



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, July 11, 2019












- **FOMC minutes and Powell testimony perceived as signaling rate cut at July FOMC ([link](#))**
- **US June CPI prints above expectations ([link](#))**
- **Pemex corporate debt spreads widen to near record levels against Mexico ([link](#))**
- **The Bank of Canada leaves policy rates unchanged, as expected ([link](#))**
- **Turkey's 12-month rolling current account deficit narrowed to the lowest in 16 years ([link](#))**

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Global risk assets gain modestly as Fed signals it is ready to cut policy rates

Fed Chair Powell's testimony and the June FOMC minutes removed almost all lingering doubts about the FOMC's intent for the upcoming July FOMC meeting. While noting that recent US data remained fairly good, Powell stated that uncertainty "continues to weigh" on the outlook. In addition, the Chair conceded that the recent low rate of inflation may be more persistent than earlier thought. This theme was echoed in the June FOMC minutes, where "many" participants said that inflation could remain "somewhat below" the 2% level which is considered most consistent with long-term price stability. As US policy rate cuts have already been largely priced into global financial markets, price action was somewhat limited in response. Yesterday, the MSCI World index rose 0.3% and remains near recent highs. The spread on the JPMorgan EMBI index widened by 1 bp but also remains near recent tights. The US dollar broadly weakened against most major currencies. In Europe, the yield on the 10-year Bund has risen 8 bps to -23 bps on stronger-than-expected industrial production data.

Key Global Financial Indicators

Last updated: 7/11/19 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2993	0.5	1	4	8	19
Eurostoxx 50		3505	0.1	-1	3	2	17
Nikkei 225		21644	0.5	0	2	-1	8
MSCI EM		43	0.7	-1	2	-1	10
Yields and Spreads			bps				
US 10y Yield		2.06	-0.3	11	-8	-79	-62
Germany 10y Yield		-0.23	8.0	17	1	-59	-47
EMBIG Sovereign Spread		337	-3	-3	-15	-10	-77
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	0.1	0	1	-2	2
Dollar index, (+) = \$ appreciation		96.8	-0.3	0	0	2	1
Brent Crude Oil (\$/barrel)		67.3	0.4	6	8	-8	25
VIX Index (% change in pp)		12.9	-0.2	0	-3	-1	-13

