GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, DECEMBER 15, 2021

- **Global investor survey cites hawkish central bank rate hikes as biggest tail risk** (link)
- **Expectations for a BoE rate hike increase as UK inflation accelerates to 10-yr high** (link)
- **Concerns over Chinese property developers continue to mount** (link)
- **Hungarian National Bank hikes policy rates and ends QE; maintains hawkish tone** (link)
- **Central Bank of Chile raises policy rate 125 bps and signals further hikes ahead** (link)

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Markets remain on edge as Fed policy decision looms

Core sovereign bond yields are ticking higher and global equities have steadied overnight amid the upcoming busy slate of central bank meetings. Most major equity indices pulled back yesterday but are showing signs of stabilizing this morning with near-term prospects increasingly clouded by the omicron variant and monetary policy uncertainty. Core sovereign bond yields have moved back up following some stronger than expected data releases, which in turn weighed on stock prices in the more rate sensitive tech sector. While the S&P 500 closed down 0.7% yesterday, the Nasdaq underperformed falling over 1%. Overnight, Asian markets traded mixed with Chinese stocks underperforming after data releases showed still subdued economic activity last month while lingering property sector concerns continued to temper investor sentiment. European bourses and US stock futures are flat to slightly higher this morning. With the last FOMC meeting of the year concluding this afternoon, market participants are expecting a doubling in the pace of tapering and further clues on the projected path of the policy rate from the committee's updated summary of economic projections. Markets are pricing in just over two rate hikes next year with the first increase coming by June.

Key Global Financial Indicators

Last updated: 12/12/21 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4634	-0.7	-1	-1	25	23
Eurostoxx 50		4169	0.6	-2	-5	18	17
Nikkei 225		28460	0.1	-1	-5	6	4
MSCI EM		48	-0.2	-3	-6	-4	-6
Yields and Spreads					bps		
US 10y Yield		1.45	0.7	-7	-17	54	53
Germany 10y Yield		-0.36	1.2	-4	-13	25	21
EMBIG Sovereign Spread		370	0	3	19	7	19
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		51.6	-0.4	-2	-6	-10	-11
Dollar index, (+) = $ appreciation		96.5	-0.1	1	1	7	7
Brent Crude Oil ($/barrel)		73.0	-1.0	-4	-11	44	41
VIX Index (%, change in pp)		21.9	0.0	2	5	-1	-1

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

Mature Markets

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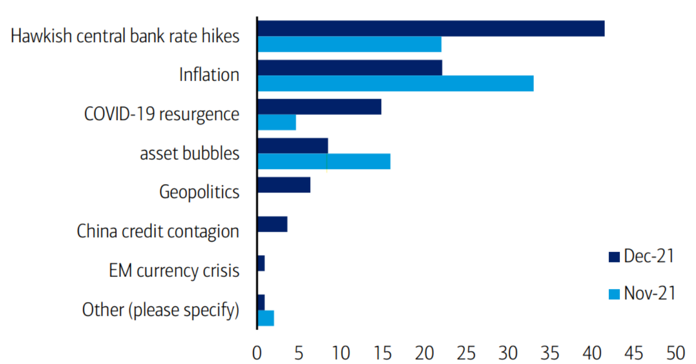
United States

The S&P 500 fell for the second day after higher-than-expected PPI data stoked inflation concerns ahead of the FOMC meeting. Technology shares drove the losses, with the tech-heavy Nasdaq underperforming the other major stock indexes**. US Treasury yields edged higher, with 10-year yields up 3 bps to 1.44%**. Despite the higher PPI data, treasury breakevens tightened, with the 2-year and 5-year breakevens down 7 bps and 3 bps respectively, and the 5y5y forward inflation swap rate was unchanged at 2.43%. In data releases this morning, **November retail sales numbers were weaker than expected** (headline: 0.3% m/m vs. 0.8% expected, ex auto: 0.3% vs. 0.9% expected). On the other hand, the Empire Manufacturing Index came in above forecasts (31.9 vs. 25.0 expected). Market response has been limited so far with US Treasury yields moving only slightly lower after the announcement.

Focus shifts to the FOMC policy decision later today. Most analysts expect that the Fed will announce an acceleration of the monthly reduction of asset purchases from $15 bn to $30 bn per month, which would see the conclusion of tapering by mid-March. In the summary of economic projections, focus will likely be on the median dot for the projected federal funds rate for next year, as well as how inflation developments are described in the meeting statement.

