



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, January 9, 2019

- **Global risk assets firm on positive tone in US-China trade negotiations** ([link](#))
- **No sign of resolution in partial US government shutdown** ([link](#))
- **UK parliament approves amendment limiting the government's fiscal powers in case of no-deal Brexit** ([link](#))
- **Turkish lira stabilizes after sliding yesterday on geopolitical concerns** ([link](#))

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Risk-on mode continues on signs of progress in US-China trade talks

Global risk assets extended their rally on trade negotiation optimism. Equities were higher in most jurisdictions, credit spreads tightened, while core rates firmed. Oil prices also extended their gains for an eighth consecutive session, with Brent above \$60 and WTI above \$50 per barrel. The trade-weighted dollar traded at the lower end of recent ranges. US-China trade discussions reportedly progressed constructively and ended on a positive note, with apparent progress made in the energy and agriculture sectors. A statement on the outcome is expected soon, although a deal that results in a full de-escalation is unlikely. Later today, the release of the December FOMC minutes and Fed speakers will be a focus for financial markets. Since the start of the year, interest rate futures have swung from pricing in small chance of a cut to about 30 bps of a hike for this year. Meanwhile, the partial US government shutdown enters its 19th day, with no resolution in sight. In the UK, the pound and gilt yields are little changed after PM May suffered another Brexit-related defeat in parliament.

Key Global Financial Indicators

Last updated: 1/9/19 7:41 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2574	1.0	3	-2	-6	3
Eurostoxx 50		3081	0.9	3	1	-15	3
Nikkei 225		20427	1.1	2	-6	-14	2
MSCI EM		40	1.7	2	0	-19	2
Yields and Spreads			bps				
US 10y Yield		2.74	3.2	11	-11	18	5
Germany 10y Yield		0.29	6.0	12	4	-18	4
EMBIG Sovereign Spread		391	1	-27	-11	123	-23
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	-0.1	1	1	-10	1
Dollar index, (+) = \$ appreciation		95.9	-0.1	-1	-1	0	0
Brent Crude Oil (\$/barrel)		59.9	2.1	9	-3	-13	11
VIX Index (% change in pp)		20.4	-0.1	-3	-3	10	-5

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

United States

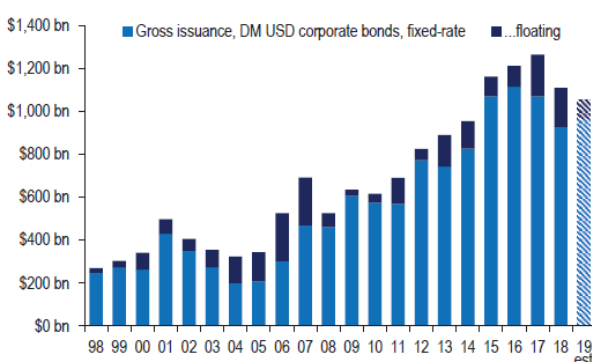
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US equity markets continued to rally on Tuesday, driven by trade optimism. The S&P 500 closed up 1.0%. While the recovery was broad-based across major sectors, banks were a notable exception, and have underperformed the S&P index by 1.6% this week. Treasury yields in the US continued to move higher and the curve flattened marginally. 2-year yields rose 4 bps to 2.58% and the 10-year +3 bps to 2.73%. Implied volatility across assets declined further, with the VIX ending the day 1 point down to 20.5 and compares with an end-2018 level of 25.4. The broader risk-on environment was also reflected in tighter credit spreads, with HY spreads narrowing 15 bps to 462 bps, bringing the year-to-date decline to 59 bps.

President Trump signaled optimism on trade talks with China, indicating they were “going very well.” The negotiations were extended by an extra day. During his televised address yesterday after markets had closed, President Trump repeated his insistence that the US needed \$5.7 bn in funding for a border security wall, but stopped short of declaring a national emergency. Market analysts noted that the address did not suggest an imminent compromise. The house of representatives is expected to pass some spending authorization bills today to re-open the federal government. However, the Senate is unlikely to take up the measures, and hence, the stalemate over the partial government shutdown looks set to continue. While the shutdown has not significantly impacted sentiment, most agree that it could if the situation drags on. This morning, rating agency Fitch warned of a possible rating action if the shutdown ends up leading to a breach in the debt ceiling and hampers budget setting. S&P futures are up 0.2% this morning.