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

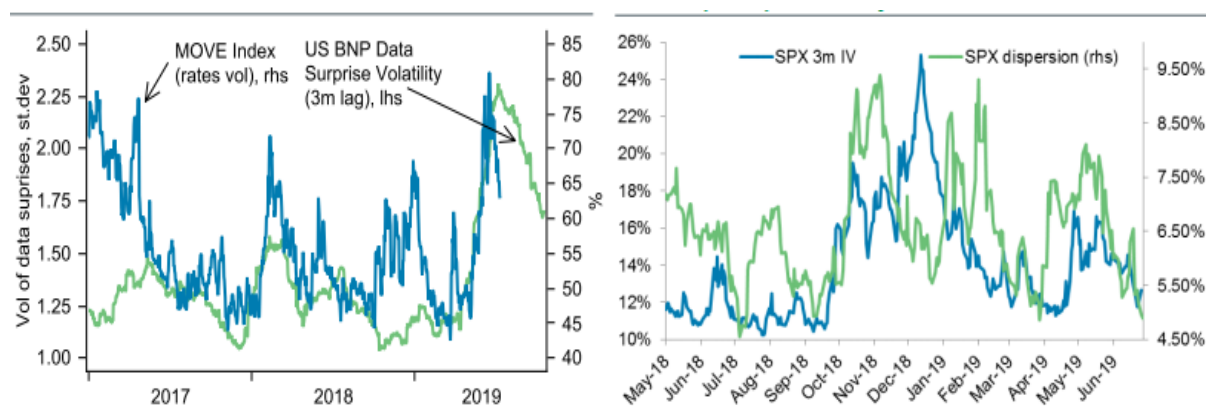
United States

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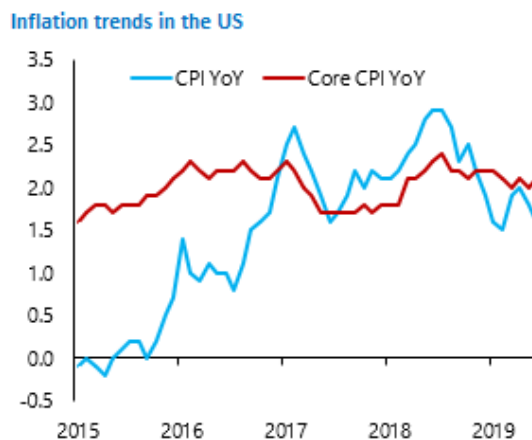
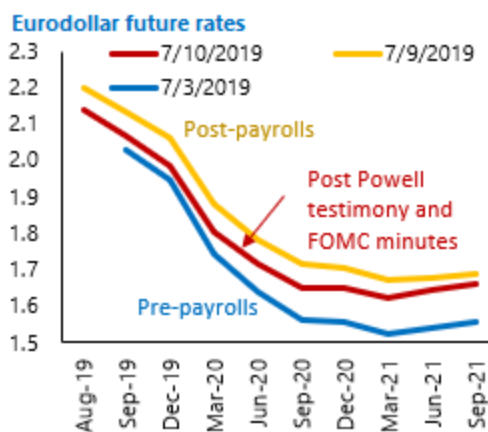
Markets saw Chair Powell's comments to Congress and the FOMC minutes as a confirmation of the committee's intention to cut policy rates at the central bank's next meeting on July 31. The yield on the 2-year note declined sharply by 8 bps to 1.83%, though the 10-year yields were broadly unchanged. The broad dollar index declined by 0.4% on Wednesday and the S&P Index closed up 0.4%. Analysts highlighted that while the data from the US is currently relatively healthy (strong payrolls, PMI surveys in expansion), the Fed is focusing on a potentially weaker outlook as weaker global growth and trade disruptions could take a toll. The market-implied path for policy rates declined across the term structure, with Fed funds futures contracts now implying a modestly higher probability for a 50 bp cut in July. However, the consensus expectation still foresees a 25 bp cut.

The FOMC minutes from the June policy meeting revealed that the staff briefed the Committee on the potential for a standing repo facility which would allow counterparties to borrow reserves at a fixed rate of interest. The proposed facility, which has been discussed among market participants for some time, would make Treasury securities a closer substitute for reserves – likely causing them to richen relative to other interest rate instruments. It would also help to put a ceiling on overnight rates, reducing the likelihood of spikes in repo rates and SOFR, particularly at quarter-ends. Analysts highlighted that they are optimistic that the Fed will decide in favor of a standing repo facility, but important details are still missing and could take some time to flesh out.

Implied volatility compressed across both US equities and rates yesterday, with the VIX declining sharply by 1.0 pt to 13.1 pts. BNP analysts highlight that volatility in economic surprise indices leads interest rate volatility by 3 months in the US. This relationship, if it were to hold, would suggest marginally lower rate volatility in the near future. The analysis also indicates that the dispersion in the S&P 500 has gone down in the rally in the last month and is currently at relatively low levels. This is contrary to typical late cycle dynamics, when dispersion rises as weaker companies start to underperform their peers.



Headline CPI for the June for the US was reported at 0.1% m/m vs expectations of 0.0% m/m. Core CPI also surprised on the upside and was reported at 0.3% m/m vs consensus expectations of 0.2% m/m. The data somewhat allayed concerns about the persistence of below-trend inflation, but did not substantially change expectations about the path of US monetary policy. As of this morning, US yields are up around 2 bps across the curve, and S&P futures are up 0.3% as well.



