



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, March 20, 2019










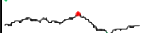

- **May requests Brexit extension to June 30** ([link](#))
- **Estimate of financial firm assets to leave the UK is raised** ([link](#))
- **Bank of Thailand holds policy rate at 1.75% as expected** ([link](#))
- **Kazakh president announces resignation after 30 years in office** ([link](#))

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

## Markets cautious ahead of Fed statement

**All eyes are on the Fed today as markets anticipate no rate change but an overall more dovish message.** Equity markets are trading tepidly so far this morning, with most major equity indices declining modestly. Treasury yields are down slightly after rising somewhat on Tuesday. The British pound is slightly weaker versus the dollar. PM May officially requested to the EU a short extension until June 30, but the EU is reported to oppose the request, preferring either a shorter extension or one much longer. Concerns remain amid US/China trade negotiations amid reports that Chinese negotiators are pushing back against US demands. Senior US representatives are scheduled to travel to Beijing later this week. With several potential negative catalysts, markets are hopeful that the Fed can deliver to expectations later today. Most analysts expect a shift downward in the dot plot, to either 1 or possibly 0 rate hikes in 2019 from 2 hikes in the December meeting. Additionally, there is some hope that there will be an announcement regarding the end of the balance sheet runoff, with some analysts expecting the end could come in Q2 this year.

## Key Global Financial Indicators

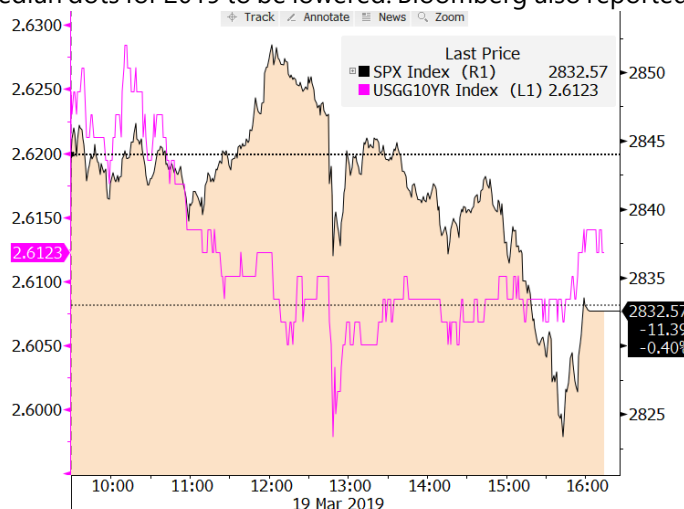
Last updated: 3/20/19 7:54 AM	Level Last 12m Latest	Change from Market Close				12 M	YTD
Equities		1 Day	7 Days	30 Days			
					%		%
S&P 500	 2833	0.0	2	2	4		13
Eurostoxx 50	 3412	0.7	3	5	0		14
Nikkei 225	 21567	-0.1	0	1	0		8
MSCI EM	 44	-0.7	3	3	-11		12
Yields and Spreads		bps					
US 10y Yield	 2.60	0.9	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  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

[back to top](#)

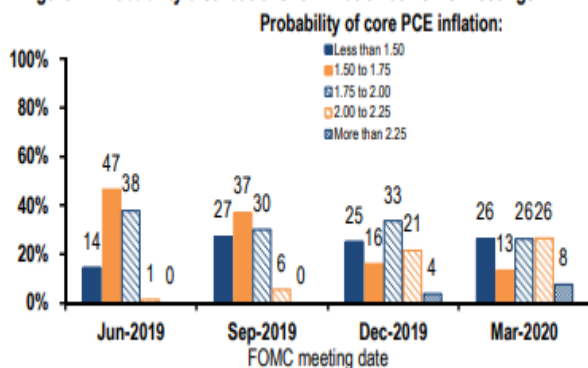
**Treasury yields rose early in the NY session but retraced the move as risk assets gave up most of their early gains.** Amid significant intra-day volatility, the S&P 500 also remained broadly unchanged declining 0.7% from the day highs. A key market focus remains the FOMC decision today, where the market is expecting rates to be kept on hold, and the median dots for 2019 to be lowered. Bloomberg also reported that some US trade negotiators are concerned that China is pushing back against American demands. In the meantime, the FT reported that US officials are slated to visit China next week for trade talks. Amongst key data releases, durables good orders for Jan marginally disappointed and were reported at 0.3% yoy, which compares with consensus expectations of 0.4% yoy. Ex transportation, the order growth was reported at -0.2% yoy, vs consensus expectations of -0.1% yoy.



