



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, June 18, 2019












- Yields fall after ECB delivers a dovish message at the Sintra conference ([link](#))
- Regional New York Fed survey drops the most on record ([link](#))
- Analysts expect S&P 500 earnings to decline in Q2 ([link](#))
- RBA meeting minutes suggest more rate cuts likely ([link](#))

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Stocks, bonds rally on further expectations of central bank easing

ECB president Draghi's comments at the Sintra conference sparked a further rally in asset prices, as he highlighted the downside risks and noted that the ECB has capacity for additional asset purchases if needed. This added to the growing expectations that major central banks will keep monetary policy accommodative for some time to come. The statements were punctuated by a large negative surprise in the German ZEW survey. Meanwhile Japanese equities declined overnight as the yen strengthened ahead of this week's BoJ meeting. Sovereign bond yields fell sharply on Draghi's comments, with German yields declining 6-7 bps across the curve and the 10-year crossing the -0.30% threshold for the first time. US treasury yields declined 3-5 bps. Australia also added to the easing discussion with minutes of their June meeting indicating that more cuts are likely.

Key Global Financial Indicators

Last updated: 6/18/19 7:44 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2890	0.1	0	1	4	15
Eurostoxx 50		3427	1.3	1	0	-1	14
Nikkei 225		20973	-0.7	-1	-1	-8	5
MSCI EM		41	0.8	-2	2	-8	5
Yields and Spreads			bps				
US 10y Yield		2.02	1.4	-12	-37	-90	-66
Germany 10y Yield		-0.32	-7.5	-9	-22	-72	-56
EMBIG Sovereign Spread		362	1	10	2	-4	-52
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.0	0.2	-1	1	-5	0
Dollar index, (+) = \$ appreciation		97.7	0.1	1	0	3	2
Brent Crude Oil (\$/barrel)		60.7	-0.4	-3	-16	-19	13
VIX Index (% change in pp)		15.0	-0.3	-1	-1	3	-10

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

United States

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US stocks firmed Monday. While trade and politics continued to consume investor interest, the market this week will increasingly focus on the policy and messaging associated with the upcoming FOMC meeting. The FANG cohort (Facebook, Amazon, Netflix, Google parent Alphabet) led the tech-heavy Nasdaq higher (+0.9%) yesterday, while gains in the broader market and blue chips were marginal. Financials (-0.9%) and materials (-0.9%) underperformed.

The quarterly corporate earnings season will soon commence. Analysts polled by Bloomberg gauge that S&P 500 **earnings will fall by 2.7% y/y in Q2** before rising (somewhat) in Q3. FactSet echoes this pattern, forecasting that Q2 earnings are expected to decline by 2.5%. A key factor in these declines is concern over a trade war, which global fund managers recently polled by Bank of America cited as their top worry. The trade factor has been reverberating with recent corporate revenue growth figures. Revenues of companies with foreign sales of over 50% saw their revenue growth drop to 0% last quarter—where it is expected to remain in Q2. Those with less than 25% rose to 9% in Q1, the highest in years.

Growth Under Threat

Analysts expect S&P 500 earnings to be stuck this quarter and next

■ Actual ■ Forecast

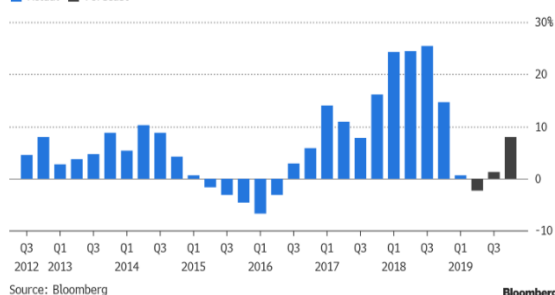
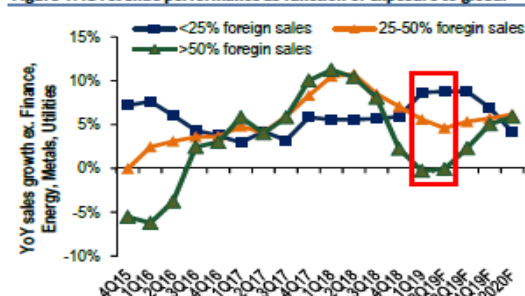


Figure 1: IG revenue performance as function of exposure to global



Trade will likely loom large at next week's G-20 summit. Commerce secretary Ross recently reiterated that a major US-China trade deal was unlikely to emerge at the summit. Separately, he advised it's "complicated to negotiate with the EU" due to the recent elections and the lack of a president of the European community, and no new trade commissioner, meaning EU-US auto tariff talks will be on hold, and that "it will likely be early fall before this is resolved."

