



- Retail investors shake up US markets ([link](#))
- Euro area GDP data stronger than expected ([link](#))
- US credit markets face valuation challenges ([link](#))
- China may scrap growth target for a second year ([link](#))
- Key China repo rate remains at five-year as liquidity stays tight ([link](#))

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Market selloff resumes

The seesaw week continued, with markets reversing yesterday's gains and sending the week's performance into negative territory. Europe saw better than expected economic data, but the virus crisis and economic worries are still weighing on sentiment. Concerns over the impact of leveraged retail investors on US markets continue to linger, while tight liquidity in China remains a concern. However, the bid for safe haven assets such as bunds and Treasuries has weakened this morning, suggesting that the mood is not completely bleak. Reports of the success of a new vaccine from Novavax buoyed hopes of progress on the virus front, as did talk that the EU is close to approving the AstraZeneca vaccine. The Johnson and Johnson one-shot vaccine is also reported to be promising.

Key Global Financial Indicators

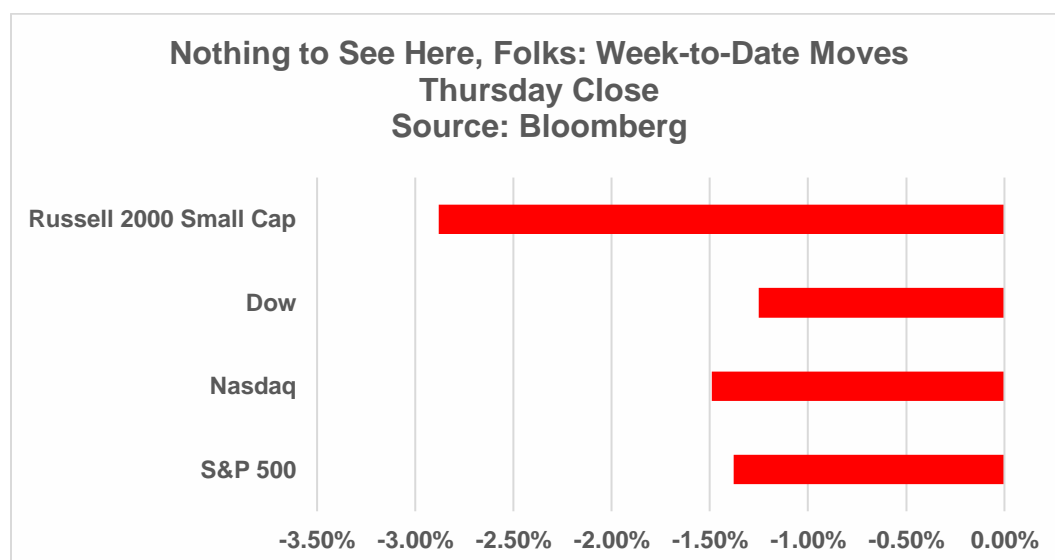
Last updated: 1/29/21 8:19 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3787	1.0	-2	2	16	1
Eurostoxx 50		3505	-1.5	-3	-2	-6	-1
Nikkei 225		27663	-1.9	-3	0	18	1
MSCI EM		55	0.7	-3	7	25	6
Yields and Spreads			bps				
US 10y Yield		1.08	3.6	0	14	-50	17
Germany 10y Yield		-0.50	3.8	1	7	-12	7
EMBIG Sovereign Spread		358	-3	4	3	49	7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.2	0.3	0	-1	-5	-1
Dollar index, (+) = \$ appreciation		90.5	0.1	0	1	-8	1
Brent Crude Oil (\$/barrel)		56.0	0.8	1	10	-6	8
VIX Index (% change in pp)		33.8	3.6	12	11	17	11

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

United States

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Local markets have been agitated by a surge in leveraged retail equity and option trading. These have involved a number of novelty stocks such as GameStop and AMC cinemas that have posted triple digit returns despite lacking a clear investment thesis. Several large hedge funds had placed shorts on these stocks and took very heavy losses as their prices soared, forcing them to sell and take profit on their other holdings to manage their risk positions and causing major selloffs in the broader market during the week. Operators of retail trading platforms such as RobinHood and online brokers such as Interactive Brokers placed leverage limits on their customers for these stocks, sparking controversy and attracting attention from politicians. News that RobinHood had to tap credit lines with its banks to meet cash requirements as market volatility triggered clearinghouse requirements with the Depository Trust Clearing Corporation (DTCC) further raised the temperature. This morning, RobinHood announced it was relaxing some of those customer limits. Meanwhile, some analysts downplay the issue, pointing out that the major indexes are still within a few percentage points shy of record closes set on Monday and the previous week.



