Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Tuesday, October 30, 2018

- **Renewed tariff concerns buffet US stocks (link)**
- **US Treasury issuance expected to double this year to finance deficits (link)**
- **EU ready to allow UK clearers access to UK in "no deal" Brexit scenario (link)**
- **ECB's system risk assessment prioritizes geopolitical, NPL and cyber risks (link)**
- **Chinese yuan weakened to 10-year low on fresh Sino-U.S. trade anxiety (link)**
- **Mexico abandons airport project following vote, igniting investor concerns (link)**

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets steady despite fresh trade concerns

Equity markets in both Europe and the US are little changed so far this morning despite prospects of additional US tariffs. Yesterday's comments by president Trump that the US may impose tariffs on all remaining Chinese imports have not had significant carryover effects to today's trading despite causing US equity markets to give up earlier gains Monday. Trade worries are likely to remain a focus ahead of Trump's meeting with Xi Jinping next month. Chinese equity markets managed to close higher today following supportive government measures, while the yuan closed at its weakest level since 2008. The dollar has strengthened meaningfully so far this week, with the index rising 0.6% so far to its highest level this year.

Key Global Financial Indicators

Last updated: 10/30/18 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2641	-0.7	-4	-9	3	-1
Eurostoxx 50		3147	-0.3	0	-7	-14	-10
Nikkei 225		21457	1.5	-3	-11	-3	-6
MSCI EM		38	0.0	-5	-11	-17	-19
Yields and Spreads				bps			
US 10y Yield		3.12	0.9	-5	6	75	71
Germany 10y Yield		0.39	1.0	-2	-8	2	-4
EMBIG Sovereign Spread		366	-1.0	11	23	83	81
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		61.8	0.2	-1	0	-9	-11
Dollar index, (+) = $ appreciation		96.9	0.4	1	2	5	5
Brent Crude Oil ($/barrel)		76.5	-1.2	0	-8	26	14
VIX Index (%, change in pp)		24.5	-0.2	4	12	14	13

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

United States

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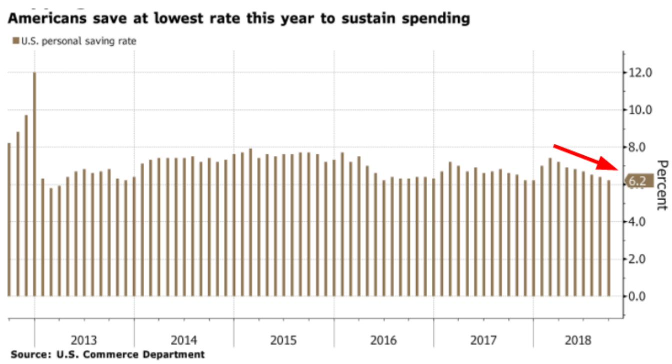
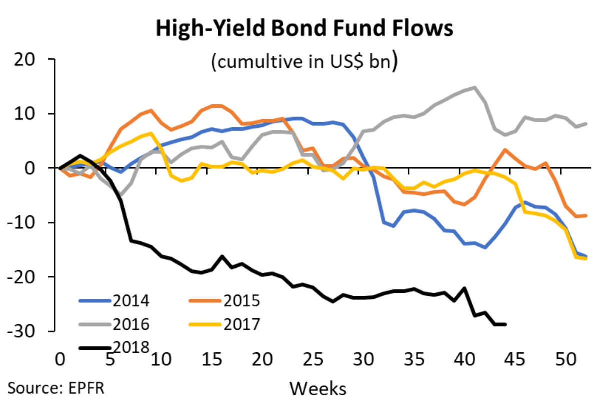
Stocks finished lower Monday. Major indices all advanced over 1% in early trading but later sold off following reports the Trump administration is preparing additional tariffs against Chinese imports should the November round of trade talks fail. With the S&P 500 index down just around 10% from its September peak, the overall price-earnings ratio has slipped to 16.0%, the lowest since 2016, and below the 5-year average of 17.5%. Equity volatility remains elevated, with the VIX hitting an intra-day high of 27.9 pts before ending the session at 24.7. IBM (-4.1%) will purchase Red Hat (+45.4%) for $33 bn in cash to boost the legacy tech giant's cloud presence. This would be the second-largest tech deal ever.

