



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, May 14, 2019






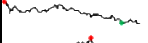

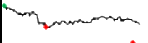


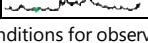
- **US stocks suffer worst day this year while Treasuries rally ([link](#))**
- **An additional \$300 bn of Chinese goods may be subject to US tariffs ([link](#))**
- **China announces retaliatory tariffs on \$60 bn of US goods starting June 1 ([link](#))**
- **EM assets sell off sharply reflecting the global risk-off mood ([link](#))**
- **The Mexican government announces an \$8 bn syndicated loan for Pemex ([link](#))**

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Trade war fears grip markets

The sharp sell-off in risk assets continued yesterday as the prospect of rising trade tensions between the US and China took center stage. This was led by a spike in market volatility, with the VIX index increasing by 3 pts to 21.5. As a result, global equities took a significant hit, with both developed and emerging market equities coming under pressure. Overnight positive comments from negotiating parties somewhat helped to lift risk sentiment today, with European and a few emerging market equities retracing some of their significant losses of the past week, but uncertainty remains high. On the opposite side of the risk spectrum, the sharp rise in volatility has created a strong demand for safe-haven assets, leading to a significant tightening in developed market sovereign spreads. Market attention today will likely remain focused on developments pertaining to US trade negotiations, with increasing attention now being paid to the US administration's decision on the imposition of car and auto-part import tariffs on May 18.

Key Global Financial Indicators

Last updated: 5/14/19 8:28 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2812	-2.4	-4	-3	3	12
Eurostoxx 50		3353	1.0	-1	-3	-6	12
Nikkei 225		21067	-0.6	-4	-4	-8	5
MSCI EM		41	1.5	-6	-9	-14	4
Yields and Spreads			bps				
US 10y Yield		2.41	-6.6	-5	-16	-60	-28
Germany 10y Yield		-0.07	-0.3	-4	-13	-68	-32
EMBIG Sovereign Spread		363	-1	15	23	42	-51
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.7	0.0	0	-2	-8	-1
Dollar index, (+) = \$ appreciation		97.5	0.2	0	1	5	1
Brent Crude Oil (\$/barrel)		71.4	1.7	2	0	-9	33
VIX Index (% change in pp)		18.7	-1.9	-1	7	6	-7

