GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MARCH 15, 2021

- **Markets are now pricing almost three rate Fed hikes in 2023** (link)
- **US debt servicing costs to remain moderate despite rise in rates** (link)
- **Money market liquidity worries drive Chinese stocks lower** (link)
- **Euroclear moves $120 bn of Irish equities from London to Dublin** (link)
- **Indonesia's parliament considers bill to limit central bank autonomy** (link)

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

Central Bank Extravaganza

With the FOMC, BOJ and BOE all meeting this week, central banks are the center of attention. With interest rates creeping higher across all three regions, markets are getting worried that the days of unlimited central bank support may be coming to an end. A number of large EM central banks are also on the calendar, with several expected to hike policy rates. The benchmark US 10-year Treasury yield hit a new post-pandemic high of 1.63% last Friday, but interest rates are holding steady this morning, enabling European stocks to post modest gains although US equity futures are mixed. Trading volumes are relatively low as market participants appear to be staying on the sidelines for now ahead of the week's key events. The pace of vaccinations has picked up strongly in the US and UK among others, but globally the number of new cases was up for a third consecutive week. The consensus view that the pandemic is on the wane will be put to the test in the weeks ahead. Meanwhile, US President Biden is expected to reveal a new tax plan that would impose the most significant tax increases since 1993, focusing on higher corporate taxes and raising taxes on the wealthy.

Key Global Financial Indicators

Last updated: 3/15/21 7:56 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3943	0.1	3	0	45	5
Eurostoxx 50		3845	0.3	2	3	49	8
Nikkei 225		29767	0.2	4	-1	71	8
MSCI EM		54	-1.8	0	-7	49	4
Yields and Spreads			bps				
US 10y Yield		1.63	0.5	4	42	67	72
Germany 10y Yield		-0.31	0.1	-3	8	24	26
EMBIG Sovereign Spread		355	-2	-6	15	-182	4
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.9	0.1	2	-2	2	-2
Dollar index, (+) = $ appreciation		91.8	0.1	-1	1	-7	2
Brent Crude Oil ($/barrel)		69.1	-0.1	1	9	104	33
VIX Index (%, change in pp)		21.4	0.7	-4	1	-36	-1

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

This could be an eventful week for global markets, with the FOMC meeting and press conference on Wednesday the key focus. Markets will be paying close attention as the Fed reveals its latest forecasts for interest rates and the economy. The recent rise in interest rates has made many worry that the global rally could go into reverse, and although Fed Chair Powell's rhetoric has remained consistently dovish, fears of Fed rate hikes in the near future (markets are projecting early 2023 for the first rate hike) have been a major source of tension for markets. The Bank of Japan Meeting on Friday will also be an important focus, as investors have been watching JGB yields tick higher in the midst of concerns and speculation that the BOJ may roll back some of its support measures. The Bank of England meets on Thursday. The data calendar has some other potentially market moving releases. The EU Finance Ministers meet tomorrow. **Analysts expect the Central Bank of Turkey to hike at least 100 bps on Thursday, bringing the one-week repo rate to 18%.** While most analysts expect on-hold decisions for Egypt and Russia, some contacts predict that the latter will deliver a 25 bps hike. The central bank of Brazil is also expected to raise rate by 50 bps.

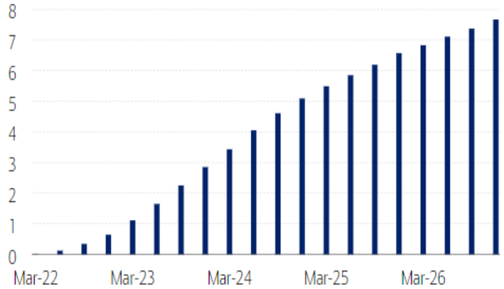
Selected Data Releases for the Week Ahead
Source: Bloomberg

