



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Friday, March 29, 2019











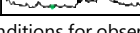
- **UK parliament set to vote on Brexit Withdrawal Agreement today ([link](#))**
- **Markets predict two Fed rate cuts by December 2020 ([link](#))**
- **Entire US Treasury coupon curve traded below Fed Funds effective ([link](#))**
- **Chinese markets outperform on trade talks, earnings and potential stimulus ([link](#))**
- **Mexico and South Africa central banks leave rates unchanged as expected ([link](#))**
- **SPECIAL FEATURE: Fintech Update (see attachment)**

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## Risk sentiment improves to end the week

**Equity markets are ending the week on a positive note while sovereign bond yields are moving higher following the early-week declines.** Asia markets rallied sharply overnight, led by Chinese shares which soared over 3% on positive earnings, reports of monetary policy stimulus and reports of progress on US trade talks. After rising 3 bps yesterday, US treasury yields are rising further this morning, leaving rates only slightly lower for the week. One Fed rate cut remains priced in for 2019, with two full cuts priced through the end of 2020. Today marks another important step in the Brexit saga, as May's Brexit deal returns to parliament for another vote. The pound is bouncing between positive and negative territory this morning on speculation surrounding the vote, while implied option volatility on the currency is moving higher. The Turkish lira is declining further today as implied rates on FX forwards return to normal levels.

### Key Global Financial Indicators

Last updated: 3/29/19 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			<b>%</b>				<b>%</b>
S&P 500		2815	0.4	-1	1	7	12
Eurostoxx 50		3349	0.0	1	2	0	12
Nikkei 225		21206	-1.6	-2	-1	0	6
MSCI EM		42	1.9	-3	-1	-11	8
<b>Yields and Spreads</b>			<b>bps</b>				
US 10y Yield		2.42	2.8	-2	-29	-32	-26
Germany 10y Yield		-0.05	-0.4	-4	-24	-55	-30
EMBIG Sovereign Spread		363	5	22	24	63	-51
<b>FX / Commodities / Volatility</b>			<b>%</b>				
EM FX vs. USD, (+) = appreciation		62.4	-0.5	-2	-2	-12	0
Dollar index, (+) = \$ appreciation		97.1	0.4	1	1	8	1
Brent Crude Oil (\$/barrel)		68.6	-1.2	2	4	-2	28
VIX Index (% change in pp)		14.1	0.1	-2	-1	-6	-11

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

## United States

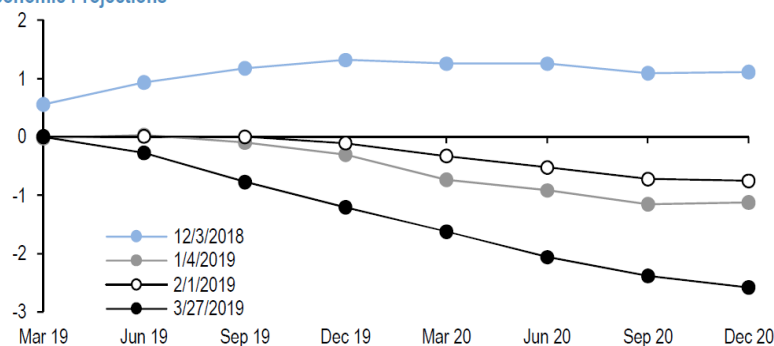
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**Stocks made modest gains Thursday as Treasury yields held relatively steady.** There was little movement at either end of the yield curve. With Q1 coming to an end today, many players remain on the sidelines. Despite the recent volatility, the S&P 500 is close to achieving its best first quarter since the global rally began in 2009. There were some trade related headlines from Kudlow on the administration's determination to keep negotiating for as long as necessary until a favorable deal is reached, but the story had no lasting impact. Nevertheless, the consensus expects a deal to be reached. This is reflected in current market prices. A perceived breakdown with the talks would be a serious shock to the market. In other news, pending home sales were weaker than expected in February and the annualized number came in at -5%. The CEO of Wells Fargo was replaced by the bank's general counsel as temporary CEO. The bank has been dogged by scandals in recent years and paid \$575 mn in a December settlement with the District of Columbia and the 50 states.

