



- China raises its FX required reserve ratio in sign of concern over RMB strength ([link](#))
- Eurozone inflation reached 2% in May ([link](#))
- Peru's pre-poll survey shows a tight race as Fujimori gains ground ([link](#))
- EM fund flows rebound on the week ([link](#))
- The Reserve Bank of Australia keeps rates unchanged, as expected ([link](#))

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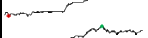
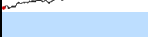






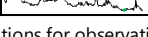
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Stocks rise with oil after US holiday

Financial markets move higher to start the month of June on manufacturing optimism and rising oil prices. Global equities are up this morning toward new record highs in most major markets, led by Europe, adding to broad-based gains over the US holiday yesterday and last Friday. The gains in part reflect fresh confirmation of a continued economic recovery, with new manufacturing data in Europe showing strong demand and signs that output continues in Asia despite virus disruptions. Commodity prices are gaining, with oil up 2.3% on a bullish forecast from the OPEC+ alliance and metals remaining elevated over recent days, helping lift commodity-linked share prices. Friday's news of the Biden administration's \$6 tn budget has also helped underpin risk sentiment in recent days. The dollar is little changed and benchmark yields are slightly higher but still within their recent narrow ranges. After falling in recent weeks, market-implied measures of inflation in the US have stabilized and turned slightly higher, roughly 10 bps below their May multi-year highs.

Key Global Financial Indicators

Last updated: 6/1/21 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4204	0.1	1	1	38	12
Eurostoxx 50		4100	1.5	2	3	33	15
Nikkei 225		28814	-0.2	1	0	29	5
MSCI EM		55	0.6	3	2	42	6
Yields and Spreads			bps				
US 10y Yield		1.62	2.4	6	-1	96	70
Germany 10y Yield		-0.19	0.2	-2	2	22	38
EMBIG Sovereign Spread		331	-1	-2	-11	-189	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.9	-0.1	0	2	6	0
Dollar index, (+) = \$ appreciation		89.9	0.0	0	-2	-8	0
Brent Crude Oil (\$/barrel)		70.9	2.3	3	5	85	37
VIX Index (% change in pp)		17.1	0.4	-1	-1	-10	-6

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

In the week ahead, the highlight of the data calendar will be US non-farm payrolls, due this Friday, which will be critical for the Fed as it contemplates withdrawal of US stimulus. A number of manufacturing indicators for the US are also due later today. Hungary and India announce interest rates on central bank facilities on Thursday and Friday correspondingly.

Mature Markets

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United States

On Friday, **US equities were flat** near their historical record, supported by President Joe Biden's budget proposal with more than \$6 trillion in spending over the coming fiscal year. 10-year Treasuries continue to trade in a relative tight range, and are up several basis points this morning from their monthly low last week of 1.56%. US equity futures are pointing to gains of around 0.4%.

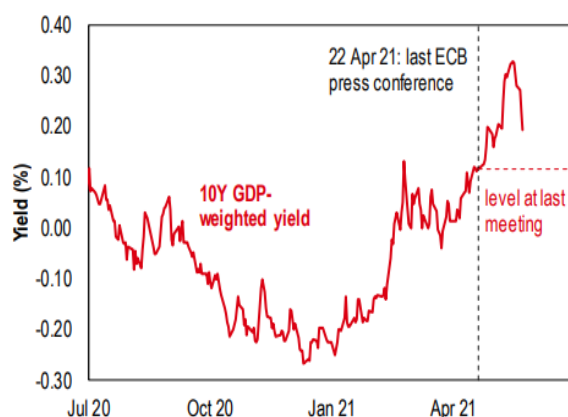
Europe

European equities started the month with broad-based gains. STOXX 600 benchmark was up 1.1% while the German Dax gained 1.5%. On the sector level, metals (+3.7%) and energy shares (+2.5%) continue to benefit from commodity price increases. In terms of May performance, European consumer goods and retail were the top performing sectors, gaining more than 6% as compared to 2.1% for the total index.

European bond yields were mostly unchanged except for Italy where credit spreads tightened by 2 bps over German bunds. Italy's Q1 GDP delivered a positive surprise this morning as the final growth estimate was revised higher from 0.4% qoq contraction to a 0.1% increase.

