



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, July 16, 2019






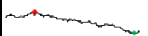





- **Analysts are expecting an earnings recession in Q2 ([link](#))**
- **Bets by speculators on lower rates are at post-crisis high ([link](#))**
- **Debt ceiling concerns weigh on the T-Bill market ([link](#))**
- **Greece is considering issuing a 7-year sovereign bond ([link](#))**
- **Rates on certificates of deposit in China are returning to pre-Baoshang levels ([link](#))**
- **Central bank of Brazil to accept private debt as collateral starting 2021 ([link](#))**

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Earnings season kicks off, with expectations of a weak Q2

Investors turn to Q2 earnings releases this week for a validation of their outlook on the corporate sector and on the health of the global economy, more generally. In the US analysts are currently projecting a 3% y/y drop in Q2 earnings which, if proven to be true, would be the first earnings recession since 2016. Citigroup was the first bank to report yesterday and its results were mixed, with better than expected earnings but weak trading revenues and tighter net interest margins. Should corporate earnings turn out to be even weaker than expected, this could lead to a sell-off in risk assets from their current record highs. Protracted negotiations pertaining to the US debt ceiling could also be a catalyst to a sell-off. In currency markets, the British pound declined by close to 1% today – its lowest level since 2017 – amid rising concerns about the apparent hardening position of the UK vis-à-vis Brexit, as expressed recently by the leading contender to the Premiership. European equity markets are trading slightly up while in the US, better-than-expected retail sales figures did not seem to have a material effect on risk assets, with equity futures pointing to a neutral start. Treasury yields were slightly up on the news.

Key Global Financial Indicators

Last updated: 7/16/19 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3014	0.0	1	4	8	20
Eurostoxx 50		3515	0.4	0	4	2	17
Nikkei 225		21535	-0.7	0	2	-5	8
MSCI EM		43	0.3	1	5	-1	10
Yields and Spreads			bps				
US 10y Yield		2.09	-3.3	3	1	-77	-59
Germany 10y Yield		-0.27	-1.6	9	-1	-63	-51
EMBIG Sovereign Spread		333	-2	-6	-29	-8	-81
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	-0.1	1	2	-3	2
Dollar index, (+) = \$ appreciation		97.2	0.3	0	0	3	1
Brent Crude Oil (\$/barrel)		66.3	-0.2	3	7	-8	23
VIX Index (% change in pp)		12.5	-0.2	-2	-3	0	-13

