












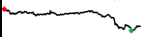

- **US house proposes a new \$3 tn stimulus bill** ([link](#))
- **Fed begins corporate bond ETF purchases** ([link](#))
- **Fallen angel risk on the rise in US bond markets** ([link](#))
- **New Zealand opens door to negative rates** ([link](#))
- **India's stimulus package grows to 10% of GDP** ([link](#))

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## Waiting for Powell

**Most global markets were lower following Tuesday's US stock selloff but US equity futures were up this morning, pointing to a positive opening.** Fed Chair Powell is about to make an important policy speech amidst speculation about negative policy rates and pessimistic rhetoric about the economy from other Fed officials. Earlier in the week President Trump endorsed the "gift" of negative rates but several Fed speakers pushed back on the idea. There is also talk about yield curve control policies similar to the BOJ, where the central bank targets a particular yield level for benchmark government bonds. New Zealand has opened the door to negative rates while almost doubling its QE program. China is sealing off cities in Jilin province bordering North Korea due to contain a new virus outbreak while Russia announced 10K new cases. Saudi Aramco reported that its earnings in Q1 were down by 25% and the CEO warned that weak oil demand and low oil prices are likely to put more pressure on earnings.

Key Global Financial Indicators

Last updated: 5/13/20 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		2870	-2.1	0	4	2	-11
Eurostoxx 50		2849	-1.2	0	-2	-14	-24
Nikkei 225		20267	-0.5	3	6	-4	-14
MSCI EM		36	-0.4	2	3	-10	-19
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.67	0.2	-4	-10	-173	-125
Germany 10y Yield		-0.53	-2.4	-2	-18	-46	-34
EMBIG Sovereign Spread		574	1	-20	-17	210	281
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		53.0	0.3	1	-2	-14	-14
Dollar index, (+) = \$ appreciation		99.7	-0.2	0	0	2	3
Brent Crude Oil (\$/barrel)		30.3	0.9	2	-5	-57	-54
VIX Index (% change in pp)		31.3	-1.8	-3	-10	11	17

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

## United States

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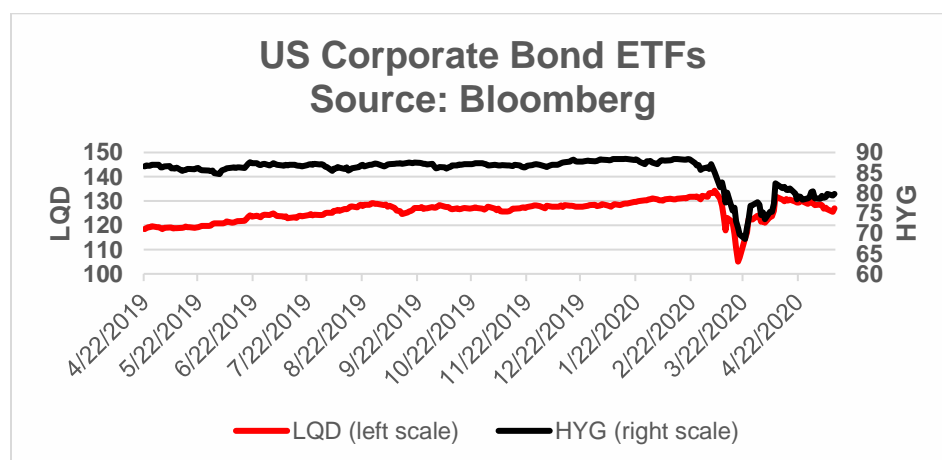
**PPI in April was much weaker than expected (-1.3 % vs. -0.5%).** Core CPI was also weaker -0.3% (vs. -0.1%). Treasuries rallied on the news and the dollar was weaker.

