GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, DECEMBER 9, 2021

- **China raises foreign currency RRR for second time this year amid CNY strength** (link)
- **Brazil hiked its policy rate by 150 bps** (link)
- **Poland hikes 50 bps, maintains a tightening bias** (link)
- **China factory inflation eased from 26-year high in November** (link)
- **Bank of Canada stayed on hold; markets pared back rate hike expectations** (link)
- **G-SIB scores indicate benign year-end funding pressures** (link)
- **Japan's new tax plan includes incentives for firms to lift wages** (link)

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Markets drift after unwinding Omicron losses

Investors are pausing this morning after reversing initial post-Omicron price action. Global equity markets had recovered much of their Omicron-related losses through yesterday's trading, with implied volatility continuing to recede. Long-dated government bond yields in advanced economies and EM sovereign spreads have similarly retraced much but not all of their initial post-Omicron moves. The key driver has been positive news flow on the Omicron variant, with the latest being Pfizer's initial assessment that 3 shots neutralizes the variant. Risk assets are more mixed this morning however as investors weigh a new round of mobility restrictions in the UK and more confirmation of the new COVID variant's elevated transmissibility. In China, Mainland-listed stocks are moving higher on easing bets even as troubled mega-developer Evergrande is finally declared in default by a major ratings agency.

Key Global Financial Indicators

Last updated: 12/9/21 8:07 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4701	0.3	4	0	28	25
Eurostoxx 50		4210	-0.5	2	-3	19	19
Nikkei 225		28725	-0.5	4	-1	7	5
MSCI EM		50	0.4	3	-2	0	-3
Yields and Spreads					bps		
US 10y Yield		1.49	-3.4	4	5	55	57
Germany 10y Yield		-0.36	-4.5	1	-6	25	21
EMBIG Sovereign Spread		362	-5	-24	14	-1	11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.4	-0.3	0	-5	-9	-10
Dollar index, (+) = $ appreciation		96.1	0.3	0	2	6	7
Brent Crude Oil ($/barrel)		74.9	-1.2	8	-12	53	45
VIX Index (%, change in pp)		20.5	0.6	-7	3	-2	-2

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

Mature Markets

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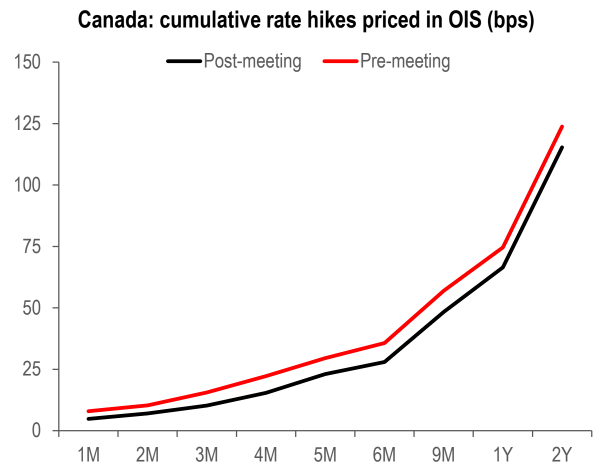
United States

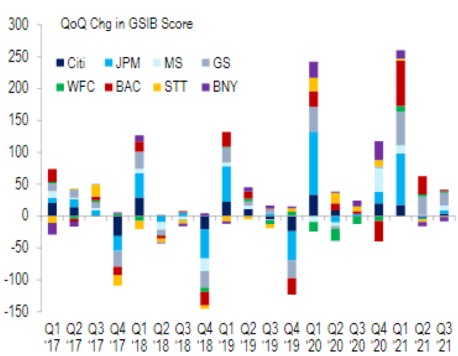
US stocks rose for a third straight day as fears over omicron eased further after Pfizer/BioNTech showed a third dose of its vaccine neutralizes the variant. Re-opening sectors outperformed, while tech sector consolidated after a strong rebound earlier this week. The VIX index is now back below 20. The Treasury curve steepened with short rates slightly down while 10- and 30-year yields up by 5bps and 9bps, respectively. The $36 bn 10-year note offering was sold at 1.51%, tailing the when-issued rate, but bidding was better than expected, with contacts reporting short cover demand. The JOLTS report confirmed the strong labor market with tight supply. Job openings rose more than expected to 11 mn in October while the quits rate eased to 3.1%, still high by historical standards.

