




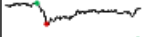


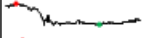



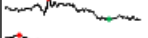
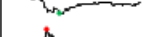
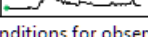
- Priced-in inflation has returned to pre-vaccine announcement levels ([link](#))
- Transition to SOFR for corporate FRNs has been slow ([link](#))
- Bank analysts expect further consolidation among Spanish banks ([link](#))
- China leaves loan prime rates unchanged, as expected ([link](#))
- South Africa policy rate unchanged in a tight vote ([link](#))
- Thailand brings forward capital outflow measures to temper baht strength ([link](#))

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Risk appetite ends week on uneven note

Despite a public disagreement between the Fed and US Treasury over the end of stimulus measures, global equity markets are mostly higher this morning. US equity futures declined close to 1% yesterday evening after Treasury Secretary Mnuchin demanded a return of stimulus funds and Fed Chair Powell's response arguing that the full suite of measures should remain for now. With hope that this is just a temporary disagreement and a new administration just two months away, markets largely subsequently shrugged off the news, and equity futures returned to little changed in overnight trading. US credit markets are showing slight concerns with the CDX investment grade index wider by 1 bp and the CDX high yield spread 5 bp higher so far today. Meanwhile, European shares are higher this morning despite a failure to reach an agreement on a recovery fund so far.

Key Global Financial Indicators

Last updated: 11/20/20 8:17 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3582	0.4	1	4	15	11
Eurostoxx 50		3469	0.5	1	7	-6	-7
Nikkei 225		25527	-0.4	1	8	10	8
MSCI EM		49	0.2	2	6	14	9
Yields and Spreads			bps				
US 10y Yield		0.83	0.3	-6	5	-91	-109
Germany 10y Yield		-0.59	-1.6	-4	2	-24	-40
EMBIG Sovereign Spread		421	0	17	-10	97	128
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.5	-0.1	1	3	-6	-8
Dollar index, (+) = \$ appreciation		92.3	0.0	0	-1	-6	-4
Brent Crude Oil (\$/barrel)		44.5	0.6	4	3	-29	-33
VIX Index (% change in pp)		22.6	-0.5	0	-7	10	9

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

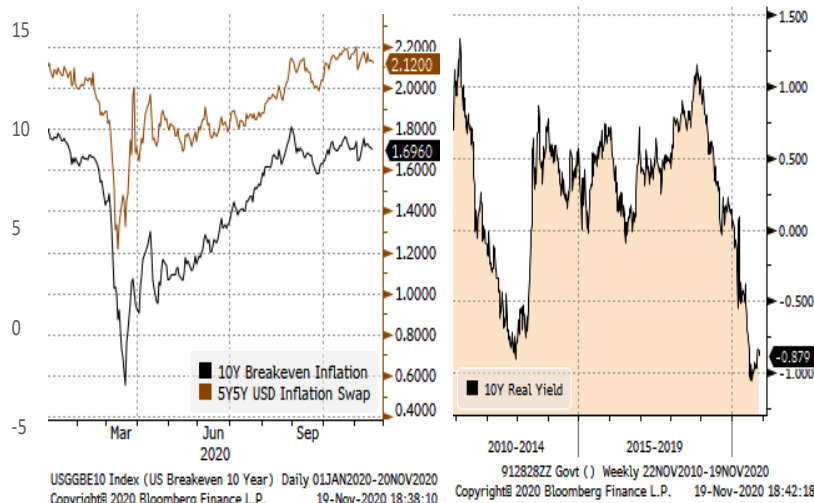
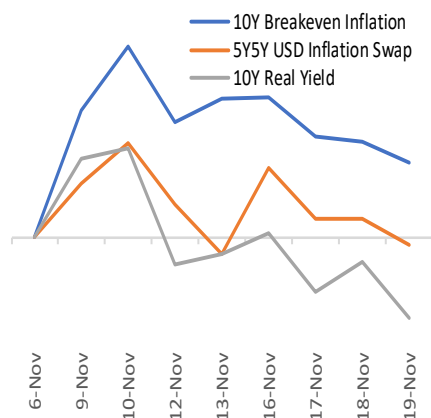
United States

