GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 10, 2021

- **US CPI climbs at fastest annual rate since 1982, in line with expectations** (link)
- **UK monthly GDP growth undershoots expectations, was almost flat in October** (link)
- **Ukraine hikes 50 bps amid underlying price pressures** (link)
- **Mexican inflation exceeds expectations, hits 21-year high** (link)
- **Peru continued hiking cycle, raising the policy rate as expected by 50 bps** (link)
- **Japan producer price inflation jumped to 41-year high** (link)
- **Analysts expect ECB to announce end to pandemic QE program next week** (link)
- **US high yield issuer fundamentals continued to improve rapidly in Q3** (link)

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US inflation hits recent record, in line with consensus

Recent gains in risk assets slipped marginally yesterday as investors awaited this morning's US inflation print. US equity futures are pointing a bit higher and European stocks are largely flat this morning after sliding in Thursday's session. Advanced economy government bond yields were little changed and the price of oil and the dollar were slightly stronger. The focus of market attention for much of the week has been this morning's CPI print, with commentators noting how CPI has now displaced jobs data as the most market-moving data release. Given the recent string of upside surprises in US price readings, many investors were positioned for another scorcher. In the end, the headline and core year-on-year reading came in right on expectations at 6.8% y/y, leading to slight declines in US rates, forward rate hike expectations, and the dollar.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
12/10/21 8:10 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4667	-0.7	2	0	27	24
Eurostoxx 50		4205	-0.1	3	-3	19	18
Nikkei 225		28438	-1.0	1	-4	7	4
MSCI EM		50	-0.5	1	-2	-2	-3
Yields and Spreads					bps		
US 10y Yield		1.51	1.2	17	-4	60	60
Germany 10y Yield		-0.34	1.6	5	-9	27	23
EMBIG Sovereign Spread		362	0	-18	10	1	12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.2	-0.1	0	-5	-9	-10
Dollar index, (+) = $ appreciation		96.3	0.1	0	2	6	7
Brent Crude Oil ($/barrel)		75.1	0.9	7	-9	49	45
VIX Index (%, change in pp)		20.8	-0.8	-10	2	-2	-2

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

Mature Markets

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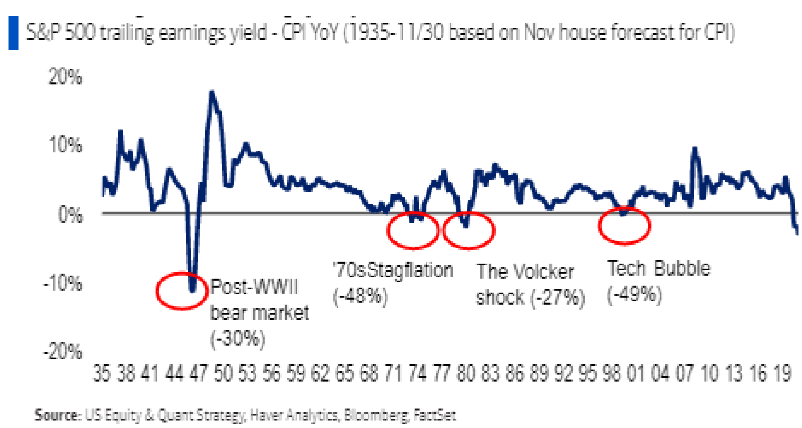
United States

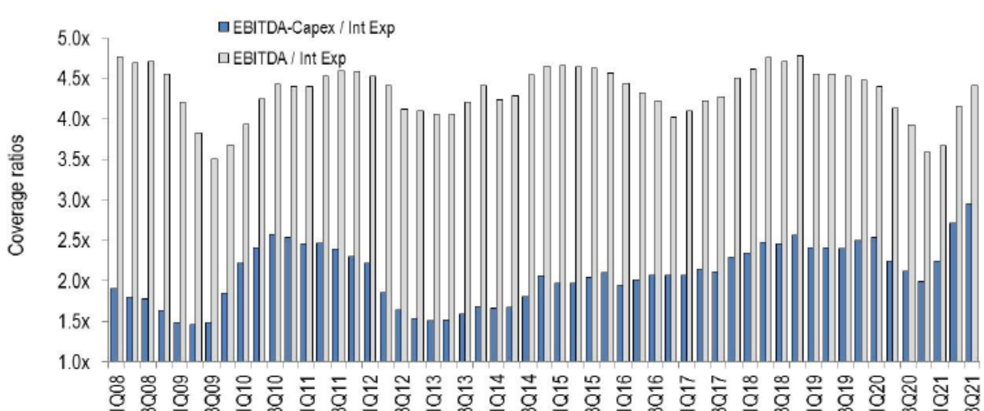
This morning's much-anticipated CPI report delivered no surprises. CPI inflation accelerated to 6.8% yoy with core inflation rising to 4.9% yoy, both near 30-year high. The results were in line with expectations. Stock futures are trading higher with lower Treasury yields.

