GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, MAY 26, 2020

- **Fear of rising trade tensions threatens to weaken global risk sentiment** (link)
- **US corporations seem to be reducing reliance on commercial paper funding** (link)
- **US companies draw down aggressively on revolving facilities during Q1** (link)
- **Japan lifts state of emergency and plans further reopening** (link)
- **German government reveals rescue package for Lufthansa** (link)
- **China will provide additional targeted support for businesses** (link)

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Easing of lockdown measures boosts risk sentiment

Even as worries over renewed tensions between the US and China linger, optimism on easing of lockdown measures in some major economies is sending risk appetite higher this morning. Stocks in Europe are moving higher following a strong rally overnight in Asia shares, and US equity futures are pointing to sharply positive opening after markets were closed yesterday. Japanese shares rose more than 2% after the national state of emergency was lifted, bringing the Nikkei to its highest level since late February. The latest risk-on move is reflected in sovereign bond yields with both US and German yields moving higher this morning while European peripheral spreads are tightening. Despite the positive sentiment, investors continue to watch developments between the US and China as tensions between the two countries have continued to simmer. In the latest move, the US added 33 entities to its trade blacklist over the weekend, drawing a rebuke from China's foreign minister over the move.

Key Global Financial Indicators

Last updated: 5/26/20 8:21 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2955	0.0	3	4	5	-9
Eurostoxx 50		2984	0.4	3	6	-11	-20
Nikkei 225		21271	2.6	4	10	1	-10
MSCI EM		36	2.5	1	2	-8	-19
Yields and Spreads					bps		
US 10y Yield		0.69	0.0	0	9	-163	-123
Germany 10y Yield		-0.44	5.4	2	3	-32	-26
EMBIG Sovereign Spread		525	-8	-27	-108	161	232
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		54.7	0.8	3	4	-11	-11
Dollar index, (+) = $ appreciation		99.1	-0.8	0	-1	1	3
Brent Crude Oil ($/barrel)		36.0	1.4	4	68	-48	-45
VIX Index (%, change in pp)		28.0	-0.2	-1	-8	12	14

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

This week, rising tensions between the US and China are likely to add to investors' concerns as they weigh the impact of easing lockdown measures in a number of countries. The main market-mover will likely continue to be the Covid-19 pandemic, with market participants increasingly turning their attention to assessing the damage inflicted on the global economy and the robustness of consumer and corporate sentiment as the world starts to gradually reopen for business. But increasing frictions between the US and China are bringing back fears of renewed trade tensions between the world's two largest economic powers, with the political developments in Hong Kong SAR further fueling investor concerns. In terms of economic news and data releases, markets will be focusing on GDP and inflation data in the Eurozone (Thursday and Friday) as well as on China's manufacturing PMI (Saturday). In the US, special attention will be paid to durable goods and jobless claims numbers (Thursday) and to PCE inflation data (Friday). The Fed Chairman's talk at a virtual conference on Friday will also be of particular interest, as investors look for signs of the central bank's willingness to introduce additional easing measures at this stage, while seeking greater clarity on the pace of implementation of existing ones.

United States

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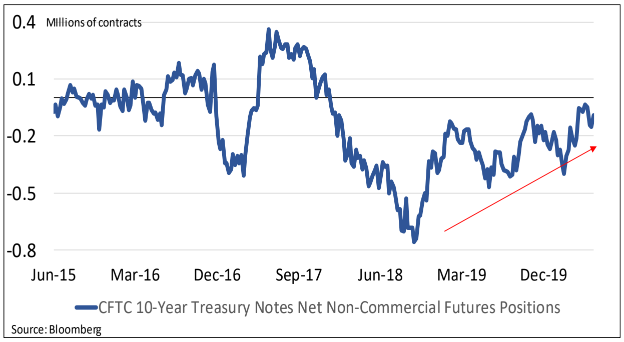
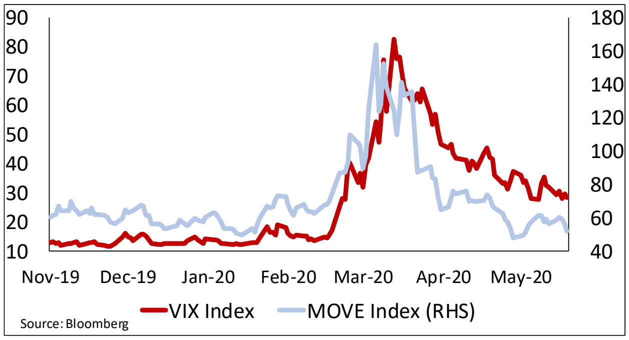
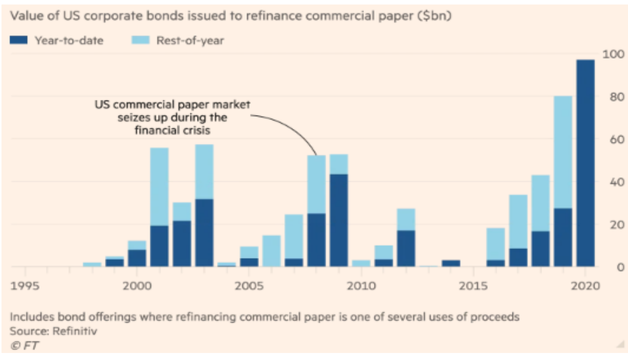
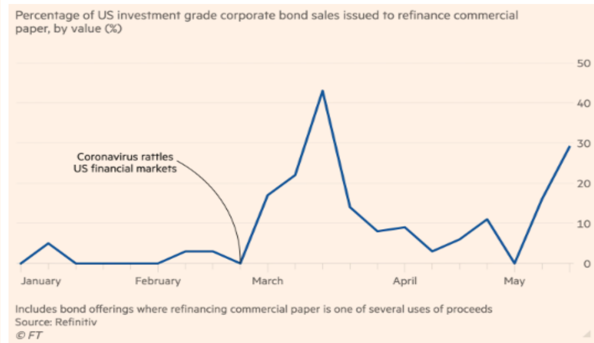
Markets in the US were closed yesterday for Memorial Day, but Friday's price action saw an increased demand for safe haven assets as fears of trade tensions resurfaced. Recent announcements by the US administration signaling that it could potentially prohibit certain Chinese companies from accessing US technology and financial markets, as well rising tension in Hong Kong SAR following the planned introduction of a new security law by the Chinese government, reflected negatively on global risk sentiment. As a result, safe haven assets were generally well bid, with 10-year US Treasuries yields down by about 2 bps on the day, and gold and the USD also strengthening by about 0.5% on Friday. The more cautious mood was also seen in investor positioning vis-a-vis US Treasuries, with speculators continuing to reduce their short positions on expectations of a continuation of accommodative monetary policy in the medium-term (see chart below). This said, the overall impact of political tensions on risky assets was somewhat cushioned by news of a gradual easing of lockdown measures in a number of developed economies, leaving US equities relatively flat on the day and up by close to 3.3% on the week. It is interesting to note that the increased uncertainty introduced by renewed trade tensions has so far not been visibly reflected in market volatility measures, with both the VIX (a measure of implied equity price volatility) and the MOVE index (a measure of implied Treasury volatility) continuing to trend downward (see chart below).



