














- **COVID-19 cases in US exceed three million** ([link](#))
- **China stocks up 15% over past week** ([link](#))
- **US banks among worst performers in S&P 500** ([link](#))
- **Fallen angel volume slows down in US and euro area** ([link](#))
- **UK Treasury to launch youth employment support program** ([link](#))
- **Australia to extend income support measures** ([link](#))

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## Markets grapple with growing virus threat

Most global stock exchanges were lower as markets continue to grapple with COVID-19. The news on the virus is uniformly bad, with record new infections in the US, rising counts in Brazil, India, and parts of Africa, and new lockdowns in several countries that have been met with protests in some cases. US equity futures fluctuated between red and green and only the Chinese market continues to rally, apparently led by retail investors encouraged by rhetoric from local authorities. Analysts are reminding clients about a similar episode in China in 2014-15 which ended in a 40% selloff. The negative tone of the morning session was further underlined by the OECD's warning that unemployment would hit 9.4% in its member countries, the highest level since the great depression. Press stories that members of the US administration are considering ways to undermine the Hong Kong SAR dollar peg added to the gloom.

Key Global Financial Indicators

Last updated: 7/8/20 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3145	-1.1	3	-3	6	-3
Eurostoxx 50		3303	-0.6	2	-2	-6	-12
Nikkei 225		22439	-0.8	1	-3	4	-5
MSCI EM		42	-1.7	6	3	0	-5
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.65	1.2	-2	-22	-140	-127
Germany 10y Yield		-0.45	-2.4	-6	-13	-9	-27
EMBIG Sovereign Spread		461	6	-7	6	125	168
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		54.9	0.2	1	-3	-12	-11
Dollar index, (+) = \$ appreciation		96.8	0.0	0	0	-1	0
Brent Crude Oil (\$/barrel)		43.3	0.4	3	6	-33	-34
VIX Index (% change in pp)		28.8	-0.7	-2	3	15	15

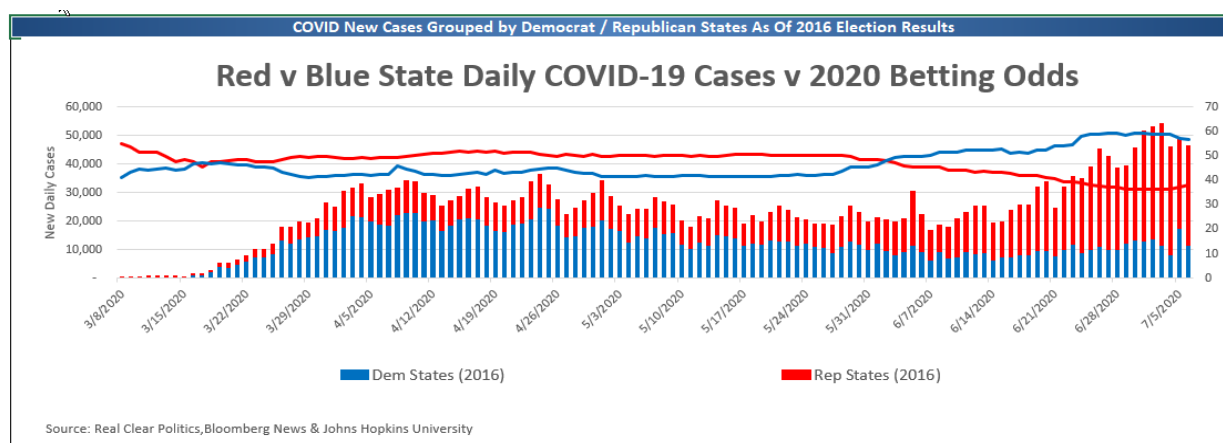
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

