



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, May 8, 2019












- **VIX futures curve inverts as "fear index" reaches highest level since October** ([link](#))
- **Japanese yen strengthens further against the dollar on global trade tension** ([link](#))
- **PBC injects liquidity as trade tensions with US heighten** ([link](#))
- **RBNZ reduced its policy rate to a fresh record low of 1.50%** ([link](#))
- **Argentina's public pension purchasing USD debt at behest of government** ([link](#))

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## US-China trade tensions weigh on global markets

**With US-China trade tensions increasing and the eventual outcome seemingly more uncertain, global investors have been reducing or closing active risk positions.** The MSCI World index, which has increased over 13% year to date, has retreated off its near-record highs this week and global equity indices are once again in the red this morning. Measures of near-term equity implied volatility have likewise increased with some market participants reportedly seeking to hedge the potential for a significant sell-off. Major sovereign debt yields have declined this week and the US dollar has strengthened against major currencies, with the exception of the Japanese yen (which typically strengthens during times of uncertainty or anxiety).

## Key Global Financial Indicators

Last updated: 5/8/19 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2884	-1.7	-2	0	8	15
Eurostoxx 50		3397	-0.1	-3	-1	-5	13
Nikkei 225		21603	-1.5	-3	-1	-4	8
MSCI EM		42	-0.5	-3	-4	-9	9
Yields and Spreads			bps				
US 10y Yield		2.43	-1.3	-7	-9	-54	-25
Germany 10y Yield		-0.05	-1.3	-6	-6	-61	-29
EMBIG Sovereign Spread		354	6	11	14	15	-60
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.8	-0.1	-1	-2	-8	-1
Dollar index, (+) = \$ appreciation		97.5	-0.1	0	0	5	1
Brent Crude Oil (\$/barrel)		69.8	-0.2	-3	-2	-7	30
VIX Index (% change in pp)		21.1	1.7	6	8	6	-4

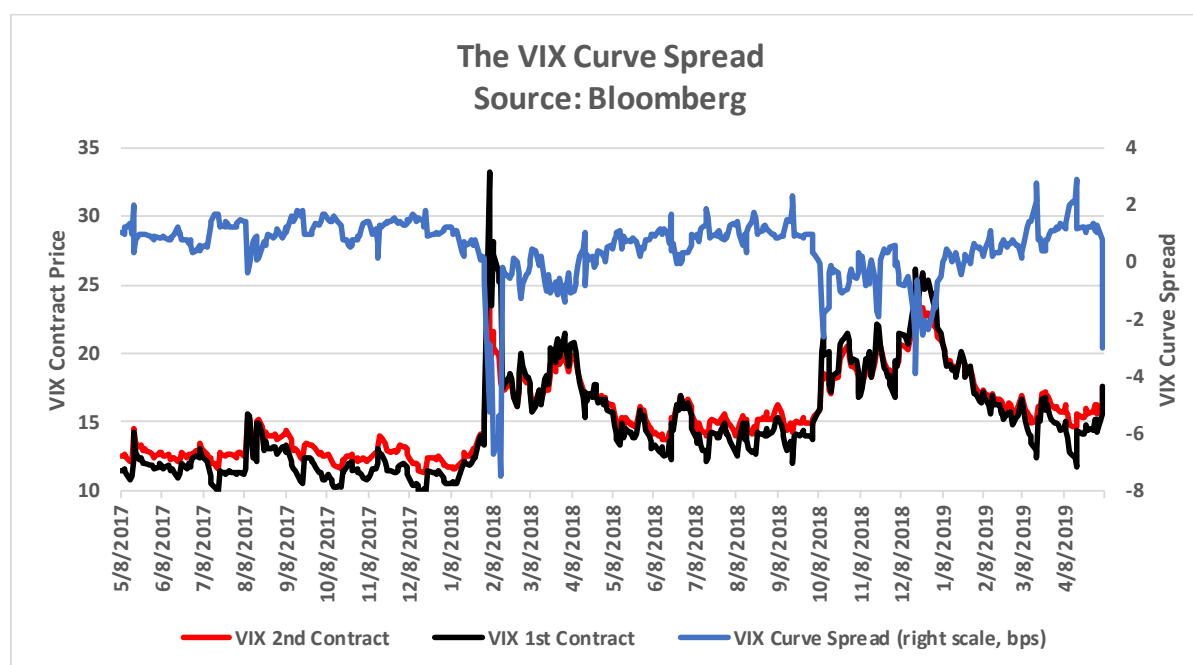
Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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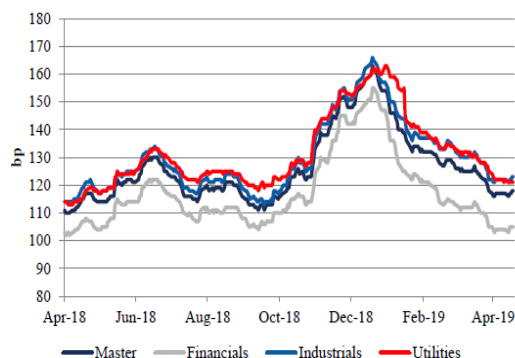
**Risk assets sold off as global trade tension escalated.** However, the trading was orderly and volumes were just 10-20% higher than average, a sign of underlying stability. The S&P 500 was down as much as 2.4% before rebounding into the close to end with a more moderate 1.7% loss. Tech stocks were especially hard hit in view of their high exposures to China both as a market and as a manufacturing hub. The 10-year Treasury yield fell as low as 2.44% before ending the session at 2.46%. The Treasury yield curve has flattened noticeably since the end of April, with the 2 year-10 year yield spread narrowing 6 bps to 17 bps. The 3 month-10 year spread narrowed by 4 bps to 4 bps.

