



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, June 26, 2019








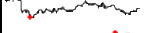


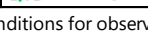
- **Global central banks face tighter policy constraints amid fading business sentiment** ([link](#))
- **US equities and Treasury yields fall as weaker data stoke worries about growth outlook** ([link](#))
- **Outflows from Natixis's asset management arm persist on worries over illiquid holdings** ([link](#))
- **Bank of Thailand maintains policy stance but downgrades growth forecast** ([link](#))
- **Hungarian central bank leaves policy rate unchanged; lowers target for excess liquidity** ([link](#))
- **Brazilian central bank meeting minutes suggest milder-than-expected easing cycle** ([link](#))

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## Investors remain on edge amid trade and growth uncertainties

**Global equities are mixed to modestly higher this morning on headlines a US-China trade deal might be closer than anticipated.** Reports have suggested a potential thaw in US-China relations with US officials signaling a possible delay in the imposition of new tariffs and indicating that a deal could be further along than expected. Stocks in Asia were mixed overnight, while European equities have bounced from early lows and are up slightly; S&P 500 futures point to marginal gains at the open. However, yesterday a combination of mixed headlines related to Fed monetary policy expectations and a handful of underwhelming economic data proved to be a drag on risk sentiment. While major sovereign bond yields are back up 2 to 4 bps across maturities this morning, risk-off trading during yesterday's session pressured Treasury yields lower with the 10-year crossing below 2% to 1.98%, and being driven mostly by breakeven inflation rates that have now given back about half of last week's move higher. The US dollar also caught a slight safe haven bid and appreciated (+0.2%) for the first time in over a week, while oil prices have continued to march higher amid lingering US-Iran tensions and reports of falling US inventories.

### Key Global Financial Indicators

Last updated: 6/26/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2917	-0.9	0	3	7	16
Eurostoxx 50		3450	0.2	0	3	2	15
Nikkei 225		21087	-0.5	-1	0	-6	5
MSCI EM		42	0.4	1	6	-2	8
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.02	-2.9	0	-30	-86	-67
Germany 10y Yield		-0.32	1.6	-3	-20	-66	-56
EMBIG Sovereign Spread		348	-1	-6	-16	-15	-66
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.7	0.2	0	2	-3	1
Dollar index, (+) = \$ appreciation		96.3	0.1	-1	-1	2	0
Brent Crude Oil (\$/barrel)		65.9	1.3	7	-4	-14	22
VIX Index (% change in pp)		15.8	-0.5	2	0	0	-10

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

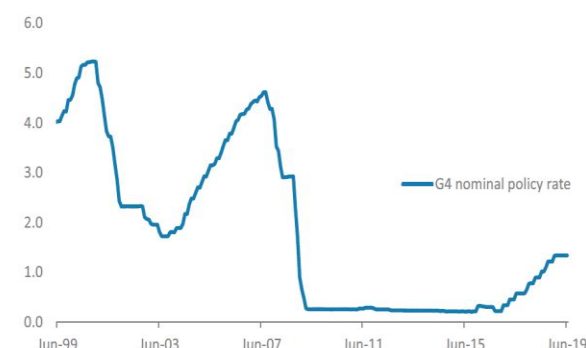
## Global Central Banks

**In the event of a significant slowdown, the major central banks face much tighter constraints than they did in during the financial crisis.** The global economy is arguably more vulnerable than in previous years, while the available policy space is much more limited compared to previous rate hike cycles. In addition, the buildup in balance sheets of the G-4 central banks over the past decade probably limits what they can achieve through further quantitative easing.

**Exhibit 5:** Estimates of natural interest rates in G4 have been declining



**Exhibit 6:** G4 nominal interest rates still way lower than the previous cycle's peak



**Escalation of the US-China trade dispute could be especially problematic if it results in direct impact on global growth,** while also disrupting supply chains and inhibiting capital expenditures. Global business sentiment measures have suffered a marked deterioration across the both US and Europe and global PMI indicators are at their lowest in many years. Other challenges include a marked slowdown in both global capital expenditures and global imports of capital goods as businesses pull back in the face of an increasingly uncertain business environment.

