Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, March 8, 2019

- **US job gains disappoint at only 20k; wage growth beats expectations (link)**
- **US stocks fell for a fourth consecutive day yesterday (link)**
- **Chinese equities (-4.4%) fall the most in 2019 on weak trade data (link)**
- **Trump-Xi summit date reportedly pushed back from end-March (link)**
- **Finnish PM resigns after a parliament rejects key healthcare reform (link)**
- **Sri Lanka raises $2.4bn in USD-denominated bonds (link)**

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

Global equities slump on growth concerns

A sharp disappointment in US job gains and a sell-off in Chinese stocks (-4.4%) set the tone for global markets today, dragging down risk assets across the board. US job growth nearly ground to a halt at only +20k gains in February, even as wage growth reached its fastest rate in the expansion. US equity futures moved deeper into the red just after the release, trading about 0.6% lower. The prior sell-off in Chinese markets was prompted by disappointing February trade data, which showed sharp contractions in both exports (-20.7% y/y) and imports (-5.2% y/y). Moreover, a rare sell rating issued by a Chinese investment bank for a major insurer was reportedly seen as a sign that authorities want to curb recent stock market gains (still +19% YTD). Yesterday's sharp downward revision in the ECB's growth forecast also served to fuel concerns about the economic outlook. The euro closed at its lowest level since mid-2017 vs. the dollar (just below $1.12) in the wake of the ECB's dovish policy announcements.

Key Global Financial Indicators

Last updated: 3/8/19 7:42 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2749	-0.8	-1	2	0	10
Eurostoxx 50		3286	-0.7	-1	5	-4	9
Nikkei 225		21026	-2.0	-3	3	-2	5
MSCI EM		42	-1.5	-1	-1	-14	7
Yields and Spreads				bps			
US 10y Yield		2.64	-5.4	-12	0	-22	-5
Germany 10y Yield		0.06	-0.7	-12	-3	-57	-18
EMBIG Sovereign Spread		355	2	19	-5	65	-59
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		62.7	0.0	-1	-2	-11	1
Dollar index, (+) = $ appreciation		97.5	-0.2	1	1	8	1
Brent Crude Oil ($/barrel)		65.0	-1.9	0	5	2	21
VIX Index (%, change in pp)		17.4	0.8	4	2	1	-8

