



- Global minimum corporate tax rate viewed as likely manageable for US corporates ([link](#))
- ECB maintains elevated pace of PEPP purchases in May ([link](#))
- Japanese economy contracts by less than expected in Q1 ([link](#))
- Expectations for Russian policy rate hikes build as inflation surprises to upside ([link](#))
- Peruvian assets tumble as presidential runoff results in political uncertainty ([link](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Markets steady as investors await further clues on the policy outlook

Global markets are trading cautiously as investors look ahead to the US CPI release and the results of the ECB meeting on Thursday. Yesterday, US equities were mixed with the S&P 500 slipping modestly as inflation and higher interest rates resurfaced as the main focus. US Treasury yields moved up 1-2 bps across the curve as investors tried to interpret US Treasury Secretary Yellen's comments on a higher interest rate environment being potentially beneficial. Overnight, Asian and European stocks have traded sideways while core sovereign yields have edged lower by 2 to 3 bps this morning. With markets in a holding pattern ahead of key events later this week, most measures of implied volatility have also moved lower with the VIX back down to 16, the US Treasury MOVE index at a 4-month low, and G7 FX volatility touching a one-year low. In emerging markets, the fallout from the elections in Latin America over the weekend continued to unfold. Peruvian assets fell sharply amid the latest polls showing Castillo taking a slim lead but uncertainty remaining around when the election could be finalized, while Mexican assets gained in response to the president's coalition losing its two-thirds majority in the legislature and now possibly facing more hurdles to any constitutional reform.

Key Global Financial Indicators

Last updated: 6/8/21 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4227	-0.1	1	0	31	13
Eurostoxx 50		4110	0.3	1	2	22	16
Nikkei 225		28964	-0.2	1	-1	25	6
MSCI EM		56	-0.5	2	2	35	8
Yields and Spreads			bps				
US 10y Yield		1.54	-2.9	-7	-4	66	63
Germany 10y Yield		-0.22	-2.1	-4	0	10	35
EMBIG Sovereign Spread		331	-1	0	-4	-129	-19
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.2	0.1	1	1	3	1
Dollar index, (+) = \$ appreciation		90.1	0.1	0	0	-7	0
Brent Crude Oil (\$/barrel)		70.8	-0.9	1	4	74	37
VIX Index (% change in pp)		16.4	0.0	-2	0	-9	-6

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

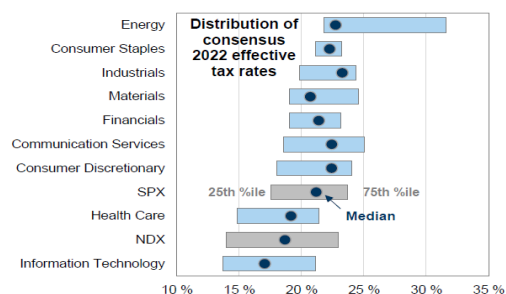
Mature Markets

[back to top](#)

United States

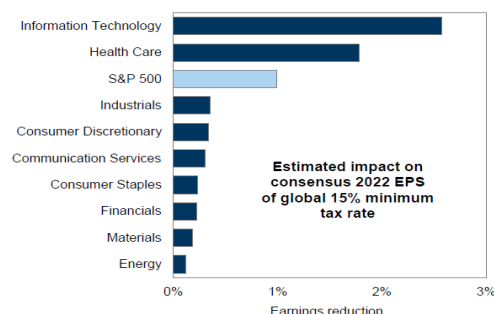
The global minimum corporate tax rate proposal is seen as likely manageable for US corporates. According to Goldman Sachs, a 15% minimum corporate tax rate, along the lines of the G7 agreement reached on Saturday, would shave about 1-2% off 2022E consensus S&P 500 earnings. The greatest risk would be for sectors with low effective tax rates and/or high foreign income exposure currently; among these, both Tech and Health Care stand out, but the potential negative impact is estimated to still be a less than 3% reduction in 2022 EPS forecasts. Outside of the US, the largest impacts would be for Hong Kong SAR, Canada and select European countries, including Switzerland, the Netherlands and Ireland.

