



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Thursday, September 20, 2018

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- **Emerging market assets continue to rebound as dollar weakens** ([link](#))
- **China may cut its average tariffs on majority of trading partners** ([link](#))
- **Turkish lira seesaws as the government announces economic plan** ([link](#))
- **Treasuries yields end Wednesday little changed after active trading session** ([link](#))
- **Norges bank hikes rates but delivers dovish guidance** ([link](#))
- **PM Abe wins third term as head of the ruling LDP** ([link](#))

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

Emerging markets continue to rebound as dollar weakens

Emerging market assets have started to recover over the past two weeks as the dollar has lost ground. This morning, the dollar is down 0.5% against advanced economy currencies and is over 2% below its August high. The Turkish lira strengthened by as much as 1.5% this morning on the announcement of a new economic plan with a projected 0.8% budget surplus in 2019, but has since more than given up those gains on uncertainty over the government's plan to manage the banking sector. Equity prices are higher this morning as markets continue to price a benign scenario on trade tensions, and amid news China may reduce tariffs on most of its trading partners. Treasury yields are edging higher this morning after a volatile session yesterday.

Key Global Financial Indicators

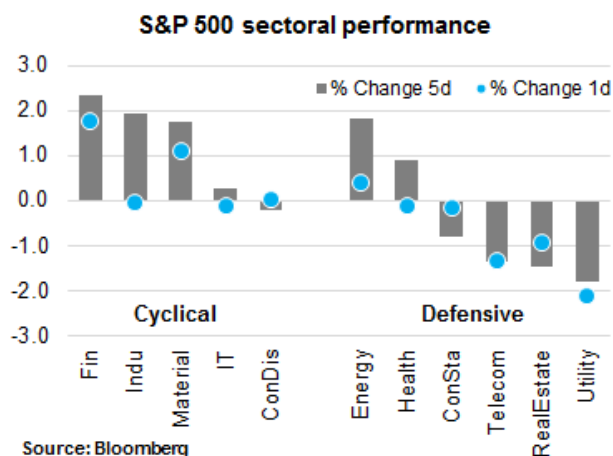
Last updated: 9/20/18 7:56 AM	Level	Index	Change from Market Close				YTD
	Last 12m		1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2908	0.1	1	2	16	9
Eurostoxx 50		3394	0.8	2	0	-4	-3
Nikkei 225		23675	0.0	5	7	17	4
MSCI EM		43	1.4	3	0	-7	-10
Interest Rates			bps				
US 10y Yield		3.08	1.9	11	26	81	68
Germany 10y Yield		0.49	0.1	7	19	5	6
Japan 10y Yield		0.12	-0.1	1	2	9	8
FX / Commodities / Volatility			%				
Dollar index, (+) = \$ appreciation		94.0	-0.5	-1	-2	2	2
Brent Crude Oil (\$/barrel)		79.3	-0.2	1	10	41	19
VIX Index (% change in pp)		11.6	-0.1	-1	-1	2	1

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

United States

[back to top](#)

US stocks closed slightly higher Wednesday with signs of sectoral rotation underway. The S&P 500 was marginally higher with the Dow up 0.6%. With positive sentiment back in the market and higher yields, cyclical sectors rallied (financials +1.7% and materials +1.2%), while defensive sector, which are normally rate-sensitive, declined (utilities -2.1%, telecom -1.4% and real estate -0.9%). However, as trade tension continues, it remains to be seen whether the rotation will last.



Treasury yields reversed a modest rise to close largely flat yesterday. It was a very active session with trading volume on the cash markets at 180% of the 10-day average, especially in the 5- and 10-year notes. One hour into the open, large block trades in the futures market sent the 10-year yield to an intra-day high of 3.09%. After a choppy afternoon session, a series of late-day bids emerged right after 4pm, pushing the 10-year yield back to 3.06%, 1 bp higher from yesterday. The 2-year yield closed flat on the day at 2.79%, with the 30-year yield marginally higher at 3.20%.

