



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, May 20, 2019

- **Corporate earnings of more trade dependent US companies underperform** ([link](#))
- **US investors continue to gravitate to lower-fee investment funds** ([link](#))
- **PM May poised to bring Brexit deal for parliamentary vote for the fourth time** ([link](#))
- **ETFs drove large outflows for both EM bond and equity funds last week** ([link](#))
- **PBC verbal intervention helped to stabilize a weak RMB** ([link](#))

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Market sentiment deteriorates on ongoing trade concerns

European stocks and US equity futures dropped this morning as trade disputes continued to simmer.

Futures on the Nasdaq 100 underperformed as the fallout from the US administration moves against Chinese telco giant Huawei hit technology shares. Unsurprisingly, Facset released a report last week showing that US firms more dependent on international sales saw their quarterly results underperform in Q1. The VIX rose 1 percentage point to 17.1 while US Treasury and bund yields were little changed this morning. In emerging markets, election news from India was the main market mover, while the RMB traded in a narrow range to end the day slightly stronger following verbal intervention by the PBC over the weekend.

Tensions over Iran and US-China trade developments will likely continue to steer investor sentiment this week. The US has a fairly full pipeline of economic releases, beginning with FOMC minutes (Tuesday), a PMI manufacturing report (Thursday), and capped by durable goods (Friday)—with several reads on the housing market throughout the week. Some European PMI reports are also out (Thursday), while that day will also see Germany release its IFO report and GDP numbers. The UK will report inflation (Tuesday). Japan has a big week, opening with Q1 GDP, and continuing with PMI manufacturing, machine tool orders, CPI, and finishing off with a report on all industry activity. There will be rate decisions from Egypt, Israel, and Nigeria.

Key Global Financial Indicators

Last updated: 5/20/19 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2860	-0.6	-1	-2	5	14
Eurostoxx 50		3374	-1.5	2	-4	-6	12
Nikkei 225		21302	0.2	1	-4	-7	6
MSCI EM		40	-0.9	-4	-10	-13	3
Yields and Spreads			bps				
US 10y Yield		2.38	-0.3	-2	-18	-67	-30
Germany 10y Yield		-0.10	0.2	-3	-13	-68	-34
EMBIG Sovereign Spread		360	0	-4	20	28	-54
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.5	0.3	0	-3	-7	-1
Dollar index, (+) = \$ appreciation		97.9	-0.1	1	0	5	2
Brent Crude Oil (\$/barrel)		72.6	0.5	3	1	-8	35
VIX Index (%, change in pp)		17.1	1.2	-3	5	4	-8

