



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, July 17, 2019












- **Pemex concerns continue despite the release of a new business plan ([link](#))**
- **US Treasury yields rise on strong consumption data ([link](#))**
- **US President Trump again threatens China with tariffs ([link](#))**
- **The British pound depreciates on renewed no-deal Brexit fears ([link](#))**
- **Ursula von der Leyen secures EC presidency in narrow vote ([link](#))**

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Markets quiet once again overnight

With little new information to guide markets, price action was limited overnight. Market participants continued to discuss the ongoing trade negotiations between the US and China. Yesterday, US President Trump reiterated that the US could apply additional duties to Chinese products, imparting a modestly negative tone to global equities. Mixed Q2 earnings reports from US banks reinforced that sentiment. 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. In Europe, German sovereign debt yields were up to 4 bps lower through the 30-year tenor, with contacts citing weak car sales data as a driver.

Key Global Financial Indicators

Last updated: 7/17/19 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3004	-0.3	1	4	7	20
Eurostoxx 50		3520	0.0	1	4	2	17
Nikkei 225		21469	-0.3	0	2	-5	7
MSCI EM		43	-0.4	1	5	-2	10
Yields and Spreads			bps				
US 10y Yield		2.09	1.4	3	0	-77	-59
Germany 10y Yield		-0.29	-4.1	2	-4	-63	-53
EMBIG Sovereign Spread		333	0	-7	-28	-10	-81
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	0.1	0	2	-3	1
Dollar index, (+) = \$ appreciation		97.3	-0.1	0	0	2	1
Brent Crude Oil (\$/barrel)		65.2	1.2	-3	7	-10	21
VIX Index (% change in pp)		12.7	-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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Equities slid lower on renewed trade tension. President Trump said that he could impose more tariffs on China and the S&P 500 traded lower to just above the 3,000 level. The market rebounded before the close, following Fed chair Powell's comment in Paris that he was carefully monitoring risks to US growth and would act as appropriate to sustain the expansion. Although the language was similar to what he said in the testimony last week, it mitigated the equity selloff.

Bank Q2 earnings reports in the morning were mixed. Goldman Sachs reported stronger trading revenue than expected. Meanwhile, JPMorgan beat analysts' estimate on EPS but failed to beat them on overall trading revenue. Geopolitical and macroeconomic uncertainties weighed on client activity at trading operations, according to JPMorgan. Goldman Sachs' stock price was up 1.9% on the day. JPMorgan shares were also up 1%, recouping most of the losses realized on Monday.

Treasury yields rose on strong retail sales. The 10-year yield jumped by 5 bps following robust consumption data in the morning but price action moderated after the comment by Fed chair Powell in the afternoon. June retail sales came in stronger than expected, and the gains were broad-based, with gains in 11 of the 13 major retailer categories. Meanwhile, June industrial production was slightly lower than expected at 0.0% mom (0.1% cons.). The Atlanta Fed's GDPNow model estimate for real GDP growth in the second quarter of 2019 rose to 1.6%, up from 1.4% on July 10.

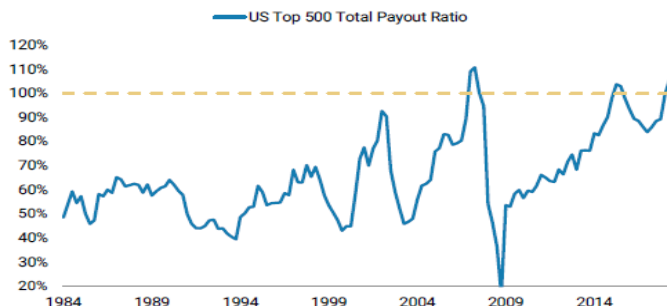
Chart 1
US: real core goods consumption
%q/q, saar



Source: Suttle Economics

The S&P 500's equity payout ratio is at an extreme level. The total payout ratio (dividend plus buybacks to net income) of the S&P 500 is high relative to history, supported repatriation flows due to tax reform. Analysts argued, however, that total payout has exceeded total free cash flows for over five years now and slowing cash flow growth would make CFOs less willing to spend their cash to repurchase shares.

