



- US bank lending standards ease; euro area dynamics slightly less favorable ([link](#))
- In FX markets, USD short positioning is helping EM assets ([link](#))
- European earnings season enjoys a strong start ([link](#))
- Colombian assets decline after withdrawal of tax reform plan ([link](#))
- El Salvador bonds decline after top judges removed ([link](#))

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Commodities rally, but equities falter

Moves in the dollar index and commodities stand out this morning, with equity markets weaker. Confidence in increasing demand has sent oil futures up over 1% so far today, and about 4% over the past week. The move in commodities is not limited to oil, with Bloomberg's commodity price index reaching its highest level in over 5 years. The dollar is also stronger today, putting some pressure on emerging market currencies. Most EM currencies are weaker so far this morning, led by the Turkish lira on increasing inflation fears. The Russian ruble is bucking the trend, appreciating thanks in part to the rise in oil. European and US equity indices are slightly negative, with technology stocks leading the move lower.

Key Global Financial Indicators

Last updated: 5/4/21 8:23 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4193	0.3	0	4	47	12
Eurostoxx 50		3974	-0.7	-1	1	41	12
Nikkei 225		28813	-0.8	-1	-3	47	5
MSCI EM		54	0.0	-1	0	51	4
Yields and Spreads			bps				
US 10y Yield		1.60	0.2	-2	-12	97	69
Germany 10y Yield		-0.21	-1.0	4	11	35	36
EMBIG Sovereign Spread		341	3	0	-13	-268	-10
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.8	-0.4	0	1	7	-2
Dollar index, (+) = \$ appreciation		91.3	0.4	0	-2	-8	1
Brent Crude Oil (\$/barrel)		68.6	1.5	3	6	152	32
VIX Index (% change in pp)		19.1	0.8	2	2	-17	-4

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

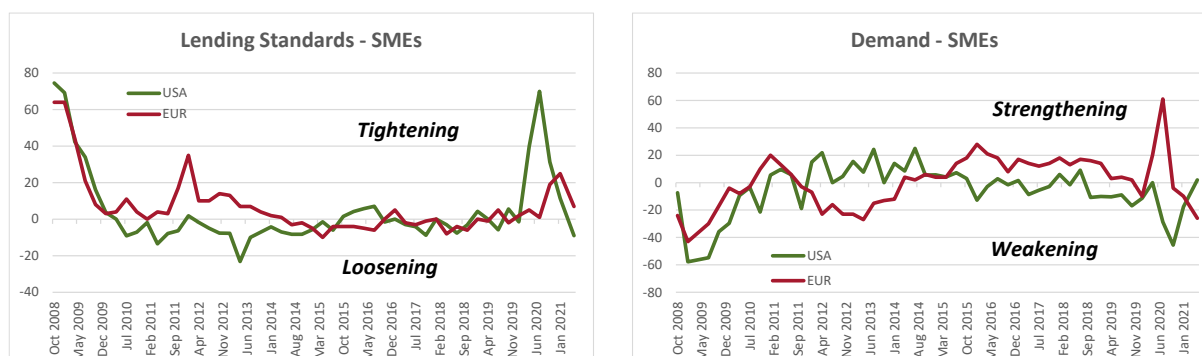
United States

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In the US, the April manufacturing ISM print was in focus Monday. Treasury yields declined shortly ahead of the release, and continued to decline in its aftermath before rebounding partly. The 10-year Treasury yield ended the session about 3 bps lower on net. The overall index and the new orders subcomponents came in weaker than consensus expectations, but the prices paid subcomponent was higher. Some contacts noted, however, that the weaker headline index print was likely due to seasonal factors that had been exaggerated by COVID-related dynamics.

US bank lending standards ease and demand stabilizes; euro area dynamics slightly less favorable.

The US Federal Reserve's Senior Loan Officer Survey revealed that bank lending standards have eased across all major customer segments – large corporates, small businesses (shown below) and households. Lending standard trends in the US are similar to recently published readings for the Euro area, though loosening in the US is significantly more pronounced than in Europe. However, demand trends diverge – generally stabilizing in the US while weakening with accelerating force in Europe. US and EU bank indices have risen 22% and 21%, respectively, over the past three months.



Source: Federal Reserve Senior Loan Officer Survey, ECB Bank Lending Survey

In FX markets, contacts note that USD positioning is net short, with some sell side reporting that real money accounts added their shorts last week while hedge funds covered some of the short positions they had reportedly held since March. Real money accounts have also recently begun to add to their long EM exposures. Hedge funds have been increasing their EM FX exposure for longer, as seen in the charts below. FX volatility measures, such as the Deutsche Bank FX volatility index, have also declined. Market participants have noted that the decline in FX volatility should be conducive to EM asset performance as well as the performance of commodities. This could reverse, however, if at the June FOMC meeting the Fed hints at tapering the balance sheet in early 2022.



