





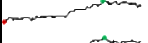







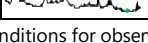
- Inflation concerns drive bond-equity correlation reversal, posing risks for investors' asset allocation ([link](#))
- High-frequency data across Europe point to a resilient recovery ([link](#))
- Bank of Canada flags high household debt as a key risk; OFSI tightens mortgage standards ([link](#))
- Indonesia returns to yen bond market with record low interest rates ([link](#))
- South Africa leaves its policy rate unchanged ([link](#))

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Risk sentiment recovers on solid European data

European bourses gained and US equity futures pointed to a positive opening as investor optimism was boosted by solid economic data releases in Europe. The improvements in European economic activity were small but pointed to a resilient recovery in April and May. Treasury yields and the dollar were little changed, while oil prices advanced to trim their biggest weekly decline since March. Gold prices rose slightly, gaining for the 7th consecutive trading session, as investors remain concerned about inflation risks. Fears of higher inflation are driving a sharp-reversal in the bond-equity correlation and helping boost investor demand for gold as a portfolio hedge. Elsewhere, EM assets benefited from the recovery in risk sentiment with most regional bourses higher and EM currencies trading in narrow ranges to the dollar.

Key Global Financial Indicators

Last updated: 5/21/21 8:01 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 4159	1.1	1	0	41	11
Eurostoxx 50	 4023	0.6	0	1	38	13
Nikkei 225	 28318	0.8	1	-2	39	3
MSCI EM	 54	0.6	3	-1	45	4
Yields and Spreads		bps				
US 10y Yield	 1.62	-0.2	-1	7	95	71
Germany 10y Yield	 -0.13	-1.9	0	13	37	44
EMBIG Sovereign Spread	 334	4	0	-6	-200	-16
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 57.7	0.1	0	1	7	0
Dollar index, (+) = \$ appreciation	 89.8	0.0	-1	-2	-10	0
Brent Crude Oil (\$/barrel)	 66.2	1.6	-4	1	83	28
VIX Index (% change in pp)	 20.4	-0.3	2	3	-9	-2

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

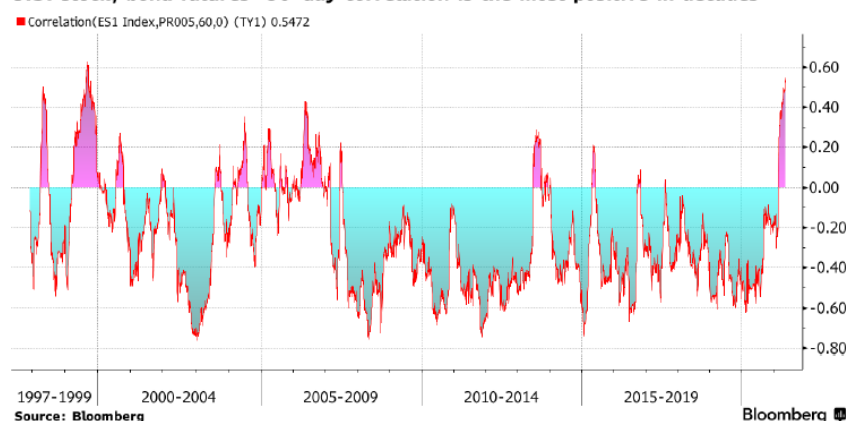
United States

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Inflation concerns are driving a sharp bond-equity correlation reversal, posing risks for investors' asset allocation. The correlation between US equities and bonds (currently at +0.5 on a 60-day basis) has not only turned positive (vs an average of -0.3 over the last two decades) but it has also reached its highest level since 1999. This reversal, which has been driven by recent inflation fears, could reduce the attractiveness of US Treasuries as a hedge for equities. Importantly, this may have implications for asset allocation (e.g. risk parity and 60/40 strategies). Should such fears eventually prove to be correct, it could bring the market back to the pre-2000s regime (US bond-equity correlation has been positive, on average, for much of the 20th century) when inflation concerns was a bigger driver of both equities and bonds.

