



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Thursday, March 14, 2019












- UK parliament decisively rejects “no deal” Brexit approach ([link](#))
- Chinese equities fall following softer data, rising scrutiny on market leverage ([link](#))
- Reserve Bank of India to conduct \$5 bn FX swap auction ([link](#))
- S&P 500 marks highest close of 2019 ([link](#))
- US leveraged loans have best annual start since 2009 but headwinds loom ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Developed markets edge higher as Brexit drama unfolds

**Global risk markets are higher amid continued Brexit uncertainty, but gains have paused following softer Chinese data and waning optimism for a US-China trade deal.** European and UK stocks rose and sterling strengthened yesterday after the UK parliament voted emphatically to reject a “no deal” Brexit, with debate expected later today on a vote to delay Brexit. US stocks pushed higher yesterday on tech share outperformance, reaching new highs for 2019, even as the Treasury market signals continued risk aversion. In EMs, weaker-than-expected Chinese industrial production and employment data added to stock market losses over the last two days, reportedly compounded by insider selling and greater official scrutiny of “shadow” stock market leverage. Early this morning, reports that a Xi-Trump summit would be delayed to at least April dampened hopes that a US-China trade deal would be wrapped up quickly, denting US equity market futures.

### Key Global Financial Indicators

Last updated: 3/14/19 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2811	0.7	1	2	2	12
Eurostoxx 50		3339	0.5	1	5	-2	11
Nikkei 225		21287	0.0	-1	1	-2	6
MSCI EM		43	-1.3	0	1	-14	9
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.63	2.0	-1	-3	-19	-6
Germany 10y Yield		0.07	0.9	1	-3	-52	-17
EMBIG Sovereign Spread		349	0	-4	-6	56	-65
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		63.1	-0.1	1	0	-11	1
Dollar index, (+) = \$ appreciation		96.8	0.3	-1	0	8	1
Brent Crude Oil (\$/barrel)		67.6	0.0	2	5	4	26
VIX Index (% change in pp)		13.5	0.1	-3	-3	-4	-12

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

## United States

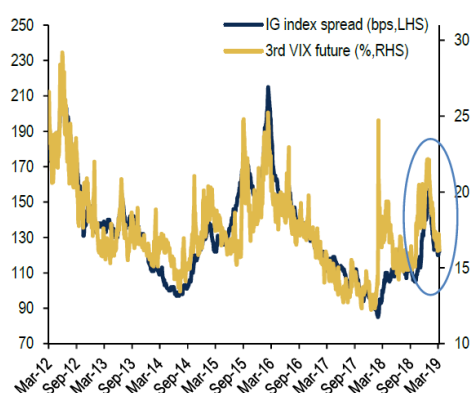
[back to top](#)

**Wednesday saw another day of seemingly contradictory market trends.** The S&P 500 turned in its third consecutive day of gains, pushing the index to its highest level of the year. Equally importantly, it closed above the psychologically important 2800 level for only the second time in 2019. Technology stocks continued to outperform and even the Dow was higher as the Boeing effect started to fade. On the other hand, the Treasury market continued to flash warning signals as rates remained stuck at very low levels and key parts of the yield curve remained inverted. The five-year Treasury is now trading below both the six and twelve-month T-Bill yields. Despite the “Goldilocks” market, the level of risk aversion remains high. Fund flow data show that there have been very large outflows out of the equity market this year as many investors have chosen to forego further gains for fear of another Q4 2018-style meltdown.

