



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Friday, July 19, 2019


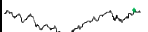
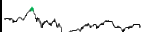

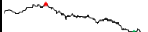





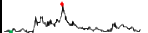
- Fed Funds futures imply increasing probability of a 50 bp cut at July FOMC ([link](#))
- Forward Libor-OIS spread widening in expectation of US debt ceiling raise ([link](#))
- Election speculation leads to increased volatility in Italian BTPs ([link](#))
- Central banks in Ukraine and South Africa cut rates in line with expectations ([link](#))
- Banco Central de Chile leaves policy rate unchanged at 2.5%, as expected ([link](#))

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## EM central banks continue to ease on slowing global growth, Fed expectations

**Price action was mixed once again overnight.** However, market sentiment has coalesced around the view that global growth is slowing and that central banks will proactively ease policy. Despite this week's data, which suggest that the US expansion remains on relatively solid footing, Fed fund futures fully imply a 25 bp cut to the policy rate at the July 31 FOMC meeting, with a minority expecting a 50 bp cut. Overnight, central banks in South Africa and Ukraine cut their policy rates, while Indonesia lowered their overnight policy rate earlier in the week. Each central bank has highlighted slowing growth and easing inflation as factors behind their decisions. Looking ahead to next week, market participants will closely monitor the July 25 ECB policy meeting to gauge the Governing Council's views on additional accommodation.

### Key Global Financial Indicators

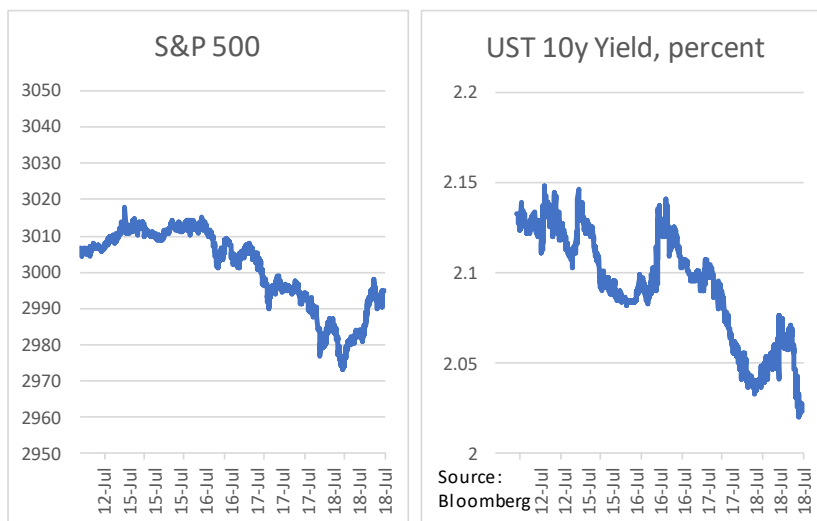
Last updated: 7/19/19 8:18 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2995	0.4	0	2	7	19
Eurostoxx 50		3482	0.0	0	1	0	16
Nikkei 225		21467	2.0	-1	1	-6	7
MSCI EM		43	0.5	1	2	-1	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.05	-2.1	-8	2	-79	-64
Germany 10y Yield		-0.32	-1.1	-11	-3	-65	-56
EMBIG Sovereign Spread		337	-1	2	-17	-7	-77
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		63.2	-0.2	0	1	-2	1
Dollar index, (+) = \$ appreciation		97.0	0.3	0	0	2	1
Brent Crude Oil (\$/barrel)		62.8	1.4	-6	2	-14	17
VIX Index (% change in pp)		13.5	0.0	1	-1	1	-12

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

## United States

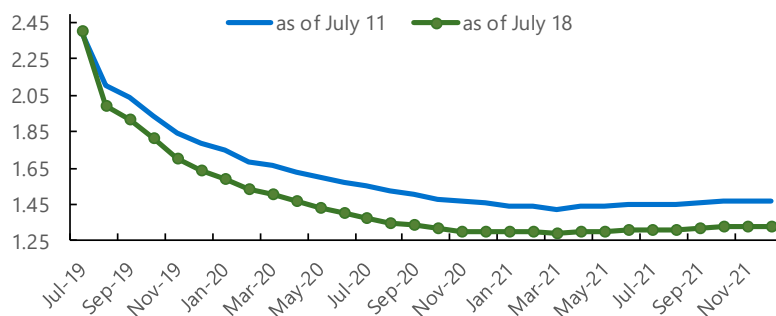
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**Treasury yield declined, equities rose, and the dollar weakened following dovish comments by Fed officials ahead of the blackout period.** New York Fed President Williams reiterated earlier comments that central banks should move quickly in this era of low-interest rates when they see signs of trouble in the economy. Fed Vice Chair Clarida added comments that policymakers should not wait until the economy has obviously stumbled before cutting rates. The S&P 500 rallied on the comment, recouping the losses made in the morning due to disappointing Netflix earnings, and close at slightly below 3,000.



