-2	-17	3
Turkish Lira		5.31	0.1	0	-1	-29	0
EM FX volatility		8.71	1.0	-0.1	-0.3	0.5	-1.1

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

## China

**Chinese equities surged (Shanghai +5.4%; Shenzhen +5.3%) on President Trump saying he will hold off on raising tariffs.** Trading volumes on both major Chinese exchanges were very heavy at close to five times average daily trading activity. On a sectoral basis, financials and tech stocks outperformed, while defensives lagged. **US President Trump tweeted that he will be delaying the increase in tariffs to 25% from 10% on \$200 bn of Chinese goods that were scheduled for March 1.** He pointed out "substantial progress" in the latest round of US-China talks that wrapped up on Sunday, citing progress in "intellectual property protection, technology transfer, agriculture, services, currency and many other issues." He also stated that he plans to meet Chinese President Xi Jinping at Mar-a-Lago, Florida, should additional progress be made. US Treasury Secretary Mnuchin said that a leaders' meeting at Mar-a-Lago is tentatively planned for late March. **China's official Xinhua News Agency echoed Trump's tweet but also struck a cautious tone on difficult negotiations ahead.**

**The Chinese leadership signaled its desire to support the economy while balancing financial risk prevention.** According to Xinhua News, during a Politburo meeting on January 22, President Xi mentioned the strengthening of countercyclical adjustment of fiscal and monetary policy to ensure that the economy operates in a reasonable range. Some analysts interpreted the meeting language as suggesting a greater emphasis on growth. At the same time, **Xi also highlighted that China will deepen reforms and further open up the financial sector.** Financial stocks rallied in response (+7.6%).

## Bulls in a China Shop

CSI 300 closes in a bull market after biggest gain since 2015

■ CSI 300 Index

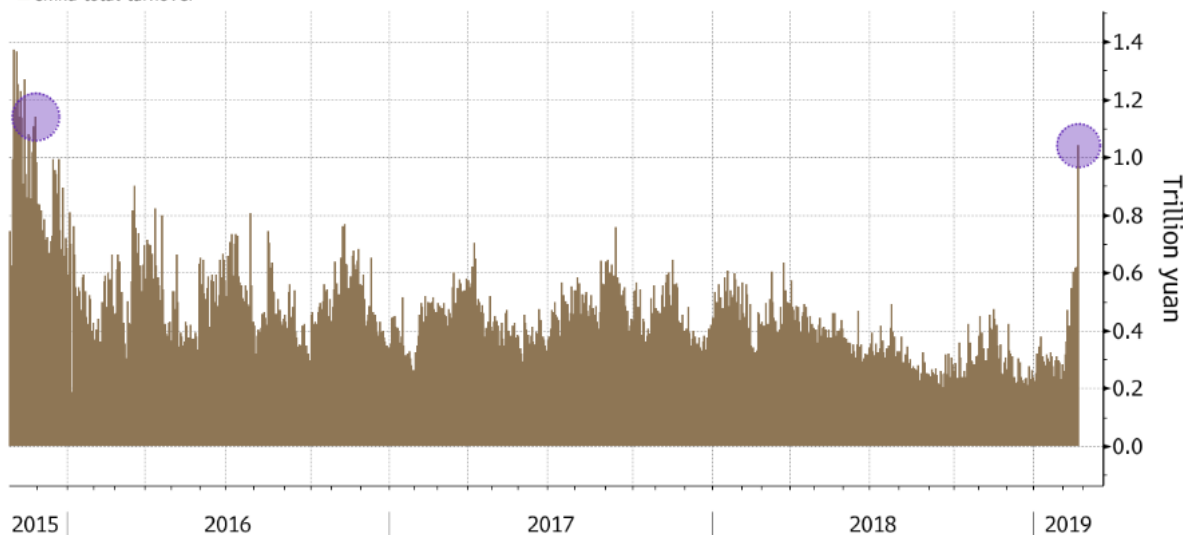


Source: Bloomberg

Bloomberg

Turnover on Chinese stock exchanges hit the highest since Nov. 2015

■ China total turnover



Source: Bloomberg

## Mexico

**Inflation slowed unexpectedly, falling within the target range.** Inflation declined to 3.9% y/y in mid-February from 4.2% at end-January and is now within the central bank's target range of 2% to 4%. Analysts expected inflation would slow to 4%. The decline was driven mainly by currency appreciation following the passage of a well-received budget.

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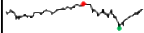




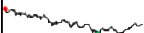










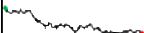



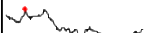


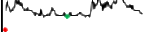





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## Global Financial Indicators

