



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division












Friday, June 21, 2019

- S&P 500 hits record high as 10-year Treasury yields trade around 2% ([link](#))
- Oil price surges on geopolitical tensions ([link](#))
- Boris Johnson consolidates his lead for UK PM ([link](#))
- French bank Natixis's shares slump on illiquid asset risks held by subsidiary ([link](#))
- Chinese equities cap strong week with further gains ([link](#))
- South Africa to expedite support for state-owned energy company Eskom ([link](#))

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## Global markets take a breather after eventful week

**Financial markets are mixed today after an eventful week that saw core bond yields fall to new lows and US equities rise to record highs.** The main headlines this morning focus on renewed tensions between the US and Iran, with news media reporting that the US President ordered a military strike against Iran yesterday but then called it off at the last minute based on new information. This comes after Iran's downing of a US drone yesterday. The Brent oil price rose 4% yesterday and is up another 1.5% this morning, trading around \$65 per barrel. The week as a whole was marked by sizeable downward shifts in market-implied policy interest rates across most mature and emerging markets, amid growing talks that a global monetary easing cycle is imminent. EM assets benefitted the most from this reassessment of the monetary policy outlook, with bond spreads and local currency yields down some 15-30 bps in most markets and EM equities gaining 4% since the Monday's open.

Last updated: 6/21/19 7:47 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2954	0.9	2	3	7	18
Eurostoxx 50		3468	0.0	3	2	2	16
Nikkei 225		21259	-1.0	1	0	-6	6
MSCI EM		43	-0.4	3	6	-1	10
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.02	-0.4	-6	-40	-87	-66
Germany 10y Yield		-0.30	2.2	-4	-23	-63	-54
EMBIG Sovereign Spread		343	1	-19	-10	-20	-71
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.6	-0.2	1	2	-3	1
Dollar index, (+) = \$ appreciation		96.6	0.0	-1	-2	2	0
Brent Crude Oil (\$/barrel)		65.3	1.4	5	-9	-11	21
VIX Index (% change in pp)		14.8	0.1	0	0	0	-11

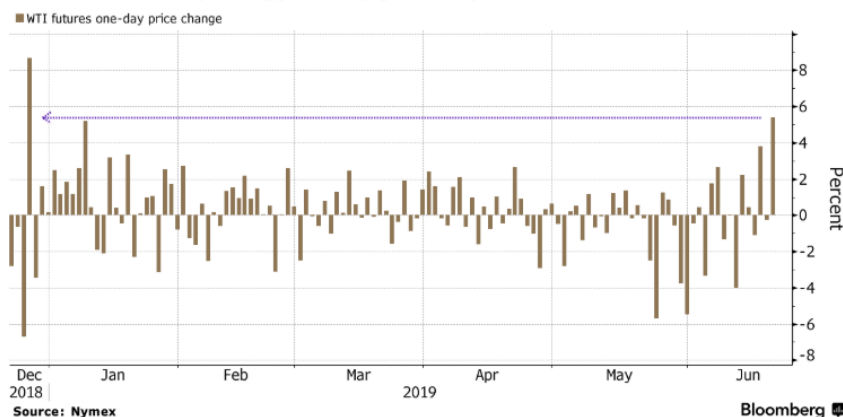
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Oil Markets

**Oil prices surged on Thursday, with West Texas Intermediate futures up 5.3% and Brent 3.7%.** Iran's downing of a US drone and a missile strike by Yemeni rebels on Saudi Arabia added to geopolitical tensions. A dovish stance by the Fed has helped weaken the dollar and given a lift to commodities priced in dollars. Moreover, US crude inventories fell for the first time in three weeks, while OPEC is on track to extend the cap on oil production to year-end.

