GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, APRIL 12, 2021

- **Market pricing of Fed policy rate outpaces surveys** (link)
- **US high yield bond sector receives strong investor flows** (link)
- **European earnings estimates revised higher ahead of the reporting season** (link)
- **EM bond funds saw strong inflows last week** (link)
- **India sees a pickup in job losses amid a new COVID-19 outbreak** (link)
- **China's credit growth remained strong in March** (link)
- **Ukrainian inflation accelerates, firming expectations of rate hikes** (link)
- **Ecuador dollar sovereign bonds rally on news of a presidential victory by candidate Guillermo Lasso** (link)

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Markets pause after US equities hit another record high on Friday

European bourses were mixed and US equity futures pointed to a modest loss as investors took a breather following the S&P 500 index reaching record highs on Friday. Asian equity markets underperformed after several countries introduced new containment measures in response to a resurgence of virus cases. Sovereign bond yields were little changed, with US Treasury yields steady ahead of a round of auctions in 3, 10 and 30-year maturities this week. On the data front, US inflation data will be released on Tuesday following the higher than expected PPI reading in March. Retail sales will also be released, and a number of Fed officials will be speaking publicly. Among the G-20, Turkey's central bank will have a highly anticipated policy meeting on April 15 after the dismissal of its governor. Market participants will also pay close attention to the new corporate earnings season, with earnings revision indices indicating analysts are more upbeat on European corporate earnings.

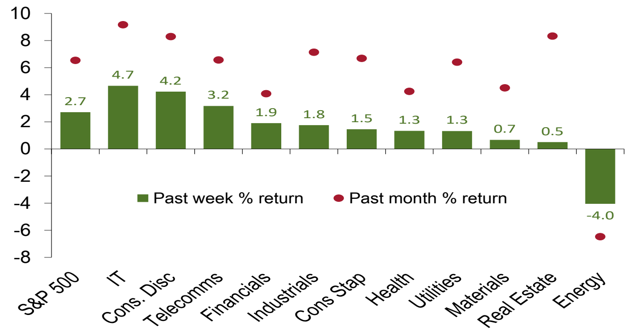
Key Global Financial Indicators

Last updated: 4/12/21 8:05 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4129	0.8	3	5	48	10
Eurostoxx 50		3975	-0.1	1	4	37	12
Nikkei 225		29539	-0.8	-2	-1	55	8
MSCI EM		54	-0.9	-1	-1	51	4
Yields and Spreads			bps				
US 10y Yield		1.66	0.6	-4	4	94	75
Germany 10y Yield		-0.31	-0.6	2	0	4	26
EMBIG Sovereign Spread		347	-2	-6	-23	-260	-3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.4	0.1	0	-1	5	-3
Dollar index, (+) = $ appreciation		92.1	-0.1	-1	0	-7	2
Brent Crude Oil ($/barrel)		63.7	1.2	3	-8	102	23
VIX Index (%, change in pp)		17.5	0.8	0	-3	-24	-5

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

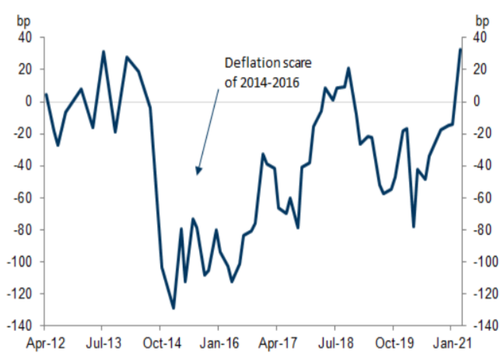
United States back to top

US equities rose on Friday to close out a strong week, with the S&P 500 index reaching another record high. Tech led the way over the last week and month, pushing back against the value/small cap rotation seen since November, gaining nearly 5%. Treasuries sold off, with 10-year yields up 4 bps to 1.66%, down from their closing highs of 1.74% two weeks ago.



