



- Rise in US interest rates arrested by strong demand for bonds ([link](#))
- Investors want US companies to spend cash on capital expenditures ([link](#))
- Credit spreads in Europe remain very tight ([link](#))
- Authorities ponder debt restructuring for Chinese asset management company ([link](#))
- Greek banks back in the spotlight ([link](#))

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## Virus worries weigh on global markets

**Stocks fell for a second day after Friday's record close for the MSCI All World Equity Index.** Investors fret that optimism may have gone too far as countries such as India, Brazil and Japan struggle with renewed Covid-19 outbreaks. There are widespread calls to cancel the Tokyo Olympics. Sectors such as airlines and cruise companies are under pressure once again on speculation that economies may not reopen as rapidly as previously assumed. On the brighter side, earnings season is doing well with many companies reporting stronger than expected results, while US Treasury yields remain contained. The benchmark US West Texas Intermediate (WTI) oil contract is trading at \$64 exactly one year after it went negative. The dollar is weaker against many major currencies.

Key Global Financial Indicators

Last updated: 4/20/21 8:28 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4163	-0.5	1	6	47	11
Eurostoxx 50		3970	-1.2	0	3	36	12
Nikkei 225		29100	-2.0	-2	-2	51	6
MSCI EM		54	-0.4	2	0	51	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.60	-0.5	-2	-12	99	69
Germany 10y Yield		-0.24	-0.2	6	6	21	33
EMBIG Sovereign Spread		333	-4	-9	-12	-273	-17
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.9	-0.3	1	-1	8	-2
Dollar index, (+) = \$ appreciation		91.1	0.0	-1	-1	-9	1
Brent Crude Oil (\$/barrel)		67.6	0.7	6	5	164	30
VIX Index (% change in pp)		18.4	1.1	2	-3	-25	-4

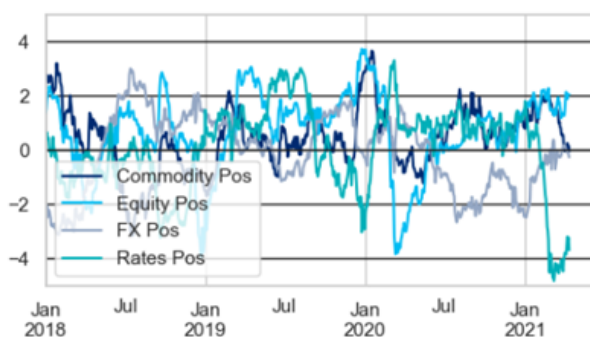
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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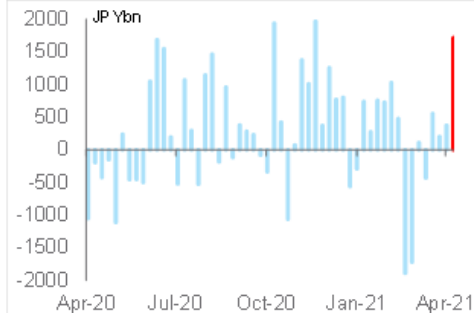
**A multiplicity of factors seems to have halted the recent move to higher US interest rates, pushing Treasury yields to their lowest level in several weeks.** 10-year Treasury yields shot up from 0.92% at the end of 2020 to as high as 1.77% intra-day on March 31 but fell back to 1.53% intra-day last Thursday (it closed at 1.59% yesterday). Interest rate volatility has also reversed. Citi points out that interest rate futures data show that the market has become very short US fixed income, forcing investors to cover their shorts as rates began to reverse their recent increases. With the start of the new fiscal year in Japan, Yen-based investors have already purchased ¥1.7 tn (nearly \$160 bn) of Treasuries this month, which Citi analysis shows to be a two standard deviation move based on a decade of data. In addition, contacts report that investors were not surprised by stronger than expected US data, as investor forecasts greatly exceeded the consensus forecasts from the economics community. Others think the Treasury selloff was overdone, triggering mean reversion trades from hedge funds and other fast money investors. Nevertheless, most agree that rates will soon be moving higher again as the economic rebound continues.