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

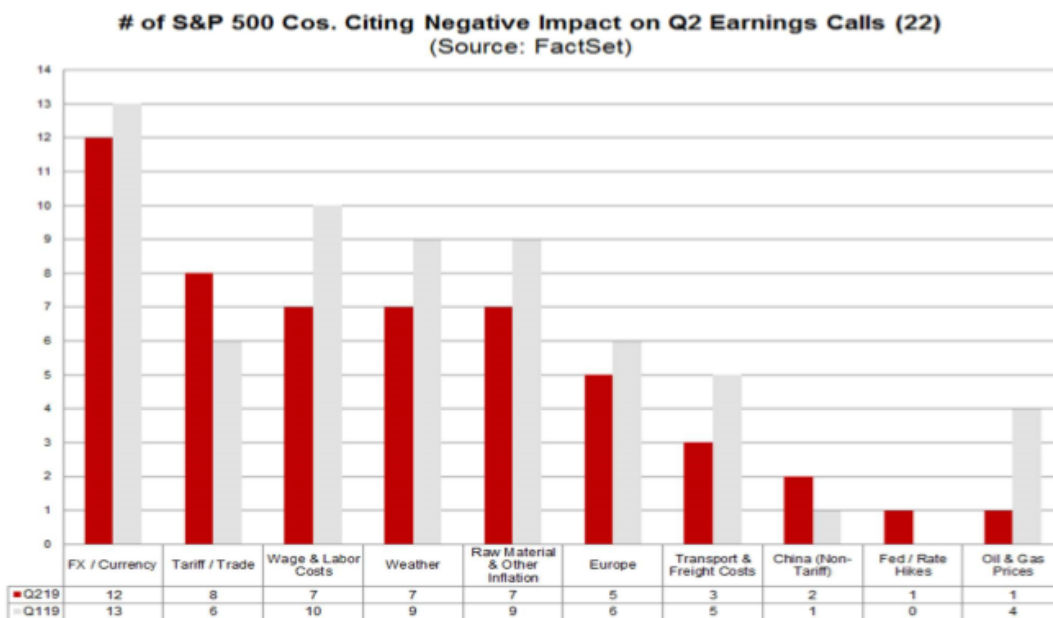
United States

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US equities were little changed yesterday, with the S&P 500, Dow Jones Average and Nasdaq all remaining close to the record highs they set on Friday. The energy sector underperformed the most as WTI oil price slid below \$60 a barrel. Bank shares also underperformed on concern over weak profitability. **June retail sales figures this morning were stronger than expected** (0.4% mom versus 0.2% cons.). Excluding autos the print was even stronger (0.7% mom versus 0.3% cons.). In Financial market, Treasury yield rose by about 3 to 4 bps across the curve, and US dollar strengthened a bit.

Mixed Citigroup 2Q earnings results suggested the banking sector may be facing a challenging earnings environment. On the positive side, Citigroup's adjusted EPS beat analyst estimates (\$1.83 vs. \$1.80 est.) and the revenue of its fixed income market business was also better than expected. However, trading revenue fell by about 5% (after adjusting for the one-time windfall from the sale in the bank's stake in Tradeweb Markets) and net interest margins declined on the bank's \$680 bn loan portfolio. The group's CFO cited a challenging trading environment in fixed income, currencies, and commodities. Citigroup shares were slightly down by 0.1% on the day.

Analysts are expecting an earnings recession in Q2. According to Factset, equity analysts expect the S&P 500 companies to report a decline in earnings of -3% y/y for the second quarter. Among specific factors, 'foreign exchange' has been cited by most companies as a factor that either harmed earnings and revenues in the second quarter, or is expected to harm them in the future, followed by tariff and trade concerns.



The Treasury 10-year yield declined by 3.5bps with the yield curve bull-flattening. The July empire state survey in the morning was stronger than expected (4.3 versus 2.0 cons.), but the news was largely shrugged off by markets. Rates implied volatility traded marginally higher.

Government and prime money market fund inflows have remained elevated on the expectation that the Fed would deliver a more accommodative monetary policy in the near-term. Analysts foresee favorable demand-supply conditions in the US sovereign bond market going forward, as the Treasury will have relatively modest financing needs over the remainder of the month relative to strong demand.

Chart 25: Total govt and prime MMF inflows since start 2018 (\$bn)

Source: ICI

Speculators continue to bet on lower rates. The latest CTFC report shows that as of July 9, the net long positioning in Eurodollar futures by speculative 'non-commercial investors' is the largest in the post-crisis period. Following to the Fed chairman Powell's testimony last week reinforcing their dovish tilt, Chicago Fed's Evans said that a couple of rate cuts could help lift inflation above the 2% target by 2021.

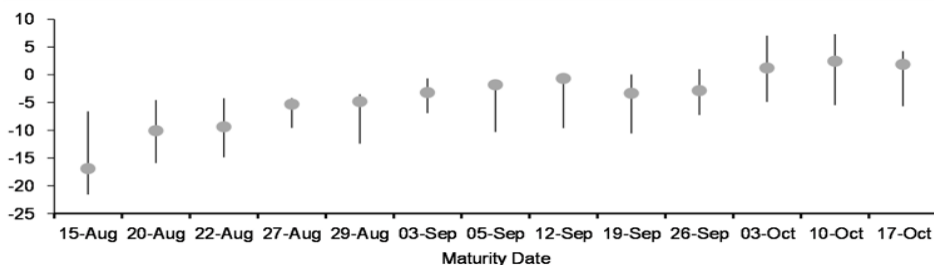
Eurodollar Futures Speculative Position, mn contracts

Source: Bloomberg

T-bills maturing in September and October have cheapened with the market-perceived risk of a technical default. Most analysts expect the government would be able to avoid a default, but the dynamics around the debt ceiling will be messy because it is being tied to the budget cap negotiations. News articles report Mnuchin sent a letter last Friday to Pelosi saying there are scenarios where the debt ceiling drop-dead date could be reached before Congress comes back from its summer vacation. Meanwhile, analysts estimate the Treasury has enough resources to reach the mid-September quarterly tax date, which would push off the debt-limit deadline until early October.

