



- **US bank stocks underperform amid concerns SLR could lead to balance sheet cuts** ([link](#))
- **Germany imposes new lockdown over Easter break as infections rise** ([link](#))
- **New Zealand tightens rules to curb property speculation** ([link](#))
- **Turkish assets remain under pressure as financing conditions tighten** ([link](#))
- **India cancels weekly bond auction following cash balance review** ([link](#))
- **Brazilian inflation expectations continue to rise despite recent policy rate increase** ([link](#))

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## Virus concerns stifles risk appetite

**Equities are trading moderately lower this morning as risk sentiment remains on edge amid further European lockdowns and broader concerns around near-term virus risks.** Yesterday, US Treasury yields eased after returning from the weekend, clearing a path for a rebound in equities. Rallying tech shares drove most of the S&P 500's gains, while some of the more recently favored cyclical stocks in the financial and energy sectors faded. The VIX slipped back below 20. However, the relative calm in markets gave way to more anxiety overnight with nearly all major bourses in Asia closing lower, European equities pulling back, and core yields lower with 10-year Treasury yields down another 5 bps. News confirming Germany is extending lockdown measures and a rise in virus cases, even in places where vaccine rollout is underway, has tempered the positive re-opening narrative. The re-opening headwinds are also contributing to the building worries around weaker global oil demand with Brent prices down close to 4% this morning. Following the sharp declines yesterday, Turkish assets remain volatile as financing conditions have tightened amid elevated local bond yields and sharply higher offshore lira funding rates.

Key Global Financial Indicators

Last updated: 3/23/21 8:04 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	3941	0.7	-1	2	76	5
Eurostoxx 50	3831	-0.1	-1	4	54	8
Nikkei 225	28996	-0.6	-3	-4	72	6
MSCI EM	54	-0.3	0	-4	76	4
<b>Yields and Spreads</b>		bps				
US 10y Yield	1.64	-5.6	2	30	85	73
Germany 10y Yield	-0.35	-3.5	-1	-3	3	22
EMBIG Sovereign Spread	350	5	-5	1	-324	0
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	56.5	-0.4	0	-2	7	-2
Dollar index, (+) = \$ appreciation	92.1	0.4	0	2	-10	2
Brent Crude Oil (\$/barrel)	62.2	-3.8	-9	-5	130	20
VIX Index (% change in pp)	19.5	0.6	0	-4	-42	-3

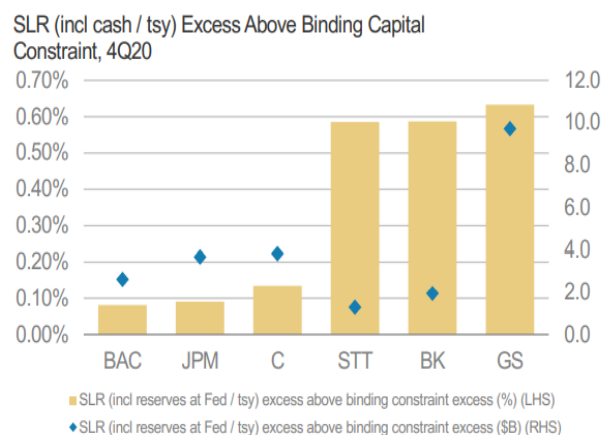
Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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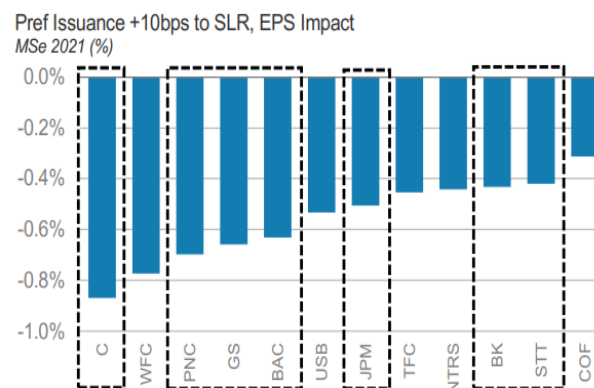
**On Monday, the S&P 500 rose 1%, with tech companies leading equity gains.** Ten-year Treasury yields fell 4 bps, attributed mostly to changes in real yields. Other risk assets remained virtually unchanged.

