GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, DECEMBER 14, 2021

- **Demand for US Treasury inflation-protected securities wanes as oil prices pivot lower** (link)
- **Bank of Canada renews 2% inflation target framework and emphasizes labor markets** (link)
- **Bank of England to raise countercyclical capital buffer to 1% by December 2022** (link)
- **European energy prices spike on cold weather forecasts and geopolitical tensions** (link)
- **Chinese equities decline as worries over property developers resurface** (link)

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Market sentiment turns cautious amid virus and central bank uncertainties

Global risk assets are trading little changed to slightly lower as uncertainty about how the omicron variant will impact the economy has percolated throughout markets so far this week. In addition, investors are also taking a cautious stance ahead of a busy week for central banks. Broader risk-off sentiment prevailed yesterday as the S&P 500 closed down almost 1% with Asian equities following suit overnight and trading lower across the region. European bourses and US stock futures are little changed this morning. Core sovereign yields are inching higher this morning but fell yesterday in reaction to the lingering omicron concerns with yield curves flattening across most regions and US 10-year Treasury yields retracing more than half of last week's increase. Although slightly softer this morning, the US dollar has seen broad based appreciation with the euro, sterling and EM FX index all trading near one-year lows. The Turkish lira resumed its slide, weakening over 3%, after the currency rebounded yesterday following central bank FX intervention. In commodity markets, Europe's energy crunch is flaring up again as European natural gas prices have jumped close to 10% to start the week on shortage concerns and geopolitical tensions surrounding Russia and the Nord Stream 2 pipeline.

Key Global Financial Indicators

Last updated: 12/14/21 8:24 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4669	-0.9	2	0	28	24
Eurostoxx 50		4187	0.1	-2	-4	19	18
Nikkei 225		28433	-0.7	0	-5	7	4
MSCI EM		49	-1.6	-1	-7	-3	-6
Yields and Spreads					bps		
US 10y Yield		1.44	2.2	-4	-12	54	52
Germany 10y Yield		-0.37	1.5	1	-11	25	20
EMBIG Sovereign Spread		370	5	-6	20	6	20
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.0	-0.2	-1	-5	-9	-10
Dollar index, (+) = $ appreciation		96.2	-0.1	0	1	6	7
Brent Crude Oil ($/barrel)		74.2	-0.3	-2	-10	48	43
VIX Index (%, change in pp)		20.8	0.5	-1	5	-4	-2

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

Mature Markets

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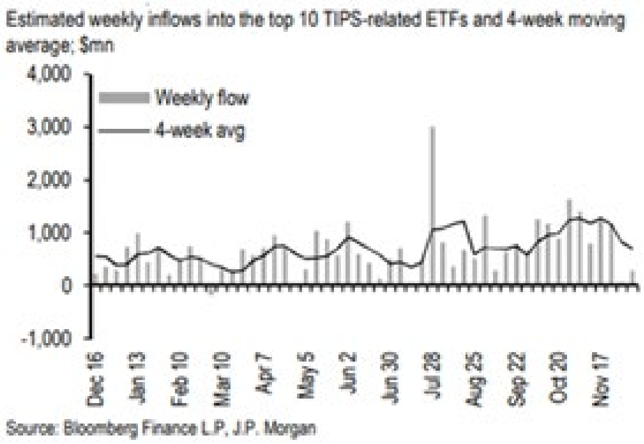
United States

Markets traded with a cautious tone ahead of this week's central bank meetings, as the S&P 500 fell close to 1% yesterday with technology, consumer discretionary, and energy shares driving the losses. **US Treasury yields declined across the curve, and the yield curve flattened**, with 2-year and 10-year yields down by 2 bps and 7 bps, respectively, driven by lower breakevens. In data releases this morning, November headline PPI advanced 0.8% m/m, above expectations for a 0.5% increase, and after a 0.6% gain the prior month. It now stands 9.6% higher compared to the previous year. Excluding volatile food and energy components, core producer prices increased 0.7% last month, above the consensus expectation of 0.4%, resulting in a 7.7% increase over the last 12 months.