Changing Relationship

U.S. stock, bond futures' 60-day correlation is the most positive in decades



Europe

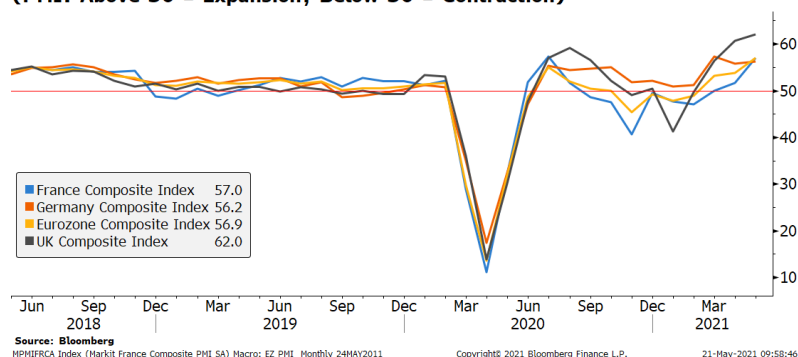
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Stocks advanced today, supported by the release of solid economic data across Europe. High-frequency data across Europe pointed to a resilient recovery in April and May:

- Retail sales (including autos) surged 42.4% in the UK in April, from 7.2% the month prior.
- Irish Consumer confidence rose to 85.8 in May, from 77.9.
- The Composite PMIs for France and Germany came in at 57.0 and 56.2, respectively in May. The UK's Composite PMI stood at 62.0

European Production Indices

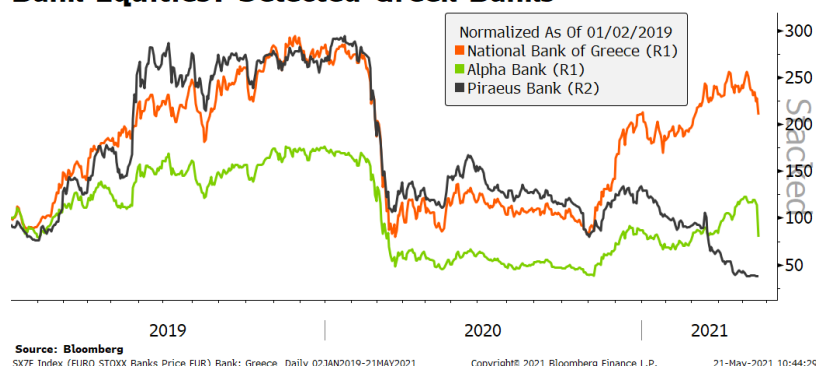
(PMI: Above 50 = Expansion; Below 50 = Contraction)



The DAX (+0.6%), CAC 40 (+0.7%) and EuroStoxx 50 (+0.6%) all gained. Bank stocks underperformed as they were trading flat on the day. **Greek banks, in particular, saw sharp declines**, led by **Alpha Bank (-29%)** on reports of a new planned capital increase of about €1 bn. NBG (-8%) also suffered notable declines

even as the lender completed a sale of \$212 mn of Romanian NPLs to Bain Capital. Piraeus (-4.4%) stocks also fell today.

Bank Equities: Selected Greek Banks



Sovereign yields declined slightly across countries and tenors. German 10-year yields were at -0.12% (-1 bp); French OATs traded at 0.25% (-1 bp); Italian at 1.3% (-3 bps); Spanish at 0.55% (-2 bps); and Greek at 0.98% (-3 bps). Italian and Greek spreads to bunds have compressed about 10 bps this week.

FinTech company Klarna is considering launching an IPO in London. The CEO of the \$31 bn-valued lending company, Sebastian Siemiatkowski, said that, after Brexit, the UK is in a position to write “better regulations for the financial sector.” Siemiatkowski noted, however, that markets are “extremely overheated” and likely to undergo a correction in coming months. Klarna offers credit for retail shopping and has grown to 3,000 employees.

