



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, July 2, 2019












- Euro area yields push lower following dovish commentary from ECB officials ([link](#))
- Italy cuts 2019 deficit goal to 2%, from 2.4%, reinforcing bond rally ([link](#))
- EM hard currency bond issuance regains momentum in June ([link](#))
- China to speed easing of FDI restrictions and avoid “massive stimulus” ([link](#))
- Australia’s CB cuts policy rate by 25 bps to 1%, as expected ([link](#))
- Analysts see Brazil’s policy path as lower, shallower than before ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Markets mixed on new US tariff headlines

US equities reached a new record high yesterday, but sentiment has turned cautious on news of potential additional US tariffs on the EU. While the \$4 bn in proposed retaliatory tariffs are related to the longrunning Boeing-Airbus dispute, which is governed by WTO rules, the headlines are reminding investors that the weekend’s trade truce does not necessarily mean the White House is adopting a more conciliatory approach to trade policy. In the euro area, expectations for fresh ECB stimulus are sending Bund yields to new record lows (-0.36%) after a range of ECB policymakers – including the perceived hawk, Klaas Knot – expressed concern over low inflation. Italian bonds have also surged as authorities aim to avoid EU deficit penalties, with two-year debt breaching 0% yields for the first time since Italian bonds experienced a massive sell-off in May 2018.

Key Global Financial Indicators

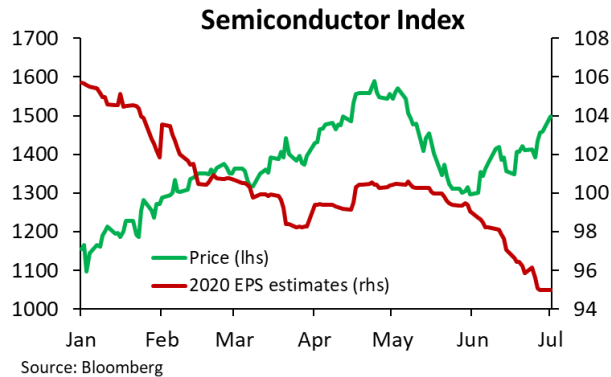
Last updated: 7/2/19 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2964	0.8	1	8	9	18
Eurostoxx 50		3502	0.1	2	7	4	17
Nikkei 225		21754	0.1	3	6	0	9
MSCI EM		43	0.0	2	7	1	11
Yields and Spreads			bps				
US 10y Yield		2.02	1.9	3	-11	-85	-67
Germany 10y Yield		-0.36	0.0	-3	-16	-66	-60
EMBIG Sovereign Spread		338	0	-11	-42	-32	-76
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.9	0.0	1	2	-2	1
Dollar index, (+) = \$ appreciation		96.7	-0.1	1	-1	2	1
Brent Crude Oil (\$/barrel)		64.9	-0.2	0	1	-16	21
VIX Index (% change in pp)		14.1	0.1	-2	-5	-1	-11

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

United States

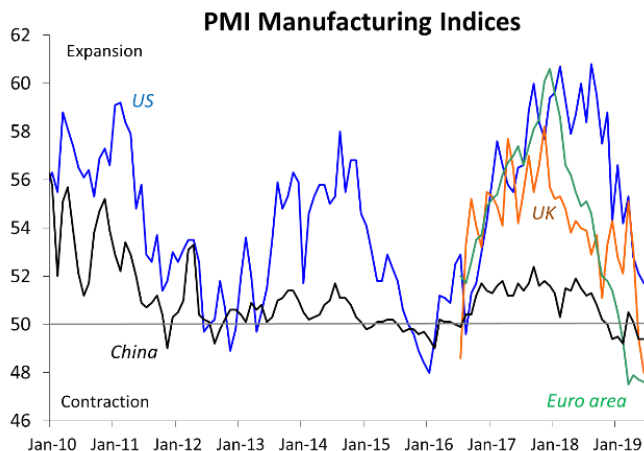
[back to top](#)

