



- Italian Prime Minister resigns in a tactical bid for a new coalition ([link](#))
- European public-debt placement heading for a record month ([link](#))
- Options volume continues to soar at the start of 2021 ([link](#))
- Leveraged loan fund inflows start year on strong note ([link](#))
- PBOC unexpectedly withdraws liquidity from the banking system ([link](#))
- Asia ex-Japan dollar bond market registers highest issuance in years ([link](#))

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

Markets Lack Clear Direction Amid Continued Uncertainty

Global markets are mixed today as investors remain torn between the promise of additional policy support and concerns about high infection rates and rising valuations. Most Asian stocks markets are in negative territory, while European equities are in the green, supported by positive earnings surprises and M&A activity in the energy sector. US equity futures reversed earlier losses following better-than-expected earnings releases by a number of companies. Investors' eyes are now focused on Microsoft's upcoming release, the first by a large tech company this season. All this, while they also attempt to decipher the messaging on the proposed US \$1.9 tn stimulus package and weigh it against news about the rising toll of ongoing lockdowns and delays in COVID-19 vaccinations. Treasuries and Bunds are trading relatively flat today after a strong rally over the past two trading sessions that saw 10-year yields decline by about 6 bps. Meanwhile the US dollar is holding steady against the majors ahead of tomorrow's FOMC meeting.

Key Global Financial Indicators

Last updated: 1/26/21 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3855	0.4	2	4	17	3
Eurostoxx 50		3602	1.4	0	2	-5	1
Nikkei 225		28546	-1.0	0	7	20	4
MSCI EM		56	0.8	3	12	26	9
Yields and Spreads			bps				
US 10y Yield		1.05	1.7	-4	12	-64	13
Germany 10y Yield		-0.54	1.4	-1	1	-20	3
EMBIG Sovereign Spread		357	2	1	2	53	7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.4	0.6	0	-1	-5	-1
Dollar index, (+) = \$ appreciation		90.3	-0.1	0	0	-8	0
Brent Crude Oil (\$/barrel)		56.3	0.8	1	10	-7	9
VIX Index (% change in pp)		23.1	-0.1	0	2	9	0

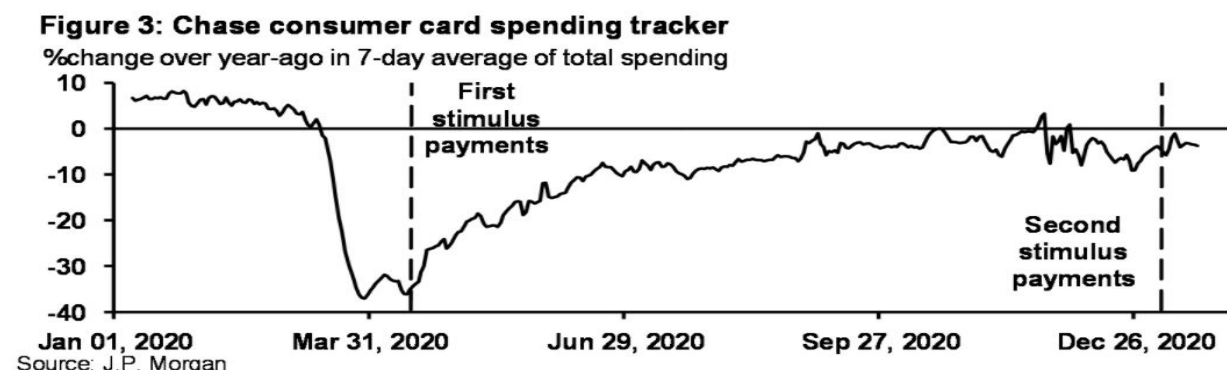
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

[back to top](#)

