



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, May 29, 2019








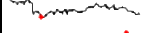


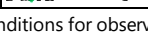
- **US Treasury yields hit new multi-year lows** ([link](#))
- **Expectations of Fed rate cuts boost foreign demand for US bonds** ([link](#))
- **Sovereign bond yields continue to decline across Europe** ([link](#))
- **Chinese rare earths equities surge on threats to restrict exports to the US** ([link](#))
- **PBoC injects liquidity to curb rise in banks' funding costs** ([link](#))
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## Global sovereign bond yields decline amid rising risk aversion

**Safe haven flows from increasing concerns over trade and global growth have driven sovereign bond yields lower across the globe.** US Treasury yields hit new multi-year lows, with the US yield curve becoming more inverted in the three-month/ten-year sector. In Europe, sovereign bond yields continued to decline this morning, with the 10-year bund yield only 2 bps away from the post-crisis lows reached in 2016. The rise in risk aversion drove European bourses and US equity futures lower. The VIX rose 0.7 percentage points to 18.2 as a result, and oil prices declined on concerns over weaker demand. Many emerging markets also saw losses as the risk-off mode in global markets strengthened. Chinese materials stocks linked to rare earths were an exception, surging following threats from the authorities to restrict rare earth exports to the US.

### Key Global Financial Indicators

Last updated: 5/29/19 7:57 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2802	-0.8	-1	-5	4	12
Eurostoxx 50		3298	-1.5	-3	-6	-4	10
Nikkei 225		21003	-1.2	-1	-6	-6	5
MSCI EM		40	-0.3	0	-9	-12	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		2.23	-5.4	-15	-30	-55	-46
Germany 10y Yield		-0.17	-0.7	-8	-17	-43	-41
EMBIG Sovereign Spread		373	7	16	28	30	-41
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		61.2	-0.1	-1	-2	-7	-2
Dollar index, (+) = \$ appreciation		98.0	0.1	0	0	3	2
Brent Crude Oil (\$/barrel)		68.4	-2.5	-4	-5	-9	27
VIX Index (% change in pp)		18.2	0.7	3	5	1	-7

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

## United States

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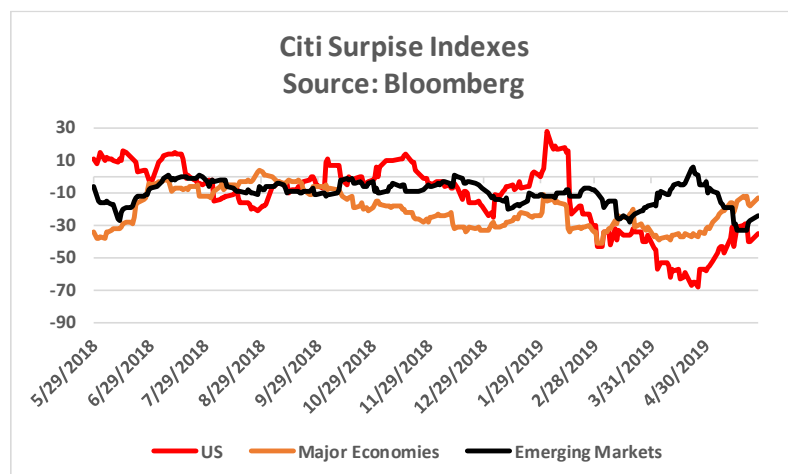
**Global advanced economy government bond yields hit new multi-year lows** in response to President Trump's weekend remarks on trade and the European Parliament election results. The US yield curve became more inverted in the three-month/ten-year sector, ending the day at -8 bps. The strong two-year and five-year Treasury auctions showed that the safe haven bid is alive and well. Although equities were lower, trading volumes were light in the post-holiday session. Some fear that low bond yields are harbingers of much higher volatility in the weeks ahead, while others think the Treasury rally is overdone but are afraid to short the market ahead of the potential US-China meeting at the G-20 Summit on June 28-29. A third group of investors thinks that both lower rates and higher stocks are reliant on the assumption of a very dovish Fed. Meanwhile, key Treasury benchmarks set new multi-year lows as yields fell 4-5 bps across the curve in a strong rally for the bond market.

