Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, March 22, 2019

- **Inflows into US high yield and outflows from loan funds continue (link)**
- **German 10-year bund yield drops below zero after weak PMI data (link)**
- **New Brexit deadline set for April 12, sterling stabilizes (link)**
- **Russia's central bank keeps interest rates at 7.75%, as expected (link)**
- **Bangko Sentral ng Pilipinas and the central bank of Taiwan Province of China left policy rates unchanged, as expected (link)**
- **Turkish lira underperforms along with equities on risk-off sentiment (link)**

Market sentiment deteriorates on weak PMI data

European bourses and S&P 500 futures fell this morning after disappointing PMI data in the euro area and Japan. Sovereign bond yields dropped across the major advanced economies with German and Japanese 10-year yields falling to levels not seen since late 2016. Meanwhile, the EU rejected UK's PM May's initial 3-month extension request and instead told her to get the deal approved next week or "indicate a way forward" by April 12. A longer extension may be on the cards but would require, at a bare minimum, that the UK participate in the upcoming EU Parliamentary elections. Sterling depreciated 0.7% yesterday on hard rhetoric from EU leaders regarding the potential of a no deal, but has stabilized this morning. In emerging markets, there were a number of monetary policy decisions with all central banks keeping policy rates unchanged, as expected. The risk-off sentiment had the biggest impact on Turkey with domestic equities and the lira underperforming peers.

Key Global Financial Indicators

Last updated: 3/22/19 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2855	1.1	2	2	8	14
Eurostoxx 50		3332	-1.1	-2	2	0	11
Nikkei 225		21627	0.1	2	1	1	8
MSCI EM		44	-1.2	3	2	-9	12
Yields and Spreads			bps				
US 10y Yield		2.47	1.1	-11	-18	-35	-21
Germany 10y Yield		-0.01	-4.8	-9	-10	-54	-25
EMBIG Sovereign Spread		348	7	1	-5	47	-66
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.2	-0.9	0	-1	-10	1
Dollar index, (+) = $ appreciation		96.7	0.2	0	0	8	1
Brent Crude Oil ($/barrel)		67.2	-1.0	0	0	-3	25
VIX Index (%, change in pp)		14.1	0.5	1	1	-9	-11

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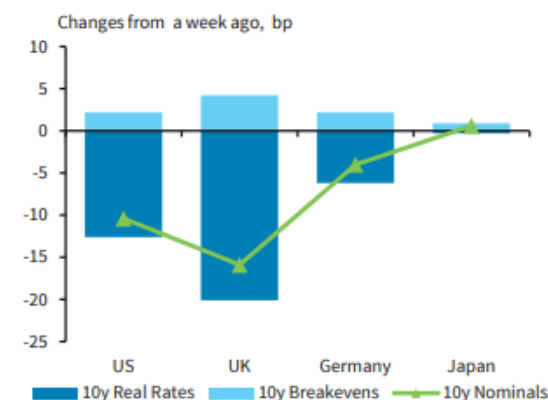
United States

United States

US stocks closed up 1.1% yesterday outperforming global peers. Within sectors, tech shares climbed alongside materials and real estate, though banking stocks continued to lag (-1.5%). Treasury yields - except the 30-year- rose marginally after an early retreat. US breakeven inflation rates remained relatively steady over the last 2 days, after rising sharply since the beginning of the year. There is a similar trend across major AE sovereigns, where the rally has been driven by lower real yields, Among the key data releases in the US, initial jobless claims were reported at 221k and were broadly inline with market expectations.

