




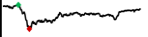
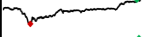


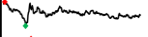



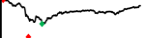
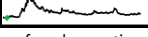
- Global manufacturing PMIs at 36 month highs ([link](#))
- US political developments stimulate reflationary trades ([link](#))
- Commodities gain on hopes of US infrastructure spending and global rebound ([link](#))
- US ponders investment ban for Alibaba and Tencent ([link](#))
- German factory orders stronger than expected ([link](#))
- Japanese labor earnings weaker than expected, Tokyo faces lockdown ([link](#))

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Global markets keep calm and carry on

The extraordinary events in Washington, DC yesterday had little impact on global or even local markets. Most US indexes posted solid gains yesterday and most global stock exchanges are higher this morning, including US equity futures. Markets are more focused on the months ahead, which present twin challenges of opportunity and uncertainty. On the one hand, the US Senate election results raised hopes of more spending to support the economy, a more efficient response to the pandemic and a quicker recovery for the economy. Strong rebounds in parts of Asia are also bolstering sentiment. On the other hand, new lockdowns in many countries around the world, a slower than expected vaccine rollout and worries about even more contagious new variants of the virus all present potential headwinds for the global economy.

Key Global Financial Indicators

Last updated: 1/7/21 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3748	0.6	1	2	16	0
Eurostoxx 50		3616	0.1	1	2	-4	2
Nikkei 225		27490	1.6	0	4	17	0
MSCI EM		53	-0.8	3	4	18	2
Yields and Spreads			bps				
US 10y Yield		1.05	1.7	14	13	-77	14
Germany 10y Yield		-0.53	-1.3	4	5	-25	4
EMBIG Sovereign Spread		348	-2	-4	-8	50	-2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.8	-0.6	0	1	-5	0
Dollar index, (+) = \$ appreciation		89.8	0.3	0	-1	-7	0
Brent Crude Oil (\$/barrel)		54.4	0.1	6	11	-20	5
VIX Index (% change in pp)		23.4	-1.7	1	2	10	1

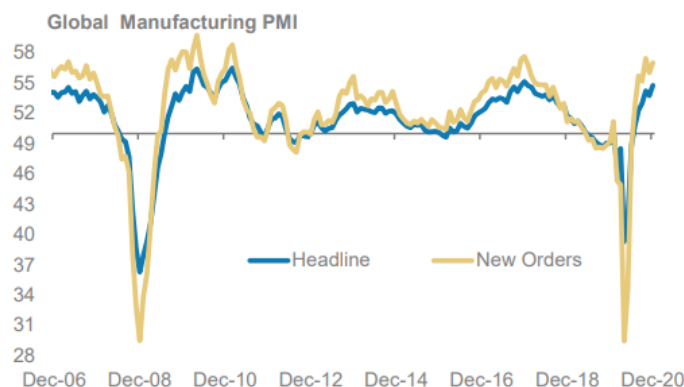
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Global PMIs

Global Purchasing Manager Indexes (PMIs) for manufacturing are at 36 month highs, according to research by Morgan Stanley. It stands at 54.8, slightly below the previous cycle high of 55.2 in December 2017. 89% of indexes tracked are in expansionary territory, with important subgroups in new orders, employment and output showing robust trends.

Global PMI Update – January 2021

A 36-Month High

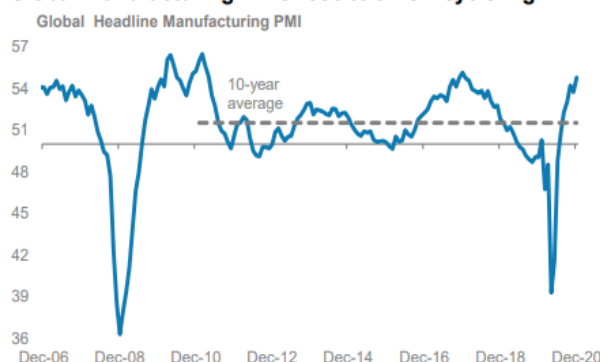


Source: Markit, Haver Analytics, IMF, national sources, Morgan Stanley Research. Note: Prior to Apr-11, Canada, Indonesia, & Colombia are excluded from Global aggregate due to lack of data. Australia and South Africa are excluded from all charts in this publication due to unavailability of the December 2020 data.

