




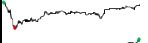








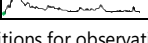
- Spanish vote increases power of pro-Catalan independence parties ([link](#))
- German survey data beats consensus expectations ([link](#))
- Investor complacency is near a two-decade high, according to JPM ([link](#))
- US earnings are handily beating expectations but fewer firms provide guidance ([link](#))
- China reported to be looking at rare earth export controls for US ([link](#))
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Risk assets push higher on commodity gains

The reflation trade has re-gained momentum since late last week, fueled by rising commodity prices and a widening sell-off in government bonds. Equities and other risk assets have jumped sharply since last Friday, with one global stock benchmark rising for the 12th straight session – a 17-year record. Gains have been fueled by strong earnings results, optimism on the COVID caseload and vaccination outlook in the anglophone countries, and tailwinds from rising commodity prices, which have boosted energy and mining firms. The price of oil is once again above \$60/barrel on the US cold snap and storm-induced power grid problems in the US oil patch, but gains across the commodity basket have been red hot on tight supply and investor excitement over a new “commodity supercycle”. Yield curve steepening has accelerated as tepid long-end bond auction demand has helped tip rates higher across advanced economies, with US 10- and 30-year rates breaking through important psychologically important levels of 1.2 and 2%, respectively.

Key Global Financial Indicators

Last updated: 2/16/21 8:04 AM	Level	Change from Market Close					
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3935	0.5	1	4	16	5
Eurostoxx 50		3731	-0.1	2	4	-3	5
Nikkei 225		30468	1.3	4	7	29	11
MSCI EM		58	0.1	3	6	31	12
Yields and Spreads			bps				
US 10y Yield		1.24	3.5	9	16	-34	33
Germany 10y Yield		-0.37	1.3	8	18	3	20
EMBIG Sovereign Spread		340	-1	3	-16	40	-11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		58.2	-0.2	1	1	-3	0
Dollar index, (+) = \$ appreciation		90.3	-0.2	-1	-1	-9	0
Brent Crude Oil (\$/barrel)		63.0	-0.4	3	14	10	22
VIX Index (% change in pp)		21.0	1.0	0	-3	7	-2

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

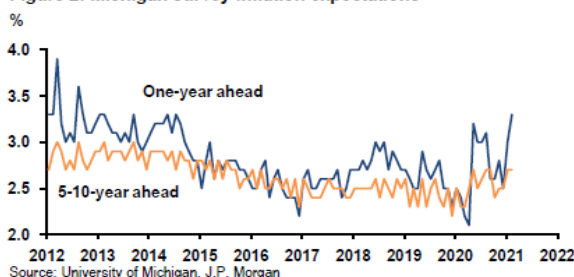
The global economic calendar this week includes GDP updates (2/15: Japan, Singapore, Thailand, Denmark, Colombia; 2/16: Netherlands, Euro-area, Hungary, Israel; 2/19: Peru; 2/20: Taiwan), inflation estimates (2/15: Poland, Greece; 2/17: UK, South Africa, Canada; 2/18: Sweden, Ireland; 2/19: Japan, Finland, France, Italy), industrial production reports (2/15: Japan, Euro-area, Russia; 2/17: US; 2/18: Poland), and retail sales (2/17: South Africa, US; 2/18: Russia; 2/19: Australia, UK, Poland, Canada), along with select confidence indicators (2/16: ZEW; 2/19: UK GfK), and Friday's flash PMIs to wrap up the week. Policy rate decisions are due in Indonesia, Hungary and Turkey (2/18).

United States

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US stocks rose to record highs ahead of the long weekend as investors looked through the mixed economic data, instead focusing on the House's approval of the spending bill. Major indices rose 0.5%, supported by the rally in energy sector (+0.8%) following the rise in oil prices, and the rate sensitive sectors. **The Treasury curve steepened with long rates 4 to 6 bps higher**, in a synchronized move with European rates, with 10- and 30-year yields both above their psychological key levels of 1.2% and 2%, respectively. Following the weaker than expected CPI and jobless claims reports, the flash Michigan consumer confidence index unexpectedly dropped to a 6-month low of 76.2 in February, as outlook for personal income deteriorated and the one-year inflation expectation rising to 3.3%, the highest since 2014. The long-term inflation expectation held at 2.7%.

