



- Decline in term premia and inflation breakevens pushing US rates lower ([link](#))
- Equity volatility continues to decline in the US ([link](#))
- Concerns on delta-variant weigh on risk sentiment ([link](#))
- U.K. Financial Conduct Authority restricts Binance from any regulated business ([link](#))

[Mature Markets](#)

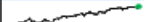
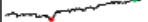

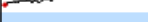
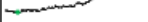
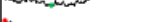




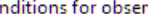
| [Emerging Markets](#)

| [Market Tables](#)

Rising virus concerns weigh on markets

New travel restrictions and lockdowns prompted by a rise in cases, primarily of the delta variant of the coronavirus, are upsetting risk sentiment in a number of countries today. While Chinese shares rose overnight, those in Southeast Asia, such as Indonesia and Malaysia, fell on rising virus concerns. European shares are similarly lower so far today as rising cases have prompted talk of further travel restrictions. US equity futures meanwhile are little changed, as investors' fears of a hawkish shift by the Fed have lessened.

Key Global Financial Indicators

Last updated: 6/28/21 8:10 AM	Level	Change from Market Close					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4281	0.3	3	2	42	14
Eurostoxx 50		4115	-0.1	0	1	28	16
Nikkei 225		29048	-0.1	4	0	32	6
MSCI EM		56	0.8	2	1	39	7
Yields and Spreads			bps				
US 10y Yield		1.51	-1.7	2	-9	87	59
Germany 10y Yield		-0.17	-1.2	0	2	32	40
EMBIG Sovereign Spread		332	-3	-5	-5	-141	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.4	-0.3	1	-1	6	-1
Dollar index, (+) = \$ appreciation		92.0	0.2	0	2	-6	2
Brent Crude Oil (\$/barrel)		76.0	-0.2	1	9	85	47
VIX Index (% change in pp)		16.2	0.6	-2	-1	-19	-7

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

This week is expected to be relatively light on central bank releases, after a flurry of decisions last week. Sweden (Thursday, 0.0%) and Colombia (Monday, 1.75%) are expected to keep rates on hold. The focus will also remain on the central bank speakers at various events. Amongst economic releases, investor focus will also be on the remaining inflation prints, with most notable releases for Brazil (Monday), Spain (Monday), Poland (Wednesday), France (Wednesday), Indonesia (Thursday) and Peru (Thursday). In the US, consensus expects pending home sales to decline by 1% mom (Wednesday). Non-farm payrolls (Friday) are expected to rise by 700k (vs 559k last time), with unemployment declining to 5.7 percent (vs 5.8 percent last time).

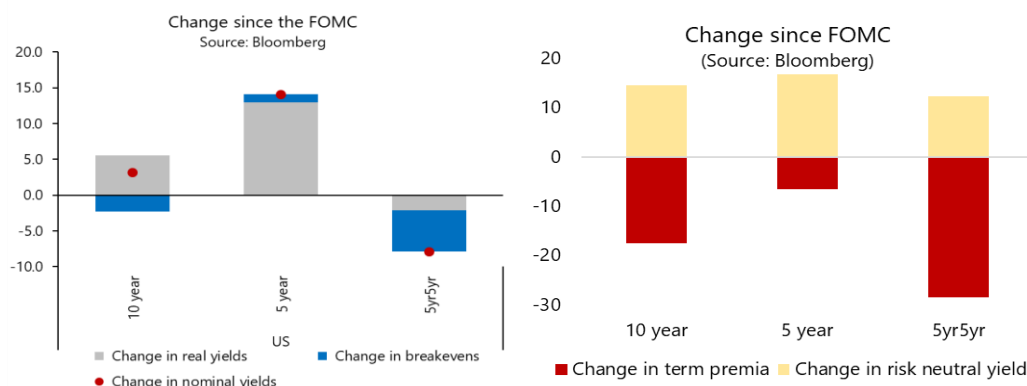
Mature Markets

[back to top](#)

