



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, January 24, 2019


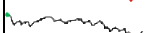
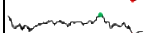



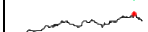


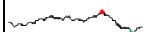

- **US leveraged loan market expected to slow in 2019** ([link](#))
- **US government shutdown delaying economic data releases** ([link](#))
- **ECB maintains its policy parameters unchanged, as expected** ([link](#))
- **Italy's Monte dei Paschi successfully places €1 bn covered bond** ([link](#))
- **Korea's central bank keeps rates at 1.75%, as expected** ([link](#))
- **Venezuela's bond prices rally as the US and most other countries in the region recognize Guaido as interim president** ([link](#))

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Markets open cautiously higher as ECB holds rates unchanged

Market sentiment improved modestly this morning, with European bourses and S&P 500 futures gaining some ground. The ECB maintained its policy parameters unchanged, as largely expected. The statement did not mention a possible new TLTRO but pointed to the Bank's commitment "to maintain favorable liquidity conditions and an ample degree of monetary accommodation." The euro (-0.3%) weakened slightly following the announcement while investors await the press conference for further clues on the path of ECB's monetary policy. In Emerging markets, Korean equities gained (+0.8%) as the central bank kept rates unchanged, as expected, whilst Venezuela's bond prices rallied strongly as the US and most other countries in the region recognized head of national assembly Juan Guaido as interim president. Elsewhere, the Brazilian real outperformed yesterday (+1.2%) as President Bolsonaro renewed his strong support to pension reform and said that the proposal to cut pension outlays maybe altered by Congress but is almost certain to be approved.

Key Global Financial Indicators

Last updated: 1/24/19 8:25 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2639	0.2	1	12	-7	5
Eurostoxx 50		3132	0.6	2	5	-14	4
Nikkei 225		20575	-0.1	1	2	-14	3
MSCI EM		41	0.6	1	8	-20	6
Yields and Spreads			bps				
US 10y Yield		2.71	0.2	-4	-3	7	3
Germany 10y Yield		0.19	-3.3	-5	-6	-40	-5
EMBIG Sovereign Spread		367	-3	-13	-41	96	-47
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.3	0.0	0	2	-12	2
Dollar index, (+) = \$ appreciation		96.4	0.3	0	0	8	0
Brent Crude Oil (\$/barrel)		60.6	-0.9	-1	20	-14	13
VIX Index (% change in pp)		19.6	0.0	1	-17	8	-6

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

United States

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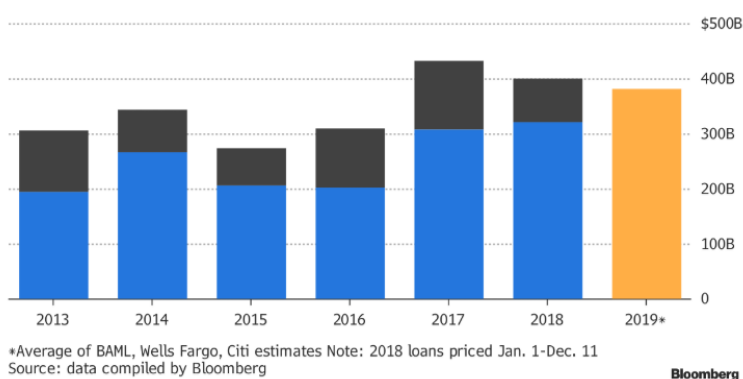
Stocks finished higher Wednesday. The Dow rose 0.7% on the back of upbeat earnings news by blue chips IBM, Procter & Gamble, and United Technologies. But gains for the broader S&P 500 and the tech-heavy Nasdaq were meager. Defensive stocks outperformed, with consumer staples and utilities up just over 1%. Treasuries ended little changed.

Three major underwriters are forecasting leveraged loan issuance will slow for a second straight year in 2019. Citi, Bank of America and Wells Fargo expect fewer refinancing deals and an increase in credit market volatility will dent market prospects. They expect issuance to fall to a range of \$350-410 bn this year. And Lipper notes that net flows from US leveraged funds have been negative for 9 straight weeks. But Moody's advises that the leveraged loan default rate fell to 1.9% in Q4, down from 2.3% in Q3 and 2.7% at the end of 2017.

