








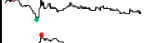

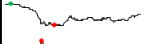


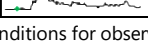
- ECB holds policy rates but expands bond buying program ([link](#))
- Spain joins the sub-zero-club issuing – 10-year bonds at a negative yield ([link](#))
- China to sanction US officials in retaliation for recent US measures ([link](#))
- Global net supply of equity has risen this year ([link](#))
- Brazil's central bank keeps policy rate unchanged ([link](#))

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## Stocks Trading with No Clear Direction as Market Uncertainty Rises

**Investor sentiment is weakened today by increased concerns about near-term risk factors.** US equity futures are pointing to a negative start as the lack of clear progress on a new fiscal stimulus bill is viewed against the release of weaker-than-expected initial jobless claims data this morning. Meanwhile, European stocks are trading laterally, as investors seem to be assessing the potential impact of the ECB Governing Council's decision to expand its bond buying program by €500 bn and extend it by an additional 9 months. The EUR has strengthened by about 0.5% against the USD and 1.1% against the GBP. The latter has been further weighed down by the absence of positive developments on a Brexit-deal following a high-level meeting yesterday. Asian equities are also trading on the weaker side, partly due to China's announcement of new sanctions on US officials. Meanwhile, the health crisis seems to show no signs of abating, with the US recording more than 3,000 COVID-19 related deaths yesterday, equivalent to about 125 deaths an hour. Moreover, a near record number of new cases in Germany has Chancellor Merkel calling for a tougher national lockdown.

Key Global Financial Indicators

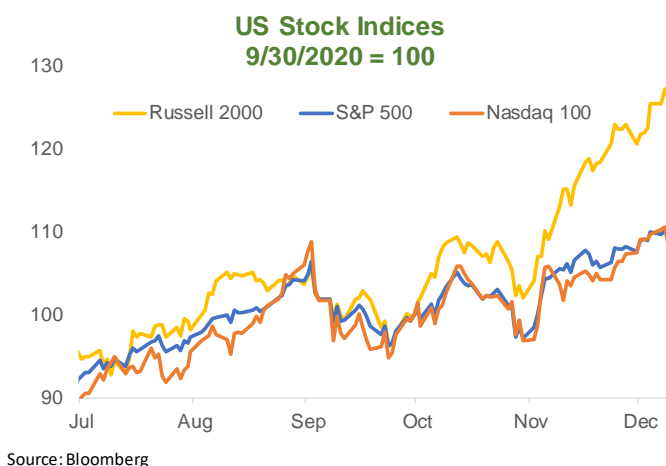
Last updated: 12/10/20 8:06 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	 3673	-0.8	0	4	17	14
Eurostoxx 50	 3529	0.0	0	3	-4	-6
Nikkei 225	 26756	-0.2	0	7	14	13
MSCI EM	 50	-0.9	1	6	18	12
<b>Yields and Spreads</b>		bps				
US 10y Yield	 0.93	-0.3	3	-3	-91	-98
Germany 10y Yield	 -0.60	0.8	-4	-11	-30	-41
EMBIG Sovereign Spread	 361	-2	-5	-12	47	72
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	 57.4	0.2	0	2	-5	-7
Dollar index, (+) = \$ appreciation	 91.0	-0.1	0	-2	-7	-6
Brent Crude Oil (\$/barrel)	 49.6	1.4	2	14	-23	-25
VIX Index (% change in pp)	 22.3	0.1	1	-2	7	9

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

## United States

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**Equities declined yesterday, almost erasing their gains over the week.** The sell-off was broad-based, led by large tech shares. Negative headlines on the tech sector included US antitrust officials suing Facebook for reportedly violating antitrust laws and JPMorgan analysts regarding Tesla shares as being 'dramatically' overvalued. The VIX was up by 1.3 pts to 22.0. Meanwhile, the Russell 2000, a small-cap stock market index, continued to outperform other indexes, likely driven by expectations of a rebound in earnings during 2021. The index's 12-month forward EPS has soared about 30% since the start of October, while the Nasdaq 100's earnings estimate has risen by only 5%. Analysts noted that relative valuations suggest small caps may be in the early days of outperformance.