Canada

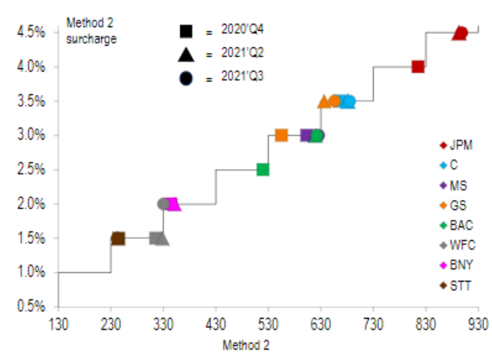
Bank of Canada left the policy rate and guidance unchanged, falling short of signaling a January lift-off, though changes to the statement indicate progress towards normalization. The bank maintained guidance that the output gap is expected to close in mid-2022, while markets were expecting a more explicit signal of a January hike. However, other changes to the statements were viewed as hawkish. The bank removed reference to labor market slack, instead acknowledged that employment rate is “essentially back to its pre-pandemic level”. On inflation, “temporary” was dropped when describing “factors pushing up prices”, while supply constraints were highlighted for potential upside inflation risks. The OIS curve shifted lower with the 2-year yield down 8 bps as investors pared back rate hike premium. Attention now turns to Dep. Gov. Gravelle’s Economy Progress Report later today.



Q3 G-SIB scores remain elevated but the pace of increase has slowed and year-end funding pressures are expected to be benign. Aggregate Q3 scores were marginally higher following record increase earlier this year. The increase was driven by short-term wholesale funding (Morgan Stanley and Goldman Sachs in particular), size, and cross-jurisdictional exposures. Banks are expected to remain in higher surcharge buckets into Q4 and would need to reduce balance sheet and intermediation in order to drop into a lower surcharge bucket. With continued QE and ample liquidity, banks have indicated that there will be less pressure to reduce scores this year while also expecting Fed to recalibrate coefficients next year.



Source: Citi Research, Y-15



Source: Citi Research, Y-15

Europe

European equities are little changed in muted trading this morning, with the STOXX 600 Index reversing early morning gains. The real-estate sector outperformed (+0.6%) while the energy sector underperformed (-1%) in line with lower oil prices. Bloomberg reports that market strategists see headwinds abating in 2022 for short-term for smaller European companies, which have lagged their larger counterparts since September, amid expectations of a steeper yield curve and easing supply-chain disruptions in the second quarter. **The euro depreciated (-0.3%) and yields fell** with 10-year bunds (-3bps at -0.35%). Southern spreads were little changed.

Natural gas prices in Europe fell (-3%) this morning after reports that supply from Norway increased and milder temperatures were forecast for next week.

ECB policy makers are seen as likely to increase the regular Asset Purchase Program (APP) temporarily after the emergency program comes to an end in March, according to Reuters. A consensus is reportedly forming around the increase in the APP among ECB policy makers, with flexibility to tailor limits on the size and timing of the commitment later. The decision is expected to be taken at the December ECB policy meeting and while the details are not yet determined, in this scenario the ECB is expected to either approve the purchase envelope until year-end while making it clear that not all will be spent, or alternatively increase purchases for a shorter period with a commitment to continue purchases afterwards with the size to be determined later based on economic developments.

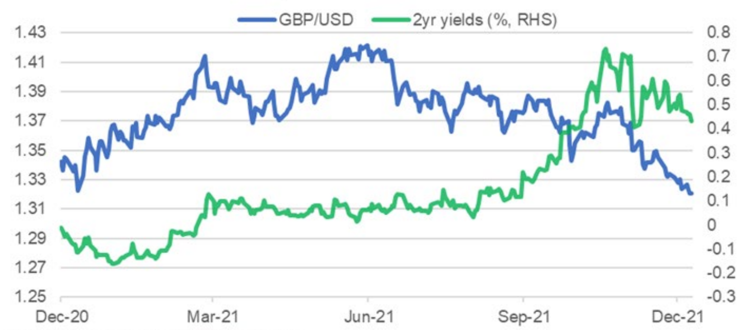
Denmark

The Kingdom of Denmark plans to sell its inaugural green bond in early 2022 to help finance its transition towards climate neutrality. The proposed 10-yr bond is expected to be issued as a so-called “twin-bond” with maturities, interest payment dates and coupons matching the government’s existing on-the run issues, with the issuance volume expected to be announced later this month. The central bank noted that the opening is contingent on stable market conditions, and that the debt would be closely aligned with the EU’s sustainable taxonomy.

