



- New-issue CLO volume nears quarterly record in US ([link](#))
- Near term credit volatility falls further, while skew remains at record high ([link](#))
- Eurozone inflation slows marginally in June ([link](#))
- China's June manufacturing PMI holds firm but non-manufacturing moderates ([link](#))
- China's ICBC abandons \$3 bn investment plan for coal plant in Zimbabwe ([link](#))

[Mature Markets](#)


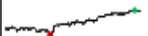


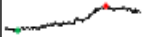

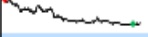



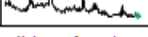
| [Emerging Markets](#)

| [Market Tables](#)

Markets mixed as the quarter ends

Major European markets are lower this morning, while Chinese shares rose overnight, and US equity futures are little changed. Concerns over renewed restrictions due to the spread of the delta variant of the virus is seen as one factor, but the weakness this morning is broad based and not confined to sectors generally seen as more vulnerable. Some analysts have cited quarter/month end rebalancing effects for today's moves, but it is difficult to gauge the impact. Sovereign bond yields are modestly lower this morning, with yields on the US and German 10-year bonds down 1 and 2 bps respectively.

Key Global Financial Indicators

Last updated: 6/30/21 8:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4292	0.0	1	2	38	14
Eurostoxx 50		4078	-0.7	0	1	26	15
Nikkei 225		28792	-0.1	0	0	30	5
MSCI EM		56	-0.1	2	1	39	7
Yields and Spreads			bps				
US 10y Yield		1.46	-1.4	-3	-14	80	54
Germany 10y Yield		-0.20	-2.6	-2	-1	26	37
EMBIG Sovereign Spread		338	1	0	7	-139	-13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.4	0.0	0	-1	6	-1
Dollar index, (+) = \$ appreciation		92.2	0.1	0	2	-5	2
Brent Crude Oil (\$/barrel)		75.5	0.9	0	9	83	46
VIX Index (% change in pp)		16.7	0.7	0	0	-14	-6

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

Mature Markets

[back to top](#)

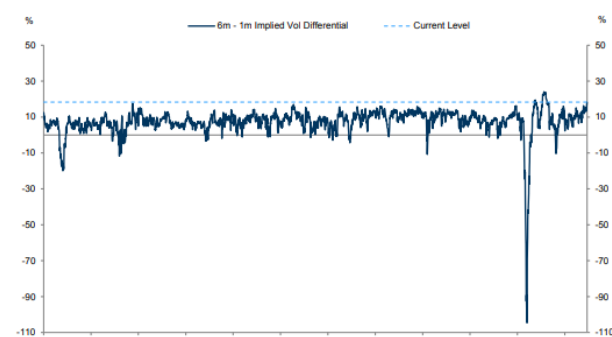
United States

Risk assets continued to trade with little direction with S&P 500 closing unchanged yesterday. Market contacts highlighted quarter-end rebalancing, holiday weekend and a lack of conviction headed into Friday's jobs report as potential reasons behind the subdued market activity. Within sectors, tech and retail companies rose, reversing Monday's move, while financials underperformed even after some big banks boosted dividends. US treasury yields were also broadly unchanged. Consumer confidence also soared in June along with a pickup in inflation expectations. Federal Reserve Bank of Richmond President Barkin was less upbeat, saying the U.S. labor market isn't close to its pre-pandemic levels and he'd like to see much more progress before slowing central-bank asset purchases. The house price index accelerated further to 14.9% y/y in April from 13.4% in March, the fastest pace since December 2005. On a seasonally adjusted basis, the index rose 1.62% m/m, up slightly from 1.59% in March.

In key releases this morning, ADP institute's data showed that US firms added 692k jobs in June, ahead of the 600k expected by the consensus (and vs the downwardly revised figure of 886k in May). Service-provider employment increased 624k in June, with more than half the gain stemming from a 332,000 advance in leisure and hospitality, according to ADP. Payrolls at goods producers rose 68k during the month, driven largely by construction. Market reaction to the release was muted.

