














- **US equities rallied to record highs on Friday** ([link](#))
- **Hedge fund stock bets gone awry leads to massive margin calls, block trades** ([link](#))
- **Nomura, Credit Suisse see shares plummet on potential related losses** ([link](#))
- **Fiscal risks perceived to be on the rise in Brazil, Colombia, and Mexico** ([link](#))
- **EM bond fund flows turned marginally positive in the last week** ([link](#))

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Banks hit by losses on hedge fund bets

The unwind of one fund's levered stock bets is dominating headlines, but the broader market fallout so far appears limited. Global equities are slightly higher this morning after US shares hit record highs on Friday. Sentiment was briefly hit overnight as investors sized up the impact of one hedge fund's stock bet gone wrong, with related margin calls and block trades driving volatility in individual stocks and reports of sizeable losses at several investment banks that had provided the derivative-based financing. The broader market fallout so far seems limited, with the VIX subdued and equity markets trimming premarket losses. In Europe, mobility-sensitive hospitality shares in Europe are lagging on downbeat prospects for a return to normalcy this summer. Progress was reported in freeing the blockage of the Suez Canal but challenges are said to remain. Government bond yields in large advanced economies are slightly lower this morning while EM currencies have been weakening overnight, driven by Turkey, Chile, and Mexico.

Key Global Financial Indicators

Last updated: 3/29/21 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3975	1.7	2	4	56	6
Eurostoxx 50		3886	0.5	1	7	42	9
Nikkei 225		29385	0.7	1	1	54	7
MSCI EM		53	2.6	-1	-1	60	3
Yields and Spreads			bps				
US 10y Yield		1.65	-3.0	-5	24	97	73
Germany 10y Yield		-0.35	-0.1	-4	-9	13	22
EMBIG Sovereign Spread		354	-1	8	-4	-251	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.8	-0.3	-2	-2	3	-4
Dollar index, (+) = \$ appreciation		92.8	0.0	1	2	-6	3
Brent Crude Oil (\$/barrel)		65.1	0.9	1	-2	161	26
VIX Index (% change in pp)		20.0	1.1	1	-8	-46	-3

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

In the week ahead, the economic calendar in the US will be busy including ADP employment, ISM and PMI, jobless claims and Friday's March payroll report. The consensus is expecting a 650K bounce in jobs and unemployment rate falling to 6%. Q4 GDP (final) is due in UK, along with inflation and unemployment reports from euro area countries. PMI are also due out in Japan and China. OPEC+ is scheduled to meet on Thursday to decide on production policy for May, while markets continue to closely monitor the Suez Canal blockage.

United States

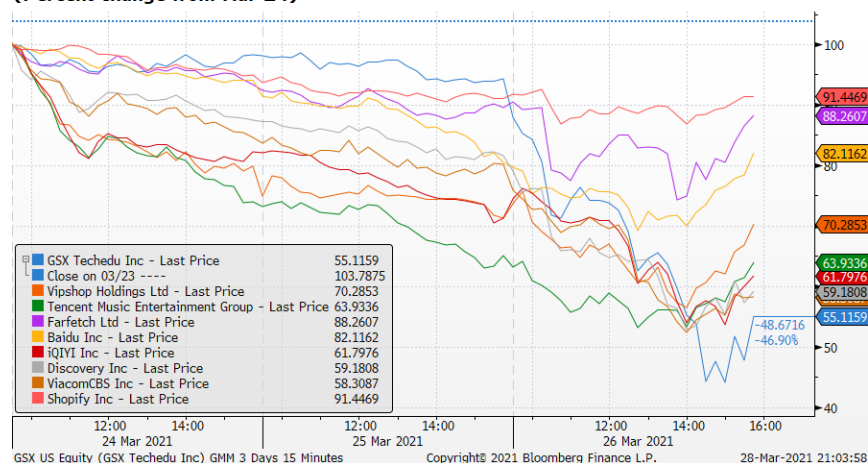
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The S&P 500 and Dow equity indices rallied to new record highs. All major indices gained over 1.2% last Friday, with strong increases in the last trading hour. Energy and tech sectors (+2.5%) outperformed, while financials gained 1.8% after the Fed's decision to allow dividend and share buyback for most banks after June. After several days of consolidation below the recent peak, the Treasury curve steepened again, with mid- to long-rates up by 4 bps as breakeven inflations widened.

