



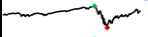







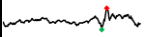
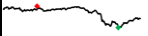

- Survey shows global investors remain pessimistic despite market rebound ([link](#))
- Global GDP forecasted to reach pre-COVID-19 levels by Q4 2020 ([link](#))
- Corporate Bond ETFs in focus as Fed purchases continue ([link](#))
- Speculation the ECB may buy “fallen angels” tightens euro area HY spreads ([link](#))
- Chile expands quantitative easing ([link](#))
- Strong demand for Indonesian government bonds eases funding concerns ([link](#))

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## Optimism on US pushes global markets higher

Markets extended their rally into a fourth day, with government bond yields generally higher and most currencies holding steady although the Brazilian real is noticeably weaker. However, this relatively benign market environment contrasts with rising risks around the world. Tensions between India and China have reached the highest level in years as the two nuclear powers confront each other on their Himalayan border. A new outbreak of COVID-19 in Beijing has forced the closure of schools and caused 70% of local flights to be cancelled, while in Brazil the infection rate is up sharply and the disease is moving from the cities into the interior. Nevertheless, markets appear to be taking their cue from the US, where very strong economic data, Fed corporate bond purchases and hopes of more fiscal stimulus have led to an extended rally despite news that the virus continues to spread in a number of US states and with the death toll approaching 120K. Several investment banks have upgraded their growth forecasts for the global economy. However, recent survey data show that investors remain pessimistic, with 64% expecting a U- or W-shaped recovery and the majority calling this a bear market rally. Hedge fund allocators also had a more pessimistic take on the market.

Key Global Financial Indicators

Last updated: 6/17/20 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3067	1.9	-3	9	8	-3
Eurostoxx 50		3274	1.0	-1	18	-3	-13
Nikkei 225		22456	-0.6	-3	12	6	-5
MSCI EM		40	0.6	-3	10	-3	-12
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.77	0.3	3	11	-134	-116
Germany 10y Yield		-0.42	5.6	-4	16	-13	-19
EMBIG Sovereign Spread		465	-2	-3	-113	104	172
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		55.2	0.1	-2	5	-11	-10
Dollar index, (+) = \$ appreciation		97.1	0.2	1	-3	0	1
Brent Crude Oil (\$/barrel)		40.4	-1.3	-3	24	-34	-39
VIX Index (% change in pp)		32.8	-0.6	5	1	18	19

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

## United States

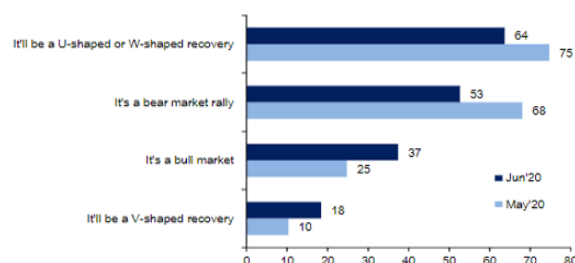
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**Markets continued their rally on hopes of more stimulus from the US administration and in anticipation of Fed purchases of loans and corporate bonds.** The much stronger than expected recovery in retail sales also boosted US markets. Bad news from China and the US on COVID-19 was outweighed by news from the UK about the reported benefits of the steroid drug Dexamethasone for COVID-19 treatment. The S&P 500 is up 4% cumulatively over the past three sessions, almost making up the big 5.9% loss on Thursday. The Treasury selloff also continued with the 10-year yield rising from 0.65% on Monday morning to 0.75% yesterday as the yield curve steepened. In other news, the latest TIC data for April showed that foreigners were net sellers of Treasuries as their holdings fell by \$23 bn. Year to date, their balances shrank by \$101 bn. Investors had a muted reaction to Fed Chair Powell's public testimony to the US Senate. His comments held few real surprises as he emphasized the ongoing uncertainty in the economic outlook, though he did state that economic activity has likely bottomed out. He reiterated that rate hikes are a long way off, negative interest rates are not close to being considered, and the Fed is only in the early stages of studying yield curve control.

