GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

**THURSDAY, FEBRUARY 18, 2021**

- **US financial conditions ease significantly** (link)
- **Rising Treasury yields have halted the equity rally** (link)
- **Markets do not (yet) expect another taper tantrum** (link)
- **Draghi wins broad support in Italian Senate** (link)
- **PBOC stays on guard against excessive risk taking** (link)
- **BOJ to stay expansionary** (link)

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

## Global rally hits pause

**US equity futures are lower as the global rally stalled in the face of rising interest rates.** Most European bourses were also lower as US Treasury yields once again tested their highest levels in a year. Downbeat pre-market earnings reports from companies such as Walmart weighed on sentiment. However, in advanced economies, better news on falling virus counts and accelerating vaccine rollouts gave hope for the future, although the situation is much more difficult for many emerging and frontier economies. Meanwhile, the strong rally in the commodity complex continued, with iron ore prices standing out with especially strong gains this morning on hopes of a sustained global economic recovery. Brent oil prices are up 25% so far this year.

**Key Global Financial Indicators**

| Last updated: 2/18/21 8:03 AM | Level | | Change from Market Close | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | | % | | % |
| S&P 500 | | 3931 | 0.0 | 1 | 4 | 17 | 5 |
| Eurostoxx 50 | | 3701 | 0.0 | 1 | 3 | -4 | 4 |
| Nikkei 225 | | 30236 | -0.2 | 2 | 7 | 30 | 10 |
| MSCI EM | | 58 | 0.0 | 2 | 7 | 32 | 12 |
| **Yields and Spreads** | | | | | bps | | |
| US 10y Yield | | 1.30 | 2.7 | 13 | 21 | -26 | 38 |
| Germany 10y Yield | | -0.35 | 2.2 | 11 | 18 | 6 | 22 |
| EMBIG Sovereign Spread | | 346 | 5 | 3 | -10 | 46 | -4 |
| **FX / Commodities / Volatility** | | | | | % | | |
| EM FX vs. USD, (+) = appreciation | | 58.1 | 0.2 | 0 | 1 | -2 | 0 |
| Dollar index, (+) = $ appreciation | | 90.6 | -0.4 | 0 | 0 | -9 | 1 |
| Brent Crude Oil ($/barrel) | | 64.7 | 0.5 | 6 | 18 | 12 | 25 |
| VIX Index (%, change in pp) | | 22.5 | 1.0 | 1 | -2 | 8 | 0 |

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

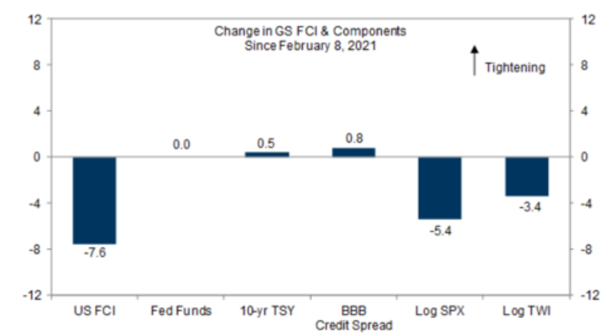
## United States back to top

**Markets are trying to decide if the current rise in interest rates is justified by virus progress and economic optimism, or if further increases in rates could put the ongoing rally in jeopardy.** The inflation outlook is key to the current market outlook, as a modest rise would be good for markets, but a sharp rise could increase the risk of Fed intervention. For now, the optimistic view prevails among most market participants of a Goldilocks environment where the good news keeps coming on the virus, the economy and corporate profits but interest rates and inflation remain in check. The expected stimulus package is another source of confidence for markets. This morning's data was mostly weaker than expected, but the market reaction in the immediate aftermath was limited.

