



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division






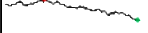




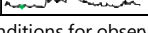
Thursday, June 20, 2019

- **Dovish FOMC meeting fuels US market rally** ([link](#))
- **Bank of Japan on hold, but markets expect easing ahead** ([link](#))
- **Bank of England on hold with limited policy tightening in the baseline** ([link](#))
- **Brazil's central bank on hold with easing bias** ([link](#))
- **Australian and Indonesian central banks signal possible future rate cuts**
- **Argentina in recession in 2019Q1 with GDP contracting and high unemployment** ([link](#))
- **Mexican senate first one to approve USMCA trade deal to replace NAFTA** ([link](#))
- **Norwegian central bank delivers the expected hike and a hawkish statement** ([link](#))

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Central banks boost markets with dovish signals

The outcomes of central bank policy meetings have sent a clear (net) dovish signal to markets, boosting risk assets across the globe. Global equity gains are led by China and other EMs, while the S&P500 is trading around all-time highs this morning and the US 10-year yield is down to 2%. The key driver was yesterday's FOMC meeting outcome, which delivered a message that was widely perceived as dovish (see below). Since Tuesday, the market-implied Fed policy rate 12 months ahead has declined another 20 basis points to 1.37%, suggesting four rate cuts by mid-2020. Additional dovish signals came from central banks in Brazil, Indonesia and Australia, which also adjusted their communication to signal potential rate cuts on the horizon. The Bank of Japan's post-meeting communication was perceived as more neutral by analysts, but market-implied policy rates have also edged down and suggest a cut in the deposit rate in the coming months. The Bank of England delivered a broadly neutral message and still anticipates limited monetary tightening under the assumption of a smooth Brexit.

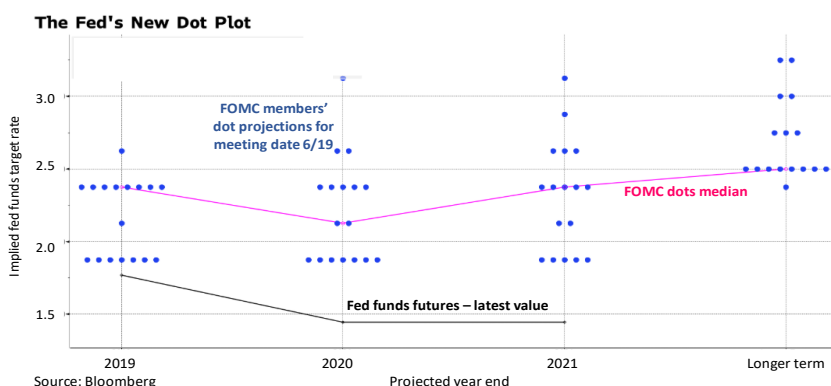
Last updated: 6/20/19 8:20 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2926	0.3	2	3	6	17
Eurostoxx 50		3479	0.7	3	3	1	16
Nikkei 225		21463	0.6	2	1	-5	7
MSCI EM		42	2.3	2	5	-4	8
Yields and Spreads			bps				
US 10y Yield		2.00	-2.8	-10	-42	-94	-69
Germany 10y Yield		-0.32	-2.7	-7	-23	-69	-56
EMBIG Sovereign Spread		346	-8	-16	-11	-17	-68
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.7	0.3	1	2	-3	1
Dollar index, (+) = \$ appreciation		96.6	-0.5	0	-1	2	0
Brent Crude Oil (\$/barrel)		63.5	2.7	4	-12	-15	18
VIX Index (% change in pp)		14.0	-0.4	-2	-2	1	-11