**The term structure of VIX inverted in Tuesday trading as risk aversion spread through the market and spot VIX hit its highest level since October at 19.32.** The VIX curve is usually upward sloping in normal conditions as market uncertainty tends to be higher over longer timeframes, with later maturities trading above earlier maturity futures contracts. However, if the market is extremely worried about near-term prospects and risk aversion spikes higher, the situation can reverse and the near-term futures contract trades above contracts with a later maturity.



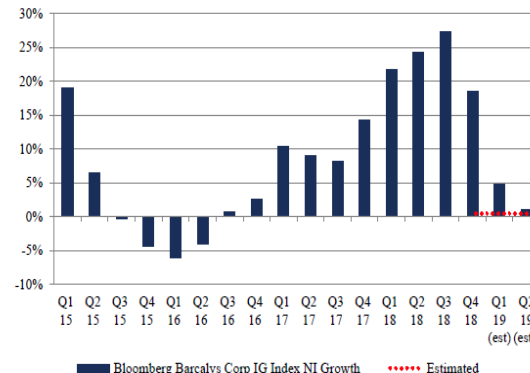
**US investment grade (IG) corporate spreads have tightened significantly even as corporate net income growth has decreased.** Year-to-date, the IG index spread narrowed by 40 bps as of April 30 although it has widened slightly in the midst of the current tariff-induced volatility. One driver of the strong performance of corporate IG bonds this year was lack of supply, with April seeing new supply of just \$92 bn versus the forecasts of \$110 bn, according to BMO. However, most of the new supply was longer maturity bonds issued by BBB issuers, the sector of the market most vulnerable to a reversal. If the "Goldilocks" market that has prevailed for most of 2019 gives way to more challenging conditions, the US corporate bond market could be at risk if investors re-evaluate their views of IG credit quality. The ageing credit cycle and falling corporate income and profits could be additional headwinds.

**Figure 1: High Grade Corporate Spreads versus Treasury**



Source: BMO CM, ICE BAML Bond Indices

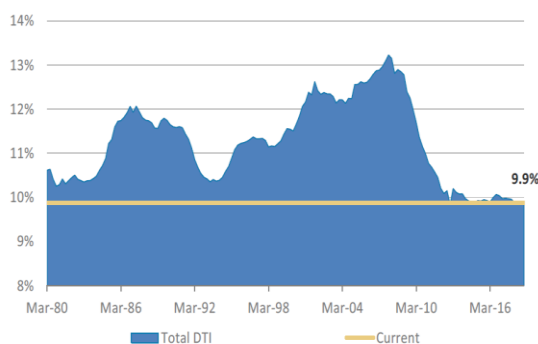
**Figure 2: Net Income Growth YoY (Original 2019 Estimates)**



