



- **Bond market unwinds initial reaction to Powell speech** ([link](#))
- **Flattening US yield curve could indicate faith in Fed policy** ([link](#))
- **Euro area credit spreads widen** ([link](#))
- **Energy markets come under pressure** ([link](#))
- **Special Feature: EM and Frontier Market Issuance Monitor** ([attached](#))

[Mature Markets](#)


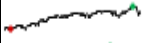







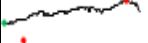
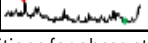
[Emerging Markets](#)

[Market Tables](#)

Omicron variant pushes global markets lower

Stocks in Europe are once again taking heavy losses as markets struggle to understand the potential impact of the omicron variant of the Covid virus. Equity index futures in the US have given up most of their early gains and are trading mixed. Pandemic-affected sectors such as hotels and airlines are once again under pressure worldwide in the new environment of uncertainty. The VIX is trading above 30 for the first time since January, underlining the stress in the markets. However, US Treasury yields are higher despite the global selloff, and the dollar is slightly weaker. In contrast, euro area government bond yields continued their decline. With central bank meetings ahead for the Fed, ECB, and BOE this month, markets are bracing for even higher levels of volatility. Meanwhile, the Turkish lira hit a new record low as the President unexpectedly replaced the Finance Minister. Oil prices are higher ahead of the OPEC+ meeting.

Key Global Financial Indicators

Last updated: 12/2/21 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4513	-1.2	-4	-3	23	20
Eurostoxx 50		4103	-1.8	-4	-4	17	15
Nikkei 225		27753	-0.7	-6	-6	4	1
MSCI EM		49	0.4	-3	-4	-1	-5
Yields and Spreads			bps				
US 10y Yield		1.42	1.4	-22	-13	48	50
Germany 10y Yield		-0.38	-3.8	-13	-22	14	19
EMBIG Sovereign Spread		386	-5	19	29	17	36
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.4	0.3	-1	-4	-8	-10
Dollar index, (+) = \$ appreciation		95.9	-0.2	-1	2	5	7
Brent Crude Oil (\$/barrel)		69.0	0.2	-16	-19	43	33
VIX Index (% change in pp)		29.6	-1.6	11	14	8	7

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

Mature Markets

[back to top](#)

United States

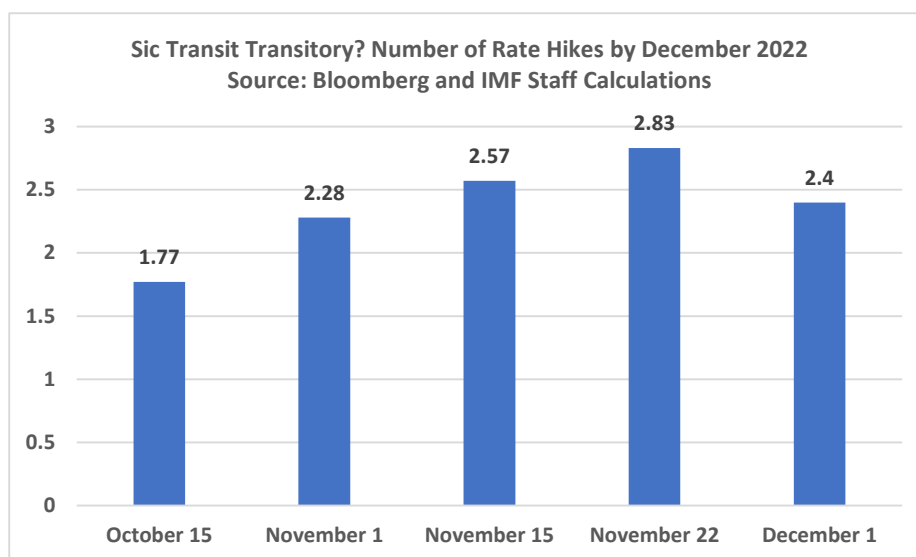
The latest US jobless claims data were better than expected. Last week, initial jobless claims hit a post pandemic low. Treasury yields were slightly higher following the news.