US Breakeven Inflation Rates

— US Breakeven 10-year   — US Breakeven 5-year

Source: Bloomberg

The rally has been driven by lower real yields

Changes from a week ago, bp

■ 10y Real Rates   ■ 10y Breakevens   —▲— 10y Nominals

Source: Bloomberg, Barclays Research

Lipper data reported the US high-yield bond fund flows at $1.8bn for last week, building upon the $1.0bn in the previous week. Year to date, U.S. high-yield bond funds have seen an $10 billion net inflow. This sharply **contrasts with outflows from US loan funds**, where retail investors withdrew $0.4bn last week, extending the YTD outflows to $8.7 bn.
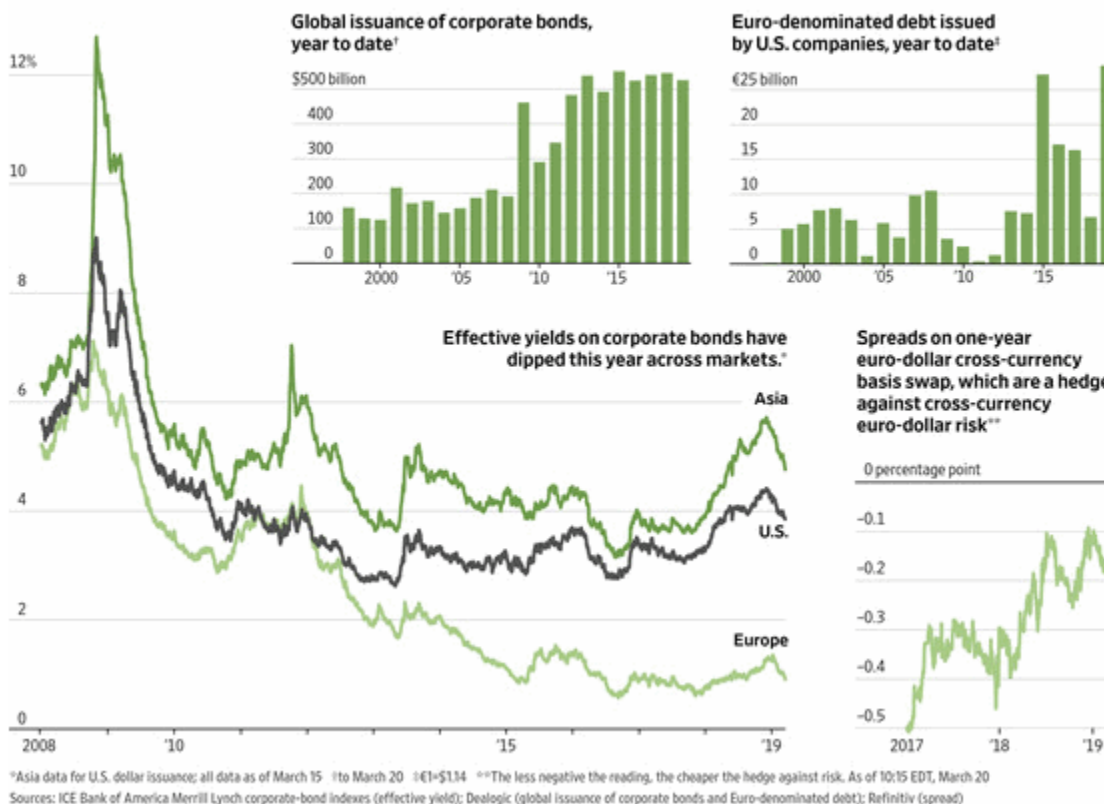
High-Yield Fund Flows (U.S.)
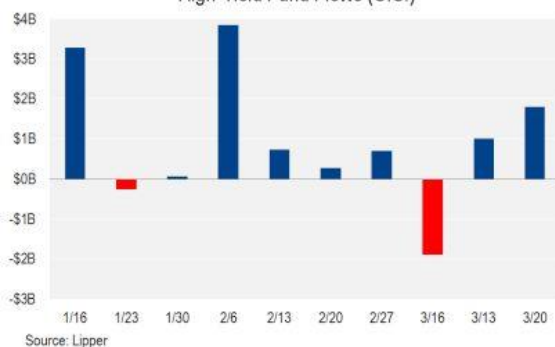
Source: Lipper

