Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, November 27, 2018

- **Brexit 'meaningful vote' at the House of Commons set for December 11th (link)**
- **Italian BTP-German Bund spreads little changed despite speculation deficit target will be pared (link)**
- **EM issuance expected to be less opportunistic in 2019 (link)**
- **Investors bet on a stronger RMB ahead of the Trump-Xi meeting at G20 (link)**

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Risk markets modestly weaker following latest tariff headlines

Sentiment is slightly weaker after president Trump threatened to impose additional tariffs on $267 bn of Chinese imports and to increase tariffs on $200 bn Chinese goods from 10% to 25% if a deal is not reached. Global equities are mixed. Core sovereign bond yields are a few basis points lower in Europe and little changed in the US this morning. BTP yields and spreads to German Bunds are also little changed, hovering just below 300 bps, despite (unconfirmed) press reports that the government plans to reduce its original 2.4% deficit target to 2.2%. With UK and EU negotiators having reached a technical-level agreement for Brexit, the date for the British parliament's vote has been set for December 11th. Most commentators expect the vote to fail, and a period of high uncertainty to ensue. In FX markets, the dollar is mixed, with the pound (-0.5%) underperforming its peers. Oil remains stable since the start of the week, with Brent trading around $60 per barrel. Russia is planning to issue its first euro-denominated bond in nearly five years, with a seven-year maturity and a yield targeting 3%. More broadly, EM issuance has been subdued over the last week.

Key Global Financial Indicators

Last updated: 11/27/18 8:09 AM	Level Last 12m	Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2673	1.6	-2	1	3	0
Eurostoxx 50		3163	-0.3	2	1	-11	-10
Nikkei 225		21952	0.6	1	4	-2	-4
MSCI EM		40	-0.5	-2	4	-14	-15
Yields and Spreads			bps				
US 10y Yield		3.06	1.5	-1	-2	73	65
Germany 10y Yield		0.35	-0.8	0	0	1	-7
EMBIG Sovereign Spread		400	5	13	34	110	115
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.3	0.2	0	0	-10	-11
Dollar index, (+) = $ appreciation		97.1	0.0	1	1	5	5
Brent Crude Oil ($/barrel)		60.4	-0.1	-3	-22	-5	-10
VIX Index (%, change in pp)		19.8	0.9	0	-4	10	9

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

United States

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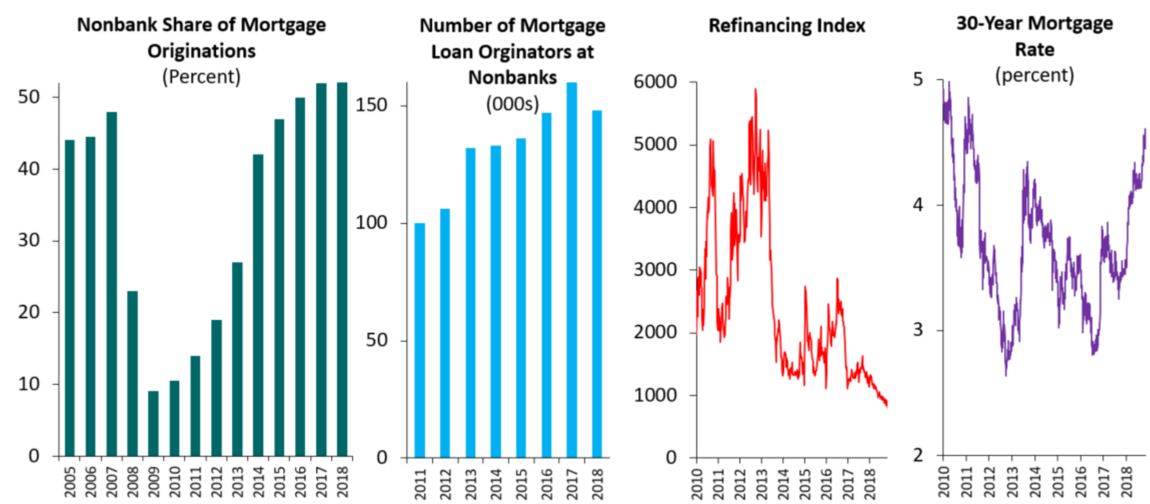
Stock prices recovered somewhat on Monday, with major indices posting gains of 1.5%-2%. The gains follow losses last of week of ~4%. Financials (+2.2%) outperformed yesterday, while defensive sectors posted losses. Energy stocks (+1.7%) got a lift as oil futures climbed 2.6%. GM (+4.8%) announced plans to cut staff and shutter factories next year. After the markets closed, president Trump indicated in an interview with the Wall Street Journal that he expects to go forward with the plan to increase tariffs on $200 bn of Chinese goods to 25% from 10%. He also said he plans to move forward tariffs on the remaining $267 bn if no deal is reached at this week's G20 summit. US shares weakened in after-hours trading after the report was published, and this morning, **S&P 500 futures point to a weaker opening.**