**Key US Data 8.30am February 18, 2021**

| Indicator | Consensus Forecast | Actual Data Print |
|---|---|---|
| Initial Jobless Claims | 773K | 861K |
| Continuing Claims | 4425K | 4494K |
| Housing Starts | -0.5%/1660K | -0.6%/1580K |
| Philadelphia Fed Business Outlook Survey | +20 | +23.1 |
| Source: Bloomberg. | | |

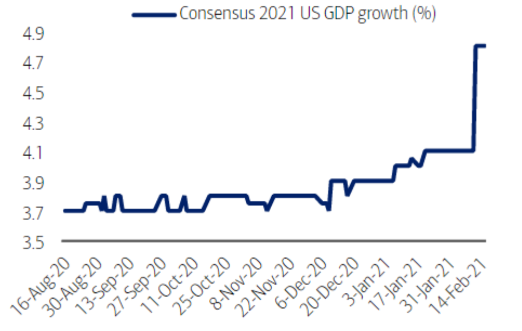
The FOMC minutes noted that the outlook had improved, while warning that it is likely to be "some time" before we see the "substantial further progress" that will enable the Fed to begin tapering. Various analysts took the view that continued good news on the virus as well as the recovering economy could force the Fed to revise its assumptions, with Citi calling for tapering to begin in Q4. Financial conditions have eased in recent days, led mainly by the rally in stocks as well as the weaker dollar. However, rising interest rates could act as a headwind in the days ahead.


Source: Goldman Sachs Global Investment Research

**Most analysts are marking up their GDP forecasts for 2021, but some think the consensus is not bullish enough.** Bank of America thinks the average forecast of 4.8% is too low, putting its own forecast at 6%. If the economy continues to surprise with faster than expected growth, rising interest rates could imperil the rally. The equity rally has paused over the past few sessions as Treasury yields hit one-year highs. Bank of America thinks the 10-year yield reaching 1.40% will trigger convexity hedging and put further upward pressure on rates, while a rise to 1.75% could generate major outflows from bond funds and ETFs due to the resulting mark-to-market losses.

**Figure 1: Jump in 2021 consensus US GDP growth but still too low**
Consensus 2021 GDP growth has jumped to 4.8% from 3.9% heading into the year.




**Source:** Bloomberg
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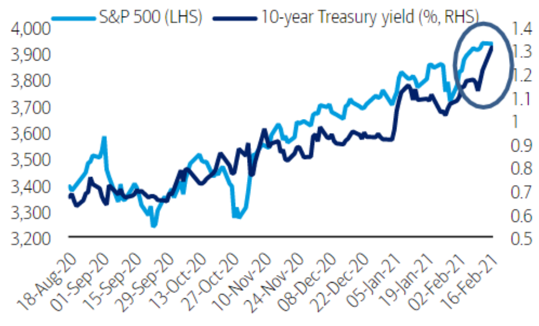
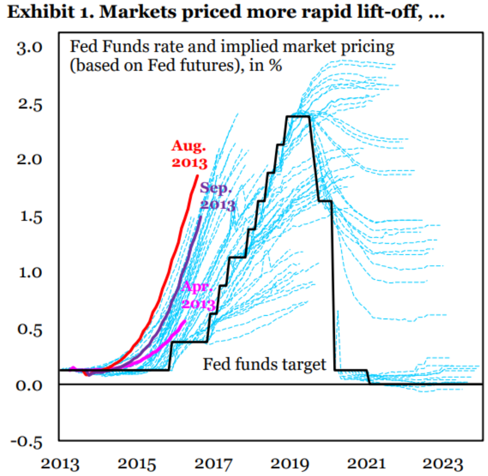
**Figure 2: Equity market getting concerned about interest rates**
The equity market is clearly reluctant to rally further as interest rates go up rapidly including 11bps on the 10-year today




