GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 6, 2019

- **Fed survey shows banks tightening standards for commercial real estate** (link)
- **US Q3 earnings boost sentiment but Q4 looks more downbeat** (link)
- **German FM urges renewed efforts toward completing banking union** (link)
- **China's first euro-denominated bonds in 15 years meet strong investor demand** (link)
- **Bank of Thailand cuts policy rate to record low of 1.25%, as expected** (link)

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Markets take a breather on quiet news flow

Markets are stable so far in this morning in the absence of any new developments on the trade front or data releases. European bank stocks are among the better performers so far after SocGen reported an improvement in its capital ratio. Investors will look for some signs of Fed thinking later in the day with three regional Fed presidents set to speak. Pricing for a further cut in December continues to decline, with the implied probability dipping below 10% yesterday. The dollar is somewhat weaker this morning after posting robust gains yesterday, partly due to a strong ISM data release. Despite the softer dollar today, most EM currencies are modestly weaker, including South Africa after posting two days of strong gains.

Key Global Financial Indicators

Last updated: 11/6/19 8:24 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3075	-0.1	1	4	12	23
Eurostoxx 50		3688	0.3	2	7	15	23
Nikkei 225		23304	0.2	1	9	5	16
MSCI EM		44	0.2	3	7	7	12
Yields and Spreads					bps		
US 10y Yield		1.83	8.1	6	30	-139	-85
Germany 10y Yield		-0.31	-0.4	4	27	-75	-56
EMBIG Sovereign Spread		320	-1	-15	-28	-48	-94
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		61.1	-0.1	0	0	-2	-2
Dollar index, (+) = $ appreciation		97.8	-0.2	0	-1	2	2
Brent Crude Oil ($/barrel)		62.5	-0.7	3	7	-13	16
VIX Index (%, change in pp)		13.2	0.1	1	-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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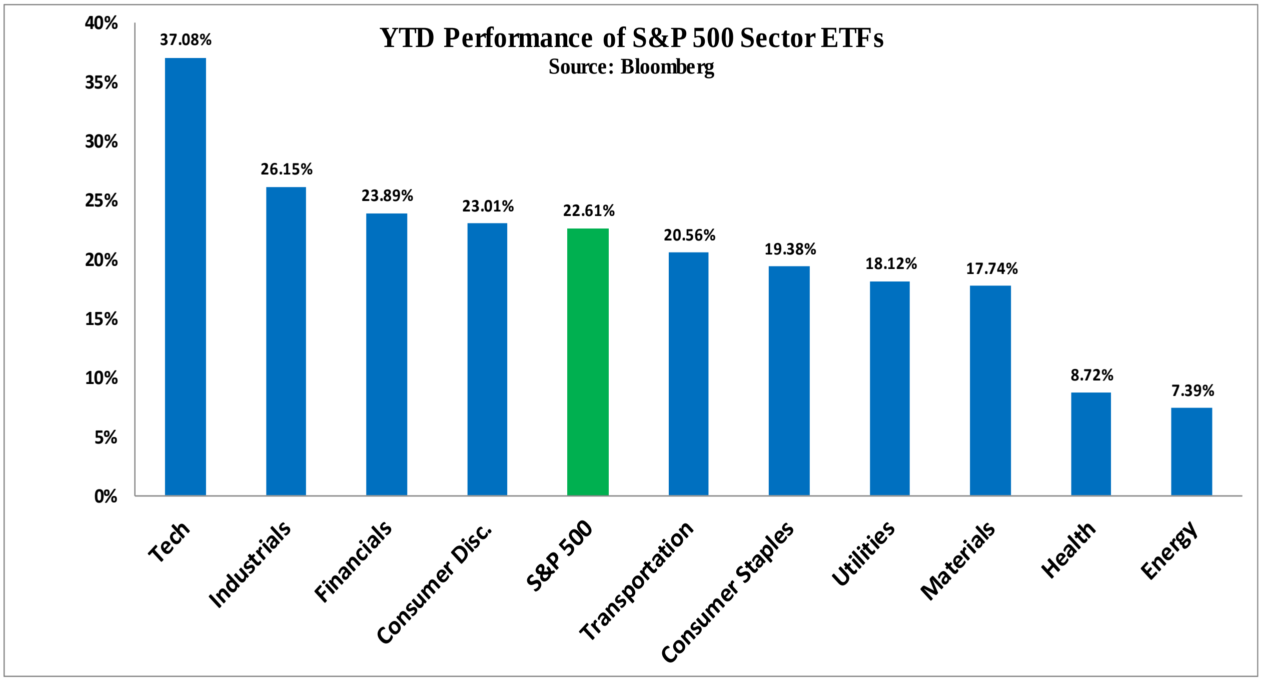
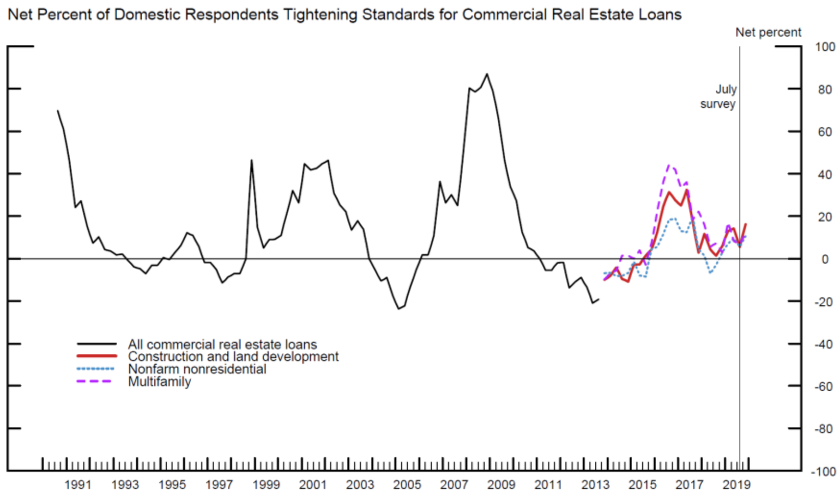
US markets were little changed Tuesday in a quiet session without any notable news stories. The Nasdaq and Dow posted fractional gains to set records for a third day while the S&P 500 saw a slight loss. Markets await more news on the US-China trade conflict while mulling over recent economic data and corporate earnings. Some analysts point to the pro-cyclical trend in the US equity market in 2019 which they view as a positive sign for future prospects. Sectors such as technology, industrials, financials and consumer discretionary are the strongest performers this year and normally defensive sectors such as healthcare and utilities were among the weakest performers. In fact, the P/E ratio for technology stocks has reached a new cycle high.

