



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, May 23, 2019

- **FOMC meeting minutes reiterate a patient approach to policy adjustments ([link](#))**
- **Crisis in UK government deepens; PM May expected to resign in upcoming days ([link](#))**
- **Euro area stocks decline as mixed PMI readings add to growth worries ([link](#))**
- **Indian assets post volatile session as PM Modi declares victory in elections ([link](#))**
- **Chinese equities fall as tech stocks underperform amid trade tensions ([link](#))**
- **Argentine economic activity plunges more than forecast in March ([link](#))**

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Markets stay defensive in light of trade and political risks

Global risk assets remain under pressure as US-China trade tensions and political uncertainties continue to weigh on markets. In Asia, equity markets fell across the region with Chinese indexes losing 1.4 to 2.4% on the back of ongoing US-China tensions, while S&P 500 futures are trading down close to 1%. In Europe, some mixed PMI readings have pushed major indexes down 1 to 1.8%, with the focus now on the European Parliament elections starting today and ongoing Brexit political risks. Speculation has grown that PM May could soon be facing another leadership contest, which is driving sterling weakness with the currency now at a 4-month low against the US dollar. In the US, tensions with China have persisted and the S&P 500 declined modestly yesterday with tech and energy shares driving most of the downside. Oil markets are retreating in sympathy with other risk assets as weakness over the US-China trade dispute and renewed fears of a US supply glut offset signs of continued production restrictions following the OPEC meeting this past weekend. Elsewhere, US Treasuries followed German Bund and UK Gilt yields lower, initially holding the positions after the latest FOMC meeting minutes revealed few surprises and reiterated the committee's patient approach to policy adjustments. The futures-implied probability of a rate cut by the end of the year held steady at about 70%, close to the peaks of mid-May and March at around 80%.

Key Global Financial Indicators

Last updated: 5/23/19 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
S&P 500		2856	-0.3	0	-3	4	14
Eurostoxx 50		3339	-1.4	-3	-5	-6	11
Nikkei 225		21151	-0.6	0	-5	-7	6
MSCI EM		40	-1.2	-2	-9	-13	4
Yields and Spreads							
US 10y Yield		2.36	-4.4	-4	-21	-64	-33
Germany 10y Yield		-0.10	-1.5	-1	-14	-61	-34
EMBIG Sovereign Spread		361	4	3	22	32	-53
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		61.4	-0.2	0	-2	-8	-1
Dollar index, (+) = \$ appreciation		98.2	0.2	0	1	4	2
Brent Crude Oil (\$/barrel)		69.8	-1.7	-4	-6	-13	30
VIX Index (% change in pp)		16.4	1.6	1	4	4	-9

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

United States

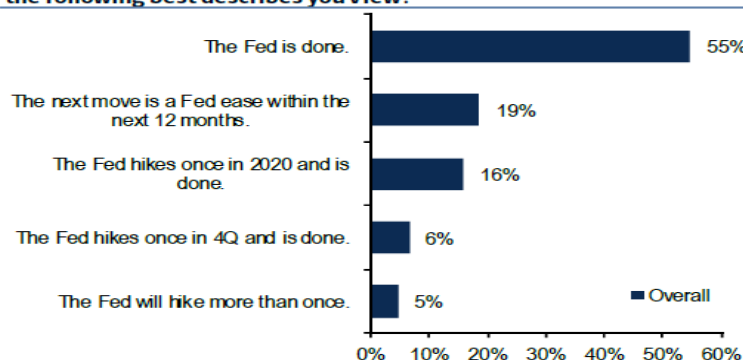
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Stocks weakened marginally on Wednesday following news the administration was readying to target more Chinese tech companies. Breaking news on trade tension developments continues to be a significant driver of market direction. The energy sector also posted losses of 1.6% as oil prices declined 2 to 3% across WTI and Brent front-month benchmarks in response to data that showed US oil inventories had swelled to highest level since the summer of 2017.

The **FOMC minutes** were released yesterday. The main takeaway was support for sticking to the current wait-and-see strategy, with members feeling that **a patient approach “would likely remain appropriate for some time.”** Other highlights were that many officials considered the dip in inflation as transitory, there was little discussion of a trade war, and no conclusion on the future maturity composition of the Fed’s portfolio of Treasury securities in the longer-run. **While US Treasury yields had little reaction to the minutes release, yields ended the day down 3 to 5 bps across the curve** led by a move lower in longer-dated yields that also contributed to a flattening in the curve. **This morning, S&P 500 futures point to about a 1% decline at the open**, while US Treasury yields are down 2 to 3 bps across the curve, with the 10-year yield down to 2.36%.