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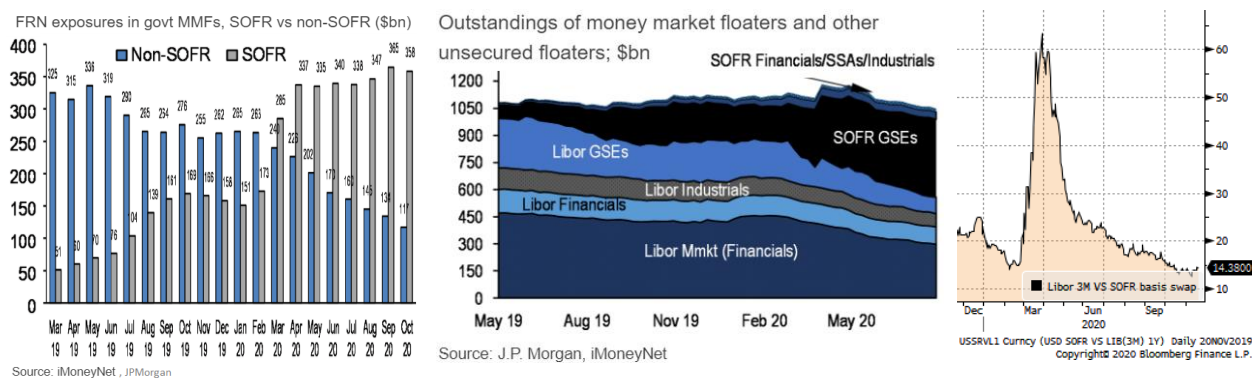
Markets remained mostly sidelined, fluctuating in the push-pull of the short-term (new COVID-cases and lockdowns) versus long-term (vaccine-driven recovery) competing consequences for asset valuations. The S&P500 rose 0.4%, with growth stocks slightly outperforming value stocks. Tech giants' valuations increased, with the NASDAQ gaining more than 0.9%. US Treasury 10Y yield fell 2 bps, fully attributed to the change in the real yield. The US Dollar index closed -0.1%, though showing significant intraday volatility. WTI Oil futures rose 0.6%. While the whole week was full of announcements of new and forthcoming curfews and lockdowns across various states in the US (e.g., bans on indoor dining in Michigan, Kentucky and Washington), equity prices reacted only moderately, which raises the question to what extent these restrictions have already been priced in by investors. The CBOE volatility index (VIX) remains at slightly elevated levels (23 points), reflecting the persistent uncertainty despite the record-high equity prices.

Implied inflation - breakeven and inflation swaps - lost most of the increase gained on vaccine optimism. After the surge on 9th and 10th of November, implied inflation gradually declined (left chart below) as the ongoing pandemic added disinflationary pressure and overshadowed the improved medium-term outlook. Going forward, the potential for growth for both measures of implied inflation is limited as they have already reached the pre-COVID levels and stand close to the 2% inflation target (middle chart). While the Fed is willing to tolerate overshooting over the target, analysts believe it's still premature to price it in. In contrast, the real yield still has significant room for recovery as it is currently close to its 10-year low (right chart).

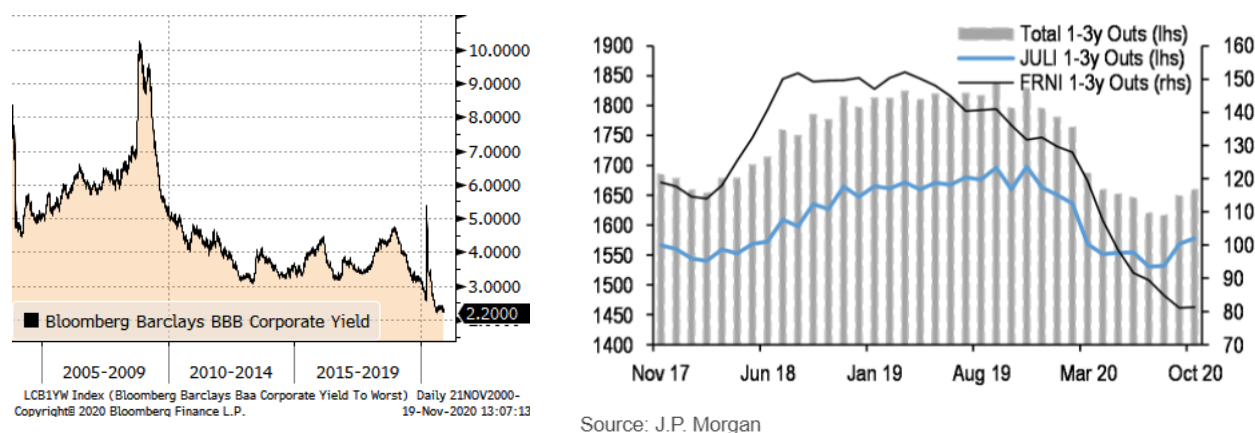
Cumulative change in inflation indicators since 6th of November (in basis points)



