GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MAY 14, 2021

- **New York Fed's report highlights inequality in mortgage finance** (link)
- **European government yields continue march higher** (link)
- **U.K. house prices rise sharply in April** (link)
- **Korea to spend $450 bn to enhance its chipmaking base over the next decade** (link)
- **Central banks in Chile, Mexico, and Peru keep rates on hold, as expected** (link)

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

Risk appetite re-emerges

After having declined the first three days of the week, equity markets are on the rise as inflation fears have begun to fade. European equity markets and US futures are both nearly 1% higher this morning and comes after the S&P 500 rose a similar amount yesterday. The decline in some key commodity prices has helped ease concerns over inflation risks. Iron ore prices have fallen about 10% over the past two days, a move which has largely been attributed to actions by the Chinese government to reduce emissions. Crude oil declined by over 3% on Thursday after Colonial Pipeline restarted operations but is somewhat higher this morning. Emerging market currencies are benefitting from the improving risk sentiment, with nearly all appreciating versus the dollar today.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
5/14/21 8:19 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4113	1.2	-2	0	44	9
Eurostoxx 50		3987	0.9	-1	0	44	12
Nikkei 225		28084	2.3	-4	-5	40	2
MSCI EM		52	-0.1	-4	-3	42	1
Yields and Spreads					bps		
US 10y Yield		1.64	-2.1	6	0	102	72
Germany 10y Yield		-0.13	-0.7	9	13	42	44
EMBIG Sovereign Spread		334	3	-5	-12	-246	-16
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		57.6	0.4	0	2	9	-1
Dollar index, (+) = $ appreciation		90.5	-0.3	0	-1	-10	1
Brent Crude Oil ($/barrel)		68.0	1.3	0	2	118	31
VIX Index (%, change in pp)		21.4	-1.7	5	4	-11	-1

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

United States back to top

Equities rebounded Thursday, recouping a part of losses over last three days despite higher-than-expected April PPI in the morning. High-beta shares such as banks performed well; the KBW bank index rose by 2.1% on the day. VIX went lower.

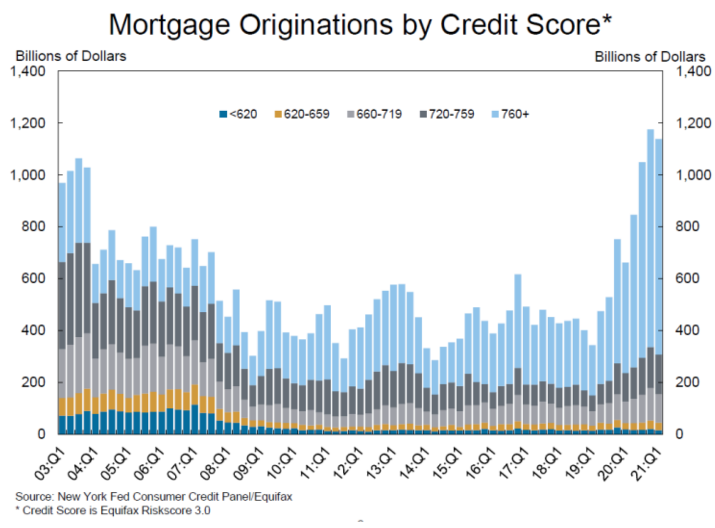
In the Treasury market, **both nominal and breakeven 10-years were lower by 3bps**. 7-10-year tenors outperformed on the back of the "soft-twist" Fed announcement. The Fed will slightly increase longer tenor purchases and decrease shorter-term notes and TIPs, keeping the monthly pace at about $80 bn.

This morning, April retail sales were weaker than expected (headline 0.0%m/m vs. +1.0% consensus). Excluding autos and gas, sales declined -0.8%m/m (+0.3% consensus).The April import price index was higher than expected at +0.7%m/m or +10.6%y/y (+0.6%; +10.2% consensus). The impact of a fiscal stimulus in the form of $1,400 checks sent in March continued to support consumer activity, but failed to show another gain following strong numbers in March. Market response has been limited so far.

