



# Global Markets Monitor

Monetary and Capital Markets Department  
Global Markets Analysis Division

Thursday, September 13, 2018

Click [here](#) to subscribe and [here](#) to provide feedback on the GMM.










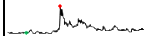
- **US corporate capex surged in the first half of the year** ([link](#))
- **No surprises in ECB policy decision, as rates and guidance unchanged** ([link](#))
- **The Bank of England leaves policy rates unchanged, as expected** ([link](#))
- **Deutsche Bank shares rise as it reportedly mulls restructuring** ([link](#))
- **Turkish lira rallies as CBRT hikes by a greater-than-expected 625 bps** ([link](#))
- **Colombian peso rallies against the dollar on higher oil prices** ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## EM assets broadly but modestly rally in wake of CBRT hike

The Central Bank of the Republic of Turkey (CBRT) hiked its policy rate by 625 bps to 24.0%. The larger-than-expected move helped support a broad though modest rally in EM assets. The South African rand appreciated by 1.3% this morning and the Russian ruble is also 1% stronger against the dollar. EM assets have also been broadly supported by rising crude oil prices, as front-month Brent crude oil futures have risen 3.4% over the past week. Additionally, EM assets have also benefited from news reports that discussions may be advancing to help resolve the trade dispute between the United States and China. A few moment ago, the ECB issued its policy statement, leaving rates unchanged as expected. The statement also said that the ECB will reduce its net asset purchases to €15 bn after the end of this month.

### Key Global Financial Indicators

Last updated: 9/13/18 8:17 AM	Level		Change from Market Close				
	Last 12m	Index	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		2889	0.0	0	2	16	8
Eurostoxx 50		3353	0.8	2	-2	-5	-4
Nikkei 225		22821	1.0	1	4	15	0
MSCI EM		41	0.5	-1	-2	-8	-12
<b>Interest Rates</b>			bps				
US 10y Yield		2.98	1.3	10	10	79	57
Germany 10y Yield		0.42	0.7	6	11	2	-1
Japan 10y Yield		0.11	-0.1	0	1	8	6
<b>FX / Commodities / Volatility</b>			%				
Dollar index, (+) = \$ appreciation		94.9	0.1	0	-2	3	3
Brent Crude Oil (\$/barrel)		79.2	-0.7	3	9	44	18
VIX Index (% change in pp)		12.7	-0.4	-2	-2	2	2

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

## United States

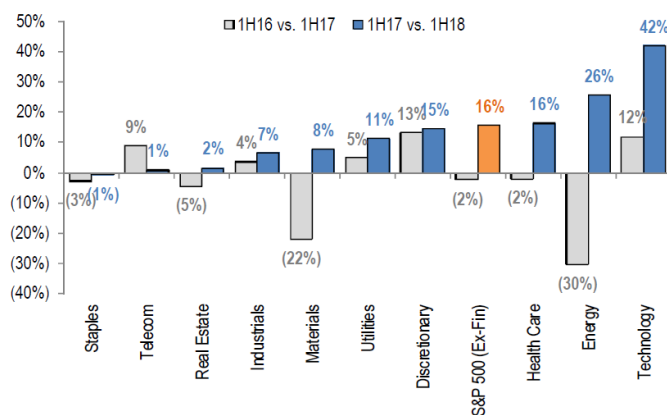
[back to top](#)

**Markets were little changed as investors stayed on the sidelines ahead of the ECB, BOE and the Turkish and Russian central bank meetings.** Markets rose slightly on press reports that Treasury Secretary Mnuchin was to resume trade talks with China, but the gains were short lived. The latest Beige Book report from the Fed noted an increase in trade concerns and continued labor shortages. A strong 10-year Treasury auction and the unexpected decline in PPI interrupted the 10-year Treasury's march to the 3% yield level as yields fell 1 to 2 bps across the curve. Oil prices reached a two-month high on worries about tight oil inventories and Hurricane Florence.

**Headline and core CPI printed lower than expectations for August.** Moments ago, the Bureau of Labor Statistics said that headline inflation rose 0.2% mom (0.3% consensus) while core CPI rose only 0.1% mom (0.2% expected). The annualized numbers for headline and core were 2.7% and 2.2% respectively. Treasury yields were slightly lower following the data.

