



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, June 3, 2019

- US equities finished May down 6.6%, the first monthly loss of 2019 ([link](#))
- US 2-year plummets below 2% as markets price multiple cuts this year ([link](#))
- Canadian yield curve inverts the most in 12 years ([link](#))
- Mexican peso depreciates as US announces tariffs on Mexican imports ([link](#))
- China publishes trade white paper and is preparing “unreliable entity list” ([link](#))
- Sovereign yields continue to fall as Italy bucks the trend ([link](#))
- **SPECIAL FEATURE: China’s FX Management (see attachment)**

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Investors remain tentative as trade fears continue to loom

**Risk sentiment is generally weaker once again this morning, with most major equity markets lower along with sovereign bond yields.** US equity futures are pointing to a further decline as trade worries continue to be the primary focus for investors. Treasury yields are falling once again, with the 2-year down to 1.87%, its lowest level since 2017. With the US re-opening a trade feud with Mexico, China has continued to take measures in response to US tariffs. Chinese equities are lower on the continued tensions while the renminbi is steady. Other emerging markets are mixed so far today, with most non-China Asian equity markets higher and currencies somewhat stronger. The Mexican peso meanwhile is weakening further following Friday’s sharp decline as the fallout from the recent trade announcements continue to be digested.

### Key Global Financial Indicators

Last updated: 6/3/19 7:57 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2752	-1.3	-2	-7	1	10
Eurostoxx 50		3277	-0.1	-3	-6	-5	9
Nikkei 225		20411	-0.9	-4	-8	-8	2
MSCI EM		41	0.3	2	-8	-12	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.12	-8.9	-20	-41	-78	-57
Germany 10y Yield		-0.20	-0.1	-6	-23	-59	-45
EMBIG Sovereign Spread		381	1	15	40	40	-33
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.6	0.1	0	-1	-7	-1
Dollar index, (+) = \$ appreciation		97.7	-0.1	0	0	4	2
Brent Crude Oil (\$/barrel)		62.4	0.6	-11	-12	-19	16
VIX Index (% change in pp)		18.8	0.0	3	6	5	-7

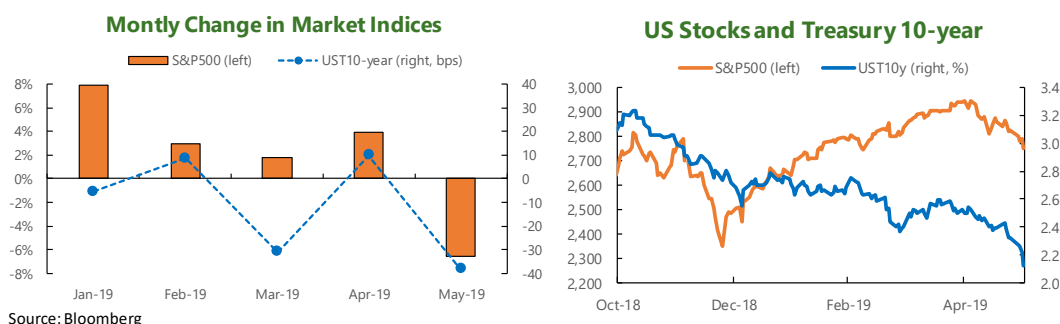
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

Tensions over trade developments are likely to continue to be the main focus for market participants this week, as the aftermath of president Trump's surprise threat, a new tariff policy against Mexico, might not have fully played out yet. On the economic data front in the US, the May ISM manufacturing will be released on Monday (53.0 expected) and the May nonfarm payroll is expected on Friday (net 185k increase expected). Beyond the US, the ECB will meet for the rates decision on Thursday. While they are expected to keep rates on hold, their communication will be watched closely as the downside tail of the macro forecast has become fatter, and inflation expectations have continued to slide with 5y5y forward swap rate close to the 2016 all-time lows. There will also be central bank meetings in Australia (25bps cut expected, Tuesday) and Poland (no change expected, Wednesday).

