







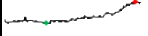





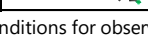
- **US CPI increases the most since 2012 in March, but just above expectations** ([link](#))
- **St Louis Fed President Bullard suggests 75% vaccination as the threshold for starting discussion of tapering** ([link](#))
- **US Treasury reportedly plans not to name China as a currency manipulator** ([link](#))
- **Ukraine's sovereign bond spreads widen on concerns about mounting tensions with Russia** ([link](#))
- **SPECIAL FEATURE: Update on EM Credit Ratings** ([attachment](#))

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## Markets cautious on vaccine delays

European bourses were mixed and US equity futures pointed to a negative opening on news that the US CDC will call for a pause on the Johnson & Johnson vaccine. The NY times reported that concerns about clotting cases drove this decision. The one-shot vaccine was meant to help accelerate the vaccination timeline with the news denting market sentiment. The VIX rose half a percentage point while US Treasury yields were little changed following the release of a higher-than expected CPI print. Emerging markets were also mixed, with spreads on Ukraine's sovereign bond spreads widening on concerns about mounting tensions with Russia.

Key Global Financial Indicators

Last updated: 4/13/21 8:12 AM	Level Last 12m Latest	Change from Market Close				12 M	YTD
		1 Day	7 Days	30 Days			
<b>Equities</b>		%					%
S&P 500	 4128	0.0	1	5		49	10
Eurostoxx 50	 3961	0.0	0	3		37	11
Nikkei 225	 29752	0.7	0	0		51	8
MSCI EM	 53	-0.6	-2	-1		50	3
<b>Yields and Spreads</b>		bps					
US 10y Yield	 1.68	1.6	3	6		91	77
Germany 10y Yield	 -0.28	1.6	4	3		7	29
EMBIG Sovereign Spread	 342	-5	-8	-13		-265	-8
<b>FX / Commodities / Volatility</b>		%					
EM FX vs. USD, (+) = appreciation	 56.1	-0.2	-1	-1		4	-3
Dollar index, (+) = \$ appreciation	 92.3	0.1	0	1		-7	3
Brent Crude Oil (\$/barrel)	 63.6	0.5	1	-8		100	23
VIX Index (% change in pp)	 17.4	0.5	-1	-3		-24	-5

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

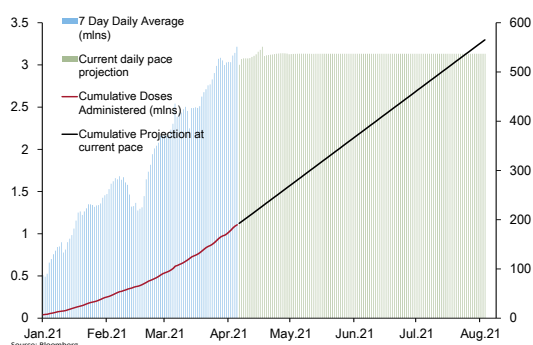
## United States

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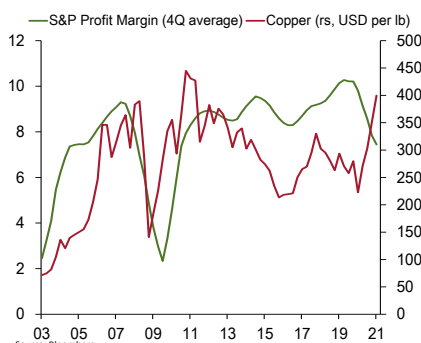
**US markets were little changed on Monday**, ahead of the start of the earnings season, with major banks reporting later this week. Treasury bonds were little changed, with the 10- and 30-year yields marginally higher. Treasury auctions of \$96 bn in 3- and 10-year notes went reasonably smoothly, with slightly below average bid/cover ratios of 2.32 and 2.36 respectively. The third auction of the week will take place on Tuesday, with \$24 bn in 30-year bonds on offer.

