



- Dealers raise US Treasury yield forecasts ([link](#))
- US equity ETFs see record inflows but rising short interest ([link](#))
- Chinese corporate defaults approach new record ([link](#))
- Bank of Japan to maintain expansionary ETF purchases ([link](#))
- Brazil's markets under pressure as pandemic worsens ([link](#))
- Turkish financial conditions remain tight despite pledge of policy continuity ([link](#))

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## Global markets lower as quarter end looms

Global markets lower again this morning. With the end of the first quarter looming next week, many investors are pulling back to manage their positions as they close the books on the first part of the year. US equity futures and European stocks are in the red, while government bond yields in both regions are holding steady. In the US, investors await today's seven-year Treasury auction after the last one sparked a major Treasury selloff. The Suez Canal is still blocked, with the estimated cost to the global economy reaching \$400 mn per hour, but oil prices have retraced some of their recent gains. Chinese technology stocks trading on US exchanges took losses in Hong Kong SAR as the American Securities and Exchange Commission moved closer to delisting several some major companies from the US exchanges. Latin American markets are feeling the pain as the virus situation continues to fester. Vaccine tensions appeared to ease in Europe as the EU and UK drew nearer to an agreement on supplies.

Key Global Financial Indicators

Last updated: 3/25/21 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3889	-0.5	-2	2	57	4
Eurostoxx 50		3797	-0.9	-2	3	36	7
Nikkei 225		28730	1.1	-5	-5	47	5
MSCI EM		52	-2.3	-5	-5	52	0
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.60	-0.5	-10	8	74	69
Germany 10y Yield		-0.38	-2.2	-11	-14	-11	19
EMBIG Sovereign Spread		355	2	3	6	-336	4
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.1	-0.1	-2	-2	4	-3
Dollar index, (+) = \$ appreciation		92.6	0.1	1	3	-8	3
Brent Crude Oil (\$/barrel)		63.1	-2.0	0	-6	130	22
VIX Index (% change in pp)		21.5	0.3	0	-7	-42	-1

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

## United States

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**Market participants breathed a sigh of relief as after Wednesday's five-year Treasury auction went off without a hiccup.** The very poorly received auction of seven-year bonds on February 25 had sparked the latest bout of bond market volatility, with the 10-year yield hitting a post-pandemic intra-day high of 1.75% last Friday. Many were worried that the first Treasury auction since the Fed announced the expiry of pandemic-related bank capital relief measures would go badly and trigger a further Treasury selloff. **This morning's US data were mixed, with jobless claims and GDP better than expected, but consumption and inflation slightly below forecasts.** There was limited market reaction to the data in the immediate aftermath of the releases.

### Key US Economic Data 8.30 am

Source: Bloomberg

Indicator	Consensus Forecast	Actual Outcome
Initial Jobless Claims	730K	684K
Continuing Claims	4000K	3870K
Q4 GDP Annualized	4.1%	4.3%
Personal Consumption	2.4%	2.3%
Q4 Core PCE	1.4%	1.3%

**The recent surge in US Treasury yields has led many dealers to raise their forecasts for Treasury rates.** For example, Bank of America raised its year-end target for the 10-year Treasury yield from 1.75%, which was reached last week, to 2.15% which is line with the fair value estimates of the bank's analysts. They expect Treasury Inflation Protected Securities (TIPS) breakeven yields to lead interest rates higher in the early part of the year, and real yields to be the driving force into the end of the year. Five and 10-year real yields played a major role in this year's runup in rates, but they have dipped in recent days and remain deep in negative territory. However, the 30-year TIPS yield broke above zero in February and remains positive.

**Exhibit 5: BofA revised US Treasury rate forecasts (%)**

Rates are headed higher but at a more moderate pace

	Q2 21	Q3 21	Q4 21	Q1 22
3m Libor	0.15	0.20	0.28	0.25
2y Govt	0.30	0.35	0.40	0.55
5y Govt	1.10	1.30	1.50	1.60
10y Govt	1.85	2.00	2.15	2.25
30y Govt	2.55	2.65	2.75	2.80
2s10s	1.55	1.65	1.75	1.70
5s30s	1.45	1.35	1.25	1.20
10s30s	0.70	0.65	0.60	0.55

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 6: 10Y UST & fair value projections (%)**

