



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, March 5, 2019



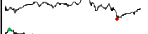







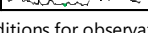
- **ECB and BoE activate standing swap line ahead of Brexit** ([link](#))
- **Chinese equities gain as Premier Li signals more accommodative policies** ([link](#))
- **US stock prices pare large intra-day loss following weaker US data** ([link](#))
- **Greece to issue first 10-year bond for nine years** ([link](#))
- **CBs in Australia and Malaysia leave policy rates unchanged, as expected** ([link](#))

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Markets drift following recent gains

Markets are largely trading sideways as investors await greater clarity on US-China trade negotiations. Equities have softened slightly as investors seek more concrete evidence of progress in trade negotiations and digest the latest weaker-than-expected data from the US. Benchmark government bond yields in core countries have mostly stabilized after pushing 5-10 bps higher over the last week, in part reflecting growth-positive news flow in China and the euro area and a perceived reduction in no-deal Brexit risk. In China, authorities announced a slower growth target of “6.0-6.5%” for 2019, as expected, and warned of a “tough economic battle ahead.” Chinese domestic equities continue to push higher on surging volumes as authorities rolled out some \$300 billion in tax cuts and pledged further stimulus. Elsewhere in EM, Mexico’s state oil firm Pemex was put on negative watch by S&P and had its stand-alone credit rating downgraded.

Key Global Financial Indicators

Last updated: 3/5/19 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2793	-0.4	0	2	3	11
Eurostoxx 50		3309	-0.2	1	3	-1	10
Nikkei 225		21726	-0.4	1	4	3	9
MSCI EM		43	0.3	-2	-2	-12	9
Yields and Spreads			bps				
US 10y Yield		2.74	-3.1	10	4	-14	5
Germany 10y Yield		0.18	1.8	6	1	-47	-7
EMBIG Sovereign Spread		342	-1	-8	-8	53	-72
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		63.4	0.1	-1	-1	-11	2
Dollar index, (+) = \$ appreciation		96.8	0.1	1	1	7	1
Brent Crude Oil (\$/barrel)		65.8	0.2	1	6	0	22
VIX Index (% change in pp)		14.6	0.0	-1	-1	-4	-11

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

United States

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Stock prices pared losses on the backdrop of weak US construction data. The S&P 500 closed lower by 0.4%, driven by losses in financial and healthcare shares, recouping most of a sharp intra-day loss. The Dow industrial closed 0.8% lower, and the Nasdaq 0.2% lower. Reports that China and the US were moving towards a trade deal had helped sentiment at the opening bell, but equity prices slumped after data showing US construction spending fell by 0.6% in December, below its forecasted 0.2% increase. The report, which had been delayed by the US government shutdown, showed a 4.1% increase in construction spending for 2018, its lowest since 2018. Market commentary suggests that December's weak construction spending data could partly explain the slowing of US GDP from 3.4% in 2018Q3 to 2.6% in 2018Q4.

Meanwhile, the US dollar strengthened by 0.1% against major currencies, shrugging off comments made by president Trump criticizing higher interest rates and a stronger dollar. In a speech on Friday, Trump criticized Fed Chair Powell's decisions to raise interest rates, urged against quantitative tightening, and expressed his preference for a weaker dollar. Treasury yields slipped on Monday, as the 2-year treasury yields ended at 2.54%, down 1 bps, and the 10-year treasury yields closed at 2.72%, down 3.5 bps.

