



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, May 13, 2019

- **US and global risky assets continue to suffer from escalating trade tensions ([link](#))**
- **UK PM May to restart talks with the EU about a customs union ([link](#))**
- **Oil prices rise on heightened tensions in the Gulf area ([link](#))**
- **Chinese onshore yuan depreciates 0.8% against the dollar on trade concerns ([link](#))**
- **South Africa's ANC wins the general elections as expected, but support for the party continues to falter ([link](#))**

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

## Risk sentiment deteriorates on escalating US-China trade tensions

**European bourses and S&P 500 futures dropped this morning on concerns about escalating trade tensions between the US and China.** As a result, the VIX rose 3 percentage points to 19.1, close to the 4-month high experienced last week. Trade concerns had also a broad impact on emerging markets, with Asian local markets underperforming and the onshore yuan depreciating 0.8% to the dollar. The Turkish lira also depreciated (-2.1%) this morning after the central bank announced it will consider tapping its local-currency reserves. Elsewhere, in South Africa's general elections, the ANC obtained its sixth straight victory, albeit with its lowest level of support ever (57%).

US trade policy will continue to take center stage this week. The US-China trade talk was inconclusive last week, even after US formally raised tariffs to 25% on \$200 bn of Chinese imports on Friday. In the meantime, retaliatory measures from China is awaited and US will release details of a further \$300 bn of Chinese imports that will be subject to 25% tariffs on Monday. For now, trade talks will continue with no scheduled deadline yet. Some market contacts remain cautiously optimistic about a trade deal but are increasingly pushing the timeline beyond 2020. In a conciliatory note, economic advisor Kudlow raised the prospect of a meeting between President Trump and Xi to rescue a deal at the G20 summit in Japan next month. Perhaps more important to global economy is President Trump's decision on May 18 about the potential tariffs on autos and auto parts on the grounds of national security. Markets expect either a delay of the decision or an announcement of tariffs with temporary exemptions into November, as trade talks with EU and Japan continue. The economic calendar is relatively light, with retail sales and industrial production scheduled on Wednesday, and a few Fed speeches from Clarida, Rosengren, George (non-voting) and Barkin. In Europe, German ZEW survey is due on Tuesday, followed by eurozone and German GDP on Wednesday and a series of inflation reports throughout the week. China is scheduled to report industrial production and retail sales on Tuesday, with some correction expected after the holiday-boosted March reading. Central bank meetings are scheduled from Poland (Wednesday) and Mexico (Thu).

## Key Global Financial Indicators

Last updated: 5/13/19 8:14 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2881	0.4	-2	-1	6	15
Eurostoxx 50		3341	-0.6	-4	-3	-6	11
Nikkei 225		21191	-0.7	-5	-3	-7	6
MSCI EM		42	-0.8	-5	-5	-11	7
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.42	2.5	-5	-15	-55	-27
Germany 10y Yield		-0.06	-1.0	-6	-11	-62	-30
EMBIG Sovereign Spread		358	7	13	18	34	-56
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.6	-0.7	-1	-2	-9	-1
Dollar index, (+) = \$ appreciation		97.3	0.0	0	0	5	1
Brent Crude Oil (\$/barrel)		71.7	1.6	1	0	-7	33
VIX Index (% change in pp)		19.1	3.0	4	7	6	-6

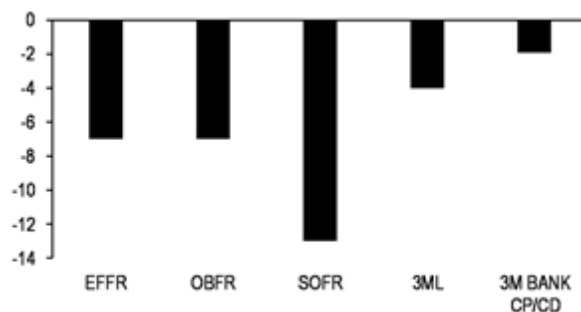
Colors denote tightening/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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**Stocks suffered the worst week this year despite a late rally on Friday, and S&P 500 futures are down over 1% this morning on further trade tension escalation.** The Friday rally was not enough to offset weekly loss in the S&P 500 and NASDAQ of 2.2% and 3%, respectively. The VIX index is at 18.5 after reaching 23.4 on Thursday. **The Trump administration announced a further 25% in tariffs on remaining imports from China (worth some \$300 bn).** This is on top of the 25% tariff imposed last week on \$200 bn worth of imports. **The Treasury curve fell on the week by 2 to 7 bps**, led by the intermediate part of the curve. Funding conditions continued to ease post-FOMC, with yields falling 2 to 13 bps across secured and unsecured products.

