







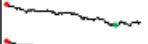
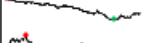


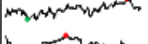

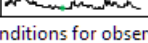
- Markets price just one rate cut by Fed in next 12 months ([link](#))
- Reserve Bank of Australia holds cash rate at record low of 0.75%, as expected ([link](#))
- China's central bank lowers 1-year lending facility rate by 5bps to 3.25% ([link](#))
- Bank Negara Malaysia leaves policy rate at 3.0%, in line with consensus ([link](#))
- Guyana readying oil production ([link](#))
- EM domestic investors own over half of EM corporate external bonds ([link](#))

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As trade optimism builds, markets continue to inch higher

Equity markets in Europe and the US are slightly higher this morning, failing to follow through on a rally in Asia shares overnight. Following reports that the US is considering rolling back some Chinese tariffs introduced in September, as well as the first reduction in China's medium-term facility since 2016, Asian markets moved higher. Trade news continues to be the primary driver of markets, but there has been little else driving markets this morning. If the modest early morning gains hold, US equity market indices will try to reach new record levels for the third straight day today. Despite the continued records, the overall index level is still not much higher than in 2018, and, as shown in the latest Global Financial Stability Report, valuations do not appear especially stretched. In emerging markets, currencies are overall mixed while South Africa is the strongest performing currency for a second day in a row.

Key Global Financial Indicators

Last updated: 11/5/19 7:42 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3078	0.4	1	4	12	23
Eurostoxx 50		3673	0.2	1	7	14	22
Nikkei 225		23252	1.8	2	9	5	16
MSCI EM		44	0.9	2	7	7	12
Yields and Spreads			bps				
US 10y Yield		1.82	6.7	-2	29	-138	-86
Germany 10y Yield		-0.33	2.6	3	26	-75	-57
EMBIG Sovereign Spread		318	1	-10	-30	-41	-96
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		61.2	0.0	0	1	-2	-2
Dollar index, (+) = \$ appreciation		97.7	0.2	0	-1	1	2
Brent Crude Oil (\$/barrel)		62.6	0.8	2	7	-14	16
VIX Index (% change in pp)		13.0	0.2	0	-4	-7	-12

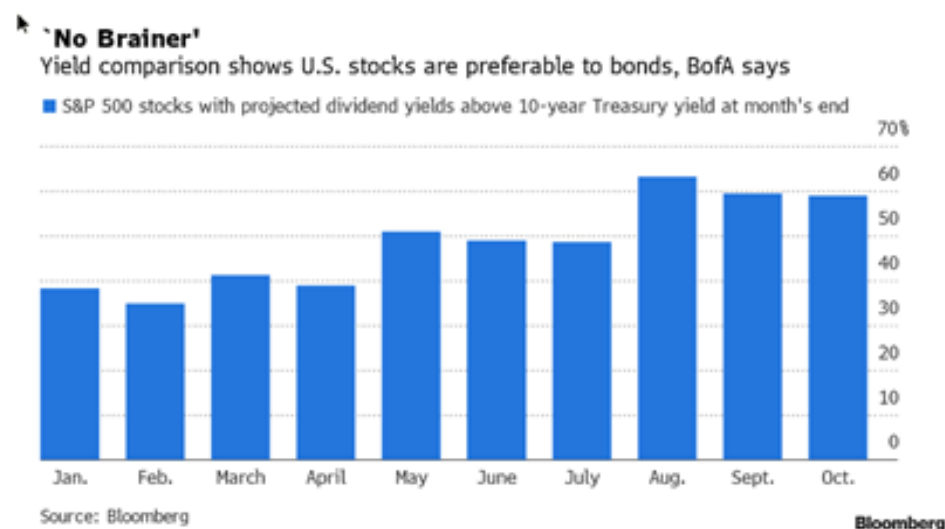
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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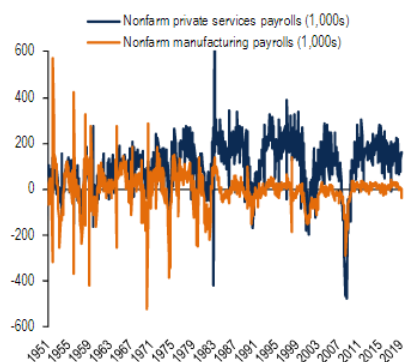
Markets enjoyed another day of gains as US stocks made all-time highs for the second straight day.

