



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, January 11, 2019

- **First US high yield bond sale in 2019 ends extended drought** ([link](#))
- **Fed chair Powell emphasized that policy will be “patient and flexible”** ([link](#))
- **ECB minutes keeps outlook balanced despite downside risks** ([link](#))
- **China’s renminbi reaches its strongest level since July** ([link](#))
- **BCRA bought dollars in first intervention since establishing trading band** ([link](#))

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Markets weakening to close out an otherwise strong week

Equity markets are trending lower so far this morning and sovereign bond yields are declining. European shares are down somewhat this morning after rising modestly earlier in the morning, and US futures markets are indicating a lower opening. This closes out a week where the Eurostoxx 50 and S&P 500 are both up by over 2 percent. Sovereign bond yields are lower, with Treasuries down about 3 bps across the curve, following comments by Fed chair Powell yesterday, which highlighted the Fed will be patient with future hikes. The dollar continues to weaken as expectations for Fed hikes diminish with the dollar index down by a further 0.3% today. This has helped sustained gains in emerging market currencies which have performed well so far on the year. The renminbi is up 0.7% today, pushing it to its largest weekly gain since 2005. Oil prices are up only modestly this morning, but have risen overall by over 8 percent on the week.

Key Global Financial Indicators

Last updated: 1/11/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2585	0.5	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	0.2	4	3	-17	4
Yields and Spreads			bps				
US 10y Yield		2.71	3.2	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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Amid significant intraday volatility, US equities ended up by 0.4% on Thursday. Industrials and yield sectors outperformed, while consumer discretionary shares lagged on weak December sales results that drove reduced guidance. Select retail names like Macy's (down 18%) came under significant pressure. The weaker earnings also highlighted continued investor concerns around peaking of earnings growth. Relatedly, Citigroup's global earnings revision index, which compares analyst upgrades vs downgrades, has declined to the lowest level since the GFC. The US yield curve steepened marginally with 2 year Treasury yields rising by 2 bps, and 10 year yields rising by 3 bps. The dollar index rose by 0.3% on Thursday, and the MTD rally in commodity currencies took a breather as oil momentum slowed, though WTI still ended modestly higher as U.S. crude stockpiles shrank.



Source: Bloomberg



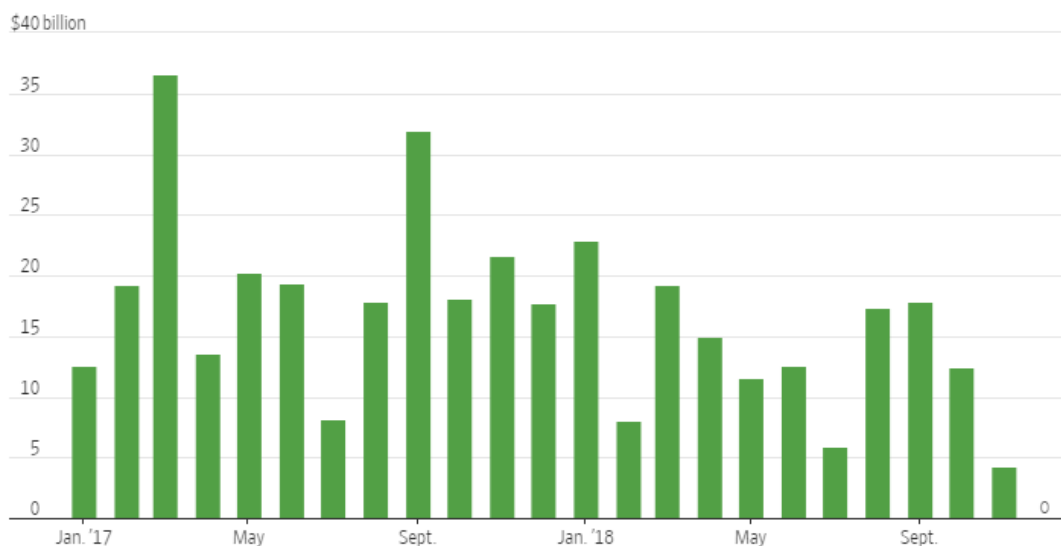
Source: Bloomberg

Fed Chairman Powell re-emphasized that the central bank will be "patient and flexible" on policy, but also forecast a substantially smaller Fed balance sheet in the future. He also warned that a prolonged shutdown could hurt the US economy, though highlighted that past shutdowns had been short-lived affairs and did not impact the economy meaningfully.

