GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, DECEMBER 1, 2020

- **Fed extends the availability of four of its lending programs through March 2021** (link)
- **Reserve Bank of Australia maintains its policy stance** (link)
- **Proposed delay in the retirement of USD Libor sparks eurodollar market rally** (link)
- **China's manufacturing PMI rises to a decade high** (link)
- **Suriname creditor group supports government request to delay debt payments** (link)
- **Argentine assets bounce off their October lows, but market concerns remain** (link)
- **EMEA PMIs remain mostly in expansion mode during November** (link)
- **Investors increase bullish positions in Turkish lira** (link)

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Positive risk sentiment continues to buoy markets

After a short breather yesterday, markets picked up right where they left off in November, with the risk-on rally now back in full swing. Risk assets have risen across the board today, lifted by continued investor optimism about the economic outlook following the success of the COVID-19 vaccine trials. European stocks are up by about 1% so far today and US equity futures are pointing to a strong start. EM stocks have also posted gains, with China (+1.8%) and Asian equities outperforming on the back of strong Chinese PMI data. Credit spreads have also tightened further in Europe. Meanwhile, the price action in US Treasuries and European sovereign paper has generally been muted. Gold, on the other hand, seems to be well-bid (+1.7%) following its largest monthly decline in 4 years during November (-7%). Analysts are partly attributing today's move in gold to the continued slide in the value of the US dollar against major currencies (stable today, but 2% weaker on the month). Oil prices are holding steady as markets await the outcome of the OPEC+ meeting, which is now scheduled to conclude on Thursday.

Key Global Financial Indicators

Last updated: 12/1/20 8:27 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3622	-0.5	2	11	15	12
Eurostoxx 50		3523	0.9	0	19	-5	-6
Nikkei 225		26788	1.3	2	17	15	13
MSCI EM		49	-2.6	-1	9	15	9
Yields and Spreads					bps		
US 10y Yield		0.86	1.8	-2	-2	-92	-106
Germany 10y Yield		-0.57	0.6	0	6	-21	-38
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.5	0.3	1	4	-5	-8
Dollar index, (+) = $ appreciation		91.8	-0.1	-1	-2	-7	-5
Brent Crude Oil ($/barrel)		47.8	-0.2	0	28	-23	-28
VIX Index (%, change in pp)		20.2	-0.4	-2	-18	8	6

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

United States

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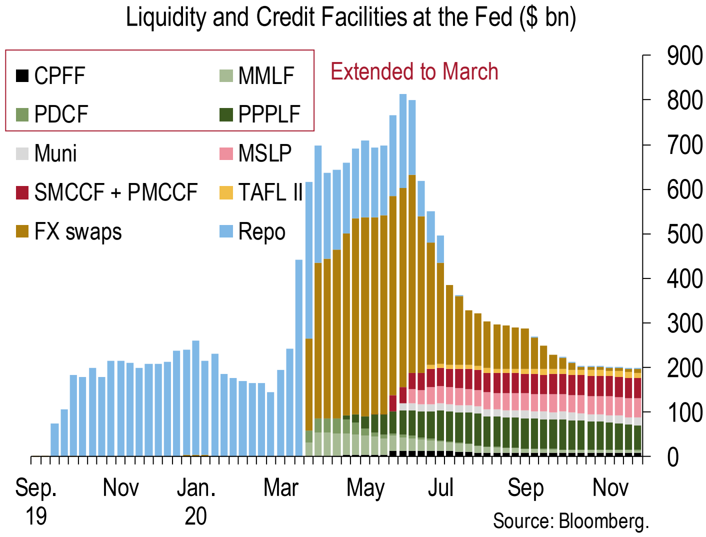
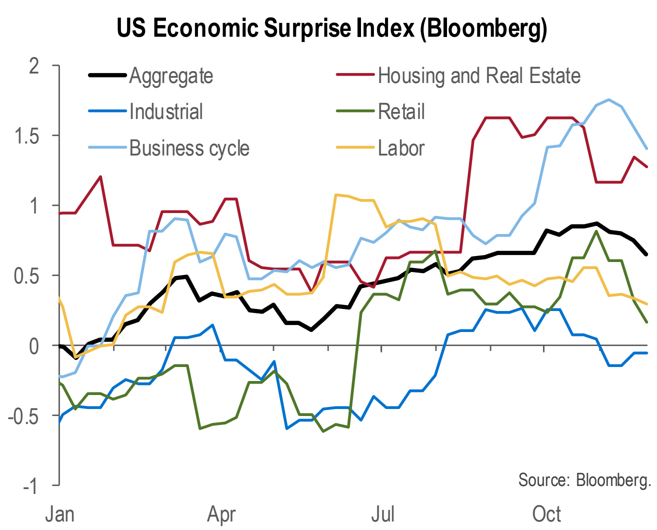
Stocks closed the month on a weaker note as investors reassess the prospects for risk assets following an impressive November rally. Small cap and cyclicals underperformed, led by energy (-4%), while IT managed to eke out a small gain, which helped the NASDAQ reach a new intraday record. Treasuries were little changed.

