Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, May 30, 2019

- **US Treasury yields head lower as equity markets extend selloff (link)**
- **Three Fed rate cuts expected by December 2020 (link)**
- **Bank of Canada stays positive while keeping its policy rate unchanged (link)**
- **Chinese interbank rate falls further as PBoC injects more liquidity (link)**
- **Venezuela publishes key economic data for the first time since 2015 (link)**

US | Europe | Other Mature | Emerging Markets | Market Tables

Investors continue to shun risk as trade worries linger

The downward momentum in developed market equities continued yesterday, as the S&P 500 hit a three-month low. Emerging market equities also declined and are now back to their January 2019 level – down by close to 9 percent this month. Despite the continued sell-off, however, volatility has remained broadly in check and trading conditions have been orderly. Safe havens assets continue to be supported by market uncertainty, with government bond yields in the US, Germany, Japan, Australia. NZ and others registering near multi-year lows as trade fears, worries about growth and the fallout from the European elections weigh on sentiment. Investor concerns are also reflected in the US yield curve, with the three-month/ten-year sector spread reaching its most inverted level since 2007. Markets are also increasingly pricing in a more dovish Fed, with close to three rate cuts now priced in by end-2020. This morning however, market action has been somewhat positive as European stocks and US equity futures advanced, but risk sentiment among investors remains fragile.

Key Global Financial Indicators

Last updated: 5/30/19 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2783	-0.7	-3	-6	2	11
Eurostoxx 50		3312	0.4	0	-6	-4	10
Nikkei 225		20943	-0.3	-1	-6	-5	5
MSCI EM		40	0.7	-1	-8	-12	3
Yields and Spreads					bps		
US 10y Yield		2.26	-0.5	-6	-24	-60	-43
Germany 10y Yield		-0.17	0.6	-5	-19	-55	-42
EMBIG Sovereign Spread		368	0	3	23	31	-46
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		61.5	0.2	0	-1	-7	-1
Dollar index, (+) = $ appreciation		98.1	0.0	0	1	4	2
Brent Crude Oil ($/barrel)		68.8	-0.9	2	-5	-11	28
VIX Index (%, change in pp)		17.4	-0.5	3	4	2	-8

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

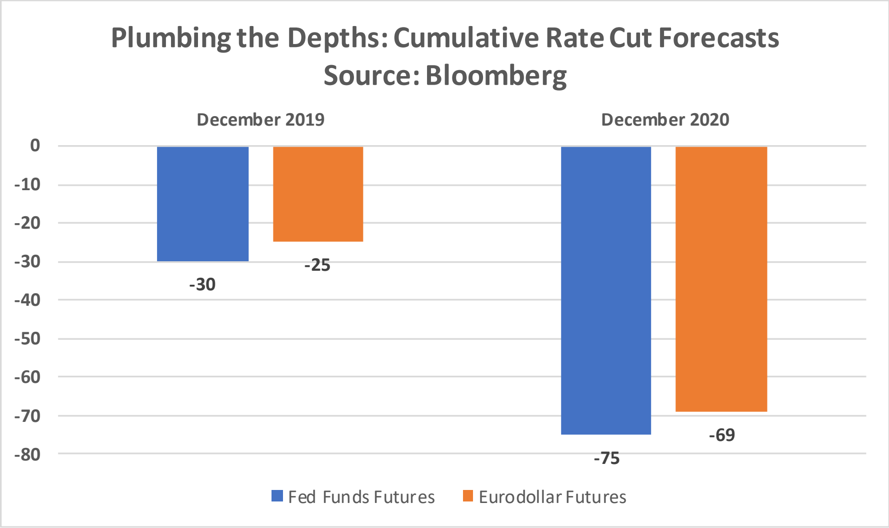
United States back to top

The S&P 500 hit a three-month low and closed below the psychologically important 2800 level for the first time since March 25. However, stocks recovered from their worst levels to end with more moderate losses and Treasury yields ended several basis points higher than their intra-day lows. The S&P 500 was down as much as 1.2% and the 10-year yield dipped below 2.21% before moving higher into the market close. Volatility for both stocks and bonds is higher but remains contained. During yesterday's session, the US yield curve in the three-month/ten-year sector reached its most inverted level since 2007 as it fell to -14 bps before later coming back to -9 bps. Other parts of the curve also became inverted intra-day, with the two-year note at 2.06%, the three-year below 2% and the five-year at 2.02%. Worldwide pessimism has sent benchmark ten-year yields to multi-year lows in Japan, Germany, Australia, New Zealand, among other advanced economies. Fears are building that the June 28-29 G-20 meeting between the US and Chinese presidents may not result in a trade deal and that the consequences for the global economy could be worse than originally expected.

