



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Wednesday, November 21, 2018

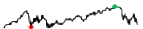
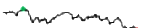
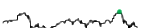
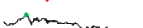







- Oil prices rebound after falling to one-year lows ([link](#))
- Breakeven inflation expectations narrow in US and Euro Area ([link](#))
- Credit spreads widen further in advanced economies ([link](#))
- Italian yields fall on reports of budget compromise ([link](#))
- PBC refrained from liquidity injection for the 19th day amid declining yields and ample liquidity ([link](#))

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## Asset Markets Recover amid more Constructive Mood

**Markets are recovering some of their losses of the past few days.** EM equities are leading the way, trading 1.6% higher this morning. European equities gained 0.8% so far in today's session and US equity futures suggest that the S&P 500 will open almost 1% higher. Core bond yields are up a few basis points, with the US 10-year trading at 3.07%. Supporting factors include a recovery in oil prices and reports that the Italian government may be open to budget revisions, against a backdrop of mounting pressure from the European Commission. There is also speculation that the Fed may slow down its pace of rate hikes next year, with investors eyeing a potential pause at the March meeting. The market-implied probability of a December rate hike remains around 70%, according to Bloomberg estimates.

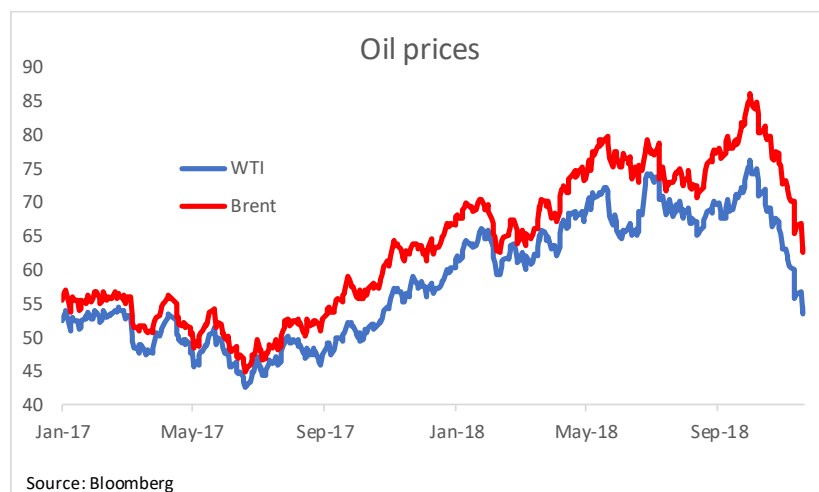
### Key Global Financial Indicators

Last updated: 11/21/18 8:39 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2642	-1.8	-3	-5	2	-1
Eurostoxx 50		3141	0.8	-2	-2	-12	-10
Nikkei 225		21508	-0.4	-2	-5	-4	-6
MSCI EM		39	1.6	-1	0	-17	-16
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.07	0.0	-6	-13	71	66
Germany 10y Yield		0.36	1.4	-3	-10	1	-6
EMBIG Sovereign Spread		397	10	21	48	102	112
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.6	0.3	1	0	-8	-10
Dollar index, (+) = \$ appreciation		96.6	-0.2	0	1	5	5
Brent Crude Oil (\$/barrel)		63.9	2.2	-3	-20	2	-4
VIX Index (% change in pp)		21.4	-1.1	0	1	12	10

Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Commodities

**Oil prices rebounded this morning after heavy falls yesterday.** A 6% slump in yesterday's session had seen prices reach one-year lows with no clear consensus on the drivers. Analysts pointed to excess supply concerns for 2019, positioning factors, low liquidity ahead of Thanksgiving in the US, and worries over a growth slowdown. Oil volatility has shot up in recent sessions, reaching levels last seen in early 2016. Yesterday's fall saw Brent and WTI decline to \$62.5 and \$53.4, respectively while both measures saw gains of approximately 1.5% this morning. The turnaround was helped by US inventory data that unexpectedly fell last week. Investors are also mulling OPEC's response and the potential for renewed supply cuts over the coming weeks.



