GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 12, 2021

- **ECB official calls for decarbonization of balance sheet** (link)
- **Euro area loan growth slowed in Q4** (link)
- **Russia keeps policy rate unchanged at 4.25% amid a shift to a hawkish stance** (link)
- **Italian PM secures majority, boosting assets and bringing talk of century bond** (link)
- **Mexico's central bank cuts policy rate by 0.25% and signals further cuts** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets continue in holding pattern

Markets are moving mostly sideways to close out the week amid an absence of clear drivers. Equity markets outside the US and US equity futures are effectively unchanged so far today, after a largely flat day yesterday. Most investors' base case of vaccine- and stimulus-supported growth optimism was boosted at the margin by news yesterday the Biden administration secured enough vaccines to cover most Americans by end-July and that US hospitalizations are declining. Better-than-expected corporate earnings are helping equity market sentiment both in the US and Europe. Anxiety over market frothiness looks to be keeping risk asset gains in check, however. This morning, more signs of excessive exuberance have grabbed hold of investors' attention, including record fund inflows into US shares, historically bullish option positioning, and a return to near-record equity trading volumes. The US Treasury curve rose at the long end following a weak auction, while the dollar was largely flat.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
2/12/21 8:10 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3916	0.2	1	3	16	4
Eurostoxx 50		3675	0.1	1	2	-5	3
Nikkei 225		29520	-0.1	4	5	25	8
MSCI EM		58	1.1	4	6	29	12
Yields and Spreads				bps			
US 10y Yield		1.17	0.8	1	4	-46	26
Germany 10y Yield		-0.44	1.4	0	2	-7	13
EMBIG Sovereign Spread		341	-3	-2	-6	36	-9
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		57.9	-0.1	1	1	-3	0
Dollar index, (+) = $ appreciation		90.5	0.1	-1	1	-9	1
Brent Crude Oil ($/barrel)		60.9	-0.5	3	8	9	17
VIX Index (%, change in pp)		21.6	0.3	1	-2	8	-1

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

United States

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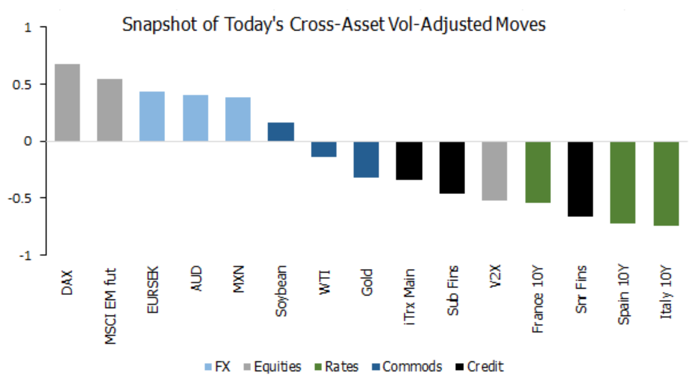
Real rates rose on Thursday while the USD strengthened modestly overnight. The most pronounced price action occurred in inflation-adjusted Treasury rates, which rose by up to 4 bps. Some contacts noted a somewhat weak 30-year Treasury auction on Thursday as one possible reason for the rise in longer-dated yields. Despite a modest decline in breakeven rates at the long end in recent days, most sell side contacts anticipate further moves higher in breakeven rates this year and have looked through the weaker-than-expected January CPI print. Some analysts saw the January print as influenced by relatively volatile components. More broadly, inflation is seen as likely to face upward pressure with a pickup in activity once vaccinations across the country accelerate.

The **S&P 500 rose marginally, with energy sector shares weighing on the overall index**. There is some uncertainly about future demand for oil as the International Energy Agency reduced its demand outlook, citing COVID-related challenges, and increased its estimates of non-OPEC supply. Nonetheless, the front-end WTI crude oil contract price is still over 20% higher since the start of 2021, and energy shares remain by far the best performing sector in equity markets so far this year. The USD strengthened modestly overnight against other major currencies. Contacts noted that a series of holidays, namely, the Chinese New Year, US President's Day and Brazil's Carnival, are likely to keep the FX and other markets relatively subdued.



Source: Goldman Sachs

Europe

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Euro Area

European equities and German 10-yr bund yields (-1 bps to 0.46%) **are little changed.** The euro (-0.3%) edged lower in line with broader U.S. dollar strength.