Key US Treasury Benchmarks Set New 2019 Intra-Day Lows
Source: Bloomberg

	2yr	5yr	10yr	30yr
YTD Low	2.05%	2%	2.21%	2.65%
Lowest Since	March 2018	November 2017	September 2017	December 2017
One Week Change	-17 bps	-11 bps	-16 bps	-21 bps

The sharp decline in Treasury yields has led markets to begin pricing a very dovish Fed. The Fed Funds and eurodollar futures markets now forecast cumulative rate cuts of 25 bps or more by December 2019 and are predicting three rate cuts by December 2020. The probability of a rate cut this year has risen to 87%, based on options on Fed Funds futures. Just one month ago the probability was only 66%. In addition, rapidly falling inflation expectations, as signaled by sharply lower Treasury Inflation Protected Security (TIPS) breakeven yields, are boosting speculation that the Fed will need to act to push inflation back towards its 2% target. The New York Fed's latest Consumer Expectations survey found that consumer inflation forecasts were at their lowest since 2017. Finally, last week's significantly weak reports on durable goods and PMI raised fears that the US economy could finally be running out of steam. Most analysts think that annualized GDP growth will be at or below 2% in Q2 compared to the 3.2% posted in Q1.

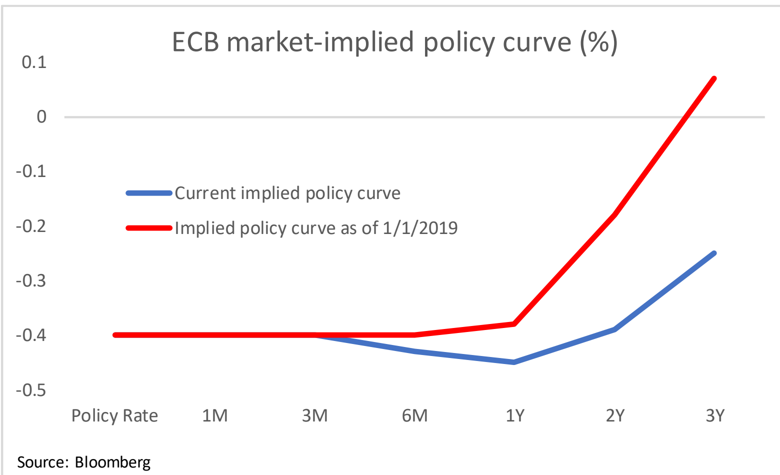


This morning, the latest estimate of US Q1 GDP came in at 3.1% versus the 3% consensus forecast. Core PCE was markedly weak at 1% versus the 1.3% forecast, while personal consumption was 1.3% vs. 1.2%). The market response was relatively muted, with Treasuries catching a small bid but currencies little changed in the immediate aftermath.

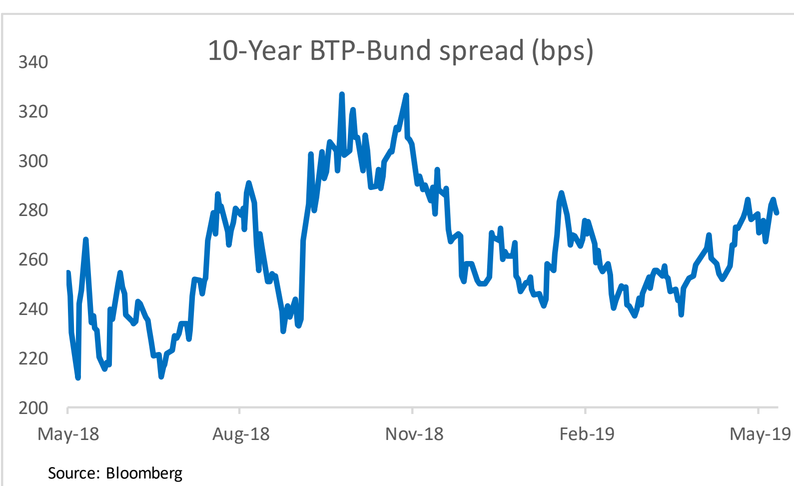
Europe

back to top

Equities reversed part of yesterday's losses this morning, with the Euro Stoxx 600 up 0.4% after a fall of 1.4% yesterday. Energy stocks (+1%) and financials (+0.7%) led the way while real estate firms were in the red. Sovereign yields stabilized after sizeable falls in recent sessions. Uncertainty regarding the ECB's ability to start raising rates remains high with markets continuing to push further out any expectations of tighter policy.