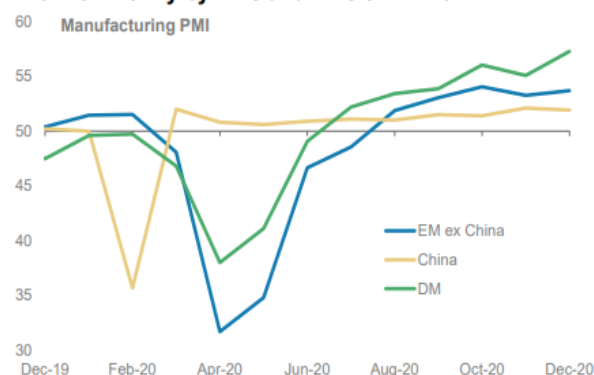
These numbers are reflective of the rebound in economic activity in late 2020, but these positive trends could change if the lockdowns in many countries around the world slow down the economic recovery. Much depends on the effectiveness of the vaccines and the speed of the vaccination campaigns, which have got off to a slow start in the US and several European countries.

Global Manufacturing PMIs at a New Cycle High

Global manufacturing PMIs rose to a new cycle high...



... driven mainly by DMs and EMs ex China



Source: Morgan Stanley

United States

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Markets are viewing the US election results as a Goldilocks situation. The slimness of the Democratic margin in the US Senate should preclude more extreme policy changes while opening the door to a larger stimulus package to help the country get through the pandemic. Analysts expect a more efficient Federal government response to the virus crisis, leading to a more rapid rebound for the US economy. The focus on tackling the pandemic could delay regulatory changes that markets view unfavorably. Corporate taxes could go up, but this will be less of a burden in an expansionary economic environment as a rising tide lifts

all boats. Stocks surged in the morning but gave back some gains later in the day, while tech stocks actually lost ground. Meanwhile, the FOMC minutes had little impact on the day's trading. The Committee noted that the resurgence in the virus could slow down the recovery and expressed support for the current pace of asset purchases while retaining the same maturity profile. It expressed worries about the negative consequences of ending loan programs, while having stronger confidence in the medium term outlook. **This morning, the closely followed jobless claims data were stronger than expected, while the trade deficit was slightly higher than expected.** The market response was relatively muted.

Key US Economic Data 8.30 am

Source: Bloomberg

Data Release	Consensus Forecast	Actual Data Print
Initial Jobless Claims	800K	787K
Continuing Claims	5200K	5072K
Trade balance	-\$67.3 bn	-68.1 bn

The prospect of unified government in the US has triggered an immediate shift in market focus to a **more inflationary and expansionary environment**. Treasury Inflation Protected Securities (TIPS) breakeven yields moved higher and the benchmark 10-year Treasury yield broke above 1% for the first time since last March.

Blue Wave Bets

U.S. 10-year yields breach 1% level for first time since March

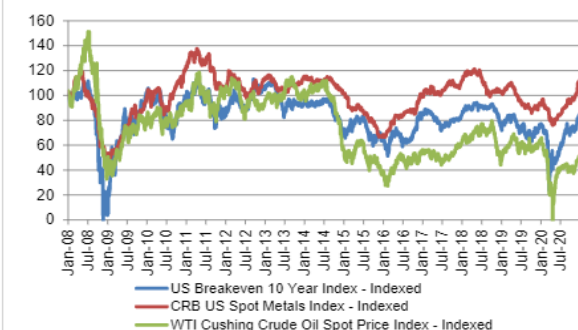
■ U.S. 10-year bond yield



Source: Bloomberg

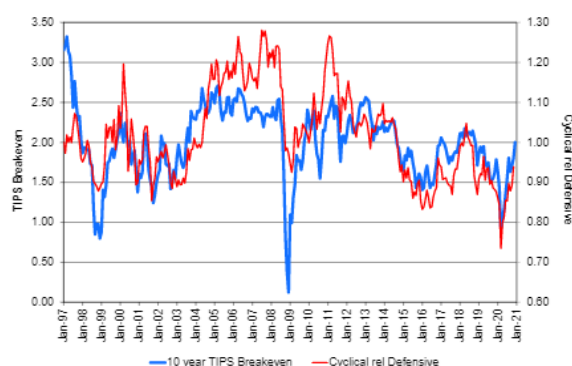
Analysts think the expectations of higher fiscal spending to support the economy will raise inflation expectations more broadly and will cause cyclical stocks to do better than defensive stocks. Previous market leaders such as technology and health are expected to do less well, while lagging sectors will become the new market leaders. Commodity prices were already on the rise heading into the new year, raising hopes that energy companies will finally come into their own. Forecasts of higher interest rates in a reflationary environment are good for banks, which tend to do better when yield curves steepen due to higher net interest income. Industrial companies should also benefit in an expansionary milieu. Small cap stocks are also expected to do very well after months of underperformance.

