



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, January 29, 2019

- **US stocks decline on renewed concerns over the global economy ([link](#))**
- **US money market funding conditions remain favorable for issuers ([link](#))**
- **UK's PM May backs amendment to renegotiate Irish backstop; vote scheduled for tonight ([link](#))**
- **Brazil's Vale shares plunge 25% on deadly dam disaster, drive iron ore futures higher ([link](#))**
- **US Treasury announces sanctions on Venezuela's PDVSA ([link](#))**
- **Ghana's cedi weakens to record lows after the central bank unexpectedly cut interest rates ([link](#))**

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Markets cautious on US-China trade headlines and poor corporate earnings

Global equities were mixed as hopes for progress in the US-China trade talk and poor corporate earnings buffeted investor sentiment. News of criminal charges against Huawei's CFO is clouding the outlook for the upcoming US-China trade negotiation. Meanwhile, poor earnings from Caterpillar and Nvidia on the back of a slowdown in Chinese demand weighed on investor sentiment. European bourses traded higher this morning but S&P 500 futures opened moderately lower. Currency markets traded in relatively narrow ranges with the euro, the yen and sterling barely changed against the dollar. In emerging markets, Brazilian stocks underperformed as Vale SA suspended dividends and its shares fell 25% on news of its deadly dam disaster. In fixed income, Venezuela's sovereign and PDVSA's bonds continued to rally on news of US Treasury's sanctions on PDVSA and the possibility of Maduro's government falling raising hopes amongst investors.

Key Global Financial Indicators

Last updated: 1/29/19 8:21 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2644	-0.8	-1	6	-7	5
Eurostoxx 50		3156	0.6	1	6	-13	5
Nikkei 225		20665	0.1	0	3	-13	3
MSCI EM		42	0.7	1	6	-19	7
Yields and Spreads			bps				
US 10y Yield		2.74	-1.5	0	2	5	6
Germany 10y Yield		0.20	-0.2	-3	-4	-49	-4
EMBIG Sovereign Spread		365	6	-7	-45	101	-49
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.6	0.2	1	2	-11	2
Dollar index, (+) = \$ appreciation		95.8	0.0	-1	-1	7	0
Brent Crude Oil (\$/barrel)		60.4	0.9	-2	16	-13	12
VIX Index (% change in pp)		18.8	-0.1	-2	-10	5	-7

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

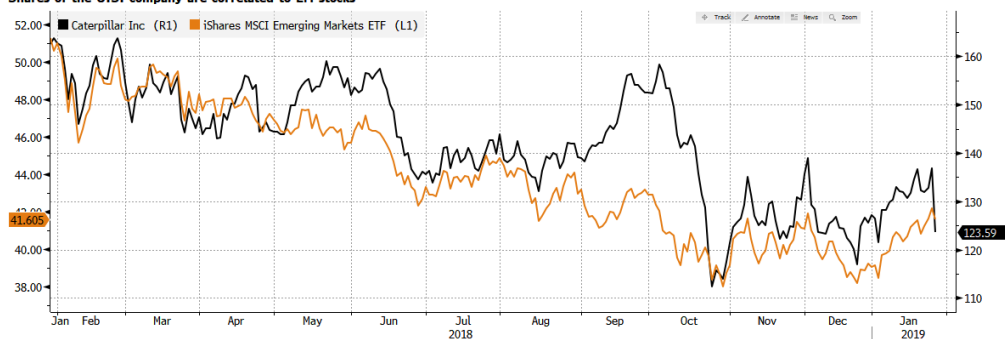
United States

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Equities gapped down on renewed concerns over the global economy. Earnings reports both from Caterpillar and Nvidia cited weak demand in China, fueling concerns over global demand. Equity indices were broadly weaker, with IT sector underperforming the most. Caterpillar shares dropped by -9% and Nvidia by -14% on the day. The VIX went up to above 20 during the day and closed at 18.9 percentage points. Analysts commented on the tight correlation between Caterpillar and EM stocks, questioning whether significant losses on Caterpillar shares could be a bellwether of trouble ahead for EM equities. After the market close, **Huawei and some of its affiliates were charged in the US** with violating sanctions, money laundering, theft of trade secrets and fraud. S&P 500 futures opened modestly lower this morning.

