














- All Fed speakers on Monday emphasized the transitory nature of recent inflation increases ([link](#))
- ECB maintains stable pace of QE purchases ([link](#))
- Chinese RMB appreciates to its strongest level since 2018 ([link](#))
- Bank Indonesia holds its policy rate unchanged at 3.5%, as expected ([link](#))
- Paraguay's central bank holds policy rates steady at 0.75% ([link](#))
- S&P downgrades Belize from CC to SD (selective default) as the country is on course for its second default in less than a year ([link](#))

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## Market sentiment improves on Fed speaker comments

European bourses gained modestly and US equity futures signaled a positive opening as comments from Fed officials on the transitory nature of recent inflation increases helped ease investor concerns. US Treasury yields fell slightly, with the 10-year yield trading at 1.59% this morning, its lowest level since early May. The dollar also weakened, with the DXY index trading at a fresh 5-month low. Gold prices were little changed and oil prices fell modestly. Elsewhere, EM equities rallied and most currencies benefited from the weaker dollar. Of note, the Chinese RMB appreciated to the strongest level since 2018, with some analysts commenting that continued dollar weakness and exporters' conversion of their foreign-currency earnings contributed to the recent strengthening of RMB.

Key Global Financial Indicators

Last updated: 5/25/21 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4197	1.0	1	0	42	12
Eurostoxx 50		4053	0.4	1	1	36	14
Nikkei 225		28554	0.7	1	-2	34	4
MSCI EM		54	0.8	1	-2	47	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.59	-1.2	-5	3	93	68
Germany 10y Yield		-0.16	-1.6	-5	10	34	41
EMBIG Sovereign Spread		335	2	4	-3	-196	-15
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.7	0.0	0	1	7	0
Dollar index, (+) = \$ appreciation		89.6	-0.2	0	-1	-10	0
Brent Crude Oil (\$/barrel)		68.3	-0.2	-1	3	92	32
VIX Index (% change in pp)		18.3	-0.1	-3	1	-10	-4

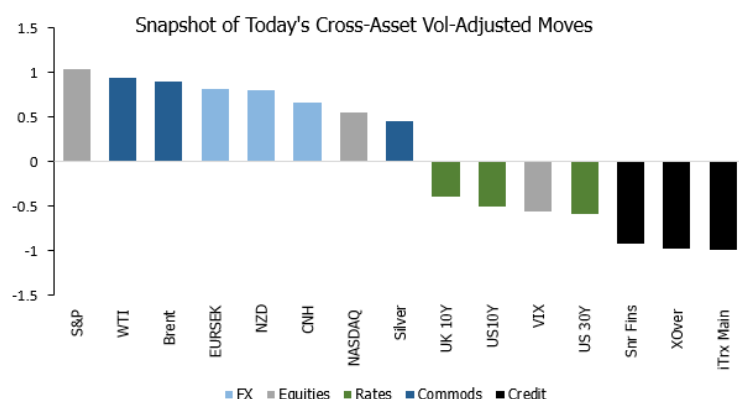
Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

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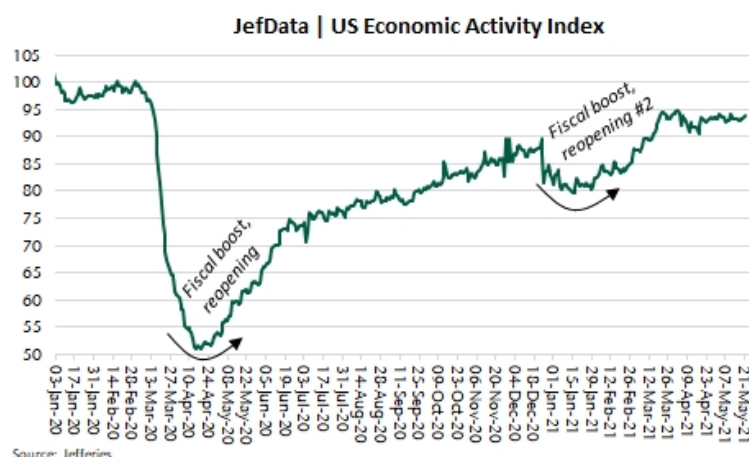
Amidst an otherwise quiet session yesterday, market participants focused on comments by Fed Governor Lael Brainard and Fed Presidents Raphael Bostic and James Bullard. All Fed speakers emphasized the transitory nature of recent inflation increases, as supply temporarily falls short of demand amidst post-pandemic reopening in the US. This view is consistent with sell side commentary, although market participants also remain focused on the highly cyclical “shelter” component of core inflation measures. Brainard also commented that inflation expectations remain “extremely well anchored”. US Treasury yields declined slightly yesterday while equities ended the session 1.0% higher, led by interest rate-sensitive communication and technology sectors.

