



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, March 18, 2019












- **Next Brexit vote possible Tuesday or Wednesday** ([link](#))
- **Volatility continued to decline across asset classes** ([link](#))
- **Deutsche Bank and Commerzbank have officially begun merger talks** ([link](#))
- **Italy yields lower after Moody's holds rating; Portugal upgraded by S&P** ([link](#))
- **Argentine peso continued to gain in reaction to tighter monetary policy** ([link](#))

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Markets cautiously advance ahead of potentially busy week

Markets are edging higher at the start of what is expected could be an active week. European share are being led by banking shares, helped by news that Deutsche Bank and Commerzbank have cleared a hurdle to proceed with merger negotiations. Asian markets gained this morning on expectations of fiscal stimulus from China. The pound is modestly weaker on concerns the government may not gather the necessary support to hold another vote on PM May's Brexit deal in the coming days. Treasury yields are little changed this morning after declining last week on expectations that the Fed's message at this week's meeting will lean towards a more dovish stance.

Key Global Financial Indicators

Last updated: 3/18/19 7:56 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2822	0.5	3	2	3	13
Eurostoxx 50		3385	0.0	2	4	-2	13
Nikkei 225		21585	0.6	2	1	0	8
MSCI EM		43	0.8	3	2	-12	10
Yields and Spreads			bps				
US 10y Yield		2.60	-4.3	-4	-6	-24	-8
Germany 10y Yield		0.09	0.7	2	-2	-48	-15
EMBIG Sovereign Spread		344	-3	1	-13	53	-70
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.5	0.2	1	0	-10	2
Dollar index, (+) = \$ appreciation		96.4	-0.2	-1	-1	7	0
Brent Crude Oil (\$/barrel)		67.3	0.1	1	1	2	25
VIX Index (% change in pp)		13.0	0.1	-1	-2	-3	-12

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

This week is likely to be data heavy week in the US. A major market focus is the FOMC rate decision in the US on Wednesday, with the consensus expecting no change to the fed fund rates. Amongst other economic releases, durable goods orders for Jan are expected to rise 0.4% mom (Tuesday), and initial jobless claims are expected at 225k (Thursday). Markit's data release on Friday is expected to show a pickup in manufacturing PMI and a marginal softening in services PMI. Beyond the US, major central banks globally are expected to keep their rates on hold this week starting with Thailand on Wednesday, United Kingdom, Philippines and Indonesia on Thursday, and Colombia and Russia on Friday. Amongst key economic releases, inflation prints are expected for United Kingdom (Wednesday; CPI at 1.8% yoy), Russia (Wednesday; PPI at 8.9% yoy) Japan (Thursday; National CPI at 0.3% yoy) and Mexico (Friday; bi-weekly CPI at 3.98% yoy). Argentina's GDP growth for 4Q is expected to be reported at -6.4% yoy on Thursday.

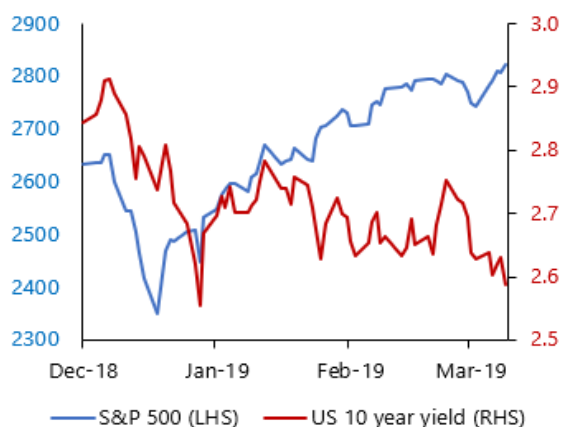
United States

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Stock prices closed higher by 0.5% on Friday, extending the weekly rise to 3%, and YTD rise to 13%.

