



- European Commission reveals Reserve Fund financing plan ([link](#))
- BOJ urges financial institutions to accelerate LIBOR transition ([link](#))
- Turkish president calls anew for lower interest rates, lira falls to record low ([link](#))
- Australia's GDP comes in above forecasts, local equities reach new record ([link](#))
- Brazil's currency gains as GDP growth beats expectations ([link](#))
- China's other bad debt managers' bonds weaken on Huarong uncertainties ([link](#))
- **SPECIAL FEATURE: GSIB Monitor (Attachment)**

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Markets drift as investors await new catalysts

Major asset classes are largely directionless this morning as investors await fresh evidence about inflationary pressures. Stocks are roughly flat globally, benchmark government bond yields are a touch tighter, and oil prices and the dollar index are a bit stronger this morning. Yesterday, risk sentiment in the US session softened as the latest ISM data provided additional signs of near-term inflation risks, with factories reporting strong demand but supply limited by ongoing labor, input, and transportation constraints. Investors also noted a slightly more reserved tone from dovish Fed Governor Lael Brainard, who noted the economy faces “two-sided risks” and highlighted the need to monitor longer-term inflation expectations. The focus of the week remains squarely on Friday's US jobs reports, which is seen as a critical input for upcoming Fed decisions around tapering the bond-buying program.

Key Global Financial Indicators

Last updated: 6/2/21 8:13 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4202	0.0	0	0	36	12
Eurostoxx 50		4074	0.1	1	3	29	15
Nikkei 225		28946	0.5	1	0	28	5
MSCI EM		56	2.1	5	4	42	8
Yields and Spreads			bps				
US 10y Yield		1.60	-0.5	3	-2	92	69
Germany 10y Yield		-0.19	-1.5	1	1	22	38
EMBIG Sovereign Spread		329	-2	-7	-9	-179	-21
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.8	0.0	0	2	4	0
Dollar index, (+) = \$ appreciation		90.1	0.3	1	-1	-8	0
Brent Crude Oil (\$/barrel)		71.1	1.2	3	6	80	37
VIX Index (% change in pp)		18.0	0.1	-1	-1	-9	-5

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

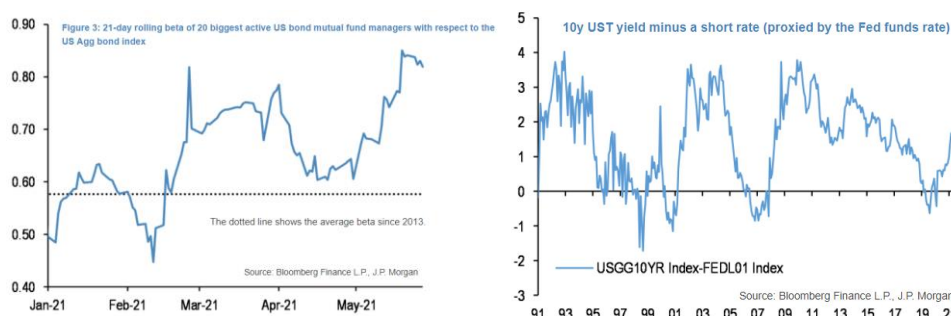
Mature Markets

[back to top](#)

United States

On Tuesday, US equities remained mostly flat, with energy and commodity shares outperforming other sectors. The impact of the morning's positive US manufacturing data release was undermined by ongoing supply shortages and labor constraints, which reinforced market concerns about inflation pressures. UST 10Y yield rose by 1.5 bps, reflecting a 2.5 bps increase in breakeven inflation and 1 bps drop in 10Y real yields.

US bond fund managers increased their exposure to interest rate risk in May, suggesting reduced fears of imminent moves higher in long-term rates. A measure of large bond funds' performance showed increased sensitivity to the overall bond market, pointing to a lengthening maturity profile that better matches the overall market. One rationale for increasing duration risk is the increased term spread between 10Y bonds and short-term funding, which suggests better yield compensation for holding longer term bonds. However, the elevated exposure to longer maturity bonds makes them potentially more vulnerable to any further inflation surprises or a hawkish shift in Fed policy.



