



- Investors bet on rising rates by buying floaters ([link](#))
- Commodity rally likely fueled by speculation rather than fundamentals ([link](#))
- Cross currency markets signal abundant dollar liquidity ([link](#))
- China and US hold first talks on trade ([link](#))
- Bank of Korea turns hawkish ([link](#))
- Tapering fears spark Polish bond selloff ([link](#))

[Mature Markets](#)

[Emerging Markets](#)

[Market Tables](#)

## Global markets tread water

**Markets held fairly steady as May approaches its end and market participants look ahead to a potentially eventful June.** The coming month will have key meetings for the FOMC and the ECB as well as a slew of important economic data that will give a clearer picture of the world economy. US equity futures were mixed while European stocks were slightly higher, with the Euro Stoxx 600 index near a new record. Most markets posted gains this month, but there is growing nervousness about the future as multiple central banks signal that they will begin to gradually unwind pandemic-era support policies. A statement about possible rate BOE hikes in 2022 just sent the pound and gilt yields higher. However, the virus crisis is far from over. Japan is considering extending a state of emergency to contain continued COVID-19 infections and India and Brazil are still grappling with high infection rates.

**Note to our readers: The GMM is off tomorrow and Monday and will resume publication on Tuesday.**

Key Global Financial Indicators

Last updated: 5/27/21 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4196	0.2	2	0	38	12
Eurostoxx 50		4039	0.2	1	1	32	14
Nikkei 225		28549	-0.3	2	-2	30	4
MSCI EM		55	0.7	2	0	46	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.60	2.5	-2	-2	92	69
Germany 10y Yield		-0.19	1.9	-8	6	23	38
EMBIG Sovereign Spread		334	-3	3	-7	-186	-17
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.8	0.2	0	1	6	0
Dollar index, (+) = \$ appreciation		90.0	-0.1	0	-1	-9	0
Brent Crude Oil (\$/barrel)		68.2	-1.0	5	3	96	32
VIX Index (% change in pp)		17.9	0.5	-3	0	-10	-5

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

## Mature Markets

[back to top](#)

### United States

Treasury yields bounced off their three week lows yesterday on late comments from Fed Vice Chair Quarles that the FOMC is likely to begin discussions about tapering sometime soon. However, rates remain close to the low end of the trading range established over the past two months. Demand for Treasuries was very strong this week as the two and five-year note auctions went much better than expected. **This morning's economic data presented a mixed picture.** Data on jobs, ex-transportation durable goods and consumption continued to improve and exceeded forecasts but inflation was once again higher than expected. After initially selling off slightly, Treasuries were back to their levels before the data, with yields 2-3 bps higher than yesterday. Equity index futures were unchanged.

### Key US Economic Data 8.30 am

Indicator	Consensus Forecast	Actual Number
Durable goods	0.8%	-1.3%
Durable goods ex transp.	0.7%	1%
Initial jobless claims	425K	406K
Continuing claims	3680K	3642K
Q1 GDP annualized	6.5%	6.4%
Q1 Personal consumption	10.9%	11.3%
Q1 Core PCE qoq	2.3%	2.5%
Source: Bloomberg		

There is growing demand for floating rate instruments as investors position for higher interest rates in the future. This week alone saw \$2.75 bn of new issuance in floating rate investment (IG) grade bonds, including the first floater linked to the BSBY index, Bloomberg's new Short Term Bank Yield index. BSBY has been put forward as an alternative to the Secured Overnight Funding Rate (SOFR), the Fed's preferred substitute for Libor. BSBY has a term structure and incorporates credit risk, unlike SOFR. Bank of America reports that the IG floating rate market has grown to \$504 bn, with most tied to Libor and with banks being the biggest issuers. The high yield floating rate market is three times the size if the floating rate leveraged loan sector is included, and analysts expect more demand for these instruments as well.