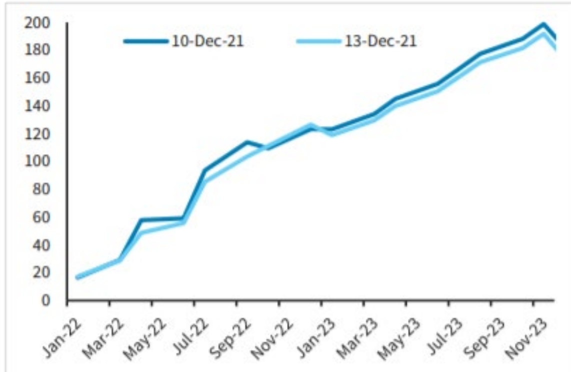
TIPS markets have seen signs of weakening demand as fund flows into TIPS ETFs have dropped the last two weeks to an average of $170 mn after averaging above $1 bn per week since July. JPMorgan analysts pointed out that **given that TIPS products tend to follow oil prices, the recent decline in energy prices led to the weakening demand from retail investors**, who have supported inflows into TIPS-related mutual funds and ETFs over the last two years.



Canada

The Bank of Canada maintained its inflation target of a 2% mid-point within the 1 to 3% inflation-control range for the next five years, with more explicit emphasis on consideration of labor market indicators. In the joint statement, the BoC and the Canadian government announced that even though maintaining low and stable inflation is the primary objective of monetary policy, the central bank should continue to support maximum sustainable employment, and **the BoC will use the flexibility of the 1-3 % control range to actively seek the maximum sustainable level of employment** when conditions warrant. The statement also mentions that neutral interest rate seems lower than in the past, and **the BoC will continue to leverage the flexibility of the 1-3% range by using a broad set of tools, including sometimes holding its policy interest rate at a low level for longer than usual.** After the announcement, the Canadian dollar weakened and yields rallied, while markets slightly pared back expectations for policy rate hikes.

FIGURE 1. **Market pared back expectations of hikes after the announcement**

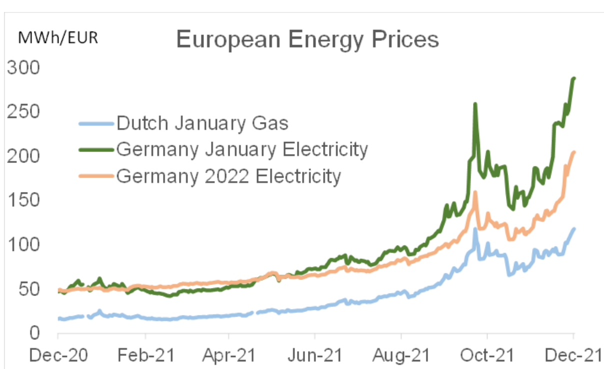


Source: Bloomberg, Barclays Research

Euro area

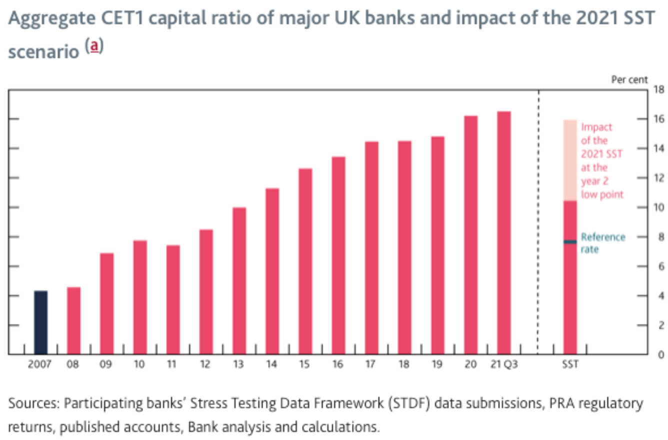
European equity indices were mostly trading in a tight range with stock markets in Spain (+0.7%) and Italy (+0.5%) outperforming. **European bond yields were marginally higher** after 10-year bund yields traded around -0.38% yesterday. The euro (+0.3%) recovered on broader dollar weakness this morning.

European energy prices spiked on shortage concerns amid forecasts for colder weather and geopolitical tensions. The front month Dutch gas and Germanys electricity contracts rose to the highest level since the start of October. For the first time since the start of the energy crunch, German 2022 next-year benchmark also closed above 200 euros per MWh. Aside from projected drop of temperatures amid low storage levels, contacts noted growing **uncertainty around Nord Stream 2 pipeline as Germany's incoming Foreign Minister voiced her opposition to the project in its current form as it was not compatible with EU law**. According to media reports, the EC has also proposed an overhaul of its gas market by curbing long-term supply agreements favored by Russia as well as coordination on gas storage management and supply security.



