



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, June 4, 2019








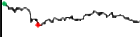


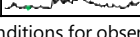
- **US stocks extended losses Monday amid highest policy uncertainty in 3 years** ([link](#))
- **Italian yields fall lower as PM Conte threatens resignation** ([link](#))
- **Reserve Bank of Australia cuts policy rate to a record low, as expected** ([link](#))
- **Chinese equities fall further on US rebuttal of Beijing's trade white paper** ([link](#))
- **Colombia suspends reserve accumulation program as peso depreciates** ([link](#))
- **EM corporate issuance slowed amid uncertainties around trade** ([link](#))
- **Brazil's GDP estimates down for 14th straight week** ([link](#))

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

Markets stabilize as convictions for near term Fed cuts increase

Equity markets in Europe are higher after opening in the red once again. Markets seem to be recovering from another down day on Monday, which was led by US tech stocks on reports of antitrust investigations into major tech firms. Trade tensions remain as the US issued a response to China's white paper casting blame on US officials, but the news flow this morning is not significant enough to spur another leg down in most markets. Chinese equities however lost a further 1% on the day. US yields are bouncing higher this morning after falling sharply once again yesterday on dovish statements from Fed officials. The improved risk sentiment is helping push most EM currencies stronger this morning, with the South African rand the primary outlier as GDP data surprised to the downside.

Key Global Financial Indicators

Last updated: 6/4/19 8:13 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		2744	-0.3	-3	-7	0	9
Eurostoxx 50		3320	0.6	-1	-5	-4	11
Nikkei 225		20409	0.0	-4	-8	-9	2
MSCI EM		41	-1.1	3	-7	-12	5
Yields and Spreads			bps				
US 10y Yield		2.12	-5.4	-15	-41	-82	-56
Germany 10y Yield		-0.21	-1.1	-5	-24	-63	-45
EMBIG Sovereign Spread		379	-5	13	38	42	-35
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.8	0.0	1	-1	-7	-1
Dollar index, (+) = \$ appreciation		97.2	0.0	-1	0	3	1
Brent Crude Oil (\$/barrel)		60.5	-1.2	-14	-15	-20	13
VIX Index (% change in pp)		18.3	-0.6	1	5	6	-7

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

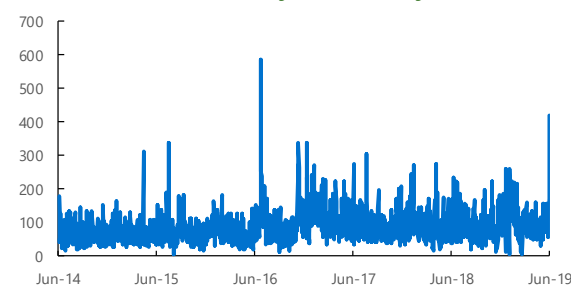
United States

[back to top](#)

Stocks extended losses Monday. US equity markets closed weaker for two consecutive days. Large technology shares led the way on reports that the government was considering antitrust investigations. Other sectors such as materials and energy sectors, however, closed marginally higher for the day showing a sign of recovery from the aftermath of the new trade threat. On the economic data front, the ISM manufacturing index for May was released in the morning, which was weaker than expected (52.1 versus 53.0). The details however were rather solid: new orders, employment, and export orders all ticked higher relative to the previous month, although the majority of responses were collected before the latest round of tariff escalation. The initial market reaction was positive as both equities, and long-term rates ticked higher following the headlines.

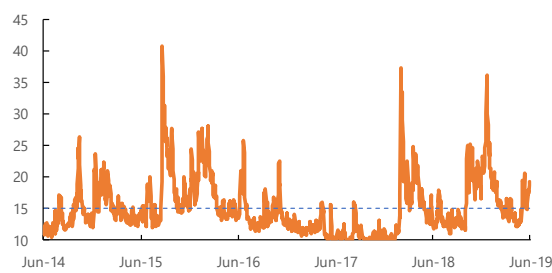
Economic policy uncertainty is the highest in three years. The US Economic Policy Uncertainty Index, a news-based daily index, has renewed its post-Brexit-referendum high of June 2016. The VIX inched higher to 18.9 yesterday, but it is not that far from its five-year average at 15.0.

