GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, APRIL 9, 2021

- **China's March inflation surprised to the upside** (link)
- **Egypt and Ukraine to be considered for inclusion in local currency bond index** (link)
- **German industrial production unexpectedly contracts** (link)
- **Italian government to bring forward new spending plans** (link)

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

Investors look for signs of price pressures

Markets move sideways as investors digest dovish Fed communications and scrutinize inflation releases. Stocks are edging slightly higher and government bond performance has been broadly mixed over the last 24 hours. The key drivers of global markets have been continued Dovish commentary from Fed officials, reiterating their patient stance, and unexpected increases in inflation in China ahead of this morning's closely watched US producer price inflation release. China's inflation data led Asian stocks lower overnight and have resonated with an investor community focused on signs of global inflationary pressures. The continued stability in government bond markets relative to last month may be helping unwind some of the market pressures in Latin American countries, with local currency yields declining despite signs of fuel-price driven inflationary pressure.

Key Global Financial Indicators

Last updated: 4/9/21 8:27 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4097	0.4	3	6	47	9
Eurostoxx 50		3980	0.1	2	5	38	12
Nikkei 225		29768	0.2	0	0	53	8
MSCI EM		54	0.8	1	1	53	5
Yields and Spreads					bps		
US 10y Yield		1.67	5.4	-5	15	95	76
Germany 10y Yield		-0.29	4.6	4	1	6	28
EMBIG Sovereign Spread		349	1	-4	-20	-276	-1
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.4	-0.2	0	1	5	-3
Dollar index, (+) = $ appreciation		92.3	0.2	-1	0	-7	3
Brent Crude Oil ($/barrel)		62.8	-0.6	-3	-7	100	21
VIX Index (%, change in pp)		16.8	-0.2	-1	-7	-25	-6

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

United States back to top

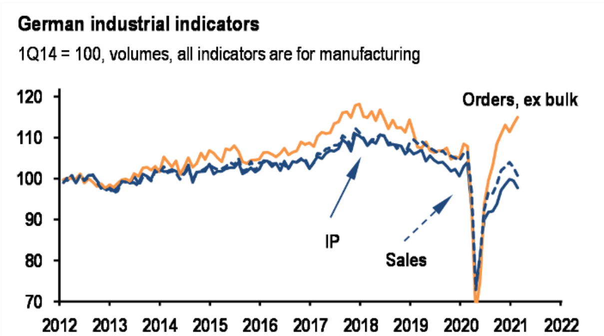
Treasury yields declined in Thursday's session as investors digested further dovish Fed commentary. The 10-year nominal Treasury yield down by over 4 bps, although have largely retraced the move during the Asian overnight session. The decline was attributable to both the real yields and breakevens. Fed officials' commentary, including remarks by Clarida that the Fed awaits "hard numbers" on jobs and prices before tightening, as well as the March meeting minutes were interpreted as relatively dovish. The US dollar as measured by the DXY index continued to weaken on the session and is about 1.3% weaker so far in April, directionally consistent with rates.

Weekly initial jobless claims in the US on Thursday unexpectedly rose, however the move was largely due to transitory factors. Initial jobless claims rose by 16,000 to 744,000 in the week ended April 3, against consensus expectations for a decline. Treasury yields dipped briefly on the news, but rebounded as some economists noted that special factors such as processing backlogs may be one reason for the discrepancy.

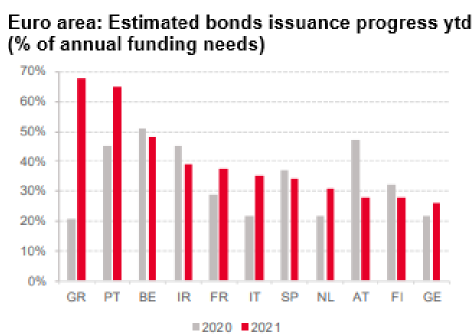
Europe back to top

German bund yields (+3 bps to -0.30%) traded higher after inflation data was higher than expected in China and despite an unexpected contraction in German industrial production in February. The euro (-0.2%) edger lower and equities are little changed.

German industrial production unexpectedly contracted 1.6% mom in February (compared to a gain of +1.5% mom expected). The contraction was broad-based, with only non-durable consumer goods expanding. Analysts point out that the divergence between production and orders continues to widen further and generally expect industrial production to recover in coming months.



