GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, DECEMBER 6, 2021

- **Volatility spiked amid uncertainties around virus and policy outlook** (link)
- **Italian spreads tighten following Fitch upgrade** (link)
- **Global funds flows turned defensive with outflows from cyclical, EM and HY** (link)
- **Crypto assets plunged amid broad risk-off sentiment** (link)
- **China cut bank reserve requirement ratio by 50 bps** (link)

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Markets stable, seeking clarity on the impact of omicron

Investor's assessment of the impact of the omicron variant continues to be the primary driver of risk sentiment. The consensus view that omicron results in milder cases seems to be growing, with US medical advisor Anthony Fauci saying over the weekend that omicron does not seem to be associated with "a great degree of severity" but cautioning that it is still too early to tell. However, the uncertainty over the virus is exacerbated as markets attempt to gauge the impact it will have on upcoming central bank decisions. The consensus view seems to remain that the Fed will increase the pace of tapering in December, while uncertainty over the timing of the ECB's next move is growing. So far this morning, equity markets are mostly higher in the US and Europe after mixed results overnight in Asia. Cryptoassets saw their value continue to decline over the weekend with Bitcoin falling about 15% since Thursday.

Key Global Financial Indicators

Last updated: 12/6/21 8:00 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4538	-0.8	-1	-3	23	21
Eurostoxx 50		4106	0.6	0	-6	16	16
Nikkei 225		27927	-0.4	-1	-6	5	2
MSCI EM		49	-1.4	0	-4	-4	-5
Yields and Spreads					bps		
US 10y Yield		1.39	4.4	-11	-6	42	47
Germany 10y Yield		-0.38	0.9	-6	-10	17	19
EMBIG Sovereign Spread		385	5	-5	30	21	35
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.1	-0.1	-1	-5	-9	-10
Dollar index, (+) = $ appreciation		96.2	0.0	0	2	6	7
Brent Crude Oil ($/barrel)		72.0	3.0	-2	-13	46	39
VIX Index (%, change in pp)		29.8	-0.9	7	13	9	7

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

In the week ahead, Omicron developments will remain the center of focus. Investors expect another large increase in US CPI and look for congress to provide a temporary extension of the debt limit to the New

Year. Activity indicators and the inflation expectations from the Bank of England survey are the key data in Europe. Central bank meetings are scheduled in Australia (hold), India (hold), Canada (hold), Brazil (hike), Poland (hike) and Peru (hike).

Mature Markets

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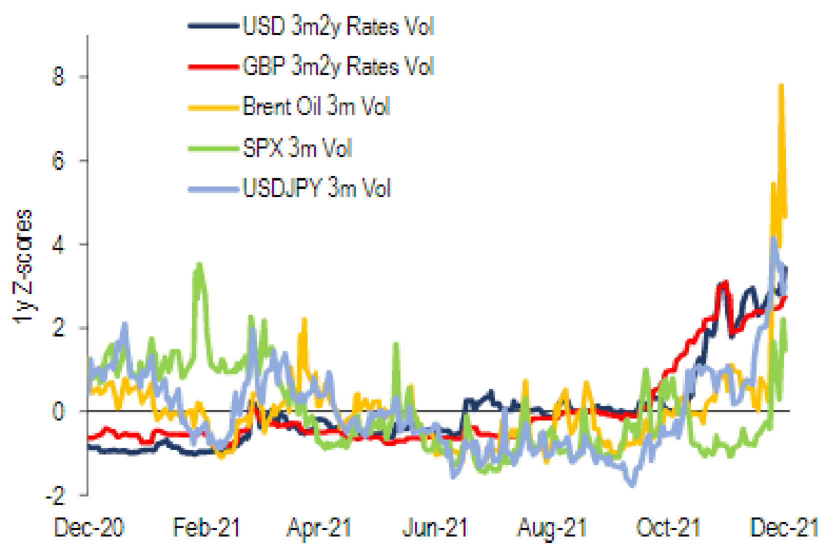
United States