Change in yields from 5/1/2019 to 5/9/2019 (bp)



Source: J.P. Morgan

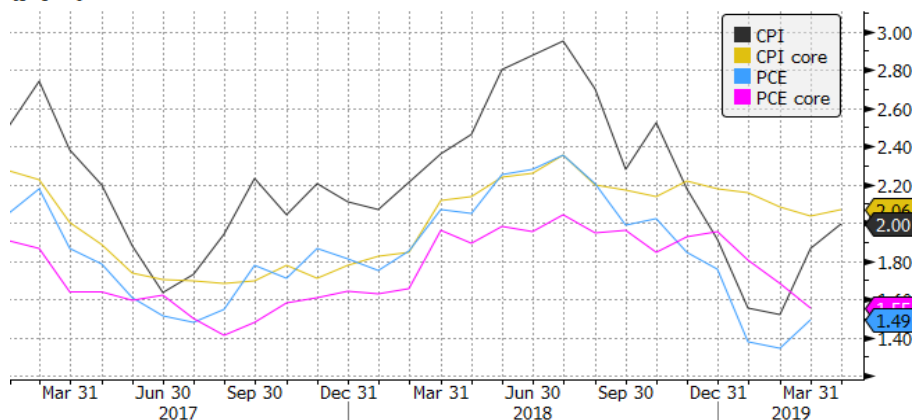
**April's CPI disappointed, but the underlying trend points to stronger core PCE.** Headline and core CPIs fell to 0.3% and 0.1% mom, respectively, weighted by volatile apparel (-0.7% mom) and used car (-1.3% mom) categories that experienced recent methodological changes. In contrast, CPI inflation reaccelerated on an annual basis, with headline up 2% yoy and core up 2.1% yoy. More importantly, energy,

medical services and shelter all recorded solid inflations, supporting an upside surprise in the core PCE.

**The Philly Fed Forecaster survey trimmed growth and inflation forecasts for the next four quarters.**

GDP growth is expected to be 1.9% s.a.a.r in Q2 and 2.1% in Q3, down from 2.4% and 2.2% previously. Inflation outlooks were downgraded as well, with both headline and core PCE inflations revised down to 1.7% yoy for 2019. On the other hand, employment forecasts improved, with average monthly employment revised up to 200.1K for 2019 from 191.8K previously.