**JPM analysts highlighted that upside risks to the models appear to be fading,** as risks of further tariff increases have fallen and signs of inflation remain muted so far.

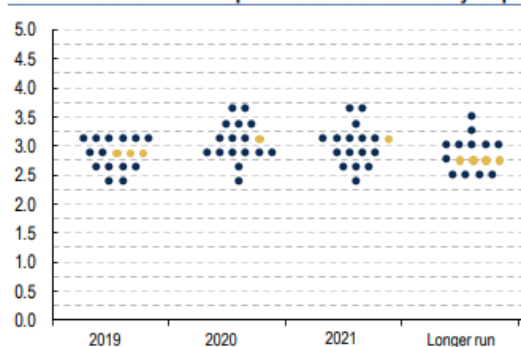
The left-hand chart below shows only a 25% probability of core PCE inflation running above 2.0% yoy at the Dec FOMC meeting. The softening inflation prospects have been highlighted as a key argument for the dovish policy outlook over the near term, even though the longer-run median dots are expected to be kept at the same level. The right-hand chart below highlights the number of dots needed to move the median estimate lower at the FOMC meeting today.

Figure 2: Probability distributions for inflation at FOMC meetings



Source: Various government and non-government sources, J.P. Morgan

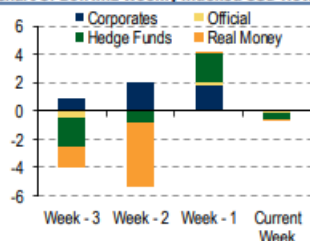
Chart 1: The bar is low for the path of rates to revise lower by 25bps



Note: Yellow dots denote the number of dots needed to move the median estimate lower  
Source: BofA Merrill Lynch Global Research, Federal Reserve

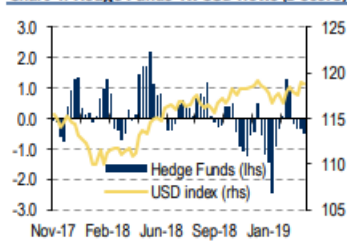
**Cross border currency flows highlight that investors seem to be more uncertain about the next steps in US monetary policy than usual.** Aggregate USD flows have declined sharply to less than a third of their average over the past year per BAML analysts. Furthermore, over a longer time horizon, trends continue to point towards USD selling by both hedge funds and real money. Beyond the USD, analysts also indicate an acceleration of EUR buying across most client categories. Hedge fund buying and a paring back of corporate selling helped EUR flows.

Chart 3: BofAML weekly indexed USD flow



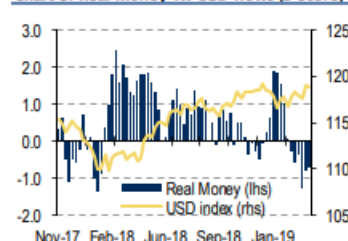
Source: BofA Merrill Lynch Global Research

Chart 4: Hedge Funds 4w USD flows (z-score)



Source: BofA Merrill Lynch Global Research, Bloomberg

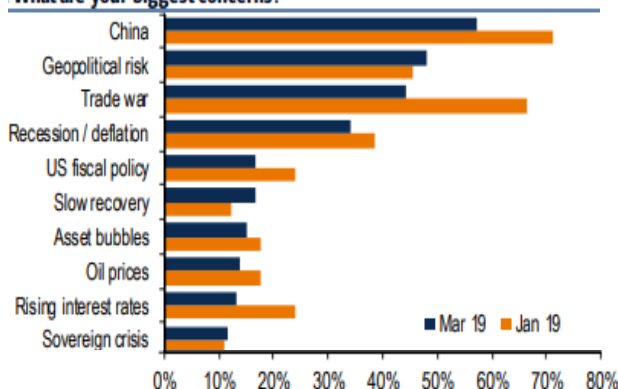
Chart 5: Real Money 4w USD flows (z-score)



Source: BofA Merrill Lynch Global Research, Bloomberg

**BAML's latest credit investor survey highlighted that most concerns have declined notably from December and January.** China, geopolitical risks and trade war remain the top-3 risks while recession is in the 4th spot and rising interest rates have now fallen to 9th place after having been #1 as late as mid-November last year. The risk-off sentiment is also reflected in the sharp decline in the credit spreads in 2019, with IG and HY spreads narrowing by 26 and 113 bps respectively.