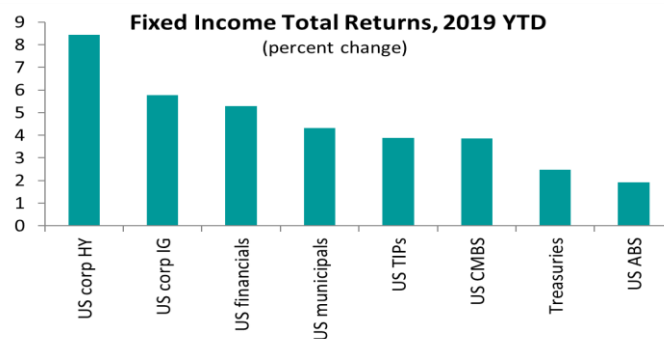
St. Louis Fed president Bullard advised the central bank may have “slightly overdone it” by hiking rates in December, and a Bank of America survey of US credit investors finds that the **majority (55%) of respondents believes the Fed’s hiking cycle is over**. Fed fund futures are pricing in about a 70% chance of a rate cut by the end of the year, and showed little change following the release of the FOMC minutes.

Figure 4: Credit investors: In terms of the Fed rate hiking cycle, which of the following best describes your view?



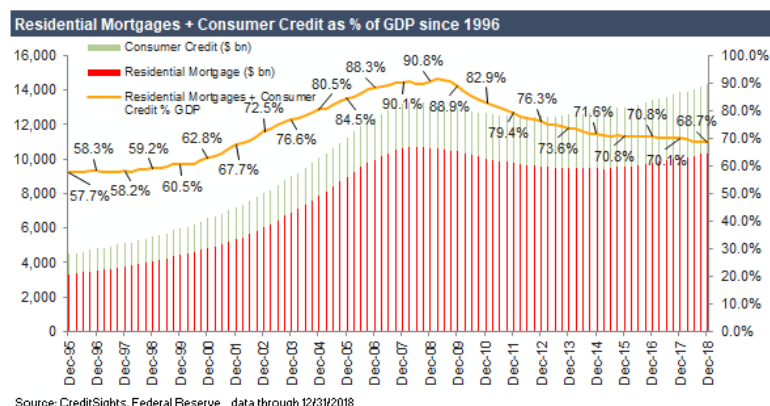
Source: BofA Merrill Lynch Credit Investor Survey

High-yield bonds have outperformed other fixed income asset classes this year. Their 8.4% return year to date compares to 5.8% for investment-grade bonds. The market capitalization of ICE’s benchmark high-yield index is currently \$1.197 tn, compared to \$6.507 tn for its investment-grade index, while high-yield spreads have fallen 89 bps to 432 bps so far this year compared to a tightening of 24 bps in investment grade spreads.



Source: Bloomberg

The **US consumer debt picture has been steadily improving** ever since the height of the recession. CreditSights gauges that mortgage debt + consumer credit has fallen from a high of 90.8% to 68.7% of GDP by the end of 2018. The firm credited the improvement to progress in lending standards, an improved regulatory regime, and the wave of foreclosures that wiped out mortgage debt. But it also pointed out some weak pockets such as subprime auto, student debt, and some credit card vulnerabilities.

