Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, June 6, 2019

- **US equities extend gains as implied volatility falls (link)**
- **ECB expects policy rate to stay steady through H1 2020 and announces TLRTO III (link)**
- **Fitch downgrades Mexico to BBB from BBB+; Moody's changes outlook to negative (link)**
- **Chinese tech shares fall on reports of Huawei cutting orders and sales forecasts (link)**
- **Reserve Bank of India cuts repo rate by 25 bps to 5.75%, as expected (link)**

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ECB expects policy rate to stay steady through H1 2020 and announces TLRTO III

Risk assets broadly steadied amid growing expectations for increased central bank accommodation. Yesterday, after US markets had closed, Fitch downgraded Mexico's credit rating as it became increasingly likely that the US would apply a 5% tariff to Mexican goods next week. The Mexican peso depreciated 0.8% overnight. While Asian stocks were little changed, European shares appreciated about half a percent, recovering some of the ground lost earlier this week. The yield curves for core European countries continued to flatten ahead of the ECB announcement, with French and German 10-year yields declining about 3 bps. Following the ECB decision, rates rose up to 3 bps, as the extension of policy guidance through the first half of 2020 diminished the probability that the ECB might consider taking the policy rate further into negative territory. The US Treasury curve shifted down another 4 bps across most tenors. The 2-year note now yields about 46 bps less than it did 1 month ago and Fed fund futures contracts now imply about 50 bps worth of easing by the December FOMC.

Key Global Financial Indicators

Last updated: 6/6/19 8:14 AM	Level Last 12m	Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2826	0.8	2	-4	2	13
Eurostoxx 50		3360	0.6	1	-3	-3	12
Nikkei 225		20774	0.0	-1	-7	-8	4
MSCI EM		41	0.4	1	-6	-13	5
Yields and Spreads					bps		
US 10y Yield		2.11	0.5	-11	-36	-87	-58
Germany 10y Yield		-0.22	0.7	-4	-23	-68	-46
EMBIG Sovereign Spread		368	0	-6	23	31	-46
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		61.9	0.1	1	0	-6	-1
Dollar index, (+) = $ appreciation		97.0	-0.3	-1	0	4	1
Brent Crude Oil ($/barrel)		61.2	0.9	-8	-14	-19	14
VIX Index (%, change in pp)		16.0	-0.1	-1	1	4	-9

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

United States

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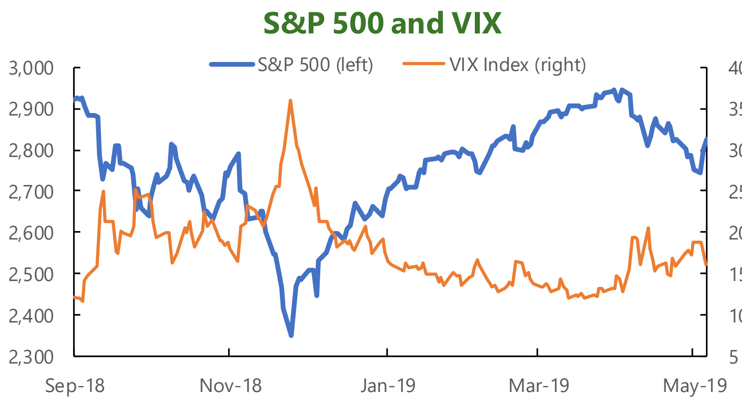
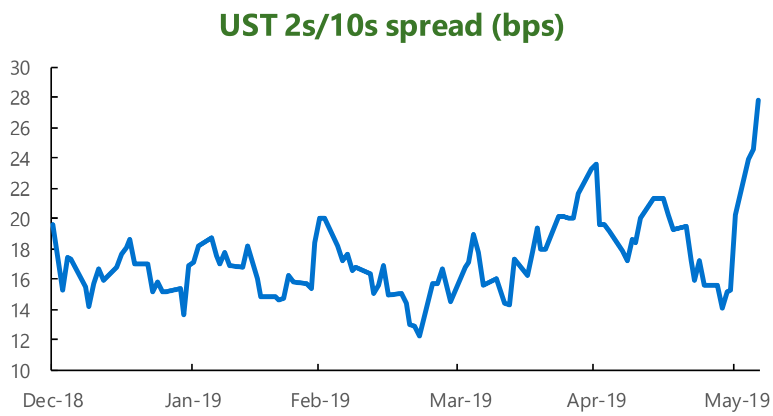
Stocks extended gains during the day on an optimistic outlook that Mexican tariffs would be avoided. The S&P 500 rose by 0.8% to close at above the 100-day moving average. The VIX index quickly came off to the levels seen before the announcement of the new tariff policy against Mexico last week. After the market close, however, the US and Mexico wrapped up their tariff meeting with no agreement.



