



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, May 3, 2019

- **US nonfarm payrolls rise 263k in March, exceeding expectations** ([link](#))
- **US Treasury yields rise further on lower likelihood of Fed easing** ([link](#))
- **Frontier market debt rises \$250 bn in 2018 to \$3.2 tn** ([link](#))
- **Chinese issuance of convertible bonds surges to \$3.4 bn in 2019 YTD** ([link](#))
- **Ecuador's debt has outperformed in 2019** ([link](#))

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US nonfarm payroll exceeds expectation

Moments ago, the US Bureau of Labor Statistics issued a release which showed that growth in US nonfarm payrolls exceeded expectations in March, with the unemployment rate declining to 3.6%. Market reaction to the data has been muted to this point. Outside the US, price action in major markets has been uneventful, with Japanese and Chinese markets closed for holidays. Overnight, the dollar has moderately strengthened against most major currencies. Core European rates have drifted modestly higher in the wake of higher US Treasury yields and relatively good PMI data.

Key Global Financial Indicators

Last updated: 5/3/19 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2918	-0.2	0	2	11	16
Eurostoxx 50		3503	0.4	0	2	-1	17
Nikkei 225		22259	-0.2	0	5	-1	11
MSCI EM		44	0.8	0	0	-5	12
Yields and Spreads			bps				
US 10y Yield		2.56	4.1	6	3	-39	-13
Germany 10y Yield		0.04	0.9	6	3	-49	-20
EMBIG Sovereign Spread		341	0	-7	1	10	-73
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.1	0.0	0	-2	-9	0
Dollar index, (+) = \$ appreciation		98.0	0.2	0	1	6	2
Brent Crude Oil (\$/barrel)		70.6	-0.2	-2	2	-4	31
VIX Index (%, change in pp)		14.0	-0.4	1	0	-2	-11

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

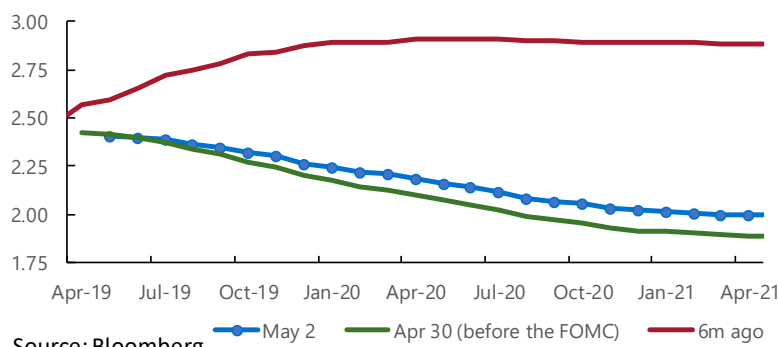
United States

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Nonfarm payrolls rose by 263K, much stronger than expected (190K). The unemployment rate was also lower at 3.6% (3.8% expected), while average hourly earnings growth edged lower to 3.2% yoy (3.3% expected). The 10-year Treasury yield rose by 1 bp immediately following the headline, while the FX market has been almost unchanged. Overall market reaction has been moderate so far, as traders are focused more on wages amid weaker inflation, according to analysts.