The Empire State Manufacturing Index dropped by the most on record in June to -8.6. This was much more than the decline the market was expecting (from 17.8 to 11). Breaking the index down, almost all of the sub-indexes declined, paced by new orders and unfilled orders. And the employment index registered its first negative result in two years. Ten-year Treasury yields slid in the run-up to the release, but ended the session little changed. Futures markets are expecting a 18% chance of a rate cut Wednesday, but see an 84% likelihood of a rate cut at the FOMC meeting by the end of July.

Factory Plunge

New York state manufacturing index drops by most on record

■ Empire State manufacturing index

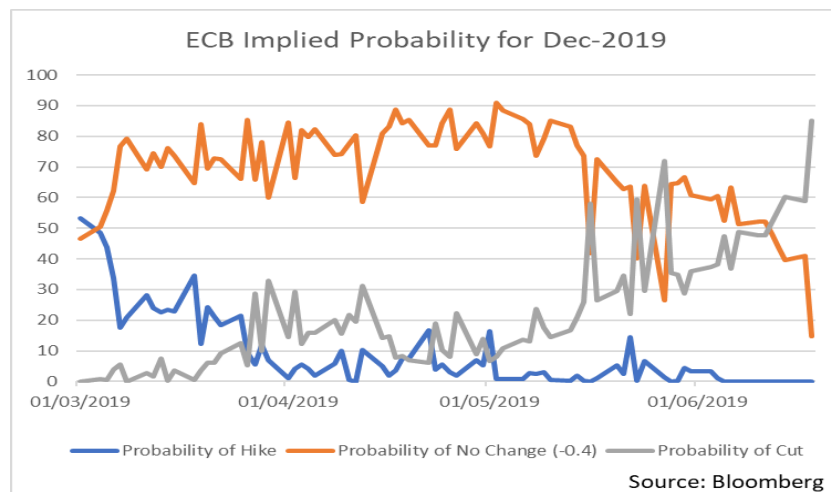


Europe

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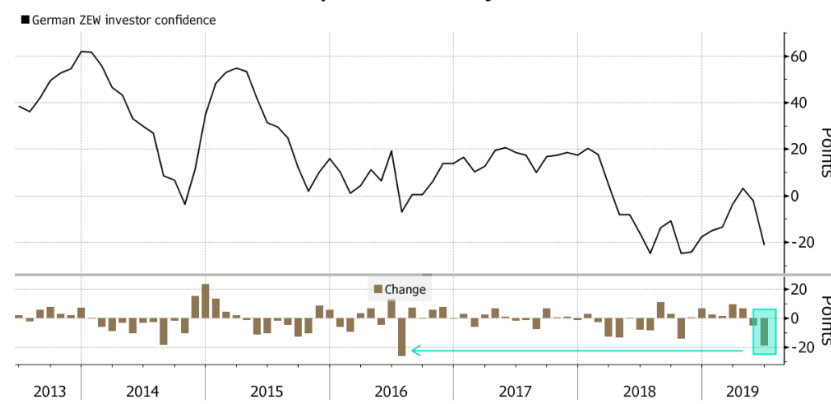
Yields are broadly lower and the euro depreciated slightly after ECB President Draghi's comments at the Sintra conference. Draghi characterized the outlook as still "tilted to the downside," meaning that more stimulus will be needed if it doesn't improve. He also noted that the ECB has headroom for more asset purchases. Analysts at Citi, for example, took away from the comments that some combination of changes to forward guidance, policy rates or asset purchases is likely to materialize by the September meeting.

Yields are down 4 bps across the German curve with the 10-year reaching a new record low of -0.29%. The Italian 10-year is down 11 bps to 2.19%, the lowest since mid-2018. According to Bloomberg's model, money market rates are now almost pricing fully pricing a cut by year end (chart). The **euro** depreciated 0.5% since Draghi started speaking and the **EuroStoxx 600** flipped from a small loss to a 0.4% gain.



Consistent with the ECB's dovish message, the expectations component of the German Zew survey delivered a huge negative surprise in June. The index came in at -21.1 vs. -5.6 expected, the largest decline since mid-2016. The ZEW president attributed the negative sentiment to the combination of uncertainty about the global economy, trade tensions, the Middle East conflict, and Brexit.

