GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MAY 13, 2021

- **US April CPI surprises markets** (link)
- **Shutdown of US pipeline spurs gasoline shortages** (link)
- **European equities fall and bond yields rise on US inflation surprise** (link)
- **Chinese government will extend job support measures until end-2021** (link)

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

Selloff continues as markets brood over inflation data

Equities are on pace to fall for a fourth straight day on rising inflation fears. After falling over 2% yesterday, US equity futures are indicating a further decline to start this morning. The market optimism that prevailed just a week ago has faded with the latest inflation surprise adding to Friday's disappointing NFP release to shake investor confidence. The S&P 500 has now declined over 4% so far this week. Asian equities fell overnight, led by Japan which saw a 2.5% decline. European equities are down over 1% today. Despite the continued sell-off in broader markets, emerging market currencies are overall mixed today, with JP Morgan's index of EM currencies only slightly lower. Elsewhere, bitcoin fell by as much 15% this morning before recovering partly, as Tesla announced it would no longer accept the cryptocurrency for vehicle purchases, citing environmental concerns.

Key Global Financial Indicators

Last updated: 5/13/21 8:09 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4063	-2.1	-3	-2	44	8
Eurostoxx 50		3910	-1.0	-2	-1	39	10
Nikkei 225		27448	-2.5	-6	-7	38	0
MSCI EM		52	-2.8	-3	-3	43	1
Yields and Spreads					bps		
US 10y Yield		1.69	-0.4	12	7	104	77
Germany 10y Yield		-0.11	1.8	12	19	43	46
EMBIG Sovereign Spread		331	-1	-11	-11	-239	-19
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		57.2	-0.1	0	1	9	-1
Dollar index, (+) = $ appreciation		90.8	0.1	0	-1	-9	1
Brent Crude Oil ($/barrel)		68.0	-1.9	0	7	133	31
VIX Index (%, change in pp)		26.2	-1.4	8	10	-9	3

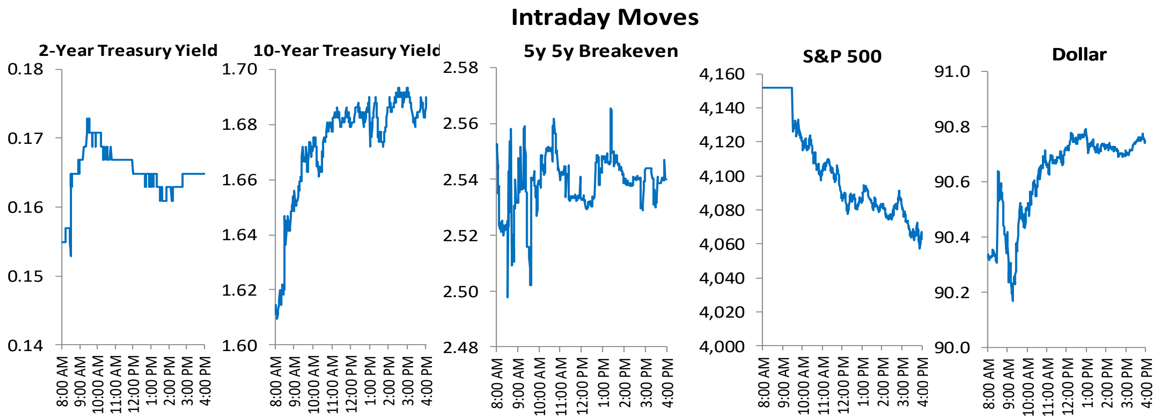
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

United States back to top

Higher-than-expected April CPI Wednesday morning surprised markets, pushing equities lower and rates higher; Treasury 10-year yields rose to 1.69%. Market-based expected inflation rose too; breakeven 10-years rose 2bps to 2.56%, the highest since 2012. Breakeven 5-years, more sensitive to actual inflation, rose to its highest since 2006. The money market curve has steepened; the 1-month OIS rate 2-years forward rose by 10bps. The dollar strengthened recouping almost all losses made after the weak job report last Friday. Fed Vice Chair Clarida tried to downplay the data release, saying that he was surprised by April's jump in consumer prices, but the rise in inflation was likely to prove largely transitory. He also said, "if we saw evidence that there was a risk of a persistent upward drift in inflation expectations, we would not hesitate to use our tools to offset that." Market participants focused more on the latter; Treasury yields went even higher following the comments. Some analysts believe much or most of the upside surprise of the April CPI reflected a pull-forward of reopening effects that they had expected to occur this summer. Used car prices contributed 0.35% to the core reading and are now at elevated levels.

