






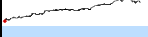





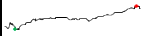
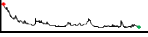
- Rates volatility remains elevated as US Treasury yields continue to march higher ([link](#))
- Oil prices tumble as both supply and demand concerns build ([link](#))
- ECB plans for eurozone-wide climate stress test ([link](#))
- BOJ adjusts policy framework to provide flexibility in pursuit to revive inflation ([link](#))
- Chinese equities slump as high-level US-China talks off to a rough start ([link](#))
- Central Bank of Russia hikes 25 bps and signals the launch of a tightening cycle ([link](#))

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Risk assets pullback as markets weigh stronger growth versus higher rates

Follow-through from the FOMC meeting and continued growth optimism fueled a new leg higher in rates. Even as the FOMC delivered what was interpreted as a dovish message, rates investors are likely continuing to focus on the eventual pressure on yields from strong growth ahead, particularly as the virus trajectory improves and the US fiscal stimulus package is implemented. Bond yields rose to new heights last seen at the beginning of 2020 with benchmark US 10-year Treasury yields exceeding 1.75% intraday on Thursday. US equity markets responded in a similar fashion to the more recent spikes in bond yields as the tech sector underperformed (Nasdaq -3%) due to valuation concerns, while financial sector stocks posted the lone gain (+0.6%). Energy was the worst performing sector (-5%) as crude oil futures extended their losing streak after several days of bearish supply data. A more modest risk-off tone has prevailed this morning with European equities down about 0.5% across the region, Chinese stocks falling close to 2% on reports of tensions at the US-China meeting, and core yields down 3-4 bps on safe haven flows. Although stabilizing this morning, the US dollar was broadly stronger alongside the surge in yields yesterday, while select EMs (Brazil, Russia, Turkey) have been able to outperform on account of local developments.

Key Global Financial Indicators

Last updated: 3/19/21 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3915	-1.5	-1	0	63	4
Eurostoxx 50		3847	-0.5	0	4	57	8
Nikkei 225		29792	-1.4	0	-1	80	9
MSCI EM		53	-1.8	-3	-7	72	3
Yields and Spreads			bps				
US 10y Yield		1.68	-2.6	6	35	54	77
Germany 10y Yield		-0.30	-3.4	1	1	-11	27
EMBIG Sovereign Spread		347	-4	-10	2	-288	-3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.2	0.4	1	-1	7	-1
Dollar index, (+) = \$ appreciation		91.9	0.0	0	2	-11	2
Brent Crude Oil (\$/barrel)		63.3	0.0	-9	1	122	22
VIX Index (% change in pp)		21.3	-0.3	1	-1	-51	-1

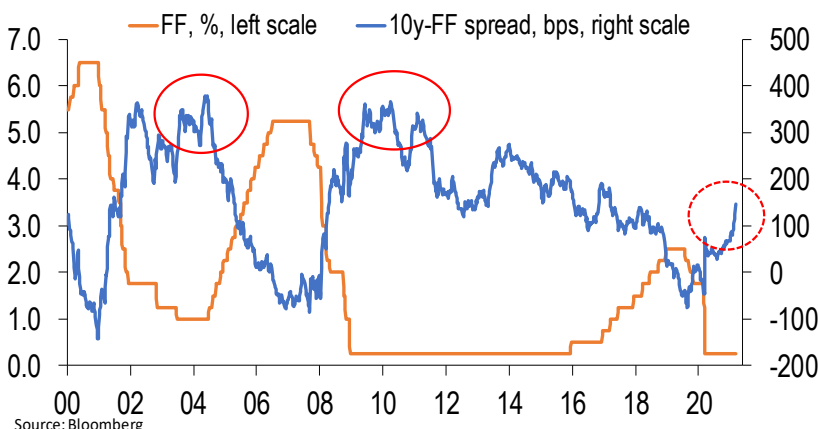
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States

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US rates hit another post-pandemic high as 10-year US Treasury yields hit 1.75% Intraday on Thursday. Option implied interest rate volatility also rose to a high not seen since March last year. Even shorter rates went higher yesterday with the OIS 1-month rate 2-years forward, a proxy for the policy rate in 2023, rose by 7 bps, despite the Fed's updated median projection for the policy rate signaling no increase through 2023. Risk markets reversed their course seen after Thursday's FOMC announcement; equities closed lower, VIX higher, credit spreads wider, and the dollar stronger. Markets appear to be in the middle of the price discovery process after the big event. Some market participants see that rising inflation could force the Fed to raise rates earlier than anticipated. Others see that 10-year yields could easily be 3% even with fed funds rate near zero, judging by history, as yield curves continued to steepen to 4- to 5-year highs.