### Key US Treasury Benchmarks Set New 2019 Lows

Source: Bloomberg

	2yr	5yr	10yr	30yr
YTD Low	2.11%	2.07%	2.26%	2.71%
Lowest Since	March 2018	November 2017	September 2017	December 2017

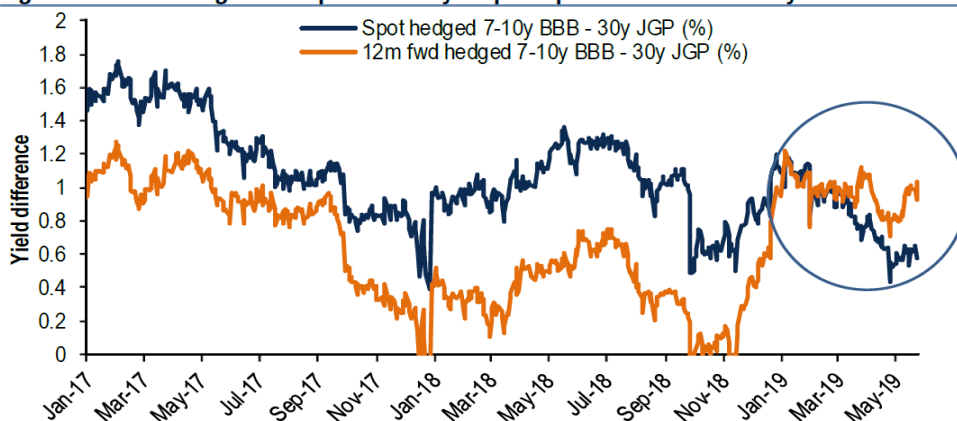
**The pattern of mixed US economic continued as the Case-Shiller house price indexes were weaker than market forecasts while the Conference Board consumer confidence measure was stronger than expected.** On a year-over-year basis, US housing prices were lower for the twelfth month in a row (although prices in selected "hot" markets such as San Francisco, San Diego and Boston continued to increase). Meanwhile, the Conference Board index hit reached its highest level since the end of 2018, with the labor market showing continued strength. Consumers plan to increase their purchases of homes, cars and consumer durables. This sentiment was in contrast to last week's very disappointing durable goods report and PMI numbers, and the widely followed Citi Surprise Index is still in very negative territory for the US, with negative but stronger levels for developed markets more generally and even for emerging markets.



**Foreign demand for US corporate bonds is expected to remain strong.** The market environment in 2019 has been characterized by lower interest rates and tighter credit spreads. A strong foreign bid for US bonds has played an important role in this outcome, sustained by positive yield differentials and much lower hedging costs compared to last year. With the futures markets predicting almost two rate cuts by

the end of 2020, funding costs are expected to decline further, which in turn spurs further investment from foreigners who hope to lock in their spread gains. Both spot-hedged and forward-hedged US credit spreads have ticked upwards as expectations of lower rates in the future work their way through the market. The greatest risk to this positive outlook is a sharp appreciation in the dollar and unexpectedly higher hedging costs sparked by a major escalation in the US-China trade dispute.

