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- Lega leader pledges unconditional support for Draghi-led government ([link](#))
- European carbon futures trade at record high ([link](#))
- Early Ecuador election results favor socialist candidate ([link](#))
- Reserve Bank of India sets to buy more bonds ([link](#))
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Equity markets get a boost as treasury yields continue to rise

Risk appetite is on the rise today with treasury yields continuing to move higher, and the price of a barrel of Brent moving over \$60 for the first time in over a year. Rising expectations of a large US fiscal package, as well as evidence of declining case counts, are helping the rally. This boost was aided by comments from US treasury secretary Yellen that full employment may be reached in 2022 if a large enough relief package is passed. Italian shares are outperforming as support for Mario Draghi increases. Despite the risk rally, emerging market currencies are mostly weaker so far today, led by the South Africa rand on disappointing vaccination news. Ecuadoran dollar bonds are sharply lower this morning after preliminary election results show socialist candidate winning the first round, with the conservative candidate in third place.

Key Global Financial Indicators

Last updated: 2/8/21 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3887	0.4	5	2	17	3
Eurostoxx 50		3675	0.5	4	1	-3	3
Nikkei 225		29389	2.1	5	4	23	7
MSCI EM		56	0.9	5	3	30	9
Yields and Spreads			bps				
US 10y Yield		1.19	2.3	11	7	-40	27
Germany 10y Yield		-0.43	2.2	9	9	-4	14
EMBIG Sovereign Spread		337	-7	-14	-13	37	-13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.5	-0.2	0	0	-4	-1
Dollar index, (+) = \$ appreciation		91.2	0.1	0	1	-8	1
Brent Crude Oil (\$/barrel)		60.1	1.3	7	7	10	16
VIX Index (% change in pp)		21.7	0.9	-9	0	6	-1

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

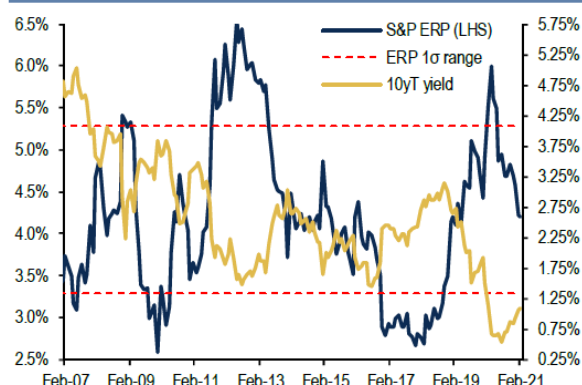
United States

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US Treasury yields and equity futures rose overnight, and the USD appreciated modestly. US intermediate and long-dated rates continued to climb in the aftermath of Friday's risk-positive session. The 10-year rate is now nearing 1.20%. Bank of America (BofA) estimates that material headwind for risk assets may transpire once the 10-year yield reaches 1.75-2.0%. BofA forecasts the 10-year rate would reach 1.75% by the end of 2021. Meanwhile, forward rate markets imply that the 10-year US Treasury rate would reach 1.70% level sometime between two and three years from now.

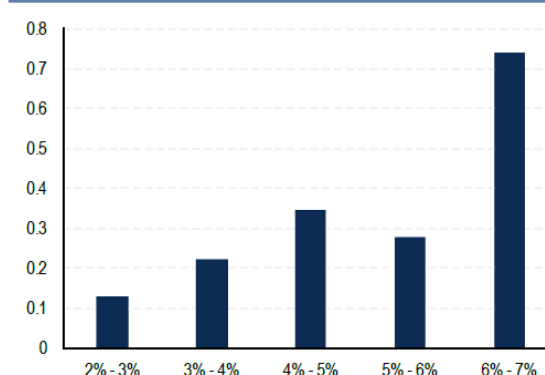
US markets continue to focus on the potential speed of economic recovery and the associated possibility of reflation. Specifically, expectations appear to be moving toward a roughly USD1.5tn package from about USD1 tn previously. US Treasury secretary Janet Yellen commented on the news that the US could reach full employment in 2022 if Congress passed the proposed USD1.9tn stimulus package. However, some market contacts noted that the package, in its current form, may not have enough long-term consequences for growth, as it prioritizes consumption over public investment. Further, the expansion of aggregate demand relative to supply may create bottlenecks that would cause inflation to accelerate. Indeed, the 5y5y inflation breakeven rate has risen by almost 15 bps since the start of the previous week, to 2.2%.