The major US indexes have set four records over the past six trading days. Global markets have been moving gradually higher over the last few weeks due to optimism about the trade war, a decent Q3 earnings season in both the US and Europe as well as many emerging markets and the dovish stance of the major central banks. Treasury yields have moved slightly higher over the period but remain very low by historical standards, and most agree that another 10-20 bps rise in 10-year yields will be unlikely to undermine confidence in risk assets. Bank of America points out that equities remain attractive relative to bonds despite the recent rally, as the dividend yield of many stocks are above Treasury yields. However, markets remain at the mercy of the trade headlines and the day-to-day moves higher have come in relatively small increments. The S&P 500 is just 5% higher than its 2018 peak. Meanwhile, US durables goods order were slightly weaker than consensus forecasts (headline -1.2% vs. -1.1% and ex-transportation -0.4% vs. -0.3%).



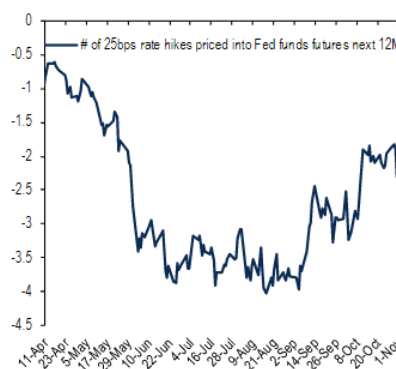
The market is pricing just one more rate cut over the next 12 months. Most analysts think the FOMC's Wednesday statement and press conference were successful in conveying the message that the Fed is now on hold without sparking a market selloff. The strong jobs report on Friday is likely to give the Fed even more confidence. Gains in the all-important services sector were especially notable, and services jobs saw the largest upwards revisions to the September and August jobs reports. Strength in the services sector may somewhat allay worries about the continued slowdown in manufacturing.

Figure 1: US labor market is driven by private services



Source: Bureau of Labor Statistics

Figure 2: Strong payrolls priced out one rate cut over next 12 months



Note: Computed as the difference between the 1st and 12th Fed funds futures / .25%
Source: Bloomberg, BofA Merrill Lynch Global Research

Investment grade credit spreads remained close to their year-to-date tight levels in the dollar, euro and sterling markets as bullish sentiment spreads from the stock market to other parts of the financial complex. New deal issuance has been well received and foreign investors are returning to US markets because the Fed rate cuts have lowered dollar hedging costs. However, the high yield bond market has been less robust due to credit issues with companies with weaker balance sheets. The energy sector in particular has come under pressure (as it did in 2015 and 2016) due to the perception that oil and other commodity prices are unlikely to rise much higher.

Credit Metrics

	Nov 1 (bp)	Oct 25 (bp)	Sep 30 (bp)	YTD Δ	YTD Tights	YTD Wides
USD IG	110	108	115	(43)	106	157
EUR IG	101	102	111	(50)	97	162
GBP IG	142	142	151	(36)	137	181
USD HY	385	360	373	(141)	346	537
EUR HY	372	363	350	(122)	285	514
GBP HY	489	489	503	(164)	456	672

Source: Bloomberg, HSBC

Europe

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Equity markets continued to post gains this morning albeit smaller than yesterday: DAX (+0.2%), CAC 40 (+0.2%), EuroStoxx 600 (+0.1%). **Spanish Ibex 35 (-0.2%) underperformed** after the televised debate among presidential candidates last night. Local media note that the debate did little to dispel concerns over another hung parliament after the general election this Sunday. Bank stocks (+0.5%) marginally outperformed main indices.