Optimism over the tempering of US-China trade tensions fueled a **rally in US stocks** Monday, with the S&P 500 hitting a record high. Chipmakers rose 2.7% after the US advised it would ease restrictions on China's Huawei. Bitcoin tumbled 18% yesterday, continuing a bout of outsized moves. Equity offerings slipped 9.8% y/y in the first half of the year, raising \$95.3 bn. Construction spending dipped 0.8% m/m in May. **Treasury yields closed 2-3 bps higher yesterday, lifted in part by the Saturday G-20 trade truce outcome, but this morning have largely retraced back to their Friday levels.**



With the end of the quarter, a new **earnings season** has begun. Lipper anticipates that corporate earnings growth in Q2 for the S&P 500 should come in at +0.3% y/y. It gauges that the financial sector will have the highest sectoral growth rate (+6.2%) and will earn \$63.5 bn in the quarter. But FactSet expects S&P 500 earnings will fall by 2.4% in Q2. It notes that some 113 companies have issued negative earnings per share guidance so far for Q2, which is the second highest number since 2006.

The **manufacturing sector continues to cool**. The Institute for Supply Management PMI index came in above expectations, but slipped for a third straight month again in June. New orders fell to 50, the lowest since December 2015. Manufacturing activity across Europe and Asia is faring worse, with new reads on Monday generally showing contraction and in some cases missing estimates.



Renewable energy financing firm Hannon Armstrong issued the first US **green high-yield junk bond** in more than two years. The \$350 mn security was four times oversubscribed. Investment-grade green issuance is much more common, with 12 such issuers so far this year. Analysts point to the added cost of paying for the third-party green bond rating and an external auditor. Moody's reports global green bond issuance was \$47.2 bn in Q1, 40% more than the period a year ago. Green bonds represented 2.5% of total global issuance in that quarter.

Cross-border merger deals are down 13% from last year globally. But **domestic US merger activity is on a big upswing**. The first half of the year saw \$1.1 tn of corporate deals within US borders. A lofty stock market and cheap debt financing have helped fuel deal making, while protectionist sentiment and trade tensions are dampening the appeal of international deals.



Europe

[back to top](#)

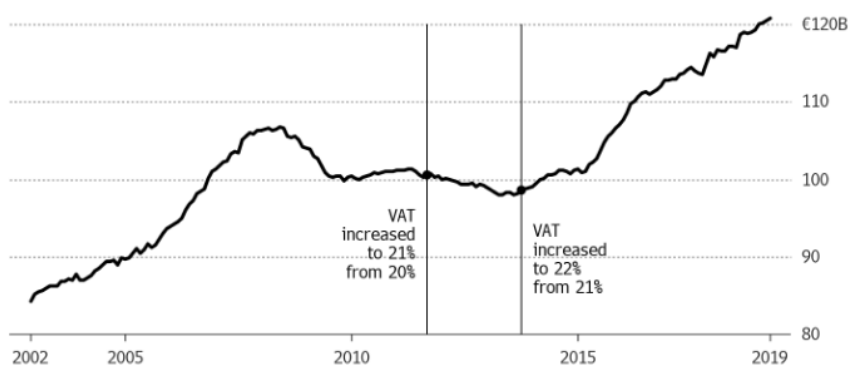
European bourses are mixed within narrow corridors, after reports that the US administration plans \$4bn worth of tariffs on 89 "tariff subheadings" of EU goods. EuroStoxx 600 (+0.2%), DAX (-0.1%), CAC 40 (unch.), and Italy's Titans 30 (unch.). Bank equities (-0.9%) underperformed.

German long-term sovereign yields dipped to new record lows yesterday, with 10-year Bunds yield reaching a record low (-0.363%) following new public expressions of concern about low inflation from several ECB policymakers. This price action was offset only partially by a news report this morning citing unnamed ECB officials suggesting that central bank policymakers are not looking to rush into new stimulus measures, and are currently leaning towards acting at the September meeting. This timing would be in line with market pricing, although Commerzbank and Morgan Stanley are looking for a 10 bp cut at the July meeting, and Goldman sees a 20 bp cut in September. Both Morgan Stanley and Goldman expect a resumption of quantitative easing policies.