The European Commission has sent a letter to Italy's government saying it has not made sufficient progress on its debt. The EU is set to finalize an assessment of Italy's public finances next week with markets increasingly worried about a new showdown between the union and the Italian government. There have been few official statements regarding possible steps but local media reported earlier this week that a disciplinary procedure could be proposed which could ultimately result in a multi-billion euro penalty. Italian yields have renewed their rise in recent sessions despite the global rally in sovereign yields. The spread between BTPs and Bunds has subsequently widened but remains well below the highs seen last year.



The European Securities and Markets Authority (ESMA) has announced that 14 dual-listed UK stocks will not have to be traded within the EU in the case of a no deal Brexit. Previously, the agency had said that EU-registered investors would have to trade on EU exchanges and not the UK. Despite the change of stance, the move does not include 6,200 other firms which are traded in both the UK and the EU-27. The UK's FCA welcomed the move but said that the measures did not go far enough as the excluded stocks could face disruption and that companies' access to finance would be limited without further measures.

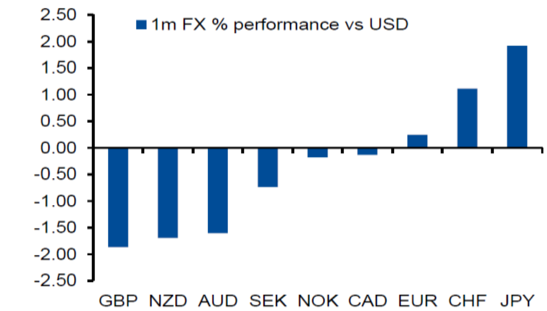
Other Mature Markets

back to top

Canada

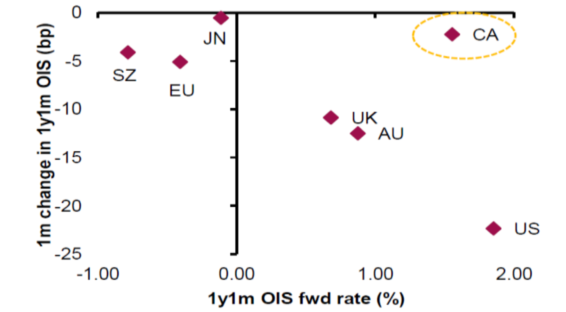
The Bank of Canada stayed on hold at 1.75% as expected with a relatively optimistic outlook. The bank maintained its neutral bias and accommodative policy stance. The optimism of the official statement led several analysts to predict that the next move would be a hike, although the timing of any move higher was likely to be well into the future. The bank predicted an uptick in growth in Q2 relative to Q1 and pointed to other positive factors such as progress on trade talks with the US, while acknowledging risks arising from the US-China trade dispute. The Canadian dollar has been relatively strong among its advanced economy peers as the Bank of Canada's neutral stance stands out among all the other major central banks and their uniformly dovish positions.

Figure 7: CAD has been amongst the best FX performer in G10 amongst the risk-sensitive pairs



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

Figure 8: Policy expectations have been steady in Canada, at odds with dovish pressure elsewhere



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

Japan

Equities (both Nikkei and Topix -0.3%) declined, with defensives underperforming. Financial stocks outperformed amid the bear-steepening of JGB yields, while energy was also among the top gainers. **10-year JGB yields rose 1.5 bps to -0.085%, while the yen fell 0.1%.**