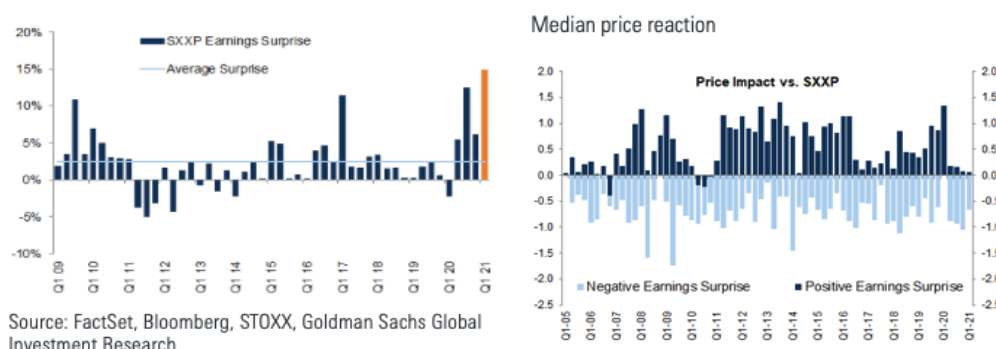
Source: Citi; 1Jan21 – 30Apr21; *CFPIUSLV (leveraged), CFPIUSRM (real money), CTTWBUSD (trade-weighted USD index)

Source: Citi; Sample: 1Jan21 – 30Apr21; CFPIEMLV (leveraged), CFPIEMRM (real money), FXCTEM8 (BBG EM FX Index)

Europe

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European equities were trading mixed with indices up in Spain (+0.9%) and France (+0.5%) but down in Germany (-0.3%). With about a third of European companies having reported their earnings, **the Q1 earnings season is on track to deliver the largest upside surprise since the GFC**. According to Goldman Sachs analysts' estimates, average earnings have surprised by 15% to the upside while Citigroup's analysts profit upgrade index reached the highest level in two decades. Banking sector results have been particularly strong so far. Interestingly though, **despite companies delivering one of the strongest earning seasons on record, the price reaction to earnings news has been rather muted**.



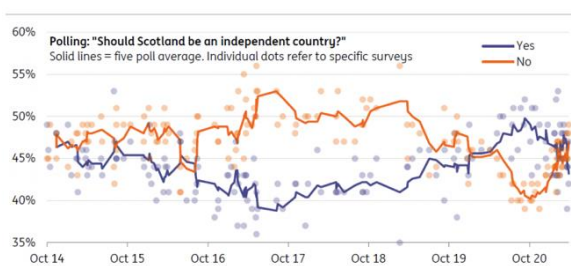
European government bond markets were steady with the German 10-year bund hovering around -0.2%, having briefly approached -0.16% yesterday. The euro (-0.5%) traded briefly at 1.20 dollar per euro and the sterling (-0.2%) is also weaker against the dollar.

Net purchases under the Pandemic Emergency Purchase Program (PEPP) stood at €19bn last week, which is consistent with an elevated pace of €80 bn per month. That said, contacts note that **market participants are now more focused on the shift in ECB's members tone around the PEPP purchase program** as the vaccination gains momentum in Europe. While only a quarter of EU's population has received the first shot, the vaccination pace has doubled since March to about 0.6% of population per day.

United Kingdom

Currency markets are pricing limited event risk for the upcoming Scottish election and the Bank of England policy meeting on Thursday (6 May). Contacts note that investors see limited market impact from the Scottish Parliamentary election on Thursday with 1-week sterling currency options seeing only a small price increase. While the Scottish National Party (SNP) is expected to win, **analysts argue that a new Scottish independence referendum may not be imminent due to the lack of consent from London**. The recent polls on independence have been also more balanced. Separately, while the **economist consensus expects no change in the upcoming Bank of England meeting on Thursday**, **contacts argue that the meeting could set a hawkish tone** with notable upwards revision to recovery projections.