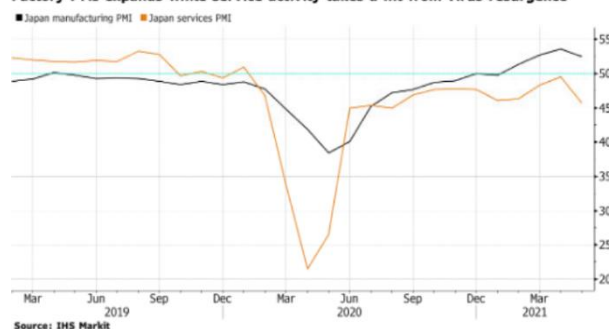
Other Mature Markets

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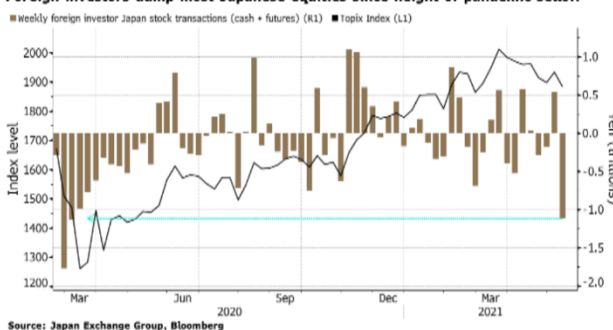
Japan

Equities rose +0.5%, driven by tech. Bloomberg data showed foreign investors selling the most equities and futures in the week ending May 14. Separately, Japan’s manufacturing activity expanded for a fourth straight month in May while services contracted. Manufacturing purchasing managers index (PMI) fell by 1.1 points to 52.5, while services declined 3.8 points to 45.7. Consumer prices meanwhile fell for the ninth consecutive month in April. Consumer prices excluding fresh food declined -0.1% y/y as a drop in cellphone fees outweighed gains in energy prices. Separately, the government is considering whether to extend the state of emergency in Tokyo and other areas until June 20, a month before Tokyo is due to host the Olympics Games, according to Bloomberg citing TBS. 82% of respondents said that the Olympics should be postponed again or cancelled, based on a poll carried out ANN from May 16 to 17. **The yen and 10-year JGB were little changed.**

Factory PMI expands while service activity takes a hit from virus resurgence

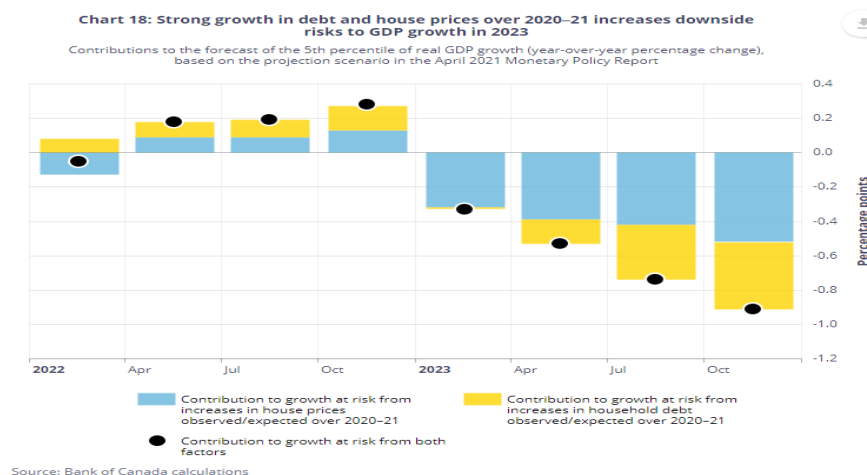


Foreign investors dump most Japanese equities since height of pandemic selloff



Canada

The Bank of Canada (BoC) flagged high household debt and housing imbalances as key risks, with the Office of the Superintendent of Financial Institutions (OSFI) tightening -uninsured- mortgage standards. In its latest Financial System Review (FSR), presented yesterday, the BoC flagged financial stability and growth risks associated with higher household debt during the pandemic (driven by higher mortgage indebtedness more than offsetting lower consumer indebtedness) and weaker lending standards (most of the increase was explained by households with a high loan-to-income and a high loan-to-value ratio), in a context of strong house price growth. Following the publication, the OSFI tightened conditions (i.e. a higher minimum qualifying rate) for uninsured mortgages.



