Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, July 1, 2019

- **Risk assets rally as G20 concludes with no ratcheting up of trade war dynamics (link)**
- **Weak data in Asia and Europe dent optimism, weigh on bond yields (link)**
- **EU heads of state fail to agree leadership selection for EC (link)**
- **Italian debt rallies on bets that Italy will avoid EC deficit penalties (link)**
- **Turkish assets bounce higher as Trump downplays US sanctions threat (link)**
- **Oil prices 3% stronger following Saudi-Russia deal to extend OPEC+ supply cuts (link)**
- **Fintech Update**

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Trade truce overshadowed by weak data

Equities rally around the globe as the US and China agree to restart trade talks, but weak data are weighing on bond yields. On the trade front, the US side offered to delay imposing restrictions on sales to Huawei, but there was otherwise little evidence to suggest any substantive breakthrough beyond a near-term reprieve from further escalation. That appeared to be enough for equity markets, which have rallied as immediate downside risks have been averted. Fixed income investors have been less impressed, with benchmark Treasury yields moving just several basis points higher on the news. These losses have partially reversed however as a range of weak data this morning weigh on risk sentiment: disappointing PMI manufacturing data in Germany, Spain, and China; a weak Tankan survey in Japan; and a large drop in exports from South Korea.

Key Global Financial Indicators

Last updated: 7/1/19 8:15 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2942	0.6	0	7	8	17
Eurostoxx 50		3506	0.9	1	7	3	17
Nikkei 225		21730	2.1	2	5	-3	9
MSCI EM		43	1.7	0	5	-1	10
Yields and Spreads					bps		
US 10y Yield		2.02	-0.9	1	-10	-84	-66
Germany 10y Yield		-0.33	0.0	-2	-13	-63	-57
EMBIG Sovereign Spread		339	-5	-8	-41	-31	-75
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.1	0.3	0	3	-2	1
Dollar index, (+) = $ appreciation		96.4	0.3	0	-1	2	0
Brent Crude Oil ($/barrel)		66.6	2.9	3	3	-16	24
VIX Index (%, change in pp)		13.9	-1.2	-1	-5	-2	-11

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

Following the latest developments in US-China trade and the manufacturing PMIs out today, investor attention will turn to the US payrolls report for June later due at the end of the week. This will be the last payrolls report before the FOMC meeting in late-July, when many expect the Fed to begin rate cuts, so it carries extra weight, although it follows the July 4th holiday so the reaction may be subdued. The US also reports durable goods and trade balance (Wednesday). There will be rate decisions out of Australia, Poland and Sweden.

United States

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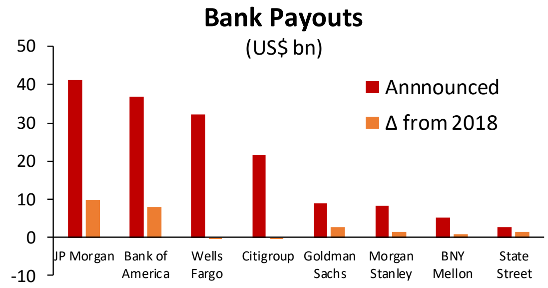
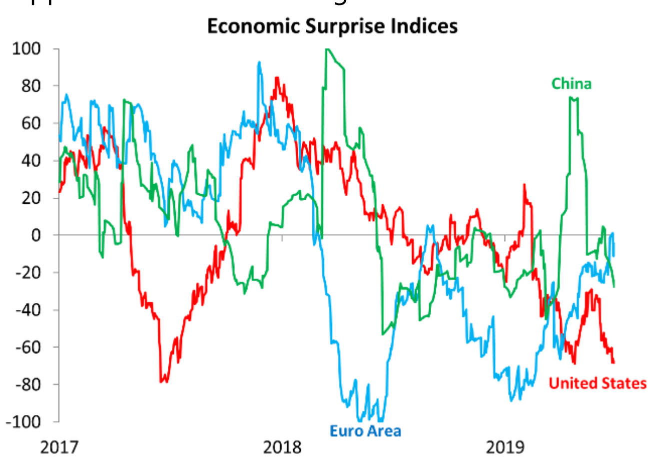
Presidents Trump and Xi have agreed to resume trade talks, with president Trump tweeting that the summit was "far better than expected." The rapprochement of the two leaders thus averts the imposition of new tariffs for the time being and has led to strong gains in Asian and European equities. As was reported leading up to the summit, the US side did agree to delay its imposition of a ban on sales to Huawei, with Trump noting in verbal comments that this matter would be pushed off until the very end of trade talks. Any concessions made by the Chinese side and any other firm commitments made during the weekend's summit were not immediately clear.

