GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, AUGUST 23, 2021

- **Survey finds investors remain bullish on equities** (link)
- **U.S. companies sell record amount of shares** (link)
- **Commodities maintain rally despite slowing global economy** (link)
- **European PMIs ease from record levels** (link)
- **Foreign investors cut back on Latin American bonds** (link)
- **China Evergrande Group's shares fall while Huarong bonds rally on support** (link)
- **Zambian Eurobonds consolidate post-election gains** (link)

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Global markets rally as optimism returns

Most global markets opened higher this as investors took advantage of last week's selloff to get back into risk assets. Europe is up today after a positive session in Asia, while U.S. equity index futures were also higher across the board. U.S. Treasury and bund yields are higher and the U.S. dollar is weaker as the safe haven buying trend of the past week recedes for the moment. Strong euro area PMIs added to the optimism as commodities also rallied. The employment situation in Europe is also improving and some analysts have also raised their inflation forecasts. Commodity related currencies such as the rand and the Australian dollar appreciated in keeping with the risk-on tone. Bitcoin is back above $50K for the first time since the May selloff. The Fed's Jackson Hole conference takes center stage later this week as markets look for clues about future Fed policy, but few surprises are expected. In China, progress in suppressing the virus also gave optimism to local markets.

Key Global Financial Indicators

Last updated: 8/23/21 12:13 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4442	0.8	-1	1	31	18
Eurostoxx 50		4174	0.6	-1	2	28	17
Nikkei 225		27494	1.8	0	0	20	0
MSCI EM		50	-0.1	-4	-6	12	-4
Yields and Spreads				bps			
US 10y Yield		1.27	1.8	1	0	65	36
Germany 10y Yield		-0.47	2.7	0	-5	4	10
EMBIG Sovereign Spread		354	-1	2	-2	-69	3
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		55.9	0.2	-1	-1	2	-4
Dollar index, (+) = $ appreciation		93.3	-0.3	1	0	0	4
Brent Crude Oil ($/barrel)		67.2	3.1	-3	-9	51	30
VIX Index (%, change in pp)		18.7	0.1	3	1	-4	-4

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

The highlight of the week is the Federal Reserve's Jackson Hole conference starting on Thursday, with investors hoping to gain some insight into future Fed policy. The next FOMC meeting on September 22 is expected to be more important than usual as many expect the Fed to reveal its tapering plans, and Jackson Hole is the last major Fed event before that meeting. The data calendar is relatively light this week, with PMI and housing data due to be released in the US. Jobless claims are expected to continue their recent decline. In the euro area, PMI data will be followed by German GDP and IFO business survey data later in the week.

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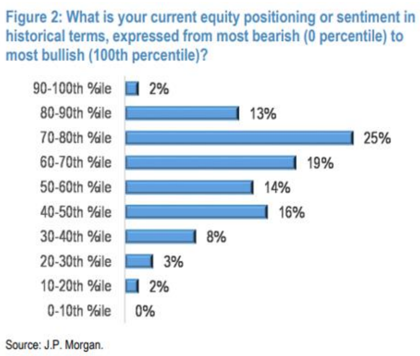
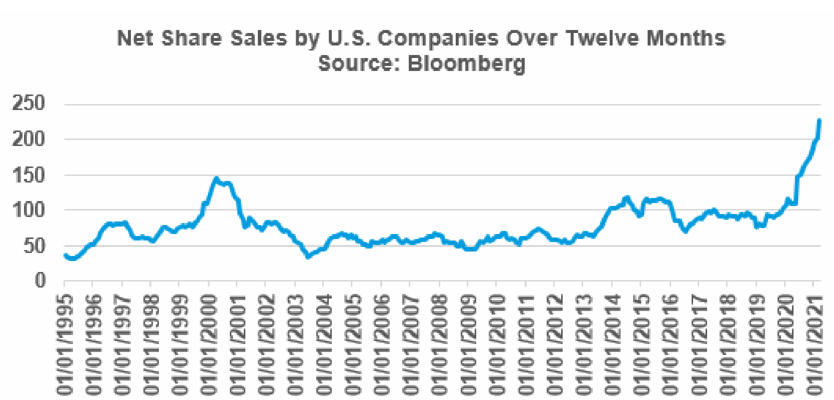
United States

