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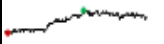

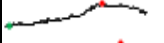

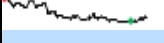
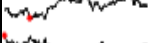



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## Markets extend rally as growth fears recede

**Monday's market collapse seems to be a distant memory as stocks posted gains for a third straight day, pushing above last week's close.** The current three day rally in global equity prices is the biggest since April. Fears about growth appear to have abated for now, with strong corporate earnings boosting risk sentiment. In the US, AT&T was the latest major company to announce a very successful quarter. However, the rapidity of recent price moves and the evolving pandemic situation continues to keep markets on edge, with volatility expected to persist in the days ahead. The pressures on emerging markets were remained in focus as Ukraine became the latest central bank to hike rates to fight inflation. US Treasury and German bund yields held steady while the dollar was slightly stronger and oil prices followed equities higher. The ECB updated forward its guidance along expected lines, with little response from markets.

### Key Global Financial Indicators

Last updated: 7/22/21 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4359	0.8	0	3	33	16
Eurostoxx 50		4071	1.1	0	-1	21	15
Nikkei 225		27548	0.6	-4	-5	21	0
MSCI EM		53	0.6	-1	-2	22	3
Yields and Spreads			bps				
US 10y Yield		1.29	0.5	-1	-17	70	38
Germany 10y Yield		-0.40	-0.8	-7	-24	9	17
EMBIG Sovereign Spread		352	-4	4	18	-94	2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.6	0.2	0	-1	1	-2
Dollar index, (+) = \$ appreciation		92.7	-0.1	0	1	-2	3
Brent Crude Oil (\$/barrel)		72.9	0.9	-1	-3	65	41
VIX Index (% change in pp)		17.7	-0.2	1	1	-7	-5

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

## Mature Markets

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### United States

The latest US jobless claims data were markedly higher than forecasts, dashing hopes that they would reach a new post pandemic low. Treasuries rallied in the immediate aftermath of the weak data release. Negotiations on the \$1.2 tn infrastructure plan are ongoing despite Republican Senators blocking a vote to start the debate in the Chamber yesterday. However, press reports suggest that a deal could be reached next week.

### US Jobless Claims

	Consensus Forecast	Actual Data
Jobless claims	350K	419K
Continuing claims	3100K	3236K
Source: Bloomberg		

The latest Q2 2021 earnings reports have come in much stronger than expected, alleviating earlier fears that the lingering pandemic might hurt businesses and suppress earnings. The major US indexes are now above Friday's levels and again close to all-time highs. Large corporations such as Verizon and Coca-Cola easily beat analyst forecasts. Earnings growth for the quarter is forecasted to be as high as 70%, with future earnings growth projections at their highest in decades. According to Bloomberg, 85% of companies reporting so far have beaten analyst forecasts. However, some analysts warn that the surge in earnings is from pandemic related lows in 2020, and that future earnings momentum may be harder to achieve as the economy recovers.

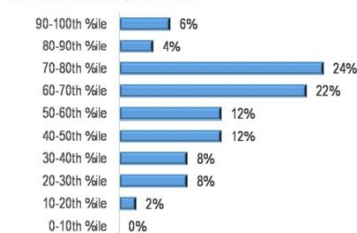
### Higher Hopes

S&P 500 earnings projections show biggest increase in decades



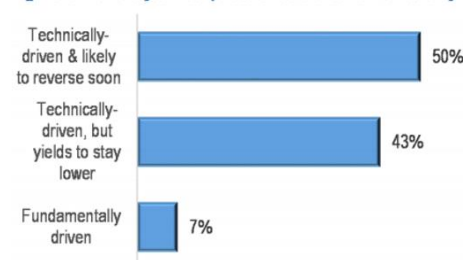
Investors remain confident despite the recent market volatility, according to the latest investor survey from JP Morgan. Bullish sentiment on equities is at 60%, with 57% expecting to increase their equity exposure and 86% expecting to reduce their bond market duration imminently. An overwhelming 93% think the recent surge in the Treasury markets was driven by short covering and other technical factors rather than more fundamental considerations. The consensus view is that the delta variant of the virus will not lead to widespread lockdowns. JP Morgan noted in a research note quoted on Bloomberg that “the reopening of the economy is not an event but rather a process, which in our opinion is still not priced-in.” Analysts at the bank noted that some stocks expected to benefit from reopening are still below June 2020 levels, at a time when fear was very high and long before the new vaccines were announced. They predict a strong rally in these sectors in the weeks ahead.

Figure 2: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?



