



- **US markets set new records across the board on stimulus hopes** ([link](#))
- **Heavy US job losses could enhance prospects of more stimulus** ([link](#))
- **Equity markets confront divergent paths in 2021** ([link](#))
- **US bond market at inflexion point** ([link](#))
- **Strong economic data in Europe add to market optimism** ([link](#))
- **Korean stocks surge on semiconductor and electric car optimism** ([link](#))

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

Sea of Green

Trading screens were green across most markets as the global rally entered its third day. News reports that the Pfizer vaccine is effective against the South African variant of the virus had a very positive impact on sentiment. The subsidence of political tensions in the US and the prospect of a major stimulus from the new administration also bolstered investor confidence, pushing both global risk assets and local government bond yields higher. Korean stocks were the strongest performers today on hopes of strong demand for semiconductors as the global economy rebounds, as well as news that Hyundai might work with Apple to develop electric cars. US equity futures were higher in pre-market trading, raising the prospect of yet another record close. European stocks are on course to enjoy their best week since November, with tech stocks leading the way. In an unexpected outcome, the US lost 140K jobs in December, spurring hopes of a larger stimulus package.

Key Global Financial Indicators

Last updated: 1/8/21 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3804	1.5	2	3	17	1
Eurostoxx 50		3644	0.6	3	3	-3	3
Nikkei 225		28139	2.4	3	6	21	3
MSCI EM		53	0.9	3	5	18	3
Yields and Spreads			bps				
US 10y Yield		1.09	0.9	17	17	-79	17
Germany 10y Yield		-0.52	-0.2	5	8	-32	5
EMBIG Sovereign Spread		348	-1	-3	-13	52	-3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.6	0.2	-1	0	-6	-1
Dollar index, (+) = \$ appreciation		89.9	0.1	0	-1	-8	0
Brent Crude Oil (\$/barrel)		55.1	1.3	6	13	-16	6
VIX Index (% change in pp)		22.4	0.0	0	2	9	0

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

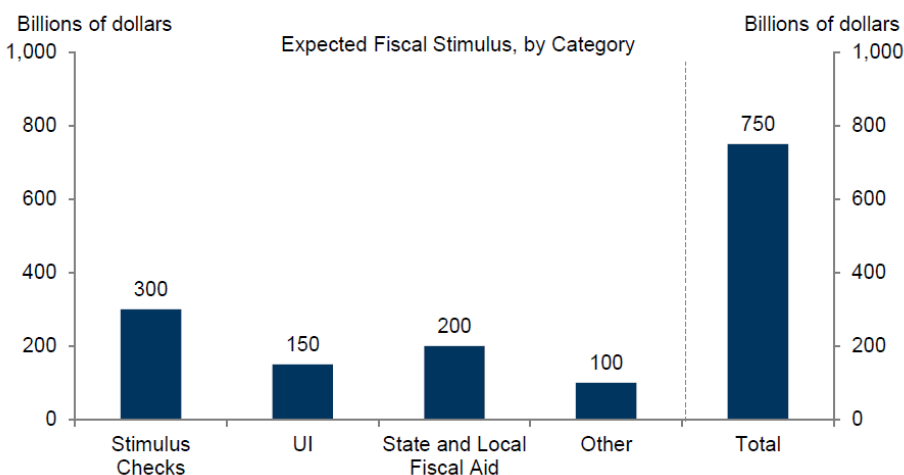
United States

[back to top](#)

With political disruptions hopefully in the rear view mirror, US markets are focusing on future developments. Hopes for a new stimulus package following the Senate elections in Georgia pushed stocks to record highs. All the major indexes, including the S&P 500, the Nasdaq, the Dow, the S&P Mid Cap index and the Russell 2000 small cap index, saw record closes. The record close for the Dow Jones Transportation Index was seen as particularly significant because analysts view it as a barometer for the broader economy. The Russell small cap index has gained 8% in the last three days on hopes that a widespread economic recovery will be especially favorable for small companies, which have done poorly during the pandemic. In response, Treasury yields continued their march higher, with the benchmark 10-year yield increasing by 4 bps to 1.08%, the highest in 10 months. The yield curve steepening trend also continued and Treasury Inflation Protected Security (TIPS) breakeven yields were also higher. The dollar gained against all major currencies in Wednesday's trading.

