



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, January 23, 2019

- **US stocks and Treasury yields fall on lingering trade and growth worries ([link](#))**
- **Global fund managers continue to identify trade developments as biggest risk ([link](#))**
- **Spanish, Italian, and Portuguese debt garner high demand to start the year ([link](#))**
- **EU gears up to ratify UK withdrawal agreement as early as next week ([link](#))**
- **BoJ maintains monetary policy stance but lowers inflation forecast ([link](#))**
- **China injects liquidity and pledges further tax cuts to stabilize growth ([link](#))**

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

Markets trade with little conviction amid growth and policy related headwinds

Following a volatile US session, market sentiment has stabilized on some headlines suggesting further Chinese stimulus and reassuring comments on trade. In Asia, major equity indices recovered earlier losses and ended the day little changed, US equity futures are higher, while European bourses are mixed across the region. However, concerns around slowing economic growth, US-China trade relations, and the ongoing US government shutdown remain in the forefront. Yesterday, US stocks turned lower in reaction to a few key earnings misses that compounded global macro headwinds. In response, cyclical sectors led the S&P 500 lower, and oil prices declined over 2%, its largest pullback in the past month. Flight to safety flows ensued with Treasury yields declining 4-5 bps across the curve and the yen appreciating against the US dollar. The moves have partially retraced overnight on reports Chinese authorities would increase fiscal stimulus, the US-China trade meeting is still set for later this month, and hopes the US government shutdown could end with a vote in the Senate set for Thursday. EM assets have taken a breather over the last few days amid the pessimism over global growth and some dollar strength.

Key Global Financial Indicators

Last updated: 1/23/19 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2633	-1.4	2	9	-7	5
Eurostoxx 50		3126	0.4	2	4	-15	4
Nikkei 225		20594	-0.1	1	2	-15	3
MSCI EM		41	0.1	1	6	-20	5
Yields and Spreads			bps				
US 10y Yield		2.77	-4.5	5	-2	15	8
Germany 10y Yield		0.25	0.9	2	-1	-32	0
EMBIG Sovereign Spread		370	-2	-16	-33	100	-44
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	0.1	0	2	-11	2
Dollar index, (+) = \$ appreciation		96.2	-0.1	0	-1	0	0
Brent Crude Oil (\$/barrel)		62.1	0.9	1	15	-11	15
VIX Index (% change in pp)		20.1	-0.7	1	-10	9	-5

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

United States

[back to top](#)

Stocks staged a broad retreat Tuesday, with the Dow industrials losing 1.2%, the S&P 500 1.4%, and the Nasdaq 1.9%. Losses were broad-based with energy and industrial stocks falling over 2%. Renewed concerns over (especially US-China) trade tensions and lower forecasts of global growth by the IMF helped fuel earlier weakness in Asian and European markets that also affected US stocks. The ongoing partial shutdown of the federal government continued to cloud market sentiment, but there was news Tuesday afternoon that the Senate leadership will allow votes on two completing bills on Thursday that could bring an end to the ongoing partial shutdown of the government. **This morning, S&P 500 futures point to a gain of 0.5% at the open, following on from the stabilization in investor sentiment overnight.**

Yesterday's risk-off tone pushed US Treasury yields lower, where 2-year yields fell 3 bps to 2.59% and the 10-year 5 bps to 2.74%. Existing home sales slipped 6.6% mom in December, the weakest in three years, but median house prices are up 2.9% yoy to \$253.6k. A Gallup poll found that 48% of Americans believe that economic conditions are worsening, but seem confident in job availability.

Earnings season is in full swing. FactSet advises that S&P 500 firms are on track to see earnings grow by 10.6% in Q4, which would mark the fifth straight quarter of double-digit growth. Positive earnings results from the financial sector have been the most significant contributors to the upbeat numbers recently. The firm also found that some 60% of conference calls by reporting firms have identified foreign exchange as the factor that has had the biggest impact on their earnings or revenues in Q4, or is expected to have such impact in the future.

Global fund managers continue to identify trade war as the biggest "tail risk" to financial markets, but their concerns chart much lower than the peak fears in July 2018. Trade war tensions have been one of the major themes of Bank of America's monthly survey since 2011, with others including an EU breakup, Euro area debt, Chinese growth, populism, and quantitative easing.