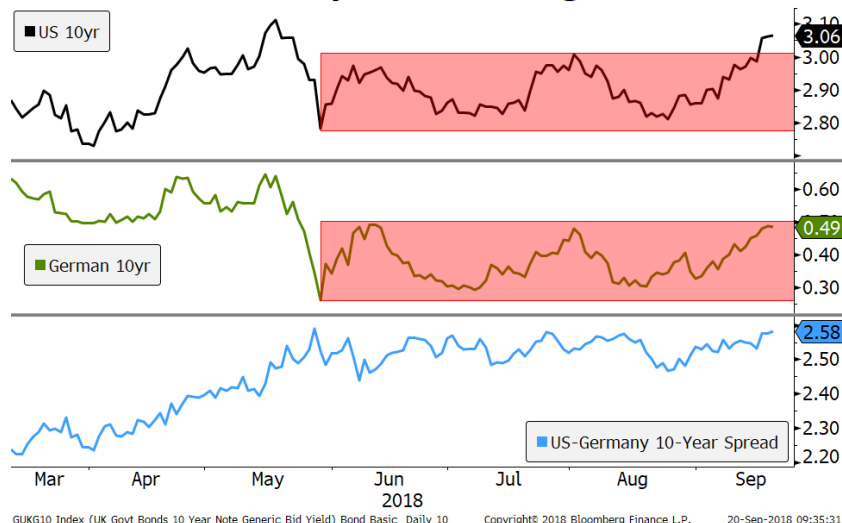
In economic news, **housing start strongly beat estimate by rising 9.2% mom in August, but details were less upbeat.** The large monthly gain was driven by the volatile multi-family category (+29.3% mom) following 2 consecutive declines (-3.7% mom in July; -16.6% mom in June), while the single-family category registered a much more modest 1.9% mom increase. More importantly, building permits fell 5.7% mom to a 15-month low and well below forecast. **President Trump reportedly nominated Nellie Liang to the Federal Reserve board seat.**

Europe

[back to top](#)

Fixed income markets are mostly unchanged. German 10-year yields are trading at 0.48% and Italian yields are down 3 bps to 2.82%. **Of note, the US-German spread continues to widen after the US 10-years broke above 3%.** The spread is now at 258 bps after widening 12 bps since late-August, but it's still below the recent highs seen in May (chart). **Equity markets are rallying across the region with the EuroStoxx 600 up 0.5%.** Bank stocks (+1.2%) continue to outperform, now entering in their fifth consecutive session of gains.

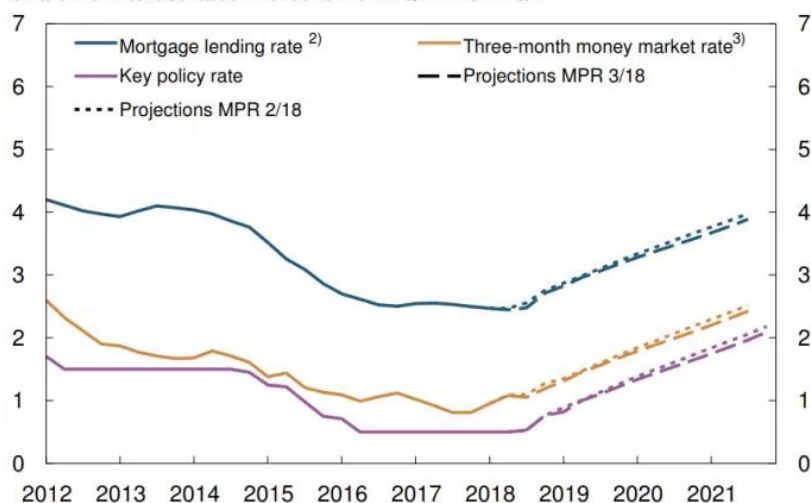
US-German Yield Spread Widening



Norway

The Norges bank hiked by 25 bps to 0.75%, as expected, but reduced its forward guidance on rates for next year. Officials confirmed that rates will “most likely” rise in Q1 2019. However, it said that rates are now expected to reach 1% by the end of next year, down from a forecast of 1.1% at the June meeting. The krone depreciated 0.8% against the dollar and yields are down about 5 bps across the curve.

