



- April FOMC minutes suggest some willingness to start tapering discussions ([link](#))
- Cryptocurrencies sell-off on restrictions in China, with leverage and outages at trading platforms amplifying losses ([link](#))
- Euro high yield corporate bond spreads widen but primary issuance remains strong ([link](#))
- China's Huarong financial concerns spill into its onshore bonds ([link](#))
- Oil prices decline as Iran and the U.S. progress towards a nuclear deal ([link](#))
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## Markets cautious as inflation worries linger

Global equities were mixed this morning, with European bourses trading slightly higher and US equity futures declining modestly as markets remained worried about the risks of higher inflation. Investor concerns were reflected on the VIX index which climbed again this morning, its 4<sup>th</sup> consecutive daily gain. Cryptocurrencies stabilized, and partially recovered, after a volatile session yesterday that saw Bitcoin plunged as much as 30% before rebounding and ending the day down a more moderate but still sizable 12% loss. In fixed income, US Treasury yields were flat following yesterday's increase when the FOMC minutes revealed that some Committee members were open to discussing tapering at some point. Elsewhere, emerging market assets traded mixed while oil prices declined as investors focused on the prospect of a boost in Iranian supply.

Key Global Financial Indicators

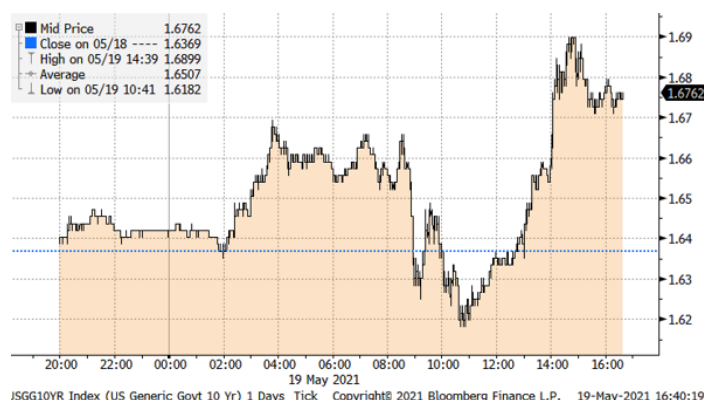
Last updated: 5/20/21 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4116	-0.3	1	0	39	10
Eurostoxx 50		3966	0.7	0	1	35	12
Nikkei 225		28098	0.2	2	-1	37	2
MSCI EM		53	-0.3	3	0	42	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.66	-0.9	1	10	98	75
Germany 10y Yield		-0.09	1.7	3	17	38	48
EMBIG Sovereign Spread		331	0	0	-3	-218	-20
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.7	0.2	1	1	7	0
Dollar index, (+) = \$ appreciation		90.0	-0.2	-1	-1	-9	0
Brent Crude Oil (\$/barrel)		65.8	-1.3	-2	-1	84	27
VIX Index (% change in pp)		22.3	0.1	-1	4	-6	0