**The PCE core came in below forecasts at 0.1% versus the 0.2% consensus forecast.** The annualized number was 1.8% (vs. 1.9%). The PCE deflator was down by 0.1% (the consensus was for a flat outcome) while the annualized number was on target at 1.4%. Personal income also weaker than expected (0.2% vs. 0.3%). Treasury yields lost some of their earlier gains following the news.

**Markets are now pricing two full Fed rate cuts by December 2020.** Worries about weaker global growth after last Friday's shockingly weak European PMIs, fears of a slowdown in the US after the temporary sugar high from the tax cuts, continuing geopolitical threats and the prospect of a hard Brexit all appear to have contributed to the widespread pessimism. The eurodollar futures market is suggesting that the first rate cut will occur this year. Most estimates of US GDP for Q1 2019 call for a much lower number than the 2.2% of the latest Q4 2018 outturn. The consensus composite Bloomberg forecast for this year is 2.4% versus 2.9% in 2018.

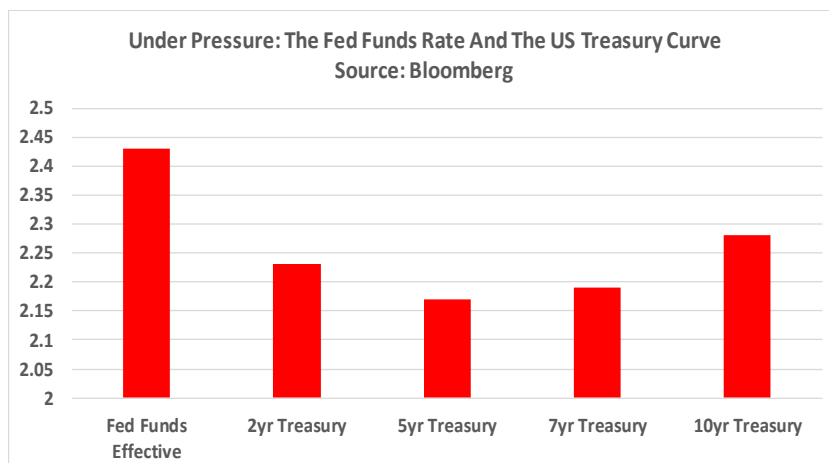
Exhibit 1: Hikes priced into forward OIS timed to FOMC SEP meetings and hikes implied by median dot from the March FOMC Summary of Economic Projections



Note: Assumes the effective Fed funds rate (EFFR) even with IOER 10 bp below the upper end of the target range.

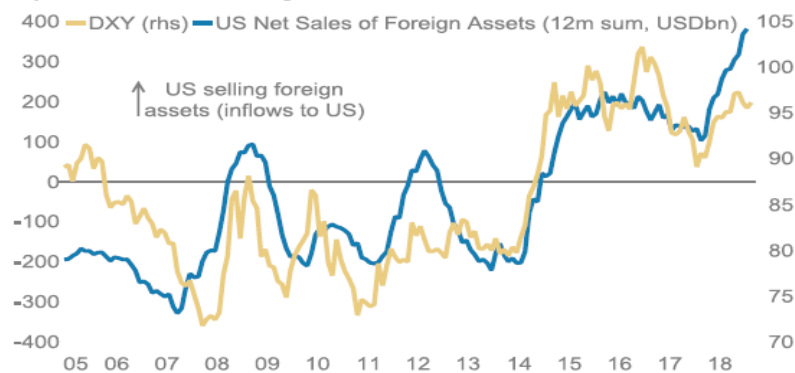
Source: J.P. Morgan

**As a result of these policy rate expectations, the entire US Treasury coupon curve is now trading below the Fed Funds effective rate.** This is a highly unusual situation which some analysts believe will be something the FOMC will try to fix through its rhetoric or statements at future FOMC meetings. This camp thinks that the current Treasury rally is overdone and that rates will be pushed higher once the Fed clarifies that a rate cut in 2019 is not a done deal. A very rapid reversal in rates could potentially do more to unnerve the market.



