# Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, January 25, 2019

- **US senate vote fails to end government shutdown (link)**
- **US loan covenant quality at record lows (link)**
- **UK and Swiss authorities reportedly agree post-Brexit trading regime for insurers (link)**
- **China's PBOC introduces new policy tool to support banks' perpetual bond issuance (link)**
- **Bank Negara Malaysia keeps policy rates unchanged, as expected (link)**
- **Russian central bank to accelerate FX reserve accumulation (link)**

US | Europe | Other Mature | Emerging Markets | Market Tables

## Global market sentiment improves to end week

**Global equity markets rose this morning as a rally in tech stocks outweighed concerns over the US-China trade negotiations.** Markets shrugged off comments by US commerce secretary Ross that the US and China are "miles and miles" from a trade deal. The gains were widespread across all major stock markets both in advanced and emerging economies. S&P 500 futures were up 0.8% this morning despite news the US senate vote failed to end the government shutdown. As a result, the VIX dropped to a 6-week low, having halved since its recent peak on December 24. In emerging markets, China's PBOC introduced a new policy tool to support banks' perpetual bond issuance, allowing primary dealers to swap eligible bank perpetual bonds with central bank bills. Analysts expressed concerns that the PBOC may become a regulator and a market participant at the same time in the perpetual bond market. In currency markets, a notable move has been the 0.6% depreciation of the Russian ruble to the dollar on expectations of reserve accumulation by the central bank.

### Key Global Financial Indicators

| Last updated: 1/25/19 8:04 AM | Level | | Change from Market Close | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | % | | | | % |
| S&P 500 | | 2642 | 0.1 | 1 | 12 | -7 | 5 |
| Eurostoxx 50 | | 3154 | 0.9 | 1 | 6 | -13 | 5 |
| Nikkei 225 | | 20774 | 1.0 | 1 | 8 | -12 | 4 |
| MSCI EM | | 42 | 0.8 | 1 | 9 | -19 | 7 |
| **Yields and Spreads** | | | bps | | | | |
| US 10y Yield | | 2.73 | -2.5 | -5 | -1 | 11 | 5 |
| Germany 10y Yield | | 0.18 | 0.3 | -8 | -7 | -43 | -6 |
| EMBIG Sovereign Spread | | 361 | -5 | -14 | -47 | 90 | -53 |
| **FX / Commodities / Volatility** | | | % | | | | |
| EM FX vs. USD, (+) = appreciation | | 63.6 | 0.1 | 0 | 2 | -11 | 2 |
| Dollar index, (+) = $ appreciation | | 96.3 | -0.3 | 0 | 0 | 8 | 0 |
| Brent Crude Oil ($/barrel) | | 60.7 | -0.6 | -3 | 20 | -14 | 13 |
| VIX Index (%, change in pp) | | 18.3 | -0.6 | 0 | -18 | 7 | -7 |

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

## United States

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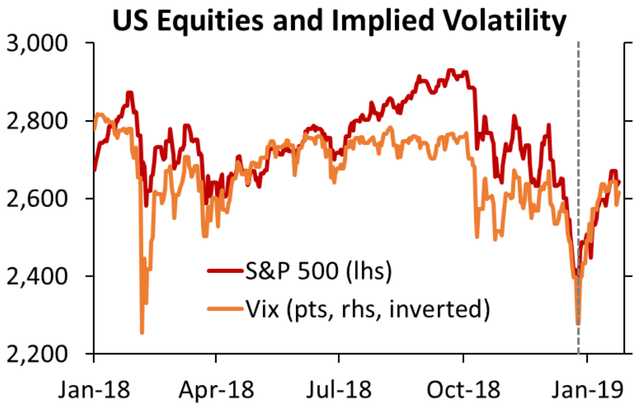
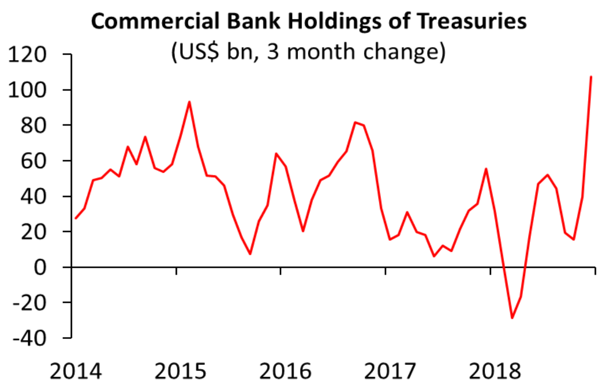
**US stocks ended mixed on Thursday**, with Tech stocks outperforming (+0.9%), as chip stocks rallied as much as 6.1% after strong earnings from Lam, Texas Instruments and Xilinx. Stock volatility has fallen since late December. **The VIX measure of implied volatility on the S&P 500 has halved since its recent peak on December 24,** down 17 percentage points to 18.3 this morning. Analysts at Credit Suisse noted that this volatility "normalization" should provide support to stock prices over the next few months.



