Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Monday, November 19, 2018

- **Market implied probability of December Fed hike is down to 71% from 82% a month ago (link)**
- **Oil price slump contributes to spike in US HY credit spreads (link)**
- **Brexit tensions subside as PM May urges MPs to accept deal (link)**
- **European Commission could soon start Italy's excessive deficit procedure (link)**
- **RBS and Nordea removed from G-SIB list (link)**
- **Polish Financial Stability Committee pledges liquidity support for Getin Noble Bank and Idea Bank; assures "banking system is stable" (link)**

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Global Markets Focused on Fed Tightening Prospects and Trade Tensions

Markets are beginning the week on a calm note. US equity futures are 0.3% lower this morning on hawkish remarks by VP Pence on the trade conflict with China at an APEC meeting this weekend. Chinese and other Asian equities and currencies were little affected, however. US Treasury yields fell on Friday after dovish comments by Fed officials who casted doubt on a December rate hike. This morning, yields on 10-year have climbed back a few basis points, however, trading at 3.09%. On Brexit, a no-confidence vote has not been triggered yet as PM May spent the weekend trying to convince MPs to accept the draft agreement with the EU. Most observers now expect PM May to remain in power at least through next weekend's EU summit.

Key Global Financial Indicators

Last updated: 11/19/18 8:33 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2736	0.2	-2	-1	6	2
Eurostoxx 50		3189	0.3	0	-1	-10	-9
Nikkei 225		21821	0.6	-2	-3	-3	-4
MSCI EM		41	0.7	3	3	-13	-13
Yields and Spreads					bps		
US 10y Yield		3.09	-4.7	-9	-10	75	69
Germany 10y Yield		0.39	2.3	-1	-7	3	-4
EMBIG Sovereign Spread		381	-2	14	32	85	96
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		62.6	0.0	1	0	-8	-10
Dollar index, (+) = $ appreciation		96.4	-0.1	-1	1	5	5
Brent Crude Oil ($/barrel)		66.8	0.1	-5	-16	7	0
VIX Index (%, change in pp)		19.0	0.9	2	-1	8	8

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

In the week ahead, central bank rate hikes are expected for South Africa (Thursday), Nigeria (Thursday), and Zambia (Wednesday), while no changes to the policy stance are expected from the central bank policy meetings in Hungary, Ghana and Kenya. Notable data releases in the US include housing starts on Tuesday; home sales, durables and consumer sentiment on Wednesday; and PMIs on Friday. Of note, momentum in the US housing sector has slowed recently, and analysts expect housing starts to rise by 1.6% mom in October, reflecting payback after the sharp 5.3% m/m slump in September. Amongst key economic releases, flash PMIs for the euro area will be released on Monday, with a marginal slowdown expected to 53.0 (from 53.1 in October). Germany's October PPI print is scheduled for Tuesday (expected at 3.3% yoy, down one tick from September) and its Q3 GDP growth rate is expected to be reported at 1.1% yoy on Friday. Japan's October CPI will be reported on Wednesday and is expected to show a rise in inflation to 1.4% yoy from 1.2% yoy in September.

