



- World markets saw strong performance in June ([link](#))
- US dealers expect Fed tapering to begin in early 2022 ([link](#))
- North American M&A volumes were down last month ([link](#))
- EBA risk report shows improvements for euro area banks ([link](#))
- Japan Tankan survey signals rebound in business confidence ([link](#))
- China drains liquidity as quarter end pressures ease ([link](#))

[Mature Markets](#)







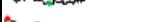
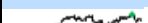



[Emerging Markets](#)

[Market Tables](#)

## Markets end second quarter on a high note

Many markets set record highs in June, while interest rates traded at the lower end of recent historical ranges as the second quarter came to an end. The first half of 2021 was one of the best first halves on record. The S&P 500 has risen for five quarters in a row, the most since 2017, while the Nasdaq 1000's five quarter gain is the most since 2018. Much of the volatility that followed the FOMC meeting on June 16 has subsided, although bond market volatility remains elevated. Q3 has begun with mixed markets, but with the US WTI oil benchmark above \$75 for the first time since October 2018 ahead of the OPEC meeting that has just begun. Press reports indicate that OPEC+ will not increase output as much as originally expected. Treasury and bund yields are holding steady, with the dollar at the strong end of the recent trading range.

Key Global Financial Indicators

Last updated: 7/1/21 8:17 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	 4298	0.1	1	2	38	14
Eurostoxx 50	 4080	0.4	-1	0	26	15
Nikkei 225	 28707	-0.3	-1	-1	30	5
MSCI EM	 55	-0.6	1	-2	36	7
<b>Yields and Spreads</b>		bps				
US 10y Yield	 1.47	0.2	-2	-14	79	56
Germany 10y Yield	 -0.19	1.9	0	-1	21	38
EMBIG Sovereign Spread	 339	1	4	7	-135	-12
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	 57.3	0.1	0	-1	5	-1
Dollar index, (+) = \$ appreciation	 92.3	-0.1	1	3	-5	3
Brent Crude Oil (\$/barrel)	 76.5	2.5	1	9	82	48
VIX Index (% change in pp)	 15.6	-0.2	0	-2	-13	-7

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

## Mature Markets

[back to top](#)

With Q2 in the books, market focus now turns to the US payrolls data due tomorrow, where the consensus calls for 711K new jobs, as well as the latest corporate earnings season. Inflation reports across both developed and mature markets will receive special scrutiny. Meanwhile, looking at market performance so far this year, key benchmark interest rates are markedly higher year-to-date but lower in June, while most risk assets saw strong gains during the month. China stands out as one of the few equity underperformers on fears of tightening financial conditions. Equity volatility has plunged but interest rate volatility has increased.

### Selected Local Currency Market Changes as of June 30 4pm US Time

	June	Year-to-Date
US 10-year Treasury	1.46% (down 14 bps)	Up 54 bps
German 10-year Bund	-21 bps (down 2 bps)	Up 39 bps
S&P 500	+2.2%	+14.41%
Euro Stoxx 600	+1.36%	+13.49%
China CSI 300	-.02%	0.24%
MSCI Emerging Markets ETF	+0.5%	+6.7%
Brent Oil	+8.38%	+45.04%
Copper	-0.57%	+20.2%
VIX	15.62 (down 6.8%)	Down 30.4%
MOVE interest rate volatility index	57.27 (up 10%)	Up 16.9%
Source: Bloomberg		

## United States

**Jobless claims data were mixed, with initial claims better than expected but continuing claims slightly worse.** The market reaction was muted. Meanwhile, usage of the Fed's reverse repo facility rose to a new record high of \$992 bn.

### US Economic Data

	Consensus Forecast	Actual Data
Initial jobless claims	388K	364K
Continuing claims	3340K	3469K
Source: Bloomberg		

**The latest Fed Survey of Primary dealers found that the consensus forecast is that the Fed will begin tapering in early 2022 and be done with all purchases by the end of the year.** JP Morgan thinks the Fed will be a little more aggressive and be done by mid-year. Either path is unlikely to have much of a role in pushing US interest rates higher, the analysts think, with rate hikes and the inflation outlook being much more important in this regard. Although there was widespread agreement at the beginning of the year that US rates would rise in 2021, and rates have indeed gone up significantly, the most recent moves have been downwards as the 10-year Treasury yield remains trapped in the 1.40%-1.60% range after hitting a post-pandemic intra-day high of 1.77% on March 31. However, continued improvements in economic data and heavy new supply could also contribute to higher rates in the future.