US stocks firmed Friday, but gains were largely subdued with the G20 meetings getting under way. Major indices ended the session up 0.3-0.6%. Bank stocks outperformed, with a 2.4% rise. A day after passing their stress tests, a dozen of the **largest banks advised they will increase their payouts** (via stock buybacks and dividends) by just over 18% yoy to a record high $173 bn according to Bloomberg. Payouts have increased by over 30% in the previous two years. Treasury yields were little changed. In other news, earnings season kicks off this week.



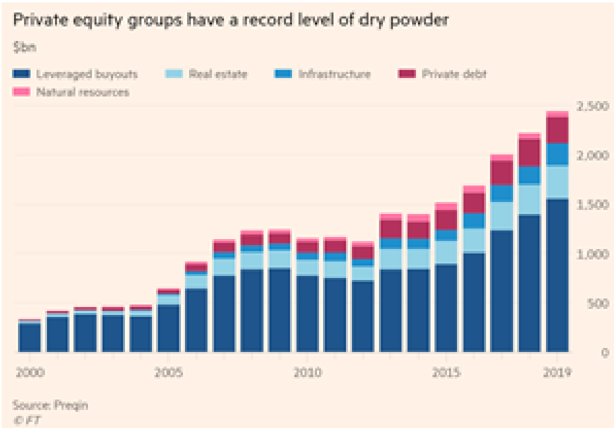
Source: Bloomberg

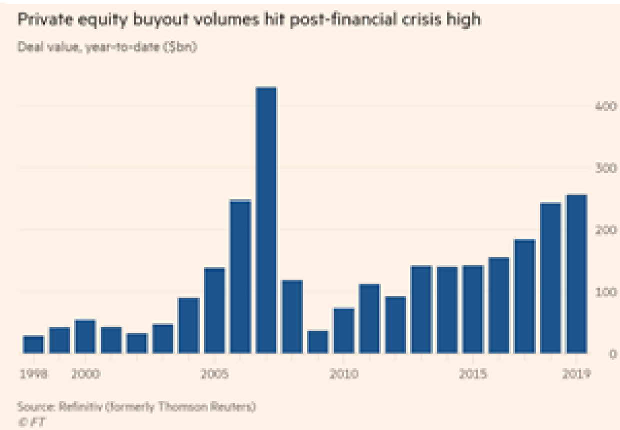
Data reports mostly surprised on the downside last month. And on Friday, Chicago's PMI printed below 50 (evidencing contraction) for the first time since January 2017. This follows a number of similar findings from regional Fed districts recently. Consumer sentiment as measured by the University of Michigan slipped from an 8-month high.



Source: Bloomberg, Citi

Private equity firms have amassed some $2.4 tn of "dry powder", or committed but uncalled investor capital, to buy companies, real estate infrastructure, natural resources and debt, according to Preqin. Leveraged buyouts will likely consume the lion's share of these assets, with deal volumes in this segment in H1 rising to $256 bn, a post-crisis high. Moreover, leverage levels are increasing on deals, and takeovers have also been getting bigger. There have been four $10+ bn deals so far this year, equaling the number of megadeals in all of last year.





Bond funds have enjoyed strong inflows recently. Corporate high-yield bond funds had inflows of $3.1 bn for the week ending June 26 according to Lipper, and investment-grade funds $3.2 bn. The high-yield benchmark iShares exchange-traded fund took in more than $4 bn last month, nearly double the previously monthly record, and now has assets of $17.7 bn. Greater demand for higher yield debt and a dovish Fed stance have been driving recent flows. High-yield spreads have fallen by 124 bps this year and investment-grade funds by 36 bps. While Treasuries have returned 5.3% in 2019, investment-grade funds earned 9.4% and high-yield 10.0%.

