



- Optimism over the US fiscal package continues to be a key market theme ([link](#))
- ECB president points to weak underlying inflation dynamics ([link](#))
- New Zealand reinstates mortgage lending restrictions ([link](#))
- China reiterates monetary policy stability ([link](#))
- Egypt and Ivory Coast issue international bonds amid strong demand ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Equity market rally pauses, but growth optimism continues

After a string of six consecutive positive days, European equities are currently in negative territory as markets appear to take a breath and assess current levels. US stocks also seem poised to reverse some recent gains with futures markets pointing to a weak opening. Investors continue to be watching developments in the US congress closely as details on the anticipated fiscal package are negotiated. Despite the slight pullback in developed equity markets, emerging market currencies are performing well so far today, continuing to benefit from optimism of a rebound in global growth and continued weakness in the dollar. Oil prices also continue to inch higher after Brent closed yesterday above \$60 per barrel for the first time since 2019.

### Key Global Financial Indicators

Last updated: 2/9/21 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3916	0.7	4	2	18	4
Eurostoxx 50		3659	-0.2	2	0	-4	3
Nikkei 225		29506	0.4	4	5	24	8
MSCI EM		56	0.2	3	3	30	9
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.15	-1.9	6	4	-43	24
Germany 10y Yield		-0.44	0.6	5	8	-5	13
EMBIG Sovereign Spread		340	3	-11	-4	35	-10
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.7	0.0	0	0	-3	0
Dollar index, (+) = \$ appreciation		90.6	-0.4	-1	1	-8	1
Brent Crude Oil (\$/barrel)		60.7	0.2	6	8	11	17
VIX Index (% change in pp)		21.8	0.6	-4	0	6	-1

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

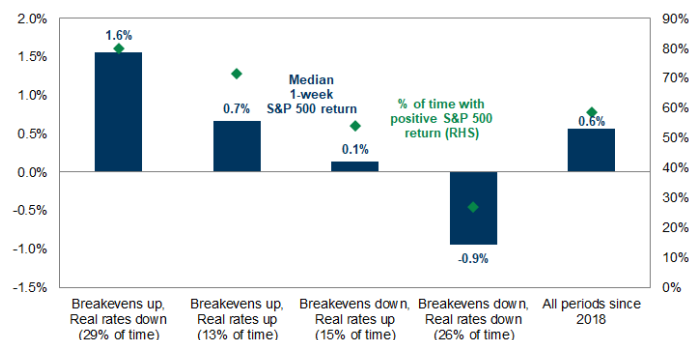
## United States

[back to top](#)

**US Treasury curve flattened slightly on largely technical grounds and cyclical equities outperformed.** Near-term optimism regarding the fiscal package continues to fuel “reflation” trades. The 5Y5Y breakeven inflation rate, a market inflation expectations gauge that is arguably less sensitive to energy prices, surpassed 2.20% before retreating slightly. Goldman Sachs notes that over the past 3 years, breakeven inflation has been a more important driver of equity returns than real rates. Further, equities generated positive returns even in periods of rising breakeven inflation and rising real rates.

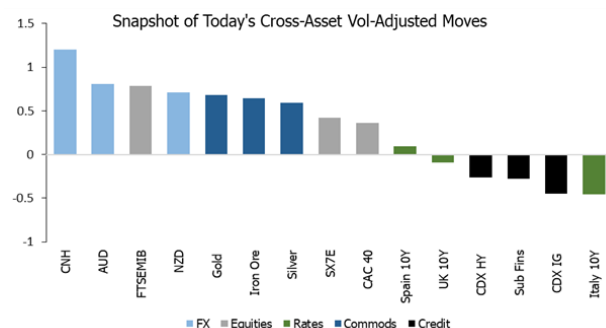
### S&P 500 returns in different breakeven inflation and real rate environments

weekly changes during last 3 years; excludes weeks with no change



Source: FRB, Goldman Sachs

**Anecdotally, the concern among investors regarding implications for equities from higher rates appears to have shifted in recent days to debate around the impact of the proposed fiscal package.** While most agree it would be highly stimulative in the near term, some believe the package is too weighed toward consumption rather than public investment to generate sustainably higher growth path for the US economy. Still, investor consensus appears to be for higher rates in 2021, as reflected in the US rate futures curve. As such, contacts attributed the flattening in the US Treasury curve in the latest session to technical factors.



