Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, July 26, 2019

- **US GDP grew more than expected in the second quarter (link)**
- **Sterling implied volatility continues to rise along with no-deal Brexit anxiety (link)**
- **US durable goods orders rebounded in June (link)**
- **Chinese state-owned debt managers on contingency plans to invest in small banks (link)**
- **Puerto Rico bonds rise following governor's resignation(link)**

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Stocks rise on positive earnings releases

A day after markets whipsawed following the ECB's announcement, markets are once again starting the day on a positive note. While the initial announcement from the ECB yesterday sent stocks higher and sovereign bond yields lower, markets soon reversed the moves with yields heading back higher and equities lower. The press release from the meeting met, or even exceeded, the dovish expectations of market participants going into the day. However, many of the responses from the subsequent press conference were seen to offset that initial take and project a more hawkish tone. This morning, European equities are once again starting higher and US index futures are pointing to a stronger opening as several large firms - such as Twitter, Alphabet and Nestle - reported strong earnings for the quarter. While US Treasury yields ended the day higher yesterday, markets continue to expect a high likelihood of a cut next week with no meaningful change in the priced-in move.

Key Global Financial Indicators

Last updated: 7/26/19 7:49 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3004	-0.5	0	3	6	20
Eurostoxx 50		3523	0.4	1	2	0	17
Nikkei 225		21658	-0.5	1	3	-4	8
MSCI EM		43	0.1	-1	0	-4	9
Yields and Spreads				bps			
US 10y Yield		2.07	3.8	2	3	-90	-61
Germany 10y Yield		-0.38	-1.2	-5	-7	-78	-62
EMBIG Sovereign Spread		327	2	-8	-17	-2	-87
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		62.7	0.0	-1	0	-4	1
Dollar index, (+) = $ appreciation		97.9	0.1	1	2	3	2
Brent Crude Oil ($/barrel)		63.7	0.5	2	-4	-15	18
VIX Index (%, change in pp)		12.5	-0.2	-2	-4	0	-13

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

United States

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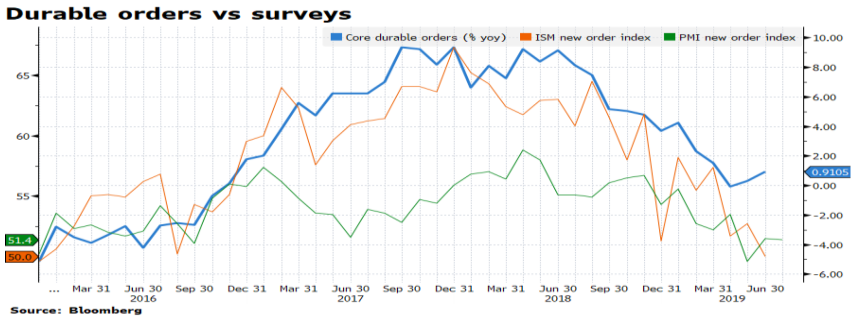
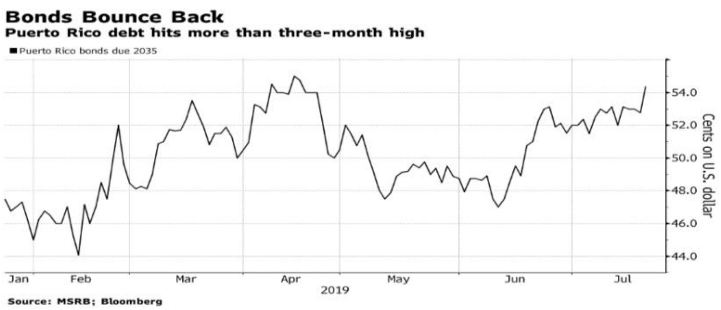
US GDP growth for Q2 came in stronger than expected (+2.1% compared to 1.8% consensus). The higher than expected result was driven by consumption and government spending while business investment fell. However, the core PCE deflator rose less than expected (1.8% vs. 2.0% consensus). Treasury yields rose somewhat on the news, with the 10-year now almost 2 bps higher compared to immediately prior to the report.

