GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, SEPTEMBER 9, 2019

- **Fed chair Powell speech strengthens expectations for additional rate cut** (link)
- **UK PM Johnson suffers another setback with departure of pensions secretary** (link)
- **UK growth surprise averts second straight quarter of contraction** (link)
- **Indian auto sales plummet, prompting plans for stimulus** (link)
- **The Kazakh Central Bank unexpectedly raises rates by 25 bps** (link)

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

Markets edge higher as focus shifts to stimulus

Risk assets are hanging on to last week's gains as attention turns back to central bank stimulus. Global equities are marginally higher after rising 2% last week, with US stocks back within striking distance of record highs. The market mood is being supported at the margin by the prospects of fresh easing measures expected later this week from the ECB and the following week from the Fed, as well as from new stimulus in China late last week. At the same time, ECB speakers have in recent days pared back expectations for what the ECB will deliver this Thursday, helping lift market-implied ECB rate cut expectations and keeping US and German government bond yields close to the top of their two-week ranges.

Key Global Financial Indicators

Last updated: 9/9/19 8:15 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2979	0.1	2	2	4	19
Eurostoxx 50		3496	0.0	2	5	6	16
Nikkei 225		21318	0.6	3	3	-4	7
MSCI EM		41	0.3	3	3	-1	6
Yields and Spreads					bps		
US 10y Yield		1.59	0.2	10	-15	-135	-109
Germany 10y Yield		-0.61	3.2	10	-3	-99	-85
EMBIG Sovereign Spread		337	-3	-16	-2	-32	-77
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		60.8	0.2	2	-1	1	-2
Dollar index, (+) = $ appreciation		98.3	-0.1	-1	1	3	2
Brent Crude Oil ($/barrel)		61.9	0.6	6	6	-19	15
VIX Index (%, change in pp)		15.1	0.1	-4	-3	0	-10

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

The highlight of the week in markets will be the ECB meeting on Thursday, when a rate cut is widely expected. More political drama will unfold in a week that could see the British parliament suspended, and US Democratic presidential candidates holding a debate. OPEC+ will meet on the sidelines of the World Energy Congress to discuss output strategy. The Fed will get more economic guidance this week with CPI, PPI, and retail sales numbers set to come. There will be CPI and industrial reports out of Europe, with euro area finance ministers meeting Friday. Japan will release GDP numbers. There will be policy rate decisions from Malaysia, Peru, Poland, and Turkey. Apple will roll out its latest iPhones.

United States

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Stocks ended mixed Friday following the August payrolls number (130k) that came in below estimates (160k). Speaking in Europe, Fed chair Powell advised the central bank will "continue to act as appropriate to sustain this expansion," reinforcing expectations of a rate cut. Futures markets are implying a 100% probability of a rate cut at next week's FOMC meeting. He also emphasized that political factors "play absolutely no role" at the Fed. Treasury yields finished Friday's session unchanged.

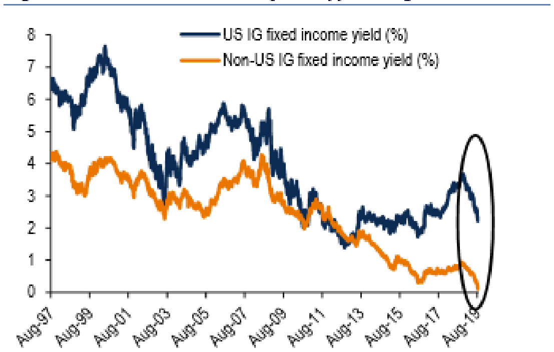
US bonds are becoming increasingly attractive to foreign investors within the investment grade space. Bank of America notes that non-US dollar global fixed-income assets of $27.8 tn are yielding just 11 bps overall, while non-dollar sovereign yields have turned negative (-3 bps) on average for the first time ever. By contrast, the yield on the US 10-year Treasury is 154 bps while US dollar investment-grade corporate bonds are yielding 293 bps. Consequently, Bank of America now reckons that the **US bond market now accounts for a 95% share of the yield available** among investment grade bonds globally. It advises a further attraction to US bonds is the recent decline in dollar hedging costs which should continue as the Fed is expecting to continue its easing going forward.

