



Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Friday, September 07, 2018

Click [here](#) to subscribe and [here](#) to provide feedback on the GMM.









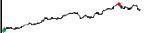

- **US nonfarm payrolls rise slightly more than expected in August ([link](#))**
- **Open interest in SOFR futures contracts remains extremely modest ([link](#))**
- **EM corporate bond spreads have widened only modestly year to date ([link](#))**
- **Chile's latest Monetary Policy Report boosts growth outlook ([link](#))**
- **RMB reverses gains despite intervention efforts ([link](#))**
- **SPECIAL FEATURE: Fintech Update discusses crypto-assets (see attached email)**

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

US Treasury yields rise up to 5 bps following employment data

Global markets were little changed ahead of the release of the US nonfarm payroll report for August. Nevertheless, market contacts suggest that risk sentiment remains relatively fragile, as the US considers applying additional tariffs to Chinese goods. Emerging market currencies, most notably the Argentinian peso and Turkish lira, have stabilized for the moment. In Argentina, the positive tone over the last few sessions has in part resulted from a reduction of speculative short positions, as month-end funding pressures have receded and talks with the IMF appear to advancing in a constructive manner. Turkey's central bank will hold a policy meeting next week; the Bloomberg consensus expectation is for the CBRT to raise its policy rate by about 300 bps to 20.88%.

Key Global Financial Indicators

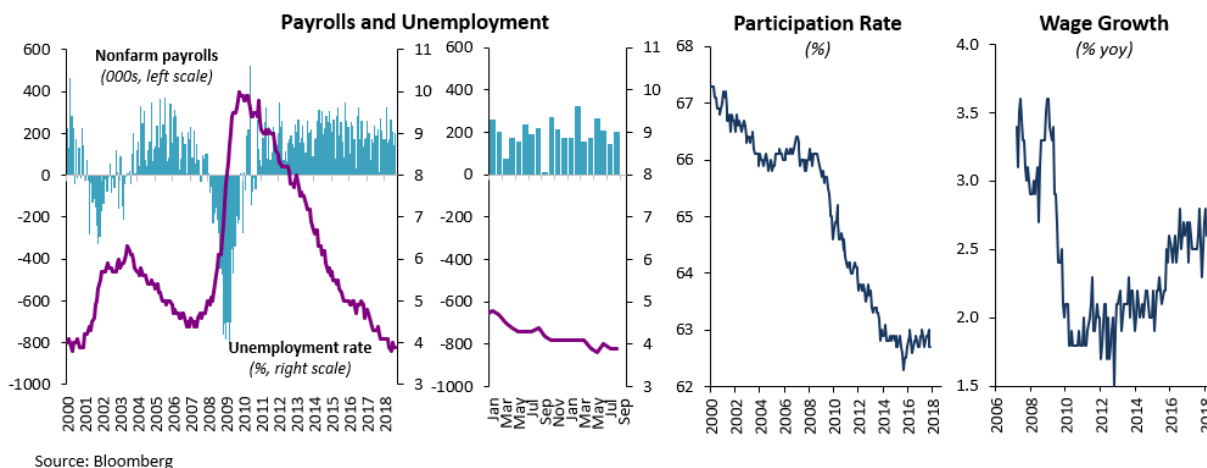
Last updated: 9/7/18 8:48 AM	Level		Change from Market Close				
	Last 12m	Index	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		2889	-0.3	0	1	17	8
Eurostoxx 50		3320	0.1	-3	-5	-3	-5
Nikkei 225		22488	-0.4	-2	0	16	-1
MSCI EM		42	-1.4	-5	-5	-7	-11
Interest Rates			bps				
US 10y Yield		2.90	-0.6	4	-4	79	49
Germany 10y Yield		0.38	-0.5	3	-1	3	-5
Japan 10y Yield		0.11	-0.4	0	0	10	6
FX / Commodities / Volatility			%				
Dollar index, (+) = \$ appreciation		95.1	-0.1	1	0	3	3
Brent Crude Oil (\$/barrel)		77.6	0.4	0	5	43	16
VIX Index (% change in pp)		13.9	0.0	2	3	2	3

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

United States

[back to top](#)

This morning, the government announced that nonfarm payrolls increased by 201k (versus 190k forecast, but with a 10k downward revision last month). The headline unemployment rate kept steady at 3.9%. But hourly earnings rose (+0.4% mom, +2.9% yoy) more than expected. Treasury yields rose up to 5 bps on the release.