The core PCE deflator, the Fed's preferred gauge of inflation, came in higher than expected. Treasury yields rose in the immediate aftermath of the data release. The is encouraging news for the Fed, which is trying to push core inflation above its 2% long term target.

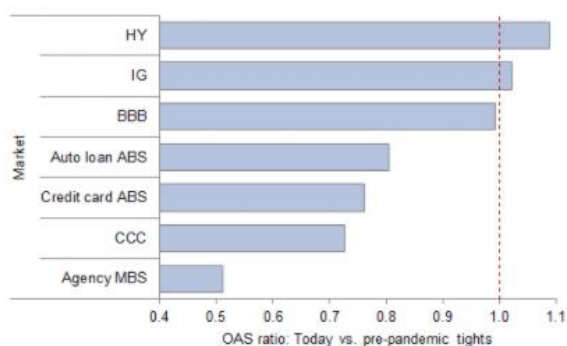
Key US Economic Data 8.30 am NY time

Data Release	Consensus Forecast	Actual Data
PCE Deflator mom	0.3%	0.4%
PCE Deflator yoy	1.2%	1.3%
Core PCE Deflator mom	0.1%	0.3%
Core PCE Deflator yoy	1.3%	1.5%
Source: Bloomberg		

US credit markets face difficult challenges on the valuation front. Markets have fully priced in all the good news about the new vaccines and the expected economic recovery. At the index level, the COVID premium has been eroded or is close to erosion for all sectors of the credit and structured finance market. From an all-in yield perspective, investors are getting less than they were before the pandemic broke out. It is increasingly difficult to find value without taking more and more risk. Another problem is the very low coupons on bonds issued in the past 1-1/2 years, due to the low level of prevailing rates. There is a massive amount of duration risk embedded in the market because low coupon bonds are much more sensitive to a sudden rise in interest rates than higher coupon bonds issued in earlier cycles.

Exhibit 1 : At the index level, the COVID-19 premium has vanished

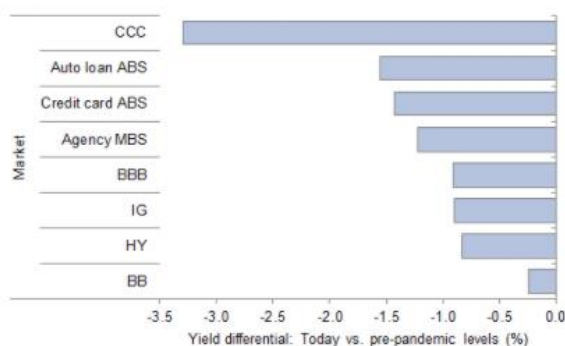
Ratio of today's OAS vs. pre-pandemic tights



Source: ICE-BAML, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 2 : From an all-in-yield standpoint, the picture is even more challenging

