



- **US nonfarm payrolls come in much weaker than expected** ([link](#))
- **Futures markets are pricing a shallow rate hike cycle** ([link](#))
- **Bond markets in US see surge of credit upgrades** ([link](#))
- **Euro area PMIs underline diverging trends between countries** ([link](#))
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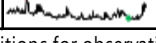
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Markets cautiously optimistic as omicron fears moderate

US equity futures markets followed European stocks higher after Thursday's strong global rally. Multiple reports that omicron symptoms are relatively mild helped boost sentiment. OPEC's decision to gradually increase oil production also reassured markets. In the US, there are indications that a government shutdown is likely to be averted as attention shifts to negotiations over the debt ceiling. The Congressional Budget Office has warned that the US Treasury will run out of money by the December if a deal is not reached. Treasury bond yields are lower in early trading today, but euro area yields are more mixed as countries such as Austria grapple with political crises. In the UK, inflation fears continue to increase. Meanwhile, in Brazil, a major new social spending measure is closer to passage.

Key Global Financial Indicators

| Last updated: 12/3/21 8:07 AM | Level Last 12m | Latest | Change from Market Close | | | | YTD |
|--------------------------------------|---|--------|--------------------------|--------|---------|------|-----|
| | | | 1 Day | 7 Days | 30 Days | 12 M | |
| Equities | | | % | | | | % |
| S&P 500 |  | 4577 | 1.4 | -3 | -2 | 25 | 22 |
| Eurostoxx 50 |  | 4115 | 0.2 | 1 | -5 | 17 | 16 |
| Nikkei 225 |  | 28030 | 1.0 | -3 | -5 | 5 | 2 |
| MSCI EM |  | 50 | 1.2 | -2 | -3 | -1 | -4 |
| Yields and Spreads | | | bps | | | | |
| US 10y Yield |  | 1.43 | -1.5 | -4 | -17 | 52 | 52 |
| Germany 10y Yield |  | -0.37 | -0.3 | -4 | -20 | 18 | 20 |
| EMBIG Sovereign Spread |  | 380 | -6 | 13 | 20 | 14 | 29 |
| FX / Commodities / Volatility | | | % | | | | |
| EM FX vs. USD, (+) = appreciation |  | 52.3 | 0.1 | 0 | -5 | -9 | -10 |
| Dollar index, (+) = \$ appreciation |  | 96.2 | 0.1 | 0 | 3 | 6 | 7 |
| Brent Crude Oil (\$/barrel) |  | 71.7 | 2.9 | -1 | -13 | 47 | 38 |
| VIX Index (% change in pp) |  | 27.2 | -0.7 | -1 | 12 | 6 | 4 |

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 US jobs report was much weaker than expected. The miss on average hourly earnings drew special attention. However, the fall in the unemployment rate and rise in labor force participation were more positive signs. Treasuries and stocks both rallied on the news, reflecting expectations that the Fed might reconsider its plans for accelerating tapering based on the weak labor data.

US November Jobs Report 8.30 am

Source: Bloomberg

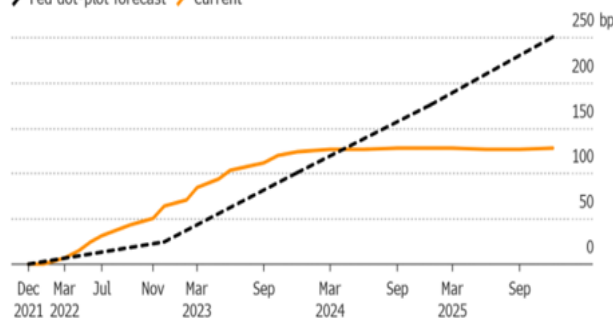
| Indicator | Consensus Forecast | Actual Data |
|--------------------------------|--------------------|-------------|
| Change in Nonfarm Payrolls | 550K | 210K |
| Unemployment Rate | 4.5% | 4.2% |
| Average Hourly Earnings mom | 0.4% | 0.3% |
| Average Hourly Earnings yoy | 5.0% | 4.8% |
| Labor Force Participation Rate | 61.7% | 61.8% |