Figure 8. Commodities and 10-year TIPs Breakeven



Source: Bloomberg and Citi Research – US Equity Strategy

Figure 9. TIPS Breakeven vs Cyclical Relative to Defensives

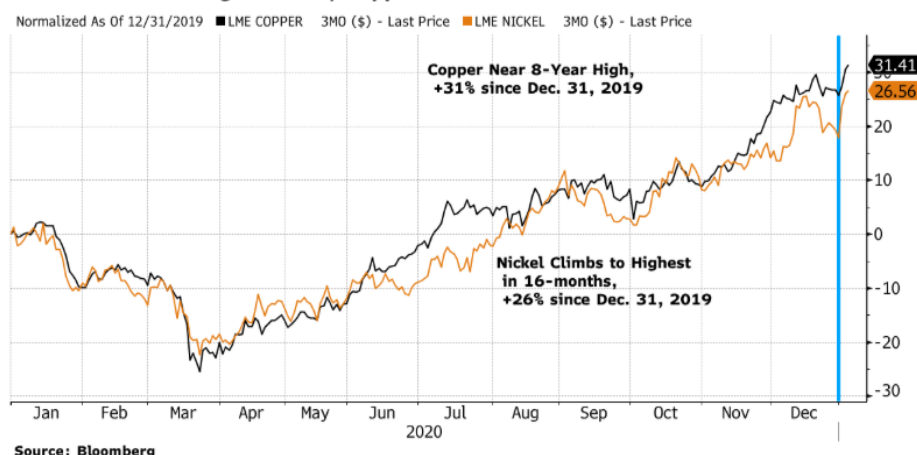


Note: Cyclical defined as Industrials, Materials, Energy and Consumer Discretionary, Defensives include: Consumer Staples, Health Care, Real Estate and Utilities

Source: Bloomberg, FactSet, and Citi Research – US Equity Strategy

Commodity prices were higher on hopes that the Democratic victory in the US Senate could spur spending on infrastructure projects. Oil is at its highest level since February, while copper traded near an eight-year high and nickel prices were at their highest in over a year. President Elect Biden has called for a \$1.2 tn infrastructure spending program that would make extensive use of industrial metals to rebuild and aging bridges, highways, ports and tunnels. Biden's Build Back Better plan also calls for the construction of 500,000 charging stations for electric vehicles.

Industrial Metal Prices Continue to Gain LME 3-Month Rolling Forward, Copper and Nickel



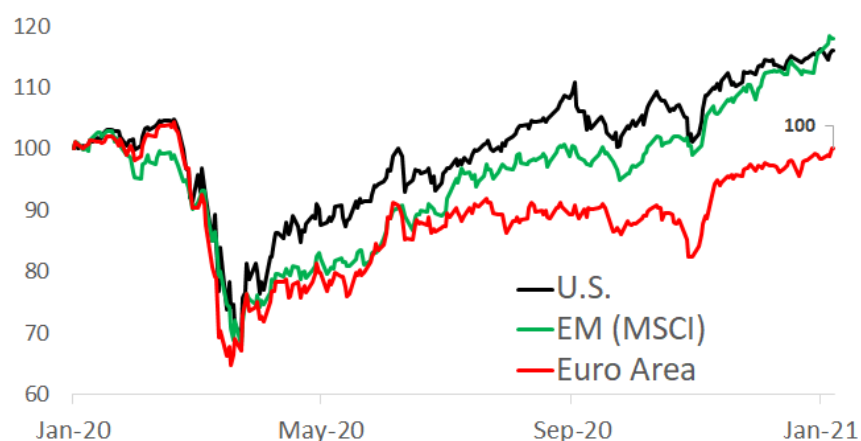
Source: Bloomberg

Europe

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Equity indexes are little changed today but are up 2% for the year after bank equities closed 5.6% higher yesterday following the increase in core rates. The euro (-0.5% to €1.226) fell in line with broader U.S. dollar strength. 10-yr bund yields fell 2 bps to -0.53% (up 5 bps ytd). Southern European spreads are little changed.

Global Equity Markets (1 Jan 2020: 100)



