GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MARCH 9, 2021

- **China equities drop further despite reported buying by state-backed entities** (link)
- **ECB keeps weekly QE purchases steady** (link)
- **Continued rise in Treasury yields may negatively impact HY bond market** (link)
- **Markets look for credit benchmark alternative to USD Libor** (link)
- **Indian equity and corporate bond mutual funds experience outflows in February** (link)
- **Soybean prices rise on concerns over tighter supply and rising demand** (link)

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Improved risk sentiment lifts markets

Risky assets are trading on the stronger side today following a weak showing over the past two trading sessions. After dropping by close to 11% since mid-February—including 2.4% yesterday—the tech-centric US Nasdaq index is up by 2.4% in early futures market trading this morning. The move seems to be driven by a renewed market focus on the strength of the US recovery, the large size of the upcoming fiscal stimulus package, as well as the apparent easing of investor concerns about rising inflationary pressure following yesterday's supportive comments by the US Treasury Secretary. European equities are also trading in positive territory today, while EM stocks are mixed. Chinese equities in particular came under pressure, despite reported heavy buying by state-backed entities. After rising initially, the Shanghai and Shenzhen indices closed down 1.8% and 2.8%, respectively. The US dollar also seems to be trading on the weaker side (-0.4% against other major currencies) after rallying by close to 3% over the past 7 trading sessions on the back of rising US yields. But the improving overall risk sentiment did not seem to weaken demand for safe havens, with the yield on 10-year Treasuries and Bunds rising by close to 5 bps today.

Key Global Financial Indicators

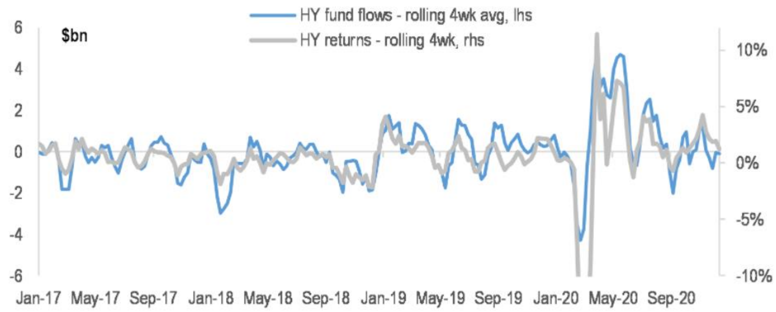
Last updated:	Level		Change from Market Close				
3/9/21 8:21 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3821	-0.5	-2	-2	39	2
Eurostoxx 50		3778	0.4	2	3	28	6
Nikkei 225		29028	1.0	-1	-2	47	6
MSCI EM		52	-2.7	-5	-8	40	1
Yields and Spreads					bps		
US 10y Yield		1.54	-5.2	15	38	100	63
Germany 10y Yield		-0.32	-4.7	3	12	53	25
EMBIG Sovereign Spread		370	9	19	29	-31	19
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		55.9	0.5	-2	-3	-2	-4
Dollar index, (+) = $ appreciation		92.0	-0.3	1	2	-3	2
Brent Crude Oil ($/barrel)		68.5	0.4	9	12	99	32
VIX Index (%, change in pp)		24.8	-0.7	1	3	-30	2

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

United States back to top

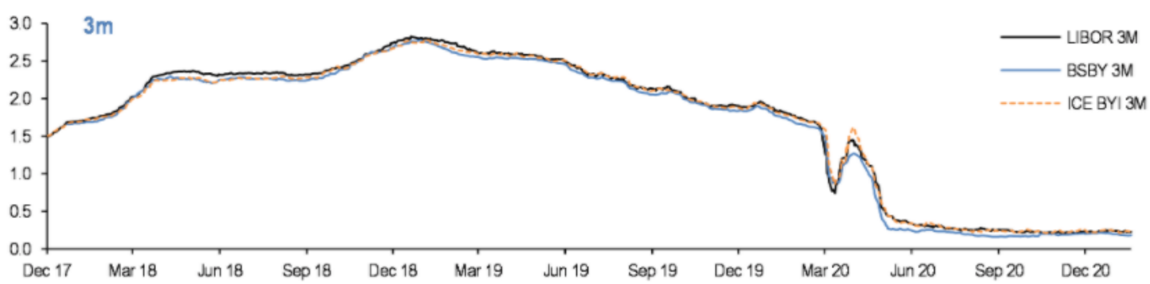
On Monday, the US equity market saw a pronounced rotation out of tech stocks and into shares of companies expected to outperform as the economy opens up, supported by the vaccine rollout and a large expected fiscal stimuli package. The NASDAQ-100 Tech Index lost 4.5%, while banking and other procyclical stocks outperformed. Overall, the S&P500 closed in slightly negative territory (-0.5%). Backed prospects of a strong US economic rebound, the US Dollar continued to appreciate against most other major and EM currencies.

