Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, November 30, 2018

- **European authorities propose temporary loosening in margin requirements in case of hard-Brexit (link)**
- **FOMC minutes signal potential shift to data-dependent flexible stance (link)**
- **China's manufacturing PMI falls to 50 for first time in two years (link)**
- **Korean central bank hikes rates by 25 bps to 1.75%, as expected (link)**
- **Pakistan devalues rupee for fifth time since the start of the year (link)**
- **Feature: Update on Fintech Market and Regulatory Developments (see attachment)**

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Global risk markets are mixed as G20 kicks off

G20 meetings remain a key near-term risk event. The G-20 summit starts today, with president Trump and Xi scheduled to meet on Saturday. The market's base case is that there will be no agreement, just a pledge to keep working towards one, with hopes for at least a détente that prevents an escalation of tariffs. Sentiment was somewhat more positive during the overnight session, amid more positive rhetoric from US and Chinese officials. Asian equities rose 0.5-1% despite China's PMI for November falling to 50, its lowest level in two years. In the US, the minutes from the November FOMC monetary policy meeting underscored that a hike at the December meeting is likely, and signaled that the forward guidance language could be altered, in favor of greater data dependence. Core sovereign bond yields were slightly lower, global equities were mixed, and major currencies traded in a tight range, with the US dollar index marginally firmer.

Key Global Financial Indicators

Last updated: 11/30/18 8:05 AM	Level Last 12m	Level Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2738	-0.2	3	1	3	2
Eurostoxx 50		3168	-0.2	1	-1	-11	-10
Nikkei 225		22351	0.4	3	2	-2	-2
MSCI EM		41	-0.8	2	5	-11	-13
Yields and Spreads					bps		
US 10y Yield		3.01	-2.9	-3	-11	60	61
Germany 10y Yield		0.31	-1.2	-3	-6	-6	-12
EMBIG Sovereign Spread		397	-5	1	32	109	112
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		62.8	-0.2	0	2	-8	-10
Dollar index, (+) = $ appreciation		96.9	0.2	0	0	5	5
Brent Crude Oil ($/barrel)		58.9	-1.1	0	-22	-7	-12
VIX Index (%, change in pp)		19.8	1.0	-2	-1	9	9

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

United States

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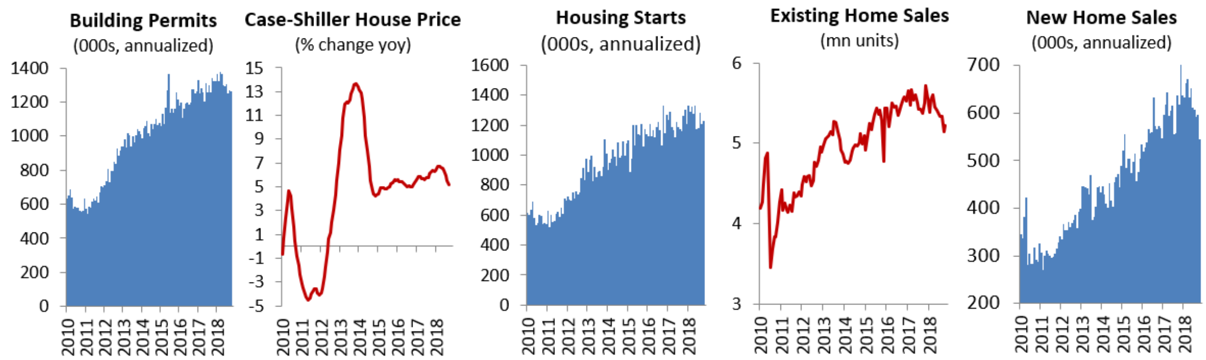
Stocks ended modestly lower Thursday, with major indices down 0.1-0.3%. This follows a more than 2% rally during the prior session following comments from Fed chair Powell that were perceived as signaling a dovish stance. Markets remain focused on this week's G20 meeting, to gauge whether the US and China reach agreement on ongoing trade negotiations. Over the last month, Treasuries and equity markets have been more sensitive to headlines on trade than to data releases.

