GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JUNE 5, 2020

- **US non-farm payroll numbers for May significantly higher than expected** (link)
- **Delisting Chinese companies from US exchanges gathers momentum** (link)
- **Technical Brexit talks conclude today without apparent agreement** (link)
- **US high yield bond flows continue to shine as sector outperforms** (link)
- **Majority of economists expect Fed to enact yield curve control in September** (link)
- **Africa's junk rated sovereign bonds among top EM performers this quarter** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets Continue to Rally on Growing Investor Optimism

Strong policy support and hopes for a strong rebound in business activity are fueling a global rally in risk assets. Global equities rose across the board today, lifted by news of additional stimulus measures, positive developments on the Covid-19 front and strong payroll numbers in the US. European stocks are up by about 1% following yesterday's announcement of additional ECB support and stimulus measures in Germany. The news flow has also reflected positively on European periphery bonds, with yields on Italian 10-year BTPs declining by close to 18 bps (to 1.41%) over the past two days. Emerging markets have also benefited from the positive risk sentiment, with equities extending their gains to about 6% so far this week and EM sovereign spreads tightening by 36 bps, with little apparent impact from the growing US-China tensions. US equity futures are also pointing to a positive open, buoyed by news of a potential new stimulus package of $1 tn that may be introduced next month and by much better-than-expected NFP numbers this morning. As investors ramped up their risk exposures, they shunned safe haven assets leading to a continued rise in Treasury and Bund 10-Year yields, which are up by 30 bps and 15 bps, respectively, on the week. The USD has also continued its slide, depreciating by close to 3% against major currencies over the past 10 trading sessionsLastly, crude oil prices have regained their footing (Brent rising by close to 4% to $41/bbl) as OPEC+ finally agreed with hold out members to expend production cuts.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
6/5/20 8:14 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3112	-0.3	3	9	10	-4
Eurostoxx 50		3322	1.9	9	16	-1	-11
Nikkei 225		22864	0.7	5	17	10	-3
MSCI EM		40	1.5	7	11	-2	-11
Yields and Spreads					bps		
US 10y Yield		0.87	7.8	22	21	-127	-105
Germany 10y Yield		-0.30	2.5	15	28	-7	-11
EMBIG Sovereign Spread		470	-7	-46	-126	102	177
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.0	0.3	2	6	-9	-9
Dollar index, (+) = $ appreciation		96.7	0.0	-2	-3	-1	0
Brent Crude Oil ($/barrel)		41.3	3.4	17	33	-32	-37
VIX Index (%, change in pp)		24.9	-0.9	-3	-9	9	11

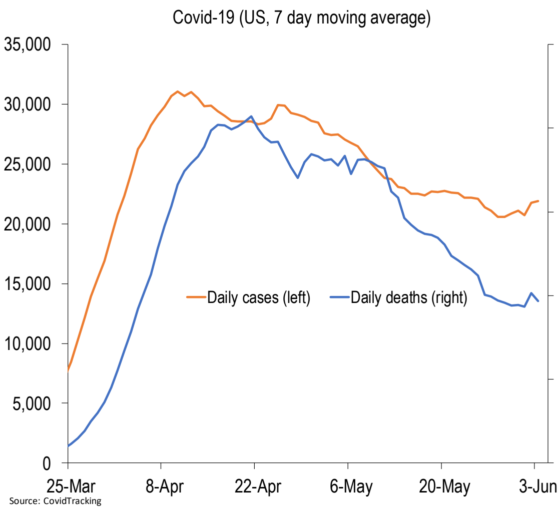
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

