



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, November 7, 2018












- US long-term rates near post-crisis high ([link](#))
- 10-year Treasury auction attracts elevated investor demand ([link](#))
- Spanish bank equities surge after supreme court reverses decision on mortgage fees ([link](#))
- China's foreign reserves fell more than expected, by \$34 bn to \$3.05 tn ([link](#))
- Chinese regulators to cut maximum length of stock trading halts ([link](#))

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Market sentiment strengthens on removal of election uncertainty

Markets reacted positively to the outcome of the US mid-term elections and the passage of event risk. The results were broadly in line with polls and market expectations: the democrats took control of the house while the republicans retained the senate. Market expectations going forward are for less expansionary fiscal stimulus, with little to no change in the Fed's rate hiking path and in the trajectory for US-China trade relations. Global equities were mostly higher, though lagged in parts of Asia. Credit spreads tightened. Core sovereign bond yields were mixed, little changed in Europe and lower and flatter in the US. The US dollar was broadly but modestly weaker against major currency pairs. EM assets reacted positively as well. Market participants remain attuned to Brexit developments, official comments on US-China trade ahead of the G20 summit, and await the outcome of the FOMC meeting tomorrow, where expectations are for no rate hike.

Key Global Financial Indicators

Last updated: 11/7/18 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2755	0.6	3	-5	6	3
Eurostoxx 50		3248	1.3	2	-3	-11	-7
Nikkei 225		22086	-0.3	1	-7	-4	-3
MSCI EM		41	1.4	5	0	-12	-13
Yields and Spreads			bps				
US 10y Yield		3.20	2.7	6	-3	88	79
Germany 10y Yield		0.45	1.9	7	-12	13	3
EMBIG Sovereign Spread		357	-11.0	-8	17	54	72
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.8	0.2	2	2	-8	-10
Dollar index, (+) = \$ appreciation		95.8	-0.5	-1	0	4	4
Brent Crude Oil (\$/barrel)		73.1	1.4	-3	-13	15	9
VIX Index (% change in pp)		17.1	-2.8	-4	2	7	6

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

United States

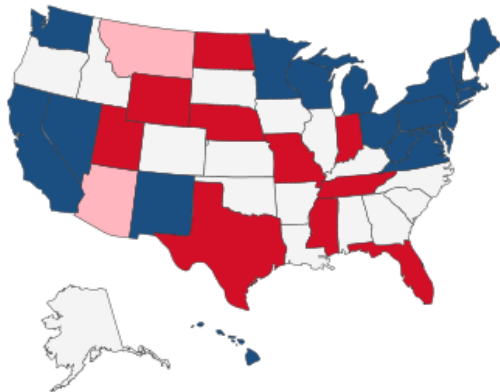
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In line with polls and market expectations, Democrats took control of the House, while Republicans enlarged their majority in the Senate. Markets welcomed the additional checks and balances provided by a split congress despite increased prospects for legislative gridlock. President Trump is scheduled to hold a press conference later today. S&P 500 futures pointed to a higher opening this morning, while the Treasury yield curve traded lower and with a flattening bias. Ahead of the results yesterday, **Treasury yields edged higher, while equities rose 0.6%** amid thin trading activity. Equity implied volatility, measured by the VIX, was little changed to close at 19.9. 10-year Treasury yields closed at 3.23% just 0.5 bps below the post-crisis high, while 2-year yields reached 2.93%.

AMERICA'S ELECTION HQ | MIDTERMS ★ 2018 ★

Senate Race

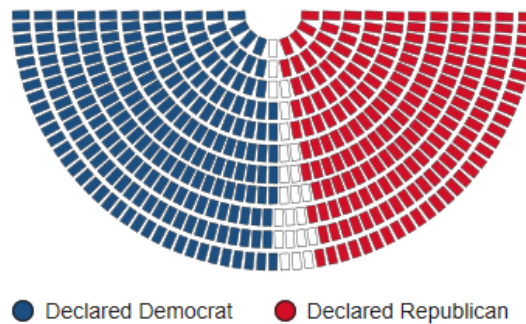
45 Democrats 51 ✓ Republicans 52



● Leading Democrat ● Declared Democrat
● Leading Republican ● Declared Republican

