GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JANUARY 27, 2021

- **Heavily shorted US stocks are outperforming, driven partly by retail investors** (link)
- **US housing prices grow at fastest annual pace since 2014** (link)
- **Germany and France report weaker-than-expected consumer confidence data** (link)
- **Strong industrial profits in China provide boost to equities** (link)
- **Analysts expect near-record debt issuance by India in upcoming fiscal year** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Risk Sentiment Weakens Over Pandemic Concerns

Mounting concerns over the rising social and economic toll of COVID-19 is weighing heavily on developed market risk assets. European equities are down this morning amid renewed investor anxiety about the bumpy rollout of vaccination campaigns. The euro is also trading on the weaker side against the greenback following comments by an ECB official hinting at possible unease with any further strengthening of the currency. In the US, S&P 500 futures are also pointing to a negative start as all eyes turn to today's post-FOMC meeting announcement. Meanwhile, NASDAQ futures seem to be holding up a bit better following a solid after-hours earnings release by Microsoft and in anticipation of today's releases by a number of large tech companies, including Apple and Facebook. The meteoric rise in the price of a gaming company, GameStop, on the back of long derivative positioning by mostly retail investors aggregating in online social communities is also dominating the news this morning. Treasuries and Bunds are rallying today reflecting the weaker risk sentiment, with 10-year yields about 3 bps lower. In emerging markets, EMEA equities have followed their European counterparts lower, while Chinese stocks have found some support from strong December industrial profits data.

Key Global Financial Indicators

Last updated: 1/27/21 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3850	-0.1	1	4	19	2
Eurostoxx 50		3527	-1.8	-3	0	-4	-1
Nikkei 225		28635	0.3	0	7	23	4
MSCI EM		56	-0.7	1	11	30	8
Yields and Spreads					bps		
US 10y Yield		1.02	-1.5	-6	10	-59	11
Germany 10y Yield		-0.55	-1.5	-2	0	-16	2
EMBIG Sovereign Spread		357	0	0	2	53	7
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		57.1	-0.5	-1	-1	-5	-1
Dollar index, (+) = $ appreciation		90.6	0.4	0	0	-8	1
Brent Crude Oil ($/barrel)		55.9	-0.1	0	9	-6	8
VIX Index (%, change in pp)		27.6	4.6	6	6	9	5

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

United States

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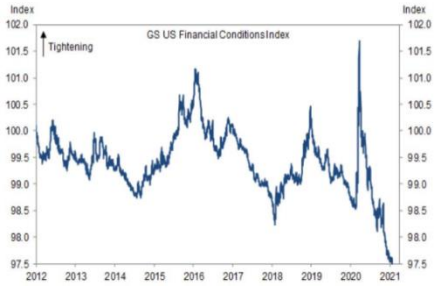
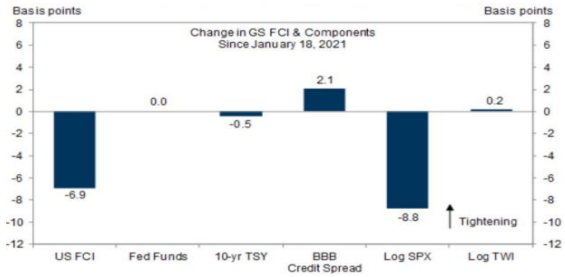
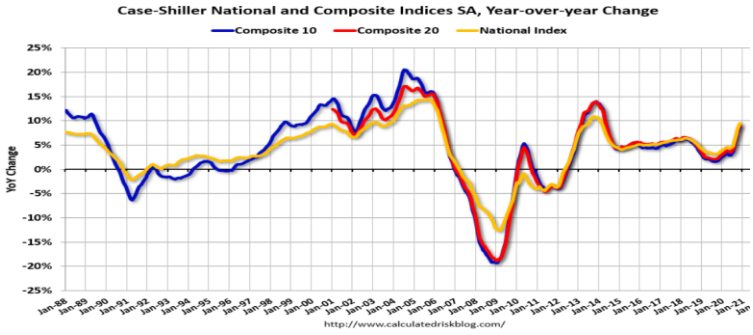
US markets edged lower yesterday in a quiet day of trading. The S&P500 slipped 0.1% lower and Treasury yields were little changed. Investor commentary focused on the extreme moves in a handful of stocks linked to retail traders, though the price action has had little effect on the broader market index. Tech stocks rallied after hours after Microsoft delivered strong earnings, with revenue rising to $43.1 bn (vs $40.2 bn consensus) and EPS at $2.03 (vs $1.64 consensus) for the quarter ending in December. Apple and Facebook will be reporting later on today.