**This morning, US housing starts for May came in weaker than expected at 974K versus the 1100K consensus forecast.** The month-on-month number was much weaker than expected 4.3% (vs. 23.5%). The equivalent numbers for building permits were also weaker but more in line with expectations at 1220K (vs. 1245K) and 14.8% (16.8%). Markets were little changed following the data.

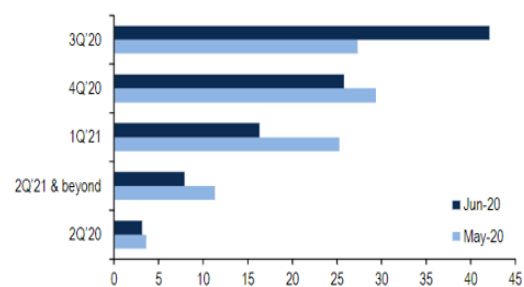
**The June 2020 Fund Manager Survey from Bank of America shows that investors remain pessimistic about the prospects for financial markets and the global economy.** The strong market rebound from the lows of March 23 adds to the negative sentiment, underlining fears that the market could be getting ahead of itself. 64% expect a U- or W-shaped recovery and 53% think this is a bear market rally, while just 18% expect a V-shaped recovery and just 37% see this as a bull market. Overall, investors do not expect global manufacturing PMIs to regain the 50 level until October. However, sentiment has improved in comparison to the May survey and cash buffers saw their biggest drop since 2009. Institutional (i.e. pension, insurance) cash positions are very low and hedge funds have massively increased their exposure to equity markets as they seek to regain momentum after falling behind their benchmarks or return targets earlier in the year when the rebound began.

Exhibit 1: FMS investors still more bearish than bullish



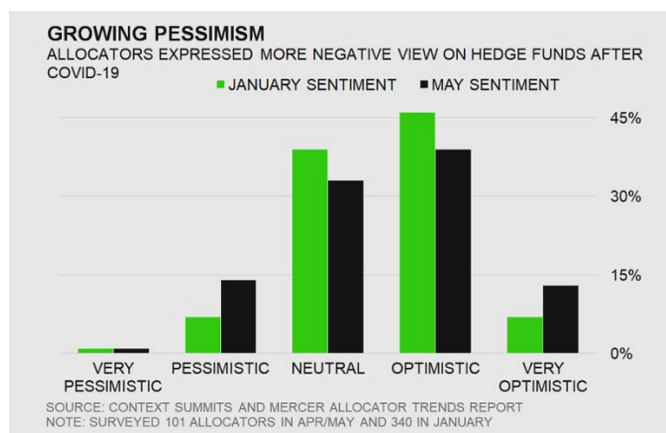
Source: BofA Global Fund Manager Survey

Exhibit 3: When do you think the global manufacturing PMI will return above 50?



Source: BofA Global Fund Manager Survey, Bloomberg

**Recent survey data on allocators to hedge funds also shows growing pessimism, according to Bloomberg.** Those expressing pessimistic views increased to 15% from 8% in January and investors have taken their money out of a number of large hedge funds, including Bridgewater which lost 15% of assets under management, according to press reports. Nevertheless, even for hedge funds, the proportion remaining optimistic stayed at 50% while those who were "very optimistic" increased to 13% from 7% in January.