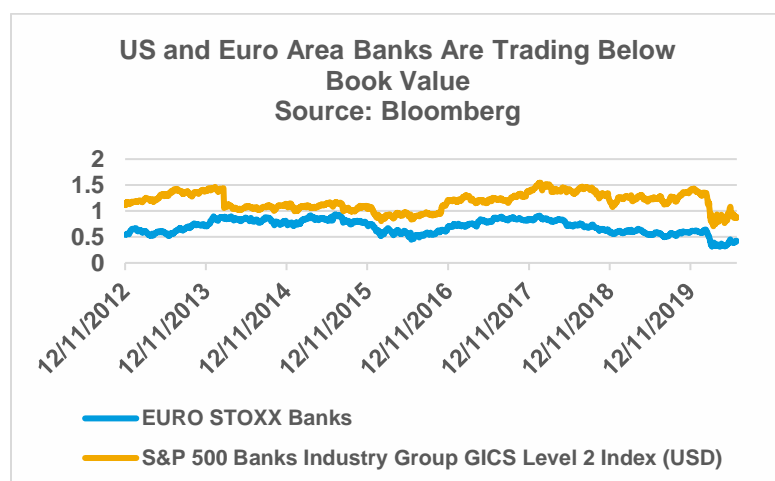
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**The five-day US rally finally came to an end on Tuesday as rising COVID-19 cases weighed on sentiment.** Treasuries rallied as equities sold off, with the 10-year yield down 4 bps. However, trading volumes were very light as many remain on holiday after the July 4 weekend and the VIX remained below 30 for the fourth consecutive session. The Nasdaq had posted a gain to set another intra-day record but faded into the close. The dollar strengthened versus emerging market currencies and held steady against the major currency pairs. Atlanta Fed President Bostic warned that rising case counts could endanger the recovery.

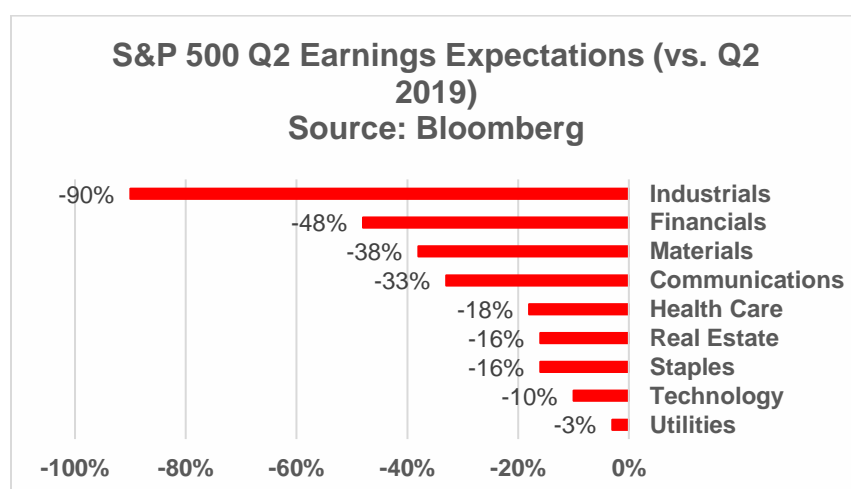
**The number of COVID-19 cases in the US has risen above three million, and analysts are worried that these increased infections could lead to higher numbers of deaths in the weeks ahead.** Although the number of daily deaths has declined in recent weeks, the surge in new cases could reverse this trend and have negative consequences for the economy and the markets. Since the end of May, US states that voted Republican in 2016 are seeing much higher numbers of new virus infections than states that voted for the other side. According to Bloomberg, this change coincided with a Pew Research Center poll that showed the President's approval falling the most in the 500 counties where deaths exceeded 28 people per 10,000, and the Real Clear Politics betting odds on a Democratic victory in the fall election have gone up. Meanwhile, the total US death toll now exceeds 133K.



**US banks are among the worst performing sectors in the S&P 500.** With interest rates close to zero, a flat yield curve and expectations of rising consumer and corporate defaults, the prospects for US banks appear particularly bleak. Although trading revenues are forecasted to be much higher in Q2 due to the extreme market volatility, this is expected to be temporary as trading volumes are expected to slow down again in the second half of the year. The sharp decline in bank equity prices has pushed valuations well below book value. Before the current selloff, US banks had rebounded since the end of the global financial crisis, in contrast to European banks which never recovered and continued to trade below book value.

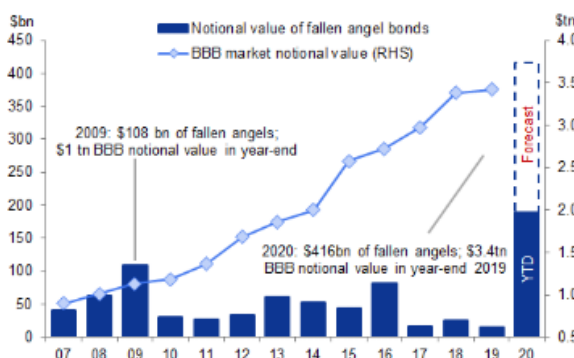


As a result, Q2 earnings for banks are forecasted to be down nearly 50% from the previous year, with only industrials doing worse. The Fed-imposed delay in dividend payments has also played a role in suppressing bank valuations. Some analysts expect banks to begin laying off employees to cut costs in the months ahead, although some bank CEOs have spoken out in favor of compensation levels rather than headcount.