Treasury yields rose with the 2-year up 1 bp to 2.82% and the 10-year likewise up 1 bp to 3.09%. The **personal savings rate dipped** to 6.2% in September. This is the lowest level so far this year and matches the lows last seen in 2013. Wage increraes slowed to 0.2% following a 0.4% increase a month earlier, pushing the real disposable income increase (+0.1%) to a 5-month low. Spending (+0.4%) rose in line with expectations. The Fed's prefered inflation measure of core PCE remained anchhored at ~2% yoy for a fifth straight month. The Dallas Fed's index or regional manufacturing activity rose slightly in October.



Federal borrowing is set to more than double this year from last according to the Treasury department. Quarterly funding for Q4 is now expected to be $425 bn, which would bring 2018 borrowing to $1.34 tn. The president signed $1.5 tn in tax cuts late last year and Congress approved $300 bn in increased spending, pushing the Treasury to issue more debt to cover a growing budget shortfall. The federal deficit hit a 6-year high of $779 bn in FY 2018, and the Congressional Budget Office gauges it will grow to $973 bn in FY19 and $1 tn the year after that.

Investors have been shedding their high-yield fund holdings this year. Concerns over trade, rising rates, geopolitics, the Italian budget, trade tensions, and Chinese growth are all weighing on market sentiment. EPFR data reports net outflows of $28.7 bn so far this year, or about 1% of total assets under management. Bank of America gauges that high-yield bonds have returned 0.8% year-to-date, while Treasuries have lost 1.8% and investment-grade corporates a poorer 3.0%—compared to losses at the S&P 500 of 0.9%.



Europe

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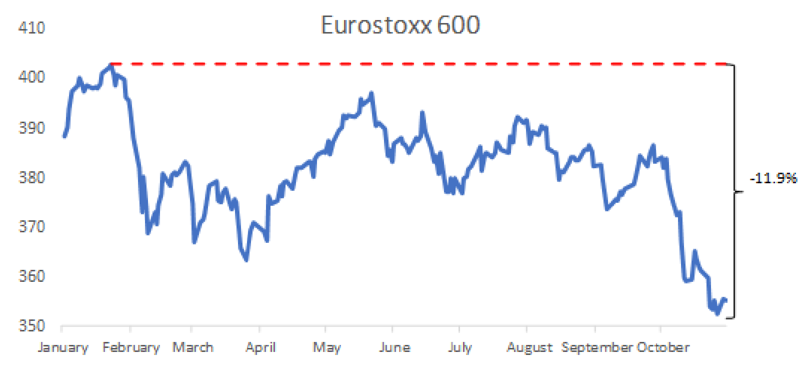
Equities were flat across the continent. The Euro Stoxx 600 was unchanged after a 0.9% rise yesterday, while banks were 0.3% lower after a 1.9% jump yesterday. Despite the solid gains yesterday, equities remain down 12% since the highs of late January. **Most sovereign yields were modestly higher following disappointing Q3 data** for the eurozone (0.2% qoq versus 0.4% expected). The French, Spanish, and UK 10-years all rose by 2 bps. There was little noticeable reaction in Bund yields following the news that chancellor Merkel's will step down as CDU leader and not seek another term as chancellor. BTP yields rose after preliminary GDP data in Italy showed no growth qoq in Q3, as opposed to expectations of a 0.2% rise. The 10-year was up 7 bps and the 2-year was 9 bps higher.

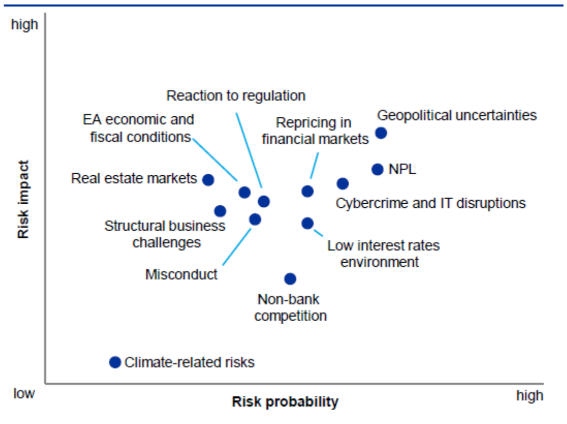


Source: Bloomberg

EU firms will be able to use UK clearing houses in the event of a "no deal" Brexit. EC vice president Dombrovskis said that UK clearers would be given market access for a time-limited period following the UK's exit. The issue has repeatedly been raised by the Bank of England as one of the most pertinent ones in order to ensure financial stability in the case of a no deal scenario. Dombrovskis said that the decision regarding access, which will be based on equivalence standards, was made due to findings of a joint Bank of England and ECB working group.