**CPI inflation rebound from trough**  
(yoy %)



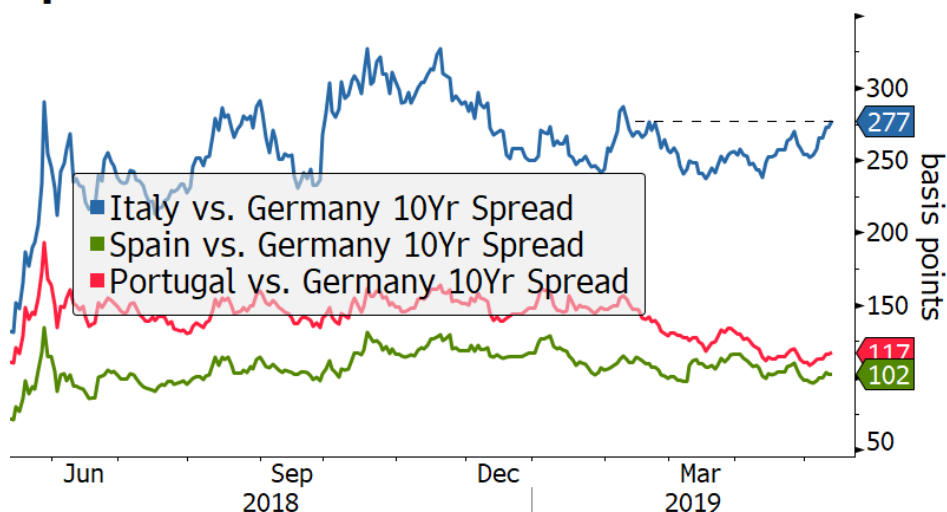
Source: Bloomberg

**Europe**

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**Equity markets were broadly lower this morning with the EuroStoxx 600 falling 0.6%.** The German Dax and Italian MIB underperformed (-0.8%) but losses were broad based and largely driven by the escalation in the US-China trade conflict. **Fixed income markets were little changed, except for a 5 bps increase across the Italy sovereign yield curve.** This is in part due to rising tensions in the Italian coalition last week and speculation about new elections. Indeed, **the Italian spread over German bunds has been rising recently, approaching the highest level for the year.**

**Spreads to German 10-Year**



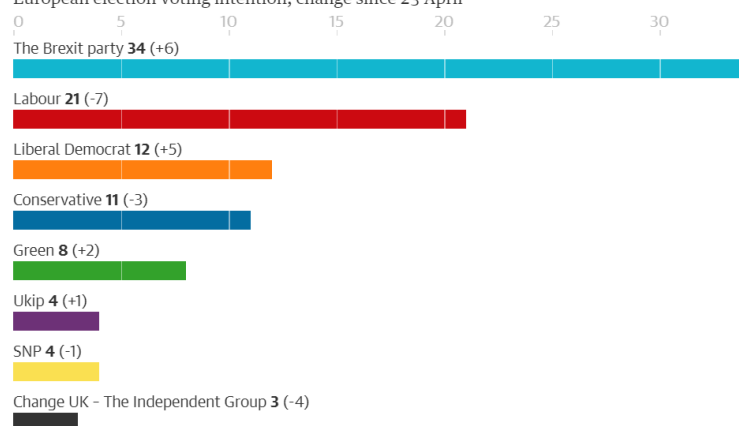
.JTLSPD S 90068726 Index (Italy Spread) 10 Yr Spreads Daily 13MAY2018-13MAY2019 Copyright© 2019 Bloomberg Finance L.P. 13-May-2019 09:57:21

## United Kingdom

**PM Theresa May will restart talks with the EU on the possibility of establishing a customs deal.** The move is an attempt to continue negotiations with the Labour party and establish an agreement that would have enough cross-party support to pass through Parliament. In the background, however, many Labour MPs continue to push for a second referendum while some Conservative MPs continue to call for PM May to resign. Internal pressure was made worse after the poor showing of both parties in last week's local elections, along with polls indicating rising support for the anti-EU Brexit Party ahead of the EU elections (chart). The pound has been stable over the last few sessions, but the implied odds of a second referendum have been creeping higher—now at 28% from 24% last week.

### The Brexit party also continues to gain a lot of traction in the lead-up to the European elections

European election voting intention, change since 23 April



Guardian graphic | Source: Opinium/Observer poll

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

### Japan

**The Topix is down for the sixth consecutive sessions, falling 0.5% on the day.** The index has accumulated a loss of nearly 5% this month. Consistent with risk averse mood, the yen is the only Asian currency appreciating against the dollar (+0.3%), adding to the 2.0% appreciation since late April.

#### Topix falls for a sixth day, longest losing streak since September



## Commodities

**Oil prices recovered some ground this morning, with Brent futures up 1.6% at \$71.7 per barrel amid heightened tensions in the Gulf area.** Analysts highlighted that July Brent crude jumped to a \$1-a-barrel premium to the August contract on Friday, suggesting supply fears remain a dominant force. Tensions continued to rise over last week between the U.S. and Iran, with news this morning of two Saudi oil tankers reportedly attacked near UAE, shortly after the UAE said four of its vessels had been sabotaged amid rising tensions in the Gulf.

