



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, July 23, 2019












- **US announces deal to suspend debt ceiling for 2 years** ([link](#))
- **Investment banking revenue pools continue to shrink in the second quarter** ([link](#))
- **Boris Johnson set to be next UK prime minister, wins Conservative leadership vote** ([link](#))
- **Chinese equities rise on positive US-China trade news** ([link](#))
- **Argentina to keep 58% key policy rate floor until at least mid-August** ([link](#))
- **Paraguay's central bank cuts rates by 25 bps to 4.5%, a 8-year low** ([link](#))

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Market sentiment improves on earnings and US debt ceiling news

US equity futures gained alongside stocks in Europe and Asia on positive corporate earnings and as the US announced a deal to suspend the debt ceiling for 2-years. Shares in Coca Cola and United Technologies rose in US pre-market trading on better than expected earnings. European bourses were boosted by upbeat earnings releases from UBS and Santander while Asian equities rose on positive US-China trade news. Shares were also supported by President Trump announcement of a bipartisan deal to suspend the debt ceiling and boost spending for 2 years. However, analysts cautioned that even after all this, the risk of a government shutdown remains, as congress must still pass spending bills adhering to the spending caps in the new fiscal year. Elsewhere, emerging markets saw another mixed but calm session while, in the UK, sterling showed little reaction to the announcement that Boris Johnson became the new leader of the Conservative party by a wide margin. In a vote among party members, Johnson received 66% of the vote while his opponent Jeremy Hunt received 34%.

Key Global Financial Indicators

Last updated: 7/23/19 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2985	0.3	-1	1	6	19
Eurostoxx 50		3535	1.3	0	2	2	18
Nikkei 225		21621	1.0	0	2	-3	8
MSCI EM		43	0.1	0	0	-2	10
Yields and Spreads			bps				
US 10y Yield		2.05	-0.9	-6	-1	-91	-64
Germany 10y Yield		-0.35	-0.4	-11	-7	-76	-59
EMBIG Sovereign Spread		332	-2	-1	-11	-4	-82
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.0	-0.1	0	0	-3	1
Dollar index, (+) = \$ appreciation		97.6	0.3	0	1	3	1
Brent Crude Oil (\$/barrel)		62.9	-0.6	-2	-4	-14	17
VIX Index (% change in pp)		13.3	-0.2	0	-2	1	-12

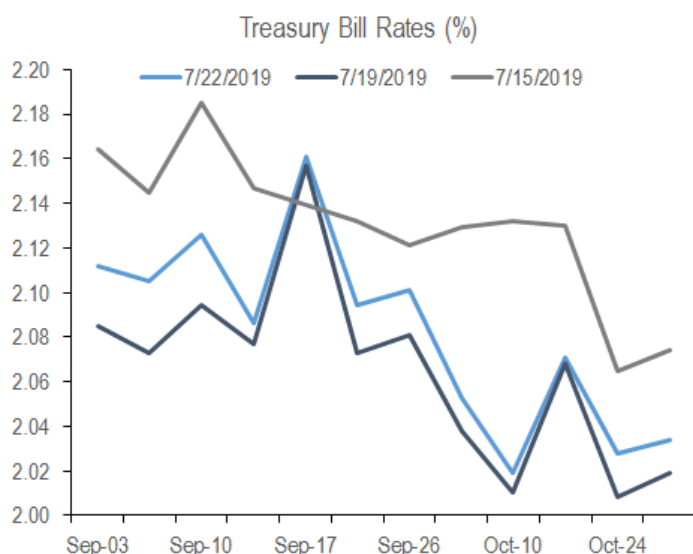
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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US markets stabilized on Monday after gyrating last week on changing rate expectations. The Treasury curve flattened slightly in relatively low volume. Short-dated Treasury yields rose up to 3 bps ahead of Tuesday's \$40 bn 2-year note auction, while longer-dated yields closed marginally lower. Fed funds markets closed flat. Tech firms led a modest rebound in the stock markets. The NASDAQ gained 0.7% as the White House meeting with big tech firms was seen as an encouraging step towards easing trading bans on Huawei. Other sectors saw limited price actions.