**US CPI increased the most since 2012 (on a monthly basis) but came in just above expectations** at 0.6% m/m (0.5% consensus) for March and 2.6% y/y (vs 2.5% consensus), up from 0.4% m/m and 1.7% y/y in February. Core inflation was 0.3% m/m and 1.6% y/y, also above expectations. Bond markets and equity futures were little changed following the release.

**St Louis Fed President Bullard suggested 75% vaccination rate as the threshold for starting discussion of tapering of asset purchases.** If the current vaccination pace is kept at around 3.1 mn doses per day, the US would reach 500 mn doses administered by early August (there are ~250 mn Americans 18 and over). However, some health officials have expressed concerns about vaccine hesitancy slowing the pace at some point.



**Surging commodity prices have hit supply chains but could signal higher corporate profit margins ahead.** While recent PPI and ISM prints have shown rising price pressures along the supply chain (PPI 4.2% y/y in March), they may also signal widening profit margins ahead as a reflection of accelerating economic growth. Profit margins have lagged commodity prices thus far this cycle, but analysts have revised consensus earnings estimates for Q1 higher by the largest rate in nearly 10 years (compared to the estimates from 3 months ago), according to Deutsche Bank. Rising lumber, copper, and oil prices in particular have tended to bode well for corporates in the past given their sensitivity to global or domestic demand. Lumber prices have reached record highs at over \$1150 per 1000 feet in 2021 after generally hovering between \$200-400 for the last 5 years. Homebuilders have been able to pass on higher costs to consumers due in part to the existing housing stock being at its lowest level in over 20 years, but similar dynamics are playing out in other sectors as well.



## Europe

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**European equity market benchmarks were mixed** while automobile (+0.5%), consumer retail (+1.0%) and service sectors (+0.5%) outperformed. **European sovereign bond yields were also little changed** with Italy and Greece underperforming (+3 bps). Italy's 10-year spread over the German bund is back to post-Draghi-high of 105 bps. The demand in primary markets remains solid with Spain attracting €62 bn of orders for 15-year bond and Austria €15 bn for 50-year bond with both sovereigns placing inside the initial spread guidance.

**The ECB purchases under the Pandemic Emergency Purchase Program increased** to €17.1 bn over the past week, up from the €13.1 bn in the week before but below the expected volumes under a more front-loaded ECB purchases regime. While contacts associated lower volumes with Easter holidays, the recent comments around the temporary nature of front-loaded purchases have sparked renewed calls from sell-side analysts to position for higher rates and steeper curves in the Euro area.



Source: ECB, ING

**Following the increase European banks sovereign debt holdings during the pandemic, analysts at Deutsche Bank revisited the sovereign-bank nexus.** Through the pandemic, the exposure to governments grew not only through direct bond purchases and lending, but also as a result of €320 bn of publicly guaranteed private company loans. The exposure to sovereigns is also notably higher in Southern and Eastern Europe with domestic government debt dominating. Analysts argue that capital charges based on credit risk and concentration thresholds have the potential to reduce risk while also increase fiscal discipline of sovereigns.

Figure 3: Euro-area banks' total sovereign exposure

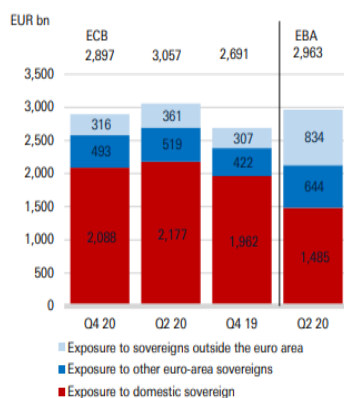


Figure 12: Bank claims on home sovereign higher in South & East than in North & Centre

