



- Euro area PMIs at strongest in 15 years ([link](#))
- Italian PMI Draghi sees no return to previous EU fiscal rules ([link](#))
- Funding costs rise in China as liquidity tightens ([link](#))
- US equity market confronts rising interest rate volatility ([link](#))
- Treasury market in US offers attractive hedged returns to foreign investors ([link](#))
- Argentina to pay \$430 million to Paris Club to avert default ([link](#))

[Mature Markets](#)

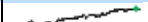
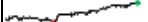
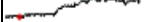


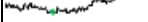




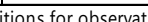
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Markets holding steady ahead of key US data

Stocks are slightly lower while bond yields are little changed ahead of US PMI data due later this morning. Earlier today, euro area PMIs came in at their best levels in 15 years, and UK PMIs were also exceptionally strong, raising hopes that the economic rebound is finally underway in those countries. Robust numbers are also expected in the US. However, Japan's PMIs were the outlier, reflecting continuing struggles to cope with the pandemic. Fed Chair Powell told Congress yesterday that inflation was likely to be transitory and New York Fed Chair Williams stated that rate hikes were "way off in the future," which boosted sentiment and pushed the Nasdaq to a new record close. However, several emerging markets face higher funding costs and many of their central banks are being forced to raise policy rates to counter rising inflation. Oil prices were higher again on news that the US-Iran nuclear deal negotiations were running into further difficulties, with Brent crossing \$75/barrel for the first time since 2018. The volume of Brent oil call options with a strike price of \$100 has surged, reflecting expectations that oil could spike higher as the global economic recovery gains traction.

Key Global Financial Indicators

Last updated: 6/23/21 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4246	0.5	0	2	36	13
Eurostoxx 50		4093	-0.7	-1	2	24	15
Nikkei 225		28875	0.0	-1	2	28	5
MSCI EM		54	-0.5	-2	2	33	5
Yields and Spreads			bps				
US 10y Yield		1.46	0.2	-11	-16	75	55
Germany 10y Yield		-0.19	-2.9	6	-6	22	38
EMBIG Sovereign Spread		338	4	6	5	-130	-13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.3	0.3	0	0	4	-1
Dollar index, (+) = \$ appreciation		91.7	-0.1	1	2	-5	2
Brent Crude Oil (\$/barrel)		75.5	0.9	1	14	77	46
VIX Index (% change in pp)		16.6	-0.1	-2	-4	-15	-6

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

Mature Markets

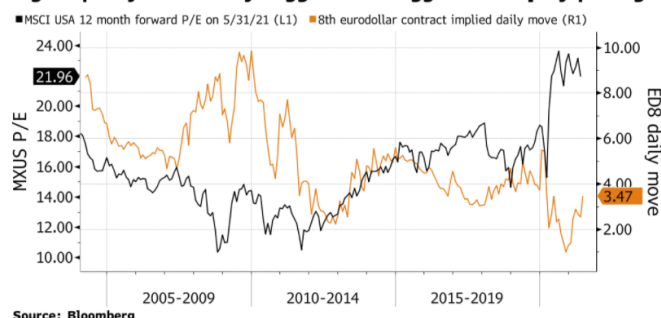
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United States

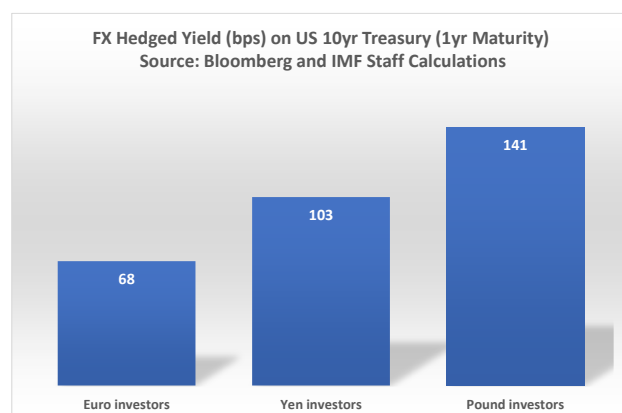
Higher interest rate volatility in the US bond market could signal trouble ahead for US equities. With Treasury yields swinging wildly between last week's FOMC meeting and Monday's plunge in the 10-year yield to 1.35% in the Asian session, the MOVE interest rate volatility index hit its highest level in two months, albeit with a slight dip yesterday. Comparing the volatility of the eighth eurodollar interest rate futures contract with the 12-month forward price earnings ratio of the MSCI US equity index reveals a marked negative correlation. If interest rate volatility goes up much higher, history suggests that equities could run into headwinds. With the Nasdaq at an all-time high and the S&P 500 within striking distance of last week's record close, further upside could be limited.