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

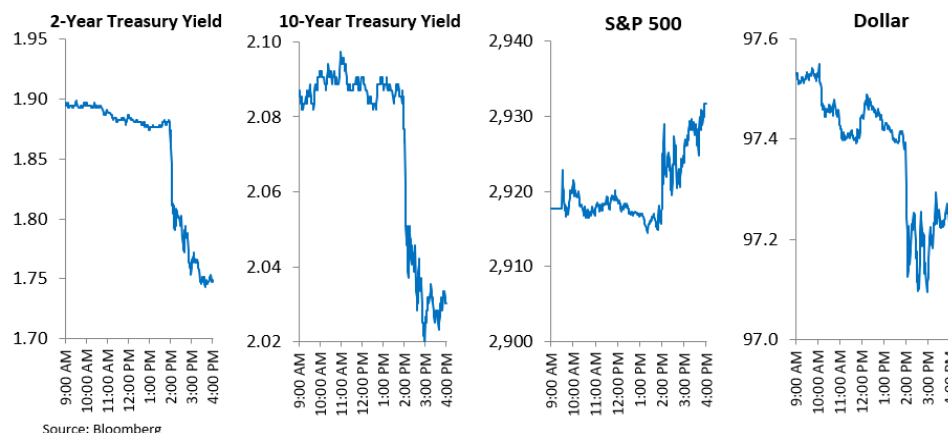
United States

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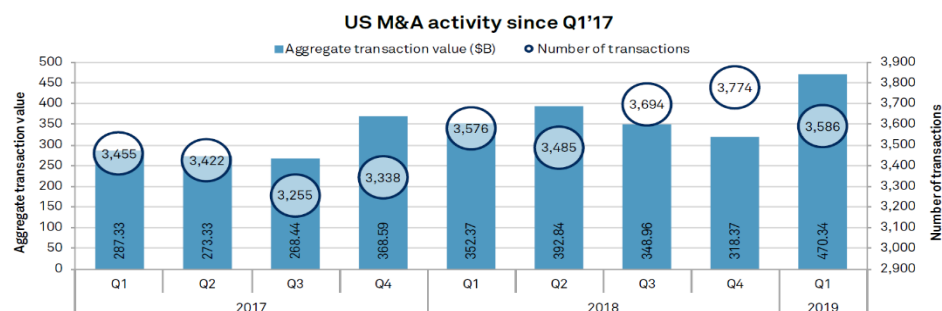
The FOMC meeting was perceived as dovish. Changes to the statement seemed to open the door for a policy rate cut at upcoming FOMC meetings, including the removal of the “patient” language. James Bullard voted for a 25 bps cut, marking the first dissent of the Powell era. **The dot plot shifted down substantially**, as seven members now expect two rate cuts to be warranted in 2019 (and one additional member expects one rate cut this year). As recently as March, not a single member predicted a cut this year. The long-run median dot fell by 25 bps to 2.5%. The core PCE forecast for this year was downgraded from 2% to 1.8%. The press conference reinforced the dovish tone. On financial markets, Treasuries and equities rallied while the dollar depreciated against most currencies. The 2-10 Treasury yield spread rose to 28 bps from 19 the day before, with the 2-year yield dropping 12 bps to 1.75% and the 10-year declining 3 bps to 2.03%. A rate cut by the July 31st meeting is now fully priced in, but it should be noted that a slim majority of the FOMC still expects no rate cut at all in 2019.



Intraday Moves



Merger and acquisition (M&A) activity is on the upswing this year. The total value of announced M&A deals in Q1 rose 48% q/q and 34% y/y to \$470.3 bn in Q1 according to Standard & Poor's. Larger transactions were the rule in Q1, as the deal count fell for transactions in the \$100-\$500 mn range. The Bristol-Myers Squibb/Calgene deal was the largest (\$95.0 bn) in Q1, but there were over six \$10+ bn deals in the financial sector. And Q2 looks to be robust as well. The Raytheon-United Technologies deal involved \$90.0 bn in stock, and the Anadarko-Occidental Petroleum merger was for \$55.2 bn in cash and stock.



Analysis includes U.S. M&A deals announced between Jan. 1, 2017, and March 31, 2019. Excludes terminated deals.

Data compiled April 24, 2019.