Investors increased their cash positions in December as they saw hawkish central bank rate hikes as the biggest tail risk, according to the global fund manager survey conducted by BofA. Cash allocation increased to a net 36% overweight, the highest since May 2020, while investors reduced their equity positions to the lowest since October 2020, though remaining above the historical average. **Following hawkish central banks, inflation is identified as the second biggest tail risk, with COVID resurgence moving up to third place.**

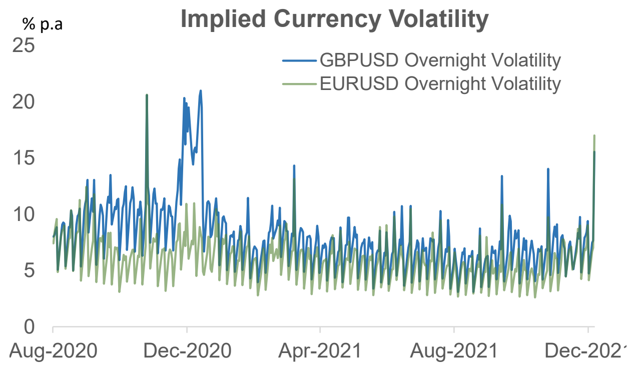
Chart 20: Hawkish central banks now the biggest 'tail risk', first since May'18
What do you consider the biggest 'tail risk'?



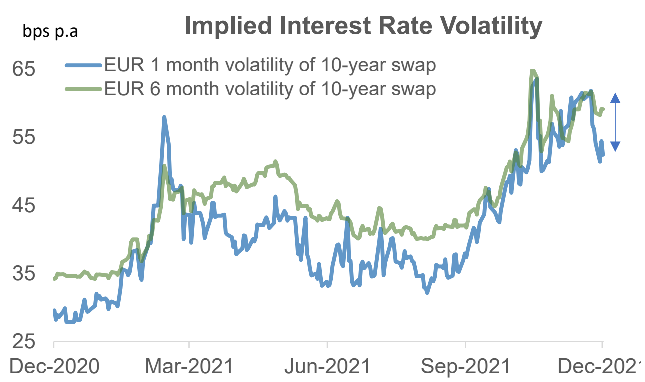
Source: BofA Global Fund Manager Survey
Note:: *"Central bank rate hikes" was introduced in November, "Fed taper" was the corresponding answer in October
BofA GLOBAL RESEARCH

Euro area

European equity indices were trading mostly higher today with most country benchmarks up around 0.5%, except for Spain (-0.4%). The U.S. trading session has continued to dominate European share trading with stocks declining for the fifth consecutive day yesterday, the longest since March 2020. **European bond markets and the euro were trading sideways**, although **overnight currency implied volatility has spiked** to the highest level since December last year.



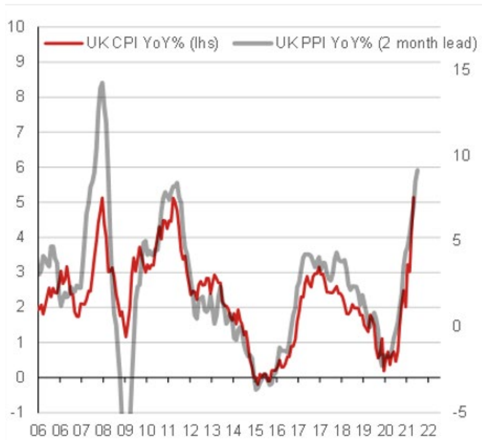
According to media reports, the **ECB projections should show inflation remaining below 2% for both 2023 and 2024 as part of the forecast update released tomorrow**, putting ECB's President Lagarde in a stronger position when arguing against an early policy tightening. However, reports suggest that the projections do not yet consider the impact of owner-occupied housing inclusion as well as the 25% minimum wage hike announced by Germany. **Contacts note that the spread of the omicron variant has strengthened the markets belief that the ECB will hold-off from making any major announcement regarding the QE program at the upcoming meeting**, which is also reflected in a decline in the short-dated implied interest rate volatility as compared to the more long-dated options.