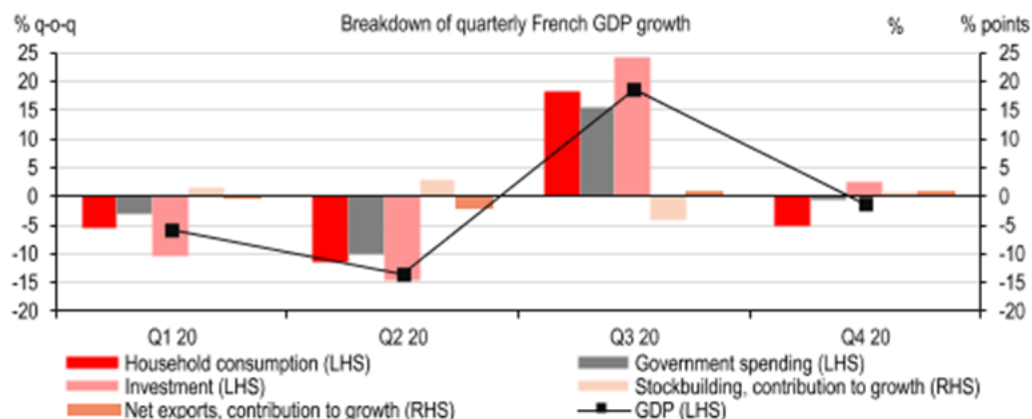
Yield differential: Today vs. pre-pandemic lows



Source: ICE-BAML, Haver Analytics, Goldman Sachs Global Investment Research

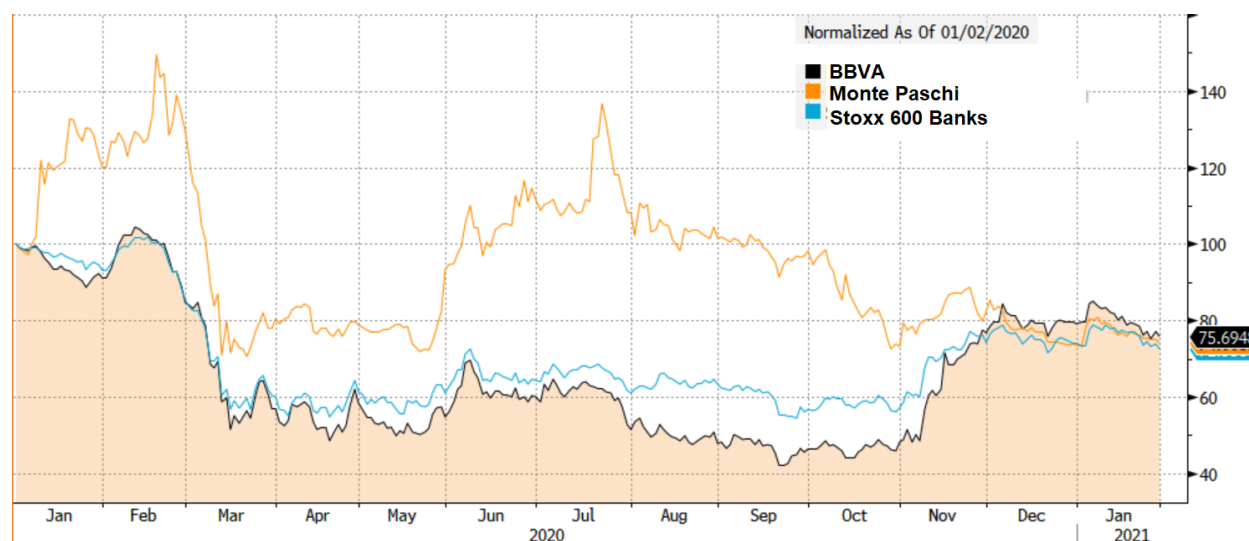
Europe [back to top](#)

The Eurozone GDP double-dip is likely to be smaller than expected as Germany, France and Spain surprised do the upside in Q4. While German preliminary figures were just touch above consensus (+0.1% q/q vs flat), both France (-1.3% q/q vs -4%) and Spain (+0.4% q/q vs -1.4%) delivered a bigger upside surprise. **Better data added some momentum to government bond yield increases**, although investors' attention is focused on extended Q1 lockdowns and vaccination delays on supply shortage (France is latest to restrict new vaccinations).



Source: INSEE, HSBC

According to media reports, **Banca Monte dei Paschi will ask the European regulator to approve a plan combining a merger of the bank with Unicredit as well a €2.5 bn capital increase.** Analysts at HSBC note that the deal should be neutral for Unicredit if the capital support measures are implemented. Further on banks, Spain's second **largest banking group BBVA announced plans to buy back 10% (\$3.2 bn) of its shares after reporting better than expected Q4 results** on the back of lower impairments. The timing of the buy-back remains unclear given ECB's current position on profit distribution restrictions.