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

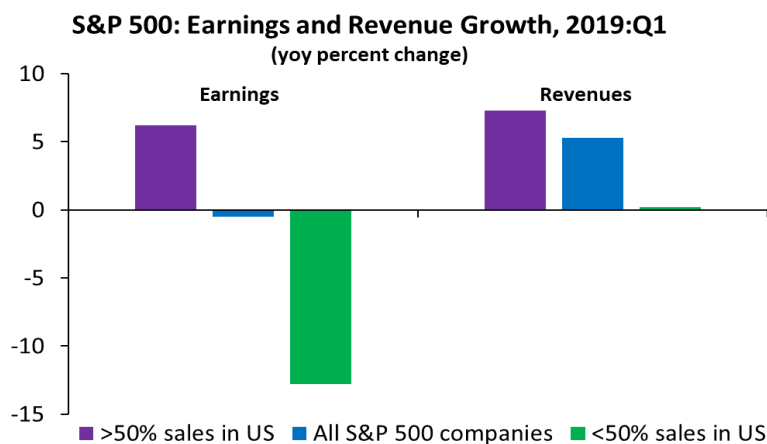
United States

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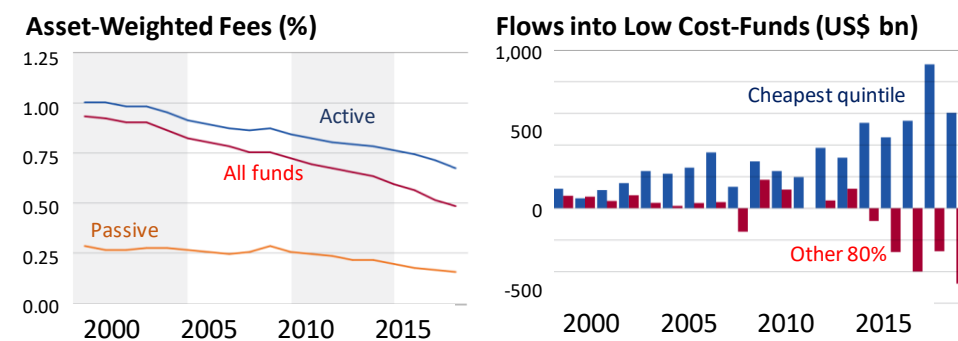
United States

Stocks seesawed on Friday, but finally finished the day in negative territory. Trade tensions and news feeds on such once again impacted market sentiment. Sectors were broadly lower, with the more defensive utility sector (+0.5%) standing as a notable exception. Equity volatility as measured by the VIX rose to 17 pts in early morning trading today, but it was over 20 last week. Treasury yields ended little changed. Consumer sentiment as measured by the University of Michigan hit a 15-year high. The Conference Board's index of leading economic indicators rose for a third month.

Firms that were more dependent on international sales saw their quarterly results underperform in Q1. Such companies faced a double-digit decline in earnings, effectively eliminating any growth in the overall S&P 500. FactSet gauges the factors contributing to such were a higher dollar, slowing economic growth, and trade tensions. The sectors with the highest international exposure include tech and materials, with utilities and telecom the lowest.



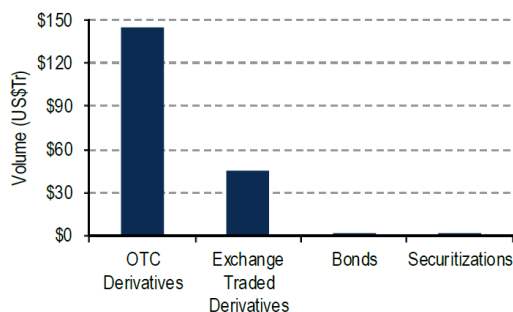
Investors have increasingly moved into lower-cost mutual and exchange-traded funds over the past few years according to Morningstar. One of the primary drivers of this migration is the lower fee structure of passive funds. This cost advantage has also pressured active funds to lower their fees, and so average fees across the asset class keep falling as well. Separately, Lipper reported leveraged loan funds sustained their 26th week of outflows. But investment-grade bond funds had 16 weeks of inflows and municipal bond funds 19 weeks.



Source: Morningstar

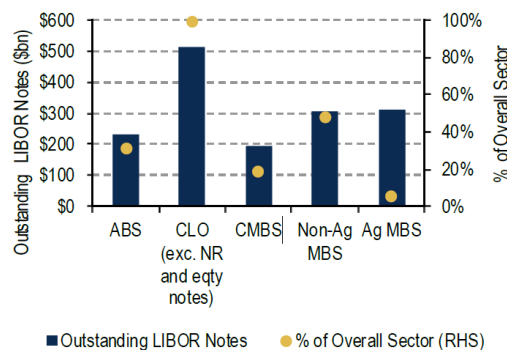
The transition away from Libor will have the biggest impact on interest rate derivate products according to Bank of America, especially interest rate swaps and Eurodollar futures. Most of the impacted products are traded and defined by the Chicago Mercantile Exchange (CME) or are linked to CME benchmark indices. Bank of America gauges that a move to an alternative like SOFR (secured overnight financing rate) would likely result in wider spreads since investors would need to introduce a credit component to compensate for its risk-free nature.

