



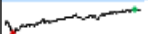
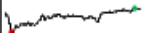

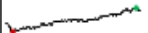

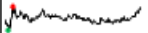

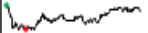

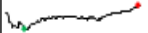
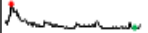
- Bond market action filters into rates, as markets start to hedge policy outlook ([link](#))
- SPAC mania continues into February, with record activity ([link](#))
- Implied volatility in core bond markets increases sharply ([link](#))
- Italy expected to issue first green bond in March ([link](#))
- EMEA fixed income markets under pressure from core yields increase ([link](#))
- India's central bank to maintain existing inflation targeting regime ([link](#))

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## Now it's getting real

**Sovereign bond yields are generally lower this morning after yesterday's rout which saw the largest one-day rise in US yields since March, driven by a massive move in real yields.** Through 2 weeks ago, the real US 10-yr yield had only risen 7 bps year-to-date, compared to a 30bps increase in nominal yields which was mostly driven by rising breakeven inflation. Since then, the real yield has climbed about 40bps, including 18bps yesterday alone. The bond sell-off rattled equity markets and has spilled over into early move across the globe with both Asian and European markets lower this morning. The weakness in emerging market currencies is also continuing so far this morning, with most weaker against the dollar.

Key Global Financial Indicators

Last updated: 2/26/21 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3829	-2.4	-2	-1	23	2
Eurostoxx 50		3642	-1.2	-2	1	2	3
Nikkei 225		28966	-4.0	-4	1	29	6
MSCI EM		54	-2.3	-5	-2	31	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.48	-4.5	14	44	14	56
Germany 10y Yield		-0.26	-2.6	5	28	25	31
EMBIG Sovereign Spread		346	-2	1	-11	20	-4
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.0	0.0	-2	-1	-3	-2
Dollar index, (+) = \$ appreciation		90.6	0.5	0	0	-8	1
Brent Crude Oil (\$/barrel)		65.8	-1.7	5	18	23	27
VIX Index (% change in pp)		29.2	0.3	7	6	2	6

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

## United States

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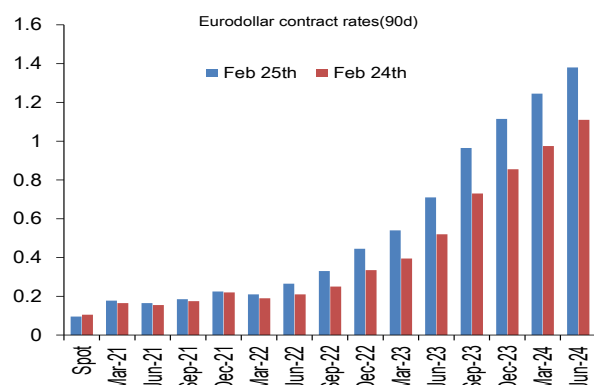
**Bond sell off rattles markets, with equities slumping lower.** The Treasury bond sell off accelerated Thursday, with investors attacking the belly of the curve, driving the 5-year yield 21 bps higher to 0.82%. By comparison, the 10- and 30-year yields were up 14 and 4 bps respectively, with real 10-year rates jumping a handsome 18 bps. Rising growth expectations, inflation uncertainty, questions about central bank policy commitments, and convexity hedging on the long end have rippled through bond markets in recent days. The nominal 10-year yield surpassed the dividend yield on the S&P for the first time in a year, potentially eroding the bullish case on equities going forward. The S&P 500 fell 2.5%, with the Nasdaq slumping 3.5% lower as richly valued tech stocks got hit hard.