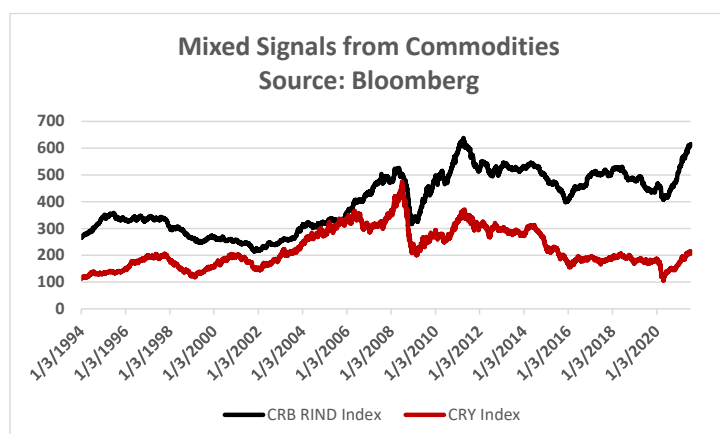
Source: J.P. Morgan.

Figure 5: How do you interpret the recent bond market rally?



Source: J.P. Morgan.

**Commodities are sending mixed signals on inflation.** A comparison of the CRB commodities index (CRY) of exchange traded commodities such as oil and copper with the Raw Industrials index (RIND) of non-exchange traded commodities such as rubber and copper scrap reveals divergent trends. Using data normalized to early 1994, the exchange traded commodities suggest that inflation is relatively low, but the raw industrials are close to all-time highs. Some analysts think raw materials prices give a more accurate picture of supply, demand, and price pressures in the economy. According to this view, exchange traded commodities are less informative because their prices are distorted by speculative forces and spillovers from other markets. For example, investors in US Treasury Inflation Protected Securities (TIPS) routinely short gasoline and oil futures to hedge their positions. The surge in the RIND index combined with widespread news stories of higher costs from business executives suggests that inflationary forces cannot be ignored. However, current levels of TIPS pricing and real yields show that markets are not worried about inflation at the moment.

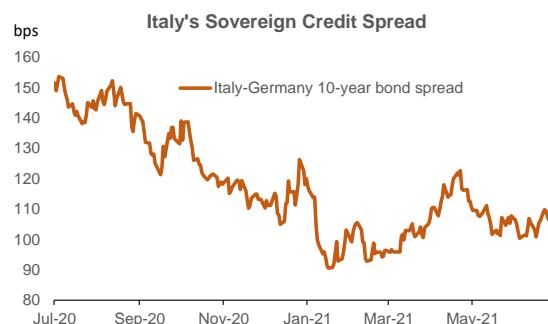


## Euro area

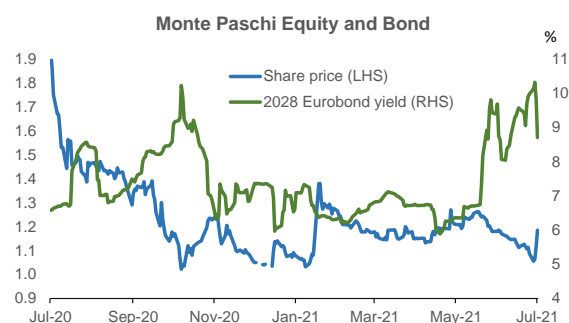
**The ECB left its policy rate and asset purchases unchanged while updating its forward guidance.** The guidance was amended to reflect the recent strategic review, with the Governing Council now seeing unchanged policy rates until inflation reaches and stabilizes at 2% well ahead of its projection horizon. With inflation forecasted to be at 1.4% in 2023, there could be a long way to go before the 2% target is realized. The statement came broadly in line with analysts' expectations and financial markets showed little response.

**European equities** gained for a third day, trading above the Friday close. The STOXX 600 benchmark was trading about 1% higher while Spain (+1.2%) outperformed. Industrial conglomerates (+2.6%) and diversified financials (+2%) also outperformed on better than expected earnings results. Sentiment was also lifted by **better than expected French manufacturing confidence data.**

German's 10-year bond yield was little changed, hovering around -0.4% while Southern European spreads tightened by 2-3 bps, but remained wider than last week.



**Italy's Monte Paschi reached a preliminary agreement with Fondazione to reduce its legal liabilities by €3.8 bn.** Legal risks and resulting uncertainty around bank's balance sheet have been part of the obstacles precluding a deal with Unicredit. Monte Paschi credit spreads tightened by 150 bps while equity price increased by 6% after the announcement.



## United Kingdom

**Brexit tensions resurfaced as the UK government said it wants to make changes to the Northern Ireland protocol.** UK's minister for EU affairs Frost also indicated that conditions exist for invoking Article 16, which would allow suspension of parts of the agreement, while the EU threatened to escalate legal action against the UK. The protocol governs trade and market rules in the region and effectively aims to avoid a hard-border between Republic of Ireland and Northern Ireland. Instead, goods crossing to Northern Ireland from the rest of the UK are effectively facing an economic boarder in the Irish Sea, something that the UK government sees as threatening its territorial integrity and disrupting intra-UK trade.