**US corporations delivered strong growth in capital expenditures during the first half of the year.** One key factor was a surge of spending in the booming technology sector as non-tech companies increased their use of cloud-based services and data centers. However, analysts think favorable tax policy also played an important part, as did higher oil prices for the energy sector. Compared to 2017, two-thirds of S&P 500 companies provided guidance that they planned higher capital expenditures, mainly in the discretionary, technology and utilities sectors. Capital expenditure is likely to remain strong as capacity utilization continues to increase to meet greater demand for goods and services. Growth in demand has played a greater role in boosting capital expenditure than cheap debt and high profits.

**Figure 8: Capex Grew by 16% y/y during 1H**

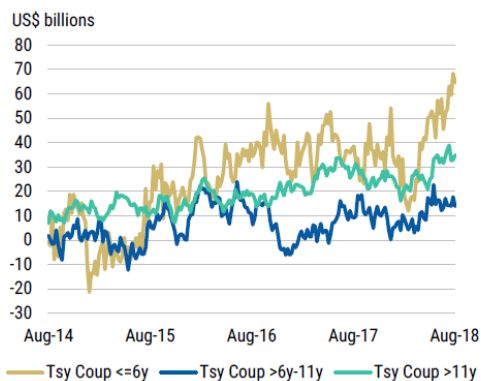


Source: JPMorgan

**Primary dealer inventories of Treasury coupon securities are at their highest level in four years.** Their holdings appear to be especially concentrated in the 11+ year maturity sector and the two- to six-year maturity sector. Some analysts believe this trend disproves the thesis that heavy buying of longer-maturity Treasuries by pension funds had been a key driver of the flattening yield curve; dealer inventories would have been much lower if pension funds were heavily buying longer-date Treasuries. Others had expressed the worry that the passage of the September 15 deadline for favorable tax treatment for pension plans could see a re-steepening of the curve as longer maturity buying came to an end. However, New York Fed data on longer maturity dealer holdings provides no evidence of large amounts of buying by customers. Consequently, the days after September 15 may not see a reversal of the curve flattening trend, some

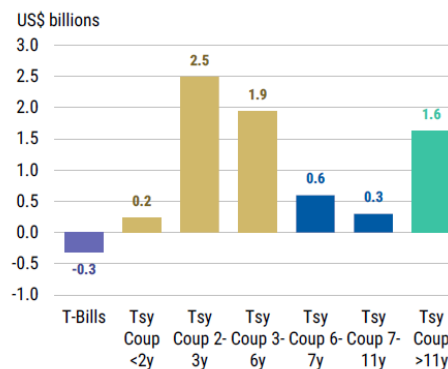
analysts believe. Others interpret the holdings data as an indication that the post-crisis trend of shrinking dealer participation in bond trading could be ending.

**Exhibit 14:** Primary dealer positions in Treasury coupons: 4-year history



Source: Morgan Stanley Research, FRB New York

**Exhibit 15:** Primary dealer positions in Treasury coupons: 1-year z-score



Source: Morgan Stanley Research, FRB New York

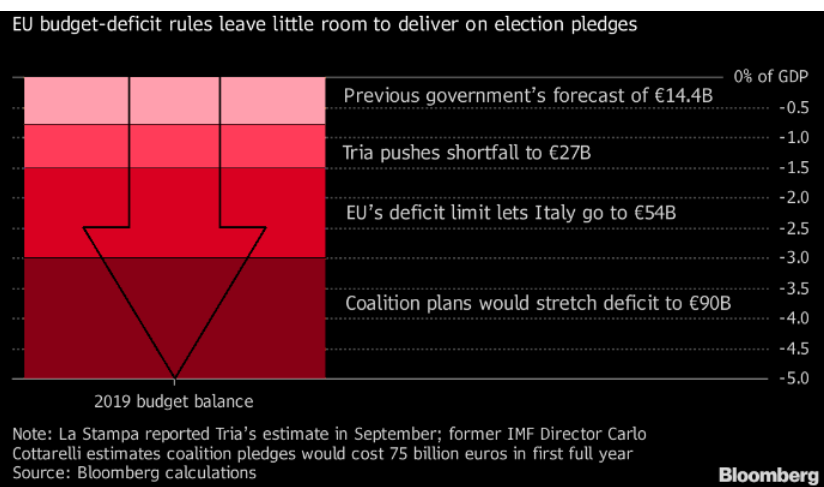
## Europe

[back to top](#)