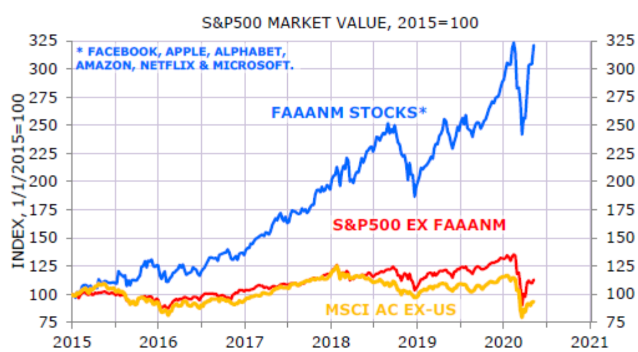


US corporations seem to be reducing their reliance on commercial paper (CP) to fund short-term liabilities. Analysts estimate that US companies have raised around $97 billion in debt so far this year mainly to refinance commercial paper (see chart below). This is close to the level witnessed during the financial crisis, which is somewhat surprising given the Fed's efforts to improve liquidity in the CP market through the establishment of a new facility in the wake of the funding pressures experienced in mid-March. Analysts have attributed the incentive for US corporates to move away from the short-term CP market toward longer-duration liabilities to a number of factors, including their desire to lock-in attractive pricing at the longer-end of the curve following the recent drastic cuts in policy rates. The move may have also been motivated by the fear that CP markets could freeze up again should there be an unexpected build-up of stress in short-term funding markets. The fact that the Fed’s intervention has not provided a strong incentive for US corporates to remain in CP market may also be attributed, according to analysts, to a possible misalignment in the pricing of the central bank’s facility, especially with respect to the higher-rated corporates.

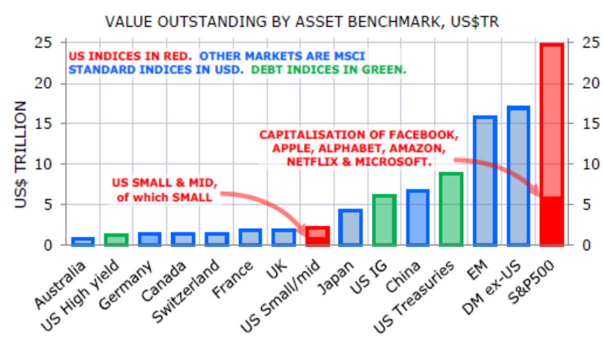




According to analysts, the outperformance of US equities versus the rest of the world can be largely attributed to six stocks. Minack associates argue that Facebook, Apple, Alphabet, Amazon, Netflix and Microsoft (FAAANM) are almost exclusively responsible for the outperformance of the S&P500 versus global equities. This is not only applicable to the current crisis period but is also true for the period extending back to 2015. Excluding FAAANM stocks from the S&P 500 index reveals that the rest of US equities have performed very much in line with the rest of the world – which is to say that their performance has been lackluster (see chart below). Moreover, Minack associates argue that the differentiating aspects of FAAANM stocks extend beyond price outperformance to include: (i) their considerably larger size – they have single handedly accounted for two thirds of the $6 tn increase in the S&P500’s market capitalization since 2015; (ii) their significantly larger profitability; and (iii) the lower correlation of their revenues to the rest of the US economy due to their significant international exposrure. In fact, they argue that if we were to hypothetically consider FAAANM as a separate asset class, its market capitalization would be greater than that of any other equity market in the world, barring China and the US (see chart below).

