



- Treasury yields decline on weak US inflation print and dovish Fed comments ([link](#))
- China's TikTok sale put on hold as US reviews national security priorities ([link](#))
- Carbon futures at new high on expectations for tighter EU climate policies ([link](#))
- Philippines central bank stays pat as expected amid higher inflation ([link](#))
- Brazil passes legislation granting autonomy to central bank ([link](#))
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## Market gains pause post-Powell

Investors took a breather yesterday after rapid month-to-date gains, but appear set to resume the grind higher today. Stock markets are pointed higher this morning, by around 0.5 ppt, after a pause yesterday in February's rally (+5%). Weaker than expected inflation in the US and commentary from Chair Powell emphasizing the Fed's dovish reaction function and continued US labor market weakness were the key drivers in an otherwise quiet market session yesterday, leading to a decline in Treasury yields across the curve. Yesterday's pullback in risk assets was fairly broad-based but looks to be temporary given the essentially unchanged base case for global growth, with traders adding to risk positions again this morning. The dollar has moved sharply lower, EM currencies are rebounding, and commodity prices are resuming their push higher. Many large Asian markets are closed for the Lunar New Year holidays.

Key Global Financial Indicators

Last updated: 2/11/21 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		3910	0.0	2	3	16	4
Eurostoxx 50		3665	0.5	1	1	-4	3
Nikkei 225		29563	0.2	3	5	25	8
MSCI EM		57	0.4	3	6	29	11
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.14	1.4	0	-1	-46	22
Germany 10y Yield		-0.47	-3.0	-1	3	-8	10
EMBIG Sovereign Spread		344	2	-1	0	34	-6
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		58.1	0.3	2	2	-3	0
Dollar index, (+) = \$ appreciation		90.4	0.0	-1	0	-8	0
Brent Crude Oil (\$/barrel)		60.9	-0.9	4	9	13	18
VIX Index (% change in pp)		21.9	-0.1	0	-2	7	-1

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

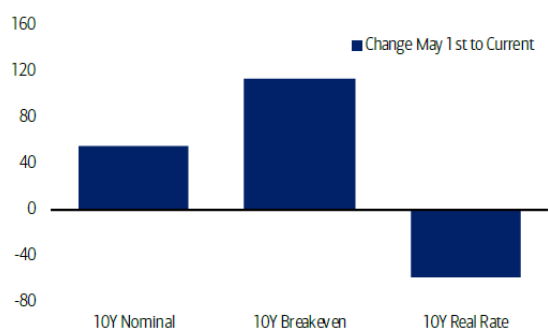
## United States

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**US Treasury rates declined by as much as 5 bps on net on weaker-than-expected inflation and comments from Fed Chair Powell.** The decline was evident in both real and breakeven rates. US core CPI came in weaker than expected at 1.4% yoy vs. Bloomberg consensus 1.5%; the month-on-month number was unchanged vs 0.2% mom expected. Weaker inflation strengthens the Fed's case for its dovish stance. In addition, Fed Chair Powell commented today that he does not expect the inflation uptick to be very significant, nor would he expect the Fed tighten policy solely in response to a labor market rebound, and that the current labor market numbers may understate its weakness. US equities and the USD were little changed. Strong 10-year Treasury auction results also boosted government bonds.

**Despite the decline in rates on the session, the reflation narrative remained a significant part of the discussion among market analysts.** Goldman Sachs analysts noted that once real interest rates begin to rise, the underlying macro drivers will be important in determining the impact on equities and risk assets. When higher real rates are driven by monetary policy tightening, equities may weaken. However, equities tend to gain when higher rates are driven by growth. Other observers worry, however, that a consumption-driven fiscal stimulus package proposed by the Biden administration may not create lasting higher growth path for the US economy, leading US equities to peak in 1H2021. Meanwhile, BofA sees further potential upside for breakeven rates, despite breakevens having made up almost all of the higher moves in rates since May 2020. BofA attributes this to expected overshoot in inflation, expectations that the Fed will not react to the overshoot and expected ongoing Fed purchases of TIPs securities.

