



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, October 25, 2018

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- **US equities tumble 3%, wiping out year-to-date gains ([link](#))**
- **ECB reiterates plans to end QE in December, hold rates unchanged until mid-2019 ([link](#))**
- **EU reportedly mulling granting UK clearinghouses temporary post-Brexit access ([link](#))**
- **Emerging market assets sell off broadly amid the global equity rout ([link](#))**
- **RMB trading volumes drop amidst reported official administrative guidance ([link](#))**
- **Turkey's central bank leaves policy rate unchanged at 24%, as expected ([link](#))**

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Global markets stabilize, but concern over 'peak US earnings' remain

The global sell-off took a pause during the European session. While the proximate cause of the sell-off remains unclear, many have pointed to Q3 earnings reports in the US, which have suggested to some that the US earnings cycle may be peaking even as growth has yet to ramp up significantly in Europe and Asia. There has also been widespread discussion of the deleterious impact of tariffs during corporate earnings calls with analysts, which has further dampened the US corporate outlook. Attention has been particularly focused on the US technology sector, where earnings expectations have been very optimistic. As such, market participants will be closely attuned to today's Q3 earnings releases by US corporate giants Amazon and Google, both members of the so-called FAANG cohort (Facebook, Amazon, Apple, Netflix and Google) of technology stocks.

Key Global Financial Indicators

Last updated: 10/25/18 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2668	-3.1	-4	-8	4	0
Eurostoxx 50		3148	0.6	-2	-8	-12	-10
Nikkei 225		21269	-3.7	-6	-11	-2	-7
MSCI EM		38	-0.4	-5	-11	-16	-19
Yields and Spreads			bps				
US 10y Yield		3.14	-6.4	-4	4	71	73
Germany 10y Yield		0.40	0.4	-2	-14	-8	-3
EMBIG Sovereign Spread		361	-4.0	13	15	78	76
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		62.1	0.3	0	1	-10	-11
Dollar index, (+) = \$ appreciation		96.3	-0.1	0	2	5	5
Brent Crude Oil (\$/barrel)		76.6	0.5	-3	-6	31	15
VIX Index (% change in pp)		23.7	-1.5	4	11	12	13

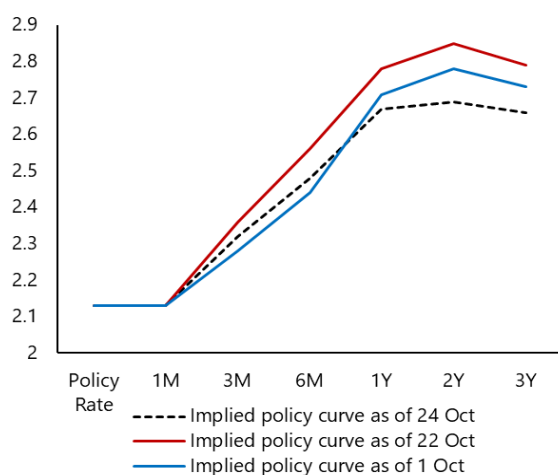
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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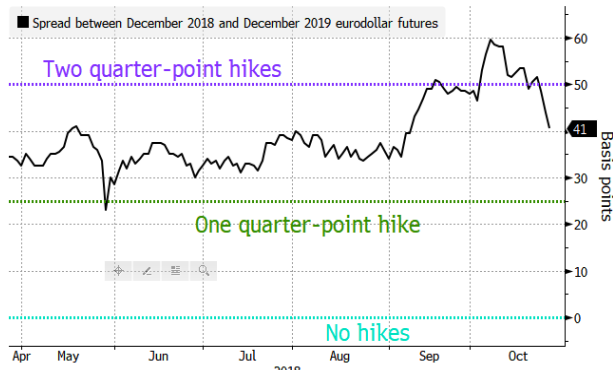
Major equity indices took another leg down, with the S&P 500 declining by 3.1%. The session ended with a 0.8% decline in the index in the last 20 minutes of trading. Market participants suggested that CTAs and systematic programs were accelerants of the rapid decline in share prices into the market close. For the session as a whole, the sell-off was broad-based, with all sub-sectors down, though tech was the weakest (FANGS Index was down 5.4%). Despite the significant price action, market contacts had difficulty identifying a dominant catalyst for the selling. The key market concerns included concern that the corporate earnings cycle may be peaking, increasing trade frictions (with a number of companies discussing margin pressures from the rising costs of imported inputs) and political uncertainty in Europe. Weaker flash PMIs in Europe also placed further upside pressure on the USD (DXY appreciated by 0.4%). Amongst the key data releases this morning, durable goods orders ex-transportation were marginally up by 0.1% mom in September (vs expectations of a 0.4% increase), while the headline number rose by 0.8% (vs expectations of a 1.5% decline).

