



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, May 15, 2019












- German 10-year yield falls to its lowest level since 2016 ([link](#))
- Italian yields rise on anti-austerity comments ([link](#))
- UK PM May expected to put withdrawal agreement to vote in early June ([link](#))
- US import inflation weakened in April ([link](#))
- Weak April data in China bolster calls for government stimulus ([link](#))
- **Correction: The title of the Italian official was incorrect in the original distribution**

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

Markets are mixed as trade worries linger

After several days of trade talk induced volatility pushing markets in unison, asset prices are more mixed this morning. Yesterday saw a partial reversal of Monday's sell-off on some conciliatory trade comments from the US side. Markets remain uncertain that a trade agreement could be reached this year, with prior hopes for a June deal heavily diminished. Today, Asian equities mostly finished higher, helped by China where weak data has spurred expectations that the government will boost stimulus measures. European shares meanwhile are weakening this morning, led by Italy on concerns over comments that the country's budget will push past the EU's fiscal limits. This has also led to a meaningful widening in Italian spreads as most developed market sovereign yields are lower this morning. The spread over the German 10-year is now at its highest level since December.

Key Global Financial Indicators

Last updated: 5/15/19 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
S&P 500		2834	0.8	-2	-2	5	13
Eurostoxx 50		3347	-0.5	-2	-3	-6	12
Nikkei 225		21189	0.6	-2	-4	-7	6
MSCI EM		41	0.1	-3	-7	-11	5
Yields and Spreads			bps				
US 10y Yield		2.38	0.9	-11	-18	-70	-31
Germany 10y Yield		-0.12	-4.9	-8	-18	-76	-36
EMBIG Sovereign Spread		363	2	24	23	41	-51
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.7	-0.1	0	-2	-8	-1
Dollar index, (+) = \$ appreciation		97.6	0.1	0	1	5	2
Brent Crude Oil (\$/barrel)		70.8	-0.6	1	-1	-10	32
VIX Index (% change in pp)		18.4	0.3	-1	6	4	-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 recouped some of Monday's sell-off on positive headlines around trade. A string of positive comments on trade from both US and China kicked off a strong session in Europe and US, with the S&P 500 rising as much as 1.5% before fading in the afternoon. The Dow and S&P 500 closed 0.8% higher while NASDAQ rallied over 1%. The rebound was broad-based, with 80% of S&P 500 member up on the day, led by tech and energy sectors, while utilities dropped 0.8% after being the only sector spared on Monday. Some commentators noted that markets are now in a delicate state. On one hand, the worst possible news has already come to the markets and it is unlikely to have any meaningful deterioration in trade talks before June. On the other hand, a deal is also unlikely to happen until 2020, thus trade risks cannot be ruled out for a while. In this environment, there is no conviction in price direction. Indeed, the lack of conviction was evident in the Treasury market yesterday as **Treasury yields closed only marginally higher**, with 2- and 10-year yield each rising less than 1 bp to 2.19% and 2.41%, respectively.

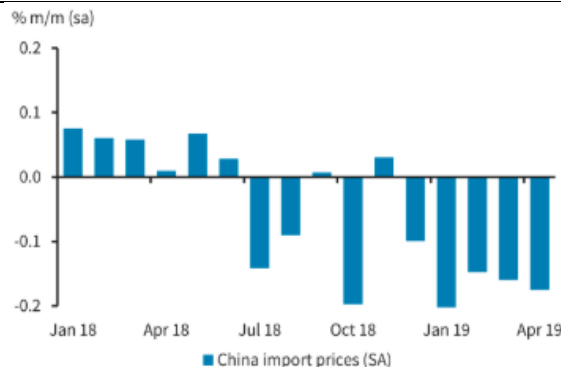
This morning data showed that retail sales disappointed in April. Both headline and core (ex-auto and gas) sales fell 0.2% mom vs expected gains by around 0.2% mom. Prior readings were revised up only marginally. Treasury yields extended falling after the report, with the 2-year yield down to 2.14%.

