






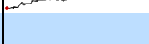







- Rise in US market-based inflation expectations stalls ([link](#))
- ECB accelerates weekly QE purchases ([link](#))
- Bank of Japan maintains policy stance; forecasts inflation below target through 2023 ([link](#))
- Emerging market corporate and sovereign bond issuance picks up pace ([link](#))
- Economists raise forecasts for Brazilian policy rate to 5.5% by year-end ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Markets remain in holding pattern ahead of key events

A wait-and-see mood has prevailed across financial markets, ahead of the FOMC meeting, further details on US President Biden's infrastructure and tax proposals, and a batch of large-cap tech companies set to report earnings over the next two days. Markets displayed a modest risk-on tone yesterday as US equities extended Friday's momentum with the S&P 500 posting a modest gain that breached a new record high level for the index and was driven by cyclically sensitive sectors. Focus remains on corporate earnings with nearly 40% of the S&P 500 companies reporting this week. The US dollar is stabilizing this morning but was mostly weaker to start the week with commodity currencies leading gains as industrial metals were propelled to new multi-year highs in response to growing demand optimism. Overnight, market sentiment was generally more cautious with Asian stock indices closing mixed along with European equities posting modest declines. Focus was on European bank earnings as UBS stock prices fell after unexpectedly disclosing a loss related to exposure to Archegos Capital even though Q1 net profit was better than expected. The BOJ left its policy settings unchanged and provided updated forecasts showing inflation remaining below the 2% target through 2023. Advanced economy sovereign bond yields are slightly higher across maturities, but movements have remained relatively limited so far this week.

Key Global Financial Indicators

Last updated: 4/27/21 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4188	0.2	1	5	45	11
Eurostoxx 50		4009	-0.3	2	4	39	13
Nikkei 225		28992	-0.5	0	-1	47	6
MSCI EM		55	0.1	1	3	51	6
Yields and Spreads			bps				
US 10y Yield		1.58	1.4	2	-10	92	67
Germany 10y Yield		-0.25	-0.1	1	9	20	32
EMBIG Sovereign Spread		341	3	7	-13	-298	-10
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.1	0.1	0	2	9	-1
Dollar index, (+) = \$ appreciation		90.8	0.0	0	-2	-9	1
Brent Crude Oil (\$/barrel)		66.0	0.5	-1	2	230	27
VIX Index (% change in pp)		17.7	0.0	-1	-1	-16	-5

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

United States

[back to top](#)

Yesterday, the S&P 500 gained 0.2% and reached a new record high, supported by solid corporate earnings and expectations that the Fed will remain accommodative.

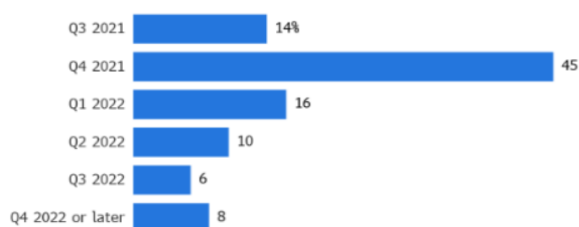
US market-based inflation expectations are flattening, which could mitigate the risk of early tapering. As the Fed shapes its new mandate goals of average inflation targeting and an amended maximum employment goal – the central bank may be less willing to withdraw stimulus too early. Currently, the cost of postponing tapering seems to be low as the risks of inflation overshooting remain contained (left chart below): the observed increase in inflation is partly due to the base effect, while spending from the next possible major fiscal stimulus will be spread over several years and will be partially financed through tax increases. A Bloomberg survey shows that 45% of economists expect a slowdown of Fed purchases in 4Q2021 (right chart).

US inflation expectations have stalled



Source: CitiFX, Bloomberg

Plurality of economists expects Fed to slow purchases in the fourth quarter

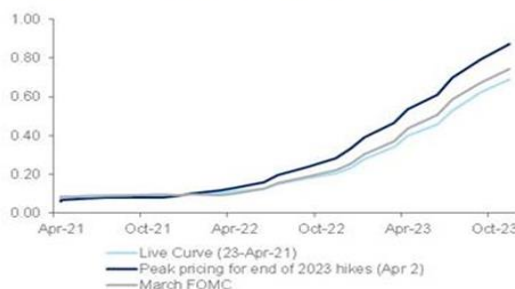


Source: Bloomberg News survey of economists April 16-21
Economists were asked when the FOMC would formally announce a tapering of asset purchases.