Treasuries rallied across the curve on Wednesday and yields were down 3 to 7 bps. While the Fed has not suggested any alteration in its tightening plans, traders have trimmed bets on 2019 rate increases. The Eurodollar futures curve flattened significantly, with the implied yield spread between the December 2018 and December 2019 contracts contracting to 40 bps, as compared to 52 bps on Monday. The risk-off move is also evident in ETF flows, with many ultra-short duration funds in US reportedly receiving significant inflows.



Not So Fast!

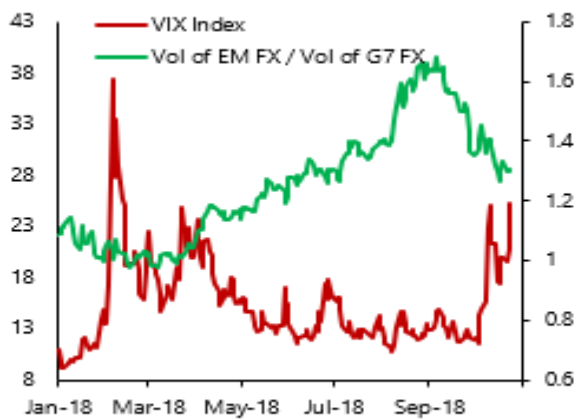
The amount of Fed tightening priced in for 2019 has declined



Investors have highlighted their concerns about the corporate earnings trajectory in the US. While most of the earnings in Q3 have remained strong, there have been consistent warnings about the future impact of tariffs and rising costs. Inflation expectations inched up today, with the 5-year-5-year forward inflation breakeven rising by 4 bps to 2.41 percent.

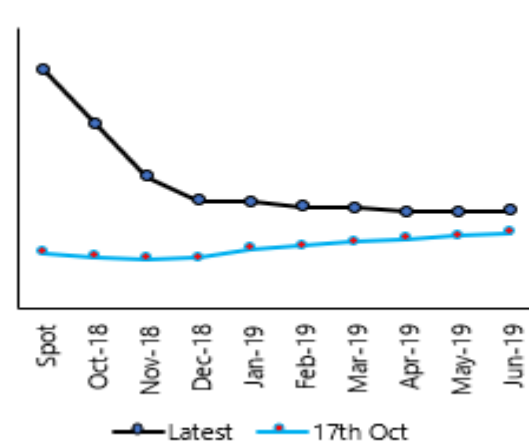
While volatility in EMFX was a key theme in mid-2018, the focus has shifted to the advanced economies lately. Volatility has resurged in the US markets with implied volatility in US equities (VIX) rising by 4.5 points to a six-month high of 25.2 today. Furthermore, the term structure of implied volatility in VIX futures has also steeply inverted over the past week. Rates volatility (MOVE) also increased by 3.2 points to 55.0 but remains below the recent highs.

Volatility Metrics



Source: Bloomberg

Term Structure of US Equity Volatility



US housing market assets have remained under pressure, with housebuilder sub-index underperforming the broader index by 37% year to date. Analysts have highlighted that there might be further weakness in the coming months as higher rates continue to weigh on sentiment. This weakness is also indicative of the softer data releases this year, with total home sales running 1.3% below the average monthly pace in 2017. New home sales declined by 5.5% mom in September which compares with consensus expectations of a 0.6% decline. However, some have suggested that the outsized miss was impacted by hurricanes and poor weather.