Non-fuel import inflation weakened further in April. Overall import inflation fell to +0.2% mom even after strong increase in fuel (+6.1% mom) and food (+2.8% mom) prices. Import prices excluding fuel fell 0.6% mom, driven by capital (-0.4% mom) and consumer (-0.3% mom) goods. The annual trend in imported inflation has weakened over the past year. The fall in energy prices was the main driver of deflation in late 2018, but now the deflationary forces are moving to less-volatile measures. Import prices for capital equipment fell 4.2% yoy, with particularly sharp declines for prices from China (-3.3% yoy) and Mexico (-5.7%), while those for household goods dropped 2.5% yoy. The weakness in these components is a concern for core consumer goods prices in the CPI and PCE, given that a large share of these goods is imported. It is worth noting that import price index is designed to exclude duties, so that the tariff implication should not be evident in this measure.

US: import price index
(% yoy, nsa)



US: import price from China
(% mom, sa)



Source: Barclays

Europe

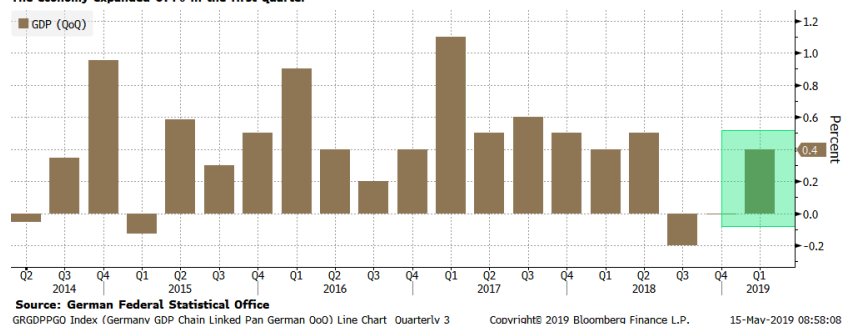
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Equity markets are down slightly with the EuroStoxx 600 falling 0.3%, after yesterday's +1.0% close. The Italian MIB (-0.5%) is underperforming on the back of negative political headlines (see below). In fixed income markets, the Italian 2-year yields are up 9 bps to 0.77% and the 10-year up 5 bps to 2.77%. Yields are down 1-3 bps across other countries in the region, including the UK. **Of note, the 10-year bund yield fell to -0.10%, the lowest level since late-2016.** German GDP data out today showed a rebound of 0.4%

qoq in Q1, recovering from zero growth in the previous quarter, but this was in line with market expectations.

German Rebound

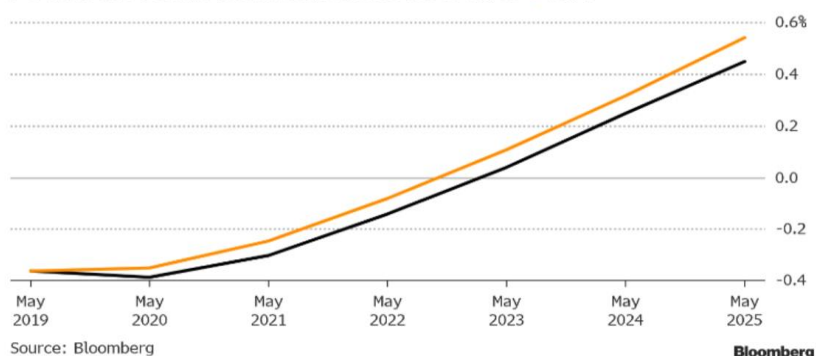
The economy expanded 0.4% in the first quarter



Consistently, swaps continue to push out the start date of ECB rate hikes. Eonia forward rates for the next two years are now pricing in a 15-bps hike only in Q4 2021. This means it would be over a decade after the ECB's last hike in July 2011, under the stewardship of Jean-Claude Trichet.

Eonia forward rates suggest ECB's first hike since 2011 is coming in fourth quarter of 2021

1-month Euro Overnight Index Average forward rates on May 15 (black line) / May 1 (orange line)

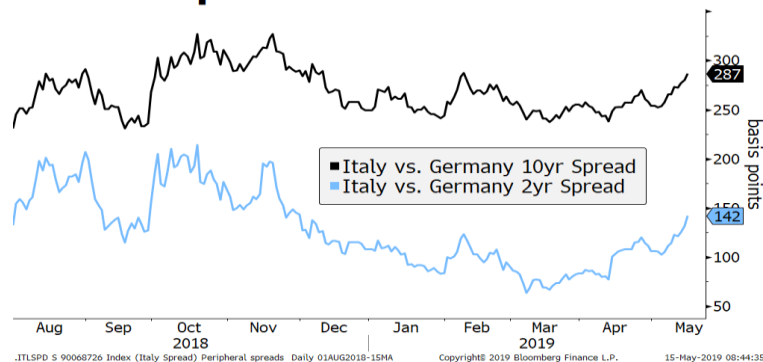


Italy

Yields are up across the curve on comments by Deputy PM Salvini about additional fiscal spending.