US Economic Policy Uncertainty Index



Source: Bloomberg

VIX Index



Source: Bloomberg

Treasury 10-year yield continued to decline, reaching its lowest level since September 2017. St. Louis Fed's Bullard in the afternoon said a rate cut "may be warranted soon to help re-center inflation and inflation expectations at target." This follows Fed vice chairman Clarida's dovish comment last Thursday, fueling a rally in rates market. Treasury 2-year outperformed the most on the back of growing expectation for multiple rate cuts this year, down 7bps on the day, with the 2-to-10-year curve steepening to highest levels this year. Investors' rush to safe-haven assets pushed US Treasury volatility higher. The Merrill Lynch Option Volatility Estimate (MOVE), a Treasury option implied volatility index, rose to 73.6, the highest in two years.

On the MOVE

U.S. Treasuries volatility gauge surged to a more than two-year high in May

■ Merrill Lynch Option Volatility Estimate MOVE Index



Source: Bloomberg

CLO sales remain high. Sales of US collateralized loan obligations (CLOs) are keeping pace with last year's record despite adverse circumstances from trade tensions and the lower yield environment. There have been \$52.8 bn of sales so far this year, just slightly below the \$52.4bn that were sold by this time last year, and the pace has been picking up recently. According to analysts, CLO managers have bought some of the equity, the riskiest tranche of CLO, by themselves in order to get deals done. Also, CLO arrangers have shortened the maturity of the products in order to keep them attractive for investors.



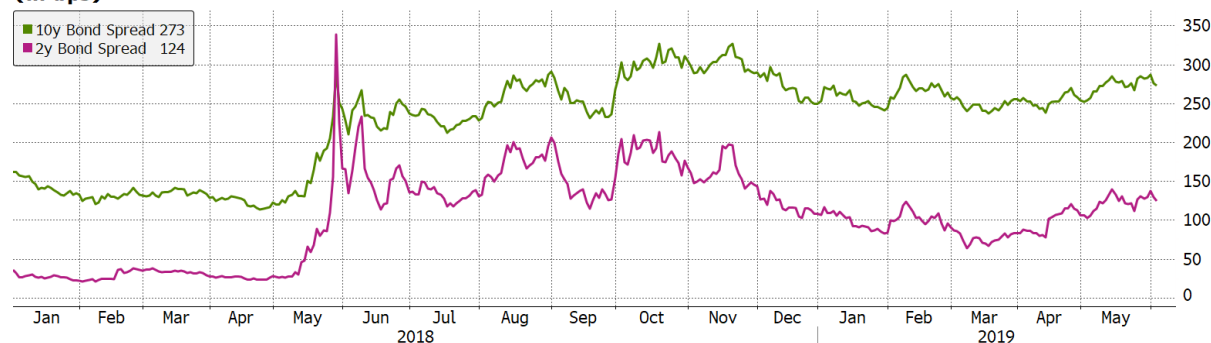
Europe

[back to top](#)

Main European equity indices are slightly higher, while bank stocks are posting stronger gains. The EuroStoxx 600 and CAC 40 gained 0.1% today, while the DAX is 0.5% higher. Bank equities are 2.1% higher, led by gains at Credit Agricole (+2.5%), Intesa (+2.8%), and Unicredit (+2.9%).

Core eurozone yields are steady, while Italian spreads narrowed slightly. The yield on 10-year BTPs dropped 7 bps to 2.48% while the 2-year bond shed 12 bps to 0.51%. The price moves have taken place against the background of a resignation threat by Italian PM Conte, who urged the leaders of the coalition government to continue working together. German 10-year yields are at -0.21% (-1 bp); French at 0.18% (-2 bps).

