



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, March 1, 2019











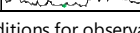
- Market gains slowed in February on geopolitical worries ([link](#))
- Expectations diminish for changes to TLTRO program at March ECB meeting ([link](#))
- EM flows cooled somewhat in February ([link](#))
- MSCI to increase weight of China-listed shares in its global benchmark indexes ([link](#))
- Brazil's GDP growth slowed in Q4 2018 ([link](#))
- **SPECIAL FEATURE: Fintech Update** (see attachment)

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Asia leads global markets higher as MSCI raises weight of Chinese shares

MSCI announced that it will add Chinese mid-cap shares and increase the weight of Chinese large-cap shares in its EM index. The moves, which will take place in stages, should increase the weight of Chinese shares in the MSCI EM index from about 0.7% of the index to about 3.3%. Chinese officials suggest that the changes could increase flows into China by up to \$80 bn. MSCI's announcement added a positive note to the end of what had been a week marked by geopolitical worries and muted trading sessions. Global equity markets largely followed Chinese markets higher while yields rose modestly in major sovereign debt markets.

Key Global Financial Indicators

Last updated: 3/1/19 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2784	-0.3	0	3	4	11
Eurostoxx 50		3326	0.8	2	5	-2	11
Nikkei 225		21603	1.0	1	4	-1	8
MSCI EM		42	0.7	0	-1	-11	9
Yields and Spreads			bps				
US 10y Yield		2.74	3.2	9	5	-7	5
Germany 10y Yield		0.19	1.1	10	3	-45	-5
EMBIG Sovereign Spread		337	-2	-16	-15	45	-77
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.5	-0.2	0	-1	-10	2
Dollar index, (+) = \$ appreciation		96.2	0.0	0	1	6	0
Brent Crude Oil (\$/barrel)		66.4	0.1	-1	6	4	23
VIX Index (% change in pp)		14.4	-0.4	1	-2	-8	-11

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

United States

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Local markets closed out the month with another quiet day of trading and the major indexes slightly lower on the session. Stocks had a positive month but the gains were not as strong as January, with the S&P 500 unable to break through the psychologically important 2800 level. Market participants suggest that the Fed pause, a US-China trade deal and better-than-expected corporate earnings are probably fully priced in current market levels and investors are looking for new catalysts to spur further advances. On the other hand, mixed US economic data, continued geopolitical worries and the global slowdown are all potential drags on the market. In fixed income, US rates rose during February, with the yield curve steepening and TIPS breakevens moving up. Most recently, the gilt selloff -- sparked by hopes for a Brexit delay -- pushed Bund and Treasury yields higher. However, the year-to-date moves are less impressive, with the 10-year yield just 3 bps above where it started the year. The dollar appreciated against most of the major currencies. Meanwhile, the US oil market is off to its best start since 1984 as the slump of 2018 goes into reverse and the widely feared supply glut failed to materialize.

Core PCE came in at 0.2% vs. the 0.1% forecast. The annualized number was on target at 1.9%. The PCE deflator met forecasts at 0.1% and the annualized number was 1.7% (vs. 1.8%). S&P indexes futures were slightly higher following the data while the response in the Treasury market was more muted.

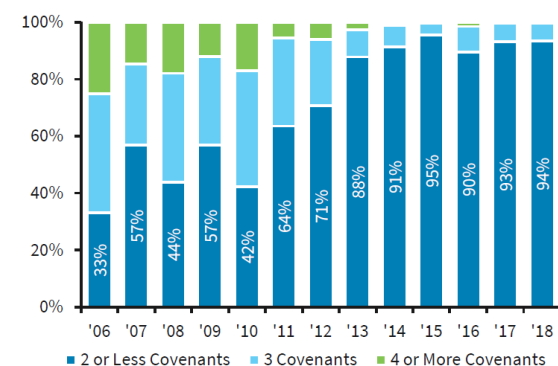
US MARKETS: FEBRUARY PERFORMANCE Source: Bloomberg, 4pm New York Close

