



- Turkish lira gains as central bank intervenes in volatile trading ([link](#))
- UK house prices continue to increase ([link](#))
- Japan expands travel ban to cover foreign resident re-entries ([link](#))
- US high yield bonds post biggest monthly loss in a year ([link](#))
- [EM Bond Holdings Monitor](#) (attached)

[Mature Markets](#)

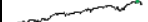



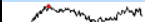
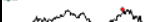

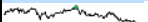



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## “Powell Pivot” roils markets further

**Market volatility continues as investors react to a hawkish “Powell Pivot” on top of the developing Omicron situation.** Stocks and oil are rebounding this morning after slumping sharply yesterday, while government bond yields are once again climbing in line with policy rate hike expectations in the large advanced economies. Yesterday, risk assets broadly sold off following Fed Chair Powell comments that it was time to retire the word “transitory” in regard to inflation amid broadening and “high” price pressures, and that a faster pace of tapering – widely seen as a precondition for earlier rate hikes – would be appropriate. Investors expressed surprise at the timing of Powell’s remarks, given the still-unknown implications of the Omicron variant for growth, which reinforced the hawkish nature of the shift. On the Omicron front, BioNTech’s chief suggested vaccines would still be effective in preventing severe illness, contradicting comments yesterday from Moderna’s boss. The news underscored the difficulty in drawing firm conclusions about the human and economic implications of the new variant at this early stage.

Key Global Financial Indicators

Last updated: 12/1/21 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4567	-1.9	-2	-1	25	22
Eurostoxx 50		4148	2.1	-3	-3	18	17
Nikkei 225		27936	0.4	-5	-5	4	2
MSCI EM		49	-0.1	-3	-5	-2	-5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.47	3.1	-16	-8	55	56
Germany 10y Yield		-0.33	1.9	-10	-23	20	24
EMBIG Sovereign Spread		390	4	27	34	12	40
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		52.6	0.3	0	-4	-7	-9
Dollar index, (+) = \$ appreciation		96.0	0.0	-1	2	5	7
Brent Crude Oil (\$/barrel)		72.4	4.6	-12	-14	53	40
VIX Index (% change in pp)		23.6	-3.6	4	7	3	1

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

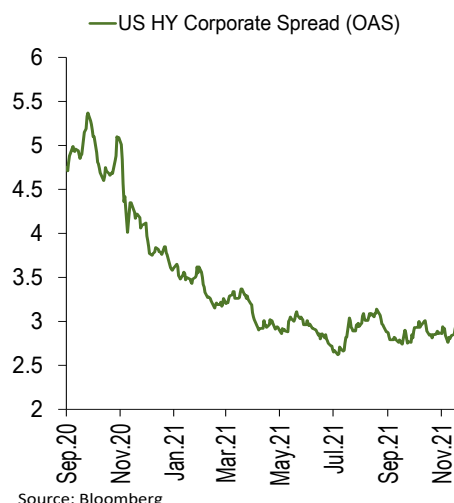
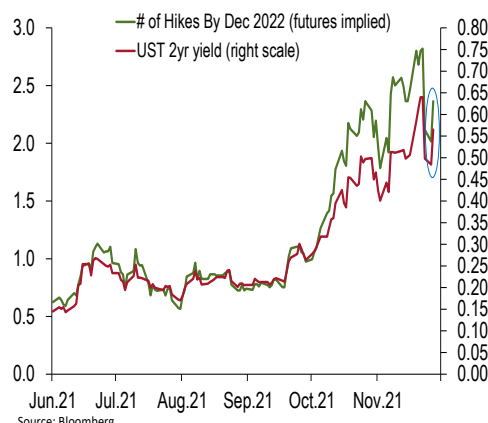
## Mature Markets

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### United States

**US markets were rattled by hawkish Powell comments, with equities down 1.9% in a broad-based sell off.** Market action on Tuesday was driven by Chairman Powell's Senate testimony, where he stated it was time to retire the word "transitory" in regards to inflation as price increases have spread more broadly. The S&P 500 fell 1.9%, with 99% of the index in the red. Powell also noted that the Omicron variant increases uncertainty surrounding inflation and raises upside risks to supply chain-driven pressures. Notably, **Powell stated that it may be appropriate to consider accelerating the pace of tapering** and end the process a few months earlier, potentially clearing the way for earlier rate hikes. Most contacts highlighted the view that the Fed now views upside risks to inflation as outweighing any downside risks to employment, and upcoming inflation prints could become more important for the policy outlook.