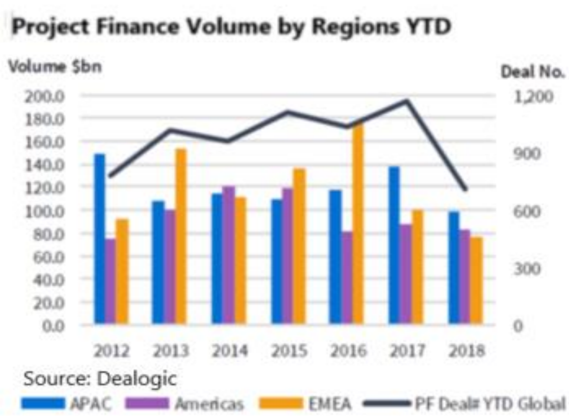
Treasury yields climbed on Monday, with the 2-year up 2 bps to 2.83% and the 10-year up 2 bps to 3.05%. Yields are little changed this morning. The MOVE index, which measures Treasury volatility, remains elevated, at 52 bps. The Chicago Fed's regional index improved in October, while the Dallas Fed's print was lower than consensus expectations. Fed vice chair Randal Quarles was named head of the **Financial Stability Board** for a 3-year term, replacing Bank of England chair Mark Carney.

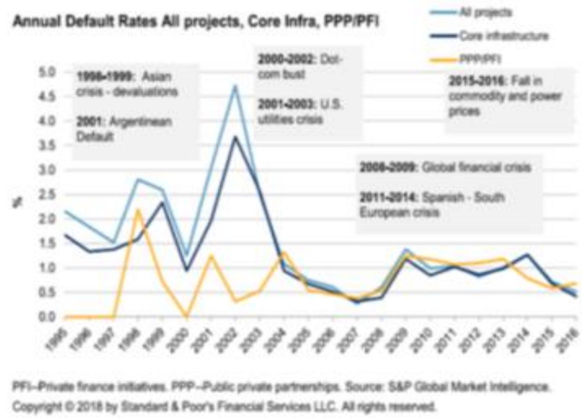
Smaller mortgage firms are reportedly getting squeezed by rising interest rates. Nonbank lenders accounted for over 52% of the $1.26 tn in originations through the first nine months of 2018, but the number of such firms has fallen by 3.5% and 7% of their workforce has been shed since the end of 2017. The average rate of a 30-year mortgage (4.81%) is near a 7-year high. While the refinancing market has been retrenching, Freddie Mac notes that more than 80% of refinancings in Q3 exercised a cash-out option, with homeowners withdrawing $14.6 bn in equity, the highest share since 2007.



Sources: Bloomberg, Conference of State Bank Supervisors, Fannie Mae, Inside Mortgage Finance, Mortgage Bankers Association, the Wall Street Journal.

Project finance activity is on the decline this year globally, with a big drop in greenfield investment. Dealogic estimates that deal volumes have fallen by $67.3 bn year to date compared to the same period last year, and are at the lowest level since 2007. It attributes the decline to falling infrastructure spending and tax reforms in the US, increased poltical scrutity of deals in Europe, and a slowdown in Indian projects. However, default rates remain historically low.