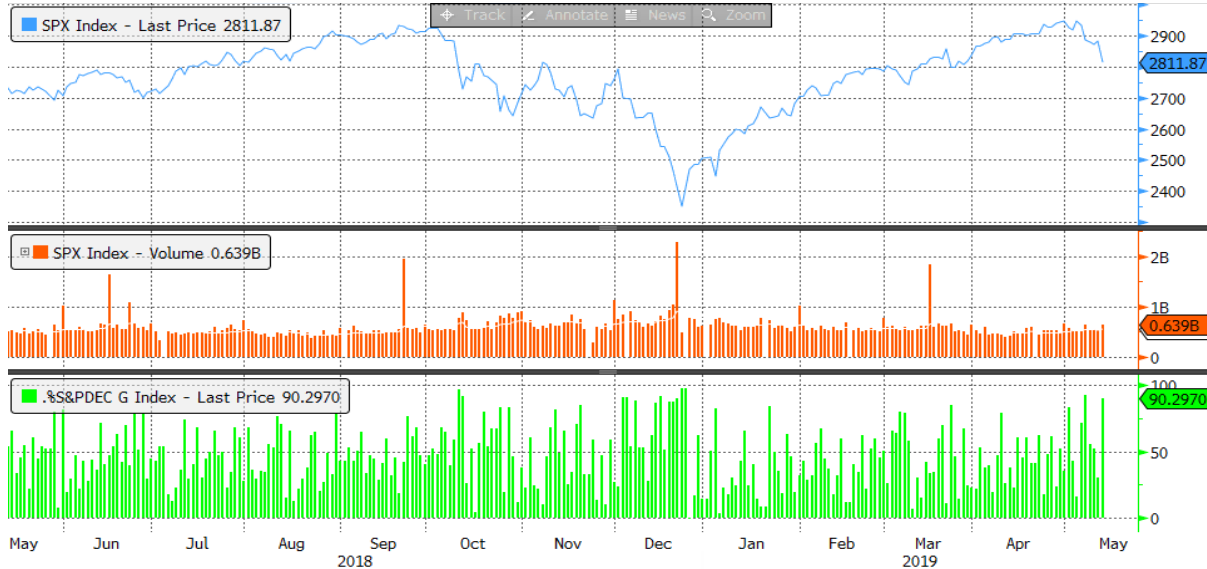
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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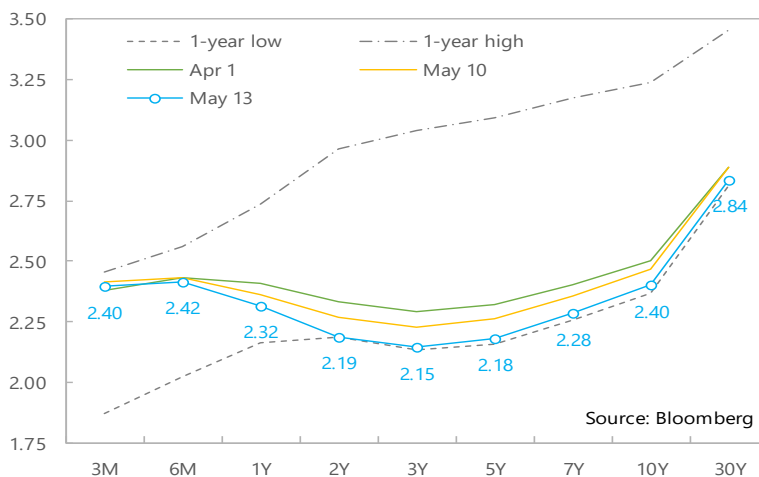
US stocks suffered their worst day since December. The NASDAQ tumbled 3.5% and the S&P 500 dropped 2.6%. The sell-off was broad-based, with 90% of S&P 500 stocks down on the day (bottom panel), with China ADRs, Apple, Boeing, and Tesla particularly hit. All major indices fell through their 50-day moving averages, a key technical level for near-term price support. Utilities sector bucked the trend by rising 1.1%, while the real estate sector, supported by falling interest rates, closed flat. The VIX index jumped 4.5 pts to 20.5. Contacts reported that unlike the December episode, trading volumes were only slightly above average and the price declines were orderly.

S&P 500



Treasuries rallied as the yield curve fell 5 to 8 basis points in a belly-led steepening. The yield curve is now inverted between the 6-month and 10-year tenors. The widely followed 10-year-over-3-month slope fell below 0 throughout most of the day before finally turning positive. **A rate cut this year is now priced as a near certainty**, as the implied yield on the Dec-2019 and Jan-2020 Fed funds futures both

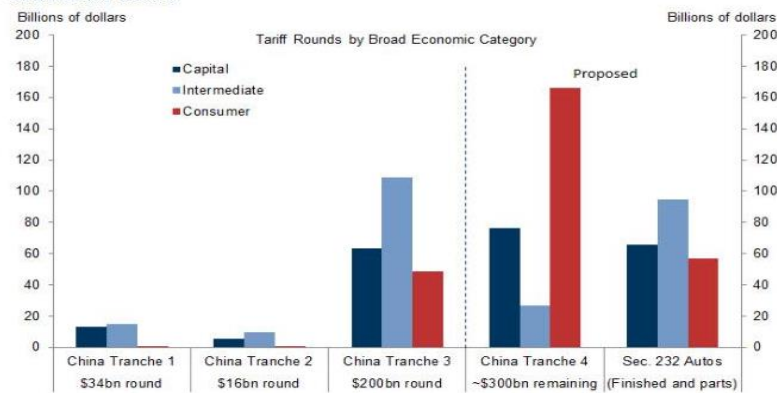
US Treasury Curve (%)



dropped 9 bps to 2.12% and 2.07% respectively, more than 25 bps below the unchanged effective Fed funds rate at 2.38%. Vice Chair Clarida's cautioned that low neutral rates could persist for years and stressed the importance of anchoring inflation expectations. His comments came as the TIPS breakeven rates fell to 6-week lows and the New York Fed survey showed 3-year ahead inflation expectations dropped to 2.7% in April, the lowest since August 2017 after spending most of 2018 near 3%. The survey was conducted before last Friday.

