GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 23, 2020

- **European countries closer to easing lockdowns** (link)
- **Fed to return unused Funds to US Treasury** (link)
- **Potential overheating in US high yield markets worries some investors** (link)
- **Low US real yields forecasted to push equities even higher in 2021** (link)
- **PMIs in Europe decline amid growing divergence between sectors** (link)
- **Moody's and Fitch downgrade South Africa deeper into junk territory** (link)
- **China to crack down on bond market violations** (link)

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Markets get another shot in the arm

Oxford and Astra Zeneca joined Pfizer and Moderna in announcing another successful vaccine to combat the virus, pushing global markets higher. This vaccine is 70% effective (compared to 95% for the other vaccines) but is said to be much cheaper and easier to store and transport. Slowing virus counts in Europe also bolstered sentiment. The US is reported to be close to designating multiple Chinese aerospace companies as having close ties to the Chinese military, curbing the ability of US and other investors to buy their equities. Press stories indicate that China may join the Trans-Pacific Partnership after concluding the RCEP trade deal last week with Asia-Pacific countries last week. Treasury and bund yields moved higher as risk assets rallied along with oil. US equity futures point to a strong open for US markets, while volatility remains low.

Key Global Financial Indicators

Last updated: 11/23/20 7:53 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3558	-0.7	-1	3	14	10
Eurostoxx 50		3481	0.4	0	9	-6	-7
Nikkei 225		25527	-0.4	1	9	10	8
MSCI EM		49	0.6	2	6	15	9
Yields and Spreads					bps		
US 10y Yield		0.85	2.9	-5	1	-92	-106
Germany 10y Yield		-0.57	1.2	-3	0	-21	-39
EMBIG Sovereign Spread		421	0	17	-10	97	128
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.4	0.1	0	2	-6	-8
Dollar index, (+) = $ appreciation		92.0	-0.4	-1	-1	-6	-5
Brent Crude Oil ($/barrel)		45.6	1.3	4	9	-28	-31
VIX Index (%, change in pp)		23.2	-0.5	1	-4	11	9

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

The virus crisis remains intense in the US but there are signs of hope in Europe. The vaccine situation has boosted confidence, but India is dealing with a major spike in cases, especially in the capital New Delhi and its suburbs. Brexit negotiations are entering a critical stage, with key deadlines looming although weekend press reports suggested the two sides may be getting closer. The Fed releases its latest minutes on Wednesday and the ECB will release its Financial Stability Review on the same day. On the data front, it will be a relatively quiet week in the US due to the Thanksgiving holiday. After today's flood of PMI data, the euro area calendar features some key releases in Germany, and French GDP. Sweden's Riksbank meets on Thursday.

Selected Data Releases for the Week
Source: Bloomberg

Data Report	Consensus Forecast
US Markit Manufacturing PMI Monday	53
US Markit Services PMI Monday	55
US initial jobless claims Thursday	730K
Q3 German GDP Tuesday	+8.2%
German IFO Business Survey Tuesday	90.3
Q3 French GDP Friday	+18.2%

