GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JUNE 22, 2020

- **South African debt to GDP projected to pass 100% by mid-2020s** (link)
- **China's benchmark loan rates unchanged, as expected** (link)
- **Fed balance sheet contracted last week, first time since March** (link)
- **Buybacks and dividend payouts by US firms fell sharply in Q2** (link)
- **New national security law details weigh on Hong Kong shares** (link)
- **EM fund flow momentum remains weak as equities see continued outflows** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Virus case pick-up chills market mood

Rising COVID-19 infections are weighing on investor sentiment this morning, but markets are little changed. Major equity indices are sagging, government bond yields are a few bps lower, and the price of gold – a haven asset – nears a seven-year high, as investors weigh a fresh high in new virus cases globally. Brazil passed the 1 million cases mark, India is seeing rising virus spread in rural areas, and Mexico faced its second-highest daily death toll. Advanced economies remain a concern as well, with large sunbelt states in the US seeing daily record new caseloads over the weekend and Germany and Australia experiencing incipient spikes in virus numbers. Given expectations for a near-term rebound in economic activity and unprecedented policy support for any downside risk, the dominant investor reaction however still appears to be a desire to flee for an early summer holiday rather than pare back on risk. Many bourses around the world are reporting light trading volumes, widely taken as a sign that investors lack conviction about how to position going into the second half of the year.

Key Global Financial Indicators

Last updated: 6/22/20 8:24 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3098	-0.6	2	5	5	-4
Eurostoxx 50		3250	-0.6	4	12	-6	-13
Nikkei 225		22437	-0.2	4	10	6	-5
MSCI EM		40	-0.2	0	10	-6	-11
Yields and Spreads			bps				
US 10y Yield		0.69	-1.5	-3	3	-136	-123
Germany 10y Yield		-0.44	-2.9	0	4	-16	-26
EMBIG Sovereign Spread		470	1	-12	-65	127	177
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.8	0.3	-1	2	-13	-11
Dollar index, (+) = $ appreciation		97.4	-0.2	1	-2	1	1
Brent Crude Oil ($/barrel)		41.9	-0.6	6	19	-36	-36
VIX Index (%, change in pp)		34.5	-0.7	0	6	19	21

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

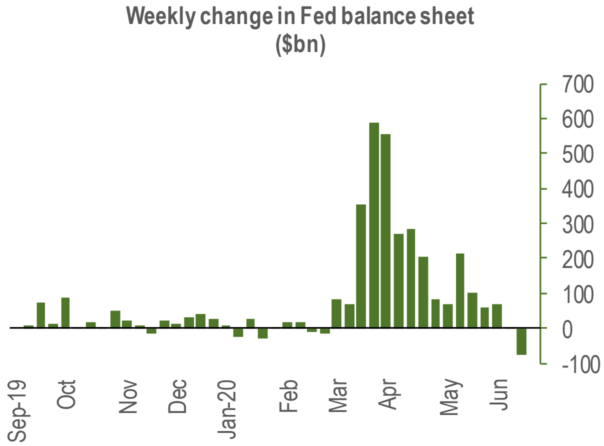
This week's economic data calendar will be dominated by business and consumer sentiment indicators. In the US, evidence of the post-lockdown rebound has been strong but uneven. The flash PMIs, housing trends, durable goods orders, and personal spending are expected to show strong prints for May. Chicago and Richmond Fed activity indices, jobless claims and consumer sentiment released this week are expected to show continuing improvement, albeit still far from pre-COVID levels. In Europe, there will be flash PMIs for the UK and euro area, euro area consumer sentiment, and business surveys, all seen as likely to point to a material pickup. The ECB minutes will give more details on the June decision to increase the PEPP by €600 bn. No monetary policy action is expected at scheduled announcements in China, Czech Republic, Hungary, New Zealand or Thailand, while further easing is likely in Kenya, Mexico, Philippines and Turkey.

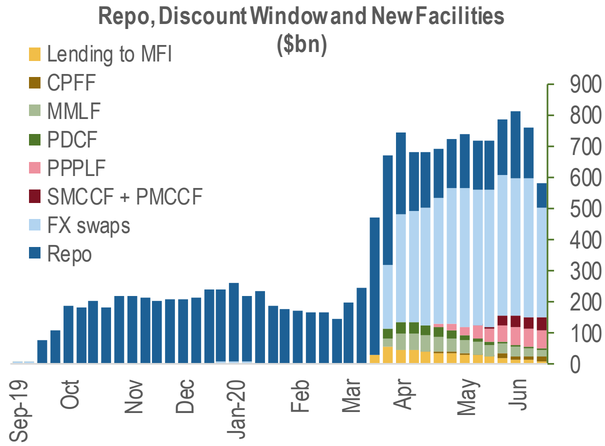
United States

back to top

Stocks fell on Friday on renewed COVID fears as several states show accelerating infection numbers. The initial rally at the open, driven by positive US-China trade news, quickly gave way to a 2.3% intraday loss, with the S&P 500 index finishing down 0.5% on the day. The price action was likely exacerbated by the so-called quadruple witching – the expiration of single stock options and futures, and stock-index options and futures – which took place on Friday. Treasury yields remained range-bound with a small flattening in the curve.