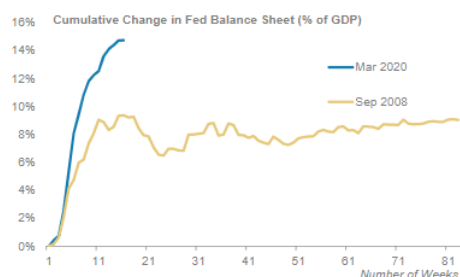
**The global economy will stage a strong rebound and reach pre-COVID-19 GDP levels by Q4 2020 as a V-shaped recovery takes hold in the months ahead, according to forecasts by Morgan Stanley.** Global GDP is projected to shrink by 3.8% in 2020 but will grow by 6.1% in 2021. The US economy will contract by 5.8% in 2020 and grow by 3.9% in 2021. Compared to the global financial crisis, the central bank responses were much larger, more aggressive and more front-loaded, and forward guidance indicates that they will remain in dovish mode for the foreseeable future. The fiscal policy response was also much larger than the previous crisis and served to alleviate the worst impact of the pandemic, especially in the US where Congress sanctioned a \$3 tn stimulus.

Exhibit 1: Morgan Stanley real GDP growth forecasts

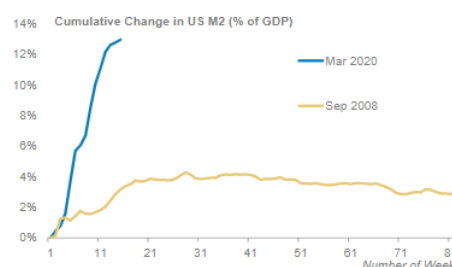
	2019	2020E	2021E
GLOBAL	3.1	-3.8	6.1
DM	1.7	-7.1	4.5
US	2.3	-5.8	3.9
Euro Area	1.2	-9.6	6.5
Japan	0.7	-4.5	1.9
UK	1.4	-9.9	6.4
EM	4.1	-1.6	7.2
China	6.1	2.0	9.2
India	4.9	-1.7	9.0
Brazil	1.1	-7.2	2.9
Russia	1.3	-5.3	3.9

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Aggregates are PPP-weighted.

**In the US, expectations of further fiscal stimulus have enabled markets to mount a strong recovery in recent weeks, encouraged by much stronger than expected data on employment, retail sales and consumer confidence.** The widely followed Citi economic surprise index for the US has hit an all-time high. The current crisis was caused by an exogenous shock unlike previous crises which were triggered by endogenous imbalances, which further supports the optimistic view. Although bankruptcies will rise, credit losses are expected to be manageable on a macro basis for most banks, and most non-bank financial institutions are also likely to prove resilient. However, these forecasts assume that there is no major second wave for the virus that causes a second series of lockdowns. Were this to occur, the analysts concede that all bets are off.

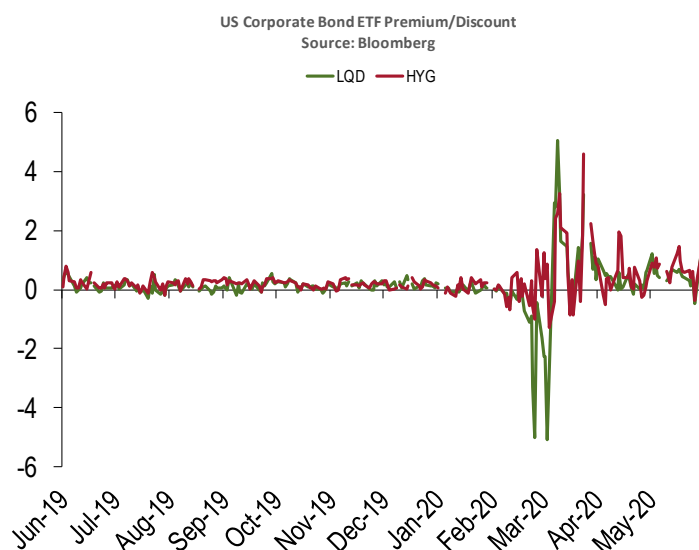
**Exhibit 13:** The Fed's balance sheet expansion...

