



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Thursday, July 25, 2019

- **ECB leaves interest rates unchanged but lays ground for further easing** ([link](#))
- **European bank stocks rise sharply as ECB set to look into tiering of interest rates** ([link](#))
- **NASDAQ and S&P 500 reached new record highs** ([link](#))
- **Turkey cuts rates by 425 bps in new governor's first meeting** ([link](#))
- **Concerns over small Chinese lenders resurface** ([link](#))
- **Mexican inflation printed at the lowest level in over 2 years** ([link](#))

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## Markets advance as ECB sends easing signal

**Risk assets are stronger this morning following a dovish signal from today's ECB announcement.**

The ECB kept interest rates unchanged but laid the groundwork for further easing. The bank said it will ask staff to review options for potential new asset buying as well as other options including a tiered system of rates. European sovereign yields initially declined meaningfully on the announcement but recovered much of the decline after Draghi began his press conference. Treasury yields also fell on the news, increasing declines following yesterday's weaker than expected PMI data. Equity markets are higher, following gains yesterday that were helped by positive signs on the trade front as China gave approval to import 3m tons of soybeans from the US without retaliatory import tariffs. In emerging markets, Turkey cut its repo rate by 425 bps this morning, more than anticipated in what was considered a very uncertain meeting given the dismissal of governor Cetinkaya earlier this month. The rate decision initially sent the lira sharply weaker, but it quickly recovered to positive territory on the day.

### Key Global Financial Indicators

Last updated: 7/25/19 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3020	0.5	1	4	6	20
Eurostoxx 50		3562	0.8	2	3	3	19
Nikkei 225		21757	0.2	3	3	-4	9
MSCI EM		43	0.1	0	2	-5	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.02	-3.8	0	4	-95	-66
Germany 10y Yield		-0.41	-3.4	-10	-8	-81	-65
EMBIG Sovereign Spread		329	0	-9	-20	-4	-85
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.9	0.1	-1	0	-4	1
Dollar index, (+) = \$ appreciation		97.8	0.1	1	2	4	2
Brent Crude Oil (\$/barrel)		64.1	1.4	3	-2	-13	19
VIX Index (% change in pp)		12.2	0.2	-1	-4	0	-13

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

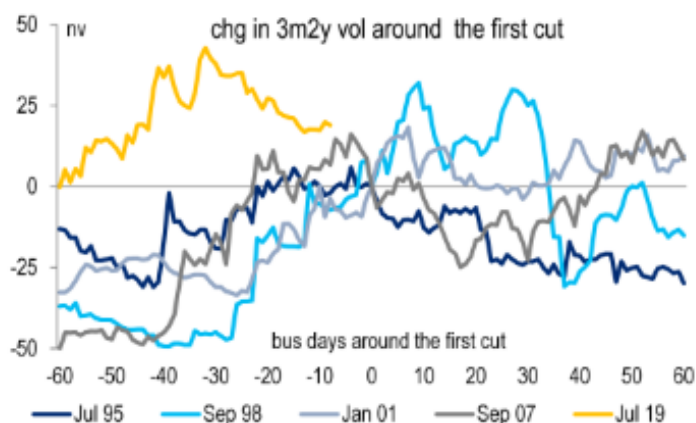
## United States

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**NASDAQ and the S&P 500 hit record highs Wednesday while Treasuries scored a modest gain amid a mixed flow of headlines.** The flash US PMI report showed services PMI remains solid at 52.2, but manufacturing PMI fell to stagnation at 50 for the first time since 2009, with output (48.9) and employment (49.6) components both at a decade low. In response, the yield curve dropped 2 to 4 bps in a flattening move. The belly of the curve was weighed by a weaker than expected 5-year note auction (lower than average cover ratio 2.26x vs 2.39x and higher dealer takedown 32% vs 23%). In stock markets, the headwind from the DOJ probe on tech firms was offset by more US-China trade developments (China buying 2-3 mn tons of US soybeans and US considering Huawei waivers) and generally upbeat corporate earnings. Cyclical stocks outperformed (financials and tech +0.9%), lifting NASDAQ and S&P 500 to fresh record highs at 8321 and 3019 respectively.