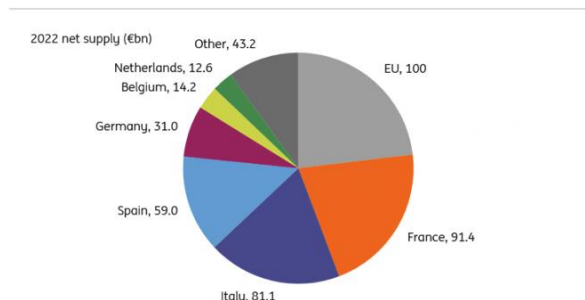
Euro area

European equities were edging higher with country benchmarks up around 0.2% while energy shares (+1.0%) were outperforming. With Q1 earnings season coming to an end, analysts note that that results have remained exceptionally strong with about 70% of firms managing to beat the earning consensus. Firms in financials and basic materials sectors as well as those from the region's smaller economies came in above the market average.

European bond yields were mostly unchanged while **the euro** (-0.3%) depreciated against the dollar. The ECB's pandemic emergency purchase program holdings increased by €20 bn last week, consistent with a purchase pace of €80 bn per month.

The EC announced details for EU bond issuance under the NGEU framework with the first €10 bn

EU net bond supply should outweigh that of other most other sovereigns next year



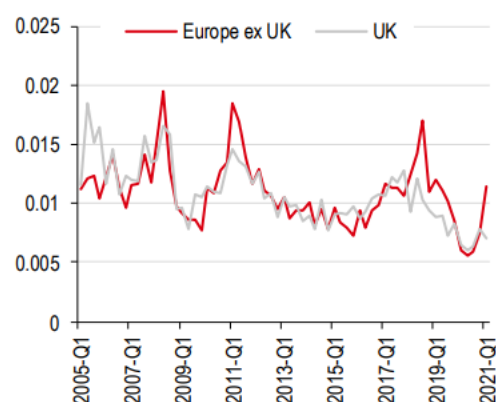
Source: European Commission, state debt management offices, ING

syndication taking place already in June. The total 2021 supply of long-term bonds (above 3 years) is projected at €80 bn (capped at €125 bn) with additional funding raised through EU bills issuance (capped at €60 bn), starting from September onwards. **Analysts note that the supply for this year is somewhat larger and comes earlier than expected.** That said, contacts expect solid investor interest for the program as demand for comparable EU SURE bonds has remained high, even as market conditions have been challenging during the recent auctions. Some analysts note potential for

increased competition with sovereign issuers in 2022, especially if budget deficits exceed current projections while the ECB purchases are scaled back.

Analysts note that European Q1 corporate calls reveal limited evidence of broad-based inflation concerns even as supply disruptions are in focus in some sectors. Using natural language processing, analysts at HSBC point to increased discussion around supply chain issues and input shortages during corporate earnings calls, particularly in consumer goods and basic material sectors. There was also an uptick in references to inflation, although the frequency of discussion remained around historical average. Furthermore, discussion on wage pressures remain contained in historical context.

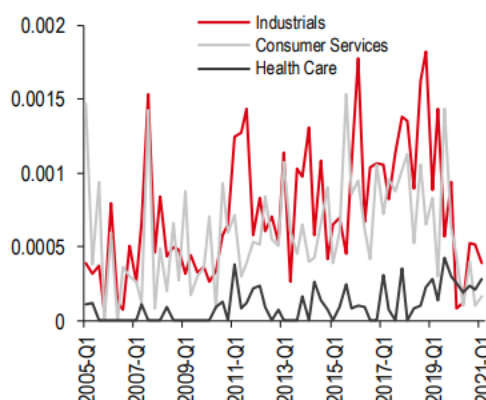
9. Discussions about inflation



Source: HSBC, Refinitiv TRKD

Note: This chart only considers Europe earnings calls

20. Wage pressures were discussed more pre-COVID-19



United Kingdom

UK house price growth reached 10.9% yoy in May, the fastest since 2014. Bank of England officials noted that the rapid increase is mostly related to a tax holiday, which will be phased out from June onward.

