



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, March 19, 2019












- Analysts expect change to dots and announcement on balance sheet at this week's Fed meeting ([link](#))
- Money market funds in the US see significant inflows ([link](#))
- Vote on Brexit deal will not take place this week; request for extension now the base case ([link](#))
- Australian yields decline on growing expectation of a rate cut ([link](#))
- Brazilian equities reach record high on optimism for reform agenda ([link](#))

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Equity markets continue to rise on expectations of a dovish shift by the Fed

Markets continue to edge higher as investors anticipate a dovish signal from tomorrow's FOMC announcement. While the market is not pricing any expectation of a move in interest rates, analysts believe that there will be a dovish shift in the dot plot as well as a possible announcement of a near term end to the balance sheet runoff. Treasury yields are little changed this morning after rising slightly yesterday. The British pound is slightly stronger this morning, more than recovering the modest decline yesterday following the announcement by the speaker of parliament that there could be no new vote on PM May's Brexit deal without significant modifications. Expectations are now shifting toward an extension of the March 29 deadline.

Key Global Financial Indicators

Last updated: 3/19/19 7:39 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2833	0.4	2	2	4	13
Eurostoxx 50		3412	0.7	3	5	0	14
Nikkei 225		21567	-0.1	0	1	0	8
MSCI EM		44	0.1	3	3	-11	12
Yields and Spreads			bps				
US 10y Yield		2.60	1.6	0	-3	-25	-8
Germany 10y Yield		0.09	1.0	4	-1	-48	-15
EMBIG Sovereign Spread		342	-1	-10	-16	47	-72
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.6	0.0	1	0	-10	2
Dollar index, (+) = \$ appreciation		96.3	-0.2	-1	0	7	0
Brent Crude Oil (\$/barrel)		68.1	0.8	2	2	3	27
VIX Index (% change in pp)		12.7	-0.4	-1	-2	-6	-13

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

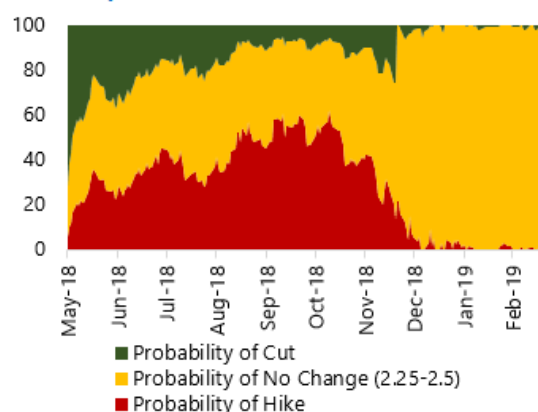
United States

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US stocks closed up 0.4% on Monday, with outperformance by the banking sector (+1.3%). Yields across the treasury curve rose by 0-2 bps, partly reflecting Former New York Fed President Dudley's comments in an interview. Dudley highlighted that the data is expected to remain weak in the first quarter, causing the Fed to wait for more information. However, if inflation starts drifting up (and there are some initial signs of an acceleration in wages), then Fed tightening may be "back in play" later this year. Implied volatility across both equities and rates, inched up slightly on Monday though continues to remain below historical norms.

Bloomberg estimates that market is expecting no change to rates at Wednesday's FOMC meeting, further firming Fed's dovish shift this year. Beyond the rate decision for this meeting, market analysts have also highlighted the possibility of a downward shift in the median dots for 2019 overall (from 2 hikes as per Dec's dot-plot to zero or one hike now, with higher odds on the former per JPM analysts). JPM analysts also highlighted that the recent softness in key inflation indicators, notwithstanding the healthy growth prints, could be another driver of a more dovish tilt. Bloomberg's survey also indicated that economists expect officials will reveal this week that they intend to halt the balance sheet shrinking in Q4. The survey found that bank reserves will total around \$1.2 tn and the Fed's overall balance sheet will stand at about \$3.5tn once the process is ended. In terms of the balance sheet distribution, economists expect the maturity distribution of the Fed's balance sheet to either reflect outstanding Treasuries or skew towards short-term securities.

