GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JULY 12, 2021

- **Falling US bond yields could be driven by weak economic data** (link)
- **Investor sentiment remains very bullish** (link)
- **US corporate bond market could see wave of credit upgrades** (link)
- **ECB's Lagarde signals dovish change in forward guidance** (link)
- **China proposes new cyber rules for companies seeking overseas listings** (link)
- **SPECIAL FEATURE: ESG Monitor (Attachment)**

Mature Markets | Emerging Markets | Market Tables

Global markets mixed as earnings season begins

With global markets at or near record heights, Q2 earnings season could have a large impact on the prices of risk assets. JP Morgan and Goldman kick things off on Tuesday, followed by Citi and Wells Fargo on Wednesday. Earnings reports from other parts of the world will also start coming in. Euro area finance meeting are holding a meeting in Brussels today, with Treasury Secretary Yellen also in attendance. German Chancellor Merkel is scheduled to meet President Biden at the White House later this week. European stocks and US equity index futures are mixed, with Nasdaq futures posting small gains. Oil prices are lower, government bond yields have resumed their two week decline, while the dollar appreciated against most major currencies.

Key Global Financial Indicators

Last updated: 7/12/21 7:53 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4370	1.1	1	3	37	16
Eurostoxx 50		4068	0.0	0	-1	23	14
Nikkei 225		28569	2.2	0	-1	25	4
MSCI EM		54	1.7	-2	-3	24	4
Yields and Spreads				bps			
US 10y Yield		1.34	-1.5	-8	-11	70	43
Germany 10y Yield		-0.31	-1.4	-10	-3	16	26
EMBIG Sovereign Spread		347	-5	4	17	-118	-4
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		56.5	-0.3	-1	-3	3	-2
Dollar index, (+) = $ appreciation		92.3	0.2	0	2	-4	3
Brent Crude Oil ($/barrel)		74.6	-1.3	-3	3	72	44
VIX Index (%, change in pp)		17.0	0.8	2	1	-10	-6

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

This is a busy week for global data, with CPI prints drawing the most scrutiny after government bond yields fell sharply for most of the past two weeks. The Bank of Canada meets on Wednesday, the Bank of Korea on Thursday and the Bank of Japan will make its latest policy announcements on Friday. Fed Chair Powell will testify before Congress on Thursday.

Selected Global Economic Data Due This Week

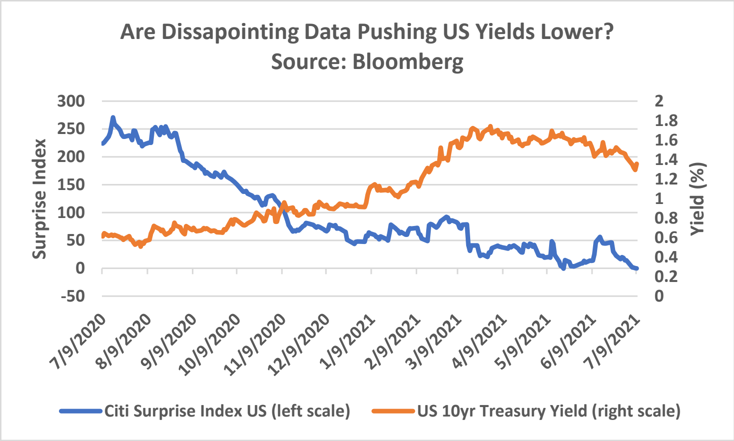
Data	Consensus Forecast
US CPI (Tuesday)	+0.5% and 4.9% headline, 0.4% and 4% core
US Retail Sales (Friday)	-0.5% mom, 0.4% ex-autos
UK CPI (Wednesday)	0.2% and 2.2% headline, core CPI 2% annualized
Eurozone CPI (Friday)	1.9%
China GDP (Wednesday)	8% yoy
China Retail Sales	10.9% yoy
Source: Bloomberg	