A massive margin call on a US hedge fund led to significant selling of several US-listed stocks on Friday. In one of the largest margin calls on record, investment firm Archegos Capital Management was forced by its brokers to unwind billions in highly levered stock positions, leading to huge block trades of almost \$20 bn in small portfolio of stocks. The equities involved were concentrated in a few large Chinese technology firms and US media conglomerates. According to Bloomberg, among a few other prime brokers, Morgan Stanley sold near \$13 bn worth of shares and Goldman Sachs sold \$10 bn before market open on Friday through several unusually large block trades. Much of the leverage was provided by banks through swaps, which means the positions were on the banks' balance sheet and Archegos could avoid regulatory limit on leverage for stocks. Archegos is also operating as a family office, thus not required to disclose its holdings through 13F filings. **Over the weekend, both Nomura and Credit Suisse both said they may face "significant" losses from Archegos-related positions, leading their share prices to both fall by more than 14%.** Market participants expect further selling pressures are possible for the stocks that were liquidated.

Block Trade Blitz

(Percent change from Mar 24)



Europe

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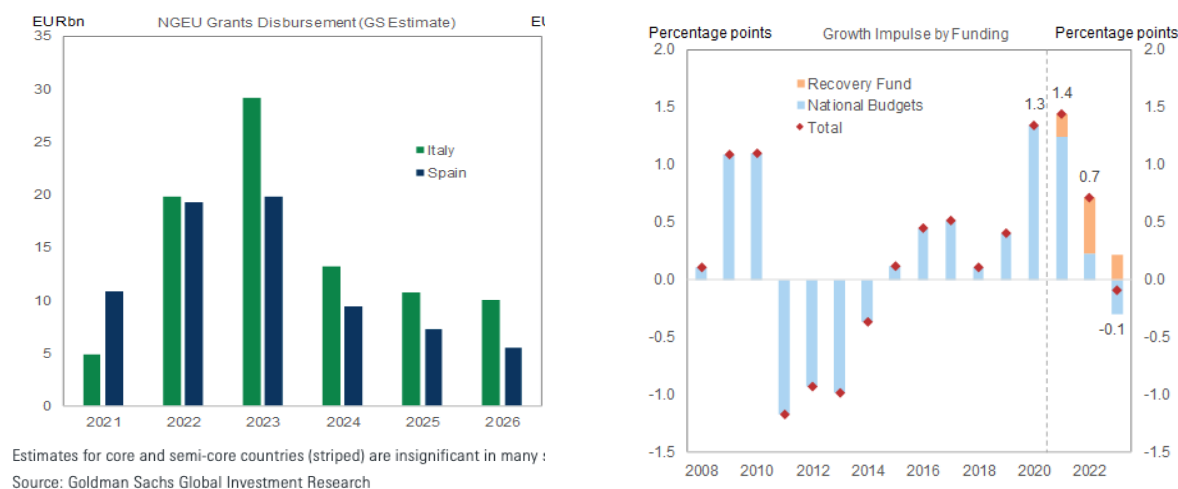
European equities were mostly steady with Euro Stoxx 600 benchmark up 0.2%. Financial shares were underperforming mostly driven by **large losses of Credit Suisse (-14%)** after company reported potential large losses due to its client's operation in the prime brokerage division. According to Bloomberg reports, these were most likely related to the Archegos Capital Management margin calls and position liquidation.

Consumer hospitality sector shares (-1.2%) were also underperforming following news reports over the weekend suggesting a delay to the European holiday season due to slower than expected vaccination and resulting extended lockdowns and travel bans.



European sovereign bond yields edged higher with Germany 10-year bund yields up 1 bps and Southern European spreads wider by 1-2 bps. Corporate credit spreads were steady. Currencies showed mixed dynamics with the euro (-0.2%) depreciating and the sterling (+0.3%) appreciating against the dollar.

