GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 27, 2019

- **Australian bonds rally amid rising rate cut expectations** (link)
- **Brazil's central bank intervenes unexpectedly after currency falls to new lows** (link)
- **French consumer confidence unexpectedly improves in November** (link)
- **US term GC repo rates are rising, prompting some year-end funding concerns** (link)
- **Ecuador bonds continue to rally in the wake of tax reform plan proposal** (link)

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

Rally in Australian bonds highlights a largely uneventful market session

Australian sovereign bonds rallied up to 8 bps after RBA Governor Lowe noted that, while QE is unlikely to be implemented anytime soon, it remains a viable policy option in Australia. Governor Lowe also implied that the effective floor for Australian policy rates could be just 25 bps, lower than the 50 bp floor commonly assumed by market participants. In Brazil, the central bank intervened in the FX market for the first time in three months as the real reached new lows against the US dollar. In Europe, French consumer confidence unexpectedly rose in November, testing 2017 highs. Nevertheless, the euro area remains a story of different regions as Italian sentiment indicators unexpectedly disappointed.

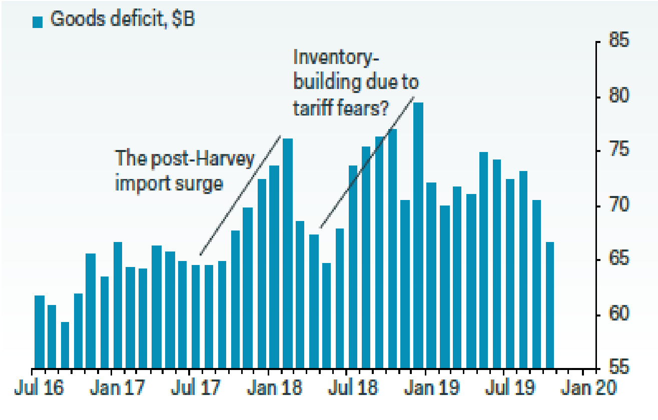
Key Global Financial Indicators

Last updated: 11/27/19 8:13 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3134	0.2	0	4	17	25
Eurostoxx 50		3703	-0.1	0	2	17	23
Nikkei 225		23373	0.3	0	3	7	17
MSCI EM		43	0.2	1	1	8	11
Yields and Spreads			bps				
US 10y Yield		1.74	-1.4	-4	-5	-131	-94
Germany 10y Yield		-0.36	-1.4	-2	0	-72	-61
EMBIG Sovereign Spread		336	1	-2	8	-59	-78
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		59.9	-0.1	0	-2	-4	-4
Dollar index, (+) = $ appreciation		98.3	0.0	0	0	1	2
Brent Crude Oil ($/barrel)		63.7	0.1	5	3	5	18
VIX Index (%, change in pp)		11.9	0.0	-1	-1	-7	-14