Supply Wanes

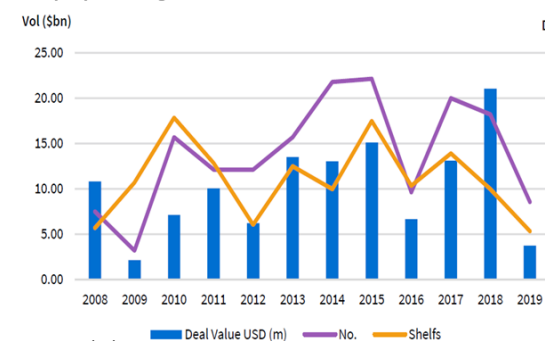
U.S. leveraged-loan issuance expected to decline next year

■ New money ■ Refinancing ■ 2019 forecast



There were some minor economic releases out yesterday. Housing prices rose 0.4% mom in November, according to government data, while mortgage applications dipped 2.7% last week, but are still near a 9-year high. The Richmond Fed's gauge of factory activity slipped this month. **But the shutdown has seen the delay of a number of economic reports including retail sales and housing starts. The shutdown is also impacting primary markets.** The SEC is working with limited staff, which has dampened equity offerings so far this year. There have been just 15 shelf offerings and 26 follow-ons announced so far, the lowest since 2015 and 2009, respectively, according to Dealogic. And the foreign exchange market is flying somewhat blind, as the Commodity Futures Trading Commission's weekly positioning data has not been published since mid-December.

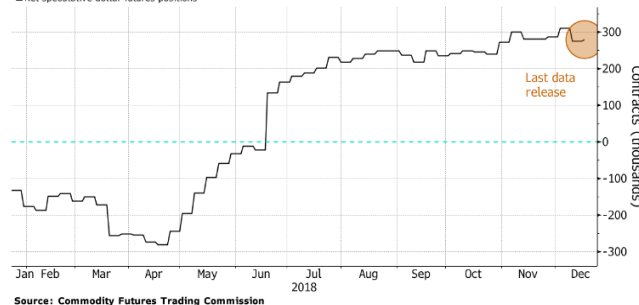
US Equity Offerings Year to Date



Anyone's Guess

U.S. government shutdown has delayed CFTC data releases

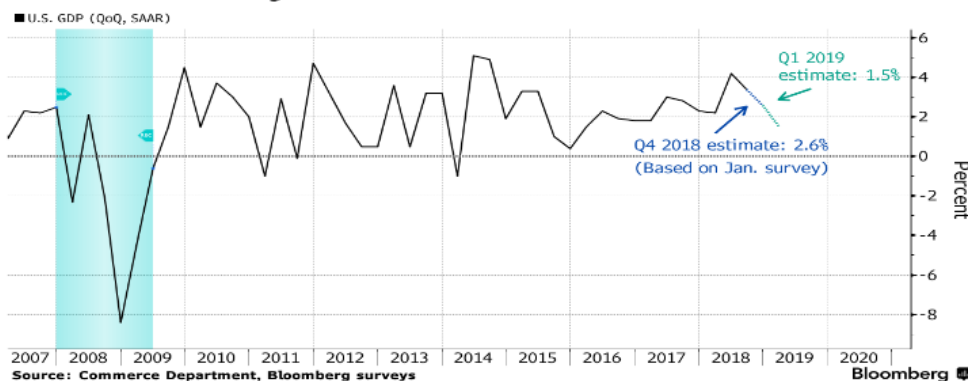
■ Net speculative dollar futures positions



The chair of the council of economic advisers advised that if the partial government shutdown extends through March, there could be **zero economic expansion** in the quarter. A Bloomberg survey last week found that a shutdown of that tenor would see Q1 GDP fall by 0.9 ppts to 1.5%. The Senate will vote on two competing proposals to reopen the government today.

