



- **Stocks stages the biggest rally since March** ([link](#))
- **Risk appetite for leveraged loans remain strong despite market volatility** ([link](#))
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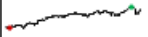
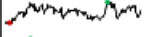







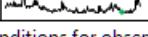
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## Vaccine news supports markets

**Stocks are modestly higher this morning following yesterday's rally.** News that a third dose of the Pfizer/BioNTech provides significant protection against the omicron variant is helping to support risk appetite, offsetting earlier losses in European equities that were driven by reports the U.K government will announce additional restrictions to slow the spread of the virus. Asian equities generally gained overnight while US equity futures are pointing to a modest gain so far today. The S&P 500 gained 2% yesterday, bringing the index back to just 0.4% below its all-time high set last month. Emerging market currencies are mostly slightly stronger, with the Turkish lira a clear laggard (-1.7%), giving up most of yesterday's gains.

Key Global Financial Indicators

Last updated: 12/8/21 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4687	2.1	3	0	27	25
Eurostoxx 50		4258	-0.4	2	-2	21	20
Nikkei 225		28861	1.4	3	-1	8	5
MSCI EM		50	1.6	3	-3	-2	-3
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.48	0.5	7	-1	56	57
Germany 10y Yield		-0.36	1.1	-2	-12	24	21
EMBIG Sovereign Spread		366	-9	-24	7	5	16
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		52.3	0.0	0	-5	-9	-10
Dollar index, (+) = \$ appreciation		96.2	-0.2	0	2	6	7
Brent Crude Oil (\$/barrel)		75.7	0.4	10	-9	55	46
VIX Index (% change in pp)		21.8	-0.1	-9	5	1	-1

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

## Mature Markets

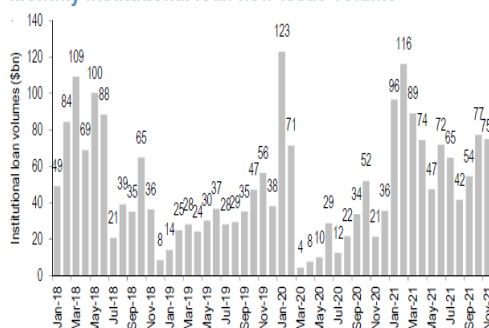
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### United States

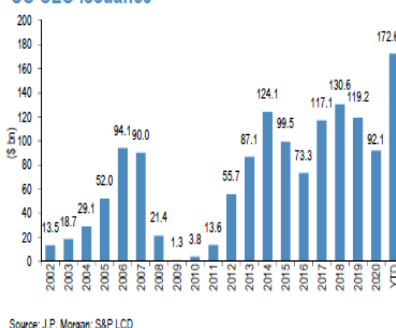
**Stocks staged the biggest rally since March as risk sentiment improved on easing omicron concerns and China's shift to a supportive stance.** There was also progress towards raising the debt ceiling in the US, with a plan to raise the debt limit by \$2tn until after the midterm election next November. Nasdaq jumped 3% with the S&P500 up by 1.8%. Treasury yields continued to rise, led by the front-end, leading to a small flattening in the curve, amid another day of heavy corporate supply. The 2-year yield rose 6 bps to 0.69% with the 10-year yield up near 5 bps to 1.43% as breakevens widened 6 bps ahead of the CPI report. **Rate hike premiums picked up further, with the probability of lift-off in May now approaching 80%.** The \$54bn offering of 3-year Treasury note drew the highest auction yield since Feb 2020 at 1%, and the bidding metric was better than feared. Equity volatility has eased further with VIX down to 22 but rates volatility remains high.

**Risk appetite for leverage loans remains undeterred by market volatility with another record monthly volume.** Leveraged loan issuance totaled \$75bn in November or \$49bn excluding refinancing and re-pricing, bringing YTD total to \$808bn in gross volume (+109% yoy). Notably CLO volume totaled a new record of \$26bn ex-refi/resets in November following three consecutive monthly volume.

