



- US president Biden to propose doubling the capital gains tax for wealthy individuals ([link](#))
- Narrower US GSIBs' capital buffers could be impacting the international dollar funding market ([link](#))
- US and European issuance of high-yield debt at record levels in Q1 2021 ([link](#))
- High-frequency data for the UK, France, and Germany point to a strengthening recovery ([link](#))
- India's sovereign rating reaffirmed by Fitch with negative outlook ([link](#))
- Russia's central bank hikes its policy rate by 50 bps ([link](#))

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## Market sentiment fragile after US tax proposal

**European and Japanese bourses followed US stocks lower this morning on reports of president Biden's new tax proposal.** The S&P 500 recorded its worst daily loss in over a month yesterday on news president Biden will propose doubling the capital gains tax rate for wealthy individuals. The VIX rose over 1 percentage points as a result but fell slightly this morning. US Treasury yields were little changed with euro-area bond yields modestly lower. Credit spreads were steady and remained at historically tight levels. Companies have continued to take advantage of narrow credit spreads with issuance of high-yield debt at record levels in Q1 2021, both in Europe and the US. Emerging markets were mixed, with the central bank of Russia hiking its policy rate by 50 bps and Fitch reaffirming India's sovereign rating while keeping its negative outlook on rising virus concerns.

Key Global Financial Indicators

Last updated: 4/23/21 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4135	-0.9	-1	6	48	10
Eurostoxx 50		3997	-0.4	-1	4	40	13
Nikkei 225		29021	-0.6	-2	-1	51	6
MSCI EM		54	-0.4	-1	2	51	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.55	0.9	-3	-7	95	63
Germany 10y Yield		-0.27	-1.5	-1	7	16	30
EMBIG Sovereign Spread		340	-1	-4	-10	-297	-10
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.1	0.3	0	1	9	-1
Dollar index, (+) = \$ appreciation		91.0	-0.4	-1	-1	-9	1
Brent Crude Oil (\$/barrel)		65.6	0.2	-2	8	207	27
VIX Index (% change in pp)		18.5	-0.2	2	-2	-23	-4

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

## United States

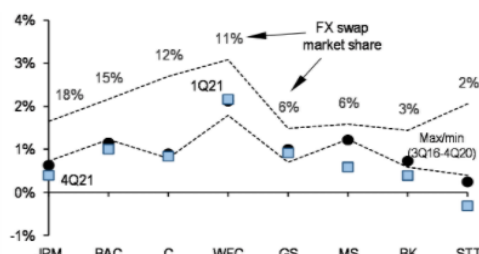
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**US equities fell yesterday on news president Biden will propose doubling the capital gains tax rate for wealthy individuals to 39.6%.** Coupled with an existing surtax on investment income, it means that federal tax rates for investors could be as high as 43.4%. The proposal could reverse a long-standing provision of the tax code that taxes returns on investment lower than on labor. Equities fell sharply following the headline and the VIX rose over one percentage point to 18.7. Treasury 10-year yields were marginally lower at 1.55%, with limited market reaction to better-than-expected initial jobless claims on Thursday morning.

**Analysts see large banks' capital buffers to narrow meaningfully over the latter half of this year, potentially affecting the international dollar funding market.** The lapsing of temporary SLR carve-outs for Treasuries and reserves is expected to push banks' leverage ratios higher, given continuously growing balance sheets. Higher required capital with higher leverage should lead to smaller capital buffers. JP Morgan analysts estimate banks' capital buffers relative to regulatory requirements to reach the lowest levels over the last five years by the end of 2021. They argue that GSIBs will be forced to find whatever offsets they can to reduce the increased capital cost unless changes are implemented over a relatively short timeline, possibly affecting spreads for longer-dated funding and derivatives. Dollar funding liquidity, particularly through FX derivatives where GSIBs account for a significant share in market making, could be affected. In April 2020, the Fed allowed banks to carve out US Treasuries and excess reserves from calculating their total leverage, but the temporary relief of SLR expired after March 31.

