



- Survey finds investors think further US rate increases will be limited ([link](#))
- US Q4 positive earnings surprises in the 98th percentile ([link](#))
- UK gilt yields higher ahead of budget announcement ([link](#))
- India faces rising yields despite central bank bond purchases ([link](#))
- RBNZ adopts dovish stance ([link](#))
- Turkey tightens reserve requirements for banks ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Fed Chair reassures markets

Equity prices and Treasury yields are up following Fed Chair Powell's testimony before the U.S. Senate yesterday. Powell emphasized that the US remains a long way from the Fed's inflation and employment goals, and that supportive policies will remain in place until these are attained. He expects that inflation will be volatile in the coming year but is likely to fall below the Fed's longer-run objective, and that the recent rise in longer-term U.S. Treasury yields reflects increased market optimism over the economic recovery. A steepening yield curve coupled with a rebounding economy is accordingly a desired outcome. U.S. equity futures point to a positive open and most European bourses are posting moderate gains today as investor confidence revives in the wake of Powell's testimony. Nevertheless, the duel between rising interest rates and rising risk assets remains the central focus for global markets. If interest rates continue to push significantly higher, the global rally could face increasing resistance. Meanwhile, Goldman Sachs has revised its Q3 price target for oil to \$75 in expectations of stronger demand amidst the global economic rebound, with Brent crude currently trading over \$66.

Key Global Financial Indicators

Last updated: 2/24/21 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		3881	0.1	-1	1	20	3
Eurostoxx 50		3711	0.6	0	3	2	4
Nikkei 225		29672	-1.6	-3	4	27	8
MSCI EM		56	0.4	-3	0	35	9
Yields and Spreads							
US 10y Yield		1.38	3.6	11	29	1	46
Germany 10y Yield		-0.31	0.2	6	20	17	26
EMBIG Sovereign Spread		351	2	9	-4	44	0
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		58.1	0.2	0	1	-2	0
Dollar index, (+) = \$ appreciation		90.1	-0.1	-1	0	-9	0
Brent Crude Oil (\$/barrel)		66.2	1.2	3	19	18	28
VIX Index (% change in pp)		22.8	-0.3	1	1	-2	0

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

United States

[back to top](#)

The tug of war in the bond market between those who fear significantly higher yields and those who are more sanguine appears to favor the optimistic camp, according to an investor survey from Citi. However, the current pace of Treasury yield increases has exceeded most analysts estimates from December last year, with the 10-year yield up 42 bps year-to-date and the long bond yield up 53 bps (as of Tuesday's close). In addition, the yield curve has steepened to multi-year highs, suggesting that markets expect rates to keep rising.

What is the likelihood that the 10y rate will hit 2% by YE 2021?



Readers' poll results (open through 26-Feb-2021).

Source: Citi

The bearish take on long maturity interest rates receives some support from derivatives pricing at the short end of the curve. The eurodollar interest rate futures curve is pricing a full 25 bps hike in the first half of 2023 (M3 in Figure 7 below). Meanwhile, Citi's fair value model finds that the 10-year should reach 1.85%, or at least 1.50%-1.75% if a compression in the term premium is assumed. If true, this implies a considerable selloff from the current level of 1.38%.

Figure 7. Lift-off probabilities have now shifted toward our base case, which was 20% chance of lift-off in H2, 2022, with market now pricing about 40% chance by Dec 22

2/18/2021	OIS (bp)	Change in OIS (bp)	# of hikes
H1	7.5	-	-
M1	8.0	0.5	0.0
U1	8.5	1.0	0.0
Z1	9.1	1.6	0.1
H2	9.1	1.6	0.1
M2	10.2	2.7	0.1
U2	13.2	5.7	0.2
Z2	17.0	9.5	0.4
H3	23.2	15.7	0.6
M3	32.2	24.7	1.0

Source: Citi Research

Note: OIS implied from ED futures and FRA/OIS. Futures trading involves substantial risk of loss.

