



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, May 22, 2019












- **US earnings per share growth slides while stock buybacks surge** ([link](#))
- **US leveraged loan issuance on the decline this year** ([link](#))
- **Central Bank of Iceland cuts rates by 50 bps as growth outlook weakens** ([link](#))
- **Chinese equities underperform as US deliberates further bans on Chinese tech companies** ([link](#))
- **Chinese joint-stock bank to issue perpetual bonds for the first time** ([link](#))

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Markets tread water amid ongoing trade tensions

European bourses were range bound this morning while US equity futures remained under pressure as trade tensions persist. Tech-heavy Nasdaq 100 futures fell after the US administration was reported to be considering whether to add five Chinese surveillance companies to a blacklist that will bar them from US components or software. US Treasury and bond yields were little changed while the VIX was flat. In the UK, the Brexit saga continues, with sterling weakening as PM May's latest compromise managed to summon greater opposition to her deal than was in place before she spoke. Elsewhere, Chinese equities underperformed as the US deliberates further bans on Chinese tech companies. In Latin America, Argentina was the best performer yesterday as the Merval rallied almost 3% amid investors' bets of more moderate policies while Brazil rose 2.8% on renewed pension reform optimism.

Key Global Financial Indicators

Last updated: 5/22/19 7:51 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2864	0.8	1	-1	5	14
Eurostoxx 50		3379	-0.2	0	-3	-6	13
Nikkei 225		21283	0.1	0	-4	-7	6
MSCI EM		41	0.7	-1	-8	-13	4
Yields and Spreads			bps				
US 10y Yield		2.41	1.1	4	-17	-65	-27
Germany 10y Yield		-0.08	-1.3	2	-10	-64	-32
EMBIG Sovereign Spread		353	0	-9	15	21	-61
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.5	0.0	0	-2	-7	-1
Dollar index, (+) = \$ appreciation		98.0	-0.1	0	1	5	2
Brent Crude Oil (\$/barrel)		71.9	-0.4	0	-3	-10	34
VIX Index (% change in pp)		15.0	0.1	-1	3	2	-10

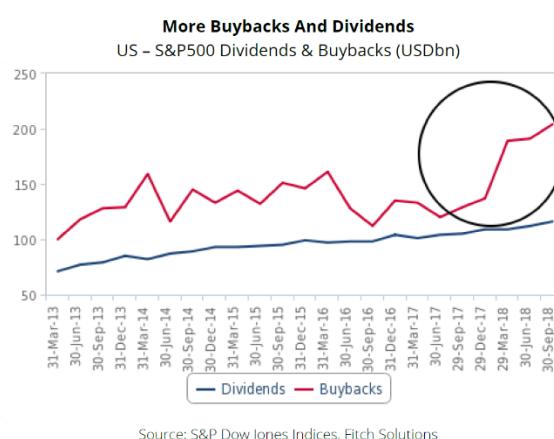
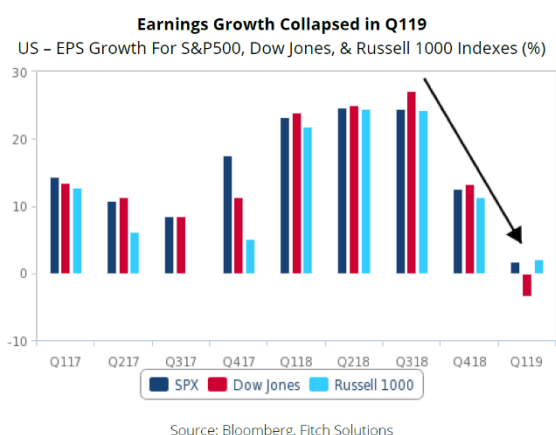
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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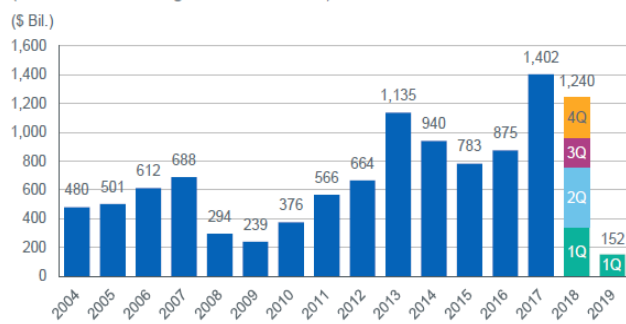
Stocks finished higher on Tuesday, getting a reprieve from the latest trade war related losses, after the US granted limited relief to firms doing business with blacklisted Chinese telecom firm Huawei. Equity volatility is the lowest in two weeks, with the VIX index trading around 15 pts. April existing home sales disappointed (-0.4% mom versus +2.7% expected), marking the fifth drop in six months. Tight supplies, lofty prices, and limits on tax deductions on pricier properties are hampering sales. Treasury yields are up across the curve.