Source: Destatis, J.P. Morgan



Source: SocGen

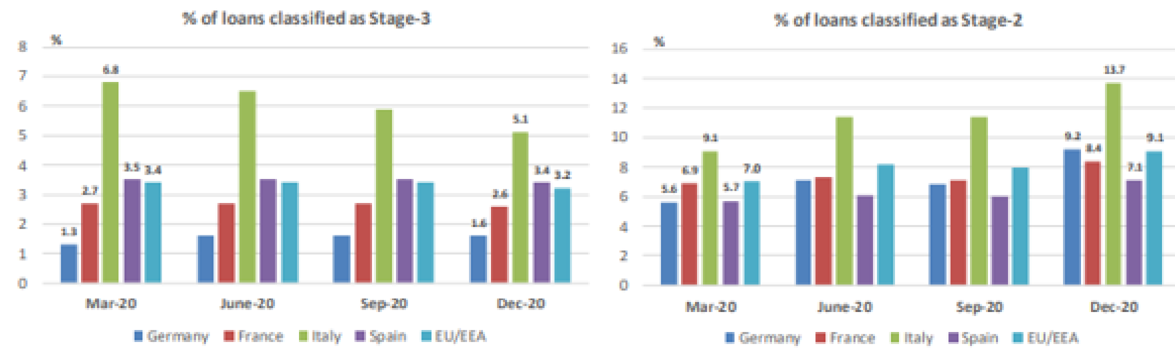
10-yr Italian spreads are 4 bps higher at 104 bps as Bloomberg reports that Italy intends to bring forward plans for as much as €40 bn in borrowing. Italy passed a stimulus package of €32 bn in March. PM Draghi pointed to a new package yesterday but without further details. SocGen estimates that euro area governments will issue another €792bn between now and year-end, versus €896bn at the same point in 2020. **Euro area governments have generally been quick to fund in 2021 but contacts point out that borrowing needs may be higher if lockdowns persist.** 10-yr Spanish 10-yr spreads were little changed at 68 bps with Greek 10-yr spreads trading steady at 117 bps.

M**eanwhile, the EC has already disbursed €76 bn of emergency unemployment support funds to 17 member states**, about 80% of the total envelope. Italy, Spain, and Poland, three main recipients of Support to mitigate Unemployment Risks in an Emergency (SURE) funds, have received a respective 97%, 84% and 59% of the total amount of loans proposed. Contacts point out that SURE bonds have met with strong demand, with yields on the inaugural bond pricing 3 bps above mid-swap in October but pricing below swaps since.

As expected, ECB minutes yesterday indicated that the increase in PEPP purchases was not unanimous as “members expressed broad support” but some members preferring “a more moderate increase in the pace to better reflect the assessment of more balanced risks to the outlook.” **The ECB will re-assess the pace of PEPP purchases later in Q2 with an announcement expected at the June 10 meeting.**

Analysts expect that asset quality deterioration may be a key theme for euro area banks in 2021. Several reports have pointed to EBA data showing that that while the ratio of stage 3 loans (equivalent to NPLs) has not materially changed between March and December of 2020, the ratio of stage 2 loans (loans which are classified as ‘at risk’ but are still performing) has risen significantly across the euro area.

Euro area: Share of loans classified at Stage-3 and Stage-2 (“at risk”)