Monthly institutional loan new-issue volume



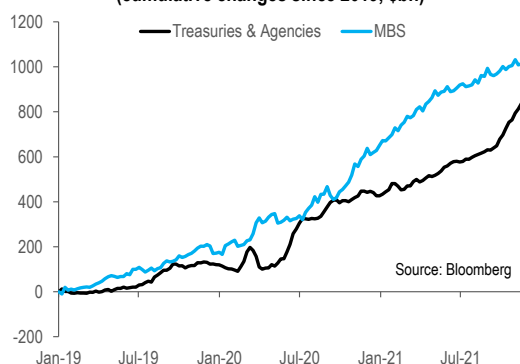
US CLO issuance



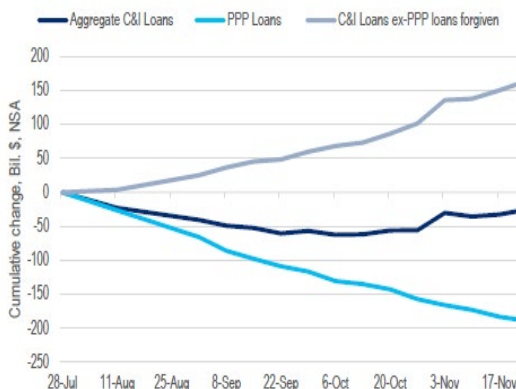
Source: J.P. Morgan; S&P LCO

**US banks continue to buy Treasuries at an accelerated rate.** Against steady growth in deposits, banks security portfolios continue to grow. In recent weeks, there has been a rotation from MBS into Treasuries, likely a pre-emptive positionings by reducing duration risks ahead of the hiking cycle. Meanwhile, loan growth has firmed up in recent weeks with banks reporting stronger C&I loan demand. Looking ahead, analysts expect a slowdown in deposit growth in 2022 but continuing expansion in loan growth, which should slow down security purchases.

US commercial bank security holdings (cumulative changes since 2019, \$bn)



Source: Bloomberg



### United Kingdom

The pound (-0.3%) and 10-yr gilts (-3 bps to 0.70%) fell on news that the U.K. government will announce further covid-related restrictions later today, including vaccine passports and working from home. The number of confirmed omicron cases in the U.K. is 440, with experts warning that the true number of cases could be as high as 2500 with cases now doubling every 2-3 days. Money markets are still pricing in a 6 bps hike for the BoE next week, but the market is pricing 23 bps of hikes in February (so not a full hike of 25 bps anymore). Equities (+0.5%) gained after the announcement by Pfizer on the third booster.

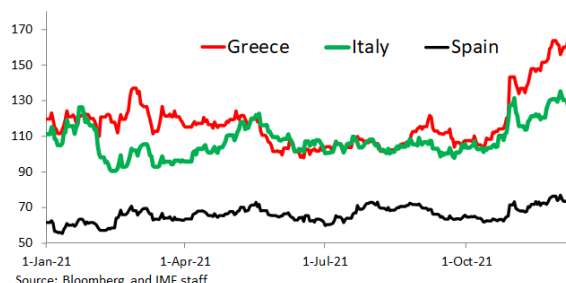
### Euro area

Equities were little changed after gaining 2% in the past days. The Banque de France's industrial sentiment indicator was better than expected in line with the improvement seen in industrial production data.

German 10-yr bund yields traded 3 bps lower but reversed that move after the Pfizer/BioNTech announcement that a third vaccination dose neutralizes the Omicron variant. Olaf Scholz is the new German chancellor from today.

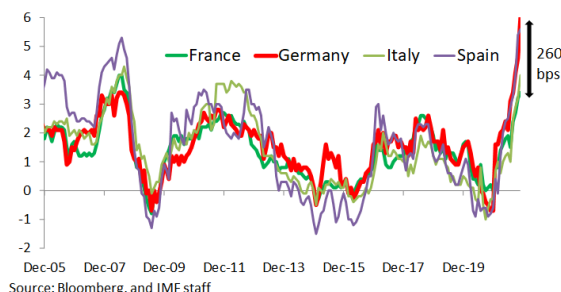
Finnish central bank governor Rehn warned that uncertainty is exceptionally high for policy normalization and added that sometimes it is best to take time in making decisions, which contacts took as an indication that a decision on a QE program for 2022 may be delayed to the ECB's meeting in February. Nevertheless, contacts believe that the pandemic QE program is still likely to end in March 2022. ECB speakers will go in blackout tomorrow ahead of next week's meeting. Italian 10-yr spreads over bunds (+4 bps to 133 bps) and 10-yr Greek spreads (+4 bps to 167 bps) widened.