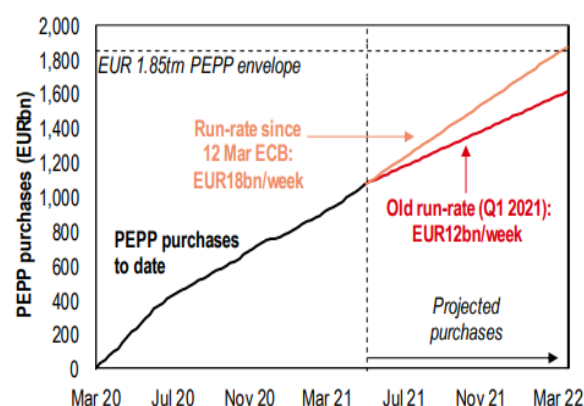
Over the last week, **sell-side analysts have become more constructive on Eurozone fixed income markets**. Some market participants noted that expectations of ECB's policy tightening might have gone too far, considering the dovish push-back from some of the Governing Council members. Contacts note, however, that recent underperformance of bonds as compared to swaps also reflects increased supply dynamics. Revised national issuance plans as well as more certainty around the NGEU supply are potentially weighting on the market. According to press reports, **the first €10 bn issuance for the Recovery Fund could take place already in June**.

Figure 3. GDP-weighted sovereign yields have risen



Source: Bloomberg, HSBC. GDP-weighted 10Y yield for DE, FR, IT, ES, NL, BE, AT, IE, FI, PT, GR

Figure 4. ECB can maintain PEPP run-rate until Mar 22

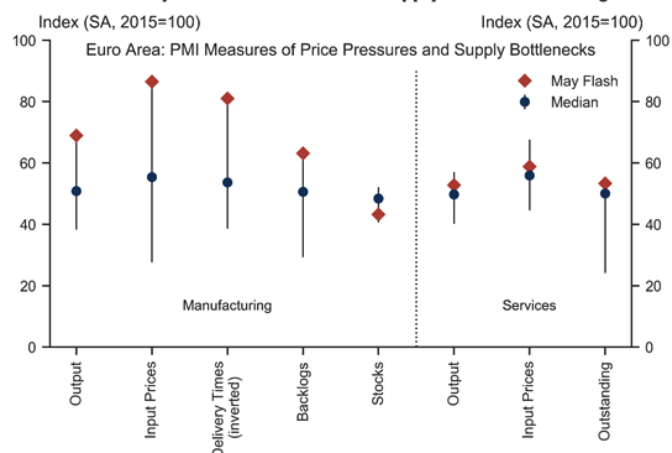


Source: Bloomberg (ECB data), HSBC calculations

Eurozone inflation accelerated to 2% yoy in May, exceeding analyst expectations. Core inflation picked up in line with consensus to 0.9% yoy as most of the headline price growth is driven by energy price base effects. Following yesterday's German inflation release (2.5% yoy vs 2.3% consensus), some analysts also

noted large increases in volatile seasonal items such as package holidays, reinforcing the ECB's case that the current inflation surprises are transitory. **Analysts broadly expect inflation to increase in the coming months** with some upside risk due to supply distortions as well as other one-off re-opening effects.

Exhibit 2: A Battery of Indicators Points to Supply Distortions During Covid-Reopening



Source: Goldman Sachs Global Investment Research, Markit

Australia

The Reserve Bank of Australia (RBA) left the cash rate and three-year yield target at 0.10% unchanged, as expected. The RBA will make a decision in the July on whether to extend the yield curve control target and undertake further quantitative easing. The RBA also highlighted that inflation and wage pressures are subdued despite the strong recovery in economic activity and jobs. It reiterated that conditions to hike interest rates are unlikely to be met until 2024 at the earliest. The conditions include actual inflation being sustainably within the 2% to 3% target range and this would require the labor market to be tight enough to generate wage growth that is materially higher than it is currently. **The Australian dollar appreciated +0.2%, 10-year bond yield fell 2bps and equities dropped -0.3%.**

