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- US CLO issuance hits new record in first half of 2021 at \$81 bn ([link](#))
- German industrial production disappoints in May ([link](#))
- European Commission proposes new green bond regulation ([link](#))
- China's junk bond yields reach 14-month high amid property firm sell-off ([link](#))
- EM bond Issuance rose last week to its highest level since mid-Jan ([link](#))
- **SPECIAL FEATURE: Emerging and Frontier Markets Issuance Monitor (Attachment)**

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Markets calm ahead of the FOMC minutes

European regional bourses rose modestly and US equity futures signaled a positive opening as investors awaited the release of the FOMC minutes later today. US Treasury yields stabilized this morning, falling by 1 bps to 1.34%, after yesterday's rally, when 10-year yields fell another 7 bps to their lowest level since February. Euro area yields also edged lower, with German industrial production disappointing. Investors will closely examine the FOMC minutes for clues on policy makers' thinking on interest rates, inflation and tapering. US longer term inflation expectations have turned lower, with the 5y5y forward breakeven down nearly 20 bps over the last month. The dollar was little changed and oil prices rose 1.8% to \$75.9 a barrel. Emerging markets were also relatively calm, with Chinese and EMEA equities outperforming this morning after Latam equities experienced sizeable losses yesterday.

Key Global Financial Indicators

Last updated: 7/7/21 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4344	-0.2	1	3	38	16
Eurostoxx 50		4069	0.4	0	-1	22	15
Nikkei 225		28367	-1.0	-1	-2	26	3
MSCI EM		54	-1.8	-3	-3	27	4
Yields and Spreads			bps				
US 10y Yield		1.34	-1.2	-13	-23	70	42
Germany 10y Yield		-0.29	-2.2	-8	-9	14	28
EMBIG Sovereign Spread		348	5	10	16	-105	-2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.8	0.2	-1	-2	4	-2
Dollar index, (+) = \$ appreciation		92.5	-0.1	0	3	-5	3
Brent Crude Oil (\$/barrel)		75.9	1.8	1	6	76	47
VIX Index (% change in pp)		16.2	-0.3	0	0	-13	-7

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

Mature Markets

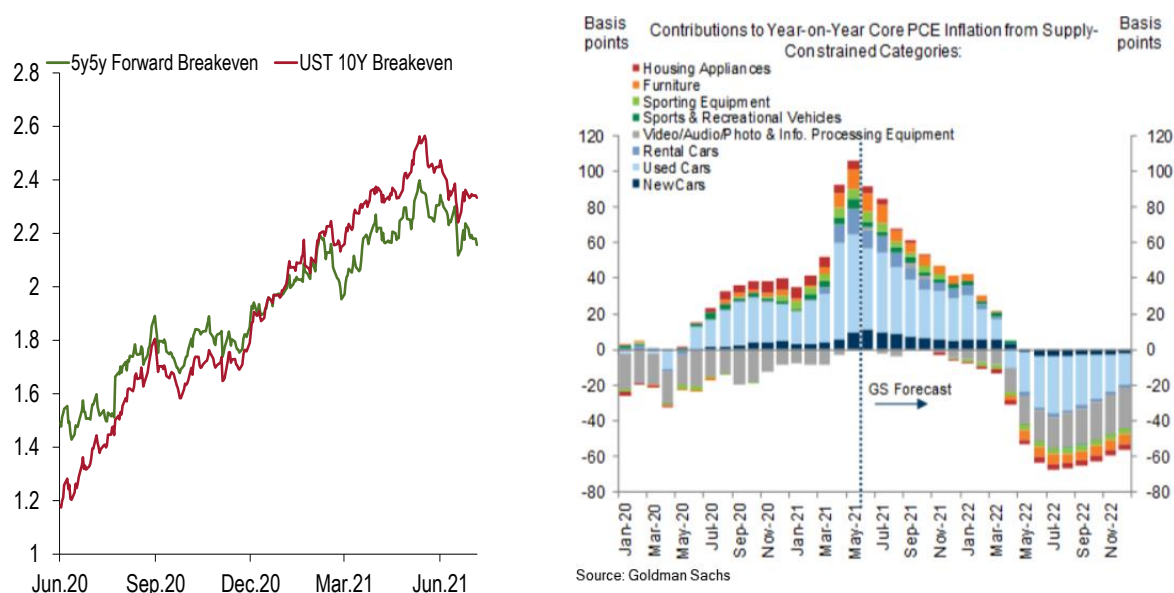
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United States

US equity markets fell modestly lower amid a general risk off mood, with the S&P 500 down 0.2%.