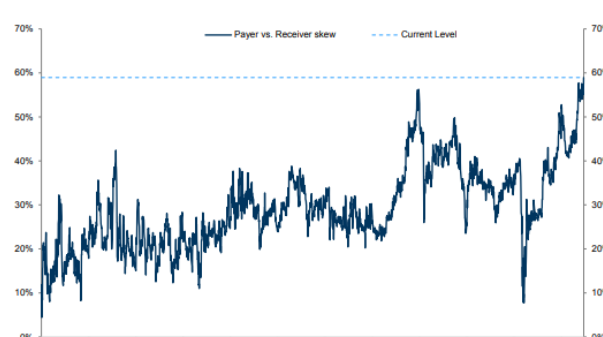
Spreads on investment grade and high yield indices have been making new post-financial crisis tights, and implied and realized volatility are now approaching their all-time lows. The differential between the 6- and 1-month implied volatility on the CDX IG contract is currently at the 99th percentile rank vs history (Chart 1). Goldman analysts note that this steepness reflects, to a very large extent, the depressed level of the 1-month implied volatility, which currently sits at just its 1st percentile post-GFC (vs. the 22nd percentile rank for the 6-month implied volatility). Analysts also note that the implied volatility skew in the credit markets is at an all-time high (Chart 2). This suggests that the relative price of downside protection has never been more expensive.

Exhibit 1: Steepness of implied credit vol term structure remains near all-time highs
6-month vs 1-month implied volatility differential on the CDX IG 50-delta options



Source: Goldman Sachs Global Investment Research, Goldman Sachs Group Inc.

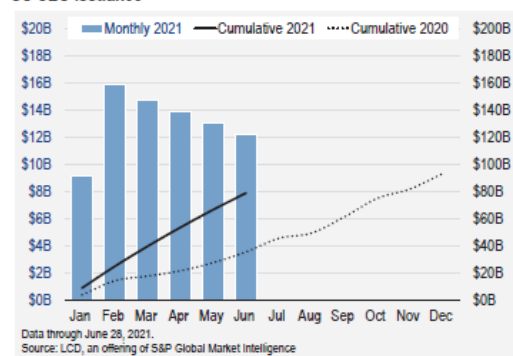
Exhibit 2: Implied volatility skew is at all-time highs
CDX IG 3-month 25-delta payer vs. 25-delta receiver implied volatility skew, normalized by at-the-money



Source: Goldman Sachs Global Investment Research, Goldman Sachs Group Inc.

LCD data shows that CLO issuance volume remains very strong in the US. U.S. new issue CLO volume in the second quarter, at roughly \$39 billion, sits just shy of the \$39.8 billion quarterly record set in Q1. Year to date levels are also significantly higher than last year and running at more than double the pace (at \$78.8 billion from 162 deals this year, versus \$34.2 billion from 77 deals in the same period in 2020). Last week also featured the largest-ever CLO refinancing via an applicable margin reset, or AMR, auction — an approach by which equity stakeholders in CLOs can reprice debt liabilities at a decidedly lower cost of execution compared to a traditional arranger-based refinancing.

US CLO issuance



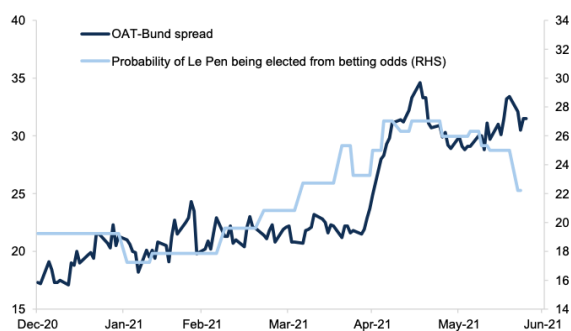
Euro Area

European equities were down around 1% this morning. Cyclical sectors such as automotive (-2.0%) and banks (-1.4%) underperformed. Energy shares (-0.5%) were also lower despite higher crude oil price (+0.7%) with some analysts pointing to potential quarter-end rebalancing effects.

