



- US consumer credit expands at record annualized rate, while debt servicing metrics improve ([link](#))
- Weidmann says ECB won't deliberately seek inflation overshoots ([link](#))
- Rating agency DBRS warns that Italian NPL collections are "significantly underperforming" ([link](#))
- China cuts reserve requirement ratio by 0.5 pp ([link](#))
- India's central bank is focused on entire yield curve for asset purchases ([link](#))
- Central bank of Poland leaves rates unchanged but upgrades inflation outlook ([link](#))

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## Market sentiment recovers to end the week

European bourses recovered and US equity futures signaled a positive opening as market sentiment improved to close week. Nasdaq futures were the exception, underperforming in early trading after speculation that president Biden is taking aim at big tech by encouraging regulators to reinstate so-called net-neutrality rules. News of China's cut to the reserve requirement ratio by 0.5 pp helped boost investor sentiment this morning. The dollar weakened and US Treasuries sold-off, reversing some of the rally witnessed in recent days, with the 10-year yield up 4 bps to 1.33%. Euro-area sovereign bond yields were more muted as markets digested the ECB's new monetary policy strategy released yesterday. Subsequent comments from Bundesbank president Weidmann (on the ECB not deliberately seeking inflation overshoots) and ECB president Lagarde (on not pursuing the same average inflation targeting as the Fed) were a focus of market participants this morning.

Key Global Financial Indicators

Last updated: 7/9/21 8:14 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	4321	-0.9	1	2	37	15
Eurostoxx 50	4048	1.4	-1	-1	24	14
Nikkei 225	27940	-0.6	-3	-3	25	2
MSCI EM	53	-2.1	-5	-5	21	2
<b>Yields and Spreads</b>		bps				
US 10y Yield	1.33	4.2	-9	-16	72	42
Germany 10y Yield	-0.30	0.3	-7	-6	16	27
EMBIG Sovereign Spread	352	3	14	22	-106	2
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	56.7	0.4	-1	-3	3	-2
Dollar index, (+) = \$ appreciation	92.3	-0.1	0	2	-5	3
Brent Crude Oil (\$/barrel)	74.7	0.8	-2	3	76	44
VIX Index (% change in pp)	17.3	-1.7	2	-1	-12	-5

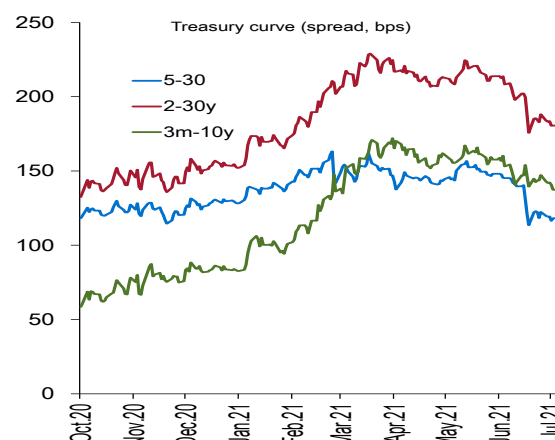
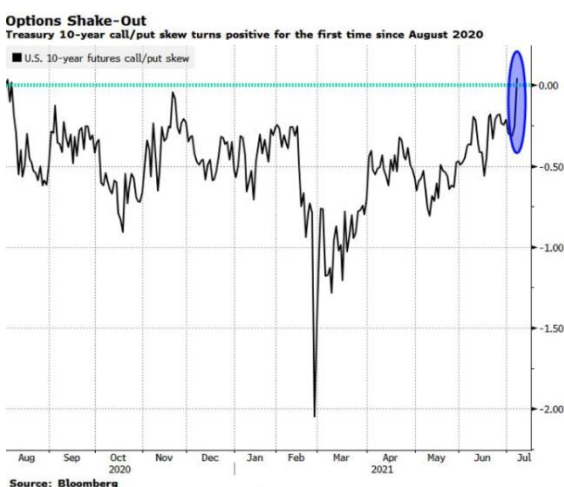
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