Source: BMO CM, Bloomberg

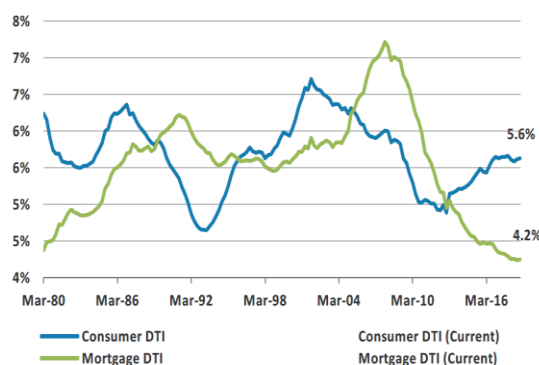
**US consumer leverage as measured by the debt-to-income ratio is now near its lowest level in 40 years.** This appears to have been driven mainly by a reduction in mortgage debt after the end of the global financial crisis. The non-mortgage consumer debt-to-income ratio has climbed back to historical levels but mortgage debt equivalent has stayed much lower. Other metrics support this picture of the improved financial situation of the US consumer. US disposable income per capita was up by 4% yoy in 2018, while delinquencies remained very low. Consumer sentiment is back in positive territory after the recent strong job reports.

**Exhibit 14:** From a balance sheet perspective, the current debt-to-income ratio (DTI) is close to 40-year lows



Source: Federal Reserve, Morgan Stanley Research

**Exhibit 15:** Non-mortgage debt payment to income returned to long-run averages, while mortgage debt to income remains low



Source: Federal Reserve, Morgan Stanley Research

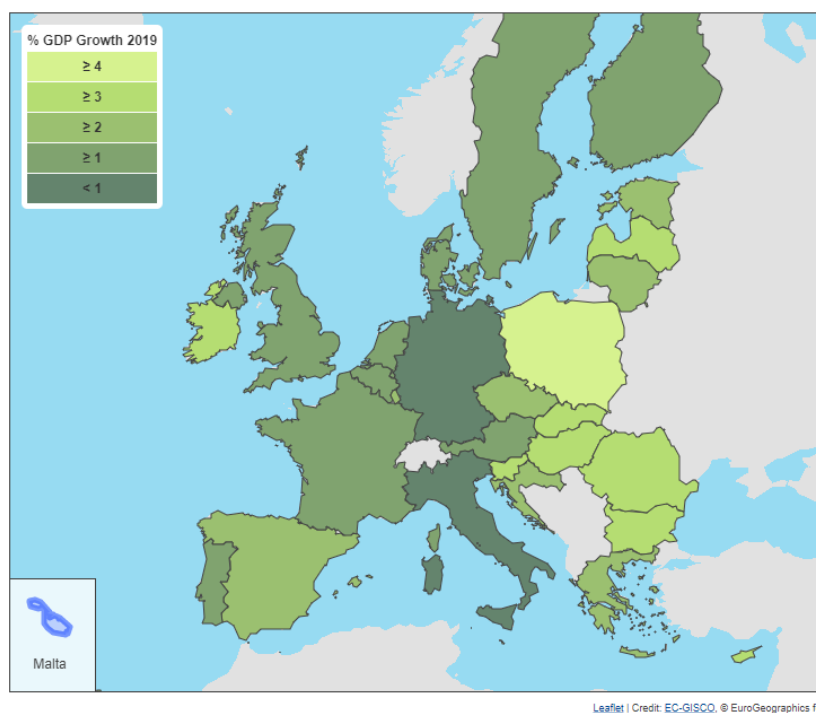
## Europe

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**Euro area sovereign bond markets were steady:** German 10-year yields at -0.04% (flat); French at 0.32% (flat); Spanish at 0.94% (-2 bps); Italian at 2.60% (-2 bps). Price action was muted following the release of the EC's economic forecasts yesterday, in which Germany and Italy will have the lowest growth in the bloc in 2019. Separately, **German industrial production rose 0.5% in March in a monthly basis but**