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

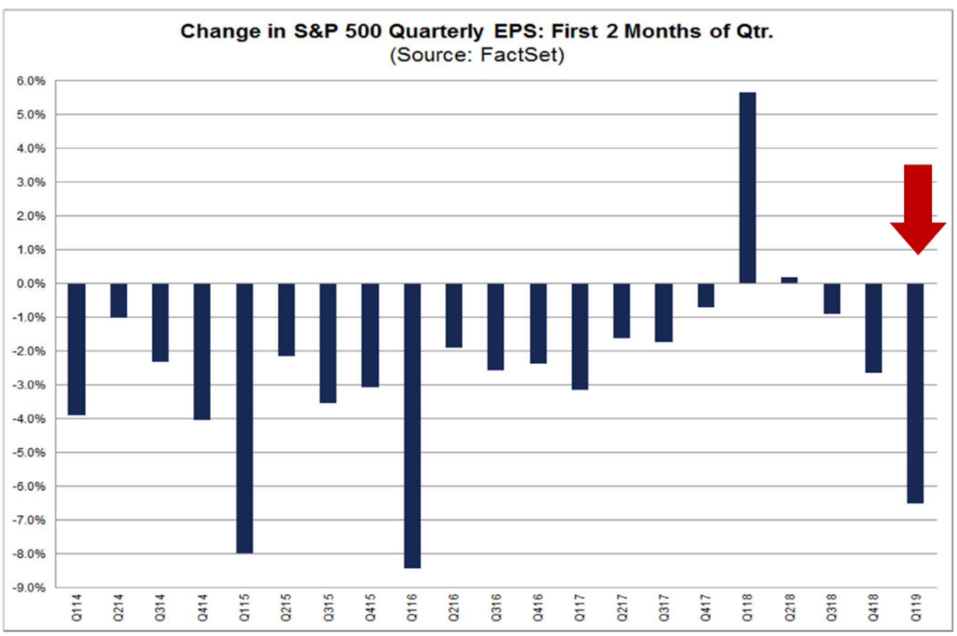
United States

back to top

This morning's labor report for February served as a shock to markets, showing job gains nearly ground to a halt at +20k vs. 180K expected. Wage growth exceeded expectations, however, posting gains of 0.4% m/m and 3.4% y/y, both one ticker higher than expected. The net revision for the two prior months was positive at +12k. The unemployment rate edged down one tick to 3.8% while the labor force participation rate held steady. Treasury yields and the dollar fell immediately after the release and equity futures fell further.

US stocks continued their decline for the fourth day in row on Thursday, with the S&P 500 index down 0.8%. Risk-off sentiment pushed investors towards safe government bonds, compressing the yield on the 10-year US Treasury by almost 6 bps, down to 2.64%, and that of the 2-year by 4 bps (down to 2.47%). The US dollar climbed for a seventh straight day, gaining 0.7%. Meanwhile, WTI oil prices rose for the first time in three days, up 0.8%, as a US government report showed stronger domestic demand for fuel.

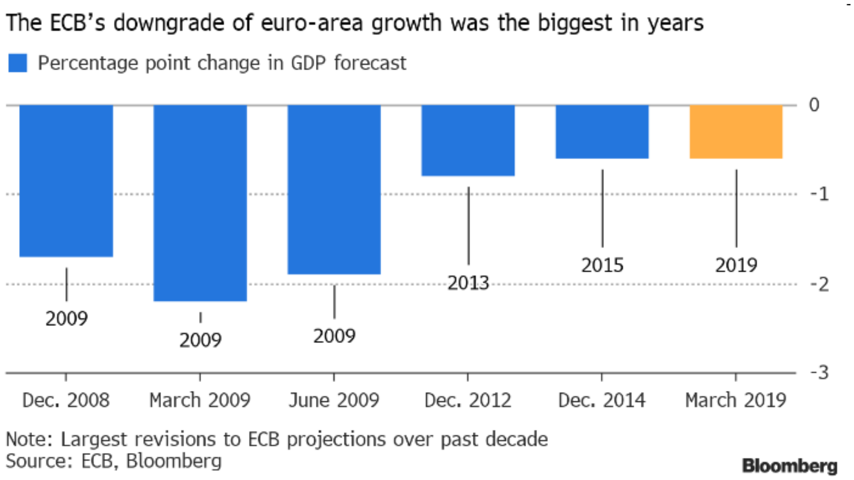
The first quarter of 2019 was marked by the largest cuts to S&P 500 EPS estimates since 2016, while the market capitalization of the S&P 500 increased, Factset reports. Analysts have cut their 2019Q1 earnings estimates for S&P 500 companies by 6.5%. These cuts are considerably larger than the average EPS reduction over the past 5 years (2.4%) and 10 years (2.8%). All sectors suffered a decline in their bottom-up EPS estimate for January and February 2019, with cuts led by the Energy (-32.3%), Materials (-15.2%) and IT (-8.2%) sectors. Meanwhile, the market cap of the S&P 500 has increased by 11% since the end of December. The divergence between bottom-up EPS estimates and the value of the index is a recurring patterns, having occurred 15 times in the last 20 quarters.