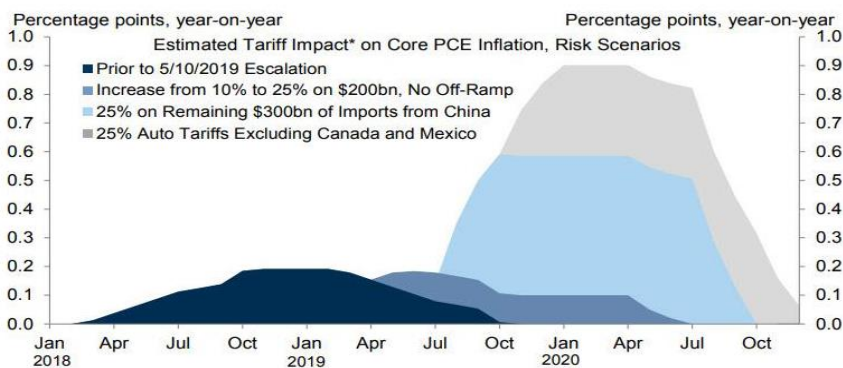
After market close, the US released a list of \$300 bn worth of Chinese goods on which a 25% tariff would be imposed, with a public hearing on the new tariffs scheduled for June 17. The tariffs can go into effect 7 days after end of the hearing. The end-June date aligns with the period heading up to the G20 meeting, though there is no update on when negotiations will resume. Analysts estimated that new US tariffs would push the weighted average tariff rate on Chinese goods from 8-9% previously to around 18%. **Goldman reported that the impact on US inflation will be much larger if the new tariffs were implemented due to higher weights of consumer products.** Consumer goods account for about 25% of the \$200 bn items targeted last Friday, but the share rises to 60% of all remaining imports from China. For example, computers, cell phones, and toys are some of the largest categories, and China accounts for over 80% total US imports for each product group. This could make it harder for US importers to source from other countries not affected by the new tariffs.

Exhibit 3: A Final Tranche of Tariffs on Remaining Chinese Imports Would Hit More Consumers Goods



Source: Goldman Sachs Global Investment Research

Exhibit 8: Further Escalation Would Have Much Larger Effects on Core Inflation



Source: Goldman Sachs Global Investment Research

In an apparent move to ease global concerns, **President Trump indicated yesterday that he intended to speak with President Xi during the G-20 summit in late June** and that there was no decision yet on levying tariffs on the remaining \$300 bn of Chinese imports. Treasury Secretary Mnuchin further commented that US-China trade talks were ongoing and that he intended to travel to China soon. These conciliatory comments may be partly the reason why US equity futures are up by about 0.5% this morning, though significant uncertainty regarding the final outcome of trade negotiations remains.

Europe

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With little notable news out of the region, European and UK markets continue to drift along global trends. The mildly conciliatory tone of Trump's latest comments on the trade dispute with China is lifting the EuroStoxx index, up 0.4% after closing 1.2% lower yesterday. The UK FTSE 100 is outperforming, up 0.7%, despite little news on the Brexit front. There was no sustained reaction to today's data which showed that the UK unemployment rate fell to the lowest since 1974. **Fixed income markets are stable this morning and were only a few basis points lower yesterday despite the large moves in US Treasuries.** The 10-year German bund yield is trading at -0.06% while the 2-years is at -0.6%. Note that the spread between 10-year US and German bonds has been relatively stable this year, fluctuating in a range between 240-260 bps. We are currently right in the middle of the range.

US-Germany Interest Rate Differentials



Other Mature Markets

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Japan

The yen depreciated after optimistic comments from President Trump reduced safe-haven flows while equities lost ground for a seventh day. The yen weakened by 0.4% to ¥109.68/dollar, its largest intraday loss in three weeks following comments from President Trump that he believed trade talks with China are "going to be very successful", easing concerns. Contacts noted that President Trump's comments likely also spurred short-covering as most of the negative factors from trade talks likely already priced in. Meanwhile, the Topix lost 0.4% on the day, its seventh decline and the longest losing streak since last September. Relative to this year's peak reached in mid-April, the Topix has lost 5.9%. That said, the Topix is still up 2.7% on the year, while the Nikkei is still 5.3% higher.