Based on the election outcome, Goldman has joined several other banks and upgraded its US GDP forecast for 2021 to 6.4% from 5.9%, based on expectations of another \$750 bn stimulus package including a further \$300 bn in checks to individuals. However, the analysts acknowledged that the worsening virus crisis could force them to revise these forecasts if the deterioration continues. In other news, the ISM services index came in much stronger than expected at 57.2 versus the 54.5 consensus forecast, in keeping with other recent US economic data which have also come in ahead of forecasts. This positive trend in data is another factor pushing US markets higher.

Exhibit 1: We Expect Another \$750bn in Fiscal Stimulus, Including \$300bn in Stimulus Checks



Source: Goldman Sachs Global Investment Research

The US jobs report was extremely negative, with the economy losing 140K jobs, down from a revised gain of 336 jobs in November. However, key components, especially hourly earnings, saw unexpected strength. Markets struggled to interpret the implications of the data, with Treasury yields a touch higher and equities and the dollar little changed in the immediate aftermath of the report. Some contacts speculated that the surprisingly weak number could enhance the prospects of major new stimulus from the incoming administration. Others thought that the bad numbers were to be expected given the spread of the virus, and that the job losses could be temporary.

Key US Economic Data 8.30 am

Source: Bloomberg

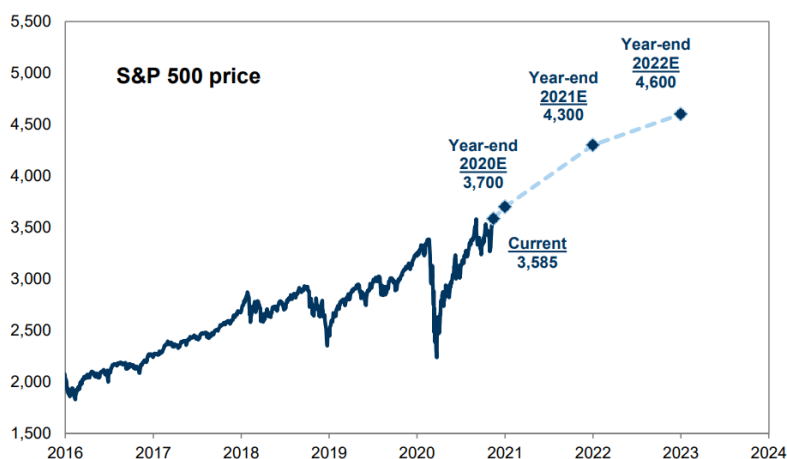
Data Release	Consensus Forecast	Actual Data Print
Nonfarm Payrolls	50K	-140K
Unemployment Rate	6.8%	6.7%
Average Hourly Earnings	0.2% month-on-month	0.8%
Average Hourly Earnings	4.5% year-on-year	5.1%
Labor Force Participation Rate	61.5%	61.5%
Underemployment Rate	N.A.	11.7% (down from 12% in Nov.)

Analysts offer differing views of how global markets will perform in 2021. In general, they are quite bullish, as exemplified by Goldman, which forecasts that the S&P 500 will rally by more than 14% this year. This view is underpinned by the belief that the virus will be rapidly defeated, the economy will rebound strongly, consumers will resume spending and corporate profits will rise significantly as a result.

Goldman Sachs

Path of the market: S&P 500 will end 2021 at 4300

4% gain to 3700 at end of 2020 and then 16% return in 2021 and 7% in 2022



Source: FactSet, Goldman Sachs Global Investment Research. As of November 13, 2020.