**Exhibit 2:** Corporate sentiment has slipped further in June

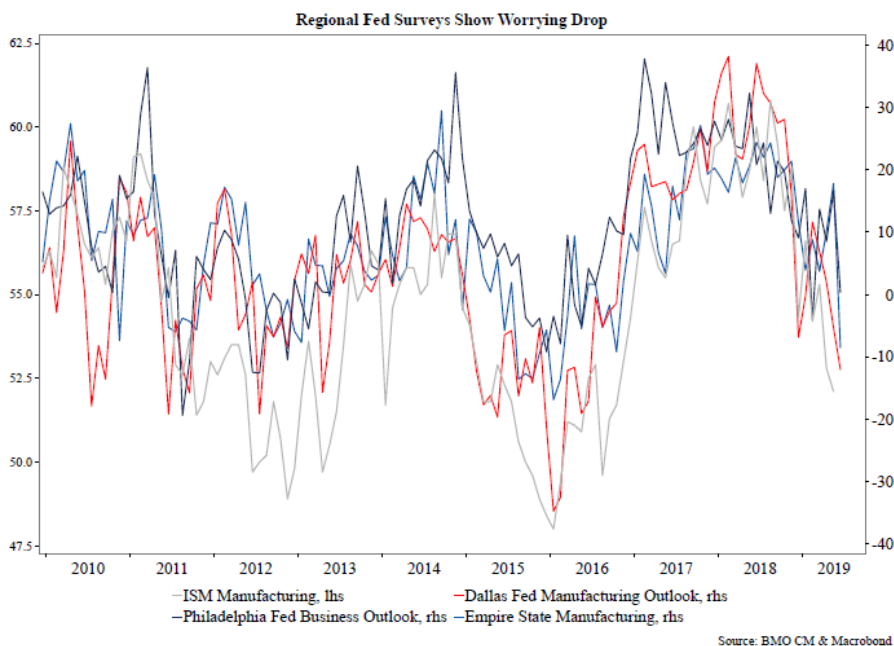
	Jan-2019	Feb-2019	Mar-2019	Apr-2019	May-2019	Jun-2019
MSBCI	44	54	57	49	45	13
Dallas Fed Manufacturing survey	-0.2	11.6	6.9	2.0	-5.3	-12.1
Philly Fed Manufacturing survey	17.0	-4.1	13.7	8.5	16.6	0.3
New York Fed's Empire Manufacturing survey	3.9	8.8	3.7	10.1	17.8	-8.6
US Markit PMI: Manufacturing	54.9	53.7	52.5	52.4	50.6	50.1
Germany: Ifo Business Expectations	94.8	94.0	95.6	95.3	95.2	94.2
Germany: ZEW, Macroeconomic Expectations	-15.0	-13.4	-3.6	3.1	-2.1	-21.1

Source: Haver Analytics, Morgan Stanley Research; Based on recent data released so far for the month of June. Note: Red indicates deterioration, green indicates improvement.

## United States

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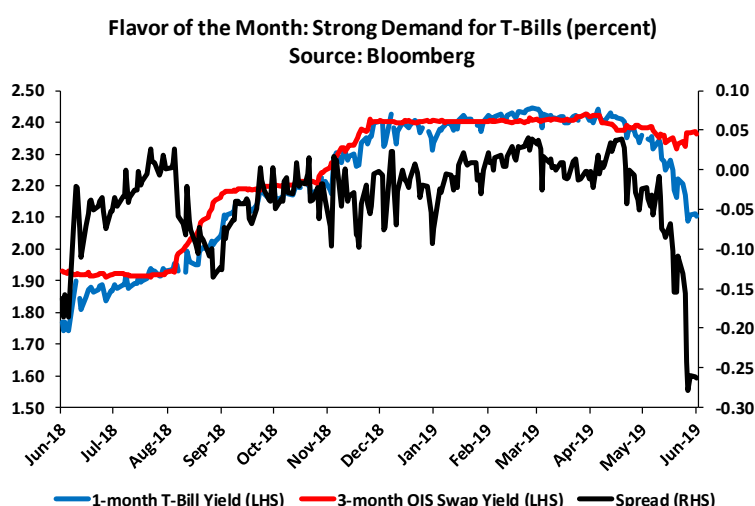
**The trend of weaker than expected US economic data continued as new homesales missed analysts' forecasts and the Conference Board consumer confidence measure missed the consensus forecast by the largest amount since February 2009.** The latter measure is known to be closely watched by the Fed. Other key surveys are also dropping and the widely followed Citi Economic Surprise Index for the US is deeply negative (-68). In comparison, the equivalent measure for the euro area is above zero and the global index is much less negative (-28), emphasizing the US underperformance versus other regions. The markets have enjoyed strong gains in expectations of a dovish Fed, but some are beginning to worry that the rally could be over if the US economy is closer to a recession than was originally thought and corporate earnings weaken further. Treasuries gained as the 10-year yield once again fell below 2%. The stock market was lower and the S&P 500 declined for a third consecutive day after its record close on Thursday. The rhetoric from administration officials that tempered expectations for the possible trade discussions at the G-20 summit also weighed on sentiment. Fed Chair Powell flagged increased downside risks to the economy without committing to a rate cut in July, while St. Louis Fed President Bullard said that a 50 bps cut in July is unwarranted.