Emerging Markets back to top

Asian equities (+0.2%) rose slightly in a quiet trading session. India (+0.9%) Korea (+0.8%), Malaysia (+0.8) and Taiwan Province of China (+0.8%) led gains in the region, while Chinese (Shanghai -0.3%; Shenzhen -0.6%), Hong Kong (-0.4%) and Singapore (-0.9%) stocks underperformed. Regional currencies were broadly flat, but the won (+0.5%) and the Philippine peso (+0.3%) outperformed. In **EMEA**, indices are broadly higher by 0.3-1.0%, with Turkey (+2.2%) being the outlier. The lira is also outperforming, appreciating 0.6% against the dollar, the sixth consecutive session of gain, and still driven by improved sentiment following signs of de-escalation with the US regarding the purchase of Russian military equipment. In **Latin America** the Brazilian real led gains appreciating 1.3% against the dollar as further signs that President Bolsonaro's economic agenda is advancing in Congress offset the negative sentiment in rest of EM FX.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
5/30/19 8:12 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.35	0.7	-1	-8	-12	3
MSCI Frontier Equities		28.80	0.9	2	2	-5	10
EMBIG Sovereign Spread (in bps)		368	0	3	23	31	-46
EM FX vs. USD		61.54	0.2	0	-1	-7	-1
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.91	0.1	0	-2	-7	0
Indonesian Rupiah		14415	-0.3	1	-1	-3	0
Indian Rupee		69.88	-0.1	0	0	-3	0
Argentine Peso		44.44	0.5	1	0	-44	-15
Brazil Real		3.98	-0.2	2	-2	-6	-3
Mexican Peso		19.14	0.0	0	-1	3	3
Russian Ruble		64.97	0.0	0	-1	-4	7
South African Rand		14.63	0.1	-1	-2	-14	-2
Turkish Lira		5.88	2.2	4	1	-24	-10
EM FX volatility		8.48	0.0	-0.2	0.4	-0.8	-1.3

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

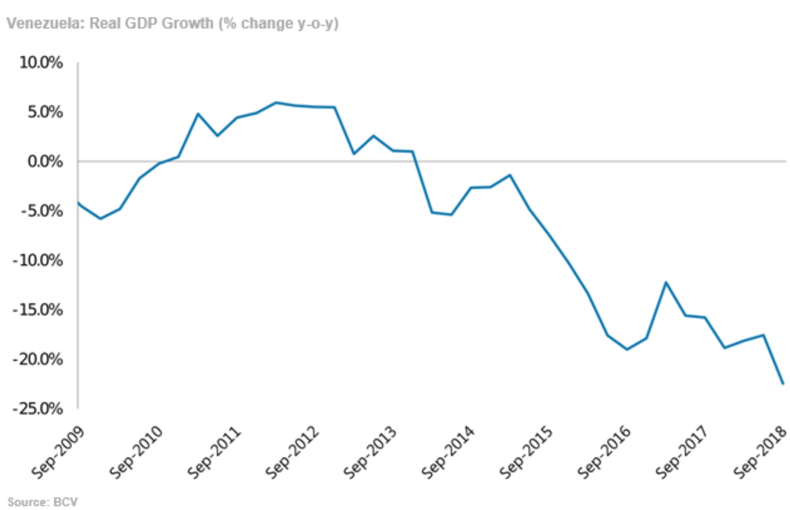
China

Equities fell, with small caps underperforming (Shanghai -0.3%, Shenzhen -0.6%). Notably, the heavy-weighted technology sector lagged amid the lingering US-China conflict. Huawei, which the US put on an export blacklist that prohibits it from purchasing American software and components, highlights the woes that the tech sector is facing. **In light of rising external uncertainties, President Xi Jinping also warned that reforms face new problems during a meeting with senior officials.** However, he also stated that China would stick to supply-side reforms and keep economic operations within a reasonable range.

Separately, **the benchmark 7-day repo rate fell further as the PBoC continues to inject liquidity.** The repo rate declined by 15bps, the most since May 5, to 2.65% as the central bank aims to calm the tightening interbank market following the takeover of Baoshang bank. **PBoC Governor Yi Gang also looked to instill confidence, stating that policy makers are "fully capable" of managing risks at small and medium-sized lenders.** He also said that the Chinese yuan "will remain very stable" when asked if the currency will weaken below CNY7.0/USD. Both onshore and offshore RMB held steady (+0.1%).

