Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, November 20, 2018

- **US stocks slump, led by the tech sector (link)**
- **Analysts raise US earnings forecasts for 2018, but downgrade 2019 outlook (link)**
- **Italian sovereign spread over Bunds reaches 6-year high of 335 bps intraday (link)**
- **Chinese NPLs reach highest ratio since 2009 on softening economy and tightened recognition rules (link)**
- **Romanian PM announces cabinet reshuffle (link)**

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Global Equities Sell Off on Growth Concerns and Trade Tensions

Financial markets are in risk-off mode today as a US-led sell-off in equities has dragged down stocks in most other major markets over the past 24 hours. The S&P 500 was down 1.7% yesterday and US equity futures have declined another 1.2% overnight. Europe, Japan and the MSCI EM are down about 1% in the last session. The decline was led by the tech sector, reportedly driven by concerns around the growth outlook and trade tensions. One catalyst seems to have been discord between the US and China at the APEC summit over the weekend, but there is a broader sense among analysts that much of the gains from stimulative US policies have played out and the outlook for future earnings growth is less favorable. Treasury and Bund yields have edged down a few basis points on safe haven buying, with the US 10-year trading at 3.04%. Italian 10-year sovereign spreads over Germany reached a 6-year high of 335 basis points earlier today, but have declined 10 bps since.

Key Global Financial Indicators

Last updated: 11/20/18 8:37 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2691	-1.7	-1	-3	4	1
Eurostoxx 50		3121	-1.2	-3	-3	-12	-11
Nikkei 225		21583	-1.1	-1	-4	-3	-5
MSCI EM		40	-1.3	3	2	-14	-14
Yields and Spreads				bps			
US 10y Yield		3.04	0.0	-10	-15	67	64
Germany 10y Yield		0.36	-1.7	-5	-10	-1	-7
EMBIG Sovereign Spread		389	4	20	40	94	104
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		62.5	-0.1	2	0	-8	-10
Dollar index, (+) = $ appreciation		96.4	0.2	-1	1	5	5
Brent Crude Oil ($/barrel)		65.6	-1.8	0	-18	5	-2
VIX Index (%, change in pp)		22.0	1.9	2	2	11	11

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

United States

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US equity markets sold off on Monday led by the tech sector (-4.3%) amid concerns around growth and trade, as well as renewed skepticism around Apple's iPhone production targets. Other megacap stocks have also been under pressure and are slated to open lower today. Moreover, Bitcoin fell to a new 13-month low below $4225, down from a peak of almost $20,000 in December 2017. Implied volatility also picked up across assets, with the VIX Index up 2 ppts to 20.1, and the MOVE Index up 4.2 ppts to 60.4.

In this morning's data, housing starts for October were reported at 1.5% m/m, weaker than the consensus expectations of 2.2%, after a 5.5% m/m contraction in September. This follows the November NAHB index release of 60 yesterday, which declined sharply from 68 in October (and compares with consensus forecast of 67). Market analysts have highlighted that the housing market is finding a new equilibrium. On one hand, the strength of the labor market should push household formation higher and demand for housing remains strong. However, the market continues to face downward pressure from increasing mortgage interest rates and home prices. **S&P housebuilder sub-index has declined by 32% YTD, reflecting these pressures.**

US credit spreads continued to widen with HY spreads rising 5 bps, and IG spreads rising 3bps on Monday. Investors have highlighted the worsening composition of the index as a cause of concern, as BBB credit now accounts for about half of the IG credit space in the US and in Europe, up from 33% and 10% in 2009, respectively. For the US, analysts have also highlighted that higher Treasury yields have weighed on returns, which has started to impact fund inflows. US IG mutual funds with maturities beyond three years have begun to see slower inflows and, in some cases, outflows. These funds reportedly used to be a key pillar of demand for US IG over the past few years. However, the mutual fund and ETF sector is now seeing outflows at a 3m annualized rate of roughly 5%.