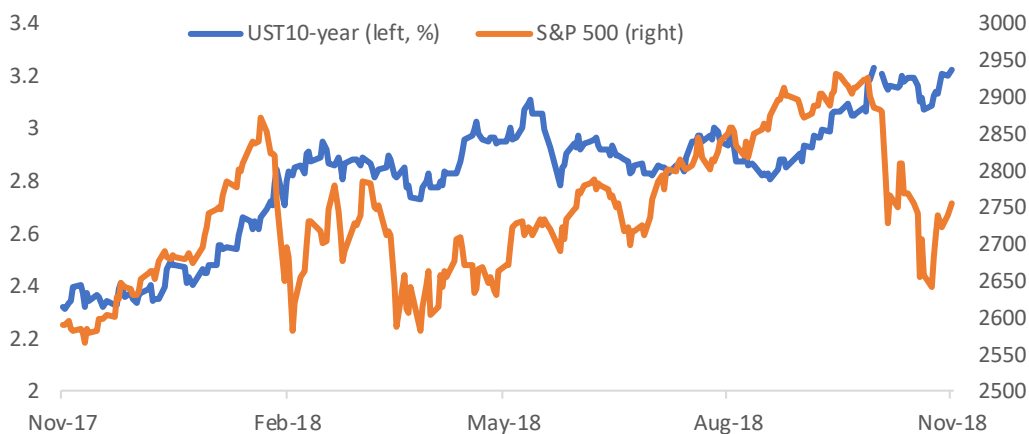
House Race

219 Democrats ✓ 218 Republicans 193



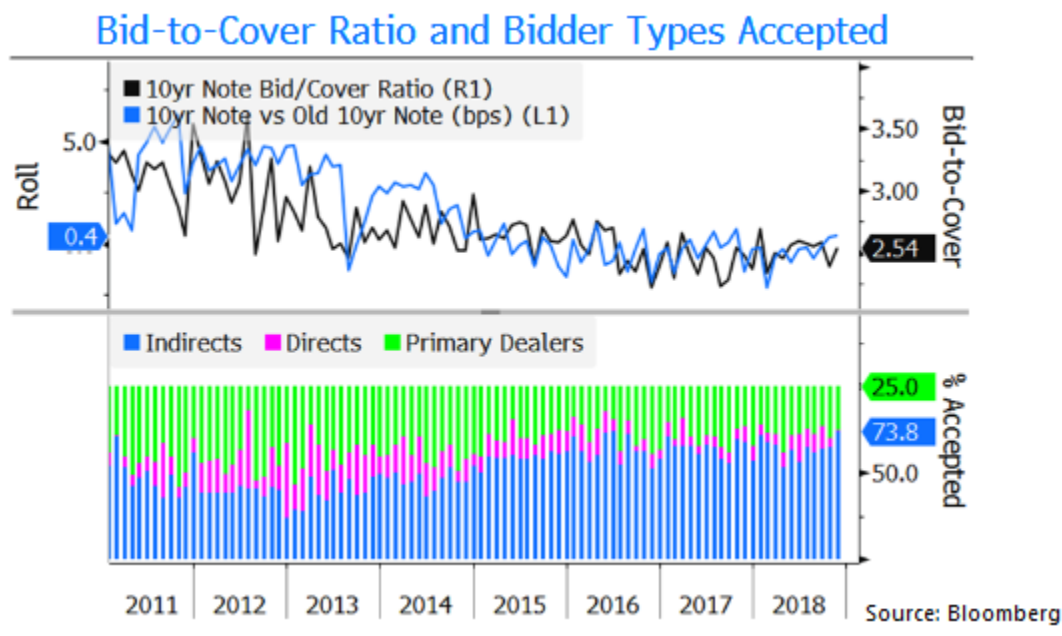
● Declared Democrat ● Declared Republican

