Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, January 28, 2019

- **President Trump agrees to reopen the US government for three weeks (link)**
- **Government shutdown impacts 14% of US company earnings, according to Factset (link)**
- **North American GSIBs' 4Q18 results showed slightly weak revenues but below-forecast provisions (link)**
- **Amendment to delay Brexit to be voted by the UK Parliament tomorrow (link)**
- **EM bond and equity flows continue to recover (link)**

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

Market sentiment worsens ahead of busy week

European bourses and S&P 500 futures fell as a potential crucial week for global trade and monetary policy got under way. The VIX rose 1.3 percentage points to 18.7 while the dollar index was slightly stronger this morning. The negative sentiment weighed on oil prices with an increase in US oil rigs count also contributing to depress oil futures. In emerging markets, MSCI EM index equity futures were also lower but there were mixed results across regions. Asian stocks saw modest changes with India (-1.0%) the biggest mover. Equities in the EMEA region were mostly higher, including in Turkey (+0.6%). Russia (-0.6%) and Poland (-1.0%) were notable exceptions. Latin American assets mostly saw gains on Friday. Brazil (+1%) gained the most followed by Chile (+0.5%) and Mexico (+0.2%). EM currencies were also mixed against the dollar, with most crosses trading within limited ranges this morning.

This week will see a slew of critical macro events and important earnings reports, starting with a Brexit vote in the UK parliament on Tuesday. Depending on the outcome, this could pave the way for fresh national elections in the UK. The next round of US-China trade talks is scheduled on Wednesday-Thursday in Washington D.C. Reportedly, Chinese officials will arrive in the US early this week to prepare for the summit. The first FOMC meeting of the year on Wednesday may have a decision on the size and timing of the reduction of the Fed’s balance sheet. On the data front, US Q4 GDP/PCE and non-farm payrolls are expected to be released on Wednesday and Friday, respectively. In China, PMI will be released on Thursday. On the earnings front, important reports include Apple (Tue night), Alibaba (Wed morning), Facebook (Wed night), Amazon (Thu night), Deutsche Bank, and Exxon Mobil (Fri morning).

Key Global Financial Indicators

Last updated: 1/28/19 8:19 AM	Level Last 12m	Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2665	0.8	1	7	-7	6
Eurostoxx 50		3143	-0.6	1	5	-14	5
Nikkei 225		20649	-0.6	0	3	-13	3
MSCI EM		42	-1.2	2	8	-19	8
Yields and Spreads					bps		
US 10y Yield		2.76	4.3	-3	4	10	7
Germany 10y Yield		0.22	2.9	-3	-2	-41	-2
EMBIG Sovereign Spread		358	0	-17	-52	94	-56
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.6	0.0	1	2	-11	2
Dollar index, (+) = $ appreciation		95.8	0.0	-1	-1	8	0
Brent Crude Oil ($/barrel)		60.7	-1.6	-3	16	-14	13
VIX Index (%, change in pp)		18.7	1.3	1	-10	8	-7