Chart 2: Estimated USD LIBOR Market Footprint by Asset Class



Source: Federal Reserve Bank of New York

Chart 3: Securitized Product Market's exposure to LIBOR



Source: BofA Merrill Lynch Global Research

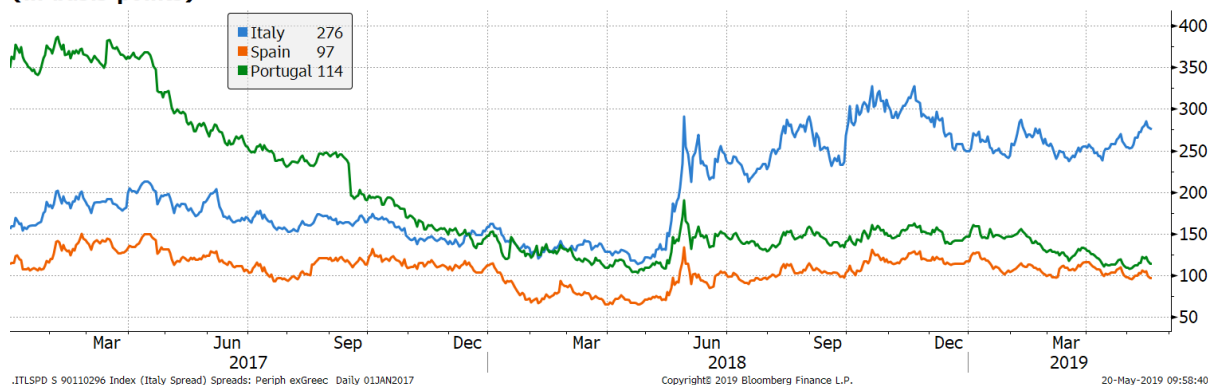
Europe

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European bourses started the week in the red, with the EuroStoxx 600, DAX, and CAC 40 indices all down about 1.5%. Italy's Titans 30 underperformed with losses of about 2.9% in morning trading. Bank stocks (-2.0%) were also lower.

Euro area sovereign yields inched up 1-2 bps across countries. German 10 bonds at -0.08% (+2 bps); French at 0.30 (+2 bps); Italian at 2.67% (+1 bp); Spanish at 0.88% (+1 bp). Italian spreads to German bunds are currently at 276 bps.

Selected European Sovereign Spreads to 10yr Bunds (in basis points)



.ITLSPD S 90110296 Index (Italy Spread) Spreads: Periph exGrec. Daily 01JAN2017

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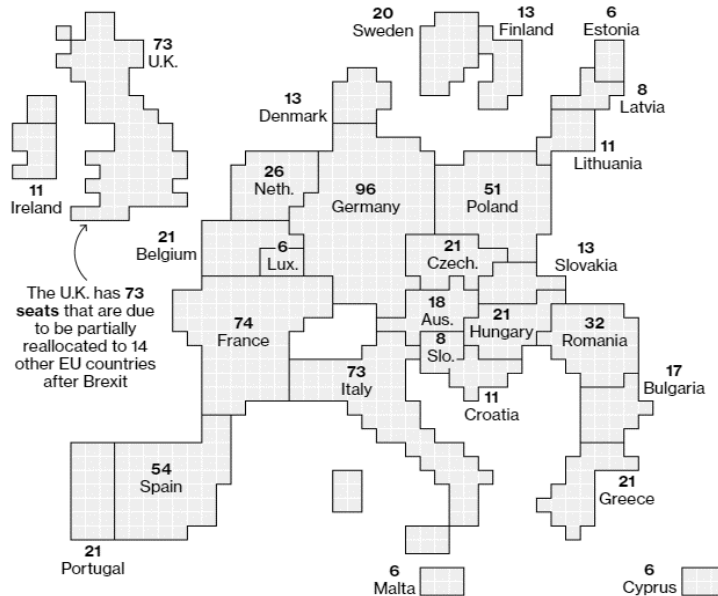
Elections to the European Parliament will be held during May 23-26 across 28 members of the EU, including the UK. Currently, center right parties control 29% of the seats in parliament, while the center left has 25%. For the forthcoming vote, it is expected that both parties will lose a substantial number of

seats and that support for various euro-skeptic groups will surge. The UK has the right to 73 seats, which will be distributed across 14 member states once Britain leaves the EU.