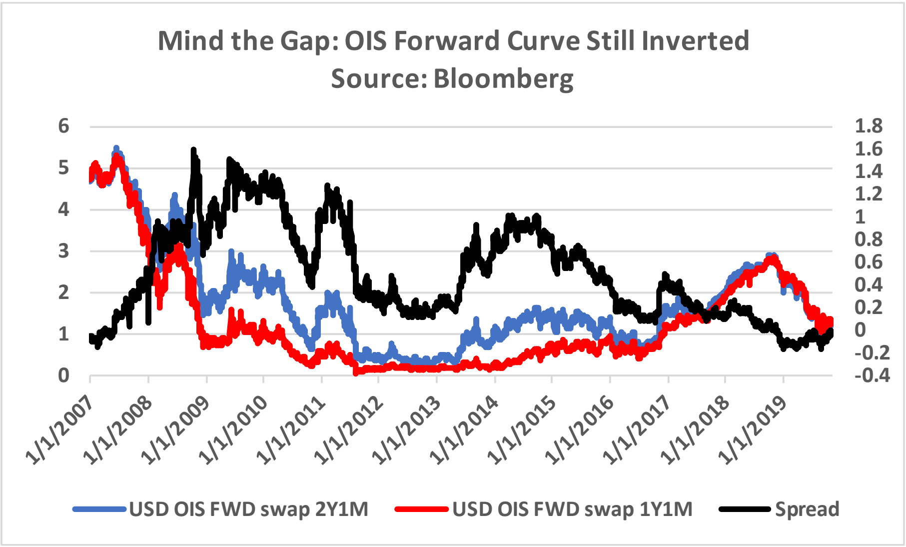


The gradual curve steepening in the Treasury market continues as the 10-year rose to their highest level since September. Since September 30, the 10-year yield is up by 30 bps, but the two-year yield has barely moved. Bloomberg reported a number of large bearish interest rate trades in the euro-dollar futures market, hedging against a further rise in interest rates. In other news, the ISM non-manufacturing PMI index was stronger than expected (54.7 vs. 53.5 consensus forecast), a number that suggests continued modest growth in the economy. The strong 56-60 readings of 2018 appear to be in the rear-view mirror for now.