**UK's consumer goods company Unilever warned about rising price pressures** due to higher raw material costs. The company said it started to raise prices but is not able to move quick enough to avoid degradation of profit margins. Unilever shares fell 5%, dragging down UK's FTSE 100.

## Emerging Markets

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Most emerging market bourses were higher in step with the US rally, and most currencies were stronger. The central bank of Ukraine unexpectedly raised its policy rate to 8% in response to inflationary pressures. Argentina reported that GDP shrank 2% month-on-month in May due to continued lockdowns and a temporary ban on beef exports. Meanwhile, investment banks rushed to relocate Chinese technology IPOs from New York to Hong Kong after the government in China cracked down on ride hailing company Didi's proposed New York IPO. In other news, the Bank of Thailand said that the ongoing COVID-19 outbreak could shave as much as two percentage points off the country's economic growth this year. Bank of Indonesia stayed on hold at 3.5% as expected but the governor pledged supportive policy into next year to fight the pandemic.

### Brazil

**The volatility of the real has spiked up to reach its highest level in four months.** The currency has appreciated steadily against the dollar over the last six months and is one of the few major emerging market currencies to have posted a gain for the year despite the ravages of the pandemic. The real bounced off the 5.31 level versus the dollar on July 8<sup>th</sup> when the central bank intervened to prevent the depreciation of the currency and is currently trading even stronger near the 5.19 level. Liquidity has been tight and contacts expect that relatively small trading volumes could have a disproportionate effect.



### China

**The share price of Evergrande, one of China's largest property companies, leaped by 7.9% on news that it had resolved its differences with a local bank, China Guangfa Bank.** The bank's call for early repayment of a relatively small 132 mn yuan (\$20 mn) loan had weighed heavily on Evergrande's stock and bond prices earlier this week. The company initially denied the request and threatened to sue, but relented after Guangfa froze its deposits. Evergrande has faced intense scrutiny this year due to its perceived financial challenges. Four banks in Hong Kong SAR have suspended new lending to the company. Despite the equity rally, its bonds continue to trade at multi-year lows.

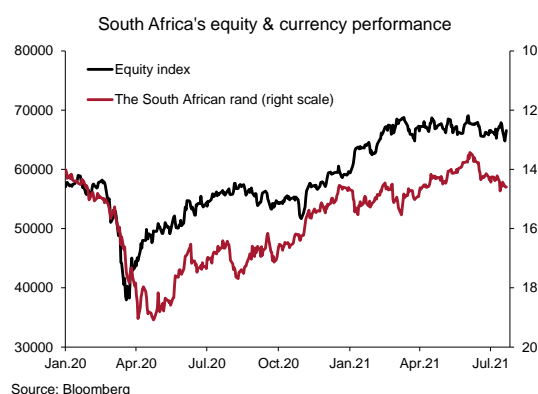
#### Battered Bonds

Evergrande notes are trading near record lows



## South Africa

**South Africa's consumer prices slowed to 4.9% y/y in June from the 30-month high of 5.2% in May, in line with market expectations.** Economists expected headline inflation to trend lower in the following months and end 2021 at 4.5%, the midpoint of the inflation target range (3% to 6%). However, consumer prices still face upward pressures from elevated food, fuel, and electricity prices. The inflation data came ahead of the interest rate decision of the MPC meeting on Thursday. Analysts expected the MPC to keep the benchmark lending rate unchanged at 3.5%. South Africa's domestic equity index rose 1.3% on Thursday, and the rand was little changed.


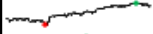



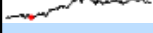







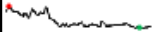
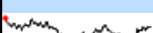


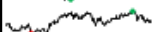




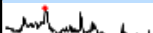

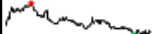
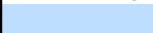
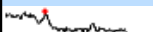



*This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.*

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## Global Financial Indicators

