Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, March 4, 2019

- **Chinese equities rise as reports suggest US and China nearing trade deal (link)**
- **Mexico's sovereign rating put on negative watch by S&P (link)**
- **Polish government announces fiscal stimulus (link)**
- **PM May continues Brexit charm offensive (link)**
- **Moody's upgrades Greece on reform and fiscal progress (link)**

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Trade deal hopes spur markets higher

Optimism on US-China trade negotiations triggered further risk asset gains, extending markets' strong year-to-date performance. New reports that a sweeping US-China trade deal may be close at hand have boosted market sentiment globally, lifting equities by over 1% around the globe and pushing Treasury and JGB yields higher. The proposed trade deal is not finalized but is said to lift most or all US tariffs imposed last year in exchange for Beijing improving intellectual property protections, buying US goods, and lowering tariffs on US farm, chemical, autos and other products. Market momentum has also benefited from positive economic data in Germany and China late last week, as well as reports this morning that China may announce $90 bn in value-added tax cuts for the manufacturing sector. Policies in China will remain in focus this week as the National People's Congress gets underway on Tuesday.

Key Global Financial Indicators

Last updated: 3/4/19 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2804	0.7	0	3	4	12
Eurostoxx 50		3324	0.4	1	5	0	11
Nikkei 225		21822	1.0	1	4	3	9
MSCI EM		42	0.4	-1	-1	-12	9
Yields and Spreads					bps		
US 10y Yield		2.75	3.8	9	3	-11	7
Germany 10y Yield		0.17	-1.2	6	-1	-48	-7
EMBIG Sovereign Spread		339	3	-9	-10	49	-75
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.3	-0.1	-1	-1	-11	2
Dollar index, (+) = $ appreciation		96.7	0.1	0	1	7	1
Brent Crude Oil ($/barrel)		65.7	0.9	1	5	2	22
VIX Index (%, change in pp)		13.8	0.3	-1	-2	-6	-12

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

Markets will have a busy week ahead, with investors focused on US-China trade negotiations as well as US payrolls, euro area data, and the National People's Congress in China. In the US, data releases will include new home sales (Tuesday), the trade balance (Wednesday), and non-farm payrolls (Friday). In the Euro area, the ECB is expected to leave interest rates unchanged (Tuesday) amid a deteriorating outlook. In addition, PMI, industrial production, and GDP data will be released for the Euro area. In China, the National People's Congress will open in Beijing (Tuesday), with Premier Keqiang announcing an economic growth target. Monetary policy meetings will also take place in Australia, Canada, and EMs including Malaysia, Peru, Poland and Kazakhstan.

United States

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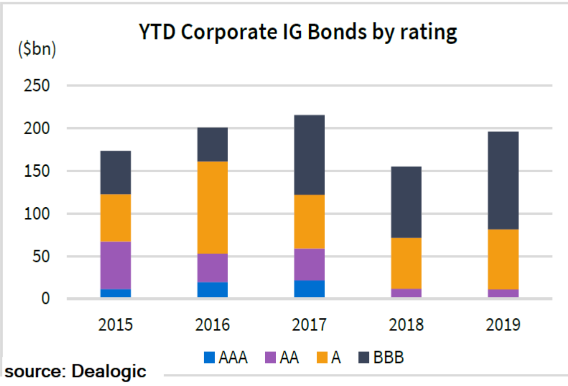
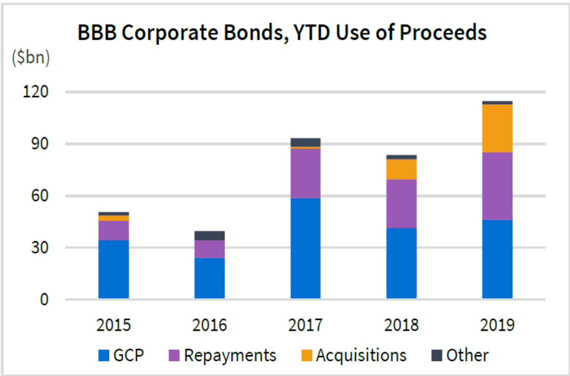
Stock prices extended their gains into March on Friday, posting the fifth consecutive week of gains. The S&P 500 closed higher by 0.7%, the Dow industrial closed 0.4% higher, and the Nasdaq 0.8% higher. With Friday's gains, the S&P index is up by 11 percent since the beginning of 2019, supported by growing hopes for a US-China trade deal, and lower expectations of further Fed hikes. US equities were supported by stronger-looking economic data in China and Germany, assuaging fears of a global slowdown: in Germany, data for retail sales showed a stronger-than-expected rebound, while in China, the manufacturing purchasing managers index picked up from its January low. **Additionally, optimism over a US-China trade deal further supported investor sentiment**. On Friday, President Trump tweeted that China should remove all duties on all US agriculture products in response to his move earlier that week to delay the imposition of further tariffs.

