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- Chinese equities drop despite optimism on solid Singles' Day shopping performance ([link](#))
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- Central banks in Uruguay and Peru hike 50 bps, as expected ([link](#))
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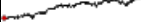

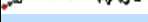






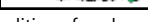
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US Treasuries remain under pressure after Veterans Day holiday break

US Treasury yields rose this morning, resuming their sell-off after a trading holiday on Thursday, as this week's higher-than-expected CPI continued to weigh on the market. The 5-year tenor led the increase, gaining as much as 5 bps in early trading, with the yield curve flattening modestly at the long-end. Measures of option implied volatility in US Treasury markets remained elevated while market contacts expressed concerns that poor market liquidity conditions could be exacerbating moves in Treasury markets. The price action in equity markets remained cautious with small moves in European bourses this morning. The dollar was marginally weaker and oil prices fell, although Brent remains above \$80 a barrel. In emerging markets, there was a flurry of central bank hikes in the Latam region yesterday (Mexico, Peru, and Uruguay) as inflation pressures continue unabated. The ruble (-0.8%) was also under pressure this morning following reports that US officials have warned EU allies that Russia may be planning to invade Ukraine.

Last updated: 11/12/21 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4649	0.1	-1	7	31	24
Eurostoxx 50		4365	0.2	0	8	27	23
Nikkei 225		29610	1.1	0	2	17	8
MSCI EM		52	1.7	2	3	9	0
Yields and Spreads			bps				
US 10y Yield		1.57	1.7	12	-1	68	65
Germany 10y Yield		-0.24	-1.1	4	-16	29	33
EMBIG Sovereign Spread		347	-5	-8	-11	-29	-3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.8	-0.1	0	0	-2	-5
Dollar index, (+) = \$ appreciation		95.2	0.0	1	1	2	6
Brent Crude Oil (\$/barrel)		81.5	-1.7	-1	-2	87	57
VIX Index (% change in pp)		17.3	-0.3	1	-3	-8	-5

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

Mature Markets

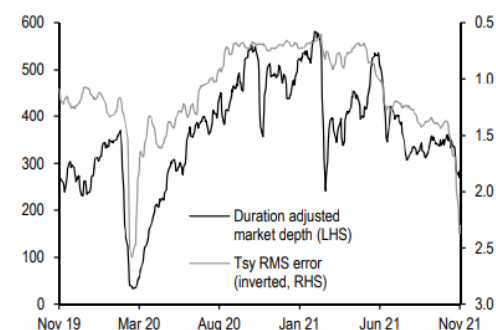
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United States

Poor market liquidity conditions could be exacerbating moves in Treasury markets, according to JP Morgan analysis. Two different liquidity measures are flashing warning signs. A measure for market depth (the existence of abundant orders) and a measure of resiliency (speed of price corrections, measured as deviations from a fitted Treasury yield curve) are both lower across maturities, and not far from levels observed during the Covid crisis period. With year-end ahead, a typical period of de-risking, liquidity conditions are expected to remain poor in the weeks ahead.

Two different measures of market liquidity – market depth, and the RMS error of Treasuries relative to a fitted curve – both indicate an environment of compromised liquidity

Duration weighted market depth* (1-week moving average) across 2-, 5-, and 10-year US Treasuries (LHS; \$mn) and the root mean square error of J.P. Morgan par fitted Treasury curve** (5-day moving average; bp error)



