



- Strategists expect the Fed's RRP facility usage to increase in 2H2021 ([link](#))
- ECB expected to enhance forward guidance next week ([link](#))
- ECB likely to end its PEPP program in March 2022 and start tapering purchases in October 2021 ([link](#))
- BoJ leaves its main monetary policy settings unchanged, unveils climate plan ([link](#))
- Troubled Chinese asset manager to redeem debt ([link](#))
- India to keep bond issuance in check amidst rising interest rates ([link](#))
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## Markets mixed to end the week

European bourses were mostly lower this morning on persistent concerns about economic growth and the delta variant of COVID-19. Over the past week, France, Germany and the Netherlands implemented new social restrictions as a result of the delta variant, while this morning UK officials warned that some covid-19 restrictions could be restored. Bund yields edged lower, with analysts expecting that the ECB will enhance its forward guidance next week. On the other side of the pond, US Treasury yields traded slightly higher and the dollar was marginally stronger as investors continued to assess the outlook for the Fed's support in the face of higher inflation. Elsewhere, emerging markets were mixed with Asian equities underperforming this morning.

Key Global Financial Indicators

Last updated: 7/16/21 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4360	-0.3	1	3	36	16
Eurostoxx 50		4043	-0.3	-1	-3	20	14
Nikkei 225		28003	-1.0	0	-3	23	2
MSCI EM		54	0.2	3	-1	27	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.32	1.8	-4	-26	70	40
Germany 10y Yield		-0.35	-1.2	-5	-10	12	22
EMBIG Sovereign Spread		350	3	-2	18	-112	0
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.7	0.2	0	-1	3	-2
Dollar index, (+) = \$ appreciation		92.7	0.1	1	2	-4	3
Brent Crude Oil (\$/barrel)		73.5	0.0	-3	-1	69	42
VIX Index (% change in pp)		16.7	-0.4	0	-2	-11	-6

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

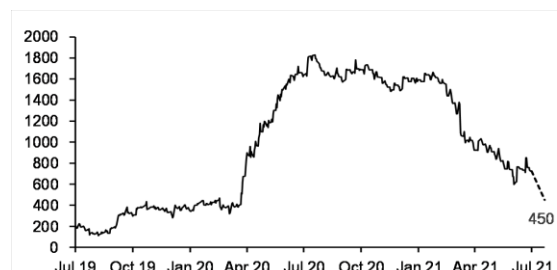
**US stocks fell (S&P 500 -0.3%, Nasdaq -0.7%), the dollar appreciated (+0.2%) and US Treasury yields declined by up to 5 bps yesterday, on concerns about the sustainability of the economic recovery.** Chair Powell reiterated his comments that inflation pressures will likely prove transitory, a sentiment echoed by other Fed speakers on the day. Meanwhile, the initial jobless claims data was weaker than expected but did not elicit market reaction. Some contacts interpreted the Empire State and Philly Fed surveys as suggesting that price pressures are peaking, given that delivery times, unfilled orders and the price indexes have all slipped a bit in recent months.

This morning, the **release of US retail sales for June was higher than expected** (+0.6% m/m vs. -0.3% expected). In contrast, the May release was revised downward to -1.7% mom from -1.3% previously. There was little reaction in markets after the announcement.

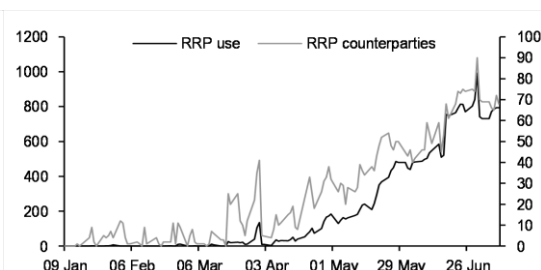
**Many strategists continue to expect Treasury rates to move higher and the curve to steepen in the second half of 2021.** They noted that the long end of the Treasury curve -in particular- seems to have deviated substantially from their fair value estimates.