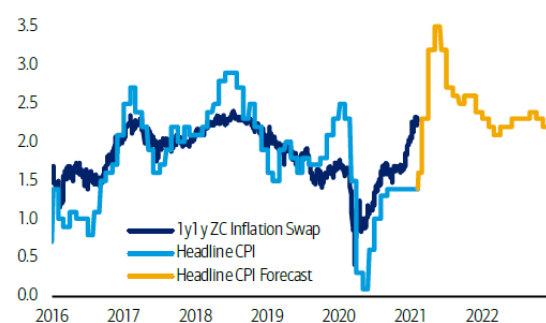
Exhibit 1: Breakevens have led the rate move higher (bps)



Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 2: Front end inflation swaps track CPI (%)



Source: BofA Global Research

BofA GLOBAL RESEARCH

## Europe

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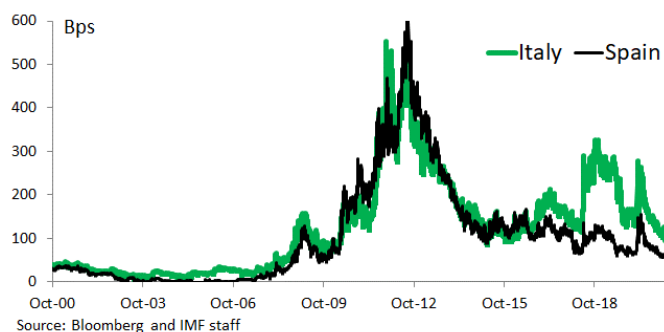
### Euro area

**European equities (+0.4%) are trading higher. The euro (+0.1%) is little changed.** Yesterday, the **German government decided to extend the lockdown by four weeks to 7 March**, with the decision on school re-openings left to federal states. Citi writes that most European countries would probably have re-opened schools, shops and hospitality immediately with the level of new infections reached in Germany.

German 10-yr bund yields (-2 bps to 0.46%) fell after **ECB President Lagarde reiterated that it is going to be "a while before we worry about inflation."** She added that the ECB is very far away from its current inflation mandate.

**Italian 10-yr yield (-2 bps to 0.48%) fell to a new record low** as expectations are that Draghi will announce the names of ministers in his government later this week and aim for parliamentary approval by early next week. **Contacts generally expect the spread over bunds to tighten further.**

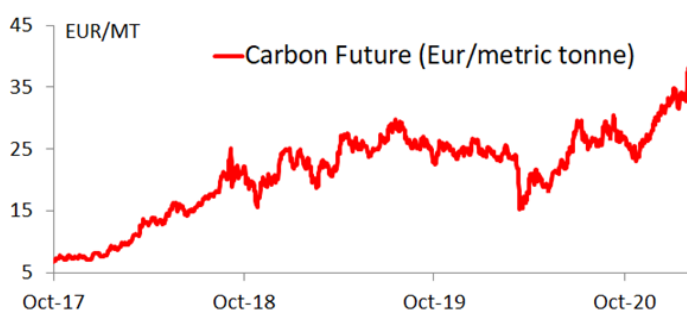
Euro area: 10-year spread over German bunds (bps)



**Unicredit stock fell 2.7% on a bigger-than-expected fourth quarter loss** after the bank wrote down goodwill and accelerated its balance sheet cleanup before the arrival of new CEO Andrea Orcel. The loss of €1.2 bn was almost double what analysts had forecast. Nevertheless, UniCredit boosted its common equity tier 1 ratio to a record 15.1%.

**Carbon futures closed 3% higher yesterday, and trade at new of record of €40 per metric ton** as investors speculate that prices will keep rising as the EU tightens climate goals.