Exhibit 1: Distribution of S&P 500 sector consensus 2022 effective tax rates



Source: FactSet, Goldman Sachs Global Investment Research

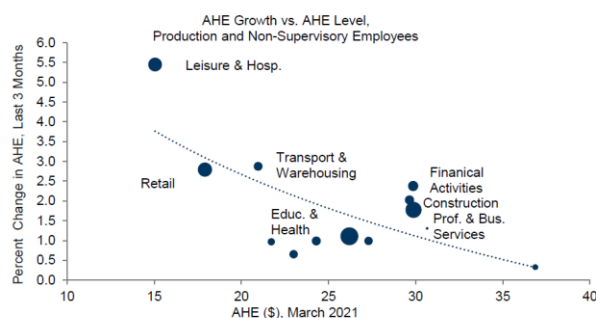
Exhibit 2: A 15% minimum tax rate would represent only a small earnings headwind to the S&P 500



Source: Goldman Sachs Global Investment Research

Strong wage growth in lowest-paid sectors suggests supply constraints in the US. Increase in average hourly earnings over the last 3 months has been strongest at the lower paying leisure & hospitality sectors, where the disincentive effects of the \$300/week unemployment benefit are also the greatest.

Exhibit 1: Strong Wage Growth in Leisure and Hospitality Suggests Benefits Are Reducing Labor Supply



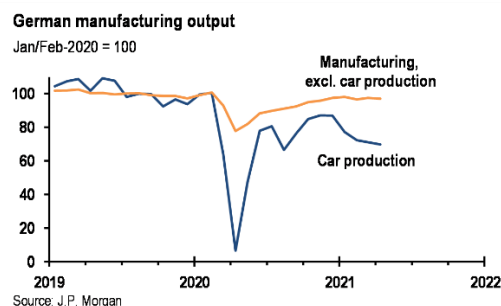
Source: Haver Analytics, Goldman Sachs Global Investment Research

Euro area

Equities and the euro (at \$1.22) are little changed after German activity data indicated a slower start to Q2 than anticipated.

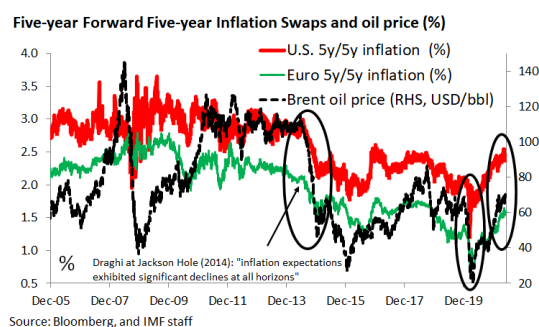
German industrial activity was weaker than expected at the start the quarter, even though anecdotal evidence on supply chain disruptions has become more prevalent. After factory orders yesterday, German industrial production also disappointed with a contraction of 1.0% m/m in April (compared to an expected gain of +0.4%). Except for the energy sector, activity in all industrial sectors dropped. Activity in the construction sector fell 4% m/m. **JP Morgan points out that a big part of the weakness is due to car**

production, which is 30% below the pre-COVID-19 level, while the rest of manufacturing is 2.7% below it. Weakness in the car sector has persisted in May due to shortages of semiconductors. **ZEW expectations of economic growth also disappointed at 79.8** (86 expected) even though the assessment of current conditions was better than anticipated.