Bloomberg

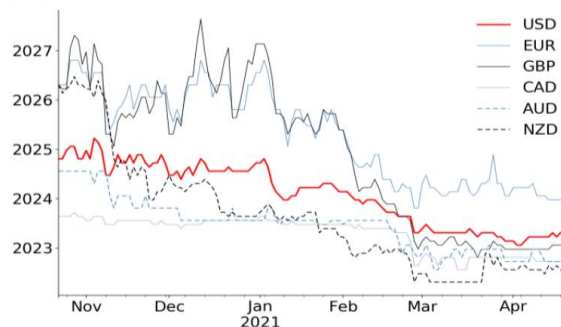
The Fed's timing of rate hikes lags most other advanced economies. The reiterated dovish sentiment of the Fed made markets postpone the priced-in policy normalization path (left chart below). In contrast, most other major central banks (except ECB), are expected to hike much earlier: y-axis on the right chart represents the expected date of the first hike. Some analysts argue that the relative dovishness of the Fed may underpin the bearish outlook for the USD versus other major currencies.

Markets priced out roughly one full rate hike by end-2023



Source: CitiFX

Priced date of lift-off



Source: J.P. Morgan, First forward 1m OIS which is higher than current spot by 25bp (15bp for GBP, 10bp for EUR, and 15bp for AUD)

Europe

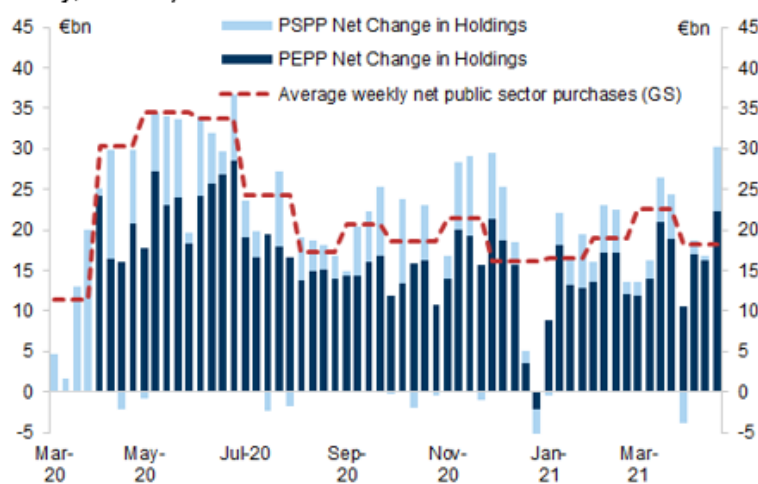
[back to top](#)

Analysts focused on bank earnings. UBS stocks (-3%) fell after the Swiss bank unexpectedly disclosed a loss of \$774 mn related to exposure to the family office Archegos even though first quarter net profit was better than expected at \$1.8 bn. Shares in HSBC (+2.7%) gained after the bank reported better-than-expected before tax profits of \$6.4 bn for 2021Q1 and released \$400 mn of loan loss reserves. **The broad equity index was steady.**

10-yr bund yields and the euro were little changed as the German government increased its GDP growth forecast to 3.5% for 2021 (from 3%) and France is expected to ease COVID-19 restrictions in coming days. Italian consumer confidence was better than expected at 102.3 (101.8 expected) in April.

Weekly ECB QE purchases rose to the highest pace since last summer. The ECB added €22 bn to its PEPP holdings and €8 bn to its PSPP holdings last week. Considering redemptions and reinvestments, analysts calculate that the pace of purchases is consistent with the target of €85 bn/month per the PEPP pace provided by the ECB president at last week's meeting.