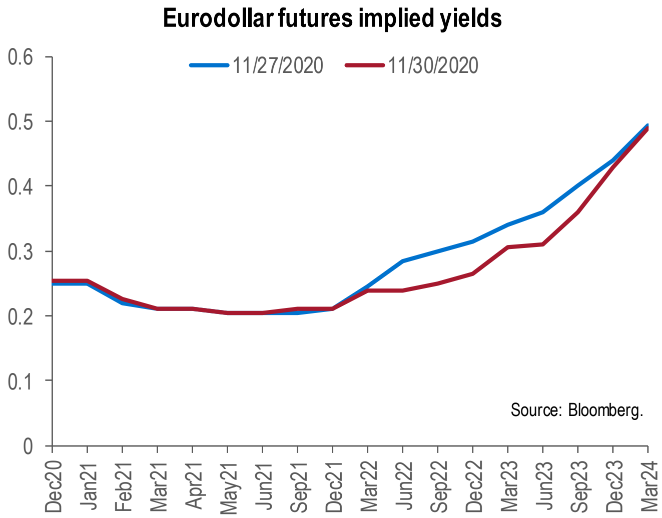
The Fed announced the extension of four of its emergency liquidity and credit facilities through March 2021. The extension applies to the Paycheck Protection Program Liquidity Facility as well as three other lending facilities related to the commercial paper market, money market funds and primary dealers. The corporate credit, municipal and main street lending facilities will not be expanded after Dec 31.



The economic impact from the COVID-19 second wave seems to be larger than expected, as high frequency indicators have started to show more downside surprises. Indeed, today's macro data came in weaker than expected. The drop in the Chicago PMI (-1.9 pts to 58.2 vs 59 expected) and the Dallas Fed manufacturing index (-7.8 pts to 12 vs 14.3 expected) were both weaker than expected, while pending home sales unexpectedly fell 1.1% m/m in October. The survey (ISM and PMI) and payroll reports later this week should give more clarity on the strength of the economic rebound going forward.

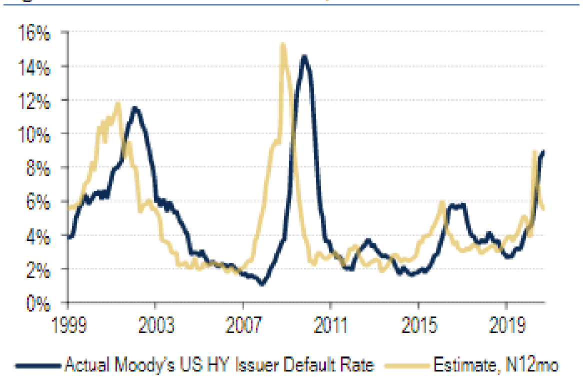


Regulators are considering delaying the retirement date for key tenors of the USD Libor by 18 months to mid-2023. The delay applies to the overnight, 1-, 3-, 6- and 12-month tenors, while the 1-week and 2-month tenors will be retired by end-2021 as originally planned. Nevertheless, regulators continue to push banks to complete the transition "as soon as practicable" and emphasize that writing new USD Libor contracts after 2021 would create safety and soundness risks. Market speculation had grown in recent months around a potential delay in the transition process after efforts were disrupted by the COVID-19 crisis. Meanwhile, waiting until June 2023 would allow most legacy contracts to expire and avoid having to move them to a new benchmark. **Eurodollar futures expiring after 2021 rallied following the announcement as trading volume jumped.**



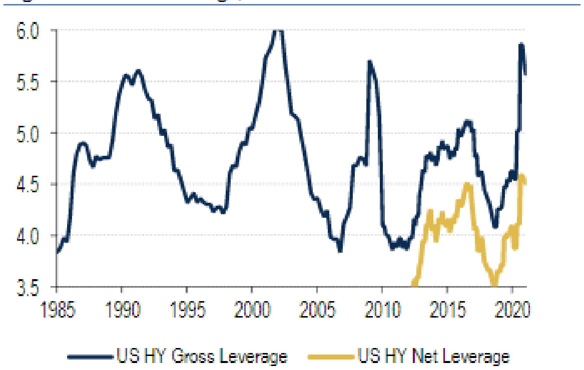
HY default is expected to normalize to mid-single digit next year on improving earnings and debt dynamics. Earnings are already on the recovery path after bottoming in Q2, though total corporate earnings are still expected to remain below their pre-COVID level next year. According to analysts, the growth in debt has peaked at around 14% y/y in early Q2, after firms rushed to increase their cash buffers. Since then, debt growth has normalized to 9% y/y, with ongoing heavy gross issuance volume in Q3 mostly used for refinancing purposes. Consequently, net debt issuance is expected to contract significantly next year. That being said, the stock of debt remains high and earnings have yet to fully recover to their pre-pandemic levels, which means that high leverage will likely continue to be a risk factor in the near-term.

