Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, November 12, 2018

- **US equities decline on tech earnings misses and persistent trade worries ([link](#))**
- **Saudi Arabia signals cut in oil exports amid price slump and supply concerns ([link](#))**
- **Fed policy outlook and European political tensions strengthens US dollar ([link](#))**
- **UK sterling depreciates and volatility rises on growing Brexit concerns ([link](#))**
- **Chinese equities rebound as hopes build for further credit easing ([link](#))**
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Investor risk sentiment remains tentative amid political uncertainties

Global equities are mixed while European political tensions pushed the US dollar index to a 17-month high. With Q3 corporate earnings season close to conclusion, investors have refocused on global policy uncertainties, a still confident Fed, and a slump in commodity prices. The sterling, euro and benchmark 10-year yields are lower amid some unwind of Brexit optimism and continued anxiety surrounding the Italian budget, while Asian markets were moderately higher as contacts are still hoping for a US-China trade truce at the G20 meeting. The US dollar is continuing its broad-based appreciation since the FOMC meeting last week where the committee reiterated its confidence in the US economy and the need to gradually increase the policy rate. Oil prices are trending higher following remarks from OPEC and others over the weekend about taking action to arrest the recent price declines, starting with Saudi Arabia signaling intentions to cut oil exports next month. In emerging markets, nervousness around Mexico was alleviated somewhat as the new leadership reassured that no banking laws would be changed, triggering an initial stabilization in local assets.

Key Global Financial Indicators

Last updated: 11/12/18 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2781	-0.9	2	1	8	4
Eurostoxx 50		3210	-0.6	0	0	-11	-8
Nikkei 225		22270	0.1	2	-2	-2	-2
MSCI EM		40	0.0	-2	-1	-14	-16
Yields and Spreads					bps		
US 10y Yield		3.18	0.0	-2	2	78	78
Germany 10y Yield		0.38	-2.6	-5	-12	-3	-5
EMBIG Sovereign Spread		363	1.0	4	11	65	78
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		61.8	-0.2	-1	0	-9	-11
Dollar index, (+) = $ appreciation		97.3	0.5	1	2	6	6
Brent Crude Oil ($/barrel)		71.2	1.4	-3	-12	12	6
VIX Index (%, change in pp)		17.8	0.5	-2	-4	7	7

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

Politics could dominate the headlines this week as Brexit, Italy, US domestic politics and other concerns remain in the forefront. Markets will also be analyzing the impact of the OPEC meeting held over the weekend. In the US, CPI (Wednesday) and retail sales (Thursday) are the main data releases on the schedule. In the euro area, the ZEW German business sentiment survey comes out tomorrow and the latest euro area Q3 GDP estimate is due on Thursday, while investors also await a potential response from Italian authorities on adjustments to its proposed budget by Tuesday. Japan also updates Q3 GDP tomorrow and the UK releases jobs data. China reports industrial production and retail sales data on Wednesday. The Mexican central bank meets on Thursday and Thailand and Indonesia also have central bank meetings on Wednesday and Thursday, respectively.