Seating Arrangement

How the European Parliament's 751 members are spread across the EU

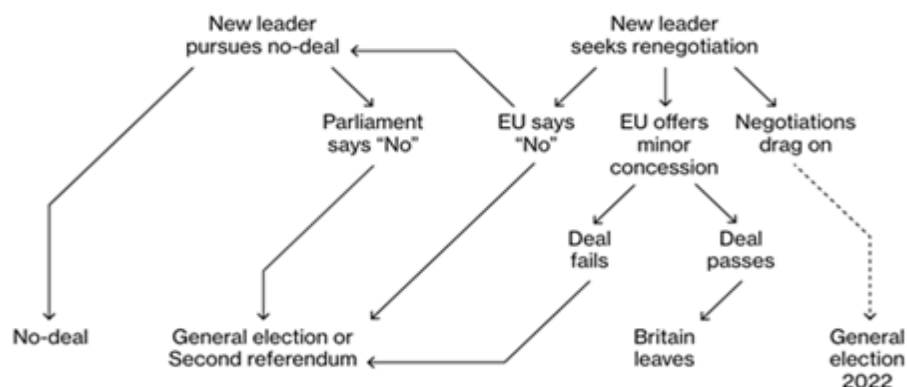
□ Member of the European Parliament seat



Source: European Parliament

In Brexit news, **Theresa May is poised to bring a new "bolder" Brexit deal to the Commons for vote in early June**. The new plan is rumored to include improvements to workers' rights in a bid to persuade Labour MPs to support it. Pundits speculate, however, that the new agreement will just be a rehashing of the previous one(s) and that PM May has failed to gather enough support for her new proposal to succeed. Separately, Labour leader Corbyn appeared to edge closer to supporting a second referendum by saying that it was "reasonable" to hold a public vote on any Brexit deal that is made.

When Britain Has a New Leader But Still No Deal



In **ratings news**, on Friday Fitch affirmed Ireland and Slovakia at A+ with 'stable' outlooks, while DBRS affirmed Finland at AA (high) 'stable' and Cyprus at BBB (low) 'stable'.

Other Mature Markets [back to top](#)

Japan

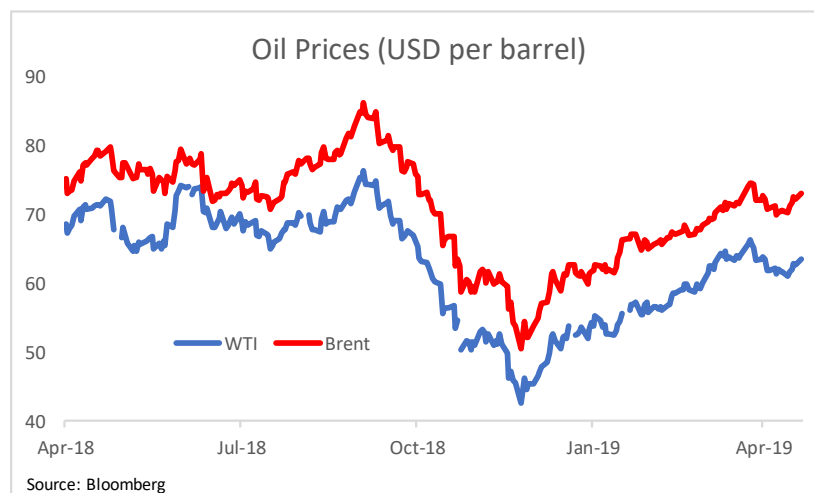
The yen held steady (¥110.03/dollar) while equities mustered a modest gain (Topix: +0.2%). Investor sentiment was buffeted by U.S. decision to remove steel and aluminum tariffs on Canada/Mexico and ongoing trade tension between the U.S. and China. Japanese economy expanded unexpectedly in Q1, growing 2.1% (qoq, annualized), compared to expectations for +1.9%. That said, the growth bounce came from higher net exports, while declining imports underscored weak domestic demand. Notably, the economy's pillars of growth – exports, capital spending and private consumption – all declined during the quarter.