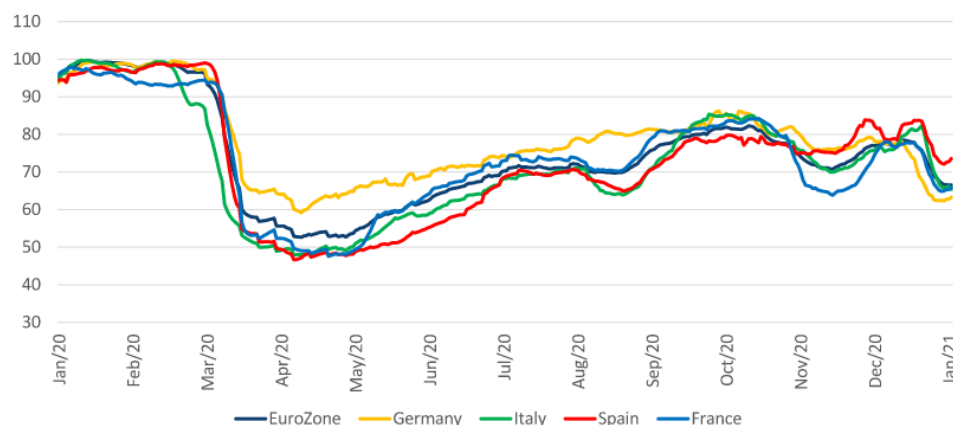
Source: Bloomberg and IMF

Italian 10-yr spreads are unchanged at 109 bps as government parties are expected to discuss policy changes to ensure that former PM Renzi and his party Italia Viva (IV) continue to support the coalition. Disagreements are related to the management of the EU recovery fund and the refusal by the government to request any ESM support.

In line with expectations, euro area headline inflation was unchanged at -0.3% yoy in December. German HICP inflation rate unexpectedly remained its all-time low of -0.7% yoy (-0.6% expected), with food price inflation dropping to a new 12-m low. Analysts expect euro area inflation to turn positive in January as Germany reverses VAT tax cuts, but some see further downside risks considering further virus restrictions.

German factory orders were better than expected at 2.3% mom in November (-0.5% mom expected) but real-time activity indicators are falling sharply across countries. Jefferies' EU activity indicator dropped to 67% of pre-COVID levels, down materially from the 78% registered on 24 December, with falling mobility the key driver. Italy saw the largest contraction over the past two weeks, while the more prolonged lockdown in Germany leaves activity levels in the region lagging peers.

JefData | Big 4 Activity Radar



ING expects gross issuance of European government bonds of +€130 bn in January. Gross issuance is expected to stay close to last year's level around €1.25tn for 2021. In terms of net issuance, ING expects

a slight increase to €580 bn from € 560 bn in 2020. Consensus is that ECB QE programs will purchase more than €800 bn of government bonds, more than the expected net supply.

Euro area: Net supply of government bonds in 2021 and expected ECB buying



Note: Net issuance takes out redemptions.
Source: Debt agencies, ECB and ING

United Kingdom

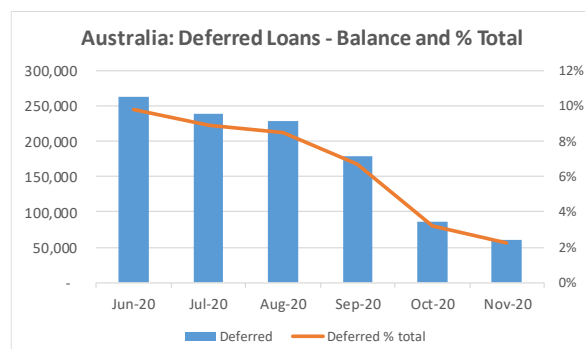
The BoE will publish information from its consultation on the viability of negative rates at its policy meeting in February. Markets are now pricing in a 10-bps cut in May (from current 10 bps) and negative rates later in 2021. The British pound (-0.4% to \$1.35) weakened today.

Other Mature Markets

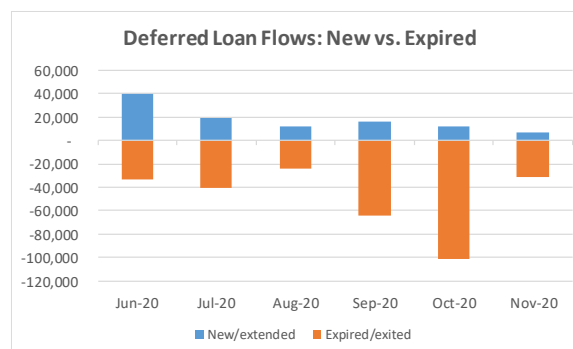
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Australia

Loans with COVID-19 related payment deferrals continue to decline sharply. The Australian Prudential Regulation Authority (APRA) disclosure suggests that the volume of loans on which banks have granted temporary relief to borrowers impacted by COVID-19 has declined from 10% of total loans in June to 2% by November. The total inflow of new (or extended) loan deferrals was about A\$6.8bn, or about 0.25% of loans outstanding. The balance of deferred loans in November, AUD60bn, is about twice the volume of total loan loss reserves. In response to increased risk, Australian banks have increased total loan loss reserves by nearly 50% between end-2019 (AUD20.5bn) and September 2020 (AUD29bn).



