- **US, euro area 5-yr/5-yr inflation swaps rise to multi-year highs** (link)
- **Germany issues inaugural 30-yr green bund** (link)
- **China records slowest population growth since 1950s** (link)
- **US retail investors' share in stock trading declines** (link)
- **Chinese producer price inflation exceeds expectations** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Inflation worries drive global tech stock rout

Rising inflation anxiety has driven a sell-off in tech stocks and is weighing on risk sentiment more broadly. Inflation concerns continue to grip markets. Long-dated inflation swaps and breakevens in the US and euro area rose were up as much 8 bps intra-day yesterday despite a lack of new fundamental drivers, closin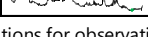g at new highs since 2018. Overnight, Chinese producer price inflation came out above expectations at 6.8% yoy, heightening focus on the US CPI numbers due tomorrow. Price pressure anxiety has been weighing on tech and growth stocks around the globe in recent months but yesterday this dynamic burst open, sending the tech-heavy Nasdaq stock index down 2.6% in US trading and another 1.6% in the overnight session, triggering a retreat across other stocks and commodities. In other news, the increase in oil and gas futures prices from the US pipeline cyberattack has been relatively contained as service is expected to resume by the end of the week. Benchmark government bonds are little changed in the US but about 4 bps higher in Germany.

Key Global Financial Indicators

| Last updated: 5/11/21 8:13 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4188	-1.0	0	1	43	12
Eurostoxx 50		3935	-2.2	0	-1	36	11
Nikkei 225		28609	-3.1	-2	-3	40	4
MSCI EM		54	-1.8	-1	0	47	4
Yields and Spreads			bps				
US 10y Yield		1.61	0.6	2	-5	90	69
Germany 10y Yield		-0.17	4.3	7	13	34	40
EMBIG Sovereign Spread		331	-4	-10	-17	-253	-20
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.9	0.3	2	3	10	0
Dollar index, (+) = $ appreciation		90.1	-0.1	-1	-2	-10	0
Brent Crude Oil ($/barrel)		67.4	-1.3	-2	7	128	30
VIX Index (%, change in pp)		21.7	2.1	2	5	-6	-1

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

United States   back to top

The 5-year, 5-year forward inflation swap rose 3bps to close at above 2.5%, the highest since January 2018. Inflation swaps are based on the CPI measure, which tracks roughly 0.5% higher than the core PCE deflator measure, the Fed's preferred inflation target. This means a 2.5% inflation swap would be roughly compatible with a 2% PCE deflator if there were no inflation risk premium. US Treasury 10-year yields rose 2bps on the day. Analysts expect the CPI inflation report Wednesday to show a sharp increase in inflation (3.6% yoy) as base effects will distort the number. A dovish comment by Fed Evans may have played a role in the increase in inflation swaps saying, "Fed has room to overshoot inflation target." US equities were lower on the back of higher expected inflation. The S&P 500 fell by -1%, and VIX rose to 19.2.

