



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, March 27, 2019


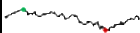







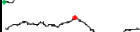

- US equities rise as the fall in US Treasury yields takes a pause ([link](#))
- Foreign investors are rotating back into US corporate bond markets ([link](#))
- UK Parliament to hold indicative votes for alternative Brexit options ([link](#))
- Reserve Bank of New Zealand signals next move in policy rate is to cut ([link](#))
- Central Bank of Nigeria cuts policy rate citing need for growth and job support ([link](#))
- National Bank of Hungary hikes policy rate but signals limited further tightening ([link](#))
- Argentine peso weakens to new low, but remains in non-intervention zone ([link](#))

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Markets remain on edge as advanced economy sovereign yields move lower

Following some signs of fading risk aversion yesterday, the decline in advanced economy sovereign yields has become more entrenched amid the dovish central bank pivots. US stocks traded modestly higher yesterday as investors partially unwound Friday's sharp risk-off moves, while Asian equities were mixed and European shares are trending lower. Although US Treasury yields traded slightly higher across the curve yesterday, the global bond rally has resumed this morning with benchmark 10-year yields in the US, Germany, and Japan back down to 2.38%, -0.05%, and -0.08%, respectively. Market participants remain focused on the global growth implications of the dovish tilt by central banks rather than the liquidity implications. As such, the market implied probability of an FOMC policy rate cut continues to inch higher with markets pricing close to a 60% chance by September. Outside of the US, news flow related to Brexit continues to evolve quickly as the UK Parliament prepares for a momentous day when indicative votes on the Brexit process will be held. The US dollar remains steady to firm against most major and EM currencies.

Key Global Financial Indicators

Last updated: 3/27/19 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2818	0.7	0	1	8	12
Eurostoxx 50		3315	-0.1	-2	1	0	10
Nikkei 225		21379	-0.2	-1	-1	0	7
MSCI EM		43	-0.5	-2	-1	-10	9
Yields and Spreads			bps				
US 10y Yield		2.38	2.5	-15	-30	-40	-31
Germany 10y Yield		-0.05	-3.2	-13	-20	-55	-29
EMBIG Sovereign Spread		358	6	10	12	55	-56
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.7	-0.7	-2	-2	-11	1
Dollar index, (+) = \$ appreciation		96.7	0.0	1	1	8	1
Brent Crude Oil (\$/barrel)		68.0	0.1	-1	2	-3	26
VIX Index (% change in pp)		15.3	0.6	1	1	-7	-10

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

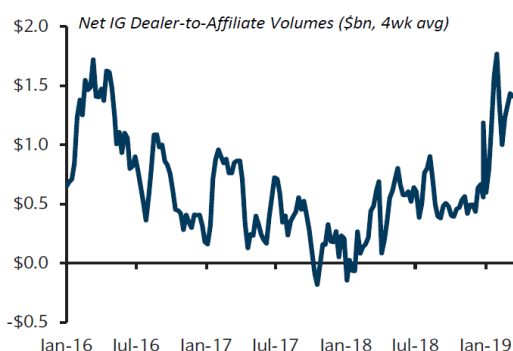
United States

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The US Treasury rally of the past week finally paused for a breath. Yields ended slightly higher, allowing risk assets to make modest gains. The yield curve remained inverted for a third day between the three-month Bill and the 10-year Treasury at -4 bps, but the two-year/10-year spread held steady at +15 bps. However, continued curve flattening and lower Treasury yields would be red flags for markets. Housing starts for February were weaker than expected but the January numbers saw a significant upward revision, so the market impact was limited. However, markets did react to the decline in the Conference Board's measure of consumer confidence which was much weaker than expected at 124.1 versus the 132.5 consensus forecast. The marked decline in job market sentiment attracted a lot of attention. Treasuries had been selling off sharply prior to the report but partially reversed after the number was released. Meanwhile, the demand for bonds remained strong as the \$40 bn two-year note offering was snapped up by eager investors. Dealers purchased less than 31% of the bonds offered, a relatively low proportion. **This morning, US Treasury yields have declined 4 to 6 bps across the curve, with the 10-year yield down to 2.38%, and S&P 500 futures point to a decline of 0.2% at the open.**

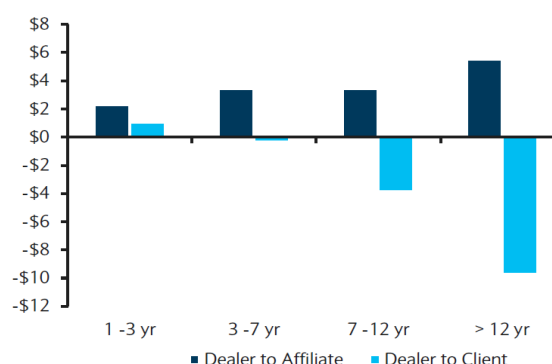
Foreign investors have been heavy buyers of US investment grade (IG) fixed income. Lured by cheaper foreign exchange costs and a steeper yield curve, especially at the long end, foreign investors have continued to buy large volumes except for a brief pullback at the beginning of the year, before the overall market rally resumed. On the other hand, domestic investors were net sellers of these bonds as they rotated into the shorter maturity part of the IG curve. Dealer inventories of IG paper have fallen sharply as they have successfully sold on their holdings to foreign buyers. Spreads have tightened across all maturities, although the five-year sector saw the most spread compression. Since the FOMC meeting last week, foreign buying volume has increased even more as the Fed has taken rate hikes off the table for the rest of the year.

