



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, June 10, 2019











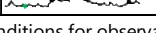
- **US reverses course on imposing tariffs on Mexican imports** ([link](#))
- **US equities advance on optimism over rate cuts and trade progress** ([link](#))
- **UK activity data for April come in weaker than expected** ([link](#))
- **Chinese equities rise on policy easing expectations** ([link](#))
- **Chile's central bank surprises markets with a 50 bps rate cut** ([link](#))
- **Canadian unemployment rate drops as employment surges** ([link](#))

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## US calls off tariffs on Mexican imports, boosting risk assets

**Financial markets are continuing last week's rally, propelled by relief over the US administration's suspension of planned tariffs on imports from Mexico.** The US and Mexico reached an agreement on immigration issues under which Mexico will tighten security to stem migrant flows and crack down on criminal networks. EM equities and US equity futures are up 0.5% this morning, with US stocks having gained 6% since last Monday's low. EM bond spreads have declined further, narrowing almost 30 bps over the past week. Yields on safe haven bonds have recovered from recent lows, with the 10-year Treasury yield up 6 bps to 2.14% this morning and Bund yields up 4 bps to -0.22%. Markets are currently pricing in about an 80% probability of a Fed rate cut by the July 30-31 FOMC meeting, according to Bloomberg estimates.

### Key Global Financial Indicators

Last updated: 6/10/19 8:26 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>				%			%
S&P 500		2873	1.0	4	0	3	15
Eurostoxx 50		3385	0.2	3	1	-2	13
Nikkei 225		21134	1.2	4	-1	-7	6
MSCI EM		41	0.5	1	-2	-11	5
<b>Yields and Spreads</b>				bps			
US 10y Yield		2.14	5.7	7	-33	-81	-55
Germany 10y Yield		-0.22	4.0	-2	-17	-67	-46
EMBIG Sovereign Spread		356	-7	-28	5	12	-58
<b>FX / Commodities / Volatility</b>				%			
EM FX vs. USD, (+) = appreciation		62.0	0.1	0	0	-6	0
Dollar index, (+) = \$ appreciation		96.9	0.4	0	0	4	1
Brent Crude Oil (\$/barrel)		63.3	0.0	3	-10	-17	18
VIX Index (% change in pp)		16.0	-0.3	-3	0	4	-9

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

**In the week ahead, trade issues will remain center stage**, with a continued focus on US relations with Mexico and China. This week's economic data releases in the US kick off with a survey of job openings (Monday), CPI and budget data (Wednesday), and retail sales (Thursday). All of these will have a bearing on the Fed's next rate decision. Most of the European majors will report CPIs throughout the week, and the UK reports on its job market (Tuesday). Canada has several housing reports coming to market this week, while Japan reports its final read on Q1 GDP and current account balance today, and core machine orders (Wednesday). There will be rate decisions by Israel and Turkey (Wednesday), and Switzerland (Thursday). Euro area finance ministers meet Thursday to discuss penalties on Italy.

### G20 Finance Ministers and Central Bank Governors Meeting

The finance minister and central bank governor meeting in Japan over the weekend was concluded with a [statement](#) saying that growth is stabilizing but "remains low and risks remain tilted to the downside." The statement further noted that "trade and geopolitical tensions have intensified." Aside from the discussions on trade issues officials also agreed to find a common method of taxing tech giants, and reaffirmed past commitments on foreign exchange.

### United States

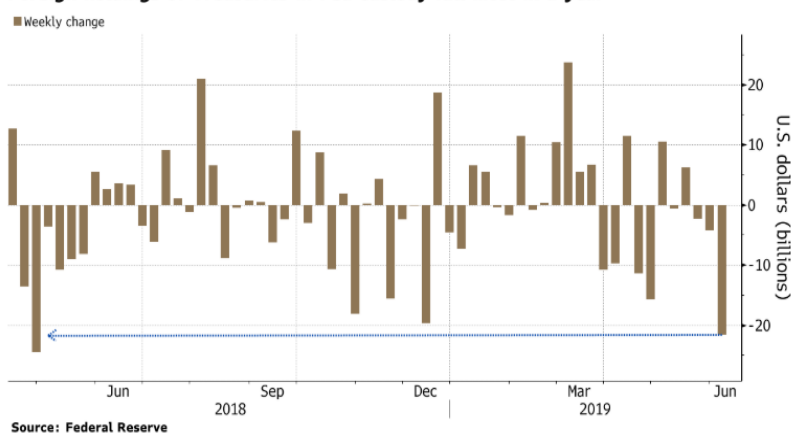
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**Stocks advanced Friday, with the Nasdaq (+1.7%) leading markets higher as tech stocks continued their rebound.** A weak payrolls number fueled optimism of a Fed rate cut, and the session was also marked by diminishing concerns over the imposition of new tariffs on imports from Mexico. But over the weekend, a deal was struck and President Trump advised such tariffs would be "indefinitely suspended."