US Fed Funds Rate versus 10-year-FF Rate Spread



Oil prices dropped -8% on the day, the most significant one-day loss during the post-pandemic period. Speculative investors such as CTAs threw in the towel and sold their long positions as Brent futures lost ground for five days in a row. The sell-off accelerated after the Energy Information Administration (EIA) reported that crude inventories rose to the highest levels seen since December. The International Energy Agency (IEA)'s medium-term forecast has also played a role, citing global oil demand will likely never catch up with its pre-pandemic trajectory. Hydrocarbon use will decrease as remote-working becomes entrenched and as governments shift away from fossil fuels to limit climate change.

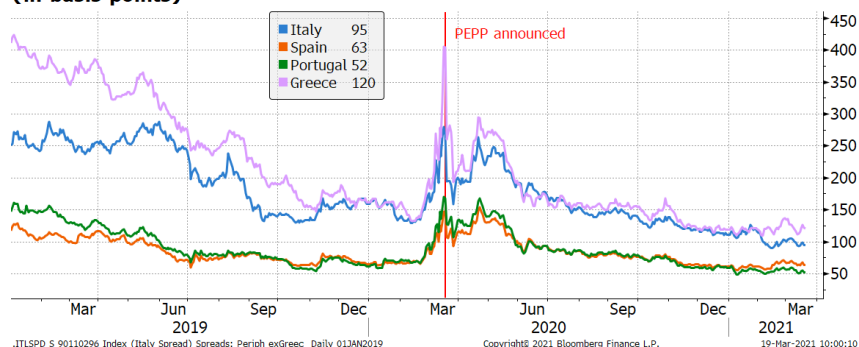
Europe

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Equity markets inched lower, despite positive news yesterday that the AstraZeneca vaccine is deemed 'safe and effective' by the European Medicines Agency. DAX (-0.3%), CAC 40 (-0.6%), EuroStoxx 600 (-0.4%), Italy's Titans 30 (-0.6%), and Spanish Ibex (-0.8%). Bank stocks (-1.4%) have oscillated notably through the week and are trading lower today. On a weekly basis they are up 0.8%, however.

Sovereign yields moved lower across tenors and countries. German 10-year yields at -0.3% (-4 bps); French OATs are at -0.05% (-4 bps); Italian at 0.6% (-4 bps); and Spanish at 0.3% (-4 bps). Gilt yields moved in line with continental peers, at 0.83% (-4 bps) for the 10-year note.

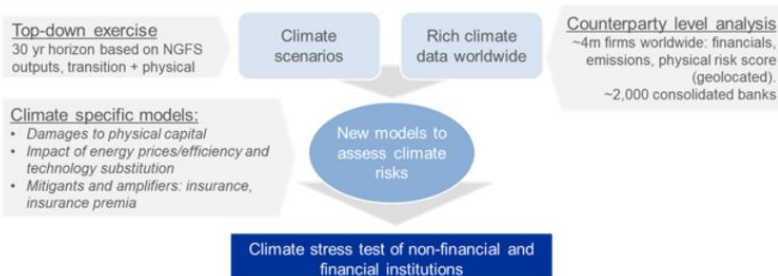
Selected European Sovereign Spreads to 10yr Bunds (in basis points)



The ECB is planning a eurozone-wide [climate stress-test](#). The test will include about 4 million companies and 2,000 banks. The test's goal is to assess banks' resilience to various climate change scenarios in the coming years. The final results of the climate stress-test are expected by mid-2021.

