



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, January 10, 2019

- **UK PM May's deadline for "Plan B" shortened after parliament defeat ([link](#))**
- **Investors have been rotating away from equities in the US ([link](#))**
- **Concerns over US credit quality heat up after PG&E downgrade ([link](#))**
- **Bank of Canada keeps interest rates on hold as expected ([link](#))**
- **Asian assets mixed as possibility of protracted trade talks dents optimism ([link](#))**

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Risk rally takes a breather on lack of catalyst

Global equities saw modest declines this morning following four straight days of gains as no new driver helped to push markets further. Yesterday's release of December Fed minutes assured investors that the FOMC will be cautious with further hikes and reports of progress in US-China trade negotiations helped push markets higher. However, lack of any details on that progress has fed continued uncertainty. In Europe, the UK parliament's reduced time for PM May to come up with a new plan in the likely event the current one is not passed has led to further Brexit worries. Disappointing French IP data this morning has helped pause the recent weakness in the dollar. The dollar index is down 1% this week, and the broad consensus among analysts is that it will weaken further as the year progresses.

Key Global Financial Indicators

Last updated: 1/10/19 8:33 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2585	0.4	3	-2	-6	3
Eurostoxx 50		3066	-0.1	4	2	-15	2
Nikkei 225		20164	-1.3	1	-5	-15	1
MSCI EM		41	-0.3	4	3	-17	4
Yields and Spreads			bps				
US 10y Yield		2.71	-1.8	15	-15	15	2
Germany 10y Yield		0.26	-1.6	11	2	-28	2
EMBIG Sovereign Spread		389	-5	-35	-14	117	-25
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.4	0.1	2	2	-10	2
Dollar index, (+) = \$ appreciation		95.2	0.0	-1	-2	3	-1
Brent Crude Oil (\$/barrel)		61.3	-0.2	10	2	-11	14
VIX Index (% change in pp)		20.6	0.6	-5	-2	11	-5

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

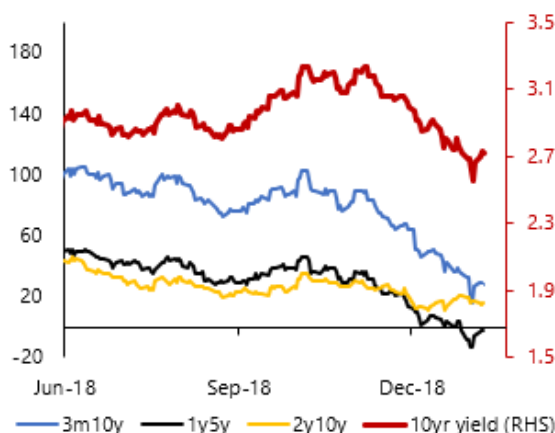
United States

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US equity markets continued to rally on Wednesday, as the trade talks concluded with positive notes, and the S&P 500 ended up by 0.4%. FOMC minutes for the December meeting revealed that many policy makers could be patient with further rate hikes, especially in an environment of muted inflation pressures. The dollar resumed its declining trajectory on Wednesday with the DXY Index down by 0.7%. The yield curve steepened marginally with 3 bps decline in the 2 year yields, and 2 bps decline in the 10 year yields. The market implied policy curve, as calculated by Bloomberg, has moved up marginally in 2019.

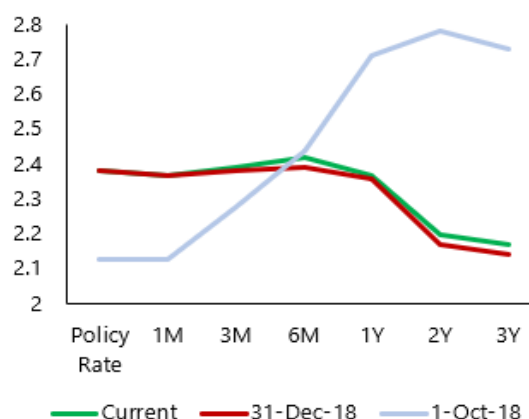
Among other developments, the stalemate over the US government shutdown continued with no breakthrough in the discussions between President Trump and the democratic leaders.