Japan

Equities rose +0.2%, supported by electronics and autos. Capital expenditure fell by -7.8% y/y in Q1, compared with a decline of -4.8% in Q4, driven by cutbacks by services companies. Japan is preparing to hold the Olympics next month with some spectators present, according to Bloomberg citing TV Asahi. Spectators would be required to provide a negative virus test or a vaccination certificate while fans from overseas are not allowed to see the events in person. **The yen and 10-year JGB yield were little unchanged.**

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Asian equities rose (+0.6%) on broad-based gains. Thailand (+1.5%) outperformed following the cabinet's approval of economic stimulus of THB140 bn (\$4.5 bn), which includes cash handouts, to be implemented from July. Hong Kong SAR (+1.1%) also led. **Regional currencies were mixed, with the Korean won (+0.4%) strengthening while the Indian rupee (-0.3%) weakened.** Meanwhile, **India's** real GDP expanded by 1.6% y/y in Q4 of fiscal year 2021, up from 0.5% in Q3, bringing the full-year contraction to -7.3%, better than expected. **Malaysia** has entered a two-week 'total lockdown' from June 1 to June 14. Essential and service sectors will be allowed to operate while certain manufacturing-related sectors can operate with 60% capacity. To cushion the economic impact, Malaysia also announced a new economic stimulus package worth MYR40 bn (\$9.7 bn), aimed at boosting health-care capacity, increasing cash aid and ensuring business continuity.

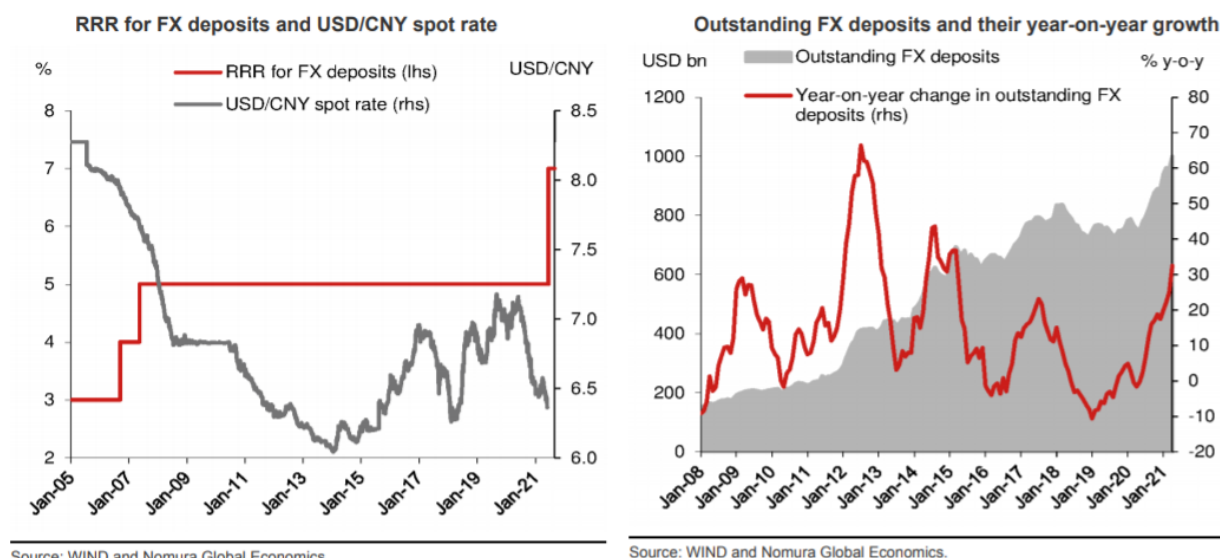
Most EMEA bourses traded higher on Tuesday, led by gains in Hungary (+1.7%), Russia (+1.4%), South Africa (+1.3%), and UAE (+1.3%). Egypt (-0.7%) and Bahrain (-0.5%) bucked the trend and posted some losses. In FX, moves were varied but contained within a tight range. The largest move was the weakening of the Turkish lira (-0.5%) to 8.5 against the dollar.