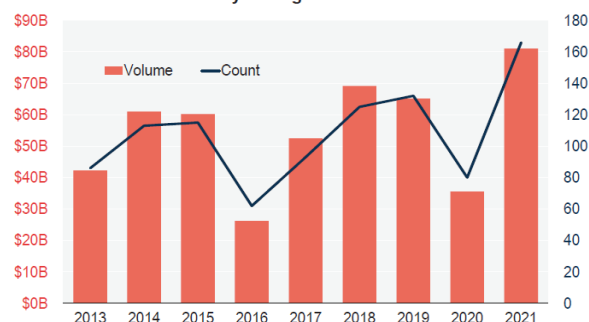
Treasury yields continued their recent slide, with the 10-year yield falling another 7 bps to 1.35%, confounding many market participants who still expect yields to head towards 1.9-2% by the end of year. Some contacts have cited the notion that US growth momentum appears to have slowed, with the **Citi Economic Surprise Index falling to 1.6, as upside surprises have faded recently.** Markit Services PMI for June came in at 64.6 (vs 64.8) and ISM Services was at 60.1 (vs 63.5), both down from May levels. Others have noted that US yields remain attractive to overseas investors even on a hedged basis (notably Japan), while domestic pension funds have flowed back into Treasuries to “lock in” strong equity gains. Concerns over the Delta variant may be also playing a role.

Longer term inflation expectations have turned lower, with the 5y5y forward breakeven down nearly 20 bps over the last month. 5y5y forward breakevens peaked in mid-May at 2.40% before ending Tuesday at 2.17%, as markets have renewed their belief in the transitory inflation narrative. Near-term inflation pressures are still showing up in supply chain metrics, with ISM manufacturing and services prices paid indices near record highs at 92.1 and 79.5 respectively in June. However, many investors expect inflationary contributions from supply-constrained industries to ease by the end of the year, and Goldman Sachs expects them to turn outright negative (and contribute to drag down inflation) by Q2.2022.



US CLO issuance hits new record in first half of 2021 at \$81 bn, comfortably on pace to beat the full year record of \$128.9 bn from 2018. New CLO volume hit \$14.4 bn in June from \$12.7 bn in April and May, setting a new quarterly record of \$41.3 bn. Surging CLO issuance and the 7th consecutive month of inflows to loan funds—albeit a 6 month low in June—saw demand outpace the supply of loans by \$7.1 bn in June, despite loan issuance rebounding sharply to \$78.4 bn, leaving the quarterly surplus at \$4 bn (down from \$49 bn in Q1).

US CLO issuance – January through June



Data through June 30, 2021.

Source: LCD, an offering of S&P Global Market Intelligence

Leveraged loan volume



Euro area

European equities (+0.4%) traded higher as the **European Commission (EC)** increased its growth forecast for 2021 to 4.8% (+ 0.6 ppt compared to its spring forecast), while predicting growth of 4.5% in 2022. The EC argued that upbeat survey results among consumers and businesses as well as data tracking mobility suggest that a strong rebound in private consumption is already underway. **Nevertheless, some recent data has been mixed. In particular, German industrial production unexpectedly contracted 0.3% mom in May (gain of +0.5% expected).** German car production fell 7.2% mom in May and is expected to show another large decline in June given continued shortages of semiconductors. **Citi's surprise indices suggest that euro area data releases have generally remained better than expected, in contrast to the U.S.**

Citi Economic Surprise Indices: Euro area and U.S.



Source: Bloomberg and IMF

10-year bund yields (-2 bps at -0.28%) edged lower after closing 6 bps lower yesterday. The euro was little changed at \$1.18. Bank stocks (-0.6%) underperformed as lower euro area yields are expected to put pressure on interest margins.