Mature Markets

back to top

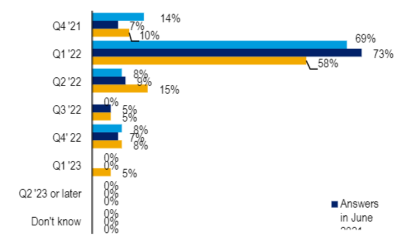
United States

The recent collapse in government bond yields, especially in the US, could be being driven by disappointing economic data. The widely followed Citi Surprise Index measures how economic data perform relative to expectations. The higher the index, the stronger the data compared to expectations. The index for the US has fallen from a high above 250 into negative territory as data have repeatedly come in weaker than forecasts. Once the inflation scares of February-March dissipated, yields have followed the index lower. Bond markets could be sending a signal than the economic recovery may not be as strong as expected and that the current bullish view prevailing among many investors may not be justified.



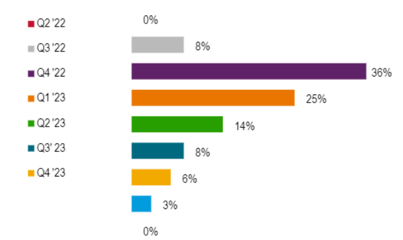
Investor sentiment is very bullish, according to the latest survey from Bank of America. They think the recovery will be strong, allowing the Fed to begin tapering in Q1 2022. They also expect the first rate hike to come in Q4 2022. This bullish view has led many investors to be short duration in expectation of higher interest rates. With the 10-year Treasury yield falling to its lowest level in many months (1.25% intra-day) last Thursday, many have suffered heavy mark to market losses. However, position data show that short covering in Treasuries has been limited as investors hang on in hopes that the recent moves will be temporary. Friday's rebound in yields will help alleviate some of the pain.

Exhibit 2: I expect the Fed to first start tapering asset purchases in:
1Q22 remains the mode for tapering expectations



Source: BofA Global Research FX and Rates Sentiment Survey
BofA GLOBAL RESEARCH

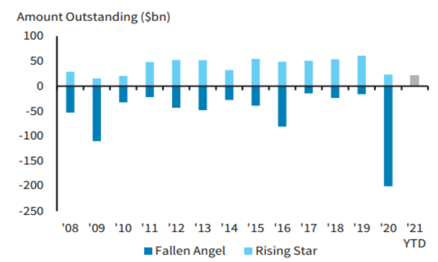
Exhibit 3: My expectation for time of first Fed rate hike is:
Hike expectations centred on 4Q22



Source: BofA Global Research FX and Rates Sentiment Survey
BofA GLOBAL RESEARCH

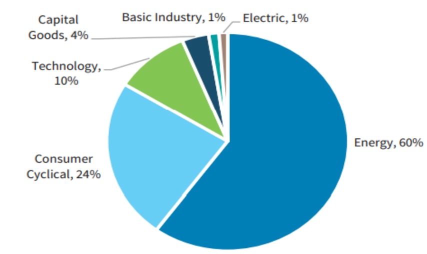
Tighter credit spreads and a strong economic rebound have raised expectations that many US companies will receive credit upgrades. "Rising stars" are high yield companies that get upgraded to investment grade, while "fallen angels" are investment grade companies that were downgraded to high yield. 2020 saw a large volume of fallen angels due to the pandemic, but Barclays expects many more rising stars this year. Its analysts forecast that there will be $50-60 bn of rising stars in 2021 and just $10 bn of fallen angels. For 2022, they predict $70-80 bn of rising stars and $15-20 bn of fallen angels. So far this year, fallen angel volume is just $1.4 bn but rising stars have already hit $21 bn, already matching the full volume seen in 2020. Many of the upgraded companies come from the energy sector, which was especially hard hit last year, and has seen a major rally in 2021 as oil and other commodity prices rebounded.