This morning, the April PPI headline came in higher than expected; +0.6%m/m or +6.2%y/y (consensus: +0.3%m/m; +5.8%y/y). Core PPI ex-food and energy was +0.7%m/m or 4.1%y/y (consensus: +0.4%m/m; +3.8%y/y). Initial jobless claims were also slightly better than expected (473k vs. 490k consensus), while the March figure was revised higher (from 498k to 507k). Market reaction has so far been limited.

Equities have fallen for three consecutive days, and VIX jumped by 5.8pt to 27.6, the largest one-day increase since January. The sell-off was broad-based, led by the consumer discretionary sector and small caps. According to analysts, selling pressure could be attributed to tax day in the US, May 17, in addition to inflation angst.



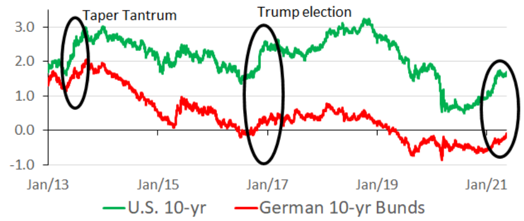
Source: Bloomberg

The largest fuel pipeline in the US restarted operations late Wednesday, days after a cyberattack forced it to shut down last Friday. But it will take several days for deliveries to return to normal, according to the company. The attack raised concerns over the vulnerability of the critical infrastructure. Panic buying spurred by the outage has pushed retail gasoline prices above $3 per gallon for the first time in six years. The impact of the shutdown on crude oil prices is muted, at least for now. The Colonial Pipeline delivers roughly 45% of the fuel consumed on the east coast.

Europe back to top

European equities (-1.4%) are lower and German 10-yr bund yields (+ 3 bps to -0.10%) rose following yesterday's upside surprise in U.S. CPI. Euro area 5-yr/5-yr inflation swap were little changed after closing 2 bps higher at 1.62% yesterday. Bank stocks (-2.3%) underperformed.

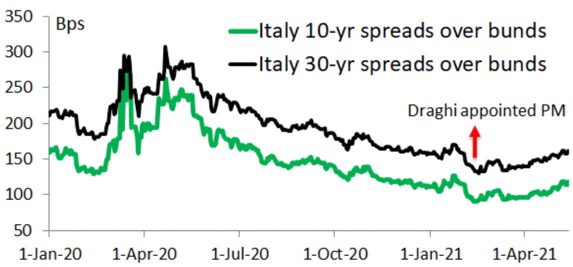
U.S. and Euro area: 10-yr rates (%)



Source: Bloomberg and IMF staff

Italian 10-yr spreads rose 3 bps to 118 bps with Greek and Spanish 10-yr spreads 2 bps higher. Italy and Ireland are also issuing bonds today, which may have contributed to some upside pressure on spreads.

Euro area: Spreads over German bunds



Source: Bloomberg and IMF staff

HSBC estimates that tourism could contribute at least 1-2 ppts to the GDP recovery in Southern European countries given proposals on the relaxation of travel restrictions by the European Commission and an expected expansion of a "green list" of countries for UK residents. The bank estimates that drop in foreign tourists in 2020 could have subtracted at least 3 ppts from GDP growth in Spain and Portugal, and 6 ppts in Greece.