CPI Inflation for Dec was reported at 1.9% y/y exactly inline with expectations and compares with the 2.2% y/y print in Nov. Core CPI inflation was reported at 2.2% yoy and was also inline with expectations. This comes in the context when market expectations around the number of Fed hikes have lowered meaningfully in the last couple of months. **There was no immediate price reactions in the market.**

Dealogic analysis highlighted that December was the first month since 2008 without a HY bond sale. Analysts highlighted that volatility in financial markets, uncertainty about the economy and the drop in oil prices acted as an overhang on corporate issuance plans. Some of the demand has also shifted to the leveraged loan market, though issuance has declined there as well. 2019 has however seen an improvement in valuations, with a decline in HY spreads and a rise in oil prices. **Thursday saw the first US HY issuance since November** as Targa Resource Partners sold \$1.5bn of 8 and 10-year bonds.

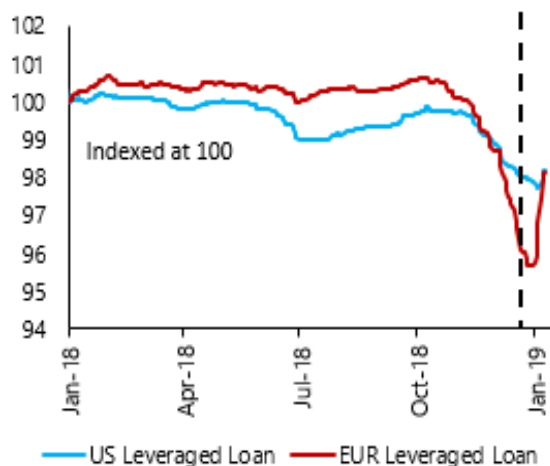
High-yield bond sales, monthly



Source: Dealogic

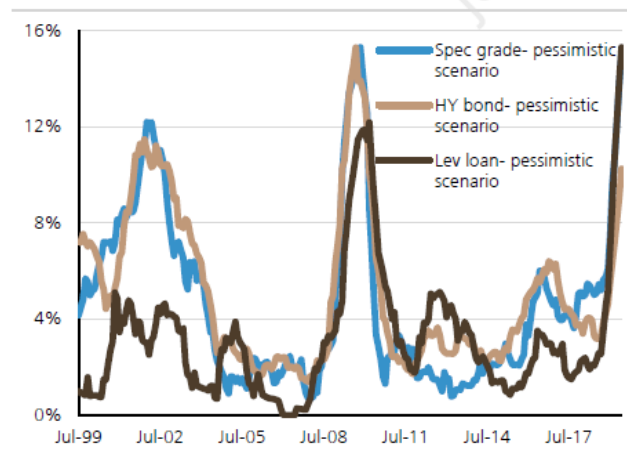
Leveraged loan prices have remained resilient this year with a 2.5% rise in EUR leveraged loans and relatively stable prices in the US leveraged loans. This compares with 1.7% decline for US and 4.8% decline for EUR leveraged loans in Q4 2018. Leveraged loans have remained in focus given the concerns around worsening credit quality and higher leverage. UBS analysts highlight that historical loss rates suggest moderate risk, but losses may be higher this cycle.

