Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, February 8, 2019

- **US dollar Libor drops the most in a decade (link)**
- **US corporate merger activity seen as ratcheting higher in 2019 (link)**
- **Brexit stalemate now expected to last well into March (link)**
- **Foreign flows into JGBs strengthens over past weeks (link)**
- **Central banks in Russia, Czech Republic, and Romania keep policy rates on hold (link)**

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

US-China trade tensions re-emerge, dampening risk sentiment

Risk assets sold-off modestly as US President Trump suggested that he was unlikely to meet with Chinese President Xi before March 1. President Trump had previously stated that a meeting with President Xi would be necessary to dissuade the US from raising additional trade duties. Currently, the US plans to increase the tariff rate on March 1 from 10% to 25% for $200 bn of Chinese goods. In Europe, negotiations between British PM May and EC President Juncker also made little headway. Market participants are increasingly discounting the possibility of a deal in the coming weeks, with the only potential for a breakthrough expected to be reached in the days leading up to the March 29 deadline.

Key Global Financial Indicators

Last updated: 2/8/19 8:25 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2706	-0.9	0	5	5	8
Eurostoxx 50		3141	-0.3	-1	3	-7	5
Nikkei 225		20333	-2.0	-2	1	-7	2
MSCI EM		42	0.3	-2	6	-7	9
Yields and Spreads					bps		
US 10y Yield		2.64	-3.7	-4	-9	-18	-4
Germany 10y Yield		0.10	-1.3	-6	-12	-66	-14
EMBIG Sovereign Spread		357	16	5	-33	70	-57
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.8	0.2	-1	1	-9	2
Dollar index, (+) = $ appreciation		96.5	0.0	1	1	7	0
Brent Crude Oil ($/barrel)		61.9	0.4	-1	5	-5	15
VIX Index (%, change in pp)		17.1	0.7	1	-3	-16	-8

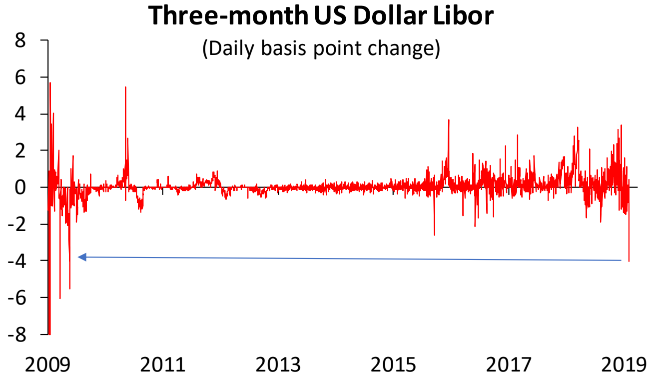
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States

back to top

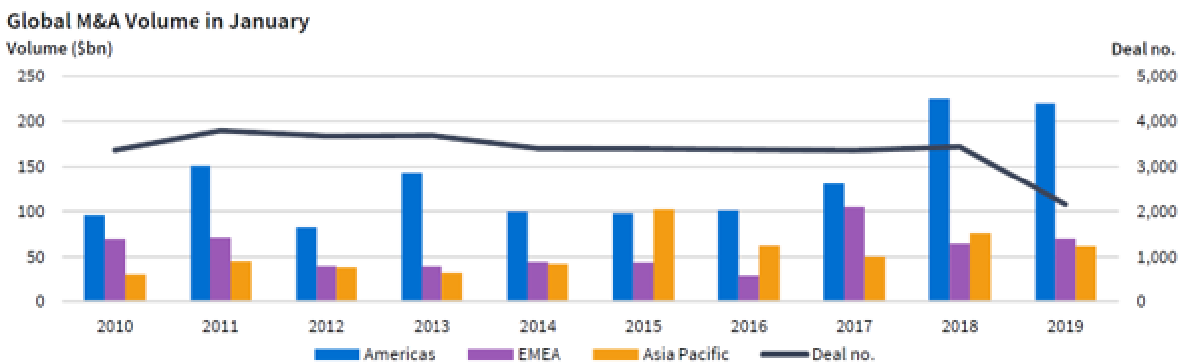
US stocks continued to slide on Thursday, with major indices down about 1%. Trade concerns weighed on markets after White House economist Kudlow advised there were still sizable differences between the US and China. Further weighing on sentiment, there were news reports that presidents Trump and Xi were unlikely to meet before March 1, when the impending US tariff increases on Chinese goods are schedule to go into effect. Ten-year Treasury yields closed around 4 bps lower at 2.66%.

