



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, May 21, 2019











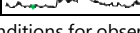
- US credit investors cite trade war as a top concern, per survey ([link](#))
- The Netherlands to issue its first green bond with a target volume of €4-6 bn ([link](#))
- The Australian dollar weakens and bond yields fall as RBA weighs imminent rate cut ([link](#))
- The Turkish lira weakens as the central bank lowers its repo rate 150 bps ([link](#))

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Markets take a breather from trade concerns

European bourses and US equity futures rose this morning, following a mixed session in Asia, after the US administration tempered its ban on Huawei. The US granted a temporary reprieve for consumers and carriers using Huawei Technologies, a day after the White House's moves against the Chinese telecom corporation hit tech stocks. As a result the VIX dropped 1 percentage point to 15.5 while US Treasuries and bund yields were little changed. Emerging market assets were mixed. Chinese bourses gained, with the Shanghai Composite up 1.4% on the day, partially reversing losses sustained over the past two sessions. Elsewhere, the Australian dollar weakened as RBA governor Lowe raised the prospect of a near-term rate cut while the Turkish central bank lowered its repo policy rate by 150 bps this morning, with the lira weakening 0.5% to the dollar.

Key Global Financial Indicators

Last updated: 5/21/19 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2840	-0.7	1	-2	4	13
Eurostoxx 50		3388	0.5	1	-3	-5	13
Nikkei 225		21272	-0.1	1	-4	-8	6
MSCI EM		40	0.8	-1	-10	-13	3
Yields and Spreads			bps				
US 10y Yield		2.43	2.5	2	-13	-63	-25
Germany 10y Yield		-0.07	2.2	1	-9	-59	-31
EMBIG Sovereign Spread		355	-2	-6	15	23	-59
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.4	-0.1	-1	-3	-7	-1
Dollar index, (+) = \$ appreciation		98.1	0.2	1	1	5	2
Brent Crude Oil (\$/barrel)		72.3	0.5	1	0	-9	34
VIX Index (% change in pp)		15.5	-0.9	-3	3	2	-10

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 slumped on Monday. Tech stocks led the decline, as fallout from the US administration blacklisting Chinese telecom Huawei reverberated throughout the sector. On Friday, the Trump administration included Huawei in a group of 44 Chinese entities affected by US export controls because they represented a "significant risk" to US national security. Firms on both sides of the Atlantic have started to cut some of their commercial ties with Huawei. The global supply chain is facing disruption, which could also affect the rollout of 5G wireless networks worldwide. In other news, the Federal Communications Commission said it would support T-Mobile's takeover of Sprint, but the Department of Justice is reportedly leaning against it.

Stocks with a heightened exposure to China have noticeably underperformed the broader market of late. Bond investors are also very concerned about ongoing trade tensions. **A recent survey of credit investors by BofA Merrill Lynch found that a trade war had emerged as their primary concern.** But the survey also found that 85% of the respondents expected a trade deal to be worked out, but that it would take time.