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

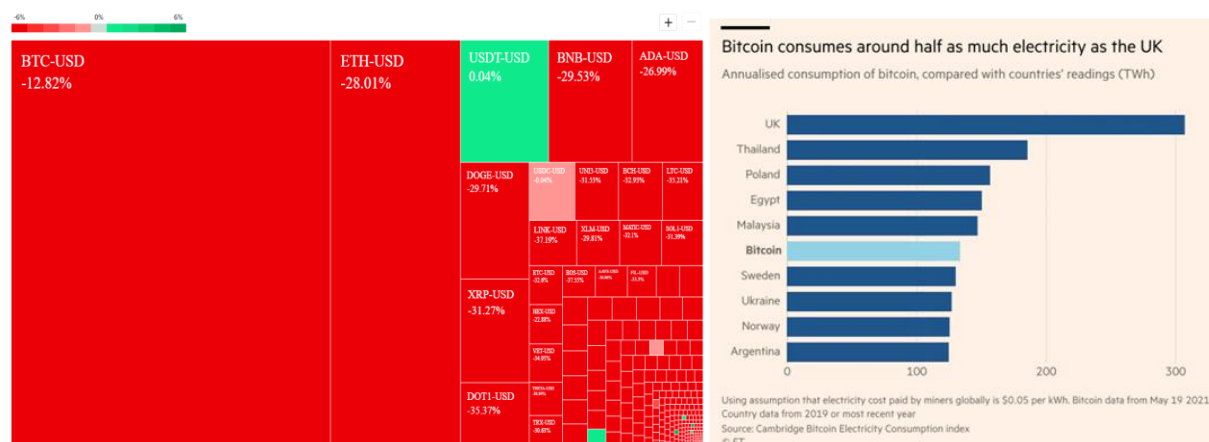
## United States

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The April FOMC minutes suggested some Committee members were open to discuss tapering at some point. According to the April FOMC minutes (published yesterday at 2pm EST), “a number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases”. This discussion, however, took place before the publication of the (disappointing) April employment numbers. Furthermore, “many participants” voiced concerns about potential input-related supply-side shortages weighing in on the recovery, and “a couple” also flagged risks of “unwelcomed” inflationary pressures crystallizing before they are “sufficiently evident to induce a policy reaction”. **Treasury yields increased following the release of the minutes**, with the 10-year hitting 1.67%, within striking distance of the post-pandemic intra-day high of 1.77% on March 31st.



**Cryptocurrencies sold-off yesterday, triggered by regulatory restrictions in China, with losses amplified by leveraged positions and outages at trading platforms.** BTC was down by c.12% and many other major cryptocurrencies were down by over 25%. The heatmap below reflects intraday moves, weighted by market cap. The catalyst for yesterday's sell-off was increasing concerns about new regulatory restrictions in China, with the selling pressure being amplified by the unwinding of leveraged positions and outages at some crypto trading platforms (including COIN). Post the cumulative correction of the last ten days, the BTCUSD cross is now back at the level it had in early February, before Tesla's announcement (February 8) that it had invested \$1.5bn in BTC and that it would accept BTC payments for its products. **This morning, Bitcoin (+3.6%) and Ether (+4.7%) retraced some of yesterday's losses** Contrasting with investors' furor about crypto-assets, **critics have highlighted the damaging environmental impact of the underlying technologies**, which are similar to the electricity consumption of an economy like Sweden's.



## Europe

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**Equities traded slightly higher:** DAX (+0.4%), CAC 40 (+0.6%), EuroStoxx 50 (+0.7%). Bank stocks (-0.1%) performed on the weaker side of today's spectrum. **Sovereign yields traded mixed**, with German and French government paper gaining 1-2 bps while Italian debt was flat.

**Italian president Sergio Matterella has announced he won't seek reelection in January**, opening speculation on whether Draghi will succeed him.

**German PPI surged to 5.2% (Y/Y) in April, from 3.7% in March.** Analysts attribute the increase to global shortages and disruptions of supply chains. While the producer price inflation is at levels similar to when the ECB last hiked rates, some commentators note that the reasons behind the surge would justify maintaining policy support. The ECB has conveyed the view that current price pressures are temporary.

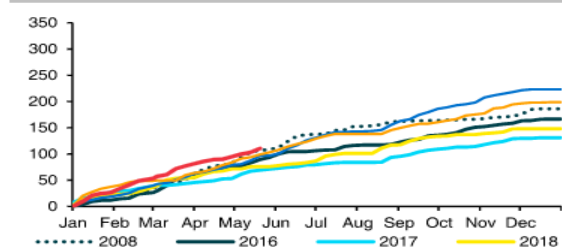
German factory-gate inflation reaches 2011 levels -- when ECB tightened



**Euro high-yield corporate credit spreads continued to widen this morning**, having increased about **10 bps this week**—trading now at about 250 bps—on the back of risk-off sentiment across asset classes. IG credit has also increased (+2 bps) although marginally. **Primary debt issuance has remained relatively strong throughout 2021**, especially for financial corporations.