Loan Fund Flows (U.S.)
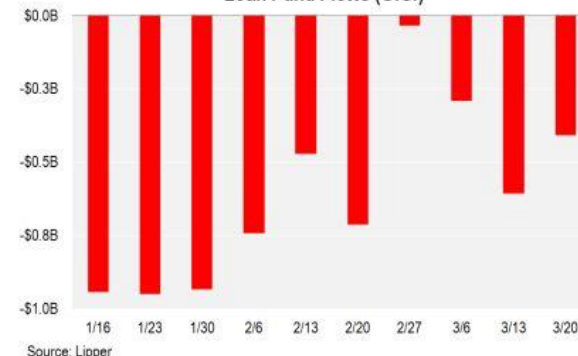
Source: Lipper

U.S. companies have ramped up issuance of euro-denominated bonds, known as "reverse Yankees," to a total of 28.5 bn euros ($32.3 bn) this year, according to data firm Dealogic, up from 6.7 bn euros in 2018. Key factors driving the issuance of these bonds, per the analysts are: 1) lower borrowing costs in Europe and the high differential vs US; 2) Because of the U.S. tax law overhaul passed in late 2017, U.S. companies are repatriating more profits, increasing the need to issue debt abroad to fund local operations; 3) reduction in hedging costs vs last year levels.

Lower borrowing costs in Europe, where benchmark rates are still negative and nearly 3 percentage points lower than in the U.S., are driving U.S. companies to raise debt abroad.
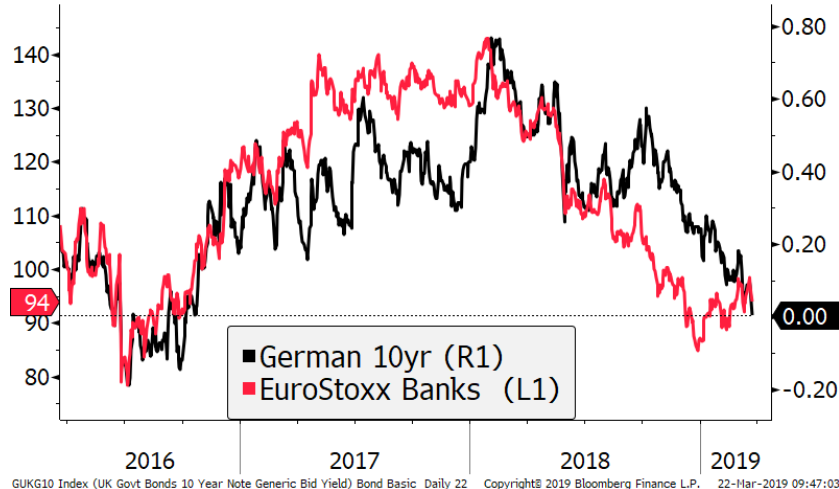
Global issuance of corporate bonds, year to date†

Euro-denominated debt issued by U.S. companies, year to date‡

Effective yields on corporate bonds have dipped this year across markets.*

Spreads on one-year euro-dollar cross-currency basis swap, which are a hedge against cross-currency euro-dollar risk**

*Asia data for U.S. dollar issuance; all data as of March 15 †to March 20 ‡€1=$1.14 **The less negative the reading, the cheaper the hedge against risk. As of 10:15 EDT, March 20
Sources: ICE Bank of America Merrill Lynch corporate-bond indexes (effective yield); Dealogic (global issuance of corporate bonds and Euro-denominated debt); Refinitiv (spread)

Europe   back to top

The EuroStoxx 50 was down 1.1% this morning, with banks (-2.5%) underperforming. The broader EuroStoxx 50 index is on track to end the week down about 1.5%, with the banking-sub index down nearly 4%. Lower yields and company-specific news have been weighing on banking stocks. **The German 10-year yield declined below zero for the first time since October 2016,** after falling 8 bps over the last two sessions. German rates have been on a steady trend lower since late 2018, when the 10-year was trading at about 0.80%. Aside from broader risk sentiment, German yields were pressured lower by a considerably **lower-than-expected set of March PMI numbers**, with the composite figure falling to 51.5 (52.8 expected). The manufacturing PMI for the euro area fell to 47.7 in March, the weakest level in five years. Yields are broadly lower in the rest of the region expect for Italy where they are up a few basis points.