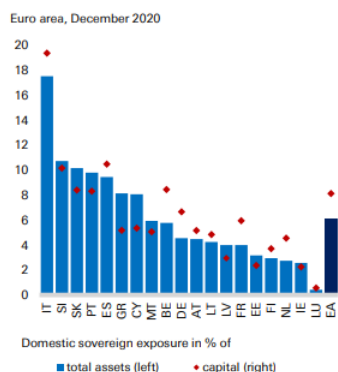
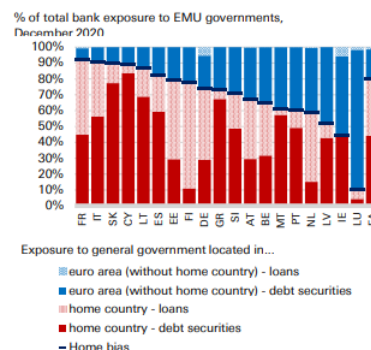


Figure 13: Pronounced home bias in most countries



Source : ECB, Deutsche Bank Research

In terms of data, **ZEW survey of investors' expectations came below consensus (70.7 vs 79) even as assessment of current situations improved more than expected (-48.8 against -54.1 expectation).** New stricter lockdown measures weighted on private consumption expectations while export outlook has

improved as compared to previous months. Separately, Bundesbank President Weidmann has already noted that the economic recovery might be delayed with 3% growth forecast for German GDP now looking less likely while Economy Ministry is expecting a contraction in Q1.

## United Kingdom

**Economic activity picked up in February with GDP expanding 0.4% mom after a sharp 2.2% contraction in January.** Although the growth was somewhat below consensus (0.5%), the overall growth dynamics in Q1 are on track to significantly exceed the earlier Bank of England forecast of 4% q/q contraction. Analysts noted further upside potential in March due to gradual easing of lockdown measures. Notably, exports to EU recovered sharply in February even as companies continued to report disruption to trade.

## Other Mature Markets

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### Japan




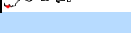








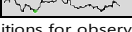
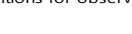
Japanese **markets were quiet today**. Equities gained (NIKKEI: +0.7%). Long-end JGB yields were little changed. The Japanese yen slightly appreciated (+0.1%).

## Emerging Markets

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**Asian stock markets were mixed, flat on net.** Philippine (-0.9%) and Malaysian (-0.7%) equities declined, while share prices increased in India (+1.1%) and Korea (+1.1%). **Most Asian currencies depreciated marginally**, with Korean won, Malaysian ringgit and Indonesian rupiah depreciating 0.1%. In **Indonesia**, the government plans to offer a record-low tax (10%) on interest earned from holding bonds to attract domestic and foreign investors; banks and pension funds are excluded. In **Thailand**, the Bank of Thailand announced that it will start implementing a new nonresident bond registration program from January 2022. Nonresidents can continue using international clearing houses albeit with segregated accounts. The announcement helped remove previous concerns that nonresidents may be required to use only local clearing houses and custodians as an effort to monitor fund flows. In **EMEA**, Russian equities were little changed but the ruble (+0.3%) edged higher and Brent oil prices (+1%) gained as the EU and G-7 called on Russia to de-escalate tensions. Turkey is expected to announce new restrictions in response to a rise in covid-19 cases, which weighed on equities (-1.2%) with the lira little changed. In **Latam**, stock markets were mixed on Monday, with Brazil up by 1.0% and Mexico down by 0.4%. 10-year government bond yields saw another day of increases in Mexico (+9 bps) and Colombia (+7 bps).

