



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Thursday, March 21, 2019










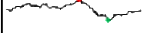

- **US Treasury yields decline on dovish FOMC ([link](#))**
- **Sterling weakens as UK and EU remain at odds regarding length of Brexit extension, BoE keeps rates unchanged ([link](#))**
- **Krone appreciates on hawkish Norges Bank statement ([link](#))**
- **Brazil's central bank keep rates unchanged at 6.5%, as expected ([link](#))**
- **Bank Indonesia keeps its 7-day reverse repo rate unchanged at 6.0%, in line with expectations ([link](#))**

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## Markets cautious post dovish FOMC

**European bourses and S&P 500 futures were lower this morning as market participants digested a more dovish than expected FOMC announcement yesterday.** The Fed lowered its median projections to zero rate increases this year, compared with expectations for a shift to one hike. But despite a decline in Treasury yields, with the 10-year dropping 9 bps yesterday and another 3 bps this morning, equities fell as markets took the FOMC stance as a signal that the slowdown in growth could be sharper than previously expected. Doubts over the US-China trade negotiations also continued to weigh down sentiment. In contrast to the FOMC and most other central banks, the Norges Bank surprised markets this morning with hawkish forward guidance to accompany its 25-bps hike, leading to a spike in the krone. Elsewhere, sterling weakened for a second consecutive day as the UK and EU remain at odds over the length of a potential Brexit delay. The Bank of England kept rates unchanged at 0.75% this morning, as expected, and noted the continued impact of Brexit uncertainty on economic activity and on asset price volatility—particularly sterling.

### Key Global Financial Indicators

Last updated: 3/21/19 8:26 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	 2824	-0.3	0	2	4	13
Eurostoxx 50	 3356	-0.5	0	3	-1	12
Nikkei 225	 21609	0.2	1	1	1	8
MSCI EM	 44	0.2	2	3	-12	12
<b>Yields and Spreads</b>		bps				
US 10y Yield	 2.50	-8.6	-13	-19	-39	-19
Germany 10y Yield	 0.04	-4.7	-5	-9	-56	-21
EMBIG Sovereign Spread	 344	-4	-5	-8	48	-70
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	 63.9	-0.3	1	1	-10	3
Dollar index, (+) = \$ appreciation	 96.2	0.4	-1	0	7	0
Brent Crude Oil (\$/barrel)	 68.1	-0.6	1	2	-2	27
VIX Index (% change in pp)	 14.5	0.6	1	0	-3	-11

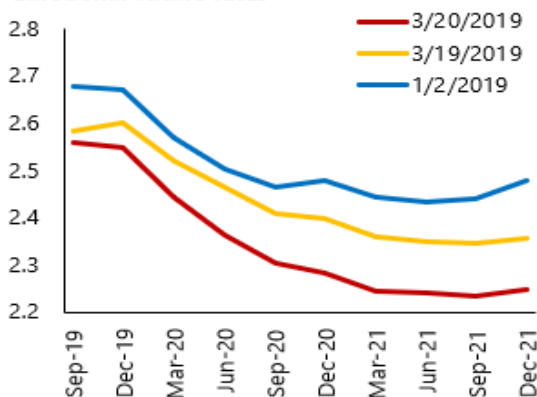
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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**In the March FOMC announcement yesterday, Fed officials scaled back their projected rate increases this year to zero and said they would end the drawdown of the central bank's bond holdings in September.** The median dots now show one hike in 2020, with no change to the terminal rate of 2.75%. The Fed emphasized being patient on further rate hikes and noted global economic and financial conditions, along with muted inflation pressures as reasons to leave rates unchanged. The economic forecast was cut to 2.1% for this year from 2.3% and 1.9% for next year from 2%. Core PCE inflation estimates did not change. The FOMC also said it would taper the drawdown of its balance sheet starting in May (halving the cap on monthly redemptions from \$30 bn to \$15bn per month) and will end the roll-off in September. In the press-conference, Chair Powell further highlighted that the balance sheet run-off is likely to end at around 17% of GDP, or roughly \$3.5 trillion. **The announcements were interpreted as more dovish than expected, leading to treasury yields declining by 5-10 bps across the curve.** The eurodollar futures rate curve also dropped by 5-11bps, inverting further. At longer maturities, the slope between 5-year and 30-year Treasury yields steepened by 5 bps today and has risen by 40 bps in the last six months. The S&P 500 closed down 0.3% impacted by growth concerns in the US and continued uncertainty on the trade negotiations.