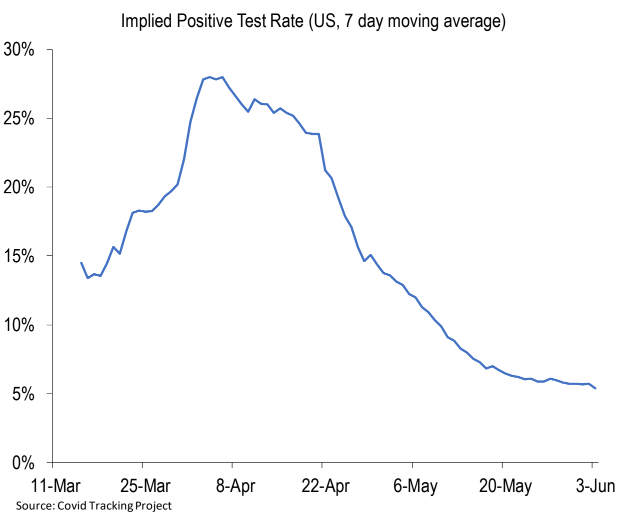
United States

back to top

Nonfarm payrolls for May shattered expectations by increasing 2.5 million (compared to consensus -7.5 million), with the unemployment rate falling to 13.3%. April figures were -20.5 million with an unemployment rate of 14.7%. **Treasuries sold off with the 10 year yield initially jumping about 10 bps before fading a bit, while equity futures rallied up over 1%.** Previous month jobs were revised lower, and there were some questions about workers being classified as absent from work, rather than unemployed, but this report was a massive upside surprise.

Equity markets took a pause on Thursday, but a sizeable bond sell off saw Treasury yields jump 9-10 bps on the long end. The 30-year yield closed at 1.63%, the highest since March 19. The S&P 500 dipped lower (-0.3%) following a mixed jobless claims report. On a relatively quiet news day in the United States, the Senate agreed to pass the House version of a bill that will extend the Paycheck Protection Program to the end of the year (from June 30), reduce the share of funds that have to go to payroll, and lengthen the timeframe businesses get to meet the grant conditions. Domestic protests have continued though they have dissipated from the market commentary over the last day or two. **Covid-19 infections and deaths have plateaued over the last week as reopening continues, albeit with higher testing**. Daily deaths are hovering around 1k with 20k new cases, though national test levels have increased from just under 300k per day a month ago, to around 430k this week. Conversely, the positive test rate appears to have stabilized a bit recently after declining rapidly.





A majority of economists now expect the Fed to enact yield curve control, with September most likely. A Bloomberg survey of 29 economists found that a slight majority (54%) now believe yield curve

If 'Yes,' When?
If yield-curve control is coming, when will the FOMC announce it?

June 10, 2020	7%
July 29, 2020	14
Sept. 16, 2020	64
Nov. 5, 2020	0
Dec. 16, 2020	14
H1 2021	0
H2 2021	0

Bloomberg

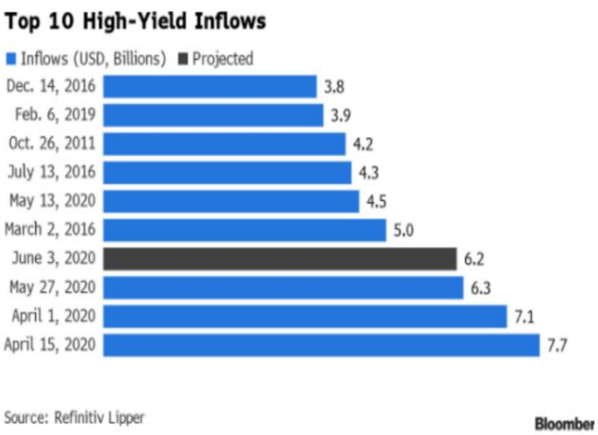
control is likely, with the September 16 meeting seen as the most likely announcement date. Respondents felt the Fed would target the 2 and 5 year Treasury yields. Notably, the long end of the Treasury curve has steepened in recent weeks, with the 30-year yield up nearly 40 bps since May 1 to 1.63%, while the 2-year is virtually unchanged at .19% and the 5-year up 5 bps to .40% over the same time frame. The consensus expectation is for few changes in the Fed's forward guidance on asset purchases or rates at next week's FOMC meeting, with a rate hike not seen until 2023. Nearly 80% of respondents felt risks on inflation and growth are to the downside, and assigned a "high" probability to the PCE (y/y) inflation falling below 0 for at least 3 months in the next 2 years.