	Close on February 28	February (Month-To-Date)
10yr Treasury	2.72%	+9 bps
2yr Treasury	2.52%	+5 bps
2-10 Spread	20 bps	+9 bps (steeper curve)
5yr TIPS Breakeven	1.86%	+14 bps
10yr TIPS Breakeven	1.94%	+8 bps
EUR	1.1373	-0.7% (dollar stronger)
JPY	111.45	+2.34% (dollar stronger)
WTI	\$57.28	+6.5%
S&P 500	2784	+3%

While investors and regulators have focused on the rise of covenant-lite deals in the leveraged loan market, another key trend is that covenant-heavy deals are also seeing a decline in credit quality. 94% of covenant-heavy bonds have just two covenants compared to three or more covenants in the pre-crisis era. The average number of covenants outstanding for the leveraged loan market as a whole is 1.3 covenants, the lowest level in history. In contrast, the market had an average of 2.7 covenants in 2010. Moreover, the nature of the covenants has changed with new deals having less stringent covenants that provide less protection to investors. In 2010, over 50% of new issues has interest coverage covenants and 19% had senior debt/EBITDA covenants. Today, those levels are 12% and 6% respectively. This has enabled borrowers to push up leverage for first-lien new issues to 4.2x, more than double the level ten years ago. Some analysts are less worried about these developments. With 90% of all leveraged loans owned by institutional investors, the banking system is likely to be insulated against any turbulence in the sector, unlike previous years when banks were large owners of the bonds. However, most analysts agree that loan losses are likely to be higher when the credit cycle turns because of the higher leverage.

FIGURE 4

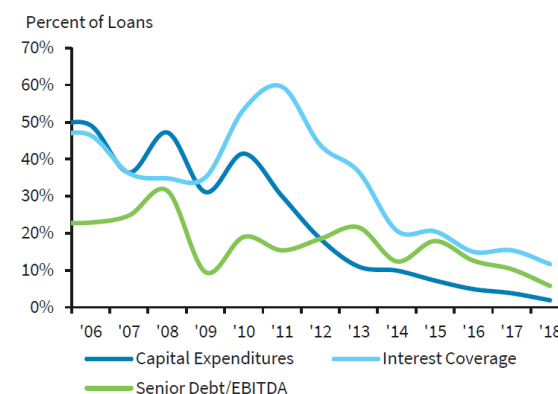
More than 90% of New Issue Cov-Heavy First-Lien Loans Now Have Two or Fewer Covenants



Source: Bloomberg Barclays Indices, S&P LCD

FIGURE 5

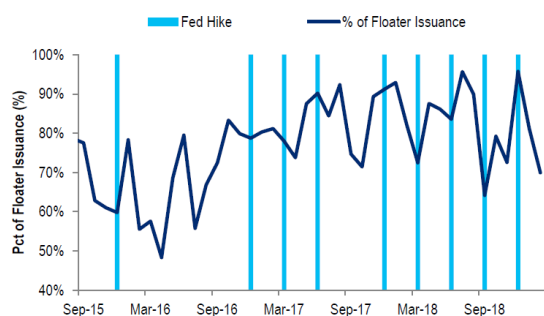
The Frequency of Key Covenants Has Declined for New Issue First-Lien Cov-Heavy Loans



Source: Bloomberg Barclays Indices, S&P LCD

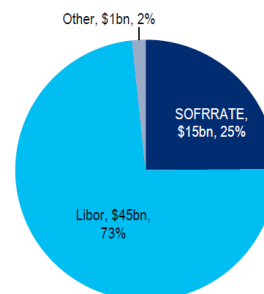
Floating rate bonds continue to dominate issuance in the US agency bond market (excluding mortgage-backed securities), although the percentage has fallen from the 90% peak reached last year. Analysts think this is evidence that floating rate bonds will remain popular among investors despite the possibility that the Fed has seemingly paused its hiking cycle. An additional feature of the agency market is the growing acceptance of floating rate bonds indexed to the Secured Overnight Funding Rate (SOFR), the Fed's preferred replacement for the LIBOR benchmark. About 25% of floaters issued in 2019 were indexed to SOFR and most expect the proportion to rise higher in 2019.

