



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, February 27, 2019









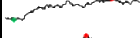

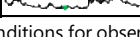
- **Weak US economic data trend continues** ([link](#))
- **Analyst survey predicts US credit cycle will turn in 2020** ([link](#))
- **UK parliament to vote on key amendments to Brexit agreement** ([link](#))
- **Military tensions between India and Pakistan weigh on markets** ([link](#))
- **EM bond issuance slowed notably in February** ([link](#))

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Markets turn cautious as geopolitics comes into focus

Markets are trading with a risk-off tone today on disappointing corporate earnings signals out of Europe and geopolitical tensions in the Kashmir region. Global equities are about 0.4% lower, led by British and Asian stocks. One day after India bombed a suspected-terrorist training camp inside Pakistan, Pakistani fighter jets shot down two Indian aircraft. The escalation triggered a volatile trading session in which both countries' stock markets and currencies closed lower. Geopolitics is also in focus at US President Trump's summit with North Korea's Kim Jong Un through tomorrow. Meanwhile, the first day of Fed Chair Powell's testimony revealed little new guidance to investors regarding the Fed's expected policy path. His testimony will continue today. On Brexit, the UK parliament scheduled three key votes on March 12 to 14 to decide (1) whether it approves amendments to the Brexit deal, (2) it rejects the possibility of a no-deal outcome, or (3) petitions for an extension to Article 50 (see below).

Key Global Financial Indicators

Last updated: 2/27/19 8:44 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2794	-0.1	1	5	2	11
Eurostoxx 50		3280	-0.3	1	4	-5	9
Nikkei 225		21557	0.5	1	4	-4	8
MSCI EM		43	-0.5	2	3	-11	11
Yields and Spreads			bps				
US 10y Yield		2.64	-2.7	0	-11	-25	-4
Germany 10y Yield		0.12	-0.2	2	-8	-56	-13
EMBIG Sovereign Spread		348	-2	-8	-10	67	-66
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.9	0.1	0	0	-10	3
Dollar index, (+) = \$ appreciation		96.0	0.0	0	0	6	0
Brent Crude Oil (\$/barrel)		66.1	1.3	-1	7	-1	23
VIX Index (% change in pp)		15.5	0.4	2	-2	-3	-10