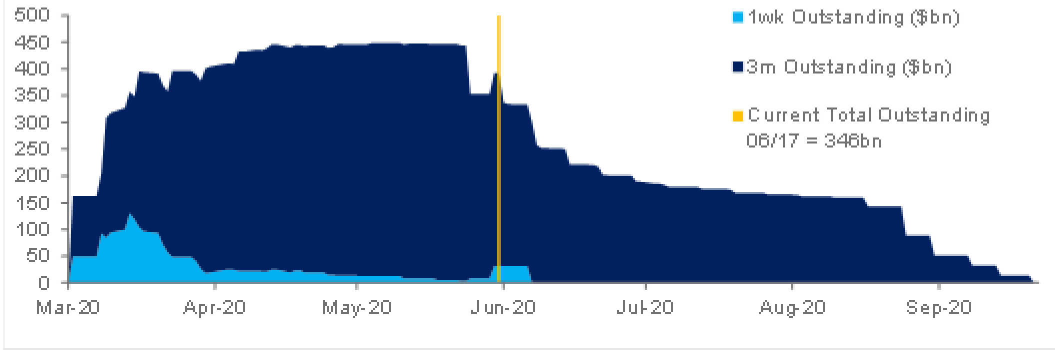
The Fed balance sheet contracted last week for the first time since March. Total assets fell $74 bn to $7.1 tn, as FX swaps operations and several facilities continue to roll off.





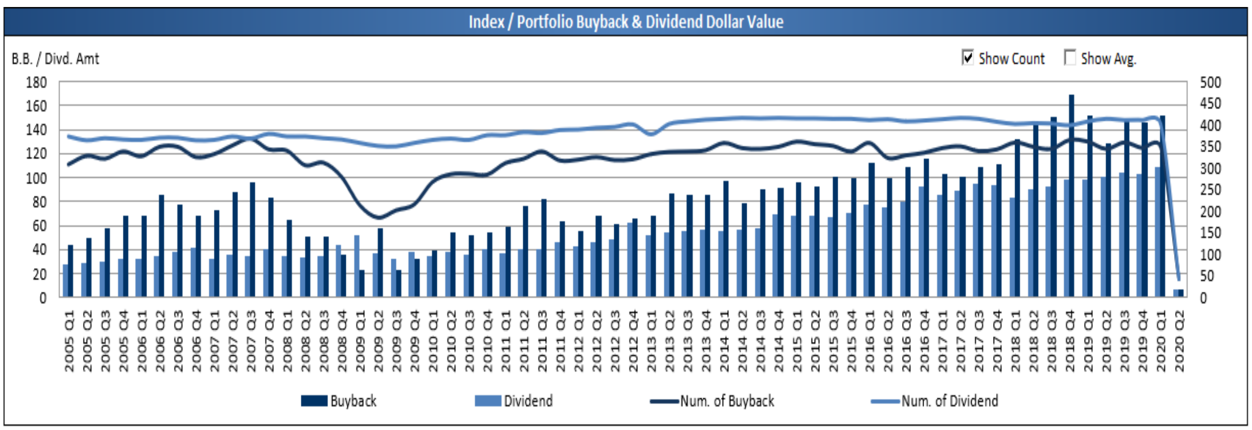
ECB, BoE, SNB, and BoJ announced to reduce the frequency of dollar swaps with the Fed, in view of improving dollar funding conditions. The 7-day swaps will be carried out three times per week from daily, while the 84-day swaps will continue to be offered weekly. These changes start on July 1. Many of the prior 84-day swaps will mature in coming weeks. Should banks not roll their expiring swaps, total USD outstanding from the Fed's programs will halve from its peak within a month. The price of these swaps remains at OIS+25 bps, though investors are widely expecting an upward adjustment to OIS+50 bps. The Fed has already tweaked its temporary open market operations by increasing the minimum bid rate for both overnight and 1-month operations by 5 bps and moved the time of the overnight operation from 8:30am to 1:30pm.