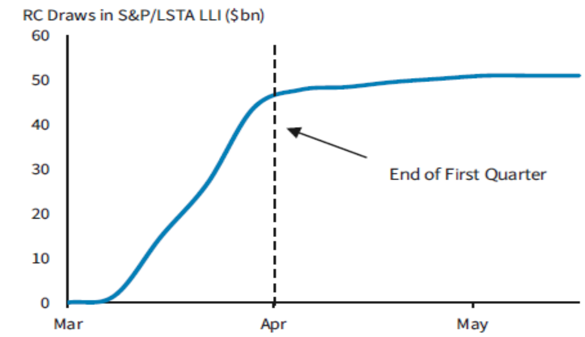


Source: MSCI, DataStream, Bloomberg; Minack Advisors

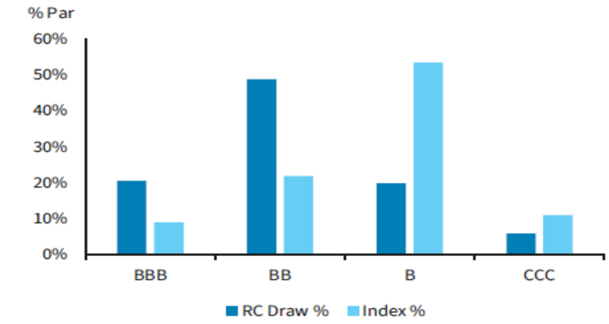


Source: Standard & Poor’s, MSCI, Bloomberg; Minack Advisors

US companies drew down aggressively on their bank revolving facilities during the first quarter, though the pace of drawdowns has recently decelerated. In the wake of the Covid-19 crisis, it would have been reasonable to expect companies, especially ones that found themselves on the riskier end of the spectrum, to draw down on their revolving bank credit facilities to meet liquidity needs and preempt potential constraints in funding markets. And indeed, the data do seem to validate this conjecture. According to Barclays, companies in the S&P/LSTA Leverage Loans Index (LLI) drew down approximately $50 bn from their revolving credit facilities during March 2020. However, the draws seem to have stabilized since then as funding markets normalized and corporate spreads tightened. What is somewhat surprising however is that the draws were skewed mostly toward the higher, not lower, quality names in the index (see chart below). In fact, approximately 70% of the draws in the LLI were by names rated BB- or higher. Analysts at Barclays attribute this to the fact that at the peak of the crisis, higher rated names were in fact at a higher risk of negative rating action than lower rated ones. This put additional pressures on them to secure short-term funding and hence draw on their revolvers. It also indicates that the impact of the Covid-19 crisis may have been even more severe on these issuers that commonly believed.



Note: Includes only issuers in the S&P/LSTA Leveraged Loan Index.



Note: Uses the rating of loans in the S&P/LSTA LLI, not the revolver rating.

Source: Barclays

Europe

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Equity markets have been buoyed today by the prospects of re-openings: DAX (+0.5%), CAC 40 (+1.1%), EuroStoxx 600 (+0.8%), Italy's Titans 30 (+1.3%), and Spanish Ibex (+1.1%).

Bank stocks (+3.3%) outperformed broad indices. With the Q1 earnings reporting season concluded, analysts at Societe Generale note that **most large banks grossly missed their profit before taxes targets for 2020Q1.** The main driver for the poor performance was 'big misses' in banks' loan losses, while net interest income and costs stayed mostly in line with expectations, or even delivered some positive surprises. **Forecasts for 2020 earnings per share (EPS) have been revised down on the order of 10% to 60% for most lenders.**