FIGURE 1. **Annual Fallen Angel and Rising Star Volumes**



Source: Bloomberg, Barclays Research

FIGURE 2. **2021 Rising Stars Have Primarily Come from the Energy Sector**

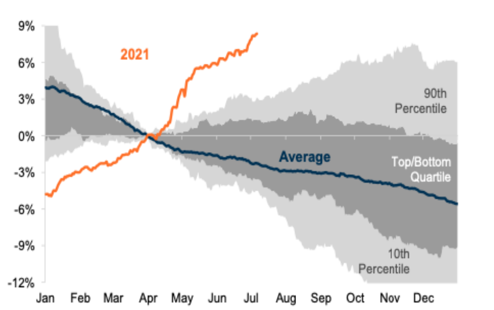


Source: Bloomberg, Barclays Research

Europe

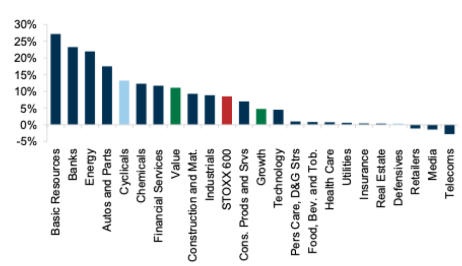
This week marks the start of the earnings season with major Scandinavian banks announcing results. Corporate earnings expectations have gone through a major upwards revision since Q2, especially in cyclical sectors.

Exhibit 2: This is the strongest EPS revision in the second quarter since 2000
STOXX Europe 600. EPS revision since the start of Q2. Average and percentiles since 2000



Source: FactSet, STOXX, Goldman Sachs Global Investment Research

Exhibit 3: Value and Cyclicals have led the revision in consensus...
2021E EPS revision since the start of 2Q-21. SXXP ICB sectors



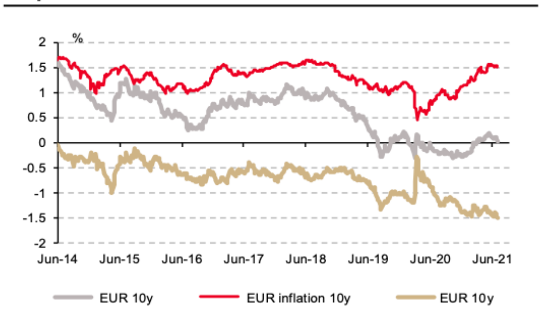
Excluding Travel and Leisure

Source: FactSet, STOXX, Goldman Sachs Global Investment Research

European sovereign bond yields were lower by around 2 bps with Italy outperforming (-4 bps). The euro (-0.2%) traded lower against the dollar, while the latest futures positioning reports indicated some reduction of bullish exposure among investors.

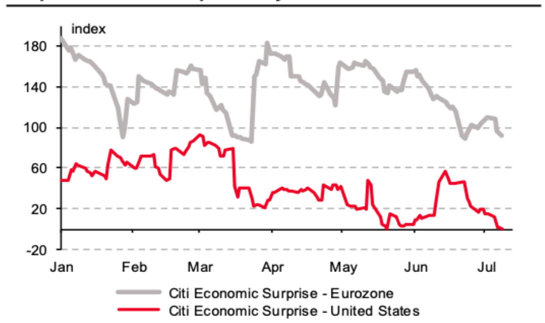
ECB's President Lagarde signaled new guidance on monetary stimulus ahead of the ECB meeting on July 22nd. The revision of forward guidance could include some details around measures to support the economy following the conclusion of the current pandemic emergency purchase program, which is set to run at least until March 2022. As most analysts have expected the July meeting to be uneventful, contacts note that a dovish surprise could put further pressure on Euro area real yields, which have recently hit new lows amid somewhat softer data and spillovers from the U.S.