The US dollar as measured by the DXY index was little changed amid reportedly low volumes. However, both the Norwegian Krone and the New Zealand dollar outperformed against the dollar, likely a function of the recent recovery in commodity prices. Indeed, the front-month crude oil futures rose over 3% on the session. More broadly, Goldman Sachs commentary suggested that US dollar short positioning is the most extreme in three years.



Source: Goldman Sachs

Market participants remain focused on the May nonfarm payroll report. Many note that restaurant sales and flight activity have picked up. Others, however, point to a potential peaking in online retail and housing. For instance, Jefferies economics team's proprietary high-frequency trackers point to another weak print.



## Europe

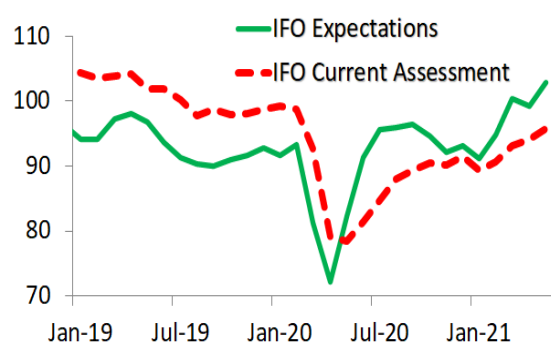
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**Yields traded lower as euro area investors returned from holidays with expectations firming that the ECB may leave policy unchanged** on 10 June after ECB President Lagarde said that it is “far too early and actually unnecessary to debate longer-term issues” last Friday. **10-year bund yields (-1 bps to -0.15%) edged lower** whereas **10-year Italian spreads fell 4 bps**. 10-year Greek and Spanish spreads were 2 bps lower.

**The ECB kept weekly net QE purchases in its pandemic QE program steady at €21.5bn** (compared to €24.6 bn week before but in a shortened holiday week in many countries). Analysts at Goldman Sachs calculate that the ECB has been expanding its PEPP program at a pace slightly above €80bn/m since the March policy meeting. **Goldman Sachs continues to look for a small reduction in PEPP pace in Q3, on the back of upgraded ECB staff projections at the June meeting.**

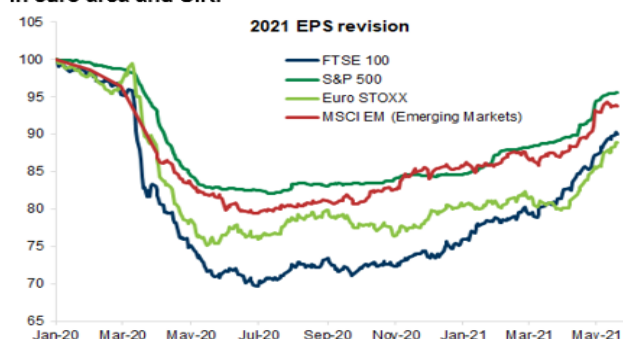
**The euro (+0.3% to \$1.225) and equities (+0.5%) rose as revisions to earnings have recovered sharply in the past months and German business expectations were better than expected.** Germany's IFO current assessment index was in line with expectations at 95.7 (95.5 expected) but expectations jumped to 102.9 (101.0 expected). Manufacturing sentiment was unchanged at relatively high levels, whereas domestic oriented services and retail trade received a big boost with price pressures observed across the supply chain.