### Supply Tightness

**Brent's 3-month timespread in widest backwardation since June 2014**



## Emerging Markets

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**Asian** bourses were broadly lower with losses of over 1% across major markets as the US-China trade tensions escalate. China's Shanghai index fell 1.2%, but Korean and Taiwanese indices underperformed (1.4%). Currencies depreciated across the board with the Korean won (-0.9%) and the Chinese yuan (-0.8%) underperforming. **EMEA** bourses are mixed this morning, with small gains in South Africa (+0.5%), Russia (+0.2%) and the Czech Republic (+0.1%). Losses were led by Qatar (-1.3%) and Saudi Arabia (-1.2%). Currencies are mostly weaker to the dollar by as much as 0.4%, except the Turkish lira (-1.6%) and the South African rand (-1.0%). **Latin American** equities were mixed on Friday, with Mexico and Colombia outperforming (0.5% each), while Brazil underperformed (-0.6%). In currency markets, the Argentine peso appreciated by 1.0%, despite headlines stating that Mr Kicillof (an Argentine congressman and former economy minister), criticized the IMF deal and wouldn't rule out a potential default on the government debt if his political party wins the October presidential elections. The Mexican peso also appreciated by 0.7% against the US dollar, while others were relatively stable.

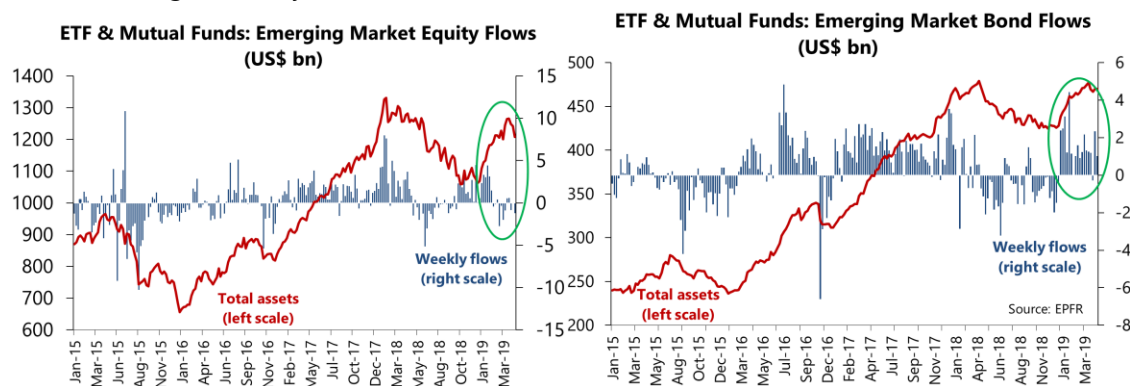
## Key Emerging Market Financial Indicators

Last updated: 5/13/19 8:10 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		41.98	-0.8	-5	-5	-11	7
MSCI Frontier Equities		28.78	0.0	0	0	-10	10
EMBIG Sovereign Spread (in bps)		358	7	13	18	34	-56
EM FX vs. USD		61.67	-0.6	-1	-2	-9	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.88	-0.8	-2	-2	-8	0
Indonesian Rupiah		14423	-0.7	-1	-2	-3	0
Indian Rupee		70.52	-0.9	-2	-2	-4	-1
Argentine Peso		44.83	0.9	-1	-4	-49	-16
Brazil Real		4.00	-1.1	-1	-3	-9	-3
Mexican Peso		19.22	-0.6	-1	-2	2	2
Russian Ruble		65.46	-0.4	0	-2	-5	6
South African Rand		14.32	-1.1	1	-2	-14	0
Turkish Lira		6.11	-2.1	0	-5	-29	-13
EM FX volatility		8.79	0.7	0.4	0.6	0.2	-1.0

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

## Fund Flows

**EM fund flows were marginally negative last week, with total outflows of \$260 mn.** Bond funds had net inflows of \$1.0 bn, while equity funds registered outflows worth \$1.3 bn. Cumulative inflows to EM equities have amounted to \$10.5 bn YTD, but last 12 weeks have been under pressure with outflows of \$7.5 bn. On the contrary, cumulative inflows to EM bonds have amounted to \$29 bn YTD with sustained inflows throughout the year.