Interest rate futures markets are pricing in a much shallower Fed hike cycle in comparison to the Fed dot plot. Fed Fund and eurodollar futures markets are predicting a total of 130 bps of rate hikes beginning in June 2022, ending in March 2024. This is equivalent to a little more than five 25 bps rate hikes. The price spread between the December 2024 and 2025 contracts is now close to zero, implying that the market expects no change in rates between those dates. In contrast, the dot plot predicts a terminal rate of 2.50%, the equivalent of 10 rate hikes, with steadily rising rates through the end of 2025. Some contacts expressed worry current market pricing, because if inflation picks up speed and the Fed is forced into more rate hikes than currently predicted, the negative impact on both equities and bonds could be very severe. They view the current market as being “priced to perfection,” with the underlying assumption that the Fed will get everything right and that inflation will be tamed rapidly. These investors are taking the opposite view, positioning for higher Treasury yields and a steeper yield curve.

What's Priced In Now

Markets are pricing a significantly lower terminal rate vs Fed forecasts

✓ Fed dot-plot forecast / Current

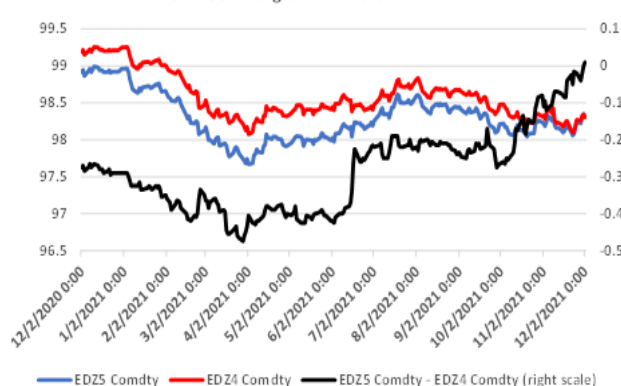


Bloomberg, CME
Change in Fed's interest-rate target implied by overnight index swaps and eurodollar futures

Bloomberg

Come Together: the Dec. 2024/2025 Eurodollar Spread

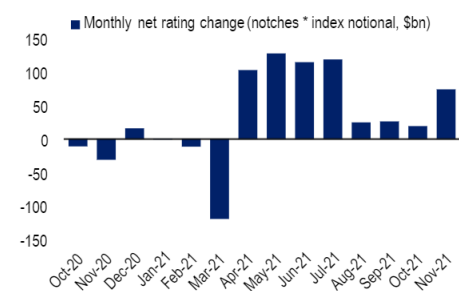
Source: Bloomberg and IMF Staff Calculations



The US corporate bond market saw a surge of credit upgrades as business conditions and earnings improved despite the impact of the pandemic. November saw \$74.1 bn of upgrades, compared to just \$19.2 bn in October. In addition, \$17.5 bn of high yield (HY) bonds were upgraded to investment grade (IG) in November in addition to \$13.3 bn in October, and there were no downgrades in either month. Most of the upgrades occurred in energy, the automobile sector, and banks. However, compared to December 2019, only 52% of the market has been upgraded following the massive downgrade wave of 2020. IG credit spreads held relatively steady since the omicron news, but HY spreads are noticeably wider. Contacts report that their counterparties are holding on to their positions, with few attempting to sell bonds in the midst of the recent market decline.

Figure 2: Pace of upgrades rebounded in November

Net upgrades peaked at \$116bn average monthly pace from Apr to Jul 2021, before slowing since August.



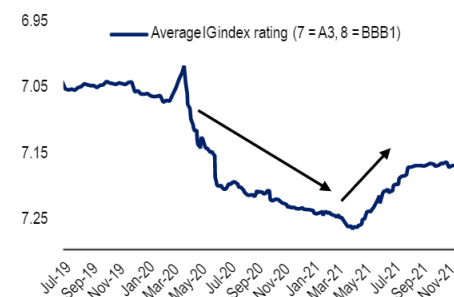
Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index COA0

Source: BofA Global Research

BofA GLOBAL RESEARCH

Figure 3: Index rating has retraced 52% of downgrades since 2020

The average index rating has been increasing since mid-April, but the pace has slowed over the past two months.



Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index COA0, ex. downgrades to HY and upgrades from HY since 2019.

Source: BofA Global Research

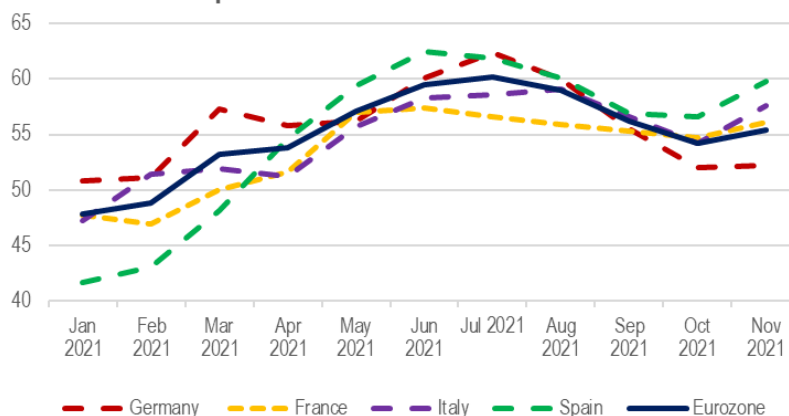
BofA GLOBAL RESEARCH

Euro Area

Christine Lagarde noted that the ECB may set policy for a relatively short period in December given heightened uncertainty. She dismissed the possibility that a decision will be delayed, as markets need direction, according to Reuters. She also reaffirmed the ECB's view that inflation will decline in 2022, and that she does not see interest rate increases in 2022. In a separate discussion, Klaas Knot supported the view of no interest rate increases in 2022 but did not rule out increases in 2023. **Southern European spreads tightened by 2-4 bps after PMI data from Spain and Italy surprised on the upside.** The euro (+0.1%) was marginally higher this morning.

Final eurozone November PMI data showed stronger growth, but with uneven recoveries across the region. The final eurozone composite output index (55.4) was below an earlier flash estimate (55.8), but remained above historical averages, mainly supported by the services sector as manufacturers continued to face supply constraints. **Data across member states varied, with Spain, Italy and France recording quicker upturns while Germany showed the slowest expansion.** Price pressures, however, remained widespread with record-high rates of input cost inflation. IHS economists warn that the growth pickup signaled by the PMI reading is likely to be short-lived with demand growth weakening and businesses' expectations for future growth declining amid pandemic concerns.

Eurozone: Composite PMI



Source: Bloomberg and IMF calculations

The risk of a political crisis in Austria seen as growing after a series of resignations. Austrian Chancellor Alexander Schallenberg and Finance Minister Gernot Blumel announced on Thursday that they are stepping down, following news that Sebastian Kurz announced that he is stepping down as the Austrian People's party leader. ING analysts note that Schallenberg will remain in office until there is a new chancellor or party leader, and in a worst case scenario sees snap elections as an option in early 2022.