Exhibit 9: US Total Payout Ratio Near All Time Highs



Source: Morgan Stanley Research as of 1Q 2019.

China's Treasury holdings declined to the smallest since May 2017. According to Treasury Department data, China's holding notes, bills and bonds fell by \$2.8 bn to \$1.11 tn. Their holdings have declined for three months in a row. The continued foreign selling likely contributed to the accumulation of inventory on dealer balance sheets, possibly contributing to the widening in GC repo-OIS spreads observed over the second quarter, analysts pointed out.

Europe

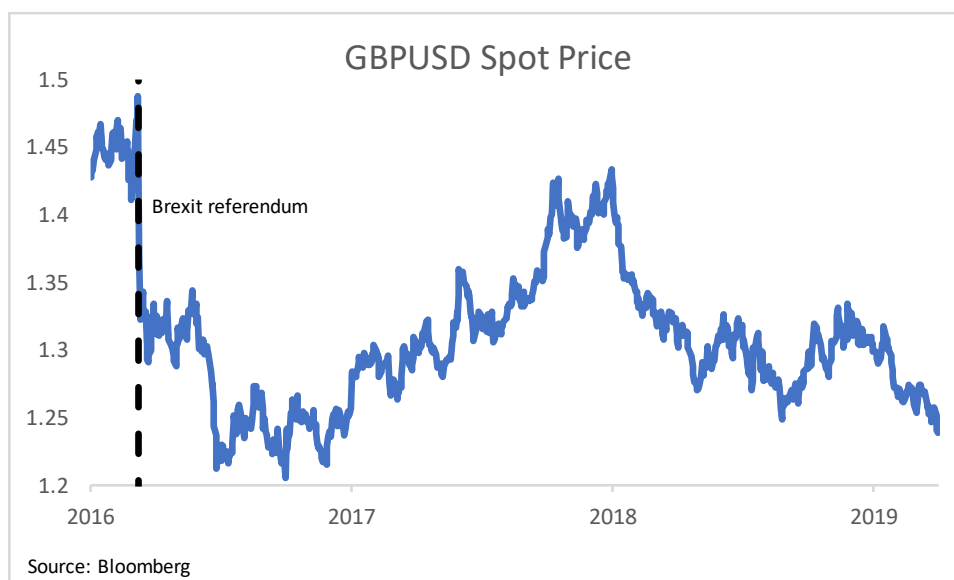
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Europe

Sovereign yields edged lower across the board. 10-year benchmarks were down by 2 to 3 bps in most countries while the short end saw smaller moves. Equities were quiet with the Euro Stoxx 600 flat. Banks underperformed with a loss of 0.4% while IT stocks (+0.5%) led the gains. UK markets were little changed following inflation figures for June that were as expected (2% annual rate; 1.8% core). Final euro area inflation data was also broadly as expected for June (1.3% y-o-y versus 1.2% expected).

Ursula von der Leyen narrowly won the vote to become the next president of the European Commission. In a secret ballot, von der Leyen got 383 votes in the European parliamentary against a threshold requirement of 374. The margin of victory is the narrowest since parliament was given the power to reject nominees under the 2008 Lisbon treaty. Among the key challenges von der Leyen will face are Brexit, the fiscal situation in Italy, and anti-EU sentiment among some political parties and governments on the continent. In the run-up to the vote, she also emphasized environmental and gender issues.

Sterling came under renewed pressure on intensified no deal rhetoric by both Conservative leadership hopefuls. Boris Johnson and Jeremy Hunt both said that the Irish backstop would need to be removed, a change that is deemed unacceptable by the EU and thus raising fears of an exit without a deal in October. Sterling depreciated by 0.9% yesterday against the dollar and a further 0.2% this morning to trade at its lowest level since early 2017. The latest positioning data from the CFTC showed both leveraged fund and asset managers increasing their short position in the currency.