**The ECB left its policy rate unchanged at -0.4%, as expected.** Forward guidance, that the ECB will likely leave rates unchanged through the summer of 2019, also remained unchanged. Finally, the Governing Council announced that it will reduce the monthly pace of the net asset purchases to €15 bn until the end of December 2018. With no real surprises in the statement, market participants will now monitor President Draghi's news conference for new information. The euro is little changed against the dollar following the decision and core European rates are also unchanged.

**European bourses advanced 0.5% today. Bank equities (+0.6%)** are in line with broad indices, let by large gains at Commerzbank (+3.3%), spurred by the reemergence of rumors of a possible merger with Deutsche bank (+0.5%) (see below).

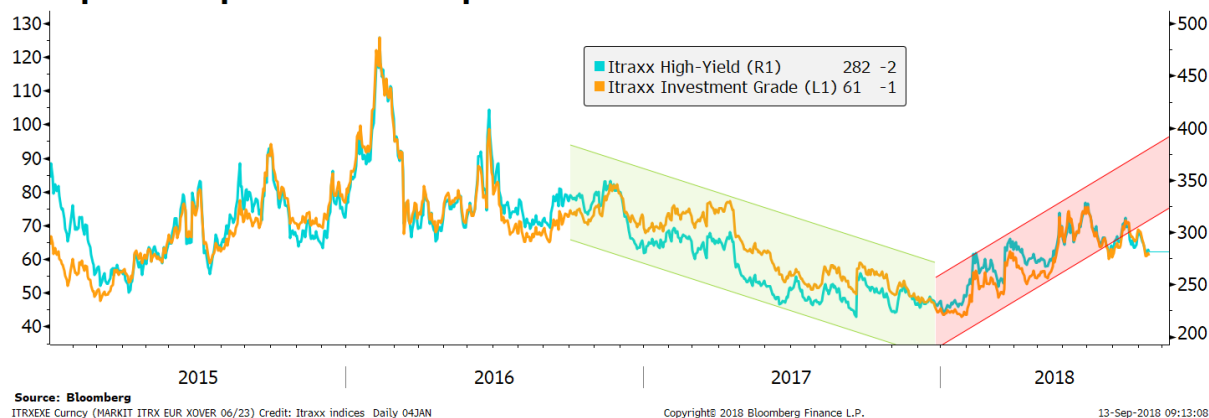
Core Euro area sovereign bond markets are flat today. **Italian 10-year yields gained 5 bps to 2.99%**, following news that **FM Tria has reportedly threatened to resign if he is forced to include spending for the so-called basic citizen's income in the 2019 budgeted.** The basic income is an electoral promise of the Five Star Movement, which has reportedly asked for €10bn in the 2019 budget to finance the measure.



