




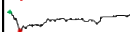


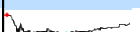






- **US nonfarm payrolls disappoint** ([link](#))
- **Inflows into US TIPS ETFs increase** ([link](#))
- **SOFR-linked FRN issuance picked up in January** ([link](#))
- **Italy's Draghi makes progress towards a new government** ([link](#))
- **The Bank of England sparks taper-talks in the UK's gilts market** ([link](#))
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A sea of green ahead of a disappointing US nonfarm payrolls release

Market sentiment improved globally, with many stock exchanges set for the best weekly gain since November. Risky assets rose as the US senate voted to adopt a budget blueprint for President's Biden \$1.9 tn stimulus package, progress on the vaccine front continued and further earnings releases were on the positive side. In US pre-market trading, Pinterest shares jumped 11% on better-than-expected sales and Johnson & Johnson shares rose after asking US drug regulators to clear its experimental COVID-19 vaccine for emergency use. Yields on US and European sovereign bonds increased and the dollar was slightly weaker. UK gilts stood out, with the 10-year yield 5 bps higher following the Bank of England policy announcement yesterday. Elsewhere, Brent futures traded near \$60/barrel and continued their upward trend backed by shrinking stockpiles and investor optimism on the economic recovery. The improved market sentiment was also reflected in emerging markets, with most stock exchanges in the green and many currencies stronger to the dollar. **However, market sentiment deteriorated following the release of a disappointing US nonfarm payrolls report at 8:30am EST**, with US equity futures reversing some of the early gains and 10-year US Treasury yields 3 bps lower immediately following the data release.

Key Global Financial Indicators

Last updated: 2/5/21 8:12 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3872	1.1	2	4	16	3
Eurostoxx 50		3665	0.6	5	3	-3	3
Nikkei 225		28779	1.5	4	6	23	5
MSCI EM		56	0.0	2	5	27	8
Yields and Spreads			bps				
US 10y Yield		1.17	3.0	10	21	-48	26
Germany 10y Yield		-0.42	3.0	9	15	-7	15
EMBIG Sovereign Spread		344	-1	-14	-6	38	-7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.3	0.2	0	-1	-5	-1
Dollar index, (+) = \$ appreciation		91.4	-0.1	1	2	-7	2
Brent Crude Oil (\$/barrel)		59.5	1.0	6	11	8	15
VIX Index (% change in pp)		21.9	0.1	-11	-3	7	-1

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

United States

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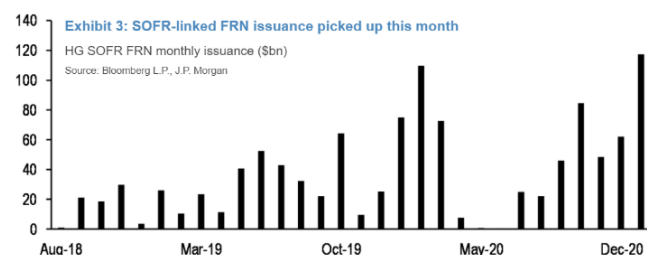
The S&P 500 (+1.1%) reached a new record yesterday, with banks and tech companies outperforming. Small caps also outperformed, with the Russell 2000 Index up 2%. The VIX fell by 1 ppts but the term structure of VIX futures remains somewhat elevated on fears of a repeat of the recent market turbulence. The dollar appreciated against most other major currencies, while the treasury yield curve continued steepening with 5s30s spread reaching 5-year highs at 148 bps.

This morning, **nonfarm payrolls rose 49k in January, lower than the 105k expected.** There was also a large **negative revision to the December numbers**, with nonfarm payrolls revised down to -227k (from -140 k previously). The unemployment rate was recorded at 6.3%, better than 6.7% expected. US equity futures reversed some of the early gains and 10-year US Treasury yields were 3 bps lower immediately following the data release.

Inflows into US TIPS ETFs have increased amid rising breakeven inflation. Nominal US Treasury bonds have considerably underperformed compared to their inflation-protected counterparts (left chart below) due to higher priced-in inflation driven by expectations of a faster recovery from the pandemic and the Fed's forward guidance. Some analysts also expect additional inflationary pressures as the labor market tightens upon recovery. Expectations of further relative outperformance of inflation-protected instruments supports the continued demand for TIPS that fuels inflows into TIPS-related ETFs (right chart).