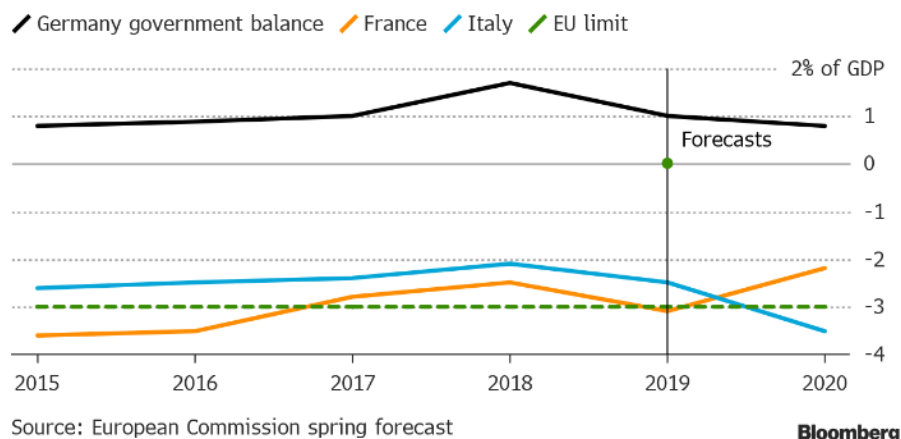
**contracted 0.9% in year-on-year terms.** Major regional equity indices were essentially flat, though Bank stocks are underperforming (-0.8%).

## Economic forecast map



**Italian 10-year yields edged down a day after the EC forecasted that Italy's deficit will breach the 3% limit in 2020.** Italian Deputy PM Salvini and FM Tria criticized the EC's forecast for not properly accounting for measures that the government could consider (such as an increase in indirect taxes). Mr. Salvini also said that plans to introduce the flat tax are going ahead. Italian long-term borrowing costs have remained elevated compared to 2015-2017 since mid-2018.

Italy to breach the EU's 3 percent deficit limit in 2020 without planned VAT hike



### Italian borrowing costs are still stuck about 2.5%



In **Brexit news**, talks between the Tory and Labour leadership to find a common position on the terms of the withdrawal from the EU have been inconclusive thus far. PM May will face members of Parliament today, amid renewed rumors of a forthcoming challenge to her leadership. The British government has confirmed that the UK will participate in the European Parliament elections give the lack of time to ratify any deal before May 23<sup>rd</sup>, the date of the vote.

### Other Mature Markets [back to top](#)


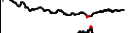




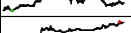


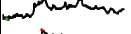


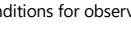

#### Japan

**The yen reached its strongest level in more than 6 weeks as investor sought safe havens in the current US-China trade negotiation.** The yen gained 0.1% to ¥110.13 as investors remain uncertain of the outcome of the upcoming US-China trade negotiation starting this Thursday. Amid such uncertainties, the Topix slid 1.7%, while the Nikkei lost 1.5%. Since markets reopened this Tuesday, the Topix has lost about \$156 bn of value (or about 2.8%) in two days.

### Emerging Markets [back to top](#)

**EM stocks saw further losses and currencies weakened against dollar on ratcheting global trade tensions.** Asian equities continued to extend the broad-based losses seen in recent days while currencies were mixed. Market sentiment remains fragile as investors await the outcome of the latest US-China trade negotiation. While China confirmed that Vice Premier Liu would travel to Washington DC for the upcoming trade talks on May 9<sup>th</sup> and 10<sup>th</sup>, news reports also indicated that China is preparing retaliatory tariffs on American imports should the U.S. administration carry out tariff increases. Hong Kong and Chinese shares bore the brunt of losses (Hong Kong Hang Seng: -1.2%; Shanghai: -1.1%) while the Korean Kospi outperformed on a relative basis (-0.4%). In currencies, the Thai baht continued to outperform (+0.4%) as the Bank of Thailand held its policy rate steady at 1.75%, in line with expectations. EMEA equity markets are broadly but modestly lower. Turkish stocks are down 0.3%, in line with the regional trend, but this follows several sessions of heavy losses. In FX markets, the Turkish lira continues to underperform, depreciating 0.4% against the dollar on the day and nearly 20% since its strongest level this year (late January). Other currencies are appreciating slightly. Yesterday, Latin American equities, Mexico (-1%) saw the biggest losses, followed by Chile (-0.9%), Brazil (-0.7%) and Argentina (-0.8%), reversing its 4-day rally. Among regional currencies, Colombian peso (-1.4%) weakened the most against dollar closing at more than a 3-year low amid a selloff in crude oil, along with Argentine peso (-1.4%), followed by Chilean peso (-1%).