Intraday Moves
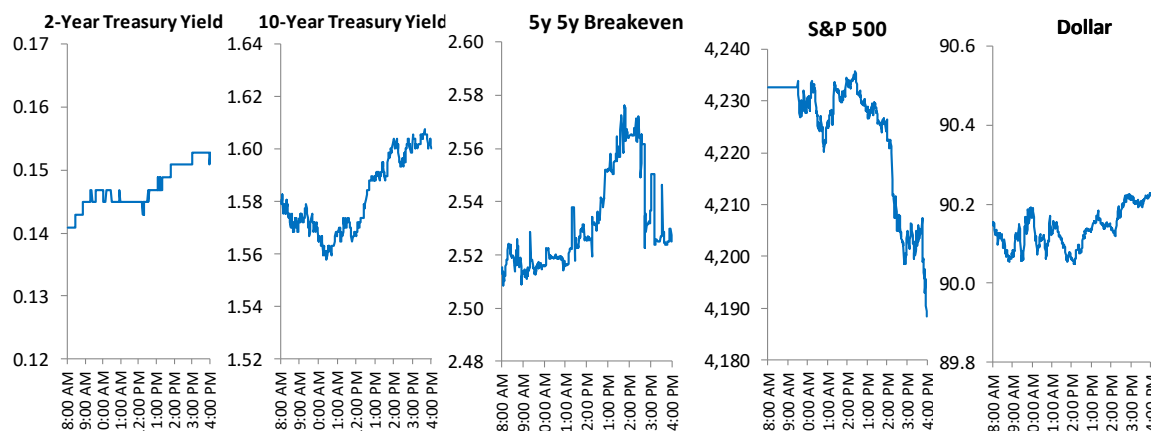
Source: Bloomberg

Retail investors' share in stock trading has declined. According to JP Morgan, the share of retail in overall trading activity reached a record high of 28% in December 2020, but fell to 18% in March this year. Similarly, small traders' option flows for exchange-traded individual equity options, a metric of retail investors' willingness to buy call options, also subsided significantly in February and March this year. Analysts see the decline as somewhat puzzling given the third round of stimulus checks in March, which some saw as likely to boost trading, at least for younger cohorts.

Figure 2: Destination Retail Flow Routed to OTC Venues as % of total US equity trading volume
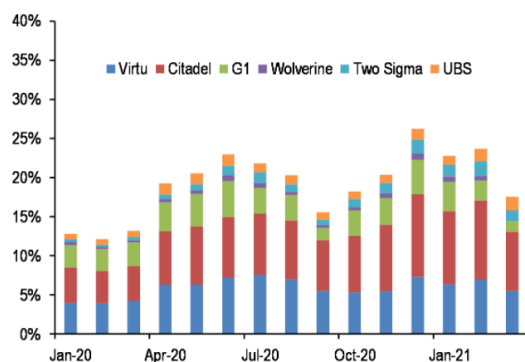
Source: Company filing - SEC 606 disclosure, J.P. Morgan.

The market saw the first-ever BSBY (Bloomberg Short Term Bank Yield Index) swap traded last Friday. The trade was a 1-year maturity basis swap versus SOFR, Secured Overnight Financing Rate. Analysts believe this could prove to be a significant turning point as the transition towards SOFR from Libor remains at a fragile stage. The deadline for the origination of new Libor products is the end of 2021.

Europe   back to top

Euro area sovereign rates are 4 bps higher with the 10-yr bund yield rising to -0.17% as contacts believe that **the recent increase in market-based measures of inflation expectations will make it more likely that the ECB will reduce the monthly pace of its QE purchases** at its meeting on 4 June. **Southern European spreads were little changed.**
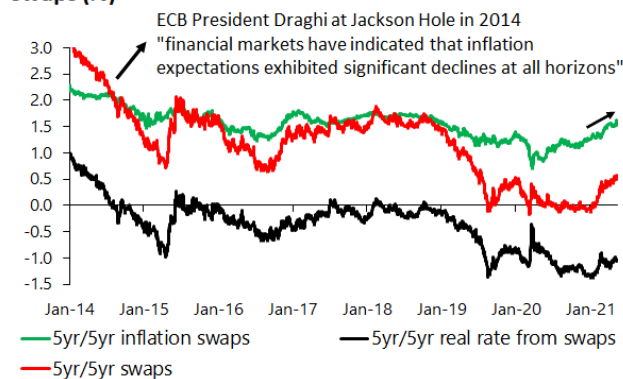
Euro area equities (-2%) sold off, with bank stocks 1% lower. The euro (+0.2%) ticked higher.