Graph 3. Broken market – real rates at new lows



Source: SG Cross Asset Research

Graph 4. Economic surprises at ytd lows

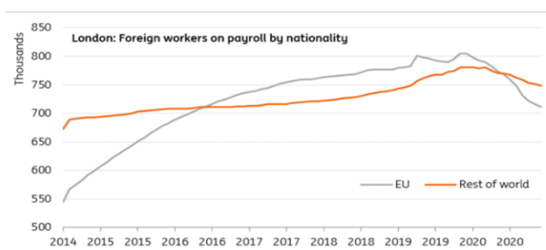


Source: SG Cross Asset Research

United Kingdom

Analysts draw attention to signs of worker shortages in the UK labor market even as implications for the Bank of England policy are seen limited at this stage. Hiring has rebounded particularly strongly in the hospitality and recreational sectors with hiring adverts growing above pre-pandemic levels. Analysts at ING note that some drivers for labor market imbalance, such as the impact of furlough schemes and lifestyle changes, are similar to the ones experienced in the Euro area.

The number of EU-born workers in London has fallen during the pandemic



Source: ONS

Emerging Markets

back to top

EMEA currencies were trading mixed against the dollar with the Turkish lira (+0.3%) appreciating while the South African rand (-1.8%) came under pressure due to political unrest related to former President Zuma arrest as well as renewed Covid-19 restrictions. **Asian equities rose on net (+0.7%).** Vietnam was down by around -3.8% as the authorities ordered more virus curbs in the country's south. The **Indonesian rupiah** gained (+0.2%) after the Bank of Indonesia's Governor signaled Friday that the central bank may start tightening monetary policy next year. **Latin American equities printed mixed, while currencies appreciated moderately last Friday.** Argentina imposed new restrictions on parallel exchanges rates. Ecopetrol, Colombia's largest oil company, resumed its operations despite social unrest in the country.

EM Fund Flows

EM bond funds saw inflows last week, while EM equity funds turned into outflows. EM bond inflows printed at $1.3bn (about half of the week before) and were concentrated in hard currency bond inflows (+$1.2bn). Local currency bond funds printed at just $162mn, split between EM ex-China bond fund outflows (-$181mn) and China-related bond fund inflows (+$343mn). On the equity side (-$240mn), Asia ex-Japan reverted to outflows (-$579mn), in line with both EMEA and Latin America (-$17mn and -$275mn, respectively).

Weekly Cross-asset Flows (USD billion)

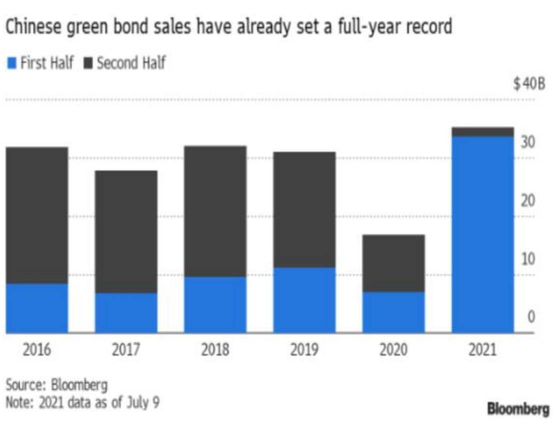
	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		1.1	139.8
	EM Bonds		1.3	48.7
	Hard Ccy		1.2	26.3
	Local Ccy^		0.2	22.3
	o.w. EM ex-China		-0.2	4.6
	o.w. China		0.3	15.4
	EM Equities		-0.2	91.2
	US HG		3.1	194.4
	US HY		0.8	-10.5
	Global Equities		1.8	275.6
	EM Bond and Equity ETFs		1.1	52.5
	EM Bond ETFs		1.0	10.6
	EM Equity ETFs		0.2	41.8
	Non-resident EM flows*		-2.9	-43.1