Source: Federal Reserve Board, Haver Analytics, Morgan Stanley Research

**Exhibit 14:** ...and US M2 growth are much stronger in this cycle compared to the GFC

Source: Federal Reserve Board, Haver Analytics, Morgan Stanley Research

**Markets are closely focused on US corporate bond ETFs, which are being bought by the Fed as part of its [Secondary Market Corporate Credit Facility \(SMCCF\)](#).** In particular, attention is being paid to the funds' net asset values (NAVs) and whether the funds are trading at a premium or a discount to their NAVs. Under normal conditions, ETFs trade very close to their NAVs, but divergences can occur in times of elevated volatility. At the height of the selloff in March selloff, ETFs traded at steep discounts to their NAVs as investors sold the ETFs to hedge their existing corporate bond holdings or reduce their exposure to corporate bonds. Once the Fed announced the SMCCF on March 23, the ETFs traded at high premiums to their NAVs as the markets went into reverse and investors sought to buy the ETFs ahead of the Fed's future purchases of the instruments. Now that conditions have normalized the premiums have largely disappeared. However, Fed purchases of ETFs have been relatively small (\$5.5 bn as of June 9th, as per the latest available data). If the premiums start to rise, it could be because the Fed has stepped up the volume of its ETF purchases. The iShares investment grade corporate bond ETF (LQD) and the iShares high yield corporate bond ETF (HYG) are among the Fed's largest holdings. LQD hit an all-time high on Tuesday.



## Europe

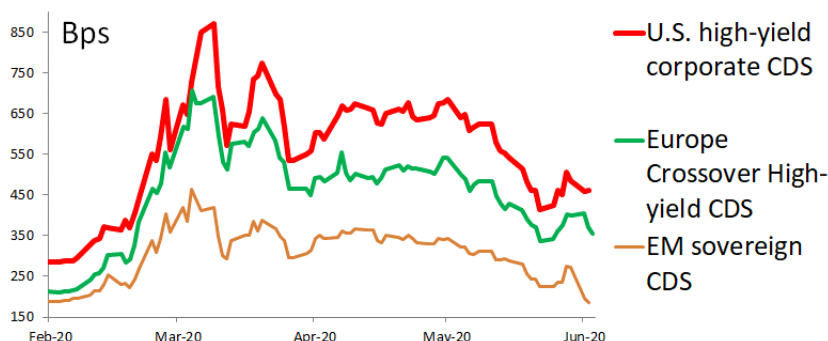
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**European shares (+0.7%) gained ahead of the ECB June TLTRO announcement tomorrow and the summit of EU leaders on Friday.** The euro (-0.2% to \$1.124) edged lower. 10-yr bund yields are 6 bps higher at -0.36% as Germany sold €4.1 bn in 10-yr debt at a yield of -0.38%. French yields are 2 bps higher at -0.03%. The rise in 10-yr bund yields lifted all euro area rates but 10-yr spreads to bunds nevertheless fell as demand for euro area debt has remained robust. Greek 10-yr spreads fell 3 bps to 156 bps. Italian 10-yr spreads are 3 bps lower at 179 bps.

**German Chancellor Merkel expects the EU to agree on an EU recovery fund in July.** Some contacts remain skeptical that an agreement can be reached so quickly given the persistent opposition of at least four countries on the grant-based element of the French-German proposal. Writing in the FT, the leaders of Sweden, Denmark, Austria and the Netherlands said that they fully support the creation of a time-limited emergency recovery fund but that the “fundamentally sound way to use that money is to convert it into loans.”

**Crossover high-yield spreads fell 17 bps today to 354 bps, a noteworthy 50 bps below Monday’s high of 405 bps.** Comments by ECB GC member Fabio Panetta that the ECB has not discussed the purchase of bonds of “fallen angels” (bonds of companies downgraded to junk) in the Governing Council but will consider doing so if necessary, supported sentiment. Investment-grade CDS spreads are 2 bps lower at 63 bps.

### Global CDS Credit spreads (Corporate and EM)



Note: Europe Crossover high-yield index comprises 75 equally weighted credit default swaps on the most liquid sub-investment grade European corporate entities.

U.S. high-yield is composed of 100 non-investment grade corporates (B and BB).