**Fallen angel risk will be lower than expected this year, according to forecasts by Goldman.** Fallen angels are investment grade companies who are downgraded to junk status. As markets sold off due to COVID-19, some analysts were worried that markets would be destabilized by a very high volume of downgraded fallen angel bonds. Back in March, after \$151 bn of fallen angels in the US in Q1 and €37 bn in the euro area, the analysts were expecting a further \$550 bn in the US and €180 bn in the euro area for the rest of 2020. However, in subsequent months, fallen angel volumes slowed down significantly to \$38 bn and €32 bn respectively. Goldman now predicts fallen angel volume in H2 2020 will be \$227 bn and €64 bn for, with totals for 2020 coming in at \$416 bn and €133 bn, well below the original estimates. The pace of downgrades has slowed because the economic recovery has been stronger than expected and vulnerable sectors such as energy, autos, and housing are doing better than expected. The energy sector in particular benefited from a rapid snapback in oil prices.

**Exhibit 1 : We are lowering our USD fallen angel forecast and now expect \$227 billion of downgrades in 2H2020**



Source: Bloomberg, Goldman Sachs Global Investment Research

**Exhibit 2 : In the EUR market, we make a similar revision (lower) and now expect €64 billion of downgrades in 2H2020**



Source: Bloomberg, Goldman Sachs Global Investment Research

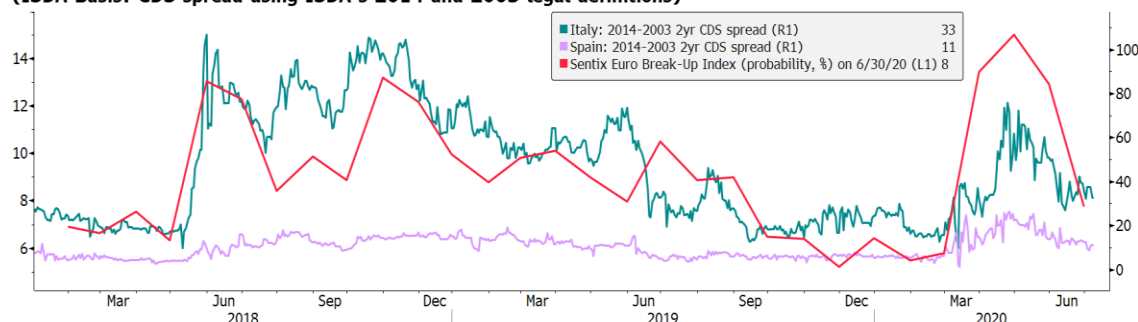
## Europe

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**Equities slipped by 0.5% or less across Europe**, except in Spain where the Ibex 35 took a 1.4% fall. DAX (-0.1%), CAC 40 (-0.5%), EuroStoxx 600 (-0.2%), Italy's Titans 30 (-0.5%). Bank stocks (-1.4%) underperformed. **Sovereign yields shed 1-2 bps across countries and tenors**: German 10-year yields at -0.45% (-2 bps); French OATs at -0.13% (-2 bps); Italian at 1.19% (-1 bps); and Spanish at 0.41% (-1 bps).

### Eurozone Political Risk Measures

(ISDA Basis: CDS spread using ISDA's 2014 and 2003 legal definitions)

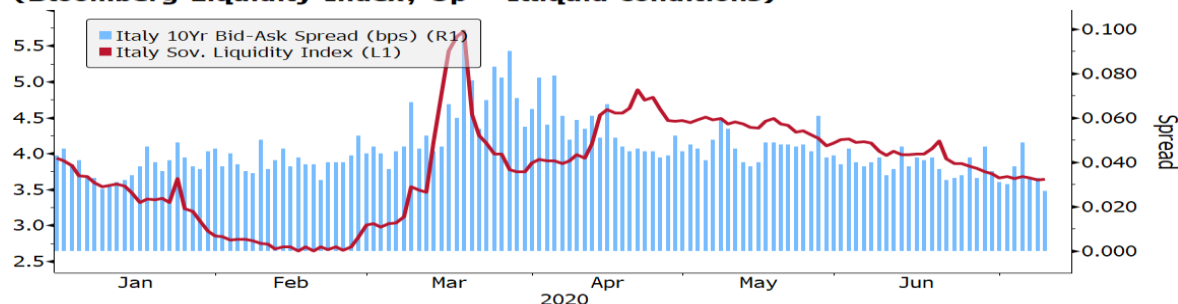


Source: Bloomberg  
CITYLUS Curncy (ITALY CDS USD SR 5Y D14) ISDA basis clean Daily 02JAN2018-08JUL2020

