GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JUNE 11, 2021

- **Decline in US breakeven rates suggest inflation concerns have moderated** (link)
- **ECB forecasts inflation below target at end of forecast horizon** (link)
- **Central Bank of Russia hikes rates 50 bps, as expected** (link)
- **Bank of Korea signals coming monetary policy normalization** (link)
- **Peru's monetary policy rate remains unchanged, as expected** (link)

Mature Markets | Emerging Markets | Market Tables

Easing inflation fears spur rally

Global bonds and risk assets rise as investors shrug off the latest upside inflation surprises. Despite the highest consumer inflation print in a decade, 10-year US Treasury yields fell another 6 bps yesterday to a three-month low (1.44%). This capped their best weekly performance in a year, down 18 bps from last Thursday's close, and has helped lead gains in government bond prices globally. Market commentary suggests that unwinding of bets on higher yields has been one technical factor supporting the rally, but investors also appear to have bought into the Fed's call that inflation will be transitory. Market-implied measures of inflation and bets on future rate hike have moderated notably in recent weeks, and particularly since the underwhelming jobs report last Friday. Whatever the cause, lower yields have bolstered risk sentiment across markets. Global equities are broadly higher, led by US shares and tech firms. EM currencies have rallied and implied volatility is falling across equity and currency markets.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
6/11/21 8:05 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4239	0.5	1	2	41	13
Eurostoxx 50		4115	0.5	1	4	31	16
Nikkei 225		28949	0.0	0	3	30	5
MSCI EM		55	0.8	0	4	42	7
Yields and Spreads					bps		
US 10y Yield		1.45	1.5	-11	-17	78	53
Germany 10y Yield		-0.27	-1.8	-6	-11	14	30
EMBIG Sovereign Spread		332	2	4	1	-134	-18
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		58.3	-0.1	0	1	5	1
Dollar index, (+) = $ appreciation		90.3	0.3	0	0	-7	0
Brent Crude Oil ($/barrel)		72.6	0.1	1	6	88	40
VIX Index (%, change in pp)		15.8	-0.3	-1	-6	-25	-7

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

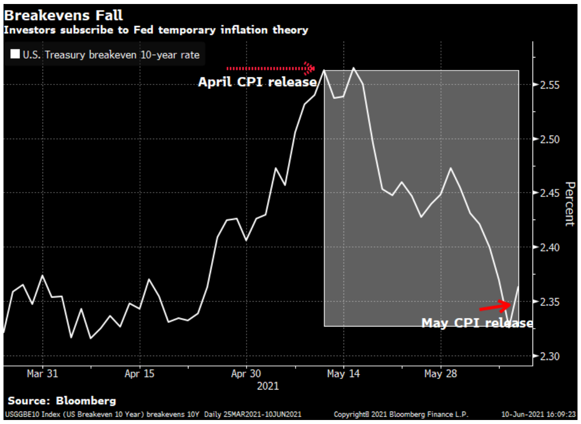
Mature Markets

back to top

United States

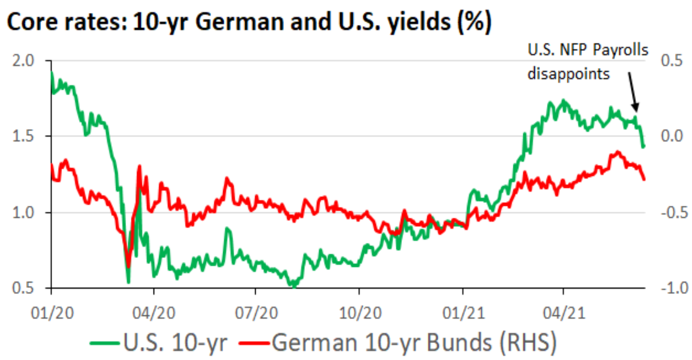
Treasury yields extended their moves downward, reaching a three-month low. Despite a strongest-in-a-decade May CPI print in the morning (+5% y/y vs expectations for +4.7%), UST 10y yields were down by -6 bps, extending moves that began after last Friday's underwhelming employment data. The dollar index weakened and equities rallied (+0.5%) toward all-time highs, led by tech and health care stocks.

