Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, February 5, 2019

- **US Q4 corporate earnings on pace for another strong quarter (link)**
- **$134 billion in US Treasury bill supply to be auctioned this week (link)**
- **Bank of England and ESMA agree to MoU on CCPs (link)**
- **Canadian corporate syndicated lending hit a record high last year (link)**
- **EM sovereign issuance off to a strong start so far in 2019 (link)**

US | Europe | Other Mature | Emerging Markets | Market Tables

Year of the Pig begins with muted price action

With most of Asia closed for the lunar new year, global markets were little changed overnight. While Japanese markets were open, the yen and major equity indices were little changed in reportedly light trading volumes. The Reserve Bank of Australia left policy rates unchanged at 1.5%, just as it has done for the 26 previous meetings, and the value of the Australian dollar against other major currencies was little changed following the meeting. In Europe, equities have drifted higher by up to 1% as policymakers continue to work towards breaking the Brexit deadlock. Today's advance was also helped by solid earnings reports, including by BP, which helped energy company shares to outperform the broader index.

Key Global Financial Indicators

Last updated: 2/5/19 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2725	0.7	3	8	3	9
Eurostoxx 50		3191	0.8	1	5	-8	6
Nikkei 225		20844	-0.2	1	7	-8	4
MSCI EM		43	0.4	3	8	-10	10
Yields and Spreads					bps		
US 10y Yield		2.73	3.9	2	6	3	5
Germany 10y Yield		0.20	2.0	0	-1	-54	-5
EMBIG Sovereign Spread		348	-1	-20	-60	71	-66
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		64.1	0.0	1	2	-9	3
Dollar index, (+) = $ appreciation		95.9	0.1	0	0	7	0
Brent Crude Oil ($/barrel)		62.2	-0.5	1	9	-8	16
VIX Index (%, change in pp)		15.6	-0.1	-4	-6	-22	-10

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

United States

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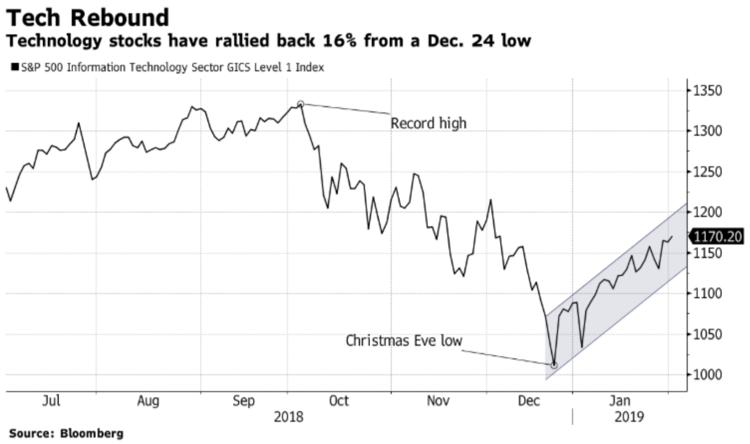
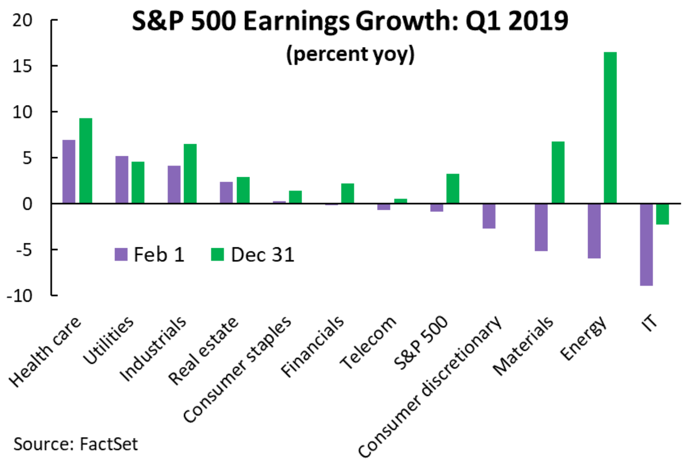
Markets firmed Monday, led by tech stocks. Final durables goods orders for November disappointed. The headline number came in at 0.7% (+1.5% expected) and durables ex-transportation at -0.4% (+0.0% expected). Treasury yields moved modestly higher. Alphabet (Google) announced earnings after market-close that bested estimates, but the stock price fell in trading after hours as spending costs rose.

