



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, June 7, 2019












- **US nonfarm payrolls misses expectations in May** ([link](#))
- **Speculators long positions in US rate futures increase** ([link](#))
- **Theresa May resigns today and race for the next UK PM starts on Monday** ([link](#))
- **Fitch downgrades Pemex to junk; Moody's changes outlook to negative** ([link](#))
- **China has tremendous policy room if the trade war worsens, PBOC governor says** ([link](#))

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

Global assets grind higher ahead of the US payrolls report

The overnight session had a quiet tone, as investors awaited the release of the US nonfarm payroll report. Market participants continued to discuss yesterday's ECB decision, which was seen by many as a compromise between hawks and doves. The ECB extended its forward guidance, an action that many did not anticipate until later in the year. At the same time, the terms of the third round of TLTROs was seen as modestly less generous than the second round, with the new facility priced at 10 bps above the average refi rate over the life of the operation (compared with 0 bps in TLTRO2). However, in the context of the market's increasing expectations for near-term accommodation from the Fed, the impact of the ECB's decision was seen by many as somewhat disappointing. Global trade tensions also remain a topic of conversation, as Mexican and US officials continue their negotiations in an attempt to head off the imposition of 5% tariffs on all Mexican goods imported into the US.

Key Global Financial Indicators

Last updated: 6/7/19 7:58 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2843	0.6	2	-1	3	13
Eurostoxx 50		3373	1.0	3	-1	-3	12
Nikkei 225		20885	0.5	1	-5	-8	4
MSCI EM		41	0.3	1	-4	-12	5
Yields and Spreads			bps				
US 10y Yield		2.12	-1.7	-1	-34	-80	-57
Germany 10y Yield		-0.24	0.3	-3	-20	-72	-48
EMBIG Sovereign Spread		364	0	-16	16	21	-50
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.7	-0.2	0	0	-6	-1
Dollar index, (+) = \$ appreciation		97.1	0.0	-1	-1	4	1
Brent Crude Oil (\$/barrel)		62.5	1.4	-3	-11	-19	16
VIX Index (% change in pp)		15.6	-0.3	-3	-4	3	-10

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

United States

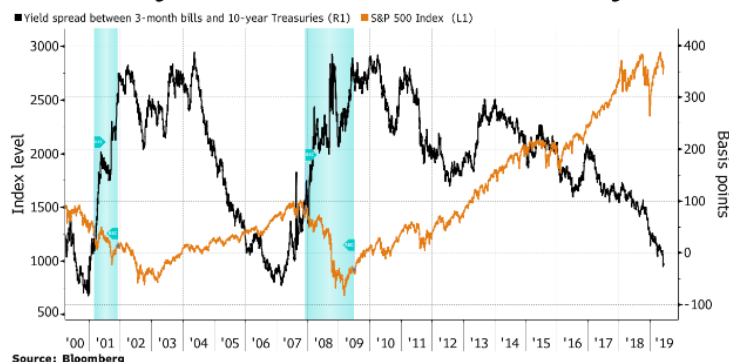
[back to top](#)

The May nonfarm payroll report was much weaker than expected (75k vs. 175k consensus). The unemployment rate was unchanged at 3.6% (vs. 3.6% consensus). Average hourly earnings YoY was a tick lower at 3.1% (vs. 3.2% consensus). In financial markets, Treasury yield 9 to 5 bps along the 2- to 10- year sector of the curve. The dollar was only modestly weaker against the Japanese yen and euro.

Equities posted modest gains for the third day in a row. Price action in the S&P 500 was back and forth on tariff-related headlines but managed to close the day higher by 0.4%, in a relatively light trading volume. Investor sentiment remained fragile, as optimism over potentially looser monetary policy was offset by concern over trade tensions. The Treasury market reversed its steepening trend, with the 10-year yield down by 1 bp (2.12%) and 2-year yield up by 3 bps (1.89%).

