



- Stocks rebound though volatility remains elevated ([link](#))
- US banks continue to release reserves on improving credit quality ([link](#))
- China signals more supportive stance on property sector ([link](#))
- Austrian central bank governor calls for change to ECB forward guidance ([link](#))
- European natural gas prices rise sharply ([link](#))

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

Easing virus fears and Chinese support lift risk appetite

As fears surrounding the spread of the omicron variant of the virus continue to ease, risk sentiment improves. Global equity markets are rallying so far today after moving higher yesterday. European equities are up over 2% this morning and US equity futures are pointing to a strong opening. Signs of support from China are also boosting sentiment today. In its December Politburo meeting statement, China pledged to stabilize the economy and removed hawkish language on the property sector. Despite the better market mood, measures of implied volatility remain high in historical terms. The VIX has declined to 24 this morning, more than 7 percentage points below its recent high, but still well above its 5-year average (18). Meanwhile, the MOVE, a measure of interest rate implied volatility, rose 8ppts yesterday and is near its highest level since March 2020.

Key Global Financial Indicators

Last updated: 12/7/21 8:17 AM	Level	Change from Market Close					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4592	1.2	-1	-2	24	22
Eurostoxx 50		4238	2.4	4	-3	20	19
Nikkei 225		28456	1.9	2	-4	8	4
MSCI EM		49	0.8	1	-3	-3	-5
Yields and Spreads			bps				
US 10y Yield		1.45	1.2	0	-1	52	53
Germany 10y Yield		-0.38	1.2	-3	-10	21	19
EMBIG Sovereign Spread		376	-9	-10	17	19	26
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.2	0.2	-1	-5	-9	-10
Dollar index, (+) = \$ appreciation		96.4	0.1	0	2	6	7
Brent Crude Oil (\$/barrel)		74.7	2.3	6	-10	53	44
VIX Index (% change in pp)		23.8	-3.4	-3	7	3	1

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

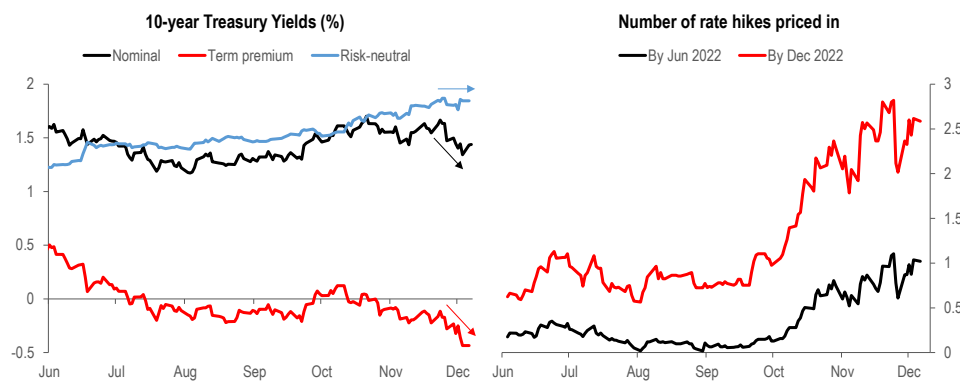
Mature Markets

[back to top](#)

