



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Friday, October 12, 2018

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- **S&P futures recover this morning after another volatile session for US markets yesterday ([link](#))**
- **JP Morgan's Q3 earnings better than expected on strong consumer bank gains ([link](#))**
- **UK and EU reportedly close to Brexit deal, including the Irish "backstop" ([link](#))**
- **EM bond and equity funds saw cumulative outflows of \$1.8bn last week ([link](#))**
- **Chinese yuan weakens, while trade surplus with the US widens ([link](#))**
- **Singapore's MAS tightens monetary policy, as expected ([link](#))**

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## Market sentiment recovers to end tough week

**Global equity markets recovered some ground this morning with measures of option implied volatility retreating as market sentiment improved.** S&P futures opened 1% higher but remain down 4% this week. The VIX dropped 3 percentage points this morning to 22. Bourses in Japan and Europe also experienced gains, with the Euro Stoxx 50 and the Nikkei gaining ground. Some contacts pointed to investors refocusing on the upcoming earnings season, with JP Morgan reporting better than expected Q3 earnings this morning on strong consumer bank gains. Elsewhere, EM equities gained -with Asian equities up strongly- while currencies appreciated on aggregate, with the South African Rand (+1.4%) outperforming.

### Key Global Financial Indicators

Last updated: 10/12/18 8:02 AM	Level	Index	Change from Market Close				
	Last 12m		1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			<b>%</b>				<b>%</b>
S&P 500		2743	-2.1	-5	-5	8	3
Eurostoxx 50		3227	0.5	-4	-3	-11	-8
Nikkei 225		22695	0.5	-5	0	8	0
MSCI EM		39	2.1	-5	-6	-15	-17
<b>Yields and Spreads</b>			<b>bps</b>				
US 10y Yield		3.17	-1.3	-7	20	85	76
Germany 10y Yield		0.52	0.1	-5	11	7	9
EMBIG Sovereign Spread		352	0.0	12	-20	66	67
<b>FX / Commodities / Volatility</b>			<b>%</b>				
EM FX vs. USD, (+) = appreciation		62.1	0.2	1	2	-11	-11
Dollar index, (+) = \$ appreciation		95.1	0.1	-1	0	3	3
Brent Crude Oil (\$/barrel)		80.6	0.4	-4	1	43	21
VIX Index (% change in pp)		22.2	-2.8	8	9	12	11

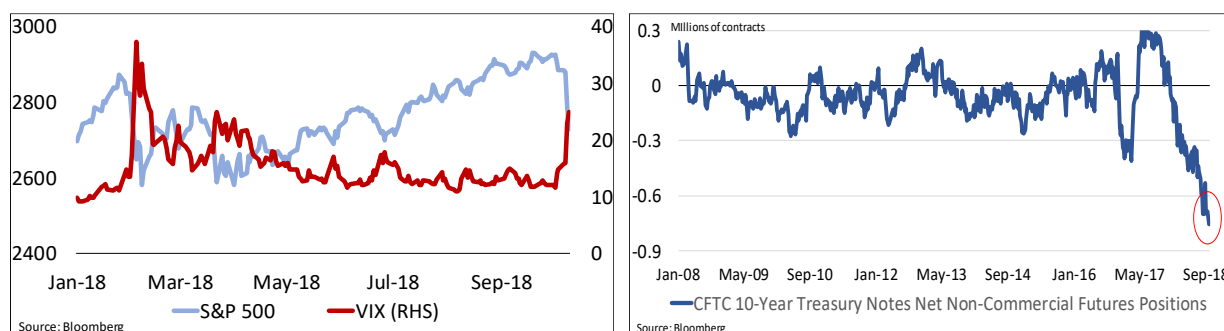
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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**It was a volatile session for risk assets yesterday, but S&P futures opened 1% higher this morning.**

