



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, March 26, 2019









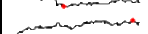


- **US Treasury yields decline further as growth worries linger ([link](#))**
- **US swap spreads tighten to 2017 levels as convexity hedging gathers momentum ([link](#))**
- **UK Parliament temporarily seizes control and will vote on alternative Brexit options ([link](#))**
- **EM debt issuance continues strong start to the year ([link](#))**
- **China broadens local government bond sales to commercial banks ([link](#))**
- **Turkish lira and implied rates remain volatile ([link](#))**

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Markets show signs of calming while political uncertainties persist

There is a semblance of stability re-emerging in markets as the broad sell-off in equities looks to have steadied for now. US equities were narrowly mixed yesterday and indexes across both Asia and Europe are generally higher, led by an over 2% recovery in Japanese shares. While it looked as if the growth pessimism was lingering yesterday with advanced economy sovereign yields declining further, including US Treasury yields down 2 to 8 bps across the curve, yields are trending higher this morning with the 10-year Bund yield back closer to 0% and the 10-year Treasury yield up 5 bps. Meanwhile, the Brexit saga continues as for the time being PM May appears to have survived an immediate challenge to her leadership, but has stalled on holding a third vote on her Brexit deal due to insufficient support. As a result, Parliament has voted to take control of the Brexit process and will now proceed with a series of votes to find out what kind of Brexit has the most support among MPs. Markets remain unfazed by these facts, with the sterling and equities little changed and gilt yields flat. Elsewhere, the Turkish lira remains volatile this morning after yesterday's sharp appreciation, while implied forward rates continued to rise sharply.

Key Global Financial Indicators

Last updated: 3/26/19 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2798	-0.1	-1	0	5	12
Eurostoxx 50		3315	0.4	-3	1	1	10
Nikkei 225		21428	2.2	-1	0	3	7
MSCI EM		43	-0.1	-2	-2	-12	9
Yields and Spreads			bps				
US 10y Yield		2.45	-4.1	-17	-19	-41	-24
Germany 10y Yield		-0.01	1.8	-11	-13	-53	-25
EMBIG Sovereign Spread		353	-5	12	3	52	-61
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.3	0.1	0	-1	-11	2
Dollar index, (+) = \$ appreciation		96.5	0.0	0	1	8	0
Brent Crude Oil (\$/barrel)		67.8	0.9	0	4	-3	26
VIX Index (% change in pp)		15.7	-0.7	2	1	-5	-10

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

United States

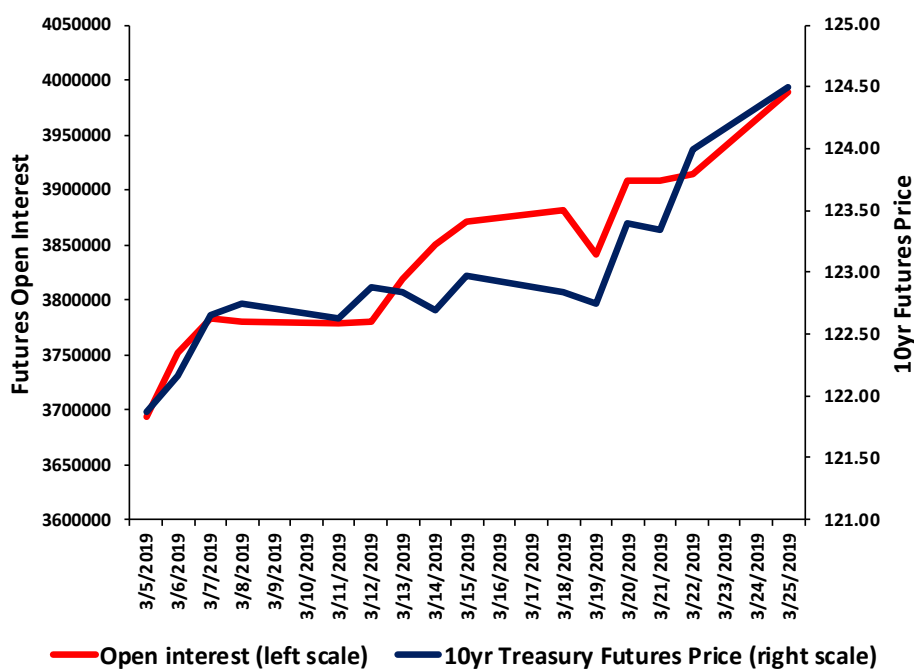
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Post FOMC, the significant decline in US Treasury yields is dominating markets worldwide, with lower yields and greater curve inversions weighing on stocks and other risk assets. The spread between the three-month T-Bill yield and the ten-year Treasury yield inverted further from -1.4 bps to -3.7 bps, but the 2yr-10yr spread actually steepened from 12 bps to 15 bps. Contacts were unable to agree on an explanation for the discrepancy, although there were rumors of unusually heavy buying in the 2yr sector which may have distorted the picture. Further Treasury yield declines and curve inversions are likely to be viewed very negatively by global markets. In the US, the 10-year yield dipped below 2.38% before ending at 2.42%. At one point, the entire Treasury coupon curve out to ten years was trading with yields below the Fed Funds Effective rate, a very unusual state of affairs. **This morning, US Treasury yields are up 3 to 6 bps across the curve and S&P 500 futures point to a 0.6% gain at the open.**

