GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, APRIL 27, 2020

- **Fed announces additional easing measures** (link)
- **Bank of Japan expands scope of asset purchases** (link)
- **Reserve Bank of India sets up credit facility to support mutual funds** (link)
- **Uncertainly from political turmoil roils Brazil's markets** (link)
- **Oil prices slump on continued concerns over over-supplied markets** (link)
- **European Banks: Deutsche Bank announces above-consensus 1Q20 earnings** (link)
- **US Banks: Deposit growth massively exceeds loan drawdowns in recent weeks** (link)

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

Anticipated Central Bank Easing Sparks Investor Optimism

Markets are starting the week on a positive note on expectations of further support from major central banks. European equities have risen by 2.4% so far today – European banks are up by 4.3% – and US equity futures are pointing to a positive start (+1%). Additional easing measures announced by the Fed and the BoJ have helped reassure markets that the global central bank "put" remains firmly in place. The uplift in risk sentiment – which has also been boosted by rising expectations of an easing of lockdown measures around the globe – has also supported EM equites, with stock markets in India, (+1.3%), Korea (+1.8%) and Turkey (+2.4%) all up this morning. This is a welcome change from last week, when EM equities were down by close to 2.5% and EM equity and bond funds experienced outflows of about $3.8 bn and $0.6, respectively. Meanwhile, safe have assets have been trading on a slightly weaker side today with the yield on 10-Year Treasuries (0.62%) and Bunds (-0.46) down by about 2 bps. Regrettably, the positive mood in risk asset does not seem to be echoed in commodities markets where crude oil prices are down this morning (WTI: -21% and Brent: -5%) as investors refocus their attention on the continued shortage of storage capacity ahead of soon-to-be expiring June oil futures contracts.

Key Global Financial Indicators

Last updated: 4/27/20 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		2837	1.4	-1	12	-4	-12
Eurostoxx 50		2875	2.3	-1	5	-18	-23
Nikkei 225		19783	2.7	1	2	-11	-16
MSCI EM		36	2.1	-2	7	-18	-21
Yields and Spreads				bps			
US 10y Yield		0.62	-0.1	1	-6	-188	-130
Germany 10y Yield		-0.46	0.9	-2	1	-44	-28
EMBIG Sovereign Spread		632	-1	21	9	284	339
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		52.5	0.4	-1	-3	-16	-14
Dollar index, (+) = $ appreciation		99.9	-0.5	0	2	2	4
Brent Crude Oil ($/barrel)		20.2	-6.0	-21	-19	-72	-69
VIX Index (%, change in pp)		35.4	-0.6	-8	-30	23	22

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

The FOMC and ECB will meet this week (Wed and Thu). Having already acted decisively, the Fed and the ECB are not expected to deliver more stimulus measures, instead focus will be on views of the economy and tweaks to existing programs. The Fed could raise the IOER and RRP by 5 bps and the ECB could potentially extend LTRO and PEPP. Elsewhere, Riksbank (Thu) is likely to be on hold and Hungary's central bank will announce details of its QE program (Thu). The data pipeline is flush with key economic reports. Euro area will release unemployment rate, flash Q1 GDP, and inflation. US is due on flash Q1 GDP and PCE, regional Fed manufacturing reports, PMI and ISM reports, and jobless claims. Exports and IP from Korea, PMIs from China, and GDP from Taiwan POC and Mexico will give further indications of the economic fallout.