Market Mismatch

Yield inversion signals recession risk while stocks hover near record highs

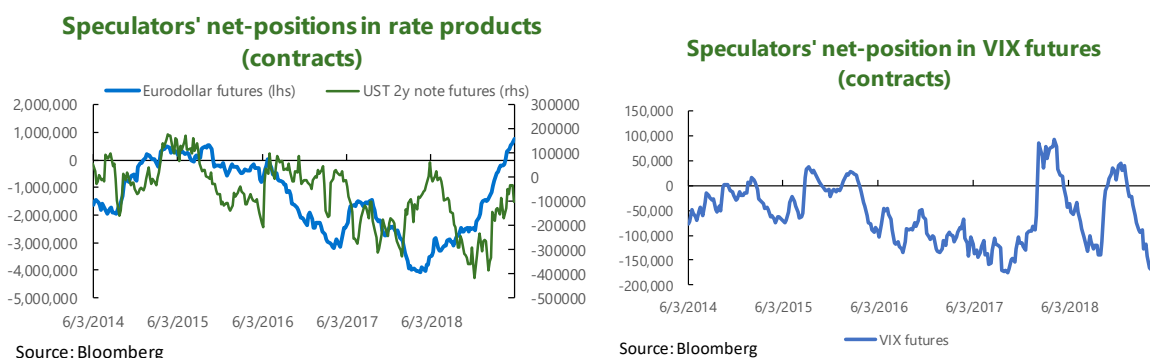


Exports and imports fell in April. The trade deficit narrowed 2.1% from the previous month to \$50.8 bn, which was in line with market expectations (\$50.7 bn). Growth in both exports and imports has stagnated on a year-over-year basis after hovering around 10% last year. Yesterday's report provided a glimpse of activity immediately preceding the escalation of trade tensions with China at the beginning of May, which will likely hurt trade further as the year progresses, according to analysts.

Trade Volumes Falling



Speculators' long positions in rate futures are increasing. The CFTC data show that non-commercial investors' long positions in rate products have been growing both in Eurodollar futures and Treasury 2-year note futures, as market participants are increasingly pricing in rate cuts by the Fed. The net position in Eurodollar futures is the highest in five years. On the equity side, speculators' net-short position in VIX futures has decreased from its peak but remains larger than the five-year average.

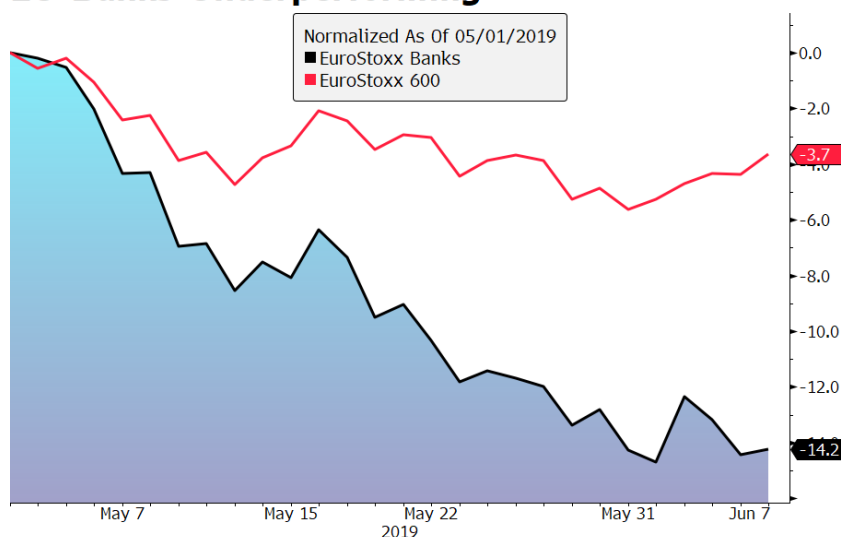


Europe

[back to top](#)

The week was marked by a strong rally in both bonds and equities. The EuroStoxx 600 index is up 0.7% today and up over 2.0% on the week, a similar performance to the UK's FTSE 100. Of note, banking stocks continued their underperformance this week, and are now down 14% since the start of May, in part due to declining rates. Longer-dated yields declined 10 to 12 bps across Southern European countries on the week. In Germany, the 10-year declined a few basis points to a record low, now at -0.23%, though shorter-dated yields were a touch higher. There was no lasting price action following the much-lower-than-expected German IP data for April released today (-1.8% yoy).