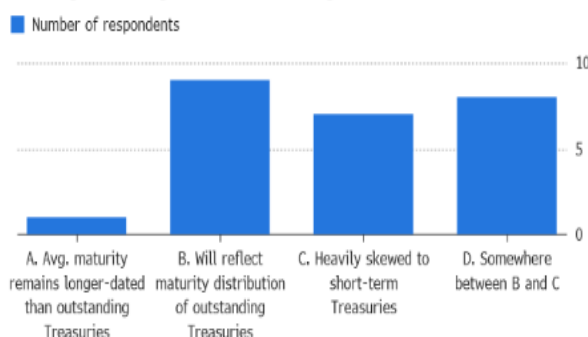
Probability of different rate decisions at Mar-19 meeting



Source: Bloomberg

Balance Sheet Distribution

Economists see the maturity distribution of the Fed's balance sheet either reflecting outstanding Treasuries or skewing toward short-term securities

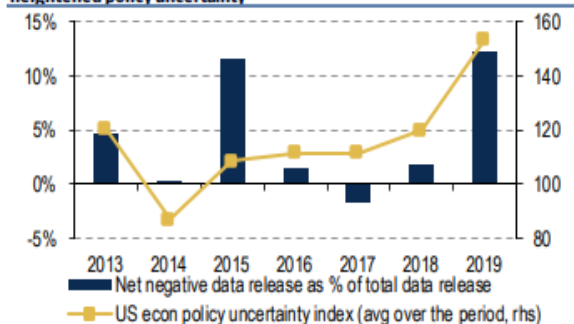


Source: Bloomberg survey

Bloomberg

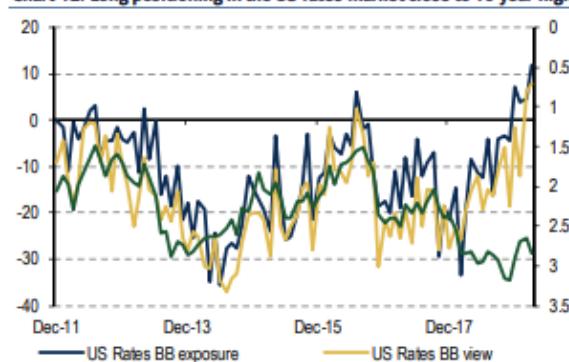
BAML analysts have highlighted that the rise in the economic policy uncertainty index, coupled with many negative data surprises in 2019 is likely to hold the rates market in a range. A key concern highlighted is the stretched long investor positioning in the rates market, indicated using fund manager performances, futures market net longs and the asset manager survey results (RHS chart below). Long rate positioning has been building in the US, both outright and vs Europe, per the analysts. Amongst the key buyers, analysts indicate that domestic asset managers, levered funds and reserve managers have been buying aggressively in recent weeks.

Chart 10: Large number of negative data surprises coupled with heightened policy uncertainty



Note: the data releases include 68 unique economic indicators with >50 Bloomberg relevancy score since 2013. Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 12: Long positioning in the US rates market close to 10 year highs.

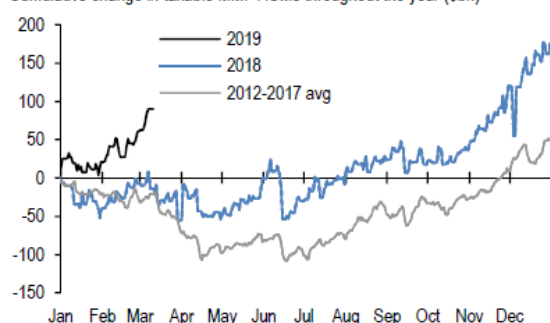


Source: BofA Merrill Lynch Global Research

Money Market Funds (MMFs) in the US continue to see significant inflows with AUMs up \$48bn in Feb, extending the YTD inflows to \$90bn. Extending the trend from late last year, total YTD inflows have been more than \$100bn above the trend in recent years. These inflows have been driven mostly by prime funds and institutional government funds. Furthermore, dealer repo with MMF's were broadly unchanged at \$1,074bn, showing that they continue to provide a significant amount of repo financing to dealers. Beyond the rapid growth in market size, a key market focus is also the adoption of SOFR, the new U.S. Libor's alternative. Government MMFs remain large buyers of SOFR floaters, increasing their holdings by \$12bn to \$39bn in Feb, and compares with \$4.2 bn in Sep-18.

Exhibit 5: YTD taxable MMF AUM inflows have been more than \$100bn ahead of what has been typical in recent years...