Data Release	Consensus Forecast
Retail Sales (US) Tuesday	-0.7%
FOMC (US) Wednesday	Latest dot plot, SEP forecasts
ZEW Survey (GER.) Tuesday	74
Euro area CPI Wednesday	0.2%
Bank of Japan Meeting Thursday	Update on policy
Bank of England Thursday	Update on policy
CPI (Japan) Friday	-0.4%

United States back to top

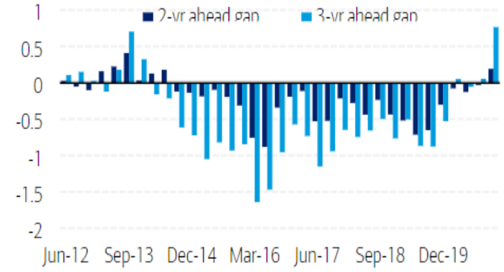
Interest rate futures markets are now pricing almost three rate hikes in 2023, with the first hike expected near the beginning of the year. As a result, markets will be closely watching the updated Fed dot plot, as well as the latest Staff Economic Projections (SEP). Most analysts think the new median dot plot will show one rate hike in 2023 in contrast to what the market is expecting. Bank of America points out that if the new median dot plot predicts no hike in 2023, it will be the first time since 2013 when the market is predicting a more hawkish Fed than the dot plot.

Exhibit 4: Number of 25 bp rate hikes implied by the market
First rate hike in early '23, nearly 3 total hikes expected by end '23



Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

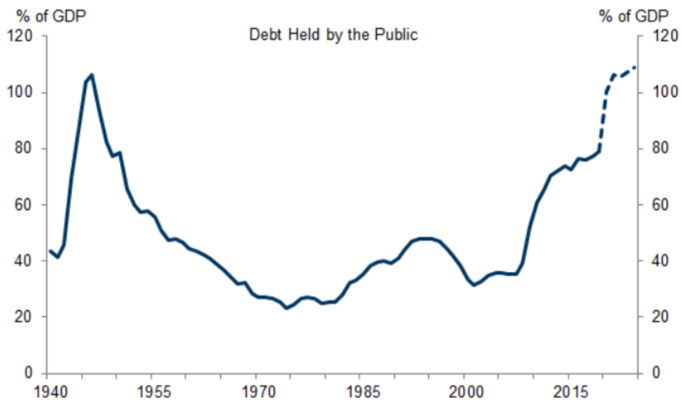
Exhibit 5: Gap between market-implied path and median SEP dot
With the exception of recent history and '13 the gap is negative



Source: BofA Global Research, Bloomberg, Note: gap calculated using median SEP dot. Positive gap implies market is above SEP. Mar-21 assumes SEP reflects no hikes through 2023
BofA GLOBAL RESEARCH

Debt servicing costs for the Federal government will remain moderate despite the recent rise in interest rates, according to a forecast from Goldman. With the benchmark 10-year Treasury yield up 70 bps so far this year and the debt to GDP ratio approaching a record high, some market participants have become worried about US debt sustainability.

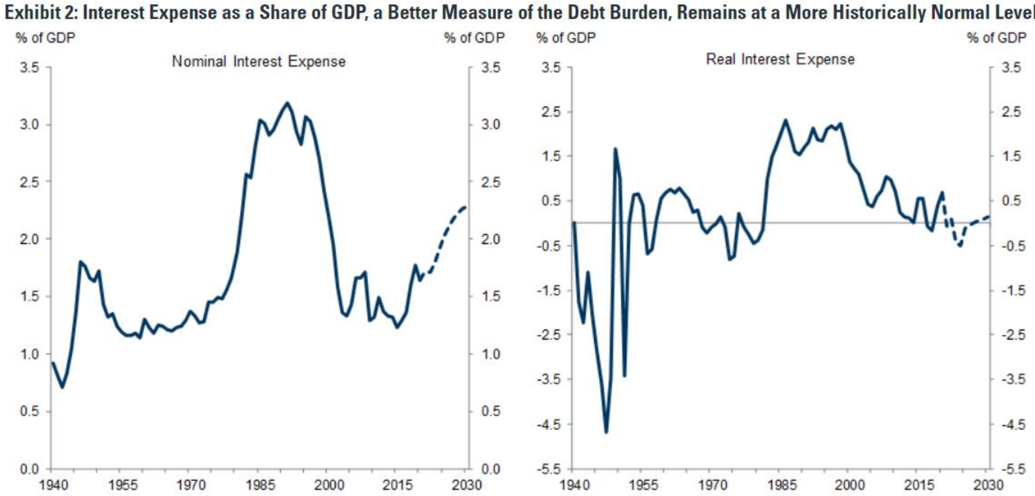
Exhibit 1: The US Debt-to-GDP Ratio Will Soon Reach the Highest Level in US History



