



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, November 6, 2018

- US markets remain calm ahead of today's mid-term elections ([link](#))
- Bank of Canada signals uncertainty on neutral level of rates ([link](#))
- Eurogroup asks Italian government to amend draft budget ([link](#))
- UK government poised to announce its vision on Irish border ([link](#))
- Chinese private bond issuance shows signs of recovering ([link](#))

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Markets little changed ahead of US mid-term election

Markets are mixed and trading in tight trading ranges amid a dearth of new guidance on global trade, the Italian budget, and Brexit. Asian equities were mixed (+1.1% in Japan; -0.2% in China), while European markets were lower, and US equities point to a weaker opening. US treasuries are little changed and trading volumes are subdued ahead of today's mid-term elections, where expectations are for a split outcome. Equity implied volatility gauges are holding steady. Sterling (+0.3%) has continued to gain, and volatility has edged higher, as negotiations continue on treatment of the Northern Irish/Irish border. 10-year Italian government bond spreads to German bunds are hovering around 300 bps, after the Eurogroup asked the Italian government to amend its draft budget. EM bond spreads are modestly wider this morning.

Key Global Financial Indicators

Last updated: 11/6/18 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2738	0.6	4	-5	6	2
Eurostoxx 50		3205	-0.4	2	-4	-13	-9
Nikkei 225		22148	1.1	3	-7	-2	-3
MSCI EM		41	-0.6	8	0	-13	-13
Yields and Spreads			bps				
US 10y Yield		3.19	-1.1	7	-4	88	79
Germany 10y Yield		0.43	0.0	6	-15	9	0
EMBIG Sovereign Spread		358	-1.0	-7	18	63	73
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.4	-0.1	1	1	-9	-10
Dollar index, (+) = \$ appreciation		96.3	0.0	-1	1	4	4
Brent Crude Oil (\$/barrel)		72.8	-0.6	-4	-14	13	9
VIX Index (% change in pp)		20.2	0.2	-3	5	11	9

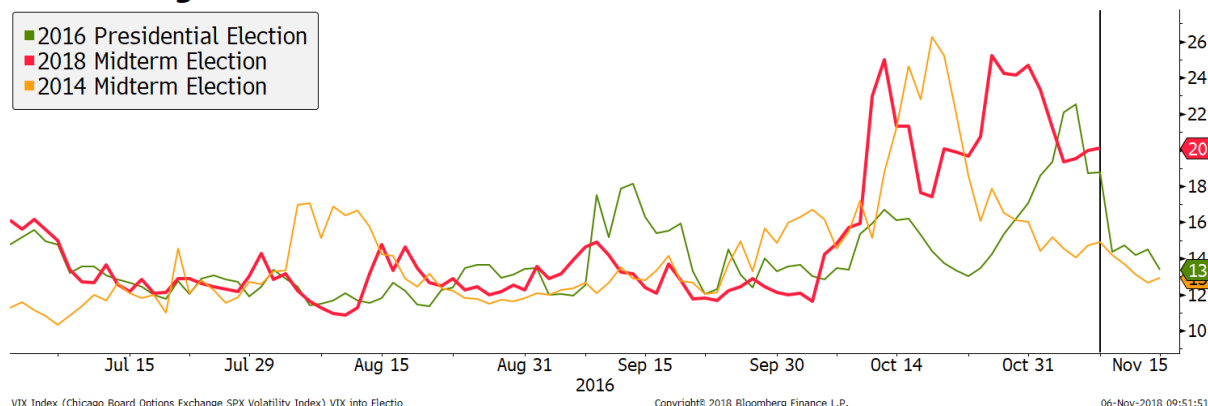
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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Volumes were low in both treasury and equity futures as markets await the outcome of the US mid-term elections. The S&P 500 edged higher by +0.6% yesterday, led by the real estate and energy sector, and **S&P 500 futures are 0.1% up this morning.** Equity implied volatility, as measured by the VIX, rose marginally yesterday to 19.9 (+0.4 pts).

Vix Heading Into Elections



Treasury yields were little changed. 10-year treasury yields declined 1 bp despite better-than-expected economic data releases. The latest CFTC report shows that non-commercial (speculative) investors have increased their short positions in both 2-year and 5-year futures recently. 10-year Treasury yields are flat this morning at 3.20%.

