GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, APRIL 5, 2021

- **Eurodollar curve steepened last week with over one full Fed hike priced for 2022** (link)
- **European government bond issuance hits a record in 1Q2021** (link)
- **Oil prices decline after OPEC+ agree to ramp up output** (link)
- **Bank of Japan starts study to experiment central bank digital currency** (link)
- **India and Thai equities underperform on virus comeback** (link)
- **GMM Special Feature: Inaugural Lending Surveys Monitor (Attachment)**

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

Recovery optimism drives US markets further

Although a number of global markets remain closed for the Easter holidays, there are mixed signals from those which are open. US equity futures are pointing to a positive open, while treasury futures are little changed. Japanese stocks also were higher overnight. Emerging Asian equities were slightly lower overnight, with negative performance driven by India which fell on renewed lockdowns following a resurgence in virus numbers. The India news is also weighing on the price of oil, with Brent 2% lower this morning. This move also follows on the heels of the OPEC+ decision last Thursday to raise production by more than 2 million barrels per day.

Key Global Financial Indicators

Last updated: 4/5/21 8:04 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4020	1.2	3	4	59	7
Eurostoxx 50		3946	0.7	3	6	47	11
Nikkei 225		30089	0.8	2	4	62	10
MSCI EM		54	1.0	4	0	63	4
Yields and Spreads				bps			
US 10y Yield		1.73	1.3	3	17	114	82
Germany 10y Yield		-0.33	0.0	2	2	11	24
EMBIG Sovereign Spread		353	0	-2	2	-295	3
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		56.3	0.2	1	-1	7	-3
Dollar index, (+) = $ appreciation		93.0	-0.1	0	1	-8	3
Brent Crude Oil ($/barrel)		63.1	-2.7	-2	-9	85	22
VIX Index (%, change in pp)		17.9	0.6	-1	-6	-33	-5

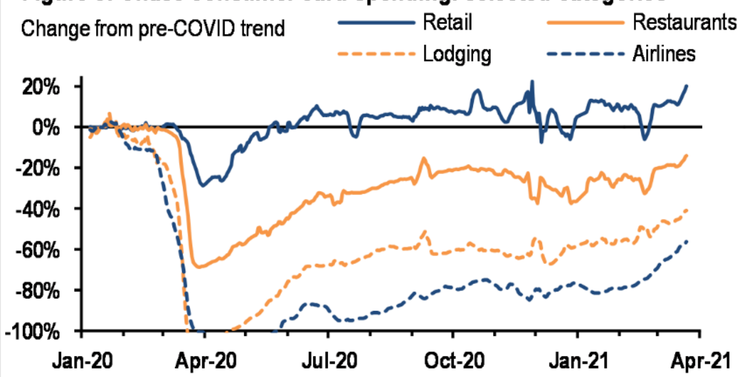
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States back to top

The US Treasury curve flattened last week, with 5-year yields increasing by 10 bps and the Eurodollar curve steepened further, pricing in over one fed funds hike for 2022. Even though COVID-19 cases are rising rapidly again in some countries (e.g. France, Germany, Central Europe, Brazil), many market contacts retain conviction in the growth spurt in 2Q- 2021 to extend into 2022. Furthermore, market participants continue to discuss growth and inflation implications of President Biden's $2.25 tn infrastructure proposal and of the ongoing vaccination campaign in the US.

Recent credit card data from Bank of America and JP Morgan Chase indicates that the US consumer has responded strongly to stimulus checks and may do so again when tax rebates roll out.

Figure 3: Chase consumer card spending: selected categories



Source: J.P. Morgan

On the infrastructure front, market participants note that a package may take several months to finalize, and full implementation may take several years. In addition, most expect the spending embedded in the package to be at least partly offset by higher corporate, capital, and marginal income taxes.

