



- CTAs played a role in recent rate declines, though market maintains short bias ([link](#))
- Compensation for tail risk in US credit market at extreme low ([link](#))
- Euro may be shifting to a funding currency according to HSBC analysts ([link](#))
- China's Evergrande remains under stress ([link](#))
- Pedro Castillo declared president-elect of Peru ([link](#))
- Swap curves notably lower in Poland, despite the inflation pick-up ([link](#))

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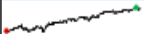
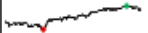








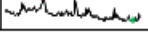
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Risk is back on the table for now

While concerns of the spread of the delta variant continue to linger, markets have begun to unwind some of the sell-off we have seen in the past week. Still robust growth indicators as well as a slew of strong corporate earnings reports have helped allay some of the concerns. US stocks wound up roughly 1.5% higher yesterday and futures are pointing to a modestly positive opening today. European equity markets are up more than 1% so far on the day. Despite the recovery in risk appetite, emerging market currencies are mostly lower versus the dollar on the day, led by the South African rand (-0.5%), as the dollar continues its strengthening trend. The dollar index has risen to its highest level since late March.

Key Global Financial Indicators

Last updated: 7/21/21 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4323	1.5	-1	2	33	15
Eurostoxx 50		3991	0.9	-3	-3	17	12
Nikkei 225		27548	0.6	-4	-5	21	0
MSCI EM		53	0.3	-1	-3	21	2
Yields and Spreads			bps				
US 10y Yield		1.24	1.8	-11	-25	64	33
Germany 10y Yield		-0.40	0.6	-9	-23	6	17
EMBIG Sovereign Spread		356	-3	13	20	-98	6
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.2	-0.1	-1	-1	1	-3
Dollar index, (+) = \$ appreciation		93.1	0.1	1	1	-2	3
Brent Crude Oil (\$/barrel)		70.3	1.3	-6	-6	59	36
VIX Index (% change in pp)		19.5	-0.2	3	2	-5	-3

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

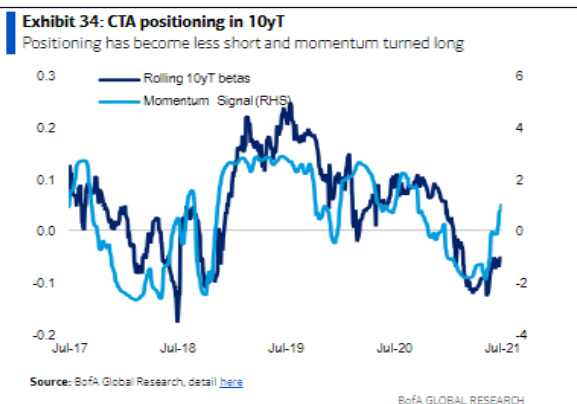
Mature Markets

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United States

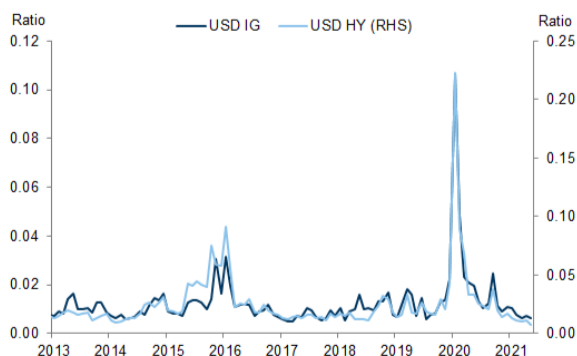
US stocks staged a stunning rebound as dip buyers emerged amid solid corporate earnings. The stronger than expected rise in US housing starts reportedly eased some of the concerns around supply constraints and labor shortages. The Russell index climbed 3% and S&P 500 added 1.5%, supported by financials and cyclical stocks. The Treasury curve steepened, with 2-year yield down 2 bps and 10-year yield up 3 bps to 1.22%, driven by a 3 bps increase in real rate.