US Jobless Claims Data 8.30 am

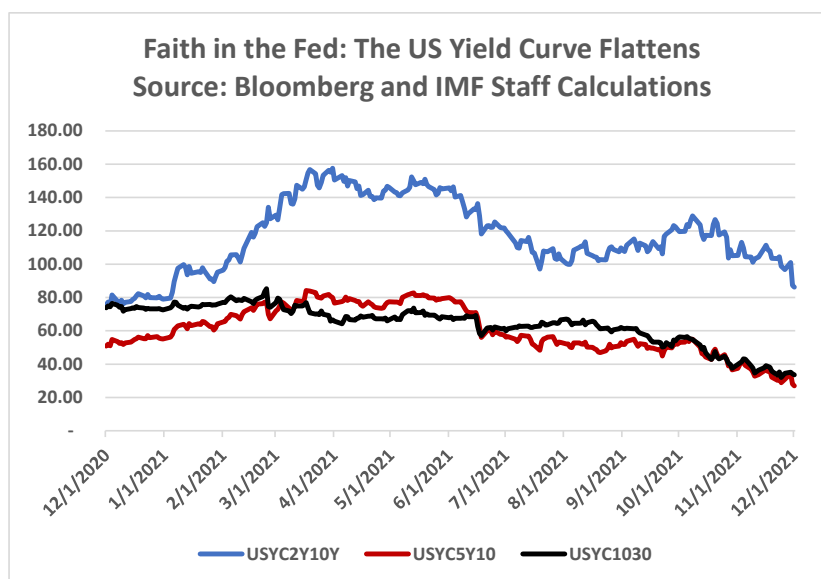
Source: Bloomberg

Indicator	Consensus Forecast	Actual Data
Initial Jobless Claims	240K	222K
Continuing Claims	2002K	1956K

The market has been stepping back from its initial reaction to Fed Chair Powell's speech on Tuesday, which sounded the alarm on inflation and discarded the word "transitory." At the time, rhetoric was seen as hawkish, the long end of the yield curve sold off and the market brought forward its expectations for Fed rate hikes. However, yesterday the Fed Funds futures market lowered its forecast of the number of Fed rate hikes by December 2022, and longer maturity Treasury yields have come back down. With the equity market remaining under severe pressure, mainly due to omicron fears, the bond market appears to be indicating that worries about further lockdowns and other pandemic effects could keep a lid on interest rates despite Mr. Powell's hawkish remarks.

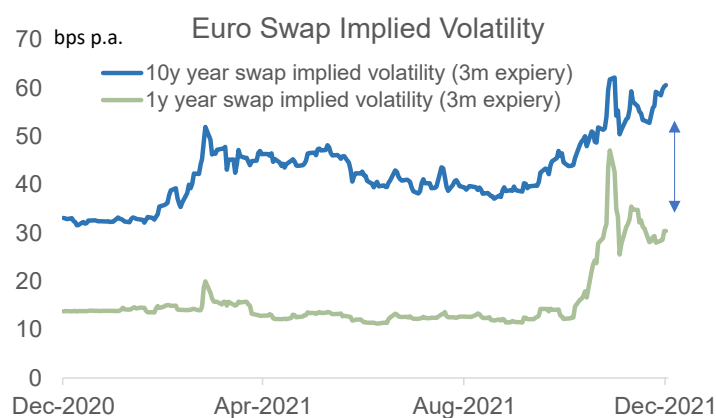


The US yield curve has inverted sharply in recent weeks, even before the omicron news broke on November 25 and even after the inflation scares of the past two months. The five-year/ten-year yield spread fell below 26 bps earlier. Analysts think that this is a signal that the market has faith in the Fed's ability to get inflation under control in the medium term, allowing long term rates to remain relatively low through the cycle. This has occurred despite the recent spike in volatility, both in the VIX equity volatility index and the MOVE interest rate volatility index. If the market was really worried about inflation and Fed's ability to keep it in check, long term interest rates increase sharply and the yield curve would be more likely to steepen.