Figure 13: US HY issuer default rate, actual vs estimate



Source: BofA Global Research

Figure 12: US HY leverage, total and net debt vs l12mo EBITDA



Source: BofA Global Research

Europe

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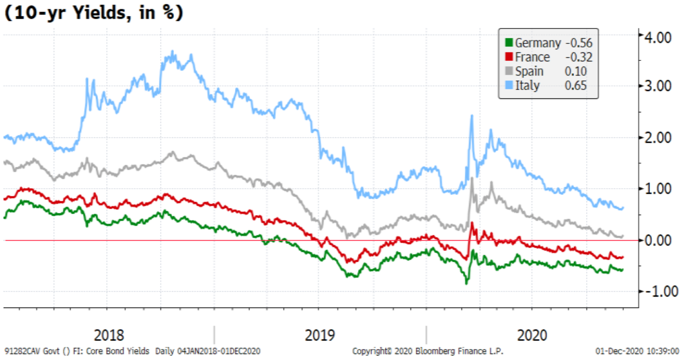
Equity markets continued to advance this morning on vaccine hopes and improving data out of China. DAX (+0.9%), CAC 40 (+1.0%), EuroStoxx 600 (+0.8%), Italy's Titans 30 (+0.4%), and Spanish Ibex (+1.0%). Bank stocks (+2.2%) outperformed, with broad-based gains across countries. Unicredit (-6.1%) bucked the upward trend, as CEO Mustier will depart early next year. Stocks of Monte dei Paschi (+5.2%) surged on prospects that Mustier's departure may open the way for its acquisition by Unicredit.

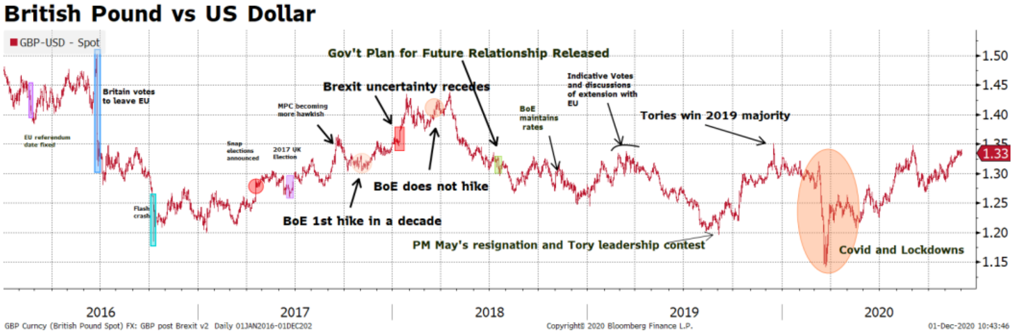
Sovereign bond yields inched up across Europe. German 10-year yields at -0.55% (+1 bps); French OATs at -0.31% (+1 bps); Italian at 0.65% (+3 bps); and Spanish at 0.10% (+2 bps).

Selected Government Bond Yields
(10-yr Yields, in %)



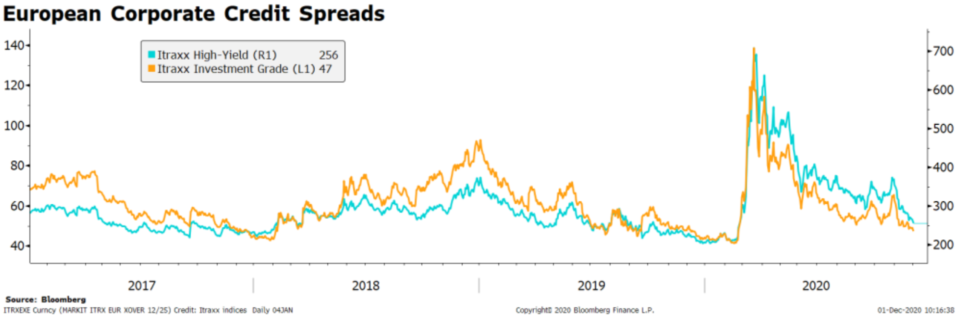
UK assets continue to trade in line with European peers even ahead of the Brexit deadline: the yield on 10-year gilts stood at 0.30% (unch), while the FTSE 100 and FTSE 250 gained 1.9% and 1.0%, respectively. The pound appreciated to the dollar by 0.2%, reaching $1.34.

British Pound vs US Dollar



In credit markets, **corporate spreads continued to tighten**, with the high-yield index reaching 256 bps and the investment grade gauge at 47 bps.