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

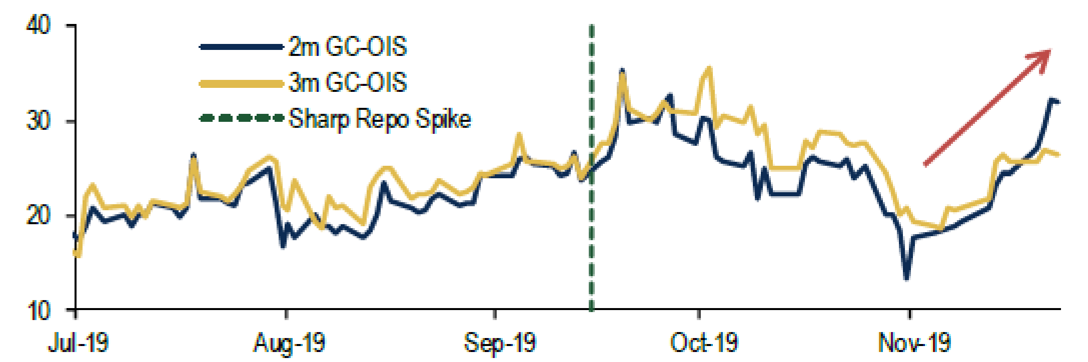
United States back to top

US equity indices closed at all-time highs, inching up 0.2%, after President Trump told reporters that talks with China were in "the final throes" and "going very well". US Treasury yields declined by 2 to 3 bps across the curve, falling for a third session amid month-end buying. The dollar was mixed versus major peers after five consecutive days of gains. Among key data releases, the trade deficit fell to a 17-month low of $66.5 bn in October, down from $70.4 bn in September and surprising versus analyst estimates of a $71 bn deficit. Exports dipped 0.7%, but imports dropped by a hefty 2.4%, led by the auto and consumer goods. US GDP growth for 3Q was revised higher to 2.1%, vs the earlier print of 1.9% and ahead of consensus expectations of 1.9%. Personal consumption grew by 1.9%, marginally ahead of analyst estimates of 2.9%. Durable goods orders surprised meaningfully and grew by 0.6% mom vs analyst expectations of a 0.9% decline. US treasury yields have shot up immediately post the data release.



While overnight Treasury repo rates are stable, US Treasury term GC repo has started to increase again. Treasuries are cheapening against OIS, and front-end swap spreads have tightened. BAML analysts highlight that the most recent signs of USD funding pressures are driven by a lack of permanent reserves in the banking system and regulatory rules that constrain dealer market-making at year-end.

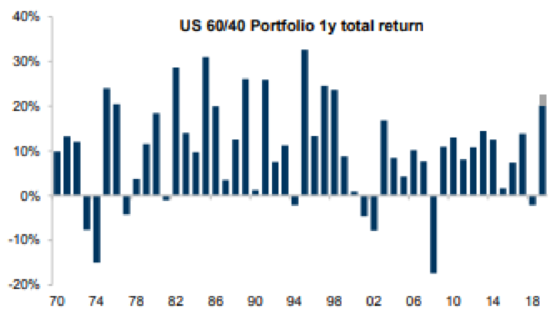
Chart of the Day: UST term GC repo again showing signs of funding pressure due to year end regs (bp)



Source: BofA Merrill Lynch Global Research

2019 continues to be a strong year for financial assets, with a US 60/40 portfolio having its best performance since late-1990s. Goldman Sachs analysts highlight that a significant proportion of the rise in equity markets in 2019 has come from valuation expansion (higher P/E multiples) given that profit growth has been generally weak. Valuation has accounted for nearly 80% of the return so far this year in the US and Europe. In Japan and EM, it has been more than that, given the decline in profits.

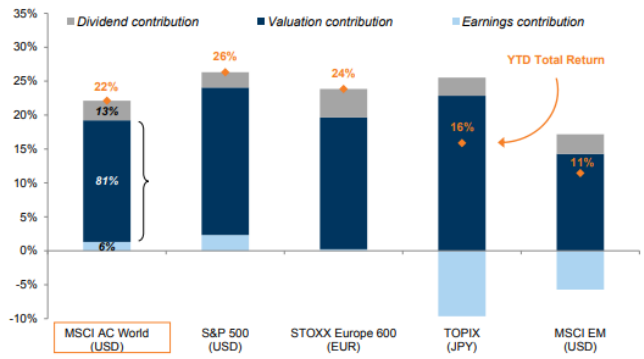
Exhibit 1: So far this year, the US 60/40 portfolio has had its best year since 1998



Grey shading represents 2019 YTD return annualized

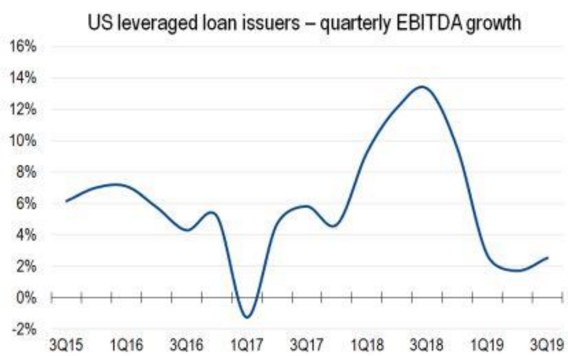
Source: Datastream, GFD, Goldman Sachs Global Investment Research