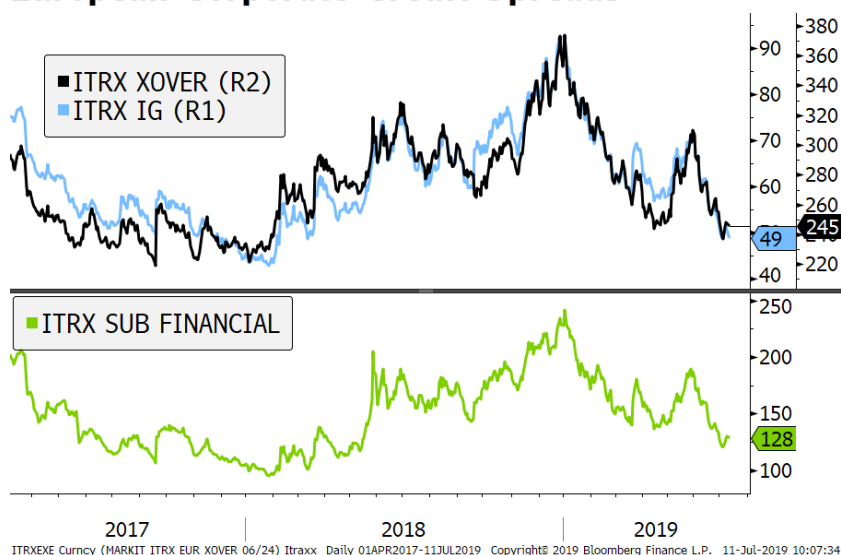
Europe

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The EuroStoxx 600 is up 0.2%, the first gain after closing in negative territory for four consecutive sessions. Deutsche Bank (-1.5%) is underperforming again, this time on the back of news that the US Justice Dept. will investigate the bank's possible involvement in the Malaysian Fund 1MDB scandal. **Yields are mostly lower across the region**, on the back of yesterday's large move in US Treasuries, falling the most Italy. The Italian 10-year yield is down 5 bps to 1.68%, but still a few basis points shy of the lows earlier in the month.

After having widened over the last few sessions, credit spreads in Europe are starting to narrow again. The IG Itraxx index declined to 49 bps while the IG index is at 246 bps, around levels not seen since early 2018. The subordinate financial index has seen a similar move, now at 128 bps. The broader move has been driven by supportive risk appetite, hunt for yield, and expectations for more easing by the ECB.

European Corporate Credit Spreads

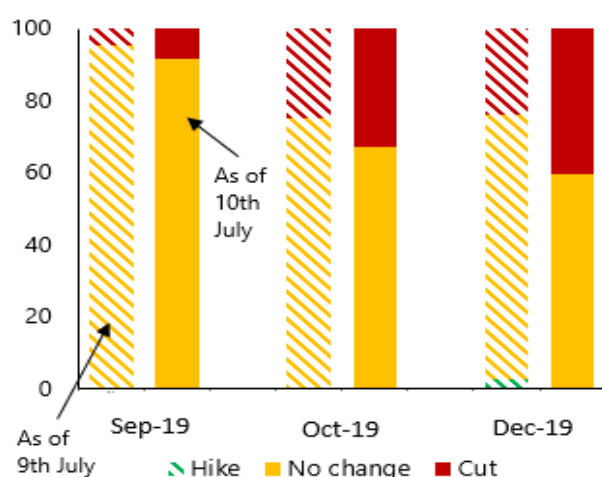


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Canada

The Bank of Canada left rates unchanged at 1.75% on Wednesday. The decision was widely expected by both implied market pricing at the front-end of the CAD OIS curve and by the vast majority of analysts surveyed by Bloomberg (22 out of 23). The BoC revised its growth forecast up by 0.1 ppt this year but revised it down for 2020. In terms of future policy considerations, the BoC stressed the importance of developments in the energy sector. The BoC also addressed more directly that it will be monitoring the impact of global trade conflicts on Canadian growth and inflation. Analysts highlighted that while rates are expected to remain relatively unchanged in the near future, a faster-than-expected easing cycle in the US remains a risk. The market-implied probability of a 25 bp cut to policy rates by December rose from 24% on Tuesday to almost 40% now. The Canadian dollar appreciated by 0.4% against the US dollar, while 10-year rates were broadly unchanged.

