Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, November 2, 2018

- **US payrolls rise above median forecasts, at 250k, and wages advance 3.1% (link)**
- **US collateralized loan obligation issuance proceeds at record pace (link)**
- **Sterling holds on to recent gains on positive speculation on Brexit (link)**
- **Chinese equities and yuan strengthen on easing US-China trade tensions (link)**

US | Europe | Emerging Markets | Market Tables

Risk sentiment supported by positive Brexit and trade headlines

Risk assets rallied globally on growing hopes for a Brexit deal and a thaw in US-China trade tensions. Equities registered significant gains across all regions, led by Asia (Hang Seng: +4.2%, Shanghai Composite +2.7%, Nikkei +2.6%), with positive spillovers to Europe (+1.4%). S&P futures also point to a stronger opening. The trade-weighted dollar edged lower, reflecting broad-based gains in EM and other DM currencies. The Chinese yuan registered significant gains, breaking below the 6.90 per dollar level. EM bond spreads narrowed 3 bps, with strong demand for higher-beta credits. Core sovereign bond yields rose 3-4 bps. This morning's US non-farm payrolls report was solid, with payrolls rising by a higher-than-expected 250k, while earnings and the unemployment rate matched expectations.

Key Global Financial Indicators

Last updated: 11/2/18 7:55 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2740	1.1	1	-6	6	2
Eurostoxx 50		3248	1.4	4	-4	-12	-7
Nikkei 225		22244	2.6	5	-8	-1	-2
MSCI EM		41	2.7	4	-4	-13	-14
Yields and Spreads				bps			
US 10y Yield		3.16	-1.3	9	10	82	76
Germany 10y Yield		0.43	3.0	8	1	6	0
EMBIG Sovereign Spread		363	-4.0	-3	26	80	78
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		62.4	0.6	0	0	-9	-10
Dollar index, (+) = $ appreciation		96.1	-0.2	0	1	4	4
Brent Crude Oil ($/barrel)		73.0	0.1	-6	-14	20	9
VIX Index (%, change in pp)		18.3	-1.0	-6	6	8	7

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

United States

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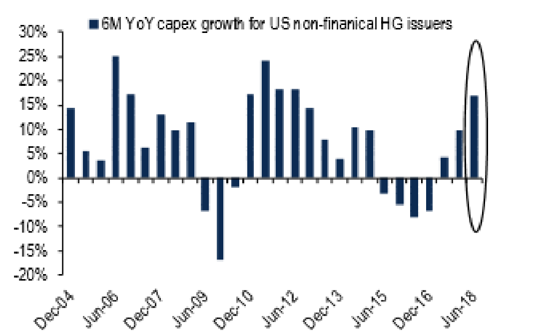
Stocks firmed again Thursday, rising for a third straight sesxsion. Equities initially were boosted by favorable headlines on US-China trade negotiations, with a further lift to market sentiment from a string of upbeat earnings reports. Equity implied volatility as measured by the VIX index hit a 9-day low, dipping below 20. Hedge fund Hudson Executive Capital took a 3.1% stake in Deutsche Bank. After markets closed, Apple's share price fell 7% after signaling that holiday sales would likely be on the weak side. Nominal treasury yields edged lower across the curve, while inflation breakeven rates narrowed following a dip in energy prices.

On the data front, the government reported that **payrolls** increased by a solid 250k in October versus 200k expected. The headline unemployment rate held steady at 3.7%. Average hourly wages rose 0.2% mom (+3.1% yoy), matching expectations. Analysts noted that recent jobs data have been impacted by hurricane activity. Separately, the **trade balance** showed a slightly wider-than-expected deficit of $54 bn, as the deficit with China widened slightly. These are the last major data releases before next Tuesday's midterm elections. Treasury yields were slightly higher following the releases.