What are your biggest concerns?



US Corporate Spreads



Source: Bloomberg

## Europe

[back to top](#)

### Brexit

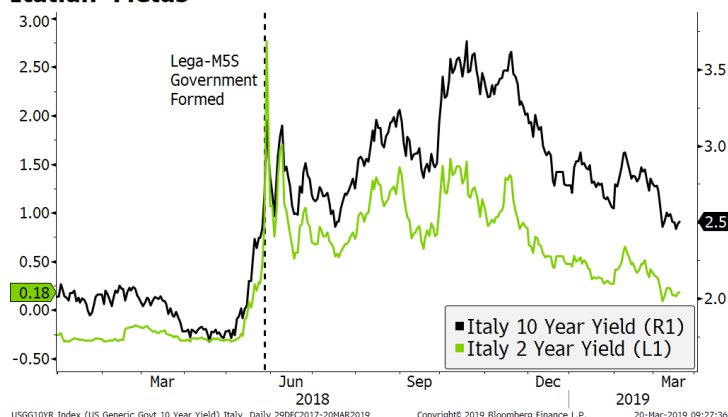
**PM May has requested a 3 month extension of the Brexit deadline.** In a letter to European Council president Tusk, May said that it would not be in anybody's interests for the UK to hold European Parliament elections and was thus requesting a delay until June 30 in an attempt to get her deal through parliament. The FT reports that the EU will oppose the request and will instead aim for a choice between a short extension, until May 23, or a longer extension which could go beyond 2019. Sterling weakened following May's letter and is down by 0.5% against the dollar. EU Commission president Juncker had previously commented that the leaders would be reluctant to sign off a request until PM May has secured endorsement from parliament, making it unlikely that the extension will be granted this week.

**Separately, Ernst & Young has raised its estimate of financial services firms moving assets out of the U.K. into Europe to roughly £1 tn from £800 bn.** Uncertainty has led firms to trigger their worst-case scenario contingency Brexit plans to be prepared for any possible outcome. The estimated number of jobs set to leave the UK remained unchanged at 7,000, while some 2,000 new roles in Europe have been created.

## Europe

**Stocks are broadly but modestly lower**, led by -0.9% in the German DAX mostly on negative company-specific news. **Sovereign debt yields are unchanged**. Of note, the recent trend lower in yields has brought Italian debt back to where they were trading before the Lega-M5S government formed in mid-2018.

### Italian Yields



## Other Mature Markets

[back to top](#)














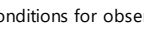
**Equities (Nikkei 0.2%; Topix 0.3%) gained on average volumes.** Tech stocks strongly outperformed. Separately, in a parliamentary session Prime Minister Abe and his deputy Aso confirmed their support for the BoJ's 2% inflation target. The comments follow a statement by Aso last week that it would be problematic if the BoJ focused too much on its 2% goal. **The yen depreciated 0.1% while 10-year JGB yield rose 0.6bps to -0.05%.**

## Emerging Markets

[back to top](#)

**Emerging market stocks have had another quiet session so far this morning ahead of today's FOMC meeting.** Equities in EMEA saw modest losses with Hungary (-0.5%) among the worst performers. Asian stocks saw even smaller changes. Currencies in both regions were flat against the dollar. Latin American equities were mixed yesterday. Argentina saw the most losses (-1.6%), while Mexico and Colombia saw gains. Local currencies mainly traded in narrow ranges, while the Argentine peso was the main underperformer, depreciating by 1.2% against the dollar.

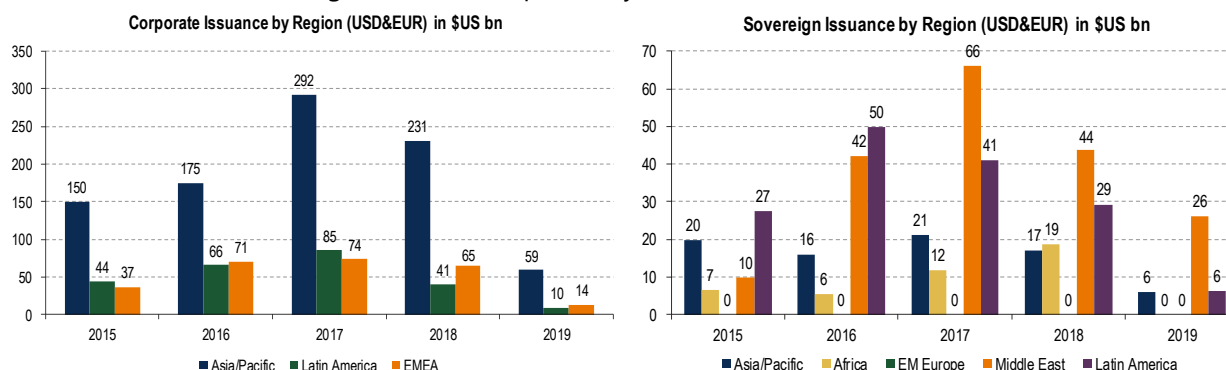
## Key Emerging Market Financial Indicators