President Trump announced a bipartisan deal to suspend the debt ceiling and boost spending for 2 years, but risk of a government shutdown remains. The deal would raise the current budget caps by \$320 bn over 2 years and is expected to push the budget deficit over \$1 tn next year. The House will have to approve the agreement this week before members leave on July 26 for a six-week recess. The measure will then move to a Senate vote and get signed off by President Trump into law. Analysts cautioned that even after all this, the risk of a government shutdown remains, as congress must still pass spending bills adhering to the spending caps in the new fiscal year. The concerns were evident in the kinks in the Treasury bill curve around key repayment dates around the debt ceiling.



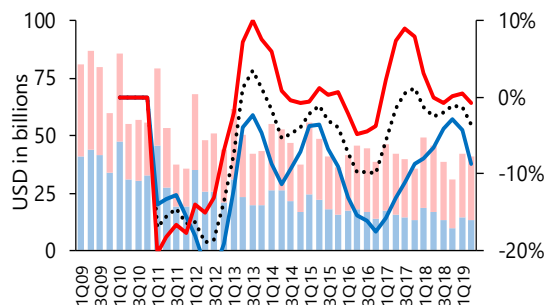
Global Investment Banks

Investment banking revenue pools continued to shrink in Q2-2019, especially for European peers.

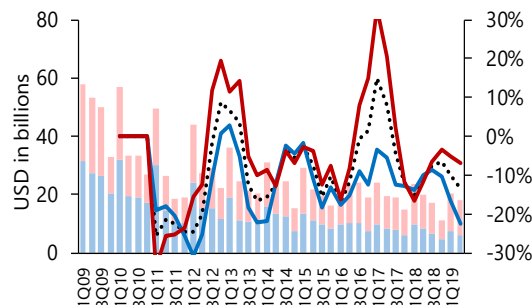
Market volume and revenue data covering of twelve major market-sensitive banks (five US, twelve European) point to continued shrinking investment banking and markets (IB&M) revenues, particularly among European peers. US banks' total IB&M revenues fell nearly 5% YoY in Q2-2019; and deal and market volumes data suggest that European banks' IB&M revenues will decline by nearly 20%. (Four-quarter smoothed growth rate trends, shown below, are similar though less severe.) Across all major product categories – fixed income and equity trading and investment banking --, the trends are similar: year-on-year shrinkage of total revenues, with European banks shrinking fastest. These trends underly decisions by several European bank managements (most notably and recently, Deutsche Bank's) to exit or shrink IB&M activities; and have prompted investors and analysts to advocate more aggressive pruning at others (for example, Barclays). European investment banks have broadly under-performed US peers on profitability and share price performance over the past decade and in 2019. Most several European investment banks report Q2-2019 results over the next two weeks.

US and European banks: Investment banking revenue pools by product class (US Dollars in Billions, Percent)

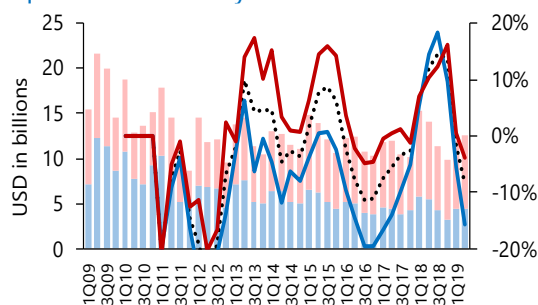
Total – Investment banking and markets



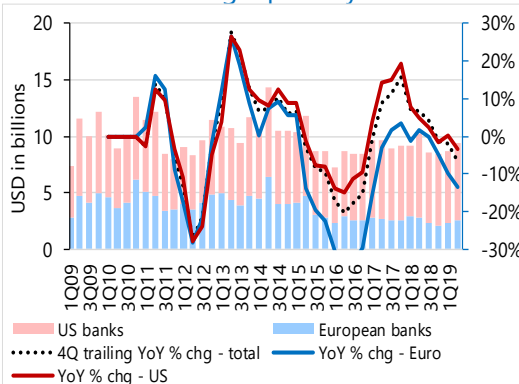
Fixed income -- secondary markets



Equities – secondary markets



Investment banking – primary markets



■ European Banks (LHS) ■ US Banks (LHS)
 4Q trailing YoY % chg - Total — YoY % change - EUR
 — YoY % change - US

Note: Year-on-year changes are based on four-quarter rolling annual totals, an approach intended to reduce the volatility of growth readings and highlight underlying trends. European banks' 2Q2019 IB&M revenues reflect analyst estimates, which are tightly clustered and reflect three months of deal and volume data.