The latest JP Morgan survey finds that investors remain bullish despite the recent decline in sentiment caused by the spread of the delta variant. 73% of investors reported that their bullish views were above the 50th percentile of their historical positioning for stocks. In addition, 61% expect significant further gains by the end of the year and 55% expect to add to their equity allocations. Meanwhile, 59% think the Fed will begin tapering in December or later, while the remainder think the Fed will taper in November or earlier. This is in contrast to most analysts, who think tapering will begin in November. For the bond market, investors are much more bearish, with 86% expecting to reduce their duration exposure. As for their target for the US 10-year yield, 88% expect it to be above 1.50% by the end of the year from Friday's 1.26% close.



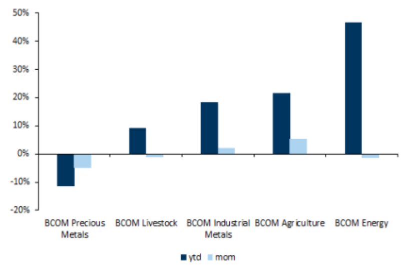
US non-financial corporates sold around $226 bn of shares on a net basis in the twelve months ending in March 2021, according to Bloomberg. This was 56% higher than the previous record set back in April 2000, just before the dotcom bubble burst. Some analysts are worried that this again signals the top of the current bull market, as companies rush to sell shares at high prices in anticipation of a potential future selloff. With valuations getting more stretched by the week as markets power to new highs, many analysts are finding it harder to justify buying equities at these inflated prices. On the other hand, investors remain highly optimistic and expect further gains.



Commodities

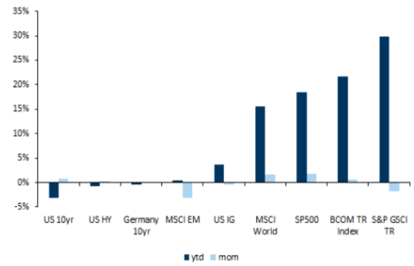
The slowing of the global economy due to the delta variant has had limited impact on the commodity complex, with the exception of oil. The benchmark Bloomberg Commodity Index (BCOM) is down just 3.3% from its year-to-date high, with a total return so far in 2021 of more than 22%. Commodities have thus significantly outperformed all other asset classes, and Goldman expects further gains if the virus crisis subsides and the economic recovery regains its momentum. Oil is the one commodity sector that saw a significant selloff and a rise in volatility. However, the analysts do expect more volatility for the commodity sector in the weeks ahead if uncertainties relating to the delta variant continue to persist. For oil, the analysts think the slow response from the supply side in the face of fluctuating demand also points to more volatility in the future.

Exhibit 1 : Commodites grind higher to solidify YTD gains, undeterred by the rise in macro risk aversion



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 2 : Compared to one month ago, the energy-heavy S&P GSCI TR performance was hit by the decline in oil prices, however the BCOM performed well



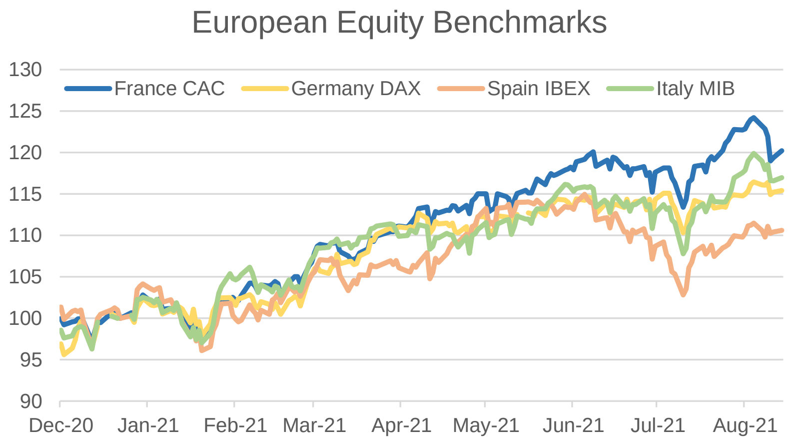
Source: Bloomberg, Goldman Sachs Global Investment Research