Transaction value is as of announcement date. Deal value used when transaction value is not available. Transaction value = deal value paid for equity, plus the value of any assumed long-term debts.

Source: S&P Global Market Intelligence

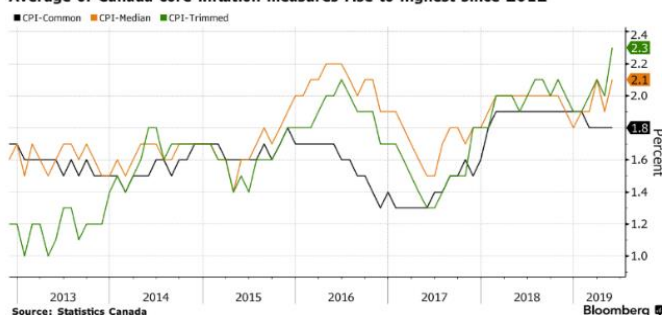
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Canada

Inflation rose in May, gaining across all eight major components of the inflation data. The CPI was up 2.4% y/y and core inflation 2.1%, the highest since early 2012. Both reads came in higher than expected. The data provide ammunition for a considered rate hike by the central bank, even as the Fed and ECB are leaning towards rate cuts. The Canadian dollar appreciated 0.7% against the US dollar yesterday.

Measuring Up

Average of Canada core inflation measures rise to highest since 2012

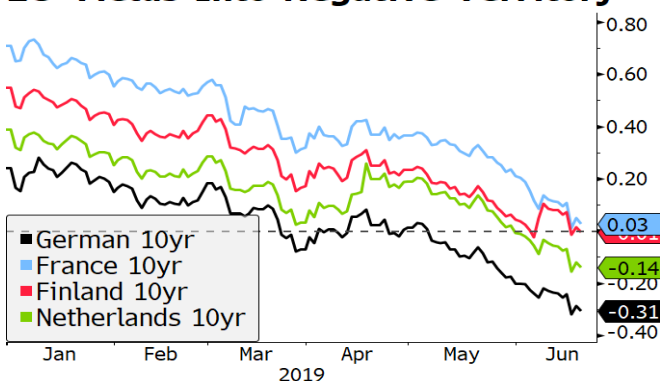


Europe

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Equities are broadly higher and yields lower on the back of the dovish FOMC meeting yesterday. The EuroStoxx 600 is up 0.7% led by gains in Germany and Italy (both +1.0%). Core yields are down a

EU Yields Into Negative Territory



UKG10 Index (UK Govt Bonds 10 Year Note Generic Bid Yield) Bond Basic Daily 31 Copyright© 2019 Bloomberg Finance L.P. 20-Jun-2019 10:56:33

couple of basis points with the German 10-year at -0.31%, near recent lows. Yields continue to decline rapidly in Italy, down another 8 bps across the curve, but also falling around 4 bps in Spain and Portugal. French and Finnish 10-years continue to flirt with zero, a mark long passed by the Dutch 10-years. Also of note, the **euro** has appreciated nearly 1% against the dollar over the last couple of sessions to \$1.13, approaching the top of the trading range seen since April.

