



- US payrolls regain some traction in May but job gains below expectations ([link](#))
- Unwind of Fed's corporate credit facility expected to have limited impact on markets ([link](#))
- Survey shows most expect ECB PEPP pace to slow after September meeting ([link](#))
- US amendment blocks investments in 59 Chinese companies with military ties ([link](#))
- Reserve Bank of India keeps policy rate unchanged but expands asset purchases ([link](#))
- Chilean assets slump after surprise plan to allow full withdrawal of pension savings ([link](#))

[Mature Markets](#)


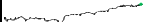
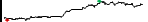

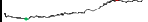
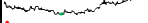




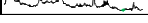
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## Markets mixed as US jobs growth regains traction

Markets are trading decidedly mixed this morning following the May US payrolls report that showed jobs growth picked up pace but was below median expectations. US nonfarm payrolls increased 559k last month, compared to the median estimate for a 675k rise, while the unemployment rate dropped to 5.8% from 6.1%. The immediate market response to the data has been muted so far with US Treasury yields and S&P 500 futures little changed, while the US dollar index is modestly weaker. Analysts note that while continued strength in macro data releases is re-assuring and confirms a recovery gaining momentum, it also could potentially signal a ramp up of taper talk, especially as the ECB and FOMC meetings take place over the next two weeks. Markets traded in tight ranges in the lead up to the US jobs data with stocks in Asia closing mixed, while China outperformed despite the US administration amending and expanding the investment ban on companies with Chinese military ties. Major equity and bond markets in Europe remain little changed this morning. Risk aversion was more pronounced yesterday with the S&P 500 marginally lower following a muted reaction to a relatively positive batch of data on the labor market and service sector sentiment. However, US Treasury yields were broadly up across the curve and led higher by real rates, which lent support to the US dollar index, but the tech sector underperformed with the Nasdaq down 1%. In emerging markets, Chilean assets were the notable underperformer following news that legislators are planning to propose a bill to allow a full withdrawal of pension savings.

Key Global Financial Indicators

Last updated: 6/4/21 8:54 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
S&P 500		4193	-0.4	0	1	35	12
Eurostoxx 50		4081	0.0	0	4	25	15
Nikkei 225		28942	-0.4	-1	-1	27	5
MSCI EM		55	-1.1	2	4	39	7
<b>Yields and Spreads</b>							
US 10y Yield		1.62	-0.9	2	2	79	70
Germany 10y Yield		-0.20	-1.3	-1	4	12	37
EMBIG Sovereign Spread		328	-1	-4	-13	-150	-22
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		58.0	0.3	0	2	4	0
Dollar index, (+) = \$ appreciation		90.3	-0.2	0	-1	-7	0
Brent Crude Oil (\$/barrel)		71.7	0.5	3	4	79	38
VIX Index (% change in pp)		17.4	-0.7	1	-2	-8	-5

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

## Mature Markets

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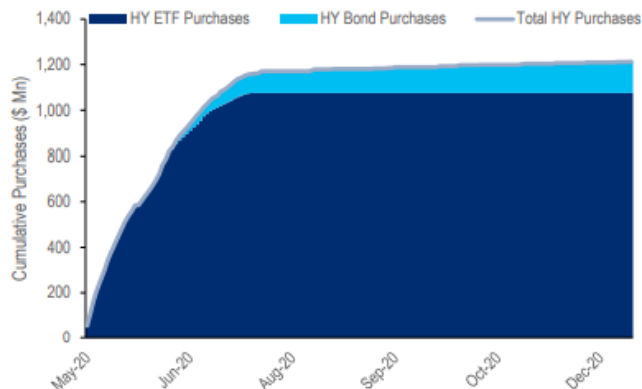
### United States

**In data releases this morning, nonfarm payrolls rose 559k in May, lower than the 675k expected and higher than 278k in April (revised up from 266k).** The unemployment rate was recorded at 5.8%, better than 5.9% expected and April's figures at 6.1%. Labor force participation rate stood at 61.6%, lower than expected 61.8% and April's 61.7%. Immediately upon the data release, 10-year US Treasury yields fell 1 bp, while S&P 500 futures point to a modest 0.2% gain at the open.

**Yesterday, US equities fell slightly (S&P 500 -0.4%),** partially supported by a report that President Joe Biden may be open to a corporate tax rate potentially lower than 28%. Strong economic data supported expectations of faster economic growth and in response, US Treasury 10-year yields rose 4 bps (driven entirely by +6 bps increase in real yields) and the US dollar appreciated against AE and EM currencies (+0.6% and +0.5%, respectively).

