



- US 5Y5Y breakeven rate increased highest level in the last 5 years ([link](#))
- Cash levels remain at all time highs, which may support risk assets ([link](#))
- Prime Minister Modi's party failed to win key states in India's state elections ([link](#))
- Colombia's president abandons tax plan after protests ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Equities rise amidst quiet markets

With several large markets closed for holidays today (U.K., Japan and China), trading activity is relatively light. European equity markets are up modestly this morning following PMI data showing continuing economic progress. U.S. equity futures are up similarly. Inflation continues to be at the center of market concerns with the longer term breakeven rate in the U.S. reaching its highest level in 5 years. Despite assurances from Fed speakers, markets hold some concern that this rise could lead to an earlier than previously anticipated ending of the highly accommodative monetary policy. Emerging markets are mixed so far this morning, with the Polish zloty leading gains (0.4%) and the Malaysian ringgit leading decliners (-0.4%).

Key Global Financial Indicators

Last updated: 5/3/21 8:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4181	-0.7	0	4	48	11
Eurostoxx 50		4000	0.6	-1	1	37	13
Nikkei 225		28813	-0.8	-1	-3	47	5
MSCI EM		54	-1.8	-1	0	53	4
Yields and Spreads			bps				
US 10y Yield		1.62	-0.5	5	-10	101	71
Germany 10y Yield		-0.20	0.1	5	13	39	37
EMBIG Sovereign Spread		338	-1	0	-20	-273	-12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.9	0.2	0	1	8	-2
Dollar index, (+) = \$ appreciation		91.1	-0.2	0	-2	-8	1
Brent Crude Oil (\$/barrel)		66.5	-0.4	1	2	151	28
VIX Index (% change in pp)		18.5	-0.1	1	1	-19	-4

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

United States

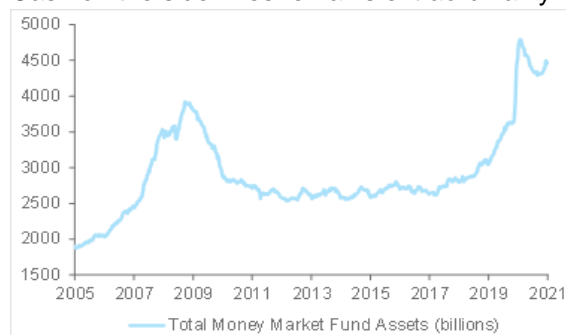
[back to top](#)

US 5Y5Y breakeven rate increased to 2.3% last week, the highest level in the last 5 years, as investors noted the Federal Reserve April meeting evidenced a relatively dovish rhetoric. Indeed, despite strong

economic data and an increasingly successful vaccination campaign, Chair Powell noted that he believes it will be some time until the Fed makes further substantial progress toward its dual mandates. On the inflation front, despite a fairly swift rise in breakevens to pre-pandemic levels, the Fed continues to highlight that the rise in inflation is likely to be transitory and therefore will be looked through.

Market participants have noted that the US reserves have risen rapidly as cash has been released from the Treasury's General Account. **Meanwhile, cash on the side-lines, as proxied by the value of money market fund assets, also remains extraordinarily elevated**, suggesting that there is plenty of money that will seek investment as the global economy recovers. Contacts note that this should continue to support risk assets as we enter the month of May, and likely into the summer.

Cash on the side-lines remains extraordinarily high



Source: CitiFX, Bloomberg

Reserves are near all-time highs



Source: CitiFX, Bloomberg

Europe

[back to top](#)

European equities are broadly flat this morning amid light trading volumes. UK markets are closed for a holiday. Markit manufacturing PMIs across the euro area remained in growth territory (above 50) in April but edged slightly lower in the euro-zone, Germany, and France (but picked up in Italy). Retail sales in Germany surged 7.7% m/m in March ahead of expectations. 10-year bond yields rose by 2 bps in Germany and France and by 3 bps in Italy. The euro strengthened 0.3% (after a decline last week).

Other Mature Markets

[back to top](#)

Australia

Manufacturing PMI remained robust in April, while the housing market boom showed signs of moderation. Manufacturing PMI was 59.7 in April, a slight drop from 59.6 in March. House prices continued rising in April, up 1.8% m/m. The increase was at the slowest pace since January 2021. Analysts noted that with house prices rising faster than income, first-time buyers and low-income households find it more difficult to save for a deposit and transaction costs. This could dampen housing demand going forward. **Equities were little changed. Long-end government bond yields increased** (10-year: +0.7 bp; 30-year: +2 bps). **Australian dollar appreciated** (+0.2%).

Easing Off?