**Exhibit 13: Though leverage is unlikely to become immediately binding, buffers relative to regulatory minimums are set to narrow significantly as bank balance sheets continue to grow ...**

Max/min HoldCo SLR ratio assuming no carve-outs, 2Q16 to 4Q20 and estimates\*, FX swap gross notional market share for 4Q20 as indicated, %

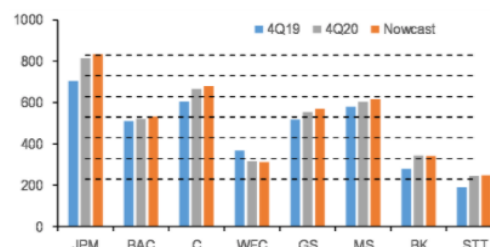


\* Assumes 2Q20 to 4Q20 growth in total assets is maintained in 2021. Light blue boxes are 4Q21 estimates and black circles are current estimates.

Source: J.P. Morgan, FFIEC 101, FR-Y9C

**Exhibit 14: ... and a number of GSIBs are also likely already near or just past the next surcharge bucket**

GSIB Method II scores 4Q19, 4Q20 and Nowcasted; points



Note: Nowcast based on regression of decomposed individual bank and subcomponents on TGA balance, Fed balance sheet, large bank balance sheets, and net Treasury supply.

Source: J.P. Morgan, FFIEC 101, FR-Y9C, BIS

## Europe

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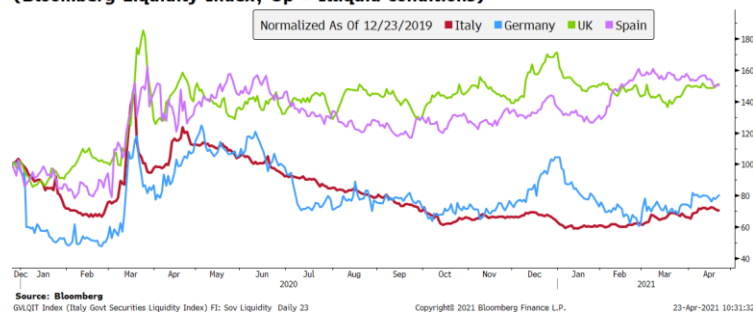
**Equity markets posted moderate losses.** DAX (-0.5%), CAC 40 (-0.3%), EuroStoxx 600 (-0.4%), Italy's Titans 30 (-0.2%), and Spanish Ibex (-0.6%). Bank stocks (-0.4%) traded in line with broad markets. BBVA (-0.3%) announced plans to reduce its workforce in Spain by 3,800 and close 530 branches. **Sovereign yields were modestly lower:** German 10-year yields at -0.27% (-2 bps); French OATs are at 0.06% (-2 bps); and Spanish at 0.39% (-1 bps).

Notably, **Italian 10-year yields were flat at 0.75% this morning ahead of tonight's sovereign rating review by S&P.** Analysts expect no change in the rating but likely a firmer tone in the rating agency's assessment of Italy's outlook. Separately, premier Draghi will unveil a €220 bn Recovery Plan to its cabinet

today. The plan may put Italy's deficit at around 12% of GDP and debt at 160%, according to Commerzbank analysts. Trading conditions for Italian sovereign debt have remained relatively liquid over recent months.

### Sovereign Liquidity Indices

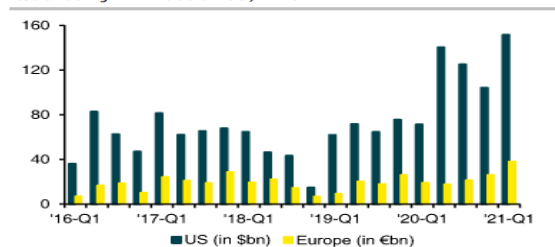
(Bloomberg Liquidity Index; Up = Illiquid conditions)