**Figure 3: Forward hedged US corporate bond yield pick-ups have rebounded this year**



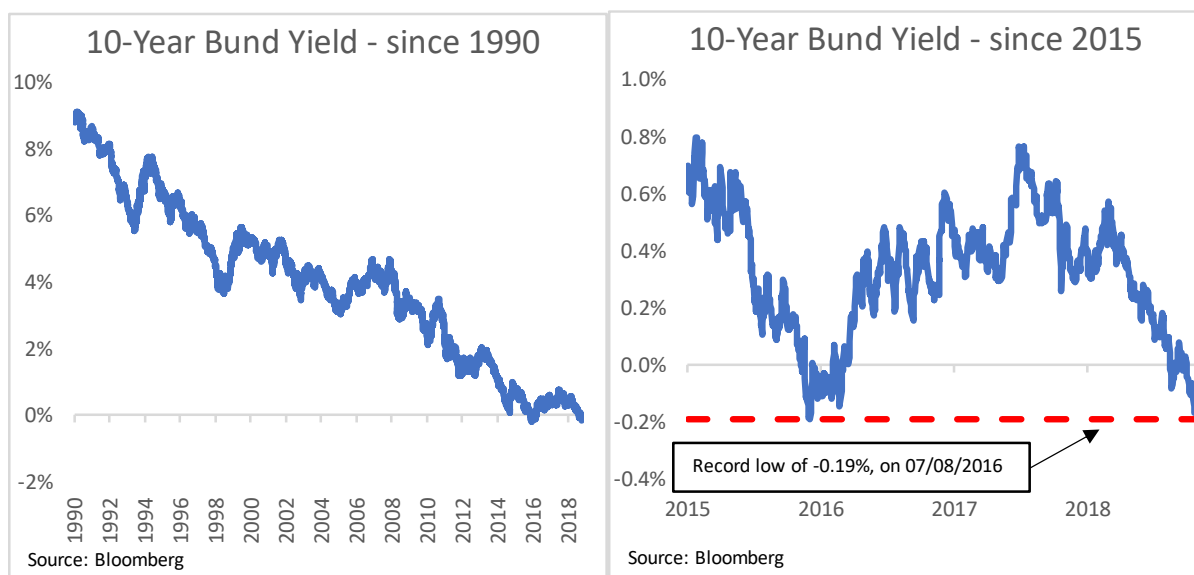
Note: Annualized dollar hedging cost assumes rolling 3-month forward fx rates. 12-month forward hedging costs adds the increase in Fed funds rate implied by the difference between the 1<sup>st</sup> and 12<sup>th</sup> Fed funds futures prices.

Source: Bloomberg, ICE Data Indices, LLC, BofA Merrill Lynch Global Research

## Europe

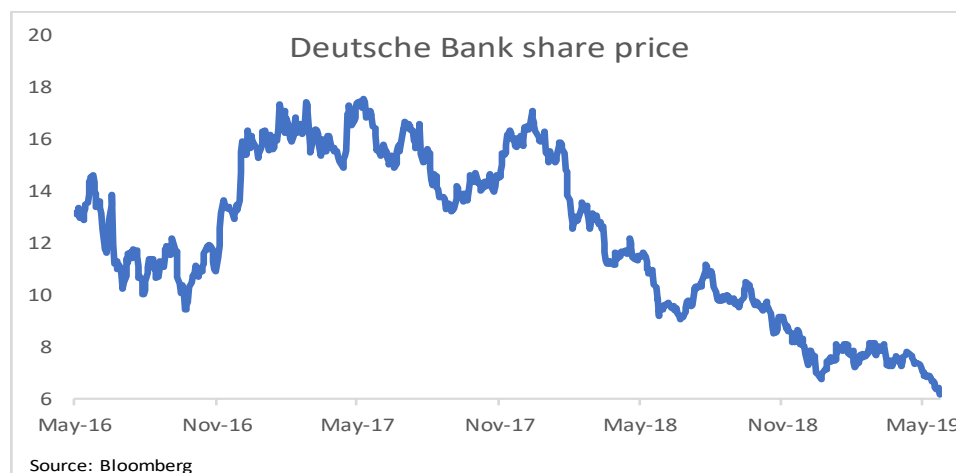
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**Sovereign bond yields continued to decline this morning.** The 10-year bund yield is now down to -0.17% and is only 2 bps away from the post-crisis lows reached in 2016. Other countries have also seen steady declines in yields with many 10-year benchmarks already at record lows, including Spain (0.73%) and Portugal (0.87%). **Equities saw sizeable losses across the board.** The Euro Stoxx 600 was 1.3% lower with tech stocks (-2%) and banks (-1.5%) underperforming. Stocks are now more than 5% below the highs of April.



**Several disappointing data points added to growth concerns on the continent this morning.** French CPI (1.1% versus 1.2% expected), Danish GDP (0.2% versus 0.3% expected), and Finnish GDP (0.2% versus 0.5% expected) all came in below analysts' expectations, boosting bearish concerns. German labor market figures also showed a slightly cooler environment in Europe's largest economy.

**Shares in Deutsche Bank dropped by more than 2% for the second day in a row.** The bank announced further cost cutting during its annual meeting last week as the long-awaited turnaround in the bank's operations continues to elude its management. Local media report that the bank is considering an adjustment to its declared minimum capital ratio after ongoing speculation over a possible capital increase.