According to analysts, the continued rise in US Treasury yields may negatively affect the HY bond markets. First, due to widespread callable options in HY cash bonds, these bonds have negative convexity (i.e., their duration increases as market yields increase). And as the duration of these bonds increases, their price mechanically drops more sharply in response to an increase in market yields. Second, due to relatively more limited market depth and liquidity, HY bonds have returns highly correlated with fund flows into this asset class (chart below). Therefore, any continued sell-off across the fixed-income universe will have a large price impact on these bonds. In contrast, the floating-rate nature of the US Leveraged Loan market make it more attractive to investor in rising rate regime, which should create a stronger demand for these products in the current environment.



Source: J.P. Morgan, Lipper.

Analysts are increasingly concerned that the elimination of Libor may lead to multiple replacement benchmarks, resulting in a somewhat bifurcated market. On Friday, the UK FCA announced that various USD Libor tenors will gradually cease to exist starting in the beginning of 2022 until mid-2023. The current default solution, SOFR (Secured Overnight Financing Rate) lacks a credit component and is therefore proving to be somewhat unsatisfactory to some banks and credit-focused investors. A range of alternative benchmarks are being considered, including ICE's Bank Yield Index (BYI) and Bloomberg's Short-Term Bank Yield Index (BSBY). While both indices are based on a large amount of transactional data on money market instruments and short-term corporate bonds, they still face the issue that bank funding in money markets remains extremely thin relative to the size of Libor exposures. So far, the test indices have shown a relatively close correlation to the USD Libor index (see chart below). However, since any new alternative benchmark will take time to fully launch and gain support in the market, analysts expect SOFR to remain the primary contender as the core replacement for the USD Libor rate in the near-term.



Europe back to top

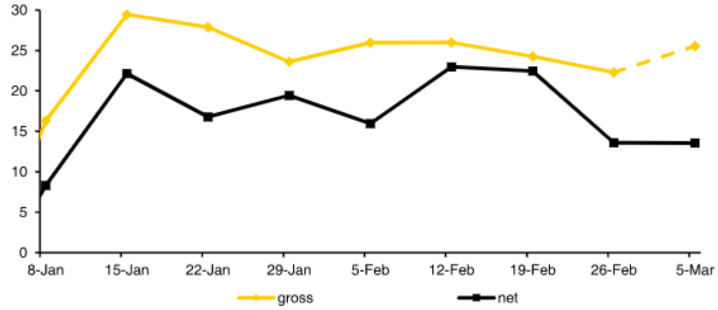
The euro (+0.5% to $1.19) gained in line with broader U.S. dollar weakness. Year-to-date, the euro has weakened 2.5% against the U.S. dollar even as traders maintained long positions in the euro in futures markets. Analysts point out that this positioning appears less extreme when calculated versus open interest.

Euro area: Positioning in EUR/USD in futures market

Source: CFTC and Morgan Stanley

Weekly ECB data shows combined QE purchases of €13.6 bn for the week ending 3 March, in line with the pace of previous week. The ECB clarified that weekly net purchase data are affected by seasonality factors and large redemptions. Large redemptions may lower the net purchases and temporarily delay the increase in asset purchases. **Commerzbank estimates that gross weekly purchases have been €29bn, which would still indicate a relatively modest increase.**

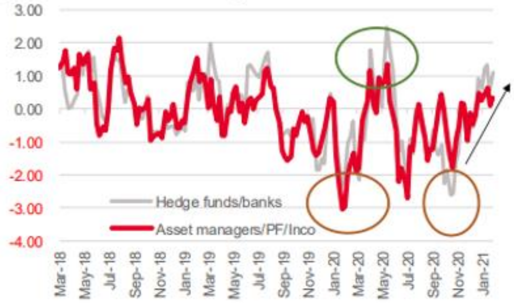
ECB: Net and gross purchases under the PSPP and PEPP programs (Last gross number includes Commerzbank's €12bn estimate, € bn)



Source: ECB and Commerzbank

Euro area 5y/5y inflation swaps have risen 7 bps to 1.42% in March, a level not seen since early 2019. Investor appetite for euro area inflation-linked bonds has also increased significantly in recent months.