United States

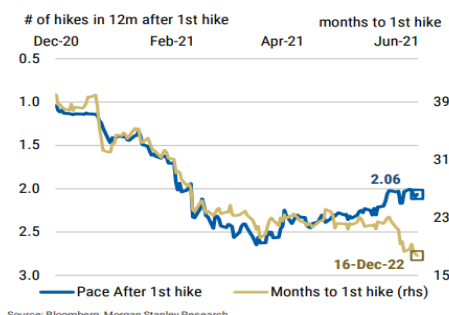
US equity indices continued its ascend Friday, with the S&P500 index increasing by 0.3% and again reaching all-time records. Equity volatility index (CBOE VIX) is gradually declining to its pre-pandemic levels, while interest rate volatility indices stood at moderately elevated levels (details inside). The environment supportive for equities was underpinned by President Joe Biden's infrastructure deal. UST 10Y yields rose by 3 bps, attributed to breakeven inflation recovering its yesterday's drop. The data release in the morning showed that U.S. consumer sentiment rose in June by less than forecast, while short- and long-term inflation expectations declined compared to a month ago. Federal Reserve Bank of Boston President Eric Rosengren said that the Federal Reserve might consider an interest-rate hike from near zero as soon as late 2022 as the labor market reaches full employment and inflation is at the central bank's goal.

While 10-year yield has broadly normalized from the post FOMC market reaction, there is a marked difference across tenors and the drivers. The 5-year yield has risen by 14 bps since the FOMC meeting, while the 5yr5yr forward has declined by 8 bps. In terms of drivers, inflation breakevens at the 5 year tenor are broadly unchanged now, but they have declined sharply over the longer end of the curve. The 5 year real yield has increased by 13 bps. Figure 2 also shows that term premia has declined across the board with a particularly notable decline in the 5yr5yr. Risk-neutral yields, on the other hand, have inched up reflecting the tightening stance adopted by the market.



MS analysts also note that the most notable change in market pricing since the Fed meeting has been that the market now expects the timing of the first rate hike in 18 months, in December 2022, implying a much shorter tapering timeline than the 31-month timeline from May 2013 to December 2015. In contrast the market does not expect the pace of hikes to be in line with what the dot plot suggests – pricing in ~2 hikes in 12 months after the first hike.

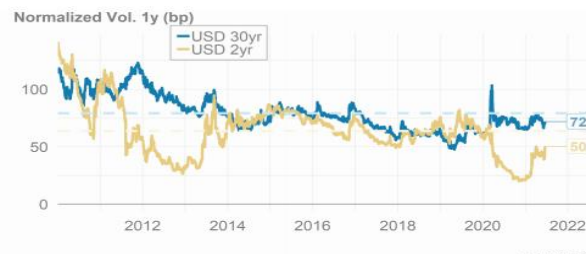
Exhibit 15: Market implied timing and pace of hikes over the last 6 months



Equity volatility continues to compress. The VIX declined by 5 pts last week to 15.6—a significant discount to historical average of 20 pts. This notable drop has also led to a sharp decline in long positions of asset managers, per MS analysts (left chart). This sharp decline in equity volatility is in a relative contrast to rates volatility which seems to have settled at a relatively elevated level and are notably higher than pre-pandemic levels. MS analysts also note that despite the increase in the last few days, 2yr treasury volatility hasn't converged to the 30yr volatility level unlike in the taper tantrum (right chart)