Source: Office of Management and Budget, Goldman Sachs Global Investment Research

Goldman cites a study by Jason Furman and Larry Summers which finds that real interest cost as a percentage of GDP is a better measure of debt sustainability. The Goldman analysts project that even with higher interest rates in the future, real interest costs will remain within a historically normal range. This is true both on a nominal and a real basis.

Exhibit 2: Interest Expense as a Share of GDP, a Better Measure of the Debt Burden, Remains at a More Historically Normal Level



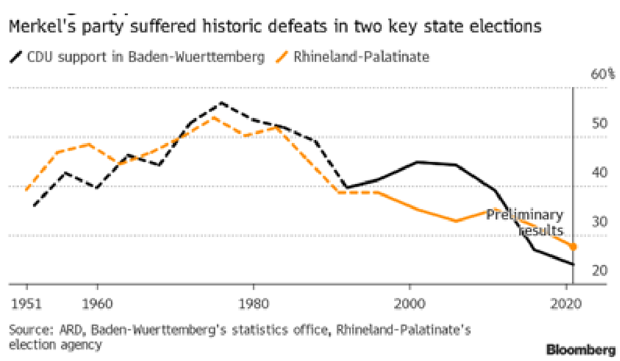
Source: Office of Management and Budget, Goldman Sachs Global Investment Research

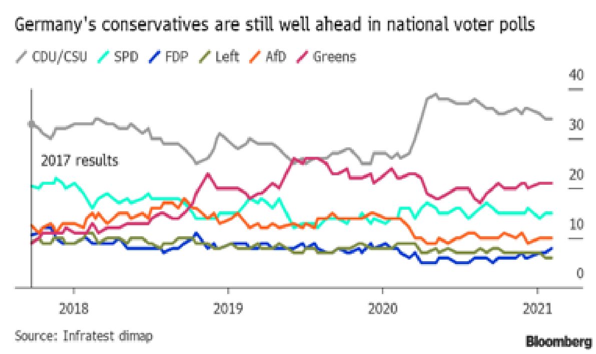
Europe

back to top

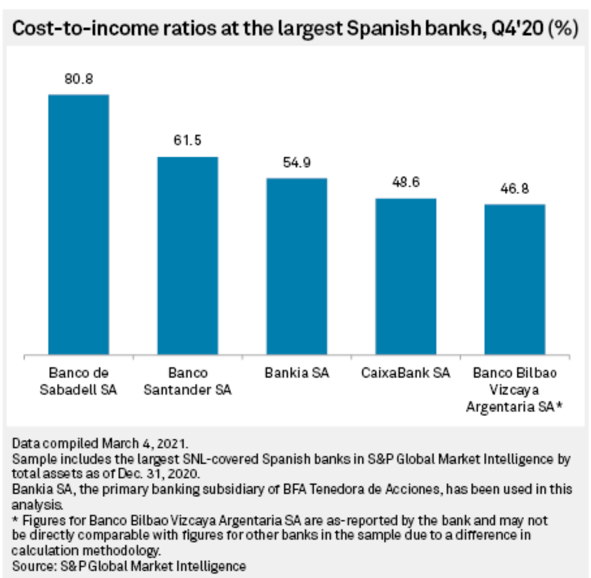
In Brexit-related news, **Euroclear has announced the transfer of about $120 bn-worth of Irish equities from London to Dublin.** The settlement company announced the completion of the transfer over the weekend, which had been reportedly been in preparation for over two years. Separately, **the European Commission is reportedly poised to start legal action against the UK today.** The legal contention involves the UK having waived border checks between Northern Ireland and Great Britain to avoid disruptions at the border.