## Key Emerging Market Financial Indicators

Last updated: 5/8/19 8:09 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		42.46	-0.5	-3	-4	-9	9
MSCI Frontier Equities		28.52	-0.6	1	-2	-11	9
EMBIG Sovereign Spread (in bps)		354	6	11	14	15	-60
EM FX vs. USD		61.83	-0.1	-1	-2	-8	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.78	-0.1	-1	-1	-6	1
Indonesian Rupiah		14295	-0.1	0	-1	-2	1
Indian Rupee		69.71	-0.4	0	0	-4	0
Argentine Peso		45.30	-1.4	-2	-4	-52	-17
Brazil Real		3.96	0.2	-1	-3	-10	-2
Mexican Peso		19.09	-0.3	0	-1	3	3
Russian Ruble		65.20	0.3	-1	0	-3	6
South African Rand		14.36	0.5	1	-2	-12	0
Turkish Lira		6.18	-0.5	-4	-8	-30	-14
EM FX volatility		8.74	0.0	0.7	0.5	0.0	-1.0

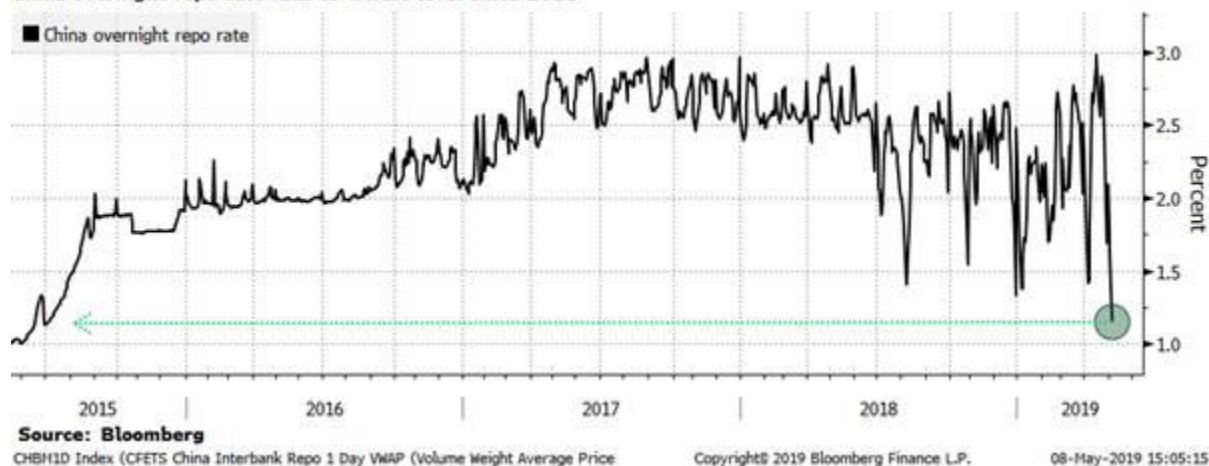
Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## China

**The overnight repo rate slid to a 3-year low as the PBC injected liquidity to counter potential trade war-induced growth headwinds.** Funding conditions loosened in recent days with PBC liquidity injections. The overnight repo rate fell 23 bps – or 92 bps over the last 4 sessions – to 1.18%, its lowest level in 3 years. Reflecting this decline, the yield on 10-year central government bond fell by another 1.5 bps on the day to 3.33%, the lowest since April 11<sup>th</sup>. The latest trade data indicated that while imports in April grew more than expected on an annual basis (+4% yoy), export growth contracted (-2.7% yoy), suggesting growth challenges remain.

## Cheap Funding

China overnight repo rate falls to lowest level since 2015



## New Zealand

**Reserve Bank of New Zealand reduced its policy rate to a fresh record low and hinted at further policy easing if necessary.** Citing recent unexpected weakness in inflation and hiring, RBNZ lowered the

official cash rate by 25 bps to 1.50%, its first cut since November 2016. The New Zealand dollar weakened to a 6-month low following the decision, depreciating by as much as 1.2% before recovering to NZD 0.6591/dollar (-0.2%). Meanwhile, rates in the New Zealand overnight index swap market shifted lower in a parallel fashion following the rate cut, suggesting a second cut is being priced in by the market for Q1 2020.