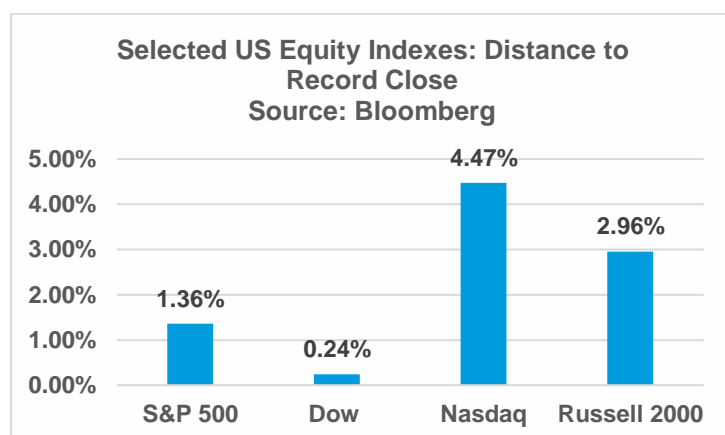
Figure 8. A 10y FV model based on signals from equities, fx and commodities suggests a FV close to 1.85%; however, we have to account for some term premium compression from Fed purchases, so the FV is lower, perhaps around 1.5-1.75%



Source: Citi Research

Note: Fair value created by regressing 30y yields on the first PCA factor of cyclical-to-defensives ratio in equities, crude oil, IG CDX spread, the Aussie dollar, the Canadian dollar, and the euro.

Fed Chair Powell's forceful remarks before the Senate promising sustained Fed support and bond purchases reassured markets and enabled stocks to reverse most of their losses on Tuesday. Several analysts have pointed out that the recent market worries were overblown, with the major indexes still within striking distance of their all-time record closes from earlier in the month. Volatility remains subdued by recent standards, and US economic data surprises have been mostly positive. Others were not so sure, pointing out that the swaptions markets show some investors positioning for higher rates in the months ahead.



The Q4 US corporate earnings season was much stronger than expected. Based on the 89% of the S&P 500 who have reported so far, 69% beat analyst forecasts by one standard deviation or more. This puts Q4 2020 in the 98th percentile for positive earnings surprises over a 15-year time horizon. For Q1, the stimulus package and the recovering economy are expected to produce another strong quarter of earnings. However, corporate managements flagged risks to the outlook, including rising input costs, especially for health care, wages, and commodity prices. In addition, companies are making very optimistic assumptions about the progress on the virus front and expect consumer behavior to return to normal relatively quickly.

Exhibit 1: Rate of S&P 500 standard deviation earnings beats ranks 98th percentile versus history as of February 19, 2021

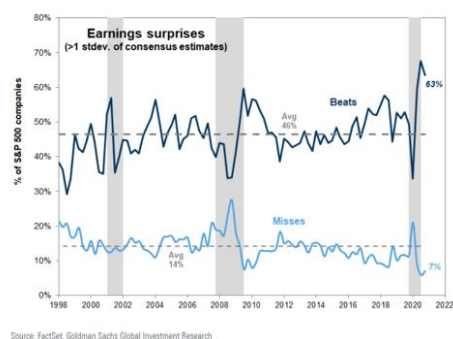


Exhibit 2: 10 of 11 sectors have experienced positive 2021 EPS revisions since the start of 4Q earnings season as of February 19, 2021

Sector	4Q 2020 EPS		Consensus 2021 EPS		
	Year/year growth	% of stocks beating by 1 std. dev.	Growth vs. 2020	Growth vs. 2019	Revision since start of 4Q reports
Materials	20 %	71 %	34 %	28 %	5 %
Info Tech	15	80	14	23	5
Health Care	8	63	13	18	2
Utilities	(1)	25	4	8	0
Consumer Staples	4	52	4	7	0
Comm Services	8	70	13	6	5
Consumer Discretionary	(0)	57	48	4	1
Real Estate	(7)	38	2	2	1
Financials	14	70	23	(5)	4
Industrials	(34)	69	65	(16)	(2)
Energy	(104)	29	NM	(43)	11
S&P 500	2 %	63 %	22 %	6 %	3 %