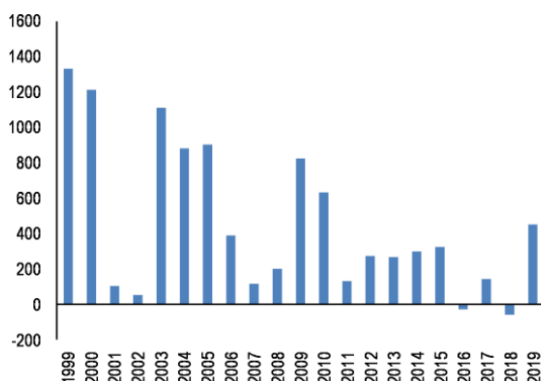
**Economic indicators were mixed this morning.** November headline CPI was higher than expected (0.2% m/m vs. consensus 0.1%). Ex-food and energy the series was also higher (0.2% vs. consensus 0.1%). Meanwhile, weekly initial jobless claims came in worse than expected (853k vs. consensus 725k) with more continuing claims than expected (5,757k vs. 5,210k). Financial markets' reaction to these headlines has so far been limited: equity futures and Treasury 10-year yields were generally unchanged. The dollar is trading about 0.3% weaker against the majors.

**Treasury 10-year yields rose by about 2 bps to 0.93%,** with bear-steepening in a less liquid market with relatively lower trading volume than typical Wednesday. The market digested 10-year \$38 bn auctions smoothly. The Democratic and Republican lawmakers working on a relief plan have not yet resolved the deadlock over a new fiscal stimulus package, with disagreements remaining over a number of thorny issues, including business liability protection and aid to state and local governments.

**Global net equity supply has slightly increased this year.** A proxy, the change in the free float of the worldwide equity universe as captured by tradable indices, suggests that global net equity supply has been close to \$500bn, only slightly above last year's supply, according to JPMorgan analysts. The increase in 2019-2020 came after the global equity supply had been close to zero or negative. Between 2016 and 2018, markets had seen an unprecedentedly low level of global equity supply due to weak IPO and equity-offering activity, coupled with more robust buyback activity, especially during the profit repatriation episode of 2018 ([link](#)). During 2019, markets saw a significant increase in equity supply due to an improvement in equity offerings, including IPOs, as well as a substantial downshift in share buyback activity in the US from the strong pace of 2018. This year's overall equity withdrawal has held up well, as a sharper decline in share buybacks was more than offset by stronger than expected M&A and LBO activity. Analysts predict further normalization in share buyback as well as LBO activity next year, which, along with a reduced need for equity offerings, should help global net equity supply return to the very low levels of 2016-2018. They expect a reduction in equity supply of around \$500bn from this year's pace.

Figure 6: Net equity supply globally

\$bn per year based on the expansion of the MSCI AC World. Adjusted for price and fx changes.



Source: MSCI, J.P. Morgan.

## Europe

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**The ECB's Governing Council kept rates on hold today, but expanded and extended its bond purchase program.** The announcement on the stimulus package came in at the dovish side of the market consensus range, with the size of the Pandemic Emergency Purchase Program increased by €500 bn to €1,850 bn and its duration extended by 9 months (at least until March 2022). The favorable terms on the targeted longer-term refinancing operations (TLTRO 3) were extended by 12-months while increasing the amount that banks can borrow under this operation. However, the recalibrated borrowing conditions are now tied to a new lending performance target. German bund yields increased by 3 bps and the euro appreciated by 0.3% following the announcement, suggesting that market may have been over-positioned for a dovish outcome.

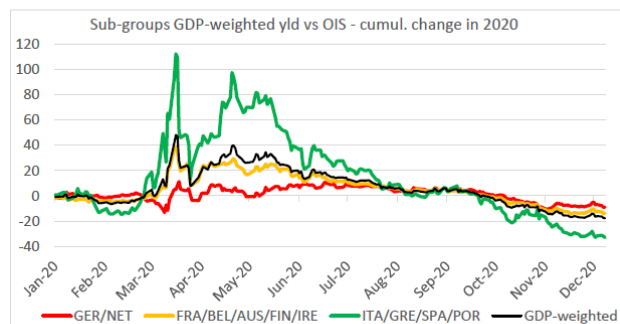
European equity indices were trading marginally higher except for the UK where the broader FTSE 250 index was down about 1%.