Breakeven rates suggest investors expect inflationary pressures to be transitory. May's CPI beat was driven by strong price growth in reopening-related categories, notably used vehicles, household furnishings, airfares and apparel. That said, and in spite of the last two strong CPI prints, longer term inflation expectations (proxied by the difference between 10-year Treasury yields and the 10-year inflation-protected yield) have fallen by 24bps since May 17, implying the market starts to view recent higher prices as only temporary, consistent with the Fed's narrative as well as with the weaker-than-expected jobs reports of the last couple of months.



Euro area

German 10-yr bund yields (-3 bps to -0.28%) and spreads (-2 bps) continue to trade lower after the ECB delivered on dovish expectations yesterday. The ECB expects its QE purchases to continue for another quarter at a significantly higher pace than during the first months of this year (looking through seasonal deviations). **ECB President Lagarde emphasized the "steady hand policy" and reiterated that any discussion about exit from the PEPP is premature.** Compared to March, the ECB marked up its growth and inflation outlook for 2021 but the ECB left its expectations for growth and inflation in 2023 unchanged. **Expected HICP inflation in 2023 at 1.4% remains substantially below the ECB's target.**



Source: Bloomberg and IMF staff

ECB: Growth and Inflation Projections for the euro area

(annual percentage changes)

	June 2021					March 2021			
	2019	2020	2021	2022	2023	2020	2021	2022	2023
Real GDP	1.3	-6.8	4.6	4.7	2.1	-6.9	4.0	4.1	2.1
HICP	1.2	0.3	1.9	1.5	1.4	0.3	1.5	1.2	1.4

Notes: Real GDP figures refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications due to data releases after the cut-off date for the projections.

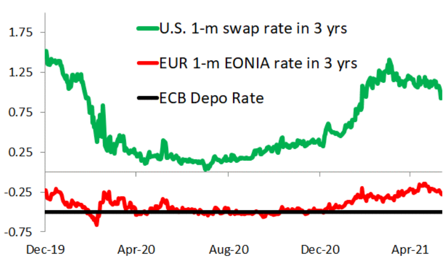
Given the upgrade in the ECB's outlook for 2021, analysts are trying to gauge how close the decision on the PEPP purchase pace was yesterday. President Lagarde said that there was unanimity on the introductory statement (which includes the proposal to conduct purchases at a significantly higher pace than during the first months of 2021) but only "broad agreement" on this during the discussion. According to media reports, 3 ECB board members called for slowing down PEPP purchases while some members saw upside risks to inflation. In any case, traders have gradually priced out some expectations of rate tightening in the past weeks.

Equities (+0.3%) gained today and the euro (at $1.22) was little changed. Bank stocks (-1%) fell as sovereign rates edged lower.

United Kingdom

The British pound (-0.1% to 1.42) was little changed after President Macron said that he would block new talks on the Northern Ireland protocol. Monthly GDP growth was close to expectations at 2.3% mom in April while industrial production unexpectedly contracted (-1.3% mom compared to gain of +1.2% mom expected). 10-yr gilt yields fell 5 bps to 0.70%.

Euro area: EONIA 1-m money market rate in 3 years (%)



Source: Bloomberg and IMF staff

Japan

Long-end JGB yields declined (10-year: -2.1 bps; 30-year: -1.2 bps) following the fall in U.S. treasury yields, with investors becoming less concerned about U.S. inflationary pressures. Long-end JGB yields declined (10-year: -5.1 bps; 30-year: -3.9 bps) in the past week. **Japanese yen depreciated (-0.2%); equities were little changed.**

Korea

Bank of Korea Governor Lee Ju-yeol signaled a timely, orderly policy normalization. He said that the policy stimulus has helped support the economy but has also widened inequality. The current accommodative monetary policy should be normalized if the economic recovery continues to be solid. The timing of any policy change will be determined by the strength and durability of the recovery and the risks from financial imbalances. His speech prompted many analysts to bring forward their rate-hike expectations to around 2021Q4. **Government bond yields were mixed**—short-end yields rose (3-year: +5.2 bps) on the Bank of Korea's hawkish signal while long-end yields (10-year: -4.8 bps) fell following the decline in U.S. treasury yields. **Korean won appreciated (+0.4%); equities gained (+0.8%).**

New Zealand

The Reserve Bank of New Zealand (RBNZ) lowered its weekly bond purchase target again. The RBNZ will seek to buy NZ$220 mn ($159 mn) in QE auctions next week, down from NZ$250 mn ($180 mn) this week and NZ$250 mn ($252 mn) last week. Long-end government bond yields fell (10-year: -5 bps), while 1-year government bond yield rose (+5.9 bps); New Zealand dollar appreciated (+0.1%).

