



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, January 15, 2019


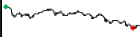






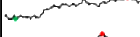

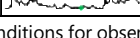
- **Brexit deal set for heavy defeat in today's parliament vote** ([link](#))
- **Citi leads US financial shares higher Monday after earnings report** ([link](#))
- **California's largest utility, PG&E, announces it will file for bankruptcy** ([link](#))
- **Decline in bond sales in fourth quarter led by US markets** ([link](#))
- **Asian shares jump on announced upcoming tax cuts in China** ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Equity markets little changed as investors wait for Brexit vote

US and European equity markets are little changed this morning, despite an initial boost following stimulus news out of China. Asian markets rallied overnight after Chinese officials confirmed that further tax cuts are forthcoming. While that led to early gains in Europe and US equity futures, those gains faded after JP Morgan reported disappointing earnings, failing to continue the good news from yesterday's Citi report. Wells Fargo is due to report later in the day. Markets will be watching the Brexit vote in the UK later today. The deal is widely expected to fail, but the size of the loss could have an impact on the next steps, with a larger loss leading to more uncertainty. While currently slightly in negative territory, sterling has been bouncing between strong and weak this morning amid higher than normal trading volume.

Key Global Financial Indicators

Last updated: 1/15/19 8:27 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
S&P 500		2583	-0.5	1	-1	-7	3
Eurostoxx 50		3052	-0.1	0	-1	-15	2
Nikkei 225		20555	1.0	3	-4	-13	3
MSCI EM		40	0.8	2	1	-18	3
Yields and Spreads							
US 10y Yield		2.70	0.2	-3	-19	16	2
Germany 10y Yield		0.21	-2.1	-2	-4	-38	-3
EMBIG Sovereign Spread		390	2	0	0	107	-24
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		63.2	-0.3	0	2	-11	2
Dollar index, (+) = \$ appreciation		95.9	0.3	0	-2	5	0
Brent Crude Oil (\$/barrel)		60.0	1.7	2	0	-15	12
VIX Index (% change in pp)		19.1	0.0	-1	-3	9	-6

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

Today, the U.K. parliament will vote on PM May's Brexit deal with the EU, with wide market expectations of defeat. Retail sales (Wednesday) and US housing starts (Thursday) releases are expected this week but may be delayed as the US government enters its fourth week shutdown. New York, Minneapolis, Dallas and Kansas Fed presidents will speak this week, while the Beige Book will be released on Wednesday. In Europe, the main releases will be the December CPI print and retail sales for the UK, and industrial production and CPI for the Euro Area. In Asia, Japan releases producer price indices (Wednesday) and the December CPI (Friday) and India (Tuesday), and CPI for India (Monday). There will be rate decisions in Indonesia, Turkey and South Africa. Additionally, Q4 earnings will be announced for large banks (including JP Morgan, Morgan Stanley, Bank of America, Goldman Sachs) as well as Netflix, BlackRock.

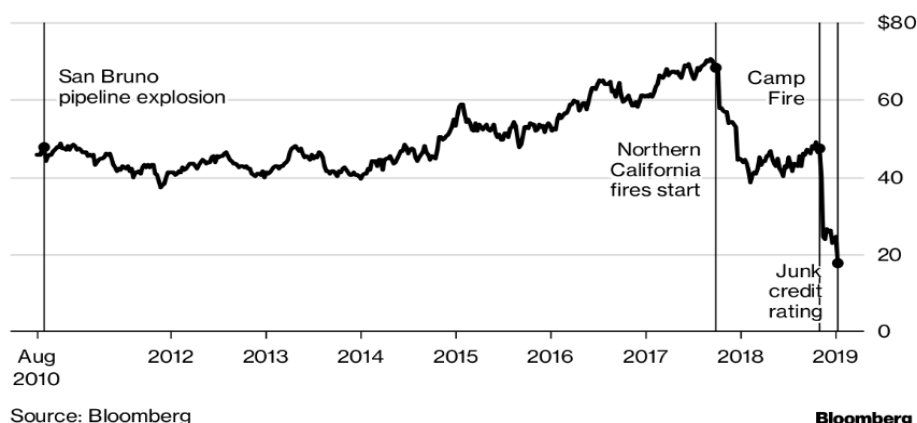
United States

[back to top](#)