US: Yield curve slopes (LHS), 10 year yield (RHS)



Source: Bloomberg

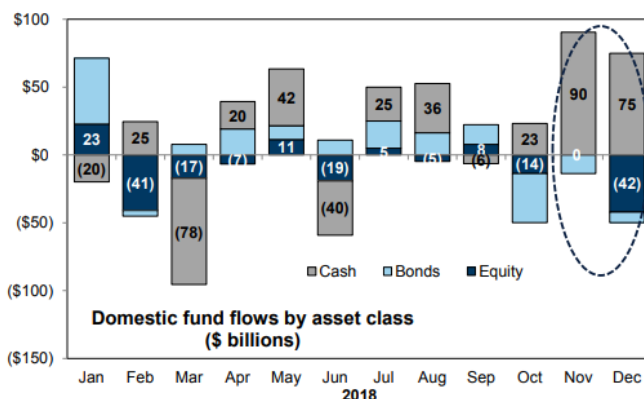
Market Implied Policy Curve Comparison



Source: Bloomberg

Analysis by Goldman Sachs indicates that investors have been rotating aggressively towards cash and debt from equities, reflecting rising growth concerns. Money market funds received \$165 billion of inflows during the past 60 days compared with \$42 billion of outflows from stock funds. Analysts also highlight that the recent sell-off has slashed overall equity allocations from 45% in Q4 2018 (95th percentile since 1990) to 41% now (61st percentile). Cash allocation of 13% likely remains around the 6th percentile, as per the analysis.

Exhibit 8: Flows into money market funds have risen sharply in the past two months as of December 26, 2018



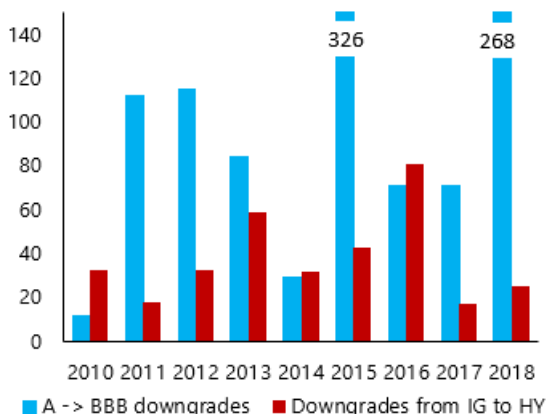
Source: EPFR, Goldman Sachs Global Investment Research

Holder	EQUITY % of total assets		CASH % of total assets	
	Start of 4Q 2018	Percentile since '90	Start of 4Q 2018	Percentile since '90
Pension funds	55 %	73 %	2 %	0 %
Households	40	90	14	4
Foreign investors	47	94	8	0
Mutual funds	58	96	15	0
Total	45 %	95 %	12 %	0 %

Holder	EQUITY % of total assets		CASH % of total assets	
	Start of 1Q 2019 (est.)	Percentile since '90	Start of 1Q 2019	Percentile since '90
Pension funds	51 %	39 %	2 %	3 %
Households	36	62	15	24
Foreign investors	43	71	8	6
Mutual funds	54	64	17	11
Total	41 %	61 %	13 %	6 %

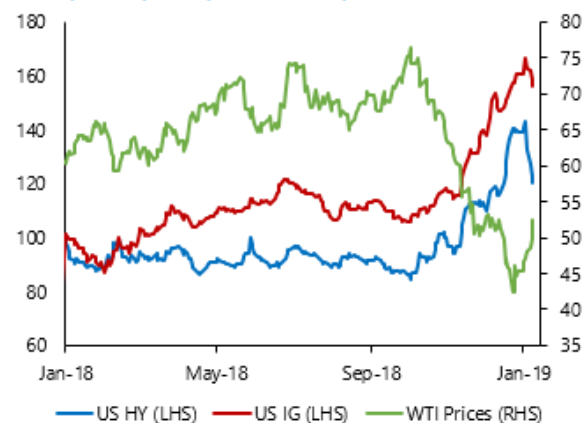
Investor concerns over the credit quality in the US resurfaced after S&P downgraded the rating on both PG&E and its Pacific Power & Gas Coop utility to "B" from its previous rating of "BBB-," the lowest tier of so-called investment-grade ratings. PG&E's shares have declined by 25%, and the yields on its largest bond have risen by 57bps to 7.2 percent this week. Credit quality concerns in the broader US sector are also marked by a significant volume of credit migration into the lower quality buckets in 2018. **\$268 bn of A- rated bonds have migrated into the BBB bucket, and \$25bn of bonds migrated from IG to HY in 2018. Market concerns are reflected in the 55bps rise in IG spreads and 147 bps rise in HY spreads in 2018. However, spreads have continued to moderate in 2019, partly buoyed by stronger oil prices.**