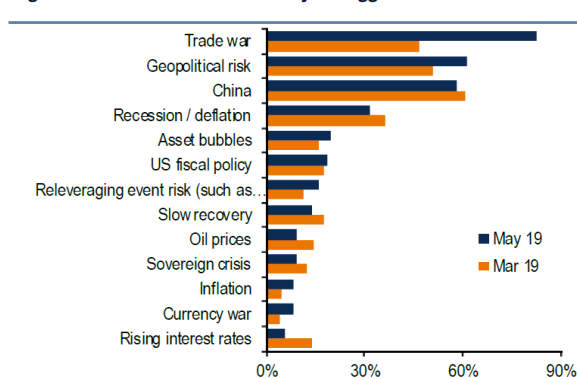
The China Syndrome

By this measure, U.S. companies' exposure to trade risk is deteriorating

■ Morgan Stanley's China Trade Sensitive Basket / SPX Index

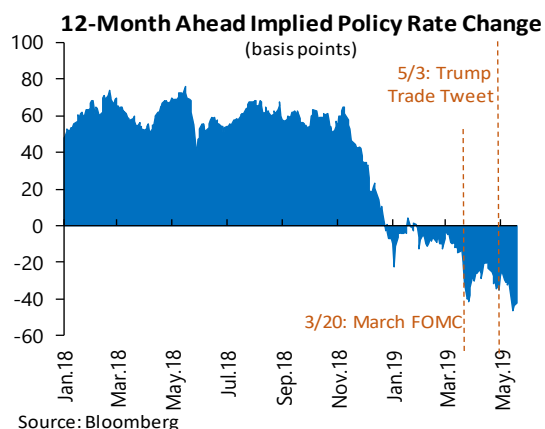
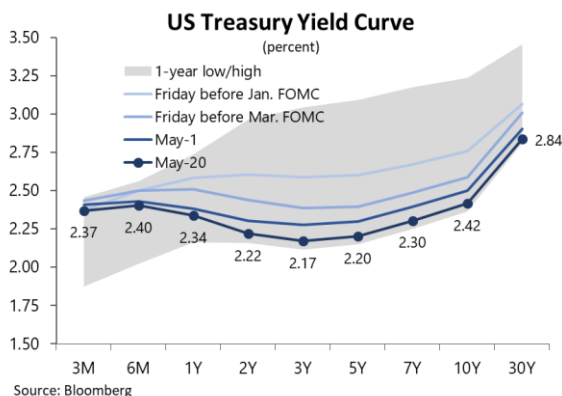


Figure 1: Credit investors: What are your biggest concerns?



Source: BofA Merrill Lynch Credit Investor Survey

Two-year Treasury yields rose 2 bps yesterday, while the 10-year ended flat. The middle of the Treasury curve has rallied the most on near-term policy expectations. The overnight indexed swaps (OIS) market is fully pricing in one price cut in 2019, while fed fund futures are forecasting a 71.4% likelihood of a cut by the December FOMC meeting according to Bloomberg calculations. Atlanta Fed president Bostic advised that a rate cut or a rate hike are equally likely this year.

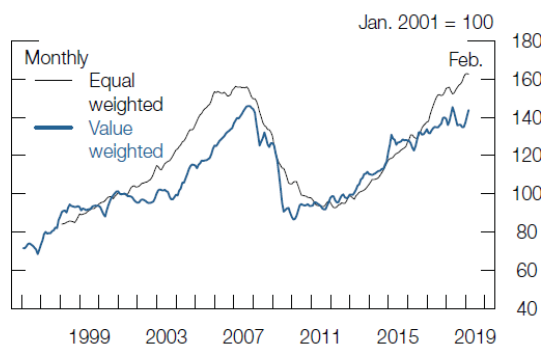


In a speech yesterday evening, **Fed chair Powell** partly focused on **rising nonfinancial corporate vulnerabilities which he assessed as a “moderate” risk** to financial sector stability, but that “business debt does not present the kind of elevated risks to the stability of the financial system that would lead to broad harm to households and businesses should conditions deteriorate.” Nonfinancial debt stands at \$6.2 tn.

The agency head that regulates **Fannie Mae and Freddy Mac** advised their path out conservatorships would not be “calendar-dependent” but will instead rely on their ability to raise capital. Since 2012, both firms have been returning all their profits to the government.

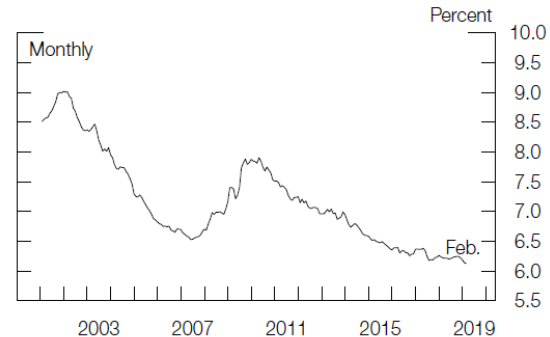
Commercial real estate (CRE) prices have risen appreciably since the financial crisis. But capitalization rates (measuring rent income relative to property asset value) have been falling since 2010 and are at historically low levels. The senior loan officer survey by the Fed recently found modest tightening in CRE lending standards during Q4 of last year.

1-11. Commercial Real Estate Prices (Real)



Source: CoStar Group, Inc., CoStar Commercial Repeat Sale Indices (CCRSI); Bureau of Labor Statistics consumer price index via Haver Analytics.