Source: Bloomberg, Credit Suisse

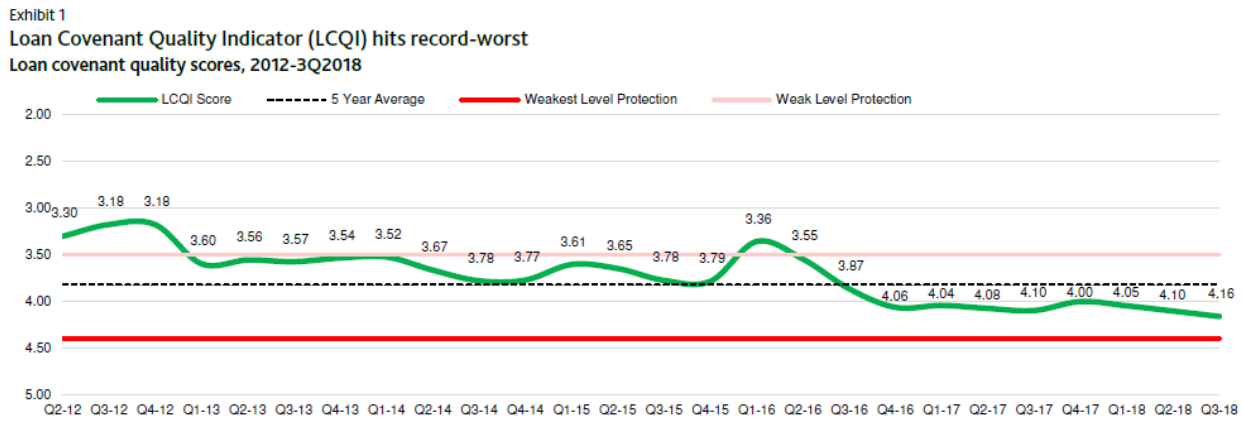
**The Senate failed to pass either of two competing bills yesterday that would have ended the partial government shutdown**, which is now entering its 35th day. **Treasury yields slipped** yesterday, with the 2-year falling 2 bps to 2.56% and the 10-year falling 3 bps to 2.72%. The Treasury auctioned $45 bn in 4-week bills and $35 bn in 8-week bills, with both auctions $5 bn higher than previous ones. A growing federal deficit and a shrinking Fed balance sheet have necessitated more issuance this year, with strong demand from primary dealers and commercial banks. A looming debt ceiling extension due March 1st creates further uncertainty, with worries that a protracted federal government shutdown could impact IRS activities as the tax season ramps up.

Source: Bloomberg, JP Morgan



Source: Federal Reserve, Haver Analytics, JP Morgan

**The quality of loan covenants hit another record low in Q3-2018 according to Moody's**. The firm notes that its assessment of covenant quality has been on the general decline for a number of years, with investors increasingly willing to take on extra risk in the search of higher yielding returns. It further noted that there was "consistent erosion of covenant protections" across every aspect of loan documentation. Moody's also pointed out that leveraged loan issuance again surpassed high-yield bond issuance last year. And S&P notes that since 2010, average recoveries on cov-lite loans have been 21% lower than those of non-covenant-lite loans.