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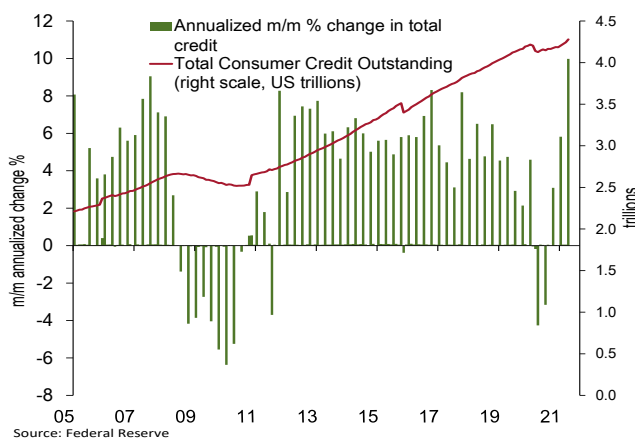
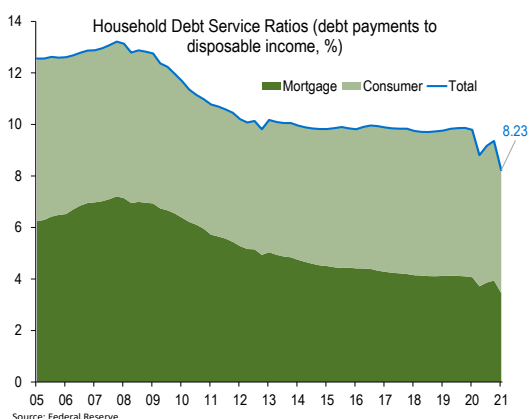
### United States

**Equities slumped lower and the bond rally continued on Thursday.** 10-year Treasury yields touched a low of 1.25% early Thursday morning—down 50 bps from the late March peak—before recovering somewhat to 1.29%, for a net move of -3 bps from Wednesday. Although technical factors seem to be playing a role, the scale of the move has surprised market participants, and some contacts have noted increasing concerns about slowing growth momentum and the longer term outlook, as well as the delta variant and the uncertain status of further fiscal packages. The Treasury curve has flattened significantly since mid-May, with the 5-30y and 3m-10y spreads down about 40 bps. In addition, the Treasury options skew has narrowed recently, as investors are pricing a lower probability that rates will turn higher, causing the put premium to decline.



### Consumer credit expanded at a record annualized rate, while debt servicing metrics improved.

Consumer credit expanded at a 10% annualized rate in May for a net change of \$35 bn (vs \$18.6 bn expected), with revolving credit (largely credit cards) up \$9.2 bn and non-revolving credit (auto and education loans) up \$26.1 bn. Total consumer credit outstanding rose to an all time high of \$4.28 tn, up 3.7% from a year ago. Meanwhile, household debt servicing metrics have continued to improve, with required debt payments as a share of disposable income falling to a record low of 8.2% in the first quarter, down from 9.4% in the previous quarter.



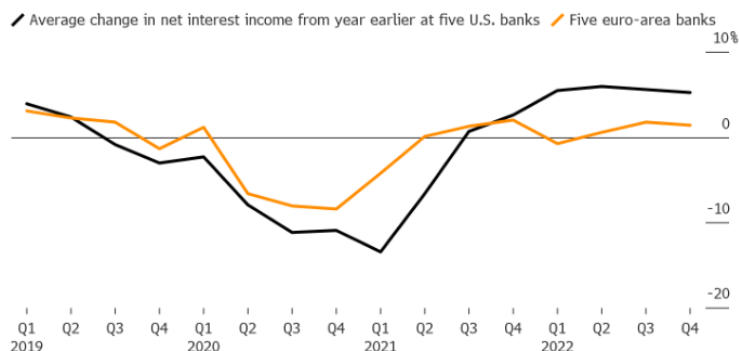
## Euro-area and UK

**Equities were buoyed by a recovery in risk-on sentiment even as high-frequency indicators continue to print mixed. UK GDP for May disappointed**, coming in at 0.8% m/m vs 1.4% expected. Industrial production also disappointed slightly but it still shows a strong recovery: IP for May printed at 20.6% y/y, lower than the 21.6% expected and the 27.5% figure in April. **Italy's industrial production fell in May**, printing at -1.5% m/m, vs 0.3% forecast. The y/y figure came in at 24.9% from 81.0% in April.

Bank stocks (+1.9%) performed on the top range compared to broad indices. This was despite market talk that **interest income at European lenders is expected to lag that of US peers** as inflation and interest rate forecasts remain lackluster in the eurozone.

