GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 15, 2021

- **U.S. consumer sentiment unexpectedly falls to lowest level in decade** (link)
- **Most fund managers expect the Fed's first rate hike in Q3 2022** (link)
- **Inflation in Sweden reaches multi-year high** (link)
- **Hunt for liquidity by Chinese developers accelerates** (link)
- **Several emerging markets to issue Eurobonds in coming weeks** (link)
- **Outlook for bank net interest income upgraded in Central and Eastern Europe** (link)

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U.S. and European equities near record highs as Federal Reserve starts taper

Stocks in the U.S. and euro area trade near all-time high as investors continue to digest last week's upside surprise to U.S. inflation. The Federal Reserve will start the taper of its asset purchases this week and most fund managers expect the Federal Reserve to hike in 2022 Q3. In contrast, ECB President Lagarde reiterated this morning that an ECB rate hike is very unlikely in 2022. Analysts also warn that the latest surge in covid-19 infections could lead to a decline in consumer confidence and growth in several European countries**.** Turning to emerging markets, several countries are preparing to issue Eurobonds. In China, property developers have accelerated fund raising efforts. Argentina's U.S. dollar bonds edged higher as analysts expect that the current government coalition could lose its senate majority.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
11/15/21 1:13 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4683	0.7	0	5	31	25
Eurostoxx 50		4379	0.2	1	5	28	23
Nikkei 225		29777	0.6	1	2	15	8
MSCI EM		52	0.3	2	0	8	1
Yields and Spreads					bps		
US 10y Yield		1.56	-0.5	7	-1	66	64
Germany 10y Yield		-0.26	0.1	-2	-9	29	31
EMBIG Sovereign Spread		350	3	-9	-14	-29	0
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		54.7	0.1	-1	-1	-2	-5
Dollar index, (+) = $ appreciation		95.1	-0.1	1	1	3	6
Brent Crude Oil ($/barrel)		80.9	-1.5	-3	-5	89	56
VIX Index (%, change in pp)		16.7	0.4	0	0	-6	-6

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

Economic data and central banks remain in focus with CPI data due in the euro area, UK, Canada, and Japan. Q3 GDP (euro area and Japan) and the US retail sales will be released as well. Central banks in Hungary (30 bps hike expected), Philippines (hold), Indonesia (hold), South Africa (25 bps hike expected), and Turkey (100 bps cut expected) are meeting this week. There will be speakers from Fed, ECB, and BoE throughout the week.

Mature Markets

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United States

The S&P 500 (+0.72%) closed higher on Friday, hovering around the all-time-high level, despite a weak consumer sentiment report. The gains were driven by communication services and technology sectors. The US treasury yields went up as 10-yr yields rose 1bps to 1.56%, with the 10-yr breakevens topping new multi-year highs of 2.76% during the session.

US consumer sentiment unexpectedly fell to its lowest level in a decade amid higher inflation. The University of Michigan consumer sentiment index came in well below estimates and the previous level (actual:66.8, consensus:72.5, previous:71.7). Current conditions decreased to 73.2 from 77.7, and expectations fell to 62.8 from 67.9. According to the press release, **one-in-four respondents answered that inflation had reduced their living standards, with half of the families anticipating a reduction of real income next year.** Rising prices for homes, vehicles, and durables were reported more frequently than any other time in more than half a century. Short-term inflation expectations (next year) rose to 4.9% y/y (consensus:4.9%, previous:4.8%), the highest since 2008, while longer-term inflation expectations (next five-to-ten-years) were unchanged at 2.9% y/y from the previous month.

A record 4.4 million Americans quit their jobs in September, while the number of job openings was little changed at 10.4 million, according to the Job Opening and Labor Turnover Survey (JOLTS). The quits rate (the number of quits in the month divided by total employment) rose to a series-high 3%. Quits increased in several industries, with the large increase in the sectors adversely affected by the pandemic, such as art, entertainment, and recreation.

Most fund managers expect the Fed's first rate hike in Q3 2022, according to a fund manager survey conducted by Bank of America. Regarding the inflation and supply chains disruption, two-third of the managers do not expect the supply chains to ease until the second half of 2022, **and more than half expect the global inflation to peak in Q2 2022.** Fund managers show optimistic views on the medium-term global economy, with nearly half answering reflation (with low inflation and strong growth) as the most likely scenario after the inflation base effects fade.