Europe

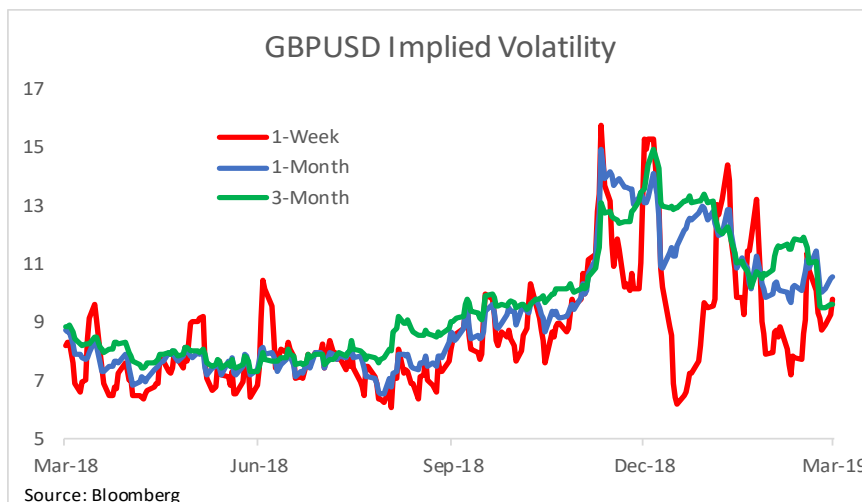
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Equities were fractionally higher this morning for the fourth consecutive session. Markets were boosted by upward revisions to French, German and aggregate euro area PMIs for February. The Euro Stoxx 600 was up by 0.1% while bank stocks were flat. **Sovereign yields were mixed**, with French, German and UK 10-years up 1-2 bps while Italy, Spain and Portugal were slightly lower. The BTP-Bund spread continues to however around the 250 bps mark.

The ECB and Bank of England have announced that they are activating a standing swap line, providing "additional flexibility" in the Bank of England's provision of liquidity services. The arrangement will allow the Bank to lend euros to UK banks on a weekly basis and will "support the functioning of markets that serve households and businesses". Separately, the Bank of England's FPC concluded in its latest summary that the core of the financial system is prepared for any Brexit scenario. It said that banks are able to withstand severe market disruption while risks have on the whole been reduced by policy action, including in the area of cleared derivatives and asset management.

Investors continue to see a delay as the most likely scenario heading towards the March 29 deadline.

A survey of strategists by Bloomberg sees a 54% chance of an extension, a 37% probability of May's deal passing, and 9% chance of a no deal. Talks between the UK and the EU are set to resume as UK attorney general Cox travels to Brussels in an attempt to obtain changes to the Irish backstop. Sterling has drifted slightly lower in recent days after reaching a high of \$1.335 last week. It was flat this morning at \$1.319 while implied volatility levels continue to trade within recent ranges.



Greece is set to issue its first 10-year bonds since the crisis. The government has mandated several big investment banks to handle the issuance for the first time in nine years. The aim is to raise €2-2.5 bn, according to reports, with suggestions of a coupon of 3.75-3.95%. The move comes following a double upgrade by Moody's at the end of last week and a continued decline in the country's outstanding debt. The government's 2019 budget called for raising €4 bn in markets but the DMO is said to hope to raise as much as €7 bn if conditions are favorable.

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Australia


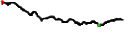



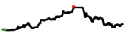








The Reserve Bank of Australia (RBA) held its cash rate at 1.5%, as expected. The decision marked the 28th consecutive month in which the policy rate has been kept unchanged. RBA Governor Philip Lowe said in the statement that the low level of interest rates is continuing to support the Australian economy. The central bank is still expecting the Australian economy to expand by around 3% in 2019 due to support from rising business investment, public infrastructure and increased employment. On inflation, the RBA expects headline inflation to fall in the near-term due to lower petrol prices, but expects underlying inflation to pick up over the coming years. The Australian dollar fell 0.2%, while equities declined 0.3%.