Market pricing of Fed policy hikes is outpacing surveys by a significant margin. Market pricing of expected Fed policy rates has diverged considerably from survey expectations, with markets expecting the federal funds rate to be about 35-40bps higher than the Fed's Survey of Primary Dealers (SPD) at end-2023. Moreover, GS analysts noted that if you look at the modal outcome of the survey responses rather than a weighted mean, the gap would be even larger as the SPD would show no expected change from the current policy rate. The divergence between market pricing and survey participants may reflect inflation risk premia, with market implied inflation pricing (5y ahead) showing a ~25% chance of 2.5-3% inflation in March (compared to ~ 17% in January). In contrast, the SPD shows only a modest change from the January to the March edition, with about a 16% probability of inflation between 2.5-3.0%.

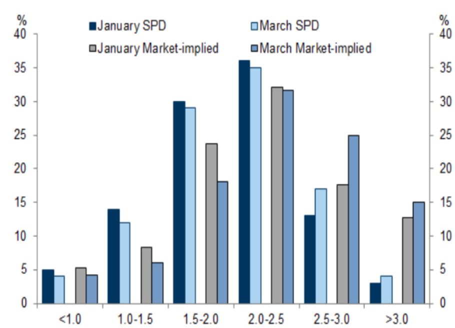
2y ahead year-end market OIS minus SPD probability-weighted mean fed funds rate projection



*The SPD began to collect distribution information only from 2012 onwards

Source: Goldman Sachs Global Investment Research, Federal Reserve

January and March SPD 5y ahead CPI inflation distribution vs market-implied distribution



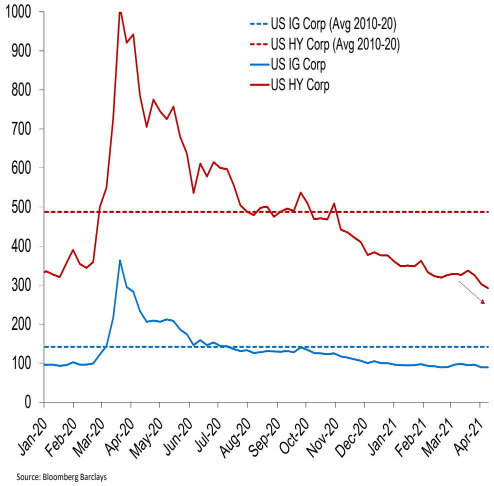
Source: Goldman Sachs Global Investment Research, Federal Reserve

The US high yield bond sector received the strongest flows since the US election last week, helping drive spreads tighter. US high yield fixed income (ETFs and funds) pulled in $3 bn last week (1.1% of AUM), the best week since November and the second consecutive week of inflows. However, net flows YTD remain negative at -$4.5 bn after a punishing Feb-March. High yield corporate spreads have fallen 33 bps over the last 2 weeks, while investment-grade spreads are down about 6 bps over the same period.

Figure 3: Fund flows summary
YTD fund flows summary by asset class

Asset class	Last week (% of AUM for weekly reporting funds/ETFs)	YTD (% of AUM for all funds/ETFs)	YTD ($bn)
High grade: total	0.16%	3.3%	135.4
High grade: ex short-term	-0.12%	3.2%	99.9
High yield: total	1.09%	-1.1%	-4.5
High yield: ETFs only	2.69%	-1.1%	-0.8
Loans	2.05%	15.7%	12.9
EM	0.29%	2.2%	18.0
Munis	0.33%	2.7%	27.7
All fixed income	0.29%	3.2%	206.0
Money markets	-0.23%	4.2%	195.2
Equities	0.14%	0.9%	160.5

Note: Last week flow as % of AUM is based on AUM for weekly reporting funds / ETFs only. YTD flow as % of AUM is based on AUM for the full fund/ ETF universe as of December 31 2019. Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research



