Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, March 6, 2019

- **Latest EU-UK Brexit talks yield little progress (link)**
- **Oman downgraded below investment grade by Moody's (link)**
- **Chinese stocks extend gains on signals of further FDI reform and tax cuts (link)**
- **Money laundering allegations hit European bank shares (link)**

US | Europe | Other Mature | Emerging Markets | Market Tables

Investors in wait-and-see mode

Markets are quiet but trading with a cautious tone, as investors shrug off mostly upbeat data. Markets are extending the sideways drift of recent days, as investors await fresh signals on US-China trade negotiations, ECB monetary policy (tomorrow), and Brexit (next week). Yet despite mostly above-consensus data in the US and euro area in the last 24 hours, markets are showing a cautious bias. Developed market equities continue to soften, with the risk-sensitive Russell 2000 in the US underperforming. Yields are tighter in core government bond markets and the dollar continued to rise for the sixth consecuctive session. In Australia, the currency weakened and markets priced in rate cuts following weaker-than-expected GDP data. China was the exception, as equities added +1.6% to the more than 10% gains seen since mid-February. Share prices were propelled by a late-day rally and fresh signals from policymakers about FDI opening and tax stimulus.

Key Global Financial Indicators

Last updated: 3/6/19 8:01 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2790	-0.1	0	2	2	11
Eurostoxx 50		3323	-0.1	1	3	-1	11
Nikkei 225		21597	-0.6	0	3	1	8
MSCI EM		43	-0.5	-1	0	-12	10
Yields and Spreads					bps		
US 10y Yield		2.71	-0.5	2	1	-18	2
Germany 10y Yield		0.14	-2.5	-1	-2	-53	-10
EMBIG Sovereign Spread		347	2	1	20	57	-67
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		63.4	0.0	-1	-1	-11	2
Dollar index, (+) = $ appreciation		96.9	0.0	1	1	8	1
Brent Crude Oil ($/barrel)		65.7	-0.3	-1	5	0	22
VIX Index (%, change in pp)		15.1	0.4	0	0	-3	-10

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

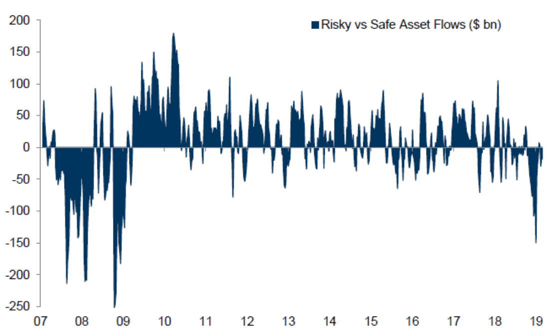
United States back to top

Stock prices were little changed on Tuesday, with investors in wait-and-see mode for a US-China trade deal. The S&P 500 closed lower by 0.1%, with losses driven by the industrials, materials and financial sectors, while the Dow and Nasdaq were a little changed. Trading volumes were thin, below the 30-day average, despite better-than-expected data on US new home sales. New home sales rose by 3.7% in December at a 621k unit selling rate, above the consensus expectations of a 600k selling rate.

Meanwhile, the Boston Fed's President Rosengren reiterated the Fed's patient approach to monetary policy in a speech on Tuesday, saying that policymakers may hold several meetings to determine whether risks to the US economy could harm growth in 2019. Rosengren, who is considered hawkish, cited weaker growth in China, Brexit, and European banks as risks that could affect the outlook. He also said that his earlier fears of inflation overshooting had abated. **The US dollar continued to firm for its fifth consecutive day, up by 0.2% against major currencies.** Treasury yields were little changed on Tuesday, as 2-year treasury yields remained at 2.54%, down 1 bps, and the 10-year treasury yield closed at 2.71%.

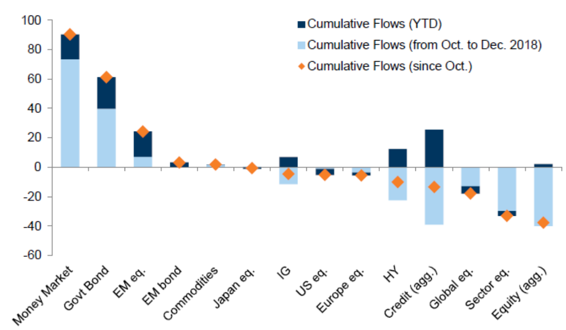
Equity fund flows have largely been flat so far this year, suggesting risk appetite for stocks remains limited. Goldman Sachs analysis shows that flows into government bond and money market funds surged during the market sell-off late last year, outpacing fund flows into credit and equity funds by the largest margin since the Great Financial Crisis. While flows into equity and credit funds have rebounded somewhat in 2019, flows into equity funds remain lackluster, suggesting fund investors were largely on the sidelines during the recent January-February rally. EM equity funds have been the main exception and have seen large inflows so far year-to-date, supported by the Fed's shift to a more accommodative rate hike path for the rest of the year.