Figure 29. Percentage of Floater Issuance out of Total Bullet Issuance



Source: Citi Research

Figure 30. 2019 Floater Issuance by Benchmark Index

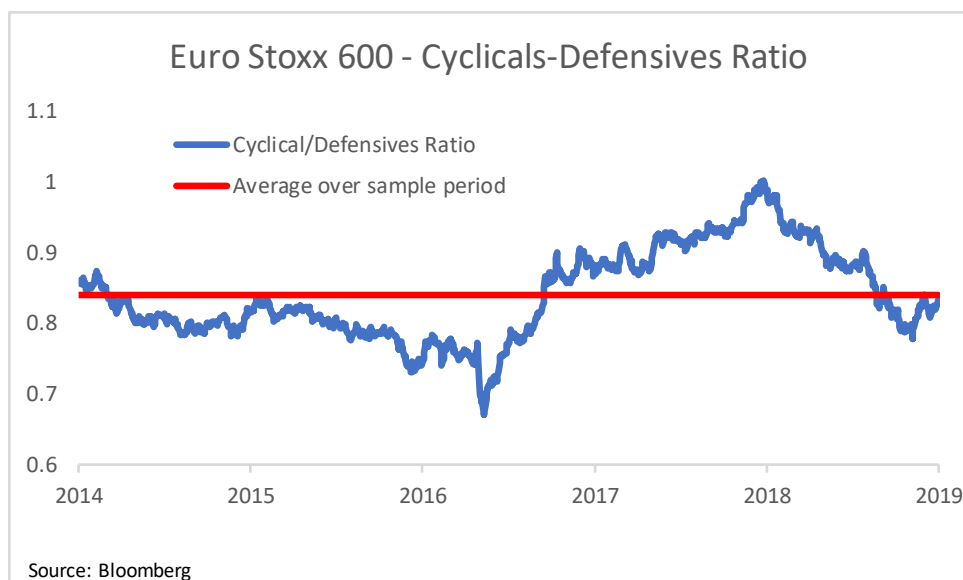


Source: Citi Research

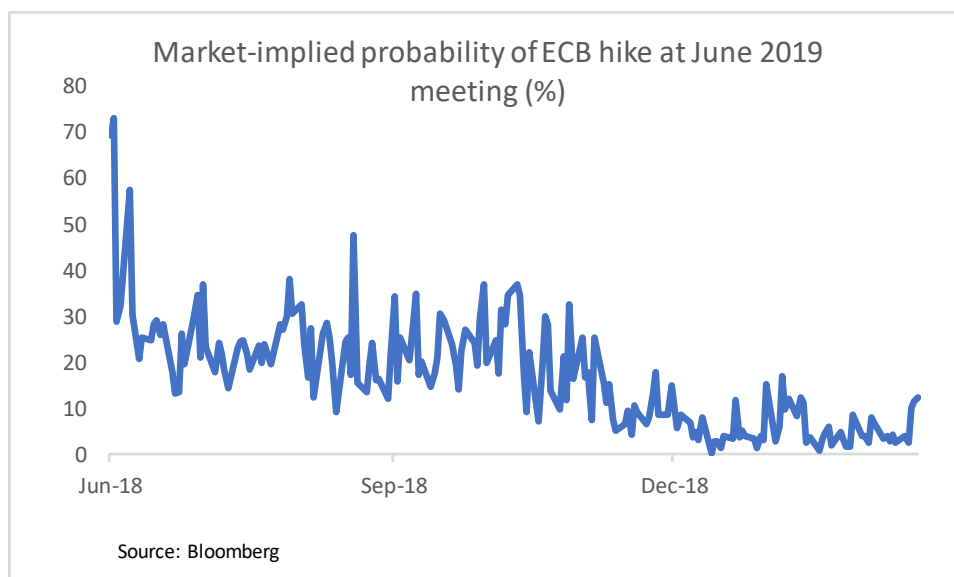
Europe

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Equities rose following a solid session in Asia and cautious optimism over trade. The Euro Stoxx 600 was up 0.6%, taking the year-to-date gains above 11%. All sectors were in the green while cyclical stocks have recovered some of their momentum following recent declines. **Sovereign yields were mostly flat amid mixed economic data.** French, German, UK, and Italian 10-years were all unchanged.