United States

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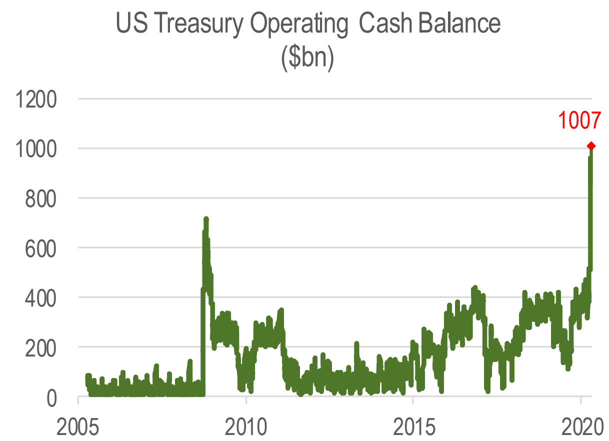
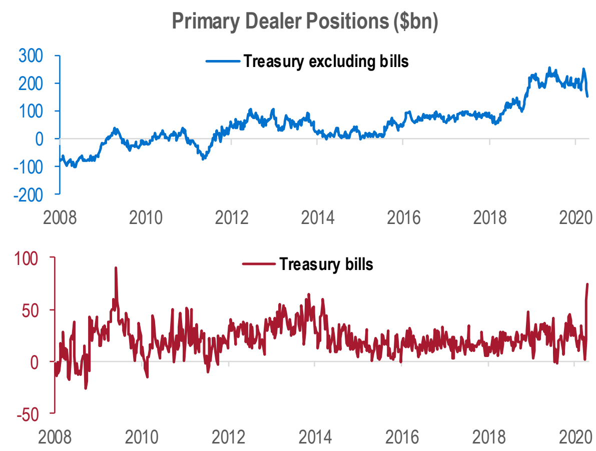
An afternoon rally lifted stocks by over 1%, as US signed off $484 bn additional spending plans. However, all three indices suffered losses for the week, reversing course after two consecutive weekly gains. With results in from about a quarter of S&P 500 companies, Q1 earnings are projected to drop 16% yoy, according to FactSet. This week, markets will be flooded with earnings reports from 40% of S&P 500 companies, including Amazon, AMD, Apple, AT&T, Boeing, Facebook, McDonald's, Microsoft, Twitter, Tesla, and Starbucks.

Treasury markets were little changed, with the 10-year yield stable at around 0.6%. The effective fed funds rate dropped 1 bp to 4 bps, marking the lowest level since 2011. The Fed's 84-day term repo offer drew no bids. **The Congressional Budget Office expects 12% fall in real GDP and 14% average unemployment rate in Q2.** The 3-month and 10-year Treasury yields are expected to be 0.1% and 0.6% on average.

The Fed announced temporary easing of bank access to intraday Fed credit. The move aims to increase the availability of intraday credit extended by the Fed on both collateralized and uncollateralized basis, reinforcing the board's efforts to support the flow of credit to households and business. Specifically, the Fed is (1) suspending uncollateralized intraday credit limits (net debit caps) and is waiving overdraft fees for institutions that are eligible for the primary credit program; and (2) permitting a streamlined procedure for secondary credit institutions to request collateralized intraday credit. These temporary actions will remain in effect until Sep 30. **The Fed also announced plans to expand access to its Paycheck Protection Program Liquidity Facility (PPPLF) for additional SBA-qualified lenders.** SBA-qualified lenders include depository institutions as well as non-depository institutions. Currently, only depository institutions are eligible to participate in the Fed's PPPLF. As a reminder, the PPPLF extends credit to financial institutions that make SBA's PPP loans, using the loans as collaterals.

The Treasury's cash balance surged past $1 tn. The balance jumped from about $400 bn in March, as the Treasury has unleashed a record amount of bill issuance to finance the pandemic stimulus measures. As a result, **primary dealers are holding record amount of Treasury bills since the GFC**, while Treasury holdings excluding bills have dropped nearly $100 bn since the peak in mid-March. This week, Treasury will issue $42 bn 2-year note, $43 bn 5-year note and $35 bn 7-year note.