European Corporate Credit Spreads



Other Markets

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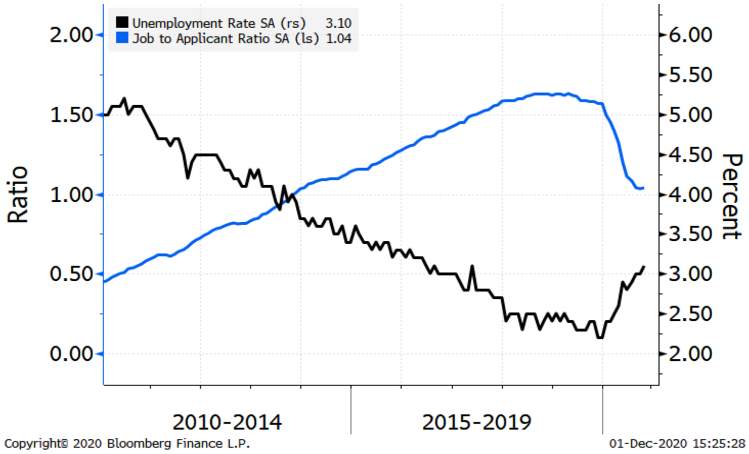
Japan

The job markets showed some signs of stabilization, but business investment remained weak. The unemployment rate increased to 3.1% in October, as expected, from 3.0% in September. The job-to-applicant ratio rose for the first time since December 2019. Capital spending fell 10.6% y/y in 2020Q3, less than expected, compared to a 11.3% y/y decline in the previous quarter. Business investment, a key driver of growth in recent years, continues to lag consumer spending and exports during the ongoing recovery. The manufacturing PMI improved but remained contractionary. PMI increased to 49.0 in November from 48.3 in October. Equities gained (NIKKEI: +1.3%) on the day.

Jobless Rate and Job-to-Applicant Ratio

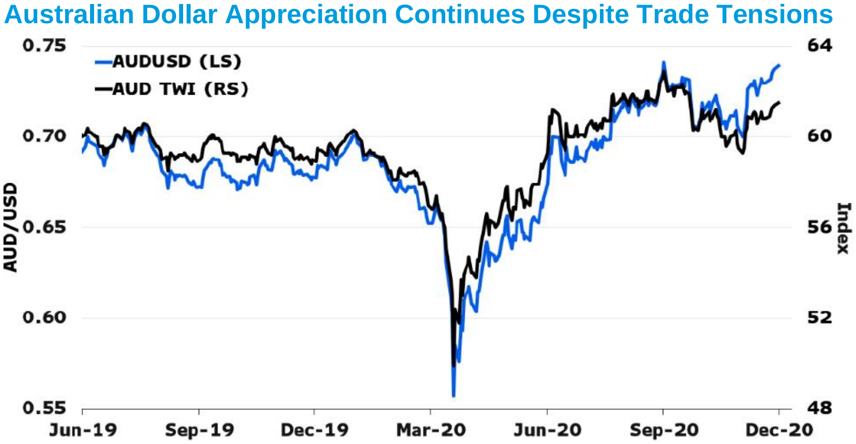


Source: Bloomberg.

Australia

The Reserve Bank of Australia (RBA) has maintained its current policy stance. The cash rate remains at 0.1%, and the 3-year bond yield target stays at 0.1%. Governor Philip Lowe said that the RBA does not plan to raise the cash rate until inflation is sustainable within the 2%-3% target range. The RBA thus does not expect to raise the cash rate over the next three years and shall be ready to expand the QE program should it be needed. Equities gained (+1.1%), government bond yields rose slightly (10-year: 2.7 bps; 30-year: +2.5 bps) and the Australian dollar appreciated marginally again the greenback (+0.1%). It is notable that the Australian dollar has appreciated significantly against the US dollar over the past month (+5%) despite growing trade tensions with China.

Australian Dollar Appreciation Continues Despite Trade Tensions



Source: Bloomberg.

Emerging Markets

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In **Asia,** stock markets advanced today, led by Philippine (+3.2%), Malaysian (+2.2%) and Chinese (CSI 300: +2.2%) equities. Most Asian currencies appreciated against the US dollar, led by the Indian rupee (+0.5%) and the Chinese yuan (onshore: +0.1%; offshore: +0.3%). Overall, the market rally was driven by vaccine optimism and mostly strong manufacturing data across the region. In addition to the decade high print in China (Caixin PMI), November manufacturing PMIs were expansionary in India (56.3), Indonesia (50.6) and Thailand (50.4), and improving in the Philippines (49.9). In India, the strong rupee benefited from large inflows into equities and limited FX purchases by banks. Government bond yields also declined (10-year: -8 bps).

In **Latin America**, regional currencies were generally weaker yesterday in line with broader risk backdrop. The Chilean peso and the Peruvian Sol ended mostly flat on the day as strong copper performance helped offset the regional currency weakness against the dollar. The Mexican peso underperformed depreciating by 0.6% despite no major local headlines. It is notable that the peso has been among the top performers during the recent vaccine driven rally, appreciating by 5.7% over the last month. The Brazilian real remains the top EM performer appreciating by 7.6% over the last month. On Monday, the central bank increased the size of its of FX swap auctions. The increase in size was seen as strong signal that BCB will continue to adjust the size of its auctions in order to curb any outflow pressure due to year-end hedging adjustments by locals.