US equities declined on Monday, as concerns over China's weak trade data soured last week's optimism. The S&P 500 declined by 0.5%. The Dow industrial closed 0.4% lower, and the Nasdaq 0.9% lower. The week prior, the S&P 500 had posted 2.5% gains, as investors had been encouraged by the positive trade talk headlines and the Fed's dovish tone. The dollar was 0.1% lower Monday. Treasuries were little changed, with the 2-year treasury yields ended at 2.53%, down 1 bps, while the 10-year treasury yields closed at 2.7%, down 0.3 bps, Commodity prices continued to decline, with Brent crude closing at \$59.19 a barrel (-2.2%), while WTI fell to \$50.68 a barrel (-1.76%).

Losses in the S&P Monday were led by utilities (-2.2%), over news that California state's largest utility PG&E Corp's planned to file for bankruptcy protection. Share prices of PG&E fell by almost 50% on Monday. The company has lost more than 2/3 of its market value since the November wildfire "camp fire" in California, for which it faces \$30 bn in potential liabilities. Prior to this announcement, there had been speculation that the state of California may bail out the company, though that has now been ruled out. Additionally, technology companies were down (-0.9%) as China's weak export data fueled concerns slowing global growth. However, losses were balanced out by gains in financials (+0.7%), as Citigroup's shares rallied by 4% due to revealed earnings higher than market expectations.

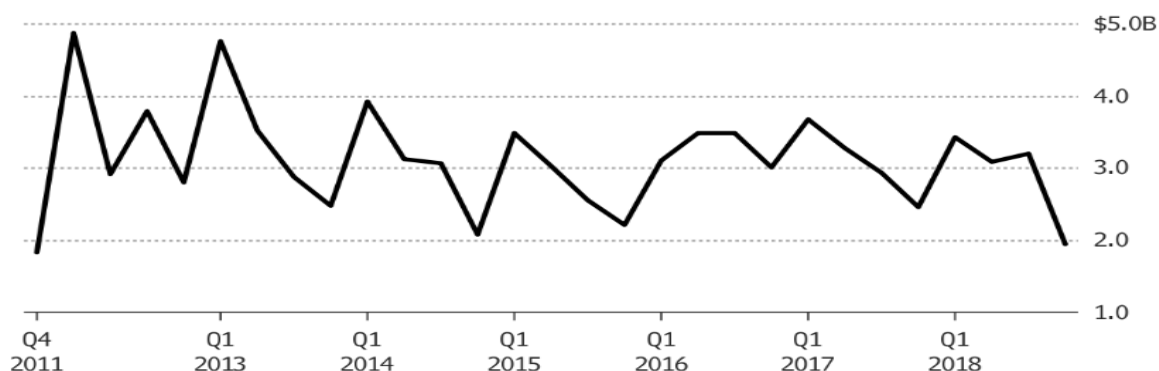
PG&E's Tumultuous Decade



This morning it was reported that the overall US producer price index declined by 0.2% in December, more than the forecasted estimate (-0.1%). Excluding food and energy, producer prices fell by 0.1%, its first decline in a year (according to a labor department report). Market participants view this as a signal that inflation pressures for the US are contained. The Bloomberg dollar index gave up some of its earlier gains following the release, but is still up 0.2% on the day.

Citigroup's shares rallied by almost 4%, as the bank stated that the trading environment had improved after its toughest quarter in 7 years. Citigroup's CFO stated that he saw the bank's outlook strengthening in 2019, as equity prices and yields show signs of stabilizing. Citigroup's fixed income revenue had declined by 21% in 2018Q4. The bank reportedly cut down its costs by 4% to combat losses, driving compensation expenses down 6%. As a result, earnings beat Wall Street estimates, and causing stock prices to surge.

