GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, NOVEMBER 15, 2019

- **Federal Reserve introduces long-term repos to ease year-end funding pressure** (link)
- **Hong Kong's 3-month interbank rate at widest level to US Libor in 20 years** (link)
- **PBC adds 200 bn RMB in liquidity via its medium-term lending facility** (link)
- **Mexico's central bank cut policy rates by 25 bps to 7.5%, as expected** (link)
- **Citi and Google announce tie-up to offer US consumer checking accounts** (link)

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

Price action limited overnight as central banks add further liquidity into year end

Markets head into the weekend with another largely listless trading session. There was little price action of note in major developed markets, as market participants continued to discuss the well-worn themes of US-China trade negotiations. However, overall sentiment has improved relative to a few weeks ago, with worries about a significant near-term slowdown in global growth have faded. Concerns about funding over the year end remain, with the Federal Reserve and China's PBC announcing measures to increase medium-term liquidity.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
11/15/19 8:04 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3097	0.1	0	3	13	24
Eurostoxx 50		3699	0.3	0	3	16	23
Nikkei 225		23303	0.7	0	5	7	16
MSCI EM		43	0.6	-3	2	5	10
Yields and Spreads					bps		
US 10y Yield		1.84	-6.7	-10	7	-127	-84
Germany 10y Yield		-0.34	1.4	-7	8	-70	-58
EMBIG Sovereign Spread		324	1	11	-9	-54	-90
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		60.2	0.3	-1	-1	-3	-3
Dollar index, (+) = $ appreciation		98.1	0.0	0	0	1	2
Brent Crude Oil ($/barrel)		61.9	-0.5	-1	5	-7	15
VIX Index (%, change in pp)		12.9	-0.2	0	-1	-7	-13

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

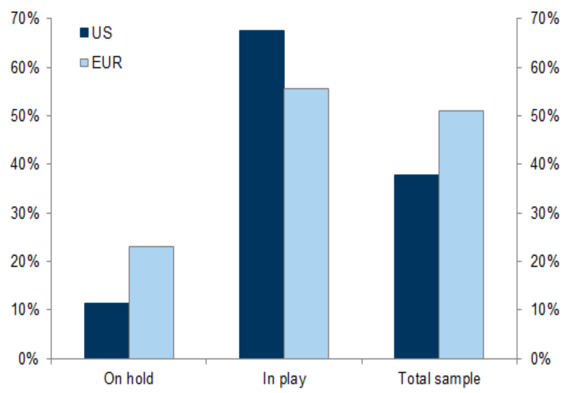
United States back to top

In a virtual repeat of Wednesday's session, equities were little changed while Treasuries rallied. Treasury yields dropped 5 to 7 bps along the 2- to 10-year sector. However, policy rate expectations remained stable, with Fed funds markets pricing in 1 rate cut by the end of 2020. The PPI report showed subdued core inflation, while increases in medical and energy prices propelled headline PPI to a larger-than-expected 0.4% m/m and 1.1% y/y. Given similar results from CPI, markets are expecting a soft core PCE print later this month. Jobless claims unexpectedly jumped 14K to 225K last week to a 4-month high, likely skewed by the Veterans' Day holiday.

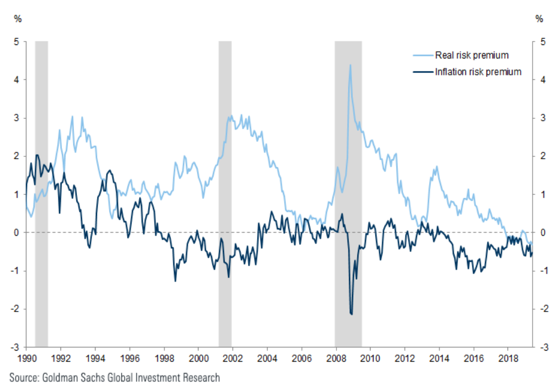
The Fed announced new longer-term repos to ease year-end funding pressure. These include a 28-day repo totaling at least $15 bn on December 9, and a 42-day repo totaling at least $25 bn on November 25 and another 42-day repo totaling at least $15 bn on December 2. The longer-term repos are designed to supply funding over the year end. The Fed will continue to offer the daily $120 bn overnight repo and the $35 bn 2-week repos at least twice a week. The pace of the Treasury bill purchase will stay unchanged at $60 bn per month till mid-December.