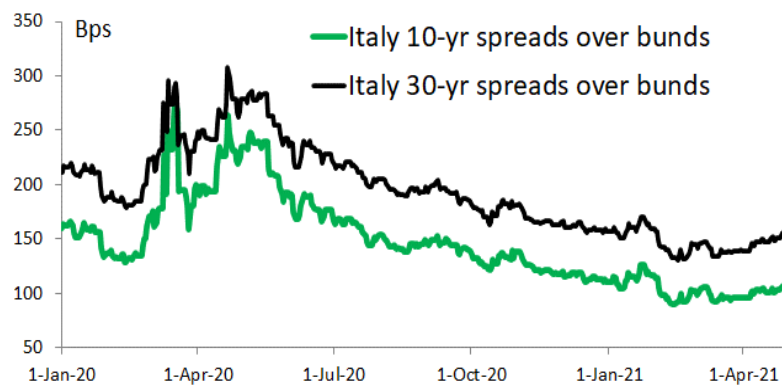
ECB: Change in holdings in Pandemic Emergency and Public Sector Purchase Programs (weekly, bn euro)



Source: ECB, Goldman Sachs

Italian 10-yr spreads (+2 bps to 107 bps) edged higher even though some contacts had expected spreads to tighten given the government's recovery plan and agreement on EU funding. Italy's recovery plan of €261 bn includes a maximum allocation within the EU Recovery and Resilience Facility of €191 bn (of which €69 bn grants), €30 bn of a national top-up fund, €13 bn of short-term REACT-EU funding (available for 2021-22), and €26 bn of national funding for infrastructural projects. Spanish and Greek 10-yr spreads were little changed at 66 bps and 115 bps respectively.

Euro area: 10-year spreads over German bunds (bps)



Source: Bloomberg and IMF staff

Other Mature Markets

[back to top](#)

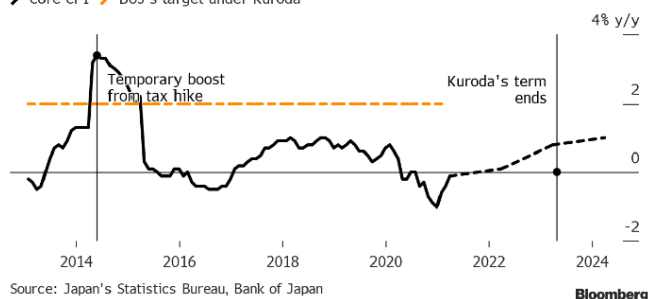
Japan

The Bank of Japan (BOJ) maintained its policy settings as expected. The short-term policy rate and the 10-year JGB yield target remained unchanged at -0.1% and 0%, respectively. The BOJ also updated its macro outlook, projecting growth at 4.0% (from 3.9%) for FY2021 (starting from April) and inflation at 0.1% (from 0.5%). Inflation was revised downward on the back of lower mobile phone fees. Based on the latest projections, the BOJ will continue facing the challenge to achieve its 2% inflation objective, with inflation being projected to rise to only 1% in FY2023. **JGB yields edged up (1-year: +0.8 bp; 10-year: +0.3 bp); Japanese yen depreciated (-0.2%); equities declined (NIKKEI: -0.5%).**

Mission Unaccomplished

Prices didn't really respond to the massive stimulus under Kuroda

✓ Core CPI ✗ BOJ's target under Kuroda



Emerging Markets

[back to top](#)

Latin American equity markets were mostly higher on Monday but traded in thin ranges, except for Argentina (+1.2%). Local currencies were mixed. **Asian equities were mixed, falling 0.1% on net.** Indian (+1.0%) and Chinese (CSI 300: +0.3%) equities gained, while share prices dropped in Malaysia (-0.9%) and Sri Lanka (-2.3%). **Asian currencies were also mixed with limited movements.** Korean won outperformed, appreciating (+0.3%) on stronger-than-expected 2021Q1 GDP data. **EMEA bourses traded mixed today:** the largest advances were seen in Turkey (+1.2%), Egypt (+0.6%), and Romania (+0.6%), while losses were the deepest in UAE (-0.7%).

