



- Spike in US real yields draws scrutiny ([link](#))
- Rising retail equity flows raise fears of further market volatility ([link](#))
- Japanese 10-year bond yield at highest since November 2018 ([link](#))
- EMEA central banks turn more hawkish ([link](#))
- Mexico to provide additional support to Pemex ([link](#))

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A cautious end to the week

European stocks and US equity index futures were slightly higher after several days of negative sessions. Government bond yields appear to have stabilized for now, with the global benchmark US 10-year Treasury yield settling in around 1.30% after two weeks of steady increases, allowing markets to switch their focus back to corporate earnings and economic data. The latest economic releases highlighted the challenges that remain, with weak retail sales and the UK and mixed PMI data in the euro area reminding markets that the economic recovery from the virus crisis cannot be taken for granted. However, UK PMI data was much stronger than expected. Meanwhile, the reflation trade remains alive and well, with metals gaining further and copper close to its highest level in a decade. Signs of recovery in the Texas energy situation and hopes of renewed US-Iran nuclear talks pushed oil prices lower this morning.

Key Global Financial Indicators

Last updated: 2/19/21 7:59 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3914	-0.4	0	3	16	4
Eurostoxx 50		3708	0.7	0	3	-4	4
Nikkei 225		30018	-0.7	2	5	28	9
MSCI EM		57	-1.4	0	3	29	11
Yields and Spreads			bps				
US 10y Yield		1.31	1.5	10	22	-26	40
Germany 10y Yield		-0.33	2.0	10	20	9	24
EMBIG Sovereign Spread		345	-1	4	-11	43	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.1	0.2	0	1	-2	0
Dollar index, (+) = \$ appreciation		90.3	-0.4	0	0	-9	0
Brent Crude Oil (\$/barrel)		63.2	-1.2	1	13	7	22
VIX Index (% change in pp)		22.1	-0.4	1	-1	8	-1

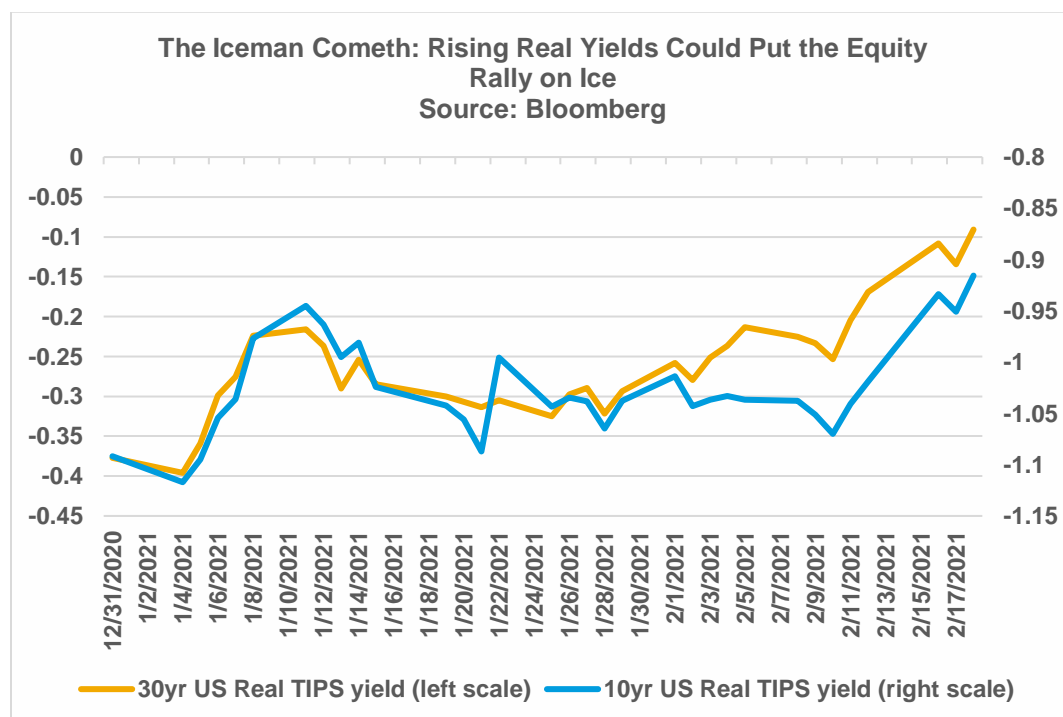
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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The duel between rising rates and risk asset valuations is the overarching theme for this week. The benchmark 10-year Treasury yield made another run yesterday at the one-year high of 1.32% before dropping back yet again. Recent equity moves were negative but small as investors watched and waited to see which way the bond market goes. Both the VIX and interest rate volatility remain subdued, suggesting that market participants are not overly worried, at least so far. Meanwhile, a pullback in natural gas prices in Texas may be the first sign that the energy disruption in the state may be resolved in the next few days. Local oil operations are also coming back online.