Exhibit 3: 2019 rally has been driven by valuation gains amid weak earnings growth
Percentage contribution of returns (between dividends, earnings and valuation). Total return is on LHS

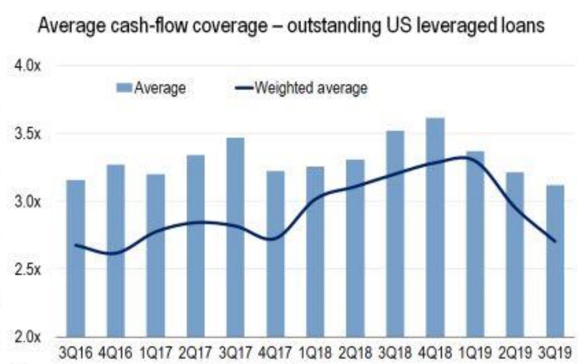


Source: I/B/E/S, Datastream, Goldman Sachs Global Investment Research

Loan issuers posted marginally higher y/y earnings growth in Q3. EBITDA growth across S&P/LSTA Leveraged Loan Index issuers that file results publicly was 2.5% in Q3 and has been 1.5 to 3% over the first three quarters this year. That marks a sharp deceleration from the 9 to 13% growth rates over the four quarters last year, according to LCD. Cash flow dynamics, on the other hand, have continued to erode. The weighted average for the cash flow coverage tumbled to an 11-quarter low of 2.7x in Q3, down from 3.0x in Q2, and 3.3x in Q4 2018 and Q1 2019.



Source: LCD, an offering of S&P Global Market Intelligence



Source: LCD, an offering of S&P Global Market Intelligence

Europe

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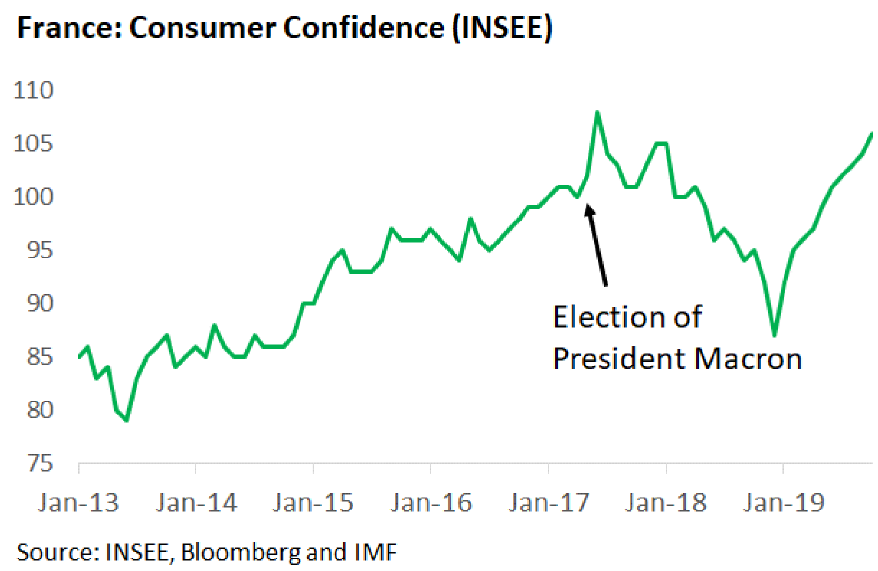
Euro Area

Core bond yields continue to trade in a tight range. German 10-year Bund yields fell 1 bps to -0.37%, and 10-year OAT yields to -0.06%. The euro fell 0.1% against the USD.

