GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 4, 2022

- **US adds stronger-than-expected 467k jobs in January with little drag from Omicron** (link)
- **Share of negative yielding bonds shrinks as global bond yields surge** (link)
- **Markets pull forward expectations for rate hikes by the ECB and BoE** (link)
- **UK consumers face a decline in real wages amid higher inflation** (link)
- **Japan's 5-year sovereign yields move to positive territory for first time in 6 years** (link)
- **Czech National Bank raises policy rate but signals uncertainty around future hikes** (link)

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Core sovereign bond yields jump amid hawkish central bank pivot

A renewed move up in volatility has taken hold over the last day on the back of some disappointing Q4 earnings releases and a hawkish tilt from Europe's central banks. Global equities declined yesterday as investors rotated around earnings and a key miss from Meta Platforms (Facebook's parent) that drove large-cap tech companies lower (Nasdaq -4%) and weighed on broader indices. However, after-hours trading proved volatile again following a positive earnings release from Amazon that has looked to stabilize investor sentiment. Asian bourses advanced on net across the region and US equity futures are being supported by tech sector gains, although European stocks are weaker. Tighter monetary policy also still looms large for risk assets after the continued hawkish pivot by a number of central banks. Yesterday, the ECB press conference was interpreted as exhibiting a meaningful shift in stance with President Lagarde stating there was unanimous concern about rising inflation while also avoiding explicitly ruling out a rate hike in 2022. Market-based policy rate expectations have moved higher in response with money markets now pricing about 50 bps of ECB rate hikes by year-end. The reaction in core sovereign bond markets over the last day has also been sharp with yields in Germany and the UK up 10 to 12 bps across maturities as yield curves flattened, while US Treasury yields are up a more modest 6 to 8 bps across the curve. This morning's January US jobs report surprised to the upside and should add to the debate around the possibility of a 50 bp FOMC rate hike at the March meeting.

Key Global Financial Indicators

Last updated: 2/4/22 8:38 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4477	-2.4	3	-7	16	-6
Eurostoxx 50		4089	-1.3	-1	-6	12	-5
Nikkei 225		27440	0.7	3	-4	-5	-5
MSCI EM		49	-1.1	3	-1	-13	-1
Yields and Spreads				bps			
US 10y Yield		1.89	5.8	12	24	75	38
Germany 10y Yield		0.20	5.8	25	32	66	38
EMBIG Sovereign Spread		377	-1	-6	19	32	10
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		53.2	-0.4	1	2	-7	1
Dollar index, (+) = $ appreciation		95.3	-0.1	-2	-1	4	0
Brent Crude Oil ($/barrel)		92.8	1.8	3	16	58	19
VIX Index (%, change in pp)		25.3	0.9	-2	8	3	8

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

Mature Markets

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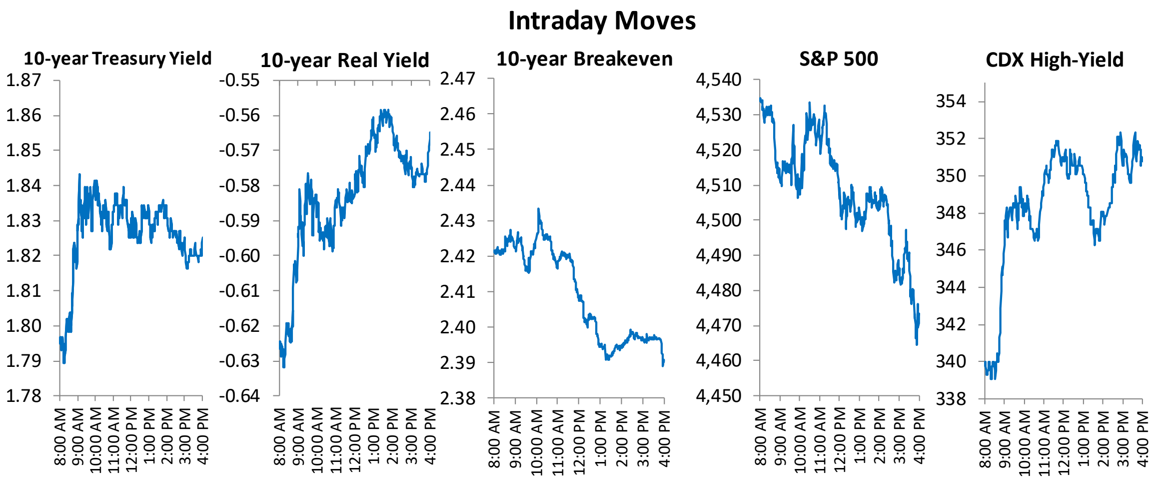
United States