SOFR-linked FRN issuance picked up in January. Regulatory pressure to transition away from Libor to SOFR in Floating-Rate Notes (FRNs) supports the gradual increase in the issuance of SOFR-based instruments (chart below) despite some reluctance of various financial intermediaries. SOFR - an overnight secured financing rate based on transactions conducted in the Treasury repo market – is virtually risk-free and does not incorporate the systemwide-bank risk embedded in Libor. The lack of this add-on creates a mismatch between the actual cost of funding for banks and the interest revenue from FRNs – thus, significantly complicating the pricing of the spread over the reference rate in FRN coupons. Therefore, while SOFR is actively used in derivatives and agency markets, its usage in credit and securitized markets remains low, despite the deadline for the global benchmark reform being less than a year away from now.

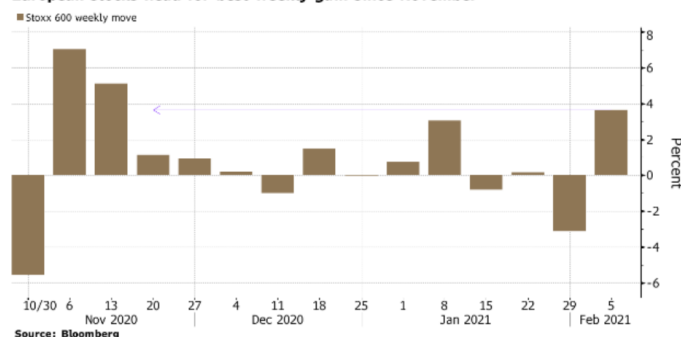


Europe

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European equities were heading for the best week since November with indices in Italy (+1.3%), France (+1.0%) and Spain (+1.0%) advancing this morning. Consumer services (+1.8%), Energy (+1.0%) and banks (+0.9%) continued outperform today as investors rotated into the recovery-reflation narrative.

European stocks head for best weekly gain since November



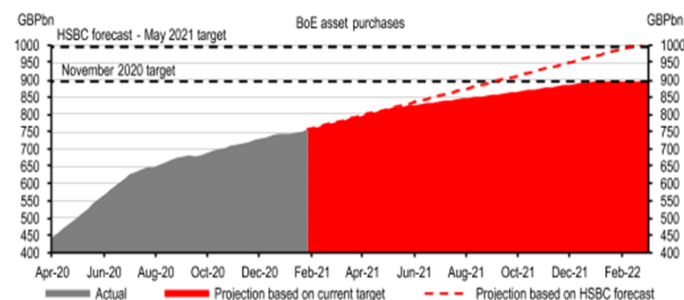
European bond yields edged higher with German 10-year bunds (+2 bps) leading the way. **Italian bonds were outperforming with the 10-year spread over Germany trading below 100 bps as PM designate Draghi made progress towards government formation.** Leaders of the 5 Star movement, the largest party in the parliament, now seem to be split over Draghi's support having initially ruled out cooperation. Furthermore, ex-PM Berlusconi's Forza has pledged to support a coalition and the right-wing League party has also opened doors for cooperation. As such, a majority coalition seems to be now in reach with a confidence vote possible as early as next week. Beyond immediate government formation, Draghi's main challenge would be to reduce fragmentation of the policy platform that led to the fall of the previous government.



United Kingdom

The Bank of England's decision yesterday sparked taper-talks in the gilts market. Most analysts no longer expect a rate cut in this cycle, unless a vaccine-resistant strain emerges later this year. Furthermore, contacts also suggest that expectations for another QE top-up have been scaled back, although some banks still maintain a £100 bn increase in May as their base case. Alternatively, the central bank would have to reduce the pace of purchases from current £4.4 bn per week in the coming March meeting or face a cliff-edge within the current QE envelope by August. This raises some concerns among market participants given the bond supply profile under current fiscal stimulus package. UK's 10-year gilt yields have increased by 11 bps since the central bank meeting, reaching the highest level since the start of the pandemic.