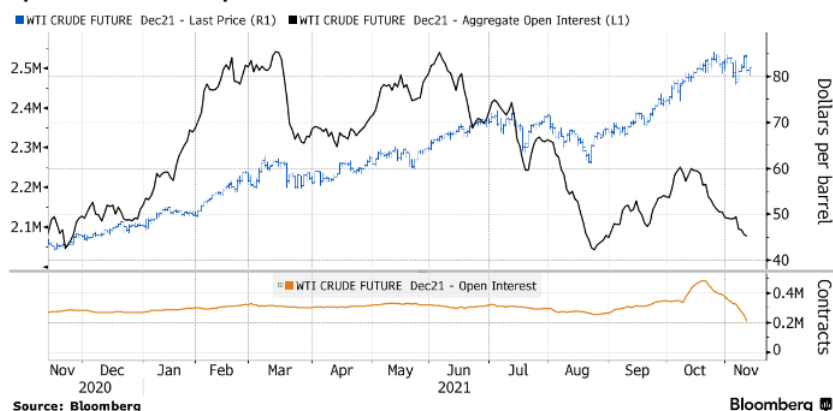
* Market depth is the 5-day moving average of the three bids and offers by queue position, using the top 3 bids and offers in Treasury notes and bonds, averaged between 8:30 and 10:30am daily. Duration-weighted market-depth calculated as weighted sum of market depth in 2s, 5s and 10s, using weights of 0.25, 0.5 and 1 respectively.

** For more details see [The new and improved Treasury par curve model](#), J. Barry et al., 7/16/18

Source: J.P. Morgan, BrokerTec

Oil prices have paused at high levels, amid market jitters about next policy steps. Following the year-long rise in WTI crude oil prices on the back of strong demand, markets are now focusing on supply responses, notably the growing political pressures to the US government to thwart further rises. As the government weighs options, (amongst them the merits of an emergency crude release from the national reserves), trading has been volatile. While futures desks still note strong appetite for commodities as an inflation hedge, positioning in active crude oil (open interest figures) have seen steep declines in recent days, suggesting liquidations of positions as prices rise. The drop is not limited to the front-end contracts but extends to the aggregate open interest (the total number of futures contracts).

Positions Decline Open interest falls as prices rise



Source: Bloomberg

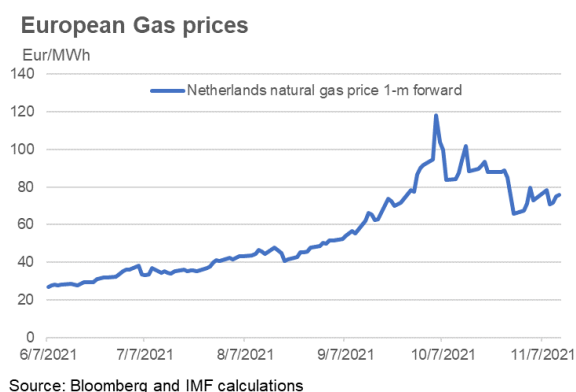
Bloomberg

Euro-area

European equities retraced early losses this morning with STOXX 600 up 0.1%. Energy shares (-1.1%) were trading lower, tracking crude oil prices. **Analysts at Goldman Sachs expects the European stock rally to continue** and sees the STOXX 600 index yielding a 13% return in 2022, driven by low interest rates, robust earnings and relatively cheap valuations. The German 10-year bund yield fell slightly and Southern European spreads increased, with Greece (+4bps) underperforming.

Euro area Industrial production increased by 5.2% y/y in September (consensus 4.1% from 5.1% in August), mainly driven by production of non-durable consumer goods (+8.5% y/y). September production data showed a marginal decline of -0.2% on a monthly basis (consensus -0.5%), in line with a downward trend over the past few months. Analysts at ING note that more sectors are experiencing severe production problems due to input shortages.

European gas futures increased again amid lower flows from Norway, lingering uncertainty about how much Russia will increase supply, and a threat from Belarus to shut a key pipeline. Gas priced reached a record level of almost €180 per megawatt-hour on 5 October but eased significantly after Russia noted that it could increase gas supplies to its European storage sites from this week. **However, prices remain high and increased yesterday (+4.8%) after flows from Norway – Europe's second largest supplier - fell to a two-month low as the result of an unplanned outage.** Prices rose further after comments from Belarus President Lukashenko that he might consider reducing the transit of gas and goods through Belarus to Europe, if the EU imposes further sanctions on his regime over the migrant crisis on the Belarusian-Polish border. **Analysts expect Europe's gas balance to remain tight amid a combination of low inventories, high prices and thin supply.**



