



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, July 15, 2019












- **US stocks gain four days in a row to reach new record high** ([link](#))
- **US high-yield bond funds see large inflows** ([link](#))
- **Rating agency DBRS confirms Italy's BBB rating** ([link](#))
- **China's Q2 output growth slowed to its weakest pace since 1992** ([link](#))
- **Chinese authorities tighten guidance on overseas funding** ([link](#))
- **Monetary policy in Latin America is expected to follow the global easing swing** ([link](#))

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Expectations of global monetary easing continue to fuel risk sentiment

Markets continue to be buoyed by expectations of further monetary easing, which were reinforced last week by Chairman Powell's testimony to Congress. He seemed to reaffirm the Fed's dovish tilt and all but confirm a rate cut in July. Minutes from June's ECB minutes further confirmed that this dovish stance was shared by other major central banks, lending support to a global rally in risk assets, with the S&P 500 breaching the 3000 level, a record high, and credit spreads tightening across Europe and EM. A disappointing GDP print from China failed to dampen sentiment this morning, with most DM and EM equity markets trading in the green. **In addition to the anticipated US earnings reports, a number of important economic data releases will be in focus this week.** Key amongst them include US retail sales and industrial production figures (Tuesday), the University of Michigan sentiment numbers (Friday), and CPI inflation data across the Euro area (Wednesday) and Japan (Thursday). There are also monetary policy meetings in Indonesia, Korea, Chile, South Africa, and Ukraine (all Thursday). On the earnings front, the key reports include Citigroup (Monday), GS, JPMorgan (Tuesday), Bank of America, Netflix (Wednesday), and Morgan Stanley (Thursday).

Key Global Financial Indicators

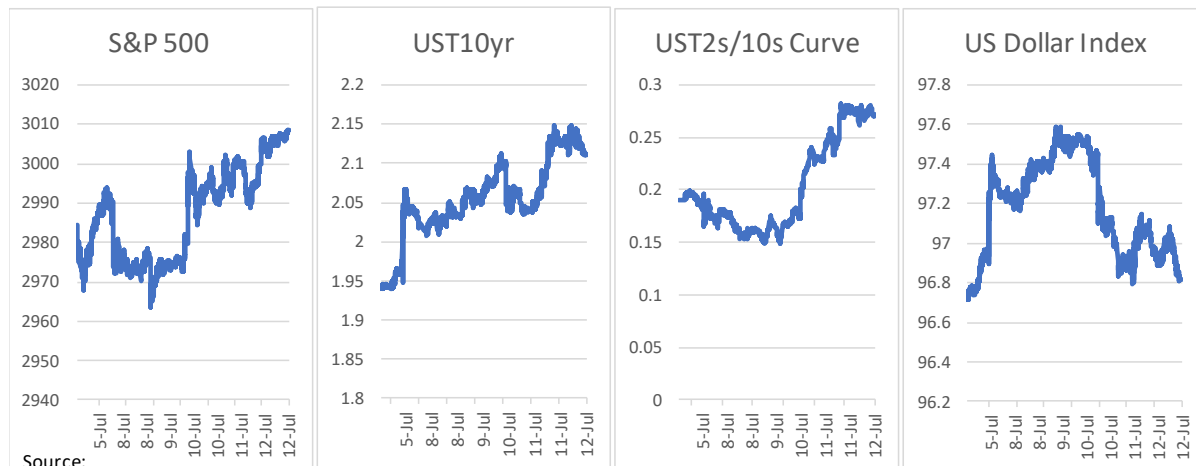
Last updated: 7/15/19 7:53 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3014	0.5	1	4	8	20
Eurostoxx 50		3501	0.1	-1	4	1	17
Nikkei 225		21686	0.2	0	3	-4	8
MSCI EM		43	0.3	0	4	-2	10
Yields and Spreads			bps				
US 10y Yield		2.11	-1.6	7	3	-71	-57
Germany 10y Yield		-0.23	-2.3	13	2	-57	-48
EMBIG Sovereign Spread		334	-1	-2	-28	-11	-80
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.3	0.2	1	2	-2	2
Dollar index, (+) = \$ appreciation		96.8	0.0	-1	-1	2	1
Brent Crude Oil (\$/barrel)		66.9	0.3	4	8	-11	24
VIX Index (% change in pp)		12.7	0.3	-1	-3	0	-13