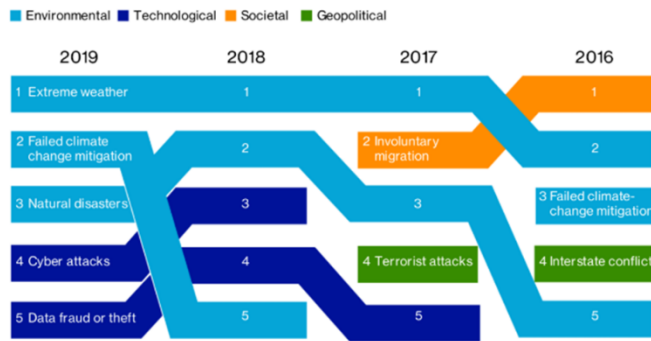
Exhibit 12: Evolution of Global FMS "biggest tail risk"



Davos assessments on global risks have increasingly skewed towards environmental factors, although its recent risk report also advised that macroeconomics risks were moving into sharper focus, and that geopolitical risks were rising among the major powers.

Biggest Global Risks

Environmental dangers dominate the WEF's survey for 2019



Source: World Economic Forum Global Risks Report

Bloomberg

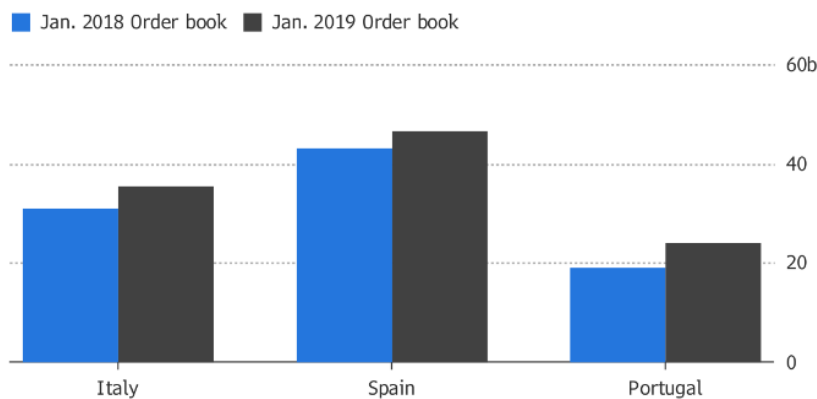
Europe

[back to top](#)

European bourses are mixed this morning, with the EuroStoxx 600 (+0.1%) and CAC 40 (+0.2%) inching higher while the DAX (-0.1%) edges down. Bank equities (+0.7%) are outperforming and reversing part of yesterday's sizeable losses.

Euro area sovereign bond yields are flat across tenors and countries. Ten-year German bonds at 0.24%; French at 0.64%; Italian at 2.74%; Spanish at 1.32%. **Demand for Italian, Spanish, and Portuguese sovereign debt has increased recently thanks to a wider investor base.** Year-to-date, the three sovereigns have raised about \$120 bn – a 14% increase from 2018. Analysts note that the increase in demand comes largely from new investors who may benefit from wider credit lines and less stringent regulations. Bloomberg reports, for instance, that Asian investors accounted for 11.8% of demand in the last Spanish auction, up from 0.7% in January 2018.

Italian, Spanish and Portuguese bond sales have attracted record demand



Source: Bloomberg

Bloomberg

On **Brexit news**, while the stalemate continues in the UK's Parliament, the European Parliament is gearing up to begin ratifying the Withdrawal Agreement (WA) as early as [next week](#). EU leaders have reiterated that the WA is the best possible separation deal Britain could obtain but that the EU would be open to negotiating closer ties.