**Last week was the best weekly gain for the major stock market indices since November, propelled by growing confidence that the Fed will cut rates soon.** Future markets gauge there is about an 80% chance of a rate cut by the July FOMC meeting, compared to a 60% chance a week ago. This morning, the 10-year Treasury yield is trading at 2.14%, which is near 2017 lows.

### Taking Profits Again

Foreign holdings of Treasuries in Fed custody fall most in a year



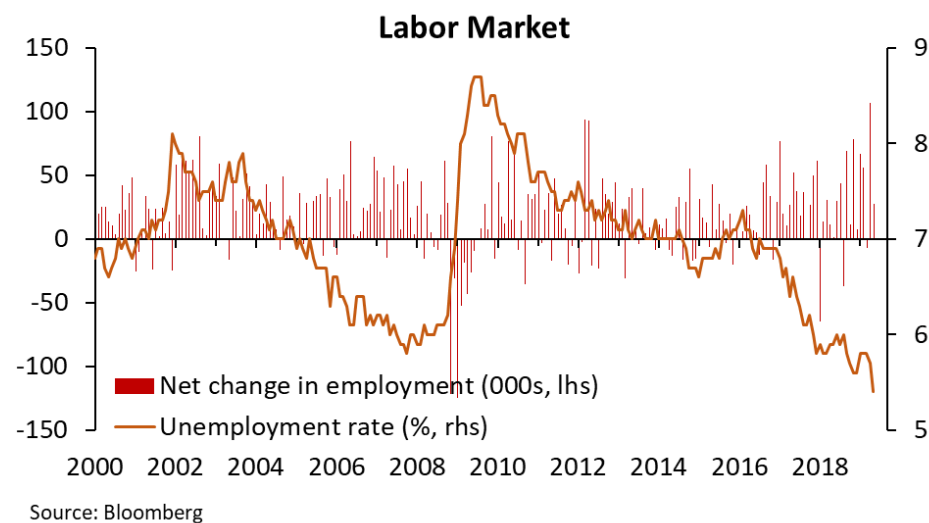
**Foreigners dumped \$21.6 bn of Treasuries custodied at the Fed in the week ending June 5.** This was the biggest weekly fall since April of last year. The 10-year yield fell by 12 bps that week. According to the latest round of TIC data, China sold a net \$10.4 bn in Treasuries in March, but still holds \$1.12 tn.

**The corporate interest rate burden has been fairly benign in recent years** according to Standard & Poor's, and has averaged 10.5% of EBITDA since the first quarter of 2013. Even though debt issuance has jumped, the low interest rate environment and the robust corporate profit profile have ensured that interest costs have not been that large relative to earnings. S&P expects the US speculative-grade default rate to increase to 2.7% by March 2020 from 2.1% in March 2019, but would still be lower than the 3.2% registered in March 2018. Gross margins are also healthy and the highest in 19 years, as members of the S&P 500 are keeping 34 cents out of each dollar of revenue they earn.



## Canada

**The unemployment rate fell to 5.4% in May, the lowest in over 40 years.** Moreover, employment growth of 28k was over five times the expected 5k increase, and followed a record 107k surge in April. The Canadian dollar appreciated 0.6% against the US dollar on Friday and is the second best performing G-10 currency this month. Investors have also been taking long CAD vs USD positions and its commodity peers.



## Europe

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**Core euro area sovereign yields edged up this morning**, as 10-year German bonds gained 3 bps to -0.23% and French bonds added 4 bps to 0.12%. Italian bonds traded at 2.41% (+6 bps) and Spanish at 0.60% (+5 bps).