Other Mature Markets

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Japan








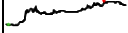


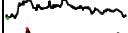


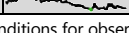
Equity prices softened for a sixth day while the yen held steady after U.S. President Trump reiterated threats of tariffs on Chinese imports. The yen was little changed at ¥108.20/dollar after weakening by 0.3% on Tuesday. Meanwhile, shares of telecommunications firms and retailers weighed on the Topix, which fell as much as 0.6% before ending the day 0.1% lower. Investors are focusing on the upcoming earnings releases for trading direction. More than 200 companies, including Canon, Nidec and Nissan are slated to release their earnings results next week.

Emerging Markets

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Emerging markets were little changed. In Asia, currencies mostly weakened against the dollar while equities were mixed. The Hong Kong dollar held steady, outperforming its Asian peers while the Philippine peso paced losses (-0.5%). The Korean won renewed its depreciation against the dollar (-0.3%) ahead of the Bank of Korea's policy meeting tomorrow. EMEA equities were mixed but little changed overall. Russia (-1.4%) saw the largest moves by far, led by a 7% fall in Gazprom shares. Currencies in the region were once again flat against the dollar. Latin American stock markets rose in Argentina (+1.3%), Colombia (+0.9%) and Peru (+0.8%) but were flat in Brazil and Mexico. Currencies were little changed with Argentina (-0.7%) and Mexico (-0.6%) seeing the biggest moves.

Key Emerging Market Financial Indicators

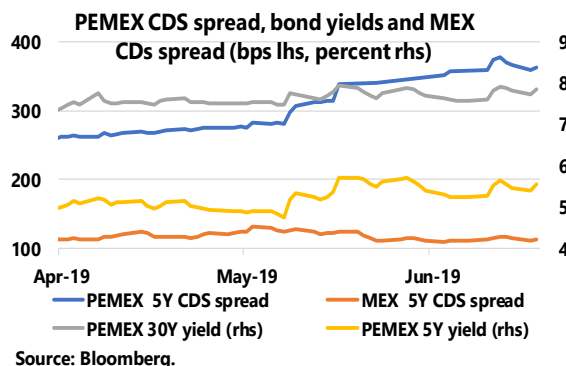
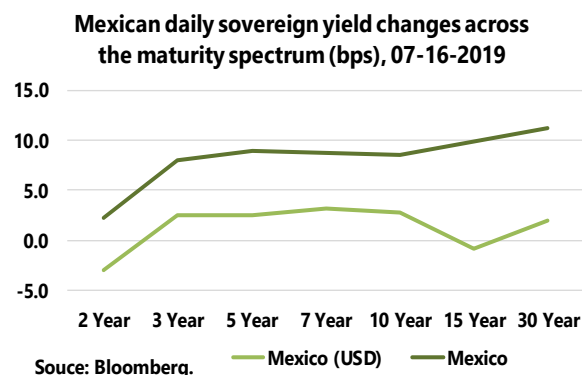
Last updated: 7/17/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.95	-0.4	1	5	-2	10
MSCI Frontier Equities		30.21	0.0	0	4	4	16
EMBIG Sovereign Spread (in bps)		333	0	-7	-28	-10	-81
EM FX vs. USD		63.03	0.1	0	2	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	1	-2	0
Indonesian Rupiah		13983	-0.3	1	3	3	3
Indian Rupee		68.82	-0.2	0	2	-1	1
Argentine Peso		42.68	-0.7	-2	3	-36	-12
Brazil Real		3.76	0.2	0	3	2	3
Mexican Peso		19.08	0.1	0	1	-1	3
Russian Ruble		62.82	0.3	1	2	0	10
South African Rand		13.97	-0.2	0	6	-5	3
Turkish Lira		5.69	0.4	0	3	-16	-7
EM FX volatility		6.98	0.0	-0.5	-1.4	-2.8	-2.8