Italy-Germany Sovereign Spreads (in bps)



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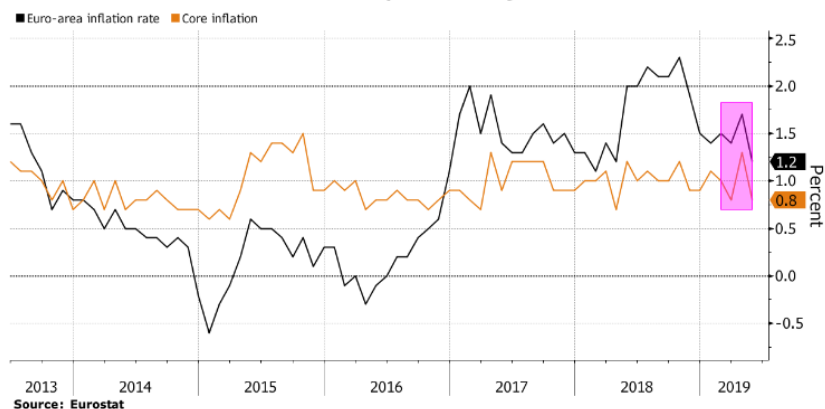
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Eurozone inflation came in weaker than expected in May. Core CPI increased by 0.8% year-on-year vs 0.9% expected, while headline stood at 1.2% y-o-y (compared to 1.3% consensus). Long-term inflation

expectations for the eurozone have been on a declining trend since early 2018. Against this backdrop, investors anticipate a dovish stance from the ECB later this week.

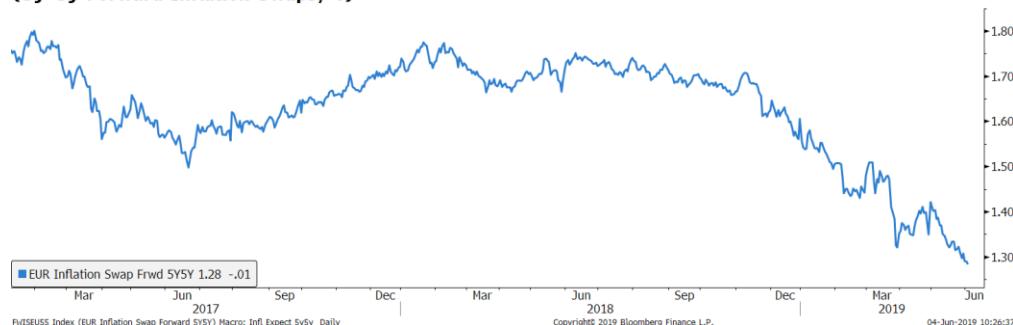
Worse Than Forecast

Euro-area inflation eased more than expected in May



Inflation Expectations

(5y-5y Forward Inflation Swaps, %)



Sterling is down 4% this week (trading at \$1.26 today), as concerns that a hard-Brexiter may become the next prime minister. The race to succeed Theresa May is still ongoing, with many predicting Boris Johnson to become the next leader of the Conservative Party. Mr. Johnson advocates for leaving the EU on Oct. 31st 2019 even without a deal.

Other Mature Markets [back to top](#)

Australia

The Reserve Bank of Australia (RBA) cut its cash rate by 25bps to 1.25% as expected. The first change in the policy rate in almost three years moved interest rates to a historically low level. The RBA noted in its statement that the decision to lower interest rates is 'to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target'. **The Australian dollar, equities and bond yields were little changed.**

Aussie bond yields have fallen with dollar-yen amid haven demand



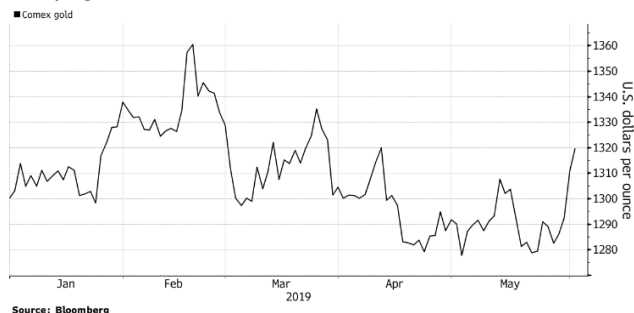
Japan

Equities (both Nikkei and Topix 0.0%) ended the day flat after paring earlier losses. Gains in resources and autos provided support, offsetting losses in other sectors such as telcos. **The yen was little changed while 10-year JGB yield fell 1.1 bps to -0.11%.**

Commodity

Gold rallied on safe-haven demand amid escalating trade tensions. The price of bullion rose by more than 3% since last Thursday when the new trade threat against Mexico surprised the market. The change in the perception of where US rates are heading has also been supportive of gold as some analysts.