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

United States

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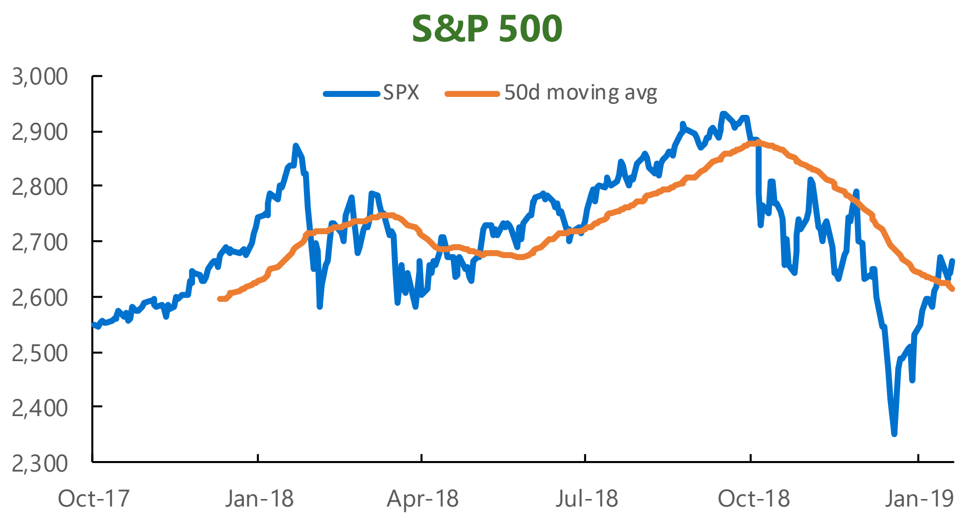
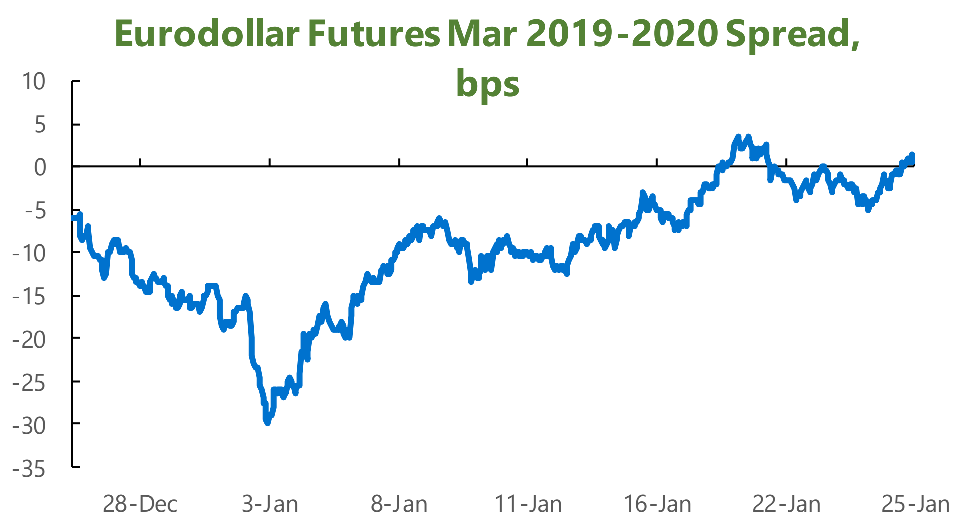
President Trump announced a deal to end the 35-day partial government shutdown without securing any of the border wall money he had demanded. The longest shutdown in modern history began to impact air travel. LaGuardia airport in New York was briefly closed due to a shortage of air traffic controllers. The deal would open the affected agencies for three weeks through February. Market reaction to the headline news was limited as the price levels were already buoyed on the expectation before the deal.

Equity indices closed higher on Friday, recouping the losses during the week. Market sentiment was somewhat positive on growing optimism on US-China trade talks as well as confidence in the economy bolstered by solid corporate earnings. A WSJ article on an early end to Fed's balance sheet reduction also played a role. VIX declined further by 1.5 percentage points on the day to 17.4. So far, for Q4 2018, 21% of the companies in the S&P 500 have reported results, and 71% of them have reported a positive EPS surprise, and 59% have a positive revenue surprise. The forward 12-month P/E ratio for the S&P 500 is 15.4, lower than the 5-year average of 16.4. **But S&P 500 futures opened -0.5% lower on Monday.** Dissapointing earnings data from Caterpillar also contributed to the losses. The 4Q adjusted EPS was $2.55, lower than analysts' estimate $2.99. Revenue was also slightly weaker $14.3 bn (vs. est. $14.36 bn). Caterpillar said Asia-Pacific sales fell due to lower demand in China. Analysts commented that the report from Caterpillar, considered an economic bellwether, suggests a slowdown in Chinese demand in the face of a persistent trade war. Caterpillar shares fell by 6% in pre-market session.