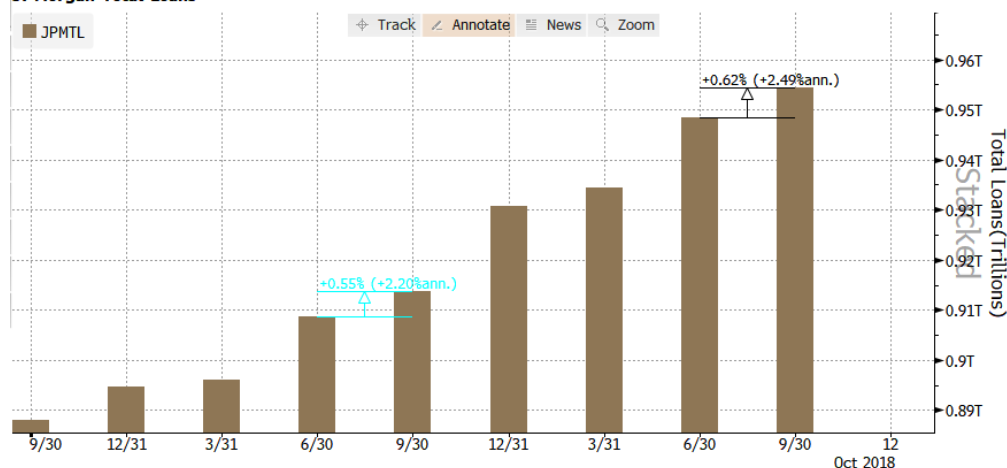
On net, the S&P was down 1.9% yesterday (versus -3.3% on Wednesday) with all sectors in the red, and the Nasdaq was also down 1.3% (versus -4.1% yesterday). The VIX closed up for the sixth consecutive session at 25 yesterday, though still remains well below February's peak, and this morning had retreated 3 percentage points to 23. High yield credit spreads partially retraced after having widened sharply on Wednesday. The weaker-than-expected US CPI release was not viewed as sufficient to deter the Fed from pursuing its expected hiking path. Speculative short positions on US Treasuries continued to be at record highs last week as traders position themselves for rising rates (see chart). The 2Y10Y Treasury curve flattened slightly (to 31 bps) following a well-received 30-year treasury auction. But the USD reacted negatively to public comments insinuating that it was too strong, with the Dollar Index (DXY) dropping by about 0.4% on the day.



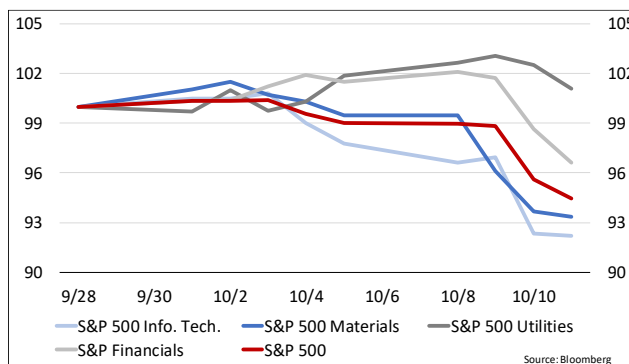
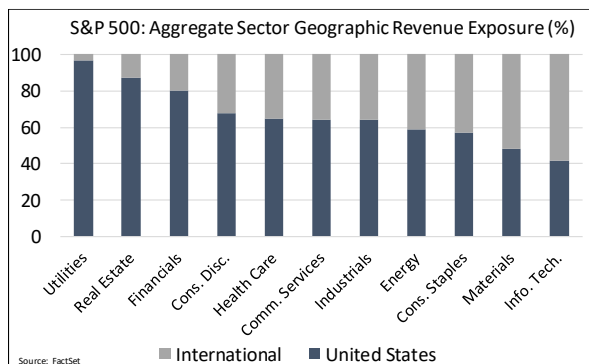
This morning, **JP Morgan's Q3 earnings were stronger than expected on consumer bank gains.** Net income was \$8.38 bn, better than the \$7.7 bn expected by analysts and the \$6.7 bn JPMorgan reported for the same period a year earlier. Q3 net revenue came in at \$27.8 bn, up 5% yoy and better than the \$27.4 bn expected by analysts. This was despite a drop in fixed income trading revenues as the bank's consumer and community banking division was the strongest performer, with revenues up 10% yoy to \$13.3 bn and net income rising 60% to \$4.1 bn, though the profit increase also reflected the US lower corporate tax rate. Analysts pointed to Q3 loan growth increasing despite higher interest rates (Chart). Corporate and investment bank revenues rose 2% to \$8.8 bn. But markets revenue was down 2% yoy as a 10% fall in fixed income markets revenue to \$2.8 bn more than offset a 17% increase in equities revenues to \$1.6 bn.

