



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Monday, November 26, 2018

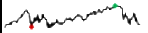
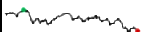
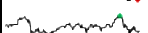






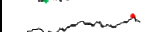

- Oil prices sink and volatility jumps on persistent fears over supply glut ([link](#))
- European Council endorses UK's proposal for a withdrawal agreement ([link](#))
- Italian bank equities gain amid positive news on NPLs and public budget ([link](#))
- Lower inflation expectations tame projections for Brazilian policy rate hikes ([link](#))
- Russia and Ukraine assets under pressure on escalating geopolitical tensions ([link](#))

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## Global risk assets rebound as hopes build for an easing in political tensions

**Recent financial market volatility is fading as equity markets are managing to recover part of the losses incurred last week.** Stocks are up over 1% across most regions on improving sentiment around trade and political risks, while oil prices are showing signs of stabilizing. On Friday, a further drop in energy prices drove US equities and Treasury yields lower amid a low liquidity, holiday-shortened session. Oil prices slumped over 5% to end the week, as investors extrapolate the steep drop since early-October to softness in underlying demand and supply-side factors. Surging US output, higher than expected OPEC production and Iranian sanction waivers have all been cited as contributing to the slide in oil prices. The Brexit blueprint was approved at the EU summit over the weekend and now faces a challenging approval process in the UK parliament, while some progress has been made on the Italian budget issue as reports state the government is contemplating a reduction in its original 2.4% deficit target. In response, the sterling has arrested its recent depreciation and BTP yields and spreads to Bunds have trended lower as the uncertainty around both decisions has diminished amid constructive comments from a number of UK, EU, and Italian officials to start the week.

### Key Global Financial Indicators

Last updated: 11/26/18 7:29 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2633	-0.7	-4	-1	1	-2
Eurostoxx 50		3174	1.2	0	1	-11	-9
Nikkei 225		21812	0.8	1	-1	-3	-4
MSCI EM		40	1.4	-3	3	-17	-16
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.07	2.7	0	-1	72	66
Germany 10y Yield		0.36	2.2	-1	1	0	-7
EMBIG Sovereign Spread		394	-2.0	9	28	103	109
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.4	-0.1	0	0	-9	-10
Dollar index, (+) = \$ appreciation		96.7	-0.2	0	0	5	5
Brent Crude Oil (\$/barrel)		60.1	2.2	-10	-23	-6	-10
VIX Index (% change in pp)		20.5	-1.0	2	-4	11	9

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

**There are several major developments on the international stage this week.** At the end of the week, the G-20 meeting in Argentina will provide a forum for US president Trump and Chinese president Xi to meet and discuss ongoing trade issues. The UK will continue digesting the EU's Brexit deal that will likely face strong domestic opposition. There will be a number of GDP, inflation and unemployment reads in Europe late in the week, with Germany also releasing its seminal IFO business climate report this morning. The US will report consumer confidence (Tuesday), the second read on Q3 GDP (Wednesday), and personal spending and FOMC November meeting minutes (Thursday). Fed Chairman Powell will speak at the NY Economic Club on Wednesday where market attention will be on any hints to a shift in the policy stance. Japan releases jobless and industrial production numbers (Thursday). There will be rate decisions by Ghana, Israel, Kenya and Korea this week. Canada's big banks release their quarterly earnings. Investors will also be looking to see if oil prices post losses for a seventh straight week.

## United States

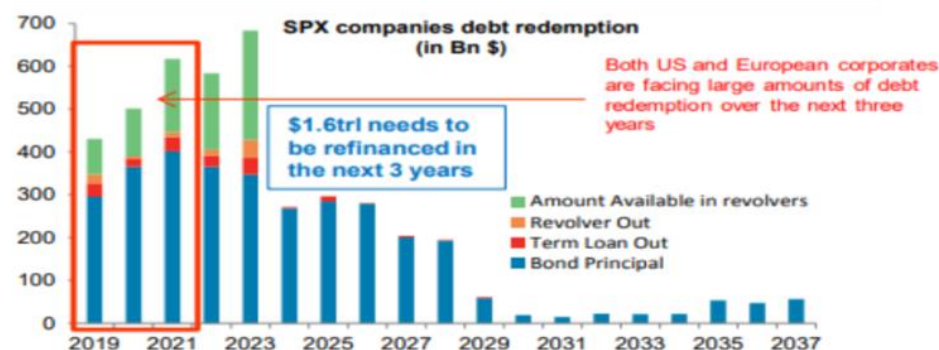
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**Equities continued their recent decline** Friday, although trading volumes were relatively light. Concerns over trade tensions and oil prices weighed on market sentiment. The S&P 500 lost 0.6% and the Nasdaq 0.5%. Major indices all lost over 3% last week, and the blue chip S&P 500 is now in correction territory—10.2% lower from its September peak. Energy stocks dropped 3.3% Friday as oil prices continued their descent. On a more upbeat note, holiday spending on Black Friday amounted to \$6.2 bn according to Adobe Analytics, 24% higher than a year ago. In-store shopping was typically characterized as healthy, with robust digital sales growth increasingly contributing to what is turning out to be a solid retail season.