Chart 1.8 Interest rates. Percent. 2012 Q1 – 2021 Q4 ¹⁾



Other Mature Markets

[back to top](#)

Japan

Equities and the yen were little changed on the day. The Topix rose 0.1% on very heavy volumes. Financials outperformed, gaining 1.1%. **Prime Minister Shinzo Abe won his third straight term as head of the ruling Liberal Democratic Party in a party leadership election held today.** Ten-year bond yields held steady at 0.1%. The JGB curve steepened recently in line with rising US Treasury yields and issuances at the long-end. In an auction held today, the 20-year bond supply met with average demand, with a bid-to-cover of 4.03. Meanwhile, BoJ's bond holdings rose at the slowest pace in seven years, in what some

analysts have described as stealth tapering. **Hackers stole \$60 million of digital coins from a crypto exchange.** The theft occurred last week. Japan, home to some of the world's most active digital-asset exchanges, has also hosted two of history's biggest known crypto hacks, the Mt. Gox incident of 2014 and the theft of nearly \$500mn in digital tokens from Coincheck Inc. in January.




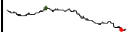

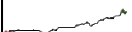





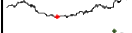


Currency Markets

The dollar index (DXY) continues to trend lower and is now 2.5% weaker than its recent high in mid-August. The Swedish krona and the British pound have led gains, both appreciating 4% against the dollar over this period. The former was partially due to short covering following this month's elections while the latter was driven by optimism towards a Brexit deal. The euro is up 3% since mid-August while the yen is the outlier, down 1.3%.

Emerging Markets

[back to top](#)

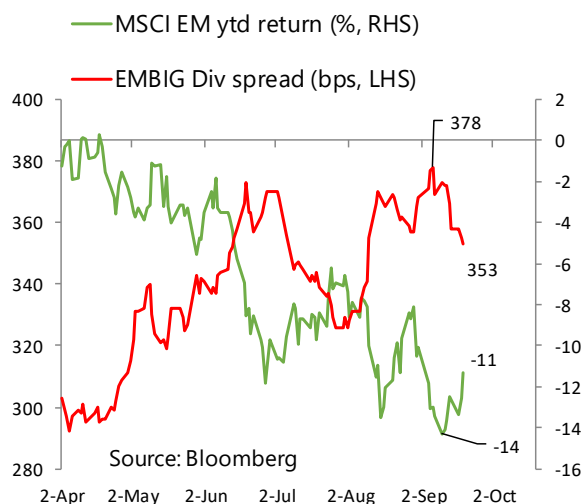
Key Emerging Market Financial Indicators

Last updated: 9/20/18 7:58 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Prices/Returns of Major EM Benchmarks			%				%
MSCI EM Equities		42.56	1.4	3	0	-7	-10
MSCI Frontier Equities		28.05	0.5	1	-3	-10	-15
Hard Currency Sovereign Debt		822.34	0.2	1	0	-3	-4
Local Currency Sovereign Debt		16.20	0.7	2	-1	-17	-15
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.85	0.0	0	0	-4	-5
Indonesian Rupiah		14815	0.1	0	-2	-10	-8
Indian Rupee		71.84	0.2	0	-3	-10	-11
Argentine Peso		39.29	0.0	0	-24	-56	-53
Brazil Real		4.13	-0.1	2	-4	-24	-20
Mexican Peso		18.75	0.1	0	1	-5	5
Russian Ruble		66.42	0.5	3	1	-12	-13
South African Rand		14.47	1.5	2	0	-8	-14
Turkish Lira		6.33	-1.2	-4	-4	-45	-40
Dollar vs. Mature FX (DXY index)		94.05	-0.5	0	-2	2	2