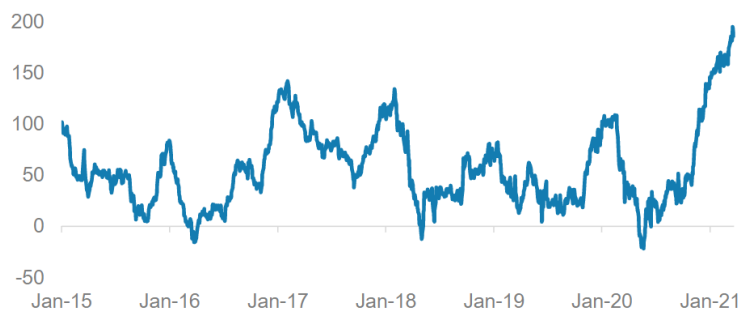
Our Q4 '21 estimates are in-line with BofA economic projections



Source: BofA Global Research

BofA GLOBAL RESEARCH

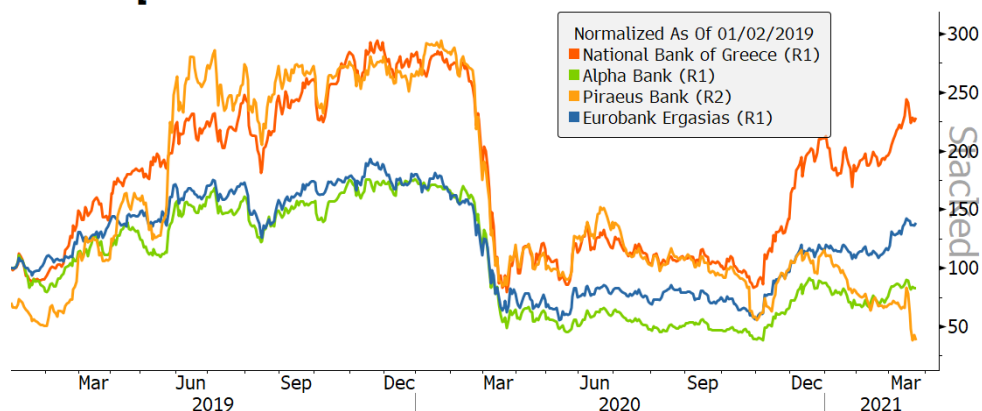
**Inflows into US equity Exchange Traded Funds (ETFs) hit record levels, with the pace accelerating sharply in recent weeks.** The most recent week saw \$44 bn of inflows. This is in stark contrast with European equity ETFs, which had just \$3 bn of inflows, according to Morgan Stanley. The bank reports that short interest in US equity ETFs is also on the rise. Short interest refers to volumes of short selling in the underlying security, and rising short interest implies that investors are placing larger and larger bets that the ETFs will fall in value. After many of the major indexes such as the S&P 500, Dow and Russell 2000 set new records earlier this month, investor sentiment on US stocks could be turning negative.

**Exhibit 2:** Record inflows into US equity ETFs**US Equity ETF Flows - Trailing 3M (US\$bn)**

Source: Bloomberg, Morgan Stanley Research

**Europe**[back to top](#)

**Stocks of Greek lender Piraeus (-10.7%) have fallen dramatically in recent days** after the bank announced a capital increase on March 16 and more plans to securitize existing NPLs. Researchers at CreditSights note that 2021 could see a redoubling of efforts by the main Greek banks to dispose of their legacy assets, possibly bringing down the average NPL ratio to single digits. The new plans would come on top of existing securitization schemes.

**Bank Equities: Selected Greek Banks**

Source: Bloomberg

SX7E Index (EURO STOXX Banks Price EUR) Bank: Greece Daily 02JAN2019-25MAR2021

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**Select Greek bank securitizations of NPEs participating in the Hercules Asset Protection Scheme\***

Bank	Name of securitization	Value (€B)
Alpha Bank	Galaxy	10.8
Eurobank	Cairo	7.5
National Bank of Greece	Frontier	6.1
Piraeus	Phoenix	1.9
Piraeus	Vega	5.0
Eurobank	Mexico	3.3
Piraeus	Sunrise 1	7.0

Data compiled March 18, 2021.

NPEs = nonperforming exposures

\* Includes securitizations that have applied for inclusion in the program as well as those already accepted.

