




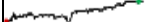









- Analysts upgrade US GDP forecasts ([link](#))
- US rates markets stayed calm despite last week's inflation surprise ([link](#))
- Rising Italian yields draw investor scrutiny ([link](#))
- China's April economic data miss expectations ([link](#))
- Emerging market hard currency issuance subdued despite favorable markets ([link](#))
- Hungary signals rate hikes to start earlier than expected ([link](#))

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Lingering virus worries push global markets lower

The week has started on a negative note as worries about the virus continue to dominate global markets. Almost all European markets are all lower, while US equity index futures are also down. Gold is at a three-month high on safe haven buying. India continues to grapple with the world's highest new case counts even as Southeast Asia becomes a new focus for the disease and Brazil also continues to struggle. There are fears that the reportedly more virulent Indian strain could spread to more countries, with the UK among the latest to report such cases. Weak economic data from China also undermined investor confidence, as did concerns about rising global inflation. On a more positive note, reopening plans in the UK and euro area are gathering pace.

Key Global Financial Indicators

Last updated: 5/17/21 7:55 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4174	1.5	-1	0	46	11
Eurostoxx 50		3998	-0.5	-1	-1	44	13
Nikkei 225		27825	-0.9	-6	-6	38	1
MSCI EM		53	1.8	-3	-3	47	2
Yields and Spreads			bps				
US 10y Yield		1.63	0.3	3	5	99	72
Germany 10y Yield		-0.11	2.1	10	15	42	46
EMBIG Sovereign Spread		333	-2	-2	-9	-257	-17
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.7	0.1	0	1	9	0
Dollar index, (+) = \$ appreciation		90.2	-0.1	0	-1	-10	0
Brent Crude Oil (\$/barrel)		68.6	-0.1	0	3	111	32
VIX Index (% change in pp)		20.6	1.8	1	4	-11	-2

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

It is expected to be a fairly quiet week on the data front, without many major new releases. The FOMC minutes due on Wednesday are likely to draw the most attention. The governor of the Bank of Canada will hold a press conference to discuss policy on Thursday, while euro area finance ministers and central bank governors have an informal meeting on Friday. Earnings season continues, with reports due from companies such as Deere and Co., Applied Materials, Tencent and Walmart.

Selected Data Releases for the Week Ahead

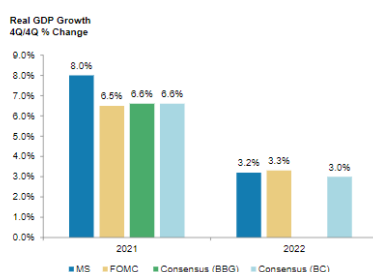
Data Release	Consensus Forecast
Housing Starts (US) Wednesday	1705K, -2.0% mom
FOMC minutes (US) Wednesday	
Markit PMIs (US) Friday	60.2 manufacturing, 64.5 services
Euro area Q1 GDP Tuesday	-0.6% qoq, -1.8% yoy
Euro area April CPI Wednesday	0.6% mom, core 0.8% yoy
Euro area PMI Friday	62.6 manufacturing, 52.4 services
Source: Bloomberg	

United States

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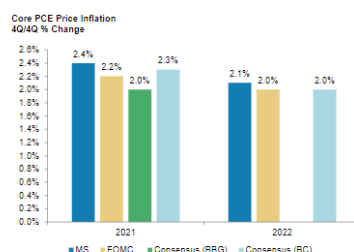
US GDP estimates are being revised upwards by analysts across the financial industry, with Morgan Stanley among the more optimistic. The bank is predicting 8% GDP growth in 2021 qoq (7.1% yoy). The equivalent estimates for 2022 were raised to 3.2% and 4.9% respectively. This is based on the assumption that a major portion of President Biden's infrastructure package will be passed into law, and that the additional fiscal stimulus will provide a tailwind for the recovering economy. The analysts think the Fed will begin tapering its asset purchases as early as November if the optimistic scenario plays out.