Market still remains very short US fixed income



Source: Citi Research

The Japanese are buying Treasuries in a big way to start the fiscal year



Source: CitiFX, Bloomberg

**Investors want US corporations to use their last cash balances to expand capital expenditure, the latest Bank of America investor survey shows.** This reflects confidence about the economic recovery, in contrast to 2020 when investors wanted companies to repair their balance sheets in order to cope with the heightened uncertainty of the pandemic. Investors know that companies have lowered incentives for share buybacks due to the high level of equity prices, so the most productive use of cash is to take for companies to take advantage of the promising economic circumstances and grow their businesses through expansion.

Figure 7: CIOs continue to want CEOs to invest more capex

What would you most like to see companies do with cash flow?



Source: BofA Global Fund Manager Survey

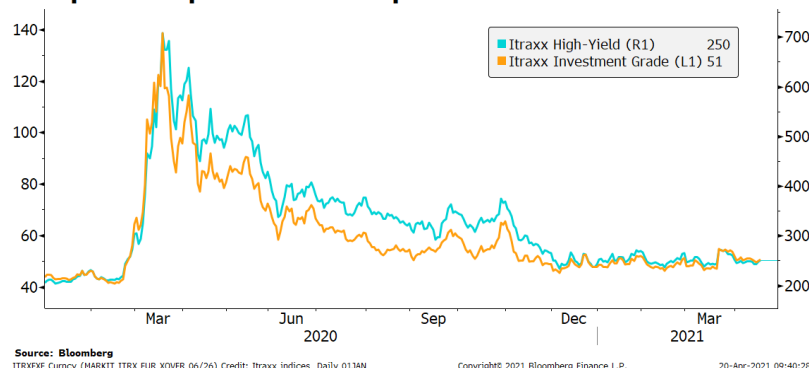
BofA GLOBAL RESEARCH

## Europe

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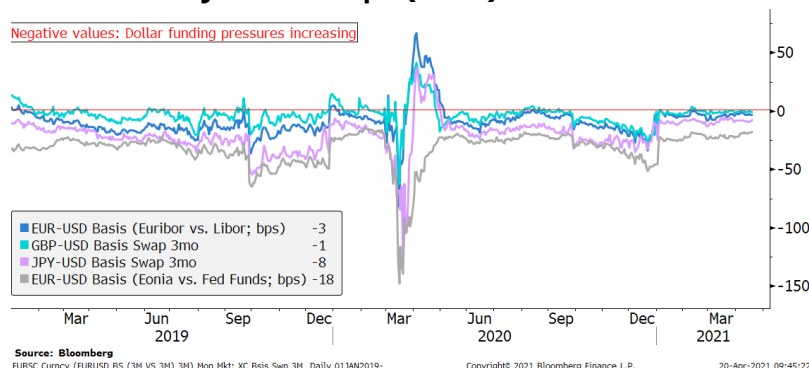
**Corporate credit spreads remain relatively compressed even as European economies have not fully reopened.** The spread on high-yield credit has trailed around 250 bps since end-2020, while investment grade credit has traded at around 50 bps over the same period.

## European Corporate Credit Spreads



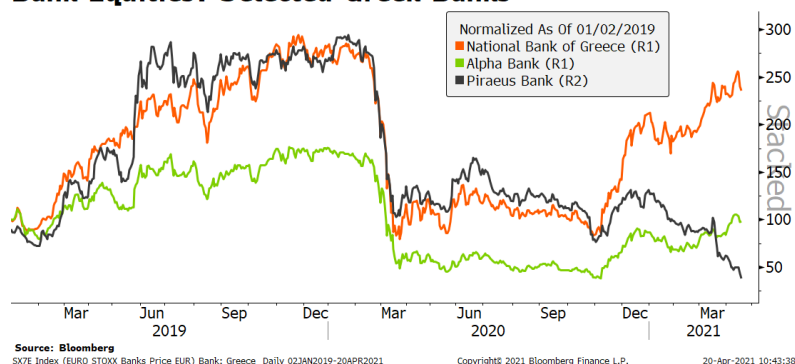
Conditions in **cross-currency money markets** remain stable, with spreads pointing to ample dollar funding conditions.