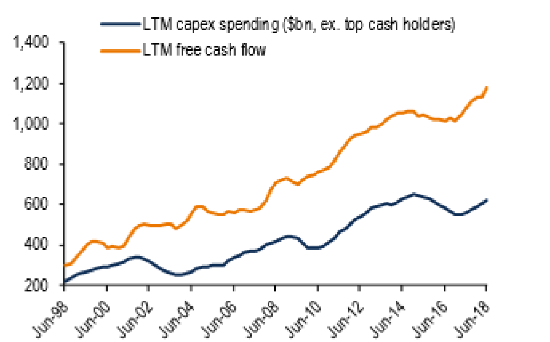
In addition, the **ISM manufacturing** index declined to 57.7 in October, below consensus expectations of 59.0, with purchasing managers citing rising prices, tariffs, and shortages. The largest declines came in the new orders and production components. **Productivity** rose (+2.2%) in Q3 following a 3.0% increase in the spring. **Jobless claims** fell to 214k last week, while **construction spending** was flat in September. Firms have upped their **capital expenditure** outlays this year. Bank of America estimates that capex spending rose 17% in 1H over the same period in 2017 largely in response to last December's tax changes and sustained economic growth. This is the fastest growth in 6 years. Higher growth and lower taxes are also giving a boost to cash inflows into firms. Consequently, firms did not have to turn to the debt market to boost their capex spending. Meanwhile, **Atlanta Fed's Q4 GDPNow estimate** was boosted to 3.0% from 2.6% previously.

Figure 9: Capex spending accelerated in 1H-18

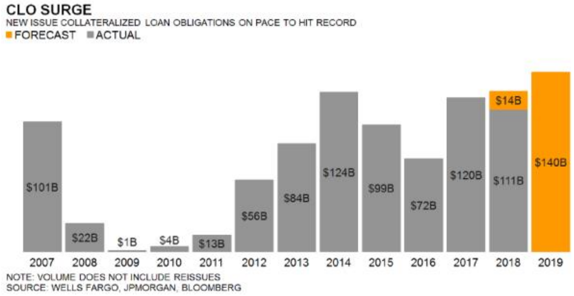


Source: BofA Merrill Lynch Global Research

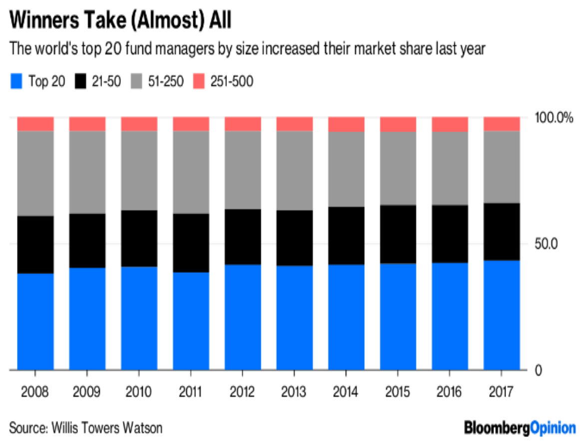
Figure 10: Free cash flow and capex spending for US HG non-financial issuers



Collateralized loan obligations (CLOs) are on a pace to beat the record issuance of 2014. CLOs are securities consisting of a pool of loans organized by maturity and risk, and are dominant investors in leveraged loans. Some $111 bn has been issued this year. Issuance is expected to be even stronger next year, with Wells Fargo forecasting $140 bn in 2019.



The asset management industry has grown increasingly concerntrated. Willis Towers Watson notes there are now 20 firms with assets under management over $1 tn, and this cohort has increased its market share to 43.3% from 38.3% a decade ago. The compound annual growth for thsese firms has been 4.6% compared to 3.1% for the broader group, and these top 20 firms now control $41 tn in assets. BlackRock's assets alone have grown by one-fifth since 2017.