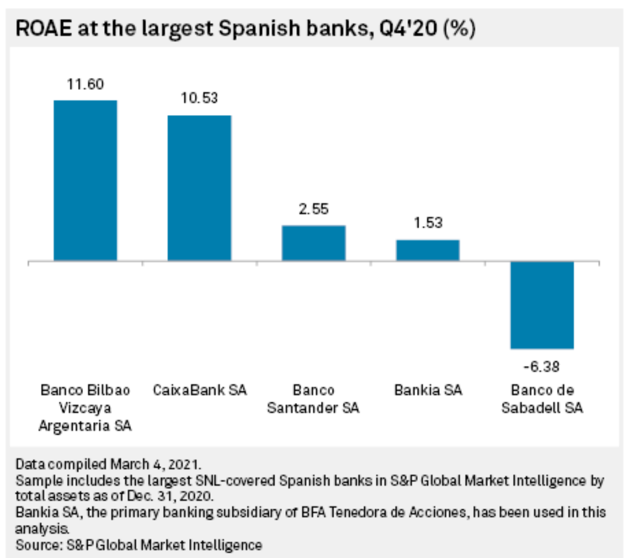
In Germany, the Christian Democrats had their worst historical results in two key local elections. Support for the CDU in Baden-Wurttemberg and Rhineland-Palatinate faltered amid criticism of the federal government's strategy to contain the pandemic. **Despite the regional defeats, the CDU remains the leading party ahead of this year's national election in September.** The Greens won election in Baden-Wurttemberg (32.6%, +2.3pp) and the SPD won in Rhineland-Palatinate (35.7%, -0.5pp).





Sabadell's stocks (+0.6%) outperformed peers today, even as the bank faces closer investor scrutiny ahead of its key strategic announcements expected in coming weeks. Analysts at S&P Global have highlighted the efficiency and profitability challenges faced by the bank, including high cost-to-income ratios and negative profitability in Q4 2020. Many banking analysts expect further consolidation among Spanish banks in coming months.



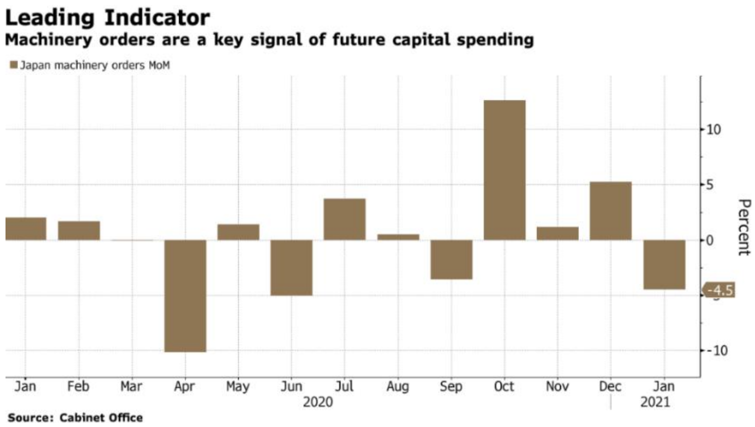


Other Mature Markets

back to top

Japan

Core machine orders declined in January after expanding for three months. The decline was 4.5% m/m, smaller than expected. Analysts predict that more capital spending will be in the pipeline once a state of emergency is fully lifted. The decline was largely driven by the services sector, with the fall in orders from the manufacturing sector fairly limited. The Japanese yen is at its weakest level in nine months as rising U.S. treasury yields drove demand for the greenback. Traders are also waiting for the Bank of Japan's policy review that will come out this Friday.