Japan

Equities (Nikkei -0.5%; Topix -0.4%) declined, with the tech sector underperforming. Even though Japan's services PMI rose to 52.3 in February from 51.6 in January due to robust new business, the composite PMI was muted at 50.7, reflecting continued manufacturing headwinds. **The yen depreciated 0.1% while 10-year JGB yields remained close to 0.0%.**

Emerging Markets [back to top](#)

Key Emerging Market Financial Indicators

Last updated: 3/5/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.55	0.2	-2	-2	-12	9
MSCI Frontier Equities		28.50	0.4	-2	0	-18	9
EMBIG Sovereign Spread (in bps)		342	-1	-8	-8	53	-72
EM FX vs. USD		63.40	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		14128	0.0	-1	-1	-3	2
Indian Rupee		70.49	0.6	1	2	-8	-1
Argentine Peso		39.85	-1.8	-2	-7	-49	-5
Brazil Real		3.78	-0.6	-1	-3	-14	3
Mexican Peso		19.30	0.0	-1	-1	-3	2
Russian Ruble		65.78	-0.1	0	0	-14	5
South African Rand		14.17	0.4	-2	-6	-17	1
Turkish Lira		5.39	-0.2	-2	-4	-29	-2
EM FX volatility		8.22	0.0	-0.3	-0.6	0.2	-1.6

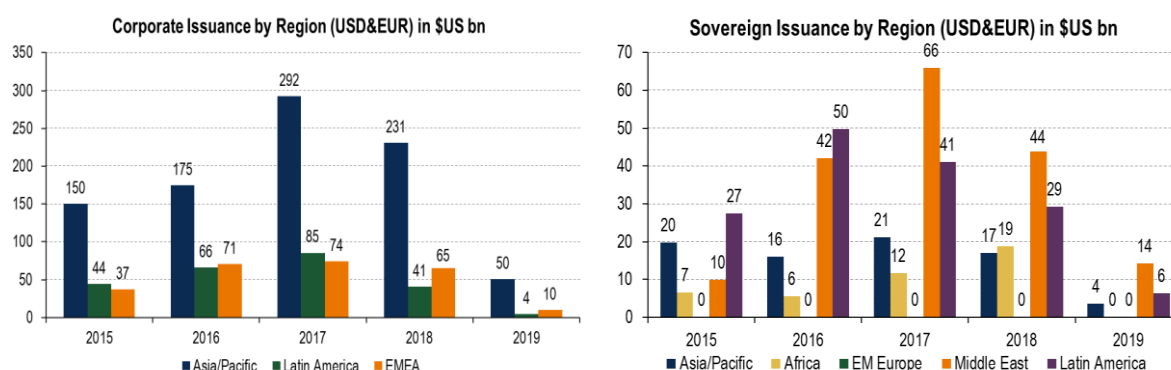
Colors denote **tightening**/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Emerging markets traded with a mostly weaker bias in the last 24 hours. Latin American equity markets were generally lower on Monday, with Mexico down 0.5% as S&P Global cut Pemex's credit rating outlook to negative from stable and changed its stand-alone credit profile to B- from BB-. Local currencies mainly traded in narrow ranges and 10-year government bond yields mostly unchanged. **Asian equities**

posted mild losses in the overnight session on a continued flow of soft economic data. China's Caixin services PMI fell to a four-month low of 51.1 for February due to weaker new orders and export sales. Additionally, Singapore's and Hong Kong's PMIs for February came in at contractionary territory of 49.8 and 48.4 (from 48.2 in January). **Chinese equities (Shanghai +0.9%; Shenzhen +2.3%) however outperformed on signs of looser policy from Premier Li's speech at the opening of the National People's Congress.** Regional currencies were broadly stable, except for the Philippine peso (-1%, chart). **Benjamin Diokno, the budget secretary, will succeed Nestor Espenilla as BSP Governor.** Some saw his previous pro-growth bias as potentially translating to looser monetary policy going forward amid easing inflation. The appointment of a BSP outsider was a surprise for most analysts. In **EMEA**, equity markets are mixed, rising 0.5% in Turkey but falling 0.4% in Russia. The South African rand (+0.5%) is main mover in the region, other currencies are little changed, as are major fixed income markets.