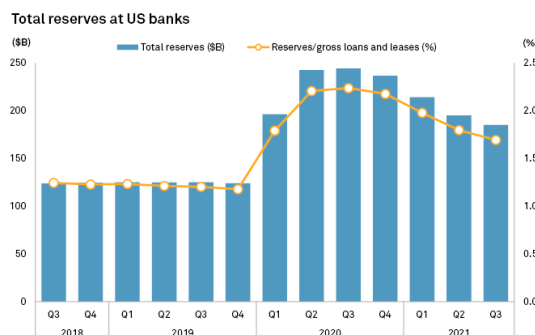
United States

Encouraging news on omicron set off a risk-on day in US, with a strong rebound in stocks and sharply higher Treasury yields. Re-opening sectors led the broad-based rally, lifting the S&P500 1.3% higher. Treasury yields rose decidedly across the tenors and the curve steepened, with 2-year yield up by 4.5 bps and 10-year yield up by 9 bps, mostly driven by higher real rates. Heavy supply from corporate issuers as well as upcoming Treasury auctions also weighed on yields. Funding markets rates drifted up as well, still pricing the first-rate hike in June 2022, though odds of a March rate hike are increasing to roughly 30%. **Despite the rally, volatility remains elevated.** The VIX eased 4 ppts but held at around 28 yesterday while MOVE index rose 8 ppts to 87, both at the level seen on the post-Thanksgiving Friday.

Long rates have rallied sharply amid worsening risk sentiment as demand for safety compressed term premium. Over the last week, the 10- and 30-year government bond yields dropped by 25 to 30 bps across major advanced economies, driven entirely by falling term premium while investors have not yet reassessed their outlook for the terminal rate. Meanwhile, the front end of the curve has completely unwound the immediate impact of the Omicron news, now back to pricing a full hike by June 2022. The repricing of rate hike expectations have in recent weeks led to a build up in short positions at the front end, which in turn increased the demand to borrow Treasury collaterals such as the 10-year Treasury note (for their better liquidity), keeping a lid on long rates.



US banks continue to release reserves in Q3 though the pace has slowed. Banks in aggregate released \$10.1bn of reserves, which flows to the bottom line and supports net income. The pace has slowed, down from a \$19bn release in Q2 and \$22bn in Q1. Provisions for credit losses remain negative at -\$4.3bn as credit performance stays strong (see Friday's GMM on the surge of credit upgrades). Analysts noted that if the economic recovery stays on track, there is still significant room to further release reserves, especially by regional banks.

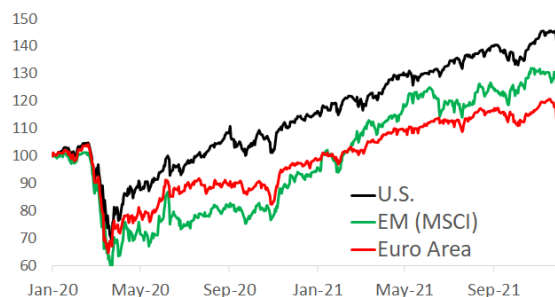


Data compiled Nov. 17, 2021.
Analysis includes U.S. commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
Data based on regulatory filings.
Source: S&P Global Market Intelligence

Euro area

Equities (+2.3%) gained sharply as German industrial data was better than expected. German industrial production (+2.8% mom vs +1% mom expected in October) beat expectations. These data alleviated some concerns about the strength of the economic recovery, especially after sharply disappointing factory orders yesterday. **German ZEW survey data deteriorated in December, but the expectations index was better than expected.** Bank equities (+1.6%) also rose.

Global Equity Markets (1 Jan 2020: 100)

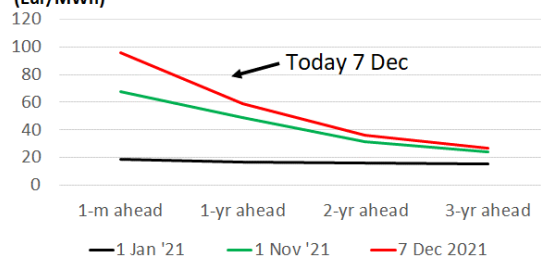


Source: Bloomberg and IMF

German 10-yr bund yields (+ 2 bps to -0.37%) edged higher as ECB policy remains in focus ahead of next Thursday's meeting with one central bank governor questioning the current sequencing of forward guidance and other "ECB sources" warning (via the FT) that investors may need to accept that the ECB will not commit to asset purchases beyond 2022Q2. Austrian Governor Holzmann said that the ECB could hike rates while still buying bonds. In contrast, current ECB guidance on asset purchases is for net asset purchases to end shortly before raising key ECB interest rates. **Italian 10-yr spreads over bunds (+ 1 bps to 128 bps) edged higher as 10-yr Greek spreads (-3 bps to 163 bps) tightened.**

Dutch natural gas prices 1-m ahead (+7% to 96 € /MWh) rose sharply as contacts point out that Russia satisfies its commitments but has not offered extra supply to refill storage points. The European Commission is expected to outline a new set of proposals on EU gas market legislation soon. The new proposals would include new proposals on storage and joint procurement of natural gas with the goal to create a strategic EU gas reserve.

