



- Share of US small businesses raising prices reaches all-time high in May ([link](#))
- Euro area rates fall despite expectations for substantial EU bond issuance ([link](#))
- China's PPI and CPI inflation continued to move higher in May ([link](#))
- Chinese banks told to stress test exposure to property developer Evergrande ([link](#))
- Chilean central bank holds policy rate but provides hawkish forward guidance ([link](#))

[Mature Markets](#)



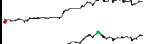






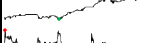
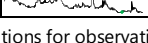
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Core sovereign bond yields decline as investors await inflation update

Major advanced economy sovereign bond yields continued to inch lower this morning with the benchmark 10-year US Treasury yield hovering around 1.50%, the lowest level in three months. Yesterday, the S&P 500 turned in another mixed trading session, while US Treasury yields moved lower and the yield curve flattened to levels last seen in March. Overnight, European and US stock futures, along with Asian stocks, have traded mostly sideways. Euro area bond yields are also lower with German 10-year bund yields down to -0.25%, reversing the rise in rates seen in May. Contacts note a wait-and-see mood has prevailed in markets in anticipation of tomorrow's US inflation report and ECB meeting, which should provide further information to the debate between inflation and the central bank policy outlook. In emerging markets, the decline in US yields is weighing on the US dollar and the broad EM FX index is strengthening this morning with currencies across most regions appreciating modestly. In oil markets, US WTI is trading above \$70 per barrel for the first time since 2018.

Key Global Financial Indicators

Last updated: 6/9/21 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4227	0.0	1	0	32	13
Eurostoxx 50		4085	-0.3	0	1	23	15
Nikkei 225		28861	-0.4	0	-2	25	5
MSCI EM		55	-0.5	-1	1	36	7
Yields and Spreads			bps				
US 10y Yield		1.50	-3.6	-9	-8	67	58
Germany 10y Yield		-0.25	-3.0	-6	-4	6	32
EMBIG Sovereign Spread		331	0	2	-4	-122	-20
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.3	0.2	0	1	4	1
Dollar index, (+) = \$ appreciation		90.0	-0.1	0	0	-7	0
Brent Crude Oil (\$/barrel)		72.6	0.5	2	6	76	40
VIX Index (% change in pp)		17.2	0.1	0	1	-10	-6

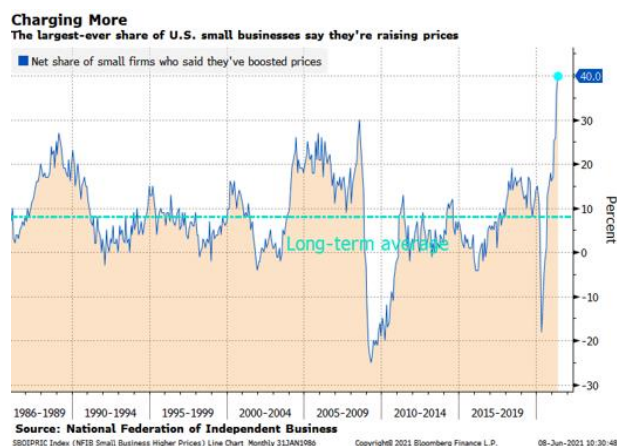
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

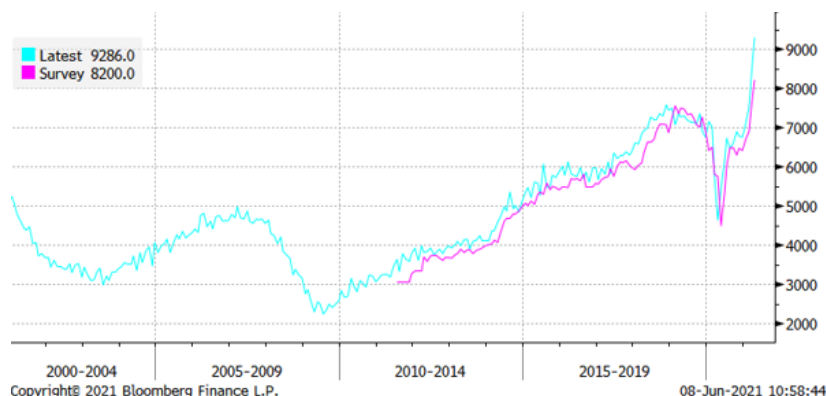
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United States

The number of US small businesses raising prices reached an all-time high (40%) in May. The overall NFIB Small Business Optimism index came in below expectations in May, for the first time in the last four months. On the one hand, forward-looking components of the index retreated, with a higher share of firms expecting a deterioration in business conditions over the next 3 months. On the other, 40% of small businesses surveyed (net) reported higher prices in May, up from 36% in April, reaching the highest level since 1986. Furthermore, 43% of them (net) also reported plans to increase prices even further over the next 3 months (vs 36% in April).