### Loan growth rising despite interest rates increasing

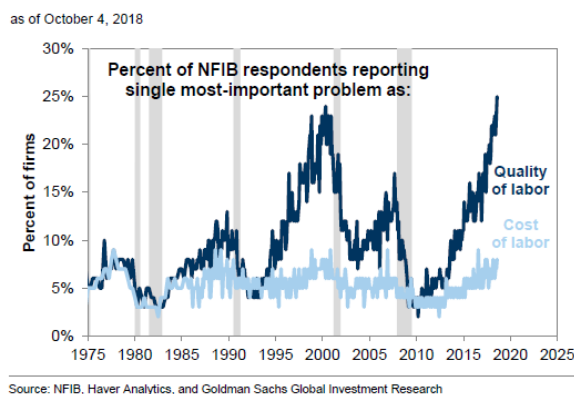
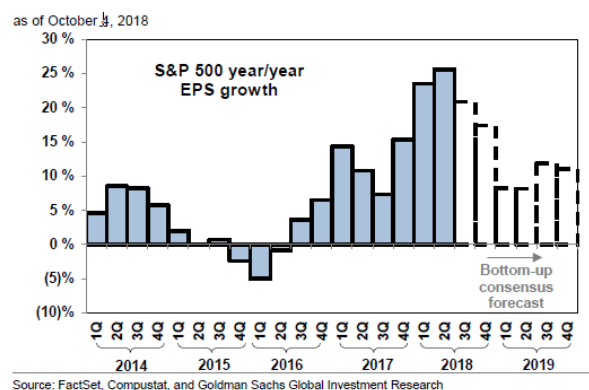
JP Morgan Total Loans



**One of the reasons given for this week's sell-off in equities has been investors' concern over rising trade tensions; this may be true.** According to Factset, about 38% of the aggregate revenues of S&P 500 companies are generated internationally, although this varies greatly by sector (see chart). Should trade pressures be the main driver of recent market under-performance, then one would expect sectors that generate the greatest shares of their revenues internationally (i.e., those that are most exposed to escalating trade conflicts) to be most affected. The data seems to support this argument. Sectors with high international exposure, such as information technology and materials, have indeed underperformed the rest of the market, whereas sectors such as utilities and financials outperformed. This said, the general decline in most sectors indicates that other factors may also be at play.

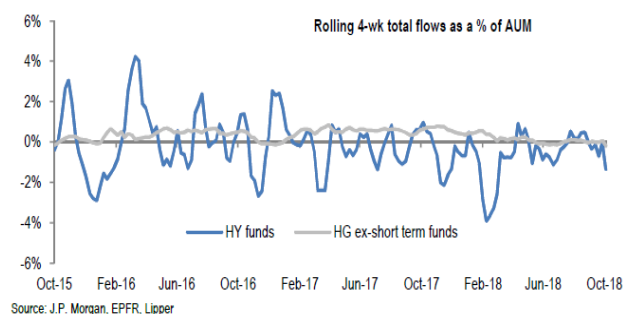
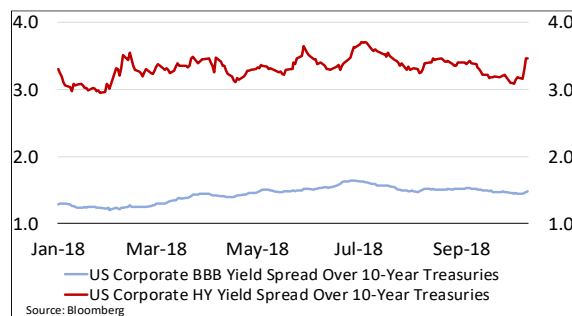


**The growth in corporate earnings is expected to weaken over the next few quarters, with rising trade tensions and tightening labor markets at the top of investor concerns.** With respect to trade, the outcome will depend on the scale and scope of future trade restrictions. Goldman Sachs estimates that should the 25% tariff on all Chinese imports come into force, all else being equal, it would reduce 2019 projected earnings of S&P 500 companies by about 6.5%. Moreover, tighter labor markets and rising wage pressures, as evidenced by the most recent NFP report, are increasingly weighing on business sentiment. A recent survey of small businesses showed that a third of respondents ranked labor cost and quality as their single most important concern, a level not seen since 2000 (see chart).