US financial conditions have continued to ease, driven by further equity gains. Goldman Sach's financial conditions index has eased to record levels this year, with further gains in equities driving the index lower by 6.9 bps over the last week. The S&P500 is up 2.5% year to date.

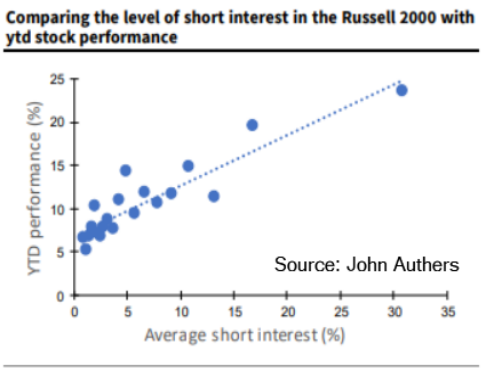




Housing prices grew at their fastest annual rate since 2014. The S&P CoreLogic Case Shiller house pricing index rose 9.4% y/y in November, with broad-based growth as reflected by similar figures in the city composite indices. Phoenix, Seattle, and San Diego reported the fastest pace of growth. National housing prices held up during the COVID-19 crisis and growth has been accelerating since June 2020.



Heavily shorted stocks have been outperforming, driven in part by retail investors. Stocks with heavy short interest—investors betting prices will fall—have instead delivered strong returns and in many cases outperformed the benchmark indices. Companies with the largest short interest ratios have at times become (buy) targets for investment communities on online social platforms (e.g., Reddit), as has been the case for GameStop recently. This new breed of retail investors (who seem to rely heavily on options derivatives) hope to drive a short squeeze on more established institutional investors and drive the price even higher as the shorts consolidate their losses. Short bias hedge funds have come under pressure in some cases. In a sign of the times, hedge funds Citadel and Point72 Asset management are reportedly investing $2.8 bn into Melvin



Capital, which was down about 30% through Friday according to the WSJ, due in part to large shorts on GameStop among others.

Europe

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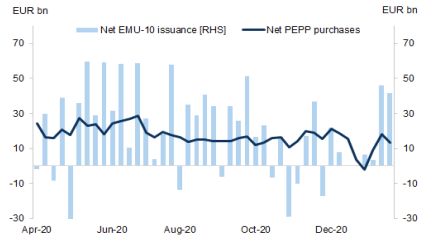
European equities erased yesterday's gains with country indices down around 1%. Telecommunication shares (+1%) were outperforming the broader market. There seem to be also some spillovers from the recent GameStop short-squeeze saga in the U.S. **as number of European shares started to delivery abnormal gains as compared to the broader market on Tuesday**. These include medium and small-sized companies from unrelated industries but with high level of open short interest as percentage of their free-float. There was also an increase in options trading volume for some of the shares with abnormally high demand for options on share price appreciation.

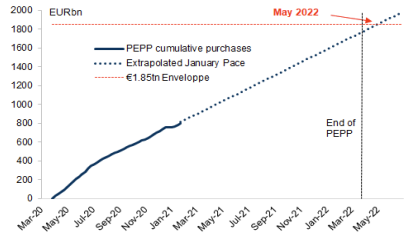
European bond yields were mostly steady amid another busy day in the primary market. Austria and Greece issued 10-year bonds while **Slovenia pioneered with a 60-year issue**, making it the longest bond issued in Eastern Europe. All three managed to place bonds inside the initial price guidance amid decent investor demand. Interestingly enough, **the record sovereign issuance occurs at the time of reduced ECB purchases under** the Pandemic Emergency Purchase Program, which fell to €13.2 bn in the third week of January.

Exhibit 1 : Despite the pick-up in issuance, net PEPP purchases remain low compared with their Q2 2020 pace



Source: Reuters, Haver Analytics

Exhibit 2 : January purchase pace highlights PEPP implementation risk



Source: Haver Analytics

The euro (-0.3%) was back in focus as Bloomberg reported that the ECB will further investigate the recent appreciation of the euro against the dollar, focusing on the role of differences in policies. Shortly thereafter, ECB Governing Council's Knot remarked that the central bank has the necessary tools to counter further euro appreciation that could undercut the inflation outlook. Contacts were surprised about the timing of these remarks as well as ECB's ongoing focus on the euro's strength against the U.S. dollar rather than against a basket of currencies. According to analysts, measures of the broad real effective euro exchange rate have stabilized in the last few months and do not look too elevated when taking a longer-term perspective. **Some market participants suggest that these remarks could come on the back of the strategic review discussion that may advocate following the Fed in terms of its updated monetary policy framework.**

EUR/USD in nominal and adjusted for relative inflation

BIS EERs – the euro's nominally expensive, but not really…

Source: SG Cross Asset Research/Forex

On the data front, **Germany (GfK) and France (Insee) reported bigger than expected dip in the consumer confidence data**. Both countries have postponed the relaxation of lockdown measures given the emergence of more infectious virus strains. Analysts suggest that the incoming data dampens expectations for a modest growth rebound in Q1 2021.