United States

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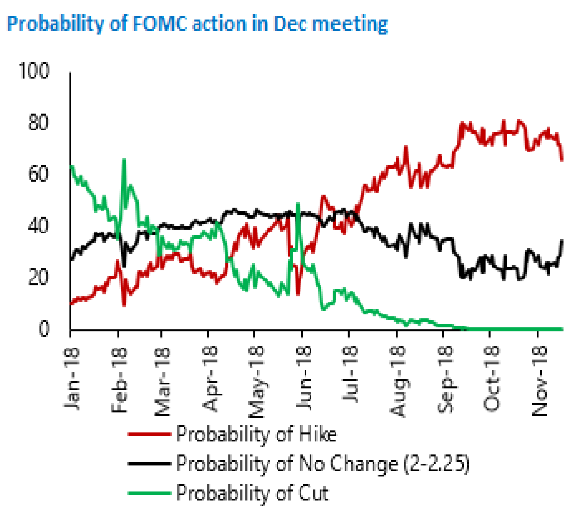
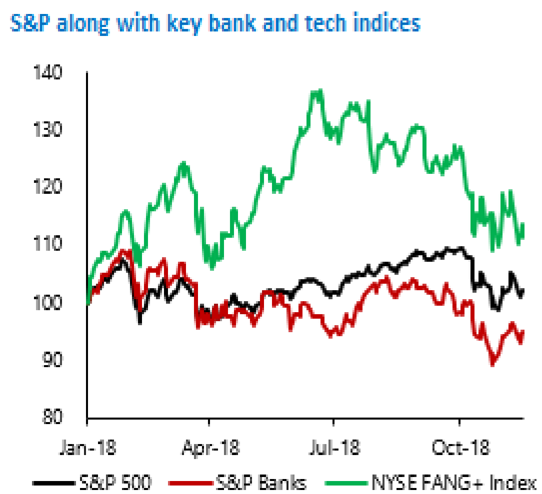
The market implied probability of a Fed hike in December is down to 71% from 82% a week ago, according to Bloomberg estimates. Comments from Fed speakers put further downward pressure on interest rates last week, with the 10-year Treasury yield down almost 5 bps to 3.06%. Fed Vice Chair Clarida struck a dovish tone on Friday, arguing that the policy rate was getting closer to neutral and that global growth was slowing. After market close, Philly Fed President Harker reportedly said in an interview that he is not convinced a December rate move would be appropriate, given the outlook for inflation. The market-implied probability of a December rate hike fell as low as 65% on Friday before rising to 71% on Monday. **Equity markets ended little changed on Friday in a slow trading session.** The Tech sector remained under pressure with the FANG+ index down 1.8%. President Trump expressed optimism about resolving the trade dispute with China after a receiving a written response from Beijing, supporting equities.

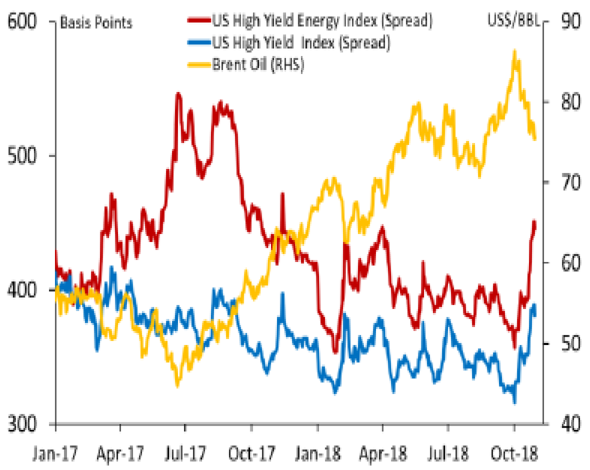


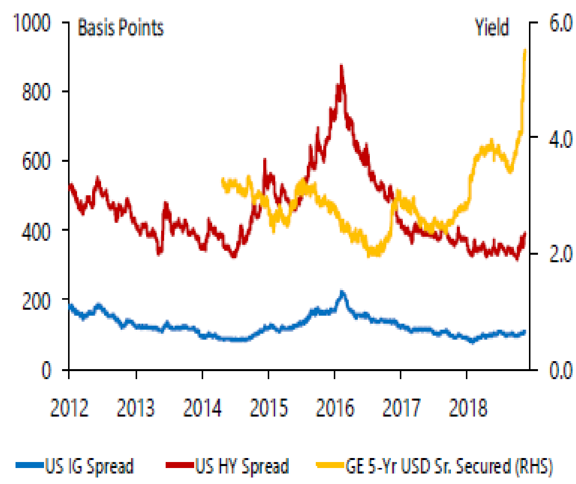
Source: Bloomberg



Source: Bloomberg

The recent sharp drop in oil prices has led to a spike in credit spreads in the US energy sector, which account for a sizeable portion of the US high-yield (HY) market. Energy-related debt currently makes up about 16% of US HY credit. HY spreads rose by about 65 bps over the past week, boosted also by some recent troubles in big firms like GE. Market concerns over credit amplified by the fact that US issuance of lower quality credit has expanded significantly over the past few years, which could accentuate the impact of a more severe sell-off in a risk-off scenario.