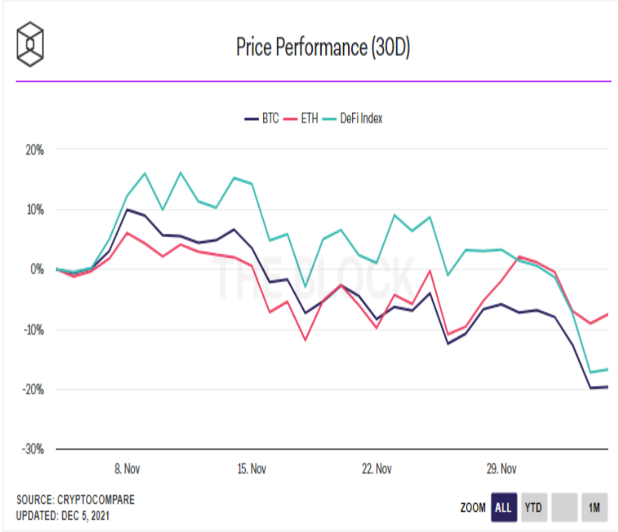
Volatility spiked across asset classes amid heightened uncertainties around Covid and policy outlook. The massive reaction to the Omicron variant caught investors by surprise as many were expecting less market sensitivity to new waves of Covid infection than before. Yet, the new variant does not appear to be altering the consensus view of a faster tapering in December, which was reinforced by recent strength in inflation and labor market data as well as Chair Powell's Congressional testimony. In response, short rates whipsawed last week amid a sharp flattening in the curve, with the 2-10 spread now 25bps lower since Thanksgiving. Option markets indicate investors are positioning for sharper moves ahead, with implied volatility spiking across key asset classes.

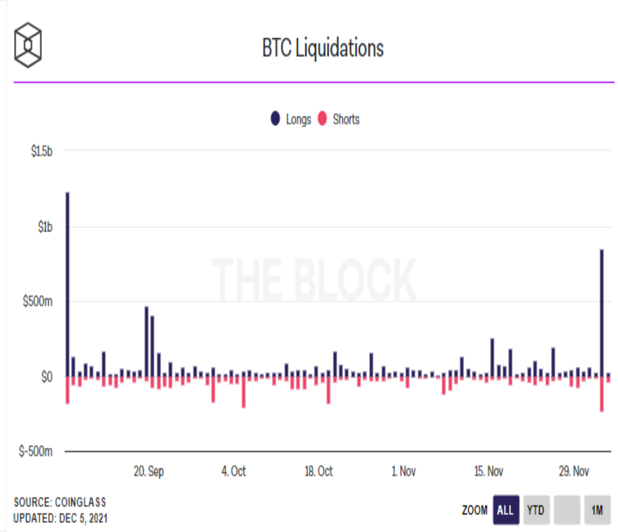


Source: Citi Research

Global fund flows showed a more defensive posture. Cyclical equity sectors saw outflows, while fixed income flows were skewed towards government-only products and away from EM and HY. Cross-border FX flows turned negative for the first time since June 2020, with net selling concentrated in EM Asia and Latin America.

Crypto assets plunged over the weekend. Bitcoin's price dropped over 25% to as low as $42000 around Saturday midnight, before recovering to around $49000. Even larger losses were seen in small crypto assets, but the Ethereum complex held up relatively well. It is estimated that over $1bn in leveraged positions in bitcoin and $1.5bn in other crypto assets were liquidated during the fallout. There was no clear trigger for the sharp selloff, but sentiment has been weak in recent weeks, partly on concerns of higher borrowing costs with global central banks set to normalize monetary policy, as well as the sharp re-pricing in some of the high growth stocks whose prices have shown rising correlation with crypto asset prices.





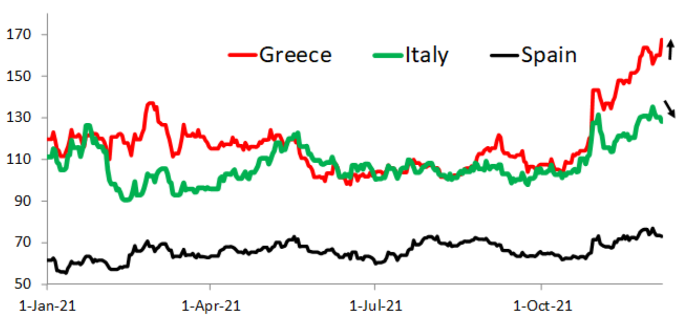
Euro area

Equities (+0.2%) traded higher but gave up earlier gains. The euro (-0.1%) is little changed.

