



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, October 10, 2018

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- Treasury rout eases after four days of declines; 10-year yields at 3.22% ([link](#))
- China to increase number of systemically important financial institutions ([link](#))
- US Treasury Secretary warns China on currency devaluation ([link](#))
- Former SARB governor Mboweni appointed as new finance minister ([link](#))
- Israeli PM nominates Wharton professor as new central bank governor ([link](#))

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Markets stabilize but cautious tone persists

Benchmark equity and currency markets have been largely flat with few new developments in Italy or US Treasury markets, the key drivers of recent market anxiety. In the US, this month's 16-bp jump in 10-year US yields finally took a breather on Tuesday, although yields are creeping higher again this morning. In Italy, political headlines continue but little has changed fundamentally, with yields tightening yesterday and today. One area where investor seeing a darkening backdrop is US-China tensions. US Treasury Secretary Mnuchin's warned China against competitively devaluing its currency and linked the issue to ongoing trade talks, raising market anxiety that the RMB could become another sticking point in the relationship. EMs otherwise remain quiet, with Brazilian assets continuing to rally on optimism around right-wing presidential candidate Bolsonaro's chances in elections later this month.

Key Global Financial Indicators

Last updated: 10/10/18 8:03 AM	Level Last 12m	Index	Change from Market Close				YTD
			1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2879	-0.1	-2	0	13	8
Eurostoxx 50		3309	-0.4	-3	0	-8	-6
Nikkei 225		23506	0.2	-3	5	13	3
MSCI EM		41	-0.4	-4	-1	-12	-14
Interest Rates			bps				
US 10y Yield		3.22	1.3	4	29	86	81
Germany 10y Yield		0.55	0.3	8	15	11	13
Japan 10y Yield		0.16	-0.5	2	4	10	11
FX / Commodities / Volatility			%				
Dollar index, (+) = \$ appreciation		95.7	0.0	0	1	3	4
Brent Crude Oil (\$/barrel)		85.0	-0.1	-2	10	50	27
VIX Index (% change in pp)		16.1	0.2	4	2	6	5

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

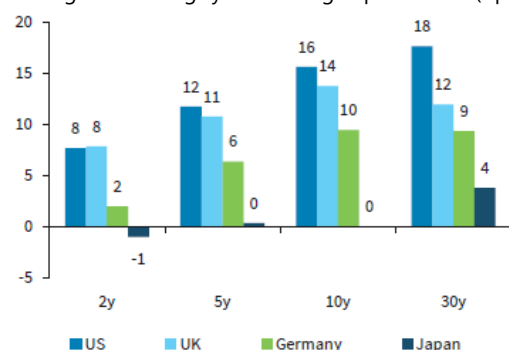
United States

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US markets were generally steady yesterday in the absence of any significant economic or political catalysts. Following last week's selloff, treasuries traded slightly higher yesterday with 10-year yields down by 3 bps on the day, to 3.20%. The yield curve also traded a little flatter, although the 2Y-10Y spread (32 bps) remains 6 bps wider than its level a week ago. US equity markets were largely unchanged on the day as analysts continued to digest corporate earnings results for Q3 2018, which have so far been at or above expectations. The VIX also ended the session relatively unchanged, at 16.

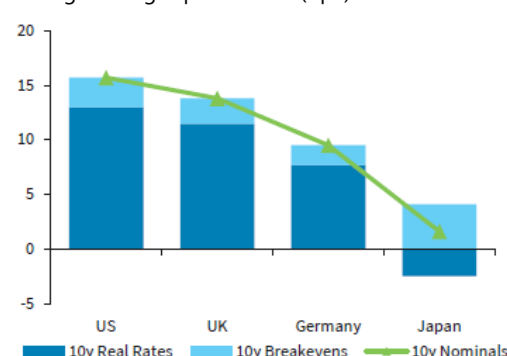
The recent sell off in long-dated treasuries is driven by a rise in real yield expectations. Sovereign bond yields in advanced economies, led by the US, rose significantly last week, especially at the long-end (see chart). This increase was driven mainly by a rise in future real yield expectations rather than by inflation breakevens, which are a measure of inflation risk (see chart). According to analysts, the main reason for this upward adjustment in real rate expectations is greater uncertainty about the terminal or neutral US policy rate. This uncertainty was arguably fueled by the Fed Chair's recent comments in which he indicated that "there's really no reason to think that this cycle can't continue for some time... we're a long way from neutral at this point". This seemed to be at odds with the "dots" which show an average Fed long-run rate estimate of 3.0% - a figure quite close to the current policy rate.