CTAs has played a role in exacerbating recent rate moves. These funds have increased their long Treasury exposures as the momentum signal in rates turned positive. On the other hand, **overall positioning data for CTAs, asset managers and leveraged funds continue to show a short bias in markets, which could mean more room for short covering and further declines in rates.**



Analysts warn that idiosyncratic risks are likely being masked and mispriced in US credit markets. The dispersion of corporate bond returns has collapsed to extremely low levels relative to history. While lower dispersion is expected during periods of tight spreads and strong economic growth, the extent of the compression is raising concerns that idiosyncratic risks are masked and mispriced, particularly in the HY markets, where tail risk premiums have collapsed.

Dispersion of corporate bond returns



Tail risk premiums in USD HY market



Europe

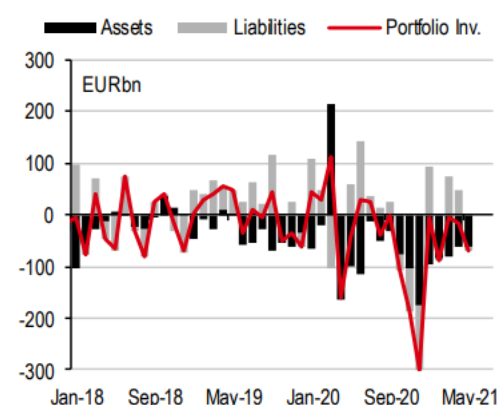
European equities extended yesterday's recovery with the STOXX 600 benchmark up 1.3% while Spain's IBEX was up 2%. On the sector level, travel services (+3.5%), energy shares (+2%) and banks (+2%) all recovered. Sentiment was also supported by strong earnings results from several companies including Dutch chip manufacturer ASML and Swiss pharmaceutical firm Novartis. German auto manufacturer

Daimler also reported stronger than expected Q2 results while downgrading the total sales outlook for this year due to chip shortages.

European sovereign bond yields were 1 bps higher with Southern European spread unchanged even as high-yield corporate credit benchmark tightened by 5 bps.

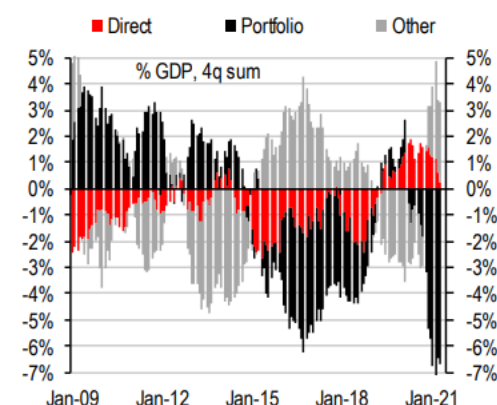
With the Eurozone reporting further sizable outflows in May, analysts at HSBC argue that the euro may be increasingly shifting from a cyclical to a funding currency. The prolonged build-up of sizable assets abroad coupled with limited policy tightening priced over the next 5-years, make euro more like the Japanese yen and the Swiss franc. Analysts also note that the euro has been among the top performers in G-10 currencies during the recent episodes of global equity drawdowns.

