



- US earnings season off to strong start with over 85% of firms beating estimates ([link](#))
- US equity options signal increasing demand for downside risk protection ([link](#))
- Euro area money market rates shift lower as analysts reassess ECB outlook ([link](#))
- ECB lifts restrictions on bank dividends ([link](#))
- Chinese equities fall further on growing concerns of regulatory tightening ([link](#))
- Markets price more policy tightening in Brazil as inflation prints above forecast ([link](#))
- National Bank of Kazakhstan raises policy rate and signals further hikes ([link](#))

[Mature Markets](#)

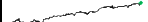
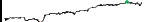





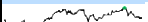

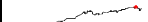

| [Emerging Markets](#)

| [Market Tables](#)

Cautious sentiment builds around virus and growth concerns

Record highs for US and European stock markets on Friday have given way to a modest pullback this morning on the back of sharp declines in Chinese equities following regulatory changes to the education sector. Local Chinese equities fell between 2 to 3% alongside declines of 4% in Hong Kong shares as investors responded to further regulatory tightening in the educational tech sector by Chinese authorities. Investor sentiment has also been dampened by growing concern about the impact of the delta variant on growth and is pushing US Treasury yields slightly lower this morning, driven by a fall in real yields with the 10-year real yield briefly touching a new low of -1.12%. Major European indices and S&P 500 futures are posting more moderate losses and remain close to record highs following the rally that took hold mid last week. Positive corporate earnings guidance has bolstered the stock market, and while the virus news stream remains tilted to the negative side, most believe broad-based shutdowns will be averted. The main event this week is the FOMC meeting set to conclude on Wednesday, where investors will focus on the committee's assessment of the balance of risks around the outlook for inflation and the virus, as well as any discussions around tapering asset purchases.

Key Global Financial Indicators

Last updated: 7/26/21 8:18 AM	Level	Change from Market Close					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4412	1.0	2	3	37	17
Eurostoxx 50		4098	-0.3	4	-1	24	15
Nikkei 225		27833	1.0	-2	-4	23	1
MSCI EM		53	-1.5	-2	-5	22	2
Yields and Spreads			bps				
US 10y Yield		1.25	-2.5	6	-27	66	34
Germany 10y Yield		-0.42	0.3	-3	-26	3	15
EMBIG Sovereign Spread		353	-2	4	18	-90	2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.3	-0.1	0	-2	1	-3
Dollar index, (+) = \$ appreciation		92.7	-0.2	0	1	-2	3
Brent Crude Oil (\$/barrel)		74.1	-0.1	8	-3	71	43
VIX Index (% change in pp)		18.4	1.2	-4	3	-7	-4

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

In the week ahead, markets will be focused on the FOMC meeting and Chair Powell's press conference on Wednesday; no change in policy is expected. Across other central banks, rates are expected to be kept on hold by Ghana (Monday), Nigeria (Tuesday), and Colombia (Friday). Markets expect Hungary to raise rates by 15 bps (Tuesday). Durable goods orders for the US are expected to grow at 2.0% m/m (Tuesday) and investor focus will also remain on preliminary GDP prints for a number of countries on Thursday and Friday, as well as US PCE inflation later in the week. This week will also see a very busy part of the Q2 '21 earnings season, with nearly 50% of US and European companies scheduled to report.

Mature Markets

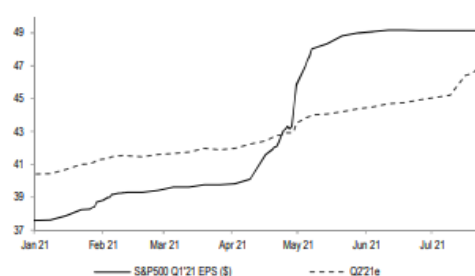
[back to top](#)

United States

The S&P 500 recovered from a brief pullback at the start of last week and ended the week at an all-time high. Treasuries were little changed on Friday. Treasury Secretary Yellen also warned of default risk by October without raising debt limit. The Treasury Department will begin its extraordinary measures next week. Outside the broader stock market gains, the stocks of Chinese companies listed in the US tumbled, on fear that China will widen the regulatory tightening of its tech sector.

