



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, June 14, 2019




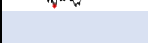

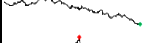




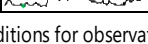
- **Falling US TIPS breakeven yields reinforce expectations of Fed rate cut** ([link](#))
- **EU finance ministers agree on broad goals for eurozone budget** ([link](#))
- **Argentina's CPI inflation rate is still high but slowing** ([link](#))
- **China to consider relaxing risk-weighting rules for small businesses to spur lending** ([link](#))
- **Peru's central bank holds its policy rate at 2.75%, as expected** ([link](#))

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

Global market head into the weekend on a quiet note

Global equities and sovereign debt yields receded further overnight and this morning. Market participants continued to discuss the escalating tensions between Iran and the United States, but price action in crude oil futures and energy sector shares has been fairly contained so far. With few other developments to consider, market participants instead appear to be focused on next week's risk events – namely, the three policy rate announcements by the Fed (on Wednesday) and the BoJ and BoE (both on Thursday). Most expect the central banks to leave policy rates unchanged, but investors are prepared to parse central bank communications for any possible hint of future accommodation.

Key Global Financial Indicators

Last updated: 6/14/19 8:17 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2892	0.4	2	2	4	15
Eurostoxx 50		3367	-0.7	0	0	-5	12
Nikkei 225		21117	0.4	1	0	-7	6
MSCI EM		42	-0.4	2	1	-9	6
Yields and Spreads			bps				
US 10y Yield		2.06	-2.6	-2	-35	-88	-62
Germany 10y Yield		-0.27	-2.7	-1	-20	-69	-51
EMBIG Sovereign Spread		364	2	1	3	9	-50
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.0	0.0	0	0	-5	0
Dollar index, (+) = \$ appreciation		97.1	0.1	1	0	2	1
Brent Crude Oil (\$/barrel)		61.2	-0.2	-3	-14	-19	14
VIX Index (% change in pp)		16.3	0.5	0	-2	4	-9

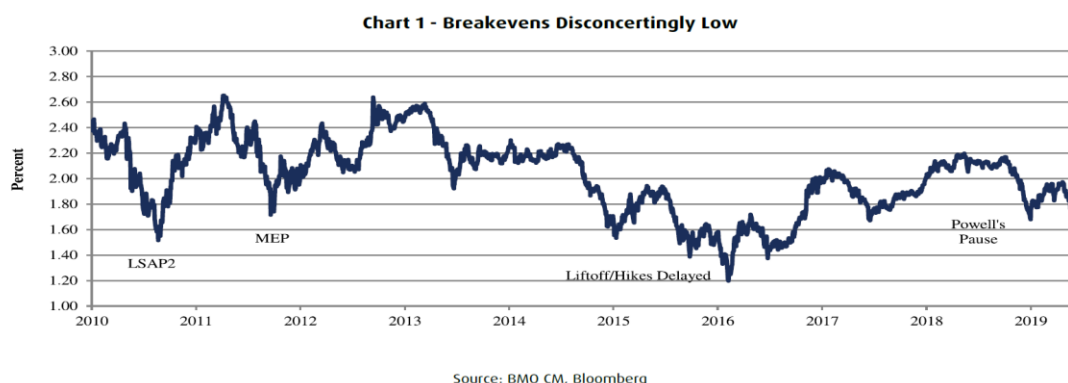
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

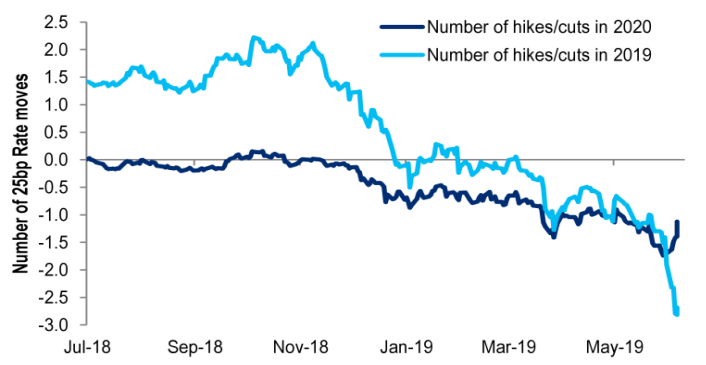
[back to top](#)

Despite tensions in the Middle East, it turned out to be a relatively quiet day for markets. Major US markets posted modest gains as most market participants appear to be staying on the sidelines ahead of the FOMC and G-20. However, Treasury yields continued to decline as bets on a dovish Fed and imminent rate cuts gained momentum. Some contacts are worried that the markets are “priced to perfection” with a very low VIX, rising equity prices and low Treasury yields.

