GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, SEPTEMBER 25, 2019

- **US equities and Treasury yields fall on weak data and political turmoil** (link)
- **Fed's term and overnight repo operations overscribed; rates back in target range** (link)
- **UK Parliament reconvenes with action plan on Brexit still uncertain** (link)
- **Reserve Bank of New Zealand maintains policy rate, following August's surprise** (link)
- **Bank of Thailand leaves policy rate unchanged; cuts growth and inflation outlook** (link)
- **Central bank of Hungary leaves policy rate unchanged but raises liquidity target** (link)

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Risk appetite fades on lingering political uncertainty and softer economic data

Risk assets have pulled back on eroding US-China trade optimism, mounting political uncertainties, and weaker economic data. A combination of trade-related remarks at the UN meetings, movement toward an impeachment inquiry against the US President, and signs of deteriorating US business and consumer confidence have weighed on investor sentiment. European and Asian equity markets are broadly lower and safe haven assets are in favor with US Treasury yields falling 7 to 9 bps across the curve yesterday, while the VIX moved up to 17, its highest level in over two-weeks. The S&P 500 ended the day down close to 1%, with energy stocks posting the largest losses as resurgent trade fears weighed on oil prices (Brent -2%). Most emerging market currencies are also trading weaker. In the UK, the sterling has depreciated back down to $1.23 with the UK Parliament reconvening today and MP's still deliberating on the way forward. In US money markets, the Fed's first 14-day term repo operation was two times oversubscribed, while yesterday's overnight operation was also met with high demand. After having traded as high as 2.07%, overnight GC repo rates traded back within the Fed's target range after the operations.

Key Global Financial Indicators

Last updated: 9/25/19 8:12 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2967	-0.8	-1	4	2	18
Eurostoxx 50		3488	-1.2	-1	5	2	16
Nikkei 225		22020	-0.4	0	6	-8	10
MSCI EM		41	-1.7	-2	6	-4	6
Yields and Spreads					bps		
US 10y Yield		1.65	-8.1	-15	11	-145	-104
Germany 10y Yield		-0.61	-1.0	-10	7	-115	-85
EMBIG Sovereign Spread		351	4	18	-17	5	-63
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		60.4	-0.4	-1	0	-2	-3
Dollar index, (+) = $ appreciation		98.7	0.4	0	1	5	3
Brent Crude Oil ($/barrel)		61.8	-2.1	-3	4	-25	15
VIX Index (%, change in pp)		17.6	0.5	4	-2	5	-8

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

United States

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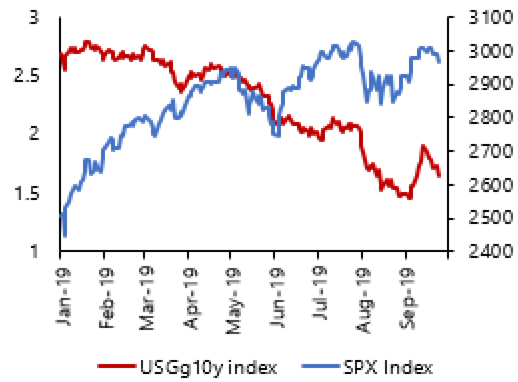
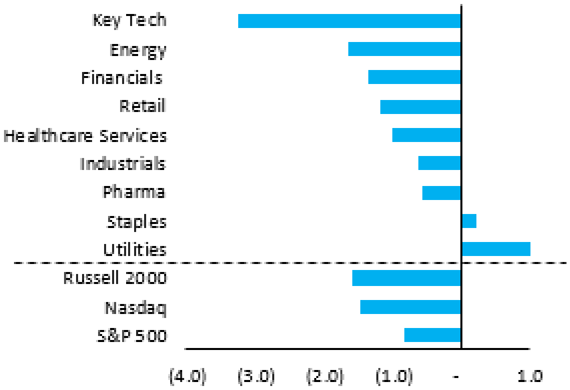
U.S. stocks fell 0.8% and Treasuries rallied amid poor US economic data, President Trump's comments at the UN and reports that a formal impeachment inquiry was launched against the US President. The Nasdaq led declines after Trump's comments dented hopes for a resolution on trade, and his remarks about the growing power of social media platforms. Within data, the US consumer, showed signs of flagging enthusiasm. The consumer confidence index declined to 125.1 in September from a downwardly revised 134.2 in August and compares with consensus expectation of 133.0. Richmond Fed's Sept. manufacturing survey also declined to -9 vs 1 last month. **Correspondingly, US Treasury yields declined by 7-9 bps across the curve, and the VIX Index rose by 2.1 pts to 17.1. This morning, S&P 500 futures point to a 0.1% decline at the open, US Treasury yields are little changed, and the US dollar index is 0.4% stronger.**