Stocks and Treasuries lost ground Thursday, following the European markets lower, exacerbated by generally weak earnings reports. The S&P 500 (-0.5%) and NASDAQ (-1%) fell from record highs, with all sectors closing in the red led by energy (-1.2%), IT (-0.8%) and materials (-0.8%). Tesla (-14%), Paypal (-5%) and Amazon (-2%) all missed earnings estimates, while Google (+7.8%) beat expectations along with announcing the firm's biggest buyback program at $25 bn. The treasury curve flattened with the 2-year yield up 4 bps to 1.86% and the 10-year yield up 3 bps to 2.07%. Fed funds implied yields also rose by 1 to 2 bps across the curve, but the implied rate cut for next week remained stable at around 30 bps. The swap spreads tightened to new YTD lows in the 10- and 30-year tenors to -8.5 bps and -37 bps, respectively, on the back of heavy issuance related hedging flows. The Treasury's $32 bn 7-year note auction was weak following equally tepid 2- and 5-year auction earlier this week.

Durable goods orders rebounded more than expected in June. The headline orders rose 2% m/m (vs. 0.7% expected), with the core orders up 1.2% m/m (vs. 0.2% expected). The strength in the report follows other recently stronger hard data on manufacturing activity, including manufacturing employment, hours worked and output. In contrast, recent survey data are mixed. The ISM and Richmond Fed survey show continuing deteriorations in orders, while the New York and Philly Fed surveys show improving conditions.



Puerto Rico bonds rose after Governor Rossello resigned following weeks of intensifying demonstrations. There is speculation that the political turmoil will strengthen the power of federal overseers to shape the outcome of the government's bankruptcy. The territory's general-obligation bonds due in 2035, one of its most active securities, rose to an average of 54.5 cents on the dollar early Thursday, a more than 3-month high and up from about 53 cents on Tuesday, reports Bloomberg. Some other Puerto Rico bonds also advanced in light trading.



Europe

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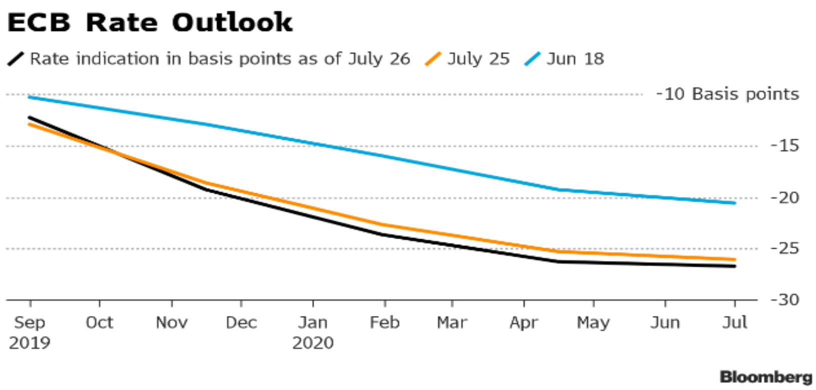
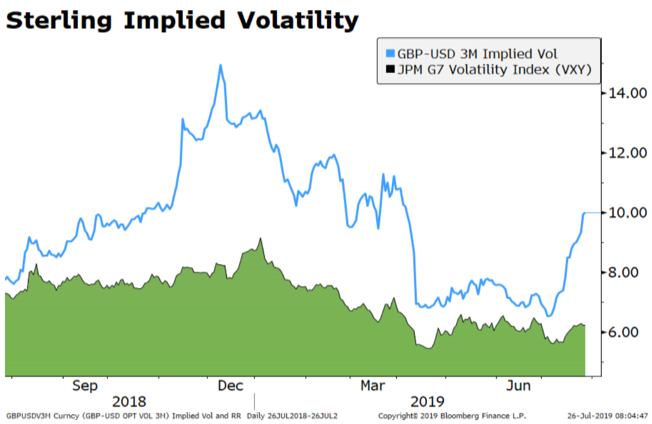
Equity markets are mixed and rates mostly unchanged on the day. The EuroStoxx 600 is up fractionally after having closed 0.6% lower yesterday. Of note, banking sector stocks rose sharply intraday yesterday on the notion that the ECB could enact tiering rate system but have since given up gains, leaving the banking index on net 0.6% lower. Core yields are little changed since the meeting with the German 2-year at -0.76% and the 10-year at -0.37%. **Eonia rates are also little changed since the meeting, still pricing in a 10-bps cut for September (chart).** There was no market reaction to comments by Germany's Finance Minister Olaf Scholz pushing back on the idea of near-term fiscal stimulus. Yields in **Southern Europe** are a few basis points higher, rising 6 bps across the Italian curve.



