Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, May 16, 2019

- **US delays tariffs on European car imports, leading to rising equities (link)**
- **Trade tensions with China continue as US restricts Huawei's market access (link)**
- **European sovereign bond yields fall further (link)**
- **Manufacturing weakness in US continued in April (link)**
- **Argentina's CPI rose 3.4% in April, less than consensus expectations (link)**

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Asset prices mostly higher on mixed trade news

News yesteday that the US is set to delay a decision on car tariffs by 6 months helped markets continue to recover. European markets are broadly higher this morning as well as US equity futures. The European auto sector is underpeforming so far this morning, but experienced very strong gains in yesterday's trading. Even with the better performance of equities, sovereign bond yields are mostly declining again today. Yesterday the implied end-2019 Fed future rate hit its lowest level with a yield 31 bps below the current effective Fed rate. News on the US/China trade front however was less positive as president Trump issued an order whose immediate effect is to severely restrict Huawei's access to US markets. It is believed that it will also eventually lead to restricted market access for other Chinese telecom firms as well. Despite that, the reaction in Chinese markets was limited, with equities generally stable and the renminbi only slightly weaker.

Key Global Financial Indicators

Last updated: 5/16/19 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2851	0.6	-1	-2	5	14
Eurostoxx 50		3400	0.4	1	-2	-5	13
Nikkei 225		21063	-0.6	-2	-5	-7	5
MSCI EM		41	0.3	-3	-7	-13	6
Yields and Spreads			bps				
US 10y Yield		2.38	-3.7	-6	-21	-71	-30
Germany 10y Yield		-0.11	-0.7	-6	-17	-71	-35
EMBIG Sovereign Spread		360	-2	9	23	41	-54
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.9	0.2	0	-2	-8	-1
Dollar index, (+) = $ appreciation		97.6	0.0	0	1	5	1
Brent Crude Oil ($/barrel)		72.5	1.1	3	1	-9	35
VIX Index (%, change in pp)		15.9	-0.5	-3	4	3	-9

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

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United States

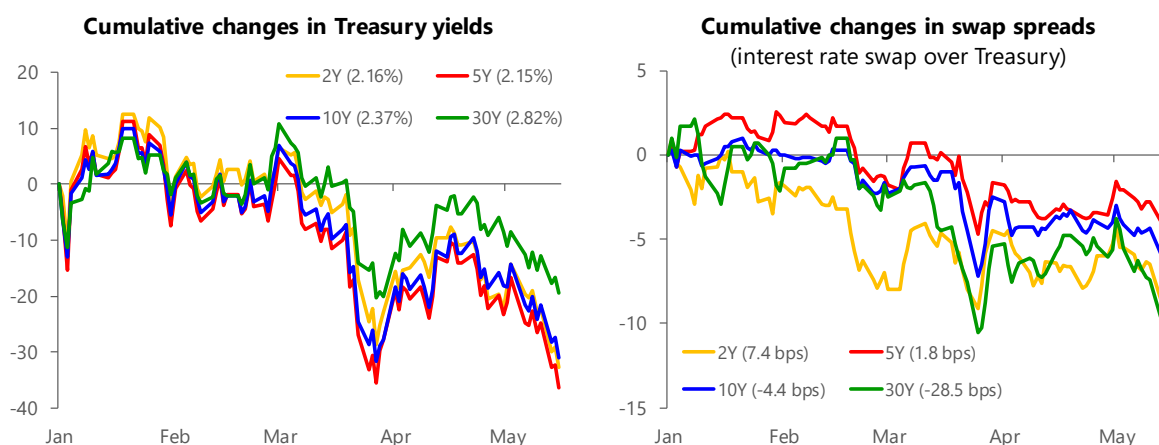**Stocks continued to recover yesterday as some positive headlines around trade offset poor economic reports.** Sentiment was supported by news that the US is set to postpone the decision on car tariffs by up to six months and a deal is close with Mexico and Canada on removing metal tariffs. The Dow and S&P 500 rose 0.5%, while the NASDAQ outperformed for a second day by rising 1.1%. Communication sector (+2.1%) was leading the gains, boosted by news that President Trump is expected to sign an executive order this week barring US firms from using telecommunication equipment made by firms posing national security risk. In contrast, the financial sector (-0.5%), especially regional banks, was trading poorly on lower yields.

