



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, January 16, 2019

- **May's Brexit deal suffers worst parliamentary loss in history** ([link](#))
- **JP Morgan's fixed income trading revenue declines to lowest in decade** ([link](#))
- **Draghi says a "significant amount" of monetary stimulus is still needed** ([link](#))
- **China officials reiterate policy support and PBOC injects record liquidity** ([link](#))

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Markets march on despite Brexit vote landslide

Most global equities and sovereign bond yields are modestly higher this morning despite the overwhelming defeat of the Brexit deal in the UK parliament. PM May's deal lost by a higher than expected 230 votes. UK equities are one of the few down today, with the FTSE 100 down 0.4% so far. The pound meanwhile is flat on the day. The PM is largely expected to succeed in a no-confidence vote scheduled later in the day, but significant uncertainty remains for where negotiations go from here. May will need to come back to parliament by Monday with a plan on how to proceed. Also on Monday, parliament will debate a bill putting forth another referendum. Further stimulus news out of China, as well as a record liquidity injection, helped push Asian markets higher this morning. In earnings, Goldman Sachs reported a sharp decline in trading revenue, repeating a sentiment from results by both Citigroup and JP Morgan, but that was offset by a surge in their merger business, helping to send bank shares higher.

Key Global Financial Indicators

Last updated: 1/16/19 8:19 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2610	1.1	1	0	-6	4
Eurostoxx 50		3070	0.1	0	-1	-15	2
Nikkei 225		20443	-0.5	1	-4	-15	2
MSCI EM		41	-0.3	2	2	-18	4
Yields and Spreads			bps				
US 10y Yield		2.73	0.9	2	-16	20	5
Germany 10y Yield		0.23	2.1	-5	-3	-34	-2
EMBIG Sovereign Spread		384	-5	-10	-6	112	-30
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.4	0.3	0	3	-10	2
Dollar index, (+) = \$ appreciation		96.1	0.1	1	-1	6	0
Brent Crude Oil (\$/barrel)		60.3	-0.6	-2	0	-13	12
VIX Index (% change in pp)		17.9	-0.7	-2	-4	6	-8

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

United States

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US equities rallied on Tuesday, as news that China's announced stimulus to support its economy sent technology shares higher. The S&P 500 increased by 1.1%, breaching the 2600 level that investors had been eyeing for the past week. The Dow industrial closed 0.6% higher, and the tech-heavy Nasdaq reversed the past days' losses, closing 1.7% higher. Gains in the S&P were led by communication services and healthcare (+1.7% respectively), followed by technology (+1.4%). Notably, Netflix shares surged after the company announced it would increase its membership prices, causing the FAANGs to rally by around 2%. Meanwhile, PG&E shares continued to fall on Tuesday, as the company announced it will depart the S&P 500 ahead of its bankruptcy filing. The dollar appreciated by 0.3%. Treasuries were little changed, with the 10-year treasury yields closing at 2.7%, up 1bps. Commodity prices reversed their past losses, as WTI prices increased by 3.2%, while Brent oil prices were up 2.8%.

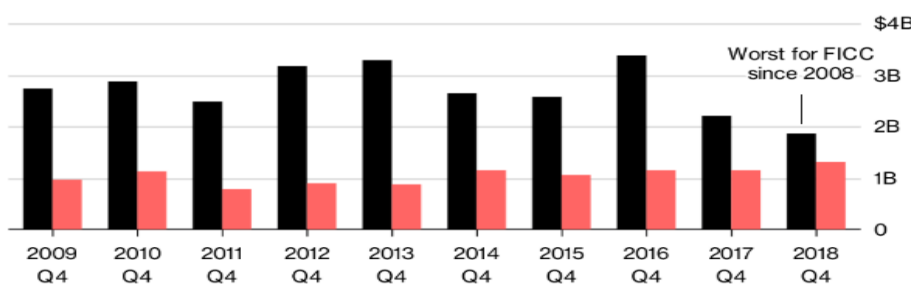
Kansas Fed President George said that it may be an appropriate time to pause interest rate normalization, given the current economic conditions. She advised patience in increasing interest rates, stating that it requires looking carefully at the data. She is one of the Fed presidents who vote on monetary policy this year.