**Whereas US High-Yield (HY) credit has been particularly hit during this week's sell-off, investment grade credit has generally held its ground.** Average HY spreads (347 bps) are now up by about 30 bps since the beginning of the week. Conversely, High-Grade (HG) credit has been quite resilient, with spreads increasing by only 4 bps since last Friday. Fund flows into these two assets classes further underline their differences. In general, flows into HG funds are a lot less volatile than those going into HY funds, including during this week's episode (see chart). Analysts argue that this is mainly a reflection of the less risky nature

of HG funds and of the flight to quality aspect of HG fund flows, especially during episodes of high market uncertainty.

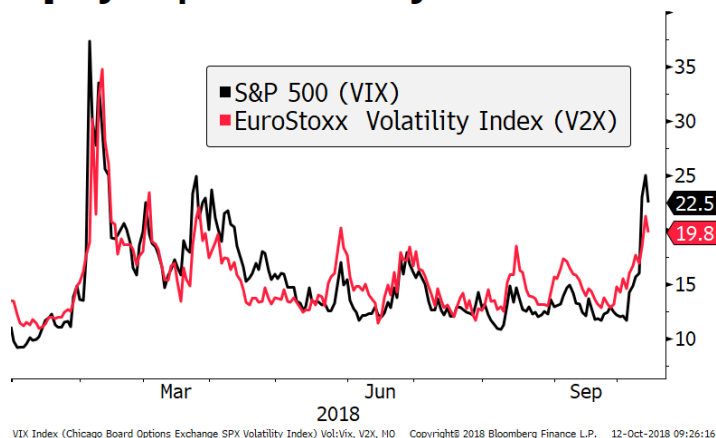


## Europe

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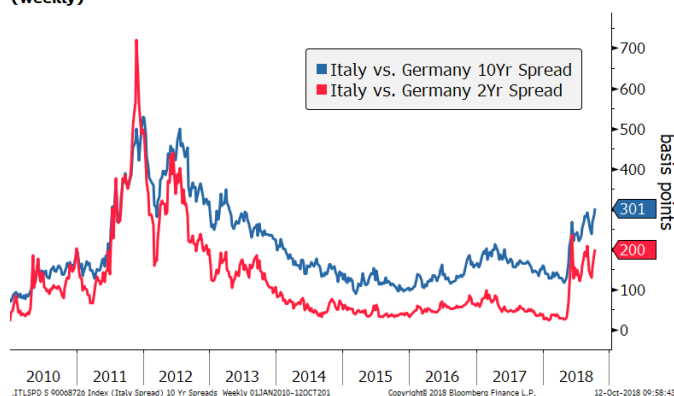
**Equity markets are rebounding with the EuroStoxx up 0.7%.** On the week, however, the index is still down nearly 4%. Implied volatility has also eased after rising about 7 pts over the last two weeks, but the V2X (at nearly 20) remains at levels not seen since May.

## Equity Implied Volatility Measures



**Core yields are unchanged and have been relatively tame throughout this period.** Yields in Germany are 2-5 bps lower on the week. In Italy, however, yields rose 10 bps this week with the 2-year at 1.46%, up 80 bps since late September. For reference, the Italian 2-years peaked at around 2.8% in May. **Of note, both houses in the Italian parliament approved the budget plan containing the much-debated higher deficit targets.** This was expected and had no market impact.

## Italian Spreads (weekly)



## United Kingdom

**Reports suggest the UK and the EU are close to a Brexit deal, including settling the Irish “backstop” issue.** The plan envisages the whole UK staying aligned with the EU’s customs regime after Brexit for a limited period. Northern Ireland would remain more aligned with regulations in the Republic of Ireland. This would avoid a customs border across the Irish Sea, but there would still be checks on goods travelling from mainland Britain to Northern Ireland. The Northern Irish DUP, which props up the conservative government, is strongly opposes the plan, and several Conservative MPS are skeptic it will work. Still, the latest wave of positive news has supported the pound for the last four consecutive sessions, appreciating 0.8% on the week.