### Earning Interest

U.S. banks may see lending revenue grow faster than at European competitors



Source: Company data compiled by Bloomberg through Q1 2021, analyst estimates thereafter  
 Note: U.S. banks are JPMorgan, Bank of America, Citigroup, Wells Fargo, PNC; Europe includes Deutsche Bank, ING, Santander, KBC and Nordea

Bloomberg

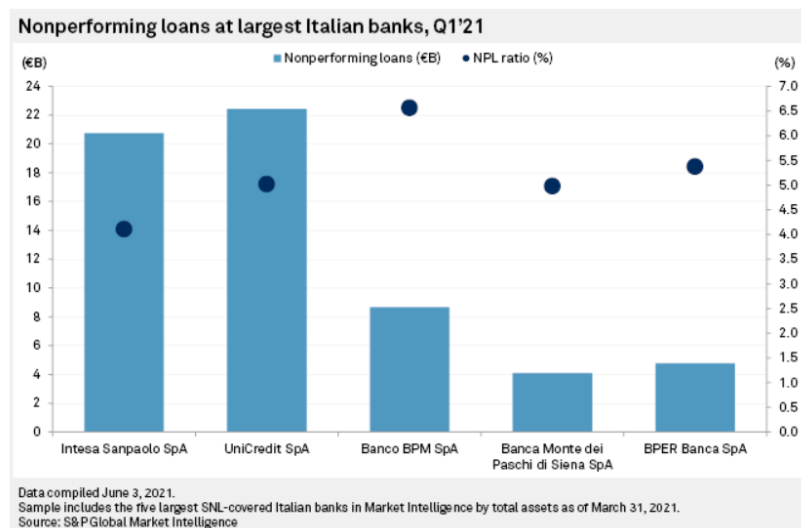
**Sovereign yields were unchanged.** German 10-year yields traded at -0.29% (+1 bps); French OATs at 0.05% (flat); Italian at 0.76% (flat); and Spanish at 0.32% (-1 bps).

The ECB approved yesterday its new [monetary policy strategy](#), adopting a symmetric 2% inflation target over the medium term. Although the ECB statement notes that under the new strategy the Bank would allow transitory periods of above-2% inflation, **Bundesbank president Weidmann noted that the ECB would not deliberately seek inflation overshoots to make up for past undershoots of the target.** ECB president Lagarde also noted that the Bank is not pursuing the same average inflation targeting as the US Fed. The ECB will also include owner occupied housing costs in its price assessments.

In the latest [Consolidate Accounts of the EU](#), the European Commission estimates that the UK owes **€47.5 bn in post-Brexit payments**, based on ongoing commitments between the two sides. The EC figure is higher than the €41.4 bn estimated by the UK back in 2018.

	Article 140	Article 142	Other	EUR billion 31.12.2020
Due from the UK	35.0	14.3	0.3	49.6
Due to the UK	-	-	(2.1)	(2.1)
<b>Net receivable from the UK</b>	<b>35.0</b>	<b>14.3</b>	<b>(1.8)</b>	<b>47.5</b>
Estimated to be paid by the UK after 2021	28.2	14.3	(1.9)	40.6
Estimated to be paid by the UK in 2021	6.8	0.0	0.0	6.8

Rating agency DBRS has warned that Italian NPL collections are “significantly underperforming”, posing risks for servicer companies that have acquired some of these loans from banks. The Italian government introduced a scheme of guarantees for NPL securitizations in 2016—known as GACS—to encourage banks to sell-off NPLs. Researchers estimate that about €87 bn of bad loans have been sold to servicers under the scheme. However, some of these securitized portfolios have started to underperform, due to “delays in the Italian judicial system, suspension of foreclosures, disruption to the commercial real estate market,” and the impact of the pandemic more broadly. DBRS has recently downgraded 10 of such transactions and has warned of possible future challenges. Separately, Banca d'Italia forecasted in April that there could be an additional €9 bn of loan losses in 2021-22.



## Japan

**Equities (-0.4%) fell for the third consecutive day.** Japan's PM Suga accepted a last-minute decision to ban spectators from the Tokyo Olympics, which was jointly decided by Olympics and government officials. All events in Tokyo and surroundings areas will be held without fans, with Tokyo entering a state of emergency from July 12 through August 22. **Separately, Reuters reported that the Bank of Japan (BOJ) is expected to cut this fiscal year's economic growth forecast next week.** The recovery is likely to be delayed due to virus curbs. The **10-year JGB yield was up 0.9 bps, the yen depreciated -0.3%.**