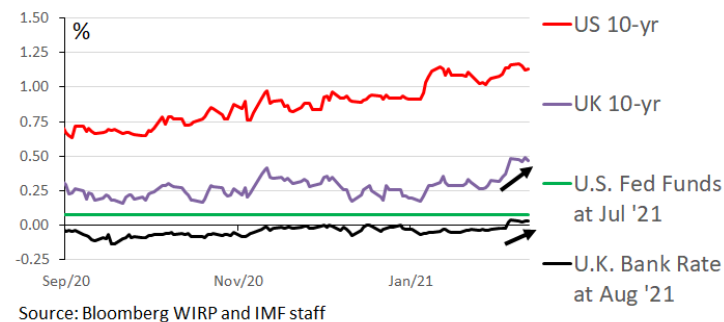
Europe: Price of carbon futures



## United Kingdom

**U.K. bank stocks (-0.8%) fell after BoE governor Bailey warned that the EU is poised to lock Britain out of its banking market.** The governor warned that the fragmentation of markets is likely to raise the cost of finance for everybody, including EU citizens. The pound is little changed and 10-yr gilt yields (-2 bps to 0.47%) fell but trade near the levels reached after last week's relatively hawkish MPC meeting. The market has also priced out negative rates in the near term.

U.K. and U.S. - 10-yr rates and policy Rates at mid 2021



**Barclays warns that recovery in the U.K. household sector is very much a tale of two cities.** The bank expects that excess savings will reach 12% of GDP by the end of 2021, driven by a collapse in so-called social spending (entertainment, transport and hospitalities). **Barclays sees evidence of precautionary saving as much as forced saving.** On the one hand, the increase in savings follows the rise in unemployment and households have become more risk averse. On the other hand, Barclays sees unprecedented activity with retail securities brokers and continued strong demand for mortgages.

UK: Household saving ratio



Source: ONS and Barclays

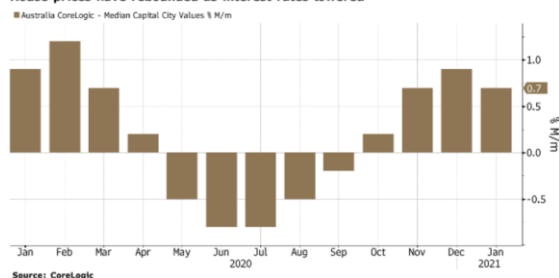
## Other Mature Markets

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### Australia

**The Reserve Board of Australia (RBA)’s board member Harper said that an asset bubble is ‘way off’.** He said that Australia’s unemployment is too high and there is significant excess capacity in the economy for monetary stimulus to stoke excessive stock and property valuations. He added that policymakers want asset prices to increase to speed up investment, which is necessary for a sustained economic recovery. Regarding quantitative easing, Harper mentioned that the RBA faces no obstacles and can purchase bonds ‘for as long as it likes’. **10-year bond yields fell -3.5bps, the Australian dollar and equities were little changed.**

House prices have rebounded as interest rates lowered



Source: CoreLogic

### Japan

**Japanese markets were closed for holidays.**

## Emerging Markets

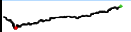







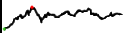
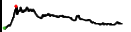

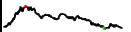


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**Asian equities rose +0.2% on net on a quiet day with major markets closed for holidays.** Hong Kong rose (+0.5%) while the Philippines (-1.3%) underperformed. China and Korea were closed. **Regional currencies were little changed.** Separately, Malaysia’s Q4 real GDP shrunk -3.4% y/y from -2.6% in Q3, bringing 2020’s contraction to -5.6%. This was the worst annual decline since the Asian Financial Crisis and below the government’s projection of -3.5% to -5.5%.

**EMEA equities were trading mixed** with Poland (+1.5%) and Turkey (+0.4%) outperforming while stocks headed lower in South Africa (-0.6%). **EMEA currencies were little changed** except for the South African rand (+0.8%) and the Turkish lira (+0.3%).