FIGURE 1
Foreign Flows into US Investment Grade Credit Have Risen Sharply in 2019



Source: Bloomberg, TRACE, Barclays Research

FIGURE 2
Year-to-Date Net Flows into US Investment Grade Credit (\$bn)

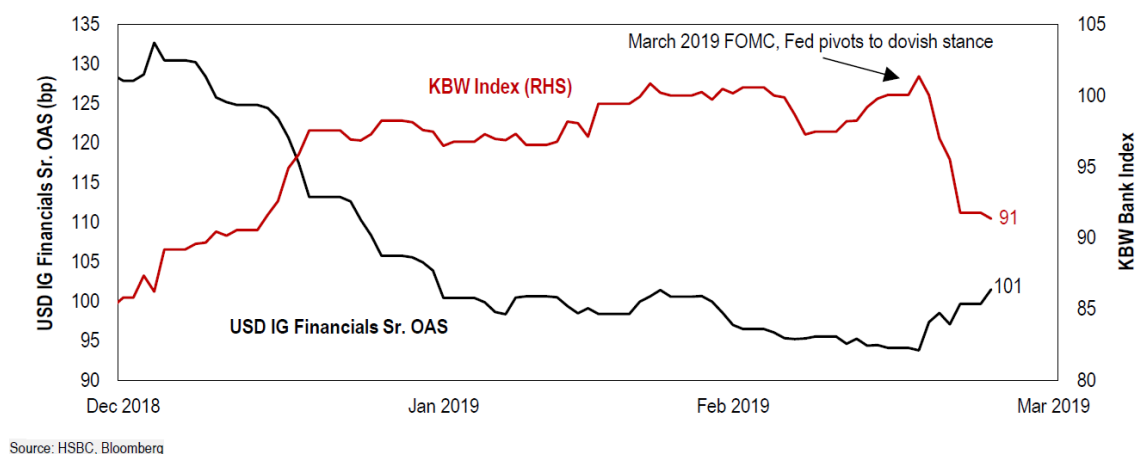


Source: Bloomberg, TRACE, Barclays Research

¹ Note that, here and in the rest of the report, TRACE data shown are based on estimated volumes for \$5mn+ trades (as the actually volumes are suppressed). Therefore, the actual magnitude of flows is likely to be slightly different than the numbers shown.

Bonds issued by US IG financial institutions have been among the favorite targets for both domestic and international investors. As a result, financial credit spreads have remained relatively stable after the Fed's dovish turn while broader IG spreads widened into the overall equity selloff. Although bank stocks have suffered amid the more recent flattening in the yield curve, expectations of curve steepening are reviving now that the Fed has taken more rate hikes off the table for 2019, which will be supportive of both bank stocks as well as bonds.

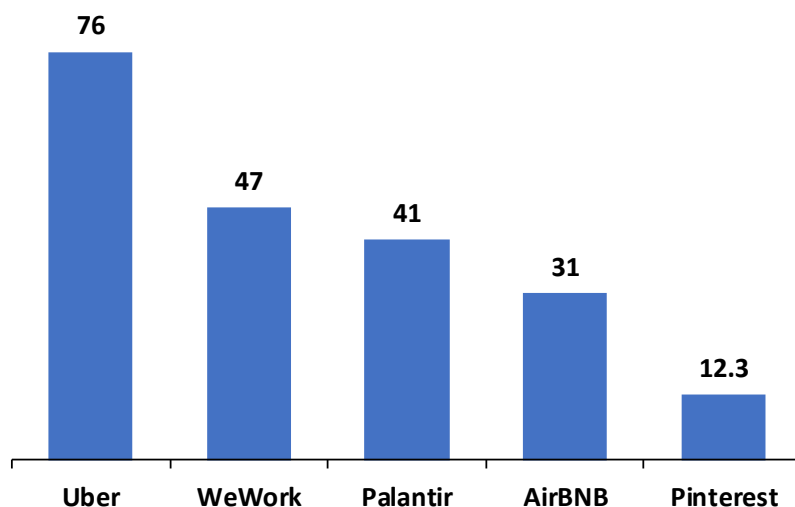
Figure 5. US financial institutions' credit spreads resilient after the Fed's pivot



Some analysts forecast that 2019 could set a new record for IPOs, with a potential \$100 bn in new deals compared to the previous record of \$96 bn in 2000. However, there is a concern about whether all these deals will find demand in an environment where indexing and passive investing play such a large role. Financial advisors have focused more on asset allocation than picking individual stocks. Although recent offerings such as Levi Strauss were well received, more complex offerings from the technology sector are likely to be much harder for investors to evaluate. Skeptics point to the timing of the previous record in IPO volume (2000), which coincided with the bursting of the previous technology bubble. Some also worry that large volumes of new IPO issuance could be problematic for a market that may be close to an inflection point, especially in view of the Fed's recent dovish turn.