In **EMEA,** equities were mostly trading higher with stocks up in Turkey (+1.6%), Russia (+1.1%) and Poland (+0.9%). EMEA currencies were also mostly stronger against the US dollar, with the South African rand outperforming (+1.0%). The Turkish lira, however, has underperformed its peers (-0.4%).

Key Emerging Market Financial Indicators

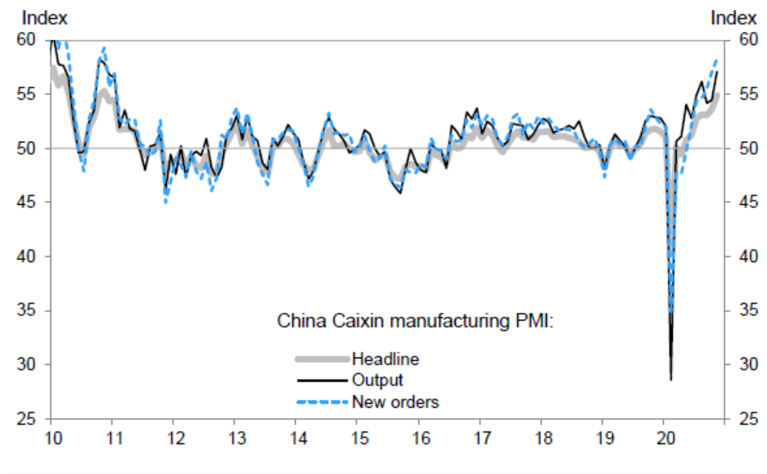
Last updated:	Level		Change				
12/1/20 8:30 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		48.73	1.6	-1	9	15	9
MSCI Frontier Equities		27.20	-3.4	-2	4	-7	-10
EM FX vs. USD		56.53	0.3	1	4	-5	-8
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.57	0.1	0	2	7	6
Indonesian Rupiah		14130	-0.1	0	4	0	-2
Indian Rupee		73.67	0.5	0	1	-3	-3
Argentine Peso		81.46	-0.2	-1	-3	-26	-27
Brazil Real		5.30	1.0	1	8	-20	-24
Mexican Peso		20.07	0.5	0	6	-2	-6
Russian Ruble		75.78	0.8	0	6	-15	-18
South African Rand		15.32	1.0	-1	6	-5	-9
Turkish Lira		7.87	-0.6	2	7	-27	-24
EM FX volatility		10.05	0.0	-0.2	-1.6	3.2	3.5

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

China

A decade high Caixin manufacturing PMI signaled a continued, strong recovery. The Caixin PMI increased to 54.9 in November from 53.6 in October, beating expectations of 53.5. The official and Caixin PMIs pointed to a similar message of strong economic activity. As the Caixin survey is tilted towards private, export-oriented enterprises, the November reading suggests a continuation of solid export performance.

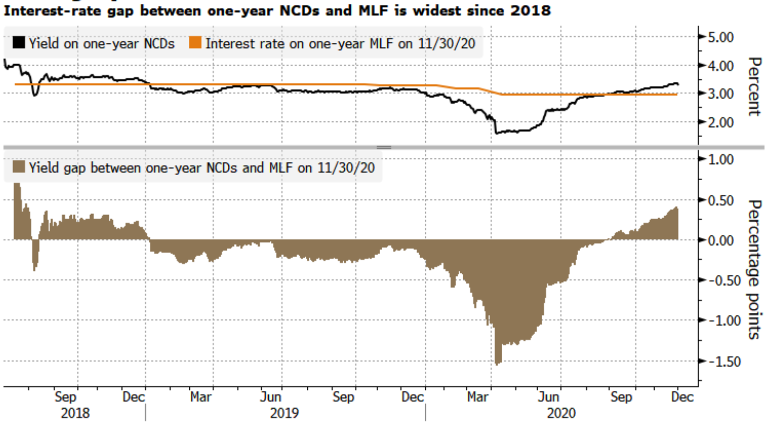
Caixin manufacturing PMIs rose to a ten-year high in November



Source: Caixin

Smaller Chinese banks find it increasingly difficult to borrow from each other. The cost of issuing a 1-year negotiable certificate of deposit (NCD) has risen above the People's Bank of China's medium-term lending rate. The current gap reached 40 bps, the widest since July 2018. Additional pressures increased after a wave of corporate bond defaults in November. Concerns have risen as some of the smaller banks reportedly have sizeable exposure to defaulted issuers.