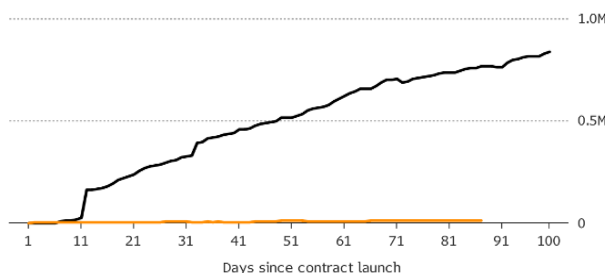
Tech stocks slid again Thursday while blue chips managed small gains. Concerns that social media stocks (-1.7%) would face additional regulatory oversight continued to reverberate after Wednesday's congressional hearings of industry executives. Microchip manufacturer stocks fell (-2.7%) following downbeat brokerage comments and negative pronouncements from a couple CFOs in the sector. Trade concerns also dented market sentiment, with another round of China tariffs possibly in the offing. Treasury yields declined 1 to 3 bps across the 2- to 10-year sector.

Bloomberg gauges that the **debut of SOFR, the Libor replacement benchmark rate, has been underwhelming**. Open contracts on 3-month SOFR contracts remain tiny by comparison with Euribor contracts after its contract launch. Moreover, SOFR fixings have been much more volatile than the Libor equivalent.

SOFR's Got A Long Ways To Go

Futures open interest is tiny compared to the launch of euribor

EURIBOR SOFR

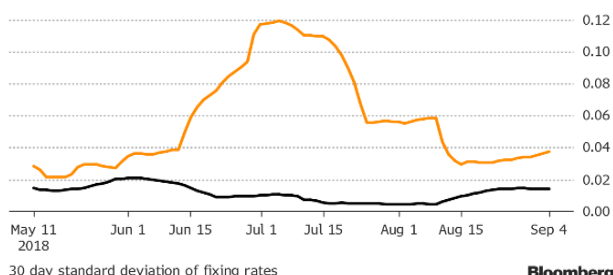


Bloomberg

Be Careful What You Wish For....

Thus far SOFR fixings have been much more volatile than Libor

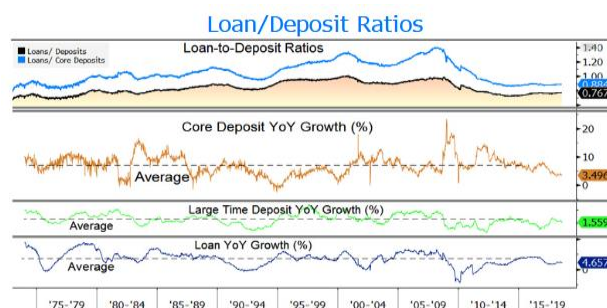
Libor SOFR



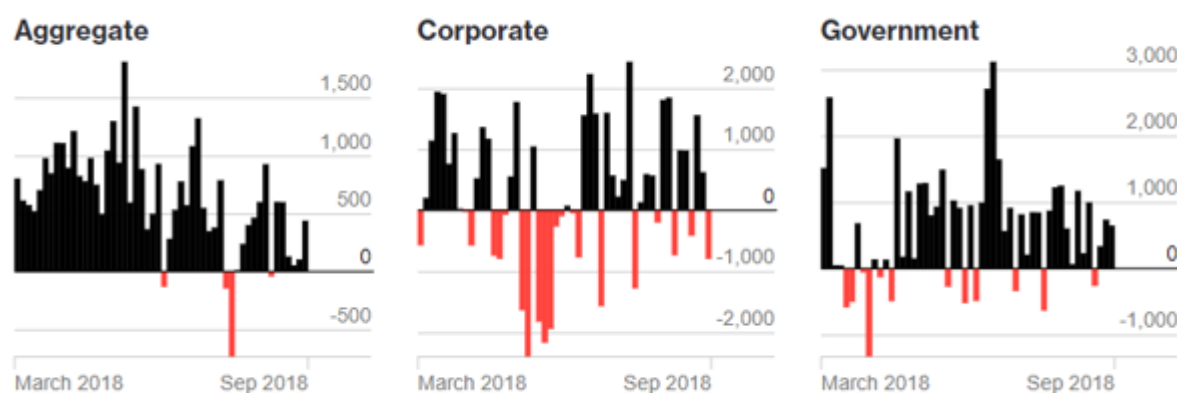
Bloomberg

Loan growth has been slower this August than last year, growing at 2.1% yoy in the most recent week according to Fed data. Compared with Q2, most loan categories have seen modest growth, but a strong positive has been accelerating commercial and industrial loan growth. Deposit growth so far in Q3 has also been coming in slower, and analysts are concerned that rising interest rates may further depress deposits,