UST 10-year rates vs. S&P 500



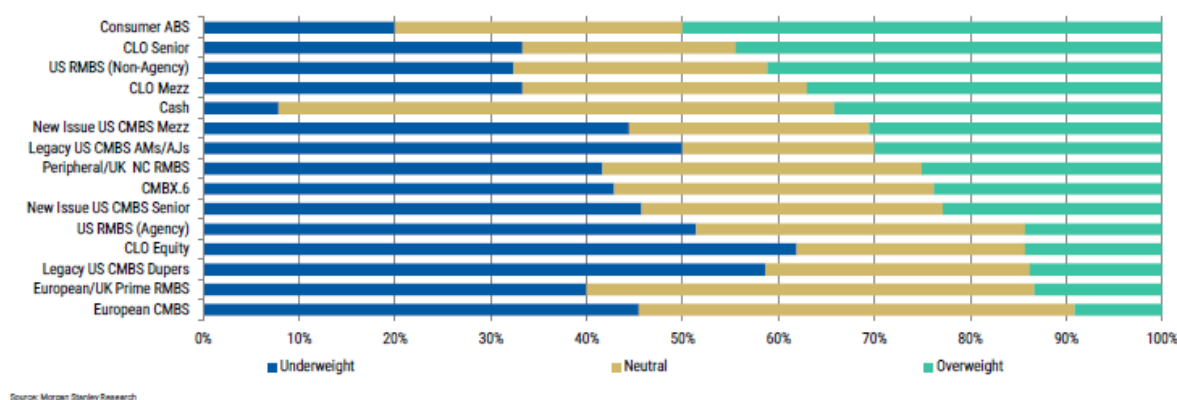
Source: Bloomberg

The 10-year Treasury auction attracted strong investor demand. Indirect bids, often viewed as a proxy for demand from foreign investors, were strong, at 73.8%. Meanwhile, Treasury data show that holdings of stripped Treasuries, a proxy for pension fund demand for duration, also accelerated at a record pace in October, suggesting an increase in investor demand for duration.



Investors are overweight consumer ABS and senior CLO tranches. According to the results of a quarterly investor survey, consumer ABS and senior CLO tranches are the most overweight sectors, while CLO equity tranches show the largest underweight positions. Respondents are marginally bullish on securitized products overall: 38% of respondents see their allocation to securitized products increasing, while 6% seeing it decreasing.

Exhibit 4: Current market positioning across securitized products



Banks have to pay higher rates to roll over. CreditSights analyzed which sectors have the most bonds rated BBB coming due next year. They focused on the BBB category because it had grown significantly recently. Among sectors, banks, including Deutsche Bank, are the largest sector, followed by energy and healthcare.

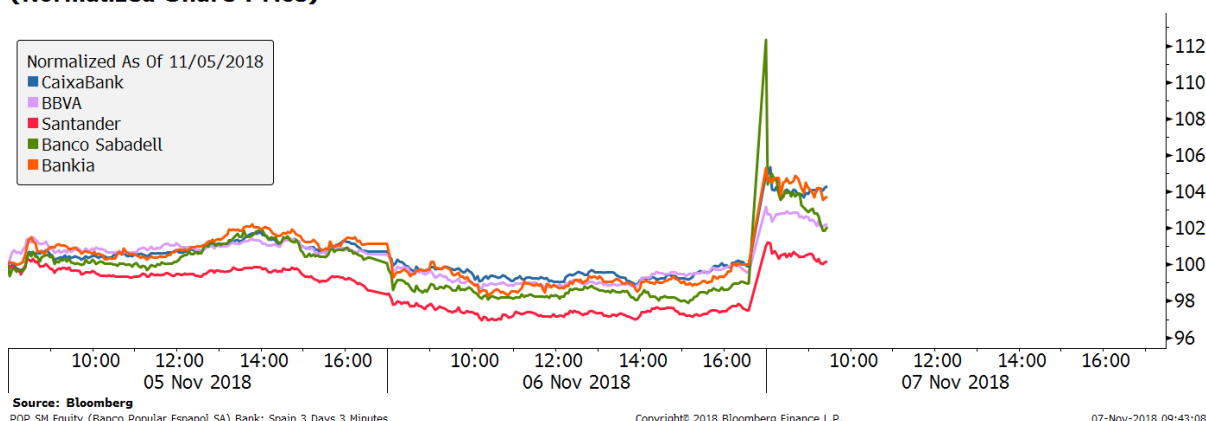
Europe

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Sovereign debt markets are steady, with yields in most countries unchanged. Italian 10-year yields dropped 8 bps to 3.31%. **Equities are about 1-1.5% higher, with bank stocks (+1.4%) performing in line with major indices.**

Spanish bank equities surged after the supreme court reversed a previous decision asking banks to pay for mortgage documentation fees. The court voted 15 to 13 in favor of reversing its previous measure that could have had an uncertain impact on banks. Estimated fees ranged from €4 bn to €20 bn. CaixaBank (+4.1%) and Sabadell (+3.0%) led the gains, followed by Santander (+2.6%), and BBVA (+2.4%).