Source: Australian Prudential Regulation Authority



Japan

Labor earnings fell more than expected in November. Nominal earnings declined 2.2% y/y in November, more than an expected 0.9% fall, as year-end bonus payments plunged. Real earnings also declined 1.1% y/y. Falling earnings could weigh on consumption and weaken the outlook for any sustained economic

rebound. The pay declines were largely driven by the services sector. **A state of emergency was declared for Tokyo and the surrounding regions. Equities gained (NIKKEI: +1.6%) similar to the regional trend; Japanese yen depreciated (-0.4%); government bond yields increased (10-year: +1.5 bps).**

Consumption Key

Deeper falls in Japanese wages imperil any consumption-led recovery

■ Japan Labour Statistics Avg Monthly Cash Earnings YoY



Source: Bloomberg.

Emerging Markets

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Most emerging market bourses took their cue from Wednesday's global rally. The EMEA region saw solid equity gains accompanied by higher government bond yields and weaker currencies. South Africa was an outlier as worries about the economy and the worsening virus crisis caused local markets to underperform today. Asian and Latin American markets saw similar moves in equities, rates and currencies.

Key Emerging Market Financial Indicators

Last updated: 1/7/21 8:13 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		52.80	-0.2	3	4	18	2
MSCI Frontier Equities		29.00	0.1	2	4	-4	2
EMBIG Sovereign Spread (in bps)		348	-2	-4	-8	50	-2
EM FX vs. USD		57.79	-0.6	0	1	-5	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	-0.1	1	1	7	1
Indonesian Rupiah		13910	-0.1	1	1	0	1
Indian Rupee		73.32	-0.3	0	1	-2	0
Argentine Peso		85.00	-0.1	-1	-4	-30	-1
Brazil Real		5.32	-0.3	-2	-4	-24	-2
Mexican Peso		19.77	-0.6	1	1	-4	1
Russian Ruble		74.30	-0.5	0	-1	-17	0
South African Rand		15.30	-1.5	-4	-1	-6	-4
Turkish Lira		7.33	-0.3	2	6	-19	2
EM FX volatility		10.53	0.0	-0.2	0.1	3.9	-0.2

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

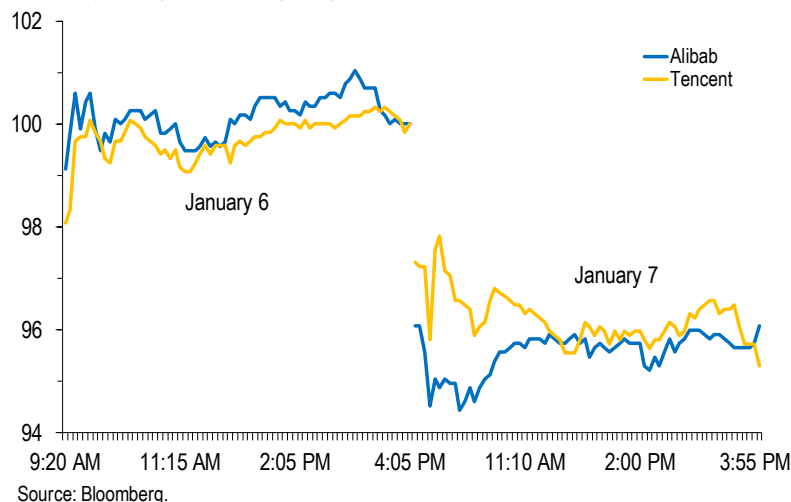
China and Hong Kong SAR

The US administration is reportedly considering banning investments in Alibaba and Tencent, China's two most valuable companies. Imposing a ban on the two companies could have a dramatic impact on local capital markets, given their sheer size. The two firms have a combined market value of about \$1.3

tn and account for about 11% of the weighting for the MSCI emerging markets benchmark, making it very challenging to unwind investment positions. Share prices of Alibaba and Tencent fell 3.9% and 4.7%, respectively, in Hong Kong today after declines in the US market yesterday. Spreads on USD bonds of these two firms also widened by 15-20 bps. However, their share prices were slightly higher in early pre-market US trading this morning. Other Chinese tech firms also saw their share prices falling, with the Shenzhen Composite (+0.2%) underperforming the CSI 300 benchmark (+1.8%). **RMB was little changed. Hong Kong equities fell** (-0.5%); the financials sub-index outperformed as investors rebalanced their portfolios from Chinese tech and telecom firms into banks (HSBC: +4.6%).

