GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 22, 2021

- **COVID worries flare up in Europe** (link)
- **China's central bank sends dovish signals** (link)
- **Survey flags inflation as biggest worry for global investors** (link)
- **US yield curve flattens on hawkish Fed rhetoric** (link)
- **Polish zloty hits 12-year low versus euro** (link)

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Negative COVID headlines from Europe weigh on markets

With Austria in lockdown and Germany facing a surge of new infections, stocks in Europe are mostly lower, although US equity index futures are up ahead of the US Thanksgiving holiday. The German Chancellor called for new COVID restrictions, and the Netherlands could also be facing another lockdown. Geopolitical tensions with Russia and Ukraine also made headlines. Meanwhile, dovish signals from China's central bank boosted sentiment, although emerging markets had an uneven day. A rise in mergers and acquisitions (M&A) transactions also supported equity markets. Interest rates in the US and Europe were higher and the dollar was stronger across the board.

Key Global Financial Indicators

Last updated: 11/22/21 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4698	-0.1	0	3	32	25
Eurostoxx 50		4347	-0.2	-1	4	25	22
Nikkei 225		29774	0.1	0	3	17	8
MSCI EM		51	-0.2	-2	-2	4	-1
Yields and Spreads					bps		
US 10y Yield		1.58	3.3	-4	-5	75	67
Germany 10y Yield		-0.33	1.6	-10	-22	26	24
EMBIG Sovereign Spread		359	3	9	5	-22	9
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		53.5	0.1	-2	-3	-5	-8
Dollar index, (+) = $ appreciation		96.1	0.1	1	3	4	7
Brent Crude Oil ($/barrel)		78.7	-0.2	-4	-8	75	52
VIX Index (%, change in pp)		18.1	0.2	2	3	-6	-5

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

The coming week could be an eventful one, with US President Biden expected to reveal his pick for Fed Chair before the upcoming Thanksgiving break, and a new governing coalition expected to form in Germany. The latest Fed minutes are due on Wednesday and the Reserve Bank of New Zealand will make a rate decision on the same day with the market expecting a 25 bps rate hike. The Bank of Korea meets on Thursday and is also expected to hike by 25 bps. On the data front, the US has a busy week with PMIs tomorrow, as well as GDP, durable goods and the latest PCE inflation report on Wednesday. In the euro area, PMI data are due tomorrow, the closely watched German IFO business survey comes out on Wednesday and German GDP is due on Friday. The UK also publishes PMI this week, with the report due tomorrow.

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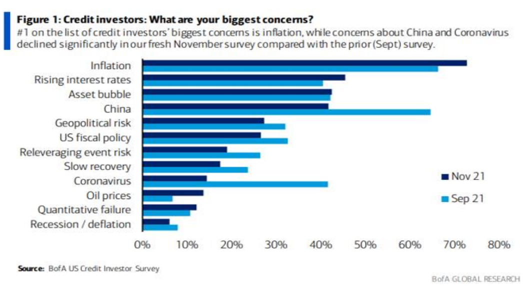
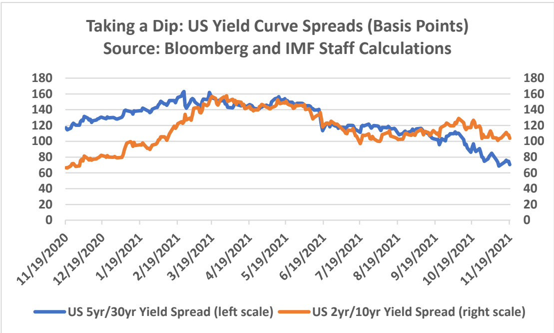
United States

The latest credit investor survey from Bank of America flags inflation risk as the biggest worry for investors. 73% of those surveyed named inflation as their biggest concern, up from around 70% in the previous survey in September and the highest since 2012. Rising interest rates are the second most important risk, although rates have fallen significantly since the survey was conducted. However, despite these worries, investment grade (IG) investors are now optimistic about credit spreads over the next three months, the first time this has occurred since March. These investors have also increased their overweight positions in the IG sector and think the IG market will outperform the high yield market. Another positive sign is that default rates are expected to remain very low. Meanwhile, the inflation swaps market supports the survey finding and indicates that the risk of high inflation is at its highest level in over a decade.

