



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, July 24, 2019






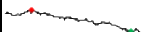





- Growth in global corporate earnings grounds to a halt, according to JP Morgan ([link](#))
- European sovereign bond yields slide on poor German PMI data ([link](#))
- Deutsche Bank's weak Q2 results call into question turnaround financial targets ([link](#))
- Boris Johnson to take over as UK PM today ([link](#))
- ECB's Q2 bank lending survey shows tighter bank corporate credit standards ([link](#))
- South Africa adds to financial assistance of state utility company Eskom ([link](#))
- Hungary's central bank keeps benchmark rate unchanged at 0.9%, as expected ([link](#))

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## Markets cautious on weak German PMI and a US tech antitrust probe

European bourses were marginally lower and sovereign bond yields dropped this morning on poor German PMI data while US equity futures also fell modestly on news the US opened an antitrust probe into big tech companies. These developments offset any positive momentum stemming from a US trade delegation visit to China next week and the US budget deal yesterday. European stocks were also dragged lower by Deutsche bank's weak Q2 earnings results. Emerging markets saw a mixed but quiet session, with Chinese equities (+0.8%) outperforming on the apparent easing of trade tensions between the US and China but the US tech antitrust probe weighing on other major Asian stock markets. Meanwhile, all eyes will be on the ECB's monetary policy announcement and press conference tomorrow where market contacts expect a tweak to the ECB's forward guidance which could set the stage for a rate cut as soon as September.

### Key Global Financial Indicators

Last updated: 7/24/19 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3005	0.7	0	2	7	20
Eurostoxx 50		3530	-0.1	1	2	1	18
Nikkei 225		21710	0.4	1	2	-4	8
MSCI EM		43	0.5	0	0	-3	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.05	3.5	1	4	-90	-63
Germany 10y Yield		-0.38	-2.8	-9	-8	-78	-63
EMBIG Sovereign Spread		330	2	-7	-17	-7	-84
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.8	0.1	0	0	-3	1
Dollar index, (+) = \$ appreciation		97.7	0.0	0	2	3	2
Brent Crude Oil (\$/barrel)		63.8	0.0	0	-2	-13	19
VIX Index (% change in pp)		13.0	0.4	-1	-2	1	-12

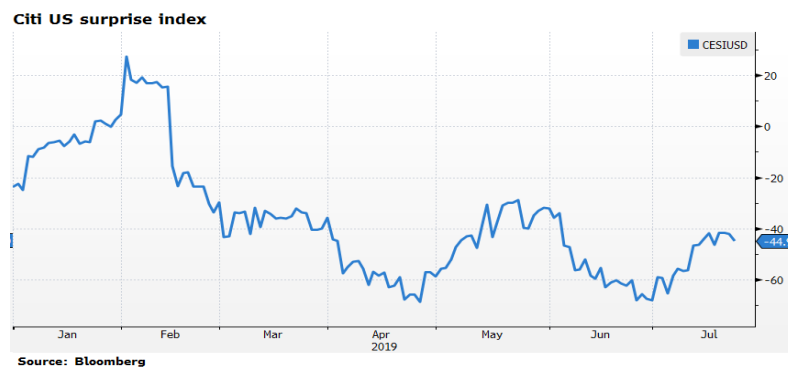
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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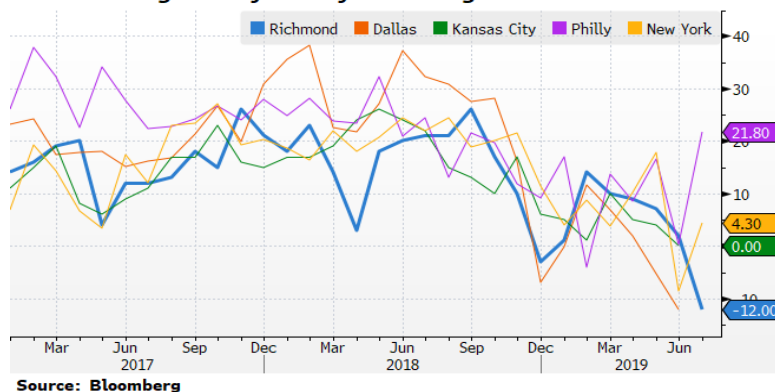
**Treasuries weakened modestly while stocks rallied yesterday.** Risk sentiment was bolstered by optimism stemming from a US trade delegation visit to China next week, the budget deal and strong US company earnings reports. Major indices closed 0.7% higher, with S&P 500 back above 3000. The Treasury curve steepened with 2-year yield up 2 bps to 1.83% and the 10-year yield up 3 bps to 2.07%. The US investment grade CDS spread tightened to a new 17-month low at 51 bps, but high yield spread hovers around year-to-date highs at 107 bps.

