



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Friday, November 9, 2018





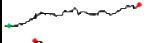



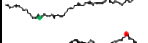

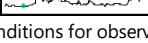
- **Markets little changed by FOMC announcement** ([link](#))
- **Italian yields continue higher as budget dispute continues** ([link](#))
- **Year-end balance sheet constraints push US dollar funding rates higher** ([link](#))
- **Indian government is asking the RBI to transfer capital to the budget** ([link](#))
- **Chinese regulator asks banks to increase lending to non-state firms** ([link](#))
- **Mexican proposal to eliminate some bank fees sends domestic shares lower** ([link](#))

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## Risk sentiment continues to slip as equities and oil prices decline

**Equity markets are lower once again today as oil continues its slide.** Yesterday's FOMC announcement was largely as expected, causing little notable market reaction. So far today, stock markets are once again stumbling out of the gates, seemingly on renewed global growth concerns, especially for China. Financial firm prices are especially weak after official guidance to increase lending to the private sector. Chinese equities have now fallen every day this week, declining nearly 3% in total. European shares are also lower, led by weakness in Italy as budget tensions continue to weigh. Spanish banking shares are down sharply on Mexican government-proposed changes to bank fees. Oil prices have continued their sharp decline, having fallen over 20% since their recent October peak, as US production has increased to record levels while inventories continue to build.

### Key Global Financial Indicators

Last updated: 11/9/18 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2807	-0.3	2	-3	9	5
Eurostoxx 50		3212	-0.8	0	-3	-11	-8
Nikkei 225		22250	-1.1	0	-5	-3	-2
MSCI EM		41	-2.4	0	0	-13	-14
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.21	0.2	-1	0	86	80
Germany 10y Yield		0.43	-3.2	0	-12	5	0
EMBIG Sovereign Spread		360	4	2	16	59	75
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		62.0	-0.3	-1	0	-9	-11
Dollar index, (+) = \$ appreciation		96.8	0.1	0	1	5	5
Brent Crude Oil (\$/barrel)		69.7	-1.3	-4	-18	9	4
VIX Index (% change in pp)		17.2	0.5	-2	1	7	6

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

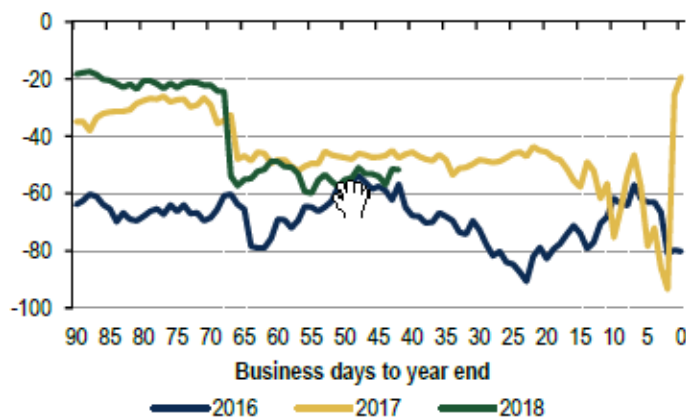
## United States

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**Equities edged lower and the treasury yield curve slightly bear-flattened after the FOMC on Thursday.** The statement did not experience any major shifts but only a couple of minor tweaks, noting a lower unemployment rate and slower capital expenditure growth in 3Q. It did not mention October's stock market rout. Yesterday's meeting was the last meeting without a press conference, and every meeting is scheduled to hold a press conference hereafter. Investors now place a 74% probability on a hike at the December meeting. VIX closed marginally higher to 16.7. This morning it was reported that US PPI rose sharply in October (+0.6% mom and +2.9% yoy, compared to +0.2% and +2.5% consensus). Ex food and energy, the rise was also much larger than expected (+2.6% yoy compared to 2.3% consensus). The release caused treasury yields to recover most of their declines from earlier this morning. The 10-year yield is now 1bp lower on the day compared to 3bps before the release.

**Year-end balance sheet constraints push dollar funding rate higher.** 3-month Libor-OIS, the spread between interbank and risk-free rates, are creeping up. It appears to be more a reflection of technical factors than bank credit risk, largely due to the increase in bank balance sheet constraints into year-end. For example, Bank of America Merrill Lynch estimates that several US GSIBs are close to the high end of their GSIB score range, leading to a higher required surcharge (capital they are required to hold due to greater potential risk), requiring these bank to reduce some markets activity. Some of the most flexible and impactful adjustments can be made by reducing exposure to certain repo transactions or cross currency basis. These dynamics have contributed to a consistent widening of USD cross currency basis as the 3-month window crosses over year-end. Analysts think that banks have taken a more conservative approach to managing their year-end liquidity, which may have resulted in the earlier timing of widening relative to prior years (lower chart). This more conservative approach may result in more balance sheet available closer to the year turn, limiting upward funding pressures around year end, they believe.