The fall in interest rates has led to higher volumes of convexity hedging by owners of mortgage backed securities (MBS) and other real estate-related structured products. Lower rates lead to higher prepayments, which in turn reduce the duration of MBS and force their holders to adjust their hedges against interest rate risk. Many use the interest rate swap market for this purpose, so that lower rates cause swap spreads to narrow due to these hedging flows. The 10-year swap spread to Treasuries is now at its narrowest level since October 2017, which is a concern because high volumes of convexity hedging can sometimes destabilize the bond market. Meanwhile, the fall in interest rates has also driven market participants into Treasury futures contracts as earlier short positions are flushed out and investors reposition for a potential economic slowdown or rate cut. Open interest data show that purchases of futures contracts have risen along with bond prices. The benchmark 10-year futures contract has seen the largest increase in open interest since the March 20 FOMC meeting, but there has been heavy buying across the curve.

The Wave of the Future(s)

Source: Bloomberg



The latest inversion of the US yield curve in the three-month T-Bill/10-year Treasury yield spread may not be a signal of an impending recession, some analysts and contacts argue. The two-year/10-year yield spread remains positive and actually steepened yesterday. The inversion of this spread has preceded every recession since World War Two, but the three-month/10-year spread gave a false positive for a recession when it inverted during the Long Term Capital Management crisis in 1998. Furthermore, while the Friday curve inversion and equity selloff were triggered by very weak PMI readings in Europe, the US economy itself remains much more resilient. Europe is heavily reliant on its manufacturing sector and its attendant export flows, but the US has a much more domestically focused economy. The US services sector which accounts for 70% of the economy is in good health, and though manufacturing has taken a hit, it is just 17% of the economy.

Figure 1: Poor prelim. reading on March Eurozone Manufacturing PMI

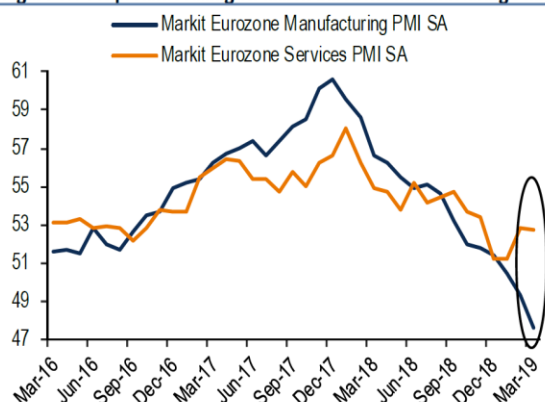
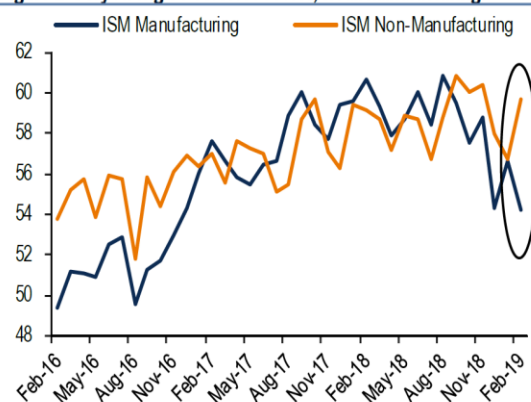
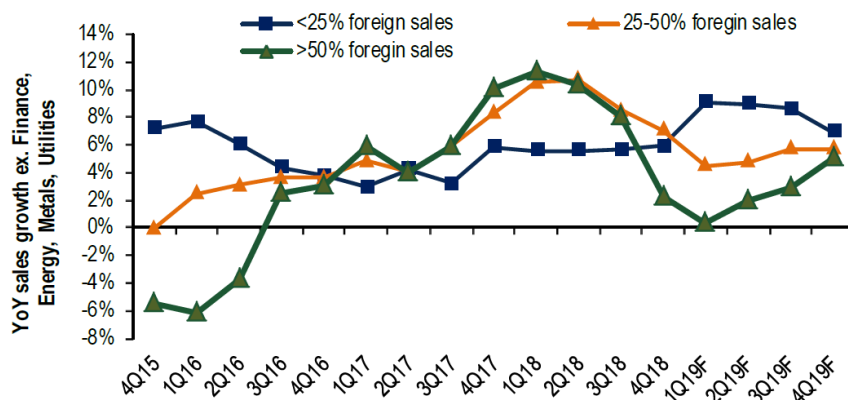