Source: Bloomberg

Europe

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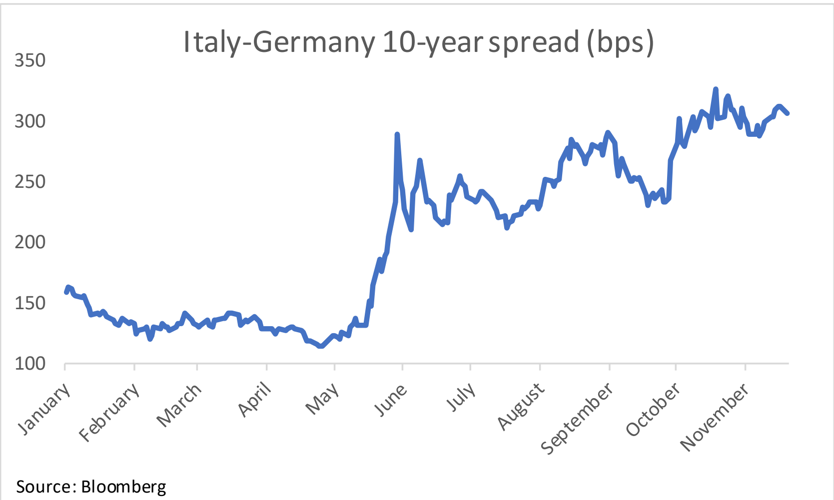
Equities started the week on a calm note. The Euro Stoxx 600 was up 0.1% while banks were up 0.2%, after ending last week with three straight days of losses. There was some spread tightening in the sovereign bond market. French and German 10-year yields were 2 bps lower while Spain and Portugal were flat. The Italian 10-year bond was 3 bps lower despite limited progress on budget talks with the EU (see below). The spread to Bunds is now at 307 bps, 20 bps below last month's high.



Source: Bloomberg

Conservative MPs have not yet submitted the required number of letters to trigger a no confidence vote in PM May. 48 MPs need to request a no confidence vote but MP Graham Brady, the only person to know the amount submitted so far, said that threshold had not been reached. The relatively quiet weekend gave UK assets some breathing space this morning following a volatile week last week. Sterling is steady just below $1.29 while Gilt yields have also stabilized. Reports over the weekend suggest that the EU is considering a maximum extension of the transition period to 2022. The draft withdrawal agreement, published last week, included a clause that allowed the transition period, currently set to run to year-end 2020, to be extended to the year "20XX". Meanwhile, the EU summit to finalize the withdrawal agreement is expected to go ahead as planned next weekend. Assuming the deal is approved, PM May will head to parliament to secure backing for it. Local media have speculated that the vote could take place on December 10.

RBS and Nordea have dropped from and BPCE reinstated onto the FSB's list of global systemically important banks. The board's latest list, which includes non-binding recommended capital surcharges, also saw Bank of America and China Construction Bank fall by one GSIB score category. RBS and Nordea spokespersons welcomed the decision. The former said the move reflected the fact that RBS is a simpler and safer bank while the latter said that Nordea is too small to belong in the ranking. The FSB's GSIB scoring methodology encompasses size, interconnectedness, international scope, centrality to the financial system infrastructure, and complexity. JP Morgan remains the world's most systemically important bank, leading to a capital surcharge of 2.5%.