Fed minutes from the November FOMC meeting were viewed as somewhat dovish, underscoring a shift toward a more data-dependent, flexible policy stance. The minutes signaled an interest rate hike at the December FOMC meeting. Markets focused on the more dovish elements, specifically the prospects of altering the forward guidance at the next meeting, replacing the reference to "further gradual increases" with more data dependent language. There was no discussion on the interest rate outlook beyond December, nor was there reported speculation on the value of the neutral rate, other than a reference to "a couple" of participants indicating that policy rates were "near" neutral now. Officials also discussed longer-term policy implementation, and appeared to favor continuing with the current floor system. The minutes also indicated that the committee discussed the possibility of a technical adjustment to the interest rate on excess reserves (IOER) before the December FOMC meeting (to guide the effective fed funds rate closer to the middle of the policy rate range). The minutes elicited a muted market reactio n, as the dovish shift toward a more data-dependent policy stance had already been priced in. Interest rate markets trimmed their expectations for 2019 from more than two rate hikes a few weeks ago to about one 25 bps hike currently. Expectations for 2020 have also diminished. Market-implied probabilities for a 25 bps rate hike at the December meeting are currently at 79%, down slightly from earlier in the week.

On the data front, **core PCE data (+0.1% mom) printed lower than consensus estimates (+0.2), bringing the year-on-year growth rate in October to 1.78%.** Both consensus and the Fed are projecting core PCE of 2.1% for 2019. 2-year Treasury yields ended little changed, while 10-year yields fell 3 bps to 3.03% after falling below 3.0% intraday. Despite the lower core PCE print, 10-year inflation breakeven rates widened nearly 4 bps as oil prices rebounded on the back of expectations for a possible production cut by OPEC and Russia.

The housing market continues to cool. A report on pending home sales out yesterday declined 4.6% yoy in October. Pending sales are now at their lowest level in four years. The report follows several others evincing slowing sales and anemic price gains. While the labor market remains robust and wages are rising, lofty home prices and rising mortgage rates are weighing on the pool of eligible homebuyers. Freddie Mac's 30-year mortgage rate held steady at 4.81% last week, compared to 3.90% a year ago.



Source: Bloomberg

Europe

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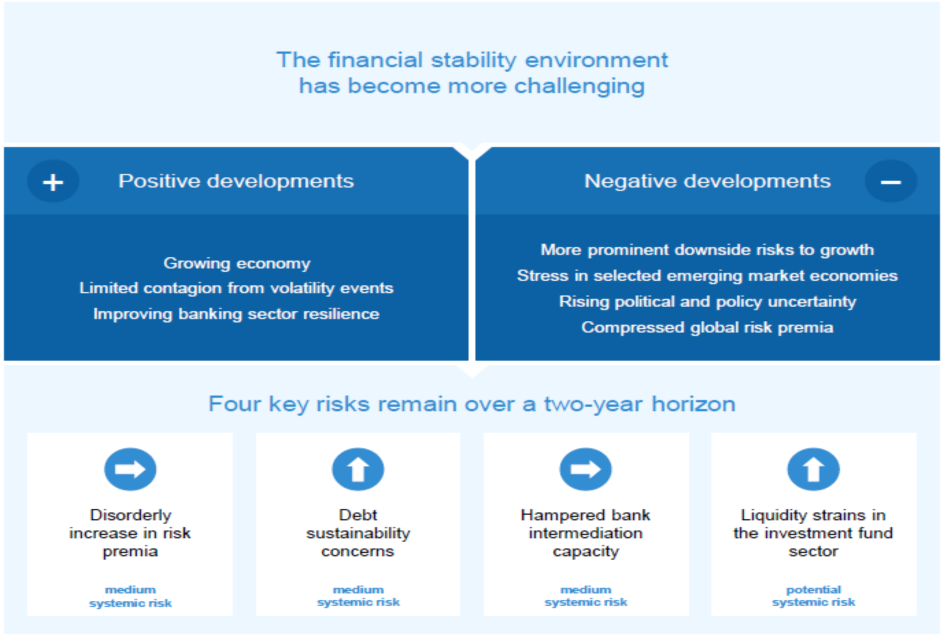
European equities were down 0.4-0.6% this morning, taking their cue from the weaker closing in the US yesterday. DAX: -0.5%; FTSE 100: -0.6%, Titans 30: -0.2%. Bank stocks underperformed, with UK banks and European banks losing 1.6% and 1.0%, respectively. **Sovereign debt markets were unchanged.**