Volume of migration between different credit buckets



Source: Bloomberg, GS Research (Units: US \$ bn)

US Corporate Spreads (Indexed at 100) + Oil Prices

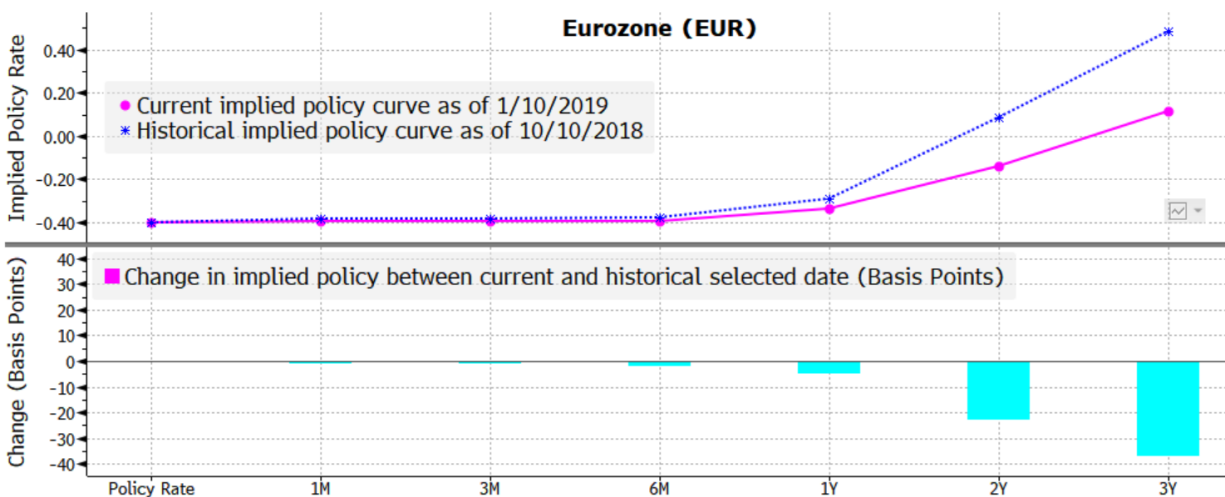


Source: Bloomberg

Europe

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Stocks are broadly lower and yields down a few basis points across the region. The EuroStoxx 600 is down 0.4%, offsetting most of yesterday's gain, but still well into positive territory for the year. There have been notable moves in fixed income markets. However, looking back over the last couple of months, there has been a considerably repricing in ECB policy rate expectations. Implied rates have taken out roughly 5 bps of tightening for a year out, 20 bps for the next 2 years, and 40 bps for the next 3 years.



United Kingdom

PM Theresa May suffered her second consecutive defeat in Parliament after MPs agreed to give her only 3-day to devise a new plan if the current one is rejected next week. Her deadline was previously 21 days to come up with an alternative plan. The motion was passed because once again rebel Conservative MPs joined forces with Labour against the government. The government is still widely expected to lose the vote next week, but there is no consensus on what happens next.