Source: Bloomberg

Economic indicators released Wednesday were mixed. The ADP employment report for May was extremely weak at 27k (vs. 185k expected). In particular, small firms showed a marked decline in employment (-52k). However, the non-manufacturing ISM was steady at 56.9 (vs. 55.4 expected) with a robust employment figure of 58.1. Analysts pointed out that a sharp increase in the ISM employment component above the 6-month moving average suggests that the plunge in the ADP report overstates the scale of weakness in the economy. The 10-year Treasury yield was almost unchanged at 2.13%.

Treasury 2-to-10-year spread widened by 3 bps to 28 bps, the steepest levels in this year. The 2-year Treasury yield plummeted by as much as 10 bps following the much weaker-than-expected ADP employment report, but closed trading only 3 bps lower on the day, supported by the robust non-manufacturing ISM employment figures.



Source: Bloomberg

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Europe

As widely expected, the ECB left its policy rates unchanged, with the deposit rate at -0.40%, the refi rate at zero, and the marginal lending facility at 0.25%. In addition, the ECB announced the terms for a new series of targeted long-term refinancing operations (TLTRO), with the rate set at -0.30%. The TLTRO rate was modestly higher than some expected. Following the decision, core rates rose up to 3 bps and the euro appreciated 0.3% against the dollar. The press conference will begin shortly, with market participants expecting additional details on the TLTRO III pricing as well as the updated macro forecasts.

Equity markets continue to recover, posting the fourth consecutive session of increases. The EuroStoxx 600 is up 0.6% and up about 1.5% on the week. There have been no notable repercussions from the news halted withdrawals from a prominent UK fund (Woodford Equity Income) as one of its key clients severed ties with the fund. The FTSE 100 is up 0.7% today, though it has been underperforming indices in Continental Europe over the last few sessions. **Yields are slightly lower across the region.** The German 10-year bund is still hovering around record lows of -0.23%.

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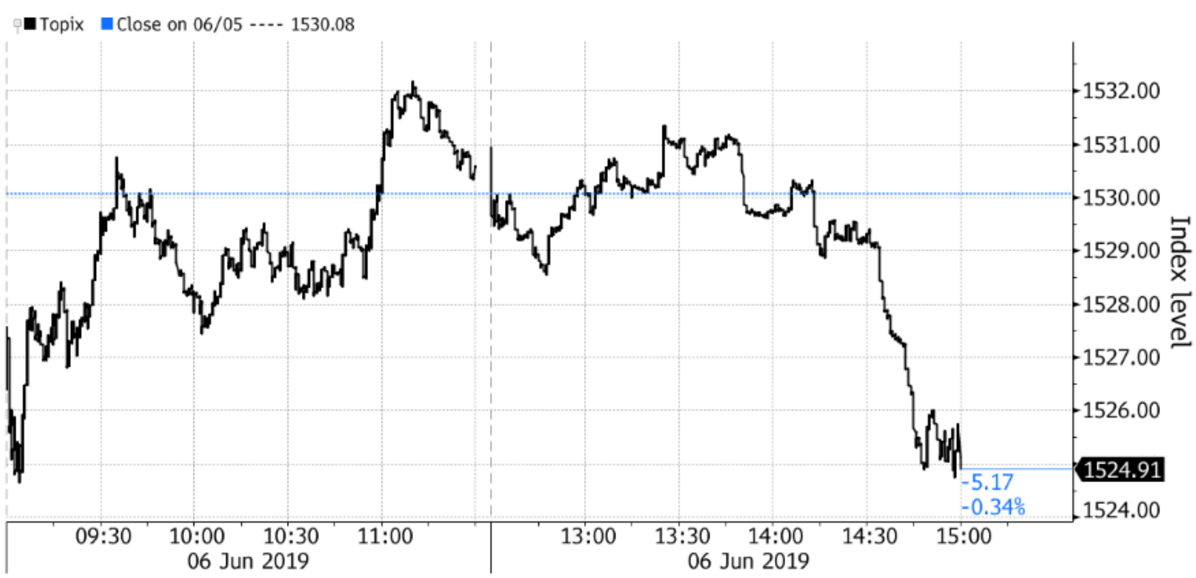
Japan