Earnings growth as measured per share virtually collapsed in Q1 from its peak two quarters earlier according to Fitch. It believes that earnings were "artificially boosted by the tax cut in 2018" and that their windfall has not translated into organic growth. Instead, **firms stepped up their share buyback activity**. S&P data indicate firms in the S&P 500 bought back a record \$806 bn in securities in Q3 last year, a 55% increase over 2017.



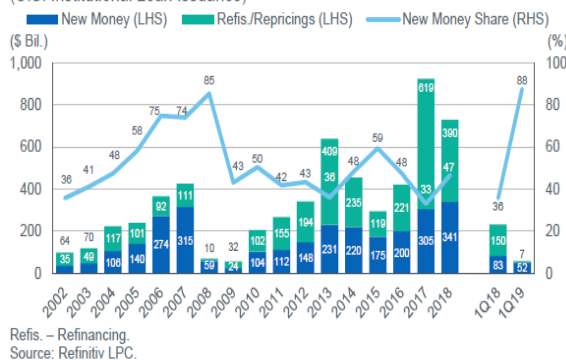
Leveraged loan issuance is slumping. Fitch's Refinitiv data indicate the Q1 total this year of \$152 bn was less than half the total issued in Q1 of last year. And looking at the first four months of the year, Bloomberg notes it was the worst such period for issuance since 2016. Fitch also noted that for institutional loan tranches (which are generally owned by non-bank financial institutions), issuance in Q1 was primarily new money (88%), with only minimal refinancing or repricing activity. S&P data show leveraged loans have returned 5.8% so far this year. This week, the Office of the Comptroller of the Currency said despite more aggressive lending terms they noticed, it felt that the banks it supervises have adequate risk management processes for dealing with leveraged lending risks.

Leveraged Loan Issuance Off to a Slow Start in 2019
(U.S. Annual Leveraged Loan Issuance)



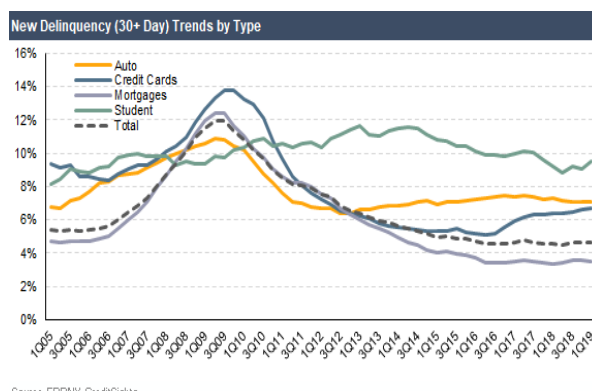
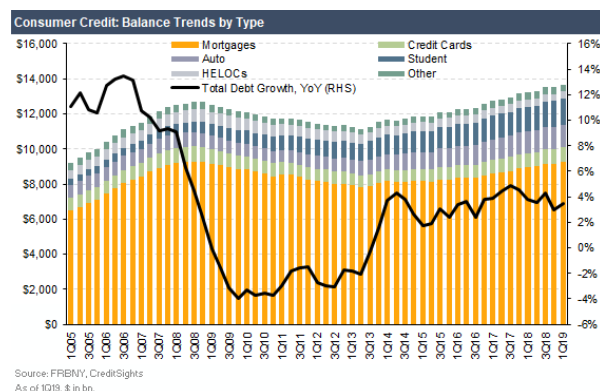
Note: Figures include both pro rata and institutional loans.
Source: Refinitiv LPC.

Repricing Activity Shuts Down in 1Q19
(U.S. Institutional Loan Issuance)



Refs. - Refinancing.
Source: Refinitiv LPC.