Name	08/24	08/17	08/10
Loans, Balance Sheet	2.1%	2.1%	1.8%
Real Estate Loans	-0.6%	-0.6%	-0.9%
Residential Mortgage	2.4%	2.3%	1.9%
Home Equity - loc	-12.2%	-12.2%	-12.1%
Commercial Mortgage	-1.2%	-1.0%	-1.2%
C&I	3.8%	3.4%	3.2%
Consumer	2.9%	2.9%	2.9%
Card	3.8%	3.7%	3.7%
Consumer	1.7%	1.8%	2.0%
Other Loans and Leases			
All other Loans & Leases	6.3%	6.8%	6.0%



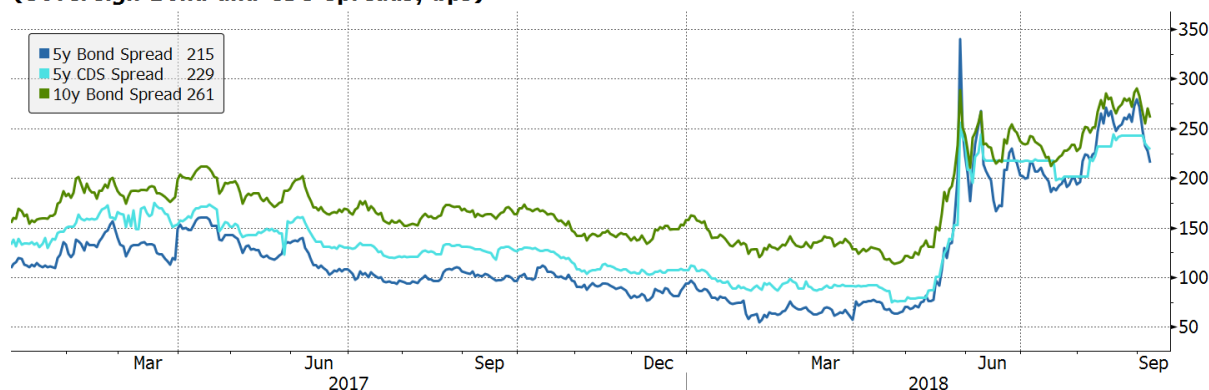
Fixed-Income ETF Flows



Europe

European equities are slightly down, with losses in the 0.1%-0.2% range for the main indices. Bank stocks (-0.8%) are underperforming. **Sovereign debt markets are steady**; long-term yields are up 1-2 bps in most countries, except Italy. **The 10-year Italian yield has dropped 8 bps this morning to 2.98%**, partly reversing its 12 bps rise yesterday. The price reversal followed unconfirmed reports that the Italian Finance Minister Mr. Tria wants the deficit not to exceed 1.6% of GDP. The spread between sovereign Italian and German assets has begun to narrow in September.

Italy-Germany Spreads (Sovereign Bond and CDS spreads, bps)



Source: Bloomberg
CFRTR1US Curncy (FRANCE CDS USD SR 5Y D14) FI: Ita-Germ Spreads Daily 01JAN2017

Copyright© 2018 Bloomberg Finance L.P.