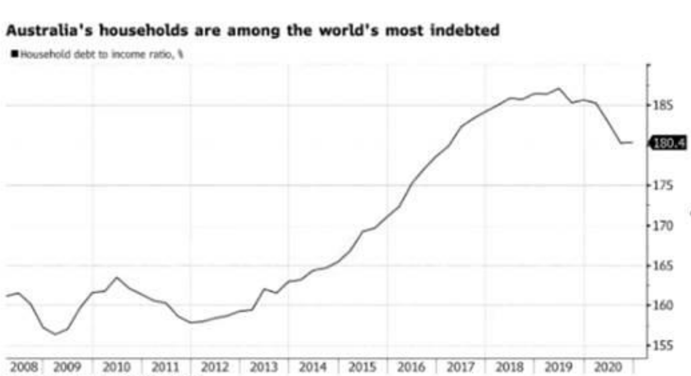


Source: EBA and Jefferies

Other Mature Markets back to top

Australia

The Reserve Bank of Australia (RBA) indicated three key financial stability risks amid broader picture of financial system resilience. It mentioned 1) an incomplete or very uneven economic recovery; 2) excessive borrowing due to low interest rates and rising asset prices; and 3) cyber-attacks. The RBA said that some increase in household and business financial stress is likely as temporary support measures are unwound and borrowers deplete their financial buffers. On rising asset prices, the RBA said that house prices and to a lesser extent housing borrowing have recorded strong growth in recent months and they are watched closely by the regulators. Lending standards for households remain robust and the improvement since mid-2010s has helped borrowers to be well-placed to weather the economic shock. **Equities market was little changed while the Australia dollar weakened -0.5%.**



Japan

Equities rose +0.6% but ended the week with losses. Japan is looking to reimpose restrictions in Tokyo, Kyoto and Okinawa. The Economy Minister told an advisory panel that the government is seeking to introduce the measures from April 12 until May 11 in Tokyo and May 5 in Kyoto and Okinawa. The new measures will be similar to those applied under the emergency, with bars and restaurants being instructed to close by 8pm. **The yen weakened -0.3% while 10-year JGB yield rose +0.5bps.**

Emerging Markets

back to top

Asian equities fell -0.7% in the Friday session, with losses seen across most markets. Hong Kong SAR (-1.1%) and China (Shanghai -0.9%; Shenzhen -0.95%) underperformed while Malaysia (+0.6%) and Thailand (+0.6%) bucked the regional trend. **Regional currencies were mostly weaker, led by weakness in the Indian rupee (-0.4%).** The Sri Lanka rupee has weakened to an all-time low against the US dollar. This followed a decline of its gross official reserves by 11% m/m to $4.058 bn in March, with a small amount being explained by valuation effects from a stronger USD, according to Citi.

EMEA equities are little changed this morning except for indices in Turkey (-0.7%) and Russia (-0.5%). **EMEA currencies were also mostly unchanged** expect for the Russian ruble (-0.5%) and the South African rand (-0.3%). Turkish inflation expectations jumped in the latest central bank survey with 2021 year-end inflation now seen at 13.1% as compared to 11.5% in March. The policy rate expectations were revised marginally higher with consensus continuing to see about 200 bps rate cuts on a 6-month horizon.

Latin American equity markets were mixed on Thursday. Chile outperformed as the equity index rose 1.1%, while Argentina saw losses (-1.0%). Local currencies were mostly stronger, as the Brazilian real and the Colombian peso appreciated 0.8% and 0.7%, respectively. 10-year government bond yields dropped 19 bps in Brazil and 17 bps in Colombia.

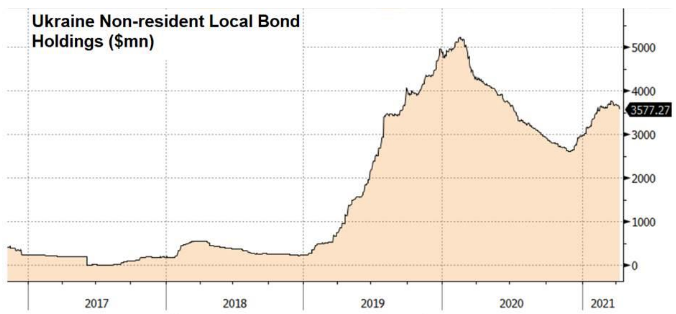
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/9/21 8:25 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		54.01	-0.9	1	1	53	5
MSCI Frontier Equities		30.39	0.6	3	3	43	7
EMBIG Sovereign Spread (in bps)		349	1	-4	-20	-276	-1
EM FX vs. USD		56.42	-0.2	0	1	5	-3
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.56	-0.1	0	-1	7	0
Indonesian Rupiah		14565	-0.2	0	-1	9	-4
Indian Rupee		74.75	-0.2	-2	-2	2	-2
Argentine Peso		92.38	-0.1	-1	-2	-29	-9
Brazil Real		5.62	-0.9	2	3	-9	-8
Mexican Peso		20.15	-0.3	1	5	17	-1
Russian Ruble		77.25	-0.5	-1	-4	-4	-4
South African Rand		14.58	-0.4	1	5	24	1
Turkish Lira		8.15	-0.2	0	-7	-18	-9
EM FX volatility		10.55	0.0	-0.2	-0.1	-1.0	-0.2