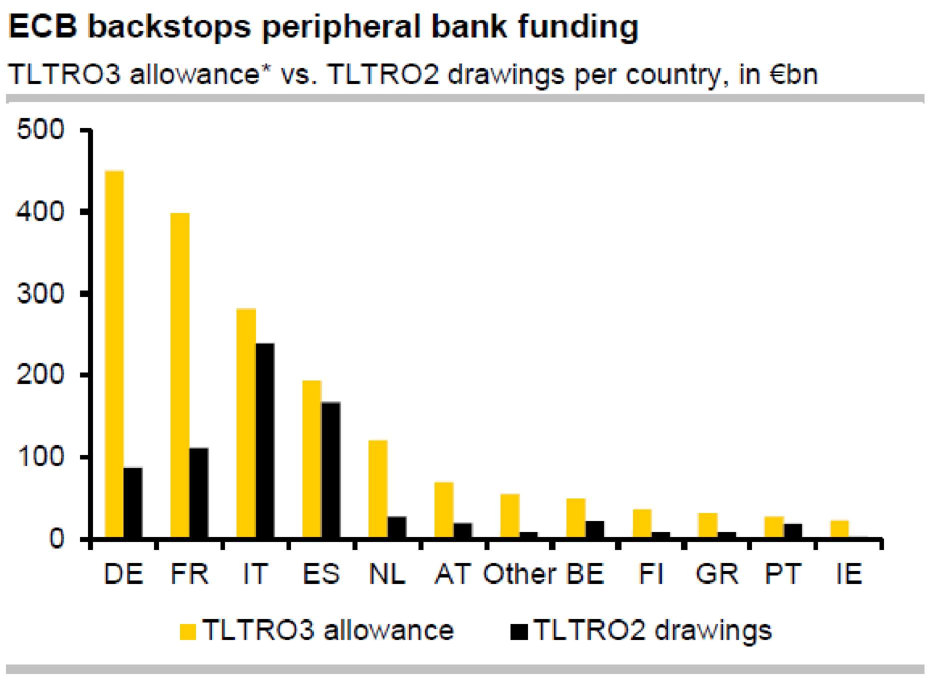


Europe

back to top

European bank equities plunged 1.2% this morning on concerns over a weakening economic environment. Investors have taken to heart the ECB's downgrade in growth forecasts yesterday – one the largest downward revisions since 2013 – which more than offset the initial positive effect on markets from the announcement of a third TLTRO. Some contacts have noted that the operation's variable rate and its 2-year maturity make it less supportive than TLTRO II. The main equity indices also suffered losses: EuroStoxx 600 (-0.6%), DAX (-0.6%), and CAC 40 (-0.4%).

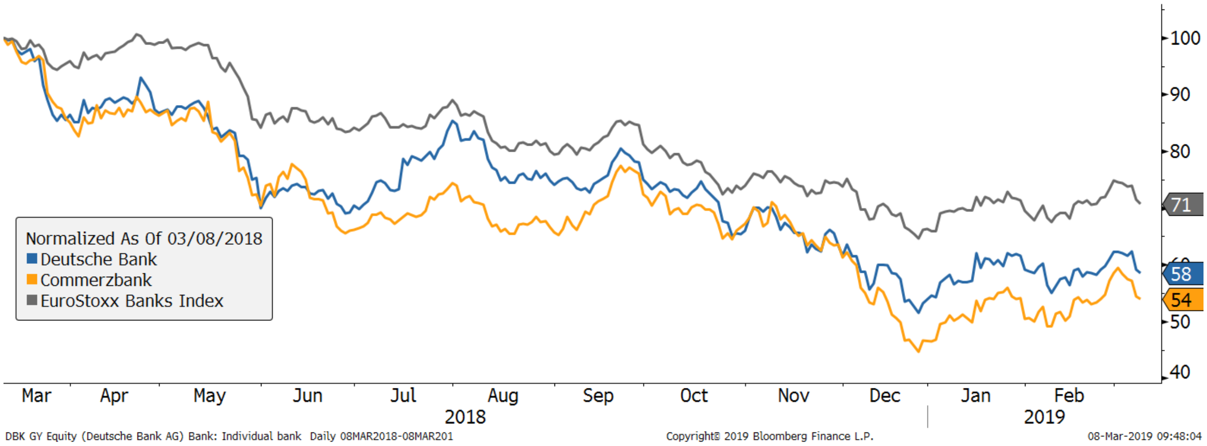




*Source: ECB, Commerzbank Research, *) assuming similar eligibility criteria as for TLTRO II*

Deutsche Bank (-0.9%) and Commerzbank (-0.8%) have reportedly resumed talks at the CEO level about a possible merger. Both banks have declined to comment. Some analysts have criticized a prospective merger as it would result in a protracted period of restructuring during which cost-cutting and layoffs would be difficult given Germany's labor laws, and would also give rise to important challenges to integrate the two banks' IT systems.