**Eurodollar future rates**



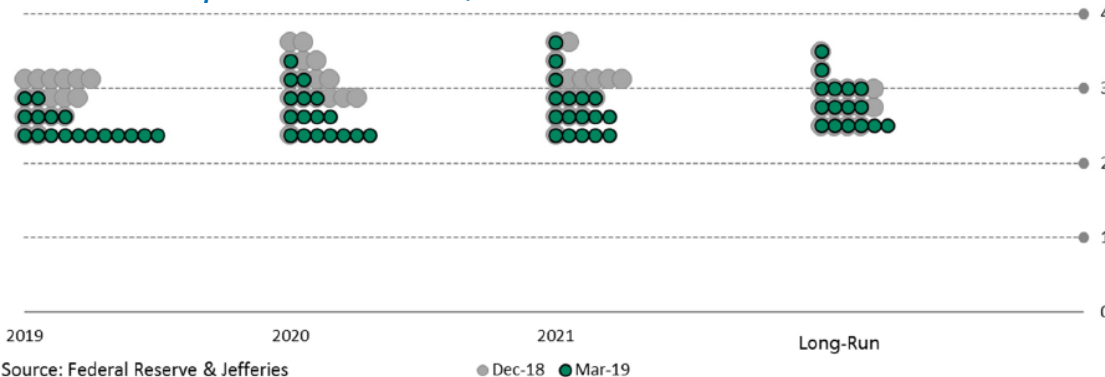
Source: Bloomberg

**US: Long-dated Yield curve slopes (LHS), 10-yr yield (RHS)**



Source: Bloomberg

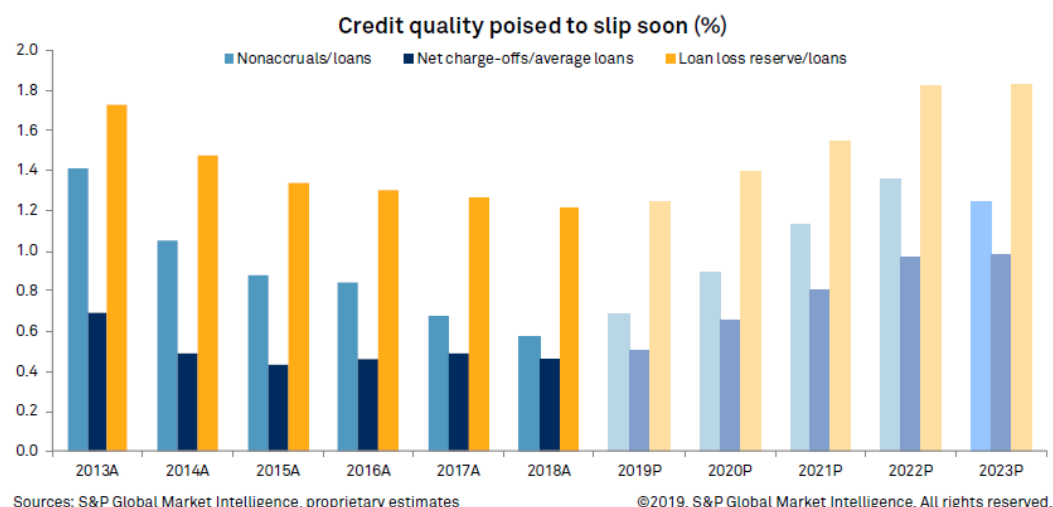
**FOMC Dot Plot: Comparison between Dec 2018, and Mar 2019**