A lot of the Fed's USD Swaps are Rolling Off Over the Next Month



Source: CitiFX, Bloomberg

Buyback and dividend payout have come to a halt in Q2. The number of S&P 500 firms announcing buyback and dividend has collapsed to 42 and 43, respectively, down from 349 and 403 in Q1. The dollar amount totals less than $7 bn each in Q2, compared to $152 bn buyback and $108 bn dividend payout in Q1.



Europe back to top

Equity markets edged down on concerns that coronavirus infections across the world have not been curbed despite widespread lockdowns. DAX (-0.1%), CAC 40 (-0.2%), EuroStoxx 600 (-0.2%), Italy's Titans 30 (-0.8%), and Spanish Ibex (-0.8%). Bank stocks (-0.6%) performed largely in line with the broader indices.

Sovereign yields were mostly unchanged except for Italy's 10-year BTPs, which dropped 7 bps to 1.29%. German 10-year yields are at -0.44% (-2 bps); French OATs are at -0.11% (-4 bps); and Spanish at 0.47% (-3 bps).

European countries continue to re-open their economies, even as the pace of new Covid-19 infections accelerates in various hotspots. Spain has announced it will expand the list of nations from which tourist will be allowed in without imposing quarantines for new arrivals. Spain attracts many visitors from Germany and the UK each year. Separately, German authorities have acknowledged that even as the national number of cases continues to decline, there have been several outbreaks that are pushing the infection rate – known as R0 – higher. The latest estimates of R0 from the Robert Koch Institute were between 2 and 3, compared to around 1.8 previously.

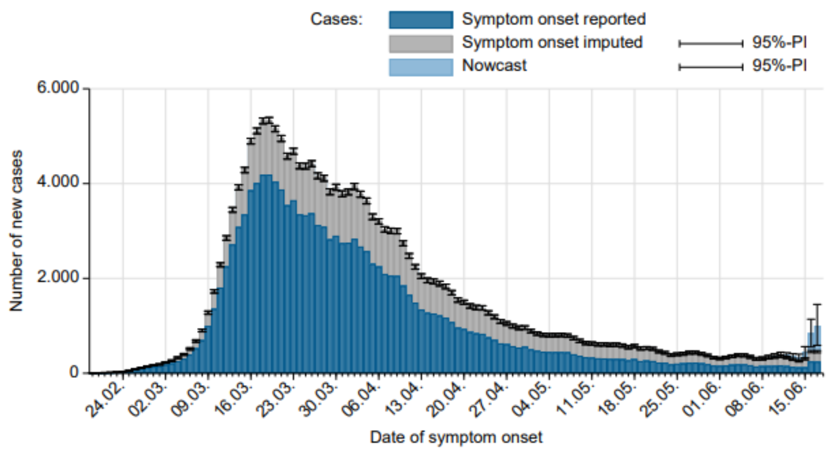
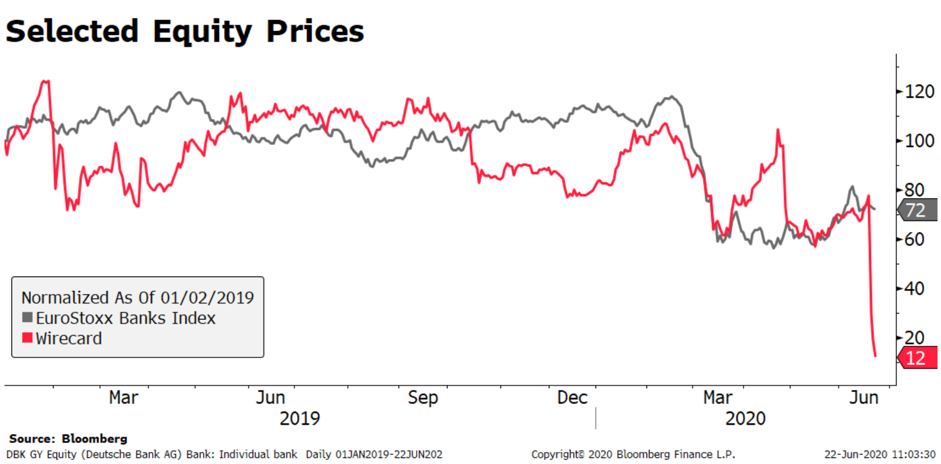


Figure 2: Number of notified COVID-19 cases with known date of illness onset (dark blue), estimated date of illness onset for cases without reported date of onset (grey) and estimated number of not yet notified cases according to illness onset electronically reported to RKI (light blue) (as of 21/06/2020, 12 AM, taking into account cases up to 17/06/2020).