1Q20 RESULTS HEATMAP – AS IT HAPPENED

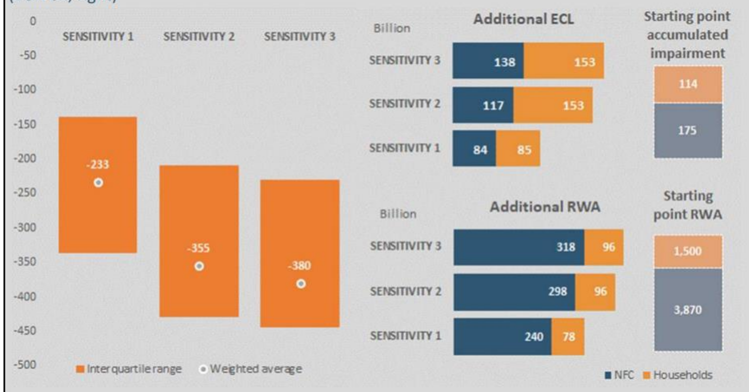
Banks	Result dates	NII	Revenue	Costs	Loan Losses	Adjusted PBT	Capital Build QoQ	1Q20 CET 1 FL	Perf. vs Market	20e EPS Cons. Chg	21e EPS Cons. Chg	20e DPS Cons. Chg.
JPM	14-Apr-20	Beat	In-line	In-line	Big Miss	Big Miss	-90	11.5%	Underperform	-53.8%	-23.6%	-3.8%
CITI	15-Apr-20	Miss	Beat	In-line	Big Miss	Big Miss	-60	11.2%	Market perform	-63.9%	-32.7%	-5.0%
GS	15-Apr-20		Beat	Big Miss	Big Miss	Big Miss	-80	12.5%	Large Outperform	-42.5%	-20.0%	-3.1%
BAC	15-Apr-20	Beat	In-line	In-line	Big Miss	Big Miss	-40	10.8%	Market perform	-49.9%	-29.1%	-6.5%
MS	16-Apr-20		Miss	In-line		Big Miss	-70	15.7%	Outperform	-31.7%	-22.2%	-4.0%
SHB	22-Apr-20	In-line	In-line	In-line	Big Beat	Big Beat	-90	17.6%	Large Outperform	-2.9%	-3.1%	-26.3%
SWED	23-Apr-20	Beat	Miss	In-line	In-line		-90	16.1%	Underperform	9.7%	-3.4%	-29.1%
CS	23-Apr-20		Beat	Beat		Beat	-60	12.1%	Market perform	-16.1%	-8.4%	-14.8%
BKT	23-Apr-20	In-line	Big Miss	Big Beat	Big Miss	Big Miss	-15	11.5%	Market perform	-22.9%	-18.6%	-46.3%
UBS	28-Apr-20						-90	12.8%	Outperform	-4.5%	-2.0%	-1.2%
HSBC	28-Apr-20	In-line	In-line	Big Beat	Big Miss	Big Miss	-15	11.5%	Underperform	-32.3%	-11.1%	-60.7%
SAN	28-Apr-20	In-line	In-line	In-line	Beat	Big Beat	-8	11.3%	Market perform	-37.7%	-22.4%	-58.0%
DBK	29-Apr-20						-80	12.8%	Large Outperform	16.2%	-10.0%	0.0%
SEB	29-Apr-20	Beat	Big Miss	In-line	Big Beat	Big Miss	-80	16.8%	Large Outperform	-7.2%	-1.7%	-16.3%
NDA	29-Apr-20	Beat	In-line	In-line	Big Beat	Big Beat	-30	16.0%	Outperform	-9.0%	-0.5%	-7.4%
BARC	29-Apr-20		Big Beat	Beat	Big Miss	Big Miss	-70	13.1%	Large Outperform	-57.9%	-15.5%	-46.8%
STAN	29-Apr-20		Beat		Big Miss	Big Beat	-40	13.4%	Large Outperform	-34.1%	-16.1%	-40.0%
BKIA	29-Apr-20	Miss	In-line	In-line	Big Miss	Big Miss	-7	13.0%	Outperform	-44.4%	-34.2%	-57.3%
DNB	30-Apr-20	In-line	Miss	Beat	Big Miss	Big Miss	-90	17.7%	Large Outperform	-24.6%	-10.2%	-22.3%
DNKE	30-Apr-20	Beat	Miss	In-line	Big Miss	Big Miss	30	17.4%	Market perform	-96.1%	-21.8%	-46.7%
LLOY	30-Apr-20	In-line	In-line	In-line	Big Miss	Big Miss	40	14.2%	Underperform	-26.7%	-6.7%	-46.2%
BBVA	30-Apr-20	Beat	Beat	In-line	Big Miss	Big Miss	-90	10.8%	Underperform	-27.6%	-19.2%	-66.2%
CABK	30-Apr-20	In-line	Miss	In-line	Big Miss	Big Miss	-39	12.0%	Market perform	-35.0%	-17.4%	-60.0%
SAB	30-Apr-20	In-line	Beat	Beat	Big Miss	Big Beat	-10	11.6%	Large Outperform	-52.2%	-42.2%	-57.5%
EBS	30-Apr-20	Beat	Miss	In-line	Big Beat	In-line	-60	13.1%	Outperform	-37.0%	-23.1%	-38.8%
RBS	1-May-20	In-line	Big Beat	Miss	Big Miss	Big Beat	40	16.6%	Outperform	-52.0%	-15.4%	-56.8%
LBK	4-May-20	Beat	In-line	In-line	Miss	Miss	0	13.0%	Outperform	-16.7%	-23.3%	-30.0%
BNP	5-May-20		In-line	In-line	Big Miss	In-line	-10	12.0%	Outperform	-14.3%	-10.1%	-19.8%
ISP	5-May-20	Beat	Big Beat	In-line	Big Beat	Big Beat	40	14.5%	Outperform	-4.7%	-10.5%	-20.0%
ACA	6-May-20		Beat	Miss	In-line	Beat	-70	11.4%	Market perform	-27.7%	-16.2%	-25.3%
UCG	6-May-20	Beat	In-line	Miss	In-line	Miss	-34	13.4%	Market perform	-64.8%	-21.8%	-54.4%
KN	6-May-20		In-line	In-line	Miss	Miss	-100	11.4%	Market perform	-52.9%	-18.9%	-17.3%
ING	8-May-20	Beat	Beat	In-line	Big Beat	Big Beat	-60	14.0%	Outperform	-10.2%	-9.1%	-24.2%
ABN	13-May-20	In-line	In-line	In-line	Big Miss	Big Miss	-80	17.3%	Large Underperform	-72.1%	-22.0%	-59.2%
RBI	14-May-20	Beat	Beat	In-line	Beat	Big Beat	-90	13.0%	Underperform	-16.7%	-6.8%	-19.5%
KBC	14-May-20	Beat	Big Beat	In-line	Big Miss	Big Beat	-80	16.3%	Large Underperform	-31.5%	-13.3%	-32.9%
Better		14	13	6	8	12	4		18	2	0	0
In-line		10	13	23	3	2	1		10	0	0	1
Worse		2	8	4	21	19	31		8	34	36	35