Key Emerging Market Financial Indicators

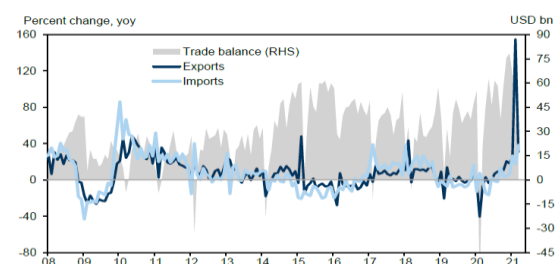
Last updated: 4/13/21 8:08 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		53.23	-0.3	-2	-1	50	3
MSCI Frontier Equities		30.63	0.8	2	3	41	8
EMBIG Sovereign Spread (in bps)		342	-5	-8	-13	-265	-8
EM FX vs. USD		56.18	-0.1	-1	-1	4	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.55	0.0	0	-1	8	0
Indonesian Rupiah		14605	-0.1	-1	-1	7	-4
Indian Rupee		75.37	-0.4	-3	-4	1	-3
Argentine Peso		92.58	-0.1	0	-2	-29	-9
Brazil Real		5.73	-0.9	-1	-3	-9	-9
Mexican Peso		20.19	-0.2	0	2	17	-1
Russian Ruble		77.21	0.2	0	-6	-5	-4
South African Rand		14.63	-0.4	-1	2	24	0
Turkish Lira		8.13	0.3	0	-7	-17	-8
EM FX volatility		10.35	0.0	-0.3	-0.2	-1.0	-0.4

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

## China

**The US Treasury reportedly plans not to name China as a currency manipulator** in the forthcoming semiannual foreign-exchange report. China meets only one of the three listed criteria for a country to be labelled as a currency manipulator (i.e., a bilateral trade surplus of more than \$20 bn). Analysts viewed that such a decision would not suggest any improvement in the China-US relationship. **The trade surplus was \$13.8 bn, smaller than analysts' expectations, in March** on the back of moderating exports growth (30.6%) and accelerating imports growth (38.1%). Electronic products remained a driver of Chinese exports supported by work-from-home demand, while import values rose sharply on higher commodity prices. RMB was little changed; equities declined (CSI 300: -0.2%).

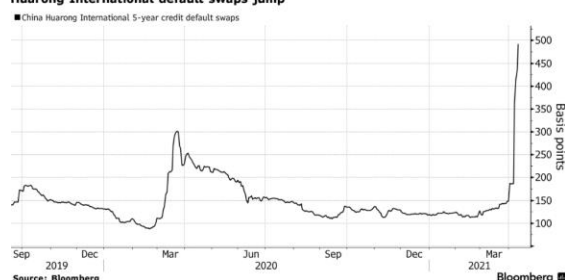
Exhibit 1: Trade surplus narrowed meaningfully in March



Source: China Customs

**Concerns about Huarong Assessment Management spilled into the broader bond market.** Huarong is one of China's four major bad debt management firms. The company failed to publish its preliminary results by the March 31 deadline, with its shares (listed in Hong Kong) being suspended for trading since April 1. Investors became increasingly concerned after Caixin (local media) openly discussed about worse-case scenarios, including a possibility of bankruptcy. Huarong and its subsidiaries have about \$42 bn worth of bonds outstanding (about half are dollar bonds). The firm's 5-year CDS spread spiked to nearly 500 bps. In the dollar bond market, Chinese investment-grade bond spreads widened (+8 bps), while prices on high-yield notes fell 3%.

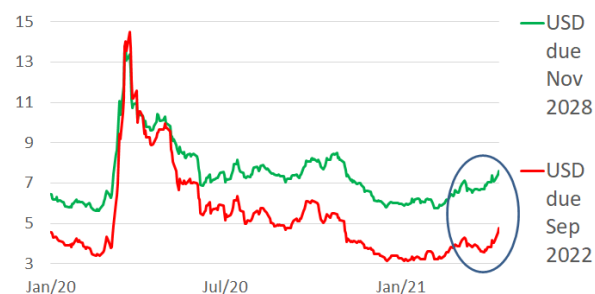
Surging Credit Risk  
Huarong International default swaps jump



