



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, July 10, 2019






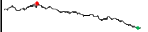





- Mexico's Minister of Finance resigns, citing policy disagreements ([link](#))
- Credit quality of new issue US investment grade credit continues to worsen ([link](#))
- EC trims growth and inflation forecasts for the region ([link](#))
- UK parliament passes a bill making it harder to push through a no-deal Brexit ([link](#))
- Chinese PPI slowed to its weakest level in three years ([link](#))

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## Markets await Fed Chair Powell's congressional testimony and FOMC minutes

**Global sovereign debt yields broadly rose ahead of Fed Chair Powell's testimony before the House Financial Services Committee and the release of the June FOMC minutes.** While nearly all market participants now expect a policy rate cut at the upcoming July 31 FOMC meeting, opinion remains divided as to whether this cut will be 25 bps or 50 bps. Investors will closely read the minutes for further clues on the timing of potential policy rate cuts. European yields were further supported overnight by relatively strong industrial production prints in France and Italy. Amid often slow summer trading, EM external debt funds have continued to experience strong inflows, reaching approximately \$20 bn year to date. Over this same period, the EMBI Global debt spread has narrowed by about 75 bps to 358 bps. The U.S. dollar has broadly strengthened against most major currencies over the past few weeks.

### Key Global Financial Indicators

Last updated: 7/10/19 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			<b>%</b>				<b>%</b>
S&P 500		2980	0.1	1	3	7	19
Eurostoxx 50		3505	-0.1	-1	4	1	17
Nikkei 225		21533	-0.1	0	2	-3	8
MSCI EM		43	-0.1	-2	2	-4	9
<b>Yields and Spreads</b>			<b>bps</b>				
US 10y Yield		2.10	1.7	15	-5	-75	-58
Germany 10y Yield		-0.29	6.4	10	-7	-61	-53
EMBIG Sovereign Spread		338	-1	-2	-17	-8	-76
<b>FX / Commodities / Volatility</b>			<b>%</b>				
EM FX vs. USD, (+) = appreciation		62.7	0.0	0	1	-4	1
Dollar index, (+) = \$ appreciation		97.4	0.0	1	1	3	1
Brent Crude Oil (\$/barrel)		65.7	2.3	3	5	-17	22
VIX Index (% change in pp)		14.6	0.5	2	-1	2	-11

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

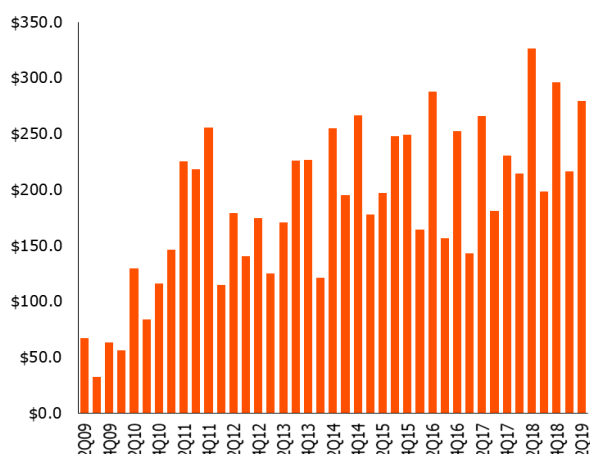
## United States

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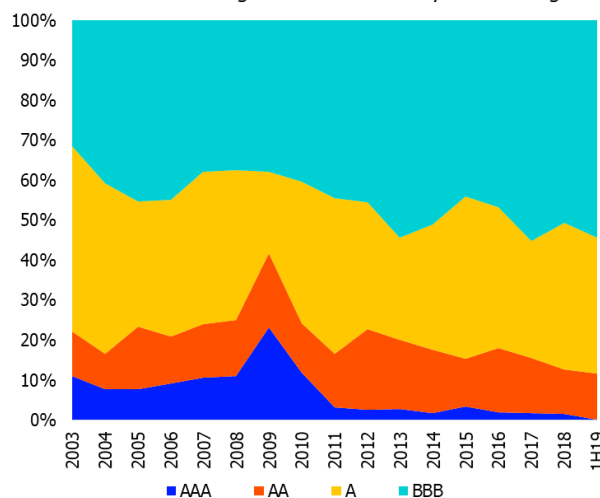
**US Treasury yields maintained their upward trajectory on Tuesday, rising by 1 to 3 bps across the curve, while equities were broadly unchanged.** Market participants will be keenly attuned to Fed Chair Powell's testimony today before the House Financial Services Committee for further trading direction. In addition, today's \$24bn 10-year auction could add modest support for a further creep higher in longer-term rates. Philadelphia Fed President Patrick Harker, a non-voter this year, reportedly said that there is no need to move rates in either direction. In fresh trade developments, President Trump criticized India's move to impose higher tariffs on a slew of U.S. goods, while Mexico's president reportedly downplayed U.S. duties on fabricated structural steel. Top U.S. and China trade officials also spoke on the phone in the first high-level contact since the tentative truce last month. Data releases on Tuesday were mixed. The NFIB small business optimism index declined 1.7pp to 103.3 in June but remained in relatively healthy territory. Job openings fell 49k to 7.32 mn in May, down from 7.37 mn in April. Job openings have now been above 7 mn for fourteen consecutive months.