Source: Bloomberg

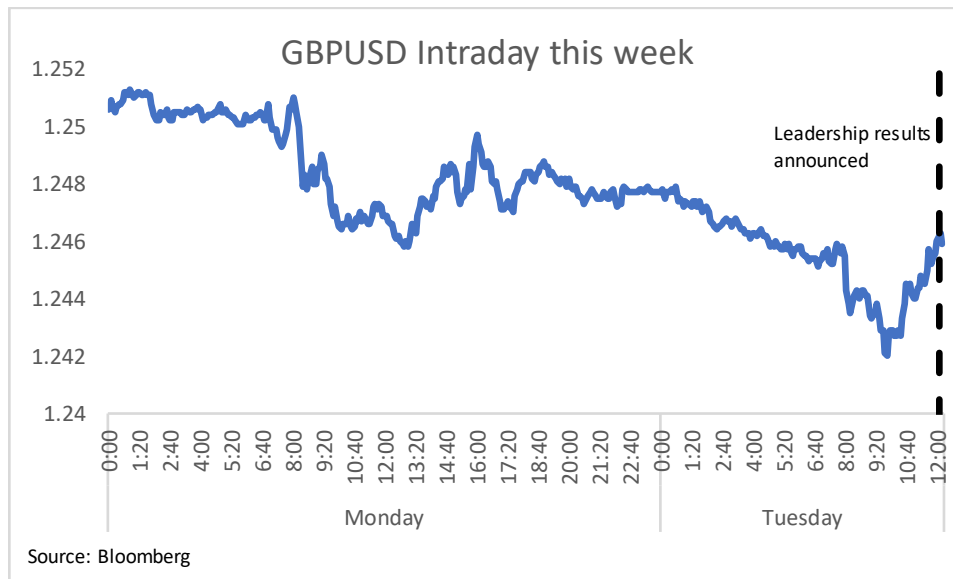
Europe

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Equities rose on the US debt ceiling deal and positive corporate earnings. The Euro Stoxx 600 was up by 0.6% and set for its largest daily gain in three weeks. Banks led the gains, advancing by 1.2% on positive momentum in the earnings season. UBS posted its Q2 results, seeing solid returns in its wealth management unit. The bank rose by 2% in morning trading, breaking a run of four consecutive days of declines. Santander reported a 18% fall in Q2 earnings but excluding one-off restructuring charges profits increased to €2.1 bn, its best quarterly performance since 2011. Its shares rose 3.4% in morning trading.

Sovereign yields were higher in most countries. Spain and Portugal saw 3-4 bps rises in the 10-year while Italy was an outlier with a 2-bps drop. The spread to Bunds dipped to 197 bps after having briefly breached the 200-bps level yesterday on continued speculation over early elections.

Boris Johnson is the new leader of the Conservative party. In a vote among party members, Johnson received 66% of the vote while his opponent Jeremy Hunt received 34%. The margin of victory suggests that Johnson will have a mandate to make significant changes. In his victory speech, Johnson renewed his vow to leave the EU but provided little detail on the strategy ahead. He will take over as prime minister tomorrow after PM May hands in her resignation. He is also expected to hold a speech following that as well as announcing some of the names of those who will serve in his cabinet. Sterling showed little reaction the results, which were widely expected, and was marginally weaker on the day.