## United States

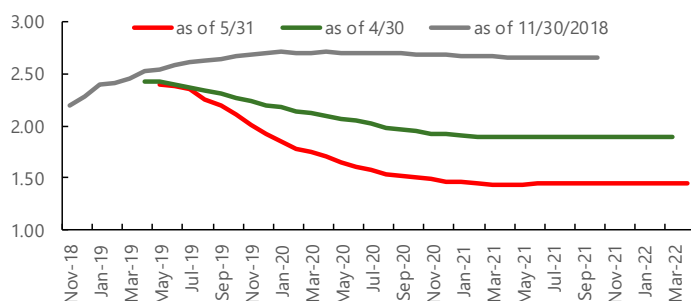
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**Stocks finished the month down 6.6%.** US equities gapped lower Friday morning following the latest trade threat against Mexico, extending losses during the day to a 12-week low amid intensifying global trade tensions. VIX edged higher on the day to 18.7. Meanwhile, US economic indicators have continued to deteriorate. Consumer sentiment in May released Friday increased from the previous month but was weaker than expected (100.0 versus 101.5 expected). "Although consumer sentiment remained at very favorable levels, confidence significantly eroded in the last two weeks of May," the director of the University of Michigan consumer survey noted in a statement.



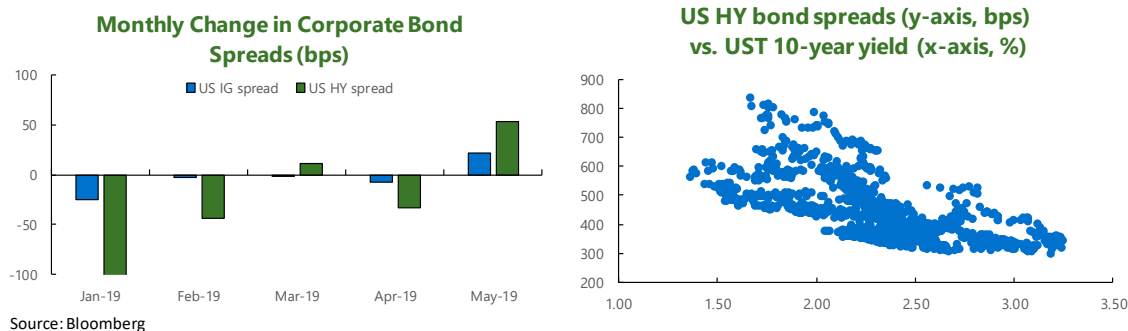
**Treasury yields plummeted, with the 2-year closing at below 2%, the first time since January 2018.** Fed fund futures December 2019 contract now implies the policy rates to be below 2% at the end of this year, indicating two rate cuts in this year. Treasury 10-year rates declined by 38bps for the month to 2.12%.

### Fed Fund Futures Implied Forward Rate (%)



**Corporate bond spread reversed its tightening trend in May.** US credit spreads widened meaningfully for the month, as investors have seen that risky credit products would be among the most vulnerable

assets if the lower Treasury yields do suggest a significant slowing of the economy. Analysts pointed out that high-yield corporate bond spreads could be materially wider to reach 500bps or more if Treasury 10-year yields sink below 2%, as history shows. According to EPFR Global, investors have pulled money out of US high-yield bond funds for the fourth consecutive week, as high-yield bond funds saw \$2.8 bn of outflows for the week ending May 29.

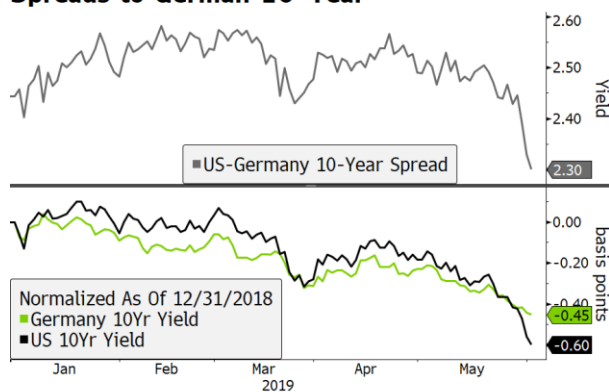


## Europe

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**Trade war fears continue to weigh on European assets.** Equity markets are down across the region with the EuroStoxx 600 down 0.6%. **Yields continue to fall in sympathy with US yields and in anticipation of a dovish ECB meeting on Thursday.** Note that markets are pricing in a 50% probability of a 10-bps cut in deposit rates by mid-2020. The 10-year German bund yield is down slightly today after falling 8 bps last week, marking the fourth consecutive weekly decline. Note that although bund and US Treasury yields have continued to move in sync throughout the year, rates in Germany lagged the move in the US over the last few sessions. As a result, the spread between the two yields has fallen to 230 bps, breaking out of the year's range. **Separately, yields in Italy are down nearly 10 bps** following a letter by Finance Minister Tria claiming the government is working on a plan to review spending and revenues for the 2020 budget.