Exhibit 9: Bills maturing in early-September and mid-October have cheapened, likely reflecting debt ceiling concerns

1-month range and current matched-maturity OIS spreads on T-bills maturing between mid-Aug and mid-Oct; bp



Source: J.P. Morgan

Europe

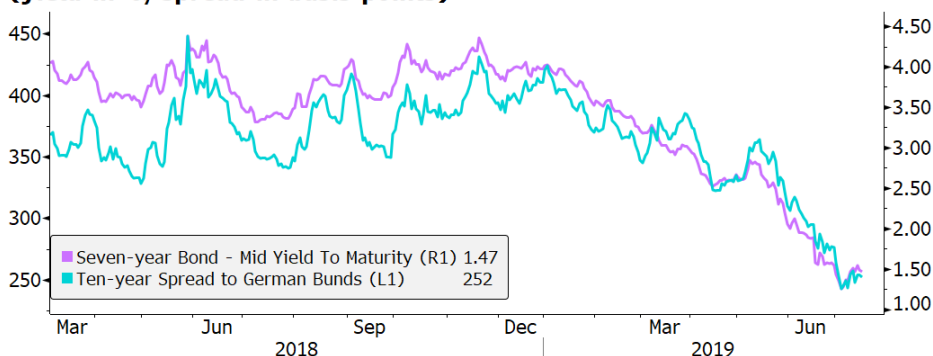
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European equities traded within narrow corridors: EuroStoxx 600 (-0.1%), DAX (-0.1%), and CAC 40 (+0.1%). **Eurozone sovereign yields edged down:** 10-year German yields at -0.26% (-2 bps); French at -0.01% (-3 bps); Spanish at 0.45% (-5 bps); Italian at 1.59% (-5 bps).

Greece is considering issuing a 7-year sovereign bond in “the near future.” The issuance would be the third one since the country graduated from its rescue program. Although authorities have not declared the amount of financing sought, market contacts expect the issue to be about €2 bn. Greek 7-year bonds are trading with a yield of 1.47%, compared to about 4% at end-2018. The 10-year bond is at 2.25% (-3 bps) today.

Greece: Sovereign Debt - Yields and Spreads

(yield in %, spread in basis points)



Source: Bloomberg

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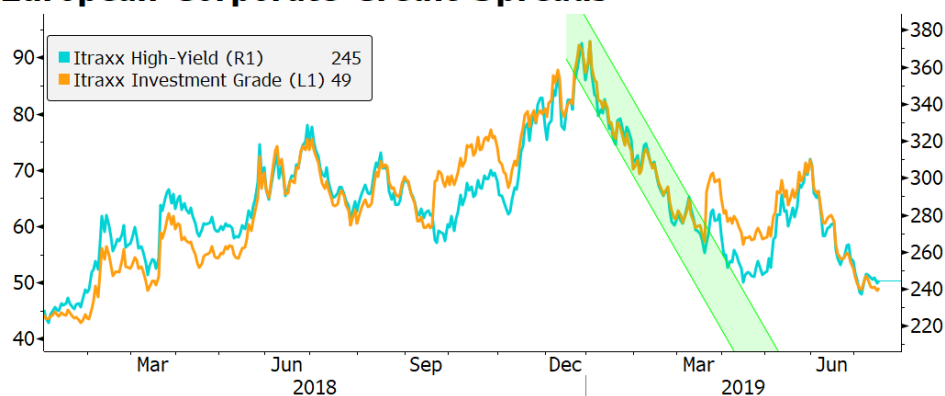
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The European Parliament will vote today on the nomination of Ursula von der Leyen as new president of the European Commission. Mrs. von der Leyen needs 374 votes out of the 751 seats in the EP to be confirmed. Most analysts expect her to get the needed support.

Corporate credit spreads have narrowed further, on the back of continued dovish prospects for monetary policy. The Itraxx high-yield index stood at 245 bps today and the investment grade at 49 bps, reaching levels last seen in early 2018.