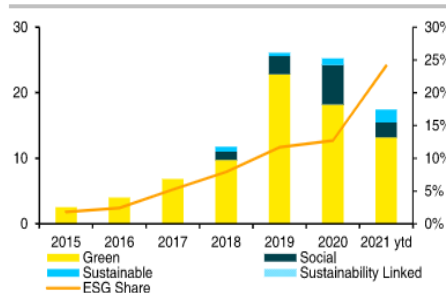
Sources: S&amp;P Global Market Intelligence; DBRS Morningstar

**The German Ministry of Finance wants to rescue the guaranteed interest rate offered by life insurers from 0.9% to 0.25%.** The measure would come into effect next year. Analysts note that while the reduction in guaranteed rates is a welcome development that will boost the industry's sustainability in a low-for-long environment, the effects will take time to feed through companies' balance sheets. Researchers at Commerzbank estimate that the interest rate guarantees within the traditional German life business average around 1.7% to 2.7%.

**ESG issuance has proceeded at a strong pace year-to-date and could surpass recent records.** Issuance by financial companies has clearly dominated recent activity, with about 2/3 of total issues (equivalent to €27.4 bn) coming from financial firms. Non-financial companies are also ramping up their level of ESG issuance.

#### Financials dominate ESG issuance...

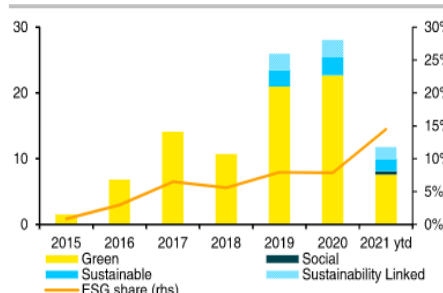
iBoxx € Corp eligible ESG-issuance by Financials as classified by Bloomberg, in €bn and total issuance share



Source: Markit, Bloomberg, Commerzbank Research

#### ...but NonFinancials share also up

iBoxx € Corp eligible ESG-issuance by NonFinancials as classified by Bloomberg, in €bn and total issuance share



Source: Markit, Bloomberg, Commerzbank Research

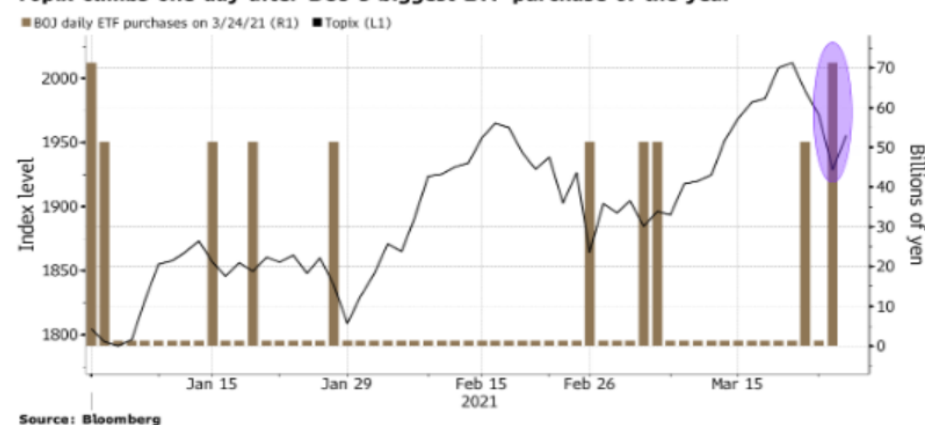
## Other Mature Markets

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### Japan

**Equities rose +1.4%, its first gain of the week, on banks' and electronics' outperformance.** Bank of Japan (BOJ) Governor Kuroda said that the central bank's exchange-traded funds (ETFs) have so far generated sizeable unrealized gains, according to Bloomberg. He added that the ETFs would be loss-making if the Nikkei 225 fall below around 20k (currently at around 28.7k). He also mentioned that it is too early to think about policy exit, including for ETFs. The BOJ bought ¥71.3 bn (\$655 mn) of ETFs yesterday, an increase from ¥51.3 bn in daily purchases so far this year. **10-year JGB yield rose +1.6bps and the yen weakened -0.3%.**

#### Topix climbs one day after BOJ's biggest ETF purchase of the year

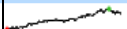
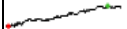

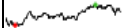



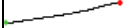


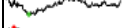

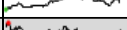
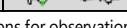


Source: Bloomberg

## Emerging Markets [back to top](#)

Eastern European and Asian markets were mixed. The Philippines stayed on hold at 2% as expected. **Latin America** was the worst performing region across EM currency markets largely due to the COVID developments that weigh negatively on growth and fiscal prospects. Swap rates in **Mexico** increased across the curve led by the 5y (+28bps) as the CPI release in the morning came well above consensus. Ahead of Banxico's meeting today the market is pricing-in a "no change" decision and almost +100bps hikes by year-end compared to just 30bps hikes in a week ago.