Change in Treasury bond yields (bps)			
(maturity)	Thursday	YTD	
2yr		5	5
5 yr		22	46
7yr		19	55
10yr		14	61
30yr		4	63
Breakeven 10 yr		-3	15
Real 10 yr		18	46
Source: Bloomberg			



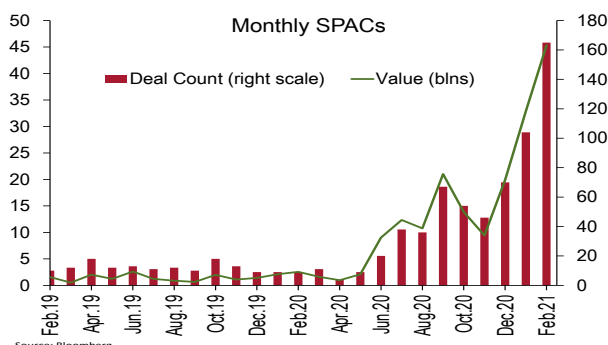
**PCE inflation came in slightly above expectations, with both headline and core at 1.5% y/y (vs 1.4% expected).** Notably, core inflation hit 0.3% m/m (vs 0.1% expected), while the headline rate was bang on at 0.3% m/m (vs 0.3% expected). Personal income was up 10% m/m (vs 9.5% expected) bolstered by the second round of stimulus checks. January personal spending was near expectations at 2.4% m/m (vs 2.5% expected).

**Bond market action filters into rates, as markets start to hedge policy outlook.** Eurodollar futures show a shifting outlook after Thursday's moves, with markets pricing a higher likelihood of Fed rate hikes by late 2022/early 2023 despite numerous Fed officials pushing the case for prolonged accommodation this week.

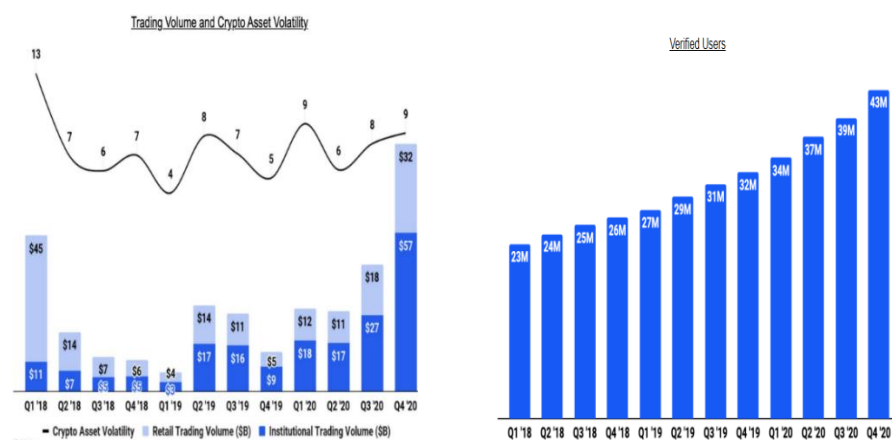


**SPAC mania continues into February, with record offerings.** Special purpose acquisition companies (SPACs) have ramped up dramatically since mid-2020, offering investors an alternative opportunity to seek higher returns, and offering companies a chance to go public with fewer restrictions that come with a traditional IPO. February 2021 has seen the highest number of announced offerings on record (newly

pending, trading, or priced), with 165 new deals worth almost \$45 bn, compared to 9 deals worth \$2.5 bn in February 2020, according to Bloomberg data. While SPACs have traditionally targeted newer, flashy private companies with less of a proven record, an emerging trend has been the targeting of corporate spinoffs.



**Crypto gains mainstream acceptance as Coinbase files IPO.** This time may be different for crypto, as the wild run up in prices in recent months has gained more traction among institutional investors. Trading volume among institutional investors more than doubled in Q4, while retail volume increased by 78% in comparison. Coinbase—one of the most prominent trading and infrastructure platforms—holds 11% of total crypto market capitalization and has seen verified users grow consistently to over 40 million, with nearly 3 million monthly transacting users in Q4. Coinbase noted that institutional trading volume is less influenced by price and volatility than retail, and that institutions have increasingly used Bitcoin as a hedge against inflation. Bitcoin, Ethereum, and other crypto assets represented 41%, 15%, and 44% of trading volume respectively in 2020, with Bitcoin losing share since 2019 to other assets, which includes the fast growing “DeFi” peer-to-peer application segment. Bitcoin still makes up 70% of total assets on the platform.