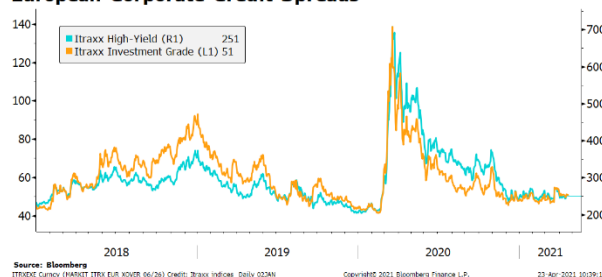
In credit markets, issuance of high-yield debt was at record levels in Q1 2021, both in Europe and in the US. Despite the higher-than-normal volume of issuance, the supply was well-absorbed by investors, which has helped keep the spreads in HY paper very contained by historical standards (currently at about 250 bps). Issuance volume for investment grade slowed down somewhat in Q1.

### HY: record issuance ...

Quarterly HY issuance, in bn



### European Corporate Credit Spreads



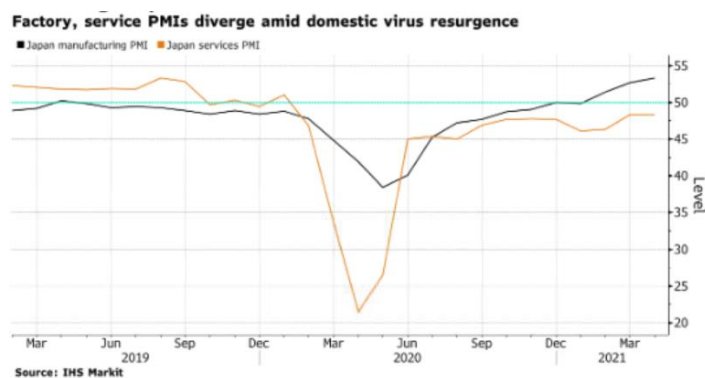
In macro data, high-frequency data for the UK, France, and Germany pointed to a strengthening recovery. Retail sales in the UK rebounded with force in March, printing at +7.2% for retail sales incl. autos, vs. -3.7% in Feb. Retail sales ex autos came in at +7.9%, compared to -1.1% the prior month. The French Composite PMI printed at 51.7 for April, vs 50.0 in March. Germany's stood at 56.0 for Apr., slightly below the 57.3 of March, but still clearly in expansionary territory.

### Other Mature Markets

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#### Japan

**Equities ended the week with a -0.4% fall.** A state of emergency is set to be imposed starting Sunday to May 11 in Tokyo, Osaka and two other prefectures, according to Bloomberg. Eateries serving alcohol, establishments with karaoke equipment and commercial facilities with floor space of more than 1k square meters are expected to be asked to close during the state of emergency. **On economic releases, Japan's preliminary manufacturing purchasing managers index (PMI) expanded for a third straight month at 53.3 in April, rising 0.6 points from March.** The measure for the services sector remained unchanged at 48.3 in April. Consumer prices excluding fresh food meanwhile dropped -0.1% y/y in March after a -0.4% y/y in February. The yen and 10-year JGB were little changed.



## Emerging Markets

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**Asian equities rose for a second straight day by +0.6%.** Taiwan Province of China (+1.2%) and Hong Kong SAR (+1.1%) outperformed. Thailand lagged (-0.7%), reporting its largest daily increase in infections since the pandemic began at around 2k cases. **Regional currencies were mixed, with the Singapore dollar (+0.2%) strengthening while the Thai baht (-0.2%) weakened.** Taiwan POC's long-term foreign and local currency issuer credit ratings were raised to AA from AA- by S&P. Singapore announced a cabinet reshuffle with seven ministries changing heads after Deputy PM Heng Swee Keat took himself out of the running to be Singapore's next PM two weeks ago. **EMEA equities were trading mixed today** with benchmark indices up in Turkey (+1.1%) but down in Poland (-0.5%) and Russia (-0.5%). **EMEA currencies were little changed** except for the Russian ruble (+0.7%). **Most LATAM markets were down.** Equities in Peru (-3%), Chile (-1.8%), Argentina (-1%), Colombia (-0.7%), and Brazil (-0.6%) closed lower. However, equities in Mexico were up (+0.5%) for the third straight session. The Chilean peso and the Peruvian sol slid 1.3% against the USD, while the Brazilian real appreciated 2.2%. Other regional currencies registered moderate losses on Wednesday.