## United States

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**US asset markets sold off on Tuesday with the S&P 500 declining by 1.8%.** In US equity markets, all 11 sectors fell, with energy lower by 3.3%, banks by 1.9% and the tech sector by 1.5%. Implied volatility rose, with the VIX Index up by 2.4 pts to 22.5, before easing back today. Oil futures declined by 6% on Tuesday with the stress reflected in a continued widening of the US HY (+6 bps) and US IG (+2 bps) spreads. Risk-off assets including Gold, the Yen and 10-year US Treasuries were little changed. The dollar (DXY) appreciated by 0.7%. After market close, news reports cited President Trump as saying that he would prefer the Fed to cut interest rates and criticized the Fed as being "a problem." There was no noticeable reaction in interest rate markets to the President's comments.

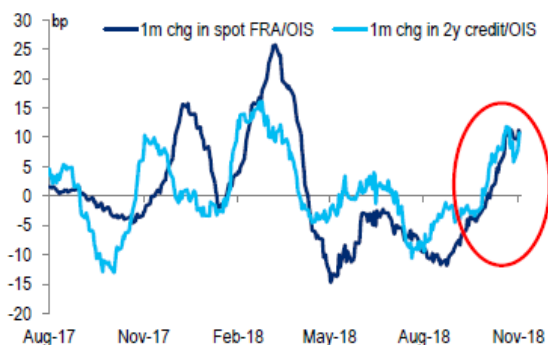
**Pressures continued in the global credit markets yesterday, with US IG and US HY spreads widening by another 2 bps and 6 bps, respectively.** Analysts have highlighted that along with the slump in oil prices, Brexit uncertainty and continued worries about Italy have also contributed to the pressures on global credit, especially in Europe. Credit spreads for the US HY energy sector widened by 14 bps to 528 bps on Tuesday. These pressures have also started to affect the financial sector, which has seen a rise in CDS spreads for the major banks. Citi analysts expect the credit deterioration to also result in a continuation of the widening of the Libor-OIS spreads.

Figure 5. CDS spreads of Libor submitting banks (US and Europe) have widened sharply



Source: Citi Research

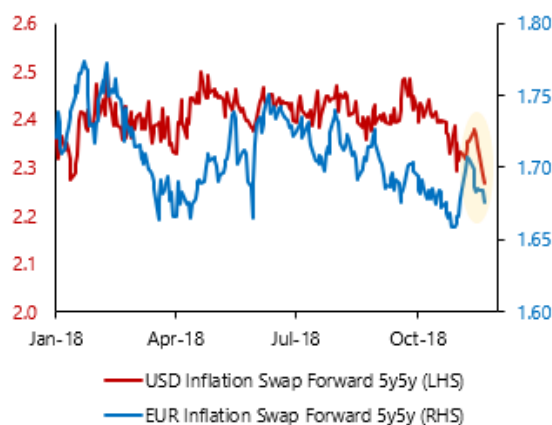
Figure 6. We expect FRA/OIS to widen on further credit deterioration



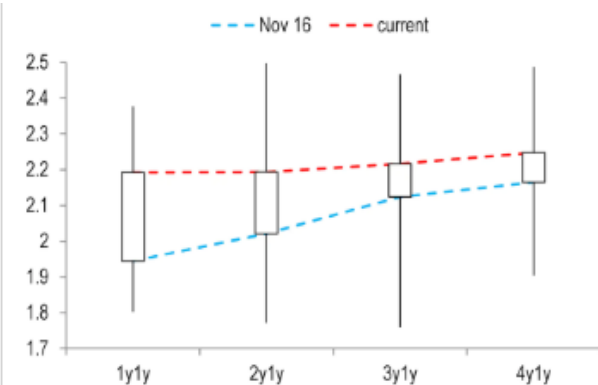
Source: Citi Research

**Breakeven inflation expectations have narrowed sharply across major advanced economies,** reflecting falling oil prices. 5y5y inflation swap forwards in the US have declined from 2.35% in October-end to 2.27% now. Analysts have also highlighted that the curve has flattened significantly over the last 2 years, and forwards are now implying a stable pricing of core inflation in the near to medium term.

