GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, SEPTEMBER 4, 2019

- **UK Parliament seizes control from PM in bid to pass bill preventing hard Brexit** (link)
- **Hong Kong SAR to withdraw extradition bill, lifting Asian equities** (link)
- **EU-Italy tensions seen as easing as populist party forms coalition with rival** (link)
- **US Treasury yields and equities fell yesterday after ISM drops below 50** (link)
- **Chile's central bank cut its policy rate by 50 bps, to a nine-year low** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets gain on signs of easing political risks

Investors are responding positively as developments in Hong Kong SAR, the UK, and Italy raise hopes of easing geopolitical risks. Equity prices are up almost 0.5% across the globe, benchmark government bond yields are up 3-5 bps, and the dollar is about 0.35% and 0.6% weaker against major peers and EM currencies, respectively. In Hong Kong, stocks surged on news that the government would withdraw its extradition bill, raising hopes that the city's political unrest will ease and lifting sentiment around the region. In the UK, sterling and equities bounced higher as opposition parties last night gained control over today's Parliamentary agenda in a bid to rule out a no-deal Brexit on October 31, fracturing the Tory party and dealing a significant blow to PM Johnson's Brexit strategy. Italian assets also outperformed as the populist Five Star Movement party linked up with the center-left Democrats Party, seen as promising a less confrontational stance towards the EU.

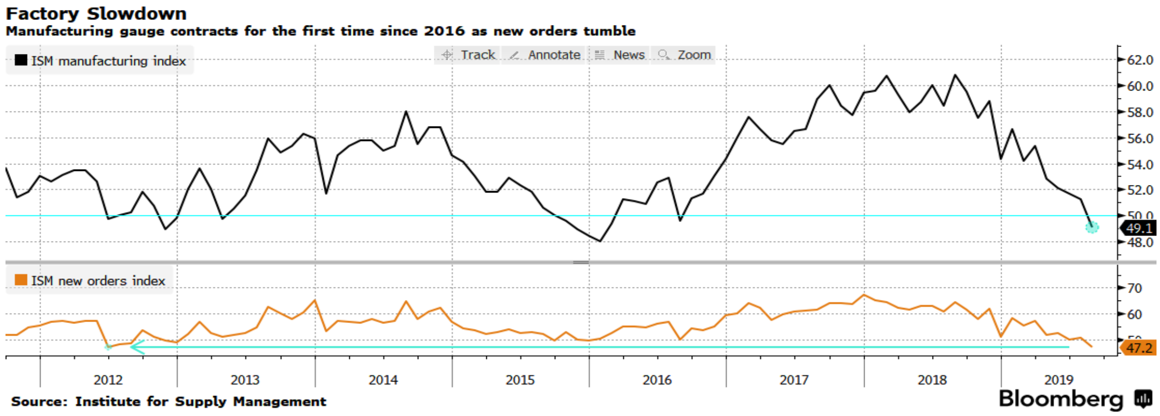
Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
9/4/19 8:29 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2916	-0.7	0	-3	0	16
Eurostoxx 50		3409	1.3	1	-3	-1	14
Nikkei 225		20461	-0.1	-1	-5	-10	2
MSCI EM		40	2.1	0	-7	-10	2
Yields and Spreads					bps		
US 10y Yield		1.51	-3.9	-11	-56	-138	-118
Germany 10y Yield		-0.70	1.6	-5	-31	-110	-94
EMBIG Sovereign Spread		367	-4	7	39	10	-47
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		59.9	0.2	-1	-4	-2	-4
Dollar index, (+) = $ appreciation		98.4	0.2	0	0	4	2
Brent Crude Oil ($/barrel)		60.7	0.3	1	-5	-21	13
VIX Index (%, change in pp)		18.2	-1.2	1	5	6	-7