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German 10-Year Yield and Euro Banks

GUKG10 Index (UK Govt Bonds 10 Year Note Generic Bid Yield) Bond Basic Daily 22   Copyright© 2019 Bloomberg Finance L.P.   22-Mar-2019 09:47:03
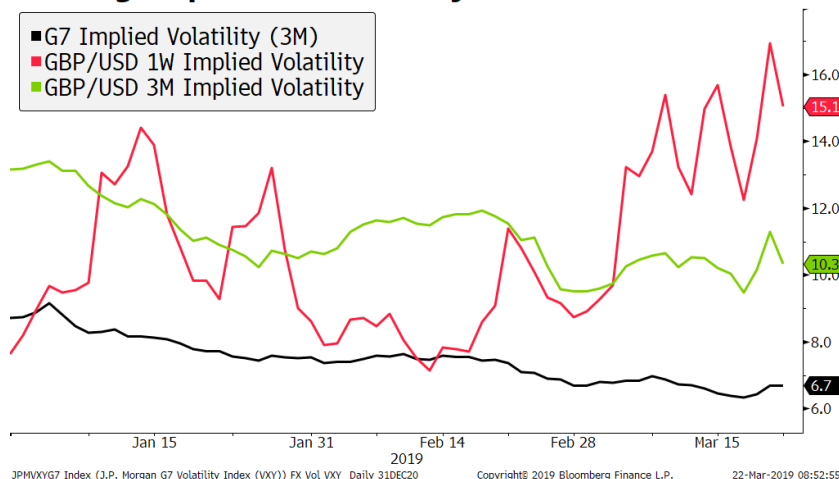
United Kingdom

PM May has accepted the EU's offer to postpone the UK's exit date to April 12. If May manages to get the Withdrawal Agreement through parliament next week, a further extension until May 22 is on offer to provide time for ratification. If the deal is rejected yet again, the UK will have to present its alternative plans on the way ahead. A long extension could then be possible, provided that the UK is willing to accept some conditions, including participation in European elections in May. Earlier, the EU rejected out of hand May's request for an extension until June 30. May's attention now turns towards domestic politics and trying to get her deal through parliament next week, although most analysts think the odds of that happening are slim.

Sterling depreciated 0.7% yesterday on hard rhetoric from EU leaders regarding the potential of a "no deal", but has stabilized this morning. At $1.31, sterling has weakened nearly 2% against the dollar since the month's strongest level but is still 5% stronger from the December lows. Measures of implied currency volatility increased sharply over the last couple of days but subsided slightly this morning (chart). For comparison, 3-month implied sterling-dollar volatility is currently at just over 10%, well above JPM's G7 implied volatility index at near 7%.

Sterling Implied FX Volatility

JPMVXYG7 Index (J.P. Morgan G7 Volatility Index (VXY)) FX Vol VXY Daily 31DEC20   Copyright© 2019 Bloomberg Finance L.P.   22-Mar-2019 08:52:55

Italy
The EU's general court has ruled in favor of Italy's 2014 rescue plan of Banca Tercas, after being rejected in 2015. The court decided that the government did not break EU law by using the deposit guarantee scheme (through a "voluntary" scheme that doesn't count as state aid) to help the struggling bank. This means that the country could have used the same form of rescue to help other banks that were resolved since then, and that the national deposit guarantee fund may be used more actively in the future. The decision has increased concern over the European banking architecture and reignited tensions across the EU. European Commissioner for Competition Margrethe Vestager is facing calls to resign in light of the decision, and Italian Foreign Minister Enzo Milanesi may seek compensation from the EC following the ruling.

Separately, the Italian government is set to sign a memorandum of understanding (MOU) to join China's Belt and Road initiative. The deal promises infrastructure investment in the county but is highly controversial and opposed by the US and other EU nations which are concerned about China's expanding influence.

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Japan
10-year JGB yields fell 3.5bps to -0.08%, the lowest since November 2016. Inflation remains far away from the Bank of Japan's 2.0% target, with CPI coming in at 0.2% yoy in February (same as January). Excluding fresh food, **consumer prices rose 0.7% yoy in February, lower than 0.8% yoy in January**. The March flash **manufacturing PMI disappointed at 48.9** (same as last month). The weakness was driven by further cutbacks in production and softer new orders. **Equities (Nikkei +0.1%; Topix +0.2%) rose marginally while the yen appreciated 0.2%**.