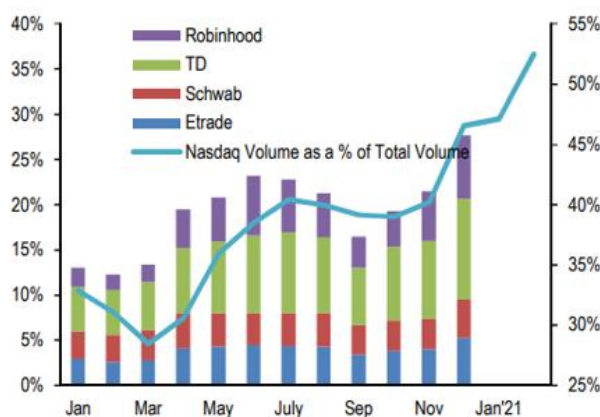
Rising Treasury yields have pushed the pause button on the equity rally, but it is the spike in real yields that is drawing special scrutiny from bond market professionals. Real yields (yields on US Treasury Inflation Protected Securities, or TIPS) at the long end of the yield curve are up sharply in 2021. Rising real yields are believed to signal a more sustained movement upwards in the entire Treasury interest rate complex and the bond markets more generally. The earlier rally in TIPS breakeven yields (the difference in yields in nominal Treasury yields and their equivalent maturity TIPS) attracted less concern, because breakeven rallies are common when risk assets rebound, especially if real yields stay very low. But now that real yields are also on the move higher, market participants are worried that the rise in interest rates could be more rapid than originally anticipated. The benchmark 10 and 30-year nominal Treasury yields hitting one year highs underscores this concern. If rates keep moving higher, they could put pressure on risk asset valuations which have been inflated by the historically low level of interest rates. However, some analysts are more optimistic, pointing out that real yields are up from their lowest level in many years, and that some increase is to be expected, and the move is not a signal that interest rates are about to break higher.



With the rise of online trading platforms and apps, retail flows are a very important part of current trading volumes and played a major role in the overall market rally since November. Today's retail traders favor individual stocks or options on individual stocks rather than equity funds. High frequency data from the Options Clearing Corporation (OCC), the world's largest equity option clearing house, show that small traders' option flows are at record high levels. Apps like Robinhood have become a major venue for small investors, while volumes in retail brokerages have also taken off. Retail platforms such as the ones in Figure 3 below tend to channel their trades through over-the-counter (OTC) venues such as Virtu and Citadel (Figure 4), which have also seen volumes soar. Anecdotal evidence suggests that cash from stimulus checks has played a major role in the increase in retail flows, and the prospect of the new \$1400 checks and other stimulus cash could further boost retail volume. Some analysts worry that these retail flows could be more volatile, and their increasing importance in daily trading volume could make the market more vulnerable to unexpected shocks. On Thursday, Congress held hearings on the GameStop episode, where several of these issues were discussed.

Figure 3: Source Flow by Retail Brokerage Firm as % of total US equity trading volume

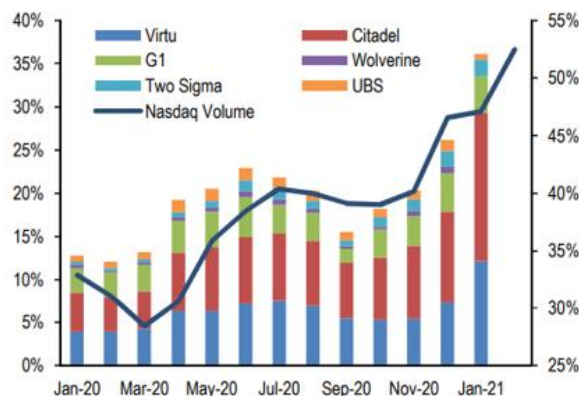
Nasdaq volume as a % of total volume in right axis



Source: Company filing - SEC 606 disclosure, J.P. Morgan.