Source: CFTC, Morgan Stanley Research

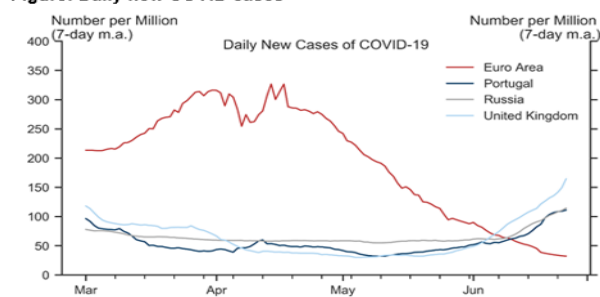


Source: Bloomberg, Morgan Stanley Research

Euro area

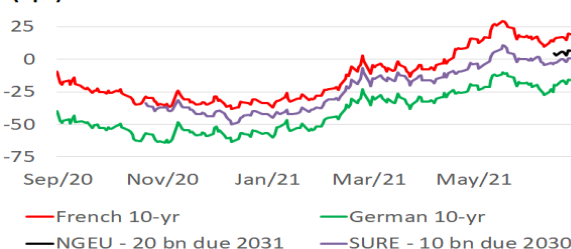
European equities (-0.5%) opened the week lower after a rise of cases of the delta variant in several countries triggered talk of further travel restrictions. Germany, for example, wants to classify the U.K. as a "country of concern" because of the delta variant, effectively banning British travelers from entering the EU.

Figure: Daily new COVID cases



Source: GS

Euro area: Sovereign yields and inaugural NGEU bond (bps)



Source: Bloomberg and IMF

10-yr bund yields (at -0.16%) and the euro (+0.1%) are little changed ahead of flash inflation data to be released on Wednesday. Consensus is that euro area headline inflation will edge lower (to 1.9% yoy from 2% in May) with core at 0.9% yoy in June (from 1% in May). **The EU is expected to return to the market for a second issuance under the Next Generation EU (NGEU) recovery plan, which contacts expect to be as much as €30 bn.**

Bond spreads are little changed but some upward pressure is expected later this week given issuance from Italy (Wed), France and Spain (Thu).

United Kingdom

The British pound (-0.2%) and equities (-0.5%) edged lower as newly appointed Health Secretary Javid, the former Chancellor, is expected to confirm that rising virus numbers will not allow a further reopening until at least July 19.

Cryptocurrencies (+6%) traded higher after the Financial Conduct Authority (FCA) restricted Binance Markets Ltd. from doing any regulated business. Binance Markets is an affiliate of global crypto exchange Binance. The FCA told Binance Markets that it has until the evening of June 30 to confirm it has removed all advertising and financial promotions. Binance Markets must also make clear on its

website, social media channels and all other communications that it is no longer permitted to operate in the U.K.

Japan

Equities gained +0.2%. The Bank of Japan (BOJ)'s summary of opinions for the June monetary policy meeting showed the BOJ expects, with vaccinations picking up, the Japanese economy to recover in the short-term due to pent-up demand for consumption of face-to-face services and accommodation. **One board member discussed the need for BOJ's new financing program for climate change to be flexible.** There is still no broad agreement on what projects will be considered environmentally friendly. Another member said that the BOJ would avoid direct involvement in micro-level resource allocation and will provide funds to financial institutions for various investments or loans that they make to address climate change based on their own decisions. **The 10-year JGB yield and the yen were little changed.**

Emerging Markets [back to top](#)

Asian equities were little changed on net. North Asia (China - Shanghai flat, Shenzhen +0.9%; Taiwan Province of China +0.5%) was mixed while South Asia fell. Indonesia (-1.4%) and Malaysia (-1.2%) were among the underperformers on virus concerns. Indonesia saw a continued spike in daily COVID-19 cases to a new high of above 21k on June 27. Malaysia extended a nationwide lockdown beyond June 28 and unveiled an additional 150 billion ringgit (\$36 billion) fiscal support package. In Thailand (-0.3%), the government reimposed virus restrictions, including a dining-in ban, in capital city Bangkok and nearby provinces for one month, starting from June 28. **Regional currencies broadly weakened, with the Thai baht underperforming (-0.5%), and Malaysian Ringgit gaining (+0.3%).** EMEA bourses opened the week mixed, with gains in Romania (+1.0%), Russia (+0.3%), Kuwait (+0.3%), and Morocco (+0.1%); and losses in UAE (-0.8%), Poland (-0.37%), and Hungary (-0.4%). Currencies traded within a $\pm 0.1\%$ corridor, as the dollar index was mostly flat. **All major indices in Latin American equity markets finished the week lower,** especially Argentina (-2.69%), Brazil (-1.74%) and Chile (-1.69%). 10-year government bond yields were mixed, with Mexico down by 11 bps after the central bank rate hike last Thursday, while Chile (+5 bps), Colombia (+4 bps) and Brazil (+3 bps) saw small increases.