US labor demand reached new all-time highs (9.3 million job openings) in April. Job openings surged in April, reaching 9.3 million, +1 million m/m and significantly ahead of consensus expectations for 8.2 million. The quits rate (+0.2 pp to 2.7%) and layoff rate (-0.1 pp to 1.0%) also reached new records in April, with the hiring rate remaining unchanged at 4.2%. The number of unemployed persons searching for a job per job opening fell by 0.1 to 0.9 in April. Overall, this adds further evidence of supply-side constraints behind the weaker-than-expected prints of the last two (April and May) jobs reports.

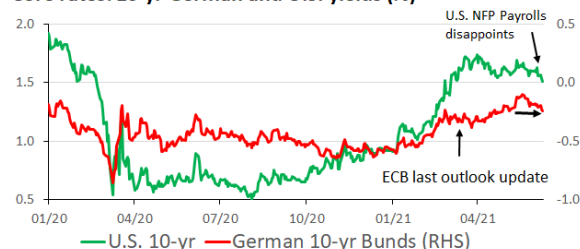


Euro area

German 10-year bund yields fell another 3 bps to -0.25%, reversing the increase seen in May, with other euro area bonds also trading well despite expectations of substantial EU bond issuance. Following yesterday's EU investor call, traders are expecting substantial EU bond issuance of €35-45 bn across the NGEU and EFSM in the coming weeks (including the inaugural NGEU issuance next Tuesday). Issuance is expected to slow to around €10 bn per month from September. The EU will deposit proceeds from the issuance at the ECB before disbursing to member states in July. An inaugural green issuance for

the NGEU program is expected to take place this fall. **French 10-year yields and Italian 10-year spreads also ticked 2 bps lower. Equities and the euro (at \$1.22) are little changed** ahead of the ECB policy meeting and U.S. inflation release tomorrow.

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

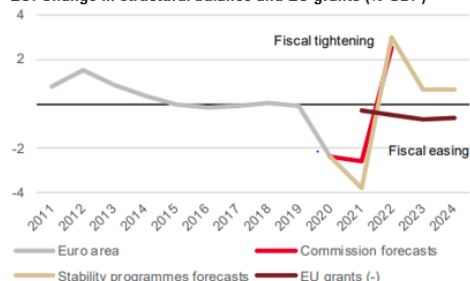


Source: Bloomberg and IMF staff

The European Commission (EC) is expected to start approving NGEU plans next week with payments to follow in July. After the EC's approval, the Council of EU leaders has another month to validate the plans before member states can request funds. Member states can reportedly request an initial payment of 13% of the funds from the Recovery and Resilience Facility (which represents 90% of NGEU).

The imminent issuance of NGEU bonds and roll-out of funds has been quicker than anticipated but analysts warn that stability programs of member states suggest substantial financial tightening in 2022. As a result, the euro area deficit is expected to halve, with six countries (including Germany) having a deficit below 3% of GDP as early as 2022. The euro area deficit would then drop below 3% in 2023 and close to 2% in 2024. Some contacts believe that the September German elections and the French elections in 2022 will lead to less tightening than currently projected.

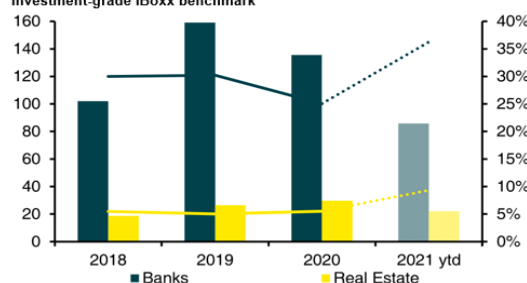
EU: Change in structural balance and EU grants (% GDP)



Source: EC, Stability programs and SocGen

Banks and the real estate sector have driven issuance in the euro investment-grade corporate bond market, with non-financials expected to catch up in recent months.

Investment-grade corporate issuance in euro: in bn euro (RHS) and as % of Investment-grade iBoxx benchmark



Source: Bloomberg, Markit and Commerzbank

BBVA reached a layoff agreement with union representatives to cut 2,935 jobs (mostly in Catalonia). The negative impact on the job reduction on its CET1 ratio is expected to be around 28 bps.