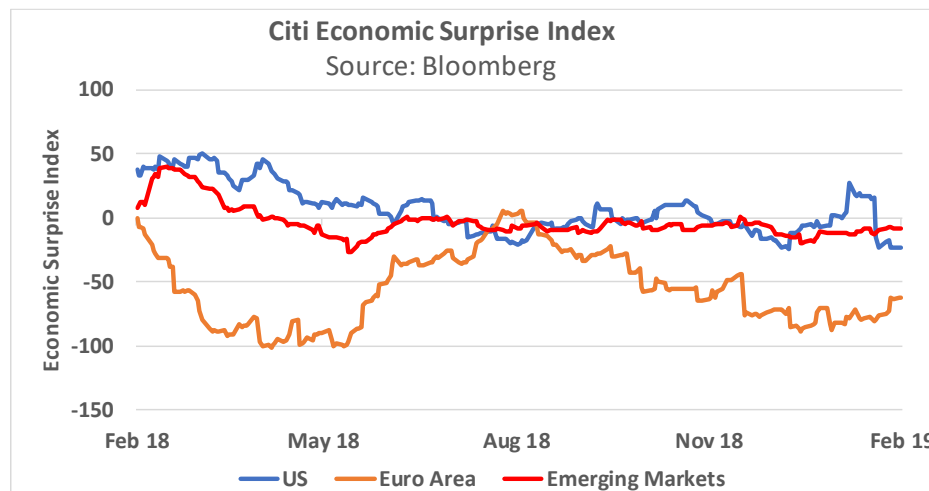
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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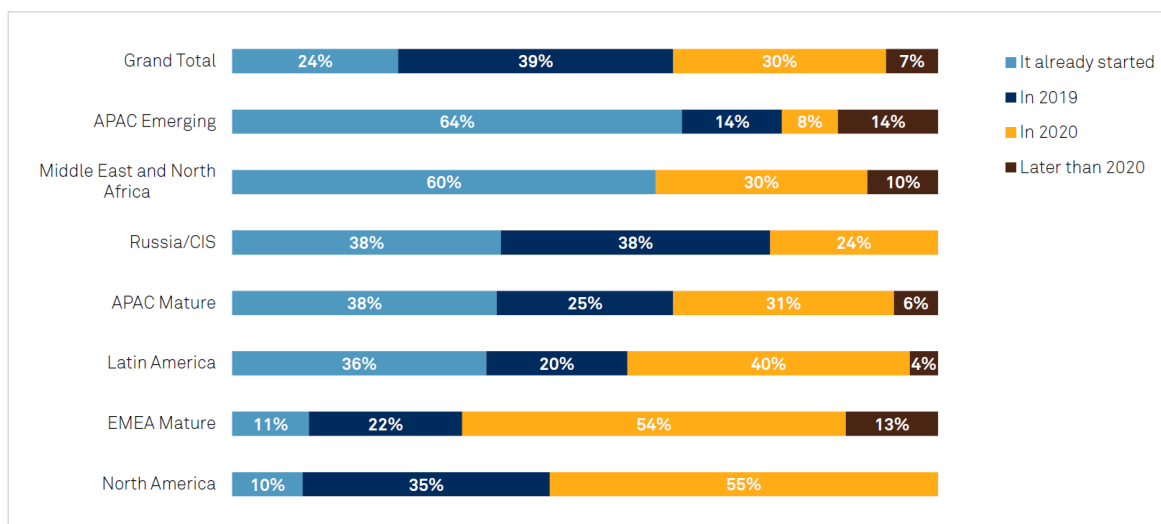
Fed Chair Powell's first day of testimony before Congress provided no surprises. Markets had another slow day as stocks drifted and Treasury yields edged down. Mr. Powell noted that steady economic conditions enabled the Fed to stay "patient" on policy. The seven-year Treasury auction was weaker than expected with foreign participation at a three-year low. The 10-year yield has traded in a narrow range from 2.63%-2.70% since February 5 and has moved down only 5 bps since the beginning of the year. Some market participants speculate that rates are low because bond investors believe that the US economy is weaker than previously thought. Others disagree, arguing that low yields are driven more by a flight to safety, given the significant level of uncertainty in world markets. Daily movements in the S&P 500 have also been quite small, exceeding 0.5% on just one occasion since February 15. The index once again failed to close above the psychologically important 2800 level, although it did trade as high as 2803 during yesterday's session.

The recent run of mixed economic data continued as the Conference Board measure of consumer confidence beat forecasts at 131.4 (vs. 124.9), while house price gains in December were at their lowest in four years. The widely followed Citi Economic Surprise Index for the US has fallen into negative territory, joining the euro area and emerging markets. Several key US economic indexes have been much weaker than expected in recent weeks, including retail sales and durable goods orders. December retail sales showed an outright contraction when analysts were expecting a sizeable increase. **In this morning's data, the US trade in goods balance deteriorated to its lowest level on record in December, falling to -\$79.5 billion (-73.6 bn expected).**



A survey by S&P Global found that the majority of analysts think the credit cycle will turn in the US and Europe sometime in 2020. However, for the US, a significant minority (35%) believes that the cycle will turn this year and 10% believe the cycle has already begun to turn. The comparable numbers for Europe are 22% and 11%, respectively. The analysts expect a mild deterioration in credit quality globally but forecast a more pronounced decline in North America, driven mainly by weaker economic conditions.

When do you expect the "turn of the credit cycle" to occur?