**Bond investors seem to be positioning for a limited insurance cut rather than a full easing cycle.** In previous easing cycles, interest rate volatility from swaptions tends to increase going into the first cut. However, despite widely anticipated rate cut next week, the swaption vol has fallen since June. The closest historical parallel may be the 1995 insurance adjustment when swaption vol started to fall after the first cut. This unusual price action likely reflects the view that the upcoming Fed easing will be limited to an insurance adjustment, rather than a full easing cycle. As discussed in yesterday's GMM, fundamentals outside of manufacturing are not yet supportive of a recessionary scenario.

**Figure 1. In contrast to previous easing cycles, this time implied vols have been cheapening going into the first cut...**



Note: For the current 2019 episode the change is shown from the first analyzed date.

Source: Citi Research

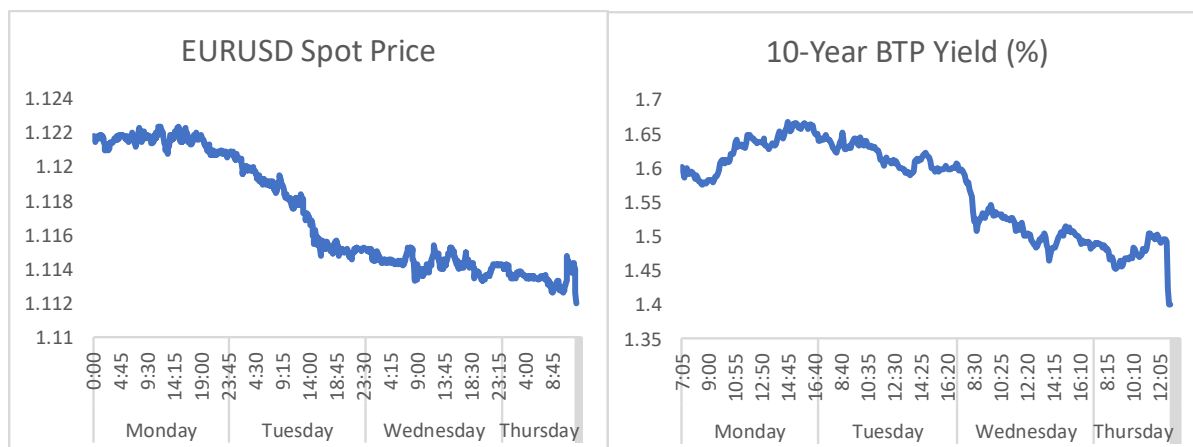
## Europe

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**The ECB decided to keep interest rates unchanged at its meeting today but laid the groundwork for further easing.** In its announcement, the bank said that rates will remain at present levels, or lower, at least through the first half of next year. It will also ask staff to review options for potential new asset buying as well as other options including a tiered system of rates. The latter was seen as a catalyst for an immediate 2.5%-rally in bank stocks. The euro saw some volatility following the statement and fell by 0.2% as analysts waited for the press conference.

**Equities rose and yields fell after the ECB's statement today.** The Euro Stoxx 600 was up 0.6% with banks (+2.5%) in particular rallying after the central bank's announcement of a review of tiering options. **Sovereign yields dipped on the heightened expectation of further easing.** Most 10-year vintages were

down by 2-4 bps while Italy (-11 bps) and Spain (-6 bps) saw particularly big moves. The 10-year BTP yield has now retreated to a new low just below 1.4%, after a slight spike earlier this week on early election fears. Bund yields also fell with the 10-year down 3 bps to a new low of -0.42%.