Treasury yields were higher on Friday, as the US's core personal consumption expenditure index, the Fed's preferred inflation gauge, remained at 1.9%, below the central bank's 2% target. The 2-year treasury yields ended at 2.55%, up 4.5 bps, and the 10-year treasury yields closed at 2.76%, up 5.5 bps. The dollar was up by 0.3% versus major peers.

In investment grade (IG) bond markets, issuance continues to shift in favor of BBB-rated credits, the lowest tier within IG. BBB-rated issuance has reached $114.7 bn so far in 2019, a 27% increase over the same period last year, with BBB debt now 59% of the IG market. By contrast, the market has not yet seen AAA-rated supply in 2019. According to a Dealogic report, the heavy spree of refinancing by companies this year (28 deals worth $39.1bn) have been driven by the fact that about $1.5tn of triple-B bonds mature in 2023. All three regions (Asia, EMEA, and the Americas) are already seeing record high volumes of triple-B corporate debt: in EMEA, issuance has accounted for 38% of this year's BBB market ($43bn). US corporates account for 55% of the issuance to date ($62.4 bn), while another $81.5bn of corporate acquisitions are awaiting completion for the rest of the year. The issuance of new debt is taking place despite higher borrowing costs: the average spread has widened from 136 bps (2018) to 205 bps (2019) in the Americas, and from 142 bps (2018) to 171 bps (2019) in EMEA.



source: Dealogic



Europe

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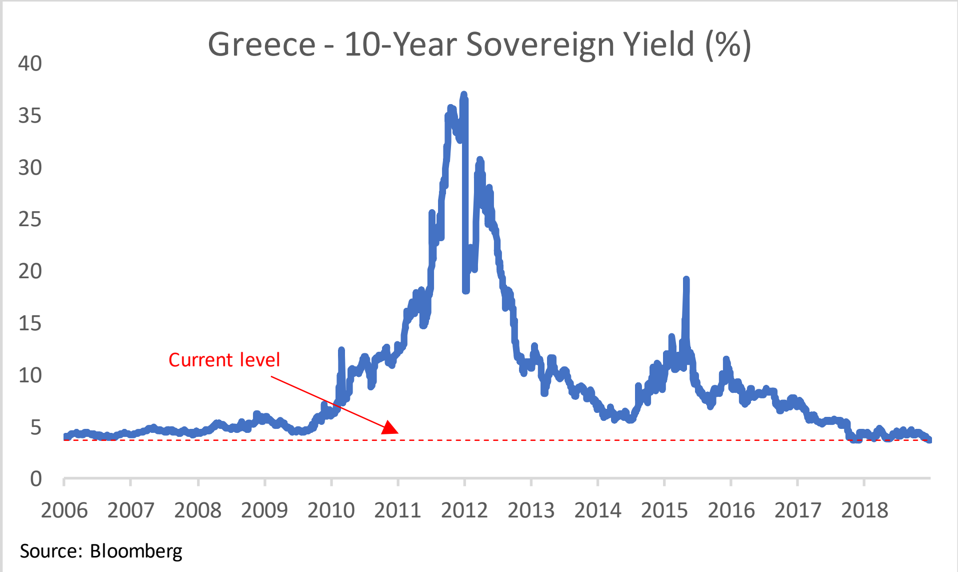
Equities started the week higher on trade optimism from the US and China. The Euro Stoxx 600 was up 0.4% after reports that a deal between the two countries may be in sight. All sectors advanced while industrials and IT stocks outperformed. Banks rose by 0.5%, taking their year-to-date gains to 9.4%. Sovereign yields were flat to slightly higher. The French and German 10-years were unchanged while Gilts rose by 2 bps and BTPs by 4 bps.