US equities and 10-yr yields



Source: Bloomberg

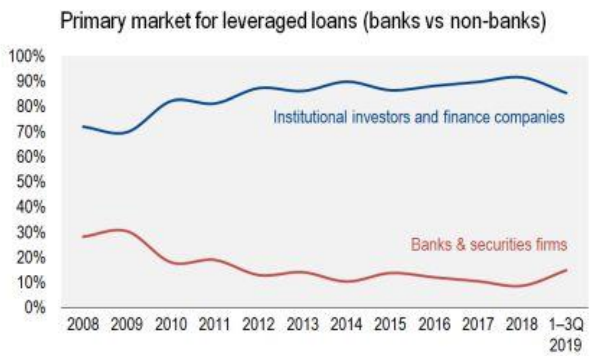
Performance on 24th Sep: Key US (Sub) Indices



Source: Bloomberg

The New York Fed held a 14-day term repurchase-agreement operation yesterday morning followed by an overnight repo operation, with both coming in oversubscribed. In the first of this week's three 14-day term repurchase-agreement operations, dealers submitted $62 bn of securities (vs $30 bn offered). In a second offering, the NY Fed took $75 bn of securities in an overnight repo operation - the maximum amount - with dealers submitting about $80 bn of assets. The bank's measures came as overnight GC repo rates climbed anew after trading back within the Fed's target fed funds range late last week. The rate traded as high as 2.07% before falling to around 1.82%. **Treasury's $40 bn auction of two-year notes was also well received and awarded at 1.612%.** The bid-cover ratio of 2.64 was the highest since May, and the indirect bidders took down 57% of the auction which was the largest takedown since 2018. Analysts highlighted that the big indirect takedown suggests a flight-to-quality bid, so it could carry through into the rest of the auctions this week if broader risk sentiment remains subdued..

The latest S&P LCD data shows that the investor mix in the US leveraged loan market is changing after three quarters of relatively lackluster institutional issuance. The share taken up by institutional investors – CLOs and loan funds – has declined to 85% this year, down from a post-crisis high of 91% in 2018. Correspondingly, the share from banks rose to 15% of all syndicated loan activity. Analysts highlighted that a flight to quality is one of the reasons banks are gaining ground. As overall institutional leveraged loan issuance has flagged and amid the flight to quality, BB rated issuers have found strong demand from relationship banks, which have restrictions on holding debt below that ratings threshold. The BB-rated loan typically retained by banks have seen a 16% y/y year-to-date increase in volume, while loans issued to B-rated borrowers and retinaed by banks fell by 35%.



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

Data through Sept. 17, 2019
Source: LCD, an offering of S&P Global Market Intelligence

FX volatility in the G7 has compressed in September, after a steady rise over the last four months. It now stands at an historical percentile rank of less than 10% since 2009-end. It also remains less than EM FX volatility, even though it has increased on a relative basis in the last 2 years. **Market participants highlight that FX volatility looks cheap even in the low volatility regime.** Although the analysts' forecasting model suggests a falling probability of transitioning to a higher volatility regime, inclusion of other variables and judgement based on the broader analysis suggest conditions are building for a breakout of G10 FX ranges and a switch to a high-volatility regime.