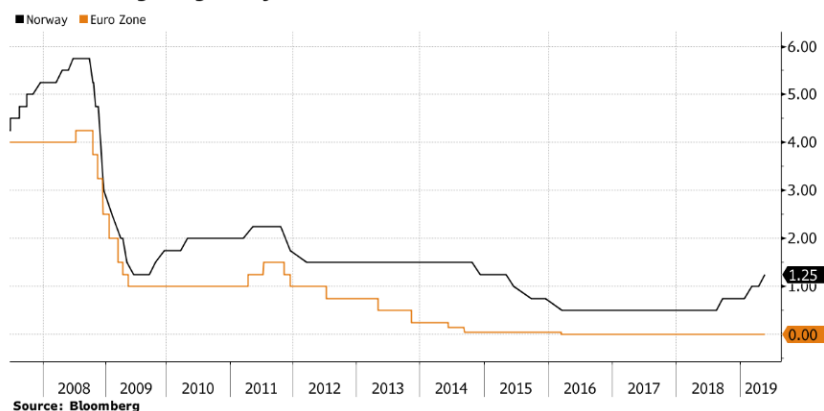
United Kingdom

The Bank of England left rates unchanged at 0.75% today, as expected. The vote was unanimous. The central bank downgraded its economic forecast but left the forward guidance unchanged: further hikes would be required “at a gradual pace and to a limited extent.” The statement noted rising risk of a no-deal Brexit and the growing tension between the central bank’s assumptions and the market’s views. Short-end rates now imply 10 bps of cuts by June next year, up from only 5 bps earlier in the week. Sterling depreciated slightly after the meeting and yields declined further, now down 4-6 bps across the curve.

Norway

The krone appreciated 1% against the euro after a surprisingly hawkish outcome from today’s central bank meeting. The Norges Bank hiked rates by 25 bps to 1.25% and signaled more to come. While the rate increase was expected, many observers were calling for a “dovish hike.” But instead, the statement noted that the policy rate “will most likely be increased further in the course of 2019.”

Breaking Away From the Pack The ECB is signaling it may add stimulus



Other Mature Markets [back to top](#)

Japan

The yen strengthened, equities gained and JGBs rallied after the Fed struck a dovish tone yesterday while the BoJ kept its policy unchanged. In line with expectations, the BoJ maintained its 10-year JGB yield target at about zero percent and kept its key short-term interest rate unchanged at -0.10%. It also retained its guideline on JGB purchases, with an annual pace of accumulation of about ¥80 tn. That said, the central bank cautioned against heightened global risks. And for the first time in more than two years, a majority of economists surveyed by Bloomberg expect the BoJ to increase stimulus as its next policy move, which could happen as early as next month. The yen appreciated by 0.4% to ¥107.7/dollar, its strongest level since early January. The Topix rose 0.3% and JGB yields tumbled across the curve. **The 10-year benchmark note fell 3 bps to -0.18%, its lowest level since August 2016 and near the low end of the BoJ’s target range of +/- 0.2%.** Speaking in his press conference, Governor Kuroda indicated that it is “appropriate to think flexibly” about the trading range for the 10-year yield. Contacts interpreted this remark as suggesting BoJ’s tolerance for lower interest rates and the need to boost economic stimulus, despite ongoing challenges of reaching the inflation target.

Australia

The Australian dollar extended its depreciation following comments from RBA Governor Lowe suggesting possible rate cuts in future meetings. In a speech, Governor Lowe noted that it is “not




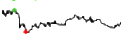





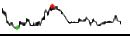

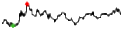


unrealistic" to expect further interest rate cuts as the 25 bps rate reduction this month was unlikely to "materially shift" the current trajectory of softening growth and low unemployment. The RBA had cut its policy rate to 1.25%, a historical low. The Australian dollar depreciated for a third session (-0.5%) while sovereign bonds gained. Bond yields fell 2 to 5 bps across the curve as rate cut expectations increased. By Bloomberg's estimate, the market-implied probability of a July rate cut rose from about 50% to 80% following Governor Lowe's remarks.

Emerging Markets

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EM assets are broadly higher in the wake of yesterday's dovish FOMC meeting. Asian currencies and equities staged broad-based gains. The Korean won posted a strong rally, appreciating +1.2%, supported in part by BoK Governor Lee's comments that the BoK would respond "appropriately" to economic conditions. Korean government bonds also gained with the 3-year yield falling 6 bps to 1.43% and the 10-year yield dropping 5 bps to 1.54%. The **Thai baht**, which appreciated 0.9% on the day, was another outperformer. **In EMEA**, equity markets are mostly higher, rising between 0.6-1.0% across Russia, South Africa and Turkey. Currencies are broadly higher with the Turkish lira and South African rand appreciating over 0.5% against the dollar. **Latin American** assets mostly saw gains yesterday as the Fed struck a dovish tone. Stocks in Brazil (+0.9%) saw the biggest gains reaching a record high followed by Mexico (+0.5%), while Argentina (-2%) saw the biggest losses as the economy continued to contract in 2019Q1. Among regional currencies, the Chilean peso (+0.6%) strengthened the most against the dollar followed by the Mexican peso (+0.5%), Brazilian real (+0.5%), Colombian peso (+0.4%) and Argentine peso (+0.3%).