Salvini said that the government may "need to break some limits, like the 3% or the 130-140%" EU-imposed

Italian Spread



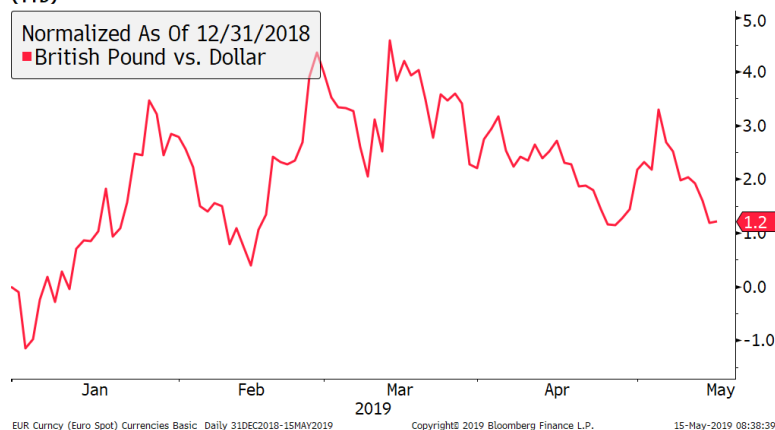
spending caps for budget deficit and government debt. The context for this renewed anti-austerity rhetoric is the EU elections next week, which happen against the backdrop of growing internal tensions in the coalition government. The 2-year Italian spread to German bunds has widened to 142 bps, the highest level since last November.

United Kingdom

News reports claim that PM May will bring her Brexit withdrawal agreement to a vote in the week starting June 3. If confirmed, this could be the final move of her premiership. If the vote fails she will lack the support to carry on, if it passes she is likely to step down as promised. Passing the bill will be an uphill battle given the diverging positions in her own party. A cross-party agreement is still a possibility, but there are no concrete indications it will happen. And without a cross-party deal, opposition leader Corbyn and most Labour MPs are unlikely to support the bill. Some commentators believe that May's strategy is to wait for a bad outcome for both parties in the European elections next week, which is widely expected. This may tip the balance for MPs, leaving them more predisposed to compromise. The pound didn't react to the news, though it has been depreciating steadily since early May.

British Pound

(YTD)



Other Mature Markets

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Japan

Japanese equities rose, halting a seven-day decline, while the yen partially reversed its depreciation yesterday. News that Treasury Secretary Mnuchin will travel to China for a new round of trade negotiation "soon" and President Trump's remarks that US and China have an "ongoing dialogue" eased concerns over trade tensions. The Topix index gained 0.6%, ending its longest losing streak since September despite weak earnings outlooks from pharmaceutical companies and automakers. Meanwhile, the yen appreciated a touch (+0.09%), taking its monthly gain to 1.7% and making it the top-performing G10 currency this month as trade tension boosted safe-haven flows into the yen.






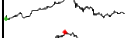
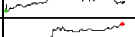





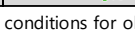

Emerging Markets

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Asian currencies and equities were mixed as investors continue to assess the impact of a protracted US-China trade war. The Indian rupee paced gains (+0.3%), reportedly boosted by RBI's liquidity draining OMOs while the Thai baht underperformed (-0.2%). In equities, Chinese shares led gains as a slew of weaker-than-expected data raised expectations for government stimulus, though trading volume was subdued. By contrast, the Jakarta Composite shed another 1.5%, extending losses seen over the past two weeks. In May, the JCI Index has lost 7.4% on the back of foreign selling amid a resurgence in risk aversion. **EMEA** equity markets are mixed with small gains across Eastern Europe and losses of near 1% in Turkey and Dubai. The outlier this session was Saudi Arabia with gains of 2%, led by the banking sector, after MSCI announced May 28 as the date for the 30 Saudi companies to join its index. In the currency space, the Turkish lira has depreciated 0.6% against the dollar, fully offsetting yesterday's gains, after the government announced a tax on some FX transactions. Regional currencies are otherwise unchanged. **Latin American** assets rallied Tuesday in line with the broader risk-on rally. Equities outperformance was

led by Chile (+1.0) and Mexico (+0.7) respectively. Most currencies also appreciated against the US dollar, by around 0.4% each