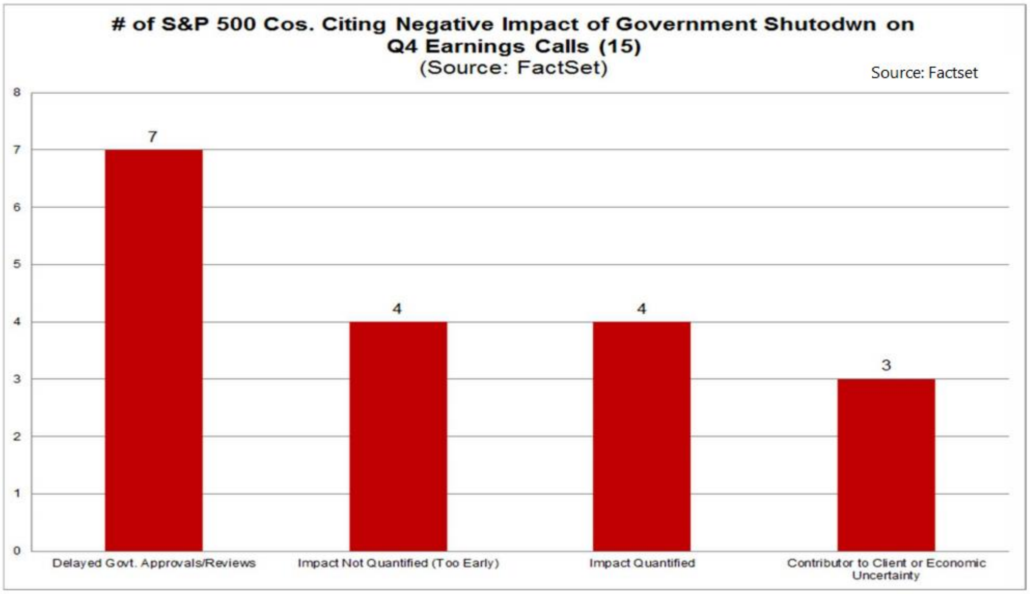
Source: Bloomberg

The Treasury 10-year yield rose 4 bps on Friday to close at 2.76%, down 3 bps for the week. The eurodollar futures Mar 2019-Mar 2020 spread steepened back to above zero, implying no rate cut or hike is expected for the next 12 months. The US dollar reversed its course to weaken against most of the currencies on Friday amid a broad rise in global equities. On the data front, durable goods orders, as well as new home sales data, were postponed by the government shutdown.



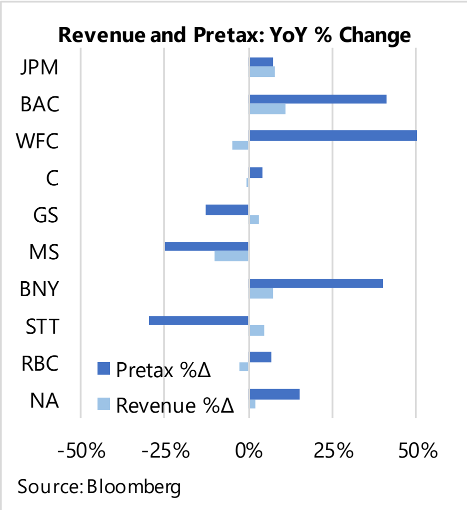
Source: Bloomberg

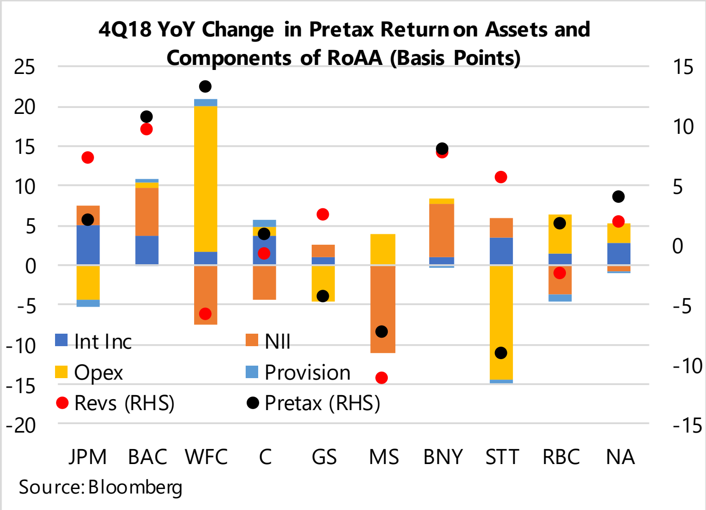
14% of US companies saw some negative impact due to the government shutdown on their earnings call**.** According to analysts at Factset, approximately 21% of the companies in the S&P 500 had reported earnings results for the fourth quarter, and 33% of them cited the term "shutdown" during their earnings call. 14% of them saw some direct or indirect impact due to the government shutdown. Some companies discussed a (potential) delay in getting necessary government approvals or reviews, and others stated that the government shutdown was a contributor to client or overall economic uncertainty. At the sector level, the Financials and Industrials sectors accounted for nearly two-thirds of companies who discussed "shutdown."



Global Systemically Important Banks

US GSIBs delivered in-line 4Q18 earnings, with below-consensus provisions but weak revenues. The nine North American GSIBs' in 4Q18 in aggregate delivered yoy revenue and pretax income growth of 2% and 12%, respectively. Revenue growth fell 2% short of consensus market expectations despite satisfactory loan growth, mainly because capital market volumes and revenues were weak; but normalized earnings came in 1% above market expectation due to slightly below-forecast loan loss provisions. Operating results varied sharply across banks and across key earnings drivers. Analyst comments suggest these results will likely relieve market concerns about macro risks, particularly bank credit costs, but it is clear that competitive pressures are intensifying. The S&P500 Banks index rose +0.4% last week, modestly under-performing the broader market.