Australia

News that PM Morrison's coalition is expected to secure a parliamentary majority fueled a market rally. The incumbent's surprise victory lifted the ASX (+1.7%) and the Australian dollar, which appreciated as much as 1% on the day before settling at USD 0.692/AUD.

Commodities

Oil prices rose after OPEC signaled supply restrictions. Following the group's weekend meeting in Jeddah, Saudi energy minister Al-Falih urged members to "stay the course" on output cuts. Meanwhile, Russia's energy minister Novak said that the parameters of the current arrangement may need to be tweaked to prevent a market deficit. Away from the OPEC meeting, prices were also helped by continued tensions between the US and Iran. Both Brent and WTI were up in a 0.4-0.5% range after rising over 1% in early morning trading, adding to recent moves which have seen year-to-date gains reach almost 40%.



Emerging Markets [back to top](#)

Election news from India was the main market movers in emerging markets. Indian bourses surged (Sensex: +3.7%), its biggest gain in three years, after exit polls signaled that PM Modi's ruling coalition is slated to retain power. The news also boosted the Indian rupee, which appreciated 0.7%, outpacing others. Other Asian equities were mixed while currencies were mostly little changed. Chinese shares fell further on trade worries (Shanghai Composite: -0.4%). Equities in the EMEA region saw a quiet start to the week. Indices were mixed with Hungary (+0.7%) advancing while South Africa (-0.5%) retreated. Local currencies were moderately stronger against the dollar with the South African rand (+0.6%) among the best

performers. Latin American equity markets were mostly lower on Friday. Argentina saw the biggest losses as the Merval fell 1.7%, followed by Chile equity index (-1%). The Brazilian real led losses among local currencies, depreciating by 1.3% against the dollar on Friday. 10-year government bond yields rose 13 bps in Brazil and were mostly lower in other countries.

Key Emerging Market Financial Indicators

Last updated: 5/20/19 8:08 AM	Level	Change					
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		40.29	-0.9	-4	-10	-13	3
MSCI Frontier Equities		28.01	-1.1	-3	-2	-11	7
EMBIG Sovereign Spread (in bps)		360	0	-4	20	28	-54
EM FX vs. USD		61.47	0.3	0	-3	-7	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	0.0	-1	-3	-8	-1
Indonesian Rupiah		14455	0.0	0	-3	-2	0
Indian Rupee		69.74	0.7	1	0	-2	0
Argentine Peso		45.02	-0.6	0	-7	-46	-16
Brazil Real		4.09	0.3	-2	-4	-10	-5
Mexican Peso		19.12	0.3	1	-2	4	3
Russian Ruble		64.54	0.2	1	-1	-5	7
South African Rand		14.37	0.4	0	-1	-12	0
Turkish Lira		6.03	0.4	0	-3	-24	-12
EM FX volatility		9.24	0.9	0.1	1.0	0.1	-0.5