European Corporate Credit Spreads



Source: Bloomberg

ITRXXE Curncy (MARKIT ITRX EUR XOVER 06/24) Credit: Itraxx indices Daily 03JAN

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Japan

Japanese equities fell, and the yen weakened a touch ahead of upcoming earnings releases. The Topix fell 0.5% while the yen lost 0.1%. Most companies are due to report earnings results over the coming weeks. Meanwhile, **Japanese authorities indicated that there will not be a quick resumption of trade talks with South Korea regarding export restrictions** on materials vital to Korea's tech sector. A day earlier, South Korean President Moon called for investigation by an international organization on the export restriction, as the restricted materials are needed for "the core elements of the Korean economy's competitiveness." Japan is set to decide, as soon as July 24th, on whether to remove Korea from its "white list" of trusted export countries seen as presenting no risks to Japan's national security.

Emerging Markets [back to top](#)

Emerging markets saw another calm session overall. Asian currencies and equities were little changed ahead of key U.S. data releases later in the day. The Philippine peso paced gains (+0.2%) while the Indian rupee, having weakened by 0.2%, underperformed. Investors are awaiting the release of U.S. retail sales and IP for signals on the extent of Fed rate cuts. In **Australia**, central bank meeting minutes from July 2nd indicated that the RBA is focused on the employment outlook and could ease rates further if needed to support economic growth and help return inflation to target. Equities in EMEA moved within a tight range this morning, except Turkey (+1.1%) which reversed half of yesterday's losses. Local currencies were flat against the dollar as the calm in FX markets continues. The Russian ruble (-0.3%) saw the biggest moves. Latin American stock markets remained stable, except for declines in Argentina's Merval (-3.3%) and an increase in Mexico's Mexbol (1.1%). Currencies weakened in Argentina (-1.9%), Brazil (-0.5%) and Chile (-0.2%) and moved sideways in Colombia, Mexico and Peru.

Key Emerging Market Financial Indicators

Last updated: 7/16/19 8:06 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.01	0.3	1	5	-1	10
MSCI Frontier Equities		30.20	-0.6	1	2	4	15
EMBIG Sovereign Spread (in bps)		333	-2	-6	-29	-8	-81
EM FX vs. USD		63.19	-0.1	1	2	-3	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	1	-3	0
Indonesian Rupiah		13935	-0.1	1	3	3	3
Indian Rupee		68.71	-0.2	0	2	0	2
Argentine Peso		42.39	-1.9	-1	4	-35	-11
Brazil Real		3.76	0.0	1	3	3	3
Mexican Peso		18.97	0.0	1	1	-1	4
Russian Ruble		62.75	-0.1	2	3	-1	11
South African Rand		13.87	0.2	2	7	-5	3
Turkish Lira		5.70	0.2	1	3	-15	-7
EM FX volatility		6.97	0.0	-0.6	-1.5	-3.0	-2.8

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

China

Rates on negotiable certificates of deposits (NCDs) are returning to pre-Baoshang levels. Funding stress that surfaced since the government's takeover of Baoshang Bank, a mid-sized regional bank, is

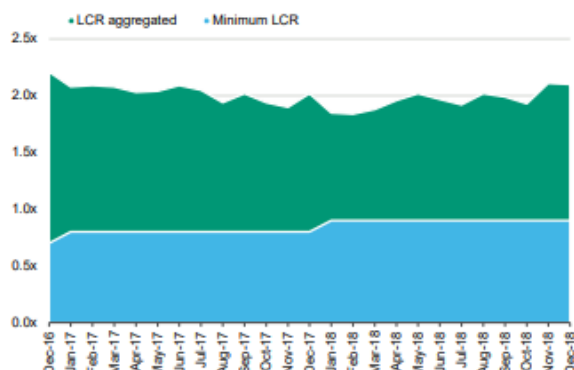
abating. Yield on the 3-month AA+ NCDs slid from 3.35% following the Baoshang takeover to 3.04%, a level seen before the surprise Baoshang seizure on May 24th. Its spread relative to AAA-rated NCDs has narrowed from around 90 bps in early July to 50 bps currently. **US and China are slated for a second phone call on trade since the G20 this week.** U.S. Treasury Secretary Mnuchin indicated that he and Trade Representative Lighthizer would travel to Beijing for trade negotiations if talks by phone are "productive". The RMB was little changed: both the onshore CNY and the offshore CNH held steady.

Brazil

Brazil's central bank will accept private debt as collateral in liquidity facilities starting 2021.