1-12. Capitalization Rate at Property Purchase



Source: Real Capital Analytics; Andrew C. Florance, Norm G. Miller, Ruijue Peng, and Jay Spivey (2010), “Slicing, Dicing, and Scoping the Size of the U.S. Commercial Real Estate Market,” *Journal of Real Estate Portfolio Management*, vol. 16 (May–August), pp. 101–18.

Europe

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The main European equity indices rebounded after the US Commerce Department granted Huawei a temporary license to maintain its networks and release software updates for existing products. The EuroStoxx 600 climbed 0.4%, the DAX 0.7%, and the CAC 40 0.4%. Bank stocks are flat.

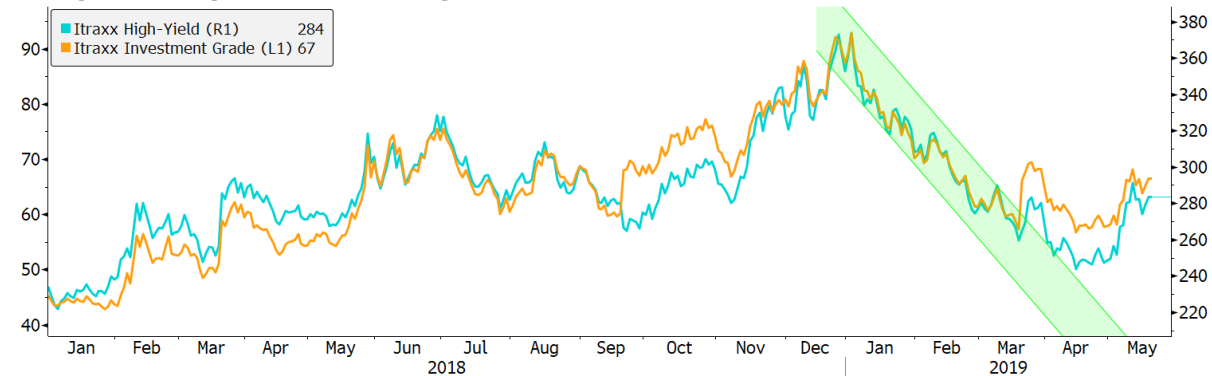
Euro area sovereign bond markets are unchanged: German 10-yr bunds at -0.08%; French at 0.31%; Spanish at 0.87%; and Italian at 2.68%.

The Netherlands will issue today its first-ever green bond with a target volume of €4-6 bn. The issue is rated at AAA, mature in January 2040, and command a spread of about 15-20 bps over the reference bond (the German sovereign bond maturing in July 2040). Demand is expected to be strong and proceeds from the bond sale will be used for green investments, including wind farms, large bike parks, strengthening dykes and improving home insulation, according to the Dutch Ministry of Finance.