Figure 1: US IG corporate floater bond market by benchmark  
Libor 80%, SOFR 19%, other 1%

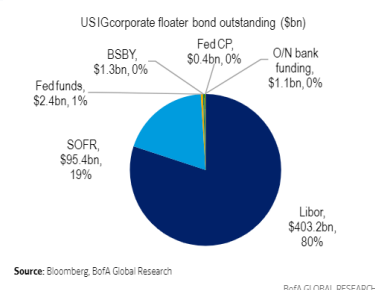
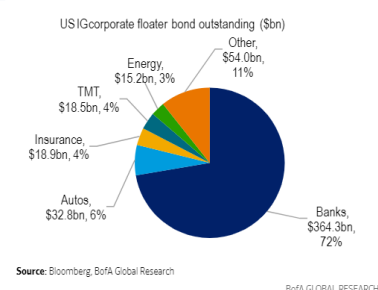


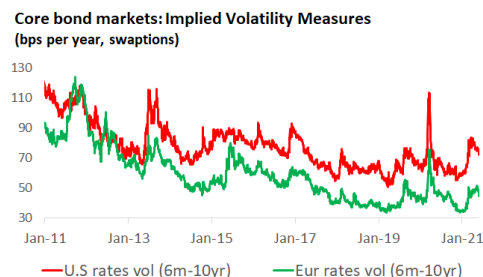
Figure 2: US IG corporate floater bond market by sector  
Banks 72%, Autos 7%, other 21%



### Euro area

German 10-yr bund yields consolidated at -0.20% ahead of a speech by Bundesbank president Weidmann. Most contacts do not expect the ECB to announce a reduction in its asset purchases on 10

June given recent statements by ECB officials. Rather, the ECB is expected to link the pace of its asset purchases to financial conditions with some expecting that the ECB could signal a shift in its forward guidance later in 2021 as a result of the strategic review. **Traders have been less willing to position for higher interest volatility in May.** The implied volatility of euro area swaptions (options on interest rate swaps) fell 5 points in May, compared to a drop of 3 points for U.S. rates. **10-yr sovereign spreads are 1-2 bps lower.**

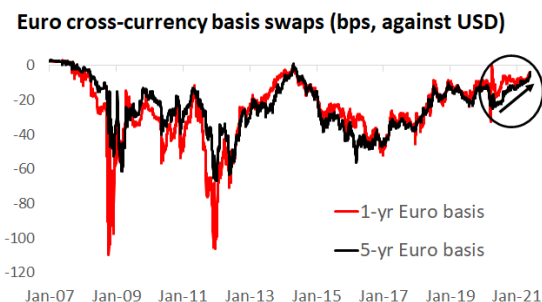


Source: Bloomberg and IMF

**Euro area equities are little changed** with bank stocks (+1%) recovering from yesterday's losses. Activity data released in May signaled that the euro area economy continues to recover with **upside surprises in German, French and Italian business confidence indicators suggesting that a further rebound is likely.** Data released today show that **manufacturing business confidence in Italy returned to 2018 highs**, with confidence in services back at pre-pandemic levels. But **Germany's GfK consumption climate disappointed**, improving from -8.8 last month to -7.0 (-5.2 expected).

**The French government will reportedly approve an additional €15 bn of emergency measures**, with French Finance Minister Le Maire expecting a budget deficit of more than 9% of GDP in 2021.

**The euro appreciated to 1.22 versus the dollar as developments in the cross-currency swap market signal abundant U.S. dollar liquidity.** The euro cross-currency basis tends to widen (be more negative) when demand for U.S. dollars is strong or when European banks are struggling to obtain U.S. dollar funding. In recent months, the cross-currency basis has crept higher (less negative) across maturities. **Contacts expect that abundant liquidity in U.S. money markets has reduced the downside potential in the euro cross-currency basis.** Low U.S. repo rates and spreads in U.S. paper should make it more attractive to invest in foreign-currency denominated paper with proceeds generally swapped back into U.S. dollar, putting upward pressure on the euro cross-currency basis.



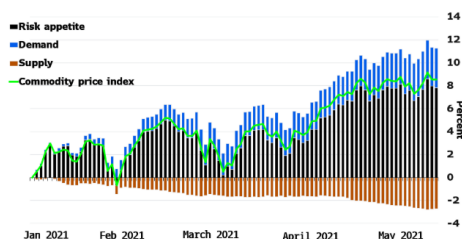
Source: Bloomberg and IMF

**The ECB is reportedly close on a report on “digital euro” with key decisions expected to be taken at the July policy meeting.** According to media reports, the digital currency will be named “digital euro” and would not be based on blockchain but stored in conventional accounts under ECB control with an individual wallet set at €3000.

## Commodities

The global rally in commodity prices has been driven more by risk appetite rather than more fundamental factors, according to analysts at Bloomberg. They created a model for commodity price movements that breaks down the drivers of commodity prices into supply, demand and risk appetite, and the results show that fundamentals are not the main cause. The analysts conclude that investors were front running the anticipated demand for commodities sparked by the predicted rebound of the global economy, but although the trend is positive, the global economy is still adjusting to the gradual reopening. The renewal of the outbreak in many countries has also kept demand in check.