Italian 10-yr yields (-1 bps to 0.44%) made new lows as Draghi is expected to get parliamentary approval for his government early next week. Yesterday, 59% of M5S members backed a Draghi government in an online vote. Italian **30-yr yields fell 3 bps to 1.35% with market chatter that Italy may be considering issuing a 100-yr bond.** Analysts expect that an Italian century bond would trade at a yield of around 2.5%. Italy’s longest-dated bond is a 50-yr bond issued in 2016, currently yielding around 1.68%.

Bundesbank President Weidman said that German inflation could temporarily rise to more than 3% at year end, given the increase in value-added tax and a new tax for carbon dioxide, even though the key for sustainably higher inflation is wages. The ECB has warned that underlying price pressures are likely to remain subdued owing to weak demand, low wage pressures, and the appreciation of the euro exchange rate.

Analysts are looking closely at January's price data, when euro area core inflation jumped to 1.4% yoy (from 0.2% in Dec). The pick-up in inflation has been linked to temporary factors such as the German VAT rebound, the impact of sales, the use of new weights, and data collection issues. Based on new data released by the German statistics office, JP Morgan concludes that the VAT rebound to 19% at the start of the year lifted German core inflation by about 1.5 ppt, which does not fully explain the 2 ppt increase in the data. The rest of the increase could be driven by new weights in the HICP basket, sales period, and data collection.

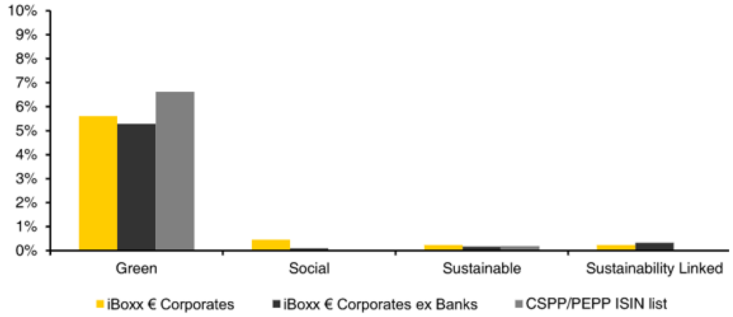
Euro area inflation: Data and J.P. Morgan Forecasts

%oya (shading denotes forecast)

Source: Eurostat and J.P. Morgan

Bank of France governor Villeroy said that the ECB should "decarbonize" its balance sheet in a pragmatic, gradual, and targeted manner for all corporate assets, whether they are held on the central bank's balance sheet or taken as collateral. To achieve this, the ECB could "tilt" its corporate bond purchases towards issuers committed to climate change. Dutch central bank governor Knot said that European financial markets need to supply more diverse types of risk capital to support the energy transition. Commerzbank argues that both issuance and stock of green bonds will need to grow further to support a green-"tilt" in the ECB's CSPP/PEPP programs.

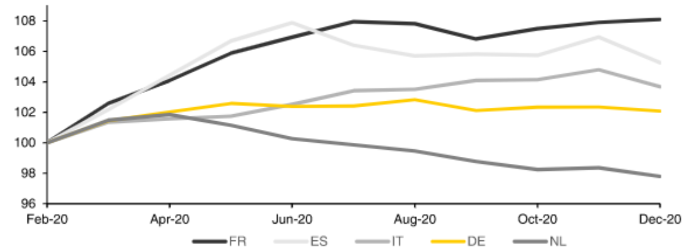
Euro area: Market share of green corporate bonds



Source: Markit, Bloomberg, ECB, Commerzbank

Euro area loan growth slowed in 2020Q4, which could make it difficult for some banks to benefit from the lowest possible rate in the next round of ECB TLTROs. For example, ABN AMRO has described reaching the threshold as "very challenging." The next round of TLTROs starts in June and have a benchmark period from 1 October 2020 to 31 December 2021. For banks that keep lending unchanged between 1 October 2020 and 31 December 2021, the interest rate applied after 23 June 2022 will be the average interest rate on the deposit facility over the life of the respective TLTRO III operation (otherwise the average rate will be the ECB's main refi rate).