JP Morgan released its earnings estimates on Tuesday, revealing that – similarly to Citigroup – their fixed-income-trading revenue for 2018Q4 was their worst in the last decade. JPM Shares underperformed on Tuesday morning, but closed at +0.7%. Revenue from fixed-income trading declined by 18% in 2018Q4, to levels seen during the GFC. Losses in fixed-income revenue outweighed gains in equity-trading and advisory fees. Net interest income, propped by the Fed rate hikes, was the bright spot for JPM. The bank attributed 2018Q4's losses to challenging market conditions, while CFO Dimon called December's losses "a speed bump" in trading. Despite the losses in its last quarter, 2018 remained a very profitable year for the bank, whose annual earnings have increased by 33%.

'Bad Volatility' Hits Trading

JPMorgan's total trading revenue dropped 6% in the fourth quarter

■ FICC Trading Revenue ■ Equity Trading Revenue

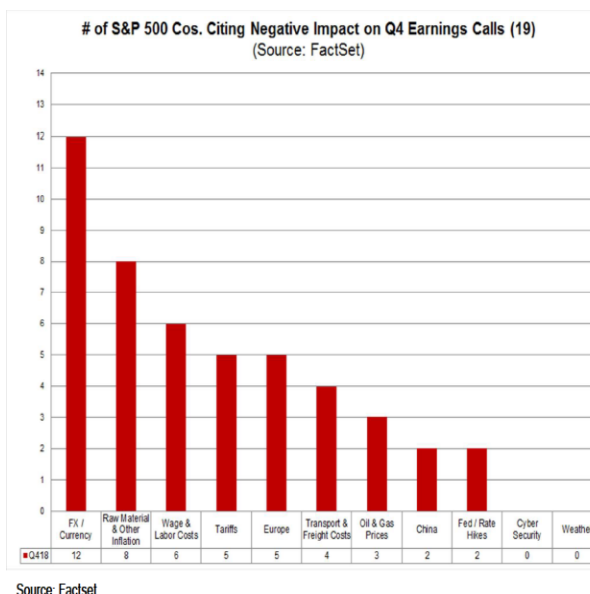
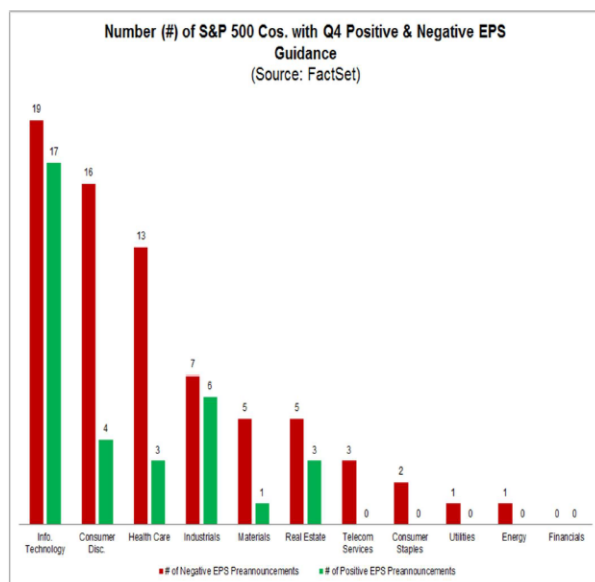


Source: Company filings, Bloomberg

Bloomberg

As earnings season continues, 72 out of 106 S&P companies have reported negative Earnings Per Share (EPS) guidance in 2018Q4, FactSet reports. The number of companies issuing negative EPS remains above the 5-year average. Meanwhile, 46 out of 77 S&P companies issued negative revenue guidance for 2018Q4, slightly above its 5-year average. When asked for the main drivers of negative EPS and negative revenue, 60% of the companies quoted foreign exchange as the main factor (see last chart), while others mentioned a negative impact due to China, tariffs, or both.

A blended y/y earnings growth rate (of actual results and estimated results for companies which have not reported yet) currently stands at 10.6%, below 20% for the first time since 2017Q4. However, it means the index will have reported double-digits earnings growth for 5 consecutive quarters. Looking ahead, analysts are expecting low single-digit growth for the index, for the first three quarters of 2019.



