Global Markets Monitor

TUESDAY, SEPTEMBER 24, 2019

- **Bids slow at Fed overnight repo operation as money market tensions recede** (link)
- **US middle-market loan issuance picks up on refinancing and recap demand** (link)
- **UK Supreme Court rules suspension of Parliament is unlawful** (link)
- **PBOC reiterates prudent policy stance while more waivers issued for US imports** (link)
- **South Africa successfully completes $5 bn Eurobond sale amid strong demand** (link)
- **Colombian central bank maintains policy; steady rates expected on better growth** (link)

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Markets drifting higher amid evolving political developments

Global markets are trading with limited conviction as investors weigh the prospects of a global growth turnaround alongside ongoing political situations. This morning, the UK Supreme Court ruled that PM Johnson's decision to suspend Parliament was unlawful and that immediate steps should be taken for Parliament to resume. The response in UK asset prices has been fairly muted with with FTSE 100 down 0.2%, Gilt yields unchanged, and the sterling slightly stronger on expectations the odds of a no deal Brexit have been reduced following the ruling. European equities are inching higher and partially recovering the largest losses in a month yesterday, while the euro has generally underperformed against most G10 pairs and remains just below $1.10. US equities traded sideways yesterday amid some better-than-expected economic data releases set against less constructive signals from data out of Europe and Asia. US Treasury yields were also little changed while calmer funding conditions continued to prevail in US money markets. Elsewhere, oil prices remain range-bound with continued uncertainty over the timeframe for resumption of Saudi Arabian output. In EM, Indian equities have steadied after having gained over 8% since last Friday as investors reacted to the government's unexpected decision to cut corporate taxes.

Key Global Financial Indicators

Last updated: 9/24/19 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2992	0.0	0	5	2	19
Eurostoxx 50		3543	0.2	1	6	4	18
Nikkei 225		22099	0.1	1	7	-7	10
MSCI EM		42	0.4	-1	7	-3	7
Yields and Spreads					bps		
US 10y Yield		1.70	0.5	-10	17	-139	-98
Germany 10y Yield		-0.58	-0.3	-11	9	-109	-83
EMBIG Sovereign Spread		340	4	4	-28	-5	-74
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		60.7	0.2	0	1	-1	-2
Dollar index, (+) = $ appreciation		98.6	0.0	0	1	5	2
Brent Crude Oil ($/barrel)		64.0	-1.2	-1	8	-21	19
VIX Index (%, change in pp)		14.5	-0.5	0	-5	2	-11

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

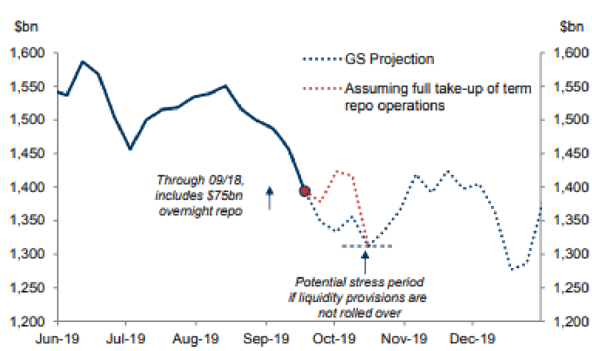
United States back to top

U.S. stocks were unchanged on Monday in thin trading amidst economic data that was largely in line with estimates and more assurance from Federal Reserve officials that they stand ready to act if needed in case of repo volatility. St. Louis Fed's President Bullard also said the central bank may need to ease monetary policy further to offset downside risks from trade conflicts and weak inflation. The dollar inched up as soft European manufacturing data renewed global growth concerns. In terms of key releases, US manufacturing PMI surprised on the upside (51.0 vs 50.4 expected), while services PMI disappointed (50.9 vs 51.4 expected). This morning, S&P 500 futures point to a 0.4% gain at the open and the 10-year US Treasury yield is down 2 bps to 1.70%.

