



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, September 5, 2018

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- **Italian spreads decline on hopes for fiscal restraint** ([link](#))
- **EM currency depreciation and capital outflows in 2018 worse than taper tantrum by some measures** ([link](#))
- **Asian stocks and currencies under pressure amid fragile risk sentiment** ([link](#))
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EM Pressures Take a Toll on Equity Markets







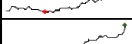



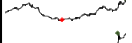

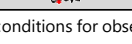

Pressures on emerging markets have intensified further over the past 24 hours, with market focus shifting from currencies to equity markets. Asian stocks suffered sizeable losses in today's trading session, attributed in part to investor concerns about tariffs ahead of tomorrow's deadline for public comment on the US administration's plan to impose tariffs on \$200 bn of imports from China. Equities fell the most in Indonesia (-3.8%) and China (-1.7%) thus far today, while yesterday's MSCI EM decline of nearly 2% was led by Argentina (-4.1%) and Brazil (-1.9%). US equities also edged down yesterday and futures are trading 0.3% down ahead of today's market opening, while the dollar has strengthened and 10-year Treasury yields are up marginally to 2.88%.

Key Global Financial Indicators

Last updated: 9/5/18 7:45 AM	Level Last 12m	Index	Change from Market Close				YTD
			1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2897	-0.2	0	2	18	8
Eurostoxx 50		3336	-0.7	-3	-4	-2	-5
Nikkei 225		22581	-0.5	-1	0	16	-1
MSCI EM		42	-1.9	-4	-4	-5	-10
Interest Rates			bps				
US 10y Yield		2.89	-0.7	1	-6	83	49
Germany 10y Yield		0.37	1.0	-4	-4	3	-6
Japan 10y Yield		0.12	-0.8	1	1	11	7
FX / Commodities / Volatility			%				
Dollar index, (+) = \$ appreciation		95.5	0.0	1	0	3	4
Brent Crude Oil (\$/barrel)		77.5	-0.9	0	6	45	16
VIX Index (% change in pp)		13.7	0.5	1	2	1	3

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

Key Emerging Market Financial Indicators

Last updated: 9/5/18 7:50 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Prices/Returns of Major EM Benchmarks			%				%
MSCI EM Equities		42.33	-1.9	-4	-4	-5	-10
MSCI Frontier Equities		27.57	-1.3	-4	-7	-10	-17
Hard Currency Sovereign Debt		814.09	-0.4	-1	-2	-4	-5
Local Currency Sovereign Debt		15.81	-1.6	-5	-8	-19	-17
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.83	0.2	0	0	-4	-5
Indonesian Rupiah		14970	0.1	-2	-3	-11	-9
Indian Rupee		71.71	-0.5	-2	-4	-11	-11
Argentine Peso		38.98	0.0	-13	-30	-56	-52
Brazil Real		4.16	0.0	-1	-10	-25	-20
Mexican Peso		19.56	-0.8	-3	-5	-8	0
Russian Ruble		68.32	-0.3	0	-7	-16	-16
South African Rand		15.55	-1.3	-8	-14	-17	-20
Turkish Lira		6.67	0.0	-3	-20	-48	-43
Dollar vs. Mature FX (DXY index)		95.47	0.0	1	0	3	4

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United States

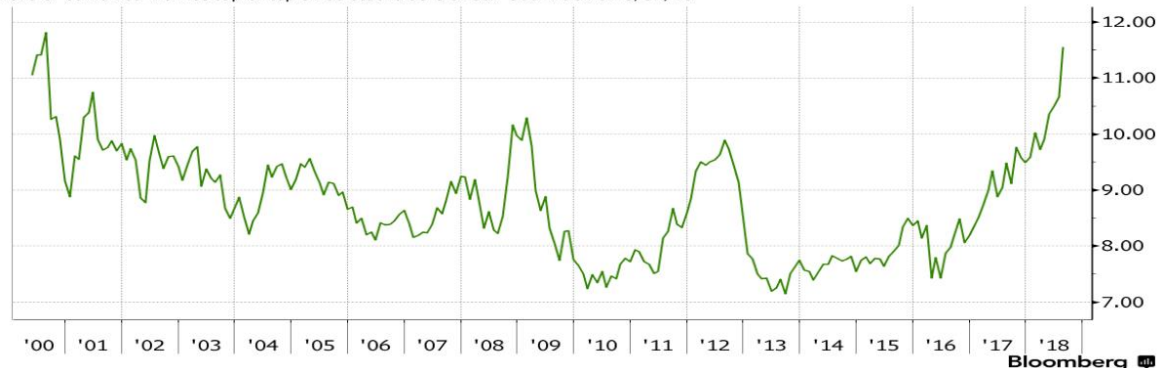
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Stocks edged down on Tuesday, with the major indices 0.1-0.2% lower, as trade tensions continued to weigh on markets. Amazon's (+1.3%) market capitalization rose above \$1 tn intra-day, a feat Apple (+0.3%) accomplished last month. Apple, Amazon and Microsoft now account for 11.6% of the total market capitalization of the S&P 500. Bloomberg notes that such concentration has not been evident since the peak of the dot.com bubble. A solid report on manufacturing expansion push Treasury yields higher, with the 2-year up 3 bps to 2.65% and the 10-year 4 bps to 2.90%.