Potential US Tech IPO Pipeline (\$ Billions)

Source: CNBC



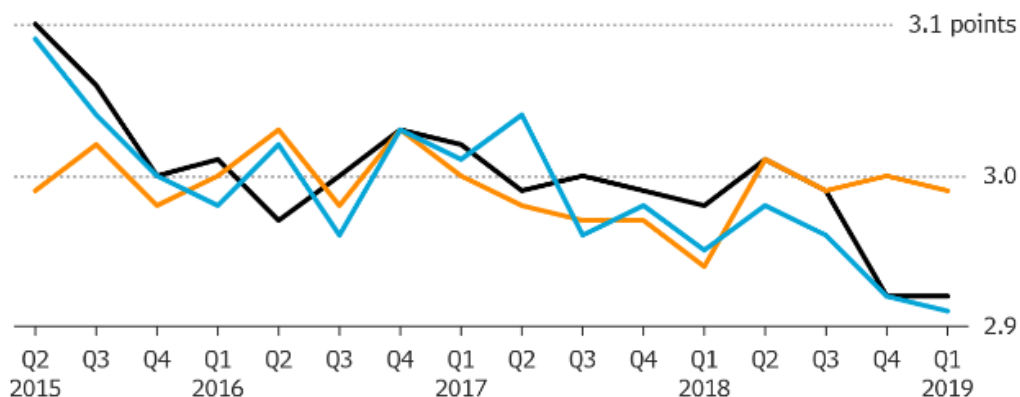
Europe

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The main European equity indices are trending lower on the day despite bank stocks advancing by close to 1% after president Draghi said today that the ECB 'should reflect' on the side-effects of negative rates. Bank stocks have rallied this morning, led by Commerzbank (+3.5%), SocGen (+1.7%), and Deutsche Bank (+1.5%). The euro inched up 0.1% to \$1.13.

Euro-area banks have seen profitability declining with ECB easing policies

Bank margins on average loans to companies to households for house purchase



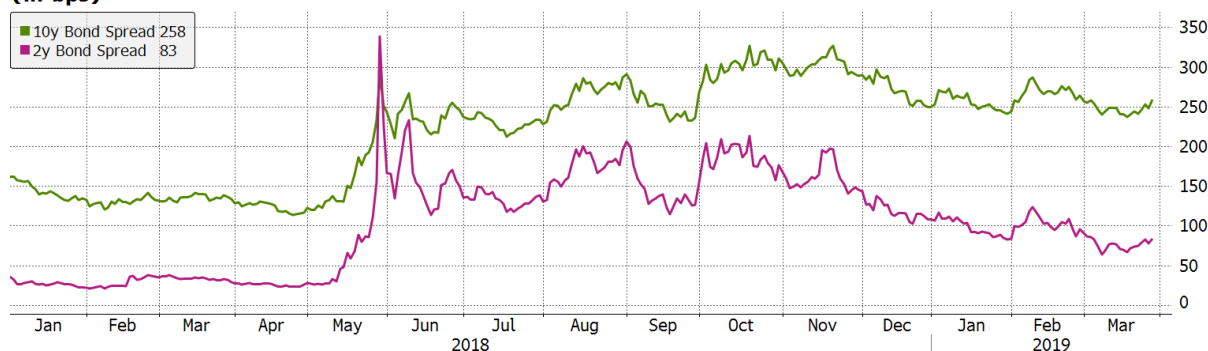
Note: Chart shows mean response to survey question on impact of cost of funds and balance-sheet constraints on margins, with 1=contributed considerably to tightening and 5=contributed considerably to easing.

Source: ECB

Bloomberg

In **sovereign bond markets**, German and French 10-year yields dropped about 4 bps (to -0.5% and 0.32%, respectively) while Italian yields increased 7 bps to 2.53%. The Italy-Germany 10-year spread remains above 250 bps. Spanish yields are at 1.06% (-3 bps).