ECB prioritizes 2019 banking system risks. The ECB's Banking Supervision department this morning published its assessment of 2019 system risks, naming as its highest-priority concerns (1) geopolitical uncertainties, (2) NPLs, and (3) cybercrime and IT disruption risks. Political uncertainties encompass a host of identified Brexit-related concerns, the effects of rising protectionism, and vulnerability to regulatory and structural fragmentation. On the asset quality front, the report highlighted the continuing large stock of NPLs and a cluster of developments that could hasten the accumulation of future NPLs: the potential for the ongoing search for yield, easing credit standards in 1Q2018, rise in leveraged loan issuance, shift toward covenant-lite loans and signs of high growth in unsecured loans to households. Banks in the MSCI European Banks index currently trade at 0.75x book (compared with US banks at 1.4x book), and Italian banks at 0.65x book value.

SSM Risk Map for 2019



Sources: ECB and NCAs

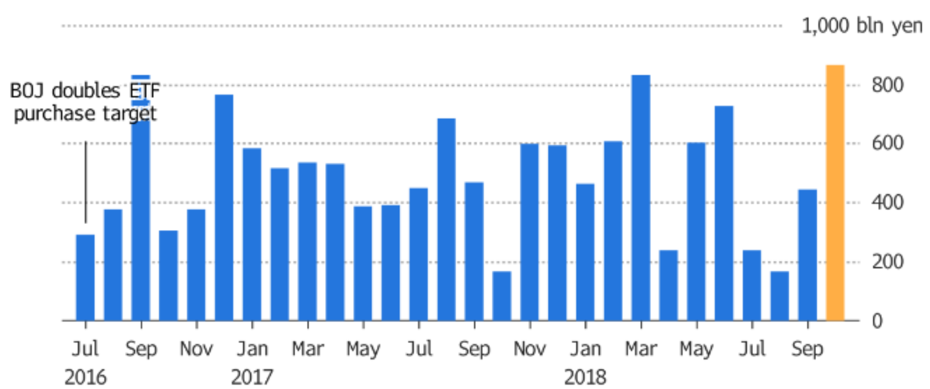
There was little market reaction as UK chancellor Hammond presented the government's budget yesterday. The budget saw "the largest discretionary fiscal loosening" since at least 2010, according to the independent OBR, although many of the larger changes had been known beforehand, including extra funding for the National Health Service. Among other measures were a new digital services tax, levied on UK revenues of tech firms, as well as a lowering of income taxes. The budget was accompanied by an upward revision in growth projections, including an increase in the 2019 growth forecast from 1.3% in March to 1.6% now. Hammond acknowledged that a disorderly Brexit would negatively affect the projections.

Other Mature Markets back to top

Japan

Japanese equities advanced by about 1.5% this morning, while the yen (-0.4%) weakened to ¥112.8. Stocks were boosted by positive earnings reports by car makers and rumors that Chinese authorities are considering a tax cut on car sales. Separately, new data reveal that the **BoJ's purchases of ETFs hit a record high of $7.7 bn in October**, the largest amount since 2010. The decisive step-up in purchases by the BoJ responded to growing concerns about corporate earnings and a slowdown in the Chinese economy. With these purchases, the BoJ has acquired about 86% of the ¥5 tn yen it planned to acquire this year.

