GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JULY 29, 2021

- **Fed sees ‘some progress’ but substantial further progress needed** (link)
- **US GDP and jobless claims miss estimates** (link)
- **Market shifting away from LIBOR to SOFR** (link)
- **Buyback activities rebound in 2021** (link)
- **European companies are beating earnings expectations** (link)
- **Chinese equities rebounded strongly after authorities calmed investors’ fear** (link)

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Market sentiment improves as Fed allays worries

Risk appetite took another turn higher after yesterday’s FOMC meeting, giving investor’s confidence that tapering is still some time away. European equities are broadly higher with the Stoxx 600 reaching a new record. US equity futures meanwhile are slightly higher, and, while the S&P 500 finished broadly unchanged yesterday, it erased earlier losses of nearly 1% following the FOMC. Strong corporate earnings in both Europe and the US are also helping to boost markets. Chinese equities rebounded as authorities calmed fears about regulatory tightening. The dollar index is down for the fourth consecutive day and is now about 1% lower on the week so far, helping to boost emerging market currencies.

Key Global Financial Indicators

Last updated: 7/29/21 8:34 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4401	0.0	1	3	35	17
Eurostoxx 50		4125	0.5	2	0	25	16
Nikkei 225		27782	0.7	1	-4	24	1
MSCI EM		52	2.7	-3	-7	17	0
Yields and Spreads					bps		
US 10y Yield		1.25	1.7	-3	-22	68	34
Germany 10y Yield		-0.45	0.5	-2	-28	5	12
EMBIG Sovereign Spread		358	-1	6	21	-88	7
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.9	0.5	1	-1	2	-2
Dollar index, (+) = $ appreciation		92.0	-0.3	-1	0	-2	2
Brent Crude Oil ($/barrel)		75.1	0.4	2	0	72	45
VIX Index (%, change in pp)		17.6	-0.7	0	2	-7	-5

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

Headline US indices recovered from the day's low yesterday as the FOMC meeting was perceived as slightly dovish. There was no change in the policy rates as expected. Chair Powell noted that economy has made some progress towards the Fed's goals, but major policy actions are still far away as substantial further progress is needed - especially on the labor front. The S&P 500 closed broadly unchanged, but the Russell (proxying small-cap stocks) closed up almost 2%. Big tech stocks also closed up almost 2%, indicating some let-up in investor concerns on the tech related sell-off fears. US 10-yr yields declined sharply towards the session end and closed down almost 2 bps. The components however, saw a notable change with inflation breakevens rising by 3 bps, and real yields touching fresh flows.

Key Market Movers	1.45 pm	3.50 pm
US 10-year	1.25%	1.23%
5yr TIPS breakeven	2.58%	2.63%
JPY	110.09	109.88
S&P 500	-0.1%	+0.1%
Nasdaq	+0.5%	+0.8%

Key FOMC Meeting Takeaways

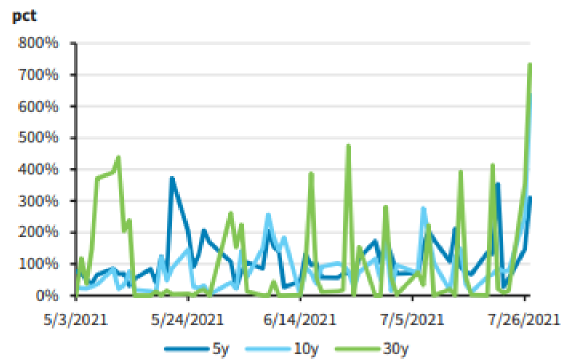
- **Policy Rates:** FOMC kept its benchmark interest rate unchanged in the 0-0.25% range, in a unanimous vote and in line with expectations
- **Asset Purchases:** The policy statement was rephrased to note that FOMC had pledged in December to continue asset purchases at a $120 billion monthly pace until "substantial further progress" had been made. Chair Powell noted that there was a deep dive in terms of discussing the timing and composition of tapering, but there is no update in terms of the timing.
- **Inflation and Unemployment:** Chair Powell indicated in the press conference that inflation is expected to remain higher than target over the near term and come back gradually as the transient (reopening) pressures wane off. The discussion also highlighted that the Fed's full employment mandate will also play a significant role before taking any decisive policy actions.
- **Repo facilities:** FOMC also announced the establishment of permanent repo facilities – domestic and foreign - to support the effective implementation of monetary policy and act as a backstop in money markets. The domestic facility will be worth $500 bn starting tomorrow and with a minimum bid rate of 25 bps. Counterparties for domestic operations will include primary dealers and will be expanded over time to include additional depository institutions.