**European bond yields were trading mixed on the day following the ECB announcement. Earlier this morning, Spain, for the first time, issuing 10-year bond at a negative average yield of -2 bps.** Some market participants questioned whether these yield declines could be associated with increased purchases by the ECB ahead of the usual holiday break. Contacts generally think that we are close to the bottom of the cycle with Eurozone GDP-weighted yields starting to rise after the upcoming holidays. Given the support of the ECB and net supply dynamics, for 2021 most analysts expect further minor compression of Southern European spreads at the time of increasing German bund yields. That said, both dynamics are seen rather

contained given the assumption that the ECB will likely exercise an implicit yield curve control, according to analysts. Notably, parts of the euro interest rate options volatility surface have compressed to its lowest levels on record.

Figure 6: Subgroups spreads vs OIS - GDP-weighted - cumulative change in 2020



Source : Deutsche Bank, Bloomberg Financial LP

Figure 12: 10-year GDP weighted yield and quarterly 2021 forecasts

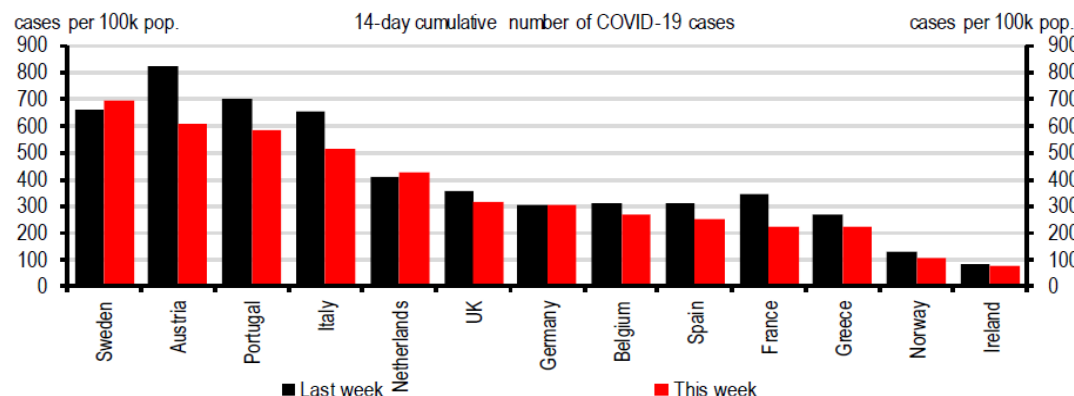


Source : Deutsche Bank

**The euro (+0.1%) was little changed while the sterling (-1%) depreciated** as markets are disappointed with the lack of progress during yesterday's dinner between UK's Prime Minister Johnson and EC's President von der Leyen. While a new deadline has been set for talks to conclude this coming Sunday at the latest, comments from both sides seem to suggest that talks could continue until 31<sup>st</sup> December final deadline. Both sides were also more downbeat on the prospects for a trade deal. **Some contacts are starting to worry about potential year-end liquidity implications with thin liquidity amplifying the market moves especially in case of a no-deal Brexit.** UK's broader FTSE 250 index has underperformed the European STOXX 600 benchmark by more 2.5% since the start of the week. Meanwhile, media reports suggest that fears of no-deal have already resulted in stockpiling by businesses with heavy cargo traffic build-up across both sides of the English Channel. Some manufacturers in the UK, including Honda, were forced to stop production due to supply chain disruptions.