Change in sovereign yields during Sept 31-Oct 5 (bps)



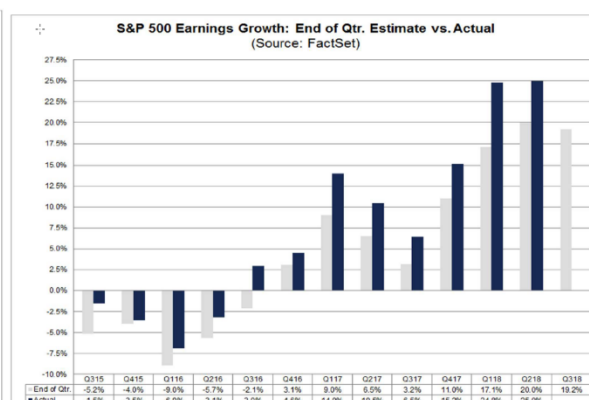
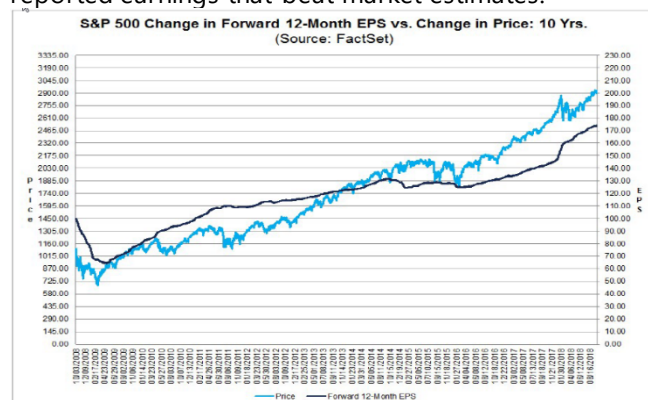
Source: Bloomberg, Barclays Research

Change during Sep 31 – Oct 5 (bps)



Source: Bloomberg, Barclays Research

US corporate earnings are estimated to have grown at a healthy pace during Q3 2018. The growth in earnings is expected to have topped 19.2% (annualized) last quarter, according to market analysts. If realized, this would be the third highest earnings growth since Q1 2011 but a sequential slowing from the beginning of the year. Of the 21 S&P 500 companies that had reported results as of Friday, 18 reported a positive EPS surprise and 15 reported a positive sales surprise. It is noteworthy that since 2013, earnings of S&P 500 companies have beaten estimates by an average of 4.6%. Moreover, 71% of companies have reported earnings that beat market estimates.



Europe

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Equities are broadly lower with the EuroStoxx 50 falling 0.5%. Of note, implied volatility for Italian stocks continues to rise sharply over the last few days (chart), even though the performance of its main index has been on par with others in the region. Over the last five sessions, the FTSE MIB is down just over 3.0%, slightly worse than the EuroStoxx 50 (-2.8%) but outperforming the French CAC (-3.7%). **Yields are little changed in the region: the 10-year German bund is trading at 0.55% and Italian yields are up 2 bps across the curve.**

Implied Volatility for Italian Stocks



Italy

Yields are up 2 bps today, offsetting some of the declines seen towards the end of the yesterday's session. Yields declined as much as 17 bps yesterday after soothing comments by FM Tria and EU affairs minister Paolo Savona. The latter hinted at the possibility of amending the budget but remained confident that market pressure would abate and that spreads won't reach 400 bps. In addition, the budget watchdog rejected the government's proposal arguing that the growth targets are too optimistic and there was a "significant deviation" from the budget rule (see yesterday's GMM). Pressure resurfaced after a meeting between Italian leaders last night yielded no positive developments, more confrontational comments by Deputy PM Salvini, and comments by Moody's characterizing the fiscal plan as "a mistake." S&P and Moody's are scheduled to review the country's rating at the end of the month.