How MPs defeated the government on Brexit plan B announcement



Source: Commons Votes Services. Excludes 'tellers', the Speaker and deputies

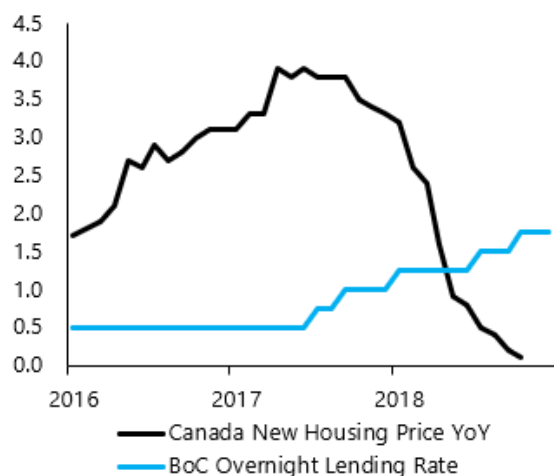
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Other Mature Markets

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Canada

Bank of Canada kept the interest rates on hold at 1.75%, in line with consensus expectations. The overnight lending rate has been on hold for the last few months with the last 25 bps hike in October 2018. Policy makers highlighted that the weaker-than-expected consumption and housing activity also suggests the five hikes since mid-2017 may be having a stronger impact than expected. Analysts also highlighted the slump in oil prices to have played a role in removing urgency from BOC's rate-hike path. Amongst other data releases, housing starts surprised on the upside at 213k vs consensus expectations of 206k and last month's print of 224k. **Canadian equities ended up Wednesday 1.4% with no major change in currency and rates.**



Source: Bloomberg

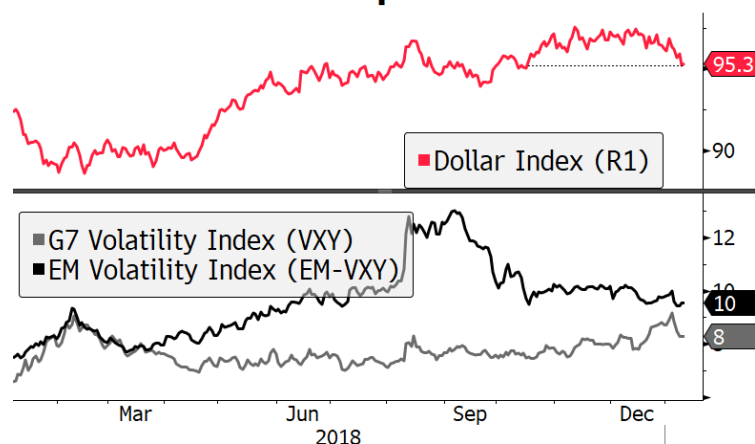
Japan

Equities fell for the first time in four days while the yen gained. The release of dovish Fed minutes prompted investors to entertain the prospects of a weaker dollar and stronger yen. The Topix shed 0.9% and the Nikkei, -1.3%, dragged lower by electronics makers. The yen gained 0.2%, pushing it to 107.98. **JGB yields fell across the curve following a well-received 30-year auction.** The bid-to-cover ratio rose from 3.78x previously to 4.03x. Yield on the 30-year benchmark fell 1.4 bps to 0.68%. Shorter-dated paper saw similar declines: the 2-year note fell 1.1 bps to -0.16%, and the 10-year note fell 0.8 bps to 0.01%.

Currencies

The dollar continues to trend lower. The DXY index has fallen nearly 1% this week and 2.5% since its recent high in mid-December as investors continue to trim expectations for Fed tightening. At the same time, measures of implied volatility in currency markets have fallen since the start of the year in both EM and G7, but only slightly.

Dollar Index and Implied Vol








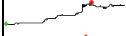








Emerging Markets

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Emerging markets had a mixed session overnight. Equities in the EMEA region were moderately lower, with Poland (-0.9%) seeing the largest losses. Local currencies were slightly weaker against the dollar. Asian currencies staged broad-based gains following the release of dovish Fed meeting minutes. The Indonesian rupiah and the RMB both advanced by 0.5%. Asian equities were mixed following recent gains. Chinese bourses fell (Shanghai: -0.4%), Korean equities held steady while the Indonesian Jakarta Composite gained (+0.9%). Latin American assets saw gains yesterday. Argentine equities (+2.6%) led the gains, followed by Brazil (+1.7%) and Chile (+0.8%). Currencies in the region strengthened, most notably the Colombian peso (+1.2%) and the Brazilian real (+1%)

