



- Fed to wind down the portfolio of the Secondary Market Corporate Credit Facility ([link](#))
- European services PMIs gain momentum in May but highlight rising price pressures ([link](#))
- US to amend ban on investments in companies linked to China's military ([link](#))
- Turkish lira depreciates further as inflation surprises to the downside ([link](#))
- Mexican central bank raises short-term inflation expectations but views as transient ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Risk sentiment wanes amid limited market conviction

Most global markets remain rangebound on an unchanged market narrative with robust economic data and central bank speeches on inflation and tapering still the dominant theme. Yesterday, stocks fluctuated in the US, leaving the S&P 500 modestly higher, with leadership coming from the energy sector again as a still-elusive Iran deal kept oil prices moving upward. News after the market close that the Fed plans to begin winding down the Secondary Market Corporate Credit Facility, a temporary emergency facility that closed at the end of last year, garnered little market reaction alongside communication that the decision was unrelated to the path of monetary policy. US Treasury yields are little changed this morning with the 10-year continuing to hover around 1.60% and the US dollar index remaining in a holding pattern ahead of Friday's US payrolls report. Overnight, data prints and geopolitical tensions between the US and China affected some local bourses following news the US plans to amend and potentially expand the ban on investments in companies linked to China's military. European equities are trading moderately lower this morning and benchmark yields are mixed to slightly higher. Idiosyncratic themes continue to drive emerging market assets with commodity linked currencies strengthening while the Turkish lira has remained volatile and is weakening further this morning following a surprising downside inflation print that has investors assessing the potential implications for upcoming monetary policy decisions.

Key Global Financial Indicators

Last updated: 6/3/21 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4208	0.1	0	0	35	12
Eurostoxx 50		4055	-0.8	0	1	24	14
Nikkei 225		29058	0.4	2	1	28	6
MSCI EM		56	0.2	4	4	39	9
Yields and Spreads			bps				
US 10y Yield		1.59	0.3	-2	-1	85	68
Germany 10y Yield		-0.19	0.5	-2	1	16	38
EMBIG Sovereign Spread		328	-1	-5	-9	-171	-22
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.0	-0.1	1	2	4	0
Dollar index, (+) = \$ appreciation		90.1	0.2	0	-1	-7	0
Brent Crude Oil (\$/barrel)		71.3	-0.1	3	5	79	38
VIX Index (% change in bp)		19.2	1.7	2	1	-6	-4

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

Mature Markets

[back to top](#)

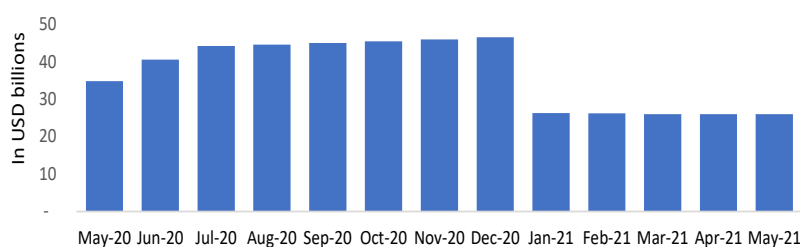
United States

Yesterday, US equity markets remained flat as investors awaited fresh catalysts from US economic data, including tomorrow's US payrolls report. Ten-year US Treasury yields fell 1.5 bps, attributed entirely to the change in breakeven inflation. **In data releases this morning, the US ADP jobs report showed 978k jobs were added in May, considerably exceeding the expected 650k** gain and last month's 654k increase (revised down from 742k). The increase was the largest since June 2020 and was equally split between small, medium, and large firms – thus, supporting positive growth sentiment. Initial jobless claims were recorded at 385k (in line with expected 387k), down from 406k last week and the first time below 400k since the pandemic. Continuing claims increased to 3.77 mn versus expected 3.61 mn. Markets were little changed after the releases with S&P 500 futures pointing to a modest decline.