Some analysts see limited scope for a substantial rise in Treasury yields. Nominal yields can be decomposed into two components, policy rate expectations and term premia. With the Fed signaling a neutral monetary policy stance, policy rate expectations are likely to be range-bound. Goldman's research shows that in periods when Fed and ECB adopted similar policy, namely "on hold", changes in policy rate expectations only contributed 10-20% of the changes in the 10-year bond yields. In contrast, when central banks were "in play", policy expectations explained a much larger portion of yield changes. The term premia component can be further divided into real risk premia and inflation risk premia. Real risk premia are found to be countercyclical, hence more likely to fall given the outlook of an improving US economy. Inflation risk premia have been on a structural decline and are unlikely to see a sharp increase in near term, especially given the persistent softness in core inflation shown in recent data. Some technical factors could cause a temporary overshoot in yields, such as option positioning. Investors appear to have built up sizable option positions that would be adversely affected by a large move higher in yields from current levels.

Share of yield variance explained by policy expectation component (10-year Treasury and bund yield)



Treasury 10-year real and inflation risk premia



Source: Goldman Sachs

Citi and Google announced a tie-up to offer US consumer checking accounts. Citigroup (along with a California credit union) have formed a venture with Google which allows users to access their checking accounts through Google Pay. Other banks might join with the payments platform later, according to

Bloomberg. This deal follows a recent agreement with American Airlines to offer Citi savings accounts through co-branded credit cards. From Citi's perspective, this deal widens the reach of its low-cost retail deposit franchise without needing to add incremental branches. (An industry research estimates Google Pay will reach 12 mn users during 2019, compared with about 30 mn users of Apple Pay.) More strategically, such an arrangement with a large 'platform' technology company may help respond to the threat to incumbent banks of fintech providers' new distributed ledger payments (with associated funding) services, notably the proposed Libra offering. Research analysts claim that Citi would retain control of all customer banking data, which would not be available to Google without explicit customer consent.

The economic data this morning is mixed. The October retail sales rose more than expected by 0.3% mom on strength in auto and gas sales. The control group sales added 0.3% mom as well, as expected. Import price dropped more than expected by 0.5% mom and 3% yoy in October, with prior readings revised down as well. Similar contraction is seen in export price (-0.1% mom; -2.2% yoy). Empire manufacturing index dropped to 2.9 vs 6 expected. There is limited price actions as markets focus on trade related headlines.

Europe back to top

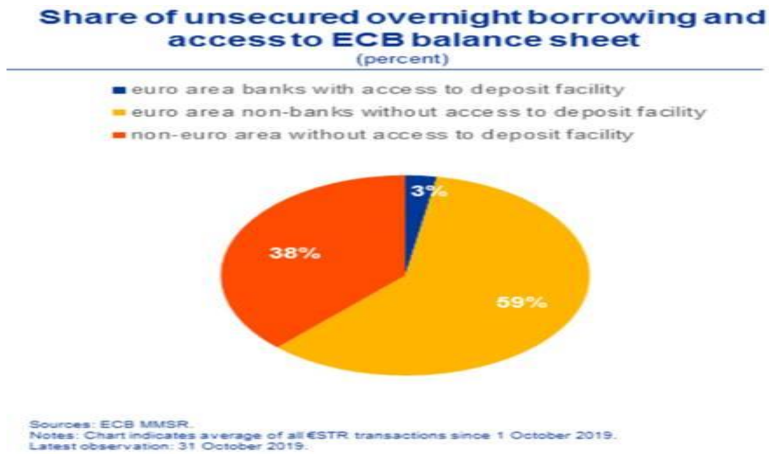
Euro Area

A quiet session with no major data, leaving rates and equities little changed. German 10-yr bund yields trade at -0.34%, and 10-yr OAT yields at -0.02%. In money markets, the fixing of the new overnight benchmark €STR rate has crept 2 bps higher (at -0.536% yesterday) compared to -0.555% when the new rate was launched in early October. The higher fixing occurred on lower volumes of circa €23 bn this week from circa €30 bn in October.

Earlier this week**, ECB board member Cœuré pointed out that some 97% of €STR volumes are bank borrowings from non-banks or non-euro entities** (so market participants who do not have access to the ECB's depo facility). Mr. Coeuré warned that an increase in risk aversion might lead to higher €STR rates.