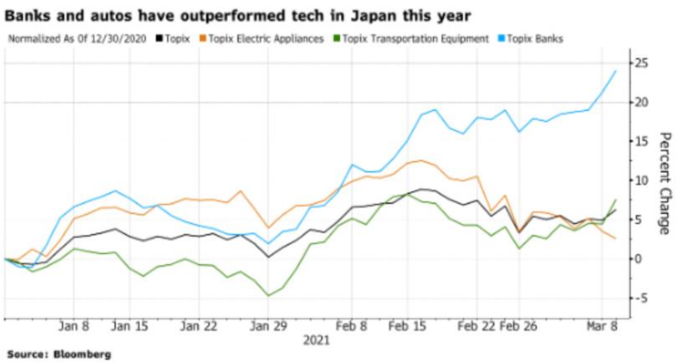
Euro area: Demand for euro area inflation-protected securities (Indicator from SocGen)



Other Mature Markets back to top

Japan

The Japanese government nominated Junko Nakagawa, Nomura's Asset Management Chief Executive Officer, for the Bank of Japan (BOJ)'s board. If approved, she would replace Takako Masai, whose term ends on June 29. She is the second nominee to the BOJ board this year and is seen as likely neutral on the board, according to Bloomberg. **On data releases, Q4 GDP expanded at annualized +11.7% q/q in Q420.** This was slightly weaker than the preliminary rate of +12.7% due to a larger drawdown in inventories. Equities rose 1.3% today, with gains in autos and banks outperforming electronics. 10-year JGB yield rose +1.1bps to +0.12% and the yen was little changed.



Emerging Markets back to top

In Latin America, stock markets had a mixed performance on Monday, with markets in Mexico rising by 1.6%, and those in Brazil and Argentina declining by about 4% and 2%, respectively. Local currencies were generally weaker against the US dollar. **In EMEA,** equities were mostly trading higher today, while currencies were recovering from yesterday's losses. **In Asia,** equities were broadly unchanged on net, with China being the biggest underperformer (Shanghai -1.8%; Shenzhen -2.8%). Korean 3Y notes climbed 10 bps to 1.23% as investors started to price in a rate hike. The Asian investment grade dollar bond spread widened around 3bps, the largest widening since April last year.

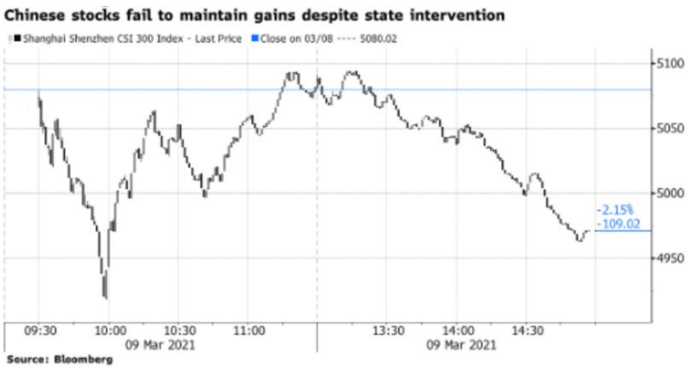
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
3/9/21 8:23 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		52.38	0.3	-5	-8	40	1
MSCI Frontier Equities		29.15	-0.6	-1	0	22	3
EMBIG Sovereign Spread (in bps)		370	9	19	29	-31	19
EM FX vs. USD		55.87	0.5	-2	-3	-2	-4
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.51	0.2	-1	-1	7	0
Indonesian Rupiah		14405	-0.3	-1	-3	0	-2
Indian Rupee		72.93	0.4	1	0	2	0
Argentine Peso		90.66	-0.1	-1	-3	-31	-7
Brazil Real		5.86	-0.7	-3	-8	-19	-11
Mexican Peso		21.36	0.6	-4	-6	-3	-7
Russian Ruble		74.01	0.3	0	0	-7	1
South African Rand		15.42	0.7	-3	-5	4	-5
Turkish Lira		7.66	1.4	-4	-8	-20	-3
EM FX volatility		10.67	0.0	0.3	0.8	0.0	-0.1