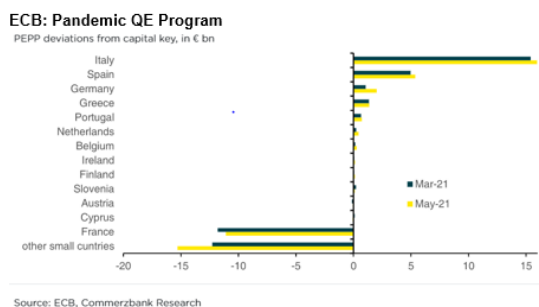


German 10-year bund yields (-1 bps to -0.21 %) edged lower ahead of tomorrow's ECB meeting. Inflation swaps also ticked lower as Brent oil prices fell 1% to \$70.90/bbl. **Italian spreads (+1 bp to 112 bps) ticked higher as Italy will be issuing debt today and on Thursday.**

Medium-term euro area inflation swaps continue to trade at levels below August 2014, when ECB President Draghi warned about significant declines, amid concerns that market-based measures for medium-term inflation expectations such as 5y/5y swaps may excessively reflect short-term developments in oil prices.



Monthly PEPP purchases in May rose slightly to €81 bn, the highest since July 2020 as the ECB continues to increase its overweight (compared to capital key) in larger bond markets. The largest overweight remains in Italy, although the largest increase vs. the capital key over the last two months occurred in Germany. **Morgan Stanley estimates that the ECB has close to €985 bn of net purchasing power (including PEPP and its regular QE program) until the end of March 2022 and has the capacity to run PEPP at the current pace into Q1 2022.**



United Kingdom

The British pound (-0.3% to \$1.41) fell ahead of a meeting between U.K. and EU officials on post-Brexit trade arrangements. The U.K. is reportedly considering a unilateral extension to a grace period that allows chilled meat products to trade without restrictions from Great Britain to Northern Ireland. The grace period is due to expire on June 30.

Crypto

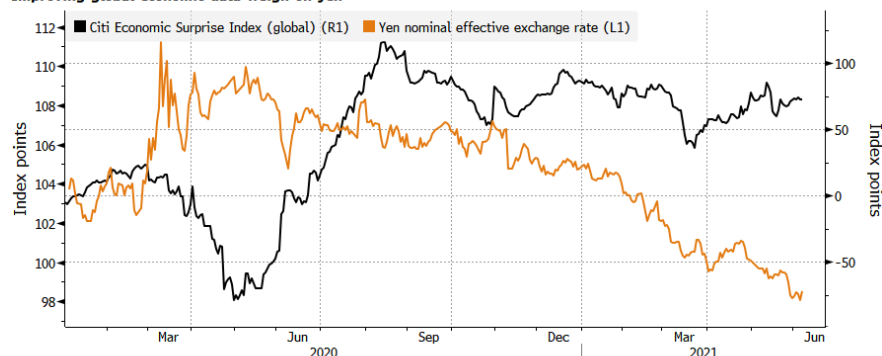
Bitcoin (-5%) fell to a 2-week low of \$32k per U.S. dollar (compared to a peak of almost \$65k in April) following news reports of the recovery of Colonial Pipeline's ransom. The wider Bloomberg Galaxy Crypto Index fell as much as 10%.

Japan

The economy contracted by less than expected in 2021Q1. Real GDP contracted -3.9% q/q (annualized), smaller than market consensus (-5.0%) and preliminary estimate (-5.1%). Stronger business spending, housing investment and public expenditure contributed to the upward revision. Meanwhile, private consumption was weaker than previously estimated. Analysts expect another economic contraction, albeit at a smaller scale, in Q2. Private consumption is seen as a main drag amid the continued state of emergency to curb the spread of the virus. **Japanese yen depreciated (-0.3%).** Some analysts noted that the Japanese yen has underperformed G-10 currencies in recent months as optimism over the global recovery reduced demand for Japanese yen as a safe haven. **Equities declined (NIKKEI: -0.2%); long-end JGB yields dropped (10-year: -0.5 bp; 30-year: -0.9 bp).**

Unpopular Offering

Improving global economic data weigh on yen



Source: Bank of Japan, Citigroup

CESIGL Index (Citi Economic Surprise Index - Global) Line Chart Daily 01JAN2020 Copyright© 2021 Bloomberg Finance L.P. 08-Jun-2021 16:22:20

Source: Bloomberg.