**The Fed Funds futures market shows increased probability of a 50 bp cut in July.** The 2-year Treasury note yield plummeted by 6 bps following the dovish message by Fed President Williams and Vice Chair Clarida. Fed Funds futures currently imply a policy rate below 2% after July. Meanwhile, longer-term yields were little changed on robust economic data. The Philly Fed regional survey of factories rebounded sharply in July on improvement in new orders, shipments, employment, and the future index, suggesting broad and robust momentum. The headline was much stronger than expected (21.8 versus 5.0 consensus). The improvement of 21.5 pts from the previous month was the largest since June 2009.

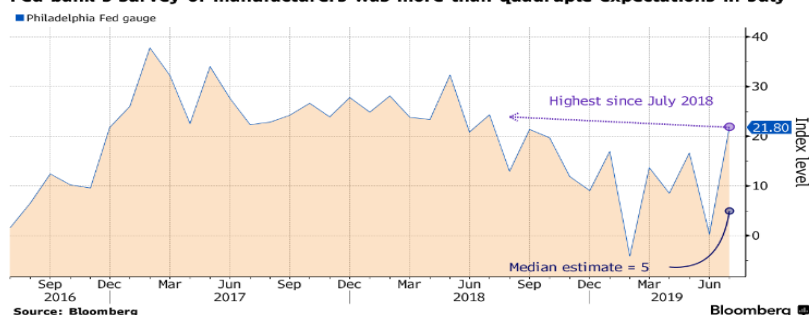
## Fed Fund Futures Implied Forward Rates, percent



Source: Bloomberg

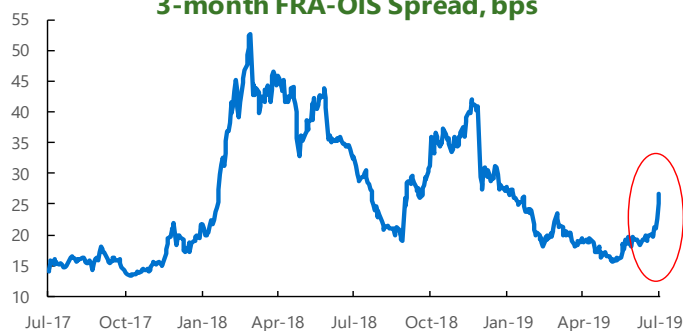
### Factory Rebound

Fed bank's survey of manufacturers was more than quadruple expectations in July



**The forward Libor-OIS spread has been widening on expectations for early resolution of the debt limit.** The 3-month FRA-OIS spread has widened by 6 bps since the beginning of July, as the debt limit is increasingly likely to be resolved before Congress breaks for their summer recess on July 26. The debt limit resolution will result in a rush of T-bill issuance that would likely push interbank funding rates higher, just as seen in last year. Treasury Secretary Mnuchin said the administration and congressional Democrats have agreed on spending levels for a budget deal that could clear the way for raising the federal debt limit before the Congress breaks.