Wake-Up Call Gold springs to life after weeks in doldrums



Source: Bloomberg

Emerging Markets

[back to top](#)

Asian equities (-0.3%) fell on net, with most markets in the red. China (Shanghai -1.0%; Shenzhen -1.4%) underperformed as it continues to buckle under negative trade news flow. Thailand (+1.1%), Singapore (+0.5%) and Vietnam (+0.5%) bucked the regional trend. Regional currencies were mostly little changed, although the Thai baht appreciated 1% on the back of a rising yield premium over US treasuries. **EMEA** bourses are mixed, with gains in Qatar (+1.5%) and Saudi Arabia (+1.2%), and losses in Romania (-1.1%) and Russia (-0.9%). Currencies are stable. **Latin American** assets were mostly mixed yesterday. Stocks in Mexico (+0.8%) and Chile (+0.7%) saw gains as market participants believe that last month's sell-off went too far, while Argentina (-0.5%) saw some losses. Amongst regional currencies, the Chilean peso (+1.2%) strengthened the most against the dollar buoyed by higher commodity prices, followed by the Brazilian real (+1%), while the Mexican peso (-0.8%) weakened against the dollar amid tariff threats.

Key Emerging Market Financial Indicators

Last updated: 6/4/19 8:16 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.08	-1.2	3	-7	-12	5
MSCI Frontier Equities		28.68	-0.1	1	0	-7	10
EMBIG Sovereign Spread (in bps)		379	-5	13	38	42	-35
EM FX vs. USD		61.77	0.0	1	-1	-7	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.91	-0.1	0	-2	-7	0
Indonesian Rupiah		14269	1.0	1	0	-3	1
Indian Rupee		69.26	0.0	1	0	-3	1
Argentine Peso		44.88	-0.2	0	-1	-44	-16
Brazil Real		3.88	0.1	4	2	-3	0
Mexican Peso		19.71	0.3	-3	-4	2	0
Russian Ruble		65.24	0.1	-1	0	-5	6
South African Rand		14.66	-1.4	0	-1	-14	-2
Turkish Lira		5.81	0.5	4	5	-21	-9
EM FX volatility		8.59	0.0	0.2	0.7	-0.6	-1.2

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

Emerging markets

EM corporate issuance in May slowed to \$29.8 bn, after posting a record high \$64.9 bn in April.

JPMorgan reports that there has been a moderation in supply since the latter part of April, with the weekly pace coming down from \$10 bn to \$4-6 bn. Asia led the issuance with \$19.4 bn in May. Middle East & Africa was relatively active at \$4.6 bn which was higher than the past 5-year average of \$3.8 bn, with large contribution from banks and a debut quasi-sovereign. Latin America (\$3.4 bn) and EM Europe (\$2.4 bn) were on the lower side, and mostly came from IG or BB issuers. Analysts expect the primary market to remain measured given the macro uncertainties around trade.

China

Equities (Shanghai -1.0%, Shenzhen -1.4%) dropped as sentiment remained weak amid continued negative trade news flow. The weakness was broad-based across all sectors. The US Treasury Department and US Trade Representative released a response to Beijing's trade white paper stating that the US is "disappointed" that the Chinese have chosen to "pursue a blame game misrepresenting the nature and history of trade negotiations between the two countries". Additionally, China warned its students and academics of the risks of studying in the US. **Both onshore and offshore RMB were stable and 10-year government bond yields fell 2.4 bps to 3.23%.**

Small-sized Chinese banks have delayed plans to sell tier-2 bonds as demand weakened following the takeover of Baoshang Bank last month. According to Bloomberg, Guilin Bank Co. and Jincheng Bank Co.'s planned tier 2 bond sales of around CNY1 bn each in June have been postponed. Analysts expect funding to be more challenging for smaller banks in the wake of the Baoshang takeover. Bloomberg data showed that Chinese banks have sold CNY420 bn of tier 2 bonds in the local market so far this year, exceeding the tally in 2018.