Australia house price gains lost some momentum in April

■ Month-on-month change in Australia hedonic home value index










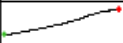




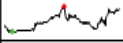

Source: Bloomberg.

Emerging Markets

[back to top](#)

Asian equities declined 1.0% on net, led by Taiwan (-2.0%), Hong Kong (-1.3%) and Singapore (-1.1%). Market commentary suggested that the decline was due to negative sentiment spillovers from the U.S. equity selloff last Friday even though **PMI manufacturing data came out strong in many Asian economies** (India: 55.5; Indonesia: 54.6; Korea: 54.6; Taiwan POC: 62.4). **Most Asian currencies depreciated**, led by the Korean won (-1.0%) and Malaysian ringgit (-0.4%). The won weakened on the back of a narrower trade surplus driven by a jump in imports in April. **In China**, a Huarong (the distressed AMC) executive said in a media interview that the company is prepared to make its bond payments and that the state-backing remains intact. **In Hong Kong SAR**, real GDP grew 5.3% q/q in 2021Q1, much stronger than an expected 0.7% increase. **In Taiwan POC**, concerns over local COVID-19 infection dampened market sentiment. Taiwan dollar depreciated (-0.2%) alongside falling equities. **Latin American equities posted losses** (Colombia -2.1%, Argentina -2%, and Mexico -1.8%) and **currencies depreciated** (Brazil -1.8%, Mexico -1%, Chile -0.6% and Colombia 0.5%) last Friday, as lower oil prices weighed on exporters and US equities fell. A stronger US dollar and slightly lower US treasury yields pushed most Latin American hard-currency sovereign yield curves down. Local currency curves behaved mixed, lower in Chile (-12 bps) and Peru, but higher in Mexico and Colombia. Yields also increased at the short end of the Brazilian hard and local currency curves.

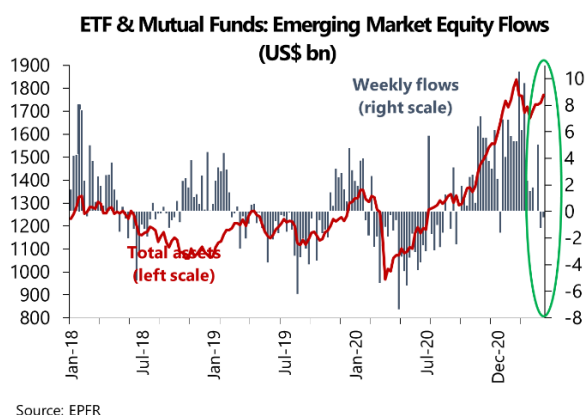
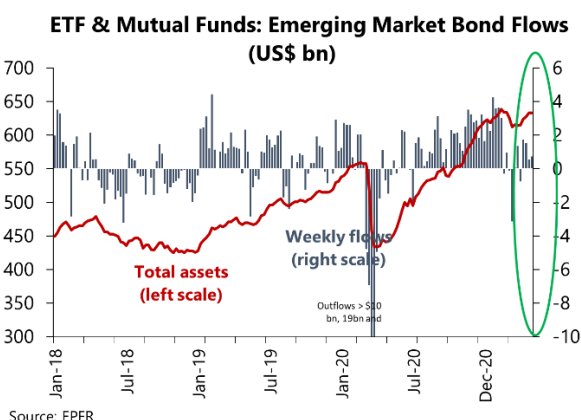
Key Emerging Market Financial Indicators

Last updated: 5/3/21 8:59 AM	Level	Change	YTD
	Last 12m index	1 Day 7 Days 30 Days 12 M	
Major EM Benchmarks		%	%
MSCI EM Equities	 53.98	0.5 -1 0	53 4
MSCI Frontier Equities	 30.83	-0.5 0 4	40 9
EMBIG Sovereign Spread (in bps)	 338	-1 0 -20	-273 -12
EM FX vs. USD	 56.95	0.2 0 1	8 -2
Major EM FX vs. USD		%, (+) = EM currency appreciation	
China Renminbi	 6.47	0.0 0 1	9 1
Indonesian Rupiah	 14450	0.0 0 0	4 -3
Indian Rupee	 73.93	0.2 1 -1	2 -1
Argentine Peso	 93.55	-0.1 0 -2	-29 -10
Brazil Real	 5.43	0.1 0 4	2 -4
Mexican Peso	 20.26	-0.1 -2 0	19 -2
Russian Ruble	 75.26	0.1 0 1	-1 -2
South African Rand	 14.46	0.3 -1 1	29 2
Turkish Lira	 8.30	0.0 0 -2	-15 -10
EM FX volatility	 9.64	1.3 -0.1 -1.2	-2.2 -1.1

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

EM fund flows

Flows to EM funds remained muted last week. Bond funds saw \$0.8 bn coming in, mainly into hard currency funds. Equity funds lost \$0.5 bn – a mere 0.03% of their assets – through redemptions..