## China

**Local asset prices were hit by escalating trade tensions.** The Trump administration announced a further 25% in tariffs on remaining imports from China (worth some \$300 bn). This is on top of the 25% tariff imposed last week on \$200 bn worth of imports. Chinese Vice Premier Liu He responded by saying that the US must remove all extra tariffs for the two countries to reach an agreement, and that the text of a deal has to be "balanced" and ensure "dignity" of both nations. He also noted that "these are major matters of principle." There were no indications of when the two sides will meet again, though it could happen when the leaders of both countries attend the G20 meeting in Japan late next month. **The onshore yuan**

**depreciated 0.8% against the dollar**, with some analysts now expecting near-term action by the PBOC to slow down the move. The currency has depreciated nearly 3% since mid-April and measures of implied volatility have also increased (chart). The Shanghai index is down 5.5% this month, though it is still up over 15% year to date.

#### Offshore yuan volatility climbed last week amid mounting trade tensions



### South Africa

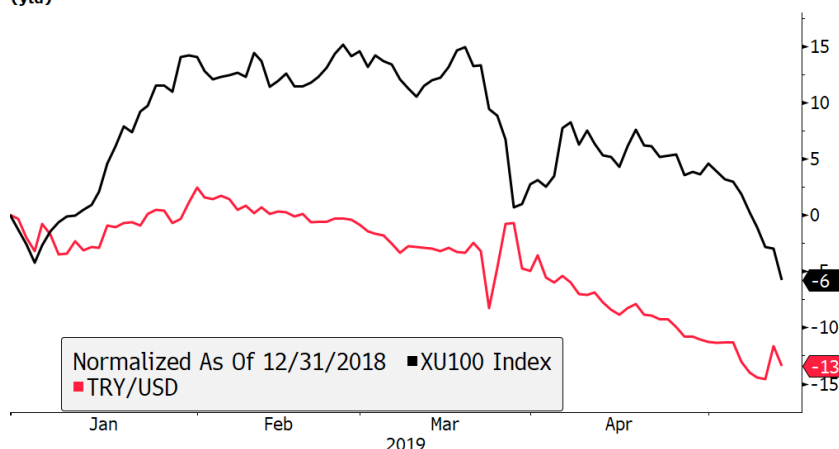
**The ruling ANC party won the general election on Saturday amid a large drop in participation.** The ANC garnered about 57% of support while the main opposition party, the Democratic Alliance, obtained 20%. This was the first time in history that support for the ANC fell below 60% in a general election. Investors' focus will shift now president Ramaphosa's choices for his cabinet and whether he will continue to fight corruption. Yields across the South African yield curve were steady on Monday morning, with the 2-year yield at 6.65% (unchanged) and the 30-year yield at 9.68% (+1 bp). The South African rand depreciated 1.0% at 14.3 to the dollar.

### Turkey

**The lira depreciated 2.1% this morning after the central bank announced it will consider tapping its local-currency reserves.** The news report claims that the Treasury would borrow about TRY 40 bn (\$6.5 bn), leading to concerns over fiscal deterioration and use of the central bank to finance the deficit. The move follows a transfer of the central bank profits to the central budget. In addition, news reports report continued dollar buying by local corporates putting pressure on the lira. Equity markets continue to plummet, down 10% just this month.