Commodities were broadly lower. **Crude oil traded lower during US trading hours** after Colonial Pipeline said it had begun restarting operations following a cyberattack that shut down the main fuel conduit. Colonial Pipeline reportedly paid about $5 mn in ransom to Eastern European hackers.

Bitcoin dropped 9.5% after Tesla reversed its stance on accepting the digital currency. News of Binance has also played a role: The world's largest cryptocurrency exchange was under investigation by federal authorities for money laundering and tax evasion.

The New York Fed's Center for Microeconomic Data issued its report Wednesday (link) which shows that total household debt increased by $85 bn (0.6%) to $14.6 tn in 2021Q1. **There was $1.14 tn in newly originated mortgage debt in 2021Q1, with a record 73% of it originated to high-quality borrowers with credit scores over 760**. Meanwhile, credit card balances have significantly decreased. These developments might have contributed to improving lenders' credit portfolios while highlighting inequality and bifurcation between wealthy and low-income segments.

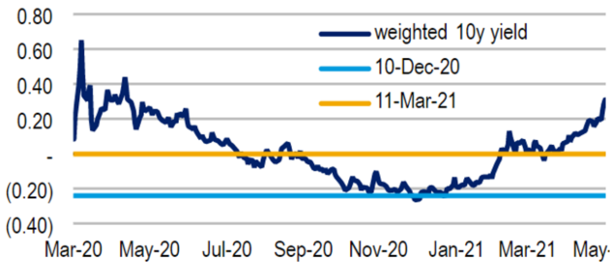


Europe back to top

Equities (+0.7%) ended the week on a positive tone. The euro (+0.3%) also edged higher as bank stocks (+1.2%) outperformed.

The significant rise in euro area yields has intensified speculation on how the ECB will respond to the tightening of financial conditions at its meeting of 10 June. German 10-yr bund yields (currently at -13 bps) have risen 10 bps in the past 5 days. Analysts at BofA point out that nominal GDP-weighted 10-yr yields are now more than 50 bps higher than in December, and 30 bps higher than in March. **The market has also priced in a first hike of 10 bps in two years despite the ECB expecting core inflaton to average 1.3% in 2023. GS expects the ECB to announce a reduction in the flow pace of QE in June, but to push for a reinforcement of the forward guidance in September as part of an agreement on a soft version of average inflation targeting** in which the ECB leaves policy unchanged till 2025.

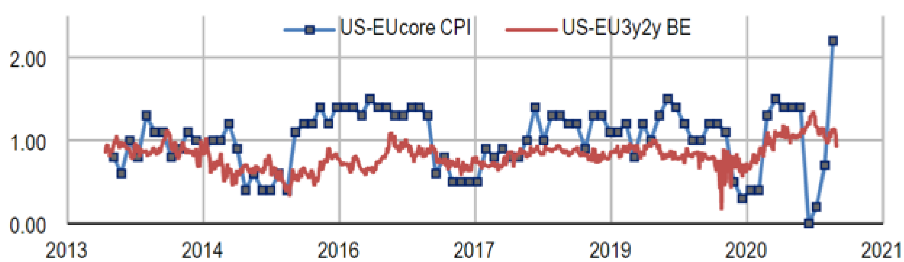
Euro area: GDP-weighted 10-yr nominal yields



Source: BofA Global Research

Inflation breakeven differentials between the U.S. and euro area have tightened but analysts note that inflation differentials between readings of U.S. and euro area core inflation are at record highs. BofA points out that the market has persistently underestimated the undershoot in euro area versus U.S. inflation and is likely getting carried away in the pricing in of a global reflation story, ignoring the differences in actual core inflation. Since April 2020, the first principal component of USD, EUR and GBP 5y5y breakevens explains 90% of the variation across markets, compared to 65% in 2015-2019.