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

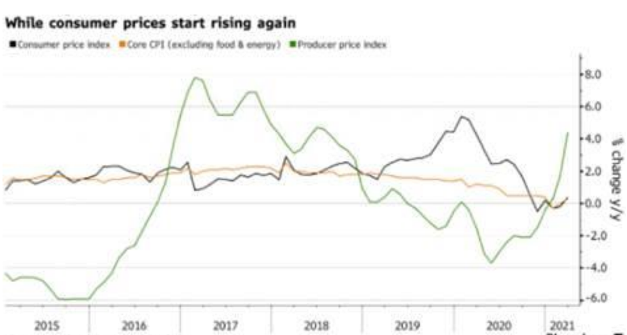
Frontier Markets

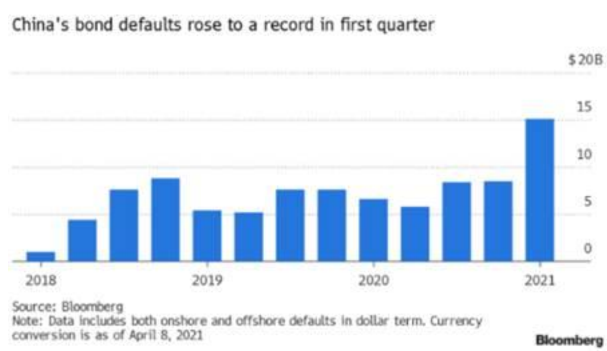
Egypt and Ukraine were placed on a positive watch for inclusion to J.P. Morgan GBI local currency bond index with an update expected in the next 6-months. According to the press report, Egypt's weight is expected to be around 1.8% of the index, which is estimated to bring in around $4.5bn in potential inflows. Contacts noted that the review of Ukraine local market was a surprise, but at this stage the implication would be limited given the small weight (0.12%) of a single bond considered for the index that is estimated to generate about $300mn of potential inflows. **Foreign holdings of Ukrainian bonds have rebounded since late last year, although have not recovered to pre-COVID amounts.**



China

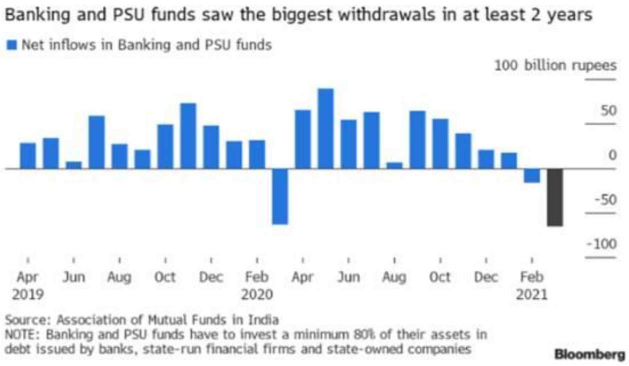
China's consumer price and producer price inflation rose and surprised to the upside in March. Consumer prices rose +0.4% y/y after two straight months of decline while producer price index (PPI) increased +4.4% y/y from +1.7% y/y in February. They beat consensus estimates of +0.3% and +3.6%, respectively. **The Financial Stability and Development Committee issued a statement saying it will maintain the continuity, stability and sustainability of the macro-financial policy.** It also said that local financial agencies should improve corporate governance and risk management and avoid excessive expansion and growth. **Separately, onshore and offshore bond defaults rose to a high of $15.1 bn in 2021Q1.** According to Bloomberg, Chinese companies defaulted on RMB74.75 bn ($11.4 bn) of onshore bonds, more than double the amount last year, and offshore bond defaults more than tripled to $3.7 bn. Real estate companies accounted for 27% of total defaults while issuers from Hainan province defaulted on the most onshore debt. These numbers capture maturing debt of previously defaulted companies so overstate the actual default rate. **Equities (Shanghai -0.9%; Shenzhen -0.95%) fell and the RMB weakened (-0.1%).**





