



- Bank of England maintains key policy parameters; slows weekly pace of purchases ([link](#))
- Norges Bank remains on track to hike its policy rate during the second half of 2021 ([link](#))
- Turkish central bank leaves policy rate unchanged at 19% ([link](#))
- Brazilian central bank hikes 75 bps and guides for further increase at next meeting ([link](#))
- Bank Negara Malaysia keeps policy rate unchanged amid looming virus uncertainty ([link](#))
- [Emerging and Frontier Markets Bond Issuance Monitor for April \(attachment\)](#)

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

Risk sentiment stable as investors absorb central bank decisions

Global risk assets are mixed this morning as investors monitor corporate earnings and central bank decisions. The S&P 500 closed with a marginal gain yesterday after fluctuating around the neutral line throughout the session. Much of the upside was driven by financials and energy shares following solid Q1 earnings, which offset tech sector underperformance. The more recent benign rate environment has persisted alongside Fed speakers talking down inflation overshoot fears. Ten-year US Treasury yields remain stuck around 1.60% with yields edging lower across the curve yesterday and driven by real rates, which fell to the lowest levels since mid-February, and 5-year breakeven inflation rates rising to levels last seen in 2008. Overnight in Asia, local markets reopened in Japan with equities posting strong gains, while Chinese stocks declined amid headlines around further regional tensions. Central bank decisions also moved to center stage overnight and this morning. The Bank of England delivered what has so far been interpreted as a hawkish hold as policy parameters were maintained, but the weekly pace of asset purchases was slowed. In emerging markets, the Brazilian central bank hiked its policy rate 75 bps and signaled more tightening at upcoming meetings, while the Turkish central bank kept its benchmark rate at 19% highlighting its policy stance would be maintained until inflation falls towards its forecast path.

Key Global Financial Indicators

Last updated: 5/6/21 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4168	0.1	0	2	46	11
Eurostoxx 50		3993	-0.2	0	1	40	12
Nikkei 225		29331	1.8	1	-1	49	7
MSCI EM		54	0.5	-3	-1	50	4
Yields and Spreads			bps				
US 10y Yield		1.58	1.1	-6	-8	87	66
Germany 10y Yield		-0.23	-0.3	-4	9	28	34
EMBIG Sovereign Spread		342	0	0	-8	-254	-8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.2	0.3	0	1	9	-1
Dollar index, (+) = \$ appreciation		91.0	-0.3	0	-1	-9	1
Brent Crude Oil (\$/barrel)		68.6	-0.5	0	9	131	32
VIX Index (% change in pp)		18.9	-0.2	1	1	-15	-4

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

United States

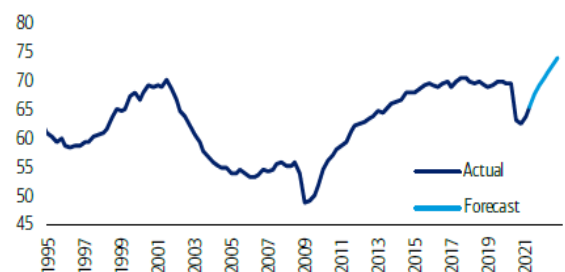
[back to top](#)

US data was weaker than expected with the April ISM services index printing at 62.7. The reading was lower than March's reading of 63.7 and lower than the consensus estimate of 64.1. Some contacts noted that COVID-related seasonal factors likely distorted the print, and the underlying momentum in the US economy may be stronger than the reading suggests. Note that the prices paid subindex rose to its highest level since July 2008, indicating a potentially strong CPI print next week. US equities were little changed yesterday, and US Treasury yields edged lower across maturities. In data releases this morning, initial jobless claims fell to 498k (vs 538k expected), down from 590k last week. Continuing claims increased slightly to 3.69 mn, and was above expectations of a decline to 3.62 mn.

The Treasury Borrowing Advisory Committee (TBAC) announced no coupon changes and continued increases in TIPS auction sizes at the May quarterly refunding meeting, as expected. TBAC also anticipates that Treasury may want to reduce nominal coupons beginning late this year or early next year. Further, the average maturity of Treasury debt outstanding is expected to increase, while reserve growth may slow slightly into the summer. When the debt limit suspension ends on July 31, the Treasury will target a TGA level of \$450 bn. Note, however, that if the debt limit is reinstated on August 1, 2021, and issuance is limited, the Treasury will need to use extraordinary measures for financing needs. Nonetheless, some dealers noted that the higher-than-previously anticipated July cash balance would provide flexibility for how long Treasury can fund itself using extraordinary measures.