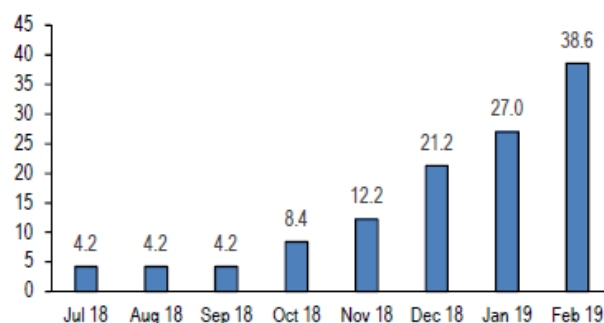
Cumulative change in taxable MMF AUMs throughout the year (\$bn)



Source: iMoneyNet

Exhibit 9: Government MMFs grew their SOFR exposure to \$39bn

Government MMF exposures to SOFR floaters (\$bn)



Source: Crane Data, Bloomberg, J.P. Morgan

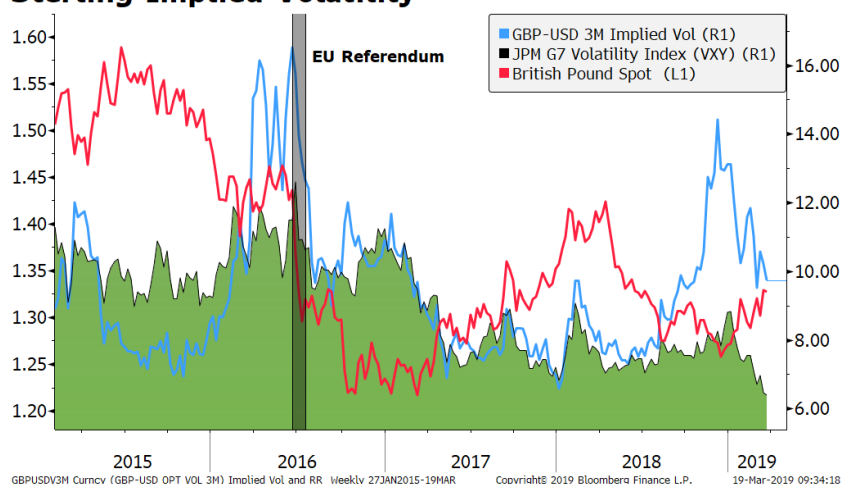
Europe

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Brexit

John Bercow, the speaker of the UK parliament, ruled yesterday that PM May could not bring her Brexit deal for a third vote unless it is substantially different. PM May was expected to try to get her deal approved either this week but the ruling throws into doubt whether that would be possible, especially since the EU has repeatedly said that this is the only one on offer. Prior to Bercow's ruling, speculation had been mounting that May was making limited progress in securing the votes required and was likely to postpone any vote until next week. Observers are now seeing a greater likelihood of a longer Brexit extension from the March 29 deadline. Local media reports that PM May is drafting a letter to EU Council president Donald Tusk requesting a 9- to 12-month delay, but this is unconfirmed. The pound depreciated on the news but quickly recovered and is now somewhat stronger compared to before the headlines. Similarly, measures of implied volatility for the pound have not reacted.