United States

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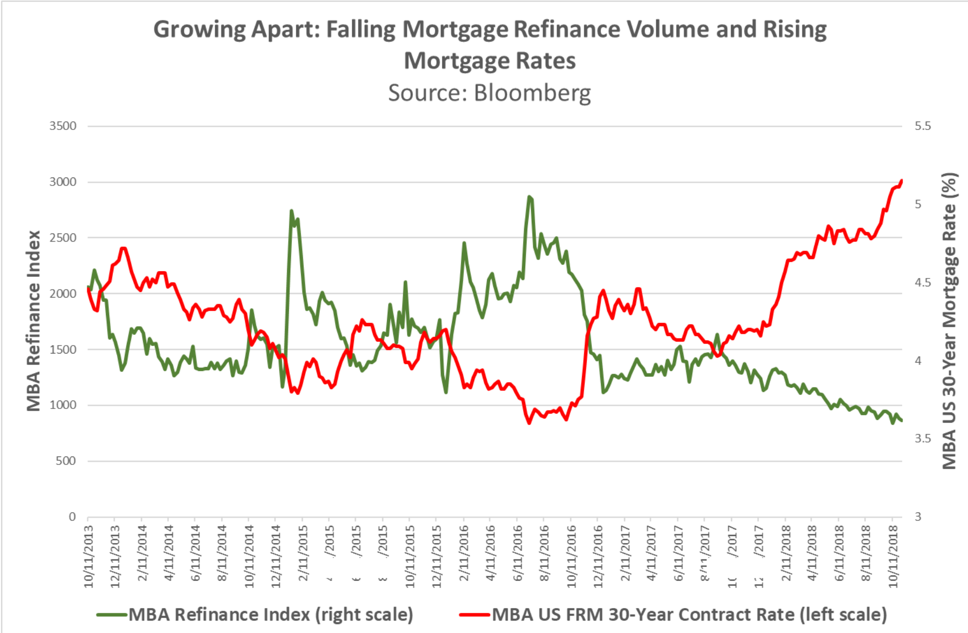
Disappointing earnings reports sent technology stocks sharply lower and the broader market was also deeply in the red for much of the day. The selloff intensified following a speech by Presidential advisor Navarro at a Washington think tank where he strongly criticized Chinese government policies. However, the market managed to bounce off its lows for the day to make at least a partial recovery. Treasuries rallied on the risk-off mood as yields fell by 4-5 bps across the curve. The day before, the two and ten-year Treasury yields were at or near their post-crisis highs. However, from a weekly perspective the markets were relatively unchanged with stocks posting modest gains and only the oil market exhibiting a major move (see table below). In other news, the University of Michigan consumer sentiment index was stronger than expected at 98.3 (vs. 98). The inflation expectations component for five and ten years ahead declined to 2.6%. Fed Governor Quarles indicated in a speech that deregulation of the banking industry was likely to continue, via measures such as reduced stress testing eligibility.

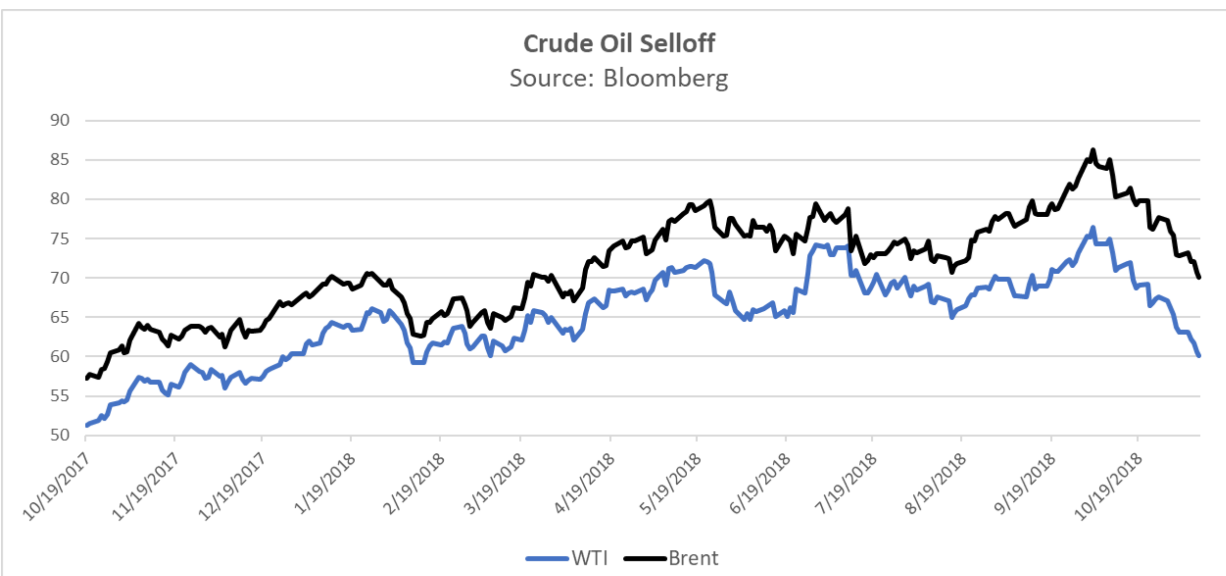
Weekly Move in Key US Markets as of 11/9/18, 4pm Close