Analysts have revised their views for next week's ECB meeting and do not envisage an announcement of any changes to the TLTRO program. Although there are differences in views, most participants in a new Bloomberg survey expect the bank to make an announcement at its April meeting, having previously expecting that one could be made next week. The anticipated date for an increase in the deposit rate has also been pushed back, while the next adjustment to forward guidance is expected in June. Separately, former Bank of Finland governor Liikanen has said that he would consider running to succeed Draghi as ECB president. Liikanen has been Draghi's most likely successor according to some analysts.



United Kingdom

A quiet period is expected for Brexit ahead of the crucial series of parliamentary votes, which begin on March 12. An extension to the exit date from the EU is increasingly being priced in. Speculation has also arisen that the Labour party could approve PM May's deal if it entails a promise of a second

referendum, but no assurances have been given. The Bank of England and the FCA yesterday published an updated version of their rulebook in case of a no deal Brexit. The plan allows firms a 15-month period to adapt to the new environment. According to media reports, JP Morgan has plans for a temporary hub in Paris in the case of a no-deal Brexit. The bank has secured additional office space which could accommodate a swift transfer of crucial operations by April 1 if required.

Other Mature Markets [back to top](#)

Japan


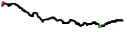












The yen extended its depreciation for a third day and equities gained. Sentiment was lifted by the inclusion of Chinese A shares in the expanded MSCI index. The yen depreciated (-0.4%) to 111.79/dollar, its weakest level in more than two months. In aggregate, the yen shed 2.2% against the dollar in February, the biggest monthly loss since last September. Meanwhile, equities rose (Topix: +0.5%; Nikkei: +1.0%) with electronics makers providing the biggest boosts to the Topix index.

JGB yields rose after the BoJ changed its monthly bond-buying plan for the first time in three months. The BoJ lowered the number of days during which it buys bonds in the 5- to 10-year sector from 5 to 4. Although the central bank did not alter the indicative purchase ranges or buying frequencies for any other tenor, this latest move is seen as paving the way to reduce overall debt purchases. JGB yields had fallen in recent weeks amid concerns over slowing global growth as well as dovish stance from the Fed and the BoJ. Before rebounding recently, the yield on the benchmark 10-year note had fallen to as low as -0.05% on February 22nd, a decline of nearly 8 bps from its highest level this year. Following the BoJ's announcement, the 10-year note rose 1.5 bps to -0.02% while the 5-year note rose 1 bp to -0.16%.

Emerging Markets [back to top](#)

Asian equities posted broad-based gains following confirmation that MSCI will boost the index's weight of Chinese shares in its global benchmark indices. The Shanghai Composite rose 1.8% and the large cap CSI 300 index for China rose 2.2%, outperforming others. Korean bourses continued to underperform (Kospi: -1.8%; Kosdaq: -2.8%) after the abrupt end of the Trump-Kim Summit. Most Asian currencies weakened against the dollar: The offshore CNH held steady, outperforming others while the Thai baht extended its depreciation for a fourth day, taking the baht to 31.7/dollar, its weakest level since late January. According to data from the Thai Stock Exchange, foreign selling of local stocks accelerated, taking the monthly net outflows for February to \$106.1 mn. By Bloomberg's calculation, these latest figures pushed the 5-day moving average of net foreign outflows to \$13.6 mn per day, compared with the 20-day average outflows of \$7.39 mn. **EMEA bourses were mixed.** The Czech Republic (+0.7%), South Africa (+0.6%), and Poland (+0.4%) led gains as Kuwait (-1.0%) and Turkey (-0.4%) had the largest losses in the region. Currencies traded within a narrow $\pm 0.1\%$ corridor. **Latin American equities suffered notable losses Wednesday**, with Argentina down 2.4%, Brazil down 1.8%, and Mexico down 1.1%. Some weakness in US stocks, receding optimism about trade, an abrupt end of the US-NK summit, as well as a continued stream of soft economic reports in the region, weighed on regional markets. Major currencies weakened 0.4-1.0%. In economic news, Argentina's private sector continued to lose jobs in December, and analysts pointed to economic challenges (contracting employment) on one hand and balance sheet improvements (the closing fiscal and trade deficits) on the other hand.