Other Mature Markets

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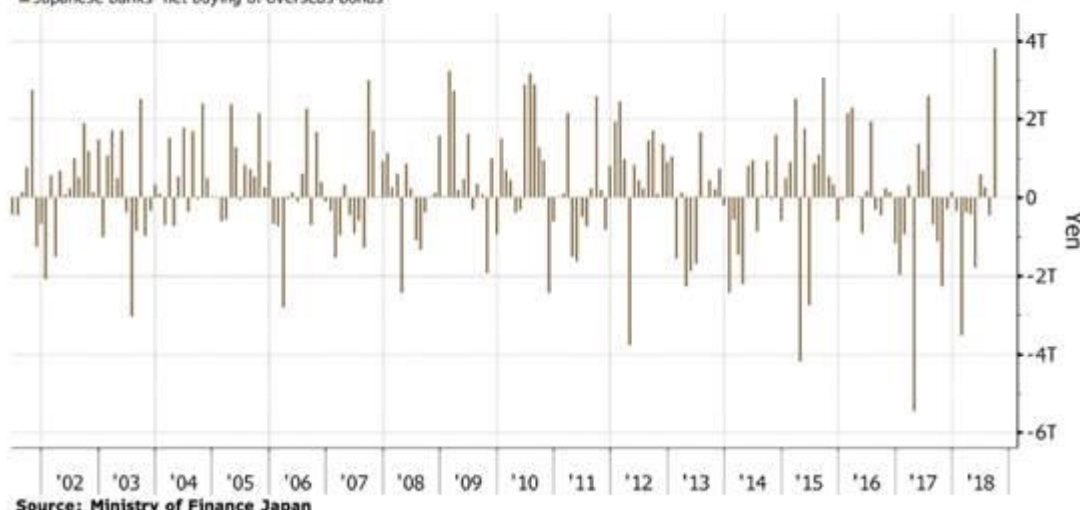
Japan

Equities rose after a volatile session, while the yen depreciated against the dollar. The Topix and Nikkei closed 0.2% higher, ending a volatile trading session which saw shares fluctuate between gains of 0.8% and losses of 0.3%. Financials, utilities, and energy stocks led gains, while materials underperformed. The yen depreciated 0.3% against the dollar. Ten-year bond yields fell 0.8 bps to 0.142%, as US Treasury yields stabilized overnight. Meanwhile, **Japanese banks purchased a record amount of foreign bonds in September**, and life insurers bought the most stocks overseas in nearly two years. According to data published by the Ministry of Finance, banks bought \$33.7 bn of overseas debt, possibly to benefit from the widening spread between US yields and short term interest rates.

Unprecedented Buying

Japanese banks bought a record amount of foreign bonds in September

■ Japanese banks' net buying of overseas bonds



Emerging Markets

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Key Emerging Market Financial Indicators