Yesterday, bids at the Fed overnight repo operation eased to $65 bn, about $10 bn less that on Friday, indicating receding money market tensions. While the volatility in the repo market has subsided, there is a continued focus from analysts and policy makers. New York Fed President Williams said that it is "important that we examine these recent market dynamics and their implications for the liquidity needs in relation to the overall amount of reserves held at the Federal Reserve." Williams's predecessor, Dudley, said that Fed officials will probably also consider a new tool to contain short-term interest rates. Bullard also said that he favors creating a standing repo facility following strains in money markets last week and it's not clear that the volatility was caused by a lack of reserves. San Francisco Fed's President Daly said strains last week in money markets did not arise because of a lack of liquidity but because liquidity was not moving between banks as expected. **Goldman analysts highlighted that there is likely to be a sharp drop-off in liquidity around the middle of next month** based on the reserve projections and stated expiry of the term offerings. While the current Fed repo offering should alleviate quarter end pressures, they will need to be rolled next month. Furthermore, intermediation bottlenecks could point to further stresses in the funding markets in Q4. **This morning, the first 14-day term repo operation was overscribed with $62 bn in interest for the $30 bn offered, with the stop-out rate at 1.90%. Despite the elevated interest, there was no signs of stress in money markets.**

Exhibit 1: While the current Fed repo offering should alleviate quarter end pressures, we believe they will need to be rolled next month

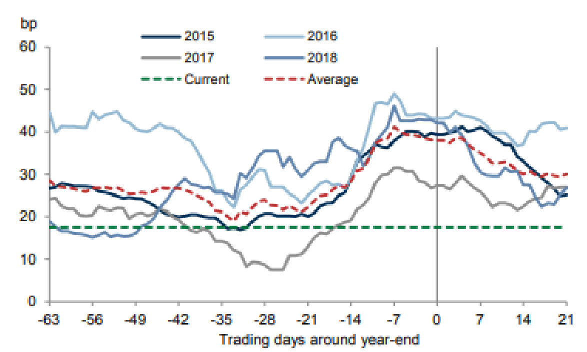
Total reserve balances held at the Fed



Source: Federal Reserve Board, Goldman Sachs Global Investment Research

Exhibit 2: Commercial paper-T-bill spreads widen over 10bp in the final quarter of the past few years

3m CP-Bill spreads around year-end

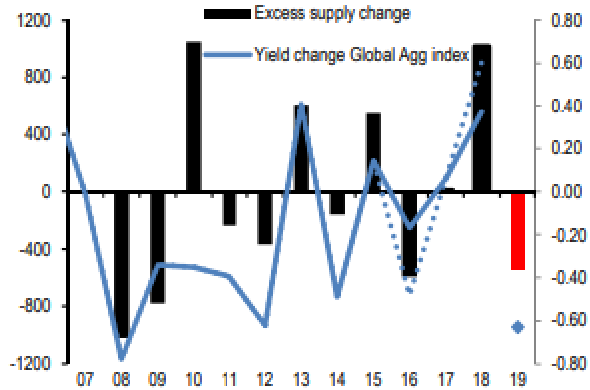


Source: Goldman Sachs Global Investment Research

JPM analysts expect global bond supply and demand to improve amid the continued dovish shift by central banks, with focus more recently shifting again to balance sheet expansion. The largest shift in the relative supply/demand balance over the past few years has been from the decline in G4 central bank bond demand. In 2018, this decline amounted to more than a $1.1 tn decline compared to the previous year as a result of the Fed's balance sheet contraction, decline in ECB QE purchases and a slowing in the BoJ's JGB purchases. However, 2019 is likely to see a reversal of this trend, with net balance expected at around $520 bn, per the analysis. Analysts highlighted that while this estimate is more consistent with the YTD change in Global Agg yields, the magnitude of the change remains somewhat elevated which could pose some downside risks to bonds into year-end.

Figure 14: Annual change in the balance between global bond supply and demand

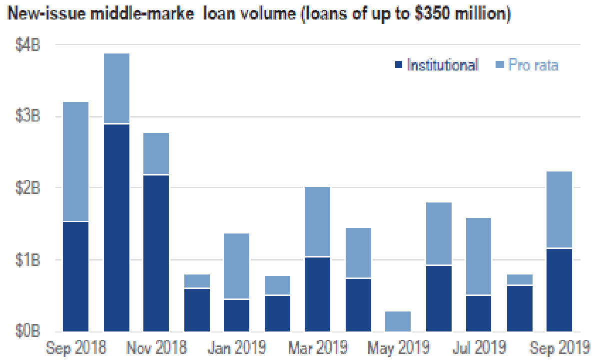
Change in excess bond supply in $bn per annum in the left axis calculated as the difference between changes in global bond supply and changes in global bond demand as explained in the text. It includes our estimates for 2019. Right axis shows the annual change of the yield on the Barcap Global Agg index in % (Jan-Oct in dotted lines for 2016, and Jan-Sep in dotted lines for 2018), and the blue diamond shows the change in 2019