Note: JPM=JPMorgan; BAC=BankAmerica; WFC=Wells Fargo; C=Citi; GS=Goldman Sachs; MS=Morgan Stanley; BNY=Bank of New York Mellon; STT=State Street' RBC=Royal Bank of Canada; NA=North American average.

Europe

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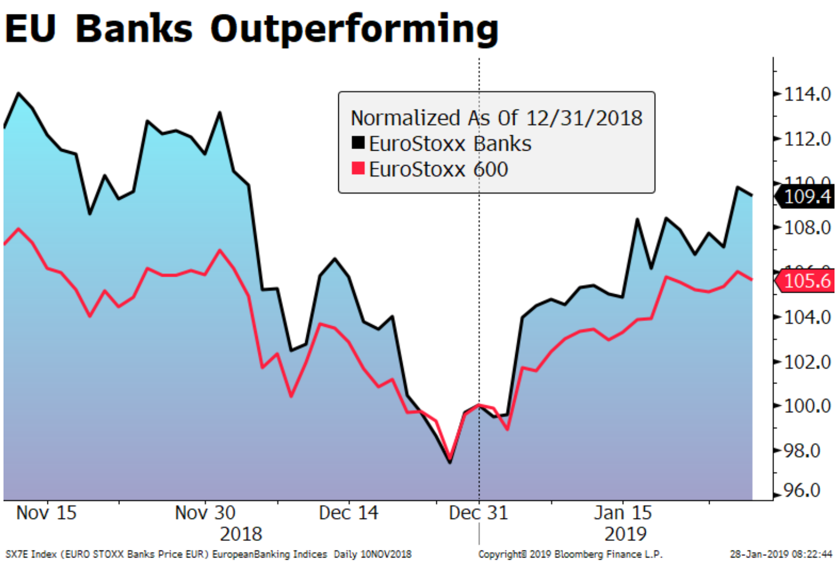
Europe

Yields are little changed this morning and equity markets are broadly but modestly lower. The EuroStoxx 600 is down 0.4% after registering its fourth conserve weekly increase (+0.2%) last week.

The eurozone's 107 top banks disposed of some €30 bn NPLs in Q3 2018, according to central bank data compiled by Reuters. This comes amid pressure by the ECB's for financial institutions to repair their balance sheets by selling or provisioning for bad debts accumulated during the crisis. The decline in Q3 brought the total level of NPL to €628 bn, or 4.17% of total (down from 4.40% in the previous quarter). The decline was led by Cyprus, Italy, Greece, Portugal, Spain, and Germany. The EuroStoxx banking sub-index is outperforming so far this year, up 9.5%, compared to a 5.5% performance for the broader EuroStoxx 600. **On the day, the banking index is down 0.5%**, with the notable outperformance of **Deutsche Bank (+1.8%)** on discussions with Qatar about additional investments.



In Brexit news, the headlines over the weekend suggest the outlook remains murky ahead of key UK Parliament votes tomorrow that can shape the next steps of the negotiation. One amendment, proposed by Yvette Cooper (Labour) and Nick Boles (Conservative), could lead to a request to extend Article 50 until the end of the year if May can't reach a deal by February 26. A separate amendment, proposed by Grahm Brady (Conservative), backs May's deal but calls for the backstop to be replaced with "alternative arrangements to avoid a hard border." The EU is reportedly pressuring PM May to support a permanent customs union since the EU Parliament will not ratify any agreement that doesn't contain a provision to avoid a hard border in Ireland. Sterling is a touch weaker against the dollar today but this comes after a 2.5% appreciation last week.

Other Mature Markets

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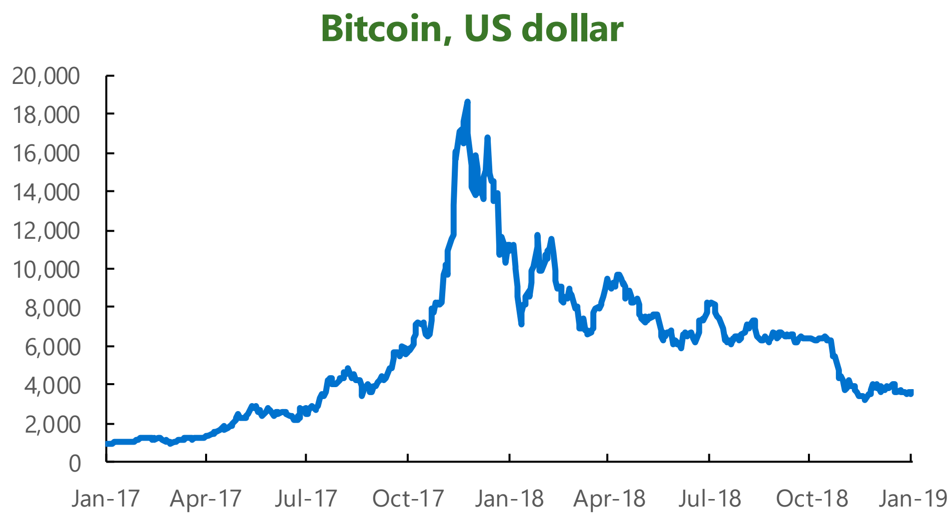
Japan