The latest Fed survey of senior bank loan officers finds that banks are tightening lending standards for commercial real estate (CRE) lending. Many banks see rising risks in the CRE arena more broadly due to faltering business confidence and low capital spending in the wake of the trade war, while sectors such as retail are facing special challenges such as the growth of e-commerce. On a more positive note, consumer demand for mortgage and auto loans was robust due to continued low interest rates and unchanged lending standards, while standards for regular commercial and industrial (C&I) loans to corporations were also unchanged. Citi analysts view the CRE development as a moderate concern, with a trend similar to the growth slowdowns of 2011-12 and 2015-16.

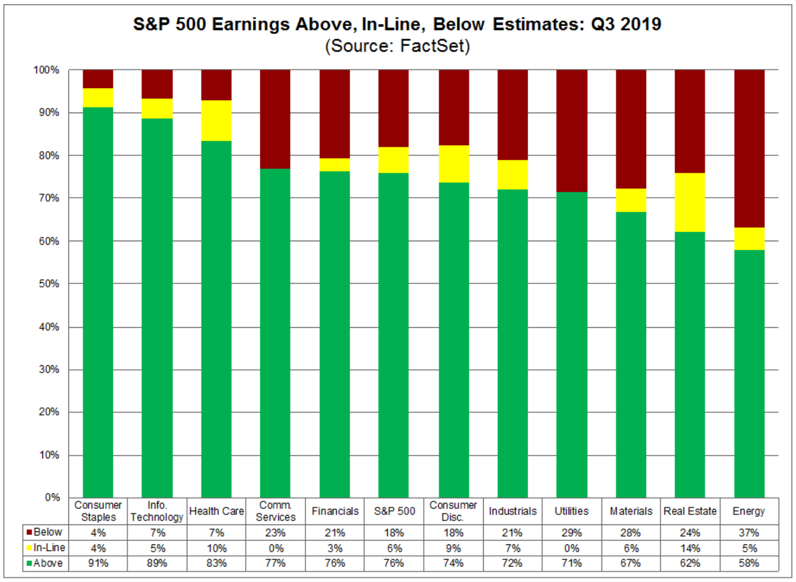


Market participants are debating whether this Fed cutting cycle will resemble the so-called insurance cut episodes of 1995 and 1998 or whether a weakening economy will force the FOMC to make further cuts. JP Morgan thinks the current episode resembles the 1995 episode when no more cuts were needed but is looking for more clarity from selected market variables in order to make a firmer judgement. For example, they want to see a significant steepening at the short end of the forward overnight index swap (OIS) curve. The widely followed two-year/one-month and one-year/one-month spread is still negative at -3 bps. This has persisted for over a year and is more similar to the developments in 2001 and 2007. Although it has moved closer to zero in recent weeks, the analysts believe a sustained re-steepening is required before they feel confident that that the Fed's job is done for now. They are also looking for a reversal in 2019's trend of outflows from equity funds into bond funds. If this does turn out to be a mid-course correction, they think stocks could rally by 5% over the next six months and Treasury yields could rise by 100 bps.



The market reaction to the US Q3 earnings season has been positive so far and the consensus appears to be the that the expected decline in corporate earnings was not as severe as forecasted.

With 71% of the S&P 500 reporting so far, 78% of companies have beaten earnings forecasts, which is higher than the average over the past five years, and average sales growth was also higher than the five-year average. However, these positive developments cannot mask the more fundamental point that the boom in corporate earnings seems to be over and the declining trend firmly in place. Q3 earnings beat forecasts by 3.8% on average, which is below the five-year average. In addition, companies are on track for a third consecutive quarter of declining profits. Looking ahead, the outlook for Q4 earnings growth is for another decline, this time into negative territory at -0.4%. However, expectations for 2020 remain strong at 9.8%. Some think this is too high, and that companies will have to guide expectations down to more realistic levels.