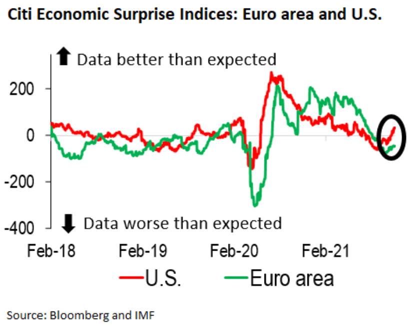


Hawkish comments from Fed Vice Chair Clarida on Friday caused the US Treasury yield curve to flatten to its lowest spread levels in weeks. He predicted very strong growth for the economy in Q4 and suggested that the pace of tapering might have to accelerate. Fed governor Waller also made hawkish remarks earlier in the day. This ends a brief period of curve steepening when the benchmark 10-year Treasury yield went as high as 1.63% earlier in November, but the 10-year yield has fallen sharply over the past few days on worries about the pandemic and the potential impact on the economy. Advanced economy yield curves have shown similar flattening in countries such as Canada, Australia, and Norway on expectations of reduces support from central banks. Interestingly, inflation worries have yet to show up in nominal bond yields, which remain very low by historical standards.

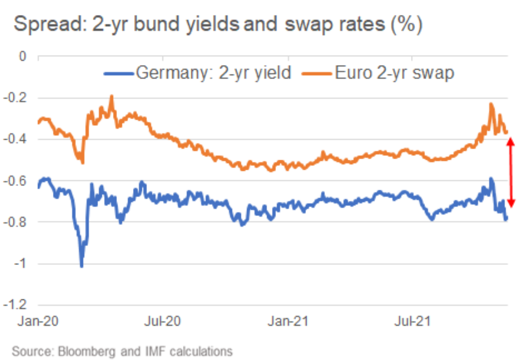


Euro area

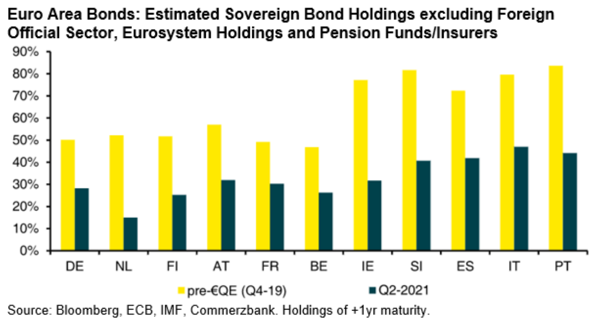
Markets were nervous as analysts warn that the current COVID wave across the continent presents downside risks to growth. PMI data for November will be published tomorrow. **Consensus expectation is that both manufacturing and services PMI data will be a point lower compared to October.** The Citi economic surprise index shows that euro area activity data have generally surprised to the downside (in contrast to U.S. data).



German 10-yr yields (+ 2 bps) are higher, but contacts point out that demand for euro area collateral remains strong with the difference of 2-yr bund yields and 2-yr swap spreads widening again, even after the ECB doubled the upper limit of cash as collateral for its securities lending program (to €150 bn) last week. The 3-month general collateral repo rate for German government bonds fell to -0.84%.



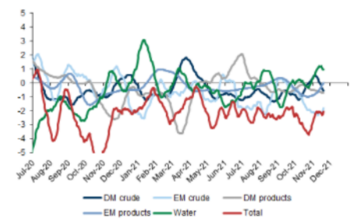
Seasonal factors such as demand for collateral into year-end could drive swap spreads wider, but some analysts also argue that a lower free float of euro area government bonds given QE purchases may have led to a scarcity of some highly-rated collateral. In addition, the ECB meeting on 16 Dec is relatively late in the year and may complicate liquidity planning. More volatile money markets and yield curves may have also led to some margin calls, potentially leading to more demand for high-grade collateral such as German government securities.



