



- US corporate defaults slow down dramatically ([link](#))
- Issuing abroad remains underutilized by US corporate bond issuers ([link](#))
- German 30-year bund yields back at zero amid increasing reflation trade talks ([link](#))
- The euro weakens below 1.20 ([link](#))
- The Bank of England keeps its policy unchanged ([link](#))
- China's provincial governments set growth targets for 2021 ([link](#))

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

Rally in risky assets pauses amid mixed corporate earnings

A three-day rally in global stocks paused amid mixed corporate earnings in Europe. Deutsche Bank, Danske Bank and Nordea reported solid results but Commerzbank, Shell and Unilever disappointed. Yield curves continued to steepen amid increasing reflation trade talk. 30-year US Treasury yields climbed to their highest level since February and the gap between 5- and 30-year yields reached its steepest level in almost five years. In Europe, 30-year Bund yields breached zero for the first time since September. In currency markets, the dollar strengthened, with the euro trading below the psychological 1.20 mark against the dollar for the first time in over 2 months. Elsewhere, oil continued its ascent as OPEC+ said it will keep pushing to clear the surplus left behind by the pandemic. In emerging markets, most currencies depreciated to the dollar while Chinese Interbank repo rates increased after the liquidity provision by the People's Bank of China (PBOC) appeared relatively limited.

Key Global Financial Indicators

Last updated: 2/4/21 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3830	0.1	2	3	16	2
Eurostoxx 50		3614	0.1	2	1	-3	2
Nikkei 225		28342	-1.1	1	4	23	3
MSCI EM		56	0.5	3	7	28	8
Yields and Spreads			bps				
US 10y Yield		1.14	0.2	9	23	-46	23
Germany 10y Yield		-0.47	-0.1	7	14	-7	10
EMBIG Sovereign Spread		345	-2	-15	-5	33	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.4	-0.1	1	-1	-5	-1
Dollar index, (+) = \$ appreciation		91.4	0.2	1	2	-7	2
Brent Crude Oil (\$/barrel)		58.9	0.7	6	15	9	14
VIX Index (% change in pp)		23.0	0.0	-7	-4	7	0

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

United States

[back to top](#)

US equity indices gained marginally yesterday, despite experiencing an intraday rally driven by corporate earnings surprises. The Treasury yield curve continued to steepen as President Joe Biden tried to win congressional passage of a \$1.9 tn stimulus proposal amid reports that he is pressing ahead despite Republican opposition, which may threaten to ditch the bipartisanship pledged by his administration. This morning, initial jobless claims were lower than expected last week at 779k (vs. 830k expected). Markets were little changed following the release.

There have been limited defaults in US corporate bonds and leveraged loans in recent months. No defaults happened in January 2021 while December 2020 saw only 2 defaults totaling \$3.9 bn (left chart below). Going forward, JP Morgan analysts expect high-yield bond and loan default rates to decline to about 3.5% for 2021, which is in-line with their 3.0-3.5% long-term averages (right chart below). For 2022, they forecast high-yield bond and loan default rates of 2.0%, which represents a continued decline for each as the global economy continues to normalize. Recovery rates for high-yield bonds and institutional loans remain close to their historical lows, which raises concerns regarding the actual credit quality of the (still) outstanding bonds.