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### Bid-Ask Spread on Italy's 10Yr Bond (Bloomberg Liquidity Index; Up = Illiquid conditions)



Source: Bloomberg  
ZR343798 Corp (BTPS 1.35 04/01/30) FI: Italy Bid-Ask Daily 31DEC2019-08JUL2020

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In an [FT interview](#), ECB president pledged to “explore every avenue available in order to combat climate change.” Lagarde said her institution is reviewing all its business lines and operations with a view to seeing if they can be readjusted to address global warming. The review could have significant implications for the ECB’s €2.8 tn asset purchase program.

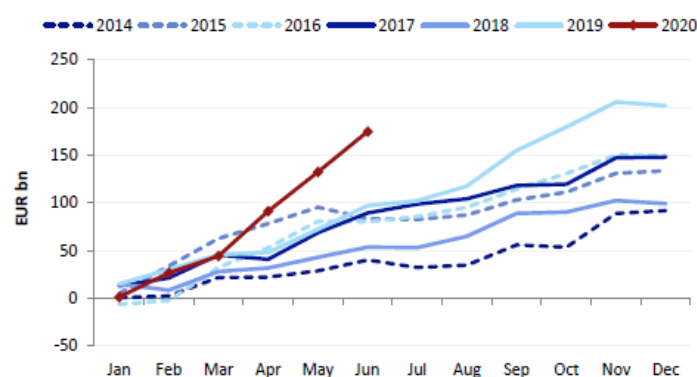
**UK’s chancellor of the exchequer Mr. Sunak will announce today a temporary job scheme for under-25s worth about \$2.5 bn.** Under the new plan, the Treasury will offer 6-month work placements for people aged 16 to 24 and will cover 100% of the national minimum wage for 25 hours/week, with employers covering the rest of the wages. Over the past week, the UK Treasury has announced about £4 bn-worth of measures to green the economy and improve job skills.

<b>£2b</b>	Grants to help homeowners insulate their properties
<b>£1b</b>	Funding to make schools and hospitals greener
<b>£50m</b>	Earmarked to scope out new ways of retrofitting social housing with heat pumps, insulation and double glazing
<b>£40m</b>	Green Jobs Challenge Fund, which will help environmental charities and local government plant trees, clean up rivers and improve green spaces
<b>£800m</b>	Funding to double the number of work coaches in U.K. job centers to 27,000 and help job-seekers get the support and skills they need to find work.
<b>£111m</b>	Promise to triple the number of traineeships for 16-24 year-olds. Businesses will get 1,000 pounds per trainee taken on for work experience
<b>£17m</b>	Funding for 30,000 new placements in work academies to provide those on benefits with skills needed for local jobs
<b>£32m</b>	Investment in the National Careers Service to offer careers advice to young people

**PM Johnson reiterated to chancellor Merkel the UK’s intention of leaving the EU without a deal if the EU is not willing to compromise on some of the UK’s demands.** According to Mr. Johnson’s office, the UK is ready to leave the EU under “Australia terms” – meaning without a trade deal.

**The Eurozone corporate bond market remained steady in June, despite the resurgence of virus fears and continuation of heavy net issuance** by the investment grade (IG) corporate sector. While better economic data is likely to have been supportive, industry contacts believe that ECB and BOE asset purchase programs remain the contributing factor. The estimated net absorption of IG corporate issuance by the ECB stands at 40% and total of 74% for the BOE. The credit migration from investment grade to high-yield market has been also better than expected with net ‘fallen angels’ growing only by €32 bn in Q2. Market contacts now expect the total transition for 2020 at €130bn vs €180bn previously.