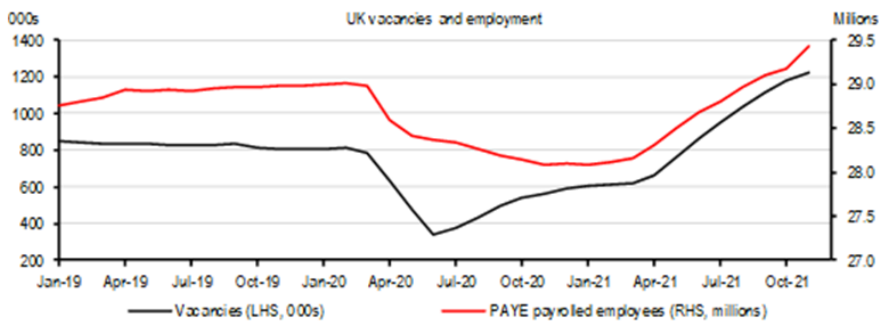
United Kingdom

The Bank of England will increase the countercyclical capital buffer to 1% by December 2022. The increase comes on the back of the Financial Stability Report assessment of strong domestic bank capital and liquidity positions, which show resilience in the solvency stress test**. The Financial Policy Committee (FPC) expects to announce another 1 pp increase to the capital buffer around Q2 2023**. Furthermore, the FPC suggested it will review the mortgage market framework in H1 2022, potentially scrapping the affordability test requirements which looks at borrower's capacity to repay mortgages under a higher interest rate environment. **With regards to crypto assets, direct risks to financial stability were found to be limited although the rapid growth of the sector could pose challenges in the future**.



UK labor market data reflected resilience to the unwinding of the furlough scheme. Employment and vacancies continued to increase with the October unemployment rate falling to 4.2%, in line with market expectations. At the same time, weekly earnings rose more than expected to 4.9% 3m y/y**. Interest rate markets largely ignored today's hawkish labor market data with only 5 bps priced for the Thursday BoE meeting** as analysts expect the MPC to focus on the omicron variant and the potential growth fallout.

1.Both employment and vacancies attest to the strength of the UK labour market



Source:ONS

Japan

Prime Minister Kishida said that introducing guidelines for share buybacks could be useful. His remarks further weighed on stock market sentiment as Japanese equities declined (NIKKEI: -0.7%), similar to other markets in the region. Analysts noted that share buybacks have played a key role in supporting stock prices in recent years. Japanese yen depreciated (-0.1%). Repo rates came down as the Bank of Japan continued to conduct the repo operation (T/N: -3.3 bps); it offered to buy 9 tn yen ($79.2 bn) today, up from 2 tn yen yesterday.

Emerging Markets

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Stock markets in Latin America traded lower on Monday, sending stocks in Argentina, Colombia and Chile lower by 4.1%, 2.5% and 2.4%, respectively. Currencies were mixed with Brazilian real up by 1.2% and Chilean peso down 0.7%. The 10-year government bond market saw mixed moves in Colombia (+20 bps), Brazil (+7 bps) and Chile (-4 bps). **Another wave of rate hikes is expected in Latin America later this week.** Chile is projected to deliver at least a full percentage point of tightening on Tuesday, while Colombia is predicted to raise rates by a half point on the same day. Mexico may tighten by a quarter-point on Thursday, continuing the central bank's slow-and-steady approach this year. **Asian equities retreated**, falling -0.8% on net, with Hong Kong (-1.4%) and Taiwan (-0.9%) underperforming. Asian currencies also depreciated, led by Korean won (-0.2%), and long-end government bond yields declined in some markets. **EMEA equity indices were trading mixed** with stock markets up in Turkey (+2.1%) and Kenya (+1%) but down in Bulgaria (-1.6%) and Hungary (-0.8%). **EMEA currencies were also trading mixed**, with the Hungarian forint (+0.7%) trading higher ahead of the central bank meeting today with expectations for further tightening, while the South African rand (-0.1%) underperformed. **The Turkish lira weakened (-3.4% to 14.30 against the dollar) this morning,** trading close to levels seen prior to the central bank intervention in the FX market yesterday, as investors continue to expect another policy rate cut on Thursday. Yields on Turkey's 10-yr debt increased (+7 bps) to 20.65%.