Europe

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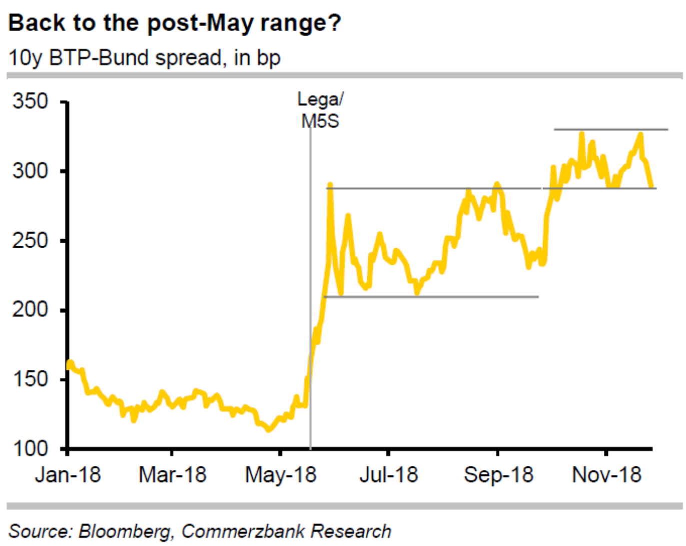
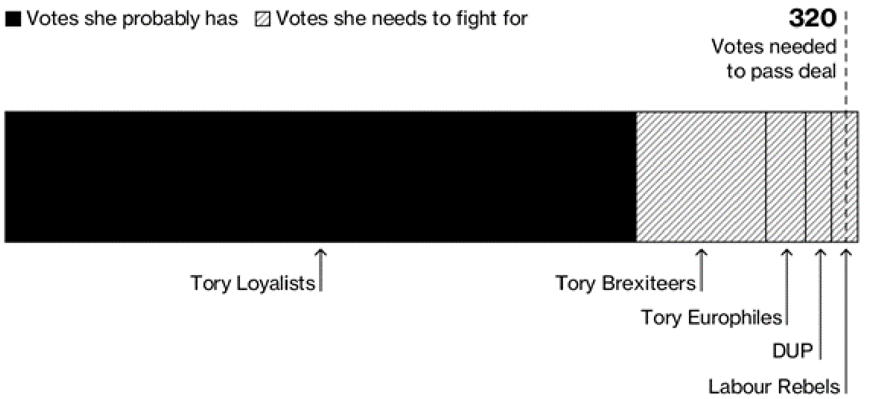
Sovereign debt markets are steady, with most yields unchanged across tenors and countries. German 10-year yields remain at 0.34% (unchanged); French at 0.72% (unchanged); and Spanish at 1.53% (-3 bps). Italian yields are also flat, even after local press reported (unconfirmed) government plans to set the 2019 deficit at 2.2%. A smaller deficit would amount to a reduction of spending plans of €3.6 bn compared to the 2.4% deficit previously proposed. The spread between 10-year Italian and German bonds is slightly below 300 bps.



European equities are trading within a narrow corridor today: DAX (flat), CAC 40 (flat), EuroStoxx 600 (-0.1%), Ibex 35 (+0.3%), Titans 30 (-0.3%). Bank stocks (-0.3%) are performing in line with main indices.

The UK's House of Commons is scheduled to decide on the Brexit deal on December 11th. Analysts note the difficulty in securing a favorable vote given the relatively small number of Tory parliamentarians loyal to PM May. There is large uncertainty about next steps if the vote fails. Outcomes could range from PM May attempting a second deal with the EU to a general election or a second Brexit referendum.

May's Uphill Battle to Get Her Brexit Deal Past Parliament



Source: Bloomberg reporting

Bloomberg

In **credit markets**, high-yield and investment grade corporate spreads have continued to trend higher, though remain below the heights seen in 2016. In **money markets**, the tightening in dollar funding conditions seen during October-November has eased notably. Cross-currency basis swap spreads are now at levels comparable to their 24-month average.