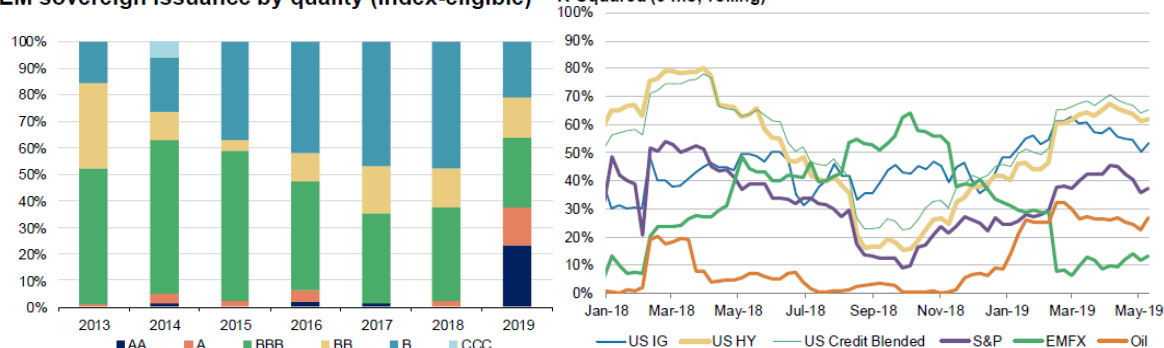
Key Emerging Market Financial Indicators

Last updated: 5/15/19 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		41.15	0.1	-3	-7	-11	5
MSCI Frontier Equities		27.89	0.1	-2	-4	-12	7
EMBIG Sovereign Spread (in bps)		363	2	24	23	41	-51
EM FX vs. USD		61.66	-0.1	0	-2	-8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	-0.1	-1	-2	-7	0
Indonesian Rupiah		14463	-0.2	-1	-3	-3	-1
Indian Rupee		70.34	0.1	-1	-1	-3	-1
Argentine Peso		44.96	0.4	1	-7	-44	-16
Brazil Real		4.00	-0.6	-2	-3	-9	-3
Mexican Peso		19.21	-0.3	-1	-2	3	2
Russian Ruble		64.84	0.1	0	-1	-4	7
South African Rand		14.27	-0.2	1	-2	-12	1
Turkish Lira		6.07	-0.6	2	-4	-27	-13
EM FX volatility		8.97	0.0	0.1	0.8	0.1	-0.8

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

The recent challenging market conditions have been reflected in a sharp decline in EM issuance over the last 2 months. In terms of the credit quality, Morgan Stanley analysts have highlighted that mix has improved in 2019. This compares with the last few years, which saw an increasing proportion of B-rated issuers. More broadly, analysts expect the pressure on spreads to continue, driven by a) a high sensitivity to US High Yield (RHS chart), and pressures in US credit; b) potential for an escalation in trade disputes and c) a heavy positioning on the back of large inflows.