**US bank stocks declined by 2.7% yesterday underperforming the broader index.** The intra-day sell off worsened after FOMC's announcement, reflecting investor concerns over lower rates and weaker growth prospects. S&P analysts also highlighted that while the US bank profitability has returned to pre-crisis

levels, further improvement in returns seem less likely. **A key headwind is that the credit environment is expected to begin to turn negative in 2020** as stimulus from tax reform begins to wane and economic growth slows. S&P analysts project that provisions will exceed net charge-offs by \$5.6 bn in 2019, nearly 3x the level witnessed in 2018. **US banks have underperformed the broader index by almost 15 percentage points over the last year.**

ROAA (%)	2018A	2019P	2020P	2021P	2022P	2023P
Industry aggregate	1.32	1.31	1.21	1.16	1.03	1.18
ROAE (%)						
Industry aggregate	11.72	11.55	10.45	9.93	8.65	9.77
Efficiency ratio (%)						
Industry aggregate	56.09	56.74	56.41	55.96	56.18	55.45
Net interest margin (%)						
Industry aggregate	3.33	3.33	3.34	3.36	3.36	3.39
Sources: S&P Global Market Intelligence, proprietary estimates ©2019. S&P Global Market Intelligence. All rights reserved.						

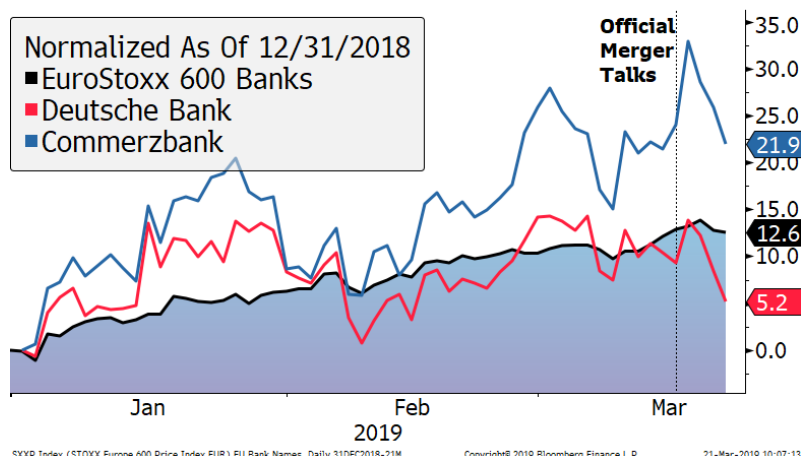


## Europe

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**The EuroStoxx 50 was down 0.4% this morning, dragged lower by the banking sector (-1.3%).** After the flurry of excitement following the official merger talks between Deutsche Bank and Commerzbank, shares have suffered three consecutive sessions of losses, erasing all the gains from the spike on Monday (chart). **Yields are mostly lower across the region in sympathy with the declines in US rates yesterday.** German bund yields are down between 1 and 4 bps across the curve with the 10-years falling to a new recent low of 0.052%.

## EU Banks YTD Performance



### United Kingdom

**Sterling weakened on concerns about a hardening stance by the EU and speculation over the length of a potential Brexit delay continue.** Following PM May's request yesterday for a 3-month delay, EU officials suggested that the choice was either a 2-month delay until May or a longer one accompanied with European Parliament elections (held in the end of May). According to EC president Tusk, a short delay will only be granted if the Withdrawal Agreement is accepted in the UK parliament. Member states are also taking a harder stance, most notably France with FM Le Drian suggesting that he is expecting a "no deal" next week. Some analysts have interpreted May's letter as saying that she will not remain as prime minister if a long delay is the outcome. **Sterling depreciated 0.7% this morning and is 1.2% weaker at \$1.31 over the last two sessions.**

