



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, July 18, 2019

- Central banks in Korea and Indonesia lower policy rates amid growth headwinds ([link](#))
- US investment grade corporate debt issuance declines 11% versus 2018 YTD ([link](#))
- Fitch affirms Canada's ratings at AAA ([link](#))
- Latin American corporate debt outperforms its EM peers in H1 2019 ([link](#))
- Argentine inflation declines to 2.7% m/m in June ([link](#))











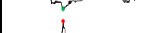
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Global equity markets sag on renewed growth concerns

Amid seasonally light volumes, global equity markets drifted lower for a third consecutive session.

Market participants cited a number of factors behind the price action, including a relatively lackluster start to the Q2 corporate earnings season and renewed global trade tensions. Recent trade data from Singapore and Japan have also been consistent with a softer outlook for global commerce. Overnight, the central banks in South Korea and Indonesia cut their respective policy rates, with both banks citing declining growth expectations. Core European sovereign debt yields declined 2 to 3 bps amid reports that ECB staff are studying the impact of a more symmetrical approach around the 2% inflation target. The British pound strengthened 0.5% against the euro as EC Chief Negotiator, Michel Barnier, suggested that he may be amenable to further discussions with UK representatives regarding the 'Irish backstop'.

Key Global Financial Indicators

Last updated: 7/18/19 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2984	-0.7	0	2	6	19
Eurostoxx 50		3495	-0.2	0	1	0	16
Nikkei 225		21046	-2.0	-2	0	-8	5
MSCI EM		43	0.0	0	2	-2	10
Yields and Spreads			bps				
US 10y Yield		2.05	-5.7	-9	-1	-82	-64
Germany 10y Yield		-0.32	-2.7	-9	0	-66	-56
EMBIG Sovereign Spread		337	0	5	-17	-4	-77
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	-0.1	0	1	-3	1
Dollar index, (+) = \$ appreciation		97.2	0.0	0	0	2	1
Brent Crude Oil (\$/barrel)		64.1	0.7	-4	3	-12	19
VIX Index (% change in pp)		14.2	0.2	1	-1	2	-11

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

United States

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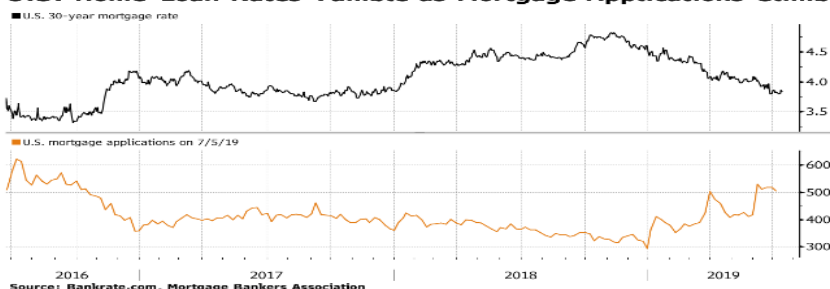
Equities retreated below 3,000 as renewed trade tension lingered. The industrial sector led the way down as railroad company CSX cut its annual outlook in their earnings call, citing economic uncertainty and a recent shutdown of a major oil refinery it served. Bank shares were slightly higher on a mixed Q2 earnings report from Bank of America. The bank beat analysts' estimates on EPS, while the trading revenue dropped. In addition, Bank of America lowered its net interest income outlook.

Treasury yields declined modestly, largely in line with core-euro sovereign markets, with the curve bull-flattening. The Fed's beige book reported economic activity continuing at a modest pace from mid-May through early July, with no sign of an imminent downturn.

Crude oil prices fell for the third consecutive day on a thaw in US-Iran tensions. US Secretary of State Pompeo said Tuesday that Iran was willing to discuss its weapons program. Oil prices have been sensitive to the shifting relations between the US and Iran, as market participants worry that escalation of tensions could restrict supplies from the Gulf.

On the economic data front, **June housing starts were weaker than expected**, down 0.9% to 1253k (versus 1260k cons.), and mortgage applications fell for the third week in a row. On a year-to-date basis, mortgage rates have dropped to the lowest level since 2017, while applications for home loans have bottomed out. Lower financing costs are generally positive for housing demand but following more than a decade of low mortgage rates, the incremental tailwind to potential homebuyers presently appears to be minimal, analysts commented.