US dollar Libor rates dropped 4 bps to 2.697%, the biggest one-day fall in a decade. Analysts said the drop could be related to Libor "catching up" with the repricing of short-term yields following the apparent change in monetary policy stance at the Fed. Analysts also suggest that since Libor is based on quotes that are supposed to reflect actual transactions, there can sometimes be discontinuous jumps if trading volumes are low.



Source: Bloomberg

US domestic merger and acquisition (M&A) activity in January came in at $192.3 bn, the highest since the record $235.3 bn in January 2000. Moreover, CreditSights notes there are 244 deals in early-stage development, which could soon generate a further $593.4 bn in mergers. This stands in contrast to global merger activity, which has gotten off to a slow start so far this year, with the number of deals falling 37.4% in January from the same period last year. CreditSights advises this decline likely reflects "global economic and political volatility alongside uncertainty looming in the capital markets."

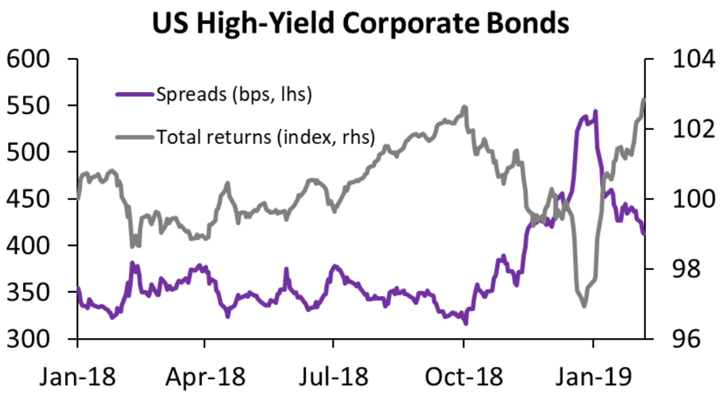


Source: Dealogic

The proposed all-stock merger of BB&T and SunTrust Bank, announced yesterday, has been well received by the market. BB&T and SunTrust's share prices rose 3.4% and 9.4%, respectively, in yesterday's trading. Both parties are deemed operationally and financially robust, with cost-cutting opportunities across their overlapping branch networks. At $442bn in assets, the combined entity crosses the $250bn threshold at which banks become subject to annual (rather than bi-annual) CCAR stress tests, to the

Supplementary Leverage Ratio, and to a modified Liquidity Coverage Ratio. However, since post-merger assets will remain below the $500 bn threshold – the level which US regulations use to designate systemically important institutions – the new entity will not be subject to additional regulatory capital surcharges. The new bank will also almost certainly avoid designation as a global systemically important bank (G-SIB). Some analysts have opined that this transaction, the first merger among large US banks since the financial crisis, may trigger a long-anticipated wave of similar regional bank tie-ups and the next stage of long-term consolidation in US banking.

The high-yield bond market is rebounding strongly so far this year. Advertising firm Clear Channel sold a $2.2 bn bond in the largest CCC rated deal since September, and many new deals have been oversubscribed by several multiples. Spreads have some down around 130 bps from their December highs, according to data from ICE Bank of America Merrill Lynch, and the asset class has returned 5.3% this year compared with 2.2% for investment-grade bonds, and just 0.2% for Treasuries. Analysts point to dovish Fed comments as a factor supporting the gains.