The yen gained (+0.2%) while equities softened ahead of an eventful week. The Topix lost 0.7% while the Nikkei shed 0.6%. A new round of US-China trade negotiation starting on Wednesday, an FOMC meeting and corporate earnings reports totaling more than 800, including Nintendo and Sony this week, are keeping investors sidelined. Shares of Nissan slid (-0.8%) following reports of SEC investigation into the company's executive pay disclosure in the U.S.

Cryptocurrency

Bitcoin is now worth less than the cost of mining. Bitcoin is currently trading below $3,600, which is lower than the production-weighted cash cost to create one Bitcoin averaged around $4,060 globally, according to JPMorgan analysts. The drop in Bitcoin prices has increasingly pushed margins for everybody except low-cost Chinese miners, the analysts said. Electricity tends to be the most significant cost for miners, and the estimated cost of Chinese miners is around $2,400 per Bitcoin.



Source: Bloomberg

Emerging Markets

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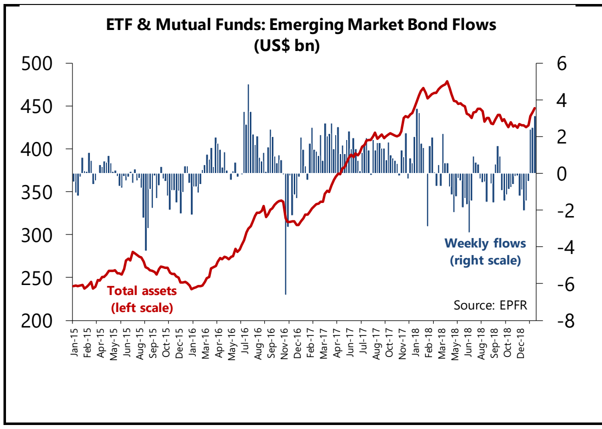
Key Emerging Market Financial Indicators

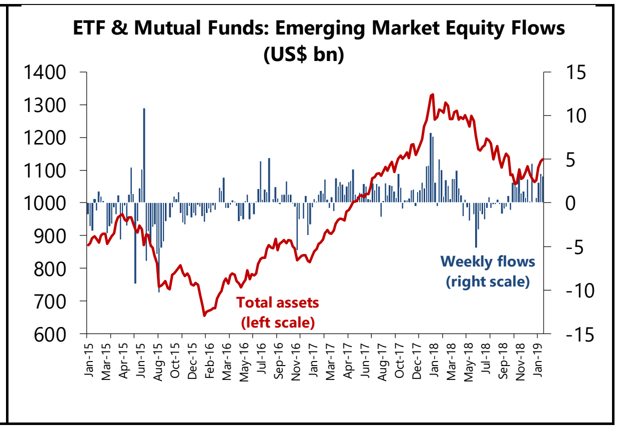
Last updated: 1/28/19 8:24 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.20	-1.2	2	8	-19	8
MSCI Frontier Equities		28.16	0.7	1	7	-22	8
EMBIG Sovereign Spread (in bps)		358	0	-17	-52	94	-56
EM FX vs. USD		63.61	-0.1	1	2	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.74	0.1	1	2	-6	2
Indonesian Rupiah		14072	0.1	1	4	-5	2
Indian Rupee		71.11	0.1	0	-2	-11	-2
Argentine Peso		36.95	0.3	2	2	-47	2
Brazil Real		3.76	0.3	0	3	-16	3
Mexican Peso		19.01	-0.1	1	3	-2	3
Russian Ruble		66.04	0.0	1	5	-15	5
South African Rand		13.65	-0.2	1	6	-13	5
Turkish Lira		5.30	-0.5	0	-1	-28	0
EM FX volatility		9.09	1.3	-0.1	-0.6	0.9	-0.7

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

Flows

EM bond and equity fund inflows persist as bond funds continue to recover from 2018Q4 slump for the third week. For bonds, EM hard currency inflows still lead the way, and EM ETF inflows reached all-time highs. According to EPFR data, EM bond fund flows were at +$3.14 bn (up from +$2.5 bn) while EM equity fund flows were +$3.10 bn (down from +$3.34 bn). Cumulative inflows to EM bonds totaled at +$7.6 bn and to EM equities totaled at +$9.4 bn.