Source: J.P. Morgan

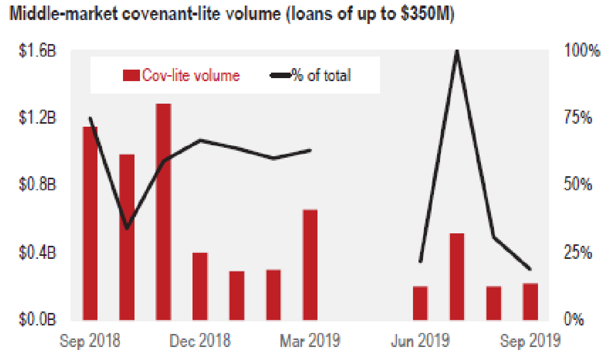
S&P LCD data highlighted that the issuance of traditionally syndicated middle market loans has picked up after a nine-month lull. September's volume was registered at $1.2 bn, with analysts expecting the healthy deal flow to continue. The average monthly volume of syndicated middle market loans from December 2018 to August 2019 was roughly $600 million. Over the past two weeks, refinancing and recapitalizations have driven middle market activity, per the analysts. The proportion of covenant-lite loans were registered at around 20%, having normalized recently.

New-issue middle-marke loan volume (loans of up to $350 million)



Source: LCD, an offering of S&P Global Market Intelligence

Middle-market covenant-lite volume (loans of up to $350M)



Source: LCD, an offering of S&P Global Market Intelligence

Europe back to top

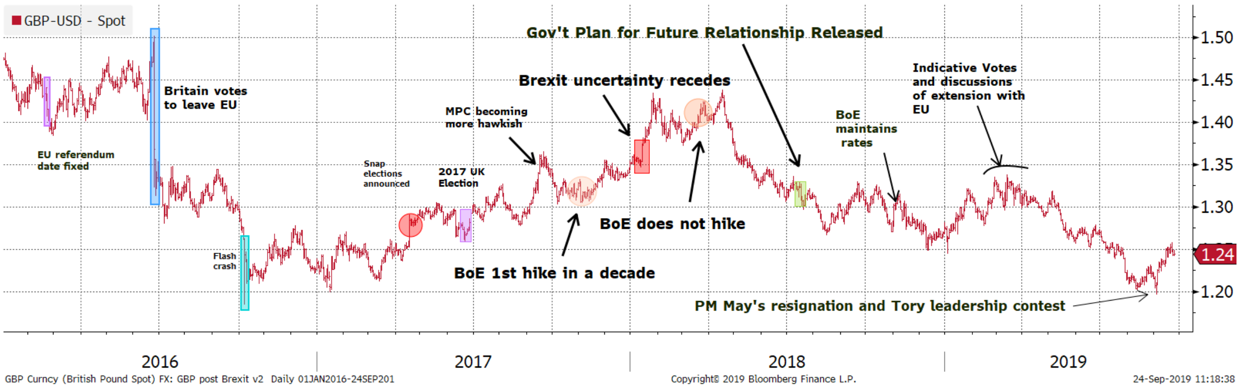
European equities inched up amid a dearth of news: DAX (+0.2%), CAC 40 (+0.3%), EuroStoxx 600 (+0.2%). Bank stocks (+0.1%) are in line with major indices. **Sovereign debt markets are steady**, as yield curves have remained intact in today's trading**.** German 10-year yields at -0.56% (+1 bp); French at -0.27% (+1 bp).

UK Supreme Court judges have ruled unanimously that the recent suspension of Parliament was unlawful. The Court's ruling also stipulates that the UK Parliament is free to reconvene at any time, but it leaves such decision to the Speakers of the House of Commons and the House of Lords.

The decision seeks to settle the conflicting rulings by various courts across the UK. In recent weeks, the highest court in Scotland declared that PM Johnson's move to prorogate the UK Parliament was unlawful, while London's High Court ruled that the premier's actions had not broken the law.

UK financial markets have barely reacted to the news: equities indices dropped slightly following the Supreme Court's decision: FTSE 100 (-0.1%) and FTSE 250 (-0.2%). The gilt curve is largely unchanged, with 10-year yields at 0.56% (+1 bps) and 2-year yields at 0.48% (unch.). The pound is at $1.24 (+0.1%).