### Credit spreads for US investment grade (IG) corporate bonds have narrowed sharply in 2019.

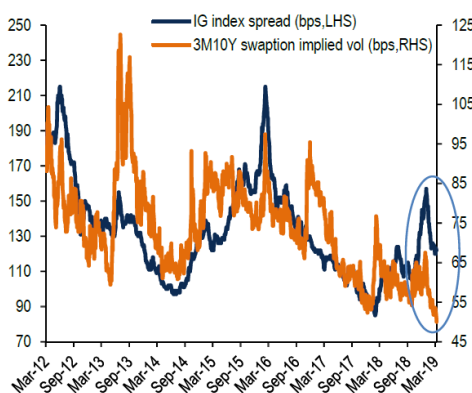
Contacts say the Fed’s dovish pivot was a major factor behind strong investor demand as the policy changed lowered the perceived interest rate risk for longer maturity bonds. This trend was reinforced by the equity rally, which boosted risk appetite across the board, as well as the accompanying decline in equity volatility. The narrowing of credit spreads has brought the IG market in line with equity volatility. Interest rate volatility is also marking important milestones, with the volatility for the benchmark three-month/10yr swaption hitting new record low of just over 50 bps. As a result, IG spreads are still wide relative to interest rate volatility and contacts think that spreads have room to narrow further. IG credit demand remains strong and new deals coming to market this week have been well received by investors.

Figure 1: Credit spreads and equity vol are roughly in line



Source: Bloomberg-Barclays, Bloomberg

Figure 2: Credit spreads are wide to rates vol

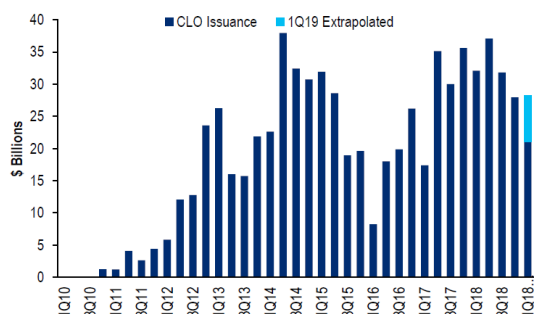


Source: Bloomberg-Barclays, Bloomberg

### The US leveraged loan market is enjoying its best annual start since 2009, but headwinds loom.

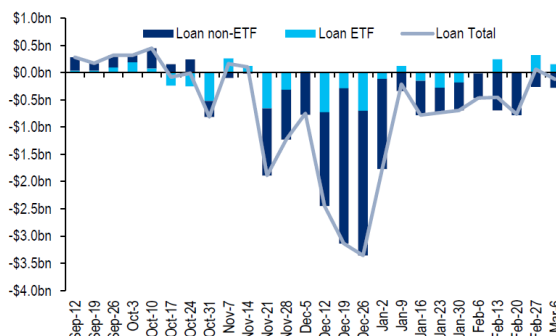
The S&P leveraged loan index is already up more than 3% for the year. CLO issuance has picked up, boosting demand for leveraged loans, while outflows from loan funds have slowed down. The overall rally in equity and fixed income markets has improved sentiment in the leveraged loan market after the sharp selloff in Q4 2018. However, analysts caution that many risk factors loom over the market and further upside could be limited. Leveraged loan coupons will be capped by recent dovish tilts by the Fed and ECB. The market will be subject to regulatory probes in several jurisdictions, such as the one from the Financial Stability Board (FSB), which could deter some investors. Within the market, other technical factors may prove challenging for leveraged loans in the months ahead. The CLO arbitrage has narrowed sharply, making it hard to structure new deals because the cashflows required to satisfy both regular tranche buyers and the crucial equity tranche investors are shrinking. In addition, the bulk of the rally has been confined to the highest quality leveraged loans with high dollar prices. Lower priced loans have seen much more limited gains.