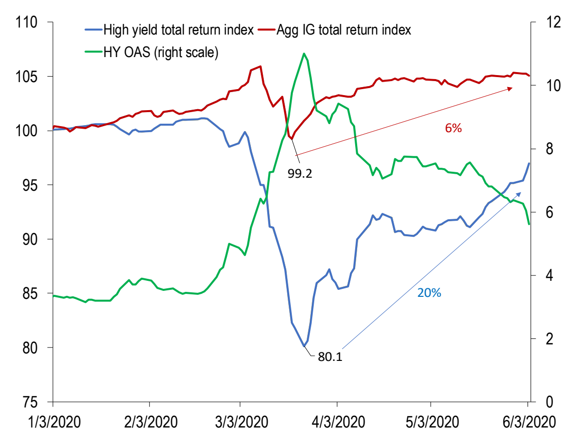
High yield bond flows continue to shine as sector outperforms. Five of the top ten weeks for junk bond fund flows have come in the last 3 months in a volatile year for the sector. Aggregate funds are in line for a 10th straight week of inflows, including close to $6 bn this week, according to data from Refinitiv Lipper and Bloomberg. While the high yield segment still lags investment grade bond returns year to date, since the trough of the sell off in late March (~20th), it has rallied considerably, with spreads tightening back to their early March levels. Conversely, high yield bond defaults have totalled $45 bn year to date, with a default rate of 4.9% in May that is expected to reach 8-12% for the year according to analyst estimates.

Europe back to top

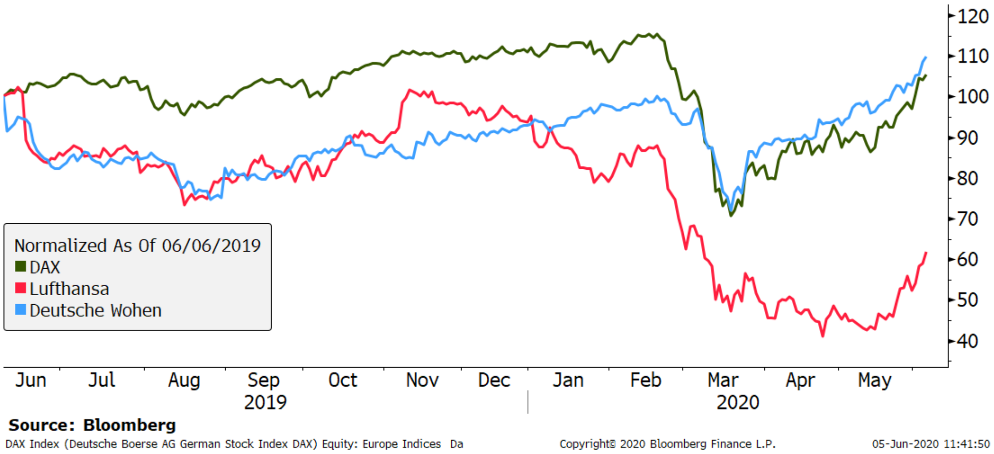
Equity markets finally staged today the PEPP rally expected yesterday. Equities climbed across the continent taking all indices notably higher: DAX (+1.3%), CAC 40 (+1.7%), EuroStoxx 600 (+1.0%), Italy's Titans 30 (+1.7%), and Spanish Ibex (+2.3%). Bank stocks (+4.2%) outperformed today again.

Erstwhile German blue-chip Lufthansa will be removed from the DAX index. Lufthansa (+4.4%) has fallen to the 60th place by size of German listed companies, while the DAX index tracks the performance of the 30 largest firms. Lufthansa will be replaced by real estate company Deutsche Wohen (+1.4).