Equities (Nikkei 0.0%; Topix -0.3%) ended the day flat after losing ground late in the session. Energy underperformed while electronics also weighed on the indices. **The yen appreciated 0.3% and 10-year JGB yield rose 0.1 bps to -0.13%.**

Topix ends lower after losing steam in last hour of trades



Source: Tokyo Stock Exchange

Emerging Markets back to top

Asian equities (-0.1%) were little changed on net amid dispersed performance. Chinese stocks (Shanghai -1.2%; Shenzhen -2.1%) underperformed and India (Sensex -1.5%) also lagged. Regional sovereign bond yields broadly declined with Indian bonds rallying after the RBI rate cut. Asian currencies were steady.

EMEA equities mostly gained today, led by Qatar (+1.5%) and Saudi Arabia (+1.2%). Currencies strengthened to the dollar by 0.2-0.3%. **Latin American** assets widely saw losses yesterday. Stocks in Brazil (-1.4%) saw the biggest losses in emerging markets as investors pulled about $127 mn from the $9 bn iShares MSCI Brazil ETF yesterday, the largest single-day withdrawal since August. While bourses in Argentina (+1.7%) and Mexico (+0.4%) saw gains. Among regional currencies, the Mexican peso (-1%) weakened the most against the dollar as Fitch downgraded its rating and Mexican officials failed to reach an agreement with the US. Brazilian real (-0.6%) also weakened on reports that the government is mulling ways to relax the spending cap.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
6/6/19 8:17 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.84	0.4	1	-6	-13	5
MSCI Frontier Equities		29.10	0.1	1	1	-8	11
EMBIG Sovereign Spread (in bps)		368	0	-6	23	31	-46
EM FX vs. USD		61.89	0.1	1	0	-6	-1
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.91	-0.1	0	-2	-8	0
Indonesian Rupiah		14269	1.0	1	0	-3	1
Indian Rupee		69.28	0.0	1	0	-3	1
Argentine Peso		44.92	-0.4	-1	-1	-44	-16
Brazil Real		3.87	0.3	3	2	-1	0
Mexican Peso		19.76	-0.9	-3	-4	3	-1
Russian Ruble		65.19	0.2	0	0	-5	6
South African Rand		14.87	0.1	-1	-3	-15	-4
Turkish Lira		5.77	-0.7	2	5	-21	-8
EM FX volatility		8.68	0.0	0.3	0.3	-0.5	-1.1