Rates Vol and Equity Multiples

Higher policy uncertainty suggests less aggressive equity pricing

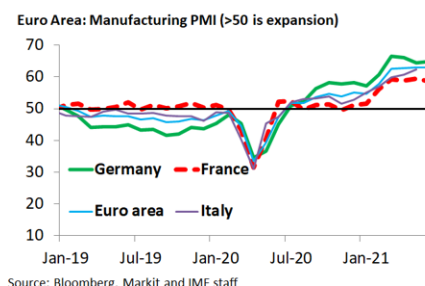
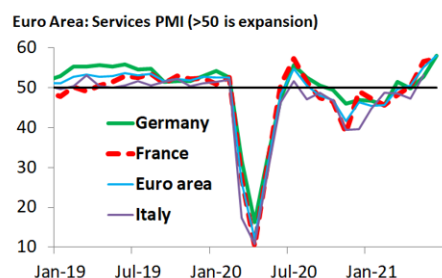


US Treasuries continue to offer attractive hedged yields to foreign investors despite the recent decline in rates. They can use foreign exchange basis swaps to eliminate the FX and interest rate risk and still earn significant positive net interest income (known as 'carry' in market jargon). This could account for the strong inflows seen in the Treasury market when rates sold off last week. Contacts also report that investors are anxious to lock in these high levels of carry now in case further appreciation of the dollar makes hedging costs more expensive. Demand could grow even more if the 10-year Treasury yields moves significantly above the 1.50% level. The yield has traded in the 1.40%-1.60% range over the past several weeks.

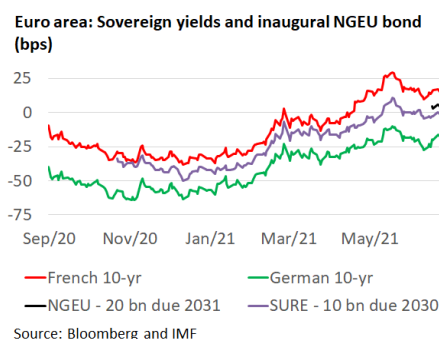


Euro area

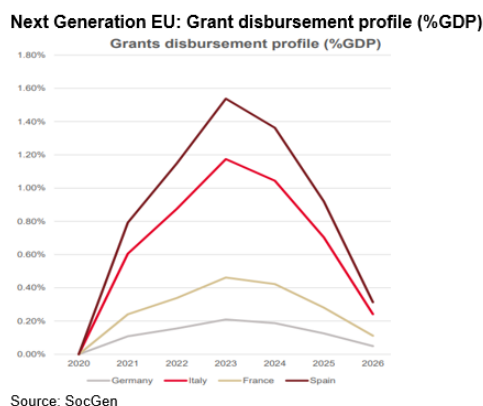
Equities (-0.5%) traded with a cautious tone despite the euro area composite flash PMI rising to a higher-than-expected 59.2 in June (58.8 expected). Germany led the gains, consistent with the country's reopening. **Services led the composite gain in June (+3 pts to 58),** with the manufacturing PMI rising just 0.2 pts to a level of 62.4 but still near all-time highs. Expectations of future output climbed to a 20-yr high.