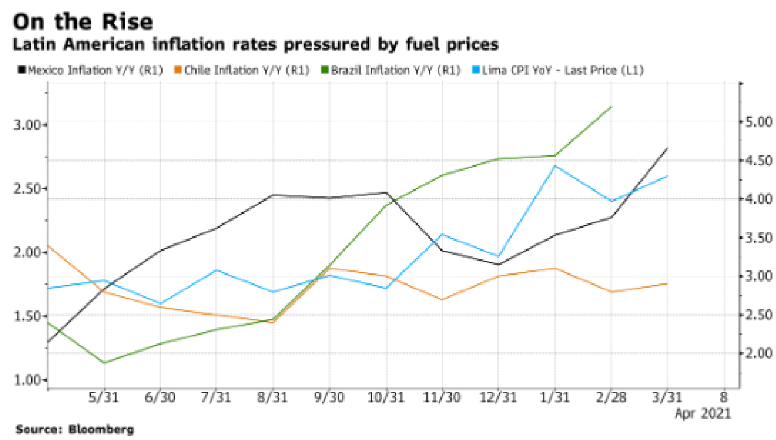
India

Indian equity funds saw inflows for the first time in nine months while fixed income funds experienced sizeable outflows in March. Investors bought INR91.2 bn ($1.2 bn) in Indian equity funds in March, the first inflow in nine months. Investors however withdrew INR525.3 bn from fixed-income funds in March, the biggest outflow in 12 months. Banking and PSU funds - which invest a minimum 80% of their assets in debt issued by banks, state-run financiers and state firms - saw INR65.1 bn of outflows, the largest withdrawal in at least two years. Indian bank bonds sold off last month following new regulatory tightening mutual funds treatment of Additional Tier 1 notes. **Equities fell -0.4% while the rupee depreciated -0.3%.**



Mexico

Banxico meeting minutes from March 25 underscored the intention to extend accommodative policies if price pressures allow. According to the statement, the decision to maintain rates did not signal an end to the recent easing cycle, and board members will be on the lookout for conditions that allow for resuming rate cuts without jeopardizing price stability. Yesterday, energy prices drove **headline inflation to 4.67% in March** (from 3.76% in February), the highest level since December 2018 and above Banxico's upper bound of the inflation target. Mexican risk assets were generally higher yesterday, with domestic equities higher by 0.6% and the peso up 0.5% against the dollar.



List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas
Deputy Division Chief

Antonio Garcia-Pascual
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Jose Abad
Financial Sector Expert

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Liumin Chen
Research Assistant

Yingyuan Chen
Financial Sector Expert

Han Teng Chua
Economic Analyst

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Mohamed Diaby
Economist (EP)

Dimitris Drakopoulos
Financial Sector Expert

Deepali Gautam
Research Officer

Rohit Goel
Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sonia Meskin
Financial Sector Expert

Natalia Novikova
IMF Resident Representative in Singapore

Dmitri Petrov
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Juan Solé
Senior London Representative

Jeffrey Williams
Senior Financial Sector Expert

Dmitry Yakovlev
Senior Research Officer

Akihiko Yokoyama
Senior Financial Sector Expert

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 4/9/21 8:27 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		4095	0.4	2	6	47	9
Europe		3980	0.1	2	5	38	12
Japan		29768	0.2	0	0	53	8
China		3451	-0.9	0	0	23	-1
Asia Ex Japan		94	1.0	1	0	53	5
Emerging Markets		54	0.8	1	1	53	5
Interest Rates			basis points				
US 10y Yield		1.67	5.4	-5	15	95	76
Germany 10y Yield		-0.29	4.6	4	1	6	28
Japan 10y Yield		0.11	1.2	-2	-2	9	9
UK 10y Yield		0.80	5.1	1	7	49	60
Credit Spreads			basis points				
US Investment Grade		88	-1.2	0	-16	-115	-7
US High Yield		322	-3.2	-14	-42	-446	-57
Europe IG		50	-0.1	0	1	-30	2
Europe HY		244	-0.3	-1	-9	-220	2
Exchange Rates			%				
USD/Majors		92.28	0.2	-1	0	-7	3
EUR/USD		1.19	-0.3	1	0	9	-3
USD/JPY		109.8	0.5	-1	1	1	6
EM/USD		56.4	-0.2	0	1	5	-3
Commodities			%				
Brent Crude Oil ($/barrel)		63	-0.6	-3	-7	100	21
Industrials Metals (index)		145	-0.8	2	3	56	10
Agriculture (index)		52	0.5	3	-1	43	8
Implied Volatility			%				
VIX Index (%, change in pp)		16.8	-0.2	-0.6	-7.3	-24.9	-6.0
US 10y Swaption Volatility		75.2	0.2	-4.5	-10.9	-7.0	15.0
Global FX Volatility		7.7	0.0	0.0	-0.4	-1.7	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		116	-0.2	1	-3	-98	-3
Italy		103	3.2	7	4	-91	-8
Portugal		58	0.8	4	1	-68	-2
Spain		68	0.8	4	1	-45	6

