



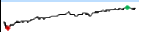
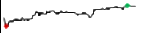




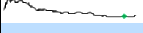

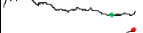

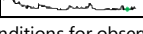
- Tighter liquidity conditions in China reflect on asset prices ([link](#))
- US interest rate and inflation markets show possible signs of misalignment ([link](#))
- Euro area bank stocks outperform ([link](#))
- EM funds continue to experience inflows last week, more so on the equity side ([link](#))
- Japanese investors net sellers of foreign bonds in February ([link](#))

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Markets struggle to find their footing amid investor unease

A mix of liquidity, valuation and geopolitical concerns are weighing on investor sentiment this morning. In the US, tech stocks seem to be particularly pressured by continued worries about potentially high valuations (Nasdaq futures -1.6%). While in China, concerns about tighter liquidity conditions are being reflected in asset prices, with the seven-day repo rate rising to its highest level in two weeks and equities down by around 2.3%. European stocks have been trading on a relatively stronger footing (up 1% so far today), with Germany outperforming. Ten-Year Bund yields are relatively stable, while Treasuries yields, at 1.6%, are about 3 bps higher this morning and the greenback is trading about 0.4% stronger against other major currencies. An attack on a major Saudi oil site has not materially impacted crude oil prices, as production does not seem to be affected. Brent crude is now trading at around \$70/bbl, following a 90% increase since end-October. Looking forward to the rest of the week, a number of central banks are expected conclude their policy meetings, including in Canada (on March 10) and in the Eurozone, Hungary, and Peru (on March 11). In the US, CPI (March 10) and Jobless Claims figures (March 11) should help provide additional color on the strength of recovery in labor markets and underlying inflationary pressures.

Key Global Financial Indicators

Last updated: 3/8/21 8:22 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3842	1.9	1	-2	29	2
Eurostoxx 50		3706	1.0	0	1	15	4
Nikkei 225		28743	-0.4	-3	-2	39	5
MSCI EM		54	1.1	0	-4	34	4
Yields and Spreads			bps				
US 10y Yield		1.59	2.5	17	42	83	68
Germany 10y Yield		-0.29	1.5	5	16	42	28
EMBIG Sovereign Spread		361	10	4	24	-7	11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.7	-0.7	-2	-3	-4	-4
Dollar index, (+) = \$ appreciation		92.3	0.4	1	2	-4	3
Brent Crude Oil (\$/barrel)		68.9	-0.7	8	14	52	33
VIX Index (% change in pp)		27.2	2.6	4	6	-15	4

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

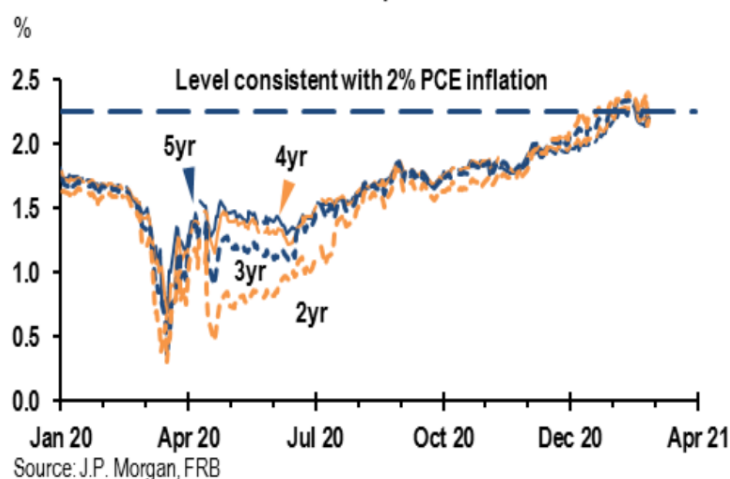
United States

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On Friday, despite significant intraday volatility, the S&P 500 rose by almost 2%, with most key sectors in positive territory. Positive market sentiment contributed to a 4-point decline in the VIX volatility index. However, the nominal yield on 10-Year Treasuries remained unchanged, as a 2 bp decline in the real yield was offset by an equivalent increase in 10Y breakeven inflation.