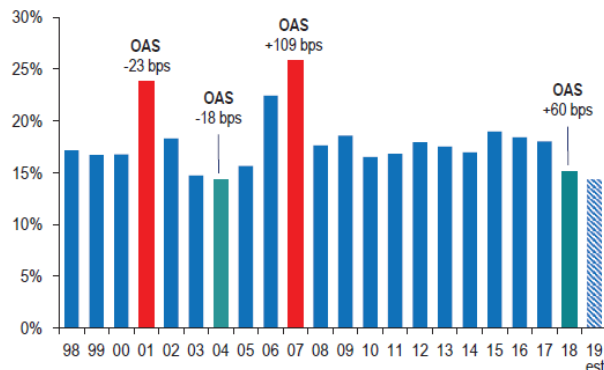
Analysts expect the US IG corporate bond issuance to remain above the \$1 trn mark for the fourth consecutive year in 2019, but decline 5% yoy. With roughly \$650 bn of debt scheduled to mature in 2019, analysts expect a net supply of \$400 bn. Scaled by market size, overall issuance will likely reach the lowest level since 2004. The key drivers underpinning these assumptions include the effects of tax reform (repatriation), debt reduction targets by several large US IG issuers, lighter regulatory capital funding requirements among US banks, and stretched credit metrics among US IG issuers.

Figure 1. Gross issuance of developed market corporate bonds in USD, 1998-2019 est.



Source: Citi Research; Dealogic; Note: all issuance figures in this note exclude EM companies

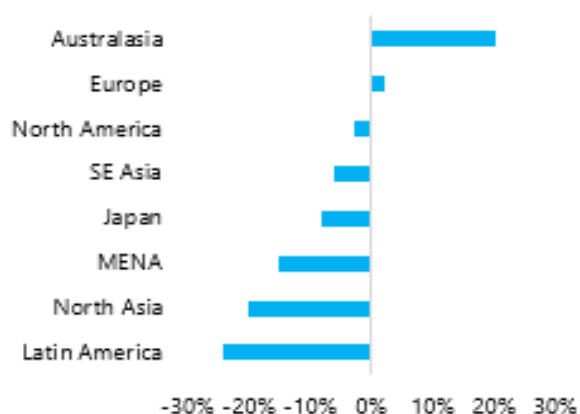
Figure 2. Issuance as a percent of market size (with annual IG index spread performance)



Source: Citi Research; Dealogic; Bloomberg Financial LP

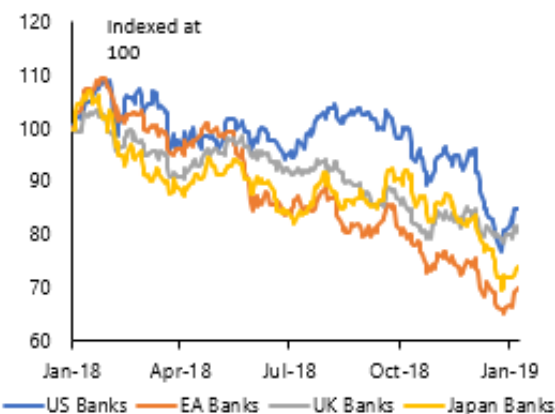
Dealogic estimates that investment banking revenues remained under pressure in 2018 across major jurisdictions, with Europe and Australasia the exceptions. Of note, global equity capital market volumes declined by 17.5% in 2018 to \$720.6 bn, with a corresponding fall of 15.7% in the number of deals to 5,451. The pressures are also reflected in bank equity prices, which declined sharply in 2018 (ranging from -20% for UK banks to -33% for EA banks). **There has been some relief in 2019, with bank stocks registering a year-to-date increase of 3.3%.**

Growth in IB revenues in 2018



Source: Dealogic

Equity prices for the Global bank indices



Source: Bloomberg

Factset estimates earnings will grow 12.3% in Q4 for the S&P 500, which compares with realized earnings growth of 26.0% in Q3. Relatedly, **BAML analysts highlight that downward revisions to earnings have increased**, with the ratio of upgrades to downgrades declining to 0.48 in December, versus a ratio of 1.41 a year ago.

