



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, July 31, 2019






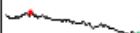





- **US-China trade talks conclude with little progress** ([link](#))
- **US firms exposed to trade war reporting double-digit earnings decline in Q2** ([link](#))
- **China's Politburo meeting offers no new easing plans** ([link](#))
- **Turkey trade balance continues to improve as imports contract** ([link](#))
- **Colombia central bank report shows higher inflation forecast, lower growth** ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Markets creep higher ahead of the FOMC

**While market participants await for the Fed later today, equity markets are edging higher following losses yesterday.** The consensus has converged to fully expecting a 25 bps cut, but with Fed futures implying 27 bps, markets are still pricing some small possibility of a larger move. Beyond today there is much more uncertainty in the path of the Fed. Longer dated futures imply over 100 bps in cuts through the end of next year, while two prominent former voting members, including former chair Yellen, have argued that today's move could be one-and-done given the overall strength of the economy. Aside from the FOMC, trade worries continue to be a major source of risk as talks between US trade representatives and Chinese officials appear to have ended without any major developments. Asian equity markets declined on the lack of trade progress as well as a lack of stimulus announcements from the Politburo. Oil markets continue to move higher this morning on expectations that the latest data will show US inventories declined

### Key Global Financial Indicators

Last updated: 7/31/19 8:21 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3013	-0.3	0	2	7	20
Eurostoxx 50		3466	0.1	-2	0	-2	15
Nikkei 225		21522	-0.9	-1	1	-5	8
MSCI EM		42	-0.1	-1	-1	-6	8
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.05	-0.7	1	4	-91	-64
Germany 10y Yield		-0.41	-1.5	-4	-9	-86	-66
EMBIG Sovereign Spread		318	-12	-11	-26	-11	-96
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.8	0.1	0	0	-4	1
Dollar index, (+) = \$ appreciation		98.1	0.0	0	2	4	2
Brent Crude Oil (\$/barrel)		65.1	0.6	3	-2	-12	21
VIX Index (% change in pp)		13.8	-0.1	2	-1	1	-12

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

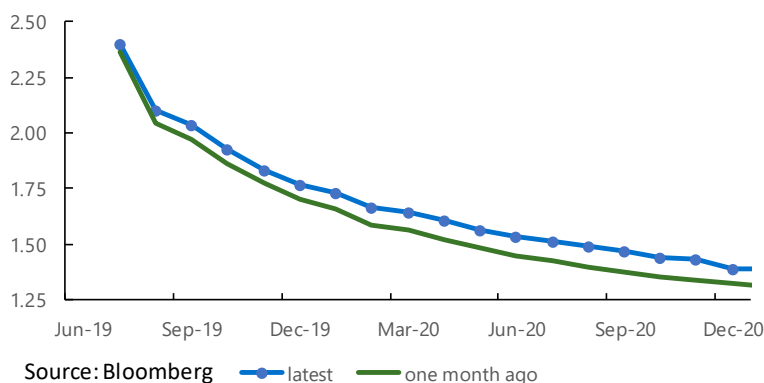
## United States

[back to top](#)