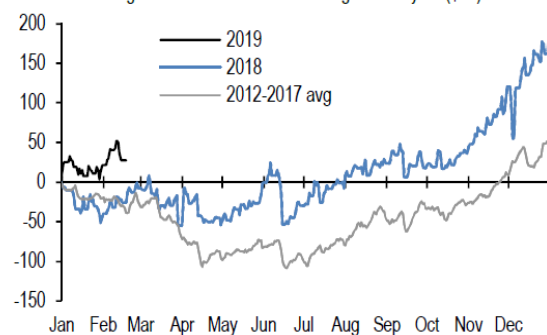
S&P Global
Ratings

4

Assets under management (AUM) for taxable US money market funds (MMFs) are already up by \$13 bn in January after a year of strong growth in 2018. This growth was driven by prime MMFs which have now become the main providers of repo financing to the banking sector. JP Morgan reports that MMF repo balances at the end of January were \$1078 bn, the largest on record and a 23% increase over the previous year. Foreign banks are the traditional target for this kind of financing and as expected they dominated the repo volumes with a share of 71%. French banks were the largest players at \$243 bn, followed by Japanese (\$168 bn) and Canadian (\$158 bn) banks respectively.

Exhibit 4: Taxable MMF AUM increased by \$13bn in January 2019...

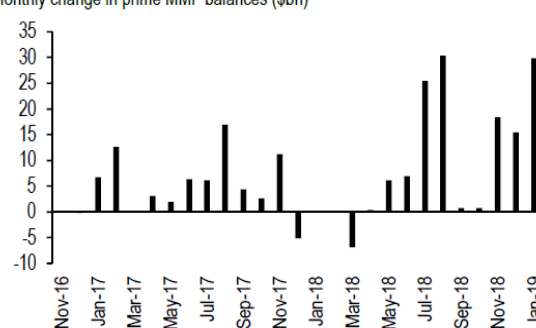
Cumulative change in taxable MMF AUMs throughout the year (\$bn)



Source: iMoneyNet

Exhibit 5: ...driven entirely by prime funds...

Monthly change in prime MMF balances (\$bn)



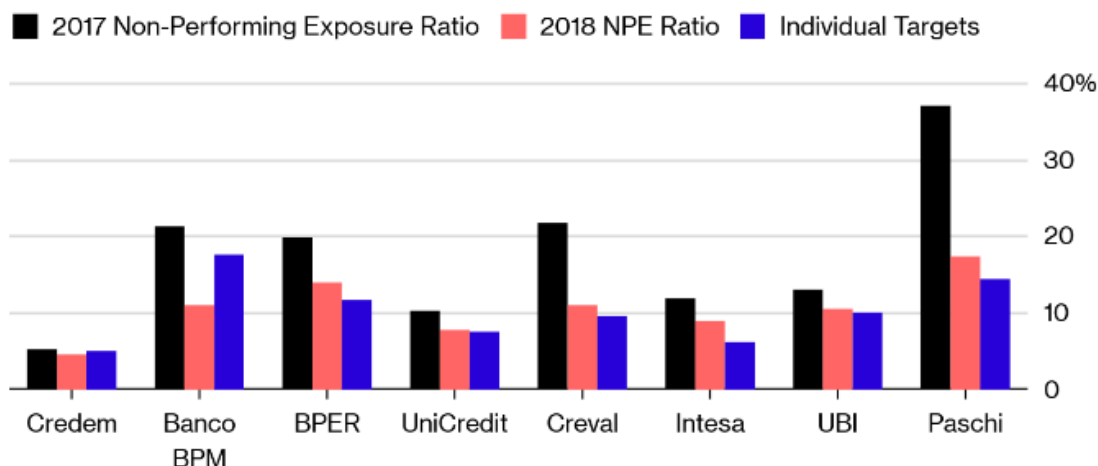
Source: iMoneyNet

Europe

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European bourses are down about 0.3% this morning. French and Italian banks are outperforming peers with gains in the 0.8% to 1.6% range, while the broad banks index is flat. A number of Italian banks have continued to clean their balance sheets at a faster pace than anticipated by many analysts, Bloomberg reports.