The euro area's 5-yr/5-yr inflation swap rate rose 3 bps to 1.60%, a level not seen since 2018. Contacts argue that external factors such as an unexpectedly sharp rise in Chinese produce prices in April and concerns about an upside surprise in tomorrow's release of U.S. inflation, have also contributed to the willingness of investors to position for higher swap inflation rates in the euro area.
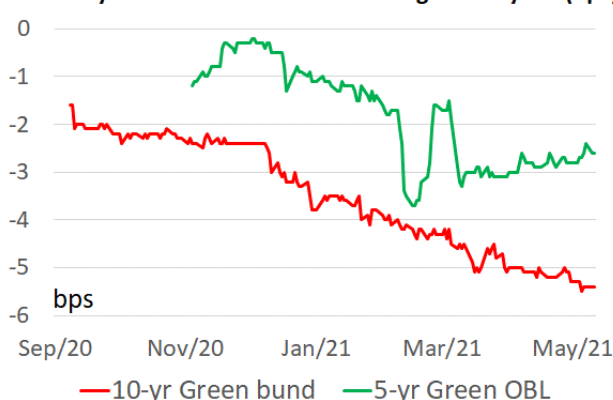
Supply of an inaugural 30-yr green bund may have also added to some upward pressure on core yields. Analysts expect the new green bund to meet with strong demand and is likely to trade at a premium compared to similar "brown bunds". A green premium ("greenium") has persisted for green bonds issued by the German government, meaning that yields on green bunds trade below yields on similar brown bunds. Twin bonds share the same issuance, timeframe and co-exist in the secondary market. Issuance of brown bunds will remain significantly larger than for its green twin.

The ECB added €16 bn to its PEPP QE program last week, down from €19 bn the week before. Weekly redemption flows can distort weekly QE purchases. Analysts expect the ECB to buy at a monthly QE target rate of about €80-85 bn per month, with a reduction likely in Q3.

Euro area: 5yr/5yr inflation and 5yr/5yr interest rate swaps (%)

ECB President Draghi at Jackson Hole in 2014 "financial markets have indicated that inflation expectations exhibited significant declines at all horizons"

— 5yr/5yr inflation swaps   — 5yr/5yr real rate from swaps
— 5yr/5yr swaps

Source: Bloomberg and IMF staff

Germany: Green minus brown sovereign bond yield (bps)

— 10-yr Green bund   — 5-yr Green OBL

Source: Bloomberg and IMF

Other Mature Markets   back to top

Japan

Equities declined on broad-based loses (Topix -2.4%, Nikkei -3.1%). Regional Japanese banks are considering mergers to cope with weaker long-term growth prospects. Aomori Bank Ltd. and smaller rival Michinoku Bank Ltd. said they are considering a merger in separate statements, according to Bloomberg. The banks have combined assets of about ¥6 tn yen ($55 bn) and have a loan market share of about 70% in Aomori prefecture and their deal would be the first after the government enacted a law making regional banks exempt from anti-monopoly rules. Separately, **household spending rose 6.2% y/y in March.** The trend reversed from -6.6% in February, driven by increased spending on personal computers, televisions, and entertainment, according to Bloomberg. **The yen and 10-year JGB were little changed.**

Nikkei 225 set for worst drop since late February as tech slides

Source: Nikkei, Bloomberg
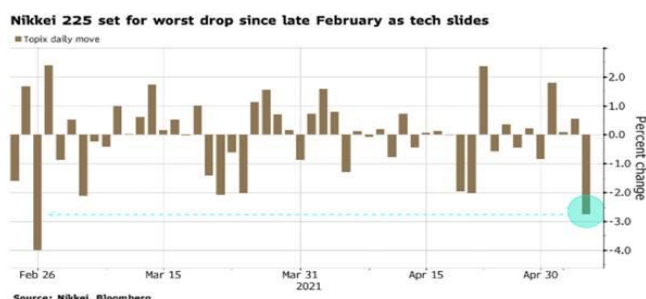
Emerging Markets   back to top

Asian equities tumbled -1.7% on tech-driven sell-off. Taiwan Province of China (-3.8%) underperformed and dropped the most since August, weighed down by Taiwan Semiconductor, while Hong Kong SAR (-2%) saw a sharp decline. China (both Shanghai and Shenzhen +0.4%) and Philippines (+0.2%) rose, bucking the regional trend. **Regional currencies weakened dragged by the Korean won (-0.5%).** Malaysia and Philippines real GDP improved on y/y terms in Q1 versus Q4. Malaysia's GDP shrank by -0.5% y/y in Q1 versus a contraction of -3.4% y/y in Q4, while Philippines GDP dropped by -4.2% y/y from -8.3% y/y over the same period. Separately, Sri Lanka has inked a deal on May 10 to borrow $500 mn from the Export Import Bank of Korea (KEximbank) for the period of 2020-2022. KEximbank will provide loans of up to 40-year payback with 10-year grace, with interest rates at 0.15% - 0.2%.