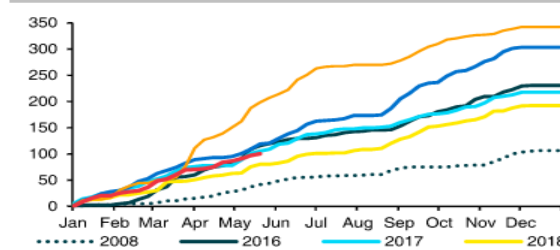
Record issuance from Financials...

iBoxx € Corp eligible Financials, cumulative issuance in €bn



...while NonFinancials stay on pre-2020 course

iBoxx € Corp eligible NonFinancials, cumulative issuance in €bn



## Other Mature Markets

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### Japan

**Equities were flat.** Exports performed strongly again in April, growing by 38% y/y versus 16.1% y/y in March, driven by surging car and auto parts and also favorable base effects. Compared with 2019, exports rose by almost 8%. **Japanese trust banks purchased the most super-long government bonds in eight years in April while selling overseas and domestic stocks.** Net purchases of Japanese government debt with tenors of 20 years and longer exceeded a net ¥1 tn (\$9.2 bn), according to Bloomberg citing Japan Securities Dealers Association. The yen gained +0.2% while the 10-year JGB yield rose slightly.

Japan stocks have been sliding in recent weeks



Japan pension-fund proxies rotate out of stocks into government bonds



## Emerging Markets

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**Asian equities were flat on net.** Losses in markets including the Philippines (-0.8%) and Taiwan Province of China (-0.6%) were offset by gains in Indonesia (+0.6%). **Regional currencies were mixed.** The Thai baht (+0.3%) strengthened and the Indonesia rupiah underperformed regional peers (-0.6%). Bloomberg reported that the Bank of Indonesia (BI) was intervening in FX spot and domestic NDF markets to smooth rupiah volatility amid risk-off trading and fund outflows. According to Bloomberg, BI considers recent fund outflows as still “rational” because of dividend and foreign debt payments. **EMEA equities were trading mixed** with benchmark indices up in the UAE (+1.4%) and Czech Republic (+0.7%) but down in Turkey (-0.9%) and Russia (-0.7%). **EMEA currencies were trading marginally stronger against the dollar,** including the Russian ruble (+0.2%), despite the declines in the crude oil price, as the U.S. decision to waive imposition of new sanctions against the Nord Stream 2 was seen as a positive development. In **Latin America**, currencies weakened on the back of higher US rates and declines in key commodity markets (e.g. oil, copper, iron ore). The **Brazilian Real** and the **Colombian Peso** underperformed depreciating by around 1% while stock indices in **Peru** and **Chile** declined by over 2%. **Mexican short term rates** continued their climb higher. The two year swap rate rose by 16 bps on Wednesday and is 50 bps higher since the US CPI release last week. Markets are now pricing more than 2 hikes over the next six months and almost 135bps of hikes over the next year.

Key Emerging Market Financial Indicators

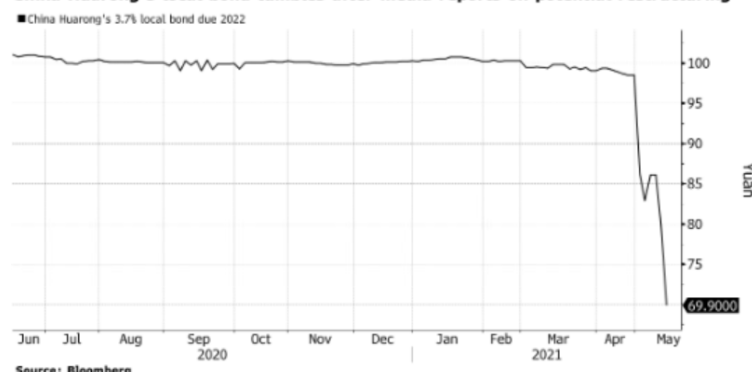
Last updated: 5/20/21 8:10 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.45	0.5	3	0	42	3
MSCI Frontier Equities		31.75	0.0	1	3	38	12
EMBIG Sovereign Spread (in bps)		331	0	0	-3	-218	-20
EM FX vs. USD		57.64	0.2	0	1	7	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.44	-0.1	0	1	10	1
Indonesian Rupiah		14375	-0.6	-1	1	2	-2
Indian Rupee		73.11	0.1	0	2	4	0
Argentine Peso		94.20	0.0	0	-1	-28	-11
Brazil Real		5.30	0.3	0	5	7	-2
Mexican Peso		19.89	0.2	0	0	17	0
Russian Ruble		73.58	0.3	1	5	-3	1
South African Rand		14.06	0.3	0	2	27	4
Turkish Lira		8.37	0.5	2	-3	-19	-11
EM FX volatility		9.27	0.0	-0.2	-0.7	-1.6	-1.5