US equities sold off as Meta Platforms lost $250 bn in market value in a single day. The S&P 500 closed down -2.4% and the Nasdaq by -3.7%. Disappointing Q4 earnings by Facebook parent Meta Platforms on Wednesday night played a key role in the declines. Meta shares plummeted by -26% and lost more than $250 bn in market value for the day. Analysts said the metaverse build-out would be costly, and Facebook is losing its edge with Apple privacy restrictions. **However, after the regular trading session, Nasdaq futures rebounded sharply, recouping the earlier losses, after Amazon and Snap shares surged on solid earnings results**. Individual large-cap shares have swayed index levels, as some large tech shares, including Facebook parent Meta, have been more volatile than bitcoin this year.

Treasury yields rose sharply across the curve, led by higher real rates, as hawkish central banks remained in the forefront of Thursday's market narrative. Traders said flows were more balanced and lighter than the moves suggested.



Source: Bloomberg

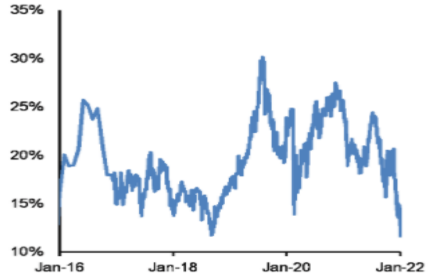
This morning, nonfarm payrolls increased by +467k, despite expectations for a temporary drag from Omicron. Last month's figure was also revised up to +510k. Although the consensus was +150k based on the Bloomberg survey, many people were looking for a negative figure following the ADP report earlier this week that showed employment shrank in January by the most since the early days of the pandemic. The unemployment rate rose 0.1% pt to 4.0% (vs. 3.9% consensus). Strong average hourly earnings also drew attention (+0.7% vs. +0.5% consensus). Ten-year Treasury yields jumped by 9 bps to touch 1.9%, and stock futures slid lower amid illiquid market conditions following headlines.

Corporate bond spreads widened, with CDX high yield nearing the highest since 2020. CDX HY spread widened by 13 bps on the day. The HY corporate bond market saw light issuance volume as borrowers contended with a sharp increase in yields. According to JPMorgan, January's high-yield bond issuance totaled $24.2 bn, which was almost half of the monthly average volume of $40.3 bn last year.

The universe of negative yielding bonds has shrunk rapidly over the past two weeks. The lower share of bonds trading with negative yields may have portfolio rebalancing effects with respect to investors' asset allocation and pricing of risk both in terms of duration and credit. Pension funds and insurance companies that were forced to move to longer maturities and down the credit-rating spectrum to avoid negative yields are now under less pressure to do so. Analysts noted that this could have a positive impact in terms of reducing distortion in the pricing of risks and the misallocation of capital in the future.

Figure 1: Market value of negative yield bonds as a % of total outstanding in Bloomberg Barclays Global Agg Index

Last obs is for cob Feb 01st.

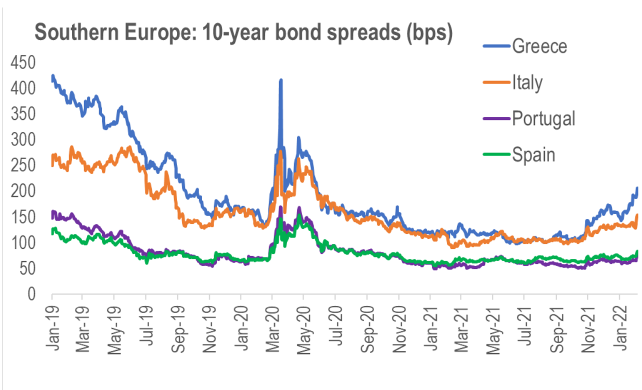


Source: Bloomberg Finance L.P, Barclays, J.P. Morgan

Euro area

European equities were mostly trading lower, with the SXXP 600 down (-0.8%). The energy sector (+1.6%) outperformed, while the auto sector led the losses (-2.6%). T**he banking sector remains the best-performing sector in Europe this year, up +11% up year-to-date**. Analysts note that prospects of higher interest rates could lead to further outperformance.