United States

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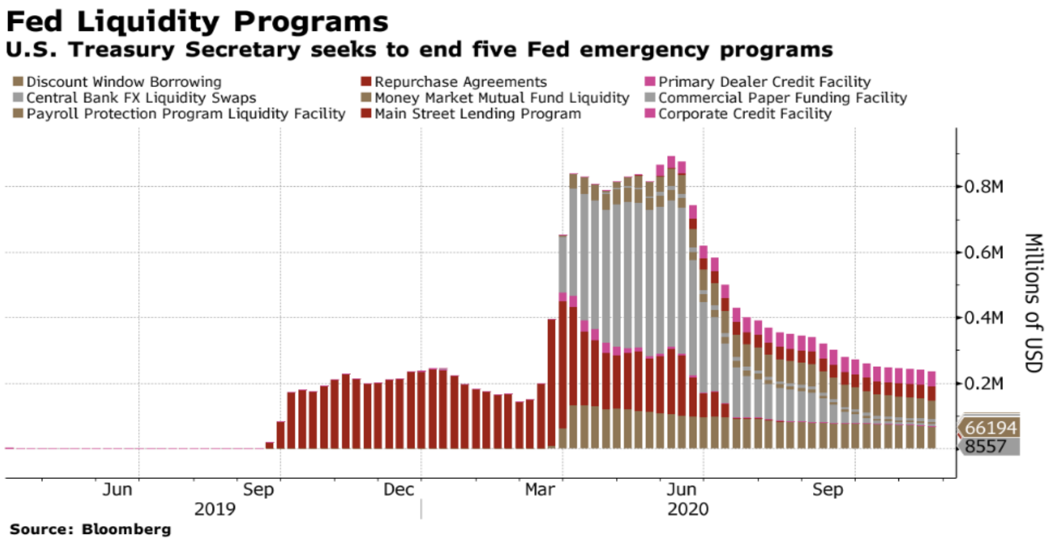
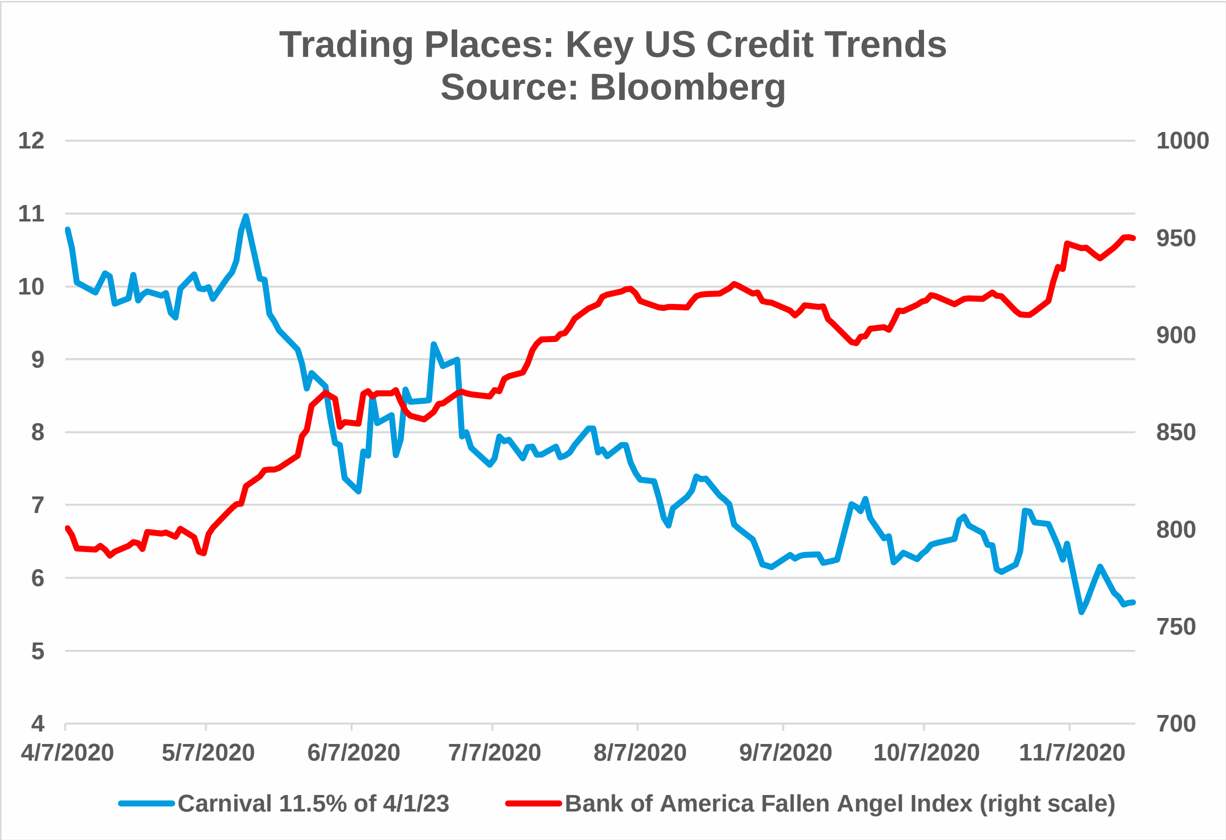
Local markets drifted on Friday as they tried to gauge the importance of Treasury's Secretary Mnuchin's move to end five important Fed emergency measures over the objections of Fed Chair Powell. The Fed announced after the market close on Friday that it would return unused funds provided for the programs. The optimistic view is that the new administration could launch new programs if needed, while the more pessimistic view is that a divided Congress with a Democratic president could face greater challenges in implementing new measures. The major indexes ended with small losses. Treasury yields held steady, suggesting that the optimistic view held sway and there was no flight to safe assets. Volatility was subdued. Pfizer announced that it asked the US Food and Drug Administration for an Emergency Use Authorization for its new COVID-19 vaccine.

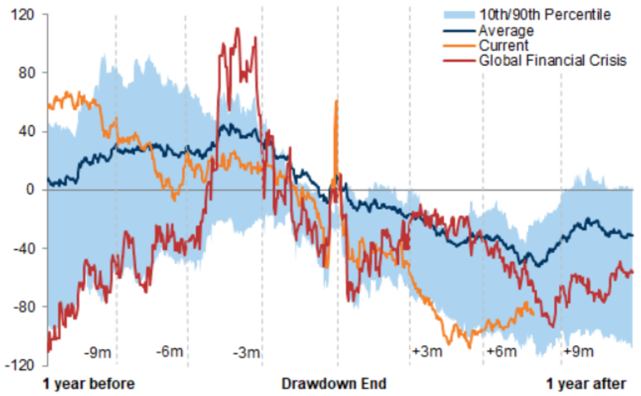


Some investors are worried that the rebound in the US high yield (HY) credit market could have gone too far. Fed intervention, fiscal stimulus, a renewed search for yield and high optimism about the economy has led to a massive tightening of credit spreads and a flood of new investor money from all over the world. As an example, the bond issued by the Carnival cruise line at the height of the crisis in April has seen its yield cut in half, with the 11.5% April 2023 bond now trading at 5.66%. Carnival was forced to collateralize that bond by pledging its ships as collateral, but on Friday it launched a new uncollateralized deal that received bids worth $11 bn for $2 bn in new debt. The uncollateralized bond has a coupon of just 7.625%. In a related development, bonds issued by fallen angels or previously investment grade companies downgraded to HY saw a key index hit an all-time high. The Bank of America Fallen Angel index has rebounded by 40% since March to reach its highest level ever. With the pandemic worsening and the economic outlook looking bleaker, some are worried that the HY market could be overcome by a new wave of panic selling if new lockdowns cause a reversal of the market's previously optimistic view.