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

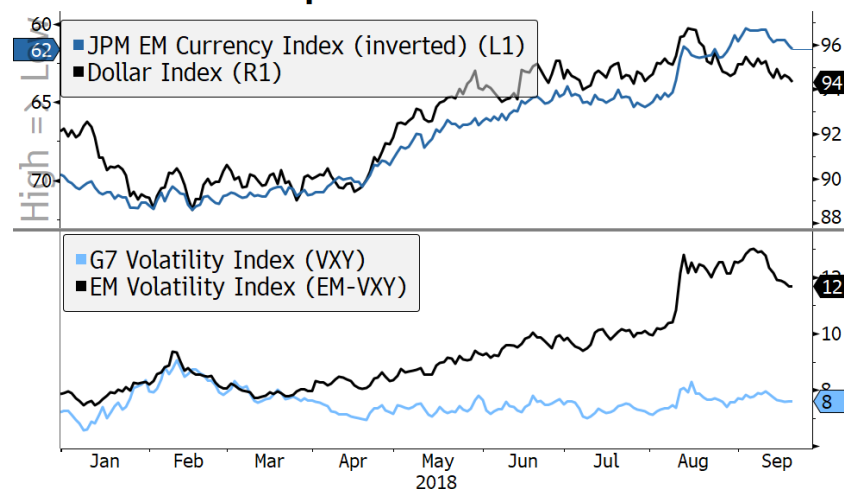
Emerging-market continued their rebound on Wednesday led by a strong performance in equities (MSCI EM: +1.4%, EM FX: 0.6%, EMBIG spread: -2bps). The latest policy signals from China (e.g. commitment to support infrastructure investment and a pledge not to devalue CNY to boost exports) have been met with a positive market response, while reports from the US-Canada NAFTA negotiations (US reportedly backed down from its "Buy American" demands for procurements projects) on Wednesday were seen as constructive for risk sentiment as well. **The rebound continued this morning in EMEA.** The South African rand gained another 1.7%, taking its gains this week beyond 3% ahead of today's central bank decision. The Turkish lira (+0.8%) also strengthened while domestic equities rose for the third day, led by banks

EM benchmarks



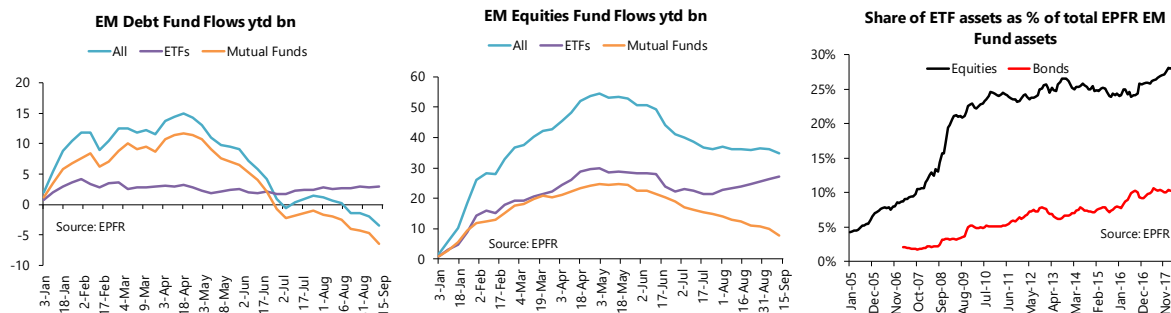
The recent weakening of the dollar has helped relieve some of the pressure on EM currencies. JPM's EM FX index is up over 2% since the lows earlier this month, though it is down 11.5% for the year. Implied volatility for EM currencies has also come down, but it remains well above that for G7, according to JPM's broad index. Note that EM and G7 implied vol were trading at the same level at the start of the year.