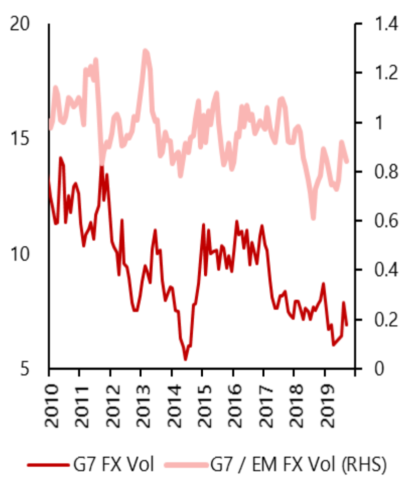
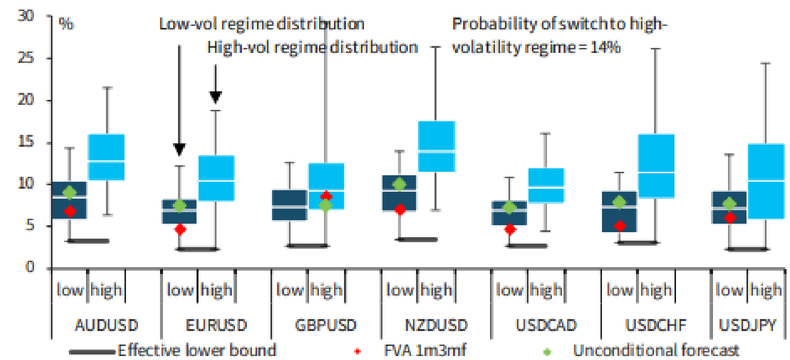


FIGURE 1
Lower than low. Most vols look cheap, even in the low vol regime



Each box represents model implied volatility distribution: bottom of the box - the 10th percentile, top of the box - the 90th percentile, white line in the middle – median. Whiskers represent minimum and maximum value.
Source: Barclays Research

Europe

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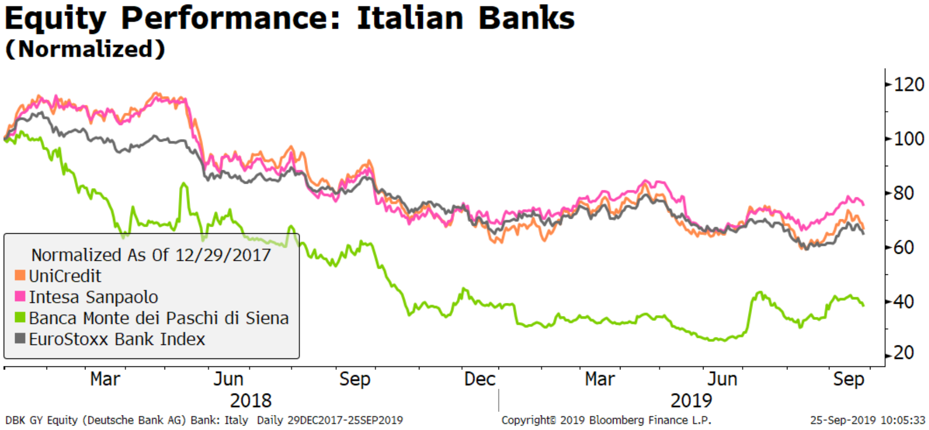
European bourses are lower today, led by losses in Italy's Titans 30 (-1.7%) and the CAC 40 (-1.4%). Other bourses: DAX (-1.1%); EuroStoxx 600 (-1.2%); FTSE 100 (-0.9%). Bank stocks (-1.9%) are underperforming.

Sovereign debt markets are steady: German 10-year yields at -0.62% (-2 bps); French at -0.31% (-2 bps); Italian at 0.80% (-2 bps).

Santander (-1.8%) will recognize a €1.5 bn accounting impairment in Q3 on the back of Brexit uncertainty. The Spanish lender acknowledged yesterday the impact that an uncertain economic and regulatory environment related to a hard Brexit would bring on its large UK operations. Santander UK currently generates around 11% of the bank's profits. Santander is still expected to generate a €8 bn profit in 2019 and be able to maintain its current capital level despite the accounting adjustment.

The Italian government may present to the EU three different exit scenarios for Banca Monte dei Paschi. Stocks of the troubled lender plummeted over 4% today, as investors assess the implications of each of the three possible plans: a merger with another bank (likely Italian), a disposal of all government shares, or a partial share sale. The Italian government has injected close to $6 bn into BMP in various rescue operations. Concerns over the BMP's future remain, despite some marked improvements in its balance sheet. NPLs have been reduced from a peak of around 30% in 2017 to 15% last June and a forecasted 12.7% at end-2019. The bank's funding costs have also come down.



