GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, MAY 5, 2021

- **US equity futures open session on a positive note** (link)
- **Yellen comments on potential for higher rates draw scrutiny** (link)
- **Banks show strong demand for ECB's long-term refinance operation** (link)
- **Reserve Bank of India announces more support measures** (link)
- **Bank of Thailand downgrades growth forecast as virus crisis worsens** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Global markets hold steady ahead of US payrolls report

US equity futures were higher in early morning trading, staging a partial recovery from Tuesday's negative session, while European stocks were mixed and most emerging markets were lower. The tone is cautious ahead of tomorrow's Bank of England meeting and Friday's crucial US payrolls report, where the consensus forecast is that almost one million new jobs were added in April. Contacts were disappointed with today's weak US ADP jobs report (742K versus 850K new jobs forecasted), although the ADP and payrolls numbers are not well correlated. More positive earnings reports from Europe boosted sentiment, as did the continued rally in oil prices. The dollar and Treasury yields are holding steady.

Key Global Financial Indicators

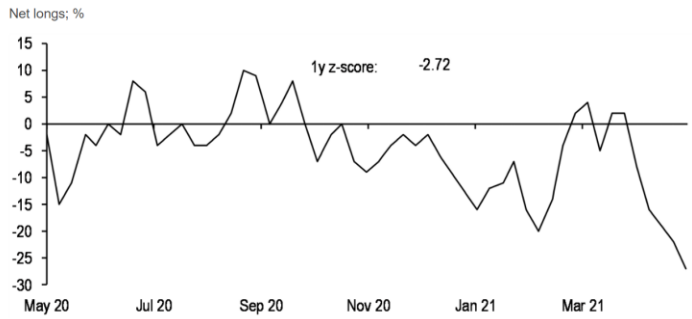
Last updated: 5/5/21 8:18 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4165	-0.7	-1	2	45	11
Eurostoxx 50		3978	1.4	-1	1	38	12
Nikkei 225		28813	-0.8	-1	-3	47	5
MSCI EM		53	-1.1	-2	-1	49	3
Yields and Spreads				bps			
US 10y Yield		1.60	0.9	-1	-10	94	69
Germany 10y Yield		-0.22	1.7	1	11	36	35
EMBIG Sovereign Spread		342	1	2	-12	-268	-9
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		57.0	0.0	-1	1	8	-2
Dollar index, (+) = $ appreciation		91.3	0.0	1	-1	-8	1
Brent Crude Oil ($/barrel)		69.8	1.3	4	12	125	35
VIX Index (%, change in pp)		18.6	-0.9	1	1	-15	-4

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

United States back to top

Markets were in negative territory yesterday as US equity indices declined by up to 2 percent on the session, led by the tech sector. The VIX equity volatility index rose from 18 to 22 on the day, its highest level since March, before declining back to 19.5 by the end of the US session. Meanwhile, nominal US Treasury yields also declined by up to 2 bps, led by the long end as the curve flattened. The US 5y5y inflation swap rate, a common measure of inflation expectations, declined by about 5 bps on the session. JP Morgan survey data show that investor short positions in the Treasury market are growing quite large.

Exhibit A1: J.P. Morgan Treasury Client Survey

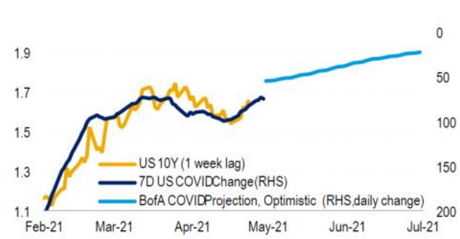


Source: J.P. Morgan

Market participants were surprised by Treasury Secretary Yellen's comments that rates may need to rise modestly to prevent the economy from overheating. The commentary was seen as more hawkish than Chair Powell's comments in the April FOMC press conference. Meanwhile, San Francisco Fed President Daly, a voting member of the FOMC, said that Fed policy was appropriate and the economy is a long way from the Fed's goals.

