GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 25, 2019

- **Hong Kong shares rise on peaceful election victory for pro-democracy candidates** (link)
- **Ecuador bonds rally after President Moreno submits revised tax reform plan** (link)
- **Q3 US bank G-SIB scores suggest a possible pullback in year-end repo provisioning** (link)
- **German IFO data signals small improvement in sentiment** (link)
- **S&P changes South Africa's rating outlook to negative on worsening fiscal balance** (link)

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

Markets remain quiet as economic data suggest stabilization

Price action has been largely muted over recent sessions with few new themes to drive price action. This week, the focus will be on the US GDP (Wednesday) with analysts expecting a 1.9% growth for Q3, in line with the last revision. Personal consumption is expected to grow by 2.8% y/y. Durable goods orders for October (Wednesday) are expected to decline by 0.7%, which compares with a decline of 1.2% last month. The Fed will also release the Beige Book on Wednesday. Core PCE inflation (Wednesday) is expected at 1.7% y/y in October, rising marginally from 1.6% y/y in September. Among key central bank releases, there are monetary policy meetings in South Korea (on hold at 1.25%; Thursday), Ghana (on hold at 16.0%, Monday) and Nigeria (on hold at 13.5%, Tuesday). Mexico's monetary policy minutes will be released on Wednesday, and GDP (Monday) for Q3 is expected to decline by 0.3% y/y. Japan's CPI (Thursday) is expected to increase to 0.6% y/y in Nov, from 0.4% y/y in Oct. Canada's GDP growth for Q3 is expected to be reported at 1.4% y/y, accelerating from 1.3% y/y in the last print.

Key Global Financial Indicators

Last updated: 11/25/19 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3110	0.2	0	3	18	24
Eurostoxx 50		3701	0.4	0	2	18	23
Nikkei 225		23293	0.8	-1	2	8	16
MSCI EM		43	0.8	-1	0	8	10
Yields and Spreads				bps			
US 10y Yield		1.78	-0.2	-3	-1	-126	-90
Germany 10y Yield		-0.35	0.7	-2	1	-69	-59
EMBIG Sovereign Spread		333	-1	1	5	-63	-81
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		60.1	0.0	0	-2	-4	-4
Dollar index, (+) = $ appreciation		98.3	0.0	1	0	1	2
Brent Crude Oil ($/barrel)		63.4	-0.1	1	2	8	18
VIX Index (%, change in pp)		12.5	0.1	0	0	-9	-13

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

United States

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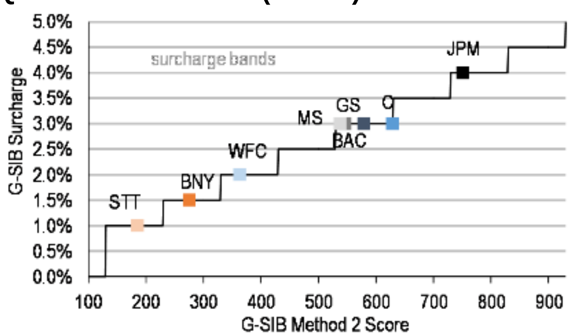
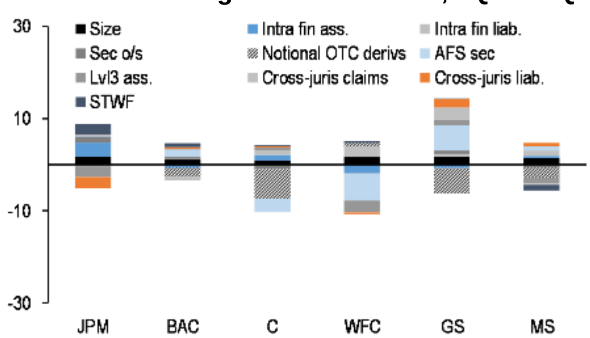
Q319 G-SIB scores suggest a potential pull-back in repo provision into the year-end. Average Q319 G-SIB scores across banks submitting FR Y15 reports has stabilized, but individual banks' G-SIB submissions suggest that many of the largest suppliers of repo liquidity are near the thresholds to higher G-SIB designation. Analysts at JPMorgan contend that this may strengthen large banks' incentives to control their size by reducing repo extension and note that several US G-SIBs have already started to reduce their derivatives positions. The past few years have seen tightening in interbank funding markets driven in part by efforts to manage year-end G-SIB scores; and large banks' current positions points to a likely retraction of interbank liquidity and tightening funding market conditions into the end of 2019. As highlighted in the *Global Markets Monitor* on November 20th, JPMorgan notes that intra-day repo spreads over interest on excess reserves, a key money market benchmark, is already well above the same point at this time in 2018 and 2017. Several market analysts foresee that the Fed will need to increase its term funding to prevent liquidity stress through the year-end 'turn'.