The infrastructure bill got a major push forward with the Senate voting to begin work on a $550 bn bill. Bloomberg also noted that democratic leaders are working on a broader budget resolution. The twinned proposals, if passed, could set the stage for $4.1 tn in new spending.

Economic data released this morning remained on the weaker side, with initial market reaction taking risk-off tone. US GDP growth for 2Q was reported at 6.5% (annualized q/q) significantly underperforming the consensus expectations of 8.5% and was broadly in line with Q1 (6.4%). Personal consumption grew by 11.8% ahead of market expectations of 10.5% growth. Trade, government spending and resident investment weighed on the growth**. Initial jobless claims for the week were reported at 400k**, declining from last week's print of 419k but more than the market expectations of 385k. Continuing claims rose marginally wow to 3.27 mn (vs 3.23 mn last week).

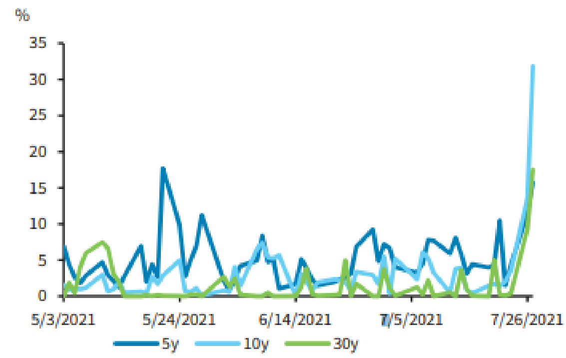
Real-time SDR data shows early signs that "SOFR First" has played an important role in boosting the SOFR derivatives market, per Barclays analysts. On July 26th, 2021, the USD derivatives market adopted a "SOFR First" convention for inter-dealer broker (IDB) trades, applying to swaps, swap spreads, and curve trades. The CFTC's Market Risk Advisory Committee also recently announced that the SOFR First date for cross-currency swaps is expected to be September 21st. SOFR OIS volumes in 5y and up tenors on Tuesday were several multiples of their June daily averages (left chart). This is also reflected in the right chart that shows that the ratio of SOFR OIS volumes, as a percent of the LIBOR volumes rose to almost 30 percent (vs less than 10 percent earlier).

FIGURE 1. **SOFR OIS volumes in 5y and up tenors on Tuesday were several multiples of their June daily averages**



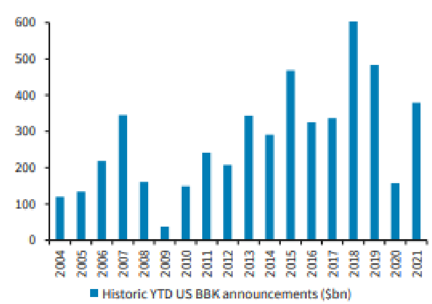
Source: DTCC, Barclays Research

FIGURE 2. **Ratio of SOFR fixed/floating OIS volumes to Libor fixed/floating volumes; SOFR share spiked**

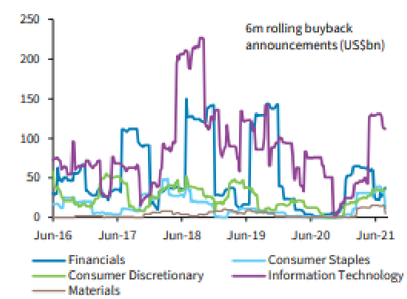


Source: DTCC, Barclays Research

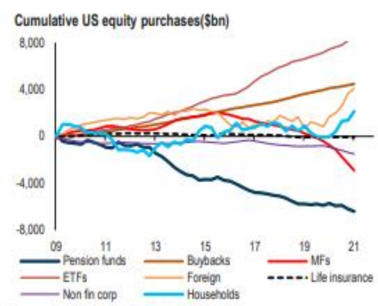
Buyback announcements have come back strongly in the US this year, recovering from the subdued buyback activity in 2020 due to the pandemic. This is primarily driven by the tech sector, while other sectors have seen subdued activity. Analysts also highlight that over the past decade, buybacks have been the second main source of demand for equities in the US after retail money.