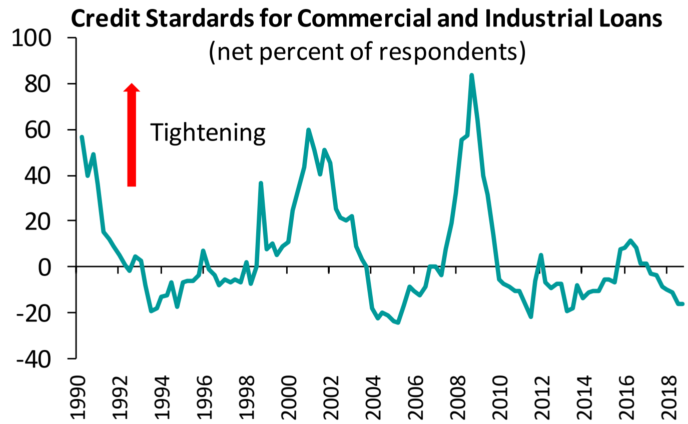


Q4 corporates earnings are on track to rise 12.4% yoy for the S&P 500, which would mark the fifth straight quarter of double-digit earnings growth. But the prospects for upcoming quarters are not as sanguine. FactSet notes that analysts have been steadily lowering their expectations of Q1 earnings, with S&P 500 earnings now expected to decline (-0.8%), compared to expectations of growth (+3.3%) at the end of last year, and even higher growth (+6.7%) at end-September.



Some $134 bn in Treasury bill supply will come to market this week. The Treasury's cash balance stood at $404 bn on January 31, but its cash management work will be more challenging in the run-up to the end of the current debt ceiling suspension, scheduled for March 1st. But the department advised it could keep a "significantly higher" cash balance, when the debt limit suspension expires, compared with prior episodes. However, all such plans would be further complicated should legislators fail to agree on a federal government financing deal by their February 15th deadline—and the government endures another shutdown.

The Fed's quarterly Senior Loan Officer Opinion Survey found that commercial and industrial lending standards remained basically unchanged, but standards tightened for commercial real estate lending. A significant share of banks expected tighter commercial real estate standards going forward. Banks reported weaker loan demand from both businesses and households.



Source: Federal Reserve; Haver Analytics

Europe

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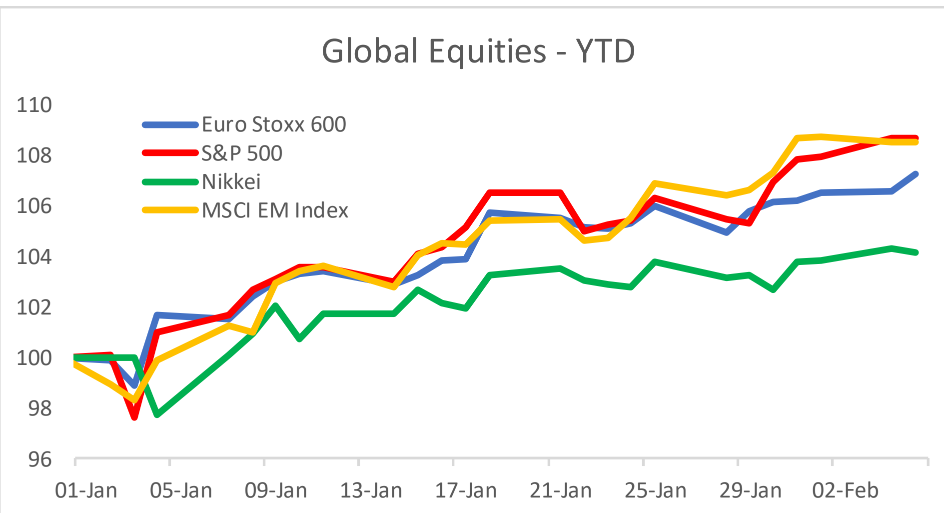
Europe

Sovereign yields edged higher this morning. Most 10-year bond yields were up 1 to 2 bps while the shorter end was broadly flat. Bunds continue to hover around their recent lows, however. The 10-year is trading at 0.2%, close to its weakest level since late 2016. **Equities advanced for the sixth session in a row on solid earnings reports and relatively positive PMI data.** The Euro Stoxx 600 was up 0.7% with energy stocks (+1.8%) leading the gains after positive earnings from BP. Italian lenders saw some of the biggest increases among banks, which also outperformed with a rise of 1%. Stocks on the continent have begun the year in positive fashion with a 7% gain, although they continue to lag the performance of their US counterparts.