Figure 6: Global IG fixed income

	Non-USD		USD	
IG asset class	Mkt. value ($tn)	Yield (%)	Mkt. value ($tn)	Yield (%)
Corporate	3.9	0.73	7.7	2.93
Quasi & Foreign Government	3.7	0.29	1.9	2.19
Securitized/Collateralized	1.2	-0.19	7.1	2.52
Sovereign	19.0	-0.03	11.1	1.59
Total	**27.8**	**0.11**	**27.8**	**2.24**

Note: Based on index eligible debt in the Global Broad Market Index (GBMI). As of August 15, 2019.
Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research ICE

Figure 7: Non-USD IG fixed income yields approaching zero

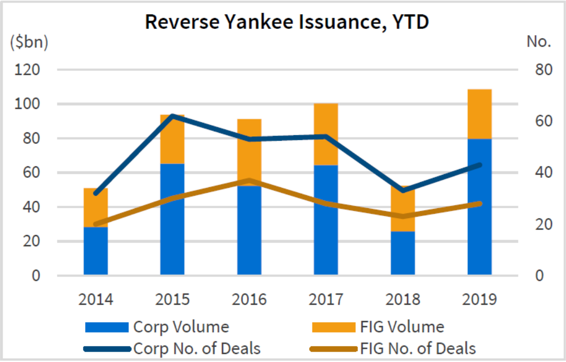


Note: Based on index eligible debt in the Global Broad Market Index (GBMI). As of August 15, 2019.
Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research

Figure 8: US share of global IG fixed income yield has reached 95%

Note: Based on index eligible debt in the Global Broad Market Index (GBMI). As of August 15, 2019.
Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research

The low rate environment in Europe has not gone unnoticed by US firms. As a result, **the issuance of "reverse Yankee" bonds (sterling- and euro-denominated instruments issued by US firms) has more than doubled from last year** on a year-to-date basis, to $108.5 bn this year. Dealogic notes that issuance was depressed in 2018 owing to a big change in US tax law which encouraged firms to repatriate their cash parked overseas, but 2019 issuance was also higher than in the years prior to 2018. Both financial and non-financial US firms have increased their issuance this year. And while issues denominated in euros predominate the reverse Yankee market, sterling issuance has been recently trended higher.



Source: Dealogic

Europe

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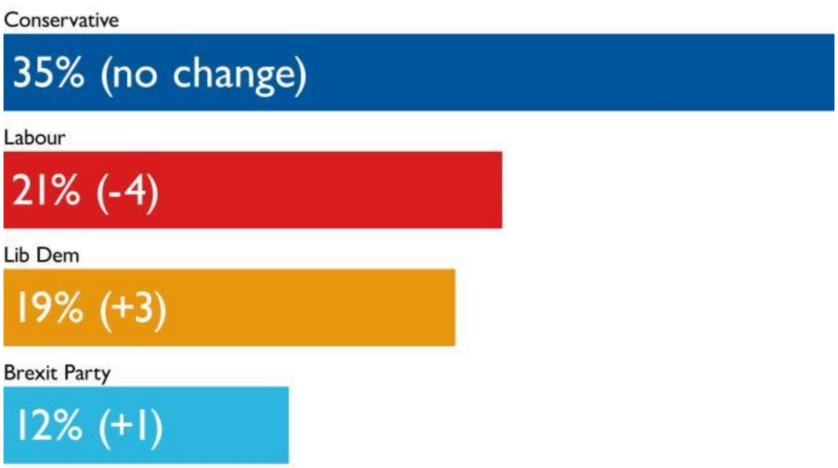
United Kingdom