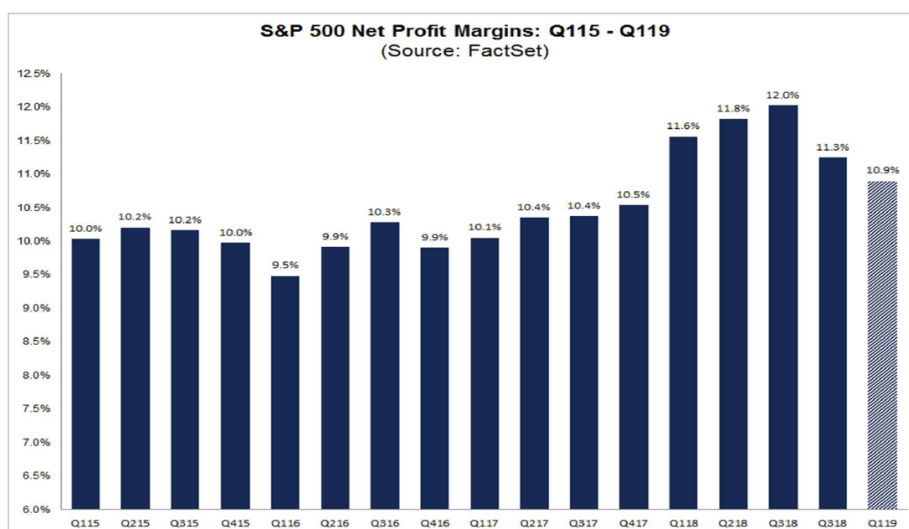
Treasury yields continued to climb in the aftermath of Fed Chair Powell's language in the press conference yesterday implying lower potential for 'insurance cuts.' Treasury yields closed higher by 3 to 5 bps. According to Bloomberg's model, the cumulative probability of a 25 bp cut to the policy rate by December 2019 has declined modestly from 53% before the FOMC to 48.5% now.

Fed Fund Futures Implied Forward Rates (%)



Shares prices slid further, led by the energy sector as oil price plunged in New York hours. The S&P 500 closed down by 0.3%. VIX was marginally lower at 14.4.

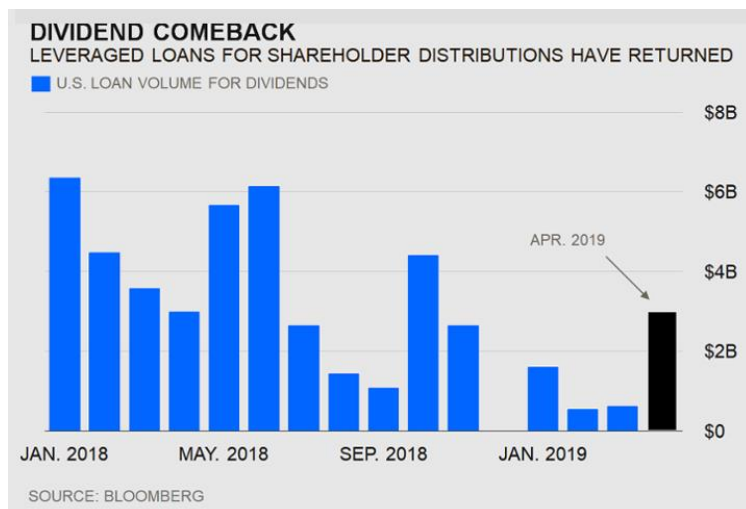
Corporate earnings have been broadly stronger than expected so far, while net profit margins have been narrowing. With roughly half of the companies in the S&P 500 reporting actual results for Q1 2019, about 80% of them have reported a positive EPS surprise, according to Factset. Meanwhile, their net profit margins have declined mainly due to higher costs. About 40% of companies discussed higher wage and labor costs, and higher raw material or other input costs in their earnings calls.



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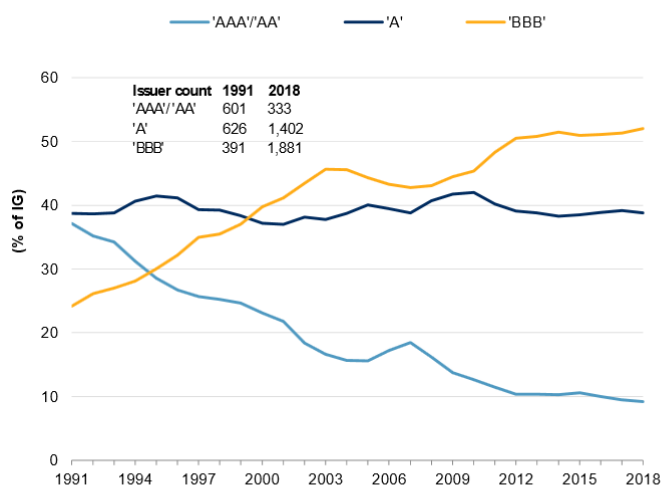
FactSet Research Systems Inc. | www.factset.com

Dividend recapitalization loans are coming back. About \$3 bn of loans backing dividends to private equity firms have priced in April, which is nearly five times the \$604 mn in March.