Source: Bloomberg

European Supervisory Authorities (ESA) have proposed waiving bilateral margin requirements for uncleared derivative contracts moving to the EU from the UK in case of a hard-Brexit. The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) have released their joint final report proposing to amend existing bilateral margin requirements for OTC derivatives not cleared in CCPs. The draft proposes a limited 12-month exemption to margin requirements by EU firms that decide to transfer existing contracts with UK-based counterparties to contracts with an EU counterpart. The waiver thus seeks to facilitate (i.e., lower the costs of) the novation of certain OTC derivative contracts to EU counterparties. The measure would only apply in the case of a hard-Brexit. The ESA's report is now under consideration by the European Commission.

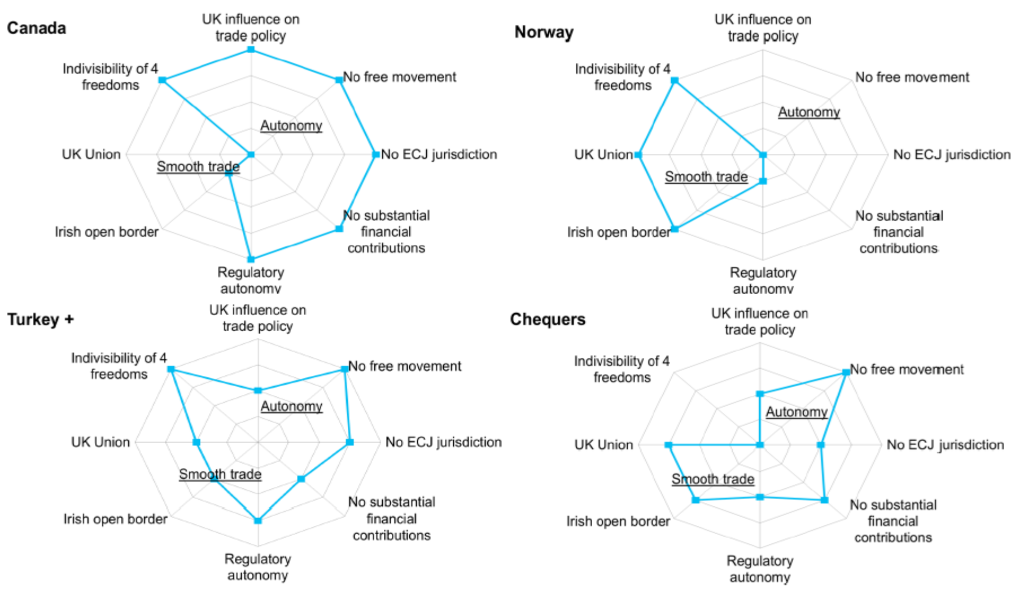
The ECB published its Financial Stability Review yesterday, highlighting that four key risks to the eurozone could materialize in the coming 2 years. The risks include a disorderly increase in risk premia; renewed concerns over the sustainability of public debt; continued legacy challenges for European banks; and liquidity strains in the investment fund sector.



The arrows indicate the development of the risks since the previous Financial Stability Review in May 2018: increased, remained at the same level.