**LatAm equities traded lower**, as Brazil (-0.9%), Mexico (-0.7%), Colombia (-0.4%), and Chile (-0.3%) closed in the red on Wednesday. Peru's equity markets (+0.8%), however, continued to rally for the fourth straight session. The major regional currencies appreciated, led by the Chilean peso (+1.2%). The central bank of Mexico will hold a monetary policy meeting today, ahead of which the Mexico sovereign dollar yield curve shifted lower by 2-4bps on its lower end.

Key Emerging Market Financial Indicators

Last updated: 2/11/21 8:07 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		57.14	0.9	3	6	29	11
MSCI Frontier Equities		29.21	0.3	0	-1	-3	3
EMBIG Sovereign Spread (in bps)		344	2	-1	0	34	-6
EM FX vs. USD		58.13	0.4	2	2	-3	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.46	-0.4	0	0	8	1
Indonesian Rupiah		13973	0.1	0	1	-2	1
Indian Rupee		72.86	0.0	0	1	-2	0
Argentine Peso		88.44	-0.1	-1	-3	-31	-5
Brazil Real		5.34	0.8	2	3	-19	-3
Mexican Peso		19.92	0.6	2	1	-6	0
Russian Ruble		73.60	0.4	3	1	-14	1
South African Rand		14.61	1.0	3	6	1	1
Turkish Lira		7.03	0.4	2	6	-14	6
EM FX volatility		9.73	0.0	-0.3	-1.0	2.9	-1.0

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

## Brazil

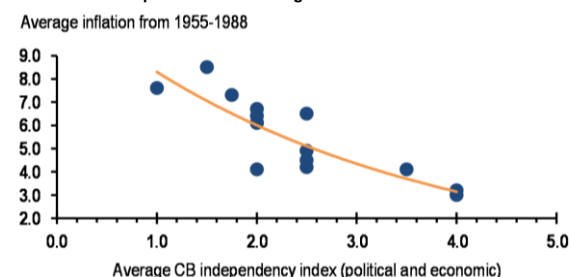
**Congress passed legislation granting autonomy to the central bank (BCB).** Under the new rules, the BCB will have inflation targeting as its primary mandate and economic cycles smoothing and full employment as secondary objectives. The bill also sets the term limit for board members at 4 years. The bill, which will become a law upon the president's approval, is one of several structural reforms promised by the current administration. Market believe this will benefit Brazil the medium term by adding credibility to monetary policy, particularly during election cycles. However, analysts see a more challenging outlook for the government to deliver on other pressing fiscal reforms, given time constraints and the potential for politically unpopular changes. The next general elections in Brazil are in 2022.

Table 1: Central bank autonomy bill

Aspects	Current rules	New rules
Composition	Up to nine board members, including the governor	CB governor and eight deputy governors
Appointment by President	No specific date	In the second half of the second year of the presidential mandate
Terms	No limit	Four years, with the possibility of one extension of another term
Governor's term begin	No specific date	First day of the third year of the presidential mandate
Dismissal of members	Can be decided at any instant by the President	In the cases of (i) conviction by a court; (ii) personal request of (iii) by the President with justification and approved by the Senate, with the possibility to dispute the dismissal
Quarantine period	Six months, as defined in the conflict of interests bill from 2013	Six months, defined explicitly in the bill
Mandate	Stability of prices (inflation targeting) and maintain stability of the financial system	Main goal is stability of prices, but must also smooth economic fluctuations, foster full employment and maintain strength of the financial system

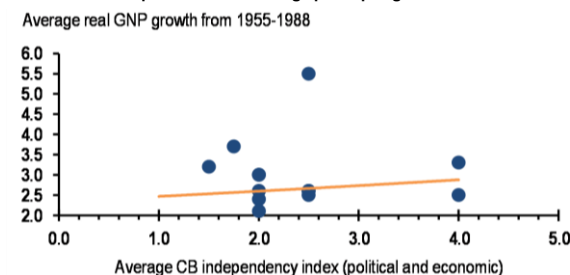
Sources: Brazil's lower house; and JP Morgan.