Eyeing Zero

A U.S. Shutdown through March would take a bite out of GDP



Europe

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The ECB maintained its policy parameters unchanged this morning, as largely expected. The deposit facility rate is kept at -0.40% and the main refinancing rate at 0%. The Bank's statement noted that interest rates will remain at current levels at least through the summer of 2019, while reinvestments under the QE programs will continue for an extended period of time and at least beyond the first hike. The statement did not mention a possible new TLTRO but pointed to the Bank's commitment "to maintain favorable liquidity conditions and an ample degree of monetary accommodation." The euro (-0.3%) weakened slightly following the announcement, while European stocks retained the gains from earlier this morning.

European bourses advanced about 0.5% this morning, led by financials: EuroStoxx 600 (+0.4%), DAX (+0.5%), and CAC 40 (+0.7%). Bank equities (+1.0%) outperformed, with the larger gains seen at Monte dei Paschi (+2.8%) – after securing market access for a new covered bond – Unicredit (+1.9%), and Commerzbank (+1.5%).

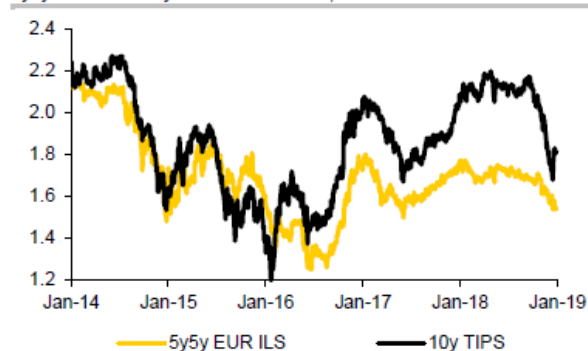
Monte dei Paschi has successfully placed a covered bond, thus signaling that funding markets remain open to Italian lender albeit at a relatively high cost. MPS's bond raised €1 bn at a 190 bps -spread over mid-swaps. Despite being backed by a pool of residential mortgages, the cost of MPS's deal is similar to that of senior unsecured debt of other Italian lenders.

Core Euro area sovereign bond markets are unchanged. Germany: 10-year at 0.20%; France: 0.60%. Italian yields dropped 6 bps to 2.69% and Spanish 5 bps to 1.25%.

Amid some signs of weakening economic activity, **inflation expectations in the eurozone have trended lower.** Euro 5y5 break-evens are trading now at the lowest level in 18 months. To add to the mixed picture, **PMIs released today were inconclusive regarding the direction of the eurozone's economy** (second chart below). While France's composite PMI dropped to 47.9 in January from 51, the German index inched up to 52.1 from 51.9. Against this backdrop, **market analysts expect the ECB statement today to retain its cautious dovish tilt and avoid unsettling the market.**

Aggressive repricing of global break-evens

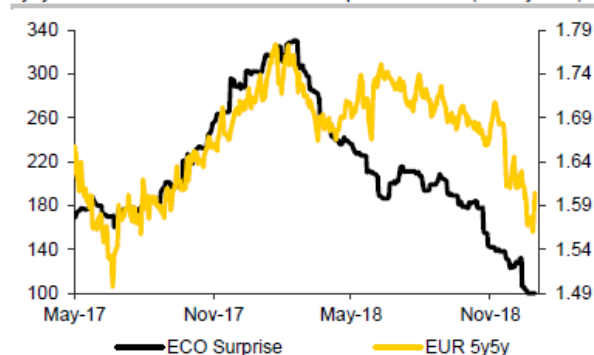
5y5y € ILS and 10y TIPS break-evens, in %



