



- **M&A volume hit record with higher deal premiums** ([link](#))
- **G10 FX positioning reflects investor outlook of an asynchronous recovery** ([link](#))
- **ECB survey shows improved borrowing demand** ([link](#))
- **Chinese banks keep Loan Prime Rates unchanged** ([link](#))
- **Fitch upgrades Côte d'Ivoire to BB- with stable outlook** ([link](#))

[Mature Markets](#)

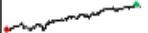
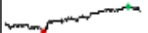









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Testing the waters

After yesterday's rout in risk assets, equities are attempting a modest recovery, even as concerns of potential lockdowns due to the spread of the delta variant continue to weigh on investors' minds. European equity markets closed over 2% lower on Monday, and while they had recovered as much as 1% in early trading, most of that bounce has vanished. Fixed income markets are also showing continued nervousness, with advanced sovereign bond yields modestly lower on the day, continuing to hit multi-month lows. Oil prices seem to have stabilized after falling nearly 7% yesterday.

Key Global Financial Indicators

Last updated: 7/20/21 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4258	-1.6	-3	2	31	13
Eurostoxx 50		3954	0.6	-3	-3	17	11
Nikkei 225		27388	-1.0	-5	-2	20	0
MSCI EM		53	-1.7	-2	-3	22	2
Yields and Spreads			bps				
US 10y Yield		1.18	-0.8	-24	-26	57	27
Germany 10y Yield		-0.42	-2.9	-12	-22	5	15
EMBIG Sovereign Spread		359	11	13	22	-99	9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.3	0.2	0	-1	2	-3
Dollar index, (+) = \$ appreciation		93.0	0.1	0	1	-3	3
Brent Crude Oil (\$/barrel)		68.7	0.1	-10	-7	59	33
VIX Index (% change in pp)		21.4	-1.1	4	1	-3	-1

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

Mature Markets

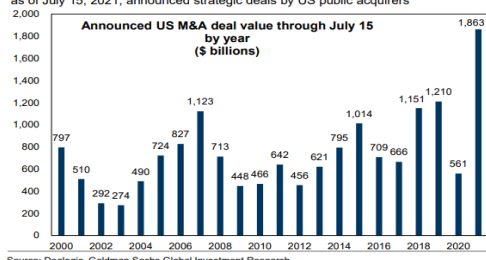
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United States

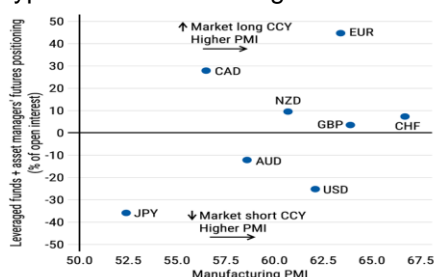
Treasury yields closed sharply lower and stocks tumbled on concerns about resurging COVID and growth. The spiral in oil prices by over 7% as well as geopolitical jitters between US, UK and China around cyber-attacks intensified the broad risk aversion. The Treasury curve flattened sharply, as 10-year yield dropped 10 bps to 1.19% on the back of a 7 bps tightening in the breakevens. The S&P 500 dropped 1.6% with energy (-4%), financials (-2.8%) and industrials (-2.2%) leading the losses.

YTD M&A volume hit record in the US with buyers paying above-average premiums. The total deal value reached \$1.9 tn YTD, the highest YTD volume on record, as companies deploy some of the cash from the 2020 issuance frenzy. Deals have also been completed at a larger premium than usual. In the last two decades, the average deal premium to pre-bid price has been 32%, compared to 44% this year. Analysts expect more upside to M&A given record high cash levels, high equity valuations and robust earnings growth.

Exhibit 1: YTD US M&A volume has set a record since at least 2000 as of July 15, 2021; announced strategic deals by US public acquirers

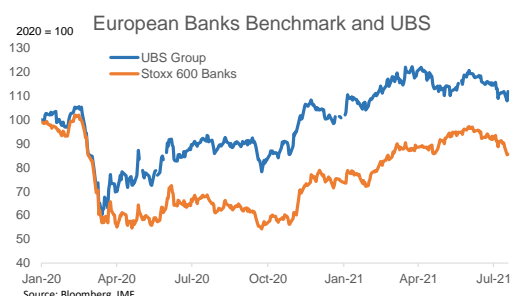


FX positionings for G10 countries show investors are pricing in an asynchronous growth outlook. Markets remain short the US dollar on net, but short-term long dollar positioning has increased recently, a typical behavior when global PMI turns.