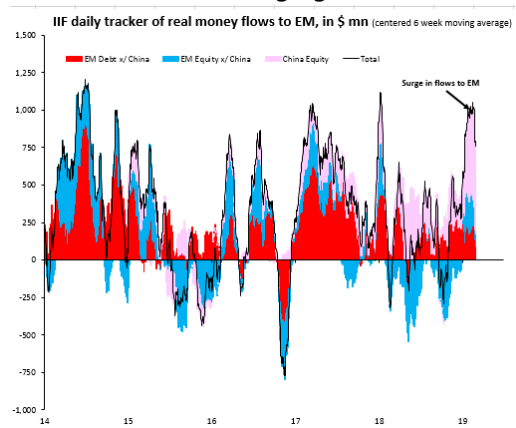
Key Emerging Market Financial Indicators

Last updated: 3/1/19 8:01 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.44	0.7	0	-1	-11	9
MSCI Frontier Equities		28.48	-1.6	-1	1	-17	9
EMBIG Sovereign Spread (in bps)		337	-2	-16	-15	45	-77
EM FX vs. USD		63.50	-0.2	0	-1	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	-0.2	0	1	-5	3
Indonesian Rupiah		14120	-0.4	0	-1	-3	2
Indian Rupee		70.91	-0.2	0	0	-8	-2
Argentine Peso		39.14	-0.9	1	-5	-49	-4
Brazil Real		3.77	-0.3	-1	-3	-14	3
Mexican Peso		19.29	0.0	-1	-1	-2	2
Russian Ruble		65.86	0.2	-1	-1	-14	5
South African Rand		14.12	-0.2	-1	-6	-16	2
Turkish Lira		5.36	-0.4	-1	-3	-29	-1
EM FX volatility		8.27	0.0	-0.4	-0.6	0.0	-1.5

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

Emerging Markets

After a strong rebound in January, EM flows slowed in February. After a dovish turn by the Fed, major asset managers and investment banks reportedly expanded their allocations to emerging markets. IIF data showed that EM flows jumped by mid-February to levels close to those in late January when global asset prices reached record highs (figure). However, much of the surge in flows has been driven by China. Investors increased allocations to China based on more positive trade rhetoric, China's stimulus measures, the anticipated expansion of China's A-shares in the MSCI benchmarks, and relatively attractive valuations of Chinese equities (after a deep decline in 2018). Without China, the increase in EM flows had been moderate, whereas Indonesia has attracted the largest inflows. Mexico flows have rebounded partly because of weak 2017 results caused by NAFTA worries. Flows to Brazil have remained low, despite strong investor appetite, and South Africa remained weak.



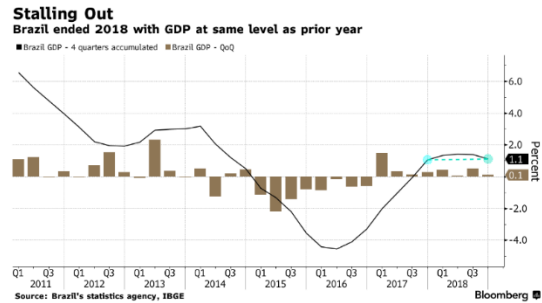
China

MSCI confirmed that it will increase the weight of China-listed shares in its global benchmark indexes starting in May. The increase will occur in three steps, with the weight of Chinese A shares ultimately rising, on a pro forma basis, from 0.72% currently to 3.3% of the MSCI Emerging Markets Index in November. For the first time, shares listed on the tech-heavy ChiNext board will join. Once the inclusion is completed, there will be 253 large- and 168 mid-cap China shares in the index, including 27 ChiNext stocks. Analysts noted that the move by MSCI, long expected and largely symbolic, could nonetheless support longer-term inflows into Chinese equities. By some estimates, as much as \$40 bn of inflows into A shares could come from active funds while a total of \$70 bn of net buying could materialize. The Shanghai Composite rose 1.8% on the day, taking its cumulative year-to-date gain to over 21%. Meanwhile, the

offshore CNH held steady while the onshore CNY weakened a touch (-0.1%), both settling at 6.71/dollar on the day.