Italy

The European Commission will take its first step to discipline Italy this week, according to Reuters. According to three officials close to the process, the commission will release its report on Italy on Wednesday, serving as a potential prelude to an Excessive Deficit Procedure. Member states will have two weeks to review the Commission's report. Italy resubmitted its budget last week keeping the same thrust as the previously rejected one. A separate report in local media said that the EU will ask Italy to adjust its budget for next year to the tune of €18-22 bn, or 1% to 1.2% of GDP. Italian deputy PM Di Maio said over the weekend that the government was ready to make "major cuts to wasteful spending" but that the "big reforms of this budget law need to remain in place."

Other Mature Markets back to top

Japan

Equity indices gained on Monday, with the Nikkei and Topix advancing 0.6% and 0.5%, respectively. The yen edged 0.1% higher to ¥112.76 and the 10-yr yield inched down 1bp to 0.01%. amid resurfacing China-US trade tensions.

Emerging Markets back to top

Asian bourses advanced between 1% and 2.6% today, shrugging off escalating tensions between China's president Xi and US vice president Pence ahead of the G20 summit. Equities in the Philippines (+2.6%) posted the largest gains, followed by Vietnam (+2.0%) and China (+0.9%). In the **EMEA** region, Central and Eastern European stocks traded mostly sideways while African and Middle Eastern peers posted gains of about 0.8%-1.0%. Asian and EMEA currencies were mixed, without large notable moves. **Latin American** markets closed mostly higher on Friday, led by Brazil (+3%) and Mexico (+2.1%). Mexican equities gained 2% following the policy rate hike, Ibovespa went up almost 3% showing confidence in the nomination of

Compos Neto as president of the central bank, Merval gained 2% and Chilean and Colombian markets also gained on stronger oil prices. Most currencies also strengthened against US dollar with top performers being Brazilian real and Colombian peso appreciating 1% and 0.7% respectively.

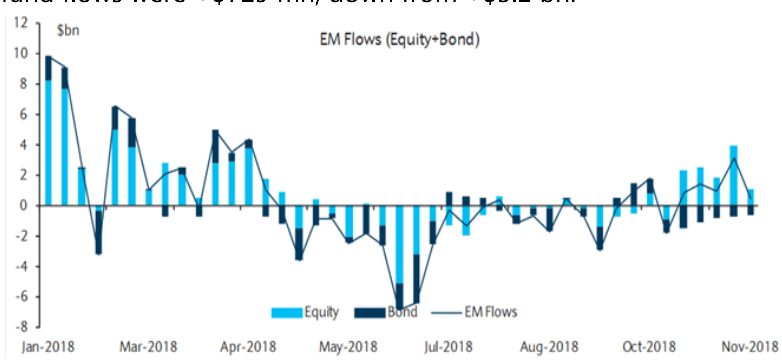
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
11/19/18 7:56 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.90	0.4	3	3	-13	-13
MSCI Frontier Equities		27.20	-0.2	0	1	-14	-18
EMBIG Sovereign Spread (in bps)		382	-1	15	33	86	97
EM FX vs. USD		62.56	-0.2	1	0	-9	-10
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.94	-0.1	0	0	-4	-6
Indonesian Rupiah		14588	0.2	2	4	-7	-7
Indian Rupee		71.66	0.4	2	2	-9	-11
Argentine Peso		35.94	0.3	-1	0	-51	-48
Brazil Real		3.76	-0.5	0	-1	-13	-12
Mexican Peso		20.28	-0.5	0	-5	-6	-3
Russian Ruble		65.95	0.0	3	-1	-10	-13
South African Rand		14.02	-0.2	3	3	0	-12
Turkish Lira		5.32	0.3	3	6	-26	-29
EM FX volatility		10.15	0.9	0.0	0.2	2.2	2.3