German investor confidence drops most in three years



Other Mature Markets [back to top](#)

Japan

Japanese equities declined while the yen strengthened ahead of key central bank policy meetings.

The Topix index fell for a fourth day (-0.7%) amid yen appreciation (+0.3%). The auction of the 5-year JGB saw a bid/cover ratio of 4.51x, the lowest this year. Still, bond yields edged lower, with the 5-year benchmark note falling 0.3 bps to -0.24%. Ahead of the BoJ meeting starting tomorrow, Governor Kuroda said risks to the global economy from U.S.-China trade tensions are increasing. Investors generally expect the BoJ to stay on hold on Thursday and will watch for hints of policy easing in the coming months.







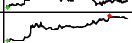


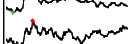

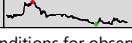
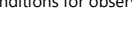

Australia

Minutes from RBA's June meeting indicated possible rate cuts in the months ahead to boost hiring and inflation. According to the minutes, members agreed that further rate cuts were "more likely than not" in the period ahead. The RBA had eased its policy rate to 1.25% at the June meeting, its first rate cut in nearly three years. Australian bond yields fell following the release of the minutes, with the 2-year note falling 1.3 bps to 1.01% and the 10-year note down 1.7 bps to 1.37%. Meanwhile, the Australian dollar extended its depreciation for a fifth day, slipping to USD 0.683/AUD (-0.2%), its weakest level since March 2009.

Emerging Markets [back to top](#)

EM assets are mostly stronger after dovish comments by ECB president Draghi. In Asian equities, Hong Kong (+0.9%), Korea (+0.3%) and Indonesia (+0.7%) rose while China's Shanghai and Shenzhen Composites were little changed. Currencies were mixed; the Philippine peso appreciated (+0.3%), outperforming others while the Thai baht (-0.3%) underperformed. Trading activity was subdued as investors refrained from putting on big bets ahead of key policy decisions. In **EMEA**, equity markets were mostly higher, led by Turkey (+1.3%), along with South Africa and Poland (both +0.5%). In FX markets, the South African rand appreciated 1% and the Turkish lira 0.6% against the dollar. In **Latin America**, markets closed slightly weaker in a quiet session, after sizable gains from last week. Colombia underperformed, weighed by lower commodity prices, with the Colcap index down 0.5% and the peso 0.4% weaker against the dollar.

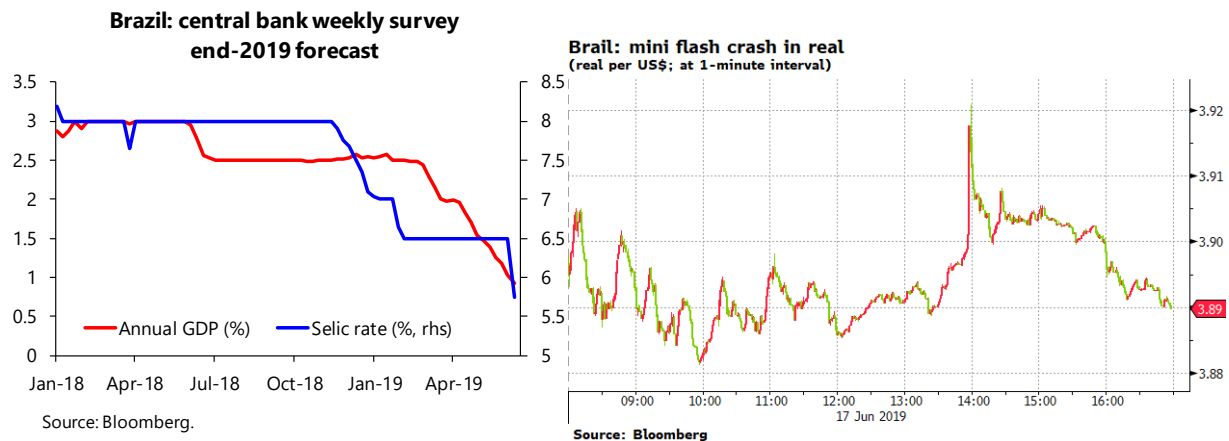
Key Emerging Market Financial Indicators