Several of Italy's top banks have cut bad loans quicker than anticipated



Note: Target dates are Paschi 2019, UBI 2019/2020, Intesa 2021, Creval 2020, UniCredit 2019, BPER 2020, BPM 2019, Credem cites EBA threshold

Source: Company filings

Bloomberg

Core Euro area sovereign bond markets are steady. Italian 2-year yields gained 6 bps to 0.39%. UK gilts are unchanged at 0.80% for the 2-year and at 1.21% for the 10-year. The euro (+0.1% traded at \$1.14 and sterling (+0.3%) at \$1.33.

The UK parliament will debate today various amendments to the Brexit agreement, including potentially the so-called Cooper amendment – which would give parliament the legal power to force PM May to seek an extension to the negotiating period (expected to fail); and Labours' proposal for a permanent customs union with the EU (expected to fail). Other amendments are expected from the Scottish National Party and the newly formed Independent Group. Parliament is scheduled to hold the meaningful vote on the withdrawal agreement on March 12. If rejected, there will be a vote on keeping 'no-deal' Brexit as an option on March 13; and if rejected, there will be a vote on requesting a short and one-off extension to Article 50 on March 14.

The European Commission is expected to issue a report on Italy later today. Most observers anticipate that the report will not call for further revisions to Italy's budget.

Deutsche Bank (-0.3%) and Commerzbank (-0.1%) shareholder Cerberus Capital Management has announced it would back a merger of the two entities, according to German newspapers. Cerberus –

which had for long been against such operations – would now support a merger given DB's continued challenges. Deutsche's stocks have lost about 60% in value since end-2015.

Selected European Banks: Equity Price



Other Mature Markets [back to top](#)

Japan


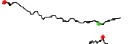



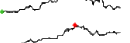






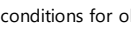

The yen extended its modest appreciation (+0.2%) while equities posted gains. The Topix gained 0.2% while the Nikkei rose 0.5%. Meanwhile, JGBs were little changed as the BoJ left its bond purchase amounts unchanged at its regular operation today. In response to questions from Parliament today, Governor Kuroda noted that **the BoJ is determined to continue purchasing exchange-traded funds, even if it faces paper losses**, as ETF purchases are a necessary part of the central bank's stimulus package to generate 2% inflation. Analysts had estimated that the BoJ would have unrealized losses on its ETF holdings if the Topix stock market index were to fall below 1350. The index closed at 1620 on the day, having gained over 14% since its trough in late December.

Emerging Markets [back to top](#)

Pakistani (-1.2%) and Indian (-0.2%) stocks fell today following escalating military tensions between the two nations. One day after India bombed a suspected-terrorist training camp inside Pakistan, Pakistani fighter jets shot down two Indian aircrafts. The Indian rupee depreciated as much as 0.6% before settling at 71.3/USD (-0.3%). The Indian Sensex Index lost as much as 1.1% to end the day 0.3% lower. The Pakistani Prime Minister reportedly called for a dialog with India in an address to the nation later in the day.

Other Asian currencies and equities were mixed with little trading direction as investors await the second half of Fed Chair Powell's Congressional testimony. The Indonesian rupiah depreciated 0.3% while the onshore RMB appreciated by 0.2% to 6.68/USD, outperforming others. Equity performance was mixed. The Korean Kospi outperformed with gains of 0.4%, while China's tech-heavy Shenzhen Composite fell 0.6%, underperforming on the day. **EMEA** bourses are largely lower today, by about 0.4%, with larger losses in Turkey (-0.7%) and Hungary (-0.6%). Currencies in the region are stable. Major **Latin American** equity indices were little changed Tuesday. Regional currencies continued to trade in narrow ranges. 10-year government bond yields declined 6 bps in Mexico and were stable elsewhere.