Japan

Japan posted a deeper-than-expected GDP contraction in Q3. Preliminary quarterly GDP shrank -3.0% q/q saar, (consensus -0.7%), owing to a resurgence of COVID cases and supply constraints during the period. Markets now look for details of PM Kishida's fiscal stimulus plan to be revealed by the end of this week. Separately, **Bank of Japan (BoJ) Governor Kuroda signals pandemic funding support measures may be scaled back soon.** During a meeting with a business community, the Governor stated that pandemic-related financing stress is limited. Kuroda's comments were seen a hint that the some of the BOJ's support measures (e.g., 1-year 0% interest loans for SMEs) will be allowed to expire in March 2022. **Japan and the US agree to talks on steel and aluminum tariff.** The countries aim to resolve disputes on 25% steel and 10% aluminum tariffs imposed by the US on Japan in 2018. **Japanese equities gained +0.4%, 10-year yields fell -0.9 bps, the yen was unchanged.**

Europe

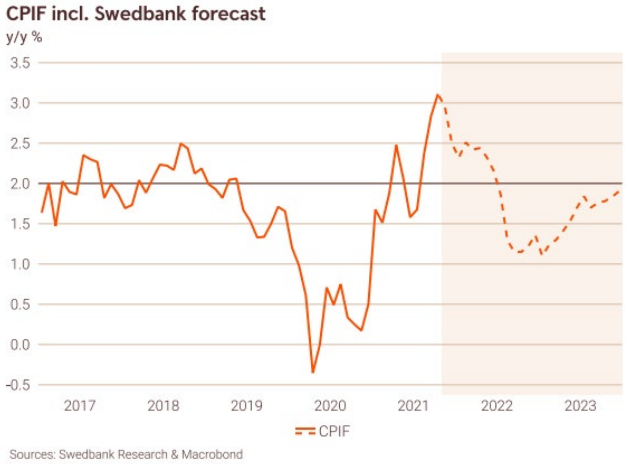
European equities traded in a tight range with mixed performances across the sectors. The travel and leisure (+1.1%) and retail (+0.7%) outperformed, while basic resources (-1.26%) fell. The euro was little changed against the dollar.

German 10-yr yields fell (-2bps) to -0.27%, in line with the US, while Southern European bond spreads tightened. Over the weekend ECB chief economist Philip Lane noted that while significant price increases were real, recent price inflation is part of the pandemic and people should not panic. This morning Christine Lagarde reiterated the view that inflation will moderate in the next 12 months, despite taking longer than originally expected. Intentions for the calibration of bond purchases will be announced in December.

European natural gas futures were trading higher (+7.5% at €80.3 per megawatt hour) this morning with gas supplies from Russia remaining relatively low. Traders await auctions for transit capacity through Poland and Ukraine to shed light on future volumes.

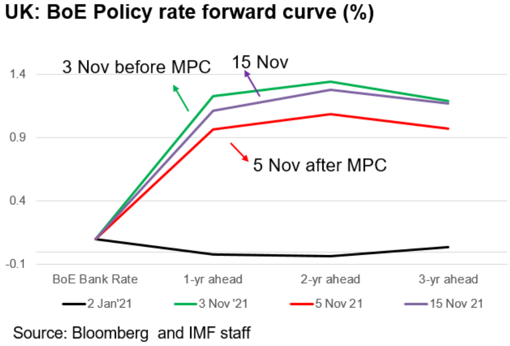
Sweden

Bond yields increased (+3bps) after the targeted inflation measure in Sweden reached multi-year highs of +3.1% y/y in October, slightly higher than the expected +3.0% y/y. While price increases were broad-based, energy prices and rising transportation cost were significant drivers. The Riksbank's target is 2-percent inflation per year measured in terms of the CPIF (Consumer Price Index with a Fixed interest rate). **The Riksbank is meeting next week, with analysts expecting the policy rate to remain at 0%.**



United Kingdom

Ahead of labor market data this week**, traders are again expecting that the Bank of England will raise its policy rate by 115 bps in the next 18 months**, before bringing the rate back to less than 1%. According to a Bloomberg survey, **UK economists have also become more hawkish over the past few weeks and expect a 25 bps increase in the policy rate in December.** The labor market is expected to be a deciding factor for policy makers, with focus on unemployment figures after the furlough scheme came to an end. **Higher wage rates were announced by the Living Wage Foundation today**. For the 300 000 workers working for employers who have voluntarily signed up to the Real Living Wage, hourly wages would increase by 20p and 40p respectively in London and outside the capital.