3Q2019 G-SIB Scores (Points)



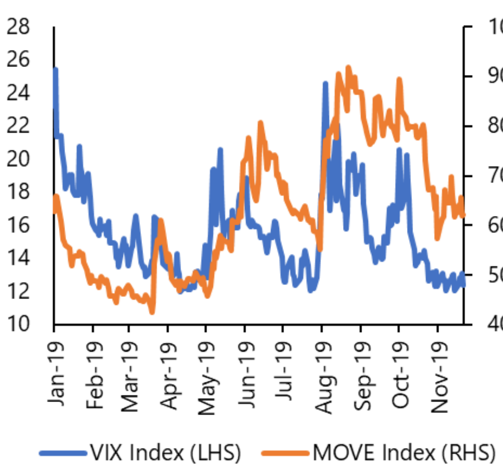
Source: J.P. Morgan, FR-Y15

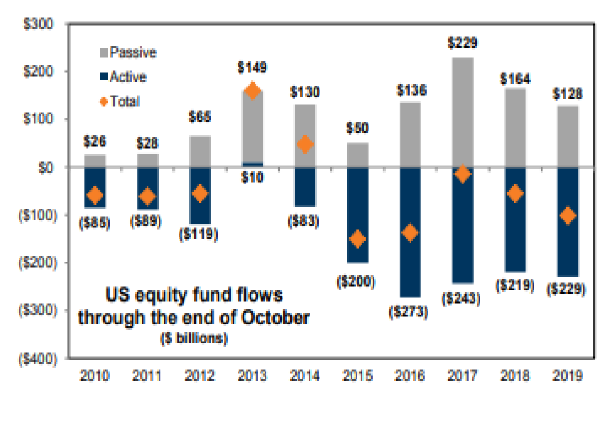
Sources of Change in G-SIB Score, 3Q vs. 2Q



Source: J.P. Morgan, FR-Y15

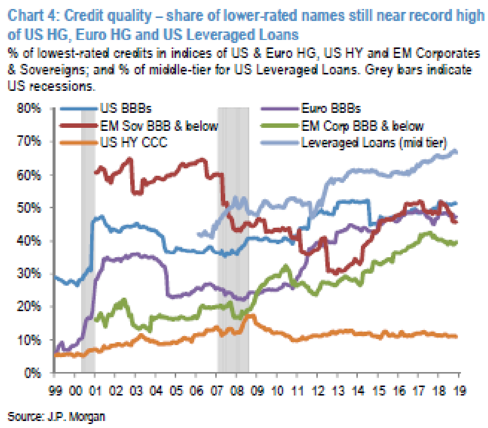
The week ended on a flat note with no major change in equities or government yields on Friday. Implied volatility continued to decline with the VIX falling by 0.6 pts to 12.5 pts and 10-year Treasury implied volatility declining by 0.2 pts to 4.1 pts. More broadly, active equity mutual funds in the US have continued to experience significant outflows this year, registering $229 bn of outflows so far. While passive funds have seen inflows worth $128 bn, total outflows from equity mutual funds and ETFs are on pace to be the largest since 2016 in absolute dollars and relative to starting market cap.