Down Again
Japan's 10-year yield slips to lowest since November 2016

■ 10-year JGB Yield

Source: Bloomberg
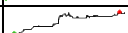
Emerging Markets　　　back to top

Asian equities (+0.3%) rose, with South East Asian markets outperforming. In currencies, the Philippine peso stood out, appreciating +0.7%, while regional currencies overall weakened by -0.2%. **EMEA stocks fell, as Turkey (-2.4%) saw particularly large losses amid a turn to risk-off in European markets.** Currencies in the region dropped sharply against the dollar with the Turkish lira (-1.7%) again underperforming. **Latin American equity markets** were mixed yesterday. Argentina was the main underperformer as the Merval fell 1.6% on disappointing growth and unemployment data, while Mexico and Chile saw gains. Local currencies were mostly weaker, including the Brazilian real (-0.6%) and the Chilean peso (-0.5%). 10-year government bond yields dropped 15bps in Colombia.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
3/22/19 8:05 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.71	-1.2	3	2	-9	12
MSCI Frontier Equities		28.87	-0.2	1	0	-16	10
EMBIG Sovereign Spread (in bps)		347	6	0	-6	46	-67
EM FX vs. USD		63.29	-0.7	0	-1	-10	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	-0.2	0	0	-6	2
Indonesian Rupiah		14163	-0.2	1	-1	-3	2
Indian Rupee		68.96	-0.2	0	3	-6	1
Argentine Peso		41.02	-0.4	-1	-4	-51	-8
Brazil Real		3.79	0.0	1	-1	-13	2
Mexican Peso		19.03	-0.9	1	1	-2	3
Russian Ruble		64.35	-0.7	1	2	-11	8
South African Rand		14.39	-1.2	0	-3	-18	0
Turkish Lira		5.59	-2.2	-3	-5	-30	-5
EM FX volatility		7.84	0.0	0.0	-0.8	0.1	-1.9

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

Russia

The ruble weakened slightly as the central bank kept its main interest rate at 7.75%. The decision was expected by all 40 analysts surveyed by Bloomberg as the bank continues to weigh the knock-on effects of the recent VAT increase. Annual inflation came in at 5.2% last month and has been steadily rising from lows of 2.2% last year. However, a rally in the currency in recent weeks has helped keep a lid on inflation with reduced sanction fears supporting inflows of foreign capital. Subsequently, the bank's new forecast sees inflation at 4.7-5.2% at the end of the year, down from 5-5.5% previously. The ruble weakened moderately following the decision and was down 0.6% against the dollar on the day.

Philippines

The Bangko Sentral ng Pilipinas (BSP) left its policy rate unchanged at 4.75%, as expected. This was the first meeting led by new governor Benjamin Diokno. In the BSP's statement, it noted that inflation will settle within the target range of 3.0±1.0% for both 2019 and 2020. For growth, BSP views that domestic activity continues to be firm due to support from a recovery in household spending and the government's infrastructure program. During the press briefing, Deputy Governor Diwa Guinigundo said that RRR cuts are 'always on the table; but the issue is the timing'. **Stocks outperformed (+0.7%) and the peso appreciated 0.8%.**