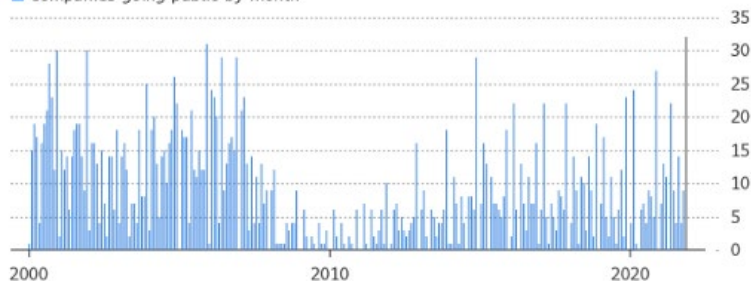
Japan

Japan stocks gained +1.6%. Monthly public listings are likely to hit a record of 32 in December, with new listings of IT startups in 2021 up to a 15-year high, Bloomberg reports. Separately, as part of Omicron preventive measures, **Japan voided special visas for foreign nationals for a month.** Visas will now be issued only to Japanese family members, diplomats, and those entering on humanitarian and public interest grounds. Separately, **Deputy Finance Minister Kanda called for caution on ESG bond issuance by the state.** He said that ESG bond issuance separate from JGBs could cause less efficient borrowing, according to Bloomberg. A ministry report earlier this year pointed out that lower liquidity in ESG bonds could lead to higher funding costs for the nation. Meanwhile, The Japan Housing Finance Agency sold a 40 bn yen (\$353mn) five-year green security with a yield of minus -0.115%, which is more negative than Japan's government bond of the same maturity.

Listing Frenzy

A record number of companies are set to list in Japan this month

■ Companies going public by month

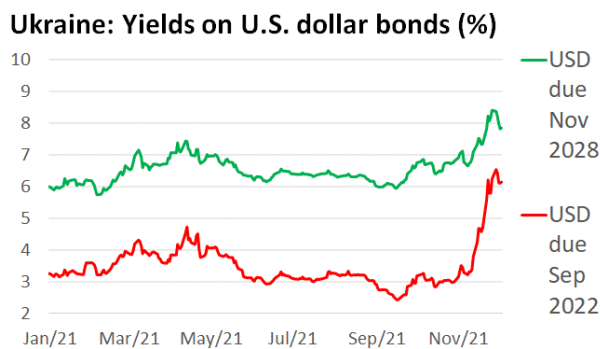


Source: Bloomberg, Japan Exchange Group Inc.

Bloomberg

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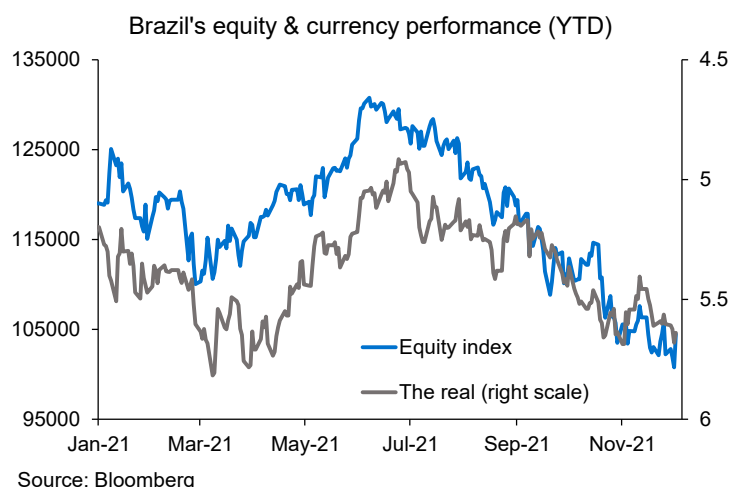
EMEA markets were mixed ahead of U.S. labor data. The Russian ruble and equities were little changed after the PMI services disappointed at 47.1 (49.5 expected) and the U.S. government warned Russia of serious consequences in case of a military move against Ukraine. Yields on Ukrainian U.S. dollar bonds edged lower in past days after a sharp rise in past weeks. **Latin American markets surged in step with US markets, with stocks, bonds and currencies all posting solid gains.**



Source: Bloomberg and IMF

Brazil

Brazil's Senate approved a bill that loosens the country's spending cap, providing budget room for a new social program. President Bolsonaro launched the new program in October, pledging to offer monthly payments of 400 reais (\$71) to about 17 million low-income families through the end of 2022. The measure now moves to the lower house for approval. Meanwhile, **Brazil's economy entered a technical recession in the third quarter.** GDP declined 0.1% q/q in 3Q21 after shrinking 0.4% q/q in the previous quarter. The contraction was mainly driven by an 8% drop in agriculture amidst a drought. Analysts expect GDP to rebound in 1Q22 due to a recovery in agricultural production, but project further declines after that.