The US mid-term elections are taking place today, with results expected to be released around 11pm EST. **Most forecasts point to the Democratic party gaining control of the House of Representatives while the Republican party is expected to retain the Senate.** In addition, elections will be held for the governorships of 36 states and 3 US territories, as well as for the mayor of the District of Columbia.

Forecasting the race for the House

Updated Nov. 6, 2018, at 1:56 AM

7 in 8

Chance Democrats win control (88.0%)

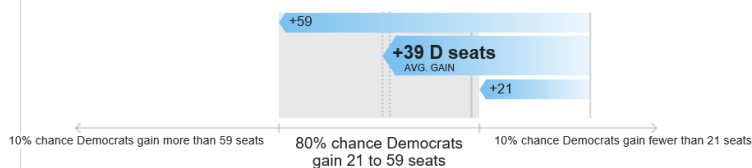
↑ Higher probability

Breakdown of seats by party



1 in 8

Chance Republicans keep control (12.0%)



Forecasting the race for the Senate



Updated Nov. 6, 2018, at 1:55 AM

1 in 5

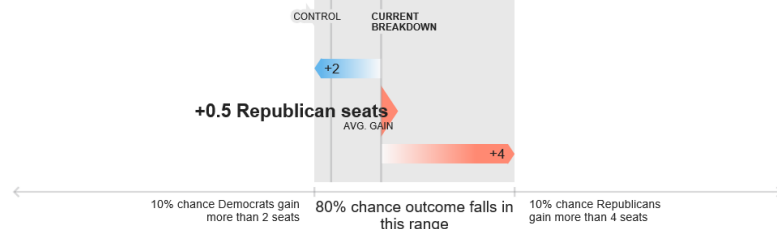
Chance Democrats win control (19.5%)

4 in 5

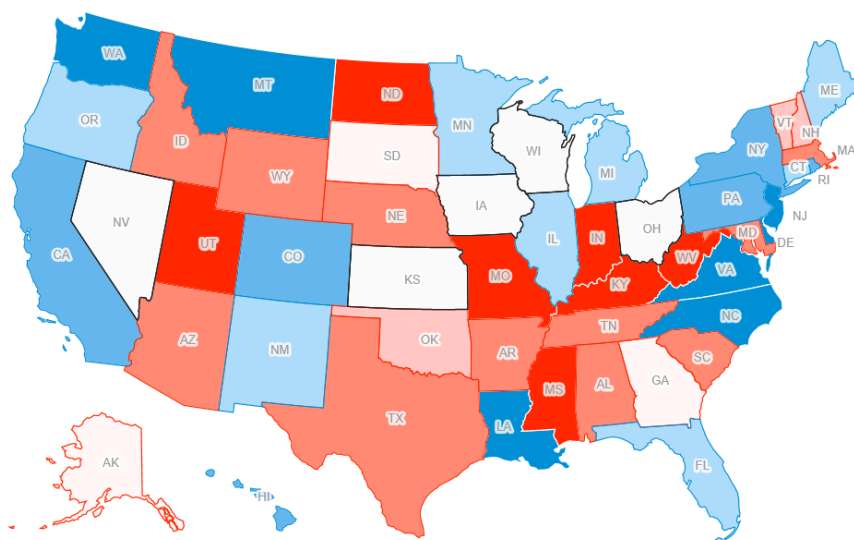
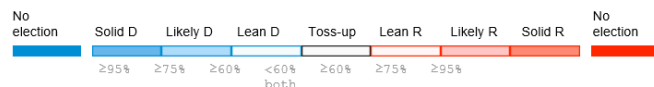
Chance Republicans keep control (80.5%)