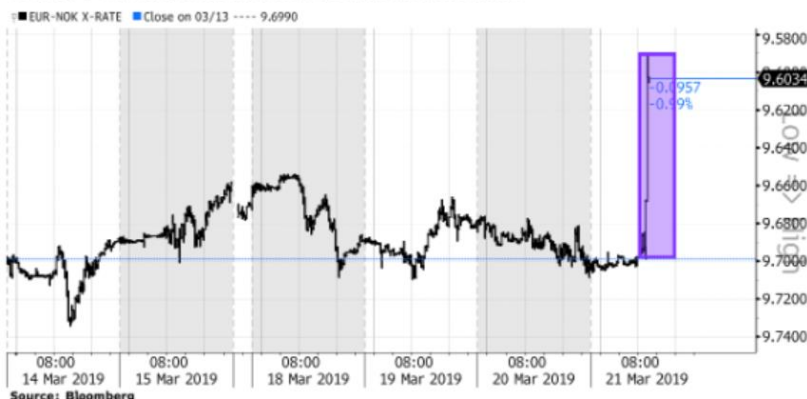
Later this morning, **the Bank of England kept the benchmark rate unchanged at 0.75%, as expected.** The statement cited mixed economic data, even though the MPC's inflation projections remain broadly on track. The committee noted the continued impact of Brexit uncertainty on economic activity and on asset price volatility—particularly sterling. As in the previous meeting, the statement concluded that "the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction." There was no market reaction following the decision.

**Investments in the UK by sovereign wealth funds has collapsed as a result of Brexit uncertainty.** A study conducted by Madrid's IE Business School showed that SWFs had invested some \$21 bn through 18 deals in the UK in 2017, but this figure fell to just \$1.8 bn last year and eight deals. Note, however, that the 2017 number was elevated in part due to the \$14 bn acquisition of the warehouse business Logisor by China Investment Corporation.

### Norway

**The Norges Bank increased rates by 25 bps to 1.00% as expected, but the krona spiked after the forward guidance came in more hawkish than expected.** The statement noted that "the policy rate will most likely be increased further in the course of the next half-year." The confidence comes from the economy expanding at a solid pace and oil prices remaining well supported. The krone appreciated 1% against the euro this morning but fixed income markets were little changed.

Norway's currency soared after the rate announcement



## Other Mature Markets [back to top](#)

### Japan

*Japan was closed for Spring Equinox Day.*








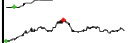

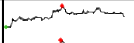
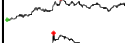

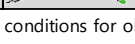

### Australia

The **Australian dollar appreciated to a 3-week high (0.7139/dollar) as better-than-expected jobs data in February dampened expectations for a rate cut this year.** Meanwhile, the 3-year government bond yield climbed as much as 4 bps to 1.52%, lifting back above the policy rate of 1.50%. The note had fallen to as low as 1.45% earlier in the week, its lowest since 2016, amid rate cut expectations.

## Emerging Markets [back to top](#)

**Asian currencies gained against the dollar as a dovish Fed lifted sentiment.** The gains were broad-based with the Indonesia rupiah outperforming (+0.4%). The Chinese RMB also gained, with the onshore CNY strengthening 0.15%, reaching 6.68/dollar, its strongest level since last July. By contrast, the Indian rupee, which held steady, underperformed. Equities mostly posted modest gains, with China (Shenzhen: +0.8%; Shanghai: +0.4%) leading the gains. **Equities in EMEA were moderately higher** with Turkey (+0.6%) outperforming. South Africa (-1.2%) was a notable exception. Currencies in the area were flat to slightly weaker against the dollar this morning. **Latin American equity markets** were mixed yesterday. Mexico equities rallied 1.8%, while Brazil down 1.6% and Chile down 1%. Local currencies were mostly stronger, most notably the Mexican peso (+1%).

