



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, May 9, 2019









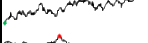


- **US credit spreads remain relatively steady despite market volatility** ([link](#))
- **Spread between Italian and German debt reaches widest point since February** ([link](#))
- **Taiwanese insurers may pose risks to US bond markets due to large holdings** ([link](#))
- **Chinese assets continue to lose ground on heightened trade uncertainty** ([link](#))
- **Brazil's central bank leaves policy rates unchanged at 6.5%, as expected** ([link](#))

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Trade anxieties continue to weigh on markets

Global markets retreated again as US-China trade negotiations entered the final stages. With Chinese Vice Premier Liu He scheduled to arrive in Washington, US President Trump held a political rally, at which he commented that China "broke the deal". The US administration has previously stated that without the conclusion of a trade agreement tomorrow, it will raise the tariff rate on \$200 bn of Chinese goods from 10% to 25%. As market participants await the resolution of these talks, many have chosen to reduce their tactical bets, resulting in a modest but steady performance of riskier asset classes. The MSCI World Index has decline over 2% this week, with EM constituents generally underperforming. Global sovereign debt yields have decline modestly and the US dollar continues to strengthen against most major currencies.

Key Global Financial Indicators

Last updated: 5/9/19 8:19 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2879	-0.2	-2	0	7	15
Eurostoxx 50		3379	-1.1	-3	-1	-5	13
Nikkei 225		21402	-0.9	-4	-2	-4	7
MSCI EM		42	-1.9	-3	-4	-9	9
Yields and Spreads			bps				
US 10y Yield		2.44	2.7	-10	-6	-56	-24
Germany 10y Yield		-0.06	-1.4	-9	-5	-62	-30
EMBIG Sovereign Spread		354	15	13	15	14	-60
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.7	-0.3	-1	-2	-8	-1
Dollar index, (+) = \$ appreciation		97.6	0.0	0	1	5	2
Brent Crude Oil (\$/barrel)		70.4	0.0	-1	0	-9	31
VIX Index (% change in pp)		21.3	1.9	7	7	8	-4

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

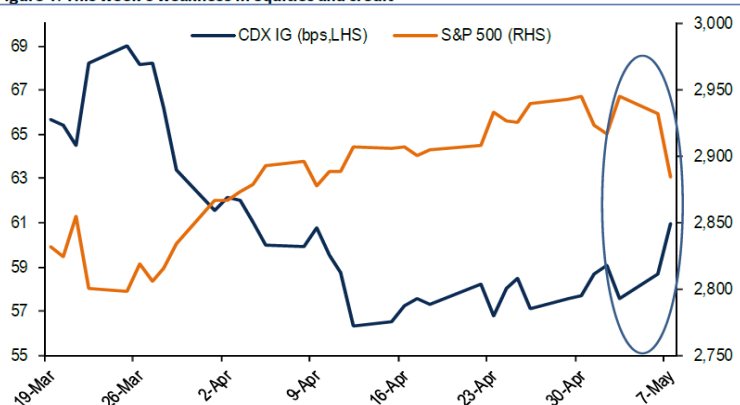
United States

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Markets ended little changed with many investors staying on the sidelines ahead of Friday's China trade deal deadline. Stock prices were slightly lower and Treasury yields ticked up by 2-3 bps, although the 10-year yield continued to trade below the 2.50% level that acted as a floor over the past few weeks. The Treasury yield curve steepened slightly as the market absorbed the new \$20 bn IBM (A/A1) bond, the largest new deal so far in 2019. The session was a bit of a roller-coaster ride because early was negated by tougher rhetoric from China later in the day. The 25% tariffs are scheduled to go into effect on Friday. Meanwhile, the \$27 bn 10-year Treasury auction was much weaker than expected, with the lowest bid-to-cover ratio since March 11, 2009 at 2.17x. The auction also had a 1.3 bps "tail," i.e. the final clearing yield was 1.3 bps above the last "when issued" (WI) yield before the auction close, another sign of weak demand. In other news, the regulator of Fannie Mae and Freddie Mac said that the housing giants could be released from government oversight and its guarantees removed without Congressional action. However, Congress would be given time to come up with its own approach before any definite decision is taken. The share prices of the two mortgage agencies rose sharply after the news.