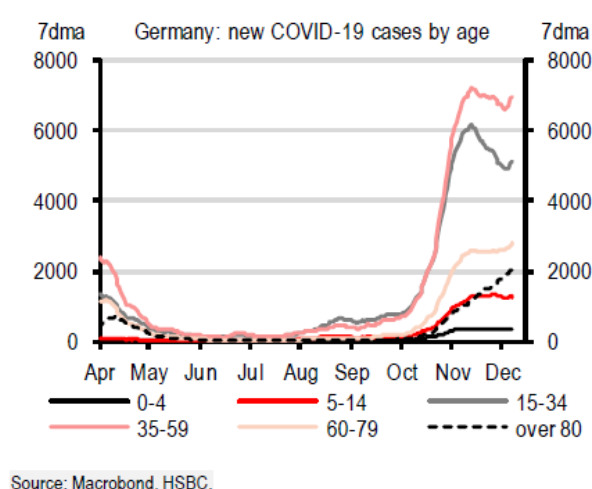
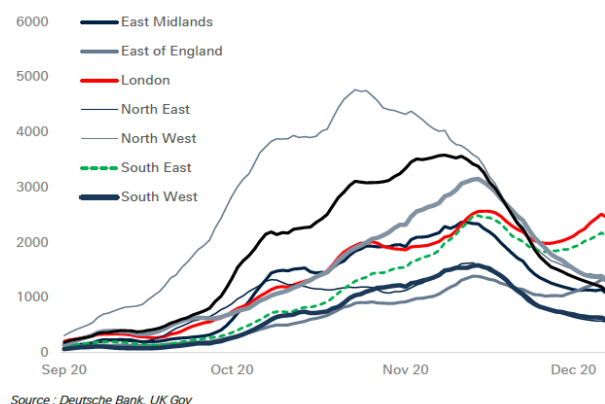
**While most of Europe sees a gradual decline in virus cases, Germany and parts of the UK continue to move towards tighter restrictions.** Germany, which so far had adopted lighter virus-related curbs, reported near record new Covid-19 cases as well as virus related deaths with Chancellor Merkel calling for a tougher national lockdown at least until the 10<sup>th</sup> of January. States of Bavaria and Saxony have already moved ahead with tighter restrictions, including closing of state borders. Just a week after lockdown was eased in the UK, London cases started to grow putting it at the top in terms of cases per capita. This puts the capital at risk of moving to Tier-3 or quasi-lockdown at the next review scheduled for 16<sup>th</sup> of December.

## 2. Case numbers are not falling everywhere



Source: ECDC, HSBC, WB. Week ended 8 December 2020.

Figure 1: Following easing restrictions, cases in London (and the South East) have risen



On the data front, **October industrial production growth in both France (+1.6% mom) and the UK (+1.3% mom) was higher than consensus expectations.** Contacts note that the data serves a positive complement to the strong manufacturing survey results. While the virus-related disruptions were still limited in October in both countries, the strong momentum does seem to indicate a potentially more limited impact of the second wave of COVID-19 on Europe.

## Other Mature Markets

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### Canada

**The Bank of Canada left its policy rate unchanged** at Wednesday's meeting, while also maintaining its QE stance and forward guidance. It issued a relatively brief statement, which acknowledged that "the federal government's recently announced measures should help maintain business and household incomes during this second wave of the pandemic and support the recovery." There was no significant reaction in the financial market.

### Japan

**PPI was flat in November, as expected.** On an annual basis, PPI declined 2.2%. Government bond yields continued declining at the long-end of the curve (10-year: -0.5 bp; 30-year: -0.7 bp). Life insurers have reportedly resumed their purchases of sovereign bonds after holding back in September and October. The 30-year bond yield has dropped 2.7 bps over the past week. Equities fell (NIKKEI: -0.2%) and the Japanese yen depreciated (-0.3%) against the US dollar.

### Australia

**The Australian dollar appreciated to an almost two-year high on surging iron ore prices.** Markets now expect that the shortfall in iron ore will persist next year, with a potential regulatory response to the destruction of an Aboriginal heritage site further adding strain to the supply. Australia is the world's largest iron ore exporter. The exchange rate touched \$0.75 per Australian dollar, appreciating by about 0.5% against the greenback. Australian dollar is among the best performing Asian currencies this year (+6.3% year-to-date). The currency has continued to strengthen despite growing trade tensions with China. The temporary anti-subsidy duties on wine will be the latest in a series of Beijing's actions against Australian goods.



## Hand in Hand

Australian dollar and iron-ore prices have been rising together since March



Source: Bloomberg














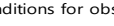
## Emerging Markets [back to top](#)

In **Asia**, most stock markets declined, led by Taiwan (-1.0%) and India (-0.6%). Markets were in a risk-off mode following the decline in European and U.S. equities. Among the stronger stock market performers were the Philippines and Malaysia where share prices rose by 0.7% and 0.5%, respectively. Asian currencies generally depreciated against the US dollar, led by Korean won (-0.3%). Singapore signed a free trade agreement with the United Kingdom. The benefits include increased access to services and a reduction in non-tariff barriers; both sides also agreed to work toward a broader digital economy agreement.