Other Mature Markets

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Japan

Foreign flows into Japanese equities start the year on a positive note. Foreigners bought a net ¥66.5 bn ($641 mn) of Japanese stocks in the first two weeks of 2021 in the cash and futures market, according to Bloomberg. In 2020, foreigners sold more than ¥6 tn ($58 bn) on a net basis in the cash and futures market. However, equities recorded double-digit gains in 2020 despite the selling, suggesting that domestic participants played a greater role. The Bank of Japan (BOJ) was the largest domestic entity to purchase local stocks last year, buying ¥7.1 tn on net. Financial institutions including insurers and banks were also net purchasers of JPY7.6 tn. **Separately, BOJ Governor Kuroda said that bond purchases are aimed at price stability and not for financing the government debt.** He also added that the BOJ will consider exit from current policy when inflation is close to 2% target. **Equities rose +0.7%, led by electronics. The yen and 10-year JGB yield were little changed.**

Emerging Markets

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In Asia, equities fell for the second straight day by -0.6%. Vietnam underperformed the most (-3.4%), followed by India (-1.7%) and the Philippines (-1.6%). China (Shanghai +0.1%; Shenzhen +0.3%) rose following strong industrial profits data. Regional currencies were little changed, except for the Korean won which is trading about 0.2% stronger against the US dollar.

In EMEA, markets traded on a cautious tone. Equities fell in Poland (-1.1%), South Africa (-0.9%) and Russia (-0.5%). **The Hungarian forint** weakened 0.5% against the euro after the central bank left rates unchanged yesterday (as expected) but pointed to downside risks from prolonged restrictions. The central bank of Hungary plans to continue supporting the economy with government bond purchases and lending schemes. **The Nigerian naira** is 3% weaker today after the central bank left its policy rate unchanged at 11.5% yesterday. The hold was expected but contacts argue that the policy stance may need to tighten sooner rather than later after inflation in Nigeria accelerated to 15.8% y/y in December.

In Latin America, markets generally finished with small changes yesterday. The main exception was the **Brazilian real** which appreciated 2.1% after the well-anticipated central bank meeting minutes seemed to indicate that several board members considered rate hikes because of firming inflation expectations and a strengthening economy. The Brazil government confirmed their firm commitment to the spending ceiling, citing high debt concerns, but acknowledged that some assistance may be necessary because of rising COVID cases and more unemployment. The **Mexican peso** edged slightly higher after November retail sales rose more than expected on a monthly basis, yet they remain 5.1% lower on an annual basis.

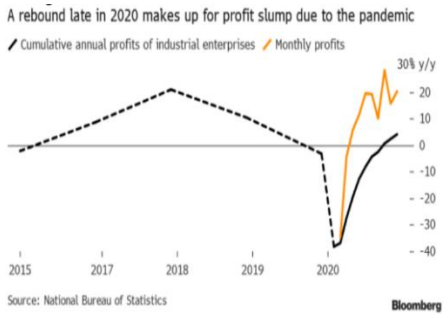
Key Emerging Market Financial Indicators

Last updated:	Level		Change				
1/27/21 8:17 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		55.84	-1.4	1	11	30	8
MSCI Frontier Equities		29.55	-0.2	0	5	-4	4
EMBIG Sovereign Spread (in bps)		357	0	0	2	53	7
EM FX vs. USD		57.12	-0.5	-1	-1	-5	-1
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.47	-0.1	0	1	7	1
Indonesian Rupiah		14050	0.1	0	1	-3	0
Indian Rupee		72.92	0.0	0	1	-2	0
Argentine Peso		87.11	-0.1	-1	-4	-31	-3
Brazil Real		5.36	-0.2	-1	-2	-21	-3
Mexican Peso		20.17	-0.9	-3	-1	-6	-1
Russian Ruble		75.69	-0.8	-3	-3	-17	-2
South African Rand		15.21	-0.9	-2	-4	-4	-3
Turkish Lira		7.38	-0.5	1	1	-19	1
EM FX volatility		10.30	0.0	0.2	-0.1	3.7	-0.4

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

China

Strong industrial profits data provide a boost to risk assets. Industrial profits increased +20.1% y/y in December from +15.5% y/y in November, the seventh straight month of double-digit increase. This brought 2020 full-year increase to +4.1% versus a decline of -3.3% for 2019. Despite the improvement, the National Bureau of Statistics (NBS) said in its release that industrial firms are still facing difficulties in areas such as rapid growth in account receivables, increased inventory and cash flow pressures.