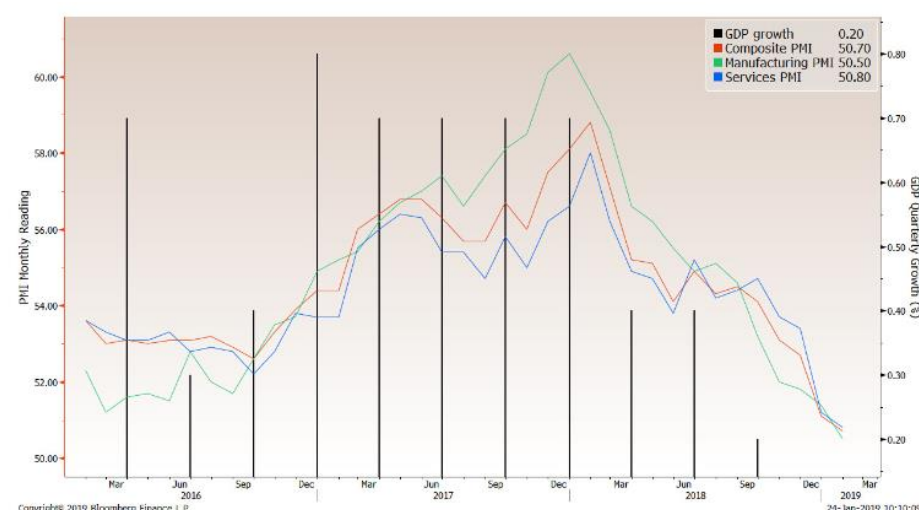
Source: Bloomberg, Commerzbank Research

Reflation hopes evaporate on ongoing weak data

5y5y € ILS in % and CBK Economic Surprise Indicator (activity data)



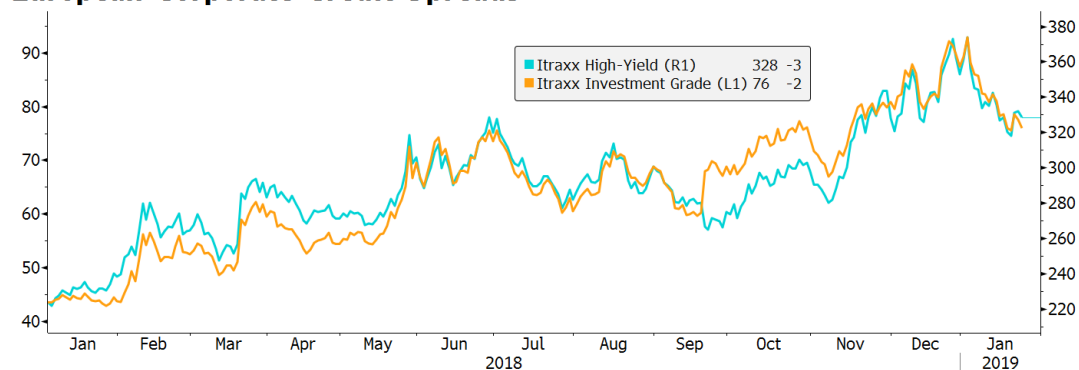
Source: Commerzbank Research



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European corporate credit spreads have been on a declining trend year-to-date. The easing of financing conditions for both high-grade and high-yield firms in 2019 bucks the upward tendency throughout 2018 (first chart below). **Dollar funding conditions in the cross-currency basis swap market remain easy** compared to the tightening observe towards the end of 2018 (second chart).