Emerging Markets

[back to top](#)

Latin American equities saw a mixed day, as stocks rallied in Argentina (3%) and Mexico (1.9%) but slumped in Peru (-7.7%) and Chile (-2.2%). Currencies appreciated in Mexico (0.8%), depreciated in Peru (-2.1%) and moved sideways elsewhere. While hard-currency treasury yields jumped in Peru, especially for the five-year maturity (+22bps), the Colombian curve fell up to 11bps and yields remained roughly stable elsewhere. Analysts connected gains in Mexican assets to Sunday's midterm elections, which resulted in a reduced lower house majority of the ruling coalition. Chilean local currency assets remained under pressure as investors eye the path of the latest bill proposal for withdrawals from pension funds through congress. **In EMEA, stocks were also mixed**, with gains in Hungary (+0.8%), Romania (+0.9%), South Africa (+0.3%), and Bulgaria (+0.3%), whereas Poland (-0.2%), Qatar (-0.3%), Egypt (-1.1%), and UAE (-0.2%) saw losses. FX trading was very contained, with the largest move in the Turkish lira (+0.2%) and the South African rand (-0.6%). **Most Asian equities declined, falling 0.4% on net.** Indonesian (-1.2%) and

Chinese (CSI 300: -0.9%) indices led the decline. Meanwhile, share prices rose in Philippines (+0.7%) and Malaysia (+0.6%). Asian currencies were mixed. Malaysian ringgit appreciated (+0.2%), while Korean won (-0.1%) and Philippine peso (-0.1%) depreciated. In Malaysia, a slowdown in the spread of the virus boosted market optimism that a nationwide lockdown will be eased. In Philippines, the unemployment rate increased to 8.7% in April from 7.1% in March.

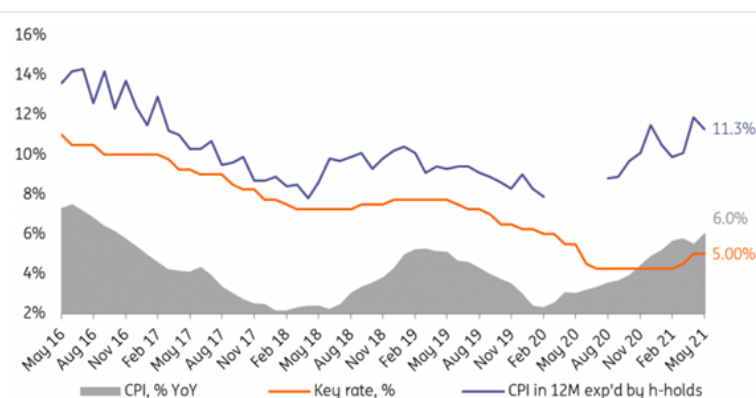
China

Chinese equities declined (CSI 300: -0.9%), led by major liquor makers. Kweichow Moutai (the largest market cap stock in mainland) fell 4.3% along with other liquor makers. Analysts noted that investors were concerned by the prospect of declining local government revenues from land sales. Earlier this week, the Ministry of Finance announced that the administration of land sales revenue of local governments will be transferred to the State Taxation Administration under the central government. Concerns that local governments may roll out consumption taxes on liquor or sell their stakes in local liquor makers prompted investors to sell liquor-maker equities. **China moved to loosen coal imports to bolster its local coal supply.** The supply squeeze rose as authorities stepped up safety inspections following an increase in fatalities at mines. Earlier, authorities also curbed domestic production to meet the carbon emission targets. Reportedly, ports in some provinces have fully removed restrictions on imports (except Australia), with coal arriving by end-June not counted to annual quotas. **RMB was little changed.**

Russia

Russian inflation surprised on the upside in May, coming in at 6% vs 5.8% expected. The inflation print is thus running well above the central bank's target of 4%, fueling speculation that the CBR will be forced to raise rates soon, also considering the stronger-than-expected recovery. Analysts noted that the increase in prices is affecting both food and non-food items. Most analysts expect now a 50 bp hike.

