



- **US consumer survey points to inflation uncertainty as key concern** ([link](#))
- **UK raises COVID alert level amid rapid omicron spread** ([link](#))
- **Bank of Japan conducts unscheduled repo operation to cap sudden jump in rates** ([link](#))
- **Chinese equities advance on the prospect of further policy easing** ([link](#))
- **Turkish central bank intervenes for 4<sup>th</sup> time this month as lira hits new low** ([link](#))

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## Global equities march higher ahead of key central bank meetings

Markets are trading with a positive tone this morning as investor attention remains centered on COVID news flow and a heavy agenda of central bank meetings later this week. Most major equity markets ended last week on a high note, extending gains over the week, and reversing much of the declines seen since initial news emerged about the omicron variant in late November. The S&P 500 is back to a new record high and major Asian and European equity indices are posting gains to start the week with market sentiment partially positive in light of news on potential easier fiscal policy in China. Core sovereign bond yields are little changed this morning, while US Treasury yields slipped lower on Friday after a slightly less severe-than-feared US CPI print that posted in-line with consensus forecasts. UK gilt yields and the sterling are trading lower as the country's COVID alert level was raised amid rapid omicron spread. In emerging markets, the Turkish lira continues to weaken (-3%), hitting new lows against the US dollar and triggering a fourth FX intervention from the central bank this month to stem the declines. This week stands to be an eventful one for global markets, given the FOMC, BoE, and ECB meetings, but also rate decisions across a number of emerging markets, including Mexico, Russia, and Turkey. Expectations vary for some of the meeting outcomes as market participants note central banks will need to strike a difficult balance between COVID-induced uncertainty and elevated inflation.

Key Global Financial Indicators

Last updated: 12/13/21 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4712	1.0	4	1	29	25
Eurostoxx 50		4224	0.6	2	-3	21	19
Nikkei 225		28640	0.7	3	-3	7	4
MSCI EM		50	0.1	2	-4	-1	-3
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.46	-2.0	3	-10	57	55
Germany 10y Yield		-0.36	-1.3	3	-10	28	21
EMBIG Sovereign Spread		365	2	-20	17	1	14
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		52.1	-0.2	0	-5	-9	-10
Dollar index, (+) = \$ appreciation		96.3	0.2	0	1	6	7
Brent Crude Oil (\$/barrel)		74.4	-1.0	2	-9	49	44
VIX Index (% change in pp)		19.2	0.6	-8	3	-4	-4

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

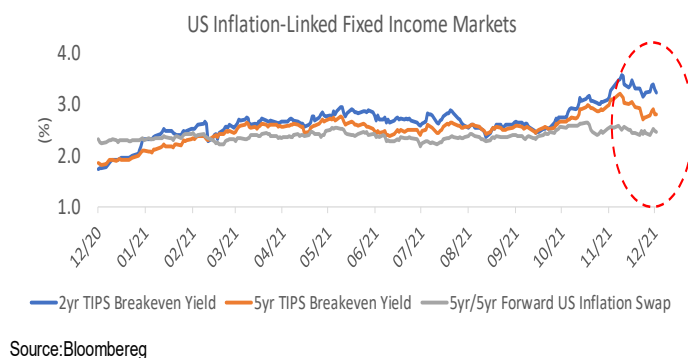
**Markets will be focused on key central bank meetings this week**, including the Fed (taper acceleration expected), the Bank of England (possibility for a hike), the ECB (possibility for an announcement of the end of PEPP), and the Bank of Japan (hold). In addition, central banks in the Philippines (hold), Indonesia (hold), and Turkey (possibility for a cut) are meeting this week. Central banks in Hungary, Russia, Chile, Mexico, and Colombia are also expected to increase policy rates. On the economic data front, CPI (euro area, UK, and Canada), US retail sales, UK job reports, and PMI data (US, euro area, and UK) will be released. China reports retail sales and industrial production.

## Mature Markets

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### United States

**US CPI numbers were broadly in line with expectations, reassuring markets and allowing the S&P 500 to continue to rise to another record level.** The US Treasury yield curve steepened as 2-year yields went down by 3 bps, driven by tighter breakevens, while 30-year yields were little changed. Market expectations for the first FOMC policy rate hike was unchanged following the CPI release with markets pricing in the first full rate hike by June 2022.