Market Sector	Change Since 11/2/18
S&P 500	+2.1%
US 10-year	-2 bps (3.19%)
US 2-year	+2 bps (2.93%)
US 5-year TIPS Breakeven	Unchanged (1.90%)
December 2018 Euro-Dollar Futures	Unchanged (2.77%)
December 2019 Euro-Dollar Futures	Unchanged (3.24%)
Dollar Index	+0.4% (96.89)
WTI Oil Price	-5.2% ($59.84)

The slowdown in the US housing sector could have negative effects on the rest of the economy as the economic recovery approaches later stages. Home price growth has slowed through much of the country and housing starts have declined noticeably. Housing related stocks have significantly underperformed the rest of the market. Higher interest rates are one culprit, but analysts think the tax reform package that limited mortgage interest deductions and deductibility of local property taxes has also played an important role. Some expect spillovers to the construction industry and other employment sectors although few analysts expect mortgage default rates to climb. Meanwhile, the mortgage-backed security (MBS) market could be another area of concern. October saw the MBS sector do much worse than the rest of the bond market as higher interest rates pushed refinancing rates lower and extended the durations of mortgage-backed bonds. MBS have embedded prepayment options because homeowners are free to prepay all or part of their mortgages at any time without penalty. Higher interest rates reduce the incentive to prepay, greatly extending the expected maturities on the bonds and making them even more vulnerable to further increases in interest rates. The Mortgage Bankers Association refinance index has declined sharply as mortgage rates have moved higher.

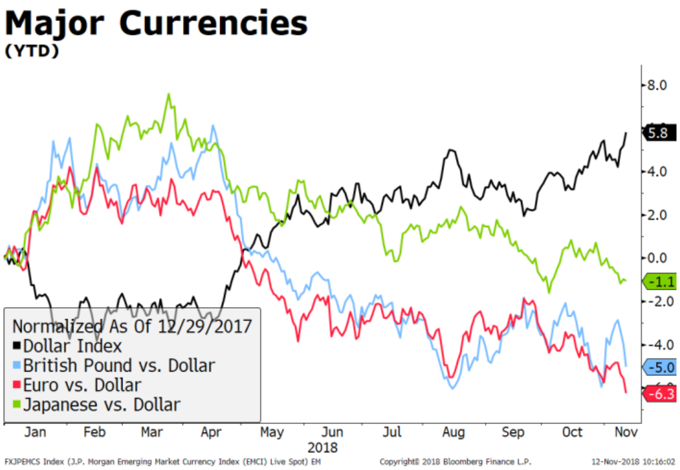


OPEC signaled potential oil supply cuts in 2019, while Saudi Arabia intends to start reducing oil exports in December amid price declines. OPEC and other suppliers have noted signs of an emerging surplus in oil supply, while over the weekend Saudi Arabia signaled it will reduce oil exports by as much as half a million barrels a day in December. **This morning, Brent crude is trading up over 1% to $71.** While the Brent global oil benchmark has not yet entered an official bear market, the US WTI benchmark is well into bear market territory with a loss of over 21% since the 2018 high of $76.20 on October 3rd (the Brent 2018 high was $86.29 on the same day). Supply increases from Saudi Arabia, Russia and the US have more than offset the decline in production from Iran following the onset of US sanctions. In addition, the impact of sanctions was much less than expected as the US granted eight countries waivers on a major portion of the sanctions, allowing them to continue to buy oil from Iran. A formal decision by the OPEC countries to reduce output could be made at the 12/6-7 OPEC meeting



Currency Markets

The dollar index (DXY) is up 0.6% and nearly 2% over the last three sessions, rising to a 17-month high. Rising tensions surrounding Brexit and Italy's budget have been the most citied drivers, especially over the last few sessions, along with the background of Fed tightening and widening interest rate differentials. Year to date, the DXY is up nearly 6%. The euro, with a roughly 60% weight in the index, has fallen 6.3% since the start of the year.