Weaker Dollar Helps EM FX



FXJPENCS Index (J.P. Morgan Emerging Market Currency Index (EMCI) Live Spot) EM Copyright© 2018 Bloomberg Finance L.P. 20-Sep-2018 09:25:09

The resilience of EM ETF flows in 2018 and throughout the recent outflow episode continues, and over the last few days fixed income ETF have started to report inflows. Of the EM fund assets covered by EPFR, close to 10% of fixed income assets are held in ETFs rather than mutual funds, and 28% of Equity assets.



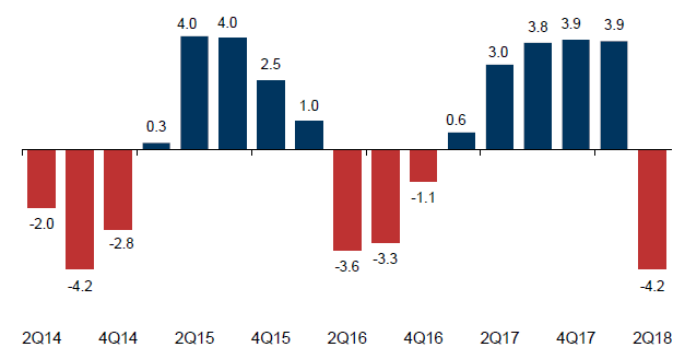
China

China plans to reduce the average tariff rate levied on imports from the majority of its trading partners as soon as next month, according to Bloomberg. The news comes on the heels of \$60bn in retaliatory tariffs to be levied on imports from the US. Details of the potential broad-based tariff cuts are not available, including how imports from the US would be treated. Equity markets, the RMB, and bond yields were little changed on the day.

Argentina

The Argentine peso gained 1.2% to 39.30 per dollar amid continued dollar sales by the central bank (\$195mn compared to an average of \$281mn over the last 3 days). **External spreads narrowed substantially with EMBIG spreads 30bps lower on the day** at 625bps and 160bps lower than their recent high on September 4. Following the close of the FX market, real GDP growth for Q2 was reported in line with consensus. GDP growth decelerated sharply during Q2 2018 to -4.2% yoy from +3.6% yoy in Q1 2018. After market close the Economy Ministry announced that it sold ARS 107bn in 32-, 160-, 374-Day LETEs at annual yields of 50%, 48.9% and 42.6% respectively. On Tuesday, BCRA only rolled 150bn of LEBACs at 45% yield with non-banking institutions out of 300bn maturing. The peso liquidity injection from the LEBACs rollover is being counterbalanced by the new LETEs issuance, FX sales, and a 5pp increase in reserve requirements.

Sharp Real GDP Contraction During Q2
(% yoy)

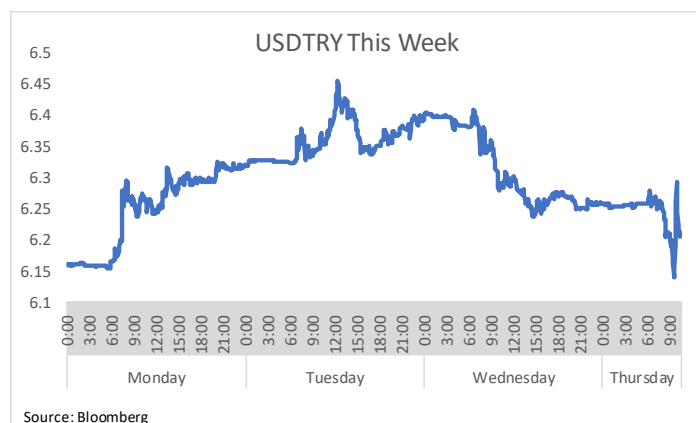


Source: INDEC, Goldman Sachs Global Investment Research

Turkey

The lira seesawed as FM Albayrak announced the government's new medium term economic plan. In his presentation, Albayrak announced a new forecast which sees the primary budget in a surplus of

0.8% next year and 1% in 2020. Inflation is forecast at 20.8% this year, versus 6% previously, while the current account deficit is now expected to moderate more quickly next year. The currency rose as much as 1.5% as Albayrak began to speak but pulled back after the speech. Analysts saw the revised numbers as a positive step although some lamented the lack of detail on measures to stabilize the currency and the financial sector.