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

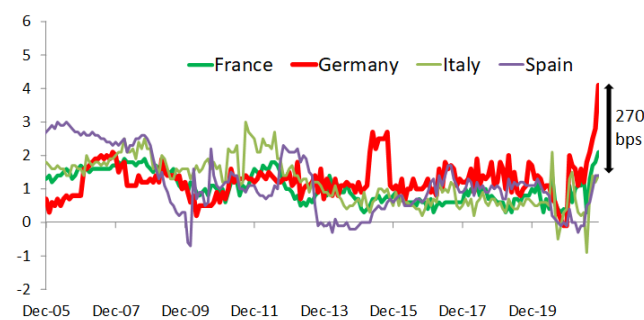


Analysts believe that November will have marked the peak of euro area inflation given the recent drop in oil prices in addition to continued interventions by several government in energy markets. Nevertheless, energy price pressures are likely to remain as Dutch natural gas prices 1-m ahead (+6%) rose above 100 €/MWh again. Investors will also examine to what extent core and headline inflation rates will converge in coming months after core and headline inflation in Germany were materially higher than other countries (with some analysts citing the impact of package holiday prices in Germany).

Euro area: Headline inflation (% , yoy)



Euro area: Core inflation (% , yoy)



Source: Bloomberg, and IMF staff

## Japan

**Deputy Governor Amamiya signaled Bank of Japan (BoJ) may scale back its pandemic buying of private debt.** He stated that inflationary pressures were gradually growing even in Japan with more companies being able to pass on higher costs to consumers. He said corporate funding was improving particularly for big firms, however, he saw persisting weakness in some small firms' financial conditions despite broader improvements, Reuters reports. Amamiya's statement was suggesting the BOJ reduce purchases of corporate bonds and commercial paper while maintaining its other pandemic program—a loan scheme targeting smaller firms—beyond the March deadline. Relatedly, Ex-BOJ executive Maeda suggested the BOJ will lower its upper limit on corporate bond purchases. He said funding issues are now contained to specific businesses, Bloomberg reports. Separately, **Q3 GDP contracted more than initially reported.** Final GDP estimate declined 3.6% on annualized seasonally adjusted q/q basis (consensus: -3.1%, preliminary: -3.0%), dragged by weakened household consumption. Japanese stocks gained **0.6%**, the yen and 10-year yields were little changed.

## Emerging Markets

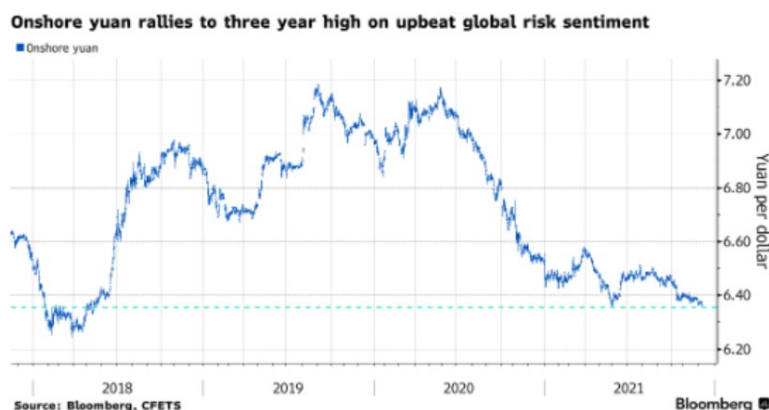
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**Asian equities gained 0.6% on net.** China (Shanghai +1.5%, Shenzhen +1.8%) and India (+1.5%) outperformed. In Hong Kong SAR, shares of China's Weibo dived 7% on its first day of relisting following renewed pressure to comply with US disclosure requirements. **Asian currencies broadly strengthened with** the Thai baht (+0.4%) and Korean won (+0.3%) leading, while the Indian rupee fell slightly (-0.1%). **10-year yields were mixed.** Indonesia (-3.8 bps) and India (-3 bps) yields slipped while Thailand yields climbed (+2.8 bps). **EMEA equity indices were trading mixed** with stock markets up in Turkey (+0.6%) and Czech Republic (+0.3%) but down in South Africa (-0.8%) and Saudi Arabia (-0.7%). EMEA currencies were also trading mixed today with the Russian ruble (+0.7%) appreciating while the Turkish lira (-1.3%) gave up yesterday's gains. On the data front, Hungarian November inflation jumped to an above expected 7.4% y/y. **LatAm equity markets were mostly higher Tuesday.** With the exception of Colombia (-1.4%), regional stock markets realized gains of up to 1.1% in Argentina. Currencies appreciated (Brazil 1.4%, Mexico 1%, Chile 0.9%, Colombia 0.5%) except for the Argentine peso (-0.1%). Hard currency bonds saw spreads decrease by between 11 bps in Brazil and 6 bps in Mexico. Local currency bond yields moved predominantly down, except for Mexico. Yesterday's November inflation print for Chile corroborated with 6.7% y/y, up from 6% in October and 10 bps higher than expected, the inflationary momentum seen in October wage dynamics the day before. Energy prices were a particularly strong driver, up by 20%. Consumer confidence fell in Colombia during November to -1.4 points, down by 0.1 points on a scale from -100 to 100.