German Federal Constitutional Court put on hold the approval of the EU Recovery Fund law after Bundestag passed the bill with a majority vote (478 out of 645 votes). The court will now have to investigate several legal challenges related to the pooled debt before it can be signed into law by the German President. German Finance Minister Scholz expressed confidence that the top court will decide quickly and there will be no major delay to the Recovery Fund from the verdict. That said, contacts have noted that ratification process in other member states is also facing delays, which increases the risk that aid disbursement will not start until late 2021 or even 2022. This could further impact 2021 recovery momentum in particularly in Spain and Italy, which were expected to receive sizable grants in 2021.



United Kingdom

The government rejected GFG's £170mn bailout request citing corporate structure and governance concerns. GFG, UK's third largest steel producer, has faced financial difficulties after the bankruptcy of Greensill capital, which was the group's largest financing provider. According to media reports, GFG employs 5000 people in the UK and is important to the UK's manufacturing supply chain.

Other Mature Markets

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Japan

Nomura's share price dropped as much as 16% on potential losses related to a U.S. client. According to Nomura's statement, the loss could amount to \$2 bn. The loss is expected to be linked to the involuntary deleveraging of Archegos Capital Management. Nomura also cancelled a sale of its bonds (\$3.25 bn), which were priced last week and were due to settle today. Share prices of the three Japanese G-SIBs declined (MUFG: -1.0%; Mizuho: -0.2%; SMFG: -1.2%), while the Japanese stock market gained (NIKKEI: +0.7%; TOPIX: +0.5%). **Long-end JGB yields declined (10-year: -1 bp; 30-year: -2.8 bps)** amid demand by investors to add positions before the fiscal year ends. Analysts noted that markets will closely watch the Bank of Japan (BOJ)'s April bond purchase plan, due this Wednesday, to gauge the BOJ's view of the flexibility of JGB yields. The **Japanese yen was little changed**.

Nomura Tumbles

Shares fall the most on record on warning of losses tied to U.S. client



Source: Bloomberg

Bloomberg

8604 JT Equity (Nomura Holdings Inc) nomura shares Daily 28SEP2020-29MAR2021 Copyright© 2021 Bloomberg Finance L.P. 29-Mar-2021 16:12:07

Emerging Markets

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Asian stock markets were mixed, down 0.3% on net. Taiwan (+1.0%) and Philippine (+1.0%) equities led gains, while share prices dropped in Indonesia (-0.5%) and Korea (-0.2%). **Asian currencies were also mixed.** The Thai baht (-0.4%) and Chinese yuan (-0.3%) led depreciation, while the Taiwan dollar (+0.2%) appreciated. The Hong Kong dollar depreciated (-0.1%) to 7.77 per US dollar; analysts commented that the demand for the currency has weakened amid lackluster IPOs. **In Philippines,** Manila and the adjacent provinces were placed under a lockdown until April 4 to curb the spread of COVID-19. Moody's commented that the spike in COVID-19 cases is credit negative for the sovereign; 10-year government bond yield rose (+35 bps); Philippine peso appreciated (+0.1%).

Central and Eastern European bourses are mostly higher this morning, except for the Czech Republic (-0.8%). Other countries opened the week posting notable daily gains: Poland (+1.1%), Russia (+1.0%), Turkey (+0.8%), and Hungary (+0.7%). Stocks in UAE (+2.2%), Saudi Arabia (+1.2%), and Qatar (+0.9%) also traded higher. Regional currencies mostly weakened to the dollar by about 0.2% to 0.6%.

Latin American equities rallied (Chile +1.8%; Brazil +0.9%; Mexico +0.8% and Peru +0.7%) last Friday on the back of higher commodity prices, tailwind from the US, and, for Mexico, a 0.3% increase in market consensus for expected GDP growth in 2021. Currencies retreated in Brazil (-1.9%) and Colombia (-1.5%). Local currency yield curves flattened in Mexico (-13 bps in 10Y-2Y spread) and steepened in Chile (+17 bps in 10Y-2Y spread). As expected the central banks of Colombia and Uruguay maintained their policy rates, at 1.75% and 4.5% respectively, in attempts to facilitate further economic recovery.

