



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, July 9, 2019




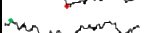







- **Weak US markets as investors continue to digest strong June jobs report ([link](#))**
- **Until recently, bullish momentum had been broadening across asset classes ([link](#))**
- **British pound depreciates to levels not seen since mid-2017 ([link](#))**
- **Japanese yen weighed down by weaker domestic data and higher US rates ([link](#))**
- **Bank Negara Malaysia leaves its policy rate unchanged at 3.00% ([link](#))**
- **EM corporate issuance declines while sovereign issuance increases ([link](#))**

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All eyes set on Fed Chairman's testimony

US and global markets, more generally, continue to digest last week's strong NFP report, with much attention being paid to Mr. Powell's upcoming testimony. Both risk and safe haven assets have continued to trade on the weaker side as investors wait to see whether the Chairman's address to Congress on Wednesday will reveal a more hawkish tilt following the stronger than expected jobs report. European equity markets are down across the board this morning, while US futures markets point to a negative start. US rates have also continued to move higher since Friday, with the 2-year and 10-year Treasury yields now up by 12 bps and 10 bps, respectively. The US dollar has strengthened further against major and EM currencies, with a noticeable weakening of the British pound which has extended its retreat against the greenback and is now down by about 5% since the first quarter. Political uncertainties have also weighed on market sentiment, including lingering China-US and Japan-Korea trade tensions. These tensions, along with the stronger dollar have not bode well for EM markets – EM equities are down by about 1.5% over the past three days.

Key Global Financial Indicators

Last updated: 7/9/19 8:53 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2976	-0.5	1	4	7	19
Eurostoxx 50		3507	-0.5	0	4	1	17
Nikkei 225		21565	0.1	-1	3	-2	8
MSCI EM		43	-0.9	-1	4	-3	9
Yields and Spreads			bps				
US 10y Yield		2.05	1.4	8	-3	-80	-63
Germany 10y Yield		-0.36	0.8	1	-10	-66	-60
EMBIG Sovereign Spread		339	3	-2	-24	-6	-75
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.8	0.1	0	1	-3	1
Dollar index, (+) = \$ appreciation		97.5	0.1	1	1	4	1
Brent Crude Oil (\$/barrel)		64.4	0.5	3	2	-17	20
VIX Index (% change in pp)		14.7	0.7	1	-2	2	-11

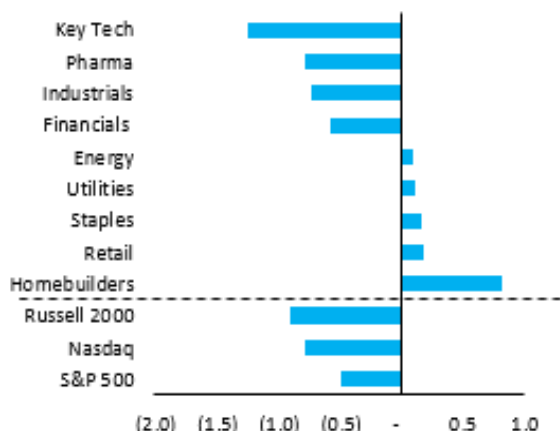
Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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US equities fell by 0.5% on Monday as investors took a cautious approach to a week full of central bank activity. Within the sectors, tech and health-care shares led the decline, with Apple Inc. falling 2.1% after an analyst downgrade. Russell 2000, proxying the smaller firms, declined by almost 0.9 percent. US yields continued to rise on Monday, maintaining the post NFP release trend, with the 2-year yield rising by 3 bps, and the 10-year yield up by 1 bp. Dollar strengthened marginally against all the G10 peers, as market continues to price in the stronger-than-expected NFP print. Reports highlighted that the futures volumes were muted overall as participants looked ahead to Chair Powell's testimony (on Wednesday and Thursday), auction cycle beginning Tuesday, and June CPI data on Thursday.