Key Emerging Market Financial Indicators

Last updated: 4/27/21 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		54.70	0.1	1	3	51	6
MSCI Frontier Equities		30.82	-0.5	0	4	39	9
EMBIG Sovereign Spread (in bps)		341	3	7	-13	-298	-10
EM FX vs. USD		57.10	0.1	0	2	9	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.48	0.0	0	1	9	1
Indonesian Rupiah		14485	0.0	0	0	6	-3
Indian Rupee		74.66	0.1	0	-3	2	-2
Argentine Peso		93.28	-0.2	0	-2	-29	-10
Brazil Real		5.45	-0.2	2	6	4	-5
Mexican Peso		19.94	-0.4	0	3	24	0
Russian Ruble		74.89	0.1	3	1	-1	-1
South African Rand		14.34	-0.4	0	4	31	2
Turkish Lira		8.21	0.9	-1	0	-15	-9
EM FX volatility		9.76	0.0	-0.2	-1.4	-2.3	-1.0

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

Emerging Market Bond Issuance

Emerging market corporate issuance last week edged up to \$15.1 bn, from \$10.4 bn the week before, and **emerging market sovereign issuance advanced to \$7.1 bn last week**, from \$2.3 bn the week before. The year-to-date total issuance of \$297.8 bn was around 13% higher than the 2020 issuance over the same period (\$263.7 bn). From a regional perspective, China (including Taiwan) was the largest EM corporate debt issuer last week, accounting for 31% (\$4.8 bn) of the total, followed by Malaysia (20%, \$3.0 bn), and Mexico (11%, \$1.7 bn). Last week's sovereign issuance was placed by Colombia (\$3.0 bn), Philippines (\$2.5 bn), Malaysia (\$1.3 bn), and Republic of Srpska (\$0.4 bn).

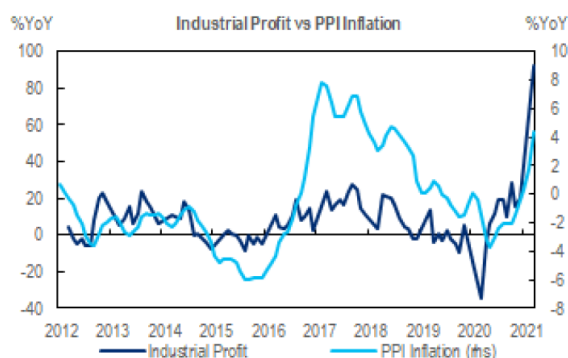
Sector	Last week	The week before	YTD
Corporate	15.1	10.4	135.6
Sovereign	7.1	2.3	86.5
Financial	2.7	5.4	52.0
Supra	1.1	-	7.3
Muni/Local Gov't	0.2	0.1	3.9
Agency	-	-	12.5
Total	26.2	18.2	297.8

Source: Bond Radar, Bloomberg

China

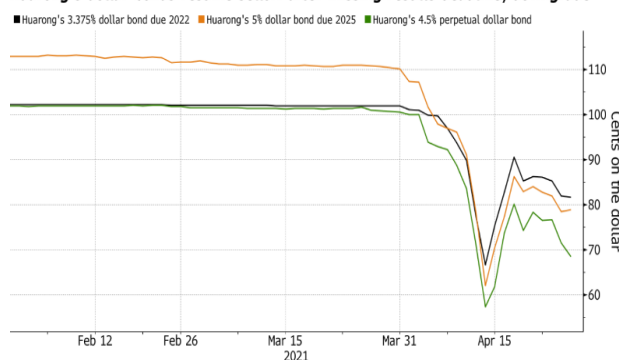
Industrial profits increased 92.3% y/y in March from a low base. Strong industrial profits were also supported by PPI inflation despite moderating industrial production. Some analysts noted that SOEs and upstream sectors will benefit more from the current round of reflation. Equities gained (CSI 300: +0.3%); RMB was little changed. **Fitch downgraded China Huarong Asset Management (Huarong).** Fitch became the first of the major international rating agencies to cut Huarong's rating to BBB from A. Senior and subordinated perpetual notes, guaranteed by Huarong International and credit-linked to Huarong (via the keep well arrangement), were downgraded to BB+ and BB-, respectively. The downgrade added to selling pressure on Huarong's offshore bonds even as the company is meeting its short-term repayment obligations (including bonds maturing today).