Exhibit 6: Average maturity of outstanding debt (months)

WAM of debt outstanding expected to increase. Assumes coupon sizes unchanged, includes bills

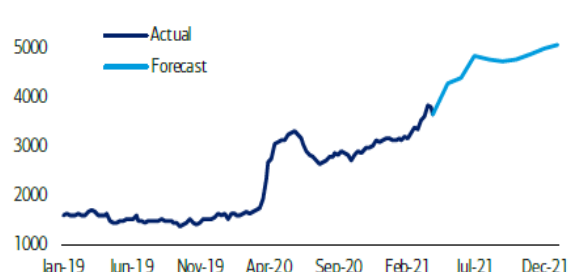


Source: BofA Global Research, Treasury

BofA GLOBAL RESEARCH

Exhibit 7: Reserves (\$bn)

Expect slightly slower reserve growth leading into summer. Forecasts assume ON RRP usage is zero



Source: BofA Global Research, Treasury

BofA GLOBAL RESEARCH

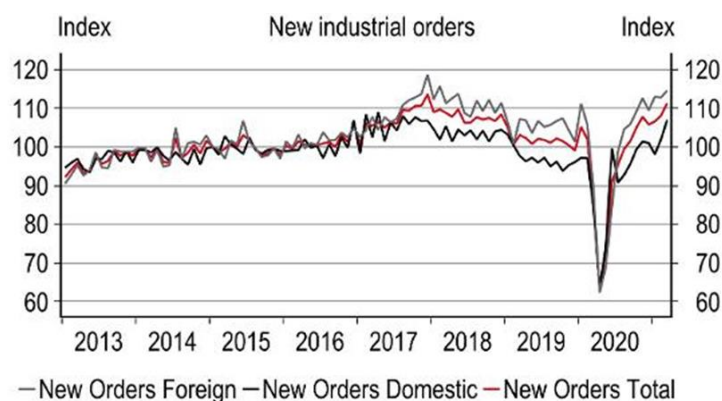
Europe

[back to top](#)

European equities were mostly drifting lower with STOXX 600 benchmark down 0.2%. The index was dragged down by the technology (-1.2%) and automotive sectors (-1.2%). European brewers were outperforming today (+3.2%) following strong Q1 results from AB InBev.

European government bonds were lower by 1 bp while the euro (+0.4%) gained against the dollar.

On the data front, **German industrial orders saw a strong 3% m/m increase in March** (1.5% consensus). Domestic demand growth remained robust for the second month (+4.9%) with the consumer goods segment seeing a particularly strong expansion (+8.5%). Analysts note that the demand momentum sets the stage for an economic rebound in Q2 although supply-chain issues may remain a bottleneck on the production side. **Another positive data surprise came from Eurozone retails sales** that increased by 2.7% m/m in March (1.6% consensus).



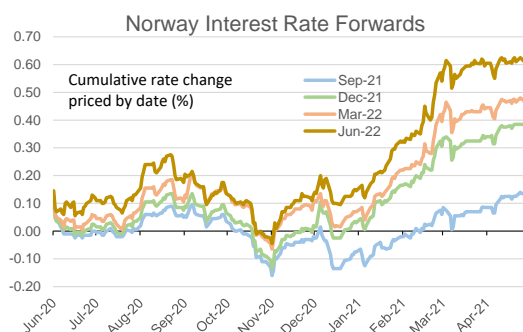
Source: Macrobond, HSBC

United Kingdom

The Bank of England kept its monetary policy stance unchanged with policy rate at 0.1% and the asset purchase target at £895 bn. However, the central bank will slow the pace of weekly bond purchases from £4.4 bn to £3.4 bn. Notably, the Chief Economist Haldane also voted to reduce the stock of asset purchases. The 2021 growth projection was revised from 5% to 7.25% while inflation is now expected to average around 2.5% as compared to 2% previously. Contacts noted that while the slowdown in bond purchases was expected only on margin, the overall tone came across broadly in line with what clients had expected. The sterling gained 0.2% and the 10-year gilt yield rose by 2 bps following the decision.