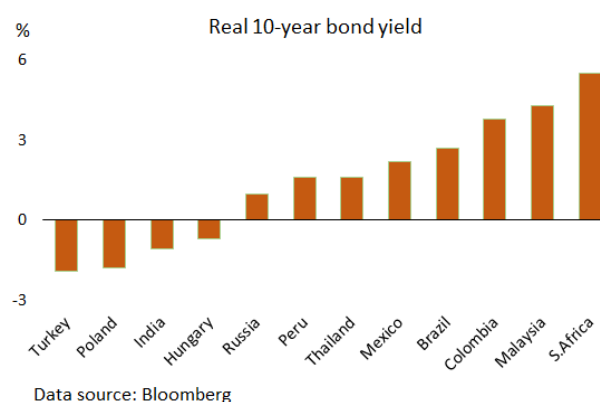
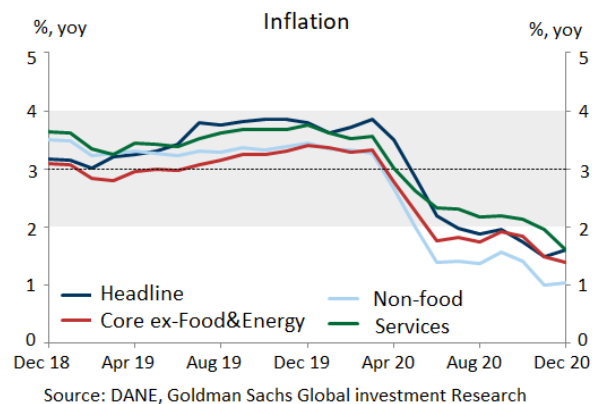
Share Prices of Alibaba and Tencent

Yesterday closing=100; In Hong Kong SAR



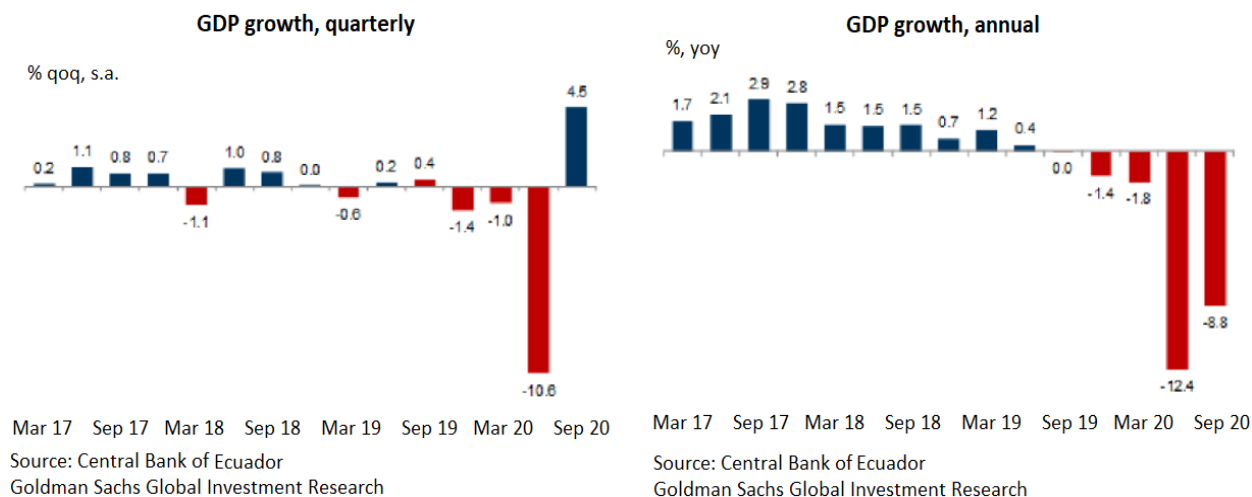
Colombia

December inflation printed above market expectations. CPI inflation was at 0.38% mom in December, driving the annual inflation to 1.61% yoy. The real policy rate still at the positive, but close to zero at 0.1%. The 10-year bond's real yield dropped to 3.8%, according to Bloomberg's calculations. It is still higher than regional peers.