Central bank independence and average inflation



Sources: Alesina A. e L. Summers (JMCB, 1993), Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence; and JP Morgan.

Central bank independence and average per capita growth



## China

**China's President Xi held his first call with US President Biden since the latter took office.** Both presidents discussed various international issues such as COVID-19, health security, climate change and preventing weapon proliferation, according to the White House. The statement also mentioned US' concerns regarding China's economic practices, human rights and assertive actions in the regionally.

**The sale of TikTok, owned by China-based ByteDance Ltd., has been put on hold.** US Department of Justice attorneys said that the Biden administration has begun reviewing whether TikTok is a threat to national security as the Trump administration claimed. The White House said that the risks will be addressed in "in a decisive and effective fashion" as part of broad review that has expanded beyond TikTok. Other national security priorities under review include trade tariffs and delisting of some Chinese companies from US equity markets, according to Bloomberg. **The US has also created a Pentagon task force to craft a comprehensive China policy that will examine issues from the deployment of US forces globally and relations with Chinese military.** The taskforce will produce recommendations in four months. **China's local markets were closed for Lunar New Year holidays.**

## Philippines

**The central bank kept rates unchanged as expected, amid accelerating inflation.** Bangko Sentral ng Pilipinas (BSP) held its benchmark interest rate at a record low 2% for a second straight meeting to boost an economy that remains in recession with inflationary pressures beginning to mount. The BSP raised its inflation forecast for the year to 4% from 3.2% suggesting that supply-side constraints driving up food costs were transitory. In January, CPI inflation rose sharply to 4.2% from 3.5% in December, which was well above expectations and breached BSP's 2-4% target range for the first time since 2019. Governor Diokno stated that the manageable inflation outlook allowed the BSP to maintain an accommodative policy stance, he also called for "urgent and coordinated efforts with government agencies" to address food supply issues. **Philippines stocks were down -1.3%, while the peso was little changed.**

Philippine inflation quickens amid recession

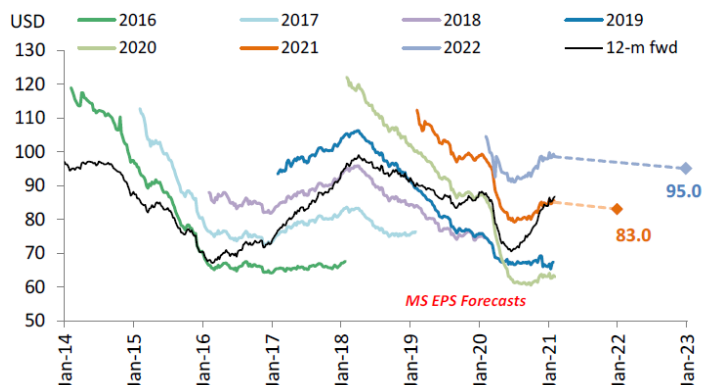




## EM earnings forecast

**The upward revision in MSCI EM earnings forecasts slows down.** As per a Morgan Stanley report, the latest EPS estimates for 2021 and 2022 for the MSCI EM index have remained largely unchanged at \$85 and \$99, respectively. This marks a slowdown from the series of sharp upward revisions since 2Q2020.