**Source:** Bloomberg
BofA GLOBAL RESEARCH

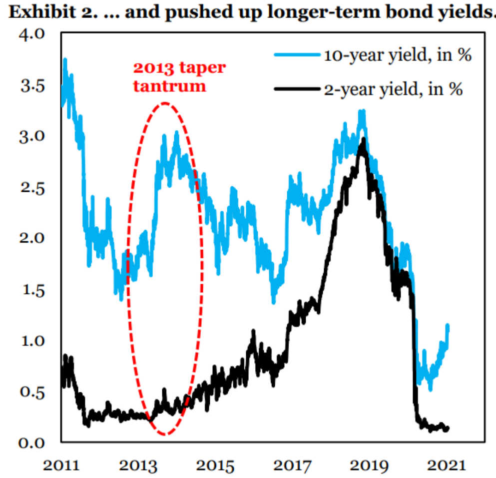
**Despite the recent rise in Treasury yields, markets do not currently expect a repeat of the 2013 Taper Tantrum.** Forward prices in the Fed Funds interest rate futures markets show that expectations for the policy rate remain anchored, in marked contrast to what happened in 2013. Analysts point out that the Fed's new Flexible Average Inflation Target (FAIT) framework and Fed Chair Powell's continued dovish rhetoric have kept short term rates very low. They think the rise in Treasury yields is a healthy development that is driven by optimism on vaccine progress and expectations of a rapid economic recovery. The Fed is expected to allow inflation to overshoot its 2% target for some time, and it is likely to loom past the strong economic data that are expected to come in over the course of the year.

**Exhibit 1. Markets priced more rapid lift-off, ...**




*Source: Haver, IIF*

**Exhibit 2. ... and pushed up longer-term bond yields.**




*Source: Haver, IIF*

## Europe

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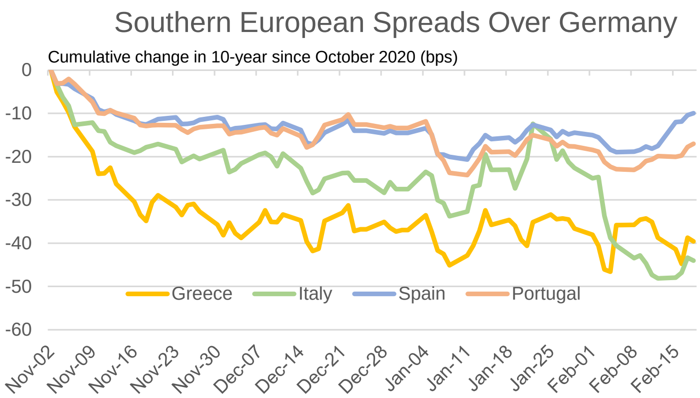
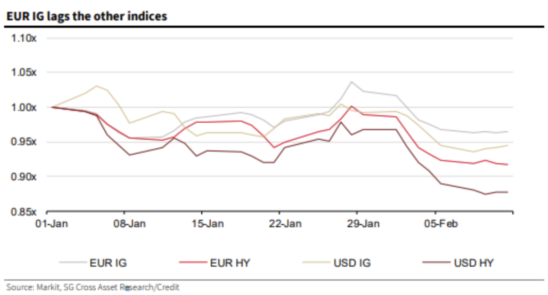
**European sovereign bond markets** were little changed. Italy's Prime Minister Draghi won the first vote of confidence in the Italian Senate (262 out of 304 voting senators). However, contacts expect Italy's spreads to stay around these levels (below 100 bps spread to German bunds). They are unlikely to narrow much further until investors gain confidence in PM Draghi's ambitious reform agenda, which will be challenging to implement even with his current large support in the parliament. Meanwhile, Spain continues to underperform following the local election vote over the weekend with multiple contacts reporting selling by hedge funds.




Source: Bloomberg, IMF

**Despite the recent reflation optimism, corporate credit spreads have struggled to tighten further.** This is particularly true for European investment grade bonds. At the same time, primary bond markets have been active with companies managing to place bonds inside the initial yield guidance. Interestingly, the stagnation of spreads occurs as default rates have started to turn down both in Europe and the U.S. with Moody's recent outlook projecting further improvement. Analysts argue that low absolute level of yields, especially in Europe, could have acted as a deterrent to investor appetite, while others think the market is just too expensive.




## Other Mature Markets

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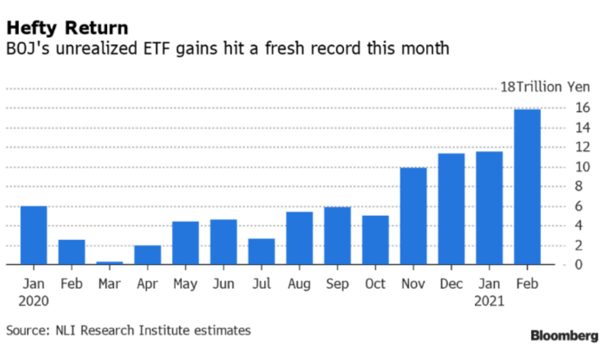
### Japan

**Bank of Japan (BOJ) Governor Kuroda signaled that the upcoming policy review would maintain the existing expansionary orientation.** In a meeting with Prime Minister Suga, Governor Kuroda reportedly said that the policy review aims at making monetary easing more effective and sustainable over a longer period. At the same time, market participants increasingly think that the BOJ's ETF purchases look unsustainable. With its massive holding, the BOJ's unrealized ETF gains reached 18 tn yen ($170 bn).