Markets pulled back on concerns of the economic toll of new Covid restrictions while investors took profit and de-risked ahead of today's CPI report. Indices dropped modestly, with losses concentrating in sectors that bounced the most earlier this week, while VIX picked up to 22. Treasury yields dipped with a small flattening in the curve, paring back some gains after the weak 30-year auction, which saw a 3 bps tail and below-average demand. Contacts reported lackluster demand after last week's rally in the long rates and caution against duration risk ahead of the CPI report. The dollar rose after the headline jobless claims dropped to the lowest level since 1969.

The S&P 500 real earnings yield dropped to a decade low. The trailing real earnings yield – the dividend yields less inflation – collapsed to -2.9%, lowest since 1947. There were only four historical instances of negative real earnings yield, all of which were followed by bear markets.



Credit fundamentals for US high yield corporate bond issuers continued to rapidly improve in Q3. Revenues and EBITDA are now well above pre-pandemic levels, while a measure of debt servicing capacity fell to its lowest level since 2020 to 4.77x. EBITDA margins, at 16%, have held up against inflationary pressures. COVID-sensitive sectors delivered the largest improvements, with revenues from transportation and leisure sectors growing 178% and 103% yoy, respectively.

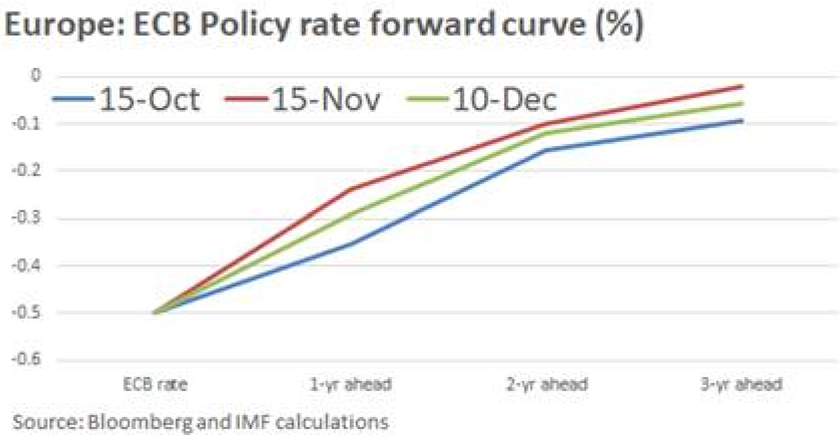


Sources: J.P. Morgan; Capital IQ

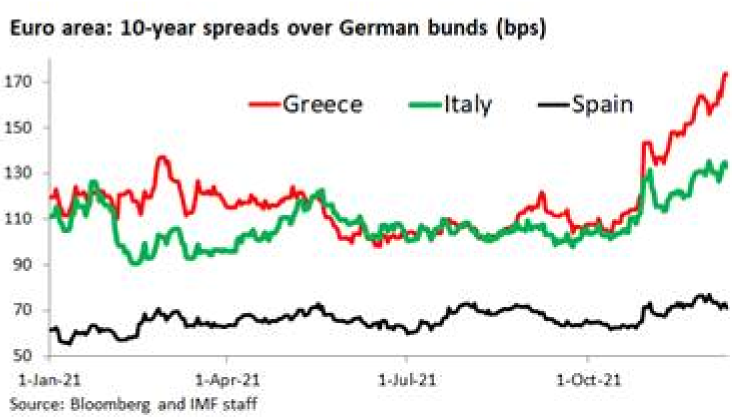
Euro area

Equities (-0.2%) traded with little direction ahead of U.S. inflation data. The euro (-0.2%) edged lower. 10-yr bund yields (+2 bps to -0.34%) traded higher in line with U.S. rates.