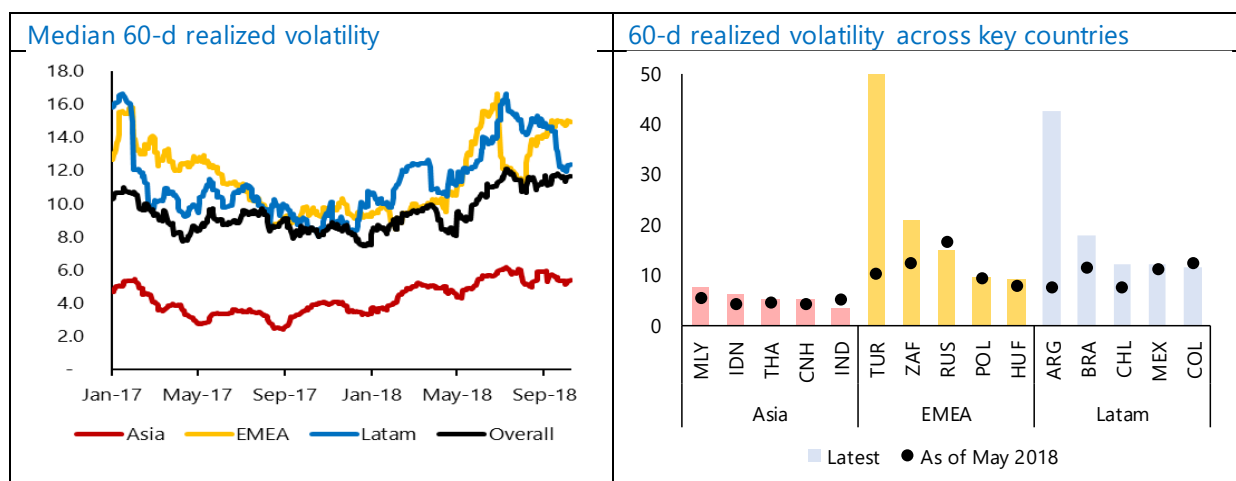
Last updated: 10/10/18 8:06 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Prices/Returns of Major EM Benchmarks			%				%
MSCI EM Equities		40.75	-0.4	-4	-1	-12	-14
MSCI Frontier Equities		27.96	-1.0	-3	1	-12	-16
Hard Currency Sovereign Debt		820.86	-0.1	-1	1	-3	-4
Local Currency Sovereign Debt		16.25	0.2	-1	2	-14	-14
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.92	0.0	-1	-1	-5	-6
Indonesian Rupiah		15202	0.0	0	-2	-11	-11
Indian Rupee		74.27	-0.2	0	-2	-12	-14
Argentine Peso		37.31	0.1	1	0	-53	-50
Brazil Real		3.74	-0.7	4	9	-15	-11
Mexican Peso		19.10	-0.3	0	1	-1	3
Russian Ruble		66.19	0.0	0	7	-12	-13
South African Rand		14.66	-0.6	0	4	-7	-16
Turkish Lira		6.08	0.4	-1	6	-39	-38
Dollar vs. Mature FX (DXY index)		95.69	0.0	0	1	3	4

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

Emerging markets assets softened yesterday with the EMBIG sovereign spread rising by 3 bps to 370bps. This was driven by Europe (+6bps) and Africa (+11bps) while Asia (+3bps) and Latam (-1 bps) were broadly flat. EM currencies appreciated slightly on aggregate, helped by easing of political concerns in both Brazil and South Africa that led to appreciation of 2.0% and 1.8% respectively vs the USD. Aggregate EM equities declined by 0.4%. This morning saw modest moves in equities apart from South Africa which fell 1.5% and India which rebounded by 1.3% after sizeable recent losses. Local currencies in the EM space were little changed against the dollar.

EM FX Volatility

While median EM currency volatility (60-day realized volatility, as plotted in charts below) continues to inch up, the divergence between countries persists (as also discussed in the [recently released GFSR](#)). In terms of regional trends, median FX volatility has inched up across the three key EM regions in 2018, but there has been a reprieve off late for Latin American currencies. Amongst the key EMs, Turkey and Argentina have the highest FX volatility, having increased significantly since mid-year.



Source: Bloomberg

China

China intends to increase the number of systemically important financial institutions (SIFIs), according to sources by Bloomberg. In a sign that policymakers could be stepping up on crisis prevention efforts amid unprecedented debt levels, at least 50 of the country's largest lenders, insurers and brokerages could be identified as SIFIs. Systemically important financial firms will be subject to extra capital requirements, and may face additional rules on leverage, risk exposure and information disclosure. Chinese bank and financial equity prices were little changed in Hong Kong and Mainland bourses.