S&P research offered a counterpoint to “fallen-angel” fears over the ballooning size of the BBB bond universe. BBB rated debt amounted to \$2.2 tn as of December 31, up 8.5% from the previous year. As a result, the BBB category increased to 52% of the investment grade (IG) universe at the end of 2018, from less than 25% in 1991. Market analysts have commonly cited several mammoth capital structures, including General Electric and Ford Motor, as on the cusp of losing their high-grade borrowing status amid bleak market conditions over the closing months of 2018. There has been a widespread concern that GE’s \$48 bn of index-eligible bonds was nearing a fallen-angel test. Against this backdrop, the S&P research offered a counterpoint to those concerns, saying that the speculative-grade market could withstand losses associated with a massive injection of downgraded ‘BBB’ debt, as it has in the past.

The ‘BBB’ Category Now Accounts For The Majority Of Investment-Grade Ratings



Note: Chart shows ratings as a percentage of the number of investment-grade issuer globally. Sources: S&P Global Fixed Income Research and S&P Global Market Intelligence's CreditPro®.
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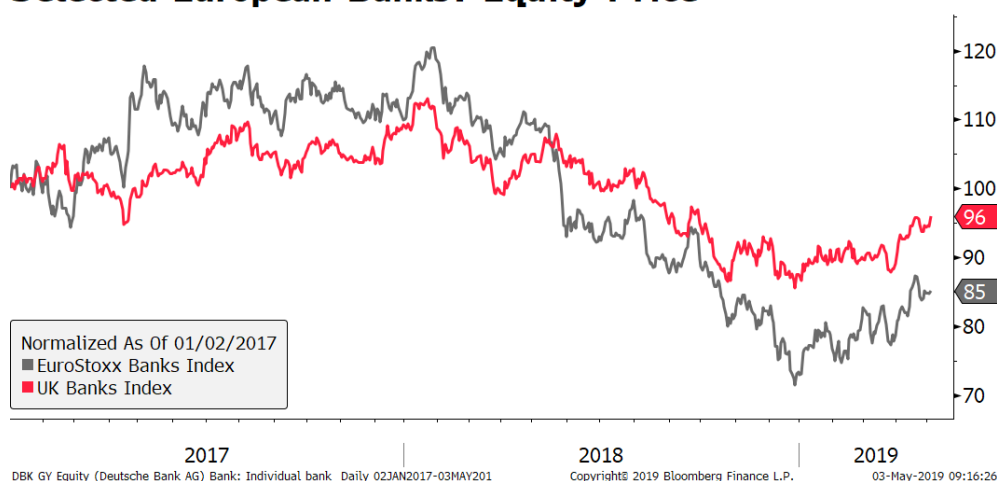
Europe

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The main equity indices in Europe gained about 0.4% today – EuroStoxx 600 (+0.4%), DAX (+0.4%), and CAC 40 (+0.3%) – while bank stocks outperformed marginally (+0.7%). **Eurozone sovereign yields are unchanged:** Germany 10-year at 0.041% and French at 0.38%.

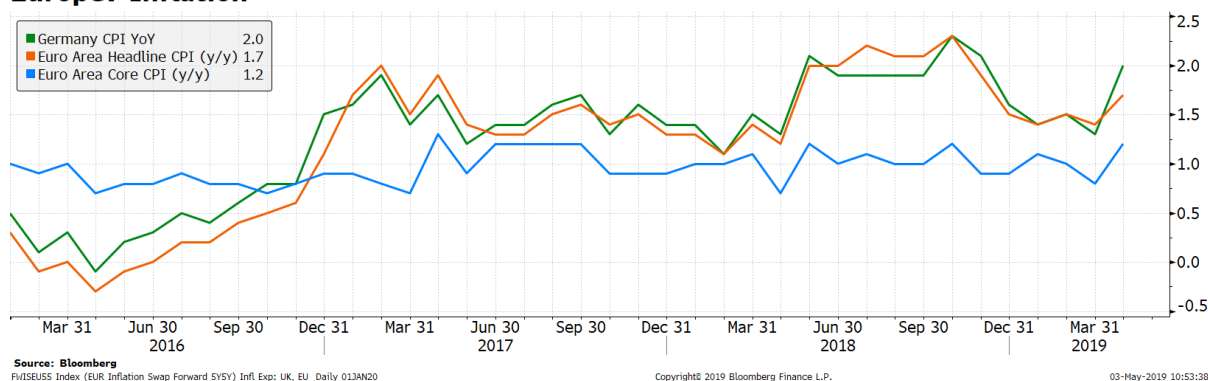
Most European banks have reported net interest income in-line with expectations while loan losses have been lower than expected. With over half of the Q1 earnings season elapsed, most European banks have delivered 'adjusted profits' above forecasts, according to analysts at SocGen. Bank valuations remain well below their end-2017 levels.