Most analysts expect that the ECB will announce the end of its pandemic QE program next week, according to a Bloomberg survey of 32 economists. **All analysts also expect the ECB to eventually decide to extend its regular QE program to run through 2022,** at an average pace of €32 bn/m per month after March. Pandemic QE purchases are expected to run at €50-60 bn/m until the program ends in March. Most analysts expect the ECB to address financial market fragmentation by strategically reinvesting proceeds from outstanding PEPP positions, which would keep PEPP at a stable size. The ECB is not expected to announce a new set of targeted longer-term loans for banks next week. **The median expectation of analysts is that the ECB will not hike before 2024,** which differs from the forward markets which are pricing in hikes in that time frame.



French President Macron said that the EU needs to rethink its budget framework and alter deficit rules to encourage more post-pandemic investment. President Macron added that new rules must be simpler and more transparent and that EU leaders should discuss whether a major stimulus package agreed last year is enough to foster growth. EU leaders should also examine if national investment could be allowed beyond budget cap rules. **Italian 10-yr spreads (-2 bps to 133 bps) fell but continue to trade at year-to-date highs.** Italy reportedly plans to use unspent funds from the 2021 budget to allocate around €3 bn to shield consumers from soaring heating costs. **Energy price pressures are likely to persist** as Dutch natural gas prices 1-m ahead (+1% to 102 € /MWh) rose 14% in the past 5 days.

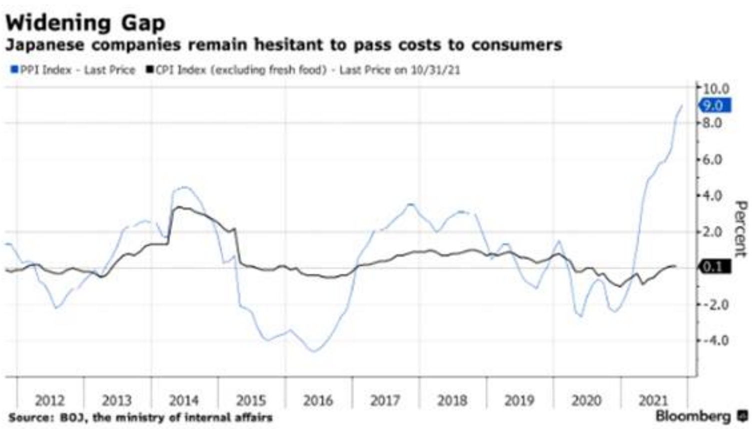


United Kingdom

The pound (-0.2% to $1.32) edged lower after a measure of monthly GDP growth slowed to 0.1% mom (0.4% expected). The 3m/3m growth rate was 0.9% (1.0% expected). Monthly services growth was in line with expectations at 0.4% mom, but industrial production unexpectedly fell (-0.6 mom vs growth of 0.1% mom expected) as did construction output (-1.8% mom vs growth of +0.2% expected). Manufacturing was flat (compared to gain of 0.2% mom expected). **Money markets are pricing in just 5 bps of hikes when the BoE meet next week Thursday**, and 22 bps of hikes in February (close to a full hike of 25 bps) with Bank rate expected to reach 100 bps by end 2022. Equities were little changed. 10-yr gilts (+2 bps to 0.77%) edged lower in line with core rates.

Japan

Producer price inflation jumped to a 41-year high in November. The gauge soared beyond estimates to 9% y/y (consensus: 8.5%, previous: 8%), fueled by a 49.3% oil and coal price jump from a year ago. Some analysts now see elevated pressures on businesses to pass on price increases to consumers. Separately, **Bank of Japan (BOJ) is expected to lower COVID corporate debt buying.** The BoJ officials expect the bank's COVID funding program to be extended beyond March 2022, however the decision may be delayed to January 2022, according to Bloomberg. **Japan stocks slipped –0.8%, the yen weakened -0.1%, 10-year yields firmed +0.8 bps.**



Emerging Markets

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Asian equities declined -0.8% on net after three days of gains. Most regional markets closed in losses, with Hong Kong SAR (-1.1%) and Indonesia bucking the trend (+0.1%). **Asian currencies mostly depreciated** with the greatest weakness seen in the Korean won (-0.6%) and Indian rupee (-0.4%). The Chinese renminbi gained marginally (+0.1%). **10-year yields were broadly unchanged.** In **Malaysia**, industrial production beat expectations accelerating to 5.5% y/y (consensus: 3.7%) from 2.5% in October, led by strong manufacturing sector growth.