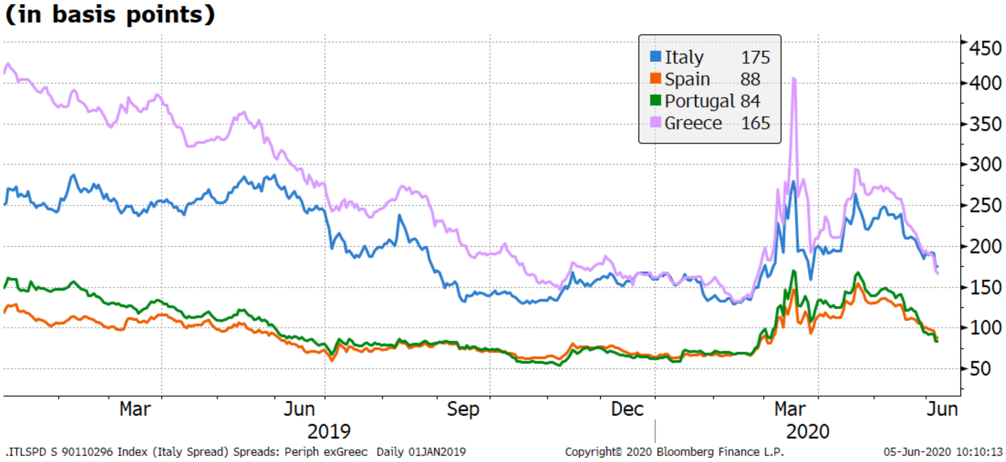


Equities



Sovereign yields are unchanged, even as the ECB promised €600 bn additional stimulus. German 10-year yields at -0.31% (+1 bp); French OATs are at 0.00% (unch.); Italian at 1.43% (+1 bp); and Spanish at 0.57% (+1 bp). **Sovereign spreads to German bunds have continued to trend narrower** as the ECB delivers more support. The ten-year Greek spread (at 165 bps) is now tighter than the Italian one (at 175 bps) and the Portuguese spread is 4 bps lower (at 84 bps) than Spain's (at 88 bps).

Selected European Sovereign Spreads to 10yr Bunds
(in basis points)



Brexit negotiations at the technical level conclude today with no apparent breakthrough. Unconfirmed sources suggest that little to no progress has been attained on critical issues such as trade, the ECJ's jurisdiction in the UK, and financial services, among other top items. Both sides have accused the other of stalling progress, with acrimonious tweets and remarks exchanged between the top negotiators. Discussions will now be escalated to the highest level, with PM Johnson and EC president Van der Leyen expected to meet before June 30 – the date by which the UK needs to announce whether it petitions for an extension to the transition period.

Other Mature Markets back to top

Japan

The yen extended its depreciation for a fourth day while equity gains continued to build. At ¥109.32/dollar (-0.1%), the yen is at its weakest level since early April. Meanwhile, the Topix (+0.5%) is capping its second consecutive week of gains. Household spending in April fell by 11%, y/y, its single biggest drop on record. Household spending outturns have dropped for seven months straight, since last year's sales tax hike.

Emerging Markets back to top

Positive risk sentiment continues to lift Asian markets. Currencies posted broad-based gains against the dollar while equities extended recent increases for a second week. The Indonesian rupiah once again outperformed (+1.7%) on optimism that the gradual reopening of global economies as well as positive risk appetite will continue to boost inflows into its markets. The Korean won also appreciated (+1.0%) following reports that China is easing a ban on foreign airlines entering into China. In equities, broad-based gains were led by the Hong Kong Hang Seng (+1.6%) ahead of a second IPO there by NetEase, the second largest game publisher globally. The Korean Kospi (+1.4%), the Singapore STI (+1.3%) also posted strong gains. **EMEA equities were mixed**, with gains in Poland (+2.1%), the Czech Republic (+2.2%), and UAE (+2.0%). Bourses seeing losses included Romania (-0.6%) and Bulgaria (-0.1%). Currencies were also mixed but within a narrow ±0.3% corridor. **Latin American equity markets were mixed yesterday.** Equities in Peru (1.7%), Chile (1.4%), Brazil (0.9%) and Colombia (0.5%) advanced, whereas Mexican (-1.1%) and Argentine (-0.4%) equities lost value. Currency markets were relatively quiet.

Key Emerging Market Financial Indicators

Last updated: 6/5/20 8:16 AM	Level Last 12m	index	Change 1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		39.87	1.4	7	11	-2	-11
MSCI Frontier Equities		24.35	-0.2	3	6	-16	-20
EMBIG Sovereign Spread (in bps)		470	-7	-46	-126	102	177
EM FX vs. USD		56.02	0.3	2	6	-9	-9
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.09	0.3	1	0	-3	-2
Indonesian Rupiah		13878	1.6	5	9	3	0
Indian Rupee		75.58	0.0	0	0	-8	-6
Argentine Peso		68.90	-0.1	-1	-3	-35	-13
Brazil Real		5.05	1.4	6	10	-23	-20
Mexican Peso		21.75	0.8	2	10	-10	-13
Russian Ruble		68.71	0.7	2	7	-5	-10
South African Rand		16.84	0.4	4	10	-12	-17
Turkish Lira		6.78	-0.3	1	4	-15	-12
EM FX volatility		9.79	0.0	-1.1	-2.1	1.1	3.2