Selected European Banks: Equity Price



Eurozone's inflation gauges for March came in slightly above expectations. Headline CPI printed at 1.7% y-o-y vs 1.6% expected, while Core stood at 1.2% y-o-y vs. 1.0% expected.

Europe: Inflation

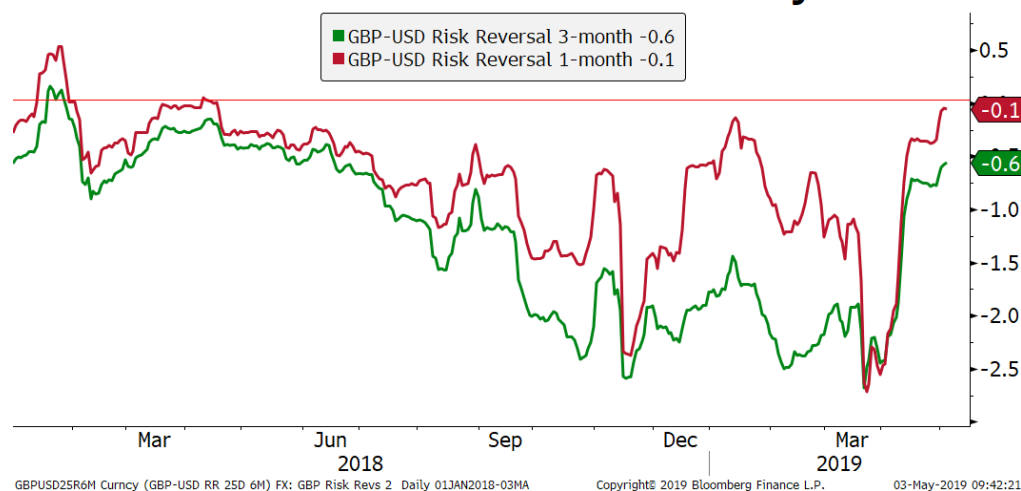


UK

Early results from local elections suggest that voters have turned their backs on both the Tory and Labour parties amid frustration over Brexit. The anti-Brexit Liberal Democrats are predicted to pick up a large number of seats (results will trickle through the day). **In recent weeks, risk reversals for the**

pound-dollar pair have hit their highest level in about a year, indicating that traders are positioning themselves for a pound rally.

British Pound: Risk Reversals and Volatility



Other Mature Markets [back to top](#)

Japan

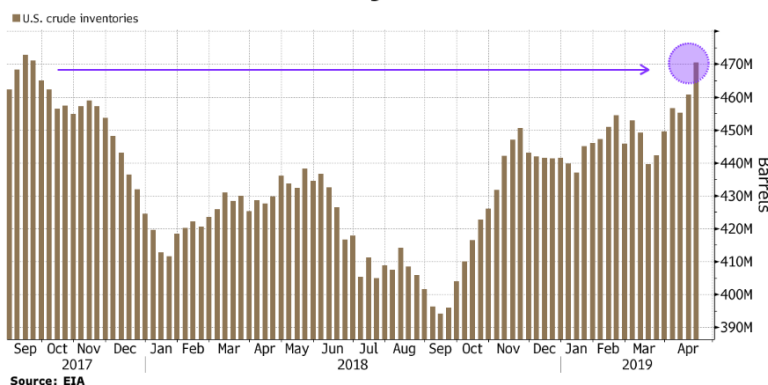
Japanese markets remain closed for Golden Week holiday.
 The yen held steady on the day at ¥111.50/dollar.