**Boris Johnson announced the majority of his cabinet yesterday after taking over as UK prime minister.** Most of his choices represent people who have been willing to countenance a no-deal approach to Brexit. This included, Sajid Javid, former home secretary, who was named the new Chancellor as had been widely expected. The extent of the reshuffle surprised some analysts with over half of PM May's cabinet leaving their posts. In his maiden speech as PM, Johnson gave an overview of his ambitions for the role, including delivering Brexit by October 31. He provided little detail, however, on his likely approach.

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











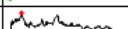



#### Japan

**Equities (+0.2%) gained, reaching a two-week high driven by chemicals and electronics.** Separately, Koichi Hamada, an economic advisor to Prime Minister Shinzo Abe, told Nikkei in an interview that the Bank of Japan will need to consider further easing to prevent the yen from strengthening if the US Fed eases. He also added that it would be a concern should the yen near 100 per dollar. **The yen however rose slightly by 0.1% while 10-year JGB yields fell 0.2 bps to -0.16%.**

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

**Emerging markets saw a slightly positive session today.** Asian equities (+0.3%) rose on net. Philippines stocks (+1.4%) outperformed while Vietnam (+0.7%) and China (Shanghai +0.5%; Shenzhen +0.6%) also gained. Regional currencies were little changed with the Korean won (-0.3%) underperforming. Stocks in EMEA were higher for the most part. Russia and South Africa (both +1%) led the gains while Turkey was flat. Local currencies were flat against the dollar, apart from the South African rand which weakened by 0.5%. The Turkish lira weakened after the bigger-than-expected rate cut but quickly reversed those losses. Latin American assets mostly saw gains yesterday. Stocks in Argentina (+1.5%) saw the biggest gains followed by Mexico (+0.6%) and Brazil (+0.4%), while Chile (-0.6%) experienced losses. Among regional currencies, the Mexican peso (+0.6%) strengthened the most against the dollar while the Argentine peso (-0.5%) weakened further.

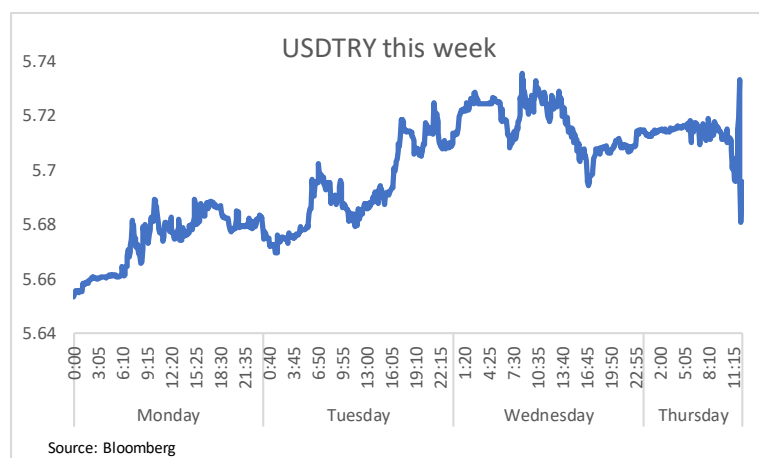
## Key Emerging Market Financial Indicators

Last updated: 7/25/19 8:02 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.99	0.1	0	2	-5	10
MSCI Frontier Equities		30.03	-0.3	-1	2	1	15
EMBIG Sovereign Spread (in bps)		330	1	-8	-19	-3	-84
EM FX vs. USD		62.88	0.1	-1	0	-4	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.87	0.0	0	0	-2	0
Indonesian Rupiah		13977	0.1	0	1	4	3
Indian Rupee		69.04	-0.1	0	0	0	1
Argentine Peso		42.89	-0.5	-1	-1	-36	-12
Brazil Real		3.77	0.2	-1	2	-2	3
Mexican Peso		19.02	0.2	0	1	-2	3
Russian Ruble		63.08	0.3	0	0	0	10
South African Rand		13.94	-0.4	-1	3	-6	3
Turkish Lira		5.69	0.3	-1	2	-16	-7
EM FX volatility		6.97	0.0	0.0	-1.2	-2.9	-2.8