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

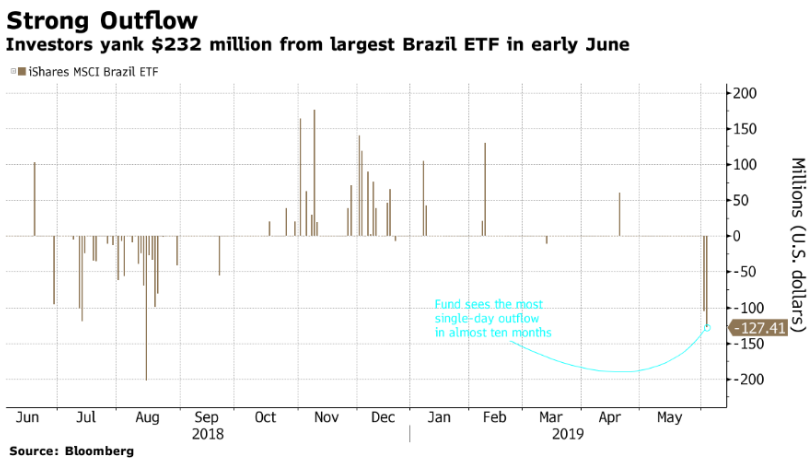
Mexico

Fitch downgraded Mexico's ratings to BBB from BBB+ and Moody's updated its outlook from stable to negative after officials failed to reach an agreement to avert US tariffs. The action by both agencies reflects increased risk from Pemex's deteriorating credit profile together with ongoing weakness in the macroeconomic outlook. These risks, according to the rating agencies, are exacerbated by external threats from trade tensions, some domestic policy uncertainty and ongoing fiscal constraints. The new tariffs on imports are set to begin on Monday if Mexico doesn't take unspecified actions to stem the flow of migrants and illegal drugs to the US. Following the ratings decisions, the peso depreciated by more than 1% in afterhours trading.

Source: Bloomberg

Brazil

The real depreciated by 0.6% against the dollar after reports that President Bolsonaro's administration is considering ways to relax a government spending cap amid weak revenues. Investors pulled about $127 mn from the $9 bn iShares MSCI Brazil ETF yesterday, the largest single-day withdrawal since August, as traders assessed the recent escalation in global trade tensions and mounting signs of disappointing growth in Brazil. Investors pulled $313 mn from 5 US-listed ETFs dedicated to Brazilian assets over the past week, the second-largest net outflow among emerging markets. Brazil's benchmark Ibovespa equity index fell by 1.5% yesterday, leading losses in emerging markets.



China

Equities (Shanghai -1.2%, Shenzhen -2.1%) declined amid tech woes. According to Nikkei, Huawei has cut or canceled orders to major suppliers and lowered its forecast for overall smartphone shipments for 2019H2 by "about 20-30%". However, the Chinese firm rejected these claims. Additionally, US tech firms such as Microsoft have stopped accepting new orders from the Chinese telecom giant while Alphabet Inc also suspended the transfer of hardware, software and technical services to Huawei.

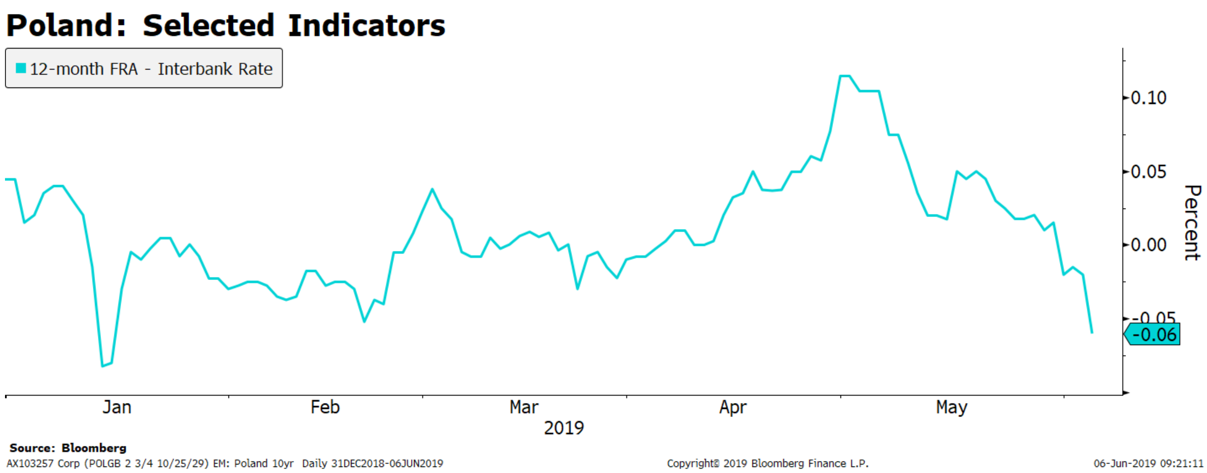
The People's Bank of China (PBoC) supported the liquidity of small banks through a larger injection of medium-term funds. It added CNY500 bn through its one-year medium-term lending facility, which was the second largest on record and more than covered the CNY463bn maturing. The additional liquidity came amid an increase in funding costs for smaller lenders following the first seizure of a bank in more than two decades last month. **10-year government bond yields and the onshore and offshore RMB were stable.**