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

### Japan

**Equities stabilized following yesterday’s sell-off, while the yen depreciated against the dollar.** The Topix index closed flat, while the Nikkei rose 0.5%. Technology and telecommunication stocks led gains, while financial and real estate shares weighed on both indices. The yen depreciated 0.1% against the dollar, as speculation that China will not be labelled as a currency manipulator by the US reduced demand for safe haven assets. **Ten-year bond yields rose 0.4 bps to 0.14%.**

## Emerging Markets [back to top](#)

### Key Emerging Market Financial Indicators

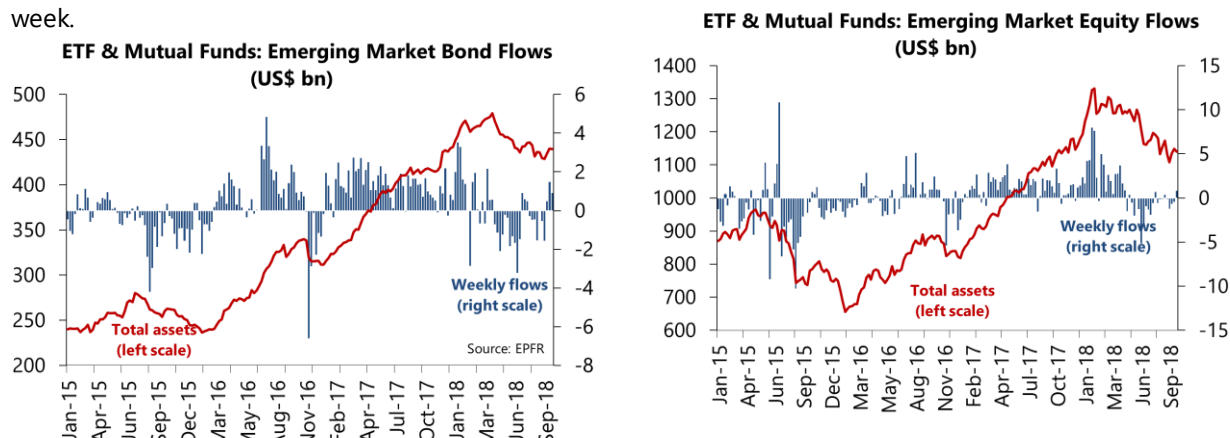
Last updated: 10/12/18 8:17 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			<b>%</b>				<b>%</b>
MSCI EM Equities		39.14	2.1	-5	-6	-15	-17
MSCI Frontier Equities		27.30	-0.7	-3	-1	-14	-18
EMBIG Sovereign Spread (in bps)		353	1.0	13	-19	67	68
EM FX vs. USD		62.16	0.3	1	2	-11	-11
<b>Major EM FX vs. USD</b>			<b>%, (+) = EM currency appreciation</b>				
China Renminbi		6.92	-0.4	-1	-1	-5	-6
Indonesian Rupiah		15197	0.3	0	-2	-11	-11
Indian Rupee		73.57	0.8	0	-2	-12	-13
Argentine Peso		36.60	1.7	5	4	-52	-49
Brazil Real		3.78	-0.6	3	10	-16	-12
Mexican Peso		18.88	0.5	0	1	0	4
Russian Ruble		65.94	0.5	1	5	-12	-13
South African Rand		14.43	1.4	2	4	-7	-14
Turkish Lira		5.87	1.0	5	8	-38	-35
EM FX volatility		10.72	0.0	-0.3	-1.6	2.6	2.9

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

## Fund Flows

**Reflecting the broader weakness in the global markets, EM fund flows turned negative this week after a strong preceding two weeks.** Bond funds had net outflows (\$930 mn) after a cumulative \$2.9 bn of inflows over the last three weeks. Equity funds witnessed outflows of \$824 mn, reversing the \$848 mn last week. Cumulative inflows to EM equities have amounted to \$32.1 bn YTD, while bonds have remained

under pressure with cumulative outflows of \$3.5 bn YTD. Market analysts highlighted that this was a global trend, with overall bond funds having an outflow of \$14 bn and equity funds an outflow of \$1.4 bn last week.