In Brexit news, Boris Johnson continues to push a hard line in negotiations, insisting that previous agreements (including the controversial Irish backstop) should be renegotiated. EU officials were quick to rebuke Johnson's comments. EC President Juncker, for example, said that the current agreement is "the best and only" deal on the table. Sterling has been underperforming over the last couple of sessions, but the move has been modest. That said, implied volatility continues to rise, remaining well above that in other developed countries (chart). The 3-month implied volatility for the sterling-dollar cross is trading around 10%, compared with JPM's G7 index which is closer to 6%.



Other Mature Markets

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Japan

Equities (-0.4%) fell on average volumes. Cyclical stocks underperformed. The yen and bond yields were little changed today.

Emerging Markets

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EM assets are mixed, but with a risk-off bias across regions. Asian equities fell following the risk-off sentiment from US and European stocks overnight. Indonesia (-1.2%) and Philippines (-1.1%) led losses, while China (Shanghai +0.2%; Shenzhen flat) bucked the trend. Regional currencies broadly depreciated, with the Korean won (-0.3%) underperforming for a second day. **In EMEA,** equity markets are mixed with Russia (+0.5%) outperforming while most other regional indices are seeing small declines. Currency market are also mixed; the Ukrainian hryvnia is outperforming against the dollar (+0.6%) while the South African rand is underperforming (-0.5%). The Russian central bank cut rates by 25 bps to 7.25%, as widely expected, leading to no market reaction. **Latin American** assets mostly saw losses yesterday as a spike in US Treasury yields weighed on riskier assets. Stocks in Brazil (-1.4%) saw the biggest losses followed by Mexico (-0.6%), while Chile (+0.5%) saw some gains. Among regional currencies, the Argentine peso (-1.2%) weakened the most against the dollar continuing its trend this week even though economic activity expanded 2.6% y/y for the first time since March 2018. The Chilean peso (-0.8%) and Colombian peso (-0.6%) also weakened following the EM trend for the day.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
7/26/19 7:53 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.61	0.1	-1	0	-4	9
MSCI Frontier Equities		30.00	-0.1	-1	2	2	15
EMBIG Sovereign Spread (in bps)		327	2	-8	-17	-2	-87
EM FX vs. USD		62.71	0.0	-1	0	-4	1
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.88	-0.1	0	0	-1	0
Indonesian Rupiah		14009	-0.2	-1	1	3	3
Indian Rupee		68.91	0.2	0	0	0	1
Argentine Peso		43.39	-1.2	-2	-2	-37	-13
Brazil Real		3.78	-0.1	-2	2	-2	3
Mexican Peso		19.06	-0.2	0	0	-2	3
Russian Ruble		63.18	0.0	0	0	0	10
South African Rand		14.16	-0.6	-2	0	-6	1
Turkish Lira		5.64	0.9	0	2	-14	-6
EM FX volatility		6.98	0.0	0.1	-1.3	-3.1	-2.8