Key Emerging Market Financial Indicators

Last updated: 2/27/19 8:00 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.37	-0.5	2	3	-11	11
MSCI Frontier Equities		29.05	-0.1	1	3	-16	11
EMBIG Sovereign Spread (in bps)		350	0	-6	-8	69	-64
EM FX vs. USD		63.86	0.1	0	0	-10	3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.68	0.3	1	1	-5	3
Indonesian Rupiah		14030	-0.3	0	0	-3	3
Indian Rupee		71.25	-0.3	0	0	-9	-2
Argentine Peso		38.88	0.4	1	-4	-48	-3
Brazil Real		3.74	0.3	0	1	-13	4
Mexican Peso		19.16	0.1	0	-1	-2	3
Russian Ruble		65.78	-0.1	0	1	-14	6
South African Rand		13.86	-0.2	1	-1	-15	3
Turkish Lira		5.29	0.2	1	1	-28	0
EM FX volatility		8.53	0.0	-0.3	-0.4	0.5	-1.2

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

EM bond issuance slowed notably in February, according to Bloomberg data. Overall EM issuance dropped from \$60 bn in January to \$33 bn in February (through the 25th). The decline was broad-based across regions and market segments (shown in orange in Table 2). Nonfinancial corporate issuance declined from \$23 bn in January to \$14 bn in February, and both financial and sovereign borrowings dropped roughly by half. Across regions, the largest declines took place in Asia ex. China and in Latin America, while Chinese issuance slowed the least and even increased in the financial sector.

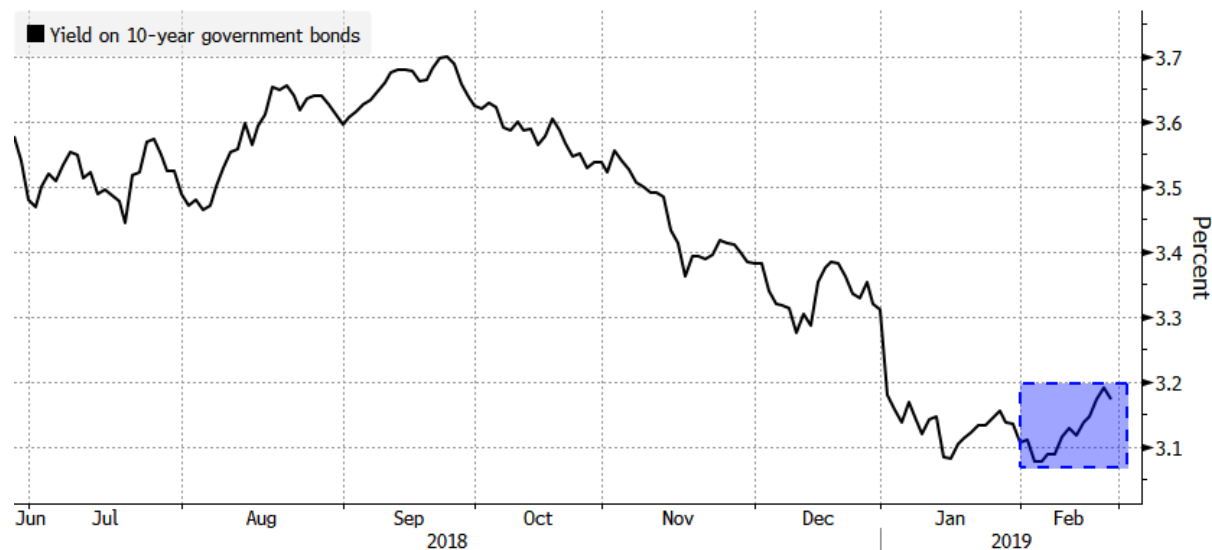
Table 1. EM Issuance in January					
	Corporate	Financial	Sovereign	Other	Total
ASIA	21.0	7.7	1.5	1.7	31.8
CHINA	14.0	1.7	0.0	1.2	16.9
Em Asia ex. China	7.0	6.0	1.5	0.4	14.9
CEEMEA	0.0	3.0	15.4	0.5	18.9
LATAM	2.4	0.4	5.8	0.9	9.5
Total	23.4	11.1	22.7	3.0	60.2
Table 2. EM Issuance in February					
	Corporate	Financial	Sovereign	Other	Total
ASIA	11.4	3.9	2.0	1.5	18.7
CHINA	9.7	3.2	0.0	(0.0)	12.9
Em Asia ex. China	1.6	0.7	2.0	1.5	5.8
CEEMEA	2.0	1.7	7.8	0.0	11.4
LATAM	0.6	0.6	0.5	1.6	3.3
Total	14.0	6.1	10.3	3.1	33.4