Yesterday, **ECB Chief Economist Lane commented that the impact of rate cuts on the euro exchange rate has likely intensified over time**, especially since the deposit facility rate moved into negative territory in June 2014. Dutch CB governor Knot said that the side effects from QE are bigger than from negative rates. The euro is little changed as analysts interpret yesterday's comments by Eurosystem officials as an indication of a relative preference of rate cuts over QE as a policy tool, with a clearer transmission to the exchange rate.

The U.S. administration's self-imposed deadline on the section 232 auto tariffs passed yesterday. Consensus remains that the U.S. will not impose new car tariffs any time soon.



United Kingdom

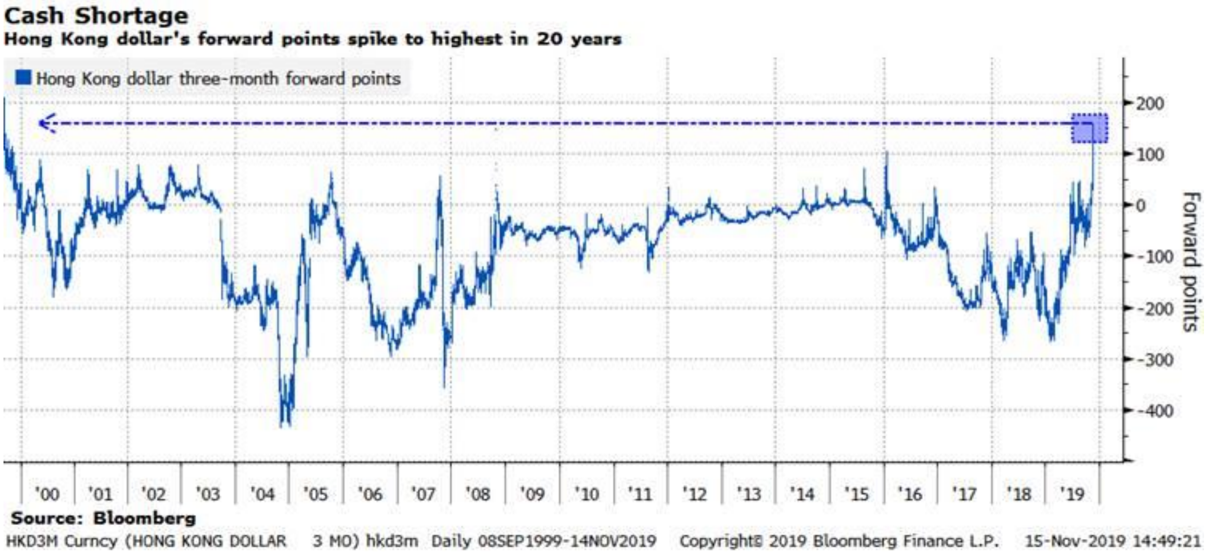
U.K. equities are -0.5% lower with **shares in BT 2% lower as Labour announced plans to nationalize part of the company** and offer free broadband as the electoral campaign intensifies.

Other Mature Markets

back to top

Hong Kong SAR

Interbank funding rates climbed to their highest level in more than two months amid tightened liquidity conditions. Three-month Hibor, the local interbank rate, has risen by 27 bps this week to 2.48%. Its spread over 3-month Libor reached 46 bps, the widest since October 1999, suggesting increasingly more expensive funding for local borrowers. Meanwhile, the Hong Kong dollar's three-month forward points, an indicator of liquidity conditions in the FX market, climbed to 138 this week, its highest level since September 1999. An increase in seasonal demand for cash as well as Alibaba's upcoming public offering – as investors need HKD to invest in these new shares – are tightening liquidity conditions. That said, others noted that the intensifying social unrest is reviving concerns for capital flight, though such evidence has been limited.



Japan

The yen depreciated (-0.1%) for the first time in six days after positive news from the White House regarding the US-China trade negotiation. While House economic adviser Kudlow said that the first phase of a trade deal was close to being finalized. JGBs were largely little changed as the BoJ left its debt purchases of super-long bonds unchanged at the regular operation. Meanwhile, equities gained on positive trade sentiment, with the Topix up by 0.7%.