Figure 2: Michigan survey inflation expectations



Investor complacency is near a two decades high according to one dealer's measure. JPMorgan's cross-asset complacency indicator is near the highest level since the dot-com bubble, with valuation, positioning and price momentum exhibiting the largest vulnerability. The extraordinary investor risk appetite is evidenced in global equities adding \$7 tn market cap this year, crypto markets ballooning to \$1.4 tn market value, and bond sales raking in record volume. While all that raises concerns of untenable valuations across asset classes, investors continue to pour money into them amid confidence that unprecedented monetary and fiscal accommodation will keep the rally going for some more time. Last week, inflows into global equity funds jumped to a record \$58 bn, followed by \$13 bn into bond funds.

Chart 3: Relative to levels that precede corrections, three indicators show more complacency, two show less, two are average. Indicators expressed in percentile terms, where higher (lower) percentiles indicate above (below) average vulnerability to drawdown.

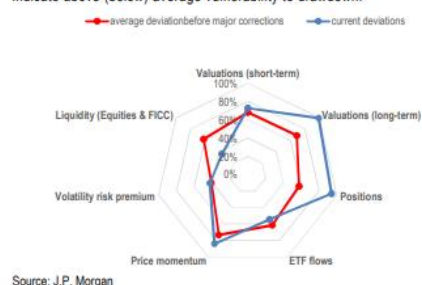
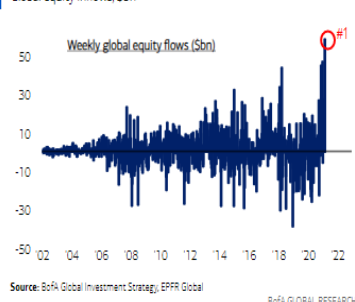
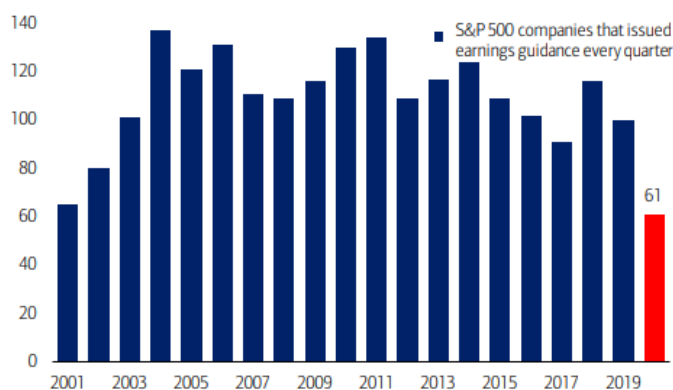


Chart 5: Largest week of global equity inflows ever. Global equity inflows, \$bn



Firms are beating headline earnings expectations but fewer are providing earnings guidance. With 74% of S&P 500 firms reporting Q4 results, close to 80% of these firms beat EPS estimates by an average margin of 15%, according to FactSet. Both metrics are the third-highest reading on record since 2008, just shy of the current record of 84% and 23%, respective, seen in 2020Q2 and Q3. However, equity investors are confronting the lowest level of transparency in decades. In 2020, only 61 of the S&P 500 firms provided earnings guidance every quarter, the lowest since the dot-com bubble.

Exhibit 15: The fewest number of companies provided EPS guidance in 20 years



Source: BofA US Equity & Quant Strategy, Bloomberg

RUSSELL RESEARCH

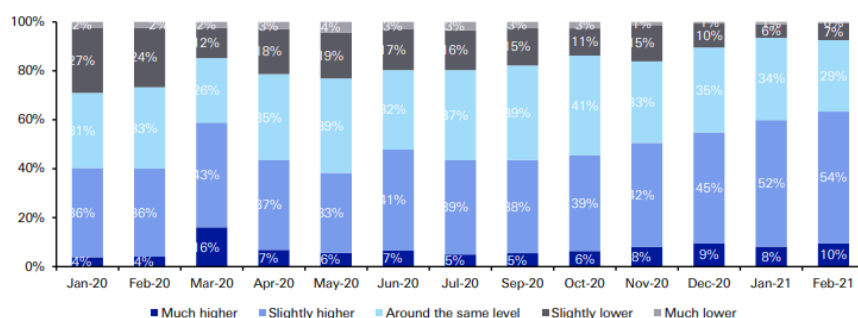
Europe

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European equities were trading little-changed today after gaining as much as 1.5-2.0% on Monday. Energy, basic materials and industrial were outperforming the broader index in a cyclical rally. Bank stocks were up 3.5% on Monday.