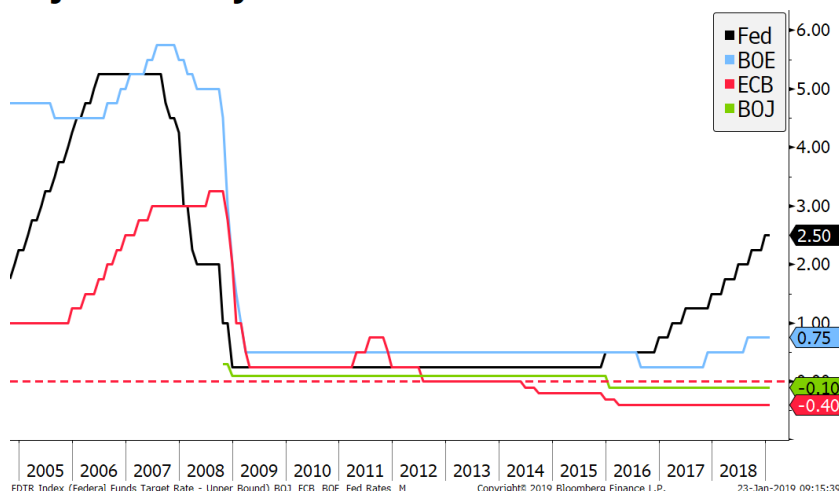
Other Mature Markets [back to top](#)

Japan

The BoJ left the policy rate unchanged at -0.1%, maintaining its yield curve targeting and asset purchase programs, as widely expected. Of note, the bank lowered its inflation forecasts for the fourth consecutive time, from 1.4% to 0.9% for the 2019 fiscal year. Several analysts expect CPI to fall below zero sometime this year, from a reading of 0.3% yoy in December, increasing the prospects for further differentiation between central bank policy rates down the road. Some think that at a minimum, the BoJ will wait to see the impact of the next hike in consumption tax (expected in 2020) before considering tightening. There was little market reaction to the meeting with the yen modestly weaker to ¥109.6 and the Nikkei unchanged.

	New CPI Forecast	Previous CPI	New GDP	Previous GDP
Fiscal 2018	0.8%	0.9%	0.9%	1.4%
Fiscal 2019	0.9%	1.4%	0.9%	0.8%
Fiscal 2020	1.4%	1.5%	1.0%	0.8%

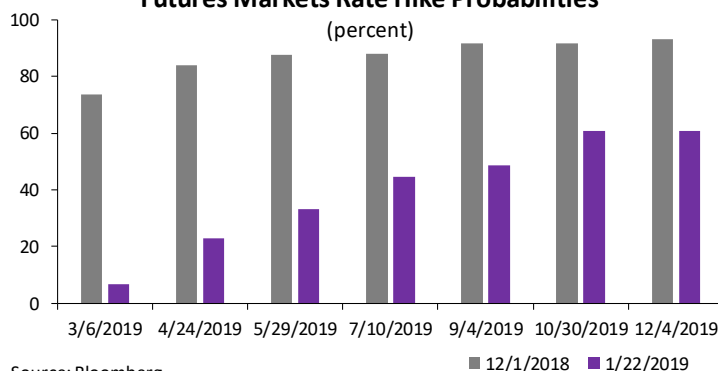
Major CB Policy Rates



Canada

Government entities have emerged as the largest Canadian issuers of bonds in international markets this year, surpassing Canadian banks for the first time in a decade. Bloomberg indicates that Canadian issuance in US dollars, euros, sterling, francs and Australian dollars has totaled \$17.2 bn so far this year, with public sector entities taking about 70% of the total share. The Canadian government plans to issue a US\$3 bn on January 25th, while Canada's last sale of US dollar bonds was in November 2017. Domestic bond issuance is also up from a year ago, and corporate bond spreads for lower-rated investment grade bonds (which proxy market tone) have been compressing. This has occurred alongside futures prices having evidenced falling market conviction of an upcoming rate hike over the past two months.

Futures Markets Rate Hike Probabilities
(percent)



Emerging Markets

[back to top](#)

EM benchmarks declined again on Tuesday as the FT reported that the US-China trade negotiations continue to hit stumbling blocks and investor pessimism around global growth prospects persists (MSCI EM: -1.7%, EMBIG spread: +3bps). In **Latin America**, the Brazilian real was the main underperformer, depreciating by 1.2% against the dollar. According to market analysts, President Bolsonaro's speech in Davos did not meet the "high market expectations" in terms of policy announcements and central bank Governor Goldfajn provided some dovish remarks. In **Asia**, equity markets were mixed with South Korea (+0.5%) outperforming and India (-1.1%) underperforming. Currencies were broadly stronger but moves have been modest. In **EMEA**, regional bourses were also mixed. Poland (+0.6%) led gains amongst major indices while South Africa (-0.6%) underperformed. Currencies were mostly stronger, notably the South African rand appreciating 0.7%.