### Tuesday was a risk-off day as negative news stories about the COVID-19 crisis dominated the wires.

Stocks took heavy losses and the Nasdaq not only failed to deliver its seventh consecutive day of gains but gave up most of its gains for the year. Treasuries caught a strong bid, pushing yields lower, and the \$32 bn 10-year note auction met strong demand, closing below the “when issued” (WI) yield that prevailed just before the auction closed. A top US health official warned in Senate testimony that reopening the economy too quickly “could even set you back on the road to economic recovery” and “almost turn the clock back.” He also noted that US death counts are probably higher than what is currently being reported. St. Louis Fed President Bullard warned of business failures “on a grand scale” and the possibility of a depression if the shutdown is continued. Minneapolis Fed President Kashkari spoke of “gradual, muted recovery” and Dallas Fed President Kaplan said that more economic stimulus will be required if unemployment keeps going higher.

**The US House of Representatives proposed a \$3 tn stimulus bill to be voted on this Friday.** The bill allocates nearly \$1 tn to state and local governments, extends the weekly \$600 unemployment supplement into January, continues the \$1200 monthly check to individuals and \$1200 per child up to \$6,000 per household, and provide \$200 bn in hazard pay for essential workers. The bill also provides funds for contact tracing, virus tests and voting by mail, among other items. Few expect the Senate to assent to the bill in its current form, but the package is intended as an “opening bid” in the upcoming negotiations between the two political parties, according to Bloomberg. Senate Republicans are more focused on indemnifying companies from employee lawsuits in case workers get sick after returning to work. No new deal is expected before June.

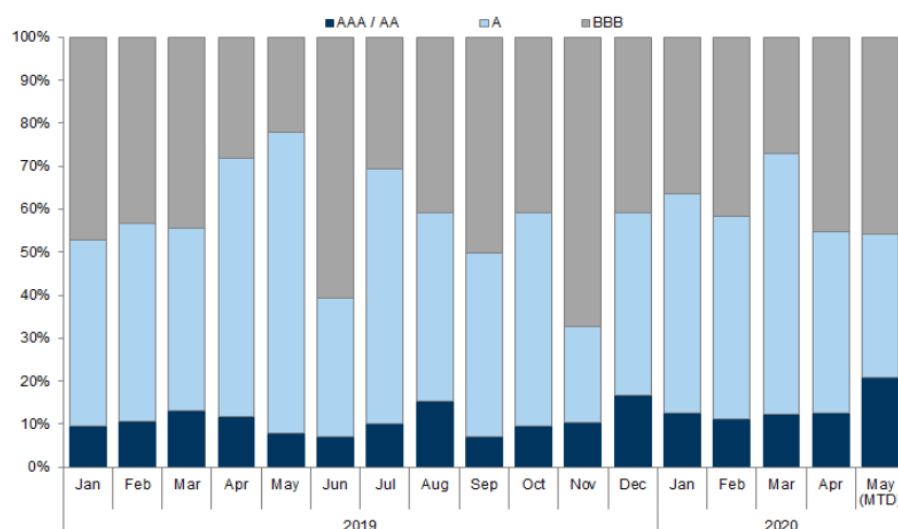
**The Fed began to buy corporate bond exchange traded funds (ETFs) through the Secondary Market Credit Facility (SMCF).** The majority of the purchases would be investment grade bond ETFs while the rest would be high yield bond ETFs. The first purchases were from primary dealers who have completed the Fed’s [Seller Certification Materials](#). More eligible dealers will be added after the due diligence process is completed. The Fed’s Primary Market Corporate Credit Facility (PMCCF) will begin direct bond purchases from eligible issuers “in the near future.” The Fed’s announcement of the ETF purchases through the SMCF back in March had an immediate impact on the ETF market, sending prices sharply higher. The iShares IBOX investment grade corporate ETF (LQD) is the largest US of its kind with assets of \$44.6 bn. The high yield equivalent is the iShares IBOX high yield corporate ETF with over \$21 bn of assets. LQD rebounded very quickly and is not too far from its record high of \$134.27 set on March 6, but HYG saw a more moderate recovery due to the strong headwinds facing the high yield market.



