



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, May 2, 2019












- The FOMC leaves the US policy rate range unchanged at 2.25% - 2.50% ([link](#))
- The Fed cut the interest on excess reserves rate by 5 bps to 2.35% ([link](#))
- European PMIs modestly exceed expectations ([link](#))
- The Bank of England leaves policy rates unchanged, as expected ([link](#))
- EM corporate issuance hits a record high in April ([link](#))

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FOMC remains on hold, sees low inflation as 'transitory'

Federal Reserve Chair Powell characterized the recent decline in PCE growth as driven by **transitory factors** and stressed that there was currently no clear argument for a change in policy rates in any direction. Market participants suggested that the Chair's language appeared to dismiss the potential for 'insurance cuts'-- the notion, which had become increasingly prevalent in recent days, that the Fed might proactively cut rates to hedge against the risk that the low pace of inflation could move even lower. The short end of the US yield curve rose up to 4 bps and the US dollar strengthened modestly against most major developed and EM currencies. Aside from these developments, there were few developments of note, as major Asian markets remain closed for holidays.

Key Global Financial Indicators

| Last updated: 5/2/19 8:15 AM | Level | | Change from Market Close | | | | YTD |
|--------------------------------------|---|--------|--------------------------|--------|---------|------|-----|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | |
| Equities | | | % | | | | % |
| S&P 500 |  | 2924 | -0.8 | 0 | 2 | 11 | 17 |
| Eurostoxx 50 |  | 3500 | -0.4 | 0 | 3 | -2 | 17 |
| Nikkei 225 |  | 22259 | -0.2 | 0 | 5 | -1 | 11 |
| MSCI EM |  | 44 | -0.3 | 0 | 0 | -6 | 12 |
| Yields and Spreads | | | bps | | | | |
| US 10y Yield |  | 2.51 | -0.2 | -2 | 4 | -45 | -17 |
| Germany 10y Yield |  | 0.01 | 0.0 | 2 | 6 | -57 | -23 |
| EMBIG Sovereign Spread |  | 342 | -1 | -6 | -2 | 20 | -72 |
| FX / Commodities / Volatility | | | % | | | | |
| EM FX vs. USD, (+) = appreciation |  | 62.3 | -0.1 | 0 | -1 | -8 | 0 |
| Dollar index, (+) = \$ appreciation |  | 97.6 | -0.1 | -1 | 0 | 6 | 1 |
| Brent Crude Oil (\$/barrel) |  | 71.2 | -1.3 | -4 | 3 | -3 | 32 |
| VIX Index (% change in pp) |  | 14.1 | -0.7 | 1 | 1 | -2 | -11 |

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

United States

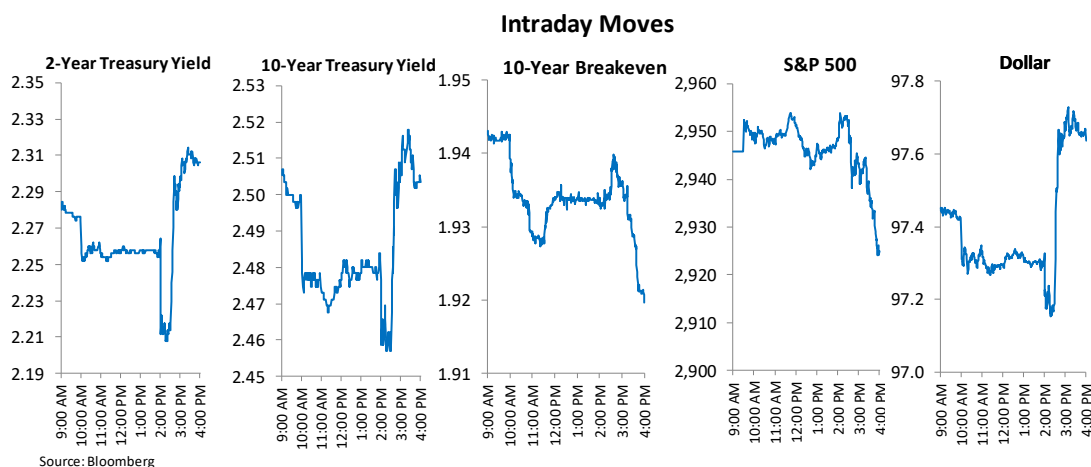
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The Federal Reserve left the Fed funds target range unchanged. As widely expected, the Fed unanimously kept the policy rate range unchanged at 2.25–2.50% for a third straight meeting. The FOMC adjusted its language on the economy in the policy statement, saying consumer spending and business investment slowed in the first quarter, but that overall growth and job gains were solid. During the press conference following the decision, Chair Powell attributed the recent weaker-than-expected core PCE growth to transitory factors and implied that an “insurance cut” based on weak inflation would be unlikely. Instead, the Chair stated that there was not a clear case for either a hike or a cut to the current policy rate range.