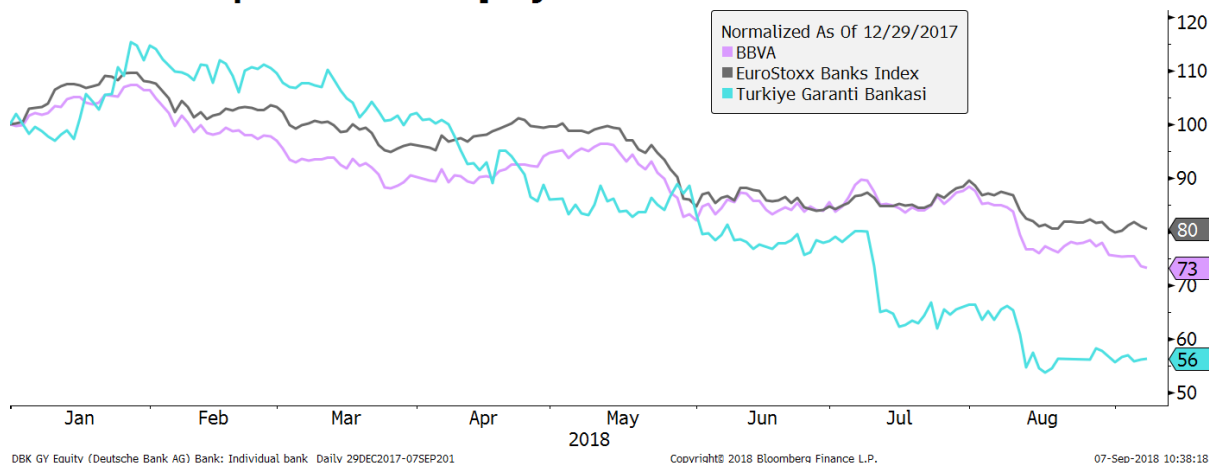
07-Sep-2018 11:01:01

The UK's Chancellor of the Exchequer, Mr. Hammond, has warned that public spending will have to be reprioritized in the event of a no-deal Brexit. The chancellor's comments came after a journalist managed to snatch a photograph of the government's so-called Operation Yellowhammer – a contingency plan for a hard Brexit – from the arms of a top official outside Downing Street. The documents suggests particular concern by Her Majesty's Treasury over the impact on financial services. **The reaction in UK's financial markets has been muted**, with sterling flat at \$1.29, the 10-year gilt yield up 2bps to 1.43%, and the FTSE 100 only 0.3% down in line with continental peers.

The transition period for banks to relocate to the eurozone should not exceed 3 years after Brexit is finalized, according to Danièle Nouy, chair of the ECB's Supervisory Board. In an interview, Mrs. Nouy remarked that the ECB was ready to agree to transition periods not exceeding 3 years with lenders wishing to relocate to the euro area. She added that "empty shell" structures would be prohibited and that lenders' capacity for trading, hedging, risk management and so forth in the euro area has to be commensurate with the size and the risk of the relocated operations."

BBVA could suffer losses from continued turmoil in Turkey and from US tariffs, according to analysts. BBVA derived 16% of its gross income in 2018H1 from Turkey, largely via its 50% stake at Garanti Bank. Analysts note that NPLs at Garanti are set to increase (currently at 3.5%) but that BBVA should be able to offset the impact on the group by a reduction of bad loans in Spain. The impact on overall capital levels should be manageable. Separately, BBVA's CEO, Mr. Torres, recently announced measures to offset risks in Turkey, including reducing FX loans, diversifying its funding sources, and raising lending standards for corporates. Mr. Torres added that although profits would decline in 2018-19 there was a low risk of contagion to other parts of the bank. **BBVA's stocks are 0.7% down today, in line with peers, but have fallen about 14% in August.**

Selected European Banks: Equity Price



Other Mature Markets [back to top](#)

Japan

Equities extended recent declines while the yen held steady amid fears of a possible trade war with the US. The Topix shed 0.5%, bringing the weekly loss to about 3.0%, its worst since March. Meanwhile, the yen was unchanged at 110.68, its strongest level in 2 weeks after a Wall Street Journal article signaled President Trump's concerns with the US-Japan trade balance. The possibility of a US trade war against Japan weighed particularly heavily on electronics companies and automakers. High-level trade discussions with the US could come late in September; local news reported that PM Abe could meet President Trump on September 25th in New York.

Canada

The August employment report, released minutes ago, showed an unexpected decline of 51,600 jobs versus expectations for a 5,000 increase. Employment in Ontario province dropped the most since January 2009. The Canadian dollar weakened 0.2% immediately following the release.

Emerging Markets

[back to top](#)

Last updated: 9/7/18 8:50 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Prices/Returns of Major EM Benchmarks			%				%
MSCI EM Equities		41.72	-1.4	-5	-5	-7	-11
MSCI Frontier Equities		27.61	0.1	-3	-7	-10	-17
Hard Currency Sovereign Debt		815.42	0.1	-1	-2	-4	-5
Local Currency Sovereign Debt		15.80	-0.1	-4	-8	-19	-17
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.83	0.0	0	0	-4	-5
Indonesian Rupiah		14935	0.2	-1	-3	-11	-9
Indian Rupee		71.88	-0.6	-1	-4	-11	-11
Argentine Peso		38.62	0.0	0	-29	-55	-52
Brazil Real		4.11	0.8	1	-9	-25	-19
Mexican Peso		19.21	0.7	-1	-4	-7	2
Russian Ruble		68.39	-0.3	0	-7	-16	-16
South African Rand		15.29	0.8	-4	-12	-17	-19
Turkish Lira		6.56	0.7	2	-19	-48	-42
Dollar vs. Mature FX (DXY index)		95.13	-0.1	1	0	3	3

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

Shading denotes observations in the top/bottom percentile ranks of each time series (since 2010):



EM currencies generally strengthened, led by Argentina (+2.8%) and Brazil (+1.6%), and Mexico (+0.5%), as investors reacted positively to Argentina-IMF talks. The only notable exception was Russia, where the currency weakened 1.4% on concerns about political interference with monetary policy. China and some other Asian equities continued to slide, hurt by a decline in US semiconductors and in anticipation of new trade tariffs. Equities in the Philippines weakened on a spike in inflation, which is indicative of a broader trend in EMs affected by currency depreciation.

