GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, APRIL 22, 2021

- **The yield pickup of US Treasuries for foreign investors is the highest in five years** (link)
- **Credit Swiss shares fall as lender announces $2 bn capital increase** (link)
- **ECB maintains its policy parameters unchanged, as expected** (link)
- **Bank of Canada announces reduction in asset purchases** (link)
- **Malaysia issues world's first sovereign USD Sustainability Sukuk** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets cautious on virus concerns

European bourses were modestly higher this morning and US equity futures were mixed as optimism about corporate earnings was tempered by a resurgence of virus cases in some parts of the globe. Positive earnings supported European stocks higher, with Nestle reporting that sales grew more than twice the rate that analysts expected. Japanese stocks recovered led by the tech sector, despite news that Tokyo's governor made a request of a reimposition of a state of emergency on Thursday. Sovereign bond yields were modestly higher across the major advanced economies with investors focused on monetary policy decisions in Canada and the euro-area. The Bank of Canada took a big step towards monetary policy normalization, announcing a reduction in weekly asset purchases yesterday. This morning, investors were focused on the ECB, which maintained its policy parameters unchanged as expected. Remarks by president Lagarde will be carefully scrutinized later this morning for clues about the future direction of policy.

Key Global Financial Indicators

Last updated: 4/22/21 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4173	0.9	1	6	49	11
Eurostoxx 50		4005	0.7	0	4	41	13
Nikkei 225		29188	2.4	-2	1	50	6
MSCI EM		54	0.6	1	0	51	5
Yields and Spreads				bps			
US 10y Yield		1.58	2.1	0	-12	96	66
Germany 10y Yield		-0.25	1.6	4	7	16	32
EMBIG Sovereign Spread		341	0	-1	-5	-297	-10
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		56.8	0.0	0	0	8	-2
Dollar index, (+) = $ appreciation		91.1	0.0	-1	-1	-9	1
Brent Crude Oil ($/barrel)		65.0	-0.4	-3	1	219	26
VIX Index (%, change in pp)		17.4	-0.1	1	-2	-25	-5

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

United States

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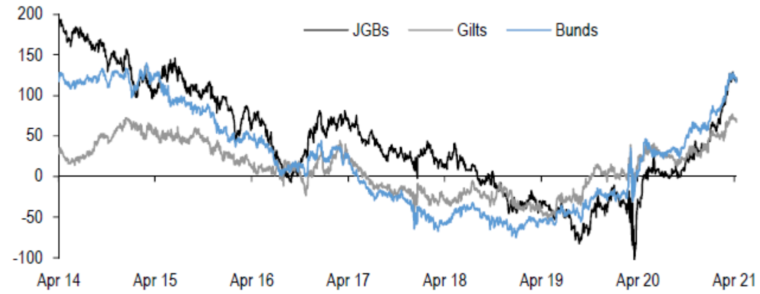
US equities rebounded on Wednesday, recovering from some of the losses over the last two days. The gains were broad-based, including small caps, but the communication sector underperformed, with Netflix shares falling 7.5% on weaker than expected subscriber growth. Treasury yields were slightly higher across the curve. Demand for the 20-year Treasury auction was strong, on the back of pension funds rebalancing their portfolios towards Treasuries and away from stocks together with expectations for robust demand from overseas.

The FX-hedged yield pickup of US Treasuries over other advanced economy government bonds is at its highest in more than five years. For non-dollar-funded private investors, the yield pickup achieved by selling home currency sovereign bonds and buying Treasuries, when combined with a short-term FX hedge, is currently at its highest levels since 2015, according to JP Morgan. Analysts believe that this backdrop supports improved foreign demand over the balance of this year, particularly from private investors.