In an unexpected turn of events, **German tech giant Wirecard said that the previously reported missing €1.9 bn of cash likely did not exist.** The company claimed that the mistake could stem from one of its divisions that relies on third parties. In recent days Wirecard equities have plummeted over 80% to $16.3/share, while some equity analysts are placing the value of shares at zero. Moody's has cut the company's rating to B3 from Baa3.



Moody's has warned that the pandemic is leading to a rise in indebtedness "larger, more sudden and broad-based than during the Global Financial Crisis." According to the rating agency, debt to GDP across 14 advanced economies will surge 19 percentage points in 2020. Moody's added that "the jump in debt burdens is largest for Canada (Aaa stable), France (Aa2 stable), Italy (Baa3 stable), Japan (A1 stable), Spain (Baa1 stable), the UK (Aa2 negative), and the US (Aaa stable)." Moody's has also warned of widespread downgrades in the corporate sector in the coming 18 months. For instance, in a separate report Moody's warned **that over 50% of Spanish non-financial corporates are at risk of rating downgrades**.

The European Parliament approved last week that banks can include the value of their software systems in the calculation of their reserves, according to French newspaper Les Echos. Estimates of the value of software packages ranges in the billions of euros for the sector. The EBA has been tasked with devising a method to make consistent valuations across entities.

Other Mature Markets
back to top

Japan

Markets were little changed. Equities fell slightly (Nikkei: -0.2%); Japanese yen depreciated (-0.1%).

Australia

The Reserve Bank of Australia (RBA) Governor said that there is no reason to alter the current monetary policy framework. Interest rates would likely remain low regardless of the goals pursued. Australian dollar appreciated (+0.7%) today following the comment Governor's comment that the exchange rate is not currently overvalued. The currency has appreciated (+5.3%) over the past month on the back of the country's comparatively benign COVID-19 situation.

Emerging Markets
back to top

Asian markets were mixed today. India outperformed (+1.2%) while Thailand underperformed (-1.2%). Indian equities continued to gain (+14.7% over the last month) thanks to continued fund inflows. The decline in Thai equities was driven by the fall in bank shares following the Bank of Thailand's request to suspend dividend payouts and share buybacks. **Asian currencies were also mixed**, with the Indian rupee appreciating (+0.2%) while Indonesian rupiah depreciating (-0.4%). Korean won depreciated (-0.5%) on the weak exports data. Average daily shipment felled 16.2% y/y in the first twenty days of May despite strong demand for semiconductors and from China. **EMEA equities were mixed** with strong performance in UAE (+1.6%) and Turkey (+1.3%). Stocks were lower in Romania (-1.1%) and Saudi Arabia (-1.0%)**. EM FX continued to trade higher** with the polish zloty leading the appreciation (+0.5%) on the back of better than expected retail sales data. The South African rand (-0.3%) was an exception due to negative news on government debt over the weekend. **Latin American** assets outperformed on Friday. Stocks in Argentina (+8%) gained the most, followed by stocks in Mexico (+2%), Chile (+1%) and Brazil (+0.5%). Amongst regional currencies, the Brazilian real (+1.2%) appreciated the most against the dollar, followed by Mexican peso (+0.5%).

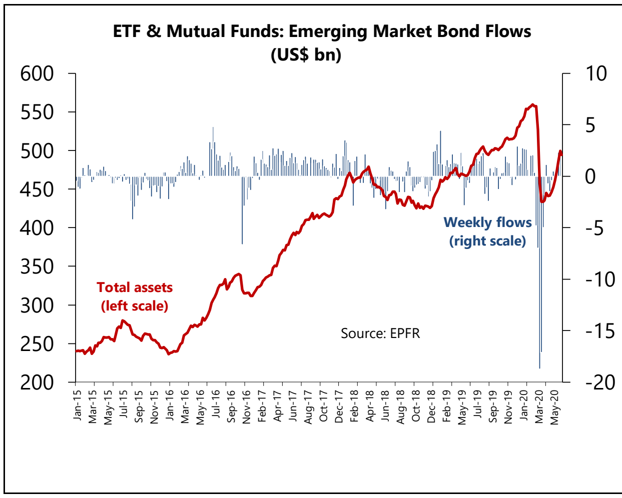
Key Emerging Market Financial Indicators