Eastern and Central European equities slipped close to 1 percent following peers in advanced Europe. Stocks dropped the most in Russia (-1.4%), Hungary (-1.1%), Poland (-1.1%), and the Czech Republic (-0.9%). Equities in Africa and the Middle East, on the other hand, gained about 0.1% to 0.4%, led by Saudi Arabia (+0.9%). Currencies across the region gained to the US dollar by around 0.3% to 0.6%.

Yesterday, Latin American equities performed relatively well on hopes of rising global demand for commodities and hence a stronger domestic growth outlook, despite the declines in US markets. Brazilian stocks edged slightly lower, Mexican stocks rose 1.3%, and most other regional equities gained. Most regional currencies finished the session with small or positive changes, influenced by commodity prices throughout the day and expectations of increased demand for metals. Long-term interest rates rose 4 bps in both Brazil and Mexico.

Key Emerging Market Financial Indicators

| Last updated:	Level		Change				
5/11/21 8:13 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.71	-1.5	-1	0	47	4
MSCI Frontier Equities		31.60	0.7	2	4	41	11
EMBIG Sovereign Spread (in bps)		331	-4	-10	-17	-253	-20
EM FX vs. USD		57.88	0.3	2	3	10	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.42	-0.1	1	2	10	2
Indonesian Rupiah		14198	0.0	2	3	5	-1
Indian Rupee		73.34	0.0	1	2	3	0
Argentine Peso		93.92	-0.1	0	-1	-28	-10
Brazil Real		5.22	0.2	4	10	11	-1
Mexican Peso		19.83	0.6	2	2	20	0
Russian Ruble		73.94	0.5	1	5	0	0
South African Rand		13.96	0.6	4	4	32	5
Turkish Lira		8.28	-0.1	1	-2	-15	-10
EM FX volatility		9.35	0.0	-0.3	-1.2	-2.4	-1.4

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

China

China's foreign bond flows returned in April following March's decline. Foreigners added RMB52 bn ($8.1 bn) to their holdings in April, bringing the total to a record RMB2.1 tn, according to Bloomberg. Foreign investors have been attracted to Chinese bonds due to its high nominal and real yields and diversification due to low correlation to global rates. **Separately, China's producer prices surged while consumer prices were more subdued in April.** The producer price index rose by 6.8% y/y, the fastest pace since October 2017, driven by commodity price increases, while consumer prices meanwhile accelerated to 0.9% y/y from 0.4% in March. China aims to keep consumer price inflation at around 3% this year, but vice head of the National Bureau of Statistics (NBS), Sheng Laiyun, said in a recent interview that it is likely to be significantly lower. **China recorded its slowest population growth since the 1950s.** There were 1.41 bn people in China last year, according to the NBS in its once-a-decade census report, slightly lower than a 2017 forecast of 1.42 bn. The annual average growth of 0.53% in the past decade was the slowest since 1953. The census also showed that the share of the working-age population (those between ages of 15 and 59) dropped to 63% (894 mn people) in 2020 from more than 70% (940 mn) a decade ago. The share of urban residents increased to 64% last year, an increase from just below 50% in 2010, which puts China on track to meet the target of 65% of urban residents of the population by 2025. **Equities (both Shanghai and Shenzhen +0.4%) rose while the RMB was little changed.**
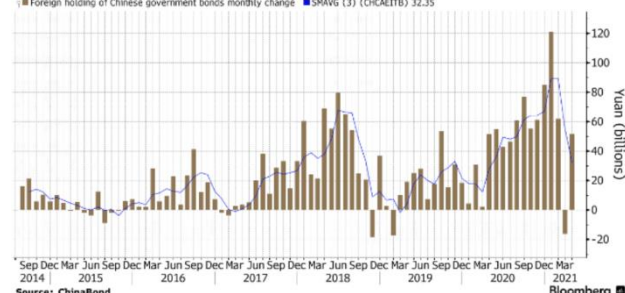
Poland