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

## China

**Concerns over China Huarong Asset Management Co.'s financial position have spilled into its onshore bonds.** The company's RMB19 bn note due 2022 fell by 12% to a record low of RMB70.2, while its 3.75% dollar bond due 2022 dropped 5.5 cents to 73.6 cents on the dollar, the weakest level in more than a month. Huarong's onshore bonds had held up better than its dollar bonds until today. There has been volatility on its dollar bonds amid conflicting news reports surrounding the company's ability to repay its debt. Separately, China's 1-year and 5-year loan prime rates were unchanged for a 13<sup>th</sup> straight month. **Equities (Shanghai -0.1%; Shenzhen +0.1%) were mixed while the RMB was little changed.**

China Huarong's local bond tumbles after media reports on potential restructuring



## Iran

**President Rouhani suggested that negotiations around the revival of the 2015 nuclear deal have made significant progress towards an agreement.** According to media reports, a potential deal would reduce sanction on the energy, banking and shipping sectors. Analyst estimates around the prospective boost to oil production range between 500-1500k barrels per day with **crude oil prices (-1.3%) dropping this morning as investors focused on the prospect of a boost in Iranian supply.**

## Colombia

**The foreign currency credit rating was cut by one notch to BB+ by S&P with a stable outlook.** The downgrade follows the withdrawal of a fiscal reform following political opposition and protests, which has resulted "in a significantly lower likelihood of Colombia improving its fiscal position". Dollar bond spreads have underperformed peers (e.g. Mexico) recently but remain low compared to recent history. Looking ahead, **Colombia's inclusion in widely followed investment grade bond indices presents forced selling risks** if at least one more rating company (Moody's: Baa2, Fitch: BBB-) lowers its rating below investment grade. JP Morgan analysts estimate that rating sensitive holders are close to \$15 bn. However, this number includes a significant number of active investors -especially for corporates bonds- that have discretion and can maintain a share of HY bonds in their portfolio. Additionally, the risks for forced selling for local currency bonds are lower given that S&P maintained an investment grade rating for local currency debt.