**US investment grade loan volumes totaled \$496bn in the first half of 2019, 8% lower than 1H18 but the second highest first half on record, per Refinitiv analysts.** However, credit quality continues to worsen amongst the issuers. Within the IG band, BBB issuer rated volume share is up to 54% so far this year, compared to 50.5% last year. On the other hand, single-A rated volume share has decreased from 37% last year, to 34% this year.

Quarterly IG issuance (\$Bils)

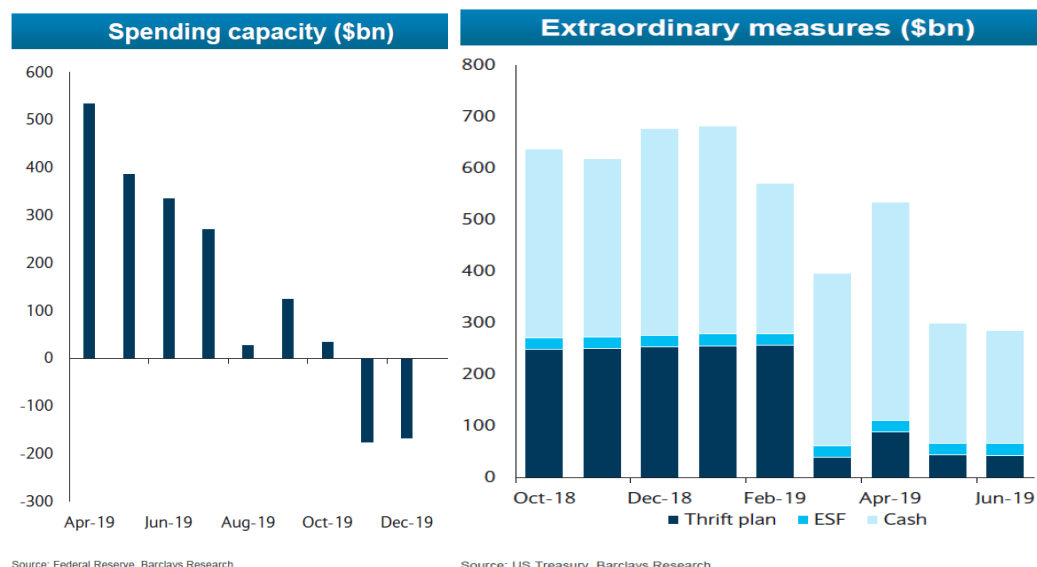


Investment grade market share by issuer rating



Source: Refinitiv

**Barclays analysts highlighted that without an agreement to suspend the debt ceiling, the Treasury may have just \$85bn cash on hand by the end of September.** This compares with \$220bn in cash at the end of June. While there are extraordinary measures that can be deployed (including the thrift fund, and exchange stabilization fund), cash balances normally tend to get thin in late August. **Analysts expect Treasury to issue around \$350bn in bills in Q4, which could push bill yields as much as 8 bps over OIS, and potentially add to seasonal year-end balance sheet pressures in repo markets.**



**Goldman analysts highlight that the equity and fixed income markets each signal a pessimistic outlook for the health of the US labor market going forward.** The basket of S&P 500 stocks with the lowest labor costs as a share of revenues has lagged the S&P 500 by 235 bps since the start of March and by 550 bps during the past 12 months. Analysts highlighted that the basket's recent underperformance and the decline in breakevens appear to reflect concerns that an easing Fed will not be enough to sustain growth in wages and consumer prices. The market's skeptical pricing of future wage and price inflation appears to be reflecting the weakness of recent economic data.