Consumer credit creation expanded by a modest 3.5% yoy in Q1 and totaled \$13.668 tn outstanding. Excluding mortgages, total consumer credit came in above \$4 tn for a second consecutive quarter. Growth in this core (ex-mortgage) aggregate has been trending lower since mid-2016, and has been below 5% over the past year. CreditSights advises that mortgages remain—and should continue to be—the biggest “wildcard” and the biggest contributor to quarterly swings in the magnitude of consumer debt expansion.



Europe

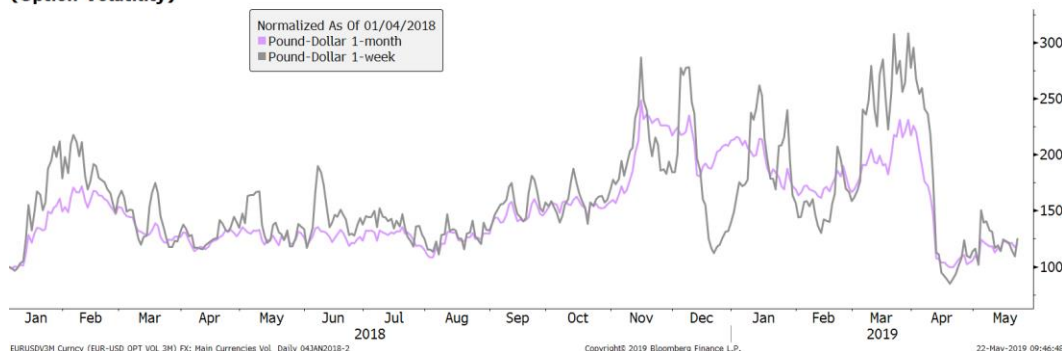
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European bourses were trading in a tight range this morning, with the EuroStoxx 600 flat on the day. Bank stocks (-0.8%) underperformed.

Euro area sovereign bond yields were little changed: German 10-year bonds at -0.07%; French at 0.31%; Italian at 2.64%; and Spanish at 0.86%. **The yield on 10-year gilts fell 4 bps to 1.04%** while the 2-year was at 0.71% (-3 bps).

The pound suffered a slight increase in volatility on the back of Brexit news. Sterling climbed as much as 0.7% as PM May said she would bring a “bolder” Brexit deal to Parliament for vote. It then reversed gains as Labour leader Corbyn said his party would not endorse a repackaging of the same deal. **Sterling was 0.4% weaker this morning at \$1.265.** Separately, data released today show that **CPI inflation for April has come in a tad below expectations**, at 2.1% y-o-y for headline (vs. 2.2% expected) and 1.8% y-o-y for core (vs. 1.9% expected).

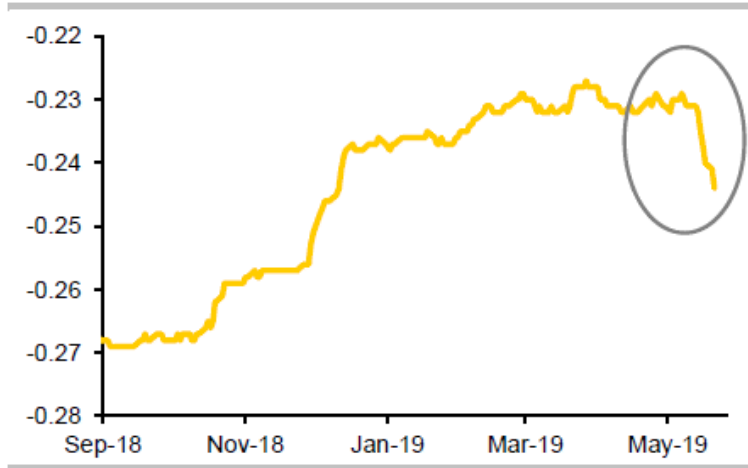
FX Volatility: Major Crosses (Option Volatility)



The 6-month Euribor fixing has dropped to -0.244% from -0.23% at end-April. Although some analysts attribute the steep decline in Euribor fixings this month to expected increased dovishness by the ECB, researchers at Commerzbank note that the large decline could be related to the transition to a hybrid transactions-based methodology started this month which may contain a downwards bias.