EM bond issuance

EM total bond issuance for last week declined to \$12 bn, from \$15.3 bn the week before. EM corporate and sovereign issuance were \$9.7 bn and \$2.3 bn, respectively, both lower than the week before. The year to date total issuance of \$98.9 bn was approximately 23% less than 2018 issuance over the same period, and Latin America (-68%) was the main drag. From a regional perspective, China remained the largest EM corporate debt issuer, accounting for 58% (\$6.9 bn) of the total. Of the total corporate bonds issued, 66% (\$6.4 bn) were investment grade bonds and 27% (\$2.6 bn) were high yield bonds. Last week's sovereign issuance was placed by Poland, all of which were investment grade.



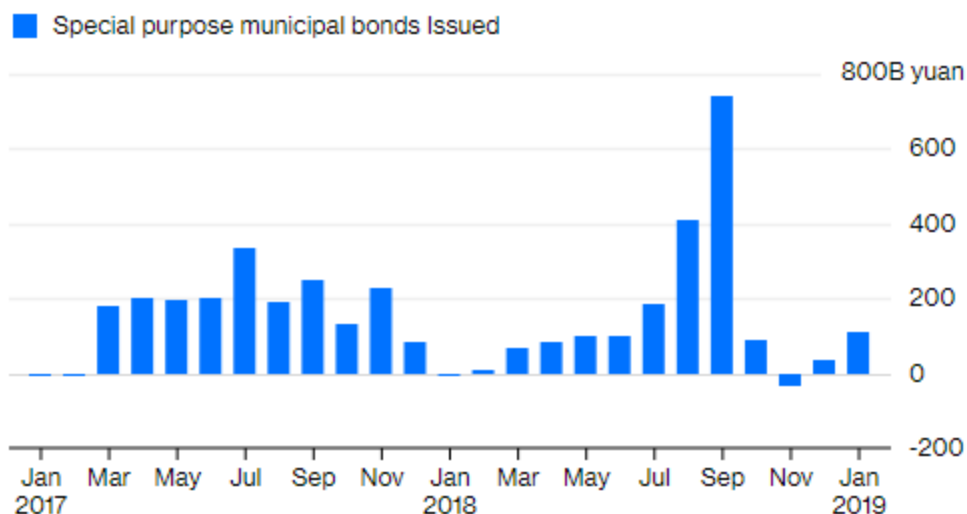
Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

China

Equities gained (Shanghai +0.9%; Shenzhen +2.3%) as Premier Li signaled more accommodative policies during the opening of the National's People Congress. A lower economic growth target of '6.0-6.5%' was also set in the government work report, from 'around 6.5%' in 2018. Amid a slowing economy, Li suggested further cuts to the RRR for smaller banks and a 'proactive, stronger and more effective' fiscal policy. **The 2019 budget deficit target was set at 2.8% of GDP, wider than 2.6% in 2018, and tax cuts worth RMB 2 tn were announced.** Notably, the authorities will cut taxes in the manufacturing sector by 3 percentage points (ppt) to 13%, while those in the transport logistics and construction sectors will fall by 1 ppt to 9%. The quota for the issuance of local government special purpose bonds will be expanded to RMB 2.15 tn from RMB 1.35 tn in 2018 (actual issuance of RMB 1.9 tn). Li again emphasized that the authorities will not resort to 'flood-like' stimulus, a message that the authorities have been communicating since the second half of 2018. The onshore and offshore RMB were stable.