Breakeven yields of US Treasury Inflation Protected Securities (TIPS) have declined as CPI and PCE data fell below expectations for much of the year. The breakeven yield for five-year TIPS is currently down at 1.54% while the 10-year breakeven yield has fallen to 1.70%. These are not far from levels that elicited a strong policy response from the Fed in previous years, such as the communication of the second Large Scale Asset Purchase program (LSAP2) in November 2010 and the Maturity Extension Program (MEP, colloquially known as “Operation Twist”) in September 2011. On other occasions, the rate hike cycle was delayed or slowed down.



Signals from the inflation market have reinforced other trends in markets and the economy to persuade a majority of analysts that a Fed rate cut is imminent, most likely at the July 31 FOMC meeting. The cumulative implied probability of a 25 bp rate cut at that meeting, as implied by Fed fund futures, is over 80%. In addition, markets now expect three rate cuts in 2019 compared to forecasts of just one rate cut in January.



US retail sales came in slightly weaker than expected at 0.5% versus the consensus forecast of 0.6%. In contrast, the ex-autos number was slightly stronger than expected (0.5% vs. 0.4%). Treasury yields rose by 1-2 bps immediately following the data.

Europe

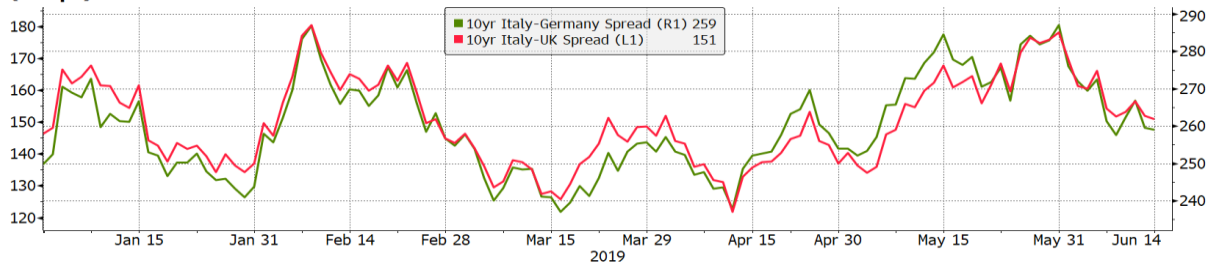
[back to top](#)

European equities declined slightly, in line with Asian peers. EuroStoxx 600 (-0.5%), DAX (-0.6%), and CAC 40 (-0.3%). Bank stocks (-0.7%) are broadly in line with main indices.

Euro area sovereign yields inched down: German 10-year Bunds at -0.26% (-2 bps); French at 0.08% (-2 bps); Italian at 2.32% (-3 bps); Spanish at 0.49% (-5 bps).

Italian spreads to German and UK bonds have narrowed about 25 to 30 bps this month, partly on continued search for yield by global investors, as major central banks have turned more dovish. For instance, just-released data from the Italian treasury show that foreign investors acquired 64% of the \$7 bn 20-year BTP issued this week, with investors from the UK snapping 37% of the bond, Spanish about 5%, and another 9% taken up by German, Austrian, and Swiss investors.

Sovereign Spreads (in bps)



Source: Bloomberg
CFRTR1US Curncy (FRANCE CDS USD SR 5Y D14) FI: Ita-Germ Spreads Daily 31DEC2018

Copyright© 2019 Bloomberg Finance L.P.

14-Jun-2019 09:07:56

Fitch will announce its decision on France's sovereign rating and DBRS on the UK's after markets close today.