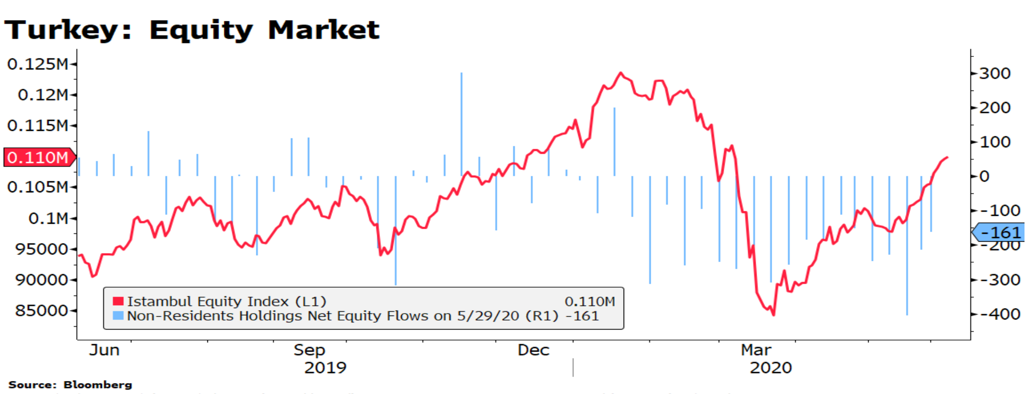
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

China

Delisting Chinese companies from U.S. equity exchanges gathered momentum overnight. In a memo, President Trump instructed a Presidential Working Group on Financial Markets to recommend ways – within 60 days – to crack down on U.S.-listed Chinese companies that fail to comply with U.S. accounting standards. This follows the U.S. Senate's unanimous passage on May 20th the ""Holding Foreign Companies Accountable Act" to potentially remove foreign companies listed on US stock exchanges, including ADRs (American depositary receipts) of Chinese issuers. Analysts noted that actual measures could take roughly 3 years to implement. Meanwhile, **a number of large-cap Chinese firms listed on the Nasdaq are preparing for their second IPO in Hong Kong as they look to be closer to home.** China's second-largest online retailer JD.com started taking investor orders this week for its second IPO in Hong Kong. This follows an upcoming listing in Hong Kong from NetEase for an estimated $2.7 bn sale of its shares next week. **Both the onshore and offshore RMB gained 0.3% against the dollar.**

Turkey

Turkish equities advanced 0.3%, bringing their 3-month rally to +30%. Underlying data reveal that the equity gains have been sustained by local investors as foreigners have been net sellers of equities since the last week of January this year.

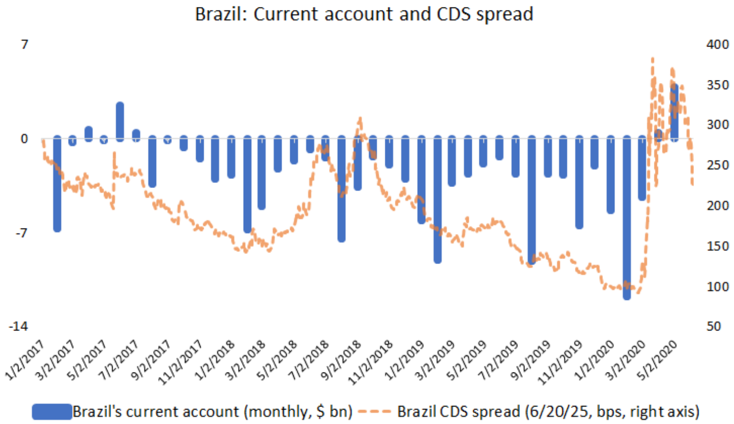


Russia

President Putin has approved the declaration of a state of emergency in Sibera due to a massive fuel spill around Norilsk. Although the concrete reason for the accident is yet unknown, experts are linking it to the thawing of permafrost due to global warming. About 20,000 tons of diesel (equivalent to 150,000 barrels) have been spilled into the environment, contaminating an area of about 350 sq km thus far. Experts estimate it may take between 5 to 10 year to clean up the damage. Cracks have been detected at another fuel reservoir in the area. The natural catastrophe – which has been likened to that of the Exxon Valdez in 1989– has had no broad impact on financial markets, as **Russian equities climbed 0.6% in line with peers, and the ruble strengthened 0.7% to the dollar.**