Figure 4: IG corporates - net EUR issuance



Source : Deutsche Bank, Dealogic

## Other Mature Markets

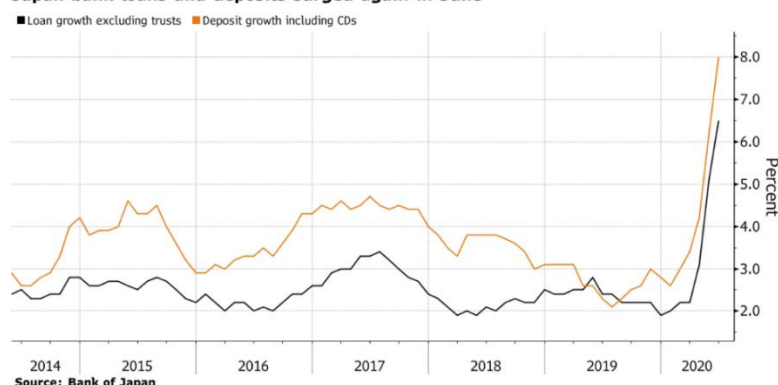
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### Japan

**Japanese banks' loans and deposits climbed at a record pace in June.** The increase was driven by firms' continued borrowing under the emergency credit facilities, and stockpiling cash. Lending rose 6.5% y/y, while deposits jumped 8% y/y. Banks' outstanding loans reached ¥498 trillion (\$4.6 trillion) in June, the highest level since March 1999. The Bank of Japan (BOJ) is operating special funding programs to help firms struggling during the pandemic crisis; the programs offer banks 0.1% interest on the funds they lend out to firms. Major banks led the increase in lending, adding a record 8.6% y/y in loans, while regional banks saw their lending up by 4.6% y/y. Earlier the government urged smaller banks, which are the main lenders to SMEs, to make greater use of the BOJ facilities, which accept a wider range of assets as collateral. Equities declined (NIKKEI: -0.8%); yen was little changed.

### Keeping Cash

Japan bank loans and deposits surged again in June



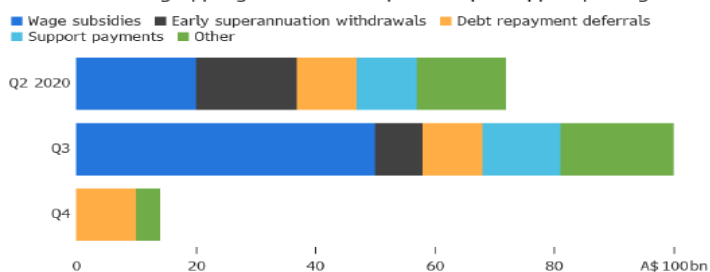
Source: Bloomberg.

### Australia

**The government will provide a new phase of income support.** Treasurer Josh Frydenberg indicated that additional support is forthcoming when he delivers the government's economic and fiscal update on July 23. The government's flagship wage subsidy package, which helps keep more than 3 million people in jobs, is due to expire in September. **Major Australian banks extended loan repayment holidays to hard-hit borrowers by four months.** About 10% of mortgages and 15% of SME loans currently benefit from the holidays. Households would need to divert money from elsewhere to resume servicing debt unless their income return to pre-pandemic levels. Household spending on clothes and dining out showed no sign of a recovery. Equities declined (-1.5%) on the back of the concern of a second-wave outbreak; the Australian dollar was little changed.

### Tough Test

Australia is still grappling with how to taper multiple support packages



Source: Bloomberg.



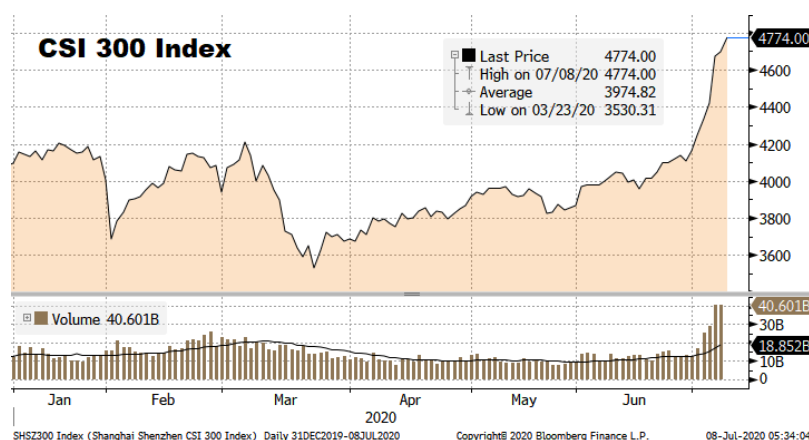
## Emerging Markets

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**EMEA** equities and currencies were stronger. **Asian** equities were mostly higher, led by China (CSI 300: +1.6%) and Indonesia (+1.8%). Currencies were little changed. **The Indonesian market continued to outperform** on the back of Bank Indonesia's commitment to purchase government bonds. In **India**, 10-year government bond yield declined 4 bps today (9 bps over the past week), with market participants expecting that the Reserve Bank of India (RBI) would soon announce its next bond-buying exercise under the open market operations. The RBI has bought about 1.2 trillion rupee of government debt (\$16 billion) so far this year. Indian banks have helped finance the government deficit given the ample liquidity supported by growing deposits. **Latin American** markets followed the US lower. Credit growth slowed in Mexico.