**The US dollar, as exemplified by the DXY dollar index, closely follows the selling of foreign assets by US investors.** While sales of fixed income instruments have been ongoing for a long time, sales of equity holdings have become especially prominent in recent months. Since the bulk of US holdings of foreign securities are in equities, the rising volume of equity sales could have a material impact on the direction of the dollar in the months ahead. Although the dollar usually has a very low correlation with US interest rates, a continued appreciation of the dollar due to higher repatriation flows could exacerbate the downward pressure on US rates. A strengthening dollar could induce foreigners to purchase more US fixed income products to take advantage of the potential for capital gains.

### Exhibit 3: USD has stayed supported due to US repatriation of foreign assets



Source: Macrobond, Morgan Stanley Research

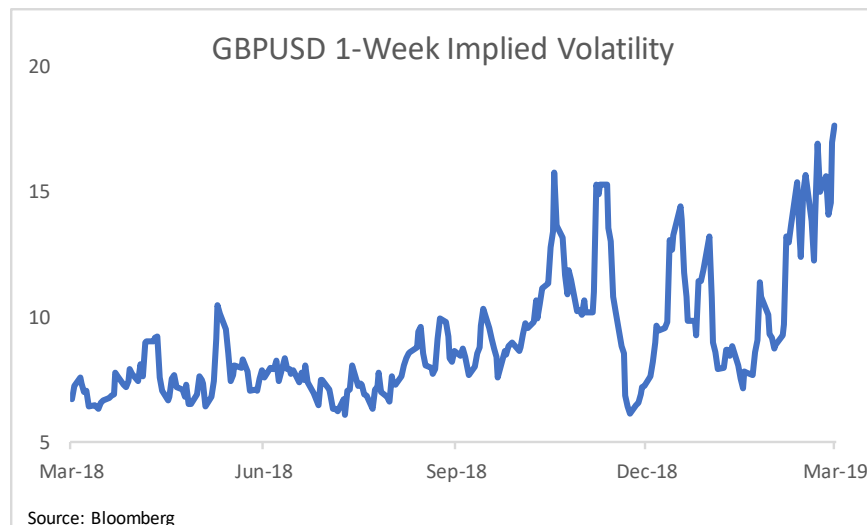
## Europe

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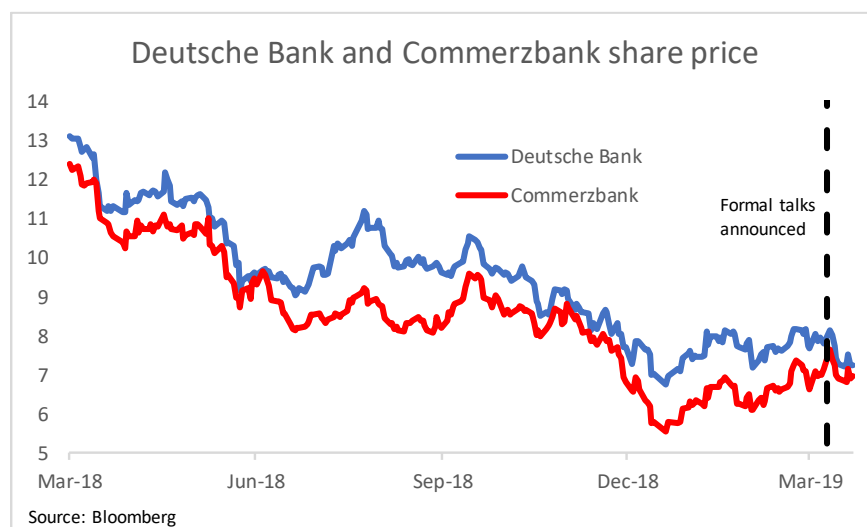
**Equities are up moderately across the continent.** The Euro Stoxx 600 is up 0.2%, taking the year-to-date gains up to 12%. Banks underperformed, declining modestly after a fall of 1.3% yesterday. Sovereign yields edged higher in most countries. The 10-year Bund was up 1 bp to -0.06%.