Venezuela

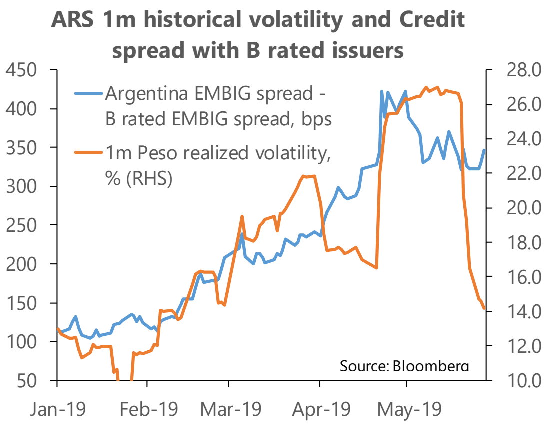
The Central Bank of Venezuela (BCV) resumed the publishing of key statistics, halted since 2015. The BCV published GDP data through Q3 2018, Balance of Payments data through 2018 year-end and inflation through April 2019. Official economic activity data shows GDP falling by a similar amount to private sector estimates: between Q3 2014 and Q3 2018 the economy almost halved in size (-48.9%); most private sector estimates had a similar fall. Morgan Stanley highlights that inflation estimates diverge meaningfully from private sector estimates, with the CPI up 130 thousand y-o-y % in 2018, versus private estimates around 2 million percent. The balance of payments shows a $6.3 bn current account surplus in 2018 versus $4.6 bn in 2014.

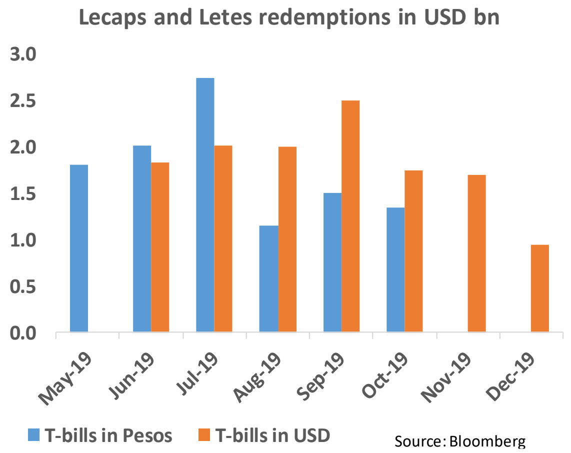


Argentina

The Peso strengthened by 0.5% against the dollar—outperforming the rest of EM currencies**—while dollar bond spreads continued to widen in line with similarly rated sovereigns.** Analysts highlight that the price in FX markets has decoupled from broader EM moves as Argentina's high interest rates, threat of central bank intervention and low volumes reinforce a low-volatility market environment. **Authorities**

announced that they rolled 72% of the maturing Treasury bills, with the bulk of the issuance concentrated in the shortest maturity (ARS45.3bn in an August Lecap at 62.9%, ARS10.5bn in a Feb Lecap at 68.7%, and ARS2.5bn in an August Lecer at 27.3%).





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Global Financial Indicators

Last updated: 5/30/19 8:11 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2783	-0.7	-3	-6	2	11
Europe		3312	0.4	0	-6	-4	10
Japan		20943	-0.3	-1	-6	-5	5
China		2906	-0.3	2	-6	-4	17
Asia Ex Japan		66	0.1	-1	-9	-13	3
Emerging Markets		40	0.7	-1	-8	-12	3
Interest Rates					basis points		
US 10y Yield		2.26	-0.5	-6	-24	-60	-43
Germany 10y Yield		-0.17	0.6	-5	-19	-55	-42
Japan 10y Yield		-0.08	1.1	-2	-4	-11	-8
UK 10y Yield		0.91	1.3	-5	-28	-35	-37
Credit Spreads					basis points		
US Investment Grade		129	0.0	4	19	25	-18
US High Yield		460	0.5	15	62	95	-61
Europe IG		70	-1.7	0	12	3	-18
Europe HY		301	-5.5	5	53	-1	-51
EMBIG Sovereign Spread		368	0.0	3	23	31	-46
Exchange Rates					%		
USD/Majors		98.14	0.0	0	1	4	2
EUR/USD		1.11	0.0	0	-1	-5	-3
USD/JPY		109.7	-0.1	0	2	-1	0
EM/USD		61.5	0.2	0	-1	-7	-1
Commodities					%		
Brent Crude Oil ($/barrel)		69	-0.9	2	-5	-11	28
Industrials Metals (index)		111	-0.4	0	-6	-19	2
Agriculture (index)		41	0.7	6	6	-17	-1
Implied Volatility					%		
VIX Index (%, change in pp)		17.4	-0.5	2.6	4.3	2.5	-8.0
10y Treasury Volatility Index		4.7	-0.1	0.6	0.7	-0.1	0.1
Global FX Volatility		6.8	0.0	0.0	0.3	-1.3	-2.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		323	-8.5	-32	-13	-100	-93
Italy		278	-4.2	2	24	23	28
Portugal		102	-1.1	-12	-8	-66	-46
Spain		91	0.3	-6	-7	-25	-26