### Turkish Asset Prices

(ytd)

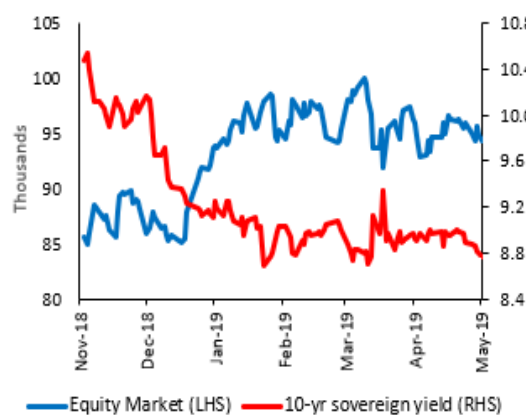


TRY13M Curncy (TRY FWRD IMP. YIELD 3 MO) Turkey Assets Daily 31DEC2018-13MAY2019 Copyright© 2019 Bloomberg Finance L.P. 13-May-2019 12:58:36

## Brazil

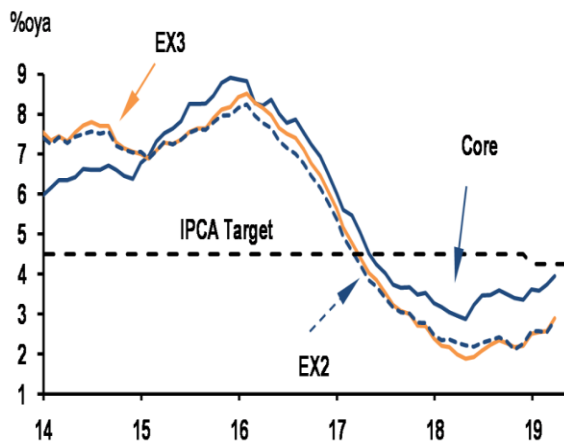
**Brazil's IPCA inflation for April was reported at 4.94% yoy, marginally less than consensus estimates of 5.0%.** Analysts highlighted that the surprise was concentrated in goods inflation, particularly food and apparel. Equities declined by 0.6% on Friday, underperforming the region and the 10-year sovereign yield declined by 3 bps to 8.76% (extending the YTD decline to 48 bps).

Brazil: 10-year sovereign yield and Equity market trend



Source: Bloomberg

Figure 2: Core IPCA and new core metrics (EX2 and EX3)



Source: BCB and J.P. Morgan














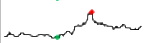










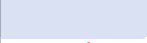



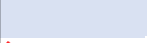


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## Global Financial Indicators

Last updated: 5/13/19 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2881	0.4	-2	-1	6	15
Europe		3341	-0.6	-4	-3	-6	11
Japan		21191	-0.7	-5	-3	-7	6
China		2904	-1.2	0	-9	-8	16
Asia Ex Japan		69	0.5	-6	-6	-11	8
Emerging Markets		42	-0.8	-5	-5	-11	7
<b>Interest Rates</b>			basis points				
US 10y Yield		2.42	2.5	-5	-15	-55	-27
Germany 10y Yield		-0.06	-1.0	-6	-11	-62	-30
Japan 10y Yield		-0.05	0.1	-1	1	-10	-5
UK 10y Yield		1.12	-1.6	-10	-9	-33	-16
<b>Credit Spreads</b>			basis points				
US Investment Grade		116	-0.6	5	1	16	-31
US High Yield		424	6.6	24	32	85	-97
Europe IG		69	2.6	10	11	14	-19
Europe HY		289	8.9	38	42	22	-63
EMBIG Sovereign Spread		358	7.0	13	18	34	-56
<b>Exchange Rates</b>			%				
USD/Majors		97.30	0.0	0	0	5	1
EUR/USD		1.12	0.0	0	-1	-6	-2
USD/JPY		109.6	0.4	1	2	0	0
EM/USD		61.6	-0.7	-1	-2	-9	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		72	1.6	1	0	-7	33
Industrials Metals (index)		112	-1.3	-3	-8	-17	3
Agriculture (index)		37	-1.1	-4	-9	-24	-12
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.1	3.0	3.7	7.1	6.4	-6.3
10y Treasury Volatility Index		4.0	-0.3	0.4	0.6	0.6	-0.5
Global FX Volatility		7.0	0.1	0.3	0.7	-0.5	-2.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		363	7.5	29	39	16	-53
Italy		277	4.0	19	28	145	27
Portugal		119	2.4	7	7	7	-29
Spain		104	1.4	6	4	32	-14

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

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## Emerging Market Financial Indicators