	Consumer Staples	Info. Technology	Health Care	Comm. Services	Financials	S&P 500	Consumer Disc.	Industrials	Utilities	Materials	Real Estate	Energy
Below	4%	7%	7%	23%	21%	18%	18%	21%	29%	28%	24%	37%
In-Line	4%	5%	10%	0%	3%	6%	9%	7%	0%	6%	14%	5%
Above	91%	89%	83%	77%	76%	76%	74%	72%	71%	67%	62%	58%

Europe

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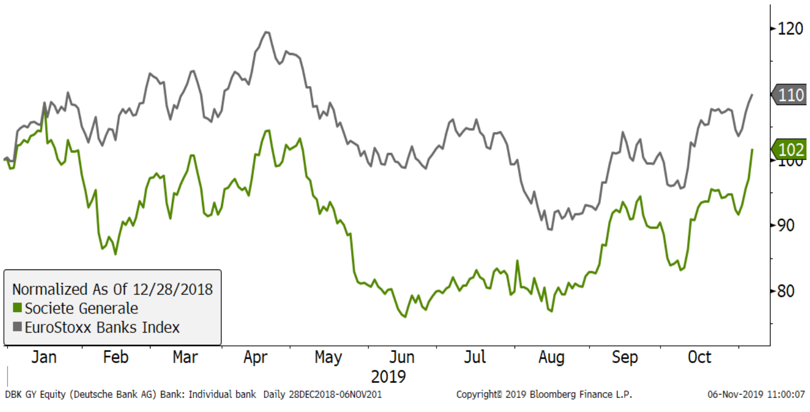
The main European equity indices traded flattish on the day this morning: DAX (unch.), CAC 40 (+0.2%), and EuroStoxx 600 (-0.1%). Bank stocks (+1.2%) strongly outperformed, buoyed by Soc Gen (+4.6%), BNP Paribas (+2.8%), Commerzbank (+2.5%), and Deutsche Bank (+2.3%). **Stocks of Société Générale surged 4.6% even after the bank announced a 35% drop in Q3 profits.** Net income amounted to €854 mn in Q3, compared to €1.3 bn a year ago. Soc Gen noted that its Tier 1 capital ratio had improved to 12.5% from 12% at end-June. Analysts note that the improvement in capital outweighs concerns on lower revenues, which are due to the bank's ongoing restructuring and are believed to be a transitory factor.

Selected European Banks: Equity Price



Sovereign debt yields are largely unchanged. German 10-year yields at -0.30% (unch.); French OATs are at -0.00% (+1 bp); Spanish at 0.32% (unch.); and Italian at 1.06% (+4 bps).

On the macro data front, **PMI gauges for Germany, France, Italy, and Spain printed slightly better than expected**:

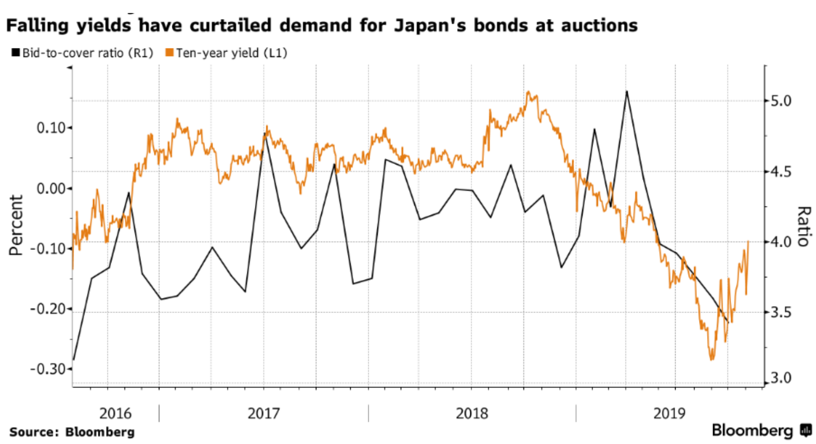
- Germany: Composite PMI at 48.9 vs 48.6 expected; Services at 51.6 vs 51.2.
- France: Composite PMI at 52.6 vs 52.6 expected; Services at 52.9 vs 52.9.
- Italy: Composite PMI at 50.8 vs 50.2 expected; Services at 52.2 vs 51.0.
- Spain: Composite PMI at 51.2 vs 51.4 expected; Services at 52.7 vs 52.8.

Germany's finance minister Scholz has urged the EU to renew its efforts for completing a banking union. In an FT article, FM Scholz argues that the next steps include: (i) the creation of common insolvency and resolution procedures for *all* banks (not only systemic ones) akin to the US FDIC; (ii) completing the clean-up of banks' legacy assets and not giving risk-free treatment to sovereign assets; (iii) a pan-European deposit insurance scheme; and (iv) a common corporate tax base and minimum effective tax to avoid tax arbitrage across EU members.