Italian bonds rallied today as the government announced a smaller deficit target for 2019. Yields dropped 10 bps today, taking the 10-year rate to 1.87%. The Italian government has reportedly agreed to a deficit target of 2.04% of GDP in 2019, down from 2.4% in the April draft, on the back of stronger revenues and lower expenditures. The narrowing of the deficit would help Italy avoid penalties under the EU's Excessive Deficit Procedure. The German-Italian sovereign spread is now at 225 bps.

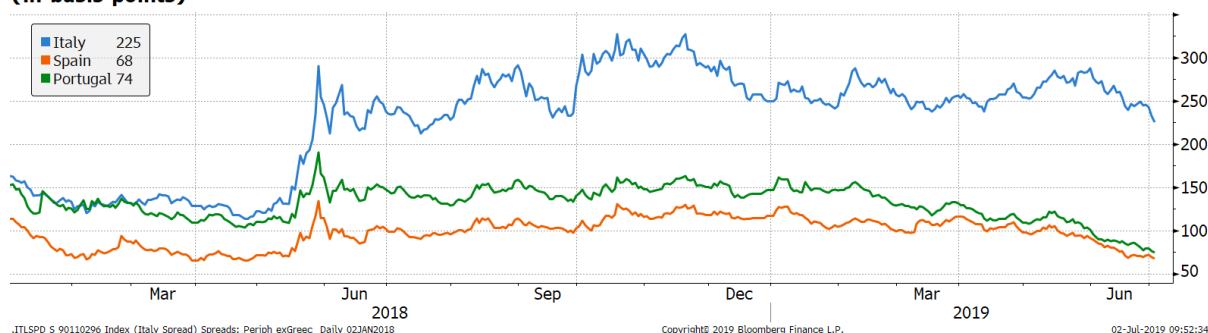
Domestic VAT revenues rose 5.4% since the start of 2019 even as the economy stagnated

Revenues from VAT on domestic transactions, 12 month rolling sum



Bloomberg

Selected European Sovereign Spreads to 10yr Bunds (in basis points)



EU leaders are back in Brussels to discuss top appointments at key EU posts. Frans Timmermans remains the main contender to become the next EC president, although he has found strong opposition from EU conservative leaders.

Key European positions are opening up this year

What	Who	Nationality	Term Runs Until
European Parliament President	Antonio Tajani	Italy	July 2019
ECB President	Mario Draghi	Italy	October 2019
European Commission President	Jean-Claude Juncker	Luxembourg	October 2019
EU High Representative	Federica Mogherini	Italy	October 2019
European Council President	Donald Tusk	Poland	November 2019

Redemptions at Woodford's flagship fund—the £3.7 bn Woodford Equity Income Fund—will remain suspended until further notice. The company announced that the decision will be reviewed every 28 days. The firm is in the process of finding buyers for some of its illiquid assets.

Other Mature Markets [back to top](#)