Chart 7: S&P ERP and 10yT yields



Source: BofA Global Research

Chart 8: Correlation between SPX and 10yT rates at different ERPs



Source: BofA Global Research, Bloomberg

Europe

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European stocks (+0.6%) rose in line with global equities even though the German economy minister Altmaier indicated that it could take another 6-8 weeks before the German economy can fully reopen.

German industrial production unexpectedly stagnated in December (compared to growth of +0.3% m/m expected) even though November data was revised upwards. Germany will report December trade data on Tuesday. France reports industrial production on Wednesday.

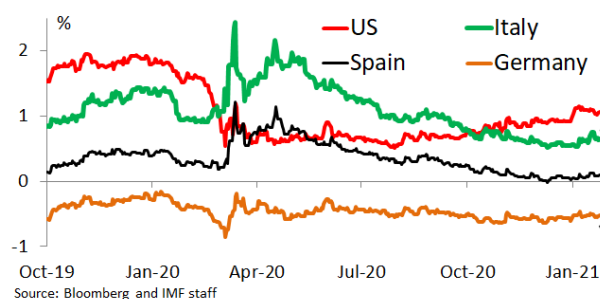
According to news reports, **the AstraZeneca vaccine could fail to prevent mild and moderate Covid from the South African strain** (based on a clinical trial in South Africa) **but the U.K. government said that the vaccine is effective in preventing serious infection and fatality.** Nevertheless, people may have to receive a booster shot.

10-yr bund yields rose 3 bps to -0.42% and the euro (-0.1%) trades at €1.20.

Italian 10-year spreads (-4 bps) fell to 94 bps on rising support for a Draghi-led government. Contacts have a high conviction that the pledge by Lega leader to support Draghi "without conditions", makes a semi-political government with ministers from Lega, M5S and PS very likely. Draghi will hold a second round of

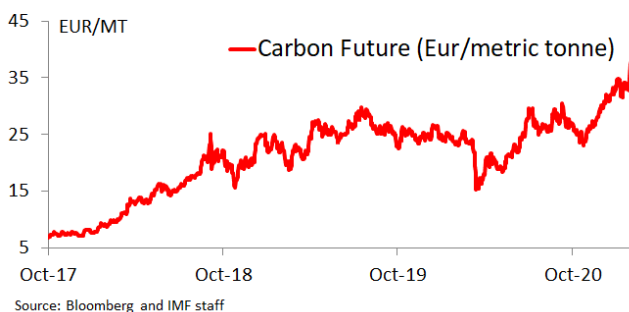
consultations today and tomorrow. Expectations are that he could go to President Mattarella with a list of ministers already on Tuesday with a potential confidence vote in both houses to take place by next Monday.

10-yr sovereign rates: euro area and U.S.



The price of carbon in Europe (+2%) rose to a new record high of €39/mt on rising demand for EU emission allowances. Bloomberg reports that companies paid a premium above market prices at an auction in Poland last week.

Europe: Price of carbon futures



Other Mature Markets

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Japan

JGB futures continued falling, reaching their lowest since August 2020. The decline in JGB futures reflected rising U.S. treasury yields and strong domestic stock market performance. Cash bonds were sold off less than futures. Some analysts noted that banks have ample funds from increased deposits that need to be invested, with higher yields potentially attracting buyers. Government bond yields increased (10-year: +1.2 bp; 30-year: +1.4 bps); the Japanese yen depreciated (-0.3%). **Equities gained** (NIKKEI: +2.1%), driven by SoftBank's gain (+4.5%) and optimism that the government may lift the state of emergency in some areas. SoftBank's Vision Fund booked a record profit for 2020Q4.