European sovereign bond yields headed higher with German 10-year bund yields up 5 bps since Friday close. The latest Deutsche Bank investors survey shows that the percentage of investors expecting higher yields in Europe (and the U.S.) has reached the highest level since the start of the pandemic. Southern European spreads were mostly unchanged with contracts reporting some profit taking in Italy following the new cabinet was sworn in under Prime Minister Draghi over the weekend. That said, Italy saw record demand in the primary market for its first issuance under Draghi with investors placing more than €110 bn of bids for the 10-year bonds with final pricing 4 bps tighter than initial guidance.

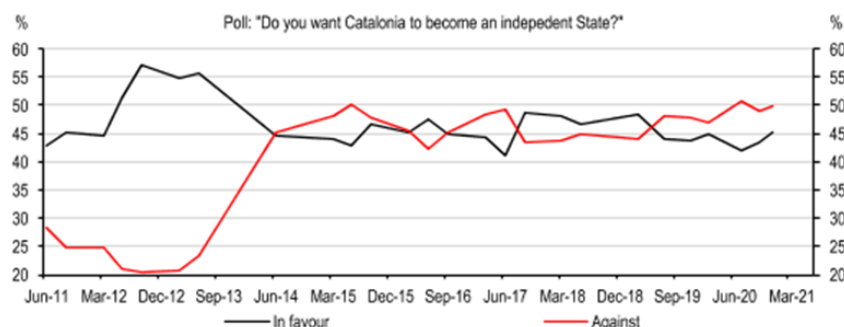
Figure 28: 10-year German Bund Yields will be...in twelve months



Source: dbDIG Survey, Deutsche Bank Research

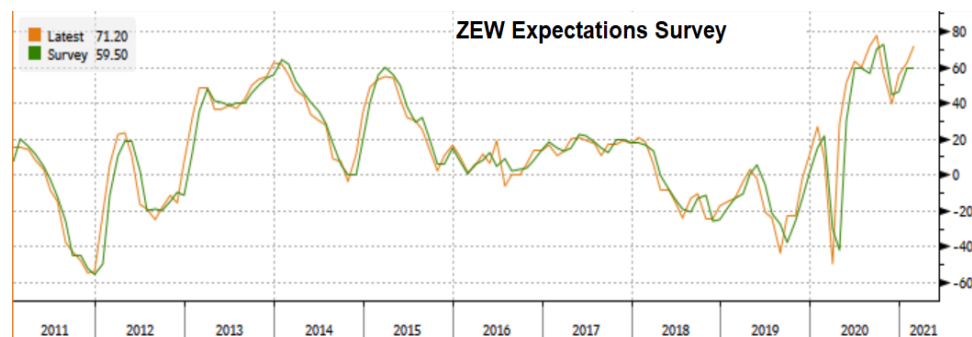
Spain's Catalan regional elections increase the power of pro-independence parties. While the anti-independence Catalan Socialist Party won the regional election by securing 23% of the votes, the top-three pro-independence parties managed to get enough support to be able to form a majority government, controlling 74 out of the 135 seats. Analysts argue that while the results may not lead to an imminent declaration of unilateral independence by Catalan, the vote is likely to bring back concerns around political stability especially as the independence issue has been on investors' radar recently. Spain's 10-year sovereign bond underperformed following the weekend results with spreads over German bunds widening by 5 bps.

Chart 2: Support for independence appears to have faded slightly in recent months based on the polls



Source: Centre d'Estudis d'Opinió (CEO), HSBC.