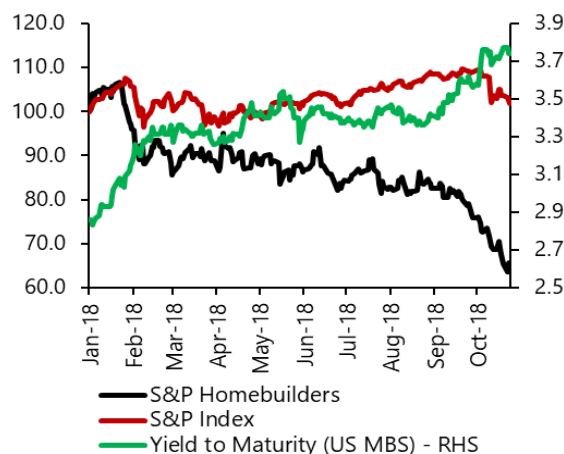


Figure 4: Home sales rates

% of inventory sold per month

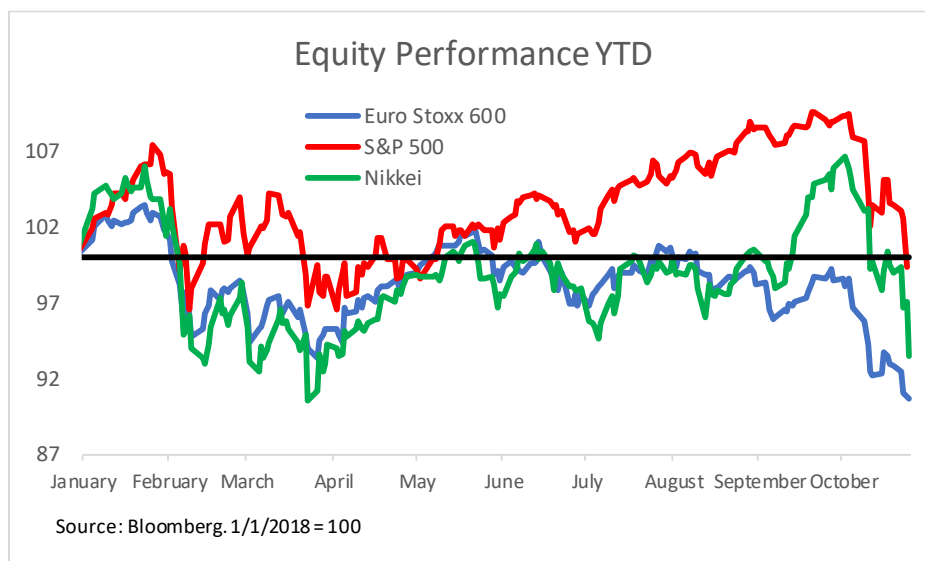


Source: J.P. Morgan

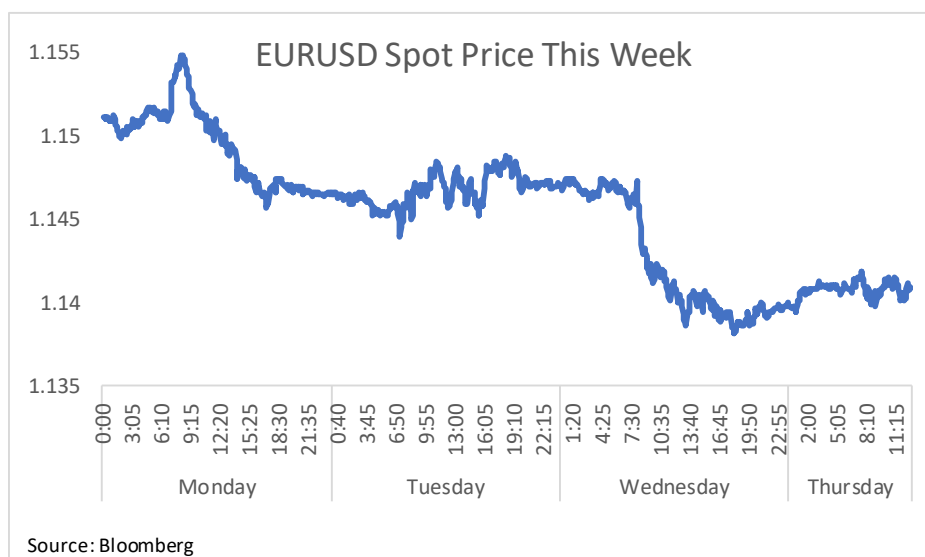
Europe

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Equities recovered some of yesterday's losses this morning as US equity futures have rallied. The Euro Stoxx 600 rose 0.3% lower, breaking a streak of 6 consecutive days of loss for the index. Bank shares rose 2.0% as higher BTP prices boosted Italian banks. The bank sub-index is nonetheless down 23.0% this year, compared to a 6.1% decline for the broader index. Sovereign yields were marginally lower, except Italy which saw 7 to 8 bps declines across the board (see below). There was little reaction to both the German Ifo index, which disappointed, and the Norges Bank decision to keep rates unchanged at 0.75%, as expected.



