GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JULY 15, 2021

- **Morgan Stanley shares fall on below-consensus fixed income market revenues** (link)
- **Bank of Canada leaves its policy rate unchanged at 0.25%, as expected** (link)
- **European earnings growth expected to peak in Q2** (link)
- **European Commission unveils new climate proposal** (link)
- **China's Q2 y/y GDP print modestly misses expectations** (link)
- **Bank of Korea holds rates but one member votes for rate hike** (link)
- **Turkey's central bank keeps the benchmark one-week repo at 19%, as expected** (link)
- **Chile's central bank raises key rate as economy recovers and inflation rises** (link)

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Markets tread water

European stocks fell this morning and US equity futures signaled a negative opening following China's Q2 GDP release and Powell's comments. A higher than expected US June PPI and Fed Chair Powell's testimony failed to give markets traction yesterday. The spread of the delta Covid-19 variant and the possibility that recoveries in economic growth and corporate earnings are peaking are among key variables worrying investors with global stocks near all-time highs. The dollar was little changed and US Treasury yields traded modestly lower this morning. Oil prices fell following better U.S. supply data and signs that OPEC+ could reach an agreement. Elsewhere, there was a flurry of monetary policy announcements from central banks in Canada, Chile, Korea and Turkey over the past 24 hours.

Key Global Financial Indicators

Last updated: 7/15/21 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4374	0.1	0	3	36	16
Eurostoxx 50		4064	-0.9	2	-2	20	14
Nikkei 225		28279	-1.2	1	-3	24	3
MSCI EM		54	0.4	0	-2	25	4
Yields and Spreads					bps		
US 10y Yield		1.32	-2.2	3	-17	69	41
Germany 10y Yield		-0.33	-1.4	-3	-10	11	24
EMBIG Sovereign Spread		347	4	-1	20	-121	-3
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.8	0.0	1	-2	3	-2
Dollar index, (+) = $ appreciation		92.5	0.1	0	2	-4	3
Brent Crude Oil ($/barrel)		73.6	-1.5	-1	-1	68	42
VIX Index (%, change in pp)		17.6	1.3	-1	1	-10	-5

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

Mature Markets

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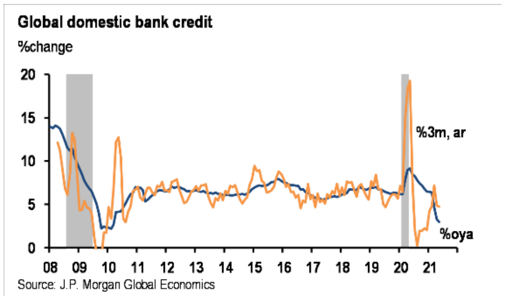
United States

The two key US developments yesterday, the June PPI print and Fed Chair Powell's testimony, left little impact on financial markets. The release of US June PPI beat market expectations, led by categories sensitive to reopening. This was consistent with the takeaways from yesterday's US June CPI, and therefore elicited little market reaction. The FOMC will continue to discuss tapering but Chair Powell in his testimony clarified that the U.S. economy is still "ways off substantial further progress". He emphasized the transitory nature of the run-up in inflation thus far but noted that the Fed would "absolutely" change policy if the inflation increase was too much. Chair Powell also faced multiple questions regarding the ongoing expansion of the Fed balance sheet, especially given the recent run-up in housing prices. However, Powell replied that Fed balance sheet expansion was broadly supportive of job creation.

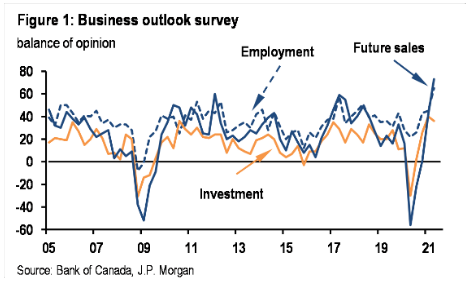
Market participants remain focused on corporate earnings for signs of growth and hiring trajectories and well as the impact of cost pressures on margins. Large-cap bank stocks were mixed after earnings reports, energy companies were broadly lower while consumer staples, and real estate stocks outperformed. **JP Morgan noted that growth in global bank lending slowed**, falling from an estimated peak rate of 9.2% in May 2020 to 3% over-year-ago (oya) in the latest May print. Nonetheless, last year's surge in credit still leaves the level of credit 8% higher than before the pandemic, according to their analysis.