Chart 1

Innovative components of the ECB climate stress test

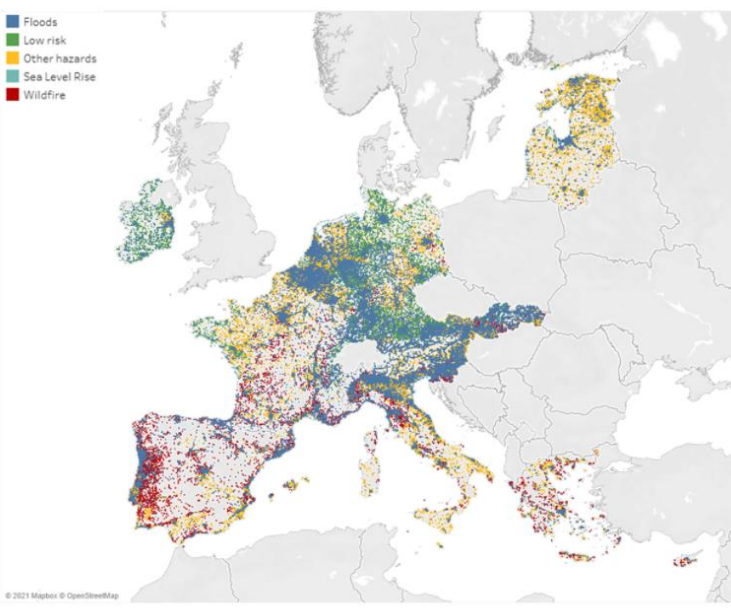


Source: ECB

Chart 2 A

Mapping of transition and physical risk for euro area firms

Panel A. Physical risk: forward-looking physical risk score of euro area firms



According to the data released yesterday, **eurozone banks borrowed €330 bn in the latest TLTRO operation**. A total number of 425 entities participated in the operation, borrowing loans that mature in March 2024. This latest TLTRO is on top of the €1.8 tn already borrowed from the ECB. Separately, ECB's Schnabel said that the **estimated effect of monetary policy** measures since March 2020 is +0.4 pp for 2021 inflation and +0.5 pp in 2022.

Other Mature Markets

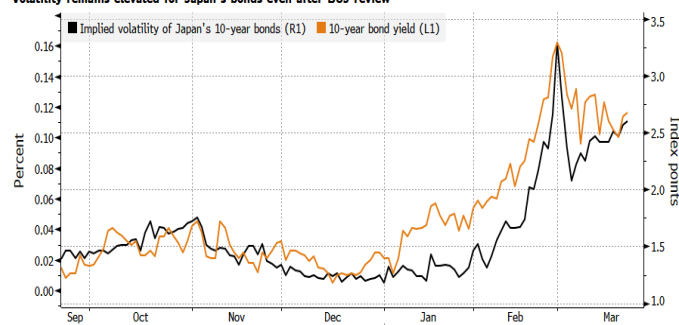
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Japan

The Bank of Japan (BOJ) adjusted its policy framework to carve out more flexibility for a longer inflation fight. While widening the movement range for 10-year JGB yields from 20 bps to 25 bps (around zero), the BOJ introduced a new facility that would support its interventions more forcefully as necessary. The BOJ sought to restore a cut to the negative short-term rate as a credible policy option by adopting a new scheme that would ease bank profits and promote bank lending. The BOJ also dropped its pledge to purchase at least 6 tn yen (\$55 bn) of ETFs annually and switched its purchases to Topix-linked ETFs (from Nikkei 225). **At the same time, the BOJ kept its key rates unchanged**, with the policy rate at -0.1% and the 10-year yield target at zero. **JGB yields dropped (10-year: -0.3 bps; 30-year: -0.4 bps); Japanese yen appreciated (+0.1%).** Some analysts noted that the BOJ's tolerance for more volatile JGB yields has increased but how it will be manifested is unclear. Implied volatility of 10-year JGB yield remained elevated. **Equities were mixed (NIKKEI: -1.4%; TOPIX: +0.2%);** share prices of regional banks rose, while some stocks with significant weights in NIKKEI dropped (e.g., Fast Retailing (Uniqlo operator): -6.1%).

Not Much Clarity

Volatility remains elevated for Japan's bonds even after BOJ review



Source: Bloomberg, Japan Exchange Group

SPJGBVTR Index (Real-Time Japanese Government Bond Volatility) Line Chart: Daily

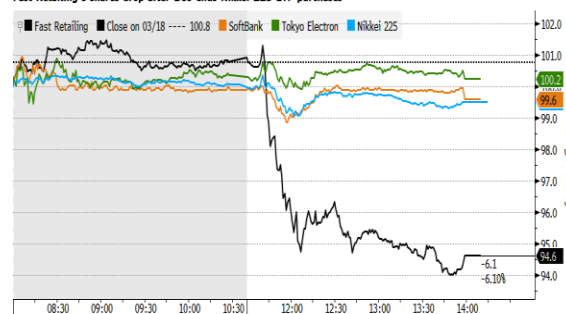
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Kuroda Effect