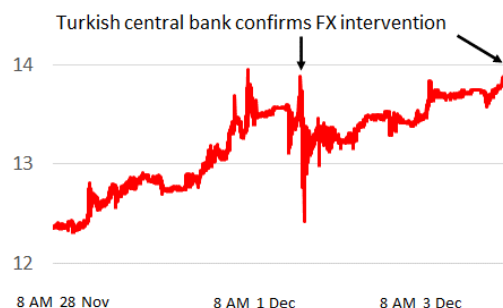


Source: Bloomberg

Turkey

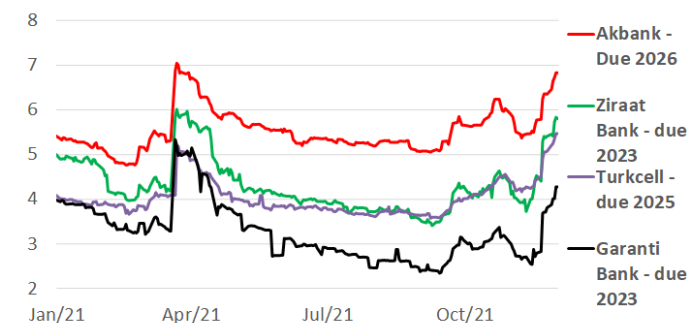
The lira (-0.5%) erased large declines after the central bank intervened for a second time this week after inflation unexpectedly accelerated to 21.3% yoy (20.7% expected) in November. Core inflation was 17.6% yoy (17.5% expected) as the head of the CHP opposition party Kilicdaroglu warned that inflation data is not trustworthy.

Turkey: Turkish lira in past 5 days
(per U.S. dollar, tick data)



Ratings agency Fitch cut its outlook on Turkey (current rating: BB-) to negative citing premature monetary policy easing, the prospect of further rate cuts, the sharp depreciation of the currency, unprecedented intra-day FX volatility and rising inflation. 5-yr CDS spreads were little changed today but widened 87 bps to 537 bps since late October. Yields on U.S. dollar bonds of corporates and banks have also widened materially.

Turkey: Yields on U.S. dollar bonds of banks and corporate (%)



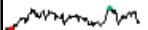


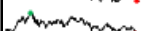

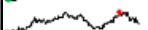

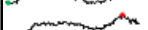





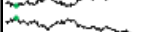


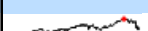

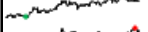
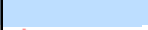