Exhibit 1: Safe asset flows continued to outpace risky inflows YTD
4-week flows into risky (equity + credit) vs. safe (government bond + municipal bond + money market funds) assets. Includes US domiciled Mutual funds and ETFs



Source: ICI, Morningstar, Goldman Sachs Global Investment Research

Exhibit 2: Credit, Government bond and EM equity flows have been strong YTD, while flows into equity have lagged
Cumulative USD bn flow



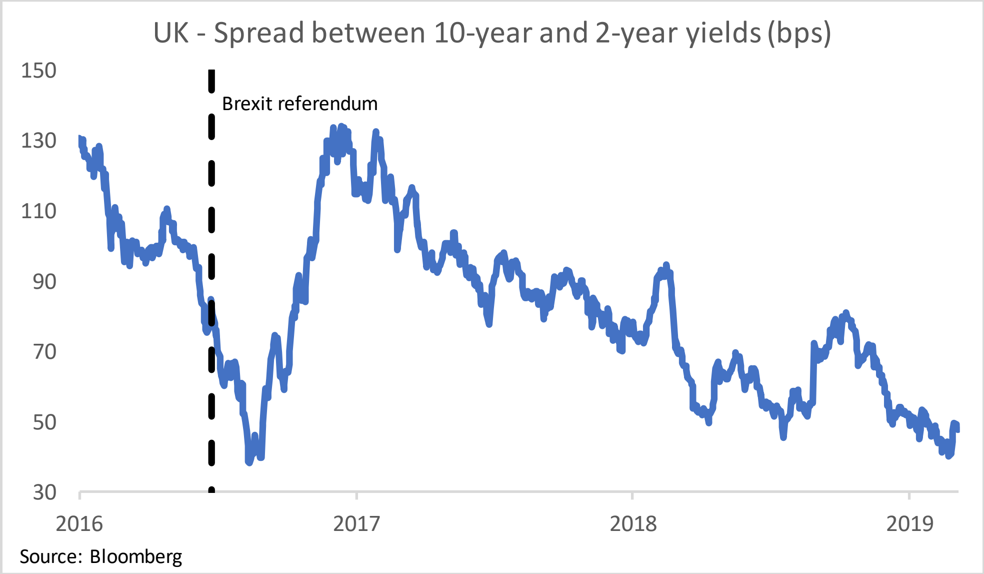
Source: Morningstar, Goldman Sachs Global Investment Research

Europe back to top

Equities are flat on limited news and data flow. The Euro Stoxx 600 was unchanged while bank stocks fell 0.2% as some institutions face questions amid continued money laundering concerns. Raiffeisen was amongst the most affected, slumping by 12% yesterday and a further 1.2% this morning. **Sovereign yields were lower with most 10-year issues down 2 bps**. BTP yields were lower across the curve following GDP data yesterday that was broadly in line with expectations. Final growth in Q4 came in at -0.1% q/q while y/y growth was at 0%. Greece saw strong demand for its first 10-year issuance for nine years. It raised €2.5 bn with offers of €11.8 bn. The yield was 3.9%, compared to initial guidance of 4.125%.

Talks between attorney general Cox and the EU negotiating team yielded little progress yesterday. Neither side gave a briefing following the meetings, but talks are set to continue over the coming days ahead of next week's vote in UK parliament. One of PM May's allies warned that, as things stand, the prime minister does not have the required number of votes to get the deal through parliament. Separately, media reports suggest that the UK could unilaterally cut up to 90% of all tariffs in a "no deal" scenario. While some tariffs will be upheld for some agriculture and manufacturing products, most sectors will see an entire elimination in an attempt to prevent significant price increases.