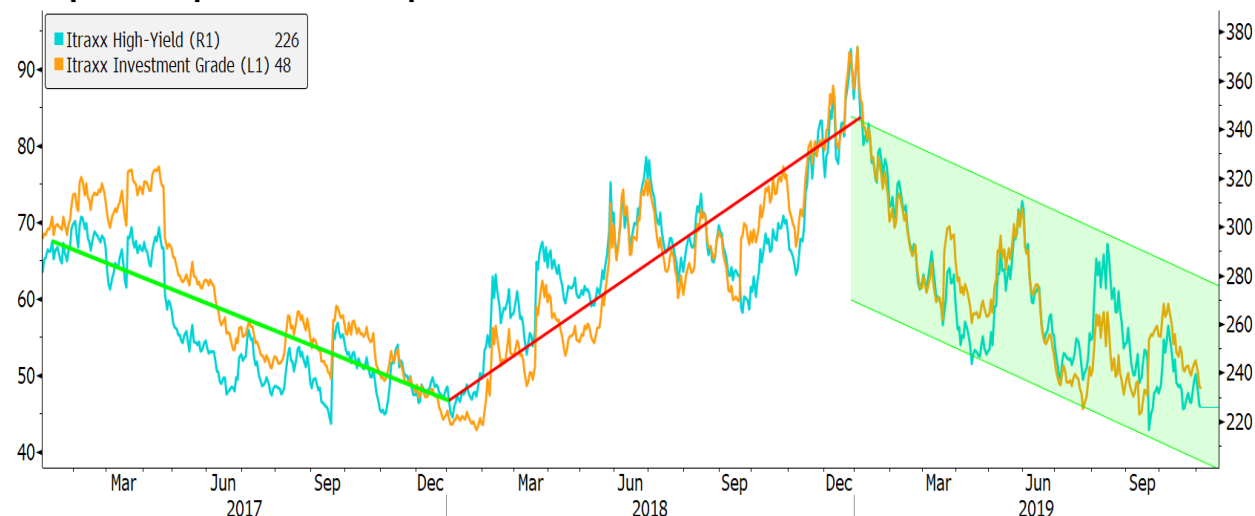
Sovereign debt yields edged higher across countries. German 10-year yields at -0.32% (+3 bps); French OATs at -0.02% (+2 bps); Spain's at +0.31% (+1 bp); Italy's at 1.01% (+2 bp).

Macro data releases:

- **Ireland's PMI indicators inched down in Oct.**, with the Composite gauge printing at 50.6 (from 51.0 in Sept.) and Services slowing down to 50.6 from 53.1.
- **UK's PMIs suggest Britain's economy remains somewhat resilient to Brexit uncertainties**, as the Composite and the Services metrics accelerated marginally in Oct.: Composite at 50.0 from 49.3; Services at 50.0 from 49.5.

In European credit markets, **corporate credit spreads have continued to trend lower** across credit classes and are now at levels similar to end-2017/early-2018. Analysts note that the aggressive search for yield has led **about €400 bn-worth of IG corporate bonds to yield negative returns** if held to maturity.

European Corporate Credit Spreads

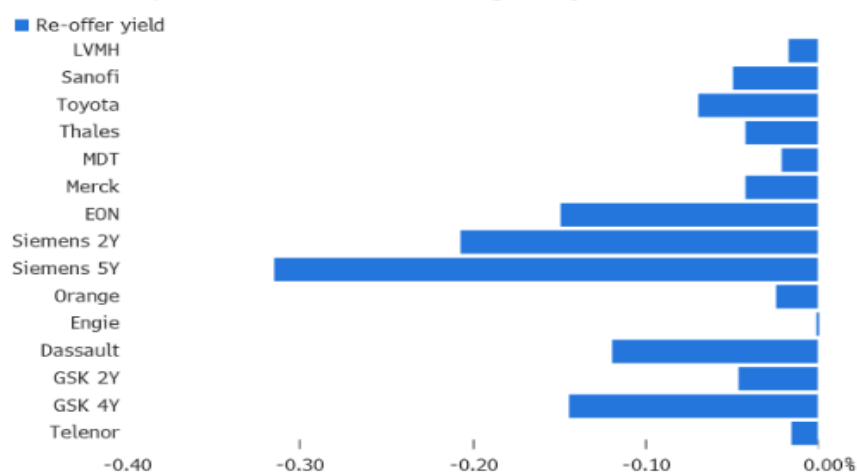


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Several companies have sold bonds at negative yields in 2019