U.S. Home-Loan Rates Tumble as Mortgage Applications Climb



Large-cap share prices reached a post-crisis high relative to small-cap share prices, despite large-caps' higher exposures to global trade. The ratio of the S&P 500 index to the Russell 2000 index hit the highest level since the global financial crisis a decade ago, although the dependence on foreign sales

Trend Comes to a Boil

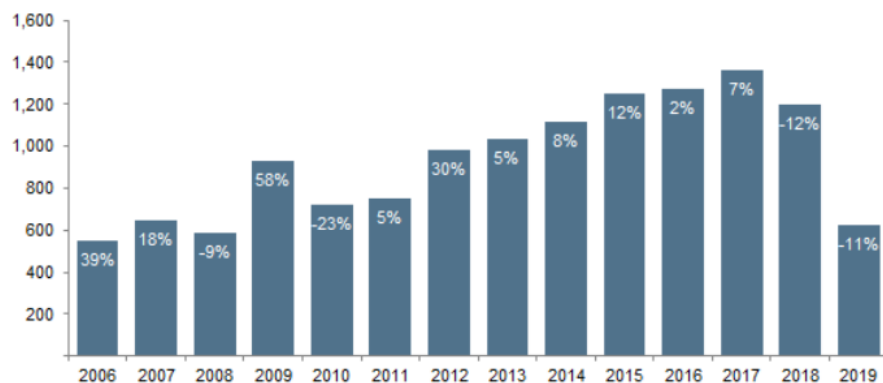
U.S. equity benchmark is breaking to post-crisis highs against small-caps index



renders the S&P 500 firms more vulnerable to trade wars than small caps. Since 2014, the average percentage of sales derived from foreign countries made up about 43% of total sales reported by companies listed on the S&P 500 according to S&P Global, while the Russell 2000 receives about 20% of sales from overseas.

Corporate debt issuance decreased. US investment-grade issuance totaled \$624 bn year-to-date, down 11% versus the first half of 2018, according to CreditSights and Dealogic. The decrease likely reflects tighter financial conditions and higher political uncertainties. Meanwhile, high-yield bond issuance totaled \$154 bn year-to-date, up about 14% year-on-year, reflecting demand shifts from leveraged loans to high-yield corporate bonds on a change in monetary policy outlook. Demand for loans tends to decrease when investors expect lower rates in the future as their coupons are typically on a floating rate basis.

US IG Corp Bond Issuance (\$bn)



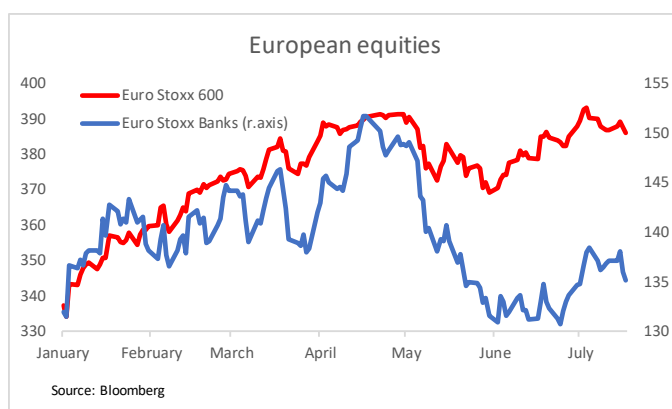
Source: CreditSights, Dealogic

Europe

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Europe

Equities were in modest risk-off mode this morning. The Euro Stoxx 600 slid by 0.4% while national bourses saw similar losses on renewed trade concerns. Banks (-0.6%) underperformed as the mixed Q2 earnings season continued. The sector saw a 1.5% drop yesterday and has erased almost all of its year-to-date gains. **Sovereign yields drifted lower this morning.** Most 10-year benchmarks were 1-2 bps lower, including Germany, France, the UK, and Spain.