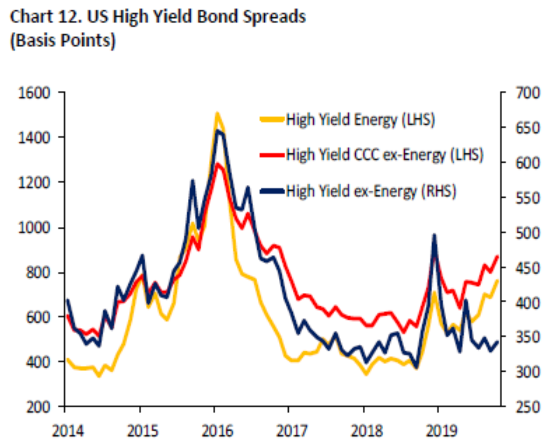




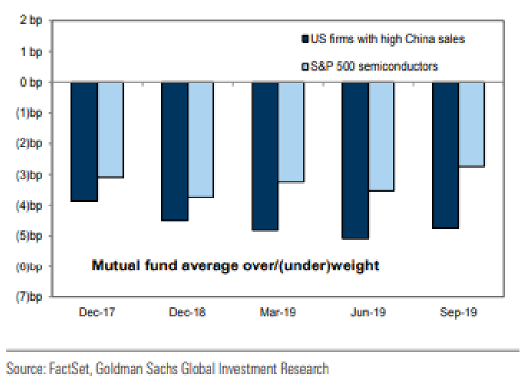
Source: EPFR, Goldman Sachs Global Investment Research

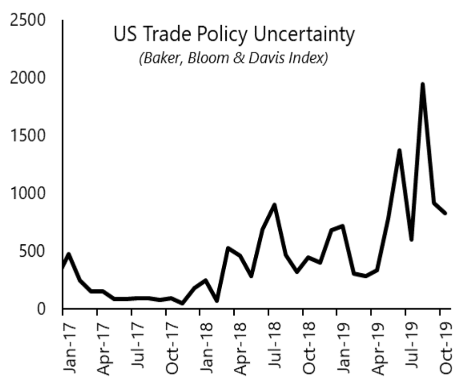
Credit quality concerns persist in the global corporate sectors. JPM analysts have highlighted that the share of lower-rated credits within JPM's bond indices remains within one percentage point of all-time highs for US HG (51%), Euro HG (47%) and US Leveraged Loans (67%). Only EM sovereigns have shown a multi-quarter improvement in quality. These pressures are also reflected in the credit markets as lower quality and weaker sectors have underperformed.





Funds have reduced their underweight on stocks exposed to US-China trade. Analysts highlight that the mutual fund rotation into US stocks with the highest share of China sales reflect increasing optimism around a US-China trade deal. GS analysts' trade tension barometer shows that the equity market is pricing in a 70% likelihood of a trade deal compared with 12% in mid-August. This is also in line with the declining trade policy uncertainty in the US, as per Baker, Bloom indices – though it continues to remain elevated versus historical levels.





Europe [back to top]

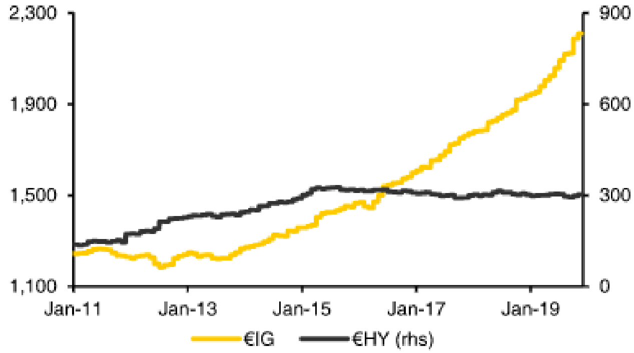
European equities (+0.4%) followed Asian shares higher with core bonds little changed ahead of flash inflation data later this week. German 10-year Bund yields trade at -0.35%, and 10-year OAT yields at -0.04%.