Europe

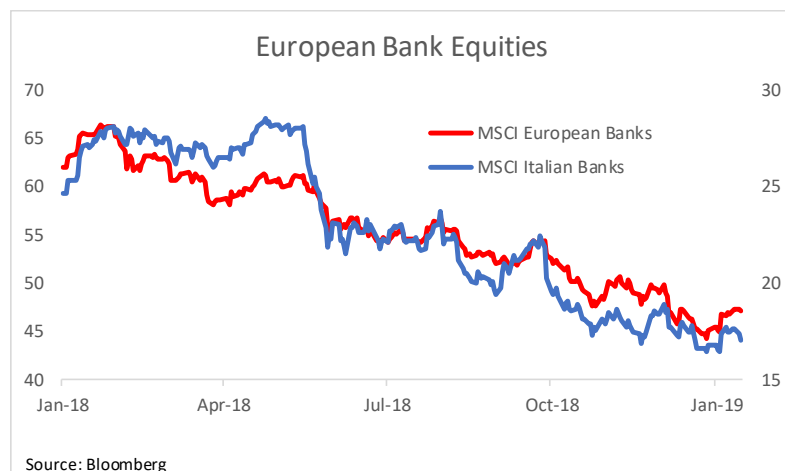
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Sovereign yields experienced mixed performances. In the UK, 10-year Gilt yields shot up by 6 bps to 1.32% as markets digested the fallout from yesterday's Brexit vote. The 10-year Italian yield declined by 5 bps after a successful bond issuance (see below). Other countries saw a move of 1-2 bps. **Equities were little changed this morning, despite the heightened political uncertainty in the UK.** The Euro Stoxx 600 rose by 0.3% while national bourses were mixed. Banks were among the best performing sectors, rising by 1.1% and taking the year-to-date increase beyond 5%.

A no-confidence vote will be held in the UK parliament today after PM May's Brexit deal suffered a crushing defeat. Yesterday's vote resulted in a majority of 230 against the deal, a larger margin than almost all estimates prior to the vote. PM May said she would consult with MPs across parliament before coming back with a statement on her "plan B" on Monday at the latest. The EU have said that the withdrawal agreement is not open for negotiation and that it is stepping up preparations for a disorderly Brexit. Immediately after the results were in, opposition leader Corbyn tabled a no confidence vote which takes place at 7PM local time today. Around 100 Labour MPs are said to be ready to back a second referendum if, as expected, the confidence vote fails. Sterling bounced back from earlier losses following the results, with analysts attributing the move to a lower probability of a no deal and a higher probability of a delayed or canceled Brexit. The currency is flat this morning while equities are 0.6% higher.

There is no recession in sight in Europe despite the current slowdown, according to ECB president Draghi. In his first public appearance of 2019, Draghi acknowledged the deterioration in recent data and said that "a significant amount" of monetary policy stimulus is still needed. Separately, Italian banks continue to struggle to raise funds in private markets. They are said to seek €55bn this year but higher sovereign yields and political uncertainty have severely reduced their access to markets. Their share price

has tracked those of European banks more broadly over the past year but the last few days have seen a divergence open up, in part attributed to reports of new demands by the SSM on NPL clean-up deadlines. Despite these challenging market conditions, the Italian government managed to raise €10bn yesterday in its biggest ever syndicated bond sale. The auction drew €35.5bn of orders according to reports.