Financial markets are underestimating the likelihood of rate hikes in the UK, according to Bank of England governor Carney. Speaking to lawmakers yesterday, Carney said that the expected path of inflation meant that the path of market rates was at too low a level. He added that "constructive developments" in recent months had lessened the potential impact of a no deal Brexit. These developments include policymakers' steps to protect derivative markets and ensure business continuity. Gilt yields have declined in recent days with the 10-year down 2 bps this morning to 1.26%. The yield curve has also flattened over the last few months with the spread between 10-year and 2-year yields declining from 80 bps in October to a recent low of 40 bps.



Other Mature Markets

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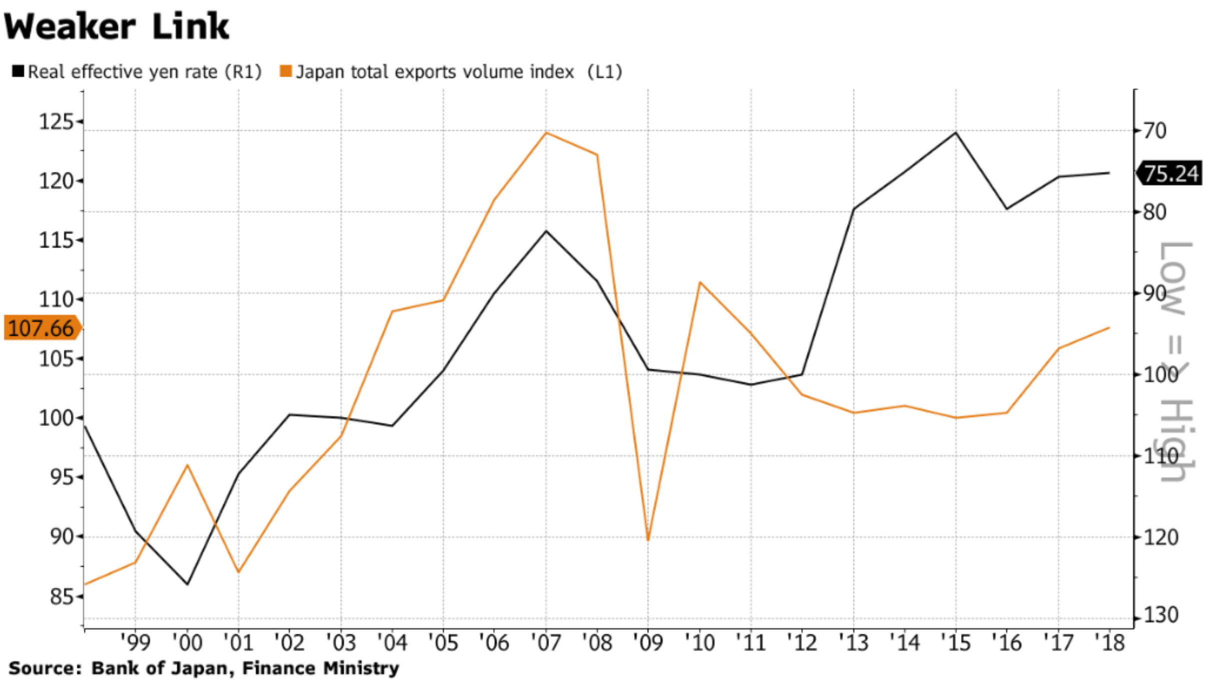
Australia

The Australian dollar depreciated 0.8% while 10-year bond yields declined 6 bps to 2.1%. Australia's real GDP growth came in at 0.2% q/q in 2018Q4, missing Bloomberg consensus (0.3% q/q) for the second straight quarter. The subdued growth reflected soft household spending and a decline in dwelling investment, both related to falling house prices. Weaker growth has seen money markets pricing in a reduction in the RBA's cash rate by October. **Australian equities gained 0.7%.**

Japan

Equities declined (Nikkei -0.6%; Topix -0.2%), while 10-year JGB yields fell 1.4 bps to -0.016%. According to Bloomberg, BoJ board members are likely to discuss possible downgrades to industrial production, exports and global growth forecasts in their monetary policy meeting next week. Additionally, BoJ board member Yutaka Harada commented that the Japanese economy is at risk of entering into a recession from a planned sales tax hike in October 2019, despite government policies to limit its downside impact. Separately, **the US stated that it wants a currency clause in any trade agreement with Japan.** However, Masatsugu Asakawa, a top diplomat at the MoF signaled opposition to a currency clause, starting recently that the link between the yen and exports has been 'severed'. The yen was little changed.