Amazon Effect

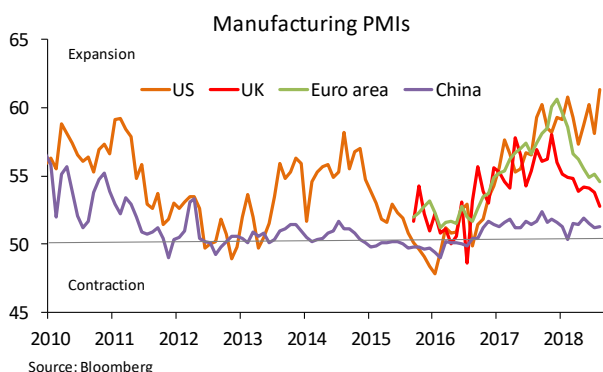
Combined share of market value of top three companies reaches highest since 2000

■ Share of combined market cap of top three stocks as % of S&P 500 Index on 8/31/18

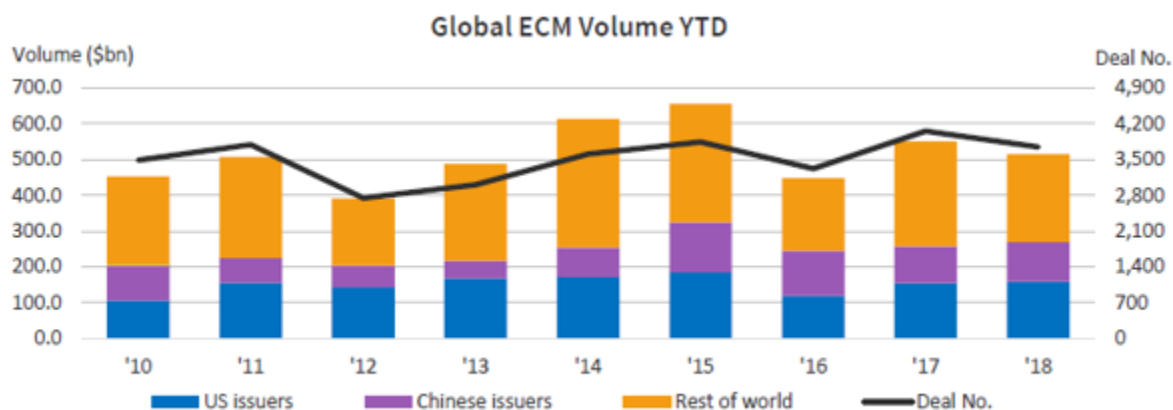


In this morning's data, the US trade deficit widened to \$50.1 bn in July from a revised \$45.7 bn a month earlier, in line with analyst expectations. The jump (+9.5%) was the most in three years. The goods trade gap with China (\$36.8 bn) and the EU (\$17.6 bn) both hit records.

US manufacturing sentiment was surprisingly strong in August. The final PMI reading by the ISM of 61.3 (vs. 57.6 consensus) was the **highest in 14 years**, surprising analysts who had been concerned about higher tariffs and rising trade tensions. Export orders were virtually unchanged and have remained relatively flat since April, suggesting that trade tensions have not affected order books for several months now. The report should buttress the case for continued Fed rate hikes, with the next FOMC meeting coming up on September 25-26 and another rate hike perceived to be a near-certainty.



US equity capital market issuance stands at \$159.5 bn so far this year with 676 deals completed, according to Dealogic. The US and China have accounted for just over half of global equity volumes this year. In the US, the tech sector has dominated deal making. There have been 119 tech deals worth \$40.3 bn so far, the second highest volume on record.