EM fund flows

EM fixed income flows lapsed into outflows for the first time since the end of March last week, according to data from JP Morgan. Hard currency bond funds saw outflows (-\$444mn), after four weeks of inflows, and local currency bond funds (-\$537mn), recorded their largest weekly outflow in nearly a year. Local currency bond fund outflows were split almost equally across EM ex-China and China-related bond funds, which had their first weekly outflow since 29 April, 2020. YTD flows total +\$44.6bn, which consists of \$23.5bn YTD from hard currency funds.

Weekly Cross-asset Flows (USD billion)

Asset	8w flows (8w ago → current)				This wk	YTD
EM Bonds and Equities					-0.4	134.4
EM Bonds					-1.0	44.6
Hard Coy					-0.4	23.5
Local Coy ^A					-0.5	21.2
o.w. EM ex-China					-0.3	4.4
o.w. China					-0.3	14.4
EM Equities					0.6	89.8
US HG					0.6	189.3
US HY					1.2	-11.6
Global Equities					3.8	272.0
EM Bond and Equity ETFs					-0.1	49.1
EM Bond ETFs					-0.6	8.3
EM Equity ETFs					0.5	40.8
Non-resident EM flows[*]					-5.6	-39.0

^{*}High frequency non-resident EM portfolio flow data

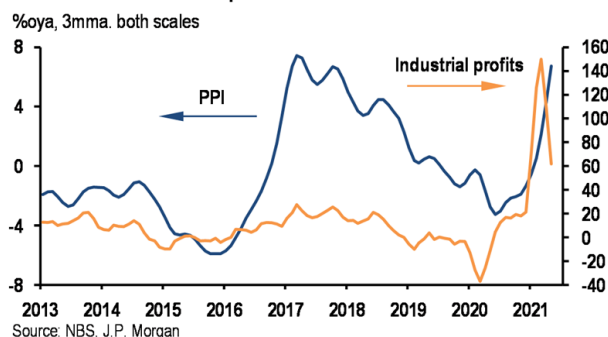
Mexico

According to Bloomberg, a policymaker in Mexico says that the market may be overreacting to the recent rate hike. After Mexico's central bank unexpectedly raised its target rate for the first time since late 2018, hiking by a quarter point to 4.25% in a split decision on Thursday, markets were pricing 131 basis points in further hikes in 2021 as of Friday morning. "It could be an overreaction to this particular event," Deputy governor Esquivel said in an interview Friday with Bloomberg News. If inflation "is more or less in line with what we expect, I don't think there's reason to necessarily anticipate additional hikes," he said, explaining that the board is now projecting higher inflation than forecast in its last quarterly report. The peso erased earlier gains and fell 0.1% to 19.8741 at 1:24pm in Mexico City.

China

Equities (Shanghai flat; Shenzhen +0.9%) were mixed and the RMB was little changed. Citic Group, a ministerial level financial conglomerate directly overseen by China's State Council, is examining the finances of China Huarong Asset Management Co., according to Bloomberg. It was also reported that Huarong's past-due 2020 financial results could come within the next few weeks, sooner than a previous internal timeline to announce by end-August. **Separately, China's industrial profits cooled further in May.** Profit growth slowed to 36.4% y/y in May from 57% y/y in April despite producer price inflation. A comparison with May 2019 showed an average annual increase of 20.2% y/y.