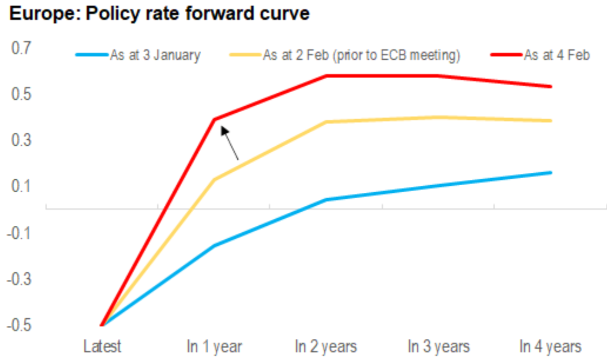
European sovereign bond yields increased further (10-yr bunds +3 bps), continuing yesterday's trend following the ECB press conference. **Peripheral spreads widened by roughly 4 bps, with Greece (+12 bps) underperforming. The euro strengthened (+0.3%) this morning to trade roughly 1.8% stronger against the dollar since the start of February, as traders digest more hawkish signals from the ECB.**



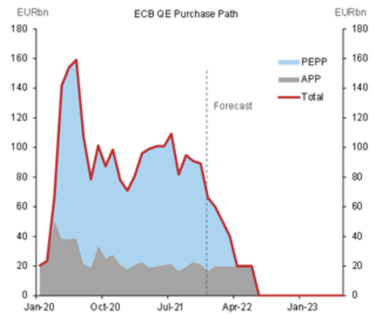
Analysts and markets expect a substantially earlier normalization of ECB policy following the ECB press conference yesterday. The ECB press conference was seen as a pivot for the central bank with President Lagarde noting that "risks to the inflation outlook are tilted to the upside, particularly in the near term", and that there was "unanimous concern" about inflation surprises. Notably, President Lagarde did not repeat her previous remarks that a 2022 rate hike was unlikely.

Several analysts, including Deutsche Bank and Goldman Sachs, have now brought forward their expected timing for the first increase in interest rates to September, **from December, with analysts expecting two 25 bp hikes in 2022 to bring the deposit rate to zero by the end of the year.** In this scenario to announcement of a taper of APP would be in March, and APP would end in June. Analysts expect a terminal rate of 1.25% in June 2025, but flag that a sharper-than-expected slowdown in goods inflation in the second half of the year or a sharp tightening of financial conditions as asset purchases are withdrawn could delay an interest rate hike into 2023. **Markets are pricing rates to increase by 50 bps**

by the end of the year. Analysts have revised inflation forecasts upwards, with Goldman Sachs seeing headline inflation above 5% until mid-2022, and core inflation peaking at 2.7% in March.



Source: Bloomberg and IMF calculations

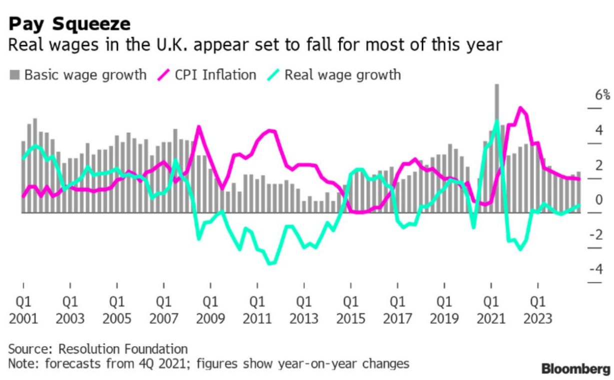


Source: Goldman Sachs Research

United Kingdom

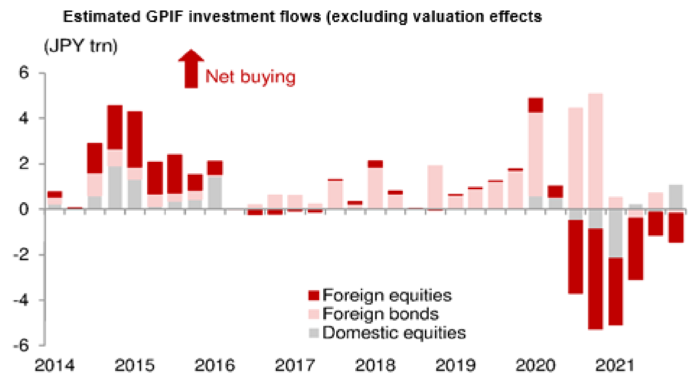
Markets pulled forward their expectations for further BoE policy tightening and now see the Bank Rate reaching 1.5% in September, compared to early next year prior to the meeting. The BoE's 25 bp interest rate increase yesterday was seen as hawkish, given that four MPC members voted for a 50 bp hike. Analysts expect hikes in back-to-back meetings through May to take the Bank Rate to 1.0%.