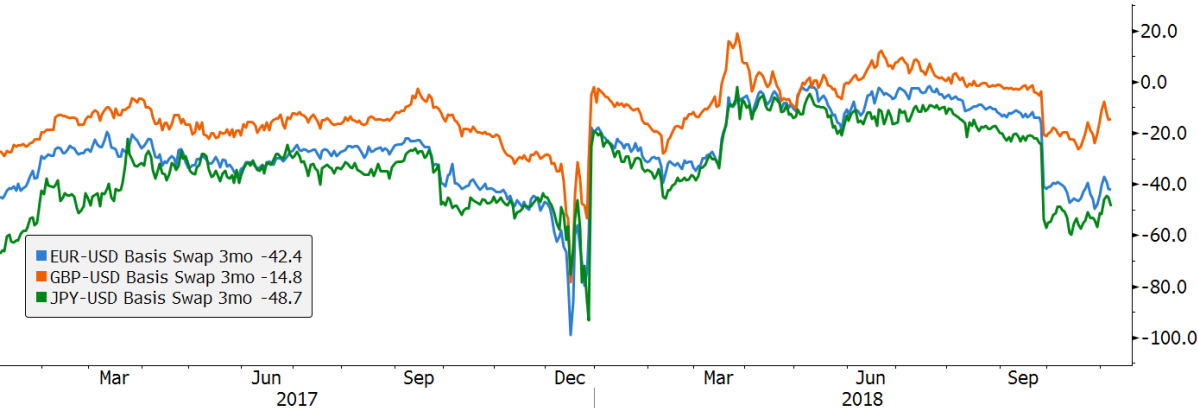
Selected Spanish Bank Equities (Normalized Share Price)



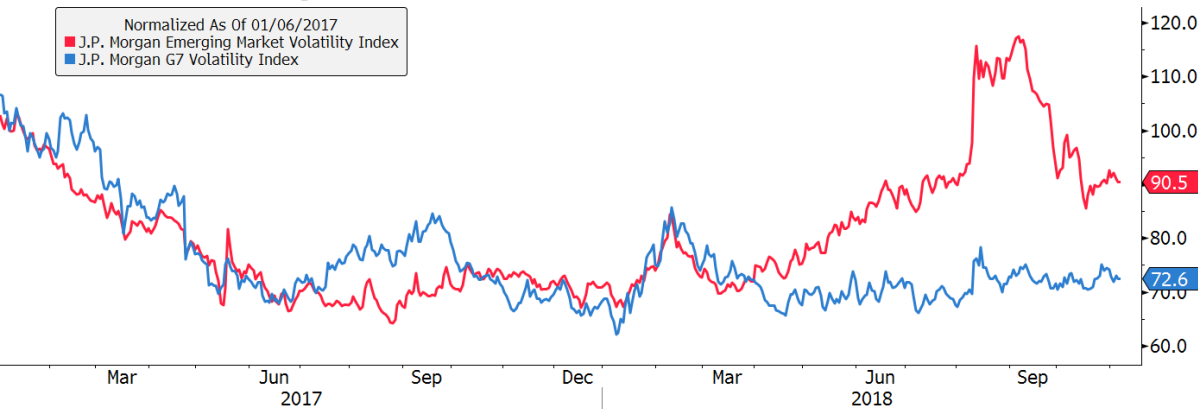
In Brexit news, the CME Group has announced plans to relocate its entire euro-denominated short-term financing business – known as BrokerTec – to continental Europe. The measure will affect “all of” CME’s euro-denominated short-term bond and repo trading activity – according to company representatives – with a daily market turnover of about \$240 bn. CME representatives also explained that the move was geared to ensuring that continental firms can continue to rely on this market in case of a no-deal outcome, and to preserve large liquidity pools intact. The activity will be transferred to CME’s Dutch subsidiary NEX Amsterdam. On the other hand, the \$70 bn gilt repo business will remain in London. Separately, German ball bearing maker Schaeffler and surgical appliances manufacturer Steris also announced plans to relocate substantial parts of their business away from the UK.

In money markets, dollar funding conditions remain relatively tight compared to levels through most of 2018. The spreads of 3-month cross-currency swaps have been hovering around 40 bps for the euro-dollar pair and 50 bps for the yen-dollar pair since late September (chart). **Volatility in emerging FX markets has decreased from the heights this summer.** FX volatility for advanced economies has remained broadly stable (chart), except for the British pound which has come under pressure on the back of Brexit uncertainty (chart).