Figure 4: Destination Retail Flow Routed to OTC Venues as % of total US equity trading volume

Nasdaq volume as a % of total volume in right axis



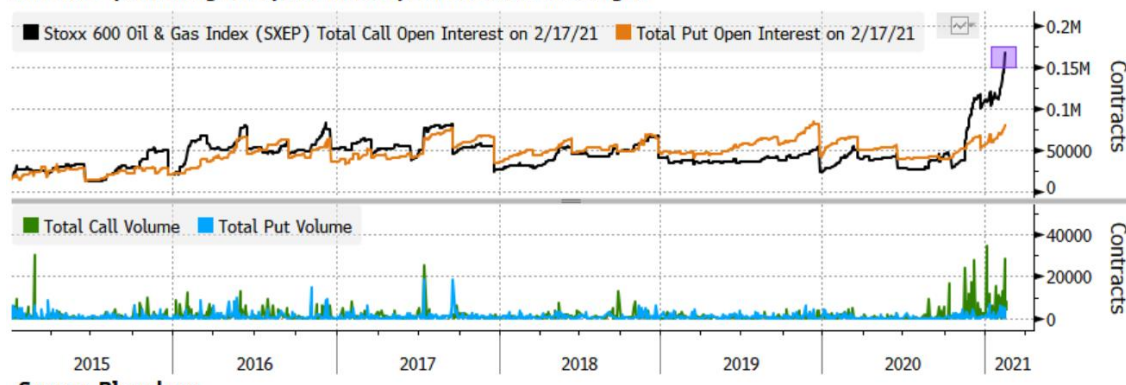
Source: Company filing - SEC 606 disclosure, J.P. Morgan.

Europe

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European equities recovered this morning with most country indices up around 0.5%. Financials, semiconductors, and consumer durable goods were up 1.2%. On a company level, luxury good producers Hermes and Moncler rose 5% after better than expected earnings results, lifting the rest of the sector. Also noteworthy this morning was a report of a jump in investor demand for options (calls) to position for further gains in energy sector shares.

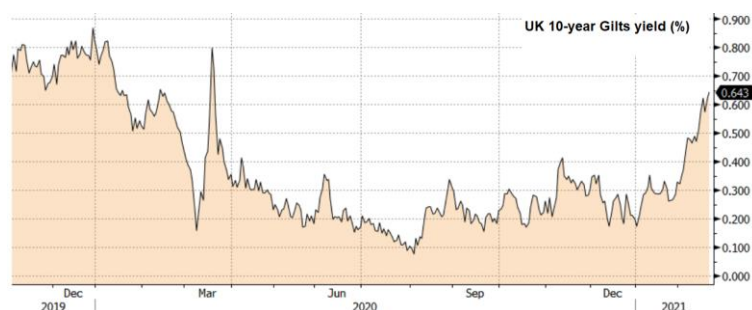
Investors' positioning for upside in European oil stocks has surged



European sovereign bond yields resumed to move upwards with most countries following the Germany bunds curve (10-year +2 bps). **Southern European spreads were unchanged except for Italy** tightening 3 bps as **Prime Minister Draghi managed to secure a broad-based support** also in the lower house of the parliament (535 vs 56 vote). Contacts flagged the expulsion of 15 members from the Five Star Movement following their vote against PM Draghi government as a potential source of tension.

United Kingdom

The pund (+0.2%) traded above the 1.40 mark against the dollar, first the time since April 2018. The currency shrugged off weaker than expected January retail sales data (-5.9% yoy vs -0.8% expected) as well as reports of further increase in the proportion of workforce on furlough, now reaching 20% or 6 mn people. Market attention was more focused on the **big upside surprise in the preliminary February PMI figures**. The composite PMI recovered to 49.8 (42.6 expected), mostly through a sharp rise in the services gauge (49.7 against 42 expected). However, companies did report lower exports and Brexit-related supply disruptions, which held back further expansion in the manufacturing sector. The UK gilt market responded with a further rise in yields, with the 10-year (+3 bps) now reaching 0.65%. The latest comments by **Bank of England's Saunders, who saw limited room for further rate cuts**, also added pressure to the bond market.



Other Mature Markets

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Japan

The 10-year benchmark Japanese Government Bond (JGB) yield reached 0.1%, the highest level since November 2018. This is response to rising U.S. treasury yields as well as growing worries that next month's Bank of Japan policy review may result in more hawkish policies. This fear persists despite BOJ governor Kuroda's public statement on Thursday that the central bank remains committed to stimulative policies and reaching its inflation target. The yen has been stronger in recent sessions on safe haven buying in the midst of the stalled global equity rally.