Other Mature Markets

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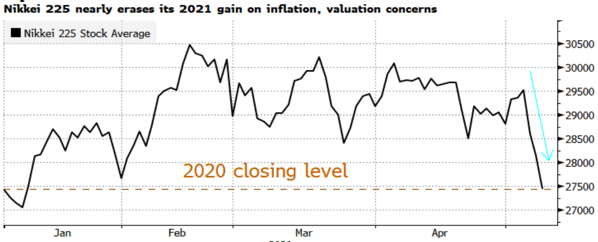
Japan

Japanese equities fell (NIKKEI: -2.5%; TOPIX: -1.5%). Analysts noted that a continued selloff was driven on concerns over rising inflation and high valuations. Japanese shares are traded at 19.1 times 12-month forward earnings estimates compared with its 10-year average of 16.3 times. **SoftBank was the largest contributor to the market decline.** Its share prices tumbled (-7.8%) despite record profits in Q1; investors became worried about whether SoftBank will continue its share buybacks. **Bank of Japan (BOJ) Governor Kuroda said that the BOJ is not concerned about inflation** and that the BOJ will persistently proceed with powerful monetary easing until its 2% inflation target is achieved. Current priorities are to support funding of businesses and to ensure financial market stability**. Long-end JGB yields edged up (10-year: +1 bp; 30-year: +2.9 bps); the Japanese yen appreciated (+0.1%).**

Square One
Nikkei 225 nearly erases its 2021 gain on inflation, valuation concerns



Source: Nikkei, Bloomberg
NKY Index (Nikkei 225) nkyytd Daily 30DEC2020-13MAY2021 Copyright© 2021 Bloomberg Finance L.P. 13-May-2021 16:10:16

Source: Bloomberg.

Emerging Markets

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Asian equities declined 1.6% on net, led by Thai (-2.2%), Hong Kong (-1.8%) and Taiwan (-1.5%) equities. Risk sentiment deteriorated following the rise in U.S. treasury yields on the back of concerns over inflation. **In Taiwan POC,** forced selling has intensified the market decline this week, with the unwinding of leveraged positions taking place at the fastest speed since 2018. **Some Asian currencies depreciated substantially,** including the Thai baht (-0.5%) and Korean won (-0.4%). The baht depreciated on a further deterioration in the COVID-19 outbreak, while equity outflows added pressure on the Korean won. **In Korea,** a plan to boost its chipmaking industry was unveiled. Samsung Electronics and SK Hynix along with other companies plan to spend $450 bn in semiconductor research and production over the next decade. **Stocks across EMEA tumbled following peers in advanced Europe**. Risk-sentiment soured on Thursday morning, with South Africa (-2.8%), Romania (-1.6%), Poland (-1.4%), and Russia (-0.9%) leading the losses. Only Saudi Arabia (+0.9%) and Egypt (+0.8%) posted substantial gains. FX markets were quiet with most currencies in the region slightly appreciating by 0.1% to 0.2%. The exception was the Turkish lira which dropped by 0.9% amid low trading volumes. **Most Latin American stock markets declined in tandem with falling US markets yesterday, with Brazil down 2.6% and Mexico down 1.8%.** Regional currencies depreciated across the board, with declines of 0.7-1.6%. Long-term government bond yields rose, with Brazilian and Mexican bond yields surging 11 bps, now up 250 bps and 145 bps year-to-date, respectively. In Brazil, based on Bloomberg reporting, President Bolsonaro's administration is now working with the Lower House to advance a major proposal to reform the tax system, which until recently had been delayed because of the pandemic. **In Mexico, industrial production continued to rebound, expanding 1.7% yoy in March**, above the consensus of +0.6%, after a drop of 4.5% the prior month, but the stronger-than-expected report failed to support domestic markets.

