



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, June 27, 2019












- **BoE governor Carney says "no deal" Brexit risks are rising ...** ([link](#))
- **... and says some investment funds could be systemic** ([link](#))
- **Natixis shares rebound on reduced asset management fears, slowing outflows** ([link](#))
- **Speculation over form of ECB easing continues** ([link](#))
- **US Q1 GDP revised down slightly on weaker personal consumption** ([link](#))
- **Czech Republic central bank keeps the policy rate on hold as expected** ([link](#))

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Investors fixated on US-China trade "truce"

Global assets continue to ping-pong back and forth on clues about the US-China trade meeting set to take place at this weekend's G-20 meeting. In the last 24 hours, equities rose and government yields inched higher first on constructive comments by Treasury Sec. Mnuchin and later on reports that a "truce" between the two sides has already been agreed, involving no new tariffs. These price movements were pared first after Pres. Trump commented yesterday morning that tariffs remain "Plan B", and then again early this morning on reporting that Chinese authorities are demanding an end to the ban on US sales to Huawei as part of any truce. Both developments have reminded investors that any delay in further tariffs achieved this weekend does not necessarily brighten the prospects for a more comprehensive trade deal.

Key Global Financial Indicators

Last updated: 6/27/19 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2914	-0.1	0	3	8	16
Eurostoxx 50		3439	-0.1	-1	2	1	15
Nikkei 225		21338	1.2	-1	1	-4	7
MSCI EM		43	0.2	1	7	1	9
Yields and Spreads			bps				
US 10y Yield		2.04	6.2	1	-28	-79	-65
Germany 10y Yield		-0.31	-0.6	1	-17	-63	-55
EMBIG Sovereign Spread		348	4	6	-18	-20	-66
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.8	0.1	0	2	-2	1
Dollar index, (+) = \$ appreciation		96.2	0.0	0	-1	1	0
Brent Crude Oil (\$/barrel)		65.8	-1.1	2	-6	-15	22
VIX Index (% change in pp)		16.2	0.0	1	0	-2	-9

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

United States

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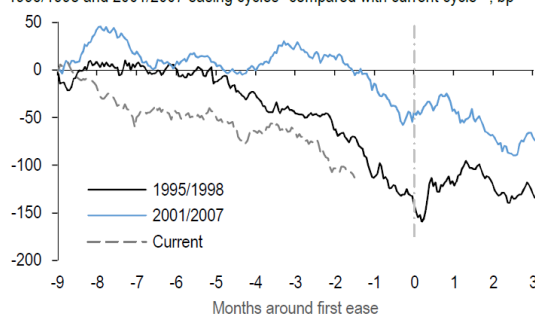
The latest update of US Q1 GDP came in below expectations, at 3.1% versus the 3.2% consensus forecast. Personal consumption was weak at 0.9% (vs. 1.3%). Jobless claims and continuing claims were both higher than expected. The market response was muted although Treasuries made small gains in the immediate aftermath.

There was very little movement as markets waited anxiously for the beginning of the G-20 meeting on Friday. Positive comments on trade from Treasury Secretary Mnuchin allowed Treasury yields to rise and tech stocks to post modest gains although the other major US indexes were lower. Sentiment was weighed on by comments from Pres. Trump that his "Plan B" is to raise tariffs on the remaining \$300 bn in Chinese imports if he cannot reach a trade deal with Pres. Xi. The consensus appears to be that some sort of truce will be reached and tensions will de-escalate, at least in the immediate future. With stocks near historic highs and yields at their lowest in years, the risk of a market shock is significant if the summit fails to reduce tensions.

Some analysts see Treasury market pricing as pointing to a prolonged Fed easing cycle. Yields on 10-year Treasuries have fallen nearly 120 bps from their short-term high of 3.24% in November 2018. On the assumption that the Fed does cut at its next meeting on July 31, this decline in yields occurred much more rapidly than it did leading up to the "insurance" cuts of 1995 and 1998 – when the Fed lowered policy by only 75 bps before eventually resuming hikes – or even the deeper easing cycles of 2001 and 2007, when cuts amounted to around 500 bps. The roughly 50 bps steepening in the 5y/30y yield curve is sending out a similarly pessimistic signal about the state of the economy. This more resembles the 2001 and 2007 cycles, which were characterized by more steepening ahead of the first cut, and subsequent steepening after.