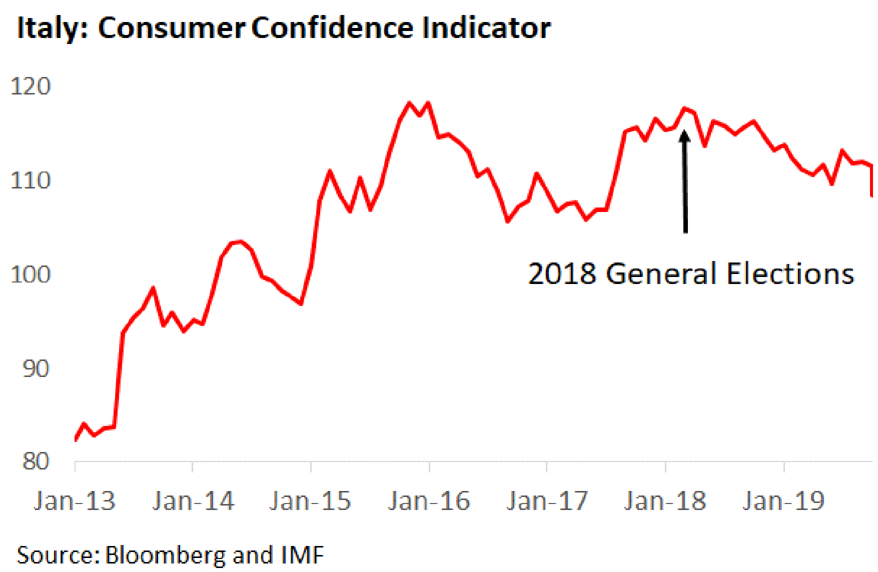
Italian spreads over 10-year Bunds are up 2 at 156 bps amid low trading volumes and disappointing confidence data. Spanish 10-year spreads over Bunds trade at 76 bps.

European equities (+0.2%) edged higher.

French consumer confidence index unexpectedly rose to 106 in November from 104 in October (103 expected). The upside surprise has firmed interest in the EC's economic sentiment indicators tomorrow and French consumer spending data on Friday.



In contrast to France, Italian consumer sentiment unexpectedly fell in November to 108.5 from 111.7 in October (111.7 expected). The deterioration reflected worsening assessment on the general economy and the labor market. Citi believes that the industrial crisis at a plant of former steel-maker Ilva may have influenced perceptions of the employment outlook. Confidence in the industrial sector also disappointed.

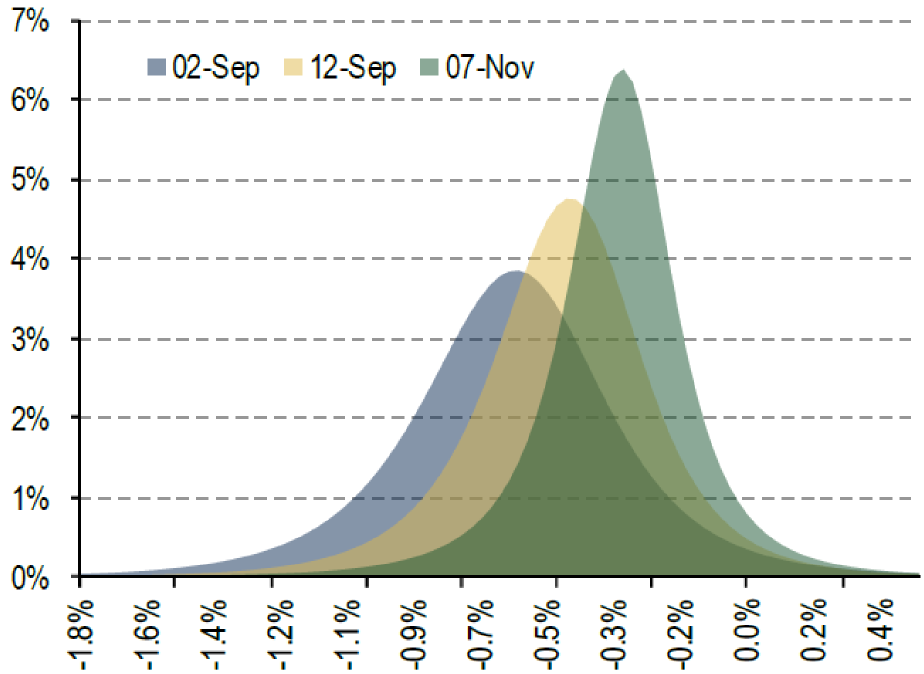


The EU Parliament approved the new European Commission today.