Figure 2. PPI reflation will likely accelerate further and support industrial profit in 21Q2



Under Pressure

Huarong's dollar bonds resume selloff after missing results deadline, downgrade



Source: Bloomberg

Turkey

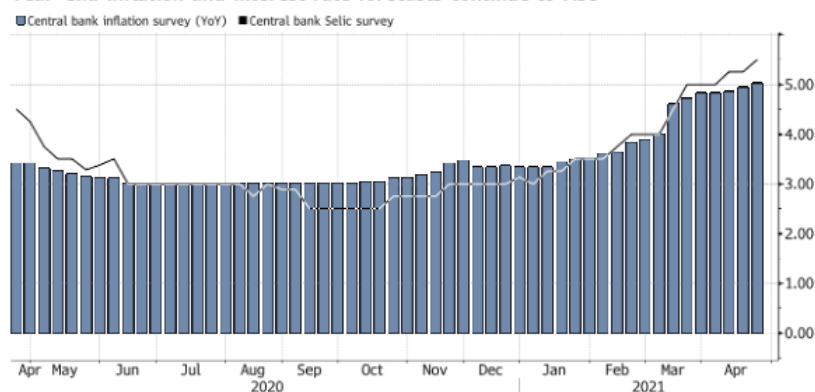
Turkish financial authorities are planning to issue new regulation for crypto-asset exchanges following the recent collapse of two exchanges. The exchanges Thodex and Vebitcoin halted trading last week after running into “financial difficulties”, according to the press. A clear and reliable estimate of how much investors have lost is not available yet. Turkish authorities are reportedly considering establishing a central custodian bank to reduce counterparty risk in crypto-asset trading, as well as boosting capital levels of the exchanges.

Brazil

Economists revised up their year-end forecasts for the Selic policy rate and inflation. According to the median forecast of a central bank survey published yesterday, analysts expect the central bank to raise the benchmark rate to 5.5% by the end of 2021 (vs. 5.25% previously, and current rate level of 2.75%), and they saw year-end inflation at 5.01% (vs. 4.92% previously). The current account posted a deficit of \$4.0 bn in March, larger than the market consensus at \$2.7 bn. The Brazilian equity market was little changed on Monday, while the real appreciating 0.7% against the dollar.

Simmering prices

Year-end inflation and interest rate forecasts continue to rise








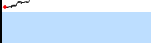
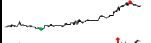















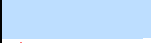



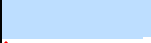


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Global Financial Indicators

Last updated: 4/27/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4191	0.2	1	5	46	12
Europe		4009	-0.3	2	4	39	13
Japan		28992	-0.5	0	-1	47	6
China		3443	0.0	-1	1	23	-1
Asia Ex Japan		95	0.1	1	2	48	6
Emerging Markets		55	0.1	1	3	51	6
Interest Rates			basis points				
US 10y Yield		1.58	1.4	2	-10	92	67
Germany 10y Yield		-0.25	-0.1	1	9	20	32
Japan 10y Yield		0.09	0.3	0	0	12	6
UK 10y Yield		0.76	0.7	3	1	46	57
Credit Spreads			basis points				
US Investment Grade		93	0.2	-3	-3	-104	-2
US High Yield		333	-0.9	-8	-17	-440	-47
Europe IG		51	0.2	0	-3	-30	3
Europe HY		251	0.7	-3	-13	-242	8
EMBIG Sovereign Spread		341	2.5	7	-13	-298	-10
Exchange Rates			%				
USD/Majors		90.83	0.0	0	-2	-9	1
EUR/USD		1.21	0.0	0	3	12	-1
USD/JPY		108.3	0.2	0	-1	1	5
EM/USD		57.1	0.1	0	2	9	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		66	0.5	-1	2	230	27
Industrials Metals (index)		154	0.4	5	6	62	16
Agriculture (index)		59	1.9	10	17	74	24
Implied Volatility			%				
VIX Index (%, change in pp)		17.7	0.0	-1.0	-1.2	-15.6	-5.1
US 10y Swaption Volatility		75.5	0.0	-5.5	-3.7	6.5	15.4
Global FX Volatility		7.1	0.0	-0.2	-0.8	-2.5	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		116	-0.1	-2	-5	-155	-4
Italy		107	1.6	3	10	-115	-4
Portugal		66	0.1	-1	14	-81	6
Spain		66	0.4	-1	2	-68	4