Source: Data compiled by Bloomberg

Notes: Euro investment-grade non-financial corporates, fixed-rate

Bloomberg

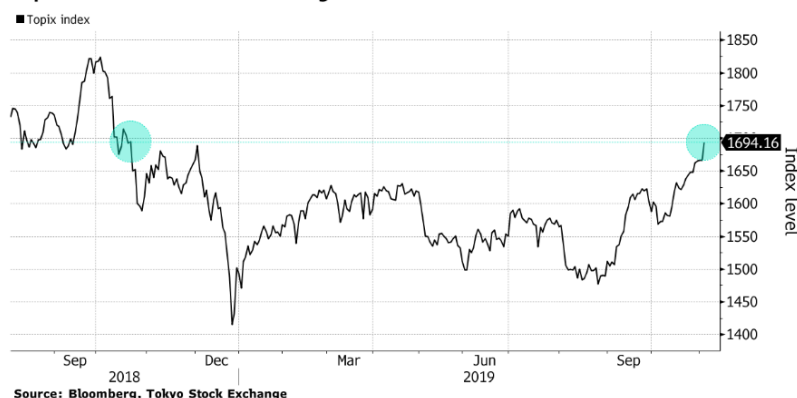
Other Mature Markets

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Japan

Equities (+1.8%) rose to their highest level in a year, led by electronics. Separately, Japanese Prime Minister Shinzo Abe and South Korean President Moon Jae-in agreed to ease tensions during their first meeting in 14 months on the sidelines of the ASEAN summit in Bangkok. The two leaders said that the relationship between the two countries is important and the issues between the two nations should be resolved via dialogue. **10-year JGB yields rose 5.4 bps to -0.14% while the yen weakened -0.3%.**

Topix advances to a 12-month high



The Reserve Bank of Australia (RBA) left its cash rate unchanged at a record low of 0.75%, in line with expectations. Having reduced interest rates by a total of 75bps this year, the statement mentioned that the easing is supporting employment, income growth and inflation. However, the RBA still left the door open for further easing, saying that the board will continue to monitor developments in the labor market. The Australian dollar appreciated +0.5% while equities gained +0.2%.

Emerging Markets

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Asian equities (+0.6%) continued to gain on further positive trade news flow. Reports that the US may roll back some tariffs buoyed markets. The Philippines (+2.0%) and Indonesia (+1.1%) gained the most. Regional currencies strengthened, led by the onshore and offshore Chinese yuan (+0.6%), appreciating past 7 per dollar for the first time since August. A quiet session in EMEA, with markets generally trading with a positive tone. Latin American equities firmed Monday. Argentine equities (+4.3%) have been rallying for three consecutive weeks, while a quieter weekend of social unrest helped boost Chilean stocks (+1.2%), and Brazil's Ibovespa (+0.4%) hit a record high. Bond yields were generally higher across the region, while currencies were mixed.

Key Emerging Market Financial Indicators

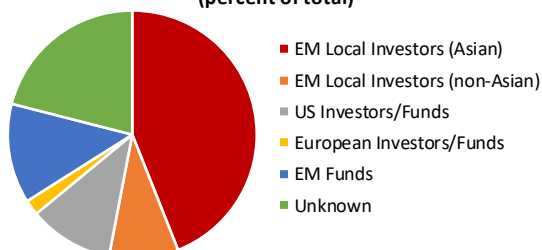
Last updated: 11/5/19 7:43 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		43.65	0.9	2	7	7	12
MSCI Frontier Equities		28.56	-0.2	1	2	3	9
EMBIG Sovereign Spread (in bps)		318	1	-10	-30	-41	-96
EM FX vs. USD		61.19	0.0	0	1	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.00	0.5	1	2	-1	-2
Indonesian Rupiah		13969	0.3	0	1	7	3
Indian Rupee		70.69	0.1	0	0	3	-1
Argentine Peso		59.71	0.0	0	-3	-40	-37
Brazil Real		4.02	0.0	0	2	-7	-3
Mexican Peso		19.18	-0.1	0	2	4	2
Russian Ruble		63.42	0.2	1	2	4	9
South African Rand		14.75	0.4	-1	3	-4	-3
Turkish Lira		5.75	-0.2	0	1	-8	-8
EM FX volatility		7.25	0.0	0.1	-0.8	-2.8	-2.5

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

Corporate Bonds

JP Morgan gauges that the EM corporate external bond universe totals around \$2 tn, and that its ownership is quite diverse. The bank notes that only about 5% of the asset class is benchmarked to JP Morgan's corporate CEMBI index. And that **EM domestic investors own over half of corporate external bonds**, with Asian locals accounting for fully 44% of the total. It finds that while both Asian and Middle Eastern markets have substantial local investor ownership, Latin American and EM European bonds are mainly held by foreign EM dedicated and/or crossover investors. The CEMBI Broad Diversified has lost 9.0% this year but is up 6.5% from its May low.