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

United States

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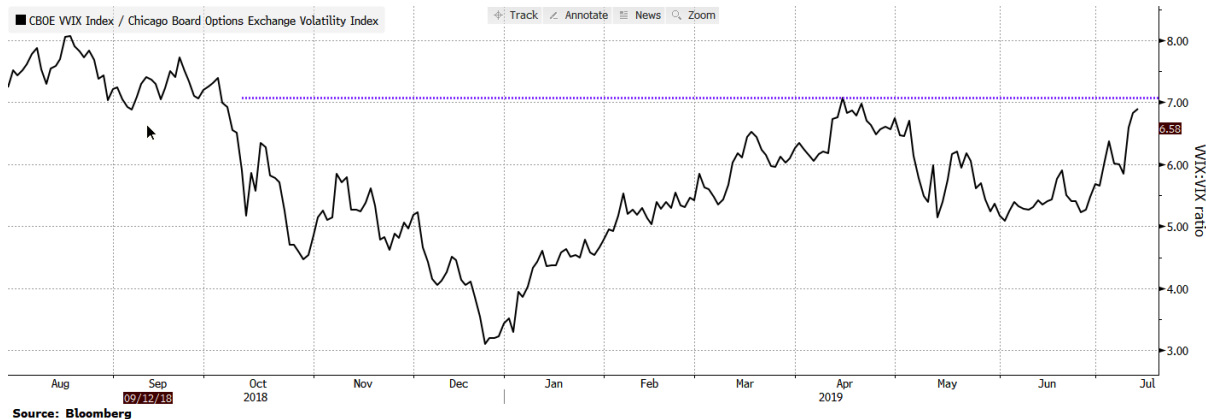
The US stock market posted gains four days in a row to finish the week at a record high. The broader macro narrative remains the same, with expectations of a more accommodative monetary policy still powering markets. The S&P 500 implied volatility index (VIX) declined three days in a row to 12.4. **Treasury 10-year yields** slid lower during the day but managed to **finish the week at above 2.1% with 2-to-10-year yield curve at the steepest level month-to-date**. Higher-than-expected June PPI print in the morning did not have a material impact on the market.



The volatility of volatility (VVIX) is climbing higher, while the implied equity volatility (VIX) is trending lower, sending the VVIX/VIX ratio higher. The higher ratio may be indicative of rising investor complacency in the market, posing a potential risk of a correction. There were indeed a few examples of corrections in the recent history when the ratio was around 7 times in Oct last year and in April this year. Analysts see that the warning flashes before earnings season.

A Most Volatile Pairing

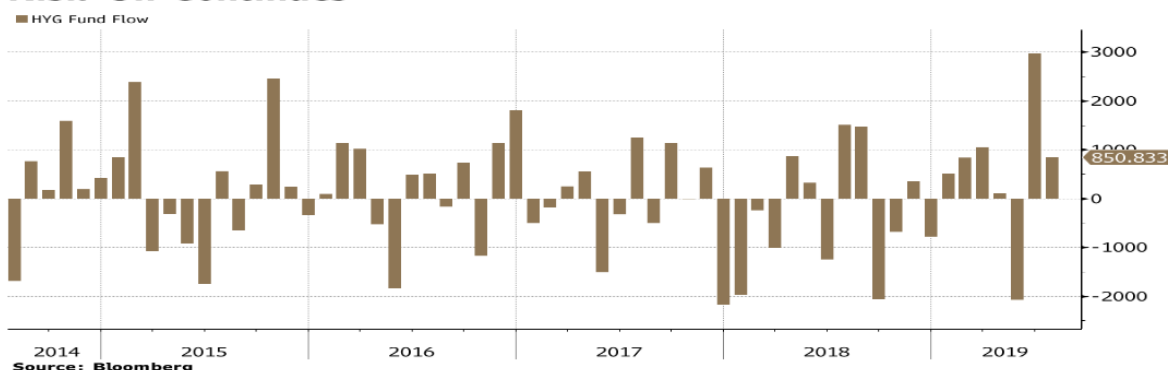
Volatility of the VIX is rising comparatively as key 2Q earnings begin