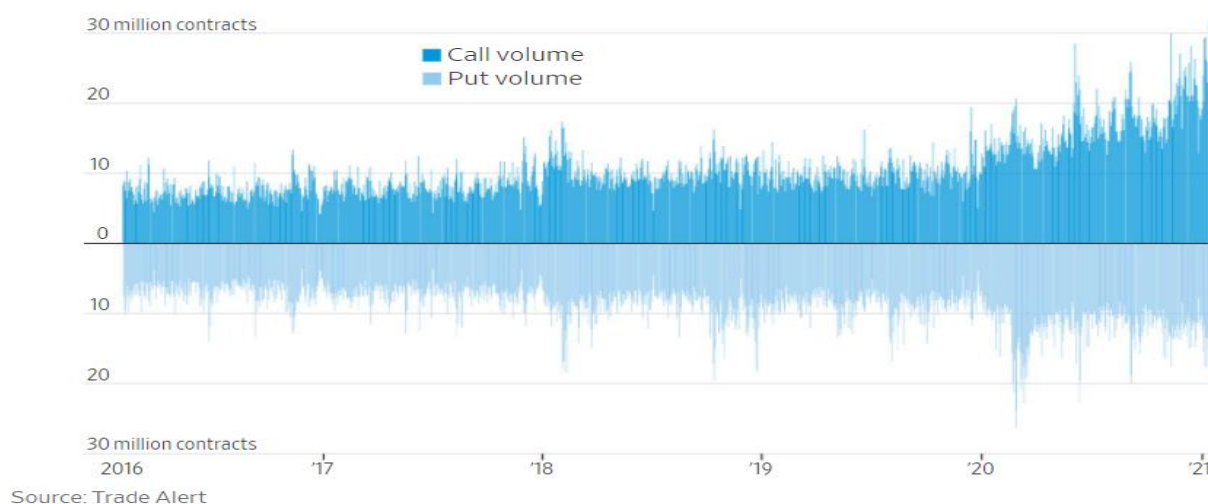
Markets climbed higher yesterday, in a choppy day of trading. The S&P500 managed to close 0.4% higher after posting intraday losses on the news that President Biden's stimulus plan would likely only get a vote in the Senate in 5-6 weeks, later than expected. Tech stocks outperformed, with the Nasdaq up 0.7%; many of its biggest names will be announcing earnings this week. Treasury bonds rallied, with 10- and 30-year yields down about 6 bps, giving the 10-year yield its lowest close in almost 3 weeks at 1.03%.

Consumer spending has remained subdued despite second wave of direct payments. Consumer spending—as measured by Chase credit cards—is still down about 3.7% y/y. Spending appears to have picked up only slightly following the distribution of new stimulus checks beginning in the last week of December, though this round was generally for only half the amount (\$600 vs \$1200 previously).



Options volume has continued to soar at the start of 2021. Options volume has continued to surge higher in January following 2020's record levels. Trading activity on call options reached a high of 32 million on January 14, according to Trade Alert and the WSJ. Average total daily options volume (calls and puts) in 2020 was around 29 mn. JPM analysis suggests that most of the increase in volume is tied to individual investors, who trade less than 10 contracts at a time. In a further sign of market ebullience, margin debt balances reached a record \$722 bn in December.

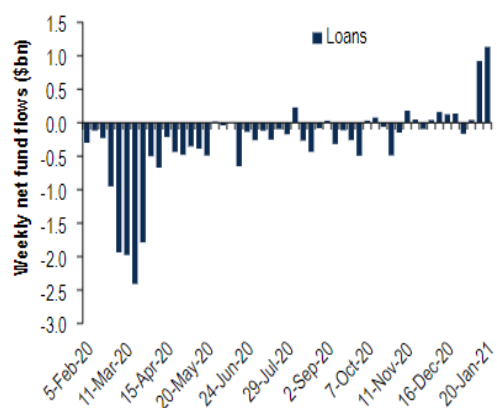
Daily options volume



Leveraged loan fund inflows have returned, with investors targeting outperformance for the asset class in 2021. Loan funds have attracted close to \$2 bn in inflows over the last two weeks after a dismal