Figure 2. CLO Issuance Recover After Quiet End to 2018



Source: Citi Research, S&amp;P/LCD

Figure 3. Loan Outflows Slow

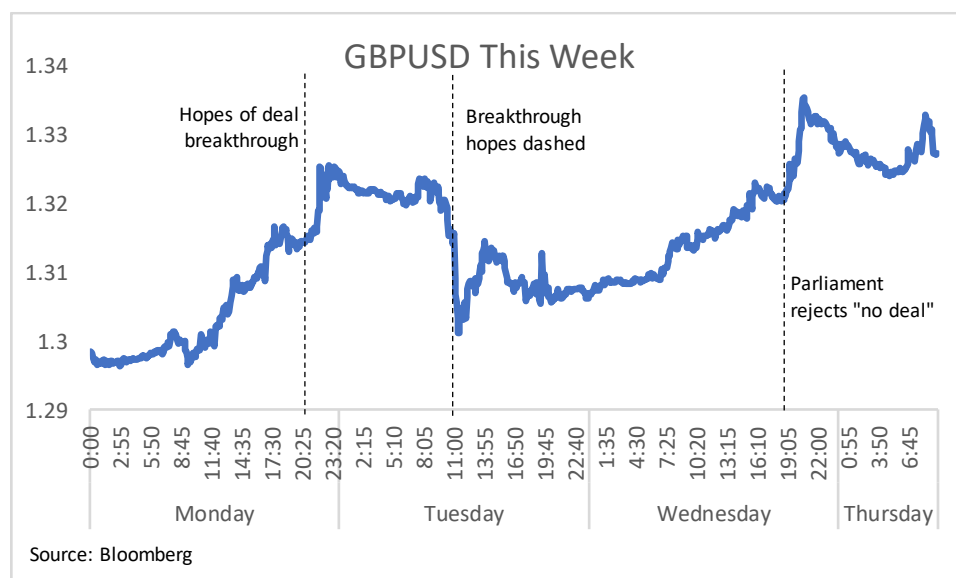


Source: Citi Research, EPFR Global

## Europe

[back to top](#)

The UK parliament rejected a "no deal" approach yesterday in a more decisive manner than expected. MPs amended the motion to state that they reject a "no deal" strategy under any circumstance, not just on March 29 as initially expected. The motion was non-binding and does not change the Article 50 end-date of March 29 but puts pressure on PM May to avoid exiting the EU without a deal. After the vote, May said she would bring forward a vote today to request a short delay to the exit date. The manner in which that vote is held could determine whether a short delay is requested, and May getting yet another chance to pass her deal, or a lengthy extension which could see a more dramatic change in strategy such as a second referendum. One option pushed by some MPs is to hold a series of indicative votes on solutions to the impasse. Hints that the government could support such an approach, coupled with the "no deal" rejection, saw sterling rally, appreciating by more than 1% and temporarily reaching fresh highs against the dollar and the euro. These gains have largely been given back in this morning's trading.



**Equities ignored the Brexit news and rose steadily.** The Euro Stoxx 600 was up by 0.7% with all sectors in the green. Energy and communication stocks led the gains while banks also outperformed with a 1.2% gain. **Sovereign yields were mixed.** Gilt yields were 3 bps higher on hopes of a Brexit resolution while BTPs were down 3 bps. The 10-year is now trading just above 2.5%.

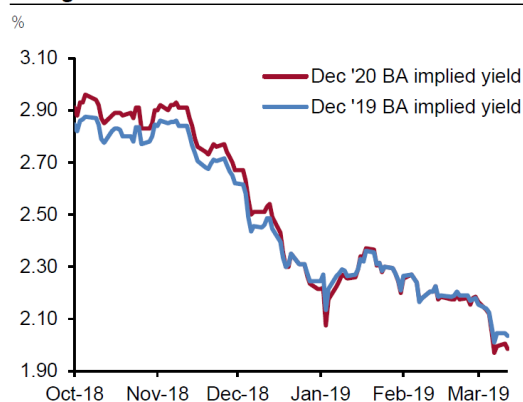
**The European Parliament and national governments have reached a provisional agreement on clearing houses within the EU, according to reports.** The measures agreed are said to require clearing houses to stick closely to EU regulation, including capital requirements, if they want to maintain access to EU clients and business. Any such action could affect UK clearing houses which are actively reorganizing their business models to prepare for Brexit. CFTC chairman Giancarlo criticized EU policymakers heavily last year, calling their plans “wholly unacceptable” and threatened to bar EU banks from using certain US clearing infrastructure.