Boom to Bust

After best start since 2015 Japan's stocks have quickly reversed course

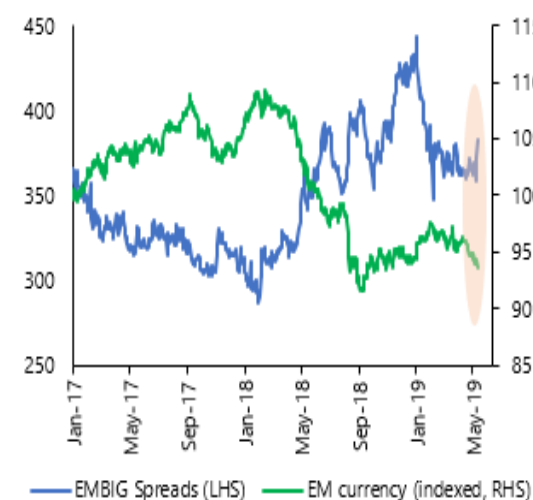


Emerging Markets

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Overall, **EM assets have sold off sharply reflecting the global risk-off mood on the trade uncertainties.** EMBIG spreads widened by 11 bps yesterday and currencies depreciated by 0.8% against the US dollar. MSCI's gauge of EM equities also dropped beneath its 200-day moving average on Monday as China unveiled plans to increase tariffs on some US goods next month, deepening global growth concerns. Oil prices declined by 1.3% correspondingly. **Asian currencies were mixed, while regional equities sold off on news of retaliatory tariffs from China.** The Philippine peso underperformed (-0.6%) while the Thai baht paced gains (+0.5%), as greater clarity regarding the formation of a new government supported the baht. Specifically, the latest political developments continue to point to the Palang Pracharath party forming a coalition government, with Prayut Chan-o-cha returning as Prime Minister. Contacts also noted that the baht is also drawing support from a report that the U.S. will expand the number of countries it scrutinizes – now including Thailand – for currency manipulation; such scrutiny could make the Bank of Thailand cautious on interventions to weaken the baht. The RMB traded in a volatile session to end the day little changed. In equities, most regional bourses suffered sizable losses on weakened risk sentiment, with the Hong Kong Hang Seng underperforming (-1.5%). In **EMEA**, equities continued to fall, down as much as 3.6% in Saudi Arabia, 2.5% in Turkey, and 1.7% in Romania. Day losses in other bourses were smaller. Regional currencies strengthened marginally with the only notable move being a 0.6% appreciation of the South African rand against the dollar. In **Latin America**, Brazilian equities underperformed the region yesterday and were down 2.7 percent. Within currencies, Chilean Peso and Brazilian Real depreciated by 1.0 % each against the US dollar.