Inflation Swap Forwards 5y5y



Source: Bloomberg

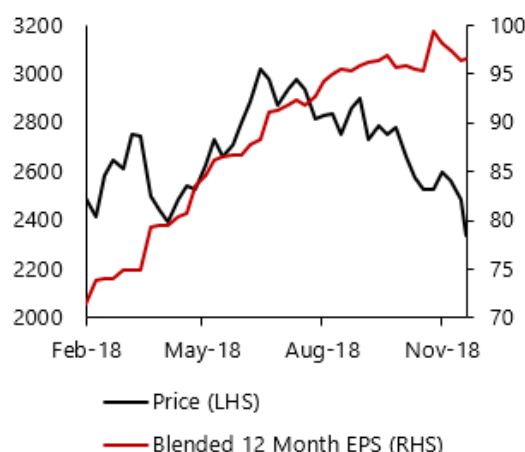


Source: Citi Research

Note: Candle sticks show the ranges of forward inflation in past 2 years. Boxes show the range from Nov 2016 to today's levels

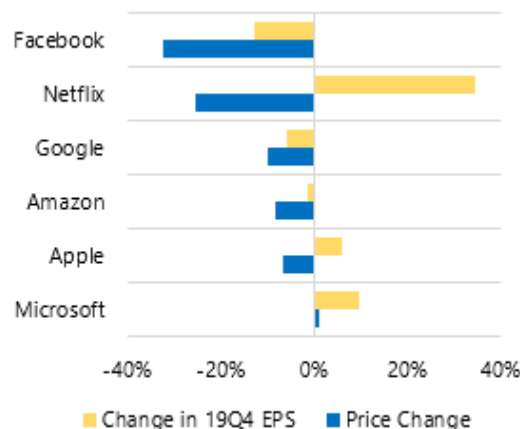
**The Tech sector sell-off continued on Tuesday with the NYFANG index down 1.5%,** extending the decline from end-September to almost 17%. After a strong performance in 2018H1, consensus earnings estimates remained stable over the last few months and have declined by 3% since the end of October. Most tech majors have seen a decline in their share prices over the last six months, with Facebook, Google and Amazon also seeing a downward revision in the earnings estimates.

NYFANG Index (Large tech majors)



Source: Bloomberg

Price and earnings revision (since May-2018 end)

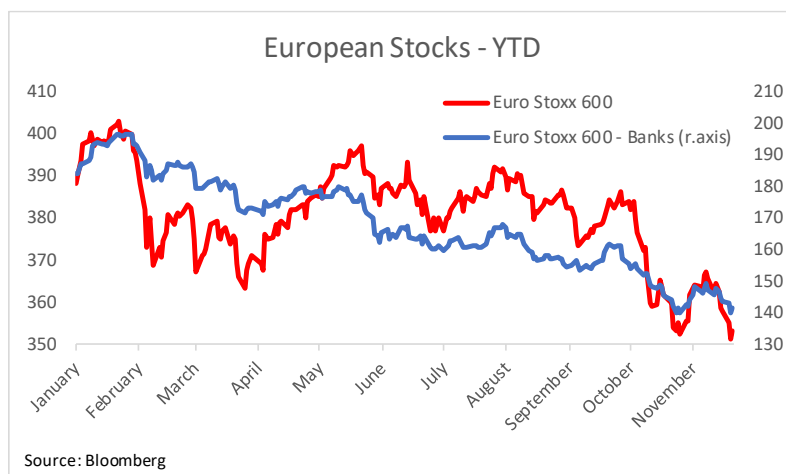


Source: Bloomberg

## Europe

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**Equities rebounded this morning after five straight days of losses.** The Euro Stoxx 600 was up 0.6% while nearly all national bourses were in the green. All 12 GICS sectors were higher, with financials (+1.1%) particularly strong. **The gains were led by Italian banks, particularly Banco BPM (+6.7%) after yields on the country's sovereign debt dropped sharply.** Italy's 2-year sovereign yield was down 18 bps and the 10-year yield down 12 bps, after Italian media reported that deputy PM Salvini was ready to reconsider the amounts going to citizens' income as well as the proposals on the lower retirement age. Salvini and FM Tria are expected to address parliament later today. **Moreover, the EC warned of the "particularly serious non-compliance" of the Italian budget in its report on the country's debt.** Other countries saw modestly higher yields, resulting in a sharp tightening of BTP spreads to Bunds.



Source: Bloomberg

**Clarity on central counterparty (CCP) recognition by European authorities is urgently required, according to the Bank of England.** In a testimony to the Treasury Select Committee, Bank deputy governor Jon Cunliffe said that CCPs in the UK needed certainty regarding their legal position by early to mid-December to avoid having to "ask members to leave." CCPs must give their members three months' notice to move their business, which adds urgency to the matter given the UK's exit date of March 29. During the same hearing, governor Carney warned that businesses are not prepared for a "no deal" scenario and that the Bank would have limited tools to counter many of the effects of such a scenario.