The UK parliament was reconvened again this morning. As the Brexit date approaches, there is no clear action plan set out by pro-Remain MPs. According to local newspapers, one possibility under consideration in the House of Commons today is a new attempt to call a general election. The opposition parties, however, have said previously that they would not support a new election until PM Johnson has requested a new Brexit extension. The **pound traded at $1.23 (-0.8%)** this morning. Separately, Irish premier **Leo Varadkar called on the UK's government to make concrete proposals on the Irish backstop within the next week.**

Other Mature Markets

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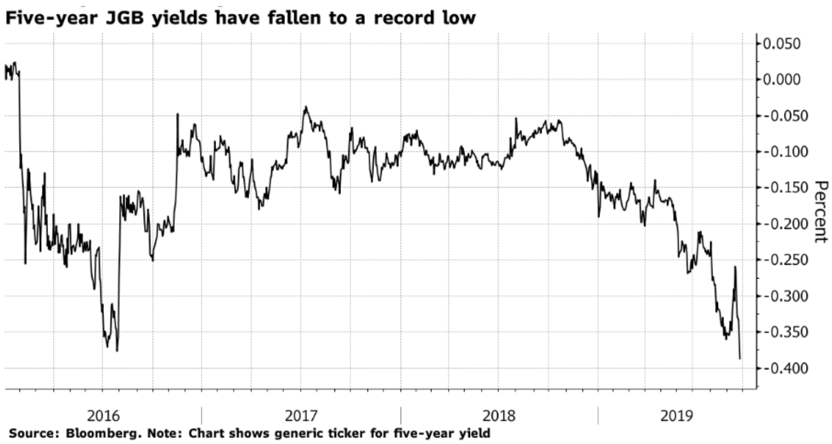
Japan

Bank of Japan Governor Kuroda reiterated in a speech that the central bank will take a closer look at the risk of weakening price momentum. He also said "I don't think we need to rule out cutting negative rates as a policy option at this point". Markets are priced for the BoJ to cut interest rates from -0.1% to -0.2% in October. **10-year JGB yields fell 2 bps to -0.27% and 5-year yields fell 3 bps to a record low of -0.4%. The yen depreciated 0.3%. Equities (-0.2%) fell, with telcos and energy underperforming**.



New Zealand

The Reserve Bank of New Zealand (RBNZ) held its official cash rate (OCR) at 1.0%, as expected. It has cut interest rates by 75 bps this year, including a surprise 50 bp cut in August. The Monetary Policy Committee said in its statement that 'there remains scope for more fiscal and monetary stimulus, if necessary, to support the economy and maintain our inflation and employment objectives'. **The New Zealand dollar and bond yields were little changed.**

Emerging Markets

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Most emerging market bourses posted losses of about 1% to 1.5% on the back of lingering political uncertainties. Asian equities (-0.9%) fell across the board. China (Shanghai -1.0%; Shenzhen -1.6%), India (-1.4%), Korea and Hong Kong (both -1.3%) led losses. Regional currencies depreciated slightly, with the Indonesian rupiah, offshore RMB and Korean won (all -0.3%) underperforming. In **EMEA**, South Africa (-1.7%), the Czech Republic (-1.5%), and Hungary (-1.%) saw large losses, while Egypt (+2.6%) and Qatar (+1.2%) posted gains. Most currencies in the region lost somewhat to the US dollar, by about 0.1% to 0.4%. The Czech National Bank is expected tom keep interest rates on hold later today. **Latin American** stocks underperformed yesterday while currencies saw very little movement. Argentine stocks (-4.6%) saw the biggest losses followed by Mexico (-0.9%), Brazil (-0.7%) and Chile (-0.9%). Among regional currencies, Chilean peso (-0.2%) weakened the most against the dollar.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
9/25/19 8:16 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		41.21	-1.6	-2	6	-4	6
MSCI Frontier Equities		28.09	-0.7	-1	-2	-3	7
EMBIG Sovereign Spread (in bps)		351	4	18	-17	5	-63
EM FX vs. USD		60.38	-0.4	-1	0	-2	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.12	-0.1	-1	0	-4	-3
Indonesian Rupiah		14153	-0.3	-1	1	5	2
Indian Rupee		71.04	0.0	0	1	2	-2
Argentine Peso		56.89	0.1	-1	-3	-34	-34
Brazil Real		4.19	-0.5	-2	-1	-3	-7
Mexican Peso		19.58	-0.7	-1	2	-3	0
Russian Ruble		64.36	-0.6	0	3	2	8
South African Rand		15.03	-1.1	-2	2	-5	-5
Turkish Lira		5.70	0.0	0	2	8	-7
EM FX volatility		8.18	0.0	0.0	-0.7	-3.4	-1.6