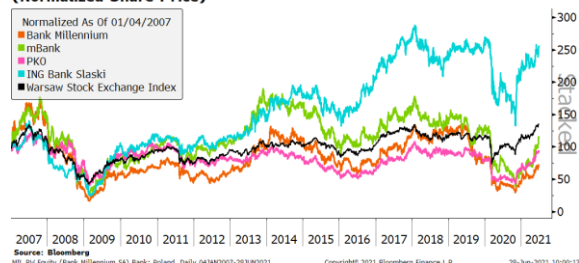
China PPI and industrial profits



Poland

Polish financial authorities have capped dividend payouts depending on the level of FX mortgages held by banks. The new rules stipulate that dividend levels will be adjusted by the share of foreign currency mortgages in a bank's lending portfolio. Banks with a share of FX mortgages above 30% of the total portfolio will not be allowed to make distributions; banks with a share of 20%-30% will reduce dividends by 60 ppts; banks with a share of 5% to 20% will face a cut of 220 ppts; and banks with less than 5% share can pay 100% of their profits in dividends. The measure is intended to incentivize Polish lenders to reduce their backlog of FX mortgages, which has proved legally problematic for over a decade. Stocks of Polish lenders were mostly lower today: Millennium (+0.6%), mBank (-0.5%), PKO (-1.2%), ING Slaski (-0.9%).

Selected Polish Bank Equities
(Normalized Share Price)



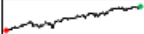





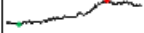
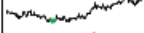

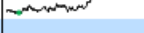









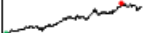








Russia

As commodity prices continue to surge, the central bank of Russia (CBR) is considering rate hikes at its next meeting in July. Inflation in Russia has surged in recent months and is now running slightly above 6%, forcing the central bank to hike rates 125 bps since March 2021. In a Bloomberg interview, governor Elvira Nabiullina said that the CBR “will consider from 25 basis points to 1 percentage point of increase” in interest rates at its next meeting. Investors’ focus for this week will be on the Manufacturing PMI for June and other high-frequency indicators (retail sales, construction, cargo shipment employment and real wages for April) to assess the likelihood of future rate hikes.

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Global Financial Indicators

Last updated: 6/28/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4283	0.3	1	2	42	14
Europe		4115	-0.1	0	1	28	16
Japan		29048	-0.1	4	0	32	6
China		3606	0.0	2	0	22	4
Asia Ex Japan		95	0.9	2	1	37	6
Emerging Markets		56	0.8	2	1	39	7
Interest Rates							
			basis points				
US 10y Yield		1.51	-1.7	2	-9	87	59
Germany 10y Yield		-0.17	-1.2	0	2	32	40
Japan 10y Yield		0.06	1.1	1	-3	5	4
UK 10y Yield		0.76	-2.1	-1	-4	59	56
Credit Spreads							
			basis points				
US Investment Grade		89	-0.2	-2	-2	-64	-6
US High Yield		314	0.2	-9	-27	-320	-65
Europe IG		46	0.3	-2	-4	-24	-2
Europe HY		227	1.8	-10	-19	-169	-15
Exchange Rates							
			%				
USD/Majors		91.99	0.2	0	2	-6	2
EUR/USD		1.19	-0.2	0	-2	6	-3
USD/JPY		111.0	0.2	1	1	3	7
EM/USD		57.4	-0.3	1	-1	6	-1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		76	-0.2	1	9	85	47
Industrials Metals (index)		154	-0.4	3	-4	49	16
Agriculture (index)		54	1.0	-2	-6	59	13
Implied Volatility							
			%				
VIX Index (% change in pp)		16.2	0.6	-1.7	-0.6	-18.5	-6.5
US 10y Swaption Volatility		67.6	2.4	-7.2	3.5	4.6	7.5
Global FX Volatility		6.5	0.1	-0.4	-0.5	-1.9	-1.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		102	0.2	2	0	-74	-18
Italy		107	-1.0	2	-3	-71	-4
Portugal		61	-0.7	0	-4	-33	1
Spain		63	-0.5	1	-2	-31	1