Losses at EM funds have been remarkably wide-spread this year. Nearly all fund managers have incurred losses in the current market turbulence. Of the roughly 1,100 dedicated EM funds with over \$100 mn under management, only three have positive returns this year, based on Bloomberg data and reporting. Analysts find this unsurprising, given that the MSCI EM is down 12% year-to-date and the JPMorgan EMBIG is 5% lower. The best performing funds are the ones that invest in Middle East equities and in selected EM bonds.



While the widening of EM corporate spreads has been broad-based, they remain relatively tight.

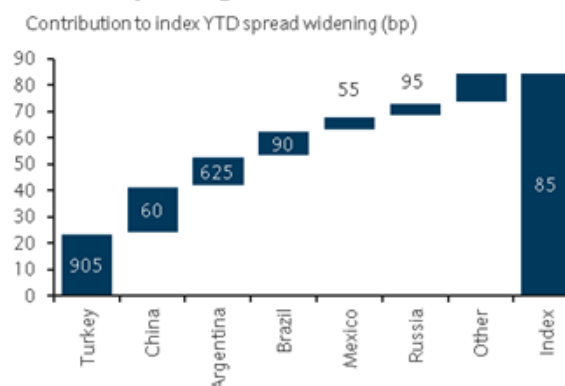
The spread on Barclay's EM external corporate debt index has widened 85 bps this year, including by 40 bps in August. However, in contrast with the EM currency and sovereign debt markets, the widening and the level of corporate spreads have been smaller than those during the past few selloffs over 2011-16 (first figure). Separately, analysts gauged that the widening of corporate spreads, which was initially concentrated in Argentina and Turkey, later affected other EMs that faced idiosyncratic adverse developments. These included Russia under sanctions, and Brazil and Mexico ahead of elections. Analysts argued that the contagion has extended to the wider EM space, given that most corporates have seen a widening of spreads (second figure).

Figure 1: Current EM Corp/Quasi spreads remain tight in a historical context



Source: Barclays Research

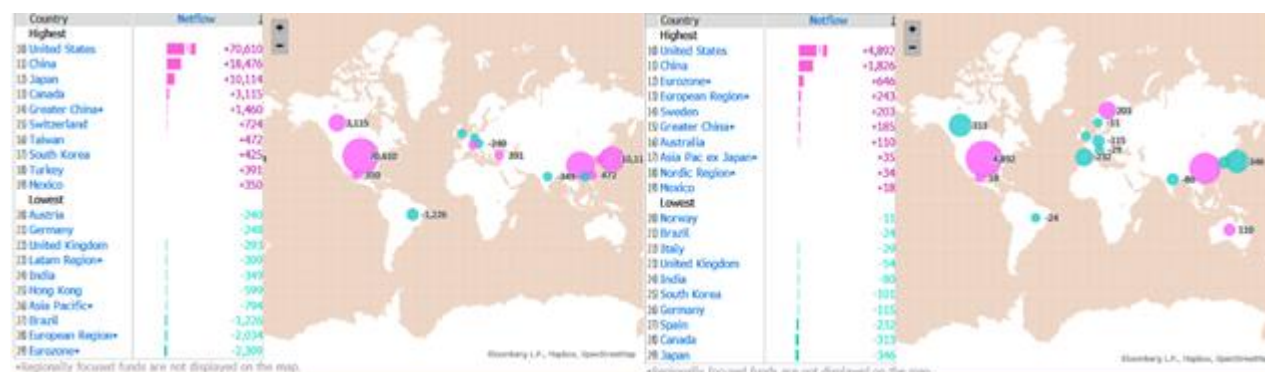
Figure 2: Turkey and Argentina have suffered the most, but "low beta" credits have also widened by contagion



Note: Data above the column denotes the absolute spread widening, while the index contribution denotes absolute spread x market value in the index (%) Source: Barclays Research

Country ETFs have continued to pull money from Brazil and India. The negative trends at these two countries have been persistent over the last three months, including the last week ending Thursday (figure). Over the past month, Brazilian ETFs experienced the fastest outflows. This is in contrast with the steady net inflows over this period into the US, China, and Mexico funds. Separately, reports said some risky funds are investing heavily in Brazil, looking through political, US interest rate, and trade risks and betting on a rally in commodities.