A small rise in German IFO data confirms expectations of a tepid recovery. The IFO business climate index rose to 95.0 in November (from 94.7 in October). Companies' assessment of the current situation was slightly better, with expectations also less pessimistic than in October. Nevertheless, manufacturing, is still stuck in recession even though expectations improved somewhat.

Italian spreads over 10-year Bunds fell 2-3 bps to 151 bps. Spanish 10-year spreads over Bunds trade at 76 bps.

Issuance of €-denominated investment-grade debt continues to reach new highs (with €17 bn of issuance just last week) but issuance in €-denominated high-yield (HY) debt has been relatively subdued. So far in 2019, European HY issuance is in line with the post-2012 average but well below the 2017 high of €94 bn.

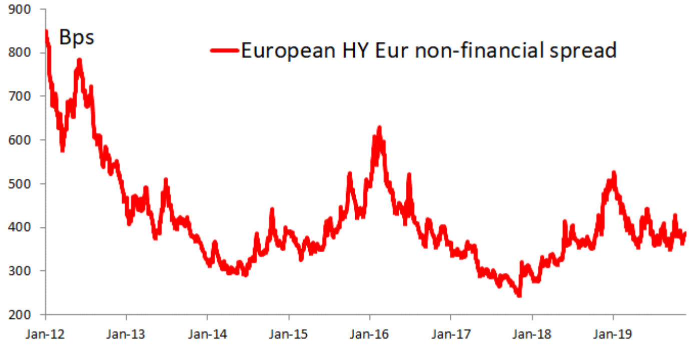
No growth in €HY since 2015!
iBoxx indices, nominal in €bn



Source: Markit, Commerzbank Research

Analysts at Commerzbank argue that despite ECB easing, spreads on high-yield debt (HY) have remained elevated on growth concerns and weakening fundamentals.

Europe: High-yield (HY) non-financial spreads



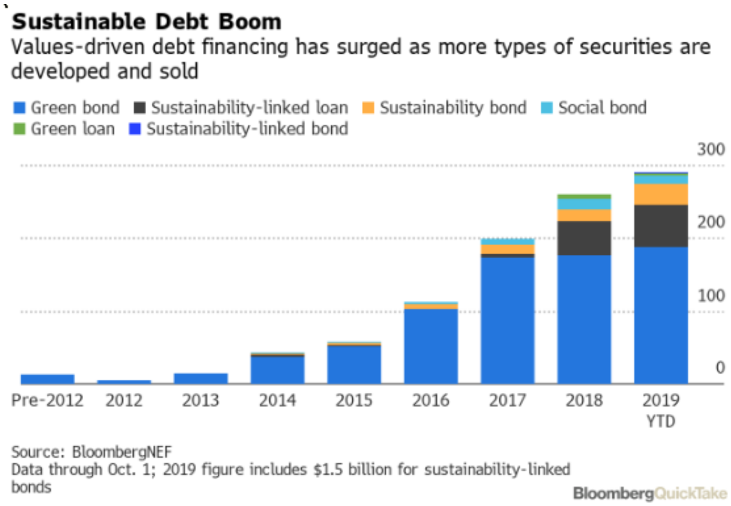
Source: CS, Bloomberg, and IMF staff

Italy

Bank of Italy deputy governor Panetta said that unfavorable elements have been removed in the ESM reform proposal ahead of the discussions at the 12-13 Dec Eurogroup. Some 5-star politicians had joined Lega in calling for Italy to veto ESM reform.

Germany

The German finance ministry plans to launch inaugural green bonds in 2020H2. The new bonds would be set up as twins of existing conventional issues (to be issued after a conventional coupon-bearing security) with sales amounting to lower double-digit billion euro. ABN-Amro expects Europe's green government-bond market to triple to €140 bn by 2023.