Last updated: 6/18/19 7:45 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.95	0.8	-2	2	-8	5
MSCI Frontier Equities		29.03	0.3	-2	4	-5	11
EMBIG Sovereign Spread (in bps)		363	2	11	3	-3	-51
EM FX vs. USD		61.95	0.2	-1	1	-5	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.93	0.0	0	0	-7	-1
Indonesian Rupiah		14326	0.1	-1	1	-3	0
Indian Rupee		69.69	0.3	0	0	-2	0
Argentine Peso		43.99	-1.1	2	2	-36	-14
Brazil Real		3.89	0.2	0	5	-4	0
Mexican Peso		19.12	0.3	0	0	7	3
Russian Ruble		64.26	0.1	0	0	-1	8
South African Rand		14.64	1.2	0	-2	-7	-2
Turkish Lira		5.84	0.6	-1	3	-19	-9
EM FX volatility		8.40	0.0	0.0	-0.8	-1.5	-1.4

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

Brazil

Analysts expect a 75 bps rate cut and sub-1% growth by end-2019, according to the weekly central bank survey. Inflation expectation also fell further below target to 3.84% y/y. For this week's COPOM meeting (Wednesday), the consensus is still expecting the board to stay on hold. The DI futures curve rose slightly in a steepening move, after a substantial drop last week. There was a mini flash event in the local currency market yesterday, with the real weakening by 0.6% in less than a minute. The move was attributed to algo-trading that mis-interpreted a comment by the Chief of Staff on the pension system. The currency ended only marginally weaker on the day at 3.89 per dollar.

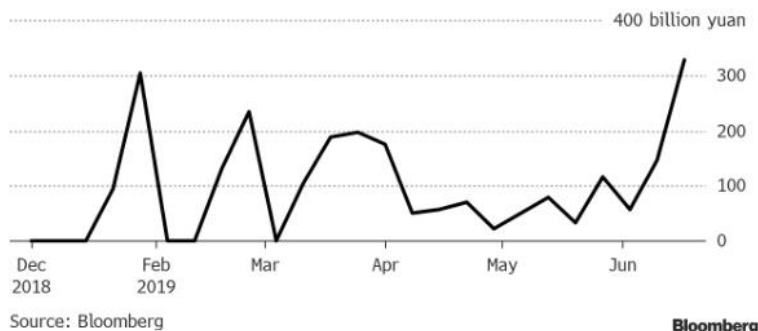


China

Local government bond issuance is expected to reach its highest level this year as the authorities look to support infrastructure spending and economic growth. By Bloomberg's estimate, about RMB 328 bn (\$47 bn) of local government bonds will be issued this week, the most for the year. More municipal debt issuance is expected as local governments look to issue RMB 3.08 tn of new debt before September. Local news reports noted that Minister of Finance Liu Kun indicated earlier in March that the authorities will look to "speed up" bond sales to stabilize investment. Despite greater bond supply to come, CGB yields have remained relatively stable. Both the benchmark 2- and 10-year notes are around the same levels seen last week, at 2.83% and 3.25%, respectively.

Surge in Supply

Weekly issuance of Chinese local government bonds rises to 2019 high



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Global Financial Indicators

Last updated: 6/18/19 7:44 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2890	0.1	0	1	4	15
Europe		3427	1.3	1	0	-1	14
Japan		20973	-0.7	-1	-1	-8	5
China		2890	0.1	-1	0	-4	16
Asia Ex Japan		66	0.3	-2	0	-11	4
Emerging Markets		41	0.8	-2	2	-8	5
Interest Rates			basis points				
US 10y Yield		2.02	1.4	-12	-37	-90	-66
Germany 10y Yield		-0.32	-7.5	-9	-22	-72	-56
Japan 10y Yield		-0.12	-0.1	-2	-7	-16	-13
UK 10y Yield		0.79	-6.0	-7	-24	-53	-49
Credit Spreads			basis points				
US Investment Grade		131	-1.7	4	10	28	-16
US High Yield		450	-1.6	7	18	115	-71
Europe IG		58	-3.1	-3	-9	-10	-30
Europe HY		262	-12.7	-6	-21	-36	-90
EMBIG Sovereign Spread		362	1.0	10	2	-4	-52
Exchange Rates			%				
USD/Majors		97.68	0.1	1	0	3	2
EUR/USD		1.12	-0.3	-1	0	-4	-2
USD/JPY		108.3	0.2	0	2	2	1
EM/USD		62.0	0.2	-1	1	-5	0
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-0.4	-3	-16	-19	13
Industrials Metals (index)		110	0.5	-1	-3	-19	1
Agriculture (index)		42	-0.8	3	10	-7	2
Implied Volatility			%				
VIX Index (%, change in pp)		15.0	-0.3	-1.0	-0.9	2.7	-10.4
10y Treasury Volatility Index		5.4	-0.1	0.9	1.3	1.6	0.8
Global FX Volatility		6.6	0.0	-0.1	-0.4	-1.5	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		288	-8.1	-13	-65	-114	-128
Italy		244	-10.4	-19	-33	28	-6
Portugal		87	-1.4	-1	-29	-48	-61
Spain		75	-2.5	-7	-23	-11	-43