Exhibit 4: Treasury yields have declined more aggressively than observed prior to previous extended easing campaigns...

Average cumulative change in 10-year Treasury yields around first eases in 1995/1998 and 2001/2007 easing cycles* compared with current cycle**, bp



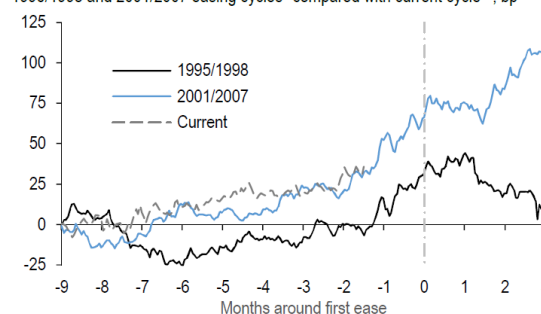
*Dates used: 7/6/1995, 9/29/1998, 1/3/2001, 9/18/2007

** Assumes first ease on 7/31/2019

Source: J.P. Morgan

Exhibit 5: ...while the steepening at the long end more closely resembles a full-blown easing cycle

Average cumulative change in 5s/30s Treasury curve around first eases in 1995/1998 and 2001/2007 easing cycles* compared with current cycle**, bp



*Dates used: 7/6/1995, 9/29/1998, 1/3/2001, 9/18/2007

** Assumes first ease on 7/31/2019

Source: J.P. Morgan

US CDS index trading volumes are up from 2018 levels for investment grade CDS (CDX.IG) but down sharply for high yield (HY) CDS (CDX.HY). In the case of euro area and emerging market CDS, volumes are down across the board. Analysts speculate that the rise in IG US volumes was caused by macro investors seeking to position for an overall market rally and lower credit spreads as the Fed approaches a new rate cut cycle. These investors favor IG over HY due to rising levels of interest volatility, which will probably cause HY to underperform even if the market continues to rally. Hedging costs for HY tend to rise sharply when volatility goes higher. The decline in volume for euro area and EM index CDS is attributed by some to the fact that potential European risk triggers such as Brexit or politics in Italy turned out to have much less impact than originally feared and investors needed less credit insurance. The decline in volume for

single name CDS in the US and Europe is attributed to the search for yield and the fact that investors seek more exposure to credit by owning cash bonds outright without losing part of the return due to hedging costs using single name CDS.

FIGURE 3
CDS Index Volumes – 2018 versus 2019

	2018	2019	y/y Chg
CDX.IG	\$150.0bn	\$158.2bn	5.4%
Main	\$119.7bn	\$106.5bn	-11.1%
CDX.HY	\$48.3bn	\$41.5bn	-14.1%
Xover	\$36.5bn	\$22.9bn	-37.3%
Sen Fin	\$17.5bn	\$18.7bn	7.2%
CDX.EM	\$8.8bn	\$7.9bn	-10.1%

Note: Average weekly volumes for the first 22 weeks of each year.
Source: DTCC, Barclays Research

FIGURE 4
Single-Name CDS Volumes – 2018 versus 2019

	2018	2019	y/y Chg
Americas Corp	\$12.2bn	\$12.1bn	-1.4%
Europe Corp	\$13.1bn	\$12.4bn	-5.2%
Americas Sov	\$8.3bn	\$8.4bn	0.6%
Europe Sov	\$9.8bn	\$8.2bn	-16.2%

Note: Average weekly volumes for the first 22 weeks of each year.
Source: DTCC, Barclays Research

Europe

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Sovereign yields edged higher this morning. Most 10-year benchmarks were up 1-2 bps but still trading close to all-time lows. The Spanish 10-year was up 1 bp after preliminary inflation data for June disappointed at 0.6% annually (0.7% expected). **Equities were slightly higher in most countries** on renewed optimism that the US and China would reach some kind of trade agreement at this weekend's G-20. The Euro Stoxx 600 was up 0.2%, marking its first rise since Thursday last week. Banks saw solid gains for the second consecutive day, adding 1.2% to yesterday's advance of 1%. Natixis led the gains, climbing 2.7%, as UBS upgraded the bank from neutral to buy. The analysts believed that concerns over its asset management business are overdone and that currently the market was pricing in an extreme scenario.