Figure 2: Very strong US services sector, weak manufacturing



Moreover, markets have been pricing in the impact of a weaker European economy on the US and its corporations for some time now as European assets underperformed their US peers over the past few years. For example, analysts forecasted zero revenue growth in Q1 2019 for US investment grade companies with more than 50% of their sales overseas, down from 2% in Q4 2018. In contrast, companies with limited foreign exposure (less than 25% of their sales overseas), revenue growth will increase sharply to 9% (from 6% in Q4).

Figure 4: Domestically oriented companies expected to increase sales this year, global counterparts seen reporting weak sales



Europe

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European equities inched up today: EuroStoxx 600 (+0.4%), DAX (+0.1%), and CAC 40 (+0.5%). Bank stocks are 0.3% higher. **Euro area sovereign bond markets are steady:** German 10-year yields are at -0.02% (-1 bp); French at 0.36% (+1 bp); Italian at 2.50% (flat).

The UK parliament voted last night (329 to 302) to temporarily seize control of House of Commons timetable to allow so-called indicative votes on different options. Indicative votes are non-binding and would allow lawmakers to gauge support for each of the motions voted on. Seven different options are reportedly being considered, including a 2nd Brexit referendum, a so-called Norway-plus deal with the EU, and a no-deal. PM May admitted last night that there is not enough support to bring back the Withdrawal Agreement for a 3rd meaningful vote. She added that her government would not necessarily pay any attention to the outcome of the indicative votes. **Sterling is at \$1.32 (+0.1%) and yields on 10-year gilts are at 1.00% (+2 bps).**

In **European credit markets**, the high-yield and investment grade ITraxx indices have broken their downward trend and spreads now stand at 279 bps for high-yield credit and 68 bps for investment grade credit.

European Corporate Credit Spreads



Stocks of Deutsche Bank (-1.2%) and Commerzbank (-1.2%) continued to underperform peers on lingering concerns regarding their potential merger. Various stakeholders have privately expressed doubts about the viability of a tie-up, as well as concerns about dilution of their stock holdings. Contacts have noted that any form of merger would entail job cuts, something that the German government – which owns 15% of Commerzbank – is likely to oppose. The Qatari government is also viewing the deal with hesitation, according to Bloomberg sources. Equity prices of both banks have been on a downward trend since the potential deal was announced earlier this month.

The Biggest Shareholders

The German government may have the largest stake in a merged bank

	Deutsche Bank	Commerzbank	Pro-forma merger
German govt	—	15.5	5.4
BlackRock	4.8	4	4.5
Qatar	6.1	—	4
Cerberus	3	5	3.7
HNA	5.1	—	3.3
Vanguard	2.9	3.1	3
HEC	3.1	—	2
Norges Bank	1	2.5	1.5
Capital Group	0.2	2.9	1.2

Source: Data compiled by Bloomberg

Note: Stakes in % in each bank and pro-forma stake in new entity assuming 65% share swap for DBK stock and 35% for CBK stock. Based on holdings at March 26

Selected European Banks: Equity Price



US investment firms BlackRock and Varde Partners are reportedly preparing separate offers to acquire Banca Carige, Reuters reports. Carige is Italy's 10th largest bank and holds an estimated €3.5 bn of bad loans.