Global Investment Research 2

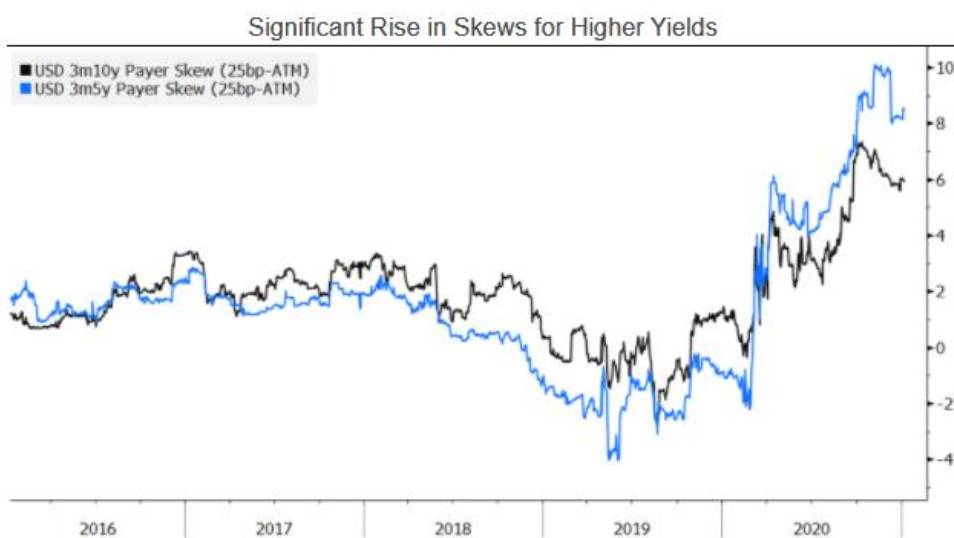
Other analysts are much more pessimistic, warning that the outcome of the virus crisis remains very much up in the air and that the global economy may take much longer than expected to recover. The rising case counts, delays in vaccines rollouts in several countries and the evolution of dangerous new mutations of the virus and the imposition of new lockdowns all pose threats to the more optimistic scenario. In addition, the post-crisis market rally of 2020 was so strong that investors risk disappointment in 2021. Citi is part of this more skeptical camp, predicting that other markets will do better than the US, where they forecast a meagre 1% gain for the S&P 500. In their view, other markets may offer better value than the US, but overall gains are likely to be much smaller than they were last year. In addition, the valuations built into current equity prices already assume very optimistic scenarios for the global economy, and underperformance relative to these assumptions could have negative consequences for markets.

Figure 2. Citi Equity Strategists' Index Targets

Region	Index	Current Level	End-21 Target	Expected Gain (local)	Expected Gain (US\$)
US	S&P 500	3756	3800	1%	1%
Pan Euro	DJ Stoxx600	399	410	3%	6%
UK	FTSE 100	6461	6900	7%	11%
Japan	Topix	1805	1800	0%	5%
Australia	S&P/ASX 200	6587	7000	6%	10%
GEMs	MSCI EM*	1291	1350	3%	5%
Global	MSCI ACWI Local	739	755	2%	4%

Source: Citi Research, MSCI. *MSCI EM target is in US\$. Prices as of 31st December 2020

Investors are seeking protection against higher interest rates in the US Treasury market by buying options on interest rate swaps (swaptions) that benefit if rates move higher. Short dated (3 month maturity) payer swaptions on 10-year and five year swaps that rise in value with higher rates have become much more expensive through the end of the year as seen in their rising volatility skew levels, but the move has reversed in recent days despite the spike in Treasury yields over the past few sessions. This suggests that markets think further interest rate increases could be limited. The market is at an inflexion point, where either interest rates remain contained or move lower again, or else push decisively higher than current levels. In the latter case, there is a risk that the ongoing rally in risk assets could face growing headwinds, as most market participants do not anticipate significantly higher interest rates this year and significantly higher rates would negatively risk asset valuations.

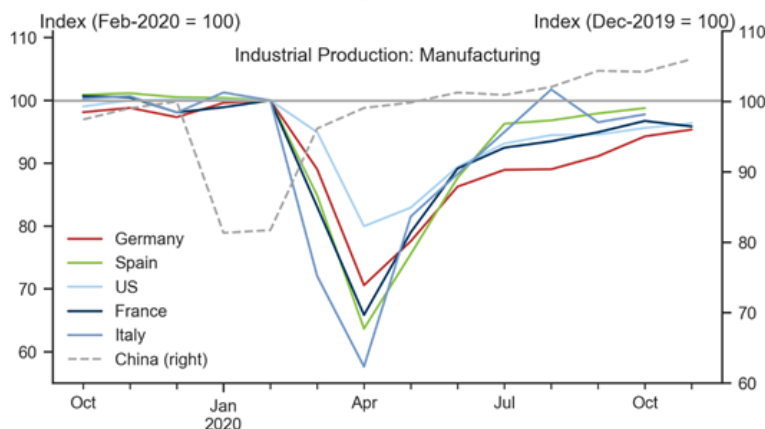


Source: Bloomberg Intelligence

Europe [back to top](#)