The risks of a “no deal” Brexit are rising according to Bank of England governor Carney. In testimony to parliament, Carney said that there had been a notable increase in market expectations of no deal and that it was affecting business investment. He opined that such a scenario would more likely than not result in easing of monetary policy. Commenting on fund manager Neil Woodford's recent troubles, Carney said that illiquid funds that offer daily redemptions are “built on a lie”. He warned that the issue could be systemic and that measures were needed to better match redemption terms with the underlying liquidity of the portfolio.

Some within the ECB may be looking at a loophole in European debt contracts that would allow the central bank to expand its portfolio of government bonds past self-imposed limits. Speculation continues to mount over the form of any further easing by the central bank as it reaches some of its limit in the asset purchase program. A Reuters report suggested ECB officials have considered “disenfranchisement” – where the ECB as well as national central banks would give up a vote in the event of any restructuring of the bonds. This would potentially enable an expansion of the bond portfolio as the central banks would not be involved in potential direct financing of governments via haircuts. ECB president Draghi said last week that the bank had “flexibility” within its mandate and that a recent ECJ ruling gave it “broad discretion”.








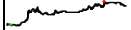






Other Mature Markets [back to top](#)

Japan

Japanese stocks advanced decisively, taking the Topix and Nikkei indices 1.2% higher on the day. The gains were prompted by renewed hopes of a truce in the US-China trade war. **Ten-year JGB yields inched down 1 bp to -0.14%, while the yen weakened 0.2% to the dollar to ¥108.**

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Key Emerging Market Financial Indicators

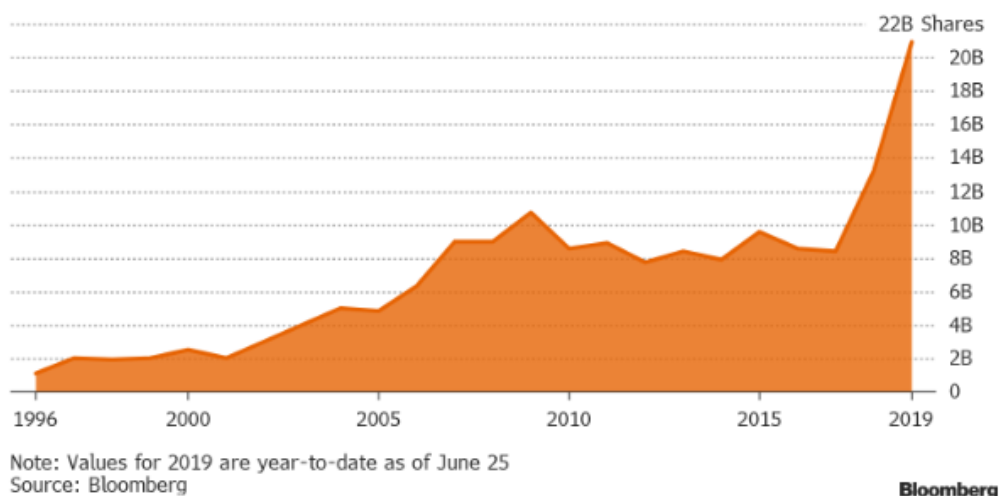
Last updated: 6/27/19 8:23 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.67	0.1	1	7	1	9
MSCI Frontier Equities		29.46	0.2	2	4	2	13
EMBIG Sovereign Spread (in bps)		348	4	6	-18	-20	-66
EM FX vs. USD		62.85	0.1	0	2	-2	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	0	0	-4	0
Indonesian Rupiah		14140	0.3	0	2	0	2
Indian Rupee		69.07	0.1	1	1	-1	1
Argentine Peso		42.69	-0.7	2	5	-37	-12
Brazil Real		3.86	-0.5	-1	5	0	0
Mexican Peso		19.10	0.1	-1	0	6	3
Russian Ruble		63.02	0.0	0	2	0	10
South African Rand		14.14	0.6	1	2	-2	1
Turkish Lira		5.77	0.1	0	5	-20	-8
EM FX volatility		8.25	0.0	-0.1	-0.2	-1.6	-1.5