### Oil Surges

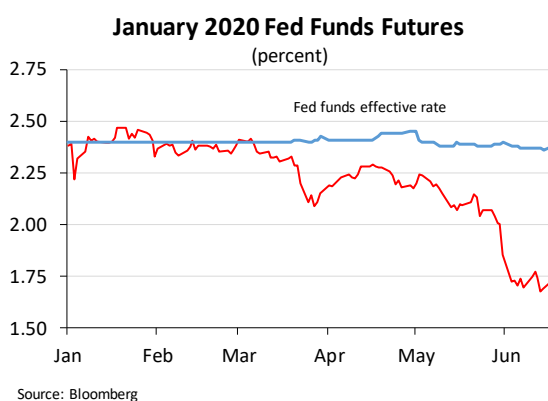
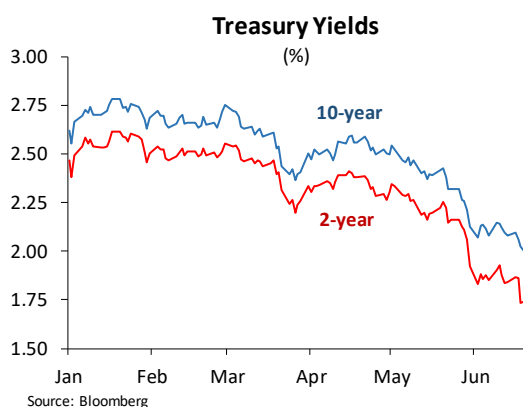
**U.S. crude futures post biggest daily gain this year amid Iran tensions**



## United States

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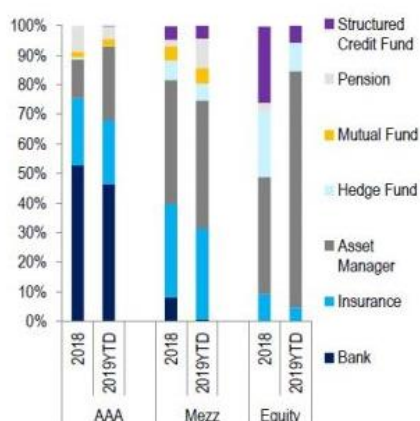
**Dovish central bank signals lifted US stocks in early trading Thursday**, but markets pared gains on growing geopolitical concerns. Major equity indices ended the day around 1% higher, with the S&P 500 closing at a new high. Sectoral gains were relatively broad, with energy outperforming (+2.2%) on a big jump in crude prices. **The 10-year Treasury yield traded around 2% yesterday and Fed funds futures are now pricing in three rate cuts this year.**



**The US current account deficit narrowed to \$130 in Q1 (2.5% of GDP) from a revised \$144 bn in the previous quarter.** US firms repatriated \$100 bn in foreign profits in Q1, bringing the total since the tax overhaul to \$877 bn. At the time the law came into effect, estimates of overseas corporate cash ranged from \$1.5 tn to \$2.5 tn. Meanwhile, jobless claims continue to come in near record low levels, with last week's print showing 216k, below expectations. But the Philadelphia Fed's business outlook index fell to nearly zero. And this comes after a plunge in the New York Fed's regional index earlier this week. The Conference Board's leading economic indicator came in flat for May.

There are some \$700 bn in **collateralized loan obligations (CLOs)** outstanding according to Standard & Poor's. The investment preferences of institutional investors in the CLO market space vary considerably. Banks bought around 45% of AAA rated tranches this year, money managers 30% and insurers 20%, according to Citi. S&P notes that Japanese banks have become some of the most active buyers of AAA paper. Mezzanine tranches were favored by money managers (40%) and insurers (30%), while asset managers have bought up 80% of the equity so far this year, according to Citi. CLOs performed well during the financial crisis, unlike collateralized debt obligations (CDOs), which often contained fraudulent subprime mortgages. Moody's reports that no AAA or AA rated CLO has lost principal, and only 0.1% of A tranches, 3% of BBBs, and 6% of all BBs have taken losses.