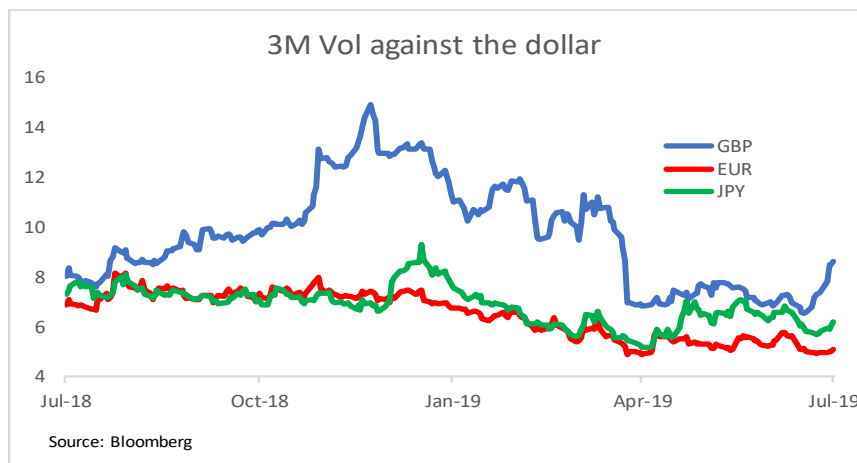


Source: Bloomberg

The ECB is expected to cut its deposit rate by 10 bps in September according to a new Reuters poll of analysts. The upcoming July 25 meeting is only anticipated to bring a change in forward guidance by a majority of those polled while the inflation and growth outlook is expected to remain weak. Almost half of respondents now expect the bank's purchase program to be restarted, up from approximately 15% in

the last poll. The euro has been rangebound in recent weeks while yields are slightly above the recent all-time lows.

The pound edged higher this morning on hopes of a Brexit compromise. In an interview with UK media, EU chief negotiator Barnier suggested that alternative arrangements for the Irish border could be considered. However, he warned that there were no easy solutions and that the UK would have to “face the consequences” if they were to leave the EU without a deal. Sterling was also helped by an unexpected rise in retail sales in June. Brexit concerns continue to weigh on sterling markets, however, with implied volatility renewing its upward march ahead of the October Brexit deadline.



Other Mature Markets [back to top](#)

Japan

Japanese equities tumbled amid growing corporate earnings concerns. The Topix index fell 2.1%, its steepest decline since March, dragged lower mostly by shares of electronics makers following news of Canon’s disappointing earnings outlook. Local news reported that Canon will likely cut its earnings outlook as operating profit is on track to fall 40% this year. Meanwhile, the ongoing trade disagreement between the U.S. and China is expected to weigh on corporate profitability. June exports fell for a seventh month with the value of overseas shipments falling 6.7% y/y, exceeding expectations for a 5.4% y/y decline. **The yen strengthened (+0.2%) amid demand for safe haven assets.**

Canada







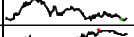


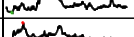



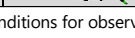
Fitch Ratings has affirmed Canada’s long term foreign-currency issuer default rating at AAA with a stable outlook. The rating draws support from its advanced, well-diversified and high-income economy, according to Fitch Ratings. Its political stability, strong governance, and institutional strengths also support the rating.

Emerging Markets [back to top](#)

Policy rate cuts and sagging equities were the main stories in emerging markets this morning. In Asia, the central banks of Korea and Indonesia lowered their policy rates, joining Australia, Malaysia, India and the Philippines in policy easing for the year. Asian equities suffered broad-based losses amid deepening concerns about a weak earning season and protracted trade tension between the US and China, as well as between Japan and South Korea. Hong Kong (-0.5%), Shanghai (-1%), Korea (-0.3%) and Australia (-0.3%) declined while Jakarta gained (+0.1%). Currencies in Asia were mixed but little changed. Both equities and currencies in the EMEA region were quiet, seeing moves within a range of +/- 0.5%. Latin

American stock markets saw losses yesterday as Mexico (-1%), Argentina (-0.8%), Colombia (-0.8%) and Chile (-0.5%) were all in the red. Currencies did not see major changes. The peso-denominated Mexican 10-year benchmark rate was up by 7.5 bps to 7.75%. Five-year CDS spreads increased by 2.2 bps in Brazil and 6.6 bps in Argentina and stood 0.9 bps and 0.5 bps lower in Mexico and Colombia respectively.