Exhibit 3: GDP Forecast Comparison



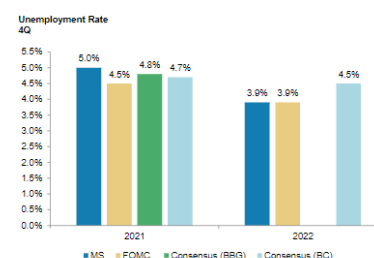
Note: FOMC Projection is from March 2021 Summary of Economic Projections, May Blue Chip survey. Source: Blue Chip, Federal Reserve Board, Bloomberg, Morgan Stanley Research forecasts

Exhibit 4: Core PCE Inflation Forecast Comparison



Note: FOMC Projection is from March 2021 Summary of Economic Projections, May Blue Chip survey. Source: Blue Chip, Federal Reserve Board, Bloomberg, Morgan Stanley Research forecasts

Exhibit 5: Unemployment Rate Forecast Comparison

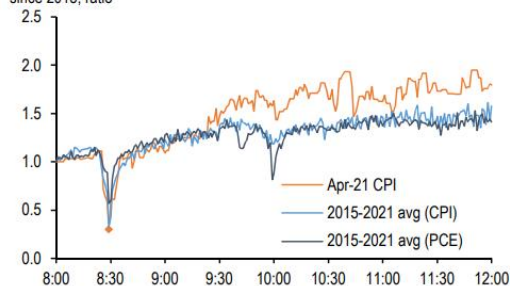


Note: FOMC Projection is from March 2021 Summary of Economic Projections, May Blue Chip survey. Source: Blue Chip, Federal Reserve Board, Bloomberg, Morgan Stanley Research forecasts

The fixed income markets remained stable last week despite the shock of the much higher than expected inflation data. Market depth was similar to previous CPI reports and only one part of the swaption market volatility surface rose above historical norms. The benchmark 10-year note briefly hit 1.71% on the day after the release but was back at 1.62% by Friday evening. Contacts indicate that many players think the inflation spikes will be temporary, and Treasury Inflation Protected Securities (TIPS) breakevens have sold off slightly from their multi-year highs set earlier in May. Expectations of Fed rate hikes also saw little change, with futures markets still looking at the second half on 2023 for the first move.

Exhibit 1: The cycle in depth around the CPI release was very much in line with longer-term averages

Market depth at the top-10 levels of the order book relative to the 8:00am starting level for that day, 5/12/21, all CPI release days since 2015, all PCE release days since 2015; ratio

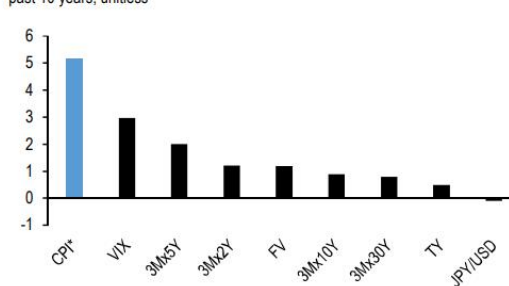


* Orange diamond denotes 8:30 peak drawdown level for 5/12/21.

Source: J.P. Morgan, BrokerTec

Exhibit 2: Only 3Mx5Y vol breached an increase in implied volatility of over 2 SDs

5/12/21 Z score of 1d change in implied volatility of various ATM options (or index level with VIX) compared to 1d changes in implied volatility on CPI days over the past 10 years, unitless



* CPI z score is the 10 year z score of actual minus survey m/m CPI.

Source: J.P. Morgan, Bloomberg Finance L.P.

Europe

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Stocks were lower across the board as markets continued to grapple with virus worries. **Sovereign yields held steady, with** German 10-year yields at -0.13% (unchanged.); French OATs at 0.27% (+1 bps); Italian at 1.09% (+2 bps); and Spanish at 0.59% (+1 bps). **Ten-year Italian sovereign yields have doubled YTD**, from around 0.55% at end-2020 to 1.09% nowadays (chart). The increase in yields comes on the back of bulging debt levels and rising inflation expectations, as measured by forward inflation swaps (chart). Analysts at Bloomberg estimate that to prevent a rise in sovereign rates, the ECB needs to step up weekly bond purchases to about €20 bn, compared to the recent pace of around €16 bn/week.

Ten-year yields have climbed this year



Source: Bloomberg

BloombergOpinion

Inflation Expectations

(5y-5y Forward Inflation Swaps, %)



In **European credit markets**, spreads continued to trade at contained levels, with the high-yield index trading at 250 bps and the investment grade at 50 bps. Credit spreads have remained relatively tight, despite some warning about profitability prospects for European companies. With the earnings reporting season almost completed in the US and the eurozone, analysts note that the recovery seems to be in train

for US both cyclical and non-cyclical corporates, while European counterparts are somewhat lagging behind (charts below).