Japan

Nomura will undergo a significant downsizing of its prime brokerage business in the United States and Europe, in an effort to rein in risks following its substantial loss related to Archegos Capital Management. Reportedly, Nomura has approached some rival firms about the possibility of having them take over its lending commitments to prime-brokerage clients. **Japanese equities declined (NIKKEI: -0.4%); Japanese yen was little changed; long-end JGB yields declined (10-year: -0.9 bp; 30-year: -1.7 bps).**

Emerging Markets

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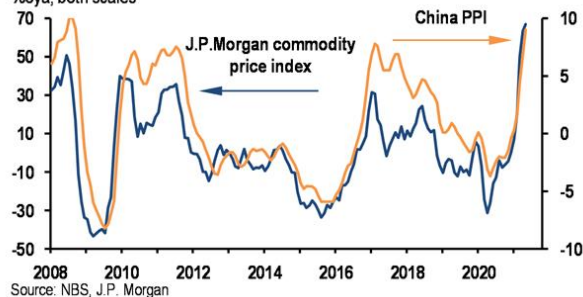
Latin American equities were mixed yesterday, declining in Argentina (-2.6%), Mexico (-1.1%), Brazil (-0.8%), and Peru (-0.5%), while gaining in Colombia (+1.1%) and Chile (+1%). **Currencies remained stable**, except for a stronger Mexican (+0.6%) and a weaker Chilean peso (-0.3%). Hard-currency yield curves mainly followed a flattening and slightly lower US Treasury curve, alongside a rebound Peru where the USD sovereign bonds recovered after Monday's sell-off. **Asian equities were mixed, falling 0.4% on net.** Korean (-1.0%) and Indian (-1.0%) equities led the decline, while share prices rose in Philippines (+1.4%), Thailand (+0.8%) and Indonesia (+0.8%). **Asian currencies were also mixed in a tight trading range.** Thai baht (+0.2%) and Chinese yuan (+0.2%) appreciated, while Taiwan dollar (-0.1%) and Indian rupee (-0.1%) depreciated. **Most EMEA stocks gained today**, with the main exceptions being Hungary (-1.7%) and South Africa (-0.3%). The largest advances were in Romania (+0.7%), Bahrain (+0.6%), and the Czech Republic (+0.3%). **Currencies in the region strengthened** in unison to the US dollar by about 0.2% to 0.5% across the board. The Polish zloty gained 0.4% even as the central bank is expected to keep interest rates on hold at 0.1% later today.

China

Both PPI and CPI inflation rose in May. PPI inflation increased to 9.0% y/y in May from 6.8% in April, above expectations at 8.5%. PPI inflation accelerated further on the back of surging commodity prices, registering the fastest pace since October 2008. Meanwhile, CPI inflation was below expectations (1.6%), increasing from 0.9% y/y in April to 1.3% in May. The CPI dynamics reflected a combination of falling port prices, rising energy prices and some pickup in core inflation related to service activity recovery. **RMB appreciated (+0.2%); equities gained (CSI 300: +0.1%); long-end CGB yields edged down (10-year: -0.6 bp).**

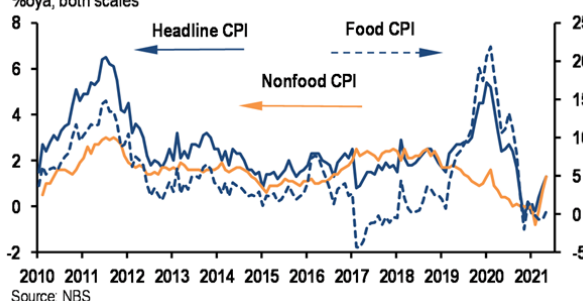
China: PPI vs. global commodity price index

%oya, both scales



China: Headline CPI, food and non-food CPI

%oya, both scales



Source: JP Morgan.

Major Chinese banks were told to stress test their exposures to Evergrande, one of the largest and most indebted property developers. Evergrande's bond and share prices have fallen in recent weeks amid a series of negative news, including a scrutiny on the developer's dealings with Shengjing Bank which is majority-owned by the developer. Its share price dropped (4.2%) today after a rebound yesterday on the news of share buybacks. **Two provincial governments widened the range of acceptable bids in their bond auctions.** Guangdong and Zhejiang, among the largest provincial borrowers (with outstanding debt of about \$250 bn and \$200 bn, respectively), reportedly told bond traders that the lower end of the acceptable band of the coupon rate in auctions will be 15 bps above the central government debt (from 25 bps). Some analysts noted that the new pricing rule could help investors better express their different views on creditworthiness of local governments.