Source: Moody's Investors Service

The Intercontinental Exchange (which runs **Libor), is now planning to come out with its own alternative** to the tainted benchmark reference rate which is scheduled to be phased out in a couple of years. Despite its impending disappearance, the *FT* reported that Libor is still used by financial instruments with a notional value of $300 tn. The new rates would compete with the Fed-inspired Secured Overnight Financing Rate (SOFR).

**On the data front, initial job claims fell last week to 199k, which was the lowest level since 1969.** Analysts are advising that it may take some time for the effects of the government shutdown to feed into the jobless report, since data on federal employees are reported with a delay. Manufacturing expansion sped up in January according to Markit's PMI indicator, while the Kansas City Fed reported manufacturing activity in that region decelerated somewhat in January. The Conference Board reported leading economic indicators dipped 0.1% in December.

US **collateralized loan obligation (CLO**) **issuance expanded by nearly 20% last year** according to Citi, with US issuers coming to market with a record $255 bn. Of this, $135 bn was new issues, and $120 bn of reset from existing deals (including $30 bn in refinancings), CLO AAA rated securities returned 2.7% in 2017, compared to 0.4% for leveraged loans, while investment-grade and high-yield bonds both lost around 2.25% (their first negative returns since 2015 according to Bloomberg). S&P expects US CLO issuance to come down from record levels in 2019.


Source: Citi Research, LCD, Intex as of 12/31/2018. Issuance volume includes both new issue and resets.

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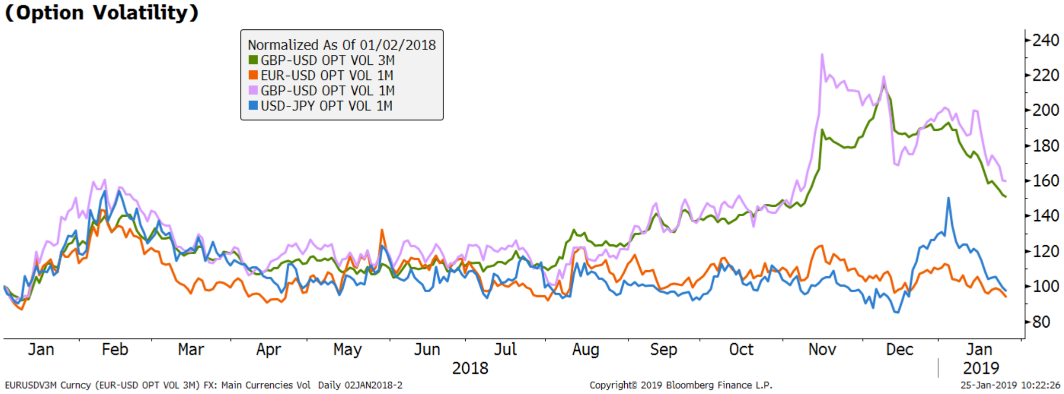
**European stocks gained this morning:** EuroStoxx 600 (+0.5%), DAX (+1.1%), and CAC 40 (+0.6%). Bank equities (+0.7%) are in line with major indices. **Euro area sovereign bond markets are trading flat again today**, as the ECB maintained its course yesterday**.** German 10-year bunds at 0.18% (flat); French at 0.58% (flat); Italian at 2.65% (flat); Spanish at 1.21% (-2 bps).

On **Brexit news**, Reuters reports that **the UK and Switzerland has signed an agreement to allow insurance companies to trade freely between the two countries post-Brexit**. The deal would thus replicate the existing arrangement between the EU and Switzerland. The UK and Switzerland are both the home country of some of the largest global insurance companies, such as Prudential, Aviva, Zurich Insurance, and Swiss Re.

The **pound's volatility remains elevated** as the Brexit day approaches. Sterling is flat on the day at $1.31.

**FX Volatility: Major Crosses**
**(Option Volatility)**

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**Japan**

**Equities gained (Topix +0.9%; Nikkei +1%) and the yen (-0.3%) depreciated.** Sector performance reflected risk on sentiment, with tech and machinery names outperforming. **Yields on 10-year JGBs fell -0.7 bps to -0.011% despite an unexpected rise in January inflation in Tokyo,** a leading indicator for nationwide figures**.** Inflation excluding fresh food rose 1.1% y/y, the fastest since 2015 and 0.2% above the consensus forecast.