## China

**The offshore yuan and onshore yuan depreciated against the dollar, underperforming regional currencies, as the PBoC's daily fixing was weaker than expected.** The offshore and onshore yuan depreciated 0.5%, as the central bank weakened the fixing for a ninth session. According to sources by Bloomberg, US Treasury Department staff has advised that China is not manipulating the yuan, with its conclusions to be published next week in the semi-annual report on foreign exchange policies of major US trading partners. Equities recovered some losses following yesterday's sell-off. **The Shanghai Composite Index rose 0.9%, while the Shenzhen Composite index closed up 0.2%.**

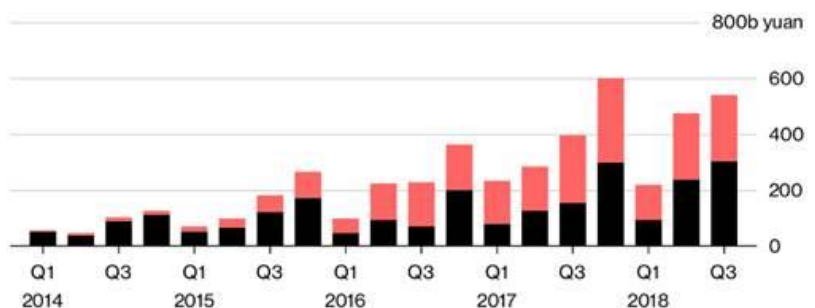
**China's trade surplus with the US widened to a record \$34bn in September.** Export growth rose to 14.5% y/y in September, exceeding expectations, as exporters front-loaded shipments ahead of the latest tranche of US tariffs imposed late September. Import growth decelerated to 14.3% y/y in September, from 19.9% a month ago.

**China's mortgage bond market spurred \$44 bn of structured debt sales during the last quarter.** Notably, China's structure debt sales rose considerably in Q3, with residential mortgage-backed securities accounting for about 60% of issuance this year up till September, as compared to 6% in 2015.

## RMBS Boosts China ABS Sales

China interbank ABS sales hit record in 3Q, with RMBS accounting for about 60%

■ Interbank ABS ■ Exchange ABS



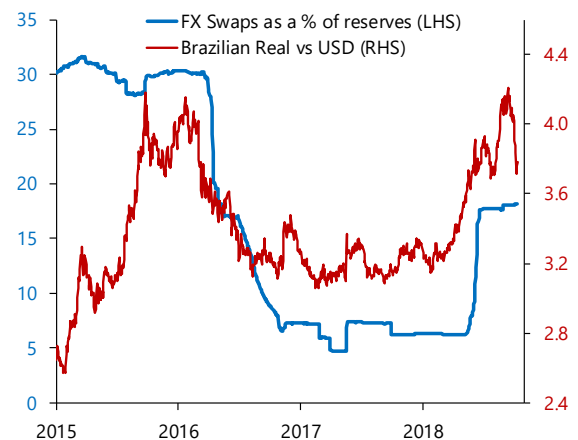
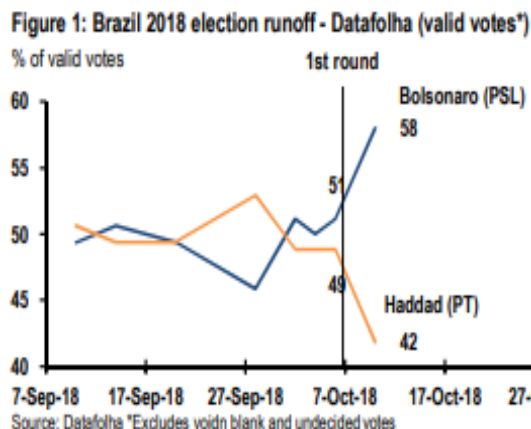
Bloomberg