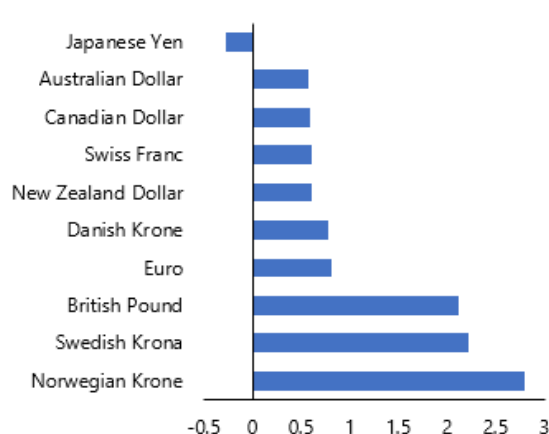
The risk-on sentiment continued with VIX declining by 0.6 ppts to 12.9 on Friday, in-line with the trend in major asset classes. Treasury yields hit their lowest level of the year as the 10-year yield declined by 4 bps to 2.59%, potentially reflecting the expectations of a dovish FOMC meeting next week and weak data prints on Friday (industrial production growth for Feb was reported at 0.1% mom, surprising negatively vs the 0.4% mom expectation). Consequently, the slope of the yield curve, proxied by the difference between 10-year and 2-year yields, declined by 2 bps to 14.7 bps. Reflecting the dovish expectations going into the FOMC meeting, the dollar declined by 0.7% last week, weakening against most of the G-10 peers.

US: Equity (LHS) and 10-year yield (RHS)



Source: Bloomberg

US Dollar vs G 20 peers (+ve = dollar weakening)

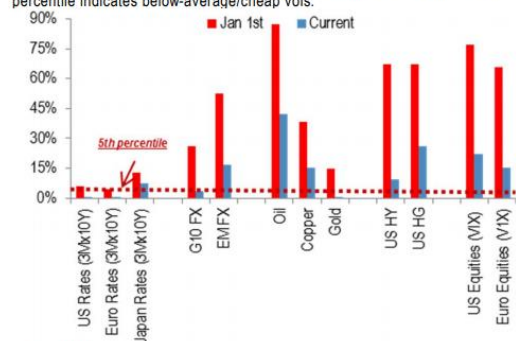


Source: Bloomberg

Volatility has continued to decline across asset-classes and has contracted significantly from 2019-

beginning levels. The level of 3M implied volatility is most depressed in G3 rates and Gold, followed by G10 FX, EM FX, Credit (CDX), Equities (VIX, V1X) and other Commodities (Oil, Copper). Implied volatility for US equities (VIX Index) is at 12.9 now, which compares with December 2018's peak of 36.1. However, JPM analysts highlighted that at the current levels, aggregate volatility looks to be underpriced by about the same margin as in 2013 (before the taper tantrum) and 2014 (before the Fed began tightening), but not as much as in the Pre-Lehman era.

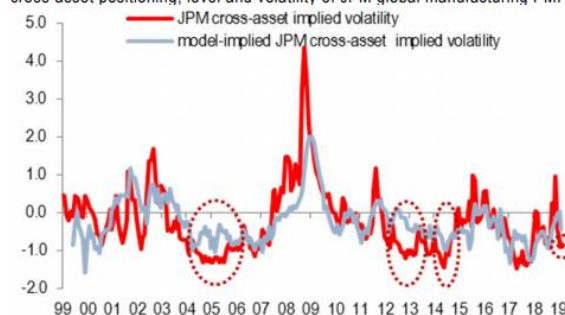
Percentile for levels of implied volatility in Equities (VIX, V1X), Rates (USD, EUR and JPY 3Mx10Y swaps), Credit (US HY and HG 3M options), FX (JPM VXY G10 and EM) and Commodities (Brent, Gold and Copper 3M options). Low percentile indicates below-average/cheap vols.