Key Emerging Market Financial Indicators

Last updated: 6/20/19 8:11 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.29	2.3	2	5	-4	8
MSCI Frontier Equities		29.02	-0.8	-4	4	-2	11
EMBIG Sovereign Spread (in bps)		346	-8	-16	-11	-17	-68
EM FX vs. USD		62.68	0.2	1	2	-3	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.85	0.7	1	1	-6	0
Indonesian Rupiah		14187	0.6	1	2	-2	1
Indian Rupee		69.44	0.4	0	0	-2	0
Argentine Peso		43.35	0.3	1	4	-36	-13
Brazil Real		3.84	0.5	1	7	-2	1
Mexican Peso		18.92	0.5	1	1	8	4
Russian Ruble		63.22	0.9	2	2	1	10
South African Rand		14.28	0.3	4	1	-4	0
Turkish Lira		5.78	0.2	2	4	-18	-8
EM FX volatility		8.34	0.0	0.0	-0.7	-1.5	-1.4

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

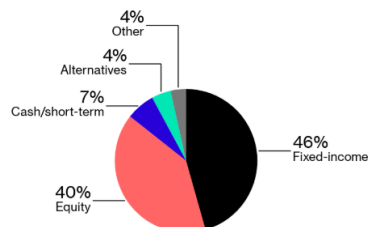
Pension funds in emerging markets

Pension funds across Asia, Latin America and the Middle East have sharply increased their equity allocations according to a survey by Mercer. It finds that pension managers in 14 economies are now putting 40% of their assts into equities—an 8 ppt increase over the last five years. Mercer advised this compares with a 25% allocation at European pension funds. The increase in equity holdings has come at

the expense of fixed income investments. Such have declined by 11% over the past 5 years. The survey also found that pension managers are increasingly looking abroad, and that foreign stocks on average account for 49% of their equity investments, and 23% of their fixed income holdings.