Brazil

Q4 GDP growth slowed notably and came in below expectations. Economic growth slowed to 1.1% yoy from 1.3% the prior quarter and below the analysts' consensus of 1.4%. Analysts warned that the recovery after the 2015-16 recession has been anemic (figure). In particular, investment tumbled 2.5% qoq (partly because of methodological changes) despite record low policy rates. Some commentators also noted that consumption has not recovered as anticipated because of a weaker-than-expected labor market. In other economic news, the primary balance was positive and slightly bigger than expected in January, and the net debt-to-GDP ratio edged higher to 54%, in line with expectations.



A recent survey by Morgan Stanley showed that 90 percent of clients expect Brazil to pass a significant pension reform. However, most clients expect a much smaller savings from the reform—only 690 bn reais (\$185 bn), relative to the government's target of 1.2 tn reais over 10 years. Amid strong risk sentiment and surging assets prices in Brazil, Morgan Stanley counseled caution to bond, equity, and FX investors.

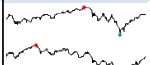
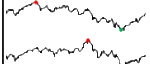
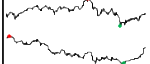



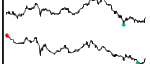
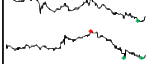


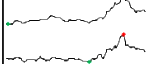
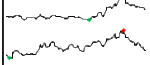



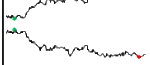
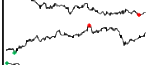

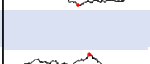







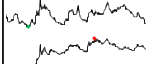


Poland

Poland's Ministry of Finance has unveiled a plan to boost the domestic financial sector. The plan contains measures geared to increase equity market capitalization to about 50% of GDP by 2023 and improving market liquidity conditions. The goals will be accomplished by lowering transaction costs and some financial taxes, as well as eliminating some 'red tape' requirements, according to the MoF. Stocks in Poland are 0.4% higher this morning, while the zloty is unchanged against the euro.

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Global Financial Indicators

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Europe		3326	0.8	2	5	-2	11
Japan		21603	1.0	1	4	-1	8
China		2994	1.8	7	14	-9	20
Asia Ex Japan		69	-1.0	0	1	-10	9
Emerging Markets		42	0.7	0	-1	-11	9
Interest Rates			basis points				
US 10y Yield		2.74	3.2	9	5	-7	5
Germany 10y Yield		0.19	1.1	10	3	-45	-5
Japan 10y Yield		-0.01	1.5	3	1	-5	-1
UK 10y Yield		1.31	1.2	16	7	-15	4
Credit Spreads			basis points				
US Investment Grade		119	-2.0	-4	-7	29	-28
US High Yield		404	-4.1	-13	-37	61	-117
Europe IG		61	-0.5	-6	-10	8	-26
Europe HY		276	-0.9	-16	-33	9	-77
EMBIG Sovereign Spread		337	-2.0	-16	-15	45	-77
Exchange Rates			%				
Dollar Index (DXY)		96.17	0.0	0	1	6	0
USDEUR		1.14	0.1	0	-1	-7	-1
USDJPY		111.8	-0.4	-1	-2	-5	-2
EM FX vs. USD		63.5	-0.2	0	-1	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		66	0.1	-1	6	4	23
Industrials Metals (index)		122	0.6	1	4	-9	12
Agriculture (index)		41	0.3	-2	-4	-20	-1
Implied Volatility			%				
VIX Index (% change in pp)		14.4	-0.4	0.9	-1.8	-8.1	-11.1
10y Treasury Volatility Index		3.9	0.0	0.3	0.2	-1.0	-0.7
Global FX Volatility		7.1	0.0	-0.4	-0.6	-1.0	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		346	-2.4	-26	-30	-37	-70
Italy		255	-1.9	-20	-3	125	5
Portugal		129	0.6	-10	-18	-1	-19
Spain		101	1.4	-7	-5	14	-17

