GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MARCH 16, 2021

- **Markets vulnerable as risk premia hit historic lows** (link)
- **Investor survey finds that US rate rise is justified by fundamentals** (link)
- **Steepening emerging market yield curves signal worries about rising US rates** (link)
- **BOJ to maintain yield curve control** (link)
- **Crackdown on internet platform companies continues in China** (link)
- **EU health ministers to discuss AstraZeneca vaccine** (link)

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Marking Time

With many equity indexes trading at record highs, markets are holding steady ahead of the week's key central bank meetings in the US, Japan, and the UK. With interest rates stable steady after last week's sharp rise, risk sentiment has improved for a second day. Technology and bank shares pushed European stocks higher and US equity index futures are pointing to new all-time highs after yesterday's record closes. Markets are keeping an eye on the AstraZeneca vaccine controversy, which has further disrupted the euro area's already slow vaccine rollout. Meanwhile, there is widespread speculation about potential infrastructure and tax plans forthcoming from the Biden administration, while China's ongoing crackdown on internet platform companies is attracting wider attention. Brazil's central bank is expected to hike by 50 bps later today, and both Turkey and Russia may follow with their own hikes later in the week. Overall, the key theme for markets remains the level of US interest rates, and tomorrow's FOMC is the main focus of global attention.

Key Global Financial Indicators

Last updated: 3/16/21 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3969	0.6	4	1	66	6
Eurostoxx 50		3847	0.4	2	3	57	8
Nikkei 225		29921	0.5	3	-2	76	9
MSCI EM		54	0.2	3	-7	71	5
Yields and Spreads					bps		
US 10y Yield		1.60	-0.9	7	28	88	68
Germany 10y Yield		-0.34	-0.6	-4	1	12	23
EMBIG Sovereign Spread		355	0	-15	15	-169	5
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.9	0.1	2	-2	3	-2
Dollar index, (+) = $ appreciation		91.7	-0.1	0	1	-6	2
Brent Crude Oil ($/barrel)		68.0	-1.3	1	7	126	31
VIX Index (%, change in pp)		20.0	0.0	-4	-1	-63	-3

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

United States

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This morning's retail sales data for February were much weaker than expected, falling well below already lowered expectations after January's stimulus check boosted gains. Stocks pulled back slightly from earlier gains and Treasury prices gave up a few ticks.

US Retail Sales 8.30 am

Source: Bloomberg

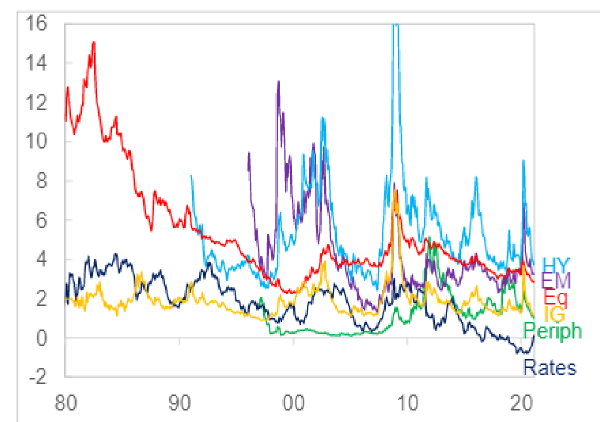
Data	Consensus Forecast	Actual Print
Retail Sales Headline mom	**-0.5%**	**-3%**
Retail Sales Ex-Auto mom	**0.1%**	**-2.7%**

With the FOMC meeting and press Conference looming tomorrow, markets are anxious for clues about the Fed's forecasts for interest rates, inflation, and the economy. With risk premia compressed to historic levels markets are heavily reliant on interest rates remaining low, or at least on an orderly rise in rates in response to improving economic conditions without uncontrolled inflation. If term premia were to spike higher or signs of rapid inflation were to emerge, multiple asset classes could be at risk of a major selloff. Fed rhetoric has so far been very dovish, but with the benchmark 10-year Treasury hitting a post-pandemic high of 1.63% last Friday, the level of nervousness remains very high.