1. Acceleration in portfolio outflows



Source: Bloomberg, HSBC

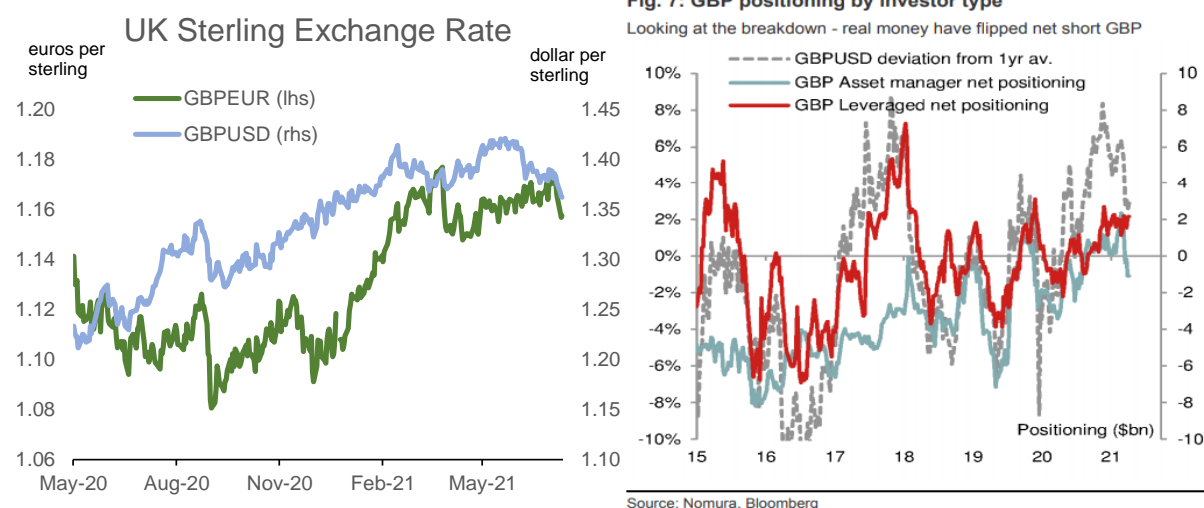
2. Continuing a dominant trend



Source: Bloomberg, HSBC

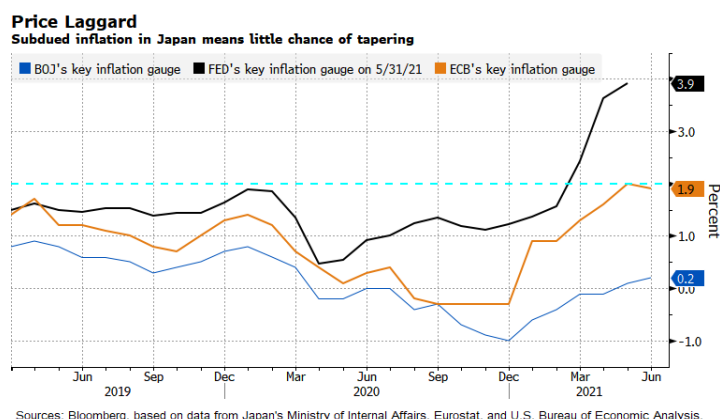
United Kingdom

The UK sterling underperforms on broader dollar recovery and renewed virus fears. Contacts note that client positioning was cut-back heavily in June and the latest round of delta-variant driven reduction occurred in a market with very thin liquidity. Bullish sterling trades have built up this year based on swifter vaccination and resulting reopening as well as a perception of a more hawkish Bank of England (BoE). The latter has come further in question after this week's comments from BoE members Haskel and Mann (incoming), who both were perceived dovish due to warnings around early stimulus withdrawal.



Japan

The Bank of Japan (BOJ) flagged a divergent monetary policy path from the Federal Reserve. BOJ Deputy Governor Masayoshi Amaniya said that inflation has increased in the United States and elsewhere but is still sluggish in Japan. Hence, it is necessary for the BOJ to persistently continue to conduct powerful monetary easing. Analysts noted that Japan's monetary policy stance will continue putting Japanese yen under pressure, with the currency already depreciating 6.5% against the U.S. dollar year-to-date. Exports grew 48.6% y/y in June, supported by car shipments. Analysts noted that another month of Japan's strong exports performance suggested that the global trade recovery remains on track. Equities gained (NIKKEI: +0.6%) on the back of improving global risk sentiment. The yen depreciated (-0.1%). Long-end JGB yields increased (10-year: +0.2 bp; 30-year: +2.0 bps). Some analysts commented that investors became more wary of high price levels (CPI inflation edged up to 0.2% y/y in June, in line with expectations), triggering a sell-off of JGBs particularly in the 20-year and 30-year segments.