Leveraged Loan Markets - Price Performance



Source: Bloomberg

Figure 10: Levered lending defaults could be higher in a downturn



Source: Moody's, UBS

Europe

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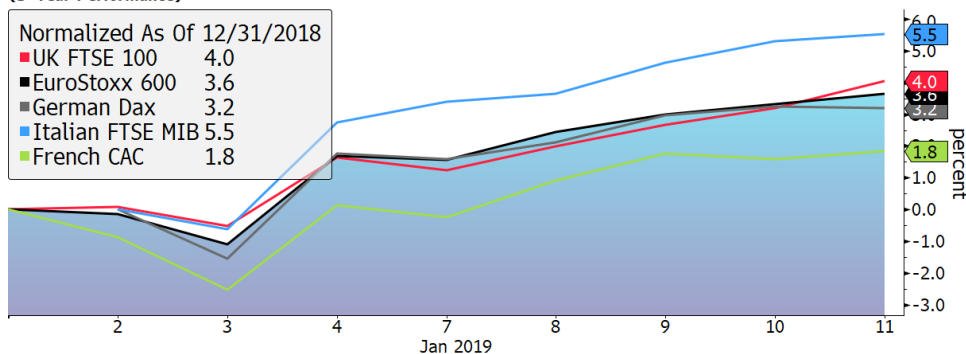
Yields are down marginally across the region and mixed on the week. Core markets yields have been pressured lower by continued dovish messages from the Fed and the ECB. **In its latest minutes released yesterday, the ECB kept risks to the outlook broadly balanced in December despite some discussion that they should be tilted to the downside.** Indeed, recent data from the region continue to point to weaker growth ahead (chart). The minutes said that "uncertainties and risks related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial volatility had remained prominent." Of note, Governing Council member Villeroy commented that the ECB needed to keep its policy options open and that it could wait until the Spring before tweaking guidance.

Euro-area growth momentum slips without signs of immediate revival



Stocks are little changed. The EuroStoxx 600 is essentially flat on the day so far, but still up about 2% on the week and 3.6% on the year. Note that there has been a considerable differentiation in performance across the region. For example, Italian markets are up 5.5% so far this year, compared with France up only 1.8%.

European Equity Indices (3-Year Performance)



MXWO Index (MSCI World Index) Equity Basic Daily 31DEC2018-11JAN2019

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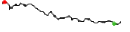












Japan

Trading activities were subdued ahead of the long holiday weekend. **The yen gained for a fourth day (+0.1%)**, after reversing losses seen earlier in the day. Meanwhile, **equities also gained**, with the Topix up 0.5%. **Government bonds prices were also higher**. Yield on the benchmark 10-year note fell nearly 1 bp to 0.005%. After reaching a two-year low of -0.05% on January 4th, yield on the 10-year note has climbed back, though it continues to hover around 0%. Analysts noted that concerns over a global economic slowdown and the possibility of yen appreciation amid dollar weakness have dampened JGB yields.

Emerging Markets [back to top](#)

EM equities have continued to move higher while currency markets are relatively calm. Equities in EMEA were broadly higher, particularly in Poland (+1.1%) and South Africa (+1%). Local currencies were little changed against the dollar, however. Asian currencies were also little changed on the day while equities posted broad-based, though modest, gains. The RMB, having posted a robust gain of about 0.6% for both the onshore and offshore currencies, was the exception, while equity gains were led by Chinese bourses (Shanghai: +0.7%). Latin American saw gains again yesterday after dovish signals from the Fed. Argentina led the gains in both equities (+1.2%) and currencies as the peso (+0.7%) strengthened against dollar and crossed the lower bound set for the day.

Key Emerging Market Financial Indicators

Last updated: 1/11/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.64	0.2	4	3	-17	4
MSCI Frontier Equities		27.41	0.9	4	0	-22	5
EMBIG Sovereign Spread (in bps)		391	5	-17	-5	120	-23
EM FX vs. USD		63.27	-0.2	0	2	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.75	0.5	2	2	-4	2
Indonesian Rupiah		14048	0.0	2	4	-5	2
Indian Rupee		70.50	-0.1	-1	2	-10	-1
Argentine Peso		37.45	-1.0	0	1	-50	1
Brazil Real		3.72	-0.2	0	5	-14	4
Mexican Peso		19.15	-0.1	1	5	1	3
Russian Ruble		67.09	-0.3	1	-1	-16	3
South African Rand		13.84	0.1	1	4	-10	4
Turkish Lira		5.47	-0.9	-2	-2	-31	-3
EM FX volatility		9.55	0.0	0.0	-0.6	2.1	-0.2