German bunds (+ 1 bps to -0.38%) are little changed after German real factory orders fell 6.9% m/m (-0.3% m/m expected) in October on higher-than-expected payback in bulk orders. Adjusted for bulk orders (ships, planes etc.), the drop was 1.8% mom. **Germany publishes industrial production data (a gain of 1.0% m/m expected) and expectations data tomorrow, but analysts see downside risks given disappointing factory orders.** The new German government is expected to appoint long-time Bundesbank senior executive Joachim Nagel as next Bundesbank president**.**

Italian 10-yr spreads over bunds (-2 bps to 128 bps) fell after Fitch upgraded Italy by one notch to BBB and maintained a stable outlook. Fitch expects that high vaccination rates, a high levels of private sector savings and use of EU funds will support growth dynamics. Given the strong and rapid economic rebound and NGEU spending, **Fitch also revised up its estimate for medium-term potential growth to 0.6% yoy compared with 0.4% at the last rating review in June 2021 and 0.5% pre-pandemic.**

Euro area: 10-year spreads over German bunds (bps)

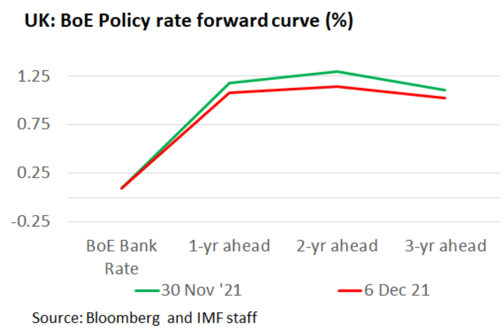


Source: Bloomberg and IMF staff

Greek spreads (+8 bps to 168 bps) widened as traders point to active trading after the Greek debt agency offered to buy or exchange outstanding government bonds expiring in 2023 to 2042, with new issues. The purpose of the offer is to normalize Greece's bond yield curve and supply the market with benchmark bonds that will be more liquid than the outstanding ones to be exchanged. The offer expires on 10 Dec.

United Kingdom

Contacts remain divided on the likelihood of a hike by the BoE next week after MPC member Saunders said on Friday that there could be advantages in waiting to see more evidence on the possible effects on the omicron variant. Markets are pricing in a 6-bps hike next week (compared to 15 bps for the same meeting mid-November). The pound (+0.3%) firmed and gilt yields were little changed.



Japan

The government submitted a record extra budget for the current fiscal year. The draft supplementary budget worth ¥36.0 tn ($320 bn) entails new government bond issuance of ¥22tn. The plan is expected to be approved by the Diet in its extraordinary session through December 21st. The funds will mostly be used to cover the government's new fiscal stimulus plan, which aims to further limit COVID spread, cushion economic impacts from COVID, boost domestic tourism, and includes $880 of handouts to qualified children aged below 19. Relatedly, during his first speech in Parliament, Prime Minister Kishida pledged to stay alert amid ongoing Omicron variant concerns. **Equities slid 0.5%,** travel stocks finally pulled back from steep declines with the rebound in the sector's stocks driven by major railway and airline companies. **The Japanese yen depreciated -.3%, and 10-year yields dipped -0.8 bps.**

Emerging Markets

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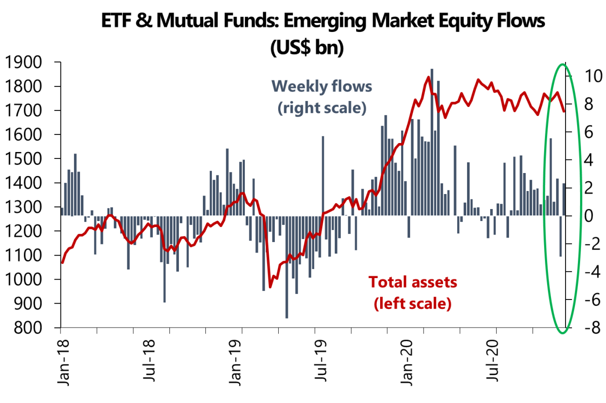
Asian equities declined 0.9% on net. Losses were led by Vietnam (-2.1%) and Hong Kong SAR (-1.8%). Hang Seng Tech Index closed down 3.3% with China's tech giants being the biggest losers. Philippines (+1.1%) and Singapore (+0.9%) posted gains. **Asian currencies were mixed.** The Malaysian ringgit strengthened (+0.2), followed by the Singapore dollar (+0.2%). **Vietnam's** dong depreciated (-1.1%) after the State Bank of Vietnam weakened the dong-dollar fixing rate. **10-year yields mostly declined.** Hong Kong SAR (-5 bps) and China (-4 bps) posted the greatest declines while Indonesia yields firmed +5 bps. **EMEA equity indices** were mostly trading higher except for Russia (-2.3%) where geopolitical tension weighted on risk sentiment. EMEA currencies were trading mixed with the South African rand (+0.8%)