**This morning, S&P 500 futures point to a gain of over 1% amid the rebound in risk appetite.**

BNP Paribas gauges that **S&P 500 firms will need to refinance some \$1.6 tn of debt over the next 3 years**—all while the Fed is projected to continue its tightening cycle and reduce the size of its balance sheet. The market capitalization of Bloomberg Barclays 1-3 year credit index stood at a record high of \$1.4 tn at end-September, compared to just \$360 mn in June 2007. Bloomberg reckons that debt coming due over a 1-3 year horizon peaked in August 2016 and has fallen 5% since then, but is three times what it was before the financial crisis.

**Fig. 1: We are concerned by a “maturity wall” of bonds that need to be refinanced over the next few years in the US**

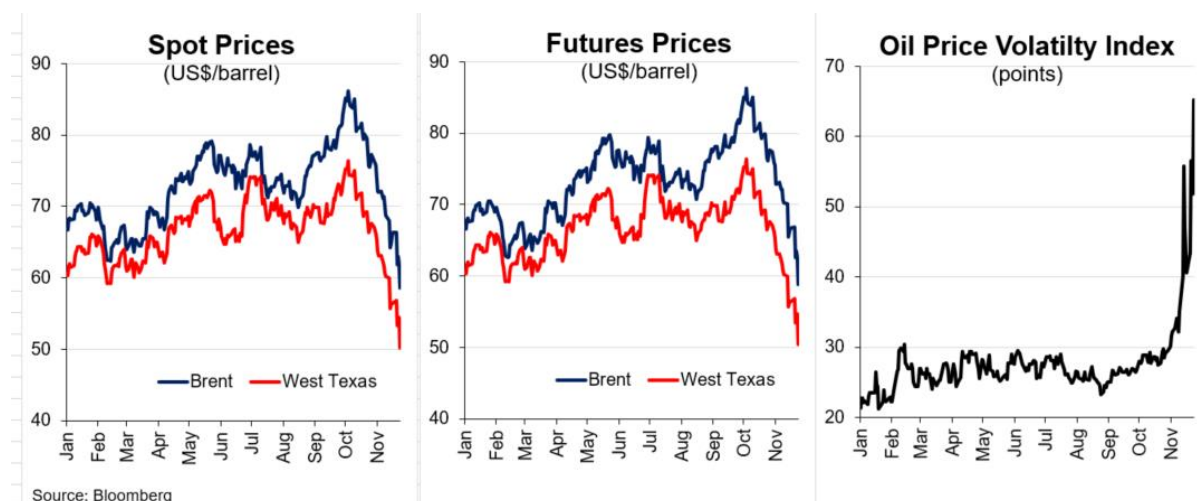


Source: BNP Paribas

**US Treasury yields dipped** Friday, but the declines were marginal, with the 2-year closing flat at 2.81% and the 10-year down 2 bps to 3.04%. The yield curve is the flattest in 8 weeks. Faltering stock markets and softer global growth prospects have stirred up some market chatter about the Fed delaying its projected path of policy rate hiking. Nonetheless, futures markets indicate about a 70% chance of a rate hike in December. This morning, 10-year yields are up 3 bps to 3.07%.