Driven by a Caterpillar

Shares of the U.S. company are correlated to EM stocks



The Treasury 10-year yield declined marginally to 2.74% with the yield curve mostly unchanged. 2-year and 5-year Treasury auctions saw a robust demand from investors. End users' shares were 72.5% and 75.4%, the highest since last January and last July, respectively. Short-dated risk reversals on 10-year rates have continued to move further into the inverted territory, as receivers (call option) have richened to payers (put option), implying a bullish (lower yield) signal for rates, according to analysts with Citi group.

3m 10y 50bp-out Risk Reversals, bps/day

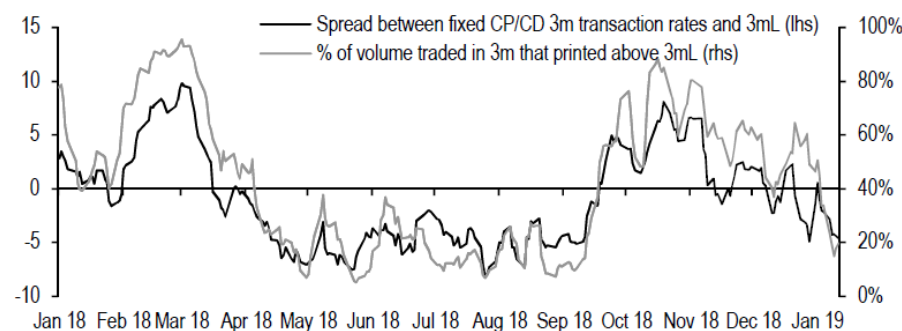


Money market funding conditions have been very favorable for issuers, with little risk of another rate hike within the next few months. Based on DTCC data, about 80% of 3-month unsecured bank CP/CD transactions currently pricing below 3-month Libor, according to JPMorgan Chase. Downward pressures

on funding rates are expected to continue in the near-term, given a favorable supply-demand balance: a relatively light CP/CD maturity schedule in February and elevated MMF balances. The levels of cross currency basis, the additional dollar funding costs for non-US banks, are also small and stable for now.

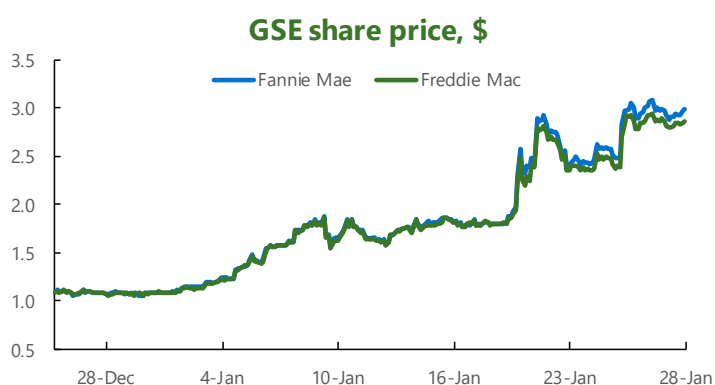
Exhibit 1: Funding conditions remain very favorable for issuers

Spread between fixed CP/CD 3m transaction rates and 3mL (bp, lhs) vs. % of volume traded in 3m that printed above 3mL (% , rhs)



Source: DTCC, J.P. Morgan

GSE share prices have more than doubled on a year-to-date basis. The stock prices of Fannie Mae and Freddie Mac started to rise on an expectation for GSE reforms even before the acting director of the Federal Housing Finance Agency Otting hinted on January 18 that the regulator would announce a plan within weeks to take the government-sponsored enterprises out of conservatorship. A spokesperson for the agency confirmed there was a discussion about ending Fannie and Freddie conservatorship but denied there was any talk of timing or details. The plan, however, would likely allow Fannie and Freddie to retain earnings and build up capital. Under the current agreement with Treasury, the GSE remit all earnings to Treasury and have retained only \$3 bn each in the capital. The news was positive for preferred shares since the GSEs could potentially pay dividends to shareholders in the future. Meanwhile, responses in agency mortgage-backed security markets have been so far limited as the future of the GSEs as well as the possibility of a government guarantee remain unclear, according to analysts.