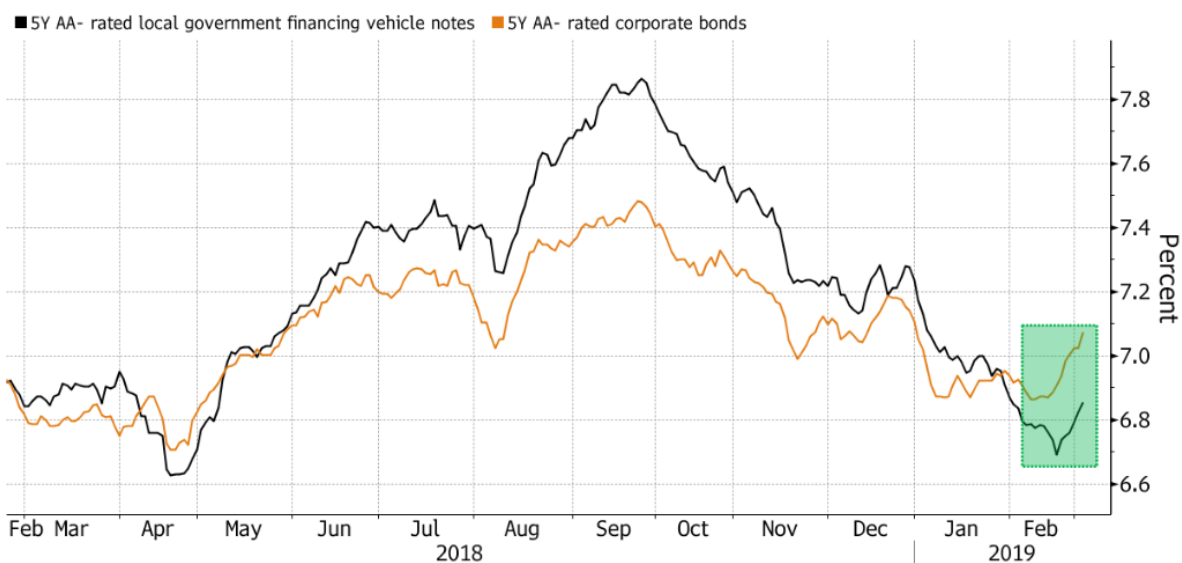
A Change of Heart

Local governments rushed to sell special purpose bonds after July's Politburo meeting, when China shifted the nation's economic priority back to growth



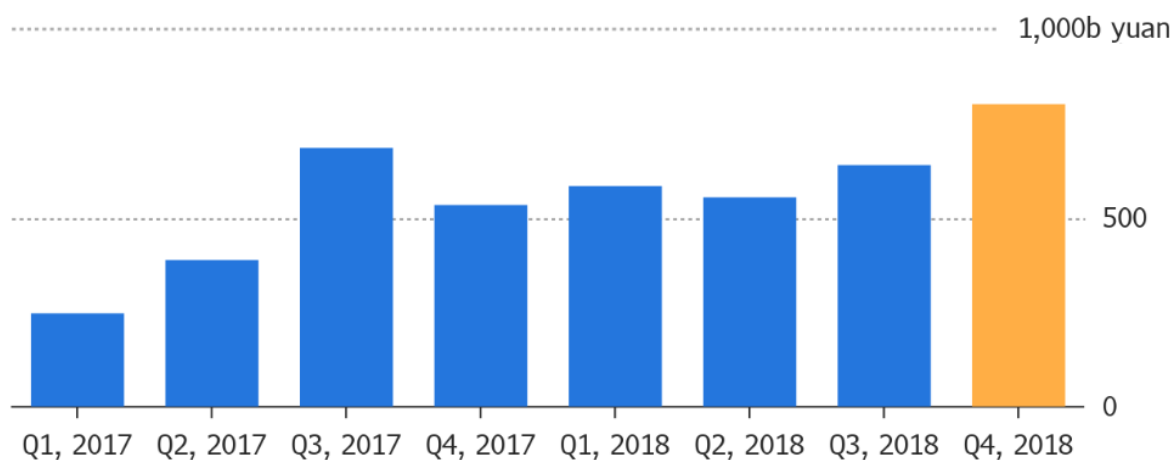
Source: The People's Bank of China

Separately, **strong demand for local government financing vehicle (LGFV) debt has pushed yields below those of similarly rated corporate bonds**. The authorities are turning towards LGFVs to spur infrastructure investment growth in an effort to support the decelerating economy, resulting in record bond issuances in 2018Q4. Despite the high debt burden, there has so far been no bond defaults by LGFVs due to continued government backstopping, although there have been defaults on LGFV liabilities to banks and trust companies.