**Choppy Week**
**Topix fluctuates in the week as investors await more earnings**


Source: TSE

## Emerging Markets

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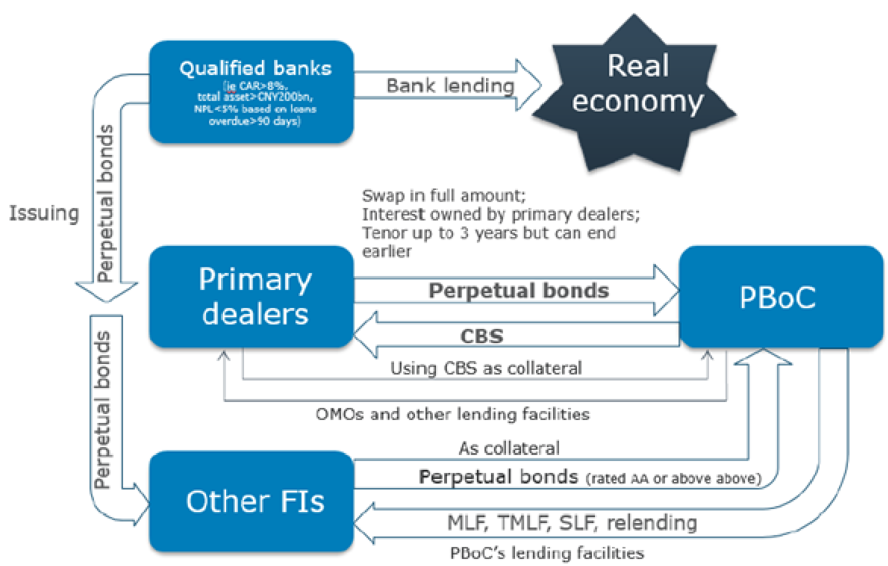
**Key Emerging Market Financial Indicators**

| Last updated: 1/25/19 8:07 AM | Level Last 12m | index | Change 1 Day | 7 Days | 30 Days | 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Major EM Benchmarks** | | | | | % | | % |
| MSCI EM Equities | | 41.65 | 0.8 | 1 | 9 | -19 | 7 |
| MSCI Frontier Equities | | 27.97 | 0.4 | 1 | 7 | -22 | 7 |
| EMBIG Sovereign Spread (in bps) | | 361 | -5 | -14 | -47 | 90 | -53 |
| EM FX vs. USD | | 63.58 | 0.1 | 0 | 2 | -11 | 2 |
| **Major EM FX vs. USD** | | | %, (+) = EM currency appreciation | | | | |
| China Renminbi | | 6.76 | 0.4 | 0 | 2 | -6 | 2 |
| Indonesian Rupiah | | 14093 | 0.5 | 1 | 3 | -6 | 2 |
| Indian Rupee | | 71.17 | -0.1 | 0 | -1 | -11 | -2 |
| Argentine Peso | | 37.37 | 0.0 | 1 | 2 | -48 | 1 |
| Brazil Real | | 3.77 | 0.1 | 0 | 4 | -16 | 3 |
| Mexican Peso | | 18.93 | 0.4 | 1 | 5 | -2 | 4 |
| Russian Ruble | | 66.11 | -0.5 | 0 | 4 | -15 | 5 |
| South African Rand | | 13.67 | 0.4 | 1 | 7 | -13 | 5 |
| Turkish Lira | | 5.27 | -0.2 | 1 | 1 | -29 | 0 |
| EM FX volatility | | 9.06 | 0.0 | -0.2 | -0.5 | 0.8 | -0.7 |

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

**China**

**The PBOC announced a new policy tool called Central Banks Bills Swap (CBS), which allows primary dealers to swap eligible bank perpetual bonds with central bank bills.** The central bank bills can be used as collateral to access PBOC liquidity. The PBOC aims to support the issuance of bank perpetual bonds which can be used to boost banks' capital adequacy. The first perpetual bond is being issued today by Bank of China. The CBS and corresponding central bank bills will have a maturity of no more than 3 years. Quality criteria for banks are in place to be eligible for the swap. Analysts expressed concerns that the PBOC may become a regulator and a market participant at the same time in the perpetual bond market. Chinese equities were mixed on the day (Shanghai +0.4%, Shenzhen -0.2%), while the offshore and onshore RMB appreciated (+0.3%).