British Pound vs US Dollar



Other Mature Markets

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Japan

Equities (+0.4%) rose to the highest level since April, led by utilities. This was despite the manufacturing purchasing managers index contracting for a seventh straight month to 48.9 in September. **The yen was little changed while 10-year JGB yields fell 2.7 bps to -0.25%.**

Topix rises to a near five-month high

Source: Bloomberg, Tokyo Stock Exchange

Emerging Markets

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Asian equities were flat on net amid divergent performance. Singapore (+0.5%) and Korea (0.4%) led gains, while Indonesia underperformed (-1.1%). **EMEA** equities are mixed today, with some gains in Turkey (+1.5%), Saudi Arabia (+0.9%), and the Czech Republic (+0.4%), while Egypt (-2.1%) and South Africa (-1.4%) are seeing the largest losses in the region. Currencies across Asia and EMEA are stable this morning, including the Hungarian forint as trader await the central bank decision later today; no changes to policy rates are expected. **Latin American** assets underperformed yesterday, as local markets followed the risk-off mood in other EMs triggered by weak economic data in Europe and Asia. Argentine stocks (-3%) saw the biggest losses followed by Chile (-0.9%). Among regional currencies, the Chilean peso (-0.7%) weakened the most against the dollar as the minutes showed that the central bank had considered cutting the benchmark interest rate by 75 bps and as the currency catches up on a recent slide in copper. The Argentine peso (-0.5%) extended its losing streak from last week as policymakers visit the US this week to talk with officials and investors. Brazilian real (-0.4%) also weakened as the current account deficit widened in August to $4.3 bn (vs expected -$4.1 bn).

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
9/24/19 8:12 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					**%**		**%**
MSCI EM Equities		41.65	0.1	-1	7	-3	7
MSCI Frontier Equities		28.30	1.4	1	-1	-2	8
EMBIG Sovereign Spread (in bps)		340	4	4	-28	-5	-74
EM FX vs. USD		60.73	0.2	0	1	-1	-2
Major EM FX vs. USD					**%, (+) = EM currency appreciation**		
China Renminbi		7.11	0.2	0	1	-4	-3
Indonesian Rupiah		14108	-0.1	0	1	5	2
Indian Rupee		71.02	-0.1	1	1	2	-2
Argentine Peso		56.93	-0.5	-1	-3	-34	-34
Brazil Real		4.16	0.2	-2	0	-2	-7
Mexican Peso		19.43	0.3	0	3	-2	1
Russian Ruble		63.65	0.3	1	4	3	10
South African Rand		14.88	0.2	-1	3	-3	-4
Turkish Lira		5.69	0.6	0	2	8	-7
EM FX volatility		8.25	0.0	0.1	-0.6	-3.4	-1.5