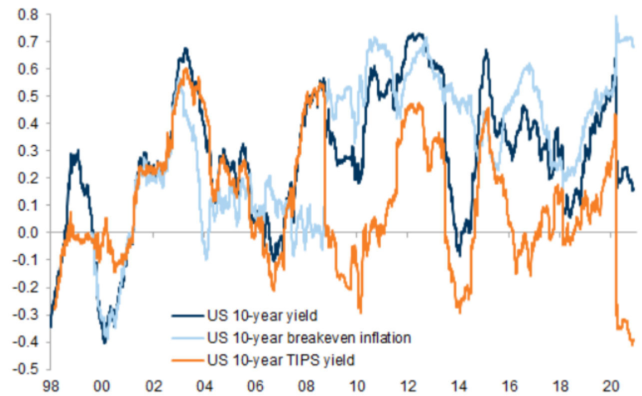
US real yields fell more than usual during the COVID-19 crisis, and equity prices are now very highly correlated with 10-year real yields. Goldman is very bullish in its risk outlook, predicting that real yields will rise modestly in 2021 but not enough to disrupt the expected equity rally. The moderate rise in real yields will be driven mainly by a major projected rebound in the US economy, with new vaccines enabling a rapid resumption of normal economic activity for both consumers and producers. In such an environment, lagging sectors such as energy, commodities and cyclical stocks are expected to do better than in recent years, sparking a more broad-based rally in risk assets.

Exhibit 12 : US real yields declined more than normal during the recovery from the bear market
US 10-year real yields (bp, data since 1998)



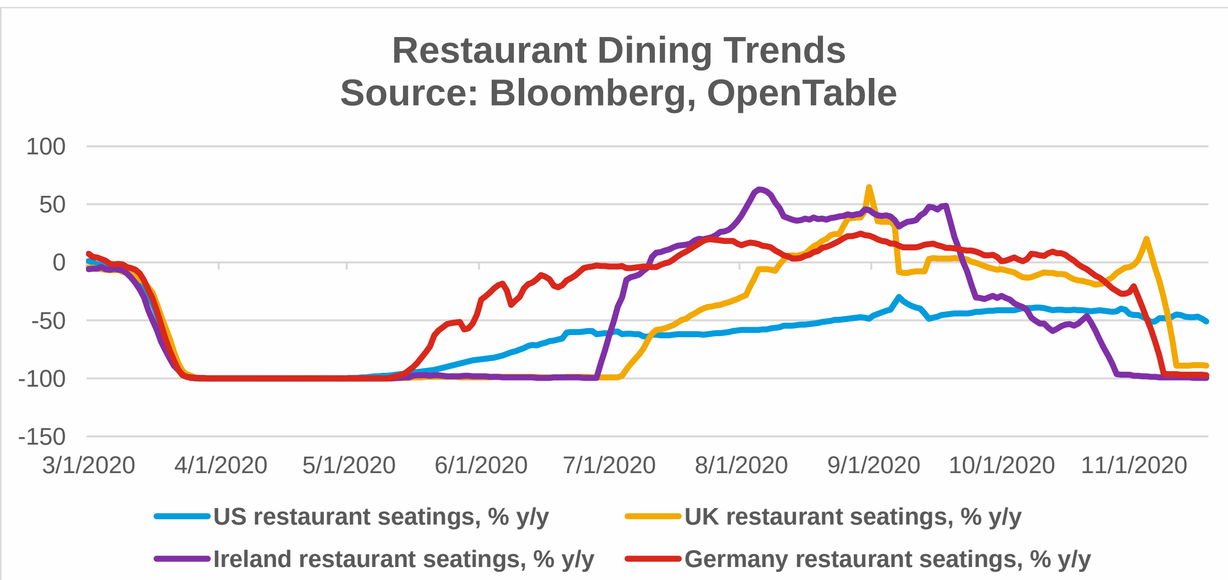
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 13 : Equities have become very negatively correlated with US 10yr real yields in 2020
12-month correlation of weekly changes with S&P 500



Source: Bloomberg, Goldman Sachs Global Investment Research

US restaurant dining trends are much stronger than the data from Europe, with dining traffic holding steady at 50% of the pre-pandemic average despite the rising number of infections. In Europe, the imposition of lockdowns and curfews has caused restaurant dining trends to collapse. Many US states continue to allow bars and restaurants to remain open, and diners continue to eat out despite the pandemic. Analysts are focusing on high frequency data beyond the usual economic reports to help better understand the economic impact of the virus. Dining trends and travel-tracking using cellphone data are among the most widely used metrics.