Exhibit 1: President Biden's spending and revenue plan in the first ten years

The plan calls for more than $2 tr in spending and tax increases

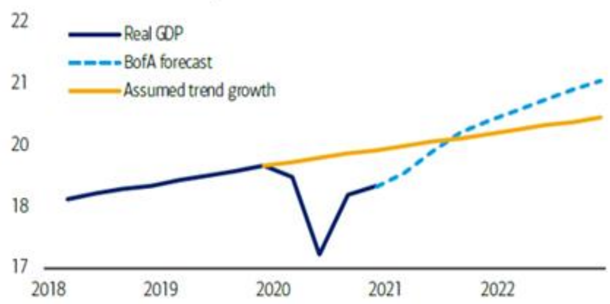
Spending		Revenue	
Transportation infrastructure and electric vehicles	$621bn	Raise the corporate tax rate from 21% to 28%	$695bn
Green housing, schools, power and water upgrades	$561bn	Global minimum tax increase	$495bn
Manufacturing subsidies, R&D	$480bn	Repeal tax loophole for intangible income	$217bn
Elder and disability care	$400bn	End fossil fuel tax breaks and anti-inversion measures	$54bn
Broadband and job training	$200bn		

Source: Financial Times

Note: The numbers are rough estimates

Exhibit 2: GDP forecast ($bn, chained 2012)

Real GDP overshoots trend next year



Source: BEA

Source: BofA

Inflation remains a focus of investors. Many emphasize that the US inflation is expected to accelerate in 2Q-2021, with core PCE topping 2.0%, largely on positive base effects. The central expectation from sell side economists appears to be a subsequent return to trend in core inflation (1.8-2.0%). However, most acknowledge that there is notable uncertainty around this view, with risks to the upside on a successful reopening in 2H- 2021. On the buyside, views on inflation appear more mixed. Specifically, buyside participants emphasize significant upside risks to inflation beyond 2Q-2021. Note that if this risk continues to be priced in, the Treasury curve would be expected to flatten further.

Europe
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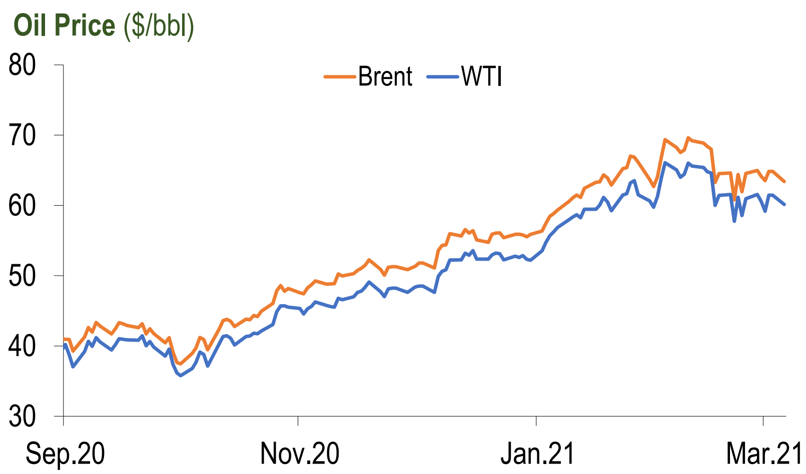
Government bond issuance saw a record quarter in 1Q2021. According to Refinitiv, quarterly bond syndication deals across Europe and the UK were $150 bn, the largest ever since 2000. Bond markets have been stable despite the ample supply, as the ECB's asset purchase program supports investors' healthy appetite. The euro traded marginally weaker on the day (-0.1%) while the British pound strengthened by 0.2%. Bond markets are closed Monday.

Credit Suisse Group is considering replacing the chief risk officer as its losses from Archegos Capital Management's collapse could reach $10 bn. The Swiss bank is also planning a review of its prime brokerage business. The CDS spread of the Swiss bank has not moved much so far.

Brent oil futures have traded lower by -2%. Oil-producing countries agreed to loosen their supply curbs gradually Thursday last week. It could help to dampen inflation expectations in coming weeks, analysts commented. Iran's exports of oil products are also expected to increase in the coming months amid a relatively muted US response to higher shipments.



Source: Bloomberg

Other Mature Markets
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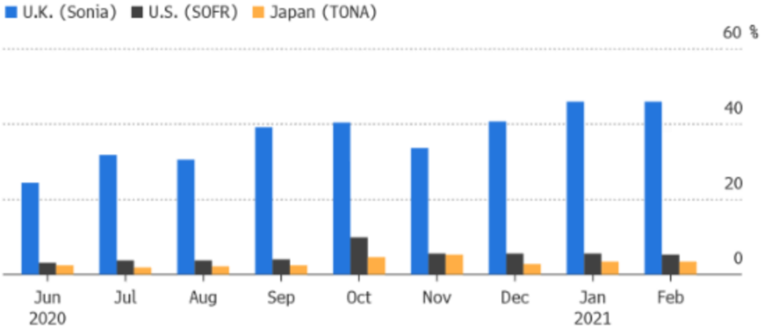
Japan