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

China

The RMB extended recent robust gains to its strongest level since July. Both the onshore CNY and offshore CNH reached 6.75/dollar, having gained 0.67% and 0.63% on the day, respectively. The RMB's sizable gains of nearly 1.8% this week – the most since July 2005 – have prompted several investment analysts to revise their outlooks to reflect expectations for further appreciations. Notably, the 3-month risk reversal – the difference in implied volatility between call and put options – suggests that negative bets on the RMB have fallen to the lowest level in two years. Although optimism regarding trade resolution is one

factor, contacts noted that the shifting – and more dovish – Fed outlook played a critical role in supporting the RMB.

Bears Retreat

Short-yuan bets fade in options market as currency rallies to five-month high



Source: Bloomberg

CNY Curncy (China Renminbi Spot) yuan Daily 01JAN2018-10JAN2019

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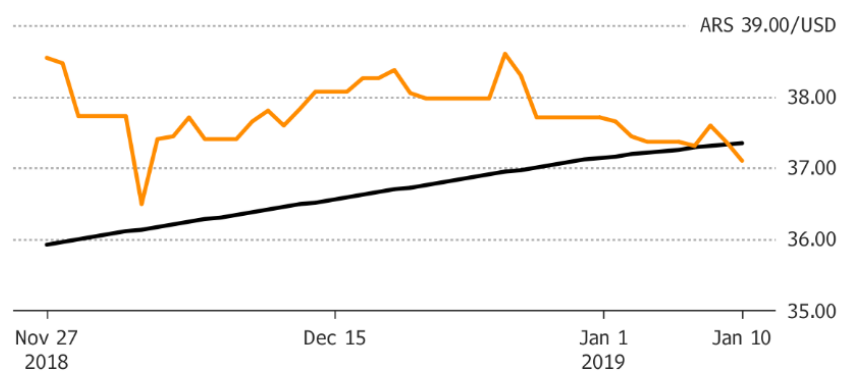
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Argentina

The central bank intervened in the currency market yesterday as the peso strengthened by another +0.7% against dollar. For the first time since establishing a trading band on Oct. 1 as part of new monetary policy, the central bank bought \$20 mn in an auction at an average price of 37.31/dollar as the peso fell below the lower band of 37.355 for Thursday, reports Bloomberg.

Crashing Through

Argentine peso strengthens past Central Bank non-intervention zone floor



Source: MAE, BCRA

Bloomberg

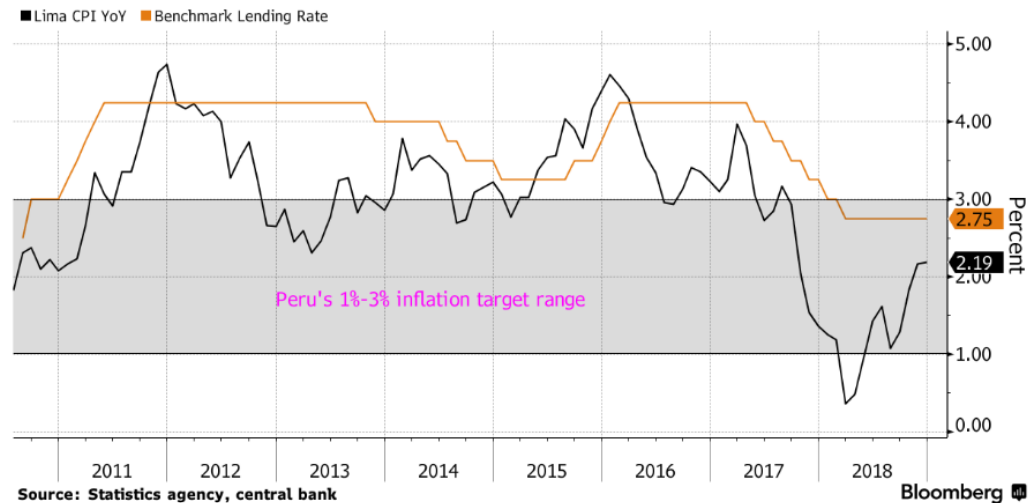
Peru

Peru's central bank decided to hold the benchmark rate at 2.75% for the tenth consecutive month.