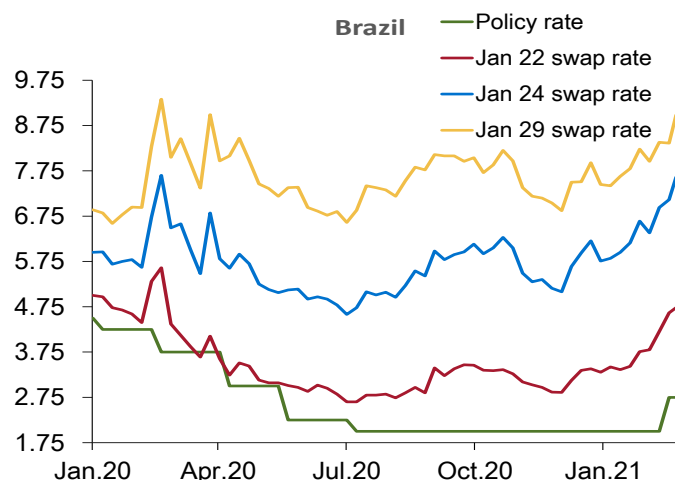
Key Emerging Market Financial Indicators

Last updated: 3/25/21 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		51.68	-0.6	-5	-5	52	0
MSCI Frontier Equities		29.21	-1.1	-2	1	38	3
EMBIG Sovereign Spread (in bps)		355	2	3	6	-336	4
EM FX vs. USD		56.09	-0.1	-2	-2	4	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.54	-0.3	-1	-1	9	0
Indonesian Rupiah		14427	0.0	0	-2	14	-3
Indian Rupee		72.63	-0.1	0	0	5	1
Argentina Peso		91.64	-0.1	-1	-2	-30	-8
Brazil Real		5.62	-1.8	-1	-4	-9	-8
Mexican Peso		20.88	0.3	-2	0	15	-5
Russian Ruble		76.14	0.6	-2	-2	3	-3
South African Rand		14.93	0.4	-1	1	16	-2
Turkish Lira		7.98	-0.5	-8	-8	-20	-7
EM FX volatility		11.33	0.0	1.0	1.1	-1.1	0.6

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

### Brazil

The local swap curve continued its climb higher amid concerns that the government may have to increase spending further to fight a worsening pandemic. The number of daily cases and deaths have made new highs in recent days and on Wednesday **Brazil became the second country to surpass 300k COVID-19 deaths**. Some market participants had expected that BCB's recent signaling of a faster tightening cycle to have led to curve flattening but so far this has not occurred. Fiscal and pandemic-related risks have been outweighing BCB's hawkish communication and the curve has steepened further. Rates are now back to March 2020 levels when the COVID-19 global market selloff was at its peak. In the short end, the market is pricing a significant reaction by BCB in the coming months with over 100bps of hikes priced for the May meeting and over 250bps hikes in the next 6 months. Despite the recent weakness in Turkish lira, the real remains the worst performing currency YTD at -7.5%. Some market participants have been expecting BCB to step up its currency interventions as the real crossed the 5.50 level.



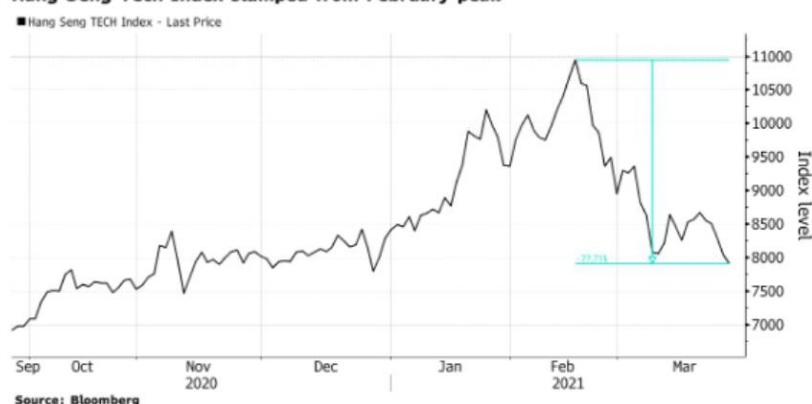
Source: Bloomberg

### China/ Hong Kong SAR

**Defaults among China's onshore corporate borrowers have surged to 32.4 billion yuan (\$5 billion) in March**, set to be the highest monthly tally on record, according to data compiled by Bloomberg dating back to 2014. More than 57% of the debt blowups came from real estate sector. Separately, survey by China Beige Book International showed that the services sector improved only marginally in Q1; the property private sector was weak, with companies reporting a drop in revenues and profits in Q1 compared with Q4.