Figure 1: CPI hit a new high of 6.0% YoY in May, consumers' inflationary expectations stable but elevated

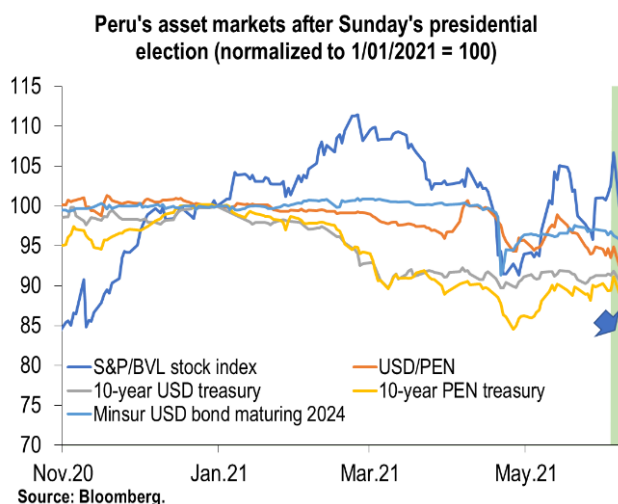


Source: Bank of Russia, Rosstat, ING

Peru

Peruvian asset markets fell sharply amidst Sundays' presidential run-off election that is still considered too close to call. Stocks, bonds, and the Peruvian sol all slumped in the middle of a still open race between the leftist candidate Castillo and his right-wing contender Fujimori. While Castillo led with a 0.4% margin (50.2% vs 49.8%), the race was still too close to call as of Monday night. Although statements by Castillo's top economic advisor that nationalizations, currency controls and generalized price controls would not be on candidate's agenda, investors were ultimately not appeased. The close race generated expectations for political instability among analysts, as results may be contested, foreboding the potential


























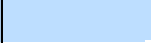


additional volatility in financial markets. A 7.3 bp jump in the country's 5-year CDS spread since last Friday, to 100.3 bps, further highlights investors' concerns.



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.

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document*

Global Financial Indicators

Last updated: 6/8/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4232	-0.1	1	0	31	13
Europe		4110	0.3	1	2	22	16
Japan		28964	-0.2	1	-1	25	6
China		3580	-0.5	-1	5	21	3
Asia Ex Japan		95	-0.6	1	1	36	6
Emerging Markets		56	-0.5	2	2	35	8
Interest Rates			basis points				
US 10y Yield		1.54	-2.9	-7	-4	66	63
Germany 10y Yield		-0.22	-2.1	-4	0	10	35
Japan 10y Yield		0.08	-0.5	-1	-1	3	6
UK 10y Yield		0.78	-2.3	-4	1	45	59
Credit Spreads			basis points				
US Investment Grade		92	0.2	2	0	-54	-3
US High Yield		333	-2.9	-8	-1	-219	-47
Europe IG		49	-0.3	-1	-1	-12	1
Europe HY		242	-1.5	-3	-9	-99	0
Exchange Rates			%				
USD/Majors		90.08	0.1	0	0	-7	0
EUR/USD		1.22	-0.1	0	0	8	0
USD/JPY		109.4	0.2	0	1	1	6
EM/USD		58.2	0.1	1	1	3	1
Commodities			%				
Brent Crude Oil (\$/barrel)		71	-0.9	1	4	74	37
Industrials Metals (index)		157	0.0	-2	-4	54	18
Agriculture (index)		60	0.7	1	-3	67	24
Implied Volatility			%				
VIX Index (% change in pp)		16.4	0.0	-1.5	-0.3	-9.4	-6.4
US 10y Swaption Volatility		61.0	0.0	-6.2	-9.0	-12.2	0.9
Global FX Volatility		6.8	0.0	-0.3	-0.4	-0.9	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		110	7.3	9	-11	-65	-9
Italy		112	1.1	4	-6	-60	1
Portugal		67	0.1	2	-5	-17	7
Spain		67	-0.1	2	-3	-20	5