Key Emerging Market Financial Indicators

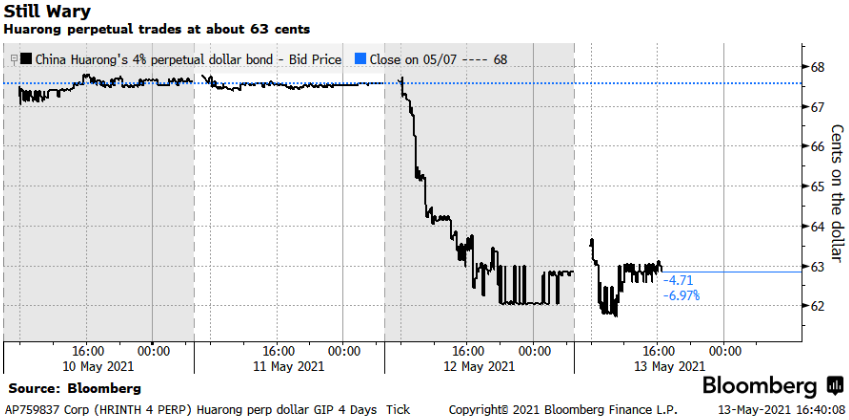
Last updated:	Level		Change				
5/13/21 8:11 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		52.08	-0.4	-3	-3	43	1
MSCI Frontier Equities		31.53	-1.1	1	3	44	11
EMBIG Sovereign Spread (in bps)		331	-1	-11	-11	-239	-19
EM FX vs. USD		57.25	-0.1	0	1	9	-1
Major EM FX vs. USD				%, (+) = EM currency appreciation			
China Renminbi		6.45	0.0	0	1	10	1
Indonesian Rupiah		14198	0.0	2	3	5	-1
Indian Rupee		73.43	-0.1	1	2	3	0
Argentine Peso		93.98	0.0	0	-1	-28	-10
Brazil Real		5.32	-0.2	-1	8	11	-2
Mexican Peso		20.15	0.1	0	0	20	-1
Russian Ruble		74.27	0.5	0	2	0	0
South African Rand		14.17	-0.2	0	2	31	4
Turkish Lira		8.50	-0.8	-3	-4	-18	-12
EM FX volatility		9.45	0.0	0.1	-0.7	-2.3	-1.3

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

China

The government will extend job support measures until end-2021. Despite the economic rebound, the labor market still shows signs of strain. The government decided to continue refunding unemployment insurance premiums to employers and to provide subsidies for professional training and internship. The government will also increase financial support to sectors that have suffered from the pandemic (e.g. aviation, hospitality, and retail). **China Huarong Asset Management said that it has prepared to make**

future bond repayments. It also stated that there is no factual basis to indicate any change in shareholding structure or control in ownership, with the level of support from the government remaining unchanged. Its dollar bond prices have dropped in the past two days following news that Huarong has been urged by regulators to solve its financial issues on its own. **Equities declined (CSI 300: -1%). RMB was little changed.**



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Global Financial Indicators

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Equities				%			%
United States		4071	-2.1	-3	-2	44	8
Europe		3910	-1.0	-2	-1	39	10
Japan		27448	-2.5	-6	-7	38	0
China		3430	-1.0	0	0	19	-1
Asia Ex Japan		89	-2.6	-4	-4	39	0
Emerging Markets		52	-2.8	-3	-3	43	1
Interest Rates				basis points			
US 10y Yield		1.69	-0.4	12	7	104	77
Germany 10y Yield		-0.11	1.8	12	19	43	46
Japan 10y Yield		0.09	1.0	0	-1	9	7
UK 10y Yield		0.91	2.6	12	13	70	72
Credit Spreads				basis points			
US Investment Grade		95	0.6	4	4	-108	0
US High Yield		339	1.7	10	2	-419	-41
Europe IG		52	0.2	1	1	-36	4
Europe HY		262	0.9	8	13	-259	20
Exchange Rates				%			
USD/Majors		90.76	0.1	0	-1	-9	1
EUR/USD		1.21	0.1	0	1	12	-1
USD/JPY		109.6	-0.1	0	0	2	6
EM/USD		57.2	-0.1	0	1	9	-1
Commodities				%			
Brent Crude Oil ($/barrel)		68	-1.9	0	7	133	31
Industrials Metals (index)		158	-2.0	-1	9	65	19
Agriculture (index)		60	-1.4	-1	17	75	26
Implied Volatility				%			
VIX Index (%, change in pp)		26.2	-1.4	7.8	9.5	-9.1	3.4
US 10y Swaption Volatility		72.7	-0.2	0.2	-4.2	8.4	12.6
Global FX Volatility		7.4	0.0	0.2	0.1	-1.6	-0.7
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		118	2.0	-2	-3	-146	-2
Italy		118	3.6	4	14	-115	7
Portugal		73	2.6	3	15	-64	13
Spain		71	2.2	3	3	-56	9