**Strategists also expect usage of the Fed's reverse repo facility (RRP) to increase in H2 2021.** The Treasury General Account (TGA) has continued to decline due to fiscal payouts, bill paydowns, and a looming debt ceiling reinstatement on July 31. Following the debt ceiling deadline on July 31, most market participants expect the Treasury to continue drawing on the TGA account until at least September or October, reducing it to roughly \$450 bn by the end of July from the current level of approximately \$725 bn and far below the peak of \$1.8tn reached in 2H2020. This should increase the supply of liquidity to the markets. With banks reluctant to absorb excess liquidity due to regulatory constraints, liquidity is expected to be channeled to money market funds, who in turn have demonstrated a strong propensity to avail themselves of the RRP. Strategists therefore expect the RRP usage -and potentially the number of counterparties- to continue to rise in coming months.

TGA balance (\$bn) and projections



RRP usage (lhs, \$bn) and RRP counterparties (rhs)



Source: JP Morgan

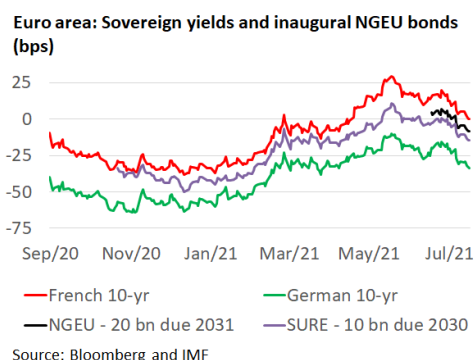
### Euro area

**Equities were modestly lower and the euro was little changed today. 10-year bund yields (- 1 bps at -0.35%) traded 5 bps lower this week as analysts expect that the ECB will enhance its forward guidance next week.** One suggestion is that the new forward guidance could say that “policy rates will remain at present, or lower, levels until underlying inflation has converged very close to 2%”, rather than “sufficiently close” to it. **Measures of option volatility for euro area rates have edged lower since ECB communication turned more dovish in May.**

According to a Bloomberg survey of 31 economists, the ECB is likely to end its PEPP program in March 2022, with 23 economists expecting the ECB to start tapering PEPP purchases in October 2021. 21 economists expect that the ECB will announce the end of PEPP about three months in advance. Some 52% of respondents predict the ECB will fully deploy its €1.85 tn pandemic PEPP QE program (up from 40% in June) while 10% expect the ECB will need to increase the amount and 39% expect that the ECB will spend less. Economists see monthly PEPP purchases falling by €5 bn to €75 bn during summer trading in August. **The median expectation is that the ECB will increase purchases in its regular QE program to €30bn/m in April 2022 (from €20bn/m currently), compared to a combined €80bn/m of PEPP purchases and €20bn/m of regular QE purchases currently.**

According to the ECB strategy review, the ECB may also allow a transitory period in which inflation is moderately above target, especially when the economy is close to the effective lower bound on interest rates. Analysts generally interpret “moderate” as a deviation from the goal of around 0.5 ppt, with some saying the ECB would also tolerate differences of as much as 1 ppt. “Transitory” was widely seen as meaning six to 12 months in the Bloomberg survey. **Meanwhile, final headline inflation for June was confirmed at 1.9% yoy with core inflation at 0.9% yoy. Euro area inflation swaps are little changed in July.**

**Yields on NGEU bonds have traded lower as the EU has raised a total of €45bn in just four weeks before heading into summer holidays (with the last bond issued this week).** The first pre-financing payments to member states are expected to start in July or August, as the European Council approved 12 national plans this week. Further plans should be adopted by the end of the month. NGEU bonds have met with strong demand.