Exhibit 2: Long-term yields have risen in 2021, supported by serial upward revisions to growth forecasts and rising inflation expectations

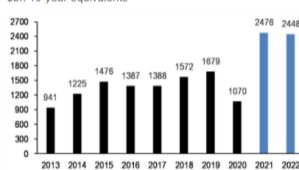
10-year Treasury yields (lhs, %) versus 5Yx5Y TIPS breakevens (lhs, %) and J.P. Morgan US Forecast Revision Index (rhs, %)



Source: J.P. Morgan

Exhibit 3: Even though we see Treasury supply cuts later this year, duration supply will remain heavy by historic standards

Gross Treasury duration supply excluding Fed purchases\*, \$bn 10-year equivalents



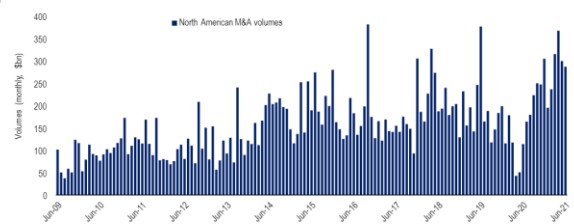
\* Assumes gross Treasury issuance forecast in Exhibit 12 in Treasuries, and assumes Fed taper by \$12bn Treasuries each meeting beginning in December 2021

Source: Federal Reserve, J.P. Morgan

**Mergers and Acquisitions (M&A) volumes in North America declined in June compared to May, at \$287 bn versus \$299 bn respectively and compared to the recent high of \$367 bn in April.** However, Bank of America reports that Leveraged Buyouts (LBOs) volumes hit \$72.4 bn, the highest monthly total since May 2007. High yield (HY) spreads remain very tight in the face of very strong investor demand and low corporate default rates. Some analysts worry that these favorable market conditions could be rapidly reversed if the economy and corporate earnings do not do as well as expected. The low coupons of recent issuance expose investors to a very high level of interest rate risk, so sharply higher Treasury yields could also have a negative effect.

Figure 1: Monthly North American M&A volumes

North American M&A announcement volume declined to \$287bn in Jun from \$299bn in May



Note: Limited to pending and closed deals only. Cancelled deals are excluded

Source: Bloomberg

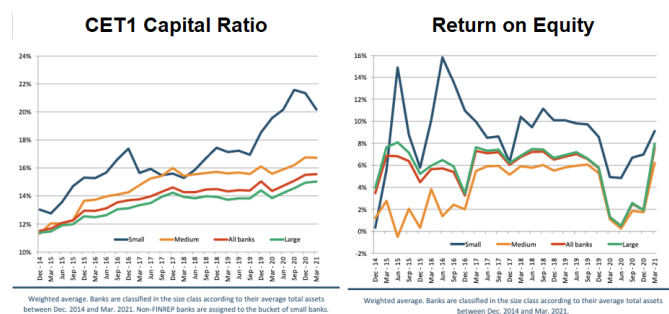
Bank of America Research

## Europe

**European equities** started the month on the front-foot with the STOXX 600 benchmark gaining 0.3% and Spain's IBEX (+0.8%) outperforming. On the sector level, energy (+1.5%) and banks (+1.2%) were leading.

**European bond yields** were higher by 1-2 bps while the euro was stable.

**The European Banking Authority (EBA) Risk Dashboard** showed a marginal increase in euro area banks' CET1 ratio to 15.6% and reduction in the non-performing loan (NPL) ratio to 2.5% in Q1. That said, some sectors like accommodation and food services reported an NPL increase. Banks' profitability improved strongly, despite a contraction in net interest rate margin, as rising fee & commission and trading revenues offset the impact. Separately, **ECB President Lagarde said that the cap on dividend and share buy-backs should be allowed to expire.** The board considers the matter on the 23<sup>rd</sup> September.



Weighted average. Banks are classified in the size class according to their average total assets between Dec-2014 and Mar-2021. Non-FINREP banks are assigned to the bucket of small banks.

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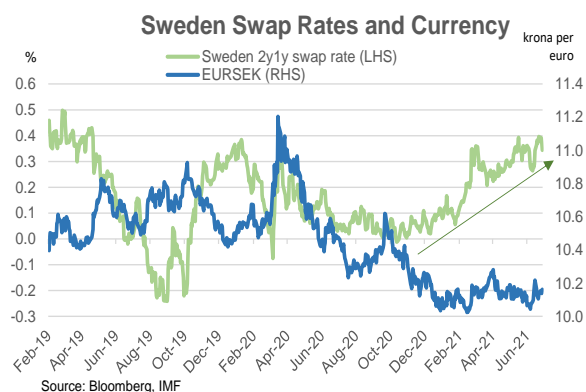
**Eurozone June manufacturing PMI was revised higher** (63.4 vs 63.1) as final readings for both Germany and France were better, while Spain's expansion momentum rose further from 59.6 to 60.4.