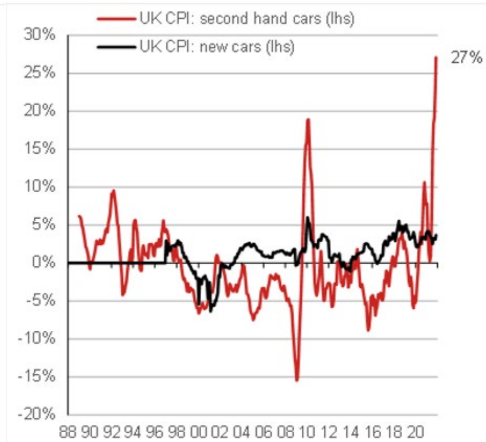


European authorities are planning to ease rules for retail investments into private equity. The changes concern the European Long-Term Investment Fund structure and look to remove minimum investment and wealth requirement thresholds while also broadening the asset base that the funds could be used for.

United Kingdom

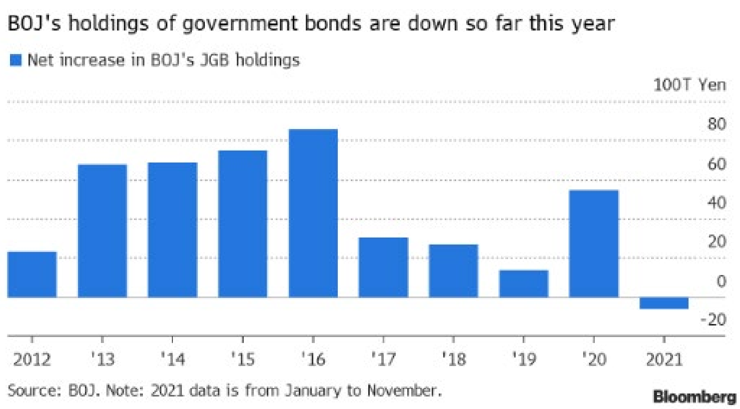
Inflation rose to above consensus 5.1% y/y in November, the fastest pace in 10 years. Prices increased about 0.3 pp above consensus estimates, after a similar surprise in the October reading. While some elements like utility and fuel prices were anticipated, the large increase in core inflation was a surprise to analysts. The underlying price pressure was driven by core goods such as used cars and clothing, while service price growth, in particularly in the hospitality sector, remained contained. **Rate hike expectations for tomorrow's meeting jump back to 60% for a 15 bps move, from about 30% yesterday**. Contacts maintain the view that tomorrow's announcement by the Bank of England will remain driven by the potential headwinds from the omicron variant with a rate hike potentially triggering further yield curve flattening. The sterling strengthened by 0.3% and 10-year gilt yield increased by 2 bps following the release.





Japan

Construction orders data used in GDP found overstated for 8 years. Japan's transport ministry has been double counting some data in its monthly construction orders survey, local media reports. The data was directly feeding into GDP estimates. Potential revisions resulting from the update are not known at this stage. Separately, **Bank of Japan (BOJ) enters its final 2021 meeting with "stealth tapered" purchases.** The bank slashed its ETF purchases to pre-2013 levels and mildly reduced its JGB holdings so far this year, according to Bloomberg. BOJ's corporate debt buying has been lower since December 2020. On **economic data**, tertiary index rose 1.5% m/m in October, with greatly increased activity in the living & amusement and the information & communications sectors. **Japanese stocks gained +0.5%, the yen and 10-year bond yields were unchanged.**