Equities (+0.6%) gained as economic data confirmed an ongoing industrial recovery in the euro area before the last round of restrictions. German exports rose 2.2% (1.0% expected) and industrial production gained 0.9% mom (0.8% mom expected). Euro area unemployment fell to 8.3% in November from 8.4% in October (compared to 8.5% expected). The euro (-0.2% to €1.225) edged lower.

Euro area: Industrial recovery continues

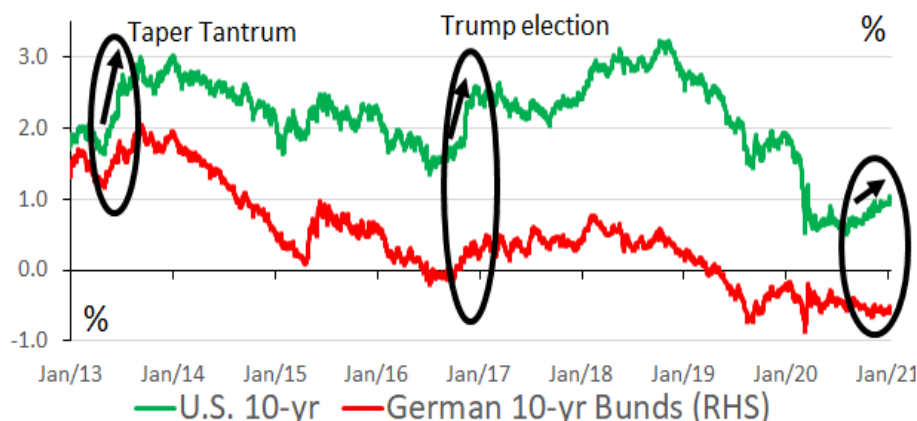


The line corresponding to China refers to the index of industrial value-added, seasonally adjusted by Haver Analytics.

Source: Haver Analytics, Goldman Sachs Global Investment Research

10-yr bund yields were little changed at -0.52% ahead of the U.S. jobs reports. 10-yr bund yields are up 5 bps YTD compared to an increase of 16 bps for U.S. 10-yr yields.

U.S. and Euro area: 10-yr rates



Source: Bloomberg and IMF staff

European rates have so far lagged the move higher in U.S. yields, but some contacts expect that **European rates will see a gradual rise in 2021**. SocGen, for example, expects 10-yr German bund yields to increase 40 bps (to -0.10%) by end 2021 on post-covid normalization, a gradual pick-up in prices, slower expansion of the ECB balance sheet and higher U.S. rates. Strategists point out that U.S. government bonds are becoming increasingly attractive versus German bunds when taking into the cost of currency hedging. This makes for a very different backdrop compared to 2018 when the FX-hedged U.S. treasury yield versus bund spread was negative.

U.S.- bund 10-yr spread and FX-hedged pick-up of U.S. treasury yield over 10-yr bund



Source: SocGen

Italian 10-yr spreads fell 4 bps to 104 bps as coalition parties are expected to eventually make changes in response to pressures from former PM Renzi to ensure his party Italia Viva continues to support the coalition. Italian unemployment also fell to 8.9% in November (10% expected) from 9.8% in October.