Europe

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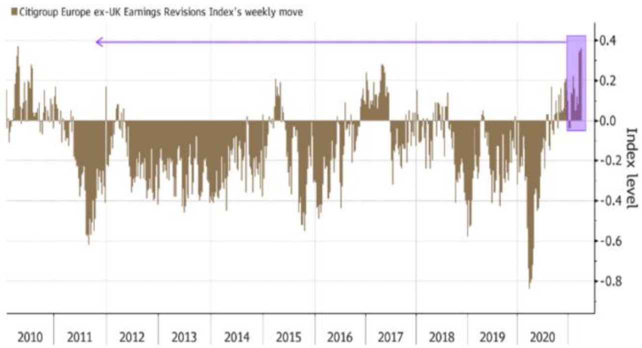
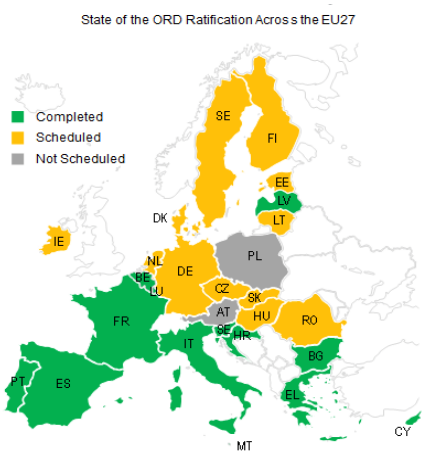
European equity markets were little changed except for indices in Italy (+0.5%) and Spain (-0.5%). The technology sector was slightly underperforming (-0.5%). With the Q1 earnings season beginning this week, **upward revisions for European corporate earnings have reached the highest level since 2010** according to the Citigroup index. Analysts are particularly optimistic on basic resources, banks, car manufactures and oil producers. Inflows into European equity funds have started to pick up this year, but still lag those in the US and Asia.



European sovereign bond markets reversed their Friday losses with yields declining by 2 bps. Southern European and corporate credit spread benchmarks were unchanged. The euro was stable while the pound (+0.3%) recovered after trading close to 2-month low at the Asia close.

Contacts note that **sovereign spreads are likely to become more sensitive to the developments around the Recovery Fund** in the coming weeks as number of countries are yet to ratify the Own Resource Decision (ORD) to enable joint EU borrowing. The EU Council summit on 24-25 June would be the first deadline for ORD ratification to start disbursements in Q3 2021. **Analysts diverge in their views around the implementation delay** with some see Q4 as the new base case while others continuing to expect a last moment ratification ahead of the summit with German Constitutional Court rejecting the injunction in the next 8-12 weeks, as it was the case with the ESM in 2012, while other national parliaments moving more rapidly under pressure from Brussels.



Source: Goldman Sachs Global Investment Research, European Parliament

Over the weekend**, Bavarian premier Markus Soeder announced his candidacy for the CDU/CSU joint chancellor** post ahead of the 26th September German federal election. Soeder enjoys higher opinion polls (38%) as compared to the current CDU candidate Armin Laschet (16%), which contacts argue could potentially lift unions chances to maintain control of the federal government. The CDU/CSU block has seen a sharp decline in opinion polls over the last few months with market participants discussing possibility of an alternative coalition led by the Green party after a 16-year CDU/CSU control of the parliament.

Other Mature Markets

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Japan

Machine tool orders were stronger than expected in March. The orders surged 65% y/y, the largest increase since 2011. According to some analysts, the strong orders may suggest that manufacturers start to see the light at the end of a long pandemic tunnel. **PPI inflation accelerated in March**, up 0.8% m/m, higher than an expected 0.4% increase. Meanwhile, **a surge in virus infections led to a new round of tighter containment measures in six cities** including Osaka, which started to dampen economic activity. Some analysts noted that the uncertainties about the COVID-19 situation could also raise concerns about jobs and weaken consumer confidence. **Equities fell (NIKKEI: -0.8%); the Japanese yen appreciated (+0.2%); long-end JGB yields were little changed**.