Most Polish banks have posted gains recently as a decision from the Supreme Court on CHF mortgages is expected this week. The Court is expected to issue a pronouncement relating to the legal status of the $31 bn-worth of mortgages denominated in Swiss France held by around 430,000 households. The expected ruling will hopefully streamline the resolution of the disputes. MBank and Bank Millenium posted daily gains of over 5%, whereas PKO shares dropped 6.7% after its CEO unexpectedly resigned today.

Poland: Broad and Bank Equity Indices
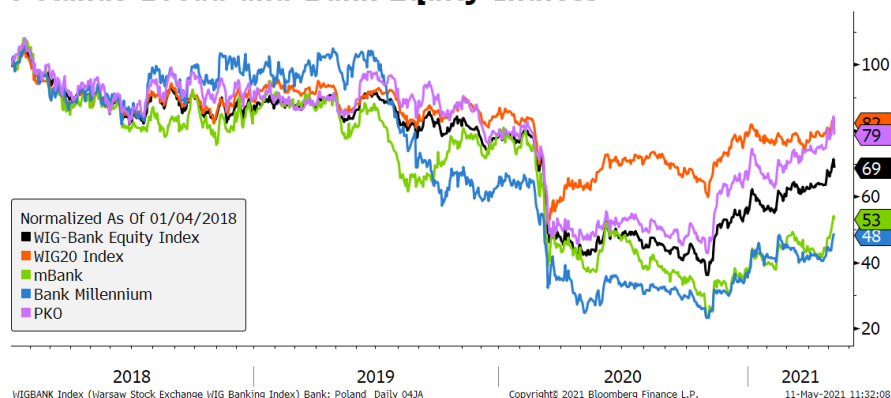
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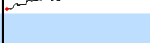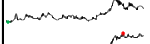
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Global Financial Indicators