## Commodities

**Oil markets have sold off in reaction to worries about oversupply and a US-China trade war that could derail global growth prospects, and therefore oil demand.** The spot price on the US WTI benchmark plunged 7.7% on Friday to \$50.42/barrel, the worst daily performance since July 2015. US oil futures prices fell for a seventh straight week, losing 10.6%, with similar losses in Brent. **Oil prices are now down over 30%** from their October highs. And US gasoline futures slid 7.9% Friday, in the sharpest percentage fall since February 2009. The **implied volatility** (which uses VIX methodology) on US oil options **also spiked** to their highest level since early 2016. Analysts expect the lower prices to impact 2019 drilling budgets. The market will increasingly look to OPEC's upcoming December 6<sup>th</sup> meeting for any discussions around potential supply cuts.



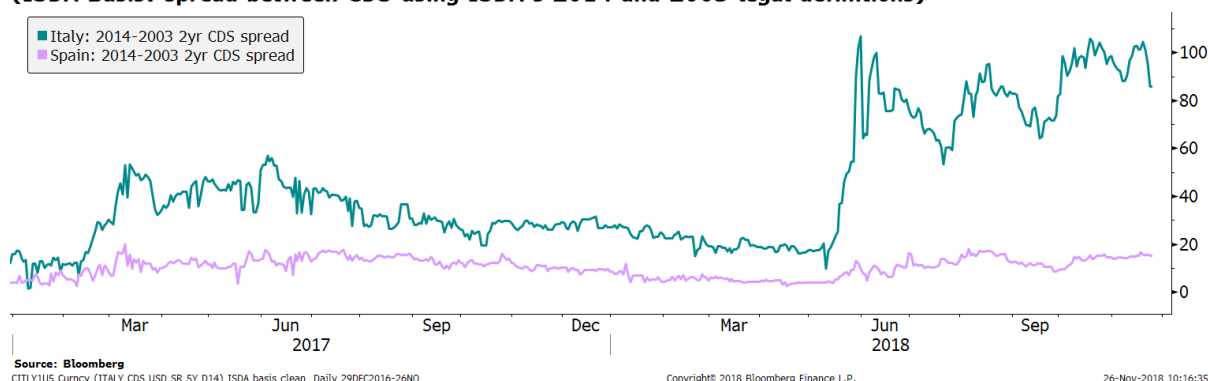
## Europe

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**Sovereign debt yields have moved in a small range**, with 10-year bunds and OATs up 2 bps to 0.36% and 0.73%, respectively, while Spanish bonos dropped 5 bps to 1.58%. Italian yields saw much larger moves of close to 20 bps, after **deputy PM Salvini acknowledged the planned 2019 deficit could be smaller than 2.4%**. Mr. Salvini noted that the Italian government would be open to considering a smaller deficit as long as the budget remains growth-friendly. Italian premier Conte has declined to discuss "decimal points" before a fuller assessment is conducted. Ten-year yields have dropped 16 bps to 3.25%; 2-year yields are at 0.79% (-15 bps). The ISDA basis remains elevated above 80 bps.

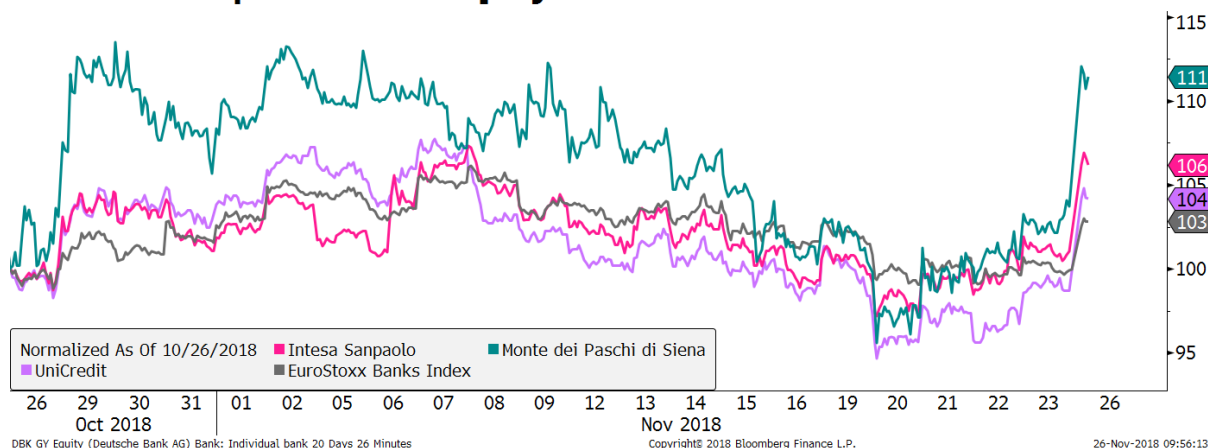
## Eurozone Political Risk Measures

(ISDA Basis: spread between CDS using ISDA's 2014 and 2003 legal definitions)