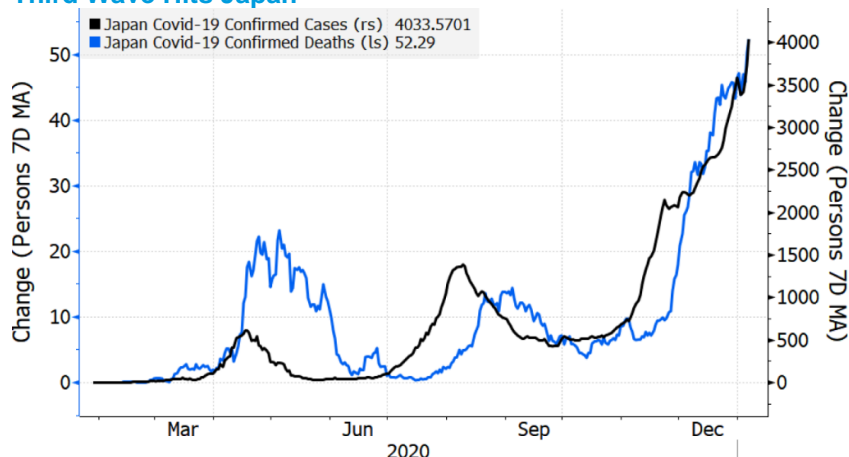
Other Mature Markets

[back to top](#)

Japan

Japanese household spending moderated in November. Housing spending increased just 1.1% yoy (down from 1.9% in October), translating into a decline of 1.8% m/m and reversing the increase in October. Disposable income also declined yoy in November for the first time since April 2020. A state of emergency, which covered Tokyo and surrounding areas, will pile on more pressure. Some analysts estimated that the containment measures could cost about 0.4% of GDP per month in lost output, while others voiced concerns that the less restrictive measures introduced this time may not be forceful enough to contain the outbreak, with greater economic costs down the road. **Equities rose (NIKKEI: +2.4%) similar to the regional trend; Japanese yen depreciated (-0.1%).**

Third Wave Hits Japan



Source: Bloomberg.

Emerging Markets [back to top](#)

Most emerging markets did well as markets continue their rally. The general trend across EMEA, Asia and Latin America was for equities and interest rates to rise as the US equity rally fueled risk appetite and rising Treasury yields pushed global yields higher. **China was the notable exception (see below).** The stronger dollar pushed down most EM currencies, with the exception of some Asian countries. **However, the South African rand (+1.3%) posted notable gains** even as Covid-19 infections continue to grow because of reports that the vaccines would work against the new South African virus variant. **Argentina will issue \$7.5 bn in non-transferable Treasury bills to the Central Bank**, according to Bloomberg news based on a decree in the official gazette.

Key Emerging Market Financial Indicators

Last updated: 1/8/21 8:07 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.30	1.8	3	5	18	3
MSCI Frontier Equities		29.22	0.8	3	4	-3	3
EMBIG Sovereign Spread (in bps)		348	-1	-3	-13	52	-3
EM FX vs. USD		57.63	0.2	-1	0	-6	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.46	0.2	1	1	7	1
Indonesian Rupiah		14020	-0.8	0	1	-1	0
Indian Rupee		73.25	0.1	0	0	-2	0
Argentine Peso		85.10	-0.1	-1	-4	-30	-1
Brazil Real		5.36	0.7	-3	-5	-24	-3
Mexican Peso		19.97	0.2	0	-1	-6	0
Russian Ruble		74.12	0.8	0	-1	-17	0
South African Rand		15.28	1.1	-4	-2	-7	-4
Turkish Lira		7.36	-0.5	1	6	-20	1
EM FX volatility		10.71	0.0	0.0	0.3	4.0	0.0

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

China

Chinese equities declined, bucking the regional trend, amid concerns about growing China-US tensions. Chinese equities fell (CSI 300: -0.3%), while share prices rose in other Asian markets. The decline was driven by consumer staples and materials. **Shijiazhuang, a city near Beijing, went into a lockdown** in an attempt to contain an outbreak. China's Center for Disease Control and Prevention also said that the virus strain in the latest outbreak is highly similar to those seen in Europe. Beijing tightened the quarantine requirement for new arrivals from 14 days to 21 days. **China faced soaring shipping costs as a result of its exports boom.** Global demand for Chinese goods has been so strong that it has created a shortage of containers and driven up shipping costs. Some analysts noted that soaring shipping costs could weight on China's export growth in coming months.