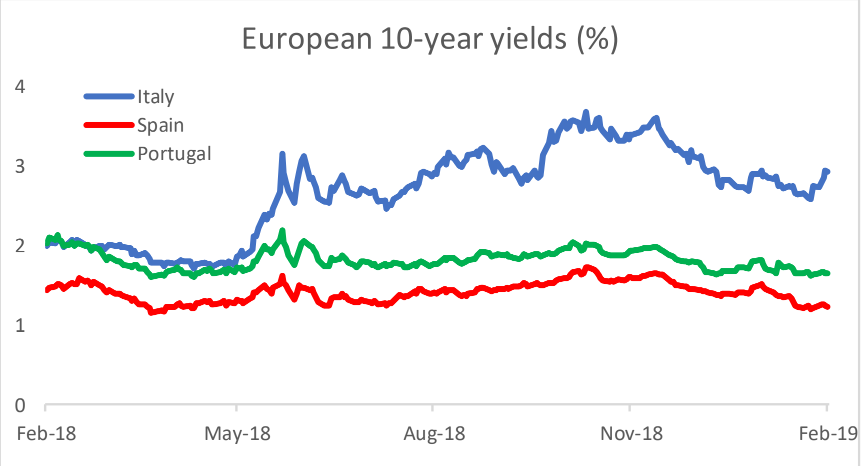


Source: ICE Bank of America Merrill Lynch

Europe

back to top

Equities were flat this morning amid ongoing slowdown concerns and negative China-US trade headlines. The Euro Stoxx 600 was unchanged while banks were also flat following a 2.2% tumble yesterday. Sovereign yields held steady after widespread declines yesterday. The 10-year Bund yield was flat at 0.11%, its lowest level since October 2016, as slowdown fears continue to dominate. Analysts have been pushing the expected date of the ECB's first policy rate hike even further back, with some suggesting that it may not come until late next year. BTP yields stabilized this morning after a 30 bp rise in recent days. Weak data, downgraded forecasts, and a diplomatic spat with France have all weighed on sentiment but the 10-year yield moderated by 3 bps to 2.92% this morning.



Source: Bloomberg

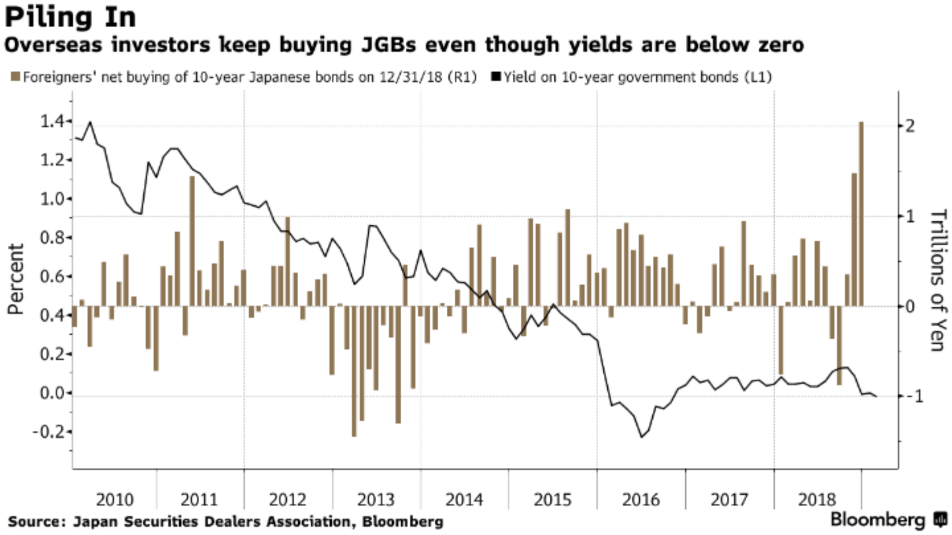
European data releases were mixed this morning. German trade data for December showed a larger-than-expected increase in exports, suggesting a positive growth contribution from trade in the fourth quarter. French IP was moderately better than expected in December, coming in at a m-o-m rate of 0.8%. Italian IP unexpectedly declined by 0.8% on a monthly basis in December (+0.4% expected).

PM May and EC President Juncker held what were described as strained talks yesterday. The pair met in Brussels with very limited progress being made although they agreed to hold further talks this month. British MPs are set to debate the current state of Brexit next Thursday with the potential of amendments being set forward to the deal again. However, it is now considered very unlikely that May will put her deal to a second vote at that time, given the lack of negotiating progress since the initial vote was overwhelmingly rejected last month. Sterling was little changed this morning at just over $1.29 while Gilt yields were flat after declining yesterday as the Bank of England lowered its growth forecast.

