



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, September 21, 2018

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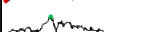


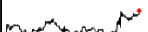



- **S&P 500 and Dow set new records amid global stock rally ([link](#))**
- **Brexit negotiations fail to progress ([link](#))**
- **Italian yields rose yesterday on lingering budget negotiations risks ([link](#))**
- **Long-dated JGB yields rose to a 17-month high as BoJ trimmed purchases ([link](#))**
- **Argentine peso rallies as press reports possible expansion of IMF program ([link](#))**

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Global equities continue to rise as Dow and S&P 500 reach new highs

The bullish sentiment in global markets remains this morning as equities are higher in both Europe and Asia, while emerging market currencies are mixed. While major US indices set record highs yesterday, US equity futures are currently indicating little change for today's market open. Negative news on Brexit negotiations has failed to dampen British equity markets, but sterling is weaker versus both the dollar and euro. The gap between European sovereign yields and the US continues to widen as treasuries are opening slightly weaker, while European yields are lower. This has helped the dollar pause its recent sell-off. Moves in emerging market currencies have been mixed today, as EM Asia closed broadly stronger while CEEMEA currencies are lower, led by the Turkish lira, which is more than 1% weaker after rallying the prior two days.

Key Global Financial Indicators

Last updated: 9/21/18 8:12 AM	Level		Change from Market Close				
	Last 12m	Index	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2930	0.0	1	2	17	10
Eurostoxx 50		3422	0.6	2	0	-3	-2
Nikkei 225		23870	0.8	5	7	17	5
MSCI EM		43	1.1	2	0	-6	-9
Interest Rates			bps				
US 10y Yield		3.07	0.8	7	24	79	66
Germany 10y Yield		0.46	-1.0	1	13	1	3
Japan 10y Yield		0.13	1.0	2	5	9	9
FX / Commodities / Volatility			%				
Dollar index, (+) = \$ appreciation		94.1	0.2	-1	-1	2	2
Brent Crude Oil (\$/barrel)		79.6	1.1	2	10	41	19
VIX Index (% change in pp)		12.0	0.2	0	-1	2	1

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

United States

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The S&P 500 and the Dow both hit new records amid a global stock rally driven by a favorable environment of eased trade concern and a weaker dollar. The S&P 500 rose 0.8% to 2930.75 with the Dow up near 1% to 26656.98, both at all-time highs. The NASDAQ advanced 1% as well, closing within 1% from its record set on Aug 29. All but one sector closed higher, with cyclicals outperforming again, while technology sector rallied the most (+1.2%) after lagging for the past week.

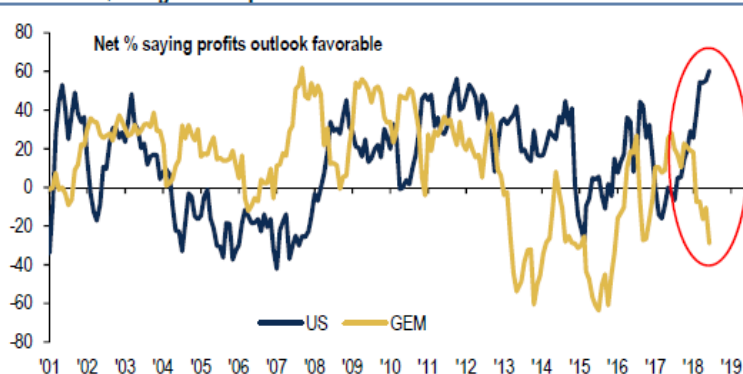
Investor allocation to US stocks is at a 3-year high as US markets continue to outperform the rest of the world, according to a Merrill Lynch investor survey. The share of investors reporting overweight positions in US stocks has returned to the Jan 2015 level on record strong profit outlook. The divergence from the EM outlook is at the widest since 2014. However, 48% of investors think the decoupling, in both stock returns and growth, will reverse because of a slowdown in the US, as opposed to an acceleration in other regions.