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

China

Financials underperformed even though equities (Shanghai +0.2%; Shenzhen flat) recouped earlier losses on net. Concerns over small lenders continue to linger. According to Reuters, China's banking and insurance regulator has told the country's biggest state-owned asset management companies (AMCs) to prepare contingency plans to take over or invest in small and medium-sized Chinese banks. The last time a state-owned AMC acquired a stake in a regional bank was in 2016. Additionally, Caixin reported that China Great Wall Asset Management Co., as well as the investment arms of Industrial & Commercial Bank of China Ltd. and China Cinda Asset Management Co., have reached preliminary agreements to become Bank of Jinzhou's strategic investors as the regulators seek to resolve the bank's liquidity problems. **Bank of Jinzhou's yields on negotiable certificates of deposits remained high at 5.5% after jumping close to 20bps yesterday.** The onshore and offshore RMB were stable.

List of GMM Contributors (Global Markets Analysis Division, MCM Department)

Anna Ilyina
Division Chief
Peter Breuer
Deputy Division Chief
Will Kerry
Deputy Division Chief
Evan Papageorgiou
Deputy Division Chief
Sergei Antoshin
Senior Economist
John Caparusso
Senior Financial Sector Expert
Sally Chen
Senior Economist
Fabio Cortés
Senior Economist
Frank Hespeler
Senior Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert
David Jones
Senior Financial Sector Expert
Sanjay Hazarika
Senior Financial Sector Expert
Juan Solé
Senior Economist
Jeffrey Williams
Senior Financial Sector Expert
Akihiko Yokoyama
Senior Financial Sector Expert
Dimitris Drakopoulos
Financial Sector Expert
Tryggvi Gudmundsson
Economist
Henry Hoyle
Financial Sector Expert

Robin Koepke
Economist
Thomas Piontek
Financial Sector Expert
Rohit Goel
Financial Sector Expert
Jochen Schmittmann
Economist
Ilan Solot
Financial Sector Expert
Martin Edmonds
Senior Data Mgt Officer
Yingyuan Chen
Senior Research Officer
Piyusha Khot
Research Assistant
Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 7/26/19 7:50 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3004	-0.5	0	3	6	20
Europe		3523	0.4	1	2	0	17
Japan		21658	-0.5	1	3	-4	8
China		2945	0.2	1	-1	2	18
Asia Ex Japan		70	-0.7	0	0	-5	9
Emerging Markets		43	0.1	-1	0	-4	9
Interest Rates					basis points		
US 10y Yield		2.07	3.8	2	3	-90	-61
Germany 10y Yield		-0.38	-1.2	-5	-7	-78	-62
Japan 10y Yield		-0.15	0.3	-2	-1	-24	-15
UK 10y Yield		0.69	-1.9	-4	-14	-59	-59
Credit Spreads					basis points		
US Investment Grade		117	0.1	-4	-9	14	-30
US High Yield		432	-4.4	-15	-14	91	-89
Europe IG		46	0.3	-3	-9	-14	-41
Europe HY		240	0.6	-13	-24	-37	-112
EMBIG Sovereign Spread		327	2.0	-8	-17	-2	-87
Exchange Rates					%		
USD/Majors		97.92	0.1	1	2	3	2
EUR/USD		1.11	-0.1	-1	-2	-4	-3
USD/JPY		108.7	0.0	-1	-1	2	1
EM/USD		62.7	0.0	-1	0	-4	1
Commodities					%		
Brent Crude Oil ($/barrel)		64	0.5	2	-4	-15	18
Industrials Metals (index)		114	-0.5	-2	1	-7	5
Agriculture (index)		40	-0.3	-2	-5	-10	-4
Implied Volatility					%		
VIX Index (%, change in pp)		12.5	-0.2	-1.9	-3.7	0.4	-12.9
10y Treasury Volatility Index		4.6	0.1	0.2	-0.2	0.7	0.0
Global FX Volatility		6.4	0.0	0.0	-0.4	-1.5	-2.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		245	7.3	-3	-31	-100	-171
Italy		196	7.5	3	-49	-35	-55
Portugal		81	2.2	3	3	-52	-67
Spain		73	1.0	2	3	-23	-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: 7/26/2019 7:53 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	-0.1	0.0	0	-1	0		3.2	1.4	-1	-5	-32	1
Indonesia		14009	-0.2	-0.5	1	3	3		7.2	-4.5	3	-30	-74	-92
India		69	0.2	-0.1	0	0	1		6.7	4.1	11	-23	-129	-71
Philippines		51	0.1	0.0	1	5	3		4.6	-1.7	-7	-30	-125	-166
Thailand		31	0.2	-0.2	-1	8	5		2.0	-3.4	-7	-23	-69	-61
Malaysia		4.12	-0.1	-0.2	1	-1	0		3.6	-0.4	-1	-4	-50	-49
Argentina		43	-1.2	-2.2	-2	-37	-13		30.4	8.7	77	192	1064	740
Brazil		3.78	-0.1	-1.6	2	-2	3		6.6	7.2	-1	-32	-274	-151
Chile		696	-0.8	-1.7	-2	-7	0		3.1	0.1	-19	-34	-180	-140
Colombia		3218	-0.6	-1.3	-1	-10	1		5.6	1.6	-11	-15	-88	-92
Mexico		19.06	-0.2	-0.2	0	-2	3		7.5	0.7	-9	-18	-24	-118
Peru		3.3	-0.1	-0.3	0	-1	2		4.4	-2.8	-1	-38	-113	-131
Uruguay		34	-1.0	2.8	3	-10	-5		9.9	-1.5	-36	-60		-86
Hungary		293	-0.2	-1.2	-3	-5	-5		1.3	5.1	-18	-27	-113	-90
Poland		3.83	-0.3	-1.2	-2	-4	-2		1.8	3.0	-13	-17	-71	-44
Romania		4.2	-0.2	-0.8	-2	-6	-4		3.7	-7.0	-25	-26	-98	-53
Russia		63.2	0.0	-0.2	0	0	10		7.1	-4.0	-17	-23	-50	-135
South Africa		14.2	-0.6	-1.6	0	-6	1		9.3	9.3	21	-13	4	-33
Turkey		5.64	0.9	0.3	2	-14	-6		15.7	-27.7	-63	-111	-273	-120
US (DXY; 5y UST)		97.9	0.1	0.8	2	3	2		1.85	-0.8	4	6	-101	-66