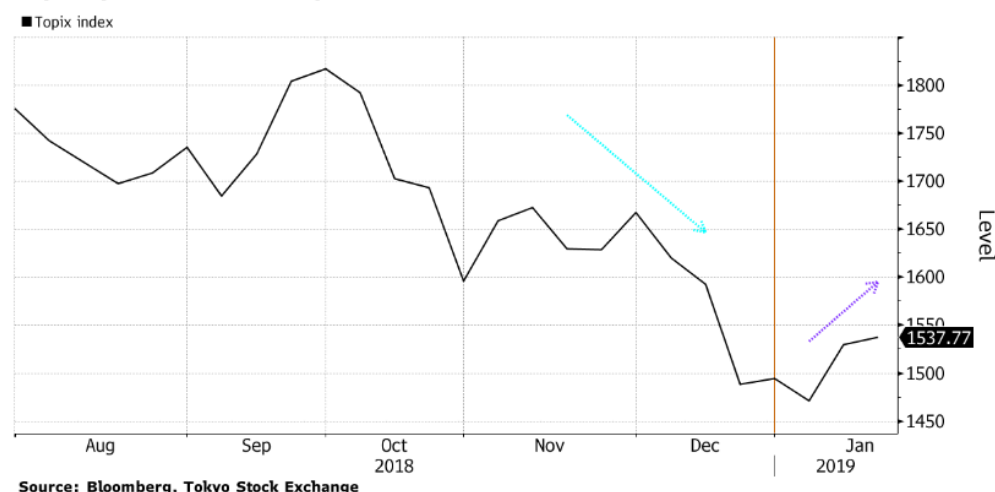


Other Mature Markets [back to top](#)

Equities declined (Nikkei -0.5%, Topix -0.3%) on weak economic data points including Japanese machine orders. Sectoral dynamics were consistent with risk off as defensive stocks outperformed cyclicals. Meanwhile, the BoJ is expected to substantially revise down its 2019 inflation forecast at its monetary policy meeting next week, bringing it closer to the 0.8% inflation expected by analysts from the BoJ's 1.4% projected in October. **Yields on 10-year JGBs remained slightly negative declining 0.1 bps to -0.002%.** **The yen appreciated marginally (+0.1%).**

Still Positive

Topix up 2.9% so far this year



Emerging Markets

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Asian bourses were mixed today, with gains in South Korea (+0.4%) and large losses in the Philippines (-1.9%). Analysts attributed the sharp decline to recent weaker data on remittances and worse prospects on infrastructure spending. **Central and Eastern European** stocks advanced this morning, led by the Czech Republic (+0.5%) and Hungary (+0.2%). Turkey (+0.5%) and Saudi Arabian (+0.7%) also posted gains. The Russian ruble (+0.6%) and the Turkish lira (+0.7%) strengthened against the dollar. **African and GCC** financial assets were little changed today. **Latin American** equities were mixed on Tuesday, with Brazilian stocks declining 0.4% from record highs on profit taking and Mexican stocks rising 0.5% on China's fiscal measures to boost growth. Regional currencies were slightly lower, in line with a stronger dollar index. Government bond yields were mostly little changed except Brazil's 10-year yield which jumped 12 bps (but remains 48 bps lower than a month ago).

Key Emerging Market Financial Indicators

Last updated: 1/16/19 8:21 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.67	-0.3	2	2	-18	4
MSCI Frontier Equities		27.65	0.9	2	1	-22	6
EMBIG Sovereign Spread (in bps)		384	-5	-10	-6	112	-30
EM FX vs. USD		63.40	0.3	0	3	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.76	0.0	1	2	-5	2
Indonesian Rupiah		14128	-0.3	0	3	-6	2
Indian Rupee		71.24	-0.3	-1	0	-10	-2
Argentine Peso		37.13	0.0	1	3	-49	1
Brazil Real		3.71	0.2	-1	5	-13	4
Mexican Peso		19.00	0.0	1	6	-1	3
Russian Ruble		66.68	0.6	0	0	-15	4
South African Rand		13.71	0.2	1	5	-10	5
Turkish Lira		5.37	1.5	2	0	-29	-1
EM FX volatility		9.38	0.0	-0.2	-0.6	1.6	-0.4