There was little market reaction to the ECB's statement this afternoon. The bank kept all rates unchanged as unanimously expected, while it reiterated that it anticipates new QE purchases to end this year. The statement also repeated previous language on rates remaining at current levels at least through the summer of 2019, and reinvestments, which are expected to continue for an "extended period of time" following the end of QE. The euro was unchanged after the decision, at 1.14 against the dollar, while Bunds were flat.



UK clearing houses may get temporary permission to trade in Europe following Brexit, according to reports. Citing an EU document that lays out “no deal” contingency plans, Reuters claims that the EU could grant UK clearers temporary permission to trade with EU counterparts to mitigate financial stability risks. UK entities are behind a majority of clearing transactions within Europe, resulting in the potential for disruption if market access is lost following Brexit. UK authorities, including the Bank of England, have repeatedly warned of the potential for disruption in such a scenario and the UK government has committed to a temporary permission and recognition regime to reduce financial stability risks following Brexit. The EU has so far been more sanguine on the issue, arguing that the onus is on the private sector to ensure orderly market conditions following the UK’s exit.

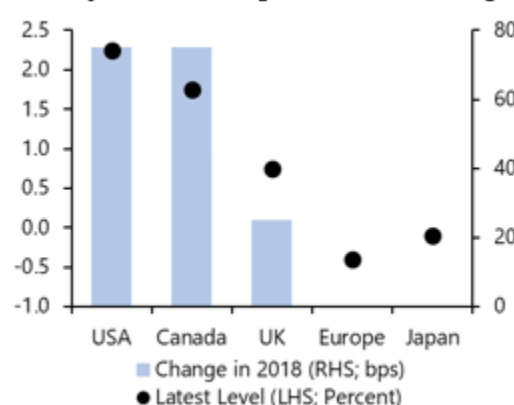
Italian FM Tria has warned that the current level of BTP-Bund spreads is unsustainable. Quoted in local media, Tria said that higher borrowing costs were not an immediate threat for the sovereign but rather a problem for banks holding government debt on their balance sheets. The comments follow suggestions from the government that a bank recapitalization would be required if the spread, currently at 318 bps, reached 400 bps. Leaders of both coalition parties have claimed that the government’s budget, which was rejected by the EC, will not be changed materially. Italian sovereign yields declined this morning, including the 10-year which was down 5 bps, as deputy PM Di Maio reiterated his support for continued euro membership.

Other Mature Markets [back to top](#)

Canada

Canada increased its policy rate by 25 bps to 1.75% broadly in line with expectations, taking the cumulative policy rate tightening this year to 75bps. This came on the back of strong underlying data as well as the new trade agreement with the US and Mexico. Analysts highlighted that MPC’s tone was more hawkish than expected, especially as Governor Poloz clarified that rates will likely have to keep climbing to ‘neutral’, which the Bank estimated as near 3%.

AE Policy Rates and changes (Source: Bloomberg)








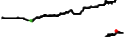







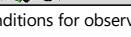
Japan

Equities extended their sizable and broad-based losses from recent days as the global equity rout spread. The Topix tumbled 3.1% to its lowest level since last September and the Nikkei fell 3.7% to its weakest level in 8 months. Analysts noted that growing concerns regarding a cooling global economy, weakened corporate earnings prospects and recent equity market losses in the US have weighed on investor sentiment. The Topix has shed 12% thus far in October, the most since a 20-percent slide in October 2008 during the middle of the global financial crisis. The yen, meanwhile, held steady at 112.28.

Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 10/25/18 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		38.38	-0.1	-5	-11	-16	-19
MSCI Frontier Equities		26.56	-1.6	-3	-8	-17	-20
EMBIG Sovereign Spread (in bps)		361	-4.0	13	15	78	76
EM FX vs. USD		62.10	0.3	0	1	-10	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.94	0.0	0	-1	-4	-6
Indonesian Rupiah		15188	0.1	0	-2	-11	-11
Indian Rupee		73.28	-0.2	0	-1	-11	-13
Argentine Peso		37.04	-1.2	-2	1	-53	-50
Brazil Real		3.71	0.6	0	10	-13	-11
Mexican Peso		19.50	0.6	-2	-3	-2	1
Russian Ruble		65.64	0.0	0	0	-12	-12
South African Rand		14.48	0.6	0	-1	-3	-15
Turkish Lira		5.65	1.0	0	9	-33	-33
EM FX volatility		9.92	0.0	0.2	-1.7	1.9	2.1