Emerging Markets

back to top

Asian currencies and equities posted broad-based gains on trade optimism. The Indian rupee (+0.3%) and the Korean won (+0.3%) paced gains against the US dollar, while the Thai baht, which was unchanged, underperformed. Chinese shares were the exception to equity gains, with the Shanghai Composite down by 0.6% and the tech-heavy Shenzhen Composite down by 1.1%. White House economic adviser Larry Kudlow offered optimism, noting that negotiations over the first phase of a trade agreement are in the "final stages". That said, news reports continue to suggest stalled progress over agricultural purchases and the easing of tariffs, including disagreements over import targets for China as well as China's insistence that tariffs must be rolled back. Equities in **Central and Eastern Europe advanced**, led by the

Czech Republic (+0.6%) and Romania (+0.2%). Stocks in Turkey gained (1.1%). Other bourses were mixed. Currencies traded within a ±0.1% corridor to the dollar. **Latin American equity markets were mixed on Thursday**. Equities in Argentina (-4.1%) fell sharply, whereas equities in Peru (-0.7%) and Colombia (-0.6%) had smaller declines. Equities in Chile (+2.0%) had an increase for the first time this weekend. Currency markets were also lower but quieter relative to the rest of the week. Although there was a verbal intervention on Tuesday and an announcement of dollar liquidity injection on Wednesday, the Chilean peso (-0.7%) has seen another depreciation against the dollar on Thursday. The Brazilian real (-0.6%) and the Colombian peso (-0.5%) have also depreciated.

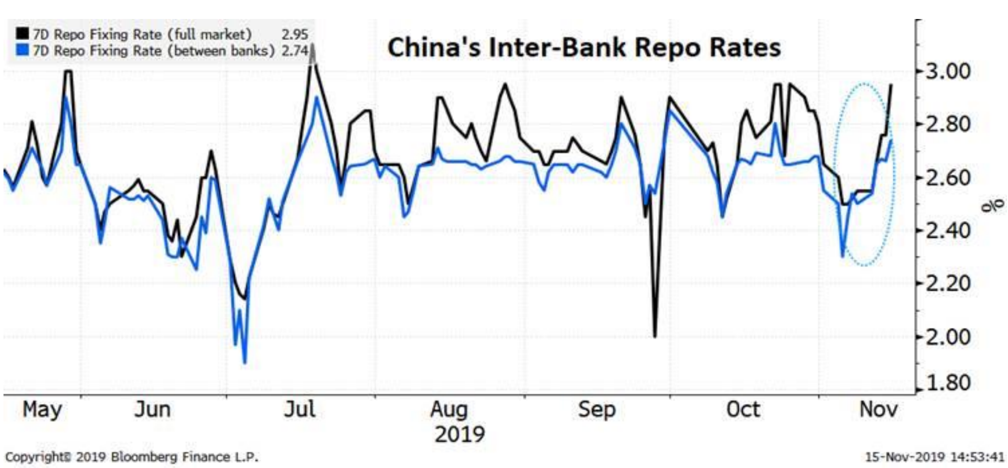
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
11/15/19 8:06 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		42.79	0.6	-3	2	5	10
MSCI Frontier Equities		28.68	0.2	0	2	5	10
EMBIG Sovereign Spread (in bps)		324	1	11	-9	-54	-90
EM FX vs. USD		60.25	0.3	-1	-1	-3	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.01	0.2	0	1	-1	-2
Indonesian Rupiah		14077	0.1	0	1	4	2
Indian Rupee		71.79	0.3	-1	0	0	-3
Argentine Peso		59.66	0.0	0	-2	-40	-37
Brazil Real		4.19	-0.3	-2	-1	-10	-7
Mexican Peso		19.24	0.4	-1	0	5	2
Russian Ruble		63.81	0.2	0	1	3	9
South African Rand		14.73	0.7	1	1	-4	-3
Turkish Lira		5.75	0.0	0	3	-7	-8
EM FX volatility		7.30	0.0	0.2	-0.6	-2.8	-2.5