Emerging Markets

back to top

Asian equities were mixed, gaining 0.4% on net. Chinese equities declined (CSI 300: -0.9%), while share prices rose in Korea (+0.8%) and Thailand (+0.7%). **Asian currencies appreciated,** led by Indonesian rupiah (+0.4%), Korean won (+0.4%), and Thai baht (+0.4%). **Most long-end government bond yields declined,** led by Korea (10-year: -5.4 bps) and Hong Kong SAR (10-year: -4.3 bps), following the decline in U.S. treasury yields. **In India,** the government is considering expanding relief measures, potentially including enhancing the credit guarantee program, extending tax relief for construction, and increasing spending for rural programs. Equities gained (+0.4%). **In Thailand,** the Bank of Thailand extended a limited debt moratorium until end-2021 to help SMEs hit by the pandemic.

Most EMEA equities gained, led by Romania (+1.1%), Hungary (+0.7%), and Russia (+0.4%). Currencies traded fairly stable with the exception of the Turkish lira, which strengthened 0.8% to the US dollar, ahead of the Biden-Erdogan meeting at the NATO summit on Monday.

Latin American markets saw a quiet day with stocks and currencies essentially flat except for Peru where the sol depreciated by 1.3% and stocks gained 1.6%. Hard-currency treasury yields continued lower following the US rally. Local currency treasury yields shifted down in Peru and rose in Brazil, while the Chilean curve flattened and the Mexican steepened. Early morning gains of 0.8% in Chilean stocks were fully erased after a full lockdown of Santiago's metropolitan region was announced for Saturday due to local infection rates remaining high.

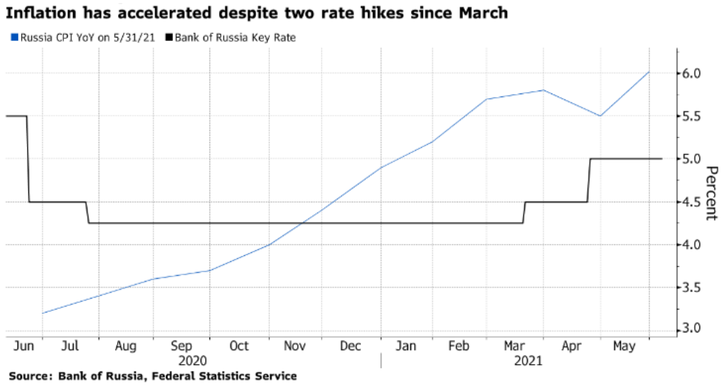
China

Government bond yields rose (10-year: +1.5 bps; 30-year: +3.4 bps). Market participants became concerned about potential tighter liquidity conditions. Government bond issuance is expected to rise, while the People's Bank of China has not injected additional liquidity since March. Interbank repo rates remain largely stable. **China Bank and Insurance Regulatory Commission (CBIRC) tightened rules on banks'**

cash management products, with an aim to contain mounting risks and stabilize market expectations. A cap on leverage is set up 120%, and funds can be invested in deposits, repos, central bank bills, CDs, and some money market instruments. **RMB appreciated (+0.1%). Equities declined** (CSI 300: -0.9%), led by liquor makers and financial firms.

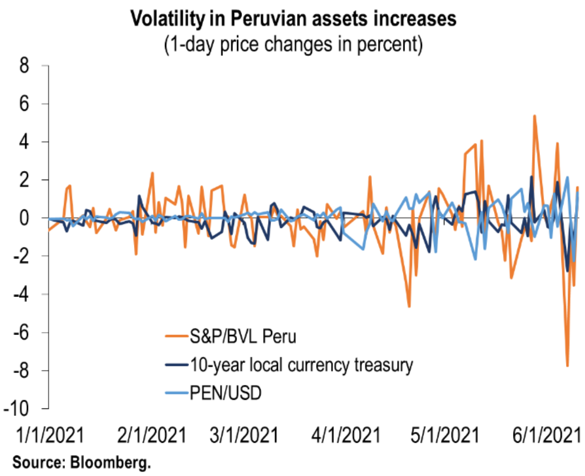
Russia

The Central Bank of Russia delivered a 50-bps rate hike, as expected. The CBR tightened policy, as anticipated by most analysts, in an effort to stem runaway inflation. The last CPI print in May had come in at 6% y/y, well above the 4% maximum in the CBR's target band for inflation. **The ruble traded 0.4% higher after the announcement.**