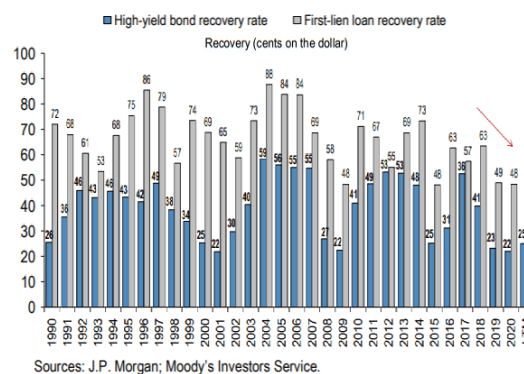
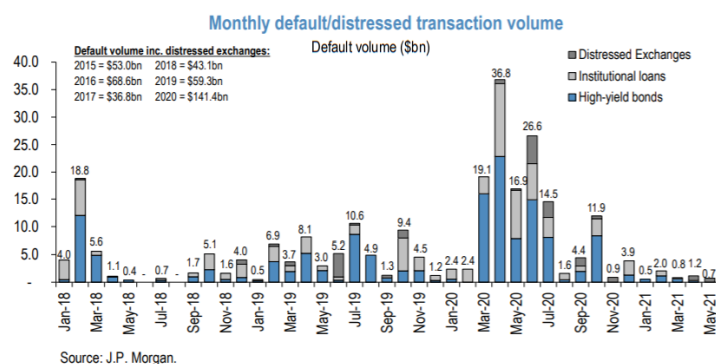
**The Fed's intention to wind down Secondary Market Corporate Credit Facility (SMCCF) is unlikely to have a material impact on the markets.** Within SMCCF, the Fed currently holds approximately \$5 bn of corporate bonds and \$9 bn of credit ETFs. High Grade (HG) bonds represent about 90% of the position in bonds: its sale's impact on HG bond markets is expected to be limited as the market has daily turnover at roughly \$26.5 bn/day. High yield (HY) exposure represents roughly 10% of the portfolio, mostly in the form of ETFs (chart below). The positions in individual ETFs represent from 0.2 to 6 average trading days in the corresponding ETFs, assuring that a gradual schedule of sales during the rest of the year should not affect those ETF markets.

**Figure 1. HY Exposure Dominated by ETFs, Bonds by Fallen Angels**



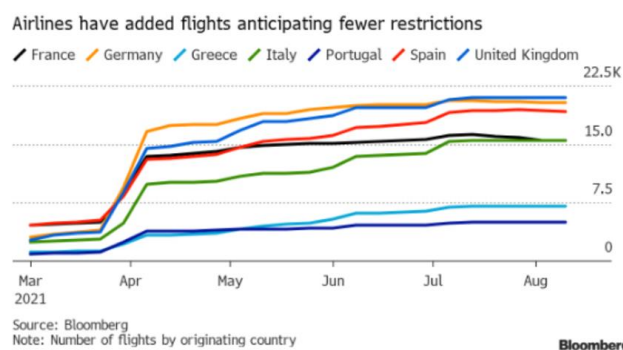
Source: Citi Research, Federal Reserve

**There were no new US high-yield defaults in May and only one distressed exchange** (left chart). Analysts expect default rates to continue to decline throughout the year and remain well below average through 2022. This forecast is supported by the fact that only a small number of bonds are priced at distressed levels, as well as by a strong earnings and economic backdrop and favorable capital markets conditions. However, recovery rates remain below pre-2019 levels, reflecting a secular trend that took hold pre-pandemic (right chart).



## Europe

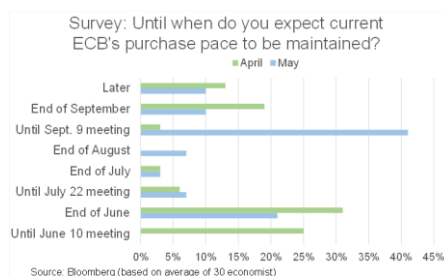
**European equities** were mostly steady except for Spanish Ibex (-0.7%). Equity benchmarks managed to recover yesterday after stronger than expected U.S. data with the exception of the travel and leisure sector (-1.5%), which was dragged lower by the airlines industry after the UK did not add new countries to its green travel corridor while moving Portugal to the amber list (leading to tougher quarantine requirements).



European bond yields and the euro were steady. **The euro declined 0.8% yesterday** on the resurgence of the dollar after stronger than expected U.S. data. The implied volatility on short-term euro options jumped to highest level since March as market participants anticipate a large move following today Nonfarm payrolls data.