Germany: IFO Business Surveys



Source: Bloomberg and IMF staff

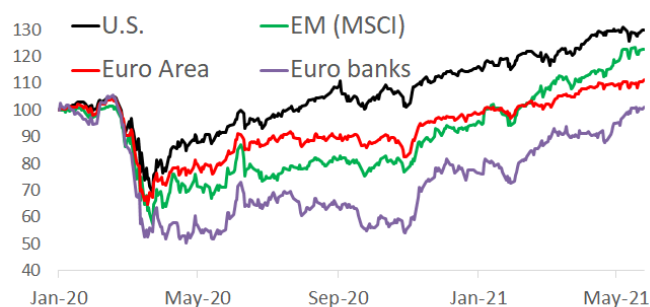
Equities: Earnings per share revisions have picked up strongly in euro area and U.K.



Source: Goldman Sachs

**European bank stocks have gained 7% in May and are consolidating at pre-pandemic levels.**

**Euro area: Bank stocks back at pre-pandemic levels**  
(1 Jan 2020: 100)



Source: Bloomberg and IMF

**German residential property firm Vonovia agreed to acquire rival Deutsche Wohnen for about €19 bn, the biggest-ever takeover in European real estate** (according to Bloomberg). The takeover would combine Germany's two largest residential landlords into an entity that controls more than 500,000 apartments.

## Other Mature Markets

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### Japan












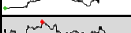
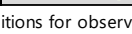

**Equities gained** (NIKKEI: +0.7%), similar to other exchanges in the region. The **Japanese yen was little changed**. Long-term JGB yields dropped slightly (10-year: -0.3 bp; 30-year: -0.3 bp).

## Emerging Markets

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**Asian equities gained, +1.9% on net**, led by Chinese (CSI 300: +3.2%), Hong Kong (+1.8%) and Taiwan (+1.6%) equities. **Asian currencies appreciated**, led by Korean won (+0.4%). RMB appreciated (+0.2%). **Long-end government bond yields generally declined**, with 10-year yields falling in Thailand (-3 bps) and Hong Kong SAR (-2 bps). **EMEA equity markets were trading higher** with indices up in Saudi Arabia (+1.0%), Czech Republic (+0.9%) and Russia (+0.8%). **EMEA currencies were little changed** except for the South African rand (+0.6%). Overnight, **the Central Bank of Nigeria** website replaced the official exchange rate with the NAFEX fixing, which is derived from investors and exporters window, thereby confirming market expectations of a transition to a more flexible, unified exchange rate regime. **Ghana announced plans to issue up to \$1 bn in sustainable debt by July**. According to Bloomberg reports, the sale could comprise of green and social bonds. The proceeds would be directed towards refinancing of existing projects including free senior secondary school policy. In **Latam**, stock markets were mixed on Monday, with Brazil (+1.2%) outperforming and Mexico down by 0.6%. In the government bond market, Chile's 10-year bond yield was up by 9 bps while Mexico was down by 6 bps.

Key Emerging Market Financial Indicators

Last updated: 5/25/21 8:05 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		53.58	1.3	1	-2	47	4
MSCI Frontier Equities		32.03	0.9	1	3	38	13
EMBIG Sovereign Spread (in bps)		335	2	4	-3	-196	-15
EM FX vs. USD		57.65	0.0	0	1	7	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.41	0.2	0	1	11	2
Indonesian Rupiah		14328	0.2	0	1	3	-2
Indian Rupee		72.78	0.3	0	3	4	0
Argentine Peso		94.28	0.0	0	-1	-28	-11
Brazil Real		5.32	0.9	-1	2	2	-2
Mexican Peso		19.83	0.2	0	0	14	0
Russian Ruble		73.42	0.0	0	2	-2	1
South African Rand		13.83	0.7	1	3	28	6
Turkish Lira		8.41	-0.3	-1	-1	-19	-12
EM FX volatility		9.20	0.0	0.0	-0.7	-1.8	-1.5