## United Kingdom

**10-year gilt yields (-2 bps to 0.64%) traded lower this morning as UK officials warned that some covid-19 restrictions could be restored depending on covid developments with a further opening of the economy planned for Monday 19 July.** The U.K. reported 49k new coronavirus cases yesterday and the number of people in hospital rose 43% in a week. Employers have complained about staffing problems as 520k people have been told to self-isolate by the NHS. 10-year gilt yields (+4 bps 0.66%) closed higher yesterday **after MPC member Saunders said that the BoE should consider tapering at the next MPC meeting, adding that any increases in policy rates in the next two years would be very moderate.** Equities (+0.4%) gained, outperforming euro-area stocks.

## Japan

**The Bank of Japan (BoJ) left its main policy settings unchanged but tweaked its economic forecasts to reflect the latest virus restrictions as Japan readies for a fan-free Tokyo summer Olympics.** On the inflation front, it sees key consumer prices rising 0.6% this fiscal year compared with a +0.1% projection in April. Inflation, however, is only expected to reach 0.9% in the following year. Equities declined (Nikkei - 1%) and 10-year JGB yields were little changed. The yen was 0.3% weaker to the dollar.

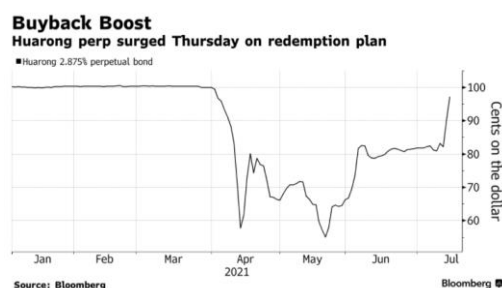
**Governor Kuroda said in his press conference that the central bank's monetary policy has a role to play by making it easier for companies to make climate change related investments.** The central bank is aiming to provide incentives for lenders to help businesses move toward a greener economy. The BoJ will offer banks interest-free funds for climate-linked loans or investments and exempt more of their reserves from its negative interest rate. In a separate release, detailing its climate strategy, the BoJ said it would buy green bonds denominated in foreign currencies using its foreign reserves, though did not comment on targeting Japanese green securities.

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**Sentiment in major Asian bourses soured on Friday as investors' concerns over the global recovery mount.** Equities were lower in China (-1.1%) and Korea (-0.3%). Indonesia (+0.4%) bucked the trend. **EMEA bourses trade mixed, however,** with gains in Hungary (+0.6%) and Kuwait (+0.4%) and the largest losses in Qatar (-0.7%), UAE (-0.5%) and South Africa (-1.3%). Currencies traded sideways to the US dollar across Asia and EMEA, except the South African rand (+1.3%), the Turkish lira (+0.5%) and the Russia ruble (+0.3%). **Latin American equities were mixed yesterday, while currencies depreciated.** Stocks slumped in Argentina (-0.7%) and Brazil (-0.7%) but overperformed in Mexico (+1.7%). Currencies depreciated in Brazil (-0.8%) and Mexico (-0.3%). The Chilean peso underperformed (-1.6%) on the back of a dovish central bank outlook.

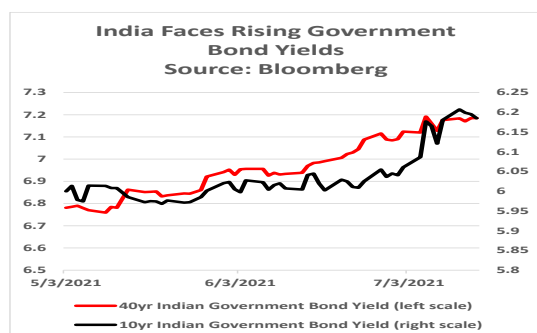
### China

**The prominent asset manager China Huarong, whose debt problems have roiled local bond markets, announced a plan to redeem a \$500 mn perpetual bond in September.** Markets responded very favorably, taking the view that the company's finances could be improving. News reports yesterday indicated that the company is in discussions with its bankers to pay off its 2.875% perpetual bond on September 14. The price of the bond surged to 95 shortly after the news broke, and another perpetual bond which is eligible to be called in January 2022 soared by 10 points to 76. Although companies by definition do not have the obligation to redeem perpetual bonds, it is customary for Chinese companies to do so. Failure to redeem would be taken as a very negative sign. Huarong is controlled by the Finance ministry and markets have viewed it as a test case of whether the government will support state owned companies amidst rising corporate defaults.