Transition from SOFR to Libor is smooth in government bonds, while most corporate FRNs are still linked to Libor. The holdings of floating-rate notes (FRNs) in government money market funds (MMFs) show a persistent shift from Libor-based to SOFR-based FRNs (left chart below). In contrast, corporate FRNs in prime MMFs are still predominantly Libor-based. In the overall FRN market, only government-sponsored enterprises (GSEs) were quick in switching to SOFR (middle chart). Analysts cite limited applicability of virtually riskless SOFR as a benchmark for corporate credit FRNs: as banks tend to pass their funding costs to the issuers, the benchmark rate for credit FRNs should include a banking system-risk add-on. This add-on is important during stress episodes when Libor-based coupons are increasing their spread to SOFR-based coupons (right chart): the increased coupon partially compensates investors for the elevated credit risk of the issuer. Equivalently, it means that SOFR-based credit FRNs' prices take a larger hit during a shock compared to the prices of Libor-based credit FRNs.



Historically low yields shift US High Grade corporate issuance to longer maturities. On the back of record-low yields (left chart below) and a flattened yield curve, many issuers are incentivized to extend duration: the gray bars on the right chart show the reduction in the outstanding amount of 1-3Y HG bonds. Analysts project this trend to continue in the next year, with the largest negative contribution from financials issuers. Also, the 1-3Y issuance of floating-rate notes (FRN) is expected to decrease as issuers are not yet comfortable with SOFR as a benchmark while Libor is gradually phased out. In contrast, the issuance of overall HG bonds (short-, medium-, and long-term bonds) is reaching record highs in 2020 and is expected to exceed the previous year's figures by at least 60%.