In **EMEA**, equities traded mixed. Stocks gained in Turkey (+0.8%), Hungary (+0.7%), Russia (+0.4%), and UAE (+0.3%), whereas the Czech Republic (-0.7%) and Qatar (-0.7%) saw the largest losses. Currencies strengthened modestly to the dollar, except for the Turkish lira (see below).

In **Latin America**, markets were mixed. Equities in Brazil, Mexico, and Peru were down in the range of 0.6-0.8%, while they were up by 1.5% and 0.5% in Colombia and Chile, respectively. The Peruvian sol and the Colombian peso made up for the losses in the previous few sessions and gained 0.1% and 0.6%, respectively, against the US dollar, while the Brazilian real and the Mexican peso depreciated by about 1% and 0.5%. In its quarterly economic report, Chile's central bank revised its 2020 GDP growth forecast downward to a range of -5.75% to -6.25%, and its 2020 inflation forecast was increased by 40 bps to 2.8%. The central bank attributed its GDP revision to a slower than expected pick-up in domestic demand.

Key Emerging Market Financial Indicators

Last updated: 12/10/20 8:10 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		50.43	-0.3	1	6	18	12
MSCI Frontier Equities		27.87	-0.5	1	1	-7	-8
EMBIG Sovereign Spread (in bps)		361	-2	-5	-12	47	72
EM FX vs. USD		57.44	0.3	0	3	-5	-6
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.54	0.0	0	1	8	6
Indonesian Rupiah		14105	0.0	0	0	-1	-2
Indian Rupee		73.67	-0.1	0	1	-4	-3
Argentine Peso		82.13	-0.1	-1	-3	-27	-27
Brazil Real		5.09	1.6	1	6	-18	-21
Mexican Peso		19.87	0.1	0	2	-3	-5
Russian Ruble		73.32	0.8	2	4	-13	-15
South African Rand		14.99	-0.2	1	4	-1	-7
Turkish Lira		7.86	-0.5	-1	4	-26	-24
EM FX volatility		10.40	0.0	0.2	-0.3	3.6	3.8

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

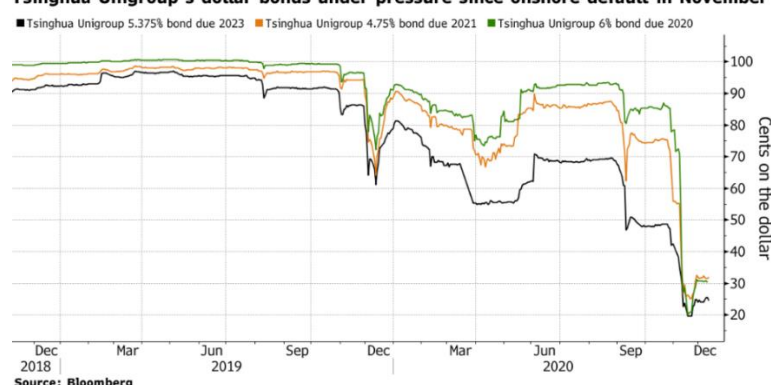
## China

**China will sanction more US officials in retaliation for recent US measures.** In response to the Trump administration's sanctions on Chinese officials under the Hong Kong Autonomy Act, China will sanction U.S. officials in the executive and legislative branches, as well as employees of certain NGOs, though it has not provided specific names. China will also revoke visa-free entry to Hong Kong SAR and Macau SAR for U.S. diplomats.

**The Tsinghua Unigroup missed a principal payment on its dollar bond today.** The incident would constitute one of the biggest defaults in China's dollar bond market. While the company's dollar bonds have been traded with heavy discounts since it defaulted onshore in November, credit spreads on high-yield Chinese corporate dollar bonds had been falling (OAS: -38 bps in the past two weeks). Equities were little changed.