High-yield bond funds have seen \$2.3 bn of inflows in the week ending July 10, according to EPFR Global. The high-yield bond market has likely benefitted from rising investor expectations of a more accommodative Fed policy, although part of the inflows could also be due to a reversal of the near-record outflows in May amid trade tensions. **In contrast, leveraged loan funds saw cash outflow for 19 weeks in a row**. Investors withdrew \$303 mn from mutual fund and ETFs which invest in US leveraged loans in the week to Wednesday. Demand for loans tends to decrease when investors expect a lower rate

environment as their coupons are typically set on a floating rate basis. Some analysts report that loan investors are taking advantage of the current falling demand to push back against 'covenant-lite' terms.

Risk-On Continues



Europe

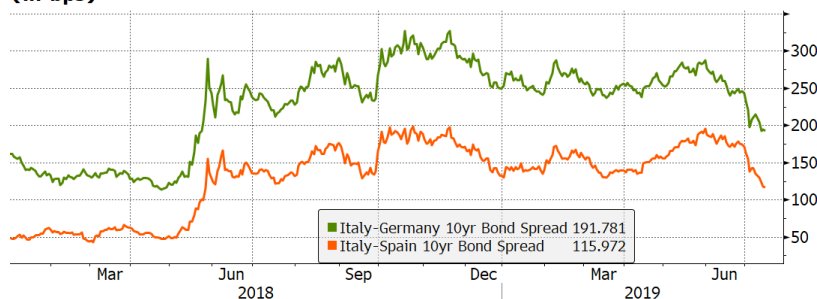
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European stocks are little changed today, with the DAX flat and the EuroStoxx 600 (-0.2%) and CAC 40 (-0.3%) slightly down. Bank equities (-0.3%) are performing in line with major indices.

Most Euro area sovereign bond yields inched down across countries and tenors today. German 10-year bunds are at -0.2% (-2 bps); French at 0.03% (-3 bps); Spanish at 0.53% (-4 bps); Irish at 0.23% (-2 bps).

Rating agency DBRS confirmed Italy's BBB rating (with stable trend) on Friday. The agency cited "Italian banks' progress with improving credit quality and the Italian government's pledge to a more prudent fiscal strategy" as rationales for its decision. It also acknowledged that the "outlook from 2020 onwards remains challenging." **Italian 10-year yields dropped 5 bps today to 1.69%** following unconfirmed reports in the local press that deputy prime minister Salvini told aides that a general election could take place in September. **Spreads of Italian debt to other sovereigns have narrowed notably in recent weeks.**

Italy: Spreads to Other Sovereigns (in bps)



Source: Bloomberg
CFRTR1US Curncy (FRANCE CDS USD SR 5Y D14) FI: Ita-Periph Spreads Daily 02JAN20 Copyright© 2019 Bloomberg Finance L.P. 15-Jul-2019 09:45:53

Other Mature Markets

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Japan


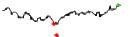



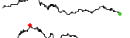
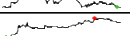





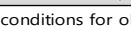

Japanese markets are closed for Marine Day.