Exhibit 12: The FX-hedged yield pickup of Treasuries over local government bonds is at its highest levels in more than 5 years

Yield pickup from selling 10-year JGBs, Gilts, or Bunds and buying 10-year Treasuries, adjusted for 6-month FX hedge; bp



Source: J.P. Morgan

Europe

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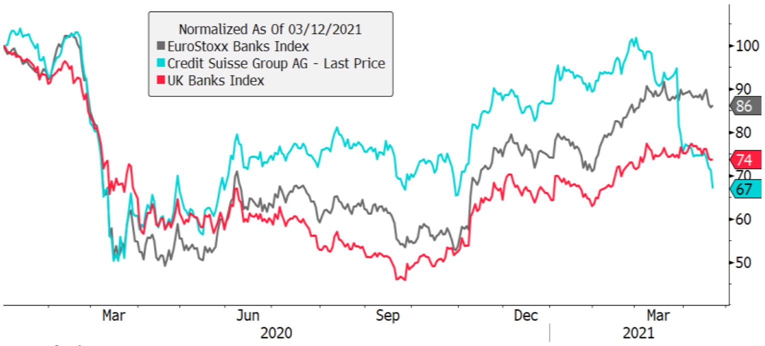
Equity markets advanced about 0.7% on the back of positive corporate earnings. The DAX (+0.6%), CAC 40 (+0.8%), EuroStoxx 600 (+0.6%), Italy's Titans 30 (+1.1%), and Spanish Ibex (+0.5%) gained this morning. Nestle (+3%) reported that sales grew more than twice the rate that analysts expected. Bank stocks (+0.5%) performed on the weak side of the spectrum, dragged down by Swiss lenders Credit Suisse (-6.4%) and UBS (-1.0%).

Credit Suisse (-6.4%) announced plans to raise $1.9 bn in fresh capital as it reels from its recent Archegos and Greensill losses. The move is aimed at boosting the lender's balance sheet and bring its CET1 capital ratio from 12.2% to 13%. Credit Suisse (CS) has recently announced net results of about -$830 mn after it had to write down losses of $4.8 bn related to exposures to Archegos. Swiss regulator, FINMA, has launched an 'enforcement proceedings' into the issue. Contacts note that investors will scrutinize CS's restructuring plans and conversations with various regulators in coming months. CS shares had outperformed peers throughout the post-Covid recovery starting in March 2020 but plummeted about 30% due to Greensill and Archegos losses.

Selected Equity Prices

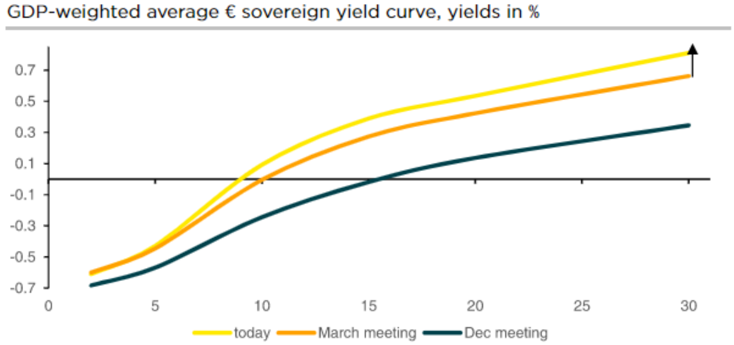


Source: Bloomberg

The ECB left policy parameters unchanged today, as expected, and "reconfirmed its very accommodative monetary policy stance"** on its website. The Bank kept interest rates on its main refinancing operations, marginal lending facility, and deposit facility at 0.00%, 0.25% and -0.50%, respectively. It further added that it expects these rates to remain at their present or lower levels until the inflation outlook "robustly converges to a level sufficiently close to, but below, 2%." Asset purchases will continue under the pandemic emergency purchase program (PEPP) with a total envelope of €1,850 bn until at least the end of Mar 2022. The ECB statement added that it expects PEPP purchases "over the current quarter to continue to be conducted at a significantly higher pace than during the first months of the year." The euro (+0.1%) traded stable after the announcement and sovereign yields inched up 1 bps across countries. Remarks by president Lagarde will be carefully scrutinized later this morning for clues about the future direction of policy. Analysts at Commerzbank noted that despite an acceleration of ECB asset purchases recently, the euro sovereign YC has "bear-steepened", consistent with higher inflation expectations.

"Warranted tightening"?