**Exhibit 22: Our Low Labor Cost basket has traded with — and recently led — breakeven inflation**



Source: FRB, Goldman Sachs Global Investment Research

## Europe

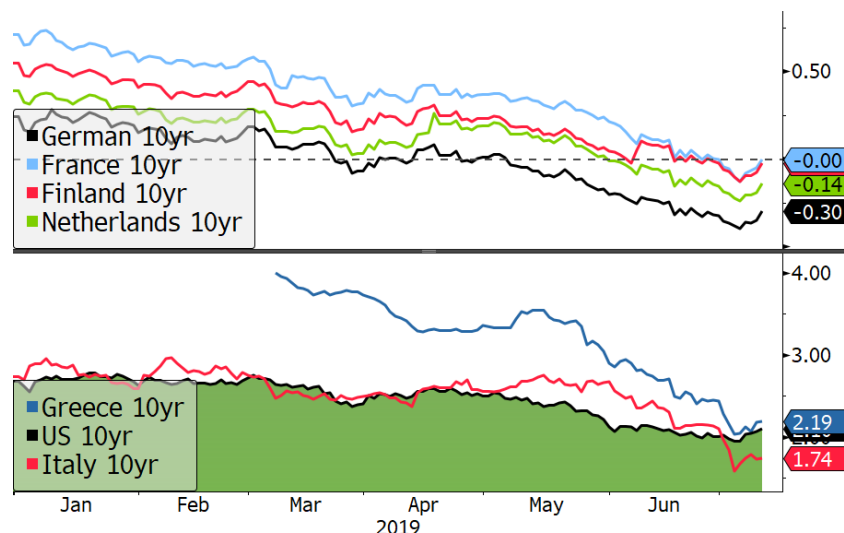
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### Europe

**Equity markets are little changed but yields continue to rise along with US Treasuries.** Germany's 10-year Bund yield is up 6 bps to -0.30%, up about 12 bps from the historic lows seen earlier in the month. Yields across the region are also higher on the day, but by lesser margins. However, despite the rise in

yields ahead of Powell's testimony, yields in many core European countries remain in negative territory. In Southern Europe, the victory of the center-right party in Greece brought the country's 10-year yield to the same level of maturity-equivalent US Treasuries. Italian longer-dated yields, meanwhile, made a decisive break below US Treasuries yields earlier this month, where they have remained since.

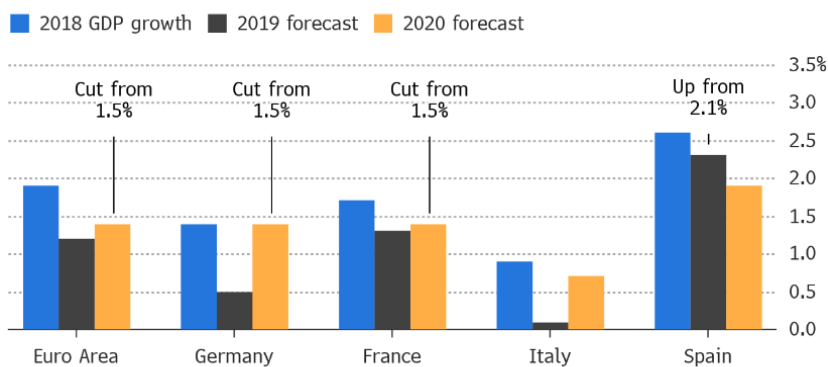
## EU 10-Year Yields



GUKG10 Index (UK Govt Bonds 10 Year Note Generic Bid Yield) Bond Basic Daily 31 Copyright© 2019 Bloomberg Finance L.P. 10-Jul-2019 09:31:39

**The EC cut its growth and inflation forecasts for the region.** In its quarterly update, EC economists reduced the 2020 GDP projection to 1.4% from 1.5% on the back of increased downside risks. The inflation forecast was also trimmed slightly to 1.3%. Commission VP Dombrovsky noted the many tests to the region's resilience, including the risk of a no-deal Brexit.