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

EM assets sold off notably alongside developed markets equity markets. In Asia, equities suffered broad-based losses following the US sell-off, while EM Asian currencies weakened against the US dollar. The Korean won underperformed (-0.6%) on the back of weaker-than-expected G3 growth, which cast doubts over the prospect of a BoK rate hike next month. The economy grew 2.0% yoy (consensus: 2.3% yoy), the slowest since 2009; this latest measure was dampened in part by the strong growth seen a year earlier. Amid broadening losses, the MSCI Asia ex-Japan index slid another 0.5% following yesterday's 2.5% slump, bringing the index to its lowest level since last June. Equities in EMEA are lower today, although the moves are small compared to those in the US yesterday. Markets in Poland (-0.8%), India (-0.9%), and South Africa (-0.4%) all declined. There was little action in FX markets with most local currencies rangebound against the dollar. Latin American markets fell yesterday, dragged down by a sharp sell-off in global equity markets. Brazilian and Mexican equities declined 2.6% and 1.1%, respectively. The main regional currencies depreciated 1.0 to 1.6% against the US dollar. In Argentina, the peso ended 1.1% weaker—in line with regional peers—and local bond yields edged slightly higher yesterday. The Treasury sold \$816 mn of 182-day USD LETES at 5.50%, which was seen as a positive development given that the rate was above 7% several weeks ago.

China

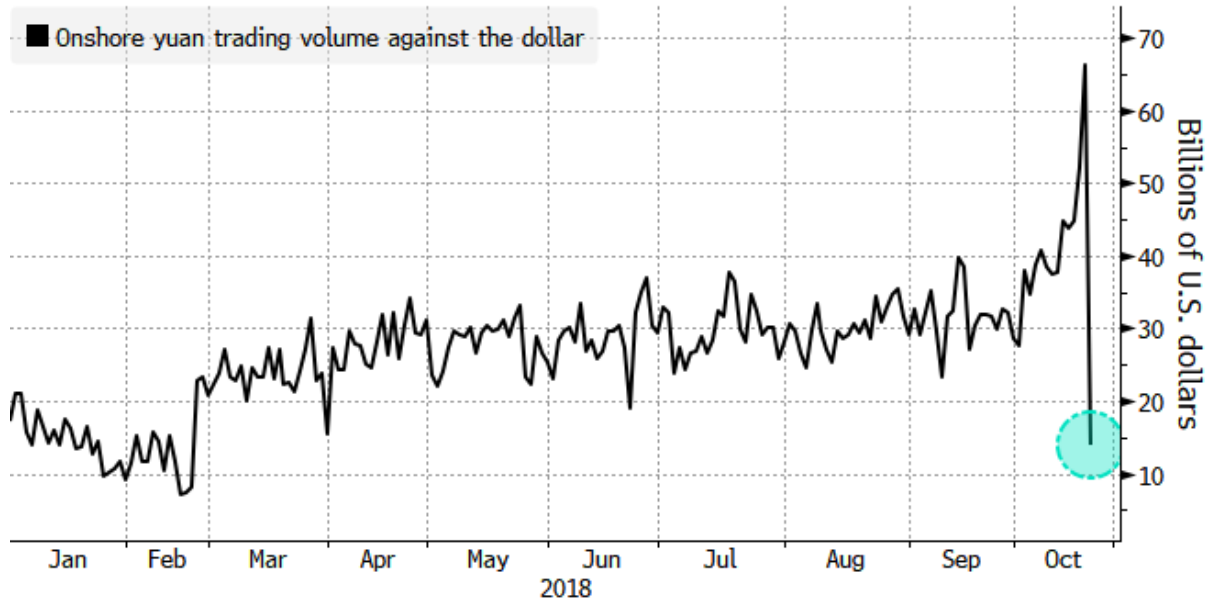
The RMB weakened while its trading volume plunged following official administrative guidance.