**Fallen angel risk is rising as companies with investment grade (IG) credit ratings of in the BBB or BBB- range face mounting odds of downgrades into junk territory.** March and April saw record issuance in the US investment grade (IG) corporate bond sector, and May is on track to post an even higher volume of deals. This week alone, \$75 bn of new IG deals are scheduled to be brought to market. However, in March most issuance came from companies rated single A or higher but BBB-rated companies have issued a large amount of debt in April and May. The latter group of companies are likely to work as hard as possible to improve their balance sheets and hang on to their IG ratings because being downgraded to junk raises funding costs significantly, but Goldman points out that companies in sectors hard hit by the crisis may find it hard to weather the storm. Car manufacturers, hotels, gaming companies, airlines, etc. are hostage to consumer demand that may not return pre-crisis levels for a very long time. A sustained period of weak demand may create cash flow problems that make downgrades inevitable.

**Exhibit 2: Issuers across the rating spectrum have been involved in the record USD IG supply over the past few months**

USD Investment Grade issuance by rating at launch

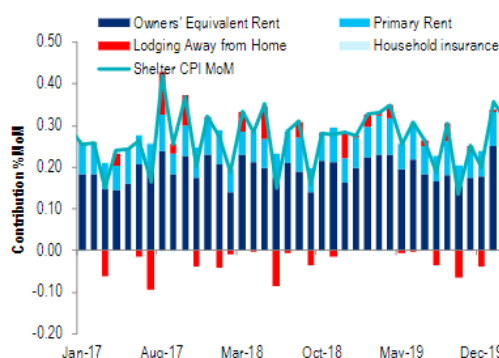


Note: May 2020 MTD is as of May 11, 2020.

Source: Dealogic, Goldman Sachs Global Investment Research

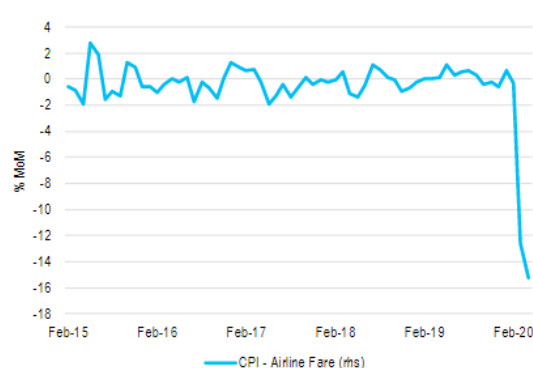
**The record decline in US CPI reported yesterday was worse than the consensus forecasts, although the sectoral impact was in keeping with what most analysts were expecting.** Transportation and tourism bore the brunt, as air ticket prices fell by 15.2%, rental rates for cars and trucks fell by 16.6% and lodging away from home fell by 7.1%. However, food prices went up by more than forecasts at 1.5%, probably due to shortages but also because of much higher demand and possible hoarding. Markets are familiar with the challenges of data collection in the middle of the crisis, so future reports may not have much market impact unless there is a very large deviation from forecasts. They have tended to look through the string of very negative economic data prints over the past month, raising fears in some quarters that markets may be overly optimistic about the eventual impact of COVID-19.

Figure 1. Shelter prices declined due to lodging away from home



Source: Citi Research, BLS

Figure 2. Airfares declined significantly again in April



Source: Citi Research, BLS

Figure 3. Data surprise relative to history

Indicator	Core CPI MoM	Core CPI YoY	CPI MoM	CPI YoY	CPI NSA Index
Actual	-0.4%	1.4%	-0.8%	0.3%	256.389
Median	-0.2%	1.7%	-0.8%	0.4%	256.489
Citi	-0.1%	1.8%	-0.7%	0.5%	256.707
Surprise	-0.2%	-0.3%	0.0%	-0.1%	-0.100
Z Score of Surprise	-2.1	-3.1	0.2	-0.9	-0.5

Source: Citi Research, Bloomberg

Figure 4. Market reaction post data release

Market Data	5 mins	10 min	15 min	
S&P 500 Mini (%)	-0.12%	-0.03%	0.08%	
EUR/USD (%)	0.06%	0.01%	0.07%	
UST 10y Yields (bps)	0.00	0.48	0.32	
UST 2y Yields (bps)	0.20	0.40	0.20	
Relative to Standard Dev. of past 1 year daily change (Opposite for Tsy Yields)				
-3.0	-1.5	0.0	1.5	3.0