Figure 1: Monthly default/distressed transaction volume

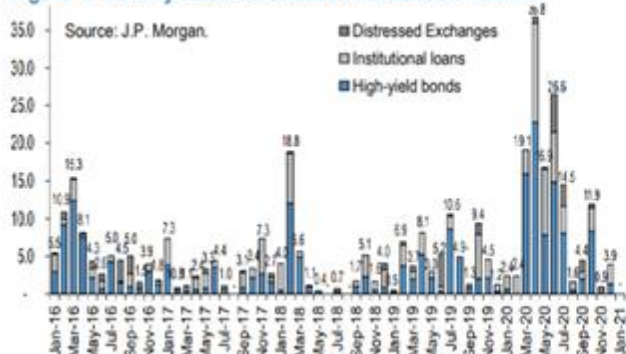
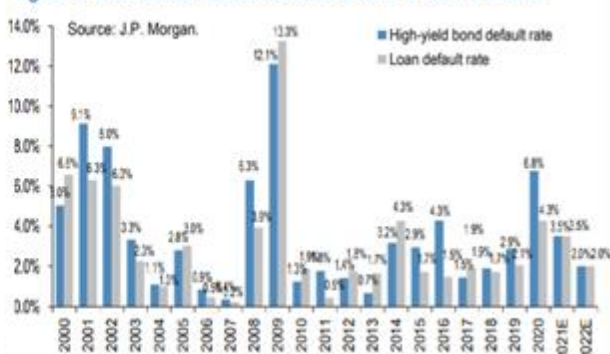
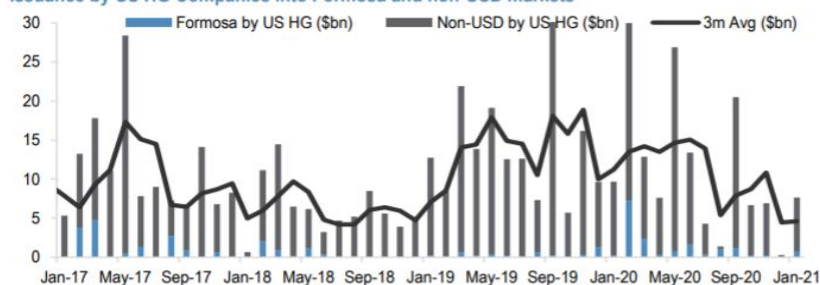


Figure 4: We forecast default rates to decline in 2021 and 2022



There was weak issuance abroad for US companies both in USD and non-USD during 2020. JP Morgan analysts noted that any increase in credit spreads attributed to heavy issuance expectations may be addressed by issuing abroad once again as there is enough room for US issuers to relieve that pressure in foreign credit markets, e.g. Formosa issuance which is denominated in USD and sold to life insurers from Taiwan POC. In contrast to pre-COVID periods, large US investment-grade deals priced recently did not have tranches denominated in non-USD currencies. Overall, issuing abroad has been trending lower for several months and is now at its lowest level since August 2018 on a 3-month average basis (chart below). Compared to pre-COVID periods, the current average pace of issuing abroad is lower by \$10-15 bn per month.

Issuance by US HG Companies into Formosa and non-USD markets



Source: J.P. Morgan

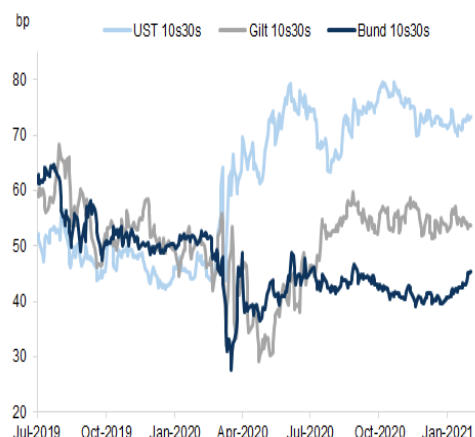
Europe

[back to top](#)

European equities traded marginally higher, with the STOXX 600 benchmark up 0.2% amid mixed corporate earnings releases. Banks were in focus with Deutsche Bank, Danske Bank and Nordea reporting solids results. By contrast German Commerzbank disappointed by posting a €2.9bn loss in 2020 amid a business overhaul. Also, Shell posted a 87% earnings drop and shares in Unilever (-4%) slumped after margins missed estimates on restructuring charges. European bond markets were little changed expect for Italy where spreads tightened by 2 bps.

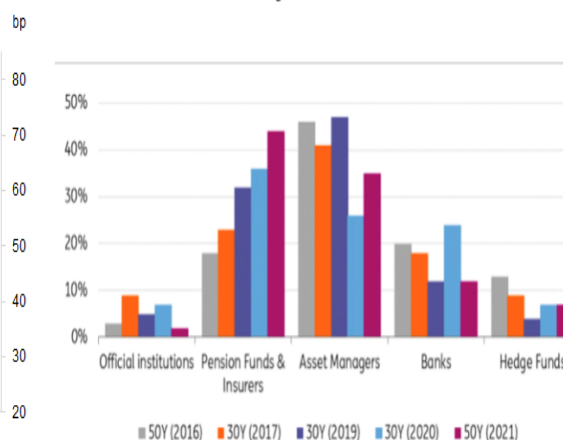
With virus and vaccine-related concerns easing somewhat over the last week, **contacts highlight renewed client interest towards reflation trades in bond markets.** There seems to be a growing consensus that bonds with maturities of 30-years and longer will underperform with investors looking for steepening of the yield curve. **While the 30-year bund yield is back at zero, Euro area stands out having a flatter term structure as compared to the U.S. and the UK.** Aside from growth and inflation recovery argument, market participants expect lesser appetite from the ECB to fight yield increase in more long-dated securities. There is also a notable increase in supply of 30-year and 50-year securities by Eurozone members including Belgium, Finland, Portugal and France issuing just over the last week. That said, yield increases are likely to be gradual as demand, mostly among asset-liability management investors, remains elevated for now.