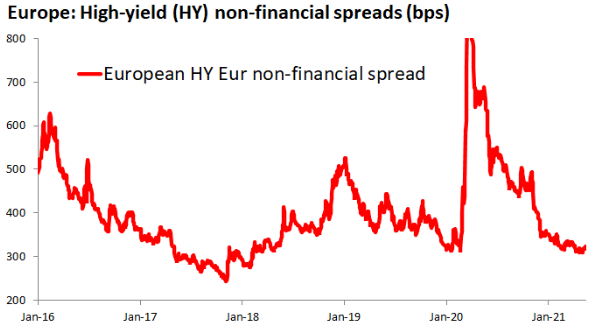
Euro area: US-EU core CPI differential versus the US-EU breakeven differential



Source: Bloomberg and BofA

Italian 10-yr spreads rose 4 bps to 122 bps with Greek and Spanish 10-yr spreads 2 bps higher at 120 bps and 73 bps respectively. Despite the rise in core yields, high-yield non-financial spreads in the euro area have traded 28 bps lower so far in 2021.

Europe: High-yield (HY) non-financial spreads (bps)

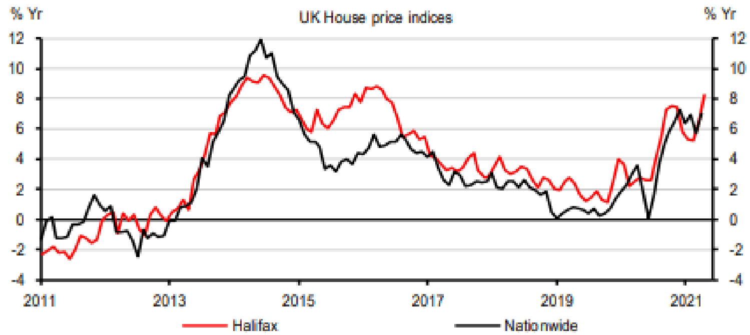


Source: CS, Bloomberg, and IMF staff

United Kingdom

The British pound (+0.1% to $1.41) **held on to recent gains** and equities (+0.7%) traded higher even though **media reports indicate that the full end of the lockdown anticipated for June could be postponed if the Indian COVID variant leads to a surge in hospital admissions**. Media reports also suggest that **France could block an agreement on regulatory cooperation in the financial industry and likely also on equivalence for U.K. financial firms until the ongoing fishing dispute is resolved**.

U.K. house prices rose +2% mom in April, as indicated by several indices. The RICS headline house price index surged to +75, its highest level since 1988. The gains were broad-based across the country, with the South West posting its highest possible value of +100.



Other Mature Markets

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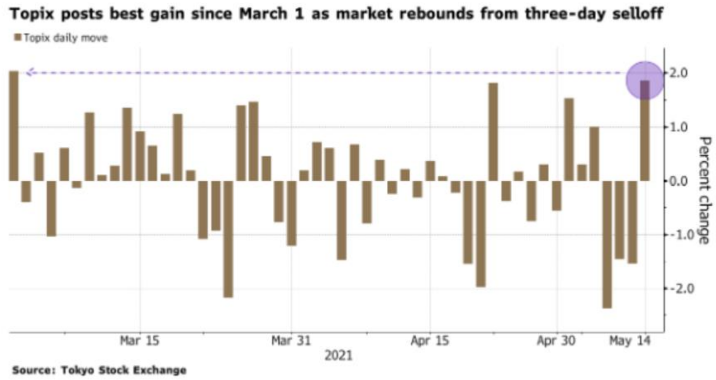
Japan

Equities bounced back 1.9% led by tech companies. Japan will add three more prefectures to the state of emergency effective May 16, the current emergency measures already cover six prefectures making up 40% of the country's economy. Separately, Minister of Economy, Trade and Industry stated on Friday, that Japan's power supply is expected to be the tightest in "several years" this summer amid an outlook for warmer-than-normal weather and lower electricity output as some thermal facilities are shut, Bloomberg reports. **The yen and 10-year JGB were little changed.**