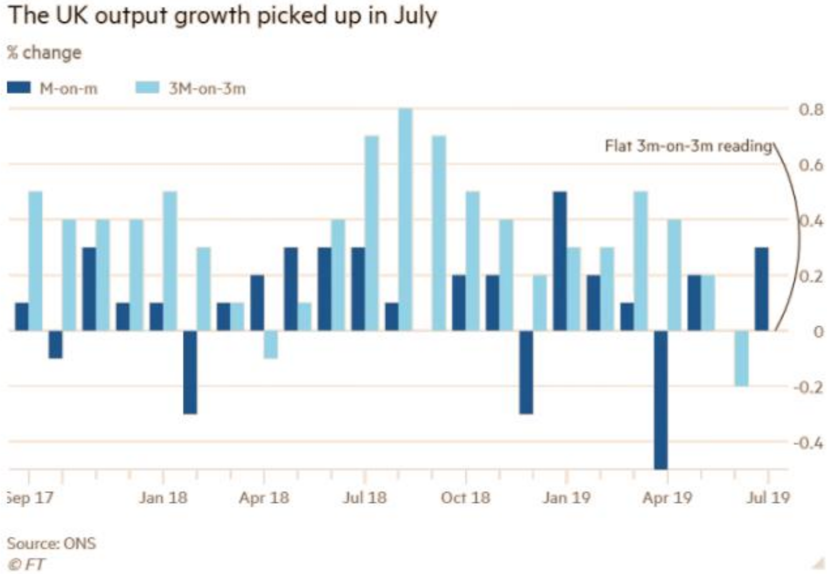
PM Boris Johnson experienced another setback over the weekend with the quitting of another high-profile official (Amber Rudd, Work and Pensions Secretary). This follows the departure of his brother Jo Johnson last week and the sacking of 21 high-profile MPs. The PM is refusing to seek a Brexit delay and is looking for ways to bypass recent legislation requiring him to do so. France's Foreign Minister Jean-Yves Le Drian said that Brussels won't grant the UK an extension if circumstances remain the same. In parallel, PM Johnson will continue pursuing an early general election after the motion was blocked by the opposition last week. The most recent opinion polls showing that the Tories (35%) have a 14 ppts lead over Labour, a rare bit of good news for the PM.

TORIES TAKE 14-POINT LEAD



Source: YouGov poll, Sept 5-6 (with change since Sept 2-3)

UK GDP data suggests a technical recession has been avoided. The July figures came in at 0.3% m/m (0.1% expected), the fastest growth pace in six months, bringing the 3m/3m reading to 0.0%. The positive surprise was largely due to better growth in the services sector (+0.3% m/m), which accounts for 80% of the economy. **Sterling is appreciating 0.5% to $1.24 against the dollar this morning, but measures of implied currency volatility are unchanged this morning.**



Europe

Equity markets are little changed, but yields are rising across the region. German bund yields are up 1-4 bps across the curve, with the 10-year back to -0.6%, some 20 bps above the all-time lows. Similar moves are seen across the region's sovereign debt curves, and US Treasuries. The move is helping financial sector stocks outperformg (+0.9%).

Other Mature Markets

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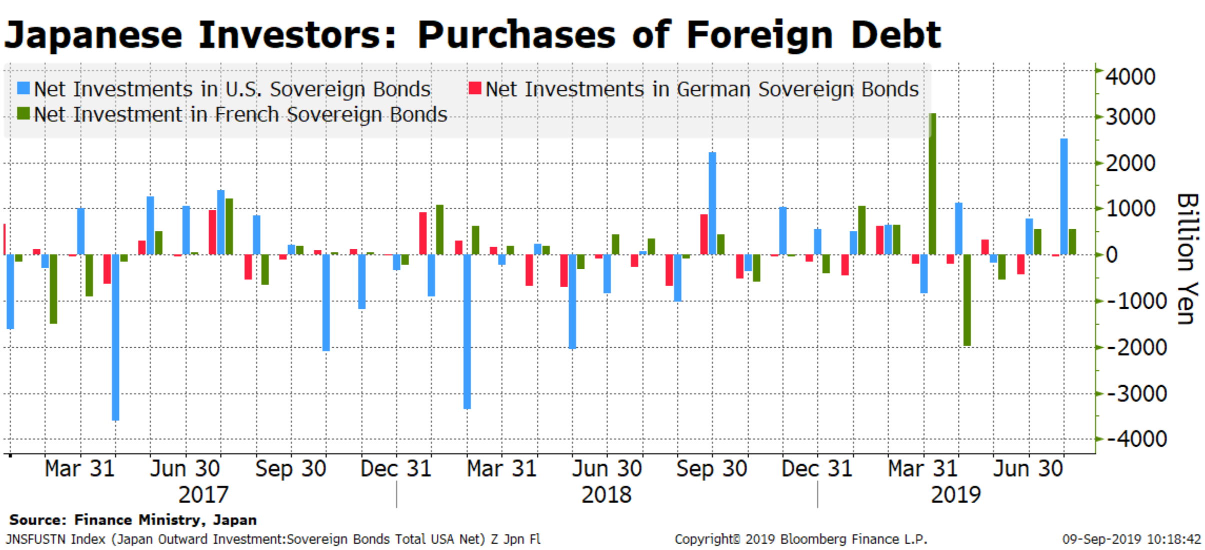
Japan