Source: Citi Research, Bloomberg

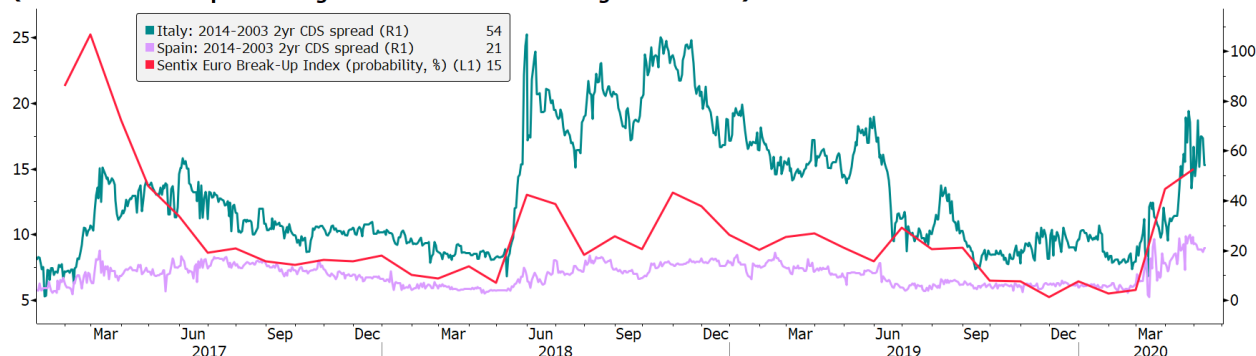
## Europe

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**Stocks were lower on fears of new infections.** Bank stocks (-2%) underperformed as economic data and banks' earnings reports show the damage from Covid-19. Government bond yields were lower as the euro area's industrial production index plunged by -12.9%, although the decline was lower than the consensus forecast of -13.6%. Some widely followed political risk measures for the eurozone have risen in recent weeks.

### Eurozone Political Risk Measures

(ISDA Basis: CDS spread using ISDA's 2014 and 2003 legal definitions)



Source: Bloomberg  
CITLYUS Curncy (ITALY CDS USD SR 5Y D14) ISDA basis clean Daily 013AN2017-13MA

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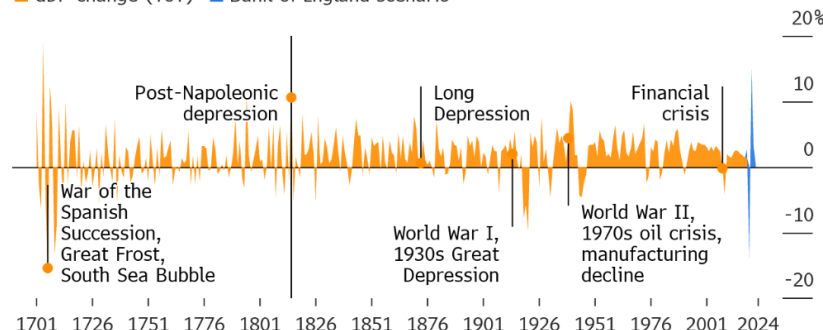
**The UK economy showed severe signs of contraction in the first months of 2020.** First quarter GDP came in at -1.6% y/y, from 1.1% the previous quarter. The contraction is smaller than the -2.2% y/y expected. Other high-frequency indicators also reveal the extend of the economic malaise, with industrial production printing at -8.2% y/y in March, manufacturing at -9.7% y/y, and construction output at -7.1%.

Some analysts – including the Bank of England – note that the pandemic could sink the UK economy into its worst depression in recent centuries, with an expected contraction of GDP in the order of 14% in 2020.