Emerging Markets

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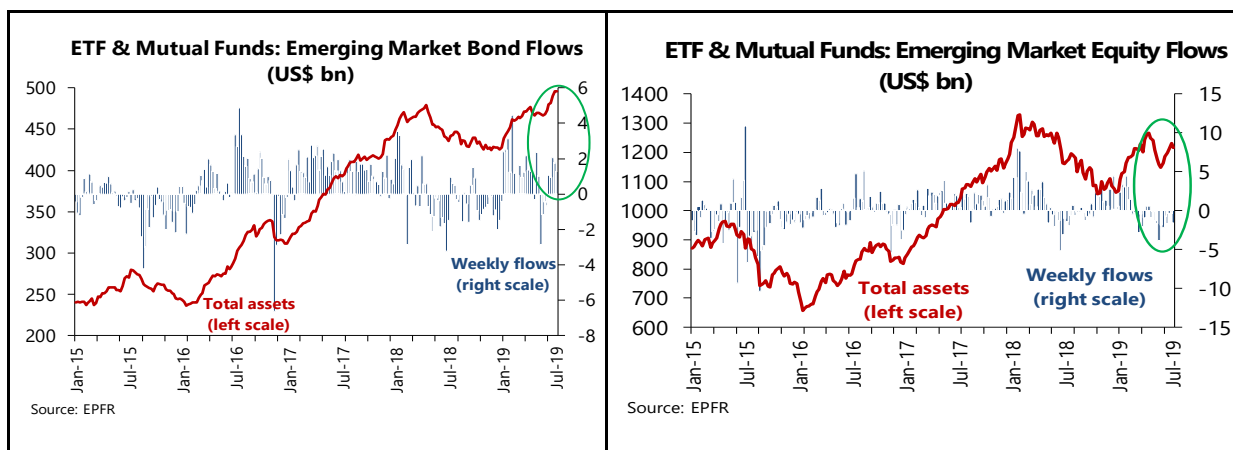
Emerging markets saw a quiet start to the week. Asian equities and currencies were mixed and mostly little changed. Indonesian equities and the rupiah paced gains (+0.9% and +0.5%, respectively) following reports of substantial economic reforms. The rupiah reached 13,908/dollar, its strongest level against the dollar in five months. In China, the Shanghai Composite Index rose 0.8%, rebounding from losses sustained last week, while the RMB was little changed following Q2 GDP figures showing 6.2% y/y growth, in line with expectations. In the EMEA region, equities were little changed apart from Turkey where they fell by 2.3% on broad-based losses. Currencies in the region saw small moves with Russia (+0.7%) outperforming. Latin American equities tilted negative on Friday. Equities closed lower in Brazil (-1.2%) and Mexico (-0.5%) while others, including Argentina and Chile, saw limited moves. Local currencies appreciated slightly across the board: 0.5% in Brazil and Mexico, 0.3% in Argentina and Chile, 0.2% in Colombia and 0.1% in Peru.

Key Emerging Market Financial Indicators

Last updated: 7/15/19 7:56 AM	Level	Change	YTD
	Last 12m index	1 Day 7 Days 30 Days 12 M	
Major EM Benchmarks		%	%
MSCI EM Equities	 42.85	0.3 0 4 -2	10
MSCI Frontier Equities	 30.38	0.0 1 2 4	16
EMBIG Sovereign Spread (in bps)	 334	-1 -2 -28 -11	-80
EM FX vs. USD	 63.29	0.2 1 2 -2	2
Major EM FX vs. USD		%, (+) = EM currency appreciation	
China Renminbi	 6.88	0.1 0 1 -3	0
Indonesian Rupiah	 13919	0.6 1 3 3	3
Indian Rupee	 68.55	0.2 0 2 0	2
Argentine Peso	 41.59	0.3 1 5 -35	-9
Brazil Real	 3.74	0.5 2 3 4	4
Mexican Peso	 18.94	0.3 0 1 -1	4
Russian Ruble	 62.59	0.6 2 3 0	11
South African Rand	 13.86	0.7 2 7 -5	4
Turkish Lira	 5.70	0.3 1 3 -15	-7
EM FX volatility	 7.22	0.8 -0.5 -1.2 -2.9	-2.6

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

Investors continued to seek EM bond funds, while further reducing their appetite for EM equity funds. Over the past week, EM bonds funds registered inflows of \$ 1.29 bn, while EM equity funds experienced outflows of \$ 1.6 bn. Outflows hit exclusively EM equity mutual funds, with EM equity ETFs seemed to be less affected. Year-to-date, EM bond funds have gained around \$ 30.3 bn in new shares, while their equity peers lost \$3.1 bn.