Citi research argues that none of the scenarios recently presented in the Brexit Withdrawal Agreement are likely to materialize, given the "red lines" expressed by the UK and EU governments and existing parliamentary majorities. Instead, Citi economists believe that the so-called Turkey+ option (a customs union with added regulatory cooperation and trade facilitation) is more likely to prosper. Such an outcome would cost – or shave off – more than 5% of UK GDP over 15 years.

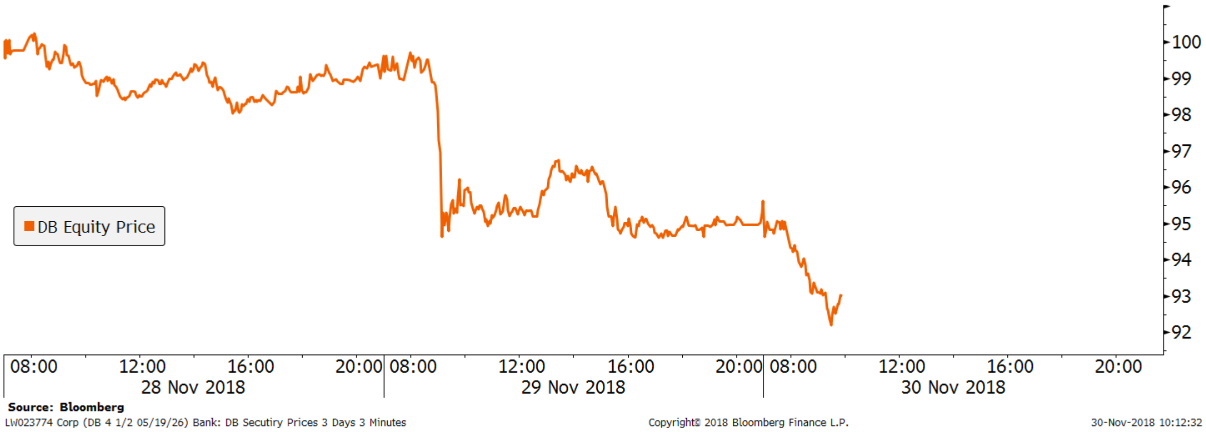
Figure 1. UK – Assessment of Future Trade Models



Notes: models scored on compliance (0 = none, 4 = full) against red lines/objectives of the UK and the EU. "Open Irish border" refers to any border between the UK and the Republic of Ireland, irrespective of where checks take place. "UK influence on trade policy" means on trade policy relevant to the UK (eg. ability to strike FTA with third countries). "4 Freedoms" refers to EU Single Market. "UK Union" refers to coherence of England, Wales, Scotland and Northern Ireland. "Financial contributions" of the UK to the EU budget. Source: Citi Research

Equities of beleaguered Deutsche Bank (-2.4%) fell further today as the anti-money laundering investigation continues. The investigation relates to the so-called Panama papers published in 2015.

Deutsche Bank Equity Price



Other Mature Markets

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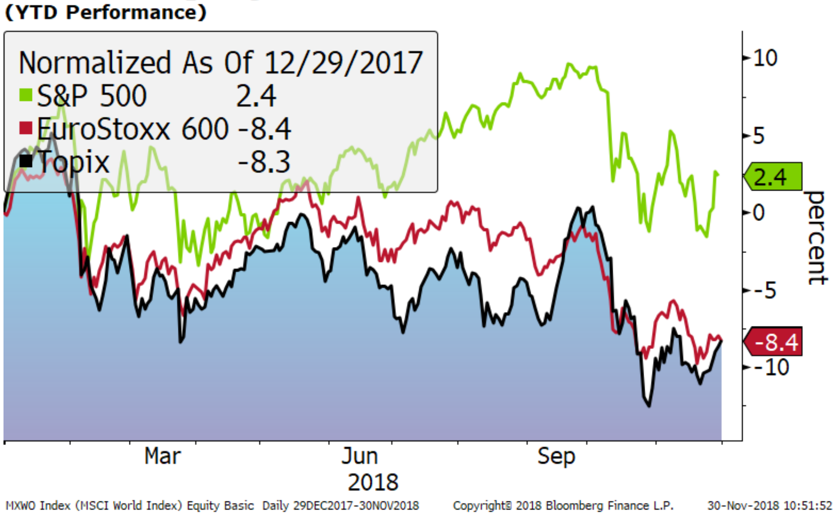
Japan