Peru

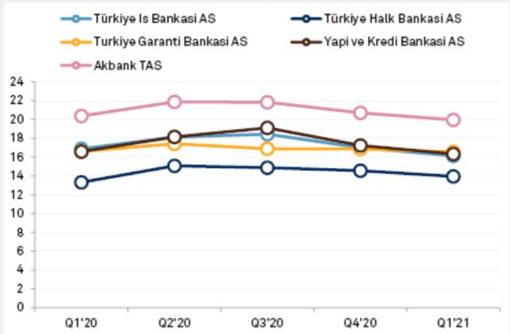
Peru's monetary policy rate remains unchanged. Amidst increasing political uncertainty the central bank left its policy rate unchanged at 0.25%. Market consensus expected the decision unanimously. The central noted volatile asset prices, political uncertainty, a transitory inflationary trend, and lingering economic slack as risk factors, stating that it would maintain an expansionary stance while highlighting expectations for an economic recovery supported by forward-looking activity indicators observed throughout May. Meanwhile, the central bank continued yesterday the occasional provisioning of US dollars on spot markets observed since early April, selling $39mn, while the sol still depreciated during the day. The presidential run-off remains open with 99.3% of votes tallied of which 50.2% were cast for Castillo, while his contender Fujimori claimed that up 0.5mn votes cast should be annulled as they would be suspicious.



Turkey

Capital buffers at major Turkish banks have declined slightly, according to analysis by S&P Global Market Intelligence. The drop in buffers has been attributed to higher operational risks and the notable weakening of the lira in recent months. The largest drop was at Yapi Bank, from 18.5% in Q3 2020 to 16.1% in Q1 2021. For other banks the drops during the same period were: Akbank: from 21.9% to 19.5%; Is: form 18.5% to 16.1%; Halk: from 15.1% to 14%.

Total capital ratios at select major Turkish banks (%)



Data compiled June 1, 2021.
Source: S&P Global Market Intelligence

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Global Financial Indicators

Last updated: 6/11/21 8:05 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4242	0.5	0	2	41	13
Europe		4115	0.5	1	4	31	16
Japan		28949	0.0	0	3	30	5
China		3590	-0.6	0	3	23	3
Asia Ex Japan		95	0.9	0	3	41	6
Emerging Markets		55	0.8	0	4	42	7
Interest Rates					basis points		
US 10y Yield		1.45	1.5	-11	-17	78	53
Germany 10y Yield		-0.27	-1.8	-6	-11	14	30
Japan 10y Yield		0.04	-2.0	-5	-4	2	1
UK 10y Yield		0.70	-4.5	-9	-13	50	51
Credit Spreads					basis points		
US Investment Grade		92	-0.6	0	-3	-68	-3
US High Yield		332	-1.1	-4	-5	-282	-48
Europe IG		47	-0.6	-2	-4	-24	-1
Europe HY		233	-2.8	-11	-23	-170	-10
Exchange Rates					%		
USD/Majors		90.31	0.3	0	0	-7	0
EUR/USD		1.21	-0.3	0	0	7	-1
USD/JPY		109.6	0.2	0	1	3	6
EM/USD		58.3	-0.1	0	1	5	1
Commodities					%		
Brent Crude Oil ($/barrel)		73	0.1	1	6	88	40
Industrials Metals (index)		160	1.0	1	-2	57	20
Agriculture (index)		59	-1.4	-2	-4	67	23
Implied Volatility					%		
VIX Index (%, change in pp)		15.8	-0.3	-0.6	-6.0	-25.0	-6.9
US 10y Swaption Volatility		61.7	1.8	0.4	-11.1	-6.2	1.6
Global FX Volatility		6.5	0.0	-0.4	-0.8	-1.8	-1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		102	-3.8	-1	-15	-72	-17
Italy		103	-2.1	-6	-12	-88	-8
Portugal		63	-1.5	-3	-7	-39	3
Spain		63	-1.4	-4	-5	-41	1