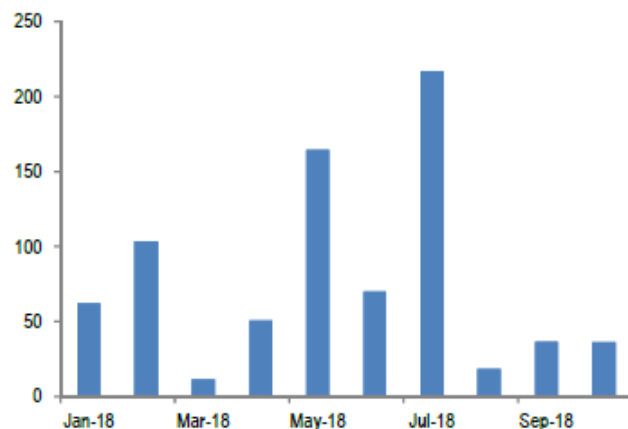
**Chart 2: 3m JPY/USD XCCY basis widening in line with recent years (bps)**



Source: BofA Merrill Lynch Global Research, Bloomberg

**Equity buybacks are on a slowing trajectory.** Following an accelerating pattern during the first seven months of the year and a peak in July, the flow of announced buybacks has been small for three months in a row. Analysts see that the extra boost that US repatriation provided to US equity and bond markets via share buybacks and corporate bond redemptions is largely behind us.

Figure 3: Announced buybacks for S&P500 index companies  
\$bn per month



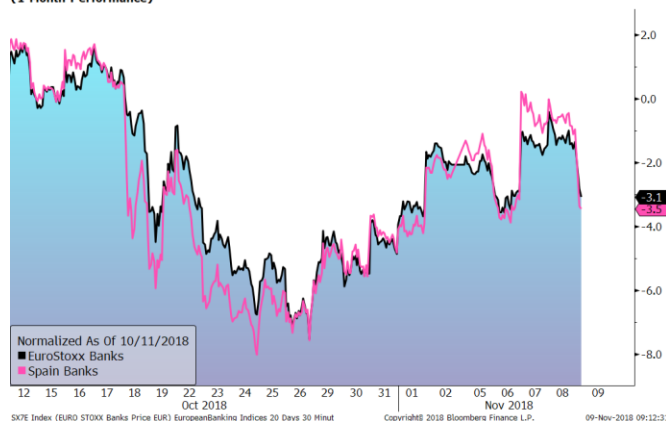
Source: Bloomberg, J.P. Morgan.

## Europe

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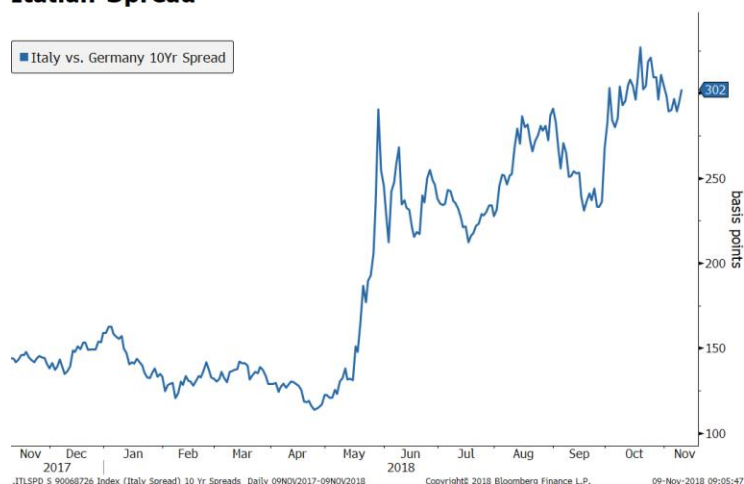
The EuroStoxx index is down 0.7% and is now flat on the week. Italy is leading declines (-1.3%) on continued tensions between the government and the EC (see below). **Of note, the Spanish banking sub-index is down 2.7% after the Mexican government proposed changes to how banks charge commissions (see story in emerging markets).** BBVA (-5.6%) derives about 30% of its revenues from Mexico while Santander (-1.6%) derives about 7.5%.