UK consumers are facing a decline in real wages amid higher inflation, with post-tax incomes estimated to fall by 2% in 2022, when taking the cost of living into account. Ofgem, the UK's energy regulator, increased the April price cap for domestic energy bills by 54% yesterday, the same month that a tax increases is set to start. Analysts have revised UK inflation forecasts and Goldman Sachs now expects headline inflation to peak at 7.9% y/y in April and remain above 5% through Q1 2023. **This morning Governor Bailey called for restraint on pay increases,** while the chief economist Huw Pill hinted at further monetary policy tightening if inflationary pressures such as higher wages become more persistent than expected. **This morning the pound was trading weaker (-0.2%) while 10-year gilt yields were little changed.**



Japan

Equities gained +0.6%, travel-related equities including airlines and railways clocked outsized returns on news of a possible easing of border restrictions. Separately, **Japan's Government Pension Investment Fund (GPIF) likely continued rebalancing via further sales of foreign equity in Q4 2021,** analyst estimate. Assets under management of the world's largest pension fund reached ¥199.3 tn ($1.7 tn) over the period. GPIF posted +2.81% yen gain in October-December with foreign equity driving profits (+10.5%) while domestic equities being a drag (-1.6%). Some analysts estimate GPIF likely sold both foreign equites and bonds in Q4, consistent with the monthly data on international investment published by the Ministry of Finance. Nomura suggested major net selling of foreign securities in 2021 was due to the GPIF's clearer contrarian style and because of possible risk-offs due to global monetary policy tightening. Separately, **Japanese five-year sovereign yields moved above 0% for the first time in six years.** A month ago, Japan's sovereign yield curve was positive only for maturities of nine years and beyond. Some analysts now see the Bank of Japan possibly staging unscheduled bond purchases to cap higher yields. **10-year yields climbed +1.9 bps, Japanese yen weakened -0.1%.**



Note: Foreign bonds include FX hedged foreign bonds.
Source: GPIF, Nomura

Emerging Markets

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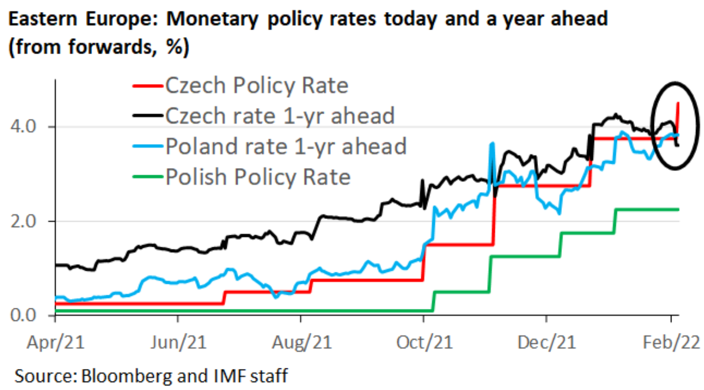
Latin American equities slumped, and currencies depreciated. Equities saw losses in Mexico (-1.7%), Argentina (-1.8%) and Chile (-2.2%). Meanwhile, currencies depreciated in Brazil (-0.4%), Colombia (-0.5%), and Chile (-1.0%). Chile's outgoing president selected a new head of the central bank, though most expect the central bank to continue with policy rate hikes amidst elevated inflation. **Asian equities gained +1.0 % on net.** Hong Kong SAR outperformed (+3.2%) followed by South Korea (+1.6%). China and Taiwan POC markets remained closed. **Asian currencies were mixed, and 10-year yields mostly surged**, with the largest climbs seen in Australia (+9.3 bps) and New Zealand (+8.0 bps). In **Australia**, the central bank upgraded inflation outlook (to 3.75% y/y from 2.75% in 1H 2022) but warned that "it is too early to conclude" that a rate hike precondition of actual inflation being "sustainably within the 2 to 3 per cent target range" has been met. **Regional inflation readings exceeded estimates in January.** Inflation cooled less than expected in South Korea (3.6% y/y) and the Philippines (3.0% y/y), while prices accelerated beyond forecast in Thailand (3.23% y/y). **EMEA equities and currencies were mixed.** Russian equities (+1%) rose but stocks fell in Poland (-1.5%) and Hungary (-0.9%). The ruble (+0.7%) gained as did oil prices (Brent +2% to $92 a barrel) but the rand (-0.5%) fell. **Some regional rates traded lower after the sharp move lower in Czech rates yesterday.** Czech 5-yr swap yields fell 21 bps (after closing 17 bps lower yesterday), with 5-yr swap rates around 15 bps lower in Hungary and Poland. **Yesterday, the central bank of Egypt left rates unchanged at 8.25%, as expected.**