Last updated: 3/20/19 7:55 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		43.56	-0.7	3	3	-11	12
MSCI Frontier Equities		28.65	-0.6	1	0	-18	10
EMBIG Sovereign Spread (in bps)		342	-1	-10	-16	47	-72
EM FX vs. USD		63.60	0.0	1	0	-10	2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.69	0.3	0	0	-5	3
Indonesian Rupiah		14188	0.3	1	-1	-3	1
Indian Rupee		68.83	0.2	1	3	-5	1
Argentine Peso		40.53	-1.2	2	-3	-50	-7
Brazil Real		3.79	0.1	1	-2	-13	2
Mexican Peso		18.96	0.3	2	1	-1	4
Russian Ruble		64.30	0.1	2	2	-10	8
South African Rand		14.44	0.5	0	-3	-17	-1
Turkish Lira		5.48	0.0	0	-3	-28	-3
EM FX volatility		7.75	0.0	-0.3	-1.1	-0.1	-2.0

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

## EM bond issuance

**EM total bond issuance for last week declined to \$10 bn, from over \$20 bn the week before.** EM corporate issuance edged up to \$9.7 bn, while sovereign issuance fell sharply to \$0.4 bn, from \$14.4 bn the week before. The year to date total issuance of \$132.1 bn was approximately 16% less than 2018 issuance over the same period, and Latin America (-55%) was the main drag. From a regional perspective, Latin America was the largest EM corporate debt issuer, accounting for 51% (\$4.9 bn) of the total. Of the total corporate bonds issued, 31% (\$3 bn) were investment grade bonds and 58% (\$5.6 bn) were high yield bonds. Last week's sovereign issuance was placed by Ukraine.



Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

## Kazakhstan

**President Nazarbayev announced his resignation yesterday after 30 years in office.** Nazarbayev is said to have been planning to step down for some time but the announcement came as a surprise to many analysts. He will stay on as head of the security council as well as a number of other positions, introducing some uncertainty as to how much his departure will affect the country's power structure. Senate chairman Kassymzhomart will take over as president ahead of elections scheduled for next year. The country's 2024

eurobond declined for the first time in seven days with the instrument's yield climbing 5 bps. The tenge also weakened slightly.

### Thailand

**The Bank of Thailand held the policy rate at 1.75% as expected.** The decision was unanimous, with all seven monetary policy committee members voting for a hold, compared to two votes for a hike in February. The BoT also lowered its 2019 growth forecast to 3.8% (-20bps). It noted rising downside external risks as well as heightened domestic uncertainties. Elections are taking place in Thailand on March 24. The need to preserve financial stability was once again highlighted against the backdrop of search-for-yield behavior and underpricing of risks. The baht depreciated 0.2%, the most among Asian currencies on the day, and bond yields fell 3 bps.

### Brazil

**President Trump and President Bolsonaro vowed to strengthen two countries' economic and security ties and to work closely on returning crisis-stricken Venezuela to democracy.** During a meeting with President Bolsonaro yesterday, President Trump said he's "very inclined" to make Brazil an official U.S. ally. The agreement to grant Brazil status as a major non-NATO ally would provide Brazil preferential access to U.S. military equipment and technology. Brazil would become the second Latin American country and the 18<sup>th</sup> nation overall to receive the designations. President Trump also said that he supported Brazil's effort to join the Organization for Economic Cooperation and Development, which would attract much-needed foreign investment to Brazil.

In other Brazil news, according to Bank of America Merrill Lynch's latest monthly survey of money managers, **a growing number of investors believed the pension reform may take longer than expected** even though a final approval was seen by all as certain. Almost 80% of respondents expected the pension reform to be approved in 2H19, up from 61% last month. In addition, more than half of investors expected Brazil equities to outperform other asset class in the next six months.