Source: J.P. Morgan

Chart 5: Cross-asset volatility looks as now as underpriced as in 2013 (before taper tantrum) and 2014 (before Fed began tightening)

Actual vs model-implied cross-asset implied volatility. Model covariates include cross-asset positioning, level and volatility of JPM global manufacturing PMI



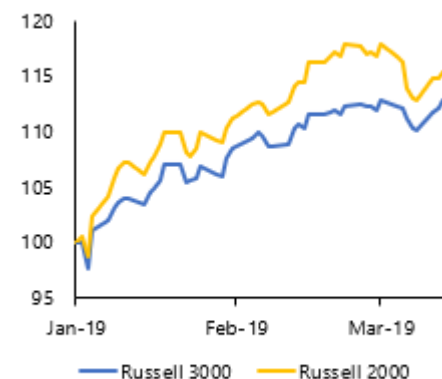
Source: J.P. Morgan

Factset estimates highlight the increasing performance divergence between domestic and internationally-focused firms in US. While firms with more than 50% of sales coming from the US are expected to see a marginal increase in the earnings growth in 1Q 2019, internationally focused firms (with less than 50% of the sales in the US) are expected to see an 11% yoy decline in earnings growth. Analysts highlighted that a stronger US dollar, continued trade tensions with China and a broader global slowdown are expected to weigh on profits. This divergence is also visible in the equity prices, with the Russell 2000 Index (proxying the small domestic-focused firms) outperforming the broader index by 2 percentage points in 2019.



Source: FactSet

Performance: Russell 3000 vs Russell 2000



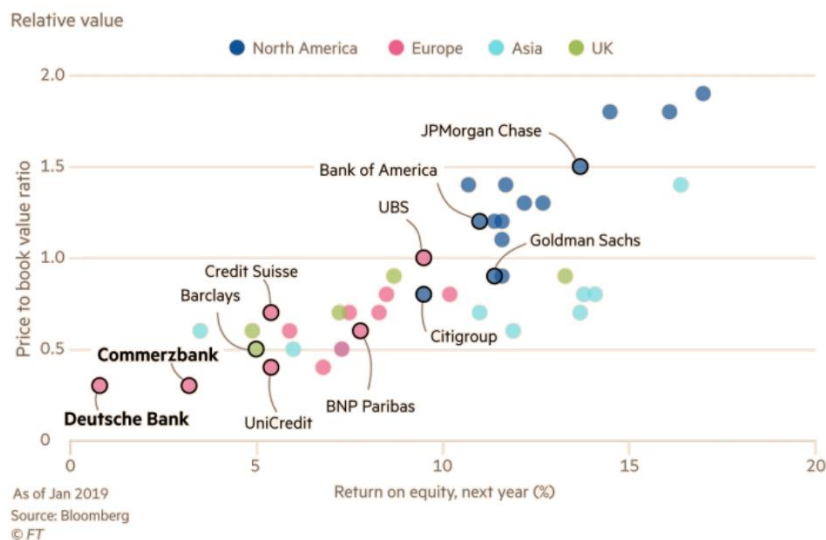
Source: Bloomberg; Jan 2019 = 100

Europe

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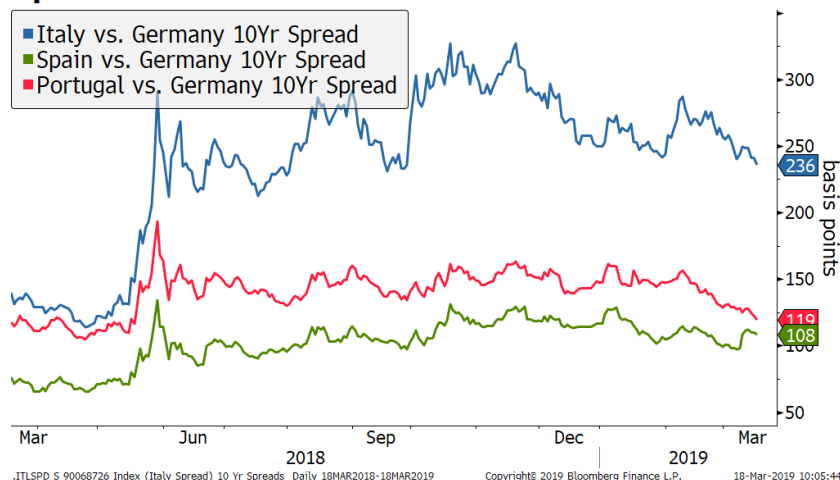
The EuroStoxx 600 is up 0.2% and the UK FTSE up 0.6% this morning. The banking sector (+1.3%) is leading gains, especially in Germany. **Deutsche Bank** (+3.6%) and **Commerzbank** (+6.1%) have officially started merger talks. The news follows months of speculation and official pressure to revive the lenders which have seen their performance fall well below that of global competitors (chart). The German state could be involved by passing its holdings of Commerzbank to the KfW development bank. Reports suggest that the merger, if it goes through, could lead to as much as 30K jobs cuts from a total 140K combined workforce. Despite the gains today, many analysts are sceptical that the merger will solve the banks' ingrained profitability problems.