Ecuador

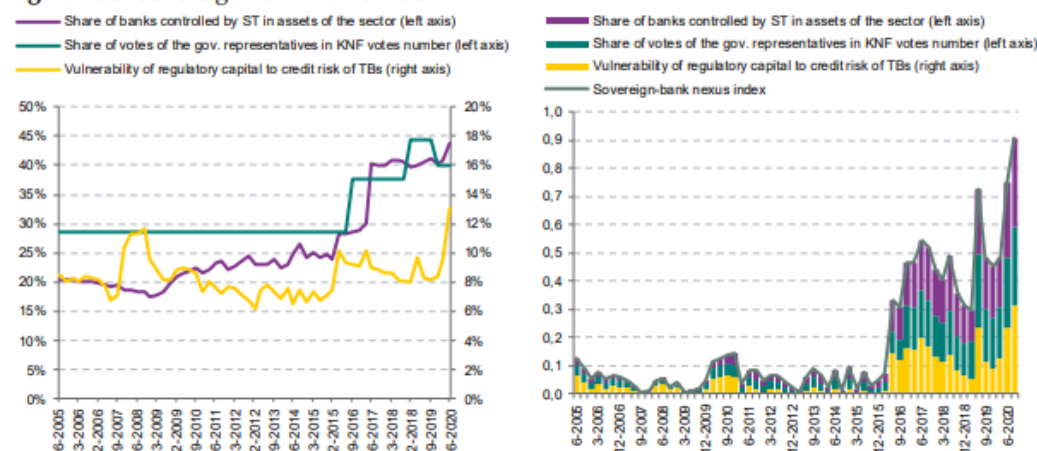
GDP showed a rebound in 3Q2020, as expected. Real GDP increased 4.5% qoq sa during 3Q2020, much higher than the 10.6% qoq sa contraction during the quarter before. Sequential growth was supported by the increase in gross fixed capital formation and the contribution from net trade. It was also driven by the relaxation of restrictions on mobility during the period. Despite the sequential recovery, on an annual basis, real GDP declined a high 8.8% yoy.



Poland

The link between Polish banks and sovereign risk is rising, according to Bloomberg research. Polish banks hold an estimated \$118 bn of sovereign bonds. The risks around the link between banks and the sovereign were already highlighted by the National Bank of Poland (NBP) [last month](#), who noted that “the sovereign-bank nexus was reinforced by the increase of banks’ exposures to Treasury bonds or State Treasury-guaranteed bonds. In the first half of 2020, the share of such securities in banks’ assets exceeded 20% (compared to less than 17% at the end of 2019) and their value is more than two times higher than banks regulatory capital.” The NBP’s sovereign-bank nexus index has risen to its highest level in history (right-hand side of Figure 2.33). Separately, **the zloty appreciated by 1.3% on the day**, strongly outperforming peers and reaching the 4.5/euro level seen by many as the trigger point for the NBP’s FX intervention. CPI monthly inflation came in at +0.1% for December, weaker than the +0.3% expected. Year-on-year, CPI was +2.3% vs +2.6% consensus.

Figure 2.33. Sovereign-bank nexus index



Notes (left-hand panel): The variable *Vulnerability of regulatory capital to credit risk of Treasury bonds* illustrates the loss (expressed as a percentage of the banking sector’s regulatory capital) resulting from a 300 basis point shock in yields of Treasury bonds. ST stands for State Treasury. TBs stands for Treasury bonds.

Notes (right-hand panel): The sovereign-bank nexus index is the product of the centile ranks of all three variables. Due to its construction, the Index assumes values from 0 to 1. The index value close to 1 means that the levels of all three components are approaching their **historical** highs. ST stands for State Treasury.

Source: NBP.

South Africa

Daily Covid-19 infections breached the 20,000 mark yesterday, at 21,832, or 21% higher than its previous peak. South African insurance companies have announced plans to pay for 14 million Covid-19 vaccines for people who do not have medical coverage (South Africa's total population is 60 mn). The estimated cost of the operation is about \$464 mn. The first 1 mn vaccine doses are expected to arrive from India later this month, with a further 500K to follow suit in February. **Stocks in Johannesburg gained 0.9% on the day, even as the rand depreciated 1.6%.**

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Global Financial Indicators





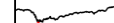





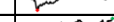



























Last updated: 1/7/21 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3760	0.6	1	2	16	0
Europe		3616	0.1	1	2	-4	2
Japan		27490	1.6	0	4	17	0
China		3576	0.7	5	5	15	3
Asia Ex Japan		92	-1.1	4	4	24	2
Emerging Markets		53	-0.8	3	4	18	2
Interest Rates							
			basis points				
US 10y Yield		1.05	1.7	14	13	-77	14
Germany 10y Yield		-0.53	-1.3	4	5	-25	4
Japan 10y Yield		0.04	1.8	2	2	4	2
UK 10y Yield		0.26	1.7	6	-2	-53	6
Credit Spreads							
			basis points				
US Investment Grade		99	-0.1	4	-3	-8	4
US High Yield		377	-1.2	-3	-25	-23	-3
Europe IG		48	0.3	0	1	4	0
Europe HY		251	2.5	10	9	39	10
EMBIG Sovereign Spread		348	-1.8	-4	-8	50	-2
Exchange Rates							
			%				
USD/Majors		89.78	0.3	0	-1	-7	0
EUR/USD		1.23	-0.4	0	1	10	0
USD/JPY		103.6	-0.5	0	0	5	0
EM/USD		57.8	-0.6	0	1	-5	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		54	0.1	6	11	-20	5
Industrials Metals (index)		138	0.0	3	4	20	4
Agriculture (index)		49	-0.3	3	13	19	2
Implied Volatility							
			%				
VIX Index (%, change in pp)		23.4	-1.7	0.6	2.1	9.6	0.6
US 10y Swaption Volatility		58.6	1.2	-1.5	-1.0	-7.8	-1.5
Global FX Volatility		7.9	0.0	-0.2	-0.3	2.1	-0.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		115	0.2	-5	-6	-53	-5
Italy		109	-0.2	-3	-11	-58	-3
Portugal		55	1.1	-5	-5	-10	-5
Spain		58	1.3	-4	-6	-10	-4

