Financial Markets Report - First Quarter 2021

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Throughout the first quarter of 2021 (1Q21), financial markets revolved around increased optimism regarding expectations of a faster-than-anticipated global economic recovery, led by the US and China. This optimism stemmed from increased fiscal support, continued monetary stimulus, advancements in COVID-19 vaccine distribution, and the ongoing economic reopening. Additionally, there were expectations that pent-up private savings will drive consumption-driven economic growth. Consequently, stock markets in developed economies, and to a lesser extent in emerging economies, experienced continued strengthening. Moreover, commodity prices surged, with many surpassing the pre-COVID-19 levels.

Increased optimism regarding the economic recovery, particularly in the US, along with higher inflationary pressures that would accompany this recovery, led to a strengthening of the US dollar and a significant increase in long-term yields of US sovereign bonds (Treasuries). Consequently, there was greater appetite for assets in developed economies at the expense of assets in emerging economies. This was reflected in higher risk premiums, currency depreciations, and significant devaluations of emerging economies' debt securities.

Locally level, during 1Q21, confidence and economic activity indicators continued to show a gradual recovery of the economy. However, the lower appetite for emerging economies assets, coupled with fiscal uncertainty in the country, contributed to an increase in risk perception indicators. During this period, the Colombian peso depreciated against the dollar, the country's public debt devalued, and the Colombian stock market had one of the worst performances in the region. The Board of Directors of *Banco de la República* (the Central Bank of Colombia) maintained its interest rate at 1.75% during this quarter to continue providing stimulus to the economy, and the overnight benchmark interbank rate (IBR in Spanish) and the interbank rate hovered around the reference rate.

Furthermore, this edition includes a Box that studies the role of *Banco de la República* as a trade repository for collecting and storing information on foreign exchange derivatives transactions made by Colombian residents. It analyzed the situation of the Colombian central bank in comparison to international experience, particularly with the United States and Europe. The comparison focuses on how reporting is conduced, who it is involved, the relevant and economic components of the report, among other considerations, aiming to position the Colombian Central Bank vis-à-vis the international experience to assess strengths and weaknesses in the local context.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/financial-markets-report/first-quarter-2021