## Emerging Markets

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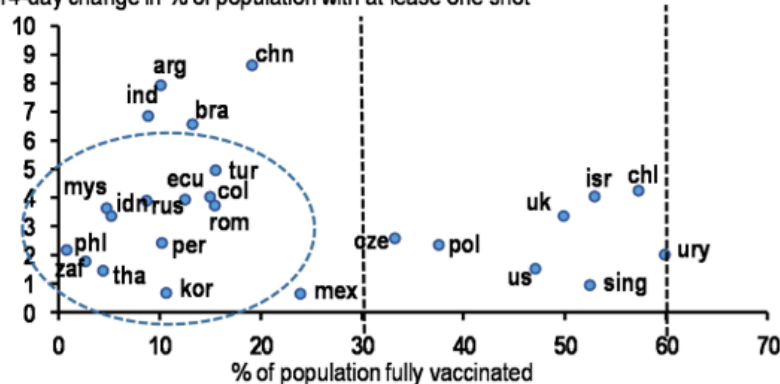
**Asian equities were mixed and ended the week flat on net.** Singapore (+0.8%), Malaysia (+0.8%), Hong Kong SAR (+0.7%) rebounded following yesterday's sharp sell-off. Philippines (-1.3%), Taiwan Province of China (-1.2%) and Korea (-1.1%) fell. **Regional currencies weakened**, with the Philippine peso (-0.3%) and the Korean won (-0.3%) underperforming on virus concerns. **Philippines** banks' gross non-performing loan ratio rose for the fifth straight month in May to 4.5%, the highest level in almost 13 years. **Korea** raised restrictions to the highest level in Seoul, starting from July 12, which will ban gatherings of three or more people after 6pm and shut night-time entertainment venues. **EMEA equities** traded with a positive tone. Among currencies, the Russian ruble (+0.7%) South African rand (+0.6%), and Turkish lira (+0.3%), all gained against the U.S. dollar. In **Hungary, markets priced in further tightening after inflation unexpectedly rose to 5.3% yoy** (4.9% expected) with core inflation rising 0.4 ppt to +3.8%. Forward rates 1-year ahead moved up 7 bps to 2.14%, compared to the current policy rate at 0.90%. Analysts at Goldman Sachs expect the central bank to hike another 30 bps on 27 July and a further 15 bps in September (compared to 15 bps of hikes expected for Q3 earlier). **LATAM equity markets retreated yesterday** while the currencies depreciated further. **Peru's central bank** kept the policy rate unchanged at 0.25%, in line with market expectations.

### Vaccinations Rates in Emerging Markets

Analysts at JP Morgan argue that **The Philippines, Peru, Colombia, South Africa, Thailand, and Mexico appear most vulnerable to the Delta variant**. The Delta variant is spreading in several EM countries but is not yet fully prevalent in many and there are concerns that vaccinations are happening too slowly. South Africa, Russia, Malaysia, Israel, and Indonesia have already tightened restrictions in response to rising cases. JP Morgan points out that governments have shied away from imposing broad restrictions in most of Latin America. **External yields on EM U.S. dollar spreads have traded 9 bps higher so far in July.**

Figure: Vaccination Rates in Emerging Markets

14-day change in % of population with at least one shot



Source: JP Morgan

### China

**The People's Bank of China (PBOC) will cut the reserve requirement ratio (RRR) by 0.5 pp effective July 15.** The reduction of RRR for most banks will unleash about RMB1 tn (\$154 bn) of long-term liquidity into the economy, PBOC said. In the meantime, the volume of overnight repurchase contracts surged to the highest level since January accompanied at RMB4.1 tn (\$637 bn) with rate climbing the most in a week by 36bps to 2.1%. ANZ analysts said that traders – non-bank financial institutions – might be adding leverage through the interbank market to chase the rally in bonds, Bloomberg quoted. On data releases, **both producer price inflation (PPI) and consumer price inflation (CPI) slowed slightly in June.** PPI moderated to 8.8% y/y from 9% in May, with the National Bureau of Statistics saying that recent government policies to contain commodity prices have helped to curb the rally in metal prices. CPI inflation eased to 1.1% y/y from 1.3% in May driven by a decline in food prices, especially pork. Separately, **the US will add at least 10 Chinese firms to its economic blacklist** over alleged human rights abuses and high-tech surveillance in Xinjiang according to Reuters. **Equities (Shanghai flat; Shenzhen +0.2%) while the RMB was little changed.**