Italy-Germany Sovereign Spreads (in bps)



Source: Bloomberg
CFRTRIUS Curncy (FRANCE CDS USD SR 5Y D14) FI: Ita-Germ Spreads Daily 01JAN2018

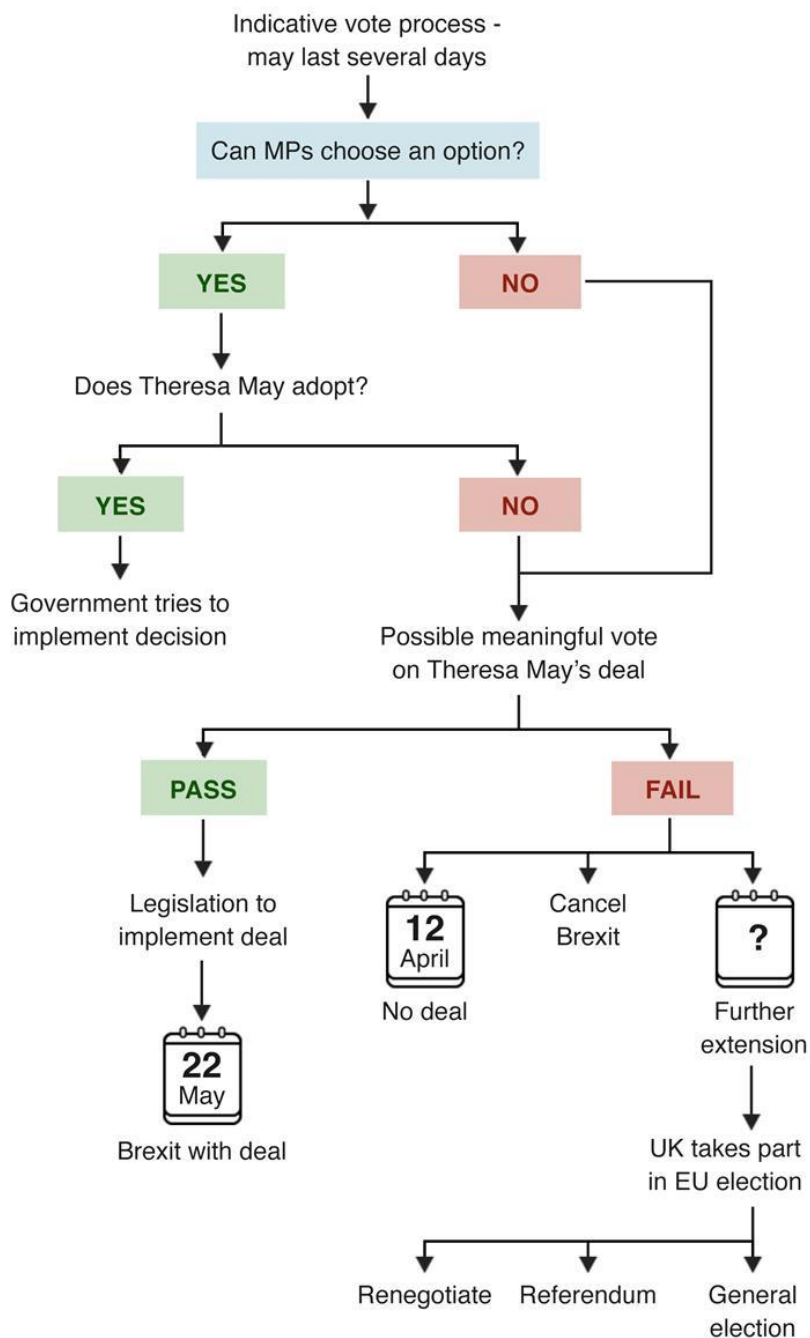
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The UK Parliament will start its set of indicative votes on Brexit options later today. Voting will continue on Monday. Lawmakers will choose among a menu of options ranging from no-deal, various forms of trade agreements, and a 2nd Brexit referendum (see [here](#) for a list). Speaker of the House Mr. Bercow will choose which motions are voted on from among the 16 presented by MPs. The government is not

obliged to pursue any of the chosen options and PM May has said she will disregard those not consistent with the 2017 Conservative Party Manifesto.

Brexit next steps



BBC

The head of the European Single Resolution Board, Dr. Elke Köning, [has said](#) that **Brexit** may lead to market volatility but that "given the level of preparedness there should be no imminent risk to financial stability."