Figure 1: Polling on Scottish independence



Other Mature Markets

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Australia

The Reserve Bank of Australia (RBA) kept its monetary policy unchanged as expected. Both the cash rate and the 3-year yield target remain at 0.1%. The bond purchase program will be reviewed at the July meeting, including the decision about a shift in the yield target to the November 2024 bond (from April 2024 bond). The RBA also announced that an extension of the Term Funding is not under consideration. It assessed that banks are likely to return to wholesale markets to tap replacement funding. The RBA revised up its 2021 growth forecast to 4.75% (from 3.5%). However, the RBA still sees limited inflationary pressures. In particular, the labor market will not be tight enough to generate wages growth sufficient to sustain inflation within the 2%-3% target band until 2024 at the earliest. **Australian dollar depreciated (-0.5%); equities gained (+0.6%); long-end government bond yields edged up slightly (10-year: +0.6 bp).**

RBA to Consider Shift in Yield Curve Target Bond in July



Source: Bloomberg.

Korea

CPI inflation picked up stronger than expected. CPI inflation accelerated to 2.3% y/y in April, from 1.5% in March. On a m/m basis, CPI rose 0.2%. The pickup in inflation was driven by higher food and energy prices. Analysts noted that inflationary pressures are unlikely to sustain. The labor market has not fully recovered even though Korea's economy surpassed the pre-pandemic level in 2021Q1 thanks to strong exports performance. Vice Finance Minister Lee Eog-Won said that the chance of entrenched 2% inflation is limited and that the government will try to stabilize prices so that price increases in Q2 will not lead to excessive inflation expectations. **The ban on short selling was lifted on Monday.** The volume of short sales amounted \$659 mn on the first day of trading, with foreign investors accounting for 91% of total transactions. Foreign investors' bearish bets were not broad-based but targeted some stocks (e.g., those expected to be removed from key indexes). **Equities gained (+0.6%); Korean won appreciated (+0.1%).**




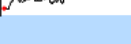


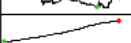


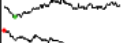
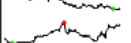

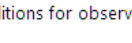

Emerging Markets

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Asian equities were mixed, gaining 0.1% on net. Hong Kong (+0.7%) and Korean (+0.6%) equities gained, while share prices dropped in Taiwan POC (-1.7%). **Asian currencies were also mixed.** Singaporean dollar (-0.4%) and Malaysian ringgit (-0.3%) depreciated, while the Indonesian rupiah appreciated (+0.1%). **In Hong Kong SAR,** retail sales grew 20.1% y/y, lower than expected, highlighting lingering weak domestic consumption. Based on data released yesterday, real GDP expanded stronger than expected in 2021Q1, largely driven by robust exports performance. The Turkish lira (-1%) fell as analysts argue that a widening gap between producer and consumer prices may keep inflation pressures elevated in the months ahead. The South African rand (-0.3%) edged lower but other currencies were little changed. Equities generally traded with a positive tone. **Latin America's equities and currencies printed mixed on Monday.** Equities advanced in Chile (2.6%) and Mexico (1%) and declined in Colombia (-2.7%) and Argentina (-0.4%). Currencies followed a similar pattern, appreciating 0.9% in Chile and 0.4% in Mexico and depreciating by 2.3% in Colombia and 0.8% in Peru. Chile's asset markets profited from higher copper

prices (+1.4%), an economic activity print of 6.4% y/y, well above the 4.5% expected by market consensus, and the announcement of a partial softening in local lock-downs. Colombia's and Peru's local currency treasury yield curves shifted up as currencies depreciated, while Brazil's curve increased in reaction to breakeven inflation rates continuing to edge up for most maturities and implied monetary policy rates further rising ahead of Wednesday's COPOM meeting.

Key Emerging Market Financial Indicators

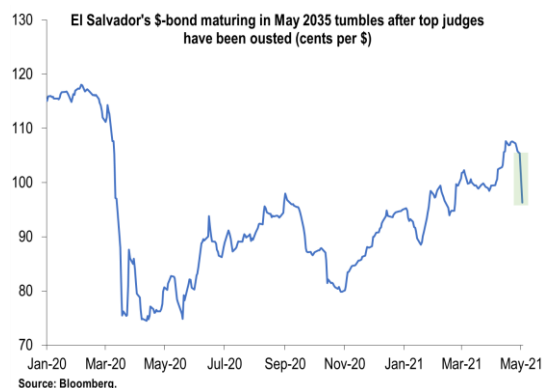
Last updated: 5/4/21 8:24 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.98	-1.4	-1	0	51	4
MSCI Frontier Equities		30.90	0.2	0	4	37	9
EMBIG Sovereign Spread (in bps)		341	3	0	-13	-268	-10
EM FX vs. USD		56.78	-0.4	0	1	7	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.0	0	1	9	1
Indonesian Rupiah		14430	0.1	0	1	5	-3
Indian Rupee		73.86	0.1	1	-1	3	-1
Argentine Peso		93.68	-0.1	0	-2	-29	-10
Brazil Real		5.48	-0.6	0	3	1	-5
Mexican Peso		20.29	-0.6	-1	0	19	-2
Russian Ruble		75.05	-0.1	0	2	0	-1
South African Rand		14.52	-0.8	-1	0	28	1
Turkish Lira		8.33	-1.0	-1	-3	-15	-11
EM FX volatility		9.56	0.0	-0.2	-1.2	-2.4	-1.2

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

El Salvador

EL Salvadorian sovereign bonds tumbled after parliament ousted the top five constitutional judges.