Europe

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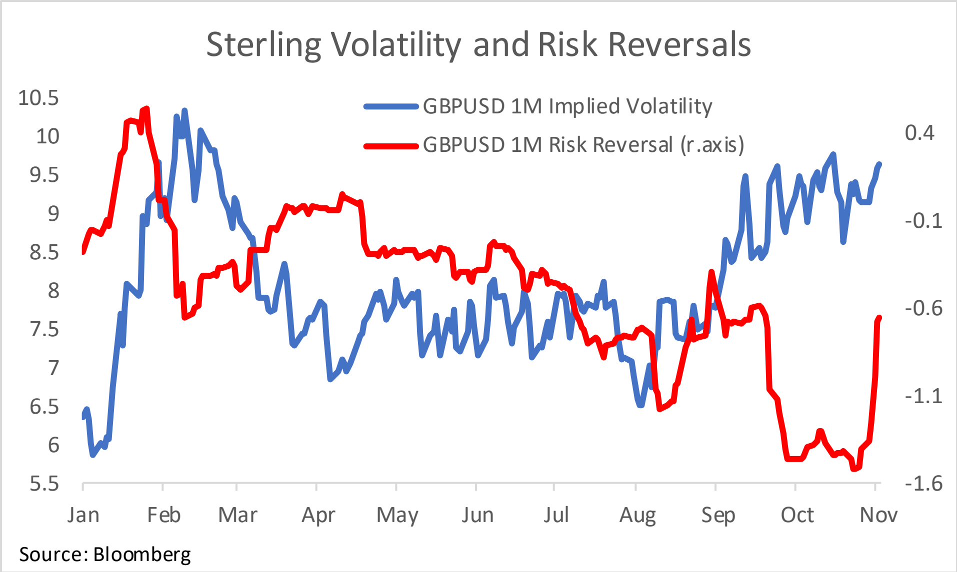
Equities rose for the fifth consecutive day on reports of progress in a trade deal between the US and China. The Euro Stoxx 600 rose 1%, taking the week's gains to more than 4%, as consumer and material stocks saw sizeable gains. Banks also outperformed, advancing by 1.7% as higher BTP prices and overall decent earnings continued to support the sector. **Sovereign yields were broadly higher,** amid greater risk appetite across the continent. Most 10-year yields were up 2-3 bps, except Italy which saw an 8 bps decline. The BTP spread to Bunds has declined to 287 bps.

The latest Brexit speculation suggests a compromise by the EU over the Irish border. The EU is said to be exploring a compromise which would see Northern Ireland in a deep customs union with the EU with the rest of the UK in a more rudimentary relationship. The reports remain unconfirmed while authorities on both sides downplayed reports yesterday that a deal on financial services has been reached. EU chief negotiator Barnier called the reports misleading, but indicated that the EU remains ready to have a close regulatory dialogue with the UK. Sterling has, however, continued to strengthen and rose above $1.30 for the first time in over two weeks. Risk reversals have risen, although implied volatility remains somewhat high.



Italian PM Conte is confident that his government can reach a deal with the EU. In an interview with local media, Conte said that his administration would be able to convince the EC that its budget proposal was sound but offered little detail on how a compromise could be reached. On the data front, **manufacturing figures for October showed a larger-than-expected decline** this morning, falling for the third straight month. The numbers **add to concerns over the slowing economy** after GDP for Q3, released on Tuesday, unexpectedly revealed a zero quarter-on-quarter growth rate. Later today, investors will scrutinize Italian bank results from the EBA stress test particularly closely. The scenarios used are more severe than in previous years and could show sizeable capital deterioration for some lenders.