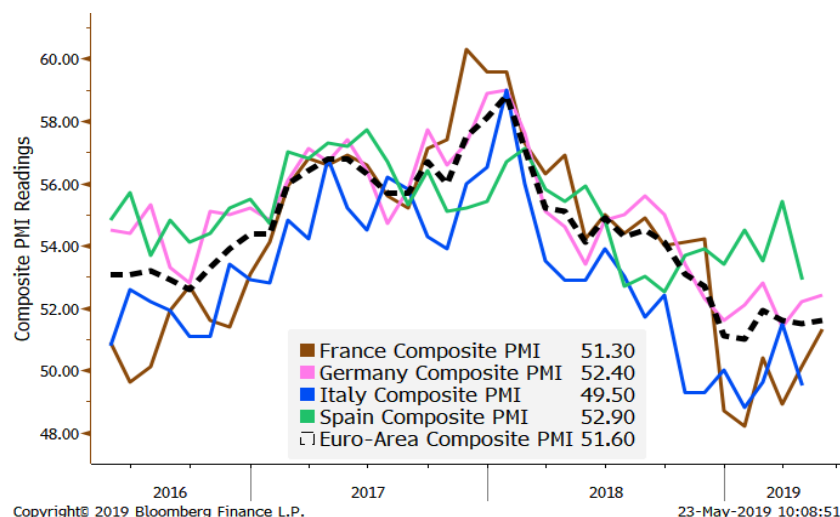


Treasury secretary Mnuchin advised the US could be at risk of default in the “late summer” without an increase of the debt ceiling. His remarks caused a light disruption in the Treasury bill curve, with bills maturing August 22 having a higher yield than bills maturing a week later. The Congressional Budget Office, however, has stated the government would be able to pay its obligations through the end of September by engaging in so-called extraordinary measures.

Europe

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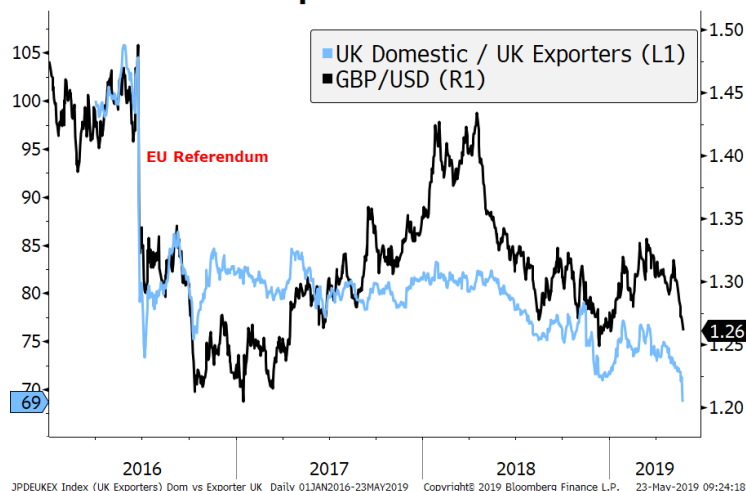
Equities are broadly lower with the EuroStoxx 600 falling 1.3%. German and Italian indices are underperforming, down 1.5%. **Yields are broadly lower across the region.** The 10-year bund is down 2 bps to -0.10%. May preliminary PMI data for the region was mixed: the composite reading was up slightly (to 51.6) but the manufacturing (47.7) and services (52.5) components declined from the previous month and were lower than expected. The France and German readings were mostly higher than expected.



United Kingdom

The revolt in PM May's cabinet continues with the resignation of House of Commons leader Andrea Leadsom, marking the 36th minister to quit the government in three years. Leadsom, like many other MPs, considered the concessions proposed by May in her latest proposal (which included a path to a second referendum) to be unacceptable. Observers expect May to announce a plan for her departure once the European elections are over this week. The pound continues to depreciate, now at the lowest level since the start of the year. Of note, the currency move along with political uncertainty has taken a toll on domestic-oriented stocks, vastly underperforming export-oriented ones. The 10-year gilt yield has fallen below 1.0% for the first time since March and is nearly at 2017 lows.

UK Domestic vs Exporters



Other Mature Markets

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Japan

Equities (Nikkei -0.6%; Topix -0.4%) fell amid trade concerns and weakening manufacturing activity. The flash Nikkei Japan Manufacturing Purchasing Managers Index dropped to 49.6 for May from 50.2 in April. The sub-index on future expectations dropped to the lowest level since 2012 when Japan was in recession. **The yen appreciated 0.2% and 10-year JGB yields fell 0.8 bps to -0.07%.**

Emerging Markets

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Asian equities (-0.9%) declined as Chinese stocks underperformed. Chinese equities (Shanghai -1.4%; Shenzhen -2.4%) fell as tech lagged amid simmering trade tensions with the US. Additionally, Hong Kong (-1.8%) and Taiwan Province of China (-1.4%) also underperformed. Indonesian stocks (+1.6) bucked the trend as President Jokowi pledged to maintain stability amid the violent protests by opposition supporters. **Indian stocks gave away gains earlier in the trading session to end the day with losses (-0.7%) as incumbent PM Modi declared victory in India's election. Regional currencies were range-bound with the biggest moves by the Indonesian rupiah (+0.4%) and the Indian rupee (-0.4%).** In EMEA, equity markets are broadly lower with losses of 0.3-1.0% across most countries in the region. Turkey (+0.7%) is an exception, but this comes after several sessions of consecutive losses. Currencies are uniformly weaker against the dollar with the Turkish lira (-0.7%) and the South African rand (-0.4%) underperforming. **Latin American equity markets** saw a quiet day on Wednesday with most of the countries seeing moves of less than 0.5%, except for Mexico (-0.6%). Local currencies mainly traded in narrow ranges. 10-year government bond yields rose 6 bps in Brazil but were generally lower in other countries.