Key Emerging Market Financial Indicators

Last updated: 7/18/19 8:13 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.82	0.0	0	2	-2	10
MSCI Frontier Equities		30.26	0.2	0	3	4	16
EMBIG Sovereign Spread (in bps)		337	0	5	-17	-4	-77
EM FX vs. USD		63.02	0.0	0	1	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	-0.1	0	0	-2	0
Indonesian Rupiah		13960	0.2	1	3	3	3
Indian Rupee		68.96	-0.2	-1	1	0	1
Argentine Peso		42.52	0.4	-2	3	-35	-11
Brazil Real		3.76	0.2	0	3	2	3
Mexican Peso		19.06	0.0	0	0	-1	3
Russian Ruble		62.98	-0.1	0	2	0	10
South African Rand		13.99	0.2	0	4	-5	3
Turkish Lira		5.69	-0.1	0	2	-16	-7
EM FX volatility		7.01	0.0	-0.3	-1.4	-2.9	-2.8

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

South Korea

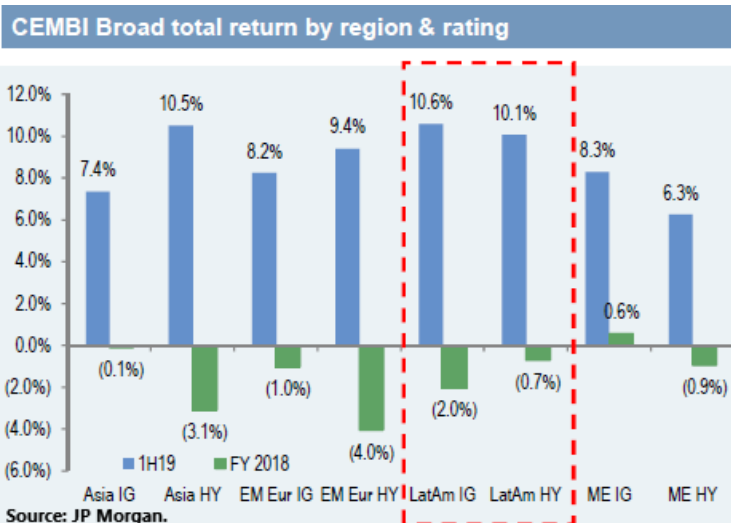
The Bank of Korea unexpectedly lowered its policy rate for the first time in more than three years amid a deteriorating outlook for the economy. The BOK trimmed the 7-day repo rate from 1.75% to 1.5% and lowered its growth and inflation forecasts. Expectations for 2019 growth was revised down to 2.2%, y/y, from 2.5%, y/y, while inflation is expected to increase more moderately at 0.7%, y/y, compared to the previous estimate of 1.1%, y/y. **Local bonds rallied and equities fell** after the central bank's surprise decision. The benchmark equity index fell as much as 0.6% intraday, while the yield on the 2-year note fell 5 bps to 1.35%. The Korean won, by contrast, appreciated by as much as 0.3% before settling at KRW 1,178.75/dollar (+0.2%), its weakest level since mid-June. Contacts noted that the BOK's first rate cut since 2016 reflects concerns regarding the growth outlook as the economy unexpectedly shrank in Q1 amid a slowdown in the technology sector. More recently, Japan export restrictions to Korea could add to existing growth headwind.

Indonesia

Bank Indonesia (BI) lowered its benchmark interest rate by 25 bps to 5.75%, its first cut in almost two years. The decision was widely anticipated by market observers as policy makers had shifted focus to supporting economic growth following the 175 bps in rate hikes last year. BI indicated that growth this year will likely fall below the midpoint of its 5% to 5.4% forecast range. Market contacts noted that the policy guidance was seen as very dovish with BI focusing on boosting growth and leaving open the possibility for more rate cuts to come. The rupiah appreciated, gaining 0.2% on the day.