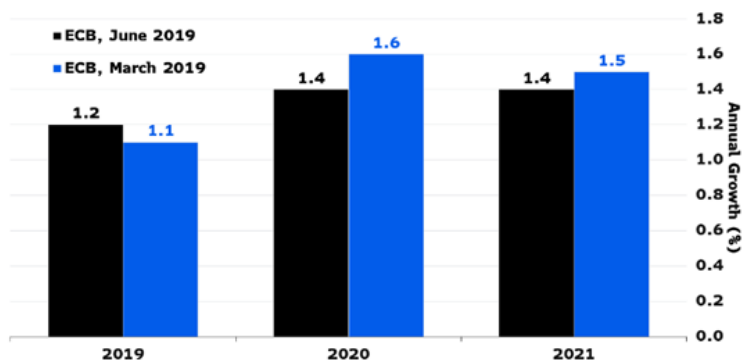
EU Banks Underperforming



STX Index (EURO STOXX Banks Price EUR) EuropeanBanking Indices Daily 01MAY2019 Copyright© 2019 Bloomberg Finance L.P. 07-Jun-2019 10:11:51

Turning to yesterday's ECB press conference, analysts were most focused on the decision to extend the forward guidance by six months. The council now expects rates to "remain at their present levels at least through the first half of 2020." Contacts at Citi opined that yesterday's communication shows policymakers' preference towards restarting QE over interest rate cuts in the event of "adverse contingencies." Draghi also highlighted the importance of fiscal policy in stimulating the economy if the downside risks materialize. There were some minor changes in the ECB's forecast, but no major surprises. The 2019 growth forecast was increased slightly to 1.2%, but those for 2020 and 2021 were cut to 1.4% (-0.2 pts) and 1.4% (-0.1 ppt).

Growth Forecasts Revised Lower

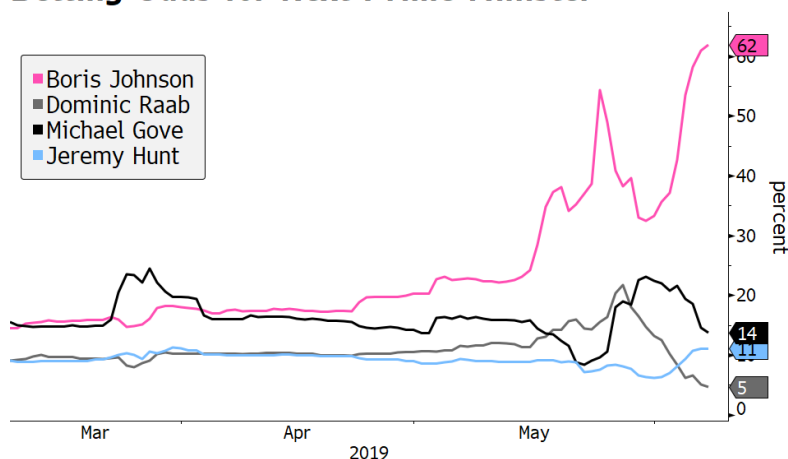


United Kingdom

Theresa May is resigning today and the official start of the leadership contest begins on Monday.

There are currently 11 candidates running and Boris Johnson remains the favorite, with implied betting odds giving him over 60% chance of winning. Either way, analysts think that a pro-Brexit candidate is likely to emerge victorious given the leaning of the Conservative base, thus increasing the chances of a no-deal outcome. May will remain as "caretaker" until a new leader is in place.

Betting Odds for Next Prime Minister



Source: Average Odds from Oddschecker

ODCHEUNO Index (Avg Implied Probability of 2nd EU Referendum - NO) Brexit Betting

Copyright© 2019 Bloomberg Finance L.P.

07-Jun-2019 09:36:14

Key Brexit-related events and dates up to end-2020

	What is happening?
07-Jun	PM to officially resign
10-Jun	Official start of leadership contest
21-22-Jun	EU Council meeting
02-Jul	New European Parliament takes office
22-Jul	Expected end of Conservative Party leadership contest
Late-July (no set date)	UK parliamentary summer recess begins
Early-Sep (no set date)	UK parliamentary summer recess ends
29-Sept - 2-Oct	Conservative Party conference
31-Oct	New Article 50 deadline
01-Nov	New European Commission takes office