EM CDS covers 18 sovereign issuers.

Source: Bloomberg, and IMF staff

## Other Mature Markets








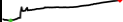



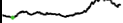


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**COVID worries refocused investor attention, with markets slightly weaker on the day.** The Topix declined (-0.4%) after staging its biggest rally in three months yesterday. Meanwhile, JGB yields inched higher at the long end amid expectations that the issuance of super-long bonds is set to increase starting in July. The yield on the 30-year bond rose 2 bps to 0.55% while the 2-year note was up 0.5 bps to -0.18%. **Exports in May fell by a bigger-than-expected margin.** The value of overseas shipments fell 28.3%, y/y, the most since 2009 (consensus: -26.1%, y/y). Notably, shipments to the U.S. slid by about half amid the COVID slump. **The yen was little changed.**

## Emerging Markets [back to top](#)

**Asian markets were more muted following sizable gains yesterday; equities inched higher while currencies were mixed.** China is escalating containment measures as it looks to bring the COVID outbreak in Beijing under control. All schools in Beijing were closed and more than 1,200 flights in and out of Beijing, or roughly 70% of planned trips, were canceled. **In EMEA, equities were mixed with stocks sharply higher in South Africa (+2.6%), muted gains in Russia (+0.4%) and small losses in Turkey and Hungary.** The South African rand (+0.8%) gained but other currencies such as the Russian ruble and Israeli shekel are range trading. Weaker than expected industrial production in Russia boosted expectations that the central bank will cut 100 bps (to 4.5%) on Friday and provide further dovish guidance. **Latin American equities gained, while most currencies depreciated.** Spreads to US treasuries widened for sovereign local currency debt and narrowed for sovereign debt denominated in dollars.

Key Emerging Market Financial Indicators

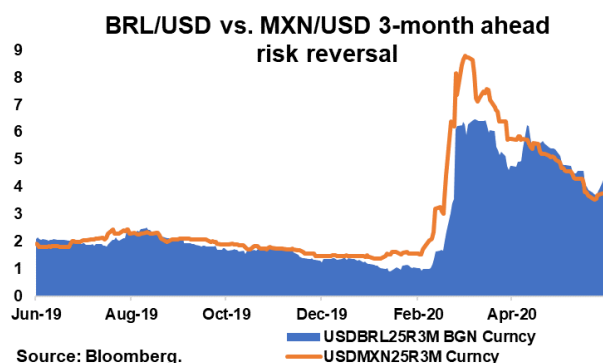
Last updated: 6/17/20 8:10 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		39.53	0.6	-3	10	-3	-12
MSCI Frontier Equities		23.61	0.0	-4	6	-19	-22
EMBIG Sovereign Spread (in bps)		465	-2	-3	-113	104	172
EM FX vs. USD		55.25	0.1	-2	5	-11	-10
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.09	0.0	0	0	-2	-2
Indonesian Rupiah		14083	0.0	-1	5	2	-2
Indian Rupee		76.17	0.1	-1	0	-8	-6
Argentina Peso		69.62	-0.3	-1	-3	-37	-14
Brazil Real		5.20	0.8	-4	10	-25	-23
Mexican Peso		22.20	0.6	-2	7	-14	-15
Russian Ruble		69.62	0.1	-2	4	-8	-11
South African Rand		17.12	0.7	-3	7	-13	-18
Turkish Lira		6.86	-0.2	-1	0	-14	-13
EM FX volatility		10.84	0.0	1.4	-0.6	2.4	4.2