**Hang Seng listed Chinese technology shares were under pressure as worsening US-China relations threaten to spillover to the markets.** Tencent and Alibaba tumbled as much as 5% before paring losses, joining a sell-off overnight by American depository receipts of Chinese tech firms. The Hang Seng technology index fell to its lowest since November. The Securities and Exchange Commission in the US said that it is taking steps to force accounting firms to let US regulators review the financial audits of overseas companies, according to Bloomberg. The penalty for non-compliance includes delisting from the New York Stock Exchange or Nasdaq for any businesses that do not allow their audit to be inspected for three years. China has cited national security concerns for refusing examinations on the audits of firms that trade in the US.

### Hang Seng Tech Index slumped from February peak

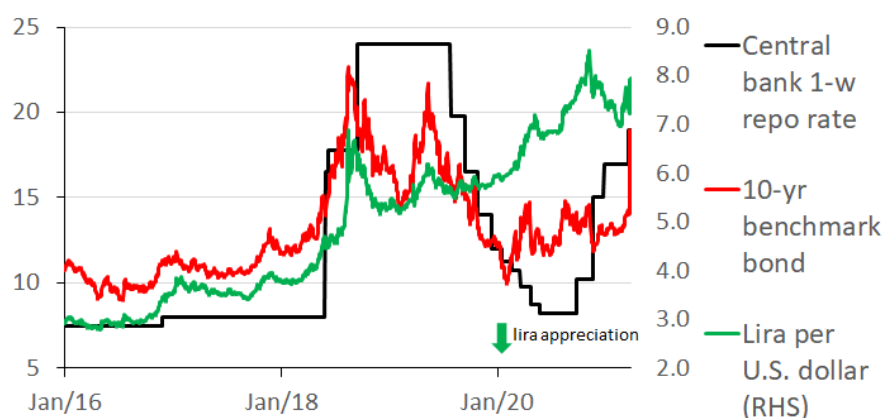




## Turkey

The lira trades little changed near the widely watched level of 8 lira per U.S. dollar but financing conditions remain tight even after reports that the new central bank governor Kavcioglu pledged continuity in policy and operational framework at a meeting between the central banks and commercial banks on Wednesday. Turkish interest rates remain high with the benchmark 10-yr government bond yield trading at 18% (from 19% on Monday). The one-year rate for borrowing in lira against the U.S. dollar remains elevated at 27% today (from 30% on Monday). **Contacts argue that state banks and retail flows have likely stemmed a further depreciation of the lira but worry that a pick-up in local demand for U.S. dollars could put the lira under pressure again.** Equities are little changed.

### Turkey: Interest rates (%) and currency



Source: Bloomberg and IMF staff

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## Global Financial Indicators

Last updated: 3/25/21 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3883	-0.5	-1	1	57	3
Europe		3797	-0.9	-2	3	36	7
Japan		28730	1.1	-5	-5	47	5
China		3364	-0.1	-3	-6	21	-3
Asia Ex Japan		90	-2.7	-5	-6	52	0
Emerging Markets		52	-2.3	-5	-5	52	0
Interest Rates							
			basis points				
US 10y Yield		1.60	-0.5	-10	8	74	69
Germany 10y Yield		-0.38	-2.2	-11	-14	-11	19
Japan 10y Yield		0.09	1.3	-3	-7	4	7
UK 10y Yield		0.72	-3.4	-15	-6	28	53
Credit Spreads							
			basis points				
US Investment Grade		99	-0.3	-1	8	-246	4
US High Yield		356	-4.3	-4	9	-722	-23
Europe IG		55	0.6	7	4	-34	7
Europe HY		270	1.0	28	9	-260	29
Exchange Rates							
			%				
USD/Majors		92.64	0.1	1	3	-8	3
EUR/USD		1.18	-0.1	-1	-3	8	-3
USD/JPY		109.1	0.3	0	3	-2	6
EM/USD		56.1	-0.1	-2	-2	4	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		63	-2.0	0	-6	130	22
Industrials Metals (index)		142	-1.5	-1	-6	55	7
Agriculture (index)		51	-0.9	0	-3	35	7
Implied Volatility							
			%				
VIX Index (% change in pp)		21.5	0.3	-0.1	-7.4	-42.5	-1.3
US 10y Swaption Volatility		78.5	2.1	-10.6	-10.2	-21.5	18.4
Global FX Volatility		8.0	0.0	0.3	0.2	-3.1	0.0
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		123	2.3	1	-13	-139	4
Italy		97	2.5	2	-6	-84	-14
Portugal		53	1.4	0	-7	-79	-7
Spain		64	1.3	0	-7	-49	3