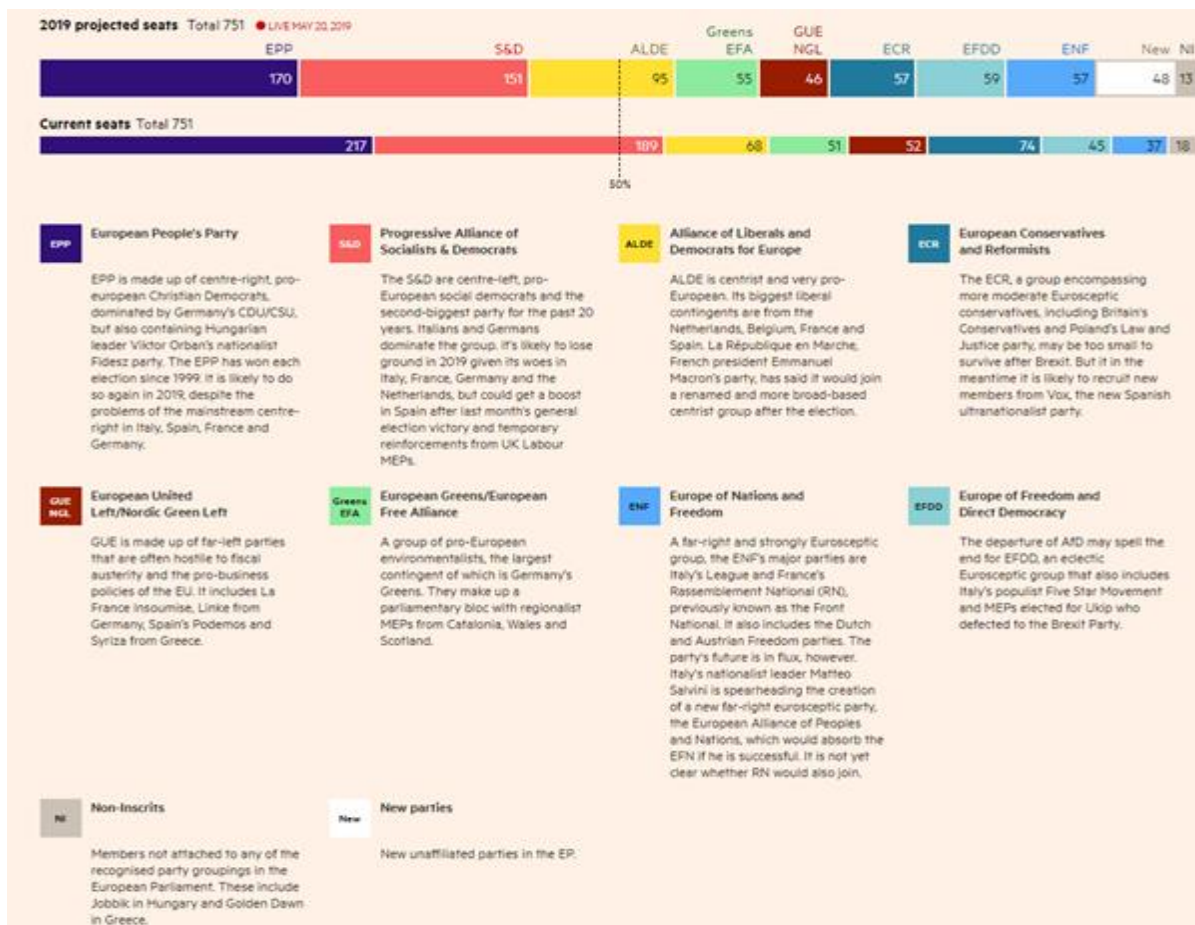
Corporate credit spreads have tightened over the last month by about 40 bps for high-yield corporates and 4 bps for investment grade. With these moves, corporate spreads have broken away

from their downward trend in Q1, when borrowing costs were pushed down by more dovish expectations about the Fed and ECB. Since then, investors have raised their concern over the level of debt at some firms.

European Corporate Credit Spreads



With two days left before voting begins, the latest polls suggest that the mainstream center-right and center-left parties will lose their majority in the European Parliament. Various euro-skeptic and anti-immigration parties seem poised to form an alliance called European Alliance of Peoples and Nations after the election.



Other Mature Markets [back to top](#)

Japan

The yen weakened a touch while equities softened amid a dearth of significant news. The yen traded in a narrow range, ending the day 0.05% weaker. Meanwhile, the Topix fell 0.3% and the Nikkei lost 0.1%. Contacts noted that risk appetite remains limited as investors wait for further developments in the U.S.-China trade dispute. JGB yields were little changed with the benchmark 10-year note steady at -0.06% after BoJ left bond-purchase amounts unchanged at its regular operation.


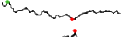




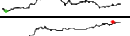


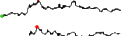
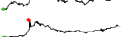

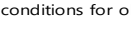

Australia

The Australian dollar weakened and government bond yields fell as RBA governor Lowe raised the prospect of a near-term rate cut. In a speech in Brisbane, RBA Governor Lowe reinforced the easing bias from the May meeting minutes. He noted that he will consider easing monetary policy at next month's meeting to boost hiring as "a lower cash rate would support employment growth and bring forward the time when inflation is consistent with the target." Meanwhile, minutes of RBA's May meeting showed policy makers discussing two potential easing scenarios. The Australian dollar depreciated by 0.4% to USD 0.688/AUD, near its weakest level in over three years. Yields on government bonds fell by 4 to 5 bps across the yield curve. The 2-year note fell 5 bps to 1.19%, its lowest level for the current on-the-run security and the 10-year note down 4 bps to 1.63%, also a historical low.