US corporate credit spreads have performed well despite the recent market volatility. Investment grade spreads widened just 2-3 bps and high yield spreads have been equally resilient. The market easily absorbed nearly \$50 bn in new supply over recent days as demand remained robust despite volatility in the stock market. New issue concessions remained within recent ranges. The new bonds were said to be trading well in the aftermarket. The \$19 bn Bristol-Meyers (A/A3) deal to fund its Celgene acquisition was snapped up by eager buyers earlier in the week. The \$20 bn IBM deal was also reportedly trading well.

Figure 1: This week's weakness in equities and credit



Source: Bloomberg, BofA Merrill Lynch Global Research

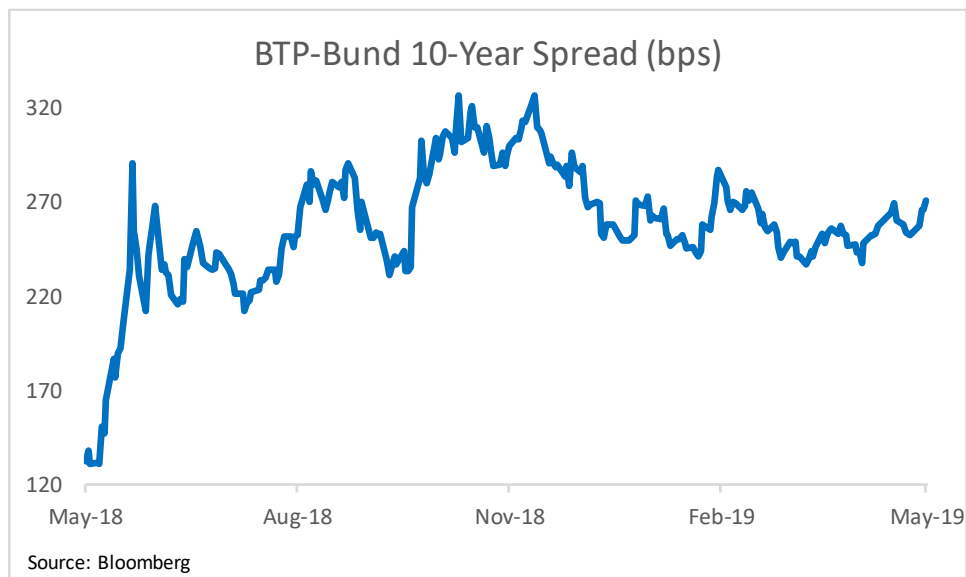
This morning, April PPI came in at 0.2% mom compared to the consensus expectation for a 0.3% rise. The March trade deficit also printed at \$50 bn, essentially right on the consensus figure. There was little immediate price reaction to the data.

Europe

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Equities declined again as trade tensions remained in the spotlight. The Euro Stoxx 600 was down 0.8% with all sectors in the red. Along with materials, bank stocks (-1.3%) were among the worst performers, taking their losses this week beyond 5%.

Sovereign bond yields were 2-3 bps lower in almost all countries. Italy was the exception with the 10-year benchmark seeing a 5-bps rise on renewed concern over the macro outlook and the country's relationship with the EU. The spread of the country's debt to German debt has climbed to its highest level since February.



PM May has held talks with MPs in her party to reassure them over the Brexit process. According to reports, May will hold further meetings with MPs in her party in the coming days where she could set out the process by which she will step down, allowing a new leader to take over as Prime Minister. Reports also suggest that May could bring the Brexit Withdrawal Agreement back to Parliament before the European parliament elections in two weeks' time. Talks between senior Conservative and Labour party officials yesterday were unable to break the impasse, however, and are said to be close to collapsing. It is unclear how the government could get the Withdrawal Agreement through parliament without the support of the Labour party.