Stock Appeal

Pension funds in growth markets now allocate 40% of assets to equities

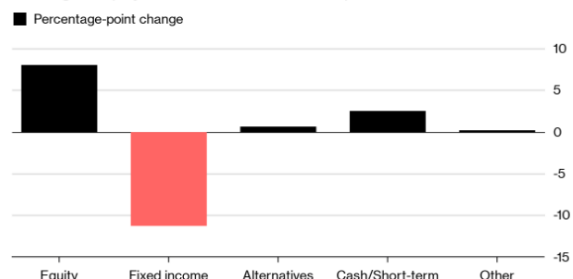


Note: Figures are asset-weighted averages
Source: Mercer

Bloomberg

Out of Favor

The surge in equity allocation has come at the expense of fixed income



Note: Figures are asset-weighted averages
Source: Mercer

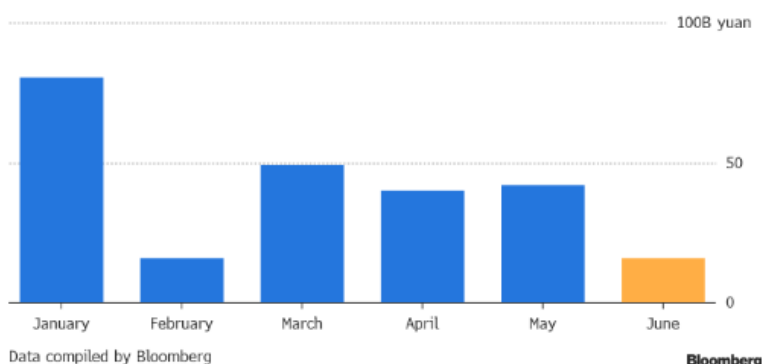
Bloomberg

China

Chinese regulators are reining in bond issuance from real estate developers to curb excessive leverage in the sector. The National Association of Financial Market Institutional Investors, a unit under the PBC, has halted some developers' debt sales via window guidance since last week. Local news reported that builders that had bid aggressively in land auctions saw their bond and other debt issuance planned for the exchange market suspended by regulators. As a result, debt issuance by developers slowed sharply thus far in June, falling 44% m/m to CNH 15.8 bn (\$2.3 bn) relative to the same period in May, according to Bloomberg. On a year-to-date basis, however, issuance remains at a record high. **The RMB strengthened** alongside of other Asian currencies. The onshore CNY gained 0.75% to CNY 6.85/dollar and the offshore CNH gained 0.5% to CNH 6.86/dollar.

Shrinking Sales

Local bond sales from Chinese builders plunged 44% in June



Data compiled by Bloomberg

Bloomberg

Indonesia

The central bank left its benchmark interest rate unchanged as expected, but lowered the reserve ratio by 50 bps, leaving open the possibility of future rate cuts. The 7-day reverse repo rate was left at 6%, unchanged for a seventh month. Bank Indonesia had raised its policy rate by 175 bps last year to stem capital outflows; a more dovish Fed may offer some room to lower interest rates. The Indonesian rupiah appreciated by 0.5% to IDR 14,187/dollar, its strongest level in nearly two months.

Brazil

The central bank held its benchmark interest rate at 6.5%, with dovish changes to its policy statement. Monetary policy makers await the advance of a crucial pension overhaul proposal in Congress amid a weak economy and low inflation. The central bank signaled that monetary easing is likely on the horizon, especially if the pension reform is approved. Financial markets are now pricing in about three rate cuts by the end of the year. The benchmark equity index gained 0.9% yesterday and closed at a record high as the Fed also struck a dovish tone, increasing the odds for rate cuts in Brazil.

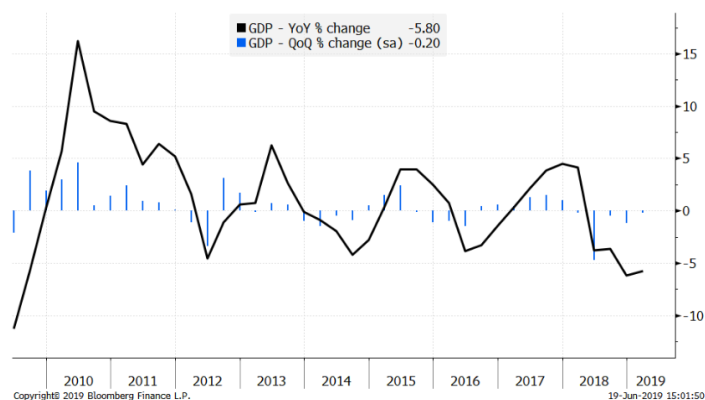
Momentum Trade

Brazil's benchmark index has risen 14% so far this year



Argentina

The economy remained in recession as output contracted 5.7% y/y (-0.2% q/q sa) in 2019Q1 and unemployment hit a 13-year high. The negative growth print marked the fifth consecutive quarter of contraction in Argentina. Unemployment rose to 10.1% in the same quarter, up from 9.1% in the previous quarter and the highest level since 2006. Although the economy grew in January and February, it contracted sharply in March as inflation spiked, sparking volatility in the peso. Analysts note that there are currently no clear drivers that could reignite growth, given that electoral uncertainties may delay investment and consumption decisions until after the October presidential election.