Key Emerging Market Financial Indicators

Last updated: 1/23/19 8:15 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.83	0.1	1	6	-20	5
MSCI Frontier Equities		27.56	-1.2	1	6	-23	5
EMBIG Sovereign Spread (in bps)		370	-2	-16	-33	100	-44
EM FX vs. USD		63.24	0.2	0	2	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.79	0.3	0	2	-6	1
Indonesian Rupiah		14188	0.2	0	3	-6	1
Indian Rupee		71.33	0.2	0	-2	-11	-2
Argentine Peso		37.48	0.1	0	1	-48	1
Brazil Real		3.80	0.1	-2	2	-15	2
Mexican Peso		19.13	0.2	-1	4	-2	3
Russian Ruble		66.18	0.5	0	4	-15	5
South African Rand		13.87	0.7	-1	5	-13	3
Turkish Lira		5.31	0.6	1	0	-29	0
EM FX volatility		9.10	0.0	-0.3	-0.5	1.0	-0.7

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

China

Chinese equity markets were little changed overnight. Investors are waiting for new clues on the progress of US-China trade negotiations. Concerns over the near-term growth outlook for the mainland economy have eased somewhat following the news that Chinese government will expand fiscal spending to support growth this year. The Shanghai Composite edged up 0.1% at market close, while the Shenzhen small-cap ChiNext dipped 0.1%. In the currency market, the renminbi strengthened 0.32% to 6.7888 against the US dollar. In the offshore market, the CNH appreciated by 0.29% to 6.7951.

Chinese authorities signaled further support measures to stabilize the economy. On Wednesday, the PBOC injected liquidity of RMB257.5 billion (US\$38 billion) into the banking system through its newly established Targeted Medium-term Lending Facility (TMLF), aiming to ease financing strains faced by small firms and meeting strong cash demand before the Lunar New Year. The 1-year loans are priced at 3.15%, less than the 3.3% of similar loans offered last time via the Medium-term Lending Facility. Meanwhile, Ministry of Finance said that China will continue to lower taxes and fees this year to reduce the burden of small business owners. Further reduction in taxes and fees is expected to widen the budget deficit to close to 3% this year. Expansion in public spending also means that the debt level of local governments will

continue to move up, after rising from RMB16.5 trillion in 2017 to 18.4 trillion in 2018, largely driven by sizable issuance of special bonds to finance infrastructure projects.

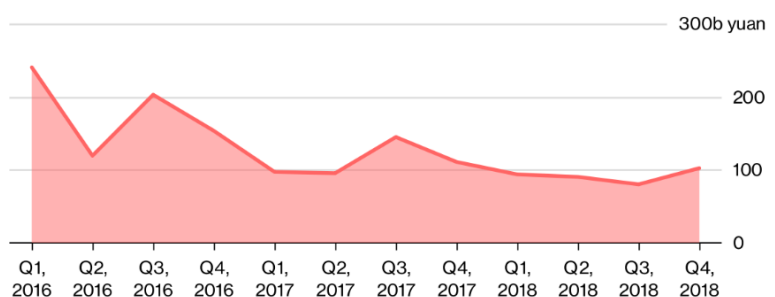
Chinese bond issuers are indirectly buying their own bond offerings according to Bloomberg.

Market analysts highlight that the purpose of this practice is to inflate issuance sizes and create the image of high demand in order to achieve lower coupons in subsequent sales. Analysts first began picking up on the practice, known as structured issuance, when the deleveraging drive intensified a couple of years back. Lower rated private companies and local government financing vehicles have been the main users of structured issuance. One issuance method is for the borrower to put up the money for the subordinated tranche of the asset-management vehicle that buys the bonds. Asset management vehicles benefit from the arrangement by expanding their products and boosting their fees. However according to an S&P analyst this practice exposes buyers of the senior tranche to greater risk in case of default.