### Argentina

**The social security agency (ANSES) will likely employ the payments it received yesterday via its holdings of the Bonar 2024 bond to purchase \$250 mn in USD Letes and short-term bonds issued by the government.** The government has requested that the agency carry out these purchases to help reduce the funding costs to the Treasury and to improve liquidity. Yesterday, the peso weakened by 1.4% against the dollar for the second day despite President Macri's letter to opposition legislators to forge a political pact committing to balanced budgets, an independent central bank, a credible statistics agency and long-term fiscal and labor reforms.

### Venezuela

**The central bank has authorized local banks to begin trading foreign currency as of Tuesday.** Individuals and companies will be able to buy or sell foreign currency at private and state-run banks with the average of the transactions being published as the official rate by the central bank. The decision represents another step in freeing foreign exchange controls which have been in place since 2003. While Venezuela has officially pegged the bolivar to the dollar for years, the government has recently allowed the official rate to trade close to the black-market rate. Analysts report that while the move has the potential to simplify transactions and allow individuals to protect savings from hyperinflation and a quickly devaluing bolivar, it comes amid a political crisis and there are bigger problems constraining the FX market.

### Wild Ride

**A look at Venezuela's foreign reserves since Chavez's FX controls**

■ Venezuela International Reserves US Dollars



### Thailand

**For the third time, the Bank of Thailand left its benchmark interest rate unchanged at 1.75%, in line with expectations.** Although the economic outlook has softened, the central bank noted that financial stability risks, including high household debt, suggest interest rate hikes could still be on the table. Meanwhile, inflation remains benign, reaching 1.23% in April, the lower end of the 1% to 4% target band. The policy decision supported the Thai baht, which gained 0.4% on the day to reach THB 31.8/dollar, its strongest level in two weeks. Meanwhile, bond market reaction was limited; local debt yields were little changed on the day with the 2-year note at 1.85% and the 10-year at 2.42%.



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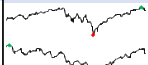
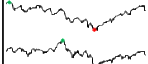
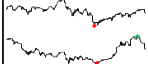
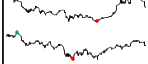



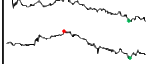


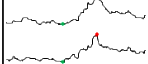
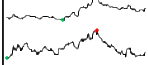
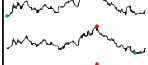

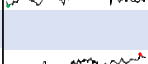



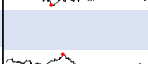
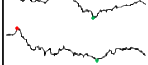
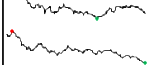





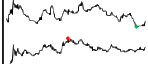
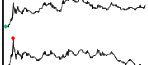
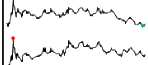
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## Global Financial Indicators

Last updated: 5/8/19 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2884	-1.7	-2	0	8	15
Europe		3397	-0.1	-3	-1	-5	13
Japan		21603	-1.5	-3	-1	-4	8
China		2894	-1.1	-6	-11	-8	16
Asia Ex Japan		70	-2.0	-3	-4	-8	10
Emerging Markets		42	-0.5	-3	-4	-9	9
Interest Rates			basis points				
US 10y Yield		2.43	-1.3	-7	-9	-54	-25
Germany 10y Yield		-0.05	-1.3	-6	-6	-61	-29
Japan 10y Yield		-0.05	0.3	-1	0	-10	-5
UK 10y Yield		1.11	-4.7	-4	-1	-33	-17
Credit Spreads			basis points				
US Investment Grade		114	0.8	4	-2	13	-33
US High Yield		410	3.1	15	6	69	-111
Europe IG		63	1.6	5	2	7	-24
Europe HY		270	3.6	21	10	-4	-82
EMBIG Sovereign Spread		354	6.0	11	14	15	-60
Exchange Rates			%				
USD/Majors		97.53	-0.1	0	0	5	1
EUR/USD		1.12	0.1	0	-1	-6	-2
USD/JPY		110.1	0.2	1	1	-1	0
EM/USD		61.8	-0.1	-1	-2	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		70	-0.2	-3	-2	-7	30
Industrials Metals (index)		114	-0.8	-2	-6	-16	4
Agriculture (index)		38	-0.2	-2	-6	-23	-9
Implied Volatility			%				
VIX Index (% change in pp)		21.0	1.7	6.2	7.8	6.3	-4.4
10y Treasury Volatility Index		4.4	0.4	0.4	0.7	0.5	-0.2
Global FX Volatility		6.8	0.0	0.3	0.1	-0.9	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		350	11.1	14	2	-14	-66
Italy		271	5.3	17	23	141	21
Portugal		115	1.6	4	-7	-3	-33
Spain		101	0.8	2	-7	25	-16