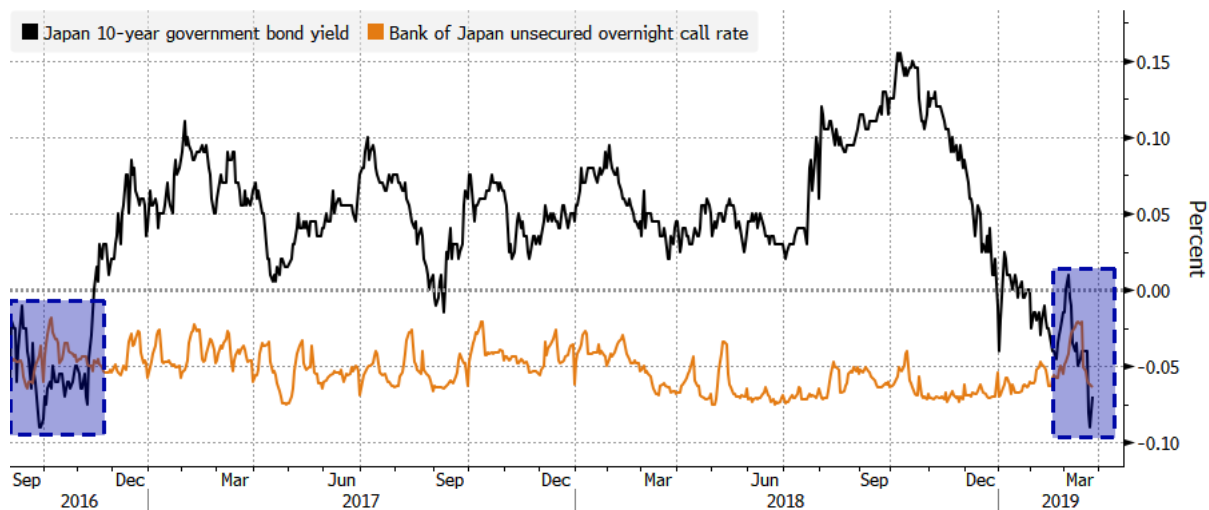
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Japan

The yen held steady while equities fell. Following its previous gain of 2.6%, the Topix fell 0.5%, dragged lower by shares of transportation companies. **The Parliament approved the fiscal year budget totaling ¥101.5 tn (\$920 bn), a record amount.** Reaction from the JGB market was limited as **JGB yields remained little changed on the day.** The 2-year note held steady at -0.18%, while the 10-year note fell 0.4 bps to -0.08%. At its current level, the benchmark 10-year note is roughly 2 bps below the BoJ's unsecured overnight call rate (-0.06%); the last time such yield inversion took place was in November 2016. JGB yields had fallen since last September, driven by strong investor demand as well as recent sharp declines in Treasury yields.

Japan Inversion

Benchmark yield has slipped below the overnight call rate this month



Source: Bloomberg

GJGBBNCH Index (Japan Govt 10 Year Bond Benchmark) Line Chart Daily 01SEP2016-2

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Emerging Markets [back to top](#)

Asian currencies posted broad-based, though modest, depreciation against the dollar. The Thai baht weakened by 0.4%, underperforming its peers while the Hong Kong dollar outperformed. **Equities were mixed.** Chinese bourses paced gains (Shanghai Composite: +0.9%), while the tech-heavy Korean Kosdaq lagged (-1.1%). **The Reserve Bank of New Zealand Governor Orr surprised markets when he indicated that the next interest rate move is likely to be a rate cut.** The benchmark New Zealand 10-year note tumbled 12 bps to a record low yield of 1.73% while the New Zealand dollar depreciated by 1.6% to 0.68/USD. At the meeting, the Reserve Bank of New Zealand also kept the cash rate unchanged at 1.75%. In **EMEA**, equity markets are mixed, falling slightly in Eastern Europe but up in many Middle Eastern countries and South Africa (+0.5%). The Turkish BIST is the outlier, falling 1.4%, now down over 8% for the month. **Turkish rates remain very volatile, with the indicative price for the overnight rates quoted at near 700% by Bloomberg, but there have been no new policy developments.** In FX markets, the lira is depreciating 1% against the dollar while all other currencies are little changed. **Latin American markets remained cautious on Tuesday.** Most equity markets gained along with the rise in US stocks and in oil prices, notably in Brazil (1.8%). However, the currencies weakened, with Brazil and Mexico 0.5% lower, and long-term government bond yields rose by up to 7 bps. The Argentine markets remained under pressure, with the peso down 1.3% and reaching another record low.

Key Emerging Market Financial Indicators

Last updated: 3/27/19 8:14 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.66	-0.4	-2	-1	-10	9
MSCI Frontier Equities		28.39	-0.7	-1	-2	-18	9
EMBIG Sovereign Spread (in bps)		358	6	10	12	55	-56
EM FX vs. USD		62.74	-0.7	-2	-2	-11	1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.72	-0.1	0	-1	-7	2
Indonesian Rupiah		14195	-0.2	0	-1	-3	1
Indian Rupee		68.88	0.0	0	3	-6	1
Argentine Peso		42.64	-1.4	-5	-9	-53	-12
Brazil Real		3.91	-1.0	-3	-5	-15	-1
Mexican Peso		19.28	-0.9	-2	-1	-5	2
Russian Ruble		64.81	-0.6	-1	1	-11	8
South African Rand		14.64	-1.5	-3	-5	-20	-2
Turkish Lira		5.45	-2.2	0	-2	-27	-3
EM FX volatility		8.58	0.0	0.8	0.2	0.5	-1.2