Source: Bloomberg

## Ukraine

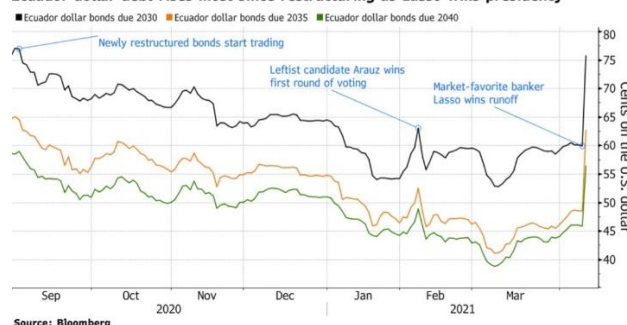
**Spreads on US dollar bonds widened as contacts cite increasing investor concerns about tensions with Russia.** The yield on the Ukrainian U.S. dollar bond due 2022 rose 24 bps to 4.79% (from 3.64% at end March). Morgan Stanley estimates that 73% of the foreign holdings of Ukraine bonds continue to be sovereign bonds denominated in US dollar or euro (for a total of \$24 bn). Compared to 2015, foreign holdings of corporate and bank bonds are lower while foreign holdings of local currency government bonds have increased.

**Ukraine: Yields on U.S. dollar bonds (%)**

Source: Bloomberg and IMF

**Ecuador**

**The rally in Ecuador's sovereign bonds paused after yesterday's strong gains on the back of Guillermo Lasso's victory.** The country's \$3.7 billion of bonds due in 2030 surged over 17 cents to 77 cents on the dollar on Monday, by far the biggest price jump since they were restructured. Lasso's win is set to reassure bondholders on upholding the IMF's plan. Ecuadorian debt had been trading at levels that signaled broad investor skepticism amid worry that a victory for Arauz, a left-wing protege of former President Rafael Correa, would lead to unsustainable levels of social spending and defaults again. Morgan Stanley, Stifel Nicolaus & Co. and TPCG Valores were among the firms to turn bullish on Ecuador's bonds, betting that gains would be extended beyond Monday's rally. While investors breathed a sigh of relief, bond prices were little changed this morning with investors assessing the challenges Lasso is facing running the country. These include a sluggish vaccination campaign, severe economic contraction, and the need for more support in the National Assembly.

**Election Rally****Ecuador dollar debt rises most since restructuring as Lasso wins presidency**

Source: Bloomberg

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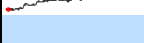


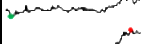

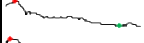





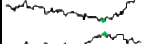







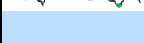



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## Global Financial Indicators

Last updated: 4/13/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4128	0.0	1	5	49	10
Europe		3961	0.0	0	3	37	11
Japan		29752	0.7	0	0	51	8
China		3396	-0.5	-2	-2	20	-2
Asia Ex Japan		92	-0.9	-2	-2	50	3
Emerging Markets		53	-0.6	-2	-1	50	3
<b>Interest Rates</b>			basis points				
US 10y Yield		1.68	1.6	3	6	91	77
Germany 10y Yield		-0.28	1.6	4	3	7	29
Japan 10y Yield		0.11	-0.1	-1	-2	8	9
UK 10y Yield		0.80	0.9	0	-2	49	60
<b>Credit Spreads</b>			basis points				
US Investment Grade		90	0.2	1	-11	-100	-5
US High Yield		331	-0.4	3	-23	-401	-49
Europe IG		52	0.6	1	4	-28	4
Europe HY		253	4.1	7	8	-211	10
<b>Exchange Rates</b>			%				
USD/Majors		92.26	0.1	0	1	-7	3
EUR/USD		1.19	-0.2	0	0	9	-3
USD/JPY		109.5	0.1	0	0	2	6
EM/USD		56.1	-0.2	-1	-1	4	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		64	0.5	1	-8	100	23
Industrials Metals (index)		144	0.6	-1	0	54	9
Agriculture (index)		51	0.4	0	-1	42	7
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.4	0.5	-0.8	-3.3	-23.8	-5.4
US 10y Swaption Volatility		80.2	2.7	7.0	-8.1	-3.9	20.1
Global FX Volatility		7.4	0.0	-0.3	-0.6	-1.9	-0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		120	3.0	3	7	-94	0
Italy		105	2.1	4	12	-89	-6
Portugal		58	-0.2	2	7	-68	-2
Spain		68	-0.7	1	4	-45	6