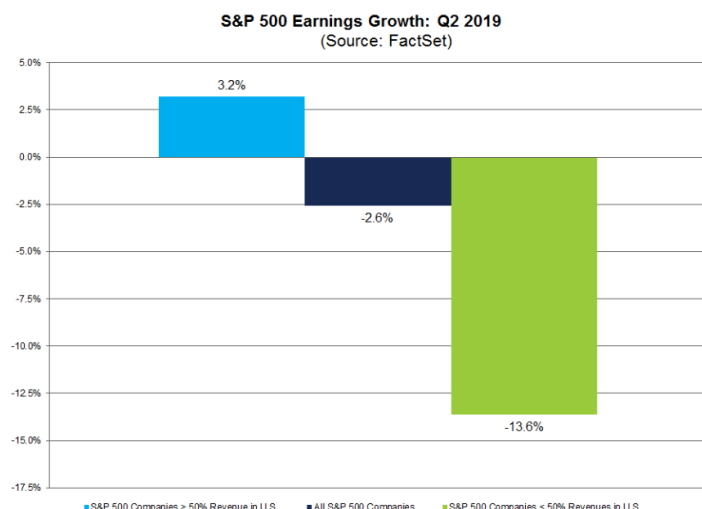
**Equities continued to slide lower Tuesday on the back of increasing pessimism over US-China trade talks.** President Trump accused China of delaying negotiations, saying a trade deal with China might not come until after next year's US presidential election, hinting a deal may be more remote than it had seemed. At the G20 leaders' summit in Japan last month, Trump and Xi agreed to postpone new tariffs, and US trade representative Lighthizer and Treasury Secretary Mnuchin are currently in Shanghai to resume trade negotiations. They are expected to meet with Xi before leaving Shanghai on Wednesday. This morning, ADP employment change in July was reported at 156k, almost in line with expectation (150k cons.). The change in the previous month was revised up a bit to 112k from 102k. Market reaction was muted following the headline. S&P500 futures are slightly higher this morning on strong earnings report from GE and Apple.

**Treasury yields were little changed Tuesday.** Former Fed chair Yellen said she would have supported a 25bps cut this week because of the global slowdown and low inflation but did not see the possible cut as the beginning of an easing cycle as the economy was doing well. The formervice-chair Dudley also expects 25bps, as he sees there is no consensus for such an aggressive move as 50bps on the committee, and it might compromise the Fed's independence, creating the impression that the bank was caving to President Trump's insistent calls for deeper cuts. Fed Funds futures implied rates have shifted up by several basis points since the end of June, yet more than 100bps in cuts is discounted in total by the end of 2020. According to JPMorgan's Treasury client survey, investors' net long positions increased last week to more than one standard deviation above the long-term average. Contacts argued that there is some risk of modest disappointment over the upcoming rate decision from an investors' positioning standpoint.

### Fed Funds Futures Implied Rate, Percent



**Firms with more global exposure have reported double-digit earnings decline in Q2.** According to FactSet, the earnings growth is negative -13.6% for companies in the S&P 500 index with higher international revenue exposure, which generate more than 50% of sales outside the US, based on the blended earnings which combine actual results that have already reported and estimated results yet to report. Meanwhile, the blended earnings growth for firms with less international exposure is positive +3.2%, and the overall growth is negative -2.6%. Analysts believe that the stronger US dollar, slower global economic growth, and trade tension are the drivers. So far, more than 40% of the S&P 500 companies have reported actual results for the second quarter.



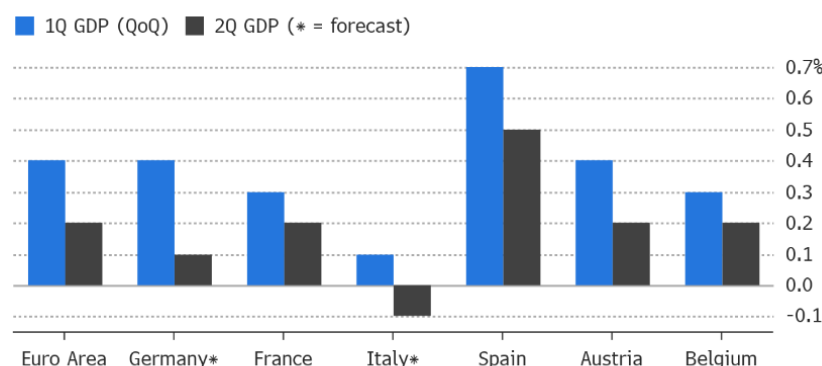
## Europe

[back to top](#)

**Equity markets stabilized this morning after heavy losses Tuesday.** Many of the region's indices suffered their worst session of the year yesterday, leading to a 1.5% drop in the EuroStoxx 600, with financials (-2.9%) underperforming. There was no single trigger for yesterday's underperformance, but factors included disappointing data, nervousness over a no-deal Brexit, and broader negative sentiment from US-China trade talks. Today, however, financial sector stocks are bouncing back (+1.0%), in part driven by good earnings results from Credit Suisse (+4.7%).