The Topix was 0.5% higher, marking the sixth consecutive session of gains. Energy and mining sectors led the moves overnight. On the week, the index rose 2.4%. Year to date, the Topix's performance is now on par to that of the EuroStoxx 600 (-8.5%), both underperforming the S&P 500 (which is up 2.4% YTD). The Bank of Japan announced a reduction in the frequency of purchases of bonds with maturities longer than 10 years from five days in November to four in December, in line with market expectations. The BoJ was previously stressed such tweaks do not amount to any sort of tapering. JGBs and the yen were little changed.

Global Equity Indices
(YTD Performance)



Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 11/30/18 8:10 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		41.12	-0.9	2	5	-11	-13
MSCI Frontier Equities		27.65	0.0	2	2	-16	-17
EMBIG Sovereign Spread (in bps)		397	-5	1	32	109	112
EM FX vs. USD		62.72	-0.2	0	2	-8	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.95	0.0	0	0	-5	-6
Indonesian Rupiah		14302	0.6	2	6	-5	-5
Indian Rupee		69.58	0.4	2	6	-7	-8
Argentine Peso		37.75	1.9	-3	-2	-54	-51
Brazil Real		3.86	-0.2	-1	-3	-15	-14
Mexican Peso		20.31	-0.4	0	0	-8	-3
Russian Ruble		66.99	-1.1	-1	-2	-13	-14
South African Rand		13.75	-0.6	1	8	0	-10
Turkish Lira		5.17	-0.1	2	8	-24	-27
EM FX volatility		10.10	0.0	0.1	0.1	2.1	2.3

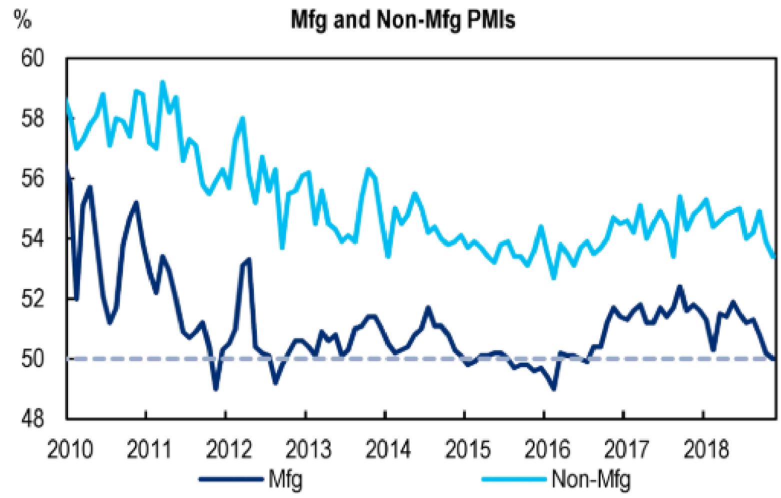
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