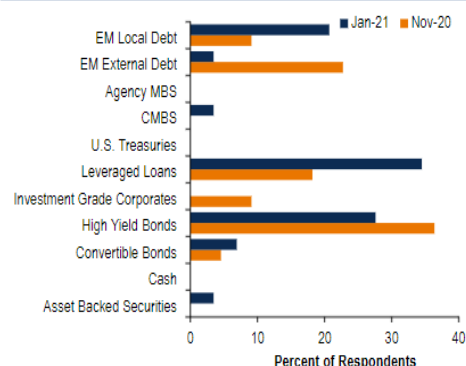
2020, according to BofA and EPFR data. Loan funds have gained 1.9% of AUM year to date, the best relative performance among all asset classes, even as high yield bond funds have seen net outflows. Notably, a plurality of high yield investors (around 35%) flagged loans as likely to have the best risk-adjusted returns over the next 12 months in BofA's January investor survey, compared to November where fewer than 20% picked loans. Strong inflows have helped loan prices recover, with about 45% of all loans in CLOs above par (and 76% above \$90), compared to April 2020 when nearly half the index was below \$90.

Figure 9: Weekly loan fund flows, \$bn



Note: the flows data is for US-domiciled funds and ETFs.
Source: EPFR Global.

Figure 2: HY investors: Which fixed income asset class do you expect to have the best risk-adjusted return over the next twelve months?



Source: US Credit Investor Survey

Source: Bank of America Merrill Lynch

Europe

[back to top](#)

European equities were trading around 1% higher, aided by earnings surprises as well as M&A announcements in the energy sector. **Financial sector shares were supported by positive results from Swiss UBS group that also announced a \$4.5 bn share buy-back program** over the next three years. While the vaccination delays pose a risk for European equity performance, some analysts argue that sectors leveraged to global growth and in particular that of China—such as chemicals, basic metals and luxury goods—could help to offset underperformance in more domestically focused sectors.

Sell-side analysts see upside ahead for the chemical sector



European bond yields were little changed, except for Italy where credit spreads continued to tighten (-4 bps in 10-year). Demand in European primary bond market remained robust with January heading to set a new public-sector bond issuance record. Today's EU's SURE placement managed to attract impressive €115 bn of demand for the €14 bn of 7-year and 30-year bond.

Europe's primary market heads to record month for public-sector deals



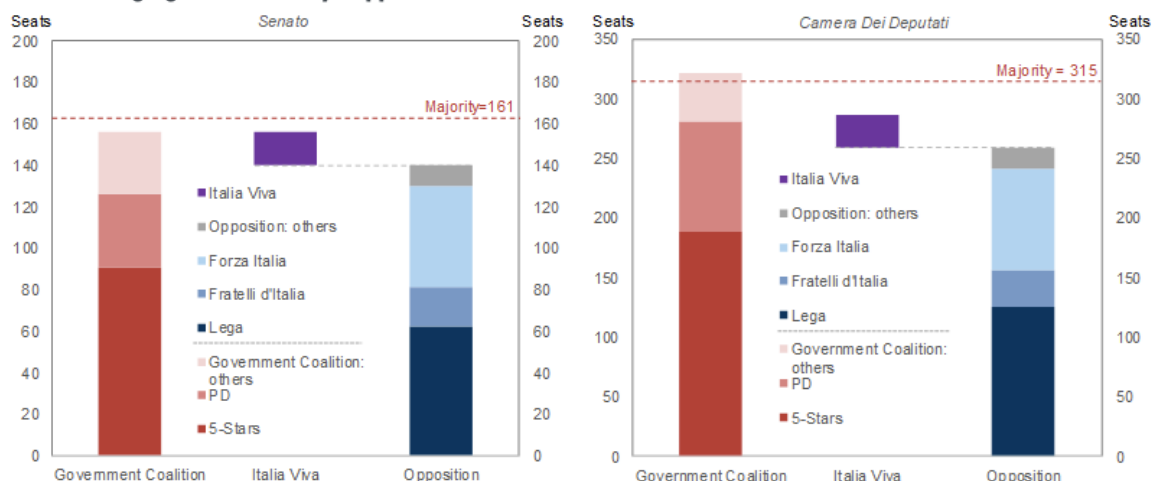
Source: Bloomberg

Note: Europe syndicated SSA bond sales in euros, pounds and Reg S only dollars

Bloomberg

Italian Prime Minister Conte handed in his resignation in an attempt to secure broader support from the parliament as well as a mandate from President Mattarella to form a new government and avoid going into early elections. At this stage it remains unclear if Prime Minister Conte would be able to build a new parliament majority without Italia Viva but sell side analysts seem to be confident that Italy is likely to avoid early elections. That said, **some contacts are concerned about a potential delay in government formation as well as broader implications for deployment of the National Recovery and Resilience Plan** that is necessary to unlock the EU Recovery funds. This in turn may affect 2021 growth dynamics and medium-term debt sustainability targets. **Italy's sovereign spreads have tightened 9 bps since Friday.**