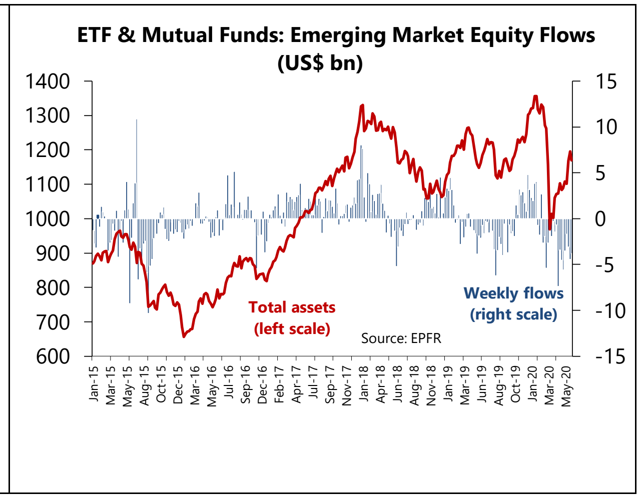
Last updated:	Level		Change				
6/22/20 8:21 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		39.92	-0.2	0	10	-6	-11
MSCI Frontier Equities		23.59	-1.1	-1	2	-20	-22
EMBIG Sovereign Spread (in bps)		470	1	-12	-65	127	177
EM FX vs. USD		54.84	0.3	-1	2	-13	-11
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		7.08	-0.1	0	1	-3	-2
Indonesian Rupiah		14150	-0.4	0	4	0	-2
Indian Rupee		76.03	0.2	0	0	-9	-6
Argentine Peso		69.80	-0.1	-1	-3	-38	-14
Brazil Real		5.28	0.7	-2	5	-27	-24
Mexican Peso		22.48	0.7	-1	1	-15	-16
Russian Ruble		69.47	0.1	0	3	-10	-11
South African Rand		17.40	-0.4	-2	1	-17	-20
Turkish Lira		6.85	0.1	0	-1	-15	-13
EM FX volatility		10.79	0.7	0.5	-0.1	2.6	4.2

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

EM flows

In the past week, flows continued out of EM equity funds (-$3.8 bn) while EM bond funds turned to modest outflows (-$0.04 bn). According to EPFR data, YTD flows to EM bonds and equities are now at -$37 bn and -$43 bn respectively. After a sharp bout of inflows, redemptions have returned for EM retail bond funds. Hard currency funds saw modest inflows, but local currency outflows returned to drive overall outflows according to JP Morgan analysts.

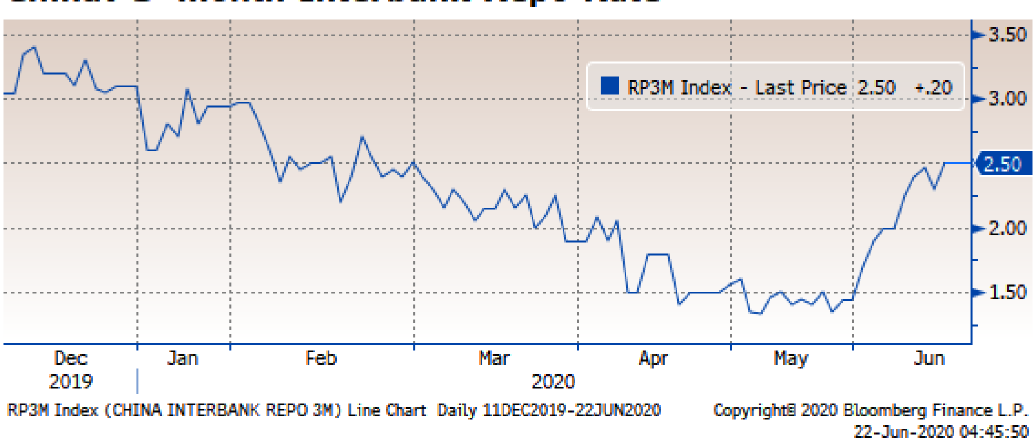




China

The loan prime rate (LPR) benchmarks printed unchanged, as expected, with 1-year LPR (benchmark for corporate lending) at 3.85% and 5-year LPR (benchmark for mortgage lending) at 4.65%. Some market analysts expected further reductions in interest rates and bank required reserve ratio this year. The PBOC injected 120 bn yuan today after the net liquidity withdrawal of 160 bn yuan last week. The 3-month interbank repo rate rose 20bps, bringing the total increase to +100 bps over the past month. Government bond yields have also risen. As a result, a small number of low-risk, bond-linked wealth management products (WMPs) have seen small mark-to-market losses. Equities were little changed; Chinese yuan depreciated (-0.1%).