Other Mature Markets back to top

Japan

10-year JGB yields rose 4.0 bps to -0.01%, the highest in five months. Demand at Japanese bond auctions has been declining since April, with the bid-to-cover ratio falling to the lowest level since August 2016 at 3.4 times as of October. Separately, the services purchasing managers index for October was revised lower to 49.7 from 50.3, which marked the first contraction in three years as the sales tax hike and a typhoon weighed on activity. **Equities were little changed while the yen appreciated +0.2%.**



Emerging Markets back to top

Asian equities (-0.2%) fell on net. The Philippines (-2.3%) underperformed while Indonesia (-0.7%) and China (Shanghai -0.4%; Shenzhen -0.9%) also declined. India (+0.8%) and Singapore (+0.4%) outperformed. Regional currencies mostly depreciated, with the Thai baht, Indonesian rupiah, Philippine peso and Indian rupee weakening -0.4%. **A mixed session in EMEA.** Shares fell in Poland (-0.4%) and Hungary (-0.5%). **Turkish bank stocks (+1.0%) outperformed** and are up almost 20% ytd. Currencies were little changed. **Latin American markets were mixed yesterday.** Chilean stocks (-1.5%) continued to slide in the wake of ongoing unrest, while currencies and government bonds were mixed across the region. The Bolivian EMBI Global sovereign benchmark fell 33 bps to 300 bps.

Key Emerging Market Financial Indicators

Last updated: 11/6/19 8:25 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		43.90	0.2	3	7	7	12
MSCI Frontier Equities		28.47	-0.3	1	1	4	9
EMBIG Sovereign Spread (in bps)		320	-1	-15	-28	-48	-94
EM FX vs. USD		61.07	-0.1	0	0	-2	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.00	0.2	1	2	-1	-2
Indonesian Rupiah		14023	-0.4	0	1	6	3
Indian Rupee		70.99	-0.4	0	0	3	-2
Argentine Peso		59.65	0.1	0	-3	-40	-37
Brazil Real		3.99	0.2	0	3	-6	-3
Mexican Peso		19.21	-0.1	-1	2	3	2
Russian Ruble		63.74	-0.4	0	2	4	9
South African Rand		14.80	-0.4	1	3	-5	-3
Turkish Lira		5.75	0.0	-1	1	-7	-8
EM FX volatility		7.34	0.0	0.2	-0.7	-2.7	-2.4

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

China

China's first euro-denominated bonds in 15 years met strong investor demand. The Ministry of Finance issued EUR4.0 bn worth of bonds in maturities of seven, 12 and 20-years. The offering attracted EUR20 bn worth of investor orders, with the EUR2 bn seven-year tenor being the most popular among investors. Analysts view the issuance as an effort by China to diversify its funding and investor base. **The onshore and offshore RMB were stable today, after appreciating past 7 against the dollar yesterday. Equities declined in Shenzhen -0.9% and Shanghai -0.4%.**

Thailand

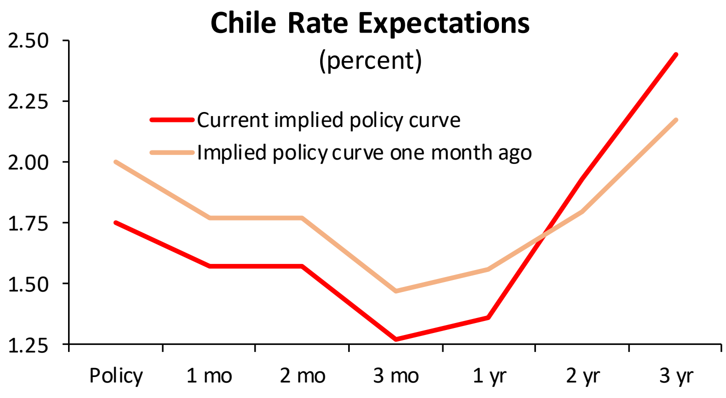
The Bank of Thailand (BoT) cut its policy rate by 25bps to a record low of 1.25%, in line with consensus. Five out of seven-members on the Monetary Policy Committee voted for the reduction, with the other two voting to maintain the rate. The statement mentioned that the Committee assessed that a more accommodative monetary policy stance would support the economy, which is expanding further below potential due to weak exports and lift inflation towards target. The authorities also expressed concerns over the baht's appreciation and will relax foreign exchange regulations to encourage capital. **The baht weakened 0.4% and equities declined 0.2%.**

Romania

The central bank of Romania left rates unchanged at 2.5% (as expected). Local markets were quiet ahead of data releases (inflation in Russia) and another central bank decision in Poland.