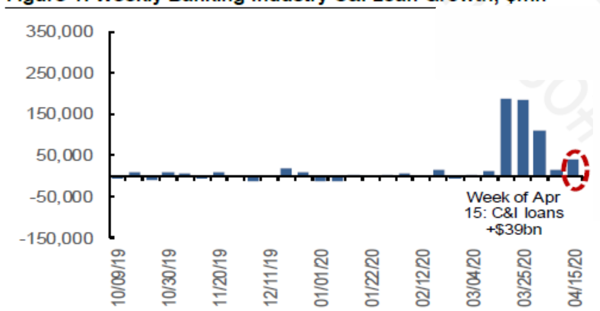




US Banks

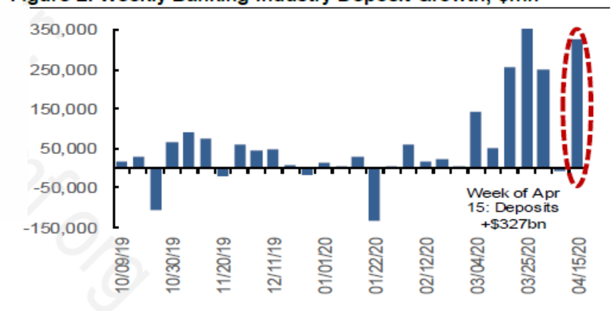
Deposit growth massively exceeded loan drawdowns in recent weeks. Increases in commercial and industrial (C&I) loan balances, mainly attributable to corporate borrowers' drawdowns of existing loan commitments, have declined from around $150bn per week in March to $39bn in week ended April 15th (latest available). Loan growth has been a significant driver of risk-weighted asset growth, which contributed to declining bank CET1 capital ratios during 1Q20. However, there is less concern over the liquidity effects of loan growth, because increases in deposits -- rising $327bn in the week ended April 15th -- have far outpaced loans.

Figure 1: Weekly Banking Industry C&I Loan Growth, $mn



As of April 15, 2020. Source: Federal Reserve H.8.

Figure 2: Weekly Banking Industry Deposit Growth, $mn



As of April 15, 2020. Source: Federal Reserve H.8

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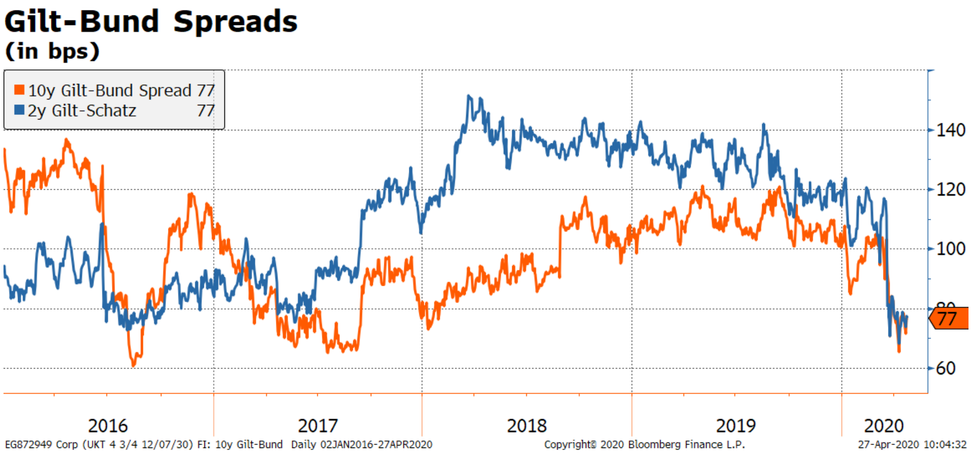
Euro Area

Equity markets opened the week with 2% gains spurred by the softening of lockdown measures. DAX (+2.3%), CAC 40 (+1.8%), EuroStoxx 600 (+1.6%), Italy's Titans 30 (2.4%), and Spanish Ibex (+1.7%). Bank stocks (+3.8%) outperformed main indices, with strong gains of Deutsche Bank shares (see below) and Italian lenders in the order of 2%-4% (the latter report earnings next week).

Southern European sovereign yields dropped notably as virus' spread appears to slow down: Italian 10-year yields at 1.75% (-9 bps); Spain at 0.88% (-7 bps); Portugal at 1.02% (-6 bps). German 10-year yields at -0.46% (+1 bp). On Friday, **S&P affirmed Italy's BBB sovereign rating with negative outlook; Greece was affirmed at BB and Portugal's at BBB, but their outlooks were lowered to stable.**