Commodities

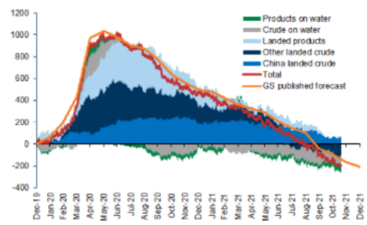
Oil prices are finally heading lower after a long rally that took the benchmark Brent crude oil price to a seven year of $86.40 on October 26. Renewed virus outbreaks have raised fears of further lockdowns, while the US is expected supplies from its Strategic Petroleum Reserve to put downward pressure on prices. Worries about China have also played a role. However, Goldman analysts predict than any declines are likely to be temporary. The supply situation remains very tight, with inventories being drawn down in both emerging and developed markets. Oil stocks are well below pre-pandemic levels. Meanwhile, the global economy is expected to do very well in Q4, and mobility data showing a steady increase as the rebound continues. Goldman predicts that Brent will be back at $85 by year end.

Exhibit 1 : The global oil market is still in deficit
4-week stock draws by category (mb/d)



Source: Kpler, EIA, IEA, Oilchem, DME, PAJ, PJK ARA, IE Singapore, Goldman Sachs Global Investment Research

Exhibit 2 : Stocks are now 200 million barrels below pre-COVID levels
Global high frequency stocks vs. Dec-19 vs. implied from our S&D balances (mb)



Source: Kpler, EIA, IEA, Oilchem, DME, PAJ, PJK ARA, IE Singapore, Goldman Sachs Global Investment Research

Emerging Markets

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In the EMEA region, Hungary and Russia were down sharply, although other markets such as Turkey saw gains. EMEA currencies were generally trading weaker as concerns over covid infections, inflation and geopolitical uncertainty increased. The Russian ruble underperformed (-1.1%) after the US reportedly informed Europe of a buildup of Russian troops and artillery to prepare for an invasion of Ukraine, claims that were reportedly dismissed by Russia. In Asia, stocks were mixed, currencies were mostly weaker and government bond yields were lower. Thai government bonds outperformed regional peers on Friday after the Bank of Thailand bought $400 mn to improve market liquidity. In Latin America, Argentina (-4.3%) and Colombia (-2.9%) saw heavy losses while Chile gained by 1.8%. Peru's GDP expanded 11.4% from a year earlier in the third quarter, topping the level in 2019. The election in Chile is headed into a runoff between the conservative candidate and a leftist rival.

EM fund flows

After three weeks of inflows, EM overall bond flows reverted to outflows this week, split roughly equally across hard currency (-$267mn) and local currency bond funds (-$225mn). Within local currency bond funds, inflows into China-related bond funds (+$177mn) partly offset outflows from EM ex-China bond funds (-$402mn). As a result, YTD inflows total $51.1bn including this week's outflows of $493mn.

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		1.5	158.8
	EM Bonds		-0.5	51.1
	Hard Ccy		-0.3	27.3
	Local Ccy^		-0.2	23.7
	o.w. EM ex-China		-0.4	0.2
	o.w. China		0.2	20.8
	EM Equities		2.0	107.7
	US HG		2.9	262.8
	US HY		0.0	-4.3
	Global Equities		7.3	435.3
	EM Bond and Equity ETFs		2.0	73.0
	EM Bond ETFs		0.2	13.8
	EM Equity ETFs		1.8	59.2
	Non-resident EM flows*		5.4	-48.4