Chart 10. Quality Breakdown of Investment-Grade Index
(Percent of index with BBB ratings)

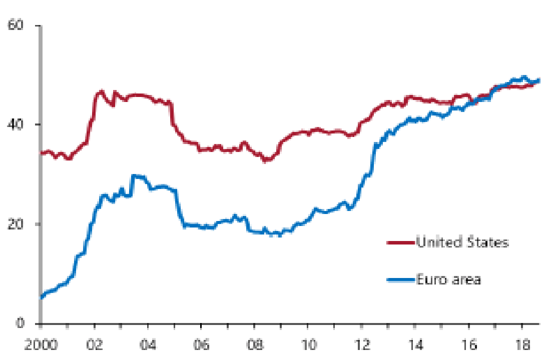
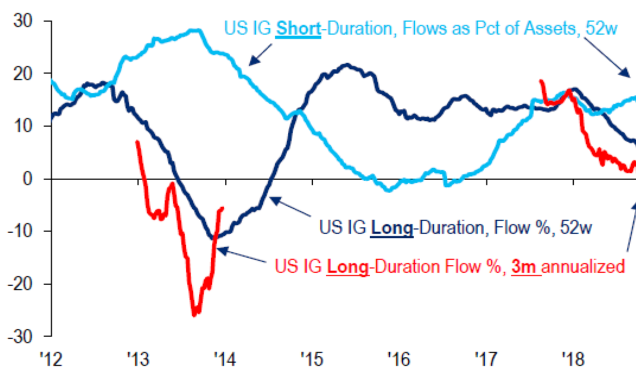
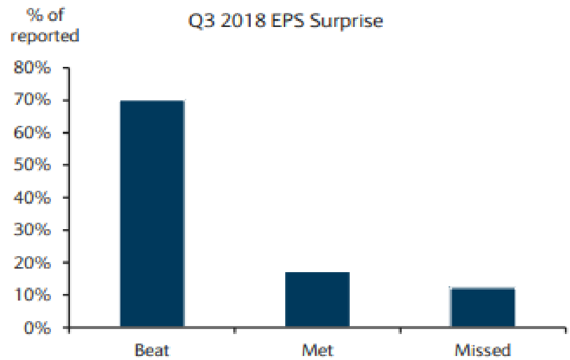


Figure 1. Fund flows as a percent of assets, investment grade bond mutual funds and ETFs

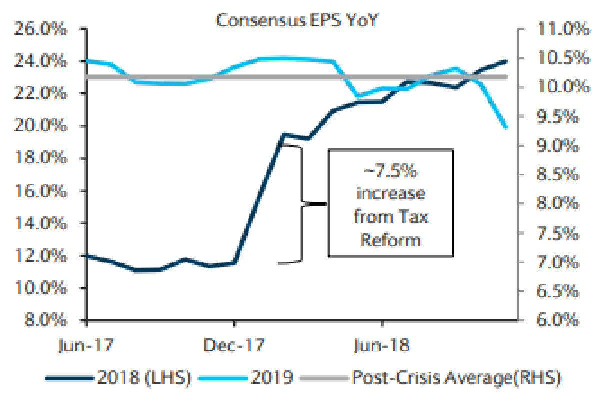


Source: Citi Research, EPFR.

Market analysts have highlighted that earnings and EPS growth in the US is reverting to trend growth as the 2018 bump-up is fading. Analysts at Barclays calculated that more than 70% of the companies have reported a positive earnings surprise in Q3 2018, in line with a trend over the past few years where the number of companies beating expectations has increased. However, the Q3 strength has not translated into higher expectations for next year. **2019 consensus EPS were raised for only 25% of the companies, and were lowered for nearly 45%.** Analysts have highlighted that the strong 2018 economic and earnings growth was driven by fiscal stimulus, a rebound from the 2015-16 contraction in manufacturing output and front loading of trade before tariffs kick in. However, the consensus expectation seems to be that the strength in current quarter earnings is not sustainable. Margin compression driven by tariffs and wage inflation was also cited as a key concern.



Source: Barclays Research, Thomson Reuters
Note: EPS Surprise = actual EPS minus consensus normalized by price 1-day prior. A Beat/Miss = EPS Surprise greater/less than 0.2%/-0.2%



