Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, May 1, 2019

- **Speculative net-long positions in the US rates market largest in three years ([link](#))**
- **The effective Fed funds rate continues to inch higher ([link](#))**
- **Labor vote against referendum improves chance for compromise on Brexit ([link](#))**
- **Canada's growth number underwhelm ([link](#))**
- **Mexico's markets decline on weaker corporate earnings ([link](#))**

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Political and Macro tailwinds in Europe help to improve market sentiment

A number of global financial markets are closed for Labor Day today, while market action on Tuesday was generally tame. In North America, US markets ended the day on a high note thanks to generally upbeat corporate earnings, while Canadian markets were slightly down on back of weaker economic data. In Europe, macro tailwinds helped lift risk assets higher as GDP data from Italy and Spain came out better than expected. European sovereign bonds were generally offered, with yields rising slightly on the day. Moreover, better prospects for compromise on the issue of Brexit amongst UK parties provided support for the British pound and contributed to a modest rise in Gilt yields. Meanwhile, a halt in the relentless rise of the US dollar over the past two weeks provided some much needed relief to emerging markets, though they continue to be weighed down by political and policy uncertainty.

Key Global Financial Indicators

Last updated: 5/1/19 8:30 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2946	0.1	0	3	11	18
Eurostoxx 50		3515	0.4	0	4	-1	17
Nikkei 225		22259	-0.2	0	5	-1	11
MSCI EM		44	1.0	-1	1	-6	12
Yields and Spreads				bps			
US 10y Yield		2.50	-2.3	-2	0	-47	-19
Germany 10y Yield		0.01	1.0	-3	8	-55	-23
EMBIG Sovereign Spread		344	-1	-2	1	29	-70
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		62.5	0.0	0	-1	-8	0
Dollar index, (+) = $ appreciation		97.4	-0.1	-1	0	5	1
Brent Crude Oil ($/barrel)		71.8	-0.4	-4	4	-2	33
VIX Index (%, change in pp)		12.7	-0.4	0	-1	-3	-13

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

United States

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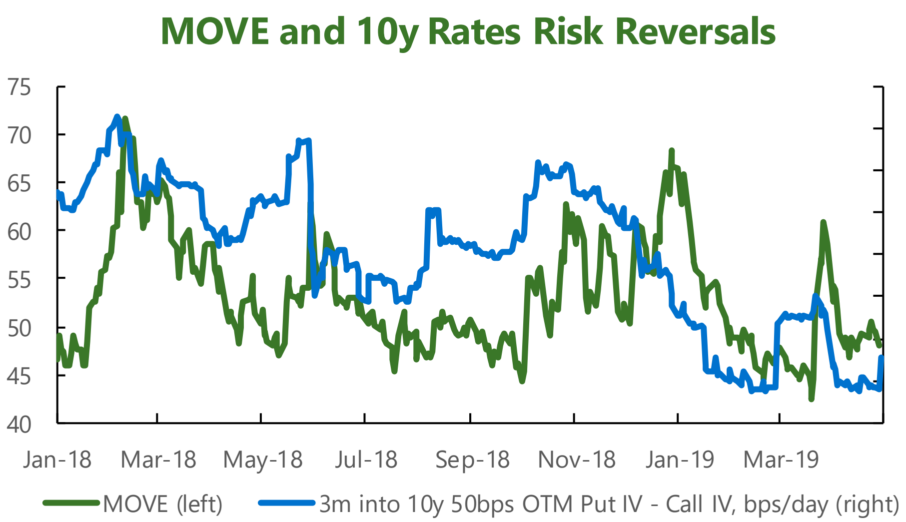
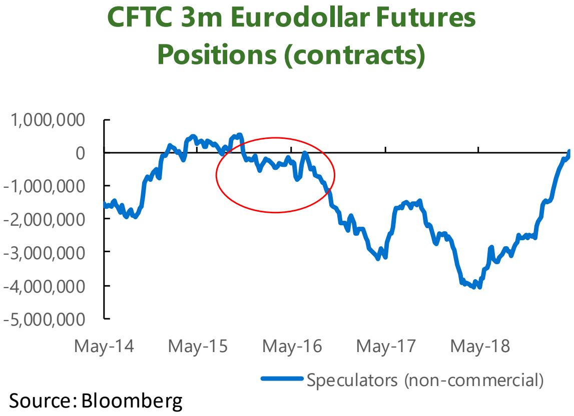
US equities closed marginally higher yesterday. A revenue miss by Alphabet weighed on the market earlier in the day, especially tech sector, but stocks rebounded to finish in positive territory. A meeting between President Trump and Democrat leaders seemed to have gone well, with positive developments regarding a potential infrastructure package. However, market contacts believed that the passage of an infrastructure through Congress before the November 2020 elections may not be plausible, as the budget debate and the debt ceiling may leave little room for additional infrastructure spending. After market close, Apple announced earnings that beat analyst estimates, pushing its share price up by 4% in after-hours trading. S&P 500 futures are also trading higher. This morning's ADP employment number for the month of April were stronger than expected at 275k (vs. 180k cons.). Treasury 10-year yields were slightly higher (+1bp) on the news.