Euro Area

Stocks were lower and bond yields little changed. **Long-end interest rate option prices continued to climb, reflecting the growing uncertainty around the upcoming December ECB's meeting.** In contrast to the October meeting, market attention has shifted to the long end of the yield curve. This underlines the focus on the changes in the asset purchase programs rather than interest rate hike pricing. The emergence of the omicron variant and the recent comments by the Federal Chairman Powell around a more persistent nature of some of the inflation drivers has further increased the divergence among ECB-watchers, making the December meeting unusually uncertain. Media reports also suggest high uncertainty among ECB Governing Council members as some sought to delay the decision on the Pandemic Emergency Purchases Program to the February ECB meeting.



The 10-year credit spreads of Italy and Spain reached the widest level since the vaccine announcement last November. Since mid-October, spreads have increased by about 15 bps for Spain and 30 bps for Italy even as net supply has been negative given the pace of the ECB's purchases. Contacts note that while the latest rise was led by the virus-led global selloff, **the underlying pressure comes from the increased uncertainty around ECB's policy support going forward. This makes investors less forgiving of fiscal and political risks in both economies.** Both Italy and Spain have enjoyed a positive surprise in terms of growth and budget revenues in 2021, but analysts are concerned that the windfall gains have been used to finance new spending, some of which is structural. Contacts note that politics are also

back in focus. In the context of Spain, these relate to the lack of a majority vis-à-vis uncertainty around structural reforms and smoothness of the NGEU funding. **In Italy, political risks are more acute given the upcoming presidential election in January.** Although not a base case for the market, the risks of Prime Minister Draghi's elevation to the Presidency and the resulting government crises of the choice of Prime Minister are adding to the overall weak sentiment.

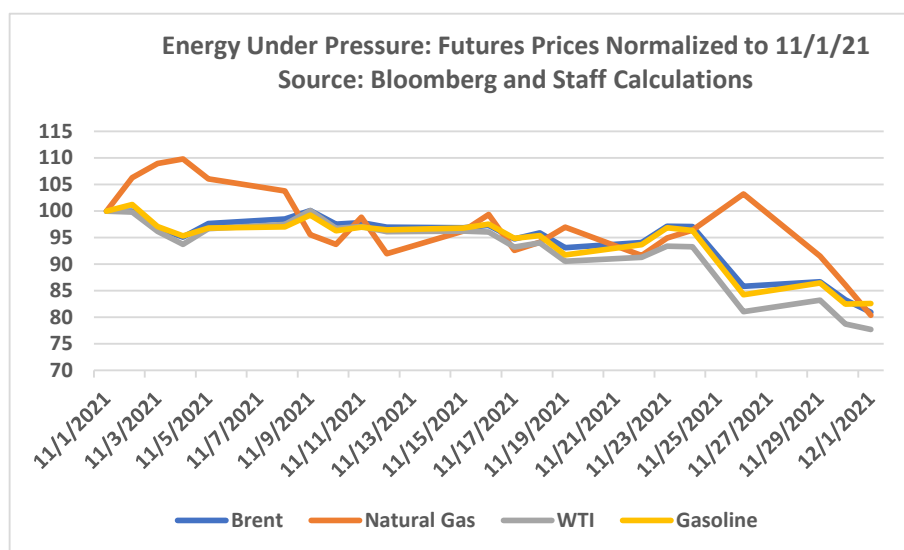
Exhibit 3: Sovereign Spreads on the Move