United Kingdom

The pound fell (-0.3%) to a one-year low against the dollar after pandemic rules were tightened yesterday. The so-called Plan-B mandates the use of vaccine passports and advises people to work from home. The change in approach is generally expected to weigh down the economy with pandemic emergency support tools, like the furlough scheme, no longer in place. On the data front the starting salaries increased at a record pace in November amid labor shortages, according to a survey by the Recruitment and Employment confederation and KPMG. With the UK CPI data due one day ahead of the interest rate decision later this month, some analysts warns **that high inflation and no increase in interest rates could further weigh on the pound.** Analysts continue to push back their forecasts for the UK’s first post-pandemic rate hike, however an increase is not completely ruled out. There is currently 5bp of the 15bp of tightening priced in for the December meeting, compared to 8bp one week ago. **This morning yields fell across the curve, with the 2-yr yields down 5bps to 0.39%.**

UK: Yields and currency



Source: Bloomberg and IMF calculations

Japan

Japan's ruling coalition approved a draft 2022 tax plan including incentives for firms that lift wages. Under the proposed reform, Japan will deny some tax breaks to big firms that do not hike wages, while boosting deductions for those that do, Bloomberg reports. Large companies to get up to 30% of tax rebates and smaller companies up to 40% tax rebate for raising taxes. Among other changes, tax rebate for home mortgages will be extended for four years but reduced to 0.7% from 1%. On the capital gains tax, the government plans to "comprehensively consider" and look at ways to fight tax evasion in derivatives trading, but no policy specifics were provided in the reform document, according to Reuters. The final approval of the package is expected on Friday. Separately, **Japan's weekly net foreign share buying hit record of ¥1.2 tn ($10.7 bn).** Some analysts attribute the surge in buying to portfolio rebalancing moves following recent global equity price slides. Separately, machine tool orders eased 2.6% m/m from previous highs but was still 64% higher than a year ago. **Equities slipped -0.6%, the yen strengthened +0.2%, 10-year yield was little changed.**

Emerging Markets

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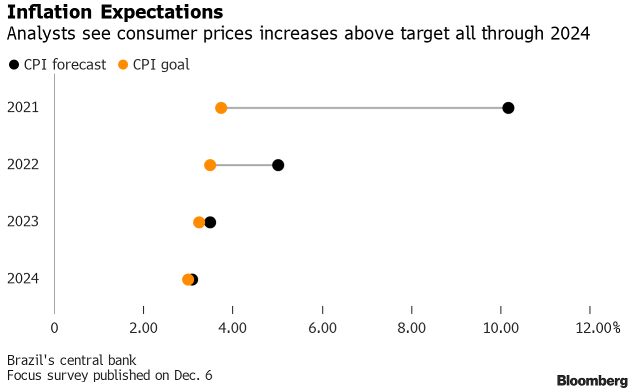
Asian equities gained +0.7% on net. China (CSI 300 +1.7%) and the Philippines (+1.2%) outperformed. **Asian currencies were mixed.** Malaysia ringgit (+0.2%) and Philippine peso (+0.2%) strengthened, while the Singapore dollar depreciated (-0.2%). **10-year yields were little changed.**

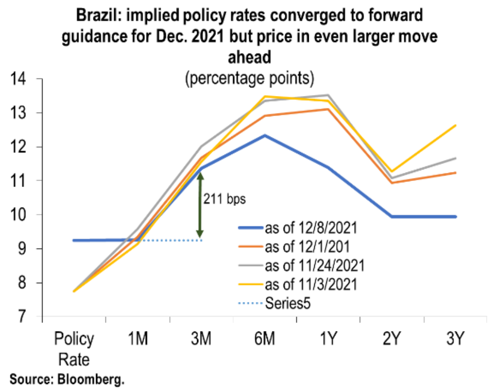
EMEA equity indices **were mostly trading higher with markets up in Turkey (+1.7%), Russia (+1.4%) and the UAE (+0.7%).** EMEA currencies **were little changed except for the Turkish lira (-0.6%). Russian inflation rose to above the expected 8.4% yoy in November with core price growth jumping from 8% to 8.7%.** The Central Bank of Russia Dep. Gov. Zabotkin signaled a bigger than 25 bps rate hike at the December meeting with markets already pricing a 100 bps increase. The National Bank of Hungary **raised its weekly deposit rate by 20 bps to 3.3%, in line with market expectations.**