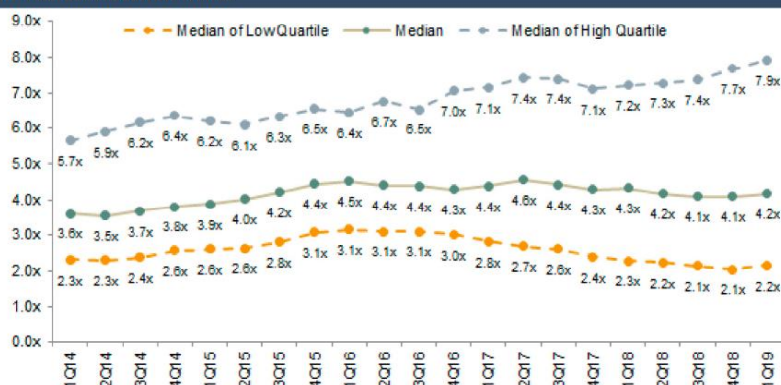
Investor Type Breakdown of New Issue US CLOs



Source: Citi Research as of 5/31/2019.

The leverage picture in the **high-yield bond** universe does not seem to be signaling major problems, according to CreditSights. Analysts note that total net leverage trends across sectors, credit buckets and quartiles have continued on the same trends from 2018Q1 to 2019Q4, although they noted some erosion in lower leverage quartiles as a departure from trend. Analysts note that "the leverage trend line is still more a story at the fringes of the high leverage quartile and not a threat at the median in high-yield bonds." High-yield bond spreads have fallen by 117 bps this year. Total returns have been 9.4%, while investment-grade bonds were up 8.5% and Treasuries 5.1%.

HY Total Debt to EBITDA Trends



Source: CreditSights, FactSet

## Europe

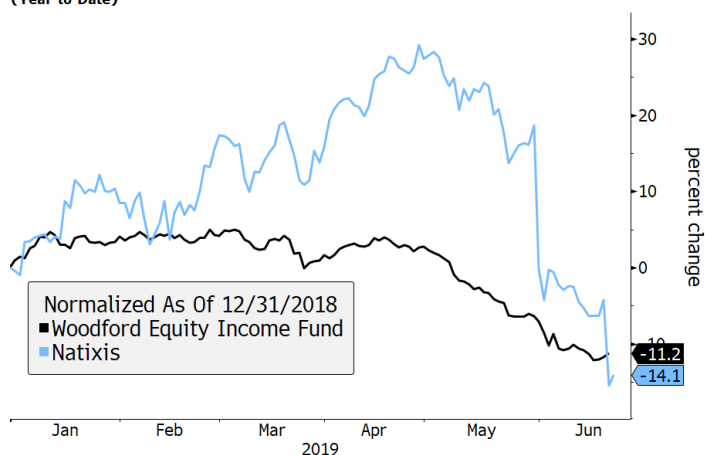
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**Equities are mixed this morning, with most markets slightly in the red.** Yields are up 2-4 bps across core markets. German 10-year yields are at -0.29%, down 3 bps on net this week but slightly off record lows. Of note, **yields fell some 20 bps across the Italian sovereign curve this week**, despite mixed news and a still tense situation in the government. For example, news reports today quoted Deputy PM Salvini threatening to quit the government if at least €10 bn in tax cuts are not enacted.

**Shares of French bank Natixis slumped 11% yesterday on news that one of its subsidiaries (H2O Asset Management) is holding large amounts of illiquid assets**, echoing recent events related to Neil Woodford's funds in the UK. The assets in question are reportedly bonds worth some €1.4 bn linked to a controversial German financier (Lars Windhorst). H2O has about €30 bn under management and pays some €250 mn in performance fees to Natixis. The fund was hit with €600 mn in outflows since the reports of these holdings started coming out. But the event also sheds some doubt over Natixis recent asset management acquisitions.