Emerging Markets

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Asian equities saw modest gains (+0.3%) on net. India (+1.8%) and Taiwan Province of China (+1.6%) outperformed. **Malaysia (-0.8%) underperformed** amid near record daily virus infections exceeding 6k and worries of a stricter lockdown in Selangor state, where the virus is spreading rapidly. Indonesia (-0.4%) and China (Shanghai -0.6%; Shenzhen -0.5%) also lagged. The **Hong Kong** Stock Exchange is set to announce its quarterly review, the first since its overhaul announcement in March, which would boost the number of components to 80 from 55 by mid-2022. **Singapore** is launching a pilot project to trade carbon offsets on a new platform called Climate Impact X. **Regional currencies on the stronger side, led by Korean won (+0.5%) strength.** **Asian long-end government bond yields were mixed** with Indonesia down -4.6 bps and Philippines up +2.4bps at 10-year, and other emerging markets little changed. Analysts point to yield curve steepening risk in Asian rates in the near-term. While central banks remain dovish despite pickup in inflation pressures, debt issuance forecasts could be revised up amid prospects for additional fiscal support packages in the region. **EMEA equity markets were trading higher** with indices up in Czech Republic (+0.9%), Poland (+0.8%) and Turkey (+0.7%). **EMEA currencies appreciated against the dollar** with the South African rand (+0.3%) trading at the strongest level since the start of the pandemic. **The Central Bank of Lebanon announced that it will sell dollars through its currency platform Sayrafa.** The move comes as a renewed attempt to establish an official parallel market reference rate. This time the exchange rate on the platform has been set to 12000 liras per dollar, close to the current parallel market rate of around 12500-13000 \$/LBP and significantly above the official exchange rate of 1507 \$/LBP. In **Latam**, the **Peruvian Sol** was the best performing currency appreciating by 0.8%, while 10-year local rates declined sharply by 16 bps without any major headlines as the market waits the next set of polls over the weekend. The **Chilean Peso** underperformed depreciating by 0.9% likely due to headlines that China is looking to curb surging commodity prices (e.g. Copper).

Key Emerging Market Financial Indicators

Last updated: 5/21/21 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.76	-0.4	3	-1	45	4
MSCI Frontier Equities		31.91	0.5	1	3	37	13
EMBIG Sovereign Spread (in bps)		334	4	0	-6	-200	-16
EM FX vs. USD		57.69	0.1	0	1	7	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.43	0.0	0	1	11	1
Indonesian Rupiah		14355	0.1	-1	1	2	-2
Indian Rupee		72.84	0.4	1	4	4	0
Argentine Peso		94.24	0.0	0	-1	-28	-11
Brazil Real		5.29	-0.1	0	5	5	-2
Mexican Peso		19.92	-0.2	0	0	15	0
Russian Ruble		73.44	0.3	1	4	-3	1
South African Rand		13.94	0.3	1	2	26	5
Turkish Lira		8.38	0.1	1	-2	-19	-11
EM FX volatility		9.18	0.0	-0.1	-0.8	-1.5	-1.6

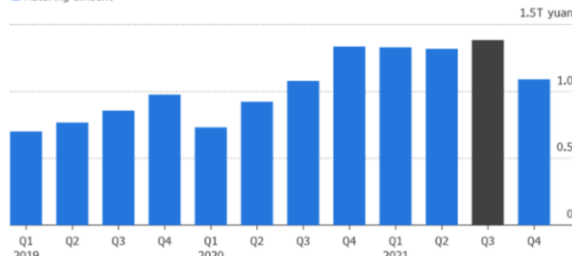
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

China

Equities (Shanghai -0.6%; Shenzhen -0.5%) fell, reversing an earlier rise. Local government-owned Chinese companies will repay a higher amount of debt in Q3, with RMB1.38 tn (\$209 bn) of onshore bonds due to mature, according to Bloomberg. This will mark the fourth straight quarter that repayment of at least RMB1.3 tn. Concerns surrounding the debt repayment capability of state-owned enterprises are heightened by worries over China Huarong Asset Management Co.'s financial position. Prices of short-dated bonds are more resilient, diverging from perpetual dollar bonds, with the company continuing to repay near-term debt on time but little clarity on potential debt restructuring. **Separately, the European parliament has overwhelmingly voted to freeze the ratification of the EU-China investment deal, according to Euronews.** European lawmakers are demanding China to lift sanctions before further progress is made on the deal, according to Bloomberg. China retaliated against the US, UK and EU over sanctions related to allegations of human rights abuses in Xinjiang in March. **The RMB was little changed.**