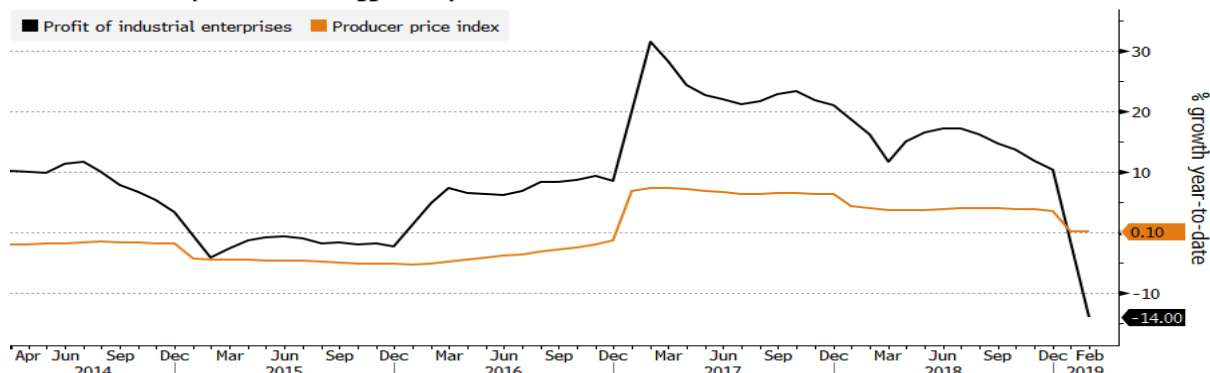
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

Profits of Chinese industrial companies suffered their sharpest declines since the global financial crisis. According to the National Bureau of Statistics, manufacturing companies' profits in January and February tumbled 14% from the same period a year ago on the back of weaker factory inflation, slowing production and seasonal factors; by comparison, profits fell by 1.9% last December. Notably, profits of state-owned enterprises (SOE) collapsed by 24.2% yoy in the first two months, compared to a more moderate decline of 5.8% at private firms. Analysts noted that the sharper decline in SOEs' profits mainly reflects lower prices of upstream commodities, affecting industries where SOEs dominate, including autos, oil processing, non-ferrous metals and chemical products processing. **Equity bourses pushed aside the weak data with the Shanghai Composite rising 0.9% on the day while both the onshore and offshore RMB were little changed.** US trade negotiator Lighthizer and Treasury Secretary Mnuchin are due to visit Beijing on Thursday and Friday, while Chinese Vice Premier Liu He is expected to travel to the US the following week. According to Bloomberg, US negotiators have voiced concerns that China is backtracking on earlier pledges, while Chinese authorities have resisted proposals they see as one-sided. Plans for a summit meeting between Presidents Trump and Xi have been pushed back to late-April, at the earliest.

Worst Start

China's industrial profit saw the biggest drop in a decade



Source: National Bureau of Statistics

CNPRTTLY Index (China Industrial Enterprises Total Profits YoY Cumulative) Indus Copyright© 2019 Bloomberg Finance L.P. 27-Mar-2019 14:30:16

Hungary

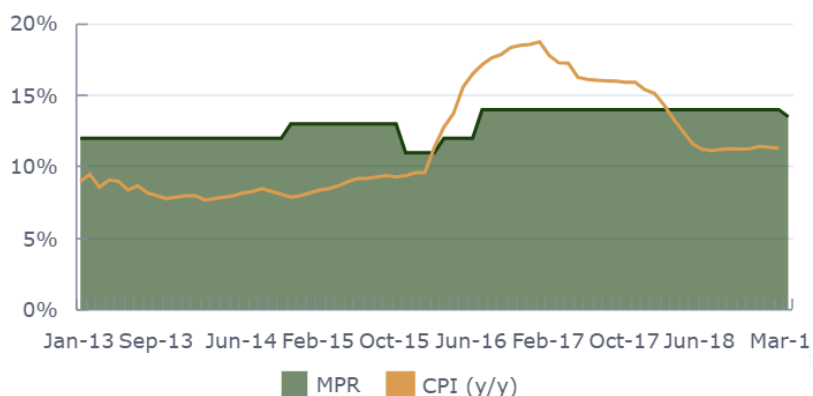
The central bank increased the overnight rate by 10 bps to -0.05%, as expected, but the guidance was widely interpreted as dovish. Governor Matolcsy stated that the move was a necessary and sufficient step towards achieving the inflation target, but it did not mean the start of a tightening cycle. Contacts at JPM noted that the U-turn in policy direction away from focusing on inflation was very sudden and hard to justify, even in light of the recent dovish turn by the ECB and Fed. Officials also announced a HUF300 bn (\$1.06 bn) corporate bond buying program to be launched in July. Analysts noted that the impact of this program (focused on non-financial corporates) will occur primarily through the risk premium channel, but it could eventually become an effective incentive for firms to borrow through the bond market. Lastly, the bank curbed the volume of FX swaps used to provide liquidity. The forint depreciated 0.7% against the euro yesterday and swap rates declined a few basis points in reaction to the event.