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

China

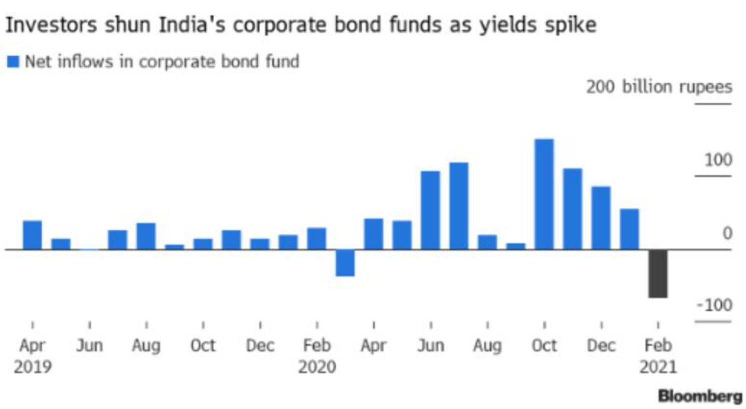
Chinese equity markets were under pressure today, despite reports of buying by state-backed entities. The Shanghai and Shenzhen indices dropped by 1.8% and 2.8%, respectively, today despite Bloomberg reports that state-backed funds had intervened through stock links with Hong Kong SAR to shore up the market in morning trading. Equities initially erased losses of more than 2.5%, before resuming their drop in the afternoon. Separately, t**he offshore RMB appreciated +0.4% while the onshore counterpart strengthened +0.1% after the central bank weakened the daily reference rate by 0.8%.** This was the most since July 2018 but in line with market expectations.



The People's Bank of China (PBOC) will step up efforts to curb financial risks. Deputy Governor Chen Yulu laid out the priorities for the next five years, mentioning that the central bank will improve its macro-prudential assessment framework and strengthen the supervision of 'systemically important' institutions, businesses and infrastructure, according to Bloomberg. On monetary policy, he noted that the PBOC will keep the growth of money supply and aggregate financing in line with the expansion in nominal GDP. The central bank will refrain from flooding the financial system with excess liquidity. The PBOC will also continue to open up the financial sector including the capital account and promote the use of the RMB internationally.

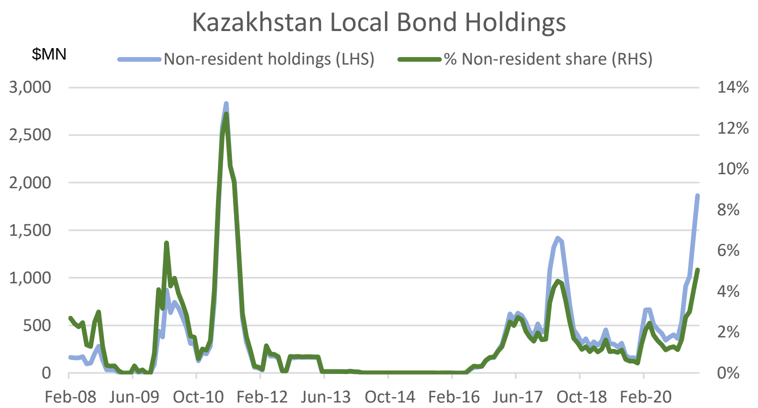
India

Indian equity and corporate bond mutual funds saw outflows in February. Investors withdrew INR172.2 bn ($2.5 bn) from these funds, according to Bloomberg. Corporate bonds experienced the largest outflow in almost two years, with investors withdrawing INR67.5 bn in February. Equity funds saw net withdrawals of INR104.7 bn, the eighth straight outflow and the largest since November.