Selected European Banks: Equity Price



Euro area sovereign bond markets are steady. The German 10-year yield is up 1 bp to 0.19%; France's 10y +1 bp to 0.59%; while Italy's 10y -2 bps at 2.64%. Ten-year gilts are also 1 bp higher to 1.17%.

On **Brexit news**, leader of the House of Commons Mrs. Leadsom confirmed that parliament's vote on the Withdrawal Agreement will be next Tuesday March 12 – thus dispelling rumors of possible new delays. Separately, the EU has reportedly made some changes to its offer on the so-called Irish border "backstop." Although details have not been revealed, the revised offer would allegedly speed up the process of finding a permanent solution for the Irish-Northern Irish border.

Finnish PM Juha Sipila has resigned after a key healthcare reform was rejected by parliament. The resignation of the center-right leader comes just one month ahead of national elections in which the Socialist Democrats are expected to obtain 21% of votes vs 17% expected for the governing center-right National Coalition. Equities in Finland are 0.5% lower this morning.

The governor of the Bank of Spain, **Mr. Hernández de Cos, has been appointed as new chairman of the Basel Committee on Banking Supervision (BCBS)** with immediate effect, replacing Stefan Ingves.

Other Mature Markets back to top

Japan

Equities fell today (Topix -1.8%), led by financials, tech and cyclicals. Even though Japan's Q4 GDP growth came in better than the initial reading at 1.9% q/q saar (vs. 1.4% initially) and after -2.4% q/q in Q3, the economic outlook is weakening according to leading business cycle indicators. **In line with the risk-off environment the yen appreciated 0.5% while 10-year JGB yields dropped 2.8 bps to -0.04%.**