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

### Canada

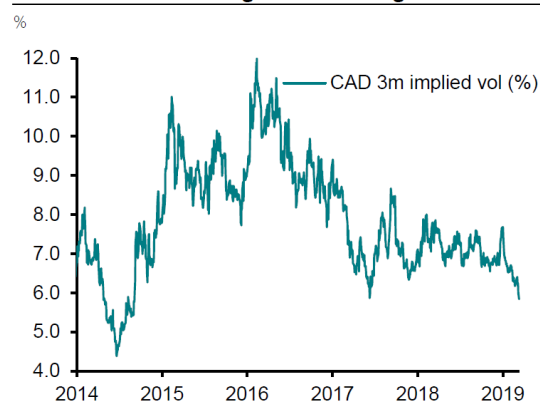
**The dovish shift of the Bank of Canada has pushed yields and volatility lower in the broader Canadian financial market.** In the futures market, investors are betting on short term interest rates heading lower by the end of 2019 and 2020. In the foreign exchange market, implied volatility on USD-CAD FX options has sunk to the lowest level in years as investors speculate that the BOC's rate hike cycle may be close to the end. Recent economic data have supported this view. Even the strong employment report last week had some disquieting features such as a reduced number of hours worked. The recent string of weak US data reports provides another reason for the BOC to remain on the sidelines. Analysts expect the BOC to provide more details of its outlook at its next meeting on April 24.

**Figure 4: Dovish shift in BoC policy expectations has held ground amid FX mean reversion**



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

**Figure 5: CAD volatility broke to multi-year lows on the back of the BoC's guidance change**



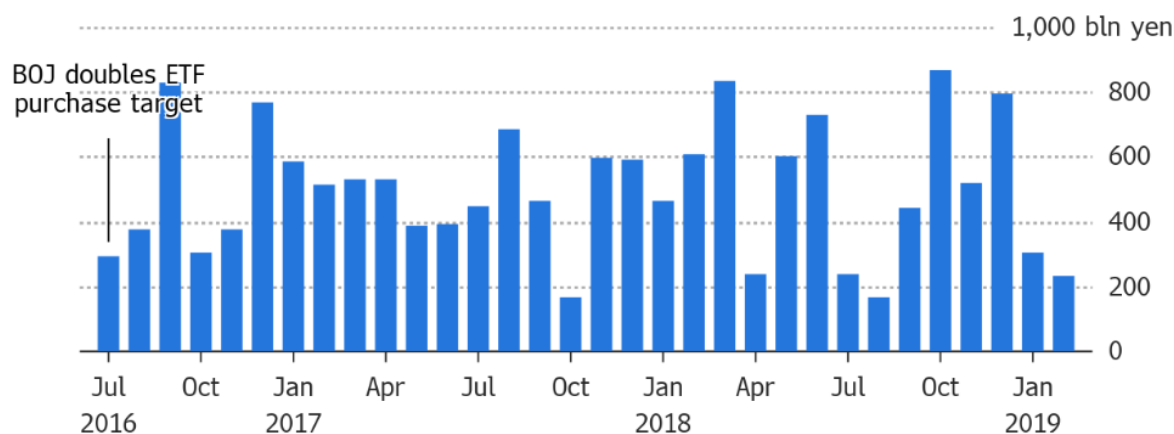
Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

### Japan

**Equities (Nikkei 0.0%; Topix -0.2%) were broadly stable but with a wide dispersion.** Energy (+2.0%) shares outperformed while materials (-1.4%) lagged. According to Bloomberg, **the BoJ has been paring back its purchases of exchange-traded funds (ETF).** The BoJ bought JPY70.2 bn of regular ETFs tracking Japanese equities on each of the four days that it conducted operations this month. That marked the lowest daily amount since the authorities doubled their annual purchase target to JPY6 tn in July 2016. **The BoJ concludes its two-day monetary policy meeting tomorrow, and consensus is for no change.** The yen depreciated 0.5% while 10-year JGB yield rose 0.2 bps to -0.05%.



