



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, February 4, 2019

- **US private equity fundraising surged in Q4 2018** ([link](#))
- **UK forms working group to find an alternative to Irish backstop** ([link](#))
- **Spread between BTPs and Bunds raises Italian bank funding concerns** ([link](#))
- **Little activity in Asian markets as the Lunar New Year begins** ([link](#))

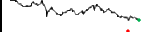
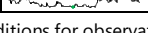
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Global price action is muted on limited trading volumes

With the Year of the Pig set to begin, global markets continue to be guided by many of the same long-standing concerns and themes. Market participants continue to discuss the downturn in global data as well as the ongoing trade tension between the US and China. In Europe, the more muted growth outlook has pushed back expectations for ECB policy rate normalization, while faltering growth in Italy and higher fiscal deficits have led to a persistent basis between Italian BTPs and German Bunds. Brexit remains an existential risk, as PM May struggles to find an agreement that is acceptable to both Parliament and the EU.

The Bank of England MPC meets on Thursday, with Brexit concerns contributing to diminished rate hike expectations. The BoE highlights a big week for central bank announcements by Australia (Tuesday), Brazil, Iceland, Poland, and Thailand (Wednesday), the Czech Republic, India, Mexico, and the Philippines (Thursday), and Russia (Friday). Many Asian markets will be closed for part or all of this week for Lunar New Year. A variety of US economic releases continue to be delayed because of the recent partial government shutdown, but durable goods should be out (Monday), and the November trade balance (Wednesday). Canada reports unemployment (Friday). Major European economies report manufacturing PMIs (Monday), with many also releasing industrial production reports towards the end of the week.

Key Global Financial Indicators

Last updated: 2/4/19 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2707	0.1	2	7	-2	8
Eurostoxx 50		3158	-0.4	1	4	-10	5
Nikkei 225		20884	0.5	1	7	-10	4
MSCI EM		43	-0.2	1	8	-13	9
Yields and Spreads			bps				
US 10y Yield		2.70	5.5	-5	3	-14	1
Germany 10y Yield		0.16	-0.2	-4	-4	-60	-8
EMBIG Sovereign Spread		350	-2	-9	-58	88	-64
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		64.0	-0.3	1	1	-10	3
Dollar index, (+) = \$ appreciation		95.7	0.2	0	0	7	0
Brent Crude Oil (\$/barrel)		62.5	-0.5	4	9	-9	16
VIX Index (% change in pp)		16.5	0.4	-2	-5	-1	-9

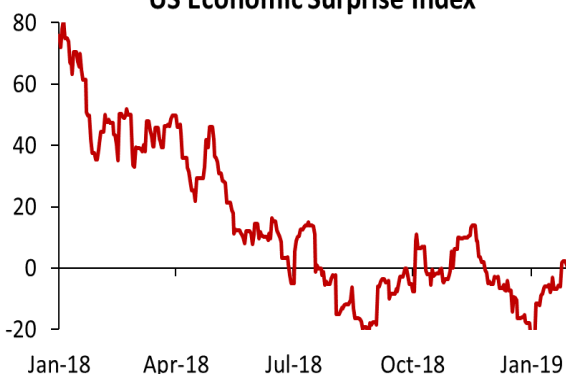
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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Stock prices ended mixed Friday, following a surprisingly strong payrolls report. The S&P 500 finished the week up 1.5% and recovered 7.9% in January after a 9.2% December fall. The robust payrolls report contributed to a **big jump in Citi's economic surprise index**. Manufacturing activity as gauged by both ISM and Markit evidenced continued expansion in January, and consumer sentiment as gauged by the University of Michigan improved last month as well. Despite the robust macro data, St. Louis Fed president Bullard stated the FOMC's recent rate hike pause was "absolutely" the right action. Futures markets are now pricing in just a 2.5% chance of a rate hike by December (and a 10.4% chance of a rate cut) according to Bloomberg's model. Treasury yields rose modestly across the yield curve Friday.