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

EM Flows

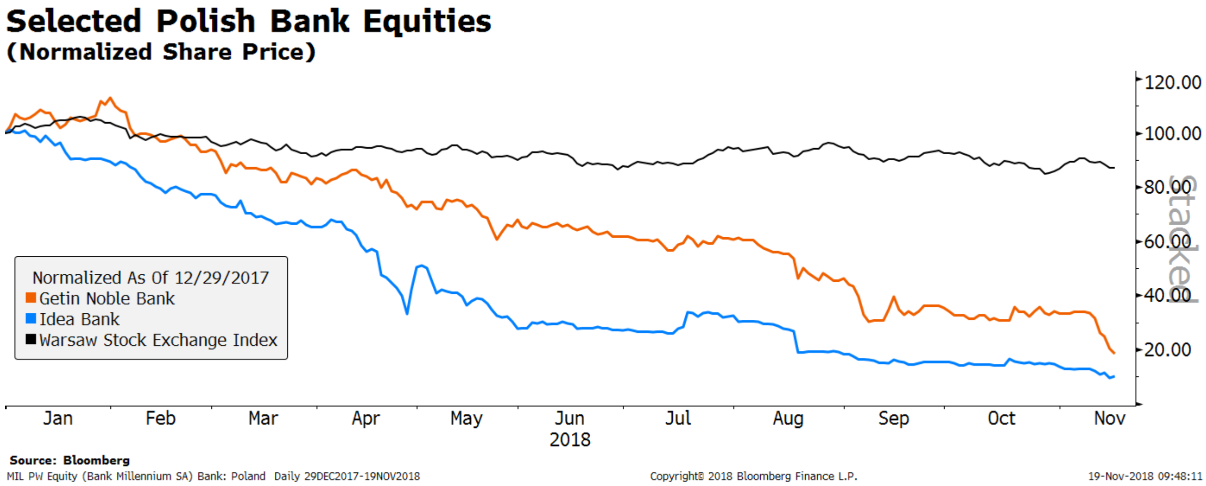
Outflows EM-dedicated bond funds continued for the sixth straight week, while inflows into EM equity funds slowed. EM bond fund flows were -$436 mn last week, down from -$887 mn. EM equity fund flows were +$729 mn, down from +$3.2 bn.