ECB Chief Economist Lane continues to argue that further ECB rate cuts remain an option, arguing that the ECB has not reached the "reversal rate" yet. The reversal rate is the rate at which accommodative monetary policy reverses its intended effect and becomes contractionary for lending.

Contacts point out that even as euro area money markets have priced out further cuts in recent months, the perceived probability of a return to positive rates has not changed much.

Chart 10: Rate cut fears receded materially, but expectations of positive rates barely moved – options implied prob distributin of 1y rate out of Dec20



Source: BofA Merrill Lynch Global Research

United Kingdom

The British pound (+0.2%) edged higher ahead of the planned release at 10 pm London time of the YouGov's MRP model. In 2017, this model correctly predicted a hung parliament on a seat-by-seat basis. Equities are up +0.4% and gilts little changed at 0.66.

Other Mature Markets

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Australia

Australian sovereign bonds staged their largest gains since April amid increased expectations for fresh RBA rate cuts. The sovereign yield curve steepened with the 2- and 3-year notes falling 8 bps, while longer-dated 10-year and 30-year bonds fell by as much as 6 bps. Market participants interpreted RBA Governor Lowe's speech on Tuesday as suggesting a greater likelihood for additional rate cuts. Specifically, Governor Lowe's comments that QE could be considered if the cash rate hit 0.25% spurred rate cut expectations; previously, the threshold was thought to be 0.50% (the current cash rate is 0.75%). The Australian dollar is unchanged against the US dollar.

Japan

Equities rose for a fourth day after President Trump indicated that phase one of the US-China trade deal is near completion. The yen, meanwhile, traded in a narrow range, extending its recent depreciation (-0.1%) to its weakest level in two weeks. JGB yields fell and the yield curve flattened, with the 2-year note down 0.5 bps to -0.21% and the 30-year bond down 2 bps to 0.37% as demand remained robust following the strong 40-year bond auction on Tuesday.

Emerging Markets back to top

Asian equities posted modest gains and currencies were mixed against the dollar amid a dearth of significant news. Supportive comments from President Trump that phase one of the US-China trade deal could be forthcoming were offset by limited trading heading into Thanksgiving. Australia (+0.9%) and Korea (+0.3%) staged modest gains, while Hong Kong (+0.1%) and Shanghai (-0.1%) were little changed. In currencies, the Malaysian ringgit outperformed (+0.3%) while the Singaporean dollar paced losses (-0.1%). China's industrial firms' October profits suffered their biggest drop since 2011, falling 9.9%, yoy. Analysts noted that a combination of weak domestic demand and PPI deflation continue to weigh on profits. Both the onshore and offshore RMB were little changed on the day. In **EMEA**, equities advanced the most in Kuwait (+1.2%), South Africa (+0.5%), and the Czech Republic (+0.5%). Other bourses saw smaller gains, expect for Bulgaria (-0.6%), Qatar (-0.2%), and Turkey (-0.2%). Currencies traded mostly sideways. **In Latin America,** the Colombian peso underperformed depreciating by 1.3% against the dollar as anti-government demonstrations continued for a fifth day. The Brazilian real reversed earlier losses after the central bank intervened unexpectedly in the spot market. Ecuador bond prices rallied for a third day, the yield on the 2029 bond has declined to 13.4% after increasing to over 16% last Thursday.