El Salvador's 2035 sovereign \$-bond tumbled yesterday by 9% to 96 cents on the dollar after the country's legislative assembly removed the country's top five judges on Saturday, followed by the replacement of the attorney-general. The incumbents who sat on the supreme court's constitutional chamber were replaced over their alleged opposition to the pursuit of tax evasion. International observers and El Salvador's business community perceive the step as a threat to El Salvador's institutional integrity.



Colombia

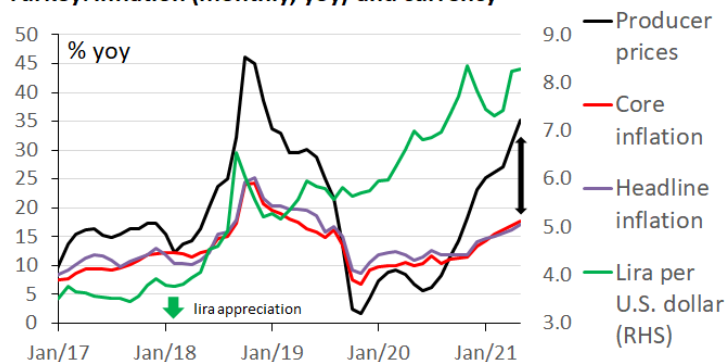
The political aftermath of withdrawn tax reform plans weighed on Colombian asset markets. Finance minister Carrasquilla resigned yesterday in the wake of Sunday's withdrawal of the latest tax reform plans

(we reported yesterday), which followed on days of political protest, leading to social unrest and multiple fatalities. The Colombian peso depreciated 2.3%. The Stock market followed suit, declining by 2.7%. The country's sovereign bond markets were affected as well, with hard and local currency treasury yield curves moving higher (12 bps for the 15-year hard currency bond and 31 bps for the 15-year local currency bond). According to Moody's, the botched fiscal reform plans generate doubts about Colombia's fiscal consolidation, with the withdrawal perceived as negative for the country's rating outlook.

Turkey

The lira (-1% to 8.34 per U.S. dollar) depreciated after a higher-than-expected increase in producer prices of 35.2% yoy (33.1% expected) added to concerns about persistent price pressures. Headline inflation was 17.1% yoy in April (17.3% expected, 16.2% previously) with core inflation at 17.8% (18.4% expected, 16.9% previously). Analysts also point out that service sector related items such as health, education, hotels, restaurants, and miscellaneous expenditures posted high price increases in April. **The central bank meets on Thursday and is expected to leave its policy rate unchanged at 19% to help contain inflationary pressures in the months ahead.** The central bank increased its year-end inflation forecast to 12.2% yoy last week (from 9.4% previously). 10-yr local bond yields remain elevated at 18.4%.

Turkey: Inflation (monthly, yoy) and currency



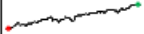

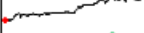
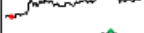