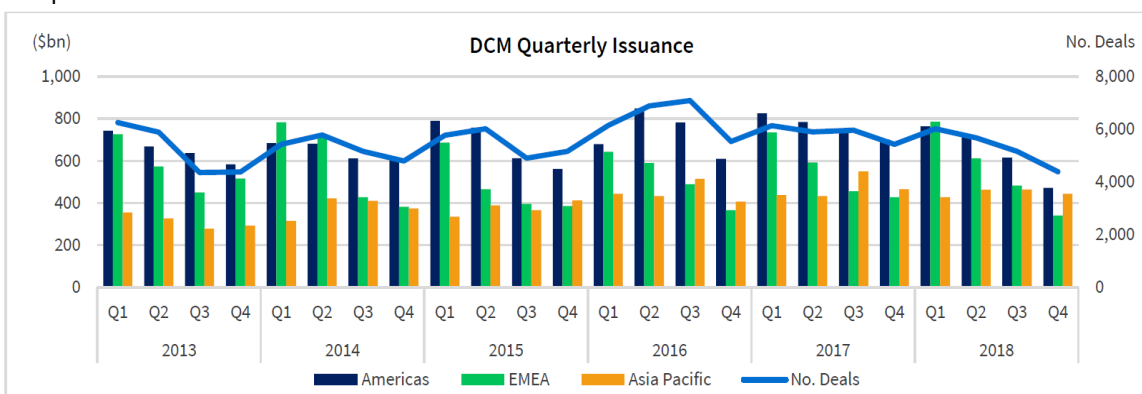
Citigroup's fixed-income traders turned in their worst performance since 2011



Source: Citigroup, Bloomberg

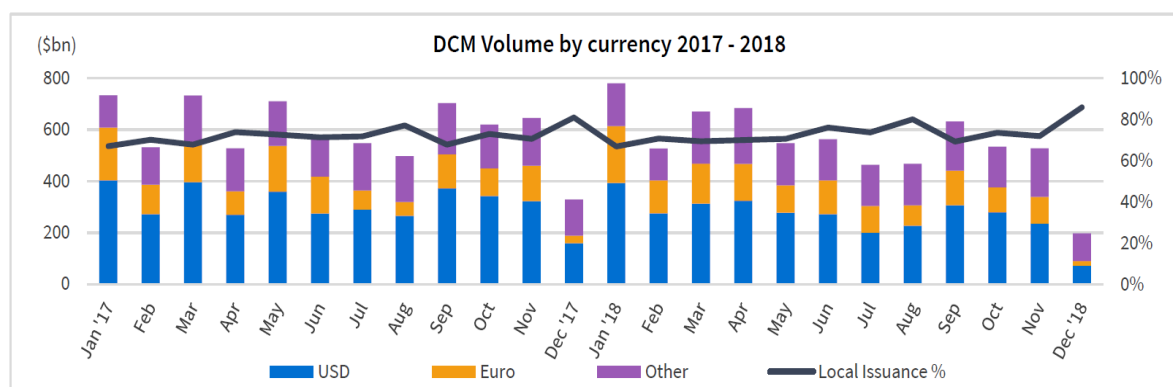
Bloomberg

Bond issuance in global debt capital markets recorded a significant drop in activity in 2018Q4, despite an otherwise robust performance in the first and second quarter. According to Dealogic, activity in 2018 was mainly dragged down by one of the weakest Decembers on record, as the number of deals for bonds sold in the market was as low as 954. Dealogic reports that such a low number of deals and volumes has not been matched in the last two decades. US dollar issuance also declined in 2018: issuance and deal activity were down by 7% and 9% respectively compared to 2017, and 3% and 17% compared to 2016.



source: Dealogic

Additionally, the sale of US dollar-denominated bonds was the most impacted, as sales by US and non-US issuers fell by 14% and 16% respectively, compared to 2017. Main causes for low US-denominated issuance include policy rate hikes, repatriation of cash by US technology companies, and trade tensions. According to Dealogic, Euro-denominated deals and EMEA enjoyed the strongest results, as issuance did not go down compared to 2017, while issuance in Asia Pacific was down by 5%. All markets however experienced a plunge in issuance in December 2018.