The Perfect Storm

Figure 9. The great compression

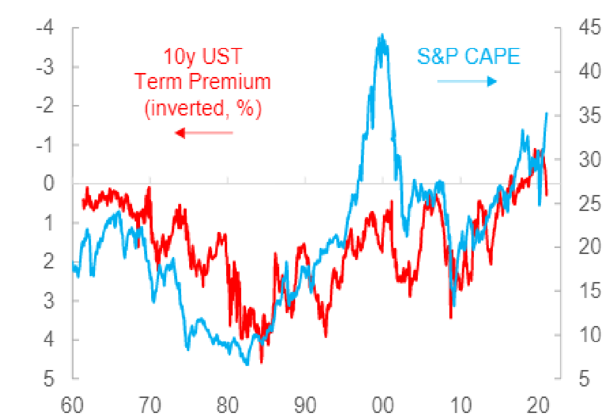
Risk premia across asset classes, percent



Source: Citi Research, FTSE, Shiller (100/CAPE), FRBNY.

Figure 10. Where bonds lead, equities follow

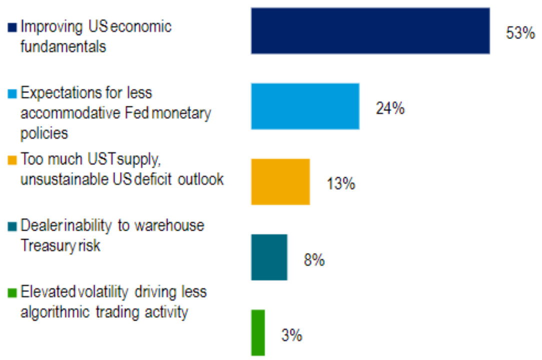
ACM bond term premium vs S&P cyclically adjusted P/E



Source: Shiller, FRBNY.

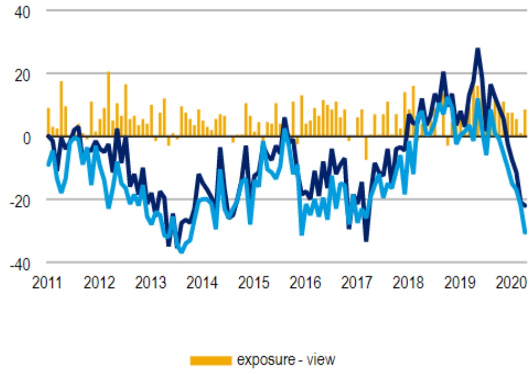
The latest investor survey data from Bank of America finds that the rise in US yields is justified by fundamentals. This is a more optimistic view than those who are worried about rising rates. The fiscal stimulus, increasing vaccinations and a recovering economy were cited as drivers of the rate rise, and investor positioning remains biased towards being short duration. Rates are expected to move higher, but the increases will be orderly and will not destabilize the markets. JP Morgan has raised its year end forecast for the 10-year Treasury yield to 1.95% from 1.65%.

Exhibit 1: The primary driver of recent UST bond market volatility was:
Improving US economic fundamentals ahead of less Fed support



Source: BofA Global Research FX and Rates Sentiment Survey March 2021
BofA GLOBAL RESEARCH

Exhibit 2: Duration exposure and view
Duration short increases but remains off the highs

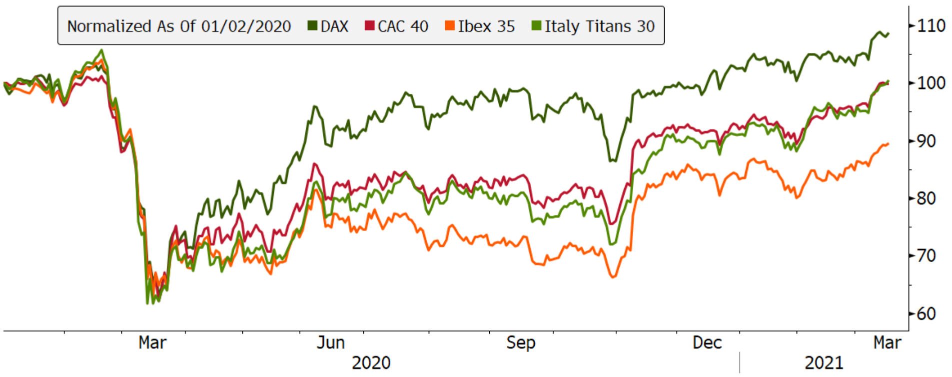


Source: BofA Global Research FX and Rates Sentiment Survey March 2021
BofA GLOBAL RESEARCH

Europe [back to top]

Equity markets posted a second day of moderate gains, ahead of various central bank meetings later this week. Bank stocks (+1.0%) are outperforming strongly. Sovereign bond markets are flat.