Emerging Markets

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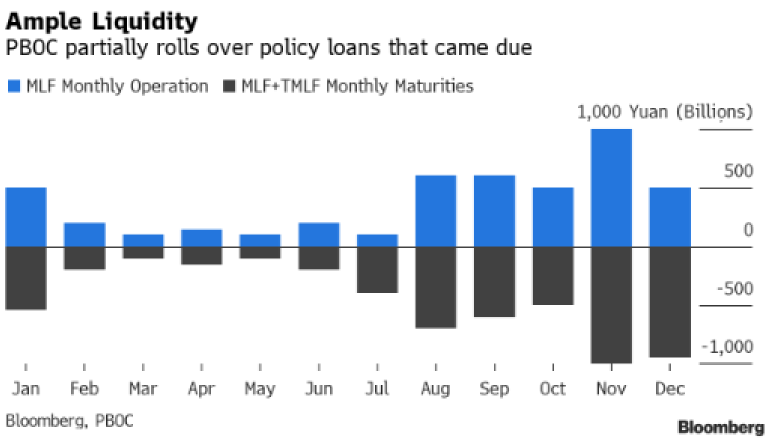
Latin American stock markets and currencies were mixed yesterday. Mexican equities were up 1.6% and Chile down by 2.8%. The Mexican peso appreciated over 1.5% and the Brazilian real depreciated 0.58%. **Asian equities declined -0.4% on net**. The Philippines (-1.5%) and Hong Kong SAR (-0.9%) led losses. Asian currencies were mixed. Korean won (-0.3%) and Indian rupee (-0.2%) weakened, Singapore dollar appreciated +0.2%. 10-year yields were mixed too. The Philippines (-2.6 bps) and Vietnam (-2.5 bps) led declines while yields in Indonesia (+1.1 bps) and Thailand (+1.1 bps) firmed. **EMEA equity indices were trading mixed** with stock markets up in Russia (+0.4%) and Saudi Arabia (+0.7%), but down in Poland (-1%) and Bulgaria (-0.9%). EMEA currencies were also trading mixed, with the Polish zloty outperforming (+0.2%) after the final reading of November inflation showed prices reached +7.8% y/y, higher than the +7.7% y/y preliminary reading. **The South African rand (-0.8%) weakened** after the high court declared the decision to grant the former President medical parole unlawful, ordering that he be returned to prison to serve the remainder of his sentence. **The Turkish lira weakened further** (-2.1% to 14.69 against the dollar) this morning, and Bloomberg reports that the ruling party chairman dismissed rumors that the government may be planning a state of emergency based on economic issues.

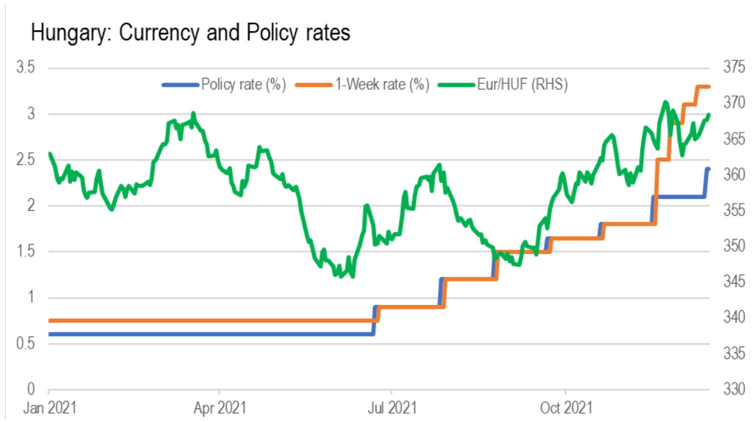
China

China's central bank rolled over 500 bn yuan ($78.5 bn) of policy loans. The injection was done via the 1-year 2.95% medium-term loan facility (MLF) and will partially offset 950 bn yuan ($154 bn) due Wednesday, Bloomberg reports. The bank also injected 10 bn yuan ($1.6bn) via 7-day 2.2% reverse repos. Separately, **another Chinese developer, Guangzhou R&F Properties Co, requires dollar-bond extension.** Its unit, Easy Tactic Ltd., asked holders of a $725 mn note maturing January 13 to extend the due date by six months, according to Singapore stock exchange filing. Easy Tactic Ltd is also offering to repurchase some of the bond at a 17% discount to face value. The bond traded below 85 cents on the dollar much of the past three months and fell 4.1 cents to 74.4 cents after the proposal was announced, Bloomberg reports. **Meanwhile, Shimao bonds extended declines amid persisting default fears.** The developer's 2022 and 2024 bonds fell a further -9% and -10% respectively despite assurances by developer unit Shanghai Shimao that it can fulfill the RMB 30mn ($4.7mn) bonds due Friday. Separately, **November data releases suggest weaker growth momentum.** While industrial production growth firmed beyond estimates to 3.8% y/y (consensus: 3.7%), lifted by medicines and electronics manufacturing, fixed asset investment growth cooled more than anticipated to 5.2% y/y year-to-date (consensus: 5.4%) from 6.1% y/y led by a decline in infrastructure, manufacturing, and real-estate components. Retail sales growth moderated to 3.9% y/y (consensus: 4.7%) from 4.9% amid weaker catering services sales. **Equities declined (Shanghai -0.4%, Shenzhen -0.6%), RMB firmed mildly (+0.1%).**