MSCI EM Consensus EPS trends versus Morgan Stanley (MS) Dec-21 and Dec-22 forecasts

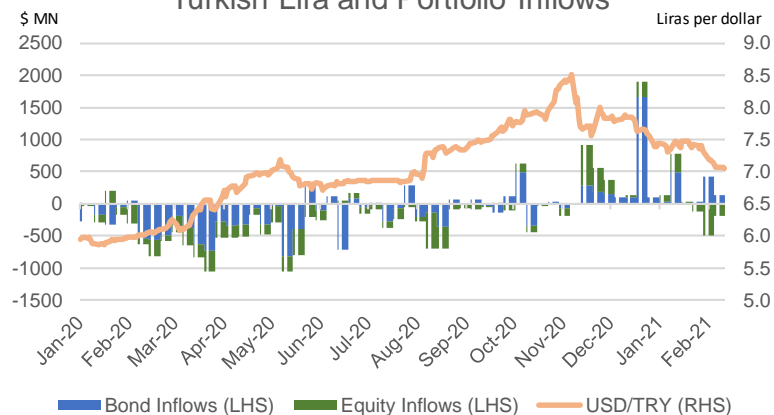


Source: IBES Consensus Aggregate, Datastream, Morgan Stanley Research. Data as of February 4, 2021

## Turkey

**Investors attention shifts to de-dollarization as the Turkish lira appreciation pushes toward 7.0 liras per dollar.** Contacts note renewed optimism among clients for further lira appreciation as investors expect a boost for local currency demand from retail depositor de-dollarization. The evidence from bank deposit data remains limited so far but currency appreciation since mid-January (+6%) has occurred despite flat portfolio inflows and tight offshore funding, signaling limited lira buying from international investors. This has raised speculation of local lira demand. Some contacts also point to elevated positioning in currency options as a potential driver. The Central Bank of Turkey has already indicated that it would look to use de-dollarization to gradually rebuild FX reserves with net-assets remaining in the negative territory.

Turkish Lira and Portfolio Inflows



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## Global Financial Indicators



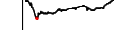













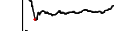

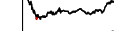


















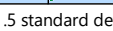
Last updated: 2/11/21 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3913	0.0	1	3	17	4
Europe		3665	0.5	1	1	-4	3
Japan		29563	0.2	3	5	25	8
China		3655	1.4	4	3	26	5
Asia Ex Japan		100	0.3	2	7	38	12
Emerging Markets		57	0.4	3	6	29	11
Interest Rates							
			basis points				
US 10y Yield		1.14	1.4	0	-1	-46	22
Germany 10y Yield		-0.47	-3.0	-1	3	-8	10
Japan 10y Yield		0.08	0.0	2	5	14	6
UK 10y Yield		0.46	-3.3	2	15	-11	26
Credit Spreads							
			basis points				
US Investment Grade		89	-0.3	-1	-7	-17	-6
US High Yield		352	-0.8	-4	-22	-66	-27
Europe IG		47	-0.8	-1	-2	4	-1
Europe HY		240	-3.6	-5	-14	29	-3
EMBIG Sovereign Spread		344	1.6	-1	0	34	-6
Exchange Rates							
			%				
USD/Majors		90.37	0.0	-1	0	-8	0
EUR/USD		1.21	0.1	1	0	11	-1
USD/JPY		104.7	-0.1	1	0	5	-1
EM/USD		58.1	0.3	2	2	-3	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		61	-0.9	4	9	13	18
Industrials Metals (index)		141	0.3	5	4	31	6
Agriculture (index)		50	0.2	-1	3	27	4
Implied Volatility							
			%				
VIX Index (% change in pp)		21.9	-0.1	0.1	-2.2	6.7	-0.9
US 10y Swaption Volatility		60.3	0.3	-0.5	-0.6	-8.8	0.2
Global FX Volatility		7.2	0.0	-0.2	-0.8	1.8	-0.9
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		123	0.3	13	9	-19	3
Italy		95	0.8	-5	-11	-41	-16
Portugal		54	1.6	3	5	-16	-6
Spain		60	1.1	2	4	-6	-2

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

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## Emerging Market Financial Indicators