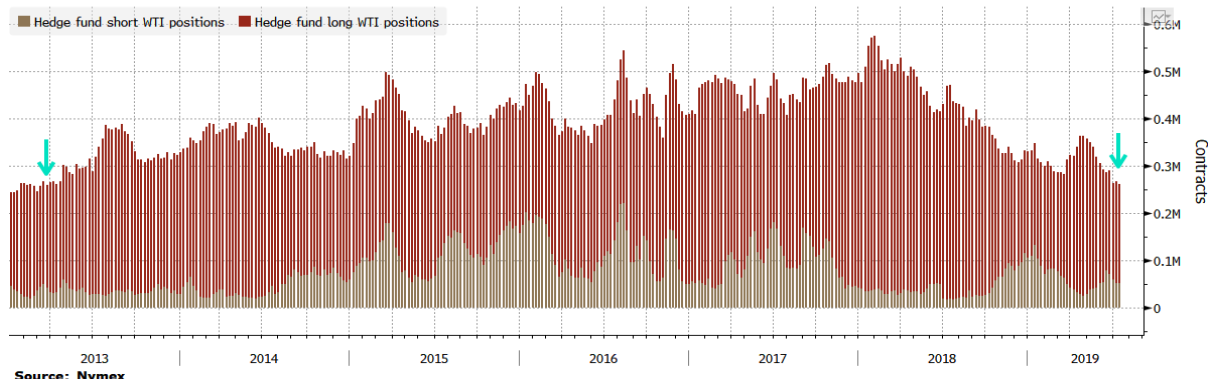
### 3-month FRA-OIS Spread, bps



**Speculative positions for oil futures are the smallest in five years.** Combined speculative positions for West Texas Intermediate oil futures on NYMEX have fallen in the last few months to the lowest level since 2013, according to Bloomberg. Analysts pointed out that a relatively narrower range for crude oil prices this year and the increasing difficulty to find bullish catalysts were the main reasons for the lack of interest.

### Waning Interest

Speculative positions on oil have fallen to their lowest since 2013



## Europe

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**Equities were boosted by yesterday's dovish comments from FOMC officials.** Industrial stocks (+0.9%) led the gains as the Euro Stoxx 600 was up by 0.6%. Banks moved in line with the broader market after two consecutive days of losses. **Sovereign yields were little changed.** Most 10-year and 2-year vintage were within a basis point of their closing value yesterday.

**UK MPs backed a vote yesterday that aimed to prevent a new government from potentially suspending parliament.** While the measures put in place do not guarantee that parliament won't be prorogued, it will make it harder for the new prime minister to bypass parliament and go ahead with a no deal Brexit. Analysts highlighted the majority of 41 as signifying the underlying opposition to a suspension, and that it served as a reminder of the challenge ahead for a new government. Separately, Bloomberg reported that the EC will insist on a "rigorous" assessment of UK financial firms before they would be granted equivalence. The commission is set to lay out its approach to equivalence soon which could have a big impact on UK firms due to the likely loss of passporting following Brexit.

**BTP yields saw renewed volatility as speculation over snap elections mounts.** The postponement of a budget stand-off with the EU and expectations of further easing by the ECB are continuing to support the market with the 10-year down to fresh lows of 1.55% early this morning. However, suggestions late morning that deputy PM Salvini is undecided over elections reversed those moves with the 10-year subsequently rising by 7 bps. The speculation comes amid reports of friction within the governing coalition with points of contention include the EC president vote, ties with Russia, and the government's fiscal strategy.



## Other Mature Markets

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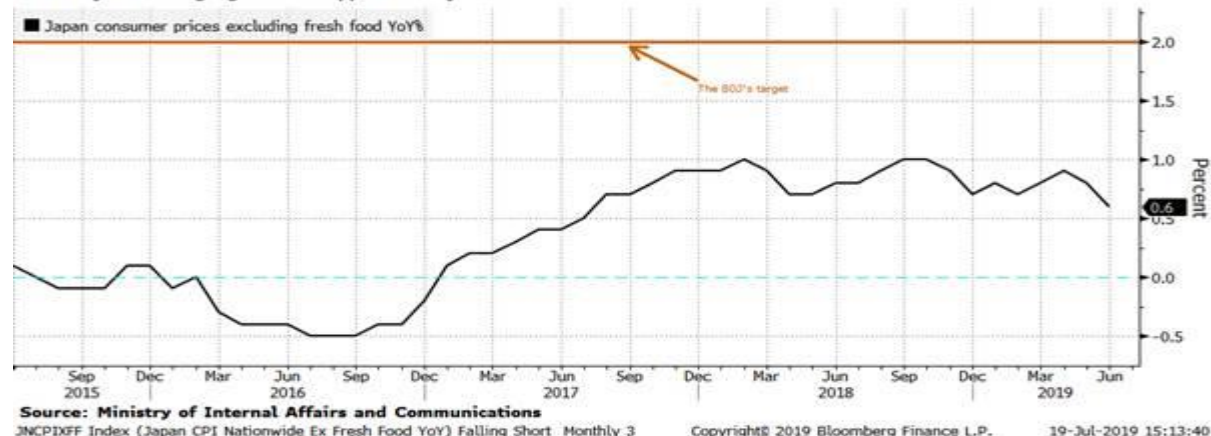
### Japan