### BOJ's ETF buying has slowed after purchases reached a record in 2018



**Bloomberg**

## Emerging Markets

[back to top](#)

**Asian equities (-0.1%) were marginally lower on net, dragged down by declines in China (Shanghai -1.2%; Shenzhen -2.3%) following soft economic data.** Most other regional stock markets posted small gains. Regional currencies fell slightly (-0.2%), while bond yields were little changed. In **EMEA**, GCC bourses mostly advanced, led by Kuwait (+1.2%) and Saudi Arabia (+0.5%). Crude prices gained about 0.1%, pushing Brent to \$67.6 per barrel. In Central and Eastern Europe, equities gained in the Czech Republic (+0.7%) and Hungary (+0.3%). Russian stocks dropped 0.3%. Currencies were mostly weaker to the dollar by about 0.1%. In **Latin America**, the Argentine peso outperformed the rest of the region, appreciating by 0.6% against the dollar. Bloomberg reported that Banco Nacion sold FX in the spot market over the last two days, while the central bank continued validating a higher Leliq rate (63.3% up from 62.1% on Tuesday, and 19 percentage points higher since mid-February).

## Key Emerging Market Financial Indicators

Last updated: 3/14/19 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.69	-1.3	0	1	-14	9
MSCI Frontier Equities		28.50	0.5	0	-1	-19	9
EMBIG Sovereign Spread (in bps)		349	0	-4	-6	56	-65
EM FX vs. USD		63.10	-0.2	1	0	-11	1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.73	-0.3	0	1	-6	2
Indonesian Rupiah		14278	-0.1	-1	-1	-4	1
Indian Rupee		69.35	0.3	1	3	-7	1
Argentine Peso		41.26	0.6	-1	-7	-51	-9
Brazil Real		3.83	-0.3	1	-3	-15	1
Mexican Peso		19.31	-0.1	1	0	-4	2
Russian Ruble		65.45	0.0	1	2	-13	6
South African Rand		14.48	-0.4	0	-2	-19	-1
Turkish Lira		5.47	-0.3	0	-4	-29	-3
EM FX volatility		8.06	0.0	-0.2	-0.8	0.3	-1.7

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

## China

**Chinese equities (Shanghai -1.1%; Shenzhen -2.3%) underperformed following weak economic data.**

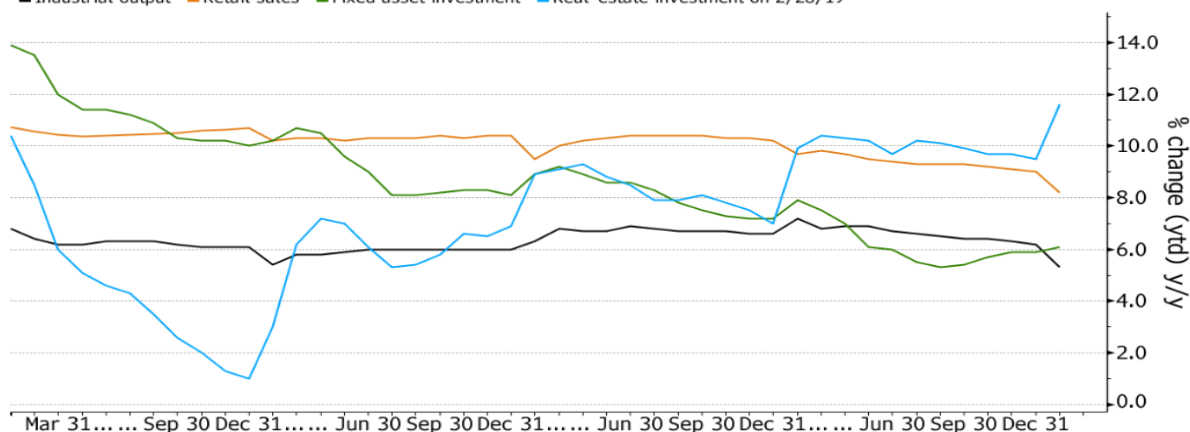
Industrial production growth for January-February fell to 5.3% y/y from 5.7% y/y in December, while retail sales expanded 8.2% y/y, the slowest pace since 2012. Additionally, the unemployment rate rose to 5.3% in February, the highest level in two years, from 4.9% in December. Fixed asset investment growth however picked up to 6.1% y/y for January-February, from 5.9% y/y for 2018. It was boosted by a surge in property investment, which increased 11.6% y/y from 9.5% y/y, the highest since November 2014. Infrastructure investment growth continued its recovery to 4.3% y/y from 3.8% y/y in 2018.