Source: Bloomberg

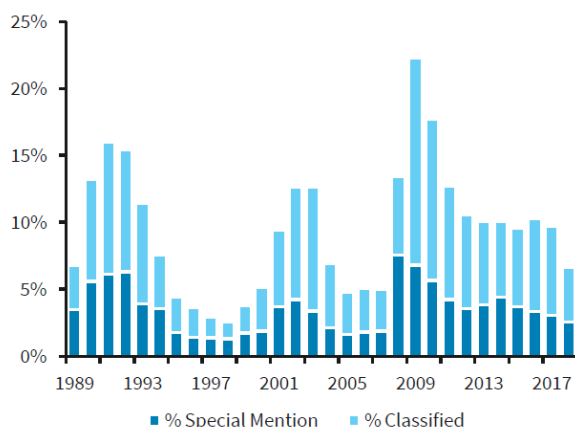
US Banking System

Shared National Credit (SNC) Review shows criticized assets have declined and shifted to non-banks.

The 3Q18 SNC exam results, which measure the quality of large syndicated credits, underscore continued improvement on bank balance sheets and suggest that high-risk credits continue to migrate to the non-bank credit providers. Criticized assets (rated special mention, substandard, doubtful, or loss) fell 29% yoy,

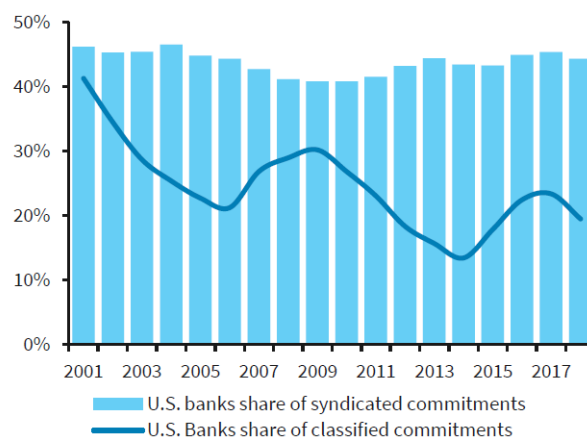
or \$295 billion, from 2017 to 2018; and these assets stood at 6.6% of the total SNC portfolio, down from 9.7% in 2017 and at a post-Global Financial Crisis low. Leveraged lending remains the most significant risk, with a high proportion of transactions reliant on revenue growth or cost savings to support borrower repayment capacity. Banks' share of total classified commitments declined for the first time in three years, to about 22%, compared with their roughly 60% of total SNC commitments. These results are consistent with favorable asset quality and credit cost results listed banks reported in recent quarters, including the most recent results. US bank CDS prices declined in January, after rising over the second half of 2018, and are modestly below the average of the past five years.

Special Mention/Classified as % of Total Commitments



Source: Barclays Research, Federal Reserve, FDIC, and OCC

U.S. Banks Share of SNC Commitments, 2001-2018



Source: Barclays Research, Federal Reserve, FDIC, and OCC

Europe

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Europe

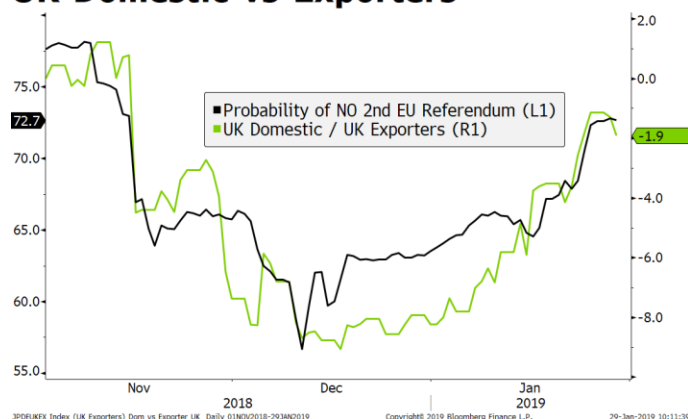
Price action in Europe has been limited. The German 10-year bund yield is unchanged at 0.21% and yields in Southern Europe are a touch higher. Major equity indices are slightly higher, with France's CAC (+1.0%) the notable mover. The UK FTSE 100 is up +1.3% ahead of tonight's key votes in the UK Parliament, but the outperformance seems to be more related to idiosyncratic company stories (such as miners).

United Kingdom

PM May backed the amendment proposed by Brady, which envisions a renegotiation of the Irish backstop. The other major amendment under discussion would delay Brexit and try to take a no-deal off the table. This latter one would be the preferred one from the point of investors, expected to lead to a significant appreciation of sterling if it passes. Most analysts find it very difficult to predict the outcome of the vote, scheduled for 19:00 local time.