Morgan Stanley shares fell in early trading this morning on below-consensus fixed income market revenues. Morgan Stanley reported 2Q21 net income 12% above analyst expectations on strong overall revenues. However, fixed income trading revenues – a major source of recent source of earnings strength and a focus of market attention came in at $1.68 bn, well below the $1.9 bn consensus estimate on lower bid-offer spreads, lower volatility and weaker issuance volume. The bank's shares fell as much as 1.9% in pre-market trading.

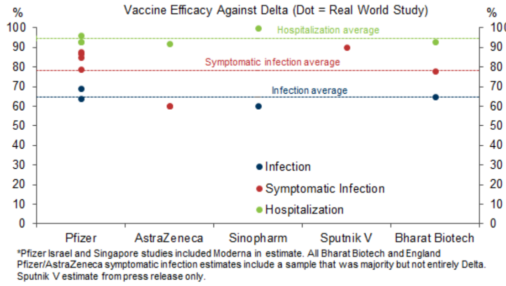
Canada

The Bank of Canada yesterday left its policy rate unchanged at 0.25%, as expected, **but upgraded its cumulative growth forecast and noted upside risks to inflation from potential "persistence and magnitude" of transitory factors.** The Canadian dollar was little changed while the sovereign bond yield curve flattened, with 10-year yields dropping 6 bps to 1.29%.



Euro area

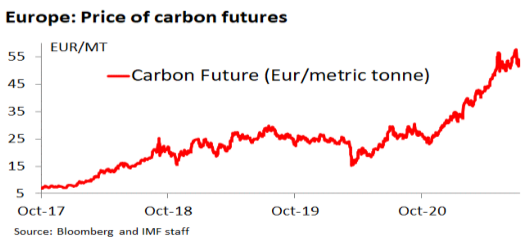
Equities (-0.9%) fell as several countries tightened restrictions in response to a rise in cases of the delta variant. Case growth has risen sharply in the U.K. and Spain, increased in France, but has remained at low levels in Germany, and Italy. Hospitalization and deaths remain at low levels across developed markets but have edged higher. **Goldman Sachs points out that real world studies suggest that vaccines remain highly effective at preventing hospitalization, but with lower efficacy for infections.**



10-year bund yields (- 2 bps at -0.31%) followed U.S. rates lower this morning. Italian spreads rose 2 bps to 105 bps but Spanish spreads are little changed as Spain and France are issuing.

Analysts expect yoy growth in the Earnings per Share (EPS) of euro area companies to peak in Q2. Sell-side analysts expect 140% yoy growth in EPS, having revised up their estimates by 3 percentage points since the start of the earnings season and by more than 50 percentage points since January. **Despite the sharp growth, Q2 EPS of companies listed on the Stoxx 600 would remain marginally below Q2 2019 levels.** Consensus expects autos, retail, and the resource sectors to see the strongest EPS growth in 2021.

Carbon prices (+1%) traded higher but remain below recent highs after the European Commission published its climate change plan ("Fit for 55" package"). According to the proposal, every industry will be forced to accelerate its reduction of net greenhouse gas emissions by 55% from 1990 levels by 2030 to reach "net zero" emissions by 2050. The EU has so far cut emissions by 24% from 1990 levels. The plan proposes to ban new combustion-engine cars by 2035, impose new costs on dirty home heating, introduce a new Emissions Trading System for fuels used for road transport and building heating, and new taxation on high-carbon aviation and shipping fuel as well as a levy on steel an aluminum imports from countries with softer environmental rules. **The proposals are expected to face years of negotiations.**



Shares (-0.9%) in Italian bank Monte Paschi (MPS) closed lower yesterday following reports that Unicredit is unlikely to buy MPS. According to EU rules, the Italian government must divest its holdings of MPS but Bloomberg reports that the government may ask for an extension of the deadline.