Equities



Source: Bloomberg
DAX Index (Deutsche Boerse AG German Stock Index DAX) Equity: Europe Indices Da
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German regulator BaFin has filed an insolvency application for Greensill Bank. According to news reports, the next step if the filing is accepted by the courts will be the disbursement of compensation to retail depositors out of the national deposit insurance fund. Greensill Bank had an estimated €3 bn of insured deposits plus €500 mn of uncovered deposits. Market commentary suggests that Deutsche Bank (+0.4%), Commerzbank (-1.2%), and Credit Suisse (+1.3%) could be some of the most affected banks due to Greensill's failure.

In macro data, the **German** ZEW Expectations Index printed at 76.6 for March, from 71.2 in February, and the **EU** gauge printed at 74.0 from 69.6. CPI headline inflation in **Italy** came in at 1.0% for February, matching expectations.

Germany, Cyprus, Sweden, and Latvia have now joined France, Ireland, Denmark, and the Netherlands among others in halting the administration of the AstraZeneca vaccine. EU health ministers are meeting today to decide a common response, while the European Medicines Agency is expected to issue a statement on Thursday. The EU's plan contemplated at least 20% of all vaccines to come from AstraZeneca.

Other Mature Markets

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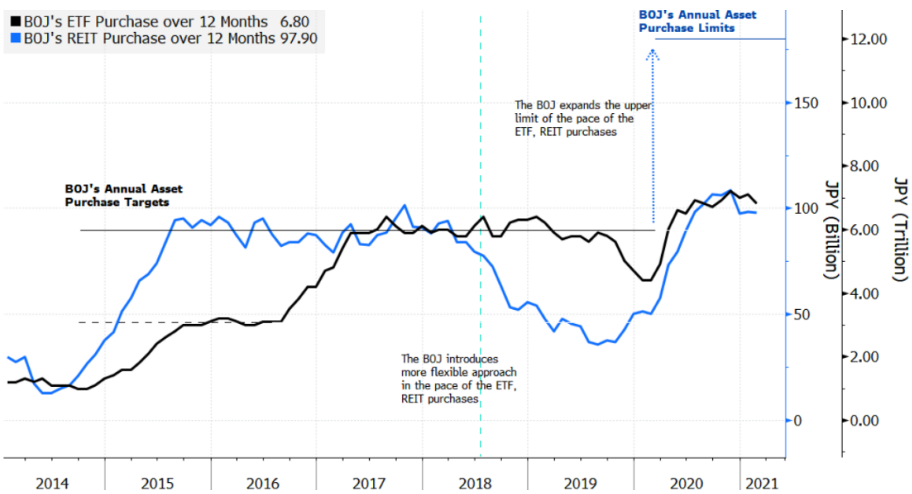
Japan

Bank of Japan (BOJ) Governor Kuroda said it is vital to keep the entire yield curve stable. He said there was no need to change the yield curve control framework in his responses to lawmakers' inquiry in parliament today. Analysts now expect that the BOJ policy review (coming out this Friday) will introduce some modifications to ETF and REIT purchases to make monetary stimulus sustainable for a longer period. The market response was positive, as JGB yields declined and equities gained.



Emerging Markets

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Most emerging markets were higher as risk sentiment improved this morning. China rebounded after Monday's losses. Economic data in Brazil was stronger than expected, reinforcing the consensus view that the central bank will raise its policy rate by 50 bps today.