Brazil

After market close, Brazil's central bank kept its policy rate unchanged in line with expectations while the BRL appreciated by 0.8% earlier in the day. The central bank said in the statement accompanying its decision that "this stimulus will begin to be removed gradually if the outlook for inflation at the relevant horizon for the conduct of monetary policy and/or its balance of risks worsen". This was the last monetary policy meeting scheduled before the October election. The latest poll released this week suggest an increasing likelihood of a second-round runoff between Jair Bolsonaro (PSL) and Fernando Haddad (PT) as Mr. Haddad has widened the gap from Ciro Gomes (PDT) to assume the position of the main challenger to Bolsonaro. In a runoff simulation, the two candidates were tied with 40% each in the latest poll by Ibope.






























India

A major shadow credit provider in India missed several debt repayments. IL&FS Group, a conglomerate that funds infrastructure projects in the country, skipped multiple debt repayments. The company was affected by liquidity shortages as borrowing costs in India have been rising. According to Bloomberg, IL&FS Financial Services has \$27mn cash at hand but has liabilities of around \$500mn over the next 6 months. The missed payments include commercial papers issued to both individual and institutional investors. Additionally, the firm also defaulted on inter-corporate deposits. Interest rates in India have been on the rise this year, for both corporate and sovereign paper, with rates on 1-year AAA corporate paper up 115 bps ytd to 8.7%. On the day, Indian bond yields, equities, and the currency were little changed.

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Global Financial Indicators

Last updated: 9/20/18 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2908	0.1	1	2	16	9
Europe		3394	0.8	2	0	-4	-3
Japan		23675	0.0	5	7	17	4
China		2729	-0.1	2	1	-19	-17
Asia Ex Japan		70	1.4	3	0	-4	-8
Emerging Markets		43	1.4	3	0	-7	-10
Interest Rates			basis points				
US 10y Yield		3.08	1.9	11	26	81	68
Germany 10y Yield		0.49	0.1	7	19	5	6
Japan 10y Yield		0.12	-0.1	1	2	9	8
UK 10y Yield		1.61	-0.1	10	38	27	42
Credit Spreads			basis points				
US Investment Grade		100	0.0	-1	0	-6	9
US High Yield		329	1.2	-9	-20	-52	-47
Europe IG		68	7.5	8	-3	10	23
Europe HY		268	-12.5	-11	-37	11	34
EMBIG Sovereign Spread		350	-3.0	-16	-19	62	65
Exchange Rates			%				
Dollar Index (DXY)		94.05	-0.5	0	-2	2	2
USDEUR		1.17	0.6	0	2	-1	-2
USDJPY		112.2	0.1	0	-2	0	0
EM FX vs. USD		61.5	0.2	1	-1	-13	-12
Commodities			%				
Brent Crude Oil (\$/barrel)		79	-0.3	1	10	41	18
Industrials Metals (index)		117	0.3	1	-1	-9	-15
Agriculture (index)		41	0.0	-1	-6	-16	-13
Implied Volatility			%				
VIX Index (% change in pp)		11.6	-0.1	-0.8	-0.9	1.8	0.6
10y Treasury Volatility Index		3.5	0.2	0.1	-0.4	-0.5	0.0
Global FX Volatility		8.6	0.0	-0.2	-0.3	0.1	1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		407	-4.0	4	-27	-151	-5
Italy		283	-2.6	-13	-19	76	81
Portugal		187	-2.4	0	7	-52	-8
Spain		150	-2.3	4	11	-8	-6

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

Data source: Bloomberg.