**US GSIBs could issue preferred shares or cut back balance sheets to compensate for the removal of SLR exemptions.** The KBW US bank equity index has declined close to 3% since last Friday as markets have started to price that a more binding SLR constraint could cause the largest US banks to either issue preferred stock or cut back balance sheets. Morgan Stanley analysts report that without temporary SLR exemptions some US GSIBs will be close to hitting the regulatory threshold for their capital (left chart below). The projected dynamics of Supplementary Leverage Exposure (SLE, the denominator of SLR) depends on the strategy of deposit attraction, the pace of balance sheet growth, and the intensity of the Fed's QE that fuels banks' reserves (included in the SLE). Should SLR become binding, US GSIBs are likely to issue preferred shares or potentially pull back on SLR-heavy businesses (e.g., repo or prime brokerage). Issuing additional shares would lead to a drop in earnings-per share (EPS): estimates on the right chart show that every additional 10 bps of SLR will result in 0.4%-0.9% decrease in EPS.



Note: Data set shows our coverage that discloses SLR including UST and reserves in the denominator as of 4Q20.  
Source: SNL Financial, Company Data, Morgan Stanley Research estimates

**Exhibit 6:** We estimate a median 50bp hit to EPS from preferred stock issuance necessary to add 10bps to SLR



Note: Data set shows our coverage subject to SLR. Highlighted banks disclose SLR including UST and reserves in the denominator.  
Source: Company Data, SNL Financial, Morgan Stanley Research Estimates

## Europe

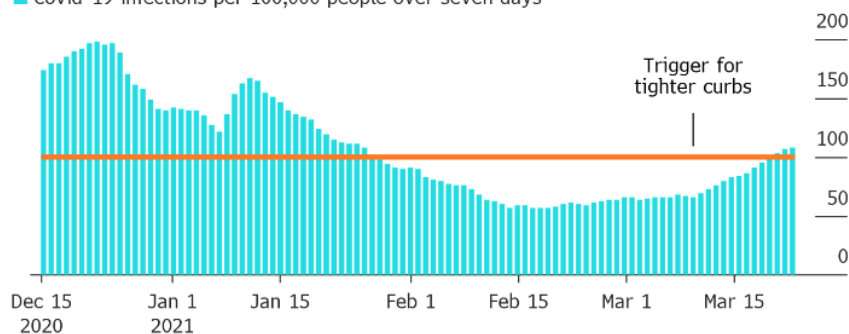
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**Prospects of more lockdowns are pushing stocks down across Europe.** DAX (-0.5%), CAC 40 (-0.6%), EuroStoxx 600 (-0.5%), Italy's Titans 30 (-0.8%), and Spanish Ibex (-0.3%). Bank stocks (-0.7%) are slightly underperforming today, with losses across lenders in all countries. **BBVA (+0.3%)** is the exception, as it recovered some of yesterday's losses (-7.7%) on the back of concerns over the bank's exposures in Turkey. BBVA representatives restated the bank's "commitment to Turkey" and noted that the 10% depreciation of the lira would only have a 2-bps impact on BBVA's capital. The bank noted that it has hedged its FX risk to protect its earnings and capital.

**German chancellor Merkel has ordered a new drastic lockdown over the Easter holiday.** The chancellor noted that the strict measures are needed to contain an emerging third wave of infections as new variants of the virus are emerging. Infections in Germany have almost doubled in the last month.

## Germany's coronavirus spread has accelerated in recent days

■ Covid-19 infections per 100,000 people over seven days

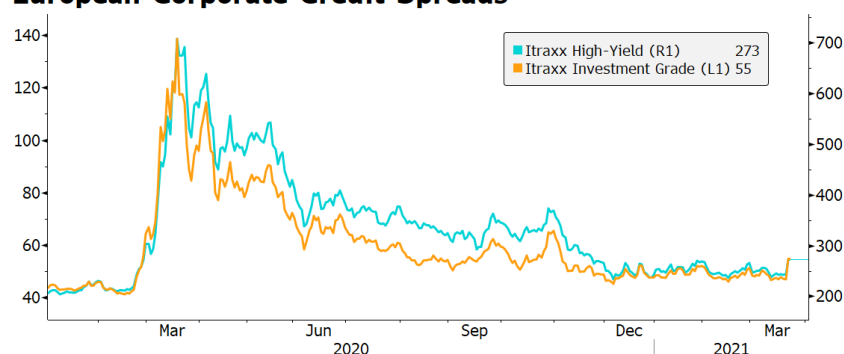


Source: Robert Koch Institute

Bloomberg

**Signs of risk-off sentiment were visible today in sovereign and credit markets.** Government **bond yields** edged lower across nations: 10-year yields in Germany at -0.34% (-3 bps); French OATs are at -0.9% (-3 bps); Italian at 0.63% (-2 bps); and Spanish at 0.32% (-1 bps). In **credit markets**, high-yield spreads are 30 bps higher than last week, while the IG index has widened 8 bps.