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

## Brazil

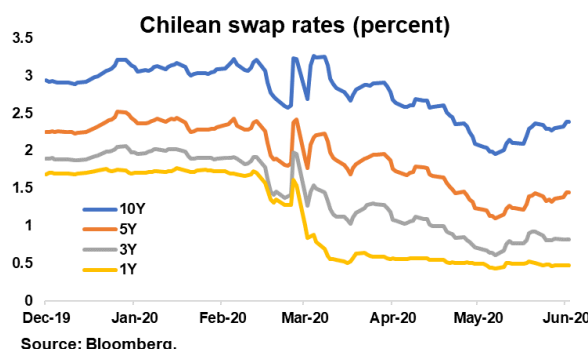
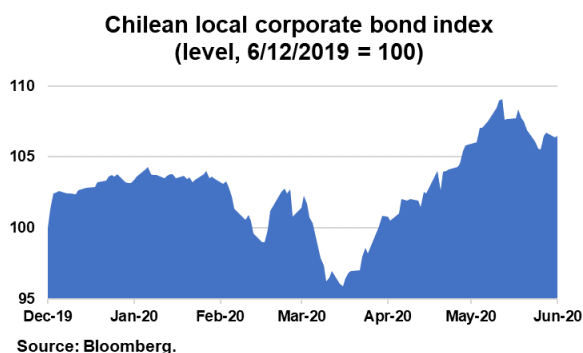
**Brazil joined the growing list of Latin American countries experiencing larger than expected declines in activity.** April retail sales growth came in at -16.8% yoy, 2.7% worse than expected, while retail sales including construction material and the auto industry fell even more (-27.1% yoy). Inflation rates surprised on the upside, -0.13% wow and 1.55% mom (vs. -0.24% and 1.48% respectively). The combination of declining sale volumes and low inflation highlights constraints on economic demand and supply, which are expected to last as long as COVID-19 continues to spread, with the daily growth rate in infected cases currently at 2.2%. Continued political turmoil around the correct approach to handle the pandemic continues to unsettle markets, as 3-month ahead risk reversals indicated that depreciation risks in Brazil are now higher than in Mexico. All eyes are on the central bank and tomorrow's decision on changes in its monetary policy stance, with most analysts expecting a further policy rate cut by somewhere in between 50 to 75bps.





## Chile

**Chile's monetary policy rate remained unchanged, while quantitative easing was intensified.** In line with market consensus Banco Central de Chile kept its policy rate unchanged at 0.5%, but it announced an expansion in quantitative measures of up to 10% of GDP: a special asset purchase program providing a liquidity support of \$8 bn to be released over 6 months and a topping up of its conditional facility for increased lending by \$16 bn, available over the next 8 months. The additional monetary stimulus complements the \$12 bn increase in the country's fiscal stimulus announced over the past weekend. Markets appeared to have anticipated the bank's decision, with the local corporate bond market rallying over the past week as the free float in bond markets is expected to shrink.



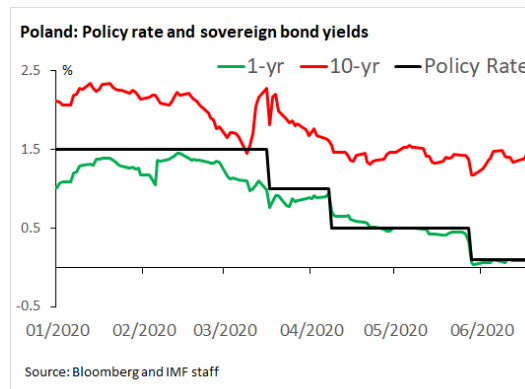
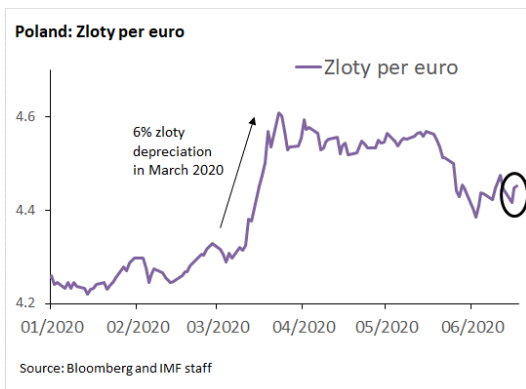
## Indonesia