Emerging Markets

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Key Emerging Market Financial Indicators

Last updated:	Level		Change				
11/2/18 7:55 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.56	2.9	4	-4	-13	-14
MSCI Frontier Equities		27.53	1.7	3	-4	-14	-17
EMBIG Sovereign Spread (in bps)		363	-4.0	-3	26	80	78
EM FX vs. USD		62.43	0.6	0	0	-9	-10
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.88	0.7	1	0	-4	-5
Indonesian Rupiah		14955	1.2	2	1	-9	-9
Indian Rupee		72.44	1.4	1	1	-11	-12
Argentine Peso		35.68	0.6	3	11	-51	-48
Brazil Real		3.70	0.6	0	9	-12	-11
Mexican Peso		19.93	1.1	-3	-6	-5	-1
Russian Ruble		65.76	-0.1	0	0	-12	-12
South African Rand		14.30	0.7	2	0	-2	-13
Turkish Lira		5.47	0.7	2	9	-31	-31
EM FX volatility		10.11	0.0	0.1	-0.2	2.1	2.3

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

The week ended on a positive note for EMs. Asian bourses soared about 2-3% this morning following reports that president Trump will seek a trade deal with China's president Xi at the next G20 meeting. Currencies in the region strengthened versus the dollar, with the largest gains in the South Korean won (+1.0%) and the Indian rupee (+0.8%). **EMEA** equities and currencies also advanced, but by less. In **Latin America**, equities and currencies also closed stronger yesterday, led by significant gains in the Argentinean Merval (+6.5%) after $1.8 bn in multilateral loans by the World Bank and the Inter-American Development Bank were approved to help cope with the economic contraction. The peso also gained 2.5%, edging closer to the lower limit of the no-intervention zone.

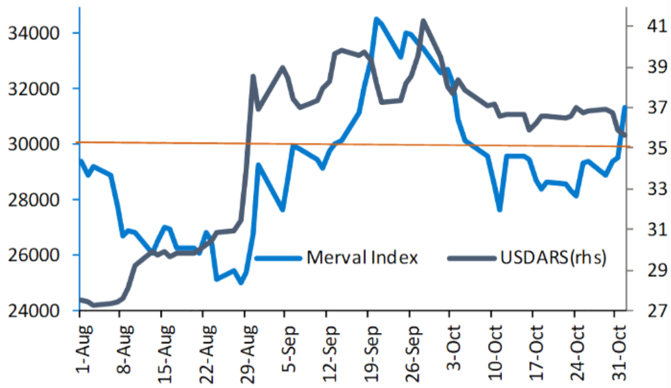
China

Chinese equities rallied and the yuan strengthened on easing US-China trade tensions. The Shanghai A-share and Shenzhen start-up board ChiNext gained 2.7% and 4.8% respectively, as press reports indicated that Trump is interested in reaching a trade agreement with Chinese president Xi at the G-20 summit in Argentina later this month and has asked US officials to begin drafting potential terms. Market sentiment was also buoyed by president Xi's pledge on Thursday of more support for private firms. Improved risk sentiment led to a firmer renminbi, which strengthened 0.7% to 6.87 per dollar, the first time the rate dipped below 6.90 in more than a month. In the offshore market, the renminbi traded around 6.880.

Demand for dollar bonds sold by Chinese property developers fell in October, as heavy issuance from the sector curbed investor appetite. Dollar bond offerings from Chinese real estate firms received orders 1.7 times the actual issue size, down from 1.8 times in September and 3 times or more at the beginning of the year. Demand for China property bonds has slowed as the sector faces tight funding conditions following the government's efforts to reign in property prices. Chinese property developers have sold about $39 bn of dollar bonds so far in 2018, compared to $37 bn in the same period last year, with yields on speculative grade bonds rising to their highest level in more than six years.