India

The Reserve Bank of India (RBI) cut its benchmark repurchase rate by 25 bps to 5.75%, as expected. This was the third consecutive reduction this year and brought interest rates to a 9-year low. The decision was unanimous. The six-member Monetary Policy Committee also changed its monetary policy stance to accommodative from neutral and lowered its growth forecast for the fiscal year to 7.0% from April's figure of 7.2%. **Indian 10-year bond yields fell 12 bps to 6.9%, the Indian rupee was steady, while Indian equities (Sensex -1.5%) sold off.**

Poland

The Central Bank of Poland left its policy rate unchanged at 1.5%, as expected. The Monetary Policy Committee kept rates steady despite Poland's 4.7% annual growth and a recent uptick in inflation. The MPC focused instead on downside risks to global growth as the main rationale for its decision. Moreover, governor Glapinski also suggested that rates are likely to remain on hold for the foreseeable future. However, derivatives pricing—as measured by the difference between the 12-month forward rate agreement and Warsaw's interbank rate—indicate that investors see some chance of a rate cut in coming months.



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Global Financial Indicators

Last updated:	Level		Change				
6/6/19 8:14 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2826	0.8	2	-4	2	13
Europe		3360	0.6	1	-3	-3	12
Japan		20774	0.0	-1	-7	-8	4
China		2828	-1.2	-3	-3	-9	13
Asia Ex Japan		66	-0.5	1	-7	-16	4
Emerging Markets		41	0.4	1	-6	-13	5
Interest Rates					basis points		
US 10y Yield		2.11	0.5	-11	-36	-87	-58
Germany 10y Yield		-0.22	0.7	-4	-23	-68	-46
Japan 10y Yield		-0.12	0.3	-4	-8	-18	-12
UK 10y Yield		0.86	0.1	-3	-36	-51	-41
Credit Spreads					basis points		
US Investment Grade		130	-0.1	1	16	26	-17
US High Yield		476	0.9	13	76	133	-45
Europe IG		64	-1.8	-5	6	-6	-23
Europe HY		285	-4.0	-16	34	-15	-67
EMBIG Sovereign Spread		368	0.0	-6	23	31	-46
Exchange Rates					%		
USD/Majors		97.04	-0.3	-1	0	4	1
EUR/USD		1.13	0.4	1	1	-4	-2
USD/JPY		108.1	0.3	1	2	2	1
EM/USD		61.9	0.1	1	0	-6	-1
Commodities					%		
Brent Crude Oil ($/barrel)		61	0.9	-8	-14	-19	14
Industrials Metals (index)		110	0.8	-1	-5	-23	1
Agriculture (index)		40	-0.7	-3	6	-16	-3
Implied Volatility					%		
VIX Index (%, change in pp)		16.0	-0.1	-1.3	0.5	4.3	-9.5
10y Treasury Volatility Index		5.3	0.1	0.6	1.3	1.1	0.7
Global FX Volatility		7.1	0.0	0.5	0.4	-0.7	-1.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		316	-1.9	-7	-18	-98	-99
Italy		273	3.3	-10	16	25	23
Portugal		86	-4.0	-17	-25	-62	-62
Spain		83	-2.5	-11	-15	-21	-34