### Spreads to German 10-Year



**In the UK, Bloomberg reports that several banks started to move swap positions from London to Frankfurt.** The operations involved some 10 banks opening and closing swap trades that could become vulnerable in the event of a no-deal Brexit. No disruptions were reported. **On the data front,** UK manufacturing PMI unexpectedly slipped into contractionary territory (49.4) for the first time since mid-2016, considerably worse than the 52.2 expected. Yields in the UK are down a few basis points, and the UK FTSE is down 0.7%, slightly underperforming equities in Continental Europe.

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

### Japan

**Equities (both Nikkei and Topix -0.9%) fell for the fourth straight day as US-China trade concerns overshadowed better domestic economic data.** Electronics and telecommunications stocks were among the biggest drags. The fall in equities came despite an upside surprise in capital spending for Q1, which rose 6.1% y/y, compared with expectations of 2.6% and 5.7% in Q4. Separately, the Bank of Japan reduced its monthly bond purchase frequencies at the long-end. Analysts interpreted the move as an attempt to maintain the upward slope of the yield curve. **Both 10-year and 30-year JGB yields were little changed on the day and the yen was stable.**

### Losing Steam

Topix pares this year's gain to 0.3%

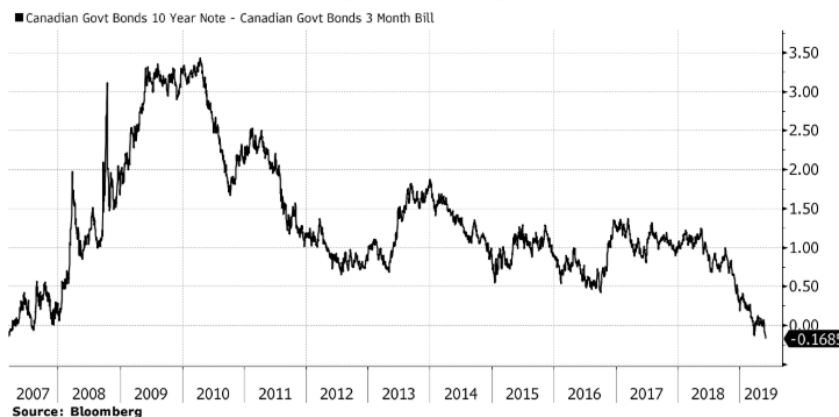


### Canada

**The yield curve inverted the most in twelve years.** Canada's 10-year government bond yields fell to 1.48%, 19bps lower than 3-month bill yields. Investors are buying long-duration assets on concern that president Trump's new trade threat to impose tariffs on Mexican imports could derail the revised North American Free Trade Agreement. The increased trade tensions threaten a Canadian economy that is showing signs of recovery from a slump in the first quarter. March GDP growth released Friday was +0.5% mom, slightly better than expected (+0.4% consensus), after weak numbers in February. Analysts believe that there is still plenty of uncertainty about the outlook to keep the Bank of Canada on the sidelines in terms of any future rate hikes for now.

### A Flash Back

Spread between 3-month and 10-year Canadian government bond yields



## Commodities


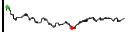





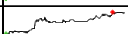


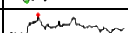
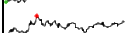


**Oil price dropped sharply amid concerns over supply-demand imbalances.** West Texas Intermediate crude price declined by 5.7% on the day to finish the month down by 16% at \$53.5/bbl, as global trade tensions escalated, undermining the outlook for energy demand growth. Meanwhile, US crude explorers expanded their activity as drilling costs declined. Stockpiles of US crude oil remained near their highest levels since mid-2017.