The Norwegian central bank kept interest rates at 1% at its meeting today, as expected. The decision came following the 25-bps hike in March which was the second increase in this tightening cycle. In its statement, the bank said it would "most likely" raise rates again in June as the economy's momentum is deemed strong. Inflation picked up throughout 2018 but has moderated in recent months and came in at 2.9% y-o-y in March. The krone was little changed against the euro following the announcement.

Other Mature Markets [back to top](#)

Japan

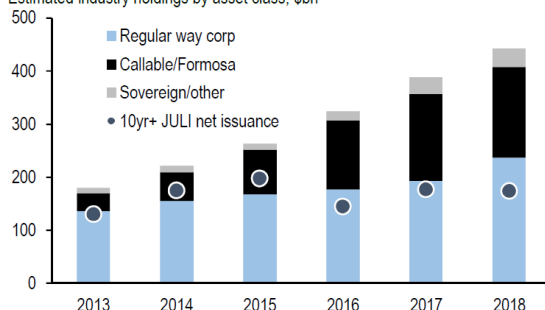
The yen extended its recent appreciation and stocks declined further amid rising concerns for the outcome of the US-China trade talk. The yen strengthened by 0.4% to 109.7/dollar, its strongest level since mid-March. Meanwhile, equity shares fell 1.4% from yesterday and market volatility jumped ahead the latest round of China and U.S. trade negotiation. In his remarks to Parliament, BoJ Governor Kuroda indicated that the central bank will quickly consider additional easing steps if the US-China trade war imposes headwinds on Japan's economy. Specifically, trade war-induced tension could dampen the upward price momentum in Japan.

Taiwan Province of China

Linkages between the US bond market and Taiwan Province of China's life insurance companies could have significant knock-on effects for the US financial system. Taiwanese "lifers" have grown to become the largest in the world in terms of size relative to their domestic economy and Taiwan Province of China's financial system is the second largest in the world relative to its economy. These companies hold billions of dollars of US bonds, especially in the corporate bond and agency MBS sectors. Some of their holdings are FX-hedged while others are totally unhedged, making these companies vulnerable to shocks in the FX and/or dollar funding markets and raising the possibility of destabilizing fire sales in the US bond market.

Exhibit 10: The Taiwanese life insurance industry has been an important buyer of long end HG non-callable corporate bonds in recent years

Estimated industry holdings by asset class; \$bn

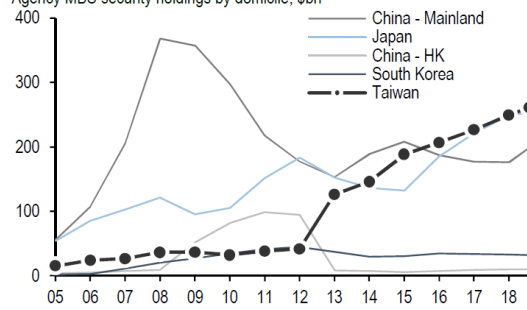


Note: See Exhibit 8 for methodology details.

Source: J.P. Morgan, company disclosures, Haver Analytics

Exhibit 11: Taiwanese Agency MBS holdings have increased at a steady pace since 2013, making it the second largest foreign holder of these assets