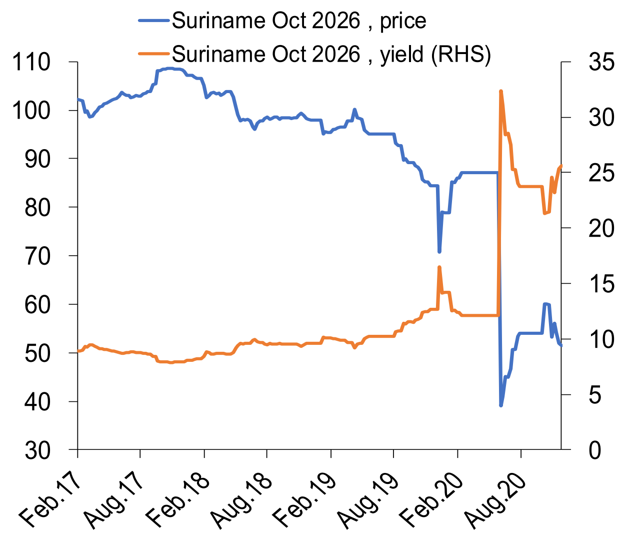
Funding Squeeze
Interest-rate gap between one-year NCDs and MLF is widest since 2018



Source: Bloomberg, CFETS, PBOC
CY41BM1Y Index (CFETS NCD AAA YTM Curve 1 Year) NCD Daily 01JUL2018-01DEC2020 Copyright® 2020 Bloomberg Finance L.P. 01-Dec-2020 16:43:32

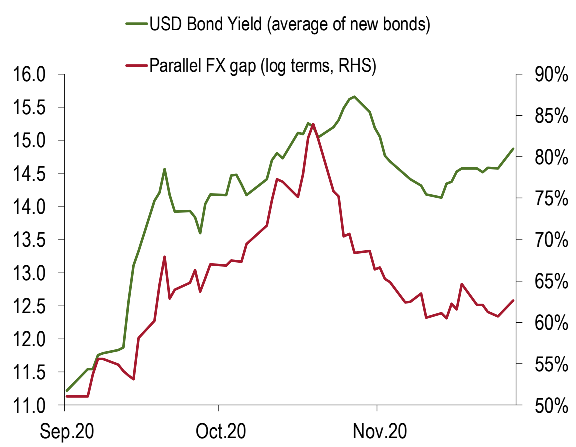
Suriname

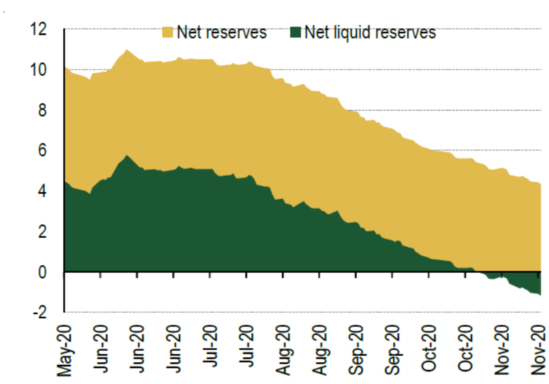
A creditor committee representing holders of Suriname's two external bonds said it backed a government request to delay debt payments. After missing its last coupon payment on October 26, the authorities submitted a consent solicitation aiming to defer all the payments on their $ 675 mn of bonds in order to "provide the necessary breathing space for the country to adopt and start implementing the required measures to stabilize the macro-framework while working towards an agreement with the IMF on a funded program". An official deal is expected later this week according to Bloomberg. The 2026 bond has declined by over 35 points since May 2020 and is trading at around 50 cents on the dollar.



Argentina

Asset prices have bounced off their lows in October but continue to trade at highly distressed levels. The parallel exchange rate has appreciated to around 150 against the dollar (implying a 60% gap compared to the official rate), after depreciating to an all-time of over 190 in October. The average yield on the new global USD bonds has declined by around 60bps to 15% over the last few weeks. Analysts highlight that recent policy initiatives have been a positive shift compared to the measures taken in September which were received negatively by the markets and led to a large selloff in September/October. Among others, the new measures have included tax cuts to exporters, rate hikes, higher supply of USD-hedges (e.g. issuance of USD-linked debt, NDF hedges), a reduction in monetary financing as well as initial efforts towards a new EFF with IMF in the first half of 2021. Some analysts however are more skeptical and describe the recent initiatives as "piecemeal pragmatism". Despite the recent reduction in USD bond yields, bond prices continue to trade at deeply distressed levels of around 40 cents on the dollar, reserves have continued to decline (albeit at a slower space) and the 2021 budget was seen by some analysts as inconsistent with a stabilization in the FX market. Additionally, some analysts highlight that the margin of flexibility for policymakers in terms of taking measures that restore a fiscal anchor and limit the peso supply will continue to decline as the election cycle approaches in October 2021.