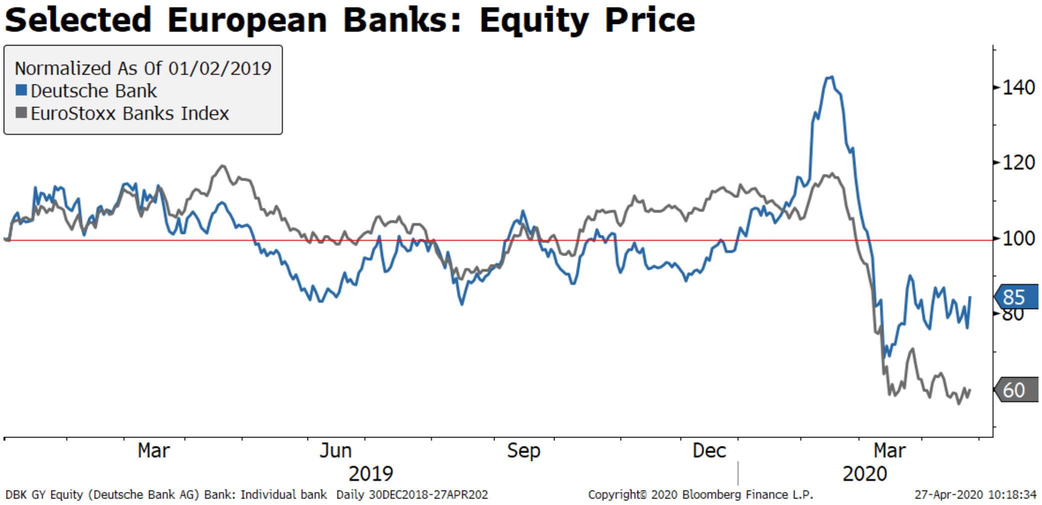
United Kingdom

The UK's prime minister Boris Johnson has returned to public life. In his first public statement after recovering from COVID-19, **Mr. Johnson said the UK is not ready to ease confinement measures**, which will remain in place for the time being to avoid a second wave of infections. The **pound (+0.5%) traded at $1.24** and equities gained in line with continental peers: **FTSE 100 +1.5%, FTSE 250 +1.8%.** In fixed income markets, the spread between gilts and bunds has narrowed notably since end-2019 and it is now at 77 bps. Separately, **the Prudential Regulatory Authority has [warned](#) UK banks against booking very large loan-loss reserves for fear of chocking credit to the real economy.**



European Banks

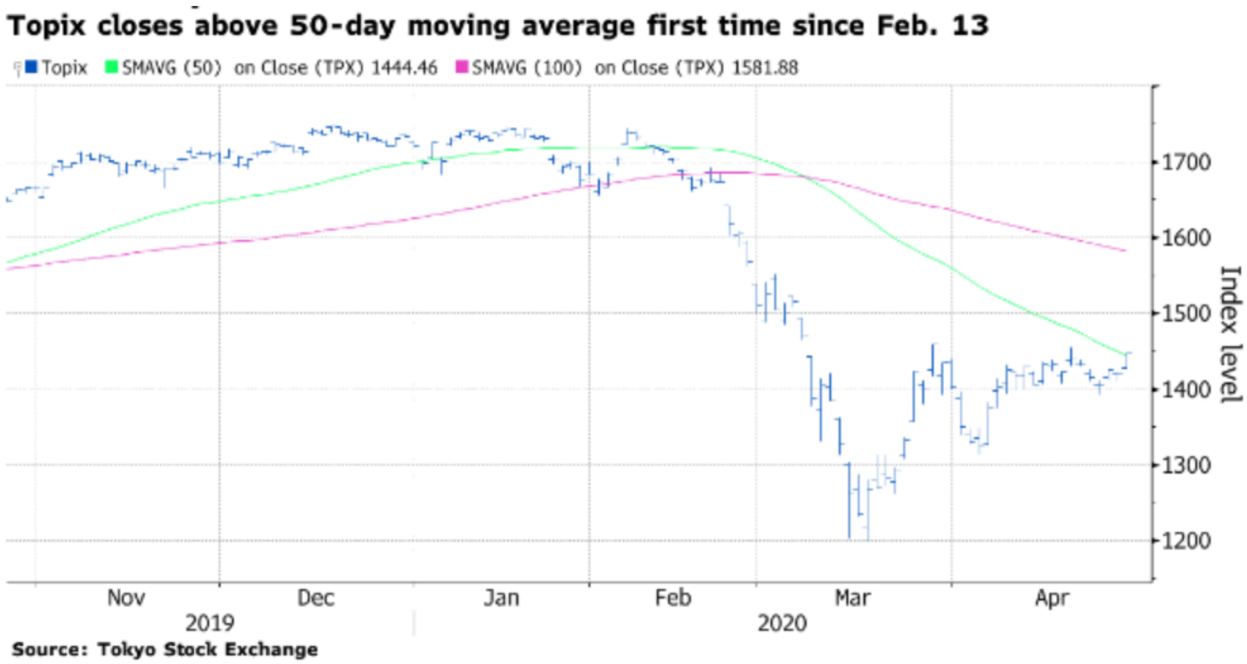
Deutsche Bank announced above-consensus 1Q20 earnings; capital will fall modestly below target. Deutsche Bank pre-announced high-level 1Q20 results: pretax net income of €206mn (consensus: pretax loss of €269mn) and net income of €66mn (consensus: loss of €353mn before NCI and AT1 coupons). This was driven primarily by above-consensus revenues (€6.4bn), probably from strong capital markets results. Provision for credit loss was about €0.5bn, modestly above consensus. The bank's CET1 ratio declined to 12.8% (from 13.6% at end-2019), mainly due to a 30bps negative impact from the revised securitization framework and 40bps related to COVID-19 reserves. Management has indicated that the CET1 will fall 'modestly and temporarily' below its 12.5% target minimum, mainly due to higher credit to support clients. This is not a surprise -- the market already expects 12.3% at end-2020 -- and remains above the 10.4% regulatory minimum (reduced from 11.6% when the ECB allowed inclusion of non-equity capital in Pillar 2). Deutsche's shares rose sharply in pre-market trading. The bank announces full results on April 29th.