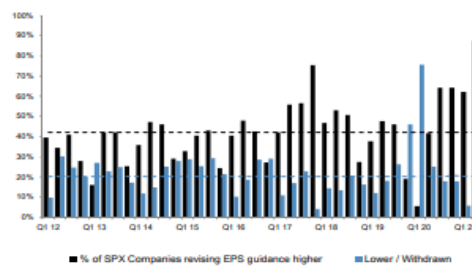
JP Morgan analysts note that more than 85% of S&P 500 companies that have reported so far, have beat EPS estimates. EPS growth for these companies is running at almost 100% y/y, surprising positively by 18%. Sales growth has been reported at 15% y/y, surprising positively by 3 ppts. At a sector level, Materials is benefitting significantly from favorable base effects, while Energy, Consumer Discretionary and Financials are also reporting high earnings growth. Analysts also note that a majority of firms revised their annual profit outlook higher.

Figure 1: S&P500 blended Q2 '21e EPS and Q1 EPS



Source: Thomson Reuters

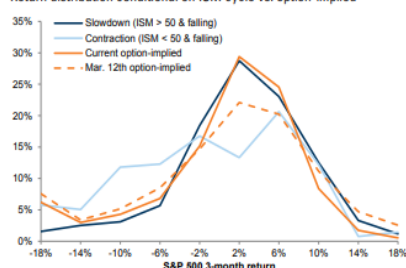
Figure 2: % of S&P500 companies guiding EPS higher/lower



Source: J.P. Morgan, Bloomberg Finance L.P.

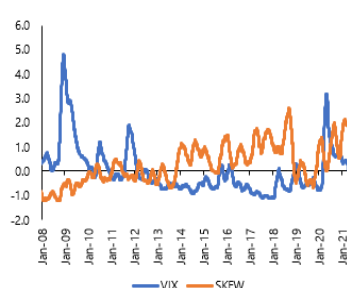
Goldman Sachs analysts note that option markets in the US are pricing higher equity drawdown risk than normal during an ISM slowdown phase, with particularly large left tails. This trend is also reflected in S&P 500 skew (RHS chart), which are at a multi-decades highs, reflecting investor concerns about sharp and large equity market declines per the analysts.

Exhibit 5: S&P 500 options are pricing more tail risk and less correction risk than during an ISM slowdown phase
Return distribution conditional on ISM cycle vs. option-implied



Source: Bloomberg, Goldman Sachs Global Investment Research

Volatility (z-score; 50dma)

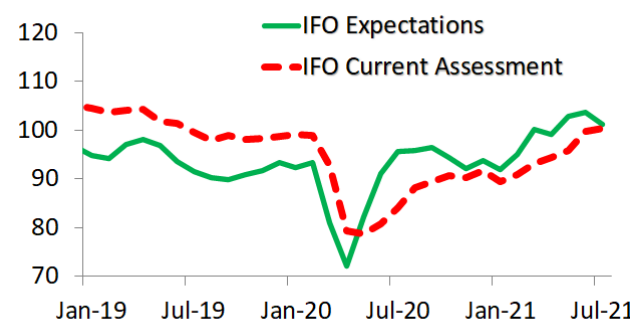


Source: Bloomberg

Euro area

Equities (-0.3%) traded with a cautious tone after **German expectations data disappointed but recovered from sharper losses earlier in the session**. The euro (+0.2%) edged higher. **German IFO expectations data unexpectedly disappointed**. Both the IFO expectations index (at 101.2 compared to 103.6 expected) and the IFO current assessment index (at 100.4 compared to 101.8 expected) unexpectedly fell in July. **The IFO warned that German companies are becoming a lot less optimistic for the coming months**, with almost two thirds of German manufacturing companies expecting to experience supply problems.