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: 4/13/2021 8:06 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						YTD
	Level		Change (in %)					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	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.55	0.0	-0.1	-1	8	0		3.3	-1.3	0	-5	80	3
Indonesia		14605	-0.1	-0.7	-1	7	-4		6.6	8.5	-6	-24	-155	51
India		75	-0.4	-2.6	-4	1	-3		6.3	0.9	0	-17	-35	40
Philippines		49	0.0	0.0	0	4	-1		3.9	1.2	-22	17	-120	22
Thailand		32	-0.3	-0.9	-3	4	-5		1.9	0.1	-5	-9	26	59
Malaysia		4.14	-0.1	0.0	-1	5	-3		3.2	0.7	-2	-8	-7	64
Argentina		93	-0.1	-0.4	-2	-29	-9		45.7	3.1	-39	105	-1283	-1040
Brazil		5.73	-0.9	-1.2	-3	-9	-9		8.3	-2.8	9	68	207	270
Chile		712	-0.1	1.2	1	19	0		3.4	2.7	-1	20	6	63
Colombia		3661	-0.3	0.2	-2	6	-6		6.3	6.7	-22	39	-92	121
Mexico		20.19	-0.2	-0.1	2	17	-1		6.6	7.1	-13	35	-54	102
Peru		3.6	0.2	2.0	2	-6	0		4.7	-2.2	1	9	-47	106
Uruguay		44	-0.3	0.1	1	-2	-4		7.4	0.1	2	19	-576	17
Hungary		302	-0.7	0.6	2	7	-2		2.1	-2.7	-4	-1	13	55
Poland		3.84	-0.8	0.8	0	9	-3		0.9	-1.4	-5	-3	-22	27
Romania		4.1	-0.2	0.0	-1	7	-4		2.6	1.0	2	1	-164	-10
Russia		77.2	0.2	0.1	-6	-5	-4		7.0	-4.1	17	44	46	124
South Africa		14.6	-0.4	-0.7	2	24	0		10.1	4.2	-26	-5	-102	43
Turkey		8.13	0.3	0.2	-7	-17	-8		17.8	-7.9	-12	318	480	468
US (DXY; 5y UST)		92	0.2	-0.1	1	-7	3		0.89	1.1	2	5	44	53

	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		4940	-0.2	-4	-4	29	-5		199	0	-2	-9	30	-9
Indonesia		5927	-0.4	-1	-7	26	-1		158	0	-9	-25	-5	-29
India		48544	1.4	-1	-4	58	2		163	2	12	3	-196	12
Philippines		6458	-0.9	-1	-4	12	-10		83	0	-9	-17	13	-22
Malaysia		1598	-0.7	1	-1	16	-2		113	0	-2	-3	9	3
Argentina		48110	-1.5	-1	-2	67	-6		1459	0	19	8	-570	91
Brazil		118812	1.0	1	4	51	0		253	0	0	-16	58	3
Chile		4950	0.0	2	1	28	19		126	0	-6	-16	-14	-18
Colombia		1318	0.0	0	-3	10	-8		207	0	-4	-15	44	2
Mexico		47352	-0.4	-2	-1	37	7		348	0	-9	-34	55	-12
Peru		21315	-1.8	-1	-6	48	2		133	0	-4	-3	22	1
Hungary		43032	-0.5	-3	-2	27	2		65	0	-6	-15	-42	-31
Poland		59436	-0.4	-1	0	34	4		-22	0	-4	-11	-54	-21
Romania		11182	-0.4	-1	4	35	14		184	0	-5	-6	-195	-19
Russia		3517	-0.1	1	-1	34	7		159	0	-5	-3	19	-7
South Africa		66654	0.4	-2	-2	39	12		357	0	-4	-35	25	-23
Turkey		1367	-0.6	-4	-12	42	-7		421	0	-5	-47	34	-24
Ukraine		530	0.0	2	2	5	6		479	0	12	-21	127	-12
EM total		53	-0.3	-2	-1	50	3		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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