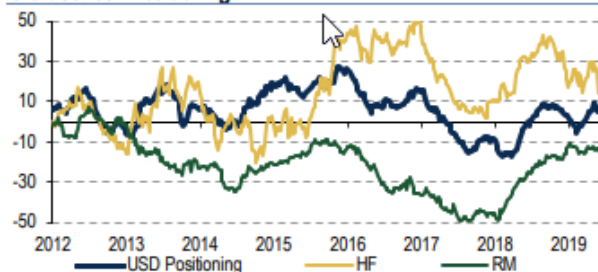
Performance on 8th June: Key US (Sub) Indices



Source: Bloomberg

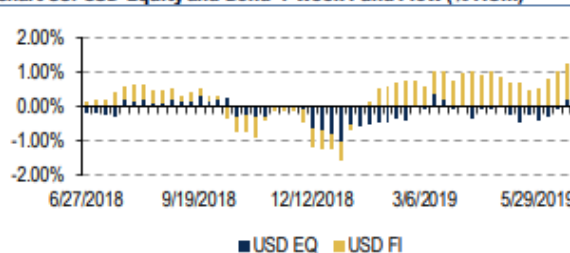
BAML data highlights that the market USD position is neutral following the strong data and ahead of the very important Powell Congress testimony this week. Hedge funds are slightly long and real money is slightly short, both having consolidated their positions this year. Analysts also highlighted that investors stopped selling USD, ahead of the NFP print last week. **More broadly, flows into US fixed income have remained very robust, while those into equities have started to improve recently.**

Chart 53: USD Positioning



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 55: USD Equity and Bond 4-week Fund Flow (% AUM)

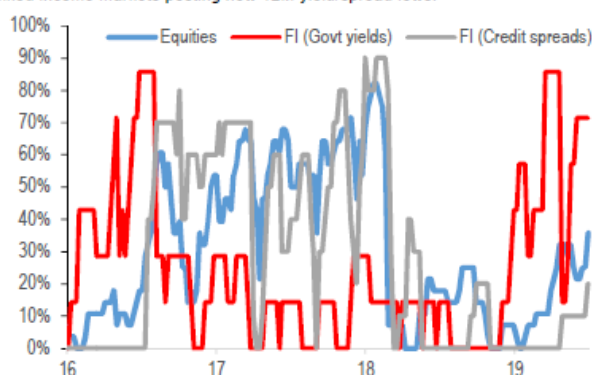


Source: BofA Merrill Lynch Global Research, EPFR Global

Notwithstanding the recent asset price decline, JPM analysts highlighted that bullish momentum has been broadening across asset classes, with about 70% of sovereign bond markets posting new 12-month lows in yields (before US payrolls), plus 40% of equity markets and US sectors reaching new 12-month highs. Breadth has been relatively thinner in credit but nonetheless rising, with about 20% of spread markets delivering new 12-month tights. Unlike in Equities where US markets are exhibiting stronger gains than any other regions, Europe is leading in terms of fixed income gains, with bund yields continuing to burrow to new all-time lows. **JP Morgan analysts highlight that these moves are driven by hopes of global policy stimulus rather than any positive development on the data or earnings fronts.** In the run-up to the Q2 earnings season, the balance of US pre-announcements has been deteriorating too, essentially tracking the downtrend in global manufacturing and new orders over the past 18 months.

Chart 2: Price momentum has broadened across Equities and FICC, with 70% of bond markets making new yield lows and 40% of equity markets making new price highs for the past 12M

Percentage of DM and EM equity markets posting new 12M price highs and of fixed income markets posting new 12M yield/spread lows.



Source: J.P. Morgan

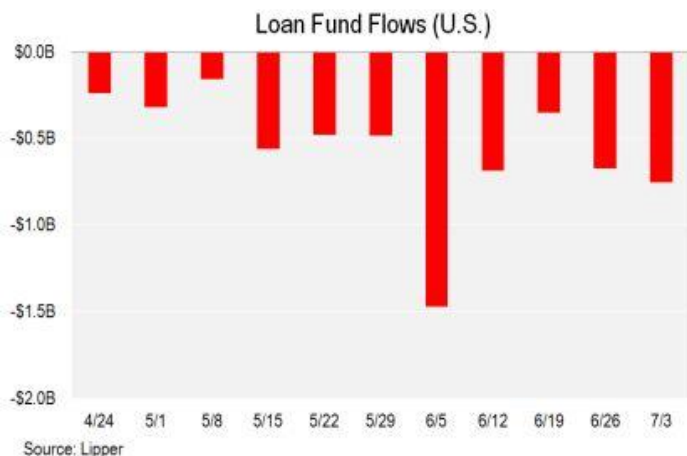
Chart 3: The balance of earning pre-announcements has been becoming more negative since global manufacturing peaked in early 2018

Net figures show percentage of companies issuing positive pre-announcements minus share issuing negative ones vs JPM global PMI new orders index.