Key Emerging Market Financial Indicators

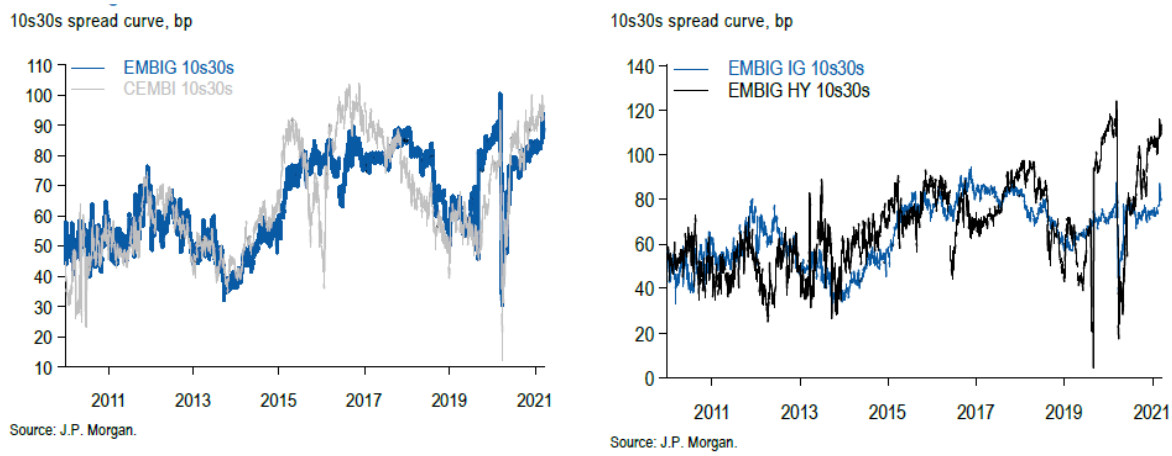
Last updated:	Level		Change				
3/16/21 8:04 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		54.12	0.8	3	-7	71	5
MSCI Frontier Equities		29.66	-0.3	2	-1	45	5
EMBIG Sovereign Spread (in bps)		355	0	-15	15	-169	5
EM FX vs. USD		56.92	0.1	2	-2	3	-2
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.50	0.0	0	-1	8	0
Indonesian Rupiah		14410	0.0	0	-3	4	-2
Indian Rupee		72.55	-0.1	1	0	2	1
Argentine Peso		91.07	-0.2	-1	-3	-31	-8
Brazil Real		5.62	-0.1	3	-4	-11	-8
Mexican Peso		20.59	0.3	3	-2	11	-3
Russian Ruble		72.65	0.2	2	1	3	2
South African Rand		14.81	0.3	3	-1	13	-1
Turkish Lira		7.47	0.9	2	-7	-14	0
EM FX volatility		10.56	0.0	-0.1	1.0	-2.6	-0.2

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

EM sovereign spreads

EM sovereign spread curves have steepened to levels near their historic highs. The 10s30s curve of the EMBIG index, which is a USD denominated EM sovereign index, is currently at 88 bps, against its historical high of 99 bps. Within the EMBIG universe, the high-yield EMBIG (EMBIG HY) spread curves saw a much steeper rise in comparison to the investment grade EMBIG (EMBIG IG). A JP Morgan report that empirically studies the relationship between US treasury and EMBIG 10s30s curves, attributes the recent steepening of the curves to higher rates in the US, and associated fears of a Taper Tantrum, and notes this effect is more severe on riskier assets.

EM 10s30s curves have steepened sharply since Feb 2021



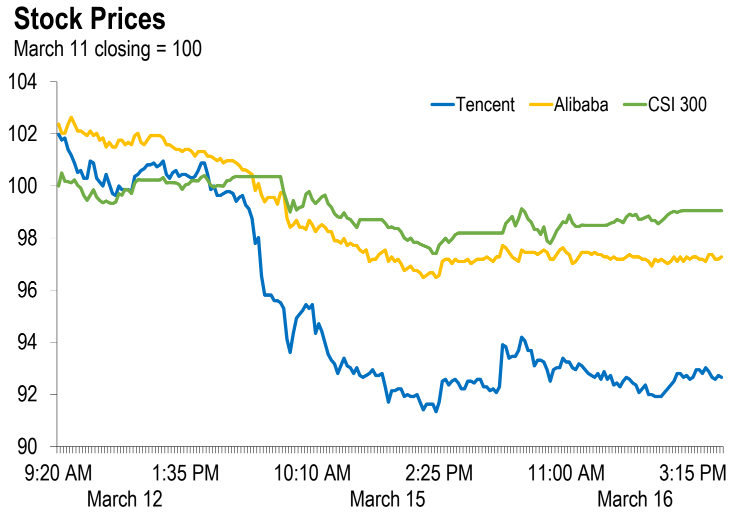
Regression of EM sovereign 10s30s spread curves versus 10y UST and 10s30s UST using daily levels from Jan 2010 to Dec 2020
Betas are bp move in EM 10s30s spread curves per 10bp move in 10y UST and 10s30s UST

	Beta vs 10y UST	Beta vs 10s30s UST	Constant	Rsq (%)	Std err (bp)	Data points	Current 10s30s (bp)	Fair 10s30s (bp)	Deviation (bp)	Z-score (σ)
EMBIG	-0.8	-2.7	103.6	48	10.4	2745	88	70	18	1.7
EMBIG IG	-0.8	-2.3	99.8	41	10.6	2745	79	70	9	0.9
EMBIG HY	-0.8	-4.8	127.7	58	13.5	2745	115	78	37	2.8

Source: J.P. Morgan.