European Corporate Credit Spreads

Source: Bloomberg
ITRXEXE Curncy (MARKIT ITRX EUR XOVER 12/23) Credit: Itraxx indices Daily 05JAN

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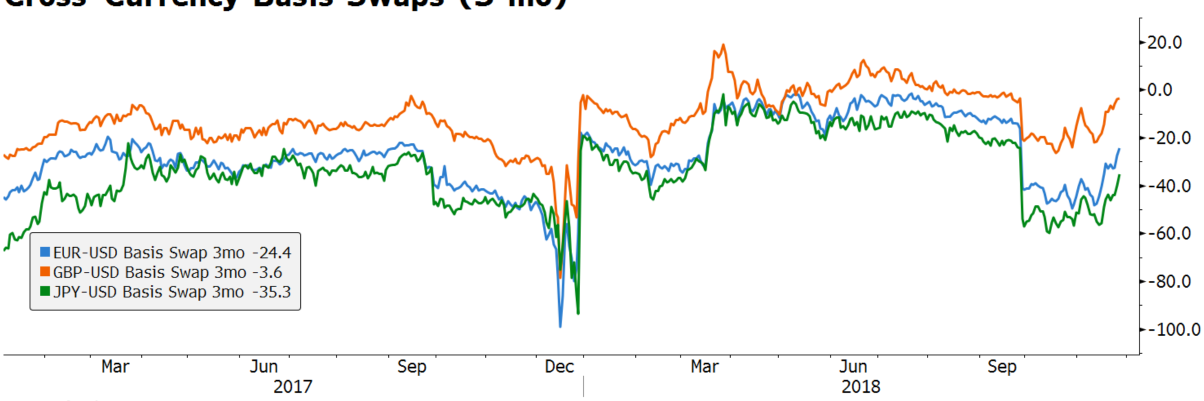
Cross-Currency Basis Swaps (3 mo)



Source: Bloomberg
EUBSC Curncy (EURUSD BS (3M VS 3M) 3M) Mon Mkt: XC Bsis Swp 3M Daily 05JAN2017-

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Other Mature Markets

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Japan

The yen remained near its weakest level in a week while equities edged higher. The yen was little changed at 113.57, having lost 0.6% on Monday. Meanwhile, the Topix gained 0.7% and the Nikkei +0.6%, with shares of technology firms, banks, and automakers leading gains. JGB yields were little changed despite a well-received bond auction. The sale of the 40-year long bond garnered a bid-to-cover ratio of 3.85x, compared to 3.24x and 3.30x at the previous two auctions. The two-year note edged 0.5 bps higher to -0.15% while the benchmark 10-year note held steady at 0.08%.

Emerging Markets

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Key Emerging Market Financial Indicators

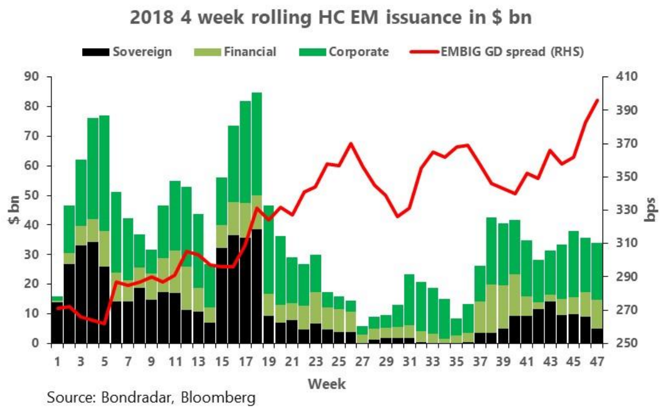
Last updated:	Level		Change				
11/27/18 8:09 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		40.23	-0.4	-2	4	-14	-15
MSCI Frontier Equities		27.27	0.4	0	2	-17	-18
EMBIG Sovereign Spread (in bps)		400	5	13	34	110	115
EM FX vs. USD		62.30	0.2	0	0	-10	-11
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.95	-0.1	0	0	-5	-6
Indonesian Rupiah		14515	-0.3	1	5	-7	-7
Indian Rupee		70.79	0.1	1	4	-9	-10
Argentine Peso		38.85	-3.5	-7	-5	-55	-52
Brazil Real		3.91	0.5	-4	-5	-18	-15
Mexican Peso		20.54	0.4	-1	-2	-10	-4
Russian Ruble		66.68	0.8	-1	-1	-12	-13
South African Rand		13.85	0.4	2	6	-1	-11
Turkish Lira		5.24	0.2	3	6	-25	-28
EM FX volatility		10.21	0.0	0.1	0.2	2.4	2.4