Key Emerging Market Financial Indicators

Last updated: 4/23/21 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		53.85	0.8	-1	2	51	4
MSCI Frontier Equities		30.74	-0.7	0	4	41	8
EMBIG Sovereign Spread (in bps)		340	-1	-4	-10	-297	-10
EM FX vs. USD		57.06	0.3	0	1	9	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.49	0.0	0	0	9	1
Indonesian Rupiah		14525	0.0	0	-1	6	-3
Indian Rupee		75.02	-0.1	-1	-3	1	-3
Argentine Peso		93.07	0.0	0	-2	-29	-10
Brazil Real		5.43	0.3	3	2	2	-4
Mexican Peso		19.83	0.5	0	5	25	0
Russian Ruble		74.69	1.0	1	2	0	-1
South African Rand		14.25	0.4	0	5	34	3
Turkish Lira		8.32	0.0	-3	-5	-17	-11
EM FX volatility		9.97	0.0	0.0	-1.5	-1.6	-0.8

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

## China

**The RMB was little changed with its CFETS basket index near the highest level since 2018.** The State Administration of Foreign Exchange said that the currency market should remain stable. The authorities also said that foreign holdings of Chinese bonds were \$63.3 bn in Q1, rising by 11% from Q4. Foreign holdings are expected to continue rising as Chinese bonds offer good returns to non-residents and are exhibiting safe haven characteristics. Analysts are also favoring Chinese yuan bets against a number of currencies such as the yen and the Singapore dollar, according to Bloomberg. Separately, China will limit the increase in coal consumption in the country's current five-year plan and will start reducing coal consumption in the next five-year plan starting from 2026 but did not specify targets. **Equities (Shanghai +0.3%; Shenzhen +0.5%) rose.**

**Yuan basket holds near highest level since 2018**

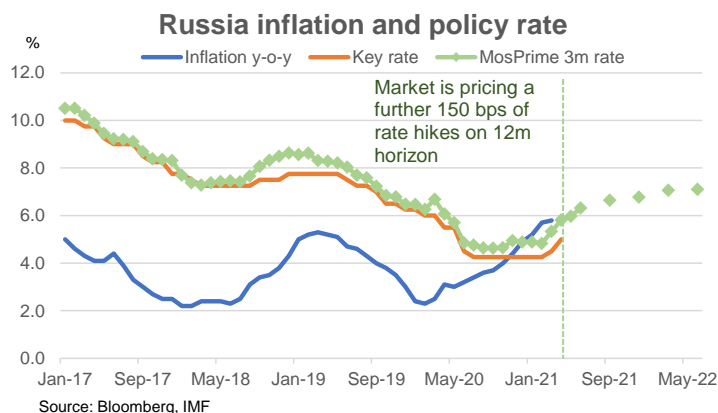


## India

**Fitch Ratings affirmed India's sovereign ratings at BBB- while maintaining its negative outlook.** Moody's also has a negative outlook while S&P has a stable outlook. Fitch said that the rating balances strong medium-term growth outlook and resilience from solid foreign reserve buffers with high public debt and a weak financial sector. The negative outlook reflects lingering uncertainty around the debt trajectory following a sharp deterioration in metrics owing to the pandemic shock. **FM Nirmala Sitharaman indicated a possible frontloading of borrowings if needed.** Minutes from the April monetary policy meeting meanwhile showed the central bank governor saying that monetary policy should remain accommodative to support, nurture and consolidate the recovery. The growth outlook is uncertain given the renewed jump in virus infections and associated localized lockdowns. Other members also had similar view. India registered a new record in virus cases for the second straight day at around 333k cases. **Indian assets were little changed.**