Europe

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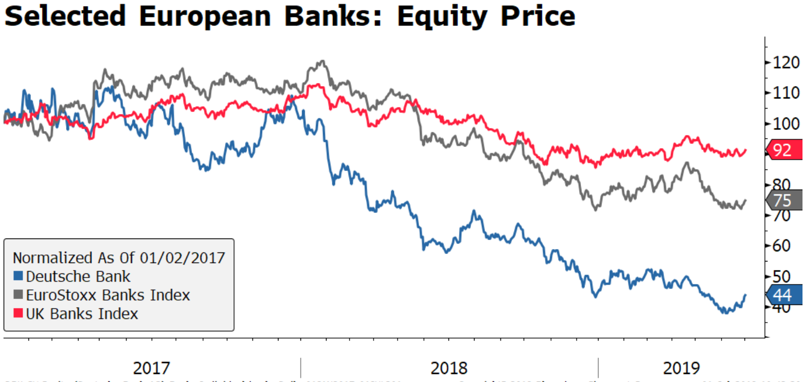
European bourses are firmly in the green today. The EuroStoxx 600 (+0.9%), DAX (+1.3%), FTSE 100 (+1.1%), and CAC 40 (+0.8%) all gained following the positive outcome on trade from the G20. Bank stocks (+1.2%) slightly outperformed main indices.

Deutsche Bank stocks surged 3.5% this morning after the German lender announced possible job cuts of up to one-fifth of its workforce (or 20,000 people) on Sunday. DB may also set up a separate unit to wind down its long-term interest rate derivatives book in an effort to reduce losses. Concrete measures may be announced following the next DB Board meeting on July 7th.

Selected European Banks: Equity Price



EU heads of state have postponed the selection of the next European Commission President. The postponement came as the front-runner candidate—Dutch socialist Frans Timmermans—found heavy opposition from conservative leaders across the EU. A decision on who will replace Mario Draghi at the helm of the ECB has also been postponed to September.

Most Euro area sovereign bond markets are steady. Ten-year German bonds at -0.33% (-1 bp); French at -0.00% (unch.); Spanish at 0.38% (-1 bp). Italian yields dropped 9 bps to 2.01% as markets became more optimistic that Italy will avoid the Excess Deficit Procedure from the EC in coming weeks. The increased optimism could be related to the delay in replacing top figures at the EC. Italian yields have not been at the 2.00% mark since mid-2018. Separately, **the unemployment rate fell to 9.9% in May, from 10.3% the month prior.**

Selected Government Bond Yields
(10-yr Yields, in %)

In the UK, **Jeremy Hunt—a candidate to replace PM May—will announce today his ten-point plan for mitigating the risks of a no-deal Brexit** if he becomes the next prime minister. Separately, rating agency S&P said on Friday that a no-deal Brexit would have "important long- and short-term implications for the U.K. economy" but that it would trigger outlook revisions rather than widespread downgrades.

Other Mature Markets

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Japan

Equities (+2.2%) rose, with technology shares leading gains and defensive sectors underperforming. The worsening of the Bank of Japan's quarterly Tankan survey to close to a 4-year low was insufficient to dent the risk-on sentiment following the US-China trade truce. **The yen depreciated by 0.4% while 10-year JGB yields rose 1.4 bps to -0.16%.**

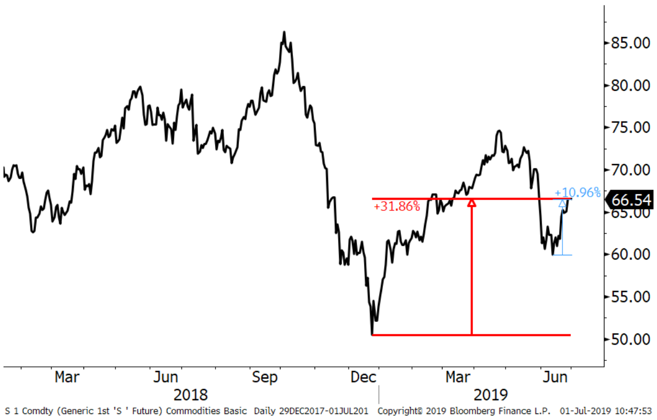
A Breakthrough
Nikkei 225 climbs above its 200-day moving average

Source: Bloomberg, Nikkei

Commodities

Oil prices are up nearly 3% after Russia and Saudi Arabia agreed to extend the OPEC+ supply cuts. The extension is planned for six or nine months, at the same terms. The current agreement requires Russia to cut output by 230K barrels per day compared to the level from October 2018. Brent prices are up 10% since last month's lows, and up 32% since the lows of December 2018.