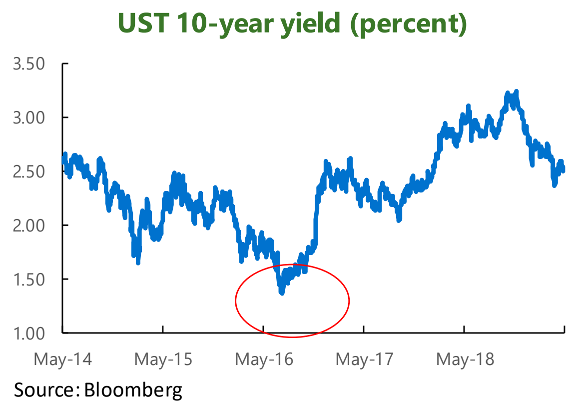
Treasury yields remained generally static, as the US administration opined again on the Fed's monetary policy stance. President Trump called on the Fed to cut rates by 100bps and urged more quantitative easing, tweeting that cutting rates would help the economy "go up like a rocket." Markets seemed to shrug off the headlines, with volatility remaining low. Short-dated risk reversals on 10-year rates have continued to be in the inverted territory, as receivers (call option) are more expensive than payers (put option), implying a bullish (lower yield) signal for rates.



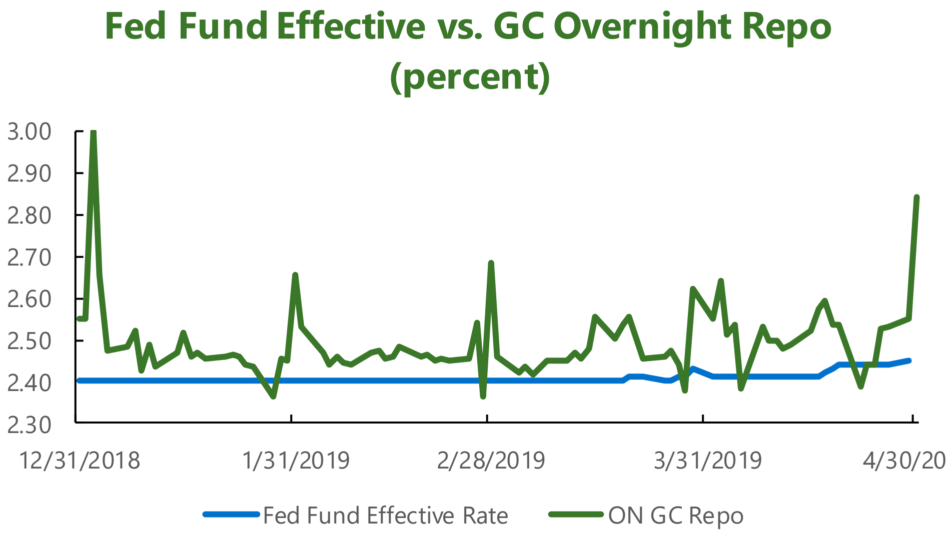
Source: Bloomberg

Active investors' net-long positions in the rates market are the largest in three years. CFTC data on interest rate futures positioning shows that speculators reversed their net Eurodollar shorts in the week through April 23, the first time in about 3 years. These numbers are consistent with JPMorgan's Treasury client survey as of April 29, which shows their clients are running the most net longs since June 2016. Investor appetite for rate products has been supported by a dovish outlook for US monetary policy. Last time speculators were net long Eurodollar futures (June 2016), Treasury 10-year yields were below 1.5%, and in the following half year, a repricing of the outlook pushed the yield up by 100bps. Although this year is unlikely to be as eventful than 2016—with a Brexit vote in the UK and presidential elections in the US—the lopsided speculative positioning could amplify the magnitude of a potential repricing of risk, according to analysts.