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: 5/8/2019 8:10 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		6.78	-0.1	-0.7	-1	-6	1		3.4	-1.5	-5	12	-26	15
Indonesia		14295	-0.1	-0.3	-1	-2	1		8.1	1.0	16	37	79	-8
India		70	-0.4	-0.2	0	-4	0		7.5	-1.3	-4	5	-34	6
Philippines		52	-0.3	-0.8	0	0	1		5.2	-2.0	-5	-15	-31	-115
Thailand		32	0.4	0.6	0	0	2		2.6	-1.1	-1	3	14	-3
Malaysia		4.15	0.0	-0.3	-1	-5	0		3.8	-1.9	-1	4	-37	-27
Argentina		45	-1.4	-2.4	-4	-52	-17		27.0	14.2	37	329	746	396
Brazil		3.96	0.2	-1.1	-3	-10	-2		8.2	1.0	-6	5	-27	1
Chile		685	-0.9	-1.2	-3	-8	1		4.1	-1.0	1	-4	-60	-35
Colombia		3301	-1.4	-2.0	-6	-15	-1		6.4	-0.7	0	16	19	-16
Mexico		19.09	-0.3	-0.5	-1	3	3		8.2	2.2	5	16	57	-47
Peru		3.3	-0.2	-0.2	-1	-1	2		5.4	4.4	9	8	-3	-34
Uruguay		35	0.2	-0.3	-3	-16	-7		10.8	-17.5	-10	32		7
Hungary		289	0.1	0.2	-1	-8	-3		2.2	-0.1	4	24	53	-5
Poland		3.83	0.1	-0.1	-1	-6	-2		2.4	-2.9	-2	8	-11	13
Romania		4.2	0.0	0.0	-1	-8	-4		4.2	-1.0	-1	2	4	-2
Russia		65.2	0.3	-0.5	0	-3	6		7.9	-0.4	2	-10	82	-48
South Africa		14.4	0.5	0.7	-2	-12	0		9.4	2.3	6	17	55	-14
Turkey		6.18	-0.5	-3.5	-8	-30	-14		22.2	133.3	99	359	821	528
US (DXY; 5y UST)		97.5	-0.1	-0.2	0	5	1		2.24	-2.0	-6	-9	-58	-27

	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		2894	-1.1	-6	-11	-8	16		175	3	2	-1	-9	-19
Indonesia		6270	-0.4	-3	-2	9	1		192	6	11	3	-17	-44
India		37789	-1.3	-3	-2	7	5		149	-1	-5	-10	2	-47
Philippines		7927	0.2	0	0	5	6		86	3	8	-1	-27	-35
Malaysia		1634	-0.4	-1	-1	-12	-3		124	4	0	-3	-9	-38
Argentina		32741	-0.8	14	-1	25	8		930	13	-32	125	432	115
Brazil		94389	-0.7	-2	-3	14	7		250	2	4	4	-11	-23
Chile		5079	-0.9	-2	-4	-10	-1		127	1	1	-1	-8	-39
Colombia		1535	-0.9	-3	-5	-1	16		188	3	12	9	-8	-40
Mexico		43584	-1.2	-3	-4	-7	5		311	4	13	15	35	-43
Peru		20688	-0.3	-1	-3	-2	7		133	2	5	12	-31	-35
Hungary		41242	0.4	-3	-1	11	5		101	0	2	-3	-26	-47
Poland		57687	-0.3	-5	-5	-2	0		42	1	1	-5	-33	-43
Romania		8409	-0.1	0	2	-4	14		188	6	-2	-15	29	-33
Russia		2551	-0.5	0	0	11	8		216	6	18	2	-14	-36
South Africa		58044	0.0	-1	0	1	10		313	5	9	22	35	-52
Turkey		90117	-1.5	-6	-7	-9	-1		518	11	23	40	144	89
Ukraine		569	0.0	2	1	20	2		662	20	34	82	136	-125
EM total		42	-0.5	-3	-4	-9	9		354	6	11	14	15	-60

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