In a modest surprise, the interest on excess reserves rate (IOER), one of the tools employed by the Fed to control the federal funds rate, was lowered by 5 bps to 2.35%. It was the third time in a year that the Fed has adjusted the gap between IOER and the funds rate. Some market participants had expected such ‘technical cut,’ as the funds rate has been well above IOER since mid-March approaching the upper bound of the 2.25-2.5% band, though few expected the decision at this meeting.

The Treasury market roller-coastered following the FOMC decision. The yield on 2-year Treasury notes initially dropped by 6 bps, as the statement was regarded as dovish combined with the technical “cut” in IOER, but reversed course during the press conference to close trading 4 bps higher. The 10-year note yield closed unchanged, with the 2-to-10-year curve flattening by 4bps. The implied yield on the December 2019 Eurodollar futures contract rose by 5 bps. The dollar also weakened initially but strengthened afterward.

Stocks failed to renew a record high after a three-day rally. The market slid lower as an “insurance cut” appears to be remote. S&P 500 closed down by 0.8%. VIX rose by 1.5pt to 14.6.



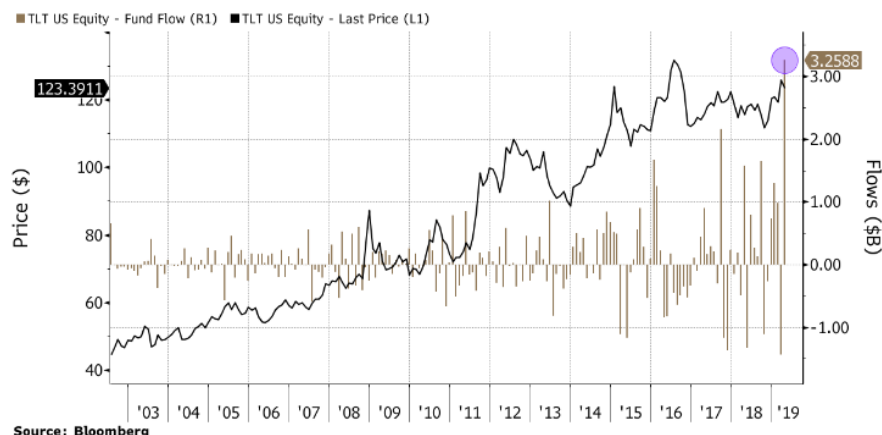
The Treasury’s quarterly refunding statement brought no surprises. The Treasury Department announced that they would keep its auctions of nominal coupon and floating-rate debt unchanged over the coming quarter amid a growing government budget deficit. The government will issue \$38 bn 3-year notes on May 7, \$27 bn 10-year notes on May 8, and \$19 bn 30-year bonds on May 9.

Long duration ETFs saw a record inflow. Longer-dated debt ETFs saw \$4 bn of inflows in April, with a record \$3.3 bn coming into the BlackRock’s 20+ year Treasury Bond ETF alone, according to Bloomberg. With subdued inflation, there was growing speculation that the Fed may be on “insurance cuts” to hedge

against downside risks. A record high US stocks could also have encouraged real money investors to take profit and shifted into bonds, analysts commented.