The onshore CNY lost 0.08% to 6.949, near its weakest level since last January while the offshore CNH shed 0.2% to 6.959. Following sharp increases in the RMB's trading volume to a record high yesterday, trading volume plummeted on the day. News reports noted that CFETS had reportedly contacted some market makers to restrain them from artificially boosting trading as they look to enhance their performance relative to metrics set by regulators. Because transaction volume is one of the criteria officials look at when evaluating the performance of lenders, banks tend to trade currencies more actively towards year end without placing strong bids in either direction. Based on CFETS data, transaction volume totaled \$12.1 billion by mid-day today, less than a third of the amount seen at the same time yesterday. Meanwhile, the

surge in trading volume in recent days - it reached a record high yesterday – coupled with limited currency movements had stoked speculation of PBOC intervention. Chinese equities held steady on the day.

Turnover Slumps

Onshore yuan's transaction volume plummets from the highest level on record



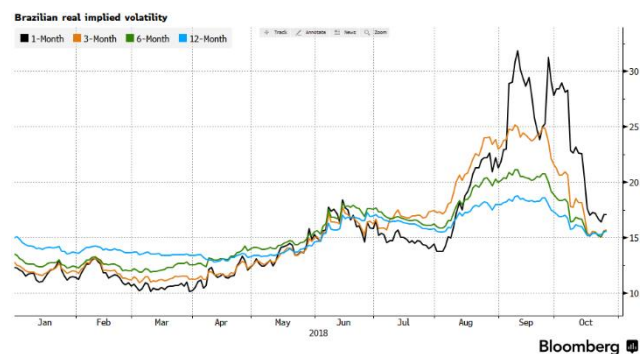
Source: CFETS, Bloomberg

CFEBCNYV Index (CFETS USD/CNY Daily Trading Volume) CNY trading Daily 31DEC2017 Copyright © 2018 Bloomberg Finance L.P. 25-Oct-2018 14:15:36

Brazil

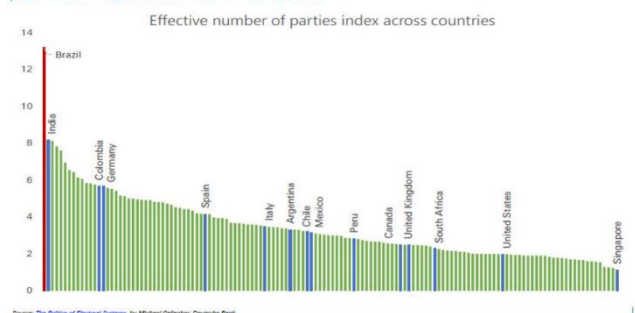
As the implied volatility of the real has declined to June levels, some analysts have warned of market complacency.

They noted that the market is confident that Bolsonaro's victory is ensured and that he will be able to deliver much-needed reforms to revive growth and to fix the deteriorating public finances. However, Bolsonaro slipped in the latest poll, while maintaining a 14 ppt lead, and his rejection rate rose to 40%, compared to 41% for Haddad. In addition, political uncertainty remains high in Brazil, as the country has one of the most fractured legislative structures in the world. Bolsonaro would need a super-majority of 308 votes to pass critically important pension reform. Local press reported that of the 508 lower house representatives to take office in 2019, 215 would support a modified pension reform, while 56 would reject any reform and the rest was undecided or unavailable. Brazilian equities fell 2.6% yesterday—the most across the region—on a risk-off sentiment in the US. The 10-year yield rose 16 bps and the currency weakened 1.0%.