## China

**China's central bank cut the relending rates for farmers and small businesses by 25 bps.** The interest rates of three-month, six-month and one-year reloans for the sector were slashed to 1.7%, 1.9% and 2%,

respectively. Outstanding relending to support rural development stood at 474.7 bn yuan (\$74.48 bn) as of the end September, while reloan support to small enterprises was at 993.7 bn yuan. **Chinese stocks posted gains (Shanghai +1.2%, Shenzhen +1.8%).** Trading of Kaisa stocks was suspended for the second time in a month pending “an announcement containing inside information”, Bloomberg reported. **10-year yields rose 0.7 bps, China’s yuan strengthened further (onshore: +0.2%, offshore: +0.1%)** getting closer to the levels last seen in May 2018.



## India

**Reserve Bank of India (RBI) kept both repo and reverse repo rates unchanged, reiterates 14-day variable rate reverse repo (VRRR) as a main operation.** The benchmark rates were maintained at 4% and 3.35%, respectively following. Meanwhile, the bank will raise the amount of bank liquidity it plans to drain using 14-day VRRR from 6.5tn (\$86.2bn) on December 17 to 7.5tn rupees on December 31, Bloomberg reports. Several analysts pointed out that the RBI tries to reduce near-record liquidity without an increase in the benchmark rate. RBI Governor Das cited domestic outlook risks attributed to the Omicron variant, existing economic slack, and ongoing catch-up of economic activity. The bank projects higher inflation in Q4 2021 at 5.1% y/y (previous: 4.5%), while GDP growth outlook was revised down to 6.6% y/y (previous 6.8%) in Q4 2021 and to 6% y/y (previous: 6.1%) in Q1 2022. In this context, the RBI decided in a 4-1 committee vote to maintain accommodative monetary policy. **Stock market was up 1.7%, Indian rupee weakened 0.1%, bond yields were little changed.**

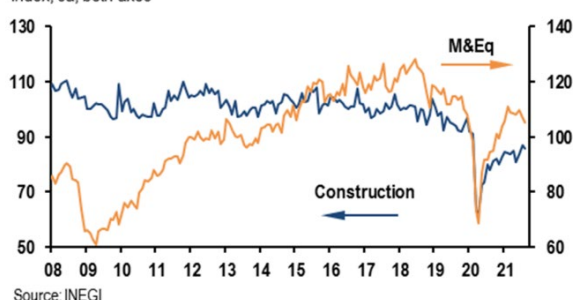
## Mexico

**A low investment print signaled limited growth optimism but was shrugged off by markets.** September gross fixed investment printed at 9.9% y/y, below the 11.5% expected and down from 13.9% in August. Investment receded in the construction sector (-1.5%) as well as for machinery and equipment (-1.6%), raising concerns over the efficiency of the administration’s aggressive infrastructure plan, with private investment continuing to fall in particular for machinery and equipment. Considering sluggish private sector consumption growth, domestic private sector demand signals limited growth potential, as also reflected by yesterday’s downward correction in the 2021 growth projection of Citi’s economists survey from 5.9% y/y to 5.7%, while the 2022 projection remained at 2.9%. Mexican asset markets showed no major adverse reactions. **After the market close S&P affirmed Mexico’s long-term foreign currency rating at BBB and its long-term local currency rating as BBB+.**