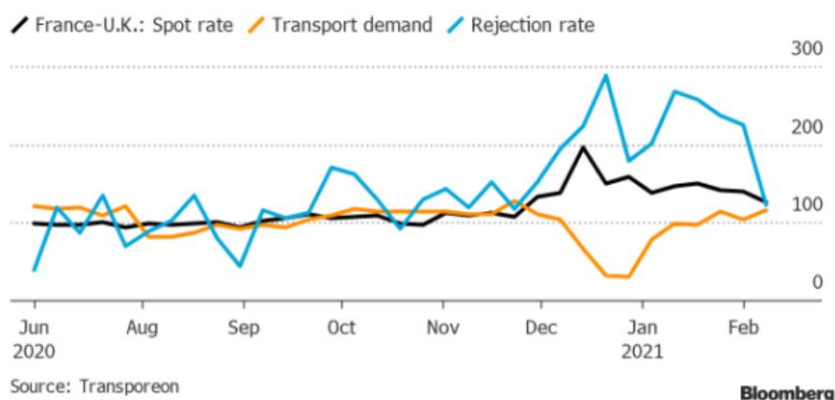
On the data front, the **German ZEW survey expectations gauge jumped to 71.2 in February** (59.5 consensus) even as current conditions came slightly below expectation at -67.2 (-66.5 expected). The **Eurozone Q4 contraction was revised marginally lower** from -0.7% qoq to -0.6%.



United Kingdom

The sterling (+0.3%) crawled towards 1.40 mark against the dollar, the strongest level since 2018. Contacts point out that the currency remains the preferred tool among investors for the relative value trade between the UK and Europe, although the commodity boom has also increased investor interest in the FTSE 100 stock index, which jumped 3% over the weekend. A faster pace of COVID inoculation is the main driver for investor optimism with the UK having administered the first dose to a quarter of its population as compared to less than 5% in the EU. Reduced risk of negative rates following the latest Bank of England meeting is also supporting the currency. Further over the weekend, news reports also suggests that firms are slowly adopting to customs rules with the weekly cargo trade data showing signs of stabilization amid a drop in cargo rejection rates.

The rate of freight firms rejecting cross-Channel cargoes sank last week



Other Mature Markets

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Australia

The Reserve Bank of Australia (RBA)'s February meeting minutes reiterated that “very significant monetary support would be required for some time.” The Board indicated that it will not increase the cash rate until actual inflation is sustainably within the 2% to 3% target range. This would require wage growth to be materially higher driven by significant employment gains and a tight labor market, goals it does not expect to meet until 2024 at the earliest. On negative interest rates, the RBA sees it as “extraordinarily unlikely.” The RBA also discussed about the effect of low interest rates on financial and macroeconomic stability, highlighting risks linked to high leverage and asset prices. It concluded that there were greater benefits for financial stability from a stronger economy and would closely monitor risks in the asset markets. **Equities rose +0.7% while the Australian dollar and 10-year bond yields were little changed.**

Japan

Equities rose +0.6%, with the Nikkei 225 returning to 30k (+1.3%) for the first time since 1990s. Bank of Japan (BOJ) Governor Kuroda said that the purchase of ETFs is still needed as part of large-scale monetary easing to hit the central bank's inflation target, according to Bloomberg. He added that the BOJ is purchasing ETFs in a flexible manner and is not aiming at any specific stock price level. **Separately, Q4 GDP rose +3% q/q seasonally adjusted (non-annualized) versus +5.3% in Q3.** This outperformed consensus of +2.4% while full-year 2020 contraction was -4.8%. Q4 growth was driven by broad-based gains, with the largest expansion from business spending of +4.5%. **The yen and 10-year JGB yield were little changed.**

Japan's Nikkei 225 hits 30,000 for the first time since 1990



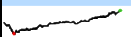

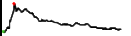
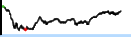

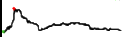

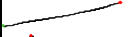


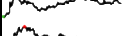


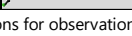
Emerging Markets [back to top](#)

Asian equities rose +0.5% on net on broad based gains. Hong Kong SAR (+1.9%) and the Philippines (+1.2%) outperformed while China, Thailand and Vietnam remained closed for holidays. **Regional currencies were mixed and traded in narrow ranges, except for the Philippines peso (-0.6%).** Separately, **Thailand's** Q4 GDP shrank -4.2% y/y from -6.4% in Q3, while authorities' 2021 GDP projections were reduced to +2.5% to +3.5% from +3.5% to +4.5% previously. **Singapore's** Q4 GDP was revised higher to -2.4% y/y in its final release, taking the full year contraction to -5.4%. The authorities retained their 2021 forecast range at +4 to +6%.