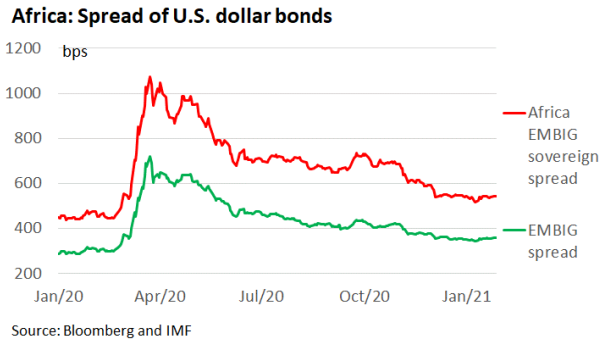
Chinese banks purchased the most RMB for their clients in the spot FX market since early 2014 last month, according to Bloomberg. The purchase amounted to RMB426.7 bn ($65.3 bn), slightly lower than the high of RMB465.8 bn registered in January 2014. The RMB was little changed today but the onshore and offshore RMB have appreciated by about +1.7% against the US dollar since end-November.

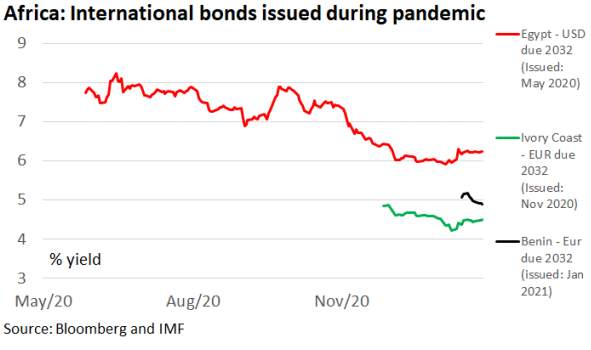
India

India is set to issue a near-record amount of debt in the upcoming fiscal year, based on analysts' estimates compiled by Bloomberg. A median forecast of 15 analysts shows a gross borrowing of INR10.6 tn ($145 bn) for the 12 months starting April 2021. Although this is lower than the record INR13.1 tn estimated for the current fiscal year, it would still be 75% higher than the previous five years' average. The bond supply could place upward pressure on sovereign bond yields. Analysts are forecasting the 10-year bond yield to rise by around 40bps to 6.3% by end-December, the first increase in three years, according to Bloomberg. **10-year bond yield and the Indian rupee were little changed while equities fell -1.7%.**

Africa

The African EMBIG sovereign spread is little changed so far in 2020 as primary markets are expected to remain open for frontier issuers. Benin (B+/B) issued an 11-year international bond in euro two weeks ago. Reports are that Ghana, Kenya, and Nigeria are also considering new issuance.





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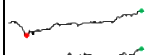
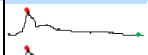
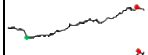
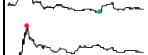
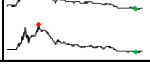
Global Financial Indicators

Last updated: 1/27/21 8:16 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3843	-0.1	0	4	18	2
Europe		3526	-1.9	-3	0	-4	-1
Japan		28635	0.3	0	7	23	4
China		3573	0.1	0	5	20	3
Asia Ex Japan		98	-1.0	2	13	39	10
Emerging Markets		56	-0.7	1	11	30	8
Interest Rates					basis points		
US 10y Yield		1.02	-1.4	-6	10	-59	11
Germany 10y Yield		-0.55	-1.3	-2	0	-16	2
Japan 10y Yield		0.05	1.0	0	3	9	3
UK 10y Yield		0.27	0.5	-3	1	-24	7
Credit Spreads					basis points		
US Investment Grade		96	1.1	3	-2	-10	1
US High Yield		375	2.5	9	-18	-63	-5
Europe IG		51	1.4	3	3	5	3
Europe HY		266	6.2	19	23	37	24
EMBIG Sovereign Spread		357	-0.1	0	2	53	7
Exchange Rates					%		
USD/Majors		90.55	0.4	0	0	-8	1
EUR/USD		1.21	-0.4	0	-1	10	-1
USD/JPY		103.9	-0.3	0	0	5	-1
EM/USD		57.1	-0.5	-1	-1	-5	-1
Commodities					%		
Brent Crude Oil ($/barrel)		56	-0.1	0	9	-6	8
Industrials Metals (index)		134	-1.2	-2	-1	24	1
Agriculture (index)		51	1.3	1	10	27	6
Implied Volatility					%		
VIX Index (%, change in pp)		27.5	4.5	5.9	6.0	9.3	4.8
US 10y Swaption Volatility		55.0	0.6	-0.3	-2.9	-13.8	-5.1
Global FX Volatility		7.5	0.0	0.0	-0.4	1.9	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		122	0.2	5	3	-34	3
Italy		119	1.3	5	6	-23	8
Portugal		57	1.3	2	-4	-12	-3
Spain		62	1.8	2	0	-4	1