## Europe

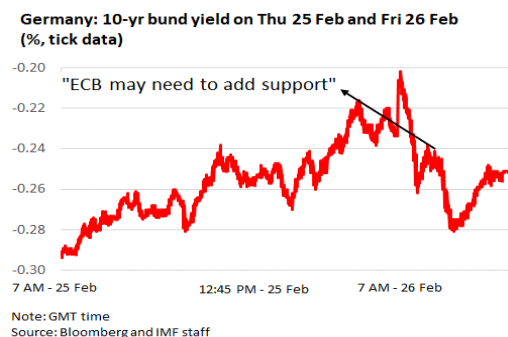
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### Euro area

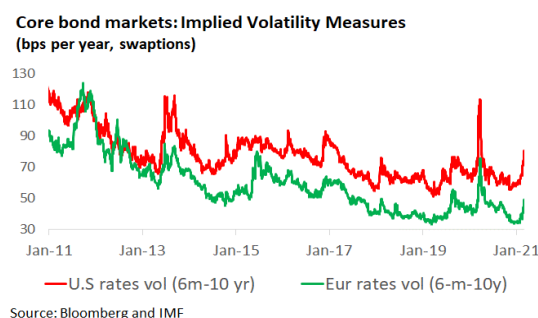
**European equities (-1.1%) and the euro (-0.6%) traded lower as risk sentiment remain fragile** following a sharp selloff in Asian stock markets.

German 10-yr bund yields (-2 bps to -0.25%) fell after **ECB GC member Schnabel said that the ECB may need to add support if higher yields hurt growth**. Yesterday, ECB Chief Economist Lane said that the ECB will use the flexibility of the pandemic emergency purchase program (PEPP) to prevent any undue tightening of financial conditions but also added that it is “crystal clear” that the ECB is not engaging in yield

curve control. **Weekly PEPP data to be released on Monday will give an early indication of the extent to which the ECB has been willing to increase QE purchases in response to higher euro area yields.**



**Contacts report that this week's sell-off in U.S. rates but also bund yields was much larger than expected and has been disorderly** as indicated by sharp increases in implied volatility measures from options markets in bonds. Nevertheless, volatility measures have remained below the levels observed during the “taper tantrum” in 2013.



10-yr bund yields rose 27 bps in February compared to an increase of 29 bps in French yields and 35 bps in Spanish yields. Italian yields rose 15 bps this month as markets welcomed Draghi's appointment as a prime minister.

**Italy is expected to sell its first “BTP Green” via syndication in March.** Yesterday, the Italian Treasury unveiled its green bond framework. Proceeds of such bonds will be used to fund renewable electricity, energy efficiency, transport, pollution prevention and control and circular economy projects, as well as environmental protection and biological diversity and research initiatives. **Italy follows France, Belgium, Germany, Ireland, and the Netherlands. SocGen expects around €35 bn or more of green bond issuance in 2021.**

**Euro area: Annual Supply of Green Bonds**  
since 2017 (bn euro)

	2017	2018	2019	2020	2021 ytd	TOTAL
FR	9.7	5.1	5.9	6.7	1.5	28.9
GE				11.5	0.0	11.5
NL			6.0	3.0	1.7	10.7
BE		4.5	2.4	2.0	0.8	9.7
IR		3.0	2.0	1.1		6.1
<b>TOTAL</b>	<b>9.7</b>	<b>12.6</b>	<b>16.3</b>	<b>24.3</b>	<b>4.0</b>	<b>66.9</b>