Source: Barclays Research, Thomson Reuters

Europe

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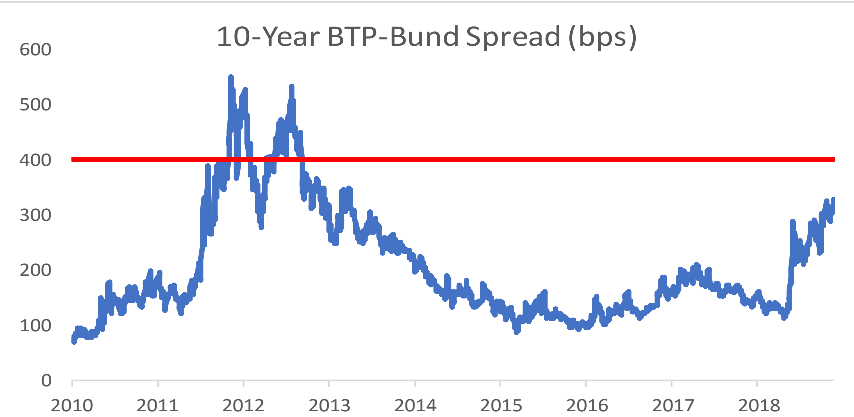
Italian yields fluctuated as the Treasury's auction saw limited demand. Retail orders for the auction's first day amounted to approximately 20% of the comparable amount at the previous sale. Yesterday's 10-bps rise in the 10-year was followed by a further 10 bps increase this morning before reversing that rise fully. **The spread to Bunds peaked at 335 bps, its highest this year.** Deputy PM Salvini said last month that he was "absolutely sure" that the spread would not reach 400 bps. Other sovereign yields were mostly flat today.



Source: Bloomberg

Equities moved lower across the region. The Euro Stoxx 600 was down by 0.8% as tech stocks on the continent (-1.5%) followed the declines of their US peers. Banks (-1.7%) were also firmly in the red and are now down by 23% this year. Deutsche Bank dropped by 5% as reports mounted regarding the bank's involvement in the Danske Bank money laundering scandal.

United Kingdom

The coalition DUP party decided not to vote with the government on a number of issues yesterday. The decision came as the DUP says the Conservative party has "seriously broken" its commitment, raising doubts about the sustainability of the coalition government. Elsewhere, the Bank of England announced that it will publish analysis on the effect of the withdrawal agreement next week. The work was requested by parliament and will lay out how the agreement affects the Bank's "ability to deliver its statutory remits." ECB supervisory board chair Nouy said that 25 banks are "well advanced" in talks with the ECB regarding their post-Brexit plans for operations within the EU-27. The figure rises to 37 if other entities such as financial firms are included, out of a total of 50-60 firms that are in talks with the ECB.

Other Mature Markets back to top

Japan

The yen held steady at 113.4, near its strongest level in 3 weeks, while equities softened amid broad-based losses in Asia. The Nikkei lost 1.1% and the Topix shed 0.7% as technology shares underperformed after declines in U.S. bourses. **JGB yields edged higher following a lukewarm reception to a JGB auction**. An auction of the 20-year note drew a bid-cover ratio of 3.91x, down from 4.23x previously. The benchmark 10-year note rose 1 bp to 0.09% while the 2-year note rose 0.4 bp to -0.15%. In a speech to Parliament, BoJ Governor Kuroda noted that continuing the current policy is the "best" approach for achieving the inflation target, though reaching the 2% target by 2020 remains difficult.