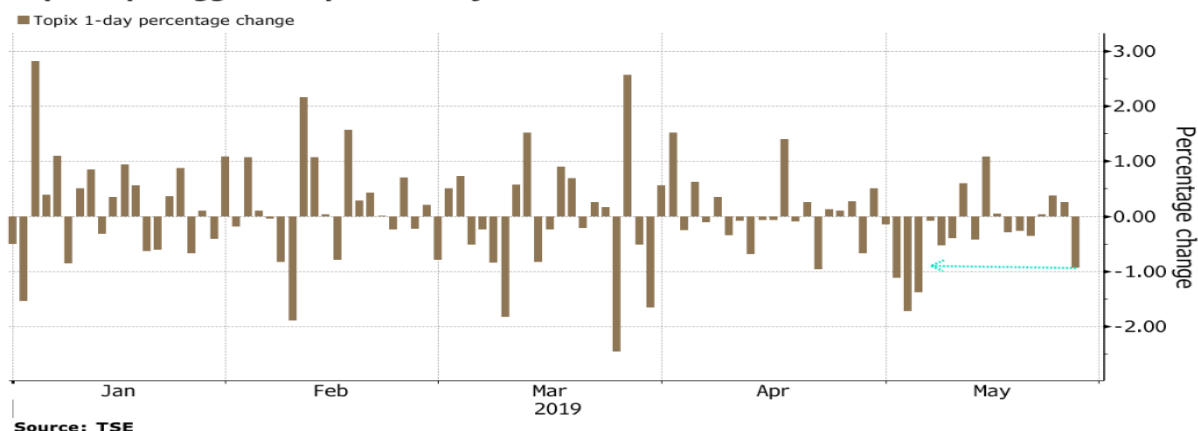
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### Japan

**Equities (Nikkei -1.2%; Topix -0.9%) fell with the weak US session overnight and risk-off dynamics weighing.** The deepening yield curve inversion in the US weighed on financials. In Japan, **the 2-5 year swap curve inverted.** Swaps are now pricing 7 bps of BoJ rate cuts by the end of 2020, up from 5 bps at the start of the May. **10-year JGB yields fell 1.5 bps to -0.1%, matching the lowest level since August 2016.** This decline was similar to the trend seen in the drop in other global advanced economy government bond yields. The yen appreciated slightly (+0.2%).

### Downward

#### Topix caps biggest drop since May 9



## Follow the Leader

### Yen swap 2-, 5-year spread inverts, hitting 2016 levels

■ Japan swap 2-, 5-year spread



## Emerging Markets

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**Emerging markets saw losses as the risk-off mode in global markets strengthened.** Asian equities (-0.7%) declined on net, with dispersed performance across markets. Korea (-1.2%) underperformed while Hong Kong (-0.6%), Thailand (-0.5%), and India (-0.4%) also recorded losses. Indonesian stocks (+1.2%) on the other hand outperformed. Government bond yields fell across Asia. Regional currencies weakened, with the won (-0.7%) pacing losses alongside the equity weakness. EMEA equities were mixed but little changed overall. Poland (-0.7%) was the biggest mover among the major markets in the region while Turkey (+0.6%) saw gains. Most local currencies were moderately weaker against the dollar. In Latin America, the Argentine peso (+0.3%) and the Brazilian real (+0.4%) appreciated while the Chilean peso was the main underperformer, depreciating by 1.2% against the dollar as rate-cut expectations weighed heavily on the currency after BCCh minutes underscored growth concerns.

### Key Emerging Market Financial Indicators

Last updated: 5/29/19 7:54 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		40.09	-0.4	0	-9	-12	3
MSCI Frontier Equities		28.55	0.8	2	1	-6	9
EMBIG Sovereign Spread (in bps)		373	7	16	28	30	-41
EM FX vs. USD		61.22	-0.1	-1	-2	-7	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.91	0.0	0	-3	-7	0
Indonesian Rupiah		14410	-0.2	1	-1	-3	0
Indian Rupee		69.83	-0.2	0	0	-3	0
Argentine Peso		44.68	0.3	0	-1	-45	-16
Brazil Real		4.03	0.4	0	-2	-7	-4
Mexican Peso		19.22	-0.2	-1	-1	3	2
Russian Ruble		65.23	-0.8	-1	-1	-4	6
South African Rand		14.80	-0.4	-3	-3	-14	-3
Turkish Lira		6.01	0.4	2	-1	-24	-12
EM FX volatility		8.36	0.0	-0.2	0.2	-1.0	-1.4