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: 6/18/2019 7:45 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		6.93	0.0	-0.2	0	-7	-1		3.3	-1.8	0	-4	-38	7
Indonesia		14326	0.1	-0.6	1	-3	0		7.8	1.0	-13	-42	29	-40
India		70	0.3	-0.3	0	-2	0		7.0	-1.0	-12	-39	-101	-41
Philippines		52	0.3	-0.2	1	3	1		5.0	1.2	1	-6	-47	-127
Thailand		31	0.1	-0.2	2	4	3		2.3	0.6	-12	-31	-39	-36
Malaysia		4.18	-0.1	-0.5	0	-4	-1		3.7	0.0	1	-13	-52	-39
Argentina		44	-1.1	2.0	2	-36	-14		29.9	0.0	-182	-185	1103	693
Brazil		3.89	0.2	0.0	5	-4	0		7.2	4.2	-14	-111	-320	-98
Chile		700	-0.1	-0.4	-1	-9	-1		3.5	0.0	0	-63	-140	-100
Colombia		3286	-0.4	-0.8	1	-11	-1		5.9	11.7	0	-37	-48	-59
Mexico		19.12	0.3	0.1	0	7	3		7.8	8.0	-2	-37	-19	-90
Peru		3.3	0.0	-0.4	-1	-2	1		4.9	6.0	-18	-39	-90	-82
Uruguay		35	0.0	0.2	0	-11	-8		11.0	-10.1	-20	-15		24
Hungary		288	-0.2	-1.5	2	-3	-3		1.7	0.7	-3	-31	-70	-50
Poland		3.81	-0.2	-1.1	1	-3	-2		2.1	2.1	-5	-27	-52	-20
Romania		4.2	-0.3	-1.3	1	-5	-4		4.1	0.0	-2	-17	-42	-16
Russia		64.3	0.1	0.4	0	-1	8		7.4	-3.9	-7	-38	5	-97
South Africa		14.6	1.2	0.2	-2	-7	-2		9.4	0.0	-1	4	-12	-14
Turkey		5.84	0.6	-0.7	3	-19	-9		18.8	-33.1	-38	-205	214	196
US (DXY; 5y UST)		97.7	0.1	1.0	0	3	2		1.78	-7.3	-13	-39	-101	-73

	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		2890	0.1	-1	0	-4	16		182	1	7	4	-5	-12
Indonesia		6257	1.1	-1	7	4	1		199	2	10	6	-7	-37
India		39046	0.2	-2	3	10	8		155	4	3	-4	0	-41
Philippines		7922	0.2	-2	4	7	6		87	2	7	5	-38	-34
Malaysia		1653	0.9	0	3	-5	-2		132	0	7	4	-20	-30
Argentina		40488	0.0	14	22	34	34		851	-4	-2	-96	281	36
Brazil		97623	-0.4	0	8	40	11		247	1	6	-9	-90	-26
Chile		5025	-0.7	0	2	-8	-2		139	2	6	5	-4	-27
Colombia		1518	-0.5	1	1	-2	15		194	3	7	3	-12	-34
Mexico		42965	-0.4	-1	-1	-8	3		343	1	18	30	38	-11
Peru		20207	-0.4	0	1	-2	4		134	5	6	-5	-35	-34
Hungary		40556	-0.5	-2	2	14	4		101	5	11	2	-39	-47
Poland		59443	1.0	0	5	5	3		54	7	17	6	-16	-31
Romania		8526	0.3	-1	4	4	15		193	1	8	-1	23	-28
Russia		2734	0.0	0	6	23	15		213	1	8	6	-19	-39
South Africa		58296	0.2	0	4	1	11		313	-2	1	0	-3	-52
Turkey		93804	1.7	1	8	1	3		540	-4	17	21	86	111
Ukraine		553	0.0	0	-3	19	-1		563	-1	-2	-85	-12	-224
EM total		41	0.8	-2	2	-8	5		363	2	11	3	-3	-51

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