TLT-ing Long

Investors pour cash into longer-term Treasuries fund



Europe

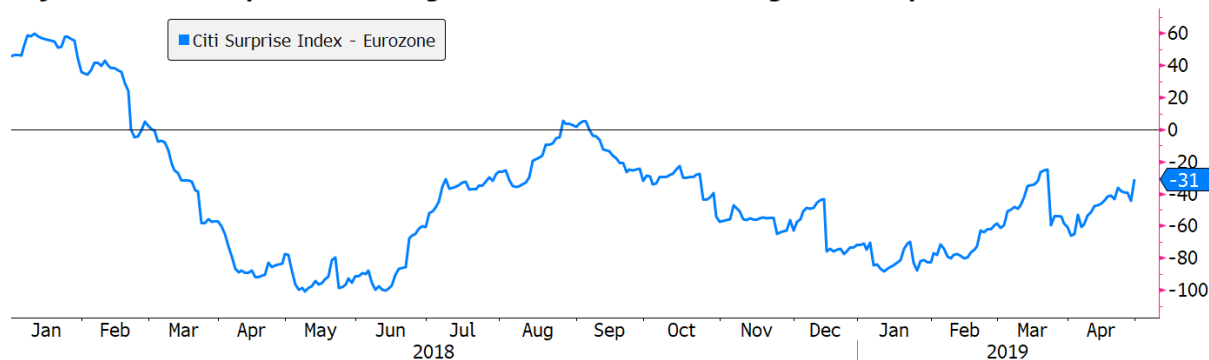
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European equity indices dropped slightly today: EuroStoxx 600 (-0.4%), DAX (flat), and CAC 40 (-0.5%), Titans 30 (-0.4%), Ibex 35 (-0.4%). Bank stocks (+0.7%) are outperforming. **Sovereign bond yields are mostly unchanged on the day:** Germany 10-year at 0.02% (+1 bp); France at 0.38% (+1 bp); Italy at 2.53% (-2 bp); Spain at 1.00% (-2 bps).

Manufacturing PMIs indices point to a slight acceleration of economic activity in Spain, Italy, and France. The Spanish index for April came in at 51.8 from 50.9, Italy's at 49.1 from 47.4, and France's at 50.0 from 49.6. Activity in Germany slowed down a tad, with the PMI at 44.4 (vs. 44.5 the month prior). Recent European macro data has pointed to stronger activity than expected by analysts.

Economic Surprise Indices

(by Citi Research: positive reading means data releases stronger than expected)



Source: Bloomberg
Macro: Surprise Indices Daily 01JAN2018-02MAY2019

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The Bank of England kept its policy parameters unchanged, as expected. The key interest rate was maintained at 0.75%, while the targets for the Bank's total asset purchases and corporate bond purchases stayed at £435 bn and £10 bn, respectively.

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Commodities

Copper prices dropped in New York trading, down 3.7% on the day. The outlook for demand dimmed as China's manufacturing sector weakened last month, while top producer Codelco boosted supply. Copper's underperformance accelerated following the weaker-than-expected ISM manufacturing PMI print (52.8 vs. 55.0 cons.), which was the worst reading since October 2016. In particular, new orders fell to 51.7 in April from 57.4.

Japan

Japanese markets remain closed for Golden Week holiday.

The yen weakened a touch (-0.1%) to ¥111.52/dollar following gains seen earlier in the week. In an interview with a local newspaper, Prime Minister Abe indicated that he is willing to meet with North Korean leader Kim for a "candid discussion" without any preconditions to thaw diplomatic relations.

Emerging Markets [back to top](#)

The MSCI EM ETF declined by 0.7% yesterday as risk assets sold off following comments by Fed Chairman Powell. Currencies and equity markets were mixed in **Asia** with Japan and China closed for national holidays. News outlets noted that a US-China trade deal could come as soon as May 10th, directly following Vice Premier Liu He's visit to Washington on the 8th. There was limited reaction to the trade news: the onshore CNY held steady while the offshore CNH weakened by 0.1%. The Korea won is little changed today but, since mid-April, it has lost nearly 2.9% of its value to its weakest level in 2 years on the back of weak economic data. In equities, the Hong Kong Hang Seng Index (+0.8%) outperformed today while the Indonesian Jakarta Composite (-1.2%) paced losses. Equity markets are mixed across **EMEA**, rising over 0.5% in Czech Republic and Russia, but falling slightly in Poland and Turkey. Currencies are also mixed, most are appreciating slightly against the dollar, but the Russian ruble and the Ukrainian hryvnia are down 0.5%. In **Latin America**, most local markets were closed due to May 1. Yields on Argentina's dollar bonds continued to rise led by the front end (2021: +72bps to 16.8%, 2028: +20bps to 12%).