Australia

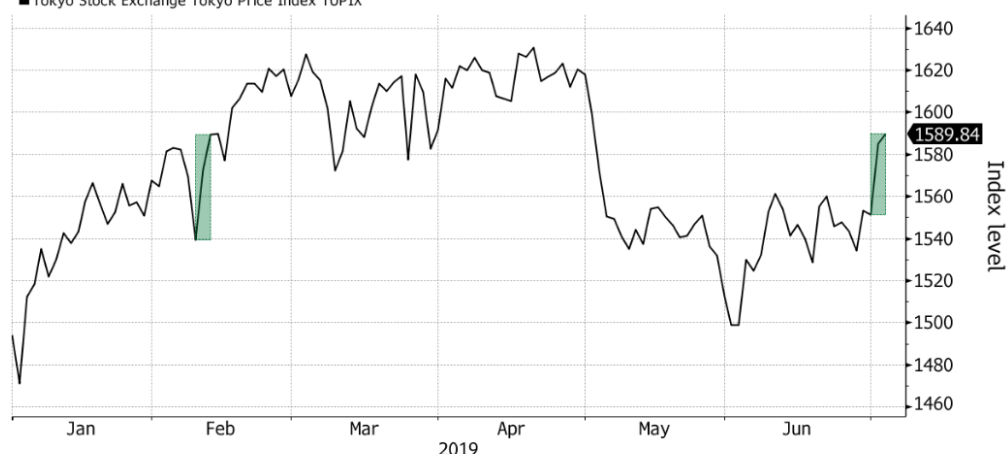
The Reserve Bank of Australia (RBA) reduced its cash rate by 25 bps to a historic low of 1%, as expected. The decision was the first-time the central bank delivered back-to-back cuts since 2012. Similar to the June meeting, the RBA mentioned in its statement that the decision would "support employment growth and provide greater confidence that inflation will be consistent with the medium-term target" **The Australian dollar appreciated 0.3% while 10-year bond yields fell 2.3 bps to 1.33%.**

Japan

Equities (+0.3%) rose with technology extending its outperformance. Separately, the Bank of Japan's corporate inflation expectations survey showed that one-year ahead corporate price expectations remained weak at 0.9% in June, unchanged from March. **The yen and JGB yields were little changed.**

Topix posts its best two-day gain since February

■ Tokyo Stock Exchange Tokyo Price Index TOPIX



Source: Bloomberg, Tokyo Stock Exchange

Emerging Markets

[back to top](#)

EM assets are mixed as enthusiasm for the truce in the China-US trade war was tempered by rising tensions between the US and EU. In addition, investors are awaiting upcoming hard-currency issuance by Saudi Arabia and Turkey. **Asian** equities (+0.3%) gained on net, with Hong Kong (+1.2%) catching up with yesterday's post-G20 rally after a holiday. Aside from Hong Kong, regional equities traded mixed. Thailand (-0.6%), Korea (-0.4%), and Vietnam (-0.4%) underperformed. Regional currencies depreciated, with the Korean won (-0.6%) underperforming. **In EMEA**, equity markets are broadly lower with South Africa and Poland (both -0.5%) underperforming. Currencies are broadly but modestly lower with the Turkish lira underperforming, depreciating 0.6% against the dollar after gaining almost 9% since early May. **In Latin America**, asset prices traded on a positive tone on Monday as the US/China trade truce boosted risk sentiment. The Mexican peso outperformed, appreciating by 0.5% against the dollar.

Key Emerging Market Financial Indicators

Last updated: 7/2/19 8:19 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.42	0.0	2	7	1	11
MSCI Frontier Equities		29.78	0.5	1	4	5	14
EMBIG Sovereign Spread (in bps)		338	0	-11	-42	-32	-76
EM FX vs. USD		62.96	0.0	1	2	-2	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.87	-0.3	0	0	-3	0
Indonesian Rupiah		14139	-0.2	0	1	2	2
Indian Rupee		68.94	0.0	1	0	0	1
Argentine Peso		42.36	0.3	0	6	-33	-11
Brazil Real		3.84	0.1	0	1	2	1
Mexican Peso		19.07	0.3	1	4	5	3
Russian Ruble		63.27	-0.6	-1	3	0	10
South African Rand		14.12	0.1	2	2	-2	2
Turkish Lira		5.65	-0.1	2	3	-18	-6
EM FX volatility		8.03	0.0	-0.2	-0.5	-1.8	-1.7