Source: EPFR Global, Barclays Research

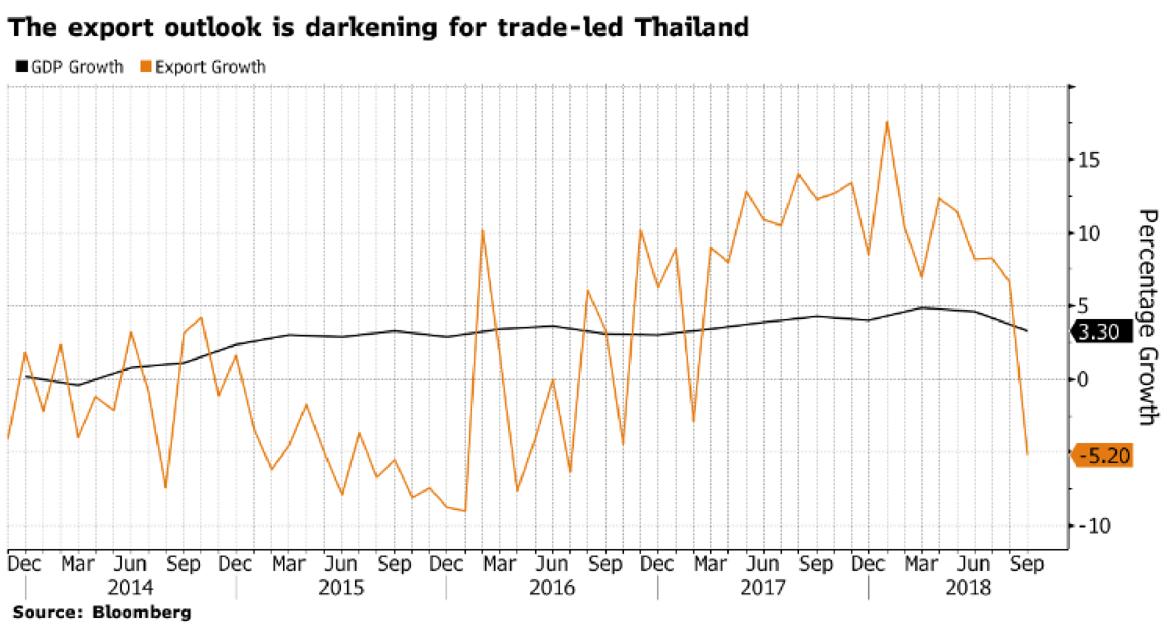
Poland

The Central Bank of Poland (CBP) vowed to grant liquidity to beleaguered Getin Noble Bank and Idea Bank after late-night meeting on Sunday. CBP governor Mr. Glapinski spoke on behalf of the Polish Financial Stability Committee confirming that "the banking system is stable." Getin (-13%) and Idea (-3.9%) will obtain liquidity support to stem deposit outflows after both lenders suffered from a corruption scandal involving their owner. Polish assets are largely performing in line with peers this morning, even though other bank stocks have suffered losses in recent days. Poland's largest lender, Bank Pekao (+0.6% today) has lost 2.6% last week as the scandal unfolded. Equities are 0.5% higher, while the zloty is slightly weaker at 4.3 per euro.



Thailand

Thailand's central bank kept rates unchanged near a record low of 1.5%, as expected. Thai one-day repo rates have been stuck at 1.5% since 2015. In a statement, the MPC acknowledged that although it still sees a need for support, monetary accommodation "would be gradually reduced." Analysts note, however, that a weak external environment and slowing domestic growth are likely to keep the CBT on hold for the foreseeable future. Thai growth slowed to 3.3% y/y in Q3 from 4.6% y/y in Q2. The Thai baht strengthened 0.2% to the dollar today.