In EMEA, the Turkish lira (+0.8%) and bank stocks (+0.9%) continue to trade well. On Thursday, the Turkish central bank is expected to keep rates unchanged at 17% but some analysts are calling for hikes given continued upside pressures on producer prices and demand. The **Russian** ruble and shares are unchanged today but the currency fell (-0.5%) after industrial production unexpectedly contracted 2.5% yoy in January (no change expected). **Polish** 10-yr swap rates (+3 bps to 1.52%) passed the widely watched level of 1.50%, after closing 4 bps higher in response to high-than-expected headline inflation of 2.7% yoy (2.4% expected) yesterday. The **South African** rand is little changed as investors await the National Budget on 24 February.

Latin American stock and bond markets on Friday mainly followed the US lead, while currencies were little moved. Equities rallied on last week's Friday in Chile (+1.1%) and Peru (+1.2%), following moves higher in copper (+0.7%) and oil (+1.5%) prices, but moved little elsewhere. Currencies remained flat, except for the Colombian peso (+0.5%), while sovereign yields followed a steepening in the US treasury yield curve, with 10-year spreads rising up to 5 bps.

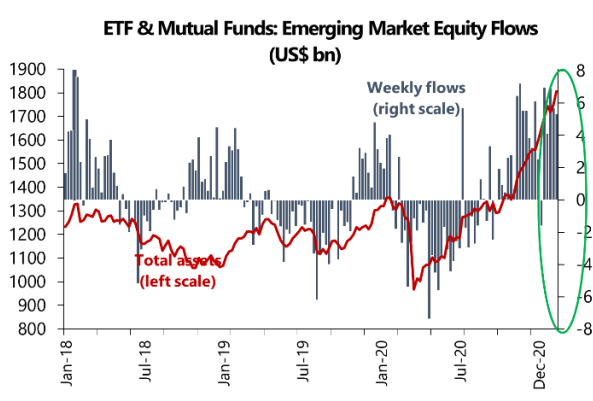
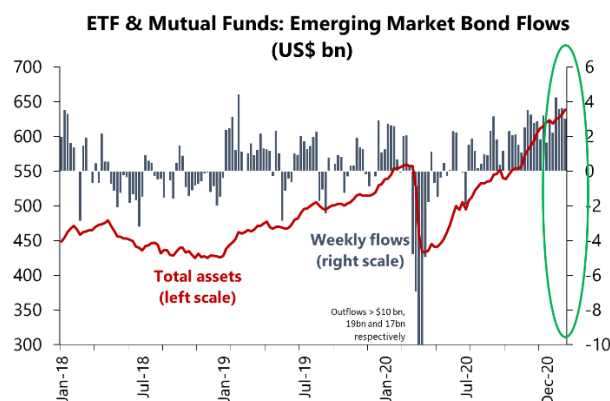
Key Emerging Market Financial Indicators

Last updated: 2/16/21 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		57.80	-0.3	3	6	31	12
MSCI Frontier Equities		29.53	0.0	0	-1	-2	4
EMBIG Sovereign Spread (in bps)		340	-1	3	-16	40	-11
EM FX vs. USD		58.16	-0.2	1	1	-3	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.46	-0.4	0	0	8	1
Indonesian Rupiah		13930	-0.1	0	1	-2	1
Indian Rupee		72.70	0.0	0	1	-2	1
Argentine Peso		88.53	-0.1	-1	-3	-31	-5
Brazil Real		5.38	0.1	0	-1	-19	-3
Mexican Peso		20.10	-0.7	0	-2	-8	-1
Russian Ruble		73.58	-0.4	0	1	-14	1
South African Rand		14.55	-0.6	1	4	3	1
Turkish Lira		6.96	0.1	2	7	-13	7
EM FX volatility		9.57	0.0	-0.3	-0.8	3.0	-1.2

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

Emerging Market Fund Flows

EM funds proved again attractive to investors. In the week up to February 10, EM investment funds received inflows of \$3.1 bn to debt and \$5.4 bn to equity funds. Institutional and retail investors both contributed, spreading their new allocations across fund types and, for bond funds, across hard and domestic currency funds. EM-focused hedge funds outperformed over the last 3 months with a total return of 14.8 percent.