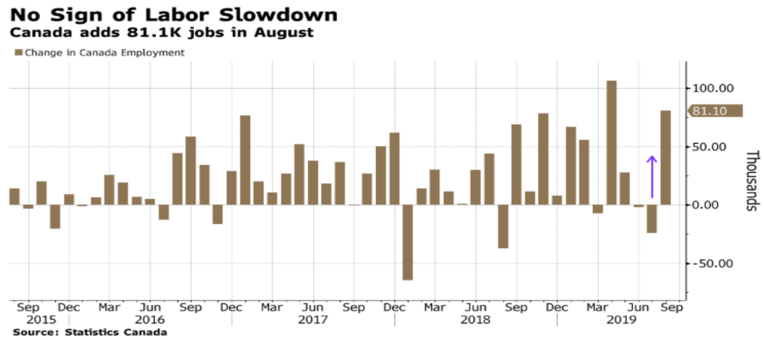
Japanese equities advanced on Monday, with the Topix up 0.9% and the Nikkei 0.6%. **Sovereign debt markets were steady**; long-term JGB yields stood at -0.251% (-1 bp). The yen traded at ¥107 (-0.1% to the US dollar.

Japanese investment funds bought a record amount of US Treasuries in July, according to data released today. The purchases amounted to about ¥2.5 tn ($23 bn)—the largest amount since July 2016—and are likely motivated by prospects of further Fed rate cuts in coming weeks. Japanese investors also added about $5bn of French sovereign debt to their portfolios.



Canada

The economy added 81.1k jobs in August, compared to just 20.0k expected. This marks the 7th best month in records back to 1976, and with the economy creating 471,300 jobs in the last 12 months. The news punctuates the Bank of Canada's decision to leave rates unchanged last week. Swaps markets now suggest the next rate cut could be as late as April, while earlier last week December seemed more likely. The gap between Canada 2-year sovereign yields and US 2-year Treasuries fell as low as 5 bps Friday, the smallest spread since late 2017. And the Canadian dollar is the best performing currency in the G10 so far this year, having appreciated 3.5%.



Emerging Markets

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Equity markets in Asia opened the week mostly with gains after China eased policies over the weekend with a reduction in banks' required reserve ratio. Equity gains were led by China's Shanghai Composite gained 0.9% and South Kora's Kospi 0.5%. Stocks in Thailand shed about 0.1%. Currencies were stable and traded within a very narrow corridor to the dollar. **EMEA** bourses were mixed, with strong gains in Poland (+1.6%) and Turkey (+1.4%), and losses in Kuwait (-1.5%) and Saudi Arabia (-0.4). The Turkish lira weakened 0.4% following new remarks by president Erdogan that interest rates will be cut soon. The Russian ruble gained 0.5% today, ahead of Q2 GDP data (consensus expects growth to be around 0.9% y-o-y). Other currencies were stable. **Latin American** equity markets were generally higher last Friday. Argentina was the main outperformer as the Merval went up 2.7%. Local currencies were stronger as well. The Brazilian real strengthened 1.2% against the dollar, followed by the Mexican peso (+1.1%) and the Colombian peso (+0.9%). 10-year government bond yields were mixed.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
9/9/19 8:27 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		41.25	0.3	3	3	-1	6
MSCI Frontier Equities		28.45	-0.1	-1	-3	3	9
EMBIG Sovereign Spread (in bps)		337	-3	-16	-2	-32	-77
EM FX vs. USD		60.84	0.1	2	-1	1	-2
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		7.12	-0.1	1	-1	-4	-3
Indonesian Rupiah		14035	0.5	1	1	6	3
Indian Rupee		71.71	0.0	0	-1	1	-3
Argentine Peso		55.84	0.3	7	-19	-33	-33
Brazil Real		4.06	0.1	3	-3	1	-4
Mexican Peso		19.50	0.2	3	0	-1	1
Russian Ruble		65.42	0.5	2	0	8	6
South African Rand		14.68	0.8	4	4	3	-2
Turkish Lira		5.73	-0.3	1	-4	13	-8
EM FX volatility		8.27	0.2	-0.6	-0.1	-4.6	-1.5

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

EM bond fund saw inflows (+$417 mn) last week but at a slower pace than the week before, while EM equity fund suffered another outflow (-$2.50 bn). Of the EM bond funds, local currency funds saw outflows for the 5th consecutive week (-$98 mn), while hard currency funds continued to benefit from inflows (+$515 mn). The main drive for redemptions of EM equity funds was the sell-off in ETFs (-$1.8 bn). Year to date flows to EM bonds and equities were +$51.3bn and -$22.1bn, respectively.