**The Treasury curve flattened sharply, with the 2-10y spread (-14 bps) the lowest since January** and the 5-30y spread (-7 bps) back near 2021 lows from last week. Yields bounced around, with the 2-year up 13 bps from intraday lows, before closing the day 7 bps higher from Tuesday, while the 10- and 30-year yields were 6 bps lower. **Futures markets took a more hawkish view of Fed hikes in 2022, though expectations remain more dovish than pre-Omicron levels.** Market pricing now has a July hike as significantly more likely compared to Monday.



**US high yield bonds post their biggest monthly loss in over a year, with spreads widening by close to 50 bps in November.** The US high yield corporate bond index has fallen close to 1% (total return basis) in November, the worst since September 2020. Spreads have widened on Omicron fears and a more hawkish Fed amid elevated supply.

### Europe

**European equities were roughly 1% higher on average this morning**, with the STOXX 600 index up by 1.1%. That said, STOXX 600 was down by roughly 2.2% month-to-date with relatively broad-based losses, led by the travel and leisure (-19%) sector. This morning the travel and leisure sector (+2.8%) outperformed as airline stocks rebounded.

**The euro was trading weaker against the dollar (-0.2%) this morning and 10-year bund yields were up +5 bps at -0.3%.** Southern European spreads were generally higher with Italy unperforming as **money markets revised their interest rate expectations – now again pricing 10bps of tightening in December 2022.** Greek spreads fell by 2bps. According to Bloomberg reports, **Citigroup strategists expect the daily average pace of ECB Pandemic Emergency Purchase Programme (PEPP) and Asset Purchase Programme (APP) to increase further in the coming weeks**, ahead of an expected pause around mid-December. Bloomberg Economics sees monthly bond buying through PEPP to be tapered by

15bn euros per month in 1Q22 and ended in March, and acquisitions through the Asset Purchase Programme to double to 40bn euros for six months.

**Manufacturing data for Italy surprised on the upside (62.8) (consensus (61.1), while data in Spain (57.1) fell short of the expected 57.9.** Analysts at HSBC note that Italy's GDP is almost back at pre-pandemic levels while Spain's GDP remains roughly 7ppt below. Expectations are for Spain's GDP to increase to 5.6% in 2022 from 4.4% in 2021, supported by a rebound in services and tourism rebound. Preliminary November PMI readings for the eurozone and Germany was revised downwards to 58.4 and 57.4 respectively, from estimated 58.6 and 57.6. In a separate data release, **Germany's retail sales in October disappointed (-4.1%/y, consensus -1.7%/y from -0.7%).**