Exhibit 4: Net % AA Say they are overweight US Equities



Source: BofA Merrill Lynch Global Fund Manager Survey

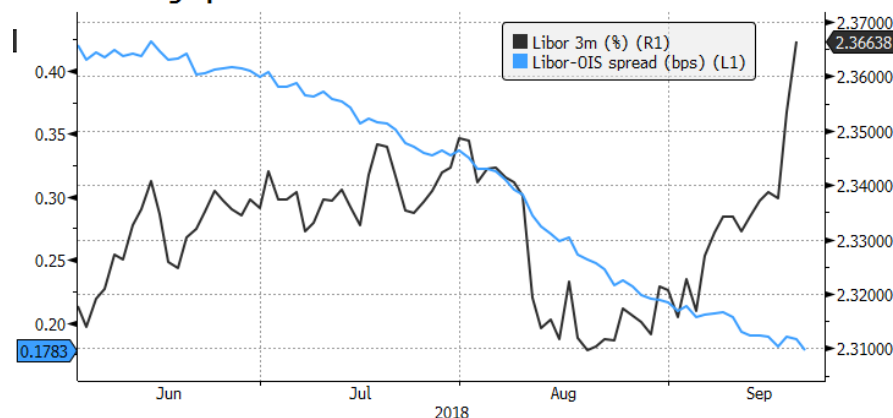
Exhibit 5: US & EM regional FMS profits outlook



Source: BofA Merrill Lynch Global Fund Manager Survey

The treasury yield curve flattened as long rates fell, following European yields, while short rates continued to rise to another cycle high. Like the past 2 days, there was notable selling pressure in the early session, pushing the 10-year yield to an intra-day high of 3.09%. As gilt and bund yields started to fall in response to Brexit and Italian budget headlines, Treasury yields reversed quickly with long rates creeping lower through the rest of the day. The 2-year yield added 1.2 bps to 2.8%, a new high since 2008, with the 10-year yield unchanged at 3.06%, while the 30-year yield dropped 1.4 bps to 3.19%. **The front end of the Libor fixing curve broke out this week** after being range bound since June, with the 3-month Libor rate up 3 bps to 2.36%. The breakout coincided with the rise in the late-2018 and early-2019 part of the Eurodollar futures curve, as investors started to price in a faster pace of rate hike (See Wednesday's GMM). As a result, the 3-month Libor-OIS spread stabilized at 18 bps this week after tightening since March.

Libor catching up



Source: Bloomberg

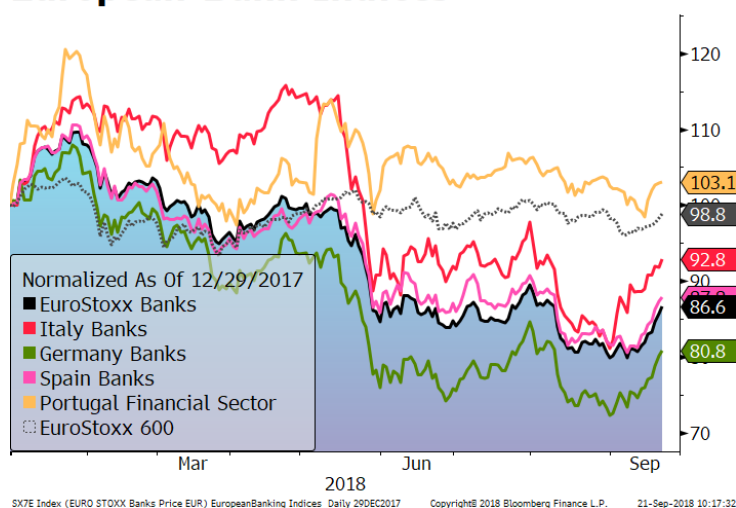
The September Philly Fed survey was much stronger than expected, up 11 points to 22.9 (vs. 18 expected), nearly reversing last month's 13.8 points drop. Underlying details were robust, with upside surprises in almost all indicators. **Initial jobless claims beat estimate**, falling 3K to 201K last week (vs. an expected 6K rise), the lowest since Nov 1969. This outcome bodes well for the next payroll data, as it covers the survey week of the September payroll report. However, impact from the Hurricane Florence is likely to show up in the coming weeks, albeit transitory. Continuing claims declined to 1645K for the week ending Sep 8. **Existing home sales came in flat at 5.34 mn in August**, after falling 0.3 mn since March, likely indicating weakening demand amid worsening home affordability.