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: 3/1/2019 8:02 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		6.71	-0.2	0.1	1	-5	3		3.1	0.9	8	5	-73	-5
Indonesia		14120	-0.4	-0.4	-1	-3	2		7.9	0.8	-14	-37	101	-25
India		71	-0.2	0.3	0	-8	-2		7.5	-2.9	6	1	-31	10
Philippines		52	-0.1	0.7	1	0	2		5.6	-1.7	-6	-21	71	-73
Thailand		32	-0.4	-1.2	-1	-1	2		2.6	-0.4	-1	2	24	-2
Malaysia		4.07	-0.2	0.1	1	-4	1		4.0	-0.2	0	-7	-6	-12
Argentina		39	-0.9	1.0	-5	-49	-4		21.2	2.9	2	-12	481	-180
Brazil		3.77	-0.3	-0.6	-3	-14	3		8.2	32.8	34	21	-33	1
Chile		657	-0.3	-0.8	-1	-9	6		4.4	1.4	3	-10	-47	-11
Colombia		3080	-0.3	1.4	1	-7	6		6.4	2.9	-1	-15	-1	-10
Mexico		19.29	0.0	-0.8	-1	-2	2		8.3	3.1	-6	-12	64	-39
Peru		3.3	-0.1	0.5	1	-1	2		5.6	-0.4	-2	-13	66	-13
Uruguay		33	0.1	0.1	-1	-13	-1		10.2	-1.3	-5	-10		-48
Hungary		278	0.0	1.0	0	-8	1		2.1	5.9	7	-2	43	-11
Poland		3.79	0.0	1.0	-1	-10	-1		2.4	4.2	17	11	-27	9
Romania		4.2	0.0	0.7	0	-9	-3		4.1	0.0	-11	-54	11	-17
Russia		65.9	0.2	-0.7	-1	-14	5		8.1	-2.9	-2	0	128	-32
South Africa		14.1	-0.2	-0.8	-6	-16	2		9.5	7.2	-11	-2	73	-11
Turkey		5.36	-0.4	-0.8	-3	-29	-1		15.5	4.6	-20	-39	358	-138
US (DXY; 5y UST)		96.2	0.0	-0.4	1	6	0		2.54	2.4	7	3	-4	2

	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		2994	1.8	7	14	-9	20		179	-1	-3	-5	19	-15
Indonesia		6500	0.9	0	-1	-2	5		192	0	-11	2	16	-44
India		36064	0.5	1	-1	6	0		165	-2	1	-14	43	-31
Philippines		7642	-0.8	-4	-6	-10	2		85	0	-9	-3	-22	-36
Malaysia		1701	-0.4	-1	1	-9	1		127	0	1	-6	18	-35
Argentina		34486	-2.4	-4	-6	8	14		697	-3	3	42	280	-118
Brazil		95584	-1.8	-1	-2	12	9		232	-1	-6	-2	0	-41
Chile		5289	-1.6	-4	-3	-4	4		129	0	-8	-10	6	-37
Colombia		1508	-0.6	1	3	3	14		186	-2	-6	1	2	-42
Mexico		42824	-1.1	-2	-2	-10	3		317	-1	-9	-2	73	-37
Peru		20614	0.2	1	2	-1	7		132	-2	-10	-7	-13	-36
Hungary		40129	-0.5	-2	-2	6	3		107	-3	-9	-15	3	-41
Poland		60327	0.7	0	-1	-1	5		48	-1	-9	-12	-14	-37
Romania		7701	0.3	-1	10	-8	4		194	-3	-5	-22	66	-27
Russia		2480	-0.2	0	-2	8	5		209	-2	-15	-7	49	-43
South Africa		56324	0.6	1	4	-3	7		284	0	-17	-7	46	-81
Turkey		104058	-0.5	1	1	-12	14		403	3	-15	15	100	-26
Ukraine		559	0.2	1	1	60	0		642	-1	-38	-25	215	-145
EM total		42	0.7	0	-1	-11	9		337	-2	-16	-15	45	-77

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