United Kingdom

Active job postings reached a record-high 2.68 million in the first week of November according to the Recruitment & Employment Confederation. Vacancies vary by region and sector with the largest increases seen for driving instructors (+32%), while declines were noted in certain construction sector jobs, including painters and decorators (-18%). **The pound reached an 11-month low against the dollar this week, and markets are focused on labor market data next week for a reading on the implications of the ending of the furlough scheme in October.** This morning the pound was trading stronger (+0.2%) against the dollar, with 10-year gilt yields (+1 bps) marginally higher.

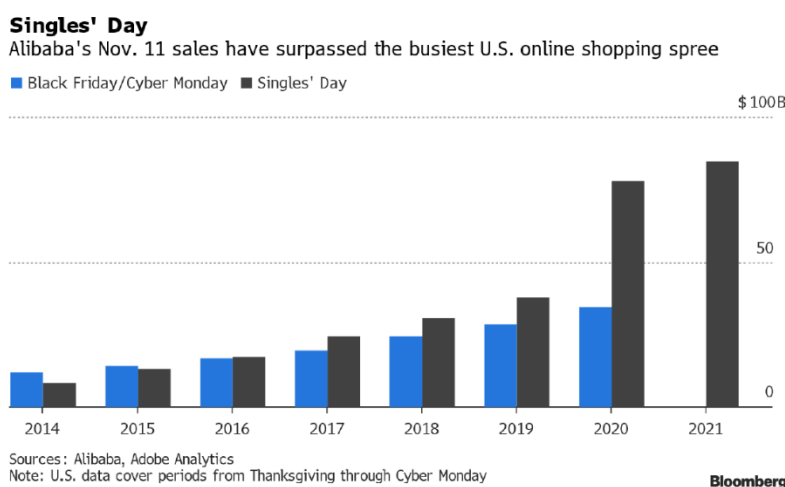
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Asian equities were mixed, gaining 0.5% on net. Korea (+1.5%) and India (+1.0%) equities led the gain, while share prices dropped in Indonesia (-0.6%) and China (-0.2%). **Asian currencies generally appreciated**, led by Philippine peso (+0.6%) and Thai baht (+0.3%). **Philippine peso** outperformed after

the central bank reiterated its commitment to a market-determined exchange rate. **Long-end government bond yields increased**, with 10-year rising in Hong Kong SAR (+6.4 bps). In **Malaysia**, real GDP contracted 3.6% q/q in 2021Q1, larger than expected (consensus: -2.0%). Despite the slump in Q3, the central bank reaffirmed the growth outlook of 3%-4% for 2021, while headline inflation will be in the range of 2%-3%. Equities gained (+0.9%); Malaysian ringgit appreciated (+0.2%). In **EMEA**, Russian equities (-2.2%) and the ruble (-0.8%) fell as contacts fear that geopolitical tensions may escalate given news reports that the US has warned allies about a build-up of Russian forces near the Ukrainian border. In Ukraine, yields on U.S. dollar bonds due 2022 rose 35 bps following the news. A White House official said that the US was consulting with allies over the buildup. Equities rose in South Africa (+1.1%) and Turkey (+0.6%) with the rand little changed and the lira 0.3% weaker. The Hungarian forint and Polish zloty edged 0.2% lower. In **Latam**, the **Brazilian** real appreciated by 1.7% yesterday. The real is the best performing EM currency in November (+4.3%) as the market awaits the approval of a controversial fiscal bill in the Senate that is set to reduce some of the fiscal uncertainty in the near term. The bill cleared the lower house earlier this week. The **Mexican** peso was little changed on the day but reversed almost 1% of gains intraday after Banxico hiked by 25 bps vs. market expectations of 50 bps.