Deutsche Bank and Commerzbank v peers



Fixed income markets are little changed, except for Italy. Yields are down as much as 7 bps across the **Italian** curve after Moody's left the country's sovereign ratings (Baa3) unchanged in the end of last week. **Portugal** was upgraded to BBB- from BBB- by S&P on Friday given the country's improved budget surplus and growth outlook, but there was no market reaction. German 10-year bund yields are trading at 0.07% and **French** bonds are unchanged despite another flair up of yellow vest protests in Paris over the weekend.

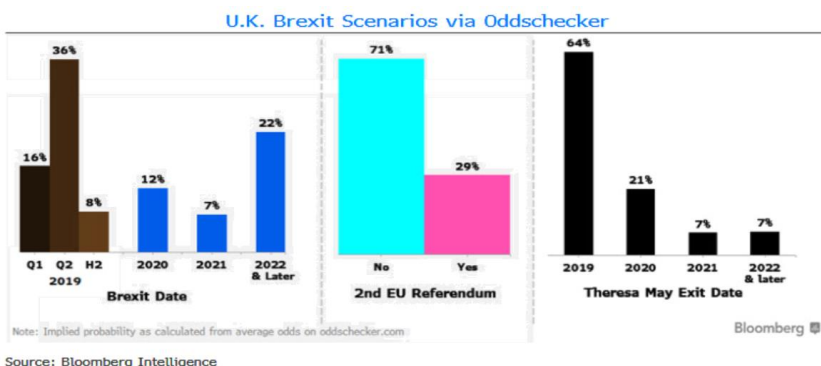
Spreads to German 10-Year



Brexit

The third vote on PM May's Brexit plan is expected on Tuesday or Wednesday, but only if the government believes it will have enough support to get it through the house of Commons. This hinges on garnering additional support from members of her own Conservative party and from the allied DUP in Northern Ireland. The latter is reportedly close to changing their position towards supporting the deal after further reassurance of the integrity of the backstop: the government promised to put into law a requirement that would prevent any divergence between the UK and Northern Ireland if the backstop is triggered. For what it's worth, the latest data from betting odds show increasing chances (now at 64%) that the PM will leave office this year. It also shows the most likely Brexit exit dates are Q2 or 2022 and later,

perhaps reflecting expectations for either a short extension or a series of delays. Despite all the confusion, the odds of a second referendum have trended lower in March, now at under 30%.



Other Mature Markets [back to top](#)


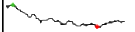
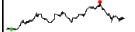






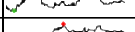



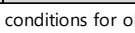
Japan

Equities gained and the yen held steady as investors shifted their attention to the upcoming Fed meeting on Wednesday. The Topix rose 0.7%, with technology shares providing the biggest boost. Meanwhile, the yen was unchanged at ¥111.52/dollar. **JGB yields were little changed**, with the 2-year note holding steady at -0.16% and the 10-year at -0.05%. Data from the Japan Securities Dealers Association indicated growing foreign purchase of JGBs, helping to keep most of the benchmark note yields in negative territory. Specifically, foreign purchases of JGBs rose to ¥14.57 tn (\$131 bn) in January, or 11.9% of the total, a record high since the series started in 2004; in mid-2017, that share was 7%.