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

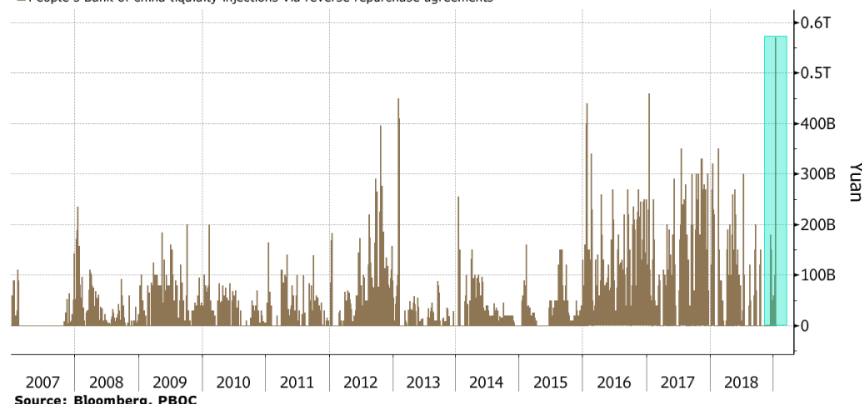
China

Officials reiterated policy support measures to boost consumption, stabilize inbound FDI, take more active employment policy, and persist with efforts to cut industrial overcapacity. Analysts noted, however, that there was little new in the announcements. Meanwhile, **the PBOC conducted its biggest ever daily interbank liquidity injection** via OMOs (net \$83 bn). The central bank stated that system liquidity has fallen relatively fast due to upcoming tax payments. Analysts related the liquidity injection also to cash demand during the upcoming Chinese New Year and the objective to lower bank funding costs. In reaction, government bond yields dropped 3-6 bps across the curve. While **December bank loan and total social financing data came in slightly above expectations**. Some analysts pointed to a rise in the proportion of short-term lending as a sign for weakness in the economic outlook. Equity indices in Shanghai and Shenzhen and the onshore/offshore RMB were little changed on the day.

Record Setting

PBOC injects a net 560 billion yuan into financial system

■ People's Bank of China liquidity injections via reverse repurchase agreements



Source: Bloomberg, PBOC



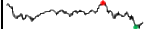














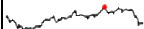




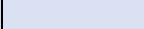


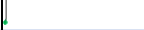
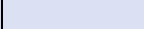


Brazil

The central bank sees EM risks emanating from Fed hikes to lower. Central bank president Goldfajn said EMs are now facing a greater risk from an economic slowdown than from the Fed's rate hikes. He said that US rate hikes would entail less liquidity for emerging markets and possibly depreciation pressures. However, a larger negative impact would be from a slowdown which would result in smaller export volumes and lower commodity prices. Meanwhile, the US-China trade tensions add to the economic uncertainty. The CB president also said that the central forecast for Brazil's growth this year is 2.4%, which could be surpassed if Congress manages to pass pension reform. Separately, November retail sales surged 4.4% y/y, well above the expected 1.9%.

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Global Financial Indicators

Last updated: 1/16/19 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2610	1.1	1	0	-6	4
Europe		3070	0.1	0	-1	-15	2
Japan		20443	-0.5	1	-4	-15	2
China		2570	0.0	1	-1	-25	3
Asia Ex Japan		65	0.9	2	0	-18	3
Emerging Markets		41	-0.3	2	2	-18	4
Interest Rates			basis points				
US 10y Yield		2.73	0.9	2	-16	20	5
Germany 10y Yield		0.23	2.1	-5	-3	-34	-2
Japan 10y Yield		0.01	-0.3	-2	-3	-7	1
UK 10y Yield		1.33	7.1	7	9	3	5
Credit Spreads			basis points				
US Investment Grade		141	-0.6	-1	7	55	-6
US High Yield		449	-3.5	-4	9	108	-73
Europe IG		79	-2.0	-3	-3	35	-8
Europe HY		329	-6.7	-5	-14	97	-24
EMBIG Sovereign Spread		384	-5.0	-10	-6	112	-30
Exchange Rates			%				
Dollar Index (DXY)		96.09	0.1	1	-1	6	0
USDEUR		1.14	-0.2	-1	0	-7	-1
USDJPY		108.8	-0.1	-1	4	2	1
EM FX vs. USD		63.4	0.3	0	3	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		60	-0.6	-2	0	-13	12
Industrials Metals (index)		112	1.0	1	-2	-18	2
Agriculture (index)		42	0.5	-2	-2	-10	2
Implied Volatility			%				
VIX Index (% change in pp)		17.9	-0.7	-2.1	-3.7	6.3	-7.5
10y Treasury Volatility Index		3.9	0.0	-0.4	0.3	0.3	-0.6
Global FX Volatility		8.4	0.0	-0.2	0.1	1.2	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		401	-5.1	-1	2	79	-14
Italy		256	-11.0	-4	-13	115	6
Portugal		156	11.1	7	15	34	8
Spain		115	-3.7	-7	-1	21	-3

