



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, March 15, 2019











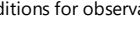
- **UK MPs vote to request extension to Brexit deadline** ([link](#))
- **BOJ leaves rates and policy framework unchanged, as expected** ([link](#))
- **US-China trade meeting delayed to April, at the earliest** ([link](#))
- **Argentina tightens monetary policy as inflation accelerates** ([link](#))

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

Markets quiet at end of a positive week

Markets are edging higher after a week of gains, shrugging off Brexit uncertainty and US-China trade delays. Equities are higher globally, supported by further stimulus details from China's PM Li. Core government bond yields are edging higher, albeit from low levels, and the dollar is softer versus major peers as well as EMs. In the UK, parliament has voted to request an extension to the Brexit deadline, as expected. The length of the delay will however depend on the results of a third vote for PM May's now twice-defeated Brexit deal, set for early next week, and will need to be approved by the EU. The continuing Brexit saga is eliciting limited market reaction, with GBP implied volatility elevated but option markets showing relatively balanced positioning. In Argentina, foreign currency bond spreads are tighter after authorities tightened monetary policy in response to accelerating inflation in February.

Key Global Financial Indicators

Last updated: 3/15/19 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2808	-0.1	2	1	2	12
Eurostoxx 50		3383	1.2	3	4	-1	13
Nikkei 225		21451	0.8	2	3	-2	7
MSCI EM		42	1.5	1	1	-14	9
Yields and Spreads			bps				
US 10y Yield		2.62	0.9	-1	-4	-21	-6
Germany 10y Yield		0.09	0.1	2	-1	-49	-16
EMBIG Sovereign Spread		347	-2	1	-8	54	-67
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	0.2	1	0	-11	2
Dollar index, (+) = \$ appreciation		96.6	-0.1	-1	0	7	0
Brent Crude Oil (\$/barrel)		67.0	-0.4	2	1	3	25
VIX Index (% change in pp)		13.0	-0.5	-3	-2	-4	-12

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

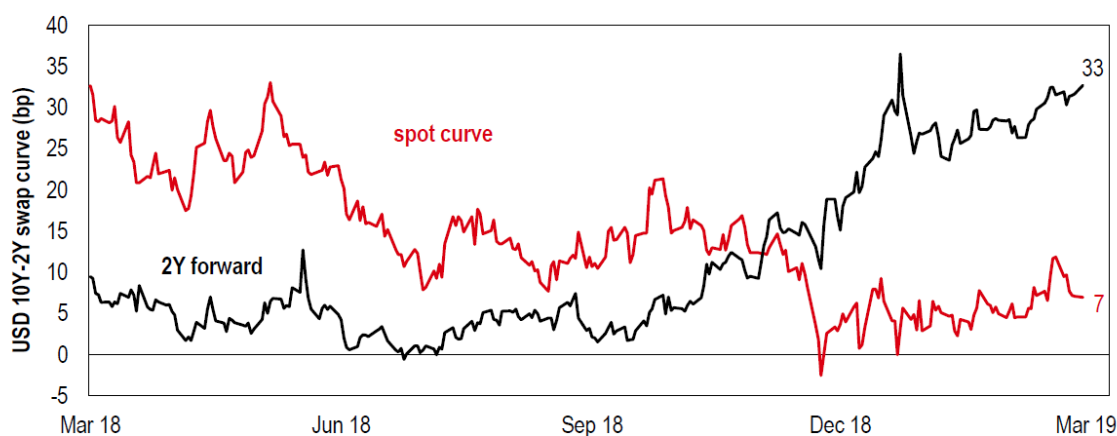
United States

[back to top](#)

Local markets were little changed during a quiet day with no major economic data or political news stories. Stock prices and bond yields barely moved although the dollar made minor gains. News that the Trump-Xi summit was postponed to April or beyond had little impact as few now expect a summit to be held at all. Even the Senate vote to reject the President's state of emergency could not elicit a response from a soporific market. Meanwhile, new home sales for January were weaker than expected at 607K versus the 622K consensus forecast, however, this was more than offset by the significant upward revision to the previous month from 621K to 652K.