Source: SG Cross Asset Research/Rates

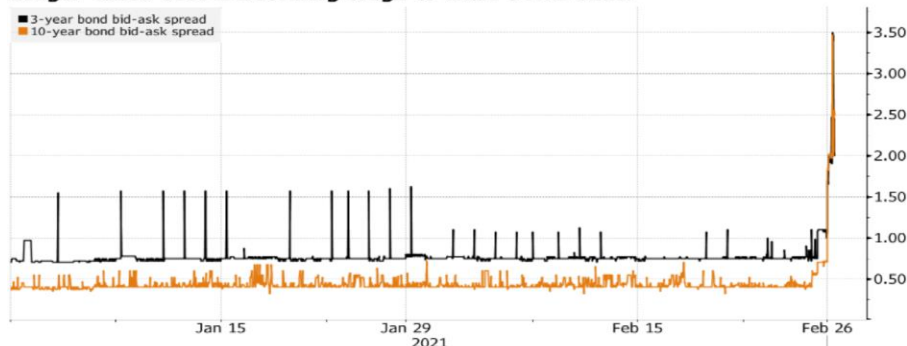
## Other Mature Markets

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### Australia

The Reserve Bank of Australia (RBA) announced unscheduled bond purchases to curb the rise in the 3-year bond yield. The RBA bought AUD3 bn (\$2.4 bn) of April 2023 and April 2024 government securities. Friday's move came after purchases on February 22 and February 25 failed to bring the 3-year bond yield to the 0.1% target. Australian bond liquidity was drying up with bid-ask spreads rising. **The bond curve bear steepened, with 3-year bond yield falling -2.4bps to 0.09% while the 10-year rose +17.2bps to 1.89%.** The Australian dollar weakened 0.6% while equities dropped 2.4%.

Longer-dated debt is becoming tough to trade Down Under

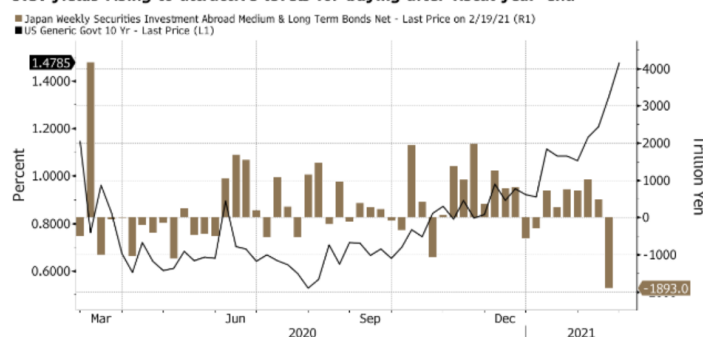


Source: Bloomberg

### Japan

**Equities fell 3.2% on broad-based losses, led by tech.** Industrial production and retail sales data worsened in January versus December. They came in at -5.3% y/y and -2.4% y/y, respectively, compared with -2.6% and -0.3% in December. Tokyo's CPI printed at -0.3% y/y in February from -0.5% y/y in January. **Separately, Japanese funds turned net sellers of overseas bonds for the first time this year.** They withdrew ¥1.9 tn (\$17.9 bn) in the week ending February 19, according to Bloomberg. In 2020, Japanese funds bought ¥14.5 tn in US debt, with sovereign bonds accounting for more than 2/3 of the total. **The yen was stable today, 10-year JGB yield closed 0.9bps higher to 0.15% after getting close to the upper allowable trading range of 0.2% during the day.**

U.S. yields rising to attractive levels for buying after fiscal year-end



Source: Bloomberg, Ministry of Finance

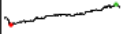
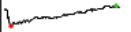