Of note, the decline in perceived odds of a hard Brexit and of a second EU referendum has helped domestic stocks outperform over the last few weeks. The odds of the UK not holding a second vote have increased steadily to over 70% from about 55% in December, reducing uncertainty and increasing the need for conclusive negotiations. At the same time, the ratio between prices of domestic-oriented vs. exporting-oriented stocks in the FTSE 100 has risen back to levels not seen since mid-November. This suggests that a soft-Brexit—with a lesser blow to the domestic economy—has been increasingly priced in as the base case scenario, at least for equity investors.

UK Domestic vs Exporters



Other Mature Markets

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Japan

The yen gained a touch (+0.1%) while equities were little changed. Poor corporate earnings and renewed trade tension following the US' formal indictment of Huawei CFO weighed on sentiment and kept investors sidelined. Disappointing earnings from industry bellwethers Caterpillar and Nvidia, citing lower demand from China, fueled concerns for corporate earnings. Shares of machinery makers such as Komatsu and Hitachi Construction Machinery fell while chip-related stocks also declined. **JGB yield were little changed following the auction of the 40-year long bond.** The auction drew a bid-to-cover ratio of 3.53x, in line with recent averages, despite an already-low level. Notably, the yield on the 40-year note fell from 1.11% in early October to a low of 0.73% ahead of the auction.

Emerging Markets

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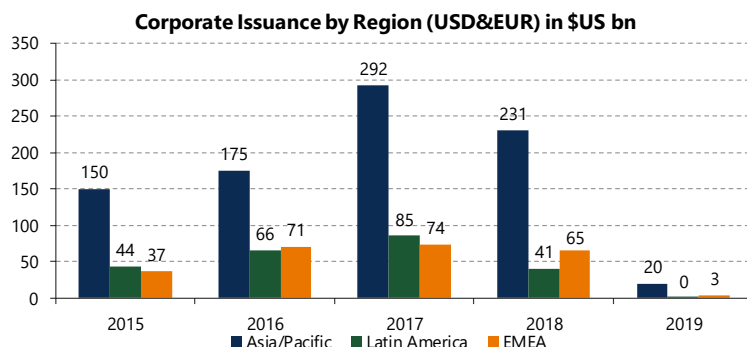
Key Emerging Market Financial Indicators

Last updated: 1/29/19 8:23 AM	Level	Change	
	Last 12m	index	1 Day 7 Days 30 Days 12 M YTD
Major EM Benchmarks			%
MSCI EM Equities		41.76	0.7 1 6 -19 7
MSCI Frontier Equities		28.12	-0.1 1 7 -21 8
EMBIG Sovereign Spread (in bps)		365	6 -7 -45 101 -49
EM FX vs. USD		63.67	0.2 1 2 -11 2
Major EM FX vs. USD			%, (+) = EM currency appreciation
China Renminbi		6.73	0.2 1 2 -6 2
Indonesian Rupiah		14094	-0.2 1 2 -5 2
Indian Rupee		71.11	0.0 0 -2 -11 -2
Argentine Peso		37.17	-0.1 1 1 -47 1
Brazil Real		3.74	0.8 2 4 -16 4
Mexican Peso		18.99	0.3 1 4 -2 4
Russian Ruble		66.23	0.0 0 5 -15 5
South African Rand		13.61	0.4 3 5 -12 5
Turkish Lira		5.31	0.4 1 0 -29 0
EM FX volatility		9.06	0.0 0.0 -0.7 0.8 -0.7

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

Emerging Markets Bond Issuance

EM total corporate bond issuance for last week was strong at \$7.8 bn, slightly lower than the week before, while sovereign issuance edged up to \$3.4 bn. \$3.1 bn of the total corporate issuance for last week were investment grade bonds. **But the YTD corporate bond issuance of \$45.2 bn is approximately 46% less than the 2018 issuance over the same period.** China remained the largest EM corporate debt issuer, accounting for \$3.4 bn of the total. Last week's sovereign issuance was placed by Colombia (\$2 bn) and Turkey (\$1.4 bn).