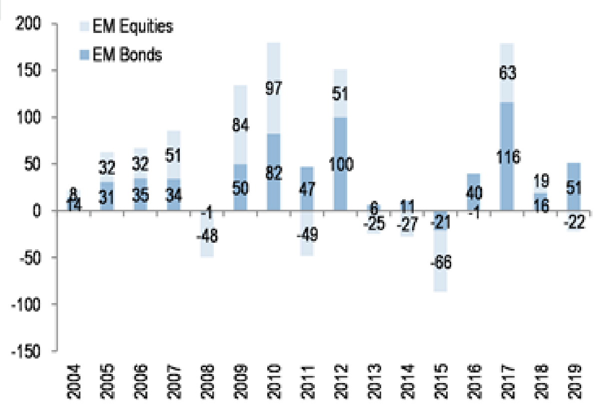
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-2.1	29.2
	EM Bonds		0.4	51.3
	Hard Ccy		0.5	45.0
	Local Ccy		-0.1	6.3
	EM Equities		-2.5	-22.1
	US HG		1.4	148.1
	US HY		-0.3	14.4
	Global Equities		-3.9	-125.4
	EM Bond and Equity ETFs		-1.1	1.1
	EM Bond ETFs		0.7	6.2
	EM Equity ETFs		-1.8	-5.1
	Non-resident EM flows*		-1.0	6.0
	EM Local Bonds		0.4	4.7
	EM Equities		-1.5	1.3

Exhibit 2: Annual EM bond and equity fund flows

USD billion

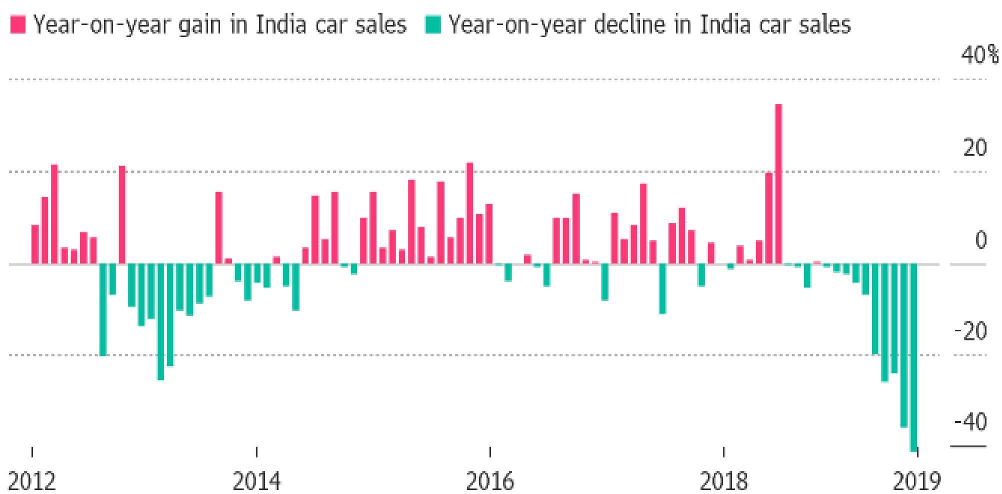


*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

India

Concerns over economic growth mount as auto sales continue to plummet, prompting expectations for stimulus measures. Data just released show that automobile deliveries dropped 41% in August (y-o-y) while car sales slid 32%. The poor performance of the auto sector—which accounts for over 7% of Indian GDP—is adding to ongoing concerns over India's growth performance. Separately, India's FM Nirmala Sitharaman said on Friday that her government was ready to unveil stimulus measures to boost growth soon. Financial markets have opened the week in the green, with the **Sensex advancing 0.5% today and the rupee strengthening 0.1% to the dollar.**