Equities rose +0.6%, gaining for a third straight day. The services purchasing managers index (PMI) rose to 48.3 in March from 46.3 in February and 46.5 in the preliminary reading. It has remained in contraction for the 14th straight month. **The Bank of Japan (BOJ) began experiments on April 5 to study the feasibility of issuing its own digital currency, according to Reuters.** The first phase of the experiments will be carried out until March 2022 and will focus on testing the technical feasibility of issuing, distributing and redeeming a central bank digital currency. **Only a fraction of the roughly 3 quadrillion yen ($27 tn) in derivatives pegged to the yen Libor has switched to alternative reference rates, with nine months until the yen Libor is phased out, according to Bloomberg citing Fitch Ratings.** The BOJ and the Financial Services Agency said that they will monitor the progress of companies and take steps as needed. They said in a joint statement that companies should work to cease issuing new loans and bonds referencing yen Libor by end-June, and to significantly reduce the amount of such securities on their books by end-September. **10-year JGB yield rose +1.6bps and the yen was little changed.**

Trading activity (measured by DV01) in cleared OTC and exchange-traded yen interest-rate derivatives tied to TONA is lagging global peers



ISDA/ Clarus Financial Technology

Emerging Markets

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Asian equities fell 0.1% on net. India (-1.9%) underperformed amid a resurgence in virus cases and lockdown of Maharashtra. Thailand also lagged, dropping the most in six weeks on virus concerns, with the country reporting 194 daily infections, the highest since March 23. Philippines rose even though movement restrictions were extended for another week in Metro Manila and nearby provinces on accelerating virus cases. China, Hong Kong SAR and Taiwan Province of China were closed for holidays. **Regional currencies weakened, driven by the Indian rupee and Thai baht (both -0.3%). Latin American** equity markets were mostly closed on Friday, and currency markets were little changed.

Key Emerging Market Financial Indicators

Last updated: 4/5/21 8:07 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.86	0.2	4	0	63	4
MSCI Frontier Equities		29.73	0.8	3	1	42	5
EMBIG Sovereign Spread (in bps)		353	0	-2	2	-295	3
EM FX vs. USD		56.33	0.2	1	-1	7	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.57	0.0	0	-1	8	-1
Indonesian Rupiah		14515	0.1	0	-1	13	-3
Indian Rupee		73.30	0.0	-1	0	4	0
Argentine Peso		91.69	0.0	0	-2	-30	-8
Brazil Real		5.66	0.9	2	0	-7	-8
Mexican Peso		20.26	0.2	2	5	22	-2
Russian Ruble		76.47	-0.2	-1	-3	-1	-3
South African Rand		14.62	0.4	2	5	28	1
Turkish Lira		8.13	0.4	1	-7	-17	-9
EM FX volatility		10.91	1.1	-0.3	0.5	-1.9	0.2

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

EM Fund Flows

Inflows to EM bond funds increased to +$1.3 bn last week, according to EPFR, while EM equity funds saw inflows at a slower pace (+$1.5 bn). Hard currency bond funds saw the largest inflows in six weeks (+$571 mn), and inflows to local currency bond funds edged up to +$775 mn last week. From a regional perspective, inflows to Asia ex-Japan equity funds declined to +$362 mn (from +$1.8 bn). EMEA equity funds saw marginal inflows (+18 mn), offset by outflows from Latin America equity funds (-$74 mn). Year-to-date flows to EM bonds and equities were +$29.1 bn and +$67.3 bn, respectively.

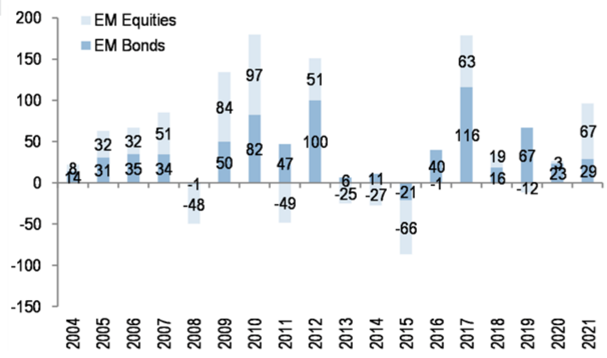
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		2.9	96.4
	EM Bonds		1.3	29.1
	Hard Ccy		0.6	11.7
	Local Ccy		0.8	17.4
	EM Equities		1.5	67.3
	US HG		0.2	77.9
	US HY		-1.7	-8.6
	Global Equities		-5.6	136.4
	EM Bond and Equity ETFs		1.8	33.1
	EM Bond ETFs		0.8	2.9
	EM Equity ETFs		1.0	30.2
	Non-resident EM flows*		-3.9	-26.0
	EM Local Bonds		0.2	-5.5
	EM Equities		-4.1	-20.5