Other Mature Markets

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Japan

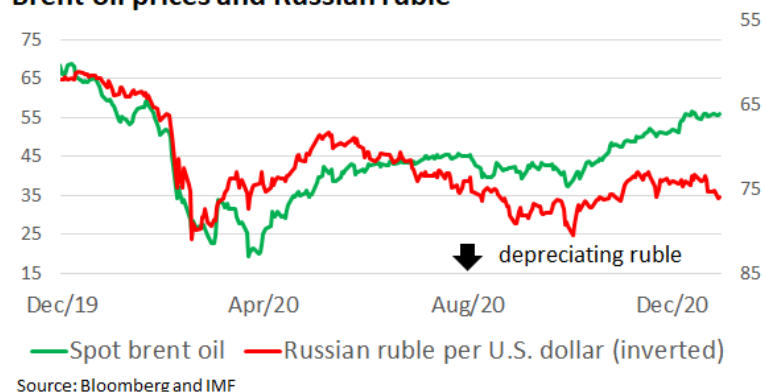
Equities fell (-1.6%) for a second straight day on broad-based losses. The Bank of Japan (BOJ)'s summary of opinions for the January monetary policy meeting showed that members discussed the need to allow for greater movement in 10-year JGB yields. It mentioned that more movement in 10-year JGB yield will contribute to financial system stability by meeting the demands of financial institutions. Some think this could reinforce the recent steepening trend in the yield curve.

Emerging Markets

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The week is ending on a sour note as most local bourses follow global markets lower. Hong Kong SAR's Q4 advance GDP contracted by -3% y/y, worse than expectations of -2.1%. This brought full-year 2020 decline to -6.1% (versus -1.2% in 2019), marking the first time the city saw back-to-back annual economic contractions since at least 1962. Latin America followed the US higher yesterday, with Brazil leading the way on talk of more support for the poor, but today's price action looks negative. Despite the recovery in oil prices, the Russian ruble (-2.4%) has depreciated in January on rising political risks. In contrast, the Turkish lira gained 2% this month as the central bank has continued to signal its willingness to maintain a tighter monetary stance.

Brent oil prices and Russian ruble



Source: Bloomberg and IMF

Key Emerging Market Financial Indicators

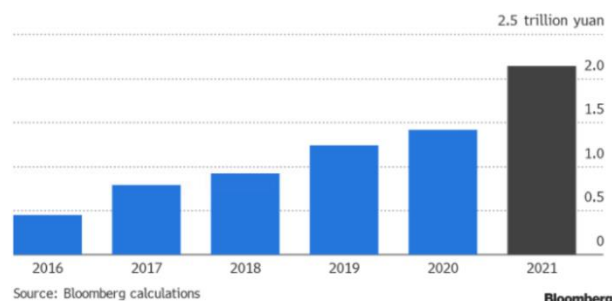
Last updated: 1/29/21 8:20 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		54.67	-1.8	-3	7	25	6
MSCI Frontier Equities		28.99	0.1	-2	2	-5	2
EMBIG Sovereign Spread (in bps)		358	-3	4	3	49	7
EM FX vs. USD		57.18	0.3	0	-1	-5	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.43	0.3	1	2	8	2
Indonesian Rupiah		14030	0.3	0	1	-3	0
Indian Rupee		72.95	0.1	0	1	-2	0
Argentine Peso		87.22	0.0	-1	-4	-31	-4
Brazil Real		5.50	-1.0	-1	-5	-23	-6
Mexican Peso		20.20	0.3	-1	-1	-7	-1
Russian Ruble		75.67	0.5	-1	-2	-17	-2
South African Rand		15.06	1.0	1	-2	-3	-2
Turkish Lira		7.31	0.6	2	1	-18	2
EM FX volatility		10.45	0.0	0.1	-0.2	4.1	-0.3