Other Mature Markets [back to top](#)

Japan

Equities (+0.8%) rose with technology and telecommunications providing the biggest boost. The technology sector's outperformance followed through from gains in US tech shares overnight and signs of progress towards easing a ban on sales to China's Huawei by the US. Separately, Bank of Japan Governor Haruhiko Kuroda in a speech at the IMF pledged that the central bank would "persistently continue with powerful monetary easing" to lift inflation toward the 2.0% target. **The yen depreciated for a third straight day by -0.2%, while 10-year JGB yields fell 1 bps to -0.16%.**

Topix has risen about 5% this year, less than U.S. equities' gains














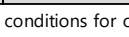


Emerging Markets

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Emerging markets saw another mixed but calm session. Asian equities (+0.1%) were slightly higher on net on media reports that the US and China could resume face-to-face as soon as next week. China (Shanghai +0.5%; Shenzhen +0.9%), and Vietnam (+0.8%) led gains in the region. Regional currencies depreciated marginally against the dollar. Equities in EMEA were mixed. Turkey (+0.8%) saw decent gains while Hungary and Poland (both -0.2%) saw losses. Local currencies were little changed against the dollar. Latin American equities mostly saw losses yesterday. Stocks in Argentina (-2%) saw the biggest losses followed by Mexico (-1%). Regional currencies saw limited movements.

Key Emerging Market Financial Indicators

Last updated: 7/23/19 8:16 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.87	0.0	0	0	-2	10
MSCI Frontier Equities		29.99	-0.7	-1	2	3	15
EMBIG Sovereign Spread (in bps)		332	-2	-1	-11	-4	-82
EM FX vs. USD		62.96	-0.1	0	0	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	0	-1	0
Indonesian Rupiah		13985	-0.3	0	1	4	3
Indian Rupee		68.94	0.0	0	1	0	1
Argentine Peso		42.46	-0.1	0	0	-35	-11
Brazil Real		3.75	-0.2	1	2	1	4
Mexican Peso		19.08	-0.1	0	1	-1	3
Russian Ruble		63.15	-0.1	0	-1	0	10
South African Rand		13.87	-0.1	1	4	-3	3
Turkish Lira		5.69	-0.1	0	2	-17	-7
EM FX volatility		6.92	0.0	-0.1	-1.3	-3.2	-2.9

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

China

Chinese equities (Shanghai +0.5%; Shenzhen +0.9%) rose, with tech outperforming. Sentiment was supported by hopes of progress towards easing the US ban on sales to Huawei and the resumption of face-to-face talks by senior US and Chinese trade negotiators in Beijing next week. US President Donald Trump agreed to providing timely export licensing decisions for deliveries to Huawei after meeting with the CEOs of seven US tech companies at the White House. Chinese state media also mentioned signs of progress on Huawei as part of what it regards as efforts to display "sincerity and goodwill" by both parties. **The 10-year government bond yield fell 1 bps to 3.14%, the lowest in about four months, while the onshore and offshore RMB remained stable.**

Argentina

The central bank announced it will keep its key benchmark interest rate (LELIQ) at or above 58% until at least mid-August when the next inflation data is expected. This should help avoid currency volatility before the primary vote for the presidential election. The central bank also decided to consider the money base targets for July and August jointly, which will allow it to offer more pesos in the second half of July, when demand is higher, and mop up that excess liquidity in August without compromising its

goal, which remains at 1.34 tn pesos. The bank also raised remunerated reserve requirements by 3 ppts. This move aims to encourage savings in pesos.

An average of eleven polls shows voting intention for Fernandez-Fernandez at 38.5% compared to Macri-Pichetto at 34.9%, according to a La Nación report. Poll numbers vary considerably with Isonomía showing voting intention for both formulas at 35%, while others show a 6-point margin lead for Alberto Fernandez, though a large number of voters are yet to decide their votes according to the report.