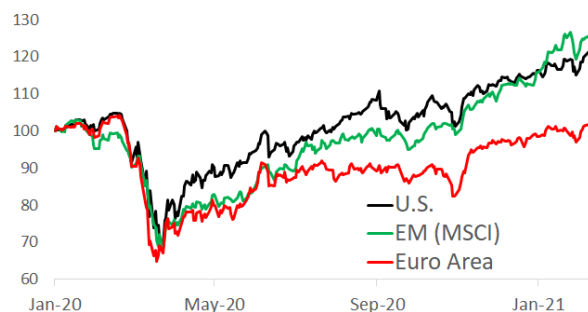
Source: Goldman Sachs Global Markets Division and Bloomberg as of today. All standard deviations are calculated using price as of 5pm LDN day prior, and 5pm LDN today, using 30day historic rolling volatility.

## Europe

[back to top](#)

**European stocks (-0.4%) drifted lower after gaining almost 5% so far in February.** The euro (+0.5%) gained against the U.S. dollar.

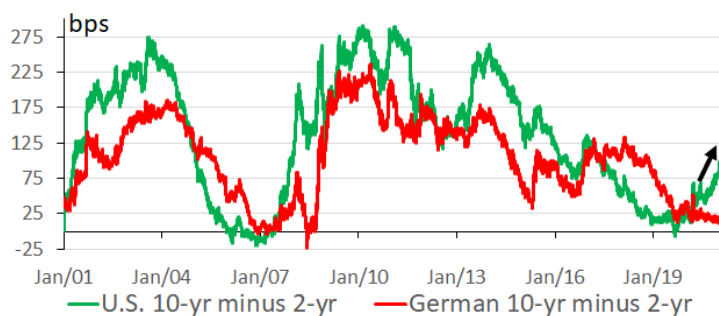
Global Equity Markets (1 Jan 2020: 100)



Source: Bloomberg and IMF

German 10-yr bund yields are little changed at -0.45% after **ECB President Lagarde said that the ECB must keep copious stimulus in place as an unexpected surge in inflation last month masks weak underlying dynamics** linked to frail demand, low wage pressures and the appreciation of the euro. The ECB president also emphasized the presence of “significant downside risk”. The German yield curve remains relatively flat compared to the U.S. yield curve.

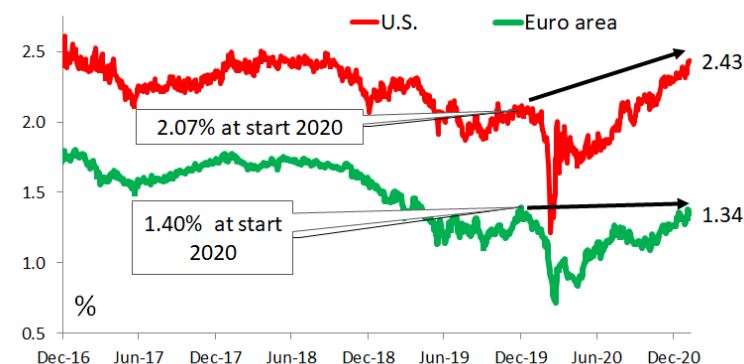
U.S. and Euro area: 10-yr rates minus 2-yr rates (steepness)



Source: Bloomberg and IMF staff

**Euro area 5-yr/5-yr inflation swaps also continue to reflect weak underlying dynamics**, and trade below levels of early 2020, in contrast to the U.S.

Inflation Expectations: Five-year Forward Five-year Inflation Swaps (%)



Source: Bloomberg, and IMF staff

**Italian 10-yr spreads consolidated at 95 bps as media reports discuss the policy agenda of a Draghi-led government beyond the vaccination campaign.** Reforms will reportedly focus on tax, justice and public administration, all to be embedded into a new recovery plan. A simplification of hundreds of tax expenditures will be the main aim of the tax reform, alongside shorter civil justice trials and making the

public administration more efficient. **Draghi also told lawmakers that a common euro-area budget will be one of his key priorities.**

**ECB weekly QE purchases remain relatively subdued** with PSPP and PEPP net purchases of less than €16 bn last week, the 2nd lowest of the year.