## Russia

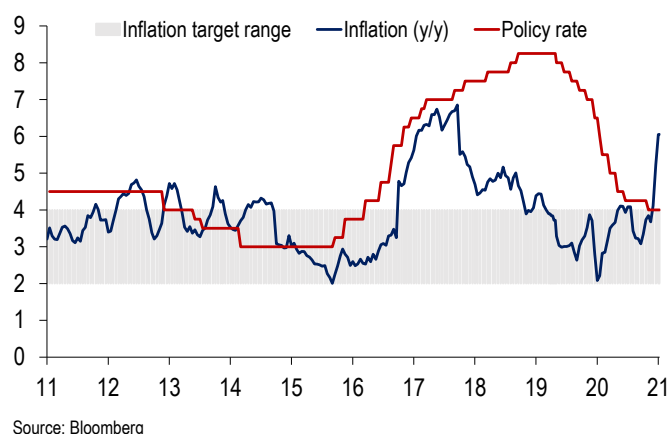
**The Central Bank of Russia (CBR) increased its policy rate by 50 bps to 5%.** The move was larger than economist consensus forecast but in line with interest rate forward market pricing. The central bank maintained a hawkish stance, signaling a rate increase in one of the upcoming meetings. For the first time, the CBR also published a policy rate projection suggesting the key rate will average between 5.0-5.8% until the end of this year. **Contacts interpreted the forecast as forward guidance and noted that interest rate markets are currently trading at the upper range of the projection, implying a key rate above 6% by the end of this year.** The Russian ruble appreciated by 0.3% while the 10-year local bond yield rose by 3 bps following the announcement.



## Mexico

**Contrary to the market estimates, inflation turned positive in April so far.** Mexico's bi-weekly headline inflation came in at 0.06% 2w/2w for the period ending on April 15, against the market estimates of -0.08%. Core inflation also rose 0.18% 2w/2w (vs. 0.14% expected) as the economy recovers at a faster than expected pace. The annual change in prices was 6.05% y/y for the period. With this, the gap between the central bank's target inflation (3% y/y with a +/-1% band) and the actual inflation has widened further. Some analysts believe that, owing to the inflationary pressures, the central bank may have to start tightening monetary policy soon instead of loosening, as it had indicated recently. **The Mexican TIE curve was up 2.5 – 8 bps for 1 to 4-year tenors**, while the peso was marginally weaker to the dollar yesterday.

### Inflation drifts further away from the target



## Turkey

**The government has expanded efforts to regulate crypto markets as a large local exchange platform ceased operations.** According to press reports, client losses from Todex exchange default could reach \$2 bn. Last week, the Central Bank of Turkey prohibited payments using cryptocurrency in an effort to regulate the rapid growth of digital currency trading. The estimated daily turnover in Turkey crypto exchanges has increased to around \$2-3bn.



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## Global Financial Indicators

Last updated: 4/23/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4138	-0.9	-1	6	48	10
Europe		3997	-0.4	-1	4	40	13
Japan		29021	-0.6	-2	-1	51	6
China		3474	0.3	1	2	24	0
Asia Ex Japan		93	-0.4	-1	1	49	4
Emerging Markets		54	-0.4	-1	2	51	4
<b>Interest Rates</b>			basis points				
US 10y Yield		1.55	0.9	-3	-7	95	63
Germany 10y Yield		-0.27	-1.5	-1	7	16	30
Japan 10y Yield		0.07	-0.1	-2	-1	6	5
UK 10y Yield		0.73	-0.9	-3	-3	44	53
<b>Credit Spreads</b>			basis points				
US Investment Grade		94	-0.3	0	-5	-101	-1
US High Yield		339	-1.0	6	-21	-423	-41
Europe IG		51	0.1	2	-3	-31	3
Europe HY		251	-0.7	7	-20	-235	9
<b>Exchange Rates</b>			%				
USD/Majors		91.00	-0.4	-1	-1	-9	1
EUR/USD		1.21	0.4	1	2	12	-1
USD/JPY		107.7	-0.3	-1	-1	0	4
EM/USD		57.1	0.3	0	1	9	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		66	0.2	-2	8	207	27
Industrials Metals (index)		150	0.6	2	4	59	13
Agriculture (index)		56	-0.1	7	9	60	18
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.5	-0.2	2.2	-1.8	-22.9	-4.3
US 10y Swaption Volatility		75.0	0.3	-2.7	-2.5	-2.0	14.9
Global FX Volatility		7.3	0.0	0.1	-0.7	-2.3	-0.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		116	0.9	-1	-5	-162	-4
Italy		103	1.9	2	8	-138	-9
Portugal		66	0.3	0	14	-96	6
Spain		65	0.5	-1	2	-82	3