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

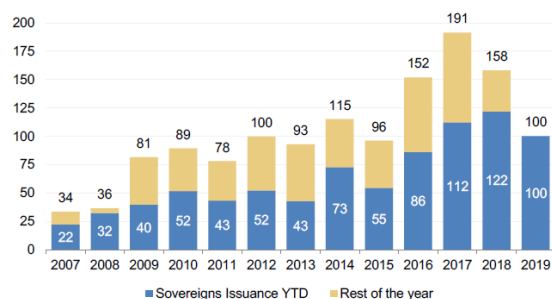
China

Equities (Shanghai -0.0%; Shenzhen +0.2%) consolidated yesterday's gains as they digested Premier Li Keqiang's speech. In his address at the World Economic Forum in Dalian, Li stated that China will avoid massive policy stimulus and will keep to its prudent monetary policy. Additionally, he placed emphasis on plans to open its economy to greater foreign participation. In particular, full foreign ownership of securities firms, futures businesses and life insurance companies will be allowed by 2020, from 2021 previously. China would also look to open the manufacturing sector to greater foreign investment such as relaxing foreign equity restrictions in autos as well as gradually reducing the industries that are restricted from foreign investment. **The onshore and offshore RMB depreciated -0.2%**, settling back at the 6.88 level, where it was for much of last week.

EM Hard Currency Issuance

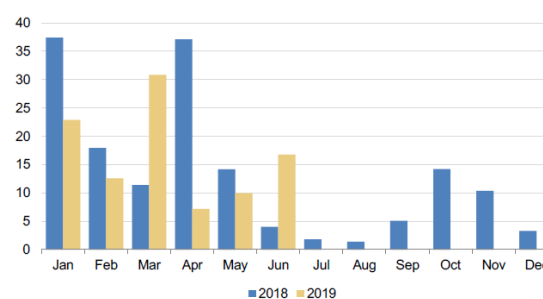
Sovereign hard currency issuance picked up again in June after slowing down at the start of Q2 following a very strong Q1. Among EM issuers Ecuador, Indonesia, Peru, Chile, Russia and Sri Lanka issued in the hard currency market. Demand has so far been strong, leading to low new issue concessions for issuers, particularly for investment grade issuers, and strong performance in the secondary market after issuance. Morgan Stanley estimates that 59% of full-year sovereign gross issuance has now been completed with the MENA region have the most amount issuance remaining (e.g. Saudi Arabia and Oman). As per Bloomberg reports, in terms of specific sovereigns, USD-denominated issuance from Oman, Tunisia, Bahrain, Lebanon, Poland and Costa Rica is expected in the near future while EUR bonds from Saudi Arabia are also likely following a recent road show.

Exhibit 3: Year-to-date sovereign issuance (US\$ billion)



Source: Bond Radar, Bloomberg, Morgan Stanley Research

Exhibit 4: Monthly issuance run rates (US\$ billion)



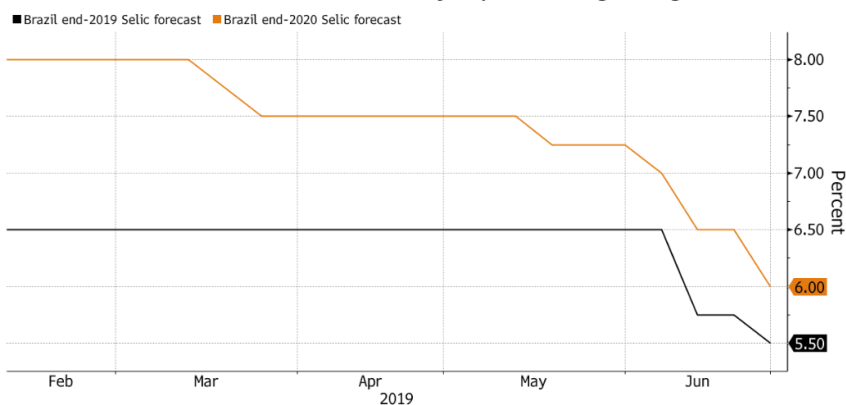
Source: Bond Radar, Bloomberg, Morgan Stanley Research

Brazil

Brazil's policy rate is forecast to fall faster this year and go up less than previously expected in 2020 according the latest weekly central bank survey. Economists cut their end-2019 estimate for the Selic rate to an all-time low of 5.5%, from 5.75% previously. By the end of next year, they expect the rate to increase only half a percentage point to 6%, down from their prior call for 6.5%, where the Selic currently stands. Economists expect Brazil to grow 0.85% this year, down slightly from their 0.87% forecast the prior week.