The Federal Reserve announced plans to begin winding down the portfolio of the Secondary Market Corporate Credit Facility (SMCCF). SMCCF was established on March 23, 2020 to support credit market liquidity through secondary market purchases of eligible corporate bonds or ETFs. As of December 31, 2020, the SMCCF had ceased purchasing eligible assets. The net portfolio remained virtually unchanged since then (chart below with net assets of the facility's auxiliary SPV), with the size being much smaller than other Fed's facilities (e.g., Fed's securities held outright exceeding \$7 trillion). Importantly, a Federal Reserve spokesperson said the portfolio wind down has nothing to do with monetary policy, and it is not a signal about monetary policy.

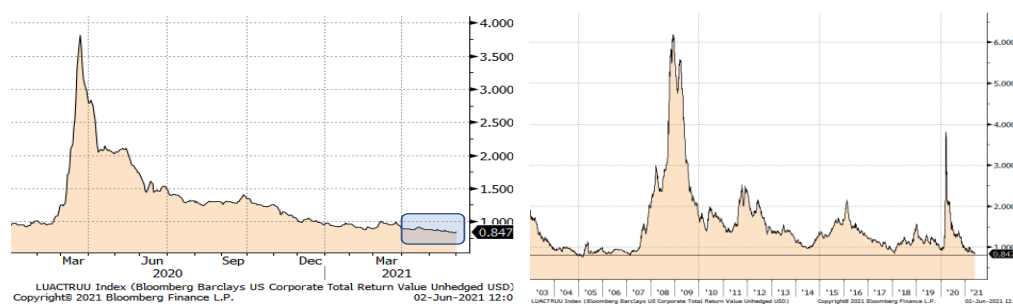
Net Portfolio Holdings of Corporate Credit Facilities LLC

(includes facility asset purchases, Treasury contributions, and other assets)



Historically low levels and volatility of US investment grade (IG) credit spreads has not yet raised concerns about a correction. According to JPMorgan analysts, the low and narrow range of US IG credit spreads in recent weeks (left chart) reflects strong consensus on the positive direction of economic growth, the stability of supportive fiscal and monetary policies for risky assets, and the large amount of liquidity in the system which is keeping demand for IG credit strong even with modest return expectations ahead. A quick rebound to higher spread levels is not seen as imminent as a similarly low level of spreads persisted for nearly three years from 2004-2007 (right chart).

The Bloomberg Barclays US Corporate Bond Index OAS Spread to US Treasury Bonds

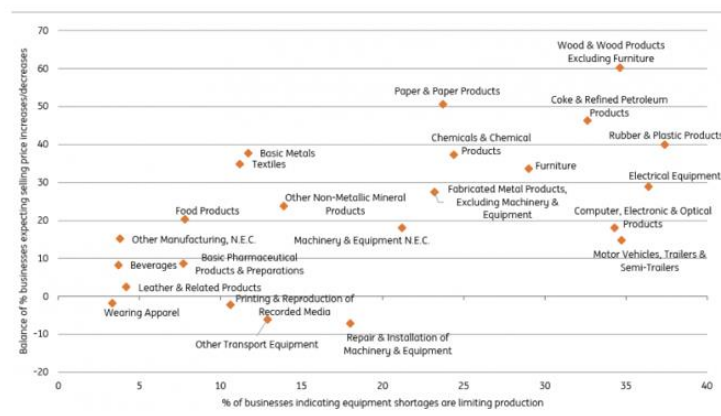


Europe

European equities were trading marginally lower this morning with the Euro STOXX benchmark down 0.5%. European government bond yields were 1 bp higher while corporate credit benchmarks and the euro were little changed.