EM assets were little changed on Thursday, as the positive risk sentiment from recent dovish Fed rhetoric was counterbalanced by concerns about G20 trade discussions. Most local equity indices advanced on Thursday, but the MSCI EM benchmark—which is heavily skewed toward China—declined (-0.8%) on the back of concerns about trade. In **Latam,** the Colombian peso (+0.9%) appreciated for the first session in five days, helped by a rebound in oil prices and positive sentiment in the local bond market following the government's proposal to reduce the withholding tax on profits made by foreigners. The Argentine peso (+1.9%) appreciated during a shortened trading session on Thursday, ahead of today's G20-related holiday. During the overnight session, in **Asia,** equity markets were mostly lower, falling 0.8-1.0% in Korea, Malaysia and Indonesia; China bucked the trend (+0.8%). In FX markets, the Indonesian rupiah (+0.6%) outperformed. The rupiah is up over 5% this month, registering its best monthly performance since 2015. Other Asian currencies traded in narrow ranges. In **EMEA,** equity markets were broadly lower, with Poland (-0.9%) underperforming. In FX markets, the ruble (-0.7%) depreciated against the basket and the Pakistan rupee (-4.5%) was devalued for the fifth time this year.

China

Local equity indices rose nearly 1% ahead of key G20 meetings this weekend. On the week, the Shanghai index is up 0.3%, but down 0.5% on the month. The onshore yuan was little changed on the day, but has appreciated 0.4% this month, marking the first month of appreciation since March. For November, **China's manufacturing PMI fell to 50 (slightly below consensus expectations), marking its lowest level in two years**. The non-manufacturing PMI slowed 0.5 to 53.4, also below consensus expectations.

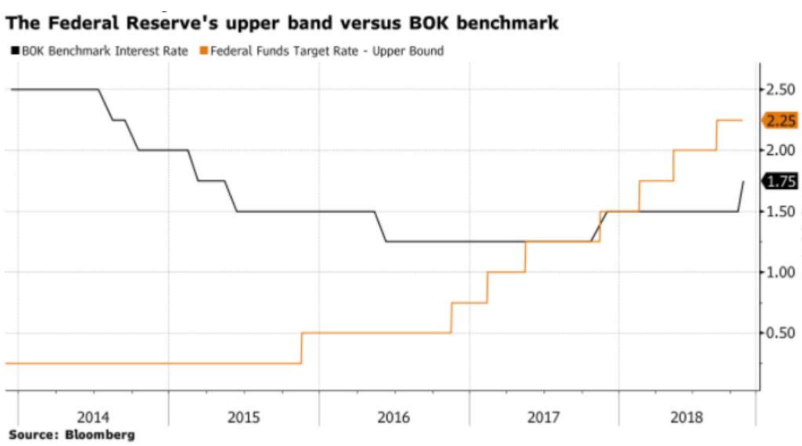
Figure 1. Mfg PMI slid to the critical 50 in Nov



Source: NBS and Citi Research

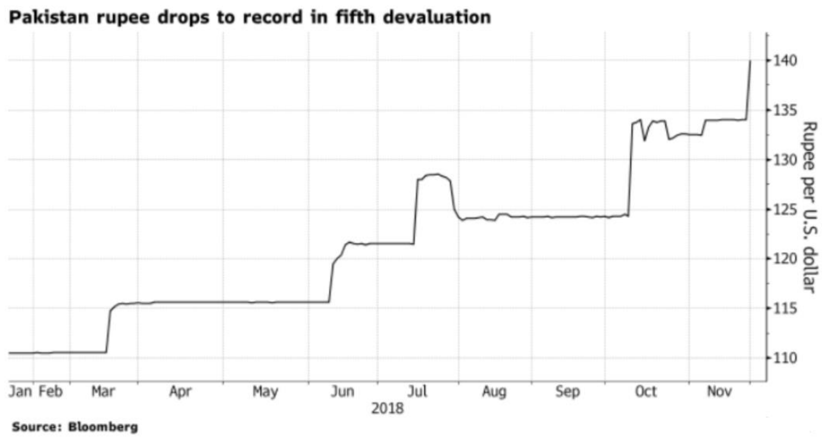
South Korea

The central bank hiked rates by 25 bps to 1.75%, the first move in a year, in line with expectations among most analysts. Two MPC members voted for rates to remain unchanged, and the language and subsequent official comments were seen by analysts as somewhat dovish. Markets viewed the increase as a one-off move to help realign financial imbalance risks in the context of higher asset price volatility and the Fed's tightening cycle. Citi, for example, sees the move in part as a way to create a larger policy buffer ahead the next potential downturn. There was little market reaction to the announcement, with the won and equities a touch weaker, while rates were unchanged.