Emerging Markets

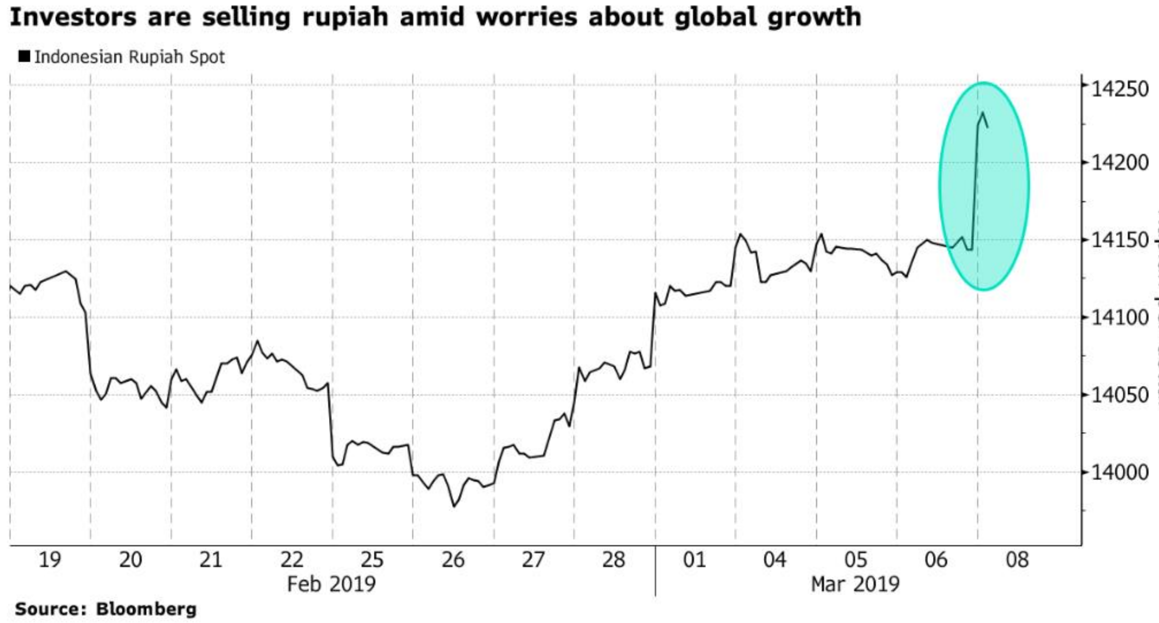
back to top

Asian equities (-1.5%) declined, with Chinese equities underperforming (Shanghai -4.4%) on very heavy volumes and following lackluster international trade data. Sovereign yields broadly declined, except for Indonesia's, which rose 6 bps to 7.9%. Even though regional currencies were mostly stable, the Indonesian rupiah (-1.3%) weakened without a clear catalyst. Analysts blamed the unwinding of carry trades among EM high yielders in the risk-off environment. Bank Indonesia Governor Perry Warjiyo stated that the central bank will stabilize the rupiah amid external pressures and added that foreign reserves are enough to support external sector resilience and financial stability. **EMEA** equities fell, led by UAE (-1.2%), Qatar (-1.0%), and Turkey (-0.8%). Currencies in the region generally appreciated vs. the dollar by about 0.1 to 0.3%, with the exception of the Russian ruble (-0.3%) and the South African rand (-0.2%). **Latin American equity markets** were mixed yesterday. Argentina was the main outperformer (+2.6%), while Colombia (-1%) and Mexico (-0.6%) saw losses. Local currencies sold off on Thursday. The Argentine peso fell 3.8% to a record low 42.34/USD as investors appeared disappointed with the central bank's benchmark interest rate hike while political volatility was on the rise. The Brazilian real (-1%) and Mexican peso (-1%) both extended losses, reversing year-to-date gains. 10-year government bond yields were generally lower.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
3/8/19 7:19 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		41.94	-1.4	-1	-1	-14	7
MSCI Frontier Equities		28.08	-1.0	-1	-1	-20	7
EMBIG Sovereign Spread (in bps)		354	1	18	-6	64	-60
EM FX vs. USD		62.71	0.1	-1	-2	-11	1
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.72	-0.1	0	0	-6	2
Indonesian Rupiah		14315	-1.2	-1	-2	-4	1
Indian Rupee		70.15	-0.2	1	2	-7	-1
Argentine Peso		42.34	-3.8	-8	-11	-52	-11
Brazil Real		3.87	0.1	-2	-4	-16	0
Mexican Peso		19.58	-0.1	-2	-3	-5	0
Russian Ruble		66.28	-0.5	-1	-1	-14	5
South African Rand		14.55	-0.3	-2	-6	-18	-1
Turkish Lira		5.47	0.0	-2	-4	-30	-3
EM FX volatility		8.22	0.0	0.0	-0.7	0.3	-1.6