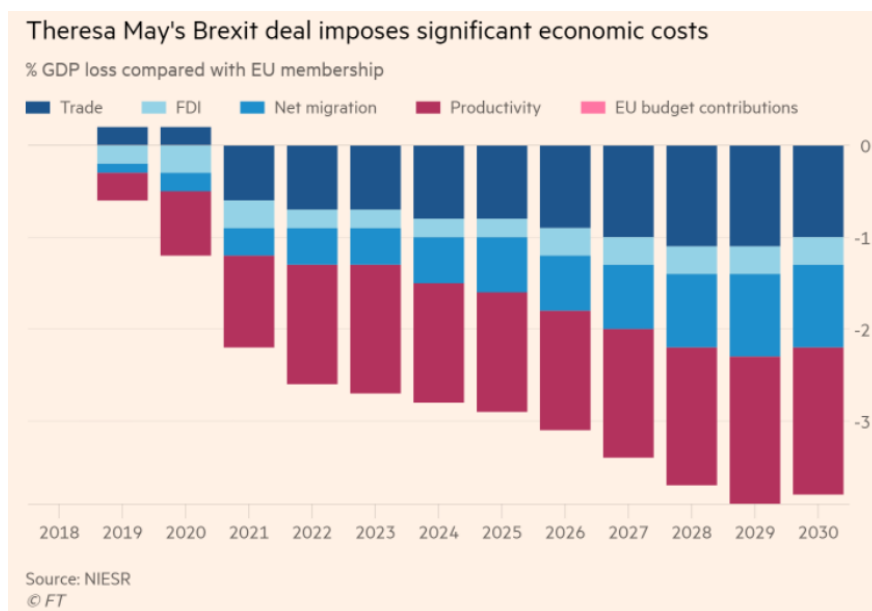


**Italian banks** are strongly outperforming peers on the back of positive news regarding the public budget and legacy NPLs. According to Danièle Nouy, chair of the SSM, the stock of NPLs at Italian banks is currently estimated at €650 bn, compared to over €1,000 bn when the SSM was established in 2014. Equities of **MPS (+7.4%), Unicredit (+5.6%), and Intesa (+5.2%)** advanced notably this morning. Other European bank stocks (+2.8%) are also higher but by less. Broad market indices are up about 1.2%.

## Selected European Banks: Equity Price



**European Union leaders endorsed last night the UK's Withdrawal Agreement** (details of the contents of draft agreement can be found [here](#)). EC president Mr Tusk noted that a "difficult process of ratification as well as further negotiations" still lies ahead. The UK parliament is scheduled to vote on the deal next month, probably before the EU summit on December 13<sup>th</sup>. Separately, the National Institute of Economic and Social Research estimates that the proposed deal would amount to a considerable hit to Britain's GDP due to lower trade, productivity, and migration.



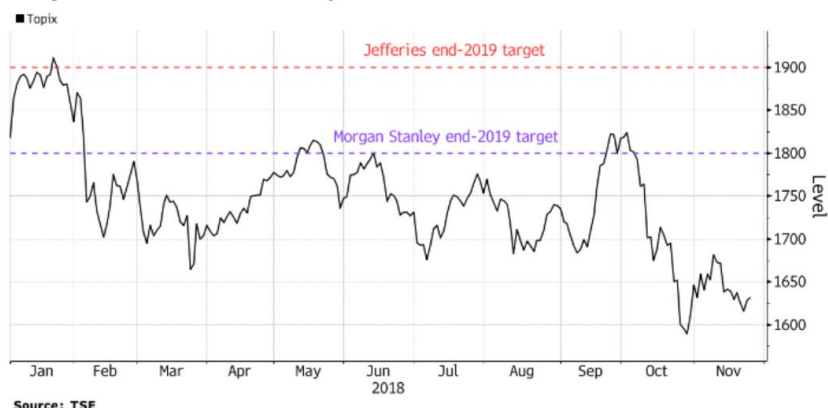
**The European Securities and Markets Authority (ESMA) announced it has started preparations for a no-deal Brexit, including the potential recognition of UK-based CCPs.** In a public statement, ESMA acknowledged that it is “engaging with the EC to plan, as far as possible, the preparatory actions for the recognition process of UK CCPs, in case of a no-deal scenario.” The main stated goal would be to ensure continued access by EU clearing members to UK CCPs from March 30, 2019 onwards. Separately, Banque de France governor, Mr. Villeroy de Galhau, said at a conference that UK clearing houses should be allowed to continue clearing euro-denominated derivatives for no more than a year after a hypothetical hard Brexit.