The US interest rate swap curve has steepened in the forward market, pointing to expectations bets on policy rate cuts in 2020. Some analysts believe that the increasing yield gap between the two-year ahead, 10-year swap versus the two-year-ahead, two year swap is a sign that markets think the Fed might cut rates in 2020 when it has completed its balance sheet adjustment this year. This reinforces signals from the eurodollar and Fed Funds futures markets which also predict rate cuts in 2020. The interest rate swap market is often used to take large positions on future interest rate moves due to its large size and high liquidity. Historically, the yield curve tends to steepen when the Fed is cutting rates and tends to flatten when a hiking cycle is in progress.

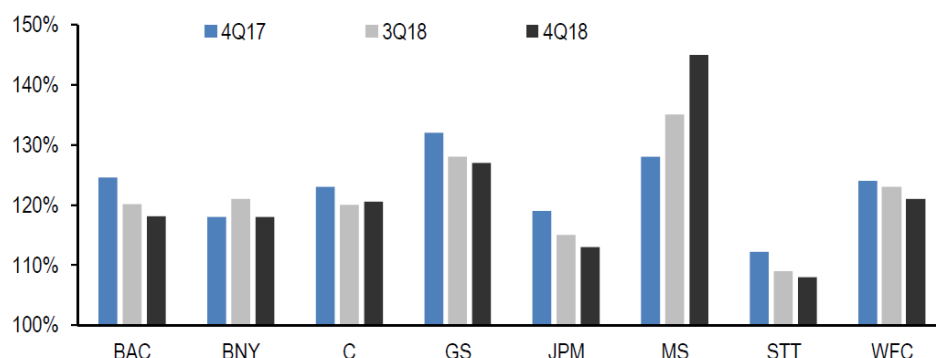
Figure 1. Curve has steepened in the forwards



Source: Bloomberg, HSBC

Liquidity coverage ratios (LCRs) for the eight US global systematically important banks (G-SIBS) declined in 2018 compared to the year before, down 3% to an average of 120%. One bank increased its LCR from 2017 to 2018 and one managed to hold its LCR steady, but the other six banks saw declines. However, all the banks have LCRs that are well above the statutory minimum of 100%. JP Morgan finds that the decline in aggregate LCRs was driven by a reduction in high quality liquid assets (HQLA) due in part to lower unsecured debt balances and lower non-operational funding. Total unweighted HQLA fell by \$68bn, while total non-operational funding outflow and unsecured debt outflow balances went down by \$47bn. The analysts note that the fall in HQLA was almost matched by the decline in holdings in Level 2A and Level 2B assets of \$64 bn. Level 2 assets are viewed as risky from a regulatory perspective and receive larger penalties in the LCR calculations. Banks may have decided to reduce their holdings of these complex instruments due to the high market volatility at the end of 2018.

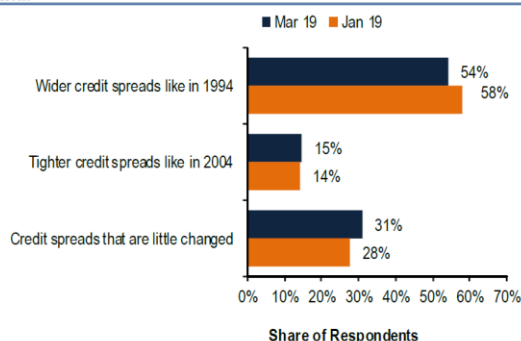
Exhibit 1: US G-SIB liquidity coverage ratios over the past year (%)



Source: Bank LCR disclosures, J.P. Morgan

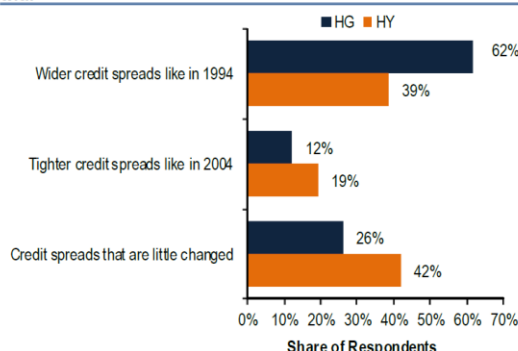
Corporate bond investors think the current Fed rate hike cycle will lead to wider credit spreads, according to the latest Bank of America investor survey. However, just 54% took this view in the March survey compared to 58% in the January survey. 31% of investors now expect spreads to stay relatively unchanged compared to 28% in January. Interestingly, high yield investors are more optimistic about credit spreads than high grade (investment grade) investors, with just 39% predicting higher spreads compared to 62%. Spreads have narrowed further since the survey was taken and with many now predicting rate cuts in 2020, investor sentiment could become more bullish.