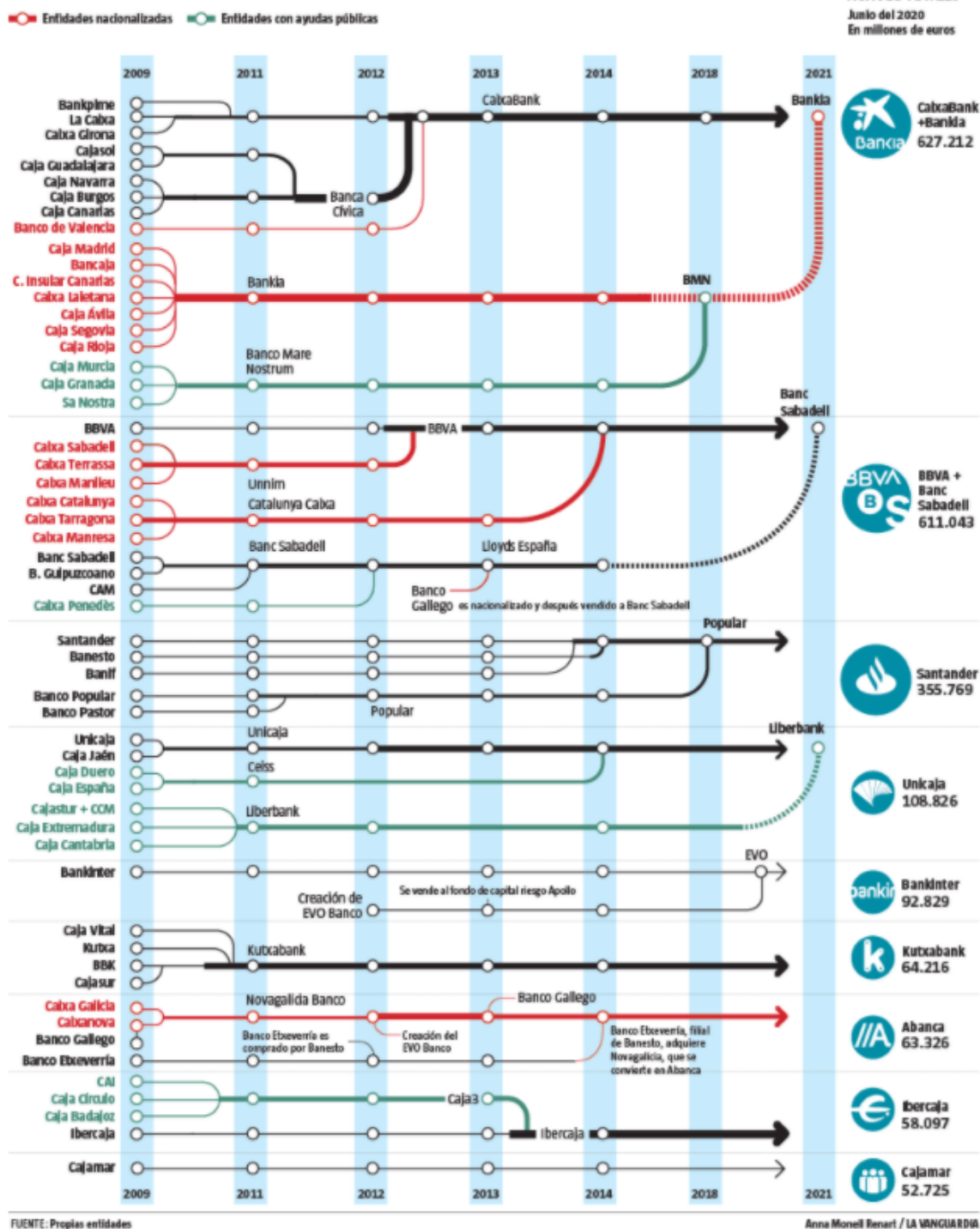
Europe

Equities moved higher: DAX (+0.6%), CAC 40 (+0.9%), EuroStoxx 600 (+0.7%), Italy's Titans 30 (+0.1%), and Spanish Ibex (+0.8%). Bank stocks (+1.0%) outperformed.

Sovereign yields were unchanged. German 10-year yields at -0.57% (-1 bps); French OATs are at -0.34% (-1 bps); Italian at 0.63% (-1 bps); and Spanish at 0.06% (unch.).

Bank analysts expect further consolidation among Spanish banks. M&A activity within the Spanish financial sector has been high since 2009, when several nationalized cajas (in red below) or with public support (in blue) were steered towards mergers with larger and healthier institutions. Analysts expect a new wave of restructuring in which FinTech and online banking platforms could play an important role.

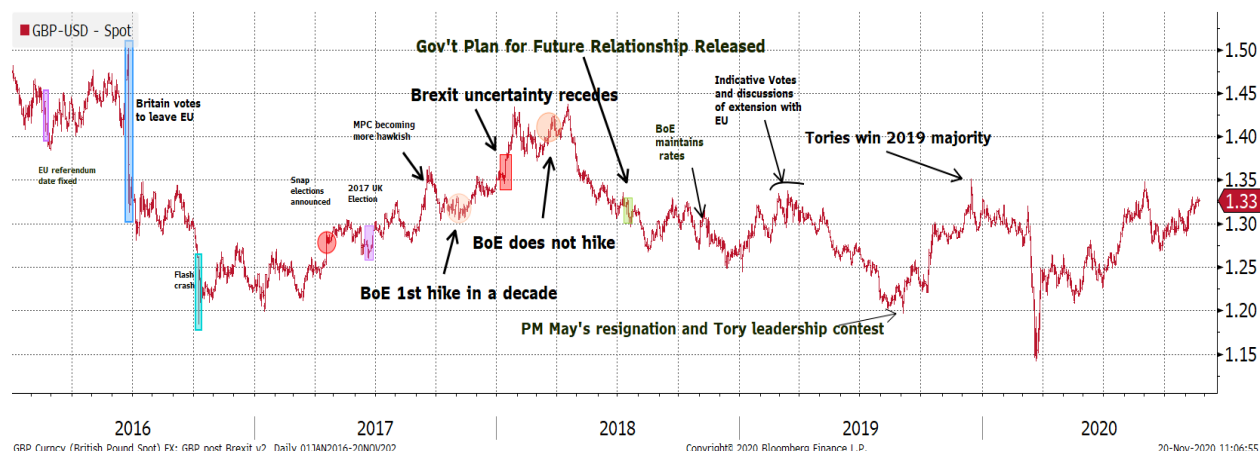
El proceso de reestructuración del sistema financiero español