EMEA indices lacked cleared direction with equity markets up in Poland (+0.4%) but down in Russia (-0.7%) and South Africa (-0.7%). **EMEA currencies** were little changed except for the Turkish lira (-1.0%) which made a fresh low against the dollar this morning, but recovered marginally after the central bank delivered another intervention by selling dollars.

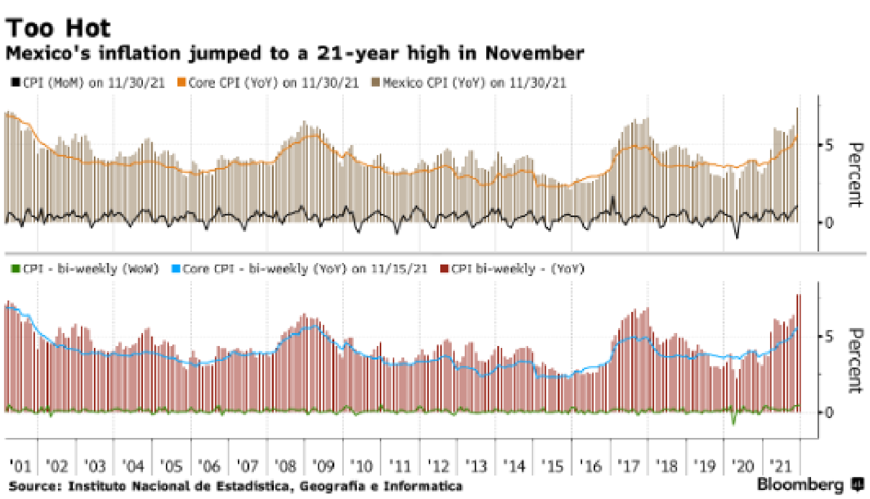
Latin American stocks were mixed while currencies depreciated. Stocks posted gains in Chile (+0.5%) and Mexico (+0.4%) but retreated in Argentina (-3%), Brazil (-1.7%), and Colombia (-0.8%). Currencies depreciated in Brazil and Chile by 0.9% and remained virtually flat in the other countries. Hard and local currency treasury yield curves flattened, notably in Brazil. Following the earlier rate hike, the Brazilian interbank swap rate curve increased by up to 25 bps on the 11.6% one-year maturity yield, while declining by 13 bps at the long end. Soft prints in Argentine construction and industrial production data, declining WTI crude oil prices (-2.8%) and a 3.1% depreciation in one-month ahead ARS forwards may all have contributed to slumping Argentine stocks, with oil and gas producer YPF taking a -5.1% hit over the day.

China

China may remove a cap on foreign ownership of insurance asset management companies. According to draft rules announced on Friday, The China Banking and Insurance Regulatory Commission will scrap a 25 per cent foreign ownership cap for such companies, paving the way for foreign investors to raise their stakes to 100 per cent and assume control, local media reports. As of Q3 2021 there were 31 firms managing assets worth 18.7 tn (US$2.9tn). Separately, **Kaisa is likely to turn down a $2 bn bondholder rescue package.** The developer sees the offer by one group of bondholders only as a short-term debt solution, with some large bondholders staying out of this group, Debtwire reports. **Equities were mixed (Shanghai -0.2%, Shenzhen +0.1%), 10-year yields were little changed.**

Mexico

Inflation reached yesterday a 21-year high, printing for November at 7.4% y/y. Markets had expected a 13 bps lower figure despite already having factored in an expected 1 ppt increase vs. October. Core inflation remained more contained at 5.7% y/y but stood still 48 bps higher than the previous month. **The front-end of Mexico's local currency treasury yield curve moved 17 bps up,** to 5.8% on the three-month CETES, while the peso depreciated over the day. J.P. Morgan analysts, however, do for the moment not expect an acceleration in the country's hiking cycle and continue to anticipate a 25 bps hike in the next week.

