



- Miss on US jobs data drives rates lower as investors reassess Fed policy outlook ([link](#))
- Slowing US growth momentum associated with less upward Treasury yield moves ([link](#))
- Chinese exports weaker than expected in May ([link](#))
- Peru's presidential runoff too close to call ([link](#))
- Early count of Mexico's elections shows ruling party short of two-thirds majority ([link](#))
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Markets assess policy outlook amid ongoing inflation debate

Global equity indices are mixed across regions and core sovereign bond yields are edging higher this morning as markets continue to absorb the recent data releases and the implications for policy stimulus. After being range bound for the majority of last week, most advanced economy sovereign bond yields drifted lower on Friday following the May US jobs report that modestly missed expectations. US Treasury yields declined across the curve with the 10-year down 7 bps to 1.55%, the lowest level since early May, while 10-year German bund yields also hit the low end of its recent trading range at -0.21%. While the weaker than expected US payrolls report has some investors viewing the timeline being pushed back for the FOMC to begin discussing tapering, others point to signs of underlying labor market strength confirming that a recovery is on track. The S&P 500 closed near record highs on Friday but the risk-on momentum had only minimal carry-over to Asian and European equities this morning and sovereign yields are slightly higher with some contacts pointing to comments from US Treasury Secretary Yellen regarding higher interest rates and fiscal stimulus. In emerging markets, elections in Latin America are in focus to start the week with Peru's presidential runoff still too close to call and the early count of Mexico's midterm elections showing the ruling party falling short of a two-thirds majority.

Key Global Financial Indicators

Last updated: 6/7/21 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4230	0.9	1	0	32	13
Eurostoxx 50		4100	0.3	2	2	21	15
Nikkei 225		29019	0.3	1	-1	25	6
MSCI EM		56	0.9	3	2	37	8
Yields and Spreads			bps				
US 10y Yield		1.58	2.6	-2	0	68	67
Germany 10y Yield		-0.20	1.7	-1	2	8	37
EMBIG Sovereign Spread		332	4	1	-10	-142	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.3	0.2	1	1	4	1
Dollar index, (+) = \$ appreciation		90.1	-0.1	0	0	-7	0
Brent Crude Oil (\$/barrel)		71.7	-0.3	3	5	70	38
VIX Index (% change in pp)		16.9	0.4	0	0	-8	-6

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

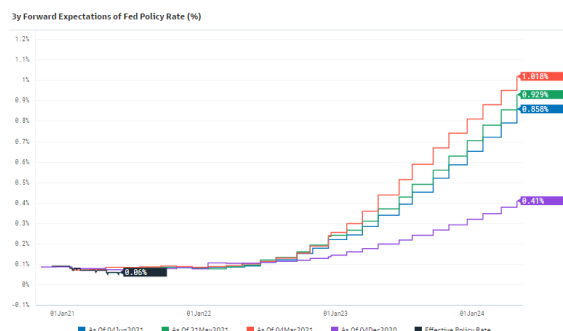
This ECB meeting on Thursday will be the key central bank event this week. The market is focusing on whether the ECB retains language indicating a “significantly higher” pace of asset purchases compared to earlier in the year, as well as on any signaling on their post-PEPP policy stance. On Wednesday, expectations are for the Bank of Canada to maintain its policy stance. On the data front, focus will be on CPI and initial jobless claims in the US, both to be released on Thursday. In EM, monetary policy meetings will occur in Chile, Peru, Russia, and Poland with expectations that the only policy change will occur in Russia with a potential 25 bp hike.

Mature Markets

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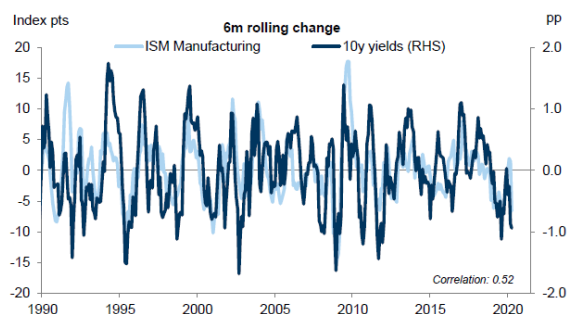
United States

The miss on May payrolls data drove US Treasury yields lower and the S&P 500 higher on Friday. Non-farm payroll gains in May came in at +559k jobs, roughly double the pace of April (+278k) but well below consensus expectations for +675k. Cleveland Fed President Mester called the May jobs report “solid” but said she would “like to see further progress” as “the increase in wages is definitely happening [...] but it’s not feeding into underlying inflation yet”. As a result, rates fell sharply on Friday (10y UST yields: -7 bps) on a lower likelihood of 4Q tapering featuring at the upcoming FOMC meeting (June 16th). As of Friday, 3-year forward expectations for the Fed policy rate were moderately (16 bps) below early March.