Figure 36: The traditional hiking cycle this time is most likely to be coincident with



Source: BofA Merrill Lynch Global Research

Figure 37: The traditional hiking cycle this time is most likely to be coincident with



Source: BofA Merrill Lynch Global Research

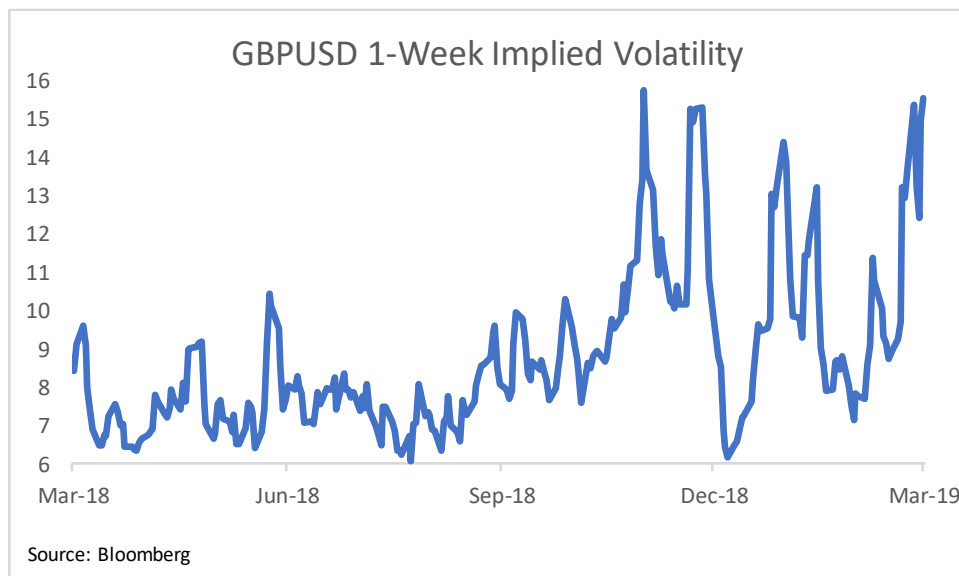
Europe

[back to top](#)

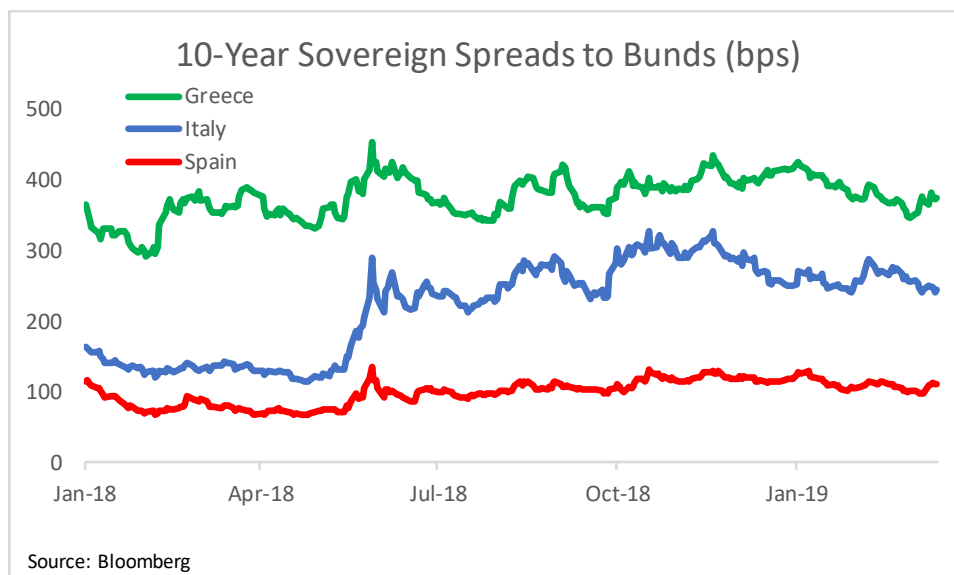
Equities were marginally higher this morning. The Euro Stoxx 600 rose by 0.2% with IT stocks leading the gains. Banks underperformed, retreating by 0.1% but still registering a rise of more than 3% rise this week. **Sovereign yields were little changed.** Italy was the biggest mover with a 2-3 bps rise across the curve.