Other Mature Markets

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Japan

The yen weakened (-0.2%) while equities edged higher (+0.7%) amid trade optimism. Contacts noted that China's decision to raise penalties on intellectual property rights' violations – a long-running US concern - could boost the prospect for a trade deal with the US. Meanwhile, the yield on the 40-year long bond rose by 1.3 bps ahead of Tuesday's auction while yields on other maturities fell by as much as 0.8 bps.

Hong Kong SAR

Hong Kong equities climbed, outperforming Asian peers (+1.5%), following pro-democracy candidates' landslide victory in district council elections. Gains were led by shares of property developers, seen as most sensitive to current social unrest. Contacts noted that equity gains likely suggested relief that Sunday's election -- which saw a record turnout -- went ahead peacefully. Official tallies indicated that pro-democracy candidates won 77% of the 452 seats, while independent candidates won another 10%, leaving the pro-establishment camp with only 13% of council seats. As a result of the election, the pro-democracy camp now has control of 17 out of 18 district councils; this is in stark contrast to the landscape before Sunday. Until Sunday, all local councils had been under pro-establishment control since the 2015.

Emerging Markets

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Asian equities staged broad-based gains, with Hong Kong (+1.5%) outperforming, boosted by trade optimism and Hong Kong's peaceful election on Sunday. China indicated over the weekend that it will raise penalties on intellectual property violations, boosting hopes that one of the key sticking points in the US-China trade negotiation will be smoothed over. In addition to raising IP penalties, China will also look into lowering the thresholds for criminal punishments for those who steal IP, though details are not yet available. Asian currencies were mixed, with the Korean won pacing gains (+0.25%) while the Thai baht (-0.13%) underperformed. Hong Kong stocks outperformed as local unrest eased for the weekend heading into local council elections, which handed a majority to pro-democracy candidates. **EMEA** bourses mostly gained, led by strong advances in Kuwait (+1.3%), UAE (+0.7%), Bahrain (+1.0%), and Poland (+0.5%). Regional currencies were mostly unchanged to the dollar. In **Latin America,** equity and FX markets in Chile were again under pressure last week. The peso depreciated by 2.7% against the dollar and the local stock exchange declined by 2.7% last week. On Thursday, the government and opposition agreed on a package of measures worth 0.5% of GDP to boost pensions for the poor and cut public transport fares for the elderly. In Ecuador 10-year USD bond yields narrowed by 60 bps on Friday to 14.1% as the government sent a new tax reform plan to congress.

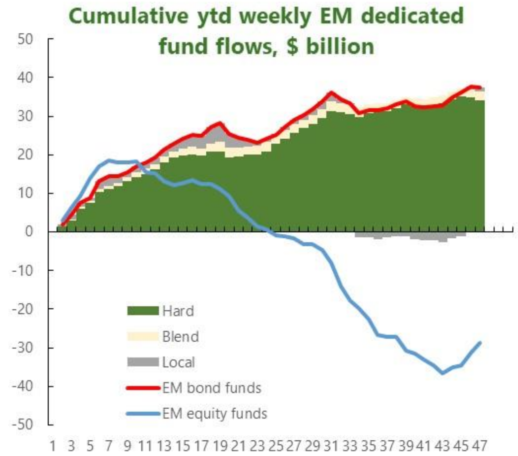
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
11/25/19 8:04 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		42.87	0.8	-1	0	8	10
MSCI Frontier Equities		28.75	-0.2	0	1	6	10
EMBIG Sovereign Spread (in bps)		333	-1	1	5	-63	-81
EM FX vs. USD		60.06	0.0	0	-2	-4	-4
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		7.04	0.0	0	0	-1	-2
Indonesian Rupiah		14086	0.0	0	0	3	2
Indian Rupee		71.73	0.0	0	-1	-1	-3
Argentine Peso		59.52	0.5	0	-1	-39	-37
Brazil Real		4.21	-0.2	0	-5	-6	-8
Mexican Peso		19.39	-0.1	0	-2	6	1
Russian Ruble		63.99	-0.2	0	0	5	8
South African Rand		14.74	-0.1	1	-1	-6	-3
Turkish Lira		5.74	-0.5	0	1	-9	-8
EM FX volatility		7.14	1.3	-0.1	0.0	-2.9	-2.6