Emerging Markets

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Asian stock markets declined, -1.1% on net, led by Indian (-3.5%), Indonesian (-2.0%) and Chinese (-1.7%) equities. **Asian currencies also depreciated,** led by Korea won (-0.4%), Thai baht (-0.3%), and Indian rupee (-0.3%). **In Indonesia,** government bond yields rose (10-year: +7.8 bps) as traders adjusted their positions ahead of a debt auction tomorrow. Reportedly, Bank Indonesia intervened in the spot and local NDF markets. The Indonesian rupiah depreciated (-0.2%). **In Thailand,** a new COVID-19 outbreak could threaten the border re-opening plan to boost tourism; equities declined (-1.5%). **In EMEA**, **Russian** equities (+1.3%) gained and the ruble (+0.3%) firmed as oil prices (+1.2%) gained. **Turkish** equities (-0.4%) fell and the lira was little changed after Turkey's current account deficit widened to $2.6 bn and unemployment rose to 13.4% in February. **Polish** 10-year rates fell 3 bps to 1.54% and the zloty was little changed (after appreciating 2.4% in April) in the wake of comments of central bank governor Glapinski on Friday that it is too early to discuss tightening monetary policy with the MPC ready to ease policy if needed. In **Latam**, **stock markets saw losses on Friday**, with Brazil, Mexico and Argentina down by 0.5%, 1.2% and 1.6% respectively. The currency markets were relatively quiet. 10-year government bond yields rose 14 bps in Mexico and 13 bps in Colombia.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/12/21 8:08 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		53.55	-0.4	-1	-1	51	4
MSCI Frontier Equities		30.40	0.0	2	2	43	7
EMBIG Sovereign Spread (in bps)		347	-2	-6	-23	-260	-3
EM FX vs. USD		56.37	0.1	0	-1	5	-3
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.54	0.1	0	-1	8	0
Indonesian Rupiah		14595	-0.2	-1	-1	7	-4
Indian Rupee		75.06	-0.4	-2	-3	2	-3
Argentine Peso		92.44	-0.1	-1	-2	-30	-9
Brazil Real		5.66	0.3	0	-2	-8	-8
Mexican Peso		20.15	0.1	1	3	17	-1
Russian Ruble		77.21	0.3	-1	-5	-5	-4
South African Rand		14.61	0.0	0	2	24	1
Turkish Lira		8.15	0.3	0	-7	-17	-9
EM FX volatility		10.59	0.3	-0.2	0.0	-0.9	-0.2

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

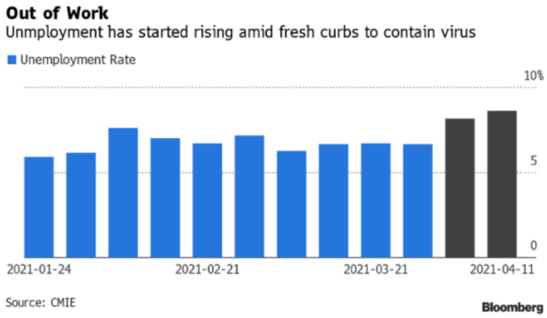
EM Fund Flows

EM bond inflows increased materially to +$1.8bn last week due to the largest hard currency bond fund inflow in two months (+$1.6bn) and local currency bond funds also attracting inflows (+$243mn. The inflows were concentrated in non-ETFs (+$1.2bn), with ETFs attracting roughly half of that number(+$637mn). Meanwhile, **EM equity inflows declined** (+1.9 bn, from +$5.0 bn). Within regional equity funds, Asia ex-Japan inflows decreased (+$491mn, from +$1.2bn); while EMEA EM and Latin America both had outflows (-$41mn and -$119mn, respectively).

India

Job losses are picking up as containment measures are re-introduced to curb the new outbreak. India see record COVID-19 cases (about 150k cases per day). Unemployment touched 8.6% for the week ending April 11, from 6.7% two weeks earlier. Governments in some major metropolitan areas warned of more restrictions if the medical facilities become over-stretched. Some analysts noted that a prolonged and widespread implementation of containment measures could lead to another bout of millions of migrant workers heading back to their villages. **Indian financial markets underperformed regional peers.**

Equities dropped 3.5%. The Indian rupee depreciated 0.3% today after weakening about 2% last week. The 1-year government bond yield rose (+9.5 bps).