UK MPs voted yesterday to request a delay to the Brexit deadline of March 29. PM May is subsequently expected to put her deal forward for a vote for the third time next week, in the hopes that the prospect of a lengthy delay convinces Eurosceptic MPs in her own party and the DUP to finally approve the Withdrawal Agreement. If she succeeds, she will request a short delay to the deadline in order to get the deal ratified whereas a failure would likely result in a request for a lengthy delay to allow for a change in strategy. Most analysts expect a short delay to be approved by the EU, despite all 27 member states having to approve the request, but it is less clear whether a lengthy delay would be accepted and on what

terms. Markets showed little reaction to events yesterday and sterling is flat this morning. Implied volatility levels remain contained although the 1-week tenor has risen over uncertainty regarding next week's vote.



Bank purchases of sovereign debt warrant monitoring, according to Bank of Italy governor Visco. Speaking at an event in Naples, Visco also highlighted smaller banks' proportionately higher purchases of BTPs. He ascribed the current high yield on the government's bonds to fears that debt levels will not decline materially in the future. While they remain well above levels of most other European countries, BTP yields have nonetheless moderated in recent months, reducing the spread to Bunds. The tightening of spreads comes despite continued soft data, including a slight miss on GDP last week.



Other Mature Markets [back to top](#)

Japan

The BOJ left interest rates and its asset-purchase program unchanged, as expected. The benchmark rate remains at -0.1% and the target for the 10-year yield around zero. Officials downgraded their





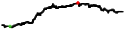








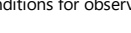
economic outlook in light of pressure on exports, industrial production and weakness overseas. Two board members dissented again in the decision to keep the yield curve guidance unchanged, calling for further stimulus. Most analysts expect the BOJ to stay on course unless there is a severe downturn or rapid strengthening of the yen. The Nikkei was up 0.8% on the day and up 2.0% for the week; the yen was flat on the day and depreciated 0.5% for the week.

Emerging Markets

[back to top](#)

EM bonds and currencies are edging higher into the US trading session open, capping out a positive week (MSCI EM index +1.5%). In **Latin America**, the Argentine peso appreciated for as second day in a row against the dollar (1.2%), as the central bank continues to tighten monetary policy. **Asian** stocks were broadly higher despite the delay in the trade meeting between US and China. Bourses in China, India and South Korea all rose around 1%, while Philippines (-0.4%) underperformed. Currencies were largely rangebound, with the largest move a 0.4% appreciation of the Indian rupee. In **EMEA**, equity markets were mixed with modest gains in Eastern Europe (+0.3-0.4%) and Turkey (+0.3%) and declines across some Middle Eastern bourses, notably Dubai (-1%). FX markets were little changed aside from the South African rand appreciating 0.6% but remains flat on the week.

Key Emerging Market Financial Indicators

Last updated: 3/15/19 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.46	1.5	1	1	-14	9
MSCI Frontier Equities		28.48	-0.1	1	-1	-19	9
EMBIG Sovereign Spread (in bps)		347	-2	1	-8	54	-67
EM FX vs. USD		63.22	0.2	1	0	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.1	0	1	-6	2
Indonesian Rupiah		14260	0.1	0	-1	-4	1
Indian Rupee		69.10	0.4	2	3	-6	1
Argentine Peso		40.75	1.2	4	-6	-50	-8
Brazil Real		3.85	-0.1	0	-4	-15	1
Mexican Peso		19.25	0.4	1	0	-3	2
Russian Ruble		65.34	0.2	2	2	-12	6
South African Rand		14.45	0.6	0	-3	-18	-1
Turkish Lira		5.47	0.0	-1	-3	-29	-3
EM FX volatility		8.02	0.0	-0.2	-0.8	0.1	-1.8

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

China

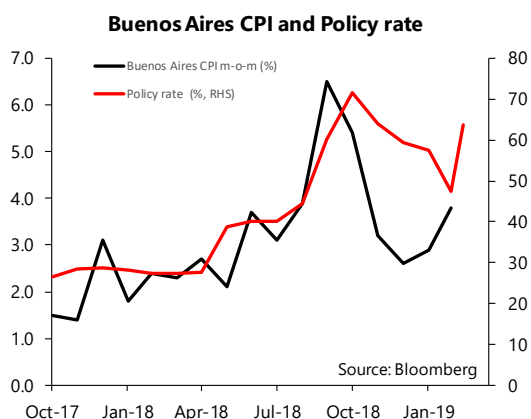
Prospects for a quick resolution to the US-China trade dispute faded as reports suggested the US and China are no longer seeking to meet this month to sign a trade agreement. The new target date for a potential meeting is April, at the earliest. Officials noted that the two sides have reached consensus on many issues, but the US negotiator also stated that the government must keep the option of raising tariffs to ensure China follows through with any agreement.