Media reports over the weekend suggest that some Conservative MPs may be willing to compromise on PM May's Brexit deal. According to the reports, MPs who previously voted against the deal may support the agreement if May is able to secure changes to the Irish "backstop" mechanism. While some analysts detect a more conciliatory tone from the MPs, it remains unclear whether their demands, which include changes to the language and a clear exit route to the backstop, are more moderate than previously or whether the EU is willing to go along with them. Separately, PM May is facing criticism as she unveils a new fund to boost development in low income areas. The fund is said to target constituencies where Labour MPs may be convinced to vote for May's deal. On the markets, sterling is slightly higher at $1.324 as speculation over a Brexit delay continues to mount.

Moody's upgraded Greece's credit rating over the weekend. The agency raised the country's local and foreign currency issuer ratings by two notches to B1. It cited positive developments on the reform front, a firmly established strong fiscal performance, and an improvement in debt sustainability following last June's debt relief package as reasons for the upgrade. Greece has also reestablished market-based funding while yields continue to reach new post-crisis lows.



The Basel Committee is considering a push for external checks on banks' risk weighted asset calculations. Speaking in an interview, BCBS secretary general Bill Coen said that "involving external audit to play a role in assessing a bank's risk weightings is a very interesting prospect". The move comes amid ongoing concerns over possible mistakes in banks' calculations and large divergences between banks' assessed risk weights. In January, Metro Bank in the UK announced that it had miscalculated the weights for a range of mortgages. The announcement triggered a sharp decline in the bank's share price while the bank has to raise capital to account for the increase in risk weighted assets.

Other Markets

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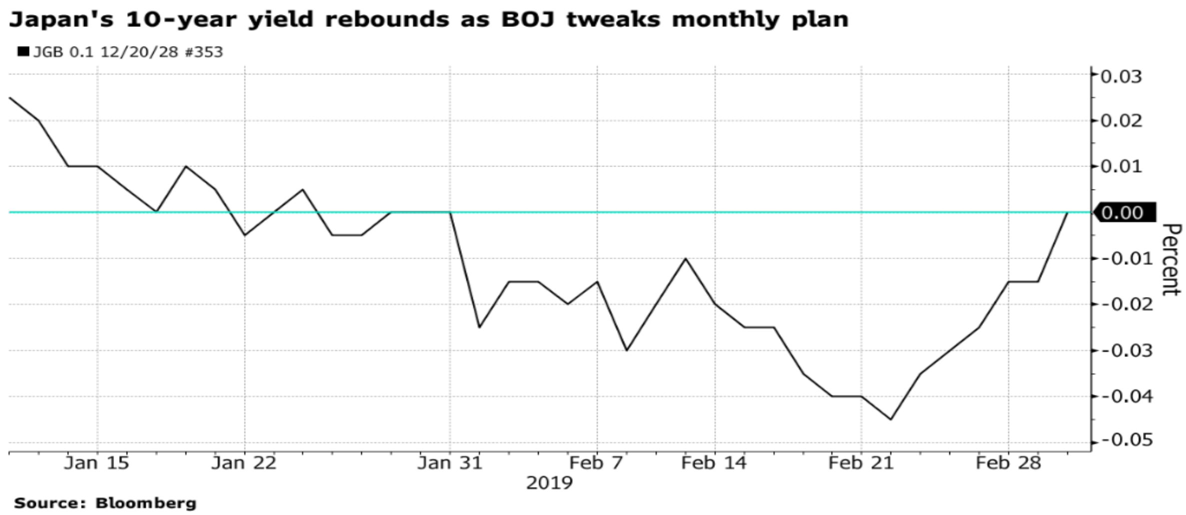
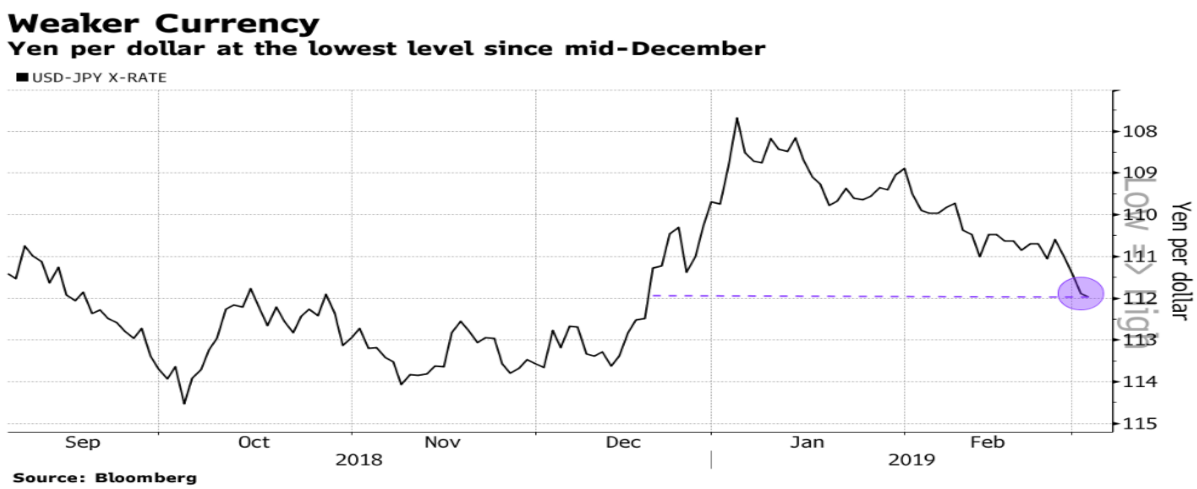
Japan