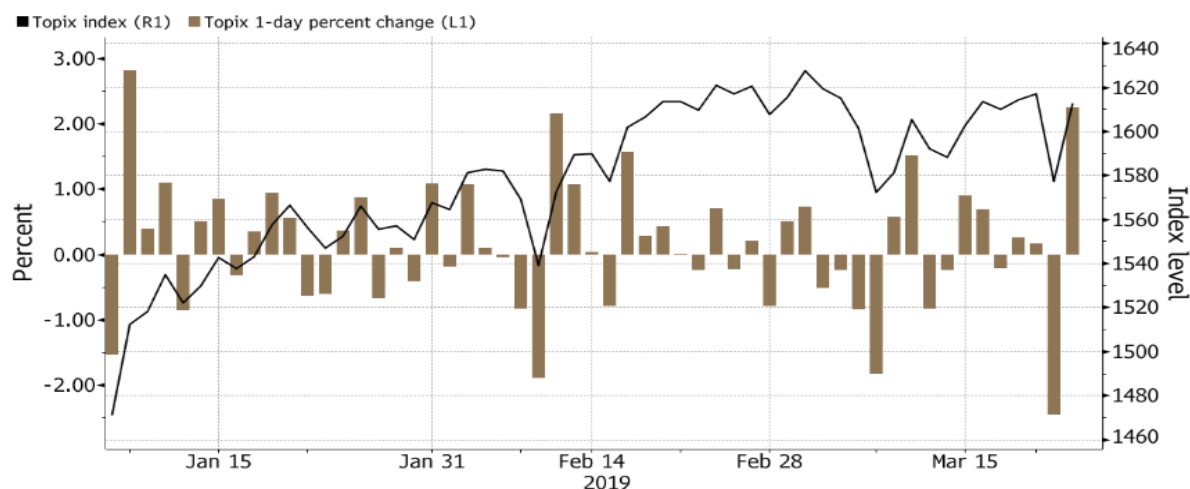
Other Mature Markets [back to top](#)

Japan

Japanese equities (Nikkei +2.2%; Topix +2.6%) bounced back from yesterday's losses, led by purchases related to dividend payouts. Investors are purchasing shares to gain dividend rights before more than 1,500 Topix companies will go ex-dividend tomorrow. Separately, the BOJ's summary of opinions for the March monetary policy meeting showed more discussions of downside risks in the global economy, particularly China and Europe, and potential easing of monetary policy. **The yen weakened -0.2% while 10-year JGB yields rose 1.9bps to -0.08%.**

Bounce Back

Topix rebounds after posting the biggest drop this year



Emerging Markets

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Asian equities (+0.3%) were slightly higher in all markets except for China (Shanghai -1.5%, Shenzhen -2.2%). Indonesian (+0.9%), Philippine (+0.6%) and Indian (+0.5%) equities were the top three gainers. Chinese equities strongly underperformed without specific triggers, with tech and telecom stocks leading the decline. Regional currencies and sovereign bond yields were broadly stable. In **EMEA**, most equity indices are up slightly except for Turkey (-0.9%). Regional currencies are depreciating slightly against the dollar. The Turkish lira is 0.2% weaker after yesterday's 3.5% appreciation. **Latin American markets stabilized Monday** after a sell-off last week, with equity markets about 1.0% higher in Argentina and Mexico and only a notch lower in Brazil. The Brazilian real rebounded 1.5% and other regional currencies traded in narrow ranges. Long-term bond yields fell notably in Brazil and Mexico by 11 and 7 bps, respectively.

Key Emerging Market Financial Indicators

Last updated: 3/26/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.53	-0.1	-2	-2	-12	9
MSCI Frontier Equities		28.59	0.5	-1	-2	-18	9
EMBIG Sovereign Spread (in bps)		353	-5	12	3	52	-61
EM FX vs. USD		63.30	0.1	0	-1	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	-0.1	0	0	-7	2
Indonesian Rupiah		14172	0.1	0	-1	-3	2
Indian Rupee		68.86	0.1	0	3	-6	1
Argentine Peso		42.05	-0.6	-5	-7	-52	-10
Brazil Real		3.84	0.4	-1	-2	-14	1
Mexican Peso		19.00	0.1	0	1	-3	3
Russian Ruble		64.17	-0.2	0	2	-11	9
South African Rand		14.36	-0.4	1	-4	-19	0
Turkish Lira		5.52	0.6	-1	-4	-28	-4
EM FX volatility		8.51	0.0	0.8	0.0	0.6	-1.3