Latin American asset markets predominantly posted gains. Local asset markets in the Andeans, Chile and Argentina remained closed on Wednesday. Brazilian (+0.5%) and Mexican (+0.3%) stocks registered moderate gains. Most currencies in the region appreciated with the real (+1.4%) leading, followed by the Mexican peso (+0.5%). Sovereign hard currency spreads tightened at the ten-year horizon as the region's treasury yield curves steepened less than the US curve. Ten-year local currency treasury yields fell in Brazil by 18 bps and in Mexico by 2 bps. The Brazilian digital bank Nubank raised yesterday in its US IPO $2.6 bn at a price of $9 per share. Based on yesterday's IPO price, Nubank is now valued at $41 bn and is hence the most valuable listed bank in the region.

Brazil

Brazil hiked its policy rate by 150 bps. Brazil's central bank raised yesterday its policy rate to 9.25%, as widely expected by markets. Pointing to persistent inflation and risks to economic recovery emanating from the Omicron variant, the central bank increased its projected trajectories for inflation and local interest rates over the short run. With inflation for 2022 projected to 5% y/y, at the upper border of the tolerance range around the 3.5% target, the central bank foresees another 150 bps hike in its February 2022 monetary policy committee meeting, while markets currently price in an even larger move. Yesterday, inflation printed 15 bps higher than expectations (1.2% m/m) while retail sales data showed a 7.1% y/y drop in October, highlighting the central bank's difficult environment. The real continued to appreciate during the day, allowing local rates to decline on the margin even as global yields rose.

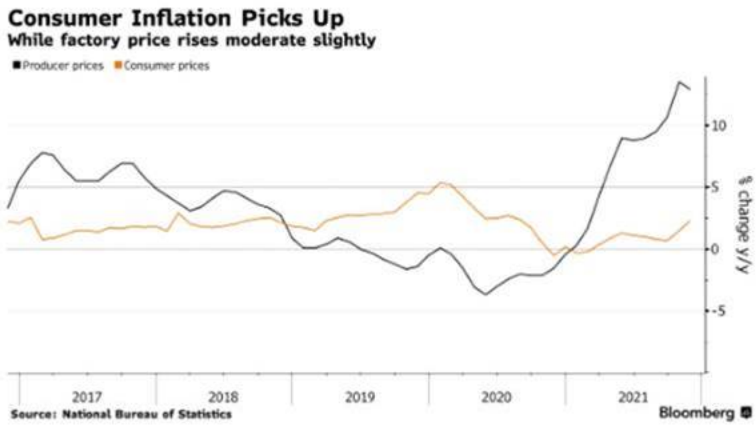




China

The PBC announced it will raise the foreign currency reserve requirement ratio (RRR) by 200 bps, to 9.0%, effective next week. The move will mop up onshore and USD liquidity by around $20 bn, according to analysts, tightening USD interbank rates in the onshore market and ease RMB appreciation pressures at the margin. The tool was used this past June for the first time since before the 2008 crisis.