Source: Goldman Sachs Global Investment Research, Haver Analytics

Commodities

The energy sector has come under severe pressure over the past few weeks. Spot futures prices for Brent, WTI, natural gas and gasoline are down 17-20% since November 1st. The omicron news speeded up the process, but the selloff was already underway before that, despite the refusal of OPEC+ to increase supply. The futures curves have moved further into backwardation, meaning that the prices for futures in the months ahead are lower than spot prices. This likely implies that the markets think energy prices will fall further from current levels. Analysts are of the view that pessimism about the growth of the global economy is the cause of the decline. Some point to the slowdown in China, noting that the nearly 44% decline in iron ore prices is a symptom of Chinese economic weakness, as China is the world's largest consumer of iron ore. Overall commodity price increases have also slowed down, with the Bloomberg Commodity Spot Index up just 2.3% since May.

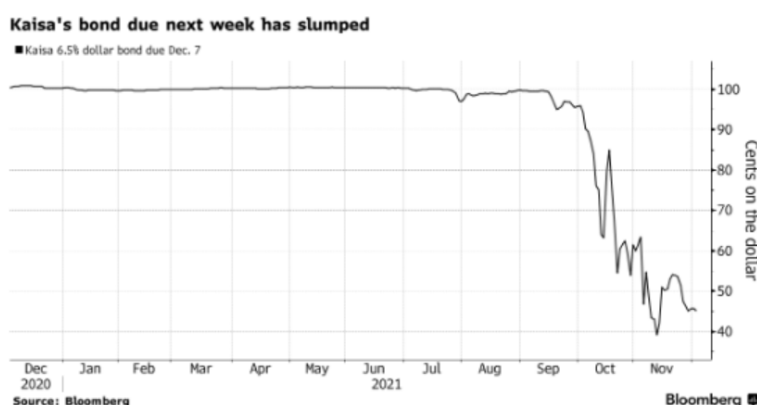


Emerging Markets [back to top](#)

Asian markets saw some gains overnight, but EMEA stocks are being dragged down by the continued selloff in Europe. Earlier, Latin American markets were mixed, with Brazil down and Mexico posting gains. The Hungarian forint was little changed and 10-yr rates (-5 bps to 4.57%) fell after the central bank raised its one-week deposit rate 20 bps to 3.10% (3.05% expected).

China

The property developer Kaisa is the latest real estate company to come into focus. Kaisa will reportedly discuss repayment options with New Money Consortium, a bondholder group claiming to own more than 50% of Kaisa's \$400 mn bond due Dec 7th, after it rejected Kaisa's debt swap offer. The group has reportedly offered Kaisa \$2 bn in liquidity via seven options, which include convertible bond purchases. Meanwhile, some Kaisa's investors are yet to get coupon payments on a \$300 mn note maturing in 2026. The payment was due earlier this week, but there is a 30-day grace period, according to Bloomberg.



Mexico

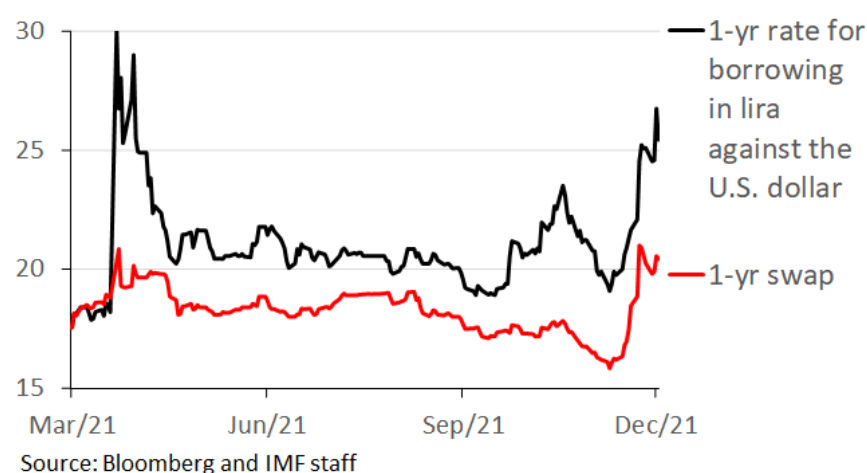
The central bank kept the inflation projections unchanged while cutting the GDP growth forecasts for 2021. According to the quarterly inflation report for 3Q21 published on Wednesday, Banxico maintained the inflation expectations of 6.8% for 2021 and remained cautious on the inflation outlook. Banxico also revised down the economic growth forecasts for 2021 to 5.4% (vs. the previous 6.2%) and slightly raised the GDP growth forecasts for 2022 to 3.2% (vs. the previous 3.0%). Analysts expected the central bank to accelerate the rate hike pace in the next meeting to counter inflation. They also pointed out that Banxico may maintain the current pace due to the uncertainty about the economic impact of the new omicron variant. Mexican risk assets were mixed yesterday, as the equity index rose 0.6% and the peso was slightly weaker.