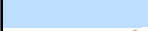




Source: Bloomberg and IMF

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Global Financial Indicators

| Last updated: 12/3/21 8:10 AM | Level | | Change | | | | YTD |
|----------------------------------|---|--------|----------------------------------|--------|---------|------|------|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | |
| Equities | | | % | | | | % |
| United States |  | 4580 | 1.4 | 0 | -2 | 25 | 22 |
| Europe |  | 4115 | 0.2 | 1 | -5 | 17 | 16 |
| Japan |  | 28030 | 1.0 | -3 | -5 | 5 | 2 |
| China |  | 3607 | 0.9 | 1 | 3 | 5 | 4 |
| Asia Ex Japan |  | 84 | 1.1 | -2 | -2 | -3 | -6 |
| Emerging Markets |  | 50 | 1.2 | -2 | -3 | -1 | -4 |
| Interest Rates | | | basis points | | | | |
| US 10y Yield |  | 1.43 | -1.5 | -4 | -17 | 52 | 52 |
| Germany 10y Yield |  | -0.37 | -0.3 | -4 | -20 | 18 | 20 |
| Japan 10y Yield |  | 0.05 | -1.0 | -2 | -3 | 3 | 3 |
| UK 10y Yield |  | 0.79 | -2.2 | -4 | -29 | 47 | 59 |
| Credit Spreads | | | basis points | | | | |
| US Investment Grade |  | 119 | -2.1 | 6 | 27 | 18 | 24 |
| US High Yield |  | 372 | -2.4 | -8 | 51 | -43 | -8 |
| Europe IG |  | 57 | -0.4 | -1 | 6 | 10 | 9 |
| Europe HY |  | 277 | -3.3 | -10 | 19 | 33 | 36 |
| Exchange Rates | | | % | | | | |
| USD/Majors |  | 96.23 | 0.1 | 0 | 3 | 6 | 7 |
| EUR/USD |  | 1.13 | -0.1 | 0 | -3 | -7 | -8 |
| USD/JPY |  | 113.4 | 0.2 | 0 | -1 | 9 | 10 |
| EM/USD |  | 52.3 | 0.1 | 0 | -5 | -9 | -10 |
| Commodities | | | % | | | | |
| Brent Crude Oil (\$/barrel) |  | 72 | 2.9 | -1 | -13 | 47 | 38 |
| Industrials Metals (index) |  | 163 | 0.9 | 0 | 0 | 23 | 23 |
| Agriculture (index) |  | 60 | 0.9 | -2 | 2 | 38 | 25 |
| Implied Volatility | | | % | | | | |
| VIX Index (%, change in pp) |  | 27.2 | -0.7 | -1.4 | 12.1 | 5.9 | 4.5 |
| US 10y Swaption Volatility |  | 87.0 | 0.4 | -4.5 | 13.5 | 32.4 | 26.9 |
| Global FX Volatility |  | 8.2 | 0.0 | -0.3 | 1.2 | 0.2 | 0.2 |
| EA Sovereign Spreads | | | 10-Year spread vs. Germany (bps) | | | | |
| Greece |  | 159 | 0.9 | -5 | 22 | 40 | 39 |
| Italy |  | 129 | -2.9 | -1 | 8 | 14 | 18 |
| Portugal |  | 66 | -1.5 | -2 | 7 | 7 | 6 |
| Spain |  | 73 | -1.7 | -3 | 4 | 11 | 12 |

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

| Last updated: 12/3/2021 8:12 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 | | 6.37 | 0.1 | 0.4 | 1 | 3 | 2 | | 3.0 | 0.5 | 5 | -6 | -27 | -12 |
| Indonesia | | 14420 | -0.2 | -0.4 | -1 | -2 | -3 | | 6.3 | 3.6 | 16 | 18 | 5 | 37 |
| India | | 75 | -0.2 | -0.4 | -1 | -2 | -3 | | 6.2 | -7.0 | -19 | -31 | 88 | 72 |
| Philippines | | 50 | 0.0 | 0.1 | 0 | -5 | -5 | | 4.6 | 0.0 | 5 | 25 | 175 | 165 |
| Thailand | | 34 | -0.1 | -0.7 | -2 | -11 | -12 | | 1.8 | -1.0 | 3 | 4 | 39 | 59 |
| Malaysia | | 4.23 | 0.1 | 0.2 | -2 | -4 | -5 | | 3.5 | 0.5 | 1 | -9 | 81 | 89 |
| Argentina | | 101 | -0.1 | -0.4 | -1 | -19 | -17 | | 50.5 | 17.2 | -35 | -88 | -328 | -562 |
| Brazil | | 5.64 | 0.0 | -0.6 | -1 | -8 | -8 | | 11.1 | -11.2 | -49 | -82 | 320 | 374 |
| Chile | | 835 | 0.4 | -0.4 | -3 | -10 | -15 | | 5.3 | 0.0 | -6 | -35 | 250 | 274 |
| Colombia | | 3939 | 0.0 | 1.9 | -3 | -12 | -13 | | 6.6 | 0.0 | -20 | 0 | 239 | 258 |
| Mexico | | 21.25 | 0.1 | 3.2 | -3 | -6 | -6 | | 7.4 | 0.0 | -24 | -34 | 187 | 199 |
| Peru | | 4.1 | 0.0 | -0.9 | -2 | -11 | -11 | | 6.0 | 0.5 | 7 | 9 | 210 | 247 |
| Uruguay | | 44 | 0.1 | 0.2 | 0 | -3 | -4 | | 8.9 | 1.0 | 28 | 63 | 144 | 168 |
| Hungary | | 322 | 0.0 | 1.1 | -4 | -9 | -8 | | 4.2 | 0.0 | 30 | 42 | 255 | 265 |
| Poland | | 4.07 | 0.0 | 2.3 | -3 | -10 | -8 | | 3.0 | -2.5 | 9 | 10 | 183 | 196 |
| Romania | | 4.4 | -0.1 | -0.2 | -3 | -8 | -9 | | 5.1 | 0.9 | 3 | 52 | 221 | 234 |
| Russia | | 73.5 | 0.2 | 2.8 | -2 | 1 | 1 | | 8.7 | -1.1 | -22 | -16 | 252 | 227 |
| South Africa | | 15.9 | 0.2 | 2.4 | -4 | -5 | -8 | | 7.6 | -6.0 | -34 | -35 | 72 | 96 |
| Turkey | | 13.83 | -1.0 | -10.8 | -30 | -44 | -46 | | 21.3 | 15.0 | 21 | 159 | 861 | 843 |
| US (DXY; 5y UST) | | 96 | 0.1 | 0.2 | 3 | 6 | 7 | | 1.20 | -0.8 | 4 | 1 | 80 | 84 |