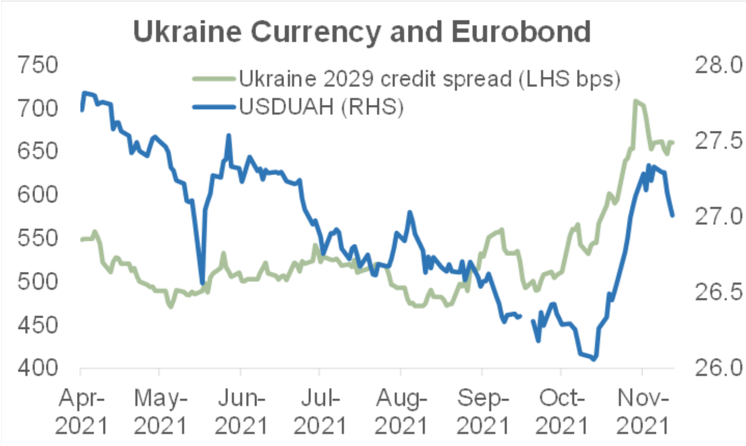


Peru

Peru continued its hiking cycle, raising the policy rate as expected by 50 bps to 2.5%. The central bank's board highlighted that the current high inflation rate of 5.7% declined in November and projected inflation to fall back into the bank's target range of 1-3% in the second half of 2022. In face of recent moderation in the country's growth momentum, the central bank intends to maintain its accommodative stance for some time while gradually withdrawing monetary stimulus.

Ukraine

The National Bank of Ukraine increased its policy rate by 50 bps to 9%. Analysts' expectations were marginally skewed towards a 50 bps rate increase against an unchanged decision. Inflation eased to below consensus 10.3% yoy in November, although the slowdown came predominantly due to lower utility and food prices with the underlying price growth remaining above central bank projections. Contacts note that geopolitical tensions and the recent hryvna depreciation creates upside risk for core inflation, although investors fears about a military conflict have eased last week with fixed income markets recovering after the initial positioning washout. The hryvna remains about 3.5% weaker and credit spreads about 100-150 bps wider as compared to mid-November levels.



Turkey

December analysts' survey saw a big jump in inflation expectations with the estimate for the next 12 months increasing to 21.39% (15.61% previously) while the 24 months estimate shifted to 14.41% (11.76% previously).

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.

Global Financial Indicators

Last updated: 12/10/21 8:10 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		4668	-0.7	3	0	27	24
Europe		4205	-0.1	3	-3	19	18
Japan		28438	-1.0	1	-4	7	4
China		5055	-0.5	3	3	3	-3
Asia Ex Japan		85	-0.4	1	-1	-3	-5
Emerging Markets		50	-0.5	1	-2	-2	-3
Interest Rates				basis points			
US 10y Yield		1.51	1.2	17	-4	60	60
Germany 10y Yield		-0.34	1.6	5	-9	27	23
Japan 10y Yield		0.06	0.9	0	-1	4	4
UK 10y Yield		0.76	0.1	1	-17	56	56
Credit Spreads				basis points			
US Investment Grade		115	-2.4	2	0	12	20
US High Yield		355	-4.5	-23	11	-48	-25
Europe IG		53	0.4	-5	4	5	5
Europe HY		262	0.1	-23	14	11	19
Exchange Rates				%			
USD/Majors		96.34	0.1	0	2	6	7
EUR/USD		1.13	-0.1	0	-2	-7	-8
USD/JPY		113.7	0.2	1	0	9	10
EM/USD		52.2	-0.1	0	-5	-9	-10
Commodities				%			
Brent Crude Oil ($/barrel)		75	0.9	7	-9	49	45
Industrials Metals (index)		164	-0.2	1	1	20	24
Agriculture (index)		60	-0.3	-1	1	38	25
Implied Volatility				%			
VIX Index (%, change in pp)		20.8	-0.8	-9.8	2.1	-1.7	-1.9
US 10y Swaption Volatility		81.4	0.1	0.5	1.1	18.9	21.3
Global FX Volatility		8.1	0.0	-0.2	1.1	0.0	0.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		173	-0.4	13	33	52	53
Italy		133	-1.7	3	15	17	22
Portugal		66	-0.8	0	5	8	6
Spain		71	-2.0	-2	0	9	10