On the domestic front, **Premier Li reiterated the need to continue with economic stimulus measures, promising that the value-added tax cut would begin on April 1 and that use of interest rate and reserve requirement ratio tools would continue.** At the same time, he vowed the country would stay clear of large-scale policies such as QE or a massive expansion in public spending. The stimulus will remain

focused on tax cuts and "targeted" measures to address weak output, along with policies geared towards supporting private and small enterprises. Global equity futures moved higher on the comments, and the Shanghai index was up 1% today but remains about 2.75% lower than its high last Thursday. The yuan appreciated fractionally today and this week, remaining about where it started the month (CNY6.71).

Argentina

At a press conference after market close, the central bank announced additional tightening measures. The MPC took the extra measures after February inflation data (also released after market close) showed a deterioration with CPI rising 3.8% m-o-m (consensus: 3.6%) from 2.9% in January. The new measures include shrinking the monetary base by an extra 10% before the end of the year and narrowing the non-intervention zone for the currency starting in April. After three months of slowing inflation late last year, the central bank lowered Argentina's benchmark interest rate to about 44% by mid-February. Since then, the inflation rate started rising again and the central bank increased the benchmark rate to 64% and contracted the monetary base by 10% (the latter since early March).



India

Foreign investor inflows have reached \$2.2 bn so far this month, roughly equivalent to the full net inflows in February, according to Bloomberg data. Inflows are outpacing that of most other regional markets and on track for the best two-month run in two years for India. Analysts have noted improved sentiment after a cooling off from the recent skirmish with Pakistan but remain apprehensive ahead of the May national elections. The Sensex index is one of the best performing global indices this month (+6.5%) and the rupee has outperformed other Asian currencies by a wide margin, appreciating 2.5%.

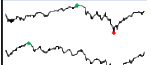
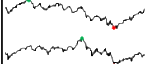





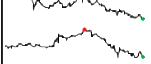


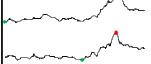
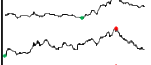


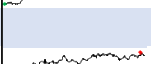

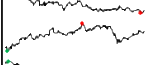









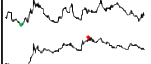


India's stock rally gets fresh fuel by drawing in foreign cash



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***Rebecca McCaughrin***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***Nour Tawk***Economist***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: 3/15/19 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2808	-0.1	2	1	2	12
Europe		3383	1.2	3	4	-1	13
Japan		21451	0.8	2	3	-2	7
China		3022	1.0	2	13	-8	21
Asia Ex Japan		69	-0.5	1	2	-13	9
Emerging Markets		42	1.5	1	1	-14	9
Interest Rates			basis points				
US 10y Yield		2.62	0.9	-1	-4	-21	-6
Germany 10y Yield		0.09	0.1	2	-1	-49	-16
Japan 10y Yield		-0.03	0.7	0	-1	-8	-4
UK 10y Yield		1.22	-0.3	3	6	-22	-6
Credit Spreads			basis points				
US Investment Grade		119	0.0	0	-2	25	-28
US High Yield		410	-1.3	-5	-16	59	-111
Europe IG		60	-0.2	-5	-9	9	-28
Europe HY		270	-1.2	-20	-30	15	-83
EMBIG Sovereign Spread		347	-2.0	1	-8	54	-67
Exchange Rates			%				
USD/Majors		96.64	-0.1	-1	0	7	0
EUR/USD		1.13	0.1	1	0	-8	-1
USD/JPY		111.7	0.0	0	-1	-5	-2
EM/USD		63.2	0.2	1	0	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	-0.4	2	1	3	25
Industrials Metals (index)		121	0.3	1	4	-9	11
Agriculture (index)		41	0.1	1	-4	-18	-2
Implied Volatility			%				
VIX Index (% change in pp)		13.0	-0.5	-3.0	-1.9	-3.6	-12.4
10y Treasury Volatility Index		3.8	0.0	0.0	0.3	-0.4	-0.8
Global FX Volatility		6.9	0.0	-0.3	-0.9	-0.8	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		372	-1.7	0	-1	8	-44
Italy		240	-1.1	-3	-29	99	-10
Portugal		123	-1.8	-5	-23	2	-25
Spain		110	-0.4	12	-4	30	-7