Dutch gas prices: Forward curve (Eur/MWh)



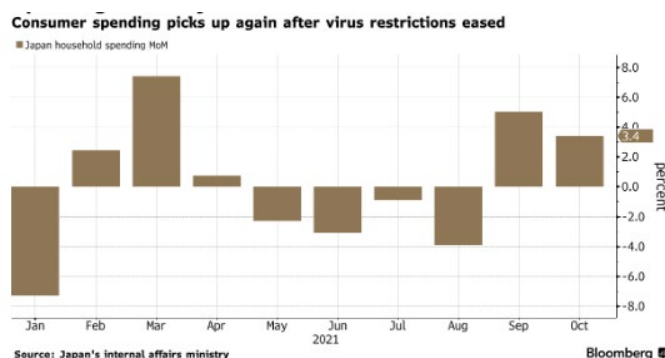
Source: Bloomberg and IMF staff

United Kingdom

Money markets are still pricing in a 6-bps hike next week (compared to 37 bps for the same meeting priced on 18 October) as several analysts expect the BoE to keep policy unchanged. HSBC, for example, expects that the MPC will vote 9-0 to keep rates on hold given Omicron uncertainty. The pound (-0.1%) was little changed and equities (+1.25) traded higher.

Japan

Equities surged 2.2%. Japan may impose restrictions on the issuance of stablecoins. The Financial Services Agency is looking to propose legislation next year allowing issuance only by banks and wire transfer companies, Nikkei reports. Labor cash earnings growth missed estimates in October (+0.2% y/y, consensus: +0.4%), with upticks in overtime and bonus pay offset by a mild decline in base pay over the period. Household spending firmed again in October (+3.4% m/m, previous: +5.0%), supported by transport, communications, and entertainment spending after Japan lifted its state of emergency. The year on year decline narrowed to -0.6% from -1.9% in September. The **Japanese yen weakened 0.1%, 10-year yields increased +1.3 bps.**



Australia

The central bank expectedly kept its benchmark rate unchanged at 0.1% following its last monetary policy meeting for 2021. It also earmarked its February 2022 meeting to decide whether to taper its ongoing bond-buying program.

Emerging Markets

[back to top](#)

Asian equities gained 1.7% on net. Hong Kong SAR rose (+2.7%), China stocks were mixed (Shanghai +0.2%, Shenzhen -0.7%). **Asian currencies appreciated.** The Thai baht strengthened 0.6%, followed by Indonesian rupiah (+0.4%) and South Korea won (+0.3%). **10-year yields increased.** In the **Philippines**, CPI firmed beyond estimates to 4.2% y/y in November (consensus 4.0%, previous: 4.6%). **EMEA equity indices** increased on the back of positive global sentiment with shares gaining in South Africa (+2.1%), Turkey (+1.9%) and Poland (+1.4%). EMEA currencies were trading little changed, except for the Turkish lira (+0.6%) which recovered after reports emerged that the central bank may keep its rate unchanged at the December meeting. Russian assets were steady ahead of today's video call between President Biden and President Putin even as media reported that the U.S. has warned Russia of a new round of sanctions concerning its largest state banks as well as access to the dollar settlement system. **Latin American stocks gained Monday while currencies and rates were mixed.** Stocks gained in Argentina (2.2%), Peru (1.8%), and Brazil (1.7%) and remained stable elsewhere. Currencies depreciated up to -0.6% except for the Colombian (+0.9%) and the Mexican peso (+0.2%). Regional hard currency treasury yield curves did not fully follow the steeper and higher US move. Local currency curves flattened in Brazil, Colombia, and Peru, rising on the front-end, while steepening in Mexico and to some degree in Chile. Mexico's consumer confidence edged up in November to 45.8. Mexican oil giant Pemex's 2031 US dollar bond surged by 2.6 cents on the dollar, up from 95.7 cents on the dollar, after a \$3.5 bn capital injection from the government aimed at reducing debt service was announced. Wage increases in Chile accelerated during October by 0.2 ppt to 5.9% y/y, pointing to inflationary momentum.