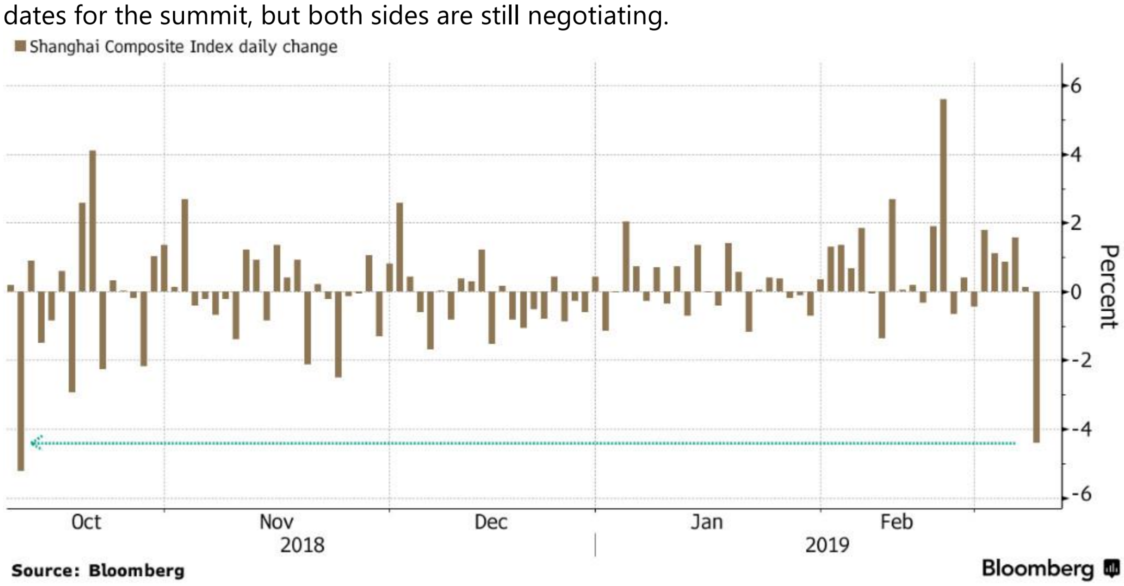
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.



China

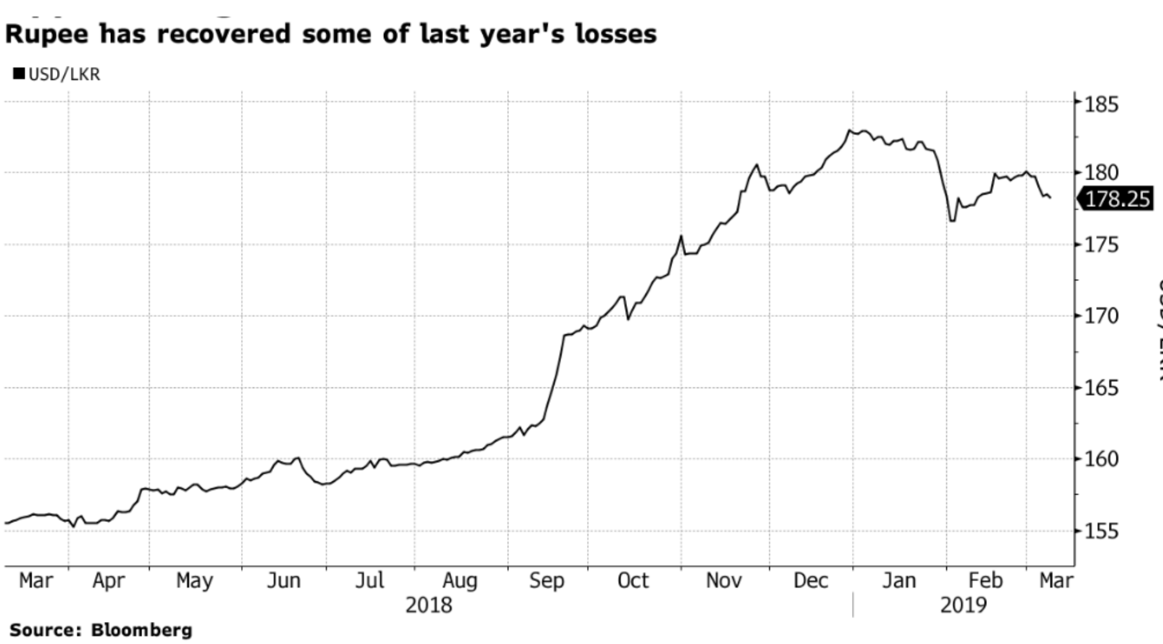
Chinese equities plunged (Shanghai -4.4%; Shenzhen -3.8%) in very high-volume trading following weak trade data. The 4.4% loss in Shanghai was the most since October. A rare sell rating issued by Chinese investment bank Citic for a major insurer also soured the mood. Export growth (in USD terms) dropped to -20.7% y/y in February after the rebound of 9.1% y/y in January and significantly missed the consensus expectation of -5.0% y/y. Import growth also fell to -5.2% y/y (versus -1.5% y/y in January and consensus of -0.6% y/y). While calendar effects from Lunar New Year holidays accentuated the decline in February, average export and import growth across January and February was still -4.7% y/y and -3.1% y/y respectively. The data reflected headwinds facing the Chinese economy and uncertainty from the US-China trade negotiations. **10-year bond yields fell 2.7 bps to 3.1% while the onshore and offshore RMB were stable.**