### Low Expectations

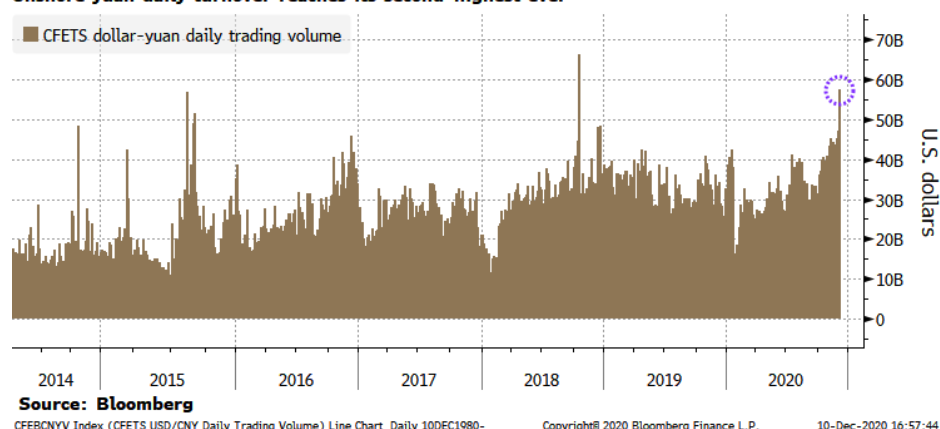
**Tsinghua Unigroup's dollar bonds under pressure since onshore default in November**



**Onshore RMB daily turnover reached its second-highest level ever yesterday.** The turnover reached \$58 bn. The spike in trading activity coincided with some volatile moves near the official market closing, with few large (state-owned) Chinese banks seen buying dollars in large volume. The move was perceived by market participants as interventions by authorities. Market participants have been closely watching trading activity near the market closing as the closing price would determine the RMB fixing the following day. **RMB was little changed onshore today but depreciated marginally against the US dollar offshore (-0.1%).**

### Volume Spike

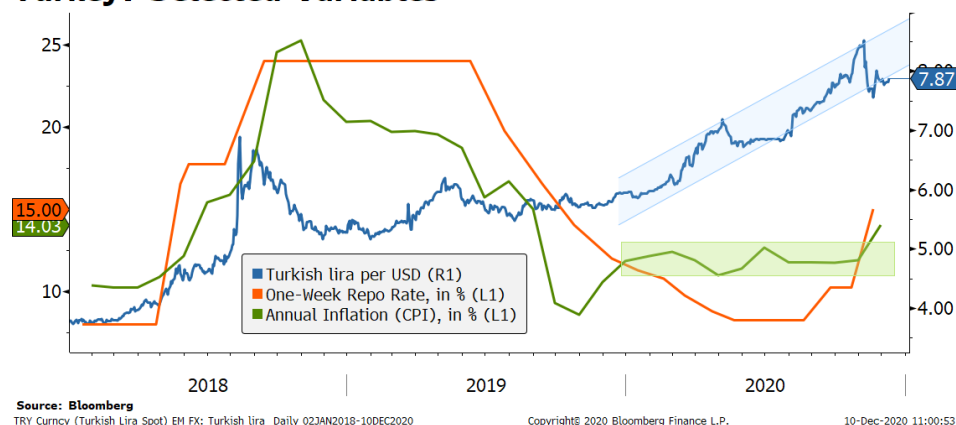
**Onshore yuan daily turnover reaches its second-highest ever**



## Turkey

The Turkish lira came under pressure again today, dropping 0.6% against the dollar to 7.87. The lira underperformed peers ahead of the EU summit where European leaders are scheduled to discuss the block's response to Turkey's maritime exploration in contested waters in the Mediterranean. Separately, data for September showed the unemployment rate falling to 12.7% from 13.2% in August. Stocks in Istanbul gained 0.8% on the day, outperforming peers in the region.