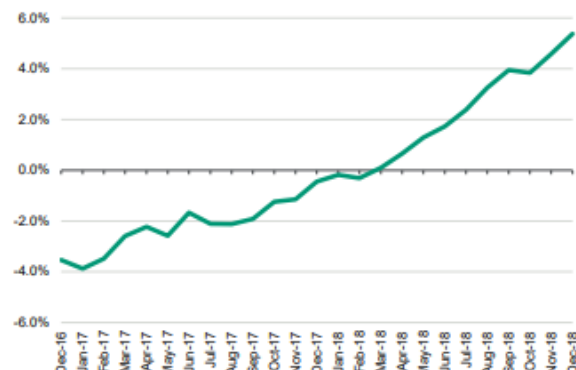
According to Moody's, the central bank's proposal to accept corporate debt as eligible collateral under its Financial Liquidity Assistance program, effective in 2021, should enhance market efficiency and boost investments in local capital markets. The new rule comes at a time when bank loan portfolios are growing, albeit at a lackluster pace. Analysts argue that the rule may help sustain the positive momentum in credit growth should banks run into liquidity constraints in the near-term.

Exhibit 1
Brazilian bank liquidity is comfortably above the regulatory minimum...



Source: Brazilian Central Bank
Source: Excerpt from Moody's

Exhibit 2
...because of lackluster credit growth, which is now recovering
Year-over-year credit growth



Source: Brazilian Central Bank

Mexico

Regulators introduce new rules for fintech companies, which may incentivize them to team up with banks. According to Moody's, the new rules issued by the Commission for the Protection of Users of Financial Services focusing on the transparency and best practices of fintech companies are likely to benefit incumbent banks. Minimal levels for disclosure on costs, interest rates and risks generate incentives for providers to exploit synergies by using the existing infrastructure of bank companies. Hence collaboration is expected to increase.








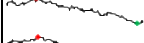


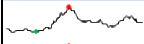

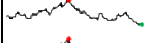



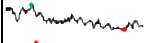




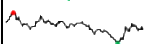







Kazakhstan

The central bank kept interest rates on hold but signaled that tightening may come in the second half of the year. The bank's benchmark rate stands at 9% but could move higher if inflation pressures rise due to growing consumer demands. The bank had previously warned that increased government spending could introduce inflation risks. Bloomberg reports that governor Dossaev told a press conference that the central bank would issue more long-term notes and the finance ministry would issue two- and five-year notes.