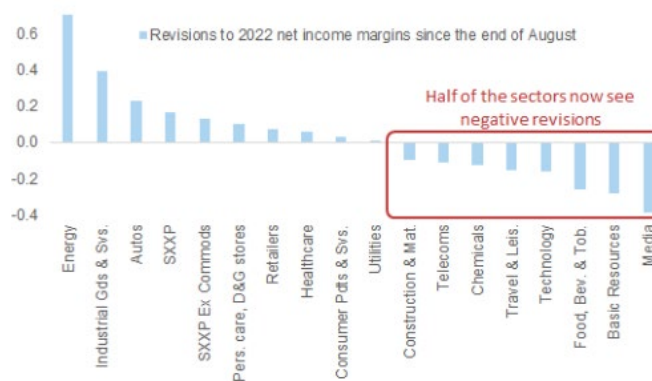


**US consumer sentiment improved slightly in December.** The University of Michigan consumer sentiment index beat expectations, increasing to 70.4 from a decade-low 67.4 in November. In the press release, consumers continued to voice a considerable degree of uncertainty about future inflation rates, mostly about near-term rather than the longer-term inflation rates. **In response to the question of whether inflation or unemployment was the more serious problem facing the nation, 76% of respondents selected inflation while just 21% selected unemployment.** Short-term inflation expectations (next year) were 4.9% y/y, and longer-term inflation expectations (next five-to-ten-years) were 3.0% y/y, the same levels as in the previous month.

### Euro area

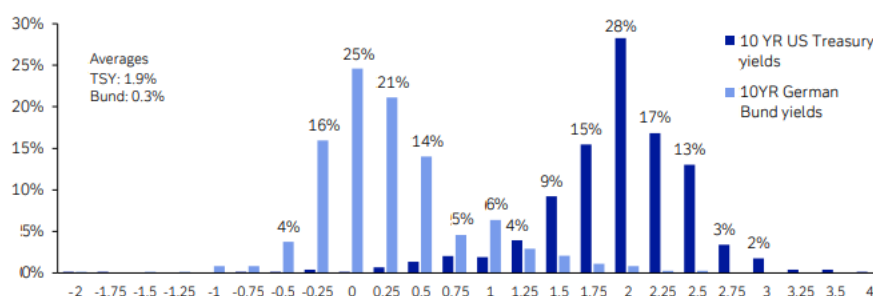
**European equity indices were mostly trading higher** with STOXX 600 up 0.5% and German DAX (+0.9%) outperforming. Semiconductor (+2%) shares gained the most.

**Income margin compression brings risks to the European earnings outlook in 2022.** Analysts at Goldman Sachs note that higher labor costs and reduced ability to pass on costs to consumers due to slowdown in demand growth, are the main risks to corporate income margins vis-a-vis the earnings growth outlook for 2022. Analysts note that after a broad-based upward revision in the first half of 2021, half of the sectors in STOXX 600 saw a downward revision to margins from August onwards.



**European bond yields were lower by 1-2 bps this morning while the euro (-0.4%) depreciated.** Corporate credit spreads continued to tighten with investment grade benchmark down 3 bps and high yield 7 bps tighter. With the 10-year bund trading around -35 bps, analysts at Deutsche Bank note that the recent investor survey results suggest as much as a 60 bp yield increase in 2022 as 70% of respondents expect the German benchmark to trade above 0%.

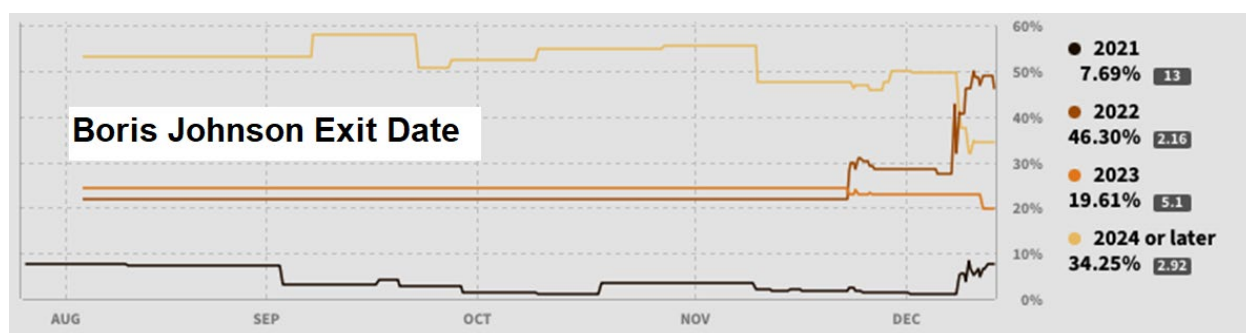
Figure 3: Where do you see 10-year Treasury and Bund yields at YE 2022?