Bank of Japan's ETF buying hit an all-time monthly high in October

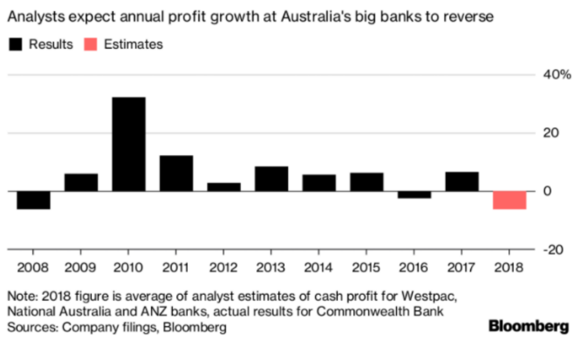


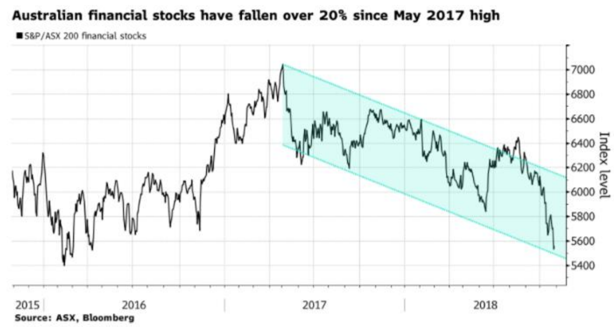
Note: The October 2018 figure is through Oct. 29
Source: Bank of Japan

Bloomberg

Australia

Investors expect the financial sector to have the worst earnings season in a decade. Bloomberg gauges that results at the country's biggest banks will be hit by margin pressures, higher fundings costs, and misconduct charges that are likely to top A$800 mn. Financial stocks are now in bear market territory, having steadily fallen 20% from their 2017 highs. By contrast, the benchmark ASX 200 index had been trending higher through August this year, but has since lost around 10%. ANZ, National Australia Bank, and Macquarie report this week.





Emerging Markets

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Key Emerging Market Financial Indicators

Last updated: 10/30/18 8:09 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		38.00	0.0	-5	-11	-17	-19
MSCI Frontier Equities		26.61	-0.7	-1	-6	-16	-20
EMBIG Sovereign Spread (in bps)		366	-1.0	11	23	83	81
EM FX vs. USD		61.85	0.2	-1	0	-9	-11
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.96	0.0	0	-1	-5	-7
Indonesian Rupiah		15224	0.0	0	-2	-11	-11
Indian Rupee		73.68	-0.3	0	-1	-12	-13
Argentine Peso		36.91	-0.2	-1	7	-52	-50
Brazil Real		3.69	0.7	0	9	-11	-10
Mexican Peso		19.96	0.5	-3	-6	-4	-2
Russian Ruble		65.64	0.3	0	-1	-12	-12
South African Rand		14.63	0.6	-3	-3	-4	-15
Turkish Lira		5.51	1.0	4	8	-31	-31
EM FX volatility		10.06	0.0	0.1	-0.3	1.9	2.2

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

Asian bourses were mixed today, with strong gains in China (+1.0%) and South Korea (+0.9%), while stocks in the Philippines (-1.3%) and India (-0.6%) retreated. Currencies in emerging Asia and **EMEA** are mostly unchanged, except for some gains in the Turkish lira (+0.7%). **Latin American** markets mostly saw losses yesterday after Mexican president-elect abandoned the ongoing construction of Mexico City airport. Mexican equities fell 4% to the lowest levels this year and the Mexican peso weakened 3.5% to the dollar. The rally in Brazilian assets faded as investors focus on the risks associated with the new presidency. The real fell by 2% while the benchmark Ibovespa index lost 2.3%.

China

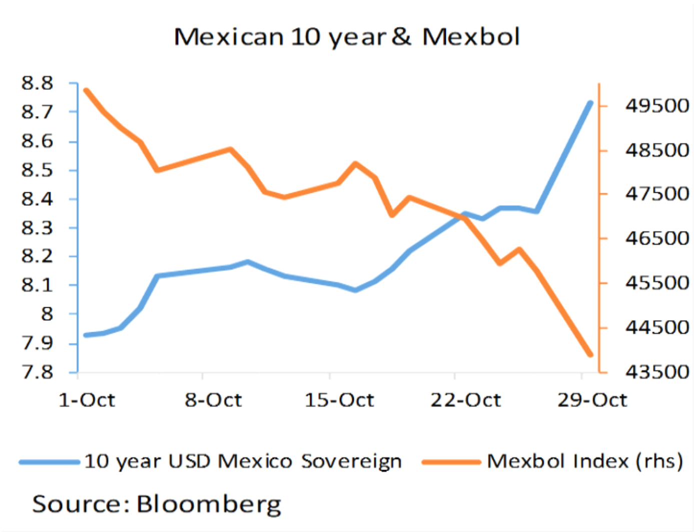
The Chinese yuan weakened to a 10-year low on fresh Sino-U.S. trade anxiety. The renminbi was trading between 6.96 – 6.97 against the US dollar for most of the time today, which is the weakest in a decade. At market close, renminbi weakened by 0.1% to 6.9613 per dollar. Investor's confidence remained fragile as US President Trump said that he might impose tariffs on all remaining Chinese imports by early