Exhibit 4: Gauging Parliamentary Support for the Government

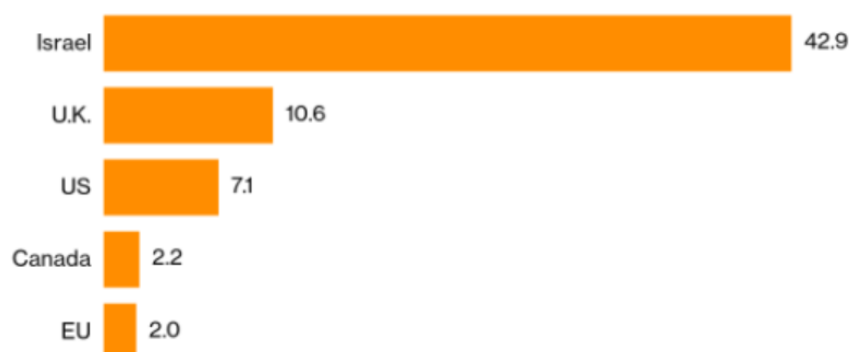


Source: Goldman Sachs Global Investment Research, Corriere Della Sera

Tensions increased over vaccine supply as European Commission proposed prior notice for vaccine exports outside the common block with some officials even suggesting implementing a joint

export approvals system. This comes after AstraZeneca announced a delay for the EU vaccine supply with Q1 deliveries reduced by 60% from the initially planned 100 mn doses. The EU is currently falling behind in the vaccination schedule with administered doses per capita behind both the U.S. and the UK.

Number of Covid-19 vaccine doses administered (per 100 people)



Other Mature Markets

[back to top](#)

Japan

The Bank of Japan (BOJ)'s December meeting minutes included sections on Japan's growth potential and asset purchases. A few members said that there was considerable room to enhance productivity of Japanese firms, particularly small and medium-sized ones, and it is vital to improve corporate governance through for example digitalization. On active purchases of exchange-traded funds (ETFs), a few policymakers said that they should be maintained for the time being. However, the central bank should have room to make flexible adjustments depending on market conditions and considerations on market functioning and BOJ's financial soundness. Equities fell -0.8%, the yen and 10-year JGB yield were little changed.

Cooling Off



Emerging Markets

[back to top](#)









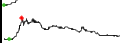

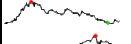

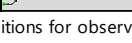

In Asia, equities fell -1.7% on broad-based losses. Vietnam (-2.6%), Hong Kong SAR (-2.6%) and China (Shanghai -1.5%; Shenzhen -2%) underperformed. Regional currencies were largely unchanged, except for the Korean won (-0.5%) and Indonesian rupiah (-0.3%).

In EMEA, markets traded without much direction. Equities were little changed in Poland, Russia, and Turkey. The Turkish lira (+0.6%) gained but the South African rand and the Russian ruble traded in a tight

range. The Czech koruna (+0.3%) rose against the euro after governor Rusnok said that the central bank will proceed very cautiously but that the outlook for gradual rate hikes is still valid.

In Latin America, markets were little changed yesterday. The Colombian currency and equities continued to slide (down about 1.5%) as markets are pricing in a chance of a 25 bp decline in the policy rate later this week, though the consensus is still that there will be no change in rates. Costa Rica's government bond prices rose to pre-pandemic levels after the IMF reached a staff-level agreement with the country on a \$1.75 bn facility over three years (based on Bloomberg reporting). Mexican President Lopez Obrador announced last Sunday he contracted COVID but returned to work on Monday. Analysts are now weighing the signs of a strong recovery since 2020H2 against the recent spread of COVID (Mexico has now the fourth-highest number of fatalities).