The European Commission (EC) has proposed new European Green Bond Standards (EUGBS). Some of the key elements include: 1/ a voluntary standard open to EU and non-EU issuers, 2/ requirement to be fully aligned with EU taxonomy, and 3/ all European green bonds to be checked by an external reviewer registered with and supervised by the European Securities Markets Authority. Green bond issuance in the EU has grown quickly in recent years, with a five-fold increase over the last 5 years. The EU is a global leader in this market, with 51% of global issuance in 2020 from EU companies and EU public bodies. The euro is also an attractive currency for global green bond issuers: in 2020, 49% of global green bonds were denominated in euros. **Despite sharp growth, current green bond issuance in the EU still only represents 2.6% of total EU bond issuance.**

Japan

Equities fell -0.9% on broad-based losses. The Bank of Japan (BOJ) is expected to consider the impact of higher energy prices on inflation when it updates its quarterly economic outlook next week, according to Bloomberg. That said, the BOJ has been describing energy price moves as transitory and unlikely to see an upward revision, if any, as a sign of improvement to underlying price trends. The bank's overall economic outlook is likely to remain largely unchanged. The BoJ has also promised to unveil the initial details of its green lending measure and is expected to offer incentives for such lending, according to economists surveyed by Bloomberg. **Separately, analysts expect another stimulus package worth at least \$180 bn over the coming months.** According to another Bloomberg survey, the stimulus may come before national elections that need to be held by early fall. **10-year JGB yield fell -0.9 bps and the yen was little changed.**

Emerging Markets

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Asian equities fell slightly on aggregate. China was the exception (Shanghai +0.7%; Shenzhen 1.7%), bucking the regional trend. **Regional currencies depreciated except for the RMB (+0.2%).** The Korean won weakened -0.7% and the Philippine peso (-0.6%) depreciated to its weakest level in a year. Separately, **Indonesia** extended nationwide virus curbs amid rising daily infections, expanding it to dozens of cities from Sumatra island in the west to easternmost Papua, according to The Straits Times. The wider restrictions include forcing the majority of non-essential employees to work from home, as well as limiting shop and restaurant hours. **Korea** may raise social distancing restrictions to its highest stage if the spread of the virus is not contained in the next two to three days, according to Bloomberg. **EMEA equities traded mostly higher**, with benchmarks in Poland (+1.5%) and South Africa (+1.3%) outperforming. **EMEA currencies were little changed** except for the Russian ruble (+0.4%) which recovered from yesterday's losses. **LATAM markets sold-off on Tuesday.** Equity markets of Chile (-2.4%), Argentina (-2.0%), Peru (-1.5%), Brazil (-1.4%), Colombia (-1.4%) and Mexico (-1%) closed lower. Regional currencies lost further ground. The Brazilian real depreciated (-2%) the most amongst major regional peers, followed by Chilean peso (-1.6%) and Colombian peso (-1.0%). Legislators in Brazil have proposed to introduce a 20% tax on dividend income. According to media reports, this proposal has received push back from markets and hence the final tax rate is likely to be reduced to about 15%.

China

Yields on China's high yield bonds rose to their highest levels since May 2020. They have climbed for two weeks, reaching a high of 10.2%, led by property developers. Notably, Evergrande's dollar notes have been the worst underperformers amid concerns over its financial health. Evergrande's credit rating has been cut by Fitch and Moody's deeper into junk territory even as it pares back leverage in an effort to hit Beijing's deleveraging targets. **Separately, Chinese regulators are reportedly looking to change rules that would block a Chinese company from listing overseas even if the issuing unit is incorporated outside China.** According to Bloomberg, this approach has been long-used by Chinese tech firms, with the rules having been in effect since 1994. If amended, firms structured under the so-called Variable Interest Entity model would need to seek approval before listing in Hong Kong SAR or the US. The State Council also said yesterday that rules for overseas listings will be revised and publicly traded companies will be held accountable for keeping their data secure. It also said that China will step up its regulatory oversight of companies trading in offshore markets. **Chinese equities (Shanghai +0.7%; Shenzhen 1.7%) and currency (+0.2%) bucked the regional downtrend today.**

China's junk dollar bond yields spike to 14-month high amid Evergrande concern



EM bond issuance

EM bond issuance rose last week to its highest level since mid-Jan, with increases in both corporate and sovereign bonds. For the week ending on July 3, bond issuance in EMs came in at \$33 bn (up 80% w/w), of which corporates accounted for \$17.3 bn (up 200% w/w) and sovereigns for \$12.1 bn (up 240% w/w). The regional composition of issuances shifted in favor of CEEMEA (\$17.7 bn, up 234% w/w) and LATAM (\$5.8 bn, up 67% w/w) regions. In Asia, however, activity was subdued, and total bond issuances remained flat at \$9.5 bn. With this, the cumulative 2021 bond issuance in EMs stands at \$460 bn.