The Effective Fed funds Rate (EFFR) keeps inching higher. The rate rose by about 1 bp since last week to 2.45%, firmly above the interest on excess reserves rate (IOER) at 2.4% – a level that had historically capped the effective rate. While the EFFR remains inside the Fed's target range of 2.25%-to-2.50%, it has been above IOER since mid-March, gradually approaching to the upper end of the band and **leading to increased speculation about a possible cut in the IOER following Wednesday's FOMC meeting**. Analysts have seen the rise in the rate more as a product of the recent surge in repo rates and the effects of the tax season. The overnight general collateral (GC) repo rates soared at the end of April and appeared to have spilled over into fed funds. Repo rates typically move higher at the end of the month as some dealers curtail their trading activity to shore up their balance sheets. The Treasury's collection of tax receipts has pushed the government's cash balance higher, which typically reduces the level of bank reserves at the Fed. Cash outflows from MMFs, possibly for the payment of tax bills, may also have played a role. In the international dollar funding market, there is no sign of spillover out of the domestic funding market so far. The cross-currency basis for both the Japanese yen and the Euro against the US dollar remain narrow by historical standard at around -24bps and -20bps, respectively.



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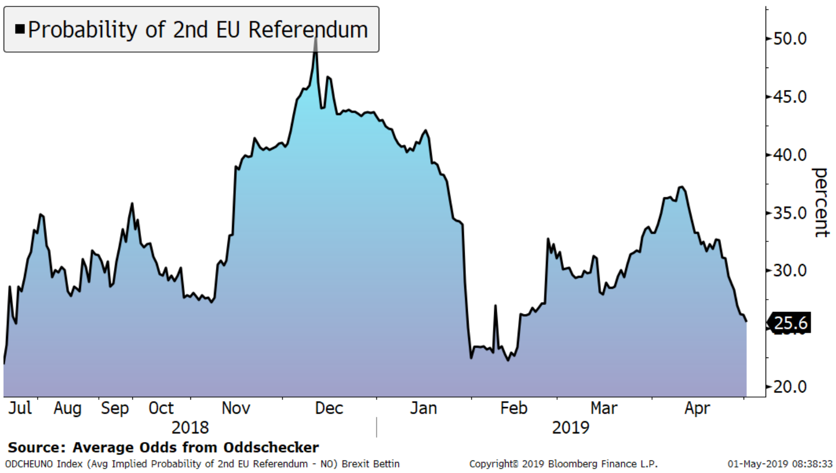
United Kingdom

The opposition Labour party voted against a motion to commit to a second referendum, increasing the chance of a compromise with the Conservative party. The path of least resistance would be to move in the direction of a customs union, but an agreement is far from assured. PM May said that cross-party talks must be completed by the middle of next week. Implied odds of a second referendum have been falling for most of April and are now at 26%. This compares to a high of around 50% last year. **The pound gained about 1% over the last two sessions** to just under $1.31 against the dollar, though the move was partially attributed to month-end flows. The FTSE 100 is up fractionally.

Brexit Betting Odds



Source: Average Odds from Oddschecker

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Canada

Weak global demand and cold weather hurt growth. GDP contracted by 0.1%sa m/m in February (vs. 0.0% expected). Moreover, GDP growth decelerated to 1.1% y/y in February from 1.6% in January. The weakness was broad-based in both manufacturing and service sectors. Details showed that transportation and warehousing declined sharply, driven by heavier than usual snowfalls as well as fewer shipments of mining and oil products. Analysts expect the BoC to leave the overnight rate target unchanged at 1.75% for the upcoming meeting. In financial markets, stocks were marginally lower by 0.1% on the day, while the currency strengthened by about 0.5%.