SOCIETE GENERALE

Consensus ROTE estimated as EPS/TB. Source: Datastream I/B/E/S, SG Cross Asset Research/Equity

The EBA expects European banks to be able sustain Covid-19 losses of up to €380 bn. In its latest *sensitivity analysis* – which builds on the institution's 2018 stress-tests – the EBA notes that EU banks started the lockdown periods in a relatively strong position compared to previous crises, as they held capital equivalent to almost 15% of risk weighted assets. Nonetheless, the EBA notes that funding conditions for banks have become more difficult and that in the medium-term asset quality is expected to deteriorate significantly, with an average impact on lenders ranging between -233 and -380 bps of CET1 capital.

Figure 13: Credit risk sensitivity analysis – weighted average (in bps) and interquartile range of impact on CET1 ratio (left) and starting point and additional total ECL and RWA for NFCs and households (EUR bn, right)

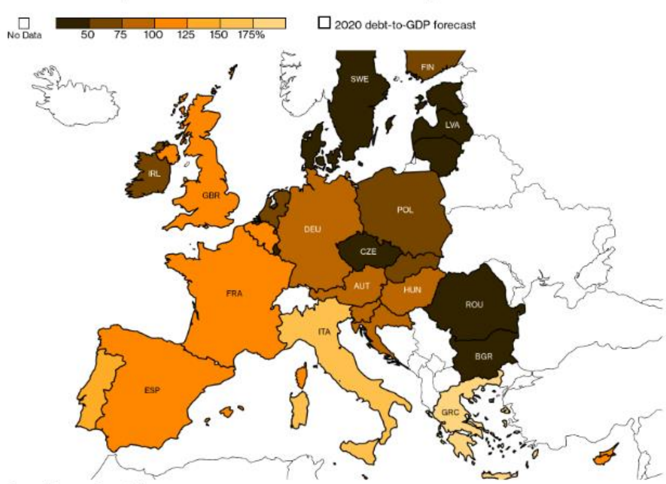


Sources: EBA supervisory reporting and stress test data, EBA calculations

Sovereign debt markets traded in a risk-on mode as core yields gained while periphery ones inched lower: German 10-year yields at -0.43% (+6 bps); French OATs are at 0.00% (+5 bps); Italian at 1.55% (-2 bps); and Spanish at 0.61% (unch.).

The German government has unveiled a $9.8 bn rescue package for beleaguered airline Lufthansa. The package is the first rescue operation that will be assessed by the European Commission (EC) after state-aid rules were relaxed in response to the pandemic. The operation will involve the German government acquiring a 20% stake in Lufthansa (which could be raised to 25% plus in the event of a hostile take-over); a €5.7 bn investment via debt-equity hybrid instruments; and a state loan guarantee worth €3 bn. In response to the rescue package, the EC wants Lufthansa to give up some protected flight slots at some key German airports in order to ensure fair competition among airline carriers. **The EC is forecasting a steady increase in the public debt levels of most of its members**, some of them well above 100% of GDP.

Euro-area debt is predicted to increase to 102.5% of economic output



Source: European Commission

Banque de France governor Villeroy de Gallau signaled that further support measures by the ECB could be forthcoming. The governor noted that with low inflation, the ECB had room to act "rapidly and powerfully," and that he would like to see the constraints around the PEPP loosened. Mr. Villeroy de Gallau also said that the ECB is willing to overshoot slightly its inflation target if necessary.

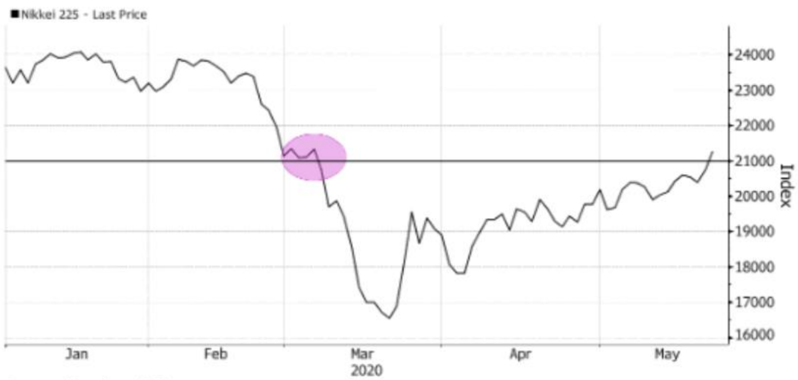
In the UK, last night **PM Johnson announced the reopening of car dealerships and outdoor markets from June 1 and of high street retailers from June 15.**

Other Mature Markets back to top

Japan

Japan lifted its state of emergency yesterday in the last five prefectures including Tokyo. For Tokyo, which accounts for around one in three COVID-19 cases, museums, gyms and schools will be allowed to reopen in the first phase. Gatherings will be limited to 50 people and restaurants will be allowed to shut at 10pm from 8 pm previously. The second phase would likely begin on Saturday, involving reopening theatres, cinemas and retail facilities. Japan is looking to completely reopen the economy from the start of August while domestic travel would be allowed from June 19. **Equities rose +2.2% to their highest level since February 27.** The yen and 10-year JGB yield were little changed.