Key Emerging Market Financial Indicators

Last updated: 1/10/19 8:35 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.64	-0.4	4	3	-17	4
MSCI Frontier Equities		27.16	0.5	3	-1	-22	4
EMBIG Sovereign Spread (in bps)		389	-5	-35	-14	117	-25
EM FX vs. USD		63.37	0.1	2	2	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.78	0.5	1	2	-4	1
Indonesian Rupiah		14053	0.5	3	4	-4	2
Indian Rupee		70.41	0.1	0	1	-10	-1
Argentine Peso		37.44	-0.2	0	1	-50	1
Brazil Real		3.68	0.0	2	7	-12	5
Mexican Peso		19.17	0.3	2	6	1	2
Russian Ruble		67.03	-0.5	3	0	-15	3
South African Rand		13.86	0.0	3	4	-10	4
Turkish Lira		5.44	0.7	1	-2	-30	-3
EM FX volatility		9.56	0.0	-0.4	-0.6	2.0	-0.2

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

Asian currencies staged broad-based gains following the release of dovish Fed minutes. The Indonesian rupiah advanced (+0.5%), pacing gains as overseas investors boosted holdings of Indonesian stocks and bonds. According to Bloomberg, foreign investors purchased \$59.4 mn of Indonesian equities on January 9th, the biggest one-day inflow in a month; this follows a net purchase of \$184 mn of bonds the previous day. The renminbi also advanced (+0.47%), supported by positive, though still vague, signals from the 3-day US-China trade discussion. **Asian equities were mixed** following gains over the past 5 sessions. Limited concrete details from the just-concluded US-China trade discussion dented optimism. Chinese bourses fell (Shanghai: -0.4), Korean equities held steady while the Indonesian Jakarta Composite gained (+0.9%).

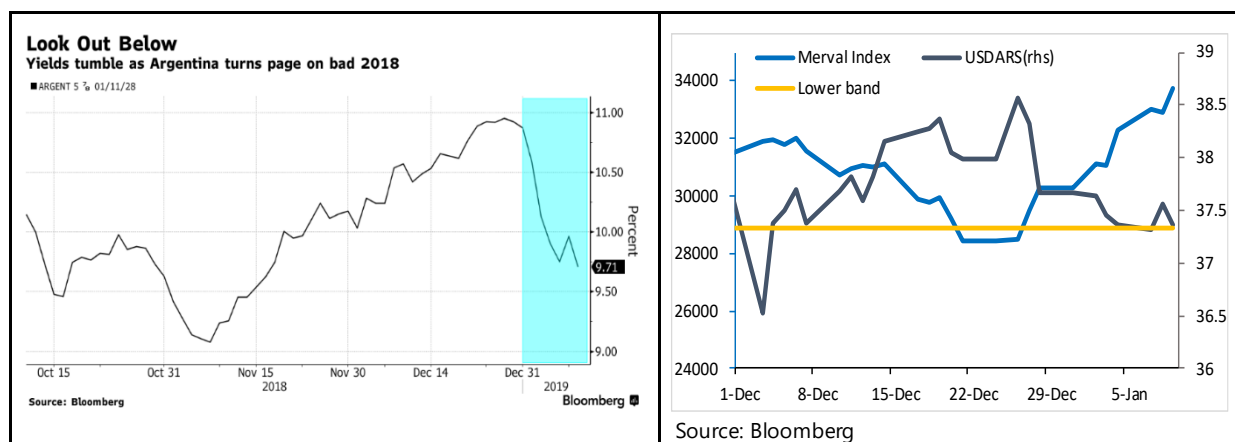
China

The RMB gained, brushing aside the still-uncertain US-China trade resolution. The onshore CNY gained 0.5% while the offshore CNH gained 0.3% to 6.78/USD and 6.79/USD, respectively, their strongest levels since last August. Following the conclusion of the 3-day trade negotiation, the Ministry of Commerce released a statement noting "extensive, deep and meticulous discussions promoted mutual understanding to establish a foundation to solve each side's concerns" but offered little concrete details. While the two sides committed to maintaining close contacts over the coming months, resolution to underlying issues remains far from certain. In another sign that the economy is slowing, **December PPI slowed sharply to**

its **weakest pace since 2016** (+0.9% yoy), raising the possibility of weak corporate profits and downward pressure on global prices.