Emerging Markets

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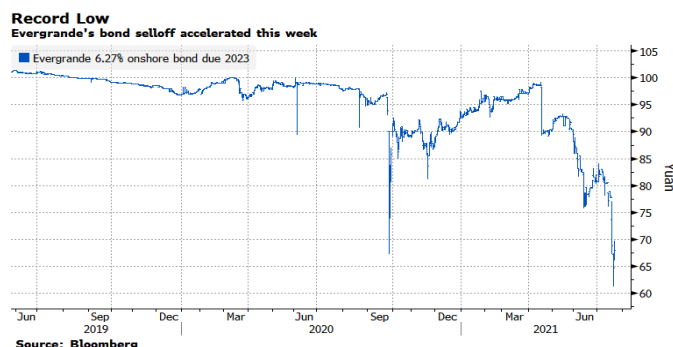
Asian equities were mixed, falling 0.4% on net. Share prices declined in the Philippines (-1.7%) and Korea (-0.5%) while gaining in China (CSI 300: +0.7%). Most Asian currencies depreciated, led by the Malaysian ringgit (-0.3%) and Korean won (-0.3%). Overall market sentiment continued to be weighed down by concerns about the COVID-19 situation. Korea and Thailand reported record infections, while Indonesia extended mobility restrictions. China was an outlier given that local infections have been largely kept near zero. RMB appreciated (+0.2%), partly due to foreign funds into local stock markets in recent days. **EMEA equities were recovering with stocks up in Poland (+1.3%) and Israel (+1%). EMEA currencies were trading mixed** with the South African rand (-0.5%) and the Turkish lira (-0.2%) depreciating while the Russian ruble (+0.3%) gained against the dollar. **Latin American equity markets** were mostly higher on Tuesday. Argentina's equity index led the gain (+2.0%), followed by Chile (+1.4%) and Brazil (+0.8%). Local currencies were mixed but mainly traded in narrow ranges, except for the Brazilian real (+0.6%). 10-year government bond yields dropped 10 bps in Chile and were mixed in other countries.

Peru

The National Electoral Jury declared leftist Pedro Castillo president-elect of Peru on Monday night, ending six weeks of uncertainty amid vote revisions and fraud allegations. Earlier on Monday, the right-wing candidate Keiko Fujimori, who lost the June 6 runoff by 44,000 votes, said that she would recognize the electoral results while arguing that the proclamation is illegitimate. The elected president will take office on July 28. Analysts commented that despite Castillo has moderated economic policy tone compared to his campaign promises, there is still uncertainty about the direction of economic policy considering the influence of political party members who hold a more radical stance. Peru's broad benchmark index rose 1.4% yesterday, and the Peruvian sol was little changed.

China

Evergrande bonds are subjected to heavy haircuts in onshore repo markets. Borrowers using Evergrande bonds as collateral in repo markets are now forced to accept up to a 53% haircut, a sharp spike from 28% in April. The large haircuts highlight growing concerns over Evergrande's defaults. Evergrande's share price further declined 2.2% today (-24.9% this week); its onshore and offshore bonds continued to sell off. **The Cyberspace Administration of China slapped fines on tech firms, including Alibaba and Tencent,** for spreading sexually suggestive content involving children. The crackdown adds to the pressure on China's tech firms, which have been facing increased scrutiny over issues ranging from antitrust to data security. Share prices of tech firms fell (Kuaishou: -2.5%; Tencent: -0.7%).

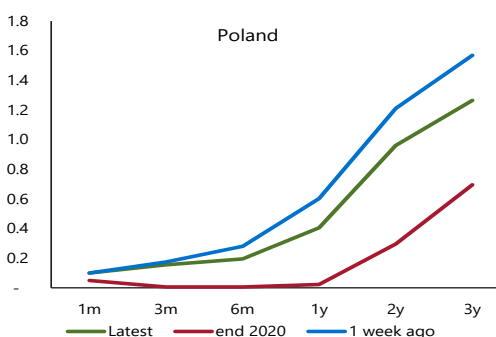
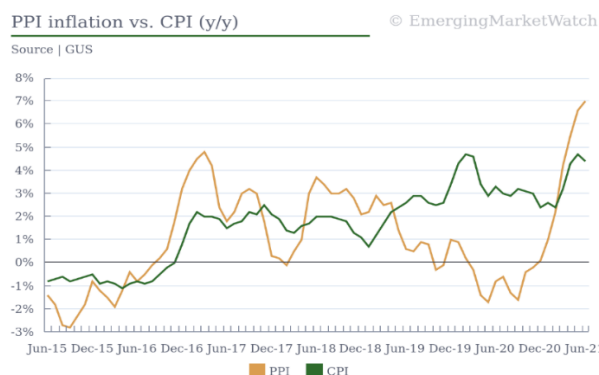


Hungary

The National Bank of Hungary (NBH) bought HUF 28.0bn of government bonds in the regular weekly tender, according to NBH data. The purchase volume was slightly higher than in previous week. Banks submitted HUF 60.9bn worth of bonds and demand recovered visibly after a seemingly temporary dip on the previous quantitative easing tender one week ago. EM Watch analysts note that the NBH opted for shorter maturities on today's tender compared to one week ago. The NBH also bought HUF 27.4bn of government bonds outside of auctions during the past week. Total bond purchases under the quantitative easing program have reached HUF 2,707.9bn since the start of the program in May 2020.