In **equity markets**, the French CAC 40 Index climbed 0.3% today, followed by the Spanish Ibex 35 (+0.2%), and Italy's Titans 30 (+0.1%). Bank stocks (+0.8%) are outperforming, with BBVA (+1.6%) strongly leading the pack following news that US tariffs on Mexico have been called off. Other major bourses in Europe are closed for a holiday.

### UK data released today came in well below expectations:

- The monthly GDP growth estimate for April was -0.4% m/m vs. -0.1% expected.
- Industrial production contracted at a 1% y/y clip in April, compared to an expected expansion of 0.9%. Manufacturing production came in at -0.8% y/y, vs. +2.0% y/y consensus. A "dramatic fall" in car production has been blamed for the drop in economic activity.
- Construction output expanded at a 2.4% y/y clip, vs. 3.3% expected.

## Other Mature Markets

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### Japan

**Equities (Nikkei +1.2%; Topix +1.3%) rose to their highest level in three weeks with tech and autos among the biggest contributors.** Japan's Q1 GDP growth was revised a tick higher to 2.2% q/q saar due to stronger private capex. **The improvement in risk sentiment also saw the yen weaken -0.5% while 10-year JGB yields rose slightly.** Additionally, in an interview with Bloomberg, Bank of Japan Governor Kuroda said that the central bank can deliver more large-scale monetary stimulus if necessary and will swiftly react should the momentum to its 2% inflation target be lost.

### Staging a Comeback

**Topix rises above 25-day moving average**

■ Tokyo Stock Exchange Tokyo Price Index TOPIX ■ SMAVG (25) on Close (TPX) 1541.38



Source: TSE

## Emerging Markets








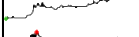

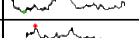
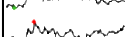


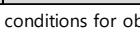
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**Emerging market assets broadly gained on hopes for Fed easing and some de-escalation in trade tensions.** In today's session, equity markets in **Asia** advanced 0.9%, with all major markets in the region gaining. Greater China stock markets outperformed, helped by comments from PBoC governor Gang that suggested more policy stimulus. Asian currencies were mostly weaker against the dollar. In **EMEA**, equity markets were mostly higher in line with better global risk appetite. Saudi Arabia (+1.5%) and the Czech Republic (+0.7%) outperformed while Turkey (-0.2%) underperformed. Currencies were mixed but trading in a narrow range; the main outliers were the outperformance of the Ukrainian hryvnia (+0.8%) and the

South African rand (+0.6%) against the dollar. Ukraine is starting a roadshow to issue a euro-denominated 7-year bond.

On Friday, **Latin American** stocks closed higher following the strong US session, with Colombia gaining the most (+1.3%). Local currencies also appreciated across the board on the back of the continuing weakening in the US dollar. The Mexican peso rallied 2% after the government reached an immigration deal with the US on Friday that led to an indefinite suspension of the planned tariffs. The idea of a single currency between Brazil and Argentina, mentioned by Brazilian President Bolsonaro, was largely shrugged off by the markets. The COPOM issued a statement on Thursday evening denying any ongoing plans or studies for a monetary union.

Key Emerging Market Financial Indicators

Last updated: 6/10/19 7:38 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		41.18	0.5	1	-2	-11	5
MSCI Frontier Equities		29.44	0.9	3	2	-7	13
EMBIG Sovereign Spread (in bps)		355	-8	-29	4	11	-59
EM FX vs. USD		62.03	0.2	0	0	-6	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.93	-0.3	0	-2	-8	-1
Indonesian Rupiah		14250	0.2	0	1	-2	1
Indian Rupee		69.66	-0.3	-1	0	-3	0
Argentine Peso		44.87	0.1	0	1	-44	-16
Brazil Real		3.88	0.0	1	2	1	0
Mexican Peso		19.28	1.8	3	-1	7	2
Russian Ruble		64.75	0.1	1	1	-3	8
South African Rand		14.89	0.4	-3	-5	-12	-4
Turkish Lira		5.81	0.4	0	3	-22	-9
EM FX volatility		8.80	1.2	0.2	0.1	-0.8	-1.0