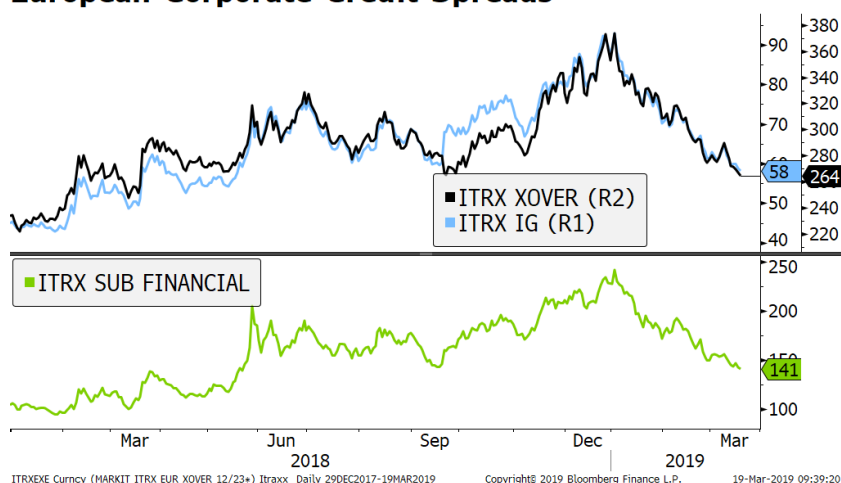
Sterling Implied Volatility



Europe

The EuroStoxx index is up 0.4% today, on track for its fifth consecutive gain. The index is now up 3% on the month and 13.5% on the year. Similarly, credit spreads in the euro area continue to trend lower. The **iTraxx IG** index is down around 30 bps since December, while the HY and sub-financial indices are down about 100 bps over the same period, in part supported by the ECB's third TLTRO announced earlier this month. **Sovereign debt markets are little changed across the region.**

European Corporate Credit Spreads



Other Mature Markets [back to top](#)

Japanese shares edged lower while the yen appreciated a touch ahead of the two-day Fed meeting starting tomorrow. Amid limited trading, the Topix fell 0.2%, with retailers among the biggest drags on the index. The yen traded in a narrow range, gaining against the dollar for a third day (+0.12%). Bloomberg estimated that the BoJ's share of outstanding JGBs fell for the first time under Governor Kuroda, from 43% at the end of Q3 to 42.99% by the end of 2018. As the BoJ shifted to a yield curve-control program in 2016, it has been able to reduce its purchases. **JGB yields were mostly little changed.** The exception was the 30-year long bond, which fell 2 bps to 0.55% following the 20-year auction. The auction drew a bid-to-cover ratio of 4.84x, the highest since January 2014. Analysts noted that the strong demand suggests growing bets that the BoJ could delay its policy normalization.

Australia







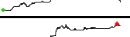





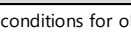

Growing expectations that the RBA could cut rates have weighed on sovereign bond yields. Yields fell 4 to 5 bps across the curve as weak data have spurred expectations for a rate cut this year. The yield on **the 3-year note fell 5 bps to 1.49%, dipping below the RBA's policy rate of 1.50% for the first time since September 2016.** RBA meeting minutes from March 4th, released today, indicated "significant uncertainty" in the central bank's outlook for the economy. Meanwhile, the RBA has kept its cash rate unchanged at a record-low of 1.50% since August 2016. The Australian dollar was unchanged against the US dollar.

Emerging Markets

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Emerging market equities drifted in a narrow range ahead of tomorrow's FOMC meeting, with currencies mixed against the dollar. In Asia, the South Korean won strengthened 0.1%, pacing gains, while the Philippine peso depreciated 0.4%, underperforming others. Both the onshore and offshore RMB were little changed against the dollar. Asian equities were similarly mixed, with most bourses hovering between +/- 0.5% on the day. China's Shanghai Composite shed 0.2% while its high-tech Shenzhen Composite gained 0.2%. **EMEA stocks were little changed** with most indices seeing gains of 0.1-0.4%. Currencies in the region were mildly stronger against the dollar. **Latin American equity markets were generally higher yesterday.** Argentina was the best performer as the Merval rallied nearly 3%. Brazil equities rose 0.9%, reaching a new all-time high on the back of expectations that an overhaul in the country's social security system will be approved by congress. Local currencies were mostly stronger, including the Mexican peso (+0.8%) and Colombian peso (+0.7%).

Key Emerging Market Financial Indicators

Last updated: 3/19/19 7:54 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.56	0.2	3	3	-11	12
MSCI Frontier Equities		28.82	0.5	2	0	-17	10
EMBIG Sovereign Spread (in bps)		342	-1	-10	-16	47	-72
EM FX vs. USD		63.60	0.0	1	0	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.0	0	1	-6	2
Indonesian Rupiah		14233	0.0	0	-1	-3	1
Indian Rupee		68.96	-0.6	1	3	-5	1
Argentine Peso		40.03	-0.1	3	-3	-50	-6
Brazil Real		3.79	0.6	1	-1	-13	2
Mexican Peso		19.03	0.1	2	1	-2	3
Russian Ruble		64.33	0.1	2	2	-10	8
South African Rand		14.38	0.5	0	-2	-16	0
Turkish Lira		5.48	-0.2	0	-4	-28	-3
EM FX volatility		7.75	0.0	-0.4	-1.0	-0.2	-2.0