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

Emerging market assets were in the green overnight on renewed optimism on global trade. A possible thawing of relations between China and the US was cited as a driver propelling Asian equities higher today, led by Hong Kong's Hang Seng index (+1.3%) and Shanghai's Composite index (+0.7%). Notably, daily trading values for the MSCI Asia index are up 60% this year versus last year and about 150% versus 2016. Asian currencies were mixed today within a very narrow corridor. The same trend was in place in EMEA where equities saw decent returns. Turkey (+0.9%) was among the strongest performers. Local currencies were flat against the dollar. In Latin America, markets closed mixed on yet another quiet day. Argentine assets pulled back from a week-long stretch of gains on mixed economic reports, with the peso 0.7% weaker. Stocks in Colombia dropped 0.6% after comments from central bank co-director Ocampo that reserve levels are not sufficient without the flexible credit line with the IMF. The peso pulled back from earlier gains to close flat on the day.

The average trading volume on Asian stocks is set for a record high in 2019

■ Average daily trading volume on MSCI Asia Pacific Index



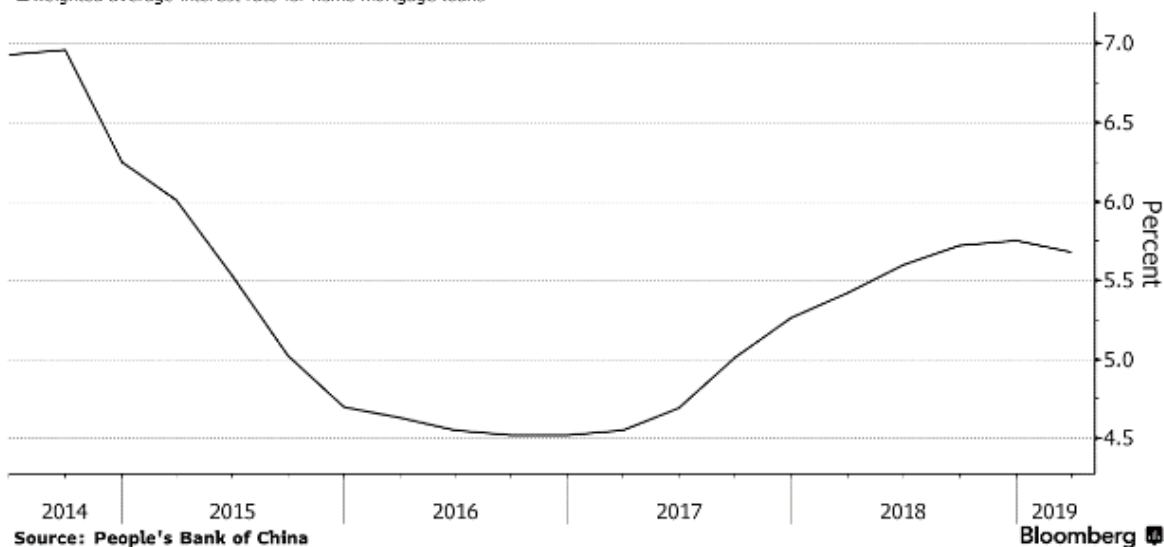
China

The PBoC has asked banks not to lower mortgage interest rates in an effort to curb household debt.

The PBoC has reportedly offered verbal guidance to state-owned banks and commercial lenders in order to stem the build up of risks in credit markets. Chinese household leverage has increased from 17.9% in 2008 to 53.2% in 2018, according to the Chinese Academy of Sciences.