Key Emerging Market Financial Indicators

Last updated: 3/21/19 8:30 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		43.65	0.2	2	3	-12	12
MSCI Frontier Equities		28.93	1.0	1	1	-17	11
EMBIG Sovereign Spread (in bps)		344	-4	-5	-8	48	-70
EM FX vs. USD		63.90	-0.3	1	1	-10	3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.69	0.0	0	0	-6	3
Indonesian Rupiah		14140	0.3	1	0	-3	2
Indian Rupee		68.83	0.2	1	3	-5	1
Argentine Peso		40.85	-0.8	1	-3	-50	-8
Brazil Real		3.77	0.1	2	0	-13	3
Mexican Peso		18.81	0.1	3	3	-2	4
Russian Ruble		63.74	0.2	3	3	-11	9
South African Rand		14.21	0.4	2	-1	-17	1
Turkish Lira		5.45	-0.5	0	-2	-28	-3
EM FX volatility		7.76	0.0	-0.3	-1.1	0.0	-2.0

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

## Brazil

**Brazil's central bank held its Selic rate unchanged at 6.5%, as expected** and for the eighth consecutive meeting as financial markets await the outcome of the government's efforts to get a pension overhaul proposal through Congress. According to press reports, the bank reiterated that the economy still needs "stimulative" interest rates and that the progress of the reforms is essential to maintain low inflation. The perspective of continuity was widely considered as a positive development. Economists surveyed by the central bank forecasted the Selic rate to end this year at 6.5%, with it rising to 7.75% in 2020. The announcement came after markets closed with the real marginally stronger to the dollar and implied rates from DI futures slightly lower beforehand.

## Indonesia

**Bank Indonesia (BI) kept its 7-day reverse repo rate unchanged at 6.00%, in line with expectations.** However, there was a striking change in BI's guidance, which noted that with the current account expected to stabilize and external risks to rupiah stability subsiding, there is now some scope to support growth. BI had raised the policy rate by a total of 175 bps last year to head off depreciation pressure on the rupiah from a tightening Fed. The latest statement, coming on the heels of a dovish Fed, signals that BI is shifting its focus to managing downside risks to the economy. The rupiah appreciated by 0.4% on the day to reach 14,140/dollar.

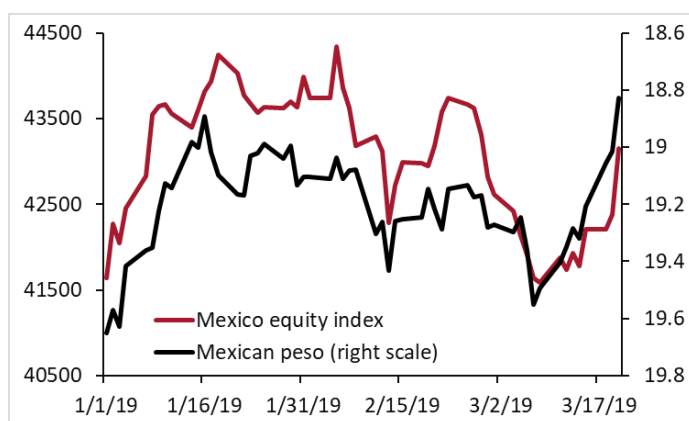
## China

**China Securities Regulatory Commission (CSRC) took steps to contain investments into convertible bonds following the recent market stampede.** Bloomberg reported that CSRC asked institutional investors to use only one account to subscribe to convertible bond sales, including upcoming issuance from Bank of Communications; this follows recent deals that had surged to more than 1,000 times the size on offer. Previously, investors were able to place orders through multiple accounts to maximize their opportunity for subscription; an offer from Citic Bank earlier in the month received orders more 5,500 times the issue size. The **RMB gained 0.2%** on the day amid dollar weakness. Meanwhile, the **Shanghai Composite rose 0.4%**. News that President Trump could keep tariffs on China until he's sure China is

"complying" with "any" trade deal had limited market impact on the day. News outlet reported that China had asked for tariffs removal as part of the US-China trade deal.