Commodities

Oil prices fell to the lowest in a month after reaching a 5-month high last week, as American crude inventories hit the highest level in 2 years. Despite the promise of tighter sanctions on Iran, futures in New York fell 2.8% as investors see U.S., Russia and Saudi Arabia all potentially filling the supply gap.

Swelling Stockpiles

American crude inventories are at the highest level since 2017



Source: Bloomberg

Emerging Markets [back to top](#)

EM currencies depreciated against the dollar after the Federal Reserve struck a less dovish tone than expected. **Asian** currencies mostly weakened and equities were mixed amid light trading with markets in

China and Japan still closed. The Indian rupee gained 0.15%, outperforming others while the Korean won underperformed (-0.35%), sliding to its weakest level in two years. Meanwhile, the Korean Kospi Index shed 0.7% on the day. Equity gains in Asia were led by the Hong Kong Hang Seng Index, which rose 0.5%. **EMEA** markets are mixed. Regional equities are mostly lower with declines of 0.2-0.5%, but Russia (+0.4%) is outperforming despite the declines in oil price over the last few sessions. Currencies are range bound with the only notable move being the Ukrainian hryvnia (+0.5%). In **Latin American** equities, Brazil (-0.9%) and Chile (-0.9%) saw the biggest losses, followed by Mexico (-0.6%) while Argentine equities gained by +4%, largest one-day gain this year. Among regional currencies Brazilian real (-1%) and Argentine peso (-1%) weakened the most, followed by Colombian (-0.9%), Chilean (-0.6%) and Mexican (-0.6%) peso.

Key Emerging Market Financial Indicators

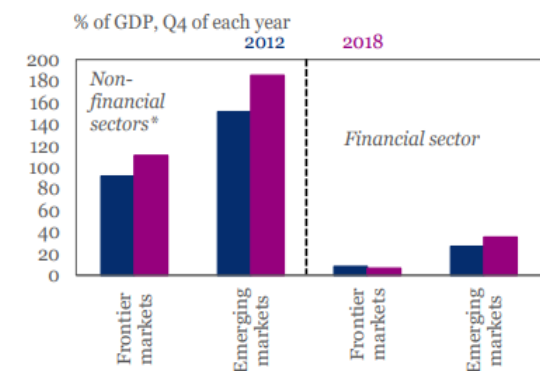
Last updated: 5/3/19 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.70	0.8	0	0	-5	12
MSCI Frontier Equities		28.54	1.3	1	-1	-12	9
EMBIG Sovereign Spread (in bps)		341	0	-7	1	10	-73
EM FX vs. USD		62.08	0.0	0	-2	-9	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.74	0.0	0	0	-6	2
Indonesian Rupiah		14266	-0.1	0	0	-2	1
Indian Rupee		69.22	0.2	1	-1	-4	1
Argentine Peso		44.77	-1.2	1	-5	-53	-16
Brazil Real		3.96	0.1	-1	-2	-11	-2
Mexican Peso		19.14	-0.1	-1	0	0	3
Russian Ruble		65.35	0.1	-1	0	-4	6
South African Rand		14.53	0.0	-1	-3	-13	-1
Turkish Lira		5.97	-0.2	-1	-6	-29	-11
EM FX volatility		7.96	0.0	-0.2	-0.7	-0.7	-1.8