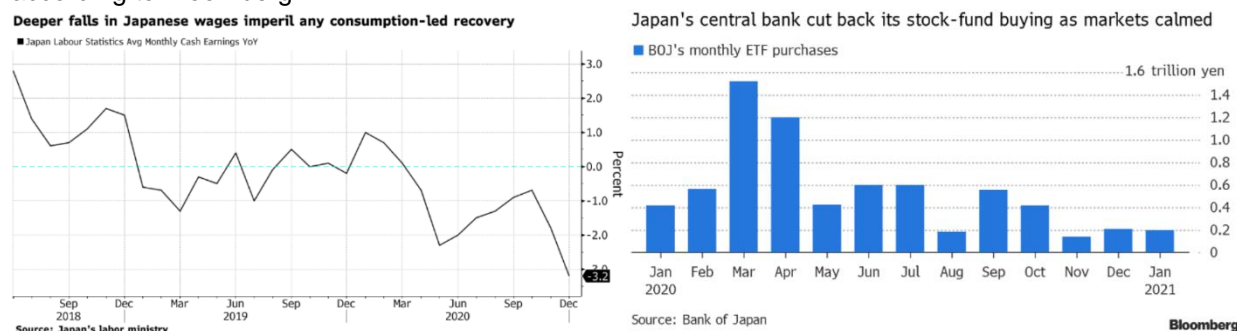
**The European Commission will reportedly press ahead with attempts to force London-based clearing houses to relocate operations to the euro area**, despite slow progress and even evidence that some post-Brexit business flow has moved to New York. Nevertheless, one official believed that individual eurozone countries could eventually break ranks and try to strike their own equivalence deals with London.

## Other Mature Markets

[back to top](#)

### Japan

**Equities and 10-year JGB yield were little changed, while the yen appreciated 0.6%.** Wages fell by -3.2% y/y in December, the most since June 2015, due to a large drop in bonuses, which also marked the ninth straight month in December. The Bank of Japan (BOJ) is reportedly reluctant to scrap its targets on ETF purchases at its policy review in March as it could give the impression of a dial back in stimulus, according to Bloomberg.



### New Zealand

**The Reserve Bank of New Zealand (RBNZ) reimposed stricter loan-to-value ratio (LVR) to reduce financial stability risks.** The tighter mortgage lending restrictions will take effect on March 1 and will tighten further for investors from May 1. From March 1, owner-occupiers will need 20% to get a mortgage while investors will need 30%. From May 1, the required down-payment for investors will increase to 40%. The central bank said that it is concerned about the risk on financial stability from a sharp correction in the housing market as many buyers become highly leveraged arising from speculation. Finance Minister Grant Robertson also said that the government will unveil measures soon to curb housing demand. **10-year bond yield rose +5.5bps while the New Zealand dollar appreciated +0.4%.**

## Emerging Markets

[back to top](#)

**Asian equities rose 0.3% on net.** Vietnam (+2.8%) and China (Shanghai +2%; Shenzhen +2.4%) outperformed while Indonesia (-0.4%) and Korea (-0.2%) lagged. Singapore Exchange Ltd. is spinning off its bond trading system into a new platform for Asian credit —Trumid XT,— which will be launched this year and will connect the exchange's platform for the secondary market with a corporate note trading entity in the U.S. Regional currencies appreciated, led by the Korean won (+0.3%). **EMEA equities were trading mixed** with indices higher in Saudi Arabia (+1.0%) and Turkey (+0.6%) but lower in Czech Republic (-0.6%) and Russia (-0.4%). **EMEA currencies are mostly stronger** with the South African rand (+0.6%) and the Russian ruble (+0.4%) rising against the dollar while the Turkish lira (-0.3%) underperformed. **Markets in LatAm were mixed on Monday.** Brazil's leading equity index closed 0.5% lower, as discussion on a fuel-price hike caused a sell-off in Petrobras. Other leading equity markets were up, led by Colombia (+0.9%).

Most regional currencies depreciated against the USD. However, the Brazilian real gained 0.4% on improving prospects of implementation of administrative and economic reforms. The Chilean peso also gained 0.4% against the USD. The local Chilean interest rate swap curve rose 3-7 bps after January inflation surprised on the upside (+3.1% y/y vs. 2.9% consensus).