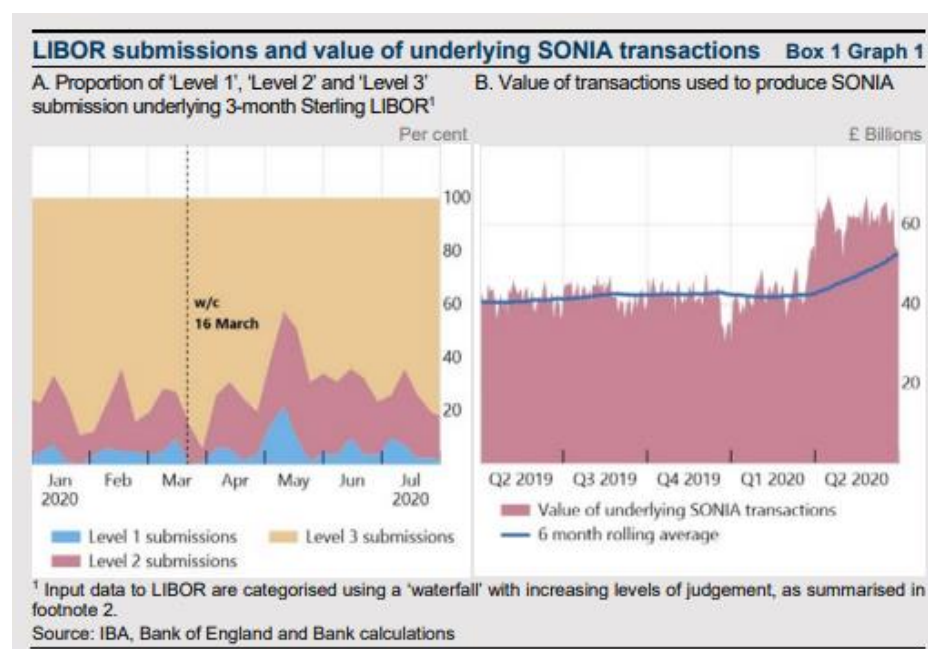
(Anna Monell)

The EU summit yesterday failed to break the deadlock over the ‘rule of law’ clause for the Recovery Fund. Hungary and Poland stuck to their vetoes. Separately, the news flow on Brexit remains equivocal, with some sources noting that the EU has warned the UK that it is not “conceding enough” to reach a deal, while British newspapers claim that a deal could be announced as early as next week. The pound traded flat at \$1.33 while the euro (-0.2%) edged down to \$1.19.

British Pound vs US Dollar



The Financial Stability Board (FSB) [admonished](#) member countries to accelerate the transition away from Libor in 2021. The Board stated that “continued engagement from the private sector in conjunction with a significant commitment by the official sector is critical in order to support this transformational effort,” noting that production of Libor cannot be guaranteed after the end of 2021. The FSB also acknowledged progress in several jurisdictions. In the UK, for example, the value of transactions underlying the alternative benchmark SONIA has risen from an average of £40 bn per day to around £60 bn.



Other Mature Markets

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Japan

Equities (Topix +0.1%; Nikkei -0.4%) were mixed but registered a third straight week of gains. Flash manufacturing and services purchasing managers indexes (PMI) contracted at a faster pace in November. The manufacturing PMI fell by 0.4 point to 48.3 while services PMI declined by 1 point to 46.7. Consumer prices fell at the fastest pace in nine years, with CPI excluding fresh food dropping 0.7% y/y in October from

September's -0.3% decline. This was driven by government travel discounts and lower energy prices. **The yen was little changed while the 10-year JGB yield fell 0.4bps.**

Topix gains for third-straight week



Emerging Markets

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Asian equities rose (+0.5%) on net. Southeast Asia outperformed, led by the Philippines (+2.5%), while Thailand and Singapore also gained by more than 1%. Taiwan Province of China underperformed (flat) **Regional currencies appreciated, led by Thai baht (+0.3%), despite the central bank bringing forward capital outflow rules to curb currency strength.** **EMEA equities were trading mostly higher** with Turkey (+0.8%) outperforming. EMEA currencies were trading mixed with the South African rand (+0.5%) appreciating and the Turkish lira (-0.6%) depreciating against the dollar. **Latin American equity markets were mostly lower on Thursday.** Equities in Chile (-2.0%) and Mexico (-0.9%) fell. Currency markets were relatively quiet.

Key Emerging Market Financial Indicators

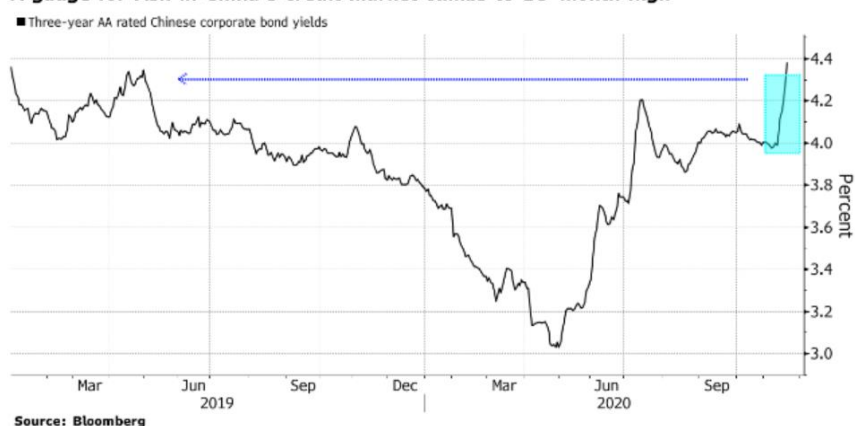
Last updated: 11/20/20 8:18 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		48.79	0.2	2	6	14	9
MSCI Frontier Equities		27.72	0.8	1	3	-4	-9
EMBIG Sovereign Spread (in bps)		421	0	17	-10	97	128
EM FX vs. USD		56.48	-0.1	1	3	-6	-8
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.57	0.2	1	2	7	6
Indonesian Rupiah		14165	-0.1	0	3	0	-2
Indian Rupee		74.15	0.2	1	-1	-3	-4
Argentine Peso		80.31	0.0	-1	-3	-26	-25
Brazil Real		5.33	-0.5	2	5	-21	-25
Mexican Peso		20.12	0.3	1	5	-3	-6
Russian Ruble		76.07	0.1	1	2	-16	-19
South African Rand		15.36	0.3	1	7	-4	-9
Turkish Lira		7.63	-1.0	0	3	-25	-22
EM FX volatility		10.25	0.0	-0.3	-0.7	3.0	3.7