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

Mexico

Today's Pemex business plan revealed continued reliance on the sovereign and deepened concerns about Mexico's budget deficit. Under the plan, tax rates on oil rights would be reduced to 65%, 58% and 54% in this year over the next 3 years. In addition, the Mexican government would inject \$7.4 bn in capital over the same time period. As a result of the plan, Citi expects deterioration in Mexico's budget, upward pressure on the longer end of the Mexican yield curve and future rating downgrades for the company and the sovereign. Pemex's bond yields and CDS spreads reacted consistent with Citi's expectations. In a broader context, but similar in tone, the rating agency DBRS expressed reservations related to Mexico's general economic policy path. Following on today's sovereign debt auction, sovereign yields rose 11 bps

(to 8.1%) for MXN- and 2 bps (to 4.4%) for US dollar-denominated 30-year bonds. On the short end of the curve, yields were little changed or declined modestly, consistent with a stronger appetite for short-term debt relative to long-term debt. Sharply lower oil prices, with the Brent future down by 3.1%, did not provide any support to Pemex.



China

The threat of additional tariffs resurfaced with the latest tweet from U.S. President Trump. President Trump reiterated that he could impose additional tariffs on Chinese imports of "another \$325 billion". Meanwhile, Larry Kudlow, Director of the National Economic Council told reporters on Monday that the U.S. still expects China to significantly increase its purchases of U.S. agricultural products; market contacts interpreted this comment as implying that China's commitment to such purchases is necessary for trade talks to advance. The RMB remains little changed on the day.