Treasury yields fell notably in a belly-led flattening on weak economic data from US and China. The 2- and 10-year yields each dropped 4 bps to 2.16% and 2.37%, respectively. The yield curve is now at the flattest level in over a year and remains inverted between 6-month to 10-year maturities. The recent drop in yields were partly exacerbated by hedging activities (short gamma and convexity hedging). The spread between interest rate swaps and Treasury yields has tightened sharply. The magnitude is similar to what was observed during the last episode around the March FOMC. Fed funds market continues to price in higher probability of a rate cut this year. The implied yield on the Jan-2020 futures fell 3 bps to 2.07%, 31 bps below the effective Fed funds effective rate.

Treasury yields and swap spreads
(changes in bps, numbers in parentheses are levels as of May 15)

Cumulative changes in Treasury yields

2Y (2.16%)   5Y (2.15%)
10Y (2.37%)   30Y (2.82%)

Cumulative changes in swap spreads
(interest rate swap over Treasury)

2Y (7.4 bps)   5Y (1.8 bps)
10Y (-4.4 bps)   30Y (-28.5 bps)

Manufacturing weakness continued in April. Industrial production (IP) fell more than expected by 0.5% mom, with Jan and Feb readings revised down by -0.45 ppts each. The continued decline is in line with the recent pull-back in ISM and concentrated in durable goods such as auto. That being said, a slowdown in durable goods is not unexpected given the substantial buildup in inventories over the last 3 quarters. A moderation in production is in line with a drawdown of inventories, which is expected to be a drag on Q2 GDP.

US: IP and ISM manufacturing

US: contribution to real GDP growth
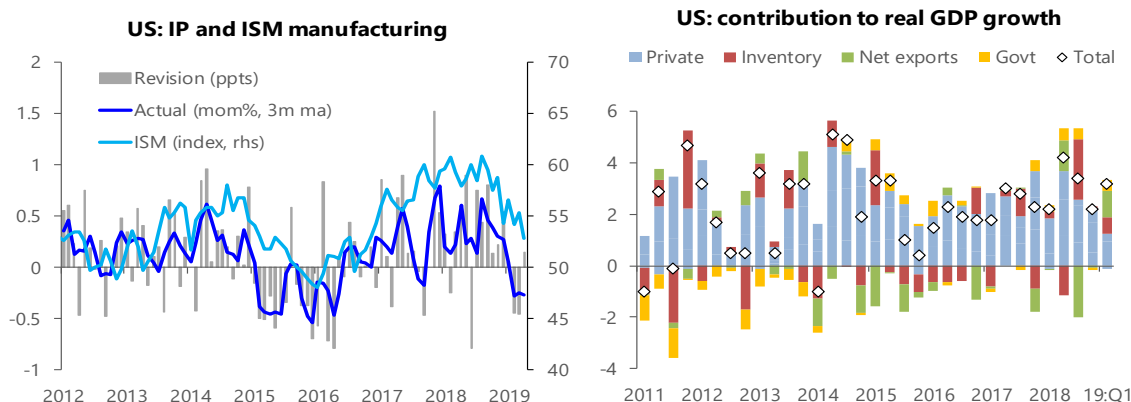
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Equity markets are broadly but modestly lower across the region with the EuroStoxx 600 down 0.3%. The European **auto sector** received an initial boost (+2.0%) from the news of a 6-month delay on car tariffs by the US, but the sector is down (-1.3%) this morning. Analysts noted that postponing the tariffs is probably more of a tactical move rather than a change in thinking by the administration, designed to allow it to focus on the disputes with China. Once this part of the trade war settles down, the administration is expected to revisit automobile tariffs and re-instate its demands for the EU to open up its agricultural markets.