Chart 3: The pace of QE will need to slow if the current programme is to last until the end of the year



Other Mature Markets

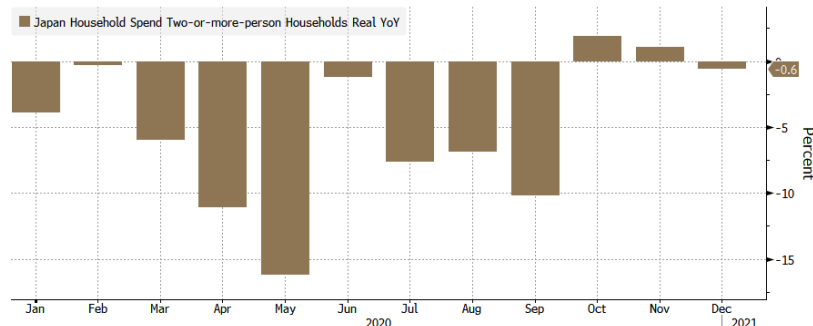
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Japan

Japan's household spending declined less than expected in December. Japanese households cut their spending 0.6% y/y. Smaller spending on transportation and dining out was the main driver for the overall decline. Analysts expected that household consumption will weaken in the coming months given the ongoing state of emergency to curb the spread of the virus. **Equities gained (NIKKEI: +1.5%),** led by electronics firms and auto makers; the latter was driven by the news that Apple is seeking partners to develop electric vehicles. The **Japanese yen appreciated (+0.2%)** to the dollar.

Recovery Key

Consumer spending is needed to help power Japan's recovery



Source: Bloomberg.






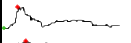


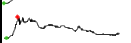
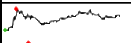
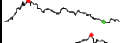

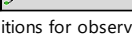

Emerging Markets

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Asian stock markets gained, +0.3% on net, led by Philippine (+1.7%) and Korean (+1.1%) equities. Share prices in Malaysia underperformed (-0.6%). **Asian currencies were little changed** except for Korean won which saw relatively large depreciation (-0.5%). **In Indonesia,** real GDP fell 2.2% in 2020, less than an expected 2.3% contraction. The Indonesian rupiah depreciated (-0.1%); equities gained (+0.7%). **In the Philippines,** CPI inflation increased more-than-expected to 4.2% y/y in January, rising above the central bank's target. The stock market advanced from its earlier intraday decline as the central bank said that it viewed high inflation as temporary and signaled for no policy rate hikes. In **EMEA,** the Russian ruble (+0.7%) and shares in Moscow (+0.9%) gained as EU Representative Borrell said that the EU has no plans for more sanctions on Russia. The **Turkish** lira (+0.9%) and equities (+0.9%) posted another day of gains. Contacts believe that the central bank's pledge to keep rates tight combined with green shoots of de-dollarization, have been key drivers for continued lira strength. The **South African** rand (+0.4%) and equities (+0.9%) also gained. Local 10-year rates in South Africa fell to a new multi-year low as analysts have lowered estimates of the fiscal deficit ahead of the National Budget on 24 February. The **Czech**

National Bank left its policy rate unchanged at 0.25% yesterday but upgraded its average 2021 GDP growth forecast to 2.2% (from 1.7%) and now projects a tighter 3-m interbank rate at 1.16% (from 1.05%) and a stronger koruna by end 2021. The koruna (+0.2%) edged higher against the euro and equities gained (+0.9%). **In Latam**, equities in Argentina (+1.7%) outperformed while Brazilian stocks (-0.4%) lagged yesterday. The Brazilian real (-1%) also underperformed peers.

Key Emerging Market Financial Indicators

Last updated: 2/5/21 8:15 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		55.76	0.6	2	5	27	8
MSCI Frontier Equities		29.47	0.8	2	2	-2	4
EMBIG Sovereign Spread (in bps)		344	-1	-14	-6	38	-7
EM FX vs. USD		57.33	0.2	0	-1	-5	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.0	-1	0	8	1
Indonesian Rupiah		14030	-0.1	0	-1	-2	0
Indian Rupee		72.93	0.0	0	0	-2	0
Argentina Peso		88.00	-0.1	-1	-4	-31	-4
Brazil Real		5.45	-0.3	0	-3	-22	-5
Mexican Peso		20.32	0.4	1	-2	-8	-2
Russian Ruble		74.80	1.0	1	-1	-16	-1
South African Rand		14.97	0.2	1	0	-1	-2
Turkish Lira		7.07	1.0	3	5	-15	5
EM FX volatility		10.03	0.0	-0.3	-0.8	3.5	-0.7

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

China, Hong Kong SAR and Macau SAR

China's market participants are adjusting to a new normal of a tighter liquidity environment. The People's Bank of China (PBOC) has tightened liquidity in recent weeks, driving up money market rates markedly in January. Leveraged bond traders, who benefited from borrowing cheap cash to buy government bonds, have been forced to reduce their positions, with their carry-trade returns falling by half and even turning negative briefly. Market analysts noted that investors are now pricing in rather tight liquidity in Q1. The PBOC's today OMO withdrew liquidity of 22 bn yuan (\$3.4 bn), while interbank repo rates dropped (overnight: -15.5 bps; 7-day: -5.3 bps). The **RMB depreciated (-0.1%); equities gained (CSI 300: +0.2%)**.