Futures Slip

JGB 10-year futures touch lowest since August as stocks, U.S. yields rise








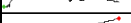


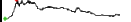





JGB1 Comdty (Generic 1st 'JB' Future) Line Chart Daily 09FEB2020-08FEB2021 Copyright© 2021 Bloomberg Finance L.P. 08-Feb-2021 15:28:56

Emerging Markets [back to top](#)

Asian stock markets gained, +0.1% on net, led by Chinese (CSI 300: +1.5%), Indian (+1.5%) and Thai (+1.1%) equities. Share prices dropped in Korea (-0.9%). **Most Asian currencies appreciated**, led by the Korean won (+0.4%). **Long-end government bond yields broadly increased** (for 10-year, Thailand: +5.2 bps, Malaysia: +4.8 bps) following rising U.S. treasury yields. **In Korea**, the stock market declined. The Korean won appreciated as the government eased social distancing rules. **In China**, interbank repo rates remained relatively stable. The People's Bank of China only injected net liquidity of 10 bn yuan (\$1.6 bn) today. RMB appreciated (+0.2%). **EMEA equities were mostly higher** with Saudi Arabia (+1.5%), South Africa (+1.4%) and Russia (+1.2%) benchmarks outperforming. **EMEA currencies were trading mixed** as the South African rand (-0.9%) and the Turkish lira (-0.9%) depreciated while the Russian ruble (+0.3%) gained against the dollar. **Markets in LATAM closed last week higher**. Most of the regional equity markets were up in the range of 0.7-1% on Friday, except Mexico, which closed marginally lower. Major currencies appreciated. Mexican peso (+1.5%) and Brazilian (+1%) real led the pack. According to media reports, Brazil's president Jair Bolsonaro is considering a "short-term decision" to cut fuel tax in order to assuage agitating truck drivers, while reiterating Petrobras independence to adjust domestic fuel prices to international levels. Petrobras share prices closed 0.7% higher on Friday