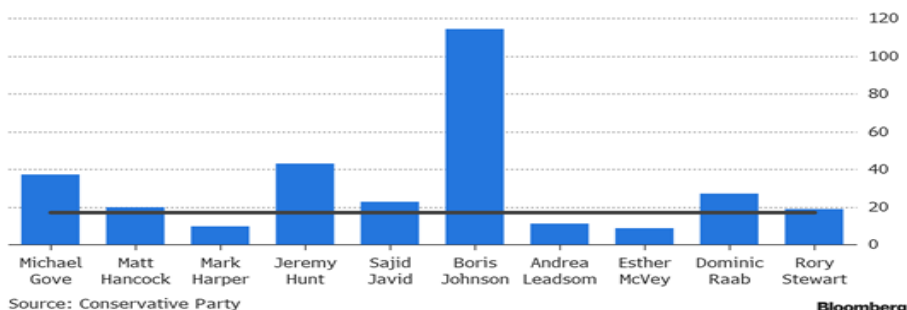
EU finance ministers have agreed the tentative broad goals of a eurozone budget. While lacking in details, the agreed plans are for national governments to bid for funds from the EU budget to finance public investment and reform projects. It is expected that such an arrangement would provide national authorities with strong incentives to carry out reforms. Details of how the EU budget will be funded were not discussed.

In the UK, Boris Johnson emerged as the clear winner of the first round of voting to elect the next Tory leader. Mr. Johnson harnessed the support of 114 Tories in parliament, out of the 313 who voted. A new round of votes is scheduled for next week.

Trimming the List

Three eliminated as Conservative MPs in U.K. whittle down leadership contenders

■ Votes received / Level needed to proceed to second round



Source: Conservative Party

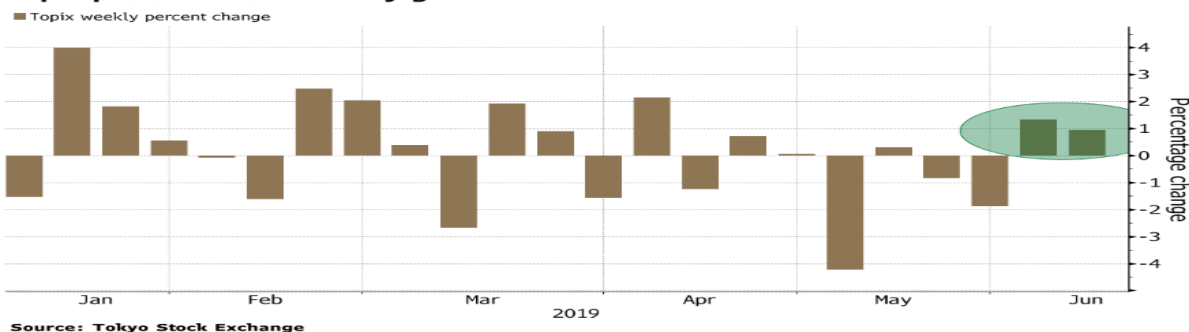
Bloomberg

Other Mature Markets [back to top](#)

Japan

Equities (Topix +0.3%) rose, capping a second weekly gain. Tech provided the biggest support while resources also advanced. Financials however underperformed on declining bond yields. **10-year JGB yields fell 1.5bps to -0.14% while the yen strengthened slightly.**

Topix posts a second weekly gain



Emerging Markets [back to top](#)

EM assets are following the gentle downtrend in global markets, with Asia underperforming due to lingering trade war risks. In Asia, equities (-0.4%) traded mostly lower, with Chinese equities (Shanghai -1.0%; Shenzhen -1.8%) falling by the most. Regional currencies weakened slightly, with the Indonesian rupiah and Philippine peso depreciating -0.3%. **In EMEA,** equity markets are broadly but modestly lower, with most indices down between 0.1-0.4%. FX markets are stable except for the Turkish lira, which has depreciated 0.5% against the dollar on the day (and 1.2% on the week). Investors remain cautious against the backdrop of escalating rhetoric surrounding the purchase of the Russian defense system and the re-run of the Istanbul elections. **Latin American** assets were mixed yesterday. Stocks in Argentina (-.7%) dropped after a 3-day rally, Mexican equities (-0.7%) also saw losses while Brazil stocks (+0.5%) saw gains. Among regional currencies, the Brazilian real (+0.5%) strengthened the most against the dollar as traders eye the pension reform bill and how much fiscal savings the reform will bring in. The Argentine peso (+0.4%) also strengthened as the May CPI declined.