The EU cuts its predictions for 2020 economic growth in the euro area



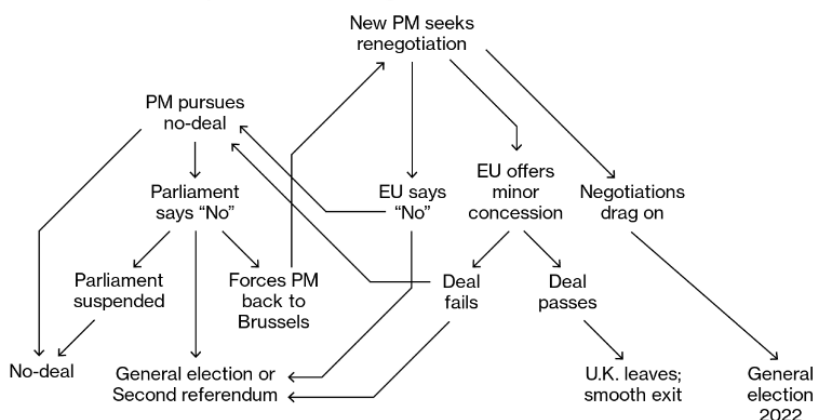
Source: European Commission summer forecast

## United Kingdom

**MPs passed an amendment making it harder to deliver a no-deal Brexit. The amendment was largely, seen as a warning to likely incoming PM Boris Johnson.** The measure, passed by a single vote advantage, makes it harder for the government to suspend parliament ahead of the Brexit deadline to push through a no-deal outcome. Boris Johnson has rejected the possibility of holding a second

referendum or a general election, leaving no-deal Brexit or negotiating a new agreement with the EU as the main possibilities. There was no market reaction to yesterday's amendment.

How the U.K.'s new prime minister might deliver Brexit



Source: Bloomberg

## Other Mature Markets [back to top](#)

### Japan

**Japanese equities extended recent declines while the yen was little changed as investors continued to adjust positions ahead of Fed Chairman Powell's congressional testimony.** Amid limited trading, the Topix fell for a third day (-0.2%). Shares of machine tool makers slid after a trade group reported orders fell the most since October 2009. The yen weakened further (-0.08%), extending its losses against the dollar since last week to ¥109.94/dollar.

## Emerging Markets [back to top](#)

**EM equities were mixed amid limited trading** ahead of Chairman Powell's testimony. In **Asia**, shares in Hong Kong and Korea were both up 0.3% while Chinese bourses declined (Shanghai: -0.4% and Shenzhen: -0.5%). Currencies were similarly subdued. Bloomberg reported that President Moon proposed "active support" from the government to help companies diversify import sources and expand local production. In Thailand, minutes from the June MPC meeting indicated that the monetary policy committee considered capital inflow management "necessary" while it continued to encourage residents' overseas portfolio investments. The Thai baht has strengthened by 5.5% against the dollar this year and is one of the best performing currencies globally. On the day, the baht was unchanged at THB 30.8/dollar. In **EMEA**, equity markets are mostly unchanged with the only notable move being a 0.6% gain for South Africa and 1.2% gain for Dubai. Currencies are mixed in narrow ranges. **Latin American markets** were mixed on Tuesday. Mexico underperformed as equity index fell 1.8% and the peso plunged (-1.3%) after Mexico's Minister of Finance, Carlos Urzúa, resigned unexpectedly. Equity markets and currencies in other countries were mainly traded in narrow ranges. 10-year government bond yields rose 18 bps in Mexico.

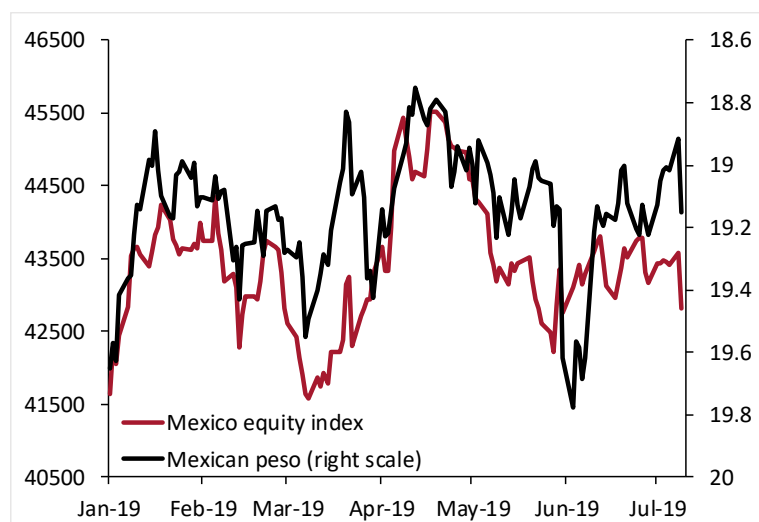
## Key Emerging Market Financial Indicators