## Emerging Markets

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Emerging markets are doing better than most advanced economies this morning. In **the Philippines,** the central bank governor warned that reliance on monetary policy is not enough to meet the challenge and that fiscal policy would have to play a greater role. **Indonesia** cut rates to 3.5% as expected as the virus crisis grows worse and weakens the growth outlook, and the central bank also relaxed macroprudential measures to provide more support.

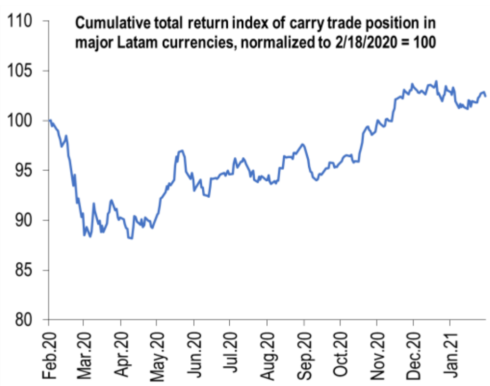
**Key Emerging Market Financial Indicators**

| Last updated: | Level | | Change | | | | |
|---|---|---|---|---|---|---|---|
| 2/18/21 8:08 AM | Last 12m | index | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Major EM Benchmarks** | | | | | % | | % |
| MSCI EM Equities | | 57.96 | -0.6 | 2 | 7 | 32 | 12 |
| MSCI Frontier Equities | | 29.86 | -0.3 | 3 | 0 | 0 | 5 |
| EMBIG Sovereign Spread (in bps) | | 346 | 5 | 3 | -10 | 46 | -4 |
| EM FX vs. USD | | 58.07 | 0.2 | 0 | 1 | -2 | 0 |
| **Major EM FX vs. USD** | | | %, (+) = EM currency appreciation | | | | |
| China Renminbi | | 6.47 | -0.2 | 0 | 0 | 8 | 1 |
| Indonesian Rupiah | | 14025 | 0.0 | 0 | 0 | -2 | 0 |
| Indian Rupee | | 72.65 | 0.1 | 0 | 1 | -2 | 1 |
| Argentine Peso | | 88.81 | 0.2 | 0 | -3 | -31 | -5 |
| Brazil Real | | 5.40 | 0.3 | 0 | -2 | -19 | -4 |
| Mexican Peso | | 20.18 | 0.2 | -1 | -2 | -8 | -1 |
| Russian Ruble | | 73.63 | 0.1 | 0 | 1 | -13 | 1 |
| South African Rand | | 14.53 | 0.8 | 1 | 4 | 3 | 1 |
| Turkish Lira | | 6.95 | 0.4 | 1 | 8 | -13 | 7 |
| EM FX volatility | | 9.77 | 0.0 | 0.2 | -0.6 | 3.3 | -1.0 |

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

### Carry trades focused on Latin America

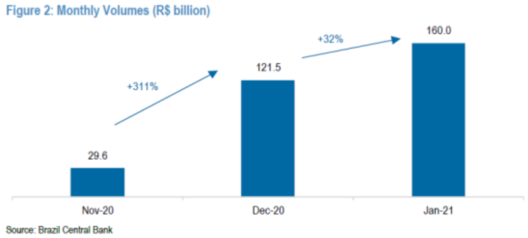
**Carry trades focused on the region are likely to remain attractive.** Cumulative total returns of 3-month carry trades of an equally weighted portfolio of the six major Latin American currencies funded in US dollars soared over the last six months. As rising commodity prices should limit the depreciation potential for the region's currencies over the near term, such carry trades can be expected to perform well in the near future. Hence, they could add to capital flows through money market or similar short-term fixed income vehicles to the region.