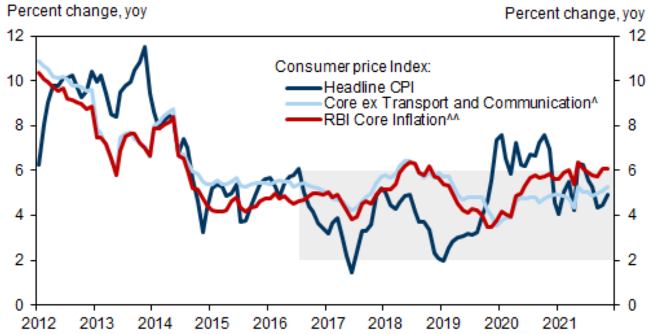
China

Equities declined as concerns about property developers resurfaced (CSI 300: -0.7%; Hang Seng China enterprises: -1.7%). Share prices of real estate firms dropped (onshore: -1.4%; Hong Kong SAR: -3.7%), led by Shimao (-15.5%). Shimao continued being under pressure after it announced to sell some of the group's property management assets to Shimao Services (its affiliate). Some analysts commented that such a connected party transaction pointed to Shimao's liquidity problem and raised corporate governance concerns. Markets became concerned about a potential collapse of a higher-rated firm like Shimao, which could unravel the offshore bond market; Shimao is rated at BBB- by Fitch and at ratings below investment grade by S&P and Moody's. RMB appreciated (+0.1%); long-end government bond yields dropped (10-year: -0.8 bp) owing to flight-to-quality flows in China.

India

CPI inflation printed weaker-than-expected in November. CPI increased 4.9% y/y (consensus: +5.1%), up from 4.5% in October, due to a lower-than-expected increase in food prices. Core inflation remained sticky at 6.1% y/y—the decline in transport inflation thanks to the reduction on fuel taxes was offset by the rise in clothing and personal care inflation. Analysts noted that the inflation data would support the Reserve Bank of India (RBI)'s sustained accommodative stance, suggesting that the RBI will focus on liquidity normalization for the time being. Indian rupee depreciated (-0.1%); equities declined (-0.2%); long-end government bond yields dropped (10-year: -0.9 bp).

Exhibit 1: Headline inflation increased in November while core inflation remained stable



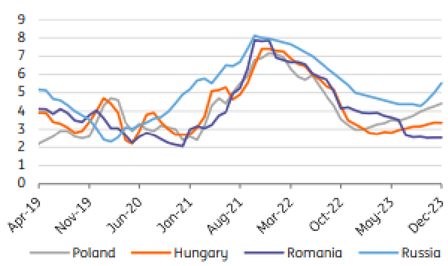
^Core ex Transport and Communication inflation is headline inflation excluding food, fuel, transport and communication inflation. ^^RBI Core is headline inflation excluding food and fuel inflation *Shaded area denotes the official inflation target of 4%+/-2%

Source: Haver Analytics, Goldman Sachs Global Investment Research

CEE Inflation

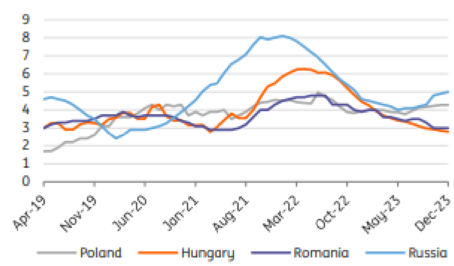
There is a higher risk of elevated inflation in 2022 across Central and Eastern Europe than in developed EU economies, according to ING analysts. Inflation levels in the region could stay elevated as a result of tighter labor markets and potentially inflationary economic policies, with fiscal deficits seen to remain relatively high in 2022. While energy prices were a major driver of inflation in 2021, analysts note more generalized price increases are visible in higher core inflation rates. Prices in 2022 are expected to be driven by higher labor costs and demand pressures. **Analysts expect further policy tightening** with terminal rates seen at 3% in Poland by late 2022 or early 2023 (currently 1.75%), 3% in Romania by mid-2022 (currently 1.75%) and up to 8% in Russia (currently 7.5%). In Hungary the one-week deposit rate is seen at 4.5% by mid-2022, with potential rate cuts in late 2022.

Fig 3 Headline inflation (%)



Source: ING estimates, local statistical institutes

Fig 4 Core inflation (%)



Source: ING estimates, local statistical institutes

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Global Financial Indicators

Last updated: 12/14/21 8:25 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4662	-0.9	-1	0	28	24
Europe		4187	0.1	-2	-4	19	18
Japan		28433	-0.7	0	-5	7	4
China		3662	-0.5	2	4	9	5
Asia Ex Japan		83	-1.5	-1	-6	-4	-8
Emerging Markets		49	-1.6	-1	-7	-3	-6
Interest Rates					basis points		
US 10y Yield		1.44	2.2	-4	-12	54	52
Germany 10y Yield		-0.37	1.5	1	-11	25	20
Japan 10y Yield		0.05	0.0	0	-2	4	3
UK 10y Yield		0.72	2.7	-1	-19	50	53
Credit Spreads					basis points		
US Investment Grade		116	2.0	1	8	11	21
US High Yield		360	0.2	5	23	-44	-20
Europe IG		52	0.0	-2	3	2	4
Europe HY		257	-0.1	-6	8	-2	15
Exchange Rates					%		
USD/Majors		96.20	-0.1	0	1	6	7
EUR/USD		1.13	0.2	0	-1	-7	-7
USD/JPY		113.6	0.0	0	0	9	10
EM/USD		52.0	-0.2	-1	-5	-9	-10
Commodities					%		
Brent Crude Oil ($/barrel)		74	-0.3	-2	-10	48	43
Industrials Metals (index)		164	-0.1	0	-2	21	23
Agriculture (index)		60	0.0	-1	-1	37	24
Implied Volatility					%		
VIX Index (%, change in pp)		20.8	0.5	-1.0	4.5	-3.9	-1.9
US 10y Swaption Volatility		78.7	0.0	-9.5	-5.2	16.3	18.6
Global FX Volatility		7.9	0.0	-0.2	0.7	-0.2	-0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		170	-3.2	6	22	48	50
Italy		127	-1.8	-2	6	11	16
Portugal		63	-0.3	0	0	5	3
Spain		69	0.0	-2	-3	7	8