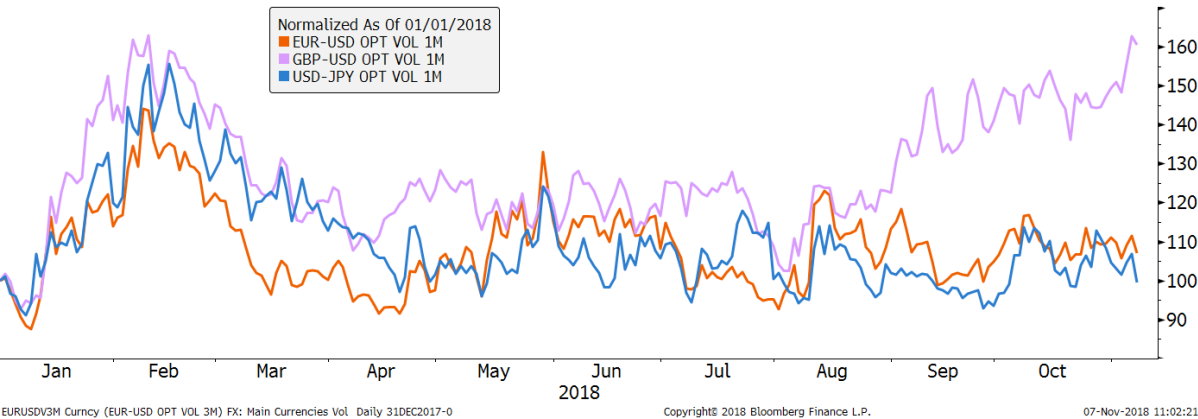
Cross-Currency Basis Swaps (3 mo)



Global FX Volatility



FX Volatility: Major Crosses (Option Volatility)



Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 11/7/18 7:55 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.86	1.4	5	0	-12	-13
MSCI Frontier Equities		27.50	-0.4	2	-2	-12	-17
EMBIG Sovereign Spread (in bps)		357	-11.0	-8	17	54	72
EM FX vs. USD		62.76	0.2	2	2	-8	-10
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	0.0	1	0	-4	-6
Indonesian Rupiah		14590	1.5	4	4	-7	-7
Indian Rupee		73.00	0.2	1	1	-11	-13
Argentine Peso		35.63	-0.4	4	6	-50	-48
Brazil Real		3.75	0.4	-1	1	-13	-12
Mexican Peso		19.67	0.3	3	-4	-3	0
Russian Ruble		65.99	0.2	0	1	-10	-13
South African Rand		13.94	1.2	6	6	2	-11
Turkish Lira		5.34	0.2	4	14	-27	-29
EM FX volatility		10.03	0.0	-0.2	-1.0	1.9	2.2

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

EM assets were largely unchanged on Tuesday (MSCI EM: -0.2%, EMBIG spread: -3 bps, EM FX: flat) as investors awaited the outcome of the US mid-term elections. Yesterday in **Latam**, the Colombian peso gained 1.1% amid speculation that the government may cut its withholding tax on foreign holders of local debt securities. In today's session, equity prices were mixed in **Asia**, but broadly higher in **EMEA**. Taiwan (+0.8%) led gains while stocks in China and Korea (about -0.5%) underperformed. In FX markets, the Indonesian rupiah continues to outperform, up 1.4% (see below). EMEA markets benefitted from the broad lift in risk sentiment, with bourses up between 0.6% and 1% across the region and currencies were broadly stronger against the dollar, notably the South African rand (+1.4%).

China

The yuan weakened and A-shares were a touch lower following the results of the US mid-term elections. While the election results could boost the ability of Democrats to push back on president Trump's political and economic agenda, investors expect that the administration will continue to pressure China on trade issues. The renminbi weakened 0.16% to 6.9253 against the US dollar. In the offshore market, USD/CNH was little changed, trading at 6.9197. With lingering concerns over US-China trade tensions, the Shanghai and Shenzhen A-share indices slid 0.7% and 0.4%, respectively, marking the third consecutive day of decline.

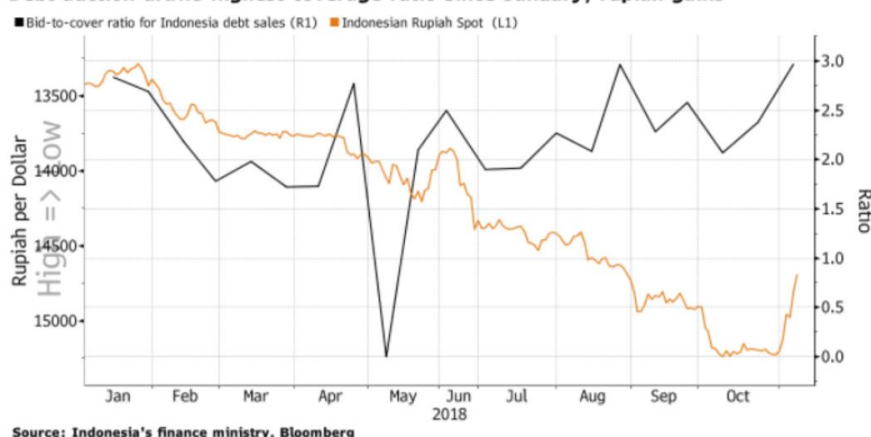
China's foreign reserves fell more than expected, by \$34 bn to \$3.05 tn at end-October, the lowest in 18 months. The drop was the biggest monthly decline since December 2016 and compared with a fall of \$22.7 bn in September. Reserves have fallen for three straight months. The fall in foreign reserves in part reflected negative valuation effects due to a stronger US dollar (which would have reduced the value of the euro, yen, and other non-dollar portion of reserves), but may also indicate increased outflow pressure as investors worried about the depreciation of the renminbi. For the month of October, the renminbi weakened by 1.5%. Some analysts note that the PBC may have stepped up intervention to prevent the yuan from breaking through the key support level of 7 per dollar at the end of October.