Other Mature Markets [back to top]

Japan

The Bank of Japan (BOJ) announced that it will buy as many government bonds as needed, in line with expectations. The central bank removed its previous guideline of increasing government debt holdings at an annual pace of around JPY80 tn ($746 bn). In practice the BoJ had purchased much less than the JPY80 tn in recent years. The BoJ also increased its scope for purchases of commercial paper and corporate bonds by raising the upper limit of its ceiling on holdings by around three-fold to JPY20 tn ($187 bn). In addition, the BOJ expanded access to its emergency loan program to more banks and the range of eligible collateral to private debt including household debt. The BoJ forecasts FY2020 GDP growth of -5% to -3% and core inflation of -0.7% to -0.3%. **Equities (+1.8%) rose, the yen appreciated (+0.3%) while 10-year JGB yield fell -1.7bps.**



Emerging Markets [back to top]

Asian equities saw broad-based gains of +1.8% led by North Asia ex-China. Currencies appreciated modestly with the Korean won (+0.8%) outperforming. Local currency-denominated bond yields were relatively stable, except Indonesia (+16bps). The Philippines is offering USD-denominated 10-year and 25-year bonds at about 220bps over US treasuries, according to Bloomberg. Regarding COVID-19, Thailand said that it plans to extend its state of emergency until May 31 despite the daily increase in confirmed cases coming in at a multi-week low of 15 yesterday. Singapore now has the third highest number of cases in Asia, behind China and India. **EMEA equities were mostly higher on hopes that easing lockdown measures in Europe may spur global demand.** By country: Russia (+0.7%); Turkey (+2.3%); Poland (+0.6%); Czech Republic (+1.3%). Currencies strengthened to the dollar, led by gains in the Hungarian forint (+0.8%) and the South African rand (+1.1%). **Latin American markets** broadly weakened Friday. Mexican stocks gained 1%, following advances in the US markets and in oil prices. Brazilian equities plunged 5.5% on domestic political turmoil, and other markets finished in the red. Most regional currencies depreciated, with the Mexican peso down 0.7% and the Brazilian real down 1.0%, with the latter considerably supported by the central bank's FX interventions. Long-term bond yields rose in Brazil by 122 bps and in Mexico by 19 bps but declined in Chile by 8 bps.