Emerging Markets [back to top](#)

Emerging market assets were mixed today. In Asia, Chinese bourses gained, with the Shanghai Composite up 1.4% on the day, partially reversing losses sustained over the past two sessions. Elsewhere, equities were mixed, reflecting a lack of direction for the day. Currencies in the region depreciated against the dollar, with the Thai baht underperforming. The baht lost 0.6%, taking it to THB 31.92/dollar, its weakest level in nearly two weeks. The RMB held steady in the absence of new trade developments while the Philippine peso, which gained 0.2% on the day, outperformed. Equities in EMEA were little changed again. South Africa proved the exception, dedining by 1% in morning trading. Currencies in the region were flat against the dollar. Latin American equity markets were also mixed yesterday. Brazilian equity index rallied 2.2%, while Colombia (-1.2%) saw losses. Local currencies mainly traded in narrow ranges. The Colombian peso was the main underperformer, depreciating by 1% against the dollar. 10-year government bond yields dropped 10 bps in Brazil and were mixed in other countries.

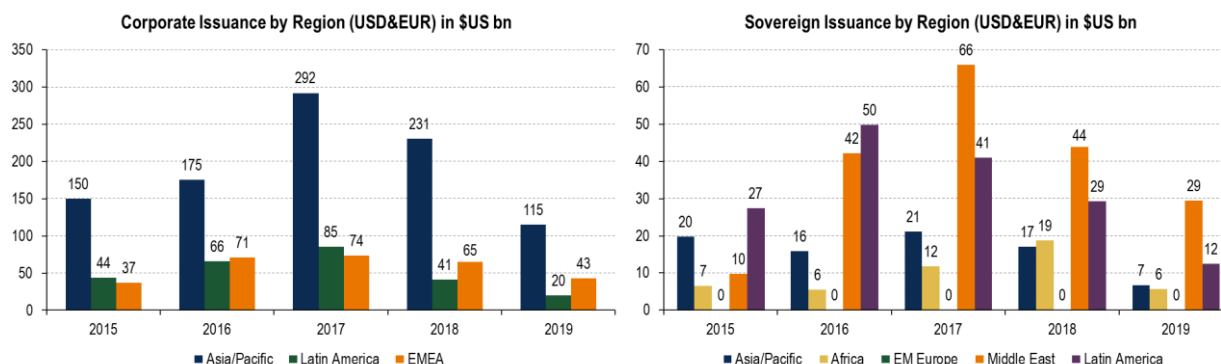
Key Emerging Market Financial Indicators

Last updated: 5/21/19 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.12	0.8	-1	-10	-13	3
MSCI Frontier Equities		28.01	0.0	1	-2	-11	7
EMBIG Sovereign Spread (in bps)		355	-2	-6	15	23	-59
EM FX vs. USD		61.43	-0.1	-1	-3	-7	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.1	0	-3	-8	0
Indonesian Rupiah		14480	-0.2	0	-3	-2	-1
Indian Rupee		69.72	0.0	1	0	-2	0
Argentine Peso		45.20	-0.4	0	-7	-46	-17
Brazil Real		4.09	0.1	-3	-4	-10	-5
Mexican Peso		19.06	0.0	0	-1	4	3
Russian Ruble		64.52	0.1	1	-1	-5	7
South African Rand		14.43	-0.3	-1	-2	-12	-1
Turkish Lira		6.06	-0.5	0	-4	-24	-13
EM FX volatility		9.04	0.0	0.1	0.8	-0.1	-0.7