China

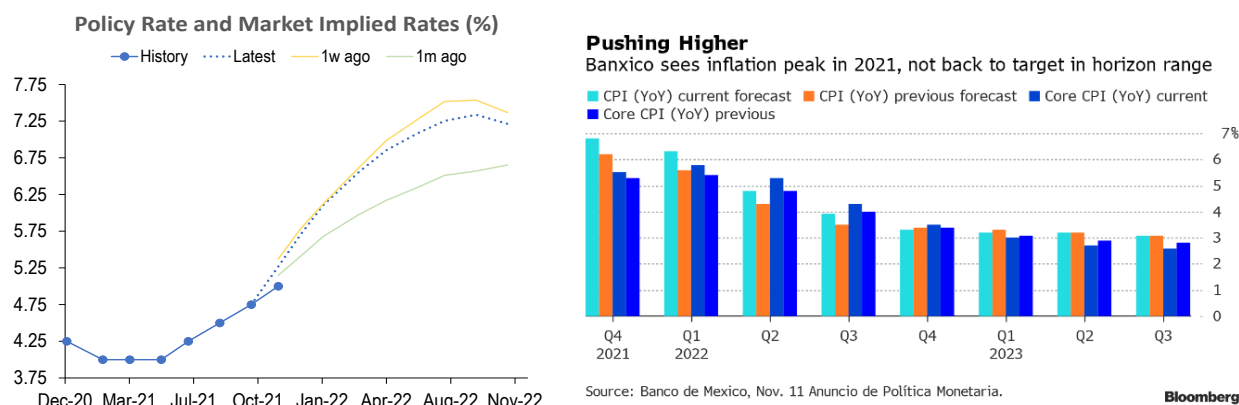
Onshore Chinese equities declined today (CSI 300: -0.2%) even though Chinese stocks listed in the market rallied yesterday on the solid Singles' Day shopping performance, which alleviated some concerns around weakness in consumption in China. The decline was led by real estate firms (-1.2%), mostly driven by falling share prices of "red" and "orange" property developers based on the three red lines policy. **However, Evergrande's share price increased** (+11.9%) as some short-term traders were reportedly buying Evergrande shares, betting that the worst could be behind. Separately, FT reported that an investigation by the banking regulator on the relationship between Evergrande and Shengjing Bank (a bank that used to be under Evergrande's control) is about to be concluded, with potential findings on regulatory violations Shengjing Bank breached lending limits for a single borrower. **Alibaba posted record sales of \$84.5 bn during the Singles' Day shopping festival**, boosting its share price in the US market yesterday (+2.4%); however, its share price dropped in the Hong Kong SAR market today (-0.5%). Alibaba also turned the focus from sales growth to its efforts in sustainability and philanthropy. Following China's drive to achieve "common prosperity", Alibaba pledged to make donations in connection to consumer purchases of certain items. The **RMB was little changed**.



Mexico

Banxico increased its policy rate by 25 bps to 5.0% yesterday, in line with analyst consensus but below market expectations. Prior to the meeting, the curve was pricing-in a 50 bps hike in November and 40 bps in December. The board did not validate these expectations with no member voting for a 50 bps

hike and 4 out of 5 members voting for 25 bps. However, Banxico recognized that the balance of risks for inflation have deteriorated and raised short term inflation forecasts. Analysts highlighted that the latest communication left the door open for a 50 bps hike next month if CPI surprises again on the upside similar to last month.



Latam central banks: Uruguay and Peru

Uruguay's central Bank raised its policy rate by 50 bps to 5.75% on Thursday, in line with expectations. This decision follows a 25 bps increase in October and a 50 bps hike in August, when the tightening cycle begun. In its statement the central bank highlighted is necessary to continue with the gradual exit from an expansionary stance signaling more hikes ahead. Inflation rate accelerated to 7.89% y/y in October, above the current ceiling, while inflation expectations continue to show a decrease, but remain above the 6% ceiling (see chart). JP Morgan expects the policy rate to reach 7.5% in 2022.