A summit between Presidents Trump and Xi has been pushed back from end-March, according to an FT report after markets in China closed. In an interview, the US ambassador to China said that there are no dates for the summit, but both sides are still negotiating.



Sri Lanka

Sri Lanka raised $2.4 bn in five-year and 10-year USD-denominated bonds. The $1 bn five-year bonds were sold with a coupon of 6.85% and the $1.4 bn 10-year bonds were issued with a coupon of 7.85%. Demand for the bonds was strong with bids three times issuance. Central Bank Deputy Governor Nandalal Weerasinghe said that the bond sale will help cover its debt obligations for 2019, according to Bloomberg. Reserves will increase to more than $8 bn, the most since August 2018, and Weerasinghe also stated that he sees stability in the currency and the local bond market. The tapping of international bond markets came after Sri Lanka reached a staff-level agreement for a one-year extension to its $1.5 bn loan from the IMF on February 28.



Czech Republic

The central bank decided to maintain banks' countercyclical capital buffer at 1.75% for local exposures. The decision to keep the buffer unchanged follows several decisions by the bank to raise the buffer from its introduction at end-2015. The increase will take effect from January 2020.

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

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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2749	-0.8	-1	2	0	10
Europe		3286	-0.7	-1	5	-4	9
Japan		21026	-2.0	-3	3	-2	5
China		2970	-4.4	-1	13	-10	19
Asia Ex Japan		69	-1.7	-1	1	-12	8
Emerging Markets		42	-1.5	-1	-1	-14	7
Interest Rates					basis points		
US 10y Yield		2.64	-5.4	-12	0	-22	-5
Germany 10y Yield		0.06	-0.7	-12	-3	-57	-18
Japan 10y Yield		-0.03	-2.6	-3	0	-9	-4
UK 10y Yield		1.19	1.4	-11	4	-29	-9
Credit Spreads					basis points		
US Investment Grade		119	0.5	0	-2	27	-28
US High Yield		415	7.4	10	-15	67	-106
Europe IG		65	1.9	2	-9	13	-22
Europe HY		292	7.3	12	-27	32	-61
EMBIG Sovereign Spread		355	2.0	19	-5	65	-59
Exchange Rates					%		
USD/Majors		97.48	-0.2	1	1	8	1
EUR/USD		1.12	0.2	-1	-1	-9	-2
USD/JPY		111.2	0.4	1	-1	-4	-1
EM/USD		62.7	0.0	-1	-2	-11	1
Commodities					%		
Brent Crude Oil ($/barrel)		65	-1.9	0	5	2	21
Industrials Metals (index)		119	-0.7	-2	1	-9	9
Agriculture (index)		40	0.2	-2	-5	-20	-3
Implied Volatility					%		
VIX Index (%, change in pp)		17.4	0.8	3.8	1.7	0.9	-8.0
10y Treasury Volatility Index		3.7	0.1	-0.1	0.1	-0.8	-0.9
Global FX Volatility		7.2	0.0	0.1	-0.7	-0.7	-1.8
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		377	0.5	30	-16	24	-39
Italy		245	5.1	-10	-42	110	-5
Portugal		130	2.2	-1	-27	10	-18
Spain		100	1.9	-2	-15	22	-18