Brazil

World's biggest producer of iron ore Vale SA announced its suspension of dividends following a deadly dam disaster; stocks fell 25% to 42.38 real on Monday driving the Bovespa (-2.3%) lower. The yield on Vale's \$2 bn in bonds due in 2026 rose sharply to 5.59%, the highest level since 2016. **Iron ore futures in China surged to the highest level in more than a year** on concerns that global supplies will be interrupted. S&P Global Ratings put Vale's bonds on creditwatch, warning that it may be forced to shut some operations.



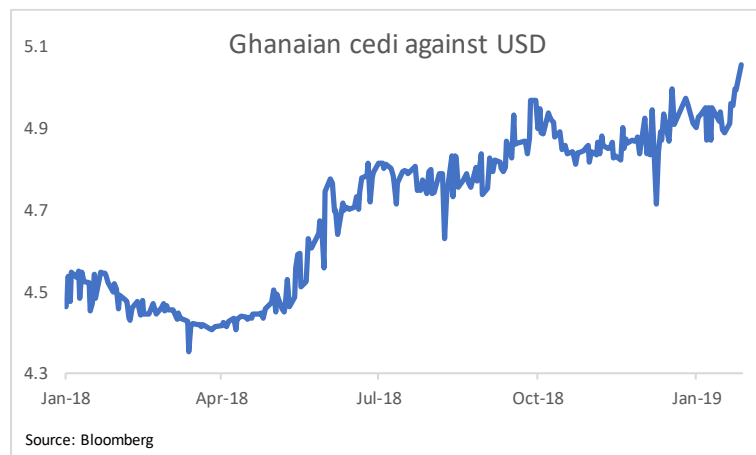
Venezuela

The US Treasury has announced sanctions on Venezuelan state-owned oil company PDVSA as diplomatic tensions between Washington and President Maduro regime intensify. All of PDVSA's US assets will be frozen, while US citizens will be blocked from transacting with the company. *WSJ* reports that the action will block \$7 bn in assets, cost \$11 bn in lost exports proceeds over the next year and halt payments to President Maduro. The Treasury said the sanctions would be lifted through "expeditious transfer of control" of the company to national assembly's president Guaidó or a "subsequent, democratically elected government". **PDVSA's Bond prices continued to rally**, with its 2027 bond increasing 2.2 cents to 26.5 cents on the dollar, as the possibility of Maduro's government falling raised hopes amongst investors. Venezuela's sovereign bond prices also rose, with the sovereign's 2027 bond increasing 1 cent to 33.5 cents on the dollar.

Ghana

The cedi weakened to a record low yesterday after the central bank unexpectedly cut interest rates.

The benchmark rate was lowered by 100 bps to 16% as the bank said that inflation would remain moderate in coming months. Inflation has remained within the central bank's 6% to 10% target range for nine consecutive months, despite a 13% depreciation of the currency from March last year through December. All eight analysts surveyed by Bloomberg had expected the rate to remain unchanged at 17%. At yesterday's meeting, governor Addison added that the bank's target may be lowered in order to maintain the economy's competitiveness.



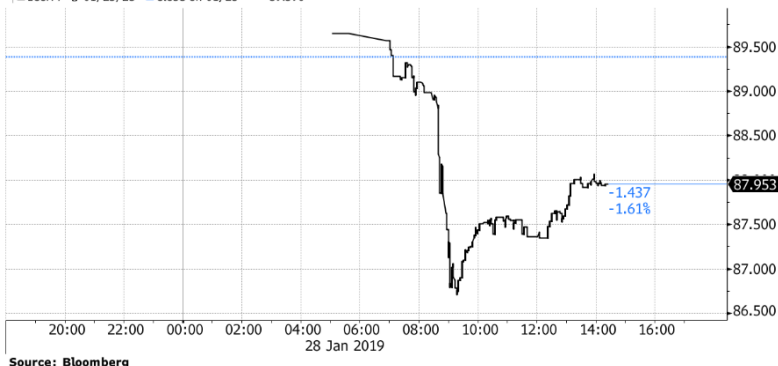
Ecuador

Ecuador's sovereign bond yields rose as investors seek clarification on a potential IMF deal after the government's sale of \$1 bn of new bonds surprised investors. The new debt due in 2029 yielded 10.75%, according to Bloomberg. Finance Ministry officials had previously ruled out placements at double-digit rates. Yields on Ecuador's existing sovereign notes due in 2028 rose 28 bps on Monday to 10.03% whilst prices slumped. Market contacts commented that Ecuador was not expected to come to market until officials completed negotiations with the IMF. Yields on the nation's bonds fell last week after the IMF's Managing Director backed president Moreno's pledge for economic reforms.