Europe

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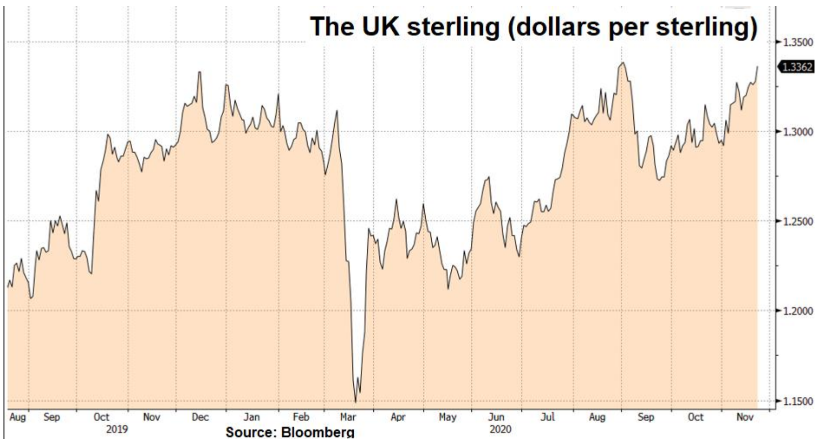
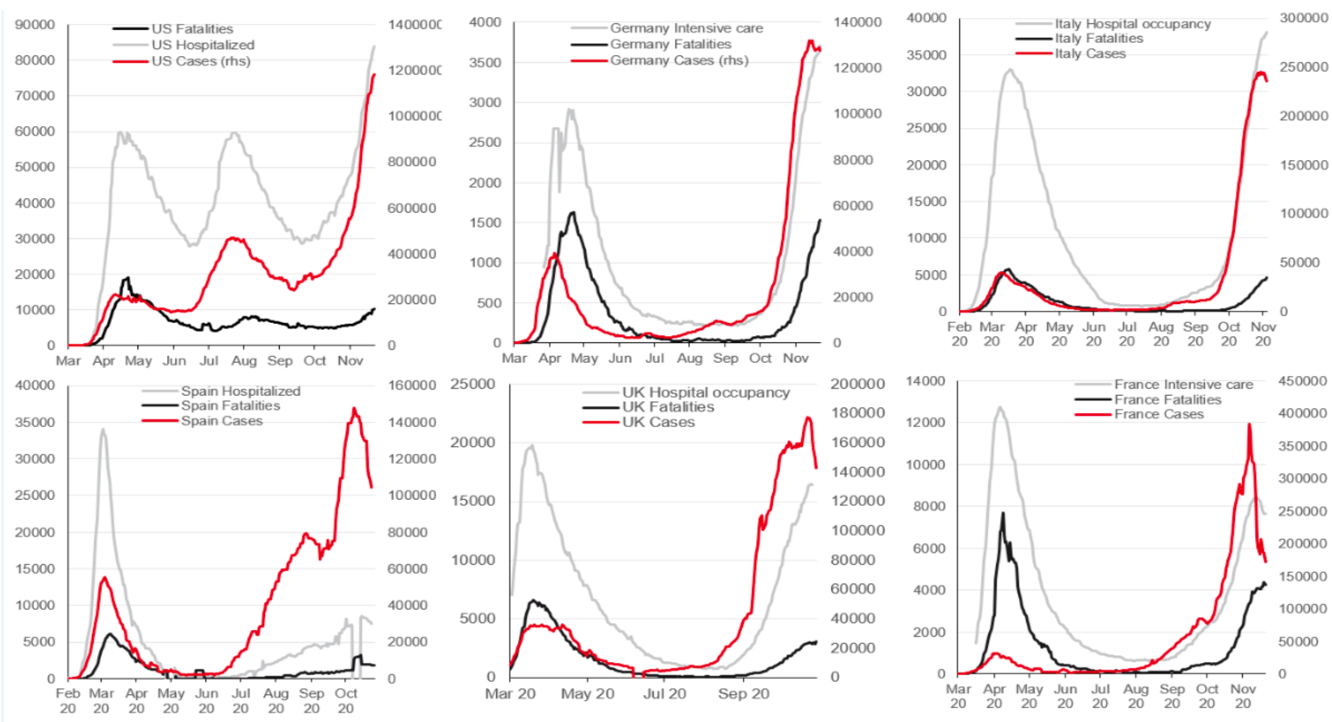
European equities were generally higher, with cyclical shares and the energy sector outperforming following the vaccine news.

Germany's 10-year bund yield was 1 bps higher, with Italy and Greece's credit spreads 2-3 bps tighter. The euro (+0.3%) and the sterling (+0.7%) appreciated, with both currencies trading at the strongest level against the dollar since August. The sterling was further supported by positive Brexit-related developments over the weekend as media reports signaled that a deal could be just days away as negotiations are set to formally resume on Thursday.



Governments across Europe are set to slowly ease virus-relates restrictions ahead of Christmas with the number of new cases falling in France, Ireland and the UK. They could come as early as this week, which could include opening of non-essential stores and allowing for travel ahead of Christmas. In contrast to the broad-based easing steps carried out in spring, normalization will be more gradual this time around and will vary across different cities and regions. New cases have also shown signs of stabilization in Germany and Italy, but both governments will maintain partial lockdown measures until the second half of December. Despite the recent drop in new cases, Spain is also sticking with the current lockdown regime. **In terms of vaccinations, the UK and Germany could begin administering vaccines to high-risk groups at the end of December while most other European states aim for January**.