Chile

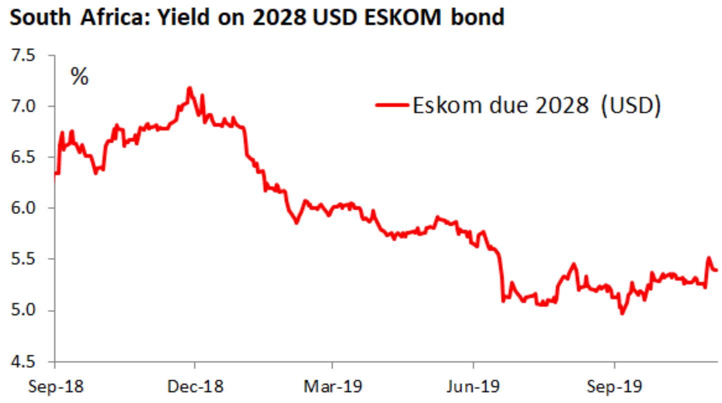
Continued unrest is likely to translate into another rate cut at the December 6th central bank meeting according to market-implied policy rates. Some analysts advised a 50 bp cut was in the cards. The bank cut 50 bps in June and September, and another 25 bps on October 23rd. The peso has depreciated almost 5% against the US dollar over the last few weeks.



Source: Bloomberg

South Africa

The rand (-0.2%) was little changed and equities (+0.8%) rose as **President Ramaphosa said that the government is holding productive talks with labor unions at Eskom.** Yields on Eskom's 2028 USD bond rose to 5.52% on Friday 1 Nov but have traded 12 bps lower this week.



Source: Bloomberg and IMF staff

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina
Division Chief

Peter Breuer
Deputy Division Chief

Will Kerry
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Sally Chen
Senior Economist

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Dimitris Drakopoulos
Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert

David Jones
Senior Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Rohit Goel
Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Jochen Schmittmann
Senior Economist