Source: Bloomberg.

Emerging Markets

back to top

Emerging markets are relatively quiet, although China stood out with a sharp decline and Russia and Poland saw notable gains. All eyes are on the big developed market central bank meetings this week, as rising US and core euro area yields have pushed EM rates higher, making in investors nervous. In Poland, recent interest rate increases were met with dovish rhetoric from the central bank, pushing rates down in recent days. In Peru, the central bank stayed on hold at 0.25% as expected, while local polls show center-left candidate Lescano to be leading in the Presidential elections (due on April 11).

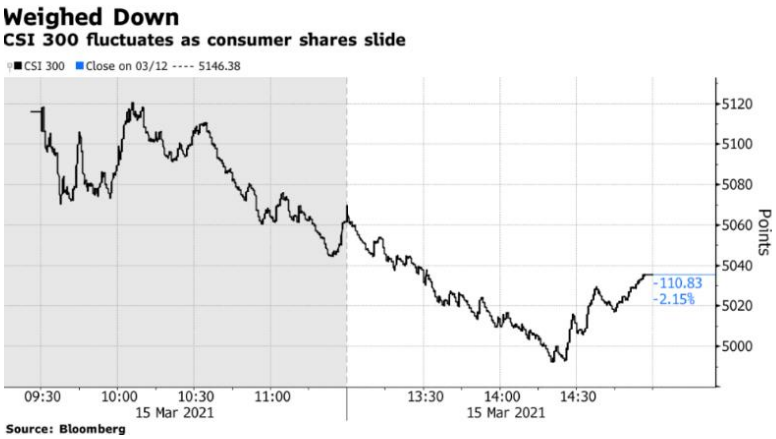
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
3/15/21 7:59 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		53.99	0.0	0	-7	49	4
MSCI Frontier Equities		29.75	0.0	1	1	31	5
EMBIG Sovereign Spread (in bps)		355	-2	-6	15	-182	4
EM FX vs. USD		56.86	0.1	2	-2	2	-2
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.50	0.1	0	-1	8	0
Indonesian Rupiah		14403	-0.1	0	-3	4	-2
Indian Rupee		72.48	0.4	1	0	2	1
Argentine Peso		90.86	-0.1	-1	-3	-31	-7
Brazil Real		5.56	-0.3	2	-3	-14	-7
Mexican Peso		20.69	0.0	4	-3	11	-4
Russian Ruble		73.10	0.2	2	0	2	1
South African Rand		14.86	0.6	5	-3	12	-1
Turkish Lira		7.53	0.5	3	-7	-15	-1
EM FX volatility		10.64	0.9	0.0	1.1	-1.8	-0.1