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Global Financial Indicators

Last updated: 7/16/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3014	0.0	1	4	8	20
Europe		3515	0.4	0	4	2	17
Japan		21535	-0.7	0	2	-5	8
China		2938	-0.2	0	2	4	18
Asia Ex Japan		70	0.6	1	5	-2	10
Emerging Markets		43	0.3	1	5	-1	10
Interest Rates			basis points				
US 10y Yield		2.09	-3.3	3	1	-77	-59
Germany 10y Yield		-0.27	-1.6	9	-1	-63	-51
Japan 10y Yield		-0.12	-0.5	2	1	-16	-12
UK 10y Yield		0.78	-1.7	6	-6	-50	-49
Credit Spreads			basis points				
US Investment Grade		120	-0.5	-1	-13	13	-27
US High Yield		431	-1.4	-1	-21	80	-90
Europe IG		49	0.4	-2	-12	-15	-38
Europe HY		244	0.6	-4	-32	-46	-109
EMBIG Sovereign Spread		333	-2.0	-6	-29	-8	-81
Exchange Rates			%				
USD/Majors		97.23	0.3	0	0	3	1
EUR/USD		1.12	-0.3	0	0	-4	-2
USD/JPY		108.0	-0.1	1	1	4	2
EM/USD		63.2	-0.1	1	2	-3	2
Commodities			%				
Brent Crude Oil (\$/barrel)		66	-0.2	3	7	-8	23
Industrials Metals (index)		115	0.4	4	5	-4	5
Agriculture (index)		41	-1.1	0	-3	-4	-2
Implied Volatility			%				
VIX Index (% change in pp)		12.5	-0.2	-1.6	-2.8	-0.3	-12.9
10y Treasury Volatility Index		4.3	0.1	0.1	-1.1	0.6	-0.2
Global FX Volatility		6.1	0.0	-0.1	-0.5	-1.7	-2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		250	-6.0	-5	-46	-100	-166
Italy		186	-3.9	-23	-74	-35	-64
Portugal		80	-4.0	-3	-7	-62	-68
Spain		73	-3.4	-5	-3	-19	-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: 7/16/2019 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.88	0.0	0.2	1	-3	0		3.2	-0.5	-1	-7	-32	1	
Indonesia		13935	-0.1	1.4	3	3	3		7.1	-7.2	-16	-61	-61	-101	
India		69	-0.2	-0.2	2	0	2		6.6	-3.1	-11	-42	-139	-82	
Philippines		51	0.2	0.8	2	5	3		4.7	0.0	0	-28	-113	-156	
Thailand		31	0.1	-0.3	1	8	5		2.1	-1.3	-1	-15	-59	-52	
Malaysia		4.11	-0.1	0.7	2	-2	1		3.6	0.3	0	-9	-49	-48	
Argentina		42	-1.9	-1.4	4	-35	-11		29.5	3.2	18	-45	991	648	
Brazil		3.76	-0.1	0.8	3	3	3		6.6	-1.9	-9	-51	-309	-153	
Chile		681	-0.2	0.9	3	-4	2		3.3	-1.0	-5	-15	-153	-115	
Colombia		3191	0.1	0.8	3	-10	2		5.7	-3.9	1	-11	-73	-82	
Mexico		18.97	0.0	1.0	1	-1	4		7.7	-0.2	20	-7	-16	-105	
Peru		3.3	0.0	0.1	2	-1	3		4.6	-6.3	-11	-24	-96	-112	
Uruguay		35	0.2	0.3	1	-11	-8		10.3	0.0	-13	-73		-39	
Hungary		290	-0.6	0.0	-1	-5	-4		1.5	-3.1	9	-16	-99	-67	
Poland		3.79	-0.3	0.4	0	-3	-2		2.0	-3.0	3	-7	-61	-29	
Romania		4.2	-0.4	0.0	0	-6	-4		4.0	-3.0	-7	-11	-60	-27	
Russia		62.7	-0.1	1.8	2	-1	11		7.2	0.4	-1	-27	-14	-120	
South Africa		13.9	0.2	2.2	7	-5	3		9.2	-3.7	1	-29	-16	-44	
Turkey		5.70	0.3	0.6	3	-15	-7		17.4	0.0	47	-174	-99	55	
US (DXY; 5y UST)		97.2	0.3	-0.3	0	3	1		1.86	1.2	-2	2	-90	-66	

	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		2938	-0.2	0	2	4	18		176	0	-1	-5	-14	-18	
Indonesia		6402	-0.3	0	2	8	3		171	-2	-7	-24	-27	-65	
India		39131	0.6	1	-1	8	8		138	1	4	-13	-26	-58	
Philippines		8264	-1.2	3	3	12	11		68	-3	-2	-15	-52	-53	
Malaysia		1669	-0.2	-1	2	-3	-1		114	-1	0	-19	-36	-48	
Argentina		41257	-3.5	0	2	57	36		766	-2	-19	-85	190	-49	
Brazil		103803	-0.1	0	6	35	18		211	-1	-10	-35	-82	-62	
Chile		5076	0.2	0	0	-4	-1		130	0	-1	-7	-8	-36	
Colombia		1605	0.0	2	5	3	21		173	0	-1	-19	-6	-55	
Mexico		43064	1.0	-1	0	-11	3		322	-1	-8	-23	59	-32	
Peru		20635	-0.5	-1	2	5	7		114	0	-1	-15	-36	-54	
Hungary		40925	0.5	1	1	16	5		88	-2	8	-12	-40	-60	
Poland		60418	-0.2	0	2	7	5		35	-5	9	-18	-33	-50	
Romania		9137	-0.1	3	7	14	24		188	0	8	-5	31	-34	
Russia		2743	-0.5	-3	0	18	16		188	-3	-9	-25	-4	-64	
South Africa		57862	0.6	2	-1	4	10		272	-3	-9	-47	-4	-93	
Turkey		98484	1.4	0	8	10	8		485	-7	0	-56	36	56	
Ukraine		539	0.0	-1	-3	9	-4		506	-14	-31	-52	-38	-281	
EM total		43	0.3	1	5	-1	10		333	-2	-6	-29	-8	-81	

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