Source: Bloomberg, Barclays Research



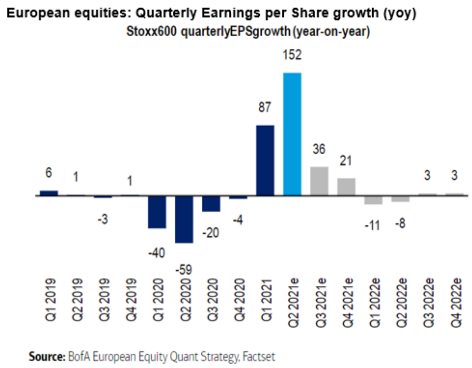
Source: Bloomberg, Barclays Research



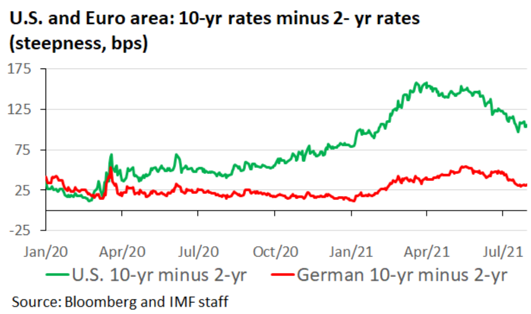
Source: Fed, Datastream, Barclays Research

Euro area

Equities (+0.5%) traded higher as companies have been beating earnings expectations. Bank of America calculates that 63% of companies have beaten expectations earnings per share and 67% have beaten sales expectations. **This quarter is on track to be the third best season in terms of EPS beats on record and the best in terms of sales beats since Q2 2009 for European stocks.** Consensus expects EPS growth of 152% yoy for 2021Q2 (up from 87% in Q1), fading to 36% yoy in Q3 and 21% yoy in Q4. Bank stocks (+2.4%) outperformed today.



10-yr bund yields (+2 bps at -0.43%) and the euro (+0.3%) edged higher after global risk sentiment improved, euro area economic confidence rose to a new high of 119.0 (118.2) and CPI data of German states indicate some upside risk to German CPI later today and euro area CPI numbers tomorrow. **The German yield curve has not flattened any further in recent weeks.** Italian and Spanish 10-yr spreads over bunds were little changed.



Japan

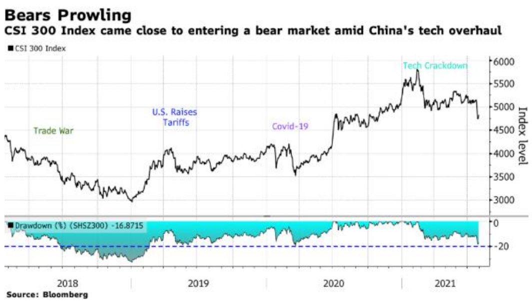
The JGB yield curve flattened following the Fed's reassurance of gradual tapering; short-dated yields stable (10-year: little changed) and longer-end yields down (30-year: -0.9 bps). Analysts noted that there is little scope for 10-year JGB yields to fall further; hence, buying shifted to the longer end of the curve. Equities gained (NIKKEI: +0.7%), similar to the regional trend, with sentiment also being boosted by a rebound of Chinese equities. The Japanese yen appreciated (+0.1%).