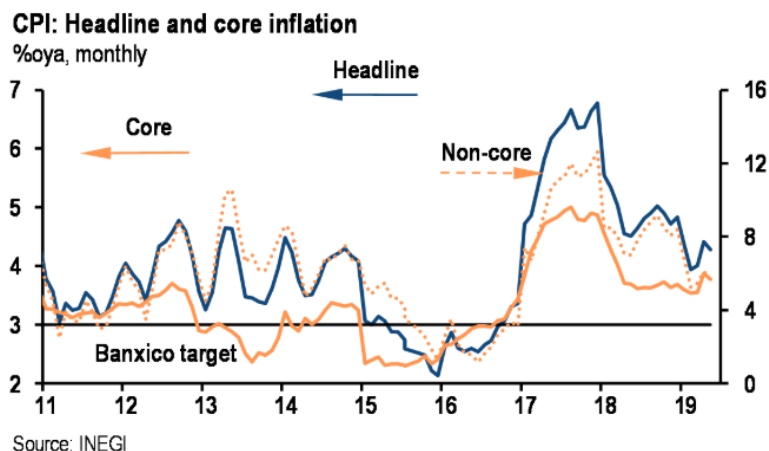
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mexico

**The peso rallied 2% as the US and Mexico agreed on immigration issues and suspended planned tariffs indefinitely.** Mexico agreed to tighten security to stem migrant flows and to crack down on criminal networks. The Mexican authorities did not accept the designation of "safe third country", which would require asylum seekers traveling through Mexico to make their case in Mexico. Instead, they agreed on an expansion of the existing US protocol to rapidly return the asylum seekers to Mexico for the duration of their immigration proceedings. More discussions will be held in the next 90 days to identify additional measures if the measures agreed on Friday do not have the expected results. Contrary to a tweet by President Trump, the joint statement did not include any commitment by Mexico to purchase large quantities of US agricultural goods. The peso rallied 2% on the news to 19.22 per dollar.

**Headline inflation eased in May, but core inflation remains a concern.** The transitory spike in headline inflation has started to unwind, as consumer prices dropped more than expected by 0.3% m/m in May, with annual inflation down to 4.3%. The downward surprise was driven entirely by non-core prices, with both food and energy prices falling faster than expected. Core inflation remains above the 3% target, with the 12-month inflation rate easing to 3.8% (up 0.2% m/m). The consensus is for Banxico to remain defensive given current inflation dynamics with persistently high core inflation and expectations in the

upper range of the target band. Upward pressure is likely to come from wage inflation, the impact of the recent downgrade in credit ratings and uncertainty around trade.



### China

**Chinese equities gained about 1% today, benefitting from expectations of policy easing, despite mixed trade data.** PBoC Governor Yi Gang's comments on Friday that China has "tremendous" policy room for easing supported equities. Chinese markets had been closed on Friday. Meanwhile, export growth rebounded to 1.1% y/y in May from -2.7% y/y in April, surprising markets on the upside. Imports fell -8.5% y/y in May, worse than the consensus estimate of -3.5% y/y. **The RMB weakened in both onshore (-0.3%) and offshore (-0.1%) markets.**

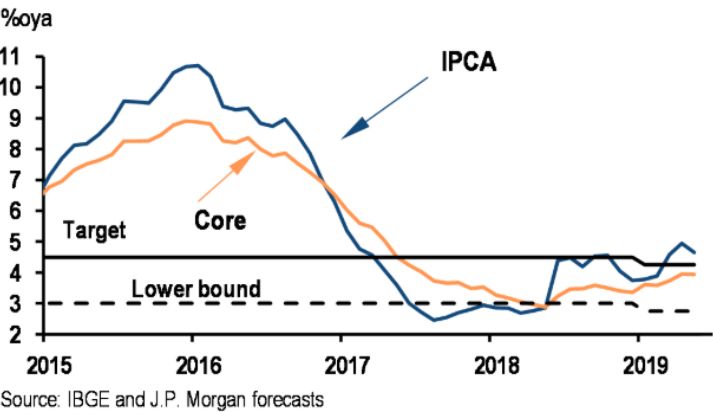
### India

**The Reserve Bank of India is providing greater leeway for financial institutions to manage delinquent borrowers through its revised framework.** The central bank said commercial and small finance banks as well as non-bank financial institutions have 210 days to review an account in default and implement a resolution plan, up from 180 days previously. Missing the deadline would require additional provisioning, but would be reversed once recovery plans are underway. **Indian equities lagged the rest of Asia on the day, gaining only 0.4%.**