Exhibit 4: 10Y rates have recently been tracking US COVID cases

BofA projections show daily COVID cases dropping to nearly 20K by end June



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 5: Spread of S&P internal rate of return vs. 10yT (ERP)

ERP approaching rich territory

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Europe

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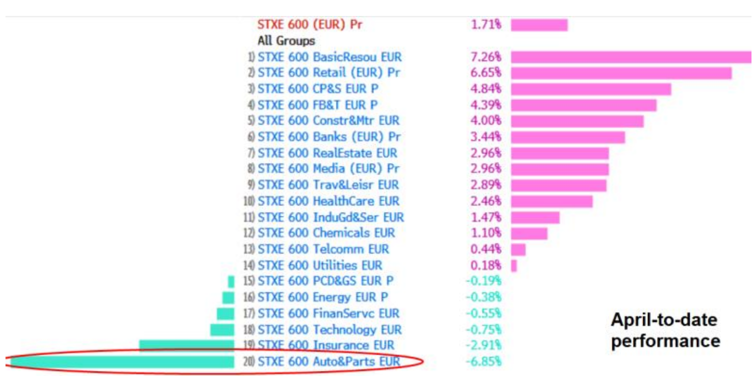
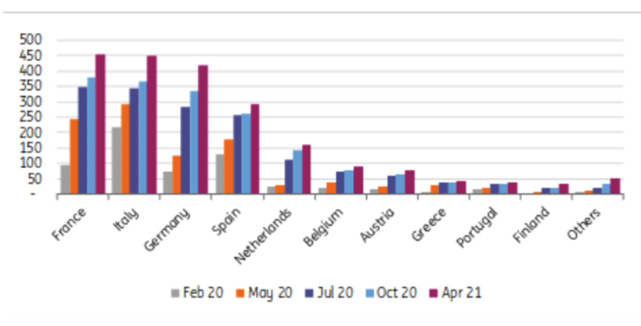
European equities managed to recover most of yesterday's losses with the STOXX 600 benchmark up 1.3%. Materials (+2.3%) continued to outperform and technology (+2.1%) stocks were also higher. Interestingly, the German Dax (-2.5%) and the European auto manufacturing sector (-3.5%) were among worst performers in yesterday's sell-off and have struggled to recover today with media reports pointing to ongoing supply chain concerns relating to microchips. The auto sector has struggled since April, despite strong Q1 results by multiple large auto producers.



European government bond yields were higher by 2 bps. Greece bonds recovered from yesterday's sell-off with 10-year spreads tighter by 4 bps. The pound (+0.2%) gained while the euro was stable having traded below 1.20 mark this morning.

The ECB allotted €331bn under the long-term refinancing operation (LTRO) in March. This is the second highest drawing by banks under the targeted LTRO-3 operation, bringing the total size to €2080 bn. Germany saw the biggest increase in LTRO usage (€80 bn), followed by Italy (€74 bn) and France (€57 bn). Analysts at ING note that the share of the targeted LTRO relative to the borrowing allowance is now higher than it was in October, prior to the increase of the ECB lending cap to 55%, suggesting that banks are comfortable about meeting their lending targets to access favorable rates.

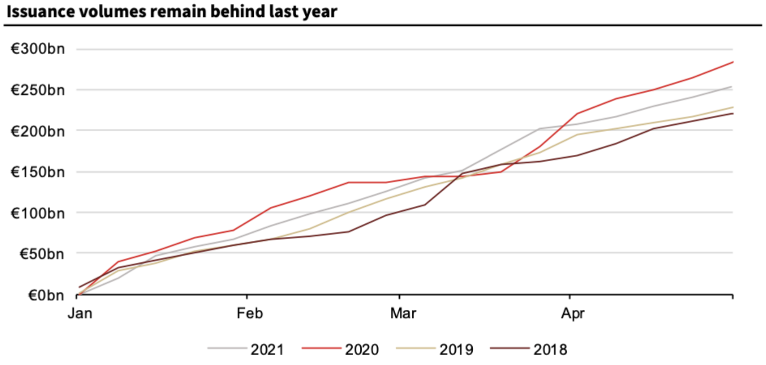
Bank drawings from the ECB's longer-term refinancing operations



Source: ECB, ING

Analysts note a slowdown in Euro corporate issuance in April. The total issuance volume stood at €44 bn, the lowest month this year and about a half of April 2020 volume. The biggest slowdown came from investment grade issuers, which placed only €16 bn of bonds as compared to a monthly average of about €33 bn this year. On the other hand, high-yield market remained active with €13 bn placed and on track to meet the €100 bn forecast by Société General analysts.