Source: Standard Chartered Research

Other Mature Markets

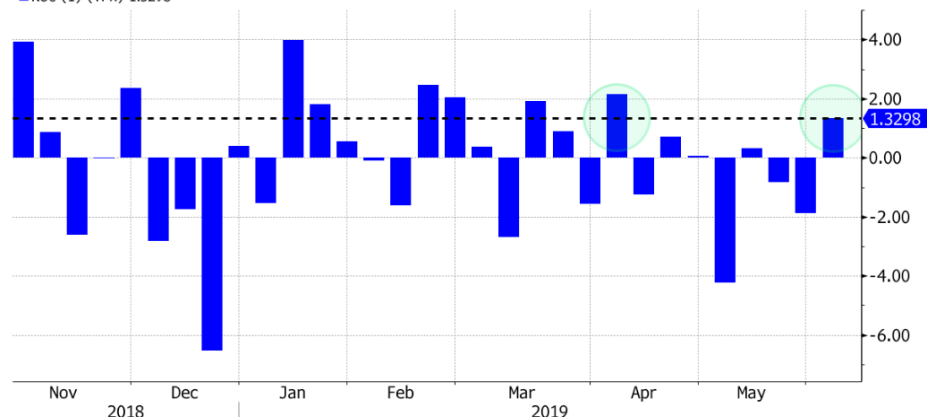
[back to top](#)

Japan

Equities (both Nikkei and Topix +0.5%) rose as cyclicals such as energy and tech outperformed defensives. The gain was despite weaker economic data, as labor cash earnings fell for the fourth straight month in April by -0.1% y/y from -1.3% y/y in March. **The yen was and 10-year JGB yields were little changed.**

Topix rises 1.3% this week, its best since early April

■ ROC (1) (TPX) 1.3298



Source: Bloomberg, Tokyo Stock Exchange

Emerging Markets

[back to top](#)

Asian equities (+0.1%) were little changed on light volumes amid holidays in various markets. Resources stocks outperformed on the rise in crude oil. Regional currencies weakened slightly, with the offshore RMB (-0.4%) and the Philippine peso (-0.6%) underperforming while the Malaysian ringgit (+0.4%) was the only one that appreciated. **Middle Eastern and African** stocks advanced today, led by gains in GCC bourses on the back of higher oil prices (Brent +1.5%, WTI +1.3%). Qatar (+1.5%), Saudi Arabia (+1.2%), Kuwait (+0.8%), UAE (+0.8%). Turkish stocks also gained (+1.1%). Currencies weakened by about 0.1% to the US dollar. **Latin American** assets were mixed yesterday. Stocks in Argentina (+1.3%) saw the biggest gains, followed by Brazil (+1.3%) which reversed Wednesday's trend, while stocks Mexico (-0.6%) and Chile (-6%) suffered losses. Among regional currencies, the Mexican peso (-1%) weakened the most against the dollar, though the peso pared losses during the day on reports that US may delay imposition of the tariffs, the peso depreciated afterhours as ratings agencies downgraded Pemex. The Colombian

peso (+0.5%) strengthened the most against the dollar, followed by Chilean peso (0.3%) extending a 4-day winning streak as commodities rose.

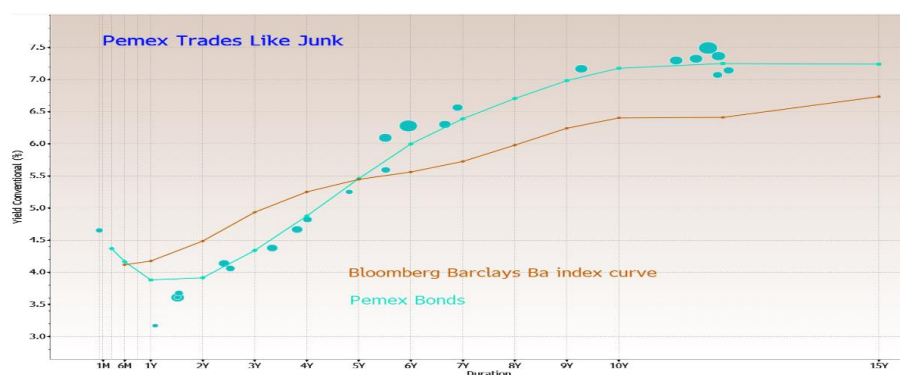
Key Emerging Market Financial Indicators

Last updated: 6/7/19 8:01 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.86	0.3	1	-4	-12	5
MSCI Frontier Equities		29.17	0.2	2	2	-8	12
EMBIG Sovereign Spread (in bps)		364	0	-16	16	21	-50
EM FX vs. USD		61.69	-0.2	0	0	-6	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.0	0	-2	-7	0
Indonesian Rupiah		14269	1.0	1	0	-3	1
Indian Rupee		69.47	-0.3	0	0	-3	0
Argentine Peso		44.91	0.0	-1	-1	-45	-16
Brazil Real		3.88	-0.1	1	2	1	0
Mexican Peso		19.75	-0.3	-1	-4	4	0
Russian Ruble		65.06	0.1	1	1	-4	7
South African Rand		15.07	-0.5	-3	-4	-14	-5
Turkish Lira		5.85	-1.1	0	5	-23	-10
EM FX volatility		8.64	0.0	0.1	-0.1	-0.8	-1.1