**In property markets, official data showed unsold residential floor space rising for the first time in two years**, amidst still negative sales growth. The rebuild in housing inventory and the surge in property investment point to potential headwinds for housing prices and activity. **The onshore and offshore RMB weakened -0.2% and -0.3%, respectively.**

## Slowdown Continues

Although real-estate investment spikes

■ Industrial output ■ Retail sales ■ Fixed asset investment ■ Real-estate investment on 2/28/19



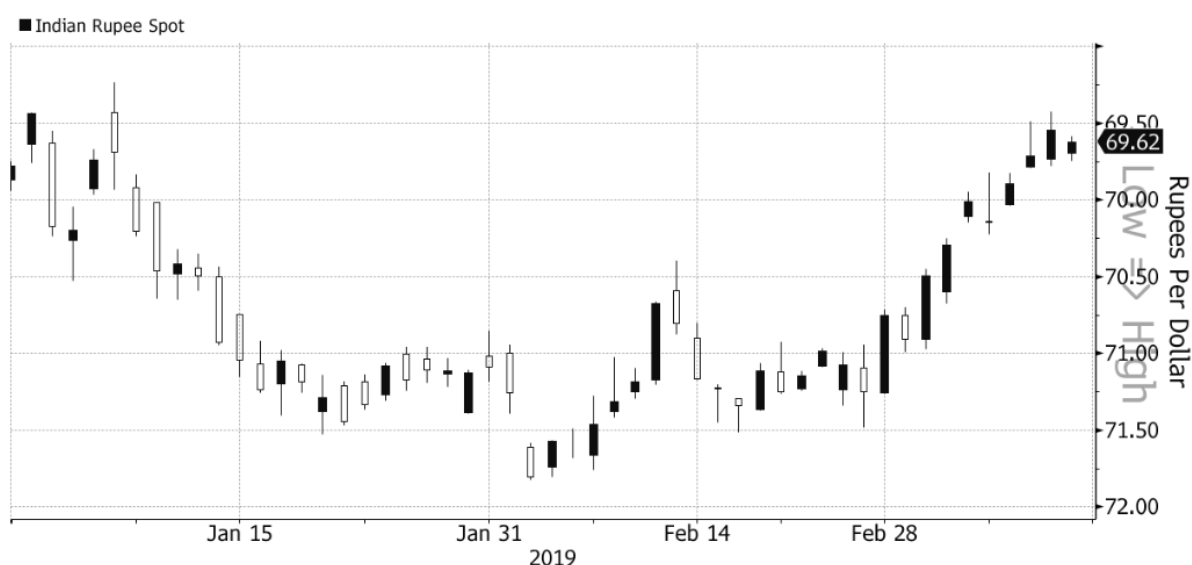
**Authorities also signaled further tightening on stock market leverage.** CSRC officials in recent days have apparently urged securities firms to avoid cooperating with clients who may be sourcing leverage from nonbanks acting as third-party margin lenders. Small-cap technology board stocks (ChiNext index) have sold off 7% in the last two trading days, paring year-to-date gains from a peak of 42% on Tuesday.

## India

**The Reserve Bank of India announced plans to inject \$5 bn worth of rupee liquidity on March 26.**

The central bank will conduct a foreign exchange swap auction for a three-year tenor, aimed at supplying funds to banks for a longer duration. The RBI stated that the dollars mobilized via the auction would be reflected in its foreign exchange reserves. Analysts also interpreted the swap as a signal that the RBI is getting uncomfortable with the rupee's strength. The rupee has appreciated 2.3% over the past month, making it the best performing currency regionally. While the rupee was little changed in the spot market following the announcement, rupee forwards weakened substantially.