Fast Retailing's shares drop after BOJ ends Nikkei 225 ETF purchases



Source: Data compiled by Bloomberg

9983 JT Equity (Fast Retailing Co Ltd) NIKY and BOJ 1 Days 1 Seven Days

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Emerging Markets

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Most emerging market assets suffered yesterday amid the rise in US Treasury yields and stronger US dollar but currencies are tentatively stabilizing this morning. Latin American equities closed in the red on Thursday, while currencies were a mixed bag. Brazilian real gained 0.5% post the central bank announcement of tighter of monetary policy on Wednesday; however, the Mexican peso (-0.4%) shed some of the gains it made earlier this week. While the individual yield curves of all major regional economies moved up yesterday, Brazil's local currency yields for shorter tenors saw the largest increase of 22-30 bps. Most Asian stock markets declined and currencies were mixed. In Thailand, the quarantine period for people entering the country will be reduced to 10 days (from 14 days) starting from April 1 to boost tourism activity. In India, foreign fund flows into local equities, including IPOs, has supported the currency. Indian rupee is the only currency in the region to appreciate in the past month amid market turbulence (1-month: +0.2%; today: little changed). EMEA equities were trading lower this morning with South Africa (-1.0%) and Poland (-0.5%) underperforming. EMEA currencies were mostly appreciating with the Turkish lira (+1.0%) continuing to outperform following yesterday's rate hike.

Key Emerging Market Financial Indicators

Last updated: 3/19/21 8:06 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.42	-0.7	-3	-7	72	3
MSCI Frontier Equities		29.40	-1.7	-1	-1	41	4
EMBIG Sovereign Spread (in bps)		347	-4	-10	2	-288	-3
EM FX vs. USD		57.21	0.4	1	-1	7	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.51	0.0	0	-1	9	0
Indonesian Rupiah		14408	0.0	0	-2	10	-2
Indian Rupee		72.52	0.0	0	0	3	1
Argentine Peso		91.29	-0.1	-1	-2	-31	-8
Brazil Real		5.53	0.5	0	-3	-8	-6
Mexican Peso		20.32	0.8	2	1	18	-2
Russian Ruble		74.07	0.3	-1	0	7	0
South African Rand		14.69	0.4	2	0	19	0
Turkish Lira		7.26	0.9	4	-4	-10	3
EM FX volatility		10.32	0.0	-0.2	0.7	-4.8	-0.4

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

China

The first high-level U.S.-China talks in Alaska quickly descended into bickering. Each side sharply criticized the other over human rights, trade and cyber-attacks. U.S. Secretary of State Blinken raised concerns about China's treatment of Muslim minorities in Xinjiang and Beijing's increasing control over Hong Kong SAR, the issues that China considers as its own internal affairs. China last month warned that the U.S. should not cross the 'red lines'. The acrimonious start of the meeting significantly weakened market sentiment. **Chinese equities declined (CSI 300: -2.6%); RMB was little changed.** Some analysts noted that factors that underpinned the Chinese stock market rally—plentiful liquidity, mutual fund inflows, Beijing put (state-backed funds would step in to prevent a market slump), and expected U.S.-China relations improvement—have disappeared one by one.

Look Out Below

Chinese stocks test support level after slump



Source: Bloomberg

SHSZ300 Index (Shanghai Shenzhen CSI 300 Index) Graph 3736 Daily 19SEP2020-19MAR

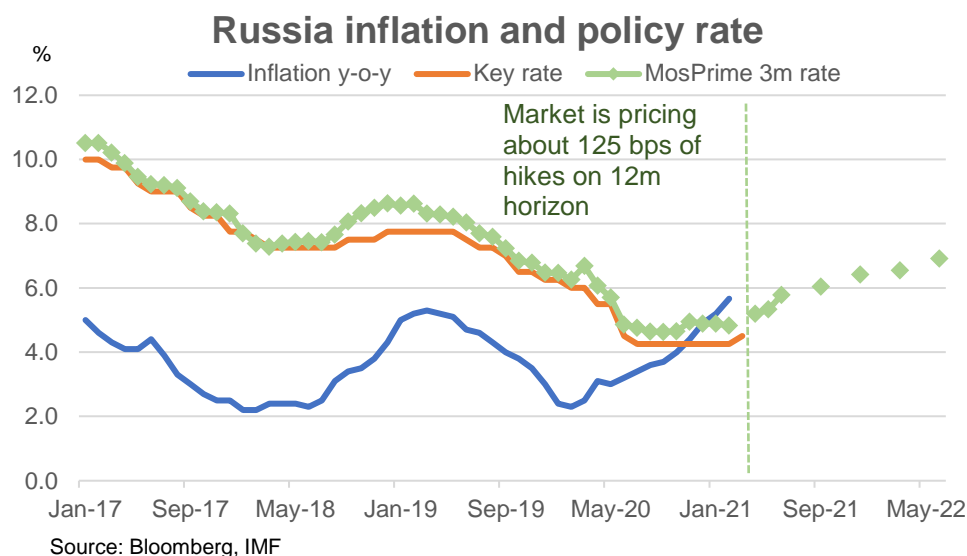
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Russia