EM Corporate External Bond Investor Base
(percent of total)



Source: JP Morgan

China

Equities rose +0.5% while the onshore and offshore RMB strengthened +0.6%, past 7 per dollar. This came amid reports by the Financial Times that the US is considering whether to roll back levies on \$112 bn of Chinese imports including clothing, appliances, and flatscreen monitors, which were introduced at a 15% rate on September 1. President Xi meanwhile reiterated China's commitment to economic openness in Shanghai, saying that China will focus on imports and continue to lower tariffs and institutional transaction costs.

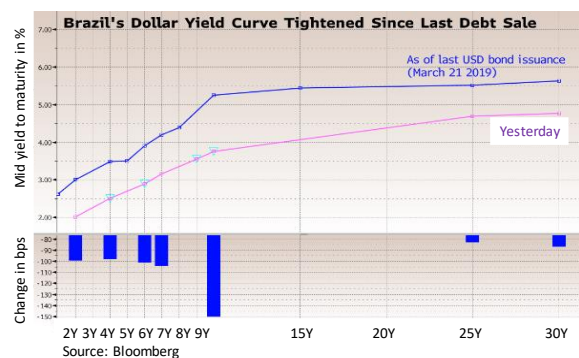
10-year bond yields fell 5 bps to 3.24% following the People's Bank of China's 5 bps cut to its 1-year medium-term facility (MLF) rate to 3.25%. The reduction was the first MLF rate cut since early-2016 and was a surprise. Despite the rate cut, authorities drained CNY3.5 bn of loans. Analysts expect the Loan Prime Rate (LPR), the reference rate that banks price new loans and is based on a spread to the MLF, to decline from the current 4.20%.

Malaysia

Bank Negara Malaysia (BNM) held its overnight policy rate at 3.0%, in line with consensus, in its final meeting for the year. Having cut interest rates by 25bps in July, BNM in its statement judged the current stance of monetary policy as 'accommodative and supportive of economic activity. BNM expects growth to be within its projections in 2019 and be sustained in 2020, even though it sees downside risks to growth due to uncertainties in global economic and financial conditions, coupled with weakness in commodity-related sectors. It expects headline inflation to remain modest in 2020, even though it is likely to average higher. **The Malaysian ringgit strengthened +0.5% and stocks gained +0.2%.**

Brazil

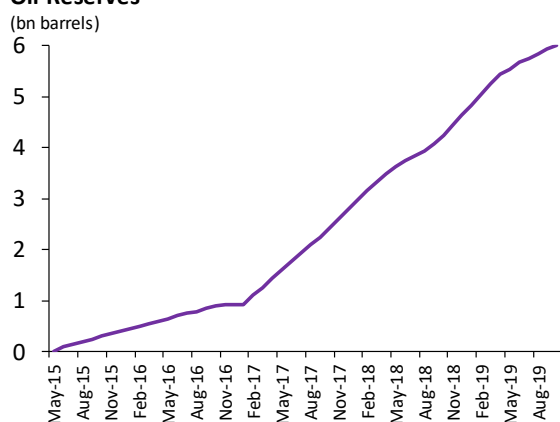
The government is advancing a broad legislative agenda this week to follow up on pension reform progress. There will be initiatives to address public spending, tax reform, oil revenue distribution, privatization and local government finances, but the privatization of Petrobras is reportedly off the table. Brazil is also taking the opportunity to sell dollar-denominated debt, reopening bonds due in 2029 and selling bonds due in 2050. Yields have fallen since Brazil's last US dollar bond issuance in March.