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

Emerging Market Financial Indicators

Last updated: 12/14/2021 8:28 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	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.				
China		6.36	0.0	0.0	0	3	3		3.0	2	-3	-35	-25
Indonesia		14333	0.1	0.3	-1	-2	-2		6.3	-8	12	17	22
India		76	-0.1	-0.6	-2	-3	-4		6.4	0	-3	44	47
Philippines		50	0.0	0.0	0	-5	-5		5.0	6	44	139	139
Thailand		33	0.1	0.9	-2	-10	-10		2.0	5	5	58	72
Malaysia		4.23	-0.1	0.0	-2	-4	-5		3.6	2	-4	98	104
Argentina		102	-0.1	-0.4	-2	-19	-17		50.1	42	-6	-523	-600
Brazil		5.63	0.9	-0.3	-3	-9	-8		10.9	-35	-93	511	533
Chile		844	-0.3	-0.5	-5	-13	-16		5.6	1	2	275	287
Colombia		3910	-0.5	0.0	-1	-12	-12		8.0	-3	5	276	288
Mexico		21.02	0.0	0.1	-2	-4	-5		7.4	-5	1	165	183
Peru		4.1	0.2	0.8	-1	-11	-11		6.0	-9	6	228	240
Uruguay		44	0.0	-0.2	-1	-4	-4		8.7	-10	15	132	147
Hungary		324	0.5	0.4	-1	-10	-8		4.2	1	58	258	265
Poland		4.09	0.4	-0.7	0	-11	-9		3.1	-4	13	240	246
Romania		4.4	0.2	0.3	-1	-8	-9		5.0	-13	17	213	222
Russia		73.6	-0.1	0.7	-1	0	1		8.5	1	41	287	275
South Africa		16.0	-0.2	-1.2	-5	-6	-8		10.1	4	19	40	47
Turkey		14.33	-3.5	-5.9	-30	-45	-48		21.0	13	270	762	794
US (DXY; 5y UST)		96	-0.1	-0.2	1	6	7		1.23	-3	1	87	87

	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		5050	-0.7	3	3	2	-3		203	4	5	-25	-26
Indonesia		6616	-0.7	0	0	10	11		174	-3	7	-32	-26
India		58117	-0.3	1	-4	26	22		135	-1	-1	-17	-16
Philippines		7242	0.6	2	-1	0	1		109	-3	6	-14	-3
Malaysia		1481	-0.9	-1	-3	-12	-9		117	-2	4	-22	-18
Argentina		81948	-4.1	-5	-14	55	60		1711	-29	-12	328	355
Brazil		108848	1.4	1	2	-5	-9		323	-3	6	53	64
Chile		4235	-1.5	-3	-6	5	1		140	-5	8	-23	-16
Colombia		1354	-2.5	-5	0	-3	-6		338	6	35	114	123
Mexico		50419	-1.6	0	-2	16	14		347	-1	14	-50	-10
Peru		20295	0.1	0	-2	-1	-3		153	-9	0	-11	24
Hungary		50155	-0.8	-2	-4	20	19		126	-12	15	-26	-23
Poland		67766	-0.7	-2	-7	23	19		45	-5	0	21	17
Romania		12386	-0.2	-1	-3	29	26		188	-6	9	-26	-15
Russia		3632	0.4	-6	-12	12	10		176	8	24	-11	-3
South Africa		71725	0.4	-2	3	21	21		368	-4	27	-22	-16
Turkey		2150	2.3	9	31	55	46		566	-14	95	66	119
Ukraine		523	0.0	0	0	3	5		654	9	118	157	161
EM total		49	-0.1	-1	-7	-3	-6		389	-6	18	33	50

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

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