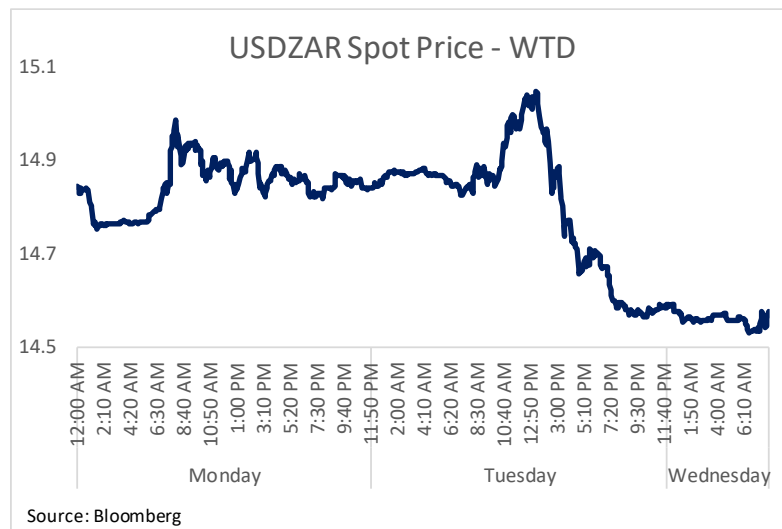
The onshore yuan held steady while the offshore yuan depreciated as bearish bets against the currency rose. The onshore CNY held firm at 6.92 against the dollar, while the offshore yuan depreciated by 0.2% to 6.93, even after the Chinese authorities intervened in the offshore yuan market, according to analysts. The overnight cost of yuan interbank borrowing in Hong Kong rose to 5% yesterday, from 1.74%, before easing to 2.99% today. Depreciation pressures have mounted amid ongoing trade disputes and the weekend's reserve requirement ratio cut by the PBOC, which intensified monetary easing. In the options market, bets that the yuan will depreciate past 7 against the dollar reached their highest since depreciation pressures began in June. In the forwards space, the offshore yuan's 12-month contracts likewise exceeded 7 for the first time in over a year. Former PBoC advisor Yu Yongding stated that Chinese authorities should refrain from market intervention even if the yuan slides past 7 against the USD, as tolerance for exchange rate moves is needed for China to accomplish exchange rate reforms.

Chinese corporate bond defaults are likely to continue to rise in 2019 due to high refinancing pressures, higher tolerance of defaults by the government and tighter credit availability, according to Fitch. Defaults are expected to be concentrated in the private sector, which benefits less from policy easing and where funding conditions are likely to remain 'relatively tight'. Corporate lending activity by financial institutions is expected to be constrained by stricter shadow banking regulations. **China is set to issue \$3bn of 5Y, 10Y and 30Y securities denominated in U.S. dollars on Thursday**, after last year's issuance

of \$2bn that was aimed at building a benchmark yield curve for Chinese offshore borrowers. Ten-year sovereign bond yields were little changed.

South Africa

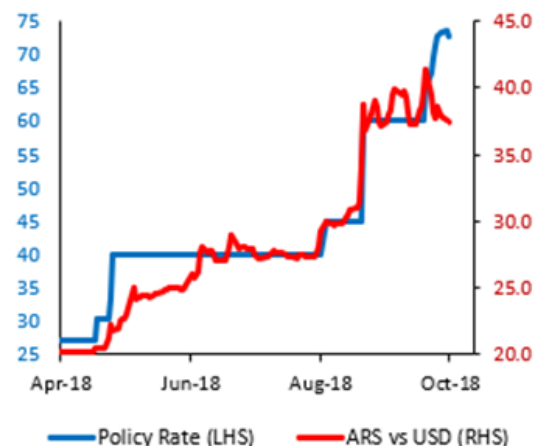
President Ramaphosa has appointed former central bank governor Tito Mboweni as finance minister after the resignation of Nhlanhla Nene. Nene offered his resignation after having become implicated in an anti-graft investigation by meeting several times with people suspected of corruption. Ramaphosa accepted his resignation although there is said to be no implication of Nene's wrongdoing. Mboweni served as governor of the central bank from 1999 to 2009. The rand gained and yields declined on the news. The currency gained a total of 1.9% yesterday but weakened by 0.6% in trading this morning.