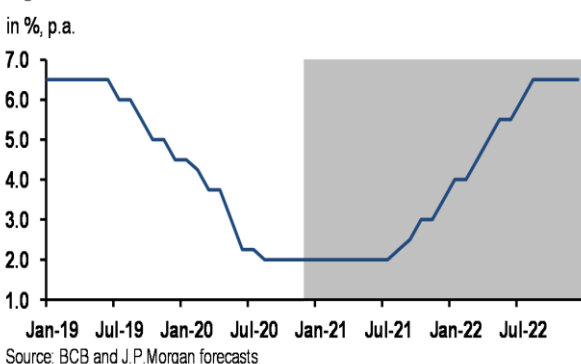
## Turkey: Selected Variables



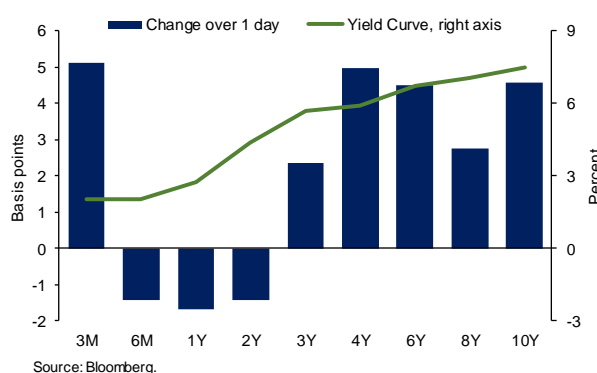
## Brazil

The central bank kept the policy rate unchanged at 2%, in line with the market expectations. However, markets were somewhat surprised by the COPOM's statement of a possible pause in forward guidance in the forthcoming meetings, as "the inflation scenario suggests that the forward guidance conditions might not be satisfied going forward". At the same time, citing the uneven economic recovery, labor market issues, and a possible second wave of COVID-19 infections, the bank underscored the need for "extra-ordinarily strong monetary measures". As per a Bloomberg report, however, analysts interpreted COPOM's statement as hawkish and an indication of a forthcoming rate hike. Analysts believe, current economic recovery is weak and could be adversely affected by the ending of the emergency aid program in December. A rate hike could further worsen this fragile economic situation. On the other hand, the federal government has limited room for fiscal expansion, as the country's public debt is expected to reach 94% of GDP in 2020. Prior to today's COPOM meeting, markets expected the policy rate to rise to 3% by end-2021 (see chart below).

Figure 5: SELIC rate forecasts



BRL Sovereign Yield Curve





**Mexico**

**Mexico's bi-weekly inflation turns slightly negative.** The sequential change in CPI for the second half of November came in at -0.02%, as core inflation continued to soften. With this, the November inflation print now stands at 3.33% y/y. Analysts, expect inflation to continue trending downward towards the 3% target, as prices remain weighed down by a strong exchange rate and a sluggish economic environment.

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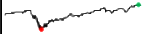


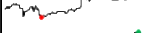

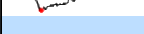
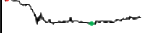



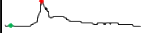
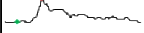

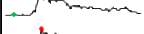



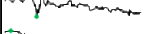




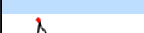
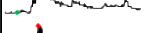





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## Global Financial Indicators

Last updated: 12/10/20 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3668	-0.8	0	3	17	14
Europe		3529	0.0	0	3	-4	-6
Japan		26756	-0.2	0	7	14	13
China		3373	0.0	-2	0	16	11
Asia Ex Japan		87	-0.8	1	5	24	19
Emerging Markets		50	-0.9	1	6	18	12
<b>Interest Rates</b>			basis points				
US 10y Yield		0.93	-0.5	2	-3	-91	-99
Germany 10y Yield		-0.60	0.8	-4	-11	-30	-41
Japan 10y Yield		0.02	-0.7	-1	-3	3	3
UK 10y Yield		0.21	-5.4	-12	-19	-59	-62
<b>Credit Spreads</b>			basis points				
US Investment Grade		105	-0.2	4	-9	-8	8
US High Yield		402	0.4	-13	-41	-35	8
Europe IG		49	1.0	3	-2	1	5
Europe HY		252	9.9	10	-39	31	45
EMBIG Sovereign Spread		361	-1.9	-5	-12	47	72
<b>Exchange Rates</b>			%				
USD/Majors		90.95	-0.1	0	-2	-7	-6
EUR/USD		1.21	0.3	0	3	9	8
USD/JPY		104.4	-0.2	-1	1	4	4
EM/USD		57.4	0.3	0	3	-5	-6
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		50	1.4	2	14	-23	-25
Industrials Metals (index)		135	0.4	2	9	21	18
Agriculture (index)		44	0.8	0	1	9	5
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		22.3	0.1	1.0	-2.5	6.7	8.6
US 10y Swaption Volatility		62.6	0.3	8.0	4.6	-10.1	0.6
Global FX Volatility		8.0	0.0	0.0	0.0	2.0	2.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		118	-3.3	-1	-14	-48	-47
Italy		117	-1.7	1	-8	-37	-43
Portugal		60	0.9	1	-4	-9	-3
Spain		64	1.1	1	-3	-12	-2