### China

**The Chinese stock market continued its advance**, making a cumulative gain of nearly 15% over the past week. State media encouraged retail investors to pile into the stock market and reap the benefits of a post-pandemic economic boom. Trading volumes also doubled in the past week. The rally was led by financial firms. Market participants noted that the recent market development rekindled memories of 2014/15 when state media cheered a more than doubling of share prices. That rally later unwound in spectacular fashion with a 40% collapse.

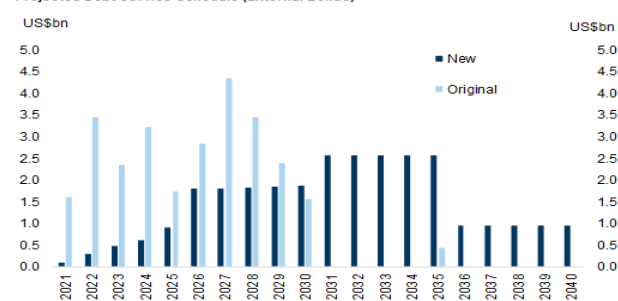


Source: Bloomberg.

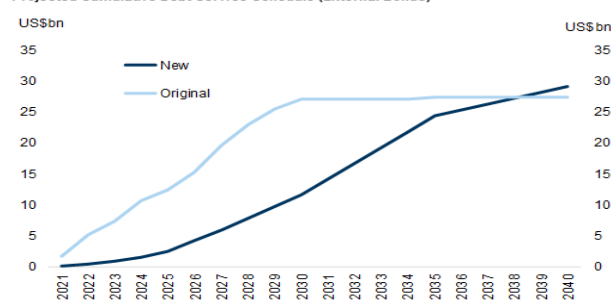
### Ecuador

**As noted in yesterday's GMM, the government has reached a preliminary agreement with its major bondholders to restructure \$17.4 bn in outstanding debt.** Amid the economic drag and the uncertainty arising from the pandemic, the restructuring deal almost eliminates debt service costs in the short-term. In the longer-term, with the characteristics of the new exchange bonds, the authorities expect to save more than \$15 bn in debt service costs over the next 10 years until 2030.

Projected Debt Service Schedule (External Bonds)



Projected Cumulative Debt Service Schedule (External Bonds)



## Characteristics of the new exchange bonds

	USD Bonds		
Maturity	2030	2035	2040
Issuance amount (US\$bn)	3.8	8.6	3.5
First principal payment*	Jan-26	Jan-31	Jan-36
First coupon payment**	Jan-21	Jan-21	Jan-21
Interest schedule (%)			
2021	0.5	0.5	0.5
2022	5.0	1.0	0.5
2023	5.5	2.5	1.5
2024	6.0	3.5	2.5
2025	6.9	5.5	5.0
2026	6.9	6.9	5.0
2027	6.9	6.9	5.5
2028	6.9	6.9	6.0
2029	6.9	6.9	6.5
2030-maturity	6.9	6.9	6.9

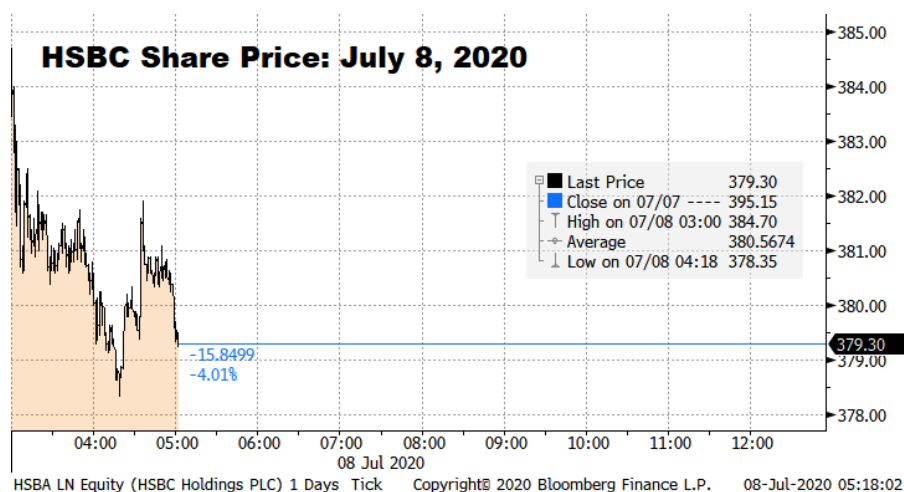
\* Ten equal semi-annual installments;