Key Emerging Market Financial Indicators

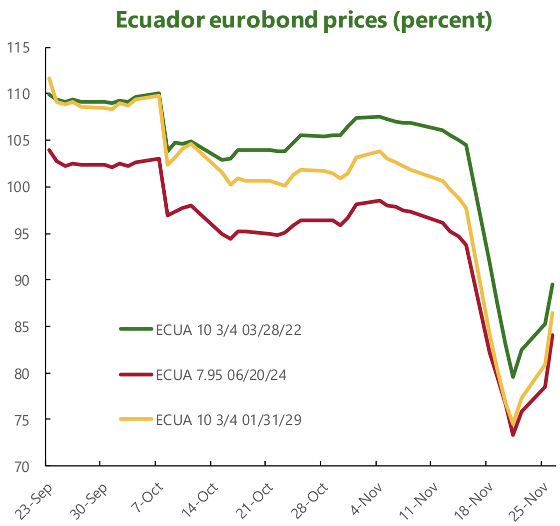
Last updated:	Level		Change				
11/27/19 8:14 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		43.30	0.2	1	1	8	11
MSCI Frontier Equities		28.85	0.3	1	1	6	10
EMBIG Sovereign Spread (in bps)		336	1	-2	8	-59	-78
EM FX vs. USD		59.93	-0.1	0	-2	-4	-4
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.04	-0.1	0	0	-1	-2
Indonesian Rupiah		14088	0.0	0	0	3	2
Indian Rupee		71.50	0.3	0	-1	-1	-2
Argentine Peso		59.75	-0.1	0	0	-35	-37
Brazil Real		4.25	-0.5	-1	-6	-7	-9
Mexican Peso		19.46	-0.1	-1	-2	6	1
Russian Ruble		63.99	-0.1	0	0	5	8
South African Rand		14.81	-0.2	0	-2	-6	-3
Turkish Lira		5.74	0.1	-1	0	-9	-8
EM FX volatility		7.02	0.0	-0.2	-0.1	-3.2	-2.8

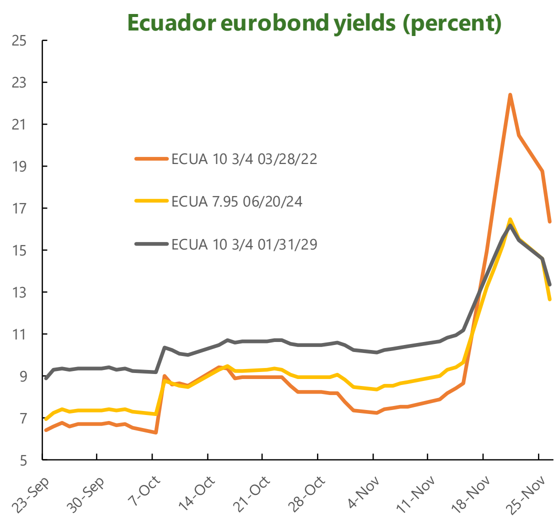
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Brazil

BCB intervened in the FX market for the first time in three months, in two surprise auctions after the real after declined to a record low. The currency pared losses after the second intervention and was down 0.4% on the day against the dollar. It had weakened as much as 1.2% to a record 4.28 per dollar after the first auction. The intervention was a surprise to given comments by central bank head Roberto Campos Neto and Economy Minister Paulo Guedes that a weaker real is not a problem. Analysts highlight that this intervention in spot is different from USD sales which the BCB has been conducting in recent months and which are part of the renewed FX policy mechanism announced in August.

Ecuador bonds prices rallied for a third day following the submission of the tax reform plan last week. The yield on the 2029 bond has declined to 13.4% after increasing to over 16% last Thursday. Some market participants highlighted that the rally today was also helped by an investor call with a government advisor that provided some clarity.