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

EM bond issuance

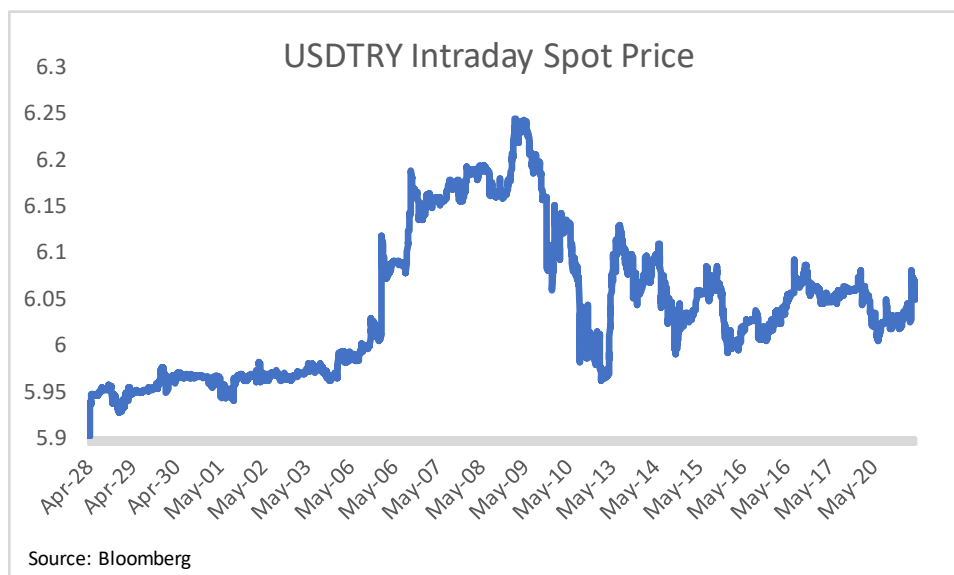
EM corporate issuance for last week slightly declined to \$6.1 bn, from \$6.4 bn the week before, while EM sovereign issuance increased from 1.6 bn the week before to 2.1 bn. The year to date total issuance of \$254.1 bn was approximately 12% less than 2018 issuance over the same period, while Latin America (-39%) was the main drag. From a regional perspective, China was the largest EM corporate debt issuer, accounting for 60% (\$3.7 bn) of the total. Of the total corporate bonds issued, 90% (\$5.1 bn) were investment grade bonds and 10% (\$0.6 bn) were high yield bonds. Last week's sovereign issuance was placed by Kenya, all of which were high yield.



Source: BofA Merrill Lynch Global Research, Bond Radar, Bloomberg

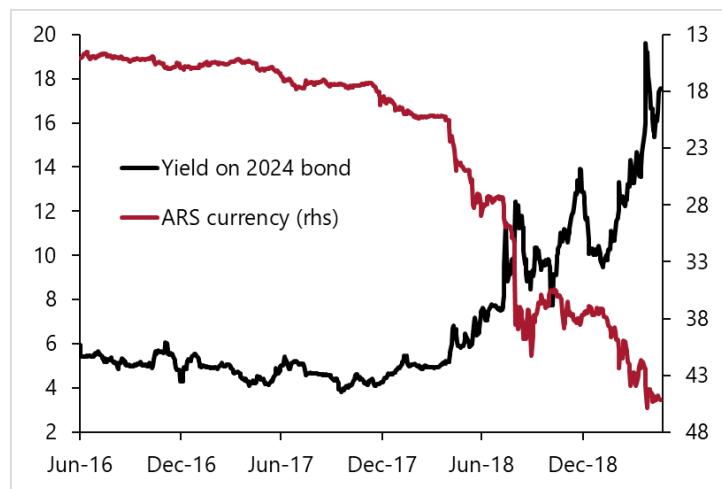
Turkey

The lira weakened as the central bank effectively eased its policy stance this morning. The bank offered funds at 24% through its repo operations compared to an overnight rate of 25.5%. It is also offering one-week lira swaps at 24%. The currency was 0.5% weaker against the dollar, having been stable in the last few sessions. Separately, regulators have told banks to delay requests for foreign-exchange purchases. According to reports, any retail transaction valued at more than \$100,000 is to be subject to a one-day delay before settlement. Bloomberg also reported that the government was leaning on local banks to purchase more government debt during auctions. Primary dealers were reportedly asked to bid more than they needed as increasing expenditure raises the country's budget deficit.



Argentina

Argentine markets dropped on Monday after Cristina Fernandez de Kirchner's surprising move to run for vice president to Alberto Fernandez in the October election. The yields on the government's 2024-dollar sovereign bond benchmark rose to 17.6%, a new record high. The Argentine peso weakened 0.4% against the dollar, while the spread on the 5-year credit default swaps hovered near a 4-year high. According to press reports, President Macri is facing a tough decision now as he counted on Kirchner being the presidential candidate with Peronists divided.