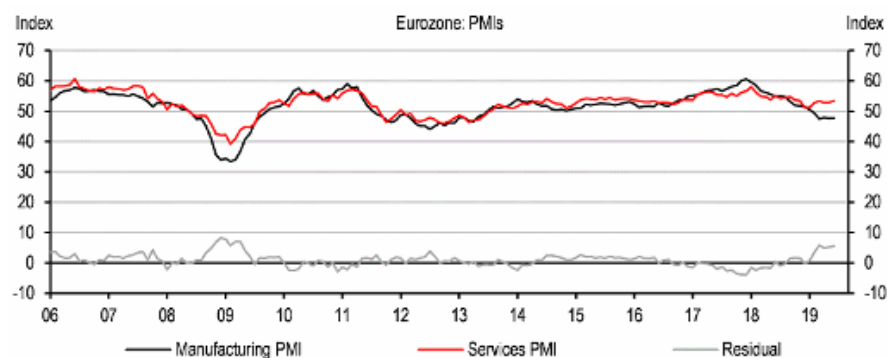
### Natixis and Woodford Equity Income Fund

(Year to Date)



**The euro area June preliminary PMI came in mixed close to expectations, with the composite figure rising from 51.8 to 52.1.** Analysts note the sizeable gap between the manufacturing (47.8) and the services (53.4) component, which is at its widest since the financial crisis. Economists at HSBC expect the gap to narrow due to a gradual improvement in manufacturing, even though there are no clear signs this will happen in the near term.

**Chart 1: The pronounced gap between the manufacturing and services surveys continues**

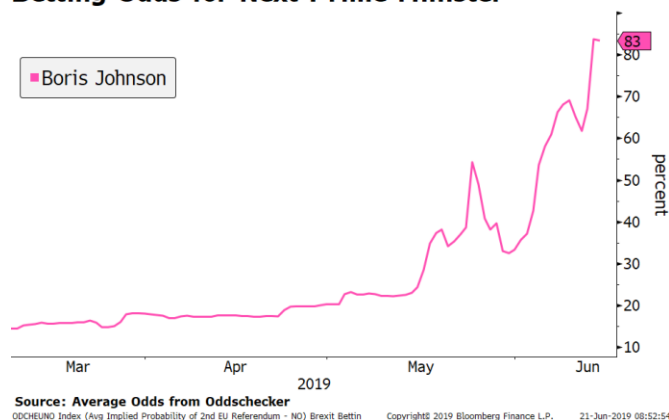


Source: IHS Markit, HSBC

## United Kingdom

**The initial stage of Tory leadership contest had its final vote yesterday, consolidating Boris Johnson as the favorite.** With Michael Gove out, Conservative party members will choose between Johnson and Jeremy Hunt through a postal ballot, probably in the week of July 22. Implied betting odds give Johnson an 83% chance of winning the contest. Sterling is unchanged and yields are up 5 bps across the curve, roughly in line with the moves in Continental Europe.

### Betting Odds for Next Prime Minister



**Separately, the BoE will allow tech company payment providers to use its facilities.** The move will supposedly place payment providers, including Facebook's Libra cryptocurrency initiative, on a level playing field with commercial banks. They will be able to open accounts and use the BoE's overnight interest-bearing facility. Companies will have to meet a strict regulatory standards to gain access.

## Other Mature Markets [back to top](#)

### Japan

**Equities declined (Topix -0.9%), while the yen (-0.1%) remained closed to a 14-month high against the dollar.** The June flash manufacturing PMI edged lower to 49.5 vs. 49.8 in May. Forward looking components were particularly weak, with new orders and new export orders decreasing at a worse rate. CPI inflation excluding food decelerated to 0.8% y/y in May, from 0.9% in April. **10-year JGB yields rose 1 bp to -0.17%.**

### 'A Bit Cautious'

**Topix slides as yen trades around its highest since April 2018**








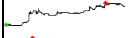








## Emerging Markets

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**Emerging market assets are mixed today after posting strong gains earlier in the week.** Equities in **Asia** edged down (-0.2%) on profit taking after the strongest week since January. Performance across markets was dispersed with China leading gains, while India (-1%) declined the most after the RBI warned of deteriorating public finances. Regional currencies were mixed against the dollar in a tight trading range. In **EMEA**, equity markets are mixed, falling 0.6% in Russia but up close to 0.4% in Poland and Czech Republic. The Turkish lira is underperforming ahead of this weekend's re-run of the Istanbul elections, depreciating 0.8% against the dollar, while the South African rand depreciated 0.6%. **Latin American** assets saw gains yesterday, in line with the EM wide trend. Stocks in Mexico (+0.6%) posted the biggest gains followed by Chile (+0.5%). Among regional currencies, the Colombian peso (+1.5%) and the Chilean peso (+1.3%) strengthened against the dollar for the third day, supported by rising oil prices. Markets in Brazil and Argentina were closed for trading.