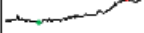

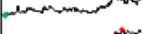







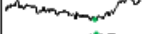





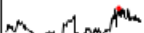





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Global Financial Indicators

Last updated: 5/4/21 8:24 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4180	0.3	0	4	47	11
Europe		3974	-0.7	-1	1	41	12
Japan		28813	-0.8	-1	-3	47	5
China		3447	-0.8	-1	-1	21	-1
Asia Ex Japan		94	-0.2	-1	0	50	4
Emerging Markets		54	0.0	-1	0	51	4
Interest Rates			basis points				
US 10y Yield		1.60	0.2	-2	-12	97	69
Germany 10y Yield		-0.21	-1.0	4	11	35	36
Japan 10y Yield		0.10	0.0	1	-3	12	8
UK 10y Yield		0.82	-1.8	5	3	59	63
Credit Spreads			basis points				
US Investment Grade		91	0.0	-1	2	-108	-4
US High Yield		328	-0.7	-3	-8	-438	-52
Europe IG		50	0.4	0	0	-37	2
Europe HY		251	2.4	0	6	-271	9
Exchange Rates			%				
USD/Majors		91.29	0.4	0	-2	-8	1
EUR/USD		1.20	-0.3	-1	2	10	-2
USD/JPY		109.2	0.1	0	-1	2	6
EM/USD		56.8	-0.4	0	1	7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		69	1.5	3	6	152	32
Industrials Metals (index)		157	0.6	2	10	68	18
Agriculture (index)		59	1.1	1	17	70	22
Implied Volatility			%				
VIX Index (% change in pp)		19.1	0.8	1.5	1.7	-16.9	-3.7
US 10y Swaption Volatility		73.5	1.5	-2.1	-6.7	13.5	13.4
Global FX Volatility		7.1	0.0	0.0	-0.5	-2.3	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		122	2.7	6	7	-151	3
Italy		109	1.6	2	14	-124	-2
Portugal		67	0.5	0	14	-75	7
Spain		67	0.6	0	3	-66	5

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: 5/4/2021 8:24 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	0.0	-2	-6	84	-3
Indonesia		14430	0.1	0.4	1	5	-3		6.5	-1.9	0	-18	-136	44
India		74	0.1	1.1	-1	3	-1		6.3	-2.2	-2	-9	2	36
Philippines		48	0.0	0.7	1	5	0		4.2	-1.3	7	31	-72	52
Thailand		31	-0.2	0.6	0	4	-4		1.9	0.0	4	-8	48	55
Malaysia		4.12	-0.4	-0.6	0	5	-2		3.3	-0.6	3	8	45	70
Argentina		94	-0.1	-0.4	-2	-29	-10		46.4	-7.6	-37	13	746	-974
Brazil		5.48	-0.6	-0.4	3	1	-5		8.0	8.4	21	-28	204	242
Chile		704	1.0	0.3	2	19	1		3.7	-5.3	10	21	93	92
Colombia		3804	-1.5	-3.0	-4	5	-10		6.8	27.4	36	23	38	168
Mexico		20.29	-0.6	-1.2	0	19	-2		6.8	-2.2	16	5	15	120
Peru		3.8	-0.8	0.6	-3	-11	-5		5.3	5.6	-5	49	56	168
Uruguay		44	-0.2	0.3	1	-3	-4		7.4	0.0	4	3	-461	15
Hungary		300	-0.6	0.1	2	8	-1		2.0	0.0	4	-12	26	47
Poland		3.79	-0.6	-0.3	2	10	-2		1.0	0.0	12	7	-1	38
Romania		4.1	-0.4	-0.5	2	8	-3		2.6	0.0	0	-1	-156	-13
Russia		75.0	-0.1	-0.1	2	0	-1		6.8	0.0	9	-2	91	105
South Africa		14.5	-0.8	-1.0	0	28	1		10.0	-15.7	0	-36	-76	33
Turkey		8.33	-1.0	-1.3	-3	-15	-11		17.7	0.5	-19	-17	696	463
US (DXY; 5y UST)		91	0.4	0.4	-2	-8	1		0.83	0.2	-6	-15	46	46

	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		5964	0.2	0	0	29	0		158	0	-9	-25	-5	-29		
India		48254	-1.0	-1	-2	53	1		159	2	-14	10	-170	8		
Philippines		6359	-0.2	0	-2	12	-11		83	0	-9	-17	13	-22		
Malaysia		1588	-0.2	-2	0	14	-2		113	0	-2	-3	9	3		
Argentina		48873	0.0	2	2	51	-5		1459	0	19	8	-570	91		
Brazil		119210	0.0	-1	3	51	0		253	0	0	-16	58	3		
Chile		4589	0.0	-3	-6	19	10		126	0	-6	-16	-14	-18		
Colombia		1217	0.0	-6	-8	10	-15		207	0	-4	-15	44	2		
Mexico		48499	0.0	-1	3	33	10		348	0	-9	-34	55	-12		
Peru		19601	0.0	2	-8	33	-6		133	0	-4	-3	22	1		
Hungary		43875	1.8	1	-1	27	4		65	0	-6	-15	-42	-31		
Poland		60473	-0.6	1	3	31	6		-22	0	-4	-11	-54	-21		
Romania		11512	1.5	3	3	44	17		186	1	1	-5	-177	-17		
Russia		3581	1.1	-1	1	35	9		159	0	-5	-3	19	-7		
South Africa		66967	0.6	-1	0	36	13		357	0	-4	-35	25	-23		
Turkey		1424	0.2	2	0	44	-4		421	0	-5	-47	34	-24		
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12		
EM total		54	-1.4	-1	0	51	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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