Key Emerging Market Financial Indicators

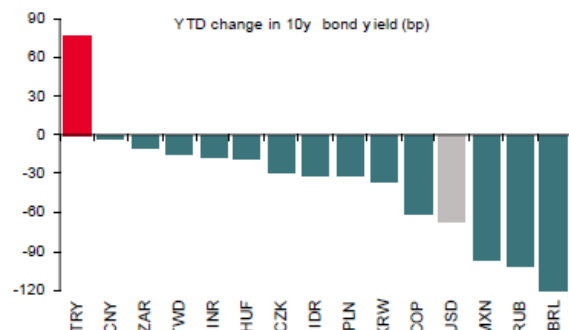
Last updated: 6/14/19 8:19 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.56	-0.3	2	1	-9	6
MSCI Frontier Equities		29.88	-0.8	2	7	-4	14
EMBIG Sovereign Spread (in bps)		364	2	1	3	9	-50
EM FX vs. USD		61.97	0.0	0	0	-5	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	0.0	0	-1	-8	-1
Indonesian Rupiah		14325	-0.3	0	1	-3	0
Indian Rupee		69.80	-0.4	0	1	-3	0
Argentine Peso		43.53	0.3	3	4	-40	-13
Brazil Real		3.85	-0.1	1	3	-1	1
Mexican Peso		19.18	0.1	2	0	9	2
Russian Ruble		64.27	0.5	1	1	-3	8
South African Rand		14.78	0.6	1	-4	-9	-3
Turkish Lira		5.90	-0.5	-1	2	-20	-10
EM FX volatility		8.37	0.0	-0.3	-0.6	-1.3	-1.4

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

Emerging Markets

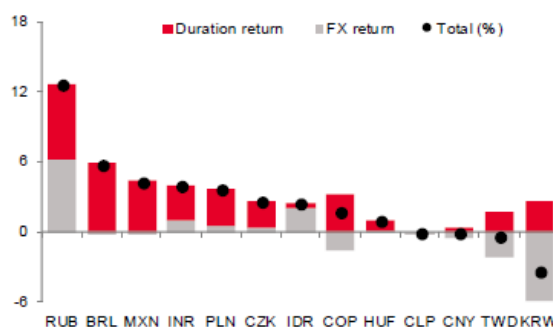
In H1 2019, 10-year EM bond yields broadly followed US rates lower, with the notable exception of Turkey. Mexico, Russia, and Brazil had the highest beta to Treasuries, while the bond markets in Indonesia and South Africa were less reactive to what was happening in the US market. The main source of return for bond investors was duration, with little contribution from FX to unhedged returns. Benchmark bond returns (i.e. JPM GBI-EM diversified or Bloomberg-Barclays EM local currency) suffered in 2018 (-7%) but have recovered half of those losses (+3.5%) so far in 2019.

Duration did well in 1H19
YTD change in 10y bond yield (bp)



Source: SG Cross Asset Research/EM, Bloomberg.

FX had a minimal influence relative to duration
Bond return = duration change only



Source: SG Cross Asset Research/EM, Bloomberg.

Argentina

The National CPI slowed to a still high 3.1% m/m sa in May, in line with consensus and lower than the April (3.8%) print. The central bank governor acknowledged that inflation remains unacceptably high and that they will stick to tight monetary policy and the zero-money base growth target through year end. Both the central bank and market analysts expect CPI to moderate further.



Copyright© 2019 Bloomberg Finance L.P.

13-Jun-2019 15:34:06

China

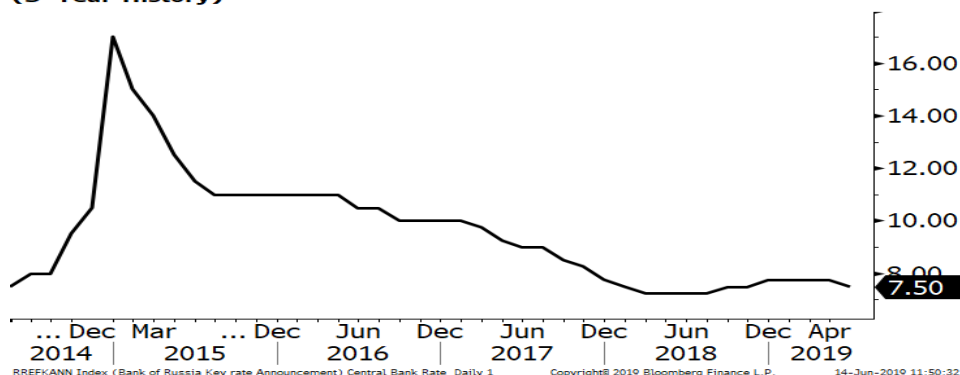
Chinese equities (Shanghai -1.0%; Shenzhen -1.8%) closed lower before the release of weaker economic data. Industrial output growth slowed to the weakest level since 2002, decelerating to 5.0% y/y in May versus expectations of 5.4% y/y, highlighting the headwinds facing the economy amid the ongoing US-China trade conflict. Fixed asset investment growth for the first five months of the year also missed expectations of 6.1% y/y, cooling to 5.6% y/y. **Ten-year government bond yields fell 1.6 bps to 3.25% while the RMB remained stable.**