Figure 1. EM bond issuance, by sector (bn. USD)

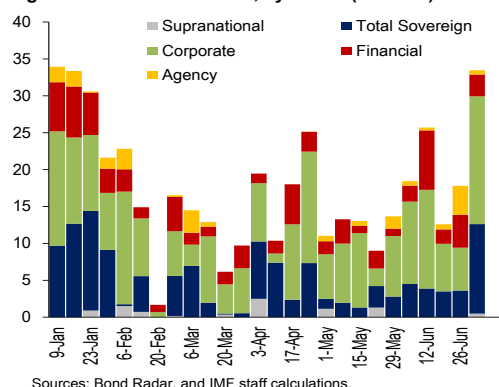
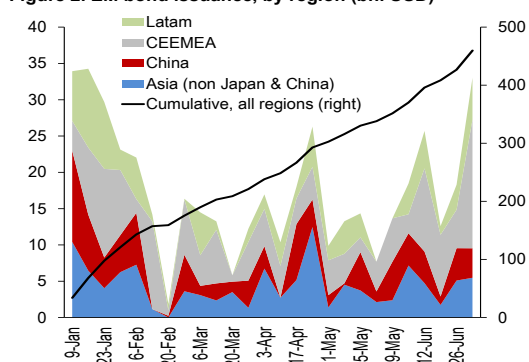


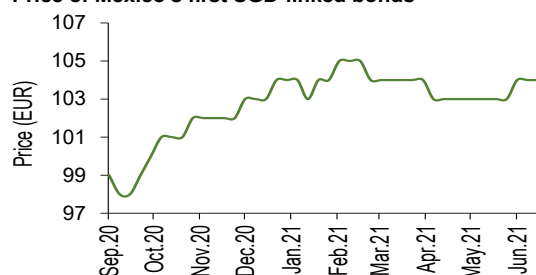
Figure 2. EM bond issuance, by region (bn. USD)



Mexico

Mexico issued its second sustainable development linked bond. Mexico raised EUR 1.25 bn from this issue, and these proceeds would be earmarked for projects that comply with the United Nation's sustainable development goals (SDG). Priced at a 2.25% coupon, the bonds will have a maturity of 15 years. The country also issued another sovereign SDG linked bond in Sept. 2020, and the issue (EUR 750 mn) was met with strong demand.

Price of Mexico's first SGD-linked bonds



Ghana


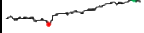



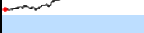






















The Ghana cedi has come under pressure as investors pulled back on broader dollar appreciation concerns. The cedi has depreciated 2.5% since the Fed's June FOMC, with contacts noting intraday volatility reaching as much as 5% on uncertainty around FX interventions from the Bank of Ghana. Ghana's local bond market has seen more than \$1 bn of non-resident inflows this year, with contacts pointing to increasingly stretched valuations for local fixed income, especially after the surprise 100 bps rate cut by the Bank of Ghana in May.



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 Vazquez (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 7/7/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4350	-0.2	1	3	38	16
Europe		4069	0.4	0	-1	22	15
Japan		28367	-1.0	-1	-2	26	3
China		3554	0.7	-1	-1	4	2
Asia Ex Japan		92	-1.4	-3	-3	25	3
Emerging Markets		54	-1.8	-3	-3	27	4
Interest Rates			basis points				
US 10y Yield		1.34	-1.2	-13	-23	70	42
Germany 10y Yield		-0.29	-2.2	-8	-9	14	28
Japan 10y Yield		0.03	-1.0	-2	-5	-1	1
UK 10y Yield		0.62	-1.7	-10	-19	44	42
Credit Spreads			basis points				
US Investment Grade		90	4.2	2	-2	-51	-5
US High Yield		317	-0.2	6	-16	-297	-62
Europe IG		46	-0.4	-1	-3	-16	-2
Europe HY		230	-2.7	-2	-14	-135	-12
Exchange Rates			%				
USD/Majors		92.50	-0.1	0	3	-5	3
EUR/USD		1.18	0.1	0	-3	5	-3
USD/JPY		110.6	0.0	0	1	3	7
EM/USD		56.8	0.2	-1	-2	4	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		76	1.8	1	6	76	47
Industrials Metals (index)		157	1.3	1	0	47	18
Agriculture (index)		55	0.8	-1	-8	53	14
Implied Volatility			%				
VIX Index (% change in pp)		16.2	-0.3	0.2	-0.2	-13.3	-6.6
US 10y Swaption Volatility		63.6	-3.4	-3.9	2.6	3.5	3.4
Global FX Volatility		6.8	0.0	0.1	0.0	-0.9	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		103	-0.5	-1	0	-51	-16
Italy		102	0.6	-1	-9	-62	-9
Portugal		58	-0.4	-2	-9	-26	-2
Spain		62	0.5	0	-5	-24	0