Brazil

Despite a significant increase in the number of COVID-19 cases and weak economic growth (-1.5%) in the first quarter, the country's current account balance improved, which was also reflected in its sovereign CDS spread. The current account was in surplus (+$3.8bn) and at a record high in April. This is the second consecutive month during which the current account shows a positive balance. In addition, Brazil's CDS spread (5-year sovereign) has tightened for the third consecutive week. It declined by more than 50 bps this week and reached around 227 bps. However, it remains quite elevated relative to its level back in January and February of this year, when it hovered closer to 100 bps (see chart below). It is also high relative to regional peers such as Mexico (137 bps) and Colombia (135 bps).



Data source: Bloomberg

Africa

Africa's junk rated sovereign bonds have been among the biggest beneficiaries of the risk-on mood that has swept through global markets, as 7 out of 12 of the top-performing EMs are in Africa this quarter. Angola, which is in discussions to reorganize some of its loans, leads the pack with a return of 74%, compared with the 9.5% average for the 74-member Bloomberg Barclays EM Sovereign Index. Zambia, which is restructuring its debt, isn't far behind at 40%. Gabon and Nigeria posted returns of more than 30% this quarter, while Ghana, South Africa and Egypt are deep into double digits. Average yields on African sovereign dollar bonds declined 234 bps since the beginning of May to 8.19%. While momentum is carrying the rally at present, analysts suggest that the pace of gains could slow down in the months ahead if risks worsen.

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Anna Ilyina
Division Chief

Will Kerry
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Sally Chen
Senior Economist

Yingyuan Chen
Financial Sector Expert

Han Teng Chua
Economic Analyst

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Dimitris Drakopoulos
Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Rohit Goel
Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Jochen Schmittmann
Senior Economist

Can Sever
Economist (Economist Program)

Juan Solé
Senior Economist

Jeffrey Williams
Senior Financial Sector Expert

Akihiko Yokoyama
Senior Financial Sector Expert

Piyusha Khot
Research Assistant

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 6/5/20 8:13 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3112	-0.3	3	9	10	-4
Europe		3322	1.9	9	16	-1	-11
Japan		22864	0.7	5	17	10	-3
China		2931	0.4	3	2	2	-4
Asia Ex Japan		68	-1.4	7	9	3	-7
Emerging Markets		40	1.5	7	11	-2	-11
Interest Rates					basis points		
US 10y Yield		0.87	7.8	22	21	-127	-105
Germany 10y Yield		-0.30	2.5	15	28	-7	-11
Japan 10y Yield		0.05	1.4	5	7	17	6
UK 10y Yield		0.34	3.4	16	13	-52	-48
Credit Spreads					basis points		
US Investment Grade		154	-2.1	-19	-43	24	57
US High Yield		585	-4.6	-65	-170	109	192
Europe IG		62	-1.8	-10	-23	-4	18
Europe HY		359	-11.2	-70	-150	70	152
EMBIG Sovereign Spread		470	-7.0	-46	-126	102	177
Exchange Rates					%		
USD/Majors		96.65	0.0	-2	-3	-1	0
EUR/USD		1.13	-0.1	2	5	1	1
USD/JPY		109.3	-0.1	-1	-2	-1	-1
EM/USD		56.0	0.3	2	6	-9	-9
Commodities					%		
Brent Crude Oil ($/barrel)		41	3.4	17	33	-32	-37
Industrials Metals (index)		101	1.0	3	7	-7	-12
Agriculture (index)		36	0.5	3	3	-12	-14
Implied Volatility					%		
VIX Index (%, change in pp)		24.9	-0.9	-2.6	-8.7	8.8	11.1
10y Treasury Volatility Index		4.7	-0.3	0.0	0.0	-0.6	0.6
Global FX Volatility		7.6	0.0	-0.3	-1.6	0.6	1.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		165	-7.4	-32	-113	-153	0
Italy		171	-3.1	-21	-73	-99	11
Portugal		81	-3.3	-14	-66	-9	19
Spain		84	-3.2	-17	-51	-1	19