German 10-yr bund yields (-1 to -0.17%) and the euro are little changed after PM Draghi said that there is no risk that the EU stability and growth pact will be reinstated in the same format as before the pandemic. PM Draghi expects part of the NGEU recovery fund to become “structural” if the recovery plans are implemented as expected. PM Draghi believes that the debate on EU fiscal rules is just beginning. In contrast, leading politicians of the German CDU/CSU party have said they want to return to existing fiscal rules at the EU level as quickly as possible. Debt and deficit reference values are specified in the protocol of the EU treaty (not the treaty itself) and can be modified by a unanimous vote of the European council. Contacts expect the debate on EU fiscal rules to become more antagonistic only after the German elections in September 2021 or maybe even after the French presidential elections in May 2022. The yield on the inaugural Next Generation EU (NGEU) bond issued last week fell 1 bps today.



10-yr Italian spreads (-1 bps to 105 bps) are little changed after the EU formally approved €70 bn of grants and €123 bn of loans to Italy for a total of €192 bn of NGEU funding. The Italian plan's contribution to the green transition amounts to 37% of its total allocation of €192 bn. This meets the 37% target required by the recovery fund regulation.



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EMEA stocks and currencies rallied along with Asian equities, but Asian currencies were weaker. S&P affirmed Malaysia's sovereign credit ratings at A- and maintained its negative outlook (the other agencies have A3/BBB+ ratings). The negative outlook reflects S&P's expectations of heightened risks to the country's fiscal and economic recovery prospects over the next 12 to 24 months due to the pandemic and political uncertainty. Fitch affirmed Thailand's BBB+ rating, which is line with the BBB+/Baa1 rating from the other agencies. The Bank of Thailand stayed on hold at a record low 0.5% as expected. **Latin American equity and bond markets traded in narrow ranges yesterday, while most regional currencies appreciated moderately.**

Latin American growth outlook

Bank of America analysts sharply upgraded the growth outlook for the region, based on Bloomberg reporting. The 2021 growth projection was raised to 5.7% from the 3.8% estimated in December, as the growth outlooks for Brazil, Chile, Mexico, and Panama were upgraded. Analysts cited the beginning of the reopening, a decline in virus cases, and reduced political risks in the region as the main reasons for the upward revisions. They also noted that more hawkish regional central banks would support local currencies. Other positive factors included positive spillovers for Mexico from the US recovery and policy support measures in Chile. Key risks include the political and policy situation in Peru, social conditions in Colombia, the continued march of the virus in the region, and implications of a more hawkish Fed for the local markets.

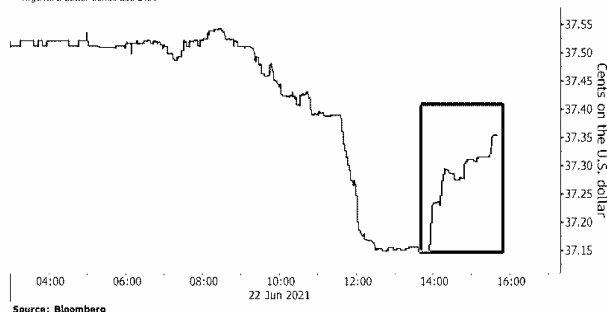
Argentina

The country is to repay \$430 mn to the Paris Club and avert default after missing a \$2.4 bn payment in May, according to Bloomberg. The press reports go on to say FM Guzman stated that Argentina would have until March 31 to renegotiate terms for the remainder of the debt. He noted that part of the \$430 mn before July 31 and the rest next year. Germany, Italy, Canada the U.K., and the US are among the Paris Club group of lenders. President Fernandez and Mr. Guzman had visited several of these countries in order to work out these arrangements.