Nigeria

The central bank surprised markets yesterday by cutting rates by 50 bps to 13.5%. This was the first cut in over three years. Officials noted “great satisfaction” in the declining inflation trend and the currency’s stability, which allow for monetary policy to explore steps to support growth and reduce unemployment. The central bank’s previous move had been a 200 bp hike July 2016. The committee was split regarding the decision with only 6 of the 11 members of the MPC voting in favor of the 50 bps move; two members voted for a 25 bp cut, one member voted for a 100 bp cut, and two members voted to keep the rate unchanged. The naira has weakened slightly since the decision, but the price action has been moderate. Since the start of the year the currency is up over 1% against the dollar, outperforming just about every currency in Africa, supported by rising oil prices.

CPI inflation vs main policy rate (%)

Source | Central Bank of Nigeria



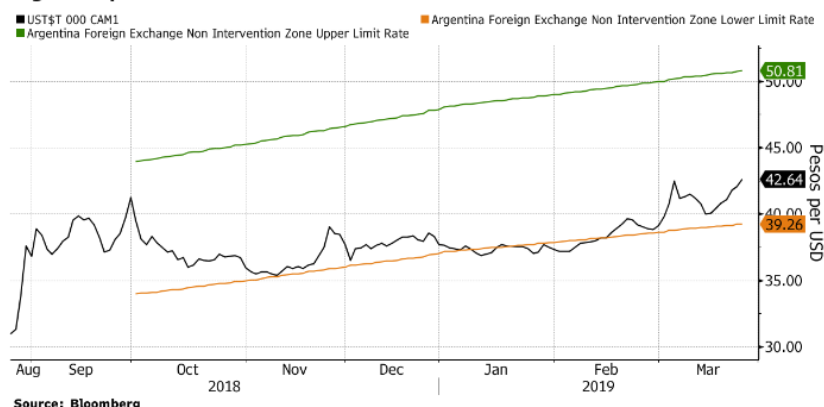
Argentina

The peso depreciated 1.3% reaching a new record low of 42.64. The currency has depreciated 6% since March 15, falling every day since this date. However, the peso is still below the level of 50.81—the upper range of the non-intervention zone (figure), based on Bloomberg’s data. The central bank has taken steps to limit the extent of depreciation and in response to higher-than-expected inflation, including a 10% reduction in the year-end target for money supply and an adjustment to the currency band. Some analysts expect a further sell-off but predict that it would be less severe than in 2018, as the country is reportedly taking the right steps to stabilize the economy and the currency. In economic news, the trade balance in

February and the current account balance in 4Q were lower than anticipated, at \$460 mn (consensus: \$650 mn) and -\$2,317 mn (consensus: -\$2,000 mn), respectively.

Safe Zone?

Argentine peso weakens within central bank non-intervention zone










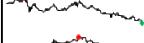



















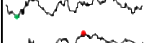
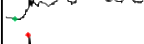
Brazil

The MPC's minutes showed a symmetric balance of risks for inflation, while the political situation remains precarious. The central bank's minutes from March 20 showed that the Monetary Policy Committee members saw an even balance of risks for inflation (a change from "upside") and unanimously voted to keep the policy rate steady at 6.50%. The MPC acknowledged that the pace of the economic recovery has been lower than anticipated. However, the forward guidance has remained neutral or open-ended. Separately, party leaders in the lower house agreed to vote on a bill that would give Congress full powers to enact the budget and thus limit the government's ability with regards to budget execution. Based on Bloomberg's reporting, the agreement was achieved amid concerns about the success of another constitutional amendment aiming to reduce pension spending, which was championed by the government. Analysts point out that budget restrictions could aggravate tensions between Congress and the government, while investors and commentators continue to emphasize the need to rein in public spending.