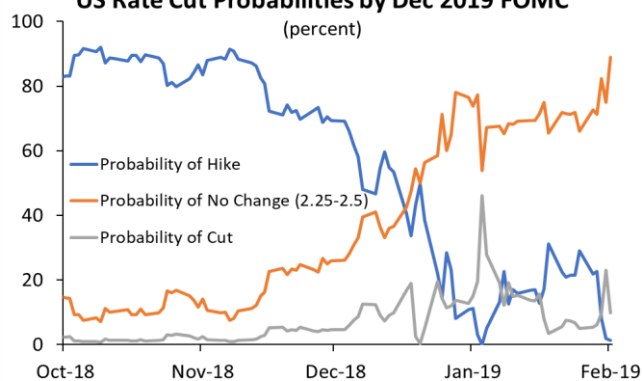
US Economic Surprise Index



Source: Bloomberg, Citi

US Rate Cut Probabilities by Dec 2019 FOMC

(percent)

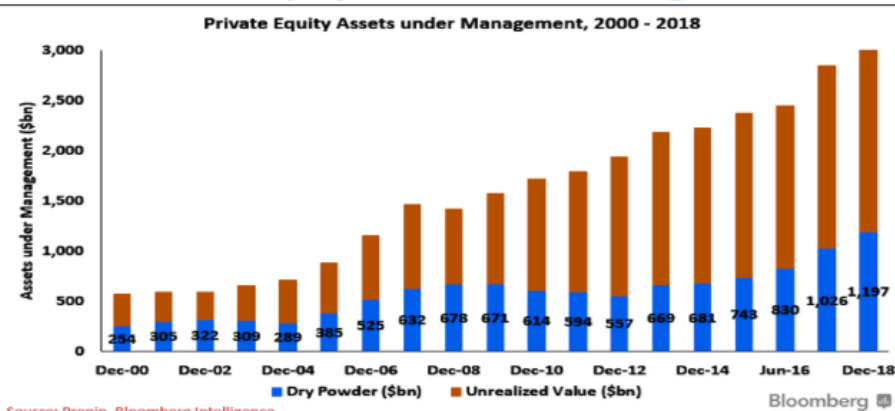


Source: Bloomberg

Foreigners sold a net \$9.3 bn of Treasuries in November, according to TIC data—the third straight decline. But the drop was much more pronounced for the **official sector, which sold \$33.5 in long-term Treasuries in November, and \$155 bn year to date**. That marks the weakest official sector demand for Treasuries since 2016. Analysts point out the decline is not that surprising given modest declines in global forex reserve balances last year. Private foreign investors have been net buyers for 5 straight months.

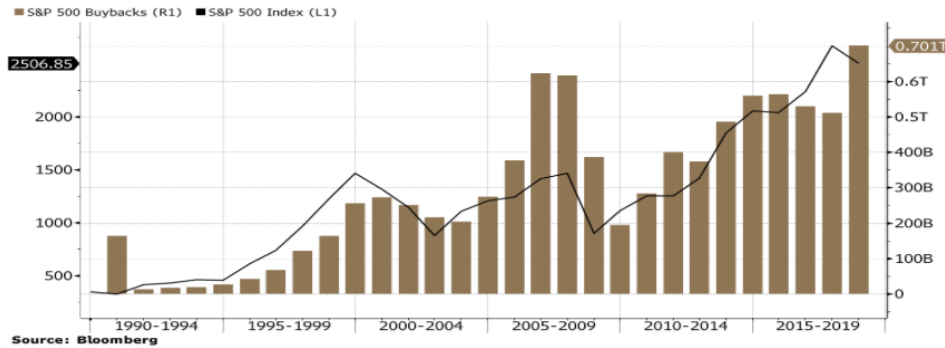
Private equity giant KKR (+4.9%) reported profits in Q4 that bested its peers in a volatile quarter for the industry. Bloomberg notes that **fundraising by private equity firms surged in Q4**. While KKR took in \$11.3 bn, Blackstone raised \$38.6 bn and Apollo \$21.6 bn. Prequin gauges that dry power (cash available to use) rose to a record \$1.2 tn by end 2018. Private equity dry powder stands at 1.5% of global stock market capitalization.

Private-Equity Assets Under Management



Chevron announced a \$25 bn share **buyback** program. S&P 500 companies repurchased \$700 bn in shares during 2018, the most since at least 1990, as recent tax changes gave companies additional opportunities to return cash to shareholders. Nevertheless, S&P 500 companies suffered a median net loss of 3.7% in their stock prices last year. JPMorgan finds that buybacks can help markets endure volatility because they can help stabilize prices. It noted that since 2000, stocks with higher buybacks outperformed their peers by 1.54 ppts during corrections and 2 ppts during recessions.