Key Emerging Market Financial Indicators

Last updated: 3/29/21 8:15 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.27	0.8	-1	-1	60	3
MSCI Frontier Equities		29.50	1.8	0	2	37	4
EMBIG Sovereign Spread (in bps)		354	-1	8	-4	-251	3
EM FX vs. USD		55.82	-0.3	-2	-2	3	-4
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.56	-0.3	-1	-1	8	-1
Indonesian Rupiah		14445	-0.2	0	-1	13	-3
Indian Rupee		72.68	-0.2	0	1	4	1
Argentine Peso		91.84	-0.1	-1	-2	-30	-8
Brazil Real		5.77	-0.2	-5	-2	-10	-10
Mexican Peso		20.75	-0.8	-1	0	15	-4
Russian Ruble		75.91	-0.3	-2	-2	5	-2
South African Rand		15.01	-0.2	-2	0	19	-2
Turkish Lira		8.16	-0.7	-4	-11	-19	-9
EM FX volatility		11.23	1.1	-0.1	0.5	-1.4	0.5

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

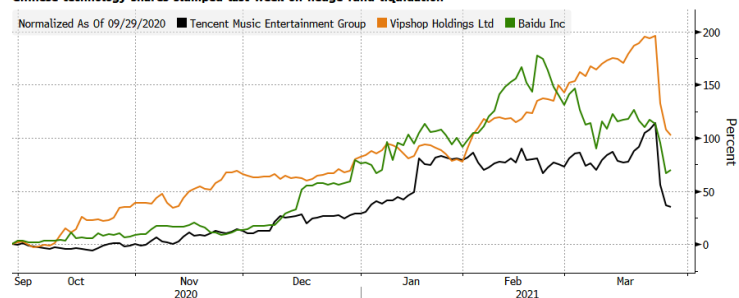
The Ever Given ship stuck in the Suez canal has been partly refloated. The Ever Given has been stuck for a week now and has created a backlog of about 450 container ships awaiting passage through the canal. Oil prices plummeted over 5% last week as the news broke out, but have recovered since and crude is trading at \$64/barrel for Brent and \$60/barrel for WTI.

China

The RMB depreciated on the risk-off mode in the wake of forced selling of some U.S.-listed Chinese firms. The sell-off, which started last week, is reportedly linked to the forced deleveraging of Archegos Capital Management (a U.S.-based family office). The sell-off included Baidu, which recently completed a secondary listing in Hong Kong SAR; its share price fell 5%. The **RMB depreciated (onshore: -0.3%; offshore: -0.4%)** to the weakest level since December 2020. Markets are increasingly focused on the RMB fixing, which has been set at a weaker level for a fourth day. The deviation of the RMB fixing from the market expectation still remains relatively limited (7 pips weaker than expected, on average, over the past week). **Equities gained (CSI 300: +0.2%).**

Brutal Sell-off

Chinese technology shares slumped last week on hedge fund liquidation



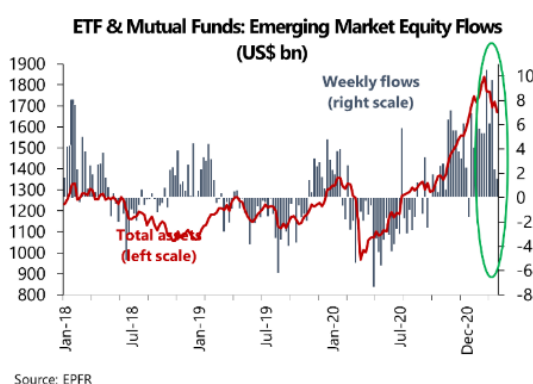
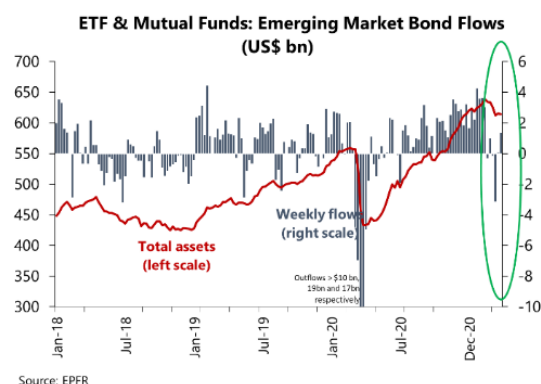
Source: Bloomberg
TME US Equity (Tencent Music Entertainment Group) Line Chart Daily 29SEP2020-29 Copyright© 2021 Bloomberg Finance L.P. 29-Mar-2021 17:21:33

China plans to overhaul its credit rating rules. Draft regulations were issued for public comments, with an aim to strengthen supervision of local credit rating firms and improve their independence and quality control. It is well known that China's credit ratings are inflated, with about 96% of onshore credit scores

equivalent to investment grade. Accurate credit ratings are to become increasingly important as Beijing allows more firms to fail amid efforts to enhance market-based risk pricing.