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

EM Debt Issuance

EM debt issuance strengthened in March, approaching high levels in January. Debt issuance has grown on a monthly basis in the corporate, financial, and sovereign sectors. Across geographies, the new issuance has declined in China and has more than doubled in EMEA, partly because of a sovereign debt placement by Qatar. **Last week, several governments raised debt, taking advantage of the favorable interest rate environment.** Turkey allocated \$1 bn of 10-year bonds at a 7.15% yield. Benin raised €0.5 bn, and Ghana placed three bonds totaling \$3 bn, including a 32-year bond at 594 bps over Treasuries. Russia placed €0.75 bn in 5-year bonds at a 2.375% yield and—reportedly, as a pre-financing measure—\$3 bn in 16-year bonds at 5.10%. Finally, Brazil allocated \$1.5 bn in 10-year bonds at a 216 bp spread over Treasuries.

	Corporate	Financial	Sovereign	Other	Total
ASIA	45.4	18.7	5.9	6.0	76.0
CHINA	32.9	10.6	0.0	2.7	46.2
Em Asia	12.5	8.1	5.9	3.3	29.8
CEEMEA	6.1	13.5	46.2	0.5	66.3
LATAM	8.7	2.1	7.8	2.4	21.1
Total	60.3	34.3	59.9	8.9	163.4

	Corporate	Financial	Sovereign	Other	Total
ASIA	8.4	6.8	2.4	1.5	19.1
CHINA	4.7	5.4	0.0	0.2	10.3
Em Asia	3.7	1.4	2.4	1.3	8.9
CEEMEA	3.6	6.5	20.8	0.0	30.9
QATAR	0.0	2.3	12.0	0.0	14.3
LATAM	5.7	1.1	1.5	0.0	8.4
Total	17.7	14.4	24.7	1.5	58.4

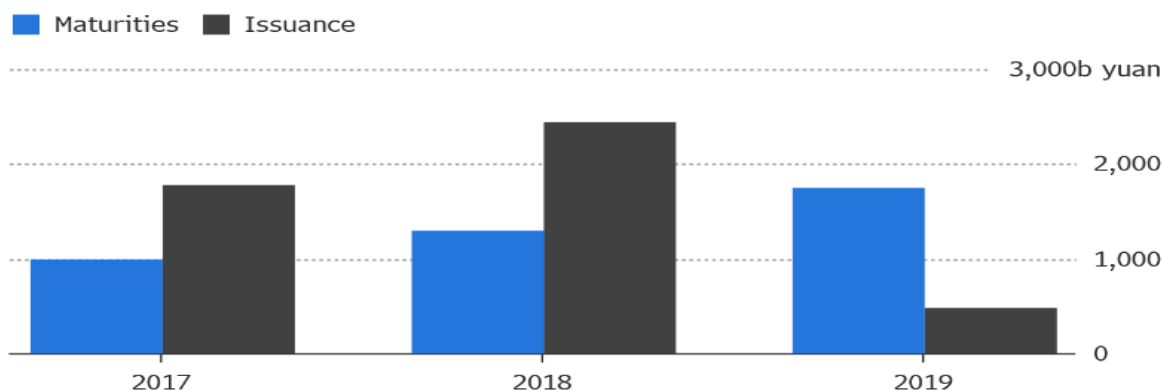
China

Chinese equities (Shanghai -1.5%; Shenzhen -2.2%) bucked the regional trend, falling for the second straight day. The Shanghai Composite index closed below the psychological 3,000 level, with all sectors in the red, led by tech and telecom stocks. Even though stocks declined, overseas investors bought a net CNY995.6 mn of stocks via the two stock connects, according to Bloomberg. This was small compared with CNY10.8 bn sold by overseas investors on Monday, the biggest single-day sale since the Shenzhen-Hong Kong stock connect opened in December 2016.

On local government bonds, individual and small and medium-sized institutional investors are now allowed to buy these securities over the counter at commercial banks. Local government bonds were previously only sold and traded on the interbank bond market and on domestic stock exchanges. Local governments ramped up issuance (CNY782.1 bn) in the first two months of 2019 to raise funding for major projects and stabilize investment. A similar trend was also observed in the local government financing vehicles' bond issuances. **10-year government bond yields and both the onshore and offshore RMB were little changed.**