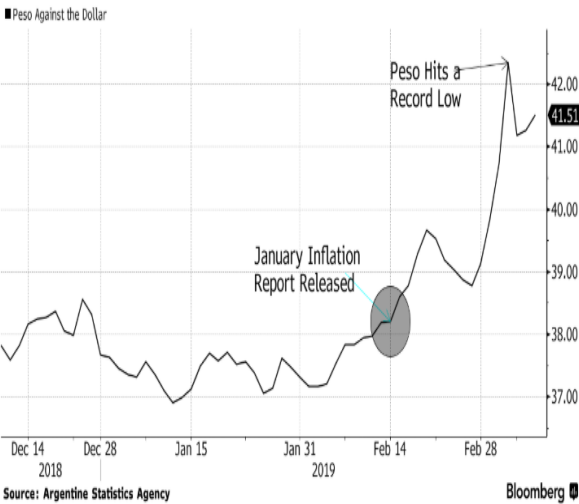
### The rupee has been Asia's best performer over the past month



## Argentina

**As the central bank continues to tighten peso liquidity, markets are awaiting key CPI data for February that will be released today.** The peso has weakened by more than 7% since the release of January inflation data in mid-February that surprised markets to the upside (2.9% m-o-m compared to 2.5% consensus). Since then, the stock of the 7-day notes that the central bank sells to absorb pesos has increased substantially in peso terms and now stands at around \$25 bn. Additionally the central bank has increased the policy rate by almost 20 percentage points to 63% from 44%. Market expectations for today's CPI release are for a m-o-m increase of 3.6%.

Achilles Heel  
High inflation is undermining the peso



Heavy Load  
BCRA strives to absorb market money and increases its debt







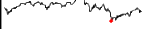




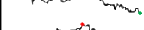


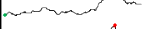



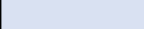



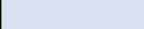






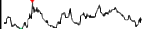



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## Global Financial Indicators

Last updated: 3/14/19 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2811	0.7	1	2	2	12
Europe		3339	0.5	1	5	-2	11
Japan		21287	0.0	-1	1	-2	6
China		2991	-1.2	-4	10	-9	20
Asia Ex Japan		70	-0.1	0	2	-12	10
Emerging Markets		43	-1.3	0	1	-14	9
<b>Interest Rates</b>			basis points				
US 10y Yield		2.63	2.0	-1	-3	-19	-6
Germany 10y Yield		0.07	0.9	1	-3	-52	-17
Japan 10y Yield		-0.04	0.1	-3	-3	-9	-4
UK 10y Yield		1.22	2.2	5	7	-22	-6
<b>Credit Spreads</b>			basis points				
US Investment Grade		119	-0.4	0	-1	26	-28
US High Yield		411	-5.6	4	-11	63	-110
Europe IG		59	-0.4	-4	-12	9	-28
Europe HY		268	-3.8	-17	-41	12	-85
EMBIG Sovereign Spread		349	0.0	-4	-6	56	-65
<b>Exchange Rates</b>			%				
USD/Majors		96.80	0.3	-1	0	8	1
EUR/USD		1.13	-0.2	1	0	-9	-1
USD/JPY		111.6	-0.4	0	-1	-5	-2
EM/USD		63.1	-0.1	1	0	-11	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	0.0	2	5	4	26
Industrials Metals (index)		121	-1.2	0	5	-10	10
Agriculture (index)		40	-0.2	1	-4	-18	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.5	0.1	-3.1	-2.7	-3.7	-11.9
10y Treasury Volatility Index		3.8	0.0	0.1	0.1	-0.4	-0.8
Global FX Volatility		7.0	0.0	-0.1	-0.8	-0.7	-1.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		372	-3.9	-4	-3	15	-43
Italy		243	-6.1	2	-27	100	-7
Portugal		125	-3.0	-2	-22	4	-23
Spain		110	-2.7	12	-4	29	-8

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

Data source: Bloomberg.