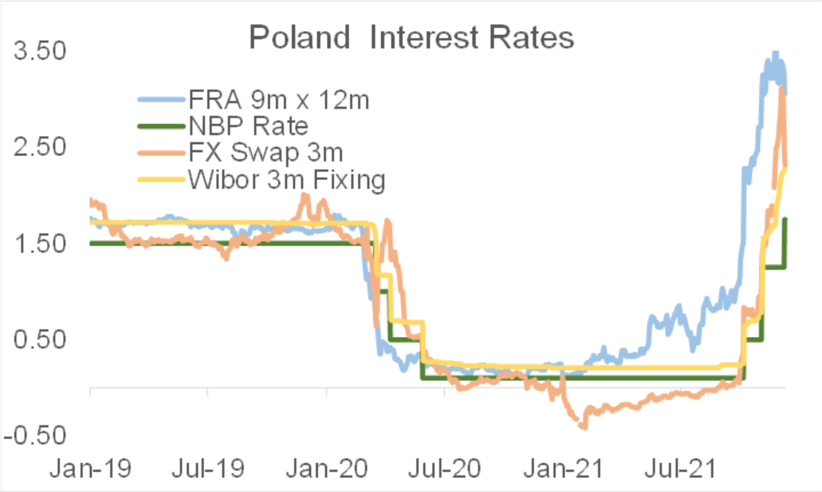
The gap between factory and consumer inflation narrowed in November. Producer price inflation (PPI) eased from 26-year high recorded in October. PPI moderated to 12.9% y/y (consensus: 12.1%) from 13.5% y/y in the previous reading. Consumer inflation accelerated less than expected to 2.3% y/y (consensus: 2.5%) from 1.5% in October. The inflation dynamic may allow the government to ramp up efforts to arrest the property-led weakness in demand, according to Citi. **Meanwhile, China's credit growth picked up in November,** boosted by faster sales of corporate and government bonds and a slight easing of property-related lending. Aggregate financing reached 2.61tn yuan ($411bn) up from 1.59tn yuan in October and compared with 2.1tn yuan in November 2020.



Fitch cut Evergrande and Kaisa ratings to Restricted Default. Relatedly, **China's central bank Governor signaled no bailouts for Evergrande.** Governor Yi said that the Group's liabilities will be dealt with in a market-oriented way and that the rights and interests of the developer's shareholders and creditors will be "fully respected" according to legal seniority. **Chines stocks rallied (Shanghai +1%, Shenzhen +0.9%), renminbi and 10-year bond yields were little changed.**

Poland

The National Bank of Poland increased its policy rate by 50 bps, to 1.75%. While the hike was in line with the median economist consensus, markets were bracing for a 75 bps move. Forward rate agreements fell by around 15-20 bps across the curve while the zloty weakened by 0.5% against the euro after the decision. The central bank statement suggested that further tightening will be data dependent with some **analysts noting that while another rate hike in January now looks less certain, policy tightening is likely to continue next year until the key rate is closer to 3%.** Contacts have also pointed out that domestic money market rates, implied by the Wibor interbank fixing as well as currency swap implied yields, were trading at levels that are consistent with a policy rate above 2%. While this partly reflects built-in rate hike expectations, it is also a result of money market liquidity imbalances due to year-end effects and long-zloty position unwinds by international investors.



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Global Financial Indicators

Last updated: 12/9/21 8:07 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4697	0.3	3	0	28	25
Europe		4210	-0.5	2	-3	19	19
Japan		28725	-0.5	4	-1	7	5
China		5079	1.7	5	5	3	-3
Asia Ex Japan		86	0.6	3	-1	-2	-4
Emerging Markets		50	0.4	3	-2	0	-3
Interest Rates					basis points		
US 10y Yield		1.49	-3.4	4	5	55	57
Germany 10y Yield		-0.36	-4.5	1	-6	25	21
Japan 10y Yield		0.05	-0.3	-2	-2	3	3
UK 10y Yield		0.71	-6.2	-10	-11	45	52
Credit Spreads					basis points		
US Investment Grade		117	1.3	3	9	14	22
US High Yield		354	1.6	-20	17	-47	-26
Europe IG		52	-0.9	-5	4	5	4
Europe HY		261	-3.1	-21	15	18	18
Exchange Rates					%		
USD/Majors		96.14	0.3	0	2	6	7
EUR/USD		1.13	-0.3	0	-2	-6	-7
USD/JPY		113.4	-0.3	0	0	9	10
EM/USD		52.4	-0.3	0	-5	-9	-10
Commodities					%		
Brent Crude Oil ($/barrel)		75	-1.2	8	-12	53	45
Industrials Metals (index)		164	-0.8	1	1	22	24
Agriculture (index)		60	-1.0	0	2	39	25
Implied Volatility					%		
VIX Index (%, change in pp)		20.5	0.6	-7.5	2.7	-1.8	-2.3
US 10y Swaption Volatility		81.4	-0.4	-3.1	5.3	19.1	21.3
Global FX Volatility		8.1	0.0	-0.1	1.2	0.1	0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		174	4.7	16	36	53	55
Italy		136	2.5	4	23	18	25
Portugal		67	1.0	-1	8	8	7
Spain		73	0.2	-2	5	10	11