Europe

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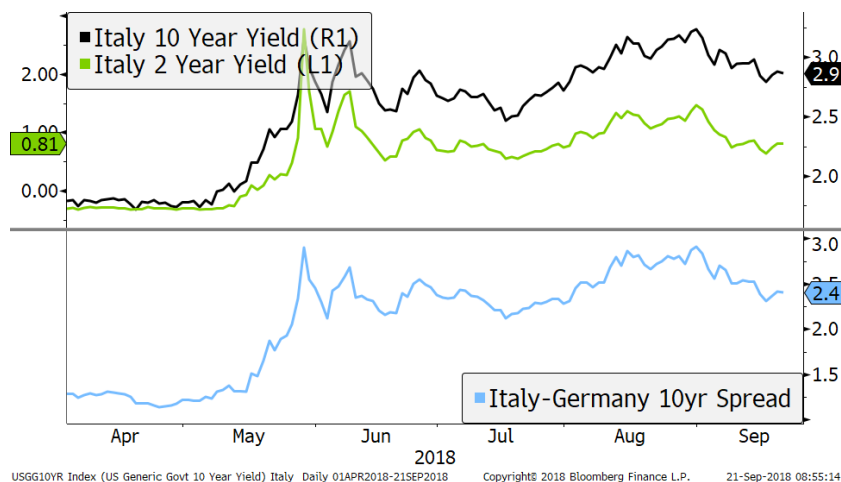
The EuroStoxx index is up 0.5% on the day and 1.7% on the week. The banking sub-index continues to lead the way, up 1.2% on the day and a whopping 5.8% on the week. The index is down 13% ytd, but well off its recent lows (chart). Portuguese financial firms continue to outperform, followed by Italian and Spanish banks. The German banking index has been amongst the worst performers given the trouble in Deutsche Bank earlier in the year.

European Bank Indices



Yields are flat to slightly lower across the region, falling 2-3 bps in Germany and the UK since the negative headlines regarding Brexit (see below) and the Italian budget. Further political tensions led to a sharp increase in yields in Italy yesterday, but the price action has moderated today. The ongoing rift between in the coalition still revolves around priorities for the upcoming budget, with deputy PM Di Maio commenting that it is better to "go home" if they could not fulfill their campaign pledges. Italian yields are down 3 bps this morning, after having increased 9 to 18 bps across the curve over the previous two sessions.

Italian Yields YTD



The EU summit in Salzburg concluded yesterday with UK PM May under renewed pressure regarding her Chequers plan. Leaders of the EU27, as well as EC President Tusk and Commission President Juncker, talked down the UK's proposal for a solution to the Irish border and future trade. The key quote came from Tusk who said that "the suggested framework for economic co-operation will not work, not least because it is undermining the single market". President Macron also had harsh words about the Chequers proposal and seems to have won over officials who had initially favored a more positive approach. In short, the Chequers plan would allow for the UK to remain in the single markets for goods but not services. The rejection means that May still needs to demonstrate considerable progress in the negotiations before the October meeting in order to have the mid-November summit to finalize the deal. UK assets showed only a modest reaction to the event; sterling is underperforming on the day but is still up 1.0% on the week.

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Japan

The yen lost ground on reduced safe-haven demand while equities gained. The yen weakened (-0.2%) to a two-month low of 112.72 against the dollar as investors looked past the ongoing U.S.-China trade tension. Amid a softer yen, equities gained. The Topix rose 0.9% and the Nikkei, +0.82%, surging to an eight-month high. Meanwhile, the nationwide August core CPI rose 0.9% yoy, up from 0.8% in July, matching market forecast. **Yields on long-dated JGBs rose to a 17-month high following reduced BoJ purchases.** Yield on the 20-year JGB rose 3.2 bps to 0.66%, its highest since April 2017. The 30-year yield climbed 4 bps to 0.90%, highest since October 2017. The BoJ lowered its purchases of bonds with maturity of 25 years or longer by ¥10 bn to ¥50 bn (\$443 mn). The purchase reduction came sooner than expected; investors had not expected the BoJ to trim its long bond purchases until next month.