### Spanish vs. EuroStoxx Banks (1 Month Performance)



**Core yields are down 2-3 bps, consistent with the bout of negative risk sentiment.** Ten-year bund yields are unchanged this week at 0.43%. **Italian yields are up for the second session.** The 10-year Italian spread to Germany has widened 13 bps this week to 302 bps, but remains well below the year's high of 327 bps seen last month (chart). **UK yields are down 3-4 bps across the curve**, in line with the moves in core markets, despite its Q3 GDP print coming in at 0.6% q/q, the strongest since 2016. Analysts were quick to point out that some of this was due to temporary factors such as a rebound in construction activity, and that forward-looking indicators are not so sanguine.

## Italian Spread



## Italy

**Bond yields are 8-11 bps higher across the curve over the last two sessions after the latest salvo in the budget dispute with the EC.** In response to the Commission's higher deficit forecasts for Italy (see yesterday's GMM for more details), FM Tria characterized the numbers as coming from an "inadequate and partial analysis" and ignoring the "clarifications provided by Italy." This morning he confirmed that the government has no intentions to change its 2019 deficit target. The messages from both sides are consistent with the view that a period of heightened uncertainty lies ahead.

## Two Points of View

European Commission and Italy's government don't agree on budget forecasts



Source: European Commission and Italian Government

**Local media reports that a group of banks are preparing an emergency plan to set aside a combined €2.7 bn within Italy's Interbank Deposit Protection Fund in the event a bank needs to be bailed out.** The report, by Il Messaggero, said that the participating banks are: UniCredit, Intesa Sanpaolo, Banco BPM, Banca Monte dei Paschi, and Unione di Banche Italiane, but other ones are expected to join.

## Brexit

**The European Securities and Markets Authority (Esma) said it will grant temporary exemptions to non-cleared OTC derivatives to prevent disruption in case no withdrawal agreement is reached.** The reprieve would last for one year. This proposal would soothe one of the most pressing operational challenges for the financial sector during Brexit and will mitigate the risks of contracts with life-cycle events

(that require entering into new transactions). But it still needs to be submitted to the EC and approved by the European Parliament. (See [proposal here](#)).

## Other Mature Markets [back to top](#)

### Japan

**Equities declined (Nikkei -1.1%, Topix -0.5%) while the yen appreciated (+0.2%).** Tech and energy stocks underperformed. **Earnings have disappointed so far for the quarter**, lagging consensus estimates by an average of 2.6%, the worst performance since early 2016. **Ten-year JGB yields fell 0.3 bps to 0.11%.**

### Technical Test

**Nikkei 225 is approaching a 100-day moving average**

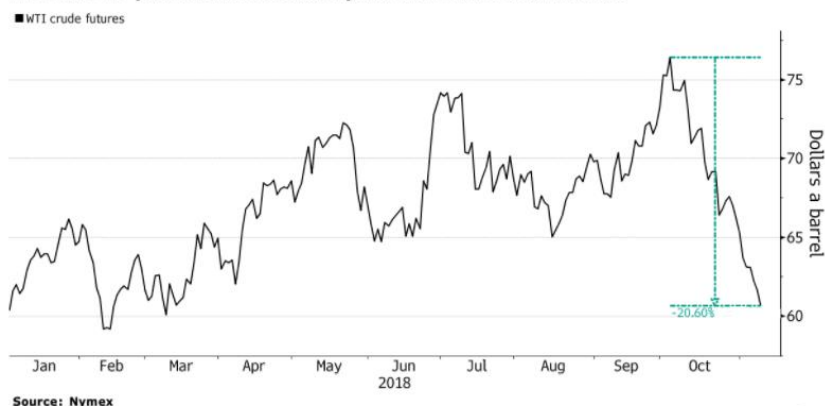


### Canada

**Canada reportedly pushed back against US attempts to change the text of the recently concluded trade pact.** Although the reports said Canada did not feel the problem would wreck the new USMCA deal, the affair shows that tensions remain. The Canadian dollar weakened by 0.3% on the day.

**Oil is now officially in a bear market after falling over 20% since early October.** WTI is trading at \$60.5 dollars per barrel and Brent at \$70.5 dollar per barrel, falling 4.3% and 3.2% on the week, respectively. The latest source of pressures came from US data this week showing production rising to a record 11.6 mn barrels a day and inventories building up by more than expected. Before that, some of the decline was driven by the decision of the of US administration to grant sanctions waivers to eight countries to continue importing oil from Iran.