Brent Crude



Emerging Markets

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EM assets are staging a broad rally on the back of yet another truce in the US-China trade war. Asian equities (+0.8%) rose across the board, with China (Shanghai +2.2%; Shenzhen +3.5%) outperforming. Korean stocks (unchanged), however, underperformed on very weak June trade data and Japanese plans to impose export restrictions on specialized high-tech components to Korea over a conflict related to colonial era claims. Regional currencies mostly strengthened on the risk-on sentiment, with the exception of the Korean won (-0.4%). In **EMEA,** equities in Turkey are rising on indications that the US is softening its sanctions threats against the country for purchasing Russian military equipment. Elsewhere, indices in Russia, South Africa and Poland are up around 1.0%. **In Latin America,** the Argentine peso outperformed the rest of the region appreciating by 0.5% against the dollar. The peso was the best performing EM currency in June (10.6% total return) with the rally starting on June 11 when President Macri named Miguel Pichetto as his running mate for October's election. The Brazilian real depreciated by 0.8% against the dollar as investors are becoming more cautious regarding the pension reform's progress before the legislative break scheduled for July 19.

Key Emerging Market Financial Indicators

Last updated: 7/1/19 8:18 AM	Level Last 12m	index	Change 1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.91	1.7	0	5	-1	10
MSCI Frontier Equities		29.62	0.3	0	3	3	13
EMBIG Sovereign Spread (in bps)		339	-5	-8	-41	-31	-75
EM FX vs. USD		63.09	0.4	1	3	-2	1
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.84	0.3	0	1	-3	1
Indonesian Rupiah		14113	0.1	0	1	2	2
Indian Rupee		68.95	0.1	1	0	0	1
Argentine Peso		42.48	0.5	1	5	-34	-11
Brazil Real		3.83	0.6	0	2	2	1
Mexican Peso		19.13	0.5	0	3	4	3
Russian Ruble		63.00	0.3	-1	4	1	11
South African Rand		14.12	-0.2	2	2	-2	2
Turkish Lira		5.66	2.3	3	3	-18	-7
EM FX volatility		8.21	-0.4	0.0	-0.3	-1.5	-1.6

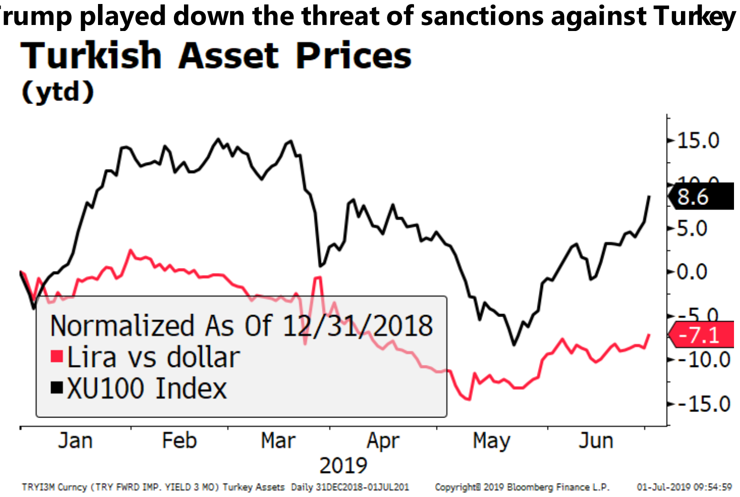
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

China

Chinese equities (Shanghai +2.2%; Shenzhen +3.5%) rallied after the US and China agreed to revive trade talks during the G20 meeting over the weekend. After the meeting between Presidents Trump and Xi, Xinhua News reported that the US will hold off from levying new tariffs on Chinese goods, while the two countries will have discussions on specific issues and "restart trade consultations between their countries on the basis of equality and mutual respect". Additionally, Trump said during his press conference that the US would allow exports to Huawei that "do not affect our National Security" and that China would be purchasing large amounts of agricultural products. **Despite the "truce", analysts expect uncertainty to persist amid the lack of details and clarity on the renewed negotiations**. Both sides still have significant issues to overcome with no stated timeline. Chinese manufacturing activity meanwhile remained weak, with the official PMI staying in contractionary level of 49.4 in June. **Both onshore and offshore RMB appreciated (+0.3%) alongside equity gains.**