India

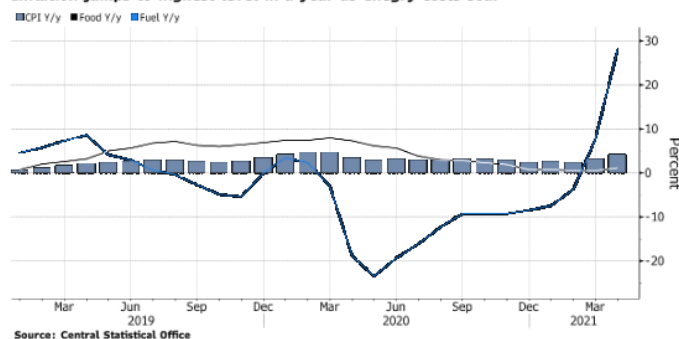
Prime Minister Modi's party failed to win key states in state elections. State elections have returned the present ruling parties in three of the five states. West Bengal, a key state, saw incumbent Chief Minister Mamata Banerjee's party winning two-thirds of the seats. Market opinions were split. Some analysts noted that Prime Minister Modi's loss in West Bengal indicated his failed attempt to gain broader political support. Negative sentiment drove down equities (-0.6%). For other analysts, the election results reflect that regional elections are still mostly fought on local issues and should not have much bearing on national economic policies. The Indian rupee appreciated (+0.1%)

Poland

Driven by surging global energy costs, Poland's inflation jumped 4.3% y/y in April, the highest level in more than a year and above the target range. According to reports, many central bankers stated that tightening in monetary policy could support economic recovery, as the surge in inflation is caused by external factors outside their control. However, Governor Glapinski repeatedly stated that inflation would slowly revert to the mid-point of the target range at 2.5%, allowing the benchmark rate to stay at 0.1% until early 2022. According to a survey published last Friday, economists revised up their year-end inflation expectations to 3.3% y/y (+2.9% previously) and saw the policy rate unchanged at 0.1% by the end of Q2 2021. The next central bank meeting is Wednesday.

Price Overshoot

Inflation jumps to highest level in a year as energy costs soar



Colombia

President Duque withdrew a plan to raise taxes following violent protests. In a speech Sunday, the president asked congress to work on a new plan. The initial proposal, which would have broadened the VAT to additional items, sparked a series of protests throughout the country which resulted in at least 6 deaths.

Colombia's monetary policy rate remained at 1.75% with limited impact visible in markets. The decision was in line with market expectations. However the presence of a dissenting vote for a rate cut in the bank's board was seen as a marginal shift to a more dovish stance, driving a 14 bps slide in the market implied policy rate path over the one to two year horizon during the day. The local treasury yield curve moved little in reaction.

Mexico

Moody's confirmed last Thursday Mexico's sovereign rating at Baa1 on base of the perception of rising chances for gradual economic recovery and a trend to fiscal stabilization. The outlook remains negative, mostly over concerns with regard to a potential fiscal drag of government support for PEMEX. Friday's mildly improved preliminary March GDP print of 0.4% q/q sa, above market expectations, appeared to reflect such optimism. In the context of last Friday's regional losses in stocks and currencies, markets showed little immediate reaction, except for a 5 bps increase in 10-year bonos.

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Global Financial Indicators

Last updated: 5/3/21 8:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4185	-0.7	0	4	48	11
Europe		4000	0.6	-1	1	37	13
Japan		28813	-0.8	-1	-3	47	5
China		3447	-0.8	-1	-1	21	-1
Asia Ex Japan		94	-1.6	-1	0	52	5
Emerging Markets		54	-1.8	-1	0	53	4
Interest Rates			basis points				
US 10y Yield		1.62	-0.5	5	-10	101	71
Germany 10y Yield		-0.20	0.1	5	13	39	37
Japan 10y Yield		0.10	0.0	2	-3	12	8
UK 10y Yield		0.84	-0.1	10	2	61	65
Credit Spreads			basis points				
US Investment Grade		91	-0.2	-2	2	-107	-4
US High Yield		328	-0.6	-6	-8	-435	-52
Europe IG		50	0.0	-1	-1	-37	2
Europe HY		249	0.0	-2	3	-274	6
Exchange Rates			%				
USD/Majors		91.14	-0.2	0	-2	-8	1
EUR/USD		1.20	0.2	0	2	10	-1
USD/JPY		109.4	0.0	1	-1	2	6
EM/USD		56.9	0.2	0	1	8	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		66	-0.4	1	2	151	28
Industrials Metals (index)		156	0.3	1	9	66	17
Agriculture (index)		59	1.6	2	18	70	24
Implied Volatility			%				
VIX Index (% change in pp)		18.5	-0.1	0.9	1.2	-18.7	-4.2
US 10y Swaption Volatility		72.3	-0.7	-3.2	-7.9	12.3	12.2
Global FX Volatility		7.2	0.1	0.1	-0.5	-2.0	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	-0.2	3	4	-156	0
Italy		108	-2.4	3	12	-127	-3
Portugal		67	-1.3	1	13	-73	7
Spain		66	-1.7	1	2	-65	5