### Drivers of the Recent Rally in Commodity Prices



Source: Bloomberg Economics calculations

## Emerging Markets

[back to top](#)

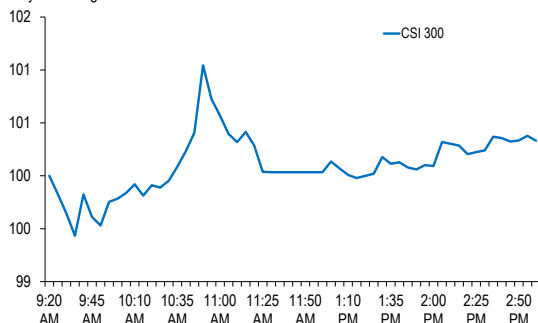
EMEA stocks and currencies were generally stronger. Asian currencies also appreciated, although stocks were mixed. In Philippines, market optimism was driven by expectations that COVID-19 containment measures would be eased following a moderation in local infection. S&P also affirmed the sovereign rating at BBB+, with a stable outlook. In Latin America, markets followed the US higher.

## China

China and the United States held a first high-level call on trade. Chinese Vice Premier Liu He and U.S. Trade Representative Katherine Tai had a phone conversation today. A statement from China's side indicated that the conversation was candid, pragmatic, and constructive. A separate U.S. statement noted that Ambassador Tai discussed the guiding principles of the Biden administration's trade policy and the ongoing review of the U.S.-China trade relationship. The stock markets rose on the news but fell back afterwards, though still gaining at the close (CSI 300: +0.3%). Meanwhile, the US president's "Asia Czar" Kurt Campbell said that the U.S. era of engagement with China is over. He noted that the U.S. policy toward China will operate under a "new set of strategic parameters" and that "the dominant paradigm is going to be competition". Despite the recent RMB appreciation trend, the People's Bank of China raised the limit on how much smaller lenders and foreign banks can borrow offshore. The move aimed to ease funding shortfalls faced by these banks.

### Chinese Stock Prices

May 26 closing = 100

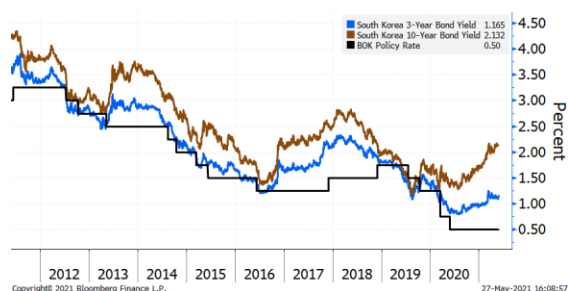


Source: Bloomberg

## Korea

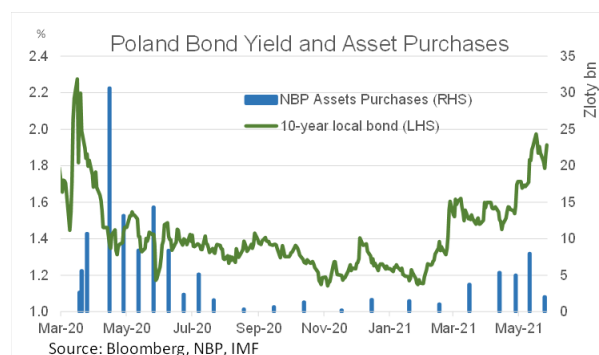
**The Bank of Korea (BOK) came out with hawkish rhetoric while keeping its policy rate unchanged at 0.5% as expected.** Governor Lee said that the BOK is preparing for an orderly exit from its record-low policy rate as the economy recovers and financial risks build up. The BOK upgraded its economic outlook for 2021, with growth at 4% (from 3%) and CPI inflation at 1.8% (from 1.3%). In response to the BOK's hawkish signal, some analysts brought forward their expectations of the BOK's first rate hike (Citi: November 2021; ANZ: 2022Q1).