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

Mexico

Fitch Ratings downgraded Pemex's default ratings to BB+ from BBB- on the company's weak stand-alone credit profile and slow government action to strengthen its capital structure. Fitch downgraded Pemex for the second time this year, moving the world's most indebted oil company into junk status. Moody's changed the outlook for Pemex to negative, reflecting potential for further deterioration of the company's stand-alone credit profile to below CCC. Pemex yields are comparable to high yield bonds. Pemex's dollar debt maturing in 2027 fell 2.19 to 99.01, pushing the yield up 36bps to 6.66%.



Source: Bloomberg

China

The offshore RMB (-0.4%) weakened by the most in a week following PBoC Governor Yi Gang's comments on potential further easing. In an interview with Bloomberg, Yi said that China has 'tremendous' room to adjust monetary policy in both interest rates and the reserve requirement ratio should the US-China trade war deepen. On the currency, he said that the trade war exerts temporary

depreciation pressure on the yuan and yuan flexibility is good for the economy. At the same time, he mentioned that the yuan will continue to be stable and strong 'after the noise'. **Onshore markets were closed for a holiday.**

On trade, US President Trump said that he will decide on additional tariffs on Chinese imports after the G20 summit at end-June. He is expected to meet Chinese President Xi during the event. He also mentioned that the two sides would 'definitely' reach an agreement, with China wanting a deal.

PBOC's Yi says no yuan level is more important than others



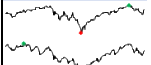

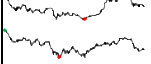

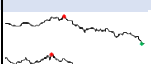
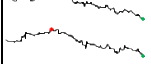
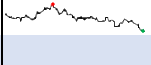
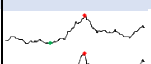
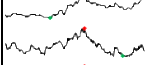
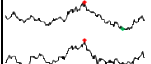


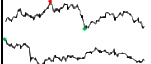
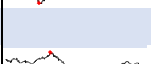
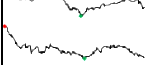

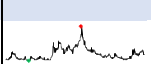




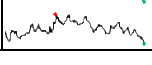
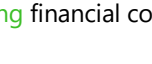





Peru

The government won a vote of confidence in Congress by a wide 77-44 margin. The Prime Minister had requested the vote of confidence on Tuesday to gather support for the government's proposed political and judicial reform measures. If Congress had rejected the vote of confidence, President Vizcarra could have dissolved Congress and called for congressional elections.

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*

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 6/7/19 7:58 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2843	0.6	2	-1	3	13
Europe		3373	1.0	3	-1	-3	12
Japan		20885	0.5	1	-5	-8	4
China		2828	-1.2	-3	-3	-9	13
Asia Ex Japan		66	0.1	1	-5	-15	4
Emerging Markets		41	0.3	1	-4	-12	5
Interest Rates			basis points				
US 10y Yield		2.12	-1.7	-1	-34	-80	-57
Germany 10y Yield		-0.24	0.3	-3	-20	-72	-48
Japan 10y Yield		-0.12	0.0	-3	-7	-18	-12
UK 10y Yield		0.84	1.9	-4	-31	-56	-43
Credit Spreads			basis points				
US Investment Grade		129	-1.1	0	15	25	-18
US High Yield		471	-4.3	8	71	127	-50
Europe IG		64	-1.9	-7	3	-9	-23
Europe HY		287	-6.1	-24	20	-22	-66
EMBIG Sovereign Spread		364	0.0	-16	16	21	-50
Exchange Rates			%				
USD/Majors		97.08	0.0	-1	-1	4	1
EUR/USD		1.13	0.0	1	1	-4	-2
USD/JPY		108.5	-0.1	0	2	1	1
EM/USD		61.7	-0.2	0	0	-6	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		63	1.4	-3	-11	-19	16
Industrials Metals (index)		109	-0.8	-2	-5	-23	0
Agriculture (index)		41	-0.7	-1	8	-14	-1
Implied Volatility			%				
VIX Index (% change in pp)		15.6	-0.3	-3.1	-3.7	3.5	-9.8
10y Treasury Volatility Index		5.1	-0.2	0.4	0.7	0.8	0.5
Global FX Volatility		6.9	0.0	0.2	0.1	-0.9	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		311	-4.7	-1	-28	-99	-105
Italy		261	-11.0	-26	-4	4	11
Portugal		90	-1.5	-12	-23	-65	-58
Spain		81	-3.3	-11	-19	-18	-36