Not so seamless Euribor transition?

6m Euribor, in %



Source: Bloomberg, Commerzbank Research

Iceland

The central bank cut interest rates by 50 bps today with the bank's benchmark 7-day term deposit rate now at 4%. The move came following a deterioration in the growth outlook as the bank revised its GDP forecast for this year from +1.8% to -0.4%. A contraction in tourism and marine product exports have been the main culprits while inflation continues to hover slightly above the central bank's 2.5% target. Iceland's krona weakened 0.5% to the euro this morning.

Other Mature Markets [back to top](#)

Japan

Equities (Nikkei +0.1%; Topix -0.3%) failed to hold on to earlier gains following mixed economic data. Exports fell for a fifth consecutive month in April, declining -2.4% y/y, similar to last month's drop. Core machine orders improved to -0.7% y/y in April from -5.5% y/y in March. Separately, Bank of Japan board member Yutaka Harada mentioned that he is skeptical of the economic outlook and that the scheduled consumption tax hike in October could push the economy into recession. Meanwhile, demand for Japanese 20-year bonds during the Ministry of Finance's auction was at a record high, with a bid-to-cover ratio of 5.5. **20-year JGB yield fell 1 bps to 0.35%, 10-year JGB yields declined 0.4 bps to -0.06%, and the yen was steady.**

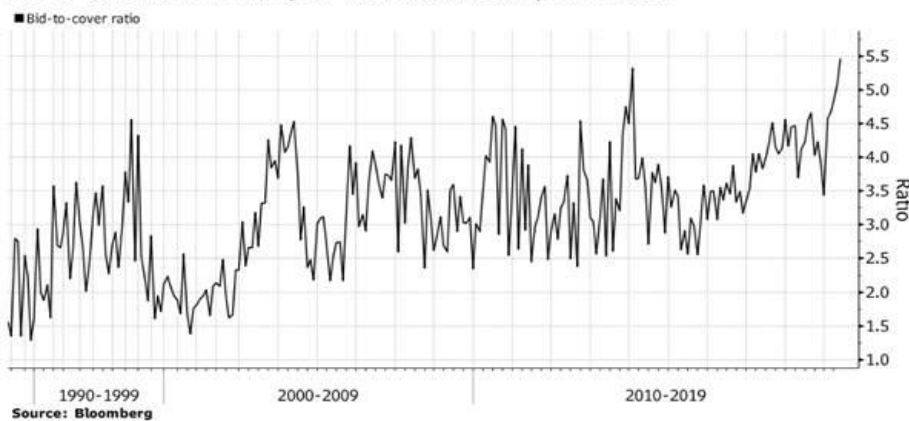
Retreating

Topix fails to retain earlier gains as sentiment remains fragile



All-Time High

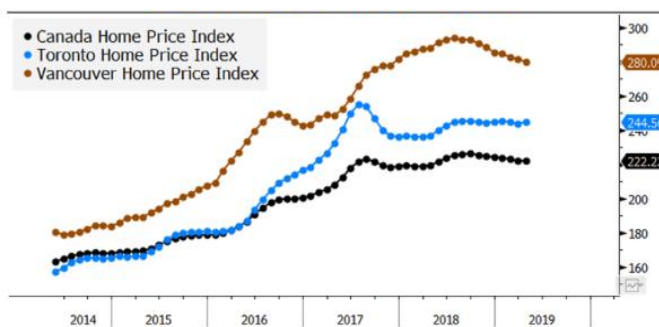
Bid-to-cover ratio for 20-year debt sale shoots up to a record



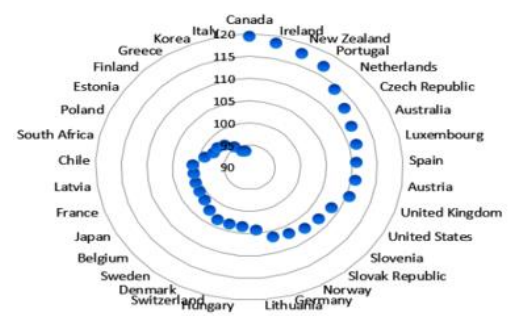
Canada

Home sales increased in April on both a monthly (+3.6%) and yearly (+4.2%) basis. But prices were relatively flat overall in April, largely owing to a faltering Vancouver market. Bloomberg gauges that the Canadian housing market is on an unsustainable path, though with prices well above their fair value when measured against household incomes (over the period 2015-2018:Q2).