Europe

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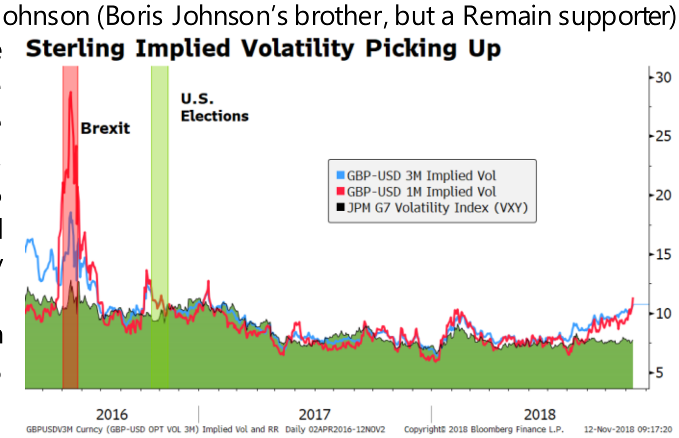
Equities are broadly lower with the EuroStoxx 600 falling 0.3%, with gains in energy stocks helping offset losses in most other sectors. The FTSE 100 is the outlier despite negative Brexit headlines (see below), posting minor gains helped by the weaker pound.

Core yields are down a few basis points in Continental Europe but are falling as much as 6 bps across the UK curve. The 10-year gilt yield has fallen 12 bps over the last two sessions, but at 1.44% it is right on the average for the year. Yields in Italy are up 5 to 2 bps across the curve, despite some positive headlines about the government making tweaks to the budget proposal (see below).

United Kingdom

The sterling is under pressure after press reports that PM May has been forced to cancel an emergency meeting planned for today, during which her Cabinet was expected to approve the withdrawal deal proposal. The reversal of fortunes came from fresh opposition by Brexit-hardliners and the Northern Irish party. Transport Minister Jo Johnson (Boris Johnson's brother, but a Remain supporter) has quit the administration, claiming that the deal being negotiated "will be a terrible mistake." Other Cabinet ministers are also on the verge of quitting, according to media reports. The sterling is down 0.8% today and nearly 2% over the last three sessions. Measures of implied volatility for sterling-dollar have been rising by more than those of other major currencies (based on JP Morgan's VXY index). The 3-month measure, for example, has increased to over 11% for the first time since early 2017.



Italy

Reports suggest that Economy Minister Tria may tweak the budget's growth forecast for next year to try to reach a deal with the EC. The adjustment would revise down the GDP forecast to 1% from 1.5%. The government is also said to be looking at other options to avoid breaching the 2.4% deficit target. The deadline for re-drafting the budget is tomorrow, after which the EC could initiate disciplinary procedures. Yields are as much as 5 bps higher in Italy this morning. The Italian-German 10-year spread is hovering around 300 bps.

Other Mature Markets

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Japan

Equities were broadly flat today. Solid gains for real estate (+1.5%) and utility stocks (+1.2%) were offset by losses in the energy sector (-1.4%) and IT stocks (-1.2%). The yen gained against most currencies but weakened 0.3% against the dollar. Tomorrow sees preliminary Q3 GDP data released where q-o-q growth is expected to come in at -0.3% (+0.7% in Q2).

Emerging Markets

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Key Emerging Market Financial Indicators