The Central Bank of Russia hiked its policy rate by 25 bps to 4.5%. While analysts' consensus expected rates to remain unchanged, markets were pricing a full 25 bp hike prior to the meeting. The central bank also signaled the beginning of a hiking cycle with rates to be increased in one of the upcoming meetings. **Market reaction was muted following the announcement as interest rate forwards have already**

priced in at least 125 bps of additional rate hikes over the next 12-month horizon. Most contacts see current rate hike expectations as overdone and expect the local bond market to outperform through anchoring of the term premium.

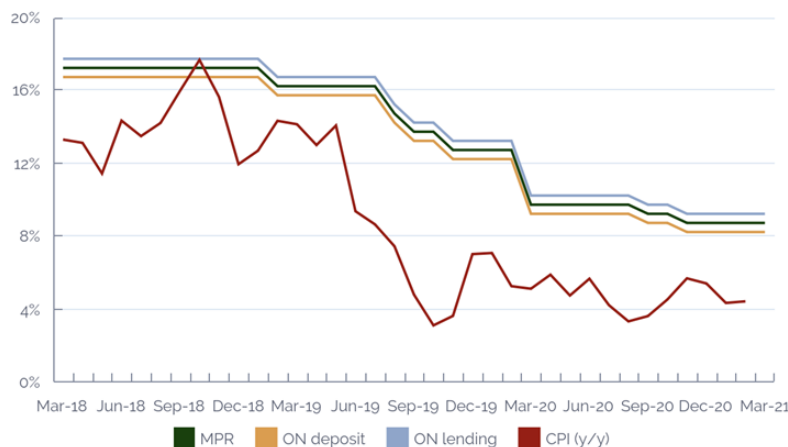


Egypt

The Central Bank of Egypt left its monetary policy stance unchanged as expected. The deposit rate and lending rate were held at 8.25% and 9.25% respectively. Egyptian T-bills trade around 13% with inflation just at 4.5% y/y, providing some of the highest real rates cushion across emerging markets. **The local T-bill linked note issuance in the off-shore markets has remained largely unaffected by the recent market volatility** remaining at around \$300 mn on a 4-week rolling basis. Contacts continue to see room for about 100 bps in rate cuts this year, potentially delayed in H2 this year on external uncertainty.

CBE interest rates (%)

Source | CBE




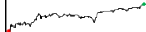

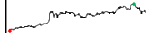
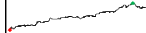
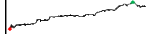







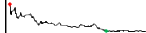


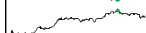
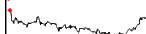

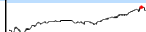


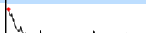


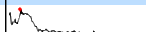



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Global Financial Indicators

Last updated: 3/19/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3923	-1.5	-1	0	63	4
Europe		3847	-0.5	0	4	57	8
Japan		29792	-1.4	0	-1	80	9
China		3405	-1.7	-1	-8	26	-2
Asia Ex Japan		93	-1.5	-3	-8	73	4
Emerging Markets		53	-1.8	-3	-7	72	3
Interest Rates			basis points				
US 10y Yield		1.68	-2.6	6	35	54	77
Germany 10y Yield		-0.30	-3.4	1	1	-11	27
Japan 10y Yield		0.11	-0.1	-1	0	3	9
UK 10y Yield		0.82	-5.5	0	12	10	62
Credit Spreads			basis points				
US Investment Grade		101	0.6	1	15	-186	6
US High Yield		365	4.5	10	18	-556	-15
Europe IG		47	0.1	0	0	-70	-1
Europe HY		245	2.4	2	-1	-430	2
EMBIG Sovereign Spread		347	-4.5	-10	2	-288	-3
Exchange Rates			%				
USD/Majors		91.90	0.0	0	2	-11	2
EUR/USD		1.19	-0.1	0	-2	11	-3
USD/JPY		108.8	-0.1	0	3	-2	5
EM/USD		57.2	0.4	1	-1	7	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		63	0.0	-9	1	122	22
Industrials Metals (index)		144	-0.1	0	-3	54	8
Agriculture (index)		51	-0.2	-1	-1	41	7
Implied Volatility			%				
VIX Index (%, change in pp)		21.3	-0.3	0.6	-0.7	-50.7	-1.4
US 10y Swaption Volatility		89.8	0.7	1.9	9.6	-72.5	29.7
Global FX Volatility		7.7	0.0	-0.3	0.4	-7.3	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		122	-0.3	9	3	-143	3
Italy		96	0.9	3	3	-97	-15
Portugal		52	-0.3	2	-3	-76	-8
Spain		64	0.1	1	-2	-43	2