## European Corporate Credit Spreads



Source: Bloomberg

ITRXXE Curncy (MARKIT ITRX EUR XOVER 06/26) Credit: Itraxx indices Daily 013AN

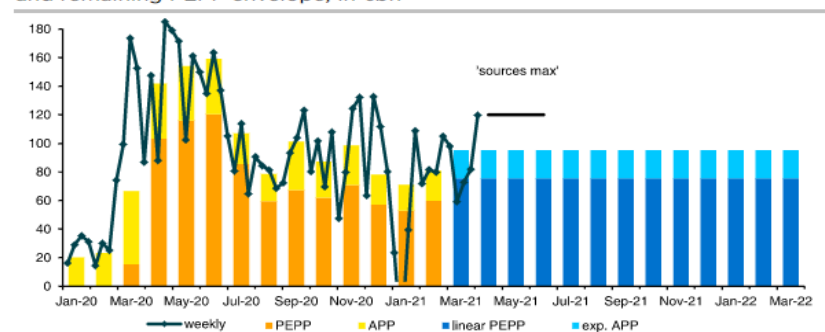
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**The latest ECB QE data show the central bank stepped up its bond purchases.** Net PEPP purchases last week increased by €21.1 bn, pushing total PEPP holdings to €916.3 bn. President Lagarde recently noted that the ECB “stands ready to adjust all instruments, as appropriate”.

## More today - less tomorrow?

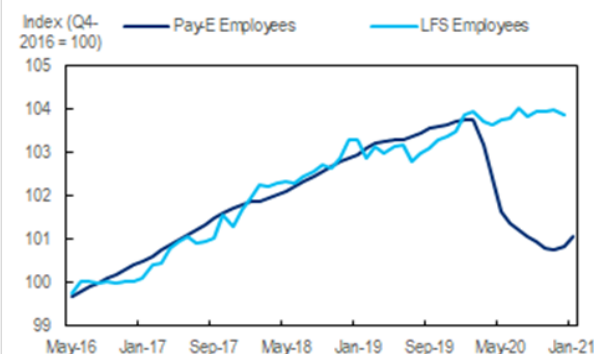
Total ECB purchases across all programmes, actual monthly purchases and weekly purchases at monthly rate together with linear purchase pace for APP and remaining PEPP envelope, in €bn



Source: ECB, Bloomberg, Commerzbank Research

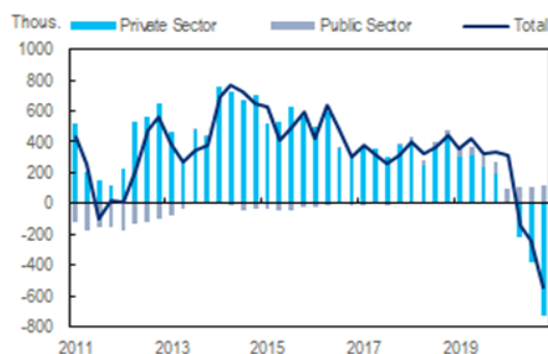
**UK labor market data showed moderate signs of improvement in January.** The employment rate inched down to 5.0% from 5.1%, while weekly earnings (ex-bonus) increased by 4.2% y/y from 4.1% the month prior. The marginal improvements could signal a turnaround from lackluster labor data in the three months to January, which saw large drops in employment and high rates of redundancies across sectors.