South Korea

South Korea unveiled plans to spend $450 bn to build the world's biggest chipmaking base over the next decade. Samsung Electronics Co. and SK Hynix Inc. will lead more than 510 tn won of investment in semiconductor research and production in the years to 2030 under a national blueprint devised by President Moon Jae-in's administration. Samsung is boosting its spending by 30% to $151 billion through 2030 while Hynix is committing $97 billion to expansion at existing facilities in addition to its $106 billion plan for four new plants in Yongin. The government aims to achieve global leadership in both memory and non-memory chip production by 2030. Semiconductors account for the largest share of South Korea's exports and chip exports are expected to double to $200 billion by 2030, said the Ministry of Trade, Industry and Energy according to Bloomberg. The Korean government will incentivize its domestic industry with tax breaks, lower interest rates, eased regulations, and reinforced infrastructure. **Equities advanced by 1%, South Korean won was little changed.**

Emerging Markets

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Asian equities gained 0.6% on net after three days of losses. The Singapore equity index dropped 2.6% as the government announced a return to lockdown-like conditions thru mid-June. Chinese stocks outperformed (+1.8%). Taiwan POC gained +1% after a major sell off earlier this week, with outstanding margin debt falling 12% in three days to Thursday, which was the fastest pace of leverage unwinding since 2015, according to Bloomberg. Indonesia and Malaysia markets were closed due to holidays. **Regional currencies strengthened** led by the Chinese Renminbi (+0.3% onshore, +0.2 offshore). **Stocks in EMEA are trading mixed-to-higher.** Equities across African and the Middle East gained, led by Saudi Arabia (+0.9%), Egypt (+0.7%), South Africa (0.5%), and UAE (+0.4). In Eastern and Central Europe, stocks advanced in the Czech Republic (+1.1%) and Hungary (+0.5%), while they dropped in Turkey (-0.3%) Poland (-0.2%), and Romania (-0.3%). Currencies mostly gained to the dollar, by about 0.1% to 0.5%. The Turkish lira has appreciated 0.8% on the day. **Latin American equity markets were mixed yesterday, with Brazil up 0.8%, Chile down 0.9%, and Mexico slightly higher.** In the currency markets, the Brazilian real and Chilean peso were flat, while the Mexican peso and Peruvian sol appreciated over 1%. Long-term government bond yields were also mixed, with Brazilian rates little changed, Chilean rates up 8 bps, and Mexican rates down 7 bps.

Key Emerging Market Financial Indicators

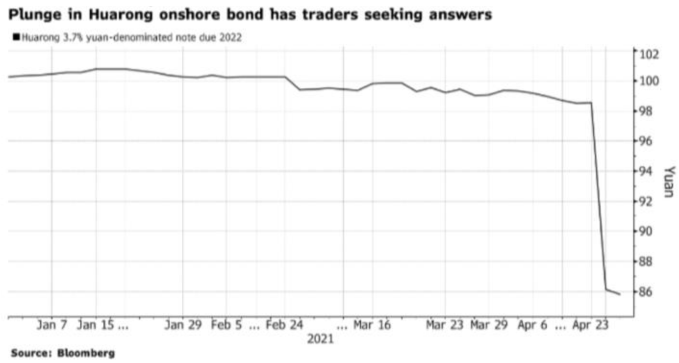
Last updated:	Level		Change				
5/14/21 8:22 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		52.01	0.7	-4	-3	42	1
MSCI Frontier Equities		31.56	0.1	1	3	43	11
EMBIG Sovereign Spread (in bps)		334	3	-5	-12	-246	-16
EM FX vs. USD		57.60	0.4	0	2	9	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.44	0.3	0	1	10	1
Indonesian Rupiah		14198	0.0	2	3	5	-1
Indian Rupee		73.29	0.2	0	3	3	0
Argentine Peso		94.02	0.0	0	-1	-28	-10
Brazil Real		5.27	0.7	-1	7	10	-1
Mexican Peso		19.81	0.6	1	1	20	1
Russian Ruble		73.94	0.2	0	3	-1	0
South African Rand		14.09	0.2	0	2	31	4
Turkish Lira		8.43	0.9	-2	-4	-18	-12
EM FX volatility		9.43	0.0	0.2	-0.6	-2.3	-1.3

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

China

Equities rose (both Shanghai and Shenzhen +1.8%) boosted by gains in healthcare and financial sectors. Investors' worries about Huarong Asset Management resurfaced. The financial conglomerate's RMB 19 bn ($2.95 bn) local bond maturing in 2022 plunged by 12.4 yuan Thursday to a low of 86.15 yuan, falling further on Friday morning, with just several transactions reported, according to Bloomberg.