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

EM Fund Flows

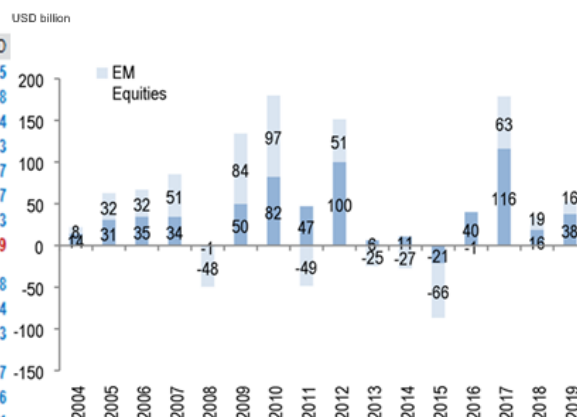
Last week saw the largest weekly outflows for both EM bond and equity funds since June 2018, mainly driven by ETFs. EM bond fund outflows were -\$2.7 bn (from +\$422 mn the week before), driven by hard currency ETF redemptions (-\$1.2 bn, the largest outflow since November 2016). EM equity fund flows were -\$6 bn (from -\$1.3 bn) and were also driven by strong outflows from ETFs. Regional outflows (-\$3.2 bn) were dominated by Asia ex-Japan funds (-\$3.1 bn) for the second week in a row. Having said this, YTD flows to EM bonds and equities funds are still positive at +\$37.8bn and +\$15.7 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-8.7	53.5
EM Bonds		-2.7	37.8
Hard Ccy		-1.5	29.4
Local Ccy		-1.2	8.3
EM Equities		-6.0	15.7
US HG		3.1	69.7
US HY		-2.3	14.3
Global Equities		-9.8	-27.9
EM Bond and Equity ETFs		-6.0	22.8
EM Bond ETFs		-2.1	5.4
EM Equity ETFs		-3.8	17.3
Non-resident EM flows*		-5.3	23.7
EM Local Bonds		-0.4	2.6
EM Equities		-4.9	21.1

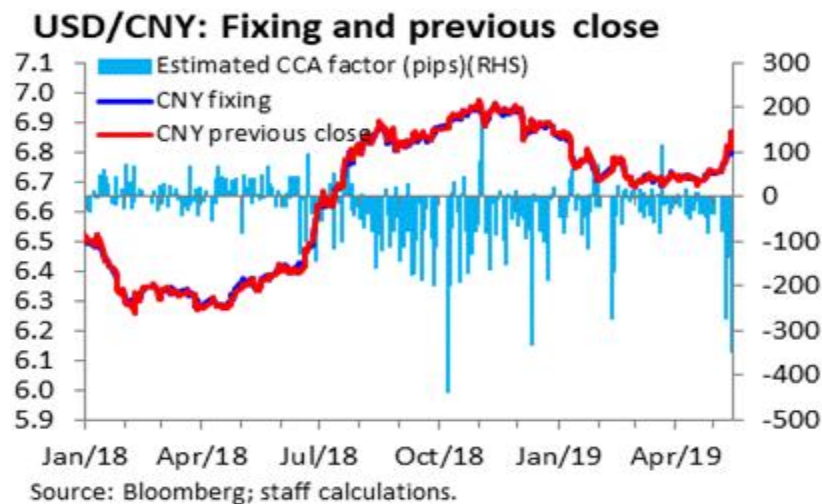
*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

Exhibit 2: Annual EM bond and equity fund flows



China

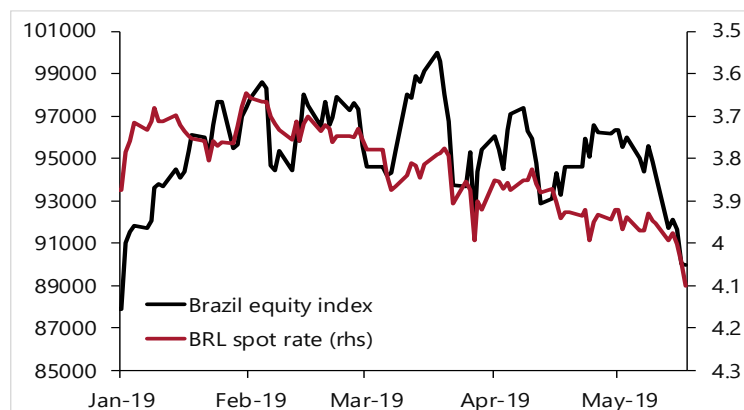
The RMB traded in a narrow range to end the day slightly stronger but remains above the 6.90/dollar level following verbal intervention over the weekend. The onshore CNY gained 0.07% to CNY 6.913/dollar while the offshore CNH gained 0.14% to CNH 6.94/dollar. Contacts noted that PBC offered verbal intervention on the RMB over the weekend. In an interview with China Financial Times, Deputy Governor Pan Gongsheng noted that PBC has the “confidence and capability to maintain FX market stability, as we have accumulated rich experience and policy tools ... and will adopt necessary countercyclical adjustment measures.” The USDCNY fixing, which restricts the CNY’s moves by 2% on either side, came in at CNY 6.9888/dollar, stronger than market expectations. The estimated countercyclical adjustment factor also suggested efforts to nudge the RMB to a stronger level.