Source: Bloomberg. 1/1/2019 set to 100.

United Kingdom

The Bank of England and ESMA agreed an MoU yesterday on CCP market access in a "no deal" Brexit. The MoU will facilitate recognition of UK CCPs and CSDs in the EU-27, allowing them to continue providing services to EU counterparts. The move will decrease the contract continuity risks surrounding Brexit which have been flagged as one of the most serious in a no deal scenario. The MoU follows a similar agreement reached last week in the area of asset management and delegation. The moves come with 52 days until the scheduled Brexit day and little progress being seen in the political negotiations.

Other Mature Markets

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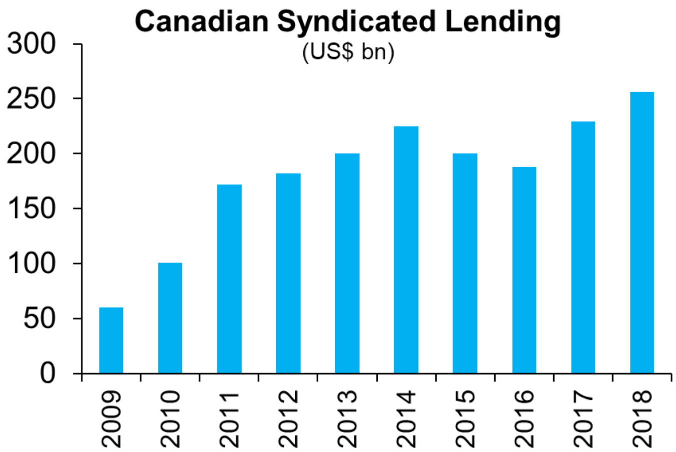
Canada

Corporate bond issuance slumped in Q4, which the Bank of Montreal attributed to macro factors such as "trade wars, rate hikes, political uncertainty, and speculation about economic stagnation." For the year as a whole, Financial Post Data gauges that issuance was down 10.7% to $176.77 bn from $197.8 bn in 2017. RBC also notes that corporate costs rose 40 to 50 bps last year. **Syndicated lending** hit a record $256.3 bn last year, a 12% increase, with the oil and gas sector accounting for nearly a quarter of deals. Corporate uses dominated 88.6% of the market last year, with merger and acquisition lending at just 8.2%.



Source: Thomson Reuters Refinitiv

Japan

Japanese equities closed mixed today, as the Topix inched up 0.1% while the Nikkei lost 0.2%. The **yen** was steady at about ¥109.84, and 10-year JGBs unchanged at -0.009%.

Emerging Markets

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In **Asia**, most financial markets remained closed today for the Lunar New Year. India's Sensex gained 0.2% on the day. Regional currencies traded within a narrow ±0.1% range. **EMEA** bourses were mixed, with the largest gains in Russia (+1.0%) and Saudi Arabia (+0.7%) – partly on the back of higher oil prices – while Qatar (-0.6%) and Hungary (-0.2%) led the losses. Currencies in the region also traded within tight ranges. Most **Latin American** equity indices rose yesterday, including Argentina (+1.5%) and Brazil (+0.7%), on the back of a continued rally in the US. Regional currencies were little changed against advanced economies. Ten-year local government bond yields dropped 36 bps in Argentina and were mixed in other Latin American countries.

Key Emerging Market Financial Indicators

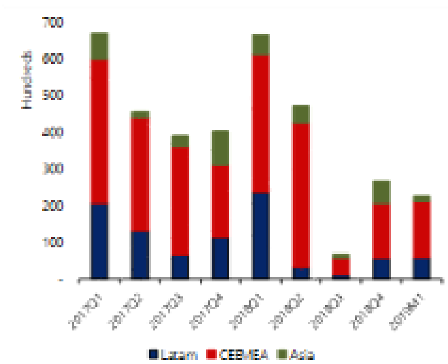
Last updated:	Level		Change				
2/5/19 8:07 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks				%			%
MSCI EM Equities		42.83	0.4	3	8	-10	10
MSCI Frontier Equities		27.99	-1.2	0	4	-14	7
EMBIG Sovereign Spread (in bps)		348	-1	-20	-60	71	-66
EM FX vs. USD		64.16	0.0	1	2	-9	3
Major EM 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		71.57	0.3	-1	-3	-10	-3
Argentine Peso		37.15	0.0	1	0	-48	1
Brazil Real		3.67	-0.1	1	2	-11	6
Mexican Peso		19.03	0.4	0	2	-1	3
Russian Ruble		65.48	0.1	1	2	-12	6
South African Rand		13.36	0.5	2	4	-9	7
Turkish Lira		5.20	0.3	2	4	-27	2
EM FX volatility		8.92	0.0	0.0	-0.7	0.3	-0.9