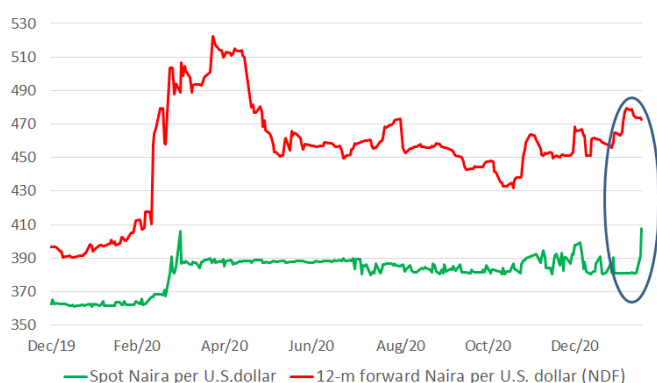
China

Chinese markets were closed for Lunar New Year holidays. China is reportedly exploring whether limiting rare-earth minerals exports would hurt US defense contractors, according to the FT. Rare earth minerals are crucial for the manufacture of F-35 fighter jets and other sophisticated weaponry. China's Ministry of Industry and Information Technology proposed draft controls on the production and export of 17 rare earth minerals in China, which controls about 80 per cent of global supply, last month.

Nigeria

The naira fell 4% in the spot market after headline inflation accelerated to 16.5% yoy (16.3% expected, from 15.8% in December). Food inflation rose to 20.6% yoy in January, from 19.6% in December. Contacts point out that even with the recovery in oil prices, FX reserves edged lower (to \$35.8 bn from \$36.5bn in mid-January). Analysts at BofA expect the naira to depreciate to 430/\$ by year-end given persistent FX shortages.

Nigeria: Spot currency and forwards








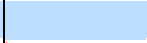







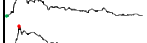








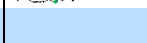



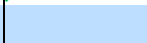
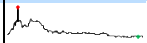

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Global Financial Indicators

Last updated: 2/16/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3942	0.5	1	5	17	5
Europe		3731	-0.1	2	4	-3	5
Japan		30468	1.3	4	7	29	11
China		3655	1.4	4	3	26	5
Asia Ex Japan		102	0.0	3	7	39	13
Emerging Markets		58	0.1	3	6	31	12
Interest Rates			basis points				
US 10y Yield		1.24	3.5	9	16	-34	33
Germany 10y Yield		-0.37	1.3	8	18	3	20
Japan 10y Yield		0.09	0.4	1	4	11	6
UK 10y Yield		0.60	2.8	14	31	-3	40
Credit Spreads			basis points				
US Investment Grade		88	-0.6	-2	-7	-16	-7
US High Yield		346	-1.5	-6	-28	-68	-34
Europe IG		47	0.5	-1	-5	5	-1
Europe HY		240	3.2	-7	-19	29	-3
EMBIG Sovereign Spread		340	-1.5	3	-16	40	-11
Exchange Rates			%				
USD/Majors		90.26	-0.2	-1	-1	-9	0
EUR/USD		1.21	0.1	0	1	12	-1
USD/JPY		105.6	0.2	1	2	-4	2
EM/USD		58.2	-0.2	1	1	-3	0
Commodities			%				
Brent Crude Oil (\$/barrel)		63	-0.4	3	14	10	22
Industrials Metals (index)		142	0.5	4	5	33	7
Agriculture (index)		51	1.1	-1	0	29	6
Implied Volatility			%				
VIX Index (%, change in pp)		21.0	1.0	-0.2	-3.3	7.3	-1.8
US 10y Swaption Volatility		60.0	-1.0	-1.1	1.7	-5.7	-0.1
Global FX Volatility		7.2	0.0	0.0	-0.6	1.7	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		114	-1.5	-8	-7	-20	-6
Italy		90	-0.5	-6	-25	-42	-21
Portugal		53	-0.2	2	-1	-16	-7
Spain		64	-0.2	6	4	-6	2