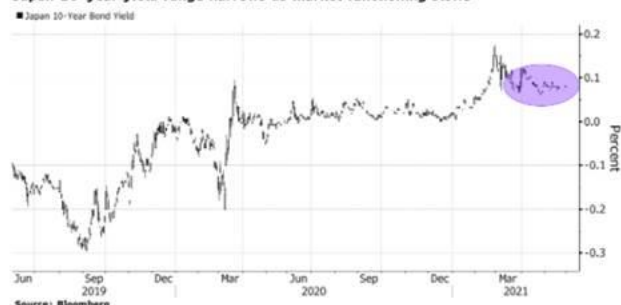
Australia

Australia's economy expanded at a faster-than-expected pace in Q1. It grew by +1.8% q/q (not annualized) in Q1 from a revised +3.2% q/q in Q4 and above consensus of +1.5%. Growth was driven by household spending, with a fall in the savings rate, and property investment. **Equities rose +1.1% to a new record while the Australian dollar weakened -0.4%.**

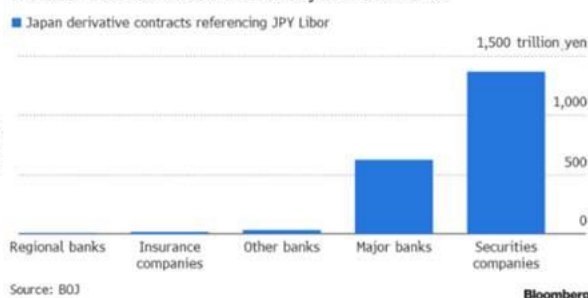
Japan

Japan's bond market functioning worsened in the three months through May. The Bank of Japan (BOJ)'s diffusion index measuring the market's ability to operate based on yield ranges and trading volumes, fell to -27 in the three months through May from -24 in February, according to Bloomberg. **Separately, the BOJ said that financial institutions in Japan must accelerate efforts to prepare the transition away from Libor.** The BOJ's second survey on transition preparations released last month showed that the transition for derivatives was almost fully complete, with 96% of relevant respondents saying they had signed off on or had decided to adopt the International Swaps and Derivatives Association's protocol outlining fallbacks. However, for spot-market contracts centering largely on loans, only 19% of the outstanding volume of yen-Libor contracts was covered by fallback provisions as of December 2020. **10-year JGB yield was little changed, the yen weakened -0.3% and equities rose +0.8%.**

Japan 10-year yield range narrows as market functioning slows



The Libor transition affects trillions of yen of derivatives



Emerging Markets

[back to top](#)

Asian equities fell (-0.2%) on net. Philippines (+3.2%) outperformed following reports that the government increased allowable capacity for restaurants and personal care shops while allowing venues for conferences and exhibits to open. China (Shanghai -0.8%; Shenzhen -1.2%), Singapore (-0.8%) and India (-0.3%) underperformed. **Regional currencies depreciated, with the Korean won (-0.7%) underperforming.** Korea's inflation reached a nine-year high of 2.6% y/y in May. Following the data release, the central bank released a statement, mentioning that the increase was largely boosted by last year's plunge in oil prices and was in line with its expectations.

EMEA stocks posted another day of gains across the region, with Romania (+1.1), Saudi Arabia (+0.6%), South Africa (+0.6%), and Poland (+0.4%) leading the pack. Currencies weakened slightly to the US dollar, by about 0.2% to 0.3% for most, except the Turkish lira (-1.1%) which underperformed after President Erdogan renewed calls for interest rate cuts.

Markets in Latin America were mixed. Brazil's equity and currency markets continued to rally, up 1.6% and 1.3%, respectively, on strong economic data. While equities markets in Chile (+0.9%) closed higher, those of Mexico and Peru slid by 0.3%. Most regional currencies, except the Brazilian real, depreciated against the dollar.

EM bond issuance

Bond sales rebounded on strong issuance in the corporate sector. For the week ending May 29th, issuance in EMs came in at \$13.7 bn (up from \$7.7 bn previously), of which corporates accounted for \$8.2 bn (up from \$2.4 bn). China and CEEMEA regions accounted for most of the rebound, with sales of \$5.3 bn and \$6 bn, respectively. Cumulative bond issuance in EMs this year stands at \$352 bn.