Hungary

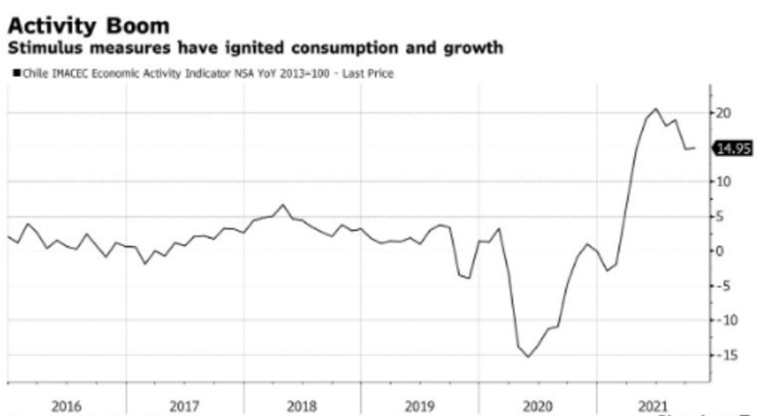
The Hungarian forint weakened (-0.4%) against the euro after a smaller-than expected interest rate increase. The National Bank of Hungary increased the required reserve rate by 30 bps to 2.4%, less than the expected 40 bps. **The central bank also announced the end of stimulus programs for purchasing corporate and government bonds**, leading to long-term yields increasing by roughly 15 bps in reportedly thin liquidity. The central bank has pledged to increase the one-week deposit facility, which has become the effective base, by at least as much as the required reserve rate, and is set each Thursday. **The central bank revised inflation forecasts for 2022 upwards** to range between 4.7 and 5.1%, from the previous forecasted range of 3.4 and 3.8%. **Deputy Governor Virag said that tightening could extend into 2022, and markets are currently pricing the policy rate to reach 4.9% in Q1 2022 and increase further to almost 5.2% by the end of the year.**



Source: Bloomberg and IMF calculations

Chile

Chile's central bank raised its policy rate by 125 bps to 4%, a seven-year high, and signaled a more restrictive monetary policy stance going forward. During the past six months, the central bank has already hiked 225 bps. Still, the real rate remains negative due to annual inflation that has soared to 6.7% y/y in November. The rate hike comes ahead of Sunday's presidential runoff, and many investors bet that the last presidential debate will not have a clear winner. Chile's Ipsa equity index fell as much as 3.4% Tuesday, leading losses among major global indices. HSBC expects the central bank to deliver an additional 200 bps of rate hikes in the first three meetings of 2022 (January, March, and April).



Source: Chile's Central Bank

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Global Financial Indicators

Last updated: 12/15/21 8:04 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4633	-0.7	-1	-1	25	23
Europe		4169	0.6	-2	-5	18	17
Japan		28460	0.1	-1	-5	6	4
China		3648	-0.4	0	4	8	5
Asia Ex Japan		82	-0.3	-3	-6	-6	-8
Emerging Markets		48	-0.2	-3	-6	-4	-6
Interest Rates					basis points		
US 10y Yield		1.45	0.7	-7	-17	54	53
Germany 10y Yield		-0.36	1.2	-4	-13	25	21
Japan 10y Yield		0.05	0.1	0	-1	5	3
UK 10y Yield		0.76	4.0	-1	-20	50	57
Credit Spreads					basis points		
US Investment Grade		119	4.6	3	10	13	23
US High Yield		364	4.8	10	28	-39	-15
Europe IG		51	-0.7	-2	2	3	4
Europe HY		257	-3.3	-7	7	8	14
Exchange Rates					%		
USD/Majors		96.50	-0.1	1	1	7	7
EUR/USD		1.13	0.0	-1	-1	-7	-8
USD/JPY		113.9	0.1	0	0	10	10
EM/USD		51.6	-0.4	-2	-6	-10	-11
Commodities					%		
Brent Crude Oil ($/barrel)		73	-1.0	-4	-11	44	41
Industrials Metals (index)		160	-1.4	-3	-2	18	21
Agriculture (index)		60	-0.1	-1	-1	36	25
Implied Volatility					%		
VIX Index (%, change in pp)		21.9	0.0	2.0	5.4	-1.0	-0.9
US 10y Swaption Volatility		76.8	-3.4	-5.0	-7.1	14.3	16.7
Global FX Volatility		7.9	0.0	-0.3	0.7	-0.2	-0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		164	-5.2	-5	18	47	44
Italy		129	-1.6	-5	6	16	17
Portugal		62	-1.0	-3	-1	7	2
Spain		70	0.3	-2	-3	11	9