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:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
6/5/2020	Level		Change (in %)					Level		Change (in basis points)				
8:16 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.09	0.3	0.6	0	-3	-2		2.9	-0.6	17	47	-40	-27
Indonesia		13878	1.6	5.3	9	3	0		7.3	14.6	-18	-78	-79	15
India		76	0.0	0.0	0	-8	-6		6.1	-1.2	2	-15	-105	-78
Philippines		50	0.4	1.6	1	4	2		4.2	-0.8	-19	-69	-87	-11
Thailand		31	0.4	1.1	3	0	-5		1.5	6.0	8	11	-97	-12
Malaysia		4.27	0.3	1.9	1	-2	-4		2.8	5.1	6	1	-90	-53
Argentina		69	-0.1	-0.7	-3	-35	-13		46.3	66.6	100	618	1380	-1626
Brazil		5.05	1.4	5.7	10	-23	-20		5.2	5.6	-23	-85	-219	-102
Chile		771	-0.1	4.8	8	-10	-3		2.6	5.0	21	-10	-115	-66
Colombia		3591	0.5	3.0	11	-8	-9		5.4	4.4	17	-82	-70	-55
Mexico		21.75	0.8	2.0	10	-10	-13		6.3	3.0	1	-28	-177	-65
Peru		3.4	-0.9	0.1	-1	-2	-4		4.4	9.5	14	-43	-78	-12
Uruguay		43	0.3	0.8	0	-18	-13		10.1	-23.2	-36	-165	-109	-79
Hungary		304	0.0	2.6	6	-6	-3		1.6	-4.0	-6	-8	-17	44
Poland		3.92	-0.2	2.2	7	-3	-3		0.9	0.5	14	-20	-130	-101
Romania		4.3	-0.1	2.2	4	-1	0		3.8	-4.0	-8	-35	-32	-20
Russia		68.7	0.7	2.1	7	-5	-10		5.4	6.7	6	-48	-229	-74
South Africa		16.8	0.4	4.2	10	-12	-17		9.7	10.5	-15	-101	22	15
Turkey		6.78	-0.3	0.7	4	-15	-12		10.6	10.3	-55	-30	-954	-109
US (DXY; 5y UST)		97	0.0	-1.7	-3	-1	0		0.43	1.8	12	5	-145	-126

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2931	0.4	3	2	2	-4		233	-2	-6	-22	49	57
Indonesia		4948	0.6	5	7	-20	-21		247	-3	-31	-89	47	91
India		34287	0.9	6	9	-14	-17		256	-2	0	-75	101	131
Philippines		6465	-0.8	11	14	-19	-17		141	-3	-24	-37	52	75
Malaysia		1556	-0.4	6	12	-5	-2		177	-3	-24	-103	44	65
Argentina		43676	-0.4	12	30	24	5		2575	2	-61	-910	1606	806
Brazil		93829	0.9	8	18	-2	-19		341	-2	-45	-76	89	126
Chile		3885	1.4	7	-1	-22	-17		196	-5	-32	-81	54	63
Colombia		1164	0.5	6	6	-22	-30		272	1	-18	-94	73	109
Mexico		37873	-1.1	4	3	-13	-13		490	-6	-45	-150	170	198
Peru		16618	1.7	5	12	-17	-19		173	2	-20	-69	36	66
Hungary		37772	1.4	4	9	-8	-18		164	1	-39	-64	52	78
Poland		51150	1.9	6	14	-11	-12		56	-4	-21	-47	-14	38
Romania		8951	-0.8	2	11	4	-10		294	-4	-34	-64	88	120
Russia		2779	0.4	2	5	3	-9		191	3	-19	-73	-25	60
South Africa		53860	1.2	7	10	-6	-6		500	-8	-77	-180	180	180
Turkey		109963	0.4	4	11	22	-4		557	-11	-86	-122	26	156
Ukraine		500	0.0	0	0	-10	-2		621	-19	-116	-198	-9	201
EM total		40	1.4	7	11	-2	-11		470	-7	-46	-126	102	177

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

back to top