EM sovereign issuance by quality (index-eligible)**



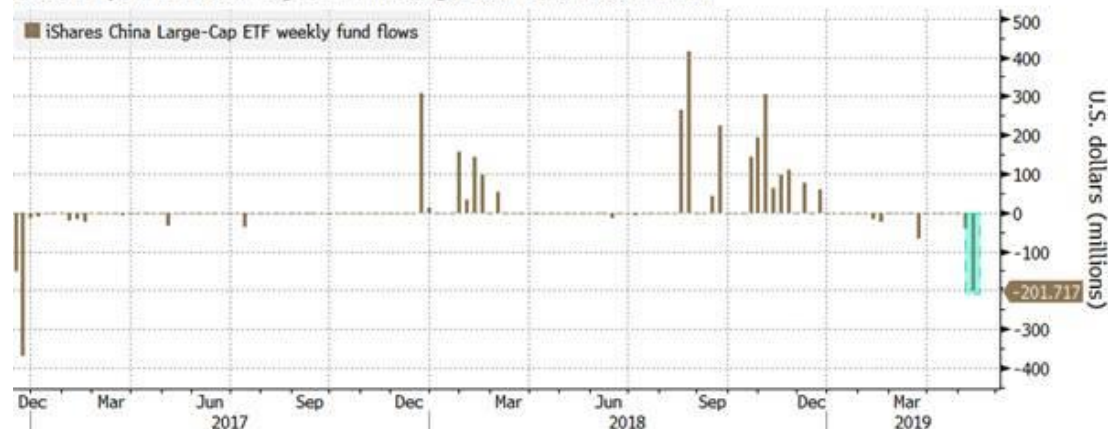
China

Weak April data boosted expectations for government stimulus, lifting equities. Annual growth rates of industrial production, retail sales, new home sales and fixed asset investment all fell in April, with all the readings significantly below market expectations. Although seasonality partly contributed to the soft prints, they nonetheless highlight the economy's fragility as it confronts trade tension with the US. Speculations that the authorities will consider more measures to support the economy lifted equity bourses. The large

cap CSI 300 Index jumped 2.3% and the Shanghai Composite rose 1.9%. That said, Bloomberg estimated that trading volume on the CSI was about 42% lower than the 30-day average, suggesting limited conviction in the latest bounce. Meanwhile, Bloomberg data indicated that **foreigners have sold China-listed shares in Hong Kong at a record pace**. On a month-to-date basis, CNH 17.4 bn (\$2.6 bn) of A shares have been sold through trading links with Hong Kong, putting May on track to exceed the CNH 18 bn outflow seen in April. By Bloomberg's estimate, equity bourses in China have lost about \$1 tn in valuation over the last 3 weeks.

Fleeing China

Investors pull most from largest ETF tracking nation's shares since 2016



Source: Bloomberg

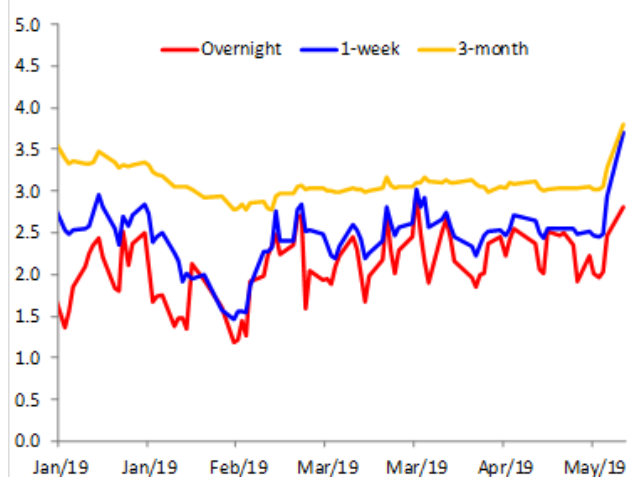
FXI US Equity (iShares China Large-Cap ETF) Graph 956 Weekly 15DEC2016-10MAY201

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The RMB was little changed on the day as the prospect of a protracted trade negotiation and higher offshore funding costs kept investors at bay. The CNH interbank borrowing costs rose in recent days, with the one-week tenor 77 bps higher since last Friday, and the 3-month tenor 52 bps higher over the same period. Traders noted that large Chinese banks offshore have curtailed lending into the CNH market since last week, limiting liquidity. Moreover, demand for funding to buy CNH 20 bn (\$2.9 bn) of bills that the PBC plans to sell in Hong Kong also tightened funding conditions, helping to limit short speculative positions against the CNH. The offshore CNH was unchanged at CNH 6.91/dollar, and the onshore CNY held largely steady at CNY 6.87/dollar.