European Corporate Credit Spreads



Source: Bloomberg

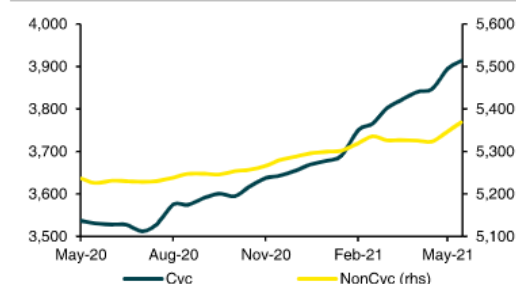
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Revenue expectations climb in the US...

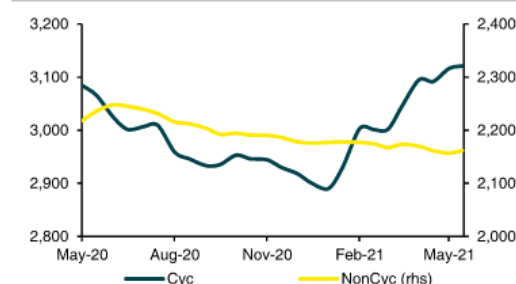
Aggregated FY year revenue expectations for US companies (144 cyclical and 171 non-cyclical), in €bn



Source: Markit, Bloomberg, Commerzbank Research

...and stall in Europe

Aggregated FY year revenue expectations for European companies (102 cyclical and 96 non-cyclical), in €bn



Source: Markit, Bloomberg, Commerzbank Research

Other Mature Markets

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Japan

Equities fell -0.2%, starting the week on a poor footing. Producer prices rose 3.6% yoy in April, the biggest increase since September 2014, driven by soaring commodity prices (particularly petroleum products). Machine tools orders meanwhile surged by 120.8% yoy in April versus 65.1% yoy in March, the largest rise since August 2010, driven by foreign demand. **Separately, Japan's new inflation-linked bond sale saw strong demand.** The bid-to-cover ratio of the bond sale came in at 3.82x, the most since the last new bond sale in May 2020.

Japan's firms can't absorb all input price increases



Source: The Bank of Japan and the internal affairs ministry

Japan's machinery tool orders surge most since 2010




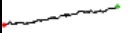





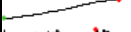





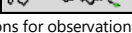
Source: Japan Machine Tool Builders' Association

Emerging Markets

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EMEA equities were mostly trading higher with stocks up in Poland (+1.1%), Saudi Arabia (+0.6%) and the Czech Republic (+0.6%). **Asian equities were also slightly higher on average.** Indonesia (-1.8%) lagged while India (+1.2%) and China (Shanghai +0.8%; Shenzhen +1.2%) rallied. Asian currencies saw a broad-based depreciation. **Thailand's** GDP contracted for the fifth straight quarter by -2.6% yoy in 2021Q1, versus -4.2% in 2020Q4 as the drop in private consumption outweighed the increase in government spending. Thailand's Ministry of Finance proposed a THB225bn (\$7.2 bn) fiscal package last week under the THB1.0tn COVID-19 emergency borrowing decree announced last year, and officials have started to discuss the possibility of raising the debt ceiling above the current 60% of GDP. **Latin American markets followed the US higher on Friday.** Currencies appreciated against the dollar, led by the Chilean peso (+1.1%) after the central bank removed the guidance that policy rates will be left unchanged for "several quarters". The 1-year swap rate rose by 13bps and markets are now pricing almost 2 hikes in the next six months.

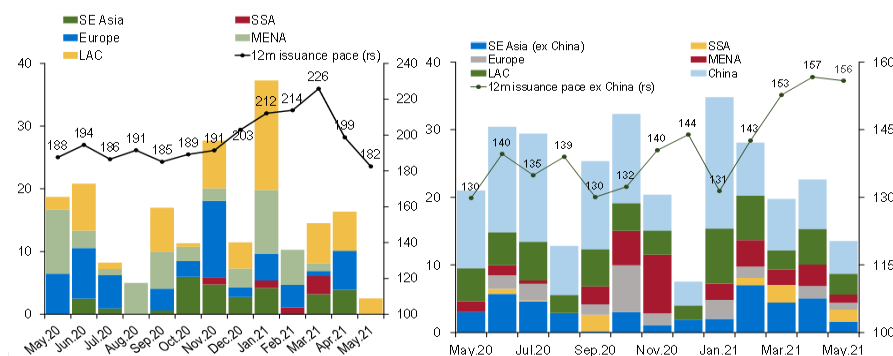
Key Emerging Market Financial Indicators