### Worst Since 1706

The U.K. economy could shrink 14% this year even with a strong rebound

■ GDP change (YoY) ■ Bank of England scenario

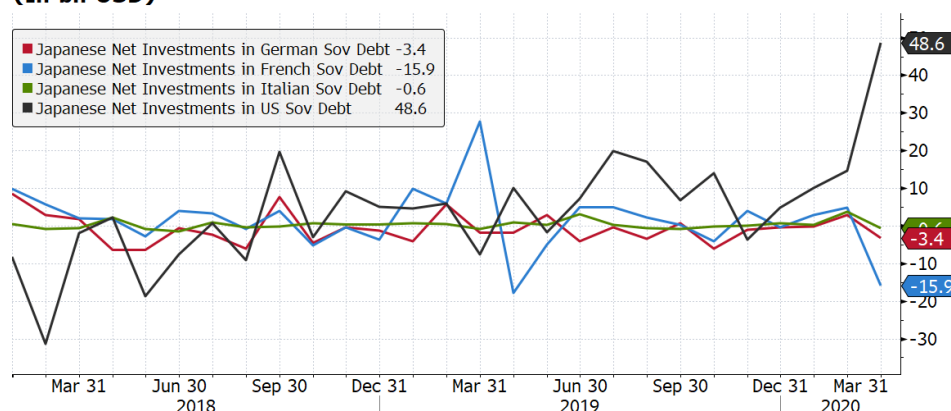


Source: Bank of England, Office for National Statistics

Bloomberg

**Japanese investors unloaded about \$23 bn of European sovereign debt in March and moved into US government paper.** The outflows amounted to \$3.4 bn for German bunds, \$16 bn for French OATs, \$0.6 bn for Italian BTPs, and about \$2.5 bn of Spanish bonos. Inflows into US treasuries amounted to close to \$50 bn.

### Japanese Investors' Net Flows: European Debt (In bn USD)



Source: Bloomberg

JNSFDET Index (Japan Outward Investment:Sovereign Bonds Total Germany Net) FI:

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## Other Mature Markets

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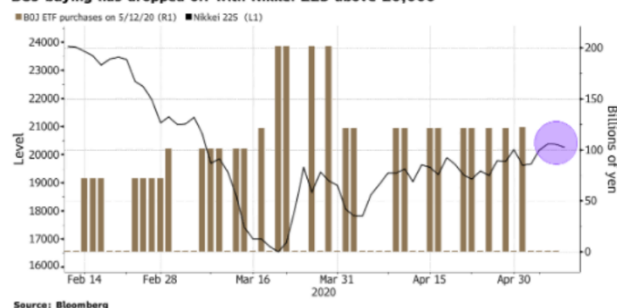
### New Zealand

**The Reserve Bank of New Zealand (RBNZ) nearly doubled its quantitative easing program and opened the door for negative interest rates in the future.** The RBNZ increased its bond purchase program to NZD60 bn (\$36 bn) from NZD36 bn while keeping the cash rate steady at 0.25%. Negative interest rates “will become an option in the future, although at present financial institutions are not operationally ready”. The RBNZ instructed banks to ready their systems for negative policy rates by the end of the year. The central bank also said that it could expand the scope of its asset purchase program beyond central and local government bonds. On growth, the RBNZ projects the economy to contract -2.4% in the first quarter and -21.8% in the second. The unemployment rate is expected to peak at 9% in Q3 this year. Swap markets are pricing negative interest rates for 2021Q1. 10-year bond yield fell -12.5bps to 0.58% and the New Zealand dollar weakened -1%.

## Japan

**Equities were little changed (-0.1%) as strong gains in health care stocks offset losses in all other sectors.** The Cabinet Office's Economy Watchers survey which covers consumer facing businesses plummeted to 7.9, the weakest reading since the survey was started in 2002. Separately, bank loans grew at the fastest pace in almost three years, rising 3.1% y/y in April, as companies tapped credit lines to shore up cash buffers. **The yen and JGB yields were little changed.**

**BOJ buying has dropped off with Nikkei 225 above 20,000**



**The virus has main street sentiment at a record low**



## Emerging Markets

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Equities were mixed across Asia. Malaysia (+1.2%) rose after a better-than-expected GDP print of 0.7% y/y in Q1, the slowest pace since the global financial crisis amid a lockdown imposed since March 18. Chinese equities (Shenzhen +0.7%; Shanghai +0.2%) also gained. Other ASEAN bourses underperformed. Asian currencies were marginally stronger against the dollar. On COVID-19, Jilin city (4mn inhabitants) in Northeast China imposed a partial lockdown, closing residential compounds and villages and halting bus and rail services after the city saw 6 local infections yesterday. Stocks in eastern Europe and the Middle East were mixed. Latin American equities followed the US market down, while currencies depreciated and most credit spreads widened. Economic data in Mexico was weaker than expected.