**Data releases this morning showed US durable goods orders for business equipment improved, while the broader sales measure retrenched further in May.** Durable goods orders fell 1.3% in May, much weaker than expectations of a 0.3% decline, and April orders were also revised lower to -2.8%. Most of the decline in the broad measure reflected a fall in commercial aircraft orders. Core (ex-transportation) orders (0.3%) rose slightly and were very close to market forecasts (+0.1%). Non-military capital goods orders excluding aircraft, a proxy for business investment, beat expectations rising 0.4% after a 1% decline last month. The market response was fairly muted with Treasury yields and the US dollar little changed, and S&P 500 futures still pointing to a 0.4% gain at the open.

### Stresses are building up in the US funding market as the end of the second quarter draws near.

Contacts report that Asian reserve managers are selling more of their shorter maturity Treasury holdings in order to defend their currencies, forcing US dealers to accumulate large Treasury inventories, especially of two-year notes. The repo market is likely to be challenging at quarter-end as these large holdings will need to be financed. The overnight general collateral repo rate jumped from 2.38% on Monday to over 3% yesterday. Money market funds are unlikely to help out this time because they have loaded up on T-Bills ahead of the expected Fed rate cut in July, driving down T-Bill yields relative to three-month OIS swaps and other money market benchmarks. Meanwhile, swap spreads continue to narrow and the two-year swap yield is now negative for the first time in history. Spreads along the rest of the swap curve were already negative. Strong demand to receive fixed in the swap market in a falling rate environment has driven down yields and compressed spreads. Capital and regulatory constraints on banks have made them reluctant counterparts in the swap market, pushing the entire swap curve into negative territory.



## Europe

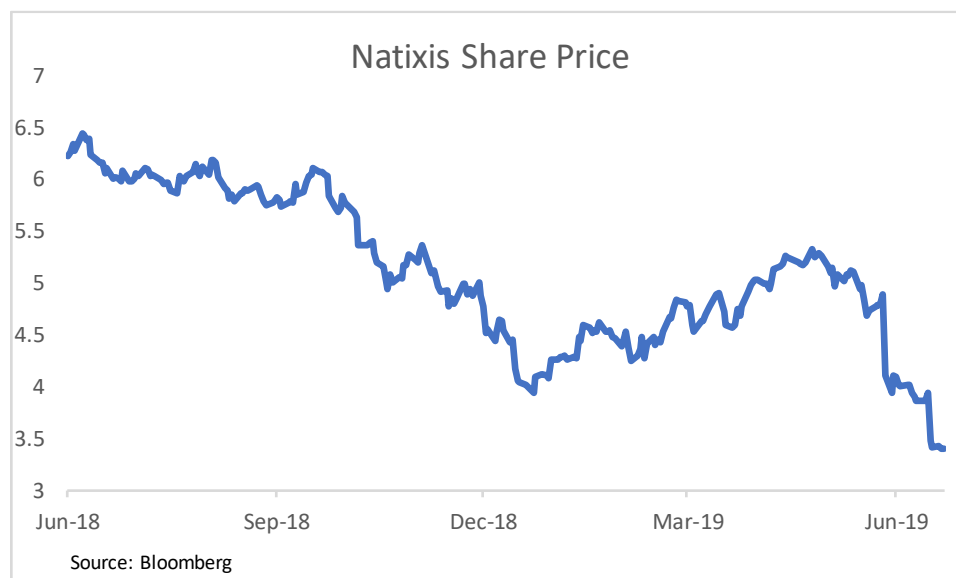
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**Sovereign yields edged higher across the continent.** 10-year benchmarks saw a rise of 1-2 bps while the shorter end saw smaller moves. The Italian 10-year saw continued volatility amid ongoing speculation over the government's fiscal plans and the budget tussle with the EU. Finance minister Tria said he was optimistic about the outlook while Claudio Borghi, head of the lower house's budget committee, said that the budget deficit this year would be around 2%.