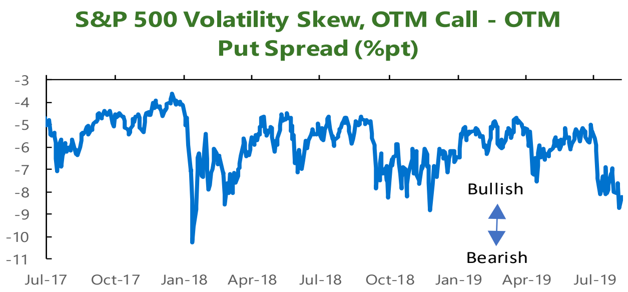
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States back to top

Treasury yields fell on weak manufacturing data. The August ISM manufacturing survey Tuesday morning was considerably weaker than expected at 49.1 (vs. 51.3 cons.), below 50 for the first time in three years. Of note, new orders dropped to the lowest since 2012, and new export orders renewed the post-crisis low. According to the Institute for Supply Management Manufacturing Business Survey Committee, “respondents expressed slightly more concern about U.S.-China trade turbulence, but trade remains the most significant issue, indicated by the strong contraction in new export orders. Respondents continued to note supply chain adjustments as a result of moving manufacturing from China. Overall, sentiment this month declined and reached its lowest level in 2019.” Treasury 10-year yields went lower to 1.47% with the 2-to-10-year curve bull-steepening by 2bps.



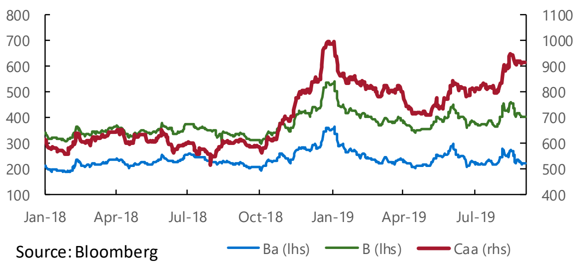
Equities traded lower amid no signs of improvement in trade talk woes. The September 1 tariffs went into effect as planned and widely expected. China said it had lodged a complaint with the WTO over US tariffs. Meanwhile, China appears to be cautious with a tariff retaliation, with its levies reportedly not to go into effect until December 15. Washington and Beijing are expected to have face-to-face talks in early September, yet there are still no signs that a specific time has been agreed. S&P 500 was down by 0.7% for the day with the industrial sector underperforming the most. The VIX implied equity volatility gauge rose to 19.7 and its term structure inverted. Option volatility skew, the spread between out-of-the-money (OTM) calls and puts, is grinding lower, suggesting that the market participants are becoming more pessimistic.



Source: Bloomgerg

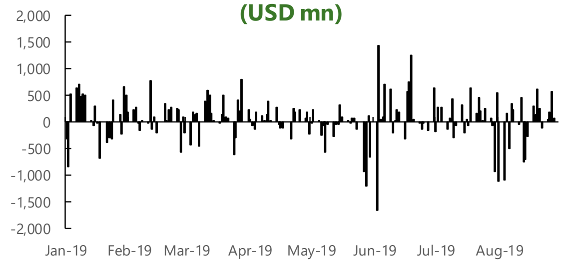
Speculative corporate bond markets are recovering, although the weakest-rated bonds continue to struggle. US high-yield corporate bond spreads have narrowed somewhat after they widened in early August following intensifying US-China trade tension. The recovery of the market has been supported by solid demand for higher carry income amid the lower yield environment. For example, high-yield corporate bond ETF inflows recovered since mid-August when Treasury 10-year yield declined to as low as 1.5%. Nevertheless, the performance of high-yield corporate bonds has varied by ratings, reflecting a higher level of uncertainty. While the credit spread of the ‘Ba’ index, the highest rated bucket in the high-yield segment, narrowed to the tight levels seen last year, the spread of the lower-rated ‘Caa’ index remains close to its widest level in two years.