Chart 4: And earnings revisions are falling sharply



Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES

Europe

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Regional indices are broadly higher, in line with the moves seen in Asia and the US. The EuroStoxx 600 is up 0.7%, with the automobile index (+2.8%) outperforming on news that Chinese authorities are poised to support the sector. **Fixed income markets are little changed**, though longer-dated German yields are being pressured higher by new supply.

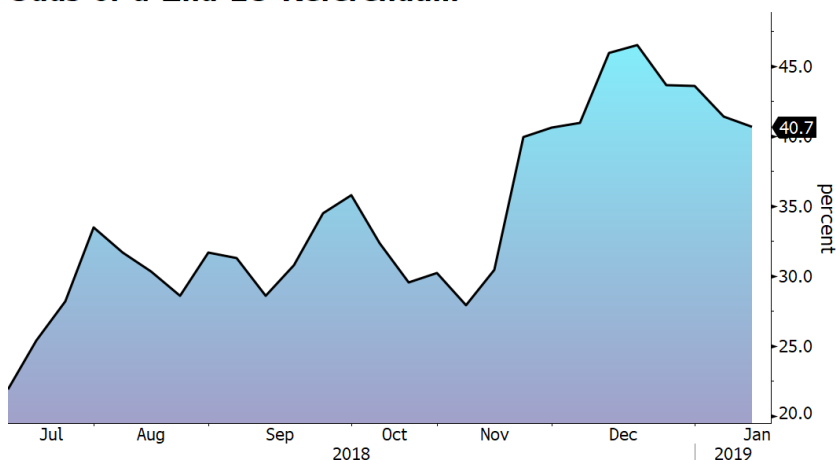
The EBA released its latest Risk Dashboard summarizing the risks and vulnerabilities in the EU banking sector as of Q3 2018. Here are some highlights (full report [here](#)):

- EU bank capital ratios remain high, with a modest increase on the quarter. The CET1 ratio increased from 14.5% to 14.7% in Q3 2018.
- The quality of the bank loan portfolios has improved further. The ratio of NPLs to total loans fell to 3.4%, its lowest level since the NPL definition was harmonized across European countries in 2014. This was due to the growth of total loans and to the decline of NPLs, which now stand at €714 bn.
- Profitability in the EU banking sector needs to improve further. The average return on equity has been stable, at 7.2%.
- The loan to deposit ratio has remained broadly stable. The ratio increased marginally by 10 bps to 118.4%.

United Kingdom

Yesterday, 20 Conservative MPs joined the opposition in voting for an amendment that curbs the government's tax administration powers in the event of a no-deal Brexit. The implications of the amendment are unclear, but signal the tough parliamentary arithmetic for PM May. The parliament will spend the next five days discussing the proposed Brexit deal ahead of a vote scheduled for January 15. The implied betting odds of a second referendum have been gradually declining and are now at 41%, down from 46% in early December. The FTSE 100 is up 0.9% today and 3.0% year to date, in line with the performance of European bourses. Sterling is unchanged and gilt yields are roughly tracking broader core rates since the start of the year. 1-week FX volatility has jumped from 10 to 14, taking into account next week's vote.

Odds of a 2nd EU Referendum



Source: Average Odds from Oddschecker
ODCHEUN Index (Avg Implied Probability of 2nd EU Referendum - NO) Brexit 2nd Re

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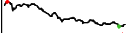
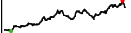











Japan

Equities extended their gains for a third day as positive signals from US-China trade negotiations buoyed sentiment. Japanese equities staged broad-based gains; both the Topix and the Nikkei gained 1.1% on the day. Meanwhile, **the yen lost ground for a fourth day (-0.2%).** After reaching its strongest level in nine months last week amid risk aversion, the yen has retreated as sentiment has improved; it last traded at 108.90 per dollar.

Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 1/9/19 7:48 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		39.93	1.7	2	0	-19	2
MSCI Frontier Equities		27.03	0.2	3	-2	-22	3
EMBIG Sovereign Spread (in bps)		391	1	-27	-11	123	-23
EM FX vs. USD		62.95	-0.1	1	1	-10	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.83	0.3	0	1	-4	1
Indonesian Rupiah		14125	0.2	2	3	-5	2
Indian Rupee		70.48	-0.4	0	1	-10	-1
Argentine Peso		37.56	-0.7	0	0	-49	0
Brazil Real		3.71	0.1	2	6	-12	5
Mexican Peso		19.37	-0.1	1	5	-1	1
Russian Ruble		67.05	-0.2	3	-1	-15	3
South African Rand		14.02	-0.4	3	3	-12	2
Turkish Lira		5.52	-0.7	-2	-4	-32	-4
EM FX volatility		9.43	0.0	-0.4	-0.7	1.9	-0.3

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

Sentiment across EM assets was positive. EMEA equities gained approximately 0.5% while local currencies were a fraction stronger against the US dollar. In **Asia**, equities staged broad-based gains amid optimism on US-China trade negotiations. Gains were led by Hong Kong (+2.1%) and the Korean Kospi (+1.9%). Asian currencies were mixed, with the RMB (+0.4%) outperforming. Both the offshore CNH and the onshore CNY gained roughly 0.4%, while the Indian rupee (-0.4%) weakened for a second day. **Latam** equities saw modest gains yesterday, with Argentina (-0.3%) an exception. Among currencies, the Colombian peso (0.9%) strengthened the most as oil prices rose further, followed by the Brazilian real (0.5%). The Argentine government updated its financial program 2019-20, showing a better initial cash position. The bottom line is that the government still does not see the need to borrow from international capital markets this year.

China

The ministry of finance is proposing a small increase in the targeted fiscal deficit for 2019, adding to recent policy easing initiatives. Bloomberg reported that the ministry had agreed to a proposed deficit target of 2.8% at its annual work conference in December, compared to a target of 2.6% in 2018. This modest increase will be presented for approval at the national people's congress in March. Analysts noted that most of the fiscal stimulus reflects cuts in personal income and corporate taxes, announced late last year. Meanwhile, the broader outlook for approved government debt issuance is likely little changed as the authorities seek to keep debt levels under control. The bond market offered a muted reaction, while equities and the RMB gained on the latest trade news.

Turkey

The lira stabilized this morning after sliding yesterday on geopolitical concerns. President Erdogan refused to meet with US security advisor John Bolton yesterday amid disagreements over the US's withdrawal of troops from Syria. Erdogan subsequently criticized the US administration in public remarks, citing a lack of consistency from the US side. Markets took the episode as indicative of lingering tensions between the two nations, as the lira weakened 1.9% yesterday and a more modest 0.2% today. Despite this week's depreciation, the currency is still 25% off the lows of August last year.

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Global Financial Indicators

Last updated: 1/9/19 7:41 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2574	1.0	3	-2	-6	3
Europe		3081	0.9	3	1	-15	3
Japan		20427	1.1	2	-6	-14	2
China		2544	0.7	3	-2	-25	2
Asia Ex Japan		64	0.3	1	-1	-19	1
Emerging Markets		40	1.7	2	0	-19	2
Interest Rates			basis points				
US 10y Yield		2.74	3.2	11	-11	18	5
Germany 10y Yield		0.29	6.0	12	4	-18	4
Japan 10y Yield		0.03	2.0	3	-3	-4	3
UK 10y Yield		1.28	0.6	7	2	0	0
Credit Spreads			basis points				
US Investment Grade		146	-2.6	-2	8	54	-2
US High Yield		461	-16.2	-60	20	118	-60
Europe IG		83	-2.8	-6	-5	39	-5
Europe HY		336	-7.7	-25	-19	109	-16
EMBIG Sovereign Spread		391	1.0	-27	-11	123	-23
Exchange Rates			%				
Dollar Index (DXY)		95.85	-0.1	-1	-1	4	0
USDEUR		1.14	0.1	1	1	-4	0
USDJPY		108.9	-0.1	0	4	3	1
EM FX vs. USD		63.0	-0.1	1	1	-10	1
Commodities			%				
Brent Crude Oil (\$/barrel)		60	2.1	9	-3	-13	11
Industrials Metals (index)		112	0.5	3	-3	-17	2
Agriculture (index)		43	0.5	3	-1	-10	3
Implied Volatility			%				
VIX Index (% change in pp)		20.4	-0.1	-2.9	-2.9	10.3	-5.1
10y Treasury Volatility Index		4.4	-0.1	-0.2	0.1	0.6	-0.2
Global FX Volatility		8.6	0.0	-0.6	-0.1	1.7	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		403	-8.2	-19	5	81	-12
Italy		263	-9.8	10	-25	106	13
Portugal		152	-8.0	-3	-3	12	4
Spain		122	-6.6	-2	2	17	5