Markets in Latin America were mixed. Markets in Brazil and Chile closed higher. According to a survey by Brazil's central bank, economists have revised their 2021 GDP growth estimates upwards from 3.52% to 3.96%. Chile's markets were up (equities +2.3% and currency +0.2% against the dollar) on dovish interest rate communication from the country's central bank. While equities in Mexico and Peru traded higher (+1.7% and 0.1%, respectively), their currencies closed lower against the dollar (-0.1% and -0.7%, respectively).

China

China's central bank will raise the reserve requirement ratio for foreign exchange deposits for onshore commercial banks to 7% from 5%, effective June 15. This marked the first hike since 2007, with the People's Bank of China (PBOC) saying that the move will help liquidity management. Analysts said that the hike is a signal regarding the PBOC's increasing concerns over the currency's appreciation. They estimated that the hike will withdraw \$20 bn of FX liquidity from the onshore banking system but see limited impact and remained broadly constructive on the RMB. **The RMB was little changed.**

Separately, **China's finance ministry is reportedly considering a new holding company for its bad debt managers**, according to Bloomberg. It considers transferring its shares in China Huarong Asset Management Co. and three other bad-debt managers to a new holding company modeled after the one that owns the government's stakes in state-run banks. This proposal was first tabled three years ago. The authorities are also discussing whether to bring in more external investors. Meanwhile, China announced that it will allow all couples to have a third child. **Equities (Shanghai +0.3%; Shenzhen +0.4%) rose.**



EM fund flows

Flow of funds into EMs rebounded on the back of inflows into hard currency bonds and positive equity flows. In the last week, EMs saw an inflow of \$2.7 bn, of which \$1.7 bn were in bonds and \$0.97 bn in equities. The growth in bonds was driven by a strong comeback of hard-currency bonds flows (\$1 bn), and the local currency bond flows continued to grow (\$0.66 bn). Flows into EM equities turned positive last

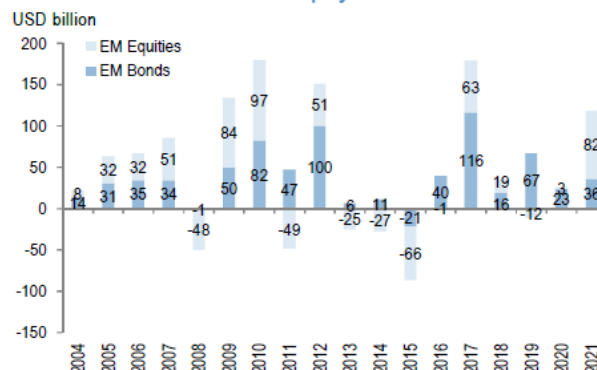
week, as markets in Asia ex-Japan saw an inflow (\$517 mn.). However, equities in EMEA and Latin America continued to register outflows. With this, the YTD fund flows into EMs stand at \$118 bn.

Exhibit 1: Weekly Cross-Asset Flows

USD billion			
Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		2.7	117.3
EM Bonds		1.7	36.1
Hard Ccy		1.0	17.2
Local Ccy ^A		0.7	18.8
o.w. EM ex-China		0.2	4.0
o.w. China		0.4	12.8
EM Equities		1.0	81.2
US HG		-0.2	170.1
US HY		-0.7	-9.3
Global Equities		13.7	246.7
EM Bond and Equity ETFs		1.3	42.2
EM Bond ETFs		0.6	7.8
EM Equity ETFs		0.7	34.4
Non-resident EM flows*		-0.4	-42.9
EM Local Bonds		0.0	-10.1
EM Equities		-0.5	-32.7