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

EM Fund Flows

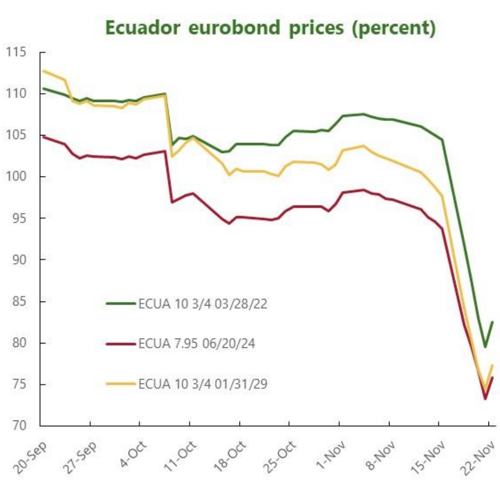
EM debt-dedicated funds tracked by EPFR saw modest outflows amounting to just $214 million last week (through November 20). Hard currency drove the outflows while local currency flows amounted to $407 million, driven entirely by ETFs. Equity inflows remained positive for a fourth week in a row at $2.6 billion (87th percentile). Hard currency has driven 91% of all bond inflows year-to-date. Overall year-to-date inflows stand at $37.4 billion for bonds and -$29 billion for equities.

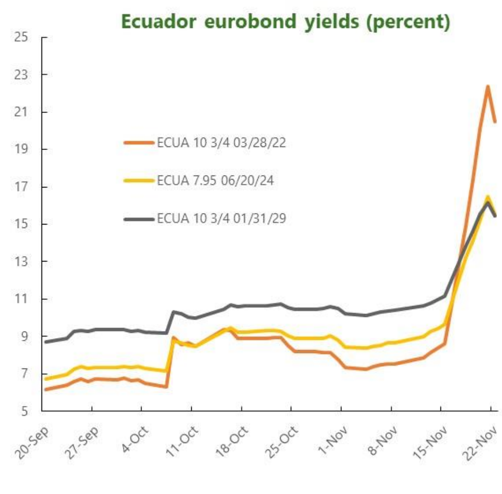


Source: EPFR

Ecuador

Ecuador 10-year USD bond yields narrowed by 60 bps on Friday to 14.1% as the government sent a new tax reform plan to congress. Bond prices recovered by around 2 to 3 points on Friday after dropping by more than 20 points last week. Bond prices remain at distressed levels of around 75 cents for bonds maturing in 2024 to 2030. The latest fiscal bill is the third attempt by the government to reduce the budget deficit in 2020. The first attempt involved a rollback of fuel subsidies, which failed amid large protests. The second attempt was rejected by legislators on November 17, triggering a slump in Eurobond prices. Market analysts highlight that investors will wait for confirmation that the upcoming bills in congress will be sufficient for IMF disbursement before Eurobonds experience any significant recovery.