China

Central government bond yields rose further, on track to pose their worst monthly performance since last August. Yields rose by another 2 bps for bonds with maturities of 7 years or shorter while the 10-year note fell 1 bp to 3.15%, chipping away at its monthly increase to 7 bps. That said, large gains in equities recently, combined with diminished expectations for aggressive monetary easing have weighed on CGB prices. Meanwhile, recent increases in interbank funding rates ahead of quarter-end tax payments also helped to lift CGB yields. The overnight repurchase rate has climbed 60 bps over the past 5 sessions to 2.64%, its highest level since last August. Meanwhile, the seven-day repo rate also climbed 60 bps over the past 5 sessions to 2.80%, the highest level this year.

Faltering Rally

China's 10-year sovereign yield set for biggest monthly increase since August



Source: Bloomberg

AV670773 Corp (CGB 3 1/4 11/22/28) bond yield Daily 27JUN2018-27FEB2019

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Latvia

The European Court of Justice has reinstated the governor of the Central Bank of Latvia. The ECJ overturned the suspension of Mr. Rimsevics, who had been suspended from his functions over a year ago during an anti-corruption probe by Latvian authorities.

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Global Financial Indicators


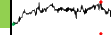


















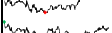
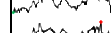




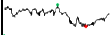






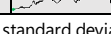




Last updated: 2/27/19 8:44 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2794	-0.1	1	5	2	11
Europe		3280	-0.3	1	4	-5	9
Japan		21557	0.5	1	4	-4	8
China		2954	0.4	7	14	-10	18
Asia Ex Japan		70	-0.5	2	4	-9	11
Emerging Markets		43	-0.5	2	3	-11	11
Interest Rates			basis points				
US 10y Yield		2.64	-2.7	0	-11	-25	-4
Germany 10y Yield		0.12	-0.2	2	-8	-56	-13
Japan 10y Yield		-0.03	0.1	1	-2	-7	-3
UK 10y Yield		1.22	1.8	4	-8	-34	-5
Credit Spreads			basis points				
US Investment Grade		122	0.2	0	-4	34	-25
US High Yield		413	-1.3	-7	-23	72	-108
Europe IG		61	-1.4	-4	-15	9	-26
Europe HY		273	-3.1	-17	-54	9	-79
EMBIG Sovereign Spread		348	-2.0	-8	-10	67	-66
Exchange Rates			%				
Dollar Index (DXY)		96.00	0.0	0	0	6	0
USDEUR		1.14	0.0	0	0	-7	-1
USDJPY		110.7	-0.1	0	-1	-3	-1
EM FX vs. USD		63.9	0.1	0	0	-10	3
Commodities			%				
Brent Crude Oil (\$/barrel)		66	1.3	-1	7	-1	23
Industrials Metals (index)		122	0.4	2	5	-11	11
Agriculture (index)		41	0.5	-1	-3	-16	0
Implied Volatility			%				
VIX Index (% change in pp)		15.5	0.4	1.5	-1.9	-3.1	-9.9
10y Treasury Volatility Index		3.7	0.0	0.2	-0.1	-1.2	-0.9
Global FX Volatility		7.3	0.0	-0.5	-0.5	-0.6	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		358	-3.4	-10	-31	-12	-58
Italy		262	3.1	-14	16	129	12
Portugal		132	0.3	-10	-14	-2	-16
Spain		103	1.4	-7	0	15	-14