European bond yields were lower by 3-4 bps. The euro (-0.1%) traded just below 1.19 dollars per euro. Separately, **ECB's Panetta revealed that the central bank will decide on its CBDC by mid-July.** If the ECB decides to proceed, the digital euro development could take up to 5-years.

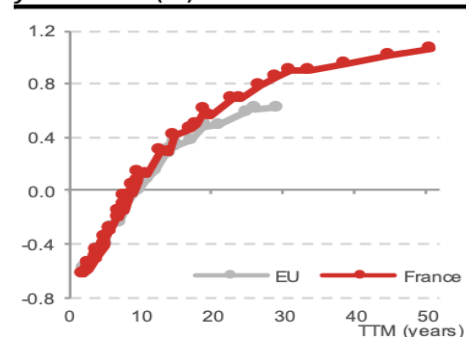
Sell-side analysts have noted the recent underperformance of France long-term government bonds as compared to German bunds, even as Southern-European spreads have mostly reverted following a more dovish tone from the ECB. Some analysts argue that **widening of spreads could be related to the 2022 presidential election**, as it has coincided with the rise of odds in favor of right-wing candidate Le Pen. However, contacts also point to **potential crowding out effect from the larger than expected NextGenEU issuance.** Contacts noted that France capped the tenor of its latest long-term bond auction at 20-years, which also coincided with the EU issuing a 30-year bond.

Exhibit 3: The French sovereign spread has tracked the probability of Ms. Le Pen being elected



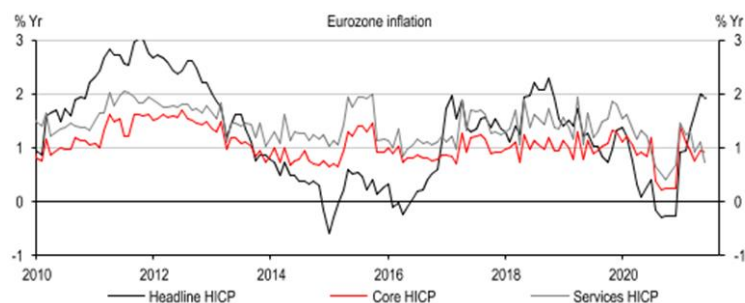
Source: Smarkets, Datastream, Goldman Sachs Global Investment Research

Graph 2. EU yield curve vs France yield curve (%)



Source: SG Cross Asset Research/Rates

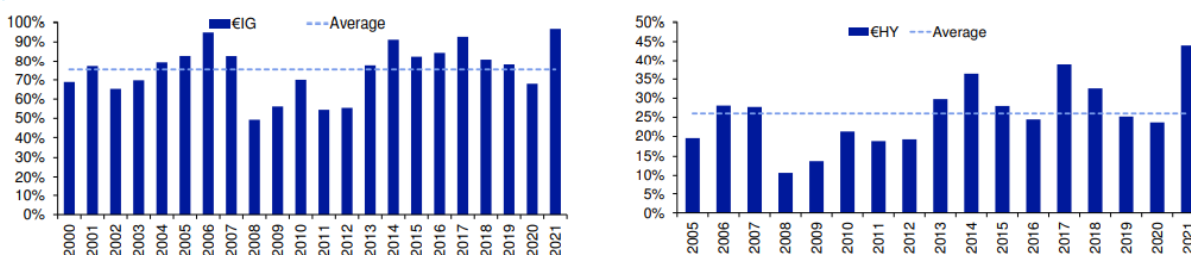
Euro area June inflation came in line with market consensus at 1.9% yoy, edging slightly lower from the 2% reading in May. Core inflation came also in line with expectations at 0.9% yoy. Goods inflation picked up while energy and service price growth slowed down. Most analysts expect an up-tick in headline inflation going forward due to base effects and transitory factors, as such, with limited impact on ECB's stance.