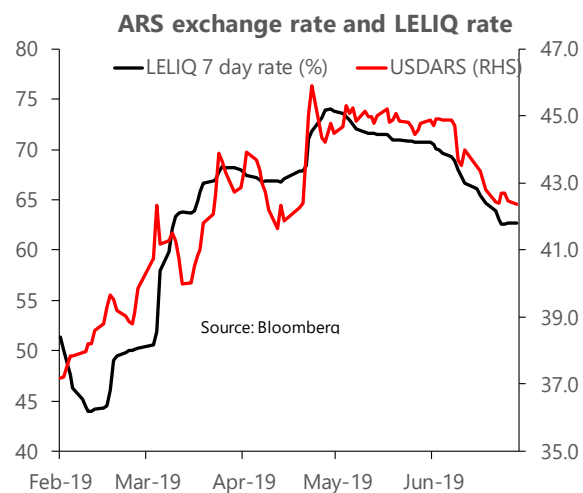
Sliding Selic

Economists see more cuts to Selic rate this year, and less tightening in 2020



Argentina













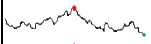
















The Argentine central bank decided to lower the floor on the LELIQ rate from 62.5% in June to 58% in July, a level not far below the current LELIQ rate (62.08%). Analysts highlight that this is an attempt by BCRA to show markets that they will not hurry to validate lower rates even if market conditions allow for that. The peso was the best performing EM currency in June on the back of investors optimism for the election outcome in October. The Central Bank also reduced the reserve requirement for local banks' time deposits by three ppts in July, freeing up some ARS 45 bn to banks to manage a seasonal increase in money demand. Policymakers will compensate for this seasonal adjustment by reducing the monetary base target by ARS 45 bn to ARS 1.298 tn from August through October. Authorities argued that despite the ongoing disinflation, price pressures remain too high to relax the monetary policy stance.



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Global Financial Indicators

Last updated: 7/2/19 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2964	0.8	1	8	9	18
Europe		3502	0.1	2	7	4	17
Japan		21754	0.1	3	6	0	9
China		3044	0.0	2	5	10	22
Asia Ex Japan		71	1.4	2	7	0	11
Emerging Markets		43	0.0	2	7	1	11
Interest Rates			basis points				
US 10y Yield		2.02	1.9	3	-11	-85	-67
Germany 10y Yield		-0.36	0.0	-3	-16	-66	-60
Japan 10y Yield		-0.15	0.0	1	-5	-17	-15
UK 10y Yield		0.76	-5.0	-3	-12	-49	-51
Credit Spreads			basis points				
US Investment Grade		117	0.2	-9	-14	8	-30
US High Yield		434	0.7	-13	-49	72	-88
Europe IG		50	-0.9	-5	-20	-25	-37
Europe HY		245	-3.4	-18	-62	-82	-107
EMBIG Sovereign Spread		338	0.0	-11	-42	-32	-76
Exchange Rates			%				
USD/Majors		96.74	-0.1	1	-1	2	1
EUR/USD		1.13	0.1	-1	1	-3	-1
USD/JPY		108.3	0.2	-1	0	2	1
EM/USD		62.9	0.0	1	2	-2	1
Commodities			%				
Brent Crude Oil (\$/barrel)		65	-0.2	0	1	-16	21
Industrials Metals (index)		111	-0.9	-2	0	-14	1
Agriculture (index)		41	0.0	-3	-1	-5	-2
Implied Volatility			%				
VIX Index (% change in pp)		14.1	0.1	-2.2	-4.6	-1.5	-11.3
10y Treasury Volatility Index		4.4	-0.3	-0.6	-1.2	0.6	-0.2
Global FX Volatility		6.5	0.0	-0.4	-0.2	-1.6	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		255	-10.6	-26	-57	-113	-161
Italy		224	-8.5	-25	-63	-11	-26
Portugal		74	-2.8	-7	-27	-72	-74
Spain		67	-1.8	-4	-24	-32	-50