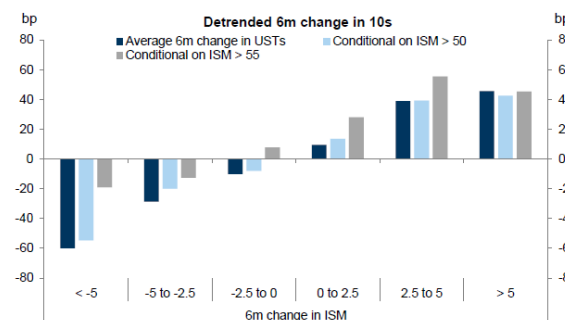
Above-trend but slowing growth momentum is associated with less upward pressure on US Treasury yields. Goldman Sachs economists expect US growth to peak in 2Q, followed by a gradual deceleration thereafter. The analysts find that periods of above-trend but slowing momentum in growth are associated with diminishing upward pressure on yields, curve flattening, and more real yield driven selloffs.

Exhibit 1: UST yield gains moderate as ISM increases start to slow
6m change in ISM manufacturing index vs. 6m change in 10y yields



Source: Institute for Supply Management, Federal Reserve Board, Goldman Sachs Global Investment Research

Exhibit 2: Our expectations for a gradual slowing in momentum appear to be consistent with diminished upward pressure on yields
Average 6m change in de-trended* 10y yields since 1990, based on the 6m contemporaneous change in the ISM manufacturing index



We detrend 10y yields by subtracting the unconditional average 6m move

Source: Institute for Supply Management, Goldman Sachs Global Investment Research

Euro area

German 10-yr bund yields (+2 bps to -0.19%) opened the week higher in line with US Treasuries, while spreads over bunds are little changed ahead of the ECB meeting and inaugural EU bond issuance. Investors will pay particular attention to the inflation outlook in the ECB's quarterly update to be published on Thursday. In addition, the inaugural issuance of bonds under the Next Generation EU (NGEU) Recovery plan is expected to happen early next week, with the ECB expected to keep financing conditions in euro area bond markets little changed. The European Commission will hold an investor call on NGEU issuance tomorrow. June is expected to be a busy month for EU issuance (with new EFSF, NGEU and EU SURE bonds). NGEU supply is expected to be about €80 bn by end 2021.

Core rates: 10-yr German and U.S. yields (%)



Source: Bloomberg and IMF staff

German factory orders disappointed in April, falling 0.2% m/m compared to an expected gain of 0.5% m/m.

The German CDU party did better than expected in the last regional elections before the national vote in September, gaining 37% (+7.3pp). The AfD got 21% (-3.5), the Left 11% (-5.3), SPD 8.4%, FDP 6.4%, and the Greens 5.9%.

Euro area equities (+0.2%) and the euro (at \$1.22) are little changed with bank stocks (+0.6%) benefiting from somewhat higher core rates.

Japan

The government reportedly pledges fiscal reform in its forthcoming economic blueprint. The draft blueprint, which is expected to be approved by the cabinet on June 18, highlights the need for fiscal reform even as the government will maintain fiscal stimulus to support the economy. The blueprint will likely mention the timeframe for bringing the primary budget back to a surplus. Furthermore, the government plans to promote green and digital investment to revitalize the economy. Japanese equities gained (NIKKEI: +0.3%); Japanese yen appreciated (+0.1%); and long-end JGB yields declined (10-year: -0.3 bp).