Pakistan

The rupee saw its fifth significant devaluation since the start of the year. The currency weakened 4.5% to 140 per US dollar, considerably less than the October devaluation of 7.5%. Analysts interpreted the move as part of the adjustment initiated by the authorities to improve Pakistan's balance of payments outlook ahead of a deal with the IMF. Officials from the government and the IMF are expected to meet early next year to discuss a program that is thought to be around $7 bn.



Egypt

The central bank unexpectedly ended its repatriation mechanism, effective December 4th. The mechanism had guaranteed that foreign investors could repatriate their foreign currency earnings. The mechanism was put in place when Egypt was suffering from an acute shortage of foreign currency. Strict capital controls meant that foreign investors in Egyptian securities could not get their profits out of the country. For a fee, those who went through the scheme were guaranteed their money back. The central bank raised the cost of using the mechanism about a year ago, but has now opted to terminate it, in an effort to reduce distortions in the currency. The decision comes as $10 bn in foreign holdings have flowed out of the Treasury bill market in the last seven months, almost halving foreign holdings. Following this move, analysts noted that FX liquidity but also volatility should increase. Citigroup analysts expect that the remaining foreign holdings may become stickier as investors will now have to think twice before exiting through the relatively less liquid interbank market. They also believe that this measure is a first step towards a more normalized market that will come via 1) index inclusion in the main EM local bond index and 2) Euroclearability by 2020 of domestic debt for overseas investors.

Source: Citigroup

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Global Financial Indicators

Last updated: 11/30/18 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2738	-0.2	3	1	3	2
Europe		3168	-0.2	1	-1	-11	-10
Japan		22351	0.4	3	2	-2	-2
China		2588	0.8	0	-1	-22	-22
Asia Ex Japan		67	-1.1	2	6	-12	-13
Emerging Markets		41	-0.8	2	5	-11	-13
Interest Rates					basis points		
US 10y Yield		3.01	-2.9	-3	-11	60	61
Germany 10y Yield		0.31	-1.2	-3	-6	-6	-12
Japan 10y Yield		0.09	1.0	-1	-3	5	4
UK 10y Yield		1.36	-1.2	-3	-4	3	17
Credit Spreads					basis points		
US Investment Grade		127	1.4	7	20	30	36
US High Yield		420	0.3	2	39	42	45
Europe IG		81	1.0	0	7	33	36
Europe HY		329	-14.6	-5	31	98	96
EMBIG Sovereign Spread		397	-5.0	1	32	109	112
Exchange Rates					%		
Dollar Index (DXY)		96.95	0.2	0	0	4	5
USDEUR		1.14	-0.2	0	0	-5	-5
USDJPY		113.5	0.0	0	-1	-1	-1
EM FX vs. USD		62.8	-0.2	0	2	-8	-10
Commodities					%		
Brent Crude Oil ($/barrel)		59	-1.1	0	-22	-7	-12
Industrials Metals (index)		115	0.3	0	1	-10	-17
Agriculture (index)		43	0.2	1	0	-12	-10
Implied Volatility					%		
VIX Index (%, change in pp)		19.8	1.0	-1.7	-1.4	8.5	8.8
10y Treasury Volatility Index		3.9	0.0	-0.5	-0.6	0.0	0.3
Global FX Volatility		8.5	0.0	0.0	0.1	1.0	1.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		396	0.9	-25	11	-112	28
Italy		290	1.2	-17	-15	151	131
Portugal		152	0.3	-8	3	1	0
Spain		120	1.0	-9	3	12	6