Last updated: 7/22/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4362	0.8	0	3	33	16
Europe		4071	1.1	0	-1	21	15
Japan		27548	0.6	-4	-5	21	0
China		3575	0.3	0	0	8	3
Asia Ex Japan		91	0.5	-1	-2	22	2
Emerging Markets		53	0.6	-1	-2	22	3
<b>Interest Rates</b>			basis points				
US 10y Yield		1.29	0.5	-1	-17	70	38
Germany 10y Yield		-0.40	-0.8	-7	-24	9	17
Japan 10y Yield		0.02	0.0	0	-4	0	0
UK 10y Yield		0.60	0.1	-6	-18	48	41
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	-3.3	2	1	-40	-3
US High Yield		332	-1.4	7	7	-222	-48
Europe IG		47	-0.7	0	0	-11	-1
Europe HY		236	-2.7	-1	1	-107	-5
<b>Exchange Rates</b>			%				
USD/Majors		92.70	-0.1	0	1	-2	3
EUR/USD		1.18	-0.1	0	-1	2	-4
USD/JPY		110.2	0.0	0	0	3	7
EM/USD		56.6	0.2	0	-1	1	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		73	0.9	-1	-3	65	41
Industrials Metals (index)		156	0.8	-1	3	41	17
Agriculture (index)		58	-0.8	2	6	60	20
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		17.7	-0.2	0.7	1.0	-6.6	-5.1
US 10y Swaption Volatility		78.3	0.6	9.3	8.8	24.6	18.2
Global FX Volatility		6.8	0.0	0.2	0.0	-0.6	-1.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		110	1.3	6	8	-52	-10
Italy		107	-1.4	2	1	-46	-4
Portugal		63	-1.6	3	2	-20	3
Spain		73	5.5	8	10	-10	11

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

## Emerging Market Financial Indicators

Last updated: 7/22/2021 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis pts)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.47	0.0	-0.1	0	8	1		3.1	-2	-18	0	-21	
Indonesia		14483	0.4	0.0	-1	1	-3		6.3	-5	-17	-78	22	
India		74	0.2	0.1	0	0	-2		6.4	-3	6	51	49	
Philippines		50	0.5	0.1	-3	-2	-4		4.4	4	12	53	70	
Thailand		33	-0.1	-0.6	-4	-4	-9		1.7	-7	-17	26	35	
Malaysia		4.22	0.2	-0.5	-1	1	-5		3.2	-6	-5	70	65	
Argentina		96	0.0	-0.2	-1	-26	-13		44.4	4	-42	-138	-1171	
Brazil		5.20	-0.2	-1.6	-5	-2	0		8.3	-10	-2	308	275	
Chile		752	0.8	-0.9	-1	3	-6		4.2	-17	6	148	148	
Colombia		3857	-0.5	-1.5	-3	-6	-11		6.7	2	7	156	167	
Mexico		20.15	0.0	-1.0	1	11	-1		7.0	7	15	102	138	
Peru		3.9	0.1	0.3	0	-11	-8		5.6	-12	-8	147	197	
Uruguay		44	0.2	0.2	0	-2	-4		7.9	0	-2	-164	61	
Hungary		304	0.4	-0.1	-3	-1	-2		2.2	-6	-12	73	70	
Poland		3.88	0.1	0.1	-2	-1	-4		1.1	-12	-16	27	44	
Romania		4.2	-0.1	-0.2	-1	0	-5		3.0	0	27	-80	27	
Russia		73.8	0.2	0.8	-1	-4	0		6.9	-14	-2	150	118	
South Africa		14.6	0.2	0.1	-2	13	1		9.9	2	7	-40	20	
Turkey		8.55	0.1	0.2	1	-20	-13		17.6	13	-21	635	446	
US (DXY; 5y UST)		93	0.0	0.1	1	-2	3		0.74	-4	-12	46	38	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		5152	0.1	0	0	9	-1		212	2	8	-27	-17	
Indonesia		6138	1.8	3	2	19	3		183	3	13	-78	-17	
India		52837	1.2	0	1	39	11		154	3	11	-95	3	
Philippines		6577	1.6	-4	-5	9	-8		112	0	21	-42	0	
Malaysia		1528	0.7	1	-2	-5	-6		139	7	16	-52	4	
Argentina		65832	3.8	3	0	35	29		1580	14	75	-734	224	
Brazil		125929	0.4	-2	-2	21	6		280	7	32	-68	21	
Chile		4274	0.0	3	-2	8	2		152	4	5	-54	-4	
Colombia		1251	1.0	-3	1	7	-13		272	0	19	11	57	
Mexico		50035	1.6	1	0	34	14		353	7	22	-132	-4	
Peru		18743	1.7	1	0	9	-10		166	8	3	-9	37	
Hungary		47758	-0.3	0	-1	35	14		141	-1	6	-46	-8	
Poland		67211	0.2	0	2	29	18		35	0	4	-7	7	
Romania		11880	-0.3	-1	4	38	21		190	4	13	-91	-13	
Russia		3755	0.9	-1	-2	32	14		179	3	12	-43	0	
South Africa		67298	1.1	0	3	21	13		344	6	26	-177	-40	
Turkey		1352	0.0	-2	-3	13	-8		475	2	12	-125	28	
Ukraine		525	0.0	0	-1	5	5		511	10	14	-129	18	
EM total		53	1.0	-1	-2	22	3		367	3	16	-49	28	

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

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