Rise and Demise

Turnover of a tool for leveraged bond purchase shrank about 70% in 3 weeks



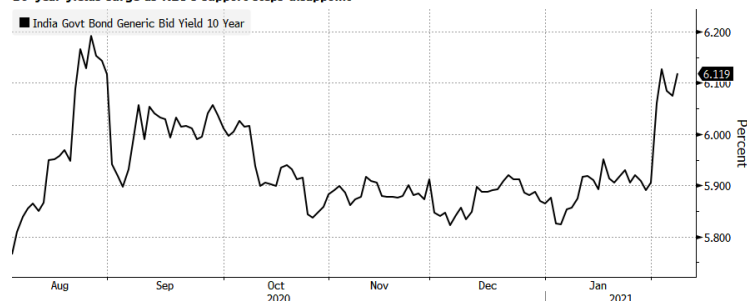
The MOU for the Wealth Connect scheme between mainland China, Hong Kong SAR and Macau SAR has been signed. Regulators have agreed on the framework and important details such as quota and product ranges. The scheme will allow residents in one jurisdiction to hold wealth management products in others. Analysts noted that fund flows will likely be limited initially, and the launch could be delayed given the difficulty to set up accounts in person amid the border closure between mainland China and Hong Kong SAR. However, southbound flows (i.e., mainland investment in Hong Kong and Macau funds) will likely exceed northbound flows over time.

India

The Reserve Bank of India (RBI) kept policy rates unchanged, as expected. The repurchase rate was maintained at 4%, while the cash reserve ratio was raised to 3.5% from 3% to absorb excess liquidity in the banking system. **Government bond yields increased** (10-year: +2.7 bps) as the RBI disappointed market participants by not announcing a bond purchase calendar to help the market absorb the government's massive borrowing plan. RBI governor Das only provided assurance that the RBI will continue maintaining an accommodative liquidity stance. One analyst noted that government bond yields stayed anchored in 2020 mainly due to the RBI's support measures including open-market bond purchases (\$37 bn) and Operation Twists. The **Indian rupee appreciated (+0.1%); equities gained (+0.7%).**

Not Happy

10-year yields surge as RBI's support steps disappoint



Source: Bloomberg

GIND10YR Index (India Govt Bond Generic Bid Yield 10 Year) Yield Chart Daily 05 Copyright© 2021 Bloomberg Finance L.P. 05-Feb-2021 15:32:39

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Global Financial Indicators

Last updated: 2/5/21 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3875	1.1	4	4	16	3
Europe		3665	0.6	5	3	-3	3
Japan		28779	1.5	4	6	23	5
China		3496	-0.2	0	-1	24	1
Asia Ex Japan		98	-0.1	2	6	36	9
Emerging Markets		56	0.0	2	5	27	8
Interest Rates			basis points				
US 10y Yield		1.17	3.0	10	21	-48	26
Germany 10y Yield		-0.42	3.0	9	15	-7	15
Japan 10y Yield		0.06	-0.1	1	5	10	4
UK 10y Yield		0.50	5.8	17	29	-12	30
Credit Spreads			basis points				
US Investment Grade		90	-1.0	-6	-9	-14	-5
US High Yield		353	-2.7	-26	-29	-69	-27
Europe IG		47	-0.8	-5	-1	4	-1
Europe HY		241	-3.3	-28	-12	28	-1
EMBIG Sovereign Spread		344	-1.5	-14	-6	38	-7
Exchange Rates			%				
USD/Majors		91.39	-0.1	1	2	-7	2
EUR/USD		1.20	0.2	-1	-3	9	-2
USD/JPY		105.8	-0.2	-1	-3	4	-2
EM/USD		57.3	0.2	0	-1	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		59	1.0	6	11	8	15
Industrials Metals (index)		135	1.2	2	-2	26	2
Agriculture (index)		51	0.3	0	3	29	5
Implied Volatility			%				
VIX Index (% change in pp)		21.9	0.1	-11.2	-3.5	6.7	-0.9
US 10y Swaption Volatility		60.3	-0.5	-0.3	-3.6	-7.8	0.2
Global FX Volatility		7.4	0.0	-0.2	-0.5	2.1	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	8.5	-1	-1	-36	-1
Italy		97	-2.6	-19	-17	-35	-14
Portugal		50	-1.1	-6	-8	-20	-10
Spain		57	-1.1	-5	-5	-9	-5