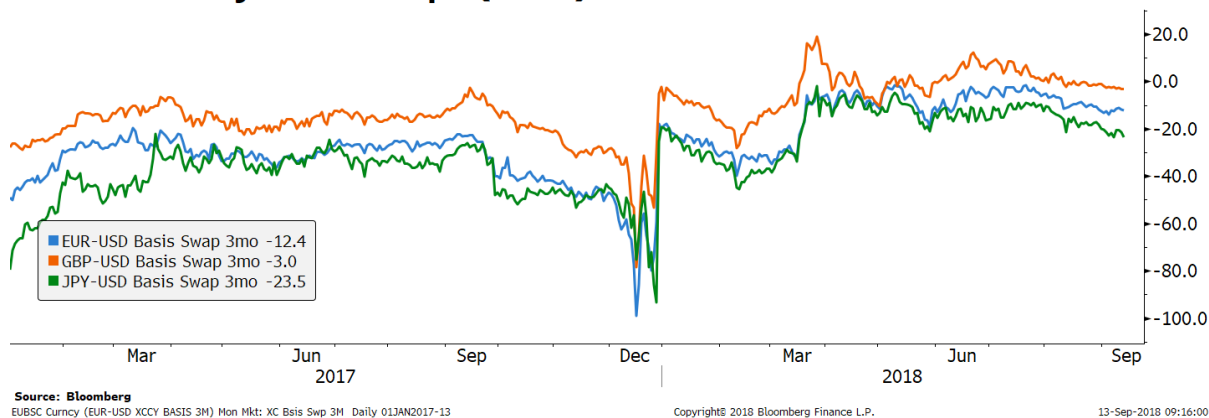
**Deutsche Bank is said to be considering a split of its retail, investment banking, and wealth management units under a new holding company.** Analysts believe that the restructuring would be geared towards facilitating the merger of parts of DB with rivals. The bank's management has not confirmed the rumors. Separately, there have been additional rumors that **China's sovereign wealth fund could be interested in acquiring HNA's 7.6% stake in DB.** Deutsche's shares are +0.5% up today, in line with the EuroStoxx Bank Index (+0.6%).

In European credit markets, **spreads on the iTraxx high-yield and investment grade indices continued to fall.** Although small, today's moves seem to confirm the reversal of the indices' upward trend through most of 2018. In Money markets, **spreads of the 3-month cross currency basis swaps of the major currency pairs were steady,** signalling no changes in the relatively ample dollar-funding conditions in European markets.

### European Corporate Credit Spreads



### Cross-Currency Basis Swaps (3 mo)



### European data releases:

- **French** August CPI came in at 2.3% y-o-y, matching consensus.
- **German** August CPI also met expectations at 2.0% y-o-y.

### UK

**The Bank of England left its policy parameters unchanged, as expected.** The Bank rate was kept at 0.75%, and the asset purchases and corporate bond targets were maintained at £435 bn and £10 bn, respectively. The decision was unanimous within the MPC. The Bank marginally upgraded its growth forecast for Q3 to 0.5% from 0.4%. The BoE also reiterated that "limited" and "gradual" rate increases will

be needed to return inflation to its 2 percent target. The pound gained 0.1% to \$1.31 after the announcement.







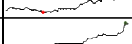



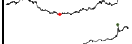

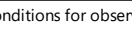

## Other Mature Markets [back to top](#)

### Japan

**Japanese equities rose and the yen weakened on renewed optimism of easing trade tension between the US and China.** The Topix gained 1.1%; the Nikkei rose 1%, with telecommunications shares providing the biggest boost. A bigger-than-expected increase in Japan's July core machinery orders also lifted sentiment. Core machinery orders, seen as a leading indicator of capital investment, rose 11% in July from the previous month, twice as much as expected. **Strong demand for JGBs at the 5-year note auction** steepened the yield curve, with yield on the 30-year bond rising 0.8 bps to 0.83% while those with maturities of 7 years or less fell by around 0.3 bps. At the regular 5-year note auction, the bid-to-cover ratio rose to 5.53x, the highest on record going back to 2000; by comparison, the previous auction saw a ratio of 3.95x.

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

### Key Emerging Market Financial Indicators

Last updated: 9/13/18 8:17 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Prices/Returns of Major EM Benchmarks</b>			%				%
MSCI EM Equities		41.44	0.5	-1	-2	-8	-12
MSCI Frontier Equities		27.64	0.1	0	-3	-11	-17
Hard Currency Sovereign Debt		816.58	0.2	0	0	-4	-5
Local Currency Sovereign Debt		15.95	0.6	1	-3	-18	-16
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.85	0.2	0	1	-4	-5
Indonesian Rupiah		14790	0.0	1	-1	-10	-8
Indian Rupee		71.84	0.2	0	-3	-11	-11
Argentine Peso		38.34	0.0	-2	-22	-56	-51
Brazil Real		4.16	-0.1	-2	-7	-25	-20
Mexican Peso		18.93	0.5	1	1	-6	4
Russian Ruble		68.22	1.1	1	-1	-15	-15
South African Rand		14.76	1.4	4	-2	-11	-16
Turkish Lira		6.20	2.4	6	11	-44	-39
Dollar vs. Mature FX (DXY index)		94.87	0.1	0	-2	3	3

