



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, July 22, 2019

- Treasury yields rose Friday as markets pared back expectations of a 50-bps cut ([link](#))
- US G-SIBs report another strong quarter ([link](#))
- EM bond funds saw further inflows of \$1.5 bn last week ([link](#))
- Chinese equities underperform but stocks on new 'Star' tech segment surge on first day of trading ([link](#))
- China opens up financial sector further to foreign investors ([link](#))
- Mexico's sovereign CDS underperforms peers month-to-date ([link](#))






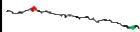





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Markets calm ahead of the ECB on Thursday and a busy week of earnings releases

The main European bourses and US equity futures traded moderately higher this morning. While markets wait for the July 31 FOMC, the focus this week will be Thursday's ECB meeting in a busy week of corporate earnings releases. Most contacts expect modest changes this time around but a tweak to the ECB's forward guidance could set the stage for a rate cut in September. Following a series of GSIBs reporting another strong quarter, a flurry of non-financial firms are expected to report earnings this week, including Amazon, Alphabet, Unilever, Caterpillar, Coca-Cola, McDonald's and Boeing. Elsewhere, oil prices rose this morning amid tensions in the Persian Gulf while, in emerging markets, Chinese equities underperformed on light volumes amid rotation out of cyclicals into defensives. Stocks in a new tech segment on the Shanghai stock exchange, the so-called Star Market, however, rallied strongly gaining up to 500% on the first day of listing.

On the data front this week, US Q2 GDP is expected to slow in its advanced reading on Friday despite strong consumer spending. Several survey data in the euro area are all expected to weaken, including flash composite PMI, French INSEE and German IFO. There are also a couple of monetary policy announcements this week, with Russia expected to cut rates and Colombia expected to stay on hold, both on Friday. On the political front, the result of the UK Conservative Party leadership race will be announced tomorrow

Key Global Financial Indicators

Last updated: 7/22/19 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2977	-0.6	-1	1	6	19
Eurostoxx 50		3491	0.3	0	1	1	16
Nikkei 225		21417	-0.2	-1	1	-6	7
MSCI EM		43	-0.3	0	0	-3	10
Yields and Spreads			bps				
US 10y Yield		2.04	3.1	-5	-1	-85	-64
Germany 10y Yield		-0.34	-1.1	-8	-5	-71	-58
EMBIG Sovereign Spread		336	1	1	-7	-3	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	0.0	0	1	-3	1
Dollar index, (+) = \$ appreciation		97.3	0.1	0	1	3	1
Brent Crude Oil (\$/barrel)		63.2	1.2	-5	-3	-13	18
VIX Index (% change in pp)		14.5	0.0	2	-1	2	-11

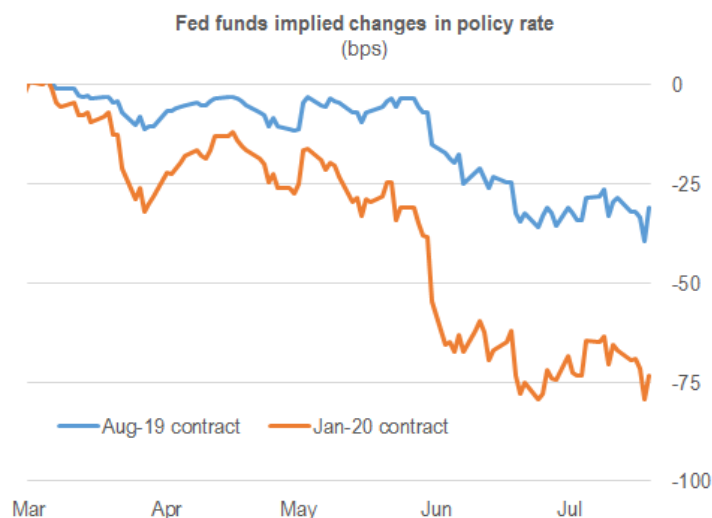
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

where Boris Johnson is widely expected to come out as the winner. The Iran-UK oil tanker situation will be closely watched as well.