↑
Higher probability

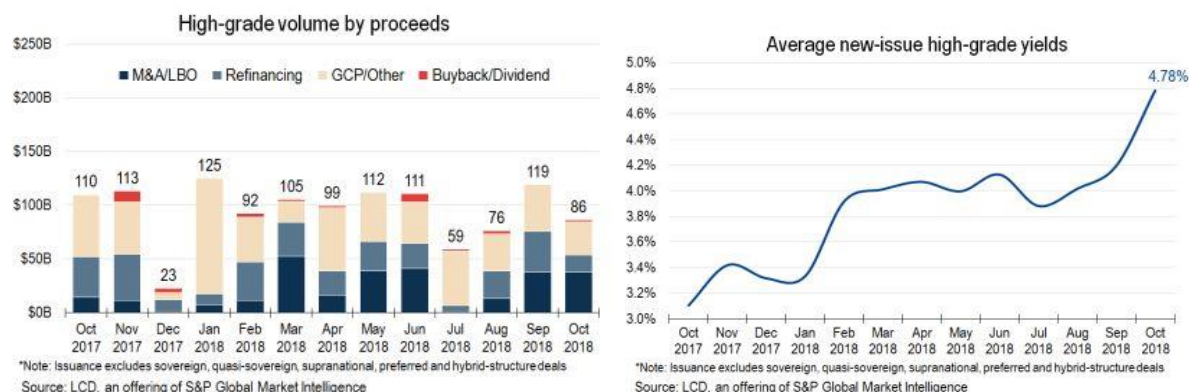
Breakdown of seats by party



If the Senate is split 50-50, Republicans maintain majority control because Vice President Mike Pence has the tiebreaking vote. This analysis treats independent Sens. Bernie Sanders and Angus King as Democrats because they caucus with that party.



US corporate bond issuance slows. Investment grade (IG) corporate bond issuance in October totaled \$86.3 bn, about \$24 bn less than the amount issued in October a year ago. Meanwhile, new-issue yields continued to rise to a post-crisis high of 4.8% in October, versus 3.1% last October and have risen by 90 bps since July. Separately, Lipper fund flow data show that investors pulled \$3.6 bn from IG corporate bond funds in the week ending October 31. The size of the withdrawal was the largest seen since December 2015.



Europe

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European bourses are down: DAX (-0.3%), CAC 40 (-0.4%), Ibex (-1.0%), and Italy's Titans 30 (-0.9%). **Stocks of most European banks are lower this morning** after ECB's vice president Guindos [asked](#) banks with capital levels below 9% under the EBA's adverse scenario to strengthen their capital positions. This would affect 12 large European banks, accounting for about 40% of banking sector assets. The largest equity falls today have occurred in Sabadell (-2.0%), MPS (-1.9%), Intesa (-1.5%), BBVA (-1.1%), and Santander (-0.9%).

Euro area sovereign bond yields are largely unchanged, except for Italy after the Eurogroup urged the Italian government to submit a new budget. Italian 10-year bonds are up 6 bps to 3.38% and 2-year yields climbed 4 bps to 0.92%. The Italian government has until Nov. 13 to resubmit its budget to the EC. Political risk gauges for Italy have remained elevated since May this year.

Eurozone Political Risk Measures

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



Senior members of PM May's cabinet are meeting today to discuss a new Brexit strategy. One of the main contentious issues remains the treatment of the Northern Irish/Irish border post Brexit. The two latest (and highly controversial) options rumored to be under discussion today are:

- The UK commits to stay in a customs union with the EU and would only be able to leave by mutual agreement. Such a proposal would resolve the Irish/Northern Irish border problem, but is seen by many as a betrayal of one of the main goals of the Brexit referendum; i.e., allowing Britain to set its own trade policy outside the EU's tariff regime.

- The UK joins a temporary customs union with the EU and can decide to leave unilaterally, but Northern Ireland would be allowed to stay. This solution is believed by some to preserve the spirit of Brexit, but at the potential cost of the territorial integrity of the UK.

UK gilts inched up 1-2 bps today and equities are flat. The spreads between British and German sovereign bonds at various maturities continue to widen. Volatility of the pound (+0.2% to \$1.32) is also increasing.