Separately, **China will accelerate the energy-saving transformation of the power, steel, non-ferrous metal, and petrochemical industries.** The statement was posted by the National Development and Reform Commission. Seven provinces including Zhejiang, Guangdong and Xinjiang were told to accelerate the pace of shutting down outdated production facilities, according to Bloomberg. **The RMB strengthened (+0.3% onshore, +0.2 offshore), while the 10Y sovereign bond yield was little changed.**



Chile, Mexico, Peru

The three central banks kept key policy rates on hold, in line with expectations. The policy makers looked through recent rises in inflation, interpreting them as temporary, and opted for supporting the economies, based on Bloomberg reporting. In Mexico, the central bank left the policy rate unchanged at 4.00% after a 25 bp cut in February, amid inflation reaching 6.1% yoy in April—well above the target of 3%. Some analysts now expect a hike in Q4 or after this year, based on Reuters reporting. The Chilean central bank held its key policy rate at a record low of 0.5%, as expected, and pledged to keep it at the current level as long as needed for the recovery to take hold. Commentators noted that the decision to support the economy was made amid a strengthening economic outlook, as shown by the latest central bank's survey, and short-term inflation projections slightly above the 3% target, and some speculate that an early hike may be needed. The Peruvian central bank also kept its policy rate steady at a historical low of 0.25%, in line with expectations, and said it is "appropriate to maintain a strongly expansionary monetary stance over a prolonged period" amid the pandemic.

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas
Deputy Division Chief

Antonio Garcia-Pascual
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Jose Abad
Financial Sector Expert

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Liumin Chen
Research Assistant

Yingyuan Chen
Financial Sector Expert

Han Teng Chua
Economic Analyst

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Mohamed Diaby
Economist (EP)

Dimitris Drakopoulos
Financial Sector Expert

Deepali Gautam
Research Officer

Rohit Goel
Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sonia Meskin
Financial Sector Expert

Natalia Novikova
IMF Resident Representative in Singapore

Dmitri Petrov
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Juan Solé
Senior London Representative

Jeffrey Williams
Senior Financial Sector Expert

Dmitry Yakovlev
Senior Research Officer

Akihiko Yokoyama
Senior Financial Sector Expert

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 5/14/21 8:19 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities				%			%
United States		4127	1.2	-3	0	45	10
Europe		3987	0.9	-1	0	44	12
Japan		28084	2.3	-4	-5	40	2
China		3490	1.8	2	2	22	0
Asia Ex Japan		89	-0.1	-4	-4	39	0
Emerging Markets		52	-0.1	-4	-3	42	1
Interest Rates				basis points			
US 10y Yield		1.64	-2.1	6	0	102	72
Germany 10y Yield		-0.13	-0.7	9	13	42	44
Japan 10y Yield		0.09	-0.5	0	0	9	7
UK 10y Yield		0.86	-4.0	8	5	65	66
Credit Spreads				basis points			
US Investment Grade		95	-0.9	3	3	-108	0
US High Yield		342	0.3	8	7	-428	-37
Europe IG		51	-0.6	1	0	-39	3
Europe HY		255	-4.3	4	8	-286	13
Exchange Rates				%			
USD/Majors		90.45	-0.3	0	-1	-10	1
EUR/USD		1.21	0.4	0	1	12	-1
USD/JPY		109.3	-0.2	1	0	2	6
EM/USD		57.6	0.4	0	2	9	-1
Commodities				%			
Brent Crude Oil ($/barrel)		68	1.3	0	2	118	31
Industrials Metals (index)		158	0.0	-3	8	67	19
Agriculture (index)		60	1.2	-3	13	73	24
Implied Volatility				%			
VIX Index (%, change in pp)		21.4	-1.7	4.7	4.4	-11.2	-1.4
US 10y Swaption Volatility		70.9	0.0	2.7	-4.9	7.3	10.8
Global FX Volatility		7.3	0.0	0.1	0.1	-1.7	-0.7
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		120	2.0	-2	1	-141	0
Italy		121	3.2	3	16	-115	10
Portugal		73	2.2	1	5	-67	13
Spain		72	1.7	2	5	-57	11