United States

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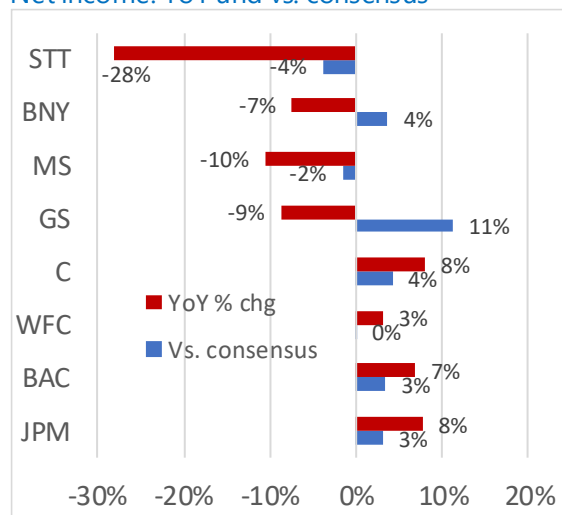
Short-end Treasury yields spiked on Friday as investors pared back wagers on a 50-bps cut in next week's FOMC. A flurry of Fed commentaries and a WSJ article on monetary policy all suggested that the July move is likely to be 25 bps. The New York Fed clarified that Williams' dovish comment on Thursday was academic in nature. Boston Fed's Rosengren was sanguine on the state of the economy and warned that preemptive insurance cuts carry costs if it encourages a risk-on behavior at such late stage of the financial cycle. St Louis Fed's Bullard reiterated his preference for a 25-bps cut. The 2-year yield rose 7 bps to 1.82% and the 10-year yield was up 2 bps at 2.06%. Additional easing priced into July was unwounded as the implied yield on the August fed funds futures contract surged 9 bps to 2.1%. Nevertheless, the markets are still pricing in around 3 rate cuts by year-end. Similarly, stocks reversed Thursday's rally with the S&P 500 down 0.6%, led by rate-sensitive sectors (real estate -1.7%, utilities -1.5%, telecom -1.3%). In Friday's data release, the flash reading of Michigan sentiment index was in line with expectations at 98.4. Inflation expectations came in mixed, with 1-year expectation ticking down to 2.6% but 5-10 year expectations up 0.3 ppts to 2.6%.



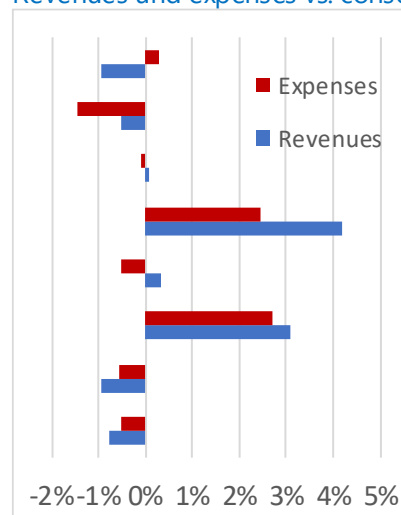
US G-SIBs report 2Q2019 results; another strong performance. The US banks collectively generated net income 3% above consensus expectations and above 2Q18 results; and six of the eight beat market earnings expectations. All banks faced headwinds for net interest income and margins in the difficult interest rate environment – down QoQ as widely anticipated but about 1% below analyst forecasts. The median NIM fell by 3 bps, the first decline since 3Q16. However, most compensated through other earnings levers, either better-than-expected non-interest revenue (Wells Fargo, Citi, Goldman Sachs and Morgan Stanley) or through strong cost management (JPM, Bank of America, Citi and Bank of New York Mellon). The roughly 1% YoY growth of revenue (about 50bps above expectation) occurred despite an 8% YoY decline in capital markets and investment banking revenues due to strong contributions from trust and custody, mortgage originations, credit cards and other services. Share prices of most US G-SIBs declined modestly last week (following strong performance over the previous month), though the transaction banks (BNY Mellon and State Street) rose on relief over broadly in-line earnings following months of operating and share price pressures. Several of the European G-SIBs report this week.