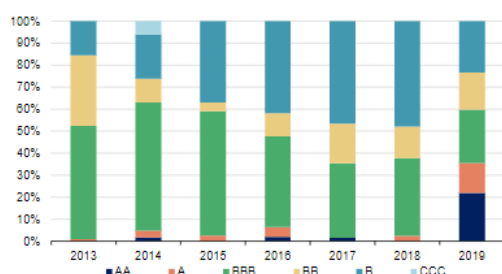
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

### EM issuance forecasts

#### HY sovereign issuance has been slow in 2019 but analysts expect it to pick up in coming months.

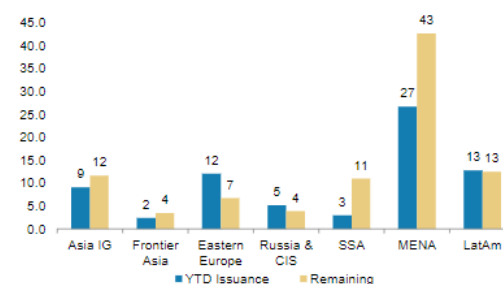
2019 has lagged behind in terms of issuance compared to last year, as B rated credits have mostly stayed away from primary markets. In terms of specific sovereigns, Morgan Stanley expects USD-denominated issuance from Oman, Tunisia, Bahrain, Lebanon and Costa Rica in the near future, while Ecuador and Ukraine are expected to do some combination of liability-management operations and issuance. They estimate financing needs of \$47.2 bn and \$44.9 bn remain to be fulfilled across IG and HY sovereigns, respectively. By region, MENA has the largest issuance remaining to be fulfilled in the rest of the year, mainly from Oman and Saudi Arabia. Asia IG, Sub-Saharan Africa and Latin America each have \$11-13 bn left to be accomplished based on their forecasts. Eastern Europe, Russia & CIS and Frontier Asia have \$6.7 bn, \$3.9 bn and \$3.5 bn expected in the rest of 2019, respectively.

**Exhibit 5:** EMBIG-eligible sovereign issuance by rating



Source: Bond Radar, Bloomberg, Morgan Stanley Research; Note that GCC are not included prior to 2019 since they were not part of the EMBI.

**Exhibit 6:** Progress on 2019 sovereign issuance needs (US\$ billion)



Source: Bond Radar, Bloomberg, Morgan Stanley Research

### China

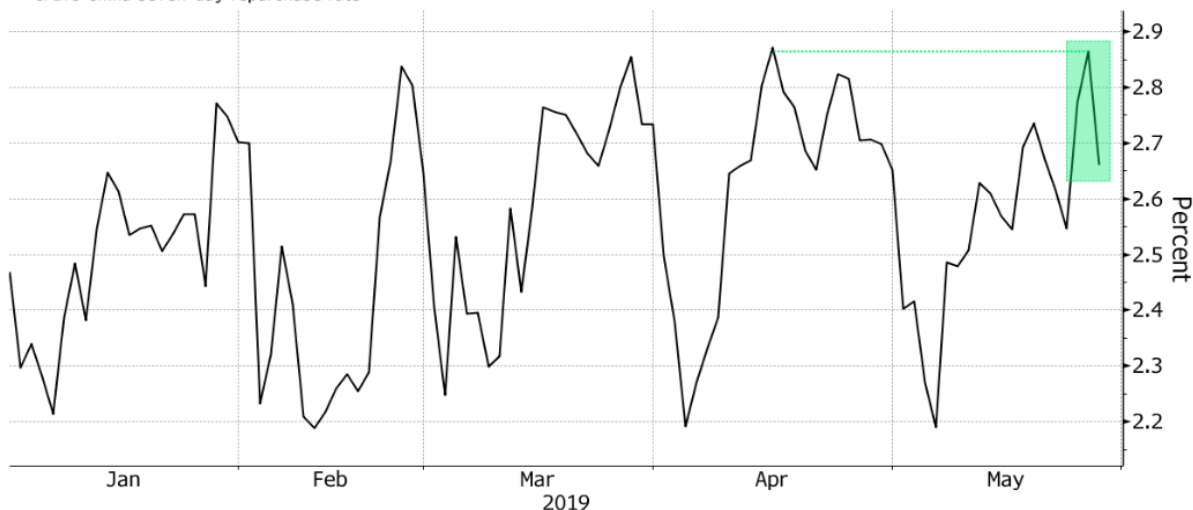
**Equities (Shanghai +0.2%, Shenzhen +0.0%) closed flat in a volatile session, but materials stocks linked to rare earths surged.** For instance, China Northern Rare Earth Group High-Tech and China Minmetals Rare Earth jumped about 8% and 10%, respectively. Beijing threatened to restrict rare earth exports to the US and may also implement other countermeasures, according to a tweet by the editor-in-chief of the Global Times, a newspaper affiliated with the ruling Communist Party. China is the world's biggest producer of rare earth metals and supplies about 80% of U.S. imports. China first imposed export quotas on rare earths more than a decade ago but dropped the quotas in 2015 after losing a case at the World Trade Organization.