TLTRO-eligible loan portfolio (end Feb 2020: 100)



Source: ECB, Commerzbank

Other Mature Markets

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Australia

The Australian dollar (-0.3%) and equities (-0.6%) fell after Australia announced a snap 5-day lockdown for the state of Victoria to contain a COVID outbreak that had led cases in the state to grow to 19. The state's 6.5 mn residents must stay home except for essential shopping, care, exercise, and work.

Emerging Markets

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EMEA equities were mostly trading lower with indices down in Russia (-1.2%), Poland (-0.8%) and Turkey (-0.5%). **EMEA currencies were little changed** except for the Russia ruble (-0.9%).

Latin American markets were mixed on Thursday. Equity markets in Mexico (-1.5%), Peru (-1.5%), and Colombia (-0.5%) were down, while Brazil (+0.7%) and Chile (0.5%) traded higher. Most regional currencies were up, with the Colombian peso outperforming it peers. Several major central banks in the region announced policy rate decisions on Thursday. The announcements were in line with market expectations, while the central banks of Peru and Uruguay kept the policy rates unchanged, Mexico's central bank announced a 0.25% rate cut.

Most Asian equity markets were closed due to the Lunar New Year holiday. Asia currencies saw marginal depreciation on broader dollar gains amid thin, holiday-depressed liquidity conditions.

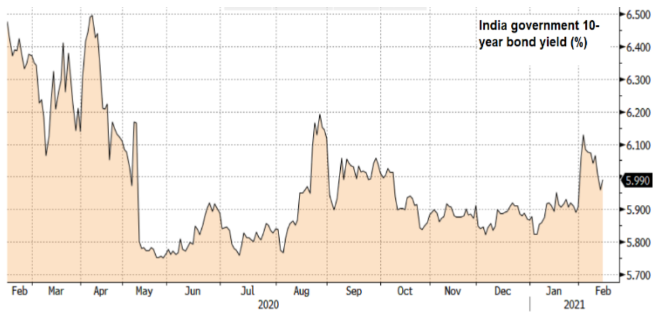
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
2/12/21 8:11 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		57.75	-0.5	4	6	29	12
MSCI Frontier Equities		29.52	1.1	0	0	-2	4
EMBIG Sovereign Spread (in bps)		341	-3	-2	-6	36	-9
EM FX vs. USD		57.94	-0.1	1	1	-3	0
Major EM FX vs. USD				**%, (+) = EM currency appreciation**			
China Renminbi		6.46	-0.4	0	0	8	1
Indonesian Rupiah		13973	0.1	0	1	-2	1
Indian Rupee		72.76	0.1	0	1	-2	0
Argentine Peso		88.45	0.0	-1	-3	-31	-5
Brazil Real		5.39	-0.1	0	-1	-19	-4
Mexican Peso		20.03	-0.3	0	-1	-7	-1
Russian Ruble		74.13	-0.6	1	-1	-15	0
South African Rand		14.63	0.0	1	4	1	0
Turkish Lira		7.02	0.0	1	6	-14	6
EM FX volatility		9.60	0.0	-0.4	-1.0	2.9	-1.1

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

India

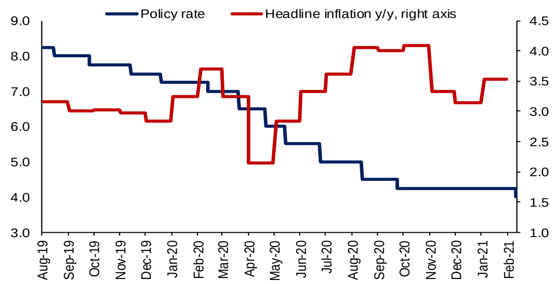
The latest government bond auction saw lackluster demand despite the support from the Reserve Bank of India. The primary dealers underwriting fees were increased ahead of the action where banks bought INR 67 bn as compared to 110 bn target. However, the move also curbed investors expectation that the central bank will step-up its direct support after it was reported to have purchased as much as 200 bn on the Thursday auction, aiming to keep the 10-year yield from rising above 6%. Separately, India's January consumer prices increase by 4.06% in January against market expectations of 4.4%.



Mexico

In a unanimous decision, the central bank (Banxico) cut the policy rate by 0.25% to 4%. This was widely expected by the markets. While Mexico's GDP declined by 8.3% last year, core inflation has been steady, and thus providing Banxico the room for rate cut. Analysts saw the dovish statement issued by Banxico as implying a further rate cut, and interest rate forwards promptly moved to price in further cuts. The 3-month forward rate fell 63 bps on the day, to 3.43 percent.