Figure: Country ETF flows over the last three months and over the week ending 9/6



Argentina

Argentina was again a key outperformer, with the peso gaining 2.8%, equities 4.1%, and bond spreads and CDS continuing to narrow. USD bond spreads were 18 bps narrower on the day and 5-year CDS spreads narrowed 58 bps to 700 bps. The positive price action in the last few sessions has reflected short position covering and a view that the selloff may have been overdone, as well as the passage of month-end funding pressures. Dealers reported active trading sessions yesterday and today. Analysts indicated they thought IMF talks are progressing well but expect volatility to persist in the coming months.

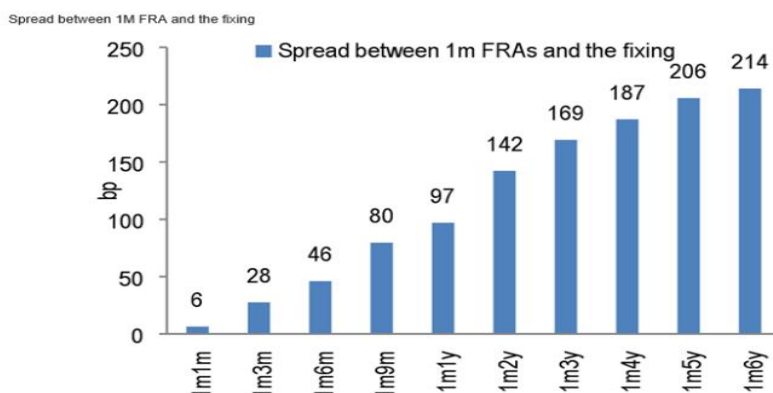
Brazil

Brazilian markets rallied after a non-fatal attack on a presidential candidate. Bolsonaro who leads in the polls is reportedly seen as a right-wing populist, but his top adviser is viewed as market-friendly. Reports said Bolsonaro is becoming the favorite candidate of bankers and investors. Analysts said the attack would boost voter sympathy for Bolsonaro. Equities surged 1.7% and the real gained 1.6%. Separately, **inflation dropped more-than-expected in August**, on falling transportation and food prices. This would reportedly support the central bank's efforts to keep interest rates at low levels. After the release, interest rate futures on January 2019 contracts fell 7 bps.

Chile

The central bank's monetary policy report released yesterday was hawkish. The central bank updated its forecast, and reportedly looked through recently weak data reports and discounted EM-wide risks. The growth forecast was upgraded from 3.25-4% to 4-4.5%. This came on the heels of Tuesday's central bank meeting which was seen as hawkish and a stronger-than-expected economic activity report on Wednesday. Local rates have been climbing reflecting higher expectations of a rate hike. The swaps market is now pricing in a rate hike within three months or as early as at the next meeting in October (figure).