**Indonesian's dollar bond sale garnered strong investor demand, easing funding concerns.** The government's third dollar-denominated debt offering for the year received a bid-to-cover ratio of roughly 7x and brought the total amount of dollar bonds issued offshore so far this year to \$8.8 bn. In yesterday's sukuk auction of \$2.5 bn, the authorities received a bid-to-offer ratio of 4.2x, near the strongest interest seen in more than 4 years. Analysts note that expectations for BI to ease by 25 bps at its meeting on Thursday boosted demand. Meanwhile, foreign inflows remain positive, despite some outflows in the past week, with net inflows totaling \$48 mn over the past 20 days. The USD-denominated 5-year note fell 1 bps to 2.06% while the local currency 5-year note fell 1 bp to 6.67%. In early April, the yield on the local currency 5-year note was 7.66%. The rupiah was little changed.

## Poland

**The zloty depreciated 0.7% against the euro after the central bank (NBP) pushed back against recent currency strength in its statement yesterday,** pointing to "the lack of visible zloty exchange rate adjustment to the global pandemic shock and the monetary policy easing introduced by the NBP." **The NBP**

left its reference rate unchanged yesterday at 0.1% (as expected) but will continue to buy government securities and government-guaranteed debt securities in secondary market with timing and scale depending on the market conditions. The NBP will also offer discount credits aimed directly at companies. Analysts at ING expect QE to reach 8-10% of GDP in December 2020 (from about 5% GDP currently). Contacts believe that FX intervention and/or a more aggressive QE program could be used to fight further zloty appreciation, with negative rates not the first choice. 10-yr local rates are 6 bps higher today, and equities are little changed.





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## Global Financial Indicators

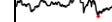





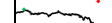













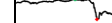
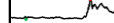


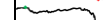


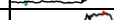

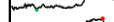

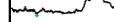
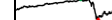



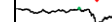

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<b>Equities</b>			%				%
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Europe		3274	1.0	-1	18	-3	-13
Japan		22456	-0.6	-3	12	6	-5
China		2936	0.1	0	2	2	-4
Asia Ex Japan		68	1.0	-2	8	3	-7
Emerging Markets		40	0.6	-3	10	-3	-12
<b>Interest Rates</b>			basis points				
US 10y Yield		0.77	0.3	3	11	-134	-116
Germany 10y Yield		-0.42	5.6	-4	16	-13	-19
Japan 10y Yield		0.02	0.0	0	2	14	3
UK 10y Yield		0.22	1.3	-5	-1	-63	-60
<b>Credit Spreads</b>			basis points				
US Investment Grade		148	0.3	-4	-60	14	48
US High Yield		601	-3.6	4	-158	130	187
Europe IG		63	-2.0	-4	-21	2	19
Europe HY		359	-11.4	-16	-145	84	152
EMBIG Sovereign Spread		465	-2.0	-3	-113	104	172
<b>Exchange Rates</b>			%				
USD/Majors		97.11	0.2	1	-3	0	1
EUR/USD		1.12	-0.2	-1	3	0	0
USD/JPY		107.4	-0.1	0	0	1	1
EM/USD		55.2	0.1	-2	5	-11	-10
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		40	-1.3	-3	24	-34	-39
Industrials Metals (index)		102	0.4	-2	9	-7	-11
Agriculture (index)		35	-0.5	-1	1	-18	-16
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		32.8	-0.6	5.5	1.2	17.7	19.3
10y Treasury Volatility Index		4.7	-0.3	0.0	0.0	-0.7	0.6
Global FX Volatility		8.7	0.0	0.6	-0.2	2.1	2.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		156	-2.9	-18	-104	-140	-10
Italy		178	-4.9	-11	-62	-77	18
Portugal		92	-3.5	-5	-49	4	29
Spain		93	-2.9	-8	-36	16	28