China: 3-month Interbank Repo Rate



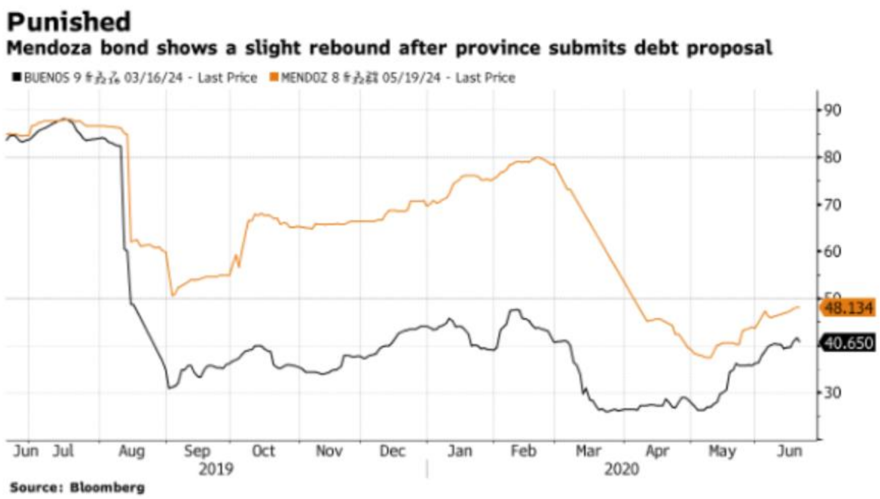
Source: Bloomberg.

Chinese banks have offered relief on 3.9 tn yuan of loans to SMEs since the COVID-19 outbreak. The relief include postponed repayments (1.5 tn yuan) and loan roll-overs (2.4 tn yuan). This is part of the authorities' efforts that pushed banks to transfer 1.5 tn yuan in profits to businesses.

China on Saturday confirmed that a proposed national security law would allow Beijing to override Hong Kong's independent legal system. China's central government would have jurisdiction over an 'extremely small' number of national security cases under 'specific circumstances'. Hong Kong equities fell (-0.5%).

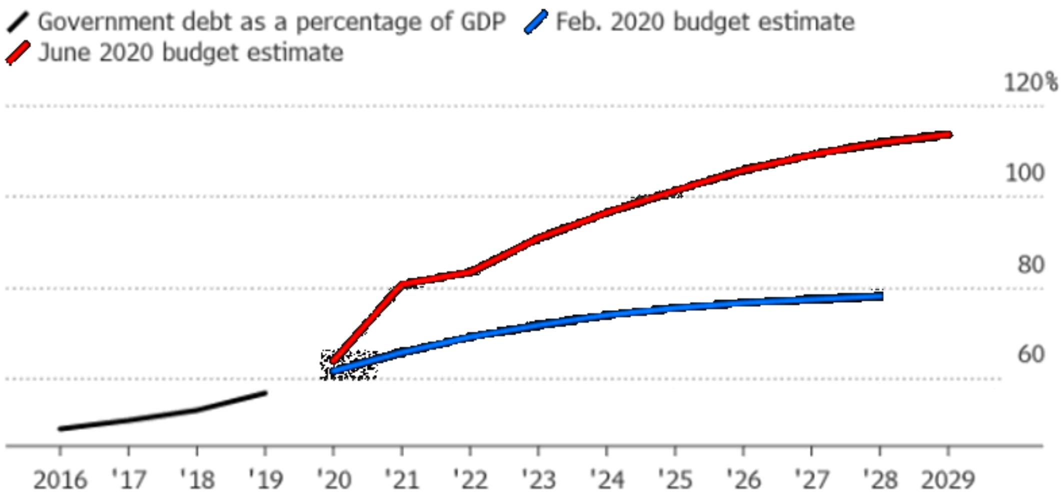
Argentina

The Province of Mendoza becomes the third Argentine issuer to default this year. The province was downgraded to selective default by S&P Global Ratings after missing a $25 mn coupon payment due Friday, according to the firm, which cut the rating from CC. For provinces, which hold $15 bn in debt and rely on disbursements from the central government, the fate of the national debt restructuring talks are key. The province already used up the 30-day grace period on the payment for its bond due 2024 and now plans to present a new offer next week with an improvement in the coupon payment framework, according to Bloomberg. Argentina's national government extended the deadline for its own debt process by an additional month, to July 24.