The China Securities Regulatory Commission (CSRC) said they will shorten the time stocks can stay suspended, addressing a longstanding concern that investors cannot liquidate their stocks and are left stranded for months. Under existing rules, companies can suspend their shares for as long as three months for “major asset restructuring.” Share halts in China have been a major issue for investors in recent years. Nearly half of the stocks were suspended at one point during the 2015 crash, triggering rebukes from MSCI Inc. and many international investors. MSCI requested Chinese regulators to make changes to suspension rules as a condition for including A-shares in its global benchmarks, to reduce the risk that investors will be unable to trade when they want. The CSRC did not indicate what the new maximum halt length will be, nor when the new rules will be introduced, though it did say that shares should not be suspended during a company’s bankruptcy restructuring period.

Indonesia

The rupiah has gained nearly 3% over the last two sessions on reports of improved flows to local bond markets. Today’s move (+1.5%) marked the largest single-day appreciation since mid-2016, in part driven by a successful bond auction. The government raised twice as much in today’s debt sales, receiving bids amounting to \$4.1 bn for the combined auctions, the highest bid-to-cover ratio since the start of the year. The local 10-year bond yield has been trending lower in recent weeks, falling some 75 bps since mid-October to 8.1% currently. Improved sentiment is largely coming from a better external environment (for example, the weaker dollar since the start of the month), but also from the proactive stance of policymakers to reduce FX volatility.

Debt auction draws highest coverage ratio since January, rupiah gains

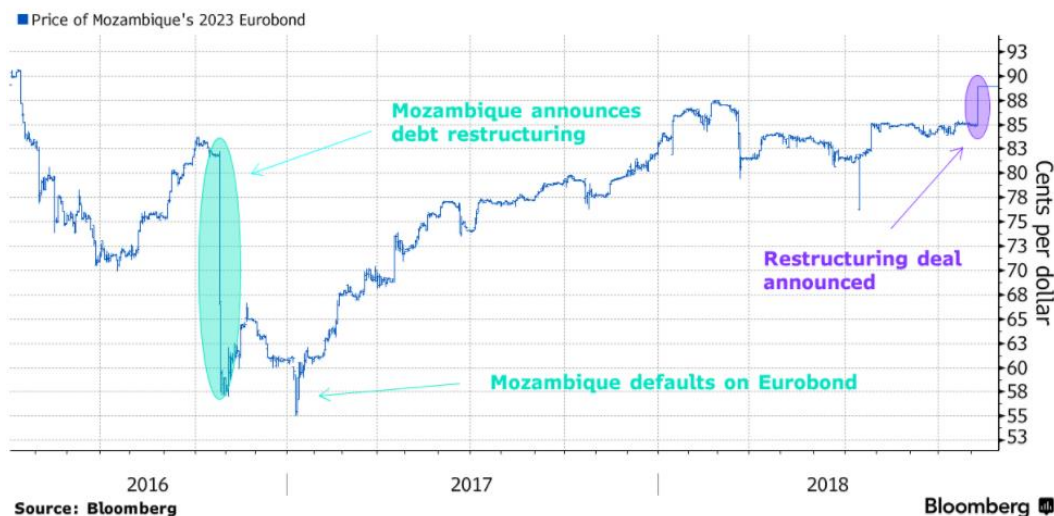


Mozambique

Mozambique struck a deal with some of its Eurobond holders, almost two years after defaulting. The government’s sole Eurobond, a \$727 mn security maturing in 2023, rose to 90 cents on the dollar, the highest level in more than two years. According to the FM, an agreement has been reached with holders of 60% of the 2023 Eurobond. As part of the agreement, Mozambique will issue a new \$900 mn Eurobond maturing in 2033 and offer another instrument linked to future gas revenues capped at \$500 mn.