## Cross-Currency Basis Swaps (3 mo)



**Stocks of Piraeus Bank slumped 30% as the Greek lender undertakes a capital increase** of around €1.2 bn. Around 85% of the new shares—expected to be sold at a price of €1 to €1.5 per share—will be offered to international investors via private placements, with the remaining 15% targeting domestic investors via a public offer.

## Bank Equities: Selected Greek Banks



## Other Mature Markets

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### Australia

**The Reserve Bank of Australia (RBA) minutes reiterated its commitment to keep policy accommodative.** The central bank will maintain the supportive policy stance until actual inflation is sustainably up in the 2% to 3% target range, a goal that it does not expect to meet before 2024. On economic growth, the RBA said that the recovery had been stronger than previously anticipated, and it expects the recovery to continue with sustained above-trend growth in 2021 and 2022. The central bank would also monitor housing borrowing trends and the maintenance of lending standards carefully, given the low interest rate environment and rising house prices. **10-year government bond yield rose +6.6bps, the Australian dollar strengthened +0.7% and equities fell -0.7%.**

### Japan

**Equities fell -1.6% on net, falling the most in almost four weeks, dragged down by electronics and telecommunications.** The Bank of Japan (BOJ) is looking to lower its inflation forecast for the new fiscal year mainly due to price cuts in mobile fees, according to Bloomberg citing Nikkei. Former Finance Minister Jun Azumi said that Japan needs to consider scrapping the Tokyo Olympics and must speed up its vaccine rollout. He added that more than 70% of the public are against holding the Tokyo games. **Separately, investors purchased a record amount of Japan's long-dated sovereign bonds in the fiscal year that ended March.** Net purchases of super-long bonds by both foreign and domestic investors came in at ¥19.5 tn (\$180 bn) in the fiscal year ended March, exceeding the previous record of ¥17.6 tn in 2013, according to Bloomberg citing Japan Securities Dealers Association data.

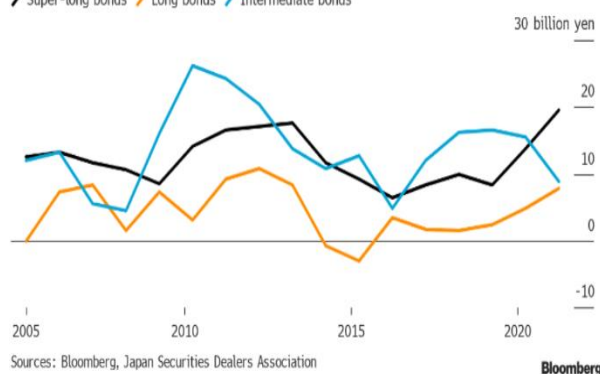
#### Uptrend since November is cracking

■ Tokyo Stock Exchange Tokyo Price Index TOPIX - Last Price



#### Japan's super-long bonds draw record buying in fiscal 2020

▲ Super-long bonds ▲ Long bonds ▲ Intermediate bonds

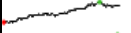
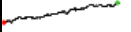














## Emerging Markets

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**Most equity markets were lower as markets pulled back from last week's record closes.** Currencies were mixed, although most Latin American currencies did better versus the dollar yesterday.

## Key Emerging Market Financial Indicators

Last updated: 4/20/21 8:31 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		54.15	-0.2	2	0	51	5
MSCI Frontier Equities		30.75	-0.2	0	4	41	8
EMBIG Sovereign Spread (in bps)		333	-4	-9	-12	-273	-17
EM FX vs. USD		56.89	-0.3	1	-1	8	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.50	0.2	1	0	9	0
Indonesian Rupiah		14498	0.3	1	-1	6	-3
Indian Rupee		74.88	0.0	1	-3	2	-2
Argentine Peso		92.93	-0.1	0	-2	-29	-9
Brazil Real		5.57	-0.3	3	-1	-5	-7
Mexican Peso		19.90	-0.4	1	3	21	0
Russian Ruble		76.86	-0.7	-1	-3	-2	-4
South African Rand		14.32	-0.7	1	3	32	3
Turkish Lira		8.12	-0.3	0	-4	-15	-8
EM FX volatility		9.88	0.0	-0.3	-0.5	-1.5	-0.9