Agency MBS security holdings by domicile; \$bn



Source: J.P. Morgan, TIC

Emerging Markets

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Asian currencies extend their recent depreciation against the dollar while equities suffered another day of broad-based losses. Korean assets were particularly hard hit, with the won depreciating 0.9%, touching its weakest level since January 2017. In equities, the Korean Kospi underperformed, losing 3% on the day. Across the region, the MSCI's Asia ex-Japan stock index lost 1.62%. Contacts noted that weaker-than-expected credit data in April for China, combined with elevated uncertainty regarding the outcome of the trade talk, weighed on risk sentiment. The Philippine central bank lowered its benchmark interest rate by 25 bps to 4.5%, its first reduction since an operational adjustment to the rate in 2016. The Philippines, along with central banks from Malaysia and New Zealand have eased policies this week amid growing global growth risks and low inflation. The Philippine peso depreciated by 0.4% to PHP 52.3/dollar. EMEA equity markets are broadly lower but in line with the global trend. South Africa (-1.5%) and Turkey (-1.3%) are seeing the greatest losses while Poland and Czech Republic (both -0.4%) are outperforming. In FX markets, the Turkish lira weakened for the fifth consecutive session of loss, depreciating 0.8% against the dollar. Latin American assets were broadly mixed yesterday. Among equities, Argentina (+3%) saw the biggest gains, followed by Brazil (+1.3%), while Mexico (-0.4%) and Chile (-0.4%) saw some losses. Among regional currencies, Brazilian real (+1%) strengthened the most against dollar on signs of progress in the pension reform bill, followed by Argentine peso (+0.5%), while Mexican peso (-0.3%) weakened for the third day as most EM assets remained under pressure from the US-China trade conflict.

Key Emerging Market Financial Indicators

Last updated: 5/9/19 8:21 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		42.40	-1.8	-3	-4	-9	9
MSCI Frontier Equities		28.90	1.3	3	1	-10	11
EMBIG Sovereign Spread (in bps)		354	15	13	15	14	-60
EM FX vs. USD		61.73	-0.3	-1	-2	-8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.82	-0.6	-1	-2	-7	1
Indonesian Rupiah		14360	-0.5	-1	-2	-2	0
Indian Rupee		69.95	-0.3	-1	-1	-4	0
Argentine Peso		45.08	0.5	-2	-3	-50	-16
Brazil Real		3.97	-0.9	0	-3	-9	-2
Mexican Peso		19.16	-0.4	0	-1	2	3
Russian Ruble		65.27	-0.3	0	0	-3	6
South African Rand		14.34	0.2	1	-2	-12	0
Turkish Lira		6.23	-0.8	-4	-9	-31	-15
EM FX volatility		8.85	0.0	0.9	0.7	0.1	-0.9

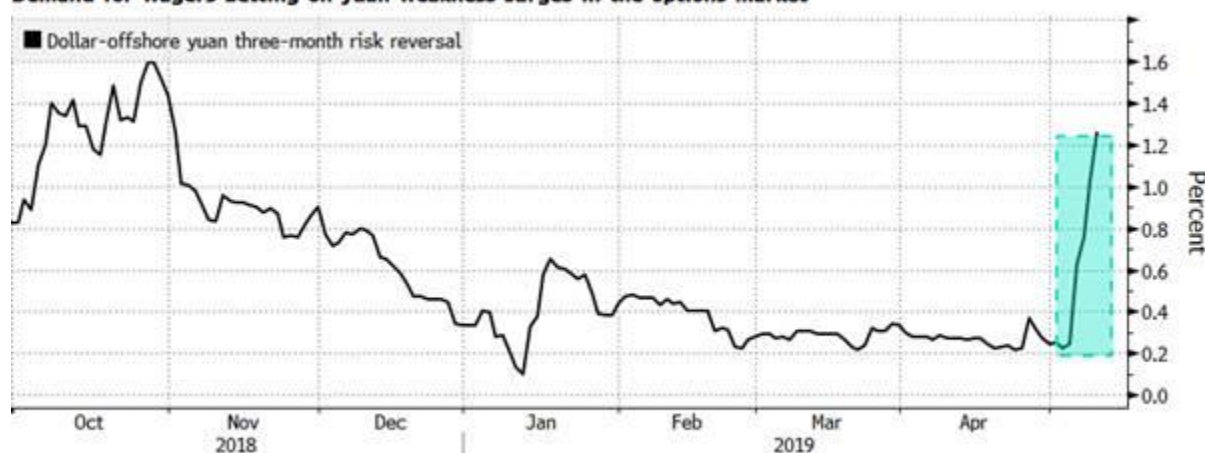
Colors denote **tightening**/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