China's banking regulator is considering tweaking risk-weighting rules to encourage lending to small firms. During the Lujiazui Forum, Li Junfeng, director general of the Financial Inclusion Department of China Banking and Insurance Regulatory Commission, said that under the new rules, small business loans of less than CNY10 mn will receive preferential risk-weighting treatment. At present, only small business loans of less than CNY5 mn enjoy the 75% risk-weighting treatment, while that for other loans is at 100%. **Additionally, China's top leaders reiterated their commitment to further open up the financial sector.** In the same event, Vice Premier Liu He said that reforms are ongoing especially in the financial sector and external pressures are likely to accelerate reforms.

Russia

The central bank cut rates by 25 bps to 7.50%, as widely expected. This was the first rate cut since early 2018. The bank lowered its guidance on inflation and GDP growth and the statement noted that more easing could be in the cards if the indicators develop along the baseline forecast. Russia's MOEX index and the ruble are unchanged following the announcement.

Russian Central Bank Rate (5-Year History)

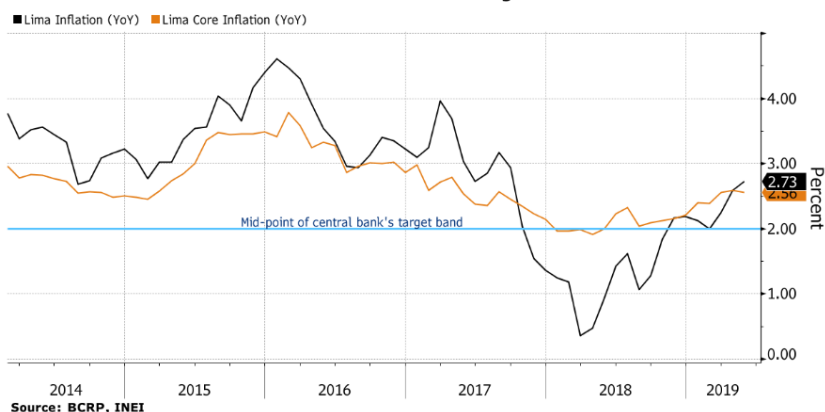


Peru

The central bank unanimously decided to keep the policy rate on hold at 2.75%, in line with market expectations. Inflation is expected to remain within the 1-3% target range in the near term which, coupled with the recent slowdown in activity, allows the central bank to hold the policy rate steady.

Less Leeway








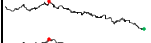





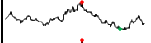










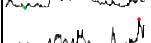




Inflation has returned to 2017 levels even as GDP growth loses steam



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***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*

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 6/14/19 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2892	0.4	2	2	4	15
Europe		3367	-0.7	0	0	-5	12
Japan		21117	0.4	1	0	-7	6
China		2882	-1.0	2	0	-5	16
Asia Ex Japan		67	0.0	1	0	-12	6
Emerging Markets		42	-0.4	2	1	-9	6
Interest Rates			basis points				
US 10y Yield		2.06	-2.6	-2	-35	-88	-62
Germany 10y Yield		-0.27	-2.7	-1	-20	-69	-51
Japan 10y Yield		-0.13	-1.6	-1	-8	-17	-13
UK 10y Yield		0.82	-1.6	1	-29	-52	-46
Credit Spreads			basis points				
US Investment Grade		132	1.6	3	11	29	-15
US High Yield		450	2.2	-21	14	116	-71
Europe IG		63	0.9	0	-2	-3	-25
Europe HY		277	4.2	-2	-4	-13	-75
EMBIG Sovereign Spread		364	2.0	1	3	9	-50
Exchange Rates			%				
USD/Majors		97.09	0.1	1	0	2	1
EUR/USD		1.13	-0.2	-1	0	-3	-2
USD/JPY		108.2	0.1	0	1	2	1
EM/USD		62.0	0.0	0	0	-5	0
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-0.2	-3	-14	-19	14
Industrials Metals (index)		110	-0.4	1	-3	-21	1
Agriculture (index)		42	0.3	4	11	-10	1
Implied Volatility			%				
VIX Index (% change in pp)		16.3	0.5	0.0	-1.7	4.2	-9.1
10y Treasury Volatility Index		5.3	0.6	0.2	1.1	1.3	0.7
Global FX Volatility		6.6	0.0	-0.3	-0.4	-1.2	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		297	2.7	-11	-66	-120	-118
Italy		257	-2.4	-4	-23	26	7
Portugal		87	-1.4	-1	-34	-62	-61
Spain		76	-2.5	-5	-28	-16	-41