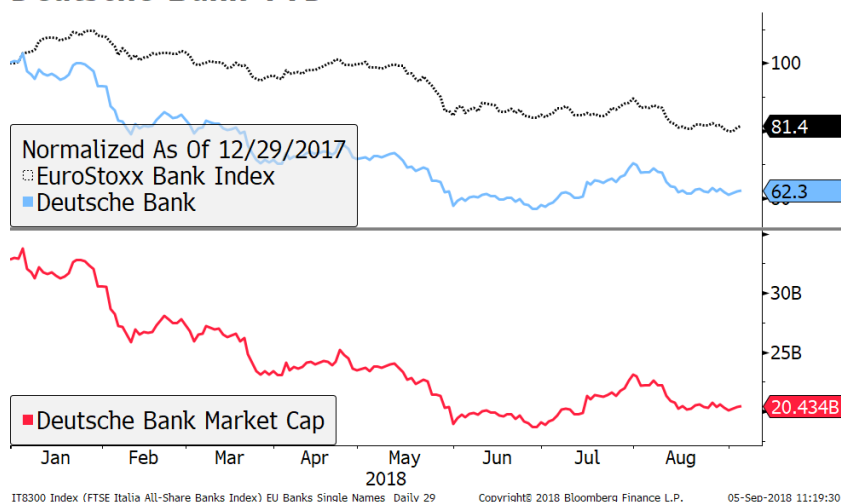
Source: Dealogic

Europe

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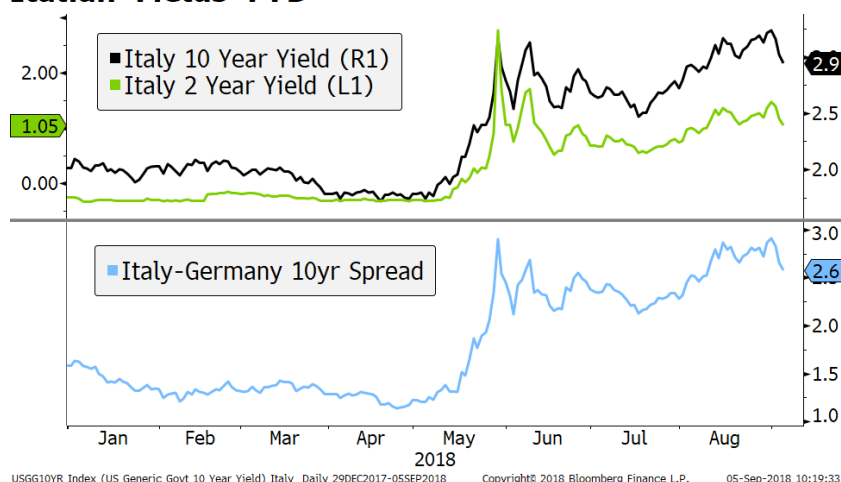
Equity markets are trending lower with the EuroStoxx index falling 0.7% and the UK FTSE down 0.4%. Italian stocks are outperforming, up 0.3%. There have been no new major developments; contacts still cite trade tensions and, to a lesser extent, the events in EM as the drivers for the broad negative sentiments. Of note, **Deutsche Bank** (+0.2%) will drop out of the Euro Stoxx 50 index at the end of the month after its market capitalization has fallen 30% to €20 bn.

Deutsche Bank YTD



Italian debt continues to rally as the government reassures investors that the 2019 budget will be kept within the spending limits, and maybe even well below. The 10-year spread to German bunds has narrowed to 257 bps, a decline of over 30 bps since last Friday. There is little other notable price action in European fixed income markets.

Italian Yields YTD



United Kingdom

BOE governor Carney signalled his willingness to stay on the post after his terms expires. He is expected to stay until 2020 and oversee the Brexit transition. The decision is not confirmed but seen as highly likely. The news was taken as a positive development that will provide an element of continuity amidst an already very uncertain process. There was little price action associated with the news.

Other Mature Markets [back to top](#)

Japan

Equities retreated for a fifth day and the yen extended recent losses amid elevated trade tensions. The Topix index fell 0.8%, but was a relative outperformer against broad-based and sizable losses seen




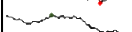



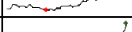
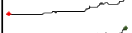





elsewhere in Asia. Meanwhile, the yen softened further (-0.03%) to 111.44, its weakest level in over two weeks. Signs of slowing trade in the latest U.S. manufacturing data combined with concerns that Typhoon Jedi, the strongest in 25 years, could dent tourist inflows and retail sales, weighed on sentiment. **JGB yields edged lower following recent increases.** The 2-year note fell 0.3 bps to -0.13%, the 30-year fell 1.3 bps to 0.84% while the 10-year note held steady at 0.11%.