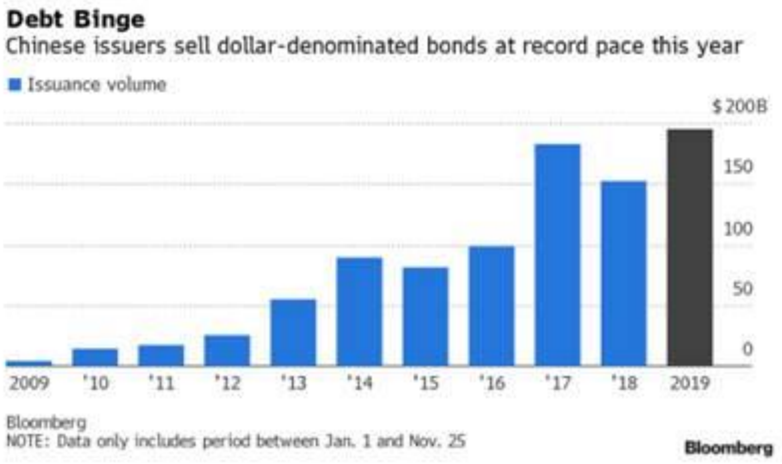




Source: Bloomberg

China

The Ministry of Finance is considering a record sale of sovereign bonds denominated in US dollars. Bonds with tenors of 3-, 5-, 10-, and 20-years, totaling of as much as $6 bn, are being considered for sales as early as Tuesday. Specifically, the 20-year note will fill the gap between 10-year and 30-year securities issued in 2018. This offering marks the third straight year for China to issue dollar debt. The new debt, at $6 bn, would be double the size of last year's, and triple the amount sold in 2017. According to Bloomberg, the Chinese dollar bond market now exceeds $740 bn.



South Africa

South African stocks gained despite S&P's change to 'negative' outlook. On Friday, S&P downgraded South Africa's sovereign outlook to 'negative' due to worsening fiscal dynamics and slow growth. The agency cited growing debt to GDP (projected to reach 81% by 2028), a higher-than-anticipated fiscal deficit, and lackluster growth as the main reasons for its decision. Nonetheless, **equities in Johannesburg gained 0.3% this morning and the rand is stable at 14.72 per dollar.**

Other EMEA

In other ratings news, **Moody's upgraded Ukraine's outlook from 'stable' to 'positive'** and affirmed its rating at Caa1 as the macroeconomic environment improves and the authorities rebuild the stock of FX reserves. **Fitch's upgraded Armenia's rating to BB- from B+, with outlook 'stable'**, highlighting the country's improving governance among other factors.

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Global Financial Indicators

Last updated: 11/25/19 8:03 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3110	0.2	0	3	18	24
Europe		3701	0.4	0	2	18	23
Japan		23293	0.8	-1	2	8	16
China		2906	0.7	0	-2	13	17
Asia Ex Japan		70	0.0	0	1	8	10
Emerging Markets		43	0.8	-1	0	8	10
Interest Rates					basis points		
US 10y Yield		1.78	-0.2	-3	-1	-126	-90
Germany 10y Yield		-0.35	0.7	-2	1	-69	-59
Japan 10y Yield		-0.08	-0.3	0	6	-18	-8
UK 10y Yield		0.70	-1.0	-6	1	-69	-58
Credit Spreads					basis points		
US Investment Grade		121	-1.3	2	1	1	-26
US High Yield		472	-2.0	9	25	48	-49
Europe IG		49	-0.8	0	-2	-30	-38
Europe HY		231	-2.9	-1	3	-98	-122
EMBIG Sovereign Spread		333	-1.0	1	5	-63	-81
Exchange Rates					%		
USD/Majors		98.31	0.0	1	0	1	2
EUR/USD		1.10	-0.1	-1	-1	-3	-4
USD/JPY		108.9	-0.2	0	0	4	1
EM/USD		60.1	0.0	0	-2	-4	-4
Commodities					%		
Brent Crude Oil ($/barrel)		63	-0.1	1	2	8	18
Industrials Metals (index)		113	0.1	0	-4	-2	3
Agriculture (index)		39	0.3	1	0	-7	-6
Implied Volatility					%		
VIX Index (%, change in pp)		12.5	0.1	0.0	-0.2	-9.1	-13.0
10y Treasury Volatility Index		4.1	-0.2	-0.2	-0.5	0.1	-0.5
Global FX Volatility		6.2	0.1	-0.1	0.0	-2.3	-2.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		172	-2.6	-5	15	-249	-243
Italy		152	-2.4	-3	20	-155	-98
Portugal		74	-2.1	5	15	-86	-74
Spain		76	-0.9	1	12	-53	-41