Source: ChinaBond

LGFV bond issuance hits highest ever last quarter



Source: Bloomberg

Bloomberg

Malaysia

Bank Negara Malaysia (BNM) left its Overnight Policy Rate on hold at 3.25%, as expected. The central bank has kept interest rates unchanged since its 25bps hike in January 2018. In its statement, the central bank highlighted downside risks to growth from ongoing trade tensions, increased uncertainties in both the global and domestic landscape and weakness in commodity-related sectors. Also, BNM expects inflation to remain low this year due to lower fuel price caps and tax policy changes. The ringgit was stable at MYR4.08/USD while equities were down 0.4%.

Mexico

S&P Global revised the credit rating outlook on Pemex to negative from stable following a similar action on the sovereign, calling the government's rescue plan for the debt-laden company "insufficient". In addition, **S&P downgraded Pemex's stand-alone credit profile (SACP) to B- from BB-** due to a persistent deterioration of the company's business and financial risk profiles that had compromised the recovery of its upstream and downstream activities. S&P's rating of Pemex is still two notches above those of Moody's (Baa3) and Fitch (BBB-) and three notches above high yield. Therefore, analysts thought the greater risk to Pemex's investment grade ratings would likely come from Moody's or Fitch. The Mexican peso was slightly weaker on Monday, extending a two-day losing streak.

Table: Pemex and Mexico ratings profile

	Fitch	Moody's	S&P
Pemex	BBB- (Negative)	Baa3 (Stable)	BBB+ (Negative)
Mexico	BBB+ (Negative)	A3 (Stable)	BBB+ (Negative)
Pemex stand-alone	CCC	B3	B-

Source: Fitch, Moody's, S&P, J.P. Morgan Markets

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Global Financial Indicators

Last updated: 3/5/19 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2793	-0.4	0	2	3	11
Europe		3309	-0.2	1	3	-1	10
Japan		21726	-0.4	1	4	3	9
China		3054	0.9	4	17	-6	22
Asia Ex Japan		70	0.2	-2	0	-9	10
Emerging Markets		43	0.3	-2	-2	-12	9
Interest Rates			basis points				
US 10y Yield		2.74	-3.1	10	4	-14	5
Germany 10y Yield		0.18	1.8	6	1	-47	-7
Japan 10y Yield		0.01	0.6	4	2	-3	1
UK 10y Yield		1.27	0.1	7	4	-22	0
Credit Spreads			basis points				
US Investment Grade		119	-0.4	-3	-2	25	-28
US High Yield		401	3.1	-16	-26	47	-121
Europe IG		62	-0.2	-1	-8	8	-26
Europe HY		278	1.1	2	-25	9	-75
EMBIG Sovereign Spread		342	-1.0	-8	-8	53	-72
Exchange Rates			%				
Dollar Index (DXY)		96.79	0.1	1	1	7	1
USDEUR		1.13	-0.1	-1	-1	-8	-1
USDJPY		111.9	-0.2	-1	-2	-5	-2
EM FX vs. USD		63.4	0.1	-1	-1	-11	2
Commodities			%				
Brent Crude Oil (\$/barrel)		66	0.2	1	6	0	22
Industrials Metals (index)		122	1.2	1	2	-9	12
Agriculture (index)		41	-0.2	-1	-5	-20	-2
Implied Volatility			%				
VIX Index (% change in pp)		14.6	0.0	-0.6	-1.0	-4.1	-10.8
10y Treasury Volatility Index		3.9	0.0	0.3	0.2	-1.0	-0.7
Global FX Volatility		7.1	0.0	-0.2	-0.6	-1.0	-1.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		353	0.7	-9	-20	-20	-63
Italy		254	-4.1	-5	-8	118	4
Portugal		129	-1.9	-3	-21	-2	-19
Spain		99	-2.0	-3	-9	14	-18