The majority of economists surveyed by Bloomberg now expect ECB's pandemic-related purchase pace to slowdown following the September meeting as compared to June in the April survey. While consensus still expects the Pandemic Emergency Purchase Program (PEPP) to conclude by Q1 2022, the expected usage of the program has now shifted to €1.71 tn from €1.64 tn in the last survey (against €1.85 tn total envelope). Notably, economist now expect an increase in the pace of the Asset Purchase Program from Q2 2022 onward as compared to decrease in the April survey.

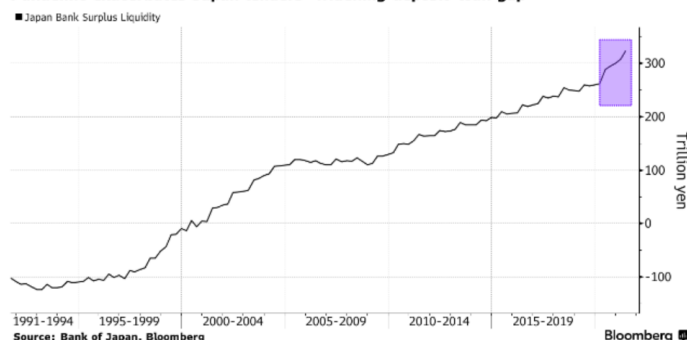


On the data front, **Eurozone retail sales surprised to the downside in April declining 3.1%** (-1.5% expected). Analysts note that the decline should be mostly driven by tighter restriction in parts of Europe, including renewed shop closures in France and Italy. Economists still expect a strong rebound in second quarter retail sales growth as lockdown measures were eased more broadly in May.

## Japan

**Equities were little changed on net.** Japanese banks are sitting on record cash surplus (bank deposits less loans) of ¥323 tn (\$2.97 tn) according to Bloomberg citing Bank of Japan data. Deposits at the nation's top three banks alone increased by \$375 billion in the year ending in March, with Mitsubishi UFJ Financial Group Inc. (MUFG) accounting for more than half of the amount. MUFG said that it will consider investing in alternative assets such as private equity and real estate funds in the US and other locations. Meanwhile, Concordia Financial Group Ltd., one of Japan's largest regional banking groups, is going to invest in US Treasuries and MBS in 2021 amid lower returns on Japanese bonds. Separately, Japan's household spending expanded 13% y/y in April from 6.2% y/y in March, benefitting from base effects and temporary reprieve from virus restrictions. **The yen and 10-year JGB were little changed.**

### Pandemic exacerbates Japan lenders' widening deposit-loan gap



## Emerging Markets

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**Markets in Latin America were mixed yesterday.** Equities in Peru (+1.3%) and Colombia (0.8%) continued to gain, while those in Mexico (-0.2%) declined mildly. Most regional currencies depreciated. Markets in Chile were down on proposed structure of the pension withdrawal plan. **Asian equities ended the week on a soft note, falling -0.3%.** Malaysia (-0.8%) and Taiwan Province of China (-0.6%) underperformed, China (Shanghai +0.2%; Shenzhen +0.6%) bucked the regional trend. In **Taiwan POC**, 1Q GDP expanded by a revised 8.9% y/y in Q1, showing the strongest quarterly growth over a decade. **Regional currencies weakened slightly**, led by Korean won (-0.3%) and Thai baht (-0.3%). **EMEA equities closed the week with contained moves within a  $\pm 0.4\%$  corridor.** FX markets traded also very cautiously, with moves contained in an even narrower band of  $\pm 0.1\%$  for most currencies. The Turkish lira gained 0.1% to 8.7/US dollar, even as market commentary speculates about possible rate cuts in light of softer inflation data yesterday.

## China

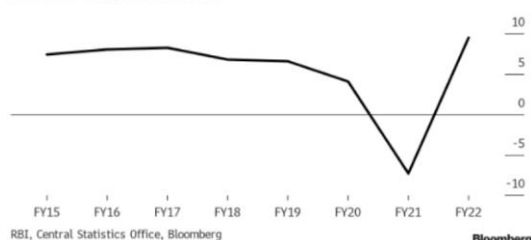
### 59 Chinese firms with military ties or in the surveillance industry will be banned from US investment.