**Cleaning up NPLs remains the priority for the European banking system, according to the ECB's incoming head of supervision.** Andrea Ernia, who is set to replace Daniele Nouy as chair of the SSM in January, said he is convinced that the banking union would not survive the next crisis if the legacy of bad assets from the previous ones had not been cleared up. Speaking before the European Parliament's Committee on Economic and Monetary Affairs, Ernia also said that banks should mark their holdings of sovereign debt to market. His testimony follows comments from Governing Council member Nowotny who said that the end of QE could negatively affect the market for Italian sovereign debt.

## Other Mature Markets [back to top](#)

### Japan

**The yen was little changed at 112.9 today while equities fell for a second day.** The Topix shed 0.6% and the Nikkei lost 0.4%, led by declines in energy-related shares as oil prices fell again. Meanwhile, JGB yields fell amid safe-haven flows into bonds on the back of a global equity sell-off and concerns over trade tensions. **The 10-year note fell 1 bp to 0.09%, its lowest level since August**, while the 30-year note fell 2 bps to 0.82%. Analysts noted that yields could rise as the BoJ is widely expected to trim the size of its outright bond purchases. In its decision to boost trading and market liquidity in July, the BoJ indicated that it would allow the yield on the benchmark 10-year note to rise as high as 0.2%.

## Emerging Markets [back to top](#)

In **Asia and EMEA**, equities are mixed this morning. Polish equities (+1.7%) are posting notable gains following news that the government may concede to some of the EC's demands on its judiciary reforms. Most other bourses saw moves of less than 0.4%, while currencies strengthened slightly to the dollar. In **Latin America**, equity markets mostly lost ground as a global risk-off sentiment prevailed. Argentinian assets declined the most with the Merval Index dropping 4.5% and the peso depreciating 1.2% against US dollar. Mexico's equity market lost 1.2%. The Mexican peso and Brazilian real depreciated marginally against US dollar.

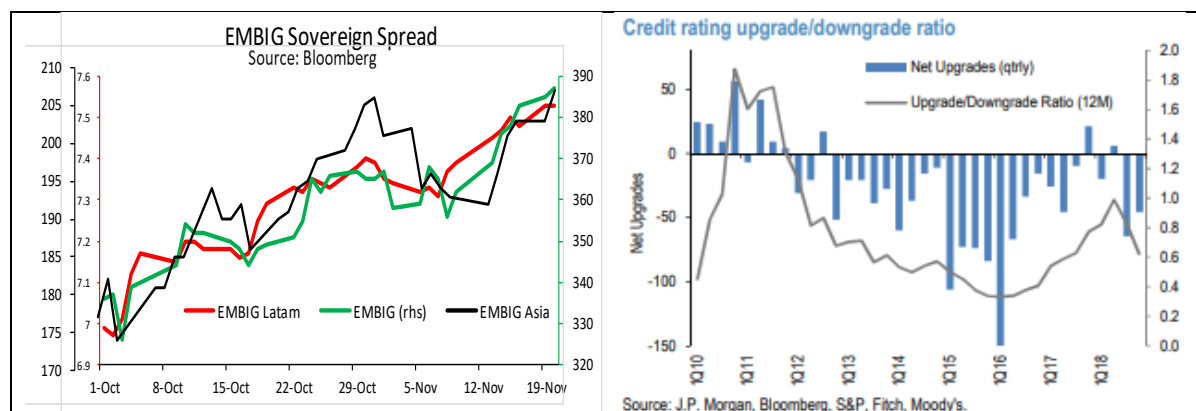
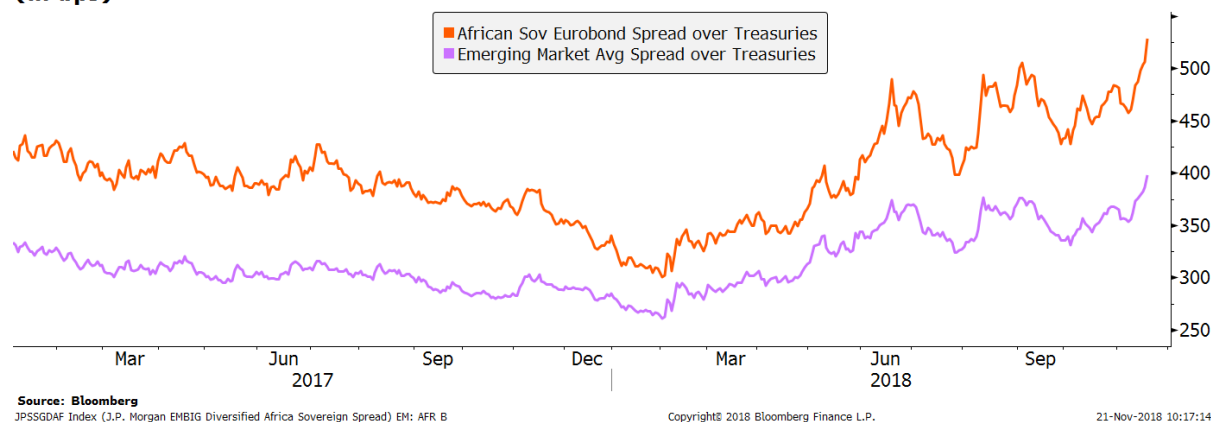
Key Emerging Market Financial Indicators