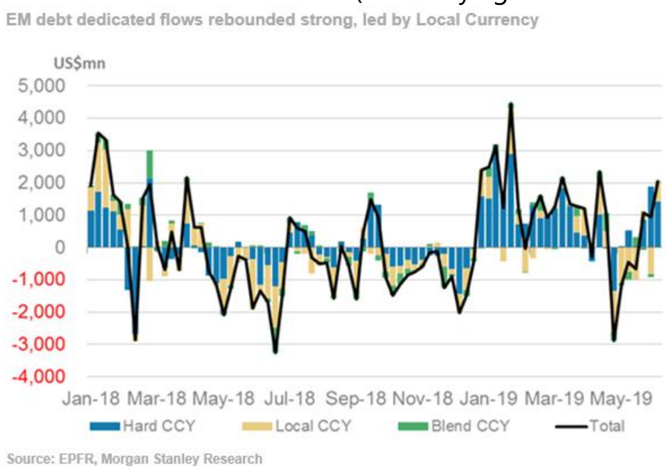
Turkey

Local assets outperformed after Pres. Trump played down the threat of sanctions against Turkey over the purchase of the Russia S-400 missile defense system. The announcement came during the G-20 meeting, during which President Trump reportedly expressed sympathy towards Erdogan's position and blamed Obama's administration for the row. The lira appreciated nearly 2% against the dollar and the BIST index is up 2.6%. Year to date, the currency is still 7% weaker against the dollar but equities are up nearly 8%.

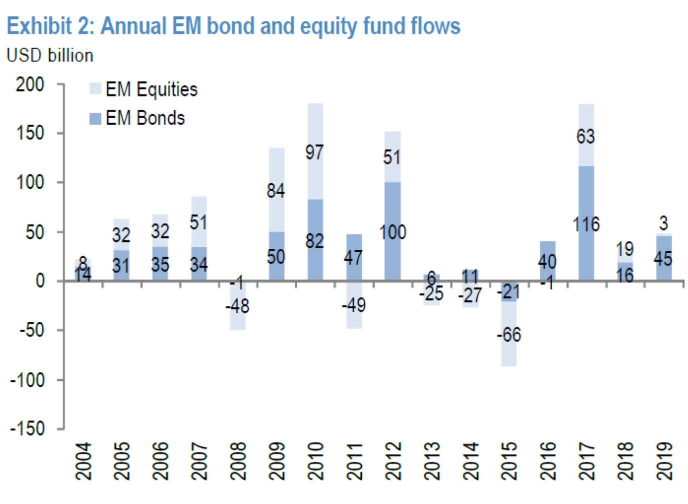


EM Fund Flows

EM debt-dedicated funds saw a strong rebound in flows last week (week ending June 26), with inflows of $2.0 bn. This is the third consecutive week of inflows. Hard currency funds led the charge with inflows of $1.4 bn. Local currency fund flows followed up with a rebound to $0.6 bn of inflows from outflows of $0.8 bn the week before. The global demand for bonds has provided a tailwind for EM debt flows and returns. EM credit returns are 11% YTD while local currency funds are at 8.3%, boosted by exchange rate returns which are now at 1.7% (after rallying almost 1.3% last week).



EM equity outflows continued for the 8th week. The pace of outflows slowed down (-$0.8 bn compared to -$2.3 bn the week before) as ETFs had their first inflows in 8 weeks (+$0.6 bn) while non-ETF fund redemptions continued for the 16th consecutive week (-$1.4 bn). Year to date equity inflows are down to only $3 bn.



Source: JP Morgan

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Global Financial Indicators

Last updated: 7/1/19 8:15 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2942	0.6	0	7	8	17
Europe		3506	0.9	1	7	3	17
Japan		21730	2.1	2	5	-3	9
China		3045	2.2	1	5	7	22
Asia Ex Japan		70	-0.2	1	6	-3	10
Emerging Markets		43	1.7	0	5	-1	10
Interest Rates					basis points		
US 10y Yield		2.02	-0.9	1	-10	-84	-66
Germany 10y Yield		-0.33	0.0	-2	-13	-63	-57
Japan 10y Yield		-0.15	1.2	1	-5	-18	-15
UK 10y Yield		0.81	-1.9	0	-7	-46	-46
Credit Spreads					basis points		
US Investment Grade		119	-1.3	-5	-13	8	-28
US High Yield		437	-2.9	-2	-46	80	-84
Europe IG		50	-2.5	-4	-20	-25	-37
Europe HY		248	-7.0	-9	-59	-79	-105
EMBIG Sovereign Spread		339	-5.0	-8	-41	-31	-75
Exchange Rates					%		
USD/Majors		96.43	0.3	0	-1	2	0
EUR/USD		1.13	-0.2	0	1	-3	-1
USD/JPY		108.3	-0.4	-1	0	2	1
EM/USD		63.1	0.3	0	3	-2	1
Commodities					%		
Brent Crude Oil ($/barrel)		67	2.9	3	3	-16	24
Industrials Metals (index)		113	-0.3	1	2	-13	3
Agriculture (index)		42	0.4	-1	1	-6	0
Implied Volatility					%		
VIX Index (%, change in pp)		13.9	-1.2	-1.3	-4.8	-2.2	-11.5
10y Treasury Volatility Index		4.7	-0.1	-0.1	-0.9	1.0	0.1
Global FX Volatility		6.8	0.0	0.0	0.0	-1.3	-2.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		267	-11.2	-7	-45	-99	-149
Italy		233	-9.5	-13	-54	-4	-17
Portugal		79	-1.0	-4	-22	-69	-69
Spain		72	-0.2	0	-20	-30	-45