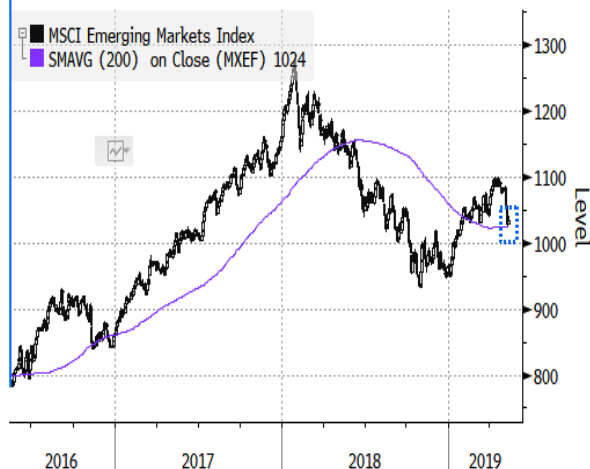
EMBIG Spread + EM Currencies



Source: Bloomberg








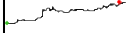


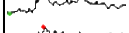


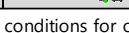
Equities Under Pressure

EM stock gauge dips below 200-day moving average



Source: Bloomberg

Key Emerging Market Financial Indicators

Last updated: 5/14/19 8:31 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.58	1.5	-6	-9	-14	4
MSCI Frontier Equities		27.85	-3.2	-3	-3	-13	7
EMBIG Sovereign Spread (in bps)		363	-1	15	23	42	-51
EM FX vs. USD		61.68	0.0	0	-2	-8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	-0.1	-2	-3	-8	0
Indonesian Rupiah		14438	-0.1	-1	-3	-3	0
Indian Rupee		70.46	0.1	-1	-1	-4	-1
Argentine Peso		45.14	-0.7	-1	-8	-45	-17
Brazil Real		3.99	0.2	0	-3	-9	-3
Mexican Peso		19.18	0.2	-1	-2	2	2
Russian Ruble		65.27	0.3	0	-2	-5	7
South African Rand		14.26	0.5	1	-1	-14	1
Turkish Lira		6.04	0.3	2	-4	-28	-12
EM FX volatility		9.16	0.0	0.4	0.9	0.6	-0.6

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

China

China announced the imposition of additional retaliatory tariffs on \$60 bn US goods starting June 1. A tax of 5% to 25% will be charged on a total of 5,140 US products, with the top group mostly consisting of agricultural, material and non-digital consumer goods. Of note, tariffs on US liquified natural gas will be raised from 10% to 25%. The immediate impact of the additional tariff may be limited since the original 10% duty imposed in last September already dried up most of the trade. According to Bloomberg's analysis of vessel tracking data, China has only imported 4 categories of American gas so far this year, compared to 19 over the same period last year. This happened against a 21% increase in China's overall gas imports YTD. Even though US crude oil exports won't be affected by the tariff actions, Chinese importers have shunned US oil, with oil imports down to 1.6 mn barrels in the last 6 months from 60.5 mn barrels in the previous 6 months.

Costly American Gas

Chinese tariffs make U.S. LNG more expensive than Brent-linked cargoes

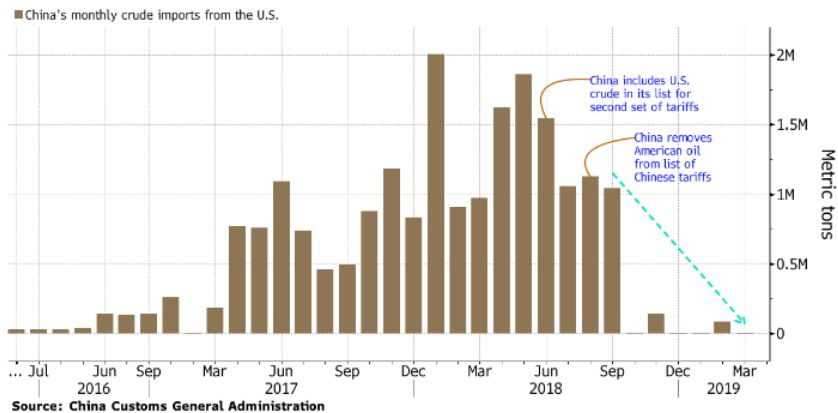
■ American LNG w/ 25% Tariff ■ American LNG w/ 10% Tariff ■ LNG w/ 12% link to Brent