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: 1/27/2021 8:18 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		6.47	-0.1	-0.1	1	7	1		3.3	3.0	-1	-4	26	1
Indonesia		14050	0.1	-0.1	1	-3	0		6.3	-1.0	-1	27	-49	25
India		73	0.0	0.1	1	-2	0		6.1	0.0	1	7	-80	11
Philippines		48	0.0	-0.1	0	6	0		3.6	-0.1	-6	-2	-62	-4
Thailand		30	0.0	0.0	1	2	0		1.3	-2.0	-4	2	-20	4
Malaysia		4.05	0.0	-0.1	0	0	-1		2.6	0.1	4	2	-56	2
Argentina		87	-0.1	-0.9	-4	-31	-3		50.4	-126.5	-188	-677	-417	-574
Brazil		5.36	-0.2	-1.0	-2	-21	-3		6.5	-15.5	15	90	42	91
Chile		737	-0.7	-2.0	-3	7	-3		2.8	-0.2	-4	-2	-64	1
Colombia		3596	-0.2	-3.0	-3	-5	-5		5.1	0.5	7	4	-50	7
Mexico		20.17	-0.9	-2.8	-1	-6	-1		5.6	-1.2	-3	6	-127	0
Peru		3.6	0.0	-0.9	-1	-9	-1		3.8	2.7	6	26	-55	23
Uruguay		42	0.0	0.3	0	-11	1		7.2	1.9	-3	2	-316	-3
Hungary		298	-0.7	-0.9	0	3	0		1.6	0.0	-8	5	28	3
Poland		3.76	-0.5	-0.3	-2	3	-1		0.6	-0.4	1	-12	-143	-7
Romania		4.0	-0.3	0.1	-1	8	-1		2.3	-1.0	-16	-41	-155	-40
Russia		75.7	-0.8	-2.9	-3	-17	-2		6.0	-3.1	7	22	-1	24
South Africa		15.2	-0.9	-2.0	-4	-4	-3		9.7	-2.6	-3	4	14	1
Turkey		7.38	-0.5	0.5	1	-20	1		13.3	-5.7	-24	20	329	16
US (DXY; 5y UST)		91	0.4	0.1	0	-8	1		0.41	0.6	-3	5	-103	5

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5528	0.3	1	10	38	6		200	-2	-6	-7	31	-8
Indonesia		6109	-0.5	-5	2	0	2		179	0	0	-8	3	-8
India		47410	-1.9	-4	1	14	-1		155	0	-2	2	23	4
Philippines		6864	-1.6	-4	-5	-10	-4		97	0	5	-8	17	-8
Malaysia		1581	0.3	-1	-4	0	-3		112	-2	-3	-1	15	2
Argentina		49464	4.2	-2	-4	25	-3		1457	19	36	101	-688	89
Brazil		116473	-0.8	-3	-1	2	-2		280	2	9	25	54	30
Chile		4473	0.2	-4	8	-2	7		145	1	2	1	-6	1
Colombia		1402	0.3	-4	-1	-14	-2		225	1	3	19	45	20
Mexico		45054	-0.2	-1	4	2	2		388	3	9	9	78	28
Peru		21471	0.4	0	3	8	3		133	0	-1	-4	11	1
Hungary		43120	-0.9	-2	5	-2	3		82	-1	2	-14	-18	-14
Poland		56788	-1.7	-2	2	0	0		-12	0	0	-13	-31	-11
Romania		10358	0.2	1	7	2	6		204	-2	1	1	14	1
Russia		3363	-0.8	-3	4	9	2		171	-2	11	8	19	5
South Africa		62996	-1.5	-2	6	13	6		395	2	8	10	43	15
Turkey		1498	-2.5	-5	5	25	1		461	2	-2	2	91	16
Ukraine		516	0.0	3	1	2	3		496	2	-2	-2	104	5
EM total		56	-1.4	1	11	30	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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