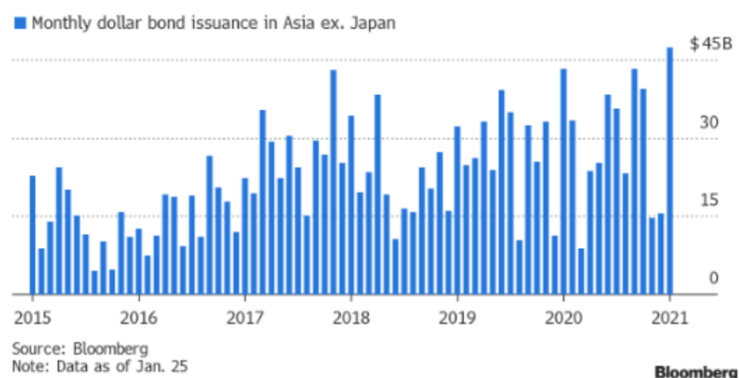
Key Emerging Market Financial Indicators

Last updated: 1/26/21 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		56.25	-0.6	3	12	26	9
MSCI Frontier Equities		29.61	0.3	0	5	-5	4
EMBIG Sovereign Spread (in bps)		357	2	1	2	53	7
EM FX vs. USD		57.38	0.6	0	-1	-5	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	0.2	0	1	7	1
Indonesian Rupiah		14065	-0.3	0	1	-3	0
Indian Rupee		72.95	0.0	0	1	-2	0
Argentina Peso		86.96	-0.1	-1	-4	-31	-3
Brazil Real		5.41	1.6	-1	-3	-22	-4
Mexican Peso		20.03	0.4	-2	0	-6	-1
Russian Ruble		75.05	0.4	-2	-2	-16	-1
South African Rand		15.15	0.6	-1	-3	-4	-3
Turkish Lira		7.35	0.8	2	1	-19	1
EM FX volatility		10.29	0.0	0.1	-0.1	4.2	-0.5

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

The Asia ex-Japan dollar bond market is registering its highest issuance in years in January. Issuers have sold over \$47 bn of dollar bonds in January, according to Bloomberg. In the sovereign space, The Hong Kong government is expected to sell its second US dollar-denominated green bond and is seeking to price 5-year, 10-year and 30-year bonds at 50, 60bps and 90bps over US Treasuries. Laos is meanwhile looking to raise \$350 mn through a 5-year bond.

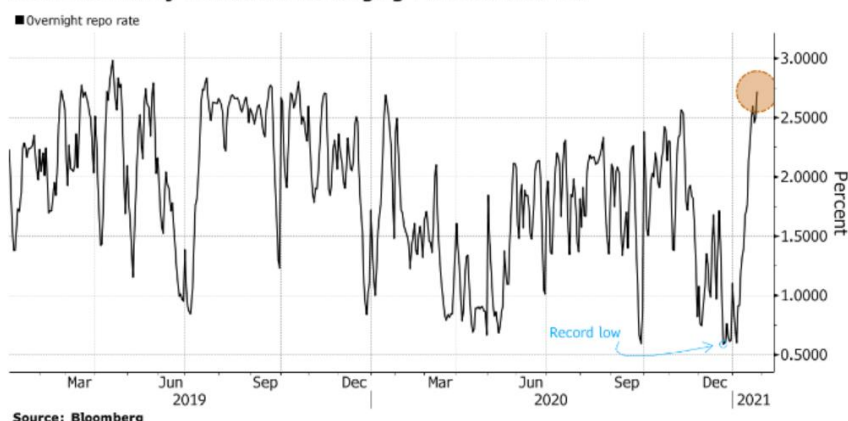
Asia dollar bond sales excluding Japan hit an all-time high in January



China

The PBOC withdrew liquidity from the banking system, draining RMB78 bn (\$12 bn) via open market operations. This was unexpected ahead of the seasonally higher demand during the Lunar New Year holidays in February and went against recent reports in the Chinese media that liquidity would not be tightened ahead of the holidays. Overnight repo rate surged 28 bps to 2.77%; 7-day repo rate jumps 36 bps to 2.79%. Equities (Shanghai -1.4%; Shenzhen +1.8%) fell and the RMB was little changed.