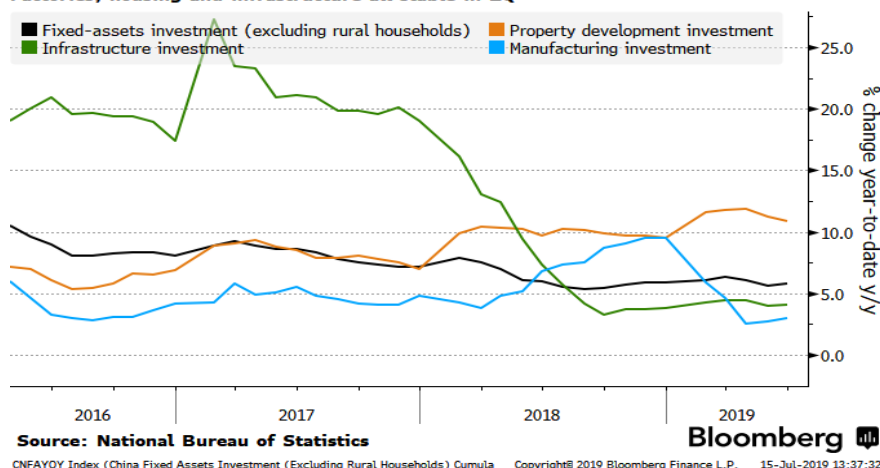


China

Growth in Q2 slowed to its weakest pace since 1992, the start of the quarterly series, amid ongoing trade tension with the U.S. In line with expectations, Q2 GDP rose 6.2% y/y, compared to 6.4% y/y, in Q1, dragged lower mostly by manufacturing activities. That said, June data exceeded expectations. Industrial production and fixed asset investments grew from levels seen in May, while retail sales also gained. A number of analysts noted that positive surprises in the June data suggest that growth could rebound in the coming months while others caution that headwinds remain strong, particularly as a trade agreement with the U.S. remains elusive. The Shanghai Composite Index rose 0.8%, rebounding from losses sustained last week while the RMB was little changed.

Stabilizing Investment

Factories, housing and infrastructure all stable in 2Q

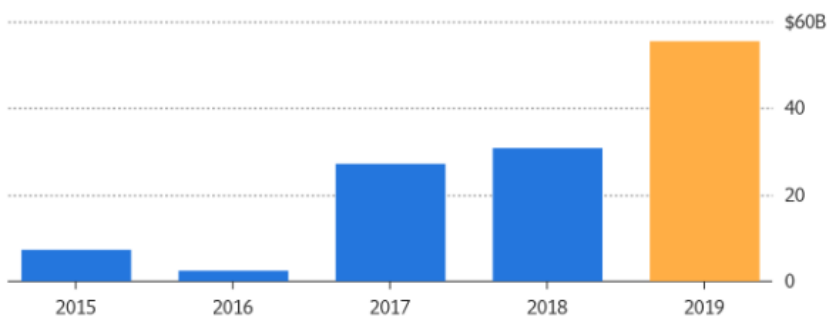


Authorities tightened guidance on overseas funding amid rising credit risk concerns, slowing funding to the real estate sector. On Friday, the National Development and Reform Commission issued a statement indicating that foreign debt issued by real estate companies can only be used to refinance mid- to long-term overseas debt maturing in one year while companies were also asked to keep a "reasonable proportion" of domestic and foreign debts as well as a mix of short-term and long-term borrowings offshore. Analysts expect overseas debt issuance by developers to slow. Bloomberg data indicated that developers had sold a record amount of dollar bonds so far this year (\$55.4 bn), an increase

of 80% from last year's level. The tightened guidance will curtail funding to the property development sector. Meanwhile, property appreciation stabilized. In June, the average gain in property prices across 70 cities was +0.7% on a monthly basis, unchanged from May, while the number of cities with higher prices sequentially fell from 67 to 63.