Key Emerging Market Financial Indicators

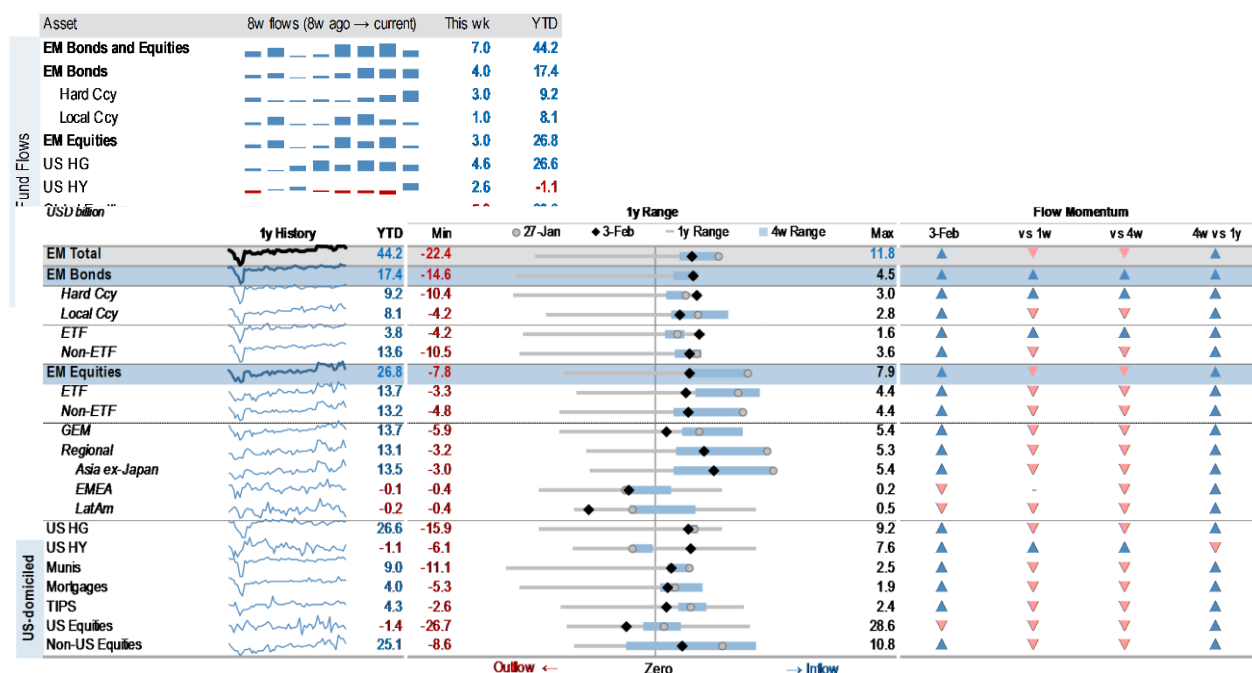
Last updated: 2/8/21 8:09 AM	Level	Change	1 Day	7 Days	30 Days	12 M	YTD
	Last 12m index						
Major EM Benchmarks		%					%
MSCI EM Equities	 56.24		-0.3	5	3	30	9
MSCI Frontier Equities	 29.63		0.5	2	1	-2	5
EMBIG Sovereign Spread (in bps)	 337		-7	-14	-13	37	-13
EM FX vs. USD	 57.48		-0.2	0	0	-4	-1
Major EM FX vs. USD		%, (+) = EM currency appreciation					
China Renminbi	 6.45		0.2	0	0	8	1
Indonesian Rupiah	 14003		0.2	0	0	-2	0
Indian Rupee	 72.97		-0.1	0	0	-2	0
Argentine Peso	 88.17		-0.2	-1	-3	-31	-5
Brazil Real	 5.40		-0.4	1	0	-20	-4
Mexican Peso	 20.21		-0.6	1	-1	-7	-1
Russian Ruble	 74.35		0.4	2	0	-14	0
South African Rand	 14.94		-0.7	1	2	0	-2
Turkish Lira	 7.09		-0.5	1	4	-15	5
EM FX volatility	 10.06		1.0	-0.4	-0.6	3.1	-0.7

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

EM fund flows

Flow of funds continues into EMs primarily driven by hard currency bonds and equity. Total bond flow into EMs for the week ending on 3rd Feb 2021 was up \$0.1 bn sequentially at \$4 bn. Of this, \$3 bn. was in hard currency bonds. Equity flows into EMs remained high at \$3 bn, however, they decelerated significantly from \$7.9bn in the week before. According to JP Morgan, while the equity fund flows into Asia ex-Japan halved, EMEA and Latin America continued to witness a net outflow during to week. With this, the YTD bonds and equity fund flows into EM stood at \$17 bn and \$27 bn, respectively.

USD million	This wk	Last wk	Chg	4w avg	12w avg
EM Bonds	3,989	3,935	▲	3,846	3,004
Hard currency	2,678	1,998	▲	1,740	1,304
Local currency	597	1,351	▼	1,664	1,333
Blend	715	585	▲	442	367
ETF	1,383	695	▲	827	693
Non-ETF	2,606	3,240	▼	3,020	2,311