US High Yield Corporate Bond Index Spread vs. Treasuries (by rating, bps)



Source: Bloomberg

US High Yield Corporate Bond ETF Flows (USD mn)



Source: Bloomberg

Europe

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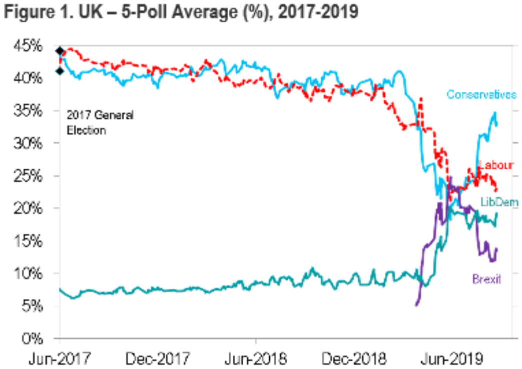
Equity markets are firmly in the green today: DAX (+1.2%), CAC 40 (+1.1%), EuroStoxx 600 (+0.9%), and Ibex 35 (+0.8). The Italian Titans 30 outperformed peers with a gain of +1.8%.

In **sovereign debt markets**, 10-year German bunds, French OATs, and Spanish Bonos all gained 5 bps to -0.66%, -0.34%, and 0.15%, respectively. The Italian 10-year yield, in turn, dropped 3 bps to 0.84%% on rising prospects of a 5SM-Democrats government (see below).

United Kingdom

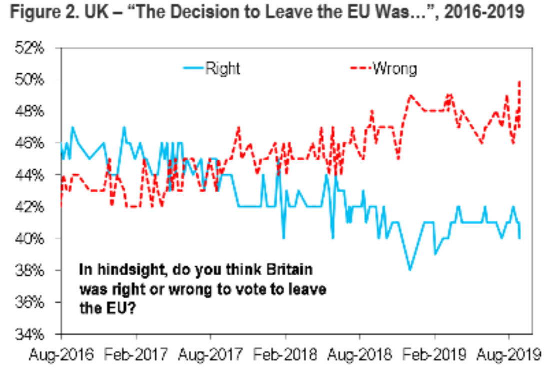
Last night, the British Parliament seized control of the parliamentary agenda for today (Wednesday) from the government. MPs are expected to present a bill today that mandates PM Johnson to seek from the EU a Brexit extension beyond Oct. 31, 2019, to possibly around Jan 31, 2020. PM Johnson has responded that he may call for snap elections for around Oct. 14-15. However, a new election can only be called with the support of two-thirds of Parliament—a majority Mr. Johnson lacks. Labour party leaders, in turn, have indicated they would support a new election once the Brexit extension bill has passed into law. **Recent polls give the Tory party a 10-point lead over Labour, while support for Brexit seems to be waning.** Separately, various news outlets have said that EU officials have informally indicated that the EU’s negotiating position would remain the same regardless of the outcome in UK politics.

Figure 1. UK – 5-Poll Average (%), 2017-2019



Sources: Various Polling Firms and Citi Research

Figure 2. UK – “The Decision to Leave the EU Was…”, 2016-2019



Sources: YouGov and Citi Research

UK financial markets are taking the political developments in stride, as the pound is back to Monday's levels ($1.22, +0.9% on the day) and equities have made gains albeit smaller than continental peers (FTSE 100 +0.7%, FTSE 250 +0.6%). Ten-year UK gilt yields, however, are 7 bps higher at 0.47%, as concerns over the fiscal costs of Brexit mount: Chancellor Javid is expected to announce an extra £2 bn additional funding for Brexit preparations today.

Italy

Italian assets outperformed as a coalition government between the populist Five Star Movement and the center-left Democratic Party obtained the support of about 79% of the Five Star Movement's member in an online ballot. The Five Star Movement leader, Mr. Di Maio, has announced his support for PM Conte to return and lead the new coalition. Markets have reacted positively to the news and expect such coalition to present a less confrontational stance with the EU than the previous government.