Emerging Markets

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Investors continued to shed EM currencies and assets, and market commentary debated the issue of contagion. Concerns about the determination of the Turkish central bank to combat inflation and a report on South Africa entering a recession added to EM pressures. The uncertainty about oil prices increased as a hurricane is expected to hit the US Gulf coast, but was cushioned by plentiful stockpiles. Currencies tumbled in Argentina, South Africa, Turkey, Mexico, India, and Indonesia sank as well. Today, market pressures extended to Asian equities, with stocks plunging in Indonesia and Malaysia.

Key Emerging Market Financial Indicators

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Indian Rupee		71.71	-0.5	-2	-4	-11	-11
Argentine Peso		38.98	0.0	-13	-30	-56	-52
Brazil Real		4.16	0.0	-1	-10	-25	-20
Mexican Peso		19.56	-0.8	-3	-5	-8	0
Russian Ruble		68.32	-0.3	0	-7	-16	-16
South African Rand		15.55	-1.3	-8	-14	-17	-20
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The recent selloff of EM currencies has already been worse than the taper tantrum, according to some metrics. The currencies of 13 countries among 21 major EMs have depreciated more in this episode since mid-April than during the 2013 taper tantrum. However, despite their significant weakening this year, the currencies of India and Indonesia have fared relatively better than in 2013. The EM average has fallen 11.8% in the recent selloff, compared to -5.7% in 2013, and the EM median has tumbled 8.5%, compared to -5.1% five years earlier. Separately, market commentators continue to debate if there is contagion in the EM space. The no-contagion camp argues that EM fundamentals and vulnerabilities vary greatly across countries. HSBC argues that **all major EMs have some moderate-to-high vulnerabilities**, except for Russia, which is subject to US sanctions, has a low investor confidence, and depressed valuations.