**The FOMC is expected to cut by 25 bps next week as many of the risks motivating the 50-bps insurance cut have eased.** The intensification of trade tension and a very weak payroll report in May marked the peak of the risk management narrative. Since then, most of the risks that the Fed was concerned about have eased somehow. The G20 summit helped to set the stage for further trade negotiations. The economic data has improved in the US with a resilient employment report and strong consumer spending, evident in the pick-up in the US surprise index. Fiscal uncertainty has also been reduced with the budget deal. As a result, most analysts believe the fading of these risks have taken out the chance of a 50-bps cut, but a 25-bps cut is widely expected.



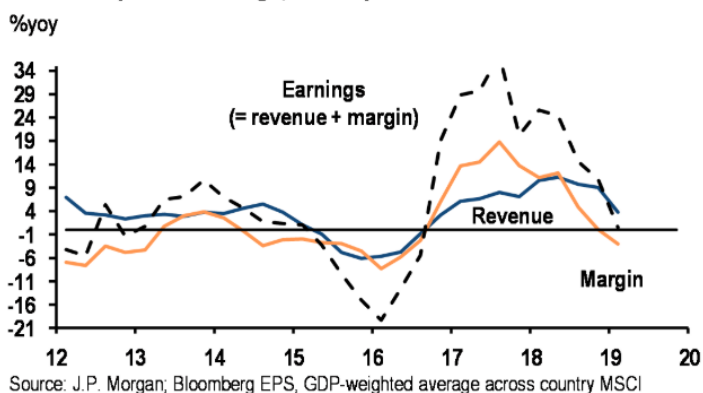
**The July Richmond Fed manufacturing index surprised substantially to the downside.** The index plunged 14 points to -12 from a downwardly revised 2 in June. The weakness was broad-based across shipments, new orders, employment, wages and capex, even inventories, but the weakest of all was local business conditions that tumbled to -18 from 7, the largest monthly drop on record. Surprisingly, respondents were optimistic that conditions would improve in the coming months. The Richmond survey stood in contrast with the New York and Philly Fed surveys. Markets are likely to pay close attention to today's PMI report for clarification.

### Manufacturing Activity Surveys from Regional Feds



**Growth in global corporate profits has ground to a halt on weaker activity and a disinflation impulse, according to JP Morgan.** Weaker real activity is a drag on corporate revenues while the disinflation impulse weighs on profit margins. Through Q1-2019, both revenue and margin growth have decelerated with margin growth into outright contraction. JPMorgan analysts cautioned that the lingering disinflation shock expected through the second half of 2019 could further dampen earnings outlook, along with unresolved trade and geopolitical frictions.

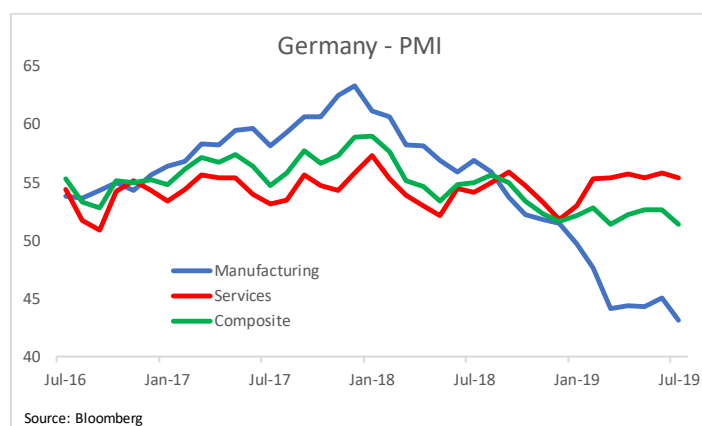
#### Global corporate earnings, decomposed