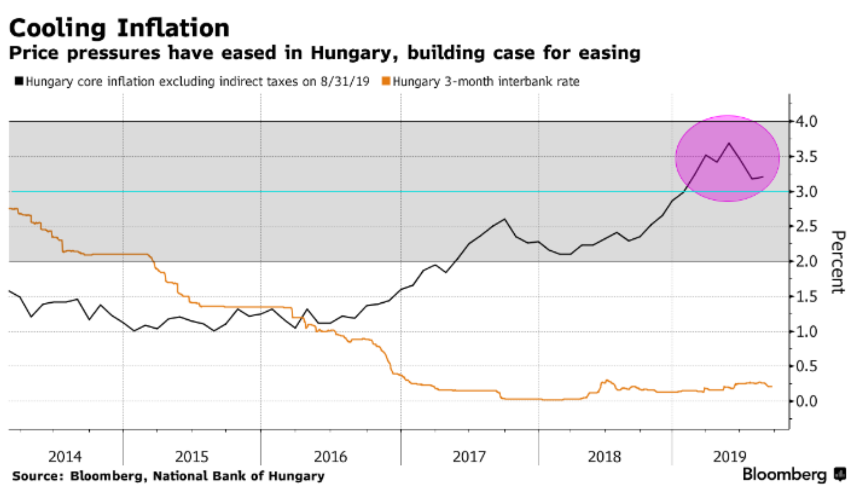
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Thailand

The Bank of Thailand (BoT) kept its policy rate unchanged at 1.50%, in line with expectations. The decision to hold interest rates was unanimous, following last month's surprise 25 bp reduction. According to the statement, the BoT downgraded its growth outlook, citing weaker-than-expected export growth and downside risks from external headwinds. Its 2019 and 2020 real GDP growth forecasts were lowered to 2.8% and 3.3%, respectively (from 3.3% and 3.7%). It cut its headline inflation to 0.8% (from 1.0% and now below its 1-4% target range) in 2019 due to lower-than-expected energy prices and core inflation. The BoT also expressed concerns over the baht's appreciation against its trading partners. **Equities fell 0.3% while the baht and 10-year bond yields were unchanged.**