Mexico

Mexican GDP losses could be 0.9%-4.6%, while retaliation by Mexico could imply between 0.04% GDP to 0.2% less growth in the US with 5% and 25% tariffs respectively, suggests analyst reports. If the adjustment takes place via prices, the peso would need to depreciate between 8.3% and 8.6% (with retaliation) vs. the US dollar if the tariff is 5% or between 42% to 59% if tariffs go up to 25%. The peso weakened by a further 0.9% against dollar on Monday extending its 3-day losing streak as president López Obrador stressed cooperation and continued discussions over immigration with US officials.

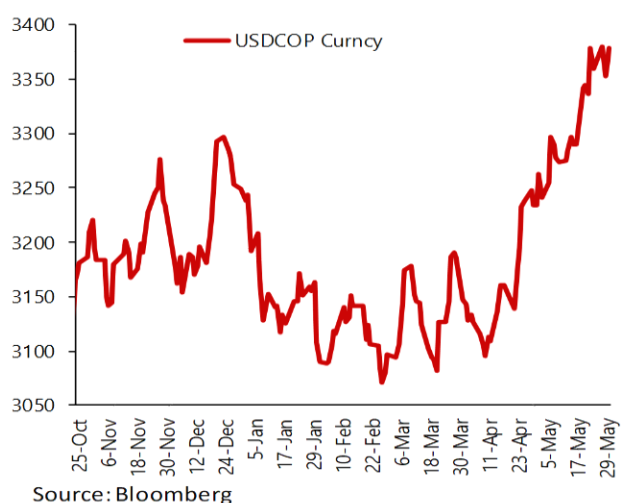
Figure 1. USDMXN vs. President Trump's US-Mexico Tweets and news, 2016-2019



Source: Bloomberg, Macrobond, Citi Research

Colombia

The central bank suspended its reserve accumulation program which began in September 2018 as the Colombian peso depreciated almost 9% against dollar since April. The bank said that they want to assess the impact of this program on the behavior of the foreign exchange market given the current environment. Analysts believe the move signals that external accounts and the currency could be topics of discussions in policy meetings and the peso could be an attractive long as soon as oil stabilizes. Since October 2018, the central bank had offered \$400 mn worth of FX put options through monthly auctions and purchased \$1.88 bn through the program. The central bank did not provide any guidance on whether it intends to resume the program should the peso reverse the sharp depreciation of the past months.



Source: Bloomberg

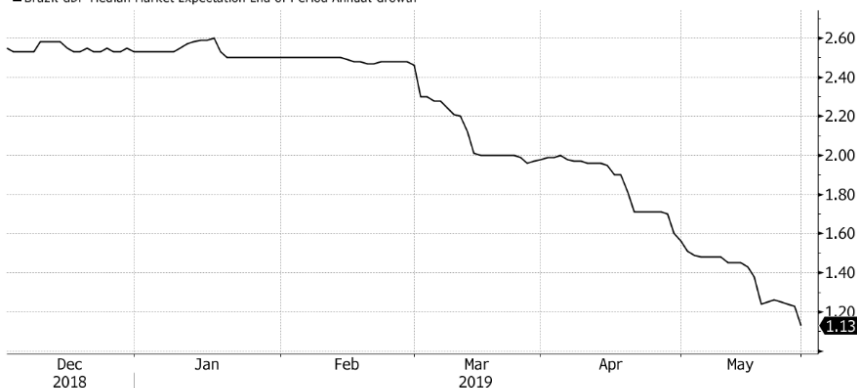
Brazil

Analysts cut their 2019 GDP estimate for the 14th straight week following the release of first quarter data confirming that the economy has contracted. According to the median forecast from the central bank's weekly survey published on its website yesterday, Latin America's largest economy will expand by 1.13% this year. That's down from 1.23% the week prior and is in-line with the 1.1% growth recorded in 2018.