EM Bond Issuance

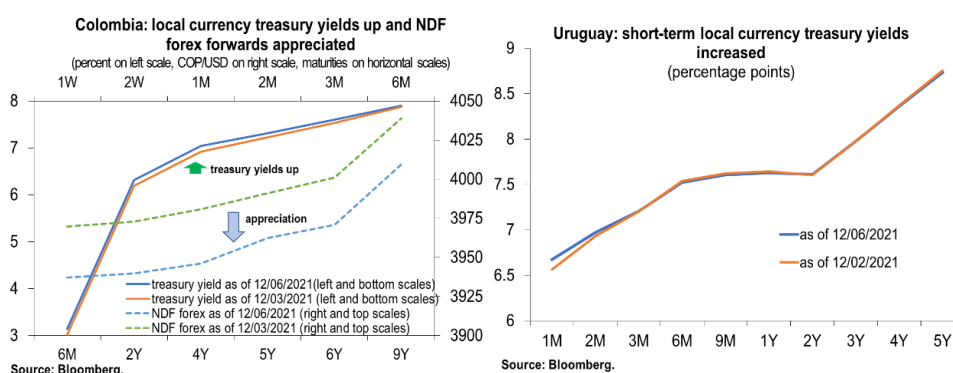
Markets absorbed \$2.3 bn of new EM hard currency bonds last week, \$0.8 bn less than the week before. Issuance was dominated by Chinese municipalities and local governments bringing \$1.3 bn to the market. In the sovereign market Uruguay sold \$0.45 bn of new debt. \$0.4 bn of corporate issuance were limited to Asia, with companies from China, Hong Kong SAR, and Singapore tapping the market.

Sector	Last week	The week before	YTD
Corporate	0.4	1.6	342.0
Sovereign	0.4	0.8	196.8
Financial	-	0.7	148.0
Agency	0.2	-	32.6
Muni/Local Gov't	1.3	0.2	17.9
Supra	-	0.2	12.6
Total	2.3	3.5	749.9

Source: Bond Radar, Bloomberg

Latam inflation news

Appreciation and higher local interest rates followed inflation surprises. Inflationary data prints in Latin America continued Saturday last week with Colombia's inflation rate printing at 5.3% y/y, 0.3 ppt higher than expected and 0.7 ppt up from October. Energy, food, and hospitality service prices were the main drivers. With inflation well above the central bank's target corridor of 2-4%, the Colombian peso appreciated (+0.9%) and three-month local interest swap rates (+6.5 bps) and 6-month local currency bond yields (+12 bps) increased. Meanwhile Ecuador's CPI inflation rose by 37 bps to 1.8% y/y, reaching a four-year peak, while Uruguay's inflation rate remained stable at 7.9% y/y, 90 bps above the central bank's target corridor. Uruguay's local currency treasury yield curve increased subsequently by 11 bps to 6.7% at the short-end, while remaining flat at horizons of three months or more.