**Equities were mixed to slightly higher in most countries.** The Euro Stoxx 600 was down 0.3% in early trading but erased losses on headlines that a US-China trade deal could be finalized soon. Banks outperformed with a 1.1% gain. Commerzbank (+2.2%) performed well following reports that the bank might offer its first coco bond. The lender could sell at least \$500 mn of AT1 notes, callable in 2025, according to a statement.

**Outflows from Natixis's asset management arm, H2O, have intensified, according to reports.** In the four days until Monday, outflows reached almost €6 bn, reducing the assets-under-management to €16 bn. The firm said that outflows had slowed yesterday but concerns remain over the composition of the firms' holdings, despite moves to reduce the amount of illiquid assets. Shares in Natixis have held steady this week after a cumulative 14% fall on Thursday and Friday. The troubles come following similar withdrawal problems at UK-based funds under the management of Neil Woodford. In testimony yesterday,

the Financial Conduct Authority's Chief Executive, Andrew Bailey, said that Woodford had used "flawed rules [...] to the full" and had not disclosed some of those moves to the regulator.



### **Weaker growth could threaten the European banking sector's profitability, according to the ECB.**

Speaking at a conference, ECB VP de Guindos said that a downturn could dampen banks' prospects but said that easy monetary policy was not the reason behind lagging profitability. Concerns have risen anew that tight margins and low borrowing costs could prevent a return to profitability as markets believe the central bank may ease policy in coming months. In his remarks, de Guindos said that the effect of negative rates on the banking sector needed to be carefully monitored, especially since the balance of the effects depended on how long rates remain negative.

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














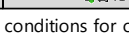
#### **Japan**

**Japanese stocks slipped as geopolitical tensions lingered.** The Topix (-0.6%) and Nikkei (-0.5%) both fell today. Trading volumes for the Topix were about 20% lower than usual, reflecting the cautious stance of Japanese investors regarding global geopolitical tensions and uncertainties around the future path of interest rates and growth in the US. **Ten-year JGB yields rose 2 bps to -0.13%, while the yen weakened 0.2% against the dollar to ¥107.5.**

### **Emerging Markets** [back to top](#)

**Emerging markets saw another quiet session overall. Asian bourses were mixed** as uncertainties around the global economic outlook continue. The largest losses took place in the Philippines (-0.3%), Mainland China (with the Shanghai Composite dropping 0.2%), and Vietnam (-0.1%). On the gaining side were India's Sensex (+0.3%) and Hong Kong's Hang Seng index (+0.1%). Most currencies in the region were about 0.1% stronger to the US dollar. **Stocks in EMEA moved within a band of +/- 0.3%** while local currencies did the same against the dollar. The Turkish lira outperformed with a gain of 0.4%. **Latin American markets were quiet with the exception of Brazil and Venezuela.** Brazilian assets came under pressure as COPOM minutes indicates a milder-than-expected easing cycle, conditional on the progress on the reform agenda. The real depreciated 0.6% against the dollar with the IBOV index down 2%. The Venezuelan bolivar depreciated 3.5% on news that JPM plans to gradually reduce the weighting of Venezuelan bonds in its EM benchmark indices to 0 after US sanctions curbed trading in the securities.

## Key Emerging Market Financial Indicators

Last updated: 6/26/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.27	0.4	1	6	-2	8
MSCI Frontier Equities		29.41	-0.7	1	4	-1	12
EMBIG Sovereign Spread (in bps)		349	0	-5	-15	-14	-65
EM FX vs. USD		62.74	0.2	0	2	-3	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	0	-4	0
Indonesian Rupiah		14178	-0.4	1	1	0	1
Indian Rupee		69.16	0.3	1	0	-1	1
Argentine Peso		42.39	0.1	3	6	-36	-11
Brazil Real		3.84	0.3	0	5	-1	1
Mexican Peso		19.19	0.2	-1	-1	4	2
Russian Ruble		63.06	-0.3	1	2	0	11
South African Rand		14.33	0.2	0	1	-6	0
Turkish Lira		5.76	0.5	0	5	-20	-8
EM FX volatility		8.19	0.0	-0.2	-0.3	-1.3	-1.6

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

## China

**US authorities could delay the imposition of additional tariffs on \$300 bn of Chinese goods** as both governments prepare for the high-level summit at the G20. Presidents Trump and Xi are scheduled to meet this Saturday on the sidelines of the G20 summit. Bloomberg reported that the possible delay of the new tariffs—and which was reportedly discussed at a teleconference between Messrs. Lighthizer and Liu—would pave the way for a less confrontational negotiation of trade issues. A survey of market participants shows that most expect no further tariffs to be imposed after the G20 meeting in Japan.