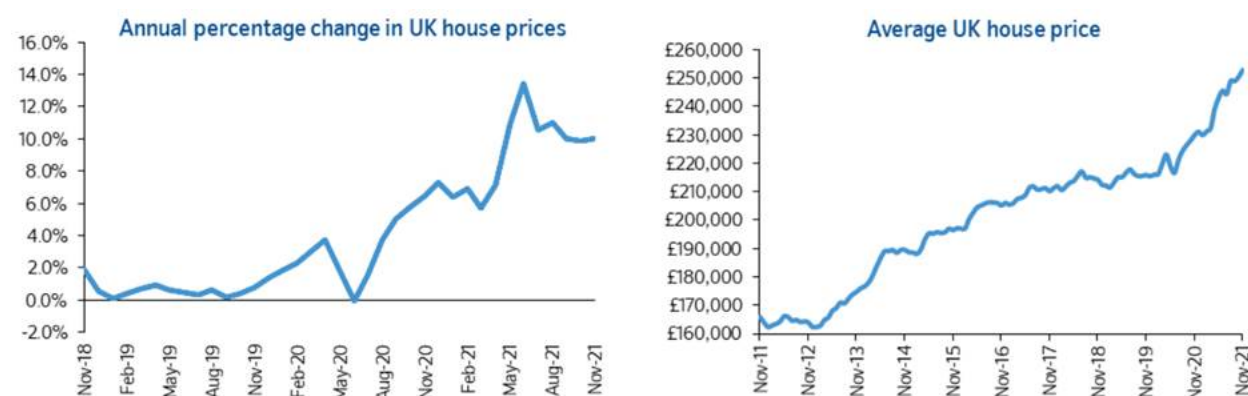
## Japan

**Japan bans foreign resident re-entries from 10 African countries.** The ban, which follows Japan's first detected Omicron variant case, will kick in Thursday. It comes as a step up from fresh foreigner entry restrictions effective only yesterday. **Japan's airlines suspended new inbound bookings for one month,** Bloomberg reports. Separately, **Bank of Japan (BOJ) may extend pandemic support.** BoJ Board member Adachi stated corporate funding may need help and reiterated that BOJ stands ready to add easing if needed. Some analysts took Adachi's comments as possible support for an extension to BOJ's special COVID assistance program currently set to expire in March 2022. **Equities firmed +0.4%, Japanese yen depreciated -0.2%, 10-year yields climbed up +1 bps.**

## United Kingdom

**The 10-year Gilt yield increased by roughly 9 bps since late afternoon trading yesterday on policy expectations and weak auction demand.** Following hawkish comments by Powell, money markets see an increased probability of a December interest rate hike by the BoE for the first time since last week, now pricing in an additional 1-2 bps of hikes. The demand in primary auctions faltered today with bid-to-cover at 2.23, the lowest since March 2020.

**UK house prices continue to climb despite the end of the tax cut on house purchases in October.** The nationwide house price index (+10%/y) increased more than expected (9.3%) in November. Analysts note that prices were supported by continued supply shortages, pandemic-driven demand for larger properties outside city centers, and low borrowing costs with the effective rate on new mortgage lending falling to a record-low 1.59% in October. Expectations remain that price increases will subside next year as incomes are squeezed amid higher inflation and prospects of higher interest rates. In a separate data release, UK November manufacturing PMI (58.1) was little changed from the estimated 58.2.



Source: November 2021 House Price Release Nationwide

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**Asian equities rebounded +1.1% on net** after three successive days of Omicron-spurred declines. Strongest gains were seen in South Korea (+2.1%) and Singapore (+1.9%), while the Philippines posted steep post-holiday losses (-3.5%) amid ongoing local COVID restrictions. **Asian currencies were mixed** but overall little changed, with the Korean won (+0.8%) standing out. **Most 10-year yields increased**, with the largest climbs seen in Hong Kong SAR (+3.4 bps) and Singapore (+3.2 bps). **Manufacturing PMIs firmed for most regions in November**. Exceptions include Indonesia (53.9, previous: 57.2) and China (Caixin 49.9, previous 50.6). An aggregate emerging Asia PMI rose to seven-month high amid intensifying cost pressures, according to Barclays analysts. Some analysts also noted persistent regional supply bottlenecks. In **Australia**, GDP declined less than expected in Q3 (-1.9% q/q, consensus: -2.7%). In **India**, GDP slightly beat estimates and firmed +8.4% y/y in Q3 (consensus 8.3%).

Fig. 2: Asia's suppliers' delivery times versus input price



Note: Data include countries listed in Fig 3 and are aggregated using simple average. . Data before 2015 includes all listed countries except for Philippines and Thailand. Source: IHS Markit, CEIC and Nomura Global Economics.