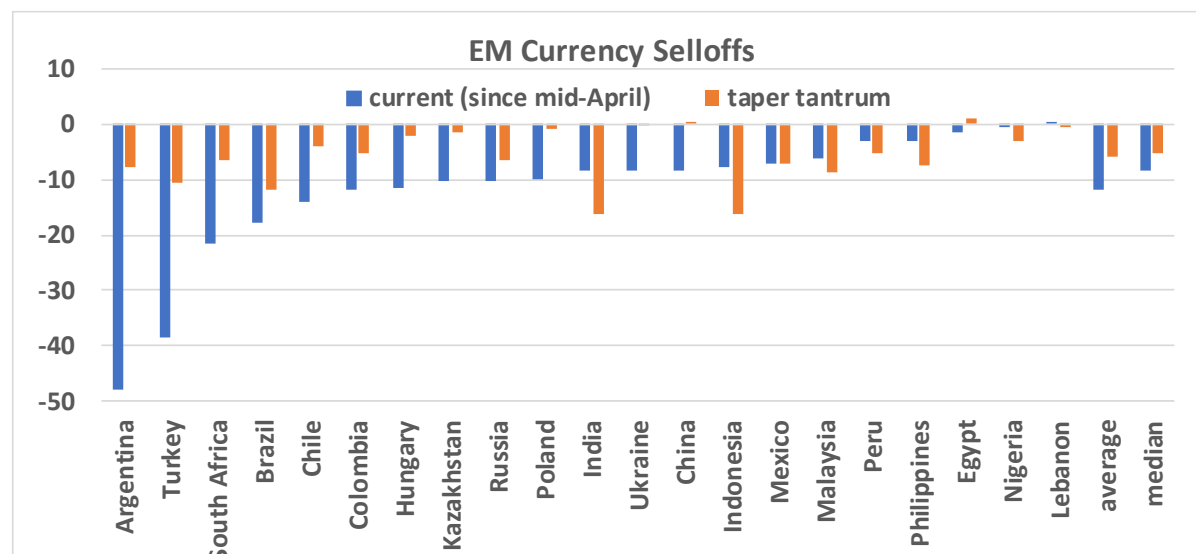


Table 2. Emerging Markets Local Bonds Value Matrix

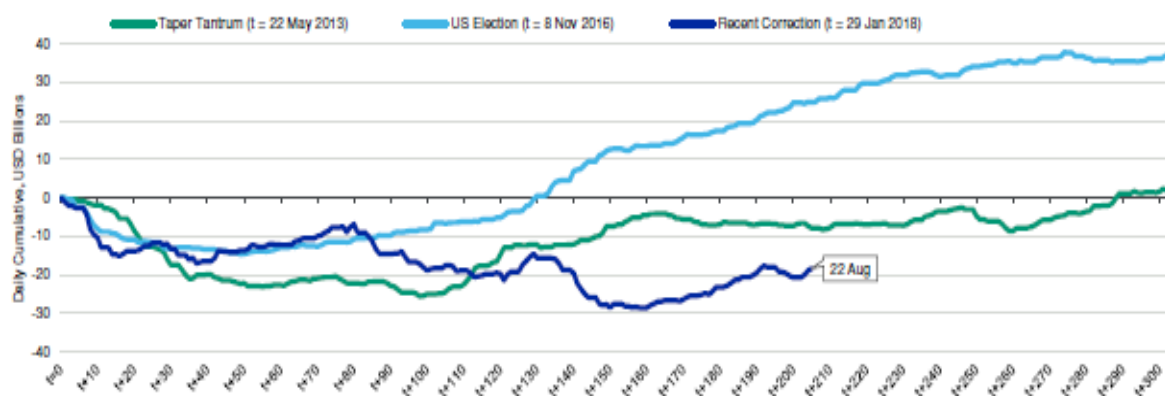
		Brazil	Mexico	Indonesia	India**	China	Malaysia	South Africa**	Turkey	Russia
External factors	FX adequacy ratio*	1.6	1.1	1.4	1.5	0.9	0.9	0.6	0.7	2.8
	FX Reserves (USDbn)	370.4	165.4	118.7	376.2	3,117.9	100.9	42.7	76.8	370.7
	Short-term external debt (% of reserves)	9.6	3.4	43.1	24.9	36.2	108.1	67.0	133.3	15.7
	Import coverage ratio (months)	31.1	4.7	9.0	8.5	18.2	6.5	5.4	4.3	19.9
Macro variables	Current account deficit (FY18e, % of GDP, HSBC forecast)	-0.1	-2.0	-2.1	-2.4	0.9	2.8	-3.7	-6.2	4.9
	Fiscal deficit (FY18e, % of GDP, HSBC forecast)	-7.0	-2.5	-2.6	-3.3	-2.6	-2.9	-4.1	-2.0	1.7
	Household debt (% of GDP)	24.7	16.1	17.0	10.9	48.4	67.2	33.1	17.4	16.2
	Headline CPI (last, % y-o-y)	4.5	4.8	3.2	4.2	2.1	0.9	5.1	15.9	2.5
	HSBC CPI forecasts (end-2018e, % y-o-y)	3.3	3.8	3.8	6.3	2.7	1.1	5.4	15.3	4.0
Positioning & sensitivity	Sensitivity†	-0.74	-0.12	-0.43	0.05	0.12	-0.11	-0.43	-2.26	-0.47
	Latest foreign ownership of local government debt	12.6%	31.4%	37.7%	4.1%	7.7%	25.5%	40.1%	19.2%	27.9%
	Foreign ownership (a year ago)	12.8%	32.8%	39.0%	4.4%	4.3%	27.0%	40.2%	22.6%	30.2%

*FX adequacy ratio - IMF Ratio of reserve/ARA metric (May 2018). **FY18 refers to 1 April 2018-31 March 2019 for India and South Africa.
†Beta computed using a regression between the yields of 10-year government bonds and US Treasuries over the past three months.
Source: HSBC forecasts

Similarly, portfolio outflows in the recent episode exceed those during the taper tantrum by some metrics. Moody's argues on the basis of IIF data "the current reversal in capital flows is as intense as and has been more prolonged" than both the mid-2013 correction over Fed tapering and the risk-off

behavior following the US presidential elections in 2016. Over the past month, Moody's reports that Argentina, Russia and South Africa have seen the most currency depreciation, while Zambia and Argentina risk premia have increased the most.

Emerging market capital outflows this year as intense as and more prolonged than the 2013 "taper tantrum"
(Net non-resident purchases of stocks and bonds, \$ billions)



Sources: Institute of International Finance, Moody's Investors Service

EM Asia

Persistent pressure on emerging markets continues to weigh on Asian currencies with equity losses broadening. Regional currencies weakened further against the dollar, with the Korean won underperforming, slipping to its weakest level in a week (-0.6%) over uncertainties on global trade and fears of contagion from the selloff in other emerging markets. The Indian rupee (-0.4%) fell to its record

Mixed Picture

India's external sector vulnerability indicators



Source: RBI Annual Report

Bloomberg

low of 71.87 per dollar as external vulnerabilities, including a widening current account gap, weighed on the currency. The rupee has lost over 13% thus far this year, making it the worst performing Asian currency in 2018.

By contrast, the Indonesian rupiah held steady for the day, hovering near the 15,000 per dollar level. Bloomberg reported that the government plans to delay \$25 billion worth of power projects as it seeks to

narrow its current account deficit and stem a selloff in the rupiah. Specifically, Energy and Mineral Resources Minister Jonan indicated that the authorities are to delay almost half of the planned 35 gigawatts of electricity projects to ease pressure on imports.