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

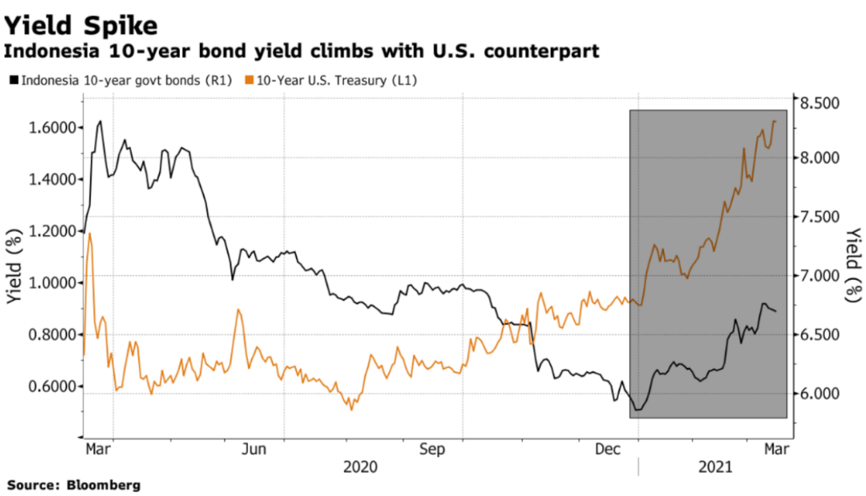
China

Equities declined sharply (CSI 300: -2.4%) amid renewed concerns about tightening liquidity. Consumer staples (including liquor makers) and healthcare stocks led the decline. Interbank repo rates rose (overnight: +47 bps; 7-day: +19 bps) after the People's Bank of China (PBC) only rolled over maturing loans under the Medium-term Lending Facility (MLF), while keeping the 1-year MLF rate unchanged at 2.95%. Strong economic data reinforced worries about tightening. **Tencent was in the news as authorities aim to bring fintech firms into the financial regulatory orbit.** Last Friday, the antitrust regulator issued fines against some of China's largest tech giants, including Tencent, Baidu and Didi Chuxing for past acquisitions and investments. Tencent's share price declined (-3.5%) today.



Indonesia

The parliament is considering a bill that would limit Bank Indonesia (BI)'s autonomy. The proposed omnibus financial sector reform bill includes measures that formalize BI's direct funding of government deficits, require BI to take into account the government's broad economic strategy, and extend BI's mandate to promoting job creation and supporting sustainable growth (in addition to its current price stability mandate). Most analysts believe these changes could weaken credit ratings, induce higher risk premiums for Indonesian bonds, and make BI's monetary policy decisions less predictable. Bond investors may become more nervous if the arrangement to finance government deficits becomes permanent. Local bond yields have been rising in recent weeks, and some worry rates could go even higher if the bill passes.



List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas
Deputy Division Chief

Antonio Garcia-Pascual
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

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

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Mohamed Diaby
Economist (EP)

Dimitris Drakopoulos
Financial Sector Expert

Deepali Gautam
Research Officer

Rohit Goel
Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sonia Meskin
Financial Sector Expert

Natalia Novikova
IMF Resident Representative in Singapore

Dmitri Petrov
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Juan Solé
Senior London Representative

Jeffrey Williams
Senior Financial Sector Expert

Dmitry Yakovlev
Senior Research Officer

Akihiko Yokoyama
Senior Financial Sector Expert

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 3/15/21 7:57 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3943	0.1	3	0	45	5
Europe		3845	0.3	2	3	49	8
Japan		29767	0.2	4	-1	71	8
China		3420	-1.0	0	-6	18	-2
Asia Ex Japan		94	-2.1	0	-8	50	5
Emerging Markets		54	-1.8	0	-7	49	4
Interest Rates					basis points		
US 10y Yield		1.63	0.5	4	42	67	72
Germany 10y Yield		-0.31	0.1	-3	8	24	26
Japan 10y Yield		0.11	-1.2	-1	3	6	9
UK 10y Yield		0.85	2.4	9	28	43	65
Credit Spreads					basis points		
US Investment Grade		101	0.8	5	13	-114	6
US High Yield		354	-1.3	1	7	-386	-26
Europe IG		47	-0.3	-3	1	-74	-1
Europe HY		241	-0.8	-15	4	-370	0
Exchange Rates					%		
USD/Majors		91.79	0.1	-1	1	-7	2
EUR/USD		1.19	-0.3	1	-2	7	-2
USD/JPY		109.2	0.1	0	4	3	6
EM/USD		56.9	0.1	2	-2	2	-2
Commodities					%		
Brent Crude Oil ($/barrel)		69	-0.1	1	9	104	33
Industrials Metals (index)		145	0.9	1	2	43	9
Agriculture (index)		52	0.2	0	3	42	8
Implied Volatility					%		
VIX Index (%, change in pp)		21.4	0.7	-4.1	1.4	-36.4	-1.4
US 10y Swaption Volatility		88.8	0.9	-1.5	27.8	-43.2	28.7
Global FX Volatility		8.0	0.1	0.0	0.9	-3.9	0.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		113	0.2	-10	-2	-156	-7
Italy		92	-0.8	-11	1	-141	-19
Portugal		51	0.3	-7	-3	-86	-9
Spain		63	-0.9	-5	-1	-54	1