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

### Japan

**The Nikkei was up 0.8% on overall improved market sentiment.** Some also noted support from the country’s successful bid to host in Osaka the 2025 World Expo, expected to draw some 28 million visitors. More broadly, analysts are optimistic about the country’s equity markets next year. Morgan Stanley, for example, just upgraded Japan to overweight on better productivity and cheap valuations, while Jeffries projected for the Topix to rise to 1,900 (from 1,632 now). The yen is little change at ¥113.2.

#### Analysts make bullish calls on Topix index for 2019



## Emerging Markets

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## Key Emerging Market Financial Indicators

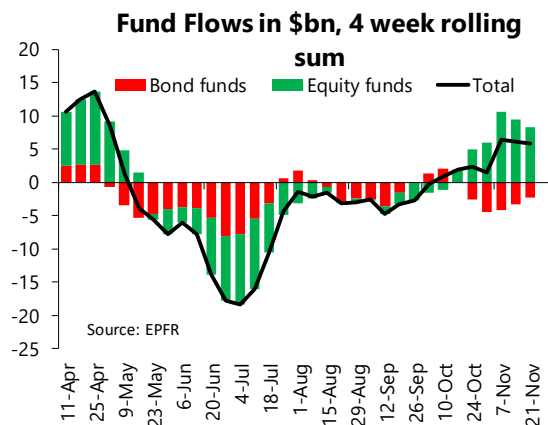
Last updated: 11/26/18 7:33 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		39.74	1.4	-3	3	-17	-16
MSCI Frontier Equities		27.15	-0.2	0	1	-17	-18
EMBIG Sovereign Spread (in bps)		394	-2.0	9	28	103	109
EM FX vs. USD		62.42	-0.1	0	0	-9	-10
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.94	0.1	0	0	-5	-6
Indonesian Rupiah		14475	0.4	1	5	-7	-6
Indian Rupee		70.87	-0.2	1	4	-9	-10
Argentine Peso		37.50	-2.9	-4	-2	-54	-50
Brazil Real		3.85	-0.5	-2	-5	-16	-14
Mexican Peso		20.46	-0.3	0	-5	-9	-4
Russian Ruble		67.05	-1.2	-2	-2	-13	-14
South African Rand		13.83	0.2	1	6	0	-10
Turkish Lira		5.23	1.0	2	7	-25	-27
EM FX volatility		10.18	1.3	0.1	0.2	2.4	2.3

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

**The mood for emerging market assets improved today, but this follows a week of poor performance (MSCI EM: -1.8%, EMBIG spread: +13bps).** As Brent slumped below \$60 a barrel for the first time in over a year, currencies of oil exporters were particularly hit with the Brazilian real depreciating by 2.3% against the dollar and the Colombian peso depreciating by 1.9% the lowest level since early 2016. The Argentinian peso was the main underperformer among EM currencies depreciating by 4% over last week. Most of the decline (-2.9%) came on Friday, without any major domestic headlines and amid very low liquidity levels. Equity markets in Asia and EMEA are mostly lower last week, notably China - 3.7% and Russia -1.4%. Poland was the clear outperformer, rising 2.5% last week after news (on Wednesday) that the government agreed to reinstate several supreme court judges previously forced into early retirement, hence de-escalating tensions with Brussels. This morning, EMEA equities are slightly higher with Turkey (+1.3%) outperforming and Russia (-1.5%) underperforming on renewed tensions with the Ukraine. In Asia, Chinese stocks were slightly lower but other major EM indices were up about 1% and most currencies are up slightly against the dollar.