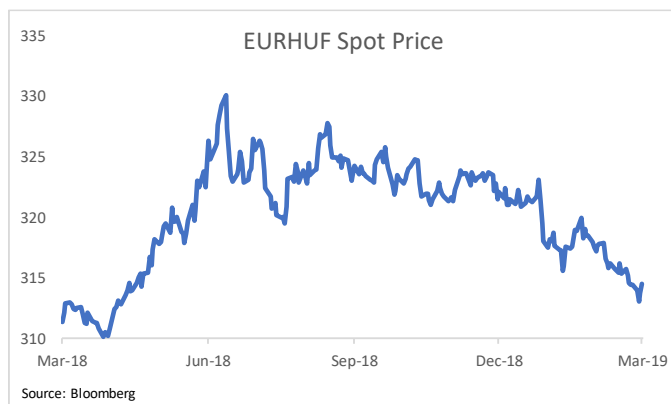
### Mexico

Mexican President Lopez Obrador said Wednesday that talks with White House officials have led to advances towards **a possible new cooperation agreement to boost U.S. investments in Mexico and Central America**. The agreement is expected to foresee \$10 bn in public and private U.S. investments for the region to stem illegal migration by providing more job opportunities in those countries. President Lopez Obrador said that roughly half of the total would go to Mexico while the remainder would be divided among Honduras, Guatemala and El Salvador. Market reaction was optimistic, with domestic equities finishing higher (+1.8%). **The peso strengthened 1% to 18.83/USD, climbing towards a new high in 2019.**



### Hungary

**President Orban's Fidesz party has been suspended from the European People's Party (EPP) coalition.** The EPP is a conservative European party made up of national parties throughout Europe. Its members have repeatedly expressed concern over Orban's role in Europe and his stance on the EU and immigration. The vote to suspend Fidesz was approved by 190 to 3 votes and will be in place until "further notice". On the markets, the forint's recent rally has stalled in the last two days. The currency reached an 11-month high on Wednesday and was trading at 314.5 against the euro this morning.



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## Global Financial Indicators
















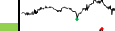





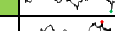





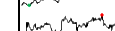









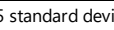
Last updated: 3/21/19 8:29 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2824	-0.3	0	2	4	13
Europe		3356	-0.5	0	3	-1	12
Japan		21609	0.2	1	1	1	8
China		3101	0.3	4	13	-5	24
Asia Ex Japan		71	0.0	2	3	-11	12
Emerging Markets		44	0.2	2	3	-12	12
<b>Interest Rates</b>			basis points				
US 10y Yield		2.50	-8.6	-13	-19	-39	-19
Germany 10y Yield		0.04	-4.7	-5	-9	-56	-21
Japan 10y Yield		-0.04	0.0	1	0	-8	-4
UK 10y Yield		1.07	-8.7	-15	-13	-46	-21
<b>Credit Spreads</b>			basis points				
US Investment Grade		122	0.2	3	-1	26	-25
US High Yield		418	2.7	8	1	73	-103
Europe IG		67	0.8	7	1	9	-20
Europe HY		268	3.5	-3	-24	-14	-85
EMBIG Sovereign Spread		344	-4.0	-5	-8	48	-70
<b>Exchange Rates</b>			%				
USD/Majors		96.19	0.4	-1	0	7	0
EUR/USD		1.14	-0.2	1	1	-8	-1
USD/JPY		110.4	0.3	1	0	-4	-1
EM/USD		63.9	-0.3	1	1	-10	3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-0.6	1	2	-2	27
Industrials Metals (index)		123	0.4	2	3	-6	13
Agriculture (index)		41	-0.1	1	-3	-15	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.5	0.6	1.0	0.0	-3.4	-10.9
10y Treasury Volatility Index		3.6	0.2	-0.1	0.0	-0.3	-1.0
Global FX Volatility		6.8	0.0	-0.2	-1.0	-0.9	-2.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		372	1.8	-1	5	9	-44
Italy		243	-1.6	1	-28	109	-7
Portugal		124	1.0	0	-14	8	-24
Spain		108	-0.4	-3	0	33	-10