| | 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 | | 4901 | 0.9 | 1 | 1 | -3 | -6 | | 198 | 4 | 1 | -29 | -31 |
| Indonesia | | 6539 | -0.7 | 0 | -1 | 13 | 9 | | 182 | 21 | 0 | -13 | -18 |
| India | | 57696 | -1.3 | 1 | -4 | 28 | 21 | | 138 | 7 | 3 | -21 | -13 |
| Philippines | | 7055 | 0.3 | -4 | -4 | -1 | -1 | | 120 | 18 | 6 | 6 | 8 |
| Malaysia | | 1502 | 0.0 | -1 | -2 | -8 | -8 | | 120 | 10 | -5 | -18 | -15 |
| Argentina | | 87451 | 2.7 | 3 | -5 | 59 | 71 | | 1808 | -3 | 83 | 408 | 452 |
| Brazil | | 104466 | 3.7 | 2 | -1 | -7 | -12 | | 328 | 1 | -14 | 60 | 69 |
| Chile | | 4414 | 1.0 | -4 | 2 | 5 | 6 | | 146 | 9 | -18 | -12 | -10 |
| Colombia | | 1441 | 1.6 | 9 | 3 | 11 | 0 | | 333 | 9 | 25 | 109 | 118 |
| Mexico | | 50927 | 1.8 | 1 | -2 | 16 | 16 | | 360 | 10 | 5 | -49 | 3 |
| Peru | | 20164 | 1.4 | 0 | -2 | -2 | -3 | | 164 | 1 | -15 | 5 | 35 |
| Hungary | | 51581 | 0.3 | 1 | -6 | 33 | 23 | | 140 | 23 | 20 | 0 | -9 |
| Poland | | 68274 | 0.1 | 3 | -6 | 27 | 20 | | 62 | 18 | 9 | 38 | 34 |
| Romania | | 12405 | 1.6 | -1 | -3 | 31 | 27 | | 205 | 4 | 5 | 1 | 2 |
| Russia | | 3950 | 0.1 | 4 | -6 | 25 | 20 | | 169 | -2 | 8 | -17 | -10 |
| South Africa | | 71094 | 0.1 | 4 | 4 | 21 | 20 | | 370 | 3 | 9 | -36 | -14 |
| Turkey | | 1912 | 1.7 | 8 | 24 | 44 | 29 | | 576 | 57 | 84 | 84 | 129 |
| Ukraine | | 523 | 0.0 | 0 | 0 | 3 | 5 | | 633 | 8 | 104 | 127 | 140 |
| EM total | | 50 | -0.4 | -2 | -3 | -1 | -4 | | 401 | 10 | 16 | 48 | 62 |

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

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