Costly Containers

Cost to ship goods soars on higher demand, shrinking pool of empty boxes

- ✎ Cost to ship a 40-foot container from Shanghai to Los Angeles
- ✎ Cost from Shanghai to Rotterdam



Source: Drewry World Container Index

Bloomberg

Czech Republic

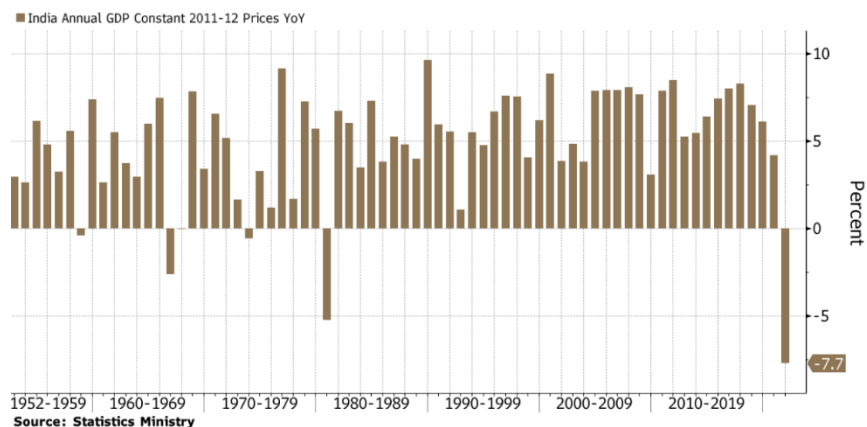
Macroeconomic data continue to point to a severe contraction of the Czech economy. Figures for industrial and construction output for November came in weaker than expected. Industrial output growth printed at -2.2% year-on-year, compared to -0.7% yoy expected. Construction contracted at a whopping 8.4% y/y pace, from -10.5% y/y the month prior. GDP data released today also showed an overall contraction of the Czech economy in Q3 of 5.0% yoy. Despite these data, **stocks in Prague gained 1.3% on the day, outperforming peers in the region.**

India

Real GDP was estimated to drop 7.7% in 2020 according to the Statistics Ministry's preliminary estimate. This would be the largest contraction on record going back to 1952. The estimated decline was also steeper than consensus forecasts at 7.5%. **Four states have reported avian flu outbreaks.** Markets were relatively flat.

Output Shrinks

India sees biggest GDP contraction on record this year



Source: Statistics Ministry

Source: Bloomberg.

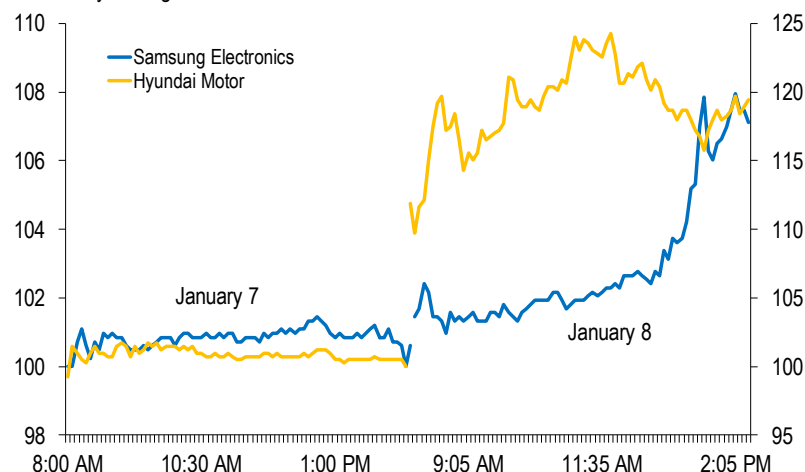
Korea

Korean equities outperformed on optimism around semiconductors and electric vehicles. The rise in Korean equities (KOSPI: +4.0%) was driven by Samsung Electronics (+7.1%) and Hyundai Motor (+19.4%). Samsung share price rose, even after Q4 profits came out below forecasts, on the prospect of

strong demand for semiconductors. Meanwhile, Hyundai share price surged as the firm reportedly may cooperate with Apple on developing self-driving vehicles. Share prices of Asian electric vehicle-related companies broadly gained following the rise of Tesla share price to a new record. **Korean won depreciated (-0.2%)**. The currency weakened as much as 1% in the morning, as the strong US dollar prompted traders to cover short greenback positions.