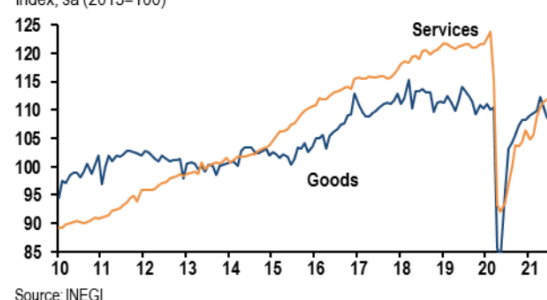
Gross fixed investment

Index, sa, both axes



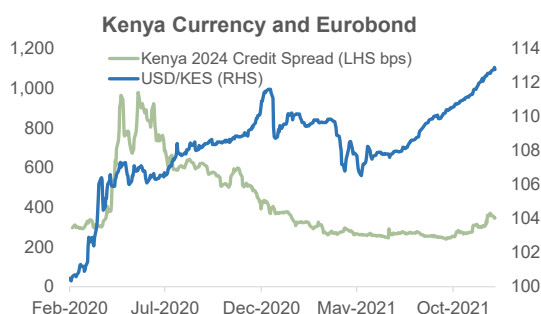
Private goods and services consumption

Index, sa (2013=100)



## Kenya

**The shilling remains under pressure amid FX market imbalances.** The currency has lost about 5% since June, hitting a record low against the dollar. Contacts note that the off-shore market trades about 2% weaker than the on-shore market as local dealers are reluctant to push for a more rapid depreciation amid regulatory concerns. The currency market remains highly imbalanced with buyers unable to get hold of dollars at these clearing levels. **Contacts note that while some of the dollar demand is seasonal, relating to Christmas imports and dividend related flows, local fixed income investors have also been leaving the market recently.** The non-resident outflows are caused by growing concerns around the upcoming elections, but also compression of real yields amid a more uncertain global backdrop. By contrast, its Eurobonds have held up relatively well with credit spreads widening by a modest 50 bps since the omicron variant announcement.



*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: 12/8/21 8:00 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
United States		4691	2.1	4	0	27	25
Europe		4258	-0.4	2	-2	21	20
Japan		28861	1.4	3	-1	8	5
China		4996	1.5	3	3	1	-4
Asia Ex Japan		85	1.7	2	-2	-3	-5
Emerging Markets		50	1.6	3	-3	-2	-3
Interest Rates							
			basis points				
US 10y Yield		1.48	0.5	7	-1	56	57
Germany 10y Yield		-0.36	1.1	-2	-12	24	21
Japan 10y Yield		0.05	-0.6	-2	-1	3	3
UK 10y Yield		0.72	-1.1	-10	-14	46	52
Credit Spreads							
			basis points				
US Investment Grade		115	-3.8	-5	34	14	20
US High Yield		354	-18.9	-32	42	-47	-25
Europe IG		53	-0.1	-3	6	6	5
Europe HY		264	0.3	-16	23	23	21
Exchange Rates							
			%				
USD/Majors		96.18	-0.2	0	2	6	7
EUR/USD		1.13	0.2	0	-3	-7	-8
USD/JPY		113.8	0.1	1	0	9	10
EM/USD		52.3	0.0	0	-5	-9	-10
Commodities							
			%				
Brent Crude Oil (\$/barrel)		76	0.4	10	-9	55	46
Industrials Metals (index)		164	0.3	1	0	24	24
Agriculture (index)		60	-0.5	2	4	41	25
Implied Volatility							
			%				
VIX Index (% change in pp)		21.8	-0.1	-9.4	4.6	1.1	-1.0
US 10y Swaption Volatility		84.6	-3.6	-0.2	10.6	20.9	24.5
Global FX Volatility		8.1	0.0	-0.1	1.2	0.0	0.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		171	6.9	15	36	46	51
Italy		133	3.8	-2	20	14	22
Portugal		66	2.1	-4	7	6	6
Spain		72	1.2	-5	5	9	11