**Key Emerging Market Financial Indicators**

Last updated: 5/13/20 8:17 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		36.46	0.1	2	3	-10	-19
MSCI Frontier Equities		22.22	-1.0	-3	2	-20	-27
EMBIG Sovereign Spread (in bps)		575	2	-19	-16	211	282
EM FX vs. USD		52.92	0.2	1	-2	-14	-14
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		7.09	-0.1	0	-1	-3	-2
Indonesian Rupiah		14865	0.3	1	5	-3	-7
Indian Rupee		75.46	0.1	0	1	-7	-5
Argentine Peso		67.46	-0.1	-1	-3	-33	-11
Brazil Real		5.84	0.8	-2	-11	-32	-31
Mexican Peso		24.12	1.0	1	-2	-20	-22
Russian Ruble		73.17	0.7	2	1	-11	-15
South African Rand		18.32	0.6	3	-1	-22	-24
Turkish Lira		6.97	0.3	3	-3	-13	-15
EM FX volatility		11.72	0.0	-0.3	0.4	2.6	5.1

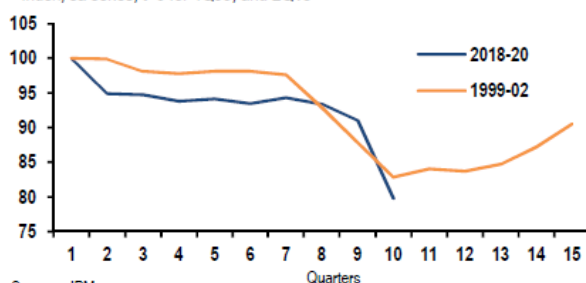
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.



## Argentina

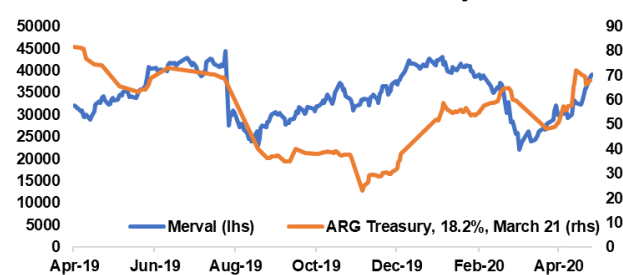
**Domestic financial markets have done relatively well despite the ongoing economic pressures.** JP Morgan analysts expect the current economic downturn to reduce GDP by 21.4% peak to trough, more than the loss experienced during the 1999-2002 crisis. 2020 real growth is expected to fall by 9.8%. A lack of resources for fiscal stimuli and the already high economic costs of the pandemic are expected to force the country to relax current quarantine measures even in regions which still face a rapid spread of COVID-19. Prolonged debt negotiations, in which the government extended the deadline for private investors to agree to its latest restructuring proposal to May 22, and the possibility of default further aggravates risks, especially fiscal ones. Meanwhile, stimulus measures implemented so far have increased peso sight deposits and private peso credit (+6.9% m/m), helped by the central bank's end-of April increase in its reverse repo rate by 3.8% to 15.2%. The improved funding liquidity has boosted supported Argentine's Merval stock index as well as the performance of local currency treasuries.

**Figure 4: Two macroeconomic disasters**  
Index, sa series, t=0 for 4Q99, and 2Q18



Source: JPMorgan

**Argentina: Merval Stock Index and Price of March 21 Peso Treasury**



Source: Bloomberg.

## Belize

**Moody's downgraded Belize's sovereign long-term debt from B3 to Caa1.** The rating agency also changed its outlook to negative, as it anticipates a deferral of \$13 mn in interest payments due in mid-August on the country's roughly \$500 mn outstanding in external debt. The expectations for a deferral are based on forecasts of a 15% yoy contraction in Belize's GDP and rapidly rising unemployment. Both factors are expected to push the country's primary budget deficit to 10% of GDP (from 1%) and increase its public debt ratio to 130% of GDP instead of the previously anticipated 98%. The benchmark sovereign bond has lost 20% of its value since last Friday.