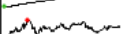

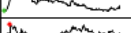

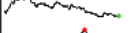

## Emerging Markets

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**Asian equities fell 3.2% on broad-based losses, marking the largest daily decline since May 2020.** North Asia, particularly Hong Kong SAR (-3.6%) and Taiwan Province of China (-3%) were among the biggest losers. Philippines (+0.6%) was the only major market that rose. **Regional currencies depreciated, led by losses on the Korean won (-1.4%) and Indonesian rupiah (-1.1%).** Bank Indonesia

confirmed intervening in FX spot, NDF and bond markets to stabilize the rupiah. **Bond yields were broadly higher.** Asia investment grade dollar bonds also saw spreads jump by the most since April. **EMEA equities were trading in the red** with indices down in South Africa (-2.2%), Turkey (-1.6%) and Poland (-1.6%). **EMEA bond markets managed to stabilize this morning** apart from South Africa and Russia where yields continued to increase. **EMEA currencies were also taking a breather**, except for the Turkish lira (-1%). Further on Turkey, the central bank minutes revealed that the recent change in the reserve requirements does not rule out additional policy rate hikes if such are warranted by inflation outlook. Some market participants have speculated that the liquidity tightening could have been a step back to unconventional stealth policy management practiced last year. **Latin American equity markets were lower on Thursday.** Equities in Brazil (-3.0%), Colombia (-2.6%) and Mexico (-1.9%) decreased. Currency markets were relatively quiet. Mexico's current account printed a record high almost \$17.5 bn surplus in the last quarter of 2020 (5.8% of period GDP), driven by high trade balance and workers' remittances.

Key Emerging Market Financial Indicators

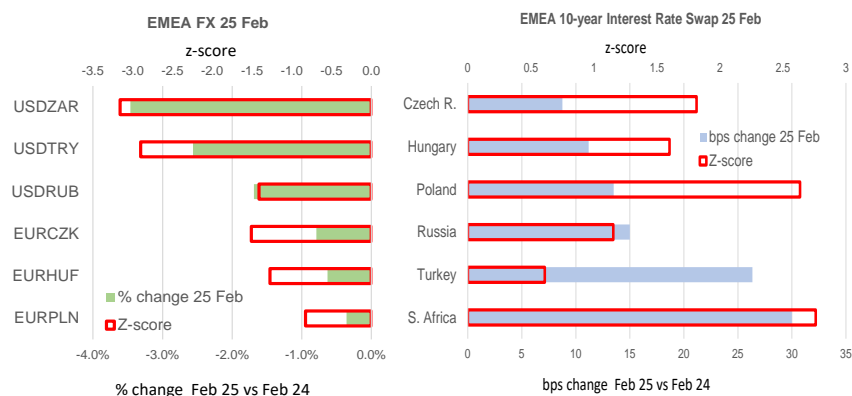
Last updated: 2/26/21 8:15 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		54.46	-2.8	-5	-2	31	5
MSCI Frontier Equities		28.88	-1.2	-3	-2	2	2
EMBIG Sovereign Spread (in bps)		346	-2	1	-11	20	-4
EM FX vs. USD		56.96	0.0	-2	-1	-3	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.47	-0.2	0	0	9	1
Indonesian Rupiah		14235	-1.1	-1	-1	-2	-1
Indian Rupee		73.47	-1.4	-1	-1	-2	-1
Argentine Peso		89.82	-0.1	-1	-3	-31	-6
Brazil Real		5.50	0.3	-2	-3	-19	-6
Mexican Peso		20.87	-0.1	-2	-4	-8	-5
Russian Ruble		74.81	-0.1	-1	0	-13	-1
South African Rand		14.94	0.5	-2	1	2	-2
Turkish Lira		7.44	-1.2	-6	-1	-17	0
EM FX volatility		10.25	0.0	0.7	-0.1	3.0	-0.5

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

## EMEA Fixed Income

**Fixed income markets came under pressure due to the rise in core market yields.** The pressure was building throughout the week, but yesterday market functioning deteriorated sharply in several EMEA markets. Local contacts noted that liquidity disappeared in some local bond and in particularly interest rate swap markets, as investors rushed to hedge interest rate duration risk. **As most market makers pulled back, price discovery was appalling in South Africa, Poland, and Russia swap markets.** That said, local bond market saw some selective support buying from the domestic investor base. In the currency space, the South African rand and the Turkish lira were most under pressure as investors have been generally building long positions in those markets over the last few weeks. Contacts also pointed out to an increase in execution slippage on electronic currency platforms and reduced market depth in the most affected currency pairs.