Japan

Equities (Topix) increased +1.8%, led by electric appliances. High-profile Yokohama mayoral elections brought a victory to the opposition-backed candidate ahead of an expected announcement of the Liberal Democratic Party's presidential election schedule. Separately, activity in Japan's service sector shrank at the fastest pace in 15 months, Jibun Bank's purchasing managers index of activity in Japan's service sector fell 3.9 points to 43.5, the lowest since May 2020. Japan's export-heavy manufacturing sector signaled a seventh month of growth, but slipped 0.6 point to 52.4. **The 10-year yield was up +1 bps, the yen fell (-0.2).**

Europe

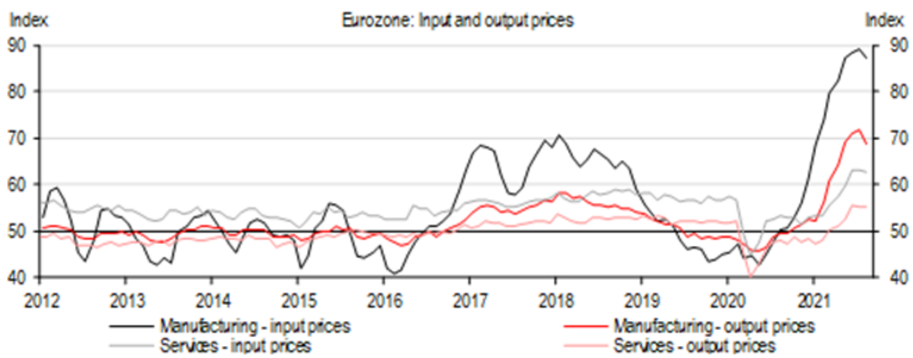
European equities (+0.5%) extend Friday's recovery momentum, with luxury goods (+2.5%) and energy shares (+1.5%) outperforming. Some equity analysts have noted that concerns about global growth drove last week's sell-off as concerns about the delta variant risk in Europe have eased over the last weeks. That said, the rise in cases in Israel and the potential need for booster jabs ahead of the upcoming flu seasons continue to surface as a major risk factor for upcoming quarters.



Source: Bloomberg, IMF

European government bond yields were up 3 bps with 10-yr Italian yields rising 5 bps. Despite last week's equity volatility, Southern European spreads as well as corporate credit benchmarks have traded in a very narrow range. EU common bonds have been underperforming German bunds and swaps as some analyst note that issuance under NGEU program could be revised higher this year.

Eurozone preliminary composite PMI edged lower in August (59.5 vs 60.2 in July), broadly in line with consensus. The manufacturing momentum eased somewhat more than expected in Germany (62.7 vs 65 consensus) while the service sector activity held above consensus both in France and Germany. Analysts also pointed out that there has been some softening in work backlogs and price indices, raising hopes for easing of the global supply chain disruptions.



Source: Refinitiv Datastream, HSBC

United Kingdom

The UK preliminary August PMI surprised on the downside with composite retracing to 55.3 from 59.2 in July (58.7 expected). The slowdown in momentum came mostly from the service sector. The softer PMI reading follows a surprise drop in retail sales in July (-2.5% mom vs +0.2% consensus). **Analysts note that while there could be multiple one-off factors in play, such as bad weather and temporary labor shortages, the broader recovery momentum could be waning from Q3 onwards.** Despite that, UK's FTSE 250, a more domestically oriented equity benchmark, has gained 3% in August and has shown relative resilience during last week's equity market pressures.