Gilt-Bund Spreads (in bps)



Vol spread hits extreme levels as Brexit premium dominates

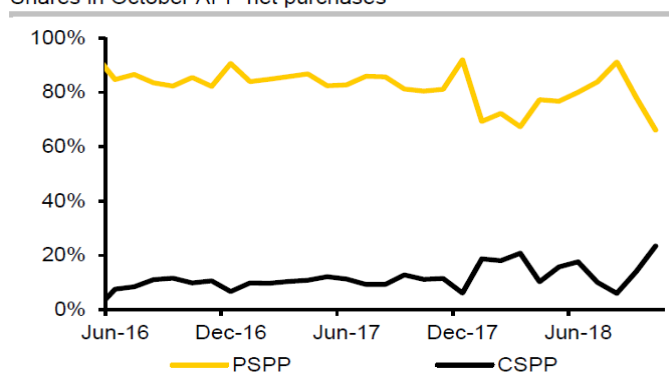
■ Pound-dollar, euro-dollar two-month vol spread



The ECB may slightly modify the self-imposed 'capital key' rule for bond-buying starting in 2019, [Reuters](#) reports. Unnamed sources claim that the Bank is recalculating the capital key for 2019 onwards to reflect changes in economic and demographic growth across countries. Sources note, however, that the ECB's leadership is unlikely to make drastic changes (By way of background, according to the capital key rule, the ECB buys bonds in proportion to how much capital each country has paid into the ECB.) The new calculation will likely only apply to new (reinvestment) purchases of bonds in an effort to minimize disruptions in sovereign markets. Separately, October data on the Bank's Asset Purchase Program reveal that the ECB has decreased its net purchases of sovereign bonds – to a record low of 66% – in favor of corporate assets.

ECB buys less sovereigns, more corporates

Shares in October APP net purchases



Source: ECB, Commerzbank Research

Other Mature Markets

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Canada

Bank of Canada (BoC) governor Poloz noted that the neutral rate was “sufficiently uncertain.” The key interest rate is now at 1.75%, and the BoC has previously estimated that neutral is around 2.5%-3.5%. He commented, “all we know is that as we get closer to it, whatever it is, we’ll begin to see signs that we’re no longer stimulating demand.” **The market reaction to the governor’s comments was limited.** Equity markets gained 0.7%, 10-year government bond yields declined by 2 bps on the day, and the Canadian dollar briefly strengthened 0.2% before reversing.

Emerging Markets

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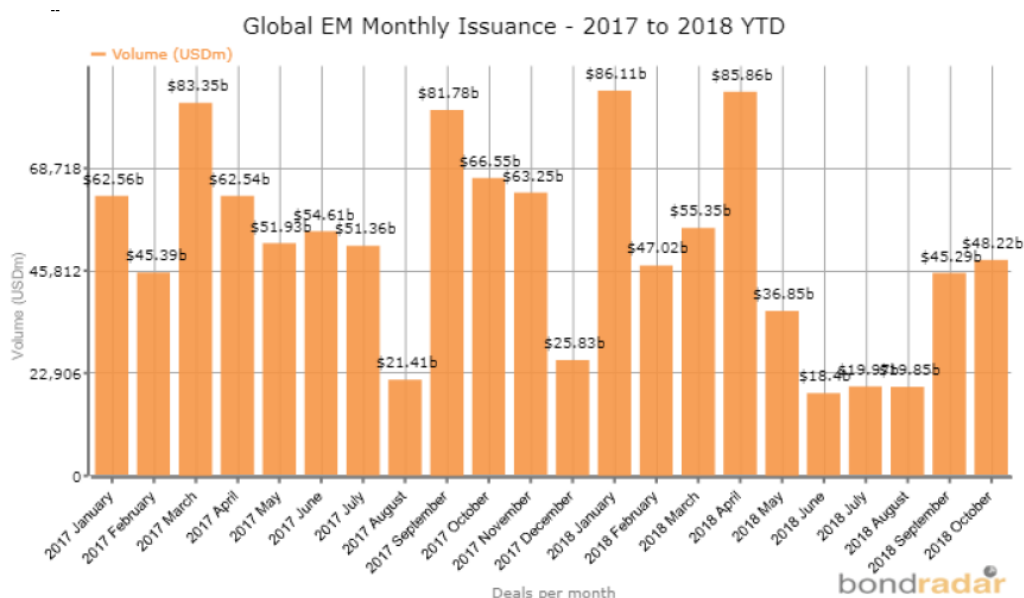
Key Emerging Market Financial Indicators