Canadian Home Prices



House Price-to-Income Ratio



2018:Q2 or latest available, 2015 = 100

Source: Bloomberg, OECD

Emerging Markets

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Emerging markets saw a calm session. Asian equities (+0.2%) were little changed on net with dispersion across markets. Chinese equities (Shanghai and Shenzhen -0.5%) underperformed, while the Philippines and Thailand gained 1.2% and 0.9%, respectively. Regional currencies weakened slightly, with the Indonesian rupiah (-0.3%) depreciating to its weakest level since December. Reports of political unrest as the opposition protests against last month's election outcome weighed on the rupiah. Stocks in EMEA saw another quiet day with most bourses seeing moves of less than 0.5%. Local currencies were flat against the dollar, apart from the Turkish lira which depreciated by 0.4%. In Latin America, Argentina was the best performer yesterday as the Merval rallied almost 3% amid investors' bets of more moderate policies while Brazil rose 2.8% on renewed pension reform optimism. Local currencies were generally stronger. The Brazilian real outperformed (+1.4%), followed by the Argentine peso (+1%). 10-year government bond yields dropped 19 bps in Brazil but were mixed in other countries.

Key Emerging Market Financial Indicators

Last updated: 5/22/19 7:53 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.63	0.7	-1	-8	-13	4
MSCI Frontier Equities		28.33	1.1	2	-1	-9	8
EMBIG Sovereign Spread (in bps)		353	0	-9	15	21	-61
EM FX vs. USD		61.54	0.0	0	-2	-7	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.90	0.0	0	-3	-8	0
Indonesian Rupiah		14525	-0.3	0	-3	-3	-1
Indian Rupee		69.67	0.1	1	0	-2	0
Argentine Peso		44.80	0.9	0	-6	-46	-16
Brazil Real		4.04	1.4	-2	-3	-9	-4
Mexican Peso		19.01	0.0	0	-1	4	3
Russian Ruble		64.24	0.3	1	-1	-5	8
South African Rand		14.36	0.2	-1	-1	-12	0
Turkish Lira		6.10	-0.8	-2	-5	-23	-13
EM FX volatility		8.91	0.0	-0.1	0.6	0.0	-0.9

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

China

Equities fell (Shanghai and Shenzhen -0.5%) as the US mulls further bans on Chinese tech companies. The US is considering whether to add five Chinese surveillance companies to a blacklist that will bar them from US components or software, according to Bloomberg. The firms include Hangzhou Hikvision Digital Technology, Zhejiang Dahua Technology Co. and several unidentified others. Meanwhile, **the RMB stabilized against the USD after the People's Bank of China set the fixing at a stronger-than-expected level for a third straight day.** According to Bloomberg, the central bank set its daily fix at CNY6.8992/USD on Wednesday, stronger than the close of CNY6.9020/USD yesterday.

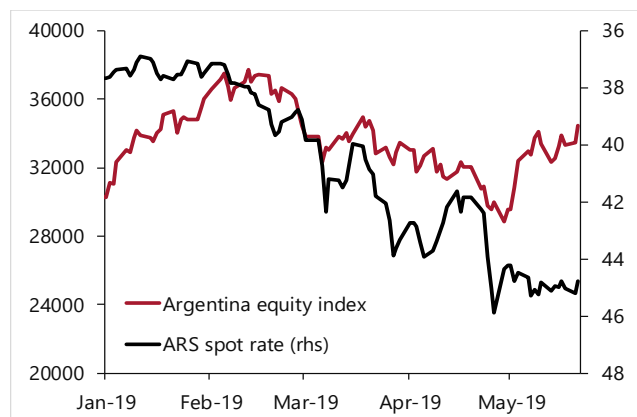
Yuan ends record slump against peers with first gain in 16 days



Separately, China Minsheng Banking Corp would be the first joint-stock commercial bank to issue perpetual bonds. According to Bloomberg, the lender is looking to issue RMB40 bn of perpetual bonds, which count toward additional Tier 1 capital, as soon as this month. The PBoC introduced a facility to swap bank perpetual bills in January, seeking to enhance the attractiveness of banks' perpetual bonds.