Growing Fear

Japan's 10-year yield reaches a 0.10% landmark amid rising volatility



Source: Bloomberg, Japan Exchange Group
GJGB10 Index (Japan Govt 10 Yr) Line Chart Daily 01JAN2017-19FEB2021 Copyright© 2021 Bloomberg Finance L.P. 19-Feb-2021 15:56:57

Emerging Markets [back to top](#)

Emerging markets were mixed, although most Latin American markets were down in step with yesterday's US decline. In Indonesia, as markets came under pressures, Bank Indonesia reportedly intervened in the spot and non-deliverable forward (NDF) FX markets, as well as local government bond markets. In India, primary dealers had to buy bought almost all bonds in the 5-year and 10-year auction yesterday. The lack of demand is reflective of investors' discomfort with prevailing yield levels; local bond markets were closed today.

Key Emerging Market Financial Indicators

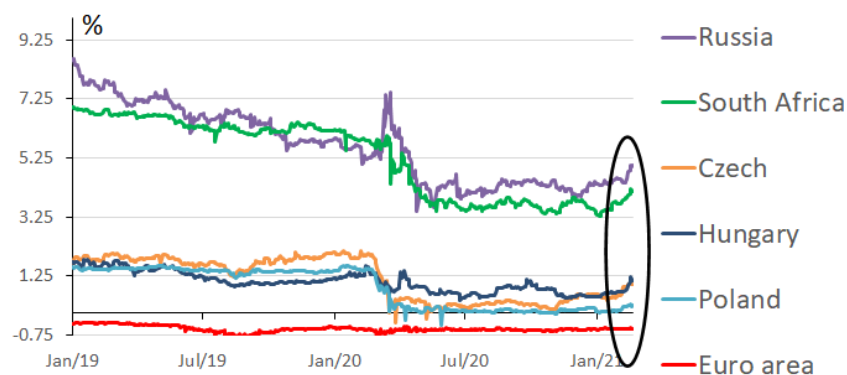
Last updated: 2/19/21 8:02 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		57.16	#VALUE!	0	3	29	11
MSCI Frontier Equities		29.81	-0.2	2	1	0	5
EMBIG Sovereign Spread (in bps)		345	-1	4	-11	43	-5
EM FX vs. USD		58.05	0.2	0	1	-2	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.45	0.5	0	0	8	1
Indonesian Rupiah		14065	-0.3	-1	0	-3	0
Indian Rupee		72.65	0.1	0	1	-2	1
Argentina Peso		89.05	0.0	-1	-3	-31	-6
Brazil Real		5.41	0.3	-1	-1	-19	-4
Mexican Peso		20.37	-0.3	-2	-3	-9	-2
Russian Ruble		73.87	0.0	0	0	-14	0
South African Rand		14.61	-0.1	0	3	3	1
Turkish Lira		6.96	0.2	1	7	-13	7
EM FX volatility		9.64	0.0	0.2	-0.6	3.3	-1.1

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

Monetary policy rates in EMEA

Markets have been pricing in more central bank tightening in several economies. So far in February, traders priced in about 40 bps of extra rate hikes for the Czech Republic, Hungary, Russia, and South Africa. According to contacts, this reflects concerns about inflation surprises above and beyond the pick-up expected from the recovery in commodity prices. The central bank of Russia (CBR) announced last week that the current easing cycle is over, and that it is contemplating a potential return to neutral policy. Governor Nabiullina said that the central bank is not ruling out a rate hike this year. Yesterday, the Central Bank of Turkey (CBT) kept rates unchanged at 17% and maintained a hawkish tone. As in January, the CBT promised additional tightening if needed.

EMEA: Monetary policy rates a year ahead (from forwards, %)