Last updated: 5/17/21 7:58 AM	Level	Change	YTD
	Last 12m index	1 Day 7 Days 30 Days 12 M	
Major EM Benchmarks		%	%
MSCI EM Equities	 52.95	-0.7 -3 -3	47 2
MSCI Frontier Equities	 31.83	0.9 1 3	44 12
EMBIG Sovereign Spread (in bps)	 333	-2 -2 -9	-257 -17
EM FX vs. USD	 57.45	-0.2 0 1	9 -1
Major EM FX vs. USD		%, (+) = EM currency appreciation	
China Renminbi	 6.44	-0.1 0 1	10 1
Indonesian Rupiah	 14283	-0.6 -1 2	4 -2
Indian Rupee	 73.22	0.1 0 2	4 0
Argentine Peso	 94.04	0.0 0 -1	-28 -11
Brazil Real	 5.27	0.7 -1 7	10 -2
Mexican Peso	 19.93	-0.3 0 -1	19 0
Russian Ruble	 74.09	-0.1 0 3	-2 0
South African Rand	 14.18	-0.4 -1 0	29 4
Turkish Lira	 8.37	1.0 -1 -3	-18 -11
EM FX volatility	 9.38	1.3 0.0 -0.6	-2.1 -1.4

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

EM hard currency issuance

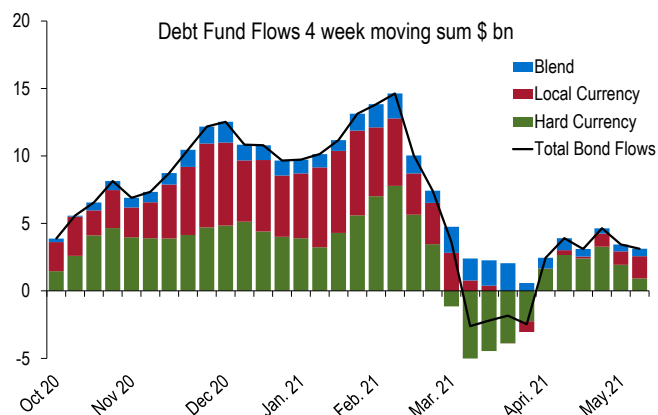
Hard currency issuance continues to be subdued despite favorable external credit spreads near post-pandemic lows (see [April EM Issuance Monitor](#)). The only issuance last week came from Uruguay (BBB rated) that tapped \$500 mn of its 2031 bonds and also issued global local currency bonds. The only other sovereign issuer in May has been Chile (A rated). There has been no high yield issuance at all this month. However, YTD sovereign issuance is the third-highest on record, mostly due to very strong issuance in January 2021, and corporate issuance has also been high this year.



Source: Bondradar

EM Fund Flows

Debt fund flows increased \$1.2 bn last week. The four-week moving sum of flows remains modest at around \$3 bn compared to over \$10 bn between November 2020 and mid-February 2021. Year-to-date returns stand at -2.4% and -3.2% for hard currency and local currency, respectively, while year-to-date flows stand at +\$8.3 bn and +\$10.7 bn for hard currency and local currency, respectively.



Source: EPFR

China

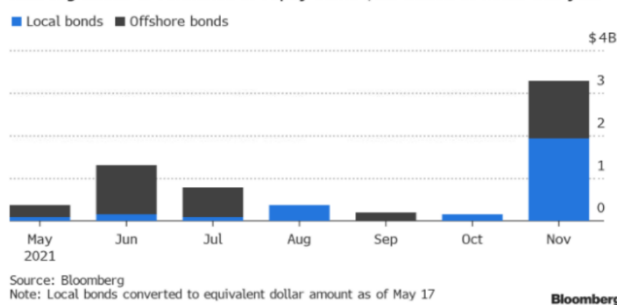
China's April activity data missed expectations. Retail sales saw the biggest disappointment, losing momentum to 17.7% y/y in April versus an estimate of 25% and 34.2% in March. Industrial production moderated to 9.8% y/y from 14.1% y/y over the same period and against expectations of 10%. Fixed asset investment grew by 19.9% y/y in the first four months of the year, weaker than 25.6% in the initial three months of the year. The People's Bank of China offered RMB100 bn (\$15.5 bn) of 1-year medium-term lending facility funds at an unchanged rate of 2.95%. **Separately, China Huarong Asset Management Co. has reportedly reached funding agreements with state-owned banks to ensure it can repay debt through at least end-August.** The liquidity support is arranged under the guidance of the country's financial regulator, suggesting that Huarong can obtain financing from entities such as Industrial & Commercial Bank of China Ltd. if needed, according to Bloomberg. Bloomberg data showed that Huarong has the equivalent of \$2.8 bn of offshore and onshore bonds due through August. Huarong reportedly also plans to complete its annual report by end-August.