Auto Sector Rally Short Lived
(percent, ytd)
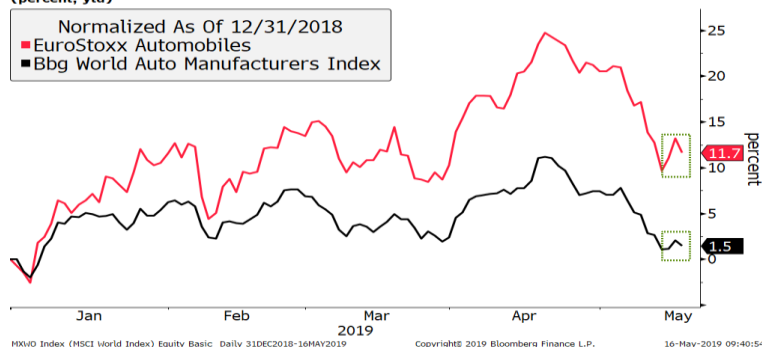
Yields are down across the region. The German 10-year bund yield fell 2 bps to -0.11% on the day, and 35 bps so far this year. Yields in Italy are down 7-5 bps across the curve, only partially offsetting the last three sessions of increases. In contrast to yields in Germany (and other countries in Europe), 10-year Italian yields are unchanged on the year and the 2-year has increase over 25 bps.

10-Year Yield in Europe
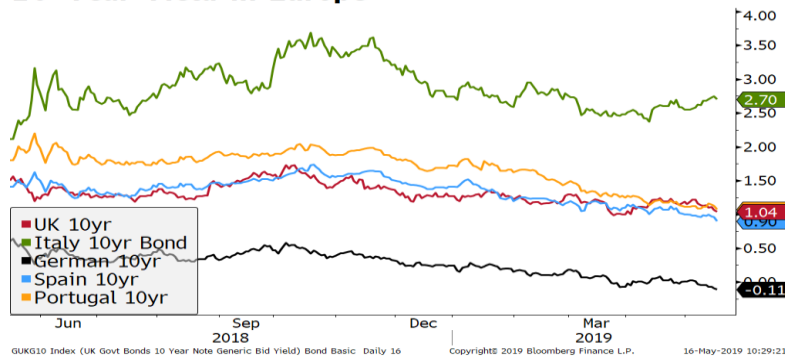
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Japan

Japanese equities resumed their declines while the yen strengthened a notch as US-China trade tensions continued. The Topix lost 0.4% while the yen gained 0.05%. Weak U.S. data as well as news that President Trump signed an Executive Order to restrict Huawei from accessing the US market and US suppliers weighed on sentiment. Meanwhile, Bloomberg reported that President Trump will give the EU and Japan 6 months to agree to a deal that would "limit or restrict" imports of cars and car parts into the U.S. in return for delaying new auto tariffs. Share prices of Japanese automakers fell, with Toyota down 1%, pacing losses.

Australia

The jobless rate in April rose unexpectedly from 5.1% to 5.2% while the participation rate rose to a record high. This latest data renewed expectation for RBA to ease policy in its next meeting. Australian government bond yields fell 4 to 5 bps across the curve, while the Australian dollar softened (-0.04%), falling to its weakest level of $0.6931in more than 3 years.

Oil rose by 0.4% on Wednesday after reports highlighted shrinking U.S. gasoline supplies, suggesting more demand ahead for crude as tensions flare in the Middle East. The Energy Information Administration on Wednesday said domestic gasoline inventories fell 1.12 million barrels, about four times deeper than analysts forecast, to its lowest level since November.

Gasoline Stocks Drop
U.S. supplies hit their lowest in almost six months

Source: Energy Information Administration
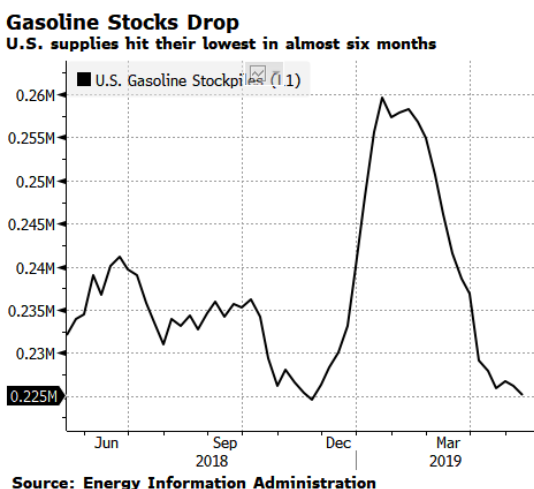
Emerging Markets   back to top