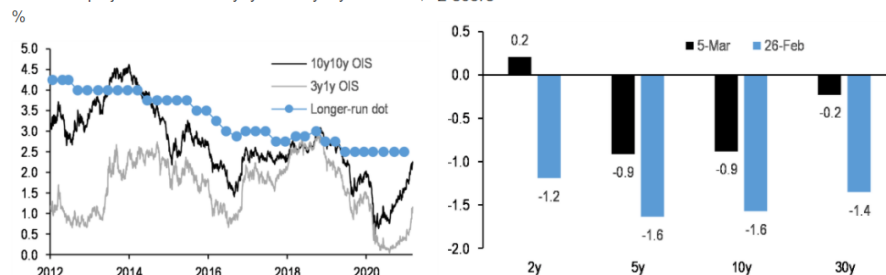
JPMorgan analysts expressed concerns that Fed's FAIT strategy may be either misunderstood by market participants or lacks sufficient credibility. The flexible average inflation targeting (FAIT) implies that the policy rate hikes will likely not start until "inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." Nevertheless, markets seem to be already price in a rate hike in the first half of 2023 despite inflation swaps not showing sufficient overshooting above the 2% level. Indeed, the breakeven curve two to five years forward prices CPI inflation no greater than 2.25% (chart below). Adjusting this figure for the average basis spread between the PCE index (targeted by Fed) and the CPI index (used in inflation swaps) – as well as various risk-premia (e.g., liquidity, inflation risk, etc.) – shows that investors do not currently foresee inflation overshooting the Fed's 2% objective over the near-term. Should this apparent misalignment between the interest rate and inflation markets persist, analysts expect Fed officials to try to address it by strengthening communication regarding the Fed's new reaction function.

TIPS market forward inflation compensation



The recovery in liquidity across tenors in the US Treasury bond market is uneven, yield curve's belly remains the most vulnerable. With the move in long-term forwards in recent weeks, the peak of the overnight index swaps (OIS) curve has risen to levels within 25bp of the Fed's median longer-run dot for the first time since prior to the onset of easing in the summer of 2019 (left chart below). However, with long-dated OIS forwards approaching the Fed's longer-run dot, the belly (i.e., intermediate maturities) is the most vulnerable sector, and any further rise in yields is expected to be led by the 5- to 10-year sector than the long end. Additionally, there are technical reasons to think the belly is most vulnerable as well. After last week's move to higher yields caused liquidity to deteriorate, the recovery in market depth has been uneven across tenors: right chart shows the 1-year z-score of market depth - the sum of the queue's top three bids and offers in Treasury notes and bonds markets – broken down by tenors. Depth has fully recovered at the long end and is in line with its medium-term average. However, the retracements in the 10-year sector has been substantially smaller, suggesting that forthcoming auctions may have large price impact in the market.

Median longer-run dot from Federal Reserve Summary of Economic projections versus 3y1y and 10y10y OIS rates; z-score



Source: Federal Reserve, J.P. Morgan

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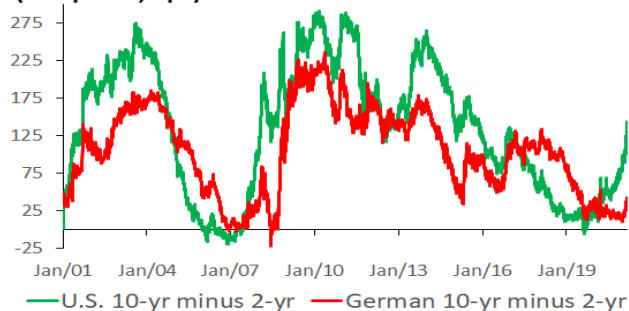
Europe

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Euro area

The euro (-0.3% to \$1.187) fell as German bund yields have lagged the recent increases in U.S. rates. 10-yr bund yields were little changed in morning trading as U.S. rates rose 3 bps to 1.59%. The ECB will hold a press conference with outlook update on Thursday. Contacts expect the ECB to focus on the active flexibility of its PEPP purchases to help contain any further tightening of financial conditions. Italian 10-yr spreads are 3 bps tighter at 102 bps. Greek 10-yr spreads and Spanish 10-yr spreads fell 2 bps.