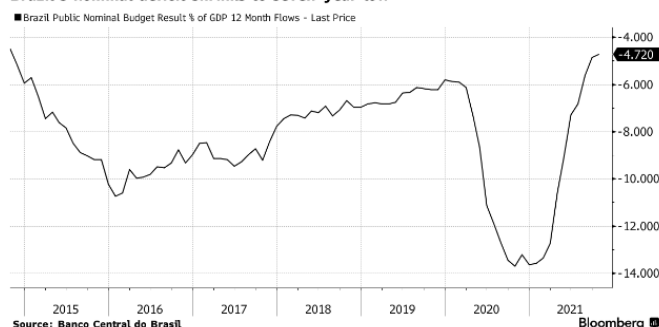
**In the EMEA region, equities and currencies traded with a positive tone.** Russian equities (+1.5%) outperformed and the ruble (+0.4%) edged higher as Brent oil prices (+4% to \$72/bbl) recovered. South African equities (+0.7%) and the rand (+0.4%) also gained as manufacturing PMI was much better than expected at 57 (53 expected).

**Latin American equity markets** were mixed on Tuesday. Colombia led the gains (+2.0%), while Chile (-1.6%) and Brazil (-0.9%) saw losses. Local currencies were broadly stronger. The Colombian peso outperformed (+1.8%), followed by the Chilean peso (+1.6%) and the Mexican peso (+1.0%). 10-year government bond yields dropped 25 bps in Brazil and 15 bps in Mexico.

### Brazil

**Brazil's budget gap narrowed to 4.72% of GDP, the lowest level in seven years.** On a monthly basis, the budget deficit in October printed at 25 bn reais (\$4.46 bn), the smallest number since April. Analysts commented that the narrowing fiscal gap would provide support to lawmakers seeking to pass the controversial proposal, which aims to loosen the spending cap and offer more financial aid. The Senate will vote on the proposal this week. In other news, **Brazil found two cases of the omicron variant in preliminary testing on Tuesday**, the first ones confirmed in Latin America. According to a press report, there will be further tests for confirmation. Brazilian risky assets saw losses yesterday, as the benchmark equity index fell 0.9% and the real slightly weakened.

**Narrowing Gap**  
Brazil's nominal deficit shrinks to seven-year low

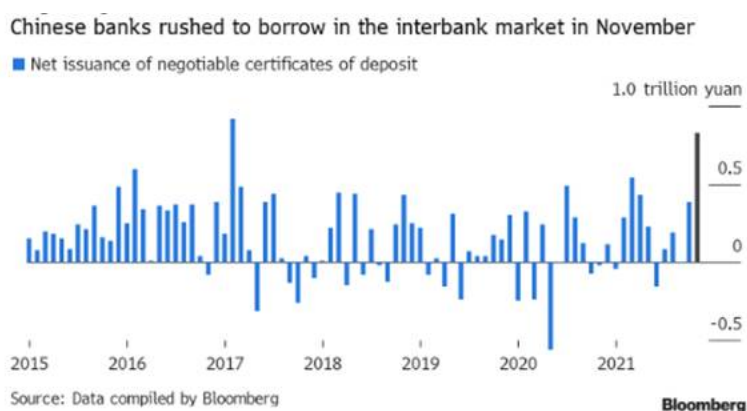


Source: Banco Central do Brasil

Bloomberg

## China

**Vice Premier Liu pledged more economic policy support for SMEs and expressed confidence in 2022 outlook.** Support for small and medium-sized and foreign-funded companies will be stepped up as the country pushes towards a “dual-circulation” model, while maintaining the continuity, stability, and sustainability of its macro policies. Separately, **Chinese banks boosted issuance of short-term debt in November.** Commercial banks issued net 831 bn yuan (\$130 bn) of negotiable certificates of deposits (NCDs) last month, the highest since February 2017, Bloomberg reports. The development follows recent calls by the People’s Bank of China (PBOC) for increased lending support to the economy. Meanwhile, **the slump in home sales deepened in November.** Contract sales by the country’s top 100 developers falling -38% y/y to 751 bn yuan (previous: -32%). On this background, bond sales by private developers hit the lowest in five years dropping to a combined 7.7 bn yuan in October-November. Local bond sales by state-owned builders, on the contrary, posted a sold a record 89.1 bn yuan last month, according to Bloomberg-compiled data. **Equities were up (Shanghai +0.4%, Shenzhen +0.2%), renminbi and 10-year yields were little changed.**