Meanwhile, **regional equities fell for a fifth day on concerns over trade and contagion from other emerging markets.** Indonesian and Chinese shares were particularly hard hit. The Jakarta Composite lost nearly 4.0% on the day, its sharpest single-day loss in nearly two years, while Chinese Composites lost 1.6% to over 2.5%. Losses elsewhere were relatively more modest, ranging from as little as -0.2% (Taiwan Province of China) to -1.3% (Thailand).

China

The RMB stabilized while equities extended their losses amid fragile investor sentiment. The onshore CNY held steady at 6.84 and the offshore CNH weakened to 6.86 (-0.2%). The Shanghai Composite lost 1.7%, while the tech-heavy Shenzhen Composite lost 1.6%. Meanwhile, Hong Kong's Hang Seng Composite fell 2.7% on the day, its steepest one-day drop since mid-June on the back of sharp losses from Tencent and persistent China-U.S. trade tensions.

Argentina

The currency fell to a fresh record low despite the government's efforts to restore investor confidence. The peso declined 1.2% yesterday, after the administration rolled out a series of new fiscal measures on Monday, including taxes on tariffs on all exports. As the talks between Argentina and the IMF continue, press reports cite MD Lagarde as saying that participants "made progress" in their discussions. Argentine Economy Minister Dujovne declined to discuss details but reportedly said he expected the revised plan to go to the IMF Board in days.

The central bank's survey showed the country is expected to go into a deeper recession. The August survey published yesterday depicted a significant erosion in the country's outlook, compared to July, amid an ongoing currency crisis. Economists in the monthly survey forecast that the economy would shrink 1.9% this year—a considerable deterioration from the -0.3% expected in July. Inflation is projected to climb to 40.3% by the year's end, up from 31.8% anticipated in a month earlier. The peso is expected to depreciate to 41.9—a weaker level than the 30.5 predicted in July.

Chile

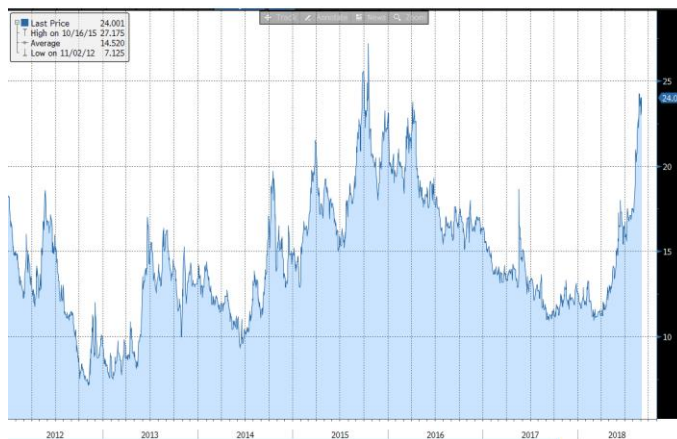
The central bank kept the policy rate on hold at 2.5% for the 13th consecutive meeting. The decision was widely expected, as some economic indicators showed a slowdown and the peso depreciated. The central bank said that inflation is expected to converge to the target earlier-than-expected because growth has been faster than forecast (figure). The central bank repeated that the case for monetary support was waning. However, some indicators (manufacturing and industrial output, unemployment, and retail sales) recently suggested a weakening in economic activity. Concurrently, copper prices and the peso fell, raising import prices. One-year swaps which show interest rate expectations have declined to 2.875% from 2.92% since early August.



Brazil

Currency volatility is close to a three-year high on policy uncertainty.