Last updated: 5/13/2019 8:11 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		6.88	-0.8	-1.6	-2	-8	0		3.3	-0.8	-6	5	-28	14	
Indonesia		14423	-0.7	-0.9	-2	-3	0		8.1	-7.3	10	31	54	-7	
India		71	-0.9	-1.6	-2	-4	-1		7.5	1.3	-3	-1	-38	4	
Philippines		52	-0.4	-0.9	-1	0	0		5.1	1.9	-5	-12	-33	-116	
Thailand		32	-0.5	0.7	0	1	2		2.6	-0.5	-3	2	6	-5	
Malaysia		4.16	-0.1	-0.4	-1	-5	-1		3.8	1.1	-3	3	-38	-26	
Argentina		45	0.9	-0.8	-4	-49	-16		28.1	38.4	147	439	901	508	
Brazil		4.00	-1.1	-0.8	-3	-9	-3		8.0	-5.4	-17	-14	-53	-15	
Chile		687	-0.3	-1.2	-4	-9	1		4.1	-0.2	-1	4	-63	-36	
Colombia		3274	0.1	-1.1	-5	-14	-1		6.2	-5.5	-13	12	1	-30	
Mexico		19.22	-0.6	-1.2	-2	2	2		8.2	-1.2	2	12	62	-50	
Peru		3.3	0.0	-0.5	-1	-1	2		5.4	-1.7	2	1	-3	-38	
Uruguay		35	-0.1	-0.7	-3	-15	-8		10.9	-2.6	-3	31		17	
Hungary		288	-0.2	0.4	-2	-8	-3		2.1	-1.4	-3	15	41	-8	
Poland		3.83	-0.2	-0.2	-1	-7	-2		2.4	-0.5	-9	5	-23	8	
Romania		4.2	0.0	0.2	-1	-8	-4		4.2	-1.0	0	-7	-4	-1	
Russia		65.5	-0.4	-0.3	-2	-5	6		7.9	0.0	1	-5	81	-49	
South Africa		14.3	-1.1	1.0	-2	-14	0		9.3	-9.2	-8	9	33	-27	
Turkey		6.11	-2.1	-0.5	-5	-29	-13		22.4	-45.9	162	351	835	556	
US (DXY; 5y UST)		97.3	0.0	-0.2	0	5	1		2.20	-6.2	-6	-18	-64	-31	

	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		2904	-1.2	0	-9	-8	16		175	1	2	-1	-9	-19
Indonesia		6135	-1.2	-2	-4	3	-1		194	7	9	13	9	-42
India		37091	-1.0	-4	-4	4	3		151	2	1	-8	-3	-45
Philippines		7742	0.0	-3	-2	0	4		87	6	5	6	-17	-34
Malaysia		1601	-0.6	-2	-2	-13	-5		124	1	2	-3	-41	-38
Argentina		33394	-2.1	3	6	12	10		914	19	-1	108	433	99
Brazil		94258	-0.6	-2	1	11	7		249	4	4	2	4	-24
Chile		5051	0.1	-2	-4	-11	-1		131	4	7	4	0	-35
Colombia		1550	0.5	0	-3	0	17		191	5	12	15	13	-37
Mexico		43382	0.4	-2	-3	-7	4		311	5	10	19	50	-43
Peru		20160	-0.3	-3	-4	-5	4		136	4	7	16	-17	-32
Hungary		40745	-0.8	-2	-5	8	4		102	5	3	1	-19	-46
Poland		56494	-0.7	-4	-7	-7	-2		45	5	3	3	-24	-40
Romania		8223	-1.0	-2	-1	-6	11		187	-3	6	-18	32	-34
Russia		2523	0.3	-2	-1	8	6		214	6	8	8	5	-38
South Africa		56829	0.1	-4	-3	-3	8		307	7	-2	15	47	-58
Turkey		86025	-2.8	-7	-10	-16	-6		543	14	51	43	176	114
Ukraine		571	-0.1	2	6	20	2		664	16	36	78	165	-123
EM total		42	-0.7	-5	-5	-11	7		358	7	13	18	34	-56

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