**PM May will put forward the Brexit Withdrawal Agreement for a vote in parliament today.** The Political Declaration, which lays out the expected negotiations on the future framework between the UK and the EU, will not be voted on as May tries to compartmentalize the voting process and increase support

for the deal. Most analysts still say that the chances of today's vote passing are slim, with uncertainty over the next steps increasing further if the deal is rejected. The current Article 50 deadline is April 12 although that will be extended to May 22 if the Withdrawal Agreement is approved. Sterling has continued to edge lower, adding losses of 0.2% to yesterday's decline of 1.1%, while implied volatility levels have increased further.



**Deutsche Bank's board has denied it is set to raise capital ahead of a possible merger with Commerzbank.** The board's statement was a response to a news report which said that the bank would seek up to €10 bn to complete the deal. Separate media reports now claim that the potential deal is running into several difficulties, including pushback from current shareholders, employees, and labor unions. There are also questions surrounding the need to revalue Commerzbank's credit portfolio and potential restructuring of Deutsche's investment bank. The share price of both banks is lower since formal talks were announced with Deutsche declining by 7% since then and Commerz a more modest 2.5%.

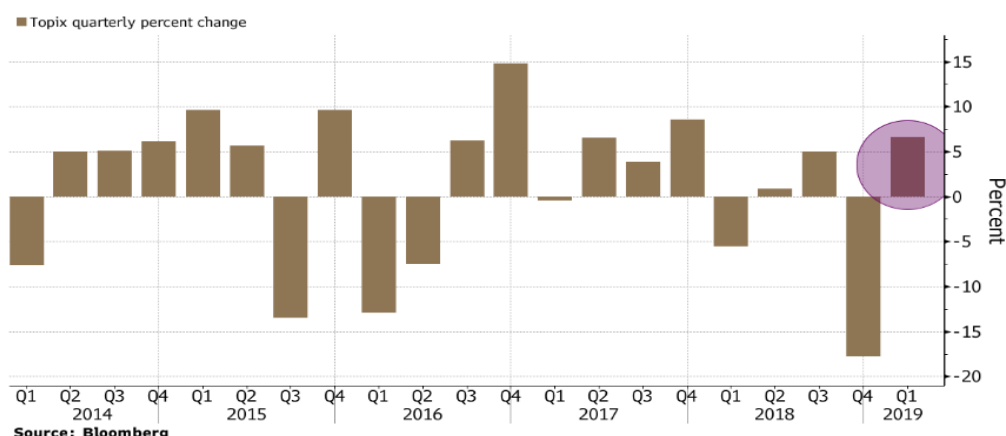


## Other Mature Markets [back to top](#)

### Japan

**Japanese equities (Nikkei +0.8%; Topix +0.6%) rose, sending returns to their best quarter since 2017.** The rise was accompanied by an improvement in economic data. Industrial production rose by 1.4% m/m in February, from -3.4% m/m in January, marking the first gain in four months. Also, Japan's labor market tightened further, with the jobless rate falling to 2.3% in February, matching the 25-year low in May 2018. **10-year JGB yields rose 0.6 bps to -0.10%, while the yen was stable.**






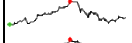





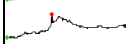

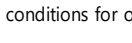
### Back in the Green



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**Asian equities (+0.7%) rose across the board, with Chinese stocks (Shanghai +3.2%; Shenzhen +3.4%) strongly outperforming.** Hong Kong (+1%) and Taiwan Province of China (+1%) stocks were also among the top gainers, while Indonesia (-0.3%) and Vietnam (-0.2%) were the only markets in the red. In **EMEA**, equity markets are broadly higher led by Turkey (+0.8%) and South Africa (+0.5%). Currency markets are little changed aside from the Turkish lira which depreciated by a further 1.5%. The price action in Turkey suggests continued normalization with the implied rates on FX forwards falling to 25% in overnight market. Major Latin American markets bounced back yesterday on improved risk sentiment in the US markets. The equity markets rebounded 2.7% in Brazil and 2.2% in Argentina and were little changed in Mexico. Similarly, the currencies recovered 2.3% in Brazil and 0.6% in Argentina, while the Mexican peso was broadly steady. The Brazilian long-term bond yield dropped 46 bps.