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

China

The People's Bank of China (PBOC)'s Loan Prime Rate was unchanged, as expected. The one-year LPR (benchmark for corporate lending) was held steady at 3.85% for the seventh straight month. The five-year rate (benchmark for mortgages) was unchanged at 4.65% - same as the rates from May to October. **On credit stress, a Chinese residential developer based in the southeastern province of Fujian defaulted on a domestic bond on Thursday.** Fujian Fusheng Group Co. said that it failed to repay investors who requested early redemptions worth RMB631 mn (\$96 mn), including both principal and interest, for its RMB 1bn 3-year bond that will come due next year. It added that it is actively seeking capital to meet the bond repayment needs. The total value of onshore bond defaults summed up to RMB98.5 bn so far, compared with RMB122.1 bn a year ago, according to Bloomberg. **3-year AA rated corporate bond yields are close to an 18-month high.** The RMB appreciated 0.2% while equities (Shanghai +0.4%; Shenzhen +0.6%) rose.

A gauge for risk in China's credit market climbs to 18-month high



South Africa

The South African Reserve Bank (SARB) maintained its policy rate unchanged at 3.5% in line with market consensus. As in its September meeting, the MPC remained split with two out of five members voting for a 25-bps rate cut. Inflation and growth projections saw minimal revisions and most contacts maintained their bias for unchanged policy rates throughout 2021 with a few analysts still expecting a rate cut in Q1 2021. Interest rate forwards are implying unchanged monetary policy until Q4 2021, having priced 10 bps or 40% chance of a rate cut prior to the meeting. **Contacts also point to the reduction in risk premia in local government bonds in November** with the 10-year bond yield declining by 75 bps as compared to the 2-year bond yield as non-residents return to the bond market.

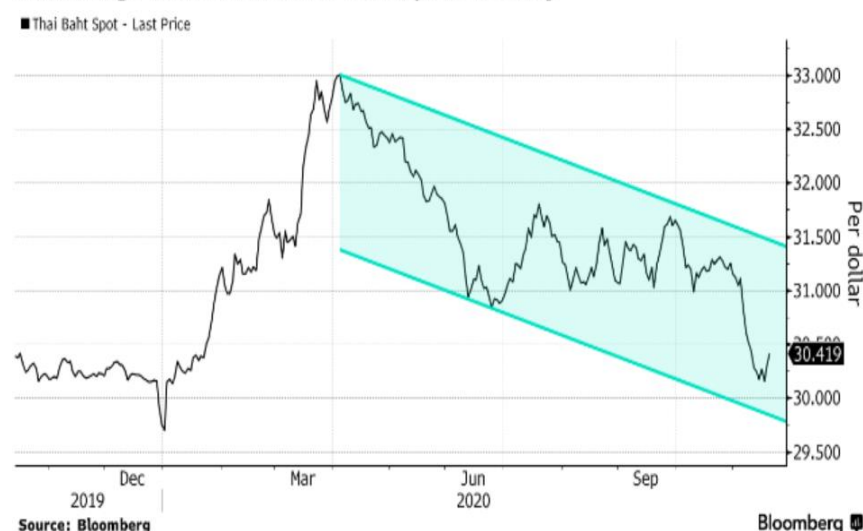
South Africa currency and bond curve spread