Kazakhstan

National Bank of Kazakhstan maintained its policy rate unchanged at 9% while maintaining a hawkish stance amid accelerating inflation. Contacts noted the **strong pick-up in client interest for Kazakhstan local government securities with inflows above $400mn in both January and February.** Non-resident holdings of Kazakh bonds have reached their highest level in a decade (see chart below). During this period, investors also boosted their holdings of central bank bills by $500mn to $1.3bn, or 15% of outstanding debt. The positive risk sentiment is supported by the recent oil price dynamics and by the attractive spreads over Russian government bonds (400 bps) at what is perceived to be lower geopolitical risk. The Kazakhstan tenge has remained stable amid overall EM volatility.



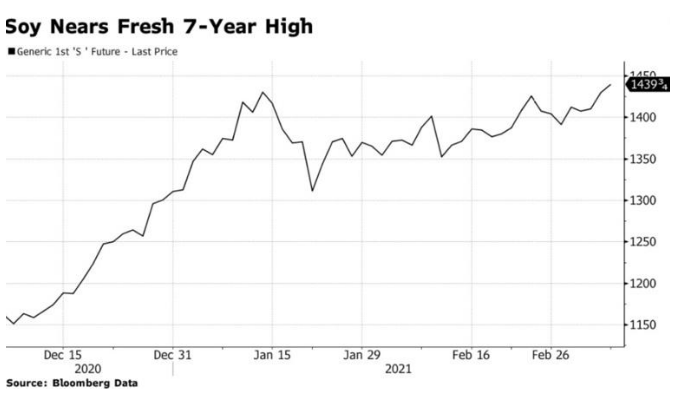
Source: Kazakhstan Central Depository, IMF

Ghana

The government began consultations for its $5bn international markets funding program. According to press reports, the program will look at international bond issuance as well as boosting inflows into local bond markets. **Non-resident investors bought $700mn of local government bonds in January**, increasing total holdings to $5.7bn or 21% of outstanding debt. Contacts also noted strong foreign interest in recent government bond auctions in February, despite broader EM turbulence. The Ghana cedi has been the top performer among African currencies lately, appreciating 2.3% since the start of the year.

Commodities

Soybean prices climb further amid concerns over tighter supply and rising demand. According to Bloomberg, adverse weather conditions in South America helped lift soybean futures to their highest level since 2014, amid market concerns over harvest delays and crop quality. Rainfall is projected over the next two weeks in Brazil—the world's top oilseed producer—while harmful dryness is expected in Argentina. As the supply outlook tightens, China's robust demand for soy and grains is expected to continue. Soybean prices for May delivery rose by as much as 2.1% to $14.60 a bushel on the Chicago Board of Trade, and soybean oil futures climbed to an eight-year high.