## Emerging Markets

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**Asian equities** (+0.6%) gained on net but dispersion was wide across markets. Gains were led by the Philippines (+1.4%), Korea (1.3%) and India (+1.0%). The outperformance by the Philippines was driven by real estate stocks on expectations of continued monetary easing. Chinese stocks (Shanghai -0.3%; Shenzhen -1.0%) on the other hand underperformed as US-China trade tensions remain elevated. Vietnam (-1.4%) and Australia (-1.2%) posted the largest losses in the region. Asian currencies broadly appreciated, with the Korean won (+0.7%), the Philippine peso (+0.5%) and the Indian rupee (+0.6%) strengthening the most. **EMEA** equities have started the week mixed, with gains in Saudi Arabia (+1.2%) and Russia (+1.1%), while Turkey (-0.7%) and the Czech Republic (-0.5%) saw the largest losses in the region. Currencies strengthened slightly to the US dollar. **Latin American** assets mostly saw losses on Friday after the US administration indicated it would impose tariffs on Mexican imports. Stocks in Mexico (-1.4%), Argentina (-0.9%) and Brazil (-0.5%) saw losses; Chilean equities (+0.9%) bucked the trend. Among regional currencies, the Mexican peso (-2.4%) weakened the most against dollar, followed by the Argentine peso (-0.5%) and the Colombian peso (-0.5%), while the Brazilian real (+1.5%) strengthened against the dollar as investors used it to short the Mexican peso.

### Key Emerging Market Financial Indicators

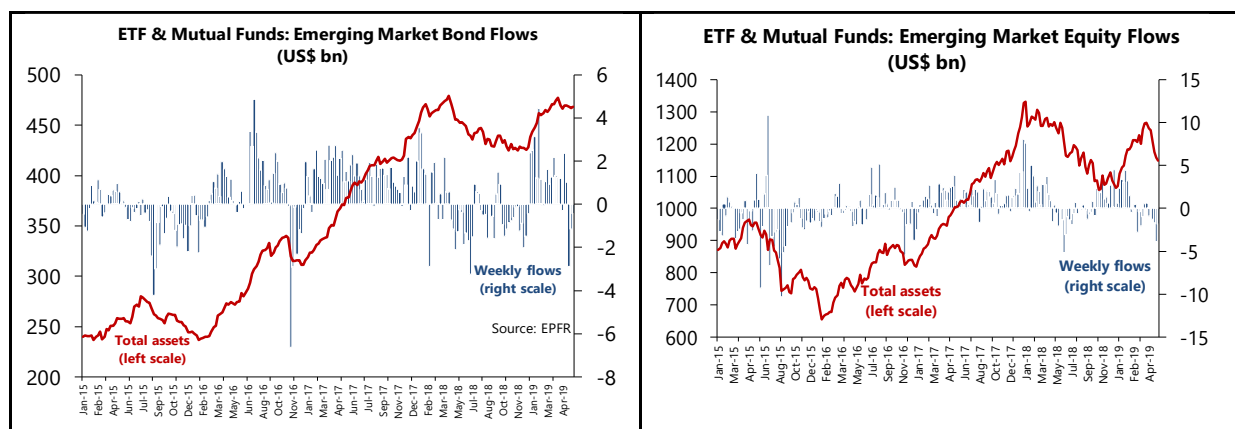
Last updated: 6/3/19 7:59 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		40.71	0.3	2	-8	-12	4
MSCI Frontier Equities		28.71	0.0	2	0	-6	10
EMBIG Sovereign Spread (in bps)		381	1	15	40	40	-33
EM FX vs. USD		61.53	0.0	0	-1	-7	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.0	0	-2	-7	0
Indonesian Rupiah		14269	1.0	1	0	-3	1
Indian Rupee		69.27	0.6	0	0	-3	1
Argentine Peso		44.79	-0.5	0	-1	-44	-16
Brazil Real		3.92	1.5	3	0	-5	-1
Mexican Peso		19.73	-0.6	-3	-4	2	0
Russian Ruble		65.39	0.1	-2	0	-5	6
South African Rand		14.55	0.2	-1	-1	-14	-1
Turkish Lira		5.89	-0.9	3	1	-22	-10
EM FX volatility		8.58	0.8	0.1	0.7	-0.7	-1.2