Norway

The Central Bank of Norway held its policy rate unchanged at 0% while reconfirming that the economy is on track for an interest rate hike in the second half of 2021. Markets have already priced in a gradual policy normalization path with the first 25 bp hike fully priced by the end of this year and another 25 bps by mid-2022. Analysts see room for a further hawkish tilt in the June monetary policy update with the first hike potentially being delivered at the September meeting due to higher inflation and real estate price growth concerns. The Norwegian Krona has been the second-best performing G-10 currency this year appreciating 3% against the dollar and 4.5% against the euro.



Other Mature Markets

[back to top](#)

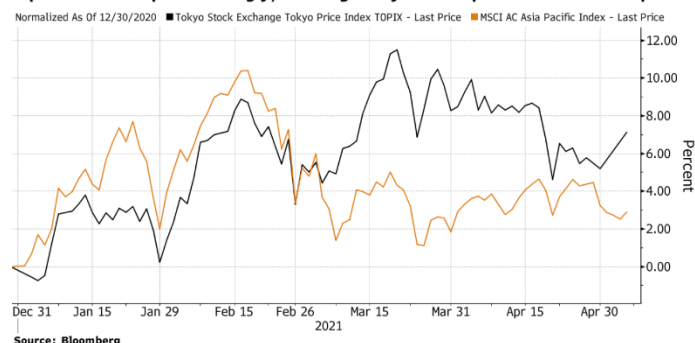
Japan

Japanese equities gained (NIKKEI: +1.8%), driven by a cyclical-driven rally. The stock market rebounded strongly after the 5-day Golden Week holidays following the strength in US cyclical stocks. Analysts noted that the positive market sentiment was also supported by an upbeat outlook given by the Bank of Japan last week. The rally occurred amid continued increases in COVID-19 infections. The

government is reportedly considering extending the state of emergency for Tokyo and other major cities. **Japanese yen depreciated (-0.1%). JGB yields declined (10-year: -0.6 bp; 30-year: -0.4 bp).**

Making Grand Comeback

Japan market reopened strongly, boosting this year's outperformance vs Asia peers



Emerging Markets

[back to top](#)

Latin American equities surged, while currencies traded mixed. Equities closed higher, in particular in Colombia (1.8%), Brazil (1.6%) and Chile (1.2%). With the exception of the Brazilian real (+1.6%), which experienced support from the anticipation for an increase in Brazil's policy rate, currencies either depreciated (Colombia -0.5%, Chile -0.4%) or moved sideways. **Asian equities were mixed, gaining +0.3% on net.** Thai equities (+1.5%), Taiwan (+0.9%) and Hong Kong (+0.8%) equities led the gain, while share prices dropped in China (CSI 300: -1.2%). **In EMEA,** the South African rand (+0.7%) outperformed and 10-yr local yields fell 6 bps to 9.09% after data showed that foreign investors have increased their holdings of sovereign bonds by 0.6 ppt to 29.9% in April. The Israeli shekel was little changed as data show that FX reserves rose \$8 bn to \$194 bn in April and attempts to form a new government continue.

Key Emerging Market Financial Indicators

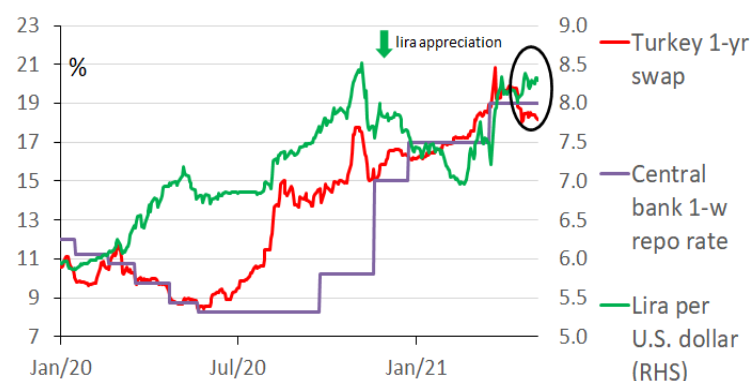
Last updated: 5/6/21 8:13 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.62	0.2	-3	-1	50	4
MSCI Frontier Equities		31.31	0.6	1	4	38	10
EMBIG Sovereign Spread (in bps)		342	0	0	-8	-254	-8
EM FX vs. USD		57.20	0.3	0	1	9	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.0	0	1	10	1
Indonesian Rupiah		14319	0.8	1	1	5	-2
Indian Rupee		73.76	0.2	0	0	3	-1
Argentine Peso		93.76	0.0	0	-2	-29	-10
Brazil Real		5.36	0.0	0	4	7	-3
Mexican Peso		20.26	0.0	-1	0	20	-2
Russian Ruble		74.53	0.5	0	4	0	0
South African Rand		14.26	0.7	0	2	32	3
Turkish Lira		8.32	0.1	-1	-2	-14	-11
EM FX volatility		9.60	0.0	0.1	-1.1	-2.5	-1.1