Source: Refinitiv Datastream, HSBC

Credit markets see a record drop in volatility in the first half of 2021. Analysts at Deutsche Bank note that on 97% of the days, investment grade spreads moved 1 bps or less. High-yield credit markets have also enjoyed a relative resilience. However, analysts expect the volatility to pick-up in the second half as markets become more sensitive to high-frequency data releases due to implied implications on major central bank monetary policy.

Figure 1: Percentage of trading days in €IG (LHS) and in €HY Index (RHS) with moves no more than +/- 1bps



Source: Deutsche Bank, ICE Indices

Japan

The Bank of Japan (BoJ) shifted to a quarterly bond buying plan from monthly. On Tuesday, the BoJ announced it would reduce scheduled purchases of some maturities from July. The plan showed a reduction of at least ¥25 bn (\$226 mn) in purchases for each of the one-to-three, five-to-10 years, and 10-to-25 buckets. The BoJ may 'exceptionally' adjust the amount in case the level of yields changes substantially, according to Bloomberg. **Separately, industrial production fell sharply by 5.9% m/m in May** compared to +2.9% m/m in April. The larger decline was driven by weaker car production due to semiconductor shortages. Equities fell for a second day by 0.3%, 10-year JGB yield fell 0.2bps and the yen was little changed.

Solid factory output is key to eking out economic growth this quarter



Source: Japan's trade ministry

Emerging Markets [back to top](#)

Asian equities were little changed on net. Singapore (+1.3%) outperformed, Taiwan Province of China (+0.9%) and China (Shanghai +0.5%; Shenzhen +1%) also increased. Malaysia (-1%), Philippines (-0.8%) and Hong Kong SAR (-0.6%) fell. **Regional currencies were mixed**, with the Philippines peso (-0.6%) weakening but the Korean won (+0.2%) strengthening. **Indian bond yields** of four to five-year tenor rose around 5bps. The increase followed reports that the government would be issuing bonds of tenors shorter than seven years to raise INR1.58 tn (\$212 bn) to fund a shortfall in the Goods and Services Tax. **EMEA stocks were mixed today**, without clear direction from investors region-wise: Kuwait (-1.1%), South Africa (-0.5%), Poland (-0.8%), and the Czech Republic (-0.6%) led the drops, while the largest gains were in Egypt (+1.3%) and Romania (+0.3%). Currencies moved sideways in a $\pm 0.1\%$ corridor to the US dollar. **Major indices in Latin American equity markets were little changed on Tuesday.** In the currency market, the Argentina peso rose by 1%, followed by Chilean peso (+0.2%), while Peruvian sol was down by 0.1% after its rally on Monday.

China

China's official manufacturing PMI held firm while non-manufacturing PMI lost momentum in June. The manufacturing PMI registered at 50.9 in June versus 51 in May. The National Bureau of Statistics said that supply chain problems are weighing on the manufacturing sector, with recent computer chip, coal and power supply shortages hitting output. The non-manufacturing PMI covering construction and services slowed to 53.5 from 55.2 over the same period reflecting recent regional virus outbreaks. **Separately, Evergrande said that it has met one of the 'three red lines' set by the government.** The company said its net debt-to-equity ratio fell below 100% as of June 30, according to Bloomberg. Total borrowings dropped by 15% from March to about RMB570 bn (\$88.3 bn). It has also disposed nearly \$8 bn worth of assets so far this year. China Huarong Asset Management Co. meanwhile said that auditors need more time to complete work on the bad debt manager's financial reports. **Equities (Shanghai +0.5%; Shenzhen +1%) rose while the RMB appreciated +0.1%.**