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

## Emerging markets

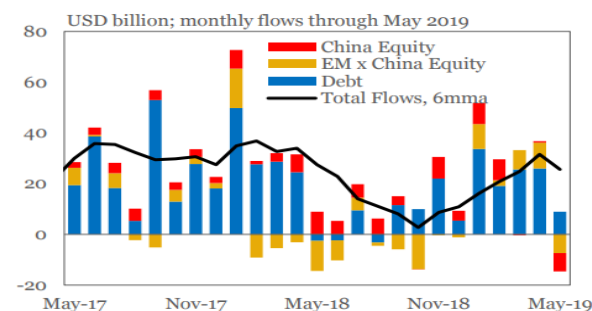
**Last week EM dedicated bond funds saw small outflows while equity funds recorded larger outflows.** Outflows from EM bond funds (-\$0.5 bn) continued to slow as flows into hard-currency funds turned positive and investors pulled money out of local-currency funds at a reduced pace. At the same time,

outflows from equity funds (-\$1.9 bn) continued, although they also slowed compared to the week before. The defensive tone in EM asset markets has continued as concerns about global growth and escalating global trade tensions remain at the fore. Analysts suggest that the fall in core rates in DM could partially offset the negative impact of weaker EM asset performance, particularly in EM credit, because historically investors have sought to increase exposure to higher-yielding asset classes during periods of depressed global bond yields.



**Renewed trade tensions sparked a sharp decline in nonresident capital flows to EM.** After a positive performance in March and April, IIF reports an estimate of \$5.7 bn outflows in May. With an outflow for equities of \$14.6 bn, May is poised to be the worst performing month for non-resident equity flows since the taper tantrum. On the other hand, May saw \$9 bn of debt inflows, a much lower reading than the \$24.2 bn inflows in April.

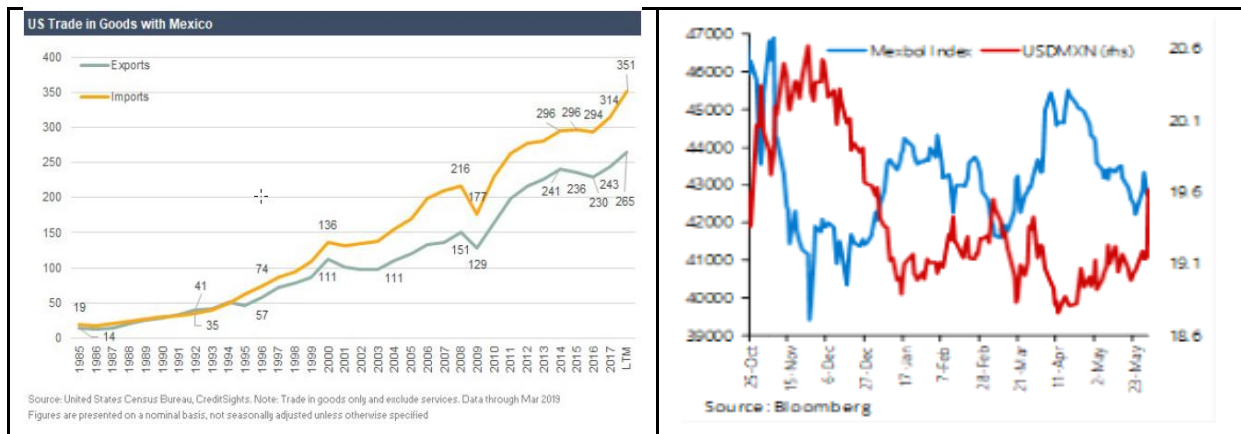
**Exhibit 1. Net Non-Resident Portfolio Inflows to EMs**



Source: Haver, IIF

## Mexico

**The peso weakened by 2.4% against dollar, its worst day since October 2018, and one-month implied volatility surged to 11%, its highest in 4 months after president Trump announced new tariffs.** Mexican responses so far convey a conciliatory message as president López Obrador said the country will not react in a desperate way. The US imported 76% of total Mexican exports in 2018 or about 28% of Mexico's GDP. This implies a \$17 bn tax under a 5% tariff which could increase to be a \$86 bn tax under a 25% tariff. The top US imports from Mexico are motor vehicles and parts (\$82 bn) and data processing machines (\$26 bn), according to analyst reports. The tariffs could eventually lead some firms that currently produce in Mexico to relocate to the US, significantly impacting growth in Mexico. Mexico's local 10-year rose 7.4 bps and TIE swap rates are up across the curve, pricing in 5bps easing in 6 months compared to 17bps previously.