## Key Emerging Market Financial Indicators

Last updated: 3/29/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.20	1.8	-3	-1	-11	8
MSCI Frontier Equities		28.37	0.5	-2	0	-19	8
EMBIG Sovereign Spread (in bps)		363	5	22	24	63	-51
EM FX vs. USD		62.43	-0.5	-2	-2	-12	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.4	0	0	-6	2
Indonesian Rupiah		14243	0.0	-1	-1	-3	1
Indian Rupee		69.16	0.3	0	2	-6	1
Argentine Peso		43.64	0.6	-6	-10	-54	-14
Brazil Real		3.88	0.7	1	-3	-15	0
Mexican Peso		19.29	0.2	-1	0	-6	2
Russian Ruble		64.82	0.3	0	2	-12	7
South African Rand		14.52	0.6	0	-3	-18	-1
Turkish Lira		5.64	-1.4	2	-5	-30	-6
EM FX volatility		9.38	0.0	1.0	1.1	1.4	-0.4

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

## China

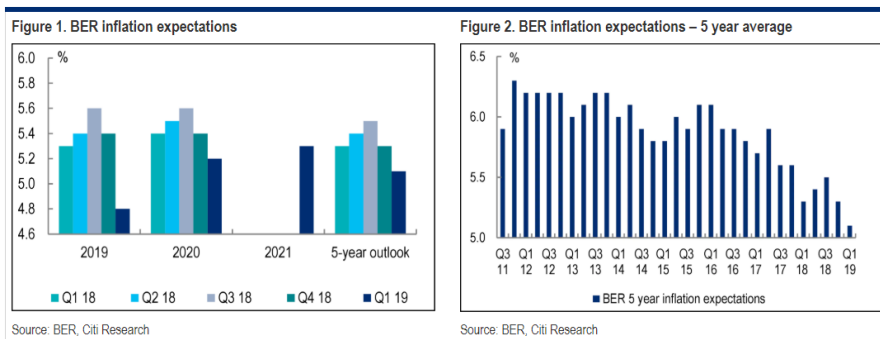
**Chinese equities (Shanghai +3.2%; Shenzhen +3.4%) strongly outperformed, clocking in the third straight month of gains.** Investor optimism was helped by better than expected earnings in some well-known names, onshore media speculation of monetary policy easing, and reports of progress in US-China trade talks. According to Reuters, China has put forward new, more far-reaching proposals to meet US demands, including on addressing forced technology transfer. White House economic advisor Larry Kudlow said that the US may remove some of the tariffs on Chinese goods, but not all. However, he also mentioned that the Trump administration is prepared to extend trade talks by weeks or months to ensure that China improves market access and intellectual property policies for American companies.

Separately, during the Boao Forum for Asia (BFA) Annual Conference 2019, Chinese Premier Li Keqiang said that the government is taking concrete steps to flesh out the details of the new foreign investment law that was passed this month. Also, he pledged that China will accelerate improvements in market access for foreigners in banking, securities and insurance sectors. **The onshore and offshore RMB strengthened slightly while 10-year government bond yields were stable.**

## South Africa

**The reserve bank kept rates unchanged at 6.75% yesterday, as expected, but many analysts expect the next move to be a cut despite official forecasts.** SARB keep its inflation forecasts unchanged at 4.8% for 2019 and 5.3% in 2020, though the statement noted lower inflation expectations and improved risk assessment for price developments in the labor market. Indeed, the most recent surveys on inflation expectations conducted by the Bureau for Economic Research showed the average five-year expectations decreasing from 5.3% to 5.1%, the lowest level since the survey started in 2011. The implied path of policy rates generated by the bank's Quarterly Policy Model shows one hike of 25bps to 7.00% by end-2019 but

analysts believe this is unlikely to materialize, many even see a cut as possible. Lastly, Moody's is due to announce its rating decision on South Africa today, which could lead to some volatility.