Source: FactSet, Goldman Sachs Global Investment Research

Europe

[back to top](#)

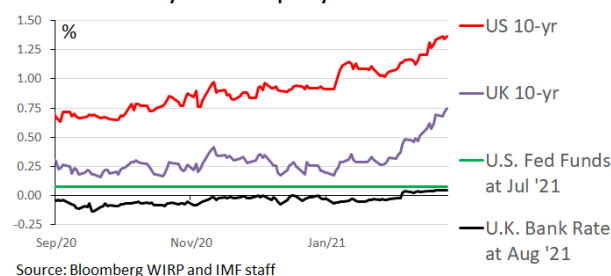
10-yr bund yields are little changed at -0.32% as German Chancellor Merkel warned that Germany is in the middle of a third wave covid-19 infections. The new Italian government has reintroduced mobility restrictions between regions until 27 March and is currently working on a fiscal relief package. **German GDP growth was better than expected at 0.3% qoq** (vs. 0.1%) in 2020Q4 for a yoy contraction of 3.7% (compared to 3.9% expected). Most of the GDP decline was due to consumer spending. **French business confidence disappointed**, mainly due to a deterioration in the business climate in services (88 against 92 in January) and in retail trade (89 against 93 in January). Manufacturing confidence also disappointed at 97 (99 expected, from 96 in January).

United Kingdom

10-yr gilt yields (+3 bps to 0.75%) continue to trade higher ahead of the government's budget announcement next week. HSBC expects the government to announce +£20 bn of extended support for the new fiscal year 21/22, including a jobs support program and a short-term extension to the business rates holidays. The budget deficit forecast is expected to increase from 7.4% to 8% of GDP for 2021/22.

10-yr gilt yields have risen 54 bps in 2021, compared to 44 bps for U.S. 10-year yields and 25 bps for 10-yr bunds.

U.K. and U.S. - 10-yr rates and policy Rates at mid 2021



G-10 Currency Markets in 2021

Recent gains in the British pound translate in a 3.6% YTD gain against the U.S. dollar, ahead of the Australian and New Zealand dollars. The pound gained +2% in the past days as the U.K. government prepares for a full reopening of the economy by 21 June. The Japanese yen has depreciated 2.5% against the U.S. dollar. The BoJ's index of the yen's nominal effective exchange rate hit a 13-month low last week as Bloomberg reports increasing interest to yen funding from carry traders. The Swiss franc is also weaker.

G-10 Currencies: Spot return against U.S. dollar so far in 2021



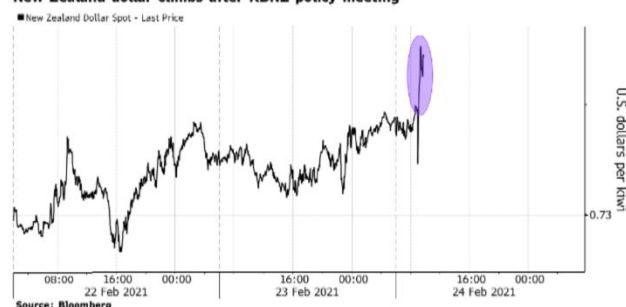
Other Mature Markets

[back to top](#)

New Zealand

The Reserve Bank of New Zealand (RBNZ) left its monetary policy unchanged, as expected. It maintained the Official Cash Rate (OCR) at 0.25% and the Large Scale Asset Purchase Program at up to NZD100 bn (\$73 bn). **However, investors were impressed by the dovish stance adopted by the bank.** The RBNZ noted that the economic outlook remains highly uncertain and it would take 'considerable time and patience' for consumer price inflation to be sustained at the 2% midpoint target and for employment to be at or above its maximum sustainable level. The bank said 'it remains prepared to provide additional monetary stimulus if necessary.' Governor Orr said that should monetary conditions tightened too much through rising bond yields or the exchange rate, the cash rate 'can go lower'. The RBNZ has completed the operational work to enable for a negative OCR if required. **The New Zealand dollar appreciated +0.4%, 10-year bond yield rose +5.1bps and equities fell -0.9%.**