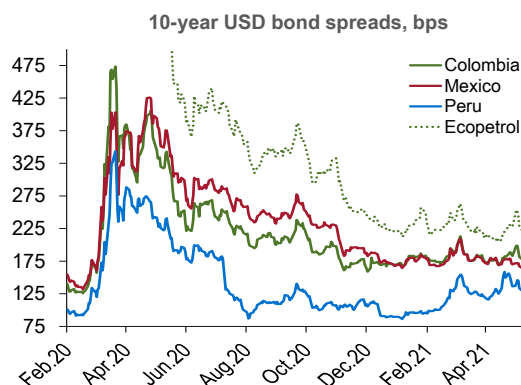




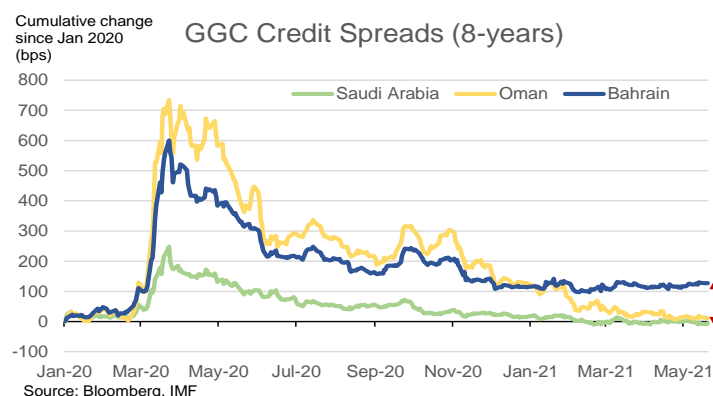
Exhibit 1: Summary of ratings-sensitive Colombia debt holdings

USD billion	Passive	Active	Total	% of outstanding bonds
Sovereign bonds (COLOM)	1.2 (38%)	2.0 (62%)	3.2	9%
Hard currency corporates	0.8 (9%)	7.9 (91%)	8.7	52% <sup>1</sup>
Local currency sovereigns (TES)	0.4 (11%)	3.1 (89%)	3.5	6%
<b>Total</b>	<b>2.4 (16%)</b>	<b>13.0 (84%)</b>	<b>15.4</b>	

Source: J.P. Morgan; Note: 1 Based on Colombia IG corporates; half of Colombia corporates outstanding are HY rated.

## Bahrain

**Fiscal risks overshadow the benefits from recovering oil prices. Bahrain Eurobonds have underperformed their regional peers** during the oil markets rally year-to-date, with credit spreads remaining about 100 bps above pre-Covid levels in the 10-year sector. **Contacts note that concerns around fiscal sustainability risks have resurfaced among investors**, also reflected in the recent change in Moody's ratings outlook from stable to negative. The fiscal outlook remains highly sensitive to oil price developments with analysts at Goldman Sachs projecting debt to GDP between 110% to 145% by 2024 assuming oil price range between \$40-70 per barrel as compared to the 90% target under pre-Covid Fiscal Balance Program. Analysts also note that the \$2 bn in Eurobonds raised in January should cover the financing needs for this year. In the coming years, around \$3.5 bn needs to be raised from external market annually, with risks skewed to the upside should GCC support package fall short from the currently envisioned \$4 bn.



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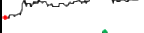




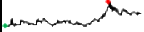
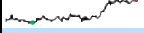














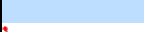

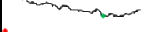

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## Global Financial Indicators

Last updated: 5/20/21 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4117	-0.3	0	0	39	10
Europe		3966	0.7	0	1	35	12
Japan		28098	0.2	2	-1	37	2
China		3507	-0.1	2	1	22	1
Asia Ex Japan		92	0.0	3	-1	40	2
Emerging Markets		53	-0.3	3	0	42	3
<b>Interest Rates</b>			basis points				
US 10y Yield		1.66	-0.9	1	10	98	75
Germany 10y Yield		-0.09	1.7	3	17	38	48
Japan 10y Yield		0.09	0.3	-1	0	8	6
UK 10y Yield		0.86	1.2	-4	13	63	66
<b>Credit Spreads</b>			basis points				
US Investment Grade		94	-0.2	-2	-2	-92	-1
US High Yield		345	0.8	3	4	-351	-35
Europe IG		53	0.3	1	2	-26	5
Europe HY		262	0.9	3	9	-198	20
<b>Exchange Rates</b>			%				
USD/Majors		90.00	-0.2	-1	-1	-9	0
EUR/USD		1.22	0.2	1	1	11	0
USD/JPY		108.9	-0.3	0	1	1	6
EM/USD		57.7	0.2	1	1	7	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		66	-1.3	-2	-1	84	27
Industrials Metals (index)		157	0.3	-1	7	59	18
Agriculture (index)		58	0.2	-2	7	66	21
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		22.3	0.1	-0.8	3.6	-5.7	-0.5
US 10y Swaption Volatility		71.7	-0.9	0.8	-9.3	7.1	11.6
Global FX Volatility		7.3	0.0	0.0	0.0	-1.2	-0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		115	-4.5	-3	-3	-113	-5
Italy		119	-3.5	2	15	-91	8
Portugal		70	-1.8	-1	3	-53	10
Spain		70	-2.0	-1	3	-41	8