US GSIBs: 2Q19 income statement performance

Net income: YoY and vs. consensus



Revenues and expenses vs. consensus



Note: Earnings are 'normalized' by elimination of non-operating and non-recurring items. Consensus expectations are as of July 1 to reduce 'read-across' and other expectations noise.

Source: Bloomberg

Europe

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Equities saw another quiet start to the week. The Euro Stoxx 600 was 0.1% higher while banks rose by 0.2%. Sovereign yields were also little moved. Most 10-year yields were within a basis point of their closing value on Friday.

ECB president Mario Draghi is expected to restart government bond purchases before he leaves the bank, according to German media. Citing unnamed sources, Der Spiegel said that further QE would be Draghi's preferred option to boost the euro area and support a rebound in investment. The bank meets on Thursday and will be under close scrutiny regarding any changes in policy or forward guidance. Analysts expect a 10-bps deposit rate cut in September while some banks have predicted a further 10-bps cut in December. The euro remains rangebound amid the speculation while yields across the euro area have drifted lower in the last few sessions.

UK chancellor Philip Hammond has confirmed that he will resign if Boris Johnson is selected as the new Conservative leader. Johnson remains the front-runner for the race with the results set to be announced tomorrow. Johnson is expected to want a significant reshuffle in his cabinet but Hammond's objection to a no deal Brexit has resulted in him announcing his resignation before PM May leaves office on Wednesday. Sterling has been rangebound over the last couple of sessions and was little changed this morning. Gilt yields have started to decline again, however, and are approaching the recent lows.

Other Mature Markets

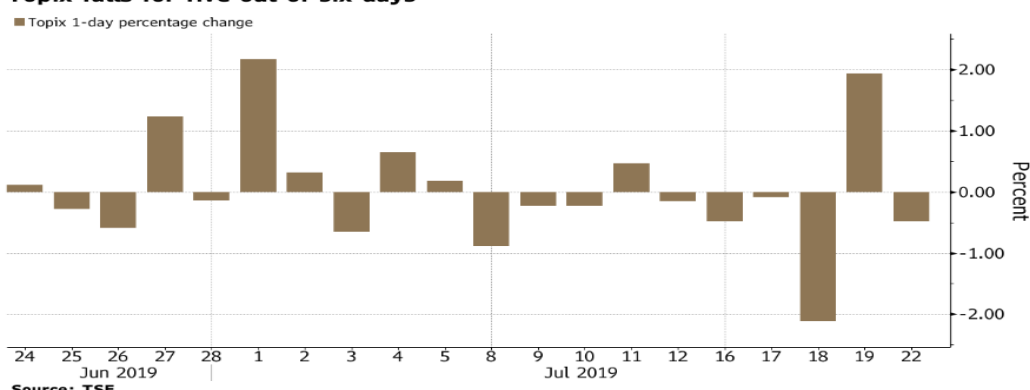
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Japan

Equities (-0.5%) dropped in low volume trading. Consumer staples underperformed amid the agreement by Asahi Group to purchase Carlton & United Breweries from AB InBev in a deal valued at \$11.3 bn, which analysts view as pricey. Separately, Japanese Prime Minister Shinzo Abe's ruling coalition secured

a simple majority in the upper house in its sixth straight national election victory. **The yen weakened -0.2%, while 10-year JGB yields fell marginally to -0.14%.**

Topix falls for five out of six days



Emerging Markets

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Emerging markets saw mixed fortunes although returns were tilted to the downside. Asian equities (-0.5%) fell alongside the market pricing lower odds of a 50 bps Fed cut in July and weak Korean exports data. Chinese (Shanghai -1.3%; Shenzhen -1.8%) and Hong Kong (-1.4%) stocks were among the worst performing markets. Regional currencies broadly weakened, with the won and the Indian rupee (both -0.3%) underperforming. Equities in EMEA started the week as they finished the last one with minor moves. Russia saw the largest absolute move, shedding 0.4%. Local currencies were flat against the dollar apart from the Turkish lira which depreciated by 0.4%. Latin American assets saw losses on Friday as the dollar strengthened. Stocks in Argentina (-1.5%) saw the biggest losses followed by Brazil (-1.2%). Among regional currencies, the Brazilian real (-0.8%) weakened the most against the dollar, followed by the Mexican peso (-0.5%) and Chilean peso (-0.4%).