Last updated: 11/6/18 8:04 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		40.93	-0.4	8	0	-13	-13
MSCI Frontier Equities		27.62	0.2	4	-1	-13	-17
EMBIG Sovereign Spread (in bps)		358	-1.0	-7	18	63	73
EM FX vs. USD		62.41	-0.1	1	1	-9	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	0.1	1	0	-4	-6
Indonesian Rupiah		14804	1.2	3	3	-9	-8
Indian Rupee		73.03	0.1	1	1	-11	-13
Argentine Peso		35.63	-0.4	4	6	-50	-48
Brazil Real		3.73	-0.7	0	3	-13	-11
Mexican Peso		19.93	-0.2	1	-5	-5	-1
Russian Ruble		65.98	0.1	-1	1	-12	-13
South African Rand		14.26	-0.7	2	4	-1	-13
Turkish Lira		5.37	-1.0	2	14	-29	-29
EM FX volatility		10.08	0.0	0.1	-0.9	2.0	2.2

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

EM assets (MSCI EM: -0.4%, EMBIG spread: +3 bps) weakened on Monday as some of the market optimism about a truce in the US-China trade dispute was reversed. Analysts highlighted that Chinese president Xi in his speech on Monday did not outline any new proposals that would suggest he was prepared to meet US demands, such as halting forced technology transfers or rolling back support for state-owned enterprises. Another factor adding to investor uncertainty is the outcome of the US elections today. Although most **Latam** currencies weakened yesterday, the Chilean peso (+2.5%) led gains amid rising metal prices and better-than-expected activity data. Equity markets were mixed in **EMEA**, falling 0.5% in Turkey but rising 1% in Russia, while in FX markets, the Turkish lira (-0.9%) and the South African rand (-0.6%) were the biggest movers during the overnight session. **Asian** equities were also mixed, falling 0.7% in Taiwan and rising 0.6% in Korea, but little changed in China. In FX, the Indonesian rupiah was the clear outperformer following a strong GDP print.

After a summer lull, EM debt issuance accelerated in October to \$48 bn, short of last year's \$67 bn. China, remains a main contributor to EM hard currency issuance. The sovereign pushed ahead with a \$3 bn bond offer in October. Despite recent caution from ratings agencies on the sector, Chinese local government financing vehicles (LGFVs) also sold a number of dollar-denominated deals. Notable deals included Shandong Guohui's \$600 mn 363-day deal and Sichuan Development Holdings' \$500 mn 3-year transaction. In addition, short-term notes with maturities of less than a year appear to be making a comeback. Short-dated deals had reportedly been banned by the NDRC in the summer and have not been seen since in the market. However, three such deals re-surfaced in October in a sign that regulators may be easing rules again on this type of issuance according to BondRadar.



China

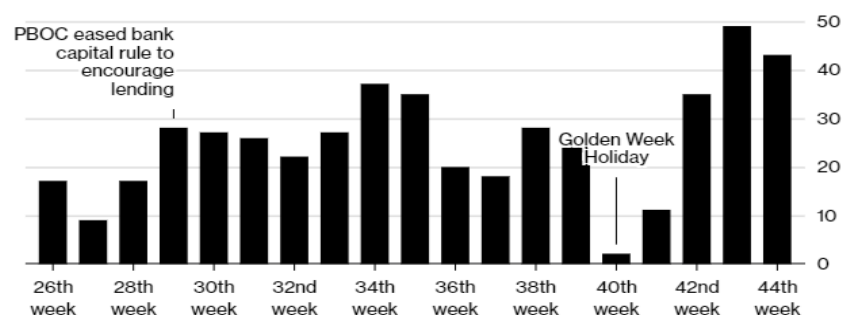
Equity markets recovered some of their earlier losses on news that China's political leaders are open to dialogue with the US to resolve trade disputes. Even so, the Shanghai A-share and blue-chip CSI 300 closed down 0.2% and 0.6%, respectively. Despite a weaker CNY fixing, the renminbi strengthened by 0.18% to 6.9141 against the dollar. The offshore CNH rate also strengthened modestly (+0.06% to 6.9167). Premier Li Keqiang said that **China will not resort to strong monetary stimulus, but instead will take targeted policy steps to support private companies and smaller businesses.** Supportive efforts include reducing taxes, fees, and market trading costs. He also pledged to continue to open up financial markets, including banking, securities, and funds segments.