10-year JGB yields rose by 0.7bps approaching 0.0% for the first time in more than a month. The BoJ tweaked its monthly bond-buying plan for the first time in three months, lowering the number of days that it would purchase bonds maturing in the five-to-ten year tenors to four, from five under the February schedule. **That said, BoJ Governor Kuroda stated in parliament today that the central bank does not have a specific exit plan for its easy monetary policy**. The BoJ will debate and communicate an exit strategy at an appropriate time. He stated that Japan still has some way to go to achieve the BoJ's inflation target of 2% within its outlook period that ends in March 2021. The BoJ will therefore maintain its ultra accommodative monetary policy in an effort to drive inflation toward the target. However, Kuroda also mentioned that possible exit methods would be shrinking the BoJ's balance sheet and raising interest rates on excess reserves that financial institutions park with the central bank. **Equities gained (Nikkei +1%; Topix + 0.7%) on optimism over a US-China trade deal.** All major sectors advanced, with health care and tech stocks outperforming. **The yen was stable, trading at the weakest level since mid-December against the dollar.**





Emerging Markets

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Key Emerging Market Financial Indicators

Last updated:	Level		Change				
3/4/19 8:06 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.49	0.4	-1	-1	-12	9
MSCI Frontier Equities		28.40	-0.3	-2	1	-18	9
EMBIG Sovereign Spread (in bps)		339	3	-9	-10	49	-75
EM FX vs. USD		63.31	-0.1	-1	-1	-11	2
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.70	0.1	0	1	-5	3
Indonesian Rupiah		14130	-0.1	-1	-1	-3	2
Indian Rupee		70.91	-0.2	0	0	-8	-2
Argentine Peso		39.85	-1.8	-2	-7	-49	-5
Brazil Real		3.78	-0.6	-1	-3	-14	3
Mexican Peso		19.34	-0.3	-1	-1	-3	2
Russian Ruble		65.74	0.3	0	0	-14	5
South African Rand		14.25	-0.2	-3	-6	-17	1
Turkish Lira		5.38	-0.2	-2	-3	-29	-2
EM FX volatility		8.36	1.3	-0.2	-0.6	0.2	-1.4