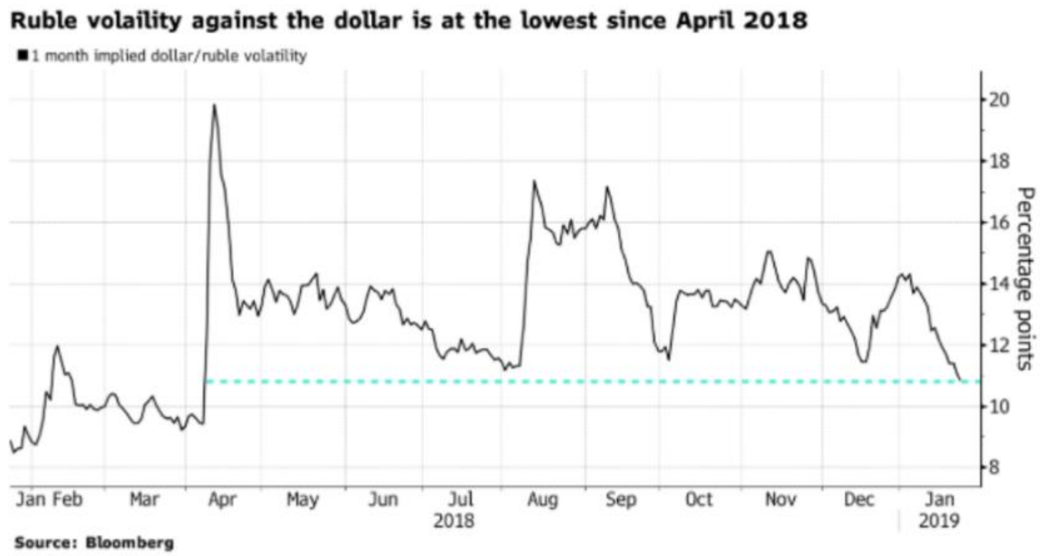

Source: PBoC, ANZ Research

**Malaysia**

**Bank Negara Malaysia (BNM) kept the overnight policy rate unchanged at 3.25%, as expected.** The overall tone of the policy statement remained unchanged as well. BNM expects the economy to "remain on a steady growth path" with trade tensions and commodity-related shocks as key downside risks. BNM expects inflation to rise moderately from the 1% average in 2018. Some analysts expect BNM to cut interest rates later in the year as growth is slowing and inflation remains low. The ringgit appreciated 0.6%, equities gained 0.4%, and bond yields were unchanged.

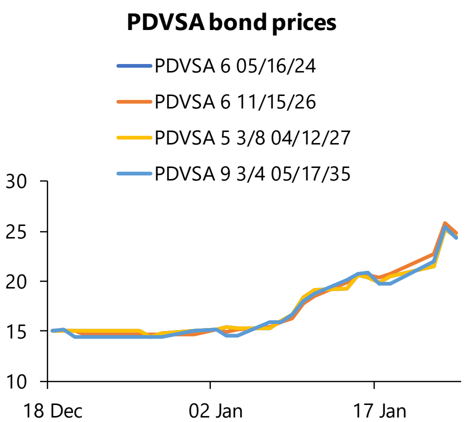
**Russia**

**The central bank will increase its foreign currency purchases, given that the currency has now stabilized.** These purchases will start in February and will be spread out evenly over three years, to the tune of $43 mn a day and $32 bn in total. This represents a 18% increase in daily purchases to make up for the August-December 2018 period during which the program had been suspended after the ruble came under pressure. As usual, the central bank stands ready to stop the program "in the event of risks to financial stability." The currency has appreciated about 6% this year and its measures of implied volatility have been falling rapidly (chart).