Source : dbDIG Survey, Deutsche Bank Research

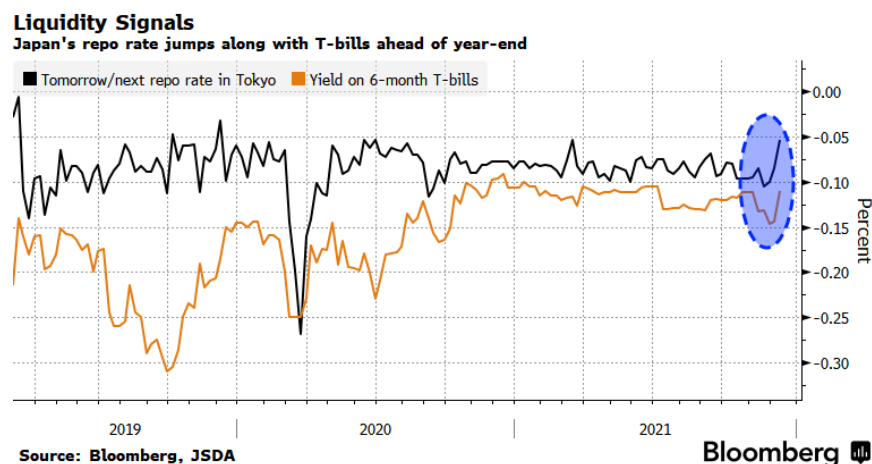
## United Kingdom

**The UK raised its COVID-19 alert to Level 4 over the weekend amid a rapid spread of the omicron variant.** The Prime Minister Johnson warned of a new virus emergency while announcing a roll out of a rapid booster-jab program. **A UK study released on Friday suggested that the third jab can boost protection against the variant to 75%.** According to the latest government estimates, there are about 3000 omicron cases and about 40% of all new cases in London are now related to the new variant. Political analysts have noted that the government may struggle to pass new restrictive measures as recent polls suggest that **the support for the ruling Conservative Party (32%) is about 9% below that of the Labour Party (41%), the highest lead since 2014.** Over the last week, betting platform odds for Prime Minister replacement by the end of 2022 have increased to above 50%. **Contacts highlight the sterling (-0.2%) as the most likely underperformer from the virus and leadership change driven uncertainty,** especially if the Bank of England decides to delay tightening into 2022.



## Japan

The Bank of Japan (BOJ) conducted a repo operation to buy government bonds in response to a **sudden surge in repo rates**. The benchmark repo rate rose 1 bp to -0.041%, the highest level since December 2019, following the increase in treasury bill rates. The sudden spike in repo rates prompted the BOJ to conduct a repo operation to buy bonds that started on the same day as the announcement, the first time since 2006. The BOJ offered to buy 2 tn yen (\$17.6 bn) of government bonds, and its proposal drew 1 tn yen of offers to sell. Markets viewed the BOJ's move primarily as a way to cap the surge in repo rates amid thin liquidity conditions toward the year-end rather than a change in monetary policy. Some analysts noted that overseas investors now own about half of Japan's treasury bills, making the money market more sensitive to foreign fund flows. Japanese yen depreciated (-0.1%); equities gained (NIKKEI: +0.7%). Long-end JGB yields dropped (10-year: -0.2 bp; 30-year: -0.4 bp), while the 10-year breakeven inflation rose to 0.53%, a 3-year high.