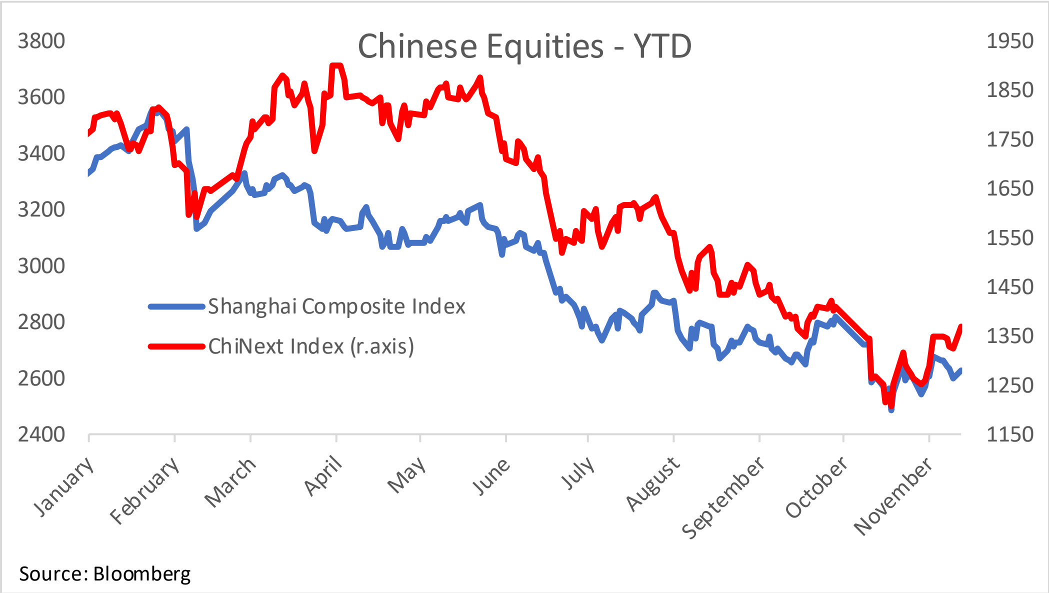
Last updated:	Level		Change				
11/12/18 8:08 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		39.80	0.1	-2	-1	-14	-16
MSCI Frontier Equities		27.30	-0.4	-1	-2	-12	-18
EMBIG Sovereign Spread (in bps)		363	1.0	4	11	65	78
EM FX vs. USD		61.83	-0.2	-1	0	-9	-11
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.96	-0.1	-1	-1	-5	-7
Indonesian Rupiah		14820	-1.0	1	3	-9	-8
Indian Rupee		72.89	-0.5	0	1	-10	-12
Argentine Peso		35.38	0.1	1	4	-51	-47
Brazil Real		3.75	-0.4	0	1	-12	-12
Mexican Peso		20.27	-0.6	-2	-7	-6	-3
Russian Ruble		67.61	0.7	-2	-2	-12	-15
South African Rand		14.37	0.0	-1	1	1	-14
Turkish Lira		5.44	0.3	-2	8	-29	-30
EM FX volatility		10.11	1.2	0.0	-0.4	2.0	2.3

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

Equities saw a quiet beginning to the week. The main bourses in EMEA, including Russia (+0.5%), Hungary (+0.2%), and Turkey (flat), saw little changes. The exception was South Africa which declined by 1.1%, taking its losses over the past three-sessions to 3.6%. Asian stocks were also little changed apart from China (+1.2%) and Indonesia (-1.7%). Latin American markets were mixed on Friday, with Mexican stocks edging slightly higher after the President vowed to preserve banking laws and Chilean equities falling 0.9% on lower copper prices. Currencies in the EM space saw small losses against the dollar, echoing their advanced economy counterparts. Russia went against the trend, strengthening by 0.6% to 67.6.

China

Equities soared, particularly small caps and tech stocks, on hopes of government moves to ease credit strains. Reports late on Friday suggested that the State Council will support private and small companies although details on the measures were limited. The ChiNext index, which has seen sizeable losses recently, rose 3.5% while the Shenzhen (+2.5%) and Shanghai (+1.2%) indices also outperformed the broader region. Separately, in a nod to ongoing trade tensions, the PBoC's quarterly monetary policy report warned that "profound changes" were taking place and the bank would "preemptively adjust and fine-tune policies according to the changing conditions". The yuan was 0.1% weaker against the dollar, at just under 6.97.