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: 5/20/2021 8:09 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.44	-0.1	0.2	1	10	1		3.2	-1.3	0	-4	61	-7
Indonesia		14375	-0.6	-1.2	1	2	-2		6.5	-0.6	4	-4	-114	43
India		73	0.1	0.4	2	4	0		6.3	-0.4	1	-8	13	35
Philippines		48	-0.1	-0.2	1	6	0		4.3	-0.4	9	27	-14	68
Thailand		31	0.1	-0.2	0	1	-5		1.8	0.7	-2	-7	45	50
Malaysia		4.15	-0.1	-0.5	-1	5	-3		3.3	0.6	0	7	46	71
Argentina		94	0.0	-0.2	-1	-28	-11		45.8	-2.1	-12	-73	172	-1039
Brazil		5.30	0.3	0.2	5	7	-2		8.4	3.8	10	49	254	285
Chile		712	0.1	-0.7	-1	15	0		3.8	7.3	21	42	139	108
Colombia		3684	-0.7	1.7	-2	4	-7		6.7	2.2	-23	58	125	166
Mexico		19.89	0.2	0.3	0	17	0		6.9	3.2	-7	34	67	128
Peru		3.7	-0.1	-0.7	-2	-8	-3		5.0	2.9	9	11	65	135
Uruguay		44	0.0	0.1	0	-1	-4		7.6	1.2	24	27	-356	39
Hungary		287	0.4	2.8	5	11	3		2.4	-1.0	27	47	86	90
Poland		3.70	0.5	1.3	2	12	1		1.2	-5.9	6	37	24	60
Romania		4.0	0.2	1.0	1	9	-1		2.8	4.0	8	13	-128	2
Russia		73.6	0.3	0.7	5	-3	1		6.8	1.6	4	5	156	110
South Africa		14.1	0.3	0.4	2	27	4		9.9	-1.0	1	4	-30	24
Turkey		8.37	0.5	1.6	-3	-19	-11		17.6	0.0	-1	23	585	453
US (DXY; 5y UST)		90	-0.2	-0.8	-1	-9	0		0.85	-1.1	2	5	51	48

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5186	0.3	4	2	33	0		199	0	-2	-9	30	-9
Indonesia		5798	0.6	-3	-3	28	-3		158	0	-9	-25	-5	-29
India		49565	-0.7	2	4	60	4		159	-2	-5	-5	-137	8
Philippines		6198	-0.8	-1	-4	11	-13		83	0	-9	-17	13	-22
Malaysia		1575	-0.3	0	-1	8	-3		113	0	-2	-3	9	3
Argentina		55990	-0.2	10	19	41	9		1459	0	19	8	-570	91
Brazil		122636	-0.3	2	2	51	3		253	0	0	-16	58	3
Chile		4030	-2.7	-9	-19	7	-4		126	0	-6	-16	-14	-18
Colombia		1266	-0.8	-2	-3	18	-12		207	0	-4	-15	44	2
Mexico		49382	-0.8	1	2	37	12		348	0	-9	-34	55	-12
Peru		21205	-2.2	-2	9	37	2		133	0	-4	-3	22	1
Hungary		45988	1.9	2	8	29	9		65	0	-6	-15	-42	-31
Poland		63068	0.5	2	6	36	11		-22	0	-4	-11	-54	-21
Romania		11601	-0.1	0	4	38	18		180	-2	5	-3	-158	-23
Russia		3614	-0.6	-1	2	30	10		159	0	-5	-3	19	-7
South Africa		66176	0.5	0	-1	27	11		357	0	-4	-35	25	-23
Turkey		1445	-1.0	-1	5	42	-2		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		53	0.4	3	0	42	3		421	0	17	-10	97	128

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

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