**Yields are little changed.** Euro area advance Q2 GDP came in at 0.2% q/q and 1.1% y/y, fractionally higher than expected but the weakest y/y print in more than five years. CPI for the region was 1.1% in July. In addition, the region's unemployment rate continues to decline, falling from 7.6% in May to 7.5% in June.

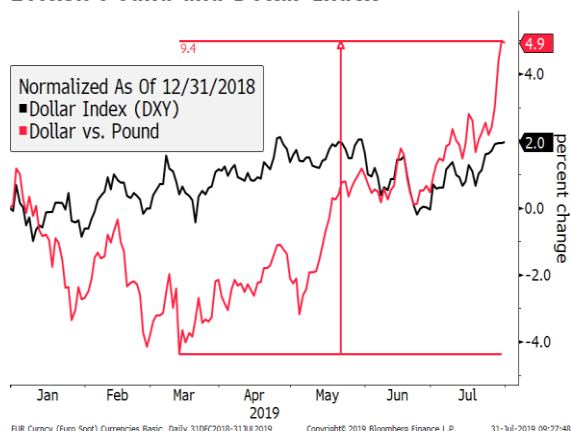
The euro-area economy expanded just 0.2% in the second quarter



Source: Eurostat, national statistics institutes, Bloomberg survey

**FX markets and the British pound are stable this morning, but the DXY dollar index has been gradually rising for the last nine consecutive sessions.** The index (in which the euro has a weight of about 55%) shows a 2% appreciation of the dollar on a year-to-date basis and is near the top of the recent range. The pound has depreciated nearly 5% against the dollar year to date, and nearly 10% from its strongest level of the year.

### British Pound and Dollar Index



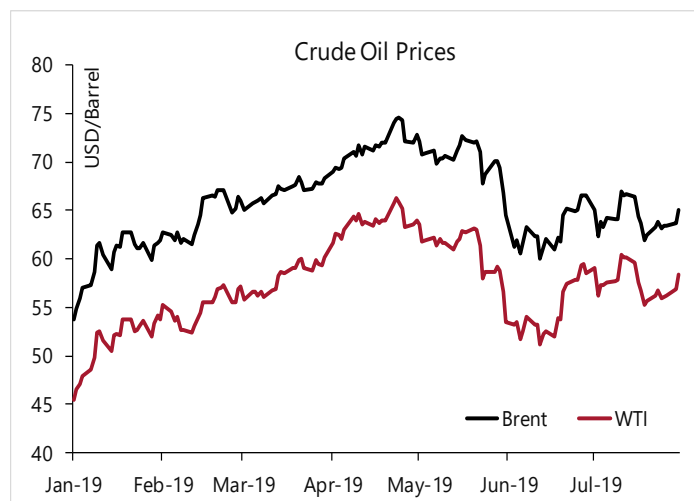
### Other Mature Markets [back to top](#)

#### Japan

**Equities (-0.7%) fell amid a rotation from cyclicals into defensives.** Autos and banks weighed most heavily on the index. On trade, Nikkei reported that Japan and the US have reached a broad agreement on digital trade. Under the agreement, digital products are tariff-free, and businesses can host their servers wherever they choose. The two sides are still discussing industrial and agricultural exports. **The yen and bond yields were little changed.**

#### Crude Oil

**Oil price advanced on Tuesday ahead of the expected Fed interest rate cut and trade negotiations between U.S. and China.** Brent crude went up 2.1% yesterday to \$65.05 a barrel and WTI rose 2.6%, both posting gains for a fourth consecutive day. Although oil prices had fallen earlier this month on demand concerns, a steady decline in U.S. oil inventories may add confidence to investors. According to press reports, latest data from the American Petroleum Institute showed that U.S. crude stockpiles fell 6.02 mn barrels last week. That would be much higher than median forecast (2.75 mn barrels) for inventory report from the DOE which will be released later today.