**The yen weakened and equities rebounded as the prospect of Fed rate cuts and signs of progress in U.S.-China trade talks lifted investor sentiment.** News outlets reported that U.S. Trade Representative Lighthizer and Treasury Secretary Mnuchin spoke to Chinese officials by phone for the second time since G20 summit. The yen depreciated by 0.3%. Meanwhile, the Topix pared most of its losses from yesterday (+1.9%). June nation-wide CPI ex-fresh food fell to a two-year low, rising 0.6%, y/y, in line with consensus expectations. Market contacts noted that this latest CPI print could raise the pressure on the BoJ to boost stimulus. Meanwhile, Finance Minister Aso signaled at the G7 meeting that the authorities are prepared to

provide fiscal support if a planned sales-tax increase weighs on growth. JGB yields were little changed in response; the 2-year note fell 0.4 bps to -0.21%.

### Falling Short

BOJ's key inflation gauge hasn't topped 1% in years



## Emerging Markets

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**Dovish comments from Fed officials saw gains for risk assets in emerging markets.** Asian currencies mostly gained against the dollar and regional equities climbed. Equity gains were led by Korea (+1.4%) while China (Shanghai: +0.8%; Shenzhen: +0.8%) and Australia (+0.8%) also rose. Equity markets in EMEA also benefited from improving global sentiment. Most bourses were 0.5-1% higher, as Poland and South Africa (both +1%) led the gains. Local currencies were slightly weaker against the dollar, however, including the Turkish lira (-0.5%), and the Russian ruble (-0.4%). Latin American stock markets were mixed yesterday. Mexico (-2%), Argentina (-1.7%) and Colombia (-1.3%) saw losses, while Peru and Chile were flat and Brazil gained (0.7%). Currencies appreciated in Brazil (+1.2%) and Mexico (+0.6%).

### Key Emerging Market Financial Indicators

Last updated: 7/19/19 8:18 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		43.08	0.5	1	2	-1	10
MSCI Frontier Equities		30.26	0.2	0	3	4	16
EMBIG Sovereign Spread (in bps)		337	-1	2	-17	-7	-77
EM FX vs. USD		63.18	-0.2	0	1	-2	1
<b>Major EM FX vs. USD</b>			%, (+) = 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

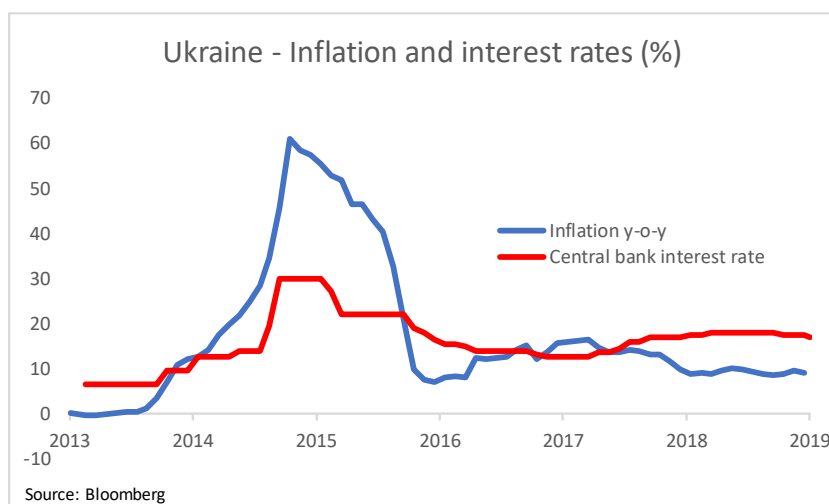
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

### South Africa

**Interest rates were cut by 25 bps at the SARB's latest meeting, in line with expectations,** leaving the bank's benchmark rate at 6.5%. The decision was unanimous for the first time since the bank provided a breakdown of votes in 2016. Following the decision, governor Kganyago didn't rule out further easing but analysts interpreted his remarks as a signal that the bar will be higher for any future cuts. The rand gained as much as 0.7% against the dollar following the decision while longer-dated yields fell to 15-month lows.