Emerging Markets back to top

Asian equities gained, +3.1% on net, led by Hong Kong (+3.3%), China (CSI 300: +1.9%) and Taiwan (+1.6%) equities. Asian equities rallied after the Fed's reassurance of gradual tapering. Malaysian stocks underperformed (-0.2%), with investors cautious about the political development during the special parliament meeting today. Asian currencies appreciated, led by the Korean won (+0.7%) and Chinese yuan (+0.4%). Meanwhile, the Malaysian ringgit depreciated (-0.1%). Long-end government bond yields generally declined, with 10-year yields falling in China (-3.2 bps) and Singapore (-2.4 bps), following the decline in U.S. treasury yields. **EMEA bourses followed Asian and European peers higher after the Fed's announcement yesterday**, with sizeable gains in Turkey (+1.7%), South Africa (+1.6%), Hungary (+1.2%), and Kuwait (+0.6%). Currencies across the region also gained to the dollar by about 0.5% to 0.8%, with the largest move being in the Hungarian zloty (+0.8%). **Latin American assets saw a positive day**. Apart from lower Colombian stocks (-0.5%), equities advanced (up to +1.3% in Brazil and Argentina) and currencies appreciated (Brazil +1%, Chile +0.8%) across the region. Investors reacted with reservation to the inaugural speech of Peru's new president Castillo in which he promised a crackdown on monopolies, the renegotiation of free trade deals and increased spending. Peru's hard currency spreads rose 3 bps.

China

Chinese equities rebounded strongly after authorities calmed investors' fear about the regulatory clampdown. China Securities Regulatory Commission held a conference call with executives of major investment banks, conveying a message that education policies were not intended to hurt firms in other industries. Local state-run media also said that the stock market rout was overdone. Chinese equities rose (CSI 300: +1.9%; Hang Seng China Enterprises: +3.8%). **The People's Bank of China (PBC) injected liquidity of 20 bn yuan ($3.1 bn) via OMO today.** While PBC's liquidity injection helped support market sentiment, some analysts saw this as steps to ensure sufficient interbank liquidity towards month-end. Interbank repo rates dropped (overnight: -42.1 bps; 7-day: -10.2 bps). **China will raise export tariffs for some steel products from August.** While the official statement said that the tariff hikes aim to push an industry upgrade, analysts viewed this differently—the tariff hikes are for capping domestic production as part of decarbonization efforts and taming surging commodity prices. **Evergrande continues to show signs of a cash crunch,** with its suppliers increasingly publicizing Evergrande's overdue payments. Its share price declined modestly (-0.2%).



Mexico

Moody's downgraded Pemex's rating from Ba2 to Ba3, deeper into non-investment grade territory. The decision was motivated by high liquidity risk and increasing business risks. Moody's expects that Pemex's investments into its refining capacity will generate an additional drag on its already negative free cash flow. The company's CEO condemned the decision as unprofessional. Pemex's hard currency bond due in 2050 reacted initially with spreads up to 15 bps wider in early trading but quickly reversed and closed 15 bps tighter on the day.

Ecuador

A debt dispute with Perenco weighed on Ecuador's dollar debt. Ecuador's dollar bonds due in 2040 dropped by up to 0.5 cents on the dollar and the country's 5-year CDS spread increased by 16 bps, as the country has yet to pay the $391 mn awarded to the oil company Perenco in an arbitration of a dispute over asset seizures, and instead requested a payment extension.

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Global Financial Indicators

Last updated: 7/29/21 8:34 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		4398	0.0	1	2	35	17
Europe		4125	0.5	2	0	25	16
Japan		27782	0.7	1	-4	24	1
China		3412	1.5	-5	-5	4	-2
Asia Ex Japan		88	2.8	-3	-7	16	-2
Emerging Markets		52	2.7	-3	-7	17	0
Interest Rates					basis points		
US 10y Yield		1.25	1.7	-3	-22	68	34
Germany 10y Yield		-0.45	0.5	-2	-28	5	12
Japan 10y Yield		0.02	0.1	0	-4	0	0
UK 10y Yield		0.58	0.1	1	-16	46	38
Credit Spreads					basis points		
US Investment Grade		89	-0.7	-2	2	-42	-6
US High Yield		333	-1.0	1	19	-207	-47
Europe IG		46	-0.1	-1	0	-13	-2
Europe HY		234	-0.5	0	5	-126	-8
Exchange Rates					%		
USD/Majors		92.04	-0.3	-1	0	-2	2
EUR/USD		1.19	0.3	1	0	1	-3
USD/JPY		109.6	-0.2	0	-1	4	6
EM/USD		56.9	0.5	1	-1	2	-2
Commodities					%		
Brent Crude Oil ($/barrel)		75	0.4	2	0	72	45
Industrials Metals (index)		162	0.8	4	4	44	22
Agriculture (index)		59	0.3	1	6	64	22
Implied Volatility					%		
VIX Index (%, change in pp)		17.6	-0.7	-0.1	1.6	-6.5	-5.2
US 10y Swaption Volatility		76.4	-3.6	-1.6	9.8	26.2	16.3
Global FX Volatility		6.9	0.0	0.1	0.2	-1.4	-1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	-1.5	-4	4	-52	-14
Italy		107	0.0	0	2	-42	-5
Portugal		62	-1.4	0	2	-23	2
Spain		72	-0.5	1	9	-13	10