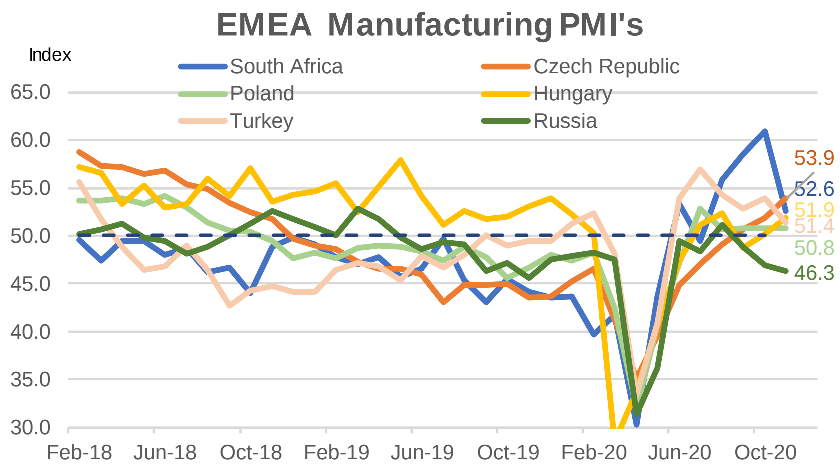


Source: BofA Global Research, Bloomberg

Source: Bloomberg

EMEA

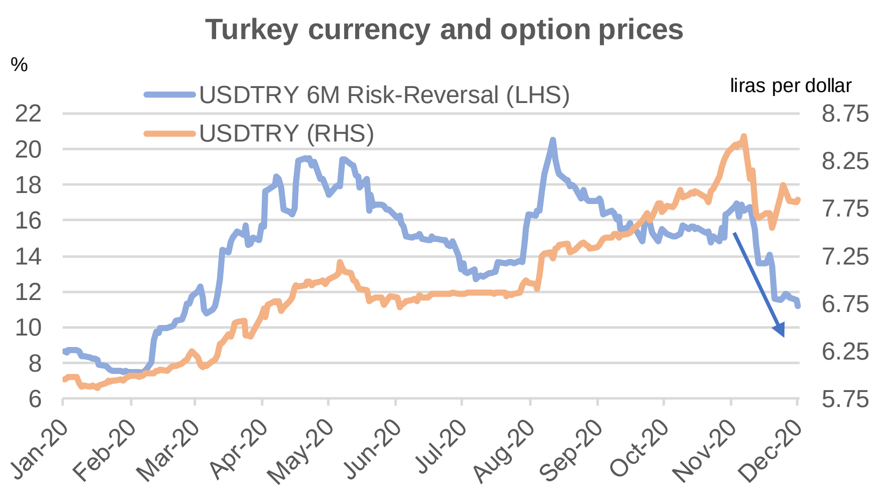
Manufacturing PMI's remained mostly in expansion mode in November. The preliminary release suggests that activity picked up in the CEE with the Czech Republic and Hungary posting slightly higher readings as new orders increased. Poland's PMI held at 50.8 even as firms noted supply-chain problems due to the second Covid-19 wave. On the other hand, growth momentum slowed down in Turkey and, more visibly, in South Africa where the PMI reading came in at 52.6 against an expected 60. Russia remained an outlier with activity contracting for the third consecutive month even as export orders increased.



Source: Bloomberg, IMF

Turkey

Investors are increasing bullish positions on the Turkish lira through the options market. Contacts note that there has been a jump in activity in the options market as investors are buying currency options that would benefit from an appreciation in the Turkish lira. At this stage this is preferred method by most investors to place bullish bets on the currency as the volatility in the exchange rate remains elevated while market participants continue to be cautious about further depreciation pressures, even as the Central Bank of Turkey normalizes its monetary policy. Such activity is supported by improved liquidity in the offshore funding market as well as an increase in market making by local banks who are willing to take the other side of the options trades. While the Turkish lira has remained volatile with daily realized moves of around 2%, the price of options on lira depreciation (put options) has actually decreased as the price of options on lira appreciation (call options) has increased over the last few days as seen from risk reversal spreads.