## What do you expect from the Trump-Xi meeting on the sidelines of G20 in Osaka next week?

A trade deal with agreement to lower existing tariffs

7%

No further tariffs and an agreement to keep negotiating a de...

62%

Increase in tariffs but leave the door open for negotiation

27%

Increase in tariffs and signal a complete breakdown in talks

4%

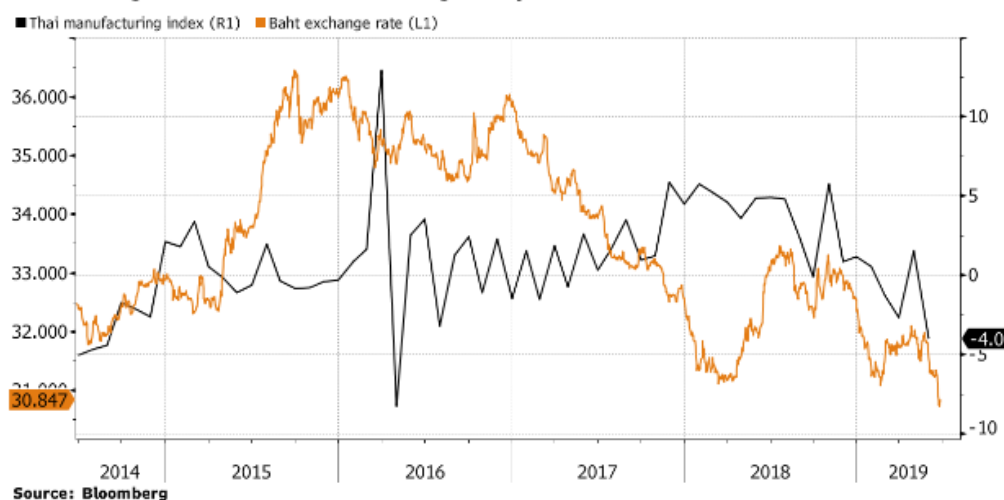
Readers' poll results (open through 27-Jun-2019).

## Thailand

**The Bank of Thailand (BoT) kept its policy rates on hold, as expected.** The main policy rate was maintained at 1.75% for the fourth consecutive meeting of the BoT. Despite the decision, the Monetary Policy Committee downgraded its growth forecast for 2019 from 3.8% to 3.3% and noted the baht's 2.9% appreciation to the US dollar in the last three months. The MPC left its inflation forecast for 2019 at 1%,

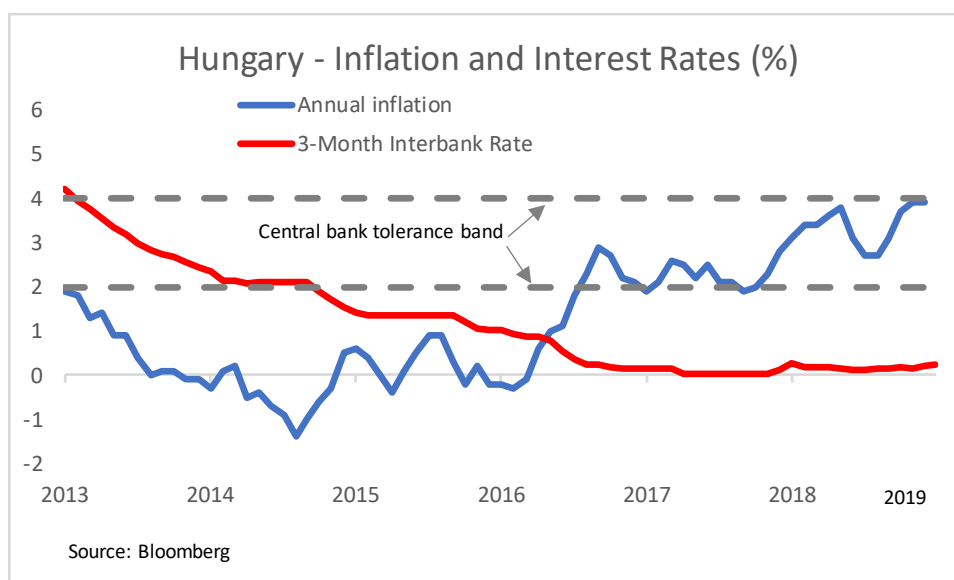
within the Bank's 1%-4% target range. **Thai stocks are unchanged on the day and the baht has strengthened 0.1% to the dollar.**