## EM Fund Flows

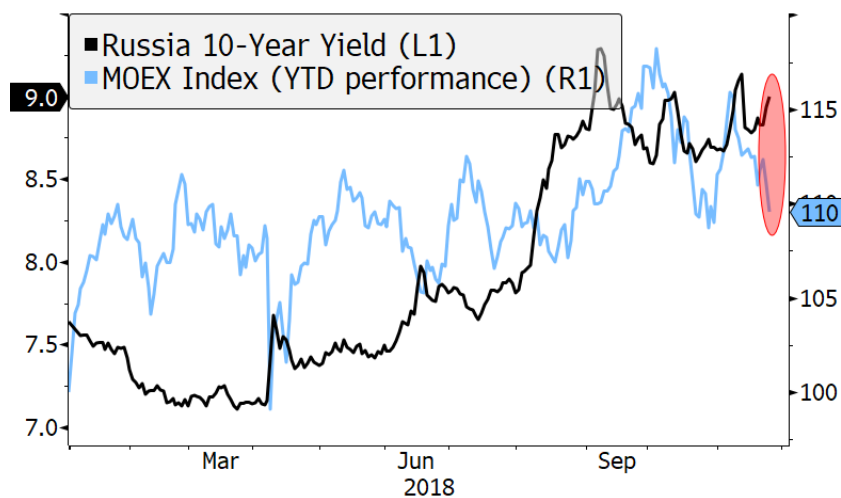
**EM debt outflows continued last week (week ending November 21) but at a slower pace.** Outflows from EM debt-dedicated funds continued for the seventh straight week at \$0.1 bn, though lower than \$0.6 bn in the previous week and consistent with the trend of smaller outflows over the past month. Hard currency funds led the outflows with \$0.2 bn, while local currency funds saw small inflows for the first time in eight weeks. **EM equity inflows continue to be strong, led by ETF inflows.** Last week inflows accelerated to \$1.3 bn from \$1.1 bn the previous week.



### Russia and Ukraine

**Russia fired at and seized Ukrainian ships that had reportedly trespassed its territorial waters without notice and did not obey instructions.** The EU and NATO issued statements, calling on Russia to open the Kerch strait to navigation, which it did. Russia called a meeting of the UN Security Council. Despite a moderate bounce in oil prices and better overall market sentiment, the ruble is down 0.6% against the dollar-euro basket, stocks are falling 1.3%, and local debt yields are up some 10 bps.

### Russian Assets



MICRU10 Index (MICEX Russia Zero Cpn 10 Year) Russia Assets Daily 29DEC2017-26

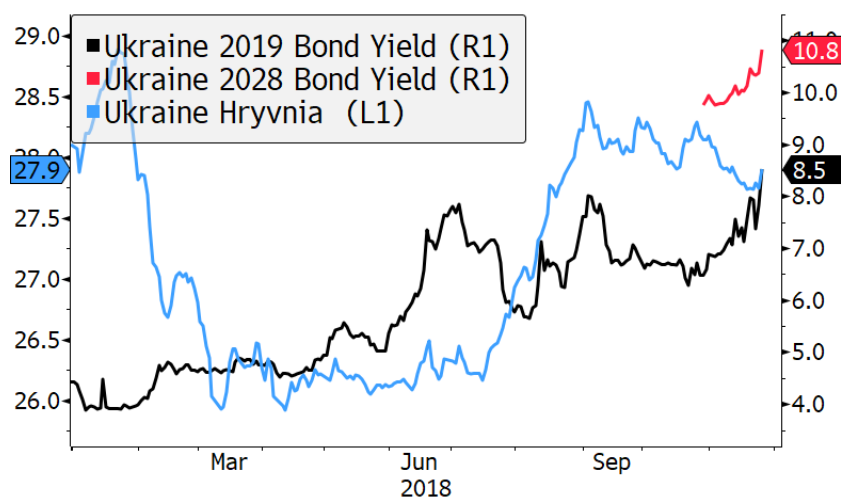
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**The reaction in the Ukraine was mostly seen in international bonds.** The country's 2019 Eurobond jumped 70 bps to 8.5%, while it's recently issued 2028 Eurobond is up 45 bps to 10.8%. Its currency was little changed. The government has activated a procedure to introduce martial law for 60 days, which led some commentators to question whether this could interfere with the IMF program.