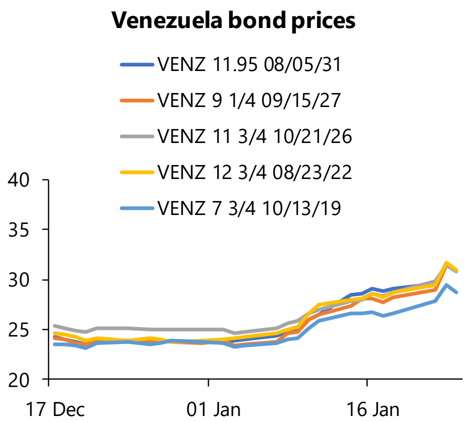



**Venezuela**

**There was no major development on Thursday that would suggest that the power struggle in Venezuela is heading towards a resolution. Bond prices halted their recent rally dropping by around 1 point.** Over the last week or so, bond prices started drifting towards 25-30% as market participants begun to discount the possibility of a regime change and its implications for recovery prices in a restructuring. PdVSA bonds continue to outperform the sovereign, as their bond prices start from a lower level and markets expect more potential upside if the regime change succeeds.



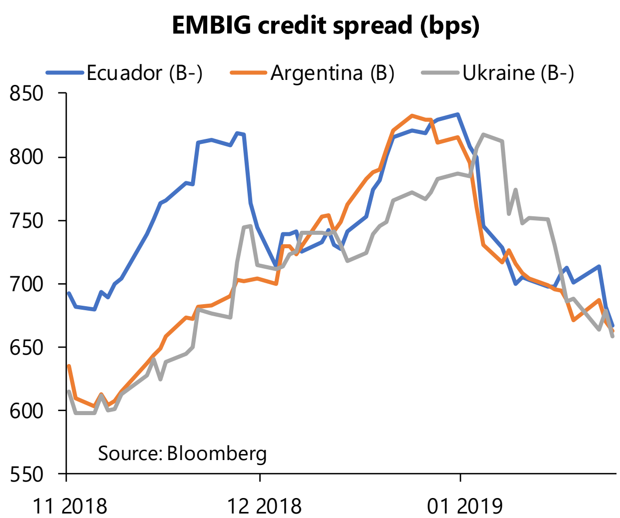

Source: Bloomberg




Source: Bloomberg

**Ecuador**

**Ecuador EMBIG spreads declined by 15bps to 667bps, the lowest since October, as the government is exploring the possibility of an IMF agreement.** According to Ecuador officials the January 23 meeting with the IMF Managing Director "was an extremely positive dialogue" and the government is still "exploring" the possibility of an IMF agreement and remain "open to any possibility". A Nomura analyst highlighted that the latest bond rally may backfire if lower spreads increase market concerns that Ecuador officials will rely on hard currency bond issuance to cover the 2019 financing gap. The analyst estimates that there are close to $4 bn of financing needs in 2019.




Source: Bloomberg

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## Global Financial Indicators