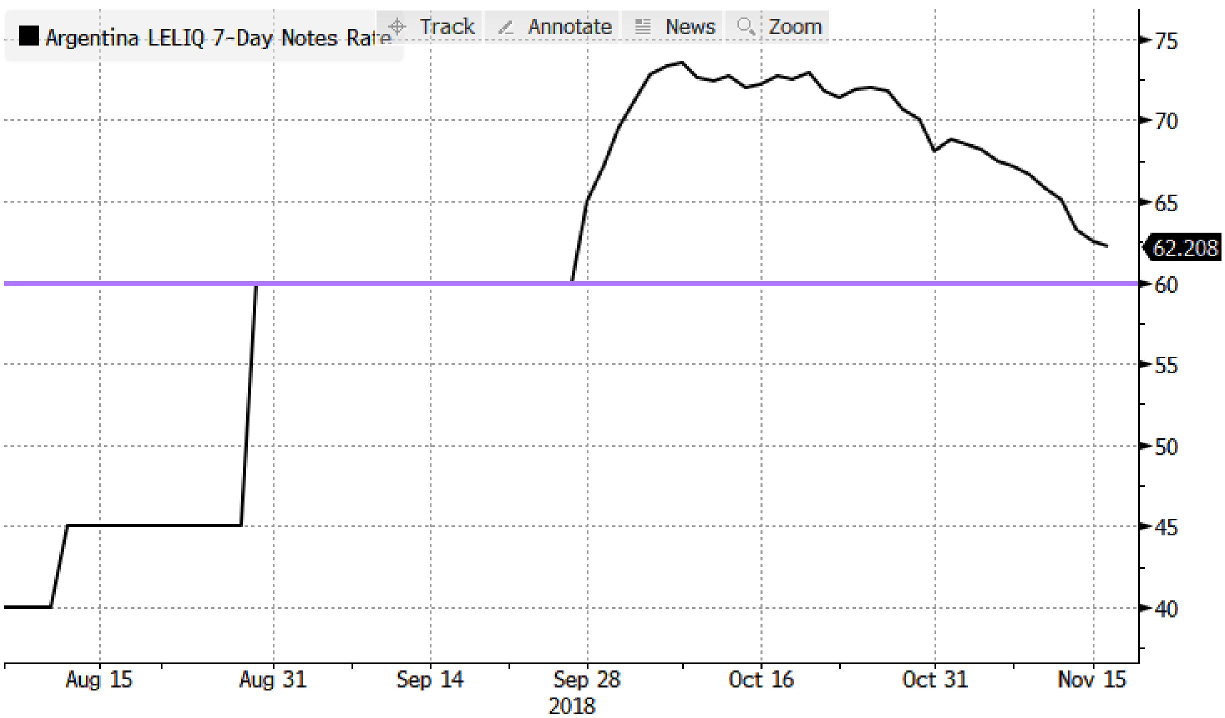


China

Chinese equities climbed 0.9% in Shanghai and 0.7% in Hong-Kong today despite recent comments by American vice president Pence that there is "no rush to end the trade war." The onshore yuan dropped 0.1% to 6.942 while CNH offshore weakened 0.2% to 6.933 per dollar.

Argentina

The central bank's policy rate under the recently introduced monetary policy framework has declined faster than expected. The daily average Leliq rate is down more than 10 ppts from its peak in early October, reaching 62.2% at Friday's auction. The peso stood at 35.9 per dollar on Friday and remains close to the lower band of the no intervention zone. Analysts have highlighted that the central bank could potentially eliminate the floor of the benchmark interest rate as soon as early December, on the premise that 12-month ahead inflation expectations continue to fall. As part of their agreement with the IMF, the authorities committed to keep Leliq rates above 60% "at least until the average inflation expectations reported in the BCRA survey at a 12-month horizon have declined decisively for two consecutive months." The last central bank survey of economists showed a decline in inflation expectations to 30% from 35%; the next survey will be published on December 4.



Source: Bloomberg

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Global Financial Indicators

Last updated: 11/19/18 8:34 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2736	0.2	-2	-1	6	2
Europe		3189	0.3	0	-1	-10	-9
Japan		21821	0.6	-2	-3	-3	-4
China		2704	0.9	3	6	-20	-18
Asia Ex Japan		66	0.1	4	4	-14	-13
Emerging Markets		41	0.7	3	3	-13	-13
Interest Rates					basis points		
US 10y Yield		3.09	-4.7	-9	-10	75	69
Germany 10y Yield		0.39	2.3	-1	-7	3	-4
Japan 10y Yield		0.10	-0.7	-2	-5	6	5
UK 10y Yield		1.41	-0.3	-4	-17	12	22
Credit Spreads					basis points		
US Investment Grade		117	0.7	11	14	16	25
US High Yield		411	-2.4	47	65	19	36
Europe IG		77	-0.3	6	4	26	32
Europe HY		318	1.3	23	23	74	85
EMBIG Sovereign Spread		381	-2.0	14	32	85	96
Exchange Rates					%		
Dollar Index (DXY)		96.37	-0.1	-1	1	3	5
USDEUR		1.14	0.2	2	-1	-3	-5
USDJPY		112.8	0.0	1	0	0	0
EM FX vs. USD		62.6	0.0	1	0	-8	-10
Commodities					%		
Brent Crude Oil ($/barrel)		67	0.1	-5	-16	7	0
Industrials Metals (index)		116	-0.3	2	-3	-11	-16
Agriculture (index)		43	-0.3	-1	-3	-12	-10
Implied Volatility					%		
VIX Index (%, change in pp)		19.0	0.9	1.7	-0.9	7.6	8.0
10y Treasury Volatility Index		4.4	0.1	0.5	0.6	0.5	0.8
Global FX Volatility		8.7	0.1	0.3	0.6	1.2	1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		418	-3.0	16	29	-68	49
Italy		312	-0.3	8	10	165	153
Portugal		158	-2.4	3	3	-4	7
Spain		125	-1.6	5	-2	6	11