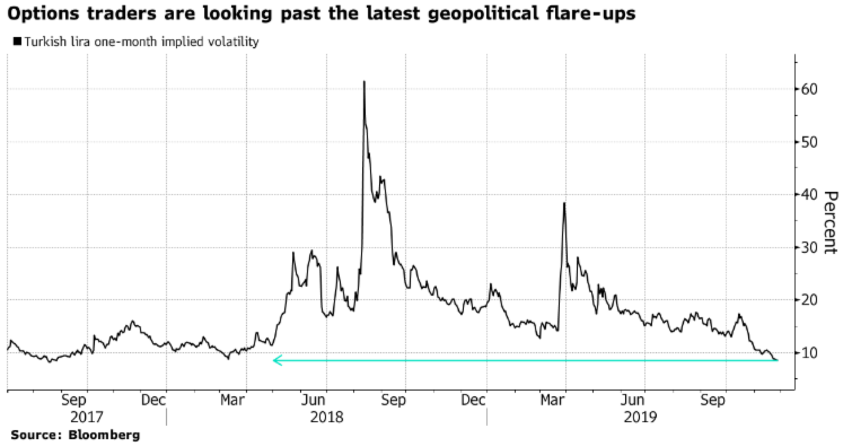




Source: Bloomberg

Turkey

The Turkish banking regulator has eased the rules for writing off bad debt, according to Bloomberg news. The Banking Regulation and Supervisory Agency (BRSA) is reportedly allowing banks to write off defaulted loans if recovery is deemed impossible. The BRSA expects the system's NPL ratio to reach 6.3% at end-2019, from 5% in September. Separately, in prepared remarks, finance minister Albayrak announced that provatizations will continue, and noted that the banks' capital levels remain "very strong." The lira traded mostly flat through the day at 5.76/dollar. Lira volatility has been trending downwards since late March this year.



Namibia

Namibians vote today on whether to grant president Hage Geingob a second term. Most polls point to a victory for Hage Geingob, who would have been in power for 30 years. Results are expected in the next 48 hours. The Namibian dollar strengthened 0.3% to the dollar, reaching 14.74/dollar on Wednesday trading.

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Global Financial Indicators

Last updated: 11/27/19 8:13 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3134	0.2	0	4	17	25
Europe		3703	-0.1	0	2	17	23
Japan		23373	0.3	0	3	7	17
China		2907	0.0	-1	-2	13	17
Asia Ex Japan		71	1.4	1	2	8	11
Emerging Markets		43	0.2	1	1	8	11
Interest Rates					basis points		
US 10y Yield		1.74	-1.4	-4	-5	-131	-94
Germany 10y Yield		-0.36	-1.4	-2	0	-72	-61
Japan 10y Yield		-0.09	-1.1	-1	5	-18	-9
UK 10y Yield		0.65	-4.3	-8	-3	-76	-62
Credit Spreads					basis points		
US Investment Grade		118	-0.5	-2	-1	-2	-29
US High Yield		473	1.3	2	25	51	-48
Europe IG		48	-0.4	-2	-2	-31	-40
Europe HY		227	-0.6	-6	-1	-102	-125
EMBIG Sovereign Spread		336	1.0	-2	8	-59	-78
Exchange Rates					%		
USD/Majors		98.30	0.0	0	0	1	2
EUR/USD		1.10	0.1	-1	-1	-3	-4
USD/JPY		109.0	-0.1	0	0	4	1
EM/USD		59.9	-0.1	0	-2	-4	-4
Commodities					%		
Brent Crude Oil ($/barrel)		64	0.1	5	3	5	18
Industrials Metals (index)		112	-0.1	-1	-5	-2	2
Agriculture (index)		39	-0.4	1	0	-6	-6
Implied Volatility					%		
VIX Index (%, change in pp)		11.9	0.0	-1.0	-0.8	-7.0	-13.5
10y Treasury Volatility Index		4.1	0.0	-0.2	-0.5	0.2	-0.5
Global FX Volatility		6.1	0.0	-0.2	-0.2	-2.5	-2.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		174	2.6	-4	17	-229	-241
Italy		153	2.0	-5	22	-138	-97
Portugal		72	-0.7	1	14	-80	-76
Spain		76	-0.7	-1	12	-45	-42