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

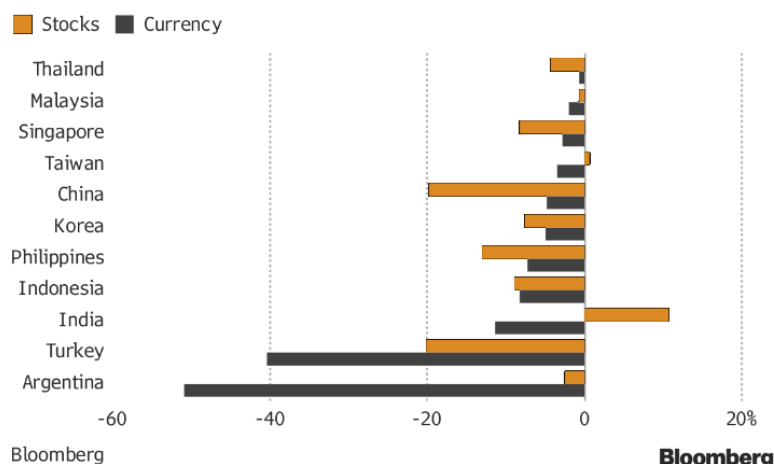
**Emerging market currencies experienced a calm trading session on Wednesday.** In Turkey, the lira appreciated against the US dollar in expectation of a rate hike by the central bank today. In Brazil, currency losses were trimmed as a new election poll showed the right-wing candidate leading the polls. In Mexico, the peso extended its winning streak to a third day, reaching its highest month-to-date level on the backdrop of positive sentiment over a trade deal with the US. Meanwhile, the Chilean and Colombian pesos both appreciated on Wednesday, supported by rising commodity prices.

**In Asia, equities opened on the rise, following the news of a potential round of negotiations between the US and China.** The Korean won outperformed, gaining 0.5%. The Thai baht also gained (+0.4%), supported by news that long-delayed elections could take place. Except for the offshore CNH, which shed 0.1%, all other Asian currencies held steady on the day. Asian currencies have not registered

significant losses during this period of US-China trade tensions. Rather, equities have been the asset class showing the greatest impact. Analysts predict that markets may experience further losses, until the trade dispute is resolved. A notable exception in the chart is India, which has had gains in the stock market, reportedly due to momentum in economic growth. However, analysts explain that the currency has depreciated because of concerns of a stronger dollar, which will cause borrowing costs to rise for financing India's current account deficit.

## Trade War Risk

Emerging Asian stocks generally took a harder hit than currencies



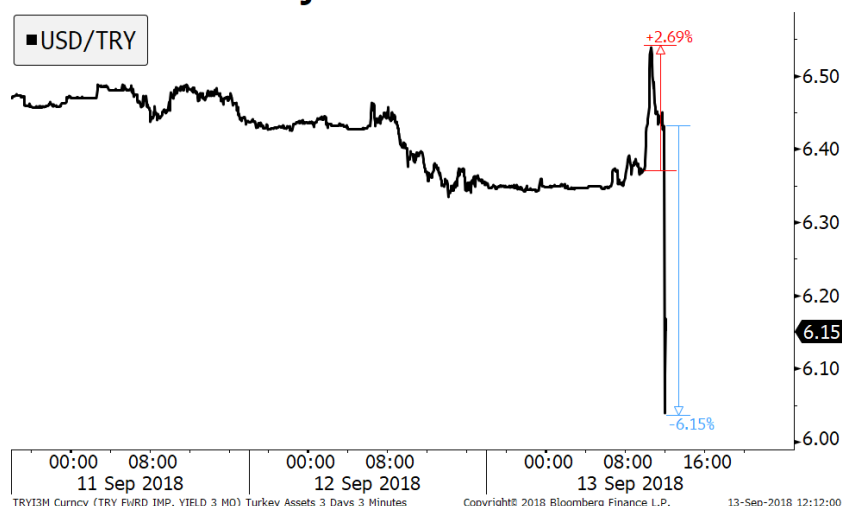
## Turkey

**The central bank delivered a higher-than-expected 625 bp rate hike of the one-week repo rate to 24%.** Given that the CBRT has not offered funding through the 1-week repo facility in four weeks (instead offering liquidity through the overnight facility at 19.25%), the effective hike in funding rates is 'only' 475 bps. With today's decision, the central bank has not only delivered a significant tightening of financial conditions, but has also likely restored a more regular functioning of its monetary policy framework.