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: 4/9/2021 8:25 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		6.56	-0.1	0.2	-1	7	0		3.3	0.1	1	-3	83	4
Indonesia		14565	-0.2	-0.3	-1	9	-4		6.5	1.8	-18	-38	-176	44
India		75	-0.2	-1.9	-2	2	-2		6.3	-2.0	-7	-15	-36	37
Philippines		49	-0.1	-0.1	0	4	-1		3.9	-5.3	0	34	-123	21
Thailand		31	-0.2	-0.6	-2	4	-5		1.9	-1.5	-4	-13	24	61
Malaysia		4.13	0.1	0.1	0	5	-3		3.2	0.4	-4	-4	-8	63
Argentina		92	-0.1	-0.7	-2	-29	-9		46.2	-9.2	-9	279	-1238	-996
Brazil		5.62	-0.9	1.5	3	-9	-8		8.2	-20.2	-11	83	181	260
Chile		708	0.7	1.3	4	20	0		3.3	-5.1	-15	12	-7	56
Colombia		3637	0.4	0.6	-1	7	-6		6.1	-11.7	-44	10	-111	101
Mexico		20.15	-0.3	0.8	5	17	-1		6.4	-7.0	-33	26	-72	83
Peru		3.6	0.3	4.0	3	-6	1		4.6	-0.6	-18	-16	-53	101
Uruguay		44	0.2	0.6	1	-2	-4		7.4	2.4	4	40	-576	16
Hungary		301	-0.2	1.7	2	7	-2		2.1	-2.1	-3	-9	8	56
Poland		3.82	-0.2	2.3	0	9	-2		0.9	-1.2	-4	-2	-28	28
Romania		4.1	-0.3	0.9	-1	7	-4		2.6	0.0	-3	-16	-169	-14
Russia		77.2	-0.5	-1.2	-4	-4	-4		7.0	1.5	19	59	42	126
South Africa		14.6	-0.4	0.7	5	24	1		10.0	-10.0	-34	-27	-125	34
Turkey		8.15	-0.2	0.2	-7	-18	-9		17.9	3.7	-4	339	430	475
US (DXY; 5y UST)		92	0.2	-0.7	0	-7	3		0.89	5.0	-9	8	48	52

	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		5035	-1.5	-1	-2	34	-3		199	0	-2	-9	30	-9
Indonesia		6070	0.0	1	-5	31	2		158	0	-9	-25	-5	-29
India		49591	-0.3	-1	-2	59	4		160	8	11	-3	-195	9
Philippines		6545	0.0	0	-3	19	-8		83	0	-9	-17	13	-22
Malaysia		1612	0.6	2	0	19	-1		113	0	-2	-3	9	3
Argentina		49631	0.0	3	7	77	-3		1459	0	19	8	-570	91
Brazil		118313	0.0	1	6	52	-1		253	0	0	-16	58	3
Chile		4910	0.0	1	1	28	18		126	0	-6	-16	-14	-18
Colombia		1326	0.0	1	-1	12	-8		207	0	-4	-15	44	2
Mexico		48188	0.0	1	2	39	9		348	0	-9	-34	55	-12
Peru		21800	0.0	2	-3	57	5		133	0	-4	-3	22	1
Hungary		43954	-0.5	-1	1	30	5		65	0	-6	-15	-42	-31
Poland		59511	0.1	2	1	34	4		-22	0	-4	-11	-54	-21
Romania		11249	0.4	0	6	38	15		185	1	-7	-20	-190	-18
Russia		3486	-0.6	-2	0	29	6		159	0	-5	-3	19	-7
South Africa		67062	0.0	1	-2	40	13		357	0	-4	-35	25	-23
Turkey		1394	-1.6	-3	-10	45	-6		421	0	-5	-47	34	-24
Ukraine		529	0.0	2	2	5	6		479	0	12	-21	127	-12
EM total		54	-0.9	1	1	53	5		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