Other Mature Markets back to top

Japan

The Topix index fell 0.3% following a weaker-than-expected US ISM print that raised concerns for a slowdown in global growth. **Although the yen initially gained amid such concerns, it reversed course to end the day 0.3% weaker** following reports that Hong Kong SAR will withdraw its controversial extradition bill. Meanwhile, **following recent declines, benchmark JGB yields climbed modestly**. The 10-year note rose 0.8 bps to -0.29% and the 30-year note rose 0.9 bps to 0.11%.

Emerging Markets back to top

EM assets are mostly higher, led by gains in Asia and supported by a broad improvement in risk sentiment. Asian equities staged broad-based gains late in the session, spurred by the rally in Hong Kong SAR stocks. The Hang Seng Index gained 3.9%, following news that Chief Executive Carrie Lam will formally withdraw the extradition bill that has sparked months of protests in the territory. Asian currencies gained against the US dollar, trimming previous losses with the Philippine peso (+0.8%) outperforming. The Korean won appreciated the most in four days (+0.6%). Contacts suggested that the authorities might have been intervening to support the currency as Korea's FX reserves fell to US$401.48 bn at the end of August, the lowest level in a year. The Hong Kong dollar, which is pegged to the US dollar, held steady and underperformed others. In **EMEA** equity markets, Turkey and Poland (both +0.8%) are leading the gains while South Africa (flat) is underperforming. Currencies are broadly stronger with the South African rand (+1.4) and the Turkish lira (+1.0%) appreciating the most. In **Latin America**, the Chilean peso depreciated by 0.6% as the central bank cut rates in line with market estimates but added a dovish bias in its statement. In Argentina the Merval declined by almost 12% and is now more than 40% lower compared to its level before the primary election on August 11.

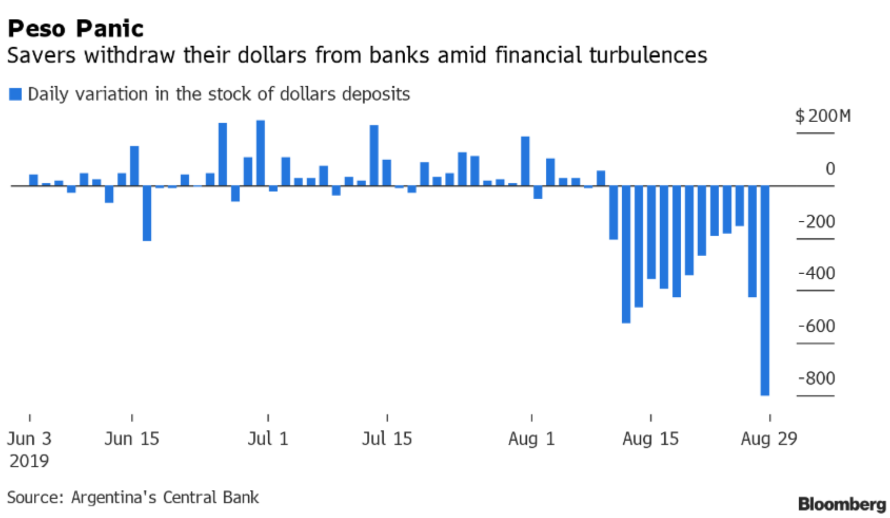
Key Emerging Market Financial Indicators

Last updated: 9/4/19 8:34 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		39.94	2.1	2	-2	-6	2
MSCI Frontier Equities		28.84	0.6	0	-2	3	10
EMBIG Sovereign Spread (in bps)		346	-8	-25	8	-25	-68
EM FX vs. USD		60.28	0.6	1	-2	0	-3
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		7.18	-0.1	0	-2	-5	-4
Indonesian Rupiah		14228	-0.2	0	0	4	1
Indian Rupee		72.39	-1.4	-1	-2	-2	-4
Argentine Peso		56.02	6.2	-1	-20	-31	-33
Brazil Real		4.19	-1.0	-1	-7	-1	-7
Mexican Peso		20.10	0.3	-1	-2	-5	-2
Russian Ruble		67.02	-0.4	-1	-2	1	3
South African Rand		15.14	0.7	1	-1	-2	-5
Turkish Lira		5.76	0.7	1	-3	15	-8
EM FX volatility		8.85	0.0	-0.2	0.9	-3.8	-0.9