Thailand

The Bank of Thailand (BOT) brought forward capital outflow rules to curb baht strength. Most of the measures that were initially supposed to begin in early 2021 will take effect from end-November, according to Bloomberg. The rules will make it easier for Thai residents to move money overseas and invest in foreign assets. Local and overseas investors will have to register prior to investing in Thai debt securities, which will enable the authorities to monitor investors' behaviors and implement targeted measures in a timely manner. The BOT said that the rapid appreciation of the baht, which benefited from renewed inflows into emerging markets, may affect the fragile recovery of the Thai economy. **The baht strengthened +0.4%, reducing this week's depreciation to -0.3%.**

Baht's surge threatens to derail Thai exports recovery



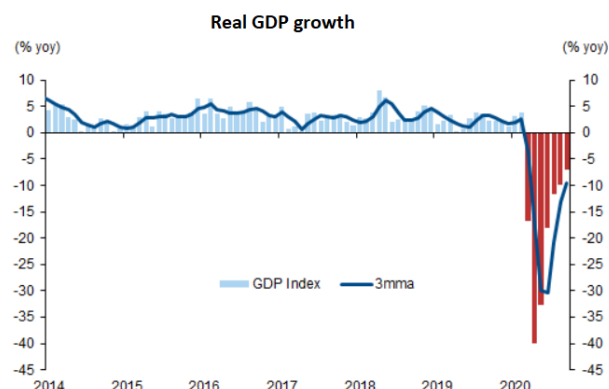
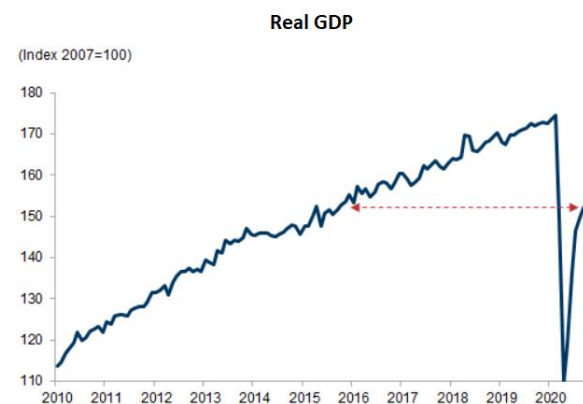
Uzbekistan

The government of Uzbekistan tapped the international bond market by placing dollar and local currency bonds amid strong investor demand. In its second international bond placement, the government placed \$550mn of 10-year bonds with an order book of \$3.4 bn at 3.7% or flat to the outstanding 9-year bond. Uzbekistan also debuted with UZS 2 tn (\$200 mn) of local currency international 3-year bond at 14.5% with demand close to \$500mn from frontier funds in the US and the EU. Contacts point out that there has been sporadic interest from investors for Uzbekistan so'm linked securities with both non-deliverable forwards (NDFs) linked notes and supranational placements taking place over the last few years. Despite client activity, interbank markets in local currency and NDF's have remained underdeveloped.



Peru

Real GDP declined (-7.0% y/y) in September, with a sequential improvement (1.5% m/m sa), similar to the most recent GDP numbers in regional peers. With the partial rebound, real GDP is now 39% above the April level, but is still 13% below the February level, suggesting that recovery towards the pre-COVID-19 levels may take place over an extended period. Goldman Sachs analysts expect “full recovery only in 2022”.






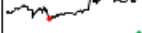


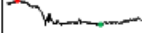
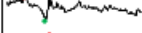




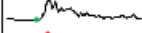
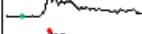


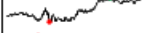












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Global Financial Indicators

Last updated: 11/20/20 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3584	0.4	0	4	15	11
Europe		3469	0.5	1	7	-6	-7
Japan		25527	-0.4	1	8	10	8
China		3378	0.4	2	1	16	11
Asia Ex Japan		85	0.1	2	6	22	16
Emerging Markets		49	0.2	2	6	14	9
Interest Rates			basis points				
US 10y Yield		0.83	0.3	-6	5	-91	-109
Germany 10y Yield		-0.59	-1.6	-4	2	-24	-40
Japan 10y Yield		0.01	-0.6	-1	-1	12	2
UK 10y Yield		0.30	-2.0	-4	12	-43	-52
Credit Spreads			basis points				
US Investment Grade		110	-0.2	-5	-15	-11	13
US High Yield		449	0.2	-12	-55	-29	56
Europe IG		51	0.0	-1	-4	1	7
Europe HY		279	-3.9	-20	-52	44	72
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates			%				
USD/Majors		92.32	0.0	0	-1	-6	-4
EUR/USD		1.19	-0.1	0	0	7	6
USD/JPY		103.8	-0.1	1	2	5	5
EM/USD		56.5	-0.1	1	3	-6	-8
Commodities			%				
Brent Crude Oil (\$/barrel)		44	0.6	4	3	-29	-33
Industrials Metals (index)		129	1.1	3	5	15	13
Agriculture (index)		45	1.0	3	6	14	8
Implied Volatility			%				
VIX Index (% change in pp)		22.6	-0.5	-0.5	-6.7	9.8	8.8
US 10y Swaption Volatility		55.9	0.8	-1.0	-17.9	-13.5	-6.1
Global FX Volatility		7.7	0.0	-0.1	-0.7	1.5	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		128	2.0	-2	-17	-47	-37
Italy		122	0.7	1	-11	-33	-38
Portugal		61	0.8	-2	-15	-12	-1
Spain		66	1.5	0	-13	-12	0