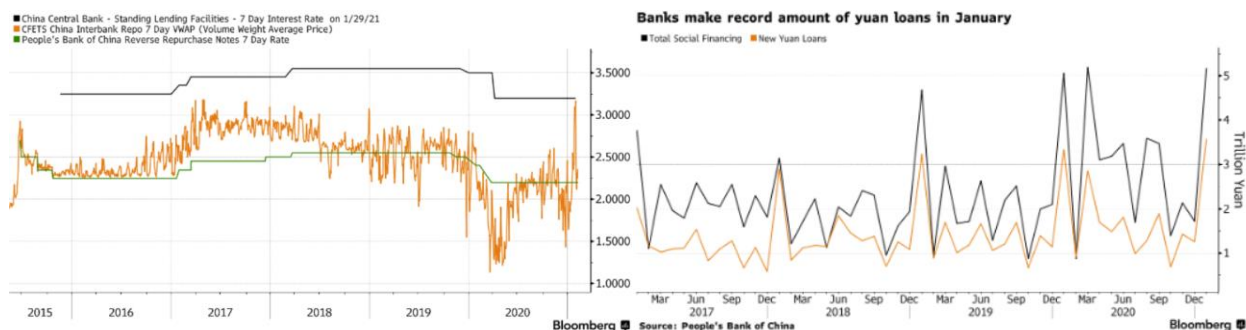
Key Emerging Market Financial Indicators

Last updated: 2/9/21 8:08 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		56.34	0.0	3	3	30	9
MSCI Frontier Equities		29.11	-1.8	-1	-1	-4	3
EMBIG Sovereign Spread (in bps)		340	3	-11	-4	35	-10
EM FX vs. USD		57.71	0.0	0	0	-3	0
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.44	0.2	0	1	9	1
Indonesian Rupiah		13995	0.1	0	1	-2	0
Indian Rupee		72.89	0.1	0	1	-2	0
Argentine Peso		88.26	-0.1	-1	-3	-31	-5
Brazil Real		5.41	-1.0	-1	2	-20	-4
Mexican Peso		20.09	0.1	0	0	-7	-1
Russian Ruble		73.98	0.4	3	1	-13	0
South African Rand		14.79	0.6	1	5	1	-1
Turkish Lira		7.09	-0.2	1	5	-15	5
EM FX volatility		9.87	0.0	-0.3	-0.8	2.9	-0.9

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

## China

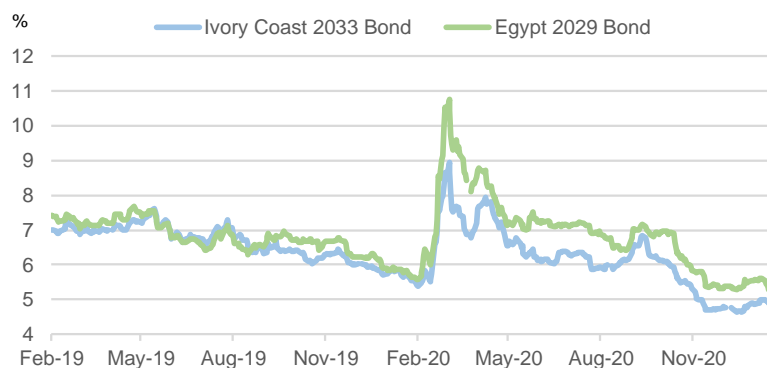
**The People's Bank of China (PBOC) said that it will prioritize monetary policy stability and will not make any 'sharp turns'.** In its Q4 Monetary Policy Report, the central bank said that it will continue with a prudent monetary policy and balance between economic recovery and risk prevention. Regarding the 7-day reverse repo rate, the PBOC said that the key benchmark rate remains unchanged, and investors should not pay too much attention to the quantity of its open market operations as they are influenced by temporary factors. The central bank also said that it will keep land and house prices stable and that real estate should not become short-term stimulus to the economy. It also said that expansion of consumption should not rely on the development of consumer finance. Separately, **China's credit surged in January on seasonal boost in lending.** Aggregate social financing for January beat expectations, rising RMB5,170 bn versus consensus of RMB4,600 bn and RMB1,720 bn in December. **Equities (Shanghai +2%; Shenzhen +2.4%) rose and the RMB was little changed.**



## EMEA

**Egypt and Ivory Coast placed international bonds amid strong investor demand.** Egypt placed \$3.75 bn of new debt including \$1.5 bn of 40-year bonds with final pricing 30-40 bps below initial guidance as the order books reached \$15 bn. Ivory Coast raised €850 mn by re-tapping existing 2032 and 2048 securities with final yields 10-15 bps tighter amid €2.8bn demand. Despite the recent increase in global yields, borrowing cost for Egypt and Ivory Coast remain at pre-pandemic levels as contacts point to elevated investor demand and bond scarcity in the secondary market.