The decision led to an 8.5% intraday rally for the lira against the dollar, though it has already given up some of these gains for a net appreciation of 2.6% on the day. Before the central bank decision, the currency had been 2.4% weaker as President Erdogan reinforced his unconventional views this morning by saying that interest rates are a "tool of exploitation" and suggesting that the CBRT should cut interest rates.

Separately, the government published an executive decree forcing contracts between entities in Turkey to be made in liras rather than foreign currencies. The scope of the decree is still unclear, but it will impact transactions involving real estate, transportation, financial leasing, amongst others. Any contract priced or indexed to foreign currencies should be restated in liras within 30 days.

## Turkish Lira 3-day Performance



## Hungary

**The European Parliament called for disciplinary actions against the country.** This comes after months of acrimony between the EU and the Hungarian government over its alleged attempts to curtail civil liberties, judicial independence, educational freedoms, and freedom of press. The EP's motion won by 448 against 197 and will have to be approved by EU governments before becoming an Art. 7 procedure. This could ultimately lead to sanction and suspension of the Fidesz' membership in the European Parliament. Hungarian equities are down 0.7% and the forint depreciated 0.5% against the euro over the last two sessions.

## China

**Chinese equities edged higher while the onshore RMB stabilized on renewed optimism of easing trade tensions with the US.** Stocks in Hong Kong and China rose for the first time this week. The Shanghai Composite edged away from the lowest level since 2014 to gain 1.1%; the Hang Seng Index rose 2.5%, its biggest advance in more than three weeks. Meanwhile, the onshore CNY held steady at 6.85 per US dollar.

## Local government bond financing rose amid efforts to boost funding for infrastructure building.

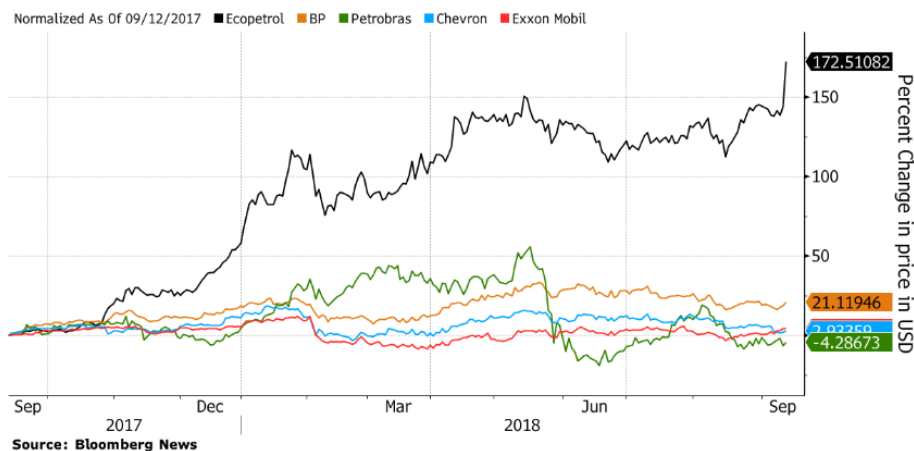
August data on TSF (Total Social Financing) showed that LG bond issuance drove a larger-than-expected increase in the broad measure of credit. According to Bloomberg data, local government debt issuance rose 98% yoy to RMB 822.5 bn (\$120 bn) in August; the RMB 483.3 bn issued thus far this month has already exceeded total issuance seen in last September. The pace of bond issuance accelerated after the authorities ordered local governments to speed up fundraising for infrastructure projects and ensure that 80% of bonds required for refinancing were sold by October 1<sup>st</sup>. Reflecting the surge in supply, LG bond yields rose by 10 bps on average in September, but remain 27 bps lower relative to levels seen three months ago amid monetary easing from the PBC.