European Corporate Credit Spreads

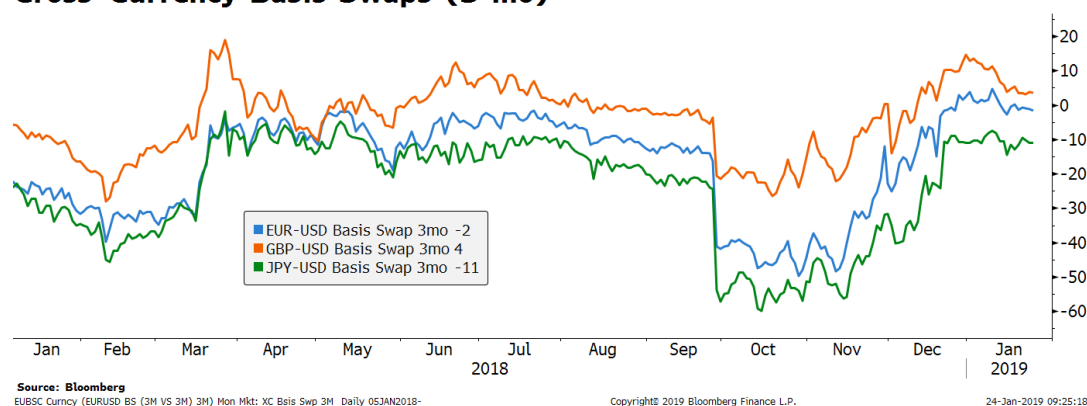
Source: Bloomberg

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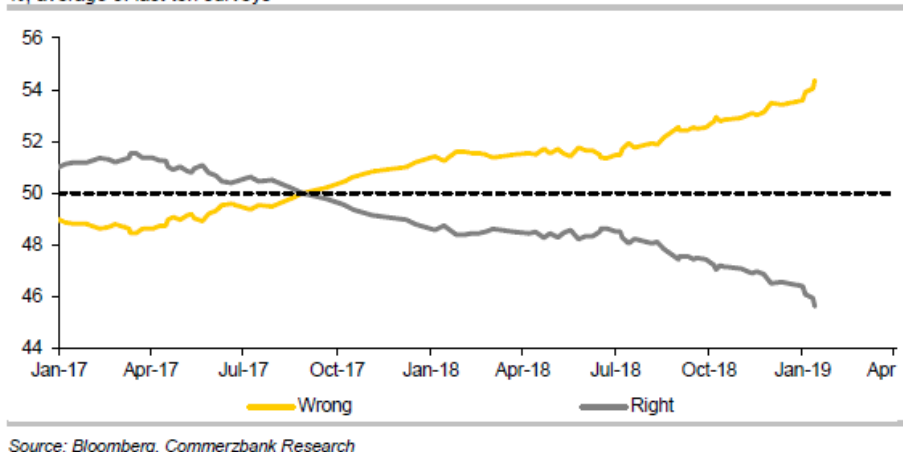
Cross-Currency Basis Swaps (3 mo)



On the **Brexit front**, the news flow remain very fluid in the UK. Local press report that UK ministers have been meeting to devise a plan to avoid a no-deal Brexit. Speculation of a second referendum rages on, with some polls suggesting that a growing number of Britons may not favor Brexit.

Second thoughts about Brexit

YouGov survey "How do you judge the Brexit vote in hindsight?", shares corrected by „don't know“, in %, average of last ten surveys



Other Mature Markets [back to top](#)

Japan

The Topix and Nikkei were little changed with IT and financial stocks outperforming today. Shares of semiconductor production equipment climbed on expectations of improving earnings releases. Shares in Nikon (+7%) rose after settling a litigation with ASML and Carl Zeiss, with JP Morgan upgrading the stock to neutral. The yen was modestly weaker at ¥109.66.

Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 1/24/19 8:28 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.25	1.0	1	8	-20	6
MSCI Frontier Equities		27.85	1.1	1	7	-23	7
EMBIG Sovereign Spread (in bps)		367	-3	-13	-41	96	-47
EM FX vs. USD		63.33	0.0	0	2	-12	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.79	0.0	0	2	-6	1
Indonesian Rupiah		14170	0.1	0	3	-6	2
Indian Rupee		71.08	0.4	0	-1	-10	-2
Argentine Peso		37.58	-0.1	0	1	-48	0
Brazil Real		3.78	-0.6	-1	3	-17	3
Mexican Peso		19.06	-0.2	0	4	-3	3
Russian Ruble		65.90	0.3	1	4	-15	5
South African Rand		13.80	0.1	-1	6	-14	4
Turkish Lira		5.27	0.2	1	0	-29	0
EM FX volatility		9.06	0.0	-0.3	-0.5	1.1	-0.7