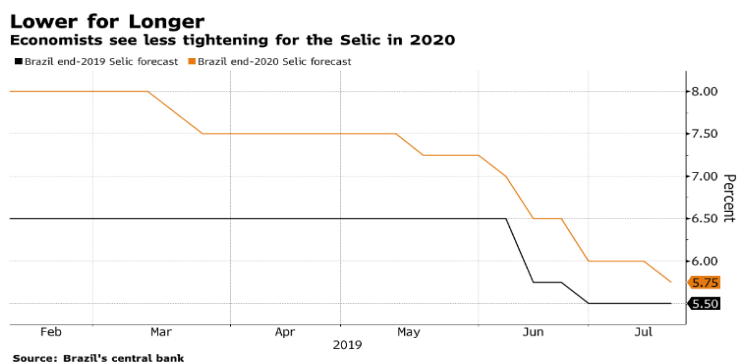


Paraguay

The central bank unanimously decided to cut the policy rate by 25 bps to 4.5%, an 8-year low. This follows a series of gradual cuts since the beginning of the year, when the policy rate stood at 5.25%. The central bank is also expected to revise down its 2019 growth forecast this week, which currently stands at 3.2%. Policy makers cited global growth uncertainty from trade conflicts between the US and China, in addition to weak signs of recovery in neighboring economies as major reasons for their decision. The statement explaining their decision also mentioned that Paraguay's local economy remains weak while inflation remains below the 4% target. The yield on Paraguay's 2027 dollar bond fell 2 bps to 3.41% on Monday.

Brazil

Economists cut their end-2020 estimate for the benchmark Selic rate to 5.75%, from 6% previously, according to a weekly central bank survey. Analysts expect the monetary authority to boost borrowing costs by only 25 bps next year, following a full percentage point of easing by the end of 2019. The shift towards a more dovish stance across central banks in the world, concrete progress on the pension reform



Source: Bloomberg

approval, structural benign inflation backdrop and disappointing growth has raised market expectation for a rate cut at this month's BCB meeting. With an announcement on economic measures expected in the next few days, forecasts for GDP this year stabilized, following 20 consecutive weeks of reductions.

Russia










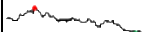



















Sovereign bonds have continued to benefit from favorable conditions. Yields across the curve have steadily declined after peaking in September last year. A slowdown in growth has also led investors to expect a cut in interest rates, including at its next meeting on Friday. Markets are expecting a 25-bps cut on Friday and are pricing in up to a 100-bps overall reduction over the next year. Bonds have also been supported by the global decline in yields. The 10-year benchmark has gone from 9.25% late last year to its current yield of 7.31%.



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Global Financial Indicators

Last updated: 7/23/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2985	0.3	-1	1	6	19
Europe		3535	1.3	0	2	2	18
Japan		21621	1.0	0	2	-3	8
China		2900	0.4	-1	-3	1	16
Asia Ex Japan		70	0.1	0	1	-2	10
Emerging Markets		43	0.1	0	0	-2	10
Interest Rates			basis points				
US 10y Yield		2.05	-0.9	-6	-1	-91	-64
Germany 10y Yield		-0.35	-0.4	-11	-7	-76	-59
Japan 10y Yield		-0.14	-0.6	-2	1	-23	-15
UK 10y Yield		0.70	-0.8	-12	-15	-57	-58
Credit Spreads			basis points				
US Investment Grade		118	-0.4	-2	-6	13	-29
US High Yield		441	-1.6	9	4	95	-80
Europe IG		47	-0.8	-2	-7	-18	-40
Europe HY		243	-5.6	-2	-14	-48	-110
EMBIG Sovereign Spread		332	-2.0	-1	-11	-4	-82
Exchange Rates			%				
USD/Majors		97.55	0.3	0	1	3	1
EUR/USD		1.12	-0.3	0	-2	-4	-3
USD/JPY		108.1	-0.2	0	-1	3	1
EM/USD		63.0	-0.1	0	0	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		63	-0.6	-2	-4	-14	17
Industrials Metals (index)		115	0.0	0	4	-4	5
Agriculture (index)		40	0.3	-1	-4	-8	-3
Implied Volatility			%				
VIX Index (% change in pp)		13.3	-0.2	0.4	-2.1	0.7	-12.1
10y Treasury Volatility Index		4.4	0.1	0.0	-0.5	0.3	-0.2
Global FX Volatility		6.4	0.0	0.2	-0.2	-1.8	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		241	-5.2	-8	-42	-104	-175
Italy		195	-5.0	9	-49	-28	-55
Portugal		83	2.1	3	-4	-54	-65
Spain		76	2.5	3	4	-21	-41