*High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows

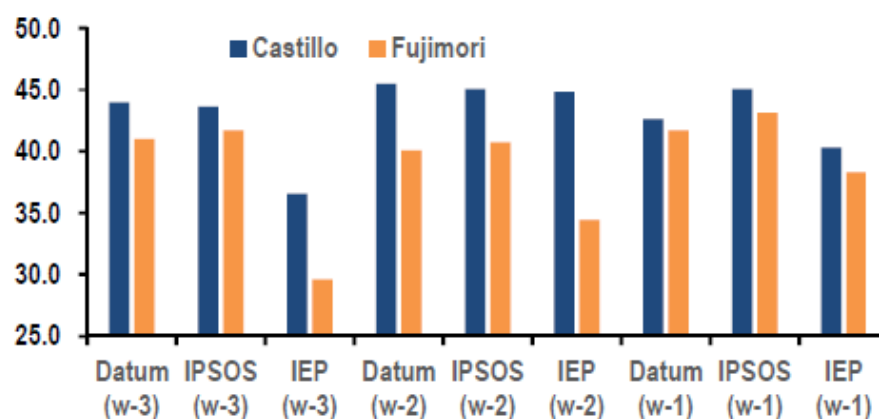


Peru

A pre-poll survey points to a tight race in the second round of presidential elections. Ahead of the second and final round of elections on June 6th, leading agencies' surveys show Pedro Castillo, a left leaning candidate, in the lead with 40.3% - 43.9% of the votes. Keiko Fujimori, who is perceived to be a more market-friendly candidate, is estimated to have 38.3% - 42.4% of vote share. In addition, the recent results show an increase in Fujimori's vote share in the past one week (up 2% - 3.9%). These polls were conducted by Datum, IPSOS and IEP.

Figure 1: Runoff simulations & surveys

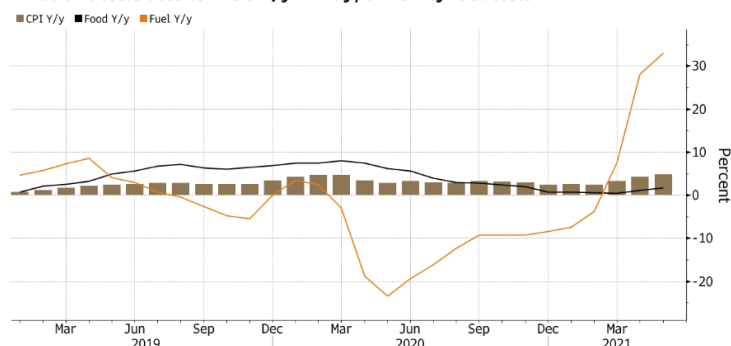
% vote intention



Source: JPMorgan

Poland



















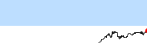
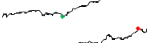





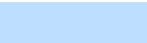


Polish inflation accelerated to 4.8% y/y in May, reviving the debate on the future stance of the central bank. Headline prices grew on the back of higher fuel costs. Some market analysts are reassessing whether the central bank will be able to maintain its policy rate at 0.1% through 2021 and into 2022, as signaled in various communication. Governor Glapinski has reiterated that the spike in prices is temporary. Adding to concerns about an overheating economy, the manufacturing PMI accelerated to 57.2 in May, from 53.7 the prior month. The Central Bank of Poland meets again on June 9.

Inflation accelerates to 4.8% Y/y in May, driven by fuel costs

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Global Financial Indicators

Last updated: 6/1/21 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4209	0.1	0	1	38	12
Europe		4100	1.5	2	3	33	15
Japan		28814	-0.2	1	0	29	5
China		3625	0.3	1	5	24	4
Asia Ex Japan		94	0.5	3	1	43	5
Emerging Markets		55	0.6	3	2	42	6
Interest Rates			basis points				
US 10y Yield		1.62	2.4	6	-1	96	70
Germany 10y Yield		-0.19	0.2	-2	2	22	38
Japan 10y Yield		0.08	-0.4	1	-1	7	6
UK 10y Yield		0.81	1.6	3	-3	58	61
Credit Spreads			basis points				
US Investment Grade		90	-0.4	-2	-1	-81	-5
US High Yield		338	-2.8	-9	10	-306	-42
Europe IG		49	-1.2	-2	-1	-21	1
Europe HY		241	-5.8	-13	-8	-172	-2
Exchange Rates			%				
USD/Majors		89.87	0.0	0	-2	-8	0
EUR/USD		1.22	0.0	0	1	10	0
USD/JPY		109.6	0.1	1	1	2	6
EM/USD		57.9	-0.1	0	2	6	0
Commodities			%				
Brent Crude Oil (\$/barrel)		71	2.3	3	5	85	37
Industrials Metals (index)		161	-0.2	4	4	64	21
Agriculture (index)		59	2.0	3	1	70	23
Implied Volatility			%				
VIX Index (%, change in pp)		17.1	0.4	-1.3	-1.5	-10.4	-5.6
US 10y Swaption Volatility		67.2	3.1	0.8	-4.8	7.7	7.1
Global FX Volatility		7.1	0.0	-0.1	0.0	-0.8	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-0.6	-6	-18	-91	-18
Italy		107	-3.1	-6	-4	-82	-5
Portugal		64	-1.2	-3	-5	-28	4
Spain		64	-1.1	-2	-4	-34	2