Source: ICE, NYMEX

Shrinking Clout

China's consumption of American oil has declined in recent months



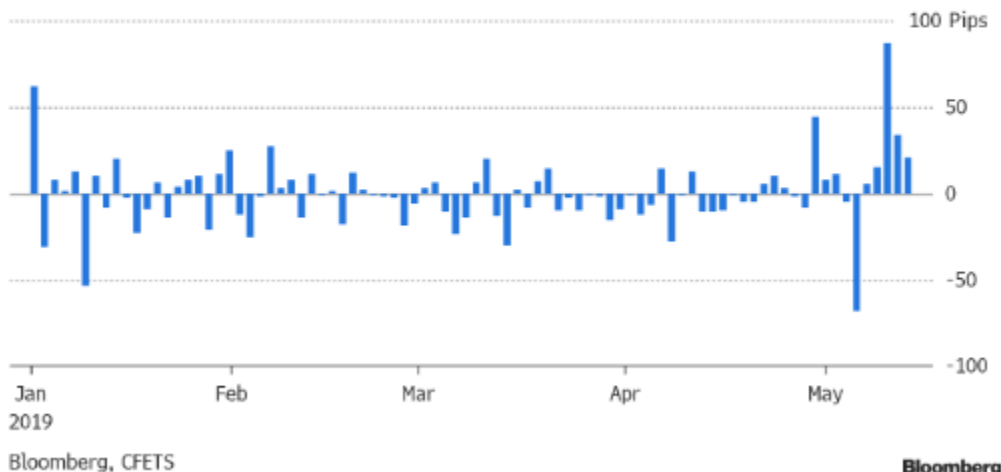
The RMB traded in a volatile session as investors were buffeted by the latest trade-related headlines.

That said, promises by the US and China of ongoing talks and the possibility of a Trump-Xi meeting at next month's G20 meeting lifted sentiment. An early-morning rally of as much as 0.4% for the RMB gave way to a loss before ending the day little changed. The onshore CNY held steady (-0.04%) at RMB 6.88/dollar while the offshore CNH weakened a touch (-0.04%) to RMB 6.91/dollar. Notably, at its current level, the offshore CNH breached the psychologically-significant level of RMB 6.9/dollar for the first time since last December. Meanwhile, contacts noted that the PBC may be reluctant to see further significant depreciation in the RMB as such depreciation could lead to a "vicious cycle" of capital outflows and further depreciation. For the past week, the PBC has set its RMB fixing at levels stronger relative to expectations. Such signals, and the possibility that the PBC could intervene to support the RMB has kept short positions against the currency relatively limited. The offshore CNH's 3-month risk reversal, an indicator of short positions against the RMB, has increased by 1 ppt in May but remains low compared with levels seen in August 2015 when the PBC devalued the currency.

PBOC's Message

China's central bank set fixing at stronger-than-expected levels for five straight days

■ Gap between average forecasts by traders and analysts, vs. actual PBOC fixings



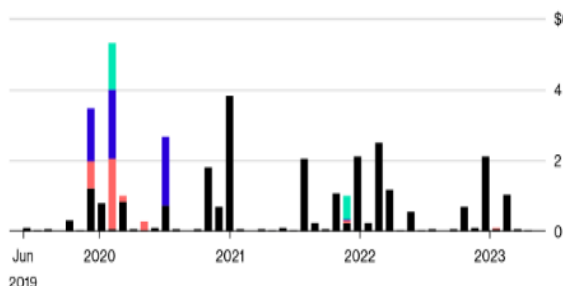
Mexico

Pemex's bonds rallied today after Mexican government announced an \$8 bn syndicated loan along with new tax breaks for the energy producer. The company will use \$2.5 bn of the funds to refinance existing debt, while the remaining \$5.5 bn will replace some credit lines. Analysts have highlighted that Pemex has seen more than a decade of production declines as it struggles under \$106 bn of debt, generating concern that it's due for a ratings downgrade that would take it into junk territory. Pemex's \$5.4 bn of bonds due in 2027 saw a sharp decline in yields from 6.58 percent to a low of 6.44 percent. However, they pared most of the gains through the day and closed at a yield of 6.54 percent. More broadly, EMBIG spread for Mexico widened by 6 bps today, though was less than the overall EMBIG spread widening of 11 bps. Mexican Peso depreciated by 0.6% against the US dollar.

Maturity Wave

Pemex faces a wave of upcoming payments late this year

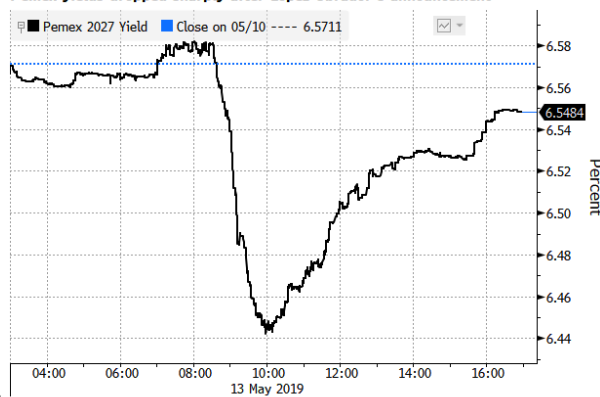
■ Bond Principal ■ Term Loan Outstanding ■ Revolver Outstanding
■ Available in Revolvers