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

Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 4/23/2021 8:07 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	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.49	0.0	0.4	0	9	1		3.2	0.0	-3	-10	78	-4
Indonesia		14525	0.0	0.3	-1	6	-3		6.5	-0.8	-16	-32	-133	43
India		75	-0.1	-0.9	-3	1	-3		6.4	-2.2	-2	-9	2	41
Philippines		48	0.0	0.0	1	5	-1		4.3	16.0	25	22	-71	61
Thailand		31	0.0	-0.6	-1	3	-5		1.8	-4.4	-6	-14	45	53
Malaysia		4.11	0.1	0.4	0	6	-2		3.2	-0.3	-2	-9	29	65
Argentina		93	0.0	-0.4	-2	-29	-10		46.7	17.3	51	156	-355	-941
Brazil		5.43	0.3	2.9	2	2	-4		7.9	-21.5	-36	1	244	229
Chile		707	-1.4	-0.9	1	21	1		3.5	3.3	6	24	51	74
Colombia		3638	-0.3	-0.5	-2	11	-6		6.2	2.2	6	4	-26	115
Mexico		19.83	0.5	0.5	5	25	0		6.7	5.8	26	23	-7	113
Peru		3.8	-1.2	-3.5	-1	-10	-4		5.2	18.1	44	68	56	157
Uruguay		44	0.3	0.1	0	-2	-4		7.4	1.2	0	-4	-474	14
Hungary		301	0.5	0.1	3	10	-1		2.0	-1.6	0	-5	19	44
Poland		3.78	0.4	0.2	3	11	-1		0.9	-0.7	9	7	-4	28
Romania		4.1	0.5	0.7	1	10	-3		2.6	0.0	-7	-3	-155	-12
Russia		74.7	1.0	1.4	2	0	-1		6.7	-6.4	-12	-11	70	97
South Africa		14.3	0.4	0.4	5	34	3		9.9	5.1	9	-27	-107	27
Turkey		8.32	0.0	-3.1	-5	-17	-11		17.8	15.0	27	-83	669	472
US (DXY; 5y UST)		91	-0.4	-0.6	-1	-9	1		0.80	0.5	-4	-2	43	43

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5135	0.9	3	2	35	-1		199	0	-2	-9	30	-9
Indonesia		6017	0.4	-1	-3	34	1		158	0	-9	-25	-5	-29
India		47878	-0.4	-2	-2	53	0		169	0	-4	15	-157	18
Philippines		6378	-0.6	-2	-3	17	-11		83	0	-9	-17	13	-22
Malaysia		1608	0.0	0	0	17	-1		113	0	-2	-3	9	3
Argentina		47123	-1.0	0	-3	55	-8		1459	0	19	8	-570	91
Brazil		119372	-0.6	-1	5	50	0		253	0	0	-16	58	3
Chile		4844	-1.8	-3	1	29	16		126	0	-6	-16	-14	-18
Colombia		1296	-0.7	-2	-2	13	-10		207	0	-4	-15	44	2
Mexico		49092	0.5	1	5	43	11		348	0	-9	-34	55	-12
Peru		19053	-3.0	-10	-12	32	-8		133	0	-4	-3	22	1
Hungary		42661	-0.6	-1	-2	30	1		65	0	-6	-15	-42	-31
Poland		59081	-0.5	-2	2	30	4		-22	0	-4	-11	-54	-21
Romania		11202	0.6	0	3	41	14		188	0	-11	-4	-170	-15
Russia		3595	-0.1	0	4	38	9		159	0	-5	-3	19	-7
South Africa		67037	0.1	-2	3	35	13		357	0	-4	-35	25	-23
Turkey		1345	0.0	-4	-2	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	0.8	-1	2	51	4		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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