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

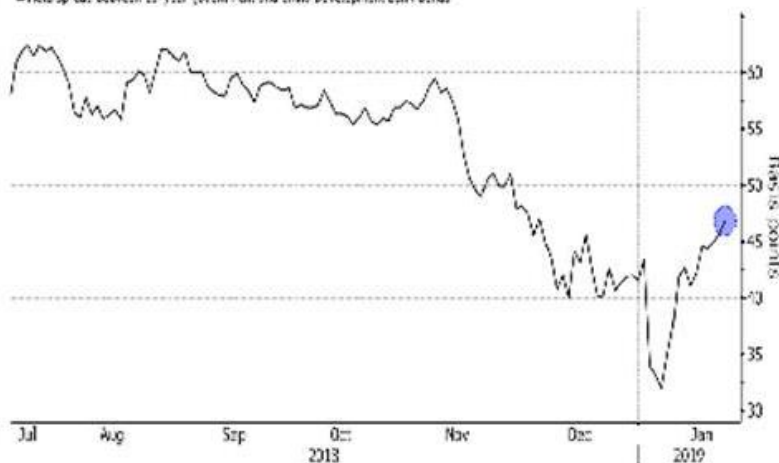
China

The yield spread on China's policy bank bonds has widened on deteriorating risk appetite and worries over overshooting in bond prices. This can be seen from widening of the yield spread of the 10-year China Development Bank bond over central government bond, from 32 basis points in early January to 47 basis points recently. Demand for policy bank bonds by offshore investors was strong last year given their higher yields and better liquidity than central government bonds, driving down its yields. Despite the recent widening in the yield spread, some analysts remain optimistic about the near-term prospects of policy bank bonds given that economic growth is likely to slow this year, while a wider inclusion of Chinese bonds in global fixed income indices would continue to attract inflows into policy bank bonds.

Bigger Spread

Yield gap between government and policy bank bonds widens

■ Yield spread between 10-year government and China Development Bank bonds

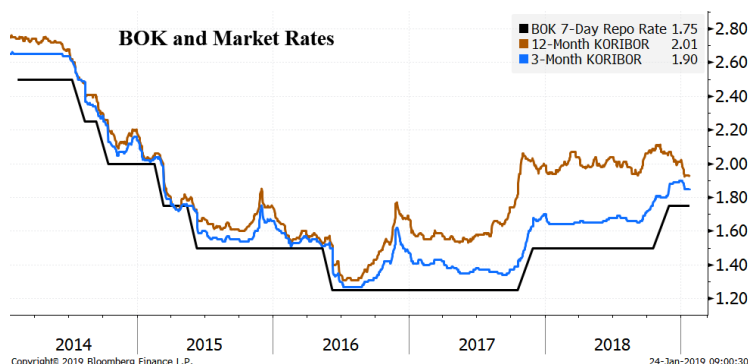


Source: ChinaBond, Bloomberg

Chinese equity markets gained on improved market sentiment. China's Ministry of Commerce said that there will be in-depth discussions on economic and trade issues when senior officials from China and the US meet in Washington DC next week. On Wednesday, the White House economic adviser said that both sides could reach a deal before the deadline on March 1st. The Shanghai Composite nudged up 0.4%, and the Shenzhen small-cap ChiNext gained 1.1%. In the currency market, the renminbi was little changed, closing at 6.7945 against the US dollar in the onshore market.

South Korea

The central bank kept rates at 1.75% as expected. Officials stated that the BoK will maintain its accommodative stance, but it's not the time to consider a rate cut. The bank also trimmed its growth projection for the year to 2.6%, and cut its inflation forecast to 1.4% from 1.7% previously. Local rates have been trending lower in recent weeks, but most analyst still expect the BoK to maintain its "wait-and-see" approach. Local rates and the won were little changed, but the Kospi ended the day 0.8% higher.