Going Up

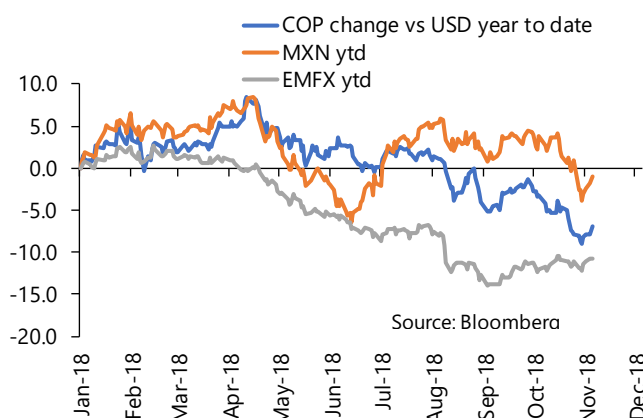
Mozambique's Eurobond rallies on restructuring pact



Colombia

The peso (+1.1%) outperformed regional peers and local peso bonds rallied the most since March amid speculation that the withholding tax on foreign holders of government securities may be cut. TES 2024 yields fell 8 bps to 6.45% on news that the congress plans to discuss cutting the withholding tax on local peso bonds to 10% from 14%. Colombia last cut the tax at the start of 2013, which triggered a large drop in yields amid increased buying from foreign investors. According to Bloomberg, foreigners currently hold about 26% of the securities, up from 4% in 2012.

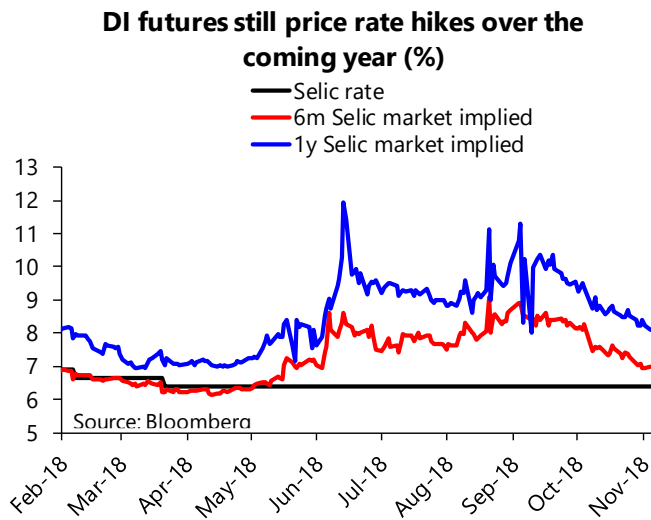
Colombia remains one of the best year to date performers in EM FX



Brazil

Market participants had a dovish interpretation of the central bank minutes from the October monetary policy meeting, where the committee left the policy rate unchanged at 6.50% in a unanimous decision. The minutes highlighted that risks to the inflation outlook had become more symmetric and that the balance of risks for inflation had improved, albeit risks were still skewed to the upside. Although long-end rates increased (10-year benchmark rates rose 15 bps), shorter-dated maturities were unchanged. Since mid-September, Brazilian bonds have rallied strongly (e.g. 10-year NTN-F

rates have declined by 230 bps over that period). Based on the latest weekly survey, market economists expect the Selic rate to reach 8.00% at the end of 2019 from 6.5% currently.



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Global Financial Indicators

Last updated: 11/7/18 7:55 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		2755	0.6	3	-5	6	3
Europe		3248	1.3	2	-3	-11	-7
Japan		22086	-0.3	1	-7	-4	-3
China		2641	-0.7	1	-6	-23	-20
Asia Ex Japan		66	-0.1	5	-2	-14	-14
Emerging Markets		41	1.4	5	0	-12	-13
Interest Rates			basis points				
US 10y Yield		3.20	2.7	6	-3	88	79
Germany 10y Yield		0.45	1.9	7	-12	13	3
Japan 10y Yield		0.12	-0.8	0	-3	9	8
UK 10y Yield		1.55	1.2	11	-17	32	36
Credit Spreads			basis points				
US Investment Grade		106	-1.0	-2	7	10	15
US High Yield		361	-3.7	-22	33	-13	-15
Europe IG		68	-1.4	-6	-4	17	23
Europe HY		281	-3.4	-17	-10	52	48
EMBIG Sovereign Spread		357	-11.0	-8	17	54	72
Exchange Rates			%				
Dollar Index (DXY)		95.82	-0.5	-1	0	1	4
USDEUR		1.15	0.6	2	0	-1	-4
USDJPY		113.2	0.2	0	0	1	0
EM FX vs. USD		62.8	0.2	2	2	-8	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		73	1.4	-3	-13	15	9
Industrials Metals (index)		116	0.6	2	-4	-12	-16
Agriculture (index)		43	0.3	2	0	-11	-9
Implied Volatility			%				
VIX Index (% change in pp)		17.2	-2.8	-4.1	2.3	7.3	6.1
10y Treasury Volatility Index		4.7	0.2	0.0	0.4	1.0	1.1
Global FX Volatility		8.2	0.0	-0.2	-0.2	0.9	0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		387	-4.4	1	-7	-89	18
Italy		288	-8.0	-16	3	151	129
Portugal		146	-0.6	-3	9	-14	-6
Spain		114	-0.9	-2	14	6	0