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

Emerging Market Financial Indicators

Last updated: 6/28/2021 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	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.46	0.0	0.1	-1	10	1		3.2	-5	4	23	-6	
Indonesia		14445	-0.1	-0.1	-1	-1	-3		6.4	0	-3	-86	34	
India		74	0.0	-0.1	-2	2	-2		6.4	7	16	35	47	
Philippines		49	-0.4	0.1	-2	2	-1		4.3	-6	-7	13	61	
Thailand		32	-0.5	-1.3	-2	-3	-6		1.8	0	0	40	52	
Malaysia		4.15	0.2	0.0	0	3	-3		3.3	3	1	46	74	
Argentina		96	0.0	-0.2	-1	-27	-12		44.9	9	-69	-25	-1120	
Brazil		4.97	-0.7	1.0	5	9	5		8.3	-17	3	302	272	
Chile		734	0.1	2.0	0	11	-3		4.4	17	35	190	160	
Colombia		3752	0.4	0.2	0	-1	-9		6.8	17	-8	120	174	
Mexico		19.88	-0.3	3.1	0	16	0		7.0	23	24	88	140	
Peru		4.0	0.4	-0.4	-4	-12	-9		5.5	2	53	115	188	
Uruguay		43	-0.1	0.9	1	-3	-3		7.9	0	12	-220	64	
Hungary		296	-0.5	0.2	-3	7	0		2.3	-1	2	81	80	
Poland		3.79	-0.1	0.3	-3	5	-1		1.4	12	21	50	72	
Romania		4.1	-0.2	-0.1	-2	4	-4		2.8	4	4	-89	4	
Russia		72.3	-0.3	1.1	1	-3	2		6.9	0	9	152	118	
South Africa		14.3	-0.8	-0.2	-3	21	3		9.7	5	5	-32	10	
Turkey		8.74	0.2	0.3	-2	-22	-15		17.3	-42	-54	697	421	
US (DXY; 5y UST)		92	0.2	0.1	2	-6	2		0.91	2	11	61	55	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD	
								basis points						
China		5252	0.2	3	-1	28	1		202	0	-9	-44	-27	
Indonesia		5939	-1.4	-1	2	21	-1		166	-11	-8	-104	-34	
India		52736	-0.4	0	3	51	10		141	1	-11	-97	-10	
Philippines		6938	-0.2	2	4	14	-3		88	-10	-9	-80	-24	
Malaysia		1545	-1.0	-2	-3	3	-5		122	0	2	-87	-13	
Argentina		65133	0.0	-2	10	60	27		1555	69	49	-926	199	
Brazil		127256	0.0	-1	1	36	7		247	-4	-7	-134	-12	
Chile		4350	0.0	0	2	9	4		139	-14	-8	-80	-17	
Colombia		1284	0.0	3	6	16	-11		247	-8	-10	-62	32	
Mexico		50550	0.0	0	1	35	15		334	0	0	-183	-23	
Peru		18970	0.0	2	-10	14	-9		159	-11	-9	-30	30	
Hungary		48203	-0.5	0	4	33	15		131	-3	-13	-62	-18	
Poland		67624	-0.5	3	2	36	19		30	-2	-9	-25	2	
Romania		12001	1.1	3	5	39	22		175	-9	-8	-112	-28	
Russia		3841	0.2	1	3	39	17		164	-8	-6	-59	-15	
South Africa		65816	-0.6	0	-3	23	11		314	-5	-4	-213	-70	
Turkey		1379	-0.9	-1	-3	20	-7		454	-9	-16	-147	7	
Ukraine		531	0.0	0	0	6	6		492	0	12	-163	-1	
EM total		56	0.2	2	1	39	7		351	-3	-6	-88	12	

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

[back to top](#)