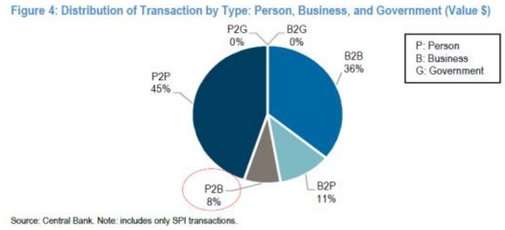

Source: Bloomberg.

## Brazil

**Brazil's new electronic payment system PIX has found strong adoption.** As of January 2021, 65mn users (61mn individuals and 4mn companies) had joined PIX which the central bank established in November 2020. In January PIX handled 5% of all transactions originating from digital channels (PC or mobile). Since transactions are in most cases free of charge for individuals, the central bank hopes to promote competition and efficiency in the country's payment service ecosystem while spreading financial inclusion.



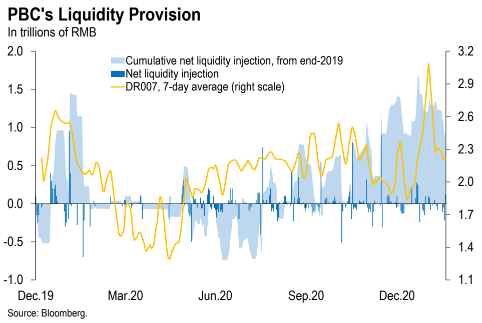

Source: J.P. Morgan




Source: J.P. Morgan

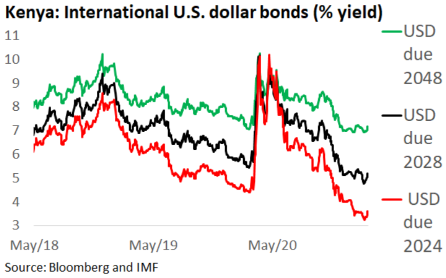
## China

**The People's Bank of China (PBOC) has withdrawn liquidity of 260 bn yuan ($40.2 bn) on net since the start of the holidays.** Today, the PBOC renewed just the maturing medium-term lending of 200 bn yuan ($30.9 bn) and provided additional liquidity of just 20 bn yuan ($3.1 bn) through open market operations. Analysts think the PBOC is still worried that excessive liquidity in the system could lead to excessive risk taking. Overnight interbank repo rate (DR001) jumped (+51 bps), while the 7-day rate (DR007) remained relatively stable (+2 bps).




## Kenya

**Yields on Kenya's Eurobonds rose 20-30 bps earlier this week but tightened 5-10 bps today after the government said that it plans to take advantage of current external funding conditions to refinance a 10-yr Eurobond** of $2 bn by the end of June. The government is also expected to issue a new $1.1 bn Eurobond in the next 4 months. On Monday, the IMF reached a staff-level agreement with Kenyan authorities for a 3-yr $2.4 bn financing package under the EFF and ECF arrangements.



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## Global Financial Indicators