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: 11/7/2018 7:55 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	0.0	0.8	0	-4	-6		3.5	1.7	-1	-12	-43	-46
Indonesia		14590	1.5	4.2	4	-7	-7		8.5	3.7	-26	-3	153	182
India		73	0.2	0.9	1	-11	-13		7.9	0.4	-7	-30	75	41
Philippines		53	0.2	1.1	3	-3	-6		6.6	-0.6	2	19	179	177
Thailand		33	0.4	0.9	0	1	-1		2.9	-0.2	-2	-3	63	59
Malaysia		4.16	0.3	0.5	0	2	-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		3.75	0.4	-0.7	1	-13	-12		8.6	-0.5	-9	-114	-39	-40
Chile		674	0.8	3.4	1	-6	-9		4.8	-2.2	-3	-4	11	0
Colombia		3150	1.1	1.8	-3	-3	-5		6.9	0.0	3	21	38	65
Mexico		19.67	0.3	3.4	-4	-3	0		8.6	-13.2	-7	50	135	96
Peru		3.4	-0.1	-0.2	-1	-4	-4		5.9	-6.3	-1	15	49	67
Uruguay		33	0.1	0.1	1	-11	-12		10.7	-15.9	-12	30		210
Hungary		280	0.6	2.5	1	-4	-8		2.7	-7.2	4	-6	125	140
Poland		3.74	0.8	2.7	1	-2	-7		2.6	-2.8	4	-11	-27	-14
Romania		4.1	0.5	1.6	0	-2	-4		4.4	-13.0	-21	-13	93	54
Russia		66.0	0.2	-0.2	1	-10	-13		8.4	0.0	2	-8	88	107
South Africa		13.9	1.2	6.0	6	2	-11		9.7	-5.0	-9	-11	-12	42
Turkey		5.34	0.2	4.5	14	-27	-29		17.0	-152.0	-264	-480	471	503
US (DXY; 5y UST)		96	-0.5	-1.3	0	1	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		2641	-0.7	1	-6	-23	-20		182	-5	1	0	41	30
Indonesia		5940	0.3	2	4	-2	-7		211	-8	-4	22	38	45
India		34992	0.1	2	2	5	3		168	-2	-4	8	54	58
Philippines		7034	-2.0	-1	-1	-17	-18		107	-14	-6	7	6	12
Thailand		1675	0.4	0	-3	-2	-4		0	0	0	0	0	0
Malaysia		1715	0.4	2	-4	-2	-5		134	-3	2	10	23	24
Argentina		30974	-1.5	5	3	11	3		601	-11	-49	-57	215	251
Brazil		88669	-1.0	6	8	22	16		247	-9	-10	-30	-1	13
Chile		5222	-0.6	2	-1	-5	-6		139	-7	0	19	17	20
Colombia		1402	0.8	1	-6	-2	-7		187	-10	2	17	-8	13
Mexico		46328	-1.0	6	-4	-5	-6		300	-8	-7	42	48	55
Peru		19302	0.1	4	0	-3	-3		153	-11	-1	21	11	16
Hungary		38176	1.4	6	3	-4	-3		120	-6	-3	12	20	32
Poland		57777	1.5	6	-1	-11	-9		57	1	-4	10	0	10
Romania		8640	0.3	1	1	12	11		188	1	-10	18	59	74
Russia		2433	0.8	6	-1	13	15		222	-4	1	8	32	44
South Africa		54963	0.9	5	1	-9	-8		334	-10	-1	22	31	80
Turkey		95727	1.1	6	1	-15	-17		421	-13	-16	-49	87	132
Ukraine		587	0.3	4	7	96	86		604	-8	1	45	122	149
EM total		24	0.0	5	-1	-10	-9		357	-11	-8	17	54	72

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