In the Band
Philippine inflation moves back to within target range

■ Philippines inflation (year on year)   ■ Philippines benchmark interest rate

Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas

Bloomberg
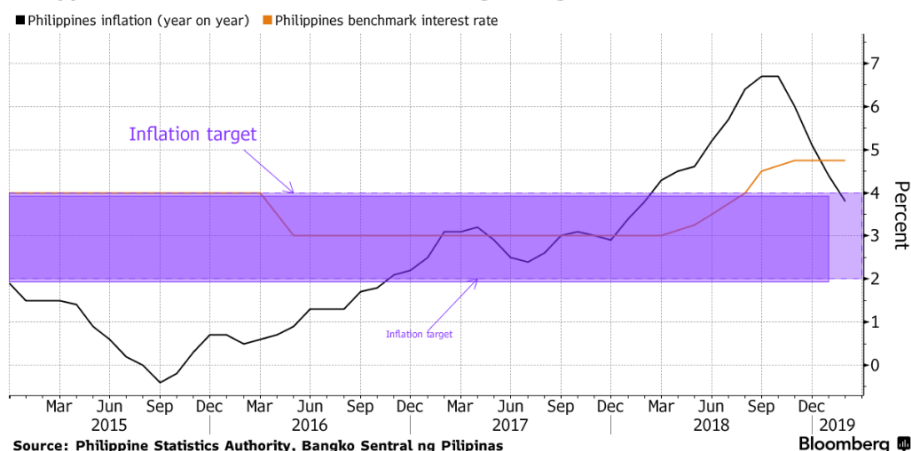
Taiwan Province of China
The Central Bank held its discount rate at 1.375% during its 21 March meeting, as expected. The key policy rate has remained unchanged since June 2016. The central bank lowered its 2019 real GDP growth forecast to 2.13% (from 2.33% previously) due to expectations of a deceleration in export growth as global economic and trade activity slows. Despite revising down its 2019 CPI forecast to 0.91% (from 1.05% previously), the central bank sees the inflation outlook as stable. It noted that upside impact from a minimum wage hike and low base effect would be offset by lower international oil prices and a dissipating effect from the tobacco tax hike. **10-year bond yields dropped 7 bps to 0.78%, equities gained 0.3% and the Taiwanese dollar was stable.**

Turkey
The lira underperformed, weakening as much as 2.2% against the dollar. The depreciation was the largest since January 2 as sentiment across Europe turned sour on German data, Brexit uncertainty, and renewed general concern over the macroeconomic outlook. Turkish stocks also took a beating and were down by 2.4% in morning trading. There were no immediate local reasons for the Turkish under-performance but strategists pointed to increased hard currency demand by locals. Data yesterday showed that reserves fell by $6.3 bn over a two-week period, exceeding the estimated $3.8 bn of external debt payments. The move in the currency took it to its weakest against the dollar since October.

USDTRY Spot Price

Source: Bloomberg
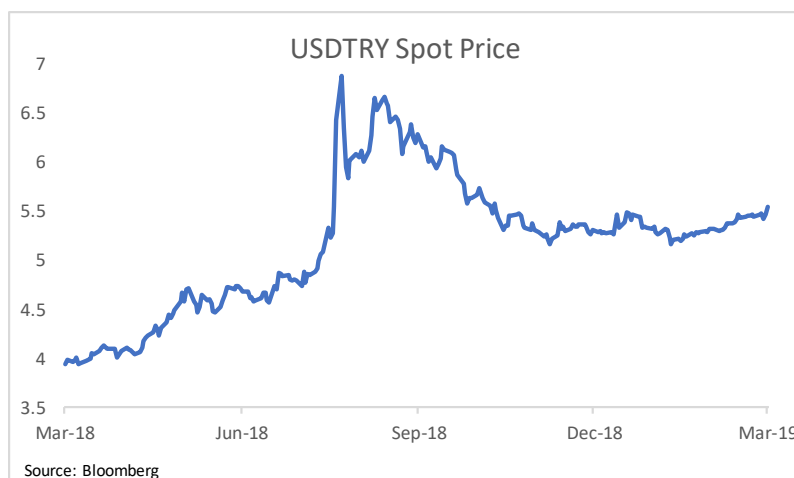
China
**Chinese equities (Shanghai +0.1%; Shenzhen +0.2%) were up slightly as US-China trade negotiations remain uncertain**. According to CNBC, President Trump wants China to 'double or triple" its offer to buy US goods. Robert Lighthizer, the US trade representative, and Steven Mnuchin, the Treasury secretary will travel to Beijing at the end of next week for further negotiations. The US and China have been haggling over the enforcement of the trade agreement, existing tariffs on Chinese imports, the scale of Chinese purchase of US goods, Chinese concessions on reforms and subsidies, and the protection of US intellectual property. Chinese Vice Premier Liu He is also expected to head to Washington in April to continue discussions.

Argentina
Domestic equities fell and the peso continued to weaken on reports Argentina's economy contracted 6.2% yoy in Q4 2018 while unemployment rose to 9.1% from 9% in the same period, potentially hurting President Macri's approval ratings as he seeks re-election in October. Argentina is grinding through a 2-year recession coupled with stubbornly high inflation. Market reaction to the data was pessimistic. Domestic equities fell 1.8% and the peso weakened 0.4% to the dollar yesterday -its fourth consecutive day of depreciation.