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

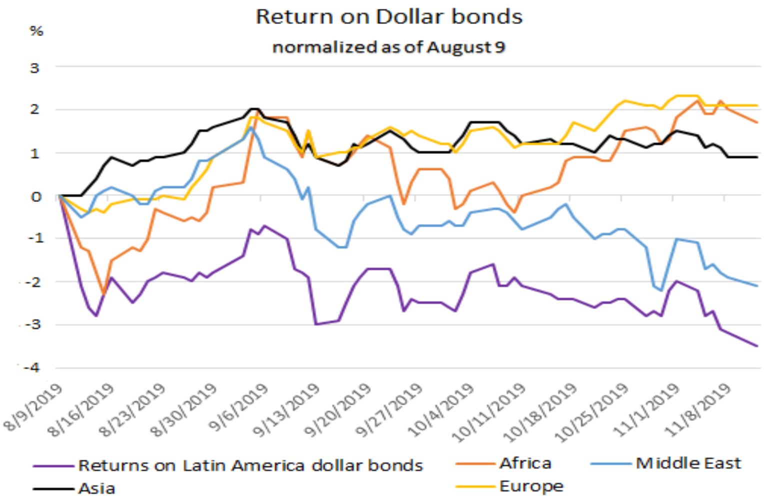
China

The PBC injected RMB 200 bn into the financial market via its medium-term lending facility (MLF) to maintain market liquidity. That said, the PBC left the interest rate on the one-year facility unchanged at 3.25%. The liquidity injection reportedly came as a surprise. Before the MLF announcement, the PBC had drained more than RMB 153 bn from the market this month, pushing the 7-day repo rate 30 bps higher from its lowest level this month. Market reaction was limited. The yield on 10-year central government bonds was little changed at 3.26% while both the onshore CNY and offshore CNH gained a touch against the dollar (+0.1%).



Latin America

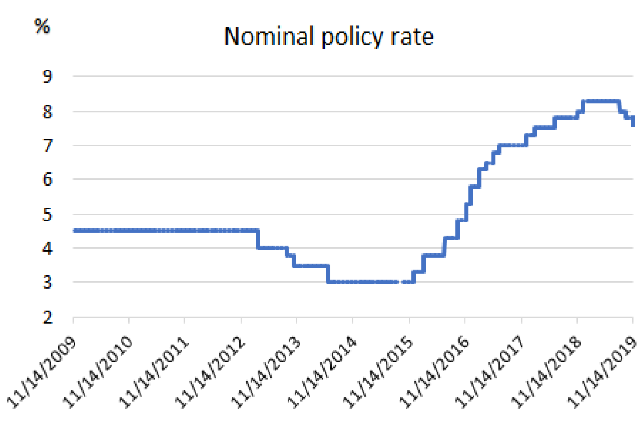
Social and political instability in Latin American countries have adversely affected the performance of assets in the region. The elections in Argentina, protests in Chile and Ecuador, and recently, the resignation of Evo Morales in Bolivia have resulted in falling asset prices since August. Dollar bonds in Latin America have lost 3.5% since early August, with the worst performance relative to other emerging markets based on the JP Morgan Index. The only other region with negative performance during this period was the Middle East (-2%), which has also seen political unrest in Lebanon.



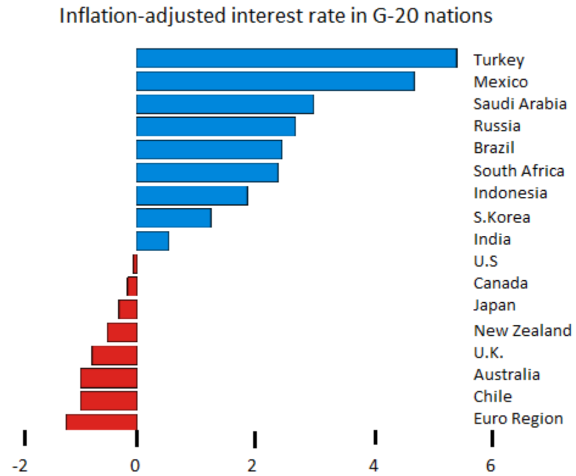
Data source: JP Morgan / Bloomberg, indexes comprise emerging markets only

Mexico

The central bank cut the overnight policy rate by 25 bps to 7.5%, as expected. According to the MPC, increasing economic slack and low inflation lent support for the cut. Analysts suggest that the central could still have room for further cuts, since Mexico has the second highest inflation-adjusted interest rate (after Turkey) among G-20 nations.