Market implied probability of rate changes



Source: Bloomberg

Japan

Japanese equities advanced and the yen strengthened as comments from Fed Chairman Powell were seen as confirming expectations for a rate cut later this month. The Topix halted its three-day decline to gain 0.5% while the yen appreciated by 0.4%. Contacts noted that the impending Fed rate cut is putting pressure on the BoJ to remain accommodative for longer. The BoJ had clarified its guidance in April to commit to extremely low rates until at least around spring 2020. A Fed rate cut could prompt the BoJ to extend its pledge to keep rates at extremely low levels. The central bank will conclude its two-day policy meeting on July 30th, one day before the Fed rate decision.

Emerging Markets [back to top](#)

EM currencies and equities staged broad-based gains following Powell's testimony yesterday. In Asia, The Korean won (+0.7%) and the Thai baht (+0.6%) paced gains, while the offshore CNH held steady, underperforming. Shares rose across most of the region, boosted by Chairman Powell's dovish remarks. The Korean Kospi (+1.1%) and the Hong Kong Hang Seng Index (+0.9%) outperformed while Chinese bourses reversed gains to end the day unchanged. Korean authorities indicated that they will hold a series of talks with Japan over export restrictions to Korea starting tomorrow. **In EMEA,** equity markets are broadly higher by about 0.5%, with Russia (-0.5%) the main outlier. In FX markets, regional currencies are benefiting from the broad dollar weakness, appreciating between 0.1-0.4% across the region. **Latin**

American equity markets were mostly higher on Wednesday. Argentina saw the largest gains as the Merval rallied 2.5%, followed by Brazil equity index (1.2%). Local currencies mainly traded in narrow ranges, while the Brazilian real outperformed (+1%). 10-year government bond yields dropped 8 bps in Brazil but were mixed in other countries.

Key Emerging Market Financial Indicators

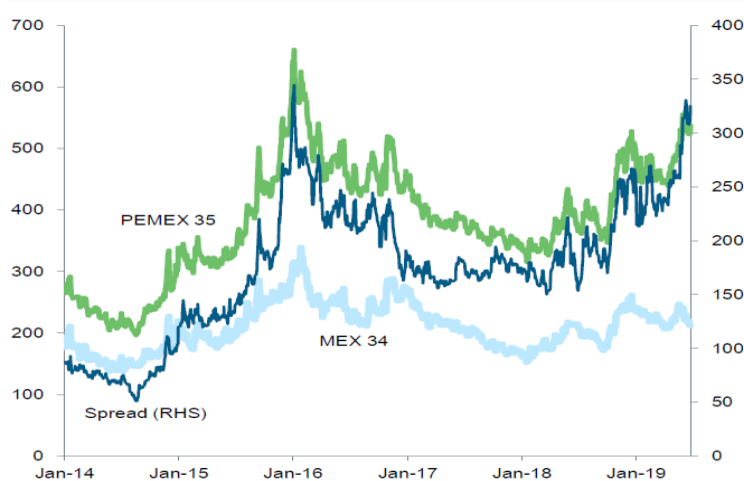
Last updated: 7/11/19 8:22 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.90	0.7	-1	2	-1	10
MSCI Frontier Equities		30.40	0.6	2	2	5	16
EMBIG Sovereign Spread (in bps)		337	-3	-3	-15	-10	-77
EM FX vs. USD		63.21	0.1	0	1	-2	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.87	0.1	0	1	-3	0
Indonesian Rupiah		14067	0.5	0	1	2	2
Indian Rupee		68.45	0.2	0	1	0	2
Argentine Peso		41.86	-0.1	0	7	-35	-10
Brazil Real		3.74	0.5	2	3	4	4
Mexican Peso		19.14	0.0	-1	0	0	3
Russian Ruble		62.94	0.3	1	3	-1	10
South African Rand		13.86	0.9	1	6	-2	4
Turkish Lira		5.67	0.2	-1	2	-14	-7
EM FX volatility		7.51	0.0	-0.2	-0.9	-2.5	-2.3