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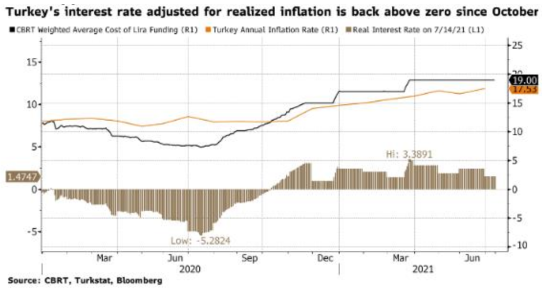
Asian equities rose +0.7%, mainly driven by North Asia. China (Shanghai +1%; Shenzhen +0.4%) and Taiwan Province of China (+1.1%) outperformed. Philippines (-1.6%) fell alongside Singapore (-0.5%). **Regional currencies appreciated, led by the Korean won (+0.6%).** Separately, the **Philippine** central bank (BSP) Governor Diokno said that the bank has approved a new PHP540 bn ($10.8 bn) loan to the government. This is the fourth round of financing extended by the BSP to the government. **Most EMEA bourses advanced today**. The largest gains were in the Czech Republic (+2.7%) and Turkey (+1.5%) while Egypt bucked the upward trend posting a 0.4% drop. Currencies were stable, with the largest move in the Polish zloty (-0.3%). **Latin American equities were mixed yesterday, while currencies appreciated.** Stocks slumped in Chile (-1.0%) and Argentina (-0.7%) and saw moderate gains in Brazil (0.2%) and Mexico (0.3%). Currencies appreciated, with the Brazilian real (+1.8%) outperforming and recording the highest increase since late April, on the back of higher growth prospects.

China

China's Q2 GDP growth slightly missed expectations while other high frequency indicators were better than expected. Real GDP growth registered at 7.9% y/y (consensus: 8%) in Q2 versus 18.3% y/y in Q1, bringing growth for H1 to 12.7%. It is still on track to meet the government's target of over 6% despite a higher base in H2, where analysts expect a further moderation. Retail sales rose by 12.1% y/y (consensus: 10.8%) while industrial production expanded by 8.3% y/y (consensus: 7.9%), respectively, in June. The National Bureau of Statistics said that China is seeing a sustained recovery but there are still uncertainties about the global spread of the pandemic and 'unbalanced' domestic recovery. New home prices in 70 cities, excluding state-subsidized housing, rose by 0.4 % m/m in June moderating for the first time this year amid tighter regulations. **Separately, the People's Bank of China (PBOC) rolled over a portion of medium-term facility loans (MLF).** The PBOC injected RMB100 bn ($15.5 bn) with its one-year MLF, less than RMB400 bn coming due Thursday at an unchanged borrowing rate of 2.95%. It also added RMB10 bn with seven-day reverse repurchase agreements in open-market operations, matching the amount maturing. **Equities (Shanghai +1%; Shenzhen +0.4%) rose and the RMB was mixed.**

Turkey

The Central Bank of Turkey kept its benchmark rate unchanged, as expected. Turkey's central bank maintained its one-week repo rate at 19%, as forecast by all 21 analysts surveyed on Bloomberg. While President Erdogan seeks a rate cut in July or August, the country's inflation rate has accelerated faster than expected. The central bank reported that it will maintain its stance until inflation declines significantly. Moreover, the Turkish lira has weakened more than 15% against the dollar since the new governor took over in March. Most economists polled expect a rate cut only in 4Q2021.