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

Turkey

The Turkish lira (+0.4%) and bank equities (+0.6%) rose after the central bank left its policy rate unchanged at 19%, as expected. The central bank said that the current monetary policy stance will be maintained until the significant fall in its April Inflation Report's forecast path is achieved. The central bank increased its year-end inflation forecast to 12.2% y/y last week (from 9.4% previously). One-year swap rates fell 7 bps today but remain relatively elevated at 18.18%.

Turkey: Interest rates (%) and currency



China

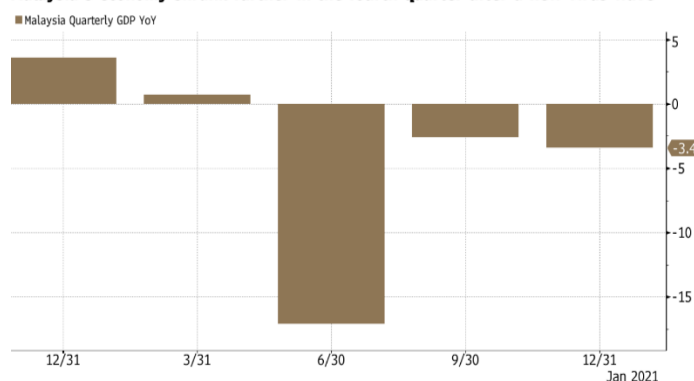
China's foreign ministry urged G-7 countries to stop meddling with its internal affairs in response to the statement that criticized China over a range of issues, from human rights to Taiwan POC. **China also suspended all activities under the China-Australia Economic Dialogue.** Relations between the two countries have been deteriorating, with Australia cancelling agreements under China's Belt and Road Initiative last month. While analysts viewed that the suspension of the dialogue is largely symbolic; escalating tensions have driven up the prices of key commodities exported by Australia such as iron ore. **Equities declined (CSI 300: -1.2%),** led by pharmaceutical stocks following news that the US will support a proposal to waive intellectual-property protections for COVID-19 vaccines. **RMB was little changed.** **Interbank repo rate fell (7-day: -22.6 bps)** even though the People's Bank of China withdrew liquidity of 40 bn yuan (\$6.2 bn).

Malaysia

Bank Negara Malaysia (BNM) kept its policy rate unchanged at 1.75%, as expected. Although economic activity had improved in Q1 and through April, BNM noted that the recent re-imposition of containment measures in select locations amid a fresh surge in COVID-19 infections will affect economic activity in the near term. However, the impact will be less severe as almost all sectors are allowed to operate. **Malaysian ringgit was little changed; equities declined (-0.1%).**