Source: J.P. Morgan

Retail investors withdrew \$750 mn from U.S. loan funds during the week ended July 3, the 33rd straight net outflow, making for the longest such streak since 2007, as per Lipper data. Over this period, outflows have totaled \$31.8 bn with the current run in the red being far more severe than during the previous record, which saw \$17.6 bn exit the investor segment over 32 weeks, starting in July 2015. Mutual funds were hardest hit during the most recent reading, as the segment saw a \$774 mn withdrawal, while loan ETFs managed a \$21 mn net inflow.



Europe

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Regional equity markets are broadly lower, and yields are little changed. The EuroStoxx 600 is down 0.4% with the Dax (-1.1%) falling the most. Implied volatility for European stocks has been rising over the last few sessions with the V2X index at 12.6 from 11.5 last week, but still well below the year-to-date and 5-year average (chart). This compares to the US Vix index, which increased from 12.5 to 14.5 over the same period. But despite the increases, both indices are well below levels seen in May or earlier in the year. Also of note, **Deutsche Bank** shares continue to slump, down nearly 10% since yesterday's restructuring announcement. In **fixed income** markets, the 10-year German bund is trading at -0.37%, just a few basis points above its record low level seen last week.

EU Equity Implied Volatility Measures



In FX markets, the British pound depreciated to its weakest level against the dollar since April 2017. The move is in part driven by the broad dollar strength over the last few weeks and the last few sessions as investors price out more aggressive Fed cuts. From the UK side, markets continue to gain conviction that the BOE will deliver a rate cut this year (priced at about 40% chance now from 20% at the start of the month). In the background, political uncertainty regarding Brexit remains elevated with many seeing higher odds of a no-deal Brexit with the likely rise of Boris Johnson to the premiership.

British Pound vs Dollar



Other Mature Markets [back to top](#)

Japan

The yen extended its depreciation for a fourth day while equities fell further as investors await Chairman Powell's upcoming Congressional testimony for trading direction. The yen slid to its weakest level in 5 weeks before paring losses to end the day little changed (-0.1%). Meanwhile, equities seesawed between gains and losses before ending the day down 0.2%. The regular 5-year JGB auction drew a bid-to-cover ratio of 4.34x, the lowest since last December. Following the auction, JGB yields rose by about 1 bp across the curve, with the 5-year note at -0.25% and the 10-year note, -0.15%. **Wages fell for a fifth month.** Labor cash earnings in May fell 0.2%, y/y, compared to expectations for a drop of 0.6%. Still, this latest data, extending the longest decline since 2013, raised concerns over the resilience of consumer spending amid an impending sales tax increase in October.

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EM equities were mostly lower and currencies were mixed in limited trading ahead of Fed Chair Powell's upcoming Congressional testimony. In Asia, most equity bourses suffered modest declines, with the Korean Kospi continue to underperform amid trade tension with Japan (-0.6%). Meanwhile, the Korean won partially reversed yesterday's sizable depreciation to gain 0.1% on the day, outperforming others. The Singapore and Hong Kong dollars both weakened by close to 0.2%. **Investors remain focused on the resurgent trade tensions between Japan and South Korea** that are threatening the global supply chain for memory chips and other components vital to widely-used devices. Contacts noted that in a worst-case scenario, Japan's restrictions on exports to Korea could severely hamper the production of flexible screens for mobile devices as well as memory chips used in computers and cloud servers. Local news reported that Japanese and Korean authorities are planning to meet in Japan as soon as this week for a trade negotiation. **In EMEA,** equity indices are broadly but modestly lower. The outliers were Russia (+0.2%) outperforming, and South Africa (-0.5%) underperforming. FX markets are quiet with the only notable move being a 0.4% appreciation of the Ukrainian hryvnia. **Latin American equity markets** were generally higher on Monday but traded in narrow ranges. Local currencies were mostly unchanged. 10-year government bond yields dropped 9 bps in Brazil and were slightly higher in other countries.