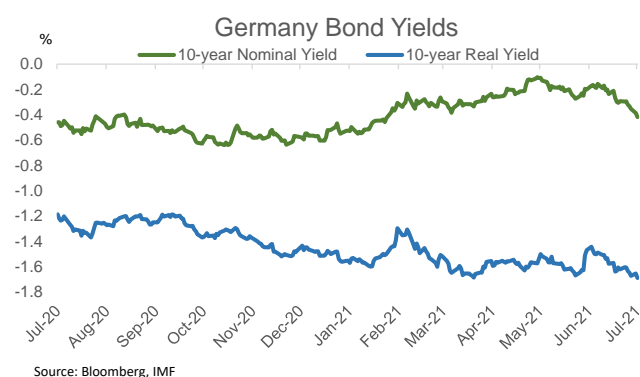


Europe

European equities traded about 1% higher on market open, but shortly gave up most gains as sentiment remained fragile. Travel sector shares and technology shares were underperforming. Banking sector sentiment was lifted as Swiss banking group UBS (+4%) reported stronger than expected earnings while announcing a \$600 mn share buy-back in the third quarter.



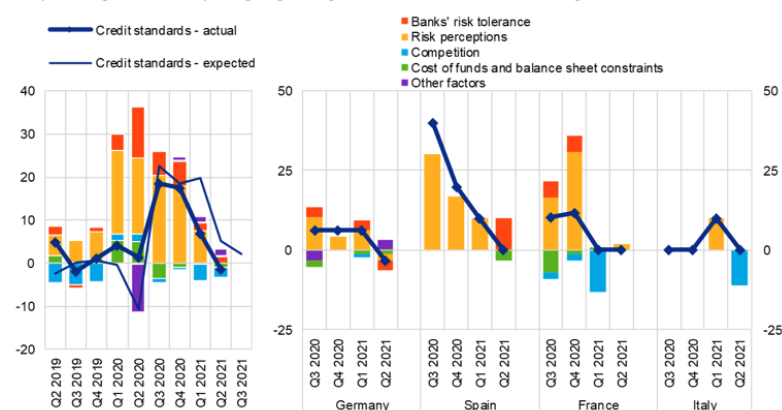
European fixed income yields continued to fall with 10-year bund (-4 bps) trading back to mid-February levels. Southern European spreads widened 1-2 bps while corporate credit spreads were mostly stable. ECB's purchases remained at an elevated pace of €22.1 bn last week. Also, ECB's portfolio investment data showed that non-residents sold €38 bn of long-term Euro area bonds in May, of which €6.1 bn in Italy. Foreign investors bought Finland's and France's debt.



The ECB Bank Lending Survey (BLS) reported broadly unchanged credit standards in Q2 2021 while projecting a marginal tightening of credit standards to firms in the third quarter. On the country level, credit standards eased in Germany while remaining mostly unchanged in France, Spain and Italy. **Banks saw a strong increase in housing loans demand** and a moderate increase in corporate loans demand with a positive contribution from fixed investment, for first time since 2019. Government guarantees continued to support lending conditions even as banks reported a decline in demand in this segment of borrowing. Separately, **the chair of European Banking Authority (EBA) Campa noted that he no longer expects a large rise in bankruptcies in the Euro area**. The EBA is expected to release its latest stress-test results at the end of July.

Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)



Australia

Market sentiment was dampened by growing concerns about the Delta variant. Half of Australia's population is back in lockdown after South Australia joined Victoria and New South Wales in ordering residents to stay at home. Some analysts expect that the economy may contract up to 0.7% this quarter due to the extended lockdowns. Equities declined (-0.5%), while government bond yields dropped (10-year: -6.4 bps). The Australian dollar depreciated (-0.2%). **The Reserve Bank of Australia (RBA) said that it would be flexible on weekly bond purchases.** While a slight tapering of QE was announced at the July

policy meeting two weeks ago (before the recent COVID-19 outbreak) to reflect a strong economic recovery, the meeting minutes reveal that the RBA will have the option to increase or reduce weekly bond purchases given uncertainty over the economic outlook.