Guyana

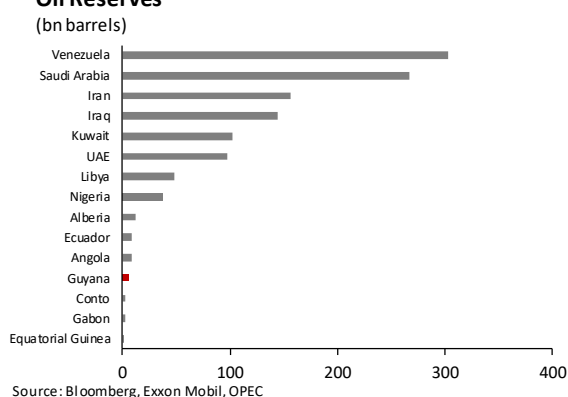
Oil may begin flowing as soon as this year from a large deposit off the Guyana coast, and Exxon Mobil keeps upping its inventory estimates, which are now around 6 bn barrels of oil. If Guyana joined OPEC, it would become the cartel's 12th largest producer. Bloomberg reports the country will have oil revenues of \$300 mn next year, rising to \$5 bn by 2025.

Oil Reserves



Source: Bloomberg, Exxon Mobil

Oil Reserves



South Africa

The rand gained 0.8% and swap yields fell 3 bps today as **President Ramaphosa expressed his concern about the outlook downgrade by Moody's**. The whole economy PMI remains in contraction territory but was better than expected at 49.4 (49.0 expected). **Forward looking data remain concerning**. New orders in today's PMI falling to 47.8 (48.8 in September). **Consumer confidence unexpectedly fell to its 2017 low in Q3, fully reversing the 2018 recovery in sentiment**.

Turkey

The lira and equities are little changed but the 1-yr USD yield rose 9 bps to 3.48% as **Turkey is selling 5-yr local currency bonds in its first auctions with a +2-yr maturity since 2018**. Turkish local currency swap yields were little changed.

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina <i>Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Jochen Schmittmann <i>Senior Economist</i>
Peter Breuer <i>Deputy Division Chief</i>	Mohamed Jaber <i>Senior Financial Sector Expert</i>	Juan Solé <i>Senior Economist</i>
Will Kerry <i>Deputy Division Chief</i>	David Jones <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Sergei Antoshin <i>Senior Economist</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Martin Edmonds <i>Senior Data Mgt Officer</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Rohit Goel <i>Financial Sector Expert</i>	Yingyuan Chen <i>Senior Research Officer</i>
Sally Chen <i>Senior Economist</i>	Henry Hoyle <i>Financial Sector Expert</i>	Piyusha Khot <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Thomas Piontek <i>Financial Sector Expert</i>	Xingmi Zheng <i>Research Assistant</i>
Reinout De Bock <i>Economist</i>	Patrick Schneider <i>Research Officer</i>	

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Global Financial Indicators

Last updated: 11/5/19 7:42 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3078	0.4	1	4	12	23
Europe		3673	0.2	1	7	14	22
Japan		23252	1.8	2	9	5	16
China		2992	0.5	1	3	12	20
Asia Ex Japan		71	1.2	2	7	8	12
Emerging Markets		44	0.9	2	7	7	12
Interest Rates							
			basis points				
US 10y Yield		1.82	6.7	-2	29	-138	-86
Germany 10y Yield		-0.33	2.6	3	26	-75	-57
Japan 10y Yield		-0.12	5.4	-2	9	-25	-13
UK 10y Yield		0.72	-0.1	1	28	-78	-55
Credit Spreads							
			basis points				
US Investment Grade		119	-1.3	2	-10	12	-28
US High Yield		452	-9.2	9	-41	89	-69
Europe IG		48	-0.5	-3	-10	-22	-39
Europe HY		226	-0.1	-6	-26	-61	-127
EMBIG Sovereign Spread		318	1.0	-10	-30	-41	-96
Exchange Rates							
			%				
USD/Majors		97.65	0.2	0	-1	1	2
EUR/USD		1.11	-0.2	0	1	-3	-3
USD/JPY		108.9	-0.2	0	-1	4	1
EM/USD		61.2	0.0	0	1	-2	-2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		63	0.8	2	7	-14	16
Industrials Metals (index)		119	-0.1	0	3	2	9
Agriculture (index)		40	0.1	1	2	-9	-5
Implied Volatility							
			%				
VIX Index (% change in pp)		13.0	0.2	-0.2	-4.1	-7.0	-12.4
10y Treasury Volatility Index		4.2	0.1	-0.7	-1.0	-0.2	-0.4
Global FX Volatility		6.4	0.0	0.1	-0.6	-1.8	-2.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		153	-0.9	-5	-40	-233	-262
Italy		134	-0.5	0	-8	-156	-116
Portugal		56	-2.8	-2	-17	-90	-92
Spain		64	-2.4	0	-8	-50	-54