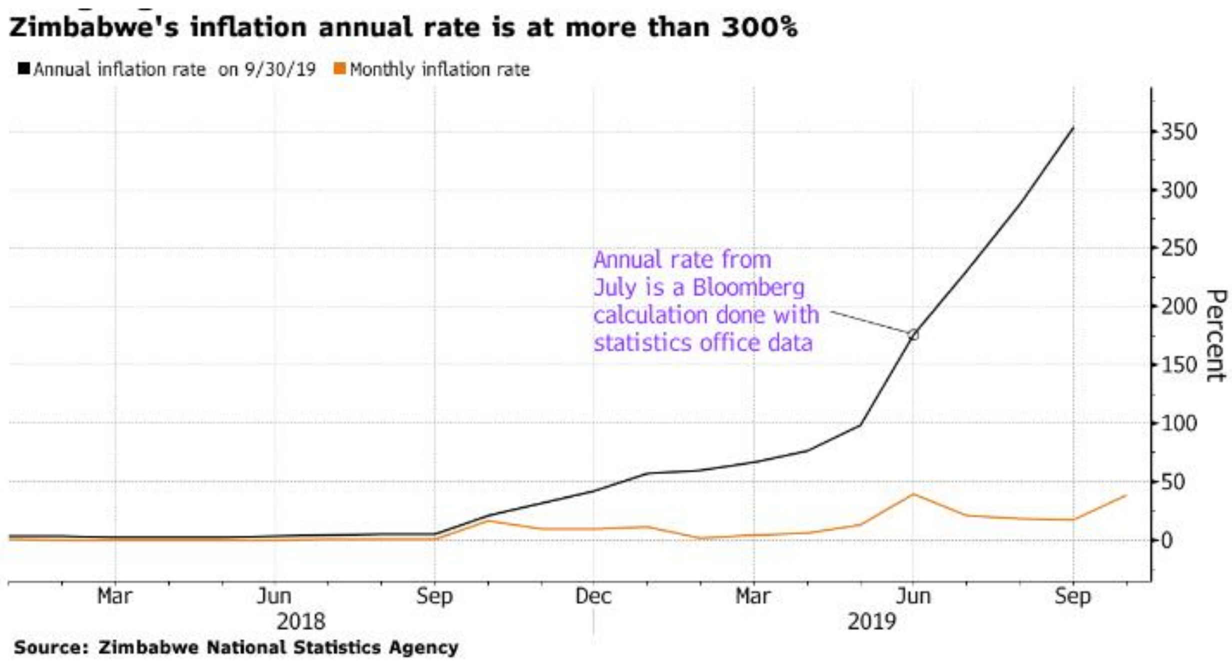


Data source: Bloomberg



Source: Central banks, national statistics agencies / Bloomberg
G-20 nations excluding Argentina

Zimbabwe
According to Bloomberg research, **Zimbabwe's price increases are approaching hyperinflation levels.** The monthly inflation rate stood at 39% in September, compared to 17% the previous month. The annual inflation rate is thus running at close to 350%. Price increases in Zimbabwe have been relentless due to food shortages as the country suffers from the worst drought in 4 decades.



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Global Financial Indicators

Last updated: 11/15/19 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3097	0.1	0	3	13	24
Europe		3699	0.3	0	3	16	23
Japan		23303	0.7	0	5	7	16
China		2891	-0.6	-2	-3	8	16
Asia Ex Japan		70	-0.2	-3	2	5	10
Emerging Markets		43	0.6	-3	2	5	10
Interest Rates					basis points		
US 10y Yield		1.84	-6.7	-10	7	-127	-84
Germany 10y Yield		-0.34	1.4	-7	8	-70	-58
Japan 10y Yield		-0.07	-0.1	-2	10	-18	-7
UK 10y Yield		0.73	1.9	-6	3	-65	-55
Credit Spreads					basis points		
US Investment Grade		118	-0.1	2	-4	4	-29
US High Yield		460	-1.9	13	8	58	-61
Europe IG		49	-1.1	0	-4	-27	-38
Europe HY		235	-5.1	4	-1	-80	-118
EMBIG Sovereign Spread		324	1.0	11	-9	-54	-90
Exchange Rates					%		
USD/Majors		98.12	0.0	0	0	1	2
EUR/USD		1.10	0.1	0	0	-3	-4
USD/JPY		108.7	-0.3	1	0	5	1
EM/USD		60.2	0.3	-1	-1	-3	-3
Commodities					%		
Brent Crude Oil ($/barrel)		62	-0.5	-1	5	-7	15
Industrials Metals (index)		114	0.0	-4	-2	-1	4
Agriculture (index)		39	-0.1	-1	0	-8	-6
Implied Volatility					%		
VIX Index (%, change in pp)		12.9	-0.2	0.1	-0.7	-7.1	-12.6
10y Treasury Volatility Index		4.5	0.0	0.2	-0.8	0.4	-0.1
Global FX Volatility		6.4	0.0	0.1	-0.5	-2.2	-2.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		190	7.8	30	7	-233	-226
Italy		163	-4.9	17	27	-151	-87
Portugal		74	0.3	15	14	-87	-74
Spain		79	-1.9	14	15	-48	-39