Figure 1. EM bond issuance, by sector (bn. USD)

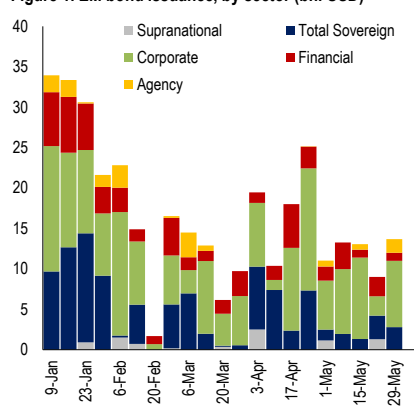
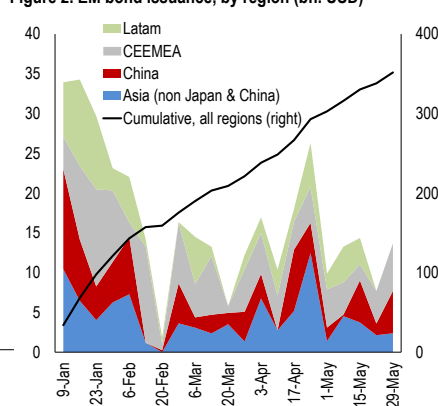


Figure 2. EM bond issuance, by region (bn. USD)

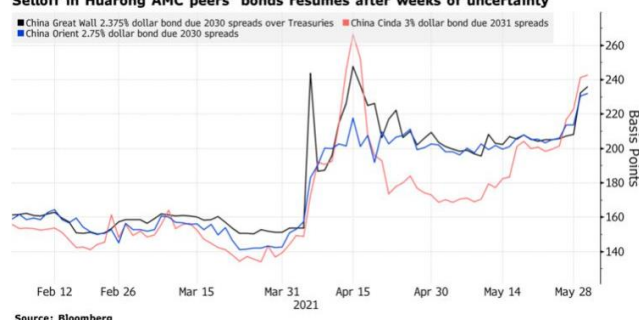


China

Bad debt managers' bonds sold off amid negative sentiment from uncertainty around Huarong Asset Management Co. According to Bloomberg, yield spreads on 10-year debt by China Cinda Asset Management Co. and China Orient Asset Management Co. climbed 20-40 basis points in recent days. The two firms and another bad debt manager have total liabilities of RMB2.9 tn (\$454 bn), including \$28 bn of outstanding dollar bonds. They have not tapped the offshore bond markets since Huarong's financial uncertainty.

The China Banking and Insurance Regulatory Commission (CBIRC) warned small banks against chasing property sector loans. Some medium to small regional banks have stepped up to compete for property sector loans, as bigger banks reduce their lending, according to Bloomberg citing a CBIRC executive. Lending to the property sector recorded its slowest growth in eight years in April, rising 10.5 per cent year on year. In the first quarter of this year, banks' loans to the property sector totaled 50.03 trillion yuan (US\$7.8 trillion). **The RMB was little changed while equities (Shanghai -0.8%; Shenzhen -1.2%) fell.**

Selloff in Huarong AMC peers' bonds resumes after weeks of uncertainty



Brazil

The currency gained on stronger-than-expected growth data and closed at 5.15 against the dollar (+1.3% yesterday, and +3.4% over last five trading sessions). The country reported 1Q2021 GDP growth at 1.2% q/q, beating the market consensus estimate of 0.9% q/q which had factored in slower demand due to withdrawal of COVID-19 related emergency cash handouts. The 1Q2021 growth was driven by investment demand (+4.6% sequentially), while household and government consumption declined further (sequentially by -0.1% and -0.8%, respectively). The market outlook on Brazil's GDP growth is progressively turning more positive. According to the Brazil Central Bank survey, 2021 GDP consensus growth estimates have been revised up to 3.96% (+0.42%).