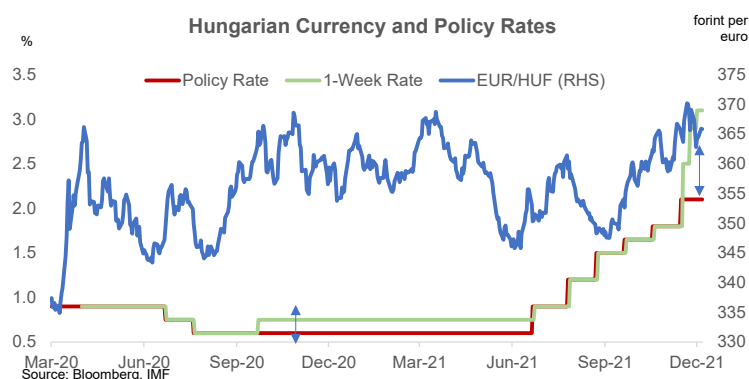
China

China signals more supportive stance on property sector. The December 2021 Politburo meeting statement pledged to stabilize the economy and hinted at measures to support the commercial housing market and higher supply of subsidized housing, Bloomberg reports. A hawkish language of "housing is for living in, not speculation" used in July 2021 was removed. Meanwhile, **Kaisha's bondholders extended a formal debt forbearance proposal.** The proposal was made on Monday ahead of the default deadline on Kaisha's \$400mn of bonds due December 7. Lazard, who represents a group holding \$5 bn of Kaisha's debt, reportedly offered a new money deal including cash injections, according to Bloomberg. Separately, the **trade surplus narrowed more than expected in November** (\$71.7 bn, consensus \$83.6 bn, previous: \$84.5 bn), driven by much higher-than-expected imports growth (31.7% y/y, consensus: 21.5%) over the period. Stocks were mixed (**Shanghai +0.2%, Shenzhen -1%**), **renminbi strengthened (+0.1%)**, **bond yields were little changed.**



Hungary

Central bank signals further front-loaded policy tightening. The National Bank of Hungary Deputy Governor Virag suggested that the central bank will accelerate the pace of exit from its pandemic era stimulus program while continuing to front-load rate hikes as inflation is expected to exceed 7% in November. The NBH has already increased its one-week deposit rate to 3.1%, or 100 bps above the main policy rate, and contacts expect another 20-30 bps of tightening at the weekly auction on Thursday. **Markets are currently pricing the policy rate to reach 4.4% in Q1 2022 and remain unchanged for the rest of the year.** Contacts note that tighter NBH policy has led only to a limited forint appreciation so far as investor interest is curtailed by global risk sentiment. Furthermore, foreign currency swap rates continued to trade below the onshore market, reducing the effective carry for international investors.



This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 12/7/21 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4618	1.2	1	-2	25	23
Europe		4238	2.4	4	-3	20	19
Japan		28456	1.9	2	-4	8	4
China		4922	0.6	2	2	-2	-6
Asia Ex Japan		84	1.0	0	-3	-5	-6
Emerging Markets		49	0.8	1	-3	-3	-5
Interest Rates							
			basis points				
US 10y Yield		1.45	1.2	0	-1	52	53
Germany 10y Yield		-0.38	1.4	-3	-10	21	19
Japan 10y Yield		0.06	1.1	0	0	3	4
UK 10y Yield		0.74	0.1	-7	-11	45	54
Credit Spreads							
			basis points				
US Investment Grade		115	-4.1	-5	34	14	20
US High Yield		365	-8.5	-22	52	-36	-15
Europe IG		54	-2.6	-3	7	7	6
Europe HY		268	-12.2	-20	28	25	26
Exchange Rates							
			%				
USD/Majors		96.38	0.1	0	2	6	7
EUR/USD		1.13	-0.3	-1	-3	-7	-8
USD/JPY		113.6	0.1	0	0	9	10
EM/USD		52.1	0.2	-1	-5	-9	-10
Commodities							
			%				
Brent Crude Oil (\$/barrel)		75	2.2	6	-10	53	44
Industrials Metals (index)		164	1.2	1	2	23	24
Agriculture (index)		61	0.1	4	5	41	27
Implied Volatility							
			%				
VIX Index (% change in pp)		23.8	-3.3	-3.4	7.3	2.5	1.1
US 10y Swaption Volatility		89.3	0.0	2.4	15.3	29.7	29.2
Global FX Volatility		8.2	0.0	0.0	1.4	0.1	0.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		163	-2.7	2	26	41	43
Italy		128	1.5	-4	13	9	17
Portugal		63	-1.7	-5	4	3	3
Spain		71	-1.8	-4	2	7	9