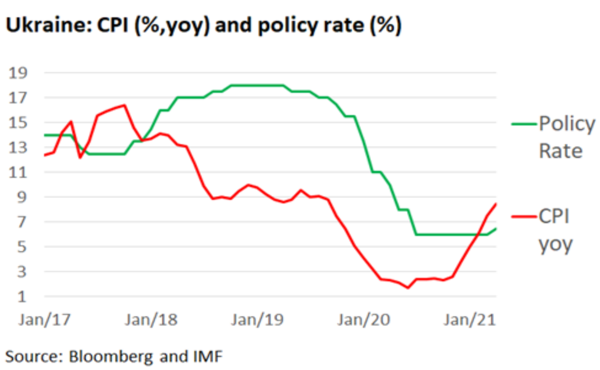


China

Credit growth remained strong in March. Aggregate financing amounted to 3,340 bn yuan ($510 bn), up from 1,710 bn yuan in February (which was low due to the Lunar New Year holidays). The pickup in credit growth was underpinned by a stronger-than-expected extension of RMB loans by banks, at 2,730 bn yuan ($417 bn), despite the fact that the People's Bank of China reportedly asked banks to curtail loan growth. **Alibaba faced a record fine for its monopolistic behavior.** The State Administration of Market Regulations fined Alibaba 4% of its domestic sales revenues (456 bn yuan in 2019, or about $70 bn). Markets viewed this as a better-than-expected outcome as the amount of the fine was smaller than the 10% ceiling and an early conclusion of the investigation helped remove uncertainty. Beside the fine, Alibaba is required to end its unfair market practices. Alibaba's share price increased 6.5% in the Hong Kong exchange today. **Equities declined (CSI 300: -1.7%),** led by stocks in the materials sector after the government vowed to tighten controls on raw materials to contain surging commodities prices. The **RMB was little changed.**

Ukraine

The central bank of Ukraine is expected to increase its policy rate 50 bps to 7% on Wednesday after inflation unexpectedly accelerated to 8.5% yoy (7.9% expected) in March from 7.5% in April. Core inflation rose 1.7% mom. In separate news, **Ukraine has asked Russia to pull back troops from its border as the US warned that there will be costs and consequences if Russia acts aggressively**. In a sign of tightening financial conditions, 3-month Ukrainian forward rates traded at 12.56% (from around 8.5% at end March). The yield on the Ukrainian U.S. dollar bond due 2028 rose 8 bps to 7.22% (from 6.88% at end March).



Ecuador

Ecuador's dollar sovereign bonds rallied in early trading this morning after news of a presidential victory by candidate Guillermo Lasso. Bonds were trading 10-13 points higher following the defeat of socialist candidate Arauz as markets were reassured by Lasso's victory. Lasso has promised to attract foreign investors and create jobs via policies to help the private sector.

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Global Financial Indicators

Last updated: 4/12/21 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4126	0.8	1	5	48	10
Europe		3975	-0.1	1	4	37	12
Japan		29539	-0.8	-2	-1	55	8
China		3413	-1.1	-2	-1	23	-2
Asia Ex Japan		93	-0.7	0	-1	52	4
Emerging Markets		54	-0.9	-1	-1	51	4
Interest Rates					basis points		
US 10y Yield		1.66	0.6	-4	4	94	75
Germany 10y Yield		-0.31	-0.6	2	0	4	26
Japan 10y Yield		0.11	-0.2	-1	-2	9	9
UK 10y Yield		0.78	0.7	-1	-4	48	58
Credit Spreads					basis points		
US Investment Grade		89	-0.4	0	-15	-115	-6
US High Yield		329	-0.6	1	-25	-440	-51
Europe IG		51	0.4	1	4	-29	3
Europe HY		248	2.1	3	6	-216	6
Exchange Rates					%		
USD/Majors		92.08	-0.1	-1	0	-7	2
EUR/USD		1.19	0.1	1	0	9	-3
USD/JPY		109.4	-0.3	-1	0	1	6
EM/USD		56.4	0.1	0	-1	5	-3
Commodities					%		
Brent Crude Oil ($/barrel)		64	1.2	3	-8	102	23
Industrials Metals (index)		144	-0.8	0	0	55	8
Agriculture (index)		51	-0.4	2	-1	41	7
Implied Volatility					%		
VIX Index (%, change in pp)		17.5	0.8	-0.4	-3.2	-24.2	-5.3
US 10y Swaption Volatility		78.5	1.2	-1.7	-9.4	-5.6	18.3
Global FX Volatility		7.6	0.0	-0.1	-0.4	-1.6	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		117	-0.2	2	4	-97	-3
Italy		102	-0.8	6	9	-92	-9
Portugal		58	-0.3	4	7	-68	-2
Spain		68	-0.2	4	4	-45	6