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: 11/19/2018 7:58 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		6.94	-0.1	0.3	0	-4	-6		3.4	-1.9	-11	-22	-65	-62
Indonesia		14588	0.2	1.6	4	-7	-7		8.3	-2.5	-4	-57	132	162
India		72	0.4	1.7	2	-9	-11		7.8	4.1	0	-20	54	37
Philippines		53	0.3	1.4	2	-3	-5		6.6	-5.0	-8	5	177	178
Thailand		33	0.2	0.6	-1	0	-1		2.9	-0.5	-1	-4	59	58
Malaysia		4.19	0.1	0.0	-1	-1	-3		4.2	-0.3	3	8	9	27
Argentina		36	0.3	-1.5	0	-51	-48		23.9	-17.6	21	151	755	791
Brazil		3.76	-0.5	0.1	-1	-13	-12		8.5	-19.6	-25	-37	-51	-48
Chile		672	-0.2	2.2	1	-5	-8		4.8	0.5	-5	-12	6	-2
Colombia		3167	0.7	0.4	-4	-5	-6		6.8	-4.6	-6	4	31	51
Mexico		20.28	-0.5	0.4	-5	-6	-3		9.0	-1.8	14	95	167	137
Peru		3.4	0.2	-0.1	-1	-4	-4		5.8	-6.4	-6	3	40	56
Uruguay		32	0.3	0.2	1	-10	-12		10.8	0.0	15	32		223
Hungary		282	0.0	1.9	0	-6	-8		2.7	-2.3	-7	-16	132	141
Poland		3.79	-0.3	1.2	-2	-5	-8		2.6	3.5	5	5	-11	-6
Romania		4.1	0.0	1.6	-1	-3	-5		4.4	-1.0	6	-24	45	55
Russia		66.0	0.0	2.9	-1	-10	-13		8.4	-0.4	-24	9	88	112
South Africa		14.0	-0.2	3.3	3	0	-12		9.7	-6.9	-8	-8	-24	37
Turkey		5.32	0.3	2.8	6	-26	-29		16.8	8.9	-78	-305	436	490
US (DXY; 5y UST)		96	0.0	-1.1	1	3	5		2.89	1.4	-14	-15	84	69

	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		2704	0.9	3	6	-20	-18		185	-2	0	3	43	33
Indonesia		6005	-0.1	4	3	-1	-6		223	-2	8	23	48	57
India		35775	0.9	3	4	7	5		174	5	5	9	56	64
Philippines		7270	2.6	5	2	-13	-15		112	-3	4	7	12	17
Malaysia		1711	0	1	-1	-1	-5		142	-1	3	18	30	32
Argentina		31109	2.1	4	8	15	3		656	-2	36	-6	289	306
Brazil		87710	3.0	2	4	19	15		259	-2	3	1	16	25
Chile		5199	0.3	1	2	-4	-7		148	-3	6	17	17	29
Colombia		1437	0.7	1	-1	0	-5		205	-3	9	20	15	31
Mexico		42319	2.1	-4	-11	-12	-14		327	-2	17	61	79	82
Peru		19447	1	2	3	0	-3		163	-2	6	18	20	26
Hungary		39228	-0.2	3	5	0	0		140	-2	13	25	43	52
Poland		55459	0.0	-3	-2	-12	-13		67	-3	12	11	19	20
Romania		8553	-0.3	-1	-1	10	10		204	5	17	21	66	90
Russia		2387	0.6	0	2	12	13		236	-2	-1	17	50	58
South Africa		52265	0.3	0	0	-13	-12		351	5	15	39	64	97
Turkey		94108	0.5	3	-2	-11	-18		444	4	13	2	119	155
Ukraine		584	0.2	-2	4	93	85		642	4	15	83	176	187
EM total		24	0.0	2	3	-10	-9		382	-1	15	33	86	97

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