Bond Bounce

Argentina's 2030 notes pare loss amid plan to make partial Paris Club payment

■ Argentina dollar bonds due 2030

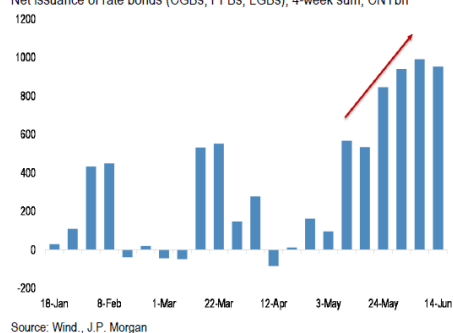


China

China's collateralized 7-day repo rate rose above 3%, the highest since the surge in late-January. JP Morgan noted that China's liquidity conditions have tightened at the margin in recent weeks and risks are for tight conditions to persist in 2H 2021 as bond issuance accelerates. The weekly net issuance of bonds has risen to RMB240 bn since the middle of May from RMB60 bn earlier in the year, pushing up funding costs. **Separately, Fitch has downgraded Evergrande's issuer rating to B from B+, with a negative outlook.** Pressures for the developer to downsize its business and reduce debt were the main reasons cited. The negative outlook reflects the company's weakened access to debt capital markets and heavy reliance on trust loans.

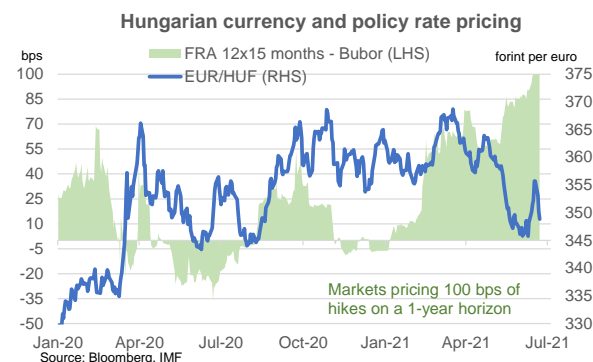
Bond issuance has picked up in recent weeks, creating larger liquidity shortfalls.

Net issuance of rate bonds (CGBs, PFBs, LGBs), 4-week sum, CNYbn



Hungary

The National Bank of Hungary increased its policy rate by 30 bps to 0.9% yesterday, marking the start of a new hiking cycle. While the rate hike was in line with consensus expectation, the subsequent communication indicating monthly interest rate reassessments was seen as hawkish by market participants. The central bank also announced phasing out of the funding for growth (FSG Go!) scheme, while maintaining the asset purchase program. The Hungarian forint strengthened by 1.5% against the euro after the press-conference, even as interest rate forward implied policy rate pricing remained largely unchanged.



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Global Financial Indicators

Last updated: 6/23/21 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4249	0.5	1	2	36	13
Europe		4093	-0.7	-1	2	24	15
Japan		28875	0.0	-1	2	28	5
China		3566	0.2	1	2	20	3
Asia Ex Japan		93	-0.5	-1	1	32	3
Emerging Markets		54	-0.5	-2	2	33	5
Interest Rates							
			basis points				
US 10y Yield		1.46	0.2	-11	-16	75	55
Germany 10y Yield		-0.19	-2.9	6	-6	22	38
Japan 10y Yield		0.06	0.0	1	-3	4	4
UK 10y Yield		0.77	-1.1	3	-6	56	57
Credit Spreads							
			basis points				
US Investment Grade		91	-0.4	3	-1	-57	-4
US High Yield		324	-0.4	6	-20	-273	-55
Europe IG		47	-0.5	-1	-5	-18	-1
Europe HY		231	-3.6	-3	-27	-148	-10
Exchange Rates							
			%				
USD/Majors		91.71	-0.1	1	2	-5	2
EUR/USD		1.19	0.0	0	-2	6	-2
USD/JPY		110.8	0.2	0	2	4	7
EM/USD		57.3	0.3	0	0	4	-1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		75	0.9	1	14	77	46
Industrials Metals (index)		152	0.5	-2	-1	48	15
Agriculture (index)		54	0.2	-3	-5	56	13
Implied Volatility							
			%				
VIX Index (% change in pp)		16.6	-0.1	-1.6	-3.6	-14.8	-6.2
US 10y Swaption Volatility		68.3	-1.2	0.9	1.4	4.2	8.2
Global FX Volatility		6.8	0.0	0.3	-0.2	-1.7	-1.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		102	0.0	3	-9	-68	-18
Italy		105	-1.4	2	-11	-62	-6
Portugal		60	-0.7	-2	-8	-29	0
Spain		61	-1.1	-3	-7	-27	0