Argentina

The Peso appreciated by 0.5% vs USD as the Economy Ministry started receiving offers for 139-day peso-Letes and 224-day USD-Letes. Furthermore, Bloomberg reported that the central bank managed to place ARS 60.1 bn in Leliqs at a rate of 72.60 percent which compares with the average rate of 73.52 percent on Monday (vs 67.175 percent in October beginning and 60 percent in September beginning). **Equities declined by 3.2% today underperforming the region and reversing the 1.2% rise yesterday.**

Argentina: Policy Rate and Currency (vs USD)



Israel

PM Netanyahu has nominated Amir Yaron, a finance professor, as the Bank of Israel's next governor.

Current governor Karnit Flug's five-year tenure ends next month although Yaron's nomination must be approved by a government committee. Analysts note that Yaron is little known in Israel, having spent the last two decades in the US and currently teaching at the University of Pennsylvania's Wharton Business School. The shekel and equities were little changed following the announcement. The announcement comes after the central bank kept interest rates unchanged on Monday as expected. The bank's benchmark rate has been unchanged at 0.1% since early 2015.









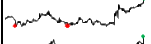







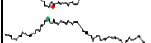









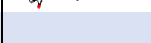


Turkey

There was little reaction yesterday afternoon to FM Albayrak's new plan to fight inflation. Albayrak called on firms to cut prices to help stabilize the inflation outlook but there was little new in terms of policy moves, apart from a commitment to keep certain utility prices unchanged for two months. Several domestic companies have pledged their support to the government's efforts but analysts were generally skeptical that the new plan would have any significant effect. The lira weakened by 0.7% during the presentation but pared losses and is little changed in the last two sessions.

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Global Financial Indicators

Last updated: 10/10/18 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2879	-0.1	-2	0	13	8
Europe		3309	-0.4	-3	0	-8	-6
Japan		23506	0.2	-3	5	13	3
China		2726	0.2	-3	2	-19	-18
Asia Ex Japan		66	-0.7	-5	-3	-12	-14
Emerging Markets		41	-0.4	-4	-1	-12	-14
Interest Rates			basis points				
US 10y Yield		3.22	1.3	4	29	86	81
Germany 10y Yield		0.55	0.3	8	15	11	13
Japan 10y Yield		0.16	-0.5	2	4	10	11
UK 10y Yield		1.72	0.3	14	25	36	53
Credit Spreads			basis points				
US Investment Grade		99	-0.5	2	-5	1	7
US High Yield		337	9.7	14	-8	-30	-38
Europe IG		71	0.0	3	10	14	26
Europe HY		286	0.9	15	6	41	53
EMBIG Sovereign Spread		344	0.0	18	-29	60	59
Exchange Rates			%				
Dollar Index (DXY)		95.68	0.0	0	1	3	4
USDEUR		1.15	0.1	0	-1	-3	-4
USDJPY		113.2	-0.2	1	-2	-1	0
EM FX vs. USD		61.6	-0.3	0	2	-11	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		85	-0.1	-2	10	50	27
Industrials Metals (index)		121	-0.6	-2	5	-7	-13
Agriculture (index)		43	-0.1	1	1	-10	-9
Implied Volatility			%				
VIX Index (% change in pp)		16.1	0.2	4.1	2.0	6.0	5.1
10y Treasury Volatility Index		4.1	-0.2	0.6	0.5	-0.2	0.6
Global FX Volatility		8.4	0.0	0.3	-0.6	0.4	1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		389	-14.0	-4	10	21	21
Italy		292	-0.8	8	41	133	133
Portugal		139	-3.2	-2	-9	-12	-12
Spain		105	-0.3	-1	0	-9	-9