Key Emerging Market Financial Indicators

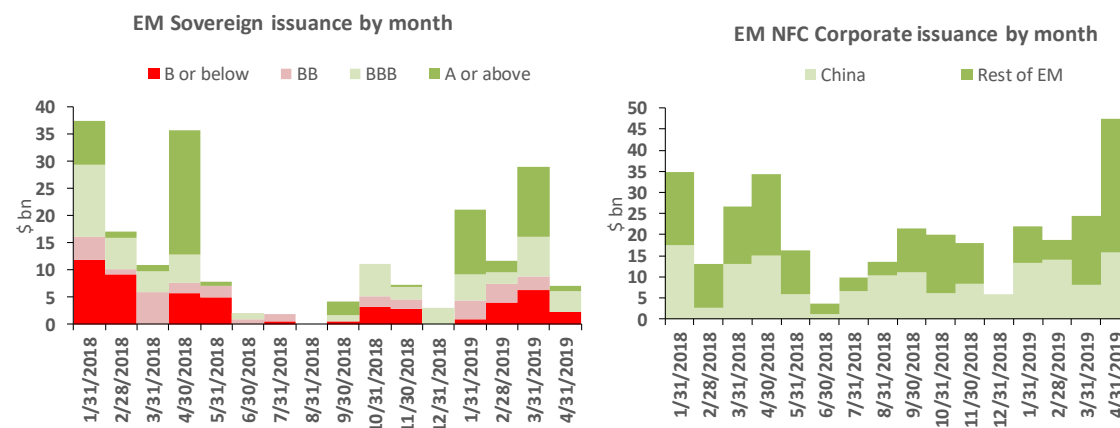
| Last updated: 5/2/19 8:17 AM | Level | | Change | | | | YTD |
|---------------------------------|----------|-------|-----------------------------------|--------|---------|------|------|
| | Last 12m | index | 1 Day | 7 Days | 30 Days | 12 M | |
| Major EM Benchmarks | | | % | | | | % |
| MSCI EM Equities | | 43.60 | -0.3 | 0 | 0 | -6 | 12 |
| MSCI Frontier Equities | | 28.18 | -0.6 | -1 | -2 | -14 | 8 |
| EMBIG Sovereign Spread (in bps) | | 342 | -1 | -6 | -2 | 20 | -72 |
| EM FX vs. USD | | 62.31 | -0.1 | 0 | -1 | -8 | 0 |
| Major EM FX vs. USD | | | %, (+) = EM currency appreciation | | | | |
| China Renminbi | | 6.73 | 0.0 | 0 | 0 | -6 | 2 |
| Indonesian Rupiah | | 14252 | 0.0 | 0 | 0 | -2 | 1 |
| Indian Rupee | | 69.36 | 0.3 | 1 | -1 | -4 | 1 |
| Argentine Peso | | 44.22 | 0.3 | -4 | -3 | -54 | -15 |
| Brazil Real | | 3.93 | -0.3 | 0 | -2 | -10 | -1 |
| Mexican Peso | | 18.95 | 0.3 | 0 | 1 | 1 | 4 |
| Russian Ruble | | 65.35 | -0.8 | -1 | 0 | -2 | 6 |
| South African Rand | | 14.46 | -0.1 | 0 | -2 | -12 | -1 |
| Turkish Lira | | 5.97 | 0.0 | -1 | -6 | -30 | -11 |
| EM FX volatility | | 8.00 | 0.0 | -0.5 | -0.6 | -0.7 | -1.8 |

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

EM Issuance

EM hard currency sovereign and corporate issuance was subdued last week. In April, corporate issuance reached an all-time high of \$47 bn, with the main highlight being Aramco's debut issuance.