Source: Bloomberg

New Support

Pemex yields dropped sharply after Lopez Obrador's announcement

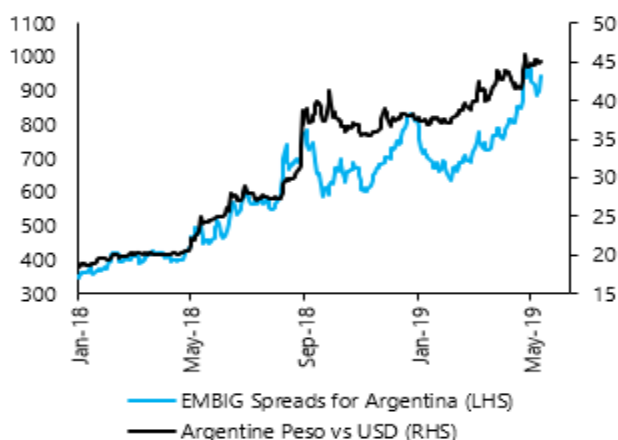


Source: Bloomberg

Argentina

Argentina's economy ministry reported that they will auction USD-linked Letes on Wednesday and Thursday. Investors who own the 2019 dual bond maturing in June may roll it over into the Letes being auctioned this week. Market analysts highlight that the focus remains on the CPI print on Wednesday, with inflation expected to moderate to 4.0% m/m in April vs the 4.7% print in March. Financial Times also reported that the political uncertainties continue in Argentina, as the ruling coalition suffered a defeat in the key regional elections, exposing Macri's political fragility.

Argentine Peso depreciated by 0.7% against the US dollar today, broadly in line with the EM wide sell-off. EMBIG spreads also widened by 45 bps today to 943 bps.
































Source: Bloomberg

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Global Financial Indicators

Last updated: 5/14/19 8:30 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2812	-2.4	-4	-3	3	12
Europe		3353	1.0	-1	-3	-6	12
Japan		21067	-0.6	-4	-4	-8	5
China		2884	-0.7	-1	-10	-9	16
Asia Ex Japan		66	-3.4	-7	-9	-15	5
Emerging Markets		41	1.5	-6	-9	-14	4
Interest Rates			basis points				
US 10y Yield		2.41	-6.6	-5	-16	-60	-28
Germany 10y Yield		-0.07	-0.3	-4	-13	-68	-32
Japan 10y Yield		-0.05	-0.2	0	1	-10	-5
UK 10y Yield		1.10	0.3	-5	-11	-37	-17
Credit Spreads			basis points				
US Investment Grade		120	-0.2	6	10	20	-27
US High Yield		435	-1.2	28	44	98	-86
Europe IG		67	-1.4	5	9	13	-21
Europe HY		287	-4.1	20	39	19	-66
EMBIG Sovereign Spread		363	-1.0	15	23	42	-51
Exchange Rates			%				
USD/Majors		97.47	0.2	0	1	5	1
EUR/USD		1.12	-0.1	0	-1	-6	-2
USD/JPY		109.5	-0.2	1	2	0	0
EM/USD		61.7	0.0	0	-2	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		71	1.7	2	0	-9	33
Industrials Metals (index)		113	0.3	-2	-8	-17	3
Agriculture (index)		38	1.5	-1	-7	-22	-9
Implied Volatility			%				
VIX Index (% change in pp)		18.7	-1.8	-0.6	6.7	5.8	-6.7
10y Treasury Volatility Index		4.1	-0.3	-0.2	0.6	0.5	-0.5
Global FX Volatility		7.1	0.0	0.3	0.9	-0.3	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		364	0.9	25	40	20	-52
Italy		280	4.4	15	32	149	30
Portugal		121	-1.8	8	9	10	-27
Spain		105	-1.3	5	5	33	-13