Issuance Ramping Up

LGFVs have yet to see strains from wave of maturing debt



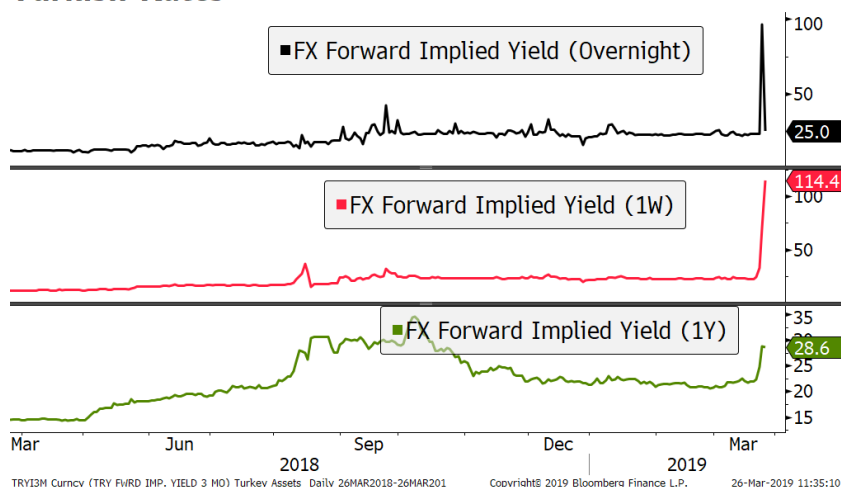
Note: 2019 issuance is YTD
Source: Bloomberg

Bloomberg

Turkey

The lira and implied rates remain volatile this morning. The currency is appreciating 0.6% against the dollar, on top of yesterday's 3.5% move. According to Bloomberg pricing, the one-week FX implied yield (i.e. offshore) spiked from 24% to 70% yesterday, well above the peak (39.5%) seen during last year's sell off, and is over 100% today. The offshore overnight rate, meanwhile, was briefly quoted at near 300% earlier in the session, but is now at 25%. The move was attributed in part to heightened demand by offshore funds trying to close lira positions in the short end of the swaps curve, which impacted the lira by making the currency impossible to short. Some contacts noted the reduced flow of market commentary on Turkey from major banks, which is most likely a reflection of the recent probe initiated by Turkish officials against JPMorgan.

Turkish Rates



Brazil

Moody's expressed concerns that political tensions may weaken the pension reform's prospects.

Political concerns came to the fore again Monday, after Moody's pointed to political uncertainty after the arrest of former President Temer. Moody's said that the approval of the pension reform can be complicated, and stressed this could be a credit negative development. The outcome of pension reform discussions is still unclear, but the agency said that political tensions may result in a watered-down version of the bill. Separately, former President Temer was released Monday, based on Bloomberg's reporting, while he was accused by prosecutors of "leading a criminal organization" involved in bribery. Brazilian stocks were broadly steady, and the currency and bonds rebounded.

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Global Financial Indicators



















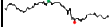












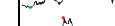


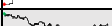
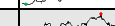


Last updated: 3/26/19 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2798	-0.1	-1	0	5	12
Europe		3315	0.4	-3	1	1	10
Japan		21428	2.2	-1	0	3	7
China		2997	-1.5	-3	2	-4	20
Asia Ex Japan		70	0.1	-2	-1	-10	10
Emerging Markets		43	-0.1	-2	-2	-12	9
Interest Rates			basis points				
US 10y Yield		2.45	-4.1	-17	-19	-41	-24
Germany 10y Yield		-0.01	1.8	-11	-13	-53	-25
Japan 10y Yield		-0.07	1.9	-3	-4	-9	-7
UK 10y Yield		1.02	2.9	-17	-19	-43	-26
Credit Spreads			basis points				
US Investment Grade		126	2.9	8	3	26	-21
US High Yield		439	11.5	30	22	82	-83
Europe IG		67	-2.3	10	4	5	-20
Europe HY		274	-9.2	14	-3	-20	-79
EMBIG Sovereign Spread		353	-5.0	12	3	52	-61
Exchange Rates			%				
USD/Majors		96.54	0.0	0	1	8	0
EUR/USD		1.13	0.0	0	-1	-9	-1
USD/JPY		110.4	-0.4	1	0	-5	-1
EM/USD		63.3	0.1	0	-1	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		68	0.9	0	4	-3	26
Industrials Metals (index)		120	0.1	-2	-1	-7	10
Agriculture (index)		41	0.1	1	0	-15	-1
Implied Volatility			%				
VIX Index (% change in pp)		15.7	-0.7	2.1	0.5	-5.4	-9.7
10y Treasury Volatility Index		5.2	1.0	1.7	1.6	1.3	0.7
Global FX Volatility		7.3	0.0	0.7	0.0	-0.5	-1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		380	0.7	15	19	-10	-35
Italy		248	-4.9	8	-10	109	-2
Portugal		131	-1.4	10	-1	11	-17
Spain		112	-0.9	4	10	38	-5