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

## Emerging Market Financial Indicators

Last updated: 12/8/2021 8:03 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		6.35	0.3	0.3	1	3	3		3.0	0.5	1	-1	-25	-13
Indonesia		14357	0.1	-0.1	-1	-2	-2		6.3	-4.1	10	22	6	37
India		75	0.0	-0.7	-2	-3	-3		6.2	0.0	-12	-26	86	71
Philippines		50	0.1	0.1	0	-4	-5		4.6	0.0	0	20	175	165
Thailand		33	0.6	0.7	-2	-10	-11		1.9	0.0	7	10	43	62
Malaysia		4.23	0.2	-0.1	-2	-4	-5		3.5	0.6	-1	2	79	89
Argentina		101	-0.1	-0.5	-1	-19	-17		49.6	-10.6	-137	-207	-480	-653
Brazil		5.62	-0.1	1.1	-1	-9	-8		10.8	-5.3	-49	-105	294	346
Chile		839	0.9	-1.2	-4	-12	-15		5.2	-0.5	-11	-37	244	267
Colombia		3912	0.0	1.5	-1	-11	-12		6.6	0.0	-3	10	243	260
Mexico		20.92	0.5	2.8	-3	-5	-5		7.2	-1.0	-19	-19	174	185
Peru		4.1	0.2	-0.3	-2	-12	-11		5.9	-5.7	-3	17	214	240
Uruguay		44	-0.1	-0.1	-1	-3	-4		8.8	-6.6	-16	24	141	151
Hungary		326	0.0	-1.6	-4	-9	-9		4.2	7.5	-13	48	255	267
Poland		4.07	0.0	0.4	-3	-10	-8		2.9	-1.5	-14	-3	166	181
Romania		4.4	0.2	-0.2	-2	-8	-9		5.1	0.5	2	47	219	235
Russia		73.7	0.7	0.4	-3	0	0		8.8	-6.8	-3	9	263	237
South Africa		15.8	0.5	1.6	-5	-5	-7		7.4	-0.5	-32	-18	66	80
Turkey		13.71	-1.6	-3.4	-29	-43	-46		21.5	-7.0	30	218	827	855
US (DXY; 5y UST)		96	-0.2	0.2	2	6	7		1.25	0.0	12	14	86	89

	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		4996	1.5	3	3	1	-4		198	0	-3	-31	-31
Indonesia		6604	0.0	1	-1	11	10		175	-8	-8	-22	-25
India		58650	1.8	2	-3	27	23		138	-2	-1	-17	-13
Philippines		7147	0.0	-1	-3	-1	0		109	-12	-8	-9	-3
Malaysia		1494	-0.3	-1	-2	-9	-8		117	-1	-10	-22	-18
Argentina		89243	1.1	13	-7	63	74		1691	-212	-20	247	335
Brazil		107558	0.7	7	3	-5	-10		314	-32	-16	46	55
Chile		4395	0.6	-1	1	6	5		140	-10	-22	-20	-16
Colombia		1410	-1.4	3	1	3	-2		327	-26	14	105	112
Mexico		50918	0.6	2	-3	18	16		341	-30	-16	-63	-16
Peru		20521	0.8	1	0	-1	-1		155	-18	-23	-7	26
Hungary		51015	-0.5	-2	-6	29	21		127	-14	2	-19	-22
Poland		69004	0.0	1	-7	23	21		43	-23	-11	17	15
Romania		12659	1.1	4	-2	34	29		185	-33	-15	-25	-18
Russia		3839	-0.9	-3	-9	21	17		166	-14	2	-20	-13
South Africa		72446	-0.7	2	6	22	22		363	-31	12	-21	-21
Turkey		1995	0.7	7	24	49	35		545	-16	72	62	98
Ukraine		523	0.0	0	0	3	5		634	-30	115	140	141
EM total		50	-0.1	3	-3	-2	-3		384	-31	3	30	45

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

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