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: 3/19/2021 8:08 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.51	0.0	0.0	-1	9	0		3.3	-0.4	0	-3	55	7	
Indonesia		14408	0.0	-0.2	-2	10	-2		6.8	0.3	-5	33	-95	72	
India		73	0.0	0.4	0	3	1		6.5	-0.7	0	19	-9	57	
Philippines		49	0.1	-0.3	0	5	-1		4.0	26.2	33	51	-10	37	
Thailand		31	-0.1	-0.2	-3	6	-3		2.0	0.6	10	50	38	72	
Malaysia		4.11	0.0	0.2	-2	7	-2		3.3	4.7	14	44	-6	78	
Argentina		91	-0.1	-0.6	-2	-31	-8		45.6	13.3	156	284	-1375	-1053	
Brazil		5.53	0.5	0.4	-3	-8	-6		7.5	-0.3	6	92	-11	196	
Chile		719	0.0	0.4	-2	20	-1		3.3	4.6	10	36	-3	50	
Colombia		3571	-0.1	-0.8	-1	15	-4		6.1	10.5	33	94	-228	105	
Mexico		20.32	0.8	1.8	1	18	-2		6.5	11.1	31	60	-177	87	
Peru		3.7	-0.1	-0.4	-2	-4	-2		4.6	-3.0	6	58	-147	97	
Uruguay		44	0.4	0.0	-3	4	-4		7.3	-3.6	9	33	-346	9	
Hungary		309	0.1	-0.7	-4	8	-4		2.1	2.0	6	29	-39	56	
Poland		3.88	-0.2	-1.3	-5	10	-4		0.9	2.4	1	14	-82	26	
Romania		4.1	-0.1	-0.5	-2	10	-3		2.7	3.0	7	6	-274	-6	
Russia		74.1	0.3	-1.0	0	7	0		6.7	8.7	21	39	-147	97	
South Africa		14.7	0.4	1.8	0	19	0		10.3	11.4	25	66	-146	66	
Turkey		7.26	0.9	4.2	-4	-10	3		14.5	-14.4	5	121	220	142	
US (DXY; 5y UST)		92	0.0	0.2	2	-11	2		0.84	-2.1	0	27	16	48	

	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5007	-2.6	-3	-13	40	-4		199	0	-2	-9	30	-9
Indonesia		6356	0.1	0	2	55	6		158	0	-9	-25	-5	-29
India		49858	1.3	-2	-2	76	4		157	-8	-3	5	-178	6
Philippines		6436	-2.9	-4	-7	39	-10		83	0	-9	-17	13	-22
Malaysia		1626	-0.1	1	3	33	0		113	0	-2	-3	9	3
Argentina		48599	-2.6	0	-5	115	-5		1459	0	19	8	-570	91
Brazil		114835	-1.5	0	-3	68	-4		253	0	0	-16	58	3
Chile		4879	-0.6	0	6	58	17		126	0	-6	-16	-14	-18
Colombia		1326	-1.3	-2	-2	47	-8		207	0	-4	-15	44	2
Mexico		47572	-0.2	0	6	35	8		348	0	-9	-34	55	-12
Peru		22312	-0.6	-2	-2	52	7		133	0	-4	-3	22	1
Hungary		44273	-0.4	1	0	50	5		65	0	-6	-15	-42	-31
Poland		58065	-0.6	-2	-1	41	2		-22	0	-4	-11	-54	-21
Romania		10824	-0.2	1	5	47	10		192	0	1	-3	-192	-11
Russia		3481	-0.7	-2	1	53	6		159	0	-5	-3	19	-7
South Africa		66019	-1.1	-3	-2	74	11		357	0	-4	-35	25	-23
Turkey		1536	-1.0	-1	-2	80	4		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-1	3		479	0	12	-21	127	-12
EM total		53	-0.7	-3	-7	72	3		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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