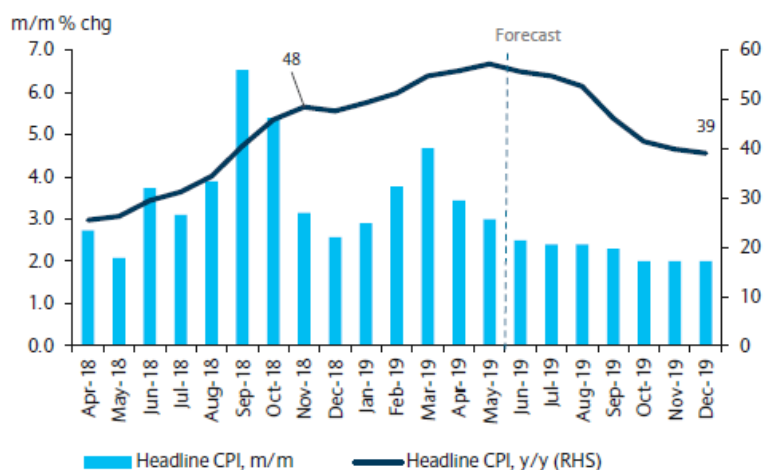
Latin American corporate debt

Latin American corporate debt outperformed its EM peer group in the first half of 2019. JPMorgan's Latin American CEMBI index returned 10.3% in the first half of 2019, well above the 8.9% gain experienced by the broader CEMBI index. Latin American corporate IG debt also outperformed regional HY debt. The outperformance was led by the energy and infrastructure sectors. Corporate bonds in Argentina, Colombia and Mexico enjoyed average returns in excess of 11%. That said, JPMorgan expects default Latin American HY corporate default rates to rise 90bps to 3%, slightly higher than the EM average of 2.6%.



Argentina

Inflation declined from 3.1% m/m in May to 2.7% m/m in June 2019. Barclays casts that the annualized inflation rate will decline from the current level of 55.8% to 39% by the end of the year. The central bank's policy rate, the LELIC, decreased by 6 bps to 58.7%, while the 5-year CDS spread closed 6.6 bps higher at 891 bps. FX futures and non-deliverable forwards priced in slightly reduced expectations for peso depreciation ahead.

















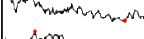








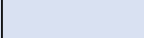
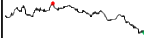




Source: BCRA, Barclays Research

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Global Financial Indicators

Last updated: 7/18/19 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2984	-0.7	0	2	6	19
Europe		3495	-0.2	0	1	0	16
Japan		21046	-2.0	-2	0	-8	5
China		2901	-1.0	-1	0	4	16
Asia Ex Japan		70	-0.2	0	2	-3	9
Emerging Markets		43	0.0	0	2	-2	10
Interest Rates			basis points				
US 10y Yield		2.05	-5.7	-9	-1	-82	-64
Germany 10y Yield		-0.32	-2.7	-9	0	-66	-56
Japan 10y Yield		-0.13	-0.9	1	-1	-18	-13
UK 10y Yield		0.75	-1.4	-9	-6	-48	-53
Credit Spreads			basis points				
US Investment Grade		120	-0.4	2	-10	14	-27
US High Yield		438	-1.0	10	-7	88	-83
Europe IG		50	-0.6	0	-7	-14	-38
Europe HY		252	3.7	7	-9	-40	-101
EMBIG Sovereign Spread		337	0.0	5	-17	-4	-77
Exchange Rates			%				
USD/Majors		97.18	0.0	0	0	2	1
EUR/USD		1.12	-0.1	0	0	-4	-2
USD/JPY		107.8	0.1	1	1	5	2
EM/USD		63.0	-0.1	0	1	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		64	0.7	-4	3	-12	19
Industrials Metals (index)		117	0.4	3	5	-3	7
Agriculture (index)		40	-0.8	-3	-5	-6	-3
Implied Volatility			%				
VIX Index (% change in pp)		14.2	0.2	1.2	-1.0	2.1	-11.3
10y Treasury Volatility Index		4.4	0.1	0.1	-0.8	0.8	-0.2
Global FX Volatility		6.3	0.0	0.2	-0.4	-1.6	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		241	-11.6	-7	-42	-110	-174
Italy		186	-2.1	-6	-57	-30	-64
Portugal		78	-2.5	-2	-8	-65	-70
Spain		71	-3.1	0	-1	-23	-47