Exhibit 13: Market is pricing a hike in 3 months' time

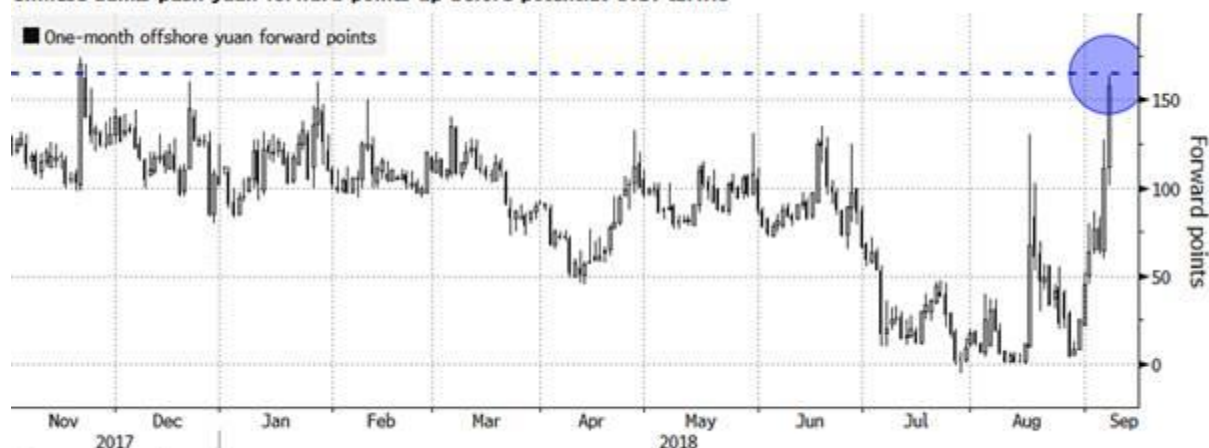


China

The RMB held steady, reversing initial gains from rumored efforts to support the currency. Traders noted that state-owned banks were seen buying RMB forward contracts aggressively in the morning. As a result, the one-month RMB forward points -- a gauge of funding cost -- rose to the highest level since last November, forcing many to cover their short RMB positions, lifting the RMB in the process. However, without further support later in the day, the RMB reversed initial gains. The onshore CNY held steady at 6.838 and the offshore, 6.847. Market observers noted that the authorities likely sought to support the RMB ahead of new US tariffs on Chinese goods in the coming days. In reaction to such a prospect, the Commerce Ministry warned on Thursday that China will be forced to "retaliate" if US implements any new tariffs.

Liquidity Squeeze

Chinese banks push yuan forward points up before potential U.S. tariffs



Source: Bloomberg

CNH1M Currency (CNH Fwd Points 1M) cnh 1m forward points Daily 01NOV2017-07SEP2018

Copyright© 2018 Bloomberg Finance L.P.

07-Sep-2018 13:06:00

EM Asia

Currencies stabilized following recent losses. The **Indonesia rupiah** outperformed (+0.5%), garnering its largest single-day advance since late July. The **Indian rupee**, which had been battered as of late, gained 0.2%. The **Malaysian ringgit** was unchanged at 4.144. Still, with its 1% loss on the week, the ringgit has endured 12 weekly declines, its longest losing streak in 3 years.

List of GMM Contributors (Global Markets Analysis Division, MCM Department)**Anna Ilyina**

Division Chief

Peter Breuer

Deputy Division Chief

Will Kerry

Deputy Division Chief

Sergei Antoshin

Senior Economist

John Caparuso

Senior Financial Sector Expert

Sally Chen

Senior Economist

Fabio Cortés

Senior Economist

David Jones

Senior Financial Sector Expert

Sanjay Hazarika

Senior Financial Sector Expert

Rebecca McCaughrin

Senior Financial Sector Expert

Juan Solé

Senior Economist

Jeffrey Williams

Senior Financial Sector Expert

Akihiko Yokoyama

Senior Financial Sector Expert

Dimitrios Drakopoulos

Financial Sector Expert

Tryggvi Gudmundsson

Economist

Henry Hoyle

Financial Sector Expert

Robin Koepke

Economist

Thomas Piontek

Financial Sector Expert

Jochen Schmittman

Economist

Ilan Solot

Financial Sector Expert

Nour Tawk

Economist

Martin Edmonds

Senior Data Mgt Officer

Yingyuan Chen

Senior Research Officer

Rohit Goel








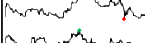


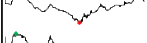

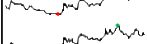









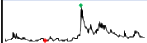



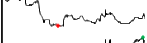


Research Officer

Yang Li

Research Assistant

Disclaimer: This is an internal document. It is produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 9/7/18 8:49 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2889	-0.3	0	1	17	8
Europe		3320	0.1	-3	-5	-3	-5
Japan		22488	-0.4	-2	0	16	-1
China		2692	-0.5	-2	-1	-20	-19
Asia Ex Japan		69	-1.7	-4	-3	-3	-9
Emerging Markets		42	-1.4	-5	-5	-7	-11
Interest Rates			basis points				
US 10y Yield		2.90	-0.6	4	-4	79	49
Germany 10y Yield		0.38	-0.5	3	-1	3	-5
Japan 10y Yield		0.11	-0.4	0	0	10	6
UK 10y Yield		1.45	0.4	-1	14	44	26
Credit Spreads			basis points				
US Investment Grade		104	0.4	3	7	-8	13
US High Yield		345	1.6	6	6	-60	-30
Europe IG		65	0.2	-4	2	12	20
Europe HY		292	1.8	-9	0	59	58
EMBIG Sovereign Spread		377	0.0	12	46	80	92
Exchange Rates			%				
Dollar Index (DXY)		95.13	-0.1	1	0	3	3
USDEUR		1.16	-0.4	0	0	-4	-4
USDJPY		111.3	0.2	0	0	-2	1
EM FX vs. USD		60.4	0.1	0	-6	-15	-13
Commodities			%				
Brent Crude Oil (\$/barrel)		78	0.4	0	5	43	16
Industrials Metals (index)		115	0.0	-4	-5	-12	-17
Agriculture (index)		42	-0.1	0	-7	-14	-11
Implied Volatility			%				
VIX Index (% change in pp)		13.9	0.0	1.6	2.6	2.3	2.9
10y Treasury Volatility Index		3.6	-0.1	-0.2	-0.1	-1.0	0.1
Global FX Volatility		9.0	0.0	0.2	1.0	0.7	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		444	-11.3	7	44	-103	33
Italy		305	11.4	-17	14	102	103
Portugal		188	0.4	-4	13	-97	-7
Spain		146	0.6	-2	6	-11	-11