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: 2/27/2019 8:00 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	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.68	0.3	0.6	1	-5	3		3.1	3.3	6	3	-78	-8
Indonesia		14030	-0.3	0.1	0	-3	3		7.9	-10.0	-19	-39	109	-28
India		71	-0.3	-0.2	0	-9	-2		7.5	0.7	2	-1	-32	9
Philippines		52	0.2	0.3	1	0	1		5.5	-0.9	-10	-25	75	-76
Thailand		31	-0.2	-1.0	1	0	4		2.6	0.1	0	2	25	-2
Malaysia		4.07	0.2	0.1	1	-4	2		4.0	0.0	0	-7	-7	-12
Argentina		39	0.4	1.0	-4	-48	-3		21.0	7.5	100	-30	488	-200
Brazil		3.74	0.3	-0.2	1	-13	4		7.9	4.0	16	-8	-65	-28
Chile		649	0.0	0.6	4	-9	7		4.3	0.8	-1	-13	-51	-13
Colombia		3083	0.7	1.9	2	-8	5		6.4	0.1	-1	-19	4	-13
Mexico		19.16	0.1	0.3	-1	-2	3		8.3	-4.1	-12	-15	57	-44
Peru		3.3	0.0	0.4	2	-2	2		5.6	-0.3	0	-12	62	-13
Uruguay		33	-0.1	0.0	0	-13	-1		10.2	-1.3	-2	-9		-49
Hungary		278	0.0	0.7	0	-8	1		2.0	0.7	-2	-11	42	-19
Poland		3.79	0.1	0.8	-1	-10	-1		2.3	-0.8	9	3	-37	2
Romania		4.2	0.5	0.7	0	-8	-2		4.2	0.0	7	-46	22	-8
Russia		65.8	-0.1	-0.2	1	-14	6		8.1	2.3	-5	0	131	-33
South Africa		13.9	-0.2	1.1	-1	-15	3		9.4	-6.2	-21	-2	81	-18
Turkey		5.29	0.2	0.6	1	-28	0		15.6	-6.8	11	-42	369	-130
US (DXY; 5y UST)		96.0	0.0	-0.5	0	6	0		2.44	-0.7	-3	-16	-22	-7

	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		2954	0.4	7	14	-10	18		184	0	2	7	25	-10		
Indonesia		6526	-0.2	0	1	-1	5		199	-3	0	6	34	-37		
India		35905	-0.2	0	0	5	0		169	4	2	-8	55	-27		
Philippines		7889	-1.2	1	-2	-8	6		93	-4	1	0	-4	-28		
Malaysia		1713	-0.3	-1	1	-8	1		131	0	6	-4	23	-31		
Argentina		36027	-0.8	-1	3	11	19		695	2	-17	30	295	-120		
Brazil		97603	0.4	0	0	12	11		235	-1	-3	0	14	-38		
Chile		5476	-0.1	1	1	-3	7		134	-2	-2	-5	16	-32		
Colombia		1520	0.7	3	7	0	15		192	-1	-1	-3	19	-36		
Mexico		43623	-0.1	2	0	-9	5		324	-1	2	13	93	-30		
Peru		20568	0.0	1	4	-1	6		142	-1	-2	-2	8	-26		
Hungary		40777	-0.1	0	0	6	4		117	-4	2	-13	23	-31		
Poland		60421	-0.2	0	0	-4	5		54	0	-1	-5	5	-31		
Romania		7686	-1.2	-1	9	-9	4		201	0	3	-15	75	-20		
Russia		2487	-0.2	0	0	6	5		219	0	-7	8	70	-33		
South Africa		56228	0.0	1	4	-5	7		290	1	-15	-16	71	-75		
Turkey		104330	-0.7	2	2	-12	14		414	0	1	20	121	-15		
Ukraine		565	-0.1	2	3	66	1		644	2	-55	1	220	-143		
EM total		43	-0.5	2	3	-11	11		350	0	-6	-8	69	-64		

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