## Mexico

**The central bank kept its policy rate on hold at 8.25%, as expected, while Pemex remains a key risk.**

Markets are now pricing in a first policy rate cut since 2014 in the middle of this year. Commentators noted that the expected easing is based on slowing inflation (figure), an appreciating peso, a more dovish Fed, and concerns about global growth, according to Bloomberg's reporting. The central bank said that inflation risks remain amid market uncertainty, which signaled a more hawkish stance than anticipated by some. The central bank also acknowledged that worries about the credit ratings of the oil giant Pemex and of the sovereign have put market pressures on Mexican assets.



## Brazil

**The central bank cut its growth forecasts, while anticipating subdued inflation.** The central bank slashed its 2019 growth forecast to 2.0% from 2.4% in December based on softer domestic demand, weaker exports, unsteady consumer confidence, and high unemployment. The central bank left its inflation forecast unchanged at 3.9%. However, it warned that potentially unfulfilled expectations about pension reform could lift the inflation trajectory. The central bank acknowledged that market volatility and uncertainty have recently risen but said that the extent of the current global slowdown is not enough to compromise global market conditions.

## Saudi Arabia

**FX reserves fell for the sixth consecutive month to the lowest level since 2011.** As of February, reserves stand at \$484 bn, equivalent to 62% of GDP. Analysts at JPM noted that net FDI, portfolio outflows and outflows attributable to residents offset the country's large current account surplus (9.2% of GDP in 2018). Saudi 5-year CDS has been ticking higher in recently weeks but remains well below levels seen in December. The country's main equity index has enjoyed a solid run (up 12% ytd) as oil prices trend higher.

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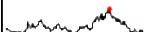












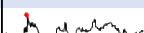


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## Global Financial Indicators

Last updated: 3/29/19 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2815	0.4	-1	1	7	12
Europe		3349	0.0	1	2	0	12
Japan		21206	-1.6	-2	-1	0	6
China		2995	-0.9	-3	2	-4	20
Asia Ex Japan		70	-0.5	-2	1	-10	10
Emerging Markets		42	1.9	-3	-1	-11	8
<b>Interest Rates</b>			basis points				
US 10y Yield		2.42	2.8	-2	-29	-32	-26
Germany 10y Yield		-0.05	-0.4	-4	-24	-55	-30
Japan 10y Yield		-0.08	-2.3	-1	-6	-12	-8
UK 10y Yield		1.02	-3.3	1	-28	-33	-26
<b>Credit Spreads</b>			basis points				
US Investment Grade		119	-0.2	-1	0	18	-28
US High Yield		427	-1.0	15	23	67	-94
Europe IG		66	-2.1	-3	5	7	-21
Europe HY		274	-6.0	-7	-3	-9	-78
EMBIG Sovereign Spread		363	5.0	22	24	63	-51
<b>Exchange Rates</b>			%				
USD/Majors		97.13	0.4	1	1	8	1
EUR/USD		1.12	0.1	-1	-1	-9	-2
USD/JPY		110.8	0.1	-1	1	-4	-1
EM/USD		62.4	-0.5	-2	-2	-12	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		69	-1.2	2	4	-2	28
Industrials Metals (index)		122	1.4	2	1	-5	12
Agriculture (index)		41	0.2	-1	-1	-17	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.1	0.1	-2.4	-0.7	-5.9	-11.4
10y Treasury Volatility Index		4.4	-0.4	0.9	0.6	0.3	-0.2
Global FX Volatility		7.7	0.0	0.4	0.6	0.0	-1.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		379	-5.8	1	31	-3	-36
Italy		253	-2.3	7	-4	124	3
Portugal		130	-3.8	2	2	19	-18
Spain		114	-2.0	5	15	47	-3