Home loan interest rates starting to drop

■ Weighted average interest rate for home mortgage loans

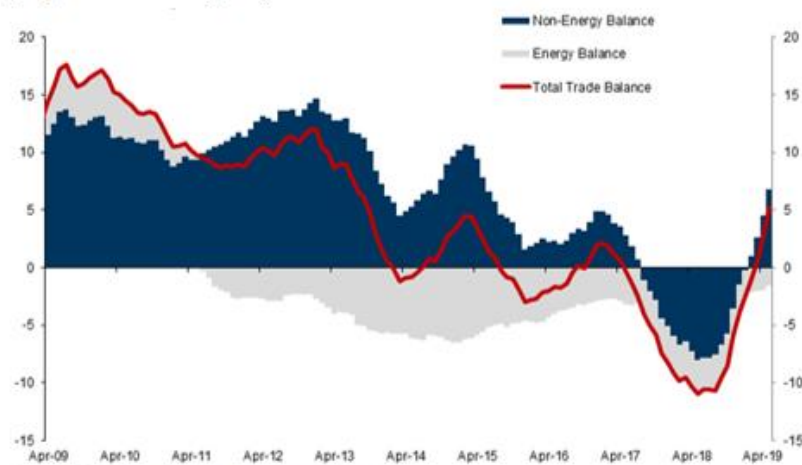


Argentina

The peso pulled back from a week-long rally as economic reports were generally positive. The economic activity index fell by 1.3% y/y versus the expected -2.9% y/y, marking the best reading in over a year. The trade balance recorded a large \$1.3 bn surplus in May, driven by a significant 28% y/y decline in imports while exports rose 16.5% y/y. This marks a sharp turnaround in trade balance from a \$1.2 bn deficit in May 2018, reflecting on one hand the large depreciation of the peso, and on the other hand a significant

slowdown in investment and economic activity. The peso depreciated 0.7% to 42.7, after a 3% appreciation in the past week.

Trade Balance
(\$bn, 12-month rolling sum)



Source: INDEC, Goldman Sachs Global Investment Research

Czech Republic

The central bank decided to keep interest rates unchanged at 2% as broadly expected. The vote was not unanimous, however, with one MPC member calling for another 25-bps hike. The bank has been in a tightening phase since 2017 when rates were initially raised from 0.05%. Yesterday, it signaled, however, that it could be in for a relatively long pause as global risks to exports outweigh concerns over domestic inflation. Price increases have picked up in recent years with inflation reaching a level just below 3% in recent months.






















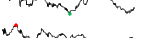
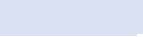



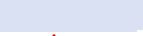


Bulgaria

The government is aiming to make progress on joining the euro zone and entering ERM-2 before the end of the year. Finance minister Goranov said that the step could be taken even sooner with the ECB expected to finish an assessment of the country's lenders next month. The lev is already pegged to the euro but authorities are committed to securing eurozone membership as well as that of the banking union.

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Global Financial Indicators

Last updated: 6/27/19 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2914	-0.1	0	3	8	16
Europe		3439	-0.1	-1	2	1	15
Japan		21338	1.2	-1	1	-4	7
China		2997	0.7	0	4	7	20
Asia Ex Japan		69	0.9	1	6	-2	9
Emerging Markets		43	0.2	1	7	1	9
Interest Rates			basis points				
US 10y Yield		2.04	6.2	1	-28	-79	-65
Germany 10y Yield		-0.31	-0.6	1	-17	-63	-55
Japan 10y Yield		-0.14	-0.5	2	-7	-18	-14
UK 10y Yield		0.84	0.7	3	-12	-41	-44
Credit Spreads			basis points				
US Investment Grade		125	-0.3	0	-1	14	-22
US High Yield		441	0.9	6	-4	88	-80
Europe IG		54	-0.7	0	-14	-19	-33
Europe HY		262	-2.1	9	-33	-58	-91
EMBIG Sovereign Spread		348	4.0	6	-18	-20	-66
Exchange Rates			%				
USD/Majors		96.18	0.0	0	-1	1	0
EUR/USD		1.14	0.0	1	2	-2	-1
USD/JPY		107.8	0.0	-1	2	2	2
EM/USD		62.8	0.1	0	2	-2	1
Commodities			%				
Brent Crude Oil (\$/barrel)		66	-1.1	2	-6	-15	22
Industrials Metals (index)		113	-0.4	1	0	-14	3
Agriculture (index)		42	0.3	-1	7	-5	1
Implied Volatility			%				
VIX Index (% change in pp)		16.2	0.0	1.5	0.4	-1.7	-9.2
10y Treasury Volatility Index		4.8	-0.3	-0.1	0.5	0.8	0.2
Global FX Volatility		6.8	0.0	0.2	0.1	-1.3	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		278	2.2	-11	-53	-95	-138
Italy		244	-0.3	-2	-38	-5	-6
Portugal		80	1.8	-6	-31	-73	-68
Spain		71	1.3	0	-25	-32	-47