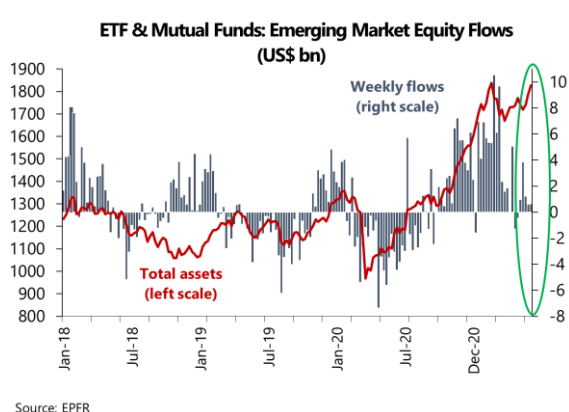
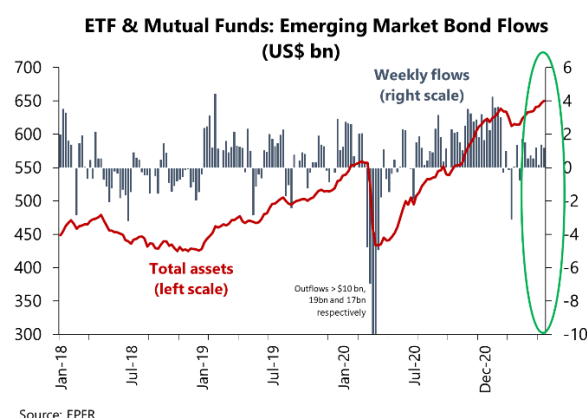
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Latin American equities were mixed last Friday, with rallies in Peru (3.9%) and Argentina (2.9%) and slumps in Colombia (-1%), while **currencies appreciated** (Colombia 1.3%, Mexico 1%, and Brazil 0.5%). **Subsequent to Sunday's mid-term election, in which early results show Mexico's ruling coalition failing to obtain a two-thirds majority in the Mexican lower house**, the Mexican peso reacted with an additional 0.7% gain. After holding majorities in Congress since 2018, the smaller majority will now make it significantly more difficult to deliver the legislative changes proposed by the ruling coalition. **Asian equities were mixed, falling 0.4% on net.** Share prices rose in Singapore (+0.7%), while equities declined in Hong

Kong SAR (-0.5%), Philippines (-0.5%) and Taiwan POC (-0.4%). **Most Asian currencies appreciated**, led by Korean won (+0.3%) and Thai baht (+0.3%). RMB was little changed. **In Hong Kong SAR**, Financial Secretary Paul Chan said that the proposed changes to the global tax regime (i.e., a minimum corporate tax rate at 15%) may affect some of the tax concessions the government offers to promote certain sectors. **EMEA bourses opened the week with mixed but contained moves**: Poland (+0.5%), Hungary (+0.3%), the Czech Republic (+0.3%), and Kuwait (+0.2%); Bulgaria (-0.4%), Romania (-0.6%), South Africa (-0.6%). Currencies traded with a narrow corridor.

Emerging Market Fund Flows

Emerging market funds saw another week of moderate inflows. Bond funds registered \$1.2 bn of new capital (0.2% of their assets), mainly in institutional hard currency mutual funds. Equity funds attracted \$0.6 bn, 0.04% of assets, with \$0.5 bn of outflows from ETFs offset by \$1.1 bn inflows to mutual funds. While EM equities performed strongly over the week, investors still preferred EM fixed-income assets.



China

Export performance was weaker than expectations in May. The y/y exports growth moderated to 27.9% in May from 32.3% in April, lower than an expected 32.1% expansion. The m/m moderation was driven by a decline in shipments to major markets such as the United States and Europe. Looking ahead, analysts viewed that China's exports could soften further upon normalization in global supply-chain activity. Some analysts noted that Chinese exporters in recent months have dealt with supply bottleneck problems, including container shortage, and that a recent outbreak in the export-oriented Guangdong Province could cause further congestion in some major Chinese ports. **Meanwhile, imports grew 51.1% y/y in May**, broadly in line with expectations, on a back of rising commodity prices. **Equities declined (CSI 300: -0.1%); RMB was little changed.** The RMB fixing was weaker than market consensus by 32 pips.



Chinese authorities reportedly pushed China Huarong to sell its non-core businesses, which include a bank (potentially, to be acquired by the government of Hunan Province), a trust, an investment firm and a consumer finance firm, as a way to restructure. The authorities are also considering requiring other asset management companies to spin off their non-core assets. At the same time, the government informally plans to back Huarong's dollar bond that will mature this year (about \$20 bn). **CITIC and Everbright Group applied to set up financial holding companies (FHCs)**. The two companies are the first to apply for FHC licenses after the regulation was issued in September 2020.