Last updated: 7/10/19 8:02 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.54	-0.1	-2	2	-4	9
MSCI Frontier Equities		30.21	0.6	1	2	4	16
EMBIG Sovereign Spread (in bps)		338	-1	-2	-17	-8	-76
EM FX vs. USD		62.72	0.1	0	1	-4	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.1	0	1	-4	0
Indonesian Rupiah		14132	0.0	0	1	2	2
Indian Rupee		68.57	0.0	0	2	0	2
Argentine Peso		41.82	0.0	2	7	-33	-10
Brazil Real		3.79	0.2	1	3	1	2
Mexican Peso		19.17	-0.1	-1	0	-1	2
Russian Ruble		63.59	0.3	0	2	-3	9
South African Rand		14.18	0.0	-1	5	-6	1
Turkish Lira		5.75	-0.3	-2	0	-18	-8
EM FX volatility		7.54	0.0	-0.3	-1.0	-2.1	-2.2

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

## Mexico

**The Minister of Finance, Carlos Urzúa, announced his resignation**, citing conflicts of interest and policy disagreements within President Lopez Obrador's administration. The resignation was one of the most serious blows to the president's seven-month-old administration, which has pursued a less market-oriented agenda than his predecessors. Later yesterday, Arturo Herrera was nominated as Mexico's Minister of Finance. Analysts expected no major changes in policy. The peso depreciated sharply on the announcement (sold off 2.1% intraday) and ended the session 1.3% weaker against the US dollar. Domestic equities fell 1.8%.



Source: Bloomberg

**Mexico's CPI inflation printed 0.06% m/m in June.** The annual rate declined to 3.9% y/y from 4.3%, falling within the target range and bolstering expectations that Banxico would cut rates later this year.

#### Inflation might decelerate but temporary amid core stickiness



Source: INEGI, Barclays Research

#### Core inflation trend rebounded to the upper band of Banxico's target



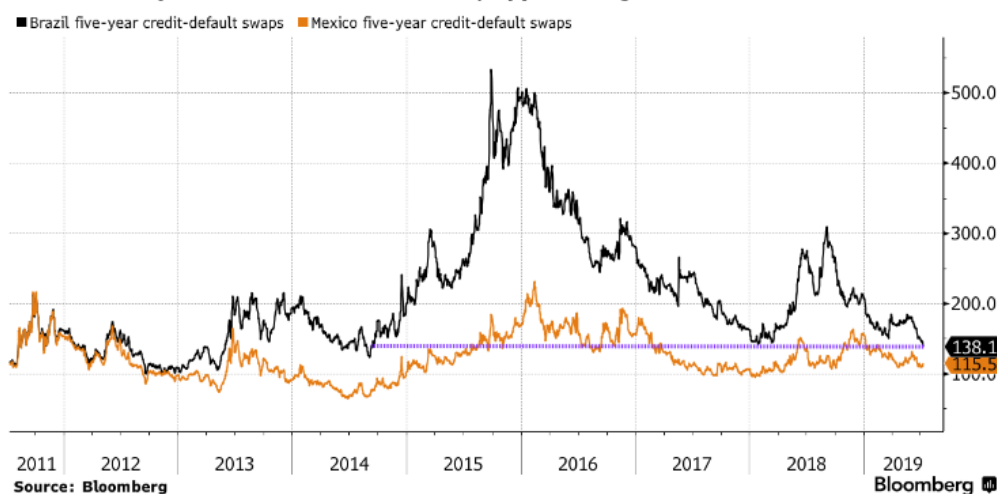
Source: INEGI, Barclays Research

## Brazil

**Pension reform could be brought to a first vote on the lower house floor this week,** though legislators may still seek a number of amendments to the bill. Lower house Speaker Rodrigo Maia met party leaders yesterday morning to discuss voting procedures. Maia expected to conclude the floor votes by Friday, while deputies from Bolsonaro's PSL party stated that the process may extend into Saturday. While local markets were closed due to a holiday, **the spread on the 5-year credit default swaps dropped to a 5-year low, hitting the pre-recession level.**