Emerging Markets [back to top](#)

Asian currencies posted broad-based gains against the dollar while equities also rose, boosted by pledge from the Chinese authorities to keep supporting its economy. Chinese stocks led the gains, as the Shanghai composite rose by 2.5%, while most other countries were also higher. **Equities in EMEA started the week in the green** with Hungary (+1.1%) and South Africa (+1%) seeing some of the biggest gains. Local currencies were modestly stronger against the dollar. **Latin American equity markets** were generally higher last Friday, including Argentina (+1.2%) and Mexico (+1%). Local currencies were stronger. The Argentine peso was the main outperformer appreciating 1.9% against the dollar after the central bank rolled out measures to tighten monetary policy and slow inflation.

Key Emerging Market Financial Indicators

Last updated: 3/18/19 7:58 AM	Level	Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M
Major EM Benchmarks			%			
MSCI EM Equities		43.08	0.8	3	2	-12
MSCI Frontier Equities		28.68	0.7	2	-1	-18
EMBIG Sovereign Spread (in bps)		344	-3	1	-13	53
EM FX vs. USD		63.50	0.2	1	0	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation			
China Renminbi		6.71	0.0	0	1	-6
Indonesian Rupiah		14239	0.1	0	-1	-3
Indian Rupee		68.53	0.8	2	4	-5
Argentine Peso		39.99	1.9	3	-3	-49
Brazil Real		3.82	0.8	1	-3	-14
Mexican Peso		19.17	0.2	1	0	-2
Russian Ruble		64.27	0.8	3	3	-10
South African Rand		14.40	0.0	0	-2	-17
Turkish Lira		5.46	-0.3	0	-3	-28
EM FX volatility		7.98	1.3	-0.2	-0.9	0.1










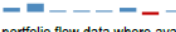
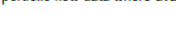


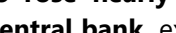
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

EM Fund Flows

EM bond fund inflows stayed positive for the 10th week in a row, while EM equity fund flows suffered outflows for the second time this year. Amongst EM bond funds, hard currency fund inflows accounted for the majority of EM retail bond fund inflows, while local currency fund inflows slowed to the slowest pace in 2019. Overall, EM bond flow were +\$1.1 bn (from +\$1.8mn last week) and EM equity fund flows were -\$1.2bn (from +\$836mn last week). Year to date flows to EM bonds and equities are +\$21.6bn and +23.1bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows

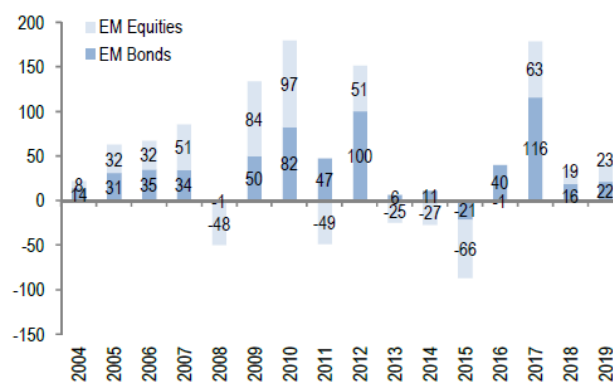
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.1	44.6
EM Bonds		1.1	21.6
Hard Ccy		1.0	16.6
Local Ccy		0.1	4.9
EM Equities		-1.2	23.1
US HG		2.5	19.9
US HY		1.3	11.2
Global Equities		27.3	11.7
EM Bond and Equity ETFs		0.3	27.6
EM Bond ETFs		0.0	7.8
EM Equity ETFs		0.3	19.8
Non-resident EM flows*		-0.5	18.2
EM Local Bonds		-0.5	6.8
EM Equities		0.1	11.4

*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

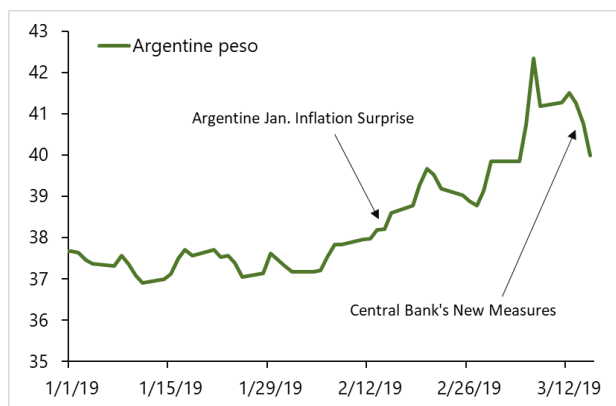
Exhibit 2: Annual EM bond and equity fund flows