Japan

Headline CPI inflation edged up to 0.2% y/y in June, in line with expectations. Core inflation, excluding fresh food, also increased to 0.2% y/y. Rising inflation was driven by higher energy prices, with underlying price momentum largely unchanged. The Bank of Japan last week reiterated that it does not see inflation rising to the 2% target before 2024. Risk-off market sentiment continues due to concerns about the Delta variant. Equities declined (NIKKEI: -1.0%); long-end JGB yields dropped (10-year: -0.5 bp; 30-year: -0.9 bp). The Japanese yen was little changed.

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Most Asian equities declined, -0.2% on net, led by Taiwan (-1.5%), Thai (-1.2%), Hong Kong (-0.8%) and Indian (-0.6%) equities. Asian currencies were mixed. Singapore dollar (-0.2%) and Korean won (-0.2%) depreciated, while Indian rupee appreciated (+0.4%). Long-end government bond yields declined, with 10-year yields falling in Korea (-7.7 bps) and Hong Kong SAR (-4.9 bps). In Thailand, the government approved compensation to businesses and workers in provinces hard hit by the COVID-19 outbreak. Thai baht appreciated (+0.2%). In Indonesia, the COVID-19 situation remains overwhelmed, with the highest number of daily deaths attributed to COVID-19 among all countries. **EMEA equities were showing a small recovery** with indices up in South Africa (+0.6%), Israel (+0.5%) and Czech Republic (+0.5%). EMEA currencies appreciated marginally against the dollar. **Latin American equity markets** suffered losses on Monday, except for Chile (+1.9%). Colombia led the loss as the equity index fell 2.7%, followed by Mexico (-2.1%) and Argentina (-1.5%). Local currencies were broadly weaker. The Brazilian real was the worst performer, depreciating 2.7% against the dollar, followed by the Colombian peso (-1.2%) and the Mexican peso (-0.9%). 10-year government bond yields were generally lower.

EM corporate issuance last week edged up to \$8.4 bn, from \$6.9 bn the week before, and **EM sovereign issuance decreased to \$1.4 bn**, from \$8.2 bn the week before. The year-to-date total issuance of \$ 495.3 bn is around 7% higher than 2020 issuance over the same period (\$463.0 bn). Last week's sovereign issuance was placed by EMEA countries – Uzbekistan (\$0.9 bn) and the Republic of Benin (\$0.6 bn).

Sector	Last week	The week before	YTD
Corporate	8.4	6.9	240.8
Sovereign	1.4	8.2	131.4
Financial	0.6	2.5	84.0
Agency	0.6	-	22.4
Muni/Local Gov't	0.2	0.6	7.4
Supra	-	-	9.2
Total	11.2	18.1	495.3

Source: Bond Radar, Bloomberg

China

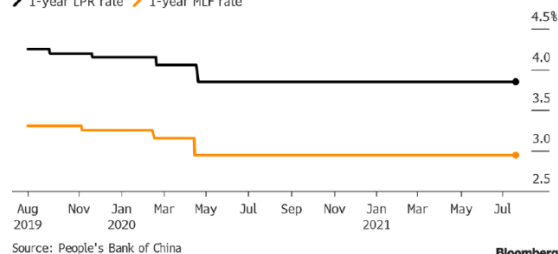
Chinese banks keep Loan Prime Rates (LPRs) unchanged, with 1-year LPR at 3.85% and 5-year LPR at 4.65%. Following the reserve requirement ration (RRR) cut by 50 bps earlier, which helped lower bank funding costs (estimated to be about 14 bn yuan (\$2.2 bn) in total), markets were speculating on whether LPRs would be reduced. Some analysts noted that a RRR cut by 50 bps is too small to trigger a reduction in LPRs; a 5 bp reduction in LPRs would cost banks about 92 bn yuan (\$14.2 bn). Market participants generally agreed that the RRR cut put an end to a tightening policy bias; however, their opinions were split

on whether the RRR cut was mainly a technical adjustment to ensure ample liquidity or a beginning of a new easing monetary policy cycle. **Interbank repo rates remain stable (7-day: +2.6 bps). Equities declined (CSI 300: -0.1%); RMB appreciated (+0.2%).**