**The PBoC injected more cash to restrain the risk of a funding squeeze on banks after the takeover of a small regional lender, Baoshang Bank.** The central bank injected a net CNY250 bn via open market operations, the most since January 17, following a net addition of CNY150 bn on Monday and Tuesday. Funding costs have tightened for Chinese commercial banks, with borrowing costs rising after the takeover of Baoshang Bank. **The seven-day interbank repurchase rate rose to 2.86% on Tuesday – the highest since April 16 but has since dropped 6.3 bps to 2.80%.** The 10-year government bond yield fell 2.8 bps to 3.29%, while the onshore and offshore RMB weakened slightly.

## Credit Jitters

### Benchmark repo rate rises to six-week high after bank seizure

■ CFETS China seven-day repurchase rate



Source: Bloomberg

## Hungary

**The central bank kept rates unchanged as expected yesterday but said it would review its setup in June when it provides new forecasts.** The bank said that domestic demand was putting upwards pressure on inflation but that external conditions were pulling in the other direction. Data this morning showed unemployment dropping to a record low of 3.5% in the three-month period to April, following strong growth figures for Q1. The forint weakened yesterday following the central bank's decision but was little changed this morning.

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## Global Financial Indicators

Last updated: 5/29/19 7:56 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2802	-0.8	-1	-5	4	12
Europe		3298	-1.5	-3	-6	-4	10
Japan		21003	-1.2	-1	-6	-6	5
China		2915	0.2	1	-5	-7	17
Asia Ex Japan		66	0.2	0	-9	-13	3
Emerging Markets		40	-0.3	0	-9	-12	3
<b>Interest Rates</b>			basis points				
US 10y Yield		2.23	-5.4	-15	-30	-55	-46
Germany 10y Yield		-0.17	-0.7	-8	-17	-43	-41
Japan 10y Yield		-0.09	-1.8	-3	-5	-12	-9
UK 10y Yield		0.91	-0.8	-11	-25	-29	-37
<b>Credit Spreads</b>			basis points				
US Investment Grade		128	1.7	6	18	26	-19
US High Yield		453	8.3	26	54	100	-68
Europe IG		71	1.8	4	13	-2	-17
Europe HY		305	7.1	20	57	-14	-48
EMBIG Sovereign Spread		373	7.0	16	28	30	-41
<b>Exchange Rates</b>			%				
USD/Majors		98.01	0.1	0	0	3	2
EUR/USD		1.12	-0.1	0	0	-3	-3
USD/JPY		109.3	0.1	1	2	-1	0
EM/USD		61.2	-0.1	-1	-2	-7	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-2.5	-4	-5	-9	27
Industrials Metals (index)		112	-0.9	-1	-6	-18	2
Agriculture (index)		42	2.8	7	8	-17	0
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.2	0.7	3.2	5.1	1.2	-7.2
10y Treasury Volatility Index		4.8	0.6	0.6	0.7	-0.3	0.2
Global FX Volatility		6.7	0.0	0.0	0.2	-1.4	-2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		330	-4.6	-20	0	-124	-85
Italy		280	-4.7	8	22	-11	30
Portugal		104	-3.8	-7	-8	-89	-44
Spain		92	-3.0	-4	-9	-44	-26