Korea

The unemployment rate edged up to 3.8% in May against the consensus forecast for a decline to 3.6%. The number of employed people rose to 27.3 million, close to the pre-pandemic level (27.5 million). Analysts noted that public sector job creation, which tends to be for lower-paid, temporary jobs, is still the main driver of employment. **Korea may witness its own version of GameStop.** Doosan Heavy Industries & Construction's share price surged 160% from mid-May to a Monday peak before falling 21% on Tuesday. Market commentary suggested that such volatility reflects the tussle between retail investors and short sellers. Doosan (current market cap of about \$1.6 bn) is among the most shorted stocks since the ban on short selling was lifted in May. **The government is exploring travel bubble arrangements** with Singapore, Thailand and Taiwan POC for fully vaccinated travelers. **Equities declined (-1.0%), and Korean won depreciated (-0.1%).**

Heavy Lifting

South Korea's Doosan Heavy surged 160% in weeks

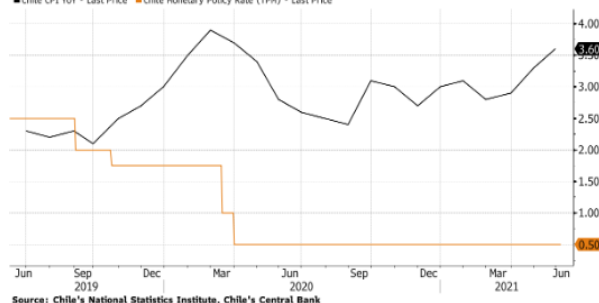


Chile

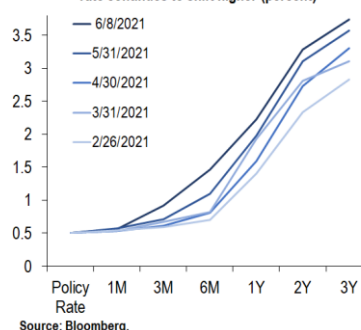
Chile's central bank leaves its policy rate unchanged but provides hawkish forward guidance. As expected by market consensus the Chilean central bank left its monetary policy rate unchanged at 0.5% in a unanimous vote. Annual inflation accelerated to 3.6% y/y in May, 10 bps less than expected but 30 bps up from April, presumably also driven by a base effect due to last year's subdued May inflation print. The bank's board noted the current weakness of equity markets and the upward trend in the 10-year peso treasury yield (almost +90 bps since May's low, to currently 4.5%), while still acknowledging a lag in the recovery of labor market conditions. In this context the board pointed to a future recalibration of its monetary stance and a gradual withdrawal of unconventional measures, as it recently stopped the reinvestment of bank coupon bonds. These signals are likely to reinforce already present market expectations for future rate hikes within the next months.

Rising Pressure**Annual inflation speeds up further above target while key rate stays low**

■ Chile CPI YoY - Last Price ■ Chile Monetary Policy Rate (TPM) - Last Price



Source: Bloomberg.

The term curve for Chile's market implied policy rate continues to shift higher (percent)**Oman**


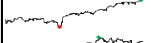

















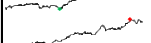





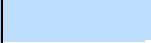


Oman successfully launched a dollar-denominated sukuk at 5.375%-5.500%, with a 9-year maturity.

The issue has been rated at BB- by Fitch and Ba3 by Moody's. The government expects its debt to GDP ratio to rise to 82.7% in 2021 from 79.2% in 2020 and 59.9% in 2019. The Omani issuance is helping restart activity in the HY sovereign debt space, which has seen lower primary activity recently. Weekly issuance from EM reached close to \$17 bn last week, from around \$14 bn the previous week. Cameroon and Ghana are also expected to issue in coming months.