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
11/15/2019	Level		Change (in %)					Level		Change (in basis points)				
8:06 AM	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		7.01	0.2	-0.2	1	-1	-2		3.3	-0.2	-1	6	-12	9
Indonesia		14077	0.1	-0.4	1	4	2		7.1	-0.6	6	-18	-117	-103
India		72	0.3	-0.7	0	0	-3		6.8	-1.1	1	3	-96	-61
Philippines		51	0.2	-0.2	2	4	4		4.3	0.1	0	0	-241	-199
Thailand		30	-0.1	0.5	1	9	7		1.7	-0.3	8	20	-117	-89
Malaysia		4.15	0.1	-0.4	1	1	0		3.4	-0.5	-2	0	-76	-69
Argentina		60	0.0	-0.3	-2	-40	-37		65.1	132.0	256	749	4104	4206
Brazil		4.19	-0.3	-2.1	-1	-10	-7		6.1	0.2	11	14	-266	-208
Chile		788	1.9	-5.1	-9	-14	-12		4.0	25.5	74	118	-77	-47
Colombia		3422	0.9	-2.4	1	-7	-5		6.0	-2.7	15	28	-86	-54
Mexico		19.24	0.4	-0.7	0	5	2		7.0	-5.2	11	20	-202	-167
Peru		3.4	0.0	-1.3	-1	0	-1		4.6	-4.2	14	39	-129	-113
Uruguay		38	0.1	-0.5	-1	-13	-14		11.0	-0.2	6	17	19	27
Hungary		303	0.0	-0.2	-1	-6	-8		1.2	0.0	-4	6	-155	-105
Poland		3.88	0.3	-0.2	0	-2	-4		1.8	-1.1	-7	5	-77	-44
Romania		4.3	0.1	0.0	0	-5	-6		4.0	12.0	13	22	-40	-22
Russia		63.8	0.2	0.0	1	3	9		6.3	-4.9	10	-23	-214	-211
South Africa		14.7	0.7	0.8	1	-4	-3		9.6	-0.8	-2	23	-20	-4
Turkey		5.75	0.0	0.3	3	-7	-8		12.0	0.9	-10	-345	-517	-490
US (DXY; 5y UST)		98	0.0	-0.2	0	1	2		1.65	2.2	-10	5	-129	-86

	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		2891	0.0	-2	-3	8	16		175	0	0	-13	-9	-19
Indonesia		6128	#VALUE!	-1	0	3	-1		177	1	10	5	-45	-59
India		40357	#VALUE!	-1	5	14	12		133	2	11	0	-39	-63
Philippines		7933	#VALUE!	-2	1	14	6		85	-1	10	16	-26	-36
Malaysia		1595	#VALUE!	-1	2	-6	-6		120	0	1	-6	-20	-42
Argentina		31020	0.7	-14	-1	2	2		2447	-5	11	508	1798	1632
Brazil		106557	-0.3	-3	2	24	21		231	1	8	0	-27	-42
Chile		4709	-0.8	0	-9	-9	-8		148	1	9	15	3	-18
Colombia		1614	-0.4	-3	2	13	22		179	0	8	3	-28	-49
Mexico		43189	0.4	-2	0	4	4		317	0	9	10	-16	-37
Peru		19581	-0.7	-3	1	2	1		127	0	6	1	-34	-41
Hungary		43242	#VALUE!	0	7	11	10		98	-3	12	6	-36	-50
Poland		58778	#VALUE!	-1	4	4	2		25	-3	5	-2	-40	-60
Romania		9712	#VALUE!	0	2	13	32		195	4	14	10	-3	-26
Russia		2920	#VALUE!	-2	8	23	23		168	0	5	-17	-68	-84
South Africa		56233	#VALUE!	-1	1	8	7		334	-1	10	14	-6	-31
Turkey		104868	#VALUE!	2	10	12	15		420	-2	-6	-78	-14	-9
Ukraine		519	#VALUE!	0	-1	-15	-7		456	-1	7	-33	-168	-331
EM total		43	0.6	-3	2	5	10		324	1	11	-9	-54	-90

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

back to top