Emerging Markets

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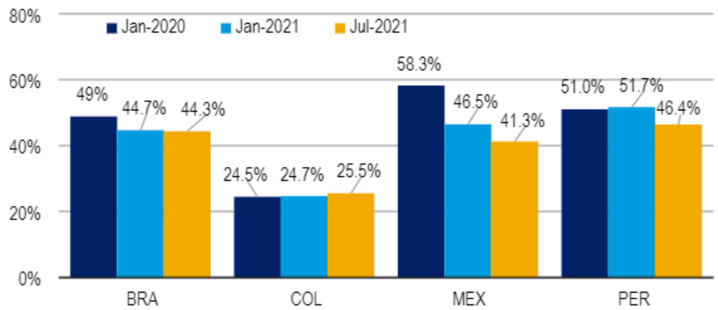
Equities opened the week higher. Taiwan Province of China (+2.5%) and China (Shanghai +1.5%, Shenzhen +2.4%) outperformed. **Regional currencies are stronger, with EM currency indices up 0.4% against the U.S. dollar**. Long-end government bond yields increased modestly. Sri Lankan 10-yr yields increased 52 bps over the last week as its central bank announced a hike of 50 bps and raised the Statutory Reserve Ratio by 200 bps to 4% on Thursday, while the government imposed a 10-day full lockdown. In Malaysia, Ismail Sabri Yaakob from United Malays National Organization was sworn in as the new PM on August 21. Investors' focus is on the upcoming Cabinet appointments and a confidence vote expected in early September, as well as Budget 2022 discussion and a potential raise of the statutory debt ceiling above the current 60% of GDP. **Latin American equities followed U.S. stocks higher on Friday but government bonds were mixed and currencies were generally weaker against the dollar.** In a relatively quiet week for central bank meetings, the National Bank of Hungary is expected to hike its policy rate 30 bps to 1.5% tomorrow.

International investors have been cutting back on their holdings of Latin American bonds. This is a trend that has emerged since the pandemic began. Mexico has seen the largest declines, but holdings of Brazilian bonds have also been reduced. Colombia is a notable exception to the trend. Risk aversion is one obvious explanation for investors cutting their allocations. However, analysts have suggested that the inclusion of China into the GBI-EM Global Diversified Index early last year may have led many investors to rebalance their holdings out of smaller emerging markets into the Chinese market.

Chart 5: foreigners reduced their share in LatAm local bond holdings over the past 2 yrs

Foreign holdings of local bonds (%)



Source: BofA Global Research, BCB, BanRep, Banxico, BCRP. Note: Brazil's figures consider only NTN-F; Mexico's consider only Mbono.

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China

Shares of Shenzhen-based Evergrande Group fell to their lowest level since September 2015. The Group's shares fell almost 13% on Monday following reports that it may sell its Hong Kong headquarters building at a loss. The Group's electric-vehicle unit, Evergrande New Energy Vehicle Group Ltd, lost more than a quarter of its value. Evergrande shares and bonds have tumbled in recent weeks as investors question whether the company can cope with its $300 bn in liabilities. The bond market reacted more positively to the news of the sale plans, which could help Evergrande meet upcoming debt repayments. Its note due 2022 climbed 2 cents on the dollar to 51 cents.