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

## China

**China's central bank kept its loan prime rates (LPR) unchanged, in line with consensus.** The one-year and five-year rates were held steady at 3.85% and 4.65% for a 12<sup>th</sup> straight month. **Chinese regulators are reportedly considering options for Huarong Asset Management Co's offshore unit.** Debt restructuring is among several options under discussion and a decision is far from finalized, according to Bloomberg, citing Reorg Research. The company's dollar bonds fell, with the 5.5% bond maturing in 2025 dropping by 12.3 cents to 75.1 cents on the dollar. Separately, President Xi gave a speech at the Boao Forum for Asia calling for greater global economic integration and said that China would cooperate on the challenges facing the world such as climate change and the pandemic. He also said that the Belt and Road initiative would involve high-quality projects. **The RMB appreciated +0.2% to advance past the CNY6.5/USD level for the first time since mid-March.**

Onshore yuan breaches 50-day and 100-day moving averages in two days

■ Onshore yuan ■ 50-day moving average ■ 100-day moving average



## Indonesia

**Bank Indonesia (BI) kept its policy rate at a record low of 3.5%, as expected.** The seven-day reverse repurchase rate was left unchanged, with the central bank seeking to balance between supporting an uneven economic recovery with foreign outflows pressuring the currency. BI lowered its 2021 growth forecast range to 4.1%-5.1% from 4.3%-5.3% previously. BI Governor Warjiyo said that global financial

market uncertainties will continue to affect the rupiah, and the central bank will continue to implement various stabilization measures for the currency, so that it is in check with its fundamentals, according to Bloomberg.

#### Indonesian rupiah weakens to five-month low as U.S. yields rise



#### Kenya

**Kenya seeks an external advisor on its sovereign debt.** The announcement came as a surprise to market participants and external bonds come briefly under pressure, trading 20 bp higher on the day, before recovering as the public debt management office clarified that the discussion relates to refinancing of some of the existing bonds with longer-dated commercial loans. Contacts note that market participants remain nervous about fiscal developments especially relating to state-owned enterprise debt and high interest costs.

#### Peru

**Local markets took a hit as surveys showed left-leaning candidate, Pedro Castillo, leading in the presidential election.** Ahead of the June 6<sup>th</sup> presidential run off, Pedro Castillo has 42% of the vote, according to the IPSOS survey. This is an 11% lead over the next most favored candidate, Keiko Fujimori. Equities and the currency slid 3.3% and 1.1%, respectively, while the USD sovereign yield curve was up 5-29 bps across tenors, on Monday.



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## Global Financial Indicators

Last updated: 4/20/21 8:30 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4160	-0.5	0	6	47	11
Europe		3970	-1.2	0	3	36	12
Japan		29100	-2.0	-2	-2	51	6
China		3473	-0.1	2	2	23	0
Asia Ex Japan		94	-0.3	1	-1	49	5
Emerging Markets		54	-0.4	2	0	51	5
<b>Interest Rates</b>			basis points				
US 10y Yield		1.60	-0.5	-2	-12	99	69
Germany 10y Yield		-0.24	-0.2	6	6	21	33
Japan 10y Yield		0.09	0.2	-2	-2	7	7
UK 10y Yield		0.76	0.1	-2	-8	42	56
<b>Credit Spreads</b>			basis points				
US Investment Grade		96	0.5	5	-2	-96	1
US High Yield		336	1.0	-1	-27	-390	-44
Europe IG		51	0.8	-1	-4	-34	3
Europe HY		252	5.5	3	-19	-253	11
<b>Exchange Rates</b>			%				
USD/Majors		91.08	0.0	-1	-1	-9	1
EUR/USD		1.20	0.1	1	1	11	-1
USD/JPY		108.4	0.2	-1	0	1	5
EM/USD		56.9	-0.3	1	-1	8	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	0.7	6	5	164	30
Industrials Metals (index)		149	0.3	3	2	55	12
Agriculture (index)		54	1.3	5	4	53	12
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.4	1.1	1.7	-2.6	-25.4	-4.4
US 10y Swaption Volatility		81.0	3.3	4.1	-3.4	2.5	20.9
Global FX Volatility		7.3	0.0	0.0	-0.5	-2.2	-0.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		116	0.8	-5	-6	-158	-4
Italy		104	1.1	0	8	-135	-8
Portugal		66	1.1	8	13	-84	6
Spain		66	0.6	-2	1	-68	4