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

## Turkey

**The central bank cut its one-week repo rate by 425 bps today.** The outcome of the meeting was particularly uncertain as it was the first since former governor Cetinkaya was dismissed early this month. Some analysts have been concerned that the personnel change would lead to a reduction in central bank independence. Forecasts ahead of the meeting ranged from 50-bps of easing to as much as 800-bps, while the median forecast was for a 300-bps cut. In its statement, the bank said that the inflation outlook continued to improve while also citing the recent dovish pivot by other central banks. The lira weakened sharply on the announcement, by as much as 1.5% against the dollar, but quickly reversed the losses to trade flat against the dollar.

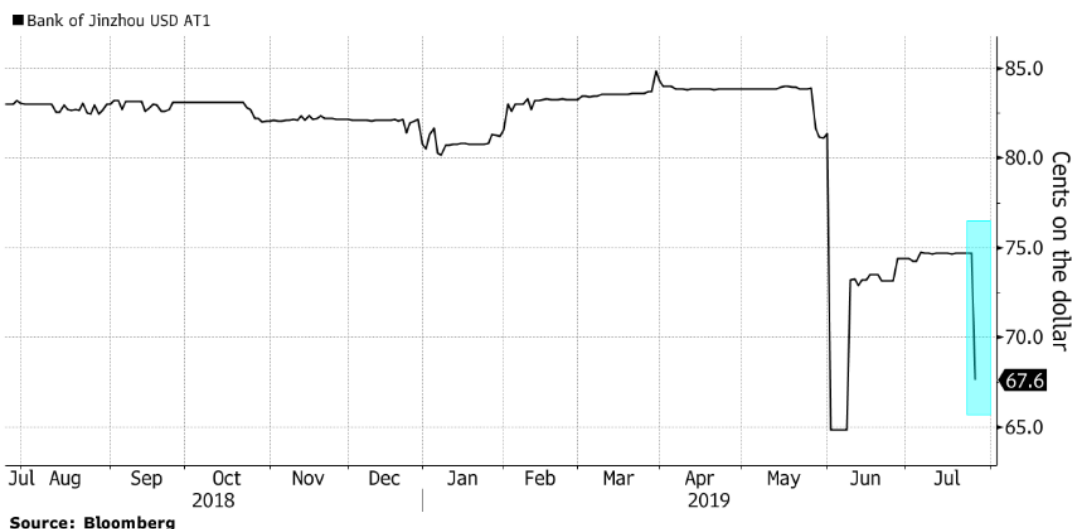


## China

**Chinese equities (Shanghai +0.5%; Shenzhen +0.6%) gained with tech outperforming.** Sentiment was helped by a Chinese goodwill gesture ahead of face-to-face trade negotiations with the US next week – the Chinese government has given the go-ahead for five companies to buy up to 3m tons of US soybeans

free of retaliatory import tariffs. The onshore and offshore RMB were stable. Separately, **Chinese regulators are seeking to resolve liquidity problems at Bank of Jinzhou, a city commercial bank based in the northeastern Liaoning Province.** According to Reuters, officials from the local branch of the PBOC and other regulators met financial institutions in Liaoning province to discuss measures to deal with liquidity problems at the bank. Following the news, Bank of Jinzhou NCD yield jumped close to 20bp to 5.5% and its offshore USD bond came under pressure. The bank's Hong Kong-listed shares have been suspended since April after the bank failed to release its 2018 financial statements. The bank also stated that its auditors Ernst & Young resigned in May after indicating that some loans to institutional customers were not used in ways that were consistent with disclosed statements.