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: 11/30/2018 8:10 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	0.0	0.0	0	-5	-6		3.3	-1.3	-1	-18	-67	-63
Indonesia		14302	0.6	1.7	6	-5	-5		8.1	-14.4	-14	-66	124	142
India		70	0.4	1.6	6	-7	-8		7.7	-5.7	-11	-29	41	20
Philippines		52	0.0	0.1	2	-4	-5		6.3	-2.2	-16	-26	151	149
Thailand		33	0.1	0.6	1	-1	-1		2.8	-2.3	-2	-12	48	49
Malaysia		4.18	0.0	0.2	0	-2	-3		4.2	-0.8	-1	2	20	27
Argentina		38	1.9	-3.5	-2	-54	-51		22.9	-60.0	-98	255	719	688
Brazil		3.86	-0.2	-0.8	-3	-15	-14		8.5	0.7	3	-18	-47	-50
Chile		671	-0.2	0.7	4	-3	-8		4.7	-3.2	-6	-17	-18	-14
Colombia		3249	-0.3	-0.7	-1	-7	-8		6.7	-6.9	2	-13	48	49
Mexico		20.31	-0.4	0.5	0	-8	-3		9.2	-14.3	10	47	185	150
Peru		3.4	-0.2	-0.3	-1	-4	-4		5.8	5.6	1	-15	43	53
Uruguay		32	-0.1	0.7	2	-10	-10		10.8	-0.1	-15	-4		219
Hungary		285	-0.3	-0.3	1	-8	-9		2.4	-9.9	-16	-24	110	112
Poland		3.78	-0.4	0.3	2	-6	-8		2.5	-4.7	-9	0	-20	-18
Romania		4.1	-0.3	0.1	1	-5	-5		4.3	-3.0	-11	-32	29	43
Russia		67.0	-1.1	-1.2	-2	-13	-14		8.4	-10.9	-3	8	99	113
South Africa		13.8	-0.6	0.8	8	0	-10		9.5	-14.3	-3	-30	-36	20
Turkey		5.17	-0.1	2.3	8	-24	-27		16.6	-24.3	-70	-301	376	466
US (DXY; 5y UST)		97	0.2	0.0	0	4	5		2.84	-0.9	-3	-12	70	63

	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		2588	0.8	0	-1	-22	-22		188	-1	-2	3	44	36
Indonesia		6056	-0.8	1	4	2	-5		225	2	-8	7	58	59
India		36194	0.1	3	5	9	6		175	0	1	3	65	65
Philippines		7368	0.0	1	3	-11	-14		108	1	-9	-8	16	13
Malaysia		1680	-1	-1	-2	-2	-7		146	0	-1	17	36	36
Argentina		31483	1.1	4	7	17	5		704	1	21	39	348	354
Brazil		89567	0.5	4	2	24	17		271	1	2	13	36	37
Chile		5155	0.8	0	1	3	-7		158	3	3	19	36	39
Colombia		1387	0.1	1	0	-4	-8		211	-1	-4	22	35	37
Mexico		41913	2.3	2	-5	-11	-15		341	3	-5	38	109	96
Peru		19304	1	0	2	-2	-3		163	1	-5	11	31	26
Hungary		39845	0.0	1	7	3	1		148	-4	4	23	62	60
Poland		57897	-0.9	2	5	-7	-9		74	-1	1	9	32	27
Romania		8665	0.0	2	2	11	12		216	-4	10	19	92	102
Russia		2387	-0.5	2	1	14	13		241	-10	0	17	65	63
South Africa		51038	-1.4	1	-3	-15	-14		354	-12	-8	18	74	100
Turkey		94662	-0.5	2	5	-9	-18		465	-16	-4	27	154	176
Ukraine		579	0.0	0	3	90	84		714	-31	38	116	261	259
EM total		24	0.0	2	4	-8	-8		397	-5	1	32	109	112

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