### United Kingdom

The sterling (-0.4%) fell to a two month low as **Bank of England Governor Bailey said that the central bank should not overreact to a temporary jump in growth and inflation**. Contacts note that while the statement reiterates the message from the last monetary policy meeting, the recovery of the dollar combined with growth of delta variant cases has led to further position reduction among investors.

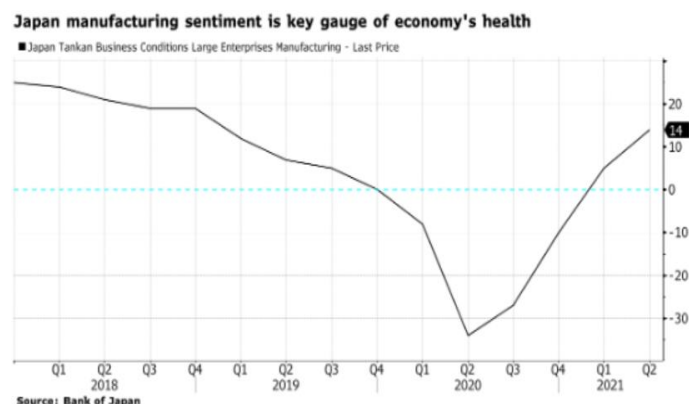
### Sweden

**The Swedish Riksbank maintained its policy unchanged at 0% as expected while keeping a dovish guidance**. The policy rate is projected to remain unchanged until Q3 2024 with asset purchases continuing until the end of this year, which puts Riksbank on the dovish end of the G10 central bank spectrum. By contrast, swap markets start to price policy tightening from late 2022 onwards.



### Japan

**Confidence among large Japanese manufacturers picked up to the highest since 2018, based on the Bank of Japan (BOJ)'s Tankan survey cited by Bloomberg**. The gauge for non-manufacturers improved slightly but continued to be weighed down by difficult business conditions for retailers. Large firms of all types said they plan to boost investment by nearly 10%. Separately, new BOJ board member Junko Nakagama said that it is appropriate to continue with the central bank's current monetary stimulus, according to Bloomberg.



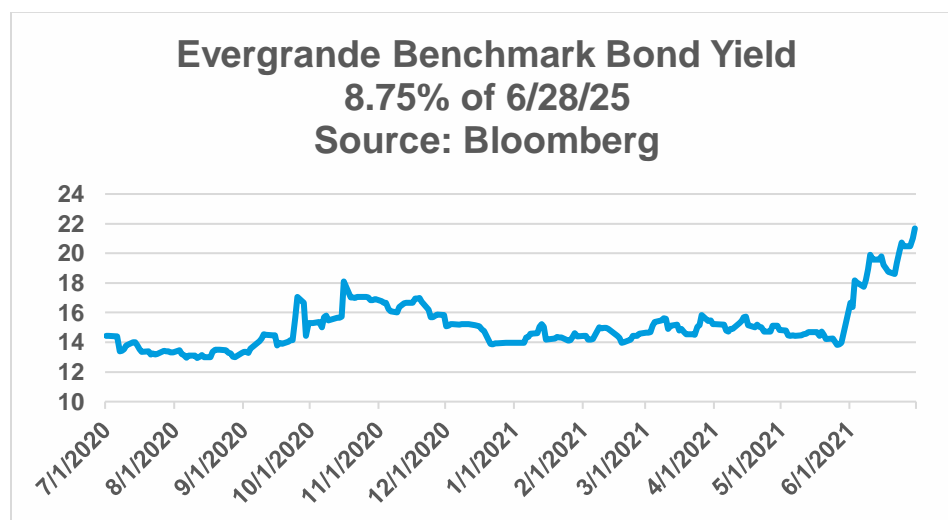
## Emerging Markets

[back to top](#)

**EMEA stocks were mostly higher. Asian equities were mixed while currencies weakened.** Korea's greater Seoul area will extend a ban on private gatherings of five or more people for one week amid rising COVID-19 cases. **Indonesia** meanwhile has announced strict curbs for Java and Bali, ordering all non-essential workers to work from home while allowing critical sectors such as healthcare to stay open. **Latin American equities saw moderate losses.** Local bond yields were higher in anticipation of tighter central bank policies.