GDP-weighted average € sovereign yield curve, yields in %



Source: Bloomberg, Commerzbank Research

A new poll shows that 53% of respondents would vote against Scottish independence. The figure compares to around 47% in support of a break-away from Great Britain. The latest results compare with a 49% support for independence a few months ago. **The pound (-0.1%) was largely unchanged at $1.39.**

Other Mature Markets

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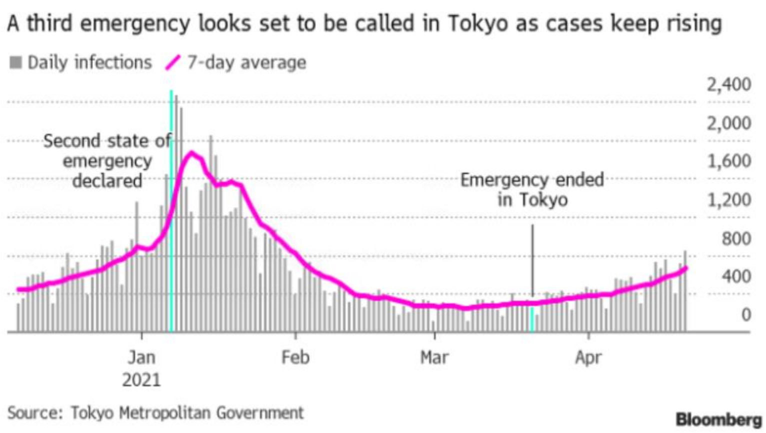
Canada

The Bank of Canada (BoC) took a big step towards monetary policy normalization, announcing a reduction in weekly asset purchases to CAD3 bn per week from the current pace of CAD4 bn, effective the week of April 26. The BOC's hawkish turn was in response to a stronger than expected recovery from the pandemic. The growth forecast for 2021 was revised up, with the central bank hinting that they could raise the policy rate as early as next year, versus previous guidance pointing to no hike before 2023.

Investors had expected some form of tightening before the meeting, but the decision seemed to be the on the hawkish side of the expected range. Some analysts discussed the BoC's decision to taper and compared it to the US Fed's current stance. First, analysts see far less concern about low inflation from the BoC than the extent they see from the Fed. Second, the BoC has shown a tendency to tighten first in the past. Finally, a greater risk of overheating in the housing market provides the BoC with another reason to tighten policy first. 5-year Canadian government bond yields rose by 6 bps to 0.98% and the Canadian dollar strengthened by 1% following the announcement. Canadian equities were up 0.5%, but underperformed US equities.

Japan

Equities rose +1.5%, led by tech. The Bank of Japan (BOJ) bought ¥70.1 bn ($0.7 bn) of exchange-traded funds (ETF) yesterday, marking the first purchase since March. The virus task force will hold a meeting on Friday, at which the measures and related details could be announced. **Tokyo's governor already made a request of a reimposition of a state of emergency on Thursday**, according to news reports. **The Financial Services Agency is still examining potential lapses in risk management at three Japanese financial institutions (Nomura Holdings Inc, Mitsubishi UFJ Financial Group and Mizuho Financial Group), which were hit by losses linked to a New York-based family office.** The regulator has yet to reach a conclusion on the issue and has not decided whether remedial action will be required, according to Bloomberg. However, the negative impact will not be big enough to threaten the health of the Japanese financial system, according to earlier comments by FM Aso. **The yen and JGB yields were little changed.**