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

Emerging Market Financial Indicators

Last updated: 6/1/2021 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.38	-0.2	0.4	1	12	2		3.2	0.4	2	-5	49	-8
Indonesia		14280	0.0	0.5	1	2	-2		6.4	-4.5	-5	-12	-104	33
India		73	-0.4	-0.2	1	4	0		6.3	2.9	5	-1	22	37
Philippines		48	-0.1	0.8	1	5	1		4.3	0.0	2	10	-1	64
Thailand		31	0.1	0.6	0	2	-4		1.9	1.6	2	-1	47	54
Malaysia		4.13	0.0	0.4	-1	5	-3		3.3	2.0	2	3	54	74
Argentina		95	-0.1	-0.4	-1	-28	-11		45.9	1.3	29	-56	68	-1022
Brazil		5.20	0.4	2.5	5	3	0		8.0	5.7	-32	12	260	246
Chile		722	0.2	1.0	-2	10	-2		3.9	0.0	-4	17	152	114
Colombia		3710	0.0	0.9	1	0	-8		6.8	-0.5	-17	30	143	171
Mexico		19.89	0.3	0.1	1	11	0		6.6	-6.2	-17	-18	37	105
Peru		3.8	-0.7	-0.7	-1	-11	-6		4.8	-0.1	-9	-40	54	122
Uruguay		44	0.2	0.5	0	-1	-3		8.2	31.2	55	81	-214	96
Hungary		283	0.3	0.6	5	9	5		2.3	1.1	-5	31	75	77
Poland		3.65	0.3	0.3	3	8	2		1.3	0.7	9	25	53	63
Romania		4.0	0.0	-0.1	1	8	-1		2.7	-1.0	-3	11	-104	-2
Russia		73.5	-0.2	-0.1	2	-6	1		6.8	1.3	4	6	150	111
South Africa		13.8	-0.2	0.8	5	26	7		9.7	-2.9	-6	-42	-11	7
Turkey		8.52	-0.4	-0.7	-3	-20	-13		18.1	0.4	38	36	677	498
US (DXY; 5y UST)		90	0.0	0.0	-2	-8	0		0.81	1.5	4	-3	51	45

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5342	0.2	0	4	34	3		199	0	-2	-9	30	-9
Indonesia		5947	0.0	3	-1	25	-1		158	0	-9	-25	-5	-29
India		51935	0.0	3	6	54	9		149	-5	-7	-11	-107	-2
Philippines		6627	0.0	7	4	10	-7		83	0	-9	-17	13	-22
Malaysia		1586	0.1	1	-1	5	-3		113	0	-2	-3	9	3
Argentina		59269	0.0	4	21	48	16		1459	0	19	8	-570	91
Brazil		126216	0.0	2	6	42	6		253	0	0	-16	58	3
Chile		4356	0.0	6	-3	18	4		126	0	-6	-16	-14	-18
Colombia		1201	0.0	0	-4	8	-16		207	0	-4	-15	44	2
Mexico		50886	0.0	3	6	38	15		348	0	-9	-34	55	-12
Peru		21042	0.0	3	8	34	1		133	0	-4	-3	22	1
Hungary		47114	1.7	3	9	31	12		65	0	-6	-15	-42	-31
Poland		66498	0.4	4	9	37	17		-22	0	-4	-11	-54	-21
Romania		11431	0.0	-3	1	31	17		177	1	-5	-9	-152	-26
Russia		3776	1.5	2	7	37	15		159	0	-5	-3	19	-7
South Africa		68882	1.3	4	3	35	16		357	0	-4	-35	25	-23
Turkey		1424	0.3	2	2	33	-4		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		55	1.8	3	2	42	6		421	0	17	-10	97	128

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

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