Nikkei 225 touches levels last seen in March



Source: Bloomberg, TSE

Emerging Markets back to top

Equities rose +1.9% on across Asia led by tech. Hong Kong SAR (+1.9%), Korea (+1.8%) and China (Shanghai +1%; Shenzhen +2.2%) outperformed. Currencies were stronger against the dollar led by the Korean won (+0.8%). **Separately, Singapore slashed its 2020 growth forecast for a third time to -7% to -4% (from -4% to -1%) on COVID-19 disruptions.** It also unveiled a fourth fiscal package worth SGD33 bn ($23 bn; around 6.5% of GDP) aimed at supporting businesses. On COVID-19, Hong Kong SAR will resume some airport transit services from June and could reopen night clubs and karaoke bars as early as Friday. Indonesia's government has deployed almost 350,000 army and policy personnel to guard public transport, shopping malls and tourism sites to ensure that social distancing rules are adhered to as the spread of the virus picked up. **Most EMEA bourses posted firm gains as an increasing number of countries plan to re-open their economies.** By country: Russia (+1.0%); Turkey (+0.4%); Poland (+2.0%); Czech Republic (+1.5%). The gains in the Middle East and African countries was smaller: South Africa (+0.9%), Saudi Arabia (flat); Qatar (+0.2%), UAE (+0.3%). Currencies in central and Eastern Europe strengthened to the dollar by about 0.5% to 1.5%, with the highest gains for the ruble (+1.0%), the Polich zloty (+1.5%), and the Czech koruna (+1.0%). **Latin American equity markets were mixed over the long weekend.** Argentina and Colombia equity market saw losses last Friday, with domestic equity indexes down 1% and 0.8%, respectively. Brazil outperformed as the equity index rallied 4.3% on Monday, followed by Chile (+0.8%) and Mexico. Currencies were mixed but mainly traded in narrow ranges, except for the

Brazilian real (+1.6%). The 10-year government bond yield dropped 34 bps in Brazil and was mixed in other countries.

Key Emerging Market Financial Indicators

Last updated: 5/26/20 8:24 AM	Level: Last 12m	Level: index	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		36.43	2.5	1	2	-8	-19
MSCI Frontier Equities		23.16	-0.3	4	6	-18	-24
EMBIG Sovereign Spread (in bps)		525	-8	-27	-108	161	232
EM FX vs. USD		54.69	0.9	3	5	-11	-11
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.13	0.1	0	-1	-3	-2
Indonesian Rupiah		14755	-0.3	0	4	-3	-6
Indian Rupee		75.67	0.4	0	1	-8	-6
Argentine Peso		68.17	-0.1	-1	-3	-34	-12
Brazil Real		5.38	1.3	7	5	-25	-25
Mexican Peso		22.13	1.8	7	12	-14	-14
Russian Ruble		70.80	1.2	2	5	-9	-13
South African Rand		17.37	1.6	6	8	-17	-19
Turkish Lira		6.74	1.1	1	4	-10	-12
EM FX volatility		10.99	0.0	-0.2	-1.2	2.5	4.4

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

EM Fund Flows

EM bond funds reverted to outflows last week (-$747 mn, +$458 mn the week before), and EM equity funds saw outflows for the 5th consecutive week (-$2.4 bn, -$2.6 bn the week before) according to JP Morgan. Of the EM bond funds, hard currency funds saw inflows (+$240 mn), while local currency funds suffered from the largest outflow since late March (-$987 mn). From a regional perspective, Latin America equity funds saw the largest outflows (-$405 mn), followed by Asia ex-Japan and EMEA. Year to date flows to EM bonds and equities were -$34.8 bn and -$40.3 bn, respectively.

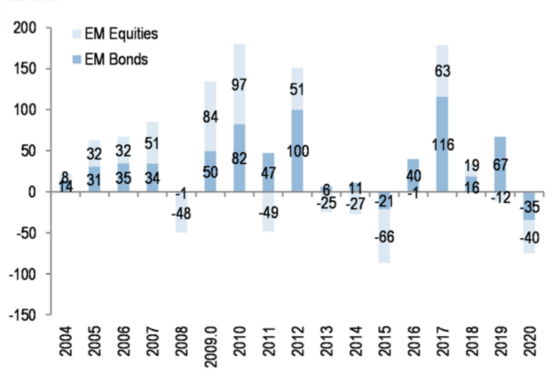
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-3.2	-75.1
	EM Bonds		-0.7	-34.8
	Hard Ccy		0.2	-18.1
	Local Ccy		-1.0	-16.7
	EM Equities		-2.4	-40.3
	US HG		5.0	-35.4
	US HY		4.6	14.1
	Global Equities		-5.2	-105.1
	EM Bond and Equity ETFs		-1.3	-29.3
	EM Bond ETFs		-0.2	-7.0
	EM Equity ETFs		-1.1	-22.3
	Non-resident EM flows*		-3.7	-120.2
	EM Local Bonds		-0.4	-40.8
	EM Equities		-3.4	-79.4