On the Rise

China lower rated private firm bond sales hit highest since Q4, 2017 last quarter

Local corporate bond sales rated AA or below (excluding financials, SOEs and LGFVs)



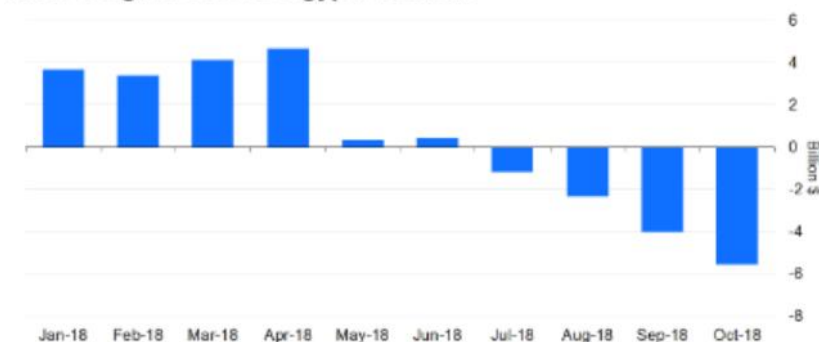
Source: Bloomberg

Bloomberg

Egypt

Central bank governor Tarek Amer commented that officials are ready to use FX reserves and interest rates to support the currency when volatility rises. He also said that the central bank has not intervened recently, as seen by the unchanged stock of reserves, and that the stability of the pound in the face of higher volatility in EM currencies is due to the improvement in external accounts. Note that recent data shows a \$10 bn reduction in net foreign assets of commercial banks from April to October last year, roughly equivalent to the outflows over the period.

Net Foreign Assets of Egyptian Banks



Source: Central Bank of Egypt

List of GMM Contributors (Global Markets Analysis Division, MCM Department)
Anna Ilyina*Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***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***Jochen Schmittmann***Economist***Ilan Solot***Financial Sector Expert***Nour Tawk***Economist***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Rohit Goel***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


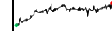



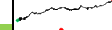









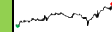
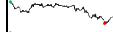





















Last updated: 1/23/19 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2633	-1.4	2	9	-7	5
Europe		3126	0.4	2	4	-15	4
Japan		20594	-0.1	1	2	-15	3
China		2581	0.1	0	3	-27	3
Asia Ex Japan		66	-1.8	1	5	-20	3
Emerging Markets		41	0.1	1	6	-20	5
Interest Rates			basis points				
US 10y Yield		2.77	-4.5	5	-2	15	8
Germany 10y Yield		0.25	0.9	2	-1	-32	0
Japan 10y Yield		0.01	0.2	-1	-4	-7	0
UK 10y Yield		1.36	3.3	5	4	0	8
Credit Spreads			basis points				
US Investment Grade		132	-0.1	-10	-9	48	-15
US High Yield		438	-3.9	-6	-73	101	-83
Europe IG		77	-1.8	-2	-15	33	-11
Europe HY		326	-4.5	0	-38	97	-26
EMBIG Sovereign Spread		370	-2.0	-16	-33	100	-44
Exchange Rates			%				
Dollar Index (DXY)		96.23	-0.1	0	-1	7	0
USDEUR		1.14	0.1	0	0	-8	-1
USDJPY		109.7	-0.3	-1	1	1	0
EM FX vs. USD		63.2	0.1	0	2	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		62	0.9	1	15	-11	15
Industrials Metals (index)		114	0.7	2	2	-16	4
Agriculture (index)		43	0.4	2	2	-9	3
Implied Volatility			%				
VIX Index (% change in pp)		20.1	-0.7	1.5	-10.0	9.0	-5.3
10y Treasury Volatility Index		4.3	0.4	0.2	-0.6	0.2	-0.3
Global FX Volatility		8.1	0.0	-0.3	-0.6	0.5	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		393	4.0	-9	-18	72	-23
Italy		252	1.7	-1	-6	119	2
Portugal		148	-1.3	-9	4	14	0
Spain		109	-1.1	-6	-6	29	-9