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Source: Suttle Economics

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Global Financial Indicators

Last updated: 7/17/19 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3004	-0.3	1	4	7	20
Europe		3520	0.0	1	4	2	17
Japan		21469	-0.3	0	2	-5	7
China		2932	-0.2	1	2	5	18
Asia Ex Japan		70	-0.2	1	5	-3	10
Emerging Markets		43	-0.4	1	5	-2	10
Interest Rates			basis points				
US 10y Yield		2.09	1.4	3	0	-77	-59
Germany 10y Yield		-0.29	-4.1	2	-4	-63	-53
Japan 10y Yield		-0.12	-0.2	0	0	-16	-12
UK 10y Yield		0.78	-4.6	2	-8	-48	-50
Credit Spreads			basis points				
US Investment Grade		120	-0.3	1	-11	14	-27
US High Yield		431	-0.3	-1	-19	81	-90
Europe IG		50	0.4	1	-11	-13	-37
Europe HY		248	2.4	1	-27	-42	-105
EMBIG Sovereign Spread		333	0.0	-7	-28	-10	-81
Exchange Rates			%				
USD/Majors		97.32	-0.1	0	0	2	1
EUR/USD		1.12	0.1	0	0	-4	-2
USD/JPY		108.3	0.0	0	0	4	1
EM/USD		63.0	0.1	0	2	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		65	1.2	-3	7	-10	21
Industrials Metals (index)		115	-0.1	2	5	-4	6
Agriculture (index)		41	0.4	0	-4	-5	-1
Implied Volatility			%				
VIX Index (%, change in pp)		12.7	-0.2	-0.3	-2.7	0.6	-12.7
10y Treasury Volatility Index		4.3	0.0	0.1	-1.0	0.7	-0.3
Global FX Volatility		6.2	0.0	0.1	-0.4	-1.6	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		256	7.2	-3	-40	-95	-160
Italy		186	0.5	-18	-68	-26	-64
Portugal		79	-0.9	-2	-10	-61	-69
Spain		73	-0.8	-2	-4	-18	-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: 7/17/2019 8:08 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	0.0	-0.1	1	-2	0		3.2	1.0	-1	-6	-29	2
Indonesia		13983	-0.3	1.1	3	3	3		7.1	0.3	-18	-60	-61	-101
India		69	-0.2	-0.4	2	-1	1		6.6	-4.8	-17	-47	-145	-87
Philippines		51	-0.4	0.7	2	4	3		4.7	-1.1	-1	-30	-113	-157
Thailand		31	-0.1	-0.9	1	8	4		2.1	0.0	-1	-15	-58	-52
Malaysia		4.11	-0.1	0.5	2	-2	0		3.6	0.1	0	-8	-49	-48
Argentina		43	-0.7	-2.0	3	-36	-12		29.7	19.1	37	-26	1010	667
Brazil		3.76	0.2	-0.2	3	2	3		6.7	7.1	-2	-44	-302	-146
Chile		682	-0.1	1.2	3	-5	2		3.3	0.0	-4	-15	-153	-115
Colombia		3200	-0.3	0.6	3	-10	2		5.7	3.2	4	-8	-70	-79
Mexico		19.08	0.1	0.3	1	-1	3		7.8	10.0	12	3	-4	-95
Peru		3.3	-0.1	0.3	2	-1	2		4.6	-3.7	-16	-28	-101	-116
Uruguay		35	-0.2	0.1	0	-11	-8		10.3	-3.3	-8	-76		-42
Hungary		291	-0.2	-0.7	-1	-5	-4		1.5	-0.8	9	-16	-99	-67
Poland		3.80	-0.1	-0.2	0	-3	-2		2.0	0.6	7	-7	-58	-29
Romania		4.2	0.0	-0.3	0	-5	-4		4.0	1.0	-8	-10	-59	-26
Russia		62.8	0.3	0.5	2	0	10		7.2	0.4	0	-27	-15	-120
South Africa		14.0	-0.2	0.1	6	-5	3		9.1	-1.6	-1	-31	-15	-45
Turkey		5.69	0.4	-0.2	3	-16	-7		17.3	-15.7	23	-189	-147	40
US (DXY; 5y UST)		97.3	-0.1	0.2	0	2	1		1.86	-0.5	4	1	-90	-65

	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		2932	-0.2	1	2	5	18		177	1	-1	-4	-13	-17
Indonesia		6395	-0.1	0	3	9	3		172	2	-9	-25	-21	-64
India		39216	0.2	2	1	7	9		134	-4	-1	-17	-29	-62
Philippines		8233	-0.4	2	4	12	10		70	3	-6	-15	-50	-51
Malaysia		1658	-0.7	-1	1	-5	-2		114	0	-3	-18	-36	-48
Argentina		41788	1.3	0	3	56	38		777	1	-11	-78	195	-38
Brazil		103775	0.0	-1	6	33	18		213	1	-5	-33	-80	-60
Chile		5076	0.0	0	0	-4	-1		129	0	-3	-8	-9	-37
Colombia		1620	0.9	2	7	4	22		173	0	0	-18	-7	-55
Mexico		42985	-0.2	0	0	-12	3		327	0	-9	-15	62	-27
Peru		20806	0.8	0	3	4	8		117	2	2	-12	-33	-51
Hungary		41018	0.3	1	1	18	5		89	2	4	-7	-39	-59
Poland		60267	-0.2	0	2	7	4		39	5	5	-8	-31	-46
Romania		9112	-0.2	3	7	14	23		184	-3	1	-8	26	-37
Russia		2722	-1.2	-4	0	18	15		189	0	-8	-23	-7	-63
South Africa		57710	-0.6	0	-1	3	9		273	2	-8	-42	-6	-92
Turkey		99575	1.6	3	8	9	9		474	-10	-12	-70	36	45
Ukraine		539	0.0	0	-3	8	-4		505	0	-25	-59	-45	-282
EM total		43	-0.4	1	5	-2	10		333	0	-7	-28	-10	-81

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