Figure 1: Brazil: Real GDP growth rate (percent)

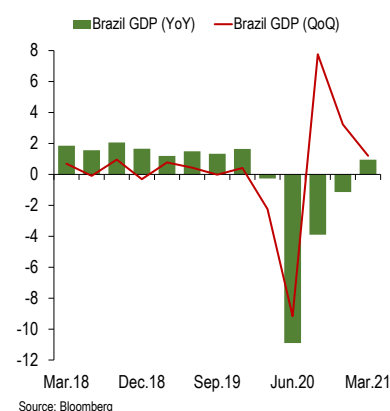
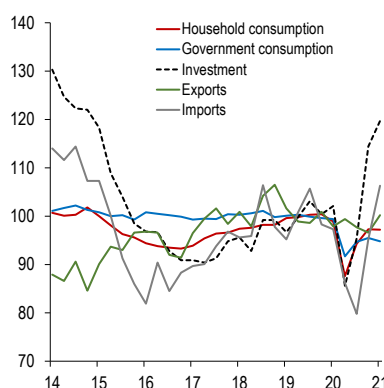


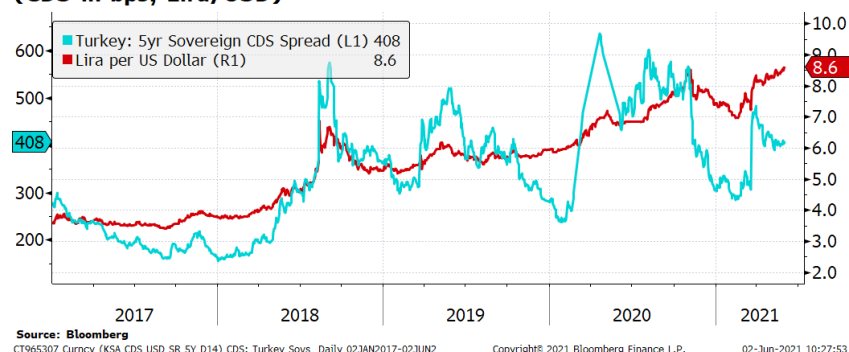
Figure 2: Drivers of GDP growth (2014 average = 100)



Turkey

The Turkish lira dropped 1.1% this morning following calls by President Erdogan for lower interest rates. President Erdogan said that after speaking with the governor of the Central Bank of Turkey (CBRT) he expects policy rate to be reduced close to the months of July or August or “thereabouts”. The president argued that lower interest rates would result in a “calmer environment” as they would ease the burden on investments and costs. The lira (-1.1%) hit a record low of 8.6 to the dollar. Markets’ perception of Turkey’s country risk has oscillated notably in recent years, while the lira has continued to depreciate steadily.







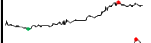














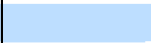



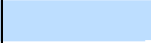


Turkey: Selected Indicators (CDS in bps, Lira/USD)



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Global Financial Indicators

Last updated: 6/2/21 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4202	0.0	0	1	36	12
Europe		4074	0.1	1	3	29	15
Japan		28946	0.5	1	0	28	5
China		3597	-0.8	0	4	23	4
Asia Ex Japan		96	1.8	4	3	42	7
Emerging Markets		56	2.1	5	4	42	8
Interest Rates			basis points				
US 10y Yield		1.60	-0.5	3	-2	92	69
Germany 10y Yield		-0.19	-1.5	1	1	22	38
Japan 10y Yield		0.08	0.0	1	-1	7	6
UK 10y Yield		0.81	-1.7	6	-3	59	61
Credit Spreads			basis points				
US Investment Grade		90	0.2	-1	-1	-75	-5
US High Yield		337	0.2	-7	9	-288	-42
Europe IG		49	-0.2	-2	-1	-18	1
Europe HY		244	-1.2	-8	-5	-146	1
Exchange Rates			%				
USD/Majors		90.11	0.3	1	-1	-8	0
EUR/USD		1.22	-0.2	0	1	9	0
USD/JPY		109.7	0.2	1	1	1	6
EM/USD		57.8	0.0	0	2	4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		71	1.2	3	6	80	37
Industrials Metals (index)		160	-0.2	4	3	61	21
Agriculture (index)		60	0.5	6	2	71	24
Implied Volatility			%				
VIX Index (% change in pp)		18.0	0.1	-0.9	-0.6	-8.9	-4.8
US 10y Swaption Volatility		69.6	2.4	4.3	-2.4	8.1	9.5
Global FX Volatility		7.1	0.0	0.0	0.0	-0.8	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		102	0.5	-5	-18	-91	-18
Italy		108	0.3	-4	-2	-83	-3
Portugal		64	0.1	-1	-4	-28	4
Spain		65	0.1	-1	-3	-33	3