Exhibit 4: Eventual 10s30s convergence as cycle improves



Source: Goldman Sachs, Goldman Sachs Global Investment Research

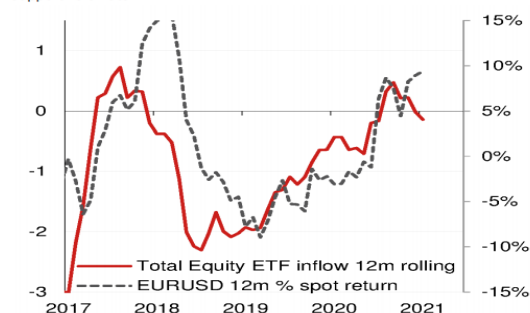
Sector allocation of French ultra-long deals



Source: AFT, ING

The euro (-0.4%) lost further ground, trading below the psychological 1.20 mark against the dollar. The depreciation in the first half of January was largely attributed to broader dollar recovery and underperformance of European equities on virus and vaccine concerns. However, the weakness over the last week has puzzled market participants as better news on the vaccines as well as developments in Italy were supportive for the currency. The ECB rhetoric, bond yield differential with the U.S, weaker data out of China and further risk-reduction amid stretched positioning are cited among potential drivers. Going forward, most contacts expect the euro to stabilize around 1.19 mark and resume appreciation above 1.25 dollars per euro as vaccination starts to catch up and increase in yields makes bonds more attractive to investors.

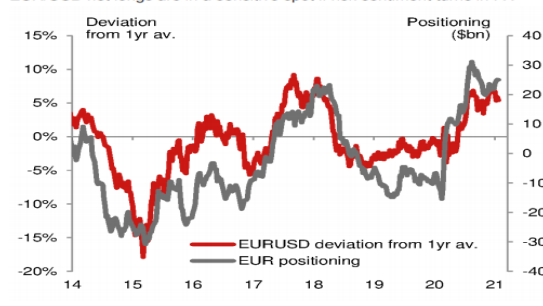
Fig. 1: Foreign ETF inflows into Germany vs EUR/USD
ETF outflows in December, low inflows in January = equity flows less supportive of late



Source: Nomura, Bloomberg

Fig. 3: EURUSD positioning

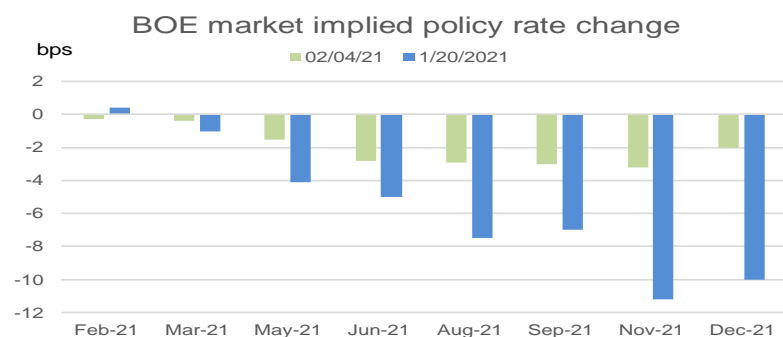
EUR/USD net longs are in a sensitive spot if risk sentiment turns in FX



Source: Nomura, Bloomberg

United Kingdom

The Bank of England maintained its policy rate at 0.10% and the asset purchase envelope unchanged at £875bn as expected. The unanimous vote on both the policy rate and asset purchases was perceived by market contacts to be on the hawkish side as was the statement that the central bank does not intend to send a policy signal with the ongoing review of the negative interest rate feasibility. The 2021 growth outlook was revised lower from 7.5% to 5%. **Markets pared back rate cut expectations while sterling strengthened 0.7% and 10-year gilt yields increased by 3 bps following the announcement.**



Other Mature Markets

[back to top](#)

Japan

Equities declined (NIKKEI: -1.1%; TOPIX: -0.3%) with consumer staples and health care sectors underperforming. The yen depreciated (-0.2%) in line with other Asian currencies amid dollar strength. Long-term government bond yields fell after a 30-year debt auction drew decent demand (30-year: -1 bp).