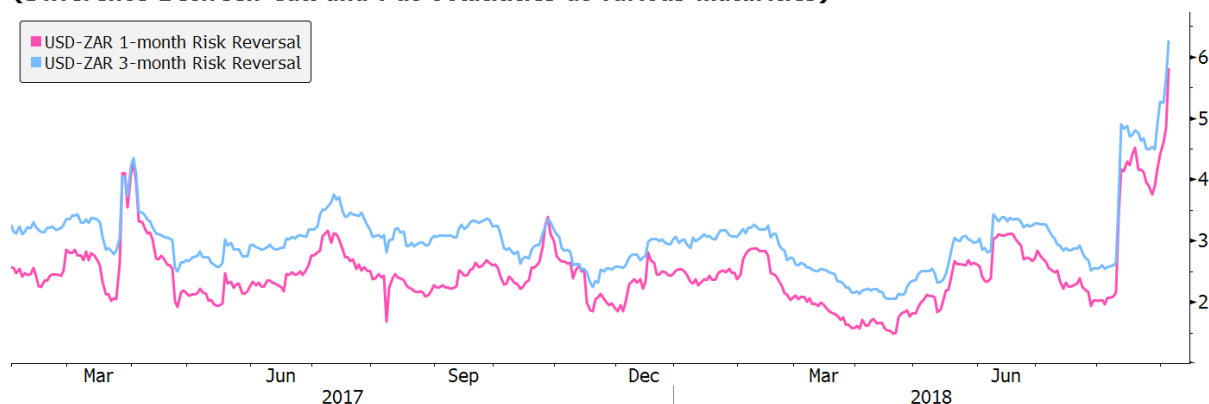
Investors are reportedly losing confidence in the prospect for measures to restrain fiscal expenditures, to balance the budget and cut debt levels. The real's implied 3-month volatility shot up in recent weeks (figure). The Brazilian real is now among the most volatile currencies in EMs. Analysts said that the real typically has a high level of volatility, but it has been pushed up further by the uncertainty about the election. The market has reportedly been pricing in a falling probability of reforms in 2019. Commentators note that there is no certainty about needed reforms based on current policy proposals, regardless of the election outcome.



EMEA currencies weakened further this morning, led by the South African rand (-1.4%) – reaching its lowest level in two years – and the Turkish lira (-0.4%). Other currencies in the region also weakened to the dollar but by smaller amounts. Although there was no major macroeconomic news today, international investors remain concerned over the impact of the stronger US dollar and Fed tightening path, higher borrowing costs for EM corporates, and geopolitical tensions in some countries. Risk reversals for rand and the lira reveal that options traders are the most bearish on both currencies since 2011.

Dollar-Rand Risk Reversals

(Difference Between Call and Put Volatilities at various maturities)



Source: Bloomberg

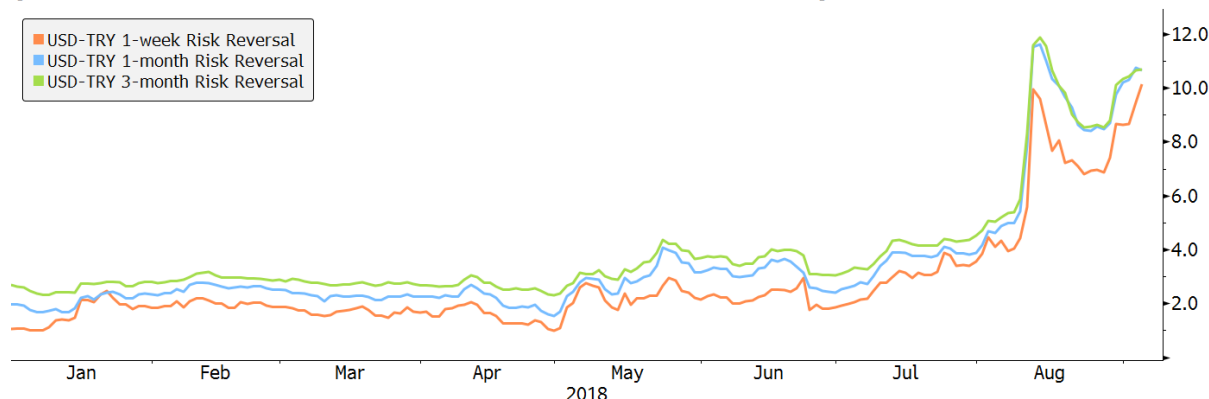
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Dollar-Lira Risk Reversals

(Difference Between Call and Put Volatilities at various maturities)



Source: Bloomberg

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Asia Ex Japan		71	-1.2	-3	-1	-1	-7
Emerging Markets		42	-1.9	-4	-4	-5	-10
Interest Rates			basis points				
US 10y Yield		2.89	-0.7	1	-6	83	49
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Japan 10y Yield		0.12	-0.8	1	1	11	7
UK 10y Yield		1.42	-0.5	-7	10	40	23
Credit Spreads			basis points				
US Investment Grade		104	0.8	3	6	-7	13
US High Yield		344	-0.7	4	4	-53	-31
Europe IG		67	-0.6	2	3	13	22
Europe HY		295	-2.4	7	-2	57	61
EMBIG Sovereign Spread		378	7.0	21	47	76	93
Exchange Rates			%				
Dollar Index (DXY)		95.46	0.0	1	0	3	4
USDEUR		1.16	0.0	-1	0	-3	-3
USDJPY		111.6	-0.2	0	0	-3	1
EM FX vs. USD		60.1	-0.4	-2	-7	-15	-14
Commodities			%				
Brent Crude Oil (\$/barrel)		78	-0.9	0	6	45	16
Industrials Metals (index)		116	0.4	-5	-4	-12	-17
Agriculture (index)		43	0.0	2	-6	-13	-10
Implied Volatility			%				
VIX Index (% change in pp)		13.7	0.5	1.2	2.0	1.4	2.6
10y Treasury Volatility Index		3.8	0.2	0.2	0.1	-0.7	0.3
Global FX Volatility		9.0	0.0	0.4	1.1	0.7	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		463	7.2	41	53	-87	52
Italy		290	-12.0	-23	-3	90	88
Portugal		186	-0.8	-4	8	-98	-8
Spain		144	1.1	-2	2	-9	-13