Yields Jump

Japan's 30-year yield climbs after BOJ cuts super-long purchases



Source: Bloomberg

GJGB30 Index (Japan Govt Bond year to maturity 30 Year Simple Yield) Chart Daily

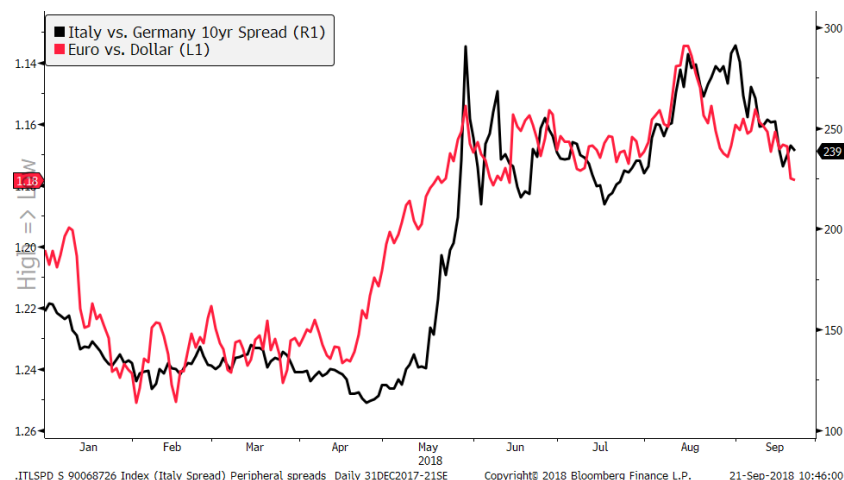
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Currency Markets

The weaker dollar trend seems to have stabilized on the back of negative developments in Italy and Brexit. The pound is down 0.5%, the clear underperformer. The euro is unchanged, likely weighed down by flare up in risk in Italy. Note that the euro has been roughly tracking the moves in Italian-German spreads since the new government began to form in May. On net, the DXY index is up slightly on the day, but still down 1% for the week.

Italian Risk vs. Euro



Emerging Markets

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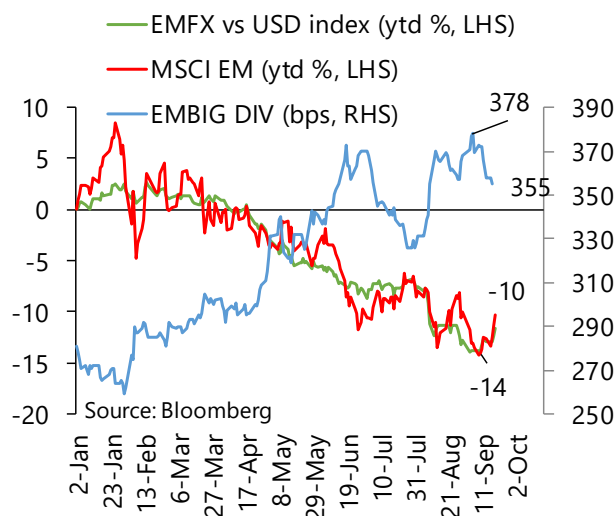
Key Emerging Market Financial Indicators

Last updated: 9/21/18 8:41 AM	Level Last 12m	index	Change				YTD
Prices/Returns of Major EM Benchmarks			1 Day	7 Days	30 Days	12 M	%
MSCI EM Equities		43.03	1.1	2	0	-6	-9
MSCI Frontier Equities		28.55	1.8	3	-1	-8	-14
Hard Currency Sovereign Debt		822.83	0.0	0	0	-3	-4
Local Currency Sovereign Debt		16.38	1.1	2	-1	-16	-14
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.85	0.0	0	0	-4	-5
Indonesian Rupiah		14839	0.2	0	-2	-10	-8
Indian Rupee		72.14	0.2	0	-3	-10	-12
Argentine Peso		38.21	0.0	5	-22	-55	-51
Brazil Real		4.06	0.4	3	0	-23	-18
Mexican Peso		18.86	-0.1	0	1	-5	4
Russian Ruble		66.73	-0.6	2	1	-13	-14
South African Rand		14.37	-0.5	4	0	-8	-14
Turkish Lira		6.28	-1.3	-2	-3	-44	-40
Dollar vs. Mature FX (DXY index)		94.09	0.2	-1	-1	2	2