Emerging Markets

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Equities traded higher in most countries. Asian equities were up +0.5% on net, with gains led by South Korea (+1%). Philippine (-0.5%) and Malaysia (-0.6%) underperformed. **Asian currencies were mixed.** Thai baht (+0.3%) and Indian rupee (+0.2%) appreciated while Philippine peso weakened (-0.5%). **10-year yields broadly declined**, with the largest drops seen in South Korea (-5.3 bps). **Thailand's** GDP declined less than expected in Q3 (-1.1% q/q, consensus -4%). **Hong Kong SAR** considers euro and dollar-denominated green bond issuance early next year. India reveals work on crypto asset regulatory and taxation bill to be introduced by late 2021, citing accountability, money laundering, and terrorist financing among key concerns **Despite lower oil prices, Russian equities (0.5%) and the ruble (+0.6%) gained as a Kremlin spokesman emphasized that brining inflation back to target is a priority for President Putin.** President Putin also warned Belarus that cutting gas flows to Europe via Belarus would be a contract violation. **Turkish bank equities (+9.2%) jumped on news that Spanish bank BBVA will offer $2.6 bn to obtain full control of Turkish lender Garanti Bankasi.** The South African rand (+0.9%) gained as analyst consensus is that the central bank hike 25 bps on Thursday, in line with money markets. **Latin American equities slumped while currencies printed mixed.** Equities declined in Argentina (-1.0%), Chile (-0.7%) and Mexico (-0.5%). Brazil's main equity index fell by 1.2%, led by disappointing profit in the retail sector. Meanwhile, currencies depreciated in Brazil (-1.1%) and Chile (-0.8%) and appreciated in Mexico (0.6%).

EM Flows and Issuance

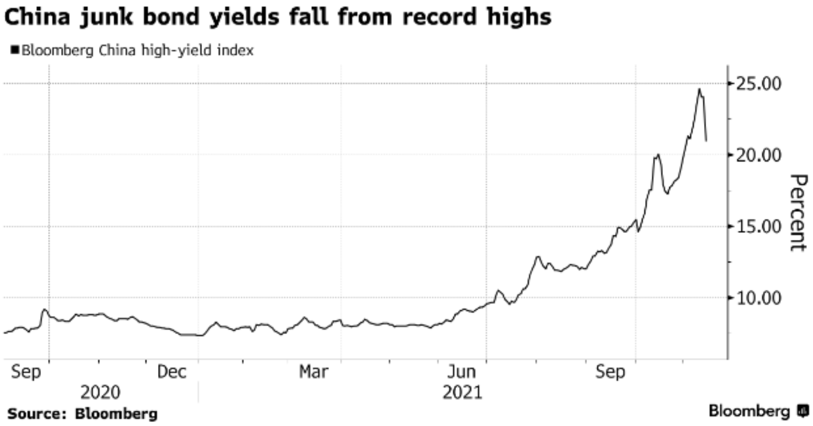
Both EM bond and EM equity funds saw inflows last week with several countries expected to issue Eurobonds soon. Kenya (potentially a debut green bond), Pakistan (potential sukuk), Albania, Israel, Angola, Gabon, Ivory Coast, Morocco, Panama, Romania, and Uruguay are all expected to issue in coming weeks. Morgan Stanley estimates that there could be a total $34 bn of supply from now into year end. **Weekly EM bond inflows printed at $1.2bn, split between hard currency bond funds ($655mn) and local currency bond funds ($592mn), pushed by China-related inflows ($955mn). On the other hand, EM equity funds inflows fell to $0.5bn, from $2.1bn last week.** Within the regional equity funds, inflows were seen across Asia ex-Japan ($238mn), Latin America ($63mn), while EMEA saw modest outflows (-$12mn).

Brazil

Investors are tempted into the Brazilian real following aggressive policy rate hikes. A cumulative 575bps of central bank rate hikes since March seems to start having an impact as the real appreciated more than 4% since the beginning of the month. This makes the Brazilian real the top-performing currency among EM so far in November. However, this optimism is dampened by volatility as the one-month implied volatility exceeds 16% since July.