Source: JP Morgan

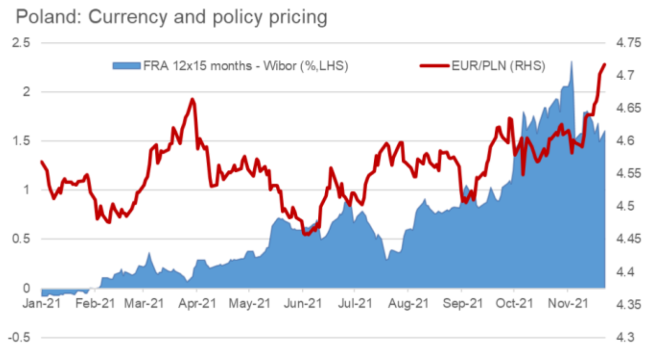
China

The People's Bank of China (PBOC) signaled more accommodative monetary policy in its Q3 monetary policy report released on last Friday. The report removed some hawkish policy statements, hinting that further policy easing could be under way. The PBOC also reiterated stepping up support to targeted sectors, including SMEs, green industries, use of "clean" coal, and rural development. Premier Li acknowledged downward pressures on growth and employment following the State Council's meeting with major businesses. Loan prime rates (LPRs) remained unchanged, with the one-year LPR at 3.85% and the five-year LPR at 4.65%.

The China Foreign Exchange Committee encouraged banks to be risk-neutral when trading foreign exchange for themselves and for their clients. Set up under the PBOC's guidance, the Committee reportedly asked banks to conduct internal reviews when trading volumes at propriety desks deviate significantly from the norm. Some analysts noted that this move could be the latest sign that Beijing has become uncomfortable with a rapid appreciation of RMB.

Poland

The zloty reached a new 12-year low against the euro (4.71) this morning amid higher covid cases and looming geopolitical tensions, and Governor Glapinski noted on Friday that while the central bank should not be expected to intervene in the FX market, intervention remains an option. Over the weekend, the Polish prime minister flagged concern over escalating tensions on the Belarus border**. The next central bank meeting is on 8 December with markets pricing in a roughly 50 bps increase and further tightening over the next year.** The 12 x 15 month forward rate agreement increased to 151 bps above the 3-month WIBOR rate.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

Last updated: 11/22/21 8:03 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4707	-0.1	1	4	32	25
Europe		4346	-0.2	-1	4	25	22
Japan		29774	0.1	0	3	17	8
China		3582	0.6	1	0	5	3
Asia Ex Japan		87	0.0	-1	-2	1	-3
Emerging Markets		51	-0.2	-2	-2	4	-1
Interest Rates					basis points		
US 10y Yield		1.58	3.3	-4	-5	75	67
Germany 10y Yield		-0.33	1.7	-10	-22	26	24
Japan 10y Yield		0.08	-0.5	1	-2	6	5
UK 10y Yield		0.90	2.5	-6	-24	60	71
Credit Spreads					basis points		
US Investment Grade		110	-4.5	-4	25	-1	15
US High Yield		345	-9.7	3	32	-105	-35
Europe IG		50	0.5	1	0	-1	2
Europe HY		253	2.0	5	-5	-23	12
Exchange Rates					%		
USD/Majors		96.11	0.1	1	3	4	7
EUR/USD		1.13	-0.1	-1	-3	-5	-8
USD/JPY		114.1	0.1	0	1	9	11
EM/USD		53.5	0.1	-2	-3	-5	-8
Commodities					%		
Brent Crude Oil ($/barrel)		79	-0.2	-4	-8	75	52
Industrials Metals (index)		165	-0.4	0	-4	27	24
Agriculture (index)		61	0.5	1	7	40	28
Implied Volatility					%		
VIX Index (%, change in pp)		18.1	0.2	1.6	2.7	-5.6	-4.7
US 10y Swaption Volatility		76.0	0.1	-3.5	1.3	20.8	15.9
Global FX Volatility		7.8	0.1	0.6	0.9	0.2	-0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		151	-0.9	4	37	23	31
Italy		121	0.4	-1	10	-1	10
Portugal		65	0.5	2	13	4	5
Spain		72	-0.2	-1	9	8	11