New Zealand dollar climbs after RBNZ policy meeting

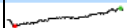
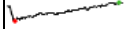
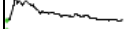


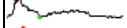
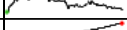

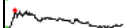

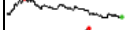

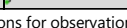



Emerging Markets

[back to top](#)

Moody's downgraded Tunisia's credit rating by one notch B3 while maintaining a negative outlook. Credit spreads on external bonds widened by 40 bps following the announcement while contacts pointed at limited price discovery in a generally tightly held market. **EMEA equities were mostly trading higher** with indices up around 1% in South Africa, Czech Republic, and Poland. The Russia ruble (+0.5%) was stronger against the dollar as contacts pointed to easing of concerns around the severity of upcoming sanctions. Hungary stayed on hold at 0.6% but adopted a hawkish stance. **Asian equities fell -1.6% on sizeable declines in North Asia.** Hong Kong (-3%) underperformed, with the Hong Kong Exchanges and Clearing Ltd share price plunging after the budget announcement included its first stamp duty increase on stock trades since 1993 to 0.13% from 0.1%. **Latin American equity markets were mixed on Tuesday.** In Brazil, Petrobras equities gained 12% yesterday, after a large 22% loss on Monday.

Key Emerging Market Financial Indicators

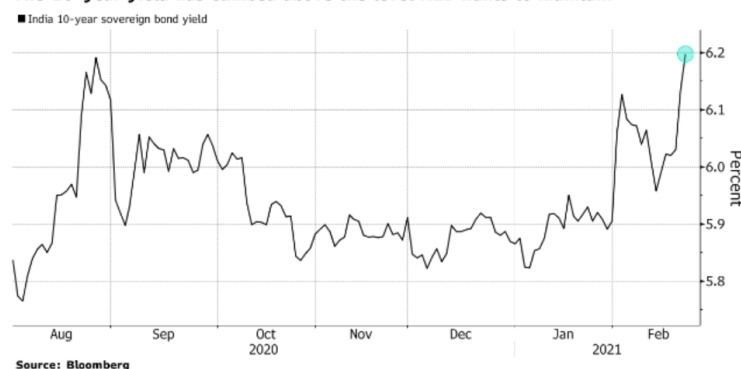
Last updated: 2/24/21 8:08 AM	Level	Change					
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		56.09	-0.2	-3	0	35	9
MSCI Frontier Equities		29.31	0.1	-2	-1	2	3
EMBIG Sovereign Spread (in bps)		351	2	9	-4	44	0
EM FX vs. USD		58.06	0.2	0	1	-2	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.45	0.3	0	0	9	1
Indonesian Rupiah		14085	0.1	0	0	-2	0
Indian Rupee		72.33	0.2	1	1	0	1
Argentine Peso		89.63	-0.1	-1	-3	-31	-6
Brazil Real		5.40	0.7	0	1	-19	-4
Mexican Peso		20.38	0.7	-1	-1	-6	-2
Russian Ruble		73.59	0.6	0	2	-11	1
South African Rand		14.45	0.7	1	5	5	2
Turkish Lira		7.16	-0.7	-3	3	-15	4
EM FX volatility		9.88	0.0	0.1	-0.5	2.7	-0.9