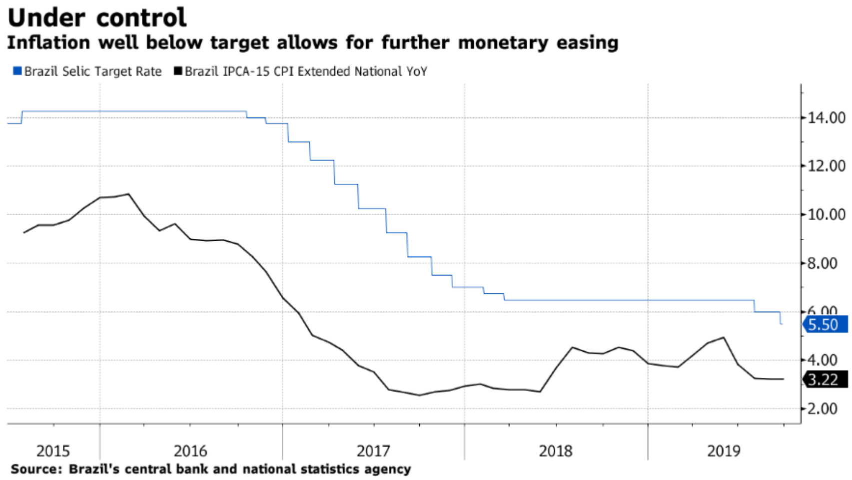
Hungary

The National Bank of Hungary (NBH) held its policy rates unchanged as expected, but its statement and decision on the liquidity condition signaled an easing bias. The base rate was kept at 0.90% and the overnight deposit rate at -0.05%. The average amount of liquidity to be crowded out for Q4 was raised by HUF100 bn to at least HUF300-500 bn. This means more HUF will be pushed out by the NBH into the banking system, mainly via FX swaps, fully reversing the June reduction. The accompanying press release was also interpreted as dovish, stating that the risks to inflation outlook remain asymmetric to the downside and that there are increasing risks to growth on the back of weakening growth in the Euro Area, and that global central banks have eased and are expected to ease policy further. The HUF has depreciated 0.7% over the last day, while equities are down about 1% amid the broader risk-off tone.



Brazil

The inflation backdrop remains subdued as headline IPCA-15 printed at a low 0.09% m/m in September as expected. Annual headline inflation is tracking at a below target 3.22% y/y. According to central bank meeting minutes, Brazil's economy will gain speed in the coming quarters, but more stimulus is needed to sustain its incipient recovery. Economic slack and 2020 inflation projections at or below target suggest room for additional monetary easing. Still, some investors see a recent tumble in the currency amid US-China trade tensions and the current easing cycle as potentially limiting more aggressive rate cuts.



List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina
Division Chief

Peter Breuer
Deputy Division Chief

Will Kerry
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Sally Chen
Senior Economist

Fabio Cortés
Senior Economist

Dimitris Drakopoulos
Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert

David Jones
Senior Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Rohit Goel
Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Robin Koepke
Economist

Thomas Piontek
Financial Sector Expert

Jochen Schmittmann
Senior Economist

Juan Solé
Senior Economist

Ilan Solot
Financial Sector Expert

Jeffrey Williams
Senior Financial Sector Expert

Akihiko Yokoyama
Senior Financial Sector Expert

Martin Edmonds
Senior Data Mgt Officer

Yingyuan Chen
Senior Research Officer

Piyusha Khot
Research Assistant

Xingmi Zheng
Research Assistant

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Global Financial Indicators

Last updated: 9/25/19 8:13 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2967	-0.8	-1	4	2	18
Europe		3488	-1.2	-1	5	2	16
Japan		22020	-0.4	0	6	-8	10
China		2955	-1.0	-1	2	6	19
Asia Ex Japan		67	-0.9	-2	5	-5	5
Emerging Markets		41	-1.7	-2	6	-4	6
Interest Rates					basis points		
US 10y Yield		1.65	-8.1	-15	11	-145	-104
Germany 10y Yield		-0.61	-1.0	-10	7	-115	-85
Japan 10y Yield		-0.26	-2.1	-7	-2	-39	-26
UK 10y Yield		0.51	-1.5	-13	3	-112	-76
Credit Spreads					basis points		
US Investment Grade		131	0.0	0	0	33	-16
US High Yield		459	0.8	16	-32	131	-62
Europe IG		56	0.6	8	3	-14	-32
Europe HY		229	4.1	-20	-44	-41	-124
EMBIG Sovereign Spread		351	4.0	18	-17	5	-63
Exchange Rates					%		
USD/Majors		98.75	0.4	0	1	5	3
EUR/USD		1.10	-0.4	0	-1	-7	-4
USD/JPY		107.5	-0.4	1	-1	5	2
EM/USD		60.4	-0.4	-1	0	-2	-3
Commodities					%		
Brent Crude Oil ($/barrel)		62	-2.1	-3	4	-25	15
Industrials Metals (index)		115	-0.6	-1	3	-5	5
Agriculture (index)		38	-0.4	0	2	-10	-9
Implied Volatility					%		
VIX Index (%, change in pp)		17.6	0.5	3.6	-2.3	5.2	-7.8
10y Treasury Volatility Index		5.6	0.1	-0.2	0.0	1.9	1.1
Global FX Volatility		7.2	0.0	0.0	-0.7	-1.4	-1.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		195	2.3	4	-67	-157	-220
Italy		141	-1.9	3	-58	-92	-109
Portugal		73	-1.3	-2	-11	-62	-75
Spain		70	-1.7	-4	-11	-28	-47