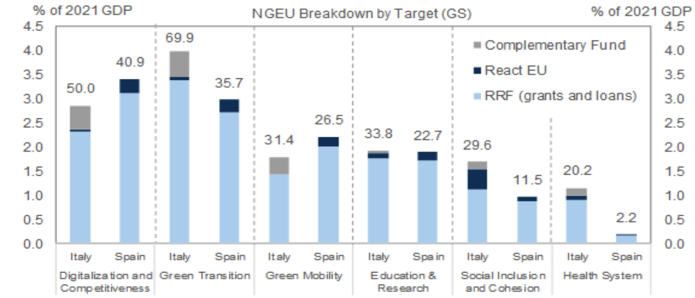
Issuance volumes remain behind last year



Source: Bloomberg, SG Cross Asset Research/Credit

The National Recovery and Resilience Plans of Spain and Italy are expected to meet the EU digitalization and green transition guidelines while following different industrial strategies. According to Goldman Sachs analysts, the average share of investments in digitalization (27%) and green transition (39%) both exceed EU thresholds of 20% and 37% respectively. On an industrial level, Spain is allocating more funds to green mobility to fund the development and production of electric vehicles. Italy on the other hand allocated more funds to energy production through hydrogen technology development. The EC is expected to provide its assessment for the plans within two months.

Exhibit 1: Missions and Funding of the Recovery Fund



Source: Goldman Sachs Global Investment Research

In terms of data, the Eurozone service PMI final reading touch better than consensus (50.5 vs 50.3) but **country level surveys brought a surprise** as Spain service sector showed stronger expansion (54.6 vs 50.0 expected) while Italy service gauge remained in contraction (47.3 vs 50.0).

Other Mature Markets

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Japan is closed for the Golden Week holiday. Stocks in Australia posted modest gains.

Emerging Markets

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Most emerging markets were in the red, although Russia this morning and Chile yesterday were among the exceptions. Unrest in Colombia continued to hit local markets as protests over proposed new taxes dragged on despite the government stepping back from earlier proposals. The Turkish lira (-0.4%) edged lower and equities were little changed ahead of tomorrow's central bank meeting. Analysts now expect Turkish headline inflation of 13.8% yoy at end 2021 (compared to 13.1% in April), higher than the 12.2% yoy expected by the Turkish central bank. South African equities (+1.4%) and the rand (+0.3%) gained after the government confirmed a smaller than expected budget deficit of 11.2% of GDP for the fiscal year ending March 2021 given less spending and higher revenue collection than previously anticipated.

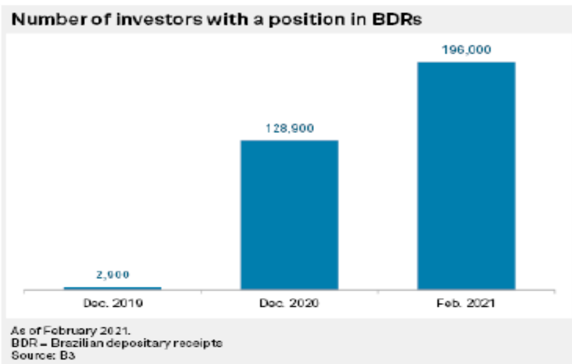
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
5/5/21 8:20 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.37	0.7	-2	-1	49	3
MSCI Frontier Equities		31.11	0.7	1	3	35	10
EMBIG Sovereign Spread (in bps)		342	1	2	-12	-268	-9
EM FX vs. USD		57.00	0.0	-1	1	8	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.0	0	1	9	1
Indonesian Rupiah		14435	0.0	0	1	4	-3
Indian Rupee		73.91	-0.1	1	-1	2	-1
Argentine Peso		93.72	0.0	0	-2	-29	-10
Brazil Real		5.42	0.5	-1	5	3	-4
Mexican Peso		20.20	0.0	-1	1	19	-1
Russian Ruble		74.78	-0.1	0	2	-1	-1
South African Rand		14.41	0.4	-1	1	29	2
Turkish Lira		8.34	-0.2	-2	-3	-15	-11
EM FX volatility		9.65	0.0	0.0	-1.2	-2.2	-1.1

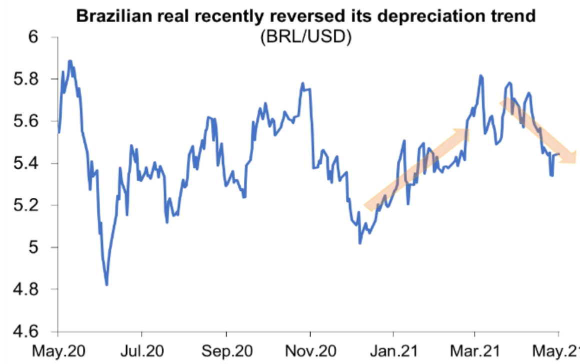
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Brazil