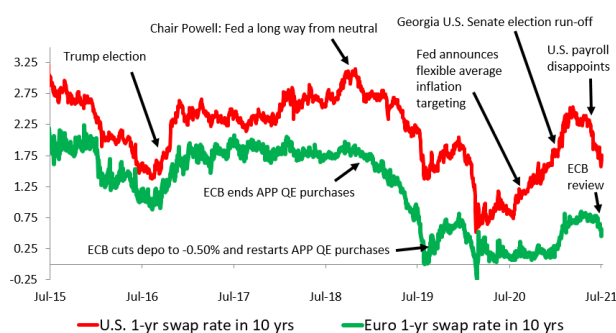
Germany: IFO Business Surveys



Source: Bloomberg and IMF staff

10-yr Bund yields (at -0.42%) are little changed as contacts reassess their outlook on **ECB asset purchases following media reports of disagreements within the ECB Governing Council**. A Reuters report indicates that nearly half of ECB Governing Council members voiced various reservations or objections about the original guidance proposal at last week's policy meeting even though only 2 of 25 policymakers, the Belgian and German central bank governors, objected to the new guidance on interest rates. **Other dissenters were reportedly won over by softer language on an inflation overshoot and an agreement to limit new guidance to interest rates (and not asset purchases)**. In any case, ECB policymakers reportedly do not expect to decide on the future of the pandemic QE program in September. **Meanwhile, the 1-yr money market rate in 10-years, a measure for the nominal terminal policy rate, has shifted 10 bps lower since the ECB announced its new strategy.**

Euro area and U.S. : 1-yr rate in ten years (nominal, %)



Source: Bloomberg and IMF staff

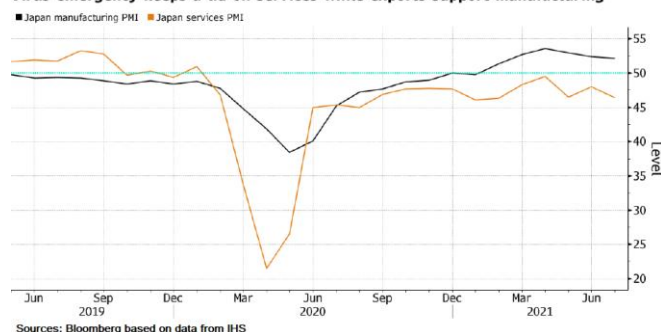
Bank stocks (+0.3%) outperformed today after the ECB said that it will let a cap on dividends and buybacks expire at the end of September. The ECB urged banks under its supervision to act with caution, but analysts expect that a total of €6 bn is expected to be distributed in 2021Q4.

Japan

Composite PMI fell to 47.7 in July from 48.9 in June, driven by a decline in services PMI which dropped to 46.4 (from 48.0). Service activity continues to suffer from the latest state of emergency in Tokyo to contain the spread of the virus. Department store sales remained weak, with nationwide sales declining 1.6% y/y in June. Meanwhile, manufacturing PMI moderated slightly to 52.2 (from 52.4). Equities gained (+1.0%) following the long weekend holiday; Japanese yen appreciated (+0.3%); long-end JGB yields dropped (10-year: -0.4 bp; 30-year: -1.4 bps).

Holding Pattern

Virus emergency keeps a lid on services while exports support manufacturing



Emerging Markets

[back to top](#)

Latin American equities retreated on Friday with stocks down in Chile (-2.4%), Argentina (-1.3%), Peru (-1.2%) and Brazil (-0.9%). The Chilean peso depreciated (-1.1%), as investors digested news on the extensive scope of legal plans for a fourth round of optional withdrawals from private pension funds that could allow complete withdrawals. **Asian equities generally declined**, falling 3.2% on net, led by Hong Kong (-4.1%), Chinese (CSI 300: -3.2%) and Philippine (-2.3%) equities. Chinese equities were sold off due to concerns about broadened regulatory crackdowns. **EMEA stocks opened the week with mixed sentiment, although moves have been relatively contained in most bourses.** Equities gained the most in Kuwait (+1.2%), followed by Egypt (+0.4%) and Romania (+0.3%). Tunisia (-1.1%), Hungary (-0.6%) and South Africa (-0.5%) saw the largest drops.