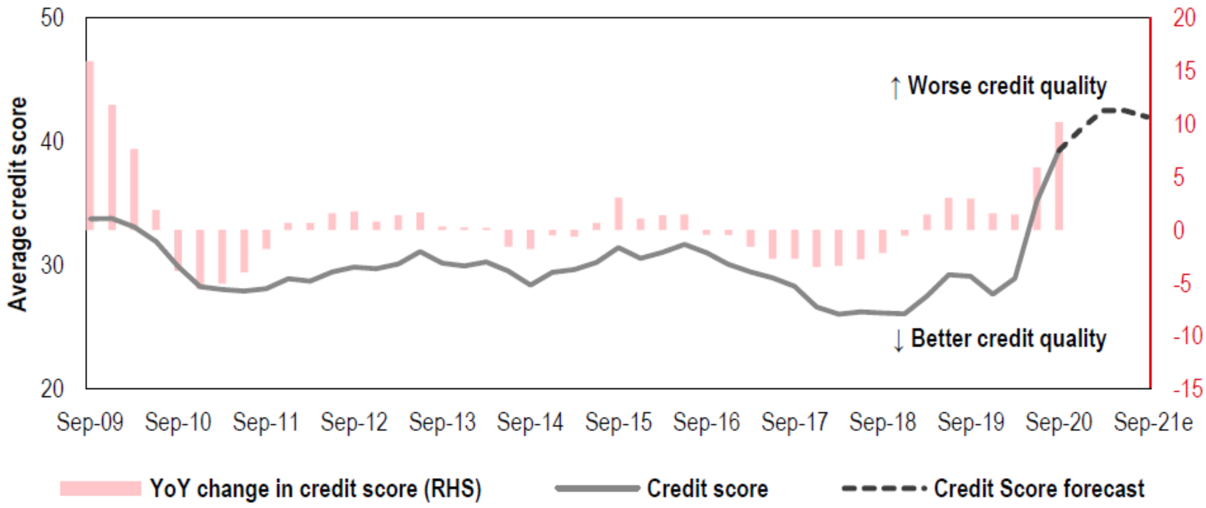
Eurozone November composite PMIs fell into contraction territory amid further divergence between manufacturing and service sectors. The preliminary composite reading fell to 45.1 (consensus: 45.6) from 50 in October with the services sector reading declining to 41.3 with the manufacturing sector continuing to grow at 53.6 (from 54.8 in October). On a country level, Germany's manufacturing sector continued to deliver strong growth on the back of demand from Asia while France services PMI's fell more than expected to 38, although this is still much higher than the 10.2 seen in April. The PMI's had limited impact on the market as most market participants are rather focused on vaccine related developments.

			12M Trend	Nov-20	Oct-20	12M Avg.
Eurozone						
	Composite	↓		45.1	50.0	44.2
	Manufacturing	↓		53.6	54.8	47.8
	Services	↓		41.3	46.9	43.0
Germany						
	Composite	↓		52.0	55.0	46.3
	Manufacturing	↓		57.9	58.2	47.9
	Services	↓		46.2	49.5	45.2
France						
	Composite	↓		39.9	47.5	43.7
	Manufacturing	↓		49.1	51.3	47.7
	Services	↓		38.0	46.5	43.0

UK's preliminary PMI's delivered an upside surprise with composite falling to 47.4 against the 42.5 expectation. The manufacturing sector delivered a strong expansion (55.2 reading against 50.5 consensus) with services sector declining less than expected (45.8 against 43 consensus). The overall dynamics confirm a much smaller economic hit from the second lockdown as compared to the first wave.

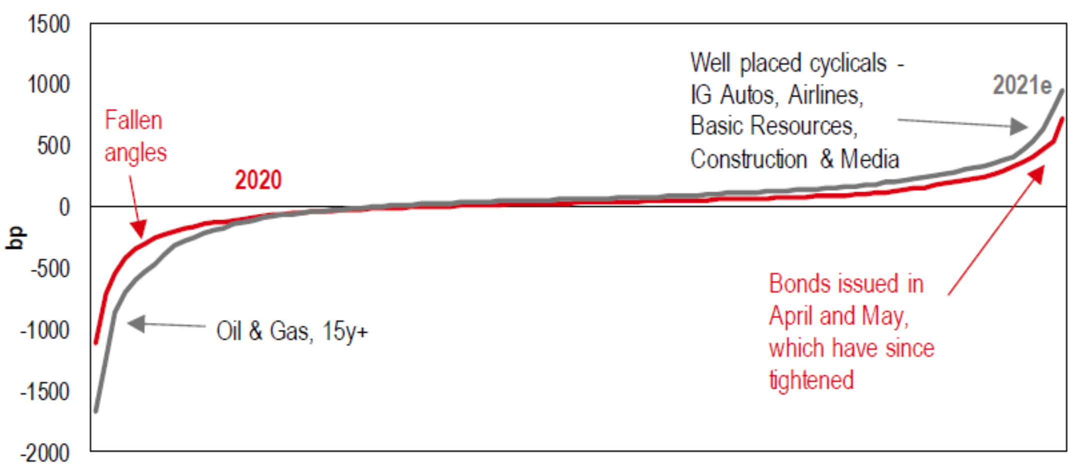
Analysts maintain a positive outlook on European corporate credit for 2021. While credit risks are seen to remain elevated, the broad policy support coupled with the rollout of vaccines are expected to result in the outperformance of cyclical sectors such as automobiles, airlines and basic resources. Premature withdrawal of policy is seen as a potential risk factor for the second half of 2021.

Historical and forecast credit quality average levels and changes



Source: HSBC calculations, Markit

Euro IG excess return spread distribution



Source: Markit, HSBC

Other Mature Markets

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Japan

The Japanese yen appreciated (+0.1%). Stock and bond markets were closed.

Australia

The PMI composite was stronger than expected, coming in at 54.7 in November from 53.5 in October. Manufacturing PMI was 56.1, up from 54.2, while services PMI was 54.9, up from 53.7. Equities gained (+0.3%) and the Australian dollar appreciated (+0.5%).

Emerging Markets

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EMEA assets followed Asian peers higher on Monday on the back of vaccine progress. EMEA equities advanced by about 0.4% to 1.9%. By country: Russia (+0.4%); Turkey (0.8%); Poland (+1.6%); Czech Republic (+1.9%). Currencies strengthened almost in unison against the dollar in the 0.2% to 0.6% range. The Turkish lira was the only outlier, weakening 1.8% to the USD.