Bloomberg

Figure 2: Brazil's legislature is the world's most fragmented



Mexico

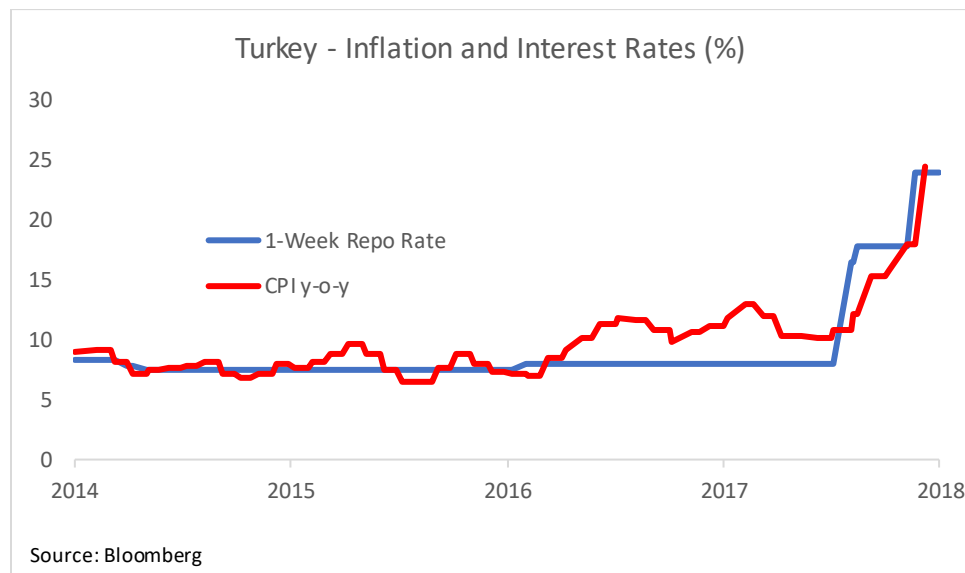
The peso weakened 1.6% on a stronger dollar and rising investor concerns about the Mexico City airport project. President-elect Lopez Obrador said there is “nothing to fear” if the airport project is canceled. In economic news, inflation slowed to 4.9% yoy in mid-October from 5.2% at end-September. The reading was below the expected 5.0% but still well above the central bank’s target of 3%. The slowdown was mainly driven by a softening in agricultural goods prices. Analysts now expect inflation will reach 4.7% by the year’s end, based on a Bloomberg survey. Separately, the seasonally adjusted unemployment rate was little changed at 3.3% in September and in line with expectations.

South Africa

The rand ended a three-day strengthening streak yesterday as FM Mboweni presented his first medium-term budget policy statement. The biggest change came on the revenue side with the weak recent macroeconomic performance contributing to a decline in receipts while the growth forecast was also lowered for 2018 and 2019. Minimal changes on the expenditure side will subsequently mean a higher deficit going forward with some analysts suggesting that the government’s last remaining investment grade rating could come under threat. The rand depreciated by 2.2% on the day but is marginally stronger this morning at 14.6 against the dollar.

Turkey





















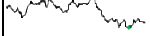

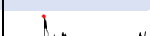
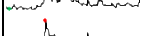





The lira was little changed after the central bank decided to keep rates unchanged at 24%. The decision was widely expected, with 25 out of 29 analysts polled by Bloomberg projecting it. The lira was 0.1% stronger against the dollar and traded at 5.69. Market conditions have steadily improved as a sharp turnaround in the country’s current account, improving geopolitical relations, and banks’ ability to roll over their syndicated loans have contributed to renewed investor interest in recent weeks. Last week’s US dollar bond issuance was 3x oversubscribed with a considerable amount sold to foreign investors. Inflation remains elevated at almost 25% y-o-y, however, and is generally expected to remain high as pass-through from the currency depreciation continues to work its way through the economy.



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Global Financial Indicators

Last updated: 10/25/18 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2668	-3.1	-4	-8	4	0
Europe		3146	0.5	-2	-8	-12	-10
Japan		21269	-3.7	-6	-11	-2	-7
China		2604	0.0	5	-6	-23	-21
Asia Ex Japan		62	-3.2	-5	-13	-17	-19
Emerging Markets		38	-0.4	-5	-11	-16	-19
Interest Rates			basis points				
US 10y Yield		3.14	-6.4	-4	4	71	73
Germany 10y Yield		0.40	0.3	-2	-14	-8	-3
Japan 10y Yield		0.12	-1.8	-4	-2	5	7
UK 10y Yield		1.46	0.2	-8	-17	6	27
Credit Spreads			basis points				
US Investment Grade		104	1.1	4	6	11	13
US High Yield		365	-3.4	18	38	4	-10
Europe IG		76	0.2	0	7	21	31
Europe HY		302	2.6	3	32	61	69
EMBIG Sovereign Spread		361	-4.0	13	15	78	76
Exchange Rates			%				
Dollar Index (DXY)		96.33	-0.1	0	2	3	5
USDEUR		1.14	0.2	0	-3	-3	-5
USDJPY		112.4	-0.1	0	1	1	0
EM FX vs. USD		62.1	0.3	0	1	-10	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		77	0.5	-3	-6	31	15
Industrials Metals (index)		118	0.0	0	-2	-11	-14
Agriculture (index)		43	0.0	-2	3	-11	-9
Implied Volatility			%				
VIX Index (% change in pp)		23.7	-1.6	3.6	11.3	12.5	12.6
10y Treasury Volatility Index		4.7	0.5	1.0	1.0	0.2	1.2
Global FX Volatility		8.2	0.0	0.2	-0.4	0.5	0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		383	-7.7	-19	30	14	14
Italy		308	-12.6	-19	75	149	149
Portugal		152	-6.1	-9	17	1	1
Spain		117	-5.8	-14	19	3	3