Emerging Markets

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Asian equities rebounded by +0.3% following yesterday's sharp drop. North Asia was mixed, as seen in China (Shanghai -0.2; Shenzhen +0.5%) while Hong Kong SAR (+0.5%) and Korea (+0.2%) rose and Taiwan Province of China (-0.6%) fell. In South Asia, Singapore (+0.9%) outperformed and India (+0.6%) rebounded after two days of losses this week. **Regional currencies were largely stronger, including the Indian rupee (+0.7%),** which recovered after three consecutive days of losses**.** India, which has the world's second largest COVID-19 outbreak, registered global record daily infections of around 315k**.** Foreign investor sentiment had deteriorated as a result, with global funds net selling $716 mn of Indian stocks in April after a six-month buying spree, according to Bloomberg. **EMEA equities traded mostly higher** with stocks up in the UAE (+1.0%), Poland (+0.9%) and Turkey (+0.9%), where equities recovered after trading 1.5% lower on Istanbul market open. **EMEA currencies were trading mixed** with the Turkish lira (-1.0%) and the Hungarian forint (-0.4%) depreciating while the Russian ruble appreciated (+0.7%) with contacts reporting month-end tax related inflows from exporters. **LATAM markets were mixed.** Equities in Chile closed lower (-0.9%), as the country moved closer to passing a bill to levy a one-time wealth tax (2.5%) and an increase corporates tax rate (from 27% to 30%). According to a Bloomberg report, these taxes are expected increase the tax revenues by $5.7 bn. and would only partially fund the $15 bn social spending undertaken during COVID-19. Equity markets in Argentina (+1.5%), Mexico (+0.7%) and Peru (+0.5%) were up on Wednesday. Most major regional currencies closed marginally higher, except the Peruvian sol which depreciated another 0.5%.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/22/21 8:12 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		54.04	0.0	1	0	51	5
MSCI Frontier Equities		30.96	0.5	1	4	40	9
EMBIG Sovereign Spread (in bps)		341	0	-1	-5	-297	-10
EM FX vs. USD		56.82	-0.1	0	0	8	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.49	0.0	0	0	9	1
Indonesian Rupiah		14520	0.1	1	-1	6	-3
Indian Rupee		74.95	0.7	0	-3	2	-3
Argentine Peso		93.03	-0.1	0	-2	-29	-10
Brazil Real		5.55	0.3	1	-1	-2	-6
Mexican Peso		19.93	-0.1	0	3	23	0
Russian Ruble		75.73	1.3	1	-1	0	-2
South African Rand		14.29	-0.3	-1	3	33	3
Turkish Lira		8.27	-0.9	-3	-6	-16	-10
EM FX volatility		9.95	0.0	0.0	-1.4	-1.8	-0.8

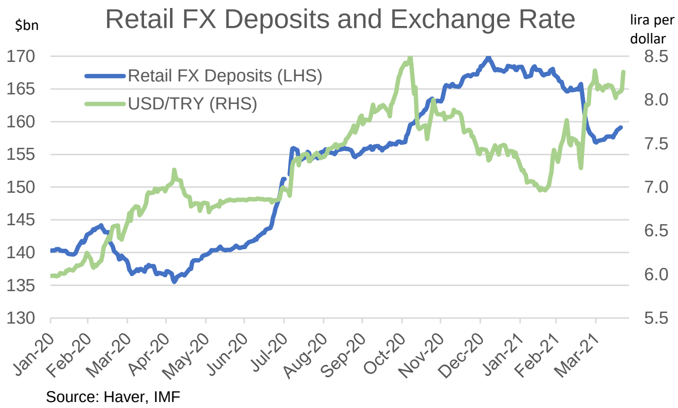
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Southeast Asia Bond Issuance

Malaysia, Philippines and Indonesia are tapping offshore sovereign bond markets. Malaysia successfully priced the world's first sovereign USD Sustainability Sukuk via the issuance of $800 mn 10-year Trust Certificates, according to the Ministry of Finance. In addition, the government also successfully issued $500 mn 30-year Trust Certificates. Demand for the offering was strong, with oversubscription of 6.4x and the government therefore upsized the issuance to $1.3 bn from $1 bn. The strong demand also resulted in the lowest ever yield and spread for a USD sukuk issuance by Malaysia, with the 10-year and 30-year Trust Certificates priced at 2.07% and 3.08%, respectively. The proceeds will be used for eligible social and green projects aligned to the United Nation's Sustainable Development Goals agenda. Separately, **Philippines returned to the euro bond market for the first time in more than a year** on Wednesday, raising €2.1 bn ($2.5 bn). This was done through a three-part note offering, maturing in 4-, 12- and 20 years, and proceeds will be used partly for the budget, according to Bloomberg. Lastly, **Indonesia is considering a sale of yen-denominated bonds as early as May**, according to Bloomberg. The country last sold ¥100 bn of Samurai bonds in July 2020.

Turkey

The Turkish lira depreciated on market participants concerns about deteriorating relations with the US. The lira weakened by 1% this morning, with contacts noting thin market liquidity and limited appetite to sell dollars from both local and international dealers. The dollar selling by local retail investors has now abated while there has been very limited recovery of flows by international investors with contacts noting some activity in short-term government debt. Long-term government local bonds continue to trade at distressed yield levels. After yesterday's remarks around usage of central bank reserves to support the lira, contacts noted that investor hopes for a rebuilding of foreign currency buffers was further diminished, which also weighed on market sentiment.