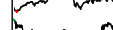















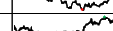
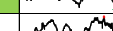

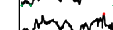








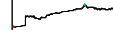




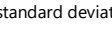
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 3/15/2019 8:07 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		6.71	0.1	0.1	1	-6	2		3.2	0.3	-2	12	-71	-4
Indonesia		14260	0.1	0.4	-1	-4	1		7.9	-2.1	-7	-21	104	-26
India		69	0.4	1.5	3	-6	1		7.5	-0.7	-4	0	-35	3
Philippines		53	0.0	-0.8	-1	-1	0		5.4	-1.6	-4	-23	49	-85
Thailand		32	0.2	0.2	-1	-2	2		2.6	0.7	-1	3	25	-1
Malaysia		4.09	0.0	0.0	0	-4	1		3.9	-0.7	-3	-4	-6	-19
Argentina		41	1.2	3.9	-6	-50	-8		22.6	8.6	76	270	557	-44
Brazil		3.85	-0.1	0.4	-4	-15	1		8.0	7.6	-24	26	-32	-13
Chile		669	0.4	0.4	-1	-9	4		4.3	-1.1	-6	-7	-56	-19
Colombia		3142	0.1	0.0	0	-10	4		6.2	-2.8	-12	-18	-14	-27
Mexico		19.25	0.4	1.3	0	-3	2		8.2	2.5	-5	-30	57	-52
Peru		3.3	-0.1	0.4	1	-1	2		5.4	-3.2	-14	-22	45	-31
Uruguay		34	-0.4	-1.7	-3	-15	-3		10.5	2.5	21	28		-19
Hungary		278	0.1	1.1	2	-9	1		2.1	2.4	7	7	49	-8
Poland		3.80	0.1	0.7	1	-10	-2		2.3	1.8	2	8	-25	2
Romania		4.2	0.3	0.4	0	-10	-3		4.2	8.0	18	8	25	-5
Russia		65.3	0.2	1.5	2	-12	6		8.1	-0.3	-2	-10	122	-34
South Africa		14.5	0.6	-0.1	-3	-18	-1		9.5	5.6	4	-18	75	-9
Turkey		5.47	0.0	-0.5	-3	-29	-3		16.8	33.8	71	135	409	-10
US (DXY; 5y UST)		96.6	-0.1	-0.7	0	7	0		2.42	-0.7	-1	-7	-20	-9

	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		3022	1.0	2	13	-8	21		177	-1	7	-5	12	-17		
Indonesia		6461	0.7	1	1	2	4		195	-2	4	-4	17	-41		
India		38024	#N/A	4	6	13	5		157	-4	-10	-15	23	-39		
Philippines		7798	-1.1	0	-1	-5	4		96	0	9	4	-2	-25		
Malaysia		1681	-0.4	0	0	-9	-1		131	0	8	5	19	-31		
Argentina		33530	-1.4	1	-11	3	11		716	-19	-38	27	305	-99		
Brazil		98605	-0.3	5	1	16	12		241	-2	5	5	4	-32		
Chile		5301	0.0	0	-2	-5	4		134	1	9	-3	11	-32		
Colombia		1575	-0.9	4	6	7	19		187	-1	3	-10	7	-41		
Mexico		41778	-0.6	0	-3	-13	0		303	-2	-7	-18	58	-51		
Peru		20823	-0.3	1	2	1	8		136	0	5	-8	-12	-32		
Hungary		41335	0.0	2	3	6	6		118	0	11	4	12	-30		
Poland		60539	1.5	2	1	-1	5		55	-1	10	3	3	-30		
Romania		7928	0.9	1	4	-9	7		198	-4	1	3	62	-23		
Russia		2462	#N/A	-1	-1	8	4		211	-1	4	-18	38	-41		
South Africa		56252	0.7	1	3	-3	7		304	3	9	-4	56	-61		
Turkey		102832	0.5	1	0	-12	13		419	-2	-8	11	109	-10		
Ukraine		558	#N/A	0	-1	59	0		642	-3	-22	-76	201	-145		
EM total		42	1.5	1	1	-14	9		347	-2	1	-8	54	-67		

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