## Europe

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**Sovereign yields dropped across the continent this morning.** Among the drivers was **poor PMI data from Germany which showed a particularly bad reading for manufacturing (43.1 versus 45.2 expected)**. The data add to concerns over the health of the European economy and reduce the probability of a rebound in the second half of the year. Long-dated yields fell the most with most 10-years down by 2-4 bps. Italy saw the biggest move, declining by 8 bps as fears of a snap election receded.

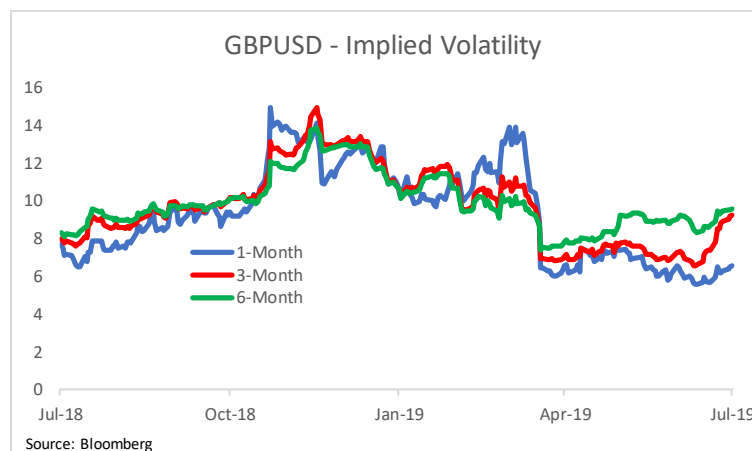


**Equities were marginally lower this morning after three days of gains.** The Euro Stoxx 600 was down by 0.2% while banks underperformed. The subsector declined by 0.9% after a jump of 1.9% yesterday. **Deutsche Bank (-3.2%) led the losses after its Q2 earnings report warned of a slump in trading revenues, calling into question recently announced turnaround financial targets.** The bank reported a Q2-2019 net loss of €3.2 bn, below the pre-announced €2.8 bn loss; CET1 declined 0.3% to 13.4%. Stripping out €3.4 bn of one-time (restructuring, litigation) items, underlying pretax profit of €588 mn missed the market's estimate of €806 mn despite a non-recurrent FX gain. Weak underlying results were

mainly due to very disappointing corporate and investment banking revenues and slightly anemic retail and asset management results. Within corporate and investment banking, FICC trading fell -11% YoY (vs. 7% for US peers), equities trading revenues (a business Deutsche is now exiting) were down -32% YoY, and investment banking service revenues fell sharply and came in about 20% short of market estimates. Management comments signaled that the turnaround financial targets recently announced in connection with the restructuring plan announced a few weeks ago are already in doubt, particularly if policy rates decline again.

**Acting Spanish prime minister Sanchez failed in his first attempt to form a new government yesterday.** Sanchez received 124 votes in favor, but 170 against as well as 52 abstentions. The abstentions of left-wing party Podemos proved crucial after they voiced their disapproval of the terms of the new government. Another vote is set for Thursday with Sanchez requiring a majority to put a new government in place. Yields on Spanish debt rose modestly following the result but were 5-bps lower this morning, falling more than most other European countries.

**Boris Johnson will take over as UK prime minister today following yesterday's Conservative party leadership victory.** Johnson is expected to announce the names of several cabinet members shortly while some of his opponents in May's cabinet are expected to announce their resignation before May officially resigns. Analysts are waiting to see what his stance will be regarding a Brexit strategy, with any decisive move guaranteed to alienate a proportion of his own party. According to unnamed sources, Johnson has ruled out early elections. Sterling is little changed in the last 24 hours although implied volatility has continued to tick up across the 1M, 3M, and 6M tenors.