\*\* Pay interest on a semi-annual basis in arrears, in January and July of each year

Source: Goldman Sachs Global Investment Research

## Hong Kong SAR

**Some top advisers to President Trump are weighing proposals to undermine the Hong Kong SAR dollar peg, according to press reports.** One idea is to limit the ability of Hong Kong SAR banks to buy US dollars, but this proposal is said to face strong opposition from others in the administration as the move would likely hurt Hong Kong SAR banks and the US, not China. Market participants viewed this proposal unlikely as it would be a ‘nuclear option’ and a drastic move is not expected. Local equities gained (+0.6%) although HSBC’s share price fell 4% on the peg rumors. The dollar held steady. The Hong Kong Monetary Authority continued selling local currency—17.4 billion Hong Kong dollars (\$2.2 billion) in July—to defend the peg.

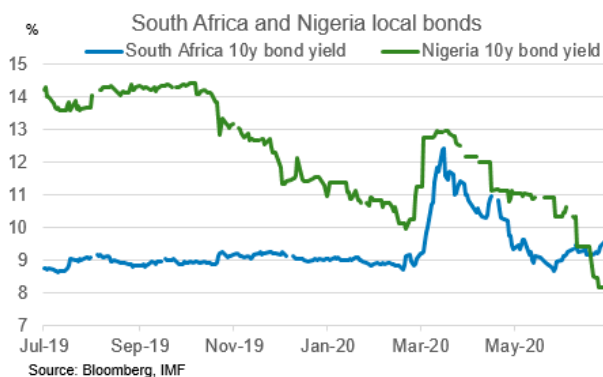


## South Africa

**The South African bond market continues to struggle on the back of increased bond supply and reduced investors’ appetite.** The 10-year government local bond yield has risen by further 50 bps since the Special Budget, despite the overall risk-positive environment. The local borrowing cost for South Africa (rated BB-/Ba2) cost now exceeds that of much lower rated Nigeria (B-/B2). Despite the increase in yields, market contacts suggest that the demand in the weekly bond auctions has been subdued with most of it coming from local real money investors. **Foreign investors continued to reduce their holdings in June with the ownership falling to 30.5% of the total stock as compared to 31.5% in May.** The South African Reserve Bank has also halved its QE related bond buying in June to just 5 bn rand. All three rating agencies have been skeptical of South Africa’s ability to implement the budget consolidation program, given the



economic challenges but also the poor track record. **Market contacts suggest that the prospects of an IMF program remain one of the main catalysts that could potentially turn the market.**



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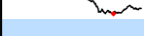


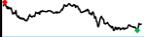
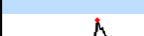



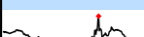


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## Global Financial Indicators

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Japan		22439	-0.8	1	-3	4	-5
China		3403	1.7	12	16	16	12
Asia Ex Japan		74	-1.9	6	5	7	0
Emerging Markets		42	-1.7	6	3	0	-5
<b>Interest Rates</b>			basis points				
US 10y Yield		0.65	1.5	-2	-22	-139	-126
Germany 10y Yield		-0.45	-2.2	-6	-13	-9	-27
Japan 10y Yield		0.03	-1.2	-1	-2	18	5
UK 10y Yield		0.17	-1.4	-5	-17	-55	-66
<b>Credit Spreads</b>			basis points				
US Investment Grade		143	0.1	-4	-2	23	45
US High Yield		614	0.2	-24	68	184	221
Europe IG		64	1.4	-2	3	13	20
Europe HY		370	7.6	-2	30	123	164
EMBIG Sovereign Spread		461	6.0	-7	6	125	168
<b>Exchange Rates</b>			%				
USD/Majors		96.88	0.0	0	0	-1	1
EUR/USD		1.13	0.1	0	0	1	1
USD/JPY		107.6	0.0	0	1	1	1
EM/USD		54.9	0.1	1	-3	-13	-11
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		43	0.4	3	6	-33	-34
Industrials Metals (index)		108	0.7	3	5	-3	-6
Agriculture (index)		36	0.1	2	1	-13	-13
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		28.9	-0.6	-1.6	3.0	14.9	15.1
US 10y Swaption Volatility		59.1	-1.0	-3.8	-14.1	-4.5	-2.9
Global FX Volatility		7.7	0.0	-0.4	0.0	1.5	1.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		155	1.2	-2	-20	-91	-10
Italy		165	1.7	-2	-7	-50	5
Portugal		85	1.2	-2	1	-1	22
Spain		86	0.3	-4	-1	5	20