Key Emerging Market Financial Indicators

Last updated: 4/27/20 8:14 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		35.58	2.0	-2	7	-18	-21
MSCI Frontier Equities		21.85	0.1	-1	1	-23	-28
EMBIG Sovereign Spread (in bps)		632	-1	21	9	284	339
EM FX vs. USD		52.51	0.3	-1	-3	-16	-14
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.08	0.0	0	0	-5	-2
Indonesian Rupiah		15385	0.1	0	5	-8	-10
Indian Rupee		76.24	0.3	0	-2	-8	-6
Argentine Peso		66.43	-0.2	-1	-4	-34	-10
Brazil Real		5.56	0.3	-4	-8	-29	-28
Mexican Peso		24.90	0.3	-3	-6	-24	-24
Russian Ruble		74.16	0.6	2	6	-13	-16
South African Rand		18.81	1.3	0	-6	-24	-26
Turkish Lira		6.98	-0.1	-1	-8	-15	-15
EM FX volatility		12.14	-0.5	0.8	-0.5	4.0	5.5

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

China

China's industrial profit growth remained weak at -34.9% y/y in March, despite a moderate rise from -38.3% in January-February, taking the Q1 average growth to -36.7%. The authorities said that demand has not fully recovered, inventories have risen significantly, and industrial prices continue to fall. **Equities (Shanghai +0.3%; Shenzhen +0.1%) rose marginally, the onshore and offshore RMB were unchanged while 10-year government bond yield rose +2.8 bps.**

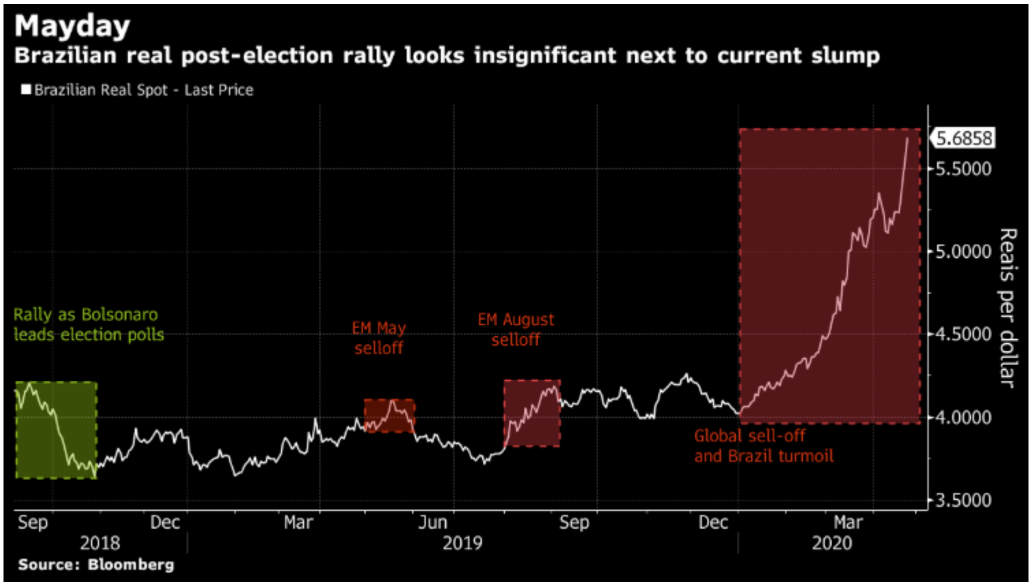
India

The Reserve Bank of India (RBI) opened a new credit facility for mutual funds after Franklin Templeton shut six debt funds last Friday. The central bank will offer as much as INR500 bn ($6.6 bn), which banks can borrow and lend to mutual funds or use to purchase investment grade debt held by the funds. The liquidity will be provided through repo operations of 90 days at the fixed repo rate. The program will end on May 11 or when the funds are fully utilized, whichever is earlier. **Average yields on top-rated corporate bonds maturing in three years fell 5-10bps, equities rose +1.2% and the rupee strengthened +0.3%.**

Brazil

Markets plummeted on Friday on political turmoil. Brazilian stocks plunged as much as 9.6% during the session on Friday, the currency sank to new lows, and government bond yields surged after the country's Justice Minister resigned. Mr. Moro's departure has added to investors' concerns about the stability of the cabinet amid the fight against the coronavirus pandemic, as some analysts feared that Congress or the President could abandon the fiscal prudence guarded by Economy Minister Guedes, based on Reuters and Bloomberg reporting. The central bank sold $2.175 billion via four spot dollar auctions on Friday and offered FX swaps two times. In economic releases, the country's FDI was higher than expected at $7.6 bn (consensus: $6.5 bn) in March and current account balance was at +$0.8 bn (consensus: -$0.2 bn). However, industrial confidence dropped to record lows, based on Reuters reporting. Finally, a

Bloomberg survey showed the economy is expected to contract 2.7% this year but grow 2.8% and 2.5% in the next two years.