China's top bond underwriter sees easing funding strains. Bank of China, which ranks number one in corporate bond sales in China, said that policymakers are shifting from de-risking the financial system to supporting the real economy. The bank predicted that the number of debt defaults are likely to fall next year as mainland authorities "actively" deploy support tools to assist funding by private companies. China's private companies have been facing tight funding conditions in the onshore market as investors turned to the safety of debt sold by state-owned firms. Recent supportive measures include the plan for PBC to give RMB10 bn (\$1.4 bn) to a state-backed insurer to provide credit support for bond sales by private firms. The amount, with the use of leverage and participation of other investors, can help new bond sales of up to RMB160 bn. This is expected to boost bond financing by private firms. That said, some analysts are not convinced of the effectiveness of these measures, as they expect only industrial and large private firms to benefit.

Bouncing Back

Chinese private firms bond issuance is recovering on supportive policies

■ Number of onshore yuan bond deals from non-state enterprises by week



Source: Bloomberg

Costa Rica

Despite a small rally at the end of last week, Costa Rica remains the main underperformer across EM credits over the last three months. The BB-rated sovereign is trading in line with single B-rated issuers, such as El Salvador and Ghana. Analysts highlight uncertainty on Q4 2018 funding sources and on the outcome of the forthcoming constitutional court decision on fiscal reform. One of the main funding stresses is the repayment of a \$860 mn emergency loan from the central bank at the end of December. On Monday, FM Aguilar cited \$600 mn in demand for bond issuance, despite earlier reports citing demand of only \$100-\$200 mn.
























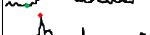


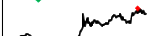


	EMBIG spread (bps)	Change since Aug 2018 (bps)
Costa Rica (BB)	502	164
Sri Lanka (B+)	494	149
Tunisia (B+)	560	120
Ukraine (CCC+)	598	88
Lebanon (B-)	699	77
Namibia (BB+)	331	76
Ecuador (B-)	678	75
Ghana (B)	503	67
Kenya (B+)	493	61

Source: Bloomberg

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Global Financial Indicators

Last updated: 11/6/18 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Global Financial Indicators							
Equities			%				%
United States		2738	0.6	4	-5	6	2
Europe		3205	-0.4	2	-4	-13	-9
Japan		22148	1.1	3	-7	-2	-3
China		2659	-0.2	4	-6	-22	-20
Asia Ex Japan		66	-0.1	7	-1	-14	-14
Emerging Markets		41	-0.6	8	0	-13	-13
Interest Rates			basis points				
US 10y Yield		3.19	-1.1	7	-4	88	79
Germany 10y Yield		0.43	0.0	6	-15	9	0
Japan 10y Yield		0.13	0.3	1	-2	11	8
UK 10y Yield		1.53	2.5	13	-20	27	34
Credit Spreads			basis points				
US Investment Grade		107	-0.3	0	8	12	16
US High Yield		364	0.4	-17	37	-6	-11
Europe IG		70	0.5	-6	-2	21	25
Europe HY		289	1.3	-14	-2	65	55
EMBIG Sovereign Spread		358	-1.0	-7	18	63	73
Exchange Rates			%				
Dollar Index (DXY)		96.25	0.0	-1	1	2	4
USDEUR		1.14	-0.1	0	-1	-2	-5
USDJPY		113.2	0.0	0	0	0	0
EM FX vs. USD		62.4	-0.1	1	1	-9	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		73	-0.6	-4	-14	13	9
Industrials Metals (index)		116	0.3	2	-4	-13	-16
Agriculture (index)		43	-0.1	2	0	-11	-9
Implied Volatility			%				
VIX Index (% change in pp)		20.2	0.2	-3.2	5.4	10.8	9.2
10y Treasury Volatility Index		4.4	-0.2	-0.2	0.2	0.7	0.9
Global FX Volatility		8.3	0.0	-0.1	-0.1	1.0	0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		391	4.7	3	-3	-87	22
Italy		298	8.3	-12	13	153	139
Portugal		147	1.3	-4	10	-22	-4
Spain		116	1.9	-4	15	3	2