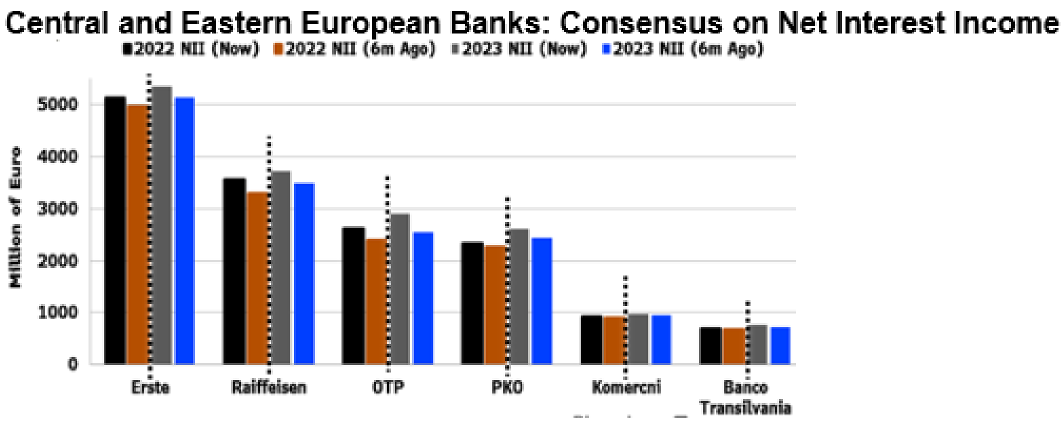
China

Property developer contagion eases, but liquidity hunt persists. Fund-raising efforts by Chinese property developers accelerate over the weekend as they push to restore investor confidence and to improve compliance with China's "three red lines" policy, Bloomberg reports. Sunac China Holdings Ltd. issued shares at a more than 10% discount and borrowed $450 million from its billionaire founder. Kaisa Group Holdings Ltd. scrapped its interim dividend. China Aoyuan Group Ltd. sold investments in Hong Kong apartments and parking spaces at a loss. Chinese junk dollar bonds rebounded further marginally after their biggest gain in 20 months last week following signals that authorities were likely to loosen controls for real estate companies to issue local-currency notes. **While there are nascent signs of a thaw in the onshore credit market for some real estate companies, the dollar bond market remains shut for most lower-rated borrowers with many high-yield developers' dollar bonds trading at distressed levels**, according to Bloomberg. Separately, **on data releases**. Growth readings for retail sales (+4.9% y/y, consensus +3.7%) and industrial production (+3.5% y/y, consensus +3%) beat expectations. Fixed asset investment slowed further to 6.1% y/y in January-October (previous 7.3% y/y) on property downturn. **Chinese stocks, 10-year yields, and the renminbi were little changed.**



Banks in Central and Eastern Europe

Analysts have upgraded estimates on net interestincome following an increase in policy rates in several countries. Bloomberg calculates that net-interest-income estimates for the 6 largest lenders in the region have been revised up by 6% in the past six months (or $2 bn). OTP and Raiffeisen have seen the highest upgrades at 12% and 8%.



Source: Bloomberg

Ukraine

Yields on U.S. dollar bonds due 2022 (+19 bps to 3.98%) opened the week higher following media reports that two Ukrainian soldiers were killed by an explosive device in Eastern Ukraine and that the US and France are discussing “concerning Russian military activity” in Ukraine. The currency (-0.3%) edged lower against the U.S. dollar

This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

Global Financial Indicators

Last updated: 11/15/21 1:14 PM	Level: Last 12m	Level: Latest	Change: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4687	0.7	0	5	31	25
Europe		4379	0.2	1	5	28	23
Japan		29777	0.6	1	2	15	8
China		3533	-0.2	1	-1	6	2
Asia Ex Japan		88	0.6	2	1	4	-2
Emerging Markets		52	0.3	2	0	8	1
Interest Rates					basis points		
US 10y Yield		1.56	-0.5	7	-1	66	64
Germany 10y Yield		-0.26	0.1	-2	-9	29	31
Japan 10y Yield		0.07	-1.0	1	-2	4	5
UK 10y Yield		0.90	-1.2	5	-20	56	71
Credit Spreads					basis points		
US Investment Grade		108	-0.2	0	18	-7	13
US High Yield		337	0.7	0	14	-123	-42
Europe IG		49	-0.1	1	-2	-1	1
Europe HY		247	-1.0	7	-9	-37	5
Exchange Rates					%		
USD/Majors		95.08	-0.1	1	1	3	6
EUR/USD		1.14	0.0	-1	-1	-3	-6
USD/JPY		113.9	0.0	1	0	9	10
EM/USD		54.7	0.1	-1	-1	-2	-5
Commodities					%		
Brent Crude Oil ($/barrel)		81	-1.5	-3	-5	89	56
Industrials Metals (index)		165	-0.9	1	-10	32	25
Agriculture (index)		60	-0.2	5	6	40	26
Implied Volatility					%		
VIX Index (%, change in pp)		16.7	0.4	-0.5	0.4	-6.4	-6.0
US 10y Swaption Volatility		83.3	1.4	9.3	11.3	29.0	20.0
Global FX Volatility		7.2	0.1	0.3	0.3	-0.6	-0.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		146	-2.4	11	37	15	26
Italy		121	-0.5	7	17	0	10
Portugal		63	-0.6	4	11	-1	3
Spain		71	-1.0	3	8	5	9