PBOC adds just enough cash to offset amount coming due, as bond yield stays low



Source: Bloomberg

Huarong needs to refinance or repay some \$6.5 billion of notes this year



Source: Bloomberg

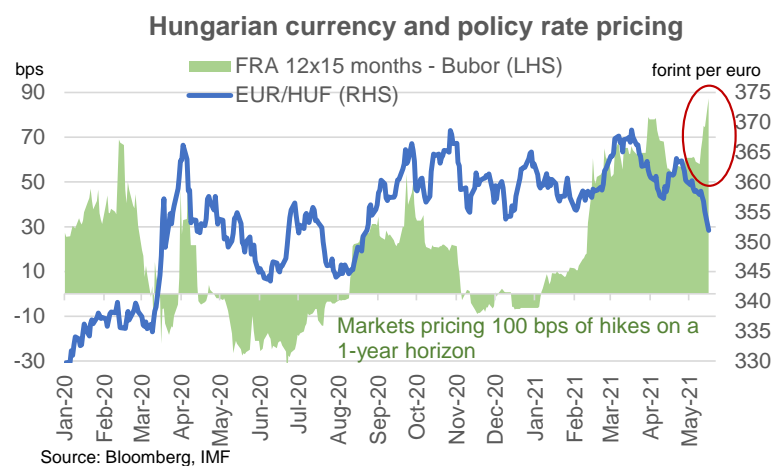
Note: Local bonds converted to equivalent dollar amount as of May 17

Bloomberg

Hungary

The National Bank of Hungary (NBH) Deputy Governor Virag signaled the potential for a June rate hike. The deputy governor noted that preparations should be made for higher inflationary risks due to re-opening of the economy as Hungarian headline price growth picked up to 5.1% yoy in April. At the same time, he noted that the government bond purchase program should remain in place even as other stimulus

measures are gradually phased out. **Interest rate forward market yields increased by about 15 bps on the news.** The Hungarian forint strengthened by 0.8% against the euro while 10-year government bond yields increased by 3 bps as contacts noted interbank support for long-end bonds due to the NBH's asset purchase commitment.





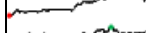


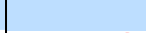
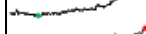


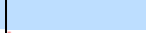
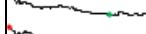


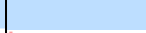
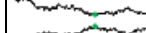


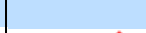
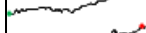

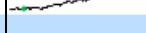






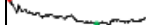
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Global Financial Indicators

Last updated: 5/17/21 7:56 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4174	1.5	-1	0	46	11
Europe		3998	-0.5	-1	-1	44	13
Japan		27825	-0.9	-6	-6	38	1
China		3518	0.8	3	3	22	1
Asia Ex Japan		91	1.7	-4	-4	44	1
Emerging Markets		53	1.8	-3	-3	47	2
Interest Rates			basis points				
US 10y Yield		1.63	0.3	3	5	99	72
Germany 10y Yield		-0.11	2.1	10	15	42	46
Japan 10y Yield		0.09	-0.4	0	-1	8	6
UK 10y Yield		0.88	1.9	9	11	65	68
Credit Spreads			basis points				
US Investment Grade		93	-2.8	1	2	-110	-2
US High Yield		340	-1.8	6	5	-430	-39
Europe IG		51	0.1	1	1	-34	3
Europe HY		254	0.2	3	7	-250	13
Exchange Rates			%				
USD/Majors		90.24	-0.1	0	-1	-10	0
EUR/USD		1.22	0.1	0	1	11	0
USD/JPY		109.2	-0.2	0	1	2	6
EM/USD		57.7	0.1	0	1	9	0
Commodities			%				
Brent Crude Oil (\$/barrel)		69	-0.1	0	3	111	32
Industrials Metals (index)		160	0.6	-1	8	69	20
Agriculture (index)		58	0.2	-3	10	69	22
Implied Volatility			%				
VIX Index (% change in pp)		20.6	1.8	0.9	4.3	-11.3	-2.2
US 10y Swaption Volatility		68.7	-4.0	-1.3	-7.0	5.1	8.6
Global FX Volatility		7.2	0.1	0.0	0.1	-1.7	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		123	3.2	3	6	-137	3
Italy		124	4.4	10	23	-115	13
Portugal		74	1.7	4	8	-67	14
Spain		73	1.8	5	8	-56	12