Other Mature Markets back to top

Japan

Equities sold off (Topix -1.9%; Nikkei -2%) on negative trade headlines and global growth worries. Growth and yen-sensitive cyclicals underperformed. Meanwhile, Nikkei reported that Japan plans tax breaks for insider buyouts and reverse mergers. The measures are intended to facilitate in-house corporate reorganizations. Foreign flows into JGBs have been strong in recent months as concerns over widening yield differentials to the US and EU have diminished. JGB yields are attractive for foreign investors on a currency-hedged basis reflecting the negative basis. For example, the effective yield on 5-year JGBs for currency-hedged US investors is 2.95%, exceeding similar maturity US Treasuries by 50 bps. Yields on 10-year JGBs fell 1.8 bps to -0.039%. The yen was little changed.



Emerging Markets

back to top

Asian equities declined (-0.4%) on negative US-China trade headlines and soft global economic data. On trade, president Trump said that he does not plan to meet with Xi Jinping before the March 1 deadline for negotiations. Korean stocks underperformed (-1.2%), while Chinese markets remain closed for the lunar holiday. Asian currencies traded mostly little changed against the dollar. The Thai baht depreciated 0.8% on concerns over political stability ahead of the March elections. In EMEA, stocks also dropped, led by losses in Qatar (-1.7%), South Africa (-0.7%), and Hungary (-0.7%). Regional currencies were flat, however. **Latin American** equities continued to slide yesterday, with Mexico down 0.5%, keying off a decline in the US. Regional currencies weakened on lower oil and copper prices. Ten-year government bond yields continued to rise in Brazil (+8 bps).

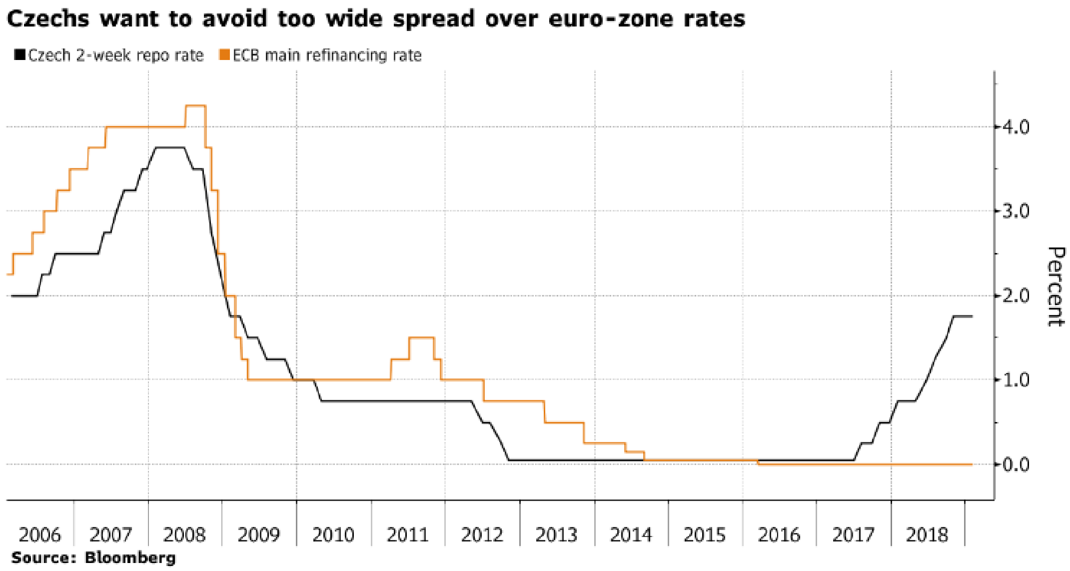
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
2/8/19 8:40 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.40	0.2	-2	6	-7	9
MSCI Frontier Equities		28.09	-0.8	-1	4	-15	7
EMBIG Sovereign Spread (in bps)		357	16	5	-33	70	-57
EM FX vs. USD		63.81	0.2	-1	1	-9	2
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.75	0.0	-1	2	-7	2
Indonesian Rupiah		13955	0.1	0	1	-3	3
Indian Rupee		71.31	0.2	0	-2	-10	-2
Argentine Peso		37.91	-0.2	-2	-1	-47	-1
Brazil Real		3.71	0.2	-1	0	-11	5
Mexican Peso		19.05	0.2	0	2	-1	3
Russian Ruble		65.94	0.0	-1	1	-11	5
South African Rand		13.61	0.1	-2	3	-11	5
Turkish Lira		5.24	0.4	-1	5	-27	1
EM FX volatility		8.95	0.0	0.1	-0.5	-0.4	-0.8

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

EMEA

Various central banks in the region have left their policies rates on hold. The Central Bank of Russia kept the one-week auction rate at 7.75% this morning, on the back of a stronger ruble and slowing inflation. Similarly, the central banks of the Czech Republic, Romania, and Serbia also maintained interest rates unchanged, at 1.75% (Czech Rep.), 2.5% (Romania), and 3% (Serbia). The decisions reflect softer price pressures in these countries.