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: 10/10/2018 8:07 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	-1	-5	-6		3.6	0.0	-2	1	-13	-36
Indonesia		15202	0.0	-0.1	-2	-11	-11		8.6	9.6	33	4	177	200
India		74	-0.2	-0.4	-2	-12	-14		8.2	4.8	4	-4	105	69
Philippines		54	0.0	0.3	-1	-5	-8		6.6	14.6	13	47	172	172
Thailand		33	0.1	-1.2	0	1	-1		3.0	0.6	10	14	73	65
Malaysia		4.16	0.1	-0.4	0	2	-2		4.1	-0.1	2	-3	20	19
Argentina		37	0.1	1.2	0	-53	-50		23.3	3.9	-37	-138	858	723
Brazil		3.74	-0.7	4.4	9	-15	-11		9.1	-18.9	-72	-145	42	9
Chile		684	-0.4	-2.9	2	-8	-10		4.8	-0.5	0	2	26	3
Colombia		3060	0.0	-1.4	1	-3	-2		6.7	-0.4	4	2	33	40
Mexico		19.10	-0.3	-0.3	1	-1	3		8.1	2.7	19	8	99	46
Peru		3.3	0.1	0.1	0	-2	-3		5.7	-1.9	9	13	41	50
Uruguay		33	-0.2	0.0	-1	-11	-13		10.5	9.3	6	-137		190
Hungary		283	-0.1	-0.5	-1	-7	-8		2.8	6.3	19	29	124	156
Poland		3.75	0.0	0.0	-1	-3	-7		2.7	-0.9	5	0	-21	-4
Romania		4.1	0.0	0.2	-2	-4	-4		4.6	-3.0	30	28	134	78
Russia		66.2	0.0	-0.4	7	-12	-13		8.5	-0.9	34	-32	102	124
South Africa		14.7	-0.6	0.0	4	-7	-16		9.8	-9.5	9	7	34	47
Turkey		6.08	0.4	-0.5	6	-39	-38		21.9	-13.9	193	-19	1049	999
US (DXY; 5y UST)		96	0.0	-0.1	1	3	4		3.07	1.4	2	25	111	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		2726	0.2	-3	2	-19	-18		182	0	12	-4	40	30
Indonesia		5821	0.4	-1	0	-1	-8		193	3	17	-16	30	27
India		34761	1.3	-3	-8	9	2		165	5	4	1	42	55
Philippines		7001	-0.8	-3	-8	-17	-18		102	0	18	-7	14	7
Malaysia		1735	-2.2	-3	-4	-1	-3		123	-1	6	-14	3	13
Argentina		29612	-3.1	-10	1	9	-2		659	0	34	-88	289	309
Brazil		86088	0.0	5	13	12	13		256	-3	-12	-69	16	22
Chile		5308	0.0	-1	2	-3	-5		119	-2	12	-20	-6	0
Colombia		1498	0.8	-1	2	1	-1		169	-2	5	-16	-19	-5
Mexico		48505	0.9	-2	-1	-3	-2		253	-2	2	-29	12	8
Peru		19391	0.2	-2	3	0	-3		131	-1	10	-18	-10	-6
Hungary		37178	0.2	0	0	-2	-6		110	2	9	-7	20	22
Poland		57379	-0.9	-3	-1	-12	-10		53	3	15	-2	4	6
Romania		8541	-0.1	1	3	6	10		174	4	4	-9	48	61
Russia		2443	0.0	-2	5	17	16		218	1	21	-23	35	40
South Africa		53382	-1.5	-3	-6	-7	-10		324	5	39	-25	63	70
Turkey		96513	-0.2	-1	5	-7	-16		472	-5	50	-69	182	183
Ukraine		549	0.1	1	3	85	74		554	-1	10	-32	100	99
EM total		24	-0.9	-4	-2	-9	-8		344	0	18	-29	60	59

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