With Eurozone producer prices increasing by 7.6% y/y in April, analysts focus has shifted back to supply chain issues and goods inflation risk. The Q2 EC Economic Sentiment Indicator confirmed a sharp increase in equipment shortages with proportion of business noting a negative impact on production reaching highest on record. Industries most affected by shortages have also seen a large jump in selling price expectations. As a result, analysts at ING expect a rise in industrial consumer good prices in the coming months, although the effect could be temporary as shortages start to dissipate. Separately, analysts at Société General note that a **limited passthrough to consumer prices could negatively affect credit spreads through increased compression of profit margins.**

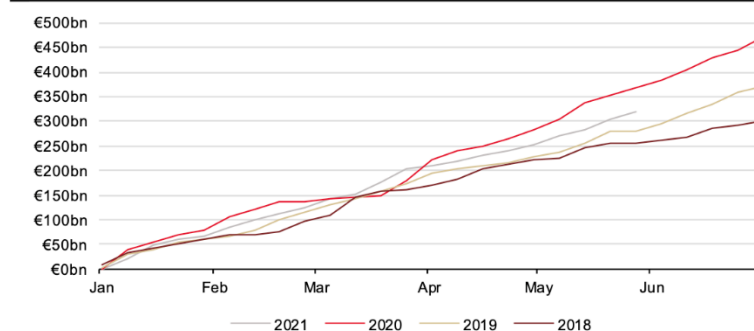
Selling price expectations are the highest for industries experiencing shortages



Source: European Commission, ING Research calculations

European corporate primary markets saw a jump in activity in May. The total issuance across all sectors increased to €65 bn from €44 bn in April according to Société General analyst estimates. The year-to-date volumes stand at €316 bn or about 86% of 2020 activity with the gap primarily driven by lower investment grade placements. By contrast, activity remains strong in the high-yield sector with total issuance reaching €62 bn or more than double the volume issued for the same period last year.

Behind last year but ahead of previous years



Source: Bloomberg, SG Cross Asset Research/Credit

On the data front, Eurozone May final composite PMI readings came in a touch above the consensus (57.1 vs 56.9) as **Spain and Italy reported a stronger than expected recovery in the services sector. UK's services PMI was also revised up to 62.9 from the 61.8 flash reading**, the strongest momentum since 1997. As with manufacturing PMIs, service sector reading displayed rising price pressure amid limited passthrough to consumers at this stage.

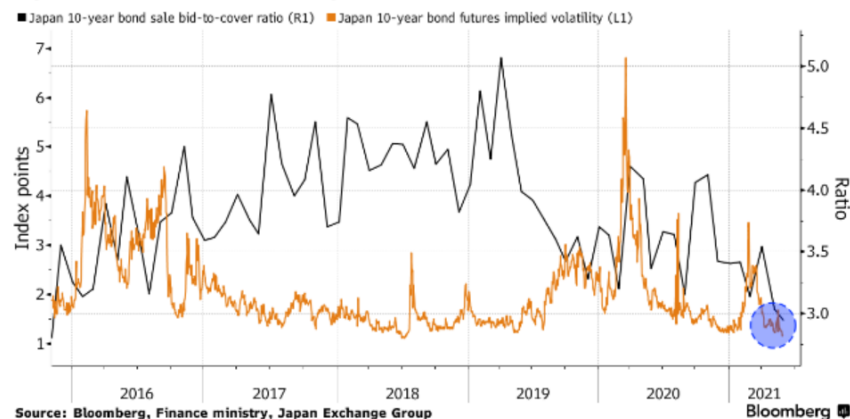
Eurozone Services PMIs

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Spain	50.2	51.9	47.7	42.4	41.4	39.5	48.0	41.7	43.1	48.1	54.6	59.4
Italy	46.4	51.6	47.1	48.8	46.7	39.4	39.7	44.7	48.8	48.6	47.3	53.1
France	50.7	57.3	51.5	47.5	46.5	38.8	49.1	47.3	45.6	48.2	50.3	56.6
Germany	47.3	55.6	52.5	50.6	49.5	46.0	47.0	46.7	45.7	51.5	49.9	52.8
Eurozone	48.3	54.7	50.5	48.0	46.9	41.7	46.4	45.4	45.7	49.6	50.5	55.2