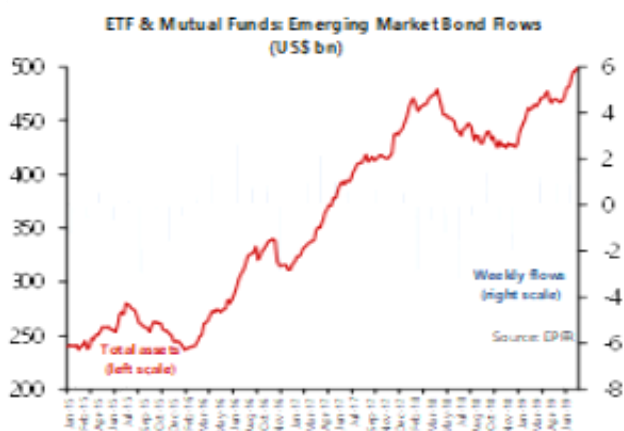
Key Emerging Market Financial Indicators

Last updated: 7/22/19 8:10 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.86	-0.3	0	0	-3	10
MSCI Frontier Equities		30.20	-0.5	-1	2	3	15
EMBIG Sovereign Spread (in bps)		336	1	1	-7	-3	-78
EM FX vs. USD		63.06	0.0	0	1	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	0	-1	0
Indonesian Rupiah		13943	0.0	0	1	4	3
Indian Rupee		68.92	-0.2	-1	1	0	1
Argentine Peso		42.43	0.0	-2	2	-35	-11
Brazil Real		3.75	0.1	0	2	1	4
Mexican Peso		19.03	0.0	0	1	-1	3
Russian Ruble		63.00	0.0	-1	-1	0	10
South African Rand		13.89	0.3	0	3	-3	3
Turkish Lira		5.68	-0.3	1	2	-17	-7
EM FX volatility		7.03	1.4	0.1	-1.2	-3.1	-2.7

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

Emerging Market Fund Flows

EM dedicated bond funds saw further inflows of \$1.5 bn the past week, while equity funds saw slight outflows. According to EPFR data, YTD flows to EM bonds and equities stand at +\$32 bn and -\$3 bn, respectively. Hard-currency flows continue to lead flows into EM funds, showing stability since mid-June. Analysts expect inflows to EM bond funds would prevail in the near term as investors continue to calibrate their portfolios to the drop in core yields, providing the current positive momentum in EM asset markets. The EMBIG tightened by 3 bps on Friday and has tightened by 19 bps over the past month.



China

Chinese equities (Shanghai -1.3%; Shenzhen -1.8%) underperformed on light volumes amid rotation out of cyclical into defensives. Stocks in a **new tech segment on the Shanghai stock exchange, the so-called Star Market, however, were rallying strongly gaining up to 500% on the first day of listing.** Unlike China's major stock markets, the Star Market does not have daily limits. The authorities hope to attract funding for domestic tech firms through the new market. Meanwhile, uncertainty **over the resumption of trade talks remains a key theme for the wider market.** President Trump last week threatened to impose additional tariffs on Chinese imports after stating that China was not purchasing enough US agricultural goods. Additionally, the South China Morning Post reported that both countries remain divided over the negotiating text to base their revived trade talks on. The US is reportedly demanding a longer document to be used that lists earlier promises by Beijing. **The onshore and offshore RMB were stable.**