**Ivory Coast and Egypt Bond Yield**



## Israel

**The Bank of Israel signals readiness to boost 2021 FX intervention above its earlier \$30 bn target.** The central bank already purchased \$6.8bn in January in order to halt rapid shekel appreciation that was triggered by vaccine administration advances. Despite sizable FX purchases, some sell-side analysts have reinstated positive trade recommendations for the shekel.





## List of GMM Contributors

*Global Markets Analysis Division, MCM Department*

---

<b>Nassira Abbas</b> <i>Deputy Division Chief</i>	<b>Dimitris Drakopoulos</b> <i>Financial Sector Expert</i>	<b>Dmitri Petrov</b> <i>Financial Sector Expert</i>
<b>Antonio Garcia-Pascual</b> <i>Deputy Division Chief</i>	<b>Deepali Gautam</b> <i>Research Officer</i>	<b>Thomas Piontek</b> <i>Financial Sector Expert</i>
<b>Evan Papageorgiou</b> <i>Deputy Division Chief</i>	<b>Rohit Goel</b> <i>Financial Sector Expert</i>	<b>Patrick Schneider</b> <i>Research Officer</i>
<b>Jose Abad</b> <i>Financial Sector Expert</i>	<b>Sanjay Hazarika</b> <i>Senior Financial Sector Expert</i>	<b>Can Sever</b> <i>Economist</i>
<b>Sergei Antoshin</b> <i>Senior Economist</i>	<b>Frank Hespeler</b> <i>Senior Financial Sector Expert</i>	<b>Juan Solé</b> <i>Senior London Representative</i>
<b>John Caparusso</b> <i>Senior Financial Sector Expert</i>	<b>Henry Hoyle</b> <i>Financial Sector Expert</i>	<b>Jeffrey Williams</b> <i>Senior Financial Sector Expert</i>
<b>Yingyuan Chen</b> <i>Financial Sector Expert</i>	<b>Mohamed Jaber</b> <i>Senior Financial Sector Expert</i>	<b>Dmitry Yakovlev</b> <i>Senior Research Officer</i>
<b>Han Teng Chua</b> <i>Economic Analyst</i>	<b>Phakawa Jeasakul</b> <i>Senior Economist</i>	<b>Akihiko Yokoyama</b> <i>Senior Financial Sector Expert</i>
<b>Fabio Cortés</b> <i>Senior Economist</i>	<b>Sonia Meskin</b> <i>Financial Sector Expert</i>	<b>Xingmi Zheng</b> <i>Research Assistant</i>
<b>Reinout De Bock</b> <i>Economist</i>	<b>Natalia Novikova</b> <i>IMF Resident Representative in Singapore</i>	

---

**Disclaimer:** This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

## Global Financial Indicators

Last updated: 2/9/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3913	0.7	2	2	18	4
Europe		3659	-0.2	2	0	-4	3
Japan		29506	0.4	4	5	24	8
China		3603	2.0	2	1	25	4
Asia Ex Japan		99	0.3	3	4	39	11
Emerging Markets		56	0.2	3	3	30	9
<b>Interest Rates</b>			basis points				
US 10y Yield		1.15	-1.9	6	4	-43	24
Germany 10y Yield		-0.44	0.6	5	8	-5	13
Japan 10y Yield		0.07	0.2	2	4	11	5
UK 10y Yield		0.48	0.1	13	19	-9	28
<b>Credit Spreads</b>			basis points				
US Investment Grade		89	0.7	-5	-6	-16	-6
US High Yield		353	0.1	-16	-19	-74	-27
Europe IG		48	0.8	-2	-1	5	0
Europe HY		247	2.6	-9	-6	34	5
EMBIG Sovereign Spread		340	3.4	-11	-4	35	-10
<b>Exchange Rates</b>			%				
USD/Majors		90.61	-0.4	-1	1	-8	1
EUR/USD		1.21	0.4	0	0	11	-1
USD/JPY		104.6	0.6	0	0	5	-1
EM/USD		57.7	0.0	0	0	-3	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		61	0.2	6	8	11	17
Industrials Metals (index)		138	1.1	4	0	30	4
Agriculture (index)		51	0.4	3	5	31	7
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		21.8	0.6	-3.7	0.3	6.3	-0.9
US 10y Swaption Volatility		62.4	0.2	3.1	1.5	-10.2	2.3
Global FX Volatility		7.2	0.0	-0.4	-0.6	1.6	-0.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		121	0.4	5	10	-23	2
Italy		95	-0.7	-19	-10	-38	-17
Portugal		50	0.0	-4	1	-20	-10
Spain		57	0.2	-3	1	-9	-4