| Last updated: 2/18/21 8:04 AM | Level | | Change | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | % | | | % |
| United States | | 3923 | 0.0 | 0 | 4 | 16 | 4 |
| Europe | | 3701 | 0.0 | 1 | 3 | -4 | 4 |
| Japan | | 30236 | -0.2 | 2 | 7 | 30 | 10 |
| China | | 3675 | 0.6 | 5 | 4 | 27 | 6 |
| Asia Ex Japan | | 102 | 0.2 | 2 | 8 | 41 | 14 |
| Emerging Markets | | 58 | 0.0 | 2 | 7 | 32 | 12 |
| **Interest Rates** | | | | basis points | | | |
| US 10y Yield | | 1.30 | 2.7 | 13 | 21 | -26 | 38 |
| Germany 10y Yield | | -0.35 | 2.2 | 11 | 18 | 6 | 22 |
| Japan 10y Yield | | 0.10 | -0.2 | 1 | 4 | 16 | 8 |
| UK 10y Yield | | 0.62 | 5.1 | 15 | 34 | 1 | 43 |
| **Credit Spreads** | | | | basis points | | | |
| US Investment Grade | | 86 | 0.8 | -3 | -8 | -19 | -9 |
| US High Yield | | 345 | -1.2 | -5 | -28 | -72 | -35 |
| Europe IG | | 47 | -0.4 | 0 | -4 | 6 | 0 |
| Europe HY | | 244 | -1.7 | 4 | -15 | 31 | 3 |
| EMBIG Sovereign Spread | | 346 | 4.5 | 3 | -10 | 46 | -4 |
| **Exchange Rates** | | | | % | | | |
| USD/Majors | | 90.63 | -0.4 | 0 | 0 | -9 | 1 |
| EUR/USD | | 1.21 | 0.3 | 0 | 0 | 12 | -1 |
| USD/JPY | | 105.7 | -0.1 | 1 | 2 | -4 | 2 |
| EM/USD | | 58.1 | 0.2 | 0 | 1 | -2 | 0 |
| **Commodities** | | | | % | | | |
| Brent Crude Oil ($/barrel) | | 65 | 0.5 | 6 | 18 | 12 | 25 |
| Industrials Metals (index) | | 145 | 1.9 | 4 | 7 | 36 | 9 |
| Agriculture (index) | | 51 | 0.0 | 3 | 1 | 29 | 7 |
| **Implied Volatility** | | | | % | | | |
| VIX Index (%, change in pp) | | 22.5 | 1.0 | 0.6 | -1.8 | 7.7 | -0.2 |
| US 10y Swaption Volatility | | 71.3 | -4.6 | 12.1 | 13.1 | 1.3 | 11.2 |
| Global FX Volatility | | 7.5 | 0.0 | 0.3 | -0.3 | 2.1 | -0.6 |
| **EA Sovereign Spreads** | | | | 10-Year spread vs. Germany (bps) | | | |
| Greece | | 117 | -0.8 | -4 | -5 | -21 | -3 |
| Italy | | 97 | 1.6 | 6 | -19 | -37 | -14 |
| Portugal | | 56 | 0.5 | 3 | 2 | -13 | -4 |
| Spain | | 66 | 0.4 | 8 | 6 | -3 | 4 |

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) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2/18/2021 | 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 | | 6.47 | -0.2 | -0.2 | 0 | 8 | 1 | | 3.3 | 0.0 | 0 | 7 | 42 | 6 |
| Indonesia | | 14025 | 0.0 | -0.4 | 0 | -2 | 0 | | 6.5 | 19.1 | 22 | 19 | -22 | 39 |
| India | | 73 | 0.1 | 0.3 | 1 | -2 | 1 | | 6.3 | 2.0 | 3 | 28 | -26 | 36 |
| Philippines | | 48 | -0.3 | -0.9 | -1 | 4 | -1 | | 3.5 | -0.3 | 1 | -14 | -65 | -16 |
| Thailand | | 30 | 0.0 | -0.5 | 0 | 4 | 0 | | 1.5 | 3.0 | 10 | 13 | 20 | 22 |
| Malaysia | | 4.04 | -0.1 | 0.0 | 0 | 3 | -1 | | 2.9 | 7.9 | 19 | 37 | 3 | 35 |
| Argentina | | 89 | 0.2 | -0.4 | -3 | -31 | -5 | | 43.8 | -88.8 | -468 | -815 | -1606 | -1230 |
| Brazil | | 5.40 | 0.3 | -0.2 | -2 | -19 | -4 | | 6.6 | 11.3 | 22 | 28 | 84 | 106 |
| Chile | | 711 | 0.6 | 1.9 | 3 | 12 | 0 | | 2.9 | 2.7 | 11 | 6 | -69 | 10 |
| Colombia | | 3525 | 0.2 | 0.0 | -1 | -3 | -3 | | 5.2 | -2.3 | 5 | 7 | -34 | 9 |
| Mexico | | 20.18 | 0.2 | -1.1 | -2 | -8 | -1 | | 5.8 | 4.1 | 6 | 12 | -85 | 16 |
| Peru | | 3.7 | 0.0 | -0.4 | -1 | -7 | -1 | | 3.9 | 2.1 | 13 | 22 | -31 | 34 |
| Uruguay | | 43 | 0.0 | -0.4 | -1 | -11 | -1 | | 7.0 | -6.2 | -9 | -22 | -287 | -24 |
| Hungary | | 297 | 0.3 | -0.6 | 0 | 5 | 0 | | 1.8 | 0.7 | 17 | 15 | 7 | 26 |
| Poland | | 3.72 | 0.4 | -0.1 | 1 | 6 | 0 | | 0.7 | -4.6 | 5 | 16 | -122 | 10 |
| Romania | | 4.0 | 0.3 | -0.4 | 0 | 10 | -1 | | 2.5 | 8.0 | 21 | -2 | -108 | -24 |
| Russia | | 73.6 | 0.1 | 0.1 | 1 | -13 | 1 | | 6.3 | -3.9 | 29 | 43 | 47 | 57 |
| South Africa | | 14.5 | 0.8 | 0.6 | 4 | 3 | 1 | | 9.6 | 6.5 | 14 | -17 | 13 | -4 |
| Turkey | | 6.95 | 0.4 | 1.0 | 8 | -13 | 7 | | 13.4 | -1.9 | 13 | -17 | 233 | 28 |
| US (DXY; 5y UST) | | 91 | -0.3 | 0.3 | 0 | -9 | 1 | | 0.55 | 0.8 | 9 | 10 | -84 | 19 |