	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
								basis points					
China		2945	0.2	1	-1	2	18		177	1	0	1	-9
Indonesia		6325	-1.2	-2	0	6	2		171	8	-1	-10	-9
India		37883	0.1	-1	-4	2	5		131	-5	-7	-20	-28
Philippines		8184	-1.1	-1	2	7	10		68	3	-1	-3	-33
Malaysia		1648	-0.5	-1	-2	-7	-3		117	2	0	-7	-26
Argentina		39884	0.2	-2	0	37	32		814	-3	31	-64	259
Brazil		102655	-1.4	-2	2	29	17		203	2	-9	-31	-60
Chile		4993	0.5	-1	-2	-8	-2		127	1	-3	-4	-5
Colombia		1595	0.2	1	3	4	20		170	2	-5	-12	-3
Mexico		40933	-0.6	-2	-7	-17	-2		323	0	-9	-13	66
Peru		20817	0.3	0	1	2	8		115	1	-5	-8	-25
Hungary		41045	-0.7	-2	2	15	5		92	6	1	21	-19
Poland		60119	-0.2	-1	0	0	4		37	6	-2	11	-20
Romania		8968	0.0	-1	4	12	21		182	-5	-8	1	31
Russia		2726	0.9	1	-2	19	15		186	1	-6	-17	-8
South Africa		57554	-0.2	-1	-1	1	9		287	11	17	1	19
Turkey		102838	0.8	1	8	8	13		446	-1	-22	-39	27
Ukraine		541	0.0	-1	-2	7	-3		456	8	-39	-61	-65
EM total		43	0.1	-1	0	-4	9		327	2	-8	-17	-2

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