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

Mexico

Pemex, the state-owned oil company, continues to see the yield on its debt widen relative to maturity-matched sovereign debt. The spread of Pemex's June 2035 bond is now trading near the record wide of 340 bps. Despite the increased attention to the company's finances in the wake of the Fitch

Z-spread (bps)



Source: Bloomberg, Standard Chartered Research

downgrade, there has still been no comprehensive proposal to address Pemex's problems of declining oil output, heavy debt burden and the need for new physical capital. Analysts suggest that these issues present an unsustainable outlook for Pemex and the company may require government support. However, analysts also suggest that it would likely be politically infeasible for Mexico to provide the level of support that would be required to completely address all of Pemex's problems and that such a high level of state investment could potentially put Mexico's own credit ratings at risk.

China

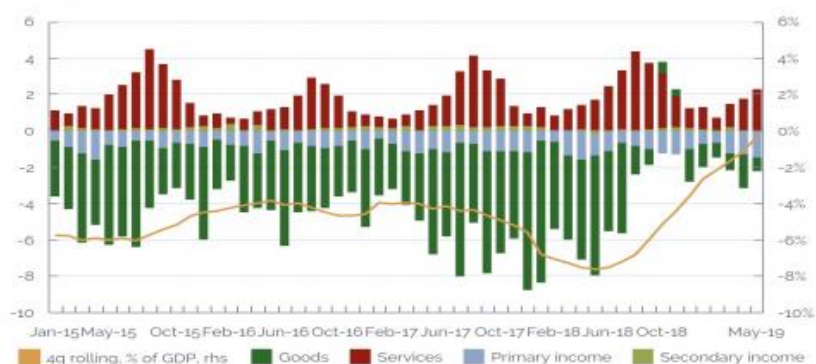
China's regulators are strengthening oversight of the non-bank financial sector to ensure early detection of liquidity troubles. Bloomberg reported that regulators have issued guidance to insurers, mutual funds and brokerages to submit regular assessments of their short-term lending and borrowing positions. Reports are to be submitted on a weekly basis; anomalies must be reported by phone immediately. The government's public takeover of Baoshang Bank in late May, the first in two decades, highlighted counterparty risks and raised financing costs for weaker borrowers, including smaller banks and many non-bank financial institutions. In addition to generous liquidity support to the financial market, policy makers are looking to detect asset-liability mismatches that could trigger defaults or destabilize the funding markets. Funding conditions in China have stabilized: the weighted average 7-day repo rate, at 2.43%, is roughly 40 bps lower relative to the level seen in late May.

Turkey

The current account continues to improve with the 12-month rolling deficit narrowing to £2.4 bn, the lowest in 16 years. At its widest in 2011, the gap reached \$80 bn. The monthly balance showed a surplus of \$0.15 mn, the first positive figure this year. The improvement was largely due to contracting domestic demand, but also to higher receipts from tourism. The lira is little changed and the BIST index is up 0.7% but in line with gains in other regional indices.