**The ECB's Q2-2019 bank lending survey highlights tightening of corporate credit standards amid robust credit demand.** The survey shows that corporate credit standards tightened in Q2-2019 despite the loose monetary policy environment, with higher loan rejection rates, modestly tightening pricing, and higher collateral requirements. Consumer credit (unsecured lending) standards also tightened slightly, while mortgage lending conditions eased marginally. Generally tightening standards arguably vindicate the ECB's policy easing, which is expected to lead to relaxation of corporate and consumer credit standards over the next quarter. While bankers became somewhat more cautious in Q2 demand was generally robust across all three product classes. Bankers expect corporate and mortgage demand growth to moderate to still-healthy levels in Q3, while consumer credit growth, the relatively laggard in Q2, is expected to accelerate somewhat.

	Enterprises						House Purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
	Q2	change vs Q1	expected change in Q3	Q2	change vs Q1	expected change in Q3	Q2	change vs Q1	expected change in Q3	Q2	change vs Q1	expected change in Q3	Q2	change vs Q1	expected change in Q3	Q2	change vs Q1	expected change in Q3
Euro area	5			6			-1			26			4			5		
Germany	3			9			-3			38			0			10		
Spain	0			-10			11			0			20			-10		
France	15			20			-2			28			0			13		
Italy	20			20			0			20			0			-10		
Netherlands	-24			-51			-34			50			0			0		

Source: ECB, UBS. Note: **Credit standards:** A positive net percentage balance indicates a larger proportion of banks have tightened credit standards (net tightening). A negative number indicates a net easing of credit standards. **Loan demand:** A positive net percentage balance indicates an increase in loan demand, whereas a negative figure would indicate a decline in loan demand. **Colour code:** Green: improvement; red: worsening; yellow: unchanged.

## Other Mature Markets [back to top](#)

### Japan

**Equities ended the day up 0.4% on the back of solid gains in the US and Europe yesterday.** Yields are fractionally higher across the curve, leaving the 10-year at -0.15%. The moves in stocks and rates were also supported by Japan's PMI data showing both manufacturing (49.6) and services (52.3) improving from last month. The yen is little changed against the dollar at ¥108.11, right in the middle of the range seen since early June.

## Emerging Markets [back to top](#)

**Emerging markets saw a mixed but quiet session.** Regional equity indices were mixed in Asia. China (Shanghai +0.8%) outperformed while other EM Asia indices were lower. The declines were in part attributed to news of an antitrust probe in the US against big tech companies. FX markets were little changed on the day. Stocks in EMEA were marginally lower with Turkey and South Africa (both -0.6%) underperforming. Currencies in the region were flat against the dollar. Latin American assets mostly saw losses yesterday following strengthening of the dollar. Only stocks in Argentina (+1%) saw gains after a 4-day losing streak, while Mexico (-0.7%) and Chile (-0.7%) saw losses. Among regional currencies, Brazil (-1%) weakened the most against the dollar, followed by the Mexican peso (-0.7%).