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: 6/9/21 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4230	0.0	1	0	32	13
Europe		4085	-0.3	0	1	23	15
Japan		28861	-0.4	0	-2	25	5
China		3591	0.3	0	5	22	3
Asia Ex Japan		95	-0.5	-2	0	36	6
Emerging Markets		55	-0.5	-1	1	36	7
Interest Rates			basis points				
US 10y Yield		1.50	-3.6	-9	-8	67	58
Germany 10y Yield		-0.25	-3.0	-6	-4	6	32
Japan 10y Yield		0.07	-0.9	-1	-2	5	5
UK 10y Yield		0.75	-2.5	-5	-3	41	55
Credit Spreads			basis points				
US Investment Grade		92	0.1	2	0	-52	-3
US High Yield		333	-0.3	-5	-1	-214	-47
Europe IG		49	-0.2	0	-1	-17	1
Europe HY		241	-1.6	-3	-10	-120	-1
Exchange Rates			%				
USD/Majors		89.98	-0.1	0	0	-7	0
EUR/USD		1.22	0.2	0	1	8	0
USD/JPY		109.4	-0.1	0	1	2	6
EM/USD		58.3	0.2	0	1	4	1
Commodities			%				
Brent Crude Oil (\$/barrel)		73	0.5	2	6	76	40
Industrials Metals (index)		158	-0.3	-1	-3	54	19
Agriculture (index)		59	-0.6	0	-3	67	23
Implied Volatility			%				
VIX Index (% change in pp)		17.2	0.1	-0.3	0.5	-10.4	-5.5
US 10y Swaption Volatility		61.8	0.3	-6.3	-8.3	-12.8	1.6
Global FX Volatility		6.7	0.0	-0.4	-0.5	-1.3	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		110	1.6	9	-11	-68	-9
Italy		107	-1.5	-1	-11	-74	-4
Portugal		65	-0.9	0	-7	-26	5
Spain		64	-1.1	-1	-6	-30	3

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: 6/9/2021 8:09 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	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		6.39	0.2	-0.1	0	11	2		3.2	0.8	6	2	33	-3
Indonesia		14255	0.0	0.2	0	-3	-1		6.4	0.0	-4	-9	-105	29
India		73	-0.1	0.1	1	4	0		6.3	-1.7	-4	0	18	34
Philippines		48	0.0	0.2	0	5	1		4.3	5.2	5	11	12	68
Thailand		31	0.2	0.0	0	1	-4		1.9	-0.1	3	6	37	57
Malaysia		4.12	0.1	0.2	0	4	-2		3.3	1.6	0	3	38	72
Argentina		95	0.0	-0.3	-1	-27	-11		45.4	4.8	-24	-101	-223	-1079
Brazil		5.03	0.1	0.9	4	-3	3		8.0	-2.4	-11	-21	265	239
Chile		718	-0.3	1.0	-3	7	-1		4.2	-1.2	27	58	129	139
Colombia		3605	-0.1	1.7	4	0	-5		6.5	-10.0	-26	-33	110	138
Mexico		19.63	0.4	1.4	2	12	1		6.5	-5.6	-16	-16	7	90
Peru		3.9	0.2	-1.8	-5	-13	-8		5.0	-10.0	17	2	68	142
Uruguay		44	0.1	0.4	1	-3	-3		7.9	0.0	-21	54	-216	66
Hungary		285	0.6	-0.4	4	7	4		2.3	-1.7	-7	28	54	73
Poland		3.65	0.4	-0.1	3	7	2		1.3	3.2	3	29	33	65
Romania		4.0	0.1	-0.2	1	5	-2		2.7	0.0	1	13	-107	-1
Russia		72.1	0.3	1.5	3	-5	3		7.0	6.4	16	29	154	129
South Africa		13.6	0.1	-0.2	4	23	8		9.5	-2.0	-21	-36	-44	-16
Turkey		8.58	0.3	0.2	-4	-21	-13		18.2	-4.2	20	74	750	511
US (DXY; 5y UST)		90	-0.1	0.0	0	-7	0		0.75	-2.6	-5	-3	35	39

	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		5236	0.1	-1	5	30	0	199	0	-2	-9	30	-9
Indonesia		6047	0.8	0	1	23	1	158	0	-9	-25	-5	-29
India		51942	-0.6	0	5	52	9	144	-5	-8	-22	-102	-7
Philippines		6903	1.4	1	9	7	-3	83	0	-9	-17	13	-22
Malaysia		1581	-0.4	0	0	0	-3	113	0	-2	-3	9	3
Argentina		66390	-2.6	9	29	43	30	1459	0	19	8	-570	91
Brazil		129787	-0.8	3	6	34	9	253	0	0	-16	58	3
Chile		4172	1.0	-5	-10	1	0	126	0	-6	-16	-14	-18
Colombia		1259	1.1	3	-2	4	-12	207	0	-4	-15	44	2
Mexico		50865	-1.1	0	3	30	15	348	0	-9	-34	55	-12
Peru		20386	-0.5	-3	1	18	-2	133	0	-4	-3	22	1
Hungary		47811	-1.6	2	8	26	14	65	0	-6	-15	-42	-31
Poland		66164	-0.5	0	7	29	16	-22	0	-4	-11	-54	-21
Romania		11401	0.7	-2	-2	29	16	182	3	8	0	-91	-21
Russia		3818	0.3	0	4	37	16	159	0	-5	-3	19	-7
South Africa		67464	-0.3	-2	-2	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		55	-0.1	-1	1	36	7	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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