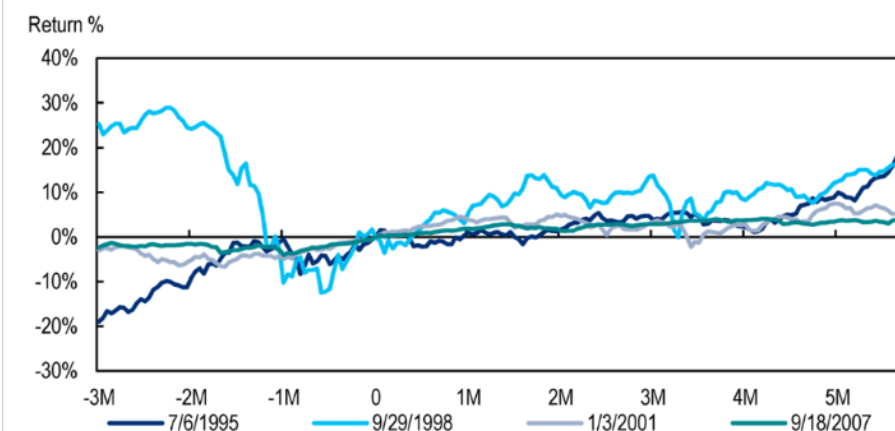
### Key Emerging Market Financial Indicators

Last updated: 6/21/19 7:39 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.91	-0.4	3	6	-1	10
MSCI Frontier Equities		29.35	1.1	-2	4	-1	12
EMBIG Sovereign Spread (in bps)		343	1	-19	-10	-20	-71
EM FX vs. USD		62.56	-0.3	1	2	-3	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.87	-0.3	1	0	-6	0
Indonesian Rupiah		14158	0.2	1	2	0	2
Indian Rupee		69.59	-0.2	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		19.07	-0.3	0	0	7	3
Russian Ruble		63.44	-0.8	2	2	0	10
South African Rand		14.36	-0.2	3	0	-5	0
Turkish Lira		5.81	-0.8	1	4	-19	-9
EM FX volatility		8.32	0.0	-0.1	-0.6	-1.6	-1.5

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

**EM hard currency bond total returns tend to be strong during easing cycles**, according to Wall Street analysts. While spreads may widen when the Fed easing cycle starts, for total-return investors, the benefits of owning bonds are often substantial. In each of the past 4 cutting cycles EM credit posted positive total returns 1, 3, and 6 months following the first cut. Even if the upcoming cutting cycle ends in a hard landing, market investors might still see positive total returns in EM credit. The EMBIG diversified bond index tightened by 11 bps yesterday to a spread of 342 bps yesterday, in the wake of the Fed's dovish policy meeting.