Exhibit 2: Annual EM bond and equity fund flows

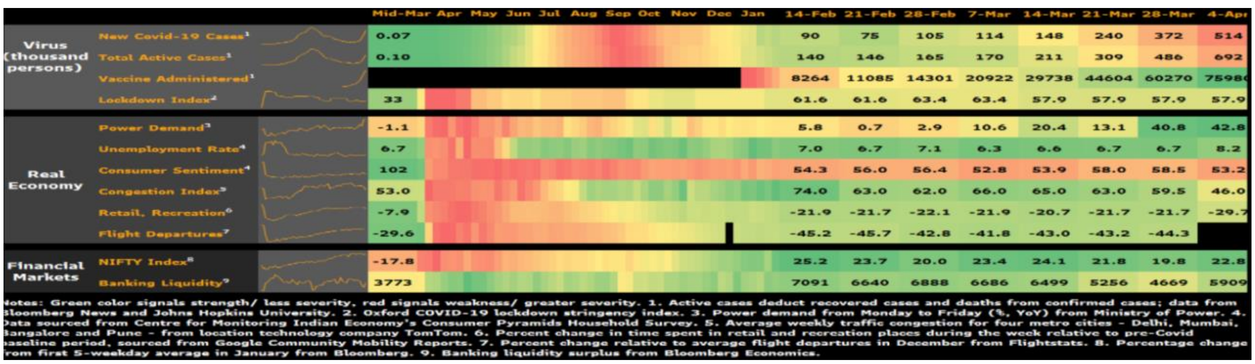
USD billion



*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

India

Equities fell 1.9%, the most in five weeks amid a resurgence in virus cases and lockdown of Maharashtra. India added more than 100k new infections in the last 24 hours, according to Bloomberg. Maharashtra, where the financial city Mumbai is situated and accounts for around 15% of GDP, will halt all non-essential services on Monday. **The Reserve Bank of India (RBI) surprised markets as it revealed that it sold INR38.8 bn ($530 mn) of bonds in the secondary market for the week ending March 28.** According to Bloomberg, this was unexpected as the central bank has been providing support to the government's borrowing program through its open market operations and has not sold debt in the secondary market for a long time. The RBI said previously that it would purchase at least INR3 tn of bonds in the fiscal year that began on April 1. The RBI also separately bought and sold INR100 bn under Operation Twist on March 25. The manufacturing purchasing managers index meanwhile fell to 55.4 in March from 57.5 in February. **The 10-year bond yield fell -1.6bps and the Indian rupee weakened -0.3%.**