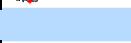




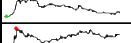

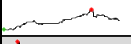
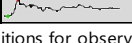
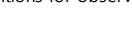

Emerging Markets

[back to top](#)

Asian stock markets broadly declined, -0.9% on net, led by Korean (-1.3%) and Singaporean (-0.8%) equities. Share prices increased in Philippines (+0.6%) and India (+0.7%). **Most Asian currencies depreciated,** led by Korean won (-0.3%), on the strengthening US dollar. **In Korea,** government bond yields increased (10-year: +2.2 bps) as investors were concerned about larger-than-expected bond supply as a result of a potential supplementary budget. **In Indonesia,** Finance Minister Sri Mulyani Indrawati said that the budget to support economic recovery will be much larger than the previously estimated. The Indonesian rupiah slightly depreciated (-0.1%) while 10-year government bond yields increased (+2.1 bps). **In EMEA, equities generally traded higher.** Russian shares (+0.9%) outperformed as analysts argued that a proposed U.S. sanctions bill targeting Russian officials is softer than expected. The Russian ruble

(+0.7%) gained in tandem with spot oil (+0.7%). The South African rand (-0.8%) weakened. The Polish zloty (-0.2%) traded near the perceived intervention level of 4.50 per euro after the central bank left rates unchanged yesterday and ahead of a press conference of central bank governor Glapinski tomorrow. **Latin American equity markets were mostly higher on Wednesday.** Equities in Ecuador (+2.7%) and Brazil (+1.3%) outperformed. Currency markets were relatively quiet. Colombia's President Ivan Duque appointed two members, Mauricio Villamizar and Bibiana Taboada, to the central bank's seven-member board weeks after the new governor Leonardo Villar has taken the office.

Key Emerging Market Financial Indicators

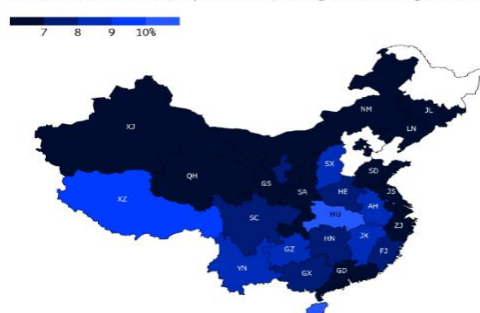
Last updated: 2/4/21 8:11 AM	Level	Change	YTD
	Last 12m index	1 Day 7 Days 30 Days 12 M	
Major EM Benchmarks		%	%
MSCI EM Equities	 55.74	0.0 3 7 28	8
MSCI Frontier Equities	 29.23	0.6 1 3 -3	3
EMBIG Sovereign Spread (in bps)	 345	-2 -15 -5 33	-5
EM FX vs. USD	 57.37	-0.1 1 -1 -5	-1
Major EM FX vs. USD		%, (+) = EM currency appreciation	
China Renminbi	 6.46	0.0 0 0 8	1
Indonesian Rupiah	 14015	-0.1 0 -1 -2	0
Indian Rupee	 72.96	0.0 0 0 -2	0
Argentine Peso	 87.91	-0.1 -1 -4 -31	-4
Brazil Real	 5.36	0.3 1 -2 -21	-3
Mexican Peso	 20.28	-0.4 0 -2 -8	-2
Russian Ruble	 75.57	0.5 1 -2 -17	-2
South African Rand	 15.03	-0.6 1 -2 -2	-2
Turkish Lira	 7.13	0.4 3 4 -16	4
EM FX volatility	 10.12	0.0 -0.3 -0.6 3.5	-0.6