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

EM new debt issuance

EM issuance has been strong so far this year, partly benefiting from seasonal effects. Last week, Ecuador was the only sovereign to sell debt, issuing $1 bn in 10-year bonds at a 10.75% yield. Overall, EM sovereign issuance amounted to $22.5 bn, partly because of large placements by Saudi Arabia (table). Compared to recent years, the new issuance in January was strong but also partly benefitted from seasonal effects, i.e. a slowdown in Q4 and a rebound in Q1 are not unusual (figure). In addition to sovereigns, nonfinancial corporations issued $23.5 bn in debt and financials allocated $11.1 bn.

Date	Issuer	Currency	USD equivalent	Maturity	Spread	Yield	Ranking	Region
23-Jan-19	COLOMBIA	USD	502	15-Mar-29	T+170		IG	LATAM
23-Jan-19	COLOMBIA	USD	1,496	15-May-49	T+215	5.22%	NR	LATAM
28-Jan-19	ECUADOR	USD	1,000	31-Jan-29		10.75%	HY	LATAM
9-Jan-19	ISRAEL	EUR	1,242	16-Jan-29	MS+75	1.574%	IG	CEEMEA
9-Jan-19	ISRAEL	EUR	1,408	16-Jan-49	MS+115	2.557%	IG	CEEMEA
16-Jan-19	MEXICO	USD	1,988	22-Apr-29	T+185	4.577%	IG	LATAM
7-Jan-19	PHILIPPINES	USD	1,496	14-Jan-29	T+110	3.782%	IG	ASIA
9-Jan-19	SAUDI ARABIA	USD	3,963	16-Apr-29	T+175	4.489%	IG	CEEMEA
9-Jan-19	SAUDI ARABIA	USD	3,451	16-Jan-50	T+230	5.342%	IG	CEEMEA
7-Jan-19	SLOVENIA	EUR	1,706	14-Mar-29	MS+40	1.210%	IG	CEEMEA
10-Jan-19	TURKEY	USD	1,991	26-Apr-29	T+497	7.68%	HY	CEEMEA
25-Jan-19	TURKEY	EUR	1,416	31-Mar-25	B+499.7	4.75%	HY	CEEMEA
15-Jan-19	URUGUAY	USD	843	23-Jan-31	T+175	4.465%	IG	LATAM



Turkey

President Erdogan has said the Turkish Treasury is ready to take over Isbank. The bank's shares dropped over 6% after the announcement. Isbank is Turkey's largest bank and it is partially owned by the opposition party CHP (which has a 28% stake in the bank). Erdogan's desire to take over the claim seemingly follows CHP's rejection to give up its stake recently.

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Global Financial Indicators

Last updated: 2/5/19 8:06 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2725	0.7	3	8	3	9
Europe		3192	0.8	1	5	-8	6
Japan		20844	-0.2	1	7	-8	4
China		2618	1.3	1	4	-24	5
Asia Ex Japan		69	0.5	2	8	-10	8
Emerging Markets		43	0.4	3	8	-10	10
Interest Rates					basis points		
US 10y Yield		2.73	3.9	2	7	3	5
Germany 10y Yield		0.20	2.1	0	-1	-54	-4
Japan 10y Yield		-0.01	0.0	-2	3	-9	-1
UK 10y Yield		1.28	0.4	1	1	-28	0
Credit Spreads					basis points		
US Investment Grade		121	-1.2	-6	-28	41	-26
US High Yield		426	-4.6	-15	-71	98	-95
Europe IG		71	-1.3	-4	-15	24	-17
Europe HY		310	-2.6	-16	-35	59	-43
EMBIG Sovereign Spread		348	-1.0	-20	-60	71	-66
Exchange Rates					%		
Dollar Index (DXY)		95.93	0.1	0	0	7	0
USDEUR		1.14	-0.1	0	0	-8	0
USDJPY		110.0	-0.1	-1	-1	-1	0
EM FX vs. USD		64.1	0.0	1	2	-9	3
Commodities					%		
Brent Crude Oil ($/barrel)		62	-0.5	1	9	-8	16
Industrials Metals (index)		120	-0.4	3	8	-14	9
Agriculture (index)		43	0.1	1	1	-10	3
Implied Volatility					%		
VIX Index (%, change in pp)		15.6	-0.1	-3.5	-5.8	-21.7	-9.8
10y Treasury Volatility Index		3.7	0.1	-0.1	-0.9	-1.4	-0.8
Global FX Volatility		7.8	0.0	-0.1	-1.2	-0.7	-1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		370	-2.8	-8	-50	71	-46
Italy		256	0.3	13	-13	127	6
Portugal		147	-1.4	0	-13	16	-1
Spain		106	-1.1	2	-21	33	-12