USD billion



Argentina

The Argentine peso rose nearly 2% last Friday in reaction to the tightened monetary policy announced by the central bank, extending gains for a third day, while peso implied volatility remained high. Analysts' views were cautious on the policy measures, saying a tighter monetary aggregate would likely imply a faster growth of the stock of remunerated liabilities of the central bank. According to reports, the central bank's tighter grip on monetary policy risks may prolong the recession, potentially undermining President Marci's chances of winning re-election in October.



Source: Bloomberg

China

In a briefing after the close of the National People's Congress, Premier Li indicated that the authorities will introduce large scale tax cuts this year, including a reduction in the value-added tax effective April 1st to address growth headwinds. Moreover, he indicated that financial markets will play a bigger role in raising funds for businesses and further reductions in banks' reserve requirement ratios could be forthcoming. Both the onshore and offshore RMB were steady at around the 6.71/dollar level.

India

The Indian rupee has posted uninterrupted gains over the past 6 sessions, bringing it to its strongest level in more than 7 months (INR 68.5/dollar). Inflows into local assets, coupled with a narrowing trade deficit as well as expectations that Prime Minister Modi will regain power in the upcoming national election have supported Indian assets.















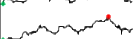

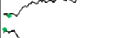
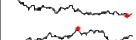

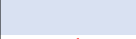









Azerbaijan

The central bank cut its key interest rate by 25 bps on Friday. The new rate will be 9% with a corridor of 7% and 11%. The move follows a 50-bps cut in February as inflation fell to 1.9% yoy in the first two months of the year, well below the central bank's inflation target of 4%.

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Global Financial Indicators

Last updated: 3/18/19 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2822	0.5	3	2	3	13
Europe		3385	0.0	2	4	-2	13
Japan		21585	0.6	2	1	0	8
China		3096	2.5	2	12	-5	24
Asia Ex Japan		70	1.4	3	3	-12	11
Emerging Markets		43	0.8	3	2	-12	10
Interest Rates			basis points				
US 10y Yield		2.60	-4.3	-4	-6	-24	-8
Germany 10y Yield		0.09	0.7	2	-2	-48	-15
Japan 10y Yield		-0.04	-0.1	0	-1	-7	-4
UK 10y Yield		1.21	-0.2	3	4	-22	-7
Credit Spreads			basis points				
US Investment Grade		118	-0.5	-2	-2	23	-29
US High Yield		410	0.6	-11	-10	58	-111
Europe IG		60	-0.3	-2	-8	9	-28
Europe HY		270	0.7	-13	-25	14	-82
EMBIG Sovereign Spread		344	-3.0	1	-13	53	-70
Exchange Rates			%				
USD/Majors		96.41	-0.2	-1	-1	7	0
EUR/USD		1.14	0.3	1	0	-8	-1
USD/JPY		111.5	0.0	0	-1	-5	-2
EM/USD		63.5	0.2	1	0	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	0.1	1	1	2	25
Industrials Metals (index)		121	0.4	1	4	-9	11
Agriculture (index)		41	-0.1	3	-3	-17	-2
Implied Volatility			%				
VIX Index (% change in pp)		13.0	0.1	-1.3	-1.9	-2.8	-12.4
10y Treasury Volatility Index		3.8	0.0	0.1	0.3	-0.3	-0.8
Global FX Volatility		6.9	0.1	-0.3	-1.0	-1.0	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		366	-5.4	0	-1	4	-50
Italy		235	-6.2	-14	-31	94	-15
Portugal		116	-6.6	-9	-24	-2	-32
Spain		107	-3.0	-1	-4	27	-10