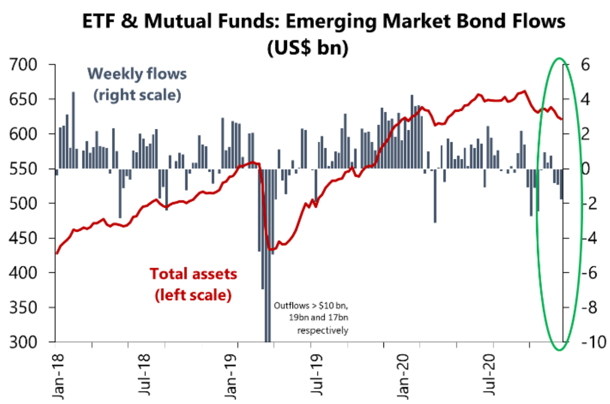
appreciating while the Turkish lira (-0.6%) depreciated. **Latin American stocks and currencies posted losses Friday.** After initial morning gains, regional stock markets retreated between 0.6 and 1.2%, except for gains in Brazil (+0.6%) and a stable market in Chile. Most currencies depreciated, with the Colombian peso (-0.7%) falling the most. Local currency yield curves shifted some 3 bps up in Peru, steepened in Colombia, and shifted down in Mexico (-7 bps), Chile (-10 bps) and Brazil (some -20 bps). The first omicron case reported for Mexico barely moved markets: the peso stood flat, stocks (-0.6%) followed the global trend and local government bond yields declined. Chilean markets may have profited from congress's rejection of a bill that would have allowed up to $20 bn in withdrawals from the country's pension funds which already lost $47 bn through redemptions authorized by earlier bills.

EM fund flows

Concerns over the omicron virus and weak local stock and debt markets hurt EM fund flows. EM equity funds saw their assets over the last week drop by $39 bn, despite receiving inflows of $2.3 bn. Investors saw declines in EM stock prices as an opportunity, with $3.3 bn invested in ETFs partially offset by $1 bn leaving mutual funds. EM bond funds experienced net redemptions of $1.8 bn, with hard and local currency funds, ETFs and mutual funds, and retail and institutional funds all contributing to outflows.



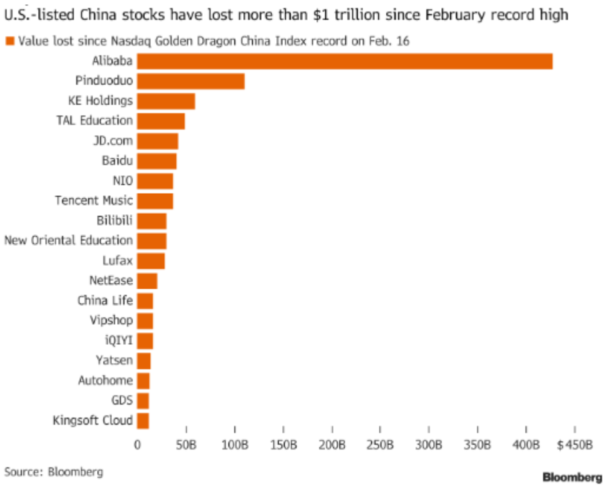
Source: EPFR, retrieved through Haver Analytics.



Source: EPFR, retrieved through Haver Analytics.