Argentina

The average spreads on Argentina dollar bonds-has declined by over 100 bps since the start of the year, as investor confidence has increased. In addition to the broader rally in risk assets, the growing optimism could be partly attributed to the delivery on tougher fiscal targets and a new monetary policy that has reduced currency volatility and drained pesos from the local financial system. Argentine assets have outperformed so far this year with equities up (+8.6%) and the peso (+1.13%) strengthening against the dollar.

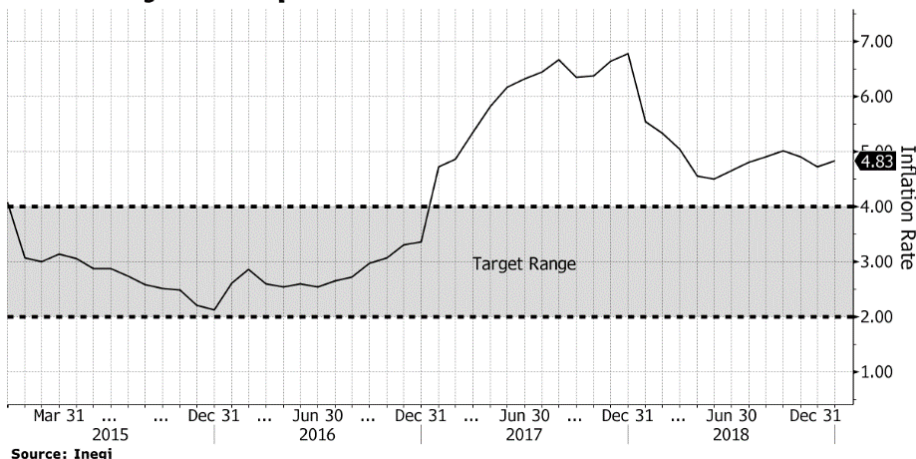


Mexico

Inflation was reported somewhat lower than expectations for December coming in at 4.83% y/y (vs expected 4.85%) and 0.70% m/m (vs expected 0.73% m/m). The data printed slightly lower than expected due to lower fruit and vegetable prices and energy prices. Core CPI printed at 0.47% m/m (vs expected 0.45). Analysts believe that the inflation would remain under pressure as pass-through from energy prices that contaminated the core component have maintained pressures and though yesterday's print was close to expectations, analysts believe monetary action could be triggered if additional shocks are observed.

Inflation Pickup

Cost-of-living increases quickened at the end of 2018



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Global Financial Indicators

Last updated: 1/10/19 8:33 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2585	#VALUE!	3	-2	-6	3
Europe		3066	-0.1	4	2	-15	2
Japan		20164	-1.3	1	-5	-15	1
China		2535	-0.4	3	-2	-26	2
Asia Ex Japan		65	1.7	3	1	-17	3
Emerging Markets		41	#VALUE!	4	3	-17	4
Interest Rates			basis points				
US 10y Yield		2.71	#VALUE!	15	-15	15	2
Germany 10y Yield		0.26	-1.6	11	2	-28	2
Japan 10y Yield		0.02	-0.8	2	-2	-6	2
UK 10y Yield		1.28	1.4	8	8	-1	0
Credit Spreads			basis points				
US Investment Grade		142	0.1	-10	2	53	-5
US High Yield		455	2.3	-82	8	110	-66
Europe IG		83	0.3	-10	-5	38	-5
Europe HY		337	3.4	-37	-18	107	-16
EMBIG Sovereign Spread		389	-5.0	-35	-14	117	-25
Exchange Rates			%				
Dollar Index (DXY)		95.22	0.0	-1	-2	3	-1
USDEUR		1.15	-0.1	1	2	-3	1
USDJPY		108.1	0.1	0	5	3	1
EM FX vs. USD		63.4	0.1	2	2	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-0.2	10	2	-11	14
Industrials Metals (index)		111	-0.5	2	-2	-19	1
Agriculture (index)		43	-0.3	2	-1	-10	3
Implied Volatility			%				
VIX Index (% change in pp)		20.6	0.6	-4.9	-2.0	10.8	-4.8
10y Treasury Volatility Index		4.3	0.0	-0.7	-0.1	0.6	-0.3
Global FX Volatility		8.6	0.0	-0.8	-0.1	1.6	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		401	-1.1	-24	0	85	-14
Italy		266	5.8	-5	-20	116	16
Portugal		145	-4.5	-16	-9	15	-3
Spain		119	-1.9	-8	0	19	2