Last updated: 11/21/18 8:24 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		39.48	1.3	-1	0	-17	-16
MSCI Frontier Equities		27.07	-0.4	1	0	-16	-18
EMBIG Sovereign Spread (in bps)		395	8	19	46	100	110
EM FX vs. USD		62.56	0.2	1	0	-8	-10
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.94	0.1	0	0	-4	-6
Indonesian Rupiah		14603	-0.1	1	4	-7	-7
Indian Rupee		71.46	0.3	2	3	-9	-11
Argentine Peso		36.19	-0.7	0	1	-52	-49
Brazil Real		3.78	-0.5	0	-3	-14	-13
Mexican Peso		20.31	0.3	0	-4	-8	-3
Russian Ruble		65.92	0.4	2	-1	-10	-13
South African Rand		13.94	1.1	3	3	0	-11
Turkish Lira		5.35	0.6	2	6	-26	-29
EM FX volatility		10.16	0.0	0.1	0.2	2.3	2.3

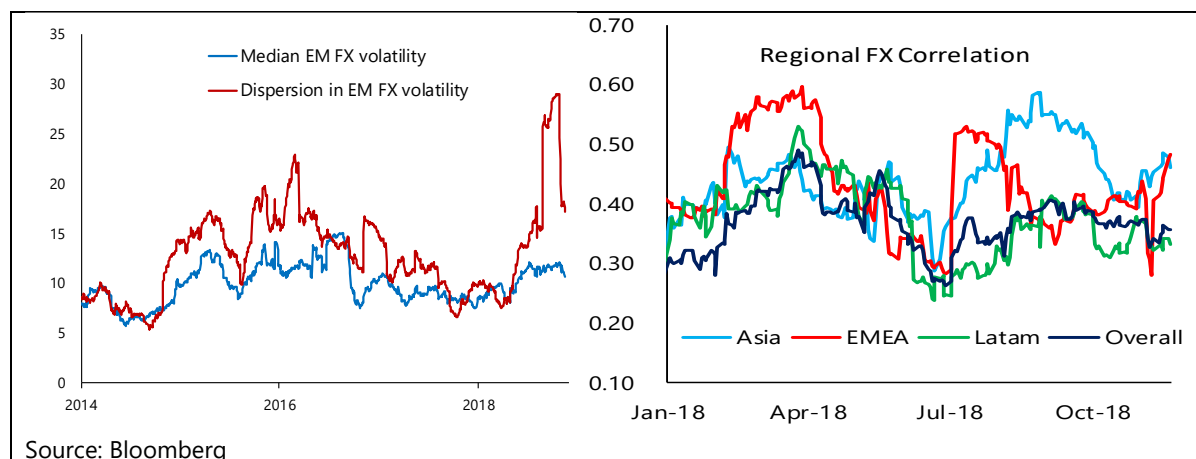
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