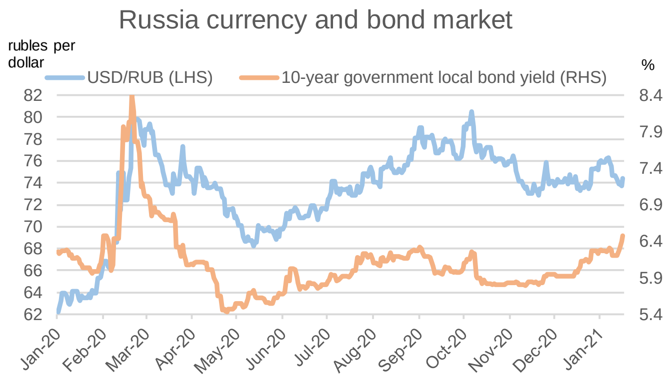
Banxico has cut the policy rate for the twelfth time since Aug. 2019



Source: Bloomberg

Russia

The Central Bank of Russia maintained its policy rate unchanged at 4.25% but signaled a return to a more hawkish monetary policy. The central bank indicated that higher than expected realized inflation (5.2% yoy in January) and elevated inflation expectations among households have shifted the risk outlook with a recovery in domestic demand, supply-side constraints, and geopolitical tension creating further upside risks to inflation. Contacts interpreted the stance as increasingly hawkish as yields on interest rate forward agreements beyond H1 2021 increased by 10 bps with market now pricing 60-70 bps of hikes on a 1-year horizon. The shift in the policy stance created further headwinds for the Ministry of Finance as it looks to boost fixed rate note issuance while trying to reduce the proportion of floating rate debt in its portfolio following heavy supply in H2 2020. Russian 10-year bond yields rose to 6.5%, the highest level since April 2020.



Source: Bloomberg

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas
Deputy Division Chief

Antonio Garcia-Pascual
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

Jose Abad
Financial Sector Expert

Sergei Antoshin
Senior Economist

John Caparusso
Senior Financial Sector Expert

Yingyuan Chen
Financial Sector Expert

Han Teng Chua
Economic Analyst

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Dimitris Drakopoulos
Financial Sector Expert

Deepali Gautam
Research Officer

Rohit Goel
Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Mohamed Jaber
Senior Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sonia Meskin
Financial Sector Expert

Natalia Novikova
IMF Resident Representative in Singapore

Dmitri Petrov
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Can Sever
Economist

Juan Solé
Senior London Representative

Jeffrey Williams
Senior Financial Sector Expert

Dmitry Yakovlev
Senior Research Officer

Akihiko Yokoyama
Senior Financial Sector Expert

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 2/12/21 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3916	0.2	1	3	16	4
Europe		3675	0.1	1	2	-5	3
Japan		29520	-0.1	4	5	25	8
China		3655	1.4	4	3	26	5
Asia Ex Japan		102	1.3	4	7	37	13
Emerging Markets		58	1.1	4	6	29	12
Interest Rates					basis points		
US 10y Yield		1.17	0.8	1	4	-46	26
Germany 10y Yield		-0.44	1.4	0	2	-7	13
Japan 10y Yield		0.07	-1.5	1	3	10	5
UK 10y Yield		0.50	2.5	1	14	-12	30
Credit Spreads					basis points		
US Investment Grade		89	0.1	-1	-6	-15	-6
US High Yield		351	0.3	-7	-27	-60	-29
Europe IG		47	0.3	0	-3	6	-1
Europe HY		243	2.7	0	-20	33	1
EMBIG Sovereign Spread		341	-2.7	-2	-6	36	-9
Exchange Rates					%		
USD/Majors		90.55	0.1	-1	1	-9	1
EUR/USD		1.21	-0.1	1	-1	11	-1
USD/JPY		105.0	-0.2	0	-1	5	-2
EM/USD		57.9	-0.1	1	1	-3	0
Commodities					%		
Brent Crude Oil ($/barrel)		61	-0.5	3	8	9	17
Industrials Metals (index)		141	-0.1	4	3	31	6
Agriculture (index)		50	0.2	0	1	27	5
Implied Volatility					%		
VIX Index (%, change in pp)		21.6	0.3	0.7	-1.8	7.8	-1.2
US 10y Swaption Volatility		59.2	0.0	-3.2	-4.1	-8.3	-0.9
Global FX Volatility		7.2	0.0	-0.2	-0.7	1.8	-0.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		119	-2.6	-2	3	-16	-1
Italy		90	-1.6	-8	-22	-39	-21
Portugal		53	0.3	3	2	-15	-7
Spain		58	0.3	1	1	-10	-3