Asian currencies and equities were mixed on the day. The Malaysian ringgit outperformed (+0.2%), its first gain in almost three weeks after Malaysian Q1 GDP exceeded expectations (+4.5% yoy vs expectations of +4.3% yoy). Meanwhile, the RMB remained little changed while the Korean won continues to underperform, depreciating by another 0.2% on the day, taking it to KRW 1191.45/dollar, its weakest level since February 2017. In Indonesia, **Bank Indonesia kept its 7-day reverse repo rate unchanged at 6.00%**, in line with expectations. BI noted that it will continue its accommodative macroprudential policies but refrained from further actions to support growth. The rupiah was little changed, losing 0.07% on the day. **EMEA** equity markets are mostly higher, rising close to 1% in Russia and Turkey. FX markets are mostly range bound, with a small appreciation of the South African rand and the Russian ruble against the dollar. **Latin American** equities remained weak on Wednesday, with Argentina being an exception and outperforming with a 2.2% increase. Divergence continued within currencies as well with Mexican peso

appreciating by 0.5% against the US dollar, and the Brazilian real depreciating by 0.6%.

Key Emerging Market Financial Indicators

| Last updated: 5/16/19 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks				%			%
MSCI EM Equities		41.23	0.3	-3	-7	-13	6
MSCI Frontier Equities		28.07	0.6	-3	-3	-12	7
EMBIG Sovereign Spread (in bps)		360	-2	9	23	41	-54
EM FX vs. USD		61.89	0.2	0	-2	-8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.88	0.0	-1	-2	-7	0
Indonesian Rupiah		14452	0.1	-1	-3	-2	0
Indian Rupee		70.03	0.4	0	-1	-3	0
Argentine Peso		44.99	-0.1	0	-7	-47	-16
Brazil Real		4.00	0.1	-1	-2	-8	-3
Mexican Peso		19.01	0.2	1	-1	3	3
Russian Ruble		64.48	0.3	1	-1	-4	8
South African Rand		14.14	0.6	1	-1	-12	1
Turkish Lira		6.02	-0.3	3	-4	-27	-12
EM FX volatility		8.99	0.0	-0.3	0.8	0.0	-0.8

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

Argentina

Argentina's CPI for April rose 3.4% m/m, surprising on the downside vs consensus expectations of a 4.0% m/m rise. This compares with the 4.7% m/m increase in March. The core CPI print decelerated to a still-high 3.8% m/m in April, following 4.6% m/m jump in March. Officials cited in a press conference that they expect inflation to continue to decline, albeit emphasizing again non-linearities in the inflation process. While the peso market was already closed when the data was released, US dollar bonds rallied upon the news. **Argentina's bonds maturing in 2028 saw its yield decline by 15 bps on Wednesday to 11.04 percent.** Equities closed up 2.2% outperforming the rest of the region.

Separately, according to reports, Argentina's finance secretary Bausili denied that the treasury is planning to buy back sovereign debt and attempted to allay concerns about the payment of the dual-currency bond due June 21. The equivalent of approximately USD 2 bn is due on that date, of which USD500m are in the hands of the public sector and USD1.5b held by private sector, according to Bloomberg. The comments were made during a banking sector conference and reported by analysts in attendance.