### India

**Reserve Bank of India (RBI) Governor Shaktikanta Das said that the bank is focused on the entire yield curve.** In an interview with Business Standard, the Governor said that the central bank is targeting government securities with maturities of six to 12 years based on its latest asset purchase program announcement. That said, the RBI's intervention in the 10-year bond is greater than in others because the 10-year bond has a larger impact on other rates. **The RBI remains committed to ensuring non-disruptive implementation of the government's borrowing program at the lowest cost possible by deploying various instruments.** The operations over the past year has also facilitated better monetary policy transmission. On FX intervention, the Governor said that the RBI intervenes in the NDF market to curb volatility, with volumes in the NDF market larger than onshore transactions. Regarding India's inclusion in global bond indices, India is working closely with three or four agencies. **10-year bond yield and the Indian rupee was little changed while equities fell -0.2%.**



## Poland

**10-year rates (+3 bps to 1.68%) traded higher after the central bank left its policy rate unchanged at 0.1% yesterday but increased inflation forecasts for both 2021 and 2022.** The central bank now expects CPI inflation in the range of 3.8-4.4% in 2021 (compared to 2.7-3.6% in March) and 2.5-4.1% in 2022 (compared to 2-3.6% earlier). **Despite the upgrade in its inflation outlook, the MPC emphasized that price developments in 2022 will depend on the robustness of economic recovery and the phasing-out of anti-crisis measures.** Annual GDP growth will be with a probability of 50% in the range of 4.1–5.8% in 2021 (against 2.6–5.3% in March), 4.2-6.5% in 2022 (compared to 4.0–6.9%). Equities (+0.4%) traded higher and the zloty was little changed after weakening 0.7% against the euro in July.

## Brazil

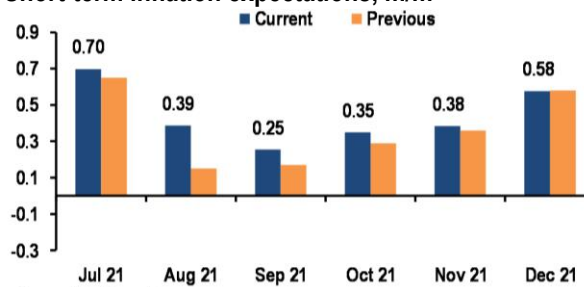
**June inflation accelerated further but somewhat less than the market's estimates.** The country reported June inflation at 0.53% m/m against the consensus estimates of 0.59% m/m. On an annualized basis, June inflation came in at 8.35%, which was 29 bps higher than the May data. This was driven by rising energy, food and services inflation. Analysts view the inflationary pressures to remain persistent going forward, particularly in the light of recent announcement on gasoline price hike (up 6.2%), and higher electricity prices due to the drought. They argue, this could result in the central bank announcing larger rate hikes. Markets in Brazil were agnostic about the benign June inflation print, with the **Brazilian real closing weaker (-0.5%) at 5.26 to the dollar** (5.39 is the 200-day MA), while the sovereign yield curve shifted up.

Headline and core inflation, y/y



Source: IBGE and J.P. Morgan forecasts

Short-term inflation expectations, m/m
















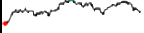






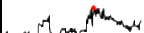

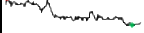





Source: J.P. Morgan forecasts

*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: 7/9/21 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4323	-0.9	0	2	37	15
Europe		4048	1.4	-1	-1	24	14
Japan		27940	-0.6	-3	-3	25	2
China		3524	0.0	0	-2	4	1
Asia Ex Japan		90	-2.2	-5	-4	19	1
Emerging Markets		53	-2.1	-5	-5	21	2
<b>Interest Rates</b>			basis points				
US 10y Yield		1.33	4.2	-9	-16	72	42
Germany 10y Yield		-0.30	0.3	-7	-6	16	27
Japan 10y Yield		0.03	0.7	-1	-4	0	1
UK 10y Yield		0.64	3.0	-6	-9	48	45
<b>Credit Spreads</b>			basis points				
US Investment Grade		90	-0.8	5	-2	-52	-5
US High Yield		319	-3.3	7	-14	-301	-61
Europe IG		47	-0.5	1	-1	-16	-1
Europe HY		234	-3.2	8	-6	-140	-8
<b>Exchange Rates</b>			%				
USD/Majors		92.29	-0.1	0	2	-5	3
EUR/USD		1.19	0.1	0	-3	5	-3
USD/JPY		110.0	0.2	-1	0	3	7
EM/USD		56.7	0.4	-1	-3	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		75	0.8	-2	3	76	44
Industrials Metals (index)		156	1.6	1	-1	44	18
Agriculture (index)		54	-0.2	-6	-9	50	13
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		17.3	-1.7	1.8	-0.6	-12.0	-5.5
US 10y Swaption Volatility		73.6	0.8	12.6	7.6	15.3	13.5
Global FX Volatility		7.0	0.0	0.4	0.4	-0.6	-1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		106	-1.1	2	-2	-50	-14
Italy		105	-1.6	5	-2	-63	-6
Portugal		62	-0.9	4	-3	-26	2
Spain		64	-1.2	4	0	-23	3