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

Emerging Markets

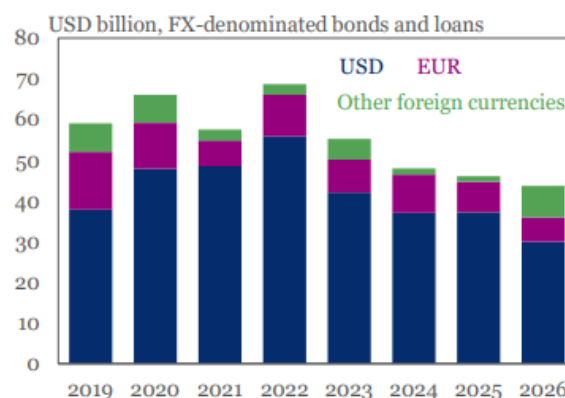
Frontier market debt rose by over \$250 bn in 2018, reaching \$3.2 tn. A significant portion of this debt is short-dated, with \$225 bn of the bonds and loans set to mature through end-2020. Government debt is now 50% of GDP for these markets, up from 39% in 2012 for the 26 countries in the sample. The public sector has been doing most of the borrowing: general government debt is up \$550 bn since 2012, followed by non-financial corporates (+\$400 bn). The rise in household debt has been moderate at \$120 bn, while financial sector debt has been broadly stable—like EMs.

Chart 1: Rapid growth in debt for both frontier and emerging markets (outside the financial sector)



Source: IIF estimates, National Sources, IMF, BIS; *includes households, non-financial corporates and government sectors

Chart 5: Frontier markets FX debt maturity profile



Source: Bloomberg, IIF.

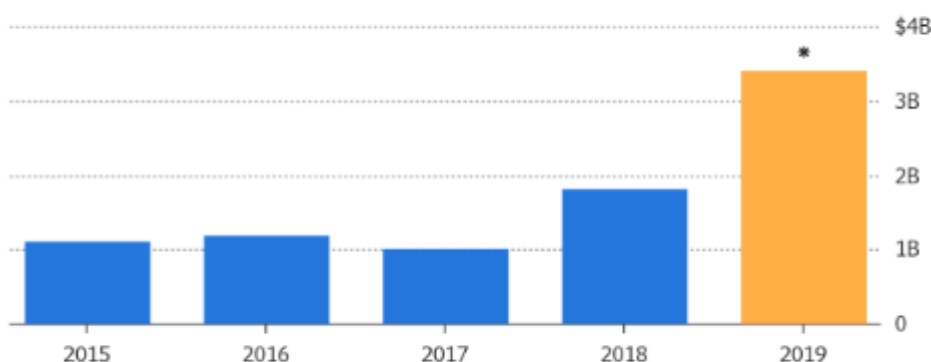
China

Chinese markets remain closed for Labor Day.

Equity market gains and still-low financing costs have fueled convertible bond issuance by Chinese companies. According to Bloomberg, Chinese companies have raised a record \$3.4 bn in convertible bond sales this year, nearly double the total seen in all of 2018. For issuers, lower borrowing costs have made convertible bonds more attractive relative to other fundraising channels such as loans or straight bonds. Bloomberg noted that Lenovo sold \$675 mn of convertible bonds in January with a coupon of 3.375%, compared to 4.75% on straight bonds with the same tenor sold last year. For investors, gains in equities globally - the Dow Jones Industrial Average has risen nearly 21% from its December low and is approaching its all-time high - have boosted the attractiveness of these papers; investors typically bet on convertible bonds for potential gains on their equity conversion.

Record High

Chinese tech companies set record for convertible bond sales



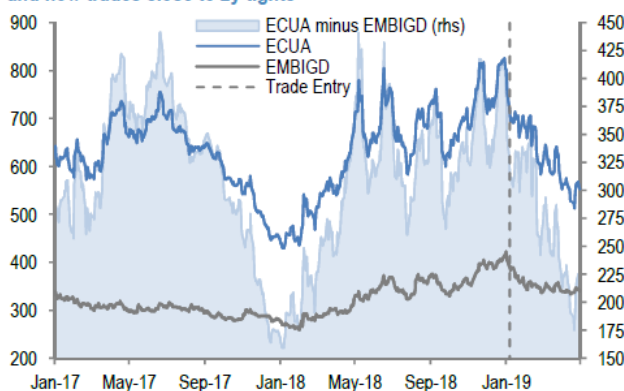
* As of April 29, 2019
Source: Bloomberg

Bloomberg

Ecuador

Ecuador's debt has outperformed its peers in the EMBIGD index following the initiation of the IMF program. The benchmark 2028 bond has rallied 118 bps and Ecuador's spread against the EMBIGD index has narrowed to its tightest spread in 2 years. The government has aggressively pursued a reform agenda, including labor market reforms, fiscal consolidation and changes to central banking codes. The first review of the IMF program is scheduled for June 15, but analysts suggest that it appears likely that the government will meet the fiscal and monetary conditions of the program.