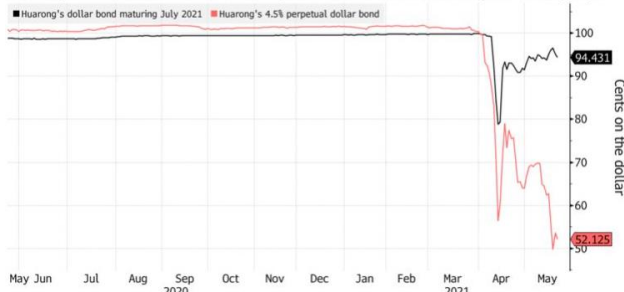
Chinese local state-owned firms have record amount of bonds coming due

■ Maturing amount



Source: Bloomberg

Huarong's short-dated bonds show signs of resilience as volatility hammers perps



Bloomberg Source: Bloomberg

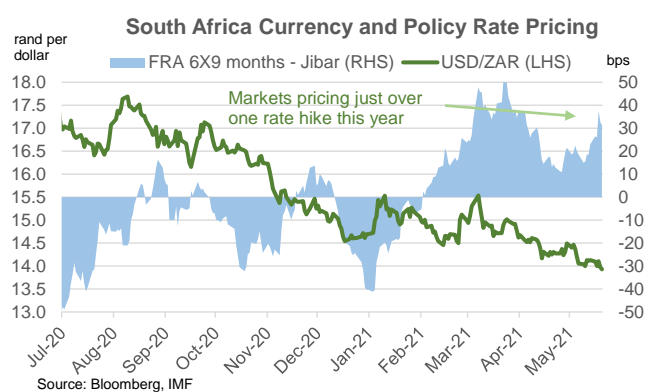
Indonesia

Indonesia sold ¥100bn (\$918 mn) of yen bonds at a record-low in a multi-part deal. The issuance included a sale of three-year notes at 0.33%. This was lower than the previous record low of 0.54% for a similar tenor issuance in 2019, according to Bloomberg. The country last sold ¥100bn worth of Samurai bonds in July 2020. **Separately, Indonesia's debt management office at the Ministry of Finance sees**

financing risks from rising US bond yields. It said that rising US bond yields may trigger capital outflows and weaken the currency. It said that the government will still be able to meet its debt financing target for the year but could be at potentially higher borrowing costs. It aims to maximize bond issuances in the second half of the year while Bank Indonesia provides support as a standby buyer in bond auctions. **The Indonesian rupiah was little changed at a two-week low, 10-year bond yield was little changed while equities fell -0.4%.**

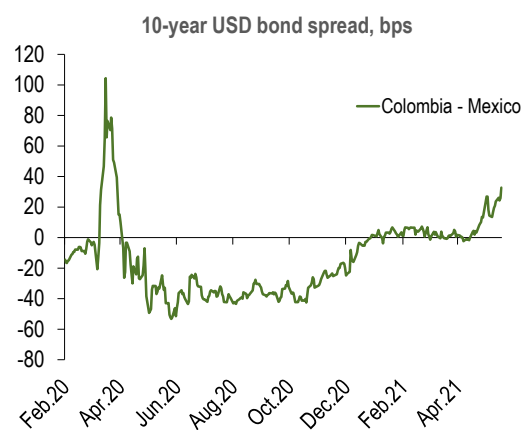
South Africa

The South African Reserve Bank left its policy rate unchanged at 3.5% while adopting a less hawkish tone than market participants had expected. The inflation forecast was revised lower even as the policy rate model projections remained largely unchanged, signaling a gradual policy rise to 6% by 2023 with first 50 bp of hikes delivered in 2021. The interest rate swap curve declined by 3-4 bps following the decision with markets pricing just over 25 bps of rate hikes this year.