### Brazil

**Headline inflation decelerated for the first time this year, with a slowdown in all price groups.** Following four months of unexpectedly high inflation this year, the IPCA rose just 0.13% m/m in May (vs. 0.2% consensus). Headline inflation edged down to 4.7% y/y while core inflation held steady at 3.9% y/y, with the monthly print at a softer-than-expected 0.2% m/m. Monthly inflation is expected to be low in the next few months. Interest rate futures dropped following the report reflecting bets on policy easing, also taking a cue from the US Treasury market. Yields fell 7 to 14 bps across the curve beyond the 1-year tenor.

Figure 3: Headline and core CPI (IPCA)

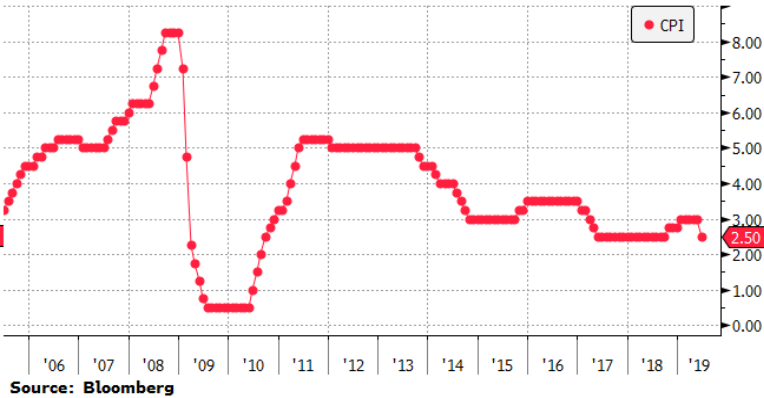


Chile

**The central bank surprised markets by cutting the benchmark rate by 50 bps to 2.5%** to support the economic expansion. The cut is the largest in a decade and contrasts with expectations for no change by all analysts surveyed by Bloomberg. Q1 GDP data revealed lower-than-expected growth, while lingering US-China trade tensions have weighed on the external environment, including the price of Chile’s copper exports. The central bank believed that the surge of immigrants from Venezuela has raised its potential growth rate, resulting in a higher output gap, leaving more room for the central bank to recalibrate monetary stimulus without fueling inflation. Analysts largely interpreted the move as a preventive action and expect a long pause ahead.

Chile benchmark rate

Largest rate cut in a decade caught markets by surprise



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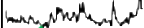




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## Global Financial Indicators

Last updated: 6/10/19 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2873	1.0	4	0	3	15
Europe		3385	0.2	3	1	-2	13
Japan		21134	1.2	4	-1	-7	6
China		2852	0.9	-2	-3	-8	14
Asia Ex Japan		67	0.7	1	-3	-14	5
Emerging Markets		41	0.5	1	-2	-11	5
<b>Interest Rates</b>			basis points				
US 10y Yield		2.14	5.7	7	-33	-81	-55
Germany 10y Yield		-0.22	4.0	-2	-17	-67	-46
Japan 10y Yield		-0.12	0.1	-3	-7	-17	-12
UK 10y Yield		0.85	3.5	-1	-29	-54	-43
<b>Credit Spreads</b>			basis points				
US Investment Grade		128	0.1	-5	12	25	-19
US High Yield		449	-3.7	-46	32	106	-72
Europe IG		62	-1.1	-9	-4	-9	-26
Europe HY		274	-6.1	-33	-7	-26	-79
EMBIG Sovereign Spread		356	-7.0	-28	5	12	-58
<b>Exchange Rates</b>			%				
USD/Majors		96.89	0.4	0	0	4	1
EUR/USD		1.13	-0.3	1	1	-4	-1
USD/JPY		108.7	-0.4	-1	1	1	1
EM/USD		62.0	0.1	0	0	-6	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		63	0.0	3	-10	-17	18
Industrials Metals (index)		109	0.0	-1	-4	-23	0
Agriculture (index)		40	-0.7	-3	9	-16	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		16.0	-0.3	-2.8	0.0	3.9	-9.4
10y Treasury Volatility Index		4.6	-0.4	-1.0	0.6	0.3	0.1
Global FX Volatility		7.0	0.1	0.1	0.1	-1.1	-2.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		306	-1.8	-1	-49	-119	-109
Italy		263	1.4	-13	-10	-5	13
Portugal		90	1.9	-6	-26	-71	-58
Spain		84	2.6	-6	-19	-18	-34