Emerging Markets back to top

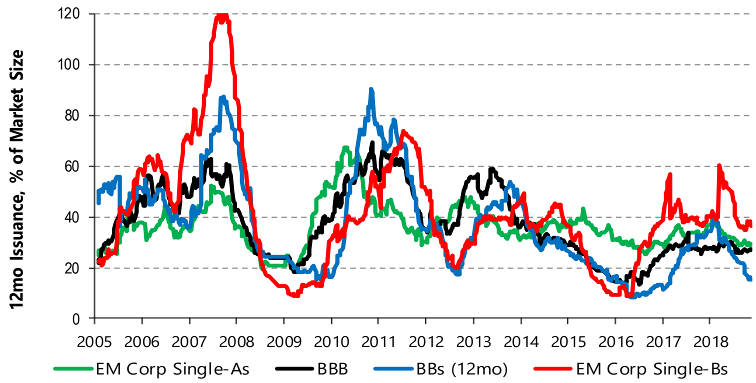
Equities across EMs followed U.S. shares lower amid broad-based losses, with the largest drops in China's Shanghai Composite index (-2.1%), Bulgaria (-1.7%), South Africa (-1.6%), and the Czech Republic (-1.2%). Asian currencies were mixed to the dollar within a narrow corridor, while EMEA currencies mostly weakened but by less than 0.2%. The central bank of Hungary is expected to keep rates on hold later today. **Latin American** stock markets also saw losses yesterday, with Brazil down 0.7% and the real depreciating 0.6% against the US dollar despite a positive reaction to the appointment of Roberto Castello Branco as new Petrobras CEO. The Mexican peso depreciated 0.9% against US dollar.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
11/20/18 7:46 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.35	-0.9	3	2	-14	-14
MSCI Frontier Equities		27.17	-0.1	0	1	-15	-18
EMBIG Sovereign Spread (in bps)		388	3	19	39	93	103
EM FX vs. USD		62.52	-0.2	2	0	-8	-10
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.94	0.0	0	0	-4	-6
Indonesian Rupiah		14588	0.2	2	4	-7	-7
Indian Rupee		71.46	0.3	2	3	-9	-11
Argentine Peso		35.94	0.3	-1	0	-51	-48
Brazil Real		3.76	0.1	1	-2	-13	-12
Mexican Peso		20.41	-0.2	0	-5	-7	-4
Russian Ruble		65.65	-0.2	4	-1	-10	-12
South African Rand		14.08	-0.4	3	2	0	-12
Turkish Lira		5.37	-1.0	2	6	-27	-29
EM FX volatility		10.12	0.0	0.0	0.2	2.1	2.3

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

EM total corporate bond issuance for last week was strong at $9.1 bn, slightly higher than the week before, while sovereign issuance edged down to $1.8 bn. $6.5 bn of the total corporate issuance for last week were investment grade bonds. The YTD corporate issuance of $322.5 bn is approximately 21% less than the 2017 issuance over the same period. China remained the largest EM corporate debt issuer, accounting for $6.3 bn of the total. All of last week's $1.8 bn sovereign issuance was placed by Nigeria.

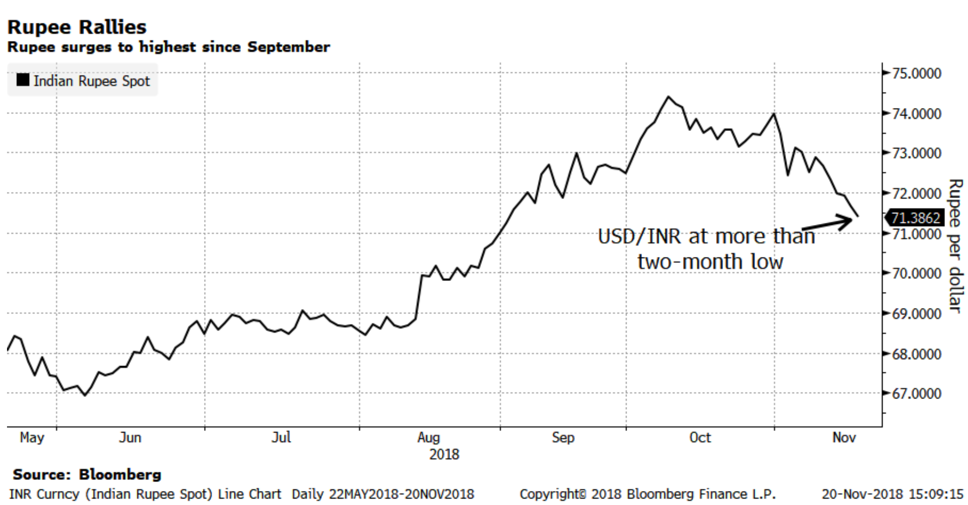


China

Banks' non-performing loans rose for a third quarter amid a softening economy and tightened NPL recognitions. According to data from CBIRC, non-performing loans rose by RMB 75.1 bn ($11 bn) in Q3 to reach RMB 2 tn, or 1.87% of total loans, the highest ratio since 2009. That said, the rise in the NPL ratio – defined as the sum of "substandard", "doubtful," and "loss" loans as a share of total loans – is attributable in part to tighter rules for NPL recognition. Moreover, as banks looked to bring off-balance sheet exposures back onto their balance sheets, the total number of bank loans has increased. **The RMB was unchanged at 6.94 for the CNY and CNH. Equities fell for the first time in 4 days amid the US-led slump in global equities.** The Shanghai Composite lost 2.1%, giving up gains garnered since last week, while the Shenzhen Composite lost 2.7%.