Current account (USD bn)

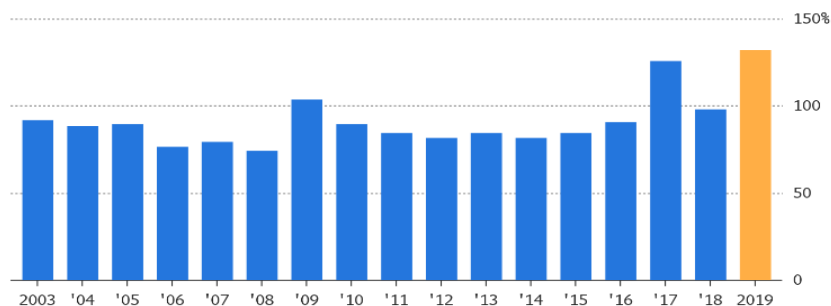
Source | CBT



Separately, the rollover ratio of the government's local-currency debt sales has risen to the highest on record (going back to 2003), according to Bloomberg data. Spending has increased considerably after the recent electoral period and due to counter-cyclical policies to lean against the economic slowdown. The government has borrowed the equivalent of \$18.1 bn between since the start of the year, 45% more than targeted.

Turkish government local-currency debt sales outstrip repayments by most on record

■ Domestic debt rollover ratio ■ Ratio through June 2019



Source: Turkish Ministry of Treasury and Finance

Brazil

Brazil's annual IPCA inflation decelerated to 0.01% m/m in June. In annual terms, inflation fell to 3.37% y/y from 4.66% y/y in May, the slowest pace in more than a year, and the average of three main core inflation measures decelerated to a below-target 3.6% y/y from 3.9% y/y in May. Analysts commented that they expected inflation would remain below 4% for the near future. Following the data release, domestic equities finished 1.2% higher and the real appreciated 1% against the US dollar.

Figure 3: Headline and core measures are below BCB's target









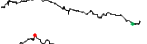


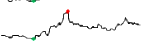
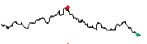











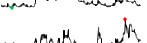






Source: IBGE, Barclays Research

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Global Financial Indicators

Last updated: 7/11/19 8:21 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2993	0.5	1	4	8	19
Europe		3505	0.1	-1	3	2	17
Japan		21644	0.5	0	2	-1	8
China		2918	0.1	-3	0	5	17
Asia Ex Japan		69	0.6	-2	2	-2	9
Emerging Markets		43	0.7	-1	2	-1	10
Interest Rates			basis points				
US 10y Yield		2.06	-0.3	11	-8	-79	-62
Germany 10y Yield		-0.23	8.0	17	1	-59	-47
Japan 10y Yield		-0.14	-1.7	2	-3	-18	-14
UK 10y Yield		0.82	6.6	15	-4	-47	-45
Credit Spreads			basis points				
US Investment Grade		119	-0.4	1	-10	11	-28
US High Yield		432	-0.2	-4	-9	77	-89
Europe IG		49	-0.1	0	-12	-19	-38
Europe HY		246	-0.6	8	-23	-60	-107
EMBIG Sovereign Spread		337	-3.0	-3	-15	-10	-77
Exchange Rates			%				
USD/Majors		96.81	-0.3	0	0	2	1
EUR/USD		1.13	0.3	0	0	-3	-2
USD/JPY		108.0	0.4	0	0	4	2
EM/USD		63.2	0.1	0	1	-2	2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	0.4	6	8	-8	25
Industrials Metals (index)		113	-0.1	1	2	-7	3
Agriculture (index)		41	0.0	-1	0	-4	-1
Implied Volatility			%				
VIX Index (% change in pp)		12.9	-0.2	0.3	-3.1	-0.8	-12.6
10y Treasury Volatility Index		4.2	-0.1	-0.2	-0.3	0.3	-0.4
Global FX Volatility		6.1	0.0	-0.1	-0.6	-1.7	-2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		248	-11.5	2	-53	-104	-168
Italy		192	-12.3	-16	-70	-40	-58
Portugal		76	-5.3	2	-12	-65	-72
Spain		67	-8.0	2	-15	-27	-51