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



## Emerging Market Financial Indicators

Last updated: 4/20/2021 8:32 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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.50	0.2	0.7	0	9	0		3.3	-1.1	-5	-10	78	-3
Indonesia		14498	0.3	0.7	-1	6	-3		6.5	-3.3	-4	-30	-130	46
India		75	0.0	0.7	-3	2	-2		6.4	-1.5	3	-10	-11	43
Philippines		48	0.1	0.5	1	5	-1		4.1	1.5	19	27	-99	41
Thailand		31	-0.2	0.7	-1	4	-4		1.9	-1.4	-2	-12	36	58
Malaysia		4.12	0.2	0.5	0	6	-2		3.2	-1.3	1	-11	30	65
Argentina		93	-0.1	-0.4	-2	-29	-9		46.5	20.5	74	74	-517	-966
Brazil		5.57	-0.3	2.7	-1	-5	-7		7.9	-11.8	-33	23	223	236
Chile		700	0.2	1.2	2	22	1		3.4	1.7	2	18	25	65
Colombia		3613	-0.3	1.3	-2	10	-5		6.2	-0.2	-12	-3	-19	108
Mexico		19.90	-0.4	1.0	3	21	0		6.5	3.2	-7	2	-38	94
Peru		3.7	-1.1	-1.5	1	-7	-2		4.8	10.3	18	35	31	124
Uruguay		44	-0.1	-0.2	1	-2	-4		7.4	-0.1	-5	2	-502	12
Hungary		300	0.0	0.2	2	8	-1		2.0	0.5	-11	-10	27	43
Poland		3.78	0.1	1.1	2	10	-1		0.9	2.4	-3	0	-18	24
Romania		4.1	0.0	0.6	0	9	-3		2.6	-6.0	-1	-4	-153	-11
Russia		76.9	-0.7	-1.1	-3	-2	-4		6.8	6.3	-20	2	66	104
South Africa		14.3	-0.7	1.3	3	32	3		9.8	0.9	-23	-34	-84	20
Turkey		8.12	-0.3	0.0	-4	-15	-8		17.4	-4.2	-39	283	393	430
US (DXY; 5y UST)		91	0.0	-0.8	-1	-9	1		0.83	0.2	0	-5	49	47

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5083	-0.1	3	2	33	-2		199	0	-2	-9	30	-9
Indonesia		6038	-0.2	2	-5	34	1		158	0	-9	-25	-5	-29
India		47706	-0.5	0	-4	56	0		164	1	1	10	-154	13
Philippines		6500	0.6	1	1	16	-9		83	0	-9	-17	13	-22
Malaysia		1608	0.5	1	-1	16	-1		113	0	-2	-3	9	3
Argentina		48026	0.0	0	-2	57	-6		1459	0	19	8	-570	91
Brazil		120934	0.0	2	4	53	2		253	0	0	-16	58	3
Chile		4970	0.0	1	2	33	19		126	0	-6	-16	-14	-18
Colombia		1313	0.0	0	-1	11	-9		207	0	-4	-15	44	2
Mexico		48073	0.0	2	2	39	9		348	0	-9	-34	55	-12
Peru		20484	0.0	-4	-8	40	-2		133	0	-4	-3	22	1
Hungary		42183	-0.5	-2	-4	28	0		65	0	-6	-15	-42	-31
Poland		59287	-0.8	0	3	30	4		-22	0	-4	-11	-54	-21
Romania		11117	0.1	0	2	40	13		183	-11	0	-6	-165	-20
Russia		3565	-0.2	1	3	41	8		159	0	-5	-3	19	-7
South Africa		67521	-0.8	1	2	38	14		357	0	-4	-35	25	-23
Turkey		1375	-0.2	0	-10	39	-7		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	-0.2	2	0	51	5		421	0	17	-10	97	128

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