Borrowing Binge

Dollar bond sales from Chinese builders surged to record high so far this year



Bloomberg

Turkey

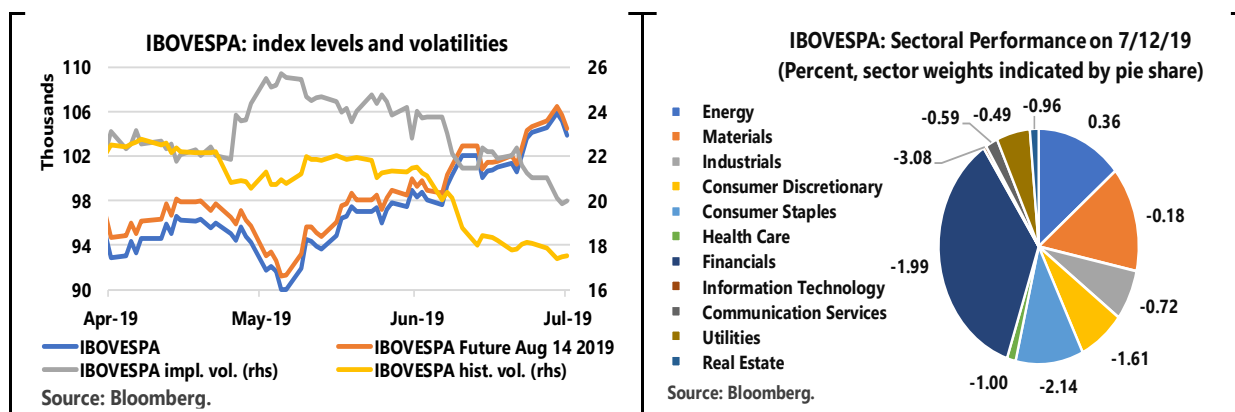
The lira was flat this morning despite negative headlines over the weekend. Fitch downgraded the country's to BB-, three notches below investment grade, as it believed the dismissal of governor Cetinkaya showed "a deterioration in institutional independence". The outlook was kept on negative as the agency also warned over the economic cycle and uncertainty over structural reform prospects. Elsewhere, president Trump's administration was reported to have decided on a sanctions package after Turkey began receiving parts for the Russian S-400 missile system. The lira was a fraction stronger against the dollar in morning trading, helped by speculation that the sanctions will be limited. Stocks suffered, however, and saw a dip of 2.3%, with financials (-3.3%) the worst performing sector.

Argentina

On July 12, 2019 Moody's maintained its B2 rating for Argentine sovereign securities but shifted the rating outlook from stable to negative. The decision was based on uncertainties perceived around Argentina's commitment to policies addressing imbalances, restoring access to international capital markets and containing risks of currency shocks. Moody's listed the negative impact of policy uncertainty on economic sentiment as a further reason for the decision. Market reaction to the news has so far been muted.

Brazil

The IBOVESPA stock index declined Friday by 1.2%, following a 0.6% loss the previous day. The main drivers included losses in financials (-2%) and consumer staples (-2.1), with the former dominating due to their large share in the index. Future markets closed lower by a similar degree, while increases in implied and historical volatilities indicated marginally higher risk. According to S&P, Brazilian banks are exposed to the construction giant Odebrecht's bankruptcy, but risks appear manageable as banks have already built up adequate provisions. Odebrecht's latest legal move to stop a seizure of shares collateralizing loans by Itau Unibanco may have impacted markets. Furthermore, Brazilian reinsurer IRB Brasil Resseguros's plans for a secondary market offering of about 8.5 bn reais, as reported by Reuters, may have also weighed on markets.



Monetary policy in Latin America is expected to follow the global easing swing. According to JP Morgan, markets are pricing in rate cuts of 86bps in Brazil, 52bps in Mexico, 24bps in Chile and 12bps in Colombia by Q4 2019. Goldman Sachs expects no immediate action in Chile at next week's Monetary Policy Committee meeting but foresees rate cuts in September on the back of a 30bps wider output gap. S&P analysts reported 2 out of 5 members of Banco de Mexico to ponder about rate cuts ahead. Meanwhile the Central Reserve Bank of Peru kept its reference rate unchanged at 2.75%, pointing to an inflation rate of 2.29% y/y, down 44 bps from May and broadly within its target range. Real economic performance was

assessed as balanced, with weaknesses in primary industries compensated by growth momentum in non-primary industries.