*High frequency non-resident EM portfolio flow data

Source: JP Morgan

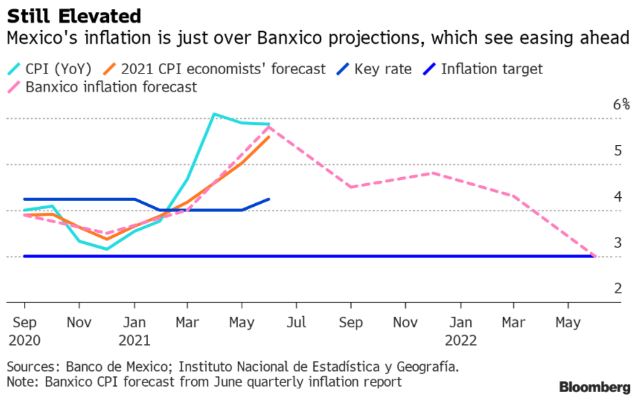
China

China proposed new rules requiring cybersecurity review for companies seeking to list in foreign countries. Firms that hold data on more than one million people must now apply for cybersecurity approval when seeking listings abroad because of the risk that such data and personal information could be "affected, controlled, and maliciously exploited by foreign governments", according to Bloomberg, citing the Cyberspace Administration of China. Separately, **Bank of China, the country's biggest arranger of green bonds, expects green bond sales from Chinese borrowers to grow rapidly over the coming years.** Bloomberg data showed that green bond issuance in all currencies from Chinese issuers have jumped to $35.2 bn in 2021 year-to-date, already exceeding all previous issuance from previous years. The authorities are also seeking more tools to encourage green funding, including a proposal that qualified lenders can get preferential rates for financing clean-energy and carbon reduction-related projects.



Mexico

The nominee for Banxico governor appeared to downplay inflation risks. On a relatively dovish note, governor nominee Herrera argued that recent inflation was caused by temporary issues. Inflation reached 6% last April, about twice the target rate of 3%. According to Bloomberg, Herrera claimed that the inflation spike is due to climate-related issues and pandemic-driven price surges. However, the recent June interest rate hike and Banxico minutes suggesting additional hikes this year appear to contradict this view, according to JP Morgan.



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Global Financial Indicators

Last updated: 7/12/21 7:55 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4370	1.1	1	3	37	16
Europe		4068	0.0	0	-1	23	14
Japan		28569	2.2	0	-1	25	4
China		3548	0.7	0	-1	3	2
Asia Ex Japan		92	1.7	-2	-3	22	2
Emerging Markets		54	1.7	-2	-3	24	4
Interest Rates					basis points		
US 10y Yield		1.34	-1.5	-8	-11	70	43
Germany 10y Yield		-0.31	-1.4	-10	-3	16	26
Japan 10y Yield		0.03	-0.3	-1	-1	0	1
UK 10y Yield		0.64	-1.9	-8	-7	48	44
Credit Spreads					basis points		
US Investment Grade		89	-2.2	3	-3	-53	-6
US High Yield		316	-6.2	4	-17	-304	-64
Europe IG		47	0.1	1	0	-14	-1
Europe HY		234	0.7	8	3	-135	-7
Exchange Rates					%		
USD/Majors		92.35	0.2	0	2	-4	3
EUR/USD		1.18	-0.3	0	-2	4	-3
USD/JPY		110.3	0.1	-1	0	3	7
EM/USD		56.5	-0.3	-1	-3	3	-2
Commodities					%		
Brent Crude Oil ($/barrel)		75	-1.3	-3	3	72	44
Industrials Metals (index)		155	-1.3	-1	-2	40	17
Agriculture (index)		54	0.4	-5	-8	52	13
Implied Volatility					%		
VIX Index (%, change in pp)		17.0	0.8	1.9	1.4	-10.3	-5.8
US 10y Swaption Volatility		70.0	-0.6	10.0	4.5	12.7	9.9
Global FX Volatility		6.8	0.1	0.2	0.4	-0.8	-1.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		106	-0.2	3	4	-62	-14
Italy		104	-2.1	2	2	-66	-8
Portugal		61	-1.4	3	-2	-27	1
Spain		63	-1.3	3	0	-24	2