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: 9/7/2018 8:51 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		6.83	0.0	0.2	0	-4	-5		3.6	2.0	0	16	-15	-38
Indonesia		14935	0.2	-0.9	-3	-11	-9		8.7	19.6	66	68	180	203
India		72	-0.6	-1.1	-4	-11	-11		8.2	2.4	14	25	131	75
Philippines		54	-0.4	-0.4	-2	-5	-7		5.9	0.1	-1	0	105	107
Thailand		33	0.0	0.0	2	1	-1		2.8	2.0	5	7	58	53
Malaysia		4.14	0.4	-0.5	-1	2	-2		4.1	2.8	7	7	24	22
Argentina		39	0.0	0.3	-29	-55	-52		24.1	-74.4	21	384	828	805
Brazil		4.11	0.8	0.9	-9	-25	-19		10.7	-1.4	48	128	184	166
Chile		682	0.5	-0.4	-5	-9	-10		4.8	3.3	2	-7	40	-1
Colombia		3097	0.0	-2.1	-6	-6	-4		6.6	1.6	7	3	6	32
Mexico		19.21	0.7	-0.5	-4	-7	2		8.0	0.1	14	30	105	36
Peru		3.3	0.1	-0.3	-1	-2	-2		5.5	0.4	1	10	7	31
Uruguay		33	-0.7	-1.8	-8	-12	-13		11.6	17.4	107	132		305
Hungary		280	0.6	0.1	-1	-8	-7		2.6	2.6	14	14	79	130
Poland		3.70	0.5	-0.5	0	-4	-6		2.6	1.7	6	9	-1	-7
Romania		4.0	0.1	-0.1	1	-3	-2		4.4	0.0	1	-32	153	52
Russia		68.4	-0.3	-0.3	-7	-16	-16		8.6	6.1	17	91	104	127
South Africa		15.3	0.8	-3.7	-12	-17	-19		9.8	1.5	29	50	59	47
Turkey		6.56	0.7	1.5	-19	-48	-42		23.1	-8.6	-76	332	1249	1115
US (DXY; 5y UST)		95	-0.1	0.6	0	3	3		2.76	-0.7	1	-4	108	56

	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		2692	-0.5	-2	-1	-20	-19		187	0	-1	0	34	35
Indonesia		5776	1.6	-4	-5	-1	-9		214	7	25	26	30	48
India		38243	0.6	-1	1	21	12		166	5	8	12	26	56
Philippines		7639	-1.5	-3	-2	-4	-11		109	-2	0	3	9	14
Malaysia		1799	0.2	-1	1	1	0		137	1	2	2	0	27
Argentina		28769	4.1	13	0	19	-4		732	-12	-42	150	330	382
Brazil		75092	0.5	-4	-7	2	-2		329	-6	-9	69	67	95
Chile		5141	0.1	-2	-4	1	-8		139	-3	-2	5	10	20
Colombia		1509	0.0	-2	-1	0	0		180	-2	-1	2	-15	6
Mexico		48595	-0.6	-3	-1	-4	-2		282	-3	3	7	36	37
Peru		18942	-1.2	-4	-6	5	-5		146	-2	-1	2	-5	9
Hungary		37205	0.2	0	0	-2	-6		120	-1	-8	1	20	32
Poland		58668	-0.1	-3	-2	-9	-8		60	0	-7	-4	5	13
Romania		8334	0.3	0	2	4	7		186	2	7	17	45	72
Russia		2339	0.8	0	2	16	11		237	-1	0	44	60	59
South Africa		57233	0.2	-3	1	3	-4		360	1	48	87	104	106
Turkey		93336	0.6	0	-1	-15	-19		567	-33	12	144	286	278
Ukraine		527	-0.2	0	2	81	67		611	-7	41	106	125	156
EM total		25	-1.5	-4	-3	-2	-6		377	0	12	46	80	92

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