Latin America

Mexico and Brazil could be among the biggest beneficiaries from US tariffs on China. Market analysts drew attention to a study by the UN Conference on Trade and Development which assessed the potential impact on trade if the US administration follows through on its plans to increase US tariffs on Chinese goods to 25% on March 1st. The study found that the EU would see the largest gains in nominal terms. However, in percent of trade, the greatest impact would be in Mexico, Vietnam, Australia, and Brazil. Mexican exports would rise by up to 6% because of the tariffs. Separately, analysts raised concerns about remaining challenges in the USMCA agreement before it goes through the US Congress.

List of GMM Contributors (Global Markets Analysis Division, MCM Department)

Anna Ilyina
Division Chief
Peter Breuer
Deputy Division Chief
Will Kerry
Deputy Division Chief
Evan Papageorgiou
Deputy Division Chief
Sergei Antoshin
Senior Economist
John Caparusso
Senior Financial Sector Expert
Sally Chen
Senior Economist
Fabio Cortés
Senior Economist
Mohamed Jaber
Senior Financial Sector Expert
David Jones
Senior Financial Sector Expert
Sanjay Hazarika
Senior Financial Sector Expert
Rebecca McCaughrin
Senior Financial Sector Expert
Juan Solé
Senior Economist
Jeffrey Williams
Senior Financial Sector Expert
Akihiko Yokoyama
Senior Financial Sector Expert
Dimitris Drakopoulos
Financial Sector Expert
Tryggvi Gudmundsson
Economist
Henry Hoyle
Financial Sector Expert
Robin Koepke
Economist
Thomas Piontek
Financial Sector Expert
Rohit Goel
Financial Sector Expert
Jochen Schmittmann
Economist
Ilan Solot
Financial Sector Expert
Nour Tawk
Economist
Martin Edmonds
Senior Data Mgt Officer
Yingyuan Chen
Senior Research Officer
Piyusha Khot
Research Assistant
Xingmi Zheng
Research Assistant

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 2/8/19 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2706	-0.9	0	5	5	8
Europe		3141	-0.3	-1	3	-7	5
Japan		20333	-2.0	-2	1	-7	2
China		2618	1.3	1	4	-24	5
Asia Ex Japan		68	-1.0	-1	7	-7	8
Emerging Markets		42	0.3	-2	6	-7	9
Interest Rates			basis points				
US 10y Yield		2.64	-3.7	-4	-9	-18	-4
Germany 10y Yield		0.10	-1.2	-6	-12	-66	-14
Japan 10y Yield		-0.03	-2.1	-2	-4	-11	-3
UK 10y Yield		1.17	-0.3	-7	-10	-44	-10
Credit Spreads			basis points				
US Investment Grade		122	0.3	0	-24	36	-25
US High Yield		432	2.5	1	-29	76	-89
Europe IG		73	0.2	3	-12	22	-14
Europe HY		317	-0.1	9	-27	53	-35
EMBIG Sovereign Spread		357	16.0	5	-33	70	-57
Exchange Rates			%				
Dollar Index (DXY)		96.52	0.0	1	1	7	0
USDEUR		1.13	0.0	-1	-1	-7	-1
USDJPY		109.8	0.0	0	-1	-1	0
EM FX vs. USD		63.8	0.2	-1	1	-9	2
Commodities			%				
Brent Crude Oil ($/barrel)		62	0.4	-1	5	-5	15
Industrials Metals (index)		119	-0.5	0	7	-12	8
Agriculture (index)		43	0.4	0	0	-11	3
Implied Volatility			%				
VIX Index (%, change in pp)		17.2	0.8	1.1	-3.3	-16.3	-8.2
10y Treasury Volatility Index		3.8	0.1	0.1	-0.7	-2.3	-0.8
Global FX Volatility		7.9	0.0	0.2	-0.7	-1.0	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		391	2.2	15	-21	85	-25
Italy		285	1.7	27	12	162	35
Portugal		155	1.0	8	-4	28	7
Spain		113	0.6	7	-15	44	-4