## Turkey

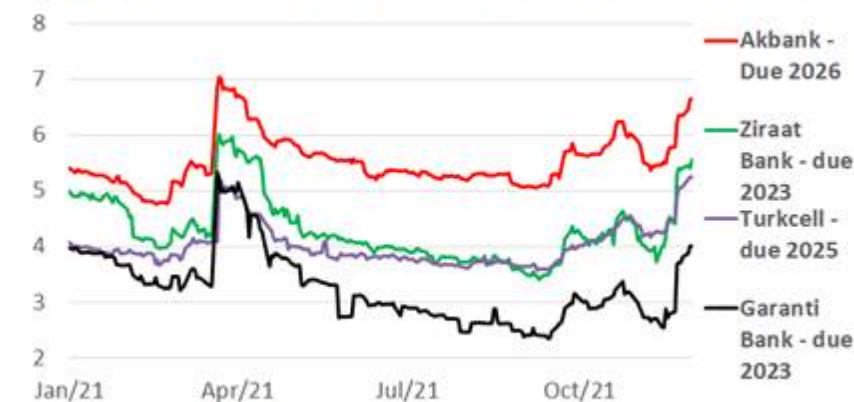
**The lira (+2% mid-session) remains volatile after appreciating as much as +8% against the U.S. dollar at some point this morning on reports of central bank intervention.** Yesterday, the currency fell as much as 9% during the session, approaching 14 liras per USD with contacts pointing to recent comments by President Erdogan that he will not support higher interest rates. **Today, the central bank reportedly intervened for the first time in 7 years given “unhealthy price formations” in the market. Contacts estimate that the central bank bought about USD 1 bn in support of the lira.** Today, President Erdogan said that the government is working against making Turkey a hot money heaven and that the country will never entrust its future to the IMF again. **CDS spreads rose 10 bps to 519 bps.**





**Yields on U.S. dollar bonds of Turkish banks and corporates are approaching or trading close to the highs of earlier this year** as investors try to gauge the balance sheet implication of a large currency depreciation.

**Turkey: Yields on U.S. dollar bonds of banks and corporate (%)**


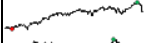









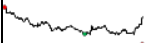



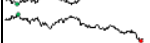
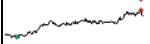





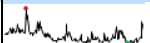


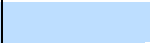




Source: Bloomberg and IMF

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## Global Financial Indicators

Last updated: 12/1/21 8:03 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
United States		4591	-1.9	-2	0	25	22
Europe		4148	2.1	-3	-3	18	17
Japan		27936	0.4	-5	-5	4	2
China		3577	0.4	0	2	4	3
Asia Ex Japan		83	-0.3	-3	-4	-3	-7
Emerging Markets		49	-0.1	-3	-5	-2	-5
Interest Rates							
			basis points				
US 10y Yield		1.47	3.1	-16	-8	55	56
Germany 10y Yield		-0.33	1.9	-10	-23	20	24
Japan 10y Yield		0.07	0.8	-2	-3	5	4
UK 10y Yield		0.85	4.2	-15	-21	50	65
Credit Spreads							
			basis points				
US Investment Grade		121	7.4	8	35	15	26
US High Yield		376	-10.4	23	59	-49	-4
Europe IG		56	-1.9	4	5	10	8
Europe HY		280	-8.6	16	17	28	37
Exchange Rates							
			%				
USD/Majors		95.98	0.0	-1	2	5	7
EUR/USD		1.13	-0.2	1	-3	-6	-7
USD/JPY		113.4	0.2	-2	-1	9	10
EM/USD		52.6	0.3	0	-4	-7	-9
Commodities							
			%				
Brent Crude Oil (\$/barrel)		72	4.6	-12	-14	53	40
Industrials Metals (index)		164	1.0	-2	-2	23	24
Agriculture (index)		59	0.8	-5	-1	37	23
Implied Volatility							
			%				
VIX Index (% change in pp)		23.6	-3.6	4.2	7.2	2.9	0.9
US 10y Swaption Volatility		86.0	-0.9	1.3	8.0	33.7	25.9
Global FX Volatility		8.2	0.0	0.2	1.1	0.5	0.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		159	-2.8	-1	15	40	39
Italy		134	1.8	3	2	13	22
Portugal		69	1.0	1	4	8	9
Spain		76	1.0	1	3	11	14