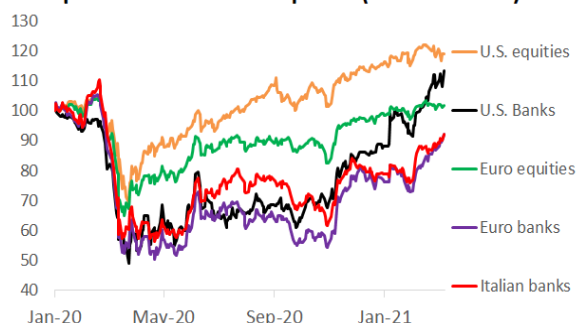
U.S. and Euro area: 10-yr rates minus 2-yr rates (steepness, bps)



Source: Bloomberg and IMF staff

European bank stocks (+2.5%) continue to outperform buoyed by comments on a potential end to bank dividend caps. Bank of Spain Deputy Governor Delgado said that if GDP recovers as projected, recommendations on dividends will most likely be lifted in September. Analysts also point out that net interest income earnings have been weak at most Italian banks but that fee income picked up and that cost control remains strong as asset quality concerns have waned given a less-than-expected negative impact of moratoria loans and large state guarantees. **Euro area equities (+1%) also gained.**

European and U.S. bank equities (Jan 2020: 100)



Source: Bloomberg and IMF

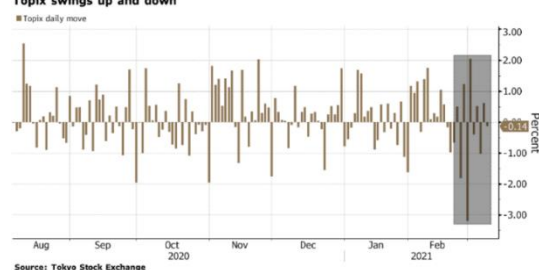
Other Mature Markets

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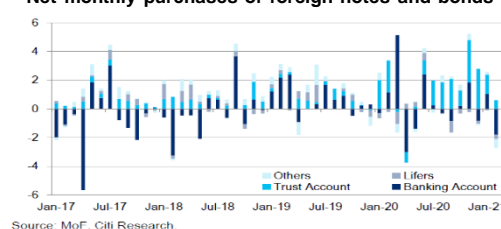
Japan

Japanese investors were net sellers of foreign bonds of ¥2.1 tn (\$19.6 bn) in February. The selling was concentrated in the latter half of the month according to Citi's analysis. Life insurers sold ¥305 bn worth of bonds, bringing cumulative net sales over the past eight months to ¥2 tn. Japanese investors were however purchasers of UK and Australian debt in January, according to Bloomberg. They bought a net ¥713.6 bn of UK debt in January, the most since going back to 2005, and inflows extended for the sixth straight month, the longest run since 2013. While Japanese funds bought Australian bonds in January, the net purchase of ¥16.7 bn was the smallest amount since February 2020. Separately, Bank of Japan (BOJ) Deputy Governor Amamiya said that Japanese yields can move up and down more as long as they do not hurt the effects of monetary easing, according to Bloomberg. On data releases, tourism revenues fell for the 13th straight month in January, declining by -89% y/y to ¥50.8 bn (\$468.3 mn). Bank lending accelerated to 5.9% in February from 5.7% y/y in January.

Topix swings up and down



Net monthly purchases of foreign notes and bonds



Emerging Markets

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In EMEA, equities have struggled to find direction today, with some bourses moving down by 0.3% while others gained up to 0.4%—0.8% range. Most regional currencies mostly depreciated, led by the Turkish lira (-1.6%), the South African rand (-0.8%), and the Czech koruna (-0.5%). **In Asia**, equities fell for a third straight day by -1.4%. North Asia led losses, while South Asia was mixed. Regional currencies depreciated across the board, with the Thai baht (-1%) underperforming by the most. 10-year sovereign bond yields were mostly stable, except for Indonesia (+9.8 bps) and Malaysia (+9 bps). **In Latin America**, stock markets had a mixed performance on Friday, while currency markets in LatAm were relatively quiet. Brazil's major 10-year bond yield declined by 12 bps, and Mexico 10-year bond yield was up by 13 bps.

Key Emerging Market Financial Indicators

Last updated: 3/8/21 8:27 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.83	-1.0	0	-4	34	4
MSCI Frontier Equities		29.33	1.7	2	1	7	3
EMBIG Sovereign Spread (in bps)		361	10	4	24	-7	11
EM FX vs. USD		55.74	-0.7	-2	-3	-4	-4
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.52	-0.4	-1	-1	6	0
Indonesian Rupiah		14360	-0.4	-1	-2	0	-2
Indian Rupee		73.26	-0.3	0	0	1	0
Argentine Peso		90.57	-0.2	-1	-3	-31	-7
Brazil Real		5.73	-0.9	-2	-7	-18	-9
Mexican Peso		21.53	-1.0	-4	-7	-4	-8
Russian Ruble		74.21	0.7	1	1	-9	0
South African Rand		15.46	-0.7	-3	-4	4	-5
Turkish Lira		7.67	-1.8	-5	-8	-20	-3
EM FX volatility		10.49	1.0	0.2	0.6	1.9	-0.3