**EM credit spreads have widened further over the past week, driven primarily by the decline in oil prices.** EMBIG sovereign spreads widened by 4 bps yesterday and have increased by 20 bps over the past week, in line with the global credit market sell-off. EMs with the largest increases in sovereign spreads over the past week include Argentina (+37 bps), Ukraine (+25 bps), Turkey (+19 bps) and South Africa (+19 bps). Spreads of African eurobonds have widened to over 500 bps recently, as risk sentiment towards frontier markets becomes bearish. EM corporate bonds have also remained under pressure this year, as reflected in the 7% price decline for JP Morgan's CEMB ETF since January. **Analysts have highlighted that EM corporate credit rating trends were negative over the last two weeks with 28 rating changes consisting of 9 upgrades against 19 downgrades.** Latin America accounted for half of the changes over the last two weeks with 4 upgrades against 12 downgrades.

## Eurobond Spreads to US Treasuries (in bps)



**EM FX volatility has declined since the end of October though it remains at elevated levels.** The index for median volatility has fallen from 11.9 to 10.6, indicating a relative stabilization of the currency pressures. Moreover, the dispersion of volatility has come down from 29 to 17. **EM FX has appreciated by 3.7% against the dollar since the trough in early September based on JP Morgan's measure, after a 14% depreciation from mid-April to early September.** FX correlations have remained relatively stable over the last month after a sharp rise from July to September. Intra-regional FX correlations for Asia and EMEA have increased recently, while that for Latin America has remained relatively stable.



## China

**The PBC refrained from liquidity injection into the financial system amid ample liquidity and declining bond yields.** For the 19<sup>th</sup> day, the longest stretch since August, the PBC did not inject cash into the financial market, citing "reasonable and plentiful" cash supply. A commentary in the China Securities Journal noted that short-term borrowing costs may have reached a bottom; further declines could destabilize the RMB and prompt capital outflows. The interbank 7-day repo rate fell 40 bps on the day to 2.5%, though it remains within the range seen since last week. Meanwhile, amid a steady decline in bond yields since October, the yield on the one-year central government note fell below the US Treasury equivalent for the first time in more than a decade. The one-year note touched 2.50%, 15 bps below Treasuries of the same tenor. **The RMB outperformed other Asian currencies on the day**, with the offshore CNY at 6.93 (+0.2%) and the onshore CNH at 6.94 (+0.1%). Trading activity was limited as investors await the outcome of the upcoming Xi-Trump meeting in Buenos Aires.

## Upside Down

**China's sovereign yield is below U.S.'s for first time in at least a decade**



Source: Bloomberg

AT965411 Corp (CGB 2.79 08/16/19) yield Daily 06JUN2008-21NOV2018 Copyright© 2018 Bloomberg Finance L.P. 21-Nov-2018 15:03:59

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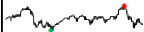



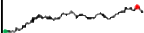




















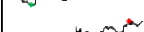

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## Global Financial Indicators

Last updated: 11/21/18 8:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2642	-1.8	-3	-5	2	-1
Europe		3141	0.8	-2	-2	-12	-10
Japan		21508	-0.4	-2	-5	-4	-6
China		2652	0.2	1	4	-22	-20
Asia Ex Japan		64	-1.9	-1	0	-18	-16
Emerging Markets		39	1.6	-1	0	-17	-16
<b>Interest Rates</b>			basis points				
US 10y Yield		3.07	0.0	-6	-13	71	66
Germany 10y Yield		0.36	1.4	-3	-10	1	-6
Japan 10y Yield		0.10	-0.7	-2	-5	6	5
UK 10y Yield		1.38	-0.1	-12	-19	11	19
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	-1.2	8	18	22	29
US High Yield		422	-3.0	29	75	39	47
Europe IG		79	-1.7	6	5	29	34
Europe HY		322	-7.4	22	28	82	89
EMBIG Sovereign Spread		397	10.0	21	48	102	112
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.60	-0.2	0	1	3	5
USDEUR		1.14	0.5	1	0	-3	-5
USDJPY		112.9	-0.1	1	0	0	0
EM FX vs. USD		62.6	0.3	1	0	-8	-10
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		64	2.2	-3	-20	2	-4
Industrials Metals (index)		115	0.6	1	-3	-12	-17
Agriculture (index)		42	0.1	-1	-4	-12	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		21.4	-1.1	0.1	1.5	11.7	10.3
10y Treasury Volatility Index		4.1	-0.2	0.0	0.4	0.3	0.6
Global FX Volatility		8.6	0.0	0.2	0.6	1.2	1.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		430	-4.4	19	40	-69	61
Italy		317	-9.4	8	15	175	158
Portugal		160	-3.7	3	4	3	8
Spain		127	-3.1	5	-1	14	13