source: Dealogic

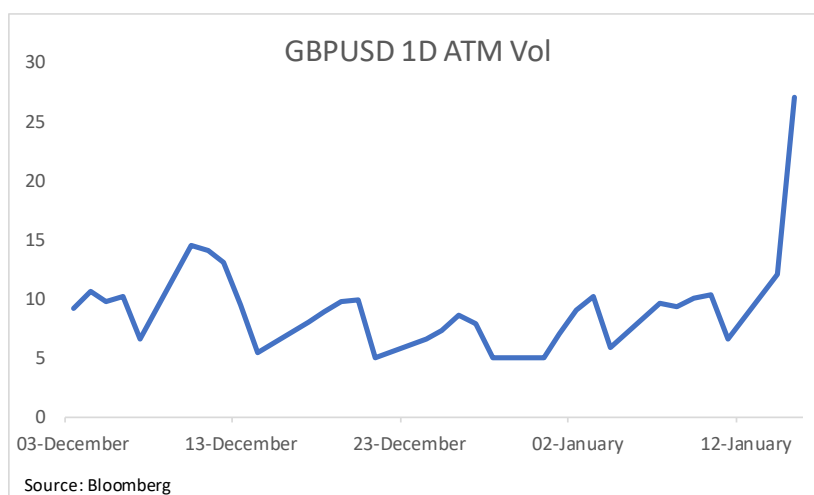
Europe

[back to top](#)

Equities resumed their steady climb after Chinese stimulus hopes reduced global growth concerns.

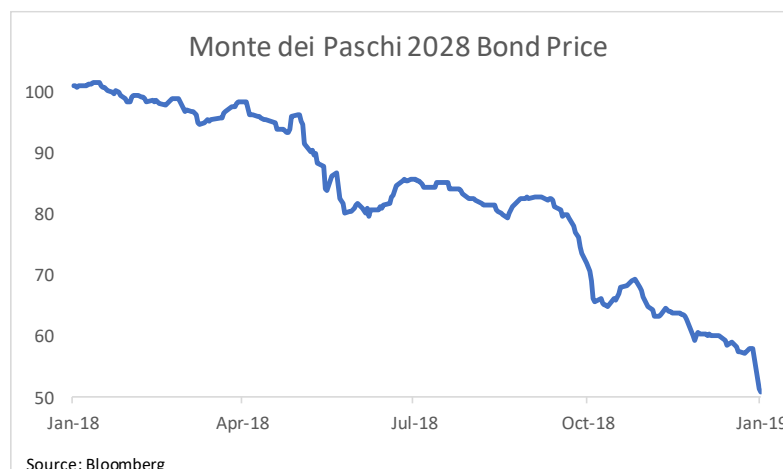
The gains were modest, however, with the Euro Stoxx 600 rising by 0.2%. Banks underperformed with a drop of 0.2% as Italian lenders continue to struggle. UBI and BPM were both down more than 8% in heavy trading as concerns about the sectors' outlook were reignited (see below). **Sovereign yields were lower across the board, including in Italy.** The yield on 10-year BTPs was 2 bps lower, marking its third day of declines. Other 10-year sovereigns were 2-3 bps lower while the shorter end was mostly flat.

Yesterday's assurances from EC president Juncker did little to sway MPs ahead of tonight's Brexit vote. In a letter to PM May, Juncker provided clarifications over specific issues of the withdrawal agreement, including the Irish backstop. May is still expected to suffer a heavy defeat tonight with the fallout expected to depend on the magnitude of the loss. There is speculation that a relatively narrow loss would lead her to hold another vote after further talks with the EU while a heavy loss could result on greater turmoil and the potential for a second referendum, a leadership challenge, or general elections.



The Italian government has hired a syndicate of banks to sell a new 15-year bond. The decision comes following robust demand for other European sovereigns last week, generating a total of €70bn of orders. However, recent economic data has added to the sense of gloom with Friday's IP data being the latest to disappoint. The slowdown has caused Italian executives to become increasingly pessimistic about the economy, according to a Bank of Italy survey. Respondents cited increased uncertainty and a lack of

demand as factors weighing on the outlook. **Separately, Monte dei Paschi shares tumbled yesterday after the ECB pointed to continued capital and profitability concerns.** The troubled bank is still set to test its ability to issue debt with a covered bond sale, according to reports. The share price dropped by over 10% yesterday while the bank's bond prices also fell sharply. Other banks have also felt the strain with BPM and UBI both down more than 8% this morning.