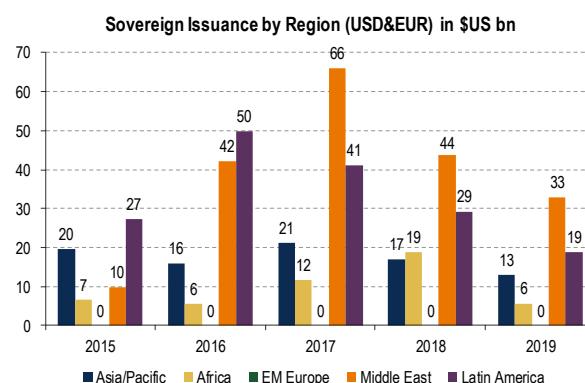
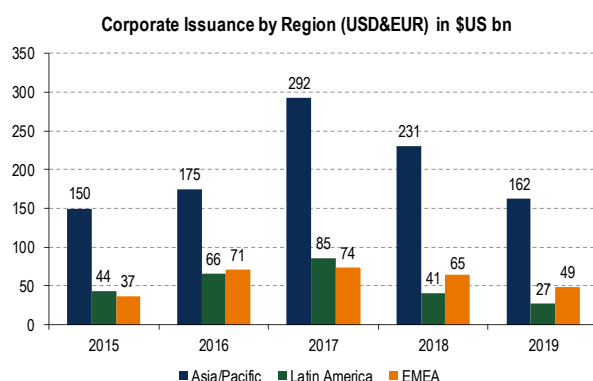
Key Emerging Market Financial Indicators

Last updated: 7/9/19 8:55 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.67	-0.9	-1	4	-3	9
MSCI Frontier Equities		30.04	0.2	1	2	3	15
EMBIG Sovereign Spread (in bps)		340	4	-1	-23	-5	-74
EM FX vs. USD		62.82	0.1	0	1	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.89	-0.1	0	1	-4	0
Indonesian Rupiah		14130	-0.2	0	1	1	2
Indian Rupee		68.55	0.2	1	2	0	2
Argentine Peso		41.82	0.0	2	7	-33	-10
Brazil Real		3.80	0.3	1	2	2	2
Mexican Peso		18.89	0.1	1	2	2	4
Russian Ruble		63.75	-0.1	-1	2	-2	9
South African Rand		14.16	0.1	0	5	-5	1
Turkish Lira		5.70	0.7	-1	1	-17	-7
EM FX volatility		7.70	0.0	-0.2	-1.0	-1.8	-2.1

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

EM Bond Issuance

EM corporate issuance for last week largely declined to \$5.2 bn, from \$11.2 bn the week before, while EM sovereign issuance increased from 3 bn the week before to 5.6 bn. The year to date total issuance of \$338.7 bn was approximately 9% more than 2018 issuance over the same period, while Latin America (-19%) was the main drag. From a regional perspective, China was the largest EM corporate debt issuer, accounting for 44% (\$2.3 bn) of the total. Of the total corporate bonds issued, 27% (\$1.4 bn) were investment grade bonds and 44% (\$2.3 bn) were high yield bonds. Last week's sovereign issuance was placed by Saudi Arabia (\$3.4 bn) and Turkey (\$2.3bn).



Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

Malaysia

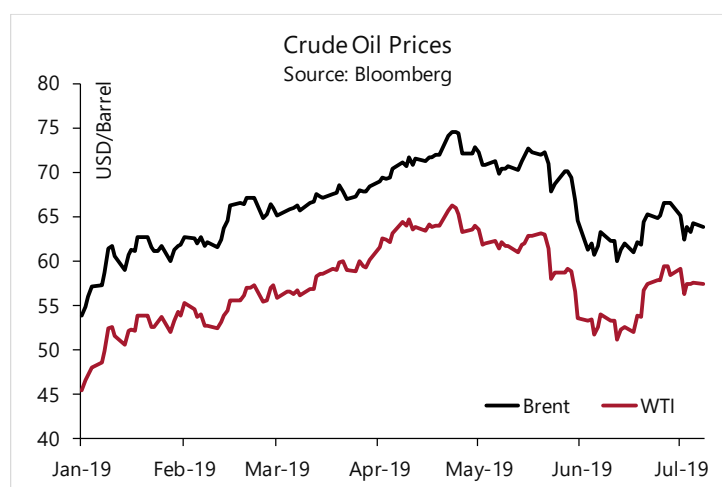
Bank Negara Malaysia (BNM) left its policy rate unchanged at 3.00%, in line with expectations. Following its rate cut of 25 bps in May, BNM noted that "the stance of monetary policy remains accommodative and supportive of economic activity." Although BNM kept its growth projection of 4.3% to 4.8% for 2019, it noted that growth is "subject to downside risks from ongoing uncertainties in the

global and domestic environment". The ringgit weakened a touch on the day (-0.1%) while local bond yields rose 1 to 2 bps across the curve. Bloomberg reported that portfolio outflows eased in recent weeks, with foreign investors buying \$1.4 bn of local bonds in June. Still, despite inflows, the ringgit remains 0.3% weaker relative to the dollar on a year-to-date basis.

Crude Oil

Oil plunged in the last few hours of trading yesterday as economic anxiety hanged over the market.



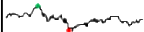



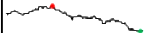


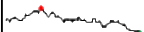





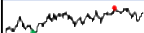
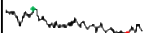












Brent dropped by close to 1.5%, closing at \$63.86 per barrel. Although it has rebounded strongly this morning, analysts commented that yesterday's retreat near the close suggested traders were still contending with an "overriding negative sentiment". Crude oil price slid last week as worries about deteriorating global demand outweighed a move by the OPEC and its allies to extend production cuts. Investors were also waiting for Chair Powell's testimony to Congress this week, which may offer clarity on the plans for rate cuts.



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Global Financial Indicators

Last updated: 7/9/19 8:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2976	-0.5	1	4	7	19
Europe		3507	-0.5	0	4	1	17
Japan		21565	0.1	-1	3	-2	8
China		2928	-0.2	-4	4	4	17
Asia Ex Japan		69	-1.1	-1	4	-5	9
Emerging Markets		43	-0.9	-1	4	-3	9
Interest Rates			basis points				
US 10y Yield		2.05	1.4	8	-3	-80	-63
Germany 10y Yield		-0.36	0.8	1	-10	-66	-60
Japan 10y Yield		-0.14	0.7	1	-2	-18	-14
UK 10y Yield		0.72	0.5	0	-9	-53	-56
Credit Spreads			basis points				
US Investment Grade		120	0.9	2	-8	13	-27
US High Yield		431	0.8	-6	-22	75	-90
Europe IG		52	0.4	2	-9	-16	-36
Europe HY		251	3.0	6	-18	-51	-102
EMBIG Sovereign Spread		339	3.0	-2	-24	-6	-75
Exchange Rates			%				
USD/Majors		97.51	0.1	1	1	4	1
EUR/USD		1.12	-0.1	-1	-1	-5	-2
USD/JPY		108.8	-0.1	-1	0	2	1
EM/USD		62.8	0.1	0	1	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		64	0.5	3	2	-17	20
Industrials Metals (index)		111	-0.5	-1	1	-12	1
Agriculture (index)		41	-1.1	-1	0	-8	-2
Implied Volatility			%				
VIX Index (% change in pp)		14.7	0.7	0.6	-1.7	2.0	-10.8
10y Treasury Volatility Index		4.3	0.0	-0.1	-0.3	0.5	-0.3
Global FX Volatility		6.1	0.0	-0.1	-0.8	-1.4	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		256	9.9	1	-52	-101	-160
Italy		209	-6.1	-12	-52	-28	-41
Portugal		82	-3.5	9	-6	-66	-66
Spain		78	-2.1	12	-3	-21	-39