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: 1/7/2021 8:14 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		6.47	-0.1	0.9	1	7	1		3.3	-2.0	-1	-12	14	1	
Indonesia		13910	-0.1	1.0	1	0	1		6.1	2.2	2	-9	-108	2	
India		73	-0.3	-0.3	1	-2	0		5.9	1.5	-3	-2	-93	-2	
Philippines		48	-0.1	-0.1	0	6	0		3.6	0.8	-2	-1	-64	-2	
Thailand		30	-0.3	-0.2	0	1	0		1.3	3.5	0	-14	-19	0	
Malaysia		4.04	-0.7	-0.4	1	1	0		2.5	1.6	-1	-7	-75	-2	
Argentina		85	-0.1	-1.0	-4	-30	-1		52.5	-90.5	-362	-189	-762	-362	
Brazil		5.32	-0.3	-2.3	-4	-24	-2		5.8	12.7	31	-15	-47	22	
Chile		711	-1.7	0.0	5	8	0		2.7	1.4	-2	-23	-55	-2	
Colombia		3436	-0.6	-0.2	2	-5	0		5.1	4.8	0	-10	-92	-1	
Mexico		19.77	-0.6	0.7	1	-4	1		5.6	2.9	0	-18	-129	1	
Peru		3.6	0.1	-0.1	-1	-8	0		3.7	9.4	9	-14	-75	9	
Uruguay		42	0.0	-0.2	1	-11	0		7.3	-0.4	1	-8	-356	1	
Hungary		292	-0.1	1.8	2	2	2		1.5	5.5	1	-15	41	-1	
Poland		3.67	0.1	1.8	1	4	2		0.6	0.0	-2	-12	-123	-2	
Romania		4.0	-0.5	0.2	1	8	0		2.7	2.0	-6	-21	-128	-7	
Russia		74.3	-0.5	-0.4	-1	-17	0		5.7	-0.1	0	15	-41	0	
South Africa		15.3	-1.5	-3.9	-1	-6	-4		9.6	0.9	-3	-24	13	-1	
Turkey		7.33	-0.3	1.5	6	-19	2		13.3	-3.0	20	20	134	18	
US (DXY; 5y UST)		90	0.3	0.1	-1	-7	0		0.44	1.1	8	5	-118	8	

	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		5514	1.8	8	10	33	6		210	1	2	3	34	2	
Indonesia		6154	1.4	2	4	-2	3		183	6	-4	0	16	-4	
India		48093	-0.2	1	6	18	1		154	4	1	-1	29	3	
Philippines		7120	1.0	0	-1	-9	0		103	8	-2	-9	24	-2	
Malaysia		1603	0.7	-3	-1	-1	-1		125	7	15	9	16	15	
Argentina		51880	0.6	3	-5	26	1		1385	3	17	-67	-536	17	
Brazil		119100	-0.2	0	5	2	0		257	-1	7	-4	30	7	
Chile		4477	1.2	7	8	-9	7		137	-1	-7	-13	-12	-7	
Colombia		1436	0.3	-1	5	-14	0		209	-1	4	-4	30	4	
Mexico		45587	1.5	2	5	3	3		367	0	7	-47	62	7	
Peru		21330	1.5	2	3	4	2		127	0	-5	-26	6	-5	
Hungary		43400	0.7	4	11	-2	3		83	-2	-13	-15	-15	-13	
Poland		58876	1.5	3	6	0	3		-8	-2	-7	-13	-36	-7	
Romania		9985	0.6	3	5	1	2		197	-1	-7	-6	22	-6	
Russia		3371	0.0	3	6	9	2		166	4	0	-5	11	0	
South Africa		62674	1.3	5	5	9	5		391	2	11	11	63	11	
Turkey		1515	0.6	2	14	35	3		440	-4	-5	-41	29	-5	
Ukraine		499	0.0	-2	-2	-2	0		477	-5	-14	-13	75	-14	
EM total		53	-0.2	3	4	18	2		421	0	17	-10	97	128	

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