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.  
Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 11/21/2018 8:24 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.94	0.1	0.2	0	-4	-6		3.3	0.3	-10	-21	-66	-64		
Indonesia		14603	-0.1	1.3	4	-7	-7		8.2	0.0	-10	-51	134	160		
India		71	0.3	1.7	3	-9	-11		7.8	-0.3	0	-22	64	36		
Philippines		52	0.1	1.4	3	-3	-5		6.5	-2.6	-19	-5	168	169		
Thailand		33	0.0	0.1	-1	-1	-1		2.8	-0.3	-6	-7	55	54		
Malaysia		4.19	-0.1	0.1	-1	-1	-4		4.2	0.0	1	7	10	27		
Argentina		36	-0.7	-0.4	1	-52	-49		23.9	-0.2	6	327	767	791		
Brazil		3.78	-0.5	0.1	-3	-14	-13		8.6	-2.6	-25	-37	-40	-46		
Chile		670	0.2	1.9	2	-5	-8		4.7	-3.5	-8	-16	-1	-8		
Colombia		3198	-0.7	-0.3	-4	-6	-7		6.8	2.2	-2	9	36	56		
Mexico		20.31	0.3	0.5	-4	-8	-3		9.1	8.3	9	91	180	145		
Peru		3.4	-0.2	-0.1	-2	-4	-4		5.8	-1.7	-10	-1	36	54		
Uruguay		33	0.0	0.8	1	-10	-12		10.9	5.3	24	33		233		
Hungary		282	0.2	1.1	0	-5	-8		2.6	-5.9	-17	-17	125	134		
Poland		3.77	0.5	0.6	-1	-5	-8		2.6	-2.2	0	-3	-20	-11		
Romania		4.1	0.3	0.7	-1	-3	-5		4.4	0.0	1	-25	43	54		
Russia		65.9	0.4	1.7	-1	-10	-13		8.5	5.2	-24	12	95	117		
South Africa		13.9	1.1	3.3	3	0	-11		9.7	2.5	-10	-11	-34	40		
Turkey		5.35	0.6	2.1	6	-26	-29		17.5	61.8	20	-260	450	553		
US (DXY; 5y UST)		97	-0.2	-0.1	1	3	5		2.91	1.9	-5	-14	81	70		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
									basis points						
China		2652	0.2	1	4	-22	-20		185	0	1	3	42	33	
Indonesia		5948	-1.0	2	2	-2	-6		229	4	11	29	57	63	
India		35200	-0.8	0	3	5	3		172	0	3	10	61	62	
Philippines		7265	-0.5	5	2	-12	-15		113	2	3	8	15	18	
Malaysia		1695	-1	0	-2	-1	-6		143	2	4	19	32	33	
Argentina		29715	-4.5	1	4	9	-1		690	18	47	28	326	340	
Brazil		86612	0.0	1	3	18	13		267	-1	8	9	25	33	
Chile		5105	-1.2	-1	0	-2	-8		153	0	10	22	21	34	
Colombia		1389	-2.4	-1	-4	-4	-8		216	-1	14	31	28	42	
Mexico		41797	-1.2	-3	-12	-13	-15		343	4	13	77	99	98	
Peru		19047	-2	0	1	-4	-5		167	-1	8	22	27	30	
Hungary		39301	0.6	0	6	-1	0		142	0	9	27	46	54	
Poland		56347	2.1	-1	-1	-12	-12		68	3	5	12	24	21	
Romania		8490	-0.1	-1	-1	9	9		208	3	13	25	73	94	
Russia		2355	0.6	-1	0	9	12		239	2	0	20	53	61	
South Africa		51078	0.0	-2	-2	-17	-14		365	12	26	53	73	111	
Turkey		91838	0.2	-2	-5	-13	-20		467	19	34	25	129	178	
Ukraine		573	0.0	-6	2	89	82		678	28	38	119	209	223	
EM total		23	0.0	-1	-1	-14	-12		395	8	19	46	100	110	

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.