A Chinese money market rate is surging from a record low

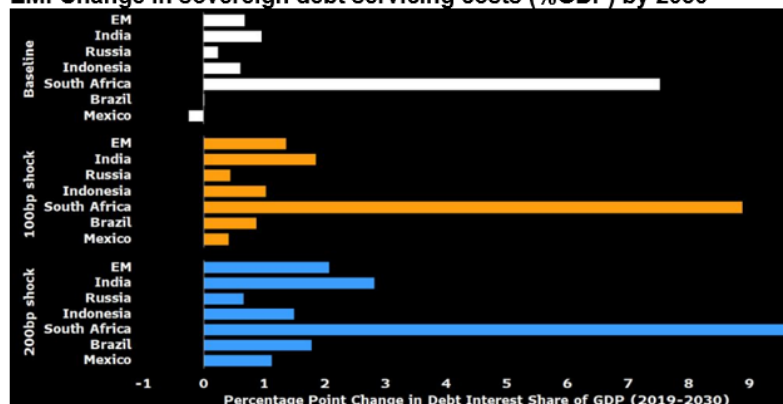


China's central bank will seek to balance between supporting growth and curbing risks. The People's Bank of China (PBOC) Governor Yi Gang said that monetary policy will adjust to new economic developments but also maintain policy stability to avoid a policy cliff, according to Bloomberg. He also said that China will keep an upward sloping yield curve. PBOC advisor Ma Jun said in a separate event that asset bubbles have started to emerge in the stock and property markets and China should appropriately adjust its monetary policy now.

South Africa

Bloomberg argues that South Africa is particularly vulnerable to an increase in debt servicing costs compared to Brazil, India, Indonesia, Mexico and Russia. To calculate a baseline projection, analysts estimated refinancing needs from outstanding bonds and baseline macroeconomic forecasts. They derived interest on newly issued debt from forward rate curves. In the baseline scenario, South Africa's interest-to-GDP ratio is set to rise above 5% of GDP this year and to reach 11% of GDP by 2030. This marks a sharp increase from an average of 3% of GDP during 2005-20. Analysts also considered scenarios with parallel shifts of 100 bps and 200 bps in interest rates.

EM: Change in sovereign debt servicing costs (%GDP) by 2030



List of GMM Contributors

Global Markets Analysis Division, MCM Department

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



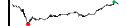

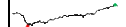








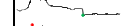


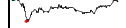



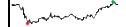





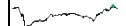





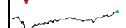





Last updated: 1/26/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3858	0.4	2	4	17	3
Europe		3602	1.4	0	2	-5	1
Japan		28546	-1.0	0	7	20	4
China		3569	-1.5	0	5	20	3
Asia Ex Japan		99	1.1	5	14	36	11
Emerging Markets		56	0.8	3	12	26	9
Interest Rates			basis points				
US 10y Yield		1.04	1.5	-4	12	-64	13
Germany 10y Yield		-0.54	1.4	-1	1	-20	3
Japan 10y Yield		0.04	-1.1	-2	2	6	2
UK 10y Yield		0.28	1.3	-1	2	-29	8
Credit Spreads			basis points				
US Investment Grade		96	0.7	1	-3	-7	1
US High Yield		373	3.4	0	-20	-40	-7
Europe IG		50	-1.1	0	1	4	2
Europe HY		260	-3.6	3	16	31	17
EMBIG Sovereign Spread		357	2.2	1	2	53	7
Exchange Rates			%				
USD/Majors		90.30	-0.1	0	0	-8	0
EUR/USD		1.21	0.0	0	-1	10	-1
USD/JPY		103.7	0.0	0	0	5	0
EM/USD		57.4	0.6	0	-1	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		56	0.8	1	10	-7	9
Industrials Metals (index)		136	-0.5	0	0	22	2
Agriculture (index)		49	0.7	-2	7	23	3
Implied Volatility			%				
VIX Index (% change in pp)		23.1	-0.1	-0.1	1.6	8.6	0.4
US 10y Swaption Volatility		55.4	0.1	-2.0	-2.6	-13.5	-4.7
Global FX Volatility		7.5	0.0	-0.1	-0.4	2.3	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		125	1.6	4	5	-39	5
Italy		118	-4.4	7	5	-38	7
Portugal		56	-1.6	2	-5	-16	-4
Spain		61	-1.8	1	-2	-8	-1