Emerging Markets back to top

Most emerging market exchanges were closed for holidays today. Bourses in both Asia and the EMEA region were closed, with few headlines in most countries. EM currencies saw limited volume and traded in very tight ranges against the dollar. Yesterday, the main outperformer in Latin America was the Brazilian real (+0.6% against the dollar) as domestic politicians hinted at a potentially faster approval process for the pension bill compared to market expectations. The Argentine peso was unchanged on the day, but the yield on dollar bonds rose across the curve led again by the shorter end (2021: +44bps to 16.5%).

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
5/1/19 8:34 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		43.93	1.0	-1	1	-6	12
MSCI Frontier Equities		28.34	0.7	-1	-2	-15	8
EMBIG Sovereign Spread (in bps)		343	-2	-3	0	28	-71
EM FX vs. USD		62.46	0.0	0	-1	-8	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.73	0.0	0	0	-6	2
Indonesian Rupiah		14259	-0.4	-1	0	-2	1
Indian Rupee		69.56	0.7	0	-1	-4	0
Argentine Peso		44.22	0.3	-4	-3	-54	-58
Brazil Real		3.92	0.6	0	-2	-11	-1
Mexican Peso		18.92	0.2	-1	1		4
Russian Ruble		64.63	-0.3	-1	1	-3	8
South African Rand		14.33	-0.2	-14	-1		-14
Turkish Lira		5.95	0.3	-31	-8		-36
EM FX volatility		8.04	0.0	-0.2	-0.7	-0.4	-1.7

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

China

Authorities met with US representatives for another round of trade talks. US Treasury secretary Mnuchin said that the talks were “productive” and that they would continue in the US next week. The talks come following unconfirmed reports that the US is likely to accept weaker commitments than expected on Chinese action to halt instances of commercial cyber theft. A softer stance would see a higher likelihood of a deal being reached as the issue is seen as one of the main stumbling blocks in the negotiations. Chinese markets were closed today.

South Korea

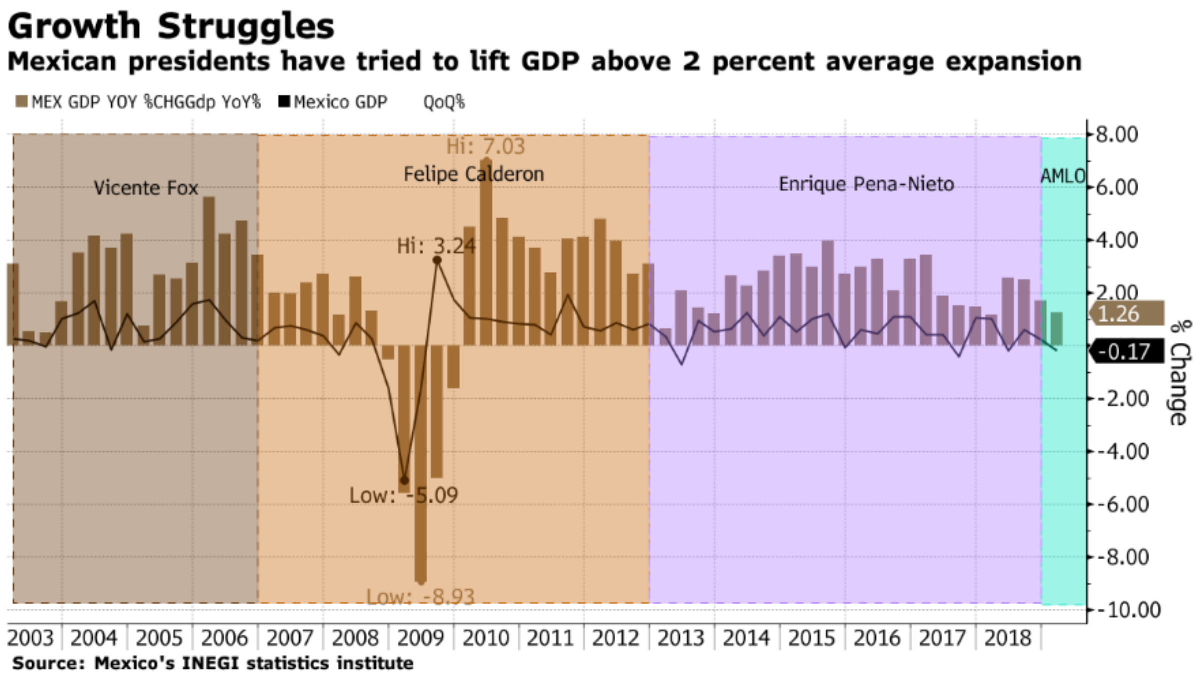
Exports fell less than expected in April. Despite falling for a fifth straight month, the 2% drop was well below the expected 5.9% contraction while imports surprisingly increased during the month. Concerns about trade and global growth continue to weigh on sentiment but today’s data have increased hopes that a recovery in shipments will lead to a rebound in the remainder of the year. Equity markets were closed today while the won was marginally stronger against the dollar.