China

President Xi signaled a continued crackdown on internet platform companies. According to state media (CCTV), President Xi on Monday chaired a meeting of the Communist Party's top financial advisory and coordination committee, ordering regulators to step up oversight of internet firms, promote fair competition and prevent the disorderly buildup of leverage. He also called for an improvement in laws governing the platform economy. Some analysts estimated that online purchases now account for more than 50% of the country's retail sales. Following Ant, Tencent was the latest to come under close regulatory scrutiny; its share price has dropped 7% in recent days (Alibaba: -2.7%). Reportedly, regulators pressed Alibaba to sell some of its media assets, including the South China Morning Post newspaper, due to growing concerns about the tech giant's influence over public opinion.

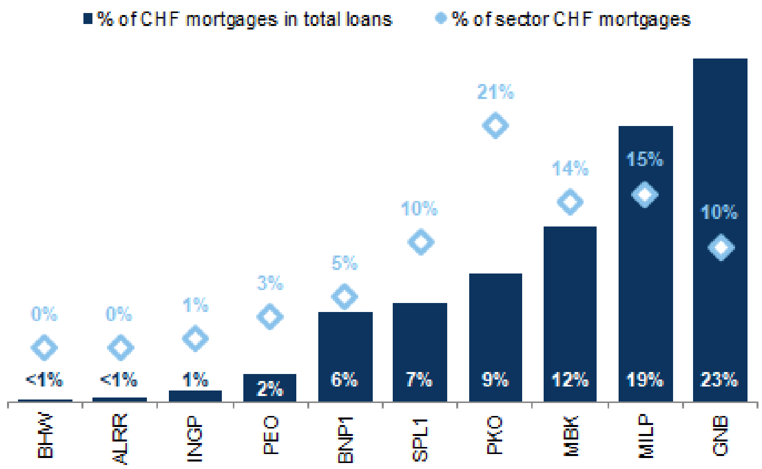


Source: Bloomberg.

Poland

Analysts remain constructive ahead of next week's Swiss franc (CHF) mortgage Supreme Court ruling. On the 25th of March, the Supreme Court of Poland is expected to rule on legal issues surrounding the Swiss franc mortgage portfolio conversion to Polish zloty, unifying lower court rulings, and potentially speeding up the resolution of the issue. Depending on the nature of the burden sharing, the **Financial Supervision Authority (KNF) has estimated that the cost to banks varies between PLN 35bn to PLN 234bn in the worst case scenario,** which constitutes cancellation of foreign currency loans without compensation for the banks. The volume of CHF mortgages has steadily declined but remains substantial for selected lenders. Contacts note that while the adverse scenario is likely to result in further financial difficulties for most exposed banks, the base case remains that a resolution would be closer to KNF's voluntary conversion proposal (PLN 35bn), which could actually benefit banks' capital ratios over the medium run through lowering risk weights on assets.

Top-10 Polish banks by customer loans - % of gross CHF mortgages in total loans and % share of sector CHF mortgages



PEO, PKO, SPL1, MBK, MLP data as of 4Q20, INGP, BNP1, GNB as of 3Q2, ALRR and BHW GSe based on historical disclosures earlier than 2020.

Source: Company data, KNF, Goldman Sachs Global Investment Research.