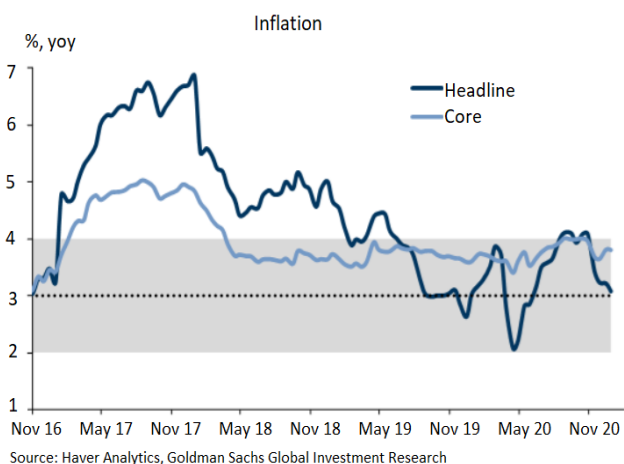
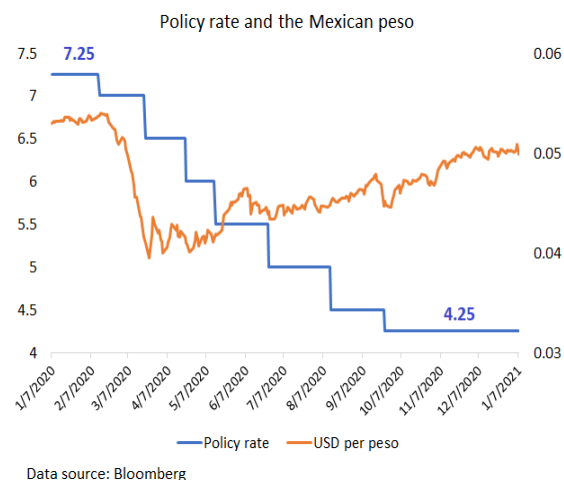
Share Prices of Samsung Electronics and Hyundai Motor

Yesterday closing=100



Mexico

The central bank published the minutes from the December 17 Monetary Policy Committee (MPC) meeting. At the meeting, the MPC kept the policy rate at 4.25%, in a 3-2 split decision, after pausing almost a year-long easing cycle. Several members mentioned an opportunity driven by a stronger peso, moderating annual headline inflation and lower risk-premia to restart the easing cycle. Goldman Sachs maintains the view that the cycle will resume in the first half of 2021 with a terminal rate around 3.50-3.75%. Goldman Sachs's report refers to the output gap, moderating headline inflation, and labor market and credit conditions, among other factors, for the assessment on additional easing. In the meantime, Headline inflation printed at 0.38% mom in December, close to market expectations. Inflation ended the year with 3.15% yoy, near the 3% target.



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: 1/8/21 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3812	1.5	1	3	17	1
Europe		3643	0.6	3	3	-3	3
Japan		28139	2.4	3	6	21	3
China		3570	-0.2	3	5	16	3
Asia Ex Japan		93	1.0	3	5	25	3
Emerging Markets		53	0.9	3	5	18	3
Interest Rates			basis points				
US 10y Yield		1.09	1.0	18	17	-78	18
Germany 10y Yield		-0.52	0.1	5	9	-31	5
Japan 10y Yield		0.04	-0.4	1	2	4	1
UK 10y Yield		0.29	0.6	9	3	-53	9
Credit Spreads			basis points				
US Investment Grade		96	-2.4	1	-5	-10	1
US High Yield		371	-0.8	-8	-29	-25	-8
Europe IG		48	-0.3	0	0	4	0
Europe HY		247	-1.8	6	6	38	6
EMBIG Sovereign Spread		348	-0.5	-3	-13	52	-3
Exchange Rates			%				
USD/Majors		89.90	0.1	0	-1	-8	0
EUR/USD		1.23	-0.2	0	1	10	0
USD/JPY		103.8	0.0	-1	0	5	-1
EM/USD		57.6	0.2	0	0	-6	0
Commodities			%				
Brent Crude Oil (\$/barrel)		55	1.5	7	13	-16	7
Industrials Metals (index)		139	-0.5	5	5	20	5
Agriculture (index)		49	0.5	2	14	20	2
Implied Volatility			%				
VIX Index (%, change in pp)		22.4	0.0	-0.4	1.7	8.9	-0.4
US 10y Swaption Volatility		58.3	-0.6	0.3	-5.4	-8.2	-1.8
Global FX Volatility		7.9	0.0	-0.2	-0.2	2.1	-0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	-2.7	-8	-13	-49	-8
Italy		103	-4.6	-8	-16	-59	-8
Portugal		50	-2.9	-10	-11	-11	-10
Spain		55	-1.8	-7	-9	-9	-7