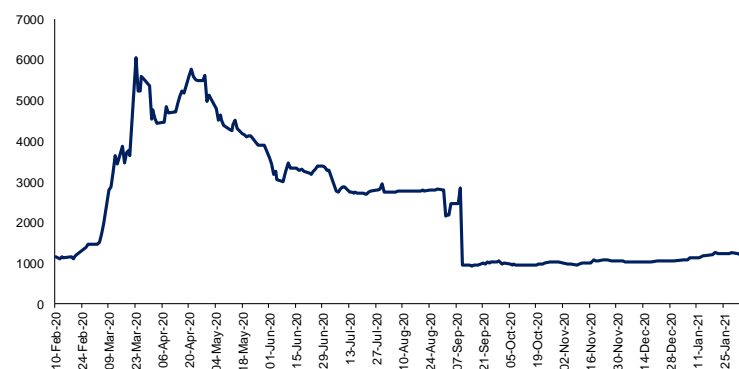


Source: JP Morgan

Ecuador

Socialist candidate, Andres Arauz, won in the first round of presidential elections. Arauz was leading with 32.2% of the votes as of early Monday, with 97.6% of ballots counted. Pachakutik (indigenous party) candidate Yaku Perez was in 2nd place with 19.8%, while conservative candidate Guillermo Lasso, a favorite in pre-election polls to advance to the 2nd round, is in 3rd with 19.6%. In Sept. 2020, the country entered into a funding agreement with the IMF and restructured \$17.4 bn of debt. During his campaign, Andres promised to return to socialist path and start his presidential term by distributing \$1000 to one million families in the country. Hence, according to a Bloomberg report, markets would perceive Andres's victory in elections to bring an end to austerity measures and thereby pose a threat to the country's debt sustainability. **Early indications show the price of the 2040 bond falling by nearly 5 points, implying a rise in spread of roughly 100 bps.**

JP Morgan EMBIG Ecuador Sovereign Spreads

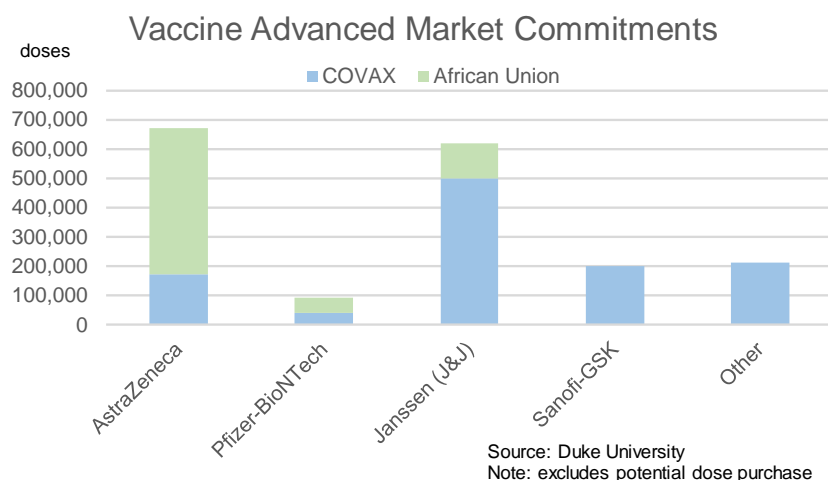


Source: Bloomberg

South Africa

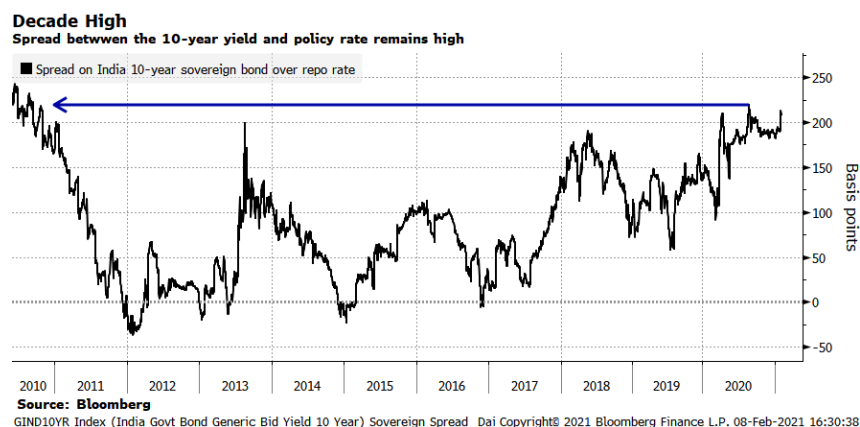
Vaccination was temporarily suspended due to limited efficacy of the AstraZeneca vaccine against the South African Covid-19 strain. The latest trial revealed only 22% efficacy for mild to moderate cases. AstraZeneca vaccine has been at the forefront of South African, African Union as well as COVAX