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: 7/18/2019 8:13 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	-0.1	0	-2	0		3.2	0.2	0	-4	-28	2
Indonesia		13960	0.2	0.8	3	3	3		7.2	4.9	-17	-56	-57	-96
India		69	-0.2	-0.7	1	0	1		6.6	2.4	-11	-44	-138	-84
Philippines		51	0.0	0.3	2	5	3		4.7	-0.8	0	-32	-115	-158
Thailand		31	0.0	-0.4	1	8	5		2.1	-1.3	-2	-17	-59	-53
Malaysia		4.11	0.0	0.0	2	-1	0		3.6	0.4	0	-8	-50	-47
Argentina		43	0.4	-1.5	3	-35	-11		29.5	-13.0	20	-39	1001	654
Brazil		3.76	0.2	-0.1	3	2	3		6.7	-0.6	6	-49	-295	-147
Chile		682	-0.1	0.6	3	-4	2		3.3	-3.8	-4	-19	-157	-119
Colombia		3185	0.5	0.7	3	-10	2		5.7	-4.9	0	-25	-78	-84
Mexico		19.06	0.0	0.1	0	-1	3		7.8	6.2	16	1	6	-89
Peru		3.3	0.0	-0.2	2	-1	2		4.5	-4.8	-19	-39	-104	-121
Uruguay		35	0.1	0.1	1	-11	-8		10.2	-8.2	-25	-74		-50
Hungary		291	0.0	-0.5	-1	-4	-4		1.5	-2.1	1	-19	-99	-69
Poland		3.80	0.0	-0.2	0	-3	-2		2.0	-0.6	3	-9	-54	-29
Romania		4.2	-0.1	-0.3	0	-5	-4		4.0	0.0	-7	-10	-59	-26
Russia		63.0	-0.1	-0.3	2	0	10		7.2	0.0	3	-23	-22	-120
South Africa		14.0	0.2	-0.1	4	-5	3		9.1	-1.1	-6	-32	-12	-46
Turkey		5.69	-0.1	-0.3	2	-16	-7		16.7	-61.5	-54	-218	-151	-22
US (DXY; 5y UST)		97.2	0.0	0.1	0	2	1		1.81	0.0	-8	-2	-95	-70

	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		2901	-1.0	-1	0	4	16		178	2	1	-2	-11	-16
Indonesia		6403	0.1	0	2	9	3		173	-3	7	-22	-19	-63
India		38897	-0.8	0	0	7	8		136	2	-3	-19	-26	-60
Philippines		8258	0.3	1	4	11	11		70	-4	8	-14	-45	-51
Malaysia		1649	-0.5	-2	0	-6	-2		116	2	1	-15	-33	-46
Argentina		41451	-0.8	-3	2	53	37		785	0	-4	-45	209	-30
Brazil		103856	0.1	-2	4	34	18		216	0	4	-26	-74	-57
Chile		5051	-0.5	0	0	-6	-1		130	0	0	-6	-7	-36
Colombia		1607	-0.8	0	5	4	21		177	0	8	-9	-2	-51
Mexico		42552	-1.0	-1	-1	-13	2		335	-2	8	-2	72	-19
Peru		20839	0.2	0	2	4	8		121	0	12	-6	-26	-47
Hungary		41111	0.3	1	0	18	5		91	-1	10	-7	-33	-57
Poland		59784	-0.3	-1	0	6	4		38	-4	12	-12	-28	-47
Romania		9042	-0.5	0	6	13	22		188	4	3	-6	29	-33
Russia		2713	0.0	-3	-2	18	14		191	-1	3	-16	-9	-61
South Africa		57900	0.5	1	-1	3	10		275	0	6	-28	-1	-90
Turkey		100842	1.1	2	7	9	10		480	3	-5	-52	47	51
Ukraine		538	-0.1	0	-3	8	-4		503	-3	-11	-48	-51	-284
EM total		43	0.0	0	2	-2	10		337	0	5	-17	-4	-77

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