## Emerging Markets

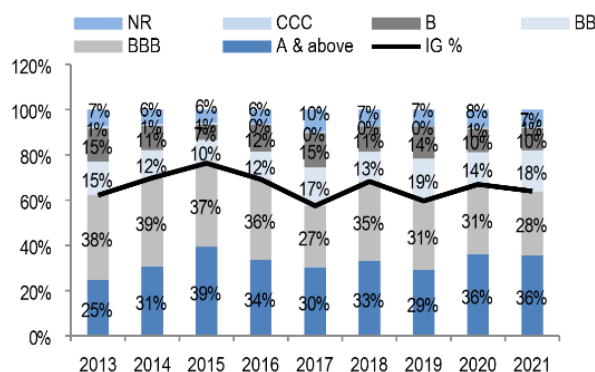
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**Latin American equity markets were mixed last Friday**, with Brazil up by 1.4% while Peru and Argentina down 1.4% and 1.3%, respectively. In regional currencies, the Brazilian real appreciated by 0.52% and Chilean peso weakened by 0.7%. 10-year government bond yields generally declined, particularly in Brazil (-20 bps). **Asian equities were mixed, falling 0.3% on net**. Chinese equities gained (CSI 300: +0.6%), while share prices declined in India (-0.8%). Asian currencies were also mixed. Indonesian rupiah (+0.2%) and Thai baht (+0.2%) appreciated, while Malaysian ringgit depreciated (-0.3%). **EMEA equity indices were trading mostly higher** with stock markets up in Turkey (+3%) and Saudi Arabia (+1%), while stocks in Russia (-1.1%) underperformed amid lingering political tension as the Group of seven reportedly warned of severe consequences if Russia invades Ukraine. Russia has continued to dismiss claims that it could be planning such an attack. **In EMEA, currencies were trading mostly lower, with the exception of the South African rand (+0.5%).**

## Emerging Market Fund Flows

**Emerging market fixed income outflows eased last week** as inflows to hard currency bond funds (+\$422 mn) offset last week's outflows and local currency bond fund outflows eased (-\$802 mn). Outflows were non-ETF driven (-\$428 mn) as ETFs attracted small inflows (+\$49 mn). YTD flows total +\$53.6 bn including this week's outflows of -\$379 mn, which consists of \$31.6 bn YTD from hard currency funds, out of which corporate focused funds make up \$8.1 bn. EM corporate fundamentals are expected to remain in a strong position in 2022, despite the default rate staying above historical average 3.9% due to China property HY, albeit with downward risk. On the issuance side, companies have been seizing on the low-rate environment to proactively take care of their upcoming maturities through tenders/buybacks/calls, which now total a record \$104 bn YTD (link). All these factors point to a supportive overall market.

### Supply of low rated new issues has moderated in recent years from 2017's high



Source (both charts): J.P. Morgan, Bloomberg Finance L.P., Bond Radar.

### Emerging market corporate HY default rate expected to moderate to 3.9% in 2022 from 5.5% in 2021

	2017	2018	2019	2020	2021YTD	2021F	2022F	
							Base case	Ex. CN & AR
Asia	1.0%	2.5%	1.8%	3.4%	4.1%	9.0%	6.5%	1.2%
EM Europe	3.6%	0.0%	0.0%	3.3%	0.0%	0.5%	0.5%	0.5%
Latin America	2.0%	2.1%	2.3%	4.4%	2.4%	3.6%	2.5%	1.5%
Middle East & Africa	3.2%	0.0%	1.8%	2.1%	0.0%	0.8%	0.8%	0.8%
<b>EM Corp HY</b>	<b>2.2%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>3.5%</b>	<b>2.6%</b>	<b>5.5%</b>	<b>3.9%</b>	<b>1.1%</b>

Source: J.P. Morgan. Note: Ex. 100% quasi-sovereigns. Default rates are par weighted and 2022F is based on bond stock as of October 18, 2021.

## China

**Chinese equities gained (CSI 300: +0.6%) on the prospect of further policy easing.** The Central Economic Work Conference (CEWC) was held last week, setting the tone for the macro policy stance next year. The CEWC acknowledged downward pressures on the economy and therefore put stabilization as the top policy priority for 2022, with growth-supportive measures being front-loaded. Local governments and agencies are urged to take responsibilities with more and earlier policy support, although the increase in local government implicit debt would be strictly forbidden. The CEWC also emphasized the need to strengthen policy coordination. As for the housing market policy, the "housing is for living, not for speculation" policy was brought back to the CEWC statement, signaling that the "red lines" policies for the property sector will be maintained. With signs of further policy easing, foreign investors bought a record amount of Chinese stocks last week. RMB appreciated (+0.1%). The RMB fixing was 20 pips weaker than market expectations, much smaller than 179 pips last Friday. Analysts noted that the People's Bank of China has showed signs of being less comfortable with strong RMB in the past week, including the increase in the reserve requirement ratio for FX deposits by 2 percentage points.