Buybacks Trail Stock Prices Over Long Term

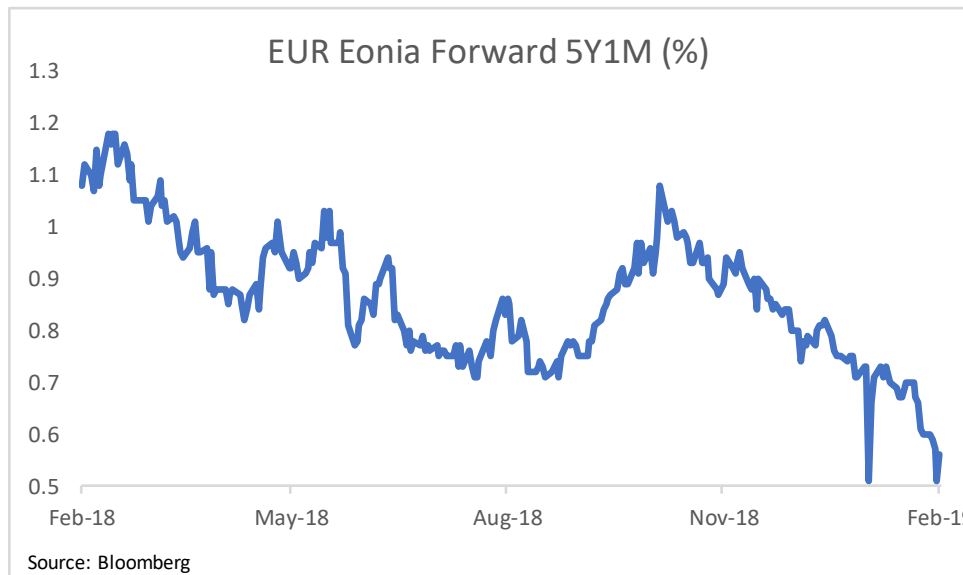


Europe

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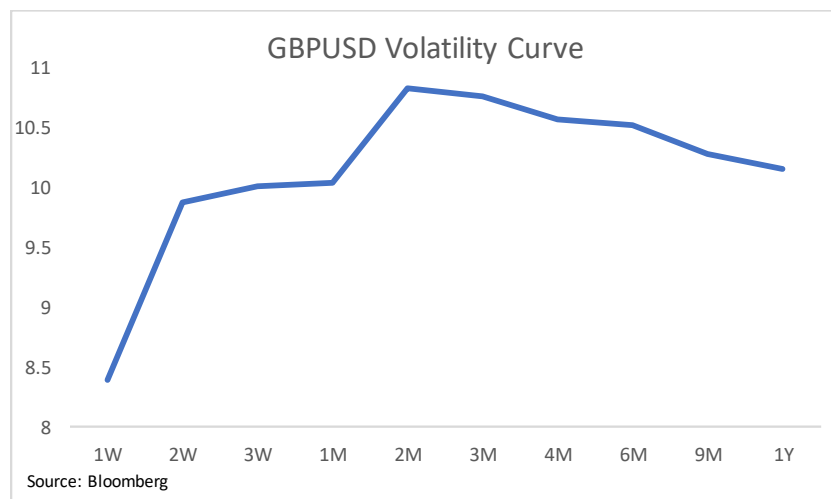
Europe

Equities started the week with minor declines. Materials and consumer stocks led the Euro Stoxx 600 down by 0.2% in total. Banks also underperformed, falling by 0.7%, with Spanish lenders leading the declines. **Sovereign yields were little changed across the continent.** Most 10-year notes were flat while the shorter end also saw very limited moves. Investors have continued to discount the probability of an interest rate hike by the ECB this year, with markets now pricing that the first 10 bp hike will occur in June 2020. Just 3 months ago, the first hike was priced for September 2019 just 3 months. Rates are expected to reach a high of approximately 0.5% in 5 years.