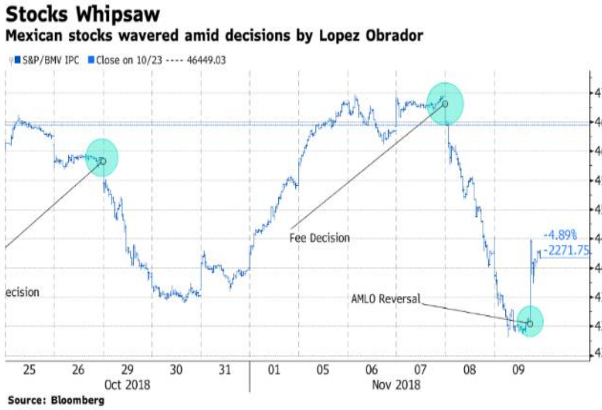


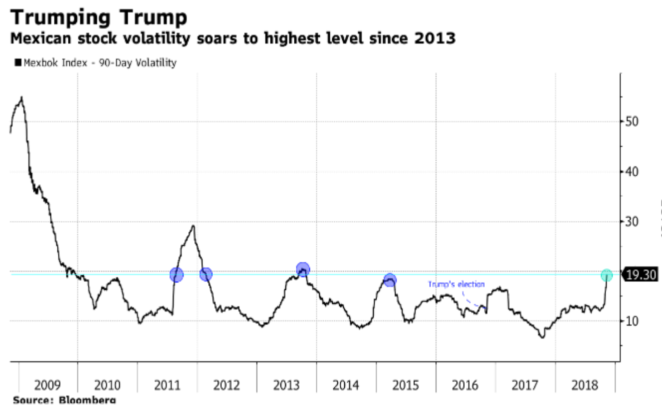
India

The government has no plans to request a transfer of central bank reserves, according to officials. Economic affairs secretary Garg said the government's fiscal plans are "completely on track" and refuted earlier claims that that the administration wanted the RBI to transfer as much as $50 bn to improve the budget. Garg confirmed, however, that the government was discussing a proposal regarding the capital framework of the RBI which in turn determines the bank's reserve adequacy. The issue is expected to be discussed at the RBI's board meeting next Monday. According to Bloomberg calculations, the RBI sold approximately $2 bn of reserves in the week ending November 2.

Mexico

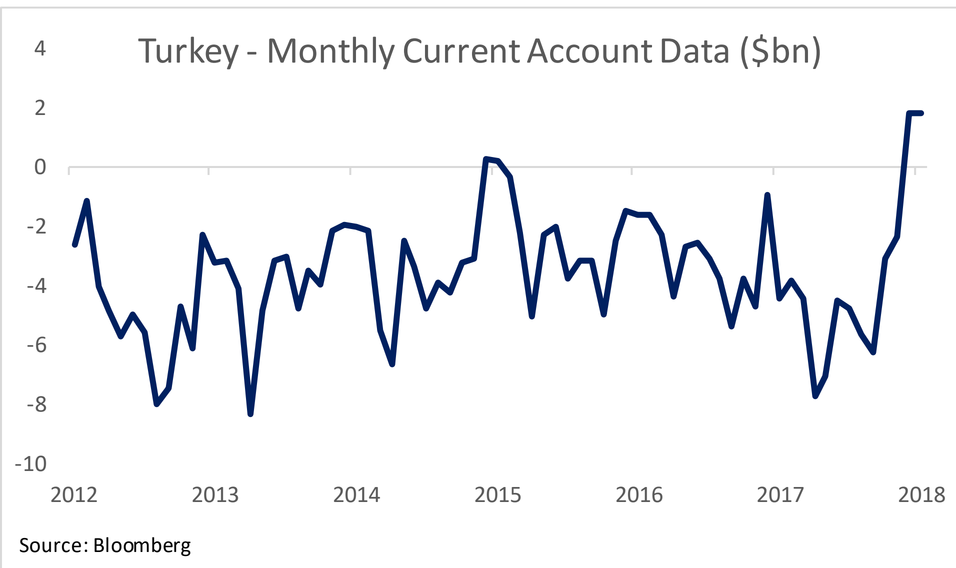
The slump in equity prices stalled on Friday, after President Lopez Obrador vowed not to change banking laws. Market participants interpreted the draft bill to reduce banking fees as potential signs of anti-business sentiment and interference in the economy by the government. Local equities tumbled as much as 8.6% during trading sessions on Wednesday and Thursday (first chart). To calm markets, the president said Friday afternoon that he disagreed with a proposal to cut certain fees charged by banks. He also promised to preserve the fiscal and economic structure of Mexico for the first three years of his term. Some analysts pointed out that equity market volatility has now exceeded the level after the US presidential election (second chart). Equities finished marginally higher on Friday, and the peso gained modestly.