December if the talks to be held with Chinese President Xi next month fail to resolve the trade issues. This stirred speculation over whether the PBC would intervene to prevent the renminbi from sliding beyond the psychological level of 7 per dollar. In the equity market, the Shanghai A-share Index and the blue-chip CSI 300 were choppy, falling in early trading before rising 1.0% and 1.1% respectively at market close. Market sentiment was boosted by further supportive measures by the CSRC, which said that it would encourage share buybacks as well as mergers and acquisitions by listed firms,

China plans to deepen its currency markets to facilitate foreign currency trading and borrowing in the onshore market. The CFETS is considering expanding FX swaps to include foreign currency pairs such as euro versus US dollar, and interest-rate swaps denominated in foreign currency. CFETS also aims to build reference rates in onshore markets for US dollar borrowing that would encourage companies to seek dollar funding at home rather than overseas, tapping the pool of US dollar liquidity in the onshore market. Analysts said that developing the foreign-currency market onshore will facilitate cross-border capital flows and enhance capital account convertibility. The moves could make it easier for Chinese companies to borrow in foreign currencies onshore that may reduce outflow pressure by converting renminbi into foreign currencies.

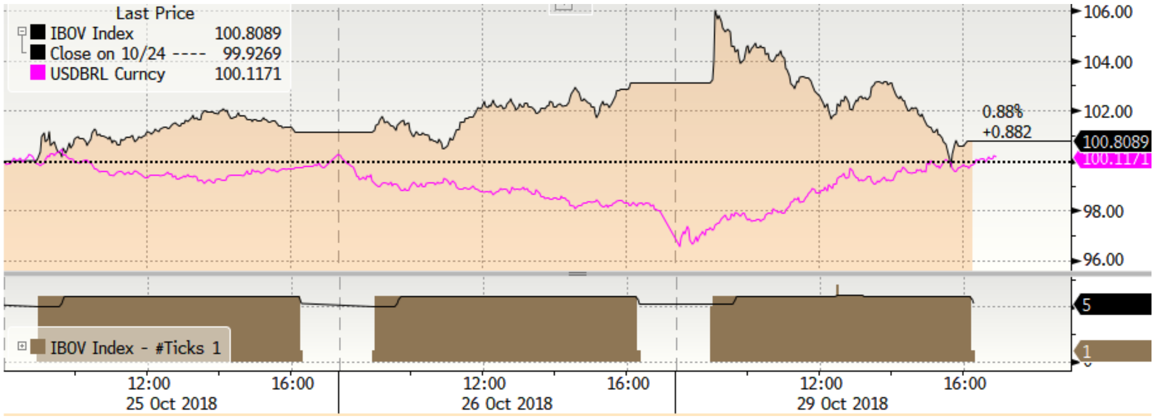
Mexico

President elect Lopez Obrador decided to abandon the ongoing construction of the new Mexico City airport in Texcoco following a referendum in which 70% against it. The voters are in favor of the alternative of upgrading the existing airport and upgrading the military airport for civilian use at Santa Lucia. The US$13.3bn new Mexico City airport was the largest infrastructure project in the country’s history with about US$6.5bn already invested to date. Following the announcement, Mexican equities fell by nearly 4.2% to its lowest point since beginning of 2016 and FX went down and 3.5%. The 10-year bond yield went up by almost 4bps to 8.7%, a level last observed in 2008. Analysts believe that FX volatility will remain a concern in the coming days and would be on a look out for a reaction from policymakers.