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: 1/10/2019 8:36 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		6.78	0.5	1.3	2	-4	1		3.1	-1.7	-6	-16	-86	-11
Indonesia		14053	0.5	2.6	4	-4	2		8.2	-0.4	1	-3	175	2
India		70	0.1	-0.3	1	-10	-1		7.5	0.9	5	-3	3	6
Philippines		52	0.3	0.8	1	-3	1		6.2	-4.7	-10	-7	140	-10
Thailand		32	0.1	1.0	3	1	1		2.7	1.8	12	-3	40	5
Malaysia		4.10	0.4	1.1	2	-2	1		4.1	0.4	-1	-5	19	-3
Argentina		37	-0.2	0.0	1	-50	1		22.3	1.9	-44	-90	585	-73
Brazil		3.68	0.0	2.1	7	-12	5		8.0	-3.9	1	-52	-84	-13
Chile		678	-0.2	2.6	0	-10	2		4.5	3.6	4	-11	-31	1
Colombia		3126	0.3	3.8	2	-8	4		6.5	-0.7	-5	-16	31	-4
Mexico		19.17	0.3	2.4	6	1	2		8.7	7.9	8	-41	117	2
Peru		3.3	0.1	0.9	1	-4	1		5.7	-3.2	-4	-18	57	-5
Uruguay		33	0.1	-0.5	-1	-12	0		10.7	-0.2	-2	-35		-4
Hungary		278	0.1	1.4	2	-7	1		2.1	-3.6	4	-18	97	-6
Poland		3.72	0.0	1.1	2	-6	0		2.3	-1.6	9	-16	-35	4
Romania		4.1	-0.2	0.8	1	-4	0		4.1	1.0	-11	-4	34	-11
Russia		67.0	-0.5	2.7	0	-15	3		8.2	-18.6	-21	-20	103	-21
South Africa		13.9	0.0	3.2	4	-10	4		9.5	-4.2	-15	-22	18	-13
Turkey		5.44	0.7	0.5	-2	-30	-3		17.3	3.9	25	-29	548	42
US (DXY; 5y UST)		95	0.0	-1.1	-2	3	-1		2.54	-1.0	18	-18	21	3

	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		2535	-0.4	3	-2	-26	2		186	-4	-13	-6	36	-8	
Indonesia		6329	0.9	2	4	-1	2		211	-6	-36	-22	56	-25	
India		36107	-0.3	2	3	5	0		193	-1	1	10	88	-3	
Philippines		7985	0.8	4	9	-10	7		103	-5	-25	-14	23	-18	
Malaysia		1679	1	0	1	-8	-1		159	-2	-14	7	53	-3	
Argentina		33769	2.6	9	10	7	11		728	12	-31	-25	364	-87	
Brazil		93343	1.7	2	9	19	6		254	1	-23	-18	38	-19	
Chile		5261	0.8	3	4	-7	3		150	-2	-23	-15	38	-16	
Colombia		1378	0.7	3	0	-10	4		200	0	-31	-8	35	-28	
Mexico		43648	0.2	3	6	-11	5		335	1	-28	-12	98	-19	
Peru		19566	1	2	2	-5	1		156	-2	-23	-16	34	-12	
Hungary		40728	-0.2	3	4	3	4		136	-2	-19	-16	54	-12	
Poland		59099	-0.4	3	3	-9	2		66	1	-24	-12	12	-19	
Romania		7407	-0.7	-1	-13	-8	0		206	-3	-14	-20	94	-15	
Russia		2419	0.2	3	1	8	2		225	-1	-36	-25	62	-27	
South Africa		53218	0.0	3	6	-11	1		327	-6	-46	-40	98	-38	
Turkey		91752	0.7	5	-1	-19	1		446	-4	-5	-33	164	17	
Ukraine		563	0.1	1	-2	74	1		749	-25	-58	9	343	-38	
EM total		41	-0.4	4	3	-17	4		389	-5	-35	-14	117	-25	

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