According to Bloomberg, US President Biden signed an order yesterday to amend the ban that begun under the Trump administration. The ban on investment will take effect on August 2 and investors will have one year to fully divest. Many of the companies in Biden's order were already on the previous list. Under the new order, the investment prohibitions will apply to subsidiaries of companies only if they are listed by the Office of Foreign Assets Control. The amended order clarifies that the measures will no longer apply to companies whose names closely match the listed entities. **Equities (Shanghai +0.2%; Shenzhen +0.6%) rose while the RMB weakened (-0.1%).**

## India

**The Reserve Bank of India (RBI) kept its policy rate unchanged at 4% and expanded its asset purchase program.** The rate decision was unanimous, with the six-member monetary policy committee voting to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis. RBI will buy an additional INR1.2 tn (\$16.4 bn) of bonds under the so-called Government Securities Acquisition Program 2.0 across the entire yield curve. The RBI also downgraded its growth forecast to 9.5% in the current fiscal year from 10.5% due to the virus resurgence. A number of other measures were also announced, which include: 1) Banks can borrow as much as INR150 billion rupees from the RBI's liquidity window at the repo rate to lend to Covid-hit sectors such as hotels and the tourism industry. The tenors are as high as three years, with the window open through next March 31; 2) The Small Industries Development Bank of India will have access to a INR160 bn special cash window, which will be available for up to one year at the repo rate; 3) The resolution framework to be expanded to cover more stressed borrowers. **Equities and the rupee both weakened (both -0.2%).**

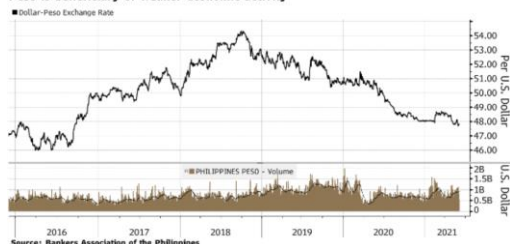
RBI cuts FY22 growth forecast



## Philippines

**Philippines' banks' net open foreign-exchange position limit will be raised to 25% of qualifying capital or \$150 mn, whichever is lower, effective August 1.** This would increase from 20% or \$50 mn previously and marked the first adjustment since 2007, according to Bloomberg. Central bank governor Benjamin Diokno said that the increase should have a neutral effect on the peso. The policy was revised as it was "no longer appropriate" given that the economic landscape has "changed significantly." The net open position will be calculated as the higher of the absolute value of the sum of net long or short positions in individual currencies, rather than as the net position across all currencies. **The Philippine peso appreciated +0.2% while equities were little changed.**

Peso is beneficiary of weaker economic activity





## Chile

**Local equity markets declined on the proposed structure of the next pension withdrawal plan.** In a surprise announcement, Chile's legislators proposed to present a bill that would allow a 100% withdrawal from the pension saving funds. The previous three plans had a 10% withdrawal limit, and saw a cumulative withdrawal of \$49 bn. According to a Bloomberg report, the country's pension funds still have an AUM of \$196 bn, as of May 2021. Chile's privately managed pension fund system has been the topic of political debate for some time, and the markets were expecting a fourth plan. However, the scale of proposed withdrawal limit has taken the markets by surprise. Analysts believe, this could have the pension funds sell to meet the demand for withdrawals, which in-turn would adversely affect the asset prices (mostly stocks and sovereign bonds). Both equities and the Chilean peso fell by 3.8% and 0.5%, respectively, and the yields on 2030-peso bonds were up 13 bps.

Equity markets corrected post the third withdrawal plan







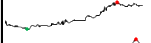















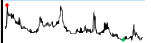


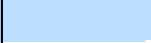




Source: Bloomberg

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## Global Financial Indicators

Last updated: 6/4/21 8:16 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4195	-0.4	0	1	35	12
Europe		4078	0.0	0	4	25	15
Japan		28942	-0.4	-1	-1	27	5
China		3592	0.2	0	5	23	3
Asia Ex Japan		95	-1.1	1	2	39	6
Emerging Markets		55	-1.1	2	4	39	7
<b>Interest Rates</b>			basis points				
US 10y Yield		1.63	0.2	3	3	80	71
Germany 10y Yield		-0.19	-0.5	-1	5	13	38
Japan 10y Yield		0.09	0.3	0	-1	5	7
UK 10y Yield		0.83	-0.9	4	4	53	64
<b>Credit Spreads</b>			basis points				
US Investment Grade		91	0.4	1	0	-65	-4
US High Yield		333	-0.3	-8	3	-257	-47
Europe IG		50	-0.1	0	-1	-14	2
Europe HY		247	-0.2	0	-8	-124	4
<b>Exchange Rates</b>			%				
USD/Majors		90.50	0.0	1	-1	-6	1
EUR/USD		1.21	-0.1	-1	1	7	-1
USD/JPY		110.1	-0.2	0	1	1	7
EM/USD		57.8	0.0	0	1	4	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		71	0.2	3	4	79	38
Industrials Metals (index)		156	0.3	-3	0	56	18
Agriculture (index)		59	0.5	1	0	65	23
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.0	0.0	1.3	-1.5	-7.8	-4.7
US 10y Swaption Volatility		67.0	0.8	2.9	-6.5	-2.2	6.9
Global FX Volatility		7.0	0.0	-0.1	-0.2	-0.7	-1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		102	2.4	0	-22	-71	-18
Italy		109	0.5	-1	-1	-65	-3
Portugal		65	0.2	0	-3	-20	5
Spain		65	0.1	0	-1	-22	4