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

back to top

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
3/8/2019	Level		Change (in %)					Level		Change (in basis points)				
7:19 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		6.72	-0.1	-0.2	0	-6	2		3.2	-0.5	3	12	-69	-2
Indonesia		14315	-1.2	-1.4	-2	-4	1		8.0	0.0	5	4	101	-19
India		70	-0.2	1.1	2	-7	-1		7.5	0.1	-4	0	-32	7
Philippines		52	-0.2	-1.0	0	0	1		5.5	0.5	-9	-19	61	-82
Thailand		32	0.1	-0.1	-1	-1	2		2.6	0.0	1	5	24	-1
Malaysia		4.09	-0.1	-0.4	-1	-4	1		3.9	-1.2	-5	-6	-5	-16
Argentina		42	-3.8	-7.6	-11	-52	-11		21.8	18.0	61	137	532	-119
Brazil		3.87	0.1	-2.4	-4	-16	0		8.3	0.4	9	39	-12	11
Chile		669	-0.5	-1.6	-2	-9	4		4.3	-3.4	-2	-6	-49	-13
Colombia		3143	-1.2	-2.0	-1	-9	3		6.4	-2.1	-5	-6	-17	-15
Mexico		19.58	-0.1	-1.6	-3	-5	0		8.2	1.5	-8	-19	61	-47
Peru		3.3	-0.2	-0.4	0	-2	2		5.6	-1.9	-4	-3	65	-17
Uruguay		33	-0.9	-1.1	-1	-14	-2		10.3	-0.6	8	8		-40
Hungary		282	0.2	-1.3	0	-10	-1		2.1	-5.7	-5	9	34	-15
Poland		3.84	0.3	-1.4	-1	-11	-3		2.3	-4.4	-9	5	-30	0
Romania		4.2	0.2	-1.3	-1	-11	-4		4.0	-3.0	-6	-24	-2	-23
Russia		66.3	-0.5	-0.6	-1	-14	5		8.1	-0.9	0	11	127	-32
South Africa		14.6	-0.3	-2.2	-6	-18	-1		9.5	3.4	-2	10	70	-13
Turkey		5.47	0.0	-1.8	-4	-30	-3		16.1	12.1	57	86	389	-81
US (DXY; 5y UST)		97.5	-0.2	1.0	1	8	1		2.43	-0.7	-12	-1	-20	-8

	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		2970	-4.4	-1	13	-10	19		179	0	1	-6	17	-15
Indonesia		6383	-1.2	-1	-2	0	3		200	0	11	1	23	-36
India		36671	-0.1	2	0	10	2		167	3	2	-13	46	-29
Philippines		7797	-1.1	2	-3	-7	4		96	-1	15	2	-4	-25
Malaysia		1680	-0.4	-1	0	-9	-1		129	0	3	-4	20	-33
Argentina		33190	2.6	-8	-9	1	10		778	1	60	106	370	-37
Brazil		94340	0.1	-3	-1	11	7		245	1	14	0	13	-28
Chile		5257	0.0	0	-2	-6	3		134	-1	7	-6	15	-32
Colombia		1518	-0.9	1	3	3	14		193	0	8	-4	15	-35
Mexico		41642	-0.6	-3	-4	-14	0		325	1	8	6	85	-29
Peru		20531	-0.3	0	1	-1	6		140	0	9	-6	-6	-28
Hungary		40589	-0.1	1	2	5	4		117	1	13	4	19	-31
Poland		59440	-0.3	-1	-1	-3	3		56	1	11	0	2	-29
Romania		7860	-0.1	3	4	-7	6		198	3	4	3	73	-23
Russia		2477	0.0	0	-1	8	5		215	1	8	-10	51	-37
South Africa		55650	-0.4	-1	5	-6	6		301	4	19	-6	66	-64
Turkey		101401	-0.8	-2	-1	-13	11		431	2	31	17	128	2
Ukraine		558	0.0	0	1	59	0		677	2	38	-42	242	-110
EM total		42	-1.4	-1	-1	-14	7		354	1	18	-6	64	-60

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