## China

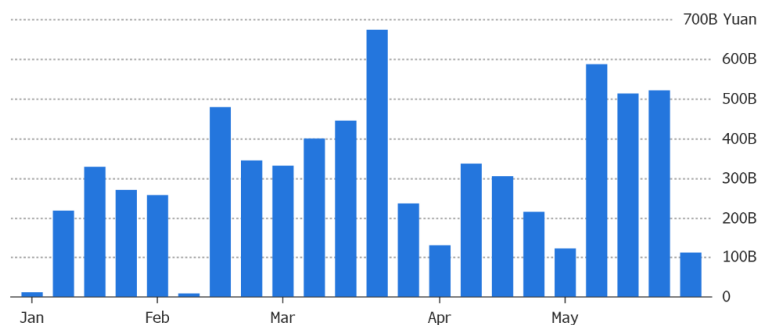
**Equities (Shanghai -0.3%, Shenzhen 1.0%) declined on negative trade-related news flow over the weekend. First**, the information office of China's State Council released a white paper yesterday that blamed the collapse of trade negotiations on unrealistic demands by the US. The document also reiterated three prerequisites for a trade deal - the US should remove all additional tariffs, China's purchases of goods from the US should be realistic, and there should be a proper balance in the text of the agreement – that Vice Premier Liu He mentioned previously. However, China also expressed a willingness to work with the US, stating that the tariffs "will only make things worse for all sides". **Second**, China is preparing a foreign "unreliable entity list" targeting foreign companies that harm the "legitimate rights and interests" of Chinese groups. According to the commerce ministry, the list will apply to those who flout market rules and the spirit of contracts, and block supplies to Chinese companies for non-commercial reasons. Reports over the weekend suggest such companies could be barred from doing business with China entirely, and their employees may be banned from travelling in the country. **Third**, Beijing also began investigating FedEx for allegedly "undermining the legitimate rights and interests" of its Chinese clients. This came after Huawei accused the firm of unauthorized re-routing of its packages, with some diverted to the US instead of addresses in Asia. **The onshore and offshore RMB were steady as the central bank fixed the currency on the stronger side by the most since April 18.**

**Investor concerns over the credit risk of banks remain elevated amid the resignation of the auditors of a small commercial bank.** Demand for negotiable certificate of deposits for smaller banks remained weak after the sharp drop in issuance last week. According to Bloomberg, the auditors of Bank of Jinzhou, Ernst & Young, resigned as there were indications that some loans to institutional customers were used in inconsistent ways. This followed increased caution over small-sized lenders after the takeover of Baoshang Bank by regulators last month. **Bank of Jinzhou's dollar-denominated AT1 bonds plunged to record lows and its Hong Kong shares have been suspended since April 1 after its financial results were delayed.**

## Cold Market

Sales of Chinese interbank debt sank after first government seizure of a lender in 20 years

■ Weekly issuance of negotiable certificate of deposits



Source: Bloomberg

Bloomberg






























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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: 6/3/19 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2752	-1.3	-2	-7	1	10
Europe		3277	-0.1	-3	-6	-5	9
Japan		20411	-0.9	-4	-8	-8	2
China		2890	-0.3	0	-6	-6	16
Asia Ex Japan		66	0.1	1	-10	-14	4
Emerging Markets		41	0.3	2	-8	-12	4
<b>Interest Rates</b>			basis points				
US 10y Yield		2.12	-8.9	-20	-41	-78	-57
Germany 10y Yield		-0.20	-0.1	-6	-23	-59	-45
Japan 10y Yield		-0.09	0.1	-2	-5	-14	-10
UK 10y Yield		0.87	-1.4	-8	-35	-41	-41
<b>Credit Spreads</b>			basis points				
US Investment Grade		132	2.6	5	21	28	-15
US High Yield		483	20.1	38	85	122	-38
Europe IG		72	0.1	4	14	7	-16
Europe HY		310	0.2	16	59	22	-42
EMBIG Sovereign Spread		381	1.0	15	40	40	-33
<b>Exchange Rates</b>			%				
USD/Majors		97.68	-0.1	0	0	4	2
EUR/USD		1.12	0.1	0	0	-4	-2
USD/JPY		108.4	-0.1	1	3	1	1
EM/USD		61.6	0.1	0	-1	-7	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		62	0.6	-11	-12	-19	16
Industrials Metals (index)		110	-0.8	-2	-5	-20	1
Agriculture (index)		41	0.0	5	8	-16	0
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.8	0.0	2.9	5.9	5.3	-6.7
10y Treasury Volatility Index		5.6	1.0	1.2	2.0	1.5	1.0
Global FX Volatility		6.8	0.1	0.1	0.5	-0.9	-2.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		309	-2.7	-22	-23	-104	-107
Italy		282	-5.5	0	28	51	32
Portugal		101	-0.8	-10	-9	-49	-47
Spain		91	-0.5	-5	-5	-14	-26