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: 1/8/2021 8:08 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		6.46	0.2	1.0	1	7	1		3.3	-1.4	-1	-13	13	-1
Indonesia		14020	-0.8	0.2	1	-1	0		6.1	4.7	7	-4	-99	7
India		73	0.1	-0.2	0	-2	0		5.9	0.2	-2	-3	-93	-2
Philippines		48	0.0	-0.1	0	6	0		3.6	-0.2	-2	-2	-64	-2
Thailand		30	0.0	-0.3	0	1	0		1.3	2.6	3	-11	-17	3
Malaysia		4.03	0.2	-0.2	1	2	0		2.6	3.4	2	-7	-72	2
Argentina		85	-0.1	-1.1	-4	-30	-1		52.2	-31.8	-393	-221	-458	-393
Brazil		5.36	0.7	-3.1	-5	-24	-3		6.1	26.9	49	15	-17	49
Chile		713	-0.4	-0.3	4	7	0		2.8	2.6	1	-16	-55	1
Colombia		3491	0.0	-1.8	0	-7	-2		5.1	0.1	-1	-11	-88	-1
Mexico		19.97	0.2	-0.3	-1	-6	0		5.6	4.5	6	-11	-128	6
Peru		3.6	0.1	-0.1	0	-8	0		3.7	3.6	13	-7	-71	13
Uruguay		42	-0.2	-0.4	1	-12	0		7.2	-3.2	-2	-11	-357	-2
Hungary		293	-0.1	1.3	1	2	1		1.6	3.4	3	-10	41	3
Poland		3.68	0.0	1.4	0	4	1		0.6	0.6	-1	-8	-132	-1
Romania		4.0	-0.2	0.1	1	8	0		2.6	-6.0	-13	-29	-135	-13
Russia		74.1	0.8	-0.1	-1	-17	0		5.7	0.0	0	16	-41	0
South Africa		15.3	1.1	-3.8	-2	-7	-4		9.7	8.7	7	-12	18	7
Turkey		7.36	-0.5	1.1	6	-20	1		13.3	4.6	23	5	156	23
US (DXY; 5y UST)		90	0.1	-0.1	-1	-8	0		0.46	0.5	10	7	-120	10

	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		5495	-0.3	5	10	34	5		210	1	1	4	34	2
Indonesia		6258	1.7	5	5	1	5		182	3	-5	-4	24	-5
India		48783	1.4	2	7	20	2		154	0	3	-1	28	3
Philippines		7290	2.4	2	1	-6	2		102	3	-2	-11	32	-3
Malaysia		1633	1.9	0	0	3	0		123	-1	13	6	18	13
Argentina		52501	1.2	2	-4	28	2		1375	0	6	-76	-523	7
Brazil		122386	2.8	3	8	5	3		254	-2	4	-9	39	4
Chile		4549	2.5	9	10	-7	9		135	-1	-9	-14	-5	-9
Colombia		1436	0.0	0	5	-13	0		207	-1	2	-10	40	2
Mexico		46189	1.3	3	7	4	5		360	-1	0	-55	67	0
Peru		21694	1.7	3	4	6	4		125	-1	-7	-29	16	-7
Hungary		43817	-0.2	4	10	-2	4		79	-1	-17	-19	-9	-17
Poland		60030	0.6	4	7	4	5		-10	-1	-8	-14	-29	-9
Romania		10118	1.3	3	7	3	3		199	2	-4	-11	25	-4
Russia		3456	2.5	6	8	12	5		161	-2	-5	-11	20	-5
South Africa		63613	0.9	7	8	11	7		383	-5	3	4	71	3
Turkey		1538	1.0	4	15	36	4		441	4	-4	-42	46	-4
Ukraine		499	0.0	-2	-2	-2	0		477	0	-14	-16	96	-14
EM total		53	1.8	3	5	18	3		421	0	17	-10	97	128

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