**Figure 1. UK – LFS and HMRC Private Employees (Index, 2016 = 100), 2016-2021**



Source: ONS, HMRC, Citi Research

**Figure 2. UK – Employment Growth (YY Change), 2011-2020**



Source: ONS, Citi Research

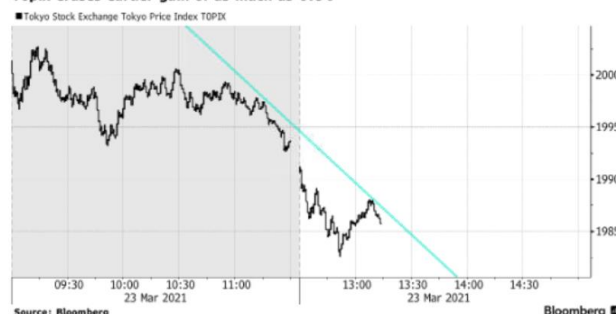
## Other Mature Markets

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### Japan

**Equities fell -0.9%, erasing earlier gains, with banks underperforming.** The Bank of Japan (BOJ) plans to stop buying exchange-traded funds (ETFs) linked to the Nikkei at the start of next month, according to Bloomberg. The central bank continued to purchase ETFs linked to the Nikkei 225 and JPX Nikkei 400 on Monday. **10-year JGB yield and the yen were unchanged while the yield curve closed at its flattest since May.** The spread between the 10- and 20-year yields shrank to 36bps.

**Topix erases earlier gain of as much as 0.6%**



Source: Bloomberg

**Steepening positions unwind as BOJ doesn't promote higher yields**

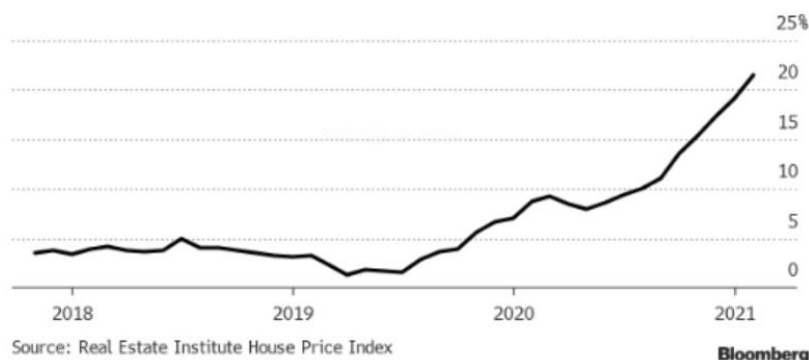


Source: Bloomberg

### New Zealand

**New Zealand's government will tighten regulations to curb property speculation.** It will phase out the ability of investors to claim mortgage interest as a tax-deductible expense. The period in which profits on the sale of investment property are taxed will be lengthened to 10 years from 5 while caps on access to first-time home buyer grants will be increased. In addition, the government will unlock more land to increase housing supply. House prices have increased 21.5% in the year through February, with investors accounting for more than 40% of purchases that month, a record high, according to Bloomberg. **The New Zealand dollar depreciated -1.1%, 10-year bond yields fell -6.5 bps and equities rose +0.5%.**

Annual house-price inflation surges



## Emerging Markets

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In Latin America, the Mexican peso underperformed depreciating by 0.5% as the selloff in Turkey put some pressure on major EM currencies. Swap rates were little changed with markets now pricing no rate cuts in 1H 2021 and ~50bps hikes in 2H ahead of the Banxico meeting on Thursday. **Brazilian equities underperformed** declining by 1.1% amid more negative COVID-19 headlines. **Asian equities fell -0.8%, mainly driven by North Asian underperformance**; regional currencies traded in narrow ranges while bond yields were lower. **EMEA currencies and equities traded with a cautious tone**. The Russian ruble (-1.4%) and South African rand (-0.7%) fell. The **Turkish lira (-1.3%) is volatile** but has not weakened beyond the widely watched level of 8 per U.S. dollar as state banks have reportedly supported the lira.