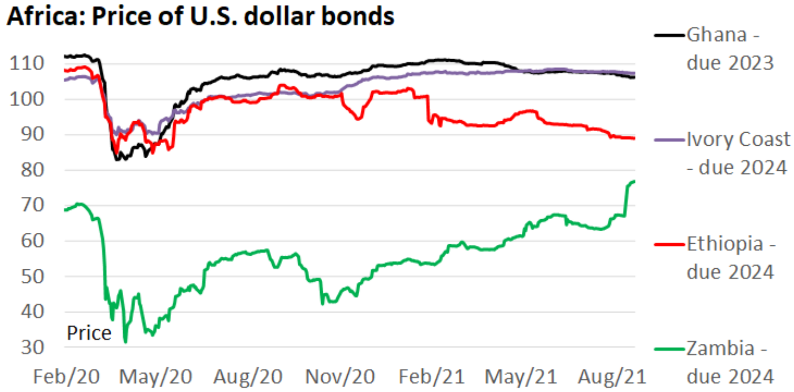
Huarong's bonds rallied strongly last week but concerns over its credit rating remain. A government-backed rescue package for the China's biggest bad-loan manager was unveiled on Wednesday after Huarong posted a record 103 billion RMB ($15.9 bn) loss for 2020. State-owned investors will reportedly replenish Huarong's capital. Huarong has said it has no plan to restructure its debt, reiterating that it's prepared for future bond payments. The announcement set off a surge in the company's dollar bonds. Its Hong Kong-listed shares have been suspended since the end of March. On Monday, Moody's cut

Huarong's credit rating to Baa2 from Baa1 keeping the borrower on watch for a potential further downgrade. S&P kept Huarong's investment-grade BBB+/A-2 credit rating on CreditWatch with negative implications. If Huarong lost its investment-grade credit rating, 56% of surveyed fund managers that hold its dollar bonds would be forced to sell, according to analysts reports.

Zambia

Eurobonds are maintaining post-election gains ahead of the inauguration of new Zambian President Hichilema tomorrow. President-elect Hichilema obtained 2.8 mn votes in the election on 12 August, compared to 1.8 mn votes for the opposition. Opinion polls had suggested that the election was too close to call. Eurobonds have gained sharply on the election result and the Kwacha has appreciated 14% against the U.S. dollar this month.

Africa: Price of U.S. dollar bonds



Source: Bloomberg and IMF

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Global Financial Indicators

Last updated: 8/23/21 12:15 PM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities				%			%
United States		4442	0.8	-1	1	31	18
Europe		4174	0.6	-1	2	28	17
Japan		27494	1.8	0	0	20	0
China		3477	1.5	-1	-2	3	0
Asia Ex Japan		84	0.0	-4	-7	9	-6
Emerging Markets		50	-0.1	-4	-6	12	-4
Interest Rates				basis points			
US 10y Yield		1.27	1.8	1	0	65	36
Germany 10y Yield		-0.47	2.7	0	-5	4	10
Japan 10y Yield		0.02	1.0	0	0	-1	0
UK 10y Yield		0.55	2.5	-3	-4	34	35
Credit Spreads				basis points			
US Investment Grade		95	0.0	2	0	-36	0
US High Yield		345	-2.6	3	1	-185	-35
Europe IG		46	-0.6	0	0	-7	-1
Europe HY		234	-2.9	0	3	-93	-9
Exchange Rates				%			
USD/Majors		93.25	-0.3	1	0	0	4
EUR/USD		1.17	0.2	0	0	-1	-4
USD/JPY		110.1	0.3	1	0	4	7
EM/USD		55.9	0.2	-1	-1	2	-4
Commodities				%			
Brent Crude Oil ($/barrel)		67	3.1	-3	-9	51	30
Industrials Metals (index)		157	1.6	-2	-1	35	18
Agriculture (index)		57	1.0	-4	-1	56	19
Implied Volatility				%			
VIX Index (%, change in pp)		18.7	0.1	2.6	1.5	-3.9	-4.1
US 10y Swaption Volatility		73.1	0.0	0.5	-5.3	18.6	9.8
Global FX Volatility		7.0	0.1	0.4	0.3	-2.1	-1.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		105	-0.4	3	-3	-55	-14
Italy		106	2.2	3	2	-39	-5
Portugal		60	-0.1	2	-1	-24	0
Spain		71	0.4	2	2	-9	9