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

Emerging Market Financial Indicators

Last updated: 12/15/2021 8:08 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		6.37	0.0	-0.3	0	3	3		3.0	0	-4	-37	-26
Indonesia		14333	0.0	0.2	-1	-1	-2		6.3	0	15	21	25
India		76	-0.5	-1.0	-2	-3	-4		6.4	-2	-4	44	46
Philippines		50	0.1	0.2	0	-4	-5		5.0	5	44	140	139
Thailand		33	-0.1	0.2	-2	-10	-10		2.0	5	5	58	72
Malaysia		4.23	0.1	-0.1	-2	-4	-5		3.6	3	-4	98	105
Argentina		102	-0.1	-0.4	-2	-19	-17		50.4	83	24	-570	-570
Brazil		5.70	-0.2	-3.0	-4	-11	-9		10.9	-28	-95	504	531
Chile		847	-0.4	-0.7	-6	-13	-16		5.7	5	9	281	293
Colombia		4008	-0.1	-2.6	-3	-15	-14		8.0	13	11	283	294
Mexico		21.21	0.1	-1.3	-3	-6	-6		7.4	-3	4	171	186
Peru		4.1	0.0	0.7	-1	-11	-11		6.0	-5	6	231	240
Uruguay		44	-0.1	-0.3	-1	-4	-4		8.7	-4	15	133	147
Hungary		328	-0.4	-1.8	-2	-11	-9		4.4	15	77	282	285
Poland		4.11	0.1	-1.0	-1	-11	-9		3.2	10	21	249	254
Romania		4.4	0.0	-0.7	-1	-9	-9		4.8	-25	5	200	210
Russia		73.8	0.0	-0.2	-2	-1	1		8.5	0	44	290	278
South Africa		16.2	-0.5	-2.8	-6	-8	-9		10.0	1	12	34	39
Turkey		14.70	-2.1	-7.0	-32	-47	-49		21.4	49	302	793	826
US (DXY; 5y UST)		97	0.0	0.7	1	7	7		1.24	-4	-2	87	88

	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		5006	-0.9	0	3	1	-4		202	4	4	-26	-27
Indonesia		6626	0.2	0	0	8	11		172	-3	5	-33	-28
India		57788	-0.6	-1	-4	24	21		132	-6	-4	-21	-19
Philippines		7133	-1.5	0	-3	-2	0		106	-3	3	-16	-6
Malaysia		1483	0.1	-1	-3	-12	-9		116	-1	3	-25	-19
Argentina		82179	0.3	-7	-12	54	60		1691	0	-32	333	335
Brazil		106760	-0.6	-1	0	-8	-10		323	9	6	54	64
Chile		4169	-0.3	-5	-5	3	0		139	-1	7	-23	-17
Colombia		1359	0.4	-4	0	-3	-6		339	12	36	115	124
Mexico		51241	1.6	1	0	18	16		345	4	12	-48	-12
Peru		20117	-0.9	-2	-3	-2	-3		151	-4	-2	-10	22
Hungary		50172	0.0	-2	-3	20	19		123	-4	12	-26	-26
Poland		66789	-1.6	-3	-7	20	17		44	1	-1	18	16
Romania		12212	-0.9	-3	-5	28	25		186	1	7	-26	-17
Russia		3643	0.7	-3	-12	12	11		175	9	23	-11	-4
South Africa		71825	0.4	-1	2	21	21		367	4	26	-22	-17
Turkey		2171	0.6	8	28	56	47		567	22	96	69	120
Ukraine		523	0.0	0	0	3	5		678	44	142	190	185
EM total		48	-0.2	-3	-6	-4	-6		388	5	17	35	50

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

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