Key Emerging Market Financial Indicators

Last updated: 3/23/21 8:08 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		53.92	-1.4	0	-4	76	4
MSCI Frontier Equities		29.69	0.3	0	1	51	5
EMBIG Sovereign Spread (in bps)		350	5	-5	1	-324	0
EM FX vs. USD		56.52	-0.4	0	-2	7	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.51	-0.1	0	-1	9	0
Indonesian Rupiah		14395	0.1	0	-2	15	-2
Indian Rupee		72.43	-0.1	0	0	5	1
Argentina Peso		91.57	-0.2	-1	-2	-30	-8
Brazil Real		5.54	-0.6	1	-2	-7	-6
Mexican Peso		20.71	-0.6	0	-1	22	-4
Russian Ruble		75.99	-1.4	-4	-2	5	-2
South African Rand		14.84	-0.8	0	-2	20	-1
Turkish Lira		7.92	-1.5	-5	-10	-17	-6
EM FX volatility		11.33	0.0	0.8	1.5	-3.2	0.6

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

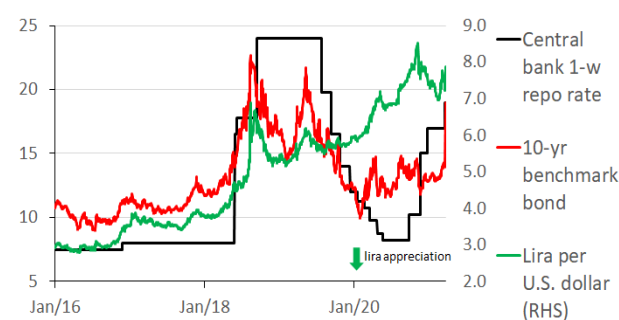
## Turkey

**Financing conditions are tight as government bond yields remain elevated and offshore funding rates spiked.** The lira (-1.3%) is volatile but has not weakened beyond the widely watched level of 8 per U.S. dollar as state banks have reportedly supported the lira in response to strong demand for U.S. dollars from hedge funds and real money investors. **Foreign investors had been net long Turkish assets ahead of this weekend's replacement of the central bank governor.** Foreign holdings of local bonds bottomed around 3% in Nov 2020, and offshore investors have increased their exposure to around 7% recently.

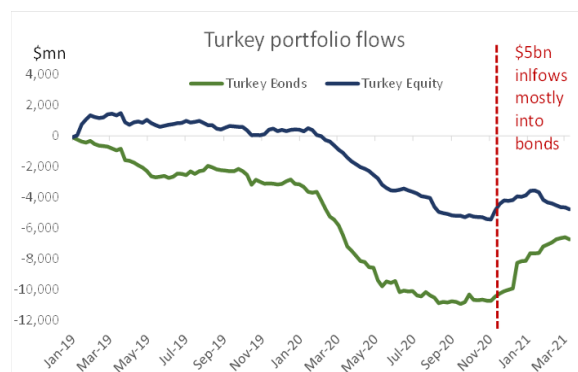


According to flow data from international banks, hedge funds and real money investors had increased their spot FX exposure to the lira meaningfully in recent months. The benchmark 10-yr government bond yield trades around 19% (up about 500 bps since Friday). The 1-yr rate for borrowing in lira against the U.S. dollar rose another 2 points to 32% today (from 18% on Friday). **Offshore overnight funding rates in lira rose to 1500% as Turkish banks are expected to keep conditions tight in support of the lira.** Equities (-2%) are lower but recovered from earlier losses after circuit breakers were triggered. Bank equities (-8%) underperformed. **Contacts expect conditions to remain volatile during the ruling party's congress on Wednesday 24 March with press reports pointing to a high likelihood of a major cabinet reshuffle.**