Stable Rates

PBOC and banks haven't cut interest rates since April 2020

1-year LPR rate 1-year MLF rate



Source: People's Bank of China

Bloomberg

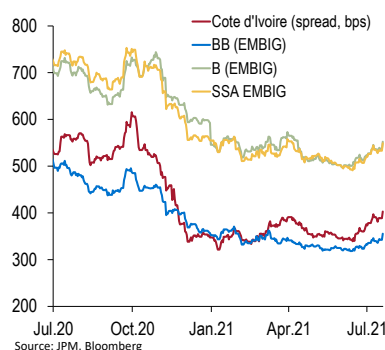
Evergrande's share price further declined today (-10.2%). Some analysts noted that the freezing of bank deposits raised a question whether Evergrande still enjoys implicit support of Chinese authorities. Market participants will now closely watch whether other banks or trust companies will rush to demand loan repayment or freeze assets. Evergrande's stress spread to some other financially weak property developers, who saw declines in their offshore dollar bond price.

Chile

Chile's equity index surged 1.9% on Monday, as the far-left front runner Daniel Jadue unexpectedly lost the primary vote. According to press reports, the former student protest leader Gabriel Boric won the far-left vote with 60.4%, defeating Jadue, who had spooked financial markets with calls for radical economic reform. Within right-wing contenders, the former government minister Sebastian Sichel obtained 49.1% of vote to beat three other candidates. Now Gabriel Boric and Sebastian Sichel will advance to the first round of presidential elections on November 21.

Côte d'Ivoire

Fitch upgrades Côte d'Ivoire to BB- with stable outlook. Fitch upgraded Côte d'Ivoire's long-term foreign currency rating to BB- from B+ with a stable outlook, matching Moody's Ba3 rating. The ratings agency cited the peaceful March 2021 parliamentary election alongside broad fiscal credibility that will see the budget deficit fall to 3% of GDP by 2024 from 5.6% in 2020. Côte d'Ivoire is also opportunistically taking advantage of the DSSI in 2021, garnering savings of about 0.6% of GDP, and maintains a strong external liquidity position. The authorities plan to cover about half of funding needs with foreign currency debt going forward (vs 65% of stock currently), according to Fitch, primarily from eurobonds. Côte d'Ivoire issued euro denominated bonds in Nov. 2020 (\$1.2 bn) and February 2021 (\$1.1 bn, reopened). Sub-saharan Africa credit spreads have widened about 40 bps in the last month, due to concerns about COVID-19 and the Delta variant.

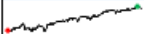
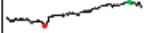











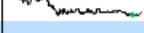



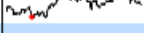












Source: JPM, Bloomberg

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Global Financial Indicators

Last updated: 7/20/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4265	-1.6	-2	2	31	14
Europe		3954	0.6	-3	-3	17	11
Japan		27388	-1.0	-5	-2	20	0
China		3537	-0.1	-1	0	7	2
Asia Ex Japan		90	-1.7	-2	-3	21	1
Emerging Markets		53	-1.7	-2	-3	22	2
Interest Rates							
			basis points				
US 10y Yield		1.18	-0.8	-24	-26	57	27
Germany 10y Yield		-0.42	-2.9	-12	-22	5	15
Japan 10y Yield		0.01	-0.5	-2	-5	-2	-1
UK 10y Yield		0.53	-2.7	-10	-22	38	34
Credit Spreads							
			basis points				
US Investment Grade		97	-0.3	8	5	-38	2
US High Yield		348	1.9	36	20	-229	-32
Europe IG		49	0.1	3	1	-9	1
Europe HY		248	0.8	15	10	-97	5
Exchange Rates							
			%				
USD/Majors		92.96	0.1	0	1	-3	3
EUR/USD		1.18	-0.2	0	-1	3	-4
USD/JPY		109.6	0.1	-1	-1	2	6
EM/USD		56.3	0.2	0	-1	2	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		69	0.1	-10	-7	59	33
Industrials Metals (index)		154	0.2	-2	3	40	16
Agriculture (index)		58	2.1	4	5	62	20
Implied Volatility							
			%				
VIX Index (% change in pp)		21.4	-1.1	4.3	0.7	-3.0	-1.3
US 10y Swaption Volatility		80.7	12.1	7.9	5.9	27.1	20.6
Global FX Volatility		7.0	0.0	0.3	0.1	-0.3	-1.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		110	2.4	9	8	-49	-9
Italy		110	0.2	9	3	-46	-1
Portugal		64	0.8	5	1	-18	4
Spain		67	0.9	6	2	-14	6