vaccination launch with reduced efficacy creating additional headwinds in the region. Both Johnson & Johnson and Pfizer vaccines have shown better results against the new strain, but it remains unclear whether procurement could be accelerated from the current late Q2 planned roll-out ahead of winter. The South African rand (-0.9%) depreciated and local government bond yields were 8 bps higher.



India

The Reserve Bank of India (RBI) sets to buy more government bonds. Last week, the bond market was rattled by the government's announcement of a larger-than-expected borrowing plan, with the 10-year government yield increasing by 18 bps. Today, the RBI announced its plan to purchase government bonds of 200 bn rupee (\$2.8 bn). Reportedly, the RBI aims at capping 10-year yield at about 6%. Some analysts noted that the RBI has purchased bonds about 2.5 tn rupee (\$34.3 bn) so far in the current fiscal year and expected that the purchase figure would likely reach 3 tn rupee (\$41.2 bn) by end-March. Currently, the spread between 10-year government bond yield and the RBI's policy rate is at a decade high. **Government bond yields dropped** (10-year: -2.7 bps), outperforming other regional peers; the **Indian rupee appreciated (+0.1%); equities gained (+1.5%)**.



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Global Financial Indicators













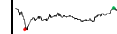



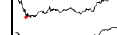

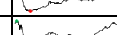


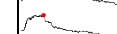








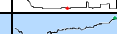







Last updated: 2/8/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3891	0.4	3	2	17	4
Europe		3675	0.5	4	1	-3	3
Japan		29389	2.1	5	4	23	7
China		3532	1.0	1	-1	23	2
Asia Ex Japan		99	0.7	6	4	38	10
Emerging Markets		56	0.9	5	3	30	9
Interest Rates			basis points				
US 10y Yield		1.19	2.3	11	7	-40	27
Germany 10y Yield		-0.43	2.2	9	9	-4	14
Japan 10y Yield		0.07	1.1	1	4	11	5
UK 10y Yield		0.50	2.1	18	22	-7	31
Credit Spreads			basis points				
US Investment Grade		89	-0.8	-6	-6	-16	-6
US High Yield		356	-1.7	-20	-16	-71	-24
Europe IG		47	-0.5	-4	0	4	-1
Europe HY		243	-0.1	-24	-4	29	0
EMBIG Sovereign Spread		337	-6.6	-14	-13	37	-13
Exchange Rates			%				
USD/Majors		91.17	0.1	0	1	-8	1
EUR/USD		1.20	-0.2	0	-2	10	-2
USD/JPY		105.6	-0.2	-1	-2	4	-2
EM/USD		57.5	-0.2	0	0	-4	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		60	1.3	7	7	10	16
Industrials Metals (index)		136	0.4	3	-1	29	3
Agriculture (index)		51	0.5	1	4	29	6
Implied Volatility			%				