### Belize, sovereign USD bond maturing in 2034, price in USD



Source: Bloomberg

## India

**Equities (+2.1%) gained following Prime Minister Modi's announcement of an INR20 tn (\$265 bn; 10% of GDP) special economic package.** Details of this package will be announced starting today in phases by the Finance Minister, but the package includes fiscal and monetary (liquidity) measures already announced. The focus of the package is to make India more self-sufficient through boosting local manufacturing and supply chains. It will cover 'land, labor, liquidity and laws' and infrastructure is also a key pillar. **Separately, the lockdown since March 24 has caused a slump in industrial production (IP) and a rise in food price inflation.** IP fell -16.7% y/y in March (consensus: -8%) from 4.6% y/y in February. The decline was broad-based across most industries. Most food items such as vegetables (7.2%), pulses (6.6%), sugar (6.3%) and fruit (5.2%) saw sharp m/m increases in April. **10-year bond yield fell -3 bps while the rupee was little changed.**

**Sensex Index surged on Wednesday to test its 50-day moving average**



## Turkey

**Turkey's sovereign wealth fund, TWF, announced plans to inject fresh capital to state banks to boost lending.** TWF plans to inject TRY 21 bn (\$3 bn) into three lenders - Halk, Vakif and Ziraat – to strengthen their core capital positions. The banks will issue shares to TWF through private placement in exchange for TRY 7 bn of core capital in cash; TWF will finance the cash injection via government bond sales. The move will allow TWF to become a major stakeholder in all three state banks. TWF noted that proceeds from the rights issue will be used for loans to support the economy. Analysis from Credit Suisse expects the move to increase at least TRY 56 bn of extra lending capacity for each bank and could provide as much as TRY 170 bn of stimulus for the economy. Meanwhile, Turkey's banking regulator indicated on Tuesday that it lifted a ban on lira transactions imposed on BNP, Citi and UBS last week, although they remained subject to investigations on market manipulation and dissemination of misleading information. The lira, which had weakened to its all-time low last Thursday, has since gained about 3% against the dollar and held steady overnight at TYR 6.98/dollar.

**Turkey: Current account balance (monthly, bn USD)**





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## Global Financial Indicators

Last updated: 5/13/20 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		2870	-2.1	0	4	2	-11
Europe		2849	-1.2	0	-2	-14	-24
Japan		20267	-0.5	3	6	-4	-14
China		2898	0.2	1	4	0	-5
Asia Ex Japan		64	-0.2	2	4	-3	-13
Emerging Markets		36	-0.4	2	3	-10	-19
<b>Interest Rates</b>			basis points				
US 10y Yield		0.67	0.2	-4	-10	-173	-125
Germany 10y Yield		-0.53	-2.4	-2	-18	-46	-34
Japan 10y Yield		0.00	-0.1	2	-2	5	1
UK 10y Yield		0.23	-2.3	-1	-8	-88	-60
<b>Credit Spreads</b>			basis points				
US Investment Grade		205	0.0	3	15	84	107
US High Yield		748	0.3	-5	16	312	355
Europe IG		86	2.5	0	7	19	42
Europe HY		513	9.5	-7	50	224	307
EMBIG Sovereign Spread		574	1.0	-20	-17	210	281
<b>Exchange Rates</b>			%				
USD/Majors		99.72	-0.2	0	0	2	3
EUR/USD		1.09	0.2	1	0	-3	-3
USD/JPY		106.9	0.2	-1	1	2	2
EM/USD		53.0	0.3	1	-2	-14	-14
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		30	0.9	2	-5	-57	-54
Industrials Metals (index)		96	-0.1	0	2	-15	-16
Agriculture (index)		35	0.0	1	-3	-6	-16
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		31.3	-1.8	-2.9	-9.9	10.7	17.5
10y Treasury Volatility Index		5.4	0.1	0.4	-1.5	1.0	1.2
Global FX Volatility		9.0	0.0	-0.4	-0.4	1.9	3.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		264	-3.3	-7	49	-100	98
Italy		235	-4.3	-13	41	-42	75
Portugal		137	-4.9	-11	12	15	75
Spain		127	-2.2	-9	14	21	62