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: 11/6/2018 8:04 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		6.92	0.1	0.7	0	-4	-6		3.5	1.7	-1	-12	-43	-46
Indonesia		14804	1.2	2.8	3	-9	-8		8.5	3.7	-26	-3	153	182
India		73	0.1	0.9	1	-11	-13		7.9	0.4	-7	-30	75	41
Philippines		53	0.6	1.2	2	-3	-6		6.6	-0.6	2	19	179	177
Thailand		33	-0.1	0.9	0	0	-1		2.9	-0.2	-2	-3	63	59
Malaysia		4.18	-0.4	0.1	-1	1	-3		4.2	0.8	1	6	12	25
Argentina		36	-0.4	3.6	6	-50	-48		23.5	91.0	318	33	778	752
Brazil		3.73	-0.7	-0.2	3	-13	-11		8.6	-0.5	-9	-114	-39	-40
Chile		680	0.9	1.6	0	-7	-9		4.8	-2.2	-3	-4	11	0
Colombia		3184	0.0	0.1	-5	-4	-6		6.9	0.0	3	21	38	65
Mexico		19.93	-0.2	0.6	-5	-5	-1		8.6	-13.2	-7	50	135	96
Peru		3.4	-0.2	-0.3	-1	-4	-4		5.9	-6.3	-1	15	49	67
Uruguay		33	0.2	0.2	1	-11	-12		10.7	-15.9	-12	30		210
Hungary		282	0.0	1.4	0	-5	-8		2.7	-7.2	4	-6	125	140
Poland		3.78	-0.1	0.9	-1	-3	-8		2.6	-2.8	4	-11	-27	-14
Romania		4.1	0.0	0.6	-1	-3	-5		4.4	-13.0	-21	-13	93	54
Russia		66.0	0.1	-0.8	1	-12	-13		8.4	0.0	2	-8	88	107
South Africa		14.3	-0.7	2.4	4	-1	-13		9.7	-5.0	-9	-11	-12	42
Turkey		5.37	-1.0	2.0	14	-29	-29		17.0	-152.0	-264	-480	471	503
US (DXY; 5y UST)		96	0.0	-0.8	1	2	4		3.02	-0.3	7	-4	104	82
	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		2659	-0.2	4	-6	-22	-20		181	1	-4	-1	42	29
Indonesia		5924	0.1	2	3	-2	-7		212	0	-6	23	43	46
India		34992	0.1	3	2	4	3		170	3	-2	10	56	60
Philippines		7180	-0.5	2	1	-16	-16		107	1	-9	7	9	12
Thailand		1669	-0.1	2	-3	-2	-5		0	0	0	0	0	0
Malaysia		1709	-0.3	1	-4	-2	-5		137	4	8	13	28	27
Argentina		31429	0.0	9	4	12	5		605	2	-60	-53	231	255
Brazil		88436	-1.3	6	7	19	16		246	3	-12	-31	5	12
Chile		5244	-0.1	2	0	-5	-6		138	1	-1	18	18	19
Colombia		1391	0.0	0	-7	-2	-8		185	1	-4	15	-1	11
Mexico		46817	3.0	2	-3	-4	-5		299	2	-4	41	51	54
Peru		19274	0.6	4	0	-4	-4		151	1	-1	19	10	14
Hungary		37678	-0.3	5	2	-6	-4		120	2	-5	12	23	32
Poland		56735	-0.5	5	-3	-12	-11		56	1	-9	9	4	9
Romania		8598	0.3	1	1	10	11		187	-1	-10	17	60	74
Russia		2408	1.2	4	-2	16	14		218	3	-6	4	32	40
South Africa		53928	-1.8	6	-1	-10	-9		334	-1	-2	22	39	80
Turkey		94900	-1.1	5	0	-17	-18		423	-19	-15	-47	100	134
Ukraine		580	0.2	5	6	94	84		603	5	5	44	133	148
EM total		24	0.3	6	-1	-10	-9		358	-1	-7	18	63	73

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