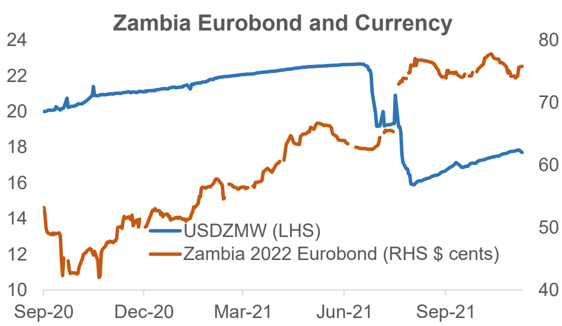
China

People's Bank of China (PBOC) cut the reserve requirement ratio by 50 bps. The lowered requirement will kick in on December 15th and apply to all banks except for those already at the 5% lowest requirement threshold. The move was signaled by Premier Li last week and is expected to release 1.2tn yuan ($188 bn) of liquidity. The PBOC said that an RRR cut was a 'regular monetary policy operation' indicating it is not a signal of broader monetary easing, Bloomberg reports. The bank also stated that it 'will continue with a normal monetary policy', and 'won't flood the economy with stimulus.' Separately, **Evergrande may include all offshore debt in its restructuring.** The Group said on Friday it would actively engage with offshore investors on a restructuring plan. According to Bloomberg, Evergrande's plan may cover all its offshore public bonds and private debt obligations including about $260mn of notes issued by joint venture Jumbo Fortune Enterprises that Evergrande has guaranteed, and notes sold by Scenery Journey Ltd., which had about $80mn of interest payments due on Monday after a 30-day grace period. **Another property developer, Sunshine 100 China Holdings, defaulted.** Interest and principal payments worth of $179mn were due on Sunday. This triggered provisions in other debt instruments and gave some creditors the option to demand immediate payment of future amounts owed. The developer's shares dived 14.1% Monday and have fallen by about 71% since August. **Chinese stocks closed down (Shanghai -0.5%, Shenzhen -1.2%).** Hang Seng Tech Index lost 3.3% with China's tech giants being the biggest losers. Bloomberg estimates that losses by US-listed China stocks reached $1 tn since February. **Renminbi was little unchanged, 10-year yields dipped 4.2 bps.**



Zambia

Fixed income markets react positively to the IMF staff-level agreement for $1.4b Extended Credit Facility. Eurobond prices climbed by $1-2 cents across the curve and domestic yields fell by around 100 bps while the pressure on the kwacha eased in the interbank market. Contacts noted that while an IMF agreement is the consensus scenario for investors, the swift progress on the staff-level gives credibility to the government's timeline for debt restructuring negotiations as well as the broader reform agenda. Contacts noted that while the broader sentiment around Zambia has remained positive, some investors have been reducing exposure in local bonds recently on FX liquidity concerns.



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Global Financial Indicators

Last updated: 12/6/21 8:00 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4532	-0.8	-3	-4	23	21
Europe		4106	0.6	0	-6	16	16
Japan		27927	-0.4	-1	-6	5	2
China		3589	-0.5	1	3	5	3
Asia Ex Japan		83	-1.5	0	-3	-6	-7
Emerging Markets		49	-1.4	0	-4	-4	-5
Interest Rates					basis points		
US 10y Yield		1.39	4.4	-11	-6	42	47
Germany 10y Yield		-0.38	0.9	-6	-10	17	19
Japan 10y Yield		0.05	-0.8	-3	-2	2	2
UK 10y Yield		0.76	0.9	-11	-9	41	56
Credit Spreads					basis points		
US Investment Grade		113	-7.9	0	22	12	18
US High Yield		378	4.1	-2	58	-37	-2
Europe IG		58	-0.3	2	10	10	10
Europe HY		282	-2.1	3	42	39	40
Exchange Rates					%		
USD/Majors		96.16	0.0	0	2	6	7
EUR/USD		1.13	-0.2	0	-3	-7	-8
USD/JPY		113.1	0.3	0	0	9	10
EM/USD		52.1	-0.1	-1	-5	-9	-10
Commodities					%		
Brent Crude Oil ($/barrel)		72	3.0	-2	-13	46	39
Industrials Metals (index)		162	-0.4	-1	0	21	22
Agriculture (index)		60	-0.1	0	4	40	26
Implied Volatility					%		
VIX Index (%, change in pp)		29.8	-0.9	6.8	13.3	9.0	7.0
US 10y Swaption Volatility		88.6	7.7	1.7	14.6	29.0	28.5
Global FX Volatility		8.3	0.1	0.2	1.5	0.3	0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		168	7.8	6	31	50	48
Italy		129	-1.6	-1	13	12	17
Portugal		66	-0.8	-1	7	7	6
Spain		73	-0.6	-1	5	10	11