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: 5/14/2021 8:21 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		6.44	0.3	0.0	1	10	1		3.2	1.4	-1	-5	67	-6
Indonesia		14198	0.0	1.6	3	5	-1		6.5	0.0	-1	-18	-145	39
India		73	0.2	0.3	3	3	0		6.3	0.0	0	-6	7	34
Philippines		48	0.1	0.2	1	6	0		4.2	0.0	-1	11	-38	58
Thailand		31	-0.1	-0.7	0	2	-4		1.8	-2.1	0	-9	51	50
Malaysia		4.13	-0.2	-0.1	0	5	-3		3.3	0.0	3	3	45	72
Argentina		94	0.0	-0.2	-1	-28	-10		45.8	-11.1	-87	-17	397	-1038
Brazil		5.27	0.7	-0.6	7	10	-1		8.3	-1.9	16	-12	211	274
Chile		708	-0.1	-1.2	0	16	0		3.6	-1.9	1	15	96	85
Colombia		3725	0.6	2.3	-2	5	-8		6.8	-20.3	8	50	107	169
Mexico		19.81	0.6	0.5	1	20	1		6.9	-7.3	16	25	66	128
Peru		3.7	1.6	4.3	-1	-6	-1		4.7	-13.1	-34	5	39	113
Uruguay		44	0.0	-0.4	0	-1	-4		7.4	-0.3	1	-1	-399	15
Hungary		293	0.7	0.6	2	12	1		2.2	5.8	23	14	57	69
Poland		3.73	0.5	0.4	2	13	0		1.3	7.3	25	38	29	61
Romania		4.1	0.4	-0.4	1	10	-2		2.7	4.0	11	9	-126	-2
Russia		73.9	0.2	-0.3	3	-1	0		6.8	4.2	12	-13	122	110
South Africa		14.1	0.2	-0.2	2	31	4		9.9	6.8	6	-12	-20	30
Turkey		8.43	0.9	-2.2	-4	-18	-12		17.6	0.0	7	-13	582	453
US (DXY; 5y UST)		90	-0.3	0.2	-1	-10	1		0.81	-1.6	4	-4	51	45

	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		5111	2.4	2	3	31	-2		199	0	-2	-9	30	-9
Indonesia		5938	0.0	0	0	29	-1		158	0	-9	-25	-5	-29
India		48733	0.1	0	0	57	2		165	1	1	-4	-162	14
Philippines		6269	0.5	0	-3	13	-12		83	0	-9	-17	13	-22
Malaysia		1583	0.0	0	-1	13	-3		113	0	-2	-3	9	3
Argentina		52626	0.0	7	11	34	3		1459	0	19	8	-570	91
Brazil		120706	0.0	1	0	53	1		253	0	0	-16	58	3
Chile		4444	0.0	-4	-10	22	6		126	0	-6	-16	-14	-18
Colombia		1262	0.0	-2	-4	20	-12		207	0	-4	-15	44	2
Mexico		48829	0.0	0	1	35	11		348	0	-9	-34	55	-12
Peru		21515	0.0	10	1	42	3		133	0	-4	-3	22	1
Hungary		45234	0.6	2	6	32	8		65	0	-6	-15	-42	-31
Poland		62129	0.2	0	3	40	9		-22	0	-4	-11	-54	-21
Romania		11610	-0.1	0	4	43	18		181	6	-6	-9	-169	-22
Russia		3639	0.1	-1	2	40	11		159	0	-5	-3	19	-7
South Africa		66556	0.6	-3	-2	36	12		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	0.7	-4	-3	42	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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