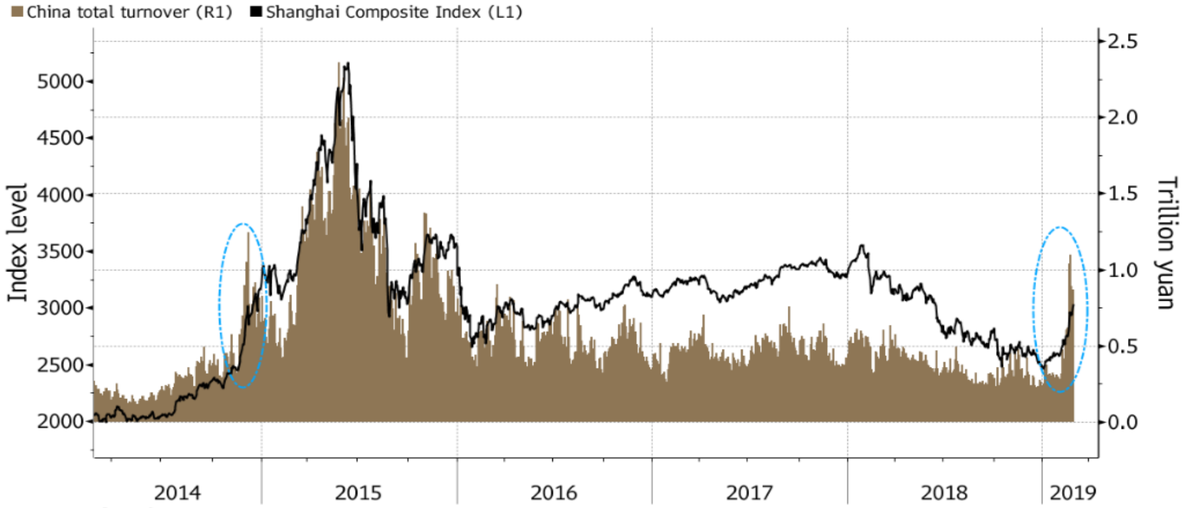
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Major Latin American equity markets suffered losses last Friday on growth concerns and policy uncertainty, with Argentina down 1.9% and Brazil down 1.0%. Local currencies were generally weaker. The Argentine peso (-1.8%) sold off on Friday, falling the most since February 19 and extending a 5-week losing streak. In economic news, Mexico's inflation fell sharply in February and was back within target range for the first time since December 2016. Asian equities (+0.3%) rose this morning on reports that the US and China are close to a trade deal, with Chinese equities (Shanghai +1.1%; Shenzhen +2.2%) outperforming. Beyond Mainland China, regional manufacturing activity is weakening. Manufacturing PMIs in South Korea and Taiwan Province of China (bellwether economies for regional trade) fell to 47.2 (the lowest reading since June 2015) and 46.3 (the weakest since August 2015) in February, respectively, from 48.3 and 47.5 in January. Regional currencies were broadly unchanged against the dollar, with the offshore RMB (+0.3%) and the Thai baht (-0.3%) standing out. In EMEA, equity markets were mixed with South Africa (+1.0%) and Turkey and Czech Republic (both +0.5%) outperforming. Currencies and fixed income markets were little changed.

China

The Shanghai Composite equity index rose past the psychological threshold level of 3000 on reports that the US and China are close to completing a trade deal. The increase was accompanied by heavy trading volumes of more than 300% of the 100-day moving average. According to the Wall Street Journal, a trade pact is being prepared that could lift most or all US tariffs that were imposed on Chinese imports last year. This would likely be contingent on Beijing following through with pledges to improve intellectual property right protection and buying a significant amount of US goods. At the same time, China is offering to lower tariffs on US farm, chemical, autos and other products, while also increasing purchases of US goods by $1.2trn over six years in an effort to narrow the bilateral trade surplus with the US. China would also look to accelerate the timetable for removing foreign ownership caps on auto ventures and to lower tariffs on imported vehicles to below the current rate of 15%. **A summit between Presidents Trump and Xi could happen around March 27**, according to the WSJ.