Peru

Peru's forward foreign exchange markets indicated market uncertainty amid strongly performing asset markets. Financial markets remained ambiguous ahead of Sunday's elections: while equity and bond markets rallied, FX markets indicated elevated volatility for the Peruvian sol. A diverse set of potential outcomes suggested by J.P. Morgan analysts highlight such uncertainty: the scenarios span from expectations for solid GDP growth over the next two years to stagflation accompanied by capital flight. Peru's sovereign bonds, equity and the currency nonetheless rallied last Friday: the \$-denominated sovereign 10-year bond gained 0.6%, its local currency 10-year bond rose 1.9% and the country's stock index 3.9%; the sol appreciated by 0.4%. Oil producers and miners, both deemed vulnerable to tax plans of the contender Castillo, even outperformed the stock rally, supported by higher commodity prices. **As of this morning, with almost 88% of votes counted, Fujimori had 50.6% support to 49.4% for Castillo. The difference between the candidates, however, remained within the margin of error of 1% of votes and is still considered too close to call.**

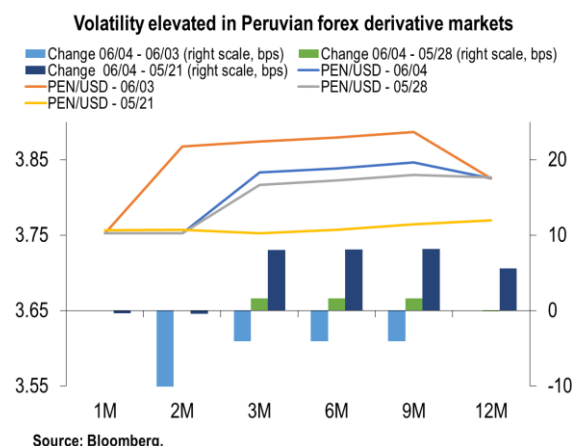
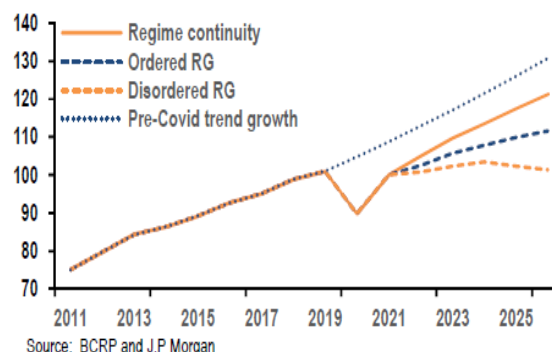


Figure 1: Real GDP

GDP, 2019=100



Romania

Raiffeisen's unit in Romania has successfully raised over 1.2 bn lei (\$296 mn). The issue is the second green bond for the entity and attracted bids from institutional investors. The duration of the bond is at 7-years, and they will be included in the bank's MREL calculations. Raiffeisen stocks traded +1.9% higher today.


























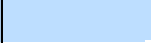


Poland

The Polish Central Bank is expected to keep policy rates unchanged at its next meeting on Wednesday. However, various analysts have noted that recent data prints point to a quicker than expected recovery and could give the central bank room to increase rates. The unemployment rate, for instance, dropped to 6.1% in May from 6.3% in April. Polish equities advanced 0.5% today while the zloty (-0.1%) traded in line with peers.

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), Thomas 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), Singmi Zheng (Research Assistant), Magally Bernal (Senior Administrative Assistant) and Andre Vazquez (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 6/7/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4230	0.9	1	0	32	13
Europe		4100	0.3	2	2	21	15
Japan		29019	0.3	1	-1	25	6
China		3600	0.2	0	5	23	4
Asia Ex Japan		96	0.9	2	2	37	7
Emerging Markets		56	0.9	3	2	37	8
Interest Rates			basis points				
US 10y Yield		1.58	2.6	-2	0	68	67
Germany 10y Yield		-0.20	1.7	-1	2	8	37
Japan 10y Yield		0.08	-0.4	0	-1	3	6
UK 10y Yield		0.81	1.9	1	3	46	61
Credit Spreads			basis points				
US Investment Grade		92	1.1	1	1	-64	-3
US High Yield		333	-2.3	-7	0	-218	-46
Europe IG		49	-0.1	-1	-1	-12	1
Europe HY		244	0.3	-2	-7	-97	2
Exchange Rates			%				
USD/Majors		90.07	-0.1	0	0	-7	0
EUR/USD		1.22	0.0	0	0	8	0
USD/JPY		109.3	-0.2	0	1	1	6
EM/USD		58.3	0.2	1	1	4	1
Commodities			%				
Brent Crude Oil (\$/barrel)		72	-0.3	3	5	70	38
Industrials Metals (index)		156	-1.3	-3	-4	53	18
Agriculture (index)		61	1.5	5	-1	70	27
Implied Volatility			%				
VIX Index (% change in pp)		16.9	0.4	0.1	0.2	-7.7	-5.9
US 10y Swaption Volatility		61.3	0.0	-2.8	-6.9	-11.9	1.2
Global FX Volatility		7.0	0.1	-0.1	-0.2	-0.7	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		103	-0.7	1	-19	-61	-17
Italy		109	0.5	0	-9	-60	-2
Portugal		66	0.2	2	-6	-15	6
Spain		67	0.1	2	-4	-17	5