| Last updated: 1/25/19 8:05 AM | Level: Last 12m | Level: Latest | Change: 1 Day | Change: 7 Days | Change: 30 Days | Change: 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % |
| United States | | 2642 | 0.1 | 1 | 12 | -7 | 5 |
| Europe | | 3154 | 0.9 | 1 | 6 | -13 | 5 |
| Japan | | 20774 | 1.0 | 1 | 8 | -12 | 4 |
| China | | 2602 | 0.4 | 0 | 4 | -27 | 4 |
| Asia Ex Japan | | 67 | 1.0 | 1 | 8 | -19 | 5 |
| Emerging Markets | | 42 | 0.8 | 1 | 9 | -19 | 7 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 2.73 | -2.5 | -5 | -1 | 11 | 5 |
| Germany 10y Yield | | 0.18 | 0.3 | -8 | -7 | -43 | -6 |
| Japan 10y Yield | | 0.00 | -1.4 | -2 | -2 | -9 | -1 |
| UK 10y Yield | | 1.28 | 1.4 | -7 | 2 | -13 | 0 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 129 | -1.2 | -8 | -15 | 44 | -18 |
| US High Yield | | 445 | 3.5 | 5 | -81 | 111 | -76 |
| Europe IG | | 75 | -1.6 | -1 | -17 | 31 | -13 |
| Europe HY | | 323 | -5.0 | 3 | -41 | 91 | -30 |
| EMBIG Sovereign Spread | | 361 | -5.0 | -14 | -47 | 90 | -53 |
| **Exchange Rates** | | | | | % | | |
| Dollar Index (DXY) | | 96.33 | -0.3 | 0 | 0 | 8 | 0 |
| USDEUR | | 1.13 | 0.3 | 0 | 0 | -9 | -1 |
| USDJPY | | 109.9 | -0.2 | 0 | 0 | 0 | 0 |
| EM FX vs. USD | | 63.6 | 0.1 | 0 | 2 | -11 | 2 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 61 | -0.6 | -3 | 20 | -14 | 13 |
| Industrials Metals (index) | | 114 | 0.1 | 1 | 2 | -18 | 4 |
| Agriculture (index) | | 43 | 0.0 | 1 | 2 | -10 | 3 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 18.3 | -0.6 | 0.2 | -17.8 | 6.7 | -7.2 |
| 10y Treasury Volatility Index | | 4.1 | 0.0 | 0.1 | -0.8 | 0.1 | -0.5 |
| Global FX Volatility | | 7.9 | 0.0 | -0.2 | -1.0 | -0.2 | -1.1 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 391 | -5.6 | -1 | -23 | 82 | -25 |
| Italy | | 248 | 0.2 | 1 | -10 | 113 | -2 |
| Portugal | | 146 | -1.3 | -1 | 2 | 16 | -2 |
| Spain | | 104 | -2.1 | -5 | -11 | 24 | -14 |

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: 1/25/2019 8:06 AM | Exchange Rates | | | | | | | Local Currency Bond Yields (GBI EM) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level | | Change (in %) | | | | | Level | | Change (in basis points) | | | | |
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| | | vs. USD | (+) = EM appreciation | | | | | | % p.a. | | | | | |
| China | | 6.76 | 0.4 | 0.3 | 2 | -6 | 2 | | 3.1 | 0.1 | 1 | -17 | -92 | -12 |
| Indonesia | | 14093 | 0.5 | 0.6 | 3 | -6 | 2 | | 8.3 | -0.4 | -1 | 12 | 181 | 13 |
| India | | 71 | -0.1 | 0.0 | -1 | -11 | -2 | | 7.6 | -0.3 | 2 | 16 | 1 | 12 |
| Philippines | | 53 | 0.6 | 0.0 | 1 | -3 | 0 | | 5.8 | 0.1 | -6 | -48 | 106 | -49 |
| Thailand | | 32 | 0.2 | 0.3 | 3 | -1 | 2 | | 2.6 | -2.5 | -6 | -4 | 32 | -5 |
| Malaysia | | 4.13 | 0.5 | -0.3 | 1 | -6 | 0 | | 4.0 | 0.3 | 1 | -6 | 9 | -6 |
| Argentina | | 37 | 0.0 | 0.5 | 2 | -48 | 1 | | 21.4 | 14.6 | 17 | -170 | 573 | -161 |
| Brazil | | 3.77 | 0.1 | -0.3 | 4 | -16 | 3 | | 7.9 | 6.6 | -15 | -24 | -81 | -20 |
| Chile | | 667 | 0.6 | 0.4 | 3 | -10 | 4 | | 4.5 | -4.5 | -2 | -1 | -27 | 2 |
| Colombia | | 3157 | 0.5 | -1.0 | 4 | -12 | 3 | | 6.6 | -2.5 | 2 | 6 | 37 | 7 |
| Mexico | | 18.93 | 0.4 | 0.9 | 5 | -2 | 4 | | 8.5 | -13.3 | -21 | -35 | 99 | -20 |
| Peru | | 3.3 | -0.2 | -0.7 | 0 | -4 | 1 | | 5.7 | -0.9 | 1 | -3 | 91 | 1 |
| Uruguay | | 33 | -0.1 | 0.3 | -1 | -13 | -1 | | 10.3 | -4.0 | 2 | -53 | | -39 |
| Hungary | | 281 | 0.4 | -0.3 | 0 | -11 | 0 | | 2.1 | -4.2 | -3 | -8 | 83 | -7 |
| Poland | | 3.78 | 0.2 | -0.3 | -1 | -12 | -1 | | 2.3 | -1.5 | -1 | 0 | -43 | -1 |
| Romania | | 4.2 | 0.4 | -1.6 | -3 | -10 | -3 | | 4.5 | 0.0 | 2 | 26 | 62 | 25 |
| Russia | | 66.1 | -0.5 | 0.1 | 4 | -15 | 5 | | 8.1 | -3.3 | -3 | -40 | 93 | -36 |
| South Africa | | 13.7 | 0.4 | 1.3 | 7 | -13 | 5 | | 9.5 | -7.3 | -4 | -21 | 42 | -11 |
| Turkey | | 5.27 | -0.2 | 1.0 | 1 | -29 | 0 | | 16.1 | -26.0 | -37 | -133 | 406 | -77 |
| US (DXY; 5y UST) | | 96 | -0.3 | 0.0 | 0 | 8 | 0 | | 2.57 | 2.2 | -5 | -1 | 15 | 6 |