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

India

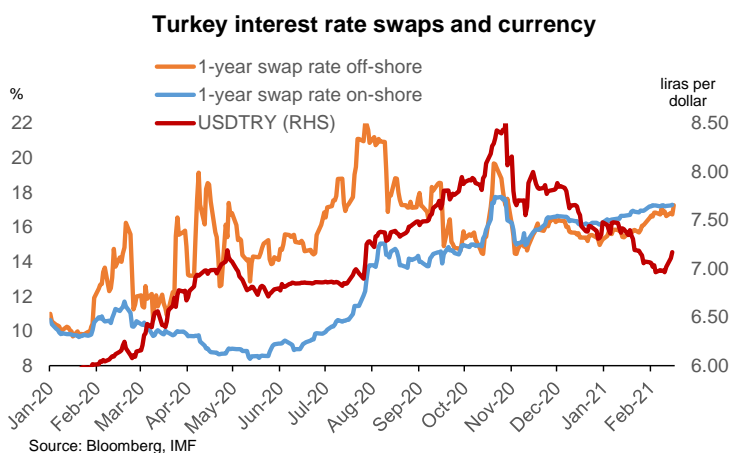
The 10-year bond has risen by around +25bps since end-Jan despite the Reserve Bank of India (RBI) purchasing INR501.7 bn (\$6.9 bn) of bonds in the secondary market in the week to February 12, according to Bloomberg. **Separately, the RBI minutes to the February meeting showed that the six-member committee was unanimous in acknowledging the uneven nature of the economic recovery and the need for an accommodative monetary policy.** However, inflation remains in the spotlight, with core inflation remaining stubbornly high and now near the upper band of the RBI's 2% to 6% inflation target. Analysts therefore see further rate cuts as unlikely.

The 10-year yield has climbed above the level RBI wants to maintain



Turkey

The central bank tightened lira liquidity through an increase in reserve requirements. The lira reserve requirements ratios have been increased by 200 bps while the amount of foreign currency and gold banks can hold instead of lira was decreased. The central bank expects this to boost required reserves by TRY 25 bn. **Analysts saw this as marginal policy tightening, with some also pointing out that this may send a conflicting message around the bank's ability to further hike interest rates.** The Turkish lira (-0.9%) has depreciated over the last week with contacts pointing mostly to profit taking. Market participants were worried after comments from President Erdogan in defense of last year's economic policies. The interest rate swap markets are pricing an unchanged policy stance for the coming year.



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Global Financial Indicators

Last updated: 2/24/21 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3891	0.1	-1	1	21	4
Europe		3710	0.6	0	3	2	4
Japan		29672	-1.6	-3	4	27	8
China		3564	-2.0	-2	-1	18	3
Asia Ex Japan		99	0.5	-3	1	43	10
Emerging Markets		56	0.4	-3	0	35	9
Interest Rates							
			basis points				
US 10y Yield		1.38	3.4	11	29	1	46
Germany 10y Yield		-0.31	0.1	5	20	17	26
Japan 10y Yield		0.13	0.1	3	8	18	11
UK 10y Yield		0.75	3.0	18	52	14	52
Credit Spreads							
			basis points				
US Investment Grade		90	0.0	4	-4	-25	-5
US High Yield		347	-1.8	0	-23	-105	-33
Europe IG		49	-0.8	1	-2	0	1
Europe HY		249	-4.8	3	-14	9	8
EMBIG Sovereign Spread		351	2.1	9	-4	44	0
Exchange Rates							
			%				
USD/Majors		90.12	0.0	-1	0	-9	0
EUR/USD		1.22	0.0	1	0	12	-1
USD/JPY		105.9	0.6	0	2	-4	3
EMUSD		58.1	0.2	0	1	-2	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		66	1.2	3	19	18	28
Industrials Metals (index)		150	0.5	5	10	43	13
Agriculture (index)		53	0.8	4	10	37	10
Implied Volatility							
			%				
VIX Index (% change in pp)		22.8	-0.4	1.3	0.9	-2.3	0.0
US 10y Swaption Volatility		74.2	-2.7	-1.6	19.0	-9.5	14.1
Global FX Volatility		7.5	0.0	0.1	-0.1	1.4	-0.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		127	2.8	9	6	-22	8
Italy		97	1.2	2	-29	-48	-14
Portugal		57	0.3	2	-1	-13	-3
Spain		69	0.7	3	5	0	7