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: 3/5/2019 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.70	0.1	0.0	1	-5	3		3.2	1.2	8	11	-72	-3
Indonesia		14128	0.0	-1.0	-1	-3	2		7.9	-0.7	-4	-3	107	-22
India		70	0.6	0.8	2	-8	-1		7.5	0.0	-1	-10	-35	7
Philippines		52	-0.7	-0.3	0	0	1		5.6	-0.4	1	-16	70	-74
Thailand		32	0.2	-1.6	-2	-1	2		2.7	1.9	4	7	29	2
Malaysia		4.08	0.0	-0.1	0	-4	1		4.0	0.2	0	-5	-2	-11
Argentina		40	-1.8	-1.6	-7	-49	-5		21.5	0.0	60	65	498	-148
Brazil		3.78	-0.6	-0.8	-3	-14	3		8.2	0.0	38	51	-22	7
Chile		658	0.2	-1.3	-1	-9	6		4.4	1.8	7	0	-43	-6
Colombia		3095	0.0	-0.4	0	-8	5		6.4	0.6	5	3	-13	-8
Mexico		19.30	0.0	-0.6	-1	-3	2		8.3	2.0	2	-14	67	-38
Peru		3.3	-0.1	-0.2	1	-2	2		5.6	-1.5	-1	-1	69	-14
Uruguay		33	0.0	-0.1	-1	-13	-1		10.3	-1.4	3	2		-45
Hungary		279	-0.1	-0.3	0	-9	0		2.1	1.4	12	12	46	-8
Poland		3.80	-0.2	-0.1	-1	-11	-2		2.4	-1.7	6	10	-22	8
Romania		4.2	-0.3	-0.3	-1	-10	-3		4.1	-2.0	-3	-18	11	-11
Russia		65.8	-0.1	-0.1	0	-14	5		8.1	0.7	2	12	122	-33
South Africa		14.2	0.4	-2.4	-6	-17	1		9.5	-2.5	1	12	63	-11
Turkey		5.39	-0.2	-1.6	-4	-29	-2		15.8	13.3	19	81	388	-105
US (DXY; 5y UST)		96.8	0.1	0.8	1	7	1		2.55	2.2	10	4	-10	4
	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3054	0.4	4	17	-6	22		178	-1	-6	-6	18	-16
Indonesia		6441	-1.5	-2	-1	-2	4		189	-3	-13	1	18	-47
India		36443	1.3	1	0	7	1		166	1	1	-8	48	-30
Philippines		7671	-4.0	-4	-5	-9	3		85	-3	-12	-2	-15	-36
Malaysia		1686	-1.9	-2	0	-9	0		124	-3	-7	-9	15	-38
Argentina		33835	-0.8	-8	-9	6	12		730	-1	37	94	319	-85
Brazil		94604	0.4	-3	-4	10	8		234	-1	-2	3	6	-39
Chile		5232	-0.1	-4	-4	-6	2		129	-2	-7	-10	9	-37
Colombia		1517	0.7	0	2	3	14		188	-1	-5	3	11	-40
Mexico		42418	-0.1	-3	-4	-11	2		320	-1	-5	11	82	-34
Peru		20611	0.0	0	0	-1	7		133	-2	-10	-3	-8	-35
Hungary		40805	0.0	0	1	10	4		107	-1	-14	-11	8	-41
Poland		59902	-1.1	-1	-2	-2	4		47	-2	-7	-5	-9	-38
Romania		7846	0.9	1	6	-6	6		193	2	-8	-7	64	-28
Russia		2467	-1.1	-1	-3	7	4		209	-1	-10	-13	52	-43
South Africa		55979	-0.5	0	3	-3	6		291	-1	2	4	58	-74
Turkey		104095	-0.9	-1	2	-11	14		415	-1	1	18	116	-14
Ukraine		556	-1.7	-2	0	58	-1		649	0	7	-31	219	-138
EM total		43	0.2	-2	-2	-12	9		342	-1	-8	-8	53	-72

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