Turkey: Interest rates (%) and currency



Source: Bloomberg and IMF staff

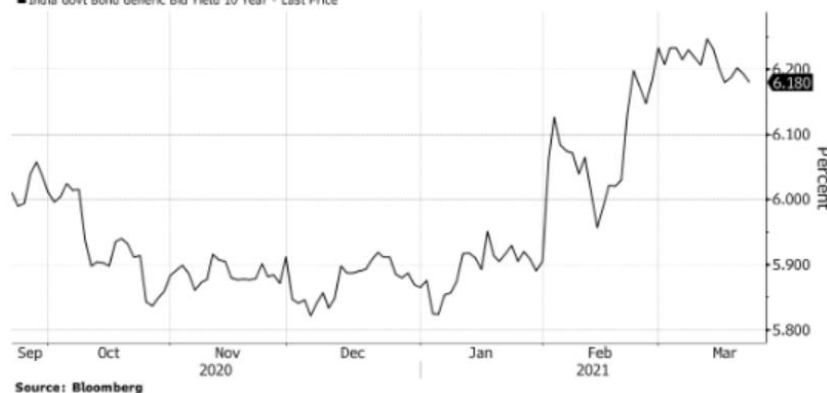


## India

**India canceled a weekly bond auction of INR200 bn (\$2.7 bn).** The government decided to cancel the auction on review of its cash balances, according to a central bank statement released after Monday's market close. The next auction would take place on March 26. Some traders have been expecting a cancellation due to improving government revenues driven by an economic rebound. Separately, **India's Supreme Court allowed lenders to resume classifying delinquent debt as bad loans.** This reverses a ruling from September barring categorization of loans as non-performing. The top court also ordered that interest accumulated during a loan holiday last year be waived off for all borrowers. **10-year bond yields fell -3 bps, the Indian rupee gained (+0.1) and equities rose +0.5%.**

Yields are likely to fall Tuesday after bond cancellation

■ India Govt Bond Generic Bid Yield 10 Year - Last Price

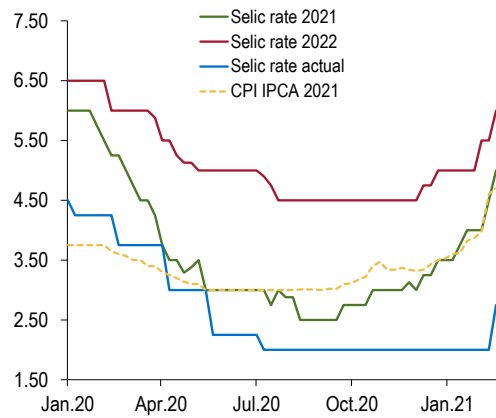


Source: Bloomberg

## Brazil

**The BCB focus survey showed another increase for inflation expectations.** The 2021 CPI IPCA survey forecasts have increased for 11 weeks in a row and now stand at 4.71% well above the 3.75% BCB target. Inflation forecasts for 2022, 2023 and 2024 remain close to BCB's target of 3.5%, 3.25% and 3.25% respectively. The benchmark Selic rate is expected to reach 5% by year-end, and 6% by end-2022. Both estimates were 50 bps higher from the week before and 100 bps higher from three weeks ago. Bloomberg also reported that the country's top financial sector executives, former central bank governors and key

businessmen **urged political leaders to do more to fight the pandemic as the death toll continues to surge at a record pace and new cases made a new daily record at the end of last week.**



Source:

Bloomberg

**Brazil's Death Toll Surges Past U.S. Peak**  
Covid-19 deaths per million inhabitants in previous seven days



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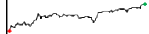

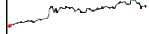
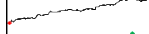







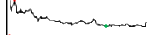
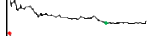



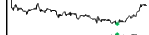

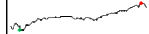









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## Global Financial Indicators

Last updated: 3/23/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3941	0.7	-1	2	76	5
Europe		3831	-0.1	-1	4	54	8
Japan		28996	-0.6	-3	-4	72	6
China		3412	-0.9	-1	-6	28	-2
Asia Ex Japan		94	-0.1	0	-5	75	5
Emerging Markets		54	-0.3	0	-4	76	4
Interest Rates			basis points				
US 10y Yield		1.64	-5.6	2	30	85	73
Germany 10y Yield		-0.35	-3.5	-1	-3	3	22
Japan 10y Yield		0.08	-0.1	-2	-4	1	6
UK 10y Yield		0.78	-3.8	-1	6	35	58
Credit Spreads			basis points				
US Investment Grade		98	0.1	-4	9	-253	3
US High Yield		362	3.0	4	13	-730	-18
Europe IG		55	-0.2	8	5	-60	7
Europe HY		273	1.6	31	18	-418	31
EMBIG Sovereign Spread		350	4.8	-5	1	-324	0
Exchange Rates			%				
USD/Majors		92.13	0.4	0	2	-10	2
EUR/USD		1.19	-0.4	0	-2	11	-3
USD/JPY		108.5	-0.3	0	3	-2	5
EM/USD		56.5	-0.4	0	-2	7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		62	-3.8	-9	-5	130	20
Industrials Metals (index)		145	-1.1	1	-3	61	9
Agriculture (index)		51	-0.2	-2	-2	37	7
Implied Volatility			%				
VIX Index (%, change in pp)		19.5	0.6	-0.3	-3.6	-42.1	-3.2
US 10y Swaption Volatility		83.1	-1.2	-1.9	6.2	-68.8	23.0
Global FX Volatility		8.0	0.0	0.0	0.4	-6.2	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		122	-0.2	2	-2	-163	3
Italy		97	1.4	1	1	-98	-14
Portugal		54	1.0	1	-3	-79	-6
Spain		66	1.1	1	-2	-47	4