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

## Emerging Market Financial Indicators

Last updated: 12/1/2021 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M	YTD		
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.37	-0.1	0.4	0	3	2		3.0	2.2	0	-8	-24	-14		
Indonesia		14347	-0.1	-0.6	-1	-2	-2		6.2	4.7	10	5	-2	26		
India		75	0.3	-0.7	0	-2	-2		6.3	1.0	-13	-25	102	83		
Philippines		50	0.0	0.0	0	-5	-5		4.6	0.0	5	25	173	165		
Thailand		34	0.1	-1.0	-1	-10	-11		1.8	2.5	-6	-8	55	55		
Malaysia		4.22	-0.4	-0.2	-2	-3	-5		3.6	3.3	-1	-7	82	91		
Argentina		101	0.0	-0.4	-1	-19	-17		51.0	-3.6	25	58	-268	-516		
Brazil		5.61	0.2	-0.2	1	-7	-7		11.2	-25.6	-37	-116	270	385		
Chile		824	0.7	-1.1	-1	-8	-14		5.3	0.0	-15	-33	253	275		
Colombia		3980	0.5	0.1	-6	-11	-14		6.7	0.0	-13	24	256	274		
Mexico		21.27	0.8	0.7	-2	-6	-6		7.5	1.0	-26	-31	196	208		
Peru		4.1	-0.1	-1.4	-2	-11	-11		5.9	-1.0	-2	10	201	242		
Uruguay		44	-0.1	-0.1	0	-3	-4		8.9	2.8	27	62	143	167		
Hungary		321	0.1	2.4	-3	-8	-8		4.2	13.3	-5	41	268	269		
Poland		4.09	0.5	2.2	-3	-10	-9		3.0	13.0	-17	24	183	194		
Romania		4.4	-0.2	1.0	-3	-8	-9		5.1	0.7	12	58	217	234		
Russia		73.9	0.3	1.4	-3	3	0		8.7	1.9	-40	4	257	228		
South Africa		15.8	0.4	0.4	-2	-4	-7		7.7	-3.0	-9	-15	82	113		
Turkey		13.41	0.5	-10.9	-29	-42	-45		21.1	-8.0	10	141	880	822		
US (DXY; 5y UST)		96	0.0	-0.5	2	5	7		1.21	4.8	-13	3	79	85		

	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		4844	0.2	-1	0	-4	-7		198	2	3	-29	-31	
Indonesia		6508	-0.4	-3	0	12	9		183	28	5	-22	-17	
India		57685	1.1	-1	-4	29	21		140	9	9	-23	-11	
Philippines		6947	-3.5	-6	-2	-2	-3		121	23	9	0	9	
Malaysia		1497	-1.1	-2	-3	-6	-8		118	9	-6	-28	-17	
Argentina		79316	0.3	-5	-9	44	55		1903	117	205	503	547	
Brazil		101916	-0.9	-2	-3	-9	-14		346	22	11	69	87	
Chile		4428	-0.1	-4	8	8	6		150	17	-12	-18	-6	
Colombia		1374	2.0	3	-1	7	-4		353	37	51	117	138	
Mexico		49699	-0.2	-3	-4	16	13		371	32	23	-51	14	
Peru		20416	0.8	2	-2	1	-2		173	17	-4	3	44	
Hungary		51817	0.7	-1	-4	34	23		141	28	22	-6	-8	
Poland		68362	0.8	-1	-7	29	20		66	22	15	39	38	
Romania		12196	0.0	-3	-3	31	24		218	23	16	7	15	
Russia		3940	1.3	0	-7	25	20		180	9	21	-16	1	
South Africa		71049	0.8	1	5	24	20		394	33	33	-30	10	
Turkey		1852	2.4	2	21	40	25		561	38	57	53	114	
Ukraine		523	0.0	0	0	3	5		664	30	160	128	171	
EM total		49	1.5	-3	-5	-2	-5		415	28	34	51	76	

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

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