Figure 1: Headline and core National-CPI
%m/m
Source: Indec and JPMorgan
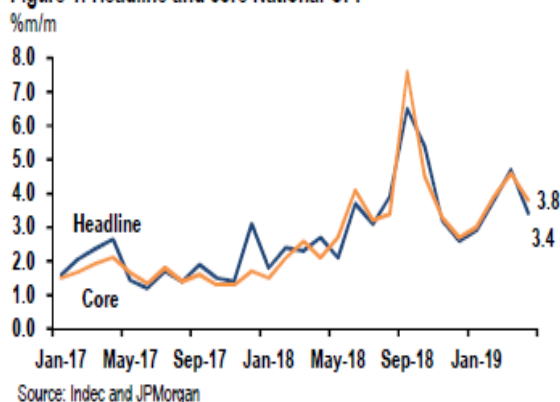
Reaction to April CPI
Yields on Argentina 2028 bonds fall after positive inflation surprise
CPI data released
Percent
15 May 2019
Source: Bloomberg
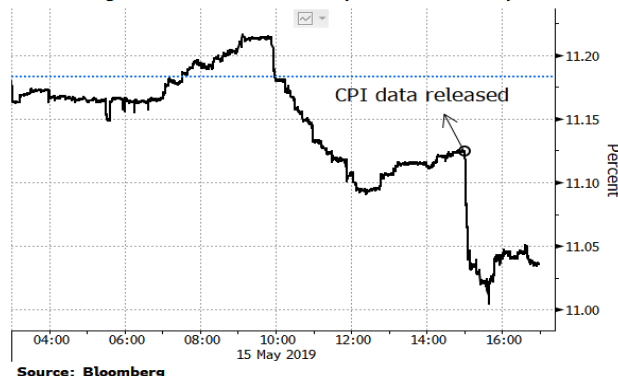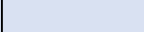
China

The RMB was little changed while equities edged higher despite continuing trade tension. President Trump signed an order leading to restrict Huawei's access to the American market and U.S. suppliers. Shortly afterward, the U.S. Commerce Department indicated that it had put Huawei on a blacklist, effectively forbidding it from doing business with American companies. Analysts noted that barring Huawei from buying American components could severely cripple the firm's operation and potentially impede its global roll-out of the 5G networks. Market reaction was limited. Both the onshore and offshore RMB were modestly weaker, with the CNY down 0.07% (CNY 6.88/dollar) and the offshore CNH 0.08% weaker (CNH 6.91/dollar). Equities stabilized from the recent market rout; the Shanghai Composite gained 0.5%, extending its 1.9% gain from yesterday.

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Global Financial Indicators

Last updated: 5/16/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
United States		2851	0.6	-1	-2	5	14
Europe		3400	0.4	1	-2	-5	13
Japan		21063	-0.6	-2	-5	-7	5
China		2956	0.6	4	-9	-7	19
Asia Ex Japan		68	0.6	-3	-7	-12	7
Emerging Markets		41	0.3	-3	-7	-13	6
Interest Rates				basis points			
US 10y Yield		2.38	-3.7	-6	-21	-71	-30
Germany 10y Yield		-0.11	-0.7	-6	-17	-71	-35
Japan 10y Yield		-0.06	-1.0	-1	-4	-12	-6
UK 10y Yield		1.05	-1.7	-7	-17	-45	-23
Credit Spreads				basis points			
US Investment Grade		120	-1.2	3	11	21	-27
US High Yield		437	-3.3	20	51	104	-84
Europe IG		65	-1.4	-1	7	9	-22
Europe HY		280	-2.5	0	31	6	-73
EMBIG Sovereign Spread		360	-2.0	9	23	41	-54
Exchange Rates					%		
USD/Majors		97.60	0.0	0	1	5	1
EUR/USD		1.12	0.0	0	-1	-5	-2
USD/JPY		109.7	-0.1	0	2	1	0
EM/USD		61.9	0.2	0	-2	-8	-1
Commodities					%		
Brent Crude Oil ($/barrel)		73	1.1	3	1	-9	35
Industrials Metals (index)		115	0.6	2	-5	-15	5
Agriculture (index)		39	1.1	4	-3	-20	-7
Implied Volatility					%		
VIX Index (%, change in pp)		15.9	-0.5	-3.2	3.8	2.5	-9.5
10y Treasury Volatility Index		4.1	0.0	-0.1	0.5	0.0	-0.5
Global FX Volatility		7.1	0.0	-0.1	0.9	-0.7	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		358	-7.5	0	34	-19	-58
Italy		281	-3.1	9	29	130	31
Portugal		119	-3.8	2	5	-1	-29
Spain		101	-4.0	-2	-1	21	-16