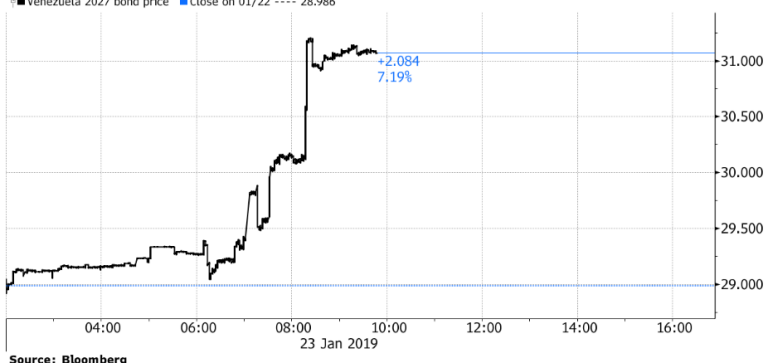
Venezuela

Bond prices jumped to the highest in 6 months as US president Trump and most other nations in the region recognized head of national assembly Juan Guaido as the interim president of Venezuela. Following mass anti-government protests, the country's \$4 bn of defaulted notes due in 2027 surged 2.5 cents to 31.5 cents on the dollar, the highest price since June, according to Bloomberg. Other overseas notes from the government and state-owned oil company joined along in a broad rally. The hope among investors is that popular dissatisfaction with President Maduro will eventually lead to his removal from office and the ascension of a new government that will be able to boost oil production and get the economy back on track, paving the way for a restructuring bond deal. The *FT* reports that nearly 20 countries, including the US, Canada and some of Latin America's biggest states, said they did not recognize the inauguration as a president of Nicolas Maduro following elections last year which are widely regarded as fraudulent.

Opposition Bounce

Venezuelan bond prices rose amid anti-Maduro protests

■ Venezuela 2027 bond price ■ Close on 01/22 ---- 28.986



Argentina

The central bank intervened in the currency market yesterday as the peso weakened below the floor of its currency band. The central bank bought \$50 mn at an average price of 37.52/dollar as the peso briefly depreciated below the lower band of 37.66 on Wednesday. The central bank's monetary policy committee will consider at the end of January whether to increase the amount of dollars it can buy if the peso remains below the floor of its currency band, according to news reports. Currently, the central bank can purchase up to \$50 mn a day.





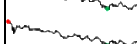

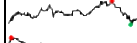




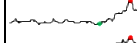
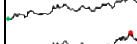










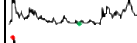


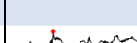


EMEA

Moody's singled out five countries as facing intensifying liquidity risks. Angola (B3 stable), Bahrain (B2 stable), Ghana (B3 stable), Kenya (B2 stable) and Lebanon (Caa1 stable) face increasing constraints on local banks' capacity to absorb potential increases in government financing in the event they are unable to access external markets. The analysis considers the size of the financial system and government's financing requirements.

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Global Financial Indicators

Last updated: 1/24/19 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2639	0.2	1	12	-7	5
Europe		3132	0.6	2	5	-14	4
Japan		20575	-0.1	1	2	-14	3
China		2592	0.4	1	3	-27	4
Asia Ex Japan		66	0.8	1	7	-20	4
Emerging Markets		41	0.6	1	8	-20	6
Interest Rates			basis points				
US 10y Yield		2.71	0.2	-4	-3	7	3
Germany 10y Yield		0.19	-3.3	-5	-6	-40	-5
Japan 10y Yield		0.01	0.6	1	-4	-7	1
UK 10y Yield		1.27	-5.2	-6	1	-13	0
Credit Spreads			basis points				
US Investment Grade		130	-0.2	-7	-14	45	-17
US High Yield		444	3.3	4	-81	111	-77
Europe IG		76	-1.4	-2	-16	32	-11
Europe HY		328	-4.0	0	-36	96	-25
EMBIG Sovereign Spread		367	-3.0	-13	-41	96	-47
Exchange Rates			%				
Dollar Index (DXY)		96.42	0.3	0	0	8	0
USDEUR		1.13	-0.4	0	-1	-9	-1
USDJPY		109.7	-0.1	0	1	0	0
EM FX vs. USD		63.3	0.0	0	2	-12	2
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-0.9	-1	20	-14	13
Industrials Metals (index)		113	-0.8	1	2	-19	3
Agriculture (index)		43	-0.1	2	2	-10	3
Implied Volatility			%				
VIX Index (% change in pp)		19.6	0.0	0.5	-16.5	8.1	-5.9
10y Treasury Volatility Index		4.2	0.1	0.3	-0.7	0.0	-0.4
Global FX Volatility		7.9	0.0	-0.4	-0.9	0.2	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		401	5.6	3	-13	88	-15
Italy		249	-3.6	-3	-9	117	-1
Portugal		147	-1.8	-4	3	16	-1
Spain		106	-2.9	-6	-9	29	-12