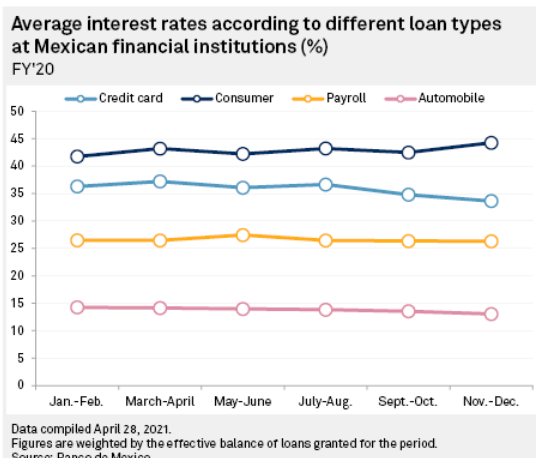
Delayed Recovery

Malaysia's economy shrank further in the fourth quarter after a new virus wave

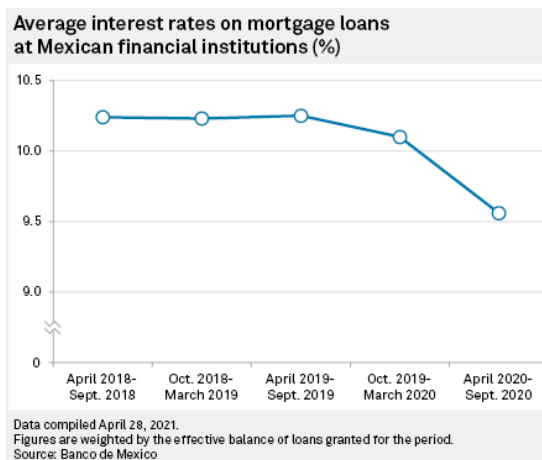


Mexico

Mexico's bank regulators plan to permanently extend last year's temporary relief on bank capital requirements in order to promote credit expansion. Last year's measures included lower risk weights on specific loans, the permission to employ half of the 2.5% capital conservation buffer and the possibility of using excess reserves as complementary capital. The relief in capital requirements aims to promote credit extension below or at current interest rate levels. Finance minister Guterrez argued that loan interest rates would fall upon lower capital requirements, as competition should drive interest rates down, even at unchanged risk levels. Credit rating agencies, however, expressed in the past concerns about the measures' potential negative impact on the financial stability of weaker Mexican banks.



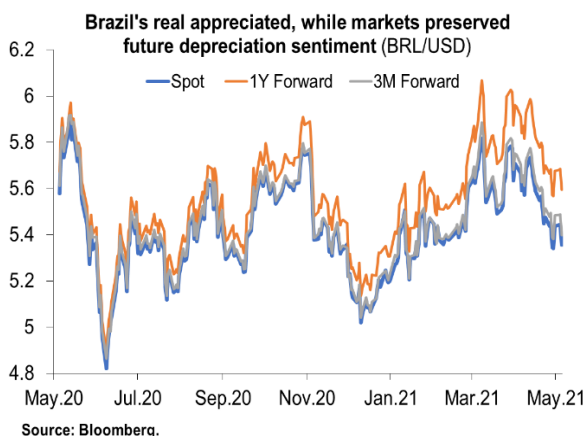
Source: S&P Global Market Intelligence.



Source: S&P Global Market Intelligence.

Brazil

Brazil's central bank raised its policy rate target by 75 bps to 3.5%, as expected by market consensus. The unanimous decision reflected the monetary policy committee's perspective that additional policy rate increases are to be expected if inflationary pressures, for instance through high commodity prices, persist, while the economic recovery still requires stimulus through appropriate interest rates. The real appreciated sharply in anticipation of the central bank's policy rate hike, while the forward curve preserved the market's expectation for modest depreciation over the coming year.








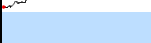
















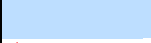



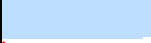


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Global Financial Indicators

Last updated: 5/6/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4170	0.1	-1	2	46	11
Europe		3993	-0.2	0	1	40	12
Japan		29331	1.8	1	-1	49	7
China		3441	-0.2	0	-1	20	-1
Asia Ex Japan		93	0.1	-3	-2	47	3
Emerging Markets		54	0.5	-3	-1	50	4
Interest Rates			basis points				
US 10y Yield		1.58	1.1	-6	-8	87	66
Germany 10y Yield		-0.23	-0.3	-4	9	28	34
Japan 10y Yield		0.09	-0.7	-1	-2	11	7
UK 10y Yield		0.81	-0.7	-3	2	58	62
Credit Spreads			basis points				
US Investment Grade		91	-0.4	0	2	-111	-4
US High Yield		329	-0.9	2	1	-424	-50
Europe IG		51	0.8	1	1	-35	3
Europe HY		256	4.2	6	10	-266	13
EMBIG Sovereign Spread		342	0.5	0	-8	-254	-8
Exchange Rates			%				
USD/Majors		91.00	-0.3	0	-1	-9	1
EUR/USD		1.21	0.4	-1	2	12	-1
USD/JPY		109.2	0.0	0	-1	3	6
EM/USD		57.2	0.3	0	1	9	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		69	-0.5	0	9	131	32
Industrials Metals (index)		158	0.7	2	8	66	19
Agriculture (index)		60	0.9	5	19	75	26
Implied Volatility			%				
VIX Index (%, change in pp)		18.9	-0.2	1.3	0.8	-15.2	-3.8
US 10y Swaption Volatility		72.0	0.5	-2.0	-1.2	11.9	11.9
Global FX Volatility		7.2	0.0	0.1	-0.5	-2.2	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	-2.1	1	1	-152	-1
Italy		113	0.7	3	12	-135	2
Portugal		68	-0.4	1	13	-80	8
Spain		67	-0.5	1	1	-69	6