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: 7/11/2019 8:22 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		6.87	0.1	0.1	1	-3	0		3.2	-0.3	1	-4	-32	2
Indonesia		14067	0.5	0.5	1	2	2		7.4	4.1	3	-52	-29	-79
India		68	0.2	0.1	1	0	2		6.7	-3.8	-21	-44	-138	-73
Philippines		51	0.4	-0.3	1	5	3		4.7	-1.5	-8	-30	-118	-158
Thailand		31	0.2	0.2	2	9	6		2.1	0.0	0	-27	-57	-51
Malaysia		4.12	0.5	0.4	1	-2	0		3.6	0.8	2	-7	-47	-47
Argentina		42	-0.1	0.4	7	-35	-10		29.3	3.4	22	-241	980	634
Brazil		3.74	0.5	1.7	3	4	4		6.6	-8.8	-18	-69	-292	-153
Chile		686	0.5	-1.0	2	-6	1		3.3	-3.6	-1	-14	-154	-115
Colombia		3206	0.4	-0.3	2	-10	1		5.7	-1.4	10	-25	-72	-84
Mexico		19.14	0.0	-0.7	0	0	3		7.7	2.2	26	-16	-8	-104
Peru		3.3	0.4	0.2	2	0	3		4.7	-1.8	-6	-38	-83	-102
Uruguay		35	0.1	0.1	1	-11	-8		10.5	9.3	4	-68		-25
Hungary		289	0.2	-0.9	-2	-3	-3		1.5	5.6	4	-23	-105	-71
Poland		3.78	0.2	-0.6	0	-2	-1		2.0	3.1	-5	-17	-65	-32
Romania		4.2	0.2	-0.4	-1	-5	-3		4.1	-1.0	2	-5	-69	-19
Russia		62.9	0.3	0.8	3	-1	10		7.2	-2.8	-7	-33	-21	-123
South Africa		13.9	0.9	1.3	6	-2	4		9.2	3.9	1	-27	-6	-40
Turkey		5.67	0.2	-1.2	2	-14	-7		17.2	15.7	92	-202	-61	32
US (DXY; 5y UST)		96.8	-0.3	0.0	0	2	1		1.82	-0.3	9	-9	-93	-69

	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		2918	0.1	-3	0	5	17		178	0	-1	3	-16	-16
Indonesia		6417	0.1	1	2	9	4		178	-3	-8	-11	-26	-58
India		38823	0.7	-3	-3	7	8		139	4	-4	-13	-25	-57
Philippines		8154	0.9	1	2	11	9		73	-3	-3	-7	-51	-48
Malaysia		1679	0.0	0	2	-1	-1		116	-1	-3	-9	-44	-46
Argentina		42807	2.5	3	12	57	41		784	-4	-10	-69	205	-31
Brazil		105817	1.2	5	7	42	20		213	-5	-20	-28	-86	-60
Chile		5073	0.4	0	0	-4	-1		131	-1	-4	-2	-11	-35
Colombia		1601	0.8	2	5	3	21		172	-1	-7	-15	-10	-56
Mexico		42806	0.0	-2	-2	-13	3		335	-1	8	10	62	-19
Peru		20761	0.3	0	2	5	7		113	-2	-10	-15	-43	-55
Hungary		41016	1.1	0	-1	17	5		88	3	-2	-2	-46	-60
Poland		60527	0.5	-1	2	7	5		32	-2	-5	-5	-40	-53
Romania		8987	1.1	1	4	14	22		185	2	-2	-1	25	-36
Russia		2801	-0.8	-1	2	20	18		195	-2	-8	-10	-1	-57
South Africa		57586	0.0	0	-2	1	9		277	-4	-3	-35	-11	-88
Turkey		99057	0.5	0	7	9	9		490	4	26	-33	50	61
Ukraine		541	0.0	-1	-2	10	-3		525	-5	8	-40	-38	-262
EM total		43	0.7	-1	2	-1	10		337	-3	-3	-15	-10	-77

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