### China

**China drained liquidity from the financial system as quarter-end liquidity risks eased.** The People's Bank of China (PBOC) added RMB10 bn (\$1.5 bn) via 7-day reverse repo agreements, lower than the RMB30 bn that was due on Thursday, as overnight funding costs declined. The overnight interbank repurchase rate fell by 31 bps to 1.93% while the benchmark seven-day rate declined by 35 bps to 2.2%, according to Bloomberg. The authorities had added a daily net RMB20 bn into the financial system over the past five days. **China's Caixin manufacturing PMI fell to 51.3 in June from 52 in May.** While still in expansion, surveyed enterprises said the return of COVID-19 in Guangdong province and overseas impacted both supply and demand. **Separately, China Evergrande Group's credit rating was cut by Moody's by one notch to B2, marking the second rating downgrade.** Moody's has also placed the rating under review for further downgrade and cut ratings on two Evergrande subsidiaries, which are either issuers or guarantors of its bonds overseas. Moody's said that Evergrande still faces sizeable maturing debt and puttable bonds over the next 12 to 18 months, even though it has been reducing its debt to improve financial stability. The company's bond yields have spiked on growing credit concerns.

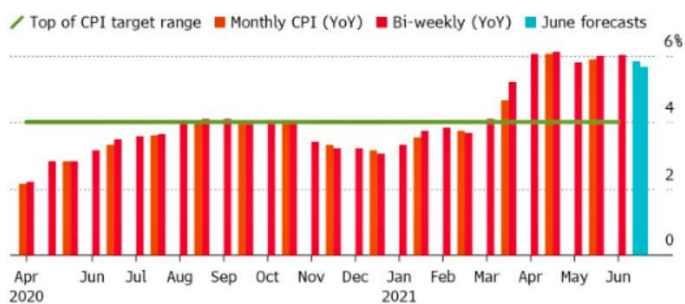


### Mexico

**Mexico's central bank would consider raising rates again if inflation doesn't fall towards 5% for most of what's left of 2021, board member Jonathan Heath said.** In an interview, he noted that Banxico would attempt to hold borrowing costs at 4.25% until the U.S. Federal Reserve starts to raise its own rate, but whether it can do so will depend on inflation. Heath, who was considered dovish after voting in minority decisions for more relaxed monetary policy, appears to have taken a more hawkish turn in his most recent comments. He said that the current high inflation levels were expected due to Mexico's recovering economy, which could fully recover its pandemic-related losses by the end of 2022. However, supply-side shocks coupled with high service prices due to pent-up demand have caused high inflation to persist. Given the current outlook, lowering rates is virtually off the table, he added. According to Bloomberg, Heath's stance presents a stark contrast to comments made by Banxico Deputy Governor Gerardo Esquivel on Friday after the surprising rate hike last week, highlighting the increasing divisions within the bank.

**Still Elevated**

Mexico's monthly, bi-weekly CPI seen slowing only modestly in June



Sources: Instituto Nacional de Estadística y Geografía, Bloomberg.  
 Note: forecasts=survey estimates.

Bloomberg

This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), Xingmi Zheng (Research Assistant), Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.

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## Global Financial Indicators

Last updated: 7/1/21 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4298	0.1	1	2	38	14
Europe		4080	0.4	-1	0	26	15
Japan		28707	-0.3	-1	-1	30	5
China		3589	-0.1	1	0	16	3
Asia Ex Japan		95	-0.6	1	-2	35	5
Emerging Markets		55	-0.6	1	-2	36	7
<b>Interest Rates</b>			basis points				
US 10y Yield		1.47	0.2	-2	-14	79	56
Germany 10y Yield		-0.19	1.9	0	-1	21	38
Japan 10y Yield		0.04	-1.6	-1	-4	-1	2
UK 10y Yield		0.74	2.5	0	-9	53	54
<b>Credit Spreads</b>			basis points				
US Investment Grade		88	0.5	-1	-2	-59	-7
US High Yield		310	-0.9	-7	-27	-328	-69
Europe IG		47	-0.3	0	-3	-19	-1
Europe HY		231	-1.1	3	-14	-141	-10
<b>Exchange Rates</b>			%				
USD/Majors		92.32	-0.1	1	3	-5	3
EUR/USD		1.19	0.2	0	-3	6	-3
USD/JPY		111.4	0.3	0	2	4	8
EMUSD		57.3	0.1	0	-1	5	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		76	2.5	1	9	82	48
Industrials Metals (index)		155	-0.4	1	-3	49	17
Agriculture (index)		59	1.8	8	-1	63	23
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.6	-0.2	-0.4	-2.3	-13.0	-7.1
US 10y Swaption Volatility		66.7	0.0	1.1	0.9	3.8	6.6
Global FX Volatility		6.7	0.0	0.1	-0.4	-1.4	-1.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		103	-0.8	0	2	-54	-17
Italy		101	-1.5	-4	-7	-65	-10
Portugal		58	-1.6	-2	-6	-29	-2
Spain		60	-1.6	-2	-4	-29	-1