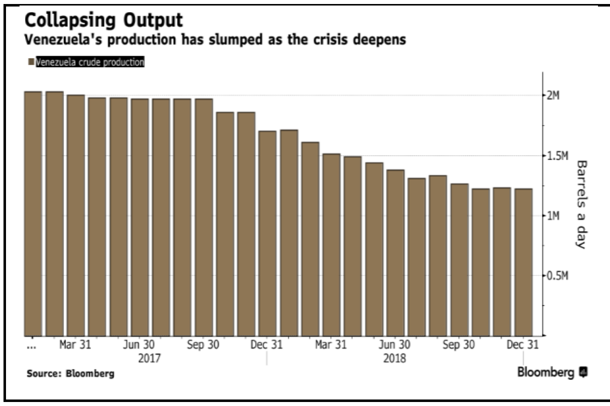
China

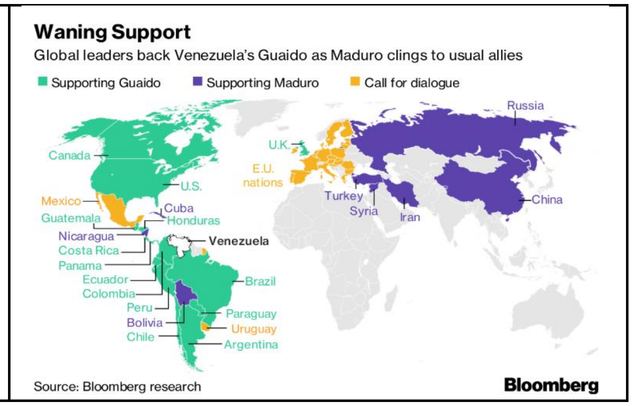
The RMB strenghtened ahead of Vice Premier Liu He's meeting with U.S. Trade Representative Lighthizer in Washington this coming Wednesday. The onshore CNY appreciated by 0.16% while the offshore CNH held steady at 6.75/USD. **In another sign that corporate profits are under pressure, industrial profit growth in December slid** from -1.8% yoy to -1.9% yoy. On an annual basis, profit growth slowed from 21% in 2017 to 10.3% in 2018 as moderating PPI inflation, which decelerated from +4.9% yoy in December 2017 to +0.9% yoy last December weighed on earnings. Reflecting, in part, softened growth outlook as well as policy easing measures from the PBC, the **yield on the 10-year central government bond (CGB) has dipped to its lowest level in two years** after falling 81 bps last year; it is currently trading at 3.14% and has been hovering near the 3% level since the beginning of the year.

Venezuela and Oil prices

Oil closed higher for the third day in a row on Friday as a deal to reopen the U.S. government eased investor fears while political turmoil in Venezuela provided an additional boost. WTI crude for March delivery climbed 56 cents to $53.69 a barrel at the close of trading. Brent for March settlement advanced 55 cents to $61.64 and traded at a $7.95 premium to WTI. **Despite those gains, both grades finished**

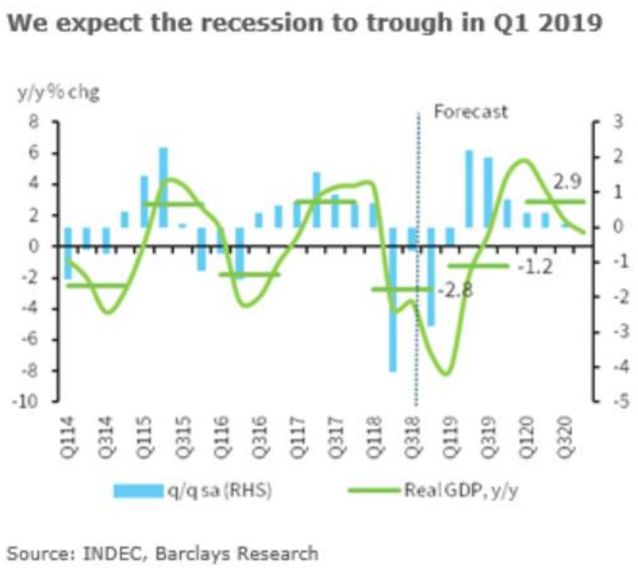
lower for the week, enduring their first weekly loss in 2019 and are trading about 1.5% lower this morning after the US oil rig count rose for the first time this year. Troubles in Venezuela, owner of the world's biggest oil reserves, provided a boost as the week wound to a close. The Latin American nation could see crude production drop by a third this year, reports Fitch Solutions. In other news, **The Bank of England denied Maduro officials' withdrawal request of $1.2 bn worth of gold**, which is a material share of the $8 bn in foreign reserves held by the Venezuelan central bank. This was seen an attempt to steer Venezuela's overseas assets to Venezuela's head of national assembly Guaido to help bolster his chances of effectively taking control of the government.