Car sales in India suffered their biggest monthly drop on record



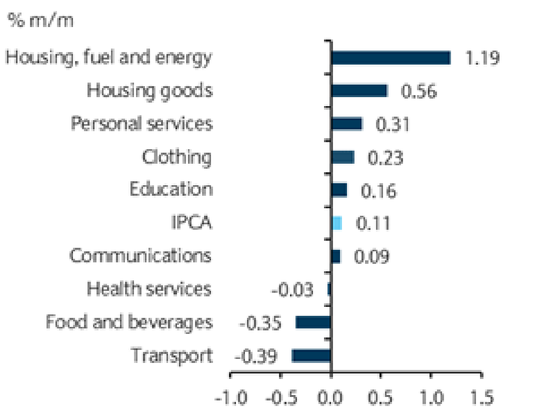
Source: Society of Indian Automobile Manufacturers

Bloomberg

Brazil

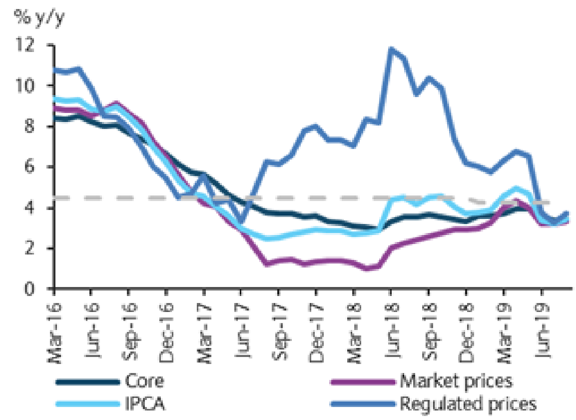
IPCA inflation printed at 0.11% m/m last month, in line with market expectations. The main driver was housing costs (+1.2% m/m) while food and transportation prices were the main drag. Annual core inflation was tracking at 3.43% y/y, remaining below the central bank's targets of 4.25% in 2019. Analysts commented that the low inflation figure in August signaled further monetary easing. Brazilian assets went up last Friday, with domestic equity finishing 0.7% higher and the real appreciating 1.2% against the dollar.

Figure 1: Monthly change by category groups



Source: IBGE, Barclays Research

Figure 2: All components of IPCA are below BCB's inflation targets for 2019 and 2020



Source: IBGE, Barclays Research

Kazakhstan

Kazakhstan's Central Bank unexpectedly raised the base policy rate to 9.25% from 9.00%. The NBK noted an unanticipated surge in inflation to 5.5% in August. The tenge strengthened 0.4% to the dollar today.

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Global Financial Indicators

Last updated: 9/9/19 8:15 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		2979	0.1	2	2	4	19
Europe		3496	0.0	2	5	6	16
Japan		21318	0.6	3	3	-4	7
China		3025	0.8	3	9	12	21
Asia Ex Japan		67	0.4	3	5	-2	6
Emerging Markets		41	0.3	3	3	-1	6
Interest Rates					basis points		
US 10y Yield		1.59	0.2	10	-15	-135	-109
Germany 10y Yield		-0.61	3.2	10	-3	-99	-85
Japan 10y Yield		-0.25	-1.4	2	-3	-36	-25
UK 10y Yield		0.56	5.5	15	8	-90	-72
Credit Spreads					basis points		
US Investment Grade		134	-0.6	0	2	30	-13
US High Yield		468	-2.4	-14	-16	123	-53
Europe IG		48	0.3	-2	-10	-14	-40
Europe HY		238	-1.1	-14	-44	-42	-114
EMBIG Sovereign Spread		337	-3.0	-16	-2	-32	-77
Exchange Rates					%		
USD/Majors		98.32	-0.1	-1	1	3	2
EUR/USD		1.10	0.0	1	-1	-5	-4
USD/JPY		107.0	0.0	-1	-1	4	3
EM/USD		60.8	0.2	2	-1	1	-2
Commodities					%		
Brent Crude Oil ($/barrel)		62	0.6	6	6	-19	15
Industrials Metals (index)		117	-0.1	2	4	2	7
Agriculture (index)		37	-0.3	-2	-7	-14	-12
Implied Volatility					%		
VIX Index (%, change in pp)		15.1	0.1	-3.9	-2.9	0.2	-10.4
10y Treasury Volatility Index		4.8	-0.3	-0.4	-0.4	1.2	0.2
Global FX Volatility		7.2	0.0	-0.9	-0.7	-1.9	-1.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		220	-3.3	-12	-51	-171	-196
Italy		152	0.2	-15	-86	-113	-98
Portugal		81	-2.5	-3	-6	-71	-67
Spain		79	-2.0	-4	-5	-28	-38