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

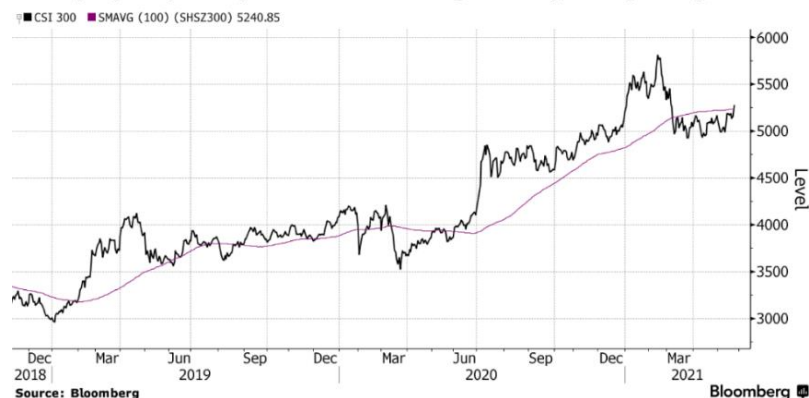
### China

**Chinese equities rose (CSI 300: +3.2%)**, with the rally led by liquor makers Kweichow Moutai (+6.0%) and Luzhou Laojiao (7.3%). Local media reported that Kweichow Moutai planned to double its revenues by 2025. The surge was accompanied by record net purchases by overseas investors via the stock connect scheme (\$3.4 bn). Some analysts also noted that the rally benefited from easing concerns about inflation following authorities' action to curb the rise in commodity prices. **RMB appreciated to the strongest level since 2018** (onshore: +0.2%; offshore: +0.2%). RMB fixing came in 20 pips weaker than consensus. Reportedly, major state-owned banks were buying USD at around 6.4 yuan per dollar. Some analysts commented that continued U.S. dollar weakness and exporters' conversion of their foreign-currency

earnings contributed to the recent strengthening of RMB. **Foreign investors will get improved access to assets of bankrupt firms in mainland China.** A new agreement between mainland China and Hong Kong SAR allows courts in Shanghai, Shenzhen and Xiamen to recognize insolvency proceedings in Hong Kong SAR in a pilot program. Previously, overseas investors can be at a disadvantage in onshore bankruptcy proceedings if they lack the expertise to navigate to the mainland's complex court system.