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

[back to top](#)



## Emerging Market Financial Indicators

Last updated: 2/9/2021 8:08 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		6.44	0.2	0.3	1	9	1		3.4	0.6	4	9	46	8
Indonesia		13995	0.1	0.2	1	-2	0		6.2	5.2	4	-2	-54	16
India		73	0.1	0.1	1	-2	0		6.3	0.5	10	33	-39	31
Philippines		48	0.0	0.0	0	6	0		3.5	-0.7	-8	-18	-72	-17
Thailand		30	0.1	0.2	1	5	0		1.4	4.1	7	10	4	13
Malaysia		4.05	0.5	0.0	0	2	-1		2.7	3.5	8	14	-36	17
Argentina		88	-0.1	-0.6	-3	-31	-5		49.3	-22.3	-75	-323	-942	-685
Brazil		5.41	-1.0	-1.0	2	-20	-4		6.4	4.1	9	27	38	82
Chile		732	0.2	-0.1	-2	9	-3		2.8	1.4	0	0	-67	1
Colombia		3572	-0.1	-1.2	-2	-3	-4		5.2	3.5	2	9	-43	9
Mexico		20.09	0.1	0.2	0	-7	-1		5.7	7.2	6	3	-102	9
Peru		3.6	-0.1	0.0	-1	-7	-1		3.8	-0.8	5	9	-44	23
Uruguay		42	0.3	-0.3	0	-11	0		7.1	-0.4	-11	-13	-310	-14
Hungary		297	0.3	-0.5	0	4	0		1.7	0.7	5	7	36	13
Poland		3.70	0.5	0.6	1	6	1		0.7	-0.7	6	5	-119	2
Romania		4.0	0.4	0.4	0	8	-1		2.3	-1.0	-2	-34	-145	-47
Russia		74.0	0.4	3.1	1	-13	0		5.9	-1.5	-5	20	-1	19
South Africa		14.8	0.6	1.2	5	1	-1		9.5	2.8	-10	-26	-1	-20
Turkey		7.09	-0.2	1.4	5	-15	5		13.4	9.5	8	7	274	24
US (DXY; 5y UST)		91	-0.4	-0.6	1	-8	1		0.47	-0.6	3	-1	-93	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		5686	2.2	3	3	46	9		200	-1	-5	-9	30	-8
Indonesia		6182	-0.4	2	-1	3	3		169	2	-5	-11	-2	-18
India		51329	0.0	3	5	25	7		156	1	-1	2	20	5
Philippines		7066	0.6	3	-3	-6	-1		93	1	-5	-7	18	-12
Malaysia		1586	0.8	0	-3	2	-3		114	-1	-4	-9	4	4
Argentina		52029	1.9	5	1	26	2		1441	1	-11	58	-434	73
Brazil		119696	-0.5	1	-4	5	1		255	2	-6	0	40	5
Chile		4496	0.8	2	-1	-4	8		132	0	-2	-4	-10	-12
Colombia		1383	0.9	1	-5	-16	-4		211	0	-6	3	42	6
Mexico		44198	0.1	3	-5	0	0		358	1	-17	-2	55	-2
Peru		21941	0.7	2	1	10	5		137	0	5	11	18	5
Hungary		44331	0.3	1	0	0	5		71	0	-6	-8	-38	-25
Poland		57363	-0.1	0	-4	-1	1		-19	-1	-5	-8	-54	-18
Romania		10694	0.2	3	5	7	9		191	2	-9	-6	7	-12
Russia		3438	-0.2	2	0	11	5		163	-1	-2	4	11	-3
South Africa		65235	0.3	4	3	14	10		362	1	-21	-19	28	-18
Turkey		1549	0.9	2	1	28	5		427	1	-12	-13	46	-18
Ukraine		521	0.0	0	4	1	4		474	7	-26	-1	96	-17
EM total		56	0.0	3	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.

[back to top](#)