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: 3/25/2021 8:05 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		6.54	-0.3	-0.6	-1	9	0		3.3	-0.8	-3	-4	59	5
Indonesia		14427	0.0	-0.1	-2	14	-3		6.7	-4.9	-8	19	-172	64
India		73	-0.1	-0.1	0	5	1		6.4	-2.5	-13	1	-31	44
Philippines		49	0.2	0.2	0	5	-1		3.9	9.1	14	42	-80	25
Thailand		31	-0.3	-0.7	-3	5	-4		1.9	-0.3	-10	23	28	61
Malaysia		4.15	-0.3	-0.9	-3	6	-3		3.3	-2.6	-3	35	-43	71
Argentina		92	-0.1	-0.5	-2	-30	-8		45.4	0.0	-4	377	-2374	-1070
Brazil		5.62	-1.8	-0.6	-4	-9	-8		8.3	25.6	75	129	49	271
Chile		732	-0.7	-1.8	-2	15	-3		3.3	3.7	11	25	-57	56
Colombia		3644	-0.9	-1.9	-2	12	-6		6.4	10.1	36	96	-144	130
Mexico		20.88	0.3	-1.9	0	15	-5		6.8	22.4	50	89	-112	125
Peru		3.7	-0.1	-0.5	-2	-5	-3		4.6	5.9	-3	42	-108	97
Uruguay		44	-0.1	0.7	-3	1	-4		7.4	2.8	3	42	-535	15
Hungary		309	0.0	0.2	-4	5	-4		2.0	-0.2	-8	0	47	46
Poland		3.93	-0.3	-1.2	-5	7	-5		0.9	0.1	0	9	-49	24
Romania		4.1	0.0	-0.9	-3	7	-4		2.6	0.0	-1	-1	-167	-10
Russia		76.1	0.6	-2.5	-2	3	-3		6.9	-4.2	29	57	-2	118
South Africa		14.9	0.4	-1.2	1	16	-2		10.3	6.0	7	54	-236	61
Turkey		7.98	-0.5	-8.2	-8	-20	-7		18.1	-81.6	343	465	562	500
US (DXY; 5y UST)		93	0.1	0.9	3	-8	3		0.83	1.8	-4	1	30	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		4926	0.0	-4	-10	32	-5		199	0	-2	-9	30	-9
Indonesia		6123	-0.5	-4	-3	55	2		158	0	-9	-25	-5	-29
India		48440	-1.5	-2	-5	70	1		151	0	-14	-1	-272	0
Philippines		6581	1.3	-1	-3	31	-8		83	0	-9	-17	13	-22
Malaysia		1598	-0.3	-2	1	21	-2		113	0	-2	-3	9	3
Argentina		48615	0.0	-2	-2	103	-5		1459	0	19	8	-570	91
Brazil		112064	0.0	-4	0	50	-6		253	0	0	-16	58	3
Chile		4842	0.0	-1	6	55	16		126	0	-6	-16	-14	-18
Colombia		1325	0.0	-1	-1	27	-8		207	0	-4	-15	44	2
Mexico		46703	0.0	-2	5	31	6		348	0	-9	-34	55	-12
Peru		21497	0.0	-4	-6	48	3		133	0	-4	-3	22	1
Hungary		44096	-0.4	-1	0	35	5		65	0	-6	-15	-42	-31
Poland		56848	-0.4	-3	-1	42	0		-22	0	-4	-11	-54	-21
Romania		10908	0.5	1	6	43	11		193	-1	0	-10	-210	-10
Russia		3452	-0.9	-1	1	41	5		159	0	-5	-3	19	-7
South Africa		64790	-0.7	-3	-4	50	9		357	0	-4	-35	25	-23
Turkey		1414	0.0	-9	-5	59	-4		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	1	3		479	0	12	-21	127	-12
EM total		52	-0.6	-5	-5	52	0		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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