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: 5/13/2021 8:11 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		6.45	0.0	0.2	1	10	1		3.2	-0.5	-4	-10	65	-7
Indonesia		14198	0.0	1.6	3	5	-1		6.5	0.0	-4	-12	-148	39
India		73	-0.1	0.7	2	3	0		6.3	-0.6	-2	-6	4	34
Philippines		48	-0.1	0.2	1	5	0		4.2	1.6	0	36	-38	58
Thailand		31	-0.1	-0.4	1	2	-4		1.8	2.4	1	-7	50	52
Malaysia		4.13	-0.2	-0.1	0	5	-3		3.3	0.4	4	8	46	72
Argentina		94	0.0	-0.2	-1	-28	-10		45.9	-22.9	-35	14	495	-1026
Brazil		5.32	-0.2	-0.8	8	11	-2		8.3	17.8	24	6	225	276
Chile		707	-0.6	-0.4	1	16	0		3.6	6.6	1	23	97	86
Colombia		3746	-1.1	2.7	-2	4	-8		7.0	7.4	7	69	127	189
Mexico		20.15	0.1	-0.2	0	20	-1		6.9	12.6	15	34	86	135
Peru		3.7	-0.3	2.9	-3	-8	-3		4.9	6.2	-33	20	52	126
Uruguay		44	-0.5	-0.3	0	0	-4		7.4	4.5	0	-1	-410	15
Hungary		296	0.2	0.5	2	11	0		2.2	9.9	18	9	48	63
Poland		3.77	0.2	0.6	1	12	-1		1.2	1.5	19	28	15	54
Romania		4.1	0.1	0.1	1	10	-2		2.7	3.0	7	4	-130	-6
Russia		74.3	0.5	0.0	2	0	0		6.8	3.7	6	-18	116	106
South Africa		14.2	-0.2	0.3	2	31	4		9.9	8.2	-7	-19	-14	23
Turkey		8.50	-0.8	-2.5	-4	-18	-12		17.6	6.4	-2	-15	583	453
US (DXY; 5y UST)		91	0.0	-0.2	-1	-9	1		0.86	-0.7	5	2	54	50

	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		4993	-1.0	-1	0	27	-4		199	0	-2	-9	30	-9
Indonesia		5938	0.0	0	0	29	-1		158	0	-9	-25	-5	-29
India		48691	0.0	0	0	52	2		164	-2	2	1	-162	13
Philippines		6236	0.0	-1	-3	11	-13		83	0	-9	-17	13	-22
Malaysia		1583	0.0	0	-1	13	-3		113	0	-2	-3	9	3
Argentina		51020	0.0	4	7	35	0		1459	0	19	8	-570	91
Brazil		119710	0.0	0	0	54	1		253	0	0	-16	58	3
Chile		4486	0.0	-3	-8	24	7		126	0	-6	-16	-14	-18
Colombia		1285	0.0	1	-2	22	-11		207	0	-4	-15	44	2
Mexico		48748	0.0	1	3	34	11		348	0	-9	-34	55	-12
Peru		21720	0.0	11	1	43	4		133	0	-4	-3	22	1
Hungary		44346	0.4	0	3	28	5		65	0	-6	-15	-42	-31
Poland		61373	-1.4	1	3	35	8		-22	0	-4	-11	-54	-21
Romania		11590	-1.5	1	4	41	18		175	-4	-12	-8	-170	-28
Russia		3633	-0.6	-1	3	39	10		159	0	-5	-3	19	-7
South Africa		65772	-2.5	-3	-2	31	11		357	0	-4	-35	25	-23
Turkey		1441	0.0	2	5	44	-2		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		52	-0.4	-3	-3	43	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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