EM fund flows

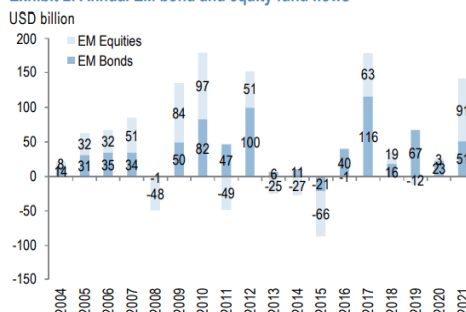
Continued inflows to EM funds were dominated by flows to Asia. According to J.P. Morgan, investors purchased \$1.1 bn of new shares in EM bond funds and \$2 bn in EM equity funds last week, increasing their respective positions moderately by 0.2% and 0.1%. ETFs attracted the bulk of the inflows. China remained the preferred destination for investments into bond funds, while Asia (excluding Japan) saw mostly equity fund inflows. YTD inflows climbed to \$51 bn for bond and to \$91 bn for equity funds.

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		3.1	141.3
EM Bonds		1.1	50.8
Hard Ccy		0.5	27.0
Local Ccy*		0.7	23.8
o.w. EM ex-China		-0.1	4.2
o.w. China		0.8	17.2
EM Equities		2.0	90.5
US HG		0.0	203.8
US HY		0.1	-11.1
Global Equities		-0.8	264.5
EM Bond and Equity ETFs		2.4	56.0
EM Bond ETFs		0.9	12.3
EM Equity ETFs		1.4	43.7
Non-resident EM flows*		-6.4	-52.5

*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows



China

Chinese equities declined (CSI 300: -3.2%; Hang Seng China Enterprises: -4.9%), with investors trying to price in the growing risk from intensifying regulatory crackdowns. CGB yields dropped, with 10-year yields declining (-3.4 bps) to the lowest level in a year, as investors flocked to sovereign bonds following the equity sell-off. On Saturday, Chinese regulators published reforms that will fundamentally change the business model of private tutoring firms. The new regulations ban firms that teach school curriculums from making profits, raising capital or going public. Share prices of education tech firms tumbled further today following their sharp declines late Friday when the news on the potential tighter regulations emerged. The equity sell-off today was more broad-based, beyond education tech firms, as markets become increasingly concerned that Beijing will tighten regulations across the board especially on sectors that have enjoyed robust growth in recent years. **Separately, mortgage rates were reportedly increased** in Shanghai from 4.65% to 5% for first-time homebuyers and 5.25% to 5.7% for second-time homebuyers. Markets also viewed this as the authorities' firm commitment to continue controlling the property market. Evergrande's share price further dropped (-7.6%), with Hong Kong-based banks and brokerages removing Evergrande from their margin trading lists. RMB was little changed.

Bulls Charge

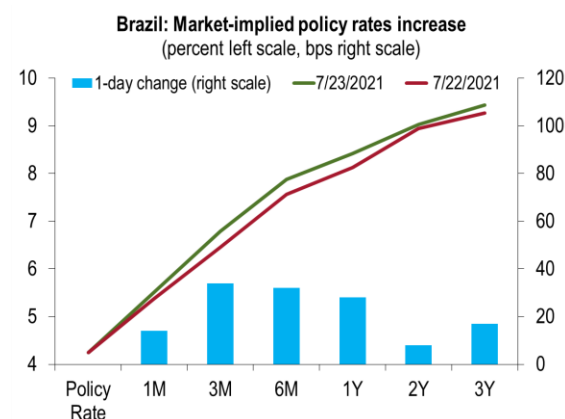
China 10-year bond yield falls to lowest in a year



Source: Bloomberg

Brazil

Higher interest rates accompany inflation surprise. Brazil's mid-July consumer inflation index printed last Friday at 0.72% m/m, 7 bps above market consensus but 11 bps lower than the previous month. Drivers included services and food, but also a notable rise in housing costs. Brazil's market implied policy rate increased over the day by more than 30 bps for the 3-month tenor, arriving at 6.8%, while the local currency sovereign yield curve shifted up, with yields rising 24 bps at the two-year horizon and 9 bps at the ten-year horizon.