Last updated: 5/11/21 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4161	-1.0	0	1	42	11
Europe		3937	-2.1	0	-1	37	11
Japan		28609	-3.1	-2	-3	40	4
China		3442	0.4	-1	1	19	-1
Asia Ex Japan		92	-1.8	-1	-1	44	3
Emerging Markets		54	-1.8	-1	0	47	4
Interest Rates			basis points				
US 10y Yield		1.61	0.6	2	-5	90	69
Germany 10y Yield		-0.17	4.4	7	14	34	40
Japan 10y Yield		0.08	-0.9	-2	-3	6	6
UK 10y Yield		0.83	3.7	3	5	56	63
Credit Spreads			basis points				
US Investment Grade		94	0.7	2	5	-115	-1
US High Yield		334	1.0	4	5	-419	-46
Europe IG		51	1.3	1	0	-33	3
Europe HY		257	5.8	2	8	-250	14
Exchange Rates			%				
USD/Majors		90.09	-0.1	-1	-2	-10	0
EUR/USD		1.22	0.3	1	2	13	0
USD/JPY		108.6	-0.2	-1	-1	1	5
EM/USD		57.9	0.3	2	3	10	0
Commodities			%				
Brent Crude Oil ($/barrel)		67	-1.3	-2	7	128	30
Industrials Metals (index)		164	1.2	4	13	69	23
Agriculture (index)		61	0.6	3	18	74	26
Implied Volatility			%				
VIX Index (%, change in pp)		21.6	1.9	2.1	4.9	-6.0	-1.2
US 10y Swaption Volatility		70.1	0.1	-3.5	-7.5	2.2	9.9
Global FX Volatility		7.2	0.0	0.0	-0.4	-1.9	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		118	-1.5	-6	1	-150	-2
Italy		116	1.8	6	13	-123	5
Portugal		70	0.0	2	12	-75	10
Spain		67	-0.5	1	-1	-65	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: 5/11/2021 8:13 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		6.42	-0.1	0.8	2	10	2		3.2	-0.9	-3	-10	72	-6
Indonesia		14198	0.0	1.6	3	5	-1		6.4	-3.0	-9	-7	-170	35
India		73	0.0	0.7	2	3	0		6.3	0.0	-1	-5	17	34
Philippines		48	0.1	0.5	2	5	0		4.2	-0.8	4	35	-42	56
Thailand		31	0.0	0.3	1	4	-4		1.8	-0.5	-4	-8	50	51
Malaysia		4.12	-0.3	0.1	0	5	-2		3.3	0.8	0	7	49	70
Argentina		94	-0.1	-0.3	-1	-28	-10		46.1	-24.9	-29	40	327	-1003
Brazil		5.22	0.2	4.3	10	11	-1		8.2	3.5	20	-10	241	263
Chile		695	0.0	1.3	2	19	2		3.6	-0.9	-12	19	85	80
Colombia		3708	1.5	2.6	-1	5	-8		6.9	14.6	18	72	124	186
Mexico		19.83	0.6	1.9	2	20	0		6.7	4.1	-10	16	65	111
Peru		3.7	2.2	2.5	-3	-8	-3		4.9	-15.3	-43	17	42	125
Uruguay		44	-0.3	-0.2	0	0	-4		7.4	-2.2	-5	-6	-407	11
Hungary		294	0.2	1.8	2	10	1		2.0	0.0	-1	-12	24	46
Poland		3.74	0.5	1.4	2	13	0		1.0	3.1	1	11	-8	39
Romania		4.0	0.3	1.3	2	10	-2		2.6	0.0	-1	-3	-148	-14
Russia		73.9	0.5	1.1	5	0	0		6.7	0.0	-6	-29	101	99
South Africa		14.0	0.6	3.7	4	32	5		9.8	-4.4	-17	-23	-17	16
Turkey		8.28	-0.1	0.5	-2	-15	-10		17.5	2.6	-24	-37	570	439
US (DXY; 5y UST)		90	-0.1	-1.3	-2	-10	0		0.79	0.5	-3	-7	44	43

	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		5023	0.6	-3	2	27	-4		199	0	-2	-9	30	-9
Indonesia		5938	-0.6	0	0	29	-1		158	0	-9	-25	-5	-29
India		49162	-0.7	2	3	57	3		164	-2	5	3	-162	13
Philippines		6327	0.1	-1	-3	12	-11		83	0	-9	-17	13	-22
Malaysia		1578	-0.4	-1	-2	14	-3		113	0	-2	-3	9	3
Argentina		51750	0.0	6	6	34	1		1459	0	19	8	-570	91
Brazil		121909	0.0	2	4	54	2		253	0	0	-16	58	3
Chile		4595	0.0	-1	-7	21	10		126	0	-6	-16	-14	-18
Colombia		1312	0.0	8	-1	19	-9		207	0	-4	-15	44	2
Mexico		49867	0.0	3	5	33	13		348	0	-9	-34	55	-12
Peru		20958	0.0	7	-3	37	1		133	0	-4	-3	22	1
Hungary		43985	-1.4	0	0	26	5		65	0	-6	-15	-42	-31
Poland		62286	-0.8	4	5	39	9		-22	0	-4	-11	-54	-21
Romania		11661	-0.1	2	4	39	19		180	-2	-6	-4	-164	-23
Russia		3648	-1.3	2	5	38	11		159	0	-5	-3	19	-7
South Africa		67414	-1.4	2	0	34	13		357	0	-4	-35	25	-23
Turkey		1449	-0.8	2	4	48	-2		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	0	5	6		479	0	12	-21	127	-12
EM total		54	-1.5	-1	0	47	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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