Turkey

The lira (-2%) gave up the majority of gains made following yesterday's central bank intervention, as contacts believe that the appointment of a new finance minister and comments by governor Kavcioglu signal that rate hikes remain unlikely in the near term. The new finance minister, Nebati, has been a deputy finance minister since 2018. According to news reports, central bank governor Kavcioglu said in a call with analysts that the impact of the current easing cycle will be judged in the first half of 2022. The governor also added that that excessive currency volatility is undesirable and warned that he is uncomfortable with some of the cash flow to crypto assets. Contacts estimate that the central bank intervened in support of the lira with about \$1 bn in spot transactions and \$0.37 bn in the futures markets yesterday. Credit default swap spreads rose 8 bps to 539 bps bps. The 1-yr rate for borrowing in lira against U.S. dollar fell 118 bps today but remains elevated at 26%.

Turkey: Local swap and FX-implied rates



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.

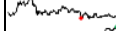

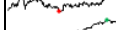



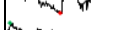

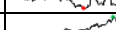
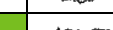








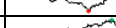



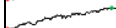



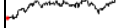


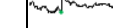



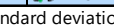




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Global Financial Indicators

Last updated: 12/2/21 8:16 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4508	-1.2	-4	-3	23	20
Europe		4103	-1.8	-4	-4	17	15
Japan		27753	-0.7	-6	-6	4	1
China		3574	-0.1	0	2	4	3
Asia Ex Japan		83	0.1	-3	-3	-3	-7
Emerging Markets		49	0.4	-3	-4	-1	-5
Interest Rates			basis points				
US 10y Yield		1.42	1.4	-22	-13	48	50
Germany 10y Yield		-0.38	-3.8	-13	-22	14	19
Japan 10y Yield		0.06	-0.2	-2	-2	4	4
UK 10y Yield		0.79	-2.9	-18	-25	44	59
Credit Spreads			basis points				
US Investment Grade		119	5.1	8	33	16	24
US High Yield		379	2.5	25	60	-42	-1
Europe IG		58	1.3	4	7	11	10
Europe HY		283	4.0	17	23	32	42
Exchange Rates			%				
USD/Majors		95.86	-0.2	-1	2	5	7
EUR/USD		1.13	0.2	1	-2	-6	-7
USD/JPY		112.8	0.0	-2	-1	8	9
EM/USD		52.4	0.3	-1	-4	-8	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		69	0.2	-16	-19	43	33
Industrials Metals (index)		163	0.0	-4	-2	23	23
Agriculture (index)		59	0.9	-4	0	38	24
Implied Volatility			%				
VIX Index (% change in pp)		29.6	-1.6	11.0	13.5	8.4	6.8
US 10y Swaption Volatility		84.3	0.0	0.6	11.5	28.3	24.1
Global FX Volatility		8.2	0.0	0.4	1.1	0.4	0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		159	3.0	-1	19	37	39
Italy		134	-1.2	3	10	19	23
Portugal		69	-1.1	1	8	10	9
Spain		75	-1.6	0	6	13	14