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 7/7/2021 8:14 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		6.46	0.2	-0.1	-1	8	1		3.2	-1	1	17	-6
Indonesia		14483	-0.1	0.1	-2	0	-3		6.4	-5	6	-79	36
India		75	-0.1	-0.4	-2	0	-2		6.5	9	20	51	57
Philippines		50	-0.6	-2.0	-4	-1	-4		4.3	1	-1	23	65
Thailand		32	0.0	-0.7	-3	-3	-7		1.8	-4	-9	32	46
Malaysia		4.16	-0.2	-0.3	-1	3	-3		3.2	-4	-2	52	69
Argentina		96	0.0	-0.2	-1	-26	-12		45.2	-17	-47	49	-1099
Brazil		5.18	0.5	-4.0	-3	4	0		8.5	36	58	330	291
Chile		748	-1.6	-2.6	-4	7	-5		4.7	25	58	207	190
Colombia		3780	-1.0	-0.4	-4	-4	-9		6.8	4	24	153	172
Mexico		19.91	0.6	0.1	-1	15	0		7.0	4	33	108	136
Peru		4.0	-0.7	-1.5	0	-10	-9		5.5	30	85	110	193
Uruguay		44	-0.1	-1.0	-1	-2	-4		7.9	0	-7	-194	61
Hungary		301	-0.3	-1.4	-5	5	-1		2.3	-2	4	73	79
Poland		3.82	-0.1	-0.2	-4	4	-2		1.3	-4	2	43	62
Romania		4.2	0.1	-0.2	-3	3	-4		2.8	-2	4	-94	3
Russia		74.1	0.6	-1.3	-2	-4	0		7.0	0	9	136	128
South Africa		14.3	0.9	0.2	-5	20	3		9.7	-5	10	-73	1
Turkey		8.67	0.2	0.4	-1	-21	-14		17.6	17	-67	651	445
US (DXY; 5y UST)		93	0.0	0.1	3	-5	3		0.79	-9	0	51	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		5140	1.1	-2	-2	8	-1		206	3	-3	-40	-23
Indonesia		6044	-0.1	1	1	19	1		180	7	2	-88	-20
India		53055	0.4	1	1	46	11		145	-2	-5	-98	-6
Philippines		6943	-0.7	1	2	10	-3		106	7	9	-59	-6
Malaysia		1530	-0.1	0	-4	-3	-6		127	4	4	-77	-8
Argentina		63563	-2.0	1	-7	50	24		1590	16	105	-741	234
Brazil		125095	-1.4	-2	-4	28	5		271	17	24	-93	12
Chile		4166	-2.4	-4	1	-2	0		149	8	3	-63	-7
Colombia		1272	-1.4	1	2	12	-12		262	13	16	-19	47
Mexico		50049	-1.0	-1	-3	32	14		344	5	18	-151	-13
Peru		18790	-1.5	-1	-8	11	-10		163	3	1	-21	34
Hungary		47691	0.2	1	-1	33	13		140	6	-1	-53	-9
Poland		67648	1.5	2	1	33	19		32	-2	-6	-15	4
Romania		11949	-0.1	1	6	40	22		184	5	3	-92	-19
Russia		3906	0.5	2	2	38	19		179	10	10	-45	0
South Africa		66660	1.2	1	-1	21	12		334	14	22	-184	-50
Turkey		1388	0.3	2	-4	16	-6		479	17	2	-106	32
Ukraine		529	0.0	0	0	6	6		501	11	23	-132	8
EM total		54	0.4	-3	-3	27	4		364	8	11	-61	26

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

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