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

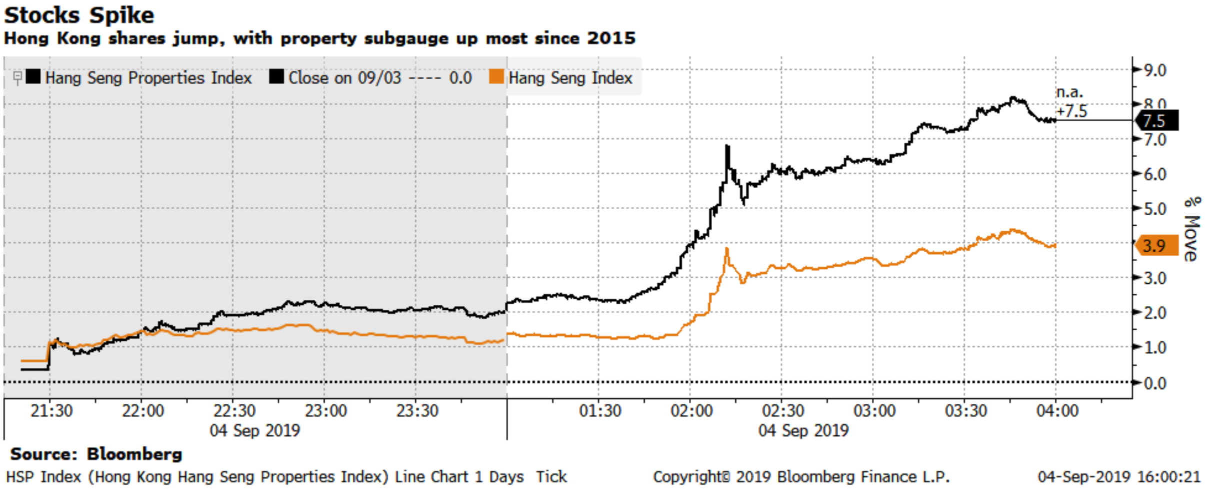
Argentina

The stock index declined by 11.7% and the exchange rate remained relatively stable at 56 as the market digested the impact of the latest BCRA regulations. The peso spot market traded at a very narrow range all day as BCRA sold dollars in the spot market without utilizing auctions according to FX traders. By some measures of the parallel exchange rate, the peso has weakened closer to 63.5 (i.e. ~10% premium compared to spot peso market). Trading desks were still unclear about the scope of some of the new BCRA regulations. One such issue was related to “contado con liqui” transactions i.e., transactions with peso financial instruments that were used during the 2011-15 currency control that lead to a conversion of onshore pesos into offshore dollars. Some brokers highlighted that these transactions were still allowed for physical persons and banks could execute them on their behalf. **According to the latest BCRA data** deposit outflows (through Aug. 29) accelerated late last week. Domestic savers have pulled $5 bn from dollar-denominated accounts since the primary vote results on August 11. International reserves (as of September 3) have continued to decline and are now more than $14 bn lower since the primary results, to $52 bn.