Value of shares traded is once again surging



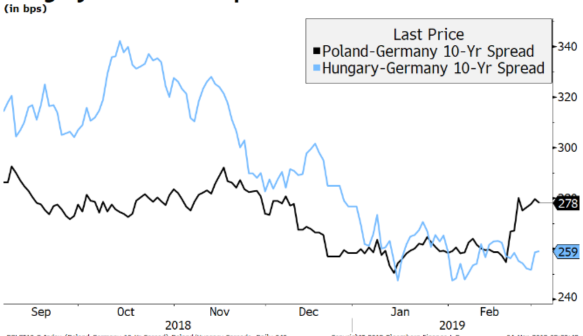
Source: Bloomberg

Premier Li Keqiang will officially release the government's economic growth target during the opening of the annual National People's Congress in Beijing on Tuesday. Analyst consensus is for a '6.0-6.5%' growth target in 2019, lower than 'around 6.5%' in 2018 (versus reported growth of 6.6%). **Top of the agenda at the session will also be passing a new foreign investment law.** Key points of the new bill include having equal treatment of domestic and foreign-funded enterprises, simplifying foreign investment management and protecting the intellectual property rights of foreign investors and foreign-invested firms.

Poland

The government announced a major fiscal stimulus package over the weekend. The plan foresees around 2.0% of GDP worth of spending, impacting the budget for years to come. Some of its main points include an expansion of the existing child subsidy program and a new bonus payment for pensioners. It also envisions tax cuts and investment in the bus system. The announcement comes on the heels of the plan to boost the domestic financial sector (see Friday's GMM). Since its party convention in late February, the ruling Law and Justice (PiS) has been stepping up its spending pledges to start gaining support for the European Parliamentary elections (in May). Consistently, Poland's spread to German bonds has started to widen, and is now about 20 bps above the same measure for Hungary.

Hungary and Poland Spread to German Bunds
(in bps)



PiS's fiscal package costs

Pledges:	Cost
Family 500+ extension	18.5
Pensioner bonus	9-10
Standard deduction and PIT cut	7-10
No PIT for under 26s	2-3
Local bus routes	0.8
TOTAL	37.3-42.3

Source: PiS

Mexico

S&P lowered the outlook on Mexico's sovereign debt to negative from stable, citing concerns on lower economic growth and the new government's energy policy. In a statement, S&P emphasized that President Lopez Obrador's plans to reduce the private sector's role in the Mexican energy sector while boosting spending on cash-strapped national oil company Pemex raised concerns for government finances. According to press reports, the outlook shift implies a one-in-three chance the rating will be downgraded over the coming year. The finance ministry had no immediate reaction to the move and the peso was holding steady.

EM Fund Flows

EM bond fund inflows accelerated, driven by flows to actively-managed hard currency funds**, while EM equity fund flows recovered from last week's blip.** EM bond flow were +$1.5 bn (from +$892mn last week) and EM equity fund flows were +$1.8bn (from -$356mn last week). Regional equity fund flows were back into positive territory as inflows to Asia ex-Japan funds largely reversed last week's outflows. Year to date flows to EM bonds and equities are +$18.7bn and +23.4bn, respectively.

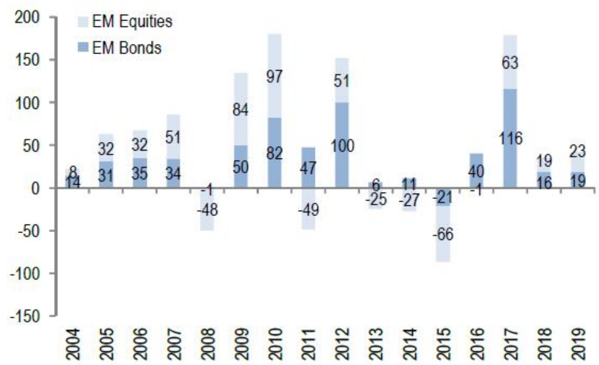
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		3.3	42.1
	EM Bonds		1.5	18.7
	Hard Ccy		1.4	14.5
	Local Ccy		0.2	4.2
	EM Equities		1.8	23.4
	US HG		2.5	14.7
	US HY		0.2	10.8
	Global Equities		6.0	-9.7
	EM Bond and Equity ETFs		1.8	26.5
	EM Bond ETFs		0.2	7.7
	EM Equity ETFs		1.6	18.8
	Non-resident EM flows*		3.0	21.5
	EM Local Bonds		0.2	8.9
	EM Equities		2.8	12.7