Exhibit 9: EM markets are pricing rate cuts across the board, with further rate cuts priced over the past month

bp, positive numbers indicate hikes and negative indicate cuts

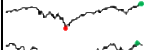
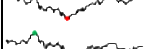










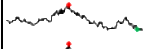









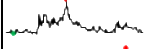




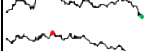
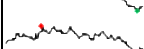
Country	JPM forecast by 4Q19	Market priced by 4Q19 as of 10-Jul-19	Market pricing minus JPM	Change in market priced by 4Q19 between 05-Jun- 19 and 10-Jul-19
Brazil	-100	-86	14	-70
Chile	-25	-24	1	15
Colombia	0	-12	-12	-19
Mexico	0	-52	-52	-40
Czech Rep.	0	-8	-8	11
Israel	0	8	8	-1
Poland	0	-1	-1	1
South Africa	-25	-44	-19	3
India	-50	-46	4	-20
South Korea	-25	-34	-9	-3
Malaysia	-25	-23	2	3
Thailand	-25	-31	-6	-21
Taiwan	0	-1	-1	-2

Source: J.P. Morgan. For full daily analysis of EM market monetary policy pricing outright and versus our economist forecast, see our newly-released [Global EM What's Priced In?](#) report.

List of GMM Contributors (Global Markets Analysis Division, MCM Department)
Anna Ilyina*Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***Deputy Division Chief***Evan Papageorgiou***Deputy Division Chief***Sergei Antoshin***Senior Economist***John Caparusso***Senior Financial Sector Expert***Sally Chen***Senior Economist***Fabio Cortés***Senior Economist***Mohamed Jaber***Senior Financial Sector Expert***David Jones***Senior Financial Sector Expert***Sanjay Hazarika***Senior Financial Sector Expert***Juan Solé***Senior Economist***Jeffrey Williams***Senior Financial Sector Expert***Akihiko Yokoyama***Senior Financial Sector Expert***Dimitris Drakopoulos***Financial Sector Expert***Tryggvi Gudmundsson***Economist***Henry Hoyle***Financial Sector Expert***Robin Koepke***Economist***Thomas Piontek***Financial Sector Expert***Rohit Goel***Financial Sector Expert***Jochen Schmittmann***Economist***Ilan Solot***Financial Sector Expert***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Piyusha Khot***Research Assistant***Xingmi Zheng***Research Assistant*

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Global Financial Indicators

Last updated: 7/15/19 7:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3014	0.5	1	4	8	20
Europe		3501	0.1	-1	4	1	17
Japan		21686	0.2	0	3	-4	8
China		2942	0.4	0	2	4	18
Asia Ex Japan		69	0.1	-1	4	-4	9
Emerging Markets		43	0.3	0	4	-2	10
Interest Rates			basis points				
US 10y Yield		2.11	-1.6	7	3	-71	-57
Germany 10y Yield		-0.23	-2.3	13	2	-57	-48
Japan 10y Yield		-0.11	0.0	3	2	-15	-12
UK 10y Yield		0.80	-3.3	9	-5	-47	-48
Credit Spreads			basis points				
US Investment Grade		119	1.2	1	-11	13	-28
US High Yield		430	2.4	2	-18	77	-91
Europe IG		48	-0.8	-3	-12	-15	-39
Europe HY		242	-3.9	-6	-33	-47	-111
EMBIG Sovereign Spread		334	-1.0	-2	-28	-11	-80
Exchange Rates			%				
USD/Majors		96.82	0.0	-1	-1	2	1
EUR/USD		1.13	0.0	1	0	-4	-2
USD/JPY		107.9	0.0	1	1	4	2
EM/USD		63.3	0.2	1	2	-2	2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	0.3	4	8	-11	24
Industrials Metals (index)		114	0.5	3	4	-6	5
Agriculture (index)		42	-0.4	2	-1	-2	0
Implied Volatility			%				
VIX Index (% change in pp)		12.7	0.3	-1.3	-2.6	0.5	-12.8
10y Treasury Volatility Index		4.2	-0.2	0.0	-1.2	0.6	-0.4
Global FX Volatility		6.1	0.1	-0.1	-0.5	-1.9	-2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		257	0.8	11	-39	-94	-158
Italy		190	-5.1	-25	-70	-31	-60
Portugal		84	-2.4	-2	-2	-55	-64
Spain		77	-1.3	-4	1	-16	-41