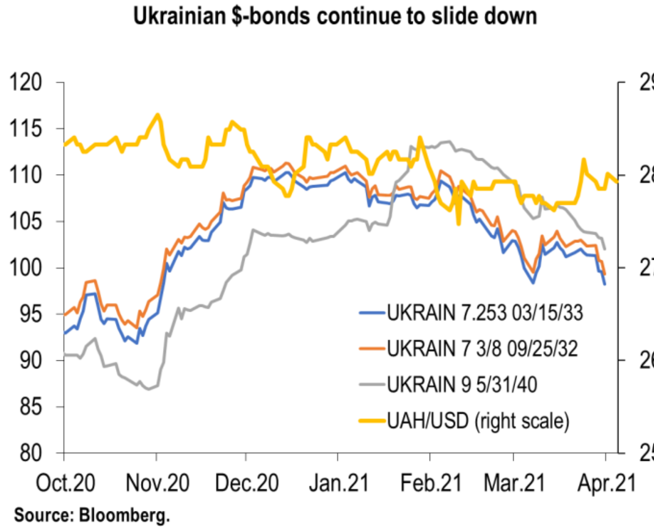


		Mid-Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	14-Feb	21-Feb	28-Feb	7-Mar	14-Mar	21-Mar	28-Mar	4-Apr
Virus (thousand persons)	New Covid-19 Cases[1]	0.07											90	75	105	114	148	240	372	514
	Total Active Cases[1]	0.10											140	146	165	170	211	309	486	692
	Vaccine Administered[1]												8264	11085	14301	20922	29738	44604	60270	75980
	Lockdown Index[2]	33											61.6	61.6	63.4	63.4	57.9	57.9	57.9	57.9
Real Economy	Power Demand[3]	-1.1											5.8	0.7	2.9	10.6	20.4	13.1	40.8	42.8
	Unemployment Rate[4]	6.7											7.0	6.7	7.1	6.3	6.6	6.7	6.7	8.2
	Consumer Sentiment[4]	102											54.3	56.0	56.4	52.8	53.9	58.0	58.5	53.2
	Congestion Index[5]	53.0											74.0	63.0	62.0	66.0	65.0	63.0	59.5	46.0
	Retail, Recreation[6]	-7.9											-21.9	-21.7	-22.1	-21.9	-20.7	-21.7	-21.7	-29.7
	Flight Departures[7]	-29.6											-45.2	-45.7	-42.8	-41.8	-43.0	-43.2	-44.3	
Financial Markets	NIFTY Index[8]	-17.8											25.2	23.7	20.0	23.4	24.1	21.8	19.8	22.8
	Banking Liquidity[9]	3773											7091	6640	6888	6686	6499	5256	4669	5909

Notes: Green color signals strength/ less severity, red signals weakness/ greater severity. 1. Active cases deduct recovered cases and deaths from confirmed cases; data from Bloomberg News and Johns Hopkins University. 2. Oxford COVID-19 lockdown stringency index. 3. Power demand from Monday to Friday (%, YoY) from Ministry of Power. 4. Data sourced from Centre for Monitoring Indian Economy's Consumer Pyramids Household Survey. 5. Average weekly traffic congestion for four metro cities - Delhi, Mumbai, Bangalore and Pune - from location technology company TomTom. 6. Percent change in time spent in retail and recreation places during the week relative to pre-Covid baseline period, sourced from Google Community Mobility Reports. 7. Percent change relative to average flight departures in December from Flightstats. 8. Percentage change from first 5-weekday average in January from Bloomberg. 9. Banking liquidity surplus from Bloomberg Economics.

Ukraine

Ukrainian international bonds face pressures from geopolitical risks. Several news outlets reported on Friday about rising political tensions between the US and Russia over the unresolved Russian-Ukrainian conflict, as US president Biden affirmed US support for Kyiv. In the days before observers had reported that Russian troops would move towards the Donbass region and the Crimean Peninsula, movements which were described by US and Ukrainian officials as the most threatening in recent years. This morning, the Russian stock markets retreated (-0.9%), as international oil prices declined by almost 2%, while the ruble and the Ukrainian hryvnia remained roughly stable.



Morocco

S&P downgraded Morocco's sovereign debt to BB+. Last Friday S&P downgraded the long-term sovereign hard and local currency debt of Morocco from BBB- to BB+ and its short-term debt from A-3 to B. S&P motivated the decision with concerns over slow fiscal consolidation and increases in state guarantees. Moroccan asset markets have so far not displayed any major reaction to the move.

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Global Financial Indicators

Last updated: 4/5/21 8:05 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4027	1.2	1	4	59	7
Europe		3946	0.7	3	6	47	11
Japan		30089	0.8	2	4	62	10
China		3484	0.5	2	-1	26	0
Asia Ex Japan		94	1.1	4	-1	61	5
Emerging Markets		54	1.0	4	0	63	4
Interest Rates					basis points		
US 10y Yield		1.73	1.3	3	17	114	82
Germany 10y Yield		-0.33	0.0	2	2	11	24
Japan 10y Yield		0.12	-0.6	5	2	13	10
UK 10y Yield		0.80	0.0	4	11	46	60
Credit Spreads					basis points		
US Investment Grade		88	-1.2	-10	-1	-190	-7
US High Yield		329	-6.7	-17	-24	-552	-50
Europe IG		50	#N/A N/A	-4	0	-53	2
Europe HY		245	#N/A N/A	-18	-12	-338	3
Exchange Rates					%		
USD/Majors		92.98	-0.1	0	1	-8	3
EUR/USD		1.18	0.0	0	-1	9	-4
USD/JPY		110.5	-0.2	1	2	1	7
EM/USD		56.3	0.2	1	-1	7	-3
Commodities					%		
Brent Crude Oil ($/barrel)		63	-2.7	-2	-9	85	22
Industrials Metals (index)		144	1.1	-1	-4	57	9
Agriculture (index)		51	0.5	0	-3	40	6
Implied Volatility					%		
VIX Index (%, change in pp)		17.9	0.6	-1.0	-6.2	-33.0	-4.9
US 10y Swaption Volatility		80.0	0.4	0.8	-7.2	6.1	19.9
Global FX Volatility		7.7	0.1	-0.2	-0.2	-3.4	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		115	0.0	-4	-11	-127	-5
Italy		96	0.0	0	-10	-103	-15
Portugal		54	0.0	2	-6	-80	-6
Spain		64	0.0	0	-6	-55	2