Emerging Markets

Fund flows for EM bond funds turned positive, but flows were subdued overall. Over the week up to March 24 investors returned to EM bond funds, buying \$1.4 bn in shares, almost equally spread across hard and local currency funds as well as blends of the two, while putting a modest \$1.6 bn in EM equity funds.



Latin America

Fiscal risks are perceived to be on the rise in the region. J.P. Morgan analysts report that Brazil, Colombia, and Mexico are facing political pressure to increase social spending with relatively limited fiscal space, and moreover must contend with continued COVID-19 risks and higher US Treasury rates. A scenario of a 100 bps increase in funding costs, not unlikely given recent yield moves, would exacerbate these trends. Forward markets price in depreciation for all three currencies over the next two years, pointing to additional upward pressure on sovereign local currency yields. The depreciation of the real and the Colombian peso continued last week due to deteriorating market sentiment in Brazil's case and market perceptions that Colombia's peso could be exposed to competition if local peer central banks increase policy rates. Rating agencies see the credit profiles of Brazilian banks challenged by the rise in local yields and those of Colombian corporates potentially hurt by tax reforms.

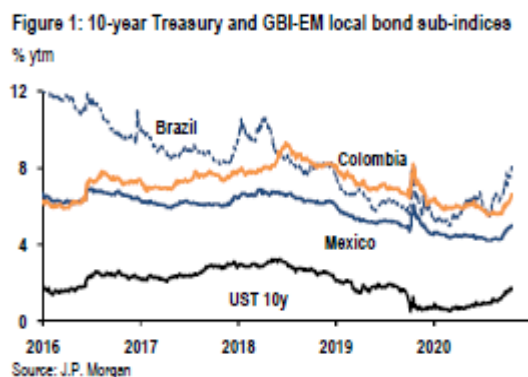


Table 1: Sensitivity of debt to +100bp shock to funding costs

% of GDP		2020	2021	2022	2025	2029
Brazil	Baseline	89	90	93	91	88
	Rate shock	89	91	94	94	98
Colombia	Baseline	65	67	70	69	71
	Rate shock	65	68	70	71	77
Mexico	Baseline	52	51	51	54	58
	Rate shock	52	51	52	53	61

Source: J.P. Morgan; baseline and rate shock after 2022 are scenarios and not forecasts