Meanwhile, **equities trended lower as the U.S. ban on Huawei suggest that US-China relations are far from improving.** The Shanghai Composite Index lost as much as 1.5% before paring its loss to -0.4% on the day. Bloomberg estimated that trade volume on the index is about 27% lower relative to its 30-day average, suggesting reluctance to participate in the market just yet. The Shanghai Composite is approaching its lowest level since February.

Brazil

Brazilian assets suffered losses last week as a heady mix of nationwide protests, political tensions, and crumbling growth estimates. The real depreciated by 3% against the dollar in the week,



underperforming all developing-nation peers and falling to the lowest level in eight months last Friday. The Brazilian equity index fell into correction last Thursday, down 10% from its peak in Mid-March, and the largest ETF tracking Brazilian equities has erased its year-to-date gains. Analysts commented that markets are repricing their views on pension reform, growing downside risks to growth, and a poor global backdrop for EM.

Argentina

Argentina's presidential race took an unexpected turn on Saturday when former president Cristina Fernandez de Kirchner announced that she had asked her former cabinet chief, Alberto Fernandez, to run for the presidency in her place. Most pollsters have been arguing that the electoral race is too close to call, while some analysts commented that a "Fernandez-Fernandez duo" could tip the electoral balance in their favor.

























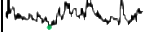




Nigeria

Growth disappointed in Q1 as the oil sector contracted. Headline growth was 2.01% y-o-y in the quarter, compared to consensus expectations of 2.61%. Analysts suggest that the data may increase the likelihood of an interest rate cut at tomorrow's central bank meeting, although the majority surveyed expects unchanged rates at 13.5%. The monetary policy committee unexpectedly lowered rates last month to support output.

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: 5/20/19 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2860	-0.6	-1	-2	5	14
Europe		3374	-1.5	2	-4	-6	12
Japan		21302	0.2	1	-4	-7	6
China		2871	-0.4	-1	-12	-10	15
Asia Ex Japan		66	-1.8	-3	-9	-13	4
Emerging Markets		40	-0.9	-4	-10	-13	3
Interest Rates			basis points				
US 10y Yield		2.38	-0.3	-2	-18	-67	-30
Germany 10y Yield		-0.10	0.2	-3	-13	-68	-34
Japan 10y Yield		-0.04	0.9	1	-1	-10	-5
UK 10y Yield		1.04	1.0	-6	-15	-46	-23
Credit Spreads			basis points				
US Investment Grade		122	0.2	1	11	21	-25
US High Yield		434	0.6	-3	41	94	-87
Europe IG		67	1.3	-2	9	6	-21
Europe HY		283	4.2	-7	36	1	-69
EMBIG Sovereign Spread		360	0.0	-4	20	28	-54
Exchange Rates			%				
USD/Majors		97.93	-0.1	1	0	5	2
EUR/USD		1.12	0.0	-1	-1	-5	-3
USD/JPY		109.8	0.2	0	2	1	0
EM/USD		61.5	0.3	0	-3	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		73	0.5	3	1	-8	35
Industrials Metals (index)		113	-1.0	0	-6	-17	3
Agriculture (index)		39	1.3	4	-3	-21	-7
Implied Volatility			%				
VIX Index (% change in pp)		17.1	1.2	-3.4	5.0	3.7	-8.3
10y Treasury Volatility Index		4.1	0.1	0.1	0.5	0.3	-0.5
Global FX Volatility		7.1	0.1	0.0	1.0	-0.5	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		351	-2.5	-12	22	-45	-65
Italy		279	2.9	2	22	114	29
Portugal		115	-0.1	-7	0	-14	-33
Spain		98	0.0	-8	-7	12	-19