VIX Index (%, change in pp)		21.7	0.9	-8.5	0.2	6.3	-1.0
US 10y Swaption Volatility		62.7	0.3	2.9	4.2	-10.0	2.6
Global FX Volatility		7.4	0.1	-0.3	-0.4	1.8	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		118	-2.7	0	7	-26	-2
Italy		94	-4.4	-20	-11	-39	-17
Portugal		50	-1.0	-5	0	-21	-10
Spain		56	-0.9	-5	0	-11	-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: 2/8/2021 8:09 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		6.45	0.2	0.2	0	8	1		3.3	0.6	2	4	47	7
Indonesia		14003	0.2	0.1	0	-2	0		6.2	-0.3	-6	11	-63	11
India		73	-0.1	0.1	0	-2	0		6.3	5.4	19	34	-51	31
Philippines		48	0.1	0.0	0	6	0		3.5	0.8	-12	-14	-66	-16
Thailand		30	0.0	-0.1	0	4	0		1.4	-0.1	5	12	-6	9
Malaysia		4.07	0.1	-0.7	-1	2	-1		2.7	0.4	4	17	-42	14
Argentina		88	-0.2	-0.6	-3	-31	-5		49.5	-25.4	-31	-391	-783	-662
Brazil		5.40	-0.4	0.8	0	-20	-4		6.4	4.0	7	68	46	77
Chile		737	0.0	0.0	-4	8	-4		2.8	0.7	0	3	-66	0
Colombia		3557	-0.3	0.4	-2	-3	-4		5.1	0.2	1	11	-48	5
Mexico		20.21	-0.6	0.9	-1	-7	-1		5.6	-3.1	-1	3	-114	2
Peru		3.6	0.2	0.0	0	-8	-1		3.8	-0.8	9	24	-44	24
Uruguay		43	0.0	-0.6	0	-11	-1		7.1	-1.9	-11	-15	-322	-14
Hungary		298	-0.5	-0.9	-1	4	0		1.7	1.6	5	19	32	13
Poland		3.73	0.0	0.3	-1	5	0		0.7	2.7	7	4	-126	2
Romania		4.1	-0.2	-0.3	-2	8	-2		2.3	-1.0	0	-37	-154	-46
Russia		74.4	0.4	2.5	0	-14	0		5.9	-6.4	-5	21	-4	21
South Africa		14.9	-0.7	0.8	2	0	-2		9.4	1.9	-23	-20	4	-23
Turkey		7.09	-0.5	1.4	4	-15	5		13.3	-6.0	-5	-7	313	15
US (DXY; 5y UST)		91	0.1	0.2	1	-8	1		0.48	1.6	5	0	-93	12

	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		5565	1.5	3	1	43	7		201	1	-5	-8	31	-7
Indonesia		6209	0.9	2	-1	3	4		166	1	-11	-14	-5	-21
India		51349	1.2	6	5	25	8		155	0	-1	5	22	4
Philippines		7024	0.1	3	-4	-6	-2		91	1	-8	-9	16	-14
Malaysia		1573	-0.3	0	-4	1	-3		114	0	-2	-9	4	4
Argentina		51053	0.7	6	-1	24	0		1436	-6	-9	53	-439	68
Brazil		120240	0.8	2	-4	6	1		251	0	-15	-4	36	1
Chile		4470	0.8	2	-2	-5	7		129	-2	-7	-7	-13	-15
Colombia		1370	0.8	1	-6	-17	-5		210	-2	-8	2	41	5
Mexico		44146	0.0	0	-6	-1	0		356	-2	-22	-4	53	-4
Peru		21783	1.1	3	1	10	5		136	-1	6	10	17	4
Hungary		44420	0.8	2	0	0	6		68	-2	-10	-11	-41	-28
Poland		57517	0.1	0	-4	-1	1		-18	-1	-4	-7	-53	-17
Romania		10663	0.4	3	5	6	9		190	-5	-10	-8	11	-13
Russia		3432	1.1	4	-1	11	4		162	2	-3	3	10	-4
South Africa		65096	1.3	4	2	14	10		359	0	-26	-22	25	-21
Turkey		1528	0.1	2	-1	26	3		424	1	-15	-16	43	-21
Ukraine		521	0.0	0	4	1	4		466	-4	-44	-9	88	-25
EM total		56	-0.3	5	3	30	9		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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