Asian stock markets gained today, led by Thai (+2.2%), Korean (+1.9%) and Indonesian (+1.5%) equities. The rally was driven by vaccine optimism. **Asian currencies appreciated,** led by the Korean won (+0.3%), as the U.S. dollar weakened. **Korean markets outperformed** on the news of strong exports and department store sales. **The Hong Kong – Singapore travel bubble was delayed** due to the rise in new COVID cases in Hong Kong SAR; this travel bubble, initially scheduled to start on Sunday, was heralded as the world's first quarantine-free travel arrangement during the pandemic. Hong Kong equities underperformed (+0.1%).

Latin American equity markets were mostly higher on Friday. Argentina outperformed as the equity index rose 1.1%, followed by Colombia (+0.7%) and Chile (+0.6%), while Brazil (-0.6%) saw losses. Local currencies were mixed but mostly traded in narrow ranges, except for the Brazilian real (-1.5%). 10-year government bond yields rose 12 bps in Brazil and were generally lower in other countries.

Last updated:	Level		Change				
11/23/20 8:01 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		49.06	1.4	2	6	15	9
MSCI Frontier Equities		27.63	-0.3	0	2	-4	-9
EMBIG Sovereign Spread (in bps)		350	1	17	-10	97	128
EM FX vs. USD		56.40	0.1	0	2	-6	-8
Major EM FX vs. USD					%, (+) = EM currency appreciation		
China Renminbi		6.57	-0.1	0	2	7	6
Indonesian Rupiah		14149	0.1	0	4	0	-2
Indian Rupee		74.10	0.1	1	-1	-3	-4
Argentine Peso		80.36	-0.1	-1	-3	-26	-25
Brazil Real		5.37	0.5	1	5	-21	-25
Mexican Peso		20.00	0.5	1	4	-3	-5
Russian Ruble		75.93	0.4	0	0	-16	-18
South African Rand		15.33	0.5	0	6	-4	-9
Turkish Lira		7.79	-2.0	-1	2	-26	-24
EM FX volatility		10.32	1.1	-0.2	-0.6	3.3	3.7

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

EM Fund Flows

Both EM bond funds and EM equity funds continued to see inflows last week, with numbers printing at +$3.2 bn and +$6.6 bn, respectively. Inflows to EM bond funds hit the highest level in three months, driven by both hard currency bond funds (+$1.4 bn) and local currency bond funds (+$1.8 bn). From a regional perspective, Asia ex-Japan equity funds continued to see large inflows (+$4.7 bn) last week. Inflows to Latin America reached a three-year high (+$500 mn), and EMEA saw inflows for the first time in around three months (+$122 mn). Year-to-date flows to EM bonds and equities were +$4.3 bn and -$28.8 bn, respectively.

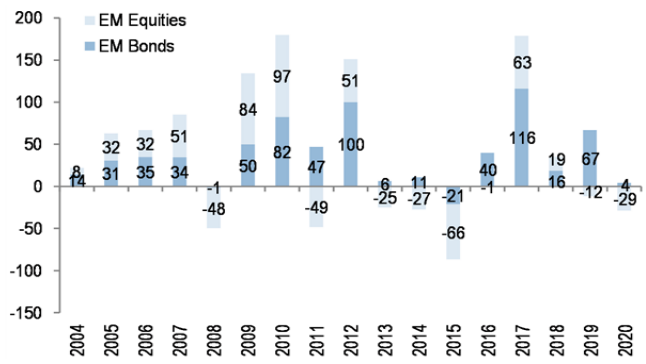
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		9.7	-24.5
	EM Bonds		3.2	4.3
	Hard Ccy		1.4	9.7
	Local Ccy		1.8	-5.4
	EM Equities		6.6	-28.8
	US HG		3.8	175.7
	US HY		0.8	46.0
	Global Equities		10.9	-327.4
	EM Bond and Equity ETFs		4.0	-4.5
	EM Bond ETFs		1.3	6.0
	EM Equity ETFs		2.7	-10.5
	Non-resident EM flows*		8.7	-111.6
	EM Local Bonds		-0.6	-45.5
	EM Equities		9.3	-66.1

Exhibit 2: Annual EM bond and equity fund flows

USD billion

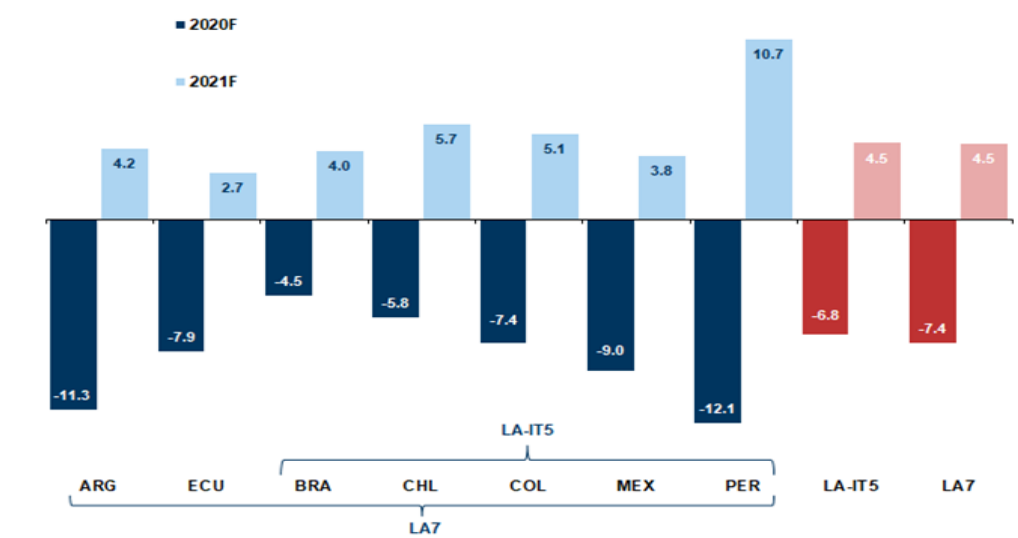


*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Latin American Economic Outlook