Figure 1: Inflation expectations



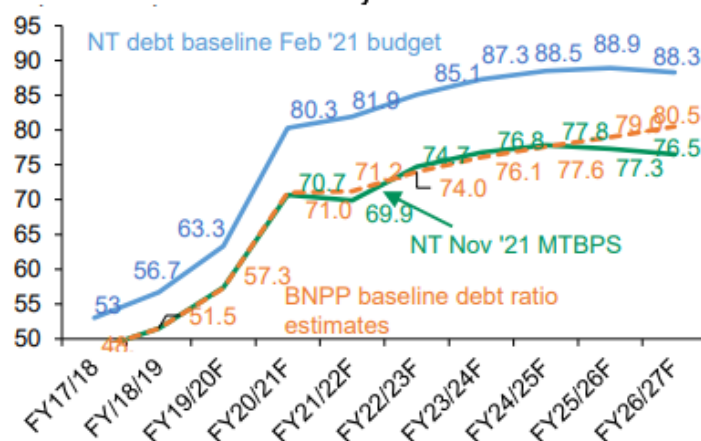
After market close yesterday, the **Peruvian central bank hiked by 50 bps to 2% in line with expectations.** After the pandemic hit, the central bank cut its key interest rate to 0.25%, the lowest in the region, and kept it at that level until early August. Inflation was last within the target range in May, but has more than doubled since then to hit 5.83% in annual terms last month.

South Africa

Analysts welcomed the medium-term budget policy statement and see potential upside to revenue estimates but warn that long-term debt sustainability remains an issue. The rebasing of GDP at current prices (making the economy 11% larger) and smaller deficits imply a substantial downward revision of debt ratios compared to February '21 but analysts at BNP Paribas warn that larger primary surpluses of around 2% GDP will be needed to stabilize the government debt ratio. In separate news, manufacturing

production rose an unexpected 3.8% mom in September (1.2% expected). **South African assets have outperformed peers in November-to-date, with 10-yr bond yields 37 bps lower so far (at 9.83%) and the rand little changed against the US dollar.**

South Africa: National Treasury Baseline for Government Debt Ratios (%GDP)

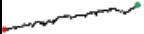

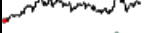
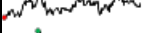

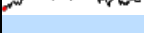
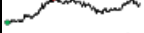


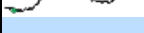
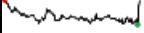
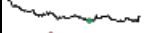





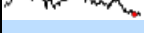
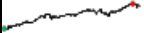











Source: National Treasury, BNP Paribas

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Global Financial Indicators

Last updated: 11/12/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4649	0.1	-1	7	31	24
Europe		4365	0.2	0	8	27	23
Japan		29610	1.1	0	2	17	8
China		3539	0.2	1	-1	7	2
Asia Ex Japan		87	1.6	1	3	5	-2
Emerging Markets		52	1.7	2	3	9	0
Interest Rates			basis points				
US 10y Yield		1.57	1.7	12	-1	68	65
Germany 10y Yield		-0.24	-1.1	4	-16	29	33
Japan 10y Yield		0.08	0.7	2	-2	5	6
UK 10y Yield		0.90	-1.7	6	-25	56	71
Credit Spreads			basis points				
US Investment Grade		115	8.4	24	22	2	20
US High Yield		344	7.2	24	17	-98	-35
Europe IG		49	0.7	1	-4	-3	2
Europe HY		252	4.3	8	-19	-48	9
Exchange Rates			%				
USD/Majors		95.15	0.0	1	1	2	6
EUR/USD		1.14	0.0	-1	-1	-3	-6
USD/JPY		114.0	-0.1	1	0	8	10
EM/USD		54.8	-0.1	0	0	-2	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		82	-1.7	-1	-2	87	57
Industrials Metals (index)		165	0.1	2	-3	33	25
Agriculture (index)		60	-0.3	2	4	39	24
Implied Volatility			%				
VIX Index (% change in pp)		17.3	-0.3	0.9	-2.5	-8.0	-5.4
US 10y Swaption Volatility		79.1	-1.2	8.3	3.4	22.4	19.0
Global FX Volatility		7.1	0.0	0.3	0.1	-0.8	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		147	3.5	10	45	13	28
Italy		123	3.4	7	22	1	11
Portugal		63	0.4	4	12	-2	3
Spain		71	0.9	3	9	4	9