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: 1/9/2019 7:43 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		6.83	0.3	0.4	1	-4	1		3.1	-1.3	-9	-14	-85	-9
Indonesia		14125	0.2	2.4	3	-5	2		8.2	6.7	2	-2	177	2
India		70	-0.4	-0.4	1	-10	-1		7.5	-5.6	1	-4	5	5
Philippines		52	0.2	0.3	1	-4	0		6.2	-3.2	-5	-2	143	-5
Thailand		32	0.0	0.7	3	1	1		2.7	5.2	3	-5	38	3
Malaysia		4.11	0.1	0.6	1	-3	0		4.1	-0.4	-3	-6	19	-3
Argentina		38	-0.7	0.3	0	-49	0		22.3	6.8	-75	-92	585	-75
Brazil		3.71	0.1	2.1	6	-12	5		8.1	-2.5	-9	-48	-77	-9
Chile		680	0.0	2.0	0	-11	2		4.4	1.7	-3	-15	-32	-3
Colombia		3151	0.8	3.3	1	-8	3		6.5	-8.1	-3	-15	32	-3
Mexico		19.37	-0.1	1.0	5	-1	1		8.7	7.8	-6	-49	115	-6
Peru		3.3	0.3	0.9	1	-4	1		5.7	-1.6	-2	-15	64	-2
Uruguay		33	-0.1	-0.3	-1	-12	0		10.7	0.9	-4	-35		-4
Hungary		281	0.1	1.2	1	-8	0		2.2	2.1	-3	-15	102	-3
Poland		3.75	0.1	0.8	1	-7	0		2.3	3.4	6	-14	-28	6
Romania		4.1	-0.1	0.5	0	-5	-1		4.1	0.0	-12	-5	34	-12
Russia		67.1	-0.2	3.1	-1	-15	3		8.4	-3.0	-2	-2	111	-2
South Africa		14.0	-0.4	3.2	3	-12	2		9.5	5.1	-8	-18	18	-8
Turkey		5.52	-0.7	-2.2	-4	-32	-4		17.3	25.0	38	-33	538	38
US (DXY; 5y UST)		96	-0.1	-1.0	-1	4	0		2.59	0.7	13	-10	26	8
	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		2544	0.7	3	-2	-25	2		186	1	-9	-8	36	-8
Indonesia		6272	0.1	1	2	-2	1		214	-2	-28	-18	63	-22
India		36213	0.6	1	2	5	0		194	0	-2	11	87	-2
Philippines		7920	2.8	6	6	-11	6		104	-2	-21	-14	27	-17
Malaysia		1668	0	0	-1	-9	-1		158	2	-8	5	53	-4
Argentina		32915	-0.3	9	4	2	9		726	0	-69	-3	365	-89
Brazil		92596	0.4	2	5	17	5		250	-1	-26	-20	40	-23
Chile		5224	0.7	2	3	-9	2		150	0	-21	-13	40	-16
Colombia		1368	0.8	3	-1	-12	3		198	-1	-32	-11	36	-30
Mexico		43543	1.7	5	4	-12	5		326	-2	-36	-20	93	-28
Peru		19379	-1	0	0	-6	0		155	-1	-19	-17	37	-13
Hungary		41065	0.6	3	4	3	5		133	0	-19	-20	52	-15
Poland		59133	0.4	1	2	-10	3		60	-1	-25	-20	9	-25
Romania		7500	0.2	2	-14	-7	2		210	-1	-11	-17	96	-11
Russia		2408	0.7	2	-1	8	2		223	3	-34	-26	64	-29
South Africa		52924	1.5	3	4	-12	0		329	5	-37	-37	104	-36
Turkey		90940	0.3	2	-3	-21	0		447	17	13	-31	171	18
Ukraine		563	0.0	2	-2	77	1		769	14	-16	29	366	-18
EM total		24	0.0	2	-1	-15	2		391	1	-27	-11	123	-23

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