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






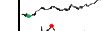

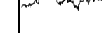










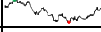




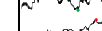

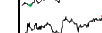












Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 3/18/2019 7:59 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						YTD
	Level		Change (in %)					Level		Change (in basis points)				
	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	0.0	0.2	1	-6	2		3.2	-0.1	0	11	-71	-4
Indonesia		14239	0.1	0.4	-1	-3	1		7.8	-5.1	-21	-28	96	-31
India		69	0.8	2.0	4	-5	2		7.5	-1.5	-3	-4	-33	2
Philippines		53	-0.1	-0.9	-1	-1	0		5.4	-2.0	-4	-25	50	-87
Thailand		32	0.0	0.0	-1	-2	2		2.6	1.4	2	3	26	0
Malaysia		4.08	0.3	0.3	0	-4	1		3.9	-0.1	-2	-6	-6	-19
Argentina		40	1.9	3.0	-3	-49	-6		23.2	66.0	144	313	602	22
Brazil		3.82	0.8	1.3	-3	-14	2		8.0	-2.4	-20	32	-37	-16
Chile		667	0.3	0.5	-1	-9	4		4.3	-0.7	-3	-8	-56	-20
Colombia		3119	0.7	1.8	0	-9	4		6.2	-1.4	-10	-16	-11	-28
Mexico		19.17	0.2	1.2	0	-2	3		8.2	-1.4	-5	-25	54	-53
Peru		3.3	0.0	0.5	1	-1	2		5.4	-3.9	-17	-23	36	-35
Uruguay		33	0.3	-1.2	-2	-15	-3		10.5	1.2	9	30		-18
Hungary		277	0.3	1.4	2	-9	1		2.1	0.0	5	6	49	-8
Poland		3.78	0.3	1.1	1	-10	-1		2.3	0.7	3	9	-21	3
Romania		4.2	0.4	0.9	0	-10	-3		4.1	-8.0	10	1	25	-13
Russia		64.3	0.8	2.6	3	-10	8		8.1	-1.4	-4	-5	117	-36
South Africa		14.4	0.0	-0.4	-2	-17	0		9.5	-4.7	4	-15	68	-14
Turkey		5.46	-0.3	-0.3	-3	-28	-3		16.7	-9.5	54	138	384	-19
US (DXY; 5y UST)		96.4	-0.2	-0.8	-1	7	0		2.40	0.8	-4	-9	-24	-11

	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		3096	2.5	2	12	-5	24		176	-1	2	-7	11	-18
Indonesia		6509	0.7	2	0	3	5		192	-6	1	-9	20	-44
India		38095	0.2	3	7	15	6		161	4	-3	-6	27	-35
Philippines		7873	1.0	2	0	-4	5		94	-5	7	2	-1	-27
Malaysia		1691	0.6	2	0	-8	0		129	-1	6	0	17	-33
Argentina		33933	1.2	3	-9	4	12		721	-3	-11	33	311	-94
Brazil		99137	0.5	4	3	17	13		241	-1	10	6	5	-32
Chile		5324	0.4	0	-1	-5	4		133	0	7	-3	11	-33
Colombia		1580	0.3	5	7	7	19		188	-1	6	-8	11	-40
Mexico		42210	1.0	1	-2	-11	1		306	-1	2	-15	63	-48
Peru		20919	0.5	2	3	1	8		135	-2	6	-9	-13	-33
Hungary		41750	1.0	4	4	7	7		120	-1	13	6	18	-28
Poland		60813	0.2	2	2	1	5		55	-3	10	2	3	-30
Romania		7894	0.4	-1	2	-10	7		200	2	0	2	64	-21
Russia		2482	0.2	1	0	8	5		212	-2	5	-15	41	-40
South Africa		56676	1.1	2	3	-2	7		302	-2	10	-4	55	-63
Turkey		104353	1.0	3	3	-11	14		417	-3	-7	6	106	-12
Ukraine		564	0.0	2	1	60	1		616	-9	-30	-94	174	-171
EM total		43	0.8	3	2	-12	10		344	-3	1	-13	53	-70

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