Brazil

Brazilian assets erased an early gain and fell as investors focused on the risks associated with the Bolsonaro presidency. Investors probably want to get an idea of who will likely be in the government. Bolsonaro has said Paulo Guedes will run the Finance Ministry. Analysts believe his picks for the leadership of state-controlled oil producer Petrobras and lender Banco do Brasil may be among the next-most important positions. If the central bank President Ilan Goldfajn decides to depart, investors would want to see a replacement who is committed to economic orthodoxy and keeping inflation under control.

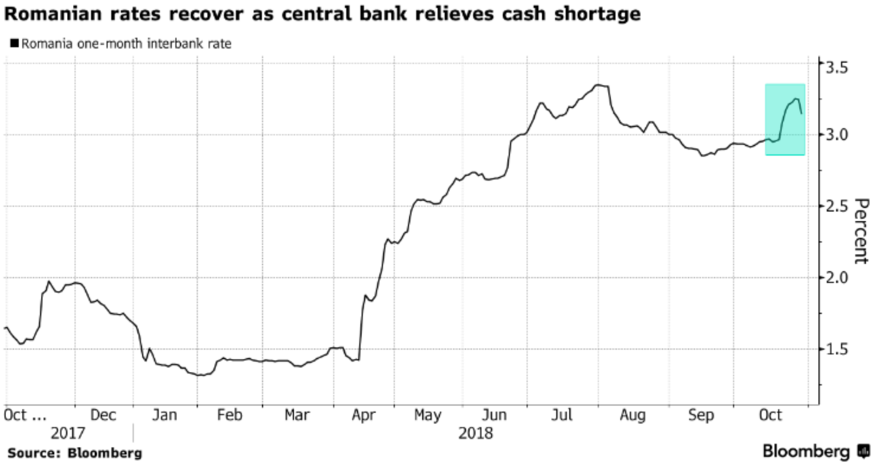


Azerbaijan

The central bank cut rates 25bps to 9.75%, as expected. The CBA lowered rates for the 4th time this year as inflation forecasts for 2018 were halved to 3-4%, from 6-8% previously.

Romania

Romanian repo rates have increased about 25bps after the central bank boosted market liquidity at its last auction. Repo rates have stayed above 3.0% in recent days after the Central of Romania (CBR) added a record $4.1bn of liquidity. The central bank auction is the first one in a month and seeks in part to satisfy growing demand by foreigners for local currency.


Romanian rates recover as central bank relieves cash shortage
Romania one-month interbank rate
3.5
3.0
2.5
2.0
1.5
Percent
Oct ...
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
2017
2018
Source: Bloomberg
Bloomberg