Poland

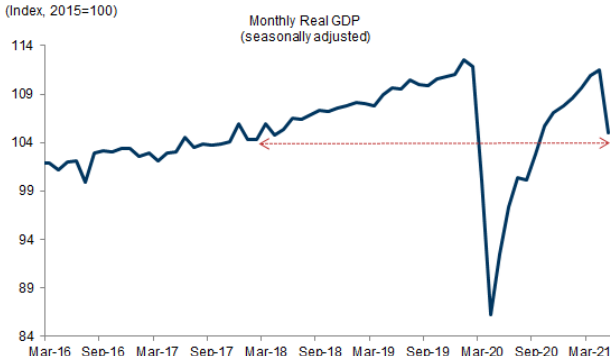
NBP and MPC chair Adam Glapinski reportedly highlighted in an interview that hiking interest rates at present would be unreasonable due to the continued economic risk posed by the coronavirus, even if the economy has become more immune to its effects, but that it might be justified to discuss adjusting policy in the coming quarters. In key data releases, PPI inflation for June rose to 7.0% y/y, exceeding consensus expectations of a 6.8% y/y rise. Despite the inflationary pressure, the swap curve for Poland has declined sharply in the last one week (by 20-30 bps over the next 1-3 years) – potentially reflecting global concerns on the rising COVID cases resulting in a decline in global bond yields.



Colombia

According to the monthly coincident indicator (ISE), Colombia's economic activity declined 5.8% m/m sa in May, ending a sequence of eight consecutive monthly increases. The contraction of economic activity greatly reflected the disruptions caused by nationwide protests and social unrest, and to a smaller extent broad policy and political uncertainty. Economic activity is now 6% below the pre-pandemic level. Analysts expected the activity indicator to recover in June amid easing restrictions and economic reopening.

Sharp Contraction of Real Activity in May Due to Impact of Street Protests on Supply-Chain Logistics
(Index, 2015=100)





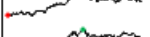







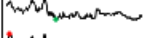
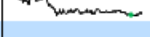



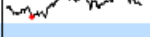
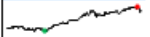
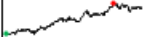
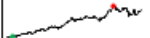
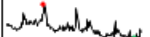