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

## Emerging Market Financial Indicators

Last updated: 7/1/2021 8:22 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	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.47	-0.1	0.1	-1	9	1		3.2	-1	3	28	-5	
Indonesia		14503	0.0	-0.4	-2	-2	-3		6.4	-1	0	-79	38	
India		75	-0.3	-0.5	-2	1	-2		6.4	5	15	40	49	
Philippines		49	-0.6	-0.8	-3	1	-2		4.3	5	0	26	64	
Thailand		32	0.0	-0.5	-3	-3	-7		1.8	-2	-2	42	50	
Malaysia		4.16	-0.2	0.0	-1	3	-3		3.3	2	2	49	74	
Argentina		96	0.0	-0.2	-1	-26	-12		45.4	60	-47	83	-1071	
Brazil		4.97	-0.1	-1.2	4	7	4		8.2	-17	26	293	266	
Chile		734	-0.8	0.1	-2	12	-3		4.5	24	61	192	176	
Colombia		3755	0.3	0.7	-1	0	-9		6.9	16	8	135	179	
Mexico		19.95	0.0	-0.4	0	14	0		6.9	4	23	96	134	
Peru		3.9	0.8	2.9	-1	-8	-6		5.2	-36	41	86	163	
Uruguay		44	-0.5	-0.3	0	-3	-3		7.9	-3	-4	-229	61	
Hungary		296	0.0	-0.6	-4	6	0		2.3	-3	-1	76	76	
Poland		3.80	0.3	-0.4	-4	5	-2		1.2	-8	-6	37	56	
Romania		4.1	0.2	-0.5	-3	4	-4		2.8	1	5	-91	4	
Russia		72.9	0.3	-0.9	1	-3	2		7.0	8	17	143	126	
South Africa		14.3	-0.1	-0.6	-4	19	3		9.7	-4	-8	-44	2	
Turkey		8.69	0.2	0.2	-2	-21	-14		17.4	-11	-70	688	428	
US (DXY; 5y UST)		92	-0.2	0.5	3	-5	3		0.89	-2	9	58	53	

	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	7 Days	30 Days	12 M		
								basis points						
China		5230	0.1	1	-1	21	0		203	-1	-8	-44	-26	
Indonesia		6006	0.3	0	0	21	0		174	3	2	-101	-26	
India		52319	-0.3	-1	1	46	10		142	-3	-7	-106	-9	
Philippines		6964	0.9	1	2	9	-2		103	11	9	-66	-9	
Malaysia		1534	0.1	-1	-4	0	-6		123	-1	3	-88	-12	
Argentina		62372	0.0	-6	2	57	22		1579	64	93	-869	223	
Brazil		126802	0.0	-1	-1	32	7		259	9	14	-122	0	
Chile		4331	0.0	-1	-1	7	4		142	-4	0	-79	-14	
Colombia		1249	0.0	-2	2	13	-13		251	-4	1	-49	36	
Mexico		50290	0.0	0	-1	34	14		342	6	15	-178	-15	
Peru		18851	0.0	0	-10	13	-9		160	-4	-3	-33	31	
Hungary		47953	1.5	-1	3	35	14		136	4	-4	-63	-13	
Poland		66661	0.9	-2	1	33	17		35	1	-3	-21	7	
Romania		11973	0.8	2	5	38	22		180	0	4	-110	-22	
Russia		3872	0.8	1	3	41	18		171	3	7	-62	-8	
South Africa		66362	0.2	0	-4	23	12		323	3	11	-212	-61	
Turkey		1366	0.7	-3	-5	18	-7		464	6	-8	-135	17	
Ukraine		529	-0.4	0	0	6	6		490	-9	15	-159	-3	
EM total		55	-0.2	1	-2	36	7		356	4	5	-85	18	

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