Bond Sale Surprise

Ecuador debt slumps after high-yield offering

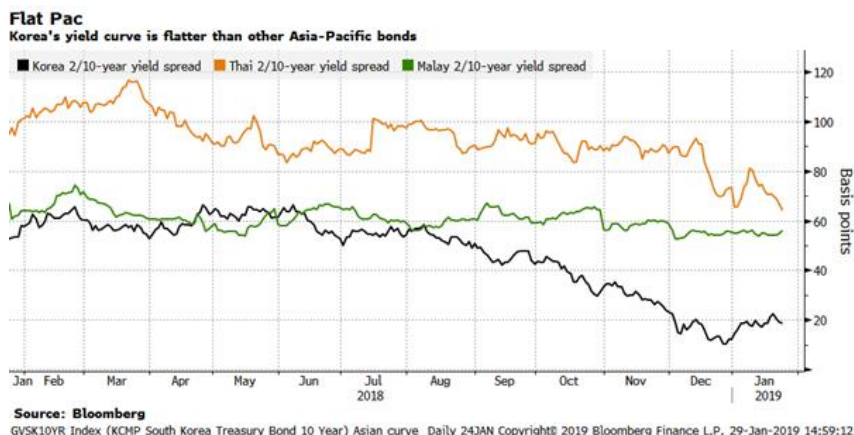
■ ECUA 7 % 01/23/28 ■ Close on 01/25 ---- 89.390



South Korea

Slower pace of Fed rate hikes is reducing foreign inflows into Korean bonds. According to Bloomberg, foreign investors pulled \$1.5 bn from Korean bonds since the beginning of the year, the most in Asia.

Swapping dollars into South Korean won for Korean assets has become less attractive. By Bloomberg's estimate, the one-year Korean note is offering an average extra yield of 44 bps over comparable Treasuries through USD-KRW swaps, compared to 103 bps received last April. This reduced return, combined with the low term premium in Korean bonds – the Korean sovereign curve is flatter than other low-yielding curves in Asia – have reduced investor inflow from a record high of \$46 bn last year to a net outflow seen in January. **Despite such outflows, the Korean appreciated marginally for the third consecutive day (+0.1%) to its strongest level to the dollar in nearly 3 weeks (1,116/USD).**



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Global Financial Indicators


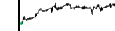




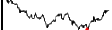
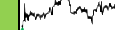







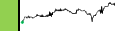





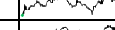


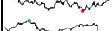
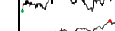