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

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## Emerging Market Financial Indicators

Last updated: 3/21/2019 8:31 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		6.69	0.0	0.5	0	-6	3		3.2	0.0	1	10	-70	-4
Indonesia		14140	0.3	1.0	0	-3	2		7.7	-6.3	-18	-25	85	-42
India		69	0.2	1.0	3	-5	1		7.5	0.4	-2	-3	-31	2
Philippines		53	0.2	-0.1	-1	-1	0		5.4	-0.9	-2	-19	51	-85
Thailand		32	-0.2	0.2	-2	-2	2		2.6	-1.8	0	1	24	-2
Malaysia		4.06	0.1	0.7	0	-3	2		3.9	-0.3	-2	-8	-9	-20
Argentina		41	-0.8	1.0	-3	-50	-8		23.2	2.2	71	260	606	19
Brazil		3.77	0.1	1.9	0	-13	3		7.9	-7.0	-9	6	-55	-29
Chile		663	0.4	1.2	-1	-9	5		4.3	0.7	0	-5	-54	-18
Colombia		3088	0.3	1.9	1	-7	5		6.2	-3.5	-10	-23	-17	-34
Mexico		18.81	0.1	2.7	3	-2	4		8.1	-8.4	-5	-28	49	-59
Peru		3.3	0.2	0.1	1	-1	2		5.4	-3.5	-5	-20	40	-33
Uruguay		33	-0.3	0.2	-2	-15	-3		10.5	0.0	2	27		-20
Hungary		276	-0.4	0.8	2	-9	1		2.0	-5.3	-10	2	37	-20
Poland		3.76	-0.2	1.3	2	-9	-1		2.3	-1.5	1	12	-26	2
Romania		4.2	-0.2	1.0	1	-9	-3		4.0	-1.0	-7	-12	20	-20
Russia		63.7	0.2	2.7	3	-11	9		8.0	0.3	-10	-16	115	-44
South Africa		14.2	0.4	2.3	-1	-17	1		9.5	-5.7	6	-2	80	-9
Turkey		5.45	-0.5	0.3	-2	-28	-3		16.5	-10.3	6	85	381	-37
US (DXY; 5y UST)		96.2	0.4	-0.7	0	7	0		2.30	-2.9	-13	-21	-37	-21

	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		3101	0.3	4	13	-5	24		176	-1	-2	-5	8	-18
Indonesia		6502	0.3	1	-1	3	5		189	-8	-8	-8	11	-47
India		38387	0.0	2	7	16	6		165	10	4	1	24	-31
Philippines		7955	1.2	3	0	1	7		93	-8	-3	4	-3	-28
Malaysia		1664	-1.2	-1	-4	-11	-2		129	-1	-2	4	11	-33
Argentina		34744	1.1	2	-3	7	15		734	1	-1	26	320	-81
Brazil		98041	-1.6	-1	1	15	12		236	2	-7	-3	0	-37
Chile		5245	-1.1	-1	-4	-5	3		133	1	0	0	9	-33
Colombia		1628	0.9	3	10	10	23		187	0	-1	-6	9	-41
Mexico		43156	1.8	3	-1	-9	4		304	-1	-1	-24	58	-50
Peru		21195	0.3	1	4	2	10		137	2	1	-5	-14	-31
Hungary		41834	-0.3	2	3	9	7		127	1	9	15	26	-21
Poland		60787	0.0	1	1	0	5		64	3	8	13	14	-21
Romania		8069	0.6	3	3	-8	9		204	6	2	5	75	-17
Russia		2509	0.2	2	2	9	6		213	-5	1	-6	39	-39
South Africa		56146	0.0	1	1	-4	6		302	-8	1	6	51	-63
Turkey		102965	-0.3	1	0	-12	13		434	1	13	22	121	5
Ukraine		548	-1.2	-2	-1	54	-2		613	-15	-32	-70	157	-174
EM total		44	0.2	2	3	-12	12		344	-4	-5	-8	48	-70

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