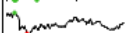



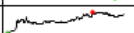



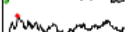


Source: Bloomberg

## Emerging Markets

[back to top](#)

**EM assets are mostly lower ahead of today's key Fed meeting.** Asian equities (-0.7%) fell amid caution ahead of the Fed meeting and disappointment over the lack of stimulus announcements at China's Politburo meeting. Hong Kong (-1.3%), the Philippines (-1.3%) and Singapore (-1.2%) underperformed. Regional currencies were little changed today. **In EMEA**, equity markets are mostly lower led by the Czech Republic (-0.6%) and Turkey (-0.4%). In FX markets, the Turkish lira is outperforming (+0.4%) and the Ukrainian hryvnia underperforming (-0.4%). **Latin American markets** were generally lower on Tuesday. Colombia underperformed as the equity index fell 1.1% and the peso fell for seven consecutive days (-0.8%). Equity markets and currencies in other countries were mainly traded in narrow ranges.

Key Emerging Market Financial Indicators

Last updated: 7/31/19 8:22 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.29	-0.1	-1	-1	-6	8
MSCI Frontier Equities		29.77	-2.4	-1	1	0	14
EMBIG Sovereign Spread (in bps)		318	-12	-11	-26	-11	-96
EM FX vs. USD		62.78	0.1	0	0	-4	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	0	-1	0
Indonesian Rupiah		14022	0.0	0	1	3	3
Indian Rupee		68.80	0.1	0	0	0	1
Argentine Peso		43.95	-0.3	-3	-4	-38	-14
Brazil Real		3.78	0.3	0	2	-1	3
Mexican Peso		19.01	0.3	0	1	-2	3
Russian Ruble		63.50	0.0	0	-1	-2	9
South African Rand		14.23	-0.1	-2	-1	-7	1
Turkish Lira		5.53	0.6	3	2	-11	-4
EM FX volatility		7.01	0.0	0.0	-1.2	-3.0	-2.8

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

## China

**Chinese stocks (both Shanghai and Shenzhen -0.7%) fell today following no stimulus announcements at the Politburo meeting and an uneventful conclusion to trade negotiations.**

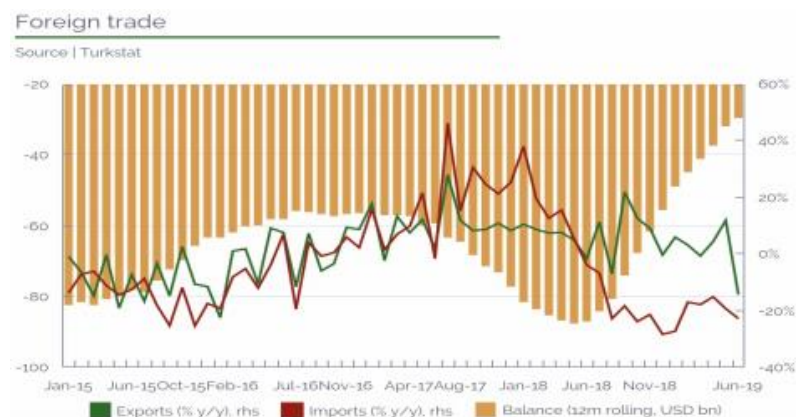
According to a statement reported by Xinhua News, the 25-member Politburo did not commit to new major easing plans. It instead pledged measures focusing on reforming inefficient parts of the economy such as zombie companies. It also ruled out using the property market to stimulate the economy in the short run. Although the official manufacturing purchasing managers' index improved to 49.7 in July from 49.4 in June, it remains in contraction due to drags from trade tensions. The onshore and offshore RMB were broadly stable

**On trade, China and the US concluded negotiations in Shanghai, making little progress according to Bloomberg, in line with low expectations.** The talks took place against a backdrop of fresh tweets by US President Trump criticizing China for not buying more US agricultural goods.