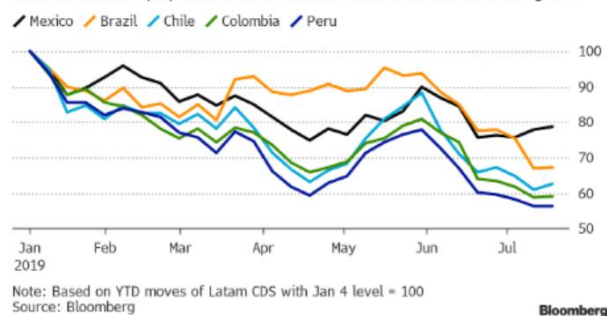
China is lifting some restrictions on foreign investment in the financial sector. The State Council Financial Stability and Development Committee, the People's Bank of China and two regulators in a joint statement announced 11 measures in various areas such as the bond market, credit rating, insurance, securities and wealth management. For example, it will be easier for foreign institutional investors to participate in the inter-bank bond market. Additionally, overseas credit rating companies can rate all bonds that are listed on the exchange and interbank bond markets. Furthermore, China will remove foreign ownership limits of securities, insurance and fund management firms in 2020, a year earlier than originally planned. Other measures for the insurance sector include allowing foreign insurers to hold more than 25% stake in Chinese insurance asset management companies and removing the minimum entry restriction of 30 years of operating experience for foreign insurance firms. Foreign investors are also encouraged to set up wealth management firms or invest in the subsidiaries of Chinese commercial banks or insurance companies.

Mexico

Mexico's sovereign CDS has posted the only increase among major Latin American countries month-to-date as investors priced the nation's credit closer to high yield-rated Brazil. Mexico's underperformance against its regional peers got even worse in recent weeks as the resignation of the finance minister and mounting problems at Pemex undermine investor confidence. Analysts now expect a cut to sub-investment grade for Pemex as almost certain, which will increase the company's cost of borrowing, create a bigger fiscal burden for the government and eventually lead to a sovereign downgrade. Mexico's 5-year CDS closed at 114 bps on Friday while Brazil's 5-year CDS traded at 129 bps.

Mexico Lags

Credit default swap spreads are slow to decline amid shadows of rating cuts












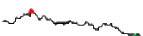















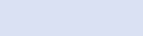



Ukraine

President Zelenskiy's party came first in this weekend's parliamentary elections. Zelenskiy's Servant of the People party secured 42% of the vote, according to early results. The success comes three months after Zelenskiy, who's previous career was in acting, won the presidency in a rebuke to establishment politics. His campaign for the parliamentary elections focused on anti-corruption, ending the stand-off with Russia, and improving the economy. The party will now start coalition talks although it is still unclear who would be the next prime minister in the new government.

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Global Financial Indicators

Last updated: 7/22/19 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2977	-0.6	-1	1	6	19
Europe		3491	0.3	0	1	1	16
Japan		21417	-0.2	-1	1	-6	7
China		2887	-1.3	-2	-4	2	16
Asia Ex Japan		70	-0.3	0	1	-3	10
Emerging Markets		43	-0.3	0	0	-3	10
Interest Rates			basis points				
US 10y Yield		2.04	3.1	-5	-1	-85	-64
Germany 10y Yield		-0.34	-1.1	-8	-5	-71	-58
Japan 10y Yield		-0.14	-0.4	-2	2	-17	-14
UK 10y Yield		0.72	-1.2	-8	-12	-51	-56
Credit Spreads			basis points				
US Investment Grade		119	0.2	-1	-5	14	-28
US High Yield		443	0.1	11	7	94	-78
Europe IG		49	-0.6	0	-6	-17	-39
Europe HY		252	-1.2	9	-6	-40	-101
EMBIG Sovereign Spread		336	1.0	1	-7	-3	-78
Exchange Rates			%				
USD/Majors		97.27	0.1	0	1	3	1
EUR/USD		1.12	-0.1	0	-2	-4	-2
USD/JPY		107.9	-0.2	0	-1	3	2
EM/USD		63.0	0.0	0	1	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		63	1.2	-5	-3	-13	18
Industrials Metals (index)		116	-1.0	1	4	-4	6
Agriculture (index)		41	-0.4	-2	-3	-7	-2
Implied Volatility			%				
VIX Index (% change in pp)		14.5	0.0	1.8	-0.9	1.6	-11.0
10y Treasury Volatility Index		4.3	-0.1	0.1	-0.6	0.5	-0.3
Global FX Volatility		6.5	0.1	0.4	-0.1	-1.6	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		245	-2.7	-11	-37	-105	-170
Italy		197	4.4	7	-46	-25	-53
Portugal		81	2.4	-3	-6	-61	-67
Spain		74	2.5	-2	1	-21	-44