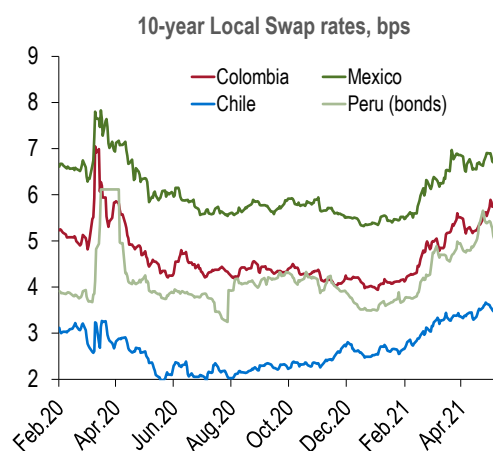


Colombia

Markets reacted to the one notch downgrade by S&P to BB+ that was announced after Wednesday's market close. The peso depreciated by 2% at the open but later retraced some of its losses and closed at -0.7%. The peso is the one of worst performing EM currencies year to date at -7%. Local swap rates increased by 10-13bps across the curve, with 10 year swaps crossing 6% for the first time since the market selloff in March 2020. 10-year USD bond spreads rose by 11bps. The USD credit spread with Mexico has widened to +35bps from -40bps in 2020. Market focus has now shifted to Fitch, given that a one notch downgrade (currently BBB-, negative) will lead to index exclusion from major bond indices. Several analysts highlighted that the downgrade by Fitch is now mostly in the price and apart from some temporary volatility they do not expect a major selloff in Colombian USD bonds going forward due to index exclusion risks.



Source: Bloomberg



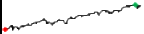


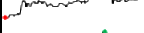




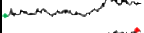













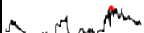


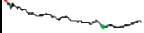


List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas <i>Deputy Division Chief</i>	Reinout De Bock <i>Economist</i>	Natalia Novikova <i>IMF Resident Representative in Singapore</i>
Antonio Garcia-Pascual <i>Deputy Division Chief</i>	Mohamed Diaby <i>Economist (EP)</i>	Dmitri Petrov <i>Financial Sector Expert</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Thomas Piontek <i>Financial Sector Expert</i>
Jose Abad <i>Financial Sector Expert</i>	Deepali Gautam <i>Research Officer</i>	Patrick Schneider <i>Research Officer</i>
Sergei Antoshin <i>Senior Economist</i>	Rohit Goel <i>Financial Sector Expert</i>	Juan Solé <i>Senior London Representative</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Liumin Chen <i>Research Assistant</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Dmitry Yakovlev <i>Senior Research Officer</i>
Yingyuan Chen <i>Financial Sector Expert</i>	Henry Hoyle <i>Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Han Teng Chua <i>Economic Analyst</i>	Phakawa Jeasakul <i>Senior Economist</i>	Xingmi Zheng <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Sonia Meskin <i>Financial Sector Expert</i>	

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Global Financial Indicators

Last updated: 5/21/21 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4164	1.1	0	0	41	11
Europe		4023	0.6	0	1	38	13
Japan		28318	0.8	1	-2	39	3
China		3487	-0.6	0	0	24	0
Asia Ex Japan		92	0.6	3	-1	44	3
Emerging Markets		54	0.6	3	-1	45	4
Interest Rates			basis points				
US 10y Yield		1.62	-0.2	-1	7	95	71
Germany 10y Yield		-0.13	-1.9	0	13	37	44
Japan 10y Yield		0.08	-0.2	-1	0	8	6
UK 10y Yield		0.84	-0.1	-2	10	67	64
Credit Spreads			basis points				
US Investment Grade		93	-1.7	-3	-3	-93	-2
US High Yield		346	1.8	4	5	-350	-34
Europe IG		52	-0.3	1	1	-28	4
Europe HY		257	-1.4	5	5	-219	14
Exchange Rates			%				
USD/Majors		89.78	0.0	-1	-2	-10	0
EUR/USD		1.22	-0.3	0	1	11	0
USD/JPY		108.8	0.0	0	1	1	5
EM/USD		57.7	0.1	0	1	7	0
Commodities			%				
Brent Crude Oil (\$/barrel)		66	1.6	-4	1	83	28
Industrials Metals (index)		157	0.4	-1	5	60	18
Agriculture (index)		57	-0.8	-2	4	65	19
Implied Volatility			%				
VIX Index (% change in pp)		20.4	-0.3	1.6	2.9	-9.1	-2.4
US 10y Swaption Volatility		68.9	0.8	0.6	-10.1	5.4	8.8
Global FX Volatility		7.2	0.0	0.0	-0.2	-1.1	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	-1.0	-8	-4	-113	-8
Italy		115	-1.5	-5	14	-96	4
Portugal		68	-0.4	-4	2	-57	8
Spain		68	-0.3	-4	2	-45	6