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 2/24/2021 8:11 AM	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		6.45	0.3	0.1	0	9	1		3.4	0.3	4	11	45	9
Indonesia		14085	0.1	-0.5	0	-2	0		6.6	-8.6	30	24	-6	51
India		72	0.2	0.6	1	0	1		6.4	-1.3	10	34	-20	44
Philippines		49	0.1	-0.5	-1	5	-1		3.5	-1.5	-3	-16	-70	-19
Thailand		30	0.0	-0.1	0	5	0		1.7	-0.3	19	32	47	38
Malaysia		4.04	0.0	-0.1	0	5	-1		2.9	0.6	9	33	0	36
Argentina		90	-0.1	-0.8	-3	-31	-6		42.2	-34.0	-253	-945	-1122	-1395
Brazil		5.40	0.7	0.2	1	-19	-4		6.8	-10.1	30	18	98	124
Chile		699	1.1	2.2	5	16	2		3.0	0.7	18	22	-70	25
Colombia		3574	0.5	-1.2	0	-4	-4		5.4	-0.2	21	31	-10	32
Mexico		20.38	0.7	-0.8	-1	-6	-2		5.9	-16.3	16	24	-74	28
Peru		3.7	0.0	0.0	0	-7	-1		4.1	-3.7	21	33	-6	54
Uruguay		43	0.2	-0.2	-2	-11	-2		7.1	5.5	-2	-18	-252	-21
Hungary		296	-0.3	0.6	0	5	0		1.9	8.3	14	34	32	39
Poland		3.72	-0.2	0.4	1	7	0		0.7	2.1	-4	16	-108	11
Romania		4.0	0.0	0.9	0	10	-1		2.7	1.0	24	31	-84	-8
Russia		73.6	0.6	0.2	2	-11	1		6.3	0.0	2	36	58	63
South Africa		14.4	0.7	1.4	5	5	2		9.7	-16.4	15	4	33	5
Turkey		7.16	-0.7	-2.5	3	-15	4		13.3	1.9	-7	-6	165	23
US (DXY; 5y UST)		90	0.0	-0.9	0	-9	0		0.59	2.3	4	16	-62	23

	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		5438	-2.5	-6	-2	32	4		199	0	-2	-9	30	-9
Indonesia		6251	-0.3	0	-1	8	5		158	0	-9	-25	-5	-29
India		50782	2.1	-2	4	26	6		151	-1	-1	-4	20	0
Philippines		6756	-0.9	-3	-4	-6	-5		83	0	-9	-17	13	-22
Malaysia		1558	-0.5	-2	-2	5	-4		113	0	-2	-3	9	3
Argentina		47857	-2.9	-7	-1	24	-7		1459	0	19	8	-570	91
Brazil		115228	2.3	-4	-2	1	-3		253	0	0	-16	58	3
Chile		4557	-1.8	0	2	3	9		126	0	-6	-16	-14	-18
Colombia		1355	0.2	-1	-4	-16	-6		207	0	-4	-15	44	2
Mexico		45268	0.7	1	1	3	3		348	0	-9	-34	55	-12
Peru		23180	0.0	3	8	21	11		133	0	-4	-3	22	1
Hungary		43545	1.4	-2	0	-2	4		65	0	-6	-15	-42	-31
Poland		57802	1.4	-2	1	5	1		-22	0	-4	-11	-54	-21
Romania		10260	0.3	-2	-1	4	5		200	4	9	-2	25	-3
Russia		3417	-0.5	-1	1	10	4		159	0	-5	-3	19	-7
South Africa		66853	1.4	0	4	22	13		357	0	-4	-35	25	-23
Turkey		1513	-0.3	-2	-2	32	2		421	0	-5	-47	34	-24
Ukraine		521	0.0	0	4	-1	4		479	0	12	-21	127	-12
EM total		56	-0.2	-3	0	35	9		421	0	17	-10	97	128

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