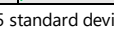
Last updated: 1/29/19 8:22 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2644	-0.8	-1	6	-7	5
Europe		3156	0.6	1	6	-13	5
Japan		20665	0.1	0	3	-13	3
China		2594	-0.1	1	4	-26	4
Asia Ex Japan		67	-1.0	0	5	-18	6
Emerging Markets		42	0.7	1	6	-19	7
Interest Rates			basis points				
US 10y Yield		2.74	-1.5	0	2	5	6
Germany 10y Yield		0.20	-0.2	-3	-4	-49	-4
Japan 10y Yield		0.01	0.7	1	1	-8	1
UK 10y Yield		1.28	1.0	-5	1	-18	0
Credit Spreads			basis points				
US Investment Grade		125	-1.3	-7	-22	43	-22
US High Yield		441	-0.4	-1	-81	110	-80
Europe IG		76	-1.0	-3	-12	32	-12
Europe HY		327	-1.1	-4	-26	93	-26
EMBIG Sovereign Spread		365	6.0	-7	-45	101	-49
Exchange Rates			%				
Dollar Index (DXY)		95.78	0.0	-1	-1	7	0
USDEUR		1.14	-0.1	1	0	-8	0
USDJPY		109.5	-0.1	0	0	0	0
EM FX vs. USD		63.6	0.2	1	2	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		60	0.9	-2	16	-13	12
Industrials Metals (index)		115	0.8	2	4	-17	5
Agriculture (index)		43	-0.2	0	2	-11	3
Implied Volatility			%				
VIX Index (% change in pp)		18.8	-0.1	-2.0	-9.6	4.9	-6.7
10y Treasury Volatility Index		3.9	0.0	-0.4	-0.7	-0.5	-0.7
Global FX Volatility		7.9	0.0	-0.1	-1.1	-0.3	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		381	-4.8	-9	-32	84	-35
Italy		244	-1.6	-6	-6	111	-6
Portugal		145	0.8	-4	-3	20	-3
Spain		103	1.0	-7	-15	30	-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: 1/29/2019 8:23 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		6.73	0.2	1.1	2	-6	2		3.1	-0.1	2	-11	-90	-10
Indonesia		14094	-0.2	0.9	2	-5	2		8.3	1.6	0	13	179	13
India		71	0.0	0.5	-2	-11	-2		7.5	-0.1	-4	12	-3	10
Philippines		52	0.1	0.8	0	-2	0		5.8	-1.4	-9	-52	102	-52
Thailand		32	0.1	0.9	3	0	3		2.6	0.4	-5	-3	35	-3
Malaysia		4.11	0.0	0.5	1	-6	1		4.0	-0.3	1	-6	11	-5
Argentina		37	-0.1	0.9	1	-47	1		21.3	1.9	12	-168	561	-168
Brazil		3.74	0.8	1.8	4	-16	4		8.0	0.0	-6	-19	-71	-19
Chile		669	0.5	0.5	4	-10	4		4.5	-0.9	-5	-1	-28	-1
Colombia		3150	0.3	-0.1	3	-10	3		6.6	-0.7	2	5	34	5
Mexico		18.99	0.3	1.0	4	-2	4		8.5	2.5	-28	-30	89	-27
Peru		3.4	-0.4	-0.9	0	-4	0		5.7	1.2	2	2	90	0
Uruguay		33	0.0	0.1	-1	-13	-1		10.3	2.5	7	-38		-38
Hungary		278	0.0	0.9	1	-10	1		2.1	-1.1	-8	-8	79	-9
Poland		3.76	-0.2	0.3	-1	-11	-1		2.3	-0.7	-4	-1	-50	-2
Romania		4.2	0.3	0.7	-3	-10	-3		4.6	-1.0	10	38	70	37
Russia		66.2	0.0	0.4	5	-15	5		8.1	0.7	3	-33	93	-33
South Africa		13.6	0.4	2.6	5	-12	5		9.5	6.8	-11	-7	39	-9
Turkey		5.31	0.4	0.6	0	-29	0		15.9	-10.0	-65	-115	396	-98
US (DXY; 5y UST)		96	0.0	-0.5	-1	7	0		2.57	-0.7	0	2	8	6

	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		2594	-0.1	1	4	-26	4		180	2	-3	-16	31	-14	
Indonesia		6436	-0.3	0	4	-4	4		199	4	-7	-33	50	-37	
India		35593	-0.2	-2	-1	-2	-1		179	2	-6	-14	77	-17	
Philippines		8051	0.0	1	8	-11	8		99	4	0	-18	19	-22	
Malaysia		1690	0	-1	0	-10	0		137	1	-9	-25	36	-25	
Argentina		34841	0.1	-1	15	0	15		691	4	4	-120	316	-124	
Brazil		96287	-2.3	0	10	14	10		237	1	-11	-34	24	-36	
Chile		5434	0.1	1	6	-8	6		142	2	-4	-21	37	-24	
Colombia		1430	0.3	2	8	-11	8		197	1	-1	-28	45	-31	
Mexico		43626	0.0	-1	5	-14	5		312	1	-6	-39	85	-42	
Peru		19847	0	1	3	-7	3		145	0	-6	-21	26	-23	
Hungary		41278	-0.1	1	5	2	5		130	4	-6	-13	52	-18	
Poland		60444	0.5	1	5	-9	5		60	4	-4	-23	22	-25	
Romania		6942	-0.9	-3	-6	-18	-6		215	0	2	0	107	-6	
Russia		2483	0.3	1	5	9	5		216	5	0	-33	54	-36	
South Africa		54283	1.0	0	4	-11	3		309	3	-14	-53	87	-56	
Turkey		102491	1.2	3	13	-15	12		414	20	0	-12	134	-15	
Ukraine		552	0.2	-1	-1	65	-1		673	29	9	-109	297	-114	
EM total		42	0.7	1	6	-19	7		365	6	-7	-45	101	-49	

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