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

EM Fund Flows

According to J.P.Morgan, flows into EM bond funds totaled +\$336 mn last week (down from +\$1.7 bn in the previous week) and flow into EM equity funds amounted to +\$6.7 bn (higher than the +\$6.3 bn registered during the previous week). Hard currency bond funds saw their third consecutive week of outflows (-\$1.1bn). But these were mostly offset by inflows into local currency bond funds (+\$1.4 bn), with China-related local currency bond funds accounting for about a third of those inflows.

EM Retail Bond Fund Flows: Summary

USD million	This wk	Last wk	Chg	4w avg	12w avg
EM Bonds	336	1,706	▼	1,166	2,363
Hard currency	-1,926	-174	▼	-301	802
Local currency	548	1,707	▼	971	1,160
Blend	1,714	173	▲	496	401
ETF	-939	458	▼	0	400
Non-ETF	1,275	1,248	-	1,166	1,963

Exhibit 4: Weekly EM retail bond fund flows
USD billion



Source: J.P.Morgan

China

Tighter liquidity conditions have raised concerns among investors, which was reflected in equity prices today (Shanghai -2.3%; Shenzhen -3.2%). The seven-day repo rate rose as much as +27 bps to 2.24%, the highest since February 23, while the overnight repo rate increased by +13 bps to 1.7%, after the central bank injected RMB10 bn (\$1.5 bn), matching the amount of maturing funds today. **On data releases, exports surged in the first two months of 2021, beating expectations.** Exports rose +60.6% y/y in dollar terms, which was well above consensus estimate of +40%, following growth of +18.1% y/y in December. The increase reflected the low base in 2020 and strong global demand for manufactured goods.

China's CSI 300 Index breaks through 100-day moving average



Source: Bloomberg

China's exports rebounded strongly from last year's lockdown

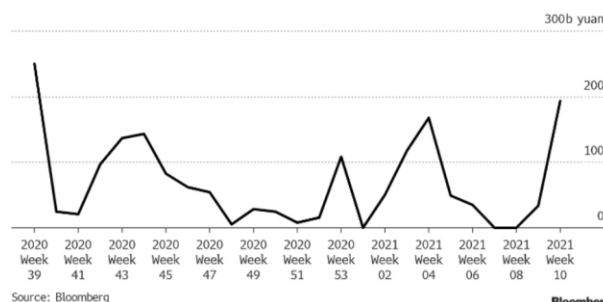


Source: China's General Administration of Customs

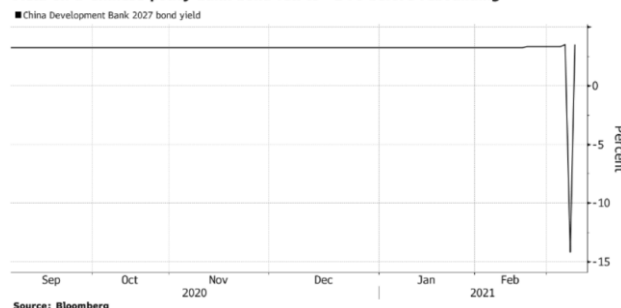
Bloomberg

Local Chinese authorities are set to issue the most bonds in more than five months this week, mainly for refinancing. Almost RMB193 bn (\$30 bn) of local government bonds are scheduled to be issued, according to Bloomberg. The sale follows an announcement by the authorities of a larger-than-expected RMB3.65 tn quota for special local government bonds during the opening of the National People's Congress last Friday. **Separately, three China Development Bank bond yields returned to positive territory on Monday following moves into negative territory last Friday.** The 2027 bond trading in Shenzhen exchange surged by more than 200% on Friday, sending the yield to -14% and was trading at a yield of +3.6% on Monday. The 2.99% bond due in 2025 and Shanghai-traded 3.23% note due in 2027 recovered to +3.69% and +3.29%, respectively. RMB1.1 mn worth of the three bonds changed hands, according to Bloomberg. The Shenzhen exchange restricted trading in the bonds for the next six months, while issuing an order to prevent retail investors from buying two of the bonds for now.