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

Emerging Market Financial Indicators

Last updated: 7/20/2021 8:12 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	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.					
China		6.48	0.2	-0.2	0	8	1		3.1	-2	-18	-1	-19
Indonesia		14518	-0.1	-0.2	-1	2	-3		6.3	-14	-13	-81	21
India		75	0.3	-0.2	-1	0	-2		6.4	-4	10	54	50
Philippines		51	-0.7	-1.5	-4	-3	-5		4.3	1	0	51	67
Thailand		33	0.1	-0.5	-4	-3	-9		1.7	-3	-12	30	40
Malaysia		4.23	-0.5	-0.8	-2	1	-5		3.2	-5	-5	69	66
Argentina		96	-0.1	-0.2	-1	-26	-13		44.3	-83	-57	-229	-1186
Brazil		5.23	0.3	-1.3	-4	2	-1		8.4	-13	-10	319	279
Chile		760	-0.3	-2.2	-2	4	-7		4.2	-31	2	139	145
Colombia		3840	-0.6	-0.4	-2	-5	-11		6.7	4	11	152	167
Mexico		20.03	0.2	0.1	2	12	-1		6.9	10	15	93	132
Peru		3.9	-1.1	0.3	0	-11	-8		5.6	-17	14	155	200
Uruguay		44	-0.2	-0.1	-1	-1	-4		7.9	0	-3	-164	61
Hungary		305	0.0	-0.6	-3	1	-3		2.2	-6	-12	60	69
Poland		3.90	-0.1	-0.3	-3	0	-4		1.0	-18	-19	24	40
Romania		4.2	-0.2	0.1	-1	1	-5		3.0	13	28	-82	28
Russia		74.4	0.4	-0.1	-2	-4	-1		7.0	0	13	156	130
South Africa		14.5	0.2	1.3	-2	14	1		9.8	11	13	-47	18
Turkey		8.55	0.5	0.9	3	-20	-13		17.6	10	-17	614	446
US (DXY; 5y UST)		93	0.1	0.2	1	-3	3		0.67	-17	-20	40	31

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		5109	-0.4	-1	0	9	-2		212	3	10	-29	-17
Indonesia		6017	-0.4	-1	0	19	1		193	16	16	-75	-7
India		52199	-0.7	-1	-1	38	9		150	-4	10	-102	-1
Philippines		6587	-4.9	-5	-4	7	-8		123	17	25	-39	11
Malaysia		1520	0.7	0	-4	-4	-7		137	7	15	-58	2
Argentina		62133	-1.5	-3	-5	36	21		1606	24	120	-709	250
Brazil		124395	-1.2	-3	-3	19	5		288	16	37	-77	29
Chile		4232	0.0	0	-1	8	1		157	8	4	-54	1
Colombia		1238	-2.7	-5	-2	7	-14		274	6	19	-6	59
Mexico		49096	-2.1	-1	-2	35	11		361	17	27	-142	4
Peru		18171	-0.7	-3	-2	8	-13		168	9	-2	-14	39
Hungary		47232	-0.1	-1	-2	34	12		149	9	15	-42	0
Poland		65806	0.1	-2	0	26	15		36	2	4	-4	8
Romania		11877	0.3	-1	2	40	21		202	17	17	-84	-1
Russia		3696	0.1	-5	-3	32	12		192	17	20	-31	13
South Africa		65373	0.9	-3	0	16	10		353	23	34	-179	-31
Turkey		1352	0.0	-2	-3	13	-8		484	9	21	-130	37
Ukraine		525	-0.4	0	-1	5	5		516	15	24	-146	23
EM total		53	-0.1	-2	-3	22	2		374	11	20	-54	35

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

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