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: 3/29/2019 8:09 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	0.4	0.1	0	-6	2		3.1	-0.7	-5	-5	-70	-10
Indonesia		14243	0.0	-0.6	-1	-3	1		7.8	5.6	14	-12	89	-36
India		69	0.3	-0.3	2	-6	1		7.4	-1.4	-6	-15	-17	-4
Philippines		53	0.5	-0.2	-2	-1	0		5.3	-5.6	-11	-25	25	-97
Thailand		32	0.5	0.2	0	-1	2		2.5	-0.4	-7	-10	12	-12
Malaysia		4.08	-0.1	-0.4	0	-5	1		3.8	-4.9	-6	-18	-18	-30
Argentina		44	0.6	-6.0	-10	-54	-14		27.3	24.0	400	605	1071	426
Brazil		3.88	0.7	0.8	-3	-15	0		8.1	-21.7	21	-4	-9	-3
Chile		677	0.9	0.4	-3	-11	2		4.2	0.8	-6	-19	-59	-29
Colombia		3178	0.0	-2.8	-3	-12	2		6.2	1.0	9	-25	-4	-35
Mexico		19.29	0.2	-1.0	0	-6	2		8.1	2.4	1	-22	71	-61
Peru		3.3	-0.1	-1.0	-1	-3	1		5.4	-1.3	5	-22	45	-36
Uruguay		34	0.3	-0.8	-3	-16	-4		10.5	8.9	1	26		-22
Hungary		286	-0.2	-2.1	-3	-11	-2		1.8	4.4	-14	-30	29	-41
Poland		3.83	-0.1	-0.7	-1	-11	-2		2.3	0.6	-4	-11	-23	-2
Romania		4.2	0.1	-0.9	-2	-11	-4		4.0	0.0	4	-3	18	-20
Russia		64.8	0.3	-0.3	2	-12	7		8.0	4.7	11	-8	122	-40
South Africa		14.5	0.6	-0.2	-3	-18	-1		9.5	-2.1	0	1	100	-9
Turkey		5.64	-1.4	2.1	-5	-30	-6		20.4	58.2	389	493	737	356
US (DXY; 5y UST)		97.1	0.4	0.7	1	8	1		2.24	2.8	0	-27	-32	-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		2995	3.2	-3	2	-4	20		176	1	0	-4	-3	-18
Indonesia		6469	-0.2	-1	0	5	4		195	-1	-1	3	13	-41
India		38673	0.3	1	8	17	7		158	-2	5	-7	22	-38
Philippines		7921	0.6	-1	3	-1	6		90	-1	-9	5	-10	-31
Malaysia		1644	0.1	-1	-4	-11	-3		129	1	0	2	5	-33
Argentina		32892	2.2	-4	-5	6	9		784	-6	16	84	368	-31
Brazil		94389	2.7	-2	-1	11	7		249	-4	-3	16	11	-24
Chile		5214	0.8	0	-1	-6	2		131	0	-4	2	4	-35
Colombia		1570	-0.2	-4	4	8	18		183	-3	-5	-5	10	-45
Mexico		42942	0.0	-1	0	-7	3		304	-1	2	-14	54	-50
Peru		20977	-0.1	-1	2	2	8		129	0	-12	-5	-22	-39
Hungary		41853	1.1	0	4	12	7		117	-3	-10	7	8	-31
Poland		59787	0.0	-1	0	2	4		58	-1	-6	9	3	-27
Romania		8142	0.6	1	6	-6	10		207	-1	11	13	65	-14
Russia		2508	0.6	1	1	10	6		222	-1	0	11	30	-30
South Africa		56496	0.8	1	1	2	7		322	-2	8	38	72	-43
Turkey		93464	1.5	-6	-11	-19	2		503	-9	23	103	182	74
Ukraine		576	0.9	4	3	61	3		634	-6	-2	-9	189	-153
EM total		42	1.8	-3	-1	-11	8		363	5	22	24	63	-51

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