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: 5/13/2020 8:18 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		7.09	-0.1	0.2	-1	-3	-2		2.6	1.2	16	6	-77	-58
Indonesia		14865	0.3	0.9	5	-3	-7		7.9	-11.7	-13	-19	-16	79
India		75	0.1	0.4	1	-7	-5		6.2	2.9	4	-45	-124	-63
Philippines		50	0.1	0.4	1	4	1		4.6	2.5	-24	-45	-52	32
Thailand		32	0.2	1.2	2	-1	-7		1.3	0.8	-1	-31	-126	-28
Malaysia		4.33	0.0	-0.1	0	-4	-5		2.8	4.3	7	-45	-102	-54
Argentina		67	-0.1	-0.7	-3	-33	-11		40.9	-47.6	61	-1764	1284	-2167
Brazil		5.84	0.8	-2.2	-11	-32	-31		6.1	26.6	15	-11	-191	-16
Chile		822	0.2	1.4	3	-16	-8		2.7	-4.2	-9	-68	-145	-64
Colombia		3883	0.4	1.3	0	-15	-15		5.7	-4.6	-37	-150	-51	-25
Mexico		24.12	1.0	1.1	-2	-20	-22		6.1	-6.0	-41	-106	-214	-86
Peru		3.4	-0.5	-1.4	-1	-3	-4		4.3	1.7	-34	-79	-101	-17
Uruguay		44	-0.2	-3.1	-1	-20	-15		11.5	0.9	-23	-167	62	64
Hungary		325	-0.3	0.0	0	-11	-9		1.7	-0.2	-5	-26	-44	50
Poland		4.20	0.3	0.5	0	-9	-10		1.0	-7.6	-4	-9	-132	-86
Romania		4.4	0.2	0.5	0	-5	-4		4.0	-1.0	-13	-30	-25	-2
Russia		73.2	0.7	1.8	1	-11	-15		5.6	-7.4	-24	-88	-231	-50
South Africa		18.3	0.6	2.5	-1	-22	-24		10.0	-6.8	-34	-107	70	50
Turkey		6.97	0.3	3.1	-3	-13	-15		11.8	-4.9	80	-118	-1062	12
US (DXY; 5y UST)		100	-0.2	-0.4	0	2	3		0.32	-0.2	-5	-13	-186	-137

	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		2898	0.2	1	4	0	-5		252	-3	-5	5	76	76
Indonesia		4554	-0.7	-2	-2	-26	-28		332	2	1	-28	138	176
India		32009	2.0	1	4	-14	-22		326	0	-5	-33	175	201
Philippines		5626	-0.4	0	0	-27	-28		181	2	8	-3	93	115
Malaysia		1397	1.2	1	3	-13	-12		253	-1	-23	-41	128	141
Argentina		39134	1.4	17	36	21	-6		3010	0	-363	-918	2067	1241
Brazil		77872	-1.5	-2	-1	-15	-33		424	3	-2	55	170	209
Chile		3735	-2.0	-6	-3	-25	-20		268	0	-4	-27	135	135
Colombia		1089	-1.3	0	-9	-28	-34		350	0	-15	16	152	187
Mexico		37463	-0.4	2	8	-13	-14		612	2	-30	13	298	320
Peru		15486	1.4	4	8	-22	-25		237	1	0	-21	97	130
Hungary		34855	-0.8	1	3	-14	-24		218	-1	-8	16	113	132
Poland		45801	0.2	3	3	-19	-21		95	2	2	-31	46	77
Romania		8268	-1.7	2	0	1	-17		345	4	-8	-33	158	172
Russia		2629	-0.5	-1	0	5	-14		253	3	-6	-3	36	122
South Africa		50541	0.4	1	5	-10	-11		638	-5	-29	-14	325	318
Turkey		100499	0.9	2	4	16	-12		678	-1	-23	-13	134	277
Ukraine		500	0.0	0	0	-12	-2		710	-14	-92	-111	34	290
EM total		36	0.1	2	3	-10	-19		575	2	-19	-16	211	282

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

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