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: 5/21/2021 8:04 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		6.43	0.0	0.1	1	11	1		3.2	-2.1	-3	-5	58	-9
Indonesia		14355	0.1	-1.1	1	2	-2		6.5	2.6	7	0	-102	45
India		73	0.4	0.6	4	4	0		6.3	-1.1	0	-9	12	34
Philippines		48	0.0	-0.3	1	6	0		4.3	0.0	9	25	-15	68
Thailand		31	-0.1	-0.1	0	1	-5		1.8	0.5	1	-5	47	51
Malaysia		4.14	0.1	-0.4	0	5	-3		3.3	0.7	1	7	47	72
Argentina		94	0.0	-0.2	-1	-28	-11		45.5	-25.0	-26	-101	-19	-1064
Brazil		5.29	-0.1	-0.3	5	5	-2		8.3	-9.8	2	25	244	275
Chile		719	-0.9	-1.5	-3	12	-1		3.9	4.0	27	43	151	112
Colombia		3719	-0.9	0.2	-2	3	-8		6.8	9.0	6	65	148	175
Mexico		19.92	-0.2	-0.3	0	15	0		6.9	1.4	1	23	66	129
Peru		3.7	0.9	-1.4	0	-8	-2		4.8	-17.3	5	-9	50	118
Uruguay		44	0.1	0.2	0	-2	-4		7.6	-3.3	21	25	-319	36
Hungary		286	-0.2	2.1	5	11	4		2.4	-5.8	15	40	79	84
Poland		3.68	-0.2	1.4	3	12	1		1.2	-0.1	-1	33	24	60
Romania		4.0	-0.3	0.4	1	9	-2		2.8	0.0	4	13	-129	2
Russia		73.4	0.3	0.8	4	-3	1		6.8	-3.8	-5	-1	154	106
South Africa		13.9	0.3	1.4	2	26	5		9.8	-5.1	-11	-2	-9	19
Turkey		8.38	0.1	0.9	-2	-19	-11		17.7	3.6	3	12	643	456
US (DXY; 5y UST)		90	0.0	-0.6	-2	-10	0		0.81	0.0	0	1	47	45

	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		5134	-1.0	0	0	34	-1		199	0	-2	-9	30	-9
Indonesia		5773	-0.4	-3	-4	27	-3		158	0	-9	-25	-5	-29
India		50540	2.0	4	6	65	6		159	0	-6	-9	-130	8
Philippines		6199	0.0	-1	-3	12	-13		83	0	-9	-17	13	-22
Malaysia		1562	-0.8	-1	-3	9	-4		113	0	-2	-3	9	3
Argentina		57109	2.0	9	20	38	11		1459	0	19	8	-570	91
Brazil		122701	0.1	2	2	48	3		253	0	0	-16	58	3
Chile		4080	1.2	-8	-17	9	-2		126	0	-6	-16	-14	-18
Colombia		1255	-2.0	-1	-4	18	-13		207	0	-4	-15	44	2
Mexico		49907	1.1	2	2	40	13		348	0	-9	-34	55	-12
Peru		21236	0.2	-1	8	38	2		133	0	-4	-3	22	1
Hungary		46123	-0.3	2	8	30	10		65	0	-6	-15	-42	-31
Poland		63701	0.7	2	8	38	12		-22	0	-4	-11	-54	-21
Romania		11661	0.3	1	5	36	19		183	4	3	-5	-151	-20
Russia		3663	0.7	1	3	35	11		159	0	-5	-3	19	-7
South Africa		66659	0.8	0	-1	31	12		357	0	-4	-35	25	-23
Turkey		1461	0.8	1	10	42	-1		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		54	-0.4	3	-1	45	4		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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