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: 11/20/2020 8:18 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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.57	0.2	0.6	2	7	6		3.4	2.2	6	7	20	29
Indonesia		14165	-0.1	0.0	3	0	-2		6.3	1.5	-14	-37	-80	-83
India		74	0.2	0.6	-1	-3	-4		6.0	-0.8	-3	-7	-81	-88
Philippines		48	0.2	0.0	1	6	5		3.6	1.3	2	7	-68	-66
Thailand		30	0.3	-0.4	3	0	-2		1.5	0.2	-2	-2	-30	-16
Malaysia		4.09	0.1	0.7	1	2	0		2.5	1.0	2	7	-87	-82
Argentina		80	0.0	-0.7	-3	-26	-25		53.1	28.7	174	759	-1839	-949
Brazil		5.33	-0.5	2.4	5	-21	-25		6.5	2.1	3	30	35	25
Chile		761	-0.4	0.9	3	5	-1		2.8	3.7	8	6	-61	-47
Colombia		3642	0.2	0.1	5	-5	-10		5.2	-0.5	-4	-2	-83	-78
Mexico		20.12	0.3	1.4	5	-3	-6		6.0	-3.1	1	-11	-106	-94
Peru		3.6	-0.1	1.8	0	-6	-7		4.0	-4.2	-5	-13	-52	-51
Uruguay		43	-0.2	-0.1	0	-12	-13		7.4	-3.4	-13	2	-369	-349
Hungary		303	0.0	-0.2	1	-1	-3		1.6	0.5	-2	-9	44	42
Poland		3.76	0.1	0.7	3	3	1		0.6	0.6	-3	-5	-127	-130
Romania		4.1	-0.1	0.2	0	5	4		2.9	0.0	-4	-34	-111	-110
Russia		76.1	0.1	1.5	2	-16	-19		5.5	0.2	0	-11	-69	-57
South Africa		15.4	0.3	0.9	7	-4	-9		9.8	-3.8	2	-40	25	27
Turkey		7.63	-1.0	0.3	3	-25	-22		12.0	-16.5	-48	-119	29	33
US (DXY; 5y UST)		92	0.0	-0.5	-1	-6	-4		0.37	0.0	-3	4	-122	-132

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		4943	0.3	2	3	26	21		212	0	5	-2	36	36
Indonesia		5572	-0.4	2	9	-9	-12		196	-3	6	-9	12	40
India		43882	0.6	1	8	8	6		172	1	2	-36	41	47
Philippines		7170	2.5	3	17	-9	-8		115	-3	6	-1	25	49
Malaysia		1594	0.6	0	5	0	0		126	-1	-4	-17	6	14
Argentina		50950	-0.7	3	3	52	22		1374	-2	41	-59	-901	-395
Brazil		106674	0.5	2	6	1	-8		269	-3	-3	-28	26	54
Chile		4042	-2.0	1	10	-16	-13		154	-2	3	-6	-4	21
Colombia		1231	-0.3	2	4	-23	-26		216	-3	9	-13	21	53
Mexico		41869	-0.9	2	10	-4	-4		432	-3	-1	-48	99	140
Peru		18553	-0.4	4	4	-6	-10		144	-3	4	0	8	37
Hungary		38194	0.1	2	13	-13	-17		107	-1	5	-3	-3	21
Poland		51979	0.6	3	7	-10	-10		10	-1	0	-7	-20	-8
Romania		9048	0.7	2	3	-7	-9		208	3	-2	-25	6	35
Russia		3055	0.3	1	9	4	0		183	-4	6	-12	11	52
South Africa		56617	-0.2	-1	2	-1	-1		424	-3	6	-61	74	104
Turkey		1324	0.8	3	9	24	16		496	1	-10	-105	64	95
Ukraine		501	0.0	0	0	-3	-2		567	-13	-18	-143	81	147
EM total		49	0.2	2	6	14	9		421	0	17	-10	97	128

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

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