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Global Financial Indicators

Last updated: 10/30/18 8:11 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2641	-0.7	-4	-9	3	-1
Europe		3147	-0.2	0	-7	-14	-10
Japan		21457	1.5	-3	-11	-3	-6
China		2568	1.0	-1	-9	-24	-22
Asia Ex Japan		61	-1.4	-6	-13	-18	-20
Emerging Markets		38	0.0	-5	-11	-17	-19
Interest Rates					basis points		
US 10y Yield		3.12	0.9	-5	6	75	71
Germany 10y Yield		0.39	1.0	-2	-8	2	-4
Japan 10y Yield		0.12	1.2	-3	-1	5	7
UK 10y Yield		1.42	2.0	-5	-15	8	23
Credit Spreads					basis points		
US Investment Grade		107	0.5	5	9	13	15
US High Yield		379	-2.4	20	51	11	4
Europe IG		75	-0.3	0	8	25	31
Europe HY		301	-0.4	0	27	73	67
EMBIG Sovereign Spread		366	-1.0	11	23	83	81
Exchange Rates					%		
Dollar Index (DXY)		96.94	0.4	1	2	3	5
USDEUR		1.14	-0.2	-1	-2	-3	-5
USDJPY		112.9	-0.5	0	1	0	0
EM FX vs. USD		61.8	0.2	-1	0	-9	-11
Commodities					%		
Brent Crude Oil ($/barrel)		76	-1.2	0	-8	26	14
Industrials Metals (index)		116	-0.5	-2	-4	-12	-16
Agriculture (index)		43	0.1	-2	3	-11	-10
Implied Volatility					%		
VIX Index (%, change in pp)		24.5	-0.2	3.8	12.4	14.0	13.5
10y Treasury Volatility Index		4.7	0.0	0.7	1.3	0.6	1.2
Global FX Volatility		8.4	0.0	0.2	0.1	0.6	1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		386	2.2	-5	14	-133	17
Italy		303	6.7	-16	35	155	144
Portugal		149	-0.3	-10	9	-23	-2
Spain		117	0.0	-9	14	4	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: 10/30/2018 8:10 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		6.96	0.0	-0.4	-1	-5	-7		3.5	-1.5	-4	-11	-34	-45
Indonesia		15224	0.0	-0.2	-2	-11	-11		8.7	-2.4	-4	54	159	208
India		74	-0.3	-0.1	-1	-12	-13		8.0	-5.3	-9	-21	84	48
Philippines		54	0.1	0.4	1	-4	-7		6.6	0.4	1	16	176	175
Thailand		33	0.0	-1.3	-3	0	-2		2.9	-2.2	-3	6	62	61
Malaysia		4.18	0.0	-0.4	-1	1	-3		4.1	0.4	3	7	14	24
Argentina		37	-0.2	-1.2	7	-52	-50		20.4	1.6	17	-345	474	434
Brazil		3.69	0.7	0.1	9	-11	-10		8.7	-3.9	-7	-137	-3	-32
Chile		692	-0.2	-1.1	-5	-8	-11		4.8	-0.1	-4	0	32	3
Colombia		3187	-0.2	-3.2	-6	-5	-6		6.9	3.7	15	29	48	62
Mexico		19.96	0.5	-3.3	-6	-4	-2		8.7	35.9	34	76	140	103
Peru		3.4	-0.2	-0.7	-1	-3	-3		5.9	4.9	11	23	47	68
Uruguay		33	0.3	0.3	1	-11	-12		10.8	4.6	18	34		222
Hungary		286	-0.1	-1.4	-2	-7	-9		2.6	0.0	-15	0	120	136
Poland		3.81	-0.1	-1.7	-3	-4	-9		2.5	1.1	-9	-10	-26	-18
Romania		4.1	-0.1	-1.0	-2	-4	-5		4.6	-2.0	-5	24	113	75
Russia		65.6	0.3	-0.2	-1	-12	-12		8.3	-4.1	6	9	87	105
South Africa		14.6	0.6	-2.6	-3	-4	-15		9.8	-7.3	8	21	8	51
Turkey		5.51	1.0	4.2	8	-31	-31		19.6	0.0	-70	-42	771	767
US (DXY; 5y UST)		97	0.4	1.0	2	3	5		2.95	3.2	-6	0	96	74

	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		2568	1.0	-1	-9	-24	-22		186	1	-3	3	50	34
Indonesia		5789	0.6	0	-3	-3	-9		219	0	8	34	55	53
India		33891	-0.5	0	-6	2	0		172	3	6	11	57	62
Philippines		7016	-1.3	-3	-4	-16	-18		117	0	7	21	24	22
Malaysia		1686	0.1	-1	-6	-4	-6		130	-1	2	1	20	20
Argentina		28898	-1.6	1	-14	5	-4		672	-2	7	51	319	322
Brazil		83797	-2.2	-2	6	12	10		261	-4	5	-25	26	27
Chile		5064	0.0	-1	-4	-10	-9		137	-2	2	13	20	18
Colombia		1392	-0.3	-3	-8	-3	-8		191	-3	7	24	7	17
Mexico		43879	-4.2	-7	-11	-10	-11		303	2	30	46	56	58
Peru		18593	0.1	-2	-5	-6	-7		157	1	8	25	18	20
Hungary		36095	0.0	-3	-3	-9	-8		127	0	8	17	32	39
Poland		54239	-0.1	-2	-8	-16	-15		66	0	4	19	16	19
Romania		8516	0.1	-1	1	9	10		198	1	15	28	74	84
Russia		2311	-0.3	0	-7	12	10		225	-3	5	-6	44	47
South Africa		50971	-0.7	0	-9	-13	-14		338	-5	26	17	57	84
Turkey		88789	-1.9	-6	-11	-18	-23		439	-4	-6	-14	138	150
Ukraine		554	-0.2	-1	3	84	76		600	5	39	51	151	145
EM total		23	-1.0	-4	-10	-14	-14		366	-1	11	23	83	81

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