The RMB extended its recent depreciation to its weakest level since January, as escalating trade tensions and a weaker-than-expected credit expansion weighed on sentiment. Credit growth in April eased more than expected; aggregate financing totaled RMB 1.36 tn (\$200 bn) in April, compared to almost RMB 2.9 tn the previous month and forecasts of RMB 1.65 tn in surveys. The onshore CNY lost 0.6% to CNY 6.823/dollar, extending its weekly loss to 1.3%. The offshore CNH also shed 0.6% of its value, or a loss of 1.6% this week to CNH 6.845/dollar. Contacts noted that investors mostly bought overseas currencies in the onshore market during the morning, while the proprietary trading desks of a few large domestic banks sold dollars to book profits. Amid the recent RMB depreciation, bearish bets on the currency have climbed. The offshore CNH's 3-month risk reversal spiked for a fifth session to its highest level since November.

Bearish Bets

Demand for wagers betting on yuan weakness surges in the options market



Source: Bloomberg

USDCNH25R3M Curncy (USD-CNH OptVol RR 25D 3M) CNH RR Daily 28SEP2018-09MAY2019 Copyright© 2019 Bloomberg Finance L.P. 09-May-2019 14:30:42

Ongoing equity losses have pushed major Chinese bourses to their 11-week low as foreign inflows reversed. The blue-chip CSI300 index lost 1.9% on the day; the Shanghai Composite fell by another 1.5%; both of these indices are at their lowest levels since late February. A sharp reversal of foreign investment inflows into Chinese equities played a role in the market rout. According to Bloomberg, foreign investors have sold, on net, an average of RMB 3.8 bn (\$558 mn) of shares a day through trading links with Hong Kong this week. These outflows follow a record monthly outflow of RMB 18 bn in April.

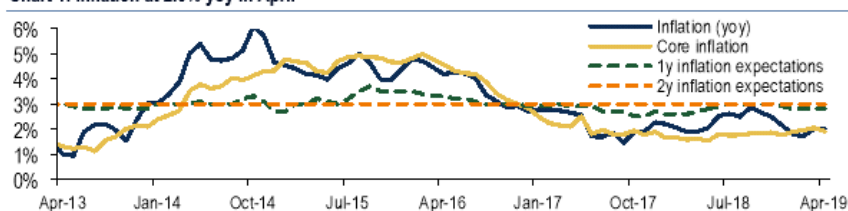
Brazil

The central bank unanimously decided to hold the benchmark interest rate at 6.5%. In a statement accompanying the decision, policymakers wrote that the dangers associated with economic slack increased at the margin. However, upside and downside risks are seen as roughly symmetric, with the BCB forecasting that the process of gradual economic recovery will resume. Brazilian assets saw gains yesterday with equities up 1.3% and the real strengthened by 1% against dollar on signs of progress in the pension reform bill.

Chile

Consumer prices increased 0.3% m/m in April, in line with expectations. Annual headline inflation remained at the 2.0% y/y target lower bound, after 5 consecutive decelerations. Analysts expect economic activity to decelerate very gradually, with an acceleration in inflation expected later this year as growth and tighter labor market generate price pressures. Market analysts believe that the central bank will hold its policy rates unchanged for the next 2 quarters but the structural parameters (neutral policy rate, potential GDP, output gap) expected for June will be key to determine the medium-term path for the policy rate.