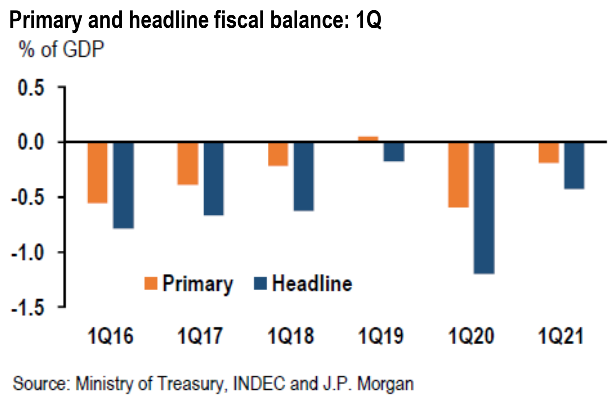


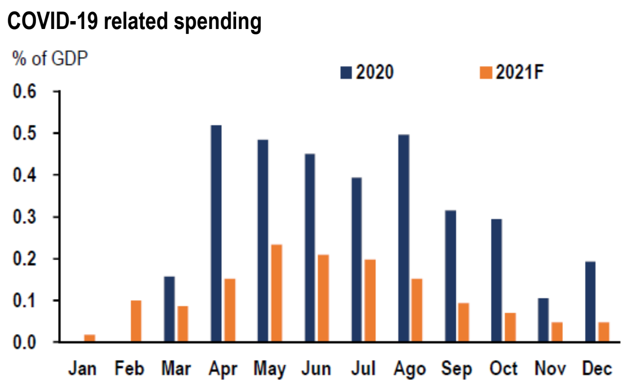
Hungary

The debt management agency (AKK) issued a forint denominated green bond, which attracted strong investor demand. The 30-year note saw HUF 141bn of investor demand with AKK increasing the issue size to HUF 30 bn from the HUF 20 bn initially announced. The government plans to place a total of HUF 90 bn of local green bonds this year. Contacts were surprised by the strong demand given the limited domestic investor base for long-dated securities and relatively illiquid nature of the bond for non-resident investor participation.

Argentina

March fiscal deficit prints were lower than expected. Driven by continued growth in tax revenues, the country's primary fiscal deficit for the month of March was reported at ARS 74.5 bn. This takes the 1Q2021 primary fiscal deficit to ARS 69 bn (vs ARS 156 bn in 1Q2020) or -0.2% of GDP. While the 1Q2021 primary deficit data are better than expected, analysts warned higher social and economic subsidies induced by a second wave of COVID-19 infections pose risks going forward. Argentinean stocks (+1.5%) outperformed and the peso was little changed to the dollar yesterday.





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Global Financial Indicators

Last updated: 4/22/21 8:14 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4172	0.9	0	6	49	11
Europe		4005	0.7	0	4	41	13
Japan		29188	2.4	-2	1	50	6
China		3465	-0.2	2	2	22	0
Asia Ex Japan		94	0.5	0	-1	49	4
Emerging Markets		54	0.6	1	0	51	5
Interest Rates					basis points		
US 10y Yield		1.58	2.1	0	-12	96	66
Germany 10y Yield		-0.25	1.6	4	7	16	32
Japan 10y Yield		0.07	-0.8	-2	-1	7	5
UK 10y Yield		0.75	0.7	1	-7	42	55
Credit Spreads					basis points		
US Investment Grade		95	-0.3	3	-3	-102	0
US High Yield		339	-1.3	5	-19	-421	-40
Europe IG		51	0.1	1	-4	-34	3
Europe HY		252	-0.1	7	-20	-254	9
Exchange Rates					%		
USD/Majors		91.11	0.0	-1	-1	-9	1
EUR/USD		1.21	0.1	1	1	11	-1
USD/JPY		108.2	0.1	-1	-1	0	5
EM/USD		56.8	0.0	0	0	8	-2
Commodities					%		
Brent Crude Oil ($/barrel)		65	-0.4	-3	1	219	26
Industrials Metals (index)		149	0.0	0	2	58	12
Agriculture (index)		56	1.0	5	8	58	16
Implied Volatility					%		
VIX Index (%, change in pp)		17.4	-0.1	0.8	-1.5	-24.6	-5.4
US 10y Swaption Volatility		76.0	-3.0	1.8	-8.4	-7.5	15.9
Global FX Volatility		7.4	0.0	0.1	-0.6	-2.3	-0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		116	-0.1	-3	-6	-183	-3
Italy		103	1.6	1	7	-145	-8
Portugal		66	0.2	-1	13	-102	6
Spain		66	0.3	-1	1	-89	4