### Key Emerging Market Financial Indicators

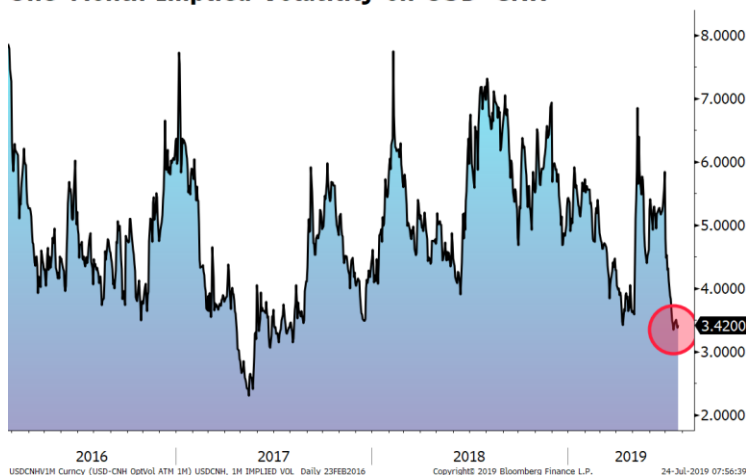
Last updated: 7/24/19 8:18 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.92	0.5	0	0	-3	10
MSCI Frontier Equities		30.12	0.4	0	2	3	15
EMBIG Sovereign Spread (in bps)		330	2	-7	-17	-7	-84
EM FX vs. USD		62.83	0.1	0	0	-3	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.1	0	0	-1	0
Indonesian Rupiah		13997	-0.1	0	1	4	3
Indian Rupee		68.98	-0.1	0	1	0	1
Argentine Peso		42.67	-0.5	0	-1	-35	-12
Brazil Real		3.77	0.2	0	2	0	3
Mexican Peso		19.14	0.2	0	0	-1	3
Russian Ruble		63.12	0.1	0	-1	0	10
South African Rand		13.92	0.1	1	3	-5	3
Turkish Lira		5.73	-0.2	-1	1	-15	-8
EM FX volatility		6.93	0.0	-0.1	-1.3	-3.2	-2.8

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

## China

**Asset prices continue to benefit from the easing of trade tensions between the US and China.** Reports suggest that US Trade Representative Lighthizer will travel to China next Monday for the first face-to-face meeting since the talks broke down in May. However, some US officials have already downplayed the possibility of a near-term breakthrough given the number of outstanding issues. Equity indices across China were higher with the Shenzhen up nearly 1%. The onshore CNY is unchanged at CNY6.88. Of note, the one-month implied volatility for the dollar-yuan pair has fallen to 3.4%, the lowest level in two years (chart).

### One-Month Implied Volatility on USD-CNH



## South Africa

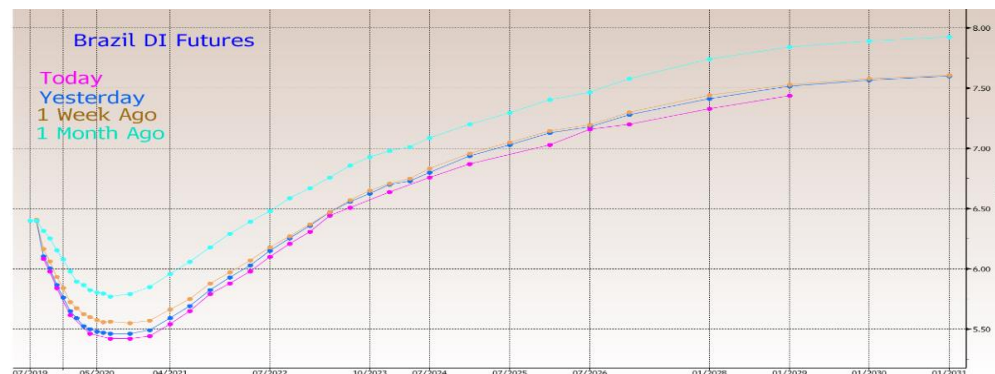
**FM Mboweni told lawmakers yesterday that the government would provide ZAR 26 bn to state power utility Eskom this financial year.** The ailing company will also receive ZAR 33 bn during 2020-21, on top of a three-year injection of ZAR 69 bn announced five months ago. High debt, dwindling revenues, and an old capital stock have hampered Eskom to the point that analysts say it could contribute to a bigger budget deficit. Mboweni described the situation as “extremely serious” and added that there are indications that tax revenues may be “significantly lower” than expected. In other news, **South Africa’s CPI was unchanged in June at 4.5% yoy** and rose 0.4% mom (from 0.3% in May). The South African Reserve Bank cut its main lending rate to 6.5% last Thursday, as expected, but suggested future cuts were not a foregone conclusion despite calls for it to do more to support the flagging economy. The rand weakened by 0.5% yesterday but was 0.2% stronger this morning. Yields on the country’s sovereign debt have risen for four straight days, including a 6-bps rise yesterday in the 10-year- which currently stands at 8.73%.