**Mad Rush**

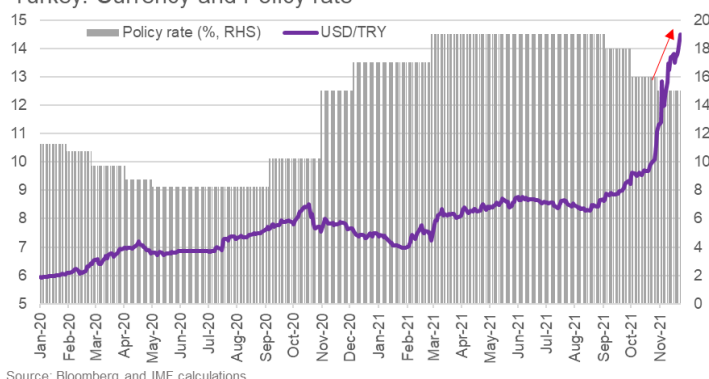
Foreign investors bought a record amount of Mainland shares last week

■ Weekly net buying/selling of China stocks via trading link

**Turkey**

The Turkish lira fell (-4.5% to around 14.60) against the dollar in opening trade this morning, after S&P Global Ratings lowered the outlook for Turkey's sovereign credit rating to 'negative' from 'stable' on Friday amid uncertain policy direction and increasing external risks. The currency was further weighed down by comments from the Treasury and Finance Minister on Sunday, reportedly saying that the government remains determined not to increase interest rates. The lira trimmed some losses to trade at around 14.20 against the dollar after the Turkish central bank intervened for the fourth time this month via FX sales, citing unhealthy price formations in exchange rates. The central bank has cut the interest rate by 400 bps since September and contacts expect an additional 100 bps cut to 14% in the monetary policy meeting on Thursday. According to a Bloomberg survey of 12 Turkish and foreign investors, the policy rate would have to be increased by 500 -1000 bps to stabilize the currency and limit inflation, which reached +21.3% y/y in November.

Turkey: Currency and Policy rate


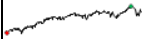



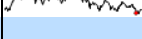




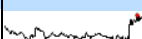



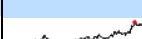
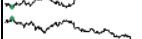
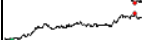


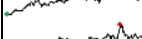

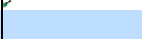








Source: Bloomberg and IMF calculations

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## Global Financial Indicators

Last updated: 12/13/21 8:04 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
			%				%
United States		4719	1.0	3	1	29	26
Europe		4224	0.6	2	-3	21	19
Japan		28640	0.7	3	-3	7	4
China		3681	0.4	3	4	9	6
Asia Ex Japan		85	0.0	3	-3	-2	-5
Emerging Markets		50	0.1	2	-4	-1	-3
Interest Rates							
			basis points				
US 10y Yield		1.46	-2.0	3	-10	57	55
Germany 10y Yield		-0.36	-1.3	3	-10	28	21
Japan 10y Yield		0.05	-0.4	1	-2	4	3
UK 10y Yield		0.72	-2.3	-2	-20	55	52
Credit Spreads							
			basis points				
US Investment Grade		117	-1.0	4	1	13	21
US High Yield		358	-1.6	-20	14	-45	-22
Europe IG		51	-1.2	-6	2	1	3
Europe HY		255	-4.6	-25	6	-4	13
Exchange Rates							
			%				
USD/Majors		96.27	0.2	0	1	6	7
EUR/USD		1.13	-0.3	0	-1	-7	-8
USD/JPY		113.6	0.2	0	0	9	10
EM/USD		52.1	-0.2	0	-5	-9	-10
Commodities							
			%				
Brent Crude Oil (\$/barrel)		74	-1.0	2	-9	49	44
Industrials Metals (index)		165	0.8	2	-1	22	24
Agriculture (index)		60	-0.1	-2	-1	37	25
Implied Volatility							
			%				
VIX Index (% change in pp)		19.2	0.6	-7.9	2.9	-4.1	-3.5
US 10y Swaption Volatility		79.4	2.8	-9.9	-4.5	17.0	19.3
Global FX Volatility		8.1	0.1	-0.1	0.9	-0.2	0.0
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		173	0.4	7	25	50	53
Italy		129	-2.3	2	7	9	17
Portugal		64	-1.1	0	1	4	4
Spain		69	-1.2	-3	-3	5	7