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: 3/15/2021 8:00 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		6.50	0.1	0.4	-1	8	0		3.4	0.3	0	2	63	8
Indonesia		14403	-0.1	-0.3	-3	4	-2		6.8	-1.9	6	59	-59	75
India		72	0.4	1.1	0	2	1		6.5	0.7	6	26	5	57
Philippines		49	-0.2	0.1	-1	7	-1		3.7	1.3	22	21	-41	6
Thailand		31	-0.1	0.2	-3	4	-3		2.0	5.3	1	55	75	68
Malaysia		4.11	0.2	-0.1	-2	5	-2		3.3	6.8	12	55	30	71
Argentina		91	-0.1	-0.5	-3	-31	-7		44.7	62.6	138	-4	-829	-1146
Brazil		5.56	-0.3	2.3	-3	-14	-7		7.6	11.5	50	107	-31	201
Chile		722	-0.1	1.7	0	18	-2		3.2	3.5	-1	43	-16	43
Colombia		3575	-0.6	1.7	-2	11	-4		5.9	9.7	2	80	-201	82
Mexico		20.69	0.0	3.9	-3	11	-4		6.3	11.0	7	65	-143	67
Peru		3.7	-0.4	-0.5	-2	-5	-2		4.6	7.4	-8	74	-55	98
Uruguay		44	-0.4	-0.4	-4	-1	-5		7.2	-2.8	20	15	-334	-3
Hungary		308	-0.4	0.7	-4	0	-4		2.1	5.5	-3	40	9	55
Poland		3.85	-0.4	0.8	-4	3	-3		0.9	4.0	-1	21	-85	30
Romania		4.1	-0.3	0.7	-2	6	-3		2.6	2.0	-21	31	-163	-11
Russia		73.1	0.2	1.8	0	2	1		6.5	3.6	13	36	-118	80
South Africa		14.9	0.6	4.6	-3	12	-1		10.1	6.6	5	71	-16	47
Turkey		7.53	0.5	3.2	-7	-15	-1		14.6	13.8	36	130	286	151
US (DXY; 5y UST)		92	0.1	-0.5	1	-7	2		0.85	0.5	-1	35	13	48

	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		5036	-2.2	-1	-13	29	-3		199	0	-2	-9	30	-9
Indonesia		6324	-0.5	1	1	29	6		158	0	-9	-25	-5	-29
India		50395	-0.8	0	-3	48	6		160	0	1	5	-71	9
Philippines		6552	-2.6	-3	-6	13	-8		83	0	-9	-17	13	-22
Malaysia		1621	0.3	1	1	21	0		113	0	-2	-3	9	3
Argentina		49071	1.5	4	-5	72	-4		1459	0	19	8	-570	91
Brazil		114160	-0.7	-1	-4	38	-4		253	0	0	-16	58	3
Chile		4893	0.2	4	6	30	17		126	0	-6	-16	-14	-18
Colombia		1354	0.2	1	-1	15	-6		207	0	-4	-15	44	2
Mexico		47770	0.2	3	8	25	8		348	0	-9	-34	55	-12
Peru		22767	0.1	1	2	43	9		133	0	-4	-3	22	1
Hungary		43712	0.0	1	0	28	4		65	0	-6	-15	-42	-31
Poland		59819	0.6	3	2	55	5		-22	0	-4	-11	-54	-21
Romania		10801	0.5	2	3	37	10		190	-2	-11	2	-101	-13
Russia		3587	1.3	5	3	55	9		159	0	-5	-3	19	-7
South Africa		67728	-0.7	-1	1	53	14		357	0	-4	-35	25	-23
Turkey		1562	0.3	2	0	63	6		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-3	3		479	0	12	-21	127	-12
EM total		54	0.0	0	-7	49	4		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