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: 5/6/2021 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					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	0.0	1	10	1		3.2	0.0	-2	-6	84	-3
Indonesia		14319	0.8	0.9	1	5	-2		6.5	-0.2	-7	-15	-157	43
India		74	0.2	0.4	0	3	-1		6.3	-1.0	-3	-5	9	36
Philippines		48	0.1	0.7	1	5	0		4.2	1.1	7	15	-62	59
Thailand		31	-0.5	-0.1	0	4	-4		1.8	-3.7	-5	-13	48	51
Malaysia		4.12	0.0	-0.5	0	5	-2		3.2	-0.7	-3	2	49	68
Argentina		94	0.0	-0.3	-2	-29	-10		46.2	-3.1	-65	10	591	-991
Brazil		5.36	0.0	-0.3	4	7	-3		8.1	-6.8	25	-9	215	252
Chile		705	-0.4	-1.0	2	18	1		3.6	4.6	-17	22	87	85
Colombia		3846	-0.5	-3.6	-5	2	-11		6.9	-12.0	40	40	82	182
Mexico		20.26	0.0	-1.0	0	20	-2		6.8	-3.8	4	5	30	120
Peru		3.8	0.2	-1.4	-3	-11	-5		5.2	-9.2	-2	54	51	159
Uruguay		44	-0.1	-0.4	0	-3	-4		7.4	0.4	0	0	-433	15
Hungary		297	0.7	0.1	2	9	0		2.0	-0.6	1	-14	24	45
Poland		3.80	0.1	-0.9	2	11	-2		1.0	-0.6	9	4	-9	35
Romania		4.1	0.4	-0.5	1	9	-3		2.6	0.0	-1	-1	-150	-13
Russia		74.5	0.5	0.1	4	0	0		6.7	0.7	-1	-7	86	100
South Africa		14.3	0.7	0.3	2	32	3		9.9	-2.8	-8	-38	-41	30
Turkey		8.32	0.1	-1.2	-2	-14	-11		17.7	-7.9	-15	-25	665	455
US (DXY; 5y UST)		91	-0.4	0.4	-1	-9	1		0.79	0.0	-7	-8	42	43

	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5061	-1.2	0	-1	29	-3		199	0	-2	-9	30	-9
Indonesia		5970	-0.1	-1	-1	30	0		158	0	-9	-25	-5	-29
India		48950	0.6	-2	-1	56	3		162	3	2	11	-169	11
Philippines		6283	-0.3	-3	-6	11	-12		83	0	-9	-17	13	-22
Malaysia		1578	0.2	-2	-1	15	-3		113	0	-2	-3	9	3
Argentina		49152	1.0	-2	-2	44	-4		1459	0	19	8	-570	91
Brazil		119564	1.6	-1	2	51	0		253	0	0	-16	58	3
Chile		4704	1.2	4	-3	19	13		126	0	-6	-16	-14	-18
Colombia		1240	1.8	-3	-6	14	-14		207	0	-4	-15	44	2
Mexico		48400	0.1	0	1	31	10		348	0	-9	-34	55	-12
Peru		19609	0.6	3	-9	31	-6		133	0	-4	-3	22	1
Hungary		44292	0.3	1	0	28	5		65	0	-6	-15	-42	-31
Poland		61420	0.8	2	2	39	8		-22	0	-4	-11	-54	-21
Romania		11538	-0.2	2	3	42	18		188	-1	2	-1	-166	-15
Russia		3647	0.1	2	4	39	11		159	0	-5	-3	19	-7
South Africa		67343	0.0	0	-1	35	13		357	0	-4	-35	25	-23
Turkey		1431	0.8	2	1	45	-3		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	0.2	-3	-1	50	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](#)