Key Emerging Market Financial Indicators

Last updated: 5/23/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.43	-1.2	-2	-9	-13	4
MSCI Frontier Equities		28.39	0.2	1	-1	-8	9
EMBIG Sovereign Spread (in bps)		361	4	3	22	32	-53
EM FX vs. USD		61.33	-0.3	0	-2	-8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	-0.2	0	-3	-8	-1
Indonesian Rupiah		14463	0.4	0	-3	-2	-1
Indian Rupee		70.02	-0.5	0	-1	-2	0
Argentine Peso		44.88	-0.2	0	-6	-46	-16
Brazil Real		4.06	-0.4	0	-3	-11	-5
Mexican Peso		19.02	-0.2	1	-1	3	3
Russian Ruble		64.71	-0.5	0	-2	-5	8
South African Rand		14.45	-0.5	-1	-1	-14	-1
Turkish Lira		6.13	-0.5	-1	-5	-25	-14
EM FX volatility		8.60	0.0	-0.3	0.4	-0.6	-1.2

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

China

Equities (Shanghai -1.4% and Shenzhen -2.4%) paced losses regionally as trade tensions with the US remain tense. US Treasury Secretary Steven Mnuchin stated that the US is at least a month away from enacting its proposed tariffs on \$300 bn in Chinese imports as it studies the impact on US consumers. He also stated that a resumption of trade talks with Beijing is not planned yet. **The People's Bank of China continued to keep the daily fixing of the onshore RMB at stronger than CNY6.9/USD.** This has occurred for the fourth straight day. Analysts see this effort as an attempt by the central bank to anchor market sentiment and to control volatility. **The onshore and offshore RMB depreciated slightly (-0.1%).**

PBOC has been keeping yuan fixings at levels stronger than 6.9



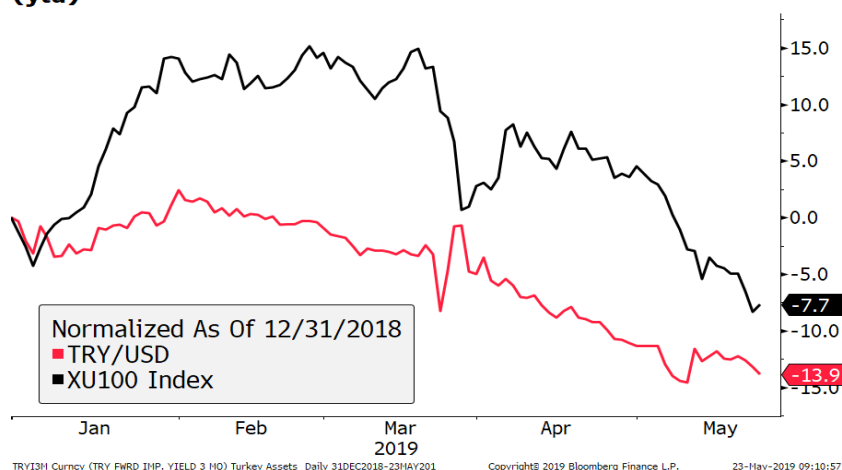
China's State Council plans to extend the use of debt-to-equity swaps to lower corporate leverage. The council stated that the government will encourage investment firms to raise capital to participate in debt-to-equity swaps. Additionally, the authorities said that they will expand a pilot program that allows institutions to convert debt into preferred shares. The announcement also highlighted that more than

CNY900 bn in debt-to-equity swaps have been completed since 2018. Debt-to-equity swaps were first introduced by the government in 2016, aimed at addressing high corporate debt.

Turkey

The lira has come under renewed pressure amid a flare-up of uncertainty regarding the government's decision to buy a missile-defense system from either the US or Russia. The US administration threatened sanctions if they go with the Russians. The lira has depreciated for the last three consecutive sessions against the dollar and about is about 1.5% weaker for the week. Still, the pair is yet to break the highs of earlier in the month (chart). The BIST index is up 0.7% today, but down 3.5% over the last five sessions and has fallen some 8% since the start of the year.