## Ukraine Assets

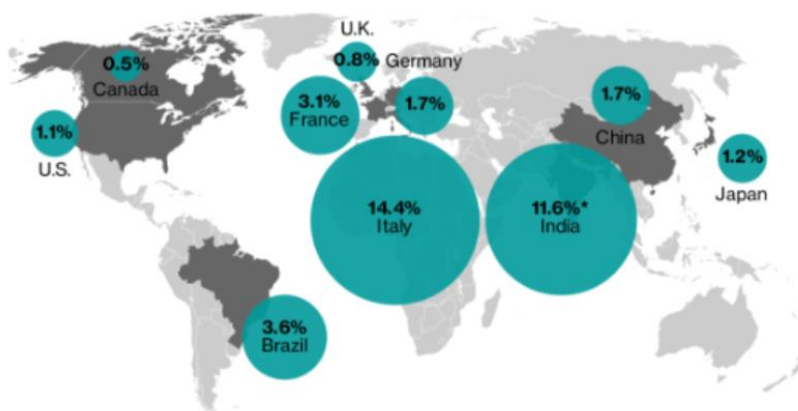


## India

**Regulators are set to infuse about INR420 bn (\$6 bn) in state-run banks to boost their capital buffers,** according to a Bloomberg report. The move is aimed at banks struggling to meet the stricter capital-reserve requirements under Basel III and is part of a plan started in 2017, funding by selling recapitalization bonds. Banks have raised around \$10.7 bn in rupees from local markets for this end and to help tackle the endemic NPL problem at nearly 12%. The country's banking index is up 1.3%, outperforming the broad Nifty which is up 0.8%. Many contacts, however, remain most concerned about the liquidity squeeze in the country's shadow banking lenders, estimated at around 14% of total outstanding credit.

## Banking Risks

Italy, India have the worst bad loan ratios among the top 10 economies



Source: IMF's Financial Soundness Indicators  
\*RBI's Financial Stability Report

Bloomberg



## Brazil

**Despite the recent underperformance of the real, implied FX volatility has declined well below pre-election levels and rates markets have priced out rate hikes in the coming months.** Inflation expectation survey data as well as hard data have been softening in recent weeks. Market analysts expect inflation to remain close to or below the BCB's target in the coming year and bond markets have priced out rate hike expectations in the next few months, while rate hike expectations over the next 12-months and beyond have been drastically reduced. Additionally, markets remain positive on the prospects of the new administration which has contributed to the reduction of implied FX volatility. For example, market analysts highlight that economic appointments (the latest being R. Novaes and P. Guimaraes tapped to lead Banco do Brasil and Caixa Economica, respectively) continue to be market friendly.











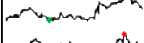




















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## Global Financial Indicators

Last updated: 11/26/18 7:30 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2633	-0.7	-4	-1	1	-2
Europe		3174	1.2	0	1	-11	-9
Japan		21812	0.8	1	-1	-3	-4
China		2576	-0.1	-5	-1	-23	-22
Asia Ex Japan		64	-1.0	-3	4	-18	-16
Emerging Markets		40	1.4	-3	3	-17	-16
<b>Interest Rates</b>			basis points				
US 10y Yield		3.07	2.7	0	-1	72	66
Germany 10y Yield		0.36	2.2	-1	1	0	-7
Japan 10y Yield		0.09	-1.0	-1	-2	6	4
UK 10y Yield		1.40	2.3	3	2	15	21
<b>Credit Spreads</b>			basis points				
US Investment Grade		120	0.4	4	17	22	29
US High Yield		424	5.8	10	65	39	49
Europe IG		79	-2.0	-1	1	29	34
Europe HY		329	-4.8	2	25	91	96
EMBIG Sovereign Spread		394	-2.0	9	28	103	109
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.73	-0.2	0	0	4	5
USDEUR		1.14	0.2	-1	0	-4	-5
USDJPY		113.2	-0.2	-1	-1	-2	0
EM FX vs. USD		62.4	-0.1	0	0	-9	-10
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		60	2.2	-10	-23	-6	-10
Industrials Metals (index)		114	-0.5	-2	-3	-14	-18
Agriculture (index)		42	0.0	-2	-3	-13	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		20.5	-1.0	2.4	-3.6	10.9	9.5
10y Treasury Volatility Index		4.0	-0.3	-0.1	-0.7	0.6	0.5
Global FX Volatility		8.6	0.1	0.0	0.2	1.2	1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		403	-18.0	-17	8	35	35
Italy		287	-19.5	-35	-22	128	128
Portugal		154	-6.4	-8	-2	2	2
Spain		121	-8.1	-7	0	7	7