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

Emerging Market Financial Indicators

Last updated: 12/6/2021 8:01 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		6.38	0.0	0.2	0	2	2		3.0	-4.5	-1	-4	-30	-16
Indonesia		14442	-0.2	-0.9	-1	-2	-3		6.3	4.3	20	24	11	41
India		75	-0.3	-0.4	-2	-2	-3		6.2	-3.0	-21	-28	86	69
Philippines		50	-0.1	-0.1	0	-5	-5		4.6	0.0	0	20	175	165
Thailand		34	-0.1	-0.5	-3	-11	-12		1.8	-1.0	3	4	39	59
Malaysia		4.23	0.0	0.1	-2	-4	-5		3.5	0.5	1	-4	83	87
Argentina		101	-0.2	-0.4	-1	-19	-17		49.8	-70.7	-129	-172	-442	-633
Brazil		5.70	-0.7	-1.5	-3	-10	-9		11.1	-15.0	-53	-86	316	370
Chile		843	-0.2	-0.1	-5	-12	-16		5.2	2.5	-12	-37	244	267
Colombia		3968	-0.7	1.2	-3	-12	-14		6.6	0.0	-22	12	245	262
Mexico		21.25	0.1	2.0	-4	-6	-6		7.2	-13.5	-37	-48	173	185
Peru		4.1	-0.2	-0.8	-2	-12	-11		6.0	-0.5	6	18	211	246
Uruguay		44	0.0	0.1	0	-3	-4		8.9	0.0	23	63	148	168
Hungary		323	-0.3	0.8	-3	-8	-8		4.2	0.0	1	46	253	265
Poland		4.07	-0.2	1.9	-3	-9	-8		3.0	-4.8	3	9	176	193
Romania		4.4	-0.2	0.1	-3	-8	-9		5.1	0.6	4	55	221	235
Russia		73.9	-0.1	0.9	-4	0	0		8.8	5.0	-2	8	260	236
South Africa		16.0	0.6	1.1	-7	-5	-8		7.4	-11.5	-37	-13	67	85
Turkey		13.79	-0.6	-7.0	-30	-43	-46		21.5	-6.0	38	218	861	860
US (DXY; 5y UST)		96	0.0	-0.2	2	6	7		1.17	4.2	2	12	76	81

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		4893	-0.2	1	1	-3	-6		201	3	6	-28	-28
Indonesia		6547	0.1	-1	-1	10	10		190	11	15	-7	-10
India		56747	-1.6	-1	-6	25	19		142	6	9	-13	-9
Philippines		7131	1.1	-2	-3	-1	0		127	8	21	8	15
Malaysia		1483	-1.2	-2	-3	-9	-9		125	8	5	-17	-10
Argentina		86360	-1.2	7	-7	58	69		1772	-89	50	357	416
Brazil		105070	0.6	2	0	-8	-12		333	-20	-1	64	74
Chile		4411	0.9	-2	1	5	6		153	-1	-4	-7	-3
Colombia		1432	-0.6	6	3	7	0		336	-16	30	114	121
Mexico		50597	-0.6	2	-3	16	15		364	-11	13	-40	7
Peru		20000	-0.8	1	-2	-3	-4		170	-12	-2	10	41
Hungary		50789	-0.2	-2	-8	29	21		148	13	32	5	-1
Poland		67776	0.1	2	-9	23	19		56	-1	4	30	28
Romania		12456	0.6	-1	-3	30	27		209	-9	15	0	6
Russia		3824	-2.3	-1	-8	20	16		176	-10	20	-12	-3
South Africa		71136	0.5	2	5	20	20		379	-23	24	-14	-5
Turkey		1918	0.4	6	21	44	30		587	38	105	100	140
Ukraine		523	0.0	0	0	3	5		644	-29	114	136	151
EM total		49	-0.5	0	-4	-4	-5		405	-11	26	52	66

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