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

## Emerging Market Financial Indicators

Last updated: 7/9/2021 8:19 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	0.2	-0.1	-1	8	1		3.1	-8	-10	2	-13	
Indonesia		14528	0.0	0.0	-2	-1	-3		6.4	-4	5	-78	34	
India		75	0.1	0.1	-2	0	-2		6.5	2	17	51	51	
Philippines		50	-0.4	-1.7	-5	-1	-4		4.3	4	-1	35	67	
Thailand		33	-0.1	-0.8	-4	-4	-8		1.7	-6	-16	25	41	
Malaysia		4.19	-0.2	-0.7	-2	2	-4		3.2	-7	-7	61	65	
Argentina		96	0.0	-0.2	-1	-26	-12		45.3	-58	-7	15	-1086	
Brazil		5.26	0.0	-3.8	-4	2	-1		8.5	15	52	314	291	
Chile		753	-0.5	-1.5	-5	4	-6		4.6	0	40	207	180	
Colombia		3847	-0.8	-1.8	-7	-5	-11		6.7	-8	29	145	167	
Mexico		19.89	0.5	-0.6	-1	14	0		6.9	-9	42	97	132	
Peru		4.0	0.0	-2.0	-1	-11	-9		5.7	37	63	131	206	
Uruguay		44	0.2	-0.7	-1	-1	-4		7.9	0	-5	-194	61	
Hungary		299	0.9	-1.0	-5	5	-1		2.3	-2	4	68	77	
Poland		3.84	0.0	-0.9	-4	3	-3		1.2	3	-6	41	60	
Romania		4.2	0.1	-0.1	-3	3	-4		2.8	4	9	-97	8	
Russia		74.2	0.7	-1.5	-2	-5	0		7.0	5	3	154	131	
South Africa		14.2	0.7	0.1	-4	18	3		9.7	-6	19	-86	2	
Turkey		8.67	0.3	0.3	-1	-21	-14		17.6	11	-67	615	445	
US (DXY; 5y UST)		92	-0.2	0.1	2	-5	3		0.77	-9	2	49	41	

	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		5069	-0.4	0	-3	7	-3		208	6	-1	-35	-21		
Indonesia		6040	0.0	0	-1	20	1		183	11	6	-88	-17		
India		52386	-0.3	0	0	43	10		155	9	11	-94	4		
Philippines		6835	-1.3	-2	-1	10	-4		109	8	12	-59	-3		
Malaysia		1521	0.8	-1	-3	-4	-7		131	8	9	-69	-4		
Argentina		62372	-1.6	1	-8	46	22		1595	28	124	-653	239		
Brazil		125428	-1.3	0	-3	26	5		278	19	30	-96	19		
Chile		4188	0.0	-3	-2	4	0		151	10	3	-63	-5		
Colombia		1284	-0.2	2	2	12	-11		265	13	24	-23	50		
Mexico		49571	-1.0	-2	-2	35	12		349	11	24	-152	-8		
Peru		18638	-0.9	0	-5	12	-10		164	5	-6	-21	35		
Hungary		47885	0.9	1	-1	34	14		148	15	5	-42	-1		
Poland		66912	0.5	0	1	32	17		39	9	0	-11	11		
Romania		11923	0.4	1	5	40	22		193	17	10	-89	-10		
Russia		3865	0.1	0	1	39	18		183	13	14	-44	4		
South Africa		66367	1.7	0	-2	19	12		336	11	25	-192	-48		
Turkey		1379	0.4	0	-5	19	-7		487	22	19	-114	40		
Ukraine		529	0.0	0	0	6	6		516	27	42	-141	23		
EM total		53	0.9	-5	-5	21	2		368	12	17	-62	30		

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

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