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 4/27/2021 8:08 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		6.48	0.0	0.2	1	9	1		3.3	2.7	2	-5	88	-1		
Indonesia		14485	0.0	0.1	0	6	-3		6.5	-1.1	-3	-20	-134	44		
India		75	0.1	0.3	-3	2	-2		6.3	-2.5	-5	-5	6	38		
Philippines		48	0.0	-0.2	0	5	-1		4.1	1.0	4	28	-79	45		
Thailand		31	0.1	-0.4	-1	3	-5		1.8	-1.5	-6	-12	43	51		
Malaysia		4.10	0.0	0.5	1	6	-2		3.2	1.6	3	-3	38	68		
Argentina		93	-0.2	-0.4	-2	-29	-10		46.8	22.1	29	94	-355	-938		
Brazil		5.45	-0.2	2.2	6	4	-5		7.8	-4.6	-14	-34	106	222		
Chile		706	0.9	-0.5	3	22	1		3.6	8.5	17	8	80	83		
Colombia		3653	-0.4	-1.4	0	11	-6		6.4	17.3	24	0	-2	132		
Mexico		19.94	-0.4	0.1	3	24	0		6.6	-3.0	10	-3	-27	104		
Peru		3.8	-1.3	-4.3	-3	-11	-6		5.3	16.3	49	71	69	173		
Uruguay		44	0.0	0.5	1	-2	-4		7.4	-3.3	0	6	-500	12		
Hungary		300	0.2	0.0	3	9	-1		2.0	-0.2	-1	-5	16	43		
Poland		3.78	-0.2	0.1	5	11	-1		0.9	-0.4	3	6	-10	26		
Romania		4.1	0.0	0.5	2	10	-2		2.6	0.0	-2	-2	-162	-13		
Russia		74.9	0.1	2.6	1	-1	-1		6.7	-1.7	-8	-6	85	96		
South Africa		14.3	-0.4	-0.2	4	31	2		10.0	-2.7	13	-34	-127	33		
Turkey		8.21	0.9	-1.2	0	-15	-9		17.9	10.4	52	-47	722	482		
US (DXY; 5y UST)		91	0.0	-0.4	-2	-9	1		0.86	2.8	7	-1	45	50		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5091	0.3	0	1	32	-2		199	0	-2	-9	30	-9
Indonesia		5960	-0.1	-1	-4	32	0		158	0	-9	-25	-5	-29
India		48944	1.2	2	0	52	2		173	5	9	25	-153	22
Philippines		6356	-0.5	-2	-3	14	-11		83	0	-9	-17	13	-22
Malaysia		1607	-1.0	0	0	17	-1		113	0	-2	-3	9	3
Argentina		47931	1.2	0	3	60	-6		1459	0	19	8	-570	91
Brazil		120595	0.1	0	5	54	1		253	0	0	-16	58	3
Chile		4865	0.5	-2	0	28	16		126	0	-6	-16	-14	-18
Colombia		1287	0.3	-2	-2	15	-11		207	0	-4	-15	44	2
Mexico		48924	-0.3	2	3	40	11		348	0	-9	-34	55	-12
Peru		19311	1.4	-6	-10	35	-7		133	0	-4	-3	22	1
Hungary		43321	0.1	2	-2	30	3		65	0	-6	-15	-42	-31
Poland		59820	0.1	1	4	34	5		-22	0	-4	-11	-54	-21
Romania		11277	0.6	1	3	41	15		185	-1	2	-7	-179	-18
Russia		3620	0.2	2	4	41	10		159	0	-5	-3	19	-7
South Africa		67573	0.0	-1	1	36	14		357	0	-4	-35	25	-23
Turkey		1394	1.4	1	1	38	-6		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		55	0.1	1	3	51	6		421	0	17	-10	97	128

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

[back to top](#)