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: 11/26/2018 7:34 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		YTD	Last 12m	Latest	1 Day	7 Days	30 Days	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.94	0.1	0.0	0	-5	-6		3.4	0.7	0	-21	-67	-62
Indonesia		14475	0.4	0.8	5	-7	-6		8.1	-5.4	-12	-60	128	151
India		71	-0.2	1.1	4	-9	-10		7.8	0.0	-6	-25	52	31
Philippines		52	0.2	0.4	2	-3	-5		6.4	-10.2	-24	-21	155	154
Thailand		33	0.1	-0.4	0	-1	-1		2.8	-1.5	-10	-15	45	49
Malaysia		4.19	0.1	0.0	0	-2	-3		4.2	0.0	0	6	19	27
Argentina		38	-2.9	-4.2	-2	-54	-50		23.9	4.6	0	375	805	791
Brazil		3.85	-0.5	-2.2	-5	-16	-14		8.4	-7.8	-12	-35	-44	-61
Chile		677	-0.1	-1.2	2	-6	-9		4.7	-1.6	-7	-14	-11	-10
Colombia		3228	-1.2	-1.9	-3	-8	-7		6.7	1.8	-2	-2	37	48
Mexico		20.46	-0.3	-0.4	-5	-9	-4		9.1	4.0	8	79	180	144
Peru		3.4	-0.2	-0.1	-1	-4	-4		5.7	-2.2	-6	-10	33	50
Uruguay		32	-0.2	0.2	2	-10	-11		10.8	-11.8	-2	11		222
Hungary		284	0.0	-1.2	0	-8	-9		2.5	-6.4	-19	-29	124	122
Poland		3.77	0.3	0.2	0	-6	-8		2.6	-5.0	-8	-1	-13	-14
Romania		4.1	0.2	-0.6	0	-5	-5		4.4	-1.0	-2	-27	45	53
Russia		67.0	-1.2	-2.2	-2	-13	-14		8.5	5.0	9	20	104	121
South Africa		13.8	0.2	1.4	6	0	-10		9.5	0.3	-14	-21	-39	23
Turkey		5.23	1.0	1.5	7	-25	-27		17.1	-19.0	27	-372	423	517
US (DXY; 5y UST)		97	-0.2	0.3	0	4	5		2.89	2.7	2	-1	83	69

	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		2576	-0.1	-5	-1	-23	-22		186	-4	-1	-6	40	34	
Indonesia		6023	0.3	0	4	-1	-5		227	-6	2	5	56	61	
India		35354	1.1	0	4	5	4		173	-1	-1	7	57	63	
Philippines		7398	0.8	2	5	-12	-14		113	-4	-2	-8	16	18	
Malaysia		1702	0.4	0	1	-1	-5		146	-1	4	10	32	36	
Argentina		30723	1.5	1	5	12	2		682	-1	9	10	321	332	
Brazil		86811	0.7	-2	1	17	14		267	-2	5	4	30	33	
Chile		5145	0.1	0	0	2	-8		153	-2	2	11	26	34	
Colombia		1371	0.0	-4	-2	-5	-9		213	-2	0	23	29	39	
Mexico		41144	-0.3	-1	-10	-14	-17		342	-4	3	55	103	97	
Peru		18894	-1.7	-3	2	-6	-5		166	-2	-1	9	28	29	
Hungary		39356	-0.1	0	10	-1	0		143	-1	0	15	48	55	
Poland		56652	-0.2	1	5	-11	-11		71	-2	2	2	26	24	
Romania		8489	-0.4	-1	1	9	9		208	2	4	21	71	94	
Russia		2323	-0.9	-2	1	7	10		237	-4	0	11	51	59	
South Africa		51622	1.8	-2	2	-14	-13		360	-2	7	23	73	106	
Turkey		93977	1.0	-1	4	-10	-19		468	-1	22	20	147	179	
Ukraine		579	0.3	0	3	91	84		674	-2	29	79	211	219	
EM total		24	-1.1	-3	3	-13	-11		394	-2	9	28	103	109	

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