Korea

The Bank of Korea (BOK) held its policy rate at 0.5% as expected. One board member voted for a 25 bps hike. The BOK kept its forecast of 4% expansion this year. Governor Lee said that the economy is supported by exports and investment while the virus resurgence would not impact growth too severely, compared with the previous winter. He also highlighted that there is no timetable for a rate hike and policy normalization will be contingent on continued economic recovery. He added that demand-side inflationary pressures are rising amid a recovering economy. Financial stability is a concern amid high house prices as increases are fueled by low interest rates. The **10-year bond yield rose +5 bps, the Korean won (+0.7%) appreciated and equities (+0.7%) rose**

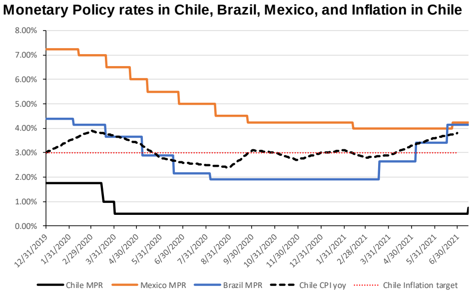
South Africa

The rand looks vulnerable to further weakening on weak fundamentals and the current turmoil. Bloomberg reports that a currency forecast model based on options pricing suggests an 81% probability that the rand will fall below 15 per dollar this quarter, continuing the 8% decline since June 4. This reflects continued weak fundamentals – slow growth, high unemployment, fiscal deficits – and the effect of ongoing violent riots that have disrupted transportation, retail and other sectors. The rand has been the worst performing EM currency over the past week, depreciating over 1%.

Chile

Chile's central bank raised its overnight rate as the economy recovers and inflation runs above target. Unanimously, the central bank's board voted to raise its key rate by 25 bps up to 0.75% and made Chile the third Latin American country to do so this year, after Brazil and Mexico. This broadly anticipated hike occurs while a successful vaccination program (more than 60% of the population is vaccinated) and a significant fiscal stimulus pushed the 2021 GDP growth forecast up to 9.5%, while inflation runs above the 3% target rate. According to Bloomberg, analysts foresee the annual inflation to reach 4.4% by the end of the year, along with additional interest rate hikes.

Monetary Policy rates in Chile, Brazil, Mexico, and Inflation in Chile



Sources: Bloomberg and IMF Staff

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Global Financial Indicators

Last updated: 7/15/21 8:00 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4374	0.1	0	3	36	16
Europe		4064	-0.9	2	-2	20	14
Japan		28279	-1.2	1	-3	24	3
China		3565	1.0	1	1	11	3
Asia Ex Japan		92	0.1	0	-2	23	3
Emerging Markets		54	0.4	0	-2	25	4
Interest Rates					basis points		
US 10y Yield		1.32	-2.2	3	-17	69	41
Germany 10y Yield		-0.33	-1.4	-3	-10	11	24
Japan 10y Yield		0.01	-0.5	-1	-4	-2	-1
UK 10y Yield		0.65	2.6	4	-11	49	46
Credit Spreads					basis points		
US Investment Grade		90	1.0	0	-1	-51	-5
US High Yield		319	6.8	2	-7	-288	-61
Europe IG		47	0.2	-1	-1	-15	-1
Europe HY		235	1.3	-3	-1	-134	-8
Exchange Rates					%		
USD/Majors		92.51	0.1	0	2	-4	3
EUR/USD		1.18	-0.2	0	-3	3	-3
USD/JPY		110.0	0.0	0	0	3	7
EM/USD		56.8	0.0	1	-2	3	-2
Commodities					%		
Brent Crude Oil ($/barrel)		74	-1.5	-1	-1	68	42
Industrials Metals (index)		156	0.3	2	0	42	18
Agriculture (index)		57	0.2	4	0	59	18
Implied Volatility					%		
VIX Index (%, change in pp)		17.6	1.3	-1.4	0.6	-10.2	-5.1
US 10y Swaption Volatility		70.0	1.5	-2.8	4.5	13.5	9.9
Global FX Volatility		6.7	0.0	-0.3	0.1	-0.9	-1.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		104	0.9	-3	6	-69	-16
Italy		105	2.3	-2	3	-59	-6
Portugal		61	1.4	-2	-1	-26	1
Spain		64	1.2	-1	0	-22	3