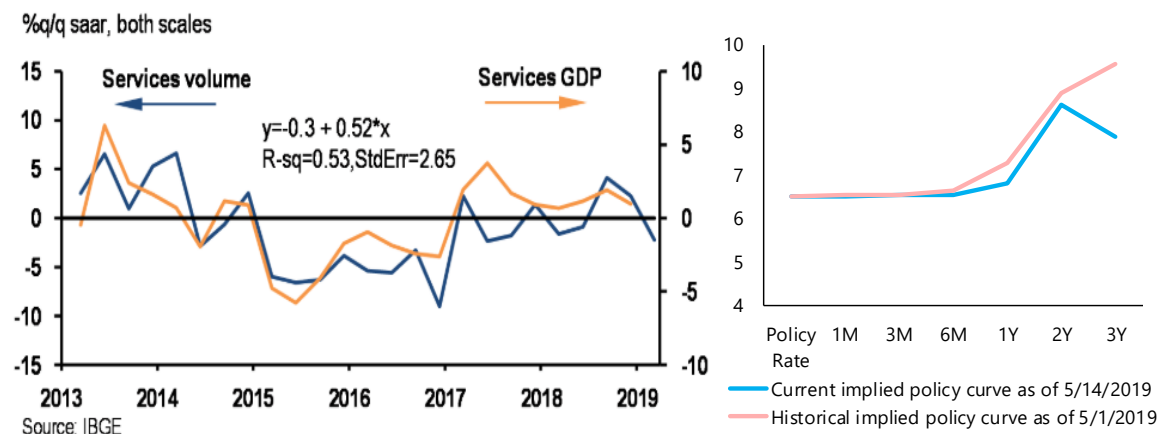
Hong Kong SAR: CNH HIBOR (%)



Source: TMA, CEIC.

Brazil

Brazil 10-year yields declined by around 8 bps yesterday, mostly reversing the widening from Monday and outperformed the rest of the region. This in part reflected the latest MPC meeting minutes. Officials highlighted that there's "a relevant probability" that gross domestic product contracted in the first three months of the year compared to the end of 2018. Furthermore, services volume continued to be weak, reporting at -2.3% yoy in March as compared to consensus estimates of -0.7% yoy. More broadly, the real appreciated by 0.4% vs the US dollar and equities closed up 0.4% Tuesday, in line with the global risk-on rally. Market implied policy curve for Brazil has also lowered in the last 2 weeks.



Argentina

Fitch Ratings affirmed Argentina's credit rating at B with a negative outlook citing the country's fragile macroeconomic backdrop and uncertainties related to the upcoming presidential election. Fitch also estimated that a funding gap will reemerge in 2020 and Argentina will need to refinance a sizable stock of domestic bonds, while external bond repayments become more burdensome in 2021. The peso appreciated by 0.4% Tuesday.






























Turkey

The government increased the tax on some foreign exchange transactions by banks and insurance companies to 0.1%. Transactions between banks, with the Treasury, and transactions for the purpose of repaying FX debt will be exempted. Analysts said the decree is aimed at generating additional income to the budget (estimated at TRY2 bn, or \$300 mn, per month), but also to discourage the trend of dollarization among household. The move added pressure on the lira (-0.6% against the dollar) and the local stock market (-1.0%).

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Global Financial Indicators

Last updated: 5/15/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2834	0.8	-2	-2	5	13
Europe		3347	-0.5	-2	-3	-6	12
Japan		21189	0.6	-2	-4	-7	6
China		2939	1.9	2	-8	-8	18
Asia Ex Japan		67	1.5	-4	-7	-12	6
Emerging Markets		41	0.1	-3	-7	-11	5
Interest Rates			basis points				
US 10y Yield		2.38	0.9	-11	-18	-70	-31
Germany 10y Yield		-0.12	-4.9	-8	-18	-76	-36
Japan 10y Yield		-0.05	-0.1	0	-3	-11	-5
UK 10y Yield		1.04	-6.2	-9	-18	-47	-23
Credit Spreads			basis points				
US Investment Grade		121	0.4	6	11	20	-26
US High Yield		438	4.0	32	49	103	-83
Europe IG		68	2.4	5	10	12	-20
Europe HY		289	6.9	21	41	18	-64
EMBIG Sovereign Spread		363	2.0	24	23	41	-51
Exchange Rates			%				
USD/Majors		97.65	0.1	0	1	5	2
EUR/USD		1.12	-0.2	0	-1	-6	-3
USD/JPY		109.3	0.3	1	2	1	0
EM/USD		61.7	-0.1	0	-2	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		71	-0.6	1	-1	-10	32
Industrials Metals (index)		113	-0.1	-1	-7	-16	4
Agriculture (index)		39	1.4	2	-4	-20	-7
Implied Volatility			%				
VIX Index (% change in pp)		18.4	0.3	-1.0	6.0	3.7	-7.1
10y Treasury Volatility Index		4.2	-0.2	-0.2	0.7	0.3	-0.4
Global FX Volatility		7.0	0.0	0.0	0.8	-0.6	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		369	6.2	21	46	21	-47
Italy		288	8.2	22	36	157	38
Portugal		125	4.2	12	11	15	-23
Spain		108	3.6	7	5	36	-10