India

The Indian rupee gained for a sixth day following a signed compromise between the central bank and the government over disputes regarding the RBI's capital. The rupee gained as much as 0.5% intraday before ending the day at 71.47 (+0.2%), its strongest level since early September. According to Bloomberg, the RBI and the government have been bickering publicly over how much capital the central bank needs and whether some of the capital ought to be shared with the government. On Monday, the RBI agreed to form a panel to study the transfer of funds to the government, though the issue remains far from resolved.



Romania

Romanian PM Dancila has announced the replacement of various ministers last night. Dancila stated that the reshuffled followed a review of ministerial performance. The removed ministers are those handling regional development, transport, economy, culture, communications, tourism and defence (resigned). **The Romanian Leu is little changed to the euro this morning at 4.66, while equities in Bucharest are 0.3% lower.**

Cabinet reshuffle

Portfolio	Current minister	New minister
Deputy PM	Ana Birchall (PSD)	no change
Regional development, deputy PM	Paul Stanescu (PSD)	Ilan Laufer (PSD)
Interior	Carmen Dan (PSD)	no change
Exterior	Teodor Melescanu (ALDE)	no change
Defence	Mihai Fifor (PSD)	Gabriel Les (PSD)
Finance	Eugen Teodorovici	no change
Justice	Tudorel Toader (ALDE)	no change
Education	Ecaterina Andronescu	no change (appointed recently)
Agriculture	Petre Daea (PSD)	no change
Labour	Lia Olguta Vasilescu (PSD)	Marius Budai (PSD)
Economy	Danut Andrusca (PSD)	Nicolae Badalau (PSD)
Energy	Anton Anton (ALDE)	no change
Transport	Lucian Sova (PSD)	Lia Olguta Vasilescu (PSD)
EU funds	Rovana Plumb (PSD)	no change
SMEs	Radu Oprea (PSD)	no change
Healthcare	Sorina Pintea (PSD)	no change
Environment	Gratiela Gavrilescu (ALDE)	no change
Culture	George Ivascu (PSD)	Daniel Breaz (PSD)
Water and forests	Ioan Denes (PSD)	no change
Communication	Bogdan Cojocaru (PSD)	Alexandru Petrescu (PSD)
Youth and sports	Ioana Bran (PSD)	Bogdan Matei (PSD)
Tourism	Bogdan Triff	no change
Liaison with Romanians abroad	Natalia Intotero (PSD)	no change
Minister for liaison with parliament	Viorel Ilie (ALDE)	no change
Research and innovation	Nicolae Hurduc (PSD)	no change (appointed this year)
Minister for EU affairs	George Ciamba (PSD)	no change (appointed recently)

Source: Government

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Global Financial Indicators

Last updated: 11/20/18 8:37 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		2691	-1.7	-1	-3	4	1
Europe		3121	-1.2	-3	-3	-12	-11
Japan		21583	-1.1	-1	-4	-3	-5
China		2646	-2.1	0	4	-22	-20
Asia Ex Japan		65	-1.6	3	2	-16	-15
Emerging Markets		40	-1.3	3	2	-14	-14
Interest Rates				basis points			
US 10y Yield		3.04	0.0	-10	-15	67	64
Germany 10y Yield		0.36	-1.7	-5	-10	-1	-7
Japan 10y Yield		0.10	0.5	-1	-5	6	5
UK 10y Yield		1.39	1.2	-13	-19	10	20
Credit Spreads				basis points			
US Investment Grade		120	1.1	11	18	20	29
US High Yield		421	2.7	39	75	34	46
Europe IG		81	1.0	10	7	30	36
Europe HY		333	5.9	39	39	89	100
EMBIG Sovereign Spread		389	4.0	20	40	94	104
Exchange Rates				%			
Dollar Index (DXY)		96.37	0.2	-1	1	2	5
USDEUR		1.14	-0.4	1	0	-3	-5
USDJPY		112.4	0.2	1	0	0	0
EM FX vs. USD		62.5	-0.1	2	0	-8	-10
Commodities				%			
Brent Crude Oil ($/barrel)		66	-1.8	0	-18	5	-2
Industrials Metals (index)		116	0.4	2	-2	-10	-16
Agriculture (index)		42	0.0	0	-3	-12	-11
Implied Volatility				%			
VIX Index (%, change in pp)		22.0	1.9	2.0	2.1	11.3	10.9
10y Treasury Volatility Index		4.4	0.0	0.3	0.6	0.5	0.8
Global FX Volatility		8.6	0.0	0.2	0.6	1.1	1.3
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		432	12.2	28	43	-58	63
Italy		325	2.3	21	22	180	166
Portugal		162	1.1	9	6	4	11
Spain		130	1.8	10	2	14	16