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

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Emerging Market Financial Indicators

Last updated: 6/7/2021 8:08 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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.40	0.0	-0.4	1	11	2		3.2	1.6	2	-3	34	-7
Indonesia		14265	0.2	0.1	0	-3	-2		6.4	1.6	-8	-13	-92	30
India		73	0.3	-0.3	1	4	0		6.3	0.6	3	1	22	37
Philippines		48	0.2	0.1	0	5	1		4.3	3.5	2	8	11	66
Thailand		31	0.3	0.1	0	1	-4		1.9	0.9	3	1	38	56
Malaysia		4.13	-0.1	0.1	0	4	-3		3.3	0.7	-2	2	43	70
Argentina		95	-0.1	-0.3	-1	-27	-11		45.6	5.9	-29	-64	-72	-1052
Brazil		5.05	0.1	3.4	4	-4	3		7.9	-8.4	-7	-25	268	234
Chile		718	0.3	0.8	-2	7	-1		4.1	9.2	19	52	145	133
Colombia		3600	1.3	3.0	6	0	-5		6.6	-10.4	-23	-46	115	148
Mexico		19.76	1.0	1.0	1	9	1		6.6	-7.3	-7	-20	34	104
Peru		3.9	0.4	-1.1	-1	-11	-6		4.7	-22.5	-14	-60	29	108
Uruguay		44	0.2	0.6	1	-2	-3		7.9	-10.1	4	54	-214	69
Hungary		284	0.0	-0.1	4	7	4		2.3	-0.6	-2	29	65	75
Poland		3.67	-0.2	-0.2	2	7	2		1.2	-0.2	-2	25	36	60
Romania		4.0	0.0	-0.6	0	6	-2		2.7	0.0	0	12	-107	-1
Russia		72.8	0.0	0.9	1	-6	2		6.9	3.1	9	20	153	119
South Africa		13.5	-0.3	2.0	4	24	9		9.6	-10.1	-18	-42	-11	-9
Turkey		8.62	0.5	-1.5	-4	-21	-14		18.2	-2.4	15	50	763	513
US (DXY; 5y UST)		90	0.0	0.1	0	-7	0		0.80	2.1	0	3	34	44

	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		5278	-0.1	-1	6	31	1	199	0	-2	-9	30	-9	
Indonesia		6070	0.1	4	2	20	2	158	0	-9	-25	-5	-29	
India		52329	0.4	1	6	52	10	150	-2	1	-9	-106	-1	
Philippines		6764	-0.5	2	8	4	-5	83	0	-9	-17	13	-22	
Malaysia		1578	0.0	-1	-1	1	-3	113	0	-2	-3	9	3	
Argentina		66190	0.0	12	29	47	29	1459	0	19	8	-570	91	
Brazil		130126	0.0	5	7	37	9	253	0	0	-16	58	3	
Chile		4226	0.0	-3	-9	5	1	126	0	-6	-16	-14	-18	
Colombia		1245	0.0	3	-3	4	-13	207	0	-4	-15	44	2	
Mexico		50484	0.0	1	3	30	15	348	0	-9	-34	55	-12	
Peru		22219	0.0	6	10	29	7	133	0	-4	-3	22	1	
Hungary		48599	0.7	5	10	28	16	65	0	-6	-15	-42	-31	
Poland		67169	0.4	1	8	30	18	-22	0	-4	-11	-54	-21	
Romania		11431	-0.8	0	-1	29	17	181	6	4	-7	-113	-22	
Russia		3814	0.2	2	4	37	16	159	0	-5	-3	19	-7	
South Africa		67751	-0.1	0	-1	24	14	357	0	-4	-35	25	-23	
Turkey		1448	1.0	2	0	32	-2	421	0	-5	-47	34	-24	
Ukraine		531	0.0	0	1	6	6	479	0	12	-21	127	-12	
EM total		56	-0.1	3	2	37	8	421	0	17	-10	97	128	

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

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