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: 7/23/2019 8:15 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.88	0.0	0.0	0	-1	0		3.2	-0.4	0	-5	-27	1	
Indonesia		13985	-0.3	-0.4	1	4	3		7.3	5.6	11	-31	-75	-90	
India		69	0.0	-0.3	1	0	1		6.6	4.2	2	-30	-135	-80	
Philippines		51	-0.1	-0.5	0	5	3		4.7	0.8	-3	-28	-120	-159	
Thailand		31	-0.2	0.1	-1	8	5		2.1	0.8	-5	-21	-68	-57	
Malaysia		4.12	-0.1	-0.2	1	-1	0		3.6	0.0	-1	-3	-52	-49	
Argentina		42	-0.1	-0.1	0	-35	-11		30.0	31.6	49	101	1036	697	
Brazil		3.75	-0.2	0.6	2	1	4		6.7	-0.5	4	-22	-281	-149	
Chile		689	-0.3	-1.2	-1	-4	1		3.1	-1.2	-18	-24	-172	-133	
Colombia		3178	-0.1	0.4	1	-9	2		5.6	-2.7	-9	-16	-83	-92	
Mexico		19.08	-0.1	0.1	1	-1	3		7.6	1.6	-9	-14	-15	-113	
Peru		3.3	-0.1	-0.1	0	0	3		4.4	3.0	-21	-38	-120	-133	
Uruguay		35	0.6	0.8	1	-11	-7		10.1	-11.4	-23	-42		-62	
Hungary		291	-0.4	-0.2	-3	-4	-4		1.4	-5.0	-14	-21	-110	-80	
Poland		3.80	-0.4	-0.2	-2	-3	-2		1.9	-2.0	-8	-16	-68	-37	
Romania		4.2	-0.3	-0.1	-2	-6	-4		3.8	-10.0	-13	-13	-82	-40	
Russia		63.2	-0.1	-0.2	-1	0	10		7.1	-5.4	-7	-16	-37	-127	
South Africa		13.9	-0.1	0.6	4	-3	3		9.1	-1.2	-8	-24	-25	-52	
Turkey		5.69	-0.1	0.4	2	-17	-7		16.0	5.8	-146	-112	-208	-91	
US (DXY; 5y UST)		97.6	0.3	0.2	1	3	1		1.81	0.3	-6	2	-101	-70	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
									basis points						
China		2900	0.4	-1	-3	1	16		177	0	1	-2	-6	-17	
Indonesia		6404	-0.5	0	1	8	3		173	0	3	-10	-12	-63	
India		37983	-0.1	-3	-3	3	5		137	2	-1	-10	-23	-59	
Philippines		8251	0.1	0	2	12	11		70	0	3	0	-33	-51	
Malaysia		1656	0.0	-1	-2	-6	-2		117	0	3	-12	-23	-45	
Argentina		38730	-3.6	-6	-4	40	28		781	-3	5	-44	208	-34	
Brazil		103950	0.5	0	2	33	18		212	0	0	-21	-64	-61	
Chile		5032	-0.4	-1	-1	-7	-1		130	0	1	-2	-5	-36	
Colombia		1594	-0.4	-1	2	3	20		172	0	-1	-4	-10	-56	
Mexico		41209	-1.0	-4	-5	-16	-1		332	0	5	1	68	-22	
Peru		20783	-0.3	1	1	3	7		119	0	4	1	-30	-49	
Hungary		41424	0.2	1	3	18	6		92	-1	5	9	-22	-56	
Poland		60823	-0.2	1	2	5	5		36	-3	2	-2	-26	-49	
Romania		9053	0.0	-1	4	14	23		189	0	1	14	35	-32	
Russia		2707	0.9	-2	-2	20	14		191	-1	2	-8	-3	-61	
South Africa		58471	0.8	1	-1	3	11		269	-1	-2	-11	-11	-96	
Turkey		102546	1.5	5	9	8	12		464	-7	-20	-52	57	35	
Ukraine		545	0.0	1	-1	9	-3		442	-19	-63	-74	-101	-345	
EM total		43	0.0	0	0	-2	10		332	-2	-1	-11	-4	-82	

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