Chart 1: Inflation at 2.0% yoy in April

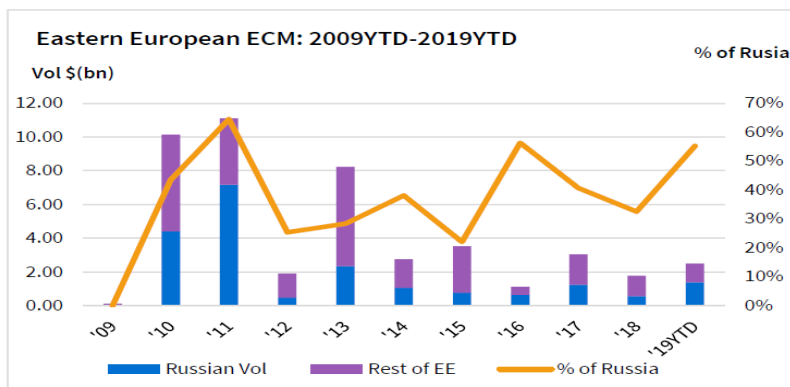


Source: Haver Analytics.

Source: Bank of America Merrill Lynch

EMEA

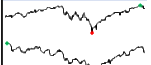
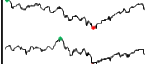
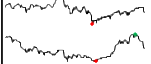




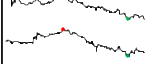


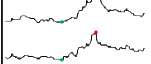
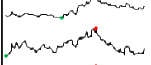
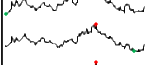






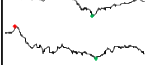
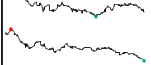

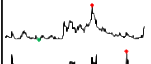



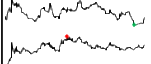

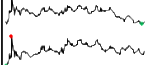
After a slow 2018, there has been a notable increase in the number of Eastern European companies going public. According to Dealogic, companies in the region raised \$2.5 bn via 17 deals this year, a 38.8% increase compared to the same period last year. However, this is still below the 2017 figure, when \$3.0 bn was raised through 23 by this date. Russia accounted for 3 of the 5 largest deals and 55% of the total volume for the region. In contrast, Russian had no IPOs in 2018 owing to the uncertainties in EMs and the treat US/EU sanctions.



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Global Financial Indicators

Last updated: 5/9/19 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2879	-0.2	-2	0	7	15
Europe		3379	-1.1	-3	-1	-5	13
Japan		21402	-0.9	-4	-2	-4	7
China		2851	-1.5	-7	-12	-10	14
Asia Ex Japan		70	-0.4	-3	-5	-9	10
Emerging Markets		42	-1.9	-3	-4	-9	9
Interest Rates			basis points				
US 10y Yield		2.44	2.7	-10	-6	-56	-24
Germany 10y Yield		-0.06	-1.4	-9	-5	-62	-30
Japan 10y Yield		-0.05	0.1	-1	0	-10	-5
UK 10y Yield		1.12	-1.8	-7	2	-34	-16
Credit Spreads			basis points				
US Investment Grade		116	1.1	5	0	15	-31
US High Yield		411	4.7	16	6	73	-110
Europe IG		66	3.0	6	5	9	-22
Europe HY		279	11.8	23	21	7	-73
EMBIG Sovereign Spread		354	15.0	13	15	14	-60
Exchange Rates			%				
USD/Majors		97.64	0.0	0	1	5	2
EUR/USD		1.12	0.0	0	-1	-6	-2
USD/JPY		109.8	0.2	2	1	0	0
EM/USD		61.7	-0.3	-1	-2	-8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		70	0.0	-1	0	-9	31
Industrials Metals (index)		113	-0.8	-2	-7	-16	4
Agriculture (index)		37	-0.7	-3	-7	-23	-10
Implied Volatility			%				
VIX Index (% change in pp)		21.3	1.9	6.9	7.1	7.9	-4.1
10y Treasury Volatility Index		4.4	0.3	0.7	0.8	0.6	-0.1
Global FX Volatility		7.0	0.0	0.6	0.4	-0.8	-2.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		357	8.8	26	10	-7	-58
Italy		273	7.7	21	30	141	23
Portugal		116	3.0	8	-5	1	-32
Spain		104	4.0	8	-4	30	-13