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

Emerging-market assets continued their rebound on Thursday amid broad dollar weakness and positive sentiment in global equities (MSCI EM: +1.1%, EM FX: 0.8%, EMBIG spread: -2bps). The South African rand appreciated 2.9% for a fourth day to its strongest level this month after a hawkish statement from the central bank. The Argentine peso, the world's worst performer this year, rose by 2.9% on the back of positive reports on IMF negotiations. **Equities continued their good spell this morning,** particularly so in Turkey (+1.4%) and South Africa (1.2%). EMEA currencies were little changed as the dollar stabilized following recent losses. **Asian currencies staged broad-based.** Expectations that China and US' fresh exchange of tariffs could be less damaging than feared buoyed sentiment. The Korean won paced gains (+0.5%) while the RMB underperformed. MSCI's Asia-Pacific ex-Japan Index rose 1.1%, the fourth consecutive increase, with Chinese shares leading overall gains.

EM benchmarks



Argentina

The Argentine peso rose sharply against the dollar (+2.9%) on Thursday amid positive broad EM risk sentiment and a report in Clarin newspaper that the IMF may expand its program by \$20 bn. Additionally, investors highlighted that the latest LEBACs and government bill auctions did fairly well with strong demand. Yesterday, the government sold \$2.7bn ARS bill at 4m, 5m and 12m paying 50%, 48.9% and 50.5% yields. In line with the improving risk sentiment, local press reported that around \$0.9bn for the new issuance came from foreign investors.

Table 1: Lebac: maturities, roll over and BCRA sterilization plan

	\$ bn	ARS bn
Lebac Maturities Sep 18	9.6	382
Banks	2.3	92
Non-banks	7.3	290
New Lebacs sold (to non-banks)	3.8	150
Not rolled over (1)	5.8	232
Deposit reserve requirements (2)	3.8	150
Letes/Lecap issuance (3)	2.7	107
FX intervention Sep 19 (4)	0.2	10
Leliq to be offered –max- (5)	2.5	100
Liquidity remaining (6)=(1)-(2)-(3)-(4)-(5)	-3.4	-135

Source: BCRA, BofA Merrill Lynch Global Research.

South Africa

The rand rose after yesterday's hawkish hold by the SARB. The central bank voted to keep rates unchanged at 6.5% but 3 of the 7 members voted for a 25-bps increase. The bank expects inflation this year to come in at 4.8%, very close to current levels as well as the 4.5% mid-point of the bank's target range. Separately, president Ramaphosa announced a reform package intended to boost growth and employment. The measures include reprioritizing ZAR 50bn (\$3.5bn) of spending, new rules for mining companies, and less onerous visa requirements. The currency, which has struggled this year amidst growing concerns over the emerging market landscape, had appreciated every day this week and was up by as much as 0.7% this morning before reversing ground and is currently 0.4% lower.

China

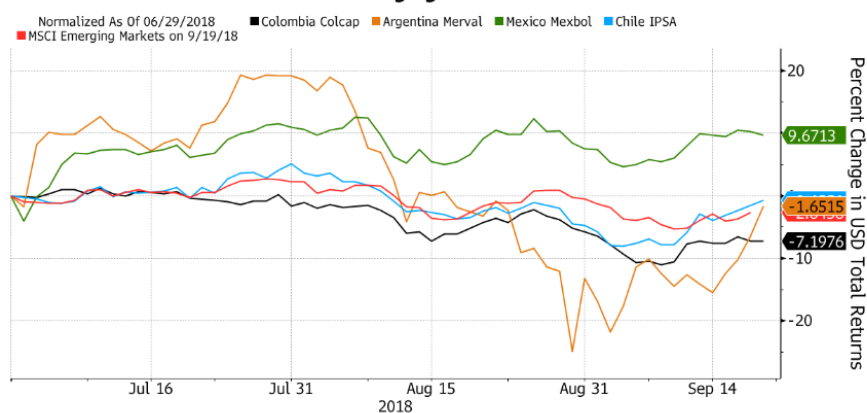
RMB assets gained as trade tensions are brushed aside, for now. A PBC MPC member indicated that the impact of trade war is "manageable". In a media interview, Ma Jun noted that the Chinese authorities would not resort to sizable stimulus to mitigate the negative impact of the trade conflict, as policymakers have to prevent further increases in leverage. That said, he also noted the importance of keeping interbank liquidity at a "reasonable" level and encouraged banks to provide liquidity support to SMEs; these can be achieved via targeted RRR cuts. **The offshore CNH was little changed** at 6.835, while **the onshore CNY gained 0.1%** to 6.843. **Equities staged broad-based gains;** the Shanghai Composite rose 2.5%. lifted by a broad rebound in investor sentiment across Asia.