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

back to top

Emerging Market Financial Indicators

Last updated: 5/30/2019 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		6.91	0.1	0.1	-2	-7	0		3.3	-3.9	0	-6	-29	13
Indonesia		14415	-0.3	0.8	-1	-3	0		8.1	3.8	-9	26	65	-2
India		70	-0.1	0.2	0	-3	0		7.2	-1.9	-13	-30	-73	-21
Philippines		52	0.3	0.6	-1	1	1		5.1	0.4	0	-13	-37	-121
Thailand		32	0.0	0.6	0	1	2		2.5	-2.9	-6	-9	-16	-12
Malaysia		4.19	0.0	0.0	-1	-5	-1		3.8	-0.2	-2	-3	-49	-29
Argentina		44	0.5	1.0	0	-44	-15		33.6	0.5	87	706	1408	1061
Brazil		3.98	-0.2	1.5	-2	-6	-3		7.7	-9.3	-31	-49	-173	-43
Chile		706	0.2	-1.2	-4	-11	-2		3.8	-6.4	-23	-29	-101	-65
Colombia		3353	0.8	-0.5	-3	-13	-3		6.2	-3.4	-9	-14	-13	-31
Mexico		19.14	0.0	-0.5	-1	3	3		8.0	-1.4	-14	-20	27	-70
Peru		3.4	0.0	-0.4	-1	-2	0		5.2	-0.3	-10	-17	-55	-57
Uruguay		35	-0.1	0.4	-1	-12	-8		11.2	-4.1	12	41		51
Hungary		292	0.4	0.1	-1	-6	-4		1.9	-1.7	-9	-17	-8	-30
Poland		3.85	0.2	0.0	-1	-4	-3		2.2	-2.4	-9	-11	-37	-3
Romania		4.3	0.1	-0.3	-1	-7	-5		4.2	-5.0	-9	-3	-14	-2
Russia		65.0	0.0	-0.2	-1	-4	7		7.7	2.9	8	-20	61	-67
South Africa		14.6	0.1	-1.0	-2	-14	-2		9.4	1.9	11	6	31	-17
Turkey		5.88	2.2	3.6	1	-24	-10		21.0	0.8	-18	12	638	408
US (DXY; 5y UST)		98.2	0.0	0.3	1	4	2		2.07	-0.2	-5	-21	-61	-44

	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		2906	-0.3	2	-6	-4	17		181	4	3	7	-1	-13
Indonesia		6104	0.0	3	-5	2	-1		205	1	3	24	8	-31
India		39832	0.8	3	2	14	10		153	-1	0	3	-10	-43
Philippines		7837	0.5	0	-1	5	5		90	0	2	12	-27	-31
Malaysia		1637	0.8	2	0	-5	-3		130	2	2	6	-12	-32
Argentina		33967	-2.0	-2	15	20	12		933	1	20	-19	430	118
Brazil		96567	0.2	2	0	26	10		262	0	4	16	-25	-11
Chile		4877	1.6	-1	-6	-11	-4		142	2	6	16	-1	-24
Colombia		1482	1.3	-1	-6	-4	12		202	-1	3	27	-1	-26
Mexico		42855	1.5	0	-4	-4	3		317	0	2	23	37	-37
Peru		19658	0.1	0	-6	-5	2		139	-2	-1	12	-28	-29
Hungary		40951	0.1	2	-4	18	5		107	-7	2	3	-30	-41
Poland		57413	1.0	2	-5	0	0		54	3	1	7	-32	-31
Romania		8443	-0.4	4	0	5	14		208	-1	10	14	34	-13
Russia		2643	0.1	1	3	15	12		214	-1	2	16	-2	-38
South Africa		55478	0.9	2	-5	0	5		312	2	-1	4	44	-53
Turkey		89201	2.3	5	-7	-14	-2		538	-13	-15	33	162	109
Ukraine		568	-0.1	-1	1	25	2		628	-23	-31	-13	140	-159
EM total		40	0.7	-1	-8	-12	3		368	0	3	23	31	-46

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