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

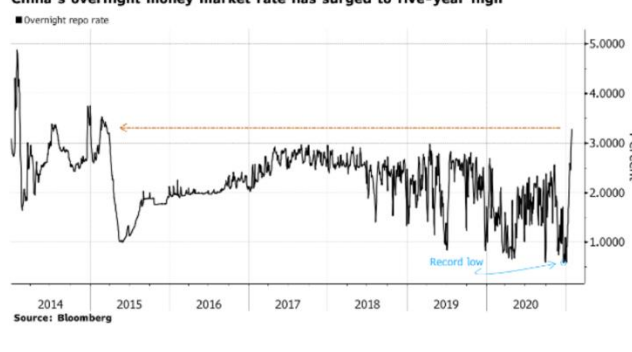
China

China may drop its annual growth target for a second year. Reuters reported that specifying a growth target could encourage local governments to pursue even higher expansion at the expense of an unhealthy increase in debt. Policymakers might instead signal their goals 'implicitly' by targeting employment and other indicators. **Local governments face a record amount of maturing off-balance sheet debt in 2021.** Approximately RMB2.14 tn (\$330 bn) of local government financing vehicle (LGFV) bonds will mature this year, according to Bloomberg. LGFVs typically seek to roll over maturing debt by issuing new bonds or borrowing from banks. However, refinancing could face difficulties given the authorities' aim of 'resolving' hidden debt of local governments. **The overnight repo rate remained at the 5-year high of around 3.3% amid liquidity pressures.** The central bank denied the rumor regarding a potential hike to the standing lending facility, according to Bloomberg.

2.14 trillion yuan in LGFV debt is set to mature this year



China's overnight money market rate has surged to five-year high



Bank of China Ltd. became the first borrower to issue dollar bonds through a new avenue formed by the Shanghai Clearing House and Euroclear Bank SA. The lender's Hong Kong branch sold \$500 mn 3-year bonds known as 'Yulan bonds', pricing it at 67bps above US treasuries, 43bps tighter from the initial guidance, and receiving \$1.2 bn of orders. The Shanghai branch of Industrial & Commercial Bank of China Ltd. signed an agreement of intent to underwrite Yulan bonds with two state-owned enterprises, Jinjiang International Group Co. and Shanghai Lingang Economic Development (Group) Co. in December. This could provide Chinese firms with a new avenue to tap bond investors.