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: 11/27/2019 8:14 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		7.04	-0.1	-0.2	0	-1	-2		3.2	0.8	-4	-3	-13	3
Indonesia		14088	0.0	0.0	0	3	2		7.2	-0.2	5	-3	-98	-100
India		71	0.3	0.3	-1	-1	-2		6.8	-1.4	-2	-3	-99	-65
Philippines		51	-0.2	-0.1	0	3	3		4.3	-0.8	-1	-1	-208	-199
Thailand		30	0.1	-0.1	0	9	7		1.7	-0.4	0	18	-105	-89
Malaysia		4.18	-0.1	-0.6	0	0	-1		3.4	-0.1	-2	-6	-78	-71
Argentina		60	-0.1	-0.1	0	-35	-37		92.4	-491.4	2628	3559	6842	6935
Brazil		4.25	-0.5	-1.2	-6	-7	-9		6.3	8.2	13	43	-214	-188
Chile		791	0.6	-0.4	-8	-14	-12		3.4	-6.6	-1	29	-130	-108
Colombia		3450	-0.4	-0.3	-2	-6	-6		6.1	8.5	13	42	-62	-39
Mexico		19.46	-0.1	-0.6	-2	6	1		7.1	4.1	13	19	-200	-160
Peru		3.4	0.1	-0.4	-2	0	-1		4.5	-4.9	-5	9	-127	-127
Uruguay		38	-0.1	-0.4	-1	-14	-14		11.2	1.2	24	6	42	51
Hungary		305	-0.1	-1.5	-3	-6	-8		1.1	-0.9	-13	0	-143	-115
Poland		3.90	0.0	-0.9	-1	-3	-4		1.8	-0.4	-4	5	-72	-44
Romania		4.3	0.0	-0.5	-1	-5	-6		4.0	1.0	-7	13	-40	-28
Russia		64.0	-0.1	-0.2	0	5	8		6.2	1.7	-6	-4	-227	-219
South Africa		14.8	-0.2	-0.3	-2	-6	-3		9.7	6.3	12	41	14	9
Turkey		5.74	0.1	-0.7	0	-9	-8		12.0	5.5	18	-83	-517	-493
US (DXY; 5y UST)		98	0.0	0.5	0	1	2		1.61	-0.5	-1	-1	-128	-91

	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		2907	-0.1	-1	-2	13	17		176	1	0	-10	-10	-18
Indonesia		6026	-0.1	-2	-4	0	-3		181	0	-2	7	-46	-55
India		40821	0.5	1	5	15	13		129	2	-4	-1	-44	-67
Philippines		7708	1.7	-3	-3	4	3		87	0	-2	11	-26	-34
Malaysia		1584	0.2	-1	1	-7	-6		120	0	0	-1	-26	-42
Argentina		33495	-4.1	5	-3	8	11		2325	19	-40	155	1635	1510
Brazil		108424	-1.3	2	1	27	23		237	2	-3	12	-35	-36
Chile		4669	-1.9	-3	-6	-9	-9		151	1	-2	18	-2	-15
Colombia		1601	-0.3	0	-2	15	21		187	2	-6	17	-31	-41
Mexico		43535	-1.6	0	0	10	5		323	2	-6	27	-22	-31
Peru		19972	0.0	1	2	5	3		132	3	-2	9	-34	-36
Hungary		43847	-0.2	1	4	11	12		102	1	-2	10	-40	-46
Poland		57964	-0.2	-1	1	3	0		28	0	-3	1	-43	-57
Romania		9811	0.6	1	1	15	33		197	0	-2	15	-11	-24
Russia		2939	0.1	0	2	27	24		165	1	-7	-14	-72	-87
South Africa		56247	0.3	-2	2	9	7		352	4	9	45	-8	-13
Turkey		105490	0.2	-2	5	12	16		434	2	11	-13	-34	5
Ukraine		519	0.0	0	-1	-10	-7		491	4	17	41	-182	-296
EM total		43	0.2	1	1	8	11		336	1	-2	8	-59	-78

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

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