Brazilian depository rights (BDRs) provide a further boost to capital markets but may also generate financial vulnerabilities. Brazilian investors' appetite for exposures to foreign assets spurred the growth in the trade volumes of BDRs which jumped from 5.2 bn real in 2019 to 28.6 bn in 2020. Reasons for the rapid growth included a regulatory change, allowing average retail investors to invest in BDRs since October 2020. Brazilian asset managers and fintech companies reacted by increasing their offers of ETFs, mutual funds and investment products that carry foreign exposures. While complementing the somewhat limited sectoral diversity of the Bovespa index, which for example lacks a meaningful tech sector, foreign exposures could also lead to losses when the real appreciates. For the moment, however, Brazil's non-deliverable FX forward markets indicate space for further depreciation, while yesterday's -1.2% performance of local stock markets showcased the attractiveness of BDRs.



Source: S&P Global Market Intelligence.



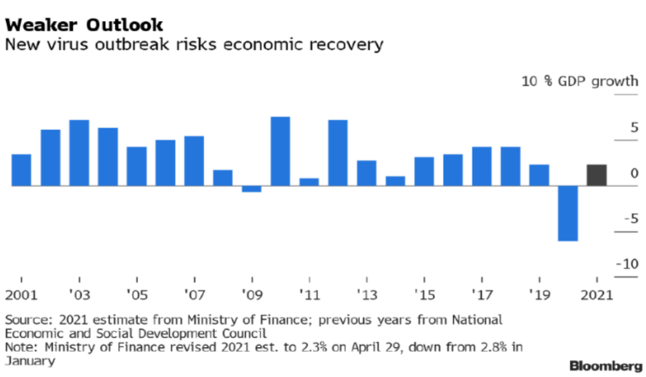
Source: Bloomberg.

India

The Reserve Bank of India (RBI) announced new loan relief measures and liquidity support. In an unscheduled speech today, RBI Governor Shaktikanta Das announced a slew of measures to ensure that adequate liquidity continues to be channeled efficiently amid the ongoing severe COVID-19 wave. The announcement included the next round of bond purchases under the QE program, which will amount to 350 bn rupee ($4.7 bn) and take place on May 20. The RBI also introduced a term liquidity facility of 500 bn rupee ($6.8 bn) to support banks' credit provision to the healthcare sector and a 3-year special long-term repo operation of 100 bn rupee ($1.4 bn) for small banks. Regulatory norms for nonperforming loans to small businesses were eased, and banks can also use their floating buffers (i.e., countercyclical provisions) for making specific provisions against nonperforming loans.

Thailand

The Bank of Thailand (BOT) downgraded its GDP forecast as the virus crisis worsens in the country. The Bank acknowledged that its earlier 3% growth forecast is at risk and that GDP growth could fall to 1-2% this year, depending on the pace of vaccinations. The BOT kept its policy rate unchanged at 0.5% but indicated that while it wants to preserve its limited policy space for now, it is ready to use additional policy tools if needed. The government is preparing an additional fiscal package to support the economy. The economic recovery is fragile, with business sentiment deteriorating from 50.1 in March to 46.0 in April. Manufacturing PMI turned slightly expansionary at 50.7 in April, from 48.8 in March.



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Global Financial Indicators

Last updated: 5/5/21 8:18 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4174	-0.7	0	2	46	11
Europe		3978	1.4	-1	1	38	12
Japan		28813	-0.8	-1	-3	47	5
China		3447	-0.8	-1	-1	21	-1
Asia Ex Japan		92	-1.1	-2	-2	47	3
Emerging Markets		53	-1.1	-2	-1	49	3
Interest Rates					basis points		
US 10y Yield		1.60	0.9	-1	-10	94	69
Germany 10y Yield		-0.22	1.7	1	11	36	35
Japan 10y Yield		0.10	0.0	0	-2	12	8
UK 10y Yield		0.82	2.7	3	3	62	63
Credit Spreads					basis points		
US Investment Grade		91	-0.1	-1	3	-106	-4
US High Yield		329	-1.4	-3	1	-426	-51
Europe IG		50	-0.3	0	0	-34	3
Europe HY		252	-2.4	0	7	-257	10
Exchange Rates					%		
USD/Majors		91.26	0.0	1	-1	-8	1
EUR/USD		1.20	0.0	-1	2	11	-2
USD/JPY		109.3	-0.1	1	-1	3	6
EM/USD		57.0	0.0	-1	1	8	-2
Commodities					%		
Brent Crude Oil ($/barrel)		70	1.3	4	12	125	35
Industrials Metals (index)		158	0.5	2	9	67	19
Agriculture (index)		59	0.8	3	18	70	24
Implied Volatility					%		
VIX Index (%, change in pp)		18.6	-0.9	1.3	0.7	-15.0	-4.1
US 10y Swaption Volatility		71.5	-2.6	-4.1	-8.6	13.1	11.4
Global FX Volatility		7.2	0.0	0.1	-0.5	-2.1	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		119	-5.1	1	4	-159	-1
Italy		111	1.3	1	15	-133	0
Portugal		68	0.2	1	15	-79	8
Spain		67	0.6	1	4	-69	6