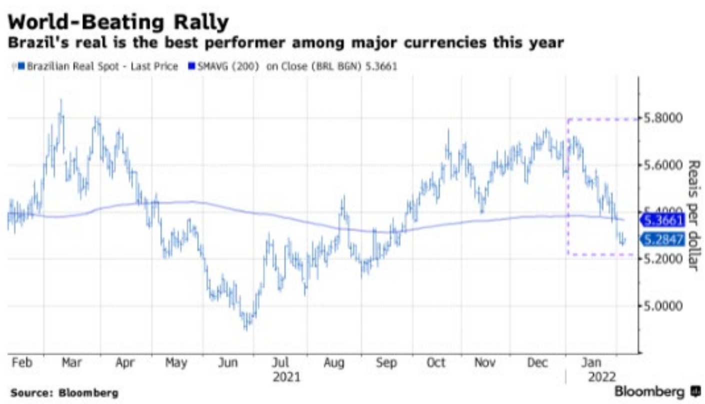
Czech Republic

Money markets are pricing in sharper rate cuts later this year after the central bank hiked its policy rates 75 bps to 4.50% and CNB governor Rusnok said that more large hikes may not be needed. Markets are pricing in a policy rate of 3.6% in a year, a 40 bp drop after yesterday's policy meeting. The CNB raised its 2022 average inflation forecast to 8.5% y/y from 5.6% whereas it expects average inflation at 2.3% y/y in 2023. **Some contacts warn that there may be upside risk to the CNB's forecasts in 2023, and believe that money markets are overreacting by pricing in so much easing so quickly.** The CNB also said that future monetary policy shocks will depend on incoming new data and forecasts. **The czech koruna is little changed today after gaining +2% against the euro in 2022.**



Brazil

Brazil's currency weakened following the central bank's signal that rate hikes could slow. Although Brazil's central bank lifted its benchmark rate by 150 bps to 10.75%, it also signaled the future pace of tightening is expected to slow. As a result, the Brazilian real, the world's best-performing currency year-to-date, weakened following the central bank's statement. Yesterday, the real depreciated by 0.4%, ending a streak of seven consecutive days of appreciation.



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Global Financial Indicators

Last updated: 2/4/22 8:39 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4477	-2.4	3	-7	16	-6
Europe		4089	-1.3	-1	-6	12	-5
Japan		27440	0.7	3	-4	-5	-5
China		4564	-1.2	-5	-8	-15	-8
Asia Ex Japan		81	-1.0	3	-2	-17	-2
Emerging Markets		49	-1.1	3	-1	-13	-1
Interest Rates			basis points				
US 10y Yield		1.89	5.8	12	24	75	38
Germany 10y Yield		0.20	5.8	25	32	66	38
Japan 10y Yield		0.20	2.2	3	11	14	13
UK 10y Yield		1.38	1.5	14	30	94	41
Credit Spreads			basis points				
US Investment Grade		127	0.8	0	14	36	15
US High Yield		375	-3.5	-13	36	19	37
Europe IG		67	4.6	7	19	19	19
Europe HY		321	20.5	35	81	76	79
Exchange Rates			%				
USD/Majors		95.30	-0.1	-2	-1	4	0
EUR/USD		1.14	0.0	3	1	-4	1
USD/JPY		115.3	0.3	0	-1	9	0
EM/USD		53.2	-0.4	1	2	-7	1
Commodities			%				
Brent Crude Oil ($/barrel)		93	1.8	3	16	58	19
Industrials Metals (index)		182	0.4	2	4	36	5
Agriculture (index)		65	-0.1	1	5	29	7
Implied Volatility			%				
VIX Index (%, change in pp)		25.3	0.9	-2.4	8.3	3.5	8.0
US 10y Swaption Volatility		80.9	3.5	2.8	-5.8	20.1	1.9
Global FX Volatility		7.4	0.0	-0.1	-0.1	0.0	0.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		204	10.0	13	61	94	53
Italy		154	4.3	22	21	54	19
Portugal		78	4.5	11	15	26	13
Spain		84	4.4	10	13	26	10