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

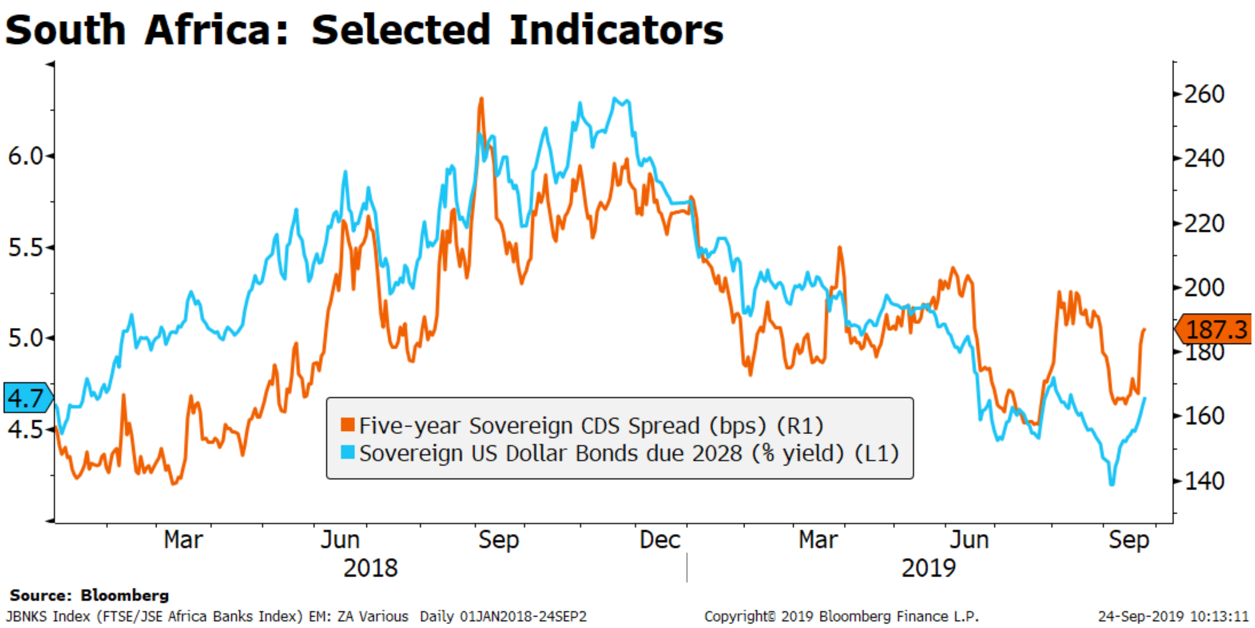
China

PBoC Governor Yi Gang reiterated that the central bank will remain prudent and said that "we are not in a rush to roll out massive rate cuts or QE like some other central banks". He made the remarks in a press briefing in Beijing prior to China's 70th anniversary celebrations. Meanwhile, National Bureau of Statistics head Ning Jizhe mentioned in the same briefing that China will step up efforts to stabilize economic growth. **Equities gave up earlier gains following Yi's comments rising 0.3% on the day. The onshore and offshore RMB were little changed.**

Separately, the Chinese government has issued new waivers to several companies to purchase US soybeans without being subject to tariffs. The waivers received were between 2 to 3 mn tons, with some firms already buying at least 1.2 mn tons on Monday. The waivers follow a meeting between working level officials from the US and China last week and before top negotiators meet next month.

South Africa

South Africa successfully raised $5 bn yesterday in its largest-ever Eurobond deal. The sale was split into a 30-year tranche attracting $3 bn at 5.75% yield and a $2 bn 10-year tranche at 4.85%. Demand for the issue was strong, with an oversubscription of 2.7 times and drawing investors from Europe, the US, and Asia. The transaction has been considered a success, especially in light of investors' mounting concerns over South Africa's fiscal challenges. In recent weeks, 5-year sovereign CDS spreada and yields have began climbing again. The rand has strengthened 0.3% to the dollar this moring.



Colombia

Banrep left its policy rate unchanged at 4.25% as a falling peso and a surge in consumer spending made policy makers wary of following other emerging markets in boosting stimulus. The central bank says the economy is growing below potential, yet with inflation close to the upper limit of its target range, it hasn't seen space to cut rates. The latest economic activity data also led the central bank to raise its GDP growth forecast for this year to 3.2% from 3.0%. Markets ended the day with the peso weakening 0.6% against the US dollar.

Paraguay

Policy makers cut their benchmark rate by 25 bps to a 9-year low of 4% to aid a struggling economy. The central bank stated that economic activity and demand indicators have shown improvements on the margin, but accumulated growth is still negative. Also, inflationary pressures are not forecast to emerge in the coming months with inflation currently below the 4% target.

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Global Financial Indicators

Last updated: 9/24/19 8:08 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2992	0.0	0	5	2	19
Europe		3543	0.2	1	6	4	18
Japan		22099	0.1	1	7	-7	10
China		2985	0.3	0	3	7	20
Asia Ex Japan		68	0.1	-1	6	-4	6
Emerging Markets		42	0.4	-1	7	-3	7
Interest Rates					basis points		
US 10y Yield		1.70	0.5	-10	17	-139	-98
Germany 10y Yield		-0.58	-0.3	-11	9	-109	-83
Japan 10y Yield		-0.23	-2.7	-8	0	-37	-24
UK 10y Yield		0.56	0.4	-14	8	-106	-72
Credit Spreads					basis points		
US Investment Grade		129	0.3	-2	-2	30	-18
US High Yield		449	2.1	7	-41	121	-72
Europe IG		55	-0.6	7	2	-15	-33
Europe HY		224	0.4	-26	-49	-47	-129
EMBIG Sovereign Spread		340	4.0	4	-28	-5	-74
Exchange Rates					%		
USD/Majors		98.57	0.0	0	1	5	2
EUR/USD		1.10	0.1	-1	-1	-6	-4
USD/JPY		107.6	-0.1	0	-1	5	2
EM/USD		60.7	0.2	0	1	-1	-2
Commodities					%		
Brent Crude Oil ($/barrel)		64	-1.2	-1	8	-21	19
Industrials Metals (index)		116	-0.8	0	4	-4	6
Agriculture (index)		38	-0.3	0	2	-10	-9
Implied Volatility					%		
VIX Index (%, change in pp)		14.5	-0.5	0.0	-5.4	2.3	-11.0
10y Treasury Volatility Index		5.6	-0.1	-0.4	0.0	1.9	1.0
Global FX Volatility		7.3	0.0	0.1	-0.6	-1.4	-1.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		192	0.1	-6	-71	-169	-224
Italy		142	0.8	2	-57	-102	-108
Portugal		74	-1.7	-5	-10	-65	-74
Spain		71	-1.8	-5	-10	-30	-46