Policy makers do not see any sign to tighten monetary policy as the inflation expectation remains within the central bank's target range. Analysts believe, that may change in the coming quarters as the economy grows above potential, the output gap closes, and inflation nears the center of the central bank's target range.

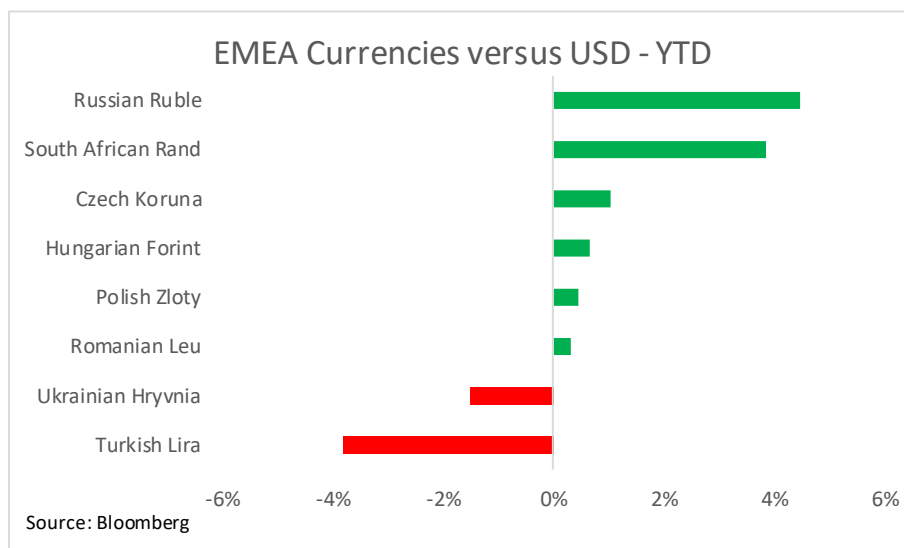
Wait for It

Policy makers are watching data for signs of strong demand



Central and Eastern Europe



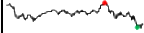





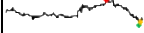



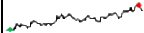








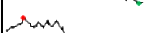
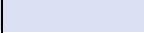

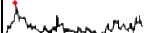
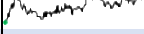



The outlook for sovereign creditworthiness in the region is stable, according to Moody's. In a report released yesterday, the rating agency cited strong but slowing growth as well as generally supportive debt profiles as key factors for the benign outlook. However, tighter global financial conditions and structural challenges were mentioned as risks going into 2019. The region as a whole is expected to grow at 3.7% this year, ranging from 4.3% in Slovakia to 2.5% in Croatia. Markets in the region have started the year positively with most currencies in the broader region stronger against the dollar.