Exhibit 2: Annual EM bond and equity fund flows

USD billion



*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

List of GMM Contributors (Global Markets Analysis Division, MCM Department)

Anna Ilyina
Division Chief
Peter Breuer
Deputy Division Chief
Will Kerry
Deputy Division Chief
Evan Papageorgiou
Deputy Division Chief
Sergei Antoshin
Senior Economist
John Caparusso
Senior Financial Sector Expert
Sally Chen
Senior Economist
Fabio Cortés
Senior Economist
Mohamed Jaber
Senior Financial Sector Expert
David Jones
Senior Financial Sector Expert
Sanjay Hazarika
Senior Financial Sector Expert
Rebecca McCaughrin
Senior Financial Sector Expert
Juan Solé
Senior Economist
Jeffrey Williams
Senior Financial Sector Expert
Akihiko Yokoyama
Senior Financial Sector Expert
Dimitris Drakopoulos
Financial Sector Expert
Tryggvi Gudmundsson
Economist
Henry Hoyle
Financial Sector Expert
Robin Koepke
Economist
Thomas Piontek
Financial Sector Expert
Rohit Goel
Financial Sector Expert
Jochen Schmittmann
Economist
Ilan Solot
Financial Sector Expert
Nour Tawk
Economist
Martin Edmonds
Senior Data Mgt Officer
Yingyuan Chen
Senior Research Officer
Piyusha Khot
Research Assistant
Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 3/4/19 8:12 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2804	0.7	0	3	4	12
Europe		3324	0.4	1	5	0	11
Japan		21822	1.0	1	4	3	9
China		3028	1.1	2	16	-7	21
Asia Ex Japan		69	0.3	-1	1	-10	9
Emerging Markets		42	0.4	-1	-1	-12	9
Interest Rates					basis points		
US 10y Yield		2.75	3.8	9	3	-11	7
Germany 10y Yield		0.17	-1.2	6	-1	-48	-7
Japan 10y Yield		0.00	1.1	4	1	-6	0
UK 10y Yield		1.31	1.1	13	3	-17	3
Credit Spreads					basis points		
US Investment Grade		119	0.0	-3	-3	26	-28
US High Yield		397	-0.4	-19	-29	43	-124
Europe IG		60	-2.5	-4	-11	6	-27
Europe HY		273	-7.2	-9	-39	4	-80
EMBIG Sovereign Spread		339	3.0	-9	-10	49	-75
Exchange Rates					%		
Dollar Index (DXY)		96.67	0.1	0	1	7	1
USDEUR		1.13	-0.3	0	-1	-8	-1
USDJPY		111.9	0.0	-1	-2	-5	-2
EM FX vs. USD		63.3	-0.1	-1	-1	-11	2
Commodities					%		
Brent Crude Oil ($/barrel)		66	0.9	1	5	2	22
Industrials Metals (index)		121	-0.9	0	1	-10	10
Agriculture (index)		41	0.5	-1	-4	-18	-1
Implied Volatility					%		
VIX Index (%, change in pp)		13.8	0.3	-1.0	-1.9	-5.8	-11.6
10y Treasury Volatility Index		3.9	0.0	0.3	0.2	-1.0	-0.7
Global FX Volatility		7.2	0.1	-0.3	-0.6	-1.1	-1.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		351	4.0	-17	-22	-19	-65
Italy		258	3.2	-8	2	126	8
Portugal		131	0.4	-5	-17	-3	-17
Spain		102	0.5	-4	-5	12	-16