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: 6/10/2019 7:38 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		6.93	-0.3	-0.4	-2	-8	-1		3.3	0.0	-4	-9	-40	6		
Indonesia		14250	0.2	0.2	1	-2	1		8.1	0.0	0	0	64	-8		
India		70	-0.3	-0.6	0	-3	0		7.1	1.4	-7	-40	-102	-34		
Philippines		52	-0.1	-0.4	0	2	1		5.1	0.1	-2	-9	-40	-124		
Thailand		31	0.1	1.0	1	2	4		2.4	1.4	-9	-19	-22	-22		
Malaysia		4.16	-0.1	0.4	0	-4	-1		3.7	-1.0	-7	-12	-51	-38		
Argentina		45	0.1	-0.2	1	-44	-16		32.1	-52.3	-139	518	1418	914		
Brazil		3.88	0.0	1.1	2	1	0		7.3	-9.6	-32	-82	-287	-81		
Chile		692	0.1	2.7	-1	-9	0		3.7	-1.7	-8	-39	-112	-75		
Colombia		3269	0.7	3.4	1	-13	-1		6.0	-3.0	-16	-35	-32	-51		
Mexico		19.28	1.8	2.6	-1	7	2		8.0	-8.5	-12	-23	14	-70		
Peru		3.3	0.3	1.6	0	-2	1		5.1	-3.4	-15	-33	-64	-67		
Uruguay		35	-0.4	-0.5	-1	-11	-9		11.1	-0.5	-10	36		43		
Hungary		283	-0.3	1.5	1	-4	-1		1.7	-3.9	-10	-43	-26	-48		
Poland		3.77	-0.4	0.9	1	-4	-1		2.1	-1.3	-13	-33	-55	-20		
Romania		4.2	-0.3	0.8	1	-5	-3		4.1	-4.0	-9	-13	-46	-15		
Russia		64.7	0.1	0.9	1	-3	8		7.5	-3.7	-16	-40	33	-88		
South Africa		14.9	0.4	-2.9	-5	-12	-4		9.5	1.3	13	7	12	-8		
Turkey		5.81	0.4	0.5	3	-22	-9		19.5	-67.9	-63	-269	381	259		
US (DXY; 5y UST)		96.9	0.3	-0.3	0	4	1		1.91	5.6	7	-35	-87	-60		

	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		2852	0.9	-2	-3	-8	14		181	-2	0	7	-3	-13
Indonesia		6290	1.3	4	0	5	2		188	-6	-30	1	-13	-48
India		39785	0.4	0	6	12	10		157	4	0	8	-2	-39
Philippines		8045	0.8	1	4	4	8		76	-6	-27	-5	-45	-45
Malaysia		1655	0.4	1	3	-7	-2		131	-1	-1	8	-17	-31
Argentina		35663	-0.2	5	7	13	18		943	-5	-69	48	471	128
Brazil		97821	0.6	1	4	34	11		242	-5	-26	-3	-72	-31
Chile		4951	0.5	-1	-2	-10	-3		136	-4	-10	9	-7	-30
Colombia		1510	1.3	2	-3	-2	14		191	-5	-22	5	-14	-37
Mexico		43291	0.3	1	0	-6	4		330	-11	-3	24	29	-24
Peru		20299	0.9	2	1	-4	5		129	-5	-21	-3	-34	-39
Hungary		41160	0.0	1	0	12	5		95	-5	-33	-2	-37	-53
Poland		58897	0.1	2	3	0	2		52	-11	-23	12	-18	-33
Romania		8594	0.2	0	3	4	16		195	1	-22	6	37	-26
Russia		2738	0.3	0	9	20	16		208	-5	-23	0	-14	-44
South Africa		58408	0.5	4	3	0	11		316	-9	-13	16	30	-49
Turkey		93279	-0.6	7	5	-3	2		521	-14	-32	-8	120	92
Ukraine		554	0.0	-2	-3	26	-1		570	-16	-95	-78	70	-217
EM total		41	0.5	1	-2	-11	5		355	-8	-29	4	11	-59

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