Thailand

Inflation in April was in line with expectations. The headline increase was 1.23% y/y compared to consensus expectations of a 1.20% rise. Core inflation was 0.6%, as expected, as food and energy prices, which are stripped out of the core measure, have been the main drivers of the headline rate. The commerce ministry expects inflation to move within the previous forecast range of 0.7-1.7%.

Mexico

The equity benchmark index declined by 0.8% as Q1 GDP results, as well as Q1 earning releases for several corporates, came below market expectations. Real GDP shrank by 0.2% q/q below all estimates of economists surveyed by Bloomberg (consensus: +0.3% q/q). Services activity contracted after being a bright spot in recent quarters and oil output remained weak. Mexico is expected to grow 1.5% in 2019 compared to 2% expansion in 2018, according to the Bloomberg survey. JP Morgan kept its forecast at 1.5% for 2019 highlighting that the Q1 the release was probably influenced by seasonality adjustments related to Easter and is not reflective of the underlying trend in the economy. Bank of America is less optimistic for 2019 as it forecasts growth of 1% given prevalent risks, including the U.S.-Mexico-Canada Agreement approval, the erosion of confidence in the new president and further declines in oil production.



Hungary

The central bank said yesterday it will continue to weigh strong domestic demand and weakening external activity as it kept its benchmark interest rate at 0.9%. The decision, which was expected by all 20 analysts polled by Bloomberg, means that interest rates have now remained unchanged for almost three years. Inflation has been close to target recently but has started to rise in the last few months and came in at 3.7% y/y in March. The forint has weakened gradually but steadily in recent sessions and was down 0.2% both yesterday and today against the euro. Today's weakening is the tenth consecutive session where the currency has depreciated, taking it to its lowest level since October.

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Global Financial Indicators

Last updated: 5/1/19 8:32 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities				%			%
United States		2946	0.1	0	3	11	18
Europe		3515	0.4	0	4	-1	17
Japan		22259	-0.2	0	5	-1	11
China		3078	0.5	-4	-3	0	23
Asia Ex Japan		72	-0.2	-1	1	-5	14
Emerging Markets		44	1.0	-1	1	-6	12
Interest Rates				basis points			
US 10y Yield		2.50	-2.3	-2	0	-46	-18
Germany 10y Yield		0.01	1.0	-3	8	-55	-23
Japan 10y Yield		-0.04	0.0	0	3	-8	-4
UK 10y Yield		1.18	-0.7	0	13	-23	-10
Credit Spreads				basis points			
US Investment Grade		110	-0.3	-1	-7	10	-37
US High Yield		397	-0.8	0	-10	56	-124
Europe IG		58	-0.1	-1	-5	2	-30
Europe HY		248	-0.8	-4	-10	-26	-105
EMBIG Sovereign Spread		344	-1.0	-2	1	29	-70
Exchange Rates				%			
USD/Majors		97.44	0.0	-1	0	5	1
EUR/USD		1.12	0.1	-8	0		-6
USD/JPY		111.4	0.0	-2	0		1
EM/USD		62.5	0.0	0	-1	-8	0
Commodities				%			
Brent Crude Oil ($/barrel)		72	-0.3	-4	4	-2	33
Industrials Metals (index)		117	-0.9	-2	-4	-12	7
Agriculture (index)		38	-0.3	-1	-5	-23	-7
Implied Volatility				%			
VIX Index (%, change in pp)		12.9	-0.2	-0.2	-0.5	-2.6	-12.5
10y Treasury Volatility Index		4.1	0.1	0.2	0.2	0.1	-0.5
Global FX Volatility		6.5	0.0	0.1	-0.7	-1.2	-2.4
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		336	0.0	5	-38	5	-80
Italy		254	0.0	-11	1	132	4
Portugal		110	0.0	-8	-20	-2	-38
Spain		99	0.0	-10	-18	27	-19