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

Emerging Market Financial Indicators

Last updated: 2/4/2022 8:16 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		6.36	0.1	-0.4	0	1	0		2.7	-3.5	-2	-17	-57	-14
Indonesia		14380	0.0	0.1	-1	-3	-1		6.5	2.1	0	6	32	8
India		75	0.2	0.5	0	-2	0		6.3	0.0	0	9	75	0
Philippines		51	-0.1	0.2	0	-6	0		4.6	0.0	0	8	145	10
Thailand		33	0.5	1.1	1	-9	1		2.2	6.5	5	19	90	30
Malaysia		4.18	0.1	0.2	0	-3	0		3.7	2.2	-1	5	93	9
Argentina		105	-0.1	-0.6	-2	-17	-3		49.9	20.8	65	-29	38	-69
Brazil		5.31	-0.4	1.4	7	2	5		11.3	7.5	-18	13	337	64
Chile		822	-0.4	-1.0	3	-10	4		5.7	-1.3	3	3	291	23
Colombia		3957	-0.1	0.0	3	-10	3		7.3	0.0	-4	62	307	86
Mexico		20.57	-0.1	1.1	0	-1	0		7.5	0.0	-8	-25	196	-4
Peru		3.9	-0.1	-0.5	3	-6	4		6.1	0.3	-3	13	230	17
Uruguay		44	-0.1	0.7	2	-3	2		8.7	0.0	-12	-7	147	-6
Hungary		308	0.6	4.4	4	-3	5		4.9	-3.4	7	14	303	35
Poland		3.97	0.1	3.6	2	-5	2		3.9	-10.0	-11	25	262	36
Romania		4.3	0.2	2.8	2	-6	1		5.1	2.6	9	23	274	24
Russia		76.2	0.5	2.2	-1	-1	-2		9.3	0.3	-18	55	296	57
South Africa		15.3	-0.5	1.7	4	-2	4		7.6	-5.0	-17	1	101	17
Turkey		13.53	0.3	0.2	-1	-47	-2		22.7	-31.0	-77	-173	972	-160
US (DXY; 5y UST)		95	-0.1	-2.0	-1	4	0		1.66	-1.1	5	30	120	40

	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		4564	0.0	-5	-8	-15	-8		200	0	0	-25	-3
Indonesia		6731	0.7	2	0	9	2		181	-3	26	0	16
India		58645	-0.2	3	-2	16	1		139	2	11	-17	7
Philippines		7456	1.0	3	6	6	5		112	-3	21	11	11
Malaysia		1523	-0.2	0	-1	-4	-3		122	3	7	-15	5
Argentina		88091	-1.8	2	3	74	5		1753	-145	61	313	73
Brazil		111696	0.0	0	8	-6	7		313	-6	9	47	2
Chile		4495	0.9	-1	5	2	4		153	-4	22	10	13
Colombia		1516	-0.9	-1	6	12	7		359	-10	19	137	11
Mexico		51145	-1.7	1	-4	16	-4		337	-5	12	-27	5
Peru		22210	-1.2	-2	3	3	5		167	4	25	40	17
Hungary		51884	-0.8	-2	0	17	2		132	7	20	-8	8
Poland		67792	-1.1	1	-4	20	-2		12	6	-14	-16	-20
Romania		13414	0.1	2	2	28	3		201	-2	20	7	8
Russia		3505	1.0	0	-10	4	-7		249	-10	84	72	72
South Africa		75020	0.0	2	0	18	2		365	3	20	-17	10
Turkey		1954	-0.2	-1	0	27	5		552	7	-14	117	-26
Ukraine		522	0.0	0	0	0	0		857	-51	115	364	98
EM total		49	0.0	3	-1	-13	-1		408	-9	29	61	21

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

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