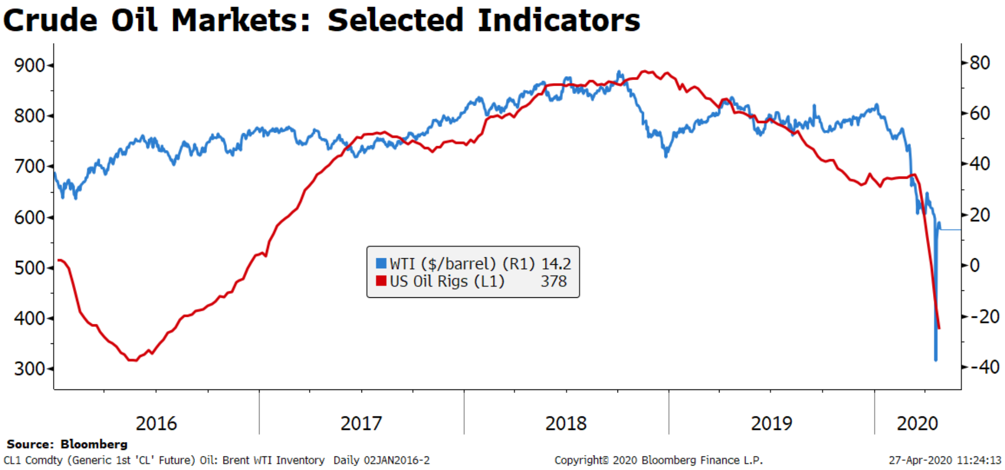


Kazakhstan

The National Bank of Kazakhstan kept the policy rate unchanged at 9.5%, as the economy is expected to contract by 1.3% in 2020. The NBK had surprised markets with a 250-bps emergency cut earlier in April, but refrained to follow up with further cuts today.

Commodities

Crude prices plummeted again today, reaching $21/barrel for Brent (-3.5%) and $14/barrel for WTI (-16%). The drop in prices took place even as some major oil producers start to curb production. US oil drilling has sunk as the lockdown obliterated fuel demand. In the past 6 weeks, drillers have idled 45% of US oil rigs, and 60 rigs in the past week alone, shrinking the active nationwide fleet to only 378.



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Global Financial Indicators

Last updated: 4/27/20 8:13 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2837	1.4	-1	12	-4	-12
Europe		2875	2.3	-1	5	-18	-23
Japan		19783	2.7	1	2	-11	-16
China		2815	0.2	-1	2	-9	-8
Asia Ex Japan		63	0.1	-1	8	-13	-15
Emerging Markets		36	2.0	-2	7	-18	-21
Interest Rates					basis points		
US 10y Yield		0.62	-0.1	1	-6	-188	-130
Germany 10y Yield		-0.46	0.9	-2	1	-44	-28
Japan 10y Yield		-0.04	-1.9	-6	-5	1	-2
UK 10y Yield		0.30	0.5	-4	-7	-85	-53
Credit Spreads					basis points		
US Investment Grade		197	1.1	5	-95	87	100
US High Yield		771	0.4	46	-157	372	378
Europe IG		81	-3.7	-4	-14	23	36
Europe HY		484	-17.9	-21	-93	236	276
EMBIG Sovereign Spread		632	-1.0	21	9	284	339
Exchange Rates					%		
USD/Majors		99.89	-0.5	0	2	2	4
EUR/USD		1.09	0.3	0	-3	-3	-3
USD/JPY		107.1	0.4	1	1	4	1
EM/USD		52.5	0.3	-1	-3	-16	-14
Commodities					%		
Brent Crude Oil ($/barrel)		20	-6.0	-21	-19	-72	-69
Industrials Metals (index)		95	0.4	0	4	-20	-17
Agriculture (index)		35	-0.5	-2	-8	-12	-17
Implied Volatility					%		
VIX Index (%, change in pp)		35.4	-0.5	-8.4	-30.1	22.7	21.6
10y Treasury Volatility Index		5.8	-0.6	-1.3	-2.5	2.2	1.7
Global FX Volatility		9.8	0.0	0.4	-2.1	3.3	3.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		269	-11.5	-5	63	-63	104
Italy		220	-11.5	-19	40	-41	60
Portugal		149	-6.8	-1	35	34	86
Spain		136	-6.6	2	35	31	71