## Lower Risk

**Brazil country risk at lowest since 2014, approaching that of Mexico**



Source: Bloomberg

Bloomberg

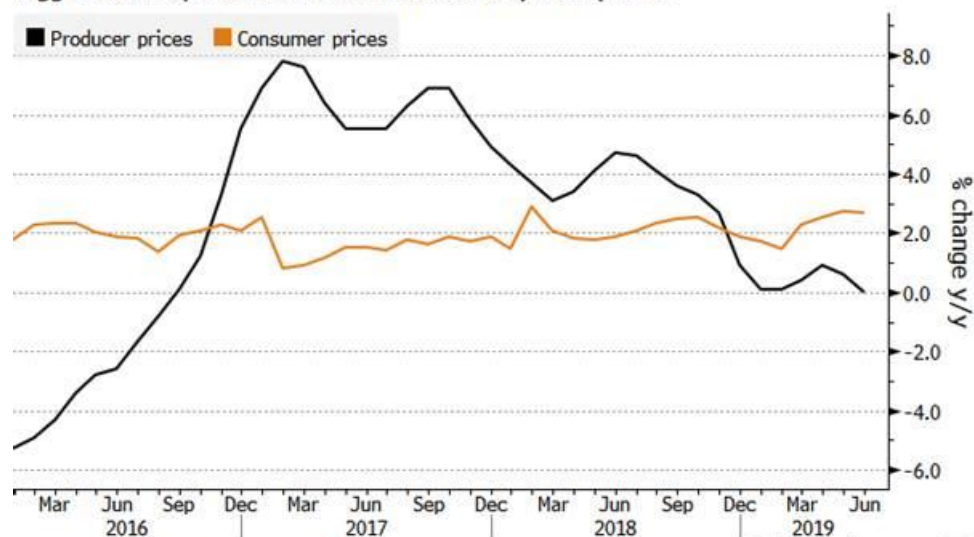
## China

**June PPI slowed, reigniting concerns for industrial sector's profitability.** June PPI slowed from 0.6%, yoy, previously to 0% (consensus: +0.2%, yoy), making it the weakest reading in almost three years. Although a high base and falling oil prices contributed to the fall in PPI, analysts also noted that it reflected

weakening domestic demand. This latest print raised concerns that the industrial sector could fall back into deflation; at the same time, it also raised expectations for the authorities to undertake supportive measures to stabilize growth. By contrast, CPI in June was unchanged at 2.7% and core inflation remained stable at 1.6%. Sovereign bonds and the RMB were both little changed.

### Factory Deflation Risks Return

Bigger-than-expected slowdown threatens corporate profits



Source: National Bureau of Statistics

Bloomberg

CHEFTYOY Index (China PPI YoY) Ch CPI/PPI Daily 31JAN2016-30JUN2019

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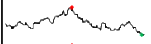












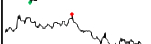



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## Global Financial Indicators

Last updated: 7/10/19 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2980	0.1	1	3	7	19
Europe		3505	-0.1	-1	4	1	17
Japan		21533	-0.1	0	2	-3	8
China		2915	-0.4	-3	2	3	17
Asia Ex Japan		69	-0.3	-3	2	-4	8
Emerging Markets		43	-0.1	-2	2	-4	9
<b>Interest Rates</b>			basis points				
US 10y Yield		2.10	1.7	15	-5	-75	-58
Germany 10y Yield		-0.29	6.4	10	-7	-61	-53
Japan 10y Yield		-0.12	2.0	3	0	-16	-12
UK 10y Yield		0.78	5.5	8	-6	-53	-50
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	0.9	2	-8	13	-27
US High Yield		432	1.4	-6	-21	76	-90
Europe IG		51	0.6	2	-9	-16	-36
Europe HY		254	5.9	15	-15	-47	-99
EMBIG Sovereign Spread		338	-1.0	-2	-17	-8	-76
<b>Exchange Rates</b>			%				
USD/Majors		97.45	0.0	1	1	3	1
EUR/USD		1.12	0.1	-1	-1	-5	-2
USD/JPY		108.9	-0.1	-1	0	2	1
EM/USD		62.7	0.0	0	1	-4	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		66	2.3	3	5	-17	22
Industrials Metals (index)		112	1.0	1	2	-10	2
Agriculture (index)		41	-0.2	0	0	-7	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.6	0.5	1.7	-1.3	2.0	-10.8
10y Treasury Volatility Index		4.3	0.0	-0.1	-0.2	0.5	-0.3
Global FX Volatility		6.2	0.0	-0.1	-0.6	-1.5	-2.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		263	8.1	19	-41	-90	-152
Italy		207	-2.0	10	-51	-28	-43
Portugal		83	0.3	15	-7	-61	-65
Spain		76	-1.6	16	-7	-20	-42