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: 5/15/2019 8:06 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		6.88	-0.1	-1.4	-2	-7	0		3.3	-1.1	-5	2	-33	11		
Indonesia		14463	-0.2	-1.2	-3	-3	-1		8.2	0.4	8	35	83	1		
India		70	0.1	-0.9	-1	-3	-1		7.4	-2.6	-6	-8	-50	0		
Philippines		52	0.1	-0.5	-1	0	0		5.1	1.4	-3	-14	-34	-118		
Thailand		32	-0.2	0.6	1	2	2		2.6	-1.0	-3	0	6	-6		
Malaysia		4.17	-0.1	-0.6	-2	-5	-1		3.9	0.5	3	6	-36	-24		
Argentina		45	0.4	0.7	-7	-44	-16		28.4	25.5	141	500	935	537		
Brazil		4.00	-0.6	-1.8	-3	-9	-3		8.0	-5.4	-17	-23	-69	-15		
Chile		691	0.4	-0.9	-4	-10	0		4.1	0.6	-2	-1	-65	-38		
Colombia		3291	0.4	0.3	-5	-14	-1		6.3	2.0	-6	16	7	-22		
Mexico		19.21	-0.3	-0.6	-2	3	2		8.2	-2.6	-4	16	49	-51		
Peru		3.3	0.2	-0.2	-1	-2	1		5.4	-1.2	-3	-1	1	-37		
Uruguay		35	0.1	-0.6	-3	-13	-8		11.0	11.9	25	49		32		
Hungary		291	-0.4	-0.4	-3	-8	-4		2.0	-2.4	-12	-5	20	-17		
Poland		3.85	-0.2	-0.5	-2	-6	-3		2.3	1.0	-8	0	-27	5		
Romania		4.3	-0.2	-0.2	-1	-8	-5		4.3	0.0	4	-3	-1	2		
Russia		64.8	0.1	0.4	-1	-4	7		7.9	-0.3	1	0	83	-47		
South Africa		14.3	-0.2	0.7	-2	-12	1		9.4	-2.0	-7	8	44	-22		
Turkey		6.07	-0.6	1.9	-4	-27	-13		21.1	-106.6	-102	155	676	426		
US (DXY; 5y UST)		97.7	0.1	0.0	1	5	2		2.15	-3.8	-14	-22	-77	-36		

	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		2939	1.9	2	-8	-8	18		177	0	8	2	2	-17
Indonesia		5981	-1.5	-5	-7	2	-3		199	1	22	16	17	-37
India		37115	-0.5	-2	-5	4	3		156	3	7	1	4	-40
Philippines		7577	-0.9	-4	-3	-4	1		87	-3	24	2	-13	-34
Malaysia		1611	0.8	-1	-1	-13	-5		128	-3	9	1	-31	-34
Argentina		32511	0.7	-1	2	6	7		928	3	45	121	456	113
Brazil		92092	0.4	-2	-1	8	5		254	3	22	8	2	-19
Chile		5019	1.0	-1	-4	-12	-2		135	2	19	8	5	-31
Colombia		1509	-0.4	-2	-4	-4	14		192	2	19	15	12	-36
Mexico		43432	0.7	0	-3	-6	4		312	3	20	14	55	-42
Peru		20021	0.3	-3	-5	-5	3		140	2	25	18	-12	-28
Hungary		40193	0.2	-3	-6	7	3		100	-1	11	-5	-10	-48
Poland		56387	0.3	-2	-7	-6	-2		51	4	12	7	-6	-34
Romania		8169	0.4	-2	-1	-6	11		191	-1	3	-10	42	-30
Russia		2556	-0.2	0	0	9	8		216	1	17	11	4	-36
South Africa		55698	-0.9	-4	-4	-4	6		314	3	15	24	52	-51
Turkey		86606	-1.6	-4	-9	-15	-5		535	8	30	23	133	106
Ukraine		570	0.0	0	7	20	2		653	-9	15	69	155	-134
EM total		41	0.1	-3	-7	-11	5		363	2	24	23	41	-51

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