Most of the issuance occurred in the first half of the month and activity has been slower over the last two weeks (\$12bn by Aramco were issued on April 9 and \$14 out of the \$16bn from Chinese issuers happened by mid-month). Sovereign issuance was very low in April after a strong pick up in March. The last issuer that came to market was Panama on April 10 issuing \$1 bn.

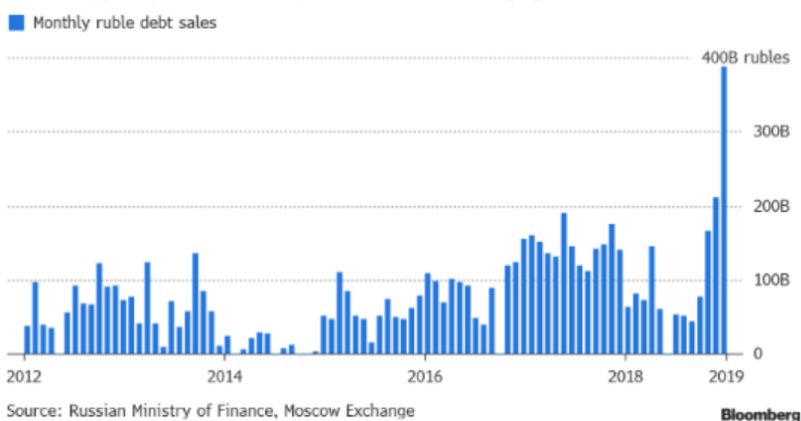


Source: Bondradar

Russia

Easier access to markets has allowed Russia to dramatically step up its borrowing last month. The Ministry of Finance issued some \$6.2 bn worth of local currency debt, more than 4 times the average and a record high. The country's high budget surplus suggests that the borrowing may be a precautionary move to build up buffers, possibly as protection against US sanctions. Russia's local 10-year yield is trading around 8.1%, down from around 8.75% at the start of the year.

Russia stepped up bond sales in April as demand for emerging-market debt soared



Source: Russian Ministry of Finance, Moscow Exchange

Bloomberg

List of GMM Contributors (Global Markets Analysis Division, MCM Department)
Anna Ilyina*Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***Deputy Division Chief***Evan Papageorgiou***Deputy Division Chief***Sergei Antoshin***Senior Economist***John Caparusso***Senior Financial Sector Expert***Sally Chen***Senior Economist***Fabio Cortés***Senior Economist***Mohamed Jaber***Senior Financial Sector Expert***David Jones***Senior Financial Sector Expert***Sanjay Hazarika***Senior Financial Sector Expert***Juan Solé***Senior Economist***Jeffrey Williams***Senior Financial Sector Expert***Akihiko Yokoyama***Senior Financial Sector Expert***Dimitris Drakopoulos***Financial Sector Expert***Tryggvi Gudmundsson***Economist***Henry Hoyle***Financial Sector Expert***Robin Koepke***Economist***Thomas Piontek***Financial Sector Expert***Rohit Goel***Financial Sector Expert***Jochen Schmittmann***Economist***Ilan Solot***Financial Sector Expert***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Piyusha Khot***Research Assistant***Xingmi Zheng***Research Assistant*