Last updated: 2/11/2021 8:07 AM	Exchange Rates						YTD	Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.46	-0.4	0.1	0	8	1		3.3	-1.2	1	7	48	6
Indonesia		13973	0.1	0.3	1	-2	1		6.2	0.1	9	0	-53	18
India		73	0.0	0.1	1	-2	0		6.3	-0.9	8	35	-35	33
Philippines		48	0.0	0.1	0	5	0		3.5	-2.6	-4	-18	-69	-17
Thailand		30	0.1	0.8	1	5	0		1.4	0.5	5	10	3	12
Malaysia		4.04	0.1	0.5	0	2	-1		2.7	-0.6	6	14	-32	17
Argentina		88	-0.1	-0.6	-3	-31	-5		48.5	-76.2	-98	-402	-981	-763
Brazil		5.34	0.8	1.7	3	-19	-3		6.4	-6.0	20	28	44	83
Chile		721	0.7	2.5	0	10	-2		2.8	-1.2	-1	-2	-69	-1
Colombia		3536	0.7	0.6	-1	-3	-3		5.1	-1.5	3	5	-44	4
Mexico		19.92	0.6	2.4	1	-6	0		5.7	2.5	10	4	-98	10
Peru		3.6	0.0	0.1	-1	-7	-1		3.8	-0.1	-4	7	-44	21
Uruguay		43	0.2	-0.2	0	-11	-1		7.1	-3.4	-9	-14	-297	-16
Hungary		294	0.1	1.0	1	5	1		1.6	-2.8	-4	3	33	9
Poland		3.70	0.1	1.6	1	5	1		0.7	2.1	7	8	-115	5
Romania		4.0	0.2	1.5	0	9	-1		2.3	1.0	-3	-32	-141	-45
Russia		73.6	0.4	2.7	1	-14	1		6.0	2.9	-2	28	6	28
South Africa		14.6	1.0	2.7	6	1	1		9.5	-4.6	6	-25	-3	-18
Turkey		7.03	0.4	1.6	6	-14	6		13.3	-5.6	-13	-1	248	16
US (DXY; 5y UST)		90	0.0	-1.3	0	-8	0		0.45	-0.2	-1	-6	-97	9

	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	1 Day	7 Days	30 Days	12 M	
									basis points						
China		5808	0.0	6	7	47	11		199	0	-3	-10	29	-9	
Indonesia		6223	0.3	2	-3	5	4		167	-1	-3	-11	1	-20	
India		51532	0.4	2	5	25	8		157	2	1	3	20	6	
Philippines		6991	-1.3	1	-4	-6	-2		91	-2	-3	-6	20	-14	
Malaysia		1599	0.2	1	-1	3	-2		112	0	-4	-9	5	2	
Argentina		51941	-0.6	4	2	30	1		1460	2	2	66	-538	92	
Brazil		118435	-0.9	-1	-4	3	0		255	-2	0	-4	48	5	
Chile		4512	-0.3	2	-1	-3	8		130	-1	-4	-7	-11	-14	
Colombia		1374	-0.4	1	-5	-16	-4		209	-1	-6	-1	45	4	
Mexico		44718	-0.7	2	-4	-1	1		350	-3	-12	-18	51	-10	
Peru		22492	0.8	4	4	13	8		136	0	-1	8	21	4	
Hungary		44483	1.2	1	-1	0	6		71	-1	-2	-6	-36	-25	
Poland		57710	1.7	2	-3	0	1		-20	-2	-3	-8	-53	-19	
Romania		10555	-0.2	0	5	5	8		192	2	-2	-5	4	-11	
Russia		3400	0.0	1	-2	10	3		163	-2	-1	6	22	-3	
South Africa		65701	-0.7	3	3	15	11		366	0	-5	-13	33	-14	
Turkey		1554	0.4	1	1	30	5		430	0	1	-17	42	-15	
Ukraine		521	0.0	0	4	-1	4		491	1	11	9	120	0	
EM total		57	0.9	3	6	29	11		421	0	17	-10	97	128	

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

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