Mexico

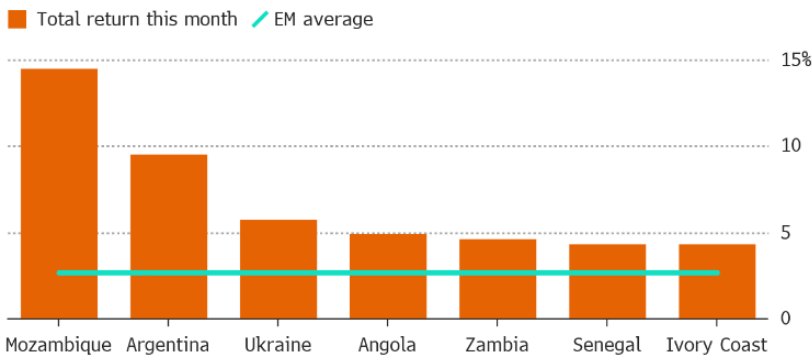
The senate approved the USMCA trade deal to replace NAFTA, the first of the three member countries to do so amid a truce reached with President Trump over an unrelated tariff threat. Lawmakers voted 114-4 to approve it, with three abstentions. The U.S.-Mexico-Canada agreement had been signed by leaders of the three nations in November and is awaiting legislative votes. Mexico had originally planned to ratify the USMCA in tandem with Canada and the U.S., but Lopez Obrador requested

swift approval of the deal. Yields fell across the Mexico local yield curve in afternoon trading with 10-year yields down 5.3 bps.

Mozambique

The central bank cut rates by 100 bps to 13.25% on improving inflation trends. The cut follows a multi-year easing trends from a high of 23.25% in 2017. Of note, the Mozambique’s 2023 external bond has seen a strong rally in recent weeks, in part due to the new investment plan by Anadarko Petroleum to develop the country’s gas fields. Also, as a result of the recent restructuring, the government is expected to start repaying coupons (stopped in early 2017) later this year.

Mozambique's Eurobonds are the best performers in EM in June











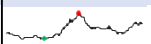





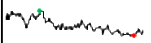














Source: Bloomberg

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Global Financial Indicators

Last updated: 6/20/19 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2926	0.3	2	3	6	17
Europe		3479	0.7	3	3	1	16
Japan		21463	0.6	2	1	-5	7
China		2987	2.4	3	4	2	20
Asia Ex Japan		69	0.9	2	4	-7	8
Emerging Markets		42	2.3	2	5	-4	8
Interest Rates			basis points				
US 10y Yield		2.00	-2.8	-10	-42	-94	-69
Germany 10y Yield		-0.32	-2.7	-7	-23	-69	-56
Japan 10y Yield		-0.17	-2.8	-5	-12	-20	-17
UK 10y Yield		0.80	-6.4	-3	-25	-50	-48
Credit Spreads			basis points				
US Investment Grade		128	-1.8	-3	6	21	-19
US High Yield		450	0.9	0	19	116	-71
Europe IG		52	-2.6	-9	-14	-15	-35
Europe HY		246	-10.4	-27	-38	-55	-107
EMBIG Sovereign Spread		346	-8.0	-16	-11	-17	-68
Exchange Rates			%				
USD/Majors		96.62	-0.5	0	-1	2	0
EUR/USD		1.13	0.7	0	1	-2	-1
USD/JPY		107.7	0.4	1	2	3	2
EM/USD		62.7	0.3	1	2	-3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		63	2.7	4	-12	-15	18
Industrials Metals (index)		113	1.1	2	0	-16	3
Agriculture (index)		42	0.1	0	8	-7	1
Implied Volatility			%				
VIX Index (% change in pp)		14.0	-0.4	-1.8	-2.3	1.2	-11.4
10y Treasury Volatility Index		4.8	-0.1	-0.5	0.6	1.0	0.2
Global FX Volatility		6.6	0.0	-0.1	-0.4	-1.6	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		271	-6.0	-23	-79	-128	-145
Italy		233	-6.2	-26	-45	16	-17
Portugal		82	-1.8	-6	-32	-55	-66
Spain		68	-1.1	-10	-29	-19	-49