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: 5/9/2019 8:21 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		6.82	-0.6	-1.3	-2	-7	1		3.4	0.7	-4	12	-24	16	
Indonesia		14360	-0.5	-0.8	-2	-2	0		8.1	5.1	21	37	72	-2	
India		70	-0.3	-0.8	-1	-4	0		7.5	-2.0	-6	-2	-30	4	
Philippines		52	-0.2	-0.8	0	-1	1		5.1	-1.0	-6	-14	-32	-116	
Thailand		32	0.1	0.7	0	1	2		2.6	-1.2	-2	2	9	-4	
Malaysia		4.15	-0.1	-0.3	-1	-5	0		3.8	-2.3	-3	1	-40	-29	
Argentina		45	0.5	-1.9	-3	-50	-16		27.1	15.5	53	366	738	411	
Brazil		3.97	-0.9	0.0	-3	-9	-2		8.1	-7.6	-14	-9	-48	-6	
Chile		684	0.1	-0.8	-3	-7	1		4.1	0.3	2	-2	-62	-35	
Colombia		3294	0.2	-1.8	-5	-13	-1		6.3	-1.0	-1	20	9	-17	
Mexico		19.16	-0.4	-0.2	-1	2	3		8.2	-0.7	4	15	47	-48	
Peru		3.3	-0.1	-0.3	-1	-1	2		5.4	-2.9	6	6	-13	-37	
Uruguay		35	-0.2	-0.5	-4	-14	-8		10.9	12.2	2	41		19	
Hungary		289	0.3	0.5	-1	-8	-3		2.2	3.6	8	23	49	-1	
Poland		3.84	0.0	0.0	-1	-6	-3		2.4	-1.9	-4	6	-22	11	
Romania		4.3	-0.1	0.1	-1	-8	-5		4.2	1.0	0	3	-3	-1	
Russia		65.3	-0.3	0.2	0	-3	6		7.9	-1.1	0	-8	78	-49	
South Africa		14.3	0.2	1.4	-2	-12	0		9.4	0.0	6	14	46	-14	
Turkey		6.23	-0.8	-4.3	-9	-31	-15		22.3	10.5	110	329	804	538	
US (DXY; 5y UST)		97.6	0.0	-0.2	1	5	2		2.24	-4.7	-11	-7	-60	-27	

	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		2851	-1.5	-7	-12	-10	14		175	6	2	1	-9	-19
Indonesia		6199	-1.1	-3	-4	5	0		192	15	15	2	-12	-44
India		37559	-0.6	-4	-4	6	4		146	-3	-4	-12	-1	-50
Philippines		7756	-2.2	-3	-2	3	4		86	23	12	-3	-26	-35
Malaysia		1619	-0.9	-1	-1	-12	-4		124	5	3	-1	-15	-38
Argentina		33776	3.2	14	6	21	11		906	23	-57	90	413	91
Brazil		95597	1.3	-1	-1	13	9		248	16	4	3	-9	-25
Chile		5060	-0.4	-2	-4	-11	-1		126	10	4	-3	-6	-40
Colombia		1539	0.3	-1	-5	-1	16		189	16	13	10	-3	-39
Mexico		43411	-0.4	-3	-4	-6	4		307	15	8	14	38	-47
Peru		20430	-1.2	-2	-4	-3	6		131	16	5	10	-28	-37
Hungary		41255	-0.2	-3	-2	13	5		98	9	1	-8	-28	-50
Poland		57194	-0.6	-5	-6	-4	-1		42	3	6	-3	-31	-43
Romania		8324	-0.6	-1	0	-5	13		184	-4	-6	-20	24	-37
Russia		2544	0.0	-1	-1	11	7		214	15	13	2	-16	-38
South Africa		57153	-1.5	-2	-1	-1	8		312	13	10	20	34	-53
Turkey		88815	-1.6	-6	-9	-12	-3		537	32	49	62	162	108
Ukraine		570	0.0	2	3	20	2		659	21	25	86	127	-128
EM total		42	-1.8	-3	-4	-9	9		354	15	13	15	14	-60

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