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Global Financial Indicators

Last updated: 3/27/19 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2818	0.7	0	1	8	12
Europe		3315	-0.1	-2	1	0	10
Japan		21379	-0.2	-1	-1	0	7
China		3023	0.9	-2	2	-5	21
Asia Ex Japan		70	0.3	-2	0	-9	10
Emerging Markets		43	-0.5	-2	-1	-10	9
Interest Rates			basis points				
US 10y Yield		2.38	2.5	-15	-30	-40	-31
Germany 10y Yield		-0.05	-3.2	-13	-20	-55	-29
Japan 10y Yield		-0.07	-0.2	-3	-4	-11	-7
UK 10y Yield		1.00	-0.9	-16	-28	-42	-28
Credit Spreads			basis points				
US Investment Grade		121	-4.7	0	-1	22	-26
US High Yield		428	-10.1	19	14	76	-93
Europe IG		68	0.4	2	7	8	-19
Europe HY		280	3.2	15	6	-6	-73
EMBIG Sovereign Spread		358	6.0	10	12	55	-56
Exchange Rates			%				
USD/Majors		96.74	0.0	1	1	8	1
EUR/USD		1.13	0.1	-1	-1	-9	-2
USD/JPY		110.4	0.2	0	1	-5	-1
EM/USD		62.7	-0.7	-2	-2	-11	1
Commodities			%				
Brent Crude Oil (\$/barrel)		68	0.1	-1	2	-3	26
Industrials Metals (index)		121	0.3	-1	-1	-6	11
Agriculture (index)		41	-0.1	0	-1	-15	-2
Implied Volatility			%				
VIX Index (% change in pp)		15.3	0.6	1.4	0.6	-7.2	-10.1
10y Treasury Volatility Index		4.5	-0.7	1.1	0.6	0.5	0.0
Global FX Volatility		7.2	0.0	0.5	0.0	-0.5	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		383	3.0	13	28	-3	-32
Italy		256	7.3	11	-8	118	6
Portugal		132	1.7	9	2	16	-16
Spain		113	1.9	5	12	39	-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: 3/27/2019 8:15 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		6.72	-0.1	-0.4	-1	-7	2		3.1	-0.2	-4	0	-69	-8
Indonesia		14195	-0.2	0.0	-1	-3	1		7.7	2.8	-7	-15	75	-43
India		69	0.0	-0.1	3	-6	1		7.4	1.9	-4	-11	-36	-2
Philippines		53	-0.3	0.3	-1	-1	0		5.4	-1.0	-4	-12	36	-88
Thailand		32	-0.4	-0.1	-1	-2	2		2.5	-1.2	-11	-9	17	-10
Malaysia		4.07	0.0	-0.2	0	-5	1		3.8	-0.7	-5	-13	-13	-25
Argentina		43	-1.4	-5.0	-9	-53	-12		25.4	111.9	226	443	890	243
Brazil		3.91	-1.0	-3.5	-5	-15	-1		8.1	4.1	22	27	-3	-1
Chile		685	-0.6	-2.8	-5	-12	1		4.2	0.0	-9	-15	-60	-28
Colombia		3146	-0.6	-1.6	-2	-11	3		6.2	2.8	-6	-24	-15	-36
Mexico		19.28	-0.9	-2.4	-1	-5	2		8.0	5.7	-17	-23	54	-67
Peru		3.3	-0.1	-0.2	0	-3	2		5.3	1.5	-9	-25	39	-38
Uruguay		33	0.1	-0.7	-2	-16	-3		10.4	-0.8	-9	21		-28
Hungary		284	-0.5	-3.3	-2	-11	-2		1.9	-2.6	-21	-17	28	-36
Poland		3.81	-0.1	-1.7	0	-11	-2		2.3	2.1	-2	-1	-20	1
Romania		4.2	-0.1	-1.4	-1	-11	-4		4.1	5.0	2	-9	23	-17
Russia		64.8	-0.6	-1.5	1	-11	8		7.9	2.9	-5	-16	115	-49
South Africa		14.6	-1.5	-2.6	-5	-20	-2		9.5	3.3	-3	11	104	-7
Turkey		5.45	-2.2	-0.4	-2	-27	-3		18.3	32.1	166	270	517	140
US (DXY; 5y UST)		96.7	0.0	1.0	1	8	1		2.15	-5.0	-17	-33	-41	-36

	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		3023	0.9	-2	2	-5	21		175	-1	-2	-6	3	-19
Indonesia		6445	-0.4	-1	-1	4	4		194	0	-3	-1	9	-42
India		38133	-0.3	-1	6	15	6		165	4	10	-4	24	-31
Philippines		7861	-0.6	0	0	-2	5		92	-1	-9	3	-10	-29
Malaysia		1643	-0.4	-2	-4	-12	-3		130	1	0	3	7	-32
Argentina		32628	-1.6	-5	-8	4	8		770	10	37	80	348	-45
Brazil		95307	1.8	-4	-2	14	8		254	4	20	20	12	-19
Chile		5191	-0.1	-1	-3	-5	2		136	2	4	7	7	-30
Colombia		1607	0.6	0	6	11	21		186	5	-1	-3	4	-42
Mexico		42826	0.3	1	-1	-8	3		303	5	-2	-18	49	-51
Peru		21030	0.2	0	2	2	9		141	4	6	5	-13	-27
Hungary		41509	-0.6	-1	2	11	6		127	2	1	13	17	-21
Poland		59978	-0.1	-1	0	2	4		67	5	6	15	10	-18
Romania		8099	0.7	1	6	-7	10		201	-2	2	0	65	-20
Russia		2498	-0.6	0	0	10	5		219	2	1	3	35	-33
South Africa		56149	0.9	-1	0	0	6		324	5	14	38	71	-41
Turkey		93024	-4.4	-10	-11	-20	2		512	22	79	102	185	83
Ukraine		576	-0.9	4	3	61	3		635	8	7	-6	176	-152
EM total		43	-0.4	-2	-1	-10	9		358	6	10	12	55	-56

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