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 11/12/2021 8:10 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	7 Days	30 Days	12 M	YTD
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.38	0.2	0.3	1	4	2		3.1	-1	-2	-31	-23
Indonesia		14219	0.4	0.8	0	0	-1		6.2	-3	-14	-26	10
India		74	0.1	0.0	1	0	-2		6.4	-3	1	41	50
Philippines		50	0.6	1.0	2	-3	-4		4.6	0	26	94	91
Thailand		33	0.2	1.4	2	-8	-9		2.0	-4	1	51	67
Malaysia		4.17	0.1	-0.1	0	-1	-3		3.7	-6	-7	115	110
Argentina		100	0.0	-0.2	-1	-21	-16		50.3	-142	137	-98	-586
Brazil		5.42	-0.3	2.3	2	1	-4		11.8	-39	165	545	627
Chile		797	-0.3	1.8	3	-5	-11		5.6	-41	-82	284	283
Colombia		3891	-0.3	-0.3	-4	-6	-12		7.8	-3	41	253	269
Mexico		20.65	-0.1	-1.5	1	0	-4		7.4	-14	-11	139	176
Peru		4.0	0.2	-0.1	1	-10	-10		6.0	5	-22	201	241
Uruguay		44	0.3	-0.1	0	-2	-3		8.6	16	68	109	132
Hungary		320	-0.3	-3.0	-2	-6	-7		3.6	17	45	195	205
Poland		4.06	-0.2	-2.0	-2	-6	-8		2.9	13	80	223	224
Romania		4.3	-0.1	-1.0	-1	-5	-8		4.8	13	53	181	202
Russia		72.2	-0.8	-1.3	0	7	3		8.0	-24	59	239	224
South Africa		15.3	0.2	-1.5	-2	2	-4		9.9	-23	-33	13	23
Turkey		9.95	-0.4	-2.6	-9	-23	-25		18.4	16	21	551	527
US (DXY; 5y UST)		95	0.0	0.9	1	2	6		1.23	18	16	84	87

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		4888	-0.2	1	-1	1	-6		197	2	-14	-31	-32
Indonesia		6651	-0.6	1	0	22	11		165	-10	-19	-35	-35
India		60687	1.3	1	-1	39	27		135	2	-15	-37	-16
Philippines		7383	0.7	1	2	6	3		99	-7	-27	-13	-13
Malaysia		1531	0.8	0	-4	-4	-6		111	-9	-22	-42	-24
Argentina		95944	0.9	5	23	94	87		1732	10	148	390	376
Brazil		107595	1.5	3	-4	5	-10		319	-15	18	44	60
Chile		4524	0.1	3	10	16	8		131	-26	-25	-28	-25
Colombia		1366	0.0	-2	-1	13	-5		301	-5	14	87	86
Mexico		51707	0.0	0	0	28	17		332	-19	-17	-81	-25
Peru		20666	1.3	2	5	16	-1		151	-21	-16	-4	22
Hungary		52544	-1.0	-5	-4	39	25		109	-7	-5	-19	-40
Poland		72906	0.2	-2	-2	42	28		46	-6	22	20	18
Romania		12826	0.3	0	1	43	31		174	-20	-27	-35	-29
Russia		4107	-2.0	-2	-4	36	25		147	-9	-15	-42	-32
South Africa		69804	1.0	3	6	22	17		336	-19	-24	-87	-48
Turkey		1639	0.9	3	16	29	11		468	-14	-28	-88	21
Ukraine		523	0.0	0	-1	5	5		506	-24	-10	-85	13
EM total		52	-0.1	2	3	9	0		368	-11	-7	10	29

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

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