## China

The onshore RMB weakened 0.1% while the offshore RMB gained 0.3% and the 10-year bond yield was little changed at 3.3%. The spread between China and US 10-year bond yield has narrowed to 1.7%, the least since April as US yields rose to a one-year high. Equities (Shanghai -2.1%; Shenzhen -1.8%) meanwhile tumbled.

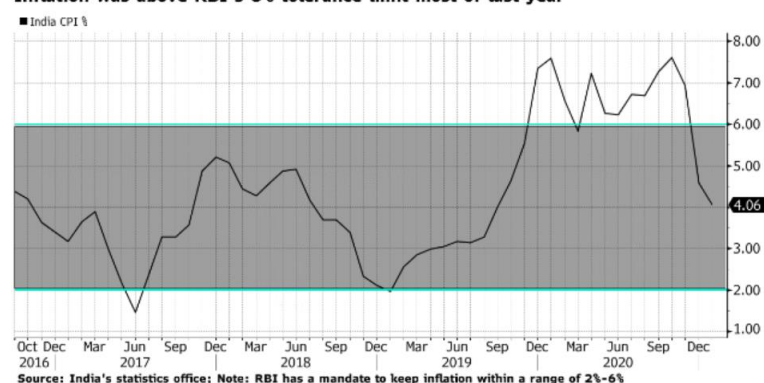
### Spread between China, U.S. debt is the narrowest in almost a year



## India

The Reserve Bank of India (RBI) views the current flexible inflation targeting regime appropriate over the next five years. The central bank reviewed the FIT framework put in place five years ago and found it has been effective in containing inflation, according to the RBI report. The existing mandate requires the RBI to keep inflation at 4% midpoint of its 2% to 6% target range. 10-year bond yield rose +4.6bps, the currency weakened -0.9% and equities tumbled -3.3%.

### Inflation was above RBI's 6% tolerance limit most of last year



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## Global Financial Indicators

Last updated: 2/26/21 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3830	-2.4	-2	0	23	2
Europe		3642	-1.2	-2	1	2	3
Japan		28966	-4.0	-4	1	29	6
China		3509	-2.1	-5	-2	17	1
Asia Ex Japan		96	-1.7	-4	-2	38	7
Emerging Markets		54	-2.3	-5	-2	31	5
Interest Rates							
			basis points				
US 10y Yield		1.48	-4.5	14	44	14	56
Germany 10y Yield		-0.26	-2.6	5	28	25	31
Japan 10y Yield		0.16	0.9	5	12	25	14
UK 10y Yield		0.80	2.0	11	54	30	61
Credit Spreads							
			basis points				
US Investment Grade		92	-0.9	5	-4	-27	-4
US High Yield		347	2.5	2	-26	-124	-33
Europe IG		52	0.9	4	2	0	4
Europe HY		267	3.2	20	6	8	24
EMBIG Sovereign Spread		346	-2.0	1	-11	20	-4
Exchange Rates							
			%				
USD/Majors		90.62	0.5	0	0	-8	1
EUR/USD		1.21	-0.5	0	0	11	-1
USD/JPY		106.3	0.1	1	3	-4	3
EM/USD		57.0	0.0	-2	-1	-3	-2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		66	-1.7	5	18	23	27
Industrials Metals (index)		148	-2.3	0	9	42	12
Agriculture (index)		52	-1.7	1	3	33	8
Implied Volatility							
			%				
VIX Index (% change in pp)		29.2	0.3	7.2	6.2	1.6	6.5
US 10y Swaption Volatility		91.9	3.1	11.6	37.4	1.9	31.7
Global FX Volatility		7.9	0.0	0.6	0.3	1.6	-0.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		139	2.5	19	16	-28	19
Italy		102	-0.8	9	-16	-48	-9
Portugal		58	-2.1	2	2	-20	-2
Spain		69	-2.1	3	8	-7	7