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
11/25/2019	Level		Change (in %)					Level		Change (in basis points)				
8:04 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		7.04	0.0	-0.1	0	-1	-2		3.2	-0.4	-7	-3	-14	2
Indonesia		14086	0.0	0.0	0	3	2		7.2	0.4	7	-4	-104	-100
India		72	0.0	0.2	-1	-1	-3		6.8	0.4	-2	-3	-97	-64
Philippines		51	-0.1	-0.2	1	3	3		4.3	-0.2	0	-1	-217	-199
Thailand		30	-0.1	-0.1	0	9	7		1.8	3.1	1	16	-106	-89
Malaysia		4.18	-0.2	-0.5	0	0	-1		3.4	-0.1	-2	-3	-78	-71
Argentina		60	0.5	0.3	-1	-39	-37		97.3	1461.0	3120	4120	7338	7427
Brazil		4.21	-0.2	0.1	-5	-6	-8		6.2	-7.5	11	28	-230	-196
Chile		792	0.8	-2.5	-8	-15	-12		3.5	-2.5	3	21	-125	-101
Colombia		3425	0.0	0.5	-1	-5	-5		6.0	9.3	9	25	-68	-47
Mexico		19.39	-0.1	-0.4	-2	6	1		7.1	-2.1	9	12	-200	-164
Peru		3.4	-0.4	-0.7	-1	0	-1		4.5	2.3	-3	24	-124	-122
Uruguay		38	-0.1	-0.3	-1	-14	-14		11.2	6.2	17	25	29	49
Hungary		304	-0.3	-0.5	-3	-6	-8		1.1	-4.0	-12	-1	-148	-114
Poland		3.90	-0.1	-0.6	-1	-3	-4		1.8	-1.5	-3	5	-77	-44
Romania		4.3	0.0	-0.5	-1	-5	-6		4.0	-2.0	-7	13	-42	-29
Russia		64.0	-0.2	-0.2	0	5	8		6.2	-0.2	-8	-14	-224	-220
South Africa		14.7	-0.1	0.5	-1	-6	-3		9.6	9.3	9	31	8	3
Turkey		5.74	-0.5	-0.1	1	-9	-8		11.9	9.1	-3	-195	-541	-498
US (DXY; 5y UST)		98	0.0	0.5	0	1	2		1.64	1.5	0	2	-123	-87

	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		2906	0.0	0	-2	13	17		175	0	-1	-11	-15	-19
Indonesia		6071	-1.6	-1	-3	1	-2		179	-1	0	5	-54	-57
India		40889	5.7	2	5	17	13		127	-1	-5	-7	-47	-69
Philippines		7772	-0.1	-1	-2	6	4		85	0	-3	9	-32	-36
Malaysia		1591	0.5	-1	1	-6	-6		120	1	-1	-1	-27	-42
Argentina		33589	0.7	8	-3	9	11		2241	-7	-242	71	1558	1426
Brazil		108692	-0.3	2	1	26	24		232	-2	-1	7	-37	-41
Chile		4723	-0.8	-2	-4	-8	-7		151	-1	4	18	-4	-15
Colombia		1614	-0.4	-1	-1	18	22		183	0	-5	13	-32	-45
Mexico		43522	0.4	1	0	6	5		320	-1	-2	24	-26	-34
Peru		19886	-0.7	1	2	5	3		127	-1	-3	4	-41	-41
Hungary		44156	8.8	1	5	12	13		99	-2	-5	7	-45	-49
Poland		58093	1.3	-1	1	2	1		25	0	-5	-2	-48	-60
Romania		9767	2.0	0	1	15	32		196	-1	1	9	-9	-25
Russia		2951	7.4	1	3	26	25		161	-1	-10	-18	-80	-91
South Africa		56684	3.4	0	3	12	7		345	-1	10	38	-17	-20
Turkey		105585	0.5	-1	5	14	16		425	-1	9	-22	-44	-4
Ukraine		518	-1.3	0	-1	-10	-7		483	1	20	33	-193	-304
EM total		43	0.8	-1	0	8	10		333	-1	1	5	-63	-81

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

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