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

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## Emerging Market Financial Indicators

Last updated: 7/8/2020 8:16 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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.01	0.0	0.8	1	-2	-1		3.1	6.9	17	21	-9	-3
Indonesia		14410	0.2	-0.9	-4	-2	-4		7.2	-1.9	-3	-9	-10	7
India		75	-0.1	0.8	1	-8	-5		6.0	-4.1	-8	-15	-86	-92
Philippines		50	0.1	0.7	1	4	2		4.0	-9.1	-5	-20	-75	-32
Thailand		31	0.0	-0.6	1	-1	-5		1.5	2.6	9	-3	-65	-13
Malaysia		4.27	0.1	0.3	0	-3	-4		2.7	-4.3	-12	-22	-92	-67
Argentina		71	-0.1	-0.6	-3	-41	-16		44.9	21.2	28	-183	1557	-1772
Brazil		5.36	0.5	-0.7	-10	-29	-25		5.3	9.1	-4	-3	-149	-97
Chile		792	0.8	3.7	-3	-13	-5		2.5	-8.0	-9	-24	-85	-78
Colombia		3626	0.3	3.6	0	-11	-9		5.3	3.9	-21	-10	-35	-65
Mexico		22.73	0.6	-0.1	-5	-17	-17		5.9	5.8	-4	-50	-152	-101
Peru		3.5	0.2	0.1	-3	-7	-6		4.4	-2.6	3	3	-34	-11
Uruguay		43	-0.9	-2.7	-2	-19	-14		9.9	7.9	-27	-22	-55	-98
Hungary		315	-0.2	-0.5	-3	-8	-6		1.6	2.5	9	-8	16	43
Poland		3.97	0.1	0.3	-1	-4	-4		0.8	-1.0	-2	-13	-117	-107
Romania		4.3	0.1	0.4	0	-2	0		3.8	5.0	7	-4	-27	-24
Russia		71.3	0.3	-0.9	-4	-11	-13		5.5	-9.6	-1	9	-169	-58
South Africa		17.0	1.1	0.4	-2	-17	-18		10.5	13.1	41	66	133	100
Turkey		6.87	-0.1	-0.2	-1	-16	-13		11.2	18.7	73	59	-514	-46
US (DXY; 5y UST)		97	0.0	-0.3	0	-1	1		0.29	0.6	-2	-15	-156	-140

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3403	1.7	12	16	16	12		225	8	-3	-3	48	49
Indonesia		5076	1.8	3	0	-20	-19		260	3	-2	14	80	104
India		36329	-0.9	3	6	-6	-12		246	3	-2	-2	112	121
Philippines		6286	0.3	1	-4	-22	-20		162	-1	1	21	91	96
Malaysia		1584	1.1	5	2	-6	0		179	-2	-11	4	63	67
Argentina		42498	-1.9	10	-13	2	2		2333	0	-180	-139	1528	564
Brazil		97761	-1.2	3	0	-6	-15		368	-3	2	40	142	153
Chile		4258	-0.6	5	3	-16	-9		207	0	-2	12	76	74
Colombia		1132	0.2	2	-8	-28	-32		282	-1	-5	19	109	119
Mexico		37837	-0.1	0	-5	-13	-13		511	2	-11	49	189	219
Peru		16914	-0.4	0	-3	-19	-18		177	-1	-2	13	59	70
Hungary		35886	0.4	1	-6	-12	-22		167	-3	-5	15	83	81
Poland		50730	-0.5	1	-1	-16	-12		43	1	-5	-11	14	25
Romania		8548	0.3	-2	-3	-4	-14		278	2	-12	-6	96	104
Russia		2817	-0.3	3	1	0	-8		213	-1	5	18	15	82
South Africa		55641	0.7	3	2	-4	-3		526	1	1	63	246	206
Turkey		119556	0.2	4	9	21	4		597	3	12	56	113	196
Ukraine		499	0.0	0	0	-8	-2		649	6	44	72	121	229
EM total		42	0.6	6	3	0	-5		461	6	-7	6	125	168

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

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