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: 2/5/2021 8:16 AM	Exchange Rates							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		6.47	0.0	-0.7	0	8	1		3.3	2.1	2	4	49	7
Indonesia		14030	-0.1	0.0	-1	-2	0		6.2	2.5	-11	17	-63	11
India		73	0.0	0.0	0	-2	0		6.2	-0.3	14	28	-57	25
Philippines		48	0.0	0.0	0	6	0		3.5	-4.0	-13	-17	-65	-17
Thailand		30	0.0	-0.6	-1	3	0		1.4	1.6	6	12	-8	9
Malaysia		4.07	-0.2	-0.7	-1	1	-1		2.7	2.5	11	17	-43	13
Argentina		88	-0.1	-0.8	-4	-31	-4		49.8	28.3	-4	-637	-781	-637
Brazil		5.45	-0.3	0.5	-3	-22	-5		6.3	10.3	-5	74	37	73
Chile		739	0.1	-0.8	-5	5	-4		2.8	-0.4	0	3	-67	-1
Colombia		3557	0.0	0.3	-3	-5	-4		5.1	3.4	-2	11	-51	5
Mexico		20.32	0.4	1.3	-2	-8	-2		5.6	3.9	6	5	-111	5
Peru		3.6	-0.1	0.0	0	-8	-1		3.8	-0.6	4	28	-44	25
Uruguay		43	-0.1	-0.8	-1	-12	-1		7.1	-5.4	-8	-14	-320	-12
Hungary		298	-0.1	-1.0	-2	3	0		1.6	-1.7	7	15	28	11
Poland		3.76	0.1	-0.8	-2	3	-1		0.6	1.4	5	2	-130	0
Romania		4.1	0.2	-1.3	-3	6	-2		2.3	-3.0	-2	-38	-155	-45
Russia		74.8	1.0	1.4	-1	-16	-1		6.0	-2.1	0	27	0	27
South Africa		15.0	0.2	1.3	0	-1	-2		9.4	-0.3	-25	-18	-1	-24
Turkey		7.07	1.0	3.4	5	-15	5		13.3	-8.1	7	18	330	21
US (DXY; 5y UST)		91	-0.1	0.9	2	-7	2		0.47	1.6	5	10	-99	11

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	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	
								basis points						
China		5483	0.2	2	2	43	5		201	-1	-5	-11	31	-7
Indonesia		6152	0.7	5	0	3	3		165	-5	-12	-17	-2	-22
India		50732	0.2	10	5	23	6		155	-1	-1	4	21	4
Philippines		7019	1.7	6	-2	-5	-2		91	-3	-9	-6	20	-14
Malaysia		1579	-0.4	0	-2	3	-3		115	-1	-1	1	5	5
Argentina		50683	1.7	2	-2	24	-1		1459	1	6	47	-438	91
Brazil		119261	-0.4	4	0	3	0		250	-5	-23	-4	36	0
Chile		4437	0.2	3	2	-5	6		132	-2	-8	-10	-10	-12
Colombia		1360	0.0	1	-5	-18	-5		212	-3	-10	3	44	7
Mexico		44168	0.5	0	-2	-1	0		357	-5	-26	-11	57	-3
Peru		21552	-0.4	1	3	6	4		136	-1	4	7	20	4
Hungary		44110	-0.3	1	4	0	5		73	0	-7	-19	-30	-23
Poland		57414	1.3	1	-1	-1	1		-17	0	-4	-15	-48	-16
Romania		10582	0.7	3	8	5	8		195	1	-8	-7	8	-8
Russia		3373	0.0	3	0	8	3		161	-3	-6	-5	17	-5
South Africa		64552	1.2	3	6	12	9		360	-11	-27	-28	30	-20
Turkey		1546	0.7	5	4	26	5		424	-5	-22	-27	65	-21
Ukraine		521	0.0	1	4	2	4		472	-8	-34	-15	101	-19
EM total		56	0.6	2	5	27	8		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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