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: 5/5/2021 8:25 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		6.47	0.0	0.3	1	9	1		3.2	0.0	-3	-6	84	-3
Indonesia		14435	0.0	0.5	1	4	-3		6.5	-0.8	-2	-19	-157	43
India		74	-0.1	0.6	-1	2	-1		6.3	0.9	-1	-8	6	37
Philippines		48	0.0	0.9	1	5	0		4.2	5.6	12	37	-66	58
Thailand		31	0.2	0.8	1	4	-4		1.9	0.0	0	-8	48	55
Malaysia		4.12	0.0	-0.4	0	5	-2		3.2	-1.3	1	6	43	69
Argentina		94	0.0	-0.4	-2	-29	-10		46.3	-14.1	-57	-2	610	-988
Brazil		5.42	0.5	-1.4	5	3	-4		8.2	16.0	29	-12	208	258
Chile		702	0.3	0.1	3	19	1		3.6	-11.4	-12	10	83	81
Colombia		3829	-0.7	-2.9	-4	4	-10		7.0	25.4	59	49	79	194
Mexico		20.20	0.0	-1.4	1	19	-1		6.8	3.1	12	8	25	124
Peru		3.8	-0.5	0.1	-4	-12	-6		5.3	0.4	-6	49	46	168
Uruguay		44	-0.1	0.2	1	-3	-4		7.4	-0.7	2	3	-433	15
Hungary		299	0.1	-0.4	2	8	-1		2.0	-1.0	3	-13	29	46
Poland		3.81	-0.5	-1.0	2	10	-2		1.0	-3.0	11	4	-8	35
Romania		4.1	-0.1	-1.0	1	8	-3		2.6	0.0	0	-1	-154	-13
Russia		74.8	-0.1	-0.5	2	-1	-1		6.7	-5.5	0	-8	85	99
South Africa		14.4	0.4	-1.2	1	29	2		10.0	0.4	0	-35	-70	33
Turkey		8.34	-0.2	-1.7	-3	-15	-11		17.7	0.3	-5	-17	683	463
US (DXY; 5y UST)		91	0.0	0.7	-1	-8	1		0.83	0.8	-3	-10	45	46

	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		5123	0.0	0	-1	31	-2		199	0	-2	-9	30	-9
Indonesia		5976	0.2	0	0	30	0		158	0	-9	-25	-5	-29
India		48678	0.9	-2	-1	54	2		159	0	-8	10	-172	8
Philippines		6300	-0.9	-3	-4	12	-12		83	0	-9	-17	13	-22
Malaysia		1576	-0.8	-2	0	14	-3		113	0	-2	-3	9	3
Argentina		48656	0.0	-1	0	45	-5		1459	0	19	8	-570	91
Brazil		117712	0.0	-1	0	48	-1		253	0	0	-16	58	3
Chile		4649	0.0	1	-5	19	11		126	0	-6	-16	-14	-18
Colombia		1218	0.0	-5	-8	11	-15		207	0	-4	-15	44	2
Mexico		48328	0.0	-1	0	32	10		348	0	-9	-34	55	-12
Peru		19484	0.0	2	-9	31	-6		133	0	-4	-3	22	1
Hungary		44393	0.8	2	0	28	6		65	0	-6	-15	-42	-31
Poland		60944	1.6	2	4	35	7		-22	0	-4	-11	-54	-21
Romania		11553	0.8	3	2	43	18		188	2	8	-3	-170	-14
Russia		3626	1.4	1	3	37	10		159	0	-5	-3	19	-7
South Africa		67180	1.5	-1	0	37	13		357	0	-4	-35	25	-23
Turkey		1416	-0.1	2	-2	43	-4		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		53	0.7	-2	-1	49	3		421	0	17	-10	97	128

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