Exhibit 2: Annual EM bond and equity fund flows

USD billion



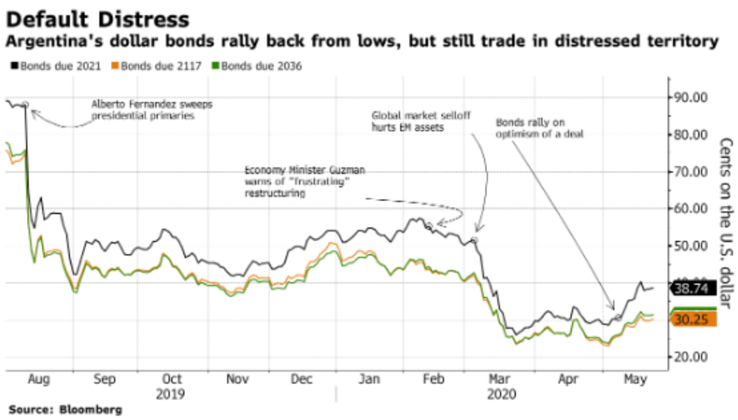
*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg

China

The People's Bank of China (PBoC) will provide additional targeted support to corporates. According to Governor Yi Gang, the PBoC will focus on five measures. These include: (1) postponing loan principal repayment and interest owed by small companies to March 2021, (2) increase collateral-free credit to these firms, (3) improve the government's associated credit guarantees, (4) guide a RMB 1 tn ($140 bn) increase in corporate bond financing and support financial institutions to issue RMB300 bn ($42 bn) of special financial bonds and (5) develop supply chain finance. **Separately, China and Hong Kong's leader sought to reassure international investors on concerns regarding the proposed Hong Kong SAR security bill.** The foreign ministry commissioner in Hong Kong SAR said that the judiciary would remain independent under the new national security law. The proposed legal changes 'will create a more law-based, reliable and stable business environment for foreign investors', according to the commissioner. Hong Kong's Chief Executive Carrie Lam assured that 'the rule of law, independence of the judiciary, the various rights and freedoms' will continue to be there. **Equities rose (Shanghai +1%; Shenzhen +2.2%) while the onshore and offshore RMB were little changed.**

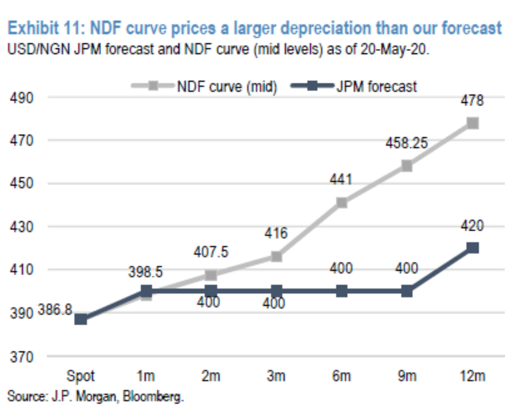
Argentina

Argentina missed the final deadline for $500 mn of interest payments last Friday, heading for its ninth sovereign default. Yet no immediate legal action from bondholders was expected, and both sides were still trying to reach an agreement to avoid a hard default on $65 bn of foreign debt. According to the press report, the economy minister Martín Guzmán said on Friday that there was "increasing mutual understanding" between the government and the creditors. To have more time to make amendments, Argentina has extended the deadline for creditors to consider the debt restructuring offer to June 2



Nigeria

Markets expect no change at Nigeria's monetary policy committee meeting on Thursday. The meeting was initially scheduled to conclude today but was postponed due to the declaration of the Eid-el Fitr holidays. Nigeria has thus far bucked the trend of other emerging market central banks of cutting rates during the current crisis, and analysts believe still high inflation is a limiting factor to cuts, with CPI rising to 12.3% y/y in April (compared to the target range of 6-9%). Following the devaluation of the Naira in March, there is some market anticipation that Nigeria may liberalize the FX policy, following a letter sent by the government when requesting financing from the IMF, where it signaled its commitment for a "more unified and flexible exchange-rate regime." This has been reflected in higher NDF implied yields (chart below), however some analysts remain skeptical such a move will occur.