## Hungary

**The central bank kept its benchmark rate at 0.9% yesterday, as expected by all 19 analysts polled by Bloomberg.** In its statement, the bank reiterated that strong domestic demand and weak external demand were pulling in separate directions. It added that upcoming inflation prints would be decisive for any potential changes to the bank’s monetary policy stance. Inflation has declined recently, declining from 3.9% to 3.4% in June and approaching the 3%-target. The forint has been rangebound recently and showed little reaction to yesterday’s decision.

## Brazil

**The real weakened by almost 1% on Tuesday after reaching a 5-month high last week, following a lower CPI print at 0.09% mom (vs expected 0.13% mom).** Annual headline inflation decelerated further to 3.27%, remaining below the 4.25% target. Interest rate futures point to about 44 bps of rate cuts next week and 36 bps in September. The real could move in either direction following the central bank's selic rate announcement on July 31. A 25 bps reduction in the policy rate to 6.25% is the median estimate but more analysts are betting for aggressive cuts of 50 bps according to Bloomberg.



Source: Bloomberg



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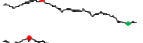
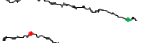















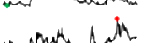

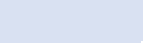



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## Global Financial Indicators





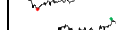

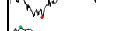

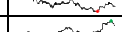
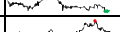












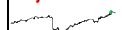



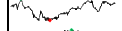


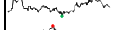



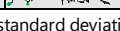




Last updated: 7/24/19 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
				%			%
United States		3005	0.7	0	2	7	20
Europe		3530	-0.1	1	2	1	18
Japan		21710	0.4	1	2	-4	8
China		2923	0.8	0	-3	1	17
Asia Ex Japan		70	0.3	0	1	-4	10
Emerging Markets		43	0.5	0	0	-3	10
<b>Interest Rates</b>				basis points			
US 10y Yield		2.05	3.5	1	4	-90	-63
Germany 10y Yield		-0.38	-2.8	-9	-8	-78	-63
Japan 10y Yield		-0.15	-0.5	-3	1	-23	-15
UK 10y Yield		0.68	-0.9	-8	-13	-59	-60
<b>Credit Spreads</b>				basis points			
US Investment Grade		118	0.4	-3	-6	14	-29
US High Yield		439	2.0	0	0	95	-82
Europe IG		47	-1.0	-4	-8	-17	-41
Europe HY		239	-3.4	-9	-18	-48	-113
EMBIG Sovereign Spread		330	2.0	-7	-17	-7	-84
<b>Exchange Rates</b>				%			
USD/Majors		97.66	0.0	0	2	3	2
EUR/USD		1.11	-0.1	-1	-2	-5	-3
USD/JPY		108.1	0.1	0	-1	3	1
EM/USD		62.8	0.1	0	0	-3	1
<b>Commodities</b>				%			
Brent Crude Oil (\$/barrel)		64	0.0	0	-2	-13	19
Industrials Metals (index)		116	0.9	-1	3	-6	6
Agriculture (index)		41	0.9	0	-4	-7	-2
<b>Implied Volatility</b>				%			
VIX Index (% change in pp)		13.0	0.4	-1.0	-2.3	0.6	-12.5
10y Treasury Volatility Index		4.4	0.0	0.1	-0.6	0.5	-0.2
Global FX Volatility		6.4	0.0	0.1	-0.4	-1.7	-2.6
<b>EA Sovereign Spreads</b>				10-Year spread vs. Germany (bps)			
Greece		237	-4.2	-16	-37	-109	-179
Italy		187	-8.2	-1	-59	-41	-63
Portugal		79	-2.4	-1	-4	-59	-69
Spain		71	-3.7	-3	0	-26	-46