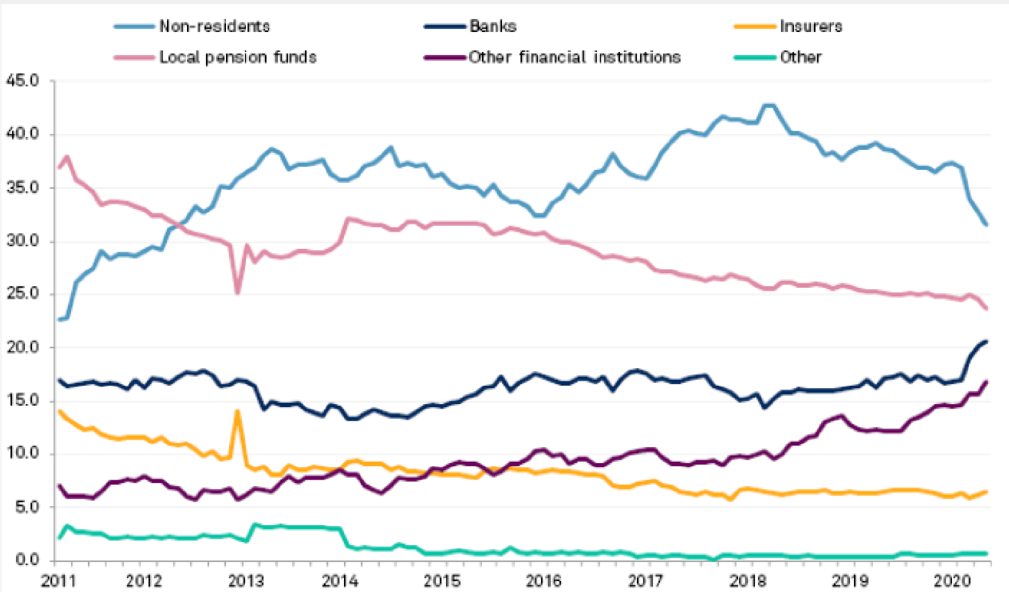
South Africa

The South African MoF presented preliminary public debt estimates to the National Economic Development and Labor Council on Friday, ahead of the 24 June budget release. Estimates obtained by media show projected **debt-to-GDP rising to 80.5% in 2020/21, compared to 65.6% in the pre-Covid projection**. **The government now predicts that government debt at the end of this decade will rise from 71.6% to 114% of GDP**. The news renewed pressure on South African local bonds, with yields rising by 8bps. Non-resident investors have been exiting the local bond market recently, with holdings declining to 31.5% of total government debt stock in May, the lowest since 2012.



Source: National Treasury

Holders of South African government bonds (%)



Data as of May 2020.
Source: South Africa's National Treasury

Poland

The pace of recovery of the Polish economy continues to surprise analysts on the upside. May retail sales figures were down just -7.7% yoy as compared to -11.7% expected and -22.9% decline in April. Industrial output also beat analyst predictions last Friday with the pace of industrial output decline slowing to -17% yoy as compared to a -24.6% drop in April.

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina
Division Chief

Will Kerry
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Sally Chen
Senior Economist

Yingyuan Chen
Financial Sector Expert

Han Teng Chua
Economic Analyst

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Dimitris Drakopoulos
Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Rohit Goel
Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Jochen Schmittmann
Senior Economist

Can Sever
Economist (Economist Program)

Juan Solé
Senior Economist

Jeffrey Williams
Senior Financial Sector Expert

Akihiko Yokoyama
Senior Financial Sector Expert

Piyusha Khot
Research Assistant

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 6/22/20 8:24 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3098	-0.6	2	5	5	-4
Europe		3250	-0.6	4	12	-6	-13
Japan		22437	-0.2	4	10	6	-5
China		2965	-0.1	3	5	-1	-3
Asia Ex Japan		69	-0.3	1	10	-1	-7
Emerging Markets		40	-0.2	0	10	-6	-11
Interest Rates					basis points		
US 10y Yield		0.69	-1.5	-3	3	-136	-123
Germany 10y Yield		-0.44	-2.9	0	4	-16	-26
Japan 10y Yield		0.01	-0.6	0	1	17	2
UK 10y Yield		0.20	-3.7	0	3	-64	-62
Credit Spreads					basis points		
US Investment Grade		148	0.1	-7	-35	23	50
US High Yield		596	0.1	-19	-88	160	203
Europe IG		68	1.7	-3	-12	14	24
Europe HY		394	7.8	-11	-90	136	186
EMBIG Sovereign Spread		470	1.0	-12	-65	127	177
Exchange Rates					%		
USD/Majors		97.38	-0.2	1	-2	1	1
EUR/USD		1.12	0.3	-1	3	-2	0
USD/JPY		106.9	0.0	0	1	0	2
EM/USD		54.8	0.3	-1	2	-13	-11
Commodities					%		
Brent Crude Oil ($/barrel)		42	-0.6	6	19	-36	-36
Industrials Metals (index)		103	0.1	2	7	-7	-10
Agriculture (index)		35	-0.4	-1	1	-16	-15
Implied Volatility					%		
VIX Index (%, change in pp)		34.5	-0.7	0.0	6.3	19.1	20.7
10y Treasury Volatility Index		4.7	-0.3	0.0	0.0	-0.1	0.6
Global FX Volatility		8.7	0.1	-0.2	0.3	2.0	2.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		172	1.7	5	-48	-111	7
Italy		174	-3.0	-16	-34	-69	14
Portugal		93	0.4	-6	-29	6	30
Spain		90	-0.7	-11	-21	18	25