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 3/14/2019 8:06 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	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	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.73	-0.3	-0.2	1	-6	2		3.2	0.3	-3	11	-72	-4
Indonesia		14278	-0.1	-0.9	-1	-4	1		7.9	-3.7	-5	-9	98	-24
India		69	0.3	0.9	3	-7	1		7.5	1.6	-3	3	-34	4
Philippines		53	0.2	-0.8	0	-1	0		5.5	0.1	-2	-22	56	-84
Thailand		32	-0.5	0.3	-1	-2	2		2.6	-0.6	-2	2	23	-2
Malaysia		4.09	-0.1	-0.1	0	-5	1		3.9	-1.1	-3	-3	-6	-18
Argentina		41	0.6	-1.3	-7	-51	-9		22.5	29.5	85	227	567	-52
Brazil		3.83	-0.3	1.3	-3	-15	1		7.9	-8.8	-31	14	-37	-21
Chile		672	-0.4	-0.9	-1	-11	3		4.3	-2.2	-8	-6	-54	-18
Colombia		3146	0.1	-1.3	0	-9	3		6.3	-0.5	-11	-18	-11	-24
Mexico		19.31	-0.1	1.3	0	-4	2		8.2	2.9	-6	-40	55	-54
Peru		3.3	0.1	0.4	1	-1	2		5.5	-4.0	-13	-18	46	-28
Uruguay		33	-0.7	-2.1	-2	-15	-3		10.5	3.0	18	26		-22
Hungary		278	-0.2	1.5	1	-10	1		2.1	1.3	-1	5	41	-11
Poland		3.81	-0.3	1.2	1	-11	-2		2.3	-0.7	-4	6	-31	1
Romania		4.2	0.0	0.5	-1	-11	-4		4.1	5.0	7	-4	16	-13
Russia		65.4	0.0	1.3	2	-13	6		8.1	-0.2	-3	3	124	-34
South Africa		14.5	-0.4	0.2	-2	-19	-1		9.4	0.5	2	-22	70	-15
Turkey		5.47	-0.3	0.0	-4	-29	-3		16.4	12.3	49	116	381	-43
US (DXY; 5y UST)		96.8	0.3	-0.9	0	8	1		2.43	0.0	-1	-4	-18	-8
	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		2991	-1.2	-4	10	-9	20		177	0	-2	-8	12	-17
Indonesia		6413	-0.7	-1	0	0	4		197	-1	-3	-1	18	-39
India		37755	0.0	3	5	12	5		161	-3	-3	-8	30	-35
Philippines		7750	-0.2	-2	-3	-7	4		97	0	0	3	-6	-24
Malaysia		1675	-0.2	-1	-1	-10	-1		129	1	0	1	17	-33
Argentina		34023	2.6	5	-9	4	12		747	0	-30	69	344	-68
Brazil		98904	1.1	5	1	15	13		242	1	-2	4	8	-31
Chile		5313	0.5	1	-1	-5	4		133	0	-2	-7	11	-33
Colombia		1560	1.8	2	6	7	18		190	0	-3	-8	14	-38
Mexico		41933	0.5	0	-2	-13	1		308	0	-16	-11	64	-46
Peru		20896	0.7	1	3	1	8		136	-1	-4	-9	-10	-32
Hungary		41113	1.2	1	3	6	5		118	-1	2	2	14	-30
Poland		59824	-0.1	0	1	-3	4		54	-2	-1	-2	-2	-31
Romania		7868	0.1	0	3	-9	7		202	2	7	10	71	-19
Russia		2467	-0.2	-1	0	8	4		212	-1	-2	-11	42	-40
South Africa		55915	0.2	0	3	-4	6		301	-1	4	-8	55	-64
Turkey		102472	0.3	0	0	-13	12		421	-1	-8	15	110	-8
Ukraine		549	0.4	-2	-3	56	-2		644	-1	-31	-88	206	-143
EM total		43	-1.3	0	1	-14	9		349	0	-4	-6	56	-65

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