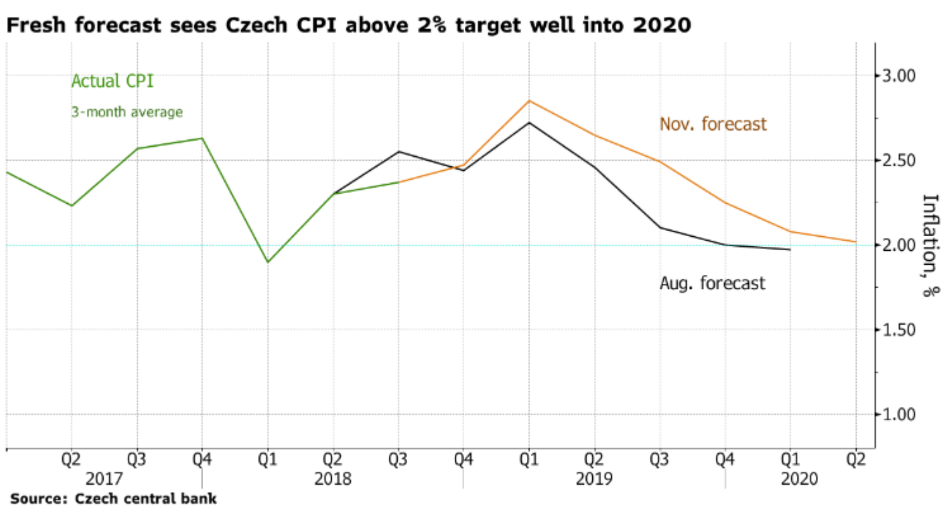
Argentina

Argentina's benchmark equity index Ibovespa gained 6.2% yesterday and the peso appreciated 0.7% to 35.7, a touch above 35, the lower bound of the new no-intervention zone set by the central bank. Once the peso hits the lower limit, the central bank is authorized by the IMF to intervene in the market through dollar purchases. Markets reacted positively to World Bank's approval of a $950 mn loan to help Argentina cope with its economic difficulties. The Bank said that the first loan of $500 mn will go toward budget needs and a second loan of $450 mn will go towards expanding childcare and providing social protections. Additionally, the Inter-American Development Bank approved a loan for $900 mn — two-thirds of which will be disbursed this year.



Czech Republic

The Czech National Bank (CNB) raised rates, as expected, but signaled a pause in its tightening cycle. The CNB increased its 2-week repo rate yesterday for a fourth consecutive time, from 1.5% to 1.75%. With interest rates at a nine-year record high, governor Rusnok suggested yesterday that more rate hikes may not be required "at the moment." Nonetheless, the CNB expects global factors to continue to weigh on the koruna (-0.1% today) and raised its inflation forecast for Q4 2019 from 2.0% to 2.2%.



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Global Financial Indicators

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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2740	1.1	1	-6	6	2
Europe		3248	1.4	4	-4	-12	-7
Japan		22244	2.6	5	-8	-1	-2
China		2676	2.7	3	-5	-21	-19
Asia Ex Japan		65	3.6	4	-6	-14	-14
Emerging Markets		41	2.7	4	-4	-13	-14
Interest Rates					basis points		
US 10y Yield		3.16	-1.3	9	10	82	76
Germany 10y Yield		0.43	3.0	8	1	6	0
Japan 10y Yield		0.13	0.6	2	0	7	8
UK 10y Yield		1.48	2.8	10	-5	22	29
Credit Spreads					basis points		
US Investment Grade		108	0.2	3	11	14	16
US High Yield		376	-0.2	7	52	9	0
Europe IG		70	-1.8	-7	1	20	25
Europe HY		285	-5.4	-19	6	61	52
EMBIG Sovereign Spread		363	-4.0	-3	26	80	78
Exchange Rates					%		
Dollar Index (DXY)		96.07	-0.2	0	1	1	4
USDEUR		1.14	0.3	0	-1	-2	-5
USDJPY		112.9	-0.1	-1	1	1	0
EM FX vs. USD		62.4	0.6	0	0	-9	-10
Commodities					%		
Brent Crude Oil ($/barrel)		73	0.1	-6	-14	20	9
Industrials Metals (index)		118	2.4	1	-2	-12	-14
Agriculture (index)		44	0.8	1	2	-10	-8
Implied Volatility					%		
VIX Index (%, change in pp)		18.3	-1.0	-5.8	6.3	8.4	7.3
10y Treasury Volatility Index		4.3	-0.1	0.1	0.9	0.6	0.8
Global FX Volatility		8.3	0.0	-0.2	0.1	0.8	0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		387	3.4	-8	-1	-84	18
Italy		290	-7.6	-19	-12	148	132
Portugal		144	-4.7	-12	-4	-29	-8
Spain		114	-3.1	-8	2	3	0