## Turkey

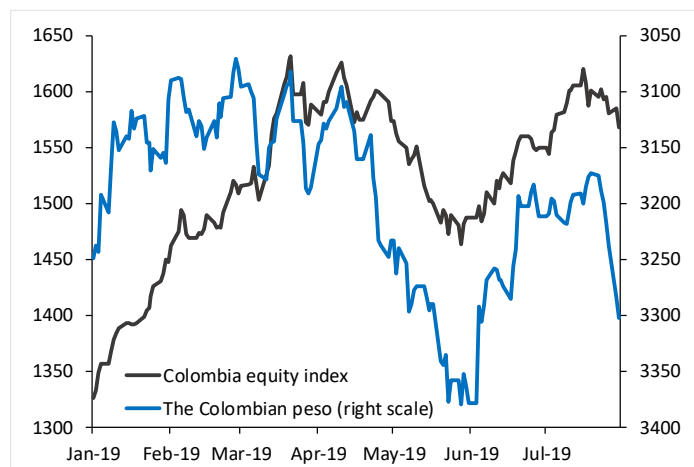
**The trade balance widened in June but continues to narrow on a 12-month rolling basis.** The deficit increased to \$3.2 bn compared to \$1.8 bn in the previous month, but it is down 42.5% y/y on account of a

continued contraction in imports (-22.7% y/y). For the first half of the year, the foreign trade deficit shrank 63.6% y/y to \$14.8 bn. Separately, **the central bank's inflation report cut its year-end inflation forecast from 14.6% to 13.9%, leaving the 2020 estimate unchanged at 8.2%.** The move is seen as consistent with the view that further easing is still to come. There was no notable reaction in Turkish asset prices.



## Colombia

Colombia's central bank published the 2Q2019 Quarterly Inflation Report late Monday. **The central bank revised inflation up to above the 3% target at the end of 2019 and cut its growth forecast to 3.0% from 3.5% in the previous report.** Also, the central bank expected the output gap to start closing in 2H2019, though at a slower pace than previous expectation. Domestic equities declined 1.1% and the peso fell 0.8% on the news, extending losses for the seventh day.



Source: Bloomberg








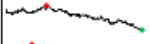







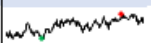
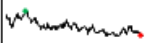









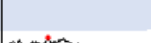


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## Global Financial Indicators

Last updated: 7/31/19 8:22 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3013	-0.3	0	2	7	20
Europe		3466	0.1	-2	0	-2	15
Japan		21522	-0.9	-1	1	-5	8
China		2933	-0.7	0	-2	2	18
Asia Ex Japan		69	-0.7	-2	-2	-6	8
Emerging Markets		42	-0.1	-1	-1	-6	8
<b>Interest Rates</b>			basis points				
US 10y Yield		2.05	-0.7	1	4	-91	-64
Germany 10y Yield		-0.41	-1.5	-4	-9	-86	-66
Japan 10y Yield		-0.15	-0.3	-1	1	-22	-16
UK 10y Yield		0.63	-0.6	-5	-21	-70	-65
<b>Credit Spreads</b>			basis points				
US Investment Grade		118	-0.3	0	-2	19	-29
US High Yield		435	0.4	-2	-5	98	-86
Europe IG		50	-0.9	5	-1	-10	-37
Europe HY		253	-3.1	16	4	-29	-100
EMBIG Sovereign Spread		318	-12.0	-11	-26	-11	-96
<b>Exchange Rates</b>			%				
USD/Majors		98.06	0.0	0	2	4	2
EUR/USD		1.12	0.0	0	-1	-5	-3
USD/JPY		108.6	0.0	0	0	3	1
EM/USD		62.8	0.1	0	0	-4	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		65	0.6	3	-2	-12	21
Industrials Metals (index)		115	-0.1	-1	1	-7	5
Agriculture (index)		40	-0.3	-2	-4	-12	-4
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.8	-0.1	1.7	-1.3	1.0	-11.6
10y Treasury Volatility Index		4.3	0.1	-0.1	-0.4	0.7	-0.3
Global FX Volatility		6.6	0.0	0.2	-0.1	-1.2	-2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		244	-2.3	6	-34	-108	-172
Italy		197	-1.2	10	-46	-30	-53
Portugal		78	-2.8	-1	-2	-52	-70
Spain		72	-2.8	0	0	-23	-45

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

[back to top](#)