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

On Monday, EM equities rallied, and credit spreads tightened (MSCI EM: +1.2%, EMBIG spread: -3 bps) amid a rally in global equities and a rebound in oil prices. EM currencies depreciated against the dollar, led by weakness in Latam and Russia. Among EM currencies, the Argentinian peso was the main underperformer (-3.9%) for a second day in a row on the back of weak economic activity data releases. The Brazilian real depreciated by 2.8%, with analysts highlighting the weakness in iron ore prices as one of the main drivers underpinning the move. Mexican stocks declined by more than 4% to a three-year low, led by financials, on concerns that the incoming administration plans to scrap some bank commissions. During the overnight session, **Asian currencies and equities were both mixed** as investors await clarity on trade negotiations between the US and China. The offshore RMB outperformed (+0.06%) while the Indonesian rupiah paced losses (-0.3%). Meanwhile, gains in Asian bourses were led by Korea (+0.8%) while the Malaysia KL Composite Index underperformed (-1%). **In EMEA, equities were mixed**, rising slightly in most countries but falling 0.4% in Turkey. Russian assets partially recovered after coming under pressure yesterday in response to the escalating geopolitical situation with the Ukraine. The ruble is 0.9% stronger against a basket of currencies and local bond yields are down as much as 9 bps. Of note, the finance ministry said it plans to issue a Eurobond.

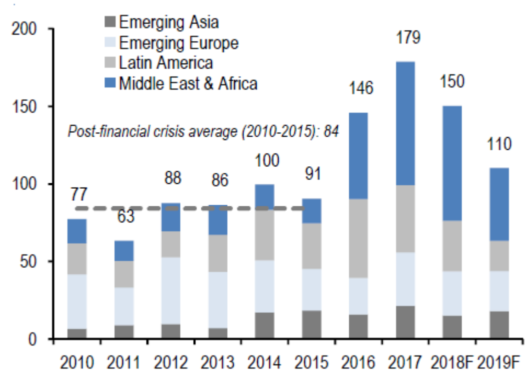
EM Issuance

Amid the recent sharp widening in EM spreads (EMBIG: +30 bps over the last month), **foreign currency issuance was subdued last week.** No sovereign issuers came to market and only $4 bn of corporate debt was issued (primarily from Chinese corporate). **With market funding costs remaining elevated, JPM expects sovereign issuance will be less opportunistic and limited to immediate financing needs.** For example, three of the top five expected issuers in 2019 have sizable maturities in 2019 (Turkey: $8 bn, Lebanon: $5 bn, and Poland: $5 bn). Frontier issuers are forecast to have $19 bn in issuance in 2019, down from $37 bn in 2018.



Source: Bondradar, Bloomberg

Exhibit 35: Higher funding costs will likely limit issuance volumes following three record years of issuance
EM sovereign bond gross issuance, USD billion



Source: J.P. Morgan

China

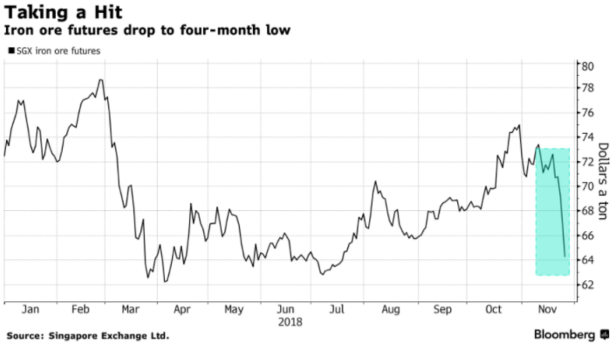
Both the RMB and equities were little changed as investors await clarity on US-China trade negotiations. The offshore CNH gained (+0.08%) while the onshore CNY lost 0.1%. Meanwhile, the Shanghai Composite held steady and the Shenzhen bourses edged higher (+0.4%). **Currency market positions suggest investors are betting on a stronger RMB ahead of the Trump-Xi meeting later in the week.** One-week dollar-RMB risk reversals fell to their lowest level since June, suggesting more market participants are betting on a decline in the bilateral RMB-USD currency rate, underscoring expectations for a stronger Chinese currency following the Trump-Xi meeting scheduled for later this week. The onshore RMB has lost nearly 7% against the dollar this year to its weakest level in a decade amid escalating trade tensions.