Colombia

Bloomberg reported that one of Colombia's largest foreign investors is reducing its position in local equities causing underperformance in its illiquid stock market. The \$21.5 billion Harbor International Fund sold nearly half its position in Bancolombia, Colombia's biggest bank, earlier this year, reducing its holdings by about \$300 million, according to data compiled by Bloomberg. The fund held \$1.1 billion worth of shares spread between five Colombian companies and its sales have accelerated over the last month. The extent of the fund's sales will not be known until it reports its third quarter positions. Local brokers highlight that the lack of liquidity in Colombia's market means that even a \$50 million sale of shares can trigger a large price drop.

The Colcap's Sluggish Quarter

Colombia index trails LatAm and emerging markets








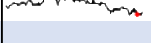























The Hong Kong dollar reached its strongest level in 9 months amid expectations for higher rates.

The currency gained 0.4% to 7.8118 against the US dollar, its strongest levels since last December amid expectations for tightened liquidity and higher rates heading into quarter end. Moreover, expectations that local interest rates would rise more rapidly in the coming months amid Fed rate hikes also lifted rates. The 1-month Hibor rose 25 bps to a 3-month high of 2.1%, while the 12-month Hibor surged 56 bps to 3.12%. Amid this increase, the yield spread between the 3-month Hibor and Libor narrowed to 24 bps from nearly 60 bps in mid-August, its narrowest level since last February.

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Global Financial Indicators

Last updated: 9/9/18 3:01 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2872	-0.2	-1	1	17	7
Europe		3293	-0.1	-3	-4	-4	-6
Japan		22307	-0.8	-2	0	16	-2
China		2702	0.4	-1	-3	-20	-18
Asia Ex Japan		69	-0.7	-4	-5	-5	-10
Emerging Markets		42	-0.5	-3	-6	-7	-12
Interest Rates			basis points				
US 10y Yield		2.94	6.6	8	-3	90	53
Germany 10y Yield		0.39	3.2	6	-2	8	-4
Japan 10y Yield		0.11	0.2	1	0	10	7
UK 10y Yield		1.46	4.3	3	13	49	27
Credit Spreads			basis points				
US Investment Grade		104	-0.1	1	6	-7	12
US High Yield		345	-4.1	0	10	-57	-30
Europe IG		64	-0.9	-5	0	12	19
Europe HY		287	-2.8	-13	-6	59	54
EMBIG Sovereign Spread		369	-9.0	1	34	70	84
Exchange Rates			%				
Dollar Index (DXY)		95.37	0.4	1	0	4	4
USDEUR		1.16	-0.6	0	0	-4	-4
USDJPY		111.0	-0.2	0	0	-2	2
EM FX vs. USD		60.4	0.0	0	-3	-15	-13
Commodities			%				
Brent Crude Oil (\$/barrel)		77	0.4	-1	3	41	15
Industrials Metals (index)		115	-0.1	-4	-5	-10	-17
Agriculture (index)		42	0.3	1	-3	-13	-11
Implied Volatility			%				
VIX Index (% change in pp)		14.9	0.2	1.4	1.7	2.8	3.8
10y Treasury Volatility Index		3.6	-0.1	-0.2	-0.4	-1.0	0.1
Global FX Volatility		9.1	0.0	0.2	0.1	0.5	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		430	-11.8	-11	30	-117	18
Italy		304	-2.3	-20	17	111	102
Portugal		190	2.1	-2	15	-85	-4
Spain		146	1.2	-1	7	-3	-11