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: 2/5/2019 8:09 AM	Exchange Rates: Level		Change (in %)					Local Currency Bond Yields (GBI EM): 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	0.0	-3	-4	-92	-13
Indonesia		13962	-0.1	0.8	2	-3	3		8.0	-4.5	-32	-23	143	-19
India		72	0.3	-0.6	-3	-10	-3		7.6	5.2	8	12	-15	17
Philippines		52	0.1	0.2	0	-2	0		5.7	-0.7	-6	-59	98	-58
Thailand		31	0.1	0.6	2	1	3		2.6	1.9	-2	1	28	-5
Malaysia		4.09	0.1	0.5	1	-5	1		4.0	-1.2	-2	-4	3	-7
Argentina		37	0.0	1.3	0	-48	1		20.9	-6.7	-44	-131	540	-213
Brazil		3.67	-0.2	1.4	2	-11	6		7.7	2.1	-25	-29	-112	-44
Chile		653	-0.2	2.3	4	-8	6		4.4	0.4	-6	0	-46	-6
Colombia		3083	0.1	2.3	3	-8	6		6.4	-3.3	-16	-16	11	-11
Mexico		19.04	0.4	-0.2	2	-1	3		8.5	0.0	2	0	84	-24
Peru		3.3	0.0	0.8	0	-3	1		5.6	-1.7	-13	-13	82	-13
Uruguay		32	0.1	0.2	0	-12	0		10.2	-1.8	-10	-45		-48
Hungary		278	-0.1	-0.1	1	-10	1		2.0	1.5	-10	-11	36	-19
Poland		3.75	-0.2	0.1	0	-10	0		2.3	3.1	0	-4	-52	-1
Romania		4.2	0.0	0.3	-2	-10	-2		4.3	5.0	-30	21	33	7
Russia		65.5	0.1	0.9	2	-13	6		8.0	0.5	-13	-46	96	-45
South Africa		13.4	0.4	1.8	4	-9	7		9.4	0.8	-14	-7	19	-23
Turkey		5.20	0.3	2.1	4	-27	2		15.0	-4.4	-88	-213	332	-186
US (DXY; 5y UST)		96	0.1	0.1	0	7	0		2.55	1.0	0	4	11	3

	Equity Markets: Level		Change (in %)					Bond Spreads on USD Debt (EMBIG): 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		183	0	3	-2	19	-11
Indonesia		6481	0.0	0	3	-2	5		188	-1	-13	-44	33	-48
India		36617	0.1	3	3	5	2		174	1	-5	-20	72	-22
Philippines		8069	0.0	0	4	-6	8		85	-1	-16	-27	-5	-36
Malaysia		1684	0	-1	1	-9	0		130	-3	-8	-28	21	-32
Argentina		37145	1.5	7	15	19	23		630	-16	-66	-101	234	-185
Brazil		98123	0.7	3	7	20	12		229	-3	-11	-34	-2	-44
Chile		5474	0.4	1	5	-4	7		136	-2	-8	-22	25	-30
Colombia		1475	0.9	3	9	-3	11		180	-4	-19	-34	11	-48
Mexico		43738	0.0	0	3	-13	5		309	-4	-7	-34	81	-45
Peru		20450	1	3	5	0	6		135	-2	-12	-30	6	-33
Hungary		40565	-0.7	-1	1	2	4		114	-3	-18	-27	25	-34
Poland		60627	-0.1	1	5	-6	5		49	-3	-13	-25	-6	-36
Romania		7406	1.5	7	-3	-9	0		200	-4	-16	-15	98	-21
Russia		2542	0.7	2	6	12	7		219	6	1	-24	59	-33
South Africa		53877	0.9	-1	3	-6	2		284	-4	-28	-69	49	-81
Turkey		102221	-0.1	-2	15	-13	12		394	9	-22	-51	107	-35
Ukraine		558	0.2	1	1	66	0		677	12	3	-141	276	-110
EM total		43	0.4	3	8	-10	10		348	-1	-20	-60	71	-66

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