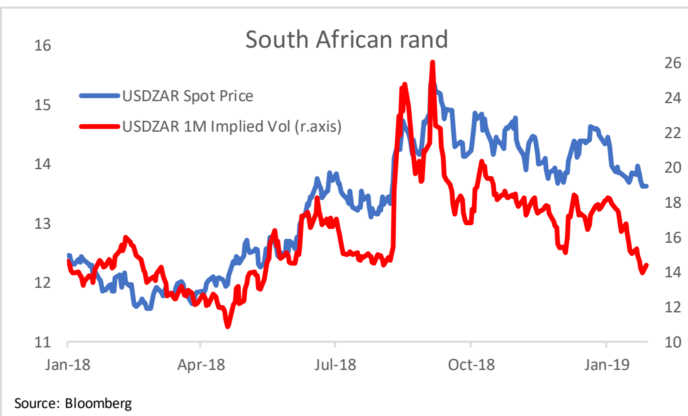
Argentina

Real GDP, as measured by the EMAE monthly GDP proxy, recorded a deeper than expected -7.5% y/y contraction in November, down from -4.2% y/y in October. Seasonally adjusted, real GDP declined by 2.3% m/m sa, more than fully offsetting the 0.6% m/m sa increase recorded in October. Real GDP has shrunk a large 7.6% cumulative since the March cyclical peak and is down 2.2% y/y during Jan-Nov. Tighter financial conditions and depressed confidence indicators suggest activity remained very weak during 2018Q4. Analysts believe net exports are likely to support growth in 2019 on the back of significant real effective exchange depreciation, higher agricultural and energy exports, and overall retrenchment of imports. Analysts also think the risks of a sharp fall in the peso are limited by the tight monetary stance, the fact that the Treasury will use IMF US dollar financing to cover peso needs, the weaker real exchange rate, and a significant improvement in trade balance flows.



South Africa

The rand was flat this morning but remains among the best performing emerging market currencies this year. The currency has strengthened by 5% so far this month, which is its best start to the year since at least 1989 according to Bloomberg. The currency, which is quite sensitive to global risk appetite, has been helped by the dovish shift of the Federal Reserve and recent cautious optimism over a trade deal between the US and China. On the domestic front, disinflation and some progress in addressing inefficiencies and corruption have also helped, according to analysts. Implied volatility has subsequently declined sharply with the 1-month vintage reaching an eight-month low of 14.1% last week.



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Global Financial Indicators

Last updated: 1/28/19 8:23 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
United States		2665	0.8	1	7	-7	6
Europe		3143	-0.6	1	5	-14	5
Japan		20649	-0.6	0	3	-13	3
China		2597	-0.2	-1	4	-27	4
Asia Ex Japan		68	1.5	2	6	-19	7
Emerging Markets		42	-1.2	2	8	-19	8
Interest Rates				basis points			
US 10y Yield		2.76	4.3	-3	4	10	7
Germany 10y Yield		0.22	2.9	-3	-2	-41	-2
Japan 10y Yield		0.00	0.5	-1	0	-8	0
UK 10y Yield		1.32	1.0	-1	5	-13	4
Credit Spreads				basis points			
US Investment Grade		127	0.2	-6	-20	44	-20
US High Yield		436	0.2	6	-86	106	-85
Europe IG		75	0.9	0	-14	32	-12
Europe HY		325	4.6	7	-37	91	-27
EMBIG Sovereign Spread		358	0.0	-17	-52	94	-56
Exchange Rates				%			
Dollar Index (DXY)		95.81	0.0	-1	-1	8	0
USDEUR		1.14	0.1	0	0	-8	0
USDJPY		109.4	0.1	0	1	0	0
EM FX vs. USD		63.6	0.0	1	2	-11	2
Commodities				%			
Brent Crude Oil ($/barrel)		61	-1.6	-3	16	-14	13
Industrials Metals (index)		115	-0.8	1	4	-17	5
Agriculture (index)		43	-0.1	0	3	-10	3
Implied Volatility				%			
VIX Index (%, change in pp)		18.7	1.3	0.9	-9.7	7.6	-6.7
10y Treasury Volatility Index		3.9	0.1	0.1	-0.6	-0.5	-0.7
Global FX Volatility		7.9	0.1	-0.2	-1.1	-0.3	-1.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		385	-4.4	-6	-28	82	-31
Italy		247	1.6	-3	-3	109	-3
Portugal		145	-1.0	-5	-3	13	-3
Spain		103	-0.9	-8	-15	25	-15