Emerging Markets

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Most **Latin American equity indices were little changed** yesterday, while Mexican equity index (-0.7%) fell for the seventh day and dropped to the lowest close since January 3, despite consumer confidence jumping to the highest level on record stretching back to 2001. Local currencies continued to trade in narrow ranges and 10-year government bond yields were mostly unchanged. **Asian equities rose slightly with China (Shanghai +1.6%; Shenzhen + 1.5%) and the Philippines (+2.0%) outperforming.** Chinese stocks were supported by positive rhetoric from the NDRC on further reforms and efforts to raise domestic consumption in the economy. According to Bloomberg, incoming Philippine central bank Governor Benjamin Diokno plans to accelerate a lowering of the reserve requirement ratio, while stating that it is too early to cut the benchmark policy rate. **Regional currencies were broadly stable.** In **EMEA**, equity indices are mixed, rising near 1% in Russia and Turkey, but declining slightly across the Middle East. Currencies and fixed income markets are little changed.

Key Emerging Market Financial Indicators

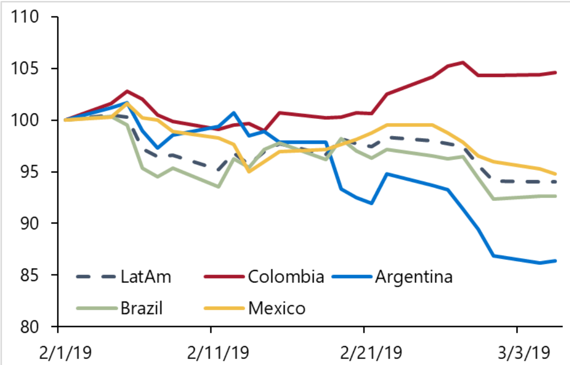
Last updated:	Level		Change				
3/6/19 8:08 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		42.97	-0.4	-1	0	-12	10
MSCI Frontier Equities		28.73	0.8	-1	1	-17	10
EMBIG Sovereign Spread (in bps)		347	2	1	20	57	-67
EM FX vs. USD		63.36	0.0	-1	-1	-11	2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.71	0.0	0	1	-6	3
Indonesian Rupiah		14143	-0.1	-1	-2	-3	2
Indian Rupee		70.28	0.3	1	2	-8	-1
Argentine Peso		39.83	0.0	-3	-6	-49	-5
Brazil Real		3.78	0.1	-1	-2	-15	3
Mexican Peso		19.28	-0.2	-1	-1	-3	2
Russian Ruble		65.84	-0.1	0	0	-14	5
South African Rand		14.21	-0.3	-2	-5	-17	1
Turkish Lira		5.42	-0.7	-2	-4	-30	-2
EM FX volatility		8.10	0.0	-0.3	-0.8	0.1	-1.7

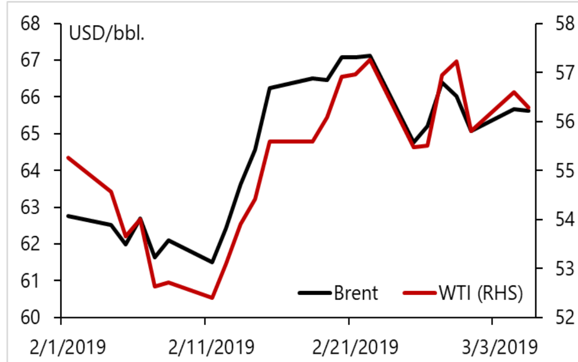
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Asian dollar bonds have seen a significant pick-up in demand. Bond orders rose to 6.7 times oversubscribed in February. The increased demand is partly spurred by demand for bonds of Chinese property developers amid positive sentiment on high yield offerings.

Regional Equity Markets

Latin American stocks are off to a weak start in March, with stocks down 5.9%, compared to the MSCI EM index remaining flat at +0.3%. Major economies fell on growth concerns and policy uncertainty, including Argentina (-13.6%), Brazil (-7.4%) and Mexico (-5.2%). Colombia was the best performer rallied 4.6% last month, on the back of a healthy macro outlook and higher oil prices. Crude oil saw another strong month with Brent and WTI up by 4.6% and 1.8%, respectively. OPEC continued to talk up output cuts with the Saudis and Russia, both apparently willing to produce less than required by their agreements.