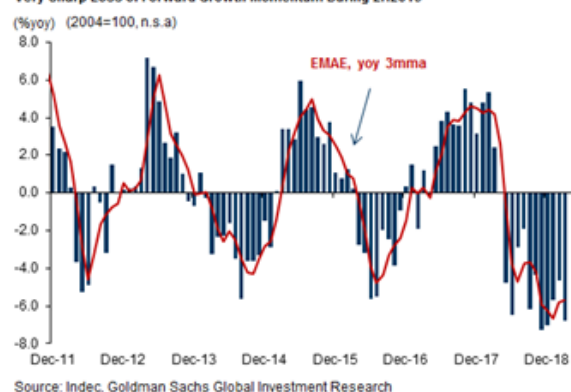
Turkish Asset Prices (ytd)



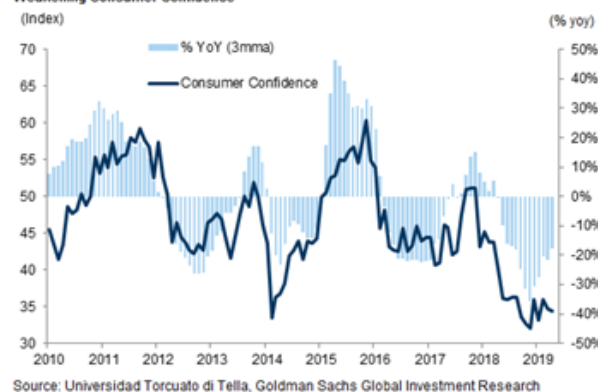
Argentina

Argentina's economic activity hit a new cyclical low with a large contraction in March. Economic activity recorded a larger and deeper than expected -6.8% yoy decline in March, down from -4.8% yoy in February and weaker than the -6.0% yoy consensus expectation. Month-over-month activity declined 1.3% from February due to sizable contractions in retail/wholesale commerce, manufacturing, and financial intermediation. Overall the economic activity has now contracted for 5 consecutive quarters and is down 7.7% from the November 2017 cyclical peak. Market reaction was muted on the data, with both domestic equities finishing slightly higher and the peso mostly unchanged.

Very Sharp Loss of Forward Growth Momentum During 2H2019



Weakening Consumer Confidence



























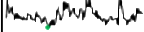




Mexico

Mexico President Lopez Obrador said Wednesday that his government will support Pemex with all the budget it needs and tax relief until 2021. President Lopez Obrador stated that by 2021, Pemex will have recovered its footing, increased production and be able to finance the country's development during the remainder of his term. Later yesterday, two former senior officials at Pemex were banned from holding public posts for 10 and 15 years, respectively.