Source: Bloomberg.

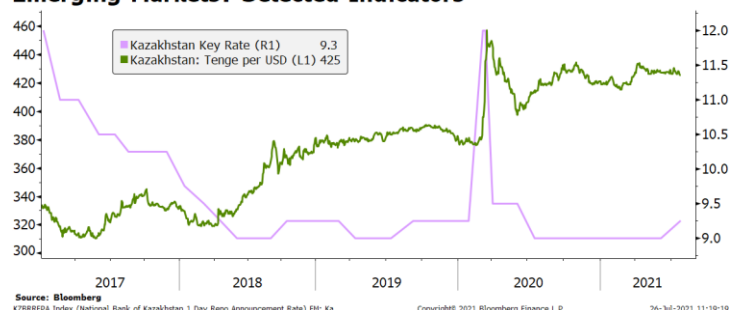
Tunisia

Tunisian stocks dropped over 1% after president Kais Saied froze parliament and fired premier Mechichi last night. Equities in the benchmark Tunindex fell 1.1% on Monday morning following news that the nation's president had ordered the army to secure parliament and freeze its operations. The president also dismissed prime minister Hichem Mechichi amid widespread street protests as COVID cases rise. The president has also reportedly lifted immunity for parliamentarians. The opposition has called such measures a full-blown coup d'état.

Kazakhstan

The National Bank of Kazakhstan hiked interest rates for the first time in over a year. The NBK increased its policy rate by 25 bps to 9.25% and signaled further increases while forecasting rising inflation in the second half of 2021. The Bank argued its decision was based on the fast economic recovery amid a “pro-inflationary” fiscal stimulus. Inflation was 7.9% y/y in June. The tenge traded stable today, appreciating about 0.4% to the US dollar.






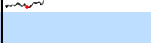
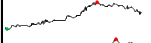





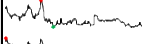








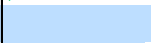



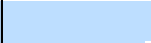


Emerging Markets: Selected Indicators



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Global Financial Indicators

Last updated: 7/26/21 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4413	1.0	4	3	37	17
Europe		4098	-0.3	4	-1	24	15
Japan		27833	1.0	-2	-4	23	1
China		3467	-2.3	-2	-4	8	0
Asia Ex Japan		90	-1.5	-2	-5	21	0
Emerging Markets		53	-1.5	-2	-5	22	2
Interest Rates			basis points				
US 10y Yield		1.25	-2.5	6	-27	66	34
Germany 10y Yield		-0.42	0.3	-3	-26	3	15
Japan 10y Yield		0.01	-0.6	0	-4	-1	-1
UK 10y Yield		0.57	-1.3	1	-21	43	37
Credit Spreads			basis points				
US Investment Grade		92	0.0	-6	2	-39	-3
US High Yield		332	1.6	-14	18	-217	-48
Europe IG		46	0.3	-3	0	-13	-2
Europe HY		233	1.6	-14	3	-128	-9
Exchange Rates			%				
USD/Majors		92.71	-0.2	0	1	-2	3
EUR/USD		1.18	0.1	0	-1	0	-4
USD/JPY		110.4	-0.2	1	0	5	7
EM/USD		56.3	-0.1	0	-2	1	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		74	-0.1	8	-3	71	43
Industrials Metals (index)		160	0.9	4	3	44	20
Agriculture (index)		58	0.5	3	7	61	20
Implied Volatility			%				
VIX Index (% change in pp)		18.4	1.2	-4.1	2.8	-7.5	-4.4
US 10y Swaption Volatility		78.0	0.0	9.4	10.9	25.9	17.9
Global FX Volatility		6.8	0.1	-0.2	0.3	-1.0	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-1.7	-1	5	-45	-13
Italy		104	0.0	-6	-4	-41	-7
Portugal		62	0.5	-2	0	-19	2
Spain		69	-0.2	3	5	-11	7