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)					
7/15/2021	Level		Change (in %)					Level		Change (in basis points)			
8:12 AM	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		6.46	0.1	0.5	-1	8	1		3.1	-12	-17	-9	-19
Indonesia		14483	0.0	0.3	-2	1	-3		6.3	-7	6	-82	26
India		75	0.1	0.2	-2	1	-2		6.5	-4	19	54	51
Philippines		50	0.2	-0.6	-4	-1	-4		4.3	0	-1	42	66
Thailand		33	-0.2	-0.4	-5	-3	-8		1.7	-1	-9	27	43
Malaysia		4.20	0.0	-0.5	-2	1	-4		3.3	4	0	69	70
Argentina		96	0.0	-0.2	-1	-26	-12		44.4	-83	-121	-152	-1175
Brazil		5.09	-0.3	3.4	-1	6	2		8.4	2	26	316	285
Chile		746	0.6	0.4	-4	6	-5		4.4	-25	29	179	166
Colombia		3799	0.6	0.5	-4	-5	-10		6.7	-11	9	149	165
Mexico		19.92	-0.2	0.4	1	12	0		6.9	-3	28	111	131
Peru		4.0	0.2	0.0	-2	-12	-9		5.7	1	47	142	208
Uruguay		44	0.0	0.4	-1	0	-4		7.9	0	5	-191	61
Hungary		304	-0.5	-0.8	-5	2	-2		2.3	-2	4	65	76
Poland		3.87	-0.6	-0.9	-4	1	-4		1.2	1	4	36	56
Romania		4.2	-0.2	-0.3	-3	2	-5		3.0	23	29	-81	27
Russia		74.1	0.0	0.9	-3	-4	0		7.0	3	14	159	132
South Africa		14.6	-0.6	-1.6	-5	14	1		9.8	19	34	-45	19
Turkey		8.56	0.4	1.6	0	-20	-13		17.4	-15	-24	596	433
US (DXY; 5y UST)		93	0.1	0.1	2	-4	3		0.79	4	1	50	43

	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		5151	-0.4	1	1	14	-1		210	3	1	-30	-19
Indonesia		6047	1.1	0	-1	19	1		180	-2	10	-96	-20
India		53159	0.5	1	1	46	11		151	2	6	-99	0
Philippines		6728	-1.6	-3	-4	9	-6		112	5	19	-57	0
Malaysia		1521	0.6	1	-4	-3	-7		132	4	8	-67	-3
Argentina		63959	-0.6	1	-5	42	25		1566	-20	110	-758	210
Brazil		128407	0.2	3	-1	26	8		273	-2	24	-111	14
Chile		4158	0.0	-1	-5	3	0		148	-3	-1	-69	-8
Colombia		1284	-0.7	0	3	12	-11		272	9	31	-28	57
Mexico		49436	0.3	-1	-3	35	12		346	2	19	-176	-11
Peru		18549	-0.7	-1	-3	11	-11		158	-6	-6	-31	29
Hungary		47340	0.3	0	-4	34	13		142	-1	2	-46	-7
Poland		67415	-0.5	1	2	32	18		35	3	-2	-13	7
Romania		12018	-0.3	1	3	42	23		186	-3	9	-109	-17
Russia		3802	-0.8	-2	-1	38	16		176	-5	10	-53	-3
South Africa		67531	-0.6	4	0	21	14		338	5	33	-198	-46
Turkey		1367	1.5	-2	-5	16	-7		473	-9	22	-146	26
Ukraine		527	0.0	0	-1	6	5		501	-2	27	-218	8
EM total		54	#VALUE!	0	-2	25	4		363	-2	18	-78	25

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

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