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Global Financial Indicators

Last updated: 1/11/19 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2585	0.5	3	-2	-6	3
Europe		3066	-0.1	4	2	-15	2
Japan		20164	-1.3	1	-5	-15	1
China		2554	0.7	2	-2	-25	2
Asia Ex Japan		65	1.7	3	1	-17	3
Emerging Markets		41	0.2	4	3	-17	4
Interest Rates			basis points				
US 10y Yield		2.71	3.2	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		391	5.0	-17	-5	120	-23
Exchange Rates			%				
Dollar Index (DXY)		95.32	-0.2	-1	-2	4	-1
USDEUR		1.15	-0.1	1	2	-3	1
USDJPY		108.1	0.1	0	5	3	1
EM FX vs. USD		63.3	-0.2	0	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: 1/11/2019 8:10 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		6.75	0.5	1.7	2	-4	2		3.1	-0.4	-3	-14	-89	-11
Indonesia		14048	0.0	1.6	4	-5	2		8.2	1.0	0	-18	171	3
India		70	-0.1	-1.1	2	-10	-1		7.5	0.5	3	-11	-2	7
Philippines		52	0.3	0.9	1	-3	1		6.2	2.5	-7	-4	141	-7
Thailand		32	0.0	0.1	3	0	1		2.7	0.1	13	-3	41	5
Malaysia		4.10	0.1	1.0	2	-3	1		4.0	-1.8	-1	-7	15	-5
Argentina		37	-1.0	-0.2	1	-50	1		22.3	3.5	-47	-93	598	-70
Brazil		3.72	-0.2	-0.1	5	-14	4		8.1	7.7	9	-52	-75	-5
Chile		676	-0.1	0.9	1	-10	3		4.5	0.6	7	-11	-34	1
Colombia		3145	-0.3	1.5	1	-9	3		6.5	4.3	-6	-10	34	0
Mexico		19.15	-0.1	1.4	5	1	3		8.7	-3.0	10	-46	108	-1
Peru		3.3	-0.1	0.8	1	-4	1		5.7	0.8	-5	-22	54	-5
Uruguay		33	-0.1	-1.0	-2	-13	-1		10.6	-6.5	-8	-43		-11
Hungary		279	0.2	0.9	3	-8	0		2.2	1.0	9	-18	96	-5
Poland		3.73	0.2	1.1	2	-7	0		2.3	-0.9	7	-14	-38	3
Romania		4.1	0.3	0.9	1	-5	0		4.1	0.0	-4	-3	36	-11
Russia		67.1	-0.3	0.7	-1	-16	3		8.2	-2.7	-24	-24	100	-24
South Africa		13.8	0.1	0.9	4	-10	4		9.4	-3.7	-9	-42	11	-16
Turkey		5.47	-0.9	-2.5	-2	-31	-3		17.3	-3.5	-4	-48	535	38
US (DXY; 5y UST)		95	-0.2	-0.9	-2	4	-1		2.53	-3.7	3	-21	20	2

	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		2554	0.7	2	-2	-25	2		187	1	2	2	39	-7	
Indonesia		6361	0.5	1	5	0	3		212	4	-20	-17	57	-24	
India		36010	-0.3	1	2	4	0		191	-2	-14	11	81	-5	
Philippines		7904	-1.0	2	6	-10	6		103	2	-9	-10	23	-18	
Malaysia		1683	0	1	2	-7	0		155	-3	-3	11	52	-7	
Argentina		34167	1.2	10	10	7	13		710	2	-21	-44	348	-105	
Brazil		93655	0.2	2	8	18	7		255	3	-8	-10	39	-18	
Chile		5304	0.6	2	5	-7	4		151	3	-7	-9	40	-15	
Colombia		1384	0.5	3	1	-9	4		197	2	-17	-2	34	-31	
Mexico		43669	0.0	4	7	-11	5		342	3	-1	8	103	-12	
Peru		19699	1	2	2	-4	2		154	2	-11	-11	33	-14	
Hungary		40721	-0.2	1	2	2	4		137	3	-4	-9	51	-11	
Poland		59573	0.6	3	5	-9	3		63	-1	-11	1	4	-22	
Romania		7391	0.0	-4	-14	-10	0		208	2	-18	-20	90	-13	
Russia		2439	0.2	3	2	9	3		229	7	-14	-13	66	-23	
South Africa		53598	0.6	3	5	-10	2		331	7	-22	-26	103	-34	
Turkey		91735	0.6	3	0	-20	1		447	3	2	-15	169	18	
Ukraine		563	0.0	1	-2	70	1		751	4	-67	12	354	-36	
EM total		41	0.2	4	3	-17	4		391	5	-17	-5	120	-23	

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