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

Data source: Bloomberg.

back to top

Emerging Market Financial Indicators

Last updated: 2/8/2019 8:29 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		6.75	0.0	-0.7	2	-7	2		3.1	0.0	0	-6	-90	-13
Indonesia		13955	0.1	-0.1	1	-3	3		7.9	3.2	-17	-18	132	-23
India		71	0.2	-0.1	-2	-10	-2		7.5	-5.6	0	-4	-23	7
Philippines		52	0.3	0.4	1	-1	1		5.7	-4.1	-6	-61	94	-63
Thailand		31	-0.8	-0.6	2	1	3		2.6	-0.2	-1	-4	23	-6
Malaysia		4.07	0.1	0.7	1	-3	2		4.0	-3.4	-5	-8	-2	-10
Argentina		38	-0.2	-2.0	-1	-47	-1		20.4	-34.1	-47	-174	502	-256
Brazil		3.71	0.2	-1.5	0	-11	5		7.9	7.6	11	-22	-93	-29
Chile		656	-0.1	-0.5	4	-8	6		4.4	1.3	-3	-2	-44	-7
Colombia		3107	0.3	-0.5	1	-7	5		6.4	2.7	1	-14	8	-9
Mexico		19.05	0.2	0.3	2	-1	3		8.4	1.0	-3	-14	80	-28
Peru		3.3	0.0	0.1	1	-2	1		5.6	-0.4	-2	-13	77	-14
Uruguay		33	-0.2	-0.2	0	-12	0		10.2	-2.0	-7	-43		-48
Hungary		281	0.2	-1.3	0	-9	0		2.0	-0.7	-10	-19	29	-24
Poland		3.80	0.0	-1.4	-1	-10	-2		2.2	-0.3	2	-7	-53	-5
Romania		4.2	-0.1	-0.9	-3	-9	-3		4.3	-3.0	-12	13	25	1
Russia		65.9	0.0	-0.7	1	-11	5		8.0	3.1	4	-44	104	-43
South Africa		13.6	0.1	-2.1	3	-11	5		9.4	-0.1	6	-10	27	-23
Turkey		5.24	0.4	-0.7	5	-27	1		15.2	-1.8	40	-179	331	-167
US (DXY; 5y UST)		97	0.0	1.0	1	7	0		2.45	-1.2	-5	-13	-9	-6

	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		184	4	0	-1	24	-10
Indonesia		6522	-0.2	0	4	0	5		198	21	8	-18	35	-38
India		36546	-1.1	0	2	6	1		180	6	-1	-14	77	-16
Philippines		8071	-0.4	1	5	-7	8		92	13	4	-14	-4	-29
Malaysia		1687	0	0	1	-8	0		133	15	0	-23	20	-29
Argentina		35929	-2.2	-1	9	16	19		674	15	19	-52	257	-141
Brazil		94648	-0.2	-3	3	16	8		245	17	11	-6	4	-28
Chile		5419	0.0	-1	4	-4	6		140	18	1	-10	19	-26
Colombia		1472	-1.1	1	8	-2	11		196	19	11	-3	5	-32
Mexico		43625	-0.5	0	0	-9	5		318	20	-1	-10	69	-36
Peru		20316	-1	1	5	1	5		144	19	5	-12	1	-24
Hungary		39759	-1.0	-3	-3	2	2		113	9	-9	-20	22	-35
Poland		60243	-0.3	-1	2	-4	4		56	1	-4	-5	3	-29
Romania		7558	0.3	8	1	-6	2		195	3	-18	-16	86	-26
Russia		2505	-0.2	-1	5	12	6		223	18	7	3	55	-29
South Africa		53529	-0.7	-1	3	-5	2		299	21	8	-25	54	-66
Turkey		102389	-0.4	-1	13	-10	12		407	23	19	-23	109	-22
Ukraine		552	-0.9	0	-2	65	-1		704	19	37	-51	289	-83
EM total		42	0.2	-2	6	-7	9		357	16	5	-33	70	-57

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