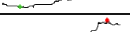

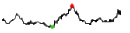
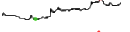


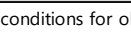

**WTI falls 21 percent from October peak and enters bear market**



## Emerging Markets

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## Key Emerging Market Financial Indicators

Last updated: 11/9/18 8:10 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		40.55	-2.2	0	0	-13	-14
MSCI Frontier Equities		27.40	-1.1	0	-2	-12	-17
EMBIG Sovereign Spread (in bps)		360	4	2	16	59	75
EM FX vs. USD		61.96	-0.3	-1	0	-9	-11
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.95	-0.2	-1	0	-4	-6
Indonesian Rupiah		14678	-0.9	2	4	-8	-8
Indian Rupee		72.50	0.7	0	3	-10	-12
Argentine Peso		35.50	0.0	0	5	-51	-48
Brazil Real		3.75	0.2	-1	-1	-13	-12
Mexican Peso		20.28	-0.4	-1	-6	-6	-3
Russian Ruble		67.32	-0.6	-2	-2	-12	-14
South African Rand		14.27	-0.9	0	2	0	-13
Turkish Lira		5.49	-0.5	-1	11	-30	-31
EM FX volatility		9.90	0.0	-0.3	-0.7	1.8	2.1

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

**The post-US midterm rally in EM waned on Thursday (MSCI EM: -2.6%, EM FX index: -0.7%) mainly due to negative price action in Mexico and Turkey.** In LatAm, the Mexican peso led losses (-1.6%) following the proposal by the Morena party to eliminate some fees charged by banks. In Argentina the peso strengthened vs USD (0.5%) as the central bank announced that Argentina is close to signing a deal with China to expand a currency swap line by \$8.7 bn. EM Asian and EMEA came under pressure after yesterday's dollar rally (nearly 1% over the last two sessions). The South African rand, the Turkish lira, the South Korean won, and the Indonesian rupiah are all down about 1%. China, Taiwan and Russian bourses are leading declines, all falling over 1%. Of note, longer-dated Russian local yields continue to climb, up 9 bps today to 8.91%, and nearly 30 bps this week, as a reaction to potentially tougher sanctions by the US following the Democratic takeover of the House.

### China and Hong Kong SAR

**Equities in Shanghai declined 1.4% with financials strongly underperforming after policy guidance to increase lending to the private sector.** The chairman of the China Banking and Insurance Regulatory Commission said that at large banks at least one-third of new corporate loans should be to private companies. Within 3 years half of new lending should be to the private sector. For smaller banks the target for private sector lending is higher at two thirds of lending. At end-September banks' loans to non-state companies accounted for less than a quarter of total loans. **The yuan was little changed on the day.**

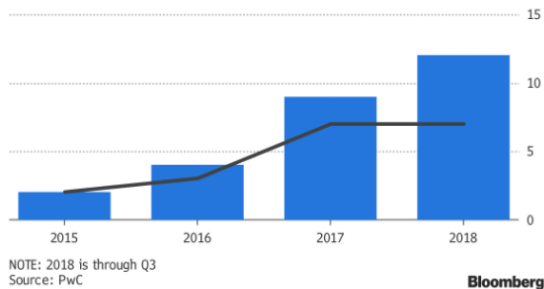
**International buyers purchased at least 12 non-performing loan portfolios this year, up from nine last year, according to a report by PwC.** Distressed debt piled up in China to \$1.4 trillion as of June 30, the biggest in the world, according to PwC estimates. Oaktree Capital is the most active investor in China's bad debt; it has secured six NPL portfolios in the country since 2015. At the same time, sliding demand from local investors has pushed down overall pricing on NPLs this year, particularly in China's less developed areas, according a local alternative asset management firm. For example, prices on NPL

portfolios in the coastal province of Shandong have broadly dropped to 20 percent of the face value from 30 percent earlier this year.

### Growing Foreign Appetite

China NPL deals closed by foreign investors rose to record

■ No. of NPL sales    ▲ No. of unique foreign investors

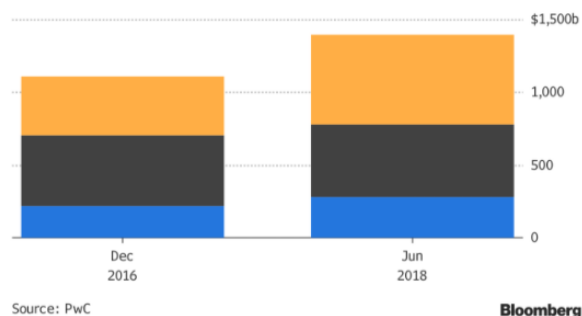


Bloomberg

### Mounting Toxic Debt

China's stressed debt has grown ~25% over the past 18 months

■ Bank NPLs    ■ Bank "Special Mention" loans    ■ AMC distressed debt



Bloomberg

Meanwhile, **in Hong Kong equities declined 2.4%, the worst performance in Asia.** Technology and energy stocks were particularly hard hit. Analysts have continued to trim their earnings estimates in recent months, now predicting a 1.1% contraction in average earnings for the year compared to 2017.