Japan

Equities rose +0.8%. An auction of ¥2.6 tn (\$24 bn) of March 2031 bonds saw weak demand on Thursday, drawing a bid-to-cover ratio of 2.94, the lowest for a 10-year note sale since November 2015. Bank of Japan (BOJ) board member Seiji Adachi signaled that the central bank is ready to take action, if tapering by the US Federal Reserve ends up unexpectedly triggering spikes in the yen. **Separately, SoftBank Group Corp. priced the largest Japanese corporate bond deal of the year.** The technology conglomerate sold ¥405 bn (\$3.7 bn) of debt securities that will mature in 2056 but are callable after five years, at an interest rate of 2.75%. **10-year JGB was little changed, the yen weakened by -0.2%.**

Japan bond market sees volatility and auction interest both dive



Emerging Markets [back to top](#)

Markets in Latin America closed higher yesterday. Equities in Brazil (+1%), Colombia (2%), Peru (+0.7%), and Mexico (+0.1%) were up on Wednesday. All major regional currencies appreciated against the dollar. The Brazilian real lead the pack, as it appreciated 1.5% and closed at 5.0764 against the USD. Currencies in Chile (+1.1%), Peru (+1%), Colombia (+0.4%), and Mexico (+0.4%) were also up. **Asian equities fell modestly (-0.1%) for a second straight day.** Hong Kong SAR (-1.1%), Philippines (-0.7%) and Malaysia (-0.5%) underperformed while Indonesia (+1%) and Korea (+0.7%) led. Regional currencies were mixed. **EMEA equities traded mixed.** The largest gains were in Hungary (+1.0%), Poland (+0.7%), and Turkey (+0.6%), while the largest drops were in South Africa (-1.2%), Egypt (-0.6%), and UAE (-0.4%). Currencies traded mostly sideways today, with a slight drift towards depreciation against the US dollar

China

The US reportedly plans to amend a ban on investments in companies linked to China's military. The decision could be announced this week, according to Bloomberg. Under the amended order, the US Treasury Department would create a list of companies that could face financial penalties for their connection to China's defense and surveillance technology sectors. This is in contrast to tying financial sanctions and selection of targeted companies to a congressionally mandated Defense Department report. The US is looking to keep a large number of previously listed entities and the Treasury's Office of Foreign Assets Control will add new entities as part of the order. Separately, **S&P has kept China Huarong Asset Management Co. on negative watch but reaffirmed the BBB+ rating.** Moody's and Fitch downgraded the company in late-April. S&P expects to resolve the negative watch in the next three months upon clarity on various issues such as the company's performance and government support. Meanwhile, two of China's largest bad-debt managers have told the banking regulator they are concerned about losing access to the dollar bond market in the wake of turmoil at China Huarong Asset Management Co., according to Bloomberg. **Equities (Shanghai -0.3%; Shenzhen -0.3%) fell, the RMB weakened -0.2%.**

Indonesia

Indonesia issued \$3 bn of USD sukuk at record low yields. The government sold a five-year sukuk at 1.5%, 10-year at 2.55% and 30-year at 3.55%, according to Bloomberg. Orders came in at more than \$10.3 bn. The 30-year sukuk will be used to finance or refinance expenditure directly related to green projects. It is Indonesia's first long-term dollar green security, and this came amid high interest from green investors. The government however said that it is now looking to deploy new strategies to attract more equity financing, for example through its sovereign wealth fund, instead of debt. **USD and local currency bond yields were little changed, the rupiah weakened -0.2% and equities rose +0.1%.**

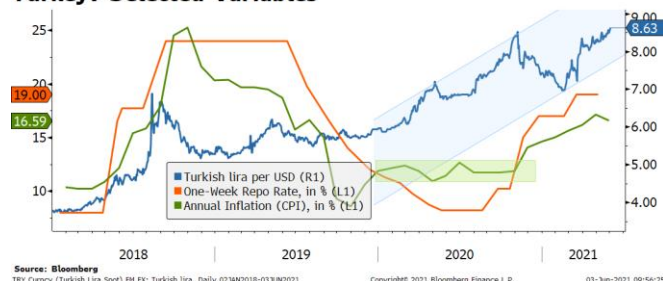
Indonesia sold new U.S. dollar Islamic bonds at lowest yields