Argentine Slump
The economy shrinks the most since the global financial crisis
■ Argentina GDP (YoY)
Source: Instituto Nacional de Estadistica y Censos
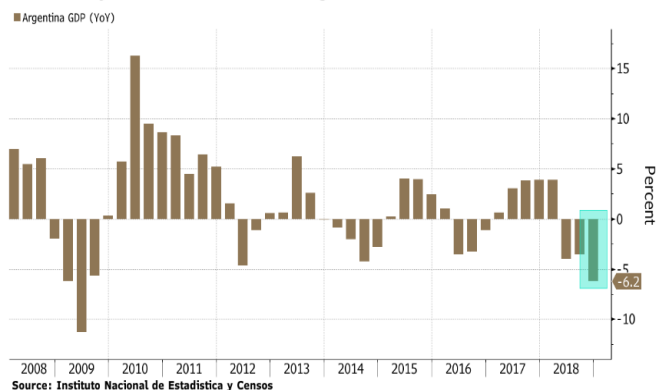
Argentines' Biggest Concerns
National poll of country's top problems shows inflation at top of the list

Inflation	30.2%
Unemployment/Employment Problems	15.8
Corruption	14.4
Weak Justice System	11.5
Poverty	10.2
Education and Schools	6.5
Crime	5.8
Drug Trafficking	3.8
Flooding	0.8
Don't Know	0.9
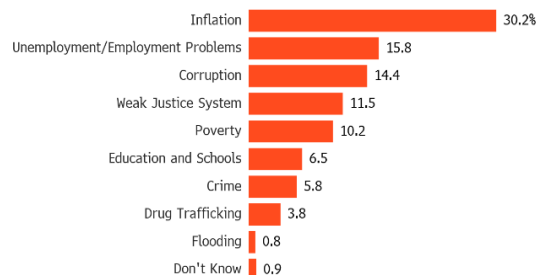
Note: Interactive Voice Response (IVR) national poll of 4.625 cases between Feb. 12-13, with margin error of 1.47%
Source: Aresco

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Global Financial Indicators

Last updated: 3/22/19 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2855	1.1	2	2	8	14
Europe		3332	-1.1	-2	2	0	11
Japan		21627	0.1	2	1	1	8
China		3104	0.1	3	11	-5	24
Asia Ex Japan		71	0.4	3	2	-7	12
Emerging Markets		44	-1.2	3	2	-9	12
Interest Rates			basis points				
US 10y Yield		2.47	1.1	-11	-18	-35	-21
Germany 10y Yield		-0.01	-4.8	-9	-10	-54	-25
Japan 10y Yield		-0.07	-3.3	-4	-3	-11	-7
UK 10y Yield		1.04	-2.5	-17	-12	-40	-24
Credit Spreads			basis points				
US Investment Grade		121	-0.9	2	-2	25	-26
US High Yield		419	6.4	8	0	65	-102
Europe IG		70	2.1	10	3	10	-18
Europe HY		279	10.1	10	-13	-9	-73
EMBIG Sovereign Spread		348	7.0	1	-5	47	-66
Exchange Rates			%				
USD/Majors		96.71	0.2	0	0	8	1
EUR/USD		1.13	-0.7	0	0	-8	-1
USD/JPY		110.3	0.5	1	0	-5	-1
EM/USD		63.2	-0.9	0	-1	-10	1
Commodities			%				
Brent Crude Oil ($/barrel)		67	-1.0	0	0	-3	25
Industrials Metals (index)		121	-0.3	0	0	-7	11
Agriculture (index)		41	0.2	0	-2	-15	-1
Implied Volatility			%				
VIX Index (%, change in pp)		14.1	0.5	1.3	0.6	-9.2	-11.3
10y Treasury Volatility Index		3.6	0.1	-0.2	0.0	-0.5	-1.0
Global FX Volatility		7.0	0.0	0.2	-0.5	-0.8	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		377	8.1	6	6	1	-38
Italy		248	6.1	6	-28	112	-2
Portugal		128	3.9	5	-11	5	-20
Spain		109	2.5	-2	1	32	-9