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

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Emerging Market Financial Indicators

Last updated: 4/22/2021 8:12 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		6.49	0.0	0.5	0	9	1		3.2	-0.4	-4	-11	75	-4
Indonesia		14520	0.1	0.7	-1	6	-3		6.5	-1.5	-13	-33	-125	43
India		75	0.7	0.0	-3	2	-3		6.4	0.0	3	-11	2	43
Philippines		48	0.1	0.1	0	5	-1		4.1	1.3	9	30	-94	45
Thailand		31	-0.1	-0.6	-2	3	-4		1.9	1.9	-2	-13	44	57
Malaysia		4.11	0.2	0.3	0	6	-2		3.2	-0.1	-2	-10	33	65
Argentina		93	-0.1	-0.4	-2	-29	-10		46.6	4.1	56	82	-380	-958
Brazil		5.55	0.3	1.1	-1	-2	-6		8.1	0.0	-24	37	255	250
Chile		697	0.0	1.6	3	23	2		3.5	2.6	-9	23	45	71
Colombia		3628	0.3	0.8	-2	12	-6		6.2	3.0	-5	2	-33	113
Mexico		19.93	-0.1	0.0	3	23	0		6.7	0.4	8	15	-34	107
Peru		3.7	-0.5	-2.1	0	-9	-3		5.0	12.0	26	49	36	138
Uruguay		44	0.0	-0.1	0	-2	-4		7.4	2.1	1	4	-501	13
Hungary		302	-0.2	-0.5	2	9	-2		2.0	0.4	-4	-8	22	45
Poland		3.78	0.1	0.6	2	11	-1		0.9	1.6	6	5	-6	29
Romania		4.1	0.0	0.6	0	9	-3		2.6	-1.0	-6	-5	-155	-12
Russia		75.7	1.3	0.9	-1	0	-2		6.8	-2.9	-1	1	63	104
South Africa		14.3	-0.3	-0.8	3	33	3		9.9	1.5	-5	-32	-82	22
Turkey		8.27	-0.9	-3.0	-6	-16	-10		17.7	12.0	3	310	607	457
US (DXY; 5y UST)		91	-0.1	-0.7	-1	-9	1		0.81	1.3	-1	-5	44	45

	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		5089	-0.2	3	2	33	-2		199	0	-2	-9	30	-9
Indonesia		5994	0.0	-1	-4	30	0		158	0	-9	-25	-5	-29
India		48081	0.8	-1	-4	51	1		169	1	-1	15	-154	18
Philippines		6416	-0.4	-2	0	15	-10		83	0	-9	-17	13	-22
Malaysia		1608	0.7	0	1	16	-1		113	0	-2	-3	9	3
Argentina		47617	1.5	1	-3	56	-7		1459	0	19	8	-570	91
Brazil		120062	-0.7	1	3	52	1		253	0	0	-16	58	3
Chile		4932	-0.9	0	2	34	18		126	0	-6	-16	-14	-18
Colombia		1305	0.0	-1	-1	15	-9		207	0	-4	-15	44	2
Mexico		48868	0.7	1	3	43	11		348	0	-9	-34	55	-12
Peru		19640	0.5	-8	-11	36	-6		133	0	-4	-3	22	1
Hungary		43054	0.7	1	-2	33	2		65	0	-6	-15	-42	-31
Poland		59538	0.8	-1	3	33	4		-22	0	-4	-11	-54	-21
Romania		11151	0.5	0	2	42	14		188	-1	-3	-2	-173	-15
Russia		3597	1.0	1	3	40	9		159	0	-5	-3	19	-7
South Africa		66964	-0.3	-1	2	39	13		357	0	-4	-35	25	-23
Turkey		1344	1.0	-5	-3	37	-9		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	0.0	1	0	51	5		421	0	17	-10	97	128

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

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