#### Bank of Jinzhou's USD AT1 fell by 7 points on Thursday



#### Mexico

**The peso strengthened by 0.6% on Wednesday after inflation printed at 3.84% y/y for early July, the lowest level in more than 2 years.** The print was in line with the 3.83% forecast by economists in a Bloomberg survey. TIE swap rates fell 2-7 bps on Wednesday, in line with a stronger peso and falling U.S. yields. The Mexican curve now prices in ~33 bps rate cuts in 3 months and about 68 bps in 6 months. Most market analysts expect Banxico to cut policy rate by 25 bps in September, though an August easing is also seen as likely by a few.

#### Inflation Slowdown

Mexican annual CPI has fallen to the central bank's target range



Source: Bloomberg

## Brazil

**Brazil's Petroleo Brasileiro further privatized its fuel distribuion unit, Petroleo Distribuidora, by selling \$2.3 bn worth of shares, reducing its position to 41% from 71%.** It is Latin America's biggest equity offering this year. President Bolsonaro's administration has vowed to divest state assets, with a goal of raising as much as \$20 bn this year alone to help alleviate a fiscal deficit. Petrobras shares climbed as much as 5.3%, leading the gains on Brazil's benchmark equity index which posted gains of 0.4%, reports Bloomberg.

### Privatization Boost

**BR Distribuidora heads to record close as Brazil gives up company's control**

■ Petrobras Distribuidora SA



Source: Bloomberg

## Kenya

**The central bank kept interest rates at 9% as expected.** This represented the sixth consecutive meeting where rates are unchanged, but the bank's statement was considered relatively dovish. The bank said that inflation should remain within the 2.5-7.5% target on lower food and electricity prices. Inflation currently stands at 5.7% after rising to almost 7% earlier in the year. Food price volatility has been among the drivers of inflation recently but some analysts expect inflation to decline over the coming months.








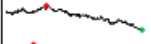







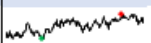
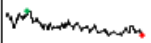







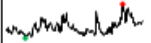




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## Global Financial Indicators

Last updated: 7/25/19 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3020	0.5	1	4	6	20
Europe		3562	0.8	2	3	3	19
Japan		21757	0.2	3	3	-4	9
China		2937	0.5	1	-1	1	18
Asia Ex Japan		70	0.2	1	2	-5	10
Emerging Markets		43	0.1	0	2	-5	10
<b>Interest Rates</b>			basis points				
US 10y Yield		2.02	-3.8	0	4	-95	-66
Germany 10y Yield		-0.41	-3.4	-10	-8	-81	-65
Japan 10y Yield		-0.15	-0.4	-2	0	-23	-15
UK 10y Yield		0.65	-2.7	-11	-14	-62	-63
<b>Credit Spreads</b>			basis points				
US Investment Grade		117	-0.3	-4	-10	14	-30
US High Yield		438	1.2	-10	-9	97	-83
Europe IG		44	-1.3	-6	-11	-18	-43
Europe HY		232	-5.1	-22	-31	-53	-121
EMBIG Sovereign Spread		329	0.0	-9	-20	-4	-85
<b>Exchange Rates</b>			%				
USD/Majors		97.81	0.1	1	2	4	2
EUR/USD		1.11	-0.2	-1	-2	-5	-3
USD/JPY		108.1	0.1	-1	-1	3	1
EM/USD		62.9	0.1	-1	0	-4	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		64	1.4	3	-2	-13	19
Industrials Metals (index)		115	-0.5	-1	2	-6	5
Agriculture (index)		40	0.1	1	-4	-9	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		12.2	0.2	-1.3	-4.1	-0.1	-13.2
10y Treasury Volatility Index		4.5	0.1	0.1	-0.6	0.5	-0.1
Global FX Volatility		6.5	0.0	0.1	-0.4	-1.5	-2.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		236	-1.2	-9	-44	-106	-179
Italy		179	-7.6	-7	-70	-49	-71
Portugal		76	-3.0	-2	-5	-57	-72
Spain		69	-3.5	-2	-2	-26	-48