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: 6/20/2019 8:11 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		6.85	0.7	1.0	1	-6	0		3.3	0.2	-4	-4	-37	7
Indonesia		14187	0.6	0.7	2	-2	1		7.7	-9.3	-16	-52	19	-50
India		69	0.4	0.1	0	-2	0		6.9	0.3	-18	-48	-109	-50
Philippines		52	0.4	0.4	2	4	2		5.0	-0.2	-1	-6	-53	-127
Thailand		31	1.0	1.0	3	6	5		2.3	-0.6	-7	-29	-41	-34
Malaysia		4.15	0.6	0.4	1	-3	0		3.7	-1.0	-3	-15	-53	-41
Argentina		43	0.3	0.8	4	-36	-13		29.5	-42.3	-75	-230	1016	648
Brazil		3.84	0.5	0.7	7	-2	1		7.1	-4.7	-16	-120	-297	-106
Chile		692	0.6	0.5	1	-8	0		3.4	-1.2	0	-66	-142	-103
Colombia		3241	0.5	0.9	3	-10	0		5.9	-0.8	-2	-44	-55	-66
Mexico		18.92	0.5	1.4	1	8	4		7.7	-5.1	-9	-49	-18	-102
Peru		3.3	0.1	0.0	1	-1	1		4.9	2.3	-8	-41	-94	-84
Uruguay		35	-0.1	-0.1	0	-11	-8		10.9	-1.1	-21	-22		17
Hungary		286	0.6	-0.3	2	-2	-2		1.6	4.4	-12	-37	-75	-57
Poland		3.76	0.9	0.3	2	-1	-1		2.0	2.2	-10	-31	-53	-24
Romania		4.2	0.8	0.1	2	-3	-3		4.0	1.0	-8	-21	-52	-20
Russia		63.2	0.9	2.1	2	1	10		7.3	-8.8	-17	-50	-30	-109
South Africa		14.3	0.3	4.1	1	-4	0		9.3	-5.0	-11	-10	-38	-29
Turkey		5.78	0.2	1.6	4	-18	-8		18.5	4.8	7	-240	139	161
US (DXY; 5y UST)		96.6	-0.5	-0.4	-1	2	0		1.72	-3.5	-11	-48	-108	-79

	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		2987	2.4	3	4	2	20		180	0	-1	3	-1	-14
Indonesia		6336	-0.1	1	7	8	2		184	-10	-12	-8	-23	-52
India		39602	1.2	0	1	11	10		158	7	5	-1	2	-38
Philippines		8022	0.1	0	5	10	7		75	-7	-11	-6	-48	-46
Malaysia		1675	0.5	2	4	-2	-1		130	-1	-3	3	-19	-32
Argentina		39862	-2.0	4	19	37	32		802	-21	-40	-109	248	-13
Brazil		100303	0.9	2	9	39	14		239	-1	-4	-15	-87	-34
Chile		5034	-0.1	-1	2	-7	-1		136	-1	-1	4	-4	-30
Colombia		1546	0.5	2	4	1	17		184	-2	-10	-7	-17	-44
Mexico		43376	0.5	-1	0	-7	4		327	-6	-10	16	35	-27
Peru		20299	-0.3	-1	2	-1	5		126	-1	-5	-9	-38	-42
Hungary		40622	-0.9	0	3	15	4		100	2	-1	4	-41	-48
Poland		59739	0.0	1	6	5	4		52	0	-6	8	-16	-33
Romania		8651	0.8	1	5	6	17		190	0	1	-4	5	-31
Russia		2777	0.7	1	8	23	17		199	-10	-16	-2	-26	-53
South Africa		59023	0.8	1	6	4	12		286	-16	-39	-23	-15	-79
Turkey		95767	1.6	6	10	1	5		523	-12	-9	10	82	94
Ukraine		553	0.0	0	-3	22	-1		532	-13	-51	-105	-42	-255
EM total		42	2.3	2	5	-4	8		346	-8	-16	-11	-17	-68

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