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: 3/16/21 8:03 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3975	0.6	3	1	67	6
Europe		3847	0.4	2	3	57	8
Japan		29921	0.5	3	-2	76	9
China		3447	0.8	3	-6	24	-1
Asia Ex Japan		94	0.4	3	-7	70	5
Emerging Markets		54	0.2	3	-7	71	5
Interest Rates					basis points		
US 10y Yield		1.60	-0.9	7	28	88	68
Germany 10y Yield		-0.34	-0.6	-4	1	12	23
Japan 10y Yield		0.11	-0.6	-2	2	9	8
UK 10y Yield		0.79	-1.3	6	16	35	59
Credit Spreads					basis points		
US Investment Grade		102	0.4	0	13	-116	7
US High Yield		357	2.9	-1	10	-388	-23
Europe IG		47	-0.3	-2	0	-73	-1
Europe HY		243	-1.9	-10	0	-369	1
Exchange Rates					%		
USD/Majors		91.70	-0.1	0	1	-6	2
EUR/USD		1.19	0.2	0	-1	7	-2
USD/JPY		109.0	-0.1	1	3	3	6
EM/USD		56.9	0.1	2	-2	3	-2
Commodities					%		
Brent Crude Oil ($/barrel)		68	-1.3	1	7	126	31
Industrials Metals (index)		144	-1.1	1	1	45	8
Agriculture (index)		52	-0.1	0	2	47	9
Implied Volatility					%		
VIX Index (%, change in pp)		20.0	0.0	-4.0	-1.4	-62.7	-2.7
US 10y Swaption Volatility		88.0	-0.3	2.0	14.6	-43.9	27.9
Global FX Volatility		8.0	0.0	-0.1	0.7	-5.0	-0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		122	5.8	2	10	-202	2
Italy		96	2.7	-3	4	-167	-15
Portugal		53	1.3	-4	-1	-99	-7
Spain		64	1.1	-2	0	-66	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: 3/16/2021 9:01 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	0.0	0.1	-1	8	0		3.4	1.0	1	3	62	9
Indonesia		14410	0.0	0.0	-3	4	-2		6.8	-3.4	-10	54	-67	72
India		73	-0.1	0.5	0	2	1		6.5	1.0	6	25	-4	58
Philippines		49	-0.2	-0.3	-1	6	-1		3.8	4.8	23	26	-37	10
Thailand		31	0.0	0.0	-3	5	-3		2.0	3.0	-3	52	60	71
Malaysia		4.11	-0.1	0.1	-2	5	-2		3.3	6.8	11	56	22	78
Argentina		91	0.0	-0.5	-3	-31	-8		45.1	39.2	168	35	-791	-1106
Brazil		5.60	0.2	3.6	-4	-11	-7		7.6	-0.1	25	107	68	201
Chile		723	0.1	1.7	-1	18	-2		3.2	-1.0	-2	42	-17	42
Colombia		3554	0.2	1.2	-1	15	-4		5.9	0.6	-9	77	-189	82
Mexico		20.64	0.0	2.7	-2	11	-4		6.3	0.0	10	62	-138	67
Peru		3.7	0.1	-0.1	-2	-4	-2		4.6	1.0	-19	75	-52	99
Uruguay		45	-0.1	-0.4	-4	0	-5		7.2	1.5	22	17	-332	-1
Hungary		308	0.0	0.0	-4	0	-4		2.1	0.0	-9	34	18	55
Poland		3.85	-0.2	-0.4	-4	3	-3		0.9	-4.2	-5	14	-95	25
Romania		4.1	-0.1	0.2	-2	6	-3		2.7	2.0	-11	29	-176	-9
Russia		72.7	0.2	1.9	1	3	2		6.6	3.7	17	33	-95	84
South Africa		14.8	0.2	3.1	-1	13	-1		10.1	-4.5	-18	64	-34	43
Turkey		7.50	0.6	1.6	-7	-14	-1		14.7	12.9	27	145	315	163
US (DXY; 5y UST)		92	-0.1	-0.2	1	-6	2		0.82	-1.0	1	24	33	46

	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		5079	0.9	2	-13	36	-3		199	0	-2	-9	30	-9
Indonesia		6310	-0.2	1	0	35	6		158	0	-9	-25	-5	-29
India		50364	-0.1	0	-3	60	5		164	4	1	9	-91	13
Philippines		6559	0.1	-3	-7	23	-8		83	0	-9	-17	13	-22
Malaysia		1624	0.2	0	1	27	0		113	0	-2	-3	9	3
Argentina		50458	2.8	9	-2	96	-1		1459	0	19	8	-570	91
Brazil		114851	0.6	3	-4	61	-4		253	0	0	-16	58	3
Chile		4921	0.4	2	6	52	18		126	0	-6	-16	-14	-18
Colombia		1357	0.2	1	0	36	-6		207	0	-4	-15	44	2
Mexico		47770	0.0	3	8	25	8		348	0	-9	-34	55	-12
Peru		22674	-0.4	0	0	49	9		133	0	-4	-3	22	1
Hungary		44376	1.5	2	1	30	6		65	0	-6	-15	-42	-31
Poland		59520	0.0	1	0	58	4		-22	0	-4	-11	-54	-21
Romania		10805	0.2	2	3	52	10		192	3	-12	5	-85	-11
Russia		3553	-0.9	2	2	57	8		159	0	-5	-3	19	-7
South Africa		67356	-0.3	-2	0	66	13		357	0	-4	-35	25	-23
Turkey		1572	1.1	1	2	79	6		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-3	3		479	0	12	-21	127	-12
EM total		54	0.9	3	-7	71	5		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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