Beijing's three red lines	Evergrande's target
100% cap on net debt to equity	to be met by June 30
Cash to short-term debt ratio of at least one	Dec. 2021
70% ceiling on liabilities to assets, excluding advance proceeds from projects sold on contract	Dec. 2022

Poland

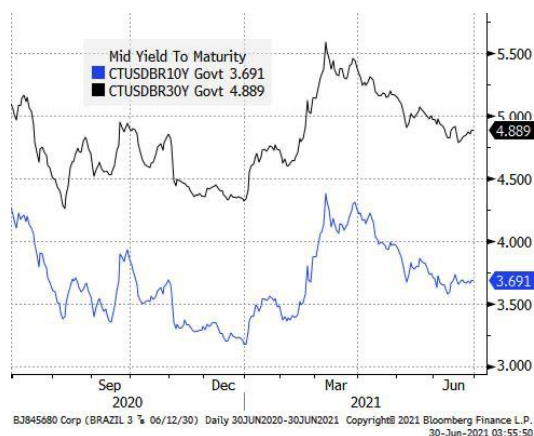
Polish inflation came in lower than expected, slightly weakening prospects for future rate hikes. Headline CPI for June printed at 4.4% y/y, down from 4.7% in May and compared to expectations of 4.6%. The Central Bank of Poland will hold its next meeting on July 8. Governor Glapinski recently emphasized the importance of supporting the recovery and that current inflation pressures are temporary, and hence many expect the CBP to maintain rates at 0.1% this month.

Zimbabwe

The Industrial and Commercial Bank of China—the country's largest lender—has abandoned plans to fund a \$3 bn coal plant in Zimbabwe. Reportedly, ICBC walked away from the project due to environmental concerns, leaving the plan to develop the Sengwa coal project in northern Zimbabwe unfunded. ICBC has also announced it will not fund a similar project in Kenya.

Brazil

Brazil joined the other emerging market borrowers in locking in current low costs with a two-part dollar bond issue. According to Bloomberg, the country priced \$1.5 billion in 10-year bonds at a yield of around 3.875% on Tuesday, as well as a \$750 million reopening of its 2050 line. Brazil relies primarily on its local market for financing, but dollar debt only makes up around 4.5% of the country's total outstanding borrowing. It had last come to international debt markets in December.



This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), Xingmi Zheng (Research Assistant), Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 6/30/21 8:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4291	0.0	1	2	38	14
Europe		4078	-0.7	0	1	26	15
Japan		28792	-0.1	0	0	30	5
China		3591	0.5	1	-1	19	3
Asia Ex Japan		95	-0.1	3	1	37	6
Emerging Markets		56	-0.1	2	1	39	7
Interest Rates							
			basis points				
US 10y Yield		1.46	-1.4	-3	-14	80	54
Germany 10y Yield		-0.20	-2.6	-2	-1	26	37
Japan 10y Yield		0.06	-0.4	0	-3	3	4
UK 10y Yield		0.72	-1.6	-6	-7	55	53
Credit Spreads							
			basis points				
US Investment Grade		88	-0.1	-2	-3	-62	-7
US High Yield		314	0.0	-7	-27	-332	-66
Europe IG		47	0.6	0	-3	-20	-1
Europe HY		231	1.3	1	-16	-151	-11
Exchange Rates							
			%				
USD/Majors		92.17	0.1	0	2	-5	2
EUR/USD		1.19	-0.1	0	-3	6	-3
USD/JPY		110.6	0.1	0	1	3	7
EM/USD		57.4	0.0	0	-1	6	-1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		75	0.9	0	9	83	46
Industrials Metals (index)		156	0.1	2	-3	50	18
Agriculture (index)		55	-1.0	0	-5	55	14
Implied Volatility							
			%				
VIX Index (% change in pp)		16.7	0.7	0.4	0.0	-13.7	-6.0
US 10y Swaption Volatility		66.7	0.1	-0.5	2.6	2.3	6.5
Global FX Volatility		6.7	0.0	-0.1	-0.3	-1.6	-1.4
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		103	1.1	1	2	-63	-16
Italy		104	-1.2	-3	-6	-67	-7
Portugal		60	-1.3	-2	-5	-33	0
Spain		62	-0.8	-1	-3	-30	0