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
7/1/2019	Level		Change (in %)					Level		Change (in basis points)				
8:18 AM	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		6.84	0.3	0.5	1	-3	1		3.3	0.9	2	-9	-33	8
Indonesia		14113	0.1	0.2	1	2	2		7.5	-4.7	-11	-64	-66	-70
India		69	0.1	0.6	0	0	1		7.0	-2.2	3	-28	-111	-47
Philippines		51	0.4	0.7	2	5	3		4.9	-1.7	-12	-21	-73	-143
Thailand		31	0.2	0.5	3	8	6		2.3	-1.7	-2	-29	-40	-38
Malaysia		4.13	-0.1	0.1	1	-2	0		3.6	-1.3	-1	-18	-59	-47
Argentina		42	0.5	0.8	5	-34	-11		28.7	73.3	-27	-491	926	569
Brazil		3.83	0.6	-0.1	2	2	1		6.9	-3.7	0	-94	-304	-127
Chile		679	0.2	0.8	4	-4	2		3.4	-6.9	-2	-53	-150	-112
Colombia		3212	-0.4	-0.3	5	-8	1		5.8	2.3	1	-47	-65	-75
Mexico		19.13	0.5	0.4	3	4	3		7.6	-5.1	-14	-45	-2	-113
Peru		3.3	-0.1	0.2	2	-1	2		4.9	-3.1	7	-31	-80	-88
Uruguay		35	0.2	0.2	0	-11	-8		10.5	7.6	-3	-78		-23
Hungary		285	-0.2	-0.2	1	0	-2		1.6	-0.3	2	-29	-96	-57
Poland		3.74	-0.2	-0.2	2	1	0		2.1	2.6	2	-19	-51	-20
Romania		4.2	-0.3	-0.7	1	-4	-3		4.1	2.0	11	-19	-77	-16
Russia		63.0	0.3	-0.7	4	1	11		7.3	-2.1	-3	-44	-25	-113
South Africa		14.1	-0.2	1.7	2	-2	2		9.2	-8.6	-11	-20	-26	-39
Turkey		5.66	2.3	2.5	3	-18	-7		16.9	11.1	-17	-403	33	4
US (DXY; 5y UST)		96.4	0.3	0.5	-1	2	0		1.78	1.5	3	-13	-96	-73

	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		3045	0.2	1	5	7	22		180	0	0	-1	-9	-14
Indonesia		6380	2.1	1	3	10	3		183	-4	-4	-30	-38	-53
India		39687	0.6	1	0	12	10		148	-2	1	-6	-14	-48
Philippines		8044	0.7	0	1	12	8		76	-3	2	-22	-56	-45
Malaysia		1684	2.7	0	2	0	0		127	0	-2	-5	-33	-35
Argentina		41796	-0.4	4	23	61	38		811	-18	-45	-179	201	-4
Brazil		100967	-0.7	-1	4	39	15		228	-5	-7	-40	-96	-45
Chile		5071	-0.3	0	2	-4	-1		132	-2	-1	-14	-13	-34
Colombia		1549	0.3	0	4	-2	17		177	-4	-3	-37	-19	-51
Mexico		43161	-0.8	-1	1	-9	4		324	-5	-12	-7	41	-30
Peru		20623	0.2	1	4	4	7		121	-3	-3	-28	-47	-47
Hungary		40532	-0.1	0	-1	12	4		88	-2	4	-35	-59	-60
Poland		60727	2.8	1	5	9	5		37	-4	-5	-35	-39	-48
Romania		8796	3.4	2	4	9	19		184	1	9	-25	7	-37
Russia		2810	2.6	2	5	22	19		201	-4	-2	-27	-15	-51
South Africa		58872	1.2	0	6	2	12		275	-8	-11	-54	-39	-90
Turkey		99434	9.5	4	10	3	9		463	-16	-46	-85	48	34
Ukraine		549	-0.7	-1	-4	19	-2		502	-6	-16	-156	-111	-285
EM total		43	1.7	0	5	-1	10		339	-5	-8	-41	-31	-75

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