Goldman Sachs analysts expect economies in Latin America to continue to recover in 2021 amid low inflation, stimulative monetary policy, and accommodative financial conditions. To improve long-standing problems such as low growth, low investments, and low productivity, analysts believe growth/productivity-enhancing reforms will be needed after recovering from the coronavirus pandemic. However, reforms are unlikely to be achieved in the next two years, as the busy electoral calendar in the region may bring high political risks. Analysts pointed out that regional economies are likely to focus on domestic risks rather than external challenges in 2021.

Above Trend Growth in 2021
Real GDP Growth Forecasts (% yoy)



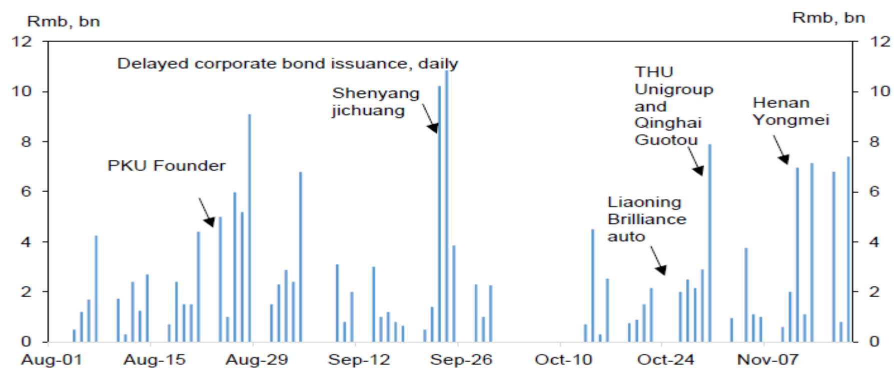
Source: Goldman Sachs Global Investment Research

China

Chinese authorities vowed zero tolerance for violations in the bond market. The Financial Stability and Development Committee held a meeting on Saturday, with a focus on supporting the bond market after corporate defaults in recent weeks. The meeting concluded that the bond market is largely stable, and the rising but isolated defaults were due to a combination of cyclical and behavioral factors. The meeting emphasized zero tolerance for misconduct to better protect investor rights. Cases of misconduct included fraudulent issuance, false information disclosure, ill-intentioned asset transfers and improper use of proceeds. There are signs of stress such as widening credit spreads and delays in bond issuance, but market pressures remain largely contained. **Equities gained (CSI 300: +1.3%); RMB was little changed onshore but depreciated (-0.1%) offshore.**

China has suspended debt service requirements on more than $2 bn of debt from 23 countries as part of the G20's Debt Service Suspension Initiative (DSSI). Of that amount, $800 mn was associated with China Development Bank. The troubled property developer Evergrande took steps to restore confidence in its finances, securing a $4.6 bn investment from state-linked companies and lining up 23 strategic investors for the spinoff of its property services arm.

Exhibit 1: Delays in bond issuance increased following recent defaults by some local SOEs

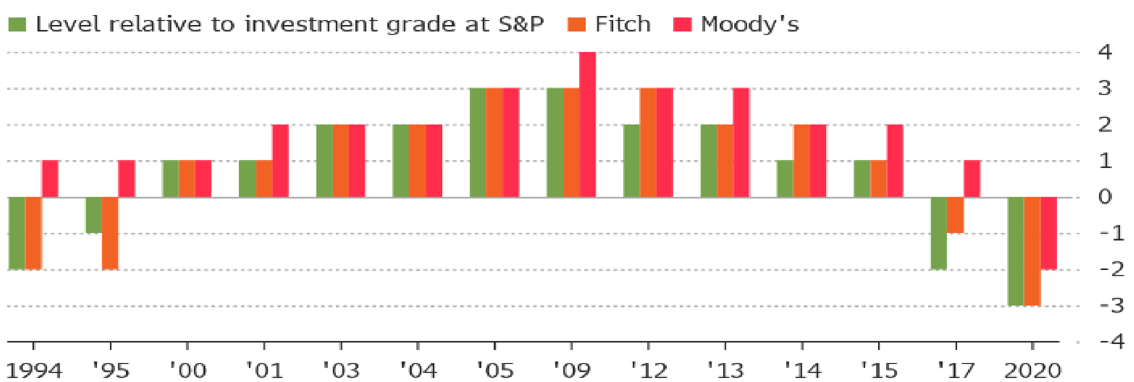


Source: Wind, Goldman Sachs Global Investment Research

South Africa

Moody's and Fitch Ratings downgraded South Africa's sovereign status on Friday. The agencies lowered their ratings to Ba2 from Ba1 (Moody's) and to BB- from BB (Fitch), both with a negative outlook. The ratings are two levels and three levels respectively below investment grade. The agencies noted the negative impact that the pandemic will have on the nation's "fiscal strength" over the medium term. Fitch went further and added that "GDP is expected to remain below 2019 levels even in 2022." **Despite the news, South African assets traded in line with EM peers on Monday.** Equities gained 1.1% in Johannesburg and the rand strengthened 0.5% to the dollar.