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: 1/24/2019 8:28 AM	Exchange Rates							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		6.79	0.0	-0.3	2	-6	1		3.1	-0.5	-3	-17	-92	-12
Indonesia		14170	0.1	0.2	3	-6	2		8.3	-1.0	2	12	184	13
India		71	0.4	-0.1	-1	-10	-2		7.6	2.0	3	16	4	12
Philippines		53	-0.3	-0.9	0	-4	-1		5.8	0.1	-16	-49	105	-49
Thailand		32	-0.1	0.1	3	-1	2		2.6	-2.9	-1	-5	34	-2
Malaysia		4.15	-0.2	-0.8	1	-6	0		4.0	0.4	0	-6	9	-6
Argentina		38	-0.1	0.3	1	-48	0		21.2	5.6	-17	-185	545	-176
Brazil		3.78	-0.6	-0.9	3	-17	3		7.9	-7.1	-24	-31	-101	-27
Chile		674	-0.2	-0.4	2	-11	3		4.5	-1.0	4	3	-25	6
Colombia		3156	-0.2	-0.7	4	-11	3		6.6	3.8	8	8	34	10
Mexico		19.06	-0.2	-0.2	4	-3	3		8.6	-7.9	-1	-19	108	-7
Peru		3.3	-0.2	-0.3	1	-4	1		5.7	2.1	2	-2	91	2
Uruguay		33	0.1	0.4	-1	-13	0		10.4	0.0	-2	-51		-35
Hungary		281	-0.5	-0.1	0	-11	0		2.2	-0.4	10	-4	88	-3
Poland		3.78	-0.3	-0.5	-1	-12	-1		2.3	-1.7	3	1	-39	0
Romania		4.2	-0.5	-2.1	-3	-11	-4		4.5	2.0	1	26	62	25
Russia		65.9	0.3	0.7	4	-15	5		8.1	1.0	5	-39	93	-33
South Africa		13.8	0.1	-0.6	6	-14	4		9.6	-3.7	8	-12	51	-4
Turkey		5.27	0.2	1.4	0	-29	0		16.4	-16.6	-16	-107	415	-51
US (DXY; 5y UST)		96	0.3	0.4	0	8	0		2.55	-2.7	-2	-3	11	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		2592	0.4	1	3	-27	4		185	4	1	-11	34	-9
Indonesia		6467	0.2	1	5	-2	4		206	4	-1	-25	53	-30
India		36195	0.2	0	2	0	0		183	-1	-8	-5	77	-13
Philippines		8065	0.9	2	8	-10	8		101	3	-1	-17	18	-20
Malaysia		1694	0	1	1	-8	0		145	1	-7	-15	41	-17
Argentina		34819	2.3	2	22	0	15		667	-3	-20	-165	297	-148
Brazil		97115	1.5	2	13	16	10		246	3	-3	-28	25	-27
Chile		5402	0.0	-1	7	-7	6		146	3	0	-17	37	-20
Colombia		1407	0.2	1	8	-12	6		202	4	5	-27	46	-26
Mexico		43680	-0.2	0	6	-14	5		318	2	-6	-36	85	-36
Peru		19566	0	0	3	-8	1		154	4	2	-12	32	-14
Hungary		40946	0.3	-1	3	0	5		137	3	4	-7	46	-11
Poland		60656	-0.2	1	6	-10	5		65	2	5	-12	13	-20
Romania		7142	0.0	1	-4	-15	-3		217	0	6	6	105	-4
Russia		2480	-0.5	1	7	7	5		218	1	0	-29	53	-34
South Africa		53531	-0.7	0	3	-13	2		318	-4	-4	-39	92	-47
Turkey		100666	0.5	4	10	-16	10		410	-9	-24	-10	126	-19
Ukraine		551	-0.7	-1	-1	66	-2		659	-19	-27	-113	264	-128
EM total		41	1.0	1	8	-20	6		367	-3	-13	-41	96	-47

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