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: 7/25/2019 8:05 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	0.0	0.1	0	-2	0		3.2	0.1	-3	-6	-32	-1
Indonesia		13977	0.1	-0.1	1	4	3		7.3	-1.5	9	-31	-72	-88
India		69	-0.1	-0.1	0	0	1		6.7	1.3	9	-26	-132	-75
Philippines		51	0.1	-0.1	0	4	3		4.7	-3.6	-6	-32	-123	-164
Thailand		31	0.1	-0.2	0	8	5		2.1	-1.4	-5	-22	-67	-58
Malaysia		4.11	0.1	0.0	1	-1	0		3.6	0.5	-1	-5	-51	-49
Argentina		43	-0.5	-0.9	-1	-36	-12		30.3	18.2	77	160	1050	731
Brazil		3.77	0.2	-1.2	2	-2	3		6.6	-3.2	-12	-33	-292	-159
Chile		690	0.4	-1.2	-1	-5	1		3.1	-4.9	-21	-34	-179	-140
Colombia		3199	-0.3	-0.4	0	-9	2		5.6	-2.4	-9	-18	-88	-93
Mexico		19.02	0.2	-0.4	1	-2	3		7.5	-4.0	-30	-18	-31	-119
Peru		3.3	0.0	-0.2	0	-1	2		4.4	0.1	-8	-34	-113	-129
Uruguay		34	1.1	3.9	4	-9	-4		9.9	-7.6	-34	-59		-84
Hungary		293	-0.2	-1.2	-3	-5	-4		1.3	-10.0	-25	-34	-124	-95
Poland		3.82	-0.1	-1.3	-2	-4	-2		1.8	-5.8	-18	-23	-76	-47
Romania		4.2	-0.3	-1.2	-2	-7	-4		3.8	-3.0	-20	-19	-92	-46
Russia		63.1	0.3	-0.5	0	0	10		7.1	-3.8	-12	-17	-42	-131
South Africa		13.9	-0.4	-0.7	3	-6	3		9.2	4.1	4	-22	-16	-42
Turkey		5.69	0.3	-1.2	2	-16	-7		16.0	-14.6	-70	-81	-326	-92
US (DXY; 5y UST)		97.8	0.1	1.0	2	4	2		1.79	-1.9	2	7	-106	-72

	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		2937	0.5	1	-1	1	18		178	1	1	0	-8	-16
Indonesia		6401	0.3	0	1	8	3		174	4	-1	-14	-10	-62
India		37831	0.0	-3	-4	3	5		136	1	0	-15	-22	-60
Philippines		8272	1.4	0	3	10	11		71	1	-1	-4	-32	-50
Malaysia		1657	0.3	0	-1	-6	-2		118	2	3	-9	-26	-44
Argentina		39785	1.5	-4	-1	35	31		818	7	29	-60	244	3
Brazil		104120	0.4	0	4	30	18		208	2	-6	-30	-59	-65
Chile		4969	-0.6	-1	-3	-9	-3		129	0	-1	-4	-6	-37
Colombia		1593	-0.6	-1	2	4	20		171	1	-6	-14	-7	-57
Mexico		41168	0.6	-3	-6	-17	-1		329	1	-4	-12	66	-25
Peru		20762	0.2	0	1	2	7		119	2	-3	-7	-24	-49
Hungary		41348	0.1	0	3	18	6		92	-1	-1	10	-25	-56
Poland		60866	0.1	1	2	3	6		37	0	-4	2	-27	-48
Romania		8957	0.4	-1	4	13	21		187	2	-1	8	35	-34
Russia		2715	1.2	0	-1	19	15		188	-1	-7	-18	-7	-64
South Africa		57936	0.4	0	-1	3	10		273	3	-4	-18	3	-92
Turkey		103447	0.0	2	8	8	13		451	-5	-28	-41	30	22
Ukraine		541	0.0	-1	-2	7	-3		446	-1	-56	-89	-80	-341
EM total		43	0.1	0	2	-5	10		330	1	-8	-19	-3	-84

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