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: 6/7/2019 8:01 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	0.0	-0.1	-2	-7	0		3.3	-0.7	-4	-11	-39	6
Indonesia		14269	1.0	0.9	0	-3	1		8.1	0.0	-6	1	67	-8
India		69	-0.3	0.3	0	-3	0		7.1	-6.6	-15	-43	-95	-36
Philippines		52	-0.3	0.4	0	1	1		5.1	-1.0	-2	-12	-40	-124
Thailand		31	-0.1	0.6	2	2	3		2.4	-3.5	-13	-21	-23	-23
Malaysia		4.16	0.4	0.7	0	-4	-1		3.7	0.0	-8	-12	-50	-37
Argentina		45	0.0	-0.8	-1	-45	-16		32.7	9.6	-40	585	1446	966
Brazil		3.88	-0.1	1.0	2	1	0		7.4	-11.4	-26	-72	-243	-71
Chile		692	0.2	2.4	-2	-9	0		3.7	-1.8	-11	-38	-112	-73
Colombia		3291	0.4	2.2	-1	-14	-1		6.0	-0.6	-15	-33	-27	-48
Mexico		19.75	-0.3	-0.7	-4	4	0		8.1	4.3	6	-12	27	-62
Peru		3.3	0.2	0.9	-1	-2	1		5.1	-6.4	-9	-26	-57	-64
Uruguay		35	-0.2	-0.2	-1	-12	-8		11.1	3.9	-6	19		43
Hungary		285	-0.2	2.0	2	-5	-2		1.8	0.0	-12	-39	-25	-44
Poland		3.79	0.0	1.2	1	-4	-1		2.1	-2.8	-15	-34	-50	-19
Romania		4.2	0.0	1.4	1	-6	-3		4.1	0.0	-7	-10	-40	-11
Russia		65.1	0.1	0.6	1	-4	7		7.6	-4.1	-11	-37	42	-84
South Africa		15.1	-0.5	-3.3	-4	-14	-5		9.5	2.1	6	8	24	-9
Turkey		5.85	-1.1	-0.1	5	-23	-10		20.2	0.0	-42	-67	435	327
US (DXY; 5y UST)		97.1	0.0	-0.7	-1	4	1		1.88	-0.7	-4	-38	-89	-64

	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	0.0	-3	-3	-9	13		182	1	1	10	-5	-12
Indonesia		6209	0.0	3	-2	4	0		196	1	-17	10	-6	-40
India		39616	0.2	-1	3	12	10		153	-3	-3	3	-4	-43
Philippines		7984	0.3	2	1	2	7		83	0	-15	0	-39	-38
Malaysia		1649	0.3	2	1	-6	-2		131	0	-1	11	-15	-31
Argentina		35734	1.3	4	9	18	18		952	-1	-38	35	475	137
Brazil		97205	1.3	0	3	32	11		251	0	-17	3	-68	-22
Chile		4927	-0.6	0	-3	-10	-3		140	1	-6	14	-3	-26
Colombia		1490	0.4	1	-3	-4	12		198	0	-16	13	-7	-30
Mexico		43148	-0.6	0	-1	-5	4		344	8	13	37	43	-10
Peru		20114	0.1	2	-3	-5	4		133	0	-16	2	-32	-35
Hungary		41105	0.3	0	0	10	5		97	-3	-26	-4	-34	-51
Poland		58684	0.5	1	1	-1	2		61	1	-11	20	-13	-24
Romania		8567	-0.6	1	2	3	16		194	-2	-18	12	37	-27
Russia		2729	0.0	2	6	18	15		213	1	-15	3	-8	-39
South Africa		57533	0.8	3	-1	-1	9		324	3	-5	16	40	-41
Turkey		91713	1.6	6	-2	-8	0		537	3	-11	30	141	108
Ukraine		554	0.0	-2	-3	24	-1		594	-8	-64	-48	95	-193
EM total		41	0.3	1	-4	-12	5		364	0	-16	16	21	-50

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