## Colombia

**The Colombian peso appreciated by 2% against the dollar on Wednesday, leading gains amongst EM peers.** It was supported by rising oil prices, which in turn have supported Ecopetrol, Colombia's oil producer. The state-controlled oil producer's shares reached a four-year high, causing the Colcap index to rally by more than 1%. Also on Wednesday, President Duque announced that Ecopetrol will not be further privatized, calling it "symbol" of the country. The government holds an 88.5% stake in the company.

## More Than Oil

Colombia's best performer, Ecopetrol is outperforming oil majors



## Peru

**The central bank of Peru cut its forecast for 2018 and 2019's trade surpluses.** The bank stated the main reason for the forecast revision was concern that China may reduce its demand for copper because of trade tensions with the US. Copper prices have reportedly fallen by 20% this year, because of tariffs on imports, and more uncertainty regarding trade. The central bank slashed its surplus forecast for 2018 from \$9 billion to \$6.9 billion, and from \$10 billion to \$5.8 billion in 2019.











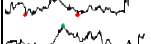






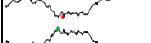






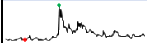






---

**List of GMM Contributors (Global Markets Analysis Division, MCM Department)**
**Anna Ilyina***Division Chief***Peter Breuer***Deputy Division Chief***Will Kerry***Deputy Division Chief***Sergei Antoshin***Senior Economist***John Caparusso***Senior Financial Sector Expert***Sally Chen***Senior Economist***Fabio Cortés***Senior Economist***David Jones***Senior Financial Sector Expert***Sanjay Hazarika***Senior Financial Sector Expert***Rebecca McCaughrin***Senior Financial Sector Expert***Juan Solé***Senior Economist***Jeffrey Williams***Senior Financial Sector Expert***Akihiko Yokoyama***Senior Financial Sector Expert***Dimitrios Drakopoulos***Financial Sector Expert***Tryggvi Gudmundsson***Economist***Henry Hoyle***Financial Sector Expert***Robin Koepke***Economist***Thomas Piontek***Financial Sector Expert***Jochen Schmittman***Economist***Ilan Solot***Financial Sector Expert***Nour Tawk***Economist***Martin Edmonds***Senior Data Mgt Officer***Yingyuan Chen***Senior Research Officer***Rohit Goel***Research Officer***Yang Li***Research Assistant*


---

**Disclaimer:** This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

## Global Financial Indicators

Last updated: 9/13/18 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2889	0.0	0	2	16	8
Europe		3353	0.8	2	-2	-5	-4
Japan		22821	1.0	1	4	15	0
China		2687	1.1	0	-4	-21	-19
Asia Ex Japan		69	0.4	-1	-2	-6	-10
Emerging Markets		41	0.5	-1	-2	-8	-12
<b>Interest Rates</b>			basis points				
US 10y Yield		2.98	1.3	10	10	79	57
Germany 10y Yield		0.42	0.7	6	11	2	-1
Japan 10y Yield		0.11	-0.1	0	1	8	6
UK 10y Yield		1.49	0.9	8	24	35	30
<b>Credit Spreads</b>			basis points				
US Investment Grade		102	-0.3	-3	0	-10	10
US High Yield		338	-1.2	-8	-10	-56	-38
Europe IG		61	-1.0	-4	-9	9	16
Europe HY		281	-2.4	-9	-28	54	47
EMBIG Sovereign Spread		368	-4.0	-10	2	80	83
<b>Exchange Rates</b>			%				
Dollar Index (DXY)		94.87	0.1	0	-2	3	3
USDEUR		1.16	0.0	0	2	-2	-3
USDJPY		111.6	-0.3	-1	-1	-1	1
EM FX vs. USD		61.2	0.6	1	0	-13	-12
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		79	-0.7	3	9	44	18
Industrials Metals (index)		116	0.2	1	-3	-8	-16
Agriculture (index)		42	-0.2	-1	-4	-14	-11
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		12.7	-0.4	-1.9	-2.0	2.2	1.7
10y Treasury Volatility Index		3.4	-0.1	-0.3	-0.7	-0.8	-0.1
Global FX Volatility		8.9	0.0	-0.1	-0.3	0.6	1.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		403	-6.1	-39	-26	-141	-9
Italy		296	1.0	-10	-14	92	95
Portugal		185	-1.3	-3	0	-97	-9
Spain		146	-0.1	1	1	-12	-11

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

Data source: Bloomberg.