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

## Emerging Market Financial Indicators

Last updated: 12/13/2021 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.36	0.1	0.2	0	3	3		3.0	-2	-1	-36	-25	
Indonesia		14343	0.2	0.7	-1	-2	-2		6.3	-4	13	14	22	
India		76	0.0	-0.4	-2	-3	-4		6.4	0	-2	46	46	
Philippines		50	0.0	0.2	0	-5	-5		5.0	14	46	137	136	
Thailand		33	0.2	1.4	-2	-10	-10		2.0	5	8	57	71	
Malaysia		4.23	-0.4	0.1	-2	-4	-5		3.6	2	-2	97	104	
Argentina		102	0.0	-0.2	-1	-19	-17		50.1	25	-16	-470	-608	
Brazil		5.61	0.0	1.3	-3	-9	-7		10.7	-45	-119	484	517	
Chile		843	-0.1	0.4	-5	-13	-16		5.6	-2	0	270	284	
Colombia		3901	0.0	1.7	0	-12	-12		7.8	-16	7	259	271	
Mexico		20.89	0.0	1.6	-1	-3	-5		7.4	-5	1	164	183	
Peru		4.1	0.5	0.4	-1	-11	-11		6.0	-7	1	226	242	
Uruguay		44	-0.1	-0.2	-1	-4	-4		8.7	-21	15	135	147	
Hungary		325	-0.5	-0.3	-1	-10	-9		4.1	-16	57	253	261	
Poland		4.10	-0.3	-0.7	0	-11	-9		3.1	-7	26	242	250	
Romania		4.4	-0.3	-0.1	-1	-9	-9		5.0	-5	37	218	230	
Russia		73.4	-0.1	1.3	-1	1	1		8.4	7	47	284	272	
South Africa		15.9	0.2	-0.1	-4	-6	-8		10.1	-9	8	31	45	
Turkey		14.37	-3.4	-3.9	-30	-45	-48		20.8	-17	258	733	768	
US (DXY; 5y UST)		96	0.2	0.0	1	6	7		1.25	4	2	88	88	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		5084	0.6	4	4	3	-2		202	1	5	-26	-27	
Indonesia		6663	0.1	2	0	11	11		169	-21	4	-35	-31	
India		58283	-0.9	3	-4	26	22		135	-7	0	-18	-16	
Philippines		7198	0.1	2	-3	-1	1		105	-22	6	-16	-7	
Malaysia		1495	0.4	1	-2	-10	-8		117	-8	6	-23	-18	
Argentina		85441	-1.3	-2	-10	59	67		1706	-66	-26	299	350	
Brazil		107758	1.4	1	1	-6	-9		319	-14	0	50	60	
Chile		4393	-0.3	1	-2	8	5		136	-17	5	-26	-20	
Colombia		1389	-0.7	-3	2	1	-3		330	-6	29	105	115	
Mexico		51213	0.0	1	0	17	16		340	-24	8	-61	-17	
Peru		20272	-1.3	1	-3	-1	-3		149	-21	-2	-14	20	
Hungary		51047	-0.1	1	-2	24	21		121	-27	12	-27	-28	
Poland		68427	0.1	1	-6	23	20		42	-14	-4	18	14	
Romania		12518	-0.1	1	-2	31	28		184	-26	9	-29	-19	
Russia		3681	-2.1	-3	-11	12	12		171	-5	24	-16	-8	
South Africa		71803	0.2	1	3	21	21		362	-17	26	-24	-22	
Turkey		2107	3.5	9	29	54	43		547	-40	79	49	100	
Ukraine		523	0.0	0	0	3	5		648	4	142	155	155	
EM total		50	-0.3	2	-4	-1	-3		383	-21	15	27	45	

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

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