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:	Exchange Rates						Local Currency Bond Yields (GBI EM)						
5/16/2019	Level		Change (in %)				Level		Change (in basis points)				
8:06 AM	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	0.0	-0.7	-2	-7	0		3.3	2.2	-3	1	-31	13
Indonesia		14452	0.1	-0.6	-3	-2	0		8.2	-0.9	2	41	81	0
India		70	0.4	-0.1	-1	-3	0		7.4	-0.1	-4	-7	-57	0
Philippines		52	-0.3	-0.5	-1	0	0		5.1	0.0	-2	-19	-34	-118
Thailand		32	-0.1	0.6	1	1	2		2.6	-0.1	-2	0	3	-6
Malaysia		4.16	0.2	-0.3	-1	-5	-1		3.9	0.1	6	5	-37	-24
Argentina		45	-0.1	0.2	-7	-47	-16		29.5	108.4	234	618	1042	645
Brazil		4.00	0.1	-1.2	-2	-8	-3		8.0	2.6	-6	-16	-69	-13
Chile		691	0.0	-1.0	-4	-9	0		4.1	0.6	-2	-1	-69	-37
Colombia		3286	0.2	0.2	-4	-13	-1		6.3	-1.1	-6	13	1	-23
Mexico		19.01	0.2	1.2	-1	3	3		8.2	-5.3	-8	5	35	-56
Peru		3.3	0.1	0.0	-1	-1	2		5.3	-2.6	-3	-5	-9	-40
Uruguay		35	0.0	-0.4	-3	-12	-8		11.1	6.8	20	60		39
Hungary		289	0.2	-0.1	-2	-7	-3		2.0	-3.0	-19	-11	5	-20
Poland		3.83	0.1	0.0	-1	-6	-3		2.3	-0.8	-7	2	-33	4
Romania		4.3	0.0	-0.1	-1	-8	-4		4.2	-2.0	1	-5	-3	0
Russia		64.5	0.3	1.2	-1	-4	8		7.9	-2.6	-1	-5	77	-50
South Africa		14.1	0.6	1.5	-1	-12	1		9.3	-5.9	-13	2	23	-28
Turkey		6.02	-0.3	2.9	-4	-27	-12		20.9	-22.3	-135	125	577	404
US (DXY; 5y UST)		97.6	0.0	0.2	1	5	1		2.17	1.8	-8	-24	-77	-34

	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		2956	0.6	4	-9	-7	19		177	0	5	2	-2	-17
Indonesia		5896	-1.4	-5	-9	1	-5		198	-1	12	18	18	-38
India		37393	0.8	0	-5	6	4		159	3	13	2	6	-37
Philippines		7475	-1.3	-6	-4	-5	0		86	-2	5	3	-14	-35
Malaysia		1599	-0.8	-1	-2	-14	-5		128	0	10	2	-23	-34
Argentina		33218	2.2	-2	3	5	10		913	0	14	103	464	98
Brazil		91623	-0.5	-4	-3	6	4		253	-1	10	10	5	-20
Chile		5005	-0.3	-1	-5	-13	-2		134	0	13	9	6	-32
Colombia		1502	-0.5	-2	-5	-3	13		190	-1	8	15	11	-38
Mexico		43339	-0.2	0	-4	-7	4		307	-1	5	13	48	-47
Peru		20011	-0.1	-2	-5	-4	3		139	-1	11	19	-12	-29
Hungary		40505	0.6	-2	-5	8	3		98	-3	3	-7	-13	-50
Poland		56351	-0.1	-1	-8	-6	-2		47	-4	5	5	-10	-38
Romania		8198	0.3	-1	-1	-4	11		192	1	8	-12	50	-29
Russia		2586	1.2	2	1	11	9		211	-5	3	10	5	-41
South Africa		56323	0.5	0	-4	-4	7		311	-3	5	25	54	-54
Turkey		87816	0.3	-1	-9	-14	-4		524	-6	-9	20	130	95
Ukraine		572	0.4	0	7	22	2		644	-9	-16	71	155	-143
EM total		41	0.3	-3	-7	-13	6		360	-2	9	23	41	-54

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