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

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Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
9/9/2019	Level		Change (in %)					Level		Change (in basis points)				
8:27 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.12	-0.1	0.7	-1	-4	-3		3.1	-1.1	0	-2	-52	-11
Indonesia		14035	0.5	1.1	1	6	3		7.4	-1.0	-2	-25	-125	-72
India		72	0.0	-0.4	-1	1	-3		6.7	2.0	0	8	-152	-73
Philippines		52	0.0	0.6	0	4	1		4.4	0.0	-2	-17	-165	-193
Thailand		31	0.0	0.0	0	7	6		1.6	5.7	8	-21	-125	-105
Malaysia		4.18	0.2	0.6	0	-1	-1		3.4	2.0	2	-22	-79	-74
Argentina		56	0.3	6.6	-19	-33	-33		65.6	-191.1	708	3472	4100	4261
Brazil		4.06	0.1	3.2	-3	1	-4		6.7	1.5	-12	-1	-387	-146
Chile		710	0.3	2.1	0	-2	-2		2.6	0.7	-11	-18	-219	-186
Colombia		3356	0.7	2.6	2	-8	-3		5.7	-4.1	-6	-9	-94	-84
Mexico		19.50	0.2	3.4	0	-1	1		7.1	-3.7	-3	-45	-90	-162
Peru		3.3	0.7	1.5	1	-1	1		4.3	-1.4	-11	-25	-128	-144
Uruguay		36	0.5	0.7	-3	-11	-11		11.0	-15.9	-20	94		29
Hungary		299	0.1	0.9	-3	-6	-6		1.2	0.0	17	7	-134	-100
Poland		3.93	0.1	1.2	-2	-5	-5		1.8	1.8	13	-4	-83	-45
Romania		4.3	0.1	0.5	-2	-7	-5		3.7	0.0	5	-1	-63	-52
Russia		65.4	0.5	2.1	0	8	6		6.9	1.9	-7	-26	-189	-154
South Africa		14.7	0.8	3.9	4	3	-2		9.3	1.7	-9	-19	-46	-30
Turkey		5.73	-0.3	1.4	-4	13	-8		15.2	23.9	-58	-12	-739	-166
US (DXY; 5y UST)		98	-0.1	-0.6	1	3	2		1.46	2.8	7	-12	-136	-105

	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		3025	0.8	3	9	12	21		186	-1	0	2	3	-8
Indonesia		6326	0.3	1	1	8	2		177	-3	-4	-9	-29	-59
India		37145	0.4	-1	-1	-3	3		140	6	1	-8	-27	-56
Philippines		7960	0.3	1	1	5	7		74	0	-7	-4	-31	-47
Malaysia		1604	0.0	1	-1	-11	-5		123	0	0	-1	-11	-39
Argentina		27660	2.7	12	-38	-7	-9		1963	-66	-570	1104	1240	1148
Brazil		102935	0.7	2	-1	35	17		232	-2	-9	12	-88	-41
Chile		4824	0.1	1	-2	-8	-6		130	-2	-4	-1	-9	-36
Colombia		1568	0.0	0	2	6	18		174	-2	-5	-5	-8	-54
Mexico		42708	-0.1	0	6	-13	3		327	-3	-6	-4	47	-27
Peru		19358	-0.7	1	-1	2	0		114	-2	-8	-9	-33	-54
Hungary		40335	0.1	2	-1	8	3		92	-3	-13	-11	-24	-56
Poland		57532	1.7	1	2	0	0		28	-5	-10	-6	-26	-57
Romania		9241	0.0	0	1	11	25		198	0	-15	-6	11	-23
Russia		2782	-0.6	0	4	20	17		194	0	-14	-10	-43	-58
South Africa		55395	-0.4	1	0	-3	5		309	1	-10	-6	-38	-56
Turkey		100920	2.0	3	2	8	11		503	6	-24	26	-48	74
Ukraine		527	-0.1	0	-2	0	-6		455	-11	-49	-37	-137	-332
EM total		41	0.3	3	3	-1	6		337	-3	-16	-2	-32	-77

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

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