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: 6/17/2020 8:12 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		7.09	0.0	-0.4	0	-2	-2		2.9	5.1	-1	32	-40	-26		
Indonesia		14083	0.0	-0.7	5	2	-2		7.3	-6.1	-6	-47	-42	19		
India		76	0.1	-0.8	0	-8	-6		6.1	2.0	2	-8	-94	-77		
Philippines		50	0.0	-0.4	2	4	1		4.1	1.0	-4	-39	-90	-18		
Thailand		31	-0.2	-0.2	3	1	-5		1.5	4.9	1	13	-81	-15		
Malaysia		4.28	-0.1	-0.7	2	-2	-4		2.9	-1.0	-9	4	-85	-50		
Argentina		70	-0.3	-0.6	-3	-37	-14		48.4	-46.5	48	578	1845	-1421		
Brazil		5.20	0.8	-4.4	10	-25	-23		5.3	7.1	0	-76	-180	-93		
Chile		785	0.1	-2.0	5	-11	-4		2.7	2.9	1	18	-73	-55		
Colombia		3747	1.0	-2.4	3	-12	-12		5.8	9.0	39	17	-1	-16		
Mexico		22.20	0.6	-1.6	7	-14	-15		6.2	3.8	-17	-1	-153	-73		
Peru		3.5	-0.1	-1.1	-2	-4	-5		4.3	0.1	-2	2	-51	-17		
Uruguay		43	0.4	0.1	3	-17	-12		10.1	-4.5	0	-108	-95	-77		
Hungary		307	-0.1	-1.6	5	-6	-4		1.7	3.5	-4	10	0	51		
Poland		3.96	-0.2	-1.0	6	-4	-4		0.9	-0.1	-2	-2	-115	-99		
Romania		4.3	-0.2	-1.3	3	-2	-1		3.7	-1.0	0	-26	-35	-27		
Russia		69.6	0.1	-1.5	4	-8	-11		5.3	-5.1	-6	0	-214	-78		
South Africa		17.1	0.7	-3.5	7	-13	-18		10.2	0.0	18	-14	76	69		
Turkey		6.86	-0.2	-1.1	0	-14	-13		10.6	-11.6	-19	-132	-858	-111		
US (DXY; 5y UST)		97	0.2	1.3	-3	0	1		0.34	-0.2	3	3	-151	-135		

	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		2936	0.1	0	2	2	-4		228	1	-1	-23	47	52
Indonesia		4988	0.0	1	11	-19	-21		255	-3	-3	-77	58	99
India		33508	-0.3	-2	8	-14	-19		242	-1	11	-69	91	117
Philippines		6282	0.0	-5	13	-21	-20		155	0	-1	-29	70	89
Malaysia		1526	0.6	-3	9	-7	-4		187	-1	7	-63	55	75
Argentina		42686	-1.7	-13	8	5	2		2523	6	-2	-314	1668	754
Brazil		93531	1.3	-4	21	-4	-19		363	4	9	-86	117	148
Chile		3940	1.2	-3	9	-22	-16		209	3	-1	-59	72	76
Colombia		1155	1.0	-5	10	-24	-31		281	3	2	-80	90	118
Mexico		37894	1.3	-3	6	-12	-13		494	-2	5	-123	152	202
Peru		17020	0.2	-2	12	-16	-17		184	4	5	-58	55	77
Hungary		37799	-0.7	1	11	-7	-18		164	2	2	-53	68	78
Poland		50276	-0.2	-2	13	-15	-13		52	-5	-9	-42	5	34
Romania		8723	0.0	-1	7	3	-13		285	-14	6	-67	93	112
Russia		2753	0.2	-2	6	1	-10		203	3	-8	-46	-9	72
South Africa		53855	3.0	-1	9	-7	-6		487	-5	-3	-137	172	167
Turkey		111021	0.1	1	11	20	-3		570	-4	1	-120	26	169
Ukraine		499	0.0	0	0	-10	-2		603	2	-2	-127	39	183
EM total		40	0.6	-3	10	-3	-12		465	-2	-3	-113	104	172

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

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