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

back to top

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
6/22/2020	Level		Change (in %)					Level		Change (in basis points)				
8:21 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		7.08	-0.1	0.2	1	-3	-2		2.9	-1.0	11	34	-32	-20
Indonesia		14150	-0.4	-0.2	4	0	-2		7.3	-0.3	-6	-33	-36	17
India		76	0.2	0.0	0	-9	-6		6.1	-0.3	-3	-10	-88	-81
Philippines		50	-0.1	0.4	1	2	1		4.1	-0.8	0	-34	-91	-18
Thailand		31	0.1	0.1	3	-1	-4		1.5	-0.9	4	10	-83	-15
Malaysia		4.28	-0.3	0.0	2	-3	-4		2.8	-1.4	-1	3	-84	-51
Argentina		70	-0.1	-0.6	-3	-38	-14		46.5	-118.4	-232	250	1705	-1607
Brazil		5.28	0.7	-2.3	5	-27	-24		5.3	-5.7	8	-58	-178	-94
Chile		816	0.0	-2.7	0	-15	-8		2.3	-11.9	-36	-11	-111	-96
Colombia		3749	0.1	0.8	2	-14	-12		5.5	-12.9	-21	1	-36	-46
Mexico		22.48	0.7	-1.2	1	-15	-16		6.1	-5.5	-12	-12	-161	-85
Peru		3.5	0.6	-1.0	-2	-5	-5		4.3	-0.7	-5	3	-55	-19
Uruguay		43	-0.6	0.7	3	-17	-13		10.2	0.0	3	-103	-70	-69
Hungary		309	0.1	-1.0	4	-8	-4		1.7	-2.2	2	10	4	49
Poland		3.97	0.7	-1.7	4	-6	-4		0.9	-4.1	1	-12	-115	-101
Romania		4.3	0.3	-1.1	3	-4	-1		3.7	-1.0	-2	-32	-32	-28
Russia		69.5	0.1	0.2	3	-10	-11		5.2	-5.2	-15	-2	-209	-89
South Africa		17.4	-0.4	-1.7	1	-17	-20		10.1	-10.5	1	-8	80	59
Turkey		6.85	0.1	-0.5	-1	-15	-13		10.5	-11.8	-25	-133	-803	-124
US (DXY; 5y UST)		97	-0.2	0.7	-2	1	1		0.33	0.0	-2	-1	-146	-136

	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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2965	-0.1	3	5	-1	-3		227	0	-2	-15	48	51
Indonesia		4919	-0.5	2	8	-22	-22		257	0	-12	-34	74	101
India		34911	0.5	5	14	-11	-15		240	1	2	-56	82	115
Philippines		6347	0.5	3	15	-21	-19		161	2	-1	-11	91	95
Malaysia		1511	0.3	1	5	-10	-5		187	2	-11	-44	58	75
Argentina		40951	7.8	-12	0	2	-2		2540	2	-53	-225	1715	771
Brazil		96572	0.5	4	18	-5	-16		374	3	1	-29	141	159
Chile		4027	0.9	3	8	-20	-14		210	0	-3	-22	78	77
Colombia		1161	2.0	4	10	-26	-30		291	0	1	-12	115	128
Mexico		38405	2.1	2	7	-12	-12		511	2	7	-40	180	219
Peru		16972	0.1	1	11	-17	-17		183	0	-3	-18	65	76
Hungary		37267	0.0	0	6	-8	-19		166	-1	2	-47	83	80
Poland		50588	-0.2	3	10	-15	-13		48	-3	-11	-42	10	30
Romania		8624	-1.0	1	0	-1	-14		286	-2	-10	-52	96	112
Russia		2751	-0.3	1	2	0	-10		202	-3	-12	-12	3	71
South Africa		54258	0.0	1	8	-8	-5		499	3	-19	-73	219	179
Turkey		115221	1.4	5	12	23	1		574	4	-23	-52	58	173
Ukraine		499	0.0	0	0	-10	-2		626	4	-18	-105	110	206
EM total		40	-0.2	0	10	-6	-11		470	1	-12	-65	127	177

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

back to top