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: 11/5/2019 7:44 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		7.00	0.5	1.0	2	-1	-2		3.3	-0.6	3	12	-19	11		
Indonesia		13969	0.3	0.5	1	7	3		7.1	-1.9	-5	-24	-133	-107		
India		71	0.1	0.2	0	3	-1		6.8	0.7	-1	5	-107	-64		
Philippines		50	0.2	1.4	3	6	4		4.3	0.1	0	-2	-230	-199		
Thailand		30	0.0	0.2	1	9	7		1.6	1.4	0	9	-130	-104		
Malaysia		4.13	0.5	1.3	1	1	0		3.4	0.7	-2	4	-72	-67		
Argentina		60	0.0	-0.3	-3	-40	-37		57.0	16.9	-297	-789	3439	3401		
Brazil		4.02	0.0	-0.4	2	-7	-3		5.8	2.7	2	-52	-284	-237		
Chile		745	-0.6	-2.4	-4	-9	-7		3.4	0.3	18	61	-142	-108		
Colombia		3323	0.0	1.8	3	-4	-2		5.7	0.0	0	9	-119	-80		
Mexico		19.18	-0.1	-0.3	2	4	2		6.9	3.3	-7	3	-187	-182		
Peru		3.3	0.4	0.0	1	1	1		4.4	-11.1	-7	-2	-162	-138		
Uruguay		37	0.5	0.6	0	-12	-13		10.9	0.8	-41	12	6	19		
Hungary		297	-0.3	-0.1	2	-5	-6		1.2	1.8	8	15	-157	-105		
Poland		3.84	-0.1	0.1	3	-2	-3		1.8	-0.5	-4	6	-82	-51		
Romania		4.3	-0.2	0.0	1	-5	-5		3.8	-1.0	-1	7	-67	-41		
Russia		63.4	0.2	0.9	2	4	9		6.3	0.0	1	-54	-211	-216		
South Africa		14.7	0.4	-0.8	3	-4	-3		9.5	-12.9	22	22	-27	-9		
Turkey		5.75	-0.2	-0.2	1	-8	-8		12.1	-9.8	-58	-117	-637	-475		
US (DXY; 5y UST)		98	0.1	0.0	-1	1	2		1.63	3.3	-4	28	-140	-89		

	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		2992	0.5	1	3	12	20		177	0	-8	-13	-3	-17
Indonesia		6264	1.4	0	3	6	1		178	3	8	-12	-34	-58
India		40248	-0.1	1	7	15	12		128	0	-4	-9	-39	-68
Philippines		8217	1.9	3	7	14	10		80	4	4	-4	-26	-41
Malaysia		1607	0.2	2	3	-6	-5		119	0	-2	-8	-14	-43
Argentina		37279	4.3	12	17	19	23		2279	-1	57	116	1676	1464
Brazil		108779	0.5	1	6	21	24		223	1	0	-31	-20	-50
Chile		4802	1.2	-3	-5	-9	-6		140	1	8	-2	3	-26
Colombia		1646	0.0	1	3	18	24		176	0	1	-12	-8	-52
Mexico		43816	0.0	0	1	-6	5		310	-1	22	-14	13	-44
Peru		20080	0.9	3	4	4	4		124	-1	1	-6	-26	-44
Hungary		42874	0.1	2	8	13	10		92	-3	0	-23	-26	-56
Poland		59360	0.1	2	6	4	3		25	-3	-3	-21	-30	-60
Romania		9661	0.1	-1	2	13	31		189	-4	9	-17	0	-33
Russia		2948	0.6	3	9	24	24		172	-1	-3	-34	-43	-80
South Africa		57275	0.6	3	6	4	9		329	2	21	-14	-6	-36
Turkey		100454	0.4	1	-3	5	10		445	-2	0	-32	3	16
Ukraine		521	0.0	0	-1	-10	-7		457	0	5	-68	-141	-330
EM total		44	0.9	2	7	7	12		318	1	-10	-30	-41	-96

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

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