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: 6/3/2019 7:58 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.91	0.0	-0.1	-2	-7	0		3.3	-0.2	-1	-10	-30	10
Indonesia		14269	1.0	0.9	0	-3	1		8.1	-5.5	0	16	78	-8
India		69	0.6	0.3	0	-3	1		7.2	-6.6	-15	-37	-82	-27
Philippines		52	0.6	0.7	0	1	1		5.1	0.0	0	-12	-40	-122
Thailand		31	0.3	1.3	2	2	3		2.5	-2.8	-4	-11	-21	-13
Malaysia		4.18	0.2	0.1	-1	-5	-1		3.8	-2.0	-3	-5	-43	-31
Argentina		45	-0.5	0.1	-1	-44	-16		33.5	46.0	-1	694	1476	1052
Brazil		3.92	1.5	2.5	0	-5	-1		7.7	-4.0	-34	-57	-185	-49
Chile		710	-0.1	-2.2	-5	-11	-2		3.8	-5.0	-28	-30	-105	-67
Colombia		3380	-0.5	-0.6	-4	-14	-4		6.2	-2.8	-11	-19	-19	-35
Mexico		19.73	-0.6	-3.4	-4	2	0		8.1	9.2	4	-6	32	-58
Peru		3.4	-0.5	-1.1	-2	-3	0		5.2	2.2	-1	-10	-52	-53
Uruguay		35	-0.2	-0.3	-1	-12	-8		11.2	3.8	2	36		53
Hungary		290	0.4	0.5	0	-6	-3		1.8	-6.7	-14	-29	-22	-38
Poland		3.83	0.1	0.0	0	-5	-2		2.2	-3.3	-10	-22	-38	-7
Romania		4.2	0.2	0.4	0	-6	-4		4.2	-2.0	-13	-5	-25	-6
Russia		65.4	0.1	-1.6	0	-5	6		7.7	0.4	-2	-23	56	-72
South Africa		14.5	0.2	-0.8	-1	-14	-1		9.4	-5.3	9	0	20	-20
Turkey		5.89	-0.9	2.9	1	-22	-10		20.1	-46.7	-108	-107	526	322
US (DXY; 5y UST)		97.7	-0.1	0.1	0	4	2		1.89	-1.7	-23	-43	-85	-62

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2890	-0.3	0	-6	-6	16		182	1	3	10	2	-12
Indonesia		6209	0.0	3	-2	4	0		215	2	14	34	21	-21
India		40268	1.4	1	3	14	12		157	1	4	3	-6	-39
Philippines		8085	1.4	5	1	6	8		99	1	12	20	-18	-22
Malaysia		1655	0.3	3	1	-6	-2		133	1	5	13	-5	-29
Argentina		33950	-0.8	-3	5	19	12		991	1	85	65	482	176
Brazil		97030	-0.4	4	1	26	10		270	2	11	28	-28	-3
Chile		4977	0.9	2	-3	-9	-3		145	-1	8	24	3	-21
Colombia		1487	0.0	0	-4	-5	12		215	1	16	40	16	-13
Mexico		42749	-1.4	0	-3	-5	3		332	1	17	35	47	-22
Peru		19923	0.6	1	-4	-5	3		151	2	10	25	-11	-17
Hungary		41214	0.7	3	-1	15	5		124	1	17	28	-7	-24
Poland		57801	-0.2	2	-3	0	0		70	-2	17	30	-7	-15
Romania		8541	0.6	4	1	6	16		217	5	12	27	53	-4
Russia		2721	2.1	3	5	19	15		229	1	18	28	10	-23
South Africa		56077	0.8	3	-5	-2	6		326	-3	16	22	49	-39
Turkey		90346	-0.3	6	-4	-9	-1		549	1	-6	62	142	120
Ukraine		565	0.0	-2	1	25	1		660	2	12	38	152	-127
EM total		41	0.3	2	-8	-12	4		381	1	15	40	40	-33

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