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: 7/9/2019 8:55 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		6.89	-0.1	-0.2	1	-4	0		3.2	1.3	-4	-4	-31	2
Indonesia		14130	-0.2	0.1	1	1	2		7.3	0.6	-12	-77	-54	-85
India		69	0.2	0.6	2	0	2		6.7	-8.2	-24	-37	-133	-71
Philippines		51	0.0	-0.4	2	4	2		4.7	0.5	-12	-32	-117	-156
Thailand		31	-0.2	-0.5	2	8	6		2.1	-0.7	-11	-29	-56	-51
Malaysia		4.14	0.0	0.0	1	-3	0		3.6	1.5	-1	-10	-50	-48
Argentina		42	0.0	1.6	7	-33	-10		29.3	0.0	57	-284	992	630
Brazil		3.80	0.3	1.4	2	2	2		6.7	-6.3	-11	-64	-299	-144
Chile		689	-0.3	-1.2	1	-5	1		3.4	-0.4	-2	-36	-147	-111
Colombia		3218	-0.2	-0.2	1	-10	1		5.7	2.9	-9	-33	-70	-83
Mexico		18.89	0.1	0.8	2	2	4		7.5	2.0	-6	-54	-27	-124
Peru		3.3	0.2	0.1	1	0	3		4.7	-2.3	-11	-34	-86	-101
Uruguay		35	0.1	0.0	1	-11	-8		10.5	1.7	4	-69		-26
Hungary		291	-0.4	-1.5	-3	-5	-4		1.4	-0.7	-14	-28	-114	-76
Poland		3.81	-0.3	-1.2	-1	-3	-2		2.0	-3.4	-9	-12	-63	-32
Romania		4.2	-0.2	-0.6	-1	-6	-4		4.0	1.0	-7	-5	-71	-20
Russia		63.8	-0.1	-0.7	2	-2	9		7.2	0.2	-2	-31	-25	-119
South Africa		14.2	0.1	-0.5	5	-5	1		9.2	-3.4	-9	-36	-8	-44
Turkey		5.70	0.7	-0.7	1	-17	-7		17.0	58.2	43	-251	-49	8
US (DXY; 5y UST)		97.5	0.1	0.7	1	4	1		1.86	0.7	12	1	-89	-65

	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		2928	-0.2	-4	4	4	17		177	0	-3	-6	-14	-17
Indonesia		6388	0.6	0	3	10	3		179	-1	-7	-15	-35	-57
India		38731	0.0	-3	-2	8	7		134	0	-10	-23	-34	-62
Philippines		8042	-0.1	-1	1	12	8		71	0	-8	-11	-58	-50
Malaysia		1683	0.3	0	2	1	0		114	-2	-12	-18	-46	-48
Argentina		41756	0.0	0	17	51	38		806	1	-2	-142	242	-9
Brazil		104530	0.4	3	7	39	19		226	0	-6	-21	-75	-47
Chile		5067	-0.2	1	2	-5	-1		131	0	-3	-9	-11	-35
Colombia		1581	0.1	2	5	2	19		172	-1	-6	-24	-3	-56
Mexico		43589	0.4	0	1	-11	5		322	0	-5	-19	53	-32
Peru		20884	0.0	1	3	4	8		117	-1	-5	-17	-41	-51
Hungary		40373	-1.0	-1	-2	13	3		82	-2	-9	-18	-57	-66
Poland		60120	-0.8	-1	2	7	4		28	-1	-12	-35	-43	-57
Romania		8899	0.2	1	4	13	21		180	-2	-3	-15	8	-41
Russia		2820	-0.1	0	3	19	19		198	0	-5	-15	1	-54
South Africa		56990	-1.3	-2	-2	-2	8		281	1	0	-44	-10	-84
Turkey		98524	-0.2	-2	5	-1	8		486	2	22	-49	94	57
Ukraine		545	0.0	-1	-2	12	-3		541	13	22	-45	-9	-246
EM total		43	-0.9	-1	4	-3	9		340	4	-1	-23	-5	-74

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