Emerging Market Financial Indicators

Last updated: 7/29/2021 8:36 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		6.46	0.5	0.2	0	8	1		3.1	-1	-18	4	-22
Indonesia		14483	0.0	0.0	0	0	-3		6.3	-1	-16	-59	21
India		74	0.1	0.2	0	1	-2		6.5	3	3	52	52
Philippines		50	0.1	-0.3	-4	-2	-5		4.4	2	9	69	73
Thailand		33	-0.1	0.1	-2	-4	-9		1.6	-4	-19	23	32
Malaysia		4.24	-0.1	-0.4	-2	0	-5		3.2	3	-6	78	68
Argentina		97	-0.1	-0.3	-1	-25	-13		44.7	29	-28	14	-1142
Brazil		5.08	0.8	2.4	-2	2	2		8.6	31	49	350	306
Chile		758	0.5	-0.5	-4	0	-6		4.5	26	15	190	175
Colombia		3894	0.9	-0.9	-5	-4	-12		6.9	11	8	169	178
Mexico		19.85	0.4	1.4	0	11	0		7.0	4	11	114	142
Peru		3.9	-0.4	0.6	-1	-11	-8		5.5	-11	23	151	186
Uruguay		44	0.1	0.2	-1	-3	-3		7.9	5	5	-116	66
Hungary		301	0.9	0.8	-2	-3	-1		2.3	3	-8	78	73
Poland		3.85	0.8	0.7	-1	-3	-3		1.0	-4	-29	25	40
Romania		4.1	0.3	1.0	0	-1	-4		3.0	-1	21	-68	26
Russia		73.2	0.4	0.6	-1	-1	1		6.8	-11	-16	133	107
South Africa		14.6	1.2	0.8	-2	13	1		9.8	-10	4	-31	11
Turkey		8.50	0.7	0.8	3	-18	-12		17.6	2	36	571	448
US (DXY; 5y UST)		92	-0.3	-0.9	0	-2	2		0.72	0	-17	47	36

	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		4850	1.9	-6	-7	4	-7		214	2	12	-20	-15
Indonesia		6121	0.5	0	2	19	2		192	9	19	-62	-8
India		52653	0.4	0	0	40	10		159	5	15	-80	8
Philippines		6497	0.4	-1	-6	10	-9		122	10	25	-25	10
Malaysia		1513	-0.2	-1	-1	-6	-7		143	4	20	-38	8
Argentina		66553	1.3	1	6	36	30		1584	4	14	-619	228
Brazil		126286	1.3	0	-1	20	6		284	4	33	-66	25
Chile		4172	0.0	-3	-4	5	0		157	5	15	-47	1
Colombia		1243	-0.5	-1	-1	6	-14		287	15	39	16	72
Mexico		51344	0.9	3	2	36	17		358	5	20	-139	1
Peru		18775	0.1	0	-1	6	-10		179	13	18	6	50
Hungary		48287	1.6	1	1	38	15		140	-1	5	-39	-9
Poland		67663	0.5	1	1	30	19		34	-1	0	-1	6
Romania		11845	0.3	0	-1	38	21		195	5	16	-72	-8
Russia		3796	0.4	1	0	30	15		182	3	13	-49	3
South Africa		69568	1.5	3	5	23	17		351	7	33	-168	-33
Turkey		1387	1.9	2	1	22	-6		478	3	19	-145	31
Ukraine		525	0.0	0	-1	5	5		526	15	32	-124	33
EM total		52	1.5	-3	-7	17	0		374	8	19	-45	36

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

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