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: 6/6/2019 8:17 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		6.91	-0.1	-0.2	-2	-8	0		3.3	-1.0	-6	-13	-37	7
Indonesia		14269	1.0	0.9	0	-3	1		8.1	0.0	-6	8	71	-8
India		69	0.0	0.9	0	-3	1		7.2	0.0	-8	-36	-85	-29
Philippines		52	0.0	0.8	0	1	2		5.1	0.0	-2	-12	-40	-123
Thailand		31	0.3	1.5	2	2	3		2.4	-2.1	-8	-18	-21	-20
Malaysia		4.17	0.2	0.3	-1	-5	-1		3.7	0.0	-9	-14	-50	-37
Argentina		45	-0.4	-1.1	-1	-44	-16		32.6	3.1	-104	596	1433	957
Brazil		3.87	0.3	2.9	2	-1	0		7.6	13.4	-17	-61	-220	-60
Chile		694	0.0	1.7	-2	-9	0		3.8	-2.3	-6	-35	-111	-71
Colombia		3306	-0.4	1.4	-2	-14	-2		6.0	-5.9	-16	-30	-25	-47
Mexico		19.76	-0.9	-3.1	-4	3	-1		8.1	-0.9	4	-14	20	-66
Peru		3.3	0.2	0.4	-1	-2	1		5.2	-2.4	0	-18	-53	-58
Uruguay		35	-0.3	-0.1	0	-12	-8		11.1	-6.7	-12	20		39
Hungary		285	0.5	2.3	1	-5	-2		1.8	-2.7	-14	-39	-19	-44
Poland		3.80	0.4	1.5	1	-5	-2		2.1	-6.4	-13	-33	-46	-16
Romania		4.2	0.4	1.9	1	-6	-3		4.1	1.0	-9	-10	-40	-11
Russia		65.2	0.2	-0.1	0	-5	6		7.6	-5.2	-13	-30	47	-80
South Africa		14.9	0.1	-0.9	-3	-15	-4		9.5	4.2	6	8	23	-11
Turkey		5.77	-0.7	1.8	5	-21	-8		20.2	0.0	-80	-67	441	327
US (DXY; 5y UST)		97.0	-0.3	-1.1	0	4	1		1.86	-2.0	-16	-41	-95	-65

	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		2828	-1.2	-3	-3	-9	13		183	-1	1	10	3	-11
Indonesia		6209	0.0	3	-2	4	0		196	-4	-15	11	0	-40
India		39530	-1.4	0	1	13	10		156	1	3	6	-6	-40
Philippines		7960	0.2	2	0	4	7		85	-4	-11	3	-30	-36
Malaysia		1644	0.0	2	0	-6	-3		132	-1	0	10	-4	-30
Argentina		35276	1.7	4	7	16	16		971	2	14	56	506	156
Brazil		95999	-1.4	-1	1	26	9		253	1	-12	8	-50	-20
Chile		4957	-1.0	2	-3	-10	-3		142	0	-2	18	3	-24
Colombia		1483	-0.9	1	-4	-5	12		201	2	-6	22	7	-27
Mexico		43420	0.4	1	-2	-4	4		330	10	9	29	40	-24
Peru		20101	0.6	2	-3	-6	4		138	1	-6	9	-22	-30
Hungary		41205	0.4	0	-1	11	5		101	-11	-13	2	-23	-47
Poland		58516	1.6	2	-1	-1	1		63	-7	2	21	-5	-22
Romania		8620	0.1	3	3	4	17		197	-10	-11	15	37	-24
Russia		2727	0.9	3	6	18	15		215	-1	-5	9	0	-37
South Africa		57194	0.2	3	-3	-2	8		323	3	5	14	48	-42
Turkey		90346	0.0	6	-4	-9	-1		536	5	-9	44	131	107
Ukraine		554	-0.3	-3	-3	24	-1		620	-10	-25	-8	119	-167
EM total		41	0.4	1	-6	-13	5		368	0	-6	23	31	-46

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