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Global Financial Indicators

Last updated: 3/9/21 8:22 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3849	-0.5	-1	-2	40	2
Europe		3778	0.4	2	3	28	6
Japan		29028	1.0	-1	-2	47	6
China		3359	-1.8	-4	-7	14	-3
Asia Ex Japan		92	-3.0	-6	-8	41	2
Emerging Markets		52	-2.7	-5	-8	40	1
Interest Rates					basis points		
US 10y Yield		1.54	-5.2	15	38	100	63
Germany 10y Yield		-0.33	-4.8	3	12	53	24
Japan 10y Yield		0.13	0.4	0	5	29	11
UK 10y Yield		0.71	-4.1	3	25	55	52
Credit Spreads					basis points		
US Investment Grade		102	1.0	11	13	-54	7
US High Yield		361	3.7	12	10	-272	-18
Europe IG		49	-0.5	1	1	-56	1
Europe HY		255	-2.1	7	8	-210	13
Exchange Rates					%		
USD/Majors		92.05	-0.3	1	2	-3	2
EUR/USD		1.19	0.3	-2	-2	4	-3
USD/JPY		108.9	0.0	2	4	6	6
EM/USD		55.9	0.5	-2	-3	-2	-4
Commodities					%		
Brent Crude Oil ($/barrel)		68	0.4	9	12	99	32
Industrials Metals (index)		141	-1.8	-6	2	37	6
Agriculture (index)		52	-0.2	0	1	39	8
Implied Volatility					%		
VIX Index (%, change in pp)		24.8	-0.7	0.7	3.2	-29.7	2.0
US 10y Swaption Volatility		87.1	-3.2	21.0	26.0	-47.5	27.0
Global FX Volatility		8.1	0.0	0.3	0.9	-3.0	0.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		122	-0.2	-13	0	-149	3
Italy		101	-2.3	-2	5	-127	-10
Portugal		57	-0.4	0	6	-67	-3
Spain		67	-0.5	0	9	-45	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: 3/9/2021 8:24 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		6.51	0.2	-0.7	-1	7	0		3.4	-0.5	-2	0	59	7
Indonesia		14405	-0.3	-0.6	-3	0	-2		6.9	12.9	26	66	-5	82
India		73	0.4	0.6	0	2	0		6.5	1.1	4	21	7	52
Philippines		48	0.2	0.2	-1	4	-1		3.5	3.7	4	4	-58	-13
Thailand		31	0.1	-1.6	-3	2	-3		2.1	7.4	25	62	95	74
Malaysia		4.12	-0.3	-1.5	-2	2	-2		3.2	8.4	23	50	45	67
Argentina		91	-0.1	-0.5	-3	-31	-7		43.4	9.0	160	-590	-441	-1275
Brazil		5.86	-0.7	-3.3	-8	-19	-11		7.3	24.9	-6	95	157	176
Chile		733	0.2	-0.2	0	15	-3		3.2	-0.1	16	43	-3	44
Colombia		3615	0.6	0.0	-1	5	-5		6.0	11.0	44	83	37	91
Mexico		21.36	0.6	-3.5	-6	-3	-7		6.2	-2.8	15	48	-29	57
Peru		3.7	-0.3	-1.2	-2	-5	-2		4.8	11.9	51	94	69	117
Uruguay		45	-0.2	-2.8	-5	-4	-5		7.0	-0.6	0	-9	-332	-23
Hungary		309	0.5	-2.4	-4	-5	-4		2.2	6.7	17	51	83	65
Poland		3.86	0.5	-2.7	-4	-2	-3		0.9	-0.7	7	28	-53	30
Romania		4.1	0.3	-1.9	-2	2	-3		2.8	-8.0	2	49	-79	2
Russia		74.0	0.3	-0.3	0	-7	1		6.4	0.0	-7	48	13	67
South Africa		15.4	0.7	-3.1	-5	4	-5		10.3	19.2	52	81	69	61
Turkey		7.66	1.4	-3.9	-8	-20	-3		14.5	21.3	102	112	322	136
US (DXY; 5y UST)		92	-0.3	1.4	2	-3	2		0.82	-3.6	16	34	34	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		4971	-2.1	-7	-13	24	-5		199	0	-2	-9	30	-9
Indonesia		6200	-0.8	-3	0	21	4		158	0	-9	-25	-5	-29
India		51025	1.2	1	-1	43	7		163	4	13	7	-15	12
Philippines		6767	0.1	-2	-4	7	-5		83	0	-9	-17	13	-22
Malaysia		1625	0.8	3	2	14	0		113	0	-2	-3	9	3
Argentina		46292	-2.0	-6	-11	52	-10		1459	0	19	8	-570	91
Brazil		110761	-4.0	-1	-7	29	-7		253	0	0	-16	58	3
Chile		4734	0.0	0	4	17	13		126	0	-6	-16	-14	-18
Colombia		1337	-0.6	-1	-3	-1	-7		207	0	-4	-15	44	2
Mexico		47075	1.6	5	5	22	7		348	0	-9	-34	55	-12
Peru		22565	0.1	-1	1	30	8		133	0	-4	-3	22	1
Hungary		43450	-0.2	-2	-2	14	3		65	0	-6	-15	-42	-31
Poland		58998	1.1	1	3	29	3		-22	0	-4	-11	-54	-21
Romania		10583	0.2	4	-1	21	8		205	4	1	13	-55	2
Russia		3479	1.9	3	1	28	6		159	0	-5	-3	19	-7
South Africa		68876	0.7	1	6	41	16		357	0	-4	-35	25	-23
Turkey		1545	0.9	1	0	49	5		421	0	-5	-47	34	-24
Ukraine		517	0.0	-1	-1	-4	3		479	0	12	-21	127	-12
EM total		52	0.3	-5	-8	40	1		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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