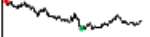




Source: DANE

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Global Financial Indicators

Last updated: 7/21/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4321	1.5	-1	2	33	15
Europe		3991	0.9	-3	-3	17	12
Japan		27548	0.6	-4	-5	21	0
China		3563	0.7	1	0	7	3
Asia Ex Japan		91	0.4	-2	-3	20	1
Emerging Markets		53	0.3	-1	-3	21	2
Interest Rates							
			basis points				
US 10y Yield		1.24	1.8	-11	-25	64	33
Germany 10y Yield		-0.40	0.6	-9	-23	6	17
Japan 10y Yield		0.02	0.8	0	-3	-1	0
UK 10y Yield		0.58	1.4	-5	-19	44	38
Credit Spreads							
			basis points				
US Investment Grade		95	-0.1	5	4	-36	0
US High Yield		343	-1.1	24	19	-220	-37
Europe IG		48	-0.8	1	0	-9	0
Europe HY		242	-3.6	8	4	-100	-1
Exchange Rates							
			%				
USD/Majors		93.07	0.1	1	1	-2	3
EUR/USD		1.18	-0.1	-1	-1	2	-4
USD/JPY		110.1	0.3	0	0	3	7
EM/USD		56.2	-0.1	-1	-1	1	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		70	1.3	-6	-6	59	36
Industrials Metals (index)		154	-0.6	-1	3	38	16
Agriculture (index)		58	0.3	2	5	63	20
Implied Volatility							
			%				
VIX Index (% change in pp)		19.5	-0.2	3.2	1.6	-5.3	-3.2
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	-0.2	-1.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		110	-0.1	7	10	-49	-10
Italy		110	0.1	7	5	-46	-2
Portugal		65	0.7	5	5	-17	5
Spain		68	0.6	5	5	-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: 7/21/2021 8:09 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		6.47	0.2	-0.1	0	8	1		3.1	-2	-19	-1	-20	
Indonesia		14543	-0.2	-0.4	-1	1	-3		6.3	-13	-13	-82	21	
India		75	0.3	-0.2	-1	0	-2		6.4	-3	9	52	49	
Philippines		50	0.8	-0.1	-3	-2	-5		4.3	1	0	51	67	
Thailand		33	-0.1	-0.7	-4	-4	-9		1.7	-6	-15	27	37	
Malaysia		4.23	-0.2	-0.7	-2	1	-5		3.2	-4	-5	70	66	
Argentina		96	0.0	-0.2	-1	-26	-13		44.1	-78	-73	-231	-1202	
Brazil		5.23	-0.2	-3.0	-4	-1	-1		8.3	-28	-16	313	273	
Chile		758	0.3	-1.1	-1	4	-6		4.2	-28	2	140	145	
Colombia		3839	0.0	-0.5	-2	-5	-11		6.7	-2	11	152	167	
Mexico		20.17	-0.1	-1.5	2	11	-1		6.9	-2	16	92	132	
Peru		3.9	0.0	0.5	0	-11	-8		5.6	-15	13	151	199	
Uruguay		44	0.1	0.0	0	-1	-4		7.9	0	-3	-164	61	
Hungary		306	-0.3	-1.0	-3	-1	-3		2.2	-10	-15	62	66	
Poland		3.91	-0.2	-1.4	-3	-2	-4		1.0	-17	-19	22	40	
Romania		4.2	-0.1	-0.5	-1	0	-5		3.0	1	27	-84	27	
Russia		74.4	0.2	-0.3	-2	-5	0		7.0	-5	8	155	126	
South Africa		14.7	-0.5	-1.4	-3	12	0		9.8	1	14	-50	18	
Turkey		8.59	-0.1	0.0	2	-21	-13		17.6	16	-17	623	446	
US (DXY; 5y UST)		93	0.1	0.7	1	-2	3		0.69	-10	-19	43	33	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		5144	0.7	1	0	9	-1		213	5	11	-26	-16	
Indonesia		6030	0.2	0	-1	18	1		189	15	12	-77	-11	
India		52199	0.0	-1	-1	38	9		154	-1	14	-97	3	
Philippines		6476	-1.7	-5	-6	7	-9		120	13	22	-40	8	
Malaysia		1517	-0.2	0	-4	-4	-7		138	8	16	-57	3	
Argentina		63392	2.0	-2	-3	36	24		1591	19	105	-747	235	
Brazil		125401	0.8	-2	-3	20	5		284	15	33	-72	25	
Chile		4292	0.0	2	0	10	3		154	7	1	-55	-2	
Colombia		1238	-2.7	-4	-2	7	-14		272	2	17	1	57	
Mexico		49257	0.3	0	-2	34	12		358	16	24	-135	1	
Peru		18426	1.4	-1	-1	8	-12		166	10	-4	-14	37	
Hungary		47807	0.4	1	-1	35	14		149	11	15	-39	0	
Poland		67010	1.4	-1	2	28	18		40	8	8	2	12	
Romania		11885	0.2	-1	2	39	21		198	17	13	-87	-5	
Russia		3723	0.5	-3	-2	32	13		186	15	14	-37	7	
South Africa		66159	0.7	-3	1	17	11		350	18	31	-181	-34	
Turkey		1352	0.0	-2	-3	13	-8		482	12	19	-130	35	
Ukraine		525	0.0	0	-1	5	5		517	21	25	-140	24	
EM total		53	-0.1	-1	-3	21	2		370	10	17	-53	32	

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

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