## Singapore

**The central bank tightened monetary policy for a second time this year, as predicted by most economists.** The Monetary Authority of Singapore (MAS), which uses the exchange rate as its monetary policy tool, increased the slope of the SGD NEER policy band slightly amid 'modest but continuing' price pressures and a steady growth outlook. Based on analyst estimates, the SGD NEER appreciation slope was raised to 1% from 0.5%. The Singapore dollar was little changed against the US dollar. Looking ahead, the MAS expects growth to moderate slightly in 2019, while core inflation is expected to average between 1.5% to 2.5% in 2019. Trade frictions between major economies was highlighted as a downside risk to growth next year. Separately, **Singapore and Indonesia announced a \$10 bn local currency swap and US dollar repurchase agreement between the two countries.** T

## Brazil

**Brazilian markets remained weak but outperformed regional peers, as investors get more optimistic on a Bolsonaro victory.** Reuters reported that Bolsonaro has confirmed Guedes as Finance Minister, Lorenzoni as Chief of Staff and Heleno as Defense Minister. Furthermore, as per the latest poll released by Datafolha, Bolsonaro's advantage increases to 16%-pts (vs 2%-pts at the time of the first round). Similar trends played out in the fixed income universe with Brazilian spreads widening by 3 bps but performing better than Latam aggregate widening of 5 bps. In other news, Brazil has rolled over all 7,700 FX swaps on offer. The total FX swaps now stand at 18% of reserves which compares with sub-10% in June and 30% in 2015.



## Peru

**Central Bank of Peru kept rates on hold at 2.75 percent, as expected.** Policy makers cited 'temporary signs of reduced dynamism' in some economic indicators and increased risks to global growth among reasons for its pause at such low rates. Earlier in the day, sovereign spreads for Peru widened by 8bps to 145 bps along with 10 year yield rising by 4bps to 5.71 percent.

## Turkey

**The lira see-sawed as markets awaited developments of the hearing of US pastor Andrew Brunson.** The hearing started this morning and was expected to lead to Brunson's release according to unconfirmed reports last night. Brunson's detention has been a sticking point in diplomatic relations between the US and Turkey for months with investors following the case particularly closely after the US placed sanctions on Turkey over the summer. Diplomatic relations between Turkey and Saudi Arabia are also in the spotlight after the disappearance of a Saudi journalist who was last seen entering the Saudi consulate in Turkey. The lira pared losses and was flat after five sessions of gains.



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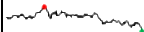
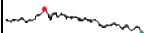




















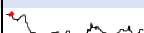


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## Global Financial Indicators

Last updated: 10/12/18 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2743	-2.1	-5	-5	8	3
Europe		3227	0.5	-4	-3	-11	-8
Japan		22695	0.5	-5	0	8	0
China		2607	0.9	-8	-2	-23	-21
Asia Ex Japan		63	-1.0	-6	-8	-15	-17
Emerging Markets		39	2.1	-5	-6	-15	-17
<b>Interest Rates</b>			basis points				
US 10y Yield		3.17	-1.3	-7	20	85	76
Germany 10y Yield		0.52	0.1	-5	11	7	9
Japan 10y Yield		0.15	0.4	-1	4	8	10
UK 10y Yield		1.65	-2.1	-7	17	27	46
<b>Credit Spreads</b>			basis points				
US Investment Grade		101	0.0	3	-1	3	9
US High Yield		353	0.2	28	14	-15	-22
Europe IG		74	-0.4	5	12	18	29
Europe HY		293	-3.5	12	10	48	60
EMBIG Sovereign Spread		352	0.0	12	-20	66	67
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		95.13	0.1	-1	0	2	3
USDEUR		1.16	-0.1	0	0	-2	-4
USDJPY		112.3	-0.1	1	-1	0	0
EM FX vs. USD		62.1	0.2	1	2	-11	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		81	0.4	-4	1	43	21
Industrials Metals (index)		121	1.1	0	4	-8	-13
Agriculture (index)		43	0.6	0	3	-10	-8
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		22.2	-2.8	7.9	9.0	12.3	11.1
10y Treasury Volatility Index		4.2	-0.3	0.3	0.7	-0.1	0.6
Global FX Volatility		8.4	0.0	0.0	-0.6	0.5	1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		390	-7.2	-3	23	22	22
Italy		302	-2.5	17	48	143	143
Portugal		152	2.1	15	7	1	1
Spain		116	3.4	15	11	2	2