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Global Financial Indicators

Last updated: 5/23/19 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2856	-0.3	0	-3	4	14
Europe		3339	-1.4	-3	-5	-6	11
Japan		21151	-0.6	0	-5	-7	6
China		2853	-1.4	-3	-11	-10	14
Asia Ex Japan		66	-0.4	-2	-9	-14	4
Emerging Markets		40	-1.2	-2	-9	-13	4
Interest Rates			basis points				
US 10y Yield		2.36	-4.4	-4	-21	-64	-33
Germany 10y Yield		-0.10	-1.5	-1	-14	-61	-34
Japan 10y Yield		-0.06	-0.3	0	-3	-11	-6
UK 10y Yield		0.99	-2.8	-9	-24	-45	-29
Credit Spreads			basis points				
US Investment Grade		123	1.3	2	12	23	-24
US High Yield		432	5.1	-9	38	93	-89
Europe IG		68	1.8	5	11	7	-19
Europe HY		293	8.1	19	46	8	-60
EMBIG Sovereign Spread		361	4.0	3	22	32	-53
Exchange Rates			%				
USD/Majors		98.20	0.2	0	1	4	2
EUR/USD		1.11	-0.1	0	-1	-5	-3
USD/JPY		110.1	0.2	0	2	0	0
EM/USD		61.4	-0.2	0	-2	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		70	-1.7	-4	-6	-13	30
Industrials Metals (index)		111	-0.7	-4	-7	-18	1
Agriculture (index)		39	0.4	1	-1	-22	-6
Implied Volatility			%				
VIX Index (% change in pp)		16.4	1.6	1.1	4.1	3.8	-9.0
10y Treasury Volatility Index		4.1	0.0	0.0	0.2	0.1	-0.5
Global FX Volatility		6.7	0.0	-0.2	0.4	-1.2	-2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		354	4.5	-2	27	-32	-61
Italy		274	2.6	-3	11	85	24
Portugal		112	1.0	-5	-4	-33	-36
Spain		96	0.8	-4	-11	2	-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: 5/23/2019 8:11 AM	Exchange Rates							YTD	Local Currency Bond Yields (GBI EM)							YTD
	Level		Change (in %)						Level		Change (in basis points)					
	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		6.92	-0.2	-0.5	-3	-8	-1		3.3	1.4	0	-3	-31	13		
Indonesia		14463	0.4	-0.1	-3	-2	-1		8.2	2.2	7	48	49	7		
India		70	-0.5	0.0	-1	-2	0		7.4	-2.2	-8	-23	-62	-9		
Philippines		53	0.1	0.0	-1	0	0		5.1	0.3	-3	-21	-41	-121		
Thailand		32	-0.2	-1.2	0	0	2		2.6	-1.4	0	-4	-10	-6		
Malaysia		4.19	-0.2	-0.7	-2	-5	-1		3.8	0.0	-3	-10	-44	-27		
Argentina		45	-0.2	0.2	-6	-46	-16		32.7	54.6	329	1051	1336	974		
Brazil		4.06	-0.4	-0.3	-3	-11	-5		8.0	-1.3	1	-12	-95	-12		
Chile		697	-0.1	-0.9	-5	-10	-1		4.1	-3.1	-4	-3	-78	-41		
Colombia		3336	0.3	-1.2	-6	-14	-3		6.3	-0.2	1	12	-5	-23		
Mexico		19.02	-0.2	0.5	-1	3	3		8.2	-2.1	1	-1	38	-56		
Peru		3.3	0.0	-0.7	-1	-2	1		5.3	0.2	-7	-10	-48	-47		
Uruguay		35	-0.1	-0.3	-3	-11	-8		11.1	7.1	1	59		39		
Hungary		294	-0.3	-1.1	-3	-7	-5		2.0	-6.0	-1	-3	-9	-21		
Poland		3.87	-0.2	-0.4	-1	-5	-3		2.3	-3.6	2	3	-28	6		
Romania		4.3	-0.1	-0.3	-1	-7	-5		4.3	0.0	7	3	-5	7		
Russia		64.7	-0.5	-0.1	-2	-5	8		7.7	-7.8	-25	-32	53	-75		
South Africa		14.4	-0.5	-1.1	-1	-14	-1		9.3	-4.8	1	7	19	-27		
Turkey		6.13	-0.5	-1.4	-5	-25	-14		21.1	28.9	22	174	581	426		
US (DXY; 5y UST)		98.2	0.1	0.3	1	4	2		2.15	-3.2	-2	-21	-68	-36		

	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		2853	-1.4	-3	-11	-10	14		178	1	1	4	-12	-16
Indonesia		6033	1.6	2	-7	4	-3		198	3	5	20	-7	-38
India		38811	-0.8	4	1	13	8		153	1	-6	-1	-4	-43
Philippines		7804	-0.1	4	0	3	5		84	-1	4	0	-34	-37
Malaysia		1602	-0.1	0	-1	-13	-5		127	0	0	1	-11	-35
Argentina		34579	0.3	4	12	14	14		920	5	-3	53	470	105
Brazil		94361	-0.1	3	-2	17	7		255	2	1	13	-4	-18
Chile		4921	0.1	-2	-6	-12	-4		134	0	1	8	-2	-32
Colombia		1489	-0.3	-1	-7	-2	12		196	3	7	23	5	-32
Mexico		42942	-0.6	-1	-5	-6	3		313	3	2	23	48	-41
Peru		19903	-0.9	-1	-4	-5	3		138	1	0	16	-21	-30
Hungary		40190	0.0	0	-7	13	3		101	2	4	-2	-22	-47
Poland		56776	-0.9	0	-7	-2	-2		48	1	1	5	-23	-37
Romania		8126	0.1	-1	-3	-3	10		198	5	6	-1	52	-23
Russia		2630	-0.3	2	2	15	11		207	3	-2	7	-2	-45
South Africa		54553	-1.2	-4	-8	-4	3		309	4	-2	14	41	-56
Turkey		84473	0.9	-3	-12	-17	-7		537	9	18	38	133	108
Ukraine		574	0.1	1	3	23	3		654	8	16	50	153	-133
EM total		40	-1.2	-2	-9	-13	4		361	4	3	22	32	-53

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