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: 3/4/2019 8:05 AM	Exchange Rates: Level, Last 12m	Exchange Rates: Level, Latest	Change (in %): 1 Day	Change (in %): 7 Days	Change (in %): 30 Days	Change (in %): 12 M	YTD	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest	Change (in basis points): 1 Day	Change (in basis points): 7 Days	Change (in basis points): 30 Days	Change (in basis points): 12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.70	0.1	-0.2	1	-5	3		3.2	1.1	9	10	-72	-4
Indonesia		14130	-0.1	-0.8	-1	-3	2		7.9	3.2	-7	-7	105	-21
India		71	-0.2	0.3	0	-8	-2		7.5	-3.2	0	-5	-35	7
Philippines		52	-0.1	0.4	1	0	1		5.6	-0.4	1	-16	71	-73
Thailand		32	-0.1	-1.9	-2	-1	1		2.6	1.8	2	7	26	0
Malaysia		4.08	0.0	-0.2	0	-4	1		4.0	0.0	0	-6	-5	-12
Argentina		40	-1.8	-1.6	-7	-49	-5		21.5	31.9	53	58	505	-148
Brazil		3.78	-0.6	-0.8	-3	-14	3		8.2	5.5	42	53	-29	7
Chile		660	-0.3	-1.6	-1	-9	5		4.4	2.5	5	-1	-46	-8
Colombia		3093	0.1	0.4	0	-8	5		6.4	1.6	2	-1	-10	-9
Mexico		19.34	-0.3	-1.1	-1	-3	2		8.3	-1.1	-6	-16	65	-40
Peru		3.3	-0.3	-0.1	1	-1	2		5.6	0.4	0	-1	70	-13
Uruguay		33	0.0	-0.1	-1	-13	-1		10.3	4.0	-1	2		-44
Hungary		279	-0.1	0.4	0	-9	0		2.1	1.8	15	12	42	-9
Poland		3.79	-0.1	0.7	-1	-10	-1		2.4	0.7	18	15	-23	10
Romania		4.2	-0.2	0.3	-1	-10	-3		4.2	8.0	-2	-11	16	-9
Russia		65.7	0.3	-0.3	0	-14	5		8.1	-1.9	-2	12	123	-34
South Africa		14.3	-0.2	-3.0	-6	-17	1		9.5	2.4	3	16	75	-8
Turkey		5.38	-0.2	-1.5	-3	-29	-2		15.7	19.7	-4	64	379	-118
US (DXY; 5y UST)		96.7	0.1	0.2	1	7	0		2.56	0.2	8	2	-7	5

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %): 1 Day	Change (in %): 7 Days	Change (in %): 30 Days	Change (in %): 12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest	Change (in basis points): 1 Day	Change (in basis points): 7 Days	Change (in basis points): 30 Days	Change (in basis points): 12 M	YTD
								basis points						
China		3028	0.4	2	16	-7	21		180	2	0	-3	20	-14
Indonesia		6488	-0.8	-1	0	-1	5		189	0	-12	0	19	-47
India		36064	0.3	1	-1	6	0		165	0	-4	-8	42	-31
Philippines		7675	-3.9	-4	-5	-9	3		84	3	-8	-2	-17	-37
Malaysia		1694	-1.5	-2	1	-9	0		128	2	4	-5	19	-34
Argentina		33835	-0.8	-8	-9	6	12		719	1	28	73	307	-96
Brazil		94604	0.4	-3	-4	10	8		232	1	-4	0	3	-41
Chile		5272	-0.1	-4	-4	-5	3		128	1	-8	-10	6	-38
Colombia		1515	0.7	0	3	4	14		187	2	-3	3	8	-41
Mexico		42619	-0.1	-3	-3	-10	2		319	2	-9	6	79	-35
Peru		20562	0.0	0	1	-1	6		133	2	-8	-4	-10	-35
Hungary		40403	-1.0	-1	-1	9	3		106	2	-4	-11	-4	-42
Poland		60014	-0.9	-1	-1	-1	4		47	2	-6	-5	-7	-38
Romania		7769	-0.1	0	7	-7	5		191	-3	-9	-13	59	-30
Russia		2475	-0.8	-1	-2	8	4		208	1	-9	-5	51	-44
South Africa		56388	0.3	1	6	-2	7		288	6	-1	0	51	-77
Turkey		104329	-0.7	0	2	-11	14		409	9	-2	24	110	-20
Ukraine		556	-1.6	0	0	59	-1		641	2	-5	-24	212	-146
EM total		42	0.4	-1	-1	-12	9		339	3	-9	-10	49	-75

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