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: 11/20/2018 7:46 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	0.0	0.2	0	-4	-6		3.3	-1.7	-12	-21	-66	-64
Indonesia		14588	0.2	1.6	4	-7	-7		8.2	-1.6	-14	-51	133	160
India		71	0.3	1.7	3	-9	-11		7.8	-1.0	-2	-22	55	36
Philippines		52	0.3	1.4	3	-3	-5		6.6	-6.8	-14	-3	170	171
Thailand		33	-0.2	0.1	-1	-1	-1		2.8	-4.0	-5	-7	55	54
Malaysia		4.19	0.1	0.0	-1	-1	-3		4.2	0.7	3	7	10	27
Argentina		36	0.3	-1.5	0	-51	-48		23.9	0.0	21	327	767	791
Brazil		3.76	0.1	1.4	-2	-13	-12		8.6	4.8	-21	-35	-37	-43
Chile		671	-0.5	3.1	2	-5	-8		4.7	-2.1	-7	-13	3	-5
Colombia		3176	-0.3	0.1	-3	-5	-6		6.8	3.0	-3	7	36	54
Mexico		20.41	-0.2	0.4	-5	-7	-4		9.0	0.0	14	82	171	137
Peru		3.4	-0.1	-0.1	-1	-4	-4		5.8	0.5	-6	1	41	56
Uruguay		32	-0.1	0.2	1	-10	-12		10.9	4.9	20	28		228
Hungary		281	-0.3	1.6	0	-5	-8		2.7	-1.7	-8	-11	131	140
Poland		3.79	-0.1	0.5	-1	-5	-8		2.6	-3.6	2	-1	-16	-9
Romania		4.1	-0.3	1.0	0	-3	-5		4.4	-1.0	3	-25	41	54
Russia		65.7	-0.2	3.8	-1	-10	-12		8.4	0.1	-28	7	91	112
South Africa		14.1	-0.4	2.7	2	0	-12		9.7	0.1	-12	-13	-28	37
Turkey		5.37	-1.0	2.1	6	-27	-29		16.9	0.5	-35	-322	421	491
US (DXY; 5y UST)		96	0.2	-1.0	1	2	5		2.86	-1.4	-13	-19	76	65

	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		2646	-2.1	0	4	-22	-20		186	-1	1	4	43	34
Indonesia		6005	0.0	4	3	-1	-6		226	1	11	26	55	60
India		35475	-0.8	1	3	6	4		172	-2	3	10	57	62
Philippines		7303	0.4	7	2	-12	-15		113	-2	6	8	17	18
Malaysia		1711	0	1	-1	0	-5		143	1	5	19	31	33
Argentina		31109	0.0	4	8	15	3		674	1	37	12	305	324
Brazil		87901	-0.7	3	4	20	15		264	2	6	6	22	30
Chile		5153	-0.5	0	1	2	-7		152	1	10	21	19	33
Colombia		1423	-1.0	3	-2	-2	-6		214	1	15	29	25	40
Mexico		42319	0.0	-4	-11	-12	-14		340	1	15	74	92	95
Peru		19364	0	2	2	-1	-3		168	1	11	23	28	31
Hungary		39198	-0.3	2	5	0	0		143	0	16	28	52	55
Poland		55780	-0.2	-2	-2	-12	-12		67	-2	12	11	20	20
Romania		8540	-0.3	-1	-1	9	10		205	1	18	22	68	91
Russia		2362	-0.5	-1	1	11	12		238	1	1	19	53	60
South Africa		51571	-1.6	-1	-1	-15	-13		354	1	19	42	65	100
Turkey		93238	-1.4	1	-3	-10	-19		449	3	19	7	115	160
Ukraine		580	0.1	-5	4	92	84		652	7	25	93	188	197
EM total		24	0.0	2	1	-11	-10		388	3	19	39	93	103

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