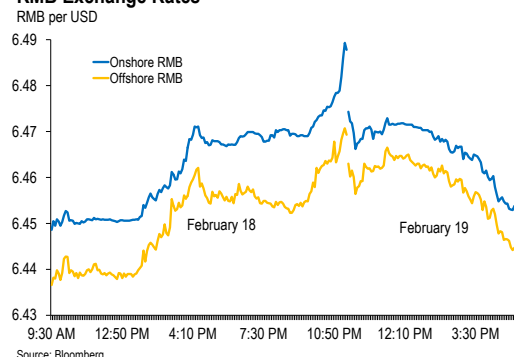


Source: Bloomberg and IMF staff

China

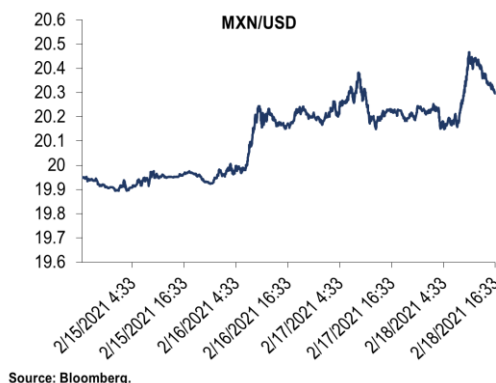
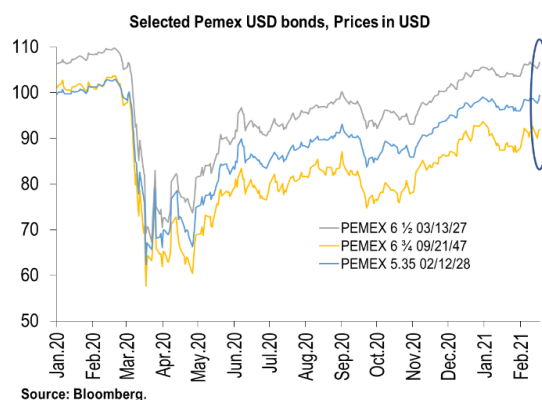
RMB appreciated 0.5% onshore and 0.2% offshore, following the stronger-than-expected official RMB fixing, outperforming other currencies in the region. The People's Bank of China (PBOC) set the fixing at 6.4626 RMB per USD this morning, 32 pips strong than the average estimate of analysts and traders. Market participants viewed the PBOC's RMB fixing as a signal of its willingness to tolerate some RMB appreciation. **At the same time, Chinese authorities are exploring measures to promote capital outflows to ease RMB appreciation pressures.** The State Administration of Foreign Exchange (SAFE) will conduct a feasibility study on allowing domestic residents to invest in overseas securities and insurance products within their annual foreign-exchange quota of \$50,000. **The PBOC withdrew liquidity of 80 bn yuan (\$12.4 bn) today.** Interbank repo rates fell (overnight: -46 bps; 7-day: -3 bps). **Equities gained (CSI 300: +0.2%).**

RMB Exchange Rates



Mexico

Announcements of additional state aid for the national oil company Petroleos Mexicanos (Pemex) supported the company's bonds and limited intraday depreciation in the peso. According to officials, Mexico's government is poised to inject \$1.3-\$1.6 bn of funds and grant the company a tax break worth an additional \$3.7 bn. The latest tax break will come on top of an earlier reduction in the profit sharing rate between the company and the state from 58% to 54%. The funds offered to Pemex are likely to be partially used for debt repayments but finally aim at boosting production and future revenues. Pemex's international bonds rallied on the news, with the 2028 bond gaining 1 cent on the dollar over the day. Meanwhile Mexico's finance minister said in an interview that the country would change its oil revenue hedging strategy from discrete to smoothed operations in derivative markets to better manage its market activity. The Mexican peso continued to recover earlier losses partially after both news stories broke.



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Global Financial Indicators

Last updated: 2/19/21 8:00 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3914	-0.4	0	3	16	4
Europe		3708	0.7	0	3	-4	4
Japan		30018	-0.7	2	5	28	9
China		3696	0.6	6	4	24	6
Asia Ex Japan		100	-1.6	0	4	37	12
Emerging Markets		57	-1.4	0	3	29	11
Interest Rates			basis points				
US 10y Yield		1.31	1.5	10	22	-26	40
Germany 10y Yield		-0.33	2.0	10	20	9	24
Japan 10y Yield		0.11	1.2	4	5	16	9
UK 10y Yield		0.66	3.5	14	37	6	46
Credit Spreads			basis points				
US Investment Grade		86	-0.5	-3	-9	-21	-9
US High Yield		347	0.9	-3	-26	-70	-32
Europe IG		48	-0.6	0	-3	6	0
Europe HY		245	-4.1	3	-12	33	4
EMBIG Sovereign Spread		345	-1.0	4	-11	43	-5
Exchange Rates			%				
USD/Majors		90.26	-0.4	0	0	-9	0
EUR/USD		1.21	0.4	0	0	12	-1
USD/JPY		105.3	-0.4	0	1	-5	2
EM/USD		58.1	0.2	0	1	-2	0
Commodities			%				
Brent Crude Oil (\$/barrel)		63	-1.2	1	13	7	22
Industrials Metals (index)		147	1.4	4	9	38	11
Agriculture (index)		52	0.3	3	3	29	8
Implied Volatility			%				
VIX Index (%, change in pp)		22.1	-0.4	0.8	-1.2	7.7	-0.7
US 10y Swaption Volatility		70.5	-0.3	9.3	13.1	-0.5	10.4
Global FX Volatility		7.3	0.0	0.2	-0.3	1.9	-0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		123	0.4	5	2	-16	3
Italy		95	-4.1	5	-16	-42	-16
Portugal		57	-2.1	3	3	-13	-3
Spain		67	-1.6	8	8	-2	5