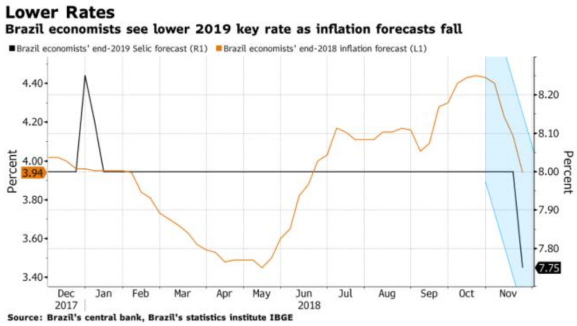
Planning Ahead
Options markets suggest traders prepping for yuan upside against dollar

Source: Bloomberg
USDCNH25R1W Curncy (USD-CNH OptVol RR 25D 1W) usdcnh Daily 27NOV2017-26NOV2018 Copyright© 2018 Bloomberg Finance L.P. 27-Nov-2018 14:46:12

Brazil

The real depreciated 2.8% on Monday, closing at its weakest level since October 2, before the first round of the presidential election. After the market closed, the central bank announced it will step in to satisfy some of the demand for dollars, with up to $2 bn in FX auctions scheduled for today. Central bank FX liquidity auctions are common around this time of the year. Analysts attribute some of the recent weakness in the real to the slide in iron ore prices, which have declined by more than 10% over the last few trading sessions. Another potential driver of weakness is the decline in the carry attractiveness of the currency. As inflation expectations continue to slide, rate hike expectations in the short term are being priced out. For example, in the latest central bank survey, economists for the first time lowered their 2019 Selic forecast by 25 bps to 7.75% while inflation expectations for both 2018 and 2019 decreased for the third consecutive week.





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Global Financial Indicators

Last updated: 11/27/18 8:09 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2673	1.6	-2	1	3	0
Europe		3163	-0.3	2	1	-11	-10
Japan		21952	0.6	1	4	-2	-4
China		2575	0.0	-3	-1	-23	-22
Asia Ex Japan		66	2.1	-1	6	-14	-14
Emerging Markets		40	-0.5	-2	4	-14	-15
Interest Rates					basis points		
US 10y Yield		3.06	1.5	-1	-2	73	65
Germany 10y Yield		0.35	-0.8	0	0	1	-7
Japan 10y Yield		0.09	0.2	-1	-2	5	4
UK 10y Yield		1.39	-2.2	1	1	14	20
Credit Spreads					basis points		
US Investment Grade		120	-0.2	1	14	22	29
US High Yield		422	-2.0	3	42	40	47
Europe IG		80	1.4	-1	4	30	35
Europe HY		338	8.8	9	37	100	105
EMBIG Sovereign Spread		400	5.0	13	34	110	115
Exchange Rates					%		
Dollar Index (DXY)		97.11	0.0	1	1	5	5
USDEUR		1.13	-0.1	0	0	-5	-6
USDJPY		113.6	0.0	-1	-1	-2	-1
EM FX vs. USD		62.3	0.2	0	0	-10	-11
Commodities					%		
Brent Crude Oil ($/barrel)		60	-0.1	-3	-22	-5	-10
Industrials Metals (index)		113	-1.1	-2	-4	-14	-19
Agriculture (index)		42	0.1	-1	-3	-13	-12
Implied Volatility					%		
VIX Index (%, change in pp)		19.8	0.9	-0.3	-4.3	10.0	8.8
10y Treasury Volatility Index		3.9	-0.1	-0.3	-0.8	0.3	0.4
Global FX Volatility		8.5	0.0	-0.1	0.1	1.2	1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		402	-1.2	-32	7	-101	33
Italy		291	0.0	-36	-19	146	132
Portugal		151	-1.4	-12	-4	-6	0
Spain		118	-2.0	-11	-3	5	4