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Global Financial Indicators

Last updated: 1/29/21 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3776	1.0	-2	1	15	1
Europe		3505	-1.5	-3	-2	-6	-1
Japan		27663	-1.9	-3	0	18	1
China		3483	-0.6	-3	3	17	0
Asia Ex Japan		96	0.6	-3	9	34	7
Emerging Markets		55	0.7	-3	7	25	6
Interest Rates			basis points				
US 10y Yield		1.08	3.6	0	14	-50	17
Germany 10y Yield		-0.50	3.8	1	7	-12	7
Japan 10y Yield		0.05	1.4	1	3	9	3
UK 10y Yield		0.33	4.5	2	12	-18	14
Credit Spreads			basis points				
US Investment Grade		96	-0.1	1	1	-9	1
US High Yield		375	-0.5	5	-6	-56	-5
Europe IG		52	0.0	3	4	7	4
Europe HY		268	-0.1	14	29	46	26
EMBIG Sovereign Spread		358	-2.7	4	3	49	7
Exchange Rates			%				
USD/Majors		90.54	0.1	0	1	-8	1
EUR/USD		1.21	0.2	0	-1	10	-1
USD/JPY		104.7	-0.4	-1	-1	4	-1
EM/USD		57.2	0.3	0	-1	-5	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		56	0.8	1	10	-6	8
Industrials Metals (index)		134	0.6	-1	0	26	1
Agriculture (index)		50	0.5	3	6	26	4
Implied Volatility			%				
VIX Index (%, change in pp)		33.8	3.6	11.9	10.7	17.4	11.1
US 10y Swaption Volatility		58.7	0.1	4.2	-1.1	-12.7	-1.5
Global FX Volatility		7.7	0.0	0.1	-0.3	2.3	-0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	-3.6	-3	-2	-36	-1
Italy		115	-2.7	-12	2	-18	4
Portugal		54	-1.4	-4	-6	-15	-6
Spain		60	-0.9	-3	-2	-7	-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: 1/29/2021 8:21 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	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	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.43	0.3	0.8	2	8	2		3.3	2.1	5	1	29	5
Indonesia		14030	0.3	0.0	1	-3	0		6.3	-0.7	-4	27	-62	22
India		73	0.1	0.0	1	-2	0		6.1	-0.1	1	9	-79	11
Philippines		48	0.1	0.0	0	6	0		3.6	-6.5	-6	-3	-61	-5
Thailand		30	0.3	0.3	1	4	0		1.3	-1.0	-4	-1	-20	3
Malaysia		4.04	0.1	0.1	0	1	0		2.6	0.0	0	3	-55	2
Argentina		87	0.0	-0.8	-4	-31	-4		49.8	-59.6	-202	-728	-556	-633
Brazil		5.50	-1.0	-0.5	-5	-23	-6		6.4	-9.4	-13	70	34	79
Chile		738	0.1	-1.3	-3	7	-4		2.8	0.1	-5	-2	-63	-1
Colombia		3542	0.5	-0.7	-2	-4	-3		5.1	-3.3	7	3	-55	6
Mexico		20.20	0.3	-1.1	-1	-7	-1		5.6	-0.8	-3	3	-123	-1
Peru		3.6	0.0	-0.6	-1	-8	-1		3.8	-11.7	5	23	-50	21
Uruguay		42	0.0	-0.2	0	-11	0		7.2	-3.1	-1	-14	-317	-4
Hungary		295	0.3	-0.5	1	4	1		1.6	-0.6	-4	6	22	4
Poland		3.73	0.5	0.0	-1	4	0		0.6	2.2	-1	-10	-141	-5
Romania		4.0	0.2	-0.3	-1	8	-1		2.3	-1.0	-1	-43	-156	-43
Russia		75.7	0.5	-0.5	-2	-17	-2		6.0	1.0	11	26	-2	27
South Africa		15.1	1.0	0.6	-2	-3	-2		9.7	1.7	3	4	7	0
Turkey		7.31	0.6	1.5	1	-18	2		13.2	-8.9	-20	18	333	14
US (DXY; 5y UST)		91	0.1	0.3	1	-8	1		0.43	0.5	0	5	-97	7

	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		5352	-0.5	-4	6	34	3		206	4	3	0	28	-2
Indonesia		5862	-2.0	-7	-3	-4	-2		179	0	1	-7	-2	-8
India		46286	-1.3	-7	-3	12	-3		156	2	-3	2	27	5
Philippines		6613	-3.5	-6	-7	-11	-7		99	-1	4	-5	19	-6
Malaysia		1566	-0.9	-2	-5	1	-4		115	-2	5	2	9	5
Argentina		49630	-0.7	2	-3	23	-3		1443	1	22	74	-598	75
Brazil		118883	2.6	0	0	3	0		276	1	2	24	52	26
Chile		4385	-0.2	-2	4	-4	5		142	-1	0	0	-8	-2
Colombia		1367	-0.6	-4	-6	-16	-5		221	-3	0	17	46	16
Mexico		44281	0.0	-1	-1	-2	0		381	-5	2	6	77	21
Peru		21290	1.1	-1	2	7	2		135	2	4	-1	11	3
Hungary		43592	0.1	0	4	0	4		82	1	3	-12	-29	-14
Poland		57545	-0.9	0	0	0	1		-14	-1	-2	-14	-52	-13
Romania		10349	0.4	0	6	3	6		203	-1	3	2	8	0
Russia		3295	-1.8	-3	1	5	0		169	1	-2	8	15	3
South Africa		62613	-1.0	-2	6	11	5		392	-2	3	9	46	12
Turkey		1481	-1.4	-4	1	24	0		449	-5	-11	-6	82	4
Ukraine		514	0.0	3	1	2	3		511	0	18	17	119	20
EM total		55	-1.8	-3	7	25	6		421	0	17	-10	97	128

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