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: 1/28/2019 8:25 AM	Exchange Rates: Level – Last 12m	Exchange Rates: Level – Latest	Change (in %) – 1 Day	Change (in %) – 7 Days	Change (in %) – 30 Days	Change (in %) – 12 M	YTD	Local Currency Bond Yields (GBI EM): Level – Last 12m	Level – Latest	Change (in basis points) – 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.74	0.1	0.8	2	-6	2		3.1	1.5	4	-16	-90	-10
Indonesia		14072	0.1	1.1	4	-5	2		8.3	-1.3	-1	11	181	11
India		71	0.1	0.2	-2	-11	-2		7.5	-2.3	-4	13	-2	10
Philippines		53	0.0	0.5	0	-3	0		5.8	-2.2	-7	-51	103	-51
Thailand		32	-0.1	0.8	3	0	2		2.6	0.8	-7	-2	34	-4
Malaysia		4.11	0.3	0.0	1	-6	1		4.0	0.9	2	-6	11	-5
Argentina		37	0.3	2.1	2	-47	2		21.3	-9.0	10	-179	559	-170
Brazil		3.76	0.3	0.0	3	-16	3		8.0	0.9	-9	-24	-81	-19
Chile		669	-0.3	0.5	4	-10	4		4.5	-1.2	-4	-3	-26	0
Colombia		3162	-0.3	-1.2	3	-10	3		6.6	-1.2	2	5	35	6
Mexico		19.01	-0.1	0.8	3	-2	3		8.4	-8.6	-28	-44	87	-29
Peru		3.3	0.1	-0.7	0	-4	1		5.7	-2.2	1	-5	91	-1
Uruguay		33	0.1	0.2	0	-13	0		10.3	-0.8	4	-54		-40
Hungary		278	0.1	0.5	1	-10	1		2.1	-1.2	-3	-9	81	-8
Poland		3.76	0.0	0.4	0	-11	-1		2.3	0.5	-3	0	-45	-1
Romania		4.2	0.0	-0.7	-2	-10	-3		4.6	13.0	21	39	70	38
Russia		66.0	0.0	0.5	5	-15	5		8.1	2.7	2	-38	94	-33
South Africa		13.7	-0.2	1.3	6	-13	5		9.4	-5.0	-16	-26	32	-16
Turkey		5.30	-0.5	0.4	-1	-28	0		16.0	-10.9	-60	-145	410	-88
US (DXY; 5y UST)		96	0.0	-0.5	-1	8	0		2.60	-0.2	-3	4	13	9

	Equity Markets: Level – Last 12m	Level – Latest	Change (in %) – 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level – Last 12m	Level – Latest	Change (in basis points) – 1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2597	-0.2	-1	4	-27	4		178	1	-5	-18	30	-16
Indonesia		6459	-0.4	0	4	-3	4		192	-1	-11	-40	42	-44
India		35657	-1.0	-3	-1	-1	-1		177	-6	-8	-17	70	-19
Philippines		8054	0.0	1	8	-11	8		93	0	-4	-24	13	-28
Malaysia		1698	0	0	0	-8	0		136	1	-10	-26	35	-26
Argentina		34811	-0.4	-1	15	-1	15		667	2	-6	-144	296	-148
Brazil		96053	0.0	0	12	15	9		235	0	-8	-36	21	-38
Chile		5435	0.5	0	6	-7	6		140	1	-4	-23	33	-26
Colombia		1425	0.6	2	8	-11	8		197	2	3	-28	43	-31
Mexico		43639	0.2	-1	5	-15	5		310	-1	-2	-41	80	-44
Peru		19856	1	1	3	-7	3		144	0	-4	-22	24	-24
Hungary		41204	0.6	1	5	1	5		129	-1	-5	-14	45	-19
Poland		60071	-1.0	0	4	-10	4		58	-1	-4	-25	19	-27
Romania		7001	-0.7	-3	-6	-17	-5		216	-3	3	0	105	-5
Russia		2482	-0.6	1	5	8	5		211	0	-6	-38	51	-41
South Africa		54039	0.0	0	3	-12	2		306	0	-19	-56	86	-59
Turkey		102359	0.6	4	13	-15	12		394	0	-31	-32	118	-35
Ukraine		552	0.2	-1	-1	65	-1		645	2	-40	-137	266	-142
EM total		42	-1.2	2	8	-19	8		358	0	-17	-52	94	-56

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