Juan Solé
Senior Economist

Jeffrey Williams
Senior Financial Sector Expert

Akihiko Yokoyama
Senior Financial Sector Expert

Martin Edmonds
Senior Data Mgt Officer

Yingyuan Chen
Senior Research Officer

Piyusha Khot
Research Assistant

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 11/6/19 8:25 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3075	-0.1	1	4	12	23
Europe		3688	0.3	2	7	15	23
Japan		23304	0.2	1	9	5	16
China		2979	-0.4	1	3	12	19
Asia Ex Japan		72	0.7	3	8	9	13
Emerging Markets		44	0.2	3	7	7	12
Interest Rates					basis points		
US 10y Yield		1.83	8.1	6	30	-139	-85
Germany 10y Yield		-0.31	-0.4	4	27	-75	-56
Japan 10y Yield		-0.08	4.3	3	13	-21	-8
UK 10y Yield		0.75	-2.8	6	30	-79	-53
Credit Spreads					basis points		
US Investment Grade		118	-0.2	-2	-11	12	-29
US High Yield		451	2.9	0	-42	91	-70
Europe IG		49	0.5	-2	-9	-20	-38
Europe HY		232	3.3	-5	-21	-53	-121
EMBIG Sovereign Spread		320	-1.0	-15	-28	-48	-94
Exchange Rates					%		
USD/Majors		97.79	-0.2	0	-1	2	2
EUR/USD		1.11	0.1	-1	1	-3	-3
USD/JPY		109.0	0.2	0	-2	4	1
EM/USD		61.1	-0.1	0	0	-2	-2
Commodities					%		
Brent Crude Oil ($/barrel)		63	-0.7	3	7	-13	16
Industrials Metals (index)		118	-0.4	0	2	2	8
Agriculture (index)		40	0.2	1	2	-8	-4
Implied Volatility					%		
VIX Index (%, change in pp)		13.2	0.1	0.8	-3.9	-6.7	-12.3
10y Treasury Volatility Index		4.3	-0.1	-0.1	-0.9	-0.4	-0.3
Global FX Volatility		6.4	0.0	0.1	-0.6	-1.8	-2.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		152	0.5	-3	-42	-239	-264
Italy		137	3.3	3	-5	-159	-113
Portugal		55	-0.9	-2	-18	-92	-93
Spain		63	-0.6	-1	-9	-52	-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: 11/6/2019 8:25 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	0.2	0.8	2	-1	-2		3.3	0.1	1	12	-20	11
Indonesia		14023	-0.4	0.1	1	6	3		7.1	-3.0	-8	-27	-140	-110
India		71	-0.4	-0.1	0	3	-2		6.8	3.0	1	8	-105	-61
Philippines		51	-0.4	0.6	3	5	4		4.3	-0.3	0	-2	-230	-199
Thailand		30	-0.2	-0.3	1	9	7		1.6	3.2	1	12	-127	-101
Malaysia		4.14	-0.2	1.0	1	1	0		3.4	1.0	-3	5	-72	-66
Argentina		60	0.1	-0.3	-3	-40	-37		57.1	4.1	-454	-785	3352	3405
Brazil		3.99	0.2	0.1	3	-6	-3		5.8	3.1	3	-49	-281	-234
Chile		747	0.2	-1.1	-4	-9	-7		3.4	-1.6	6	59	-141	-110
Colombia		3307	0.1	2.5	4	-5	-2		5.8	5.4	1	14	-113	-74
Mexico		19.21	-0.1	-0.7	2	3	2		6.9	-0.1	-5	3	-174	-183
Peru		3.3	-0.1	0.0	1	1	1		4.4	4.6	-3	3	-151	-133
Uruguay		37	0.0	0.3	0	-12	-13		10.9	-2.6	-31	9	19	16
Hungary		299	0.0	-1.2	2	-6	-6		1.2	0.0	10	15	-150	-105
Poland		3.85	0.0	-0.8	2	-2	-3		1.8	3.3	0	9	-76	-48
Romania		4.3	0.0	-0.6	1	-5	-5		3.8	-2.0	-2	5	-56	-43
Russia		63.7	-0.4	0.1	2	4	9		6.2	-2.2	-3	-56	-213	-218
South Africa		14.8	-0.4	1.4	3	-5	-3		9.5	0.1	18	23	-22	-9
Turkey		5.75	0.0	-0.9	1	-7	-8		12.2	9.2	-49	-108	-476	-466
US (DXY; 5y UST)		98	-0.2	0.1	-1	2	2		1.64	-2.1	4	30	-141	-87

	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		2979	-0.4	1	3	12	19		176	-3	-9	-14	-11	-18
Indonesia		6218	-0.7	-1	3	5	0		176	-1	-3	-14	-43	-60
India		40470	0.6	1	7	16	12		126	-2	-1	-11	-44	-70
Philippines		8026	-2.3	0	4	12	7		81	2	-3	-3	-40	-40
Malaysia		1603	-0.2	1	3	-6	-5		119	-3	-1	-8	-18	-43
Argentina		36870	-1.1	13	16	17	22		2303	-3	50	140	1691	1488
Brazil		108931	-0.1	0	6	23	24		227	-1	-2	-27	-29	-46
Chile		4693	-1.5	-5	-7	-10	-8		143	-1	7	1	-3	-23
Colombia		1666	1.2	2	5	19	26		181	1	1	-7	-16	-47
Mexico		43612	-0.5	-1	0	-6	5		313	-1	19	-11	5	-41
Peru		20068	-0.1	2	4	4	4		129	0	0	-1	-35	-39
Hungary		43170	-0.2	2	8	15	10		95	-1	-3	-20	-31	-53
Poland		59337	-0.3	2	6	4	3		29	-3	-2	-17	-27	-56
Romania		9708	0.3	1	3	13	31		184	-4	4	-22	-3	-37
Russia		2962	0.4	3	10	23	25		174	-1	-7	-32	-52	-78
South Africa		57786	0.9	3	7	6	10		332	-2	5	-11	-12	-33
Turkey		101456	1.0	3	-2	7	11		445	-4	-9	-32	11	16
Ukraine		516	0.0	-1	-2	-12	-8		465	1	0	-60	-147	-322
EM total		44	0.2	3	7	7	12		320	-1	-15	-28	-48	-94

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

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