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
12/10/2021	Level		Change (in %)					Level		Change (in basis points)				
8:08 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		6.37	0.1	0.1	0	3	2		3.0	-0.3	-4	-3	-24	-16
Indonesia		14371	0.0	0.3	-1	-2	-2		6.3	1.2	6	30	14	43
India		76	-0.3	-0.8	-2	-3	-4		6.2	-1.0	-5	-35	77	67
Philippines		50	-0.1	0.0	-1	-5	-5		4.6	-7.5	-8	8	165	158
Thailand		34	-0.2	0.6	-3	-11	-11		1.9	0.0	5	9	64	64
Malaysia		4.21	0.1	0.4	-1	-4	-5		3.6	1.9	5	6	82	91
Argentina		102	-0.1	-0.4	-1	-19	-17		49.7	7.9	-83	-16	-485	-645
Brazil		5.58	0.0	1.3	-1	-10	-7		10.6	-4.7	-37	-101	275	320
Chile		852	-0.4	-1.2	-7	-14	-17		5.2	0.0	2	9	253	266
Colombia		3896	0.2	1.9	0	-12	-12		6.5	0.0	-8	16	232	254
Mexico		20.95	0.0	1.5	-1	-4	-5		7.3	0.0	5	-20	179	190
Peru		4.1	-0.1	-0.2	-2	-12	-11		5.9	-0.4	-5	7	224	242
Uruguay		44	0.0	-0.1	-1	-4	-4		8.7	-3.1	-21	15	129	147
Hungary		324	-0.2	-0.7	-2	-10	-8		4.1	3.3	-5	32	251	260
Poland		4.09	-0.4	-0.7	-2	-11	-9		3.1	8.5	1	13	182	199
Romania		4.4	-0.2	-0.4	-2	-9	-9		5.1	-2.5	-1	48	220	234
Russia		73.5	0.3	0.6	-3	-1	1		8.7	1.6	-3	25	253	229
South Africa		16.0	-0.5	0.4	-4	-6	-8		7.5	9.0	-6	-10	68	91
Turkey		13.91	-0.8	-1.5	-29	-43	-46		21.5	-6.0	-11	205	811	855
US (DXY; 5y UST)		96	0.1	0.2	2	6	7		1.30	2.8	16	8	91	93

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		5055	-0.5	3	3	3	-3		200	2	0	-28	-29
Indonesia		6653	0.1	2	0	12	11		169	-13	-5	-30	-31
India		58787	0.0	2	-3	28	23		136	-2	-4	-18	-15
Philippines		7192	-0.6	2	-3	-1	1		105	-15	-5	-13	-7
Malaysia		1489	-0.9	-1	-3	-12	-9		117	-3	3	-24	-18
Argentina		86545	-3.0	2	-9	61	69		1675	-133	-44	253	319
Brazil		106291	-1.7	1	0	-8	-11		315	-13	-9	47	56
Chile		4418	0.0	1	-2	8	6		134	-12	0	-25	-22
Colombia		1399	-0.8	-3	2	2	-3		324	-9	23	99	109
Mexico		51238	0.4	1	-1	18	16		338	-22	1	-69	-19
Peru		20549	0.1	2	1	-1	-1		148	-16	-7	-13	19
Hungary		51127	-0.3	0	-4	24	22		122	-18	3	-25	-27
Poland		68517	0.3	1	-6	22	20		41	-21	-8	21	13
Romania		12523	-0.5	1	-2	31	28		182	-23	-1	-26	-21
Russia		3789	-0.7	-3	-9	16	15		170	1	14	-14	-9
South Africa		71850	-0.5	1	5	21	21		360	-10	20	-21	-24
Turkey		2015	-0.8	5	24	49	36		535	-41	64	45	88
Ukraine		523	0.0	0	0	3	5		650	17	136	159	157
EM total		50	-0.5	1	-2	-2	-3		381	-20	8	27	42

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

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