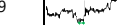



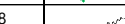
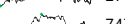





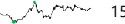





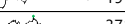
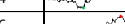

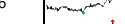








Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 9/5/2018 7:52 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.83	0.2	-0.2	0	-4	-5		3.6	1.2	-2	14	-16	-40
Indonesia		14970	0.1	-2.0	-3	-11	-9		8.5	9.2	46	49	154	183
India		72	-0.5	-1.5	-4	-11	-11		8.2	7.0	13	23	129	73
Philippines		54	-0.2	-0.6	-2	-5	-7		5.9	-0.8	0	0	105	107
Thailand		33	-0.1	-0.4	2	1	-1		2.8	0.7	3	5	56	51
Malaysia		4.15	-0.2	-0.6	-2	3	-2		4.1	2.3	4	4	20	20
Argentina		39	0.0	-12.8	-30	-56	-52		24.8	10.8	140	458	908	880
Brazil		4.16	0.0	-1.3	-10	-25	-20		10.7	13.7	48	129	177	167
Chile		693	-0.2	-3.7	-7	-10	-11		4.7	-2.7	1	-10	34	-4
Colombia		3095	0.0	-3.0	-6	-5	-4		6.6	1.2	5	1	3	30
Mexico		19.56	-0.8	-3.1	-5	-8	0		8.0	8.8	17	30	105	36
Peru		3.3	0.0	-0.8	-1	-3	-2		5.5	2.7	-1	9	5	31
Uruguay		33	-0.4	-2.5	-8	-13	-13		11.5	3.3	92	115		288
Hungary		283	-0.1	-1.8	-2	-9	-8		2.5	3.4	10	11	73	128
Poland		3.73	-0.3	-1.7	-1	-5	-7		2.6	0.3	5	8	-6	-9
Romania		4.0	-0.1	-1.2	0	-4	-3		4.4	0.0	3	-32	154	52
Russia		68.3	-0.3	-0.3	-7	-16	-16		8.5	10.4	14	85	90	121
South Africa		15.5	-1.3	-7.7	-14	-17	-20		9.8	20.6	33	48	51	46
Turkey		6.67	0.0	-3.2	-20	-48	-43		23.2	-16.5	-86	340	1260	1124
US (DXY; 5y UST)		95	0.0	0.8	0	3	4		2.76	-1.2	-2	-5	112	55

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2704	-1.7	-2	-1	-20	-18		187	5	6	0	27	35
Indonesia		5684	-3.8	-6	-5	-3	-11		209	21	23	20	19	43
India		38018	-0.4	-2	1	20	12		161	4	7	7	27	51
Philippines		7752	-1.6	-1	-1	-4	-9		112	7	5	6	5	17
Malaysia		1796	-1.0	-2	1	1	0		137	5	6	2	-7	27
Argentina		27625	-4.1	10	-5	15	-8		783	-1	60	214	380	433
Brazil		74712	-1.9	-4	-8	4	-2		345	2	14	77	81	111
Chile		5173	0.0	-2	-4	1	-7		142	1	4	8	11	23
Colombia		1530	-0.4	-1	0	2	1		186	0	9	7	-11	12
Mexico		48884	-1.2	-2	-1	-3	-1		288	1	14	14	41	43
Peru		19169	-1.5	-2	-6	7	-4		149	1	5	6	-5	12
Hungary		37132	0.4	0	1	-2	-6		122	1	-5	7	17	34
Poland		59303	-0.2	-3	-1	-9	-7		61	2	0	1	-1	14
Romania		8331	-0.2	0	3	3	7		183	-1	3	15	50	70
Russia		2337	0.0	0	2	17	11		239	8	3	47	60	61
South Africa		57428	-0.8	-5	1	2	-3		359	21	54	87	95	105
Turkey		92713	-0.5	-1	-3	-15	-20		606	5	80	184	323	317
Ukraine		528	0.2	0	2	81	68		618	17	64	114	108	163
EM total		25	-1.1	-3	-2	0	-4		379	8	22	48	77	94

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