### India

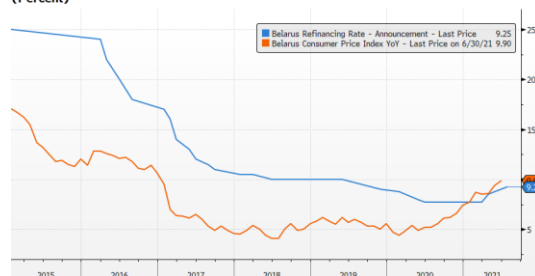
**The federal government will not increase its H1 2021-22 fiscal year borrowing, reassuring investors who feared that a much larger supply of new bonds would push interest rates higher.** This comes against the backdrop of rising inflation, with CPI breaking above the upper bound of the Reserve Bank of India's inflation target and rising interest rates which have put the recovery at risk. The program to help states fight the virus would be kept at the previously announced 1.58 tn rupees (roughly \$21 bn). The borrowing was concentrated in the two-year bond and five-year bonds but long rates are up sharply.



## Belarus

**The central bank raised policy rate by 75 bps to 9.25% on inflationary risks.** This follows the April rate hike of the same amount, which was the first rate increase since 2015. Annual inflation accelerated to 9.9% in June, and the central bank perceived the “intensiveness of the inflationary” risks has increased, due to “a more pronounced pro-inflationary external backdrop”. The rate increase follows monetary tightening in Russia (+130 bps since Feb), the key market for Belarusian goods, while the country’s dependence on Russia has grown amid ongoing sanctions from the EU and its allies.

**Belarus: Refinancing Rate vs Inflation**  
(Percent)



Source: Bloomberg














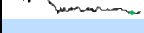

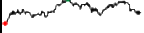

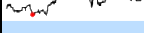










## Argentina

**Argentina’s annual inflation exceeded 50% in June despite the recent prices slowdown.** In June, Argentina’s inflation rose 3.2% m/m, down from 3.3% in May and 4.8% in April, but still above 3% for the ninth month in the row. According to Bloomberg, the recent prices ease is due to the authorities’ “unorthodox efforts to cool inflation” ahead of the September vote. However, annual inflation, which reached 50.2% in June, is still expected to get to 48% at the end of the year, well above the 29% target rate.

*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), and 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: 7/16/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4362	-0.3	0	3	36	16
Europe		4043	-0.3	-1	-3	20	14
Japan		28003	-1.0	0	-3	23	2
China		3539	-0.7	0	0	10	2
Asia Ex Japan		92	0.2	3	0	26	3
Emerging Markets		54	0.2	3	-1	27	5
<b>Interest Rates</b>			basis points				
US 10y Yield		1.32	1.8	-4	-26	70	40
Germany 10y Yield		-0.35	-1.2	-5	-10	12	22
Japan 10y Yield		0.03	1.1	-1	-3	0	0
UK 10y Yield		0.64	-2.5	-2	-10	50	44
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	2.1	1	1	-47	-3
US High Yield		323	-1.9	7	4	-269	-57
Europe IG		47	0.0	1	0	-14	-1
Europe HY		237	-0.3	4	3	-130	-6
<b>Exchange Rates</b>			%				
USD/Majors		92.72	0.1	1	2	-4	3
EUR/USD		1.18	-0.1	-1	-2	4	-3
USD/JPY		110.2	0.4	0	0	3	7
EM/USD		56.7	0.2	0	-1	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		73	0.0	-3	-1	69	42
Industrials Metals (index)		157	0.1	0	1	42	18
Agriculture (index)		57	1.1	6	2	61	19
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		16.7	-0.4	0.5	-1.5	-11.4	-6.1
US 10y Swaption Volatility		68.0	-0.1	-3.3	2.5	13.9	7.9
Global FX Volatility		6.7	0.0	-0.1	0.1	-0.7	-1.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		103	-0.7	-2	4	-67	-16
Italy		106	0.4	0	3	-59	-5
Portugal		61	-0.2	-2	-2	-28	1
Spain		64	-0.3	-1	-1	-23	2

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

Data source: Bloomberg.