#### Baht strengthens while manufacturing slumps



#### Hungary

**The central bank kept rates on hold at its meeting yesterday but tightened liquidity slightly.** It lowered its target for excess liquidity in the interbank market which was described by deputy governor Nagy as a "very mild" tightening. The surplus target will be HUF 200-400 bn in the third quarter, down from HUF 300-500 bn in the second quarter. The bank's benchmark rate remains at 0.9%, as expected by all 21 analysts surveyed by Bloomberg, despite inflation climbing to 3.9% in the latest reading. There was little market reaction to the decision with the forint strengthening marginally against the euro to 323.4.





**Brazil**

**Risk assets fell as COPOM minutes indicated a milder-than-expected easing cycle, conditional on the reform progress.** In last week's policy meeting, the committee kept the Selic rate on hold at 6.5%. Similar to the post-meeting statement, the minutes shows that COPOM sees room for additional easing in the short term under their baseline scenario, conditional on "concrete progress" on the reform agenda. In particular, COPOM sees "frustration of expectations regarding the continuity" of reforms as the most important risk to inflation expectations and is among the reasons for disappointing growth (a confidence shock). That being said, the board continues to see current ex-ante real interest rate as accommodative, indicating that the easing cycle will most likely be modest, with analysts projecting between 75 to 100 bps. The minutes were perceived as less dovish than expected. In response, the IBOV index dropped 2% and the real weakened 0.6% to 3.85, but has recovered slightly this morning. The swap curve shifted higher by 5 to 10 bps, led by the 6-month to 2-year tenors, as investors pared back from their bets for an outsized easing cycle.

**Iceland**

**The central bank cut its benchmark 7-day term deposit rate this morning by 25 bps to 3.75%.** The move follows a 50-bps cut last month as the economy slows after several years of robust growth. The current level of interest rates is the lowest on record but remains well above those seen in most neighboring countries. Separately, inflation figures showed consumer prices advancing at an annual rate of 3.3% in June. The central bank targets a rate of 2.5% with a tolerance band of +/- 1.5%.



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**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*


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## Global Financial Indicators

Last updated: 6/26/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2917	-0.9	0	3	7	16
Europe		3450	0.2	0	3	2	15
Japan		21087	-0.5	-1	0	-6	5
China		2976	-0.2	2	4	5	19
Asia Ex Japan		69	-1.0	1	5	-4	8
Emerging Markets		42	0.4	1	6	-2	8
<b>Interest Rates</b>			basis points				
US 10y Yield		2.02	-2.9	0	-30	-86	-67
Germany 10y Yield		-0.32	1.6	-3	-20	-66	-56
Japan 10y Yield		-0.14	1.9	0	-7	-17	-14
UK 10y Yield		0.81	1.4	-6	-15	-50	-47
<b>Credit Spreads</b>			basis points				
US Investment Grade		126	-1.0	-4	0	15	-21
US High Yield		441	-5.5	-8	-3	94	-80
Europe IG		55	-0.7	0	-13	-20	-33
Europe HY		262	-0.8	6	-32	-55	-90
EMBIG Sovereign Spread		348	-1.0	-6	-16	-15	-66
<b>Exchange Rates</b>			%				
USD/Majors		96.27	0.1	-1	-1	2	0
EUR/USD		1.14	-0.1	1	1	-2	-1
USD/JPY		107.8	-0.5	0	2	2	2
EM/USD		62.7	0.2	0	2	-3	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		66	1.3	7	-4	-14	22
Industrials Metals (index)		114	0.2	2	1	-13	4
Agriculture (index)		42	-0.4	1	7	-5	1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.8	-0.5	1.5	0.0	-0.1	-9.6
10y Treasury Volatility Index		5.1	0.1	-0.2	0.8	1.3	0.5
Global FX Volatility		6.9	0.0	0.3	0.1	-1.1	-2.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		280	-0.5	3	-68	-97	-135
Italy		246	-3.2	6	-21	-9	-4
Portugal		78	-3.0	-6	-31	-76	-70
Spain		70	-0.9	1	-24	-35	-47