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

Emerging Market Financial Indicators

Last updated: 11/22/2021 8:05 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		6.38	0.1	0.0	0	3	2		3.0	-1.6	1	-11	-25	-11
Indonesia		14249	-0.1	-0.3	-1	-1	-1		6.0	0.2	0	-3	-18	15
India		74	-0.2	0.1	1	0	-2		6.5	3.0	1	-12	126	101
Philippines		51	-0.4	-0.9	0	-5	-5		4.6	0.0	-20	20	173	160
Thailand		33	-0.3	-0.5	1	-8	-9		1.8	-0.5	1	-3	59	59
Malaysia		4.19	-0.1	-0.6	-1	-2	-4		3.6	1.5	3	-6	89	91
Argentina		100	-0.1	-0.2	-1	-20	-16		50.7	7.4	46	150	-246	-549
Brazil		5.59	0.3	-2.4	1	-3	-7		11.7	-7.8	13	3	313	429
Chile		807	2.8	-1.2	1	-5	-12		5.4	-25.5	-15	-56	280	286
Colombia		3911	0.2	-0.6	-4	-7	-12		6.7	0.0	24	6	269	273
Mexico		20.91	-0.4	-1.4	-3	-4	-5		7.4	-7.0	-15	-25	174	199
Peru		4.0	0.3	0.3	-2	-11	-10		5.9	-0.2	4	-3	183	235
Uruguay		44	0.2	-0.2	-1	-3	-4		8.7	0.0	8	63	128	140
Hungary		328	-0.7	-1.7	-4	-7	-9		4.3	13.3	47	37	272	271
Poland		4.16	0.0	-1.9	-5	-9	-10		3.1	4.0	12	31	192	198
Romania		4.4	-0.1	-0.8	-3	-6	-9		4.9	0.7	6	34	196	212
Russia		74.8	-1.8	-3.2	-6	2	-1		9.1	16.8	42	78	290	261
South Africa		15.8	-0.3	-3.3	-6	-2	-7		7.5	8.5	-10	-35	81	94
Turkey		11.23	0.6	-10.4	-14	-30	-34		20.3	8.0	82	1	840	742
US (DXY; 5y UST)		96	0.1	0.7	3	4	7		1.25	3.0	0	6	88	89

	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		4912	0.5	1	-1	-2	-6		198	0	-8	-36	-31
Indonesia		6723	0.0	2	1	19	12		165	-2	-4	-44	-35
India		58466	-2.0	-4	-4	33	22		132	-4	-10	-40	-19
Philippines		7283	0.0	-1	0	1	2		109	6	3	-13	-3
Malaysia		1527	0.1	0	-4	-4	-6		110	-3	-17	-37	-25
Argentina		85695	-4.3	-10	-1	66	67		1739	16	117	378	383
Brazil		103035	0.6	-3	-3	-3	-13		321	4	19	42	62
Chile		4706	8.0	7	15	16	13		141	9	-18	-22	-15
Colombia		1299	-2.9	-4	-7	5	-10		310	7	25	85	95
Mexico		50811	0.0	-2	-2	21	15		336	3	-10	-90	-21
Peru		20125	-0.2	-3	-4	7	-3		157	4	-5	3	28
Hungary		50924	-1.0	-2	-8	33	21		117	6	6	-22	-32
Poland		69158	-0.4	-4	-6	32	21		44	-1	13	19	16
Romania		12630	0.6	-2	-1	39	29		194	15	-2	-15	-9
Russia		3913	-2.6	-5	-7	28	19		163	11	13	-33	-16
South Africa		70680	0.4	1	5	25	19		355	14	8	-74	-29
Turkey		1752	0.8	3	18	32	19		505	34	0	10	58
Ukraine		523	0.0	0	-1	4	5		567	31	85	-14	74
EM total		51	-0.1	-2	-2	4	-1		380	9	13	20	42

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

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