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 7/10/2019 8:02 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		6.88	0.1	0.0	1	-4	0		3.2	0.1	-3	-4	-31	3
Indonesia		14132	0.0	-0.1	1	2	2		7.3	2.0	-9	-75	-41	-83
India		69	0.0	0.5	2	0	2		6.7	1.2	-20	-35	-133	-70
Philippines		51	-0.2	-0.6	1	4	2		4.7	-0.2	-11	-32	-117	-157
Thailand		31	0.0	-0.6	2	8	5		2.1	-0.1	-5	-29	-56	-51
Malaysia		4.14	0.1	0.0	1	-3	0		3.6	-0.1	0	-10	-49	-48
Argentina		42	0.0	1.6	7	-33	-10		29.3	0.0	36	-284	992	630
Brazil		3.79	0.2	1.0	3	1	2		6.7	0.1	-14	-63	-299	-144
Chile		690	-0.4	-1.3	1	-5	1		3.4	-0.5	0	-37	-148	-111
Colombia		3219	0.0	-0.2	1	-10	1		5.7	0.5	4	-32	-71	-83
Mexico		19.17	-0.1	-0.8	0	-1	2		7.7	17.9	18	-36	-13	-107
Peru		3.3	-0.3	-0.1	1	-1	2		4.7	0.7	-7	-33	-81	-100
Uruguay		35	-0.1	-0.1	1	-11	-8		10.4	-8.5	-8	-77		-34
Hungary		291	0.0	-1.7	-3	-5	-4		1.4	-0.7	-10	-29	-113	-76
Poland		3.81	0.0	-1.3	-1	-3	-2		1.9	-3.1	-12	-16	-67	-35
Romania		4.2	0.0	-0.9	-1	-6	-4		4.1	2.0	-3	-3	-70	-18
Russia		63.6	0.3	-0.5	2	-3	9		7.2	-1.3	-4	-33	-19	-120
South Africa		14.2	0.0	-0.9	5	-6	1		9.2	0.0	-10	-36	-6	-44
Turkey		5.75	-0.3	-2.2	0	-18	-8		17.0	8.2	62	-243	-17	16
US (DXY; 5y UST)		97.4	0.0	0.7	1	3	1		1.91	2.7	17	-1	-84	-61

	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		2915	-0.4	-3	2	3	17		177	0	-2	-4	-17	-17
Indonesia		6411	0.4	1	2	9	3		177	-1	-9	-11	-31	-59
India		38557	-0.4	-3	-3	6	7		135	1	-9	-22	-33	-61
Philippines		8078	0.4	0	0	12	8		72	2	-5	-4	-56	-49
Malaysia		1679	-0.2	-1	1	0	-1		114	0	-6	-17	-50	-48
Argentina		41756	0.0	0	17	51	38		783	-2	-10	-150	215	-32
Brazil		104530	0.0	3	7	39	19		220	-1	-12	-23	-77	-53
Chile		5054	-0.2	1	1	-5	-1		130	-1	-4	-6	-10	-36
Colombia		1589	0.5	3	6	2	20		174	0	-4	-18	-4	-54
Mexico		42819	-1.8	-1	-2	-13	3		328	-2	2	-1	58	-26
Peru		20707	-0.8	0	2	3	7		113	-2	-9	-16	-45	-55
Hungary		40629	0.7	-1	-1	15	4		79	-1	-14	-15	-58	-69
Poland		60412	0.4	0	3	6	5		25	-1	-14	-27	-47	-60
Romania		8893	-0.2	1	4	13	20		183	3	-6	-12	20	-38
Russia		2817	-0.2	0	3	19	19		194	-3	-8	-13	-5	-58
South Africa		57331	0.6	-1	-2	-1	9		281	0	1	-32	-11	-84
Turkey		97636	0.9	-2	4	1	7		488	3	20	-33	67	59
Ukraine		545	0.0	-1	-2	12	-3		540	3	24	-25	-15	-247
EM total		43	-0.1	-2	2	-4	9		338	-1	-2	-17	-8	-76

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