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: 3/22/2019 8:07 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	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	
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.71	-0.2	0.0	0	-6	2		3.2	-0.6	0	9	-70	-4
Indonesia		14163	-0.2	0.7	-1	-3	2		7.7	-8.3	-24	-40	71	-50
India		69	-0.2	0.2	3	-6	1		7.5	0.0	-1	-2	-31	2
Philippines		52	0.5	0.4	-1	0	0		5.4	-1.1	-1	-20	43	-86
Thailand		32	0.1	-0.1	-1	-1	2		2.6	-3.3	-4	-4	21	-5
Malaysia		4.06	-0.1	0.6	0	-4	2		3.9	-3.3	-5	-12	-12	-24
Argentina		41	-0.4	-0.7	-4	-51	-8		23.3	6.5	69	208	633	26
Brazil		3.79	0.0	0.6	-1	-13	2		7.9	5.0	-11	8	-45	-24
Chile		674	-0.7	-0.8	-3	-10	3		4.2	-5.0	-4	-10	-60	-23
Colombia		3090	0.0	1.7	1	-8	5		6.1	-9.5	-17	-34	-26	-43
Mexico		19.03	-0.9	0.9	1	-2	3		8.1	-2.5	-10	-29	48	-61
Peru		3.3	0.1	0.3	1	-1	2		5.3	-7.4	-9	-29	33	-40
Uruguay		33	-0.2	0.4	-2	-15	-3		10.5	-2.6	-3	20		-23
Hungary		280	-1.1	-0.8	0	-9	0		1.9	-6.7	-19	-9	30	-27
Poland		3.80	-0.8	-0.1	1	-10	-2		2.3	0.6	0	10	-29	2
Romania		4.2	-0.5	-0.1	0	-10	-3		4.0	-4.0	-19	-18	12	-24
Russia		64.4	-0.7	0.7	2	-11	8		7.9	-6.9	-17	-21	111	-51
South Africa		14.4	-1.2	0.1	-3	-18	0		9.5	0.0	0	-9	80	-9
Turkey		5.59	-2.2	-2.5	-5	-30	-5		16.5	3.7	-24	84	386	-33
US (DXY; 5y UST)		96.7	0.3	0.1	0	8	1		2.28	-6.2	-12	-19	-34	-23

	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		3104	0.1	3	11	-5	24		176	0	-1	-6	6	-18
Indonesia		6525	0.4	1	0	4	5		191	4	-7	-12	10	-45
India		38165	-0.6	1	6	15	6		153	-12	-4	-11	10	-43
Philippines		8013	0.7	3	1	-1	7		95	5	-4	1	-5	-26
Malaysia		1667	0.2	-1	-3	-11	-1		129	1	-1	3	10	-33
Argentina		34186	-1.6	2	-7	7	13		747	16	23	53	325	-68
Brazil		96729	-1.3	-2	-1	14	10		242	6	0	4	1	-31
Chile		5261	0.3	-1	-4	-5	3		134	2	1	-3	5	-32
Colombia		1631	0.2	4	9	11	23		187	5	-2	-5	5	-41
Mexico		43251	0.2	3	-1	-9	4		296	5	-11	-30	42	-58
Peru		21142	-0.3	2	3	3	9		139	6	2	-3	-15	-29
Hungary		42090	0.3	2	3	13	8		123	-2	2	7	16	-25
Poland		60570	-0.7	0	0	1	5		59	-2	1	2	3	-26
Romania		8075	0.3	3	4	-7	9		196	-9	-3	-3	65	-25
Russia		2500	-0.3	1	0	9	6		216	3	2	-8	38	-36
South Africa		56132	0.0	1	1	-4	6		309	8	5	8	54	-56
Turkey		100930	-2.4	-2	-2	-14	11		466	25	46	48	150	37
Ukraine		550	-0.8	-2	-1	55	-2		624	11	-1	-56	166	-163
EM total		44	-1.2	3	2	-9	12		347	6	0	-6	46	-67

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