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

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## Emerging Market Financial Indicators

Last updated: 3/23/2021 8:09 AM	Exchange Rates						YTD	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.51	-0.1	-0.1	-1	9	0		3.3	-1.5	-3	-3	53	6
Indonesia		14395	0.1	0.1	-2	15	-2		6.8	-1.5	3	15	-122	75
India		72	-0.1	0.2	0	5	1		6.4	-3.3	-8	4	-18	50
Philippines		49	-0.1	0.0	0	6	-1		4.0	24.3	28	56	-84	39
Thailand		31	-0.2	-0.6	-3	6	-3		2.0	-2.9	-4	29	21	67
Malaysia		4.12	-0.2	-0.2	-2	8	-3		3.3	-1.0	-4	38	-30	74
Argentina		92	-0.2	-0.5	-2	-30	-8		45.2	-57.2	9	264	-2402	-1097
Brazil		5.54	-0.6	1.5	-2	-7	-6		7.9	15.2	27	94	-3	228
Chile		720	-0.5	1.2	-2	19	-1		3.3	3.0	8	27	-39	51
Colombia		3552	0.5	0.5	0	16	-3		6.2	0.0	29	79	-223	111
Mexico		20.71	-0.6	-0.5	-1	22	-4		6.5	-1.8	23	46	-108	90
Peru		3.7	0.1	-0.2	-2	-5	-3		4.5	-0.3	-10	32	-101	89
Uruguay		44	0.0	0.7	-3	1	-4		7.4	8.4	19	44	-359	18
Hungary		308	-0.3	0.3	-4	7	-4		2.0	-4.6	-7	18	-13	49
Poland		3.88	-0.7	-0.5	-4	11	-4		0.9	-2.3	-4	12	-70	21
Romania		4.1	-0.4	-0.2	-2	10	-3		2.7	-2.0	0	0	-230	-9
Russia		76.0	-1.4	-4.1	-2	5	-2		6.8	6.2	25	46	-68	109
South Africa		14.8	-0.8	0.3	-2	20	-1		10.2	0.0	11	33	-180	54
Turkey		7.92	-1.5	-5.4	-10	-17	-6		18.7	407.5	391	533	596	554
US (DXY; 5y UST)		92	0.4	0.3	2	-10	2		0.82	-4.2	-1	25	41	46

	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		5009	-0.9	-1	-10	42	-4		199	0	-2	-9	30	-9
Indonesia		6253	-0.8	-1	0	57	5		158	0	-9	-25	-5	-29
India		50051	0.6	-1	1	93	5		154	0	-10	2	-258	3
Philippines		6446	0.8	-2	-5	36	-10		83	0	-9	-17	13	-22
Malaysia		1595	-1.3	-2	2	27	-2		113	0	-2	-3	9	3
Argentina		49186	0.4	-3	3	106	-4		1459	0	19	8	-570	91
Brazil		114979	-1.1	0	0	81	-3		253	0	0	-16	58	3
Chile		4832	-0.5	-1	8	67	16		126	0	-6	-16	-14	-18
Colombia		1325	0.0	-2	-2	44	-8		207	0	-4	-15	44	2
Mexico		47225	0.4	-1	4	43	7		348	0	-9	-34	55	-12
Peru		21968	-1.1	-3	-5	56	6		133	0	-4	-3	22	1
Hungary		43881	0.1	-1	2	42	4		65	0	-6	-15	-42	-31
Poland		57400	-0.7	-3	1	46	1		-22	0	-4	-11	-54	-21
Romania		10874	-0.1	0	6	54	11		192	2	0	-4	-188	-11
Russia		3462	-0.8	-4	1	54	5		159	0	-5	-3	19	-7
South Africa		65685	-0.3	-3	-2	63	11		357	0	-4	-35	25	-23
Turkey		1369	-0.7	-13	-10	63	-7		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-1	3		479	0	12	-21	127	-12
EM total		54	-1.4	0	-4	76	4		421	0	17	-10	97	128

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

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