---

**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: 3/20/19 7:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2833	0.0	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	-0.7	3	3	-11	12
<b>Interest Rates</b>			basis points				
US 10y Yield		2.60	0.9	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
<b>Credit Spreads</b>			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
<b>Exchange Rates</b>			%				
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
<b>Commodities</b>			%				
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
<b>Implied Volatility</b>			%				
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
<b>EA Sovereign Spreads</b>			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  $\pm 1.5$  standard deviations.  
Data source: Bloomberg.

[back to top](#)



## Emerging Market Financial Indicators

Last updated: 3/20/2019 7:56 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		6.69	0.3	0.2	0	-5	3		3.2	0.3	1	9	-71	-4
Indonesia		14188	0.3	0.5	-1	-3	1		7.8	-2.8	-16	-27	92	-36
India		69	0.2	1.0	3	-5	1		7.5	2.2	-1	-5	-30	2
Philippines		53	0.2	-0.1	-1	-1	0		5.5	2.9	-1	-18	52	-84
Thailand		32	-0.2	-0.4	-2	-2	2		2.6	1.0	2	2	26	0
Malaysia		4.07	0.2	0.5	0	-4	2		3.9	-0.5	-3	-8	-8	-20
Argentina		41	-1.2	2.4	-3	-50	-7		23.2	-10.2	99	317	588	17
Brazil		3.79	0.1	0.6	-2	-13	2		7.9	-4.0	-10	21	-42	-22
Chile		666	0.0	0.4	-2	-8	4		4.3	0.1	-3	-7	-55	-19
Colombia		3097	0.0	1.7	1	-8	5		6.2	-3.0	-7	-19	-13	-30
Mexico		18.96	0.3	1.7	1	-1	4		8.2	2.7	7	-19	61	-51
Peru		3.3	0.0	0.0	1	-1	2		5.4	3.9	-6	-16	41	-29
Uruguay		33	0.5	-0.2	-2	-14	-2		10.5	-1.7	5	27		-20
Hungary		276	0.1	0.8	2	-8	2		2.1	0.9	-3	1	42	-15
Poland		3.77	0.1	0.6	1	-8	-1		2.3	1.2	2	11	-21	3
Romania		4.2	0.0	0.5	0	-9	-3		4.1	0.0	-1	-4	21	-19
Russia		64.3	0.1	1.8	2	-10	8		8.0	-1.6	-11	-16	109	-45
South Africa		14.4	0.5	-0.1	-3	-17	-1		9.6	9.4	12	-6	73	-3
Turkey		5.48	0.0	-0.3	-3	-28	-3		16.6	-0.6	29	115	370	-27
US (DXY; 5y UST)		96.3	-0.2	-0.6	0	7	0		2.41	-1.2	-2	-5	-28	-10

	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		3091	0.0	1	12	-6	24		176	0	-1	-6	10	-18
Indonesia		6483	0.0	2	0	4	5		191	2	-7	-8	17	-45
India		38387	0.1	2	7	16	6		155	-1	-9	-12	15	-41
Philippines		7858	0.2	1	-1	-2	5		94	2	-3	2	1	-27
Malaysia		1684	-0.2	0	-2	-9	0		129	1	1	4	14	-33
Argentina		34373	-1.6	2	-6	8	13		728	2	-19	16	313	-87
Brazil		99588	-0.4	2	3	18	13		235	1	-6	-3	-1	-38
Chile		5306	-0.4	0	-2	-4	4		130	1	-3	-6	8	-36
Colombia		1614	0.5	5	9	9	22		185	1	-5	-8	7	-43
Mexico		42379	0.4	1	-2	-10	2		303	1	-5	-19	57	-51
Peru		21134	0.6	1	2	2	9		132	1	-5	-12	-16	-36
Hungary		41740	-0.6	3	3	10	7		119	0	0	4	23	-29
Poland		60682	-0.2	1	0	1	5		53	-1	-3	-2	9	-32
Romania		8033	1.1	2	4	-8	9		199	1	-1	1	67	-22
Russia		2498	0.2	1	0	9	5		210	2	-3	-16	39	-42
South Africa		56602	-0.4	1	2	-3	7		303	2	1	-2	50	-62
Turkey		104305	-0.5	2	2	-10	14		421	2	-1	8	109	-8
Ukraine		562	-0.8	3	1	60	0		618	6	-27	-81	163	-169
EM total		44	-0.7	3	3	-11	12		342	-1	-10	-16	47	-72

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