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

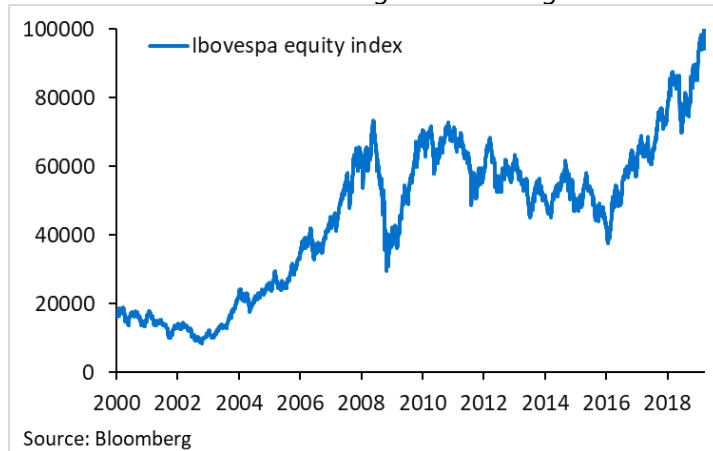
South Africa

Political tensions have risen as widespread electricity outages continued for a third day. Blackouts have affected everything from factories to traffic lights as the state-owned electricity provider struggles to meet demand. The outages are estimated to impose a cost of \$140 mn per day and come two months before national elections in the country. President Ramaphosa apologized to the public for the outages.

and has pledged to divide the provider into three separate businesses. Markets have shrugged off the blackouts with equities rising by 0.5% this morning while the rand strengthened by 0.6% against the dollar.

Brazil

Brazil's benchmark Ibovespa equity index reached a record high yesterday as growing optimism about the reform agenda boosted local markets. The index touched 100,000 points for the first time in history. With the government running a 7% budget deficit last year, the reforms are considered essential for steadying the Brazilian economy and attracting investment. According to press reports, the plans still face a difficult path through congress and a series of domestic scandal and rifts within the Bolsonaro administration also risk derailing the reform agenda.



Malaysia

PM Mahathir indicated that the government is considering listing "mature" government entities on the stock market to help reduce government debt. Malaysia is seeking to lower its budget deficit from a 5-year high of 3.7% in 2018 to 3.4% in 2019. Options could include reducing government shareholdings in public-listed companies. The Malaysia ringgit was unchanged on the day while Kuala Lumpur Composite fell 0.1%.

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Global Financial Indicators



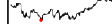







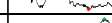
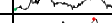




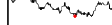

















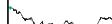

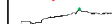

Last updated: 3/19/19 7:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2833	0.4	2	2	4	13
Europe		3412	0.7	3	5	0	14
Japan		21567	-0.1	0	1	0	8
China		3091	-0.2	1	12	-6	24
Asia Ex Japan		71	0.9	2	3	-10	12
Emerging Markets		44	0.1	3	3	-11	12
Interest Rates			basis points				
US 10y Yield		2.60	1.6	0	-3	-25	-8
Germany 10y Yield		0.09	1.0	4	-1	-48	-15
Japan 10y Yield		-0.04	-0.5	-1	-1	-8	-4
UK 10y Yield		1.20	0.0	3	3	-25	-8
Credit Spreads			basis points				
US Investment Grade		118	-0.2	-1	-2	24	-29
US High Yield		409	-1.3	-8	-11	66	-112
Europe IG		58	-1.0	-3	-9	7	-30
Europe HY		262	-4.8	-16	-30	5	-91
EMBIG Sovereign Spread		342	-1.0	-10	-16	47	-72
Exchange Rates			%				
USD/Majors		96.34	-0.2	-1	0	7	0
EUR/USD		1.14	0.1	1	0	-8	-1
USD/JPY		111.3	0.1	0	-1	-5	-1
EM/USD		63.6	0.0	1	0	-10	2
Commodities			%				
Brent Crude Oil (\$/barrel)		68	0.8	2	2	3	27
Industrials Metals (index)		122	0.9	1	3	-7	12
Agriculture (index)		41	0.0	1	-2	-15	-2
Implied Volatility			%				
VIX Index (% change in pp)		12.7	-0.4	-1.1	-2.2	-6.4	-12.8
10y Treasury Volatility Index		3.6	-0.2	-0.1	-0.1	-0.8	-1.0
Global FX Volatility		6.7	0.0	-0.3	-1.0	-1.3	-2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		364	-1.9	-19	-3	2	-52
Italy		237	-0.1	-11	-31	98	-13
Portugal		117	-0.6	-11	-23	0	-31
Spain		106	-1.9	-6	-5	29	-12