United Kingdom

PM May has set up a working group to look into possible alternative arrangements to the Irish backstop, according to reports. The group is a response to the vote in parliament last week which instructed May to reopen talks with Brussels over the situation in Ireland. There is still no clear solution to the impasse that would be acceptable to the EU. Markets have shown little reaction to the continued uncertainty with sterling continuing to trade around \$1.30-1.31. The implied volatility curve remains somewhat elevated with a peak in the 2-month vintage which encompasses the exit day of March 29.



Italy

The significant spread between BTP and Germany Bund yields, which has persisted over the past 6 months, has renewed banks' funding problems, according to Bank of Italy governor Visco. Addressing a banking conference, Visco said that access to international markets had become difficult and that "restoring normal access to wholesale markets is a prerequisite for the proper functioning of banking activities". Italian banks have approximately €56 bn in bonds maturing this year with the EBA expecting that those funding needs will be met with issuance of unsecured long-term bonds. Speculation continues to mount regarding a new round of TLTRO funding by the ECB, which Italian banks have drawn €240 bn

Other Mature Markets [back to top](#)

Japan

Equities gained (Topix +1.1%; Nikkei +0.5%) with tech and financials outperforming. The consumer discretionary sector was the only one in the red today, due to an 8% drop in Sony's shares following weaker revenue guidance. **Yields on 10-year JGBs rose 0.7 bps to -0.024%. The yen depreciated 0.3%.**

Australia

A Royal Commission tasked with investigating misconduct by financial institutions published its report after market close in Sydney. The report recommends tougher regulations, more scrutiny of pay and culture, and urges the securities regulator to consider court action as a first option. **It recommended, however, against a structural separation of business lines in banks.** The head of the commission was also strongly critical of the timidity of Australian regulators and proposed the creation of an oversight body to review regulators. Banks account for more than half of Australia's equity market capitalization. Bank stocks gained 1% on the day, outperforming the broader index, on anticipation that the report would not recommend a break up.

Emerging Markets

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Emerging market equities started the week little changed. Stocks in EMEA were mixed, with Turkey (-0.4%) and Hungary (-0.3%) declining while Poland (+0.4%) and Russia (+0.3%) advanced. Many Asian markets were closed today for the Lunar New Year while stocks in the Philippines (-0.9%) and Indonesia (-0.8%) underperformed. In foreign exchange markets, most currencies in Asia and EMEA were 0.2-0.3% weaker against the dollar. On Friday, most Latin American equity indices advanced, including Brazilian stocks (+0.5%), but Mexican equities fell 0.6%. Regional currencies traded in narrow ranges against a broadly unchanged US dollar. Ten-year government bond yields dropped 44 bps in Argentina and declined 14 bps in Brazil where a remarkable rally continues on hopes for pension reforms.

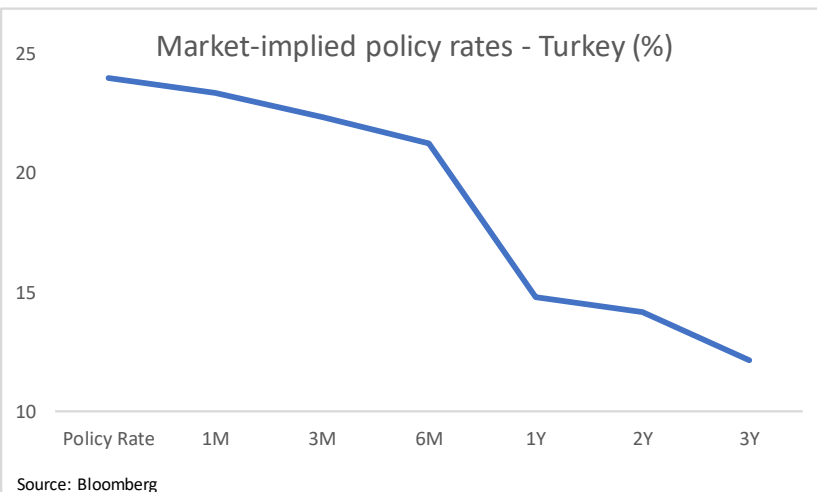
Key Emerging Market Financial Indicators