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

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## Emerging Market Financial Indicators

Last updated: 6/4/2021 8:12 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		6.41	-0.1	-0.6	1	11		3.2	0.2	2	-5	32	-8
Indonesia		14295	-0.1	-0.1	1	-1		6.3	-2.4	-10	-15	-79	28
India		73	-0.1	-0.8	1	4		6.3	-0.7	3	1	20	36
Philippines		48	0.2	0.1	1	5		4.3	-5.5	-2	10	7	62
Thailand		31	-0.4	-0.1	0	1		1.9	0.0	2	0	43	55
Malaysia		4.13	-0.1	0.1	0	4		3.3	-1.4	-2	-1	48	70
Argentina		95	0.0	-0.3	-1	-27		45.6	-2.9	-39	-84	-11	-1058
Brazil		5.11	-0.6	2.3	7	0		8.0	0.0	-6	0	282	242
Chile		720	-0.5	1.2	-2	7		4.0	8.5	4	31	141	124
Colombia		3647	0.1	2.3	5	-1		6.7	1.8	-16	-10	130	159
Mexico		20.17	0.0	-1.2	0	9		6.7	4.2	-5	-9	44	111
Peru		3.9	-1.3	-0.6	-1	-12		4.9	0.8	23	-37	61	131
Uruguay		44	-0.1	0.2	0	-2		8.0	-6.8	13	63	-227	79
Hungary		286	0.2	-0.1	5	6		2.3	-2.8	0	29	62	75
Poland		3.69	-0.4	-0.3	3	6		1.2	0.0	-3	22	37	60
Romania		4.1	-0.1	-0.7	1	5		2.7	1.0	0	12	-111	-1
Russia		73.2	0.0	0.0	2	-6		6.9	2.1	8	11	156	116
South Africa		13.7	-0.2	0.8	6	24		9.7	-3.1	-9	-31	10	1
Turkey		8.68	0.2	-1.4	-4	-22		18.3	4.3	42	52	776	515
US (DXY; 5y UST)		91	0.0	0.6	-1	-6		0.85	0.7	5	3	44	49

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	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		5282	0.5	-1	6	32	1	199	0	-2	-9	30	-9
Indonesia		6065	-0.4	4	2	23	1	158	0	-9	-25	-5	-29
India		52100	-0.3	1	6	52	9	152	1	-2	-7	-106	1
Philippines		6796	0.1	2	9	5	-5	83	0	-9	-17	13	-22
Malaysia		1578	-0.8	-1	-1	1	-3	113	0	-2	-3	9	3
Argentina		64303	0.0	12	32	47	26	1459	0	19	8	-570	91
Brazil		129601	0.0	5	9	39	9	253	0	0	-16	58	3
Chile		4227	0.0	-1	-9	9	1	126	0	-6	-16	-14	-18
Colombia		1258	0.0	4	3	8	-12	207	0	-4	-15	44	2
Mexico		50629	0.0	2	5	34	15	348	0	-9	-34	55	-12
Peru		21383	0.0	7	10	29	3	133	0	-4	-3	22	1
Hungary		47763	0.7	3	8	28	14	65	0	-6	-15	-42	-31
Poland		66764	0.0	2	10	34	17	-22	0	-4	-11	-54	-21
Romania		11583	-0.2	2	1	28	18	175	-2	-1	-11	-123	-28
Russia		3793	-0.3	2	6	37	15	159	0	-5	-3	19	-7
South Africa		67749	-0.1	0	2	27	14	357	0	-4	-35	25	-23
Turkey		1432	0.3	1	1	31	-3	421	0	-5	-47	34	-24
Ukraine		531	0.0	0	1	6	6	479	0	12	-21	127	-12
EM total		55	-0.1	2	4	39	7	421	0	17	-10	97	128

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

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