### Hong Kong's Falling Profits

Analysts have cut their estimates for 2018

■ Hang Seng Index estimated 2018 earnings



Source: Bloomberg

### India

**The government is asking the central bank to transfer part of its reserves to the budget and loosen capital adequacy ratios for banks,** according to Bloomberg. A finance ministry official said that the proposal is for the RBI to transfer close to \$50 bn to the budget. On capital adequacy, the RBI requires a ratio of 9% which some officials think is too stringent. The RBI has placed 11 state-owned banks under its prompt corrective action frameworks which limits lending, branch extension and dividend payments. The rupee appreciated 0.4%. Equities declined 0.3% on the day, outperforming the region. For the year, India is the only Asian stock market in the green with a gain of 3%.

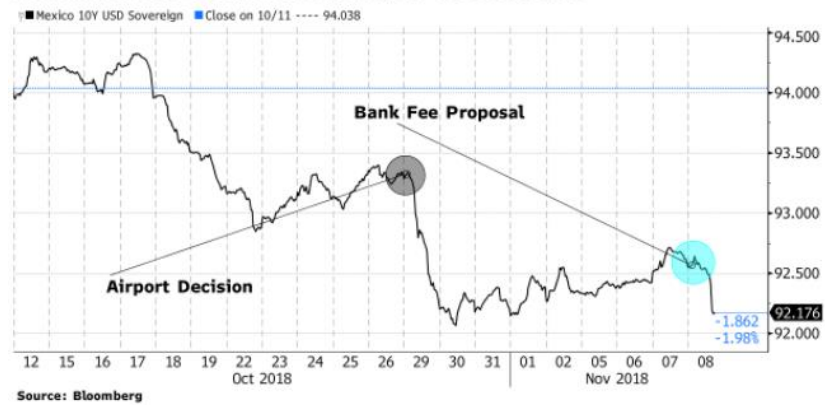
### Mexico

**Mexbol declined by almost 6% and the peso depreciated by 1.6% against the dollar as the new president's party proposed scrapping of some bank commissions.** Under an initiative presented by the head of the Mexican Senate, Ricardo Monreal, fees on ATM cash withdrawals and balance requests would be eliminated, in addition to commissions charged for printing bank balances and transfers to other banks. A Moody's analyst highlighted that this proposal is credit negative for the country's financial system as

commissions make up roughly 17% of net operating revenue. He also added that the proposal adds uncertainty about the independence of the central bank, which is in charge of regulating these fees.

### Second Shock

Mexican dollar sovereigns were hit hard for the second time





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## Global Financial Indicators

Last updated: 11/9/18 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2807	-0.3	2	-3	9	5
Europe		3212	-0.8	0	-3	-11	-8
Japan		22250	-1.1	0	-5	-3	-2
China		2599	-1.4	-3	-4	-24	-21
Asia Ex Japan		65	-2.3	0	-1	-14	-14
Emerging Markets		41	-2.4	0	0	-13	-14
<b>Interest Rates</b>			basis points				
US 10y Yield		3.21	0.2	-1	0	86	80
Germany 10y Yield		0.43	-3.2	0	-12	5	0
Japan 10y Yield		0.12	0.1	-1	-4	9	8
UK 10y Yield		1.53	-3.2	4	-18	27	34
<b>Credit Spreads</b>			basis points				
US Investment Grade		105	0.7	-3	6	7	14
US High Yield		353	0.2	-23	25	-29	-22
Europe IG		69	1.7	-1	-1	16	25
Europe HY		286	4.3	-4	1	43	53
EMBIG Sovereign Spread		360	4.0	2	16	59	75
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		96.80	0.1	0	1	2	5
USDEUR		1.14	-0.1	0	-1	-3	-5
USDJPY		113.8	0.2	-1	-1	0	-1
EM FX vs. USD		62.0	-0.3	-1	0	-9	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		70	-1.3	-4	-18	9	4
Industrials Metals (index)		115	-1.2	-2	-6	-12	-17
Agriculture (index)		43	-0.6	-2	-1	-11	-10
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.2	0.5	-2.3	1.3	6.7	6.2
10y Treasury Volatility Index		4.0	0.0	-0.3	-0.1	0.3	0.5
Global FX Volatility		8.1	0.0	-0.1	-0.3	0.7	0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		397	9.0	9	-7	-82	28
Italy		301	7.1	12	8	157	142
Portugal		151	3.2	6	9	-16	0
Spain		117	1.8	3	12	2	3