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: 6/26/2019 8:08 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		6.88	0.0	0.4	0	-4	0		3.3	0.5	-1	-6	-37	6
Indonesia		14178	-0.4	0.6	1	0	1		7.5	-5.6	-21	-54	-28	-62
India		69	0.3	0.8	0	-1	1		7.0	1.7	2	-36	-104	-48
Philippines		52	-0.3	0.7	1	4	2		4.9	-3.5	-9	-14	-61	-135
Thailand		31	0.0	1.6	4	7	6		2.3	-2.6	-5	-29	-45	-38
Malaysia		4.15	-0.1	0.6	1	-3	0		3.6	-1.3	-5	-17	-57	-45
Argentina		42	0.1	2.6	6	-36	-11		28.5	-23.8	-142	-506	955	548
Brazil		3.84	0.3	0.0	5	-1	1		7.0	6.2	-18	-104	-315	-119
Chile		681	0.0	2.2	3	-6	2		3.4	0.1	-4	-68	-143	-106
Colombia		3191	0.4	2.0	5	-8	2		5.7	-1.5	-12	-53	-66	-77
Mexico		19.19	0.2	-0.9	-1	4	2		7.7	1.2	-2	-37	-5	-100
Peru		3.3	-0.1	0.9	1	-1	2		4.8	1.1	-7	-42	-97	-94
Uruguay		35	-0.2	0.5	0	-11	-8		10.5	0.0	-43	-77		-26
Hungary		285	-0.1	1.2	2	-2	-2		1.6	-1.4	-1	-38	-99	-63
Poland		3.75	-0.2	1.2	2	-1	0		2.0	-2.8	-1	-30	-55	-27
Romania		4.2	-0.1	1.3	2	-4	-2		4.0	0.0	-6	-34	-80	-27
Russia		63.1	-0.3	1.1	2	0	11		7.3	1.2	-13	-43	-18	-113
South Africa		14.3	0.2	-0.1	1	-6	0		9.4	0.3	4	10	-6	-20
Turkey		5.76	0.5	0.4	5	-20	-8		16.8	1.7	-166	-439	-37	-9
US (DXY; 5y UST)		96.3	0.1	-0.9	-1	2	0		1.77	4.1	1	-36	-98	-75

	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		2976	-0.2	2	4	5	19		180	2	0	2	-7	-14
Indonesia		6310	-0.2	0	4	8	2		186	-2	-8	-14	-23	-50
India		39592	0.4	1	0	12	10		151	0	0	-2	-7	-45
Philippines		8014	-0.3	0	3	14	7		76	1	-6	-10	-52	-45
Malaysia		1674	-0.1	0	5	0	-1		128	1	-3	1	-31	-34
Argentina		40292	0.4	0	15	42	33		871	-7	48	-34	313	56
Brazil		100093	-1.9	3	7	40	14		237	-1	-3	-21	-79	-36
Chile		5098	0.1	1	4	-4	0		132	-1	-5	-3	-9	-34
Colombia		1558	-0.1	3	5	1	17		183	-2	-3	-15	-17	-45
Mexico		43792	0.1	1	3	-7	5		338	-3	5	24	54	-16
Peru		20601	-0.7	1	5	3	6		124	-2	-3	-16	-43	-44
Hungary		40324	0.7	-2	1	14	3		82	0	-16	-23	-59	-66
Poland		59746	0.4	0	5	6	4		37	2	-15	-13	-33	-48
Romania		8651	0.7	1	6	9	17		181	2	-9	-25	8	-40
Russia		2768	0.5	0	6	24	17		207	1	-2	-2	-18	-45
South Africa		58433	0.2	0	7	6	11		291	0	-11	-18	-12	-74
Turkey		95227	-0.2	1	11	1	4		489	-3	-46	-65	60	60
Ukraine		550	0.0	0	-4	20	-2		530	-5	-15	-117	-64	-257
EM total		42	0.4	1	6	-2	8		349	0	-5	-15	-14	-65

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