Other Mature Markets [back to top](#)

Japan

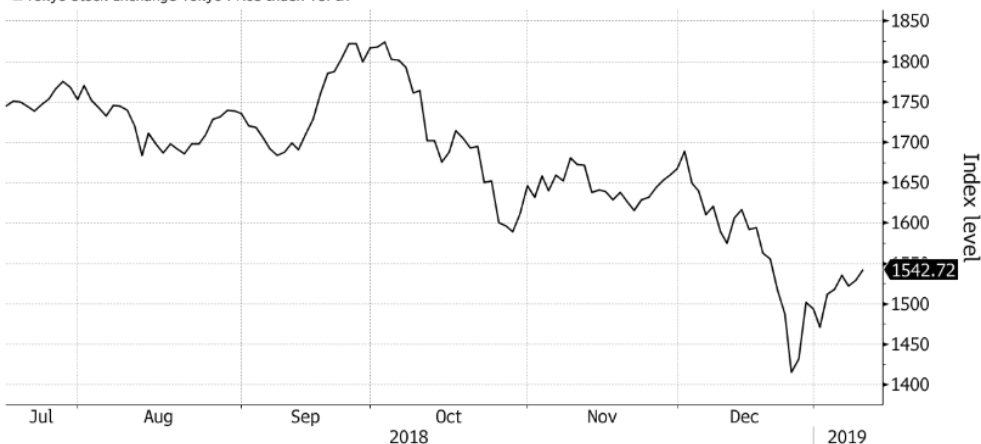
Equities gained (Nikkei +1%, Topix 0.9%) with tech and machinery stocks outperforming. After a brief dip at the open after the holiday yesterday, Japan followed regional equity markets higher. **The yen depreciated 0.2% against the dollar. 10-year JGB yields declined 0.6 bps to -0.001%.**

Japan's financial regulator, the FSA, is proposing tighter rules for investors in securitized products. Under the FSA proposal, Japanese investors would be restricted to buying only securitizations where the originator retains 5% of the underlying asset or face steep additional capital charges. Japanese financial firms are among the biggest buyers of highly rated US CLOs. Accordingly, **analysts expect any regulatory changes in Japan to have a significant effect on the US CLO market.** In contrast, European CLOs are expected to meet the revised Japanese regulations on risk retention.

Bouncing Back

Topix is up 3.3 percent so far this year

■ Tokyo Stock Exchange Tokyo Price Index TOPIX

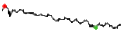
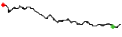








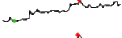
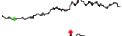




Emerging Markets

[back to top](#)

Asia ex-Japan equities gained (+1.3%) after senior Chinese officials confirmed that further tax cuts are in the pipeline, especially for SMEs and the manufacturing sector. However, analysts noted that these had been announced previously and ascribed the stock market bounce to positioning and attractive valuations. All regional bourses gained on the day except Thailand (-0.4%) and the Philippines (-0.1%). Hong Kong (+2%), Korea (+1.6%), and China (Shenzhen +1.5%, Shanghai +1.4%) outperformed. In currencies, the Korean won appreciated 0.6%, while the offshore RMB (-1%) and the onshore RMB (-0.3%) depreciated. **EMEA** bourses are mixed, with Turkey (+0.9%) and Saudi Arabia (+0.8%) advancing while Bulgaria (-0.3%) and Bahrain (-0.3%) have suffered small losses. Currencies are weaker by about 0.2-0.3% to the dollar. **Latin American** currencies weakened early in the session on Monday because of weak trade data from China but recovered on investor optimism about reduced trade risks. The Mexican peso continued to outperform (+0.7%) reaching mid-October levels. Regional equity markets gained yesterday (MSCI LatAm was up 0.6%), propelled by Brazilian stocks (+0.9%).

Key Emerging Market Financial Indicators

Last updated: 1/15/19 8:28 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.39	0.9	2	1	-18	3
MSCI Frontier Equities		27.41	-0.5	2	0	-23	5
EMBIG Sovereign Spread (in bps)		390	2	0	0	107	-24
EM FX vs. USD		63.24	-0.3	0	2	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.76	0.1	1	2	-5	2
Indonesian Rupiah		14090	0.2	0	3	-5	2
Indian Rupee		71.02	-0.1	-1	1	-11	-2
Argentine Peso		37.02	-0.1	1	3	-49	2
Brazil Real		3.70	-0.2	0	5	-13	5
Mexican Peso		19.02	-0.2	2	6	-1	3
Russian Ruble		67.09	-0.1	0	-1	-16	3
South African Rand		13.82	-0.3	1	4	-11	4
Turkish Lira		5.45	-0.1	1	-1	-30	-3
EM FX volatility		9.42	0.0	0.0	-0.5	1.8	-0.4