Another Blow

Economists' 2019 GDP growth estimates falling toward 1%

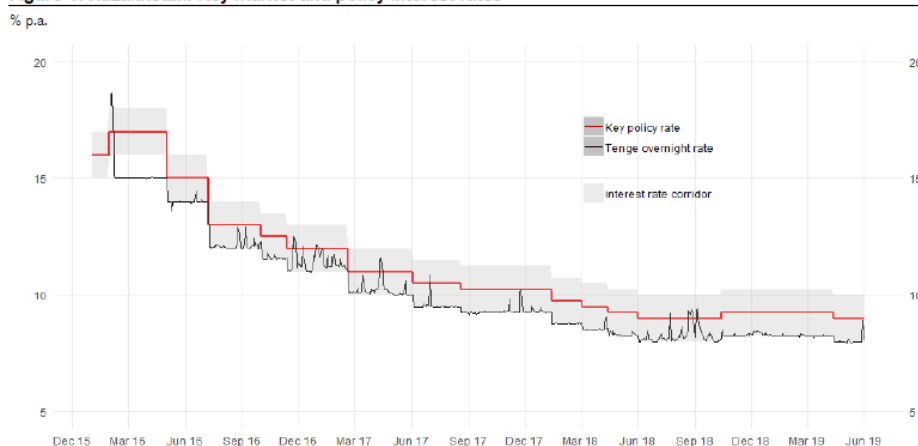
■ Brazil GDP Median Market Expectation End of Period Annual Growth



Source: Central bank's Focus survey

Kazakhstan's central bank left its policy rate at 9.0%, as expected. The NBK noted that inflationary expectations remain below the annual inflation rate.

Figure 1. Kazakhstan: Key market and policy interest rates



Source: NBK, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

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Global Financial Indicators

Last updated: 6/4/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2744	-0.3	-3	-7	0	9
Europe		3320	0.6	-1	-5	-4	11
Japan		20409	0.0	-4	-8	-9	2
China		2862	-1.0	-2	-7	-7	15
Asia Ex Japan		66	0.8	1	-9	-14	4
Emerging Markets		41	-1.1	3	-7	-12	5
Interest Rates			basis points				
US 10y Yield		2.12	-5.4	-15	-41	-82	-56
Germany 10y Yield		-0.21	-1.0	-5	-24	-63	-45
Japan 10y Yield		-0.10	-0.9	-3	-6	-15	-11
UK 10y Yield		0.88	2.0	-4	-34	-42	-40
Credit Spreads			basis points				
US Investment Grade		132	-1.5	4	21	30	-15
US High Yield		489	-6.5	36	97	141	-32
Europe IG		68	-2.1	-1	10	3	-19
Europe HY		298	-8.9	0	46	10	-55
EMBIG Sovereign Spread		379	-5.0	13	38	42	-35
Exchange Rates			%				
USD/Majors		97.17	0.0	-1	0	3	1
EUR/USD		1.12	0.0	1	0	-4	-2
USD/JPY		108.2	-0.1	1	2	2	1
EM/USD		61.8	0.0	1	-1	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		61	-1.1	-14	-14	-20	13
Industrials Metals (index)		110	-0.1	-2	-5	-21	1
Agriculture (index)		42	0.3	3	8	-14	0
Implied Volatility			%				
VIX Index (% change in pp)		18.3	-0.6	0.8	5.4	5.6	-7.1
10y Treasury Volatility Index		5.7	0.1	1.5	2.1	1.6	1.1
Global FX Volatility		6.9	0.0	0.2	0.5	-0.8	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		314	6.8	-21	-17	-90	-101
Italy		272	-4.0	-12	19	60	22
Portugal		92	-4.2	-16	-18	-43	-56
Spain		85	-4.1	-10	-11	-6	-32