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

Emerging Market Financial Indicators

Last updated: 12/9/2021 8:06 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	-0.5	0.1	0	3	2		3.0	-2.0	-3	-2	-27	-15
Indonesia		14367	-0.1	0.2	-1	-2	-2		6.3	4.8	8	27	11	42
India		76	-0.1	-0.7	-2	-3	-3		6.2	-3.0	-11	-31	79	68
Philippines		50	0.1	0.2	0	-4	-4		4.6	0.0	0	15	175	165
Thailand		34	-0.2	1.0	-2	-10	-11		1.9	2.0	4	13	45	64
Malaysia		4.22	0.2	0.4	-2	-4	-5		3.6	1.5	2	4	80	90
Argentina		102	-0.1	-0.4	-1	-19	-17		49.6	0.0	-74	-88	-480	-653
Brazil		5.54	-0.2	1.8	-1	-7	-6		10.7	-5.2	-52	-94	272	333
Chile		836	0.3	0.2	-5	-11	-15		5.2	-1.5	-8	-7	252	266
Colombia		3903	0.0	1.0	-1	-11	-12		6.6	0.0	2	25	239	260
Mexico		21.05	-0.6	1.0	-3	-6	-5		7.3	0.0	-11	-7	178	188
Peru		4.1	0.0	-0.2	-2	-12	-11		5.9	-0.2	-6	11	218	240
Uruguay		44	-0.1	-0.2	-1	-3	-4		8.8	-0.6	-17	18	140	150
Hungary		323	-0.5	-0.3	-4	-9	-8		4.2	4.2	-1	48	255	264
Poland		4.07	-0.1	0.0	-3	-10	-8		2.9	6.5	-16	1	165	183
Romania		4.4	-0.3	0.1	-2	-8	-9		5.1	0.9	3	48	222	236
Russia		73.7	-0.2	0.0	-4	0	0		8.8	-3.8	6	28	256	234
South Africa		15.9	-1.4	0.0	-6	-6	-8		7.4	-1.0	-21	-12	59	81
Turkey		13.80	-0.9	-0.9	-29	-43	-46		21.5	5.0	33	232	827	861
US (DXY; 5y UST)		96	0.3	0.0	2	6	7		1.25	-2.8	4	17	84	89

	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		5079	1.7	5	5	3	-3		201	1	3	-28	-28
Indonesia		6644	0.6	1	-1	12	11		168	-21	0	-32	-32
India		58807	0.3	1	-3	28	23		141	-1	4	-11	-10
Philippines		7235	1.2	4	-2	1	1		102	-24	-1	-17	-10
Malaysia		1502	0.5	0	-1	-9	-8		116	-4	4	-22	-19
Argentina		89243	1.1	13	-7	63	74		1686	-131	-17	246	330
Brazil		108096	0.5	3	2	-4	-9		312	-25	-9	40	53
Chile		4392	-0.1	1	1	6	5		135	-12	0	-25	-21
Colombia		1410	-1.4	-1	1	3	-2		325	-15	31	100	110
Mexico		51056	0.3	2	-2	19	16		337	-26	3	-71	-20
Peru		20521	0.8	3	0	-1	-1		150	-17	-3	-13	21
Hungary		50906	-0.7	-1	-6	25	21		122	-22	6	-26	-27
Poland		67921	-1.2	0	-8	20	19		45	-21	-4	23	17
Romania		12622	0.2	3	-2	32	29		176	-36	-3	-35	-27
Russia		3818	1.2	-3	-9	19	16		164	-14	13	-23	-15
South Africa		72162	-0.3	2	6	22	21		355	-26	22	-29	-29
Turkey		2035	1.5	8	26	51	38		528	-45	66	38	81
Ukraine		523	0.0	0	0	3	5		635	-12	132	140	142
EM total		50	-0.2	3	-2	0	-3		378	-30	10	22	39

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

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