Turkey

The lira initially saw minor losses as current account data for September disappointed. Despite coming in below consensus expectations, the current account was in a surplus of $1.83 bn during the month ($1.94 bn expected), after having been at a $6.2 bn deficit as recently as May this year. Despite an overall improvement in the external data, analysts pointed to $904 mn of outflows from foreign investors and a reduction in reserves. The lira initially weakened 0.5% against the dollar but recovered throughout the morning to trade mostly unchanged.



List of GMM Contributors (Global Markets Analysis Division, MCM Department)

Anna Ilyina
Division Chief
Peter Breuer
Deputy Division Chief
Will Kerry
Deputy Division Chief
Sergei Antoshin
Senior Economist
John Caparusso
Senior Financial Sector Expert
Sally Chen
Senior Economist
Fabio Cortés
Senior Economist
Mohamed Jaber
Senior Financial Sector Expert
David Jones
Senior Financial Sector Expert
Sanjay Hazarika
Senior Financial Sector Expert
Rebecca McCaughrin
Senior Financial Sector Expert
Juan Solé
Senior Economist
Jeffrey Williams
Senior Financial Sector Expert
Akihiko Yokoyama
Senior Financial Sector Expert
Dimitrios Drakopoulos
Financial Sector Expert
Tryggvi Gudmundsson
Economist
Henry Hoyle
Financial Sector Expert
Robin Koepke
Economist
Thomas Piontek
Financial Sector Expert
Jochen Schmittmann
Economist
Ilan Solot
Financial Sector Expert
Nour Tawk
Economist
Martin Edmonds
Senior Data Mgt Officer
Yingyuan Chen
Senior Research Officer
Rohit Goel
Research Officer
Piyusha Khot
Research Assistant
Xingmi Zheng
Research Assistant

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Global Financial Indicators

Last updated: 11/12/18 8:15 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2781	-0.9	2	1	8	4
Europe		3210	-0.6	0	0	-11	-8
Japan		22270	0.1	2	-2	-2	-2
China		2631	1.2	-1	1	-23	-20
Asia Ex Japan		64	-2.2	-3	-2	-16	-16
Emerging Markets		40	0.0	-2	-1	-14	-16
Interest Rates					**basis points**		
US 10y Yield		3.18	0.0	-2	2	78	78
Germany 10y Yield		0.38	-2.6	-5	-12	-3	-5
Japan 10y Yield		0.12	-0.4	-1	-3	8	7
UK 10y Yield		1.44	-5.4	-6	-20	10	25
Credit Spreads					**basis points**		
US Investment Grade		106	0.5	-2	7	7	14
US High Yield		364	11.5	0	27	-26	-11
Europe IG		71	0.9	1	-3	19	26
Europe HY		290	1.7	2	-4	46	56
EMBIG Sovereign Spread		363	1.0	4	11	65	78
Exchange Rates					%		
Dollar Index (DXY)		97.35	0.5	1	2	3	6
USDEUR		1.13	-0.6	-1	-3	-3	-6
USDJPY		113.8	0.0	-1	-1	0	-1
EM FX vs. USD		61.8	-0.2	-1	0	-9	-11
Commodities					%		
Brent Crude Oil ($/barrel)		71	1.4	-3	-12	12	6
Industrials Metals (index)		114	-0.6	-2	-6	-13	-18
Agriculture (index)		43	0.2	-1	-2	-11	-10
Implied Volatility					%		
VIX Index (%, change in pp)		17.8	0.5	-2.1	-3.5	6.5	6.8
10y Treasury Volatility Index		3.8	-0.2	-0.8	-0.1	0.0	0.3
Global FX Volatility		8.3	0.1	0.1	0.1	0.9	1.0
EA Sovereign Spreads					**10-Year spread vs. Germany (bps)**		
Greece		401	3.0	15	10	32	32
Italy		306	6.5	16	-2	147	147
Portugal		156	1.8	10	1	4	4
Spain		121	1.3	7	3	6	6