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: 9/21/2018 8:41 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	0.4	0	-4	-5		3.7	1.9	1	7	-7	-32
Indonesia		14839	0.2	-0.2	-2	-10	-8		8.4	-2.2	-26	42	165	180
India		72	0.2	0.0	-3	-10	-12		8.2	0.0	-5	22	127	77
Philippines		54	0.1	0.0	-1	-6	-8		6.3	8.3	6	34	143	144
Thailand		32	-0.2	0.8	1	2	0		2.9	-0.5	-1	11	67	60
Malaysia		4.13	0.2	0.2	-1	2	-2		4.1	-0.8	-3	3	23	18
Argentina		38	0.0	4.6	-22	-55	-51		24.1	-16.0	-79	205	930	811
Brazil		4.06	0.4	2.8	0	-23	-18		10.3	-5.3	-35	27	167	124
Chile		667	0.0	3.0	0	-6	-8		4.8	0.1	0	1	36	-1
Colombia		3005	0.0	0.6	-1	-3	-1		6.6	-2.6	1	7	31	35
Mexico		18.86	-0.1	0.2	1	-5	4		8.1	1.6	9	18	112	41
Peru		3.3	0.0	0.5	0	-1	-2		5.6	0.8	2	6	36	40
Uruguay		33	0.0	1.0	-3	-12	-13		10.9	-8.7	-47	46		233
Hungary		275	-0.3	1.4	1	-6	-6		2.7	1.8	9	14	122	143
Poland		3.65	-0.2	1.5	2	-2	-5		2.6	1.1	-1	6	-12	-10
Romania		4.0	-0.2	0.7	1	-3	-2		4.3	0.0	-3	-12	151	46
Russia		66.7	-0.6	2.0	1	-13	-14		8.4	0.7	-8	-2	92	112
South Africa		14.4	-0.5	3.9	0	-8	-14		9.7	-0.3	-1	10	54	38
Turkey		6.28	-1.3	-1.7	-3	-44	-40		21.3	21.7	-30	-349	1054	932
US (DXY; 5y UST)		94	0.2	-0.9	-1	2	2		2.96	0.9	6	25	108	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		2797	2.5	4	2	-17	-15		185	0	1	-1	37	33
Indonesia		5958	0.4	0	0	1	-6		194	-1	-7	-1	26	28
India		36842	-0.8	-2	-4	14	8		166	1	-4	8	44	56
Philippines		7383	3.5	0	-2	-11	-14		95	-1	-8	-18	6	0
Malaysia		1811	0.4	1	1	2	1		130	0	-4	-9	1	20
Argentina		34514	4.2	15	33	40	15		624	-1	-32	-62	243	274
Brazil		78116	-0.1	5	4	3	2		321	-1	-8	13	74	87
Chile		5446	0.0	4	4	3	-2		132	0	-1	-11	3	13
Colombia		1486	-1.3	-1	-3	0	-2		175	-1	1	-8	-11	1
Mexico		49511	-0.2	0	0	-2	0		265	-1	-2	-13	23	20
Peru		19488	1.6	3	0	8	-2		136	-2	-4	-18	-8	-1
Hungary		35858	-0.8	-1	-3	-6	-9		110	0	0	-24	20	22
Poland		58312	0.1	1	-2	-9	-9		42	-1	-8	-28	-1	-5
Romania		8403	0.6	3	2	7	8		171	-1	-8	-15	51	57
Russia		2415	0.6	2	5	17	14		228	-1	-8	-29	51	50
South Africa		57031	0.9	1	0	2	-4		320	-4	-9	-15	54	66
Turkey		97351	1.3	3	8	-6	-16		452	3	-23	-99	167	163
Ukraine		539	-0.1	1	3	85	71		548	1	1	-39	93	93
EM total		26	0.8	2	0	-2	-3		350	-1	-8	-18	60	65

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