Weekly local government bond issuance expected to rise to highest since September



Yield on a Chinese policy bank bond fell to -14% before rebounding



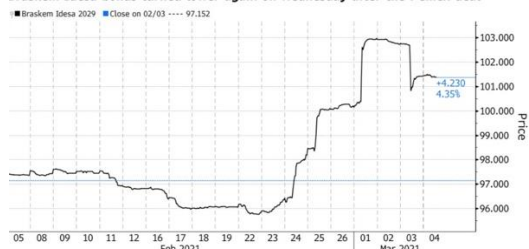
India

The Reserve Bank of India (RBI) will support the market with 'adequate liquidity at appropriate places when required', according to the Governor. Governor Shaktikanta Das said in an interview that the RBI is injecting liquidity at the longer-end of the yield curve, referring to the announced operation twist on March 10. The RBI plans to buy INR200 bn (\$2.73 bn) of long-end bonds and sell INR150 bn of shorter-maturity securities. Regarding the economy, he said that rising oil prices and commodities are uncertainties for India and a downside risk is the recent spike in COVID-19 cases in certain parts of the country. **The 10-year bond yield was little changed, Indian rupee weakened -0.2% and equities rose +0.2%.**

Mexico

According to Bloomberg, Braskem Idesa SAPI's \$900 mn bond maturing in 2029 extended a four-day decline on Friday, after the company lost a key battle with the Mexican government on the supply of ethane gas at discounted prices from state-run oil producer Pemex. The bond had been outperforming earlier this week on investor optimism that the company would be able to keep the discount. After the deal was announced on Wednesday, the bonds fell 1.3 cent on the dollar to 100.9 cents.

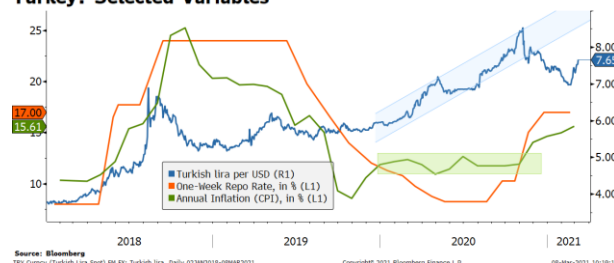
Dropping Again
Braskem Idesa bonds turned lower again on Wednesday after the Pemex deal



Turkey

The Turkish lira depreciated a further 1.6% on Monday and sovereign CDS spreads widened somewhat. Turkish financial assets continue to be under focus by global investors, following two weeks of lira depreciation. Five-year sovereign CDS spreads stood at 339 bps, adding 6 bps to their level on Friday.

Turkey: Selected Variables



Crude prices remain stable after a key Saudi oil production site was attacked on Sunday. Brent (-0.4%) and WTI (-0.3%) traded at \$69/barrel and \$66/barrel, respectively, this morning even after news broke out of yesterday's attack on the Ras Tanura facility. Reportedly, the attack has not affected production but is likely to raise geopolitical tensions in the region. Oil prices surged to over \$70/barrel briefly following the news but have since retraced most of the increase.

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Global Financial Indicators

Last updated: 3/8/21 8:23 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3832	1.9	-2	-2	29	2
Europe		3706	1.0	0	1	15	4
Japan		28743	-0.4	-3	-2	39	5
China		3421	-2.3	-4	-3	13	-1
Asia Ex Japan		94	1.1	0	-5	39	5
Emerging Markets		54	1.1	0	-4	34	4
Interest Rates			basis points				
US 10y Yield		1.58	1.8	17	41	82	67
Germany 10y Yield		-0.29	1.3	5	16	42	28
Japan 10y Yield		0.12	2.7	-3	5	24	10
UK 10y Yield		0.75	-0.2	-1	28	52	56
Credit Spreads			basis points				
US Investment Grade		98	1.0	8	9	-38	3
US High Yield		353	-0.3	4	0	-201	-27
Europe IG		50	-0.5	1	2	-55	2
Europe HY		256	-1.4	9	11	-209	13
Exchange Rates			%				
USD/Majors		92.30	0.3	1	1	-4	3
EUR/USD		1.19	-0.4	-1	-1	4	-3
USD/JPY		108.6	0.2	2	3	6	5
EM/USD		55.7	-0.7	-2	-3	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		69	-0.6	8	14	52	33
Industrials Metals (index)		142	-1.0	-3	4	37	7
Agriculture (index)		52	0.5	1	2	37	9
Implied Volatility			%				
VIX Index (% change in pp)		27.2	2.5	3.9	6.0	-14.7	4.5
US 10y Swaption Volatility		87.4	0.1	9.3	25.1	-47.3	27.2
Global FX Volatility		8.0	0.1	0.2	0.8	-0.5	0.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		123	-3.6	-11	2	-90	3
Italy		103	-3.0	3	7	-76	-9
Portugal		57	-1.9	2	7	-44	-3
Spain		67	-2.1	2	10	-25	6