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

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Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
2/12/2021	Level		Change (in %)					Level		Change (in basis points)				
8:11 AM	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		6.46	-0.4	0.1	0	8	1		3.3	0.0	-1	6	48	6
Indonesia		13973	0.1	0.3	1	-2	1		6.2	-1.3	6	-4	-50	17
India		73	0.1	0.2	1	-2	0		6.3	-2.0	6	28	-39	31
Philippines		48	0.0	0.1	0	5	0		3.5	1.8	2	-16	-64	-16
Thailand		30	-0.1	0.4	0	4	0		1.4	1.5	5	11	3	13
Malaysia		4.04	0.1	0.5	0	2	-1		2.7	-0.2	3	11	-29	16
Argentina		88	0.0	-0.5	-3	-31	-5		46.6	-190.5	-317	-608	-1421	-953
Brazil		5.39	-0.1	-0.2	-1	-19	-4		6.4	1.9	12	8	52	85
Chile		725	-0.1	1.6	0	9	-2		2.7	-1.0	-1	-11	-71	-2
Colombia		3526	0.0	0.6	-1	-4	-3		5.1	-0.4	-1	5	-42	4
Mexico		20.03	-0.3	0.3	-1	-7	-1		5.6	-9.3	-4	-9	-105	1
Peru		3.6	-0.1	0.1	-1	-7	-1		3.8	1.3	-2	3	-43	22
Uruguay		43	0.0	-0.2	0	-11	-1		7.1	-2.7	-7	-18	-299	-18
Hungary		296	-0.4	0.1	-1	5	0		1.6	0.2	-2	-4	31	9
Poland		3.71	-0.1	0.3	0	5	0		0.7	0.1	5	8	-119	5
Romania		4.0	-0.1	0.5	-1	9	-1		2.3	0.0	0	-31	-143	-45
Russia		74.1	-0.6	0.7	-1	-15	0		6.1	6.6	7	33	15	34
South Africa		14.6	0.0	1.4	4	1	0		9.4	-9.2	-3	-37	-8	-28
Turkey		7.02	0.0	0.5	6	-14	6		13.3	2.5	-2	-10	242	18
US (DXY; 5y UST)		91	0.1	-0.5	1	-9	1		0.47	0.3	0	-3	-98	11

	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	YTD
								basis points						
China		5808	0.0	6	7	47	11		200	0	0	-8	31	-8
Indonesia		6223	0.0	2	-3	5	4		164	0	-1	-20	-3	-23
India		51544	0.0	2	4	24	8		154	-3	-1	-2	20	3
Philippines		6991	0.0	1	-4	-5	-2		89	0	-1	-16	17	-16
Malaysia		1599	0.0	1	-1	4	-2		115	2	1	-4	8	5
Argentina		51655	-0.6	2	1	29	1		1457	1	15	41	-510	89
Brazil		119300	0.7	-1	-4	2	0		258	2	7	-3	54	8
Chile		4551	0.5	2	-1	-3	9		130	1	-1	-12	-13	-14
Colombia		1368	-0.5	0	-6	-18	-5		210	1	-2	-7	43	5
Mexico		44060	-1.5	0	-4	-3	0		354	2	-4	-20	58	-6
Peru		22152	-1.5	3	2	10	6		136	1	-1	0	22	4
Hungary		43546	-0.3	-1	-2	-2	4		70	0	0	-8	-37	-26
Poland		57158	-1.1	-1	-3	-2	0		-20	0	-3	-8	-54	-19
Romania		10487	-0.6	-1	3	5	7		190	-3	-5	-8	6	-13
Russia		3387	-0.8	0	-2	8	3		164	2	4	-1	22	-2
South Africa		66083	0.3	3	4	14	11		363	0	4	-27	27	-17
Turkey		1537	-0.6	1	-1	28	4		425	-1	2	-39	36	-20
Ukraine		521	0.0	0	4	-1	4		484	3	14	-19	122	-7
EM total		58	-0.5	4	6	29	12		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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