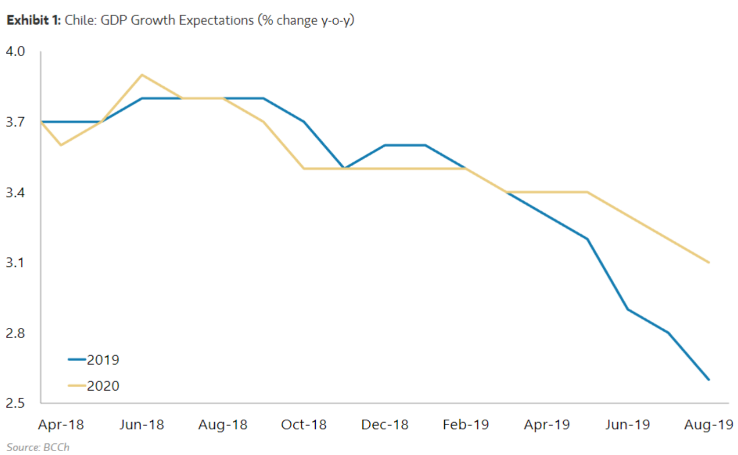
Hong Kong SAR

Hong Kong equities staged its strongest single-day gain in nearly a year following news that the territory's Chief Executive Carrie Lam will formally withdraw the extradition bill. The Hang Seng Index jumped, ending the day 3.9% higher, led by property developers (chart). Opponents of the bill worried that the bill, originally proposed by the government in February and extending to mainland China as well as several other jurisdictions that do not currently have an extradition agreement with Hong Kong SAR, would undermine the city's judicial independence and its standing as a global financial center. Protests have swept the city since early June, trimming 8.6% from the MSCI Hong Kong Index last month.



Chile

The central bank of Chile unanimously cut its policy rate by 50 bps to 2.0%, a nine-year low, in line with market expectations. After a surprise 50bps cut in June, policy makers left the key rate unchanged in July as they gathered more information about the global economy and waited to see how other central banks would react to a slowdown. Additional cuts were expected given signaling that risks to growth had increased and the convergence of inflation to the target was under threat. The latest press release added an easing bias, so analyst expect more cuts ahead as the central bank evaluates the merits of a larger easing cycle. Today's Monetary Policy Report will include new guidance, which based on the tone of yesterday's statement is expected to validate the latest swaps and traders' survey pricing of at least another 25bps cut.



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Global Financial Indicators

Last updated: 9/4/19 8:37 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2906	-0.7	1	-1	0	16
Europe		3452	0.9	3	2	3	15
Japan		20649	0.1	1	-2	-9	3
China		2957	0.9	2	3	8	19
Asia Ex Japan		65	-0.9	1	-1	-8	2
Emerging Markets		40	2.1	2	-2	-6	2
Interest Rates					basis points		
US 10y Yield		1.49	-3.9	1	-35	-140	-119
Germany 10y Yield		-0.65	5.9	7	-15	-100	-89
Japan 10y Yield		-0.28	0.7	0	-11	-40	-28
UK 10y Yield		0.51	10.2	7	-4	-92	-77
Credit Spreads					basis points		
US Investment Grade		135	-1.0	2	13	31	-12
US High Yield		485	-6.5	-1	29	141	-36
Europe IG		49	-1.0	0	-9	-19	-38
Europe HY		252	-6.5	-9	-35	-45	-101
EMBIG Sovereign Spread		346	-8.0	-25	8	-25	-68
Exchange Rates					%		
USD/Majors		98.60	-0.4	0	1	3	3
EUR/USD		1.10	0.4	-1	-2	-5	-4
USD/JPY		106.2	-0.3	0	0	5	3
EM/USD		60.3	0.6	1	-2	0	-3
Commodities					%		
Brent Crude Oil ($/barrel)		59	1.6	-2	-4	-24	10
Industrials Metals (index)		116	1.2	3	4	1	6
Agriculture (index)		37	0.4	0	-5	-13	-11
Implied Volatility					%		
VIX Index (%, change in pp)		18.0	-1.7	-2.3	0.3	4.8	-7.5
10y Treasury Volatility Index		5.3	-0.1	-0.3	0.4	1.5	0.7
Global FX Volatility		8.3	0.0	0.2	0.9	-0.8	-0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		224	-8.6	-21	-30	-197	-192
Italy		149	-8.7	-26	-54	-117	-101
Portugal		83	-0.1	2	4	-68	-65
Spain		82	0.4	4	8	-25	-36