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

Emerging Market Financial Indicators

Last updated: 7/26/2021 8:20 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	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	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.48	0.0	0.1	0	8	1		3.1	-4	-18	2	-22
Indonesia		14483	0.1	0.2	0	0	-3		6.3	-1	-17	-66	21
India		74	0.0	0.6	0	1	-2		6.4	0	6	54	50
Philippines		50	0.0	0.0	-3	-2	-5		4.4	5	12	61	71
Thailand		33	-0.1	-0.5	-3	-4	-9		1.7	-6	-18	26	34
Malaysia		4.23	-0.1	-0.1	-2	0	-5		3.2	-1	-6	76	66
Argentina		96	0.0	-0.2	-1	-26	-13		44.6	19	-27	-125	-1158
Brazil		5.22	-0.3	0.6	-6	-1	0		8.5	15	13	321	296
Chile		763	-1.1	-0.6	-4	1	-7		4.3	3	6	179	157
Colombia		3870	0.0	-1.5	-2	-5	-11		6.7	1	4	154	167
Mexico		20.10	-0.2	-0.1	-1	9	-1		7.1	11	16	112	146
Peru		3.9	0.2	-0.5	1	-10	-8		5.5	-2	-11	149	189
Uruguay		44	-0.1	0.3	-1	-3	-3		7.9	5	2	-159	66
Hungary		307	-0.3	-0.7	-4	-4	-3		2.2	-6	-8	76	71
Poland		3.89	-0.2	0.1	-3	-4	-4		1.0	-13	-23	23	41
Romania		4.2	0.2	0.0	-1	-2	-5		3.0	-2	24	-67	27
Russia		73.9	-0.2	1.0	-2	-3	1		6.8	-17	-6	143	112
South Africa		14.8	0.1	-1.8	-4	11	-1		9.9	8	16	-15	22
Turkey		8.57	-0.2	0.3	1	-20	-13		17.6	9	7	631	446
US (DXY; 5y UST)		93	-0.2	-0.2	1	-2	3		0.69	-1	-23	42	33

	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		4925	-3.2	-4	-6	9	-5		211	2	7	-24	-18
Indonesia		6106	0.1	1	1	19	2		183	2	12	-76	-17
India		52852	-0.2	-1	0	39	11		156	6	11	-83	5
Philippines		6373	-2.3	-5	-8	9	-11		113	1	21	-35	1
Malaysia		1513	-0.7	-1	-3	-5	-7		139	6	15	-48	4
Argentina		64841	-1.3	3	0	33	27		1565	-14	50	-617	209
Brazil		125053	-0.9	-1	-2	22	5		278	2	28	-75	19
Chile		4187	0.0	-1	-4	4	0		155	6	9	-49	-1
Colombia		1254	0.2	-1	-2	7	-13		276	9	21	10	61
Mexico		50268	0.1	0	-1	35	14		354	5	18	-141	-3
Peru		18544	-1.2	1	-2	7	-11		169	9	5	-3	40
Hungary		47202	-0.6	0	-3	34	12		141	-1	9	-40	-8
Poland		67222	0.0	2	-1	30	18		37	3	3	0	9
Romania		11957	0.4	1	1	40	22		191	1	11	-78	-12
Russia		3752	0.5	2	-2	31	14		180	0	12	-43	1
South Africa		67823	-0.4	5	2	22	14		347	12	27	-166	-37
Turkey		1352	0.0	0	-3	13	-8		476	8	18	-109	29
Ukraine		525	0.0	0	-1	5	5		514	15	15	-117	21
EM total		53	-2.2	-2	-5	22	2		367	4	14	-46	28

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

[back to top](#)