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 9/13/2018 8:18 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		6.85	0.2	-0.2	1	-4	-5		3.7	2.1	6	17	-7	-32
Indonesia		14790	0.0	0.8	-1	-10	-8		8.7	3.9	7	88	199	210
India		72	0.2	0.1	-3	-11	-11		8.3	-0.2	7	34	136	82
Philippines		54	-0.4	-0.4	-1	-6	-8		6.2	0.6	29	29	138	136
Thailand		33	0.3	0.6	2	2	0		2.9	3.2	5	11	64	58
Malaysia		4.15	-0.1	-0.1	-1	1	-2		4.1	0.5	0	7	30	23
Argentina		38	0.0	-2.4	-22	-56	-51		24.9	10.1	83	361	961	889
Brazil		4.16	-0.1	-2.5	-7	-25	-20		10.4	-9.2	-25	40	166	141
Chile		685	0.6	0.3	-4	-9	-10		4.8	-1.3	2	0	39	1
Colombia		3046	0.0	1.3	-1	-4	-2		6.6	-3.1	5	12	29	37
Mexico		18.93	0.5	1.3	1	-6	4		8.1	-3.6	2	27	115	38
Peru		3.3	0.0	-0.2	-1	-3	-3		5.6	0.1	7	13	19	38
Uruguay		33	0.2	-0.5	-4	-12	-12		11.4	-21.2	-21	111		285
Hungary		279	0.1	0.4	1	-7	-7		2.6	-0.1	4	3	92	134
Poland		3.71	0.0	0.4	2	-3	-6		2.6	-3.3	0	7	0	-8
Romania		4.0	0.0	0.1	2	-3	-3		4.3	-1.0	-3	-2	152	49
Russia		68.2	1.1	1.5	-1	-15	-15		8.5	-14.5	-5	43	102	122
South Africa		14.8	1.4	3.9	-2	-11	-16		9.7	-4.4	-5	31	51	43
Turkey		6.20	2.4	6.2	11	-44	-39		22.7	-27.1	-37	44	1215	1079
US (DXY; 5y UST)		95	0.1	-0.2	-2	3	3		2.88	1.5	14	13	111	67

	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		2687	1.1	0	-4	-21	-19		186	-2	-3	1	34	34
Indonesia		5858	1.0	3	0	0	-8		207	-2	-4	18	36	41
India		37718	0.8	-1	0	17	11		171	-3	5	15	38	61
Philippines		7517	0.9	-2	-2	-7	-12		103	-2	-9	-4	12	8
Malaysia		1793	0.4	0	1	0	0		133	-3	-7	0	-1	23
Argentina		29745	2.0	3	14	25	-1		687	-11	-39	-56	302	337
Brazil		75125	0.6	1	-3	0	-2		326	-1	-5	28	76	92
Chile		5262	0.0	2	1	2	-5		136	-5	-5	-5	10	17
Colombia		1510	2.0	0	-1	1	0		182	-2	-3	-11	-4	8
Mexico		49255	0.7	1	1	-2	0		277	-2	-7	-14	39	32
Peru		19027	1.4	0	-5	5	-5		143	-2	-7	-15	3	6
Hungary		36140	0.1	-3	1	-5	-8		113	-2	-10	-13	21	25
Poland		57522	1.2	-2	-2	-11	-10		52	-2	-11	-15	2	5
Romania		8234	-0.3	-1	2	2	6		187	0	1	6	60	73
Russia		2361	0.9	2	3	15	12		244	-3	4	0	76	66
South Africa		55779	-0.3	-2	-4	-1	-6		354	-3	-9	50	100	100
Turkey		93806	1.7	1	1	-13	-19		539	-8	-35	-22	265	250
Ukraine		529	0.0	1	4	82	68		561	-24	-54	-18	111	106
EM total		25	0.4	-1	-2	-4	-6		368	-4	-10	2	80	83

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