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
4/5/2021	Level		Change (in %)					Level		Change (in basis points)				
8:07 AM	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		6.57	0.0	-0.4	-1	8	-1		3.3	-0.1	-1	-5	66	3
Indonesia		14515	0.1	-0.5	-1	13	-3		6.7	0.0	-2	8	-139	62
India		73	0.0	-0.9	0	4	0		6.4	0.0	1	-4	-6	44
Philippines		49	-0.2	-0.4	0	4	-1		3.9	0.0	4	36	-104	21
Thailand		31	-0.4	-0.6	-3	5	-5		1.9	-1.8	0	11	15	63
Malaysia		4.14	0.0	0.0	-2	5	-3		3.2	-4.7	-8	19	-15	62
Argentina		92	0.0	0.2	-2	-30	-8		46.3	0.0	45	376	-1180	-987
Brazil		5.66	0.9	2.1	0	-7	-8		8.3	0.0	15	75	180	270
Chile		717	0.0	1.7	2	20	-1		3.5	0.0	-4	43	-6	71
Colombia		3662	-0.1	0.7	-1	10	-6		6.5	0.0	13	86	-64	145
Mexico		20.26	0.2	1.8	5	22	-2		6.7	0.0	9	78	-49	116
Peru		3.7	0.8	-0.5	-2	-8	-3		4.8	0.0	18	40	-68	119
Uruguay		44	0.3	-0.1	-2	-2	-4		7.4	-0.1	7	32	-577	12
Hungary		307	-0.1	0.5	0	10	-3		2.1	0.0	11	13	18	59
Poland		3.90	0.2	1.6	-1	8	-4		0.9	0.0	10	9	-44	31
Romania		4.2	0.1	-0.1	-2	7	-5		2.6	-1.0	-1	-5	-173	-12
Russia		76.5	-0.2	-1.1	-3	-1	-3		6.8	-0.1	5	38	8	107
South Africa		14.6	0.4	2.0	5	28	1		10.3	0.0	2	52	-108	68
Turkey		8.13	0.4	0.9	-7	-17	-9		17.9	1.3	-49	435	440	480
US (DXY; 5y UST)		93	-0.1	0.2	1	-8	3		0.98	0.0	9	18	59	62

	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		5162	0.0	2	-2	39	-1		199	0	-2	-9	30	-9
Indonesia		5970	-0.7	-4	-5	24	0		158	0	-9	-25	-5	-29
India		49159	-1.7	1	-2	78	3		149	1	-4	-1	-211	-2
Philippines		6495	0.8	-1	-6	17	-9		83	0	-9	-17	13	-22
Malaysia		1584	-0.1	-2	-1	18	-3		113	0	-2	-3	9	3
Argentina		47982	0.0	-1	-2	89	-6		1459	0	19	8	-570	91
Brazil		115253	0.0	1	3	60	-3		253	0	0	-16	58	3
Chile		4885	0.0	1	3	37	17		126	0	-6	-16	-14	-18
Colombia		1317	0.0	0	-3	24	-8		207	0	-4	-15	44	2
Mexico		47246	0.0	1	5	40	7		348	0	-9	-34	55	-12
Peru		21372	0.0	0	-5	58	3		133	0	-4	-3	22	1
Hungary		44243	0.0	0	0	36	5		65	0	-6	-15	-42	-31
Poland		58513	0.0	4	0	42	3		-22	0	-4	-11	-54	-21
Romania		11314	0.1	3	8	50	15		191	2	0	-12	-214	-12
Russia		3521	-1.0	0	3	37	7		159	0	-5	-3	19	-7
South Africa		67236	0.0	4	-2	49	13		357	0	-4	-35	25	-23
Turkey		1436	0.4	3	-7	60	-3		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	0	3	4		479	0	12	-21	127	-12
EM total		54	0.2	4	0	63	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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