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: 6/8/2021 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	-0.3	0	11	2		3.2	2.7	4	1	33	-4
Indonesia		14253	0.1	0.2	0	-3	-1		6.4	-0.6	-4	-9	-93	29
India		73	-0.1	0.0	1	4	0		6.3	-1.2	-1	2	20	36
Philippines		48	-0.1	0.1	0	5	1		4.3	-3.3	-1	5	9	62
Thailand		31	0.0	-0.2	0	1	-4		1.9	1.8	3	6	37	57
Malaysia		4.12	0.2	0.1	0	4	-2		3.3	0.0	-4	1	36	70
Argentina		95	-0.1	-0.3	-1	-27	-11		45.3	-31.6	-62	-106	-140	-1084
Brazil		5.03	0.3	2.4	4	-4	3		8.0	7.6	-5	-18	268	241
Chile		716	0.3	0.9	-3	7	-1		4.2	7.6	26	59	141	140
Colombia		3600	1.3	3.0	6	0	-5		6.6	0.0	-23	-23	115	148
Mexico		19.75	0.3	1.1	1	9	1		6.6	-7.9	-9	-11	11	96
Peru		3.9	-2.1	-2.5	-3	-13	-8		5.1	44.3	30	12	75	152
Uruguay		44	0.1	0.6	1	-3	-3		7.9	-2.2	-30	54	-219	66
Hungary		286	-0.4	-0.8	3	7	4		2.3	0.1	-3	29	58	75
Poland		3.67	-0.1	-0.5	2	7	2		1.3	1.9	-1	26	31	62
Romania		4.0	-0.1	-0.4	0	6	-2		2.7	0.0	1	13	-107	-1
Russia		72.5	0.5	1.5	3	-6	3		6.9	3.2	11	23	149	122
South Africa		13.5	-0.1	1.7	4	23	9		9.5	-5.3	-21	-34	-35	-14
Turkey		8.59	0.2	-0.6	-4	-21	-13		18.3	2.6	17	79	761	515
US (DXY; 5y UST)		90	0.1	0.3	0	-7	0		0.77	-2.6	-4	-1	32	41

	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		5232	-0.9	-2	5	29	0	199	0	-2	-9	30	-9
Indonesia		5999	-1.2	1	1	19	0	158	0	-9	-25	-5	-29
India		52276	-0.1	1	6	54	9	149	-1	0	-17	-99	-2
Philippines		6810	0.7	3	9	3	-5	83	0	-9	-17	13	-22
Malaysia		1588	0.6	0	0	1	-2	113	0	-2	-3	9	3
Argentina		68151	3.0	15	33	39	33	1459	0	19	8	-570	91
Brazil		130776	0.5	4	7	34	10	253	0	0	-16	58	3
Chile		4131	0.0	-6	-11	0	-1	126	0	-6	-16	-14	-18
Colombia		1245	-1.0	4	-3	4	-13	207	0	-4	-15	44	2
Mexico		51428	1.9	1	4	29	17	348	0	-9	-34	55	-12
Peru		20498	-7.7	-3	2	17	-2	133	0	-4	-3	22	1
Hungary		48333	0.2	3	9	27	15	65	0	-6	-15	-42	-31
Poland		66341	-0.6	0	7	29	16	-22	0	-4	-11	-54	-21
Romania		11371	0.9	-1	-2	29	16	179	-2	3	-3	-105	-24
Russia		3813	-0.2	1	4	36	16	159	0	-5	-3	19	-7
South Africa		67865	0.4	-2	-1	24	14	357	0	-4	-35	25	-23
Turkey		1447	0.0	1	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	2	2	35	8	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](#)