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: 6/27/2019 8:24 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	0.8	0	-5	-36	7
Indonesia		14140	0.3	0.3	2	0	2		7.5	0.1	-12	-54	-40	-62
India		69	0.1	0.5	1	-1	1		7.0	4.0	6	-32	-101	-44
Philippines		51	0.5	0.5	2	4	3		4.9	-2.1	-11	-16	-67	-137
Thailand		31	-0.1	0.3	3	7	5		2.2	-0.9	-5	-30	-43	-39
Malaysia		4.14	0.1	0.1	1	-3	0		3.6	0.3	-4	-17	-57	-45
Argentina		43	-0.7	1.5	5	-37	-12		28.1	-33.6	-133	-539	916	514
Brazil		3.86	-0.5	-0.6	5	0	0		6.9	-3.7	-17	-107	-305	-123
Chile		680	0.2	1.8	3	-6	2		3.4	2.5	-1	-65	-141	-104
Colombia		3186	0.1	1.7	6	-8	2		5.8	0.7	-10	-52	-64	-76
Mexico		19.10	0.1	-0.5	0	6	3		7.7	2.1	5	-35	2	-98
Peru		3.3	0.3	1.1	2	-1	2		4.8	5.7	-4	-37	-86	-88
Uruguay		35	-0.1	0.3	0	-11	-8		10.5	5.4	-37	-71		-20
Hungary		285	-0.1	0.5	2	0	-2		1.6	5.0	-1	-33	-95	-58
Poland		3.74	0.3	0.7	3	1	0		2.0	3.0	0	-27	-54	-24
Romania		4.2	0.0	0.6	2	-3	-2		4.0	0.0	-7	-34	-88	-27
Russia		63.0	0.0	-0.2	2	0	10		7.3	1.8	-2	-41	-23	-111
South Africa		14.1	0.6	1.3	2	-2	1		9.3	-9.5	-1	0	-13	-29
Turkey		5.77	0.1	-0.1	5	-20	-8		16.6	-13.7	-184	-453	-51	-23
US (DXY; 5y UST)		96.2	0.0	-0.4	-1	1	0		1.79	-0.4	1	-33	-90	-72

	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		2997	0.2	0	4	7	20		179	3	-1	0	-11	-15
Indonesia		6353	1.6	0	4	10	3		187	6	4	-14	-29	-49
India		39586	0.3	0	0	12	10		147	-4	-11	-6	-12	-49
Philippines		8058	0.8	0	4	12	8		78	7	10	-9	-55	-43
Malaysia		1673	2.1	0	4	0	-1		127	3	-3	-1	-34	-35
Argentina		39917	-0.4	-2	13	54	32		878	0	64	-28	295	63
Brazil		100689	-0.7	1	6	43	15		237	3	6	-22	-87	-36
Chile		5084	-0.3	1	5	-4	0		132	1	-2	-5	-12	-34
Colombia		1550	0.3	0	5	0	17		185	3	9	-14	-19	-43
Mexico		43792	-0.8	1	3	-7	5		338	2	10	23	49	-16
Peru		20609	0.2	2	5	3	7		125	2	3	-16	-46	-43
Hungary		40182	-1.0	-1	0	13	3		86	15	-12	-21	-58	-62
Poland		60214	1.9	1	6	7	4		37	11	-12	-16	-36	-48
Romania		8739	2.8	1	6	10	18		179	-2	-11	-26	5	-42
Russia		2771	1.1	0	5	23	17		206	3	11	-5	-20	-46
South Africa		58205	0.0	-1	7	5	10		284	-2	1	-26	-29	-81
Turkey		95759	5.5	2	12	0	5		488	3	-33	-67	60	59
Ukraine		550	-0.5	-1	-4	19	-2		518	1	3	-130	-86	-269
EM total		43	0.1	1	7	1	9		348	4	6	-18	-20	-66

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