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

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## Emerging Market Financial Indicators

Last updated: 11/9/2018 8:11 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	-0.2	-0.8	0	-4	-6		3.5	-2.1	-2	-15	-49	-51
Indonesia		14678	-0.9	1.9	4	-8	-8		8.2	-3.5	-36	-34	128	157
India		72	0.7	-0.1	3	-10	-12		7.9	0.0	-7	-24	70	40
Philippines		53	-0.6	0.0	2	-3	-6		6.7	0.4	8	28	186	186
Thailand		33	-0.1	-0.5	0	0	-1		2.9	0.7	-2	-6	63	58
Malaysia		4.18	-0.4	-0.5	-1	1	-3		4.1	-1.9	1	4	11	24
Argentina		35	0.0	0.0	5	-51	-48		23.8	-4.1	158	55	768	774
Brazil		3.75	0.2	-1.3	-1	-13	-12		8.8	10.2	17	-51	-11	-23
Chile		681	-0.6	0.8	0	-7	-10		4.8	1.2	0	-2	12	2
Colombia		3168	-0.5	0.5	-3	-5	-6		6.8	2.3	-5	14	30	54
Mexico		20.28	-0.4	-1.3	-6	-6	-3		8.8	12.9	7	73	154	117
Peru		3.4	-0.1	-0.2	-1	-4	-4		5.8	0.0	-13	8	49	60
Uruguay		33	0.2	0.4	1	-11	-12		10.6	-3.4	-25	21		202
Hungary		283	-0.2	-0.2	0	-5	-9		2.7	6.6	-2	-4	138	146
Poland		3.78	-0.2	0.1	-1	-4	-8		2.6	2.4	3	-5	-14	-8
Romania		4.1	-0.1	-0.3	-1	-3	-5		4.4	-1.0	-19	-28	85	53
Russia		67.3	-0.6	-1.7	-2	-12	-14		8.5	10.4	18	0	103	125
South Africa		14.3	-0.9	0.2	2	0	-13		9.7	7.4	-12	-14	-12	43
Turkey		5.49	-0.5	-1.1	11	-30	-31		17.8	28.1	-150	-430	533	583
US (DXY; 5y UST)		97	0.1	0.3	1	2	5		3.07	-2.4	3	1	106	86

	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		2599	-1.4	-3	-4	-24	-21		182	3	5	0	40	30
Indonesia		5874	-1.7	-1	1	-3	-8		208	1	-4	18	38	42
India		35159	-0.2	2	2	6	3		167	1	-7	7	54	57
Philippines		6969	-1.0	-2	-1	-18	-19		101	2	-4	-1	4	6
Malaysia		1708	-1	0	-4	-2	-5		134	3	5	10	23	24
Argentina		30736	-2.1	4	4	10	2		613	6	4	-46	229	263
Brazil		85935	-2.4	-3	0	18	12		249	1	4	-10	1	15
Chile		5214	0.1	2	-2	-4	-6		137	3	4	16	12	18
Colombia		1425	0.1	3	-5	-1	-6		190	2	8	19	-1	16
Mexico		44190	-5.8	1	-9	-9	-10		305	2	8	50	54	60
Peru		19279	0	2	-1	-3	-3		151	2	3	19	10	14
Hungary		38557	-0.4	4	4	-4	-2		120	2	3	12	22	32
Poland		57152	-0.9	1	-1	-11	-10		54	3	-1	4	1	7
Romania		8658	1.0	1	1	12	12		182	-3	-10	12	52	69
Russia		2391	-2.0	1	-2	9	13		226	7	12	9	39	48
South Africa		52926	-2.1	-2	-2	-12	-11		324	3	-10	5	15	70
Turkey		92628	-1.0	-2	-4	-16	-20		422	12	-19	-55	89	133
Ukraine		597	0.5	4	9	98	90		608	7	10	53	133	153
EM total		24	0.0	0	-1	-11	-9		360	4	2	16	59	75

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