Source: Bloomberg, IMF

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Global Financial Indicators

Last updated: 12/1/20 8:29 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3632	-0.5	2	11	16	12
Europe		3524	0.9	0	19	-5	-6
Japan		26788	1.3	2	17	15	13
China		3452	1.8	1	7	20	13
Asia Ex Japan		85	-2.7	-1	8	22	16
Emerging Markets		49	-2.6	-1	9	15	9
Interest Rates			basis points				
US 10y Yield		0.86	2.0	-2	-2	-92	-106
Germany 10y Yield		-0.56	0.7	0	6	-20	-38
Japan 10y Yield		0.02	-1.2	-1	-2	9	3
UK 10y Yield		0.31	0.2	-2	5	-39	-52
Credit Spreads			basis points				
US Investment Grade		105	-0.6	-3	-22	-11	7
US High Yield		433	-1.3	-2	-98	-32	39
Europe IG		47	-1.6	-1	-15	-2	3
Europe HY		255	-10.1	-8	-100	30	48
Exchange Rates			%				
USD/Majors		91.79	-0.1	-1	-2	-7	-5
EUR/USD		1.20	0.5	1	3	8	7
USD/JPY		104.3	0.0	0	0	4	4
EM/USD		56.5	0.3	1	4	-5	-8
Commodities			%				
Brent Crude Oil ($/barrel)		48	-0.1	0	28	-23	-28
Industrials Metals (index)		134	1.0	4	12	20	17
Agriculture (index)		44	0.4	-1	6	11	6
Implied Volatility			%				
VIX Index (%, change in pp)		20.2	-0.3	-2.4	-17.8	7.6	6.5
US 10y Swaption Volatility		50.7	-2.0	-3.5	-27.0	-12.1	-11.3
Global FX Volatility		7.7	0.0	0.1	-1.2	1.8	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		120	-1.3	-4	-38	-61	-46
Italy		121	0.8	3	-18	-39	-39
Portugal		62	1.1	2	-12	-14	-1
Spain		66	0.8	2	-10	-12	1

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

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Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
12/1/2020	Level		Change (in %)					Level		Change (in basis points)				
8:31 AM	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		6.57	0.1	0.3	2	7	6		3.4	-1.4	-3	7	18	26
Indonesia		14130	-0.1	0.2	4	0	-2		6.2	-1.9	-6	-39	-98	-90
India		74	0.5	0.5	1	-3	-3		6.0	0.0	-2	-6	-84	-91
Philippines		48	0.1	0.2	1	6	5		3.7	-0.1	0	6	-65	-65
Thailand		30	0.0	0.3	3	0	-1		1.4	-1.5	0	-2	-26	-16
Malaysia		4.08	-0.1	0.2	2	2	0		2.7	3.6	14	22	-70	-66
Argentina		81	-0.2	-0.9	-3	-26	-27		53.7	14.8	52	327	-3468	-894
Brazil		5.30	1.1	1.4	8	-20	-24		6.5	8.0	-22	3	29	27
Chile		761	0.8	1.5	1	6	-1		2.8	1.5	7	11	-59	-46
Colombia		3601	0.3	1.2	8	-3	-9		5.2	2.1	4	-22	-95	-78
Mexico		20.07	0.5	-0.2	6	-2	-6		5.9	-3.7	-7	-34	-127	-108
Peru		3.6	-0.1	-0.1	0	-6	-8		3.9	0.6	-5	-24	-73	-64
Uruguay		43	0.2	0.3	1	-11	-12		7.5	6.7	10	-7	-375	-338
Hungary		298	0.8	1.7	6	1	-1		1.6	0.1	1	-15	50	43
Poland		3.74	0.5	0.4	6	4	2		0.6	-0.7	0	1	-116	-126
Romania		4.1	0.5	0.8	3	6	5		2.9	0.0	3	-16	-119	-109
Russia		75.8	0.8	-0.4	6	-15	-18		5.6	1.2	3	-22	-70	-55
South Africa		15.3	1.0	-0.8	6	-5	-9		9.9	3.1	9	-35	21	38
Turkey		7.87	-0.6	1.6	7	-27	-24		12.4	-1.1	13	-188	37	70
US (DXY; 5y UST)		92	-0.1	-0.8	-2	-7	-5		0.37	1.0	-3	-1	-126	-132

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5067	2.2	2	8	32	24		205	-1	-10	-6	23	29
Indonesia		5725	2.0	0	12	-5	-9		189	-2	-2	-26	11	33
India		44655	1.1	1	13	9	8		163	-1	-9	-46	36	38
Philippines		7010	3.2	-2	11	-9	-10		113	-2	2	-10	29	47
Malaysia		1602	2.5	2	9	3	1		123	-1	-5	-29	2	11
Argentina		54573	-1.5	6	20	58	31		1407	-7	38	-74	-866	-362
Brazil		110453	-1.5	1	18	2	-4		265	-3	1	-45	27	50
Chile		4084	-2.0	-3	15	-10	-13		155	-3	3	-21	5	22
Colombia		1258	-0.3	-1	11	-22	-24		224	-4	6	-20	36	61
Mexico		41779	0.3	-1	13	-2	-4		424	-6	1	-51	104	132
Peru		19797	1.0	5	13	-1	-4		158	-3	6	9	31	51
Hungary		38964	0.5	0	21	-11	-15		104	-2	1	-1	4	18
Poland		52941	0.6	-1	20	-8	-8		8	-1	0	-6	-18	-10
Romania		9286	0.0	2	9	-6	-7		211	0	3	-30	17	37
Russia		3143	1.2	2	17	7	3		179	-3	1	-22	20	48
South Africa		57425	0.6	-1	11	4	1		417	-2	-1	-60	66	97
Turkey		1308	1.9	-1	18	22	14		504	-3	-3	-136	65	103
Ukraine		508	0.0	1	1	-1	0		525	-10	-1	-157	30	105

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

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