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 12/7/2021 8:20 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		6.37	0.1	0.0	0	3	3		3.0	2.5	2	-1	-27	-14
Indonesia		14378	0.4	-0.3	-1	-2	-2		6.3	-0.4	19	23	9	41
India		75	0.0	-0.4	-2	-2	-3		6.2	2.0	-11	-26	88	71
Philippines		50	0.1	-0.1	0	-5	-5		4.6	0.0	0	20	175	165
Thailand		34	0.5	0.2	-2	-10	-11		1.9	3.0	10	10	43	62
Malaysia		4.23	0.0	-0.7	-2	-4	-5		3.5	0.5	0	-3	79	88
Argentina		101	-0.1	-0.4	-1	-19	-17		49.7	-9.4	-130	-196	-470	-642
Brazil		5.63	1.0	-0.1	-2	-9	-8		10.8	-12.8	-48	-107	291	344
Chile		841	0.7	-1.3	-4	-12	-15		5.2	5.5	-3	-32	249	272
Colombia		3916	0.5	2.1	-1	-11	-12		6.7	0.0	-8	16	249	266
Mexico		21.25	-0.1	0.9	-4	-6	-6		7.2	-1.0	-22	-18	174	186
Peru		4.1	-0.2	-0.6	-2	-12	-11		6.0	0.2	3	17	220	246
Uruguay		44	0.1	0.1	-1	-3	-4		8.8	-10.8	-7	31	148	157
Hungary		325	-0.3	-1.1	-4	-9	-9		4.1	0.0	4	40	248	260
Poland		4.08	-0.3	0.6	-3	-10	-9		2.9	-10.5	-1	-4	164	181
Romania		4.4	-0.3	-0.8	-3	-8	-10		5.1	-0.1	2	47	221	235
Russia		74.4	-0.2	-0.4	-4	-1	-1		8.9	8.2	21	18	270	246
South Africa		16.0	-0.3	-0.5	-7	-5	-8		7.4	-1.5	-36	-18	62	80
Turkey		13.67	1.0	-1.4	-29	-43	-46		21.5	-4.0	32	220	863	862
US (DXY, 5y UST)		96	0.1	0.4	2	6	7		1.23	2.8	7	18	85	87

	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	7 Days	30 Days	12 M	
								basis points					
China		4922	0.6	2	2	-2	-6		199	-1	-2	-29	-30
Indonesia		6603	0.8	1	0	11	10		177	2	-6	-15	-23
India		57634	1.6	1	-5	26	21		136	-5	-3	-19	-15
Philippines		7147	0.2	-1	-3	-1	0		112	-2	-5	-1	0
Malaysia		1498	1.0	-1	-2	-8	-8		119	3	-8	-18	-16
Argentina		88287	2.2	12	-5	61	72		1740	-126	29	324	384
Brazil		106929	0.1	5	2	-6	-10		326	-18	-4	62	67
Chile		4415	1.1	0	1	7	6		145	-3	-17	-11	-11
Colombia		1431	-0.1	4	3	5	-1		332	-18	19	114	117
Mexico		50606	0.0	2	-3	17	15		348	-20	-9	-50	-9
Peru		20354		1	0	-2	-2		162	-12	-16	4	33
Hungary		51179	0.9	-1	-7	31	22		138	6	13	-4	-11
Poland		68924	1.6	2	-8	24	21		50	-8	-4	27	22
Romania		12556	0.9	3	-2	32	28		194	-18	-6	-10	-9
Russia		3862		-1	-8	21	17		168	-9	4	-13	-11
South Africa		72651	2.3	3	7	22	22		372	-18	21	-6	-12
Turkey		1970	2.2	9	24	48	33		580	29	107	105	133
Ukraine		523	0.0	0	0	3	5		645	-25	126	157	152
EM total		49	0.0	1	-3	-3	-5		395	-16	14	48	56

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

[back to top](#)