[back to top](#)

Emerging Market Financial Indicators

Last updated: 9/20/2018 7:59 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	0.0	0.0	0	-4	-5		3.6	0.6	-2	7	-9	-33
Indonesia		14815	0.1	-0.3	-2	-10	-8		8.4	-3.9	-28	38	167	182
India		72	0.2	-0.3	-3	-10	-11		8.2	-1.2	-5	20	126	77
Philippines		54	-0.1	0.0	-1	-5	-7		6.2	-6.2	-1	25	134	135
Thailand		32	0.2	0.8	2	2	1		2.9	1.3	3	14	66	60
Malaysia		4.14	0.0	0.3	-1	1	-2		4.1	-1.9	-3	2	25	19
Argentina		39	0.0	0.5	-24	-56	-53		24.3	-54.5	-62	221	942	827
Brazil		4.13	-0.1	1.8	-4	-24	-20		10.3	-4.8	-12	43	169	129
Chile		679	0.2	0.5	-1	-8	-9		4.8	-0.1	-2	-5	36	-1
Colombia		3030	0.0	-0.4	0	-4	-2		6.6	1.5	0	9	32	37
Mexico		18.75	0.1	0.4	1	-5	5		8.1	0.7	1	15	111	39
Peru		3.3	0.0	0.3	0	-2	-2		5.6	0.2	2	3	34	40
Uruguay		33	0.1	-0.2	-4	-13	-13		11.0	-2.9	-43	59		242
Hungary		276	0.5	0.6	2	-6	-6		2.7	-5.2	7	12	114	141
Poland		3.66	0.5	0.7	3	-2	-5		2.6	-1.7	-3	3	-16	-11
Romania		4.0	0.6	0.2	2	-2	-2		4.3	0.0	-3	-18	150	46
Russia		66.4	0.5	2.8	1	-12	-13		8.4	-11.2	-11	-2	90	111
South Africa		14.5	1.5	2.1	0	-8	-14		9.7	-9.3	-4	10	51	38
Turkey		6.33	-1.2	-3.9	-4	-45	-40		21.0	-21.9	-169	-366	1033	910
US (DXY; 5y UST)		94	-0.5	-0.5	-2	2	2		2.97	1.9	9	27	109	76

	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		2729	-0.1	2	1	-19	-17		183	0	-3	-4	35	31
Indonesia		5931	1.0	1	1	0	-7		194	0	-12	-4	27	28
India		37121	-0.5	-1	-3	15	9		165	2	-6	9	36	55
Philippines		7135	-1.2	-5	-5	-13	-17		95	1	-8	-19	6	0
Malaysia		1804	0.2	1	1	2	0		128	-1	-6	-7	-1	18
Argentina		33118	3.2	11	26	36	10		624	-1	-69	-60	243	274
Brazil		78169	-0.2	4	2	3	2		320	-2	-10	15	74	86
Chile		5354	0.0	3	2	3	-4		130	0	-3	-13	2	11
Colombia		1506	-0.3	0	-2	1	-1		174	-2	-5	-10	-16	0
Mexico		49591	-0.1	1	2	-2	0		264	-2	-6	-14	22	19
Peru		19176	1.5	1	-2	6	-4		136	-1	-5	-19	-6	-1
Hungary		36149	-0.7	0	-1	-5	-8		110	3	-4	-27	22	22
Poland		58230	0.2	1	0	-10	-9		43	1	-10	-32	-2	-4
Romania		8321	0.3	1	1	5	7		172	-2	-14	-12	48	58
Russia		2414	0.4	2	6	17	14		227	-8	-17	-22	51	49
South Africa		56388	-0.1	0	-1	1	-5		323	-6	-32	-14	60	69
Turkey		96008	-0.6	2	6	-9	-17		447	-17	-66	-109	165	158
Ukraine		539	0.1	2	4	85	71		546	-5	-16	-45	98	91
EM total		25	1.0	2	1	-3	-4		350	-3	-16	-19	62	65

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