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: 7/15/2019 7:56 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		YTD	Last 12m	Latest	1 Day	7 Days	30 Days		12 M
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.88	0.1	0.1	1	-3	0		3.2	0.0	0	-9	-32	2	
Indonesia		13919	0.6	1.4	3	3	3		7.2	-3.1	-9	-61	-54	-94	
India		69	0.2	0.2	2	0	2		6.7	-2.2	-16	-47	-137	-79	
Philippines		51	0.2	0.6	2	5	3		4.7	0.5	1	-30	-115	-156	
Thailand		31	0.1	-0.3	1	8	5		2.1	2.7	0	-24	-58	-51	
Malaysia		4.11	0.1	0.8	2	-2	1		3.6	0.1	1	-10	-49	-48	
Argentina		42	0.3	0.5	5	-35	-9		29.5	2.3	14	-78	989	645	
Brazil		3.74	0.5	2.3	3	4	4		6.6	1.6	-14	-61	-316	-151	
Chile		679	0.3	0.6	2	-5	2		3.3	0.0	-4	-11	-152	-114	
Colombia		3193	0.2	0.5	2	-10	2		5.7	-0.7	8	-14	-69	-78	
Mexico		18.94	0.3	-0.1	1	-1	4		7.7	-4.2	22	-11	-12	-105	
Peru		3.3	0.1	0.2	1	0	3		4.7	-5.3	-7	-29	-89	-106	
Uruguay		35	0.0	0.2	1	-11	-8		10.3	-8.1	-11	-76		-39	
Hungary		289	0.0	0.2	-1	-5	-3		1.6	1.4	12	-18	-95	-63	
Poland		3.78	0.2	0.4	0	-3	-1		2.0	1.8	3	-12	-58	-26	
Romania		4.2	-0.1	0.3	0	-5	-3		4.0	-1.0	-3	-12	-58	-24	
Russia		62.6	0.6	1.7	3	0	11		7.2	4.0	-2	-29	-15	-121	
South Africa		13.9	0.7	2.3	7	-5	4		9.2	6.2	1	-22	-10	-40	
Turkey		5.70	0.3	0.6	3	-15	-7		17.4	36.7	106	-99	-125	55	
US (DXY; 5y UST)		96.8	0.0	-0.6	-1	2	1		1.86	-1.3	0	3	-87	-65	

	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		2942	0.4	0	2	4	18		176	-1	-1	-5	-19	-18	
Indonesia		6418	0.7	1	3	8	4		170	1	-10	-25	-34	-66	
India		38897	0.4	0	-1	6	8		137	2	3	-16	-30	-59	
Philippines		8365	2.7	4	5	13	12		68	1	-3	-15	-58	-53	
Malaysia		1672	0.2	0	2	-3	-1		115	0	-1	-18	-45	-47	
Argentina		42753	-0.2	4	6	61	41		779	1	-26	-72	211	-36	
Brazil		103906	-1.2	0	6	36	18		210	0	-16	-36	-85	-63	
Chile		5068	-0.1	0	0	-4	-1		129	-1	-2	-8	-10	-37	
Colombia		1605	0.3	2	5	4	21		171	0	-2	-21	-8	-57	
Mexico		42647	-0.5	-2	-1	-12	2		323	1	1	-22	58	-31	
Peru		20739	0.2	-1	2	5	7		111	1	-7	-18	-41	-57	
Hungary		40741	0.1	0	0	14	4		87	4	3	-13	-48	-61	
Poland		60511	0.2	0	2	7	5		38	4	9	-15	-33	-47	
Romania		9152	0.6	3	8	15	24		188	8	6	-1	30	-33	
Russia		2766	-0.4	-2	1	18	17		189	-2	-9	-24	-7	-63	
South Africa		57194	-0.1	-1	-2	1	8		273	-1	-7	-46	-19	-92	
Turkey		97098	0.0	-3	7	8	6		495	-1	11	-46	33	66	
Ukraine		539	0.0	-1	-3	9	-4		516	2	-12	-42	-30	-271	
EM total		43	0.3	0	4	-2	10		334	-1	-2	-28	-11	-80	

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