### BOK Rate, South Korea Bond Yields



## Poland






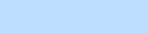


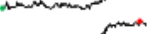








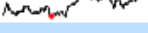
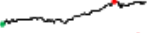
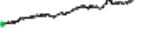


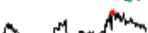

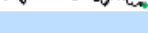
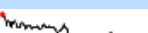


**Government bond yields jumped after the National Bank of Poland structural purchase operations disappointed markets.** The yield on 10-year bond surged by 20 bps even as German bunds and other CEE bond markets held steady. The National Bank of Poland bought just PLN 2 bn of BGK development bank bonds while rejecting all market offers on Treasury securities. Contacts noted that the small purchase size in relation to the announced auction size (5 bn) and actual market offer (6.7 bn) raised questions about a potential scaling down of the asset purchase program going forward.



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## Global Financial Indicators

Last updated: 5/27/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4194	0.2	1	0	38	12
Europe		4039	0.2	1	1	32	14
Japan		28549	-0.3	2	-2	30	4
China		3609	0.4	3	4	27	4
Asia Ex Japan		94	0.6	2	-1	47	5
Emerging Markets		55	0.7	2	0	46	5
<b>Interest Rates</b>			basis points				
US 10y Yield		1.60	2.5	-2	-2	92	69
Germany 10y Yield		-0.19	1.9	-8	6	23	38
Japan 10y Yield		0.08	0.7	0	0	8	6
UK 10y Yield		0.80	4.5	-4	2	60	60
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	-0.3	-1	-1	-85	-3
US High Yield		342	-2.0	-4	12	-312	-38
Europe IG		51	-0.5	-1	0	-21	3
Europe HY		250	-2.2	-8	-1	-182	9
<b>Exchange Rates</b>			%				
USD/Majors		89.99	-0.1	0	-1	-9	0
EUR/USD		1.22	0.0	0	1	11	0
USD/JPY		109.3	0.1	0	1	1	6
EM/USD		57.8	0.2	0	1	6	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-1.0	5	3	96	32
Industrials Metals (index)		157	0.8	1	2	64	18
Agriculture (index)		57	0.2	-2	-3	63	18
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		17.9	0.5	-2.8	0.3	-9.8	-4.9
US 10y Swaption Volatility		63.9	-0.1	-5.8	-11.8	4.1	3.7
Global FX Volatility		7.0	0.0	-0.1	-0.1	-0.8	-1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		106	-0.6	-7	-11	-94	-14
Italy		111	-1.7	-6	4	-81	0
Portugal		65	-0.9	-4	-2	-40	5
Spain		65	-0.9	-3	-2	-41	3

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



## Emerging Market Financial Indicators

Last updated: 5/27/2021 8:13 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		6.38	0.2	0.9	2	12	2		3.2	-0.6	-4	-9	53	-11
Indonesia		14288	0.3	0.6	1	3	-2		6.4	0.0	-6	-7	-90	37
India		73	0.3	0.7	3	4	1		6.3	0.0	-4	-7	18	31
Philippines		48	0.3	-0.1	1	6	0		4.2	-8.4	-9	14	-14	59
Thailand		31	-0.2	0.2	0	2	-4		1.8	0.0	2	1	51	52
Malaysia		4.14	0.1	0.1	-1	5	-3		3.3	0.0	1	5	51	73
Argentina		94	-0.2	-0.3	-1	-28	-11		45.7	10.3	-2	-103	-56	-1041
Brazil		5.30	0.2	-0.3	3	0	-2		8.2	-8.2	-24	40	270	261
Chile		730	0.6	-2.4	-3	10	-3		4.0	-5.6	12	37	149	119
Colombia		3744	-0.2	-1.6	-1	0	-8		6.8	-5.6	10	44	163	176
Mexico		19.88	0.0	0.0	1	12	0		6.8	2.9	-9	15	54	119
Peru		3.9	-0.8	-2.9	0	-11	-6		5.0	9.3	9	-29	85	144
Uruguay		44	0.2	0.5	0	-2	-4		7.9	8.2	22	49	-268	61
Hungary		286	0.3	0.0	5	11	4		2.3	-4.8	-18	30	57	73
Poland		3.68	0.4	-0.1	3	9	2		1.2	6.3	-3	31	18	57
Romania		4.0	0.0	0.0	1	9	-1		2.7	-2.0	-4	11	-131	-2
Russia		73.4	0.2	0.3	2	-3	1		6.8	-1.6	-3	10	151	107
South Africa		13.7	0.1	1.7	5	27	7		9.7	0.4	-19	-27	-13	5
Turkey		8.44	0.2	-0.7	-3	-20	-12		17.9	-0.1	22	-7	655	475
US (DXY; 5y UST)		90	-0.1	0.2	-1	-9	0		0.82	3.6	1	-6	47	46

[back to top](#)