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: 5/20/2019 8:08 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.92	0.0	-0.5	-3	-8	-1		3.3	-1.2	-3	-7	-34	11	
Indonesia		14455	0.0	-0.2	-3	-2	0		8.2	4.3	9	46	72	2	
India		70	0.7	1.1	0	-2	0		7.4	-0.6	-6	-9	-61	-2	
Philippines		53	-0.1	-0.6	-1	-1	0		5.1	0.4	-5	-21	-37	-121	
Thailand		32	0.0	-0.7	0	1	1		2.6	1.1	0	-4	-2	-5	
Malaysia		4.18	-0.3	-0.4	-1	-5	-1		3.8	-0.6	0	-7	-43	-27	
Argentina		45	-0.6	-0.4	-7	-46	-16		31.8	54.9	370	954	1232	878	
Brazil		4.09	0.3	-2.3	-4	-10	-5		8.3	15.2	29	4	-56	14	
Chile		696	-0.3	-1.3	-5	-9	0		4.1	-1.0	-1	0	-72	-38	
Colombia		3320	-0.6	-1.4	-5	-13	-2		6.3	0.3	8	15	-4	-22	
Mexico		19.12	0.3	0.5	-2	4	3		8.2	0.0	-4	3	41	-54	
Peru		3.3	-0.4	-0.5	-1	-2	1		5.3	-1.4	-5	-7	-31	-43	
Uruguay		35	-0.2	-0.4	-3	-11	-8		11.1	-1.1	21	59		38	
Hungary		292	0.1	-1.1	-3	-8	-4		2.0	-2.6	-12	-6	3	-20	
Poland		3.85	0.2	-0.4	-1	-5	-3		2.3	0.4	-1	5	-30	7	
Romania		4.3	0.1	-0.5	-1	-8	-5		4.3	1.0	2	-4	-8	1	
Russia		64.5	0.2	1.4	-1	-5	7		7.8	-3.5	-10	-14	69	-58	
South Africa		14.4	0.4	-0.3	-1	-12	0		9.4	6.2	9	14	30	-18	
Turkey		6.03	0.4	0.5	-3	-24	-12		20.9	-8.8	-155	169	557	401	
US (DXY; 5y UST)		97.9	-0.1	0.6	0	5	2		2.17	-0.5	-2	-20	-72	-34	

	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		2871	-0.4	-1	-12	-10	15		178	0	2	4	-9	-16
Indonesia		5907	1.4	-4	-9	2	-5		194	1	0	16	-4	-42
India		39353	3.7	6	1	13	9		159	0	8	3	5	-37
Philippines		7660	1.0	-1	-2	0	3		83	1	-5	-2	-30	-38
Malaysia		1605	0.0	0	-1	-13	-5		128	0	3	2	-7	-34
Argentina		33316	-1.7	0	4	5	10		961	14	18	107	503	146
Brazil		89993	0.0	-5	-5	8	2		256	0	2	9	-9	-17
Chile		4926	-1.0	-2	-6	-13	-4		134	0	1	7	-3	-32
Colombia		1500	-0.2	-3	-5	-1	13		191	0	-7	14	-6	-37
Mexico		43446	0.0	0	-5	-5	4		313	0	-1	19	39	-41
Peru		19919	-0.2	-1	-5	-6	3		139	0	-1	17	-22	-29
Hungary		39567	-0.8	-2	-8	8	1		98	-1	-7	-7	-21	-50
Poland		56154	-0.7	0	-8	-4	-3		46	-2	-3	4	-21	-39
Romania		8239	0.2	1	-1	-2	12		194	1	7	-5	51	-27
Russia		2575	-0.1	3	0	11	9		204	-3	-13	1	-12	-48
South Africa		55545	-1.1	-1	-6	-4	5		311	-2	-2	19	40	-54
Turkey		86876	0.1	1	-10	-15	-5		515	-4	-29	12	111	86
Ukraine		571	0.0	0	7	21	2		640	-8	-36	46	139	-147
EM total		40	-0.9	-4	-10	-13	3		360	0	-4	20	28	-54

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