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
6/11/2021	Level		Change (in %)					Level		Change (in basis points)				
8:08 AM	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		6.39	0.0	0.0	1	11	2		3.2	-0.6	5	3	35	-4
Indonesia		14189	0.4	0.7	0	-1	-1		6.3	-3.8	-5	-12	-106	23
India		73	0.0	-0.1	0	4	0		6.3	-0.9	-4	-1	19	33
Philippines		48	0.1	0.1	0	5	1		4.3	5.9	5	11	19	68
Thailand		31	0.3	0.2	0	0	-4		1.8	0.2	-1	2	43	53
Malaysia		4.11	0.3	0.5	0	3	-2		3.3	-0.4	1	0	37	70
Argentina		95	0.0	-0.3	-1	-27	-12		45.6	17.6	1	-54	-353	-1057
Brazil		5.07	-0.3	-0.5	3	-2	2		8.1	11.0	15	-6	293	257
Chile		721	-0.1	-0.1	-4	7	-1		4.1	-6.8	12	55	142	135
Colombia		3597	-0.2	1.7	3	2	-5		6.6	14.8	-8	-35	102	151
Mexico		19.71	0.0	1.3	1	16	1		6.6	2.0	-10	-10	31	101
Peru		3.9	-1.3	-0.6	-4	-12	-7		5.0	-14.9	12	17	71	142
Uruguay		44	0.1	0.2	1	-2	-3		7.9	-5.8	-17	51	-223	62
Hungary		285	-0.5	-0.4	3	7	4		2.3	-0.1	-3	27	51	72
Poland		3.68	-0.4	-0.5	2	7	1		1.2	-5.6	-3	18	31	57
Romania		4.1	-0.3	-0.2	0	6	-2		2.7	1.0	0	13	-99	-1
Russia		71.8	0.2	1.5	3	-2	3		7.0	-2.7	9	26	158	125
South Africa		13.6	0.2	-1.1	3	26	8		9.5	-1.1	-21	-35	-56	-20
Turkey		8.40	0.4	3.2	-1	-19	-11		17.9	-25.7	-41	35	714	475
US (DXY; 5y UST)		90	0.3	0.2	0	-7	0		0.72	1.1	-6	-8	40	36

	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	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points					
China		5225	-0.9	-1	2	31	0	199	0	-2	-9	30	-9
Indonesia		6095	-0.2	1	3	25	2	158	0	-9	-25	-5	-29
India		52475	0.3	1	8	55	10	146	3	-6	-18	-92	-5
Philippines		6908	0.5	2	10	7	-3	83	0	-9	-17	13	-22
Malaysia		1575	-0.3	-1	0	2	-3	113	0	-2	-3	9	3
Argentina		68145	0.0	6	33	58	33	1459	0	19	8	-570	91
Brazil		130076	0.0	0	6	37	9	253	0	0	-16	58	3
Chile		4260	0.0	1	-6	8	2	126	0	-6	-16	-14	-18
Colombia		1260	0.0	0	-2	12	-12	207	0	-4	-15	44	2
Mexico		50886	0.0	1	2	38	15	348	0	-9	-34	55	-12
Peru		19987	0.0	-7	-4	20	-4	133	0	-4	-3	22	1
Hungary		48849	0.8	1	10	33	16	65	0	-6	-15	-42	-31
Poland		66386	-0.2	-1	6	29	16	-22	0	-4	-11	-54	-21
Romania		11495	1.1	0	-2	35	17	186	2	11	6	-102	-17
Russia		3848	0.5	1	5	40	17	159	0	-5	-3	19	-7
South Africa		67488	-0.1	0	0	27	14	357	0	-4	-35	25	-23
Turkey		1463	0.5	2	1	34	-1	421	0	-5	-47	34	-24
Ukraine		531	0.0	0	1	6	6	479	0	12	-21	127	-12
EM total		55	-0.2	0	4	42	7	421	0	17	-10	97	128

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

back to top