Turkey

Turkish inflation surprised with a small drop in May. Headline CPI came in at 16.6% y/y vs 17.3% expected and 17.1% in April. Core inflation also slowed down from 17.8% y/y in April to 17% in May. The lira weakened around 0.4% to 8.6 lira/dollar following the release, as traders assess the implications of the new data. President Erdogan has been calling for lower interest rates arguing that lower borrowing costs would help lower inflation; the new data may add pressure on the central bank to react in that direction.

Turkey: Selected Variables



Mexico

The Mexican central bank (Banxico) revised its short-term inflation forecast upwards. In its quarterly report, Banxico revised 4Q2021 headline inflation from 3.6% to 4.8%, higher than its target range of 3% (+/- 1%). The core inflation forecast for the period was also revised up from 3.1% to 3.9%. The bank expects inflationary pressures to persist through 1Q2022 due to higher commodity prices, supply shortages, and higher services inflation. However, post 1Q2022 Banxico forecasts inflation to revert within its target range. According to a Morgan Stanley report, Banxico is likely to keep the policy rate unchanged despite the upward revisions, as its medium-term inflation forecasts (18-24 month) are still within the target range. However, analysts also believe Banxico could hike rates if domestic financial conditions deteriorate due to events like a rate hike in the US or a weaker Mexican peso. In the same report, Banxico revised its 2021 GDP growth forecast up from 4.8% to 6%.

Inflation forecast path (y/y)







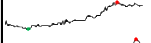















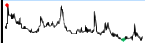


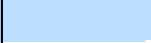


	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Headline								
Banxico New	5.8	4.5	4.8	4.3	3.0	3.1	3.1	2.9
Banxico Old	4.5	3.2	3.6	3.1	3.0	3.2	3.0	
MS Forecast	5.6	4.6	4.6	3.4	3.0	3.2	3.4	
Core								
Banxico New	4.3	3.9	3.9	3.9	3.3	3.2	3.2	3.2
Banxico Old	3.6	3.0	3.1	3.0	3.0	3.0	3.0	
MS Forecast	3.9	3.6	3.7	3.4	3.2	3.1	3.3	

Source: Morgan Stanley

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Global Financial Indicators

Last updated: 6/3/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4208	0.1	0	0	35	12
Europe		4055	-0.8	0	1	24	14
Japan		29058	0.4	2	1	28	6
China		3584	-0.4	-1	4	23	3
Asia Ex Japan		96	-0.2	3	2	39	7
Emerging Markets		56	0.2	4	4	39	9
Interest Rates			basis points				
US 10y Yield		1.59	0.3	-2	-1	85	68
Germany 10y Yield		-0.19	0.5	-2	1	16	38
Japan 10y Yield		0.08	0.1	0	-1	7	6
UK 10y Yield		0.82	1.9	1	-2	54	62
Credit Spreads			basis points				
US Investment Grade		91	0.6	-1	0	-69	-4
US High Yield		336	-0.1	-5	8	-265	-44
Europe IG		50	0.8	0	0	-15	2
Europe HY		248	4.6	-1	0	-128	6
Exchange Rates			%				
USD/Majors		90.06	0.2	0	-1	-7	0
EUR/USD		1.22	-0.2	0	1	8	0
USD/JPY		109.8	0.2	0	1	1	6
EM/USD		58.0	-0.1	1	2	4	0
Commodities			%				
Brent Crude Oil (\$/barrel)		71	-0.1	3	5	79	38
Industrials Metals (index)		156	-2.1	0	0	56	18
Agriculture (index)		60	0.5	6	3	70	24
Implied Volatility			%				
VIX Index (% change in pp)		19.2	1.7	1.8	0.9	-6.5	-3.5
US 10y Swaption Volatility		65.1	-2.9	-0.3	-6.9	-1.7	5.0
Global FX Volatility		7.1	0.0	0.1	-0.1	-0.6	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		100	-1.5	-5	-20	-88	-20
Italy		108	0.5	-3	0	-83	-3
Portugal		65	0.7	0	-1	-28	5
Spain		66	0.4	0	0	-31	4