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Global Financial Indicators

Last updated: 5/26/20 8:21 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		2955	0.0	3	4	5	-9
Europe		2984	0.4	3	6	-11	-20
Japan		21271	2.6	4	10	1	-10
China		2847	1.0	-2	1	0	-7
Asia Ex Japan		63	-2.5	-1	0	-4	-15
Emerging Markets		36	2.5	1	2	-8	-19
Interest Rates					basis points		
US 10y Yield		0.69	0.0	0	9	-163	-123
Germany 10y Yield		-0.44	5.4	2	3	-32	-26
Japan 10y Yield		0.01	0.6	0	2	8	2
UK 10y Yield		0.19	1.2	-6	-11	-77	-64
Credit Spreads					basis points		
US Investment Grade		182	-0.8	-11	-14	56	85
US High Yield		679	-5.5	-35	-92	234	286
Europe IG		75	-5.1	-7	-6	7	31
Europe HY		456	-27.6	-34	-37	161	249
EMBIG Sovereign Spread		525	-8.0	-27	-108	161	232
Exchange Rates					%		
USD/Majors		99.06	-0.8	0	-1	1	3
EUR/USD		1.10	0.7	0	1	-2	-2
USD/JPY		107.5	0.2	0	0	2	1
EM/USD		54.7	0.8	3	4	-11	-11
Commodities					%		
Brent Crude Oil ($/barrel)		36	1.4	4	68	-48	-45
Industrials Metals (index)		97	0.8	0	2	-14	-15
Agriculture (index)		35	1.0	0	0	-12	-16
Implied Volatility					%		
VIX Index (%, change in pp)		28.0	-0.2	-1.3	-8.0	12.1	14.2
10y Treasury Volatility Index		4.7	-0.3	0.0	-1.1	0.5	0.6
Global FX Volatility		8.4	0.0	-0.3	-1.4	1.6	2.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		210	-8.1	-23	-71	-138	44
Italy		201	-5.8	-9	-30	-66	41
Portugal		113	-7.6	-10	-43	3	50
Spain		105	-5.2	-5	-37	11	40

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: 5/26/2020 8:24 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		7.13	0.1	-0.5	-1	-3	-2		2.6	0.2	0	20	-73	-57
Indonesia		14755	-0.3	0.1	4	-3	-6		7.5	0.0	-18	-31	-54	40
India		76	0.4	0.0	1	-8	-6		6.1	0.0	-9	-18	-123	-78
Philippines		51	0.5	0.3	0	3	0		4.4	0.0	-8	-48	-66	12
Thailand		32	0.3	0.1	2	0	-7		1.3	0.8	-2	-8	-123	-30
Malaysia		4.36	-0.4	-0.3	0	-4	-6		2.8	0.0	-3	-7	-104	-58
Argentina		68	-0.1	-0.7	-3	-34	-12		46.7	0.0	316	-363	1314	-1592
Brazil		5.38	1.3	7.0	5	-25	-25		5.5	-30.0	-41	-121	-247	-73
Chile		805	0.1	2.0	7	-13	-6		2.3	-0.1	-21	-51	-181	-102
Colombia		3778	-0.1	2.0	7	-11	-13		5.3	0.0	-25	-110	-96	-64
Mexico		22.13	1.8	6.8	12	-14	-14		6.3	-3.4	10	-60	-178	-63
Peru		3.4	0.0	0.0	-1	-2	-3		4.2	-0.1	-6	-42	-99	-30
Uruguay		43	0.1	2.0	0	-19	-14		10.6	0.0	-59	-179	-63	-28
Hungary		319	1.0	0.5	3	-9	-7		1.6	0.0	8	-18	-35	43
Poland		4.06	1.7	2.6	3	-6	-7		1.0	0.0	9	5	-126	-84
Romania		4.4	0.6	0.4	1	-4	-3		4.1	0.0	5	-18	-26	5
Russia		70.8	1.2	2.4	5	-9	-13		5.3	-0.3	2	-56	-245	-86
South Africa		17.4	1.6	5.6	8	-17	-19		9.9	-3.2	-17	-135	60	38
Turkey		6.74	1.1	0.6	4	-10	-12		11.3	0.0	-48	60	-987	-39
US (DXY; 5y UST)		99	-0.8	-0.3	-1	1	3		0.36	2.6	3	-1	-176	-133

	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		2847	1.0	-2	1	0	-7		240	-2	-5	-7	62	64
Indonesia		4627	1.8	3	3	-22	-27		285	-5	-26	-71	85	129
India		30609	-0.2	2	-2	-22	-26		304	31	-7	-22	151	179
Philippines		5497	-0.8	0	1	-29	-30		167	-3	-5	-25	81	101
Malaysia		1437	0.0	2	5	-10	-10		232	-2	-10	-50	105	120
Argentina		40963	0.0	4	40	17	-2		2696	-70	-87	-1371	1791	927
Brazil		85664	4.2	6	14	-9	-26		390	-13	-38	-81	132	175
Chile		3751	0.7	0	2	-23	-20		226	-7	-22	-79	91	93
Colombia		1058	0.0	-2	-6	-29	-36		293	-10	-45	-124	95	130
Mexico		35833	0.1	-3	4	-16	-18		537	-14	-49	-187	223	245
Peru		15400	0.3	-2	8	-22	-25		196	-5	-25	-86	56	89
Hungary		35862	1.9	1	9	-10	-22		210	-3	-2	-5	105	124
Poland		47219	1.7	3	5	-17	-18		85	-3	-6	-44	35	67
Romania		8693	0.1	4	10	6	-13		340	5	-12	-18	142	167
Russia		2785	1.0	3	9	6	-9		209	-5	-17	-72	0	78
South Africa		50595	1.0	-3	2	-7	-11		554	-19	-36	-115	245	234
Turkey		103024	0.0	4	4	20	-10		623	-3	-34	-83	69	222
Ukraine		500	0.0	0	0	-13	-2		716	-15	-15	-173	69	296
EM total		36	2.5	1	2	-8	-19		525	-8	-27	-108	161	232

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

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