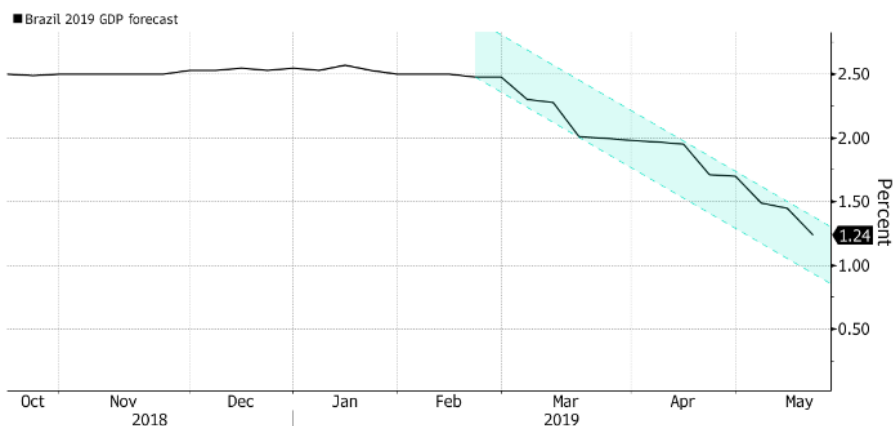
Source: Bloomberg

Brazil

Economists cut their forecast for Brazil's growth in 2019 on Monday and expected a third year of meager economic recovery following the country's deepest-ever recession. According to the median forecast from economists surveyed by the central bank, Brazil will expand 1.24% this year, down from 1.45% last week and half of what they expected three months ago. It was the 12th straight week that they reduced their estimates. Despite the cut in growth forecasts, Brazilian equities rose 2.2% yesterday and the real mostly unchanged.

Half Speed

Economists halved their GDP forecast in three months, from 2.48% in Feb.









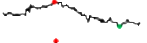

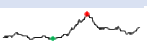




















Source: Brazil's central bank

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Global Financial Indicators

Last updated: 5/21/19 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2840	-0.7	1	-2	4	13
Europe		3388	0.5	1	-3	-5	13
Japan		21272	-0.1	1	-4	-8	6
China		2906	1.2	1	-11	-10	17
Asia Ex Japan		66	-0.9	-1	-10	-14	4
Emerging Markets		40	0.8	-1	-10	-13	3
Interest Rates			basis points				
US 10y Yield		2.43	2.5	2	-13	-63	-25
Germany 10y Yield		-0.07	2.2	1	-9	-59	-31
Japan 10y Yield		-0.05	-0.2	1	-2	-10	-5
UK 10y Yield		1.07	1.9	-3	-12	-40	-20
Credit Spreads			basis points				
US Investment Grade		122	-0.2	1	12	22	-25
US High Yield		428	-2.3	-6	35	89	-93
Europe IG		66	-1.0	0	8	5	-22
Europe HY		281	-3.1	-1	34	-1	-72
EMBIG Sovereign Spread		355	-2.0	-6	15	23	-59
Exchange Rates			%				
USD/Majors		98.10	0.2	1	1	5	2
EUR/USD		1.12	-0.1	0	-1	-5	-3
USD/JPY		110.4	-0.3	-1	1	1	-1
EM/USD		61.4	-0.1	-1	-3	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		72	0.5	1	0	-9	34
Industrials Metals (index)		113	0.3	0	-6	-17	3
Agriculture (index)		39	0.7	3	-2	-21	-6
Implied Volatility			%				
VIX Index (% change in pp)		15.5	-0.9	-2.6	3.4	2.4	-10.0
10y Treasury Volatility Index		4.2	0.1	-0.2	0.6	0.1	-0.4
Global FX Volatility		7.0	0.0	-0.1	0.8	-0.7	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		348	-2.8	-15	19	-53	-68
Italy		274	-5.2	-6	16	87	23
Portugal		109	-5.1	-11	-6	-39	-39
Spain		94	-3.5	-11	-11	-5	-24