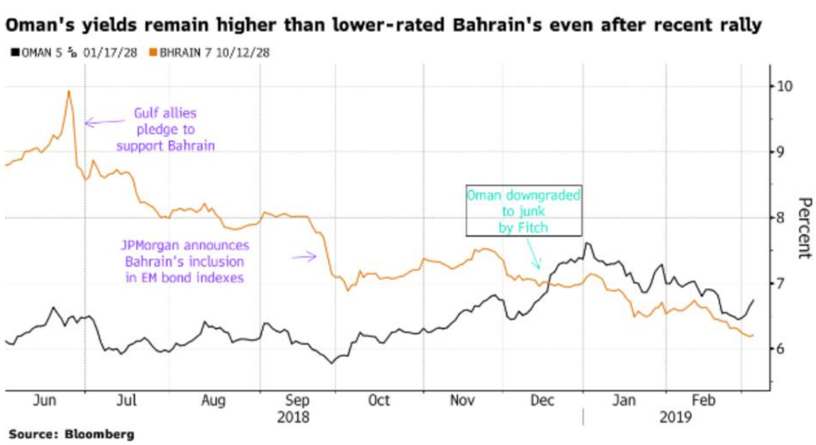
Source: Bloomberg

China

Chinese equities (Shanghai +1.6%; Shenzhen +1.5%) continued to outperform amid signs of further opening up and reforms. Ning Jizhe, vice chairman of the National Development and Reform Commission (NDRC), stated that China will look to introduce more measures to attract foreign investment. He said that China plans to shorten the negative list that excludes foreign investors in agriculture, mining and services sectors. The authorities are also working to abolish separate entry restrictions on foreign investment that is outside the negative list. Furthermore, there are plans to pilot opening-up measures in free-trade zones. In addition, Ning mentioned that China will look to boost domestic consumption through policies to raise income and via tax cuts. The onshore and offshore RMB weakened slightly.

Oman

Moody's downgraded the county's sovereign bonds to below investment grade, falling from Ba1 to Baa3 and maintaining the negative outlook. The decision was premised on the lack of prospects for new meaningful fiscal reforms, given the challenges in introducing new non-oil revenue measures and controlling expenditure. Moody's also noted that Oman's external vulnerability will remain elevated given an expected current account deficit of around 6-10% of GDP in the next several years. Oman's sovereign bond yields have been creeping higher since the end of last year. Fitch and S&P ratings already have Oman in speculative grade. The news also led to a spike in dollar-rial forwards, suggesting investors are betting on a greater risk of a currency depreciation. But despite the move, 12-month rial forwards are still far from the weakest levels seen in late December.