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Global Financial Indicators

| Last updated: 5/2/19 8:16 AM | Level | | Change | | | | YTD |
|---------------------------------|----------|--------|----------------------------------|--------|---------|------|-------|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | |
| Equities | | | % | | | | % |
| United States | | 2924 | -0.8 | 0 | 2 | 11 | 17 |
| Europe | | 3500 | -0.4 | 0 | 3 | -2 | 17 |
| Japan | | 22259 | -0.2 | 0 | 5 | -1 | 11 |
| China | | 3078 | 0.5 | -4 | -3 | 0 | 23 |
| Asia Ex Japan | | 72 | -0.4 | 0 | 1 | -5 | 13 |
| Emerging Markets | | 44 | -0.3 | 0 | 0 | -6 | 12 |
| Interest Rates | | | basis points | | | | |
| US 10y Yield | | 2.51 | -0.2 | -2 | 4 | -45 | -17 |
| Germany 10y Yield | | 0.01 | 0.0 | 2 | 6 | -57 | -23 |
| Japan 10y Yield | | -0.04 | 0.0 | -1 | 2 | -9 | -4 |
| UK 10y Yield | | 1.16 | 1.0 | 0 | 16 | -30 | -12 |
| Credit Spreads | | | basis points | | | | |
| US Investment Grade | | 109 | -1.5 | -2 | -8 | 9 | -38 |
| US High Yield | | 394 | -2.0 | -3 | -17 | 53 | -127 |
| Europe IG | | 59 | 0.8 | -1 | -4 | 4 | -29 |
| Europe HY | | 253 | 3.9 | -1 | -5 | -19 | -99 |
| EMBIG Sovereign Spread | | 342 | -1.0 | -6 | -2 | 20 | -72 |
| Exchange Rates | | | % | | | | |
| USD/Majors | | 97.61 | -0.1 | -1 | 0 | 6 | 1 |
| EUR/USD | | 1.12 | 0.1 | 1 | 0 | -6 | -2 |
| USD/JPY | | 111.5 | -0.1 | 0 | 0 | -1 | -2 |
| EM/USD | | 62.3 | -0.1 | 0 | -1 | -8 | 0 |
| Commodities | | | % | | | | |
| Brent Crude Oil (\$/barrel) | | 71 | -1.3 | -4 | 3 | -3 | 32 |
| Industrials Metals (index) | | 116 | -0.1 | -2 | -4 | -14 | 6 |
| Agriculture (index) | | 39 | 0.0 | -1 | -4 | -23 | -7 |
| Implied Volatility | | | % | | | | |
| VIX Index (% change in pp) | | 14.2 | -0.7 | 0.9 | 0.8 | -1.8 | -11.3 |
| 10y Treasury Volatility Index | | 3.8 | 0.0 | 0.0 | -0.2 | 0.0 | -0.8 |
| Global FX Volatility | | 6.5 | 0.0 | -0.2 | -0.6 | -1.3 | -2.5 |
| EA Sovereign Spreads | | | 10-Year spread vs. Germany (bps) | | | | |
| Greece | | 333 | -2.8 | 2 | -41 | -2 | -83 |
| Italy | | 252 | -2.0 | -18 | -5 | 131 | 2 |
| Portugal | | 108 | -2.0 | -11 | -22 | -3 | -40 |
| Spain | | 96 | -2.5 | -14 | -20 | 23 | -21 |

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: 5/2/2019 8:17 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 | 0.0 | 1 | 28 | -19 | 20 |
| Indonesia | | 14252 | 0.0 | -0.5 | 0 | -2 | 1 | | 7.9 | 0.0 | 15 | 19 | 88 | -23 |
| India | | 69 | 0.3 | 1.3 | -1 | -4 | 1 | | 7.5 | 0.0 | -2 | 14 | -34 | 9 |
| Philippines | | 52 | -0.2 | 0.8 | 1 | 0 | 1 | | 5.2 | 0.0 | -9 | -16 | -10 | -110 |
| Thailand | | 32 | -0.2 | 0.1 | -1 | -1 | 1 | | 2.6 | 0.0 | -1 | 2 | 17 | -3 |
| Malaysia | | 4.14 | -0.1 | 0.0 | -1 | -5 | 0 | | 3.8 | 0.0 | -4 | 3 | -36 | -26 |
| Argentina | | 44 | 0.3 | -4.1 | -3 | -54 | -15 | | 26.6 | 0.0 | 158 | 294 | 852 | 359 |
| Brazil | | 3.93 | -0.3 | 0.5 | -2 | -10 | -1 | | 8.2 | 0.0 | 6 | 12 | -6 | 8 |
| Chile | | 679 | -0.3 | -0.8 | -1 | -10 | 2 | | 4.1 | 0.0 | 3 | -9 | -61 | -37 |
| Colombia | | 3233 | 0.0 | -0.4 | -3 | -13 | 1 | | 6.4 | 0.0 | 12 | 18 | 24 | -16 |
| Mexico | | 18.95 | 0.3 | 0.4 | 1 | 1 | 4 | | 8.2 | 0.0 | -3 | 6 | 69 | -52 |
| Peru | | 3.3 | 0.0 | 0.6 | 0 | -2 | 2 | | 5.3 | 0.0 | -9 | -2 | -1 | -43 |
| Uruguay | | 35 | -0.7 | -1.3 | -4 | -18 | -7 | | 10.9 | 0.2 | 14 | 40 | | 17 |
| Hungary | | 289 | 0.3 | 0.1 | -1 | -9 | -3 | | 2.1 | 0.0 | 9 | 24 | 54 | -9 |
| Poland | | 3.82 | 0.2 | 1.0 | 0 | -6 | -2 | | 2.4 | 0.0 | 12 | 11 | -4 | 15 |
| Romania | | 4.2 | 0.1 | 0.7 | 0 | -8 | -4 | | 4.2 | 0.0 | -2 | 10 | 17 | -1 |
| Russia | | 65.4 | -0.8 | -1.1 | 0 | -2 | 6 | | 7.9 | 0.0 | -8 | -15 | 85 | -49 |
| South Africa | | 14.5 | -0.1 | -0.3 | -2 | -12 | -1 | | 9.4 | 0.0 | 1 | 14 | 63 | -20 |
| Turkey | | 5.97 | 0.0 | -0.6 | -6 | -30 | -11 | | 21.2 | 0.0 | 131 | 225 | 836 | 429 |
| US (DXY; 5y UST) | | 97.6 | -0.1 | -0.6 | 0 | 6 | 1 | | 2.31 | 1.0 | -2 | 2 | -49 | -20 |