Last updated: 2/4/19 8:13 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.76	-0.2	1	8	-13	9
MSCI Frontier Equities		28.32	0.1	1	5	-18	8
EMBIG Sovereign Spread (in bps)		350	-2	-9	-58	88	-64
EM FX vs. USD		63.98	-0.3	1	1	-10	3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.74	-0.7	0	2	-7	2
Indonesian Rupiah		13962	-0.1	1	2	-3	3
Indian Rupee		71.81	-0.8	-1	-3	-11	-3
Argentine Peso		37.25	-0.2	0	0	-48	1
Brazil Real		3.68	-0.6	2	1	-12	5
Mexican Peso		19.16	-0.3	-1	1	-2	3
Russian Ruble		65.64	-0.3	1	3	-13	6
South African Rand		13.40	-0.6	2	4	-10	7
Turkish Lira		5.21	-0.1	2	2	-27	1
EM FX volatility		8.95	1.0	-0.1	-0.6	0.4	-0.8

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

Turkey

Inflation for January came in slightly ahead of expectations. The headline number rose from 20.3% to 20.35%, as opposed to an expected unchanged rate. The slight increase was attributed to higher food inflation which accounts for more than a fifth of the basket. The core index was unchanged at 19% as expected. The data, coupled with recent hawkishness by the central bank, have been interpreted as supporting expectations that interest rates will not be lowered in the next couple of months, according to analysts. The central bank's next meeting is scheduled for March 6 where the bank is broadly expected to keep the headline one-week repo rate at 24%.



Asian stocks were mixed with low trading volume as the region heads into the Lunar New Year holiday. On net, Asian equities were little changed, but the Philippines (-0.9%) and Indonesia (-0.8%) underperformed. Bourses in China, Taiwan, Vietnam, and Korea were already closed today, while Singapore and Hong Kong traded half days. Asian currencies traded weaker against the dollar, with the Indian rupee depreciating 0.7%.

Brazil

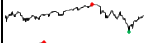
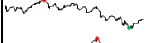
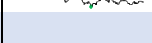
The government has a high probability of approving social security reforms, a key regional bank said. A representative from Itau Unibanco—the largest bank in Latin America—said in Davos that the government has a good chance of passing reforms quickly but needs to act urgently. He noted that foreign investors in Davos—from pension funds to private equity—are very optimistic about Brazil and are ready to increase allocations to Brazilian asset of pension reform advances. Separately, Eurasia political consultancy estimates a 40 percent probability of disappointment. The Brazilian markets have rallied significantly in anticipation of reforms, with equities advancing 23% since early October despite a slump in global equity prices in the fourth quarter.



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Global Financial Indicators

Last updated: 2/4/19 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2707	0.1	2	7	-2	8
Europe		3158	-0.4	1	4	-10	5
Japan		20884	0.5	1	7	-10	4
China		2618	1.3	1	4	-24	5
Asia Ex Japan		69	-0.7	1	8	-13	8
Emerging Markets		43	-0.2	1	8	-13	9
Interest Rates			basis points				
US 10y Yield		2.70	5.5	-5	3	-14	1
Germany 10y Yield		0.16	-0.2	-4	-4	-60	-8
Japan 10y Yield		-0.01	0.3	-1	3	-10	-1
UK 10y Yield		1.25	0.3	-1	-3	-33	-3
Credit Spreads			basis points				
US Investment Grade		122	0.2	-5	-25	43	-25
US High Yield		429	-1.9	-13	-68	100	-92
Europe IG		71	0.6	-5	-17	24	-16
Europe HY		311	2.6	-16	-44	61	-41
EMBIG Sovereign Spread		350	-2.0	-9	-58	88	-64
Exchange Rates			%				
Dollar Index (DXY)		95.74	0.2	0	0	7	0
USDEUR		1.14	-0.1	0	0	-7	0
USDJPY		109.9	-0.3	0	-1	-1	0
EM FX vs. USD		64.0	-0.3	1	1	-10	3
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-0.5	4	9	-9	16
Industrials Metals (index)		118	-0.3	3	6	-15	8
Agriculture (index)		43	-0.2	-1	1	-11	3
Implied Volatility			%				
VIX Index (% change in pp)		16.5	0.4	-2.3	-4.8	-0.8	-8.9
10y Treasury Volatility Index		3.7	-0.2	-0.1	-1.0	-0.8	-0.9
Global FX Volatility		7.8	0.1	-0.1	-1.2	-0.3	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		374	-1.8	-11	-46	83	-42
Italy		259	0.4	12	-11	130	8
Portugal		148	0.9	4	-12	23	0
Spain		107	1.3	5	-20	36	-10