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
9/24/2019	Level		Change (in %)					Level		Change (in basis points)				
8:13 AM	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		7.11	0.2	-0.2	1	-4	-3		3.1	-0.6	1	3	-53	-6
Indonesia		14108	-0.1	-0.1	1	5	2		7.4	3.5	1	1	-94	-79
India		71	-0.1	1.1	1	2	-2		6.9	2.9	10	17	-133	-55
Philippines		52	0.0	0.1	0	4	1		4.4	-0.1	-3	-2	-190	-193
Thailand		31	-0.2	0.0	0	6	7		1.5	-3.7	-9	-8	-138	-111
Malaysia		4.18	0.0	0.0	1	-1	-1		3.5	1.0	11	9	-59	-60
Argentina		57	-0.5	-1.2	-3	-34	-34		68.3	1.9	-328	1654	4495	4533
Brazil		4.16	0.2	-1.9	0	-2	-7		6.4	3.7	-23	-25	-368	-173
Chile		720	0.3	-0.8	0	-7	-4		2.8	-3.0	-2	6	-199	-170
Colombia		3437	-0.6	-2.1	0	-13	-5		5.6	-1.1	-6	-5	-97	-88
Mexico		19.43	0.3	-0.3	3	-2	1		7.0	-6.2	-33	-12	-106	-171
Peru		3.4	0.1	-0.6	1	-2	0		4.4	-5.1	3	0	-124	-134
Uruguay		37	0.0	-0.2	-1	-11	-12		10.6	0.0	-15	-45		-7
Hungary		305	0.0	-1.2	-3	-10	-8		1.0	-5.3	-13	-7	-167	-122
Poland		3.98	0.3	-1.7	-1	-8	-6		1.8	-1.4	-7	2	-76	-44
Romania		4.3	0.1	-0.9	-1	-8	-6		3.7	3.0	3	8	-56	-50
Russia		63.7	0.3	1.1	4	3	10		6.9	0.8	0	-18	-151	-156
South Africa		14.9	0.2	-1.1	3	-3	-4		9.4	-2.1	4	-6	-33	-24
Turkey		5.69	0.6	0.3	2	8	-7		14.3	-18.3	-37	-171	-687	-258
US (DXY; 5y UST)		99	0.0	0.3	1	5	2		1.58	-2.3	-8	16	-139	-93

	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		2985	0.3	0	3	7	20		184	0	0	1	0	-10
Indonesia		6138	-1.1	-2	-2	4	-1		172	5	1	-22	-15	-64
India		39097	0.0	7	7	8	8		128	-7	-7	-15	-36	-68
Philippines		7894	0.3	0	0	6	6		71	4	3	-19	-23	-50
Malaysia		1592	0.0	-1	-1	-12	-6		121	1	0	-3	-7	-41
Argentina		29152	-3.0	-5	10	-12	-4		2164	2	45	356	1551	1349
Brazil		104638	-0.2	1	7	34	19		230	1	9	-11	-60	-43
Chile		5025	-0.9	1	8	-7	-2		135	1	4	-2	4	-31
Colombia		1597	0.2	0	6	7	20		177	2	0	-13	6	-51
Mexico		43504	-0.1	2	9	-12	4		315	2	-4	-40	54	-39
Peru		19370	-0.4	-1	3	-1	0		118	2	1	-9	-14	-50
Hungary		40883	0.2	1	3	14	4		91	-1	5	-20	-19	-57
Poland		57239	0.6	-1	2	-3	-1		26	-1	5	-14	-16	-59
Romania		9523	-0.2	3	5	14	29		186	0	4	-27	17	-35
Russia		2781	-0.2	-1	5	14	17		183	5	0	-35	-45	-69
South Africa		55623	0.0	-4	3	-3	5		323	9	19	-8	3	-42
Turkey		101803	1.8	0	5	2	12		474	-5	-15	-61	23	45
Ukraine		519	-0.4	1	-1	-4	-7		492	12	25	-50	-56	-295
EM total		42	0.1	-1	7	-3	7		340	4	4	-28	-5	-74

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

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