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: 2/26/2021 8:15 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		6.47	-0.2	-0.1	0	9	1		3.4	0.6	-1	11	49	9
Indonesia		14235	-1.1	-1.2	-1	-2	-1		6.6	9.3	15	29	-10	54
India		73	-1.4	-1.1	-1	-2	-1		6.4	2.6	8	36	-14	46
Philippines		49	0.1	-0.3	-1	5	-1		3.5	-0.5	-3	-14	-64	-17
Thailand		30	-0.2	-1.3	-1	5	-1		1.8	9.8	26	43	57	48
Malaysia		4.05	-0.2	-0.2	0	4	-1		2.9	1.9	3	36	3	38
Argentina		90	-0.1	-0.7	-3	-31	-6		41.6	-12.4	-123	-1012	-1186	-1459
Brazil		5.50	0.3	-2.1	-3	-19	-6		7.2	15.8	54	52	132	158
Chile		718	-0.5	-1.4	2	13	-1		3.1	7.6	25	37	-46	38
Colombia		3606	0.0	-1.0	0	-4	-5		5.6	17.9	41	46	13	53
Mexico		20.87	-0.1	-2.1	-4	-8	-5		6.1	17.0	26	51	-45	53
Peru		3.6	-0.1	0.1	0	-7	-1		4.3	10.3	27	46	7	66
Uruguay		43	0.2	-0.6	-2	-10	-2		7.0	3.2	1	-18	-255	-23
Hungary		298	-0.3	-0.8	-1	5	0		2.1	9.8	29	53	58	56
Poland		3.73	-0.4	-0.8	0	6	0		0.9	10.9	14	33	-81	26
Romania		4.0	-0.4	0.0	0	10	-1		2.8	14.0	17	44	-81	5
Russia		74.8	-0.1	-1.0	0	-13	-1		6.4	8.3	12	43	57	70
South Africa		14.9	0.5	-1.7	1	2	-2		9.8	10.3	18	14	47	17
Turkey		7.44	-1.2	-6.4	-1	-17	0		13.5	8.3	22	21	154	43
US (DXY; 5y UST)		91	0.5	0.3	0	-8	1		0.79	-3.1	21	38	-37	43

	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		5337	-2.4	-8	-3	31	2		199	0	-2	-9	30	-9
Indonesia		6242	-0.8	0	2	10	4		158	0	-9	-25	-5	-29
India		49100	-3.8	-4	2	23	3		148	-4	-4	-7	12	-3
Philippines		6795	0.6	-1	-4	-5	-5		83	0	-9	-17	13	-22
Malaysia		1578	-0.2	0	0	6	-3		113	0	-2	-3	9	3
Argentina		48921	-1.4	-6	-1	34	-5		1459	0	19	8	-570	91
Brazil		112256	-2.9	-5	-4	6	-6		253	0	0	-16	58	3
Chile		4579	0.0	-1	2	7	10		126	0	-6	-16	-14	-18
Colombia		1336	-2.6	-1	-5	-16	-7		207	0	-4	-15	44	2
Mexico		44310	-1.9	0	-2	4	1		348	0	-9	-34	55	-12
Peru		22875	-1.4	2	7	21	10		133	0	-4	-3	22	1
Hungary		43799	-0.5	-1	1	1	4		65	0	-6	-15	-42	-31
Poland		56676	-1.8	-3	-2	6	-1		-22	0	-4	-11	-54	-21
Romania		10216	-0.6	-1	-1	5	4		197	-6	2	-9	-1	-6
Russia		3359	-1.5	-3	-1	11	2		159	0	-5	-3	19	-7
South Africa		65845	-2.4	-2	3	20	11		357	0	-4	-35	25	-23
Turkey		1468	-1.4	-6	-4	27	-1		421	0	-5	-47	34	-24
Ukraine		521	0.0	0	1	-2	4		479	0	12	-21	127	-12
EM total		54	-2.8	-5	-2	31	5		421	0	17	-10	97	128

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

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