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: 2/4/2019 8:14 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		6.74	-0.7	0.1	2	-7	2		3.1	-0.3	-3	-13	-92	-13
Indonesia		13962	-0.1	0.8	2	-3	3		8.0	-8.2	-25	-14	151	-14
India		72	-0.8	-1.0	-3	-11	-3		7.6	5.1	3	8	-20	12
Philippines		52	-0.3	0.2	0	-2	0		5.7	-0.7	-6	-57	99	-57
Thailand		31	0.0	0.7	2	1	3		2.6	-2.3	-3	-7	26	-7
Malaysia		4.09	0.1	0.5	1	-5	1		4.0	0.0	-1	-6	4	-6
Argentina		37	-0.2	-0.3	0	-48	1		20.9	4.0	-36	-206	549	-206
Brazil		3.68	-0.7	2.3	1	-12	5		7.7	-7.1	-27	-46	-104	-46
Chile		655	-0.5	2.6	4	-8	6		4.4	-3.7	-7	-7	-43	-7
Colombia		3099	-0.2	2.0	3	-8	5		6.4	2.3	-14	-8	23	-8
Mexico		19.17	-0.3	-0.7	1	-2	2		8.5	0.9	5	-24	86	-24
Peru		3.3	-0.1	0.4	1	-4	1		5.6	0.7	-10	-12	84	-12
Uruguay		32	0.0	0.3	0	-13	0		10.3	-5.1	-6	-46		-46
Hungary		278	-0.2	0.0	1	-10	1		2.0	-7.2	-13	-21	47	-21
Poland		3.74	0.1	0.4	1	-10	0		2.2	2.3	-4	-5	-51	-5
Romania		4.2	-0.2	0.5	-2	-10	-2		4.3	-11.0	-36	2	33	2
Russia		65.6	-0.3	0.9	3	-13	6		8.0	1.9	-12	-46	94	-46
South Africa		13.4	-0.6	1.9	4	-10	7		9.4	5.2	-8	-24	24	-24
Turkey		5.21	-0.1	2.2	2	-27	1		15.1	25.0	-93	-181	341	-181
US (DXY; 5y UST)		96	0.2	0.0	0	7	0		2.52	1.2	-7	1	-7	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		2618	0.0	1	4	-24	5		182	-2	4	-3	31	-12
Indonesia		6481	-0.9	0	3	-2	5		189	-1	-6	-43	49	-47
India		36583	0.3	3	2	4	1		173	-8	-4	-23	72	-23
Philippines		8069	-0.9	0	4	-8	8		89	1	-6	-23	14	-32
Malaysia		1684	0	-1	0	-10	0		131	-2	-5	-27	38	-31
Argentina		36600	0.8	5	13	12	21		655	0	-32	-76	276	-160
Brazil		96948	0.5	2	6	15	10		233	-1	-3	-30	14	-40
Chile		5451	0.9	0	5	-6	7		139	0	-1	-19	34	-27
Colombia		1462	1.0	2	8	-7	10		185	0	-11	-29	23	-43
Mexico		43738	-0.6	0	3	-13	5		316	-3	5	-27	96	-38
Peru		20294	1	2	4	-2	5		138	-1	-7	-27	18	-30
Hungary		40859	-0.3	-1	2	2	4		118	-4	-8	-23	46	-30
Poland		60925	0.4	1	5	-6	6		53	-7	-3	-21	15	-32
Romania		7227	2.8	3	-6	-12	-2		204	-9	-12	-17	102	-17
Russia		2532	0.4	2	5	11	7		215	-1	4	-28	68	-37
South Africa		53583	-0.6	0	3	-9	2		290	-1	-16	-63	69	-75
Turkey		102442	-0.5	1	15	-13	12		387	-1	-7	-58	112	-42
Ukraine		554	0.2	1	0	64	-1		667	0	23	-151	283	-120
EM total		43	-0.2	1	8	-13	9		350	-2	-9	-58	88	-64

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