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

China

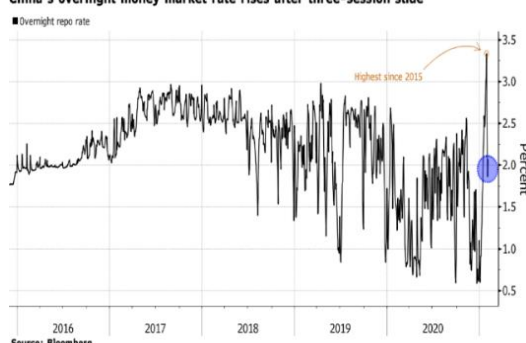
China's provincial governments set growth targets for 2021. Initially, there was some speculation that the government will not set growth targets this year as efforts to achieve the targets could lead to a further buildup of leverage. However, 29 out of 31 provinces have announced their growth targets, which are at least 6%. About a quarter of provinces aim for growth of 8% or more. The latest consensus forecast for China's economic growth for 2021 is 8.4%. **Interbank repo rates increased after the liquidity provision by the People's Bank of China (PBOC) appeared relatively limited.** Today, the PBOC provided 100 bn yuan (\$15.5) under 14-day reverse repo. With the same amount of funds coming due today, the amount of net liquidity injection was zero, again surprising market participants who expected more liquidity injection ahead of the Chinese New Year. Interbank repo rates increased (DR001: +21.3 bps; DR007: +20.1 bps). **RMB was little changed; equities declined (CSI 300: -0.2%).**

Growth Centers
China's Hubei and Hainan provinces have highest GDP targets for this year



Source: Bloomberg
Note: Values show low-end of forecasts. Data not available for all provinces.

Repo Rate Rebounds
China's overnight money market rate rises after three-session slide



Turkey

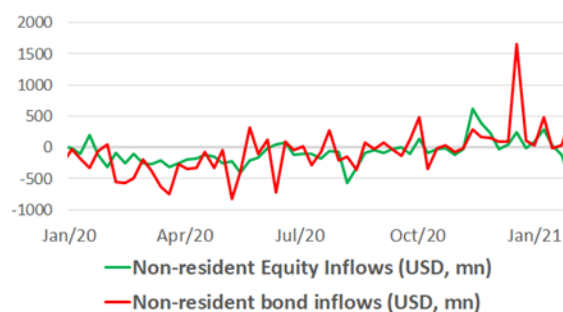
The Turkish lira (+0.4%) continued to appreciate against the dollar, marking its sixth consecutive daily gain. Net weekly non-resident equity flows out of Turkey more than matched non-resident bond inflows but there has been market chatter that local retail and corporates have converted dollars back into lira.

EMEA: Nominal exchange rates against U.S. dollar
(Jan 2020: 100)



Source: Bloomberg and IMF

Turkey: Weekly portfolio flows (U.S. dollar, mn)



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Global Financial Indicators

Last updated: 2/4/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3838	0.1	1	4	16	2
Europe		3614	0.1	2	1	-3	2
Japan		28342	-1.1	1	4	23	3
China		3502	-0.4	0	0	26	1
Asia Ex Japan		98	0.6	3	8	37	9
Emerging Markets		56	0.5	3	7	28	8
Interest Rates			basis points				
US 10y Yield		1.14	0.2	9	23	-46	23
Germany 10y Yield		-0.47	-0.1	7	14	-7	10
Japan 10y Yield		0.06	0.3	2	4	11	4
UK 10y Yield		0.41	4.1	13	24	-15	22
Credit Spreads			basis points				
US Investment Grade		92	-0.2	-4	-5	-14	-3
US High Yield		361	-0.8	-15	-22	-71	-19
Europe IG		49	-0.1	-3	0	5	1
Europe HY		247	-1.1	-20	-5	30	5
EMBIG Sovereign Spread		345	-2.4	-15	-5	33	-5
Exchange Rates			%				
USD/Majors		91.36	0.2	1	2	-7	2
EUR/USD		1.20	-0.3	-1	-2	9	-2
USD/JPY		105.2	-0.2	-1	-2	4	-2
EM/USD		57.4	-0.1	1	-1	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		59	0.7	6	15	9	14
Industrials Metals (index)		133	0.2	0	-2	26	0
Agriculture (index)		50	0.0	1	5	29	5
Implied Volatility			%				
VIX Index (% change in pp)		23.0	0.0	-7.3	-4.0	6.9	0.2
US 10y Swaption Volatility		61.4	0.5	2.8	-1.3	-10.8	1.3
Global FX Volatility		7.5	0.0	-0.2	-0.6	2.1	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		110	-0.5	-12	-13	-48	-10
Italy		103	-2.4	-15	-13	-32	-9
Portugal		52	-0.1	-4	-10	-19	-8
Spain		59	-0.5	-3	-4	-8	-3