### Breakthrough

Tuesday's gains push key CSI 300 Index through 100 day moving average

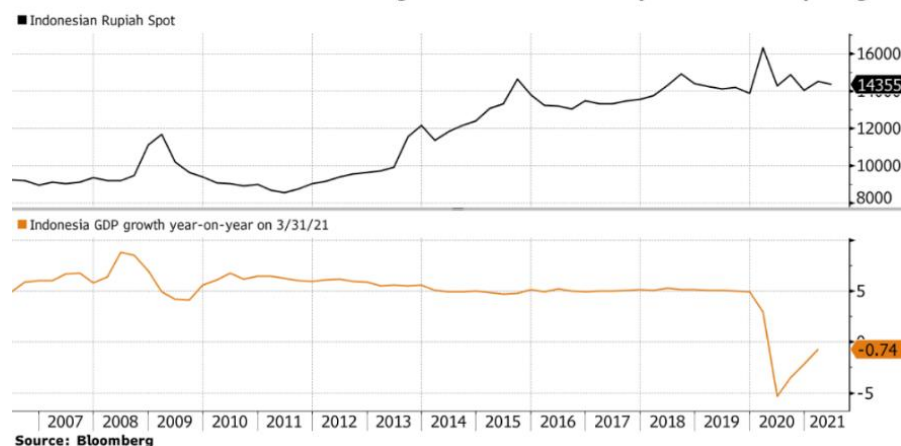


### Indonesia

**Bank Indonesia held its policy rate unchanged at 3.5% as expected.** Bank Indonesia maintained its growth and inflation forecast for 2021. Governor Perry said that the central bank will keep the policy rate low until there are signs of inflationary pressures. He also indicated that Bank Indonesia could rely more on liquidity tools rather than lower the policy rate. Analysts noted that the room for a rate cut is limited as Bank Indonesia seeks to keep the currency stable. **The government considers increasing taxes on high-income individual and top polluters.** The government considers raising the tax rate for high-income earners to 35% (from 30%). Regarding carbon tax, the government may use existing taxes (e.g. on motor vehicles and fossil fuels) or create a new levy that would apply to a wide range of carbon-intensive activities. The government aims to bring the budget deficit back within the legal limit at 3% of GDP. **The Indonesian rupiah appreciated (+0.2%); equities gained (+0.9%); the 10-year government bond yield dropped slightly (-1.1 bps).**

### Volatility Remains

Market worries renewed on virus surge and concerns about potential Fed tapering



**Paraguay**

**Paraguay Central Bank held policy rates steady at 0.75% at the monetary policy meeting on Monday**, while flagging that a temporary inflation bounce in the coming months is expected. The central bank said it expects inflation to slow to around its 4% target toward the end of the year. CPI rose to 2.5% in April from 2.4% the previous month, while medium-term inflation expectations remain anchored at 4%. Weak services prices have so far offset higher food prices this year. The yield on Paraguay's 2031 government bond was little changed yesterday and this morning, trading at 3.37%.

**Belize**

After markets closed on Monday, **S&P announced that Belize was downgraded from CC to SD (selective default) as the country is on course for its second default in less than a year**. The country failed to make a \$6.5 mn interest payment on its \$527 mn bond due in 2034, marking the country's fifth restructuring or default event in the past 14 years. Since March this year, Belize has asked its creditors to accept a 30% haircut and a maturity delay on its notes. S&P said in its statement that "Belize faces a constrained fiscal position and has low external liquidity. Social and financial pressures caused by the pandemic, given Belize's precarious economy and health system, have shifted the government's policy priorities and weakened its capacity to pay its debt service". Belize's 2034 notes were little changed on the news and traded around 41 cents on the dollar this morning.

**Belarus**

**Belarus foreign currency bonds were steady as investors wait for further details on sanctions**. The EC stated that it intends to impose economic sanctions and restrictions on aviation travel over Belarus as well as a ban on the use of EU ports by the Belarusian airlines. Contacts noted that investors are primarily concerned with economic sanctions against large state-owned enterprises, which could affect export revenue generation potential, although these are seen as less likely at this stage.



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## Global Financial Indicators

Last updated: 5/25/21 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4204	1.0	2	1	42	12
Europe		4053	0.4	1	1	36	14
Japan		28554	0.7	1	-2	34	4
China		3581	2.4	1	4	26	3
Asia Ex Japan		92	0.8	2	-3	47	3
Emerging Markets		54	0.8	1	-2	47	4
<b>Interest Rates</b>			basis points				
US 10y Yield		1.59	-1.2	-5	3	93	68
Germany 10y Yield		-0.16	-1.6	-5	10	34	41
Japan 10y Yield		0.08	-0.2	-1	1	8	6
UK 10y Yield		0.80	-1.0	-7	6	63	60
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	0.0	-2	-1	-91	-3
US High Yield		345	0.3	3	9	-340	-35
Europe IG		51	-0.6	-1	0	-29	3
Europe HY		253	-3.5	-3	3	-230	11
<b>Exchange Rates</b>			%				
USD/Majors		89.63	-0.2	0	-1	-10	0
EUR/USD		1.23	0.4	0	1	13	0
USD/JPY		108.9	0.1	0	1	1	5
EM/USD		57.7	0.0	0	1	7	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-0.2	-1	3	92	32
Industrials Metals (index)		155	-0.2	-4	3	60	17
Agriculture (index)		58	0.7	-2	2	67	20
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.3	-0.1	-3.0	1.0	-9.8	-4.4
US 10y Swaption Volatility		67.9	0.0	-3.7	-7.6	5.9	7.8
Global FX Volatility		7.1	0.0	-0.1	-0.1	-1.3	-1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		107	-2.1	-11	-9	-111	-12
Italy		113	-3.2	-8	9	-94	2
Portugal		67	-1.9	-4	1	-53	7
Spain		67	-1.7	-4	1	-44	5