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: 3/19/2019 7:54 AM	Exchange Rates							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	0.0	-0.1	1	-6	2		3.2	0.0	1	11	-72	-4
Indonesia		14233	0.0	0.2	-1	-3	1		7.8	-1.8	-19	-25	95	-33
India		69	-0.6	1.1	3	-5	1		7.4	-2.5	-4	-7	-31	-1
Philippines		53	-0.4	-0.1	-1	-2	-1		5.4	0.0	-6	-25	50	-87
Thailand		32	0.1	-0.1	-2	-2	2		2.6	-0.9	1	1	25	-1
Malaysia		4.08	0.0	0.2	0	-4	1		3.9	-0.3	-3	-7	-7	-19
Argentina		40	-0.1	3.1	-3	-50	-6		23.3	4.7	173	317	602	27
Brazil		3.79	0.6	1.3	-1	-13	2		8.0	-2.7	-11	20	-36	-18
Chile		663	0.4	0.5	-1	-8	5		4.3	0.5	-3	-7	-55	-19
Colombia		3099	0.7	2.6	1	-8	5		6.2	0.7	-7	-17	-10	-27
Mexico		19.03	0.1	1.7	1	-2	3		8.2	0.0	1	-23	59	-53
Peru		3.3	0.0	0.3	1	-1	2		5.4	1.7	-13	-21	35	-33
Uruguay		33	0.1	-0.9	-2	-15	-3		10.5	0.0	7	30		-18
Hungary		276	0.3	1.1	1	-9	1		2.0	-7.6	-4	-2	41	-16
Poland		3.78	0.2	0.8	1	-9	-1		2.3	-0.9	0	8	-20	2
Romania		4.2	0.1	1.0	0	-10	-3		4.1	-6.0	6	-3	22	-19
Russia		64.3	0.1	2.0	2	-10	8		8.0	-7.1	-10	-11	111	-43
South Africa		14.4	0.5	-0.2	-2	-16	0		9.5	1.3	6	-12	67	-13
Turkey		5.48	-0.2	-0.4	-4	-28	-3		16.6	-7.1	47	133	380	-26
US (DXY; 5y UST)		96.3	-0.2	-0.6	0	7	0		2.41	0.0	0	-5	-24	-10

	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		3091	-0.2	1	12	-6	24		177	0	-3	-8	4	-17
Indonesia		6480	-0.4	2	0	3	5		190	-2	-14	-13	15	-46
India		38363	0.7	2	9	17	6		156	-5	-8	-11	24	-40
Philippines		7843	-0.4	1	0	-5	5		92	-2	-8	-3	-4	-29
Malaysia		1688	-0.2	1	-1	-9	0		128	0	-2	-4	11	-34
Argentina		34939	3.0	3	-4	10	15		718	-5	-26	17	295	-97
Brazil		99994	0.9	2	2	19	14		238	1	-3	0	-1	-35
Chile		5324	0.0	1	-1	-5	4		131	-1	-7	-7	8	-35
Colombia		1606	1.7	5	9	9	21		187	0	-6	-9	5	-41
Mexico		42210	0.0	1	-2	-11	1		300	-1	-12	-23	55	-54
Peru		21005	0.4	2	3	2	9		135	0	-4	-9	-15	-33
Hungary		42293	0.5	4	4	12	8		120	0	0	3	19	-28
Poland		60934	0.4	2	2	2	6		55	0	-4	-1	3	-30
Romania		7897	0.2	0	2	-10	7		198	-2	-2	1	66	-23
Russia		2494	0.4	1	1	9	5		210	-1	-5	-17	36	-42
South Africa		57047	0.5	2	3	-2	8		300	-2	-4	-6	45	-65
Turkey		105286	0.7	4	3	-9	15		417	1	-11	3	102	-12
Ukraine		564	0.2	2	1	60	1		609	-6	-33	-93	158	-178
EM total		44	0.2	3	3	-11	12		342	-1	-10	-16	47	-72

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