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: 7/24/2019 8:18 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	0.1	0.0	0	-1	0		3.2	-1.7	-3	-7	-31	-1	
Indonesia		13997	-0.1	-0.1	1	4	3		7.3	3.8	15	-27	-70	-86	
India		69	-0.1	-0.2	1	0	1		6.7	3.4	10	-27	-133	-77	
Philippines		51	-0.1	-0.1	0	4	3		4.7	-1.3	-3	-29	-122	-160	
Thailand		31	0.0	0.0	-1	8	5		2.1	0.9	-5	-21	-66	-56	
Malaysia		4.12	0.0	-0.1	1	-1	0		3.6	-0.1	-2	-3	-52	-49	
Argentina		43	-0.5	0.0	-1	-35	-12		30.1	16.2	46	117	1062	713	
Brazil		3.77	0.2	0.0	2	0	3		6.6	-6.3	-9	-29	-292	-155	
Chile		693	-0.6	-1.7	-2	-4	0		3.1	-2.2	-20	-26	-175	-136	
Colombia		3188	-0.3	0.4	0	-9	2		5.6	0.7	-12	-15	-83	-91	
Mexico		19.14	0.2	-0.4	0	-1	3		7.6	-1.3	-20	-15	-21	-115	
Peru		3.3	-0.3	-0.2	0	0	2		4.4	4.1	-13	-34	-115	-129	
Uruguay		34	1.8	2.8	3	-9	-5		9.9	-14.7	-35	-57		-77	
Hungary		292	0.0	-0.5	-3	-5	-4		1.4	-4.4	-18	-25	-116	-85	
Poland		3.82	-0.1	-0.6	-2	-4	-2		1.9	-3.9	-13	-20	-72	-41	
Romania		4.2	-0.1	-0.5	-2	-6	-4		3.8	-3.0	-17	-16	-91	-43	
Russia		63.1	0.1	-0.4	-1	0	10		7.1	-0.7	-8	-17	-38	-128	
South Africa		13.9	0.1	0.7	3	-5	3		9.1	5.4	-1	-19	-23	-46	
Turkey		5.73	-0.2	-0.8	1	-15	-8		16.1	13.3	-117	-99	-161	-78	
US (DXY; 5y UST)		97.6	-0.1	0.4	2	3	2		1.81	-2.5	0	6	-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		2923	0.8	0	-3	1	17		178	0	2	-2	-8	-16
Indonesia		6385	-0.3	0	2	8	3		172	5	-4	-15	-13	-64
India		37848	-0.4	-3	-3	3	5		135	-2	1	-12	-22	-61
Philippines		8161	-1.1	-1	1	10	9		69	3	-5	-5	-35	-52
Malaysia		1652	-0.2	0	-1	-6	-2		118	1	4	-11	-28	-44
Argentina		39204	1.2	-6	-2	39	29		793	8	8	-63	214	-22
Brazil		103704	-0.2	0	2	31	18		208	1	-8	-27	-66	-65
Chile		4998	-0.7	-1	-2	-8	-2		129	1	-1	-4	-7	-37
Colombia		1602	0.5	-1	3	4	21		169	1	-8	-11	-14	-59
Mexico		40935	-0.7	-5	-6	-17	-2		330	2	-7	-6	67	-24
Peru		20729	-0.3	0	0	2	7		116	1	-5	-8	-31	-52
Hungary		41479	0.3	1	2	18	6		92	3	0	8	-25	-56
Poland		60723	0.0	1	1	4	5		37	3	-5	-5	-27	-48
Romania		8987	-0.9	-1	4	13	22		185	-4	1	10	36	-36
Russia		2697	-0.2	-1	-2	18	14		188	1	-4	-15	-9	-64
South Africa		57943	-0.6	1	-1	2	10		269	3	-6	-17	-13	-96
Turkey		102240	-0.3	2	7	11	12		462	2	-15	-47	53	33
Ukraine		540	-0.2	0	-2	8	-3		448	5	-58	-70	-99	-339
EM total		43	0.5	0	0	-3	10		330	2	-7	-17	-7	-84

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