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: 10/12/2018 8:08 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	-0.4	-0.7	-1	-5	-6		3.6	-1.1	-4	-4	-15	-38
Indonesia		15197	0.3	-0.1	-2	-11	-11		8.7	13.0	25	4	184	210
India		74	0.8	0.3	-2	-12	-13		8.1	-1.9	-15	-18	102	65
Philippines		54	0.2	0.3	0	-5	-8		6.6	-5.5	12	37	173	172
Thailand		33	0.0	0.3	0	1	0		2.9	-0.6	3	9	76	63
Malaysia		4.15	0.1	-0.1	0	2	-3		4.1	0.1	-1	-3	20	19
Argentina		37	1.7	4.8	4	-52	-49		22.8	-25.4	-13	-199	778	680
Brazil		3.78	-0.6	2.5	10	-16	-12		9.3	6.9	-45	-125	62	25
Chile		678	0.3	-0.1	2	-8	-9		4.9	1.6	6	7	29	9
Colombia		3088	0.2	-1.7	0	-4	-3		6.7	5.5	7	8	44	48
Mexico		18.87	0.6	-0.2	1	0	4		8.2	0.3	12	6	95	48
Peru		3.3	0.0	0.0	0	-2	-3		5.8	1.7	4	19	53	56
Uruguay		33	-0.2	0.3	-1	-11	-13		10.5	2.3	18	-113		194
Hungary		280	0.1	0.6	0	-7	-8		2.9	-2.5	20	28	137	161
Poland		3.71	0.2	0.7	0	-3	-6		2.6	-4.0	-2	-1	-17	-6
Romania		4.0	0.0	0.7	-1	-4	-3		4.6	1.0	26	29	133	79
Russia		66.0	0.5	1.0	5	-12	-13		8.5	2.9	16	-11	112	126
South Africa		14.4	1.4	2.3	4	-7	-14		9.9	4.1	3	8	48	55
Turkey		5.87	0.9	4.5	8	-38	-35		21.4	-14.4	-23	-161	1011	945
US (DXY; 5y UST)		95	0.1	-0.5	0	2	3		3.02	1.6	-5	16	108	81

	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		2607	0.9	-8	-2	-23	-21		184	-4	2	-4	44	32
Indonesia		5756	0.9	0	-1	-3	-9		202	3	13	-7	39	36
India		34734	2.2	1	-8	8	2		168	3	8	-6	51	58
Philippines		7005	1.7	-1	-6	-17	-18		109	0	9	4	18	14
Malaysia		1731	1.3	-3	-3	-1	-4		126	-4	2	-10	7	16
Argentina		27613	-3.3	-11	-7	2	-8		679	-4	21	-19	313	329
Brazil		82921	-0.9	0	10	8	9		264	-2	-13	-63	25	30
Chile		5169	0.0	-2	-2	-5	-7		123	-4	3	-18	-4	4
Colombia		1460	-1.3	-4	-3	-2	-4		177	-2	7	-7	-12	3
Mexico		47558	-1.2	-2	-3	-5	-4		260	-3	2	-19	11	15
Peru		19232	0.1	-2	1	-1	-4		143	-1	11	-2	-2	6
Hungary		36410	1.4	-1	1	-6	-8		114	-2	6	-1	22	26
Poland		56637	1.2	-3	0	-14	-11		60	-1	13	6	11	13
Romania		8397	-0.1	-2	2	5	8		184	9	16	-2	55	70
Russia		2402	1.5	-2	3	15	14		224	1	10	-23	39	46
South Africa		53303	2.1	-2	-5	-8	-10		333	1	21	-24	73	79
Turkey		96118	1.4	1	4	-9	-17		464	-6	-6	-83	175	175
Ukraine		550	0.0	1	4	85	75		570	9	11	-15	119	115
EM total		23	-1.2	-5	-6	-12	-12		353	1	13	-19	67	68

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