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: 6/3/2021 8:15 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	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation				% p.a.						
China		6.39	-0.2	-0.2	1	11		3.2	0.7	2	-5	42	-8
Indonesia		14285	0.0	0.0	1	-1		6.4	-2.8	-6	-15	-91	31
India		73	0.2	-0.4	1	4		6.3	-0.6	6	-1	22	37
Philippines		48	0.0	0.3	0	5		4.3	4.8	8	14	12	68
Thailand		31	-0.1	0.7	0	1		1.9	0.4	2	0	43	55
Malaysia		4.12	0.0	0.4	0	3		3.3	-1.3	-2	0	49	71
Argentina		95	0.0	-0.3	-1	-27		45.6	-0.5	-15	-89	17	-1055
Brazil		5.08	1.5	4.6	7	2		8.0	-7.7	-20	8	272	242
Chile		717	1.2	1.8	-2	9		3.9	3.1	-4	18	145	115
Colombia		3650	0.4	2.6	5	0		6.6	-7.0	-20	16	132	157
Mexico		19.96	-0.3	0.0	1	9		6.7	0.7	-12	-16	36	107
Peru		3.8	1.0	0.8	0	-11		4.9	4.4	-14	-32	57	130
Uruguay		44	0.2	0.5	1	-1		8.1	-1.4	25	70	-221	86
Hungary		284	-0.1	0.6	5	8		2.3	-2.2	6	32	71	78
Poland		3.65	-0.1	0.8	3	7		1.2	-2.3	3	22	41	60
Romania		4.0	-0.2	-0.2	1	6		2.7	0.0	0	11	-105	-2
Russia		73.2	-0.1	0.4	3	-6		6.9	0.7	7	9	156	114
South Africa		13.6	-0.3	1.6	6	25		9.7	-0.2	-1	-44	1	4
Turkey		8.67	-0.9	-1.9	-5	-22		18.2	19.2	36	48	783	511
US (DXY; 5y UST)		90	0.2	0.0	-1	-7		0.80	0.8	-1	-2	44	44

	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	Latest	1 Day	7 Days	30 Days	12 M	
							basis points					
China		5255	-0.7	-2	3	32	199	0	-2	-9	30	-9
Indonesia		6092	1.0	5	2	24	158	0	-9	-25	-5	-29
India		52232	0.7	2	8	54	151	-1	1	-6	-115	0
Philippines		6792	-0.7	2	7	4	83	0	-9	-17	13	-22
Malaysia		1591	-0.5	0	0	2	113	0	-2	-3	9	3
Argentina		62660	0.0	11	28	43	1459	0	19	8	-570	91
Brazil		129601	0.0	5	9	39	253	0	0	-16	58	3
Chile		4394	0.0	6	-4	15	126	0	-6	-16	-14	-18
Colombia		1248	0.0	6	3	8	207	0	-4	-15	44	2
Mexico		50750	0.0	3	5	33	348	0	-9	-34	55	-12
Peru		21119	0.0	5	8	29	133	0	-4	-3	22	1
Hungary		47096	0.8	3	9	26	65	0	-6	-15	-42	-31
Poland		66758	0.0	4	10	34	-22	0	-4	-11	-54	-21
Romania		11640	0.5	0	3	30	177	2	-3	-9	-130	-26
Russia		3779	-1.0	1	7	33	159	0	-5	-3	19	-7
South Africa		67930	-1.6	1	2	27	357	0	-4	-35	25	-23
Turkey		1422	-0.6	0	0	30	421	0	-5	-47	34	-24
Ukraine		531	0.0	0	1	6	479	0	12	-21	127	-12
EM total		56	-1.0	4	4	39	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](#)