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

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## Emerging Market Financial Indicators

Last updated: 5/29/2019 7:54 AM	Exchange Rates						YTD	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.91	0.0	0.0	-3	-7	0		3.4	2.5	5	-2	-25	17
Indonesia		14410	-0.2	0.8	-1	-3	0		8.1	3.1	-11	23	61	-6
India		70	-0.2	-0.2	0	-3	0		7.3	-2.5	-13	-29	-69	-19
Philippines		52	-0.2	0.2	-1	1	0		5.1	0.2	0	-14	-37	-122
Thailand		32	0.1	0.3	0	1	2		2.5	-0.8	-4	-7	-13	-9
Malaysia		4.19	-0.1	-0.2	-1	-5	-1		3.8	-0.5	-2	-2	-49	-29
Argentina		45	0.3	0.3	-1	-45	-16		33.6	6.4	141	684	1428	1060
Brazil		4.03	0.4	0.3	-2	-7	-4		7.8	-12.7	-23	-38	-147	-33
Chile		707	-1.2	-1.8	-4	-12	-2		3.9	-19.7	-20	-20	-95	-58
Colombia		3377	-0.4	-1.0	-4	-15	-4		6.2	-2.8	-5	-4	-6	-28
Mexico		19.22	-0.2	-1.2	-1	3	2		8.0	-7.6	-15	-14	34	-68
Peru		3.4	0.0	-0.4	-1	-2	0		5.2	-5.2	-10	-21	-53	-57
Uruguay		35	-0.1	0.5	-1	-11	-8		11.3	4.1	23	51		55
Hungary		293	0.2	0.0	-1	-5	-4		1.9	-4.2	-13	-12	-4	-28
Poland		3.85	-0.1	0.2	0	-3	-3		2.3	-1.5	-10	-6	-29	-1
Romania		4.3	0.0	0.1	0	-6	-5		4.3	-4.0	-4	2	-4	3
Russia		65.2	-0.8	-1.3	-1	-4	6		7.7	-0.1	-3	-28	61	-70
South Africa		14.8	-0.4	-2.8	-3	-14	-3		9.4	6.2	4	3	39	-19
Turkey		6.01	0.4	1.5	-1	-24	-12		20.9	-23.7	10	37	570	407
US (DXY; 5y UST)		98.0	0.1	0.0	0	3	2		2.03	-4.2	-15	-29	-56	-48

	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		2915	0.2	1	-5	-7	17		181	6	4	7	-16	-13	
Indonesia		6104	1.2	3	-5	1	-1		207	6	12	30	-6	-29	
India		39502	-0.6	1	1	13	10		154	1	2	-2	-7	-42	
Philippines		7798	0.5	0	-1	3	4		90	4	5	10	-42	-31	
Malaysia		1624	0.6	1	-1	-9	-4		131	7	4	6	-27	-31	
Argentina		34644	-2.3	0	20	22	14		930	10	15	-11	433	115	
Brazil		96393	1.6	2	0	27	10		266	7	13	22	-22	-7	
Chile		4798	-1.1	-2	-7	-13	-6		138	3	4	13	-8	-28	
Colombia		1463	-1.1	-2	-8	-5	10		204	5	11	30	0	-24	
Mexico		42208	-0.7	-2	-6	-5	1		321	6	11	33	39	-33	
Peru		19639	-0.2	-2	-6	-5	1		147	5	10	22	-27	-21	
Hungary		40982	1.3	2	-4	17	5		113	12	14	10	-25	-35	
Poland		56673	-0.4	-1	-7	-2	-2		60	12	13	17	-25	-25	
Romania		8473	-0.3	4	1	3	15		208	3	15	10	57	-13	
Russia		2626	0.6	0	2	14	11		217	7	13	19	-5	-35	
South Africa		54988	1.0	0	-6	-2	4		316	8	11	11	43	-49	
Turkey		87560	0.9	5	-7	-17	-4		555	3	27	51	173	126	
Ukraine		571	-0.6	0	2	25	2		668	14	22	16	176	-119	
EM total		40	-0.4	0	-9	-12	3		373	7	16	28	30	-41	

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