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)						
4/12/2021	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		6.54	0.1	0.3	-1	8	0		3.3	-0.2	1	-3	84	4
Indonesia		14595	-0.2	-0.5	-1	7	-4		6.5	-2.0	-20	-43	-163	42
India		75	-0.4	-2.3	-3	2	-3		6.3	2.0	-5	-17	-36	39
Philippines		49	0.0	0.1	0	4	-1		3.9	0.0	0	17	-121	21
Thailand		32	-0.4	-0.5	-3	4	-5		1.9	-1.8	-4	-16	24	59
Malaysia		4.13	0.1	0.2	0	5	-3		3.2	-0.2	0	-14	-8	63
Argentina		92	-0.1	-0.8	-2	-30	-9		45.7	-47.6	-57	228	-1286	-1043
Brazil		5.66	0.3	0.1	-2	-8	-8		8.3	12.6	2	82	210	272
Chile		712	-0.5	0.8	3	18	0		3.4	4.8	-10	19	3	61
Colombia		3652	-0.4	0.3	-1	5	-6		6.2	12.9	-31	27	-99	114
Mexico		20.15	0.1	0.9	3	17	-1		6.5	11.4	-21	37	-61	95
Peru		3.6	-0.8	3.3	2	-7	0		4.7	7.4	-11	-2	-45	108
Uruguay		44	-0.3	0.3	1	-2	-4		7.4	0.3	5	31	-576	17
Hungary		299	0.5	1.9	3	8	-1		2.1	1.4	-2	-1	16	57
Poland		3.80	0.2	2.2	1	10	-2		0.9	0.4	-3	-1	-21	28
Romania		4.1	0.1	0.7	-1	7	-4		2.6	3.0	1	-4	-165	-11
Russia		77.2	0.3	-1.1	-5	-5	-4		7.0	2.5	21	61	50	128
South Africa		14.6	0.0	-0.4	2	24	1		10.0	3.9	-30	-22	-106	38
Turkey		8.15	0.3	-0.4	-7	-17	-9		17.9	1.2	-4	338	489	476
US (DXY; 5y UST)		92	-0.1	-0.6	0	-7	2		0.87	1.1	-5	3	47	51

	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		4948	-1.7	-4	-4	32	-5		199	0	-2	-9	30	-9
Indonesia		5949	-2.0	0	-6	29	-1		158	0	-9	-25	-5	-29
India		47883	-3.4	-3	-6	56	0		161	1	12	-8	-198	10
Philippines		6519	-0.4	1	-3	16	-9		83	0	-9	-17	13	-22
Malaysia		1608	-0.2	2	0	19	-1		113	0	-2	-3	9	3
Argentina		48846	0.0	2	0	74	-5		1459	0	19	8	-570	91
Brazil		117670	0.0	2	3	51	-1		253	0	0	-16	58	3
Chile		4958	0.0	2	1	30	19		126	0	-6	-16	-14	-18
Colombia		1322	0.0	0	-2	11	-8		207	0	-4	-15	44	2
Mexico		47628	0.0	1	0	38	8		348	0	-9	-34	55	-12
Peru		21716	0.0	2	-5	56	4		133	0	-4	-3	22	1
Hungary		43701	-0.2	-1	0	29	4		65	0	-6	-15	-42	-31
Poland		59533	0.2	2	0	34	4		-22	0	-4	-11	-54	-21
Romania		11259	0.1	0	5	35	15		184	-1	-8	-19	-195	-19
Russia		3524	1.1	0	0	32	7		159	0	-5	-3	19	-7
South Africa		66689	-0.7	-1	-2	39	12		357	0	-4	-35	25	-23
Turkey		1387	-0.4	-4	-11	44	-6		421	0	-5	-47	34	-24
Ukraine		530	0.0	2	2	5	6		479	0	12	-21	127	-12
EM total		54	-0.4	-1	-1	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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