Last updated: 2/25/19 8:00 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2793	0.6	2	5	2	11
Europe		3280	0.3	1	4	-5	9
Japan		21528	0.5	1	4	-2	8
China		2961	5.6	8	14	-10	19
Asia Ex Japan		70	1.1	2	3	-11	10
Emerging Markets		43	0.8	2	2	-13	10
<b>Interest Rates</b>			basis points				
US 10y Yield		2.68	-4.0	1	-8	-19	-1
Germany 10y Yield		0.11	1.6	0	-8	-54	-13
Japan 10y Yield		-0.04	0.2	-1	-3	-9	-4
UK 10y Yield		1.18	1.9	1	-13	-34	-10
<b>Credit Spreads</b>			basis points				
US Investment Grade		122	-0.7	2	-10	34	-25
US High Yield		419	1.5	-2	-23	71	-102
Europe IG		65	-1.8	-3	-9	12	-22
Europe HY		286	-6.4	-10	-35	23	-67
EMBIG Sovereign Spread		351	-2.0	-6	-7	64	-63
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.36	-0.2	-1	1	7	0
USDEUR		1.14	0.2	0	0	-8	-1
USDJPY		110.7	0.0	0	-1	-3	-1
EM FX vs. USD		63.9	0.3	1	0	-11	3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		66	-1.4	0	7	-2	23
Industrials Metals (index)		122	0.3	4	5	-12	11
Agriculture (index)		42	0.3	0	-2	-14	2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.8	0.2	-1.2	-3.7	-2.7	-11.7
10y Treasury Volatility Index		3.6	-0.1	-0.1	-0.3	-1.3	-1.0
Global FX Volatility		7.6	0.1	-0.3	-0.3	-0.6	-1.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		367	-5.0	0	-23	-8	-49
Italy		268	-6.8	3	23	127	18
Portugal		136	-2.5	-4	-9	-2	-12
Spain		106	-2.2	-6	2	11	-12

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: 2/25/2019 8:09 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		6.69	0.4	1.2	1	-6	3		3.1	0.7	3	-1	-88	-12		
Indonesia		14018	0.3	0.6	1	-3	3		8.0	-3.9	-11	-29	116	-15		
India		71	0.2	0.5	0	-9	-2		7.5	2.7	1	-3	-38	7		
Philippines		52	0.2	0.7	2	0	1		5.6	-8.1	-13	-26	75	-75		
Thailand		31	0.1	-0.1	1	0	4		2.6	-0.7	1	-3	23	-2		
Malaysia		4.07	0.3	0.5	1	-4	2		4.0	0.1	2	-5	-8	-12		
Argentina		39	0.9	-1.5	-4	-49	-4		21.0	-19.1	89	-20	507	-201		
Brazil		3.73	0.5	0.2	1	-13	4		7.8	-2.5	13	-15	-83	-35		
Chile		649	0.3	1.8	3	-10	7		4.3	0.5	-1	-20	-49	-13		
Colombia		3106	0.6	1.2	1	-8	5		6.4	-1.6	1	-17	3	-11		
Mexico		19.05	0.5	1.0	0	-2	3		8.4	-1.8	-6	-35	68	-34		
Peru		3.3	0.2	0.6	1	-2	2		5.6	-2.2	-2	-13	64	-13		
Uruguay		33	0.2	0.0	0	-13	-1		10.3	0.0	5	-8		-43		
Hungary		280	0.3	0.5	0	-9	0		2.0	-6.0	-10	-22	35	-24		
Poland		3.82	0.2	0.3	-2	-11	-2		2.2	-0.2	-1	-9	-50	-8		
Romania		4.2	0.1	0.0	0	-10	-3		4.2	-1.0	7	-30	19	-7		
Russia		65.4	0.0	1.3	1	-15	7		8.1	-1.4	-2	2	127	-32		
South Africa		13.9	0.9	1.7	-2	-17	3		9.5	-11.6	-12	-12	85	-11		
Turkey		5.31	0.1	-0.3	-1	-29	0		15.7	3.1	43	-79	382	-114		
US (DXY; 5y UST)		96.4	-0.2	-0.6	1	7	0		2.49	2.0	0	-11	-13	-2		

	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		2961	5.6	8	14	-10	19		181	-1	-2	4	22	-13
Indonesia		6525	0.4	0	1	-1	5		201	-2	0	8	32	-35
India		36213	-0.9	2	1	6	0		169	5	2	-15	53	-27
Philippines		7962	0.0	1	-1	-6	7		92	-2	0	-1	-8	-29
Malaysia		1725	0.2	2	1	-7	2		124	-2	-5	-11	14	-38
Argentina		36647	2.2	-2	5	12	21		685	-9	-3	20	279	-130
Brazil		97886	1.0	0	0	12	11		236	-2	1	1	9	-37
Chile		5491	0.8	2	1	-4	8		135	-2	-1	-4	13	-31
Colombia		1492	0.0	1	5	-3	13		190	-2	-6	-5	10	-38
Mexico		43739	0.2	2	0	-10	5		323	-3	2	12	86	-31
Peru		20560	0.7	1	4	-1	6		140	-2	-4	-4	2	-28
Hungary		40803	0.0	0	0	7	4		113	-3	-1	-17	15	-35
Poland		60616	0.6	2	0	-3	5		55	-2	2	-4	-2	-30
Romania		7786	0.3	0	10	-7	5		200	1	3	-17	79	-21
Russia		2484	-0.1	0	-1	6	5		222	-2	-5	11	68	-30
South Africa		56051	0.0	1	4	-5	6		298	-3	-8	-8	69	-67
Turkey		104741	0.4	3	3	-11	15		416	-2	5	22	118	-13
Ukraine		555	0.0	-2	1	64	-1		678	-2	-32	35	247	-109
EM total		43	0.9	2	2	-13	10		351	-2	-6	-7	64	-63

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