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

Last updated: 12/2/2021 8:22 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		6.38	-0.1	0.2	0	3	2		3.0	1.5	1	-5	-26	-12
Indonesia		14398	-0.4	-0.8	-1	-2	-2		6.2	7.0	16	14	4	33
India		75	-0.1	-0.6	0	-2	-3		6.3	-4.0	-19	-25	97	79
Philippines		50	-0.1	0.0	0	-5	-5		4.6	0.0	5	25	173	165
Thailand		34	-0.4	-1.5	-2	-11	-12		1.9	5.0	-2	2	60	60
Malaysia		4.23	-0.3	-0.1	-2	-4	-5		3.5	-0.7	-3	-10	81	89
Argentina		101	0.0	-0.3	-1	-19	-17		50.4	-63.3	-46	-97	-338	-579
Brazil		5.64	0.8	-1.3	1	-7	-8		11.3	-4.4	-40	-110	302	390
Chile		837	0.2	-1.9	-3	-10	-15		5.3	1.0	-9	-25	260	279
Colombia		3957	0.4	0.6	-4	-11	-13		6.6	-0.5	-24	23	237	262
Mexico		21.34	0.8	1.0	-3	-6	-7		7.4	1.5	-28	-33	192	206
Peru		4.1	-0.1	-1.2	-2	-11	-11		6.0	0.3	0	6	206	245
Uruguay		44	0.1	0.0	0	-3	-4		8.9	0.0	27	62	144	167
Hungary		320	0.3	2.1	-3	-7	-7		4.2	-11.4	14	45	259	269
Poland		4.05	0.8	2.9	-2	-9	-8		3.1	5.0	-14	25	190	200
Romania		4.4	0.2	1.2	-2	-8	-9		5.1	0.0	4	53	217	234
Russia		73.7	0.5	1.4	-3	2	0		8.8	-10.6	-34	-2	256	229
South Africa		15.8	1.3	0.8	-2	-3	-7		7.6	-8.5	-15	-23	78	104
Turkey		13.46	-1.5	-10.9	-29	-42	-45		21.2	3.0	8	144	867	828
US (DXY; 5y UST)		96	-0.2	-1.0	2	5	7		1.17	3.1	-18	2	75	81

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4856	0.3	-1	1	-4	-7		200	6	5	-26	-29
Indonesia		6584	1.2	-2	0	13	10		189	28	15	-6	-11
India		58461	1.3	-1	-2	31	22		142	11	10	-22	-9
Philippines		7033	1.2	-5	-2	-2	-2		126	24	18	13	14
Malaysia		1502	0.3	-1	-2	-8	-8		120	10	-1	-19	-15
Argentina		85165	7.4	2	-5	54	66		1817	6	103	423	461
Brazil		101102	0.3	-4	-4	-10	-15		337	10	-2	70	78
Chile		4351	0.4	-5	3	5	4		147	10	-15	-15	-9
Colombia		1418	3.2	6	2	10	-1		340	16	37	113	125
Mexico		50007	0.6	-2	-3	14	13		363	13	11	-47	6
Peru		19884	-2.6	-2	-4	-2	-5		167	4	-10	6	38
Hungary		51123	-1.4	-2	-6	30	22		144	27	25	3	-5
Poland		67931	-0.8	-1	-8	26	19		66	22	20	42	38
Romania		12212	0.1	-2	-3	32	25		211	10	13	8	9
Russia		3934	-0.6	0	-6	23	20		178	7	20	-10	-1
South Africa		71000	-0.3	1	5	22	20		381	14	20	-32	-3
Turkey		1879	1.2	3	23	42	27		573	54	76	75	126
Ukraine		523	0.0	0	0	3	5		647	22	131	132	154
EM total		49	0.3	-3	-4	-1	-5		408	17	27	54	69

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

[back to top](#)