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: 10/25/2018 8:15 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		6.94	0.0	-0.1	-1	-4	-6		3.6	-0.8	-2	-11	-25	-42
Indonesia		15188	0.1	0.0	-2	-11	-11		8.7	-4.3	-1	35	167	207
India		73	-0.2	0.5	-1	-11	-13		8.0	-2.9	-5	-24	90	53
Philippines		54	0.0	0.3	1	-4	-7		6.6	-0.3	0	25	177	175
Thailand		33	0.1	-0.8	-2	1	-1		2.9	-1.5	3	4	70	62
Malaysia		4.17	-0.1	-0.3	-1	2	-3		4.1	-0.5	2	3	16	21
Argentina		37	-1.2	-2.2	1	-53	-50		20.3	10.6	-112	-326	503	427
Brazil		3.71	0.6	0.4	10	-13	-11		8.9	8.7	5	-129	23	-16
Chile		687	0.3	-1.4	-3	-8	-10		4.8	-0.6	-7	4	35	4
Colombia		3165	-1.5	-3.1	-5	-6	-6		6.8	5.7	10	22	41	56
Mexico		19.49	0.6	-1.7	-3	-2	1		8.4	6.6	27	35	108	72
Peru		3.3	-0.2	-0.2	-1	-3	-3		5.9	6.1	13	22	54	66
Uruguay		33	-0.1	-0.2	0	-10	-13		10.7	0.1	15	15		211
Hungary		284	0.1	-0.5	-3	-8	-9		2.7	-5.7	-2	8	130	145
Poland		3.77	0.3	-0.4	-3	-5	-8		2.5	-2.8	-3	-8	-25	-16
Romania		4.1	0.1	-0.2	-3	-5	-5		4.6	0.0	1	33	120	80
Russia		65.6	0.1	0.3	0	-12	-12		8.3	3.8	1	2	92	105
South Africa		14.5	0.6	-0.2	-1	-3	-14		10.0	20.0	23	27	46	64
Turkey		5.65	1.0	-0.1	9	-33	-33		20.4	-45.8	104	-48	878	843
US (DXY; 5y UST)		96	-0.1	0.4	2	3	5		2.98	3.7	-5	0	93	77

	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		2604	0.0	5	-6	-23	-21		185	-8	3	0	47	33
Indonesia		5755	0.8	-2	-2	-4	-9		214	-3	17	26	53	48
India		33690	-1.0	-3	-8	2	-1		167	1	6	1	53	57
Philippines		6967	-2.3	-2	-5	-16	-19		112	-4	7	18	23	17
Malaysia		1687	-0.2	-3	-6	-3	-6		125	-1	2	-4	8	15
Argentina		28157	-0.7	-2	-17	1	-6		676	-11	12	70	318	326
Brazil		83064	-2.6	-3	6	8	9		263	-3	4	-32	33	29
Chile		5141	0.0	0	-4	-6	-8		136	-4	8	6	22	17
Colombia		1412	-1.5	-4	-5	-4	-7		185	-3	1	12	-1	11
Mexico		45959	-1.1	-4	-7	-6	-7		278	-4	15	16	34	33
Peru		18658	-0.3	-3	-5	-6	-7		151	-4	4	17	15	14
Hungary		36588	0.4	-2	2	-8	-7		122	-3	7	9	33	34
Poland		54874	-0.9	-3	-7	-13	-14		61	-6	0	16	9	14
Romania		8478	-1.7	-1	1	8	9		191	4	9	22	68	77
Russia		2328	-0.4	-2	-5	14	10		224	-4	7	-5	43	46
South Africa		51143	0.5	-2	-10	-12	-14		319	-4	11	-1	43	65
Turkey		93040	0.4	-5	-6	-14	-19		458	-4	18	7	158	169
Ukraine		562	0.1	0	4	89	78		589	-4	28	40	122	134
EM total		23	-2.7	-4	-10	-13	-14		361	-4	13	15	78	76

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