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 6/4/2019 8:17 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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	-0.1	0.0	-2	-7	0		3.3	-0.8	-5	-11	-32	9
Indonesia		14269	1.0	0.9	0	-3	1		8.1	0.0	1	8	78	-8
India		69	0.0	0.6	0	-3	1		7.1	-3.6	-14	-38	-86	-31
Philippines		52	0.3	1.0	0	2	2		5.1	0.0	0	-11	-40	-122
Thailand		31	0.1	1.8	2	2	3		2.5	0.0	-5	-11	-18	-13
Malaysia		4.17	0.2	0.3	-1	-5	-1		3.8	-1.9	-5	-9	-45	-33
Argentina		45	-0.2	-0.1	-1	-44	-16		33.1	-39.4	-41	652	1466	1013
Brazil		3.88	0.1	3.7	2	-3	0		7.6	-10.3	-39	-61	-189	-60
Chile		702	1.2	-0.4	-3	-10	-1		3.8	-2.5	-31	-34	-109	-69
Colombia		3357	0.7	0.2	-4	-15	-3		6.2	0.0	-11	-18	-17	-35
Mexico		19.71	0.3	-2.6	-4	2	0		8.1	0.1	3	-6	29	-58
Peru		3.4	0.6	-0.3	-2	-3	0		5.2	0.6	0	-12	-54	-52
Uruguay		35	0.2	-0.3	-1	-12	-8		11.2	-2.2	0	31		51
Hungary		286	0.4	2.3	1	-5	-2		1.8	-6.7	-21	-40	-26	-45
Poland		3.81	-0.1	1.1	0	-4	-2		2.2	-1.2	-9	-25	-38	-8
Romania		4.2	-0.1	1.3	1	-6	-4		4.1	-4.0	-17	-9	-29	-10
Russia		65.2	0.1	-0.8	0	-5	6		7.7	1.6	-1	-21	58	-70
South Africa		14.7	-1.4	0.5	-1	-14	-2		9.4	-4.0	0	-5	18	-24
Turkey		5.81	0.5	3.9	5	-21	-9		20.2	5.0	-103	-67	485	327
US (DXY; 5y UST)		97.2	0.1	-0.8	0	3	1		1.90	6.6	-17	-42	-89	-61

	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		2862	-1.0	-2	-7	-7	15		183	2	8	11	3	-11	
Indonesia		6209	0.0	3	-2	4	0		211	-7	10	30	15	-25	
India		40084	-0.5	1	3	14	11		160	3	7	10	0	-36	
Philippines		7945	-1.7	2	0	5	6		95	-8	9	16	-21	-26	
Malaysia		1644	-0.7	2	0	-6	-3		133	1	9	13	-1	-29	
Argentina		33765	-0.5	-5	4	16	11		998	-14	78	72	517	183	
Brazil		97020	0.0	2	1	23	10		264	-4	5	22	-28	-9	
Chile		5014	0.7	3	-2	-10	-2		145	-1	10	24	5	-21	
Colombia		1487	0.0	0	-4	-5	12		210	-3	11	35	18	-18	
Mexico		43108	0.8	1	-3	-5	4		328	-5	13	31	44	-26	
Peru		19981	0.3	2	-4	-5	3		146	-4	4	20	-12	-22	
Hungary		41040	-0.2	1	-2	10	5		119	-9	18	23	-11	-29	
Poland		57772	-0.1	1	-3	-1	0		68	-7	20	28	-7	-17	
Romania		8480	-1.2	0	0	5	15		222	4	16	40	63	1	
Russia		2705	-0.9	4	5	16	14		227	-4	17	26	13	-25	
South Africa		56460	0.3	4	-5	-2	7		324	-5	16	20	57	-41	
Turkey		90346	0.0	6	-4	-9	-1		550	-3	-2	63	151	121	
Ukraine		556	-1.5	-3	0	23	-1		655	-10	1	33	159	-132	
EM total		41	-1.2	3	-7	-12	5		379	-5	13	38	42	-35	

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