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

Emerging Market Financial Indicators

Last updated: 6/30/2021 8:58 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)					Level		Change (in basis points)			
	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	0.1	0.3	-1	9	1		3.2	0	4	29	-5
Indonesia		14500	-0.1	-0.5	-2	-2	-3		6.5	1	3	-79	41
India		74	-0.1	-0.1	-2	2	-2		6.4	5	14	37	48
Philippines		49	-0.6	0.0	-2	2	-2		4.3	6	-1	22	63
Thailand		32	0.1	-0.7	-3	-4	-7		1.8	-2	-2	43	51
Malaysia		4.15	0.1	0.3	-1	3	-3		3.3	1	1	46	73
Argentina		96	0.0	-0.2	-1	-26	-12		45.3	57	-59	11	-1082
Brazil		4.98	-0.5	-0.3	5	10	4		8.1	-31	15	287	255
Chile		723	0.7	1.6	0	14	-2		4.4	19	51	186	166
Colombia		3766	-1.3	0.2	-1	0	-9		6.8	10	-3	115	168
Mexico		19.84	-0.1	1.8	1	16	0		6.9	6	21	88	132
Peru		3.9	-0.3	2.1	-2	-9	-7		5.2	-33	41	88	163
Uruguay		43	0.1	0.5	1	-3	-3		7.9	-3	-4	-226	61
Hungary		296	0.0	-0.6	-4	7	0		2.3	-1	4	83	81
Poland		3.80	-0.1	0.0	-4	4	-2		1.3	1	4	43	66
Romania		4.1	-0.1	-0.4	-3	4	-4		2.8	3	6	-89	5
Russia		72.9	-0.2	-0.4	1	-2	2		7.0	6	18	161	127
South Africa		14.3	0.5	-0.4	-4	22	3		9.7	-11	-4	-32	6
Turkey		8.66	0.9	-0.2	-2	-21	-14		17.4	-24	-69	697	429
US (DXY; 5y UST)		92	0.1	0.4	2	-5	2		0.88	0	8	59	52

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		5224	0.6	1	-2	23	0		203	-2	-8	-45	-26
Indonesia		5985	0.6	-1	1	22	0		173	-1	1	-101	-27
India		52483	-0.1	0	1	48	10		147	2	-2	-98	-4
Philippines		6902	-0.8	0	4	11	-3		99	3	5	-72	-13
Malaysia		1533	-1.0	-2	-3	1	-6		123	-2	3	-89	-12
Argentina		62972	0.0	-4	6	63	23		1574	55	88	-849	218
Brazil		127327	0.0	-1	1	34	7		254	2	9	-134	-5
Chile		4324	0.0	-1	-1	9	4		141	-7	-1	-83	-15
Colombia		1257	0.0	1	5	13	-13		249	-7	-1	-66	34
Mexico		50337	0.0	0	-1	33	14		339	3	12	-188	-18
Peru		18977	0.0	1	-10	12	-9		160	-6	-3	-35	31
Hungary		47396	-0.7	-3	2	32	13		134	-3	-6	-70	-15
Poland		66464	-1.2	0	0	34	17		34	-3	-4	-21	6
Romania		11917	0.1	3	4	38	22		179	-3	2	-113	-24
Russia		3824	0.9	0	3	39	16		169	-1	5	-60	-10
South Africa		66425	-0.2	1	-2	22	12		320	-4	8	-214	-64
Turkey		1369	-0.2	-2	-4	17	-7		462	-1	-10	-138	15
Ukraine		531	0.0	0	0	6	6		490	-18	15	-176	-3
EM total		56	0.0	2	1	39	7		357	1	5	-86	18

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

[back to top](#)