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: 5/25/2021 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		6.41	0.2	0.3	1	11	2		3.2	0.2	-4	-6	60	-10	
Indonesia		14328	0.2	-0.4	1	3	-2		6.5	-0.7	-2	-6	-108	39	
India		73	0.3	0.4	3	4	0		6.3	0.3	-2	-8	18	32	
Philippines		48	-0.1	-0.7	1	6	0		4.3	-8.3	-6	17	-15	62	
Thailand		31	-0.1	0.2	0	2	-4		1.8	-0.2	3	0	53	52	
Malaysia		4.14	0.1	-0.4	-1	5	-3		3.3	-0.2	1	6	50	72	
Argentina		94	0.0	-0.2	-1	-28	-11		45.6	1.3	-26	-91	-105	-1051	
Brazil		5.32	0.9	-0.8	2	2	-2		8.4	6.1	8	52	253	278	
Chile		730	-1.5	-1.7	-3	10	-3		3.9	6.4	18	44	167	118	
Colombia		3742	0.0	-1.5	-1	1	-8		6.9	7.7	20	73	164	188	
Mexico		19.83	0.2	0.1	0	14	0		6.8	-5.2	-3	15	46	122	
Peru		3.8	-1.5	-2.5	1	-10	-5		4.9	10.9	3	-25	70	132	
Uruguay		44	0.4	0.4	0	-2	-4		7.7	-3.3	15	27	-292	42	
Hungary		284	0.0	1.0	6	13	5		2.4	0.0	-8	40	74	83	
Poland		3.66	0.3	1.1	3	13	2		1.2	-4.0	-16	27	13	54	
Romania		4.0	0.4	0.3	1	11	-1		2.8	-1.0	3	14	-130	1	
Russia		73.4	0.0	0.3	2	-2	1		6.8	1.2	0	10	152	107	
South Africa		13.8	0.7	1.2	3	28	6		9.8	-3.0	-14	-23	-16	12	
Turkey		8.41	-0.3	-0.6	-1	-19	-12		17.7	-1.1	8	-12	640	460	
US (DXY; 5y UST)		90	-0.2	-0.1	-1	-10	0		0.80	-0.8	-2	-2	46	43	

	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		5318	3.2	3	5	37	2		199	0	-2	-9	30	-9
Indonesia		5816	0.9	0	-2	26	-3		158	0	-9	-25	-5	-29
India		50638	0.0	1	5	65	6		155	-1	-8	-13	-117	4
Philippines		6197	0.5	-1	-3	13	-13		83	0	-9	-17	13	-22
Malaysia		1578	0.4	-1	-3	10	-3		113	0	-2	-3	9	3
Argentina		56222	-1.6	3	19	37	10		1459	0	19	8	-570	91
Brazil		124032	1.2	1	3	45	4		253	0	0	-16	58	3
Chile		4115	-0.6	-10	-15	10	-1		126	0	-6	-16	-14	-18
Colombia		1228	-1.0	-3	-4	16	-15		207	0	-4	-15	44	2
Mexico		49458	-0.6	0	1	38	12		348	0	-9	-34	55	-12
Peru		20349	-1.1	-7	7	32	-2		133	0	-4	-3	22	1
Hungary		46230	-0.4	1	8	32	10		65	0	-6	-15	-42	-31
Poland		63669	0.0	1	7	37	12		-22	0	-4	-11	-54	-21
Romania		11689	-0.4	0	4	35	19		182	1	1	-3	-158	-21
Russia		3685	0.6	0	2	34	12		159	0	-5	-3	19	-7
South Africa		66271	0.3	-1	-2	32	12		357	0	-4	-35	25	-23
Turkey		1451	-0.1	0	8	41	-2		421	0	-5	-47	34	-24
Ukraine		529	0.0	0	0	6	6		479	0	12	-21	127	-12
EM total		54	1.3	1	-2	47	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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