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: 3/8/2021 8:28 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		6.52	-0.4	-0.9	-1	6	0		3.4	-0.4	-2	1	57	8
Indonesia		14360	-0.4	-0.7	-2	0	-2		6.8	14.9	11	58	11	69
India		73	-0.3	0.4	0	1	0		6.5	3.3	2	21	2	51
Philippines		49	0.0	0.0	-1	4	-1		3.5	-2.0	0	0	-60	-17
Thailand		31	-1.0	-1.9	-3	2	-3		2.0	7.9	19	58	83	67
Malaysia		4.11	-0.8	-1.3	-1	3	-2		3.1	10.1	12	45	35	59
Argentina		91	-0.2	-0.5	-3	-31	-7		43.3	26.1	177	-621	-443	-1284
Brazil		5.74	-1.0	-1.8	-7	-18	-9		7.1	-18.0	-18	74	134	152
Chile		741	-0.5	-2.5	-1	14	-4		3.2	5.5	8	44	-3	44
Colombia		3635	0.2	-0.7	-2	-3	-6		5.9	5.3	30	75	37	80
Mexico		21.55	-1.1	-4.1	-7	-4	-8		6.2	4.4	9	58	-27	60
Peru		3.7	-0.2	-1.1	-1	-6	-2		4.7	0.9	41	82	54	105
Uruguay		45	-0.5	-3.2	-5	-4	-5		7.0	0.6	0	-9	-332	-23
Hungary		309	-0.4	-2.4	-4	-5	-4		2.1	10.2	2	45	73	58
Poland		3.88	-0.7	-2.9	-4	-3	-4		0.9	2.0	2	28	-56	31
Romania		4.1	-0.5	-1.7	-2	2	-3		2.8	12.0	-7	56	-65	10
Russia		74.2	0.7	0.6	1	-9	0		6.4	10.4	-11	46	42	67
South Africa		15.5	-0.7	-3.0	-4	4	-5		10.1	15.0	26	64	58	42
Turkey		7.67	-1.8	-4.9	-8	-20	-3		14.3	29.1	73	100	322	115
US (DXY; 5y UST)		92	0.3	1.4	1	-4	3		0.83	2.9	13	35	22	47

	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		5080	-3.5	-6	-9	23	-3		199	0	-2	-9	30	-9
Indonesia		6248	-0.2	-1	1	14	5		158	0	-9	-25	-5	-29
India		50441	0.1	1	-2	34	6		159	4	11	4	-13	8
Philippines		6757	-1.8	-2	-4	0	-5		83	0	-9	-17	13	-22
Malaysia		1612	0.7	3	2	9	-1		113	0	-2	-3	9	3
Argentina		47242	-1.2	-2	-9	34	-8		1459	0	19	8	-570	91
Brazil		113206	2.2	3	-5	16	-5		253	0	0	-16	58	3
Chile		4706	0.3	1	5	11	13		126	0	-6	-16	-14	-18
Colombia		1345	0.6	-1	-3	-11	-6		207	0	-4	-15	44	2
Mexico		46343	0.7	4	5	12	5		348	0	-9	-34	55	-12
Peru		22550	0.1	0	3	23	8		133	0	-4	-3	22	1
Hungary		43396	0.3	-3	-2	5	3		65	0	-6	-15	-42	-31
Poland		57940	0.5	0	1	17	2		-22	0	-4	-11	-54	-21
Romania		10553	0.5	3	-1	12	8		201	8	-9	11	-31	-2
Russia		3414	0.0	2	-1	26	4		159	0	-5	-3	19	-7
South Africa		68107	-0.2	1	5	31	15		357	0	-4	-35	25	-23
Turkey		1532	-0.7	0	0	40	4		421	0	-5	-47	34	-24
Ukraine		517	0.0	-1	-1	-4	3		479	0	12	-21	127	-12
EM total		54	-1.0	0	-4	34	4		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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