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Global Financial Indicators

Last updated: 3/29/21 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3975	1.7	1	4	56	6
Europe		3886	0.5	1	7	42	9
Japan		29385	0.7	1	1	54	7
China		3435	0.5	0	-2	25	-1
Asia Ex Japan		93	2.4	-2	-2	59	3
Emerging Markets		53	2.6	-1	-1	60	3
Interest Rates			basis points				
US 10y Yield		1.65	-3.0	-5	24	97	73
Germany 10y Yield		-0.35	-0.1	-4	-9	13	22
Japan 10y Yield		0.08	-0.8	-1	-9	6	5
UK 10y Yield		0.75	-0.6	-6	-7	38	55
Credit Spreads			basis points				
US Investment Grade		96	0.1	-2	4	-196	1
US High Yield		351	1.2	-7	-5	-576	-28
Europe IG		54	0.1	-1	5	-44	6
Europe HY		262	-1.2	-10	15	-320	19
Exchange Rates			%				
USD/Majors		92.78	0.0	1	2	-6	3
EUR/USD		1.18	-0.1	-1	-2	7	-4
USD/JPY		109.7	0.0	1	3	2	6
EM/USD		55.8	-0.3	-2	-2	3	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		65	0.9	1	-2	161	26
Industrials Metals (index)		145	-0.6	-1	-1	57	9
Agriculture (index)		50	-0.6	-2	-3	35	5
Implied Volatility			%				
VIX Index (% change in pp)		20.0	1.1	1.1	-8.0	-45.6	-2.8
US 10y Swaption Volatility		78.2	1.1	-6.1	0.2	-27.9	18.1
Global FX Volatility		8.0	0.1	0.0	-0.4	-3.9	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		121	0.2	-1	-16	-85	1
Italy		97	0.6	1	-5	-83	-14
Portugal		53	0.6	0	-5	-61	-7
Spain		64	0.6	-1	-4	-37	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: 3/29/2021 8:15 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.56	-0.3	-0.8	-1	8	-1		3.3	0.6	-3	-6	61	4	
Indonesia		14445	-0.2	-0.3	-1	13	-3		6.7	-0.2	-13	6	-149	64	
India		73	-0.2	-0.4	1	4	1		6.4	-0.9	-10	-6	-29	43	
Philippines		48	0.1	0.3	0	5	-1		3.8	-2.2	3	34	-108	17	
Thailand		31	-0.2	-0.9	-3	5	-4		1.9	0.9	-7	16	32	63	
Malaysia		4.14	0.1	-0.6	-2	4	-3		3.3	-0.6	-5	24	-19	70	
Argentina		92	-0.1	-0.5	-2	-30	-8		45.8	9.6	9	429	-1991	-1031	
Brazil		5.77	-0.2	-4.6	-2	-10	-10		8.1	5.0	43	86	147	256	
Chile		736	-0.9	-2.6	-2	16	-3		3.5	15.2	27	39	-17	75	
Colombia		3689	-0.7	-3.6	-1	8	-7		6.4	0.5	21	82	-20	132	
Mexico		20.75	-0.8	-0.8	0	15	-4		6.7	-9.8	15	56	-74	107	
Peru		3.7	0.0	-0.4	-2	-9	-3		4.6	2.3	12	38	-17	102	
Uruguay		45	-0.5	-0.7	-3	-3	-5		7.3	-12.4	-4	28	-634	6	
Hungary		307	0.0	-0.1	-2	6	-3		2.0	3.1	-6	-8	42	48	
Poland		3.94	-0.2	-2.3	-5	4	-5		0.8	-0.4	-3	-8	-48	21	
Romania		4.2	-0.4	-1.5	-3	5	-4		2.6	1.0	-4	-28	-141	-11	
Russia		75.9	-0.3	-1.5	-2	5	-2		6.7	-8.2	-1	24	-13	102	
South Africa		15.0	-0.2	-1.9	0	19	-2		10.3	-5.1	13	50	-127	66	
Turkey		8.16	-0.7	-4.4	-11	-19	-9		18.4	27.0	383	487	596	530	
US (DXY; 5y UST)		93	0.0	1.1	2	-6	3		0.84	-2.4	-2	11	45	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		5047	0.2	0	-5	37	-3		199	0	-2	-9	30	-9
Indonesia		6167	-0.5	-2	-1	40	3		158	0	-9	-25	-5	-29
India		49009	0.0	-2	0	64	3		148	-5	-6	0	-269	-3
Philippines		6608	1.0	3	-3	29	-7		83	0	-9	-17	13	-22
Malaysia		1611	0.6	0	2	21	-1		113	0	-2	-3	9	3
Argentina		46441	0.0	-4	-4	93	-9		1459	0	19	8	-570	91
Brazil		114781	0.0	-1	4	56	-4		253	0	0	-16	58	3
Chile		4854	0.0	0	6	50	16		126	0	-6	-16	-14	-18
Colombia		1314	0.0	-1	-3	15	-9		207	0	-4	-15	44	2
Mexico		47379	0.0	1	6	40	8		348	0	-9	-34	55	-12
Peru		21410	0.0	-4	-5	54	3		133	0	-4	-3	22	1
Hungary		44671	1.1	2	2	39	6		65	0	-6	-15	-42	-31
Poland		58378	1.5	1	2	43	2		-22	0	-4	-11	-54	-21
Romania		10978	0.2	1	8	46	12		192	1	3	-17	-193	-10
Russia		3533	1.2	1	6	47	7		159	0	-5	-3	19	-7
South Africa		67229	0.6	2	2	57	13		357	0	-4	-35	25	-23
Turkey		1396	1.0	1	-5	58	-5		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	1	3		479	0	12	-21	127	-12
EM total		53	0.8	-1	-1	60	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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