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: 2/19/2021 8:03 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	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			
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.45	0.5	0.1	0	8	1		3.4	4.5	5	9	47	10		
Indonesia		14065	-0.3	-0.7	0	-3	0		6.5	-0.6	22	16	-17	39		
India		73	0.1	0.3	1	-2	1		6.3	1.7	7	28	-24	38		
Philippines		48	0.1	-0.8	-1	4	-1		3.5	1.9	1	-12	-63	-14		
Thailand		30	0.1	-0.3	0	4	0		1.5	0.3	9	15	27	22		
Malaysia		4.04	0.0	0.0	0	3	-1		2.9	-1.1	18	35	1	34		
Argentina		89	0.0	-0.6	-3	-31	-6		42.8	-106.1	-383	-928	-1511	-1337		
Brazil		5.41	0.3	-0.7	-1	-19	-4		6.6	-1.4	19	31	82	104		
Chile		706	0.9	2.3	4	13	1		2.9	3.7	16	10	-71	13		
Colombia		3545	0.0	-1.1	-2	-4	-3		5.2	2.3	8	10	-32	11		
Mexico		20.37	-0.3	-2.0	-3	-9	-2		5.9	10.8	26	25	-76	27		
Peru		3.7	0.0	-0.3	-1	-7	-1		4.0	4.4	16	27	-19	39		
Uruguay		43	-0.1	-0.5	-1	-11	-1		7.0	0.6	-6	-21	-274	-24		
Hungary		295	0.4	0.1	0	6	1		1.8	1.8	19	17	15	28		
Poland		3.69	0.5	0.4	1	7	1		0.8	2.2	7	20	-115	12		
Romania		4.0	0.3	0.1	0	10	-1		2.6	12.0	33	11	-96	-12		
Russia		73.9	0.0	-0.3	0	-14	0		6.3	0.9	24	41	48	58		
South Africa		14.6	-0.1	-0.5	3	3	1		9.6	3.7	27	-11	14	0		
Turkey		6.96	0.2	1.0	7	-13	7		13.3	-7.8	2	-27	212	21		
US (DXY; 5y UST)		90	-0.4	-0.2	0	-9	0		0.57	1.3	7	12	-84	21		

	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		5779	0.2	5	6	43	11		199	0	-2	-9	30	-9		
Indonesia		6232	0.5	0	-1	5	4		158	0	-9	-25	-5	-29		
India		50890	-0.8	-1	3	23	7		152	-3	-2	-6	21	1		
Philippines		6926	1.1	-1	-4	-6	-3		83	0	-9	-17	13	-22		
Malaysia		1585	0.6	-1	-1	3	-3		113	0	-2	-3	9	3		
Argentina		51827	-1.1	-1	3	35	1		1459	0	19	8	-570	91		
Brazil		119199	-1.0	1	-1	2	0		253	0	0	-16	58	3		
Chile		4534	-0.9	-1	-3	0	9		126	0	-6	-16	-14	-18		
Colombia		1354	-0.9	-1	-7	-19	-6		207	0	-4	-15	44	2		
Mexico		44508	-1.2	1	-2	-1	1		348	0	-9	-34	55	-12		
Peru		22470	-0.9	1	4	14	8		133	0	-4	-3	22	1		
Hungary		44112	0.1	2	-1	-4	5		65	0	-6	-15	-42	-31		
Poland		58482	-0.4	2	1	1	3		-22	0	-4	-11	-54	-21		
Romania		10388	-0.3	-1	1	2	6		195	-2	5	-8	19	-8		
Russia		3428	0.8	0	0	10	4		159	0	-5	-3	19	-7		
South Africa		66819	0.3	1	5	15	12		357	0	-4	-35	25	-23		
Turkey		1566	1.2	2	0	31	6		421	0	-5	-47	34	-24		
Ukraine		521	0.0	0	4	-1	4		479	0	12	-21	127	-12		
EM total		57	1.0	0	3	29	11		421	0	17	-10	97	128		

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