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: 1/16/2019 8:21 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		6.76	0.0	0.8	2	-5	2		3.1	1.0	0	-15	-89	-10
Indonesia		14128	-0.3	0.0	3	-6	2		8.3	2.4	9	-3	185	11
India		71	-0.3	-1.1	0	-10	-2		7.5	2.2	-1	-4	-5	4
Philippines		52	-0.4	0.2	2	-3	1		6.0	-1.5	-23	-26	122	-28
Thailand		32	0.6	0.7	3	1	2		2.6	0.2	-4	-12	39	0
Malaysia		4.11	-0.1	0.1	2	-4	1		4.0	0.1	-3	-8	16	-6
Argentina		37	0.0	0.6	3	-49	1		21.4	-36.2	-81	-192	528	-156
Brazil		3.71	0.2	-0.9	5	-13	4		8.1	5.8	5	-13	-66	-4
Chile		675	0.0	0.3	2	-10	3		4.5	0.6	4	-12	-32	1
Colombia		3135	0.2	0.0	1	-9	4		6.5	2.2	5	-9	30	2
Mexico		19.00	0.0	1.2	6	-1	3		8.7	3.6	1	-36	104	-5
Peru		3.3	0.3	0.2	0	-4	1		5.7	-0.9	-1	-19	76	-3
Uruguay		33	-0.1	-0.4	-1	-12	-1		10.4	-8.7	-25	-52		-30
Hungary		282	0.3	-1.3	1	-11	-1		2.0	-1.5	-17	-37	82	-20
Poland		3.76	-0.1	-1.0	0	-10	-1		2.2	0.5	-12	-15	-45	-6
Romania		4.1	-0.3	-1.6	0	-8	-1		4.3	0.0	22	31	60	10
Russia		66.7	0.6	0.0	0	-15	4		8.1	-7.3	-32	-39	94	-34
South Africa		13.7	0.2	1.1	5	-10	5		9.5	1.6	-2	-43	28	-10
Turkey		5.37	1.5	2.0	0	-29	-1		16.9	20.2	-37	-156	484	1
US (DXY; 5y UST)		96	0.1	0.9	-1	6	0		2.55	1.7	0	-18	20	4

	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	0.0	1	-1	-25	3		182	-3	-8	-9	31	-12	
Indonesia		6413	0.1	2	4	0	4		210	-2	-7	-9	53	-26	
India		36321	0.0	0	1	4	1		190	1	-4	2	85	-6	
Philippines		7865	-1.9	-1	5	-11	5		103	-3	-5	-6	18	-18	
Malaysia		1673	0	0	1	-8	-1		151	-2	-10	1	46	-11	
Argentina		33563	-0.6	2	8	0	11		686	-9	-30	-76	323	-129	
Brazil		94055	-0.4	0	8	18	7		252	-2	-1	-5	32	-21	
Chile		5378	0.3	2	4	-6	5		146	-3	-6	-10	36	-20	
Colombia		1393	0.0	1	2	-9	5		197	-1	-3	-1	34	-31	
Mexico		43604	0.5	0	6	-12	5		331	-3	-3	7	91	-23	
Peru		19538	-1	1	2	-6	1		150	-2	-8	-5	26	-18	
Hungary		40528	-0.2	-1	1	2	4		134	-4	-4	-6	44	-14	
Poland		59634	0.3	1	1	-10	3		61	-2	-4	-13	2	-24	
Romania		7062	0.0	-5	-18	-14	-4		211	0	1	2	90	-10	
Russia		2430	-0.4	1	3	8	3		220	-5	-6	-20	57	-32	
South Africa		53557	0.0	1	4	-12	2		324	-5	-9	-26	93	-41	
Turkey		94298	1.2	3	4	-18	3		448	-12	-2	0	165	19	
Ukraine		559	0.1	-1	0	67	0		705	-26	-69	-13	308	-82	
EM total		41	-0.3	2	2	-18	4		384	-5	-10	-6	112	-30	

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