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Global Financial Indicators

Last updated: 3/6/19 8:02 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
United States		2790	-0.1	0	2	2	11
Europe		3323	-0.1	1	3	-1	11
Japan		21597	-0.6	0	3	1	8
China		3102	1.6	5	18	-6	24
Asia Ex Japan		70	0.9	0	2	-9	11
Emerging Markets		43	-0.5	-1	0	-12	10
Interest Rates				basis points			
US 10y Yield		2.71	-0.5	2	1	-18	2
Germany 10y Yield		0.14	-2.5	-1	-2	-53	-10
Japan 10y Yield		0.00	-1.4	2	1	-6	-1
UK 10y Yield		1.25	-3.5	-2	4	-27	-3
Credit Spreads				basis points			
US Investment Grade		118	-0.5	-4	-1	24	-29
US High Yield		402	1.2	-12	-19	51	-119
Europe IG		62	1.2	0	-8	9	-25
Europe HY		280	4.5	5	-27	18	-73
EMBIG Sovereign Spread		347	2.0	1	20	57	-67
Exchange Rates				%			
USD/Majors		96.91	0.0	1	1	8	1
EUR/USD		1.13	0.0	-1	-1	-9	-1
USD/JPY		111.8	0.1	-1	-2	-5	-2
EM/USD		63.4	0.0	-1	-1	-11	2
Commodities				%			
Brent Crude Oil ($/barrel)		66	-0.3	-1	5	0	22
Industrials Metals (index)		122	-0.1	0	2	-10	11
Agriculture (index)		41	-0.4	-1	-5	-19	-1
Implied Volatility				%			
VIX Index (%, change in pp)		15.1	0.4	0.4	-0.2	-3.2	-10.3
10y Treasury Volatility Index		3.7	-0.1	0.0	0.1	-1.0	-0.9
Global FX Volatility		7.1	0.0	-0.1	-0.7	-1.0	-1.9
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		360	5.9	5	-14	-4	-56
Italy		255	0.7	-9	-15	122	5
Portugal		130	0.8	0	-20	6	-18
Spain		99	0.8	-2	-10	18	-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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
3/6/2019	Level		Change (in %)					Level		Change (in basis points)				
8:03 AM	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		6.71	0.0	-0.3	1	-6	3		3.2	0.6	6	11	-71	-2
Indonesia		14143	-0.1	-0.8	-2	-3	2		7.9	0.2	6	-3	105	-22
India		70	0.3	1.4	2	-8	-1		7.5	-0.5	-2	-10	-37	7
Philippines		52	-0.1	-0.7	0	0	1		5.5	-5.2	-3	-21	64	-79
Thailand		32	-0.3	-1.3	-2	-2	1		2.7	-0.5	3	7	28	2
Malaysia		4.09	-0.4	-0.6	0	-5	1		4.0	-1.2	-1	-6	-4	-13
Argentina		40	0.0	-2.6	-6	-49	-5		21.5	0.0	52	104	494	-148
Brazil		3.78	0.1	-1.2	-2	-15	3		8.2	0.0	34	47	-16	7
Chile		658	-0.2	-1.2	-1	-9	5		4.4	-0.9	6	1	-44	-7
Colombia		3104	-0.1	-1.0	0	-8	5		6.4	-0.9	4	2	-7	-9
Mexico		19.28	-0.2	-0.6	-1	-3	2		8.3	-5.5	1	-14	60	-43
Peru		3.3	0.0	-0.2	0	-2	2		5.6	-1.0	-2	-1	68	-15
Uruguay		33	0.0	-0.1	-1	-13	-1		10.2	-4.7	-1	-3		-50
Hungary		279	0.0	-0.3	0	-10	0		2.1	-1.1	10	12	45	-9
Poland		3.80	0.0	-0.2	-1	-11	-2		2.3	-1.7	5	11	-27	7
Romania		4.2	0.0	-0.7	-1	-10	-3		4.1	-8.0	-11	-28	2	-19
Russia		65.8	-0.1	-0.1	0	-14	5		8.1	1.0	1	16	123	-32
South Africa		14.2	-0.3	-1.9	-5	-17	1		9.4	-7.0	0	9	57	-18
Turkey		5.42	-0.7	-2.0	-4	-30	-2		15.8	1.1	27	75	370	-103
US (DXY; 5y UST)		96.9	0.0	0.8	1	8	1		2.52	-1.0	4	1	-14	1

	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		3102	1.6	5	18	-6	24		180	1	-1	7	16	-14
Indonesia		6458	0.3	-1	-1	-1	4		194	1	-1	24	19	-42
India		36636	0.5	2	-1	10	2		167	1	-2	-7	47	-29
Philippines		7821	2.0	-1	-3	-6	5		91	1	2	41	-12	-30
Malaysia		1687	0.1	-2	0	-9	0		127	2	0	2	14	-35
Argentina		33835	0.0	-8	-9	6	12		747	0	57	114	334	-68
Brazil		94604	0.0	-3	-4	10	8		239	1	5	24	10	-34
Chile		5239	-0.2	-2	-3	-6	3		131	0	2	11	10	-35
Colombia		1518	0.1	0	2	3	15		190	1	1	26	12	-38
Mexico		42129	-0.7	-3	-4	-12	1		319	0	-2	29	79	-35
Peru		20540	-0.3	0	0	-2	6		136	1	0	23	-8	-32
Hungary		40863	0.4	1	1	8	4		111	2	-3	15	8	-37
Poland		59763	0.0	0	-3	-2	4		51	1	-1	-1	-9	-34
Romania		7951	0.5	4	7	-6	8		194	1	-6	1	69	-27
Russia		2490	1.0	0	-2	8	5		213	1	-3	13	52	-39
South Africa		56331	0.9	0	3	-5	7		296	1	10	34	65	-69
Turkey		103515	-0.2	-1	1	-11	13		421	1	11	62	122	-8
Ukraine		564	0.2	1	1	60	1		660	2	19	13	232	-127
EM total		43	-0.4	-1	0	-12	10		347	2	1	20	57	-67

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