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 7/2/2019 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		6.87	-0.3	0.1	0	-3	0		3.3	-1.1	1	-4	-31	7
Indonesia		14139	-0.2	-0.1	1	2	2		7.4	-3.0	-17	-65	-60	-73
India		69	0.0	0.6	0	0	1		7.0	0.3	3	-19	-109	-47
Philippines		51	-0.2	0.5	1	4	3		4.9	-1.5	-13	-22	-107	-145
Thailand		31	0.0	0.4	2	8	5		2.2	-1.5	-4	-26	-44	-40
Malaysia		4.14	-0.2	0.1	1	-2	0		3.6	-0.3	-3	-16	-60	-47
Argentina		42	0.3	0.2	6	-33	-11		28.7	5.1	2	-479	949	574
Brazil		3.84	0.1	0.3	1	2	1		6.8	-6.9	-8	-85	-303	-134
Chile		680	-0.1	0.2	3	-3	2		3.4	3.6	-2	-41	-146	-108
Colombia		3207	0.1	-0.1	5	-9	1		5.8	0.0	1	-40	-64	-75
Mexico		19.07	0.3	0.8	4	5	3		7.5	-5.1	-17	-60	-12	-118
Peru		3.3	0.0	0.3	2	0	2		4.8	-2.3	5	-38	-83	-90
Uruguay		35	0.1	0.1	0	-10	-8		10.4	-6.4	-4	-82		-29
Hungary		286	0.2	-0.5	1	-1	-2		1.6	-4.7	-1	-24	-106	-62
Poland		3.75	0.2	-0.3	1	1	0		2.0	-3.1	2	-16	-55	-23
Romania		4.2	0.1	-0.9	0	-4	-3		4.1	3.0	14	-7	-70	-13
Russia		63.3	-0.6	-0.6	3	0	10		7.2	-3.9	-3	-45	-25	-117
South Africa		14.1	0.1	1.6	2	-2	2		9.2	3.6	-15	-15	-15	-35
Turkey		5.65	-0.1	2.5	3	-18	-6		16.5	-38.9	-24	-357	-48	-35
US (DXY; 5y UST)		96.7	-0.1	0.6	-1	2	1		1.78	-0.7	6	-13	-97	-73

	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		3044	0.0	2	5	10	22		179	-2	1	-2	-10	-15
Indonesia		6385	0.1	1	3	11	3		181	-5	-7	-32	-36	-55
India		39816	0.3	1	0	13	10		144	-4	-7	-13	-19	-52
Philippines		8094	0.6	1	2	12	8		73	-5	-2	-25	-57	-48
Malaysia		1691	0.4	1	2	0	0		126	-2	-1	-6	-40	-36
Argentina		41507	-0.7	3	22	64	37		812	0	-66	-178	209	-3
Brazil		101340	0.4	-1	4	39	15		228	-1	-10	-40	-101	-45
Chile		5063	-0.2	-1	2	-4	-1		132	-1	-1	-14	-11	-34
Colombia		1549	0.0	0	4	-2	17		174	-1	-11	-40	-23	-54
Mexico		43438	0.6	-1	2	-7	4		325	-1	-16	-6	38	-29
Peru		20728	0.5	0	4	4	7		121	-1	-5	-28	-47	-47
Hungary		40570	-0.2	1	-1	13	4		87	-1	5	-36	-57	-61
Poland		60170	-0.3	1	4	8	4		37	0	2	-35	-37	-48
Romania		8828	0.3	3	4	10	20		183	-1	4	-35	7	-38
Russia		2802	0.0	2	5	21	18		198	-1	-8	-30	-17	-54
South Africa		58040	-0.7	-1	4	2	10		276	0	-15	-53	-47	-89
Turkey		100083	0.4	5	10	3	10		464	8	-28	-84	45	35
Ukraine		550	0.0	0	-3	18	-2		510	8	-25	-148	-108	-277
EM total		43	0.0	2	7	1	11		338	0	-11	-42	-32	-76

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