| | 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 | | 5768 | -0.7 | 5 | 6 | 46 | 11 | | 199 | 0 | -2 | -9 | 30 | -9 |
| Indonesia | | 6200 | -0.4 | 0 | -3 | 5 | 4 | | 158 | 0 | -9 | -25 | -5 | -29 |
| India | | 51325 | -0.7 | 0 | 6 | 26 | 7 | | 155 | 3 | -2 | -3 | 23 | 4 |
| Philippines | | 6850 | -1.7 | -3 | -5 | -6 | -4 | | 83 | 0 | -9 | -17 | 13 | -22 |
| Malaysia | | 1576 | -1.2 | -1 | -2 | 3 | -3 | | 113 | 0 | -2 | -3 | 9 | 3 |
| Argentina | | 52387 | 1.8 | 1 | 4 | 37 | 2 | | 1459 | 0 | 19 | 8 | -570 | 91 |
| Brazil | | 120356 | 0.8 | 1 | -1 | 5 | 1 | | 253 | 0 | 0 | -16 | 58 | 3 |
| Chile | | 4548 | -2.0 | 0 | -2 | 0 | 9 | | 126 | 0 | -6 | -16 | -14 | -18 |
| Colombia | | 1366 | 0.2 | 0 | -6 | -18 | -5 | | 207 | 0 | -4 | -15 | 44 | 2 |
| Mexico | | 45062 | 0.8 | 1 | -3 | 0 | 2 | | 348 | 0 | -9 | -34 | 55 | -12 |
| Peru | | 22682 | 0.4 | 1 | 6 | 16 | 9 | | 133 | 0 | -4 | -3 | 22 | 1 |
| Hungary | | 44443 | 0.1 | 2 | -1 | -2 | 6 | | 65 | 0 | -6 | -15 | -42 | -31 |
| Poland | | 59666 | 1.1 | 3 | 1 | 3 | 5 | | -22 | 0 | -4 | -11 | -54 | -21 |
| Romania | | 10448 | 0.2 | -1 | 3 | 3 | 7 | | 196 | 6 | 4 | -6 | 22 | -7 |
| Russia | | 3432 | -0.1 | 1 | -1 | 12 | 4 | | 159 | 0 | -5 | -3 | 19 | -7 |
| South Africa | | 66968 | -0.2 | 2 | 5 | 16 | 13 | | 357 | 0 | -4 | -35 | 25 | -23 |
| Turkey | | 1558 | 1.1 | 1 | 0 | 30 | 6 | | 421 | 0 | -5 | -47 | 34 | -24 |
| Ukraine | | 521 | 0.0 | 0 | 4 | -1 | 4 | | 479 | 0 | 12 | -21 | 127 | -12 |
| EM total | | 58 | -0.6 | 2 | 7 | 32 | 12 | | 421 | 0 | 17 | -10 | 97 | 128 |

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