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)					
15/11/2021	Level		Change (in %)					Level		Change (in basis points)			
1:15 PM	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	0.0	0.2	1	3	2		3.1	2	-3	-32	-22
Indonesia		14202	0.1	0.4	-1	-1	-1		6.2	-2	-13	-27	10
India		74	-0.1	-0.6	1	0	-2		6.4	-3	0	42	50
Philippines		50	-0.7	0.0	1	-4	-4		4.6	5	27	99	96
Thailand		33	0.2	0.7	2	-8	-8		2.0	-2	2	52	67
Malaysia		4.16	0.1	-0.2	0	-1	-3		3.6	-2	-6	112	108
Argentina		100	-0.1	-0.2	-1	-20	-16		50.2	-148	172	-117	-594
Brazil		5.46	-1.0	1.6	2	0	-5		11.8	-34	165	537	626
Chile		803	-0.3	0.0	3	-5	-12		5.6	-42	-90	287	285
Colombia		3885	-0.1	-0.1	-4	-6	-12		7.9	11	56	269	283
Mexico		20.54	-0.1	-1.0	-1	-1	-3		7.4	5	-2	143	182
Peru		4.0	0.0	-0.2	1	-9	-10		5.9	8	1	188	234
Uruguay		44	-0.6	-0.9	-1	-3	-4		8.6	6	60	108	132
Hungary		320	0.2	-2.5	-3	-5	-7		3.6	15	42	199	208
Poland		4.05	0.0	-2.2	-3	-7	-8		3.0	24	80	235	233
Romania		4.3	0.0	-1.2	-1	-5	-8		4.8	17	41	186	206
Russia		72.4	0.7	-1.6	-2	5	2		8.0	-15	66	250	233
South Africa		15.2	1.1	-1.6	-4	1	-3		9.9	-9	-24	16	28
Turkey		10.02	-0.2	-3.3	-8	-23	-26		18.3	23	-1	585	524
US (DXY; 5y UST)		95	-0.1	1.1	1	3	6		1.21	9	8	80	85

	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		4882	-0.1	1	-1	0	-6		198	-3	-14	-31	-31
Indonesia		6616	-0.5	0	0	20	11		167	-16	-27	-40	-33
India		60719	0.1	0	-1	39	27		136	-3	-15	-34	-15
Philippines		7342	-0.5	-1	2	6	3		103	-14	-32	-17	-9
Malaysia		1522	-0.6	-1	-5	-5	-6		113	-14	-23	-41	-22
Argentina		94963	-1.0	2	16	90	85		1723	12	123	390	367
Brazil		106335	-1.2	1	-7	2	-11		317	-13	10	35	58
Chile		4472	-0.3	2	12	12	7		132	-30	-29	-31	-24
Colombia		1356	-0.7	-2	-5	12	-6		303	-10	13	86	88
Mexico		51433	-0.5	-1	-3	26	17		333	-24	-19	-88	-24
Peru		20795	0.6	2	1	15	0		153	-25	-17	0	24
Hungary		52482	0.3	-3	-4	41	25		111	-14	-9	-25	-38
Poland		72890	0.4	-3	-2	44	28		45	-9	15	21	17
Romania		12919	0.7	0	2	45	32		179	-21	-27	-31	-24
Russia		4149	0.7	-2	-3	37	26		152	-12	-12	-44	-27
South Africa		69938	0.0	3	4	22	18		341	-10	-25	-83	-43
Turkey		1703	3.9	6	21	32	15		471	-2	-31	-43	24
Ukraine		523	0.0	0	-1	5	5		536	17	15	-53	43
EM total		52	0.2	2	0	8	1		371	-9	-9	14	33

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

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