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: 11/2/2018 7:55 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		6.88	0.7	1.0	0	-4	-5		3.5	-0.1	-5	-14	-45	-49
Indonesia		14955	1.2	1.8	1	-9	-9		8.6	-7.0	-16	41	150	192
India		72	1.4	1.4	1	-11	-12		7.9	-1.9	-7	-18	79	47
Philippines		53	0.3	0.9	2	-3	-6		6.6	0.1	4	19	180	178
Thailand		33	0.2	0.8	-1	1	-1		2.9	-1.1	-3	4	62	60
Malaysia		4.16	0.5	0.4	0	2	-3		4.1	0.1	0	6	12	23
Argentina		36	0.6	3.1	11	-51	-48		22.2	91.2	184	-201	654	616
Brazil		3.70	0.6	0.1	9	-12	-11		8.6	-4.8	-29	-136	-26	-40
Chile		692	-0.5	-0.6	-5	-9	-11		4.8	0.0	-3	0	14	2
Colombia		3195	0.8	-0.6	-6	-4	-7		6.9	-1.0	3	25	30	60
Mexico		19.93	1.1	-2.9	-6	-5	-1		8.8	-8.9	41	83	147	109
Peru		3.4	0.4	-0.4	-1	-3	-4		6.0	0.0	13	32	51	74
Uruguay		33	0.2	0.2	1	-11	-12		10.8	0.8	16	38		226
Hungary		281	0.7	1.3	0	-5	-8		2.7	0.0	3	10	130	147
Poland		3.77	0.5	0.2	-1	-4	-8		2.6	0.0	3	-1	-21	-11
Romania		4.1	0.4	0.4	-1	-3	-4		4.6	-1.0	-8	23	113	72
Russia		65.8	-0.1	-0.2	0	-12	-12		8.4	1.0	0	14	91	107
South Africa		14.3	0.7	2.1	0	-2	-13		9.9	-11.1	-13	20	22	54
Turkey		5.47	0.7	2.3	9	-31	-31		19.3	-14.8	-57	-40	744	733
US (DXY; 5y UST)		96	-0.2	-0.3	1	1	4		2.99	3.6	9	4	99	79

	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		2676	2.7	3	-5	-21	-19		181	-3	-11	-2	42	29
Indonesia		5906	1.2	2	1	-2	-7		218	-4	-4	34	53	52
Philippines		7140	1.8	0	-1	-15	-17		110	-4	-11	15	14	15
Malaysia		1714	0.4	2	-5	-2	-5		134	-2	-2	5	25	24
Argentina		31309	6.2	7	-4	12	4		623	-12	-49	-7	262	273
Brazil		88419	1.1	5	8	20	16		248	-5	-15	-34	11	14
Chile		5104	1.8	-1	-4	-9	-8		138	-4	-4	15	16	19
Colombia		1383	-0.7	-1	-9	-3	-9		183	-3	-7	15	-1	9
Mexico		45447	3.4	-2	-8	-6	-8		303	-4	16	46	56	58
Peru		18909	1.4	1	-4	-6	-5		154	-2	-3	21	15	17
Hungary		37155	1.9	2	1	-6	-6		122	-3	-6	10	26	34
Poland		56474	2.1	2	-4	-13	-11		59	-5	-10	11	8	12
Russia		2381	0.9	4	-3	15	13		220	-2	-6	10	37	42
South Africa		54957	2.6	8	-1	-7	-8		339	-6	2	42	54	85
Turkey		93058	0.7	-1	-5	-18	-19		446	2	-2	11	137	157
Ukraine		572	0.1	2	6	91	81		603	-12	8	47	143	148
EM total		24	3.0	3	-4	-10	-9		363	-4	-3	26	80	78

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