Argentina

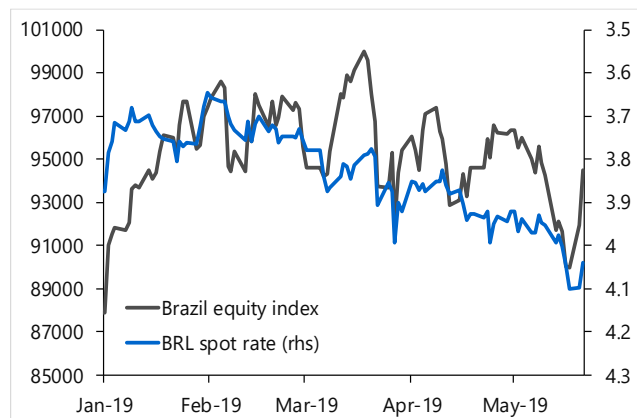
Argentine markets rebounded for a second day as investors digested the news that former president Cristina Fernandez de Kirchner will run as vice-president for a candidate that is perceived to be more moderate in the October election. The Argentine peso posted its biggest rally (+0.9%) this month on Tuesday, while the domestic equities advanced almost 3%. The yields on the government's 2024-dollar sovereign bond benchmark fell 55 bps to 17.02% and the spread on 5-year CDS narrowed.



Brazil

Brazilian assets rallied yesterday as President Bolsonaro's pension reform has moved on to the Special Committee, after a longer-than-anticipated Constitutional Committee. Domestic equities rose

nearly 3% and the peso appreciated by 1.4% against the dollar on the news. Some analysts commented that they saw the Special Committee likely voting on this pension reform in the 1st week of August, while the House would vote in the 2nd and 3rd weeks of August, one week later than analysts previously expected.



























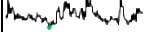




Russia

Low growth could create some domestic vulnerabilities according to the central bank. GDP numbers for Q1, released last week, disappointed and came in at the weakest level since 2017 but, speaking to reporters, deputy governor Yudaeva said that buffers were in place which would also help protect against external shocks. She added that the bank may downgrade its current inflation forecast and signaled that a cut in interest rates was possible. Analysts had previously said that the disappointing growth numbers had increased the probability of a rate cut at the central bank's next meeting on June 14. The benchmark rate is currently at 7.75% while the ruble traded slightly stronger to the dollar this morning.

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: 5/22/19 7:52 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2864	0.8	1	-1	5	14
Europe		3379	-0.2	0	-3	-6	13
Japan		21283	0.1	0	-4	-7	6
China		2892	-0.5	-2	-10	-10	16
Asia Ex Japan		66	1.1	-1	-9	-13	5
Emerging Markets		41	0.7	-1	-8	-13	4
Interest Rates			basis points				
US 10y Yield		2.41	1.1	4	-17	-65	-27
Germany 10y Yield		-0.08	-1.3	2	-10	-64	-32
Japan 10y Yield		-0.06	-1.1	-1	-3	-11	-6
UK 10y Yield		1.03	-5.4	-4	-17	-49	-25
Credit Spreads			basis points				
US Investment Grade		122	0.0	2	12	22	-25
US High Yield		426	-4.1	-8	33	87	-95
Europe IG		67	1.5	0	9	7	-21
Europe HY		282	3.4	0	35	4	-71
EMBIG Sovereign Spread		353	0.0	-9	15	21	-61
Exchange Rates			%				
USD/Majors		98.01	-0.1	0	1	5	2
EUR/USD		1.12	0.1	0	-1	-5	-3
USD/JPY		110.4	0.1	-1	1	0	-1
EM/USD		61.5	0.0	0	-2	-7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		72	-0.4	0	-3	-10	34
Industrials Metals (index)		112	-0.8	-2	-6	-18	2
Agriculture (index)		39	-0.4	2	-2	-22	-7
Implied Volatility			%				
VIX Index (% change in pp)		15.0	0.1	-1.4	2.6	1.8	-10.4
10y Treasury Volatility Index		4.1	-0.1	-0.1	0.5	0.2	-0.5
Global FX Volatility		6.8	0.0	-0.3	0.6	-0.8	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		346	0.6	-20	17	-37	-70
Italy		273	2.5	-11	15	96	23
Portugal		111	1.4	-11	-4	-29	-37
Spain		95	1.5	-10	-9	5	-22