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: 5/17/2021 8:00 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	-0.1	-0.4	1	10	1		3.2	-0.3	-1	-5	66	-6
Indonesia		14283	-0.6	-0.6	2	4	-2		6.5	0.0	1	-18	-138	39
India		73	0.1	0.2	2	4	0		6.3	1.1	1	-5	11	35
Philippines		48	-0.1	0.0	1	6	0		4.2	0.0	1	23	-33	58
Thailand		31	-0.3	-1.1	-1	2	-5		1.8	-0.2	-2	-9	48	50
Malaysia		4.13	-0.1	-0.6	0	6	-3		3.3	0.0	2	4	45	72
Argentina		94	0.0	-0.2	-1	-28	-11		45.7	-10.2	-69	-33	372	-1048
Brazil		5.27	0.7	-0.7	7	10	-2		8.4	3.5	18	3	217	277
Chile		700	1.1	-0.8	1	17	1		3.7	4.8	8	9	104	89
Colombia		3686	1.1	2.1	-1	7	-7		6.7	-1.6	-4	50	108	167
Mexico		19.93	-0.3	0.1	-1	19	0		6.8	-4.1	17	25	62	124
Peru		3.7	-0.5	3.5	-1	-6	-2		4.8	5.8	-21	7	46	119
Uruguay		44	0.0	-0.6	0	0	-4		7.5	11.7	14	14	-371	27
Hungary		290	0.7	1.6	3	11	2		2.3	5.0	28	25	65	74
Poland		3.74	-0.2	0.5	1	12	0		1.3	1.8	27	40	36	63
Romania		4.1	0.0	0.2	1	9	-2		2.7	-1.0	11	3	-129	-3
Russia		74.1	-0.1	0.3	3	-2	0		6.8	-3.1	8	2	126	107
South Africa		14.2	-0.4	-1.0	0	29	4		9.9	-5.8	4	-3	-38	24
Turkey		8.37	1.0	-1.1	-3	-18	-11		17.6	0.0	17	-1	567	453
US (DXY; 5y UST)		90	-0.1	0.0	-1	-10	0		0.82	0.5	3	-1	51	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		5185	1.5	4	4	32	-1		199	0	-2	-9	30	-9
Indonesia		5834	-1.8	-2	-4	29	-2		158	0	-9	-25	-5	-29
India		49581	1.7	1	2	65	4		165	0	-1	-5	-154	14
Philippines		6284	0.2	0	-3	15	-12		83	0	-9	-17	13	-22
Malaysia		1583	0.1	0	-2	12	-3		113	0	-2	-3	9	3
Argentina		54850	0.0	7	15	39	7		1459	0	19	8	-570	91
Brazil		121881	0.0	0	1	57	2		253	0	0	-16	58	3
Chile		4575	0.0	-1	-8	26	10		126	0	-6	-16	-14	-18
Colombia		1290	0.0	1	-2	22	-10		207	0	-4	-15	44	2
Mexico		49219	0.0	0	1	38	12		348	0	-9	-34	55	-12
Peru		21881	0.0	8	3	44	5		133	0	-4	-3	22	1
Hungary		45649	0.5	2	6	34	9		65	0	-6	-15	-42	-31
Poland		62857	1.0	0	4	42	10		-22	0	-4	-11	-54	-21
Romania		11623	0.3	0	4	42	19		180	-1	-2	-11	-176	-23
Russia		3622	-0.4	-2	1	40	10		159	0	-5	-3	19	-7
South Africa		66668	0.1	-2	-3	34	12		357	0	-4	-35	25	-23
Turkey		1453	0.8	2	5	45	-2		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		53	-0.7	-3	-3	47	2		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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