### Ukraine

**The central bank cut rates by 50 bps yesterday, as expected.** The decision came following a period of lower inflation which now stands at 9%. Central bank governor Smoliy told journalists that inflation is on its path towards the target of 15%. Subsequently, the central bank sees interest rates falling from their current level of 17% to an average of 16% in Q4 this year and towards an average of 8% in Q4 2021.



### Chile

**As expected the Chilean central bank left its policy rate unchanged at 2.5%.** Only one vote out of 5 dissented. BCCh based its decision on global accommodative monetary conditions, the current downward trajectory of domestic interest rates and the exchange rate. Pointing to downside risks for real activity and external uncertainty, BCCh reiterated that it will conduct monetary policy with flexibility, warranting an inflation projection of 3% at the two-year horizon.

### Brazil

**Brazil ponders a financial transaction tax.** S&P reports that Economy Minister Guedes is pushing proposals to replace all federal taxes, except for income tax, with a 0.6% financial transaction tax. Alternatively, the income tax could be abolished as well, if the proposed tax rate would be set to 1%.













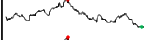
















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## Global Financial Indicators

Last updated: 7/19/19 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2995	0.4	0	2	7	19
Europe		3482	0.0	0	1	0	16
Japan		21467	2.0	-1	1	-6	7
China		2924	0.8	0	0	5	17
Asia Ex Japan		70	0.5	1	2	-2	10
Emerging Markets		43	0.5	1	2	-1	10
<b>Interest Rates</b>			basis points				
US 10y Yield		2.05	-2.1	-8	2	-79	-64
Germany 10y Yield		-0.32	-1.1	-11	-3	-65	-56
Japan 10y Yield		-0.13	-0.9	1	-1	-18	-13
UK 10y Yield		0.75	-1.1	-9	-12	-44	-53
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	-1.5	1	-10	14	-27
US High Yield		444	-4.0	14	-5	91	-77
Europe IG		50	-0.6	0	-7	-14	-38
Europe HY		252	3.7	7	-9	-40	-101
EMBIG Sovereign Spread		337	-1.0	2	-17	-7	-77
<b>Exchange Rates</b>			%				
USD/Majors		97.04	0.3	0	0	2	1
EUR/USD		1.12	-0.1	0	0	-4	-2
USD/JPY		107.7	-0.4	0	0	4	2
EM/USD		63.2	-0.2	0	1	-2	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		63	1.4	-6	2	-14	17
Industrials Metals (index)		117	0.4	3	5	-3	7
Agriculture (index)		40	-0.8	-3	-5	-6	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.5	0.0	1.1	-0.8	0.7	-11.9
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
<b>EA Sovereign Spreads</b>			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  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 7/19/2019 8:18 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)		97.0	0.3	0.2	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		2924	0.8	0	0	5	17		178	2	1	-2	-11	-16
Indonesia		6403	0.8	0	2	9	3		173	-3	7	-22	-19	-63
India		38897	-1.4	0	0	7	8		136	2	-3	-19	-26	-60
Philippines		8258	0.1	1	4	11	11		70	-4	8	-14	-45	-51
Malaysia		1649	0.6	-2	0	-6	-2		116	2	1	-15	-33	-46
Argentina		41451	-1.7	-3	2	53	37		785	0	-4	-45	209	-30
Brazil		103856	0.8	-2	4	34	18		216	0	4	-26	-74	-57
Chile		5051	-0.2	0	0	-6	-1		130	0	0	-6	-7	-36
Colombia		1607	-1.3	0	5	4	21		177	0	8	-9	-2	-51
Mexico		42552	-2.2	-1	-1	-13	2		335	-2	8	-2	72	-19
Peru		20839	0.4	0	2	4	8		121	0	12	-6	-26	-47
Hungary		41111	0.8	1	0	18	5		91	-1	10	-7	-33	-57
Poland		59784	0.9	-1	0	6	4		38	-4	12	-12	-28	-47
Romania		9042	0.1	0	6	13	22		188	4	3	-6	29	-33
Russia		2713	0.6	-3	-2	18	14		191	-1	3	-16	-9	-61
South Africa		57900	1.0	1	-1	3	10		275	0	6	-28	-1	-90
Turkey		100842	0.7	2	7	9	10		480	3	-5	-52	47	51
Ukraine		538	0.0	0	-3	8	-4		503	-3	-11	-48	-51	-284
EM total		43	0.5	1	2	-1	10		337	-1	2	-17	-7	-77

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