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: 7/22/2019 8:11 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	0.0	0	-1	0		3.2	-0.3	0	-5	-28	1
Indonesia		13943	0.0	-0.2	1	4	3		7.2	-0.4	-1	-46	-74	-96
India		69	-0.2	-0.5	1	0	1		6.6	-1.7	-6	-35	-139	-84
Philippines		51	0.0	-0.1	1	5	3		4.7	-1.1	-4	-33	-121	-160
Thailand		31	0.0	0.2	-1	8	5		2.1	-3.6	-8	-24	-70	-58
Malaysia		4.11	0.0	-0.1	1	-1	0		3.6	-1.0	-1	-8	-52	-49
Argentina		42	0.0	-2.0	2	-35	-11		29.7	2.2	21	18	1006	665
Brazil		3.75	0.1	0.3	2	1	4		6.7	1.5	3	-42	-297	-149
Chile		687	-0.4	-1.1	1	-3	1		3.1	-10.8	-18	-29	-170	-132
Colombia		3174	0.1	0.6	2	-9	3		5.6	-8.2	-11	-23	-80	-89
Mexico		19.03	0.0	-0.3	1	-1	3		7.6	-6.0	-10	-13	-20	-115
Peru		3.3	0.1	0.0	1	0	3		4.4	-5.6	-30	-51	-121	-136
Uruguay		35	0.3	0.3	1	-11	-7		10.2	-0.3	-12	-67		-51
Hungary		290	-0.1	-0.3	-2	-4	-3		1.5	-3.8	-12	-19	-104	-75
Poland		3.79	0.0	-0.1	-1	-2	-1		1.9	-4.0	-9	-11	-62	-35
Romania		4.2	0.0	-0.2	-2	-6	-4		3.9	-2.0	-6	-10	-68	-30
Russia		63.0	0.0	-0.6	-1	0	10		7.2	-2.9	-1	-13	-31	-122
South Africa		13.9	0.3	0.1	3	-3	3		9.1	3.3	-11	-22	-23	-50
Turkey		5.68	-0.3	0.6	2	-17	-7		15.9	-39.9	-152	-258	-245	-97
US (DXY; 5y UST)		97.3	0.1	0.4	1	3	1		1.81	-0.5	-3	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		2887	-1.3	-2	-4	2	16		177	0	1	-2	-11	-17
Indonesia		6434	-0.4	0	2	10	4		174	2	1	-9	-16	-62
India		38031	-0.8	-2	-3	4	5		135	-3	-2	-23	-28	-61
Philippines		8247	-0.3	-1	2	11	10		71	2	0	1	-36	-50
Malaysia		1655	-0.2	-1	-2	-6	-2		117	0	2	-12	-30	-45
Argentina		40162	-1.5	-6	0	45	33		782	-1	14	-43	214	-33
Brazil		103452	-1.2	0	1	32	18		214	2	2	-19	-65	-59
Chile		5053	0.2	0	0	-7	-1		130	0	0	-2	-7	-36
Colombia		1600	0.8	0	3	3	21		176	1	3	0	-6	-52
Mexico		41607	0.0	-2	-4	-15	0		334	2	11	3	69	-20
Peru		20845	-0.4	1	2	4	8		121	1	7	3	-29	-47
Hungary		41593	-0.3	2	3	18	6		94	3	4	11	-25	-54
Poland		60942	0.1	1	3	6	6		38	-1	-2	0	-29	-47
Romania		9054	-0.4	-1	4	15	23		189	-2	1	-1	31	-32
Russia		2699	0.0	-2	-2	20	14		193	1	2	-6	-6	-59
South Africa		57951	-0.5	1	-2	2	10		272	2	-3	-8	-7	-93
Turkey		101296	-0.5	4	8	8	11		472	4	-20	-44	54	43
Ukraine		545	0.0	1	-1	8	-3		470	-25	-50	-46	-82	-317
EM total		43	-0.3	0	0	-3	10		336	1	1	-7	-3	-78

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