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: 3/26/2019 8:10 AM	Exchange Rates						YTD	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	-0.1	0.0	0	-7	2		3.1	-2.6	-4	3	-67	-8
Indonesia		14172	0.1	0.4	-1	-3	2		7.7	-1.0	-13	-28	68	-45
India		69	0.1	0.2	3	-6	1		7.4	-2.7	-4	-12	-34	-4
Philippines		52	0.1	0.8	-1	0	0		5.4	-2.2	0	-12	37	-87
Thailand		32	-0.2	0.0	-1	-2	3		2.5	-2.2	-8	-7	18	-9
Malaysia		4.07	-0.1	0.1	0	-4	2		3.9	-0.7	-5	-13	-12	-24
Argentina		42	-0.6	-4.8	-7	-52	-10		24.3	49.3	104	339	772	131
Brazil		3.84	0.4	-1.3	-2	-14	1		8.1	-7.9	14	27	-15	-5
Chile		678	0.3	-1.8	-4	-11	2		4.2	-0.4	-8	-14	-61	-28
Colombia		3126	-1.4	-0.1	-1	-9	4		6.1	0.0	-12	-26	-24	-39
Mexico		19.00	0.1	0.1	1	-3	3		8.0	-6.1	-20	-33	43	-73
Peru		3.3	0.2	-0.1	0	-3	2		5.3	-1.9	-7	-27	38	-40
Uruguay		34	0.2	-0.4	-3	-16	-3		10.4	-0.5	-9	20		-28
Hungary		279	0.1	-1.2	0	-10	0		1.9	0.8	-17	-14	31	-33
Poland		3.80	-0.1	-0.5	0	-11	-2		2.3	2.1	-3	-4	-22	-1
Romania		4.2	-0.1	-0.3	-1	-11	-3		4.0	-1.0	-3	-14	18	-22
Russia		64.2	-0.2	0.3	2	-11	9		7.9	-5.8	-9	-17	115	-52
South Africa		14.4	-0.4	1.0	-4	-19	0		9.5	-5.1	3	2	93	-10
Turkey		5.52	0.6	-0.7	-4	-28	-4		18.0	62.5	134	231	503	108
US (DXY; 5y UST)		96.6	0.0	0.2	1	8	0		2.24	5.9	-19	-21	-40	-27

	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		2997	-1.5	-3	2	-4	20		176	0	0	-8	5	-18
Indonesia		6470	0.9	0	-1	4	4		191	-9	2	-11	11	-45
India		38233	1.1	0	6	16	6		161	0	5	-4	17	-35
Philippines		7907	0.6	1	-1	0	6		91	-8	-1	-6	-6	-30
Malaysia		1650	-1.0	-2	-4	-11	-2		129	-1	1	-2	7	-33
Argentina		33166	-4.0	-5	-8	5	9		765	-5	39	72	347	-50
Brazil		93662	-0.1	-6	-4	10	7		248	-4	14	12	12	-25
Chile		5194	-1.0	-2	-5	-5	2		134	-2	5	-2	7	-32
Colombia		1597	0.0	1	6	9	20		188	-4	4	-5	8	-40
Mexico		42703	1.0	1	-2	-9	3		299	-5	-3	-26	46	-55
Peru		20983	-0.1	0	2	2	8		139	-4	8	-4	-13	-29
Hungary		42007	0.2	0	3	13	7		123	-8	4	2	21	-25
Poland		59994	0.4	-1	-1	2	4		59	-6	5	5	11	-26
Romania		8004	-0.3	1	3	-8	8		203	3	5	2	63	-18
Russia		2515	0.7	1	1	12	6		216	-5	8	-3	36	-36
South Africa		55350	-1.4	-3	-2	-1	5		317	-4	16	28	65	-48
Turkey		98596	-1.2	-6	-6	-15	8		491	2	72	77	172	62
Ukraine		569	2.9	0	1	60	2		634	-5	22	-8	171	-153
EM total		43	-0.1	-2	-2	-12	9		353	-5	12	3	52	-61

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