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: 11/12/2018 8:02 AM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.96	-0.1	-0.5	-1	-5	-7		3.5	-0.4	-4	-15	-50	-51
Indonesia		14820	-1.0	1.1	3	-9	-8		8.3	9.3	-13	-34	138	166
India		73	-0.5	0.3	1	-10	-12		7.8	-2.8	-3	-32	67	37
Philippines		53	-0.6	-0.1	2	-4	-6		6.7	0.0	8	13	186	186
Thailand		33	-0.3	-0.4	-1	0	-2		2.9	1.0	1	-6	63	59
Malaysia		4.19	-0.2	-0.3	-1	0	-3		4.1	0.2	-1	5	5	24
Argentina		35	0.1	0.7	4	-51	-47		23.7	-4.1	109	47	744	770
Brazil		3.75	-0.6	-0.6	1	-13	-12		8.8	-0.1	17	-32	-11	-23
Chile		685	-0.1	-0.8	-1	-8	-10		4.8	0.0	0	-1	12	2
Colombia		3179	-1.1	0.1	-4	-5	-6		6.8	1.8	-9	16	33	56
Mexico		20.26	-0.6	-1.8	-7	-6	-3		8.9	6.1	14	77	161	123
Peru		3.4	-0.2	-0.2	-1	-4	-4		5.9	1.5	-12	11	48	62
Uruguay		33	0.3	0.8	1	-10	-12		10.7	6.4	-18	18		208
Hungary		285	-0.7	-1.1	-2	-6	-9		2.7	2.4	1	-8	141	148
Poland		3.81	-0.8	-0.9	-3	-5	-9		2.6	-2.9	0	-7	-19	-11
Romania		4.1	-0.6	-1.1	-2	-4	-6		4.3	-4.0	-18	-29	81	49
Russia		67.6	0.7	-2.1	-2	-12	-15		8.6	10.0	28	11	115	135
South Africa		14.4	-0.1	-1.5	1	1	-14		9.8	2.8	-1	-2	-10	45
Turkey		5.44	0.3	-2.3	8	-29	-30		17.6	-14.4	-87	-431	526	568
US (DXY; 5y UST)		97	0.5	1.1	2	3	6		3.04	0.0	1	2	98	83

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2631	1.2	-1	1	-23	-20		182	-2	2	-2	38	30
Indonesia		5777	-1.7	-2	0	-4	-9		211	4	-1	21	41	45
India		34813	-1.0	-1	0	4	2		169	2	2	4	54	59
Philippines		6926	-0.6	-4	-1	-18	-19		104	1	-2	-5	7	9
Malaysia		1696	-0.7	-1	-2	-3	-6		135	-1	2	8	22	25
Argentina		29912	-2.7	-4	1	10	-1		616	1	13	-40	234	266
Brazil		86218	0.7	-4	4	19	13		252	2	9	-9	5	18
Chile		5170	-0.2	-2	0	-4	-7		138	-2	1	14	6	19
Colombia		1420	-0.4	3	-3	-1	-6		192	4	10	21	1	18
Mexico		44264	0.2	-3	-9	-9	-10		305	2	8	50	54	60
Peru		19080	-1.0	0	-1	-3	-4		153	-1	3	10	15	16
Hungary		38570	0.0	2	6	-2	-2		123	1	5	9	29	35
Poland		56924	-1.3	1	1	-10	-11		51	-5	-4	-10	4	4
Romania		8667	0.1	1	3	12	12		186	4	-2	12	54	73
Russia		2408	0.2	1	0	11	14		230	11	16	13	43	52
South Africa		52479	-1.5	-4	-2	-12	-12		332	5	-3	-2	16	78
Turkey		92020	-0.9	-4	-5	-16	-20		427	3	-15	-37	96	138
Ukraine		597	0.2	3	8	98	90		613	12	15	58	138	158
EM total		24	-1.5	-2	-1	-12	-11		363	1	4	11	65	78

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