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: 5/14/2019 8:34 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						YTD
	Level		Change (in %)					Level		Change (in basis points)				
	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	-0.1	-1.5	-3	-8	0		3.3	-1.8	-5	3	-30	12
Indonesia		14438	-0.1	-1.1	-3	-3	0		8.2	7.0	9	35	81	0
India		70	0.1	-1.5	-1	-4	-1		7.5	-2.1	-5	-5	-42	2
Philippines		52	-0.6	-1.1	-2	0	0		5.1	-3.4	-6	-15	-35	-119
Thailand		32	0.5	1.2	1	1	3		2.6	-0.2	-3	1	8	-5
Malaysia		4.17	-0.2	-0.6	-2	-5	-1		3.9	2.2	1	5	-35	-24
Argentina		45	-0.7	-1.0	-8	-45	-17		28.1	3.2	130	474	907	511
Brazil		3.99	0.1	-0.5	-3	-9	-3		8.1	5.3	-10	-17	-54	-10
Chile		693	0.1	-1.2	-4	-10	0		4.1	-2.1	-4	-2	-65	-39
Colombia		3274	0.0	-0.6	-4	-13	-1		6.3	5.9	-9	14	5	-24
Mexico		19.21	0.1	-0.9	-2	2	2		8.2	1.7	1	19	61	-48
Peru		3.3	-0.4	-0.6	-1	-2	1		5.4	2.2	3	0	2	-36
Uruguay		35	-0.3	-0.5	-3	-13	-8		10.9	2.7	-4	37		20
Hungary		289	-0.2	0.1	-2	-9	-3		2.1	-7.0	-10	-3	29	-15
Poland		3.84	-0.2	-0.3	-2	-7	-3		2.3	-4.2	-12	-1	-26	4
Romania		4.2	-0.1	0.1	-1	-9	-4		4.3	3.0	3	-3	0	2
Russia		65.3	0.2	0.1	-2	-5	7		7.9	2.0	1	0	85	-47
South Africa		14.3	0.4	1.2	-2	-14	1		9.4	7.2	-3	10	44	-20
Turkey		6.05	0.2	1.7	-4	-28	-13		22.2	-22.8	138	261	797	533
US (DXY; 5y UST)		97.4	0.1	-0.2	0	5	1		2.18	0.2	-7	-20	-68	-33

	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		2884	-0.7	-1	-10	-9	16		177	1	5	1	-3	-17
Indonesia		6071	-1.0	-4	-5	2	-2		199	5	13	18	14	-37
India		37319	0.6	-3	-4	5	3		153	2	3	-2	-1	-43
Philippines		7647	-1.2	-3	-3	-1	2		91	3	8	10	-12	-30
Malaysia		1599	-0.1	-2	-2	-14	-5		131	6	11	4	-28	-31
Argentina		32300	-3.3	-2	3	6	7		935	-8	18	129	436	120
Brazil		91727	-2.7	-3	-1	8	4		254	0	6	7	9	-19
Chile		4970	-1.6	-3	-5	-13	-3		133	0	7	6	10	-33
Colombia		1516	-2.2	-1	-6	-2	14		195	-3	10	19	21	-33
Mexico		43142	-0.6	-2	-3	-7	4		312	-2	5	20	52	-42
Peru		19958	-1.0	-4	-5	-5	3		139	-1	8	19	-13	-29
Hungary		40168	-0.9	-2	-6	4	3		102	-3	1	1	-16	-46
Poland		56262	-0.2	-3	-8	-7	-2		48	-1	7	6	-15	-37
Romania		8159	-0.1	-3	-1	-7	10		192	5	10	-9	42	-29
Russia		2522	0.5	-2	-1	7	6		216	-1	6	10	8	-36
South Africa		56641	0.5	-4	-3	-3	7		312	-1	4	20	56	-53
Turkey		87507	1.4	-4	-9	-15	-4		531	-13	24	31	160	102
Ukraine		569	-0.1	0	6	20	2		666	-10	24	80	182	-121
EM total		41	1.5	-6	-9	-14	4		363	-1	15	23	42	-51

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