## Emerging Market Financial Indicators

Last updated: 7/16/2021 8:04 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	-0.2	0.1	-1	8	1		3.1	-5	-17	-4	-18
Indonesia		14498	-0.1	0.2	-2	1	-3		6.3	-10	0	-82	24
India		75	0.0	0.1	-2	1	-2		6.5	0	13	55	51
Philippines		50	-0.1	-0.3	-4	-1	-4		4.3	-1	-2	43	66
Thailand		33	-0.3	-0.6	-5	-3	-9		1.7	-1	-12	27	40
Malaysia		4.21	-0.1	-0.3	-2	1	-4		3.2	4	-3	68	69
Argentina		96	0.0	-0.2	-1	-26	-13		44.3	-95	-111	-173	-1181
Brazil		5.11	-0.8	2.9	-1	5	2		8.4	-6	27	313	285
Chile		758	-1.6	-0.7	-4	4	-6		4.3	-25	14	157	155
Colombia		3817	-0.5	0.8	-3	-5	-10		6.7	0	9	154	167
Mexico		19.87	0.4	0.0	3	13	0		6.9	0	23	108	132
Peru		3.9	0.3	0.3	-2	-11	-8		5.6	-4	29	139	201
Uruguay		44	0.1	0.3	0	0	-4		7.9	0	5	-176	61
Hungary		305	-0.5	-1.8	-4	2	-3		2.3	-1	-4	61	76
Poland		3.89	-0.2	-1.5	-3	1	-4		1.2	-4	2	35	55
Romania		4.2	-0.1	-0.7	-2	2	-5		3.0	18	29	-80	26
Russia		74.2	0.3	0.5	-2	-4	0		7.0	-2	5	153	129
South Africa		14.4	1.3	-1.2	-3	16	2		9.8	13	22	-43	16
Turkey		8.53	0.5	1.6	1	-20	-13		17.4	-12	-38	596	433
US (DXY; 5y UST)		93	0.1	0.6	2	-4	3		0.80	1	-10	52	44

	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		5095	-1.1	0	0	12	-2		209	1	0	-32	-20
Indonesia		6073	0.4	1	1	20	2		182	-1	10	-91	-18
India		53140	0.0	1	2	44	11		150	-5	5	-103	-1
Philippines		6694	-0.5	-2	-2	10	-6		113	4	19	-53	1
Malaysia		1522	0.1	0	-4	-5	-6		133	2	9	-66	-2
Argentina		63485	-0.7	0	-6	40	24		1579	-16	115	-719	223
Brazil		127468	-0.7	0	-1	27	7		277	-1	26	-98	18
Chile		4153	-0.1	-1	-5	3	-1		152	1	2	-61	-4
Colombia		1273	-0.9	-2	2	10	-11		272	7	28	-20	57
Mexico		50275	1.7	1	-1	38	14		351	2	20	-159	-6
Peru		18604	0.3	0	-2	12	-11		162	-2	-2	-24	33
Hungary		47886	0.4	-1	-1	36	14		142	-6	1	-49	-7
Poland		67464	0.3	0	2	32	18		37	-2	0	-6	9
Romania		12041	0.1	1	4	43	23		191	-2	12	-101	-12
Russia		3799	0.0	-1	-1	38	15		180	-3	12	-45	1
South Africa		66676	-1.3	0	-1	20	12		340	4	32	-189	-44
Turkey		1363	-0.3	-1	-6	16	-8		470	-17	10	-143	23
Ukraine		527	0.0	0	-1	5	5		504	-12	24	-181	11
EM total		54	-0.2	3	-1	27	5		365	-3	17	-69	27

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

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