| | 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 | 0 | -4 | -3 | -8 | -21 |
| Indonesia | | 6374 | -1.3 | -1 | -1 | 6 | 3 | | 180 | -1 | -2 | -13 | -5 | -56 |
| India | | 38981 | -0.1 | 1 | 0 | 11 | 8 | | 150 | -4 | -5 | -5 | 11 | -46 |
| Philippines | | 8002 | 0.6 | 2 | 2 | 2 | 7 | | 77 | -1 | -7 | -12 | -24 | -44 |
| Malaysia | | 1632 | -0.6 | 0 | 0 | -13 | -3 | | 122 | -2 | -5 | -5 | -1 | -40 |
| Argentina | | 29571 | 0.0 | -4 | -10 | -1 | -2 | | 961 | -1 | 25 | 195 | 517 | 146 |
| Brazil | | 96353 | 0.0 | 0 | 0 | 12 | 10 | | 244 | -2 | -2 | -5 | -4 | -29 |
| Chile | | 5187 | 0.0 | -1 | -1 | -9 | 2 | | 125 | -1 | -1 | -6 | 1 | -41 |
| Colombia | | 1574 | 0.0 | -1 | -1 | 1 | 19 | | 175 | -1 | 0 | -9 | -13 | -53 |
| Mexico | | 44597 | 0.0 | -1 | 2 | -8 | 7 | | 297 | -1 | 6 | -10 | 26 | -57 |
| Peru | | 20897 | 0.0 | 1 | -1 | -2 | 8 | | 127 | -1 | 0 | 0 | -34 | -41 |
| Hungary | | 42447 | -0.2 | -3 | 1 | 11 | 8 | | 99 | 0 | -8 | -9 | -18 | -49 |
| Poland | | 59905 | -0.4 | -2 | -1 | 0 | 4 | | 38 | -3 | -5 | -16 | -20 | -47 |
| Romania | | 8453 | 0.1 | 1 | 4 | -3 | 14 | | 190 | 0 | -9 | -12 | 44 | -31 |
| Russia | | 2579 | 0.8 | 0 | 2 | 12 | 9 | | 199 | 1 | -4 | -21 | -15 | -53 |
| South Africa | | 58590 | 0.1 | -1 | 3 | 1 | 11 | | 305 | 1 | -1 | 3 | 39 | -60 |
| Turkey | | 95017 | -0.4 | -1 | 1 | -9 | 4 | | 483 | -12 | -29 | 2 | 146 | 54 |
| Ukraine | | 559 | -0.2 | 4 | -3 | 18 | 0 | | 624 | -4 | -23 | 19 | 119 | -163 |
| EM total | | 44 | -0.3 | 0 | 0 | -6 | 12 | | 342 | -1 | -6 | -2 | 20 | -72 |

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