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: 2/4/2021 8:11 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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		6.46	0.0	-0.2	0	8	1		3.3	1.6	2	5	46	5
Indonesia		14015	-0.1	0.4	-1	-2	0		6.2	-0.2	-14	9	-76	9
India		73	0.0	0.1	0	-2	0		6.2	-2.3	14	26	-58	26
Philippines		48	-0.1	0.1	0	6	0		3.5	0.2	-15	-13	-62	-13
Thailand		30	-0.1	-0.2	0	3	0		1.4	-1.6	3	7	-7	7
Malaysia		4.06	-0.2	-0.3	-1	1	-1		2.7	0.6	9	11	-47	11
Argentina		88	-0.1	-0.8	-4	-31	-4		49.5	-51.6	-92	-665	-923	-665
Brazil		5.36	0.3	1.4	-2	-21	-3		6.2	-0.6	-25	63	25	63
Chile		737	-0.5	0.3	-5	6	-4		2.8	-2.5	1	0	-68	0
Colombia		3535	-0.1	0.7	-2	-5	-3		5.1	-2.5	-8	1	-51	1
Mexico		20.28	-0.4	-0.1	-2	-8	-2		5.6	0.6	1	1	-111	1
Peru		3.6	-0.2	0.1	0	-7	-1		3.9	3.7	-8	25	-46	25
Uruguay		42	0.2	-0.5	-1	-11	0		7.2	0.2	-6	-6	-317	-6
Hungary		296	-0.4	-0.1	-1	3	0		1.7	1.2	8	13	34	13
Poland		3.75	-0.5	0.0	-1	3	0		0.6	0.2	6	-2	-129	-2
Romania		4.1	-0.3	-1.0	-2	6	-2		2.3	3.0	0	-42	-153	-42
Russia		75.6	0.5	0.6	-2	-17	-2		6.0	3.2	3	29	-1	29
South Africa		15.0	-0.6	1.2	-2	-2	-2		9.4	-8.4	-23	-24	-1	-24
Turkey		7.13	0.4	3.1	4	-16	4		13.4	5.4	6	29	338	29
US (DXY; 5y UST)		91	0.2	1.0	2	-7	2		0.46	0.0	4	11	-96	10

	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		5474	-0.2	2	4	45	5		202	-1	0	-6	32	-6
Indonesia		6107	0.5	2	0	3	2		170	4	-9	-14	-2	-17
India		50614	0.7	8	5	24	6		156	-1	2	5	20	5
Philippines		6904	0.6	1	-4	-4	-3		94	3	-6	-7	19	-11
Malaysia		1585	0.1	1	-1	3	-3		115	-1	-2	3	4	5
Argentina		49858	0.3	0	-2	22	-3		1460	2	18	60	-450	92
Brazil		119725	1.3	1	1	4	1		257	-1	-18	6	38	7
Chile		4401	-0.3	0	3	-6	5		132	1	-11	-12	-13	-12
Colombia		1359	-0.7	-1	-4	-17	-5		216	0	-8	8	43	11
Mexico		43957	0.2	-2	-2	-2	0		368	-1	-18	1	62	8
Peru		21633	0.8	3	3	7	4		133	1	0	2	12	1
Hungary		44099	0.2	1	4	1	5		72	-1	-9	-23	-36	-24
Poland		56987	0.1	-1	-2	-1	0		-17	0	-4	-16	-52	-16
Romania		10482	0.9	2	6	5	7		194	-3	-10	-9	3	-9
Russia		3370	0.8	1	1	9	2		164	1	-4	-2	16	-2
South Africa		63671	1.0	1	5	12	7		377	-1	-17	1	38	-3
Turkey		1540	0.4	3	3	26	4		431	-1	-23	-15	65	-14
Ukraine		521	0.0	1	4	2	4		484	-6	-27	2	97	-7
EM total		56	0.0	3	7	28	8		421	0	17	-10	97	128

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

[back to top](#)