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

Emerging Market Financial Indicators

Last updated: 6/23/2021 7:58 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						Level		Change (in basis pts)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.48	0.1	-1.2	-1	9	1		3.2	-3	6	28	-4		
Indonesia		14433	-0.2	-1.4	-1	-2	-3		6.5	16	1	-84	40		
India		74	0.1	-1.3	-2	2	-2		6.4	5	11	31	43		
Philippines		49	-0.2	-1.5	-1	3	-2		4.2	-10	-12	11	58		
Thailand		32	-0.3	-1.6	-2	-3	-6		1.8	1	0	38	52		
Malaysia		4.16	0.0	-1.1	0	3	-3		3.3	1	0	44	72		
Argentina		95	-0.1	-0.2	-1	-27	-12		44.8	-69	-87	-20	-1139		
Brazil		4.96	1.1	1.8	7	6	5		8.4	27	14	306	286		
Chile		742	0.7	-2.1	-2	10	-4		4.2	7	35	178	147		
Colombia		3772	-0.4	-2.0	-1	-1	-9		6.7	0	-22	116	158		
Mexico		20.26	0.5	0.6	-2	11	-2		6.9	18	0	76	127		
Peru		4.0	-0.7	-2.4	-4	-12	-9		5.6	24	75	122	196		
Uruguay		44	0.3	0.2	1	-3	-3		7.9	8	19	-219	64		
Hungary		292	0.4	0.5	-3	6	2		2.3	1	-1	72	82		
Poland		3.79	-0.1	-0.3	-3	4	-1		1.3	11	7	43	65		
Romania		4.1	0.1	-0.4	-2	4	-4		2.8	5	0	-95	2		
Russia		72.6	0.4	0.0	1	-5	2		6.9	-3	15	162	121		
South Africa		14.2	0.7	-1.1	-2	22	4		9.8	23	1	-34	17		
Turkey		8.64	0.1	-0.4	-3	-21	-14		17.6	-19	-9	717	453		
US (DXY; 5y UST)		92	-0.1	0.6	2	-5	2		0.85	-4	3	52	49		

	Equity Markets							YTD	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	7 Days	30 Days	12 M	YTD	
								basis points						
China		5147	0.5	1	0	24	-1		205	-4	-5	-41	-24	
Indonesia		6035	-0.9	-1	5	22	1		174	2	3	-94	-26	
India		52306	-0.5	0	3	50	10		145	0	-11	-89	-6	
Philippines		6918	0.7	-1	12	12	-3		96	2	2	-69	-16	
Malaysia		1565	-0.6	-1	0	4	-4		125	1	5	-85	-10	
Argentina		65902	0.0	-1	17	62	29		1519	55	4	-920	163	
Brazil		128768	0.0	-1	5	34	8		252	1	3	-127	-7	
Chile		4372	0.0	0	7	8	5		148	-2	7	-69	-8	
Colombia		1243	0.0	-1	0	9	-14		256	12	12	-51	41	
Mexico		50130	0.0	-2	1	31	14		336	5	4	-170	-21	
Peru		18725	0.0	-2	-9	10	-10		166	2	7	-26	37	
Hungary		48564	0.8	0	5	29	15		137	-4	-5	-49	-12	
Poland		66429	0.3	0	4	29	16		37	0	0	-20	9	
Romania		11533	1.1	-1	-1	32	18		182	3	0	-101	-21	
Russia		3826	0.1	0	5	37	16		170	2	7	-47	-9	
South Africa		65558	0.0	-3	-1	18	10		324	16	5	-178	-60	
Turkey		1402	-0.6	-2	-3	22	-5		463	3	-1	-118	16	
Ukraine		531	0.0	0	0	6	6		508	28	20	-125	15	
EM total		54	0.9	-2	2	33	5		355	7	2	-77	17	

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

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