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

Emerging Market Financial Indicators

Last updated: 7/12/2021 8:07 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	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.				
China		6.48	0.0	-0.2	-1	8	1		3.1	-8	-10	-3	-13
Indonesia		14493	0.2	-0.1	-2	0	-3		6.4	-5	8	-75	35
India		75	0.1	-0.4	-2	1	-2		6.5	2	18	54	52
Philippines		50	-0.1	-1.7	-4	-1	-4		4.3	1	4	33	65
Thailand		33	-0.3	-1.8	-5	-4	-8		1.7	-4	-10	27	43
Malaysia		4.19	0.0	-0.8	-2	2	-4		3.2	-1	-3	68	68
Argentina		96	0.0	-0.2	-1	-26	-12		45.3	-30	-12	15	-1086
Brazil		5.26	0.0	-3.8	-4	2	-1		8.5	17	44	318	290
Chile		749	0.6	-1.7	-4	5	-5		4.5	-8	37	191	179
Colombia		3833	0.4	-2.2	-6	-5	-11		6.7	-9	29	147	165
Mexico		19.97	-0.5	-0.6	0	14	0		6.9	-11	27	94	126
Peru		4.0	-0.3	-1.7	-3	-12	-9		5.7	37	56	144	213
Uruguay		44	0.3	-0.4	-1	-1	-4		7.9	1	-5	-189	62
Hungary		300	-0.3	-1.3	-4	4	-1		2.3	-1	4	69	77
Poland		3.85	-0.5	-1.3	-3	3	-3		1.2	-1	-2	44	60
Romania		4.2	-0.3	-0.2	-2	3	-4		2.9	9	15	-96	13
Russia		74.7	-0.2	-1.7	-4	-5	-1		7.0	2	1	158	129
South Africa		14.5	-1.8	-1.5	-5	16	1		9.7	-4	21	-80	2
Turkey		8.64	0.2	0.3	-2	-21	-14		17.5	8	-57	610	443
US (DXY; 5y UST)		92	0.3	0.2	2	-4	3		0.78	-8	4	47	42

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		5133	1.2	1	-2	6	-2		208	3	-2	-35	-21
Indonesia		6079	0.6	1	0	20	2		178	2	0	-98	-22
India		52373	0.0	-1	0	43	10		156	11	13	-95	5
Philippines		6914	1.2	-2	0	12	-3		107	2	8	-64	-5
Malaysia		1513	-0.5	-1	-4	-6	-7		131	5	8	-70	-4
Argentina		62372	-1.6	1	-8	46	22		1583	10	132	-712	227
Brazil		125428	-1.3	0	-3	26	5		273	10	24	-109	14
Chile		4248	0.0	-1	-1	5	2		147	2	-2	-72	-9
Colombia		1293	0.7	0	2	13	-10		264	5	25	-34	49
Mexico		49768	0.4	-1	-3	36	13		345	5	21	-171	-12
Peru		18823	1.0	0	-5	13	-10		159	-3	-8	-30	30
Hungary		47965	-0.4	1	-2	35	14		144	8	0	-46	-5
Poland		67063	-0.1	0	1	32	18		37	2	-1	-11	9
Romania		11901	0.3	0	3	41	21		186	5	2	-104	-17
Russia		3872	0.4	0	1	38	18		177	3	8	-52	-2
South Africa		66646	0.4	1	-2	20	12		330	0	21	-203	-54
Turkey		1375	-0.3	-1	-6	20	-7		478	7	19	-128	31
Ukraine		529	0.0	0	0	6	6		502	9	27	-159	9
EM total		54	-0.9	-2	-3	24	4		363	3	15	-74	25

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

back to top