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: 5/21/2019 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.91	0.1	-0.5	-3	-8	0		3.3	0.4	-1	-4	-34	11	
Indonesia		14480	-0.2	-0.3	-3	-2	-1		8.2	2.9	5	51	61	5	
India		70	0.0	1.0	0	-2	0		7.4	-5.7	-10	-16	-60	-7	
Philippines		53	0.4	-0.3	-1	0	0		5.1	0.0	-2	-21	-40	-121	
Thailand		32	-0.2	-1.3	0	1	1		2.6	0.0	0	-2	-2	-5	
Malaysia		4.19	-0.2	-0.4	-1	-5	-1		3.8	0.0	-2	-10	-44	-27	
Argentina		45	-0.4	-0.2	-7	-46	-17		32.2	39.1	406	993	1272	917	
Brazil		4.09	0.1	-2.9	-4	-10	-5		8.2	-9.7	14	2	-92	4	
Chile		696	-0.1	-0.4	-5	-9	0		4.1	-0.7	0	0	-74	-38	
Colombia		3352	-1.0	-1.4	-6	-14	-3		6.3	-0.8	1	14	-10	-23	
Mexico		19.06	0.0	0.5	-1	4	3		8.2	-1.2	-7	2	34	-55	
Peru		3.3	-0.5	-0.6	-1	-2	1		5.3	-1.9	-9	-9	-42	-45	
Uruguay		35	0.0	-0.1	-3	-12	-8		11.1	0.7	19	60		39	
Hungary		293	-0.1	-1.1	-3	-8	-4		2.0	3.5	-2	1	0	-16	
Poland		3.86	-0.3	-0.4	-2	-6	-3		2.4	1.0	4	5	-31	8	
Romania		4.3	-0.2	-0.5	-1	-8	-5		4.3	5.0	4	2	-3	6	
Russia		64.5	0.1	0.6	-1	-5	7		7.8	-3.5	-15	-19	64	-62	
South Africa		14.4	-0.3	-1.3	-2	-12	-1		9.4	-1.3	0	14	19	-20	
Turkey		6.06	-0.5	-0.4	-4	-24	-13		20.7	-19.8	-152	135	525	381	
US (DXY; 5y UST)		98.1	0.2	0.6	1	5	2		2.22	2.0	4	-15	-67	-29	

	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		2906	1.2	1	-11	-10	17		177	0	0	3	-10	-17	
Indonesia		5951	0.7	-2	-9	4	-4		190	-2	-8	12	-8	-46	
India		38970	-1.0	4	0	13	8		154	-5	1	-1	-3	-42	
Philippines		7722	0.8	1	-1	1	3		80	-1	-10	-5	-33	-41	
Malaysia		1604	-0.1	0	-1	-14	-5		127	0	-4	1	-8	-35	
Argentina		33492	0.5	4	5	6	11		892	-19	-33	38	434	77	
Brazil		91946	2.2	0	-3	12	5		253	-1	2	6	-12	-20	
Chile		4914	-0.2	-1	-7	-13	-4		131	-1	-2	4	-6	-35	
Colombia		1483	-1.2	-2	-6	-2	12		189	-2	-1	12	-8	-39	
Mexico		43519	0.2	1	-4	-4	5		307	-4	-2	13	33	-47	
Peru		19941	0.1	0	-5	-6	3		134	-1	-4	12	-27	-34	
Hungary		39669	0.1	-1	-7	8	1		94	-2	-7	-11	-25	-54	
Poland		56532	0.4	1	-7	-5	-2		42	-2	-5	0	-25	-43	
Romania		8195	-0.1	1	-2	-1	11		192	-2	0	-8	48	-29	
Russia		2617	1.8	2	2	12	10		198	-3	-17	-5	-18	-54	
South Africa		55683	0.1	-1	-6	-4	6		308	-1	-3	16	37	-57	
Turkey		85211	-1.8	-3	-12	-17	-7		515	2	-12	12	111	86	
Ukraine		572	0.2	0	7	21	2		630	-7	-32	36	129	-157	
EM total		40	0.8	-1	-10	-13	3		355	-2	-6	15	23	-59	

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