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

Emerging Market Financial Indicators

Last updated: 23/08/2021 12:18 PM	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		6.49	0.3	-0.2	0	7	1			3.0	0.5	-2	-7	-17	-27
Indonesia		14413	0.3	-0.3	1	2	-3			6.3	0.4	-2	-3	-40	18
India		74	0.2	0.0	0	0	-2			6.4	0.1	-4	0	37	49
Philippines		50	0.2	0.8	0	-3	-4			4.3	0.2	-1	0	69	67
Thailand		33	0.0	0.2	-1	-6	-10			1.6	-0.2	2	-9	15	29
Malaysia		4.23	0.3	0.3	0	-1	-5			3.3	-0.2	1	11	90	77
Argentina		97	0.0	-0.2	-1	-24	-14			45.6	28.1	62	143	81	-1059
Brazil		5.38	0.6	-2.5	-3	3	-3			9.7	-15.5	13	137	420	410
Chile		787	0.1	-1.4	-4	0	-10			4.7	0.2	2	49	219	194
Colombia		3871	0.0	-0.7	-1	-2	-11			6.9	1.8	6	18	174	185
Mexico		20.32	0.2	-2.1	-1	8	-2			7.0	-2.5	2	11	109	143
Peru		4.1	-0.2	-0.9	-4	-13	-12			6.7	9.0	41	113	257	312
Uruguay		43	0.1	0.4	2	0	-2			8.0	6.1	5	12	-19	74
Hungary		299	0.3	0.0	3	0	-1			2.3	0.0	-2	11	61	77
Poland		3.91	0.2	-1.1	-1	-5	-5			1.1	-1.2	-9	3	25	43
Romania		4.2	0.3	-0.7	-1	-2	-5			3.2	0.0	-4	17	-58	44
Russia		74.1	-0.3	-1.1	0	1	0			6.9	-0.8	-2	-12	113	114
South Africa		15.2	0.5	-2.5	-2	11	-3			9.8	-2.2	2	-8	-36	10
Turkey		8.47	0.3	-0.1	1	-13	-12			17.4	3.9	13	-14	380	432
US (DXY; 5y UST)		93	-0.3	0.7	0	0	4			0.79	1.3	3	8	53	43

	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		4836	1.4	-2	-5	2	-7		199	0	-2	-9	30	-9
Indonesia		6110	1.3	0	0	16	2		158	0	-9	-25	-5	-29
India		55556	0.4	0	5	43	16		145	-3	-4	-9	-72	-6
Philippines		6592	-0.6	1	1	11	-8		83	0	-9	-17	13	-22
Malaysia		1522	0.3	1	0	-3	-6		113	0	-2	-3	9	3
Argentina		67822	0.0	-2	5	43	32		1459	0	19	8	-570	91
Brazil		118053	0.0	-3	-6	16	-1		253	0	0	-16	58	3
Chile		4347	0.0	-1	4	9	4		126	0	-6	-16	-14	-18
Colombia		1327	0.0	5	6	12	-8		207	0	-4	-15	44	2
Mexico		51414	0.0	0	2	35	17		348	0	-9	-34	55	-12
Peru		15532	0.0	-7	-16	-15	-25		133	0	-4	-3	22	1
Hungary		51978	0.5	3	9	44	24		65	0	-6	-15	-42	-31
Poland		68478	0.8	0	2	32	20		-22	0	-4	-11	-54	-21
Romania		12231	1.2	1	3	40	25		186	-1	2	-12	-82	-17
Russia		3870	1.0	-1	4	29	18		159	0	-5	-3	19	-7
South Africa		66916	1.4	-3	-2	20	13		357	0	-4	-35	25	-23
Turkey		1458	0.9	0	8	31	-1		421	0	-5	-47	34	-24
Ukraine		526	0.0	0	0	5	5		479	0	12	-21	127	-12
EM total		50	0.8	-4	-6	12	-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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