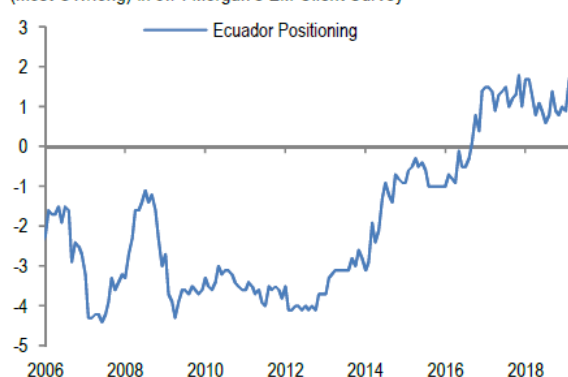
Figure 8: Ecuador has tightened significantly versus the EMBIGD YTD and now trades close to 2y tights



Source: J.P. Morgan.

Figure 9: Investors have increased their OW Ecuador YTD

AUM-weighted positioning score ranging from -10 (most UW/short) to +10 (most OW/long) in J.P. Morgan's EM Client Survey

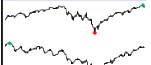
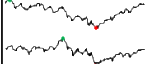
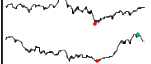
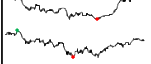

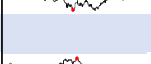

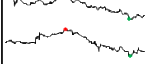


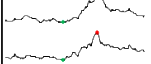
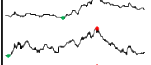
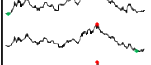



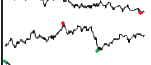

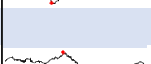

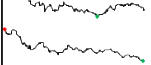

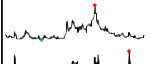



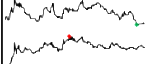

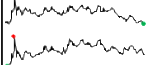


Source: J.P. Morgan Client Survey.