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: 9/25/2019 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		7.12	-0.1	-0.5	0	-4	-3		3.1	0.1	2	3	-53	-6
Indonesia		14153	-0.3	-0.6	1	5	2		7.4	2.3	6	3	-95	-77
India		71	0.0	0.3	1	2	-2		6.9	0.1	8	18	-135	-55
Philippines		52	0.0	0.0	0	4	1		4.4	-0.5	-2	-2	-198	-194
Thailand		31	0.0	0.0	0	6	7		1.5	0.1	-6	-8	-136	-111
Malaysia		4.19	-0.2	-0.2	0	-1	-1		3.5	4.2	15	13	-55	-56
Argentina		57	0.1	-0.7	-3	-34	-34		66.5	-188.7	-533	1465	4290	4345
Brazil		4.19	-0.5	-1.8	-1	-3	-7		6.5	3.4	-8	-22	-369	-170
Chile		727	-0.5	-1.6	-1	-8	-5		2.8	2.9	0	9	-199	-167
Colombia		3435	0.1	-1.4	0	-13	-5		5.6	-2.2	-9	-8	-98	-90
Mexico		19.58	-0.7	-0.9	2	-3	0		7.0	2.2	-25	-10	-101	-169
Peru		3.3	0.4	-0.1	1	-1	1		4.4	-2.1	-2	-2	-131	-136
Uruguay		37	-0.1	-0.1	-1	-11	-12		10.6	-8.6	-7	-54		-16
Hungary		305	-0.7	-1.1	-3	-10	-8		1.0	-0.6	-14	-7	-165	-123
Poland		4.00	-0.6	-1.6	-2	-9	-7		1.8	0.7	-6	3	-77	-44
Romania		4.3	-0.2	-0.4	-1	-8	-6		3.7	0.0	1	8	-56	-50
Russia		64.4	-0.6	-0.3	3	2	8		6.9	1.0	-2	-17	-145	-155
South Africa		15.0	-1.1	-2.3	2	-5	-5		9.4	0.0	-1	-6	-33	-24
Turkey		5.70	0.0	-0.4	2	8	-7		14.1	-21.3	-56	-193	-677	-279
US (DXY; 5y UST)		99	0.4	0.2	1	5	3		1.53	0.2	-15	11	-145	-98

	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		2955	-1.0	-1	2	6	19		185	1	1	2	0	-9
Indonesia		6146	0.1	-2	-2	5	-1		181	4	16	-13	-7	-55
India		38594	-1.3	6	5	5	7		131	3	-4	-12	-35	-65
Philippines		7896	0.0	0	0	8	6		77	1	14	-13	-17	-44
Malaysia		1590	-0.2	-1	-1	-11	-6		122	1	2	-2	-7	-40
Argentina		27820	-4.6	-8	5	-18	-8		2231	6	135	423	1625	1416
Brazil		103876	-0.7	-1	6	32	18		238	1	18	-3	-57	-35
Chile		5001	-0.5	0	8	-7	-2		140	1	9	3	10	-26
Colombia		1591	-0.4	0	6	7	20		186	1	9	-4	13	-42
Mexico		43099	-0.9	-1	8	-13	4		325	1	8	-30	63	-29
Peru		19371	0.0	-1	3	-1	0		125	1	9	-2	-9	-43
Hungary		40353	-1.2	-1	2	13	3		96	0	11	-15	-17	-52
Poland		56879	-1.0	-2	1	-4	-1		33	2	13	-7	-12	-52
Romania		9502	0.2	2	4	13	29		193	8	10	-19	24	-28
Russia		2752	-0.1	-2	3	13	16		192	3	11	-26	-37	-60
South Africa		54710	-1.7	-4	1	-4	4		337	6	35	6	17	-28
Turkey		101790	-0.1	0	5	3	12		484	3	2	-51	33	55
Ukraine		523	0.0	1	-1	-3	-6		510	2	50	-32	-39	-277
EM total		41	-1.6	-2	6	-4	6		351	4	18	-17	5	-63

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

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