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: 5/22/2019 7:54 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		6.90	0.0	-0.4	-3	-8	0		3.3	0.3	1	-4	-33	12
Indonesia		14525	-0.3	-0.4	-3	-3	-1		8.2	-0.2	4	51	49	5
India		70	0.1	1.0	0	-2	0		7.4	1.0	-6	-15	-61	-6
Philippines		52	0.1	-0.3	-1	0	0		5.1	-0.5	-4	-22	-39	-122
Thailand		32	0.1	-1.2	0	0	1		2.6	0.2	1	-2	-9	-5
Malaysia		4.19	-0.2	-0.4	-1	-5	-1		3.8	0.0	-3	-10	-45	-27
Argentina		45	0.9	0.4	-6	-46	-16		32.2	2.4	383	995	1290	919
Brazil		4.04	1.4	-1.6	-3	-9	-4		8.0	-14.1	5	-12	-100	-10
Chile		695	0.2	-0.5	-4	-8	0		4.1	0.0	0	0	-74	-38
Colombia		3342	0.3	-1.5	-6	-14	-3		6.3	0.8	0	15	-6	-22
Mexico		19.01	0.0	0.2	-1	4	3		8.2	1.4	-3	3	39	-53
Peru		3.3	0.2	-0.6	-1	-2	1		5.3	-1.8	-10	-11	-56	-47
Uruguay		35	0.0	-0.2	-3	-12	-8		11.0	-6.7	0	53		32
Hungary		292	-0.1	-0.9	-3	-8	-4		2.1	1.2	2	3	1	-15
Poland		3.85	0.1	-0.4	-1	-6	-3		2.4	1.4	5	7	-30	9
Romania		4.3	0.1	-0.3	-1	-8	-5		4.3	1.0	5	3	-5	7
Russia		64.2	0.3	0.6	-1	-5	8		7.7	-4.8	-20	-24	58	-67
South Africa		14.4	0.2	-1.0	-1	-12	0		9.4	-2.7	-1	12	14	-22
Turkey		6.10	-0.8	-1.7	-5	-23	-13		20.8	15.8	-30	151	538	397
US (DXY; 5y UST)		98.0	-0.1	0.4	1	5	2		2.21	-1.5	6	-18	-69	-30

	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		2892	-0.5	-2	-10	-10	16		177	0	0	3	-10	-17
Indonesia		5940	-0.2	-1	-7	3	-4		191	0	-8	15	-7	-45
India		39110	0.4	5	1	13	8		152	-2	-4	-3	-5	-44
Philippines		7815	1.2	3	0	2	5		81	0	-7	-1	-32	-40
Malaysia		1604	0.0	0	-1	-13	-5		127	0	-1	1	-8	-35
Argentina		34481	3.0	6	12	11	14		886	0	-27	39	428	71
Brazil		94485	2.8	3	0	14	8		251	1	-3	7	-14	-22
Chile		4914	0.0	-1	-7	-13	-4		132	0	-2	6	-5	-34
Colombia		1493	0.7	-1	-6	-2	13		190	0	-1	16	-7	-38
Mexico		43190	-0.8	-1	-5	-5	4		305	-1	-3	13	31	-49
Peru		20074	0.7	0	-4	-5	4		133	0	-7	12	-28	-35
Hungary		39982	1.0	-1	-7	10	2		95	1	-6	-8	-24	-53
Poland		56964	0.3	1	-6	-3	-1		44	2	-7	3	-23	-41
Romania		8110	-0.5	-1	-3	-4	10		193	1	2	-6	47	-28
Russia		2640	0.9	3	2	13	11		198	0	-18	-3	-18	-54
South Africa		55457	-0.1	-1	-6	-5	5		303	-3	-11	13	32	-62
Turkey		84596	-0.9	-3	-12	-18	-7		515	0	-15	14	111	86
Ukraine		574	0.0	1	7	20	3		633	6	-20	40	132	-154
EM total		41	0.7	-1	-8	-13	4		353	0	-9	15	21	-61

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