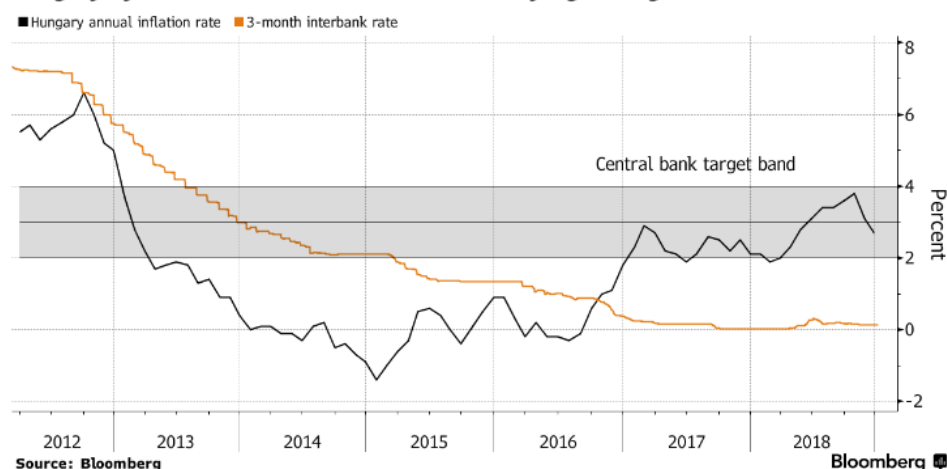
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mexico

Industrial production dropped on a yearly basis, substantially below the consensus. Mexican industrial output contracted 1.3% y/y n.s.a. in November which was 2.3 standard deviations below the consensus forecast of a 0.5% increase. This was a second monthly decline in seasonally adjusted terms, and some analysts now expect that GDP may have declined in Q4 on a quarterly basis. Commentators attributed the drop partly to weaker oil output from Pemex. More generally, economists remain optimistic about Mexico's economic outlook.

Hungary

Hungarian headline inflation slowed down in December to 2.7% y/y, from 3.1% y/y the month prior. The decrease in price growth is mostly due to plunging fuel costs, which dropped 6.9% last month. **Core inflation, however, has increased to 2.8% y/y from 2.6% y/y in November.**

Hungary eyes inflation outlook to time monetary tightening start**List of GMM Contributors (Global Markets Analysis Division, MCM Department)****Anna Ilyina**

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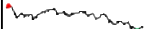




















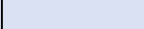



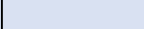


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Global Financial Indicators

Last updated: 1/15/19 8:30 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2583	-0.5	1	-1	-7	3
Europe		3052	-0.1	0	-1	-15	2
Japan		20555	1.0	3	-4	-13	3
China		2570	1.4	2	-1	-25	3
Asia Ex Japan		65	-1.1	1	-1	-19	2
Emerging Markets		40	0.8	2	1	-18	3
Interest Rates			basis points				
US 10y Yield		2.70	0.2	-3	-19	16	2
Germany 10y Yield		0.21	-2.1	-2	-4	-38	-3
Japan 10y Yield		0.01	-0.4	0	-2	-6	1
UK 10y Yield		1.27	-2.3	0	3	-5	0
Credit Spreads			basis points				
US Investment Grade		143	0.2	-2	9	55	-4
US High Yield		455	-0.7	-6	15	113	-66
Europe IG		81	-0.7	-4	0	37	-6
Europe HY		338	-4.0	-6	-4	106	-14
EMBIG Sovereign Spread		390	2.0	0	0	107	-24
Exchange Rates			%				
Dollar Index (DXY)		95.91	0.3	0	-2	5	0
USDEUR		1.14	-0.4	0	1	-7	0
USDJPY		108.6	-0.4	0	4	2	1
EM FX vs. USD		63.2	-0.3	0	2	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		60	1.7	2	0	-15	12
Industrials Metals (index)		111	0.3	0	-3	-19	1
Agriculture (index)		42	0.1	-1	-2	-10	2
Implied Volatility			%				
VIX Index (% change in pp)		19.1	0.0	-1.4	-2.6	8.9	-6.4
10y Treasury Volatility Index		4.1	0.0	-0.3	0.4	0.4	-0.5
Global FX Volatility		8.5	0.0	-0.1	0.1	1.0	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		406	-0.8	-5	7	75	-9
Italy		265	3.9	-8	-4	124	15
Portugal		145	-0.4	-15	4	24	-3
Spain		118	-0.9	-11	2	24	0