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 1/26/2021 8:07 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		6.47	0.2	0.2	1	7	1		3.3	0.6	-2	-7	23	-2
Indonesia		14065	-0.3	0.0	1	-3	0		6.3	-0.7	2	28	-48	26
India		73	0.0	0.5	1	-2	0		6.1	0.5	1	7	-80	11
Philippines		48	0.0	0.0	0	6	0		3.6	-1.0	-1	-2	-62	-4
Thailand		30	0.0	0.2	1	2	0		1.4	-0.7	-2	4	-18	6
Malaysia		4.05	-0.1	0.1	0	0	-1		2.6	-1.6	2	2	-56	2
Argentina		87	-0.1	-0.9	-4	-31	-3		51.7	2.2	-39	-551	-290	-447
Brazil		5.42	1.5	-1.2	-3	-22	-4		6.6	0.2	34	106	57	107
Chile		729	0.5	1.1	-2	9	-2		2.8	-2.0	-3	-2	-64	1
Colombia		3589	-1.7	-3.0	-2	-5	-4		5.1	5.3	5	3	-50	6
Mexico		20.04	0.3	-1.8	0	-6	-1		5.6	-2.8	0	7	-126	2
Peru		3.6	-0.3	-0.8	-1	-9	-1		3.8	-1.0	8	23	-58	20
Uruguay		42	0.2	0.6	1	-11	1		7.2	-2.1	-2	0	-318	-5
Hungary		295	-0.2	-0.1	1	4	1		1.6	-1.5	-7	5	28	3
Poland		3.74	-0.1	-0.1	-2	4	0		0.6	-1.7	1	-12	-143	-7
Romania		4.0	0.0	0.1	-1	8	-1		2.4	0.0	-16	-40	-154	-39
Russia		75.1	0.4	-1.9	-2	-16	-1		6.0	-0.3	10	25	2	27
South Africa		15.2	0.6	-1.1	-3	-4	-3		9.7	2.1	-8	7	16	3
Turkey		7.35	0.8	1.7	1	-19	1		13.3	-7.5	-26	26	335	21
US (DXY; 5y UST)		90	-0.1	-0.2	0	-8	0		0.42	1.3	-3	5	-109	5

	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		5513	-2.0	1	9	38	6		203	0	-4	-4	28	-5
Indonesia		6140	-1.9	-3	2	-2	3		180	-1	0	-7	11	-7
India		48348	0.0	0	3	16	1		155	0	-3	2	23	4
Philippines		6977	-1.3	-3	-3	-8	-2		98	-1	2	-7	24	-7
Malaysia		1575	-0.1	-2	-4	0	-3		115	5	-2	2	11	5
Argentina		47470	-2.1	-5	-8	19	-7		1432	-1	0	76	-649	64
Brazil		117381	0.0	-3	0	-1	-1		279	0	9	24	55	29
Chile		4532	0.2	-3	10	-2	9		145	0	2	1	-4	1
Colombia		1398	-1.5	-4	-2	-15	-3		224	0	2	18	48	19
Mexico		45127	1.0	-3	4	0	2		383	-1	0	4	80	23
Peru		21395	0.1	0	3	5	3		134	0	-1	-3	15	2
Hungary		43649	1.1	-2	6	-2	4		83	0	3	-13	-18	-13
Poland		57467	0.8	-1	3	-2	1		-11	0	0	-12	-39	-10
Romania		10282	-0.4	0	6	1	5		206	4	4	4	17	3
Russia		3396	-0.1	-1	5	8	3		175	0	14	12	27	9
South Africa		63968	-0.9	1	8	12	8		393	-2	5	8	48	13
Turkey		1546	0.4	-1	8	27	5		460	-5	-5	1	92	15
Ukraine		511	2.4	2	0	1	2		495	1	-9	-3	117	4
EM total		56	-0.6	3	12	26	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](#)