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: 9/4/2019 8:35 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		7.18	-0.1	-0.2	-2	-5	-4		3.1	1.8	1	-5	-46	-9
Indonesia		14228	-0.2	0.2	0	4	1		7.4	-0.9	8	-13	-79	-71
India		72	-1.4	-1.3	-2	-2	-4		6.7	0.0	3	8	-141	-73
Philippines		52	-0.2	0.1	-1	2	1		4.4	0.0	0	-15	-154	-192
Thailand		31	-0.1	-0.2	0	7	5		1.5	-0.7	-2	-37	-131	-113
Malaysia		4.22	-0.4	-0.4	-1	-2	-2		3.3	0.0	-1	-24	-72	-76
Argentina		56	6.2	-1.3	-20	-31	-33		58.6	2.2	516	2794	3385	3555
Brazil		4.19	-1.0	-0.7	-7	-1	-7		6.9	5.7	11	21	-354	-128
Chile		725	-0.4	-0.7	-2	-6	-4		2.7	0.0	1	-15	-205	-174
Colombia		3447	-0.1	0.0	-2	-11	-6		5.8	4.8	9	12	-77	-73
Mexico		20.10	0.3	-0.6	-2	-5	-2		7.1	0.6	-4	-41	-79	-158
Peru		3.4	-0.3	-0.7	-1	-3	-1		4.4	-0.2	-1	-20	-113	-134
Uruguay		37	-0.5	-0.9	-6	-12	-12		11.2	0.0	11	136		49
Hungary		303	-0.3	-1.8	-4	-7	-7		1.0	0.0	-2	-16	-147	-117
Poland		3.99	-0.5	-1.2	-3	-8	-6		1.7	0.8	-5	-14	-87	-57
Romania		4.3	-0.5	-1.4	-2	-8	-6		3.7	-1.0	0	-17	-65	-58
Russia		67.0	-0.4	-0.8	-2	1	3		6.9	-3.0	-13	-35	-149	-150
South Africa		15.1	0.7	1.1	-1	-2	-5		9.3	-6.1	-8	-9	-22	-27
Turkey		5.76	0.7	1.1	-3	15	-8		15.4	-36.2	-100	16	-853	-144
US (DXY; 5y UST)		99	-0.4	0.4	1	3	3		1.38	-0.8	0	-28	-136	-113

	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		2957	0.9	2	3	8	19		187	1	4	5	2	-7
Indonesia		6262	0.1	0	-1	5	1		187	6	-7	-1	-3	-49
India		36563	0.4	-2	-1	-5	1		139	3	-4	6	-21	-57
Philippines		7805	0.5	1	-4	0	5		83	2	-8	1	-25	-38
Malaysia		1592	0.5	-1	-2	-13	-6		124	1	-2	5	-12	-38
Argentina		26195	-11.9	1	-37	-9	-14		2577	44	574	1744	1806	1762
Brazil		100626	-0.9	4	-2	32	14		243	2	-1	26	-95	-30
Chile		4772	-1.2	3	-2	-9	-7		135	1	-4	3	-5	-31
Colombia		1561	0.0	3	1	2	18		181	2	-11	-8	-3	-47
Mexico		42108	-0.7	5	5	-15	1		334	1	-25	-4	53	-20
Peru		19280	-0.1	3	-2	-1	0		123	1	-6	-4	-25	-45
Hungary		39213	0.2	0	-3	6	0		107	2	-6	-4	-17	-41
Poland		56112	0.3	0	-4	-7	-3		40	2	-1	-8	-22	-45
Romania		9257	0.1	0	2	11	25		212	2	0	29	32	-9
Russia		2768	0.8	4	3	18	17		205	-3	-11	-6	-30	-47
South Africa		54558	0.2	1	-3	-7	3		321	2	-12	3	-15	-44
Turkey		99176	0.9	2	-1	6	9		520	-7	-14	45	-78	91
Ukraine		528	0.0	0	-2	0	-6		495	-9	-41	5	-109	-292
EM total		40	2.1	2	-2	-6	2		346	-8	-25	8	-25	-68

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

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