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 5/3/2021 8:59 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		6.47	0.0	0.3	1	9	1		3.2	-1.0	1	-7	84	-3
Indonesia		14450	0.0	0.2	0	4	-3		6.5	0.4	1	-21	-134	45
India		74	0.2	1.1	-1	2	-1		6.3	0.0	-3	-7	4	38
Philippines		48	0.2	0.7	1	5	0		4.2	5.3	9	34	-70	53
Thailand		31	-0.1	0.7	0	4	-4		1.9	-0.6	2	-10	48	55
Malaysia		4.11	-0.4	-0.2	1	5	-2		3.3	0.1	5	3	45	71
Argentina		94	-0.1	-0.5	-2	-29	-10		46.5	-41.5	-7	-7	753	-966
Brazil		5.43	0.1	0.1	4	2	-4		7.9	8.7	8	-22	195	234
Chile		706	0.7	0.0	2	19	1		3.7	-7.9	23	22	99	97
Colombia		3745	-0.9	-3.0	-2	6	-8		6.5	-1.0	26	-10	11	141
Mexico		20.26	-0.1	-1.9	0	19	-2		6.8	3.4	15	4	17	123
Peru		3.8	0.0	0.1	-1	-11	-4		5.2	2.5	6	38	51	162
Uruguay		44	0.1	0.5	1	-3	-4		7.4	3.1	0	-5	-461	15
Hungary		299	0.3	0.7	2	9	-1		2.0	-0.2	4	-6	26	47
Poland		3.77	0.5	-0.1	3	10	-1		1.0	2.2	12	8	-1	38
Romania		4.1	0.1	-0.4	2	8	-3		2.6	0.0	0	-4	-156	-13
Russia		75.3	0.1	-0.3	1	-1	-2		6.8	5.2	7	-2	91	105
South Africa		14.5	0.3	-1.2	1	29	2		10.1	7.1	13	-23	-61	48
Turkey		8.30	0.0	-0.2	-2	-15	-10		17.7	-3.6	-9	-81	696	462
US (DXY; 5y UST)		91	-0.2	0.4	-2	-8	1		0.85	0.3	2	-13	50	49

	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		5123	0.0	0	-1	31	-2		199	0	-2	-9	30	-9
Indonesia		5953	-0.7	0	-1	29	0		158	0	-9	-25	-5	-29
India		48719	-0.1	1	-3	54	2		157	-1	-11	4	-174	6
Philippines		6369	0.0	0	-1	14	-11		83	0	-9	-17	13	-22
Malaysia		1591	-0.7	-1	0	16	-2		113	0	-2	-3	9	3
Argentina		49056	0.0	4	2	50	-4		1459	0	19	8	-570	91
Brazil		118894	0.0	-1	3	48	0		253	0	0	-16	58	3
Chile		4473	0.0	-8	-8	12	7		126	0	-6	-16	-14	-18
Colombia		1251	0.0	-3	-5	10	-13		207	0	-4	-15	44	2
Mexico		48010	0.0	-2	2	32	9		348	0	-9	-34	55	-12
Peru		19563	0.0	3	-8	32	-6		133	0	-4	-3	22	1
Hungary		43050	-0.3	-1	-3	22	2		65	0	-6	-15	-42	-31
Poland		60811	0.0	2	4	32	7		-22	0	-4	-11	-54	-21
Romania		11342	0.0	2	1	42	16		185	1	0	-8	-177	-17
Russia		3544	0.0	-1	0	34	8		159	0	-5	-3	19	-7
South Africa		66450	-0.7	-1	-1	32	12		357	0	-4	-35	25	-23
Turkey		1409	0.8	3	-2	39	-5		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	0.5	-1	0	53	4		421	0	17	-10	97	128

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

[back to top](#)