| | Equity Markets | | | | | | | Bond Spreads on USD Debt (EMBIG) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level | | Change (in %) | | | | | Level | | Change (in basis points) | | | | |
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| | | | | | | | | basis points | | | | | | |
| China | | 2602 | 0.4 | 0 | 4 | -27 | 4 | | 178 | -4 | 0 | -15 | 24 | -16 |
| Indonesia | | 6483 | 0.3 | 1 | 5 | -2 | 5 | | 198 | -4 | -5 | -32 | 44 | -38 |
| India | | 36026 | -0.5 | -1 | 2 | 0 | 0 | | 183 | 0 | -3 | -11 | 78 | -13 |
| Philippines | | 8053 | -0.1 | 0 | 8 | -11 | 8 | | 96 | -1 | -1 | -20 | 14 | -25 |
| Malaysia | | 1701 | 0 | 1 | 1 | -8 | 1 | | 138 | -2 | -6 | -19 | 29 | -24 |
| Argentina | | 34939 | 0.3 | 2 | 23 | -1 | 15 | | 661 | -2 | -10 | -169 | 286 | -154 |
| Brazil | | 97677 | 1.2 | 2 | 14 | 17 | 11 | | 240 | -2 | -2 | -33 | 20 | -33 |
| Chile | | 5407 | 0.2 | -1 | 7 | -7 | 6 | | 142 | -4 | 1 | -19 | 30 | -24 |
| Colombia | | 1417 | 0.7 | 2 | 9 | -11 | 7 | | 196 | -2 | 3 | -32 | 42 | -32 |
| Mexico | | 43566 | -0.3 | -1 | 5 | -14 | 5 | | 314 | -2 | 2 | -38 | 79 | -40 |
| Peru | | 19692 | 1 | 0 | 4 | -7 | 2 | | 149 | -1 | 1 | -16 | 29 | -19 |
| Hungary | | 40848 | -0.1 | -2 | 3 | 1 | 4 | | 132 | -4 | 2 | -11 | 42 | -16 |
| Poland | | 60595 | -0.3 | 1 | 6 | -9 | 5 | | 62 | -3 | 5 | -13 | 10 | -23 |
| Romania | | 7030 | -1.6 | -2 | -6 | -17 | -5 | | 219 | 1 | 5 | 3 | 108 | -2 |
| Russia | | 2489 | 0.3 | 1 | 9 | 7 | 5 | | 213 | -4 | -3 | -34 | 47 | -39 |
| South Africa | | 53944 | 0.6 | 0 | 4 | -13 | 2 | | 308 | -10 | -15 | -52 | 78 | -57 |
| Turkey | | 101470 | -0.3 | 3 | 12 | -14 | 11 | | 396 | -13 | -28 | -28 | 113 | -33 |
| Ukraine | | 550 | -0.1 | -1 | -1 | 65 | -2 | | 646 | -12 | -42 | -132 | 257 | -141 |
| EM total | | 42 | 0.8 | 1 | 9 | -19 | 7 | | 361 | -5 | -14 | -47 | 90 | -53 |

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