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: 4/27/2020 8:16 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		7.08	0.0	-0.1	0	-5	-2		2.4	-1.3	-8	-35	-100	-76
Indonesia		15385	0.1	0.2	5	-8	-10		7.8	5.7	1	-58	7	71
India		76	0.3	0.4	-2	-8	-6		6.3	6.4	-21	-43	-129	-61
Philippines		51	0.3	0.1	1	3	0		4.9	0.0	-16	19	-39	59
Thailand		32	-0.1	0.0	0	-2	-8		1.4	-4.1	-14	-26	-122	-22
Malaysia		4.35	0.2	0.5	0	-5	-6		2.8	-3.6	-6	-84	-102	-50
Argentina		66	-0.2	-0.9	-4	-34	-10		50.3	50.5	-133	-1887	2530	-1229
Brazil		5.56	0.4	-4.4	-8	-29	-28		6.7	99.9	102	-106	-143	48
Chile		859	0.0	-0.5	-2	-22	-12		2.8	-9.4	-38	-111	-129	-51
Colombia		4043	-0.5	-2.5	2	-21	-19		6.4	-0.1	7	-140	18	46
Mexico		24.90	0.3	-3.4	-6	-24	-24		6.9	16.5	0	-105	-132	-3
Peru		3.4	-0.6	0.3	4	-2	-2		4.6	5.9	10	-101	-75	13
Uruguay		44	-1.2	-0.9	1	-21	-15		12.4	15.7	-2	-38	163	151
Hungary		327	0.8	-0.6	-2	-12	-10		1.8	-1.8	11	27	-23	61
Poland		4.17	0.4	-0.2	-2	-8	-9		1.0	-0.5	-6	-37	-130	-89
Romania		4.5	0.3	-0.2	-3	-5	-4		4.2	1.0	7	-8	-2	23
Russia		74.2	0.5	1.8	6	-13	-16		5.8	-9.2	-28	-109	-218	-30
South Africa		18.8	1.3	0.3	-6	-24	-26		11.2	7.1	56	-137	187	173
Turkey		6.98	-0.1	-0.6	-8	-15	-15		10.7	-42.9	-277	-178	-914	-99
US (DXY; 5y UST)		100	-0.5	-0.1	2	2	4		0.38	0.6	4	-1	-191	-131

	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		2815	0.2	-1	2	-9	-8		246	-1	2	1	72	70
Indonesia		4513	0.4	-1	-1	-29	-28		351	-5	5	0	170	195
India		31743	1.3	0	6	-19	-23		326	0	8	-97	171	201
Philippines		5450	-0.3	-5	3	-31	-30		195	3	10	-29	111	129
Malaysia		1370	0.0	-3	2	-16	-14		285	3	5	-16	160	173
Argentina		29258	-3.7	-2	22	-2	-30		4119	52	666	-14	3150	2350
Brazil		75331	-5.5	-3	3	-22	-35		469	-2	67	83	223	254
Chile		3680	-1.8	-2	14	-29	-21		304	-1	11	-13	178	171
Colombia		1122	-2.6	-5	-2	-30	-32		415	-2	40	24	242	252
Mexico		34587	1.0	0	2	-23	-21		725	1	46	74	435	433
Peru		14230	-1.1	-2	2	-32	-31		279	-3	10	-12	153	172
Hungary		33341	1.1	1	4	-23	-28		213	-2	-1	0	104	127
Poland		45146	0.6	-1	10	-26	-22		127	-2	-5	-6	80	109
Romania		7986	0.9	1	6	-5	-20		364	5	16	-39	165	190
Russia		2573	0.4	2	7	0	-16		278	-3	-6	-12	75	147
South Africa		49527	0.0	1	15	-16	-13		666	-3	15	-34	357	346
Turkey		101221	2.5	3	15	7	-12		684	-22	-40	-14	171	283
Ukraine		501	0.0	0	-3	-11	-2		892	3	14	-66	241	472
EM total		36	2.1	-2	7	-18	-21		632	-1	21	9	284	339

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

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