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 6/14/2019 8:20 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		6.92	0.0	-0.2	-1	-8	-1		3.3	-0.3	4	-2	-37	10
Indonesia		14325	-0.3	-0.4	1	-3	0		7.8	-3.6	-29	-37	31	-37
India		70	-0.4	-0.5	1	-3	0		7.1	-0.7	3	-35	-95	-33
Philippines		52	-0.3	-0.1	1	2	1		5.0	-0.7	-3	-8	-43	-127
Thailand		31	0.1	0.3	1	3	4		2.3	-7.1	-11	-29	-35	-34
Malaysia		4.17	0.0	-0.2	0	-4	-1		3.7	-0.7	-1	-14	-51	-38
Argentina		44	0.3	3.2	4	-40	-13		30.0	-26.2	-270	185	1169	696
Brazil		3.85	-0.1	0.7	3	-1	1		7.2	-8.7	-28	-90	-307	-99
Chile		696	-0.1	-0.5	0	-9	0		3.5	3.7	-27	-61	-138	-100
Colombia		3269	0.0	0.7	1	-13	0		5.8	-7.3	-24	-48	-57	-72
Mexico		19.18	0.1	2.3	0	9	2		7.8	-2.1	-34	-48	-21	-96
Peru		3.3	0.0	0.2	0	-2	1		5.0	0.8	-12	-40	-74	-76
Uruguay		35	0.1	-0.1	0	-11	-8		11.0	-5.3	-11	12		32
Hungary		285	0.0	-1.0	1	-2	-2		1.7	-2.5	-4	-33	-61	-48
Poland		3.78	-0.1	-0.5	2	-2	-1		2.1	-4.4	0	-23	-52	-19
Romania		4.2	-0.2	-0.7	1	-4	-3		4.1	-3.0	-4	-17	-45	-15
Russia		64.3	0.5	0.8	1	-3	8		7.5	2.2	-6	-43	22	-89
South Africa		14.8	0.6	1.1	-4	-9	-3		9.5	4.2	-5	6	-8	-14
Turkey		5.90	-0.5	-1.1	2	-20	-10		18.9	48.7	-124	-330	216	203
US (DXY; 5y UST)		97.1	0.1	0.6	0	2	1		1.81	-3.2	-5	-38	-100	-70

	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		2882	-1.0	2	0	-5	16		181	1	0	5	-2	-13
Indonesia		6250	-0.4	1	3	4	1		197	1	3	-1	-6	-39
India		39452	-0.7	0	6	11	9		157	4	4	4	2	-39
Philippines		7990	-0.8	0	4	6	7		85	-1	3	-5	-36	-36
Malaysia		1639	-0.3	-1	2	-7	-3		133	0	1	2	-19	-29
Argentina		40646	-0.7	14	25	35	34		844	2	-104	-81	302	29
Brazil		98774	0.5	2	7	38	12		245	2	-2	-6	-83	-28
Chile		5072	0.1	3	1	-8	-1		138	1	-2	5	-9	-28
Colombia		1522	0.6	2	1	-2	15		195	1	-1	5	-7	-33
Mexico		43483	-0.7	1	0	-8	4		339	2	-2	30	33	-15
Peru		20251	-0.8	1	1	-4	5		133	2	-1	-5	-33	-35
Hungary		40546	0.2	-1	1	11	4		102	1	2	1	-36	-46
Poland		59085	-0.5	0	5	1	2		56	-2	-7	9	-15	-29
Romania		8515	0.4	-1	5	4	15		194	5	-1	1	23	-27
Russia		2748	-0.4	1	7	22	16		214	-1	1	-1	-8	-38
South Africa		58417	-0.5	1	4	0	11		325	0	0	14	29	-40
Turkey		91015	0.6	-3	3	-4	0		542	10	7	15	116	113
Ukraine		553	0.0	0	-3	22	-1		563	-20	-23	-99	27	-224
EM total		42	-0.3	2	1	-9	6		364	2	1	3	9	-50

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