Figure 1. Positive EM Credit Total Returns Once a Fed Easing Cycle Starts



Source: Citi Research, Bloomberg

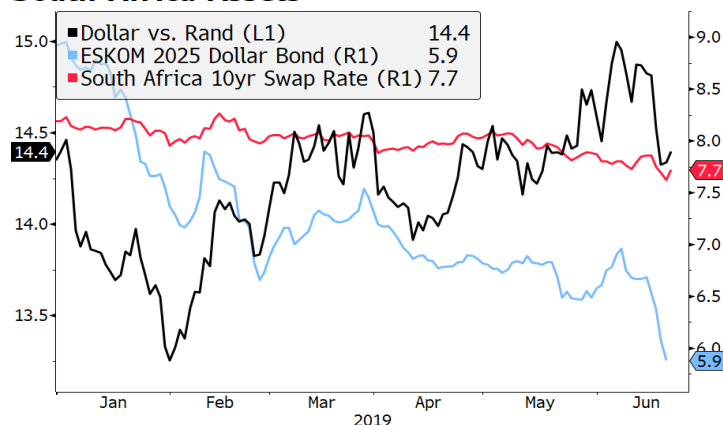
## China

**Chinese equities capped a strong week with further gains.** The financial and SOE-heavy Shanghai stock index gained 0.5% (+4.2% for the week) and the more tech and small-cap oriented Shenzhen index gained 1.3% (+4.8% for the week). Optimism over a planned meeting between Presidents Xi and Trump to discuss trade on the sidelines of the G20 have fueled equity markets this week. Today, headlines that China's securities regulator "resolutely" supports listed companies to grow by using the capital market and will relax restrictions on M&A bolstered sentiment especially for small- and mid-caps. **The onshore RMB (-0.2%) and offshore RMB (-0.4%) depreciated, underperforming other regional currencies.**

## South Africa

**In his state of the union address, President Ramaphosa announced faster support for the troubled state-owned energy company Eskom.** The government plans to frontload a "significant portion" of the ZAR230 bn (\$16 bn) funding announced in the February budget. The move will likely require a ramp-up in debt issuance. Analysts at JP Morgan estimate that the move will add a further 0.5-0.6 percentage points to the fiscal deficit, leading to a projected 5.7% deficit this year. Beyond Eskom, Ramaphosa reiterated the central bank's constitutional mandate (dispelling some recent controversy) and sketched out goals to improve the economy and employment. Eskom's 2025 debt yield is down some 60 bps this week, but South Africa's sovereign debt yields are up as much as 10 bps across the curve.

## South Africa Assets



ZAR Currency (S. African Rand Spot) South Africa ZAR\_Bond Daily 31DEC2018-21JUN20 Copyright© 2019 Bloomberg Finance L.P. 21-Jun-2019 10:57:23

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## Global Financial Indicators

Last updated: 6/21/19 7:46 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2954	0.9	2	3	7	18
Europe		3468	0.0	3	2	2	16
Japan		21259	-1.0	1	0	-6	6
China		3002	0.5	4	3	4	20
Asia Ex Japan		70	1.6	4	5	-4	10
Emerging Markets		43	-0.4	3	6	-1	10
<b>Interest Rates</b>			basis points				
US 10y Yield		2.02	-0.4	-6	-40	-87	-66
Germany 10y Yield		-0.30	2.2	-4	-23	-63	-54
Japan 10y Yield		-0.16	0.9	-3	-11	-20	-16
UK 10y Yield		0.82	1.2	-3	-27	-46	-46
<b>Credit Spreads</b>			basis points				
US Investment Grade		125	-5.2	-7	3	18	-22
US High Yield		436	-13.5	-15	5	101	-85
Europe IG		54	-0.3	-8	-11	-16	-33
Europe HY		254	1.1	-21	-25	-53	-99
EMBIG Sovereign Spread		343	1.0	-19	-10	-20	-71
<b>Exchange Rates</b>			%				
USD/Majors		96.59	0.0	-1	-2	2	0
EUR/USD		1.13	0.2	1	1	-2	-1
USD/JPY		107.5	-0.2	1	3	2	2
EM/USD		62.6	-0.2	1	2	-3	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		65	1.4	5	-9	-11	21
Industrials Metals (index)		111	-0.7	2	-1	-16	2
Agriculture (index)		42	-0.2	0	9	-6	2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.8	0.1	-0.5	-0.1	0.2	-10.6
10y Treasury Volatility Index		4.8	0.0	-0.4	0.8	0.8	0.3
Global FX Volatility		6.6	0.0	0.0	-0.1	-1.5	-2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		285	-3.9	-12	-61	-114	-131
Italy		242	-4.6	-19	-29	2	-8
Portugal		86	0.3	-1	-24	-65	-62
Spain		72	0.8	-4	-22	-28	-46