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: 2/16/2021 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		6.46	-0.4	0.1	0	8	1		3.3	0.0	-2	7	44	6
Indonesia		13930	-0.1	0.5	1	-2	1		6.2	1.4	2	-3	-44	18
India		73	0.0	0.3	1	-2	1		6.3	2.0	2	24	-30	33
Philippines		48	-0.6	-0.3	0	5	0		3.5	0.0	2	-13	-64	-16
Thailand		30	-0.1	0.0	1	4	0		1.5	5.9	7	10	14	19
Malaysia		4.03	0.1	0.5	1	3	0		2.8	5.9	5	24	-10	22
Argentina		89	-0.1	-0.6	-3	-31	-5		44.7	0.0	-457	-726	-1507	-1142
Brazil		5.38	0.1	0.0	-1	-19	-3		6.5	0.0	13	17	74	94
Chile		715	0.6	2.7	3	11	-1		2.8	0.0	-1	-3	-78	0
Colombia		3497	-0.2	2.4	-1	-3	-2		5.1	3.3	-3	3	-38	5
Mexico		20.09	-0.6	0.0	-2	-8	-1		5.6	2.4	-4	0	-99	5
Peru		3.6	0.0	-0.1	-1	-7	-1		3.8	-0.2	0	11	-42	23
Uruguay		43	0.0	-0.2	0	-11	-1		7.1	0.0	-4	-15	-280	-18
Hungary		295	-0.1	0.1	1	5	1		1.7	5.8	8	11	12	21
Poland		3.70	-0.1	-0.2	2	6	1		0.8	3.2	10	18	-119	12
Romania		4.0	0.1	0.2	1	10	-1		2.4	4.0	9	-16	-123	-38
Russia		73.5	-0.4	0.5	1	-14	1		6.2	6.8	32	37	40	51
South Africa		14.5	-0.6	1.3	4	3	1		9.4	3.0	-1	-34	0	-21
Turkey		6.96	0.1	1.6	7	-13	7		13.3	-1.6	-6	-27	208	19
US (DXY; 5y UST)		90	-0.2	-0.7	-1	-9	0		0.51	1.9	4	6	-91	15

	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		199	0	-2	-9	30	-9
Indonesia		6292	0.4	1	-1	7	5		158	0	-9	-25	-5	-29
India		52104	-0.1	2	6	26	9		155	1	0	-1	24	4
Philippines		7044	1.2	0	-3	-3	-1		83	0	-9	-17	13	-22
Malaysia		1606	-0.1	2	-1	4	-1		113	0	-2	-3	9	3
Argentina		51466	0.0	1	2	33	0		1459	0	19	8	-570	91
Brazil		119429	0.0	-1	-1	4	0		253	0	0	-16	58	3
Chile		4633	0.5	2	1	0	11		126	0	-6	-16	-14	-18
Colombia		1369	0.3	-1	-6	-18	-5		207	0	-4	-15	44	2
Mexico		44157	-0.1	0	-4	-2	0		348	0	-9	-34	55	-12
Peru		22232	-0.8	1	4	12	7		133	0	-4	-3	22	1
Hungary		44471	1.5	0	1	-1	6		65	0	-6	-15	-42	-31
Poland		59481	1.8	4	3	3	4		-22	0	-4	-11	-54	-21
Romania		10541	0.4	-1	3	4	8		187	-2	-2	-17	10	-16
Russia		3496	0.4	2	1	13	6		159	0	-5	-3	19	-7
South Africa		67696	0.9	4	7	17	14		357	0	-4	-35	25	-23
Turkey		1562	0.0	1	2	30	6		421	0	-5	-47	34	-24
Ukraine		521	0.0	0	4	-1	4		479	0	12	-21	127	-12
EM total		58	-0.2	3	6	31	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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