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Global Financial Indicators

Last updated: 5/3/19 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2918	-0.2	0	2	11	16
Europe		3504	0.4	0	2	-1	17
Japan		22259	-0.2	0	5	-1	11
China		3078	0.5	-4	-3	0	23
Asia Ex Japan		72	0.2	0	0	-4	14
Emerging Markets		44	0.8	0	0	-5	12
Interest Rates			basis points				
US 10y Yield		2.56	4.1	6	3	-39	-13
Germany 10y Yield		0.04	0.8	6	3	-49	-20
Japan 10y Yield		-0.04	0.0	0	1	-9	-4
UK 10y Yield		1.20	1.7	6	11	-19	-7
Credit Spreads			basis points				
US Investment Grade		111	2.0	0	-7	11	-36
US High Yield		394	-1.4	-6	-11	49	-127
Europe IG		59	-0.8	0	-2	3	-28
Europe HY		254	-2.0	4	3	-21	-98
EMBIG Sovereign Spread		341	0.0	-7	1	10	-73
Exchange Rates			%				
USD/Majors		97.98	0.2	0	1	6	2
EUR/USD		1.12	-0.2	0	-1	-7	-3
USD/JPY		111.5	0.0	0	0	-2	-2
EM/USD		62.1	0.0	0	-2	-9	0
Commodities			%				
Brent Crude Oil (\$/barrel)		71	-0.2	-2	2	-4	31
Industrials Metals (index)		116	0.2	-2	-6	-13	6
Agriculture (index)		39	0.0	-1	-5	-23	-7
Implied Volatility			%				
VIX Index (% change in pp)		14.0	-0.4	1.3	0.3	-1.9	-11.4
10y Treasury Volatility Index		3.7	-0.1	-0.1	0.0	0.0	-0.9
Global FX Volatility		6.4	0.0	-0.1	-0.7	-1.3	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		331	-0.5	-1	-34	-17	-85
Italy		252	0.0	-8	-1	131	2
Portugal		108	-0.6	-7	-19	-4	-40
Spain		96	-1.0	-9	-18	23	-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: 5/3/2019 8:13 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.74	0.0	-0.1	0	-6	2		3.4	0.0	0	25	-22	20
Indonesia		14266	-0.1	-0.5	0	-2	1		8.0	6.1	15	24	86	-17
India		69	0.2	1.2	-1	-4	1		7.5	-1.3	-5	16	-33	8
Philippines		52	-0.1	0.5	1	0	1		5.2	-0.7	-8	-9	-11	-110
Thailand		32	-0.1	-0.3	-1	-1	1		2.6	0.4	0	4	14	-2
Malaysia		4.14	-0.1	-0.3	-2	-5	0		3.8	1.2	2	4	-36	-25
Argentina		45	-1.2	0.6	-5	-53	-16		26.6	-0.8	97	293	799	358
Brazil		3.96	0.1	-0.8	-2	-11	-2		8.2	0.8	4	14	-9	9
Chile		682	-0.5	-0.9	-1	-9	2		4.1	1.0	3	-7	-61	-36
Colombia		3256	-0.7	-0.7	-3	-13	0		6.4	3.9	11	18	26	-12
Mexico		19.14	-0.1	-1.0	0	0	3		8.2	3.0	-1	9	69	-49
Peru		3.3	-0.1	0.5	0	-1	2		5.3	3.3	-4	-1	-1	-39
Uruguay		35	-0.6	-1.5	-4	-17	-8		10.9	3.6	16	44		21
Hungary		290	0.1	-0.3	-2	-10	-3		2.2	3.7	9	30	56	-5
Poland		3.84	-0.2	0.3	-1	-7	-3		2.4	2.0	11	14	-9	17
Romania		4.3	-0.1	0.1	-1	-9	-5		4.2	0.0	-2	2	14	-1
Russia		65.4	0.1	-0.9	0	-4	6		7.9	-0.4	-10	-16	85	-50
South Africa		14.5	0.0	-1.0	-3	-13	-1		9.5	7.4	3	17	58	-13
Turkey		5.97	-0.2	-0.6	-6	-29	-11		21.2	4.9	85	202	808	434
US (DXY; 5y UST)		98.0	0.1	0.0	1	6	2		2.36	1.7	7	4	-42	-15

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3078	0.0	-4	-3	0	23		172	-1	-2	-3	-11	-22
Indonesia		6319	-0.9	-1	-2	8	2		178	1	-3	-12	-13	-58
India		38963	0.0	0	0	11	8		147	-3	-7	-10	4	-49
Philippines		7968	-0.4	1	1	6	7		77	3	-7	-12	-28	-44
Malaysia		1637	0.3	0	0	-12	-3		120	-1	-5	-8	-7	-42
Argentina		30817	4.2	4	-3	4	2		959	-4	-10	204	487	144
Brazil		95528	-0.9	1	1	15	9		243	-1	-3	0	-16	-30
Chile		5142	-0.9	-1	-2	-9	1		121	-1	-5	-8	-6	-45
Colombia		1562	-0.7	-2	-2	1	18		175	-1	2	-5	-24	-53
Mexico		44312	-0.6	-2	2	-6	6		297	-2	7	-3	19	-57
Peru		20766	-0.6	0	-2	-2	7		125	-1	-1	3	-40	-43
Hungary		41946	-1.0	-3	-1	11	7		93	-4	-16	-11	-30	-55
Poland		59744	0.0	-2	-4	-1	4		37	1	-10	-11	-31	-48
Romania		8460	0.1	1	4	-3	15		182	-8	-16	-22	31	-39
Russia		2578	0.1	1	2	13	9		202	1	-1	-13	-21	-50
South Africa		59164	0.7	1	2	3	12		301	-1	-8	5	29	-64
Turkey		93849	-0.4	-1	-1	-9	3		489	1	-24	21	138	60
Ukraine		559	0.0	0	-1	19	0		626	-8	-25	28	110	-161
EM total		44	0.8	0	0	-5	12		341	0	-7	1	10	-73

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