## Emerging Market Financial Indicators

Last updated: 7/31/2019 8:23 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	-0.1	0	-1	0		3.2	0.0	1	-7	-28	1
Indonesia		14022	0.0	-0.2	1	3	3		7.4	3.7	7	-10	-58	-80
India		69	0.1	0.3	0	0	1		6.7	-1.9	2	-28	-132	-75
Philippines		51	0.0	0.6	0	4	3		4.6	-0.3	-6	-23	-125	-166
Thailand		31	0.2	0.6	0	8	5		2.0	-2.9	-9	-28	-73	-66
Malaysia		4.13	0.0	-0.2	0	-1	0		3.6	0.0	-1	-3	-50	-50
Argentina		44	-0.3	-2.9	-4	-38	-14		30.3	-5.5	14	159	1008	727
Brazil		3.78	0.3	-0.1	2	-1	3		6.6	-0.3	-1	-29	-282	-156
Chile		701	-0.6	-1.2	-3	-9	-1		3.0	-0.7	-10	-34	-184	-145
Colombia		3303	-0.6	-3.5	-3	-13	-1		5.7	6.2	12	-4	-79	-79
Mexico		19.01	0.3	0.2	1	-2	3		7.6	2.1	4	2	-20	-111
Peru		3.3	0.1	-0.1	0	-1	2		4.4	-1.5	0	-41	-109	-129
Uruguay		34	-0.4	-0.3	2	-11	-6		9.7	0.4	-26	-80		-103
Hungary		293	0.3	-0.2	-2	-6	-4		1.4	3.7	2	-25	-98	-83
Poland		3.85	0.1	-0.8	-2	-5	-3		1.9	4.5	6	-16	-67	-35
Romania		4.2	-0.1	-0.2	-1	-7	-4		3.8	8.0	-1	-28	-83	-44
Russia		63.5	0.0	-0.4	-1	-2	9		7.1	0.0	0	-15	-43	-128
South Africa		14.2	-0.1	-2.4	-1	-7	1		9.4	1.3	28	20	23	-18
Turkey		5.53	0.6	3.3	2	-11	-4		15.3	16.0	-83	-165	-368	-161
US (DXY; 5y UST)		98.1	0.0	0.3	2	4	2		1.83	-1.5	2	6	-102	-68

	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		2933	-0.7	0	-2	2	18		180	4	3	0	-6	-14
Indonesia		6391	0.2	0	1	8	3		169	1	-1	-18	-16	-67
India		37481	0.2	-1	-5	0	4		133	0	-2	-15	-23	-63
Philippines		8046	-1.3	-1	1	5	8		68	0	-2	-11	-38	-53
Malaysia		1635	-0.5	-1	-2	-8	-3		115	-1	-1	-12	-23	-47
Argentina		42463	-0.8	8	2	45	40		786	-1	-25	-43	230	-29
Brazil		102933	-0.5	-1	2	30	17		205	1	-1	-28	-62	-68
Chile		5001	0.0	1	-1	-8	-2		124	-4	-5	-10	-10	-42
Colombia		1568	-1.1	-2	1	3	18		173	1	3	-8	-7	-55
Mexico		41159	-0.3	1	-5	-17	-1		325	0	-3	-4	49	-29
Peru		20200	-2.4	-3	-2	-1	4		114	-2	-3	-10	-31	-54
Hungary		40648	-0.5	-2	1	14	4		93	4	0	3	-19	-55
Poland		59662	0.4	-2	-1	-1	3		35	0	-2	-6	-24	-50
Romania		9034	0.4	1	2	13	22		183	0	-2	-1	37	-38
Russia		2743	0.3	2	-1	18	16		189	1	0	-16	-3	-63
South Africa		56945	-0.5	-1	-2	-1	8		296	1	26	13	25	-69
Turkey		101871	-1.0	-2	6	5	12		443	-1	-13	-36	20	14
Ukraine		541	0.0	0	0	6	-3		459	-10	12	-49	-44	-328
EM total		42	-0.1	-1	-1	-6	8		318	-12	-11	-26	-11	-96

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