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: 5/1/2019 8:36 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		6.73	0.0	-0.1	0	-6	2		3.4	1.8	2	29	-19	20
Indonesia		14259	-0.4	-1.3	0	-2	1		7.9	4.9	16	19	88	-23
India		70	0.7	0.1	-1	-4	0		7.5	0.0	-6	14	-34	9
Philippines		52	0.4	0.2	1	0	1		5.2	-1.7	-10	-14	-10	-110
Thailand		32	0.0	0.0	-1	-1	2		2.6	0.6	-2	5	17	-3
Malaysia		4.13	0.0	-0.2	-1	-5	0		3.8	-0.4	-6	4	-36	-26
Argentina		44	0.3	-4.1	-3	-54	-58		26.6	4.3	341	263	852	359
Brazil		3.92	0.6	0.0	-2	-11	-1		8.2	1.2	14	3	-6	8
Chile		677	0.4	-1.3	-1	-9	2		4.1	-0.8	2	-8	-61	-37
Colombia		3234	0.4	-1.7	-3	-13	0		6.4	1.0	18	19	24	-16
Mexico		18.91	0.2	-0.5	1		4		8.2	-2.3	0	7	69	-52
Peru		3.3	0.1	0.2	0	-2	2		5.3	-2.2	-5	-5	-1	-43
Uruguay		35	-0.9	-2.0	-5	-18	-8		10.9	7.0	24	35		17
Hungary		289	0.0	-11.5	-1		-10		2.1	4.5	7	29	54	-9
Poland		3.81	0.2	-9.8	0		-9		2.4	7.3	11	14	-4	15
Romania		4.2	0.1	-10.3	0		-8		4.2	-2.0	-4	15	17	-1
Russia		64.6	-0.3	-1.5	1	-3	8		7.9	-2.3	-8	-15	85	-49
South Africa		14.3	-0.2	-14.0	-1		-14		9.4	2.3	6	-1	63	-20
Turkey		5.95	0.3	-31.3	-8		-36		21.2	33.1	177	162	836	429
US (DXY; 5y UST)		97.4	-0.1	-0.8	0	5	1		2.28	0.7	-3	-4	-53	-23

	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		3078	0.0	-4	-3	0	23		173	-1	-3	-3	-7	-21
Indonesia		6455	0.0	0	0	8	4		181	0	0	-9	-2	-55
India		39032	0.0	1	0	11	8		154	0	-1	-1	15	-42
Philippines		7953	0.0	2	1	2	7		77	-1	-9	-8	-24	-44
Malaysia		1642	0.0	1	1	-12	-3		124	0	-5	-3	3	-38
Argentina		29571	2.6	-4	-10	-1	-2		942	-10	-16	178	508	127
Brazil		96353	0.2	0	0	12	10		246	0	-2	2	2	-27
Chile		5187	0.3	-1	-1	-9	2		126	0	-1	-4	4	-40
Colombia		1574	-1.1	-1	-1	1	19		175	0	0	-5	-7	-53
Mexico		44597	-0.8	-1	2	-8	7		294	0	-1	-12	30	-60
Peru		20897	0.0	0	-1	-2	8		127	0	1	0	-28	-41
Hungary		42520	0.0	-2	1	11	9		100	-4	-15	-9	-13	-48
Poland		60146	0.0	-1	0	0	4		43	-4	-9	-6	-15	-42
Romania		8442	0.0	1	4	-3	14		190	0	-9	-12	44	-31
Russia		2559	0.0	-1	2	11	8		198	0	-6	-21	-10	-54
South Africa		58528	0.0	-2	2	1	11		305	-3	1	5	47	-60
Turkey		95416	0.0	-1	1	-9	5		499	-6	-2	26	174	70
Ukraine		560	0.0	5	-2	18	0		630	-11	5	19	137	-157
EM total		44	1.0	-1	1	-6	12		343	-2	-3	0	28	-71

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