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: 1/23/2019 8:15 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						YTD
	Level		Change (in %)					Level		Change (in basis points)				
	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		6.79	0.3	-0.4	2	-6	1		3.1	1.1	-2	-17	-92	-11
Indonesia		14188	0.2	-0.4	3	-6	1		8.3	1.2	3	13	184	14
India		71	0.2	-0.1	-2	-11	-2		7.5	-3.2	6	14	-2	10
Philippines		53	0.4	-1.2	0	-3	0		5.8	-5.4	-21	-49	102	-49
Thailand		32	0.2	-0.1	3	0	3		2.6	-1.2	1	-2	37	1
Malaysia		4.14	-0.1	-0.7	1	-5	0		4.0	0.1	-1	-7	9	-6
Argentina		37	0.1	0.0	1	-48	1		21.2	-1.1	-25	-190	538	-181
Brazil		3.80	0.1	-1.7	2	-15	2		8.0	-6.7	-16	-24	-89	-20
Chile		671	0.1	0.0	3	-9	3		4.5	2.8	6	4	-27	7
Colombia		3146	-0.8	-0.1	5	-9	3		6.6	2.1	4	5	28	6
Mexico		19.13	0.2	-1.3	4	-2	3		8.7	-0.3	6	-11	109	1
Peru		3.3	-0.2	0.0	1	-4	1		5.7	2.2	3	-4	88	0
Uruguay		33	0.0	0.1	-1	-13	-1		10.4	8.8	-6	-51		-35
Hungary		280	0.1	0.8	1	-10	0		2.2	-1.2	18	-3	89	-2
Poland		3.77	0.0	-0.4	0	-10	-1		2.3	-0.2	8	3	-38	2
Romania		4.2	0.3	-1.7	-3	-9	-3		4.5	-4.0	13	24	58	23
Russia		66.2	0.5	0.3	4	-15	5		8.1	1.6	1	-40	92	-34
South Africa		13.9	0.7	-1.3	5	-13	3		9.6	-1.3	10	-8	50	0
Turkey		5.31	0.6	0.6	0	-29	0		16.5	-1.4	-36	-90	429	-35
US (DXY; 5y UST)		96	-0.1	0.2	-1	7	0		2.60	2.5	7	-4	19	9

	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		2581	0.1	0	3	-27	3		179	-4	-6	-13	27	-15	
Indonesia		6451	-0.3	1	5	-3	4		202	-4	-10	-23	46	-34	
India		36108	-0.9	-1	1	0	0		184	-1	-6	-4	80	-12	
Philippines		7990	-0.2	2	7	-11	7		97	-2	-9	-16	12	-24	
Malaysia		1688	-1	1	1	-8	0		141	-5	-12	-12	36	-21	
Argentina		34043	-3.6	1	20	0	12		680	-7	-14	-141	311	-135	
Brazil		95607	-0.9	1	12	19	9		244	-4	-10	-25	18	-29	
Chile		5407	-1.0	0	7	-7	6		142	-4	-7	-16	31	-24	
Colombia		1404	0.4	1	8	-11	6		196	-2	-2	-28	38	-32	
Mexico		43768	-0.6	0	6	-13	5		316	-2	-19	-33	80	-38	
Peru		19514	0	0	3	-7	1		149	-2	-3	-12	26	-19	
Hungary		40813	-0.4	0	3	-2	4		132	-4	-4	-7	44	-16	
Poland		60421	1.1	1	5	-11	5		61	-3	-2	-13	15	-24	
Romania		7180	-0.2	1	3	-15	-3		218	4	7	7	109	-4	
Russia		2490	0.9	2	6	8	5		215	-1	-8	-27	50	-37	
South Africa		53914	-0.3	0	5	-12	2		320	-3	-6	-32	96	-45	
Turkey		99472	-0.2	4	8	-16	9		417	3	-34	2	134	-12	
Ukraine		557	0.1	0	0	68	0		676	12	-31	-89	288	-111	
EM total		24	0.0	2	4	-15	5		370	-2	-16	-33	100	-44	

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