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: 1/15/2019 8:29 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.76	0.1	1.4	2	-5	2		3.1	0.5	-3	-16	-89	-11	
Indonesia		14090	0.2	0.4	3	-5	2		8.2	3.2	13	-6	181	9	
India		71	-0.1	-1.2	1	-11	-2		7.5	-4.5	-9	-6	-8	2	
Philippines		52	0.3	0.8	2	-3	1		6.0	-14.4	-24	-24	123	-26	
Thailand		32	0.1	0.4	3	0	1		2.6	-3.0	1	-12	37	-1	
Malaysia		4.11	-0.1	0.3	2	-4	1		4.0	-1.1	-3	-9	15	-6	
Argentina		37	-0.1	1.5	3	-49	2		21.8	-32.5	-38	-156	564	-120	
Brazil		3.70	-0.2	0.3	5	-13	5		8.1	-4.1	-3	-19	-73	-10	
Chile		674	-0.2	0.9	2	-11	3		4.5	-0.4	5	-13	-33	1	
Colombia		3147	-0.2	0.1	1	-10	3		6.5	1.0	-6	-11	30	-1	
Mexico		19.02	-0.2	1.8	6	-1	3		8.6	-7.3	5	-40	98	-9	
Peru		3.3	0.1	0.3	0	-4	1		5.7	2.0	-1	-18	77	-2	
Uruguay		33	0.5	-0.3	-1	-12	-1		10.5	-8.7	-16	-43		-21	
Hungary		283	-0.8	-0.5	1	-11	-1		2.0	-6.9	-14	-35	83	-18	
Poland		3.76	-0.5	-0.1	0	-9	-1		2.2	-2.7	-9	-15	-47	-6	
Romania		4.1	-0.5	-0.5	0	-8	-1		4.3	17.0	22	31	57	10	
Russia		67.1	-0.1	-0.3	-1	-16	3		8.1	-0.2	-28	-32	99	-27	
South Africa		13.8	-0.3	1.0	4	-11	4		9.5	0.1	2	-45	20	-12	
Turkey		5.45	-0.1	0.6	-1	-30	-3		16.7	-39.7	-32	-176	478	-19	
US (DXY; 5y UST)		96	0.3	0.0	-2	5	0		2.52	-0.5	-6	-21	17	1	

	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		2570	1.4	2	-1	-25	3		186	-1	1	-5	30	-8	
Indonesia		6409	1.1	2	4	0	3		212	2	-4	-7	41	-24	
India		36318	1.3	1	1	4	1		189	-3	-5	1	84	-7	
Philippines		8013	-0.1	4	6	-10	7		107	1	1	-2	7	-14	
Malaysia		1679	0	0	1	-8	-1		154	-1	-2	4	41	-8	
Argentina		33771	-0.3	2	9	0	11		698	-1	-28	-64	320	-117	
Brazil		94335	0.9	3	8	18	7		254	-1	3	-3	25	-19	
Chile		5367	0.1	3	4	-7	5		150	1	0	-6	27	-16	
Colombia		1393	0.3	2	2	-8	5		195	-2	-4	-3	16	-33	
Mexico		43398	-0.4	1	5	-12	4		335	-1	7	11	81	-19	
Peru		19669	0	1	3	-5	2		153	0	-3	-2	16	-15	
Hungary		40446	-0.5	-1	1	2	3		139	1	6	-1	42	-9	
Poland		59101	0.0	0	1	-10	2		64	0	3	-10	3	-21	
Romania		6834	-1.4	-9	-20	-17	-7		210	1	0	2	89	-11	
Russia		2430	-0.4	2	3	7	3		226	-3	6	-14	52	-26	
South Africa		53352	-0.3	2	3	-11	1		330	-2	6	-20	91	-35	
Turkey		92632	0.6	2	2	-17	1		461	13	31	13	168	32	
Ukraine		557	-0.3	-1	0	67	0		732	-19	-23	14	324	-55	
EM total		40	0.9	2	1	-18	3		390	2	0	0	107	-24	

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