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: 11/27/2018 8:09 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		6.95	-0.1	-0.1	0	-5	-6		3.4	-0.3	2	-18	-66	-62
Indonesia		14515	-0.3	0.5	5	-7	-7		8.1	-5.9	-16	-66	123	145
India		71	0.1	0.9	4	-9	-10		7.8	0.2	-5	-23	52	31
Philippines		53	-0.3	-0.1	2	-4	-5		6.4	-1.3	-18	-22	154	153
Thailand		33	0.1	-0.1	1	-1	-1		2.8	0.1	-5	-14	45	49
Malaysia		4.19	0.0	0.0	0	-2	-3		4.2	-0.4	-1	3	19	27
Argentina		39	-3.5	-7.5	-5	-55	-52		23.8	-18.3	-18	341	796	773
Brazil		3.91	0.5	-4.0	-5	-18	-15		8.6	17.5	0	-15	-32	-43
Chile		677	-0.2	-1.3	2	-6	-9		4.7	-0.3	-5	-13	-10	-10
Colombia		3245	-0.5	-2.1	-2	-7	-8		6.8	3.4	-2	-7	41	52
Mexico		20.54	0.4	-0.9	-2	-10	-4		9.3	16.5	24	93	196	161
Peru		3.4	0.0	-0.1	-1	-4	-4		5.7	1.7	-5	-12	38	51
Uruguay		32	-0.5	0.0	1	-11	-12		10.8	-2.1	-9	2		220
Hungary		286	-0.3	-1.2	0	-9	-10		2.4	-3.8	-21	-18	121	118
Poland		3.79	0.0	0.0	0	-7	-8		2.6	1.2	-4	6	-12	-13
Romania		4.1	-0.1	-0.3	0	-5	-6		4.3	-3.0	-4	-27	42	50
Russia		66.7	0.8	-0.7	-1	-12	-13		8.6	11.6	21	23	115	132
South Africa		13.9	0.4	1.7	6	-1	-11		9.6	4.2	-10	-30	-34	28
Turkey		5.24	0.2	2.7	6	-25	-28		16.7	-40.5	-14	-290	381	477
US (DXY; 5y UST)		97	0.0	1.0	1	5	5		2.89	0.2	0	-2	84	68

	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		2575	0.0	-3	-1	-23	-22		189	3	4	-3	43	37
Indonesia		6014	-0.2	0	4	-1	-5		228	1	3	6	55	62
India		35513	0.4	-1	6	5	4		173	0	1	4	61	63
Philippines		7414	0.2	2	5	-11	-13		114	1	3	-7	15	19
Malaysia		1685	-1	-2	0	-2	-6		151	5	10	15	37	41
Argentina		31132	1.3	0	6	15	4		690	0	18	18	330	340
Brazil		86026	-0.8	-2	0	16	13		273	1	5	10	36	39
Chile		5125	-0.1	0	0	2	-8		155	2	2	13	26	36
Colombia		1394	1.7	0	0	-4	-8		218	0	1	28	37	44
Mexico		39427	-4.2	-7	-14	-17	-20		347	2	8	60	111	102
Peru		18974	0	-2	2	-4	-5		166	0	-2	9	30	29
Hungary		39438	-0.4	1	10	0	0		146	4	4	18	49	58
Poland		56479	0.0	2	5	-12	-11		73	2	8	4	24	26
Romania		8550	0.4	1	2	10	10		209	1	4	12	73	95
Russia		2320	0.5	-1	1	8	10		249	12	12	23	63	71
South Africa		51317	-0.7	0	1	-15	-14		363	3	10	26	84	109
Turkey		93163	-0.9	2	3	-11	-19		470	2	22	22	157	181
Ukraine		577	-0.4	1	3	90	83		717	44	67	122	256	262
EM total		24	0.0	-2	4	-11	-10		400	5	13	34	110	115

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