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

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## Emerging Market Financial Indicators

Last updated: 12/10/2020 8:11 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		6.54	0.0	0.0	1	8	6		3.4	-0.9	-2	5	16	24
Indonesia		14105	0.0	0.2	0	-1	-2		6.2	0.0	-2	-19	-103	-96
India		74	-0.1	0.4	1	-4	-3		6.0	-1.1	-2	-4	-99	-91
Philippines		48	0.0	-0.1	0	5	5		3.6	-1.0	-2	3	-62	-66
Thailand		30	0.0	0.7	2	1	0		1.5	0.0	0	1	-22	-16
Malaysia		4.06	0.1	0.3	1	3	1		2.6	0.0	0	19	-77	-72
Argentina		82	-0.1	-0.7	-3	-27	-27		54.5	12.5	74	360	-3335	-806
Brazil		5.08	1.7	1.4	6	-18	-21		6.0	4.4	-22	-19	-15	-29
Chile		739	0.5	1.6	2	5	2		2.9	-1.8	-1	15	-83	-38
Colombia		3466	0.6	1.9	5	-1	-5		5.2	-0.3	-3	-1	-77	-78
Mexico		19.87	0.1	0.1	2	-3	-5		5.7	1.1	-10	-24	-123	-121
Peru		3.6	0.1	0.3	0	-6	-8		3.8	-1.3	-10	-15	-71	-74
Uruguay		43	0.2	0.1	0	-11	-12		7.4	8.2	-6	-7	-374	-343
Hungary		293	0.7	0.3	3	2	1		1.6	-3.4	-2	0	60	43
Poland		3.65	0.5	0.7	4	6	4		0.7	0.8	6	10	-106	-118
Romania		4.0	0.2	-0.2	2	7	6		2.9	0.0	0	-4	-127	-112
Russia		73.3	0.8	1.5	4	-13	-15		5.6	1.1	-2	2	-69	-56
South Africa		15.0	-0.1	1.2	4	-1	-7		9.8	0.4	-13	5	12	27
Turkey		7.86	-0.5	-1.2	4	-26	-24		13.4	-5.1	61	-11	131	168
US (DXY; 5y UST)		91	-0.1	0.3	-2	-7	-6		0.40	-0.5	0	-6	-129	-129

	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		4941	0.0	-2	0	27	21		207	1	1	2	25	31
Indonesia		5934	-0.2	2	11	-4	-6		190	4	5	5	21	34
India		45960	-0.3	3	6	14	11		154	2	-5	-25	27	29
Philippines		7154	0.7	1	2	-8	-8		114	1	0	10	37	48
Malaysia		1654	0.5	2	5	6	4		118	1	1	-14	-1	6
Argentina		51957	-5.1	-5	0	50	25		1440	3	9	94	-761	-329
Brazil		113001	-0.7	1	8	2	-2		263	2	1	-2	36	48
Chile		4174	0.4	0	5	-12	-11		150	2	-1	3	0	17
Colombia		1384	1.5	7	14	-14	-17		219	2	8	18	43	56
Mexico		42737	-0.8	-2	6	0	-2		418	1	4	0	105	126
Peru		20646	-0.6	2	17	4	1		154	1	2	14	32	47
Hungary		40970	0.7	6	10	-7	-11		97	1	-2	2	4	11
Poland		56354	-0.5	4	10	1	-3		3	0	-2	-5	-17	-15
Romania		9566	0.3	1	6	-3	-4		208	-3	4	4	21	35
Russia		3223	0.3	2	7	10	6		172	1	-2	-1	26	41
South Africa		59013	-0.5	0	2	6	3		380	4	-8	-39	27	60
Turkey		1363	0.9	2	10	26	19		491	7	8	-59	64	90
Ukraine		508	0.0	0	1	0	0		488	2	-15	-100	31	68
EM total		50	-0.3	1	6	18	12		421	0	17	-10	97	128

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

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