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: 6/21/2019 7:39 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		6.87	-0.3	0.7	0	-6	0		3.3	-0.3	-4	-5	-38	6
Indonesia		14158	0.2	1.2	2	0	2		7.6	-11.0	-24	-66	7	-61
India		70	-0.2	0.3	0	-2	0		6.9	-4.8	-22	-47	-111	-54
Philippines		52	0.2	0.9	2	4	2		5.0	-3.7	-4	-9	-58	-131
Thailand		31	0.2	0.9	3	7	5		2.2	-4.8	-5	-34	-47	-39
Malaysia		4.15	0.0	0.4	1	-3	0		3.6	-4.3	-7	-19	-57	-45
Argentina		43	0.3	0.8	4	-36	-13		29.5	0.0	-49	-270	1016	648
Brazil		3.84	0.5	0.7	7	-2	1		7.1	0.0	-7	-110	-305	-106
Chile		684	1.3	1.8	2	-7	1		3.4	-7.0	-10	-72	-148	-110
Colombia		3194	1.5	2.3	5	-8	2		5.7	-14.5	-9	-58	-71	-81
Mexico		19.07	-0.3	0.5	0	7	3		7.6	-7.6	-14	-55	-21	-110
Peru		3.3	0.6	0.6	1	-1	2		4.7	-13.7	-22	-53	-105	-98
Uruguay		35	0.3	0.1	0	-10	-8		10.9	-1.0	-17	-24		16
Hungary		287	-0.2	0.4	2	-2	-2		1.6	-6.4	-15	-47	-89	-63
Poland		3.77	0.0	0.8	2	-1	-1		2.0	0.0	-5	-32	-51	-24
Romania		4.2	0.0	0.9	2	-4	-3		4.0	-6.0	-11	-32	-58	-26
Russia		63.4	-0.8	1.5	2	0	10		7.2	-8.3	-28	-55	-26	-117
South Africa		14.4	-0.2	3.2	0	-5	0		9.2	-7.1	-22	-16	-31	-36
Turkey		5.81	-0.8	1.4	4	-19	-9		17.1	-142.0	-184	-362	-7	19
US (DXY; 5y UST)		96.6	0.0	-1.0	-1	2	0		1.78	-0.2	-5	-45	-99	-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		3002	0.5	4	3	4	20		179	-1	-2	2	-8	-15
Indonesia		6315	-0.3	1	6	8	2		181	-2	-14	-10	-27	-55
India		39194	-1.0	-1	1	11	9		151	-7	-6	-3	-4	-45
Philippines		8055	0.4	1	4	13	8		68	0	-15	-13	-58	-53
Malaysia		1682	0.4	3	5	-1	0		129	-1	-4	2	-25	-33
Argentina		39862	0.0	4	19	37	32		812	-2	-39	-74	271	-3
Brazil		100303	0.0	2	9	39	14		229	-2	-17	-21	-92	-44
Chile		5061	0.5	0	3	-6	-1		133	-1	-4	1	-10	-33
Colombia		1555	0.5	2	4	1	17		174	-2	-18	-16	-28	-54
Mexico		43645	0.6	0	1	-6	5		326	-2	-19	20	39	-28
Peru		20588	1.4	2	3	1	6		121	-1	-8	-12	-46	-47
Hungary		40510	-0.6	0	2	16	4		84	-14	-16	-10	-59	-64
Poland		60140	0.7	1	7	6	4		38	-11	-15	-4	-35	-47
Romania		8737	0.8	3	7	8	18		182	-8	-11	-10	7	-39
Russia		2756	-0.9	1	5	23	16		199	4	-14	1	-28	-53
South Africa		59131	0.3	1	6	5	12		281	-2	-38	-25	-25	-84
Turkey		93249	-1.0	3	9	-2	2		514	-7	-27	-1	83	85
Ukraine		553	0.0	0	-4	21	-1		518	3	-40	-109	-52	-269
EM total		43	-0.4	3	6	-1	10		343	1	-19	-10	-20	-71

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