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

Emerging Market Financial Indicators

Last updated: 6/2/2021 8:17 AM	Exchange Rates						YTD	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		6.39	-0.1	0.1	1	11	2		3.2	-0.8	1	-6	49	-9
Indonesia		14280	0.0	0.3	1	1	-2		6.4	0.0	-4	-12	-104	33
India		73	-0.3	-0.4	1	3	0		6.3	0.9	7	0	21	38
Philippines		48	-0.1	0.7	0	5	0		4.3	-0.9	-5	10	5	63
Thailand		31	0.1	0.3	0	1	-4		1.9	0.1	2	-1	47	54
Malaysia		4.12	0.0	0.5	0	4	-3		3.3	-1.6	0	2	52	72
Argentina		95	-0.1	-0.5	-1	-28	-11		45.6	-32.5	-4	-88	66	-1055
Brazil		5.16	-0.2	3.0	5	1	1		8.1	3.9	-20	16	265	250
Chile		725	-0.4	1.3	-3	9	-2		3.9	-2.2	-13	14	150	112
Colombia		3670	1.1	1.8	4	1	-7		6.7	-6.9	-18	23	134	164
Mexico		19.96	0.0	-0.4	1	9	0		6.7	1.4	-10	-16	36	106
Peru		3.9	-0.7	-1.0	-1	-11	-6		4.9	3.2	-9	-37	52	125
Uruguay		44	0.1	0.6	0	-1	-3		8.1	-9.4	34	72	-224	87
Hungary		284	-0.2	1.0	5	9	5		2.3	3.0	3	34	78	80
Poland		3.66	-0.3	0.7	3	7	2		1.3	-0.4	12	24	47	63
Romania		4.0	-0.2	-0.1	1	7	-1		2.7	0.0	-2	11	-104	-2
Russia		73.4	0.2	0.2	2	-7	1		6.8	2.1	5	8	156	113
South Africa		13.7	0.3	0.3	5	25	7		9.7	-2.1	0	-44	-1	4
Turkey		8.59	-0.6	-1.5	-4	-22	-13		18.0	-6.5	17	29	738	492
US (DXY; 5y UST)		90	0.3	0.5	-1	-8	0		0.80	-0.2	2	-4	48	44

	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		Latest	1 Day	7 Days	30 Days	12 M	
								basis points					
China		5134	-1.0	0	0	34	-1	199	0	-2	-9	30	-9
Indonesia		5773	1.4	-3	-4	27	-3	158	0	-9	-25	-5	-29
India		50540	-0.2	4	6	65	6	159	0	-6	-9	-130	8
Philippines		6199	3.2	-1	-3	12	-13	83	0	-9	-17	13	-22
Malaysia		1562	0.8	-1	-3	9	-4	113	0	-2	-3	9	3
Argentina		57109	0.0	9	20	38	11	1459	0	19	8	-570	91
Brazil		122701	0.0	2	2	48	3	253	0	0	-16	58	3
Chile		4080	0.0	-8	-17	9	-2	126	0	-6	-16	-14	-18
Colombia		1255	0.0	-1	-4	18	-13	207	0	-4	-15	44	2
Mexico		49907	0.0	2	2	40	13	348	0	-9	-34	55	-12
Peru		21236	0.0	-1	8	38	2	133	0	-4	-3	22	1
Hungary		46123	0.1	2	8	30	10	65	0	-6	-15	-42	-31
Poland		63701	0.5	2	8	38	12	-22	0	-4	-11	-54	-21
Romania		11661	1.3	1	5	36	19	183	4	3	-5	-151	-20
Russia		3663	0.3	1	3	35	11	159	0	-5	-3	19	-7
South Africa		66659	0.2	0	-1	31	12	357	0	-4	-35	25	-23
Turkey		1461	-0.1	1	10	42	-1	421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6	479	0	12	-21	127	-12
EM total		54	0.1	3	-1	45	4	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](#)