South Africa's foreign-currency debt is rated at the lowest levels yet



Source: S&P Global Ratings, Fitch Ratings, Moody's Investors Service
Note: Chart shows Dec. 31 rating in years when a change occurred and as of Nov. 20, 2020

Bloomberg

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Global Financial Indicators

Last updated: 11/23/20 7:56 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3558	-0.7	-1	3	14	10
Europe		3481	0.4	0	9	-6	-7
Japan		25527	-0.4	1	9	10	8
China		3414	1.1	2	4	18	12
Asia Ex Japan		86	0.8	2	6	23	17
Emerging Markets		49	0.6	2	6	15	9
Interest Rates					basis points		
US 10y Yield		0.85	2.9	-5	1	-92	-106
Germany 10y Yield		-0.57	1.2	-3	0	-21	-39
Japan 10y Yield		0.01	0.0	-1	-3	9	2
UK 10y Yield		0.32	2.2	-3	4	-38	-50
Credit Spreads					basis points		
US Investment Grade		111	0.6	-5	-14	-11	13
US High Yield		450	1.3	-11	-54	-28	57
Europe IG		51	-0.6	1	-4	3	7
Europe HY		275	-6.7	-11	-53	46	69
Exchange Rates					%		
USD/Majors		92.04	-0.4	-1	-1	-6	-5
EUR/USD		1.19	0.4	0	0	8	6
USD/JPY		103.7	0.1	1	1	5	5
EM/USD		56.4	0.1	0	2	-6	-8
Commodities					%		
Brent Crude Oil ($/barrel)		46	1.3	4	9	-28	-31
Industrials Metals (index)		129	-0.7	2	6	14	12
Agriculture (index)		45	1.3	2	5	14	8
Implied Volatility					%		
VIX Index (%, change in pp)		23.2	-0.5	0.7	-4.4	10.8	9.4
US 10y Swaption Volatility		55.1	0.6	0.1	-18.3	-9.9	-6.9
Global FX Volatility		7.7	0.1	-0.1	-0.7	1.6	1.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		124	-3.5	-2	-26	-51	-41
Italy		120	-1.7	0	-13	-34	-40
Portugal		60	-0.7	-2	-15	-16	-3
Spain		65	-0.2	0	-12	-12	-1

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: 11/23/2020 8:03 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	-0.1	0.2	2	7	6		3.5	2.6	8	11	24	31
Indonesia		14149	0.1	-0.3	4	0	-2		6.3	0.8	-10	-33	-82	-83
India		74	0.1	0.7	-1	-3	-4		6.0	-2.0	-4	-8	-80	-90
Philippines		48	0.0	0.0	1	5	5		3.6	-0.2	2	6	-68	-67
Thailand		30	0.0	-0.3	3	0	-2		1.5	0.5	-1	-3	-27	-15
Malaysia		4.09	0.0	0.6	2	2	0		2.5	1.3	4	9	-85	-80
Argentina		80	-0.1	-0.7	-3	-26	-25		53.1	2.6	87	751	-2355	-946
Brazil		5.36	0.5	1.3	5	-21	-25		6.6	14.1	23	56	49	39
Chile		761	0.0	0.7	2	5	-1		2.8	-3.9	0	5	-73	-51
Colombia		3631	0.1	0.2	4	-5	-9		5.1	-3.3	-6	-9	-83	-81
Mexico		20.00	0.5	1.5	4	-3	-5		6.0	-4.5	-8	-11	-118	-99
Peru		3.6	-0.5	1.3	0	-6	-8		4.0	0.7	-16	-17	-50	-50
Uruguay		43	0.1	0.2	0	-12	-13		7.4	4.1	-4	6	-366	-345
Hungary		303	0.4	0.0	2	1	-2		1.6	-0.9	-1	-13	48	41
Poland		3.76	0.3	0.4	3	4	1		0.6	0.5	-1	-5	-124	-129
Romania		4.1	0.3	0.4	0	6	4		2.9	0.0	-4	-34	-108	-110
Russia		75.9	0.4	0.4	0	-16	-18		5.5	-0.5	0	-11	-68	-58
South Africa		15.3	0.4	0.0	6	-4	-9		9.8	-2.7	-8	-44	25	24
Turkey		7.79	-2.0	-1.1	2	-26	-24		12.0	0.6	-46	-113	26	33
US (DXY; 5y UST)		92	-0.4	-0.7	-1	-6	-5		0.39	1.5	-2	1	-124	-131

	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		5005	1.2	2	6	30	22		215	3	5	1	40	39
Indonesia		5653	1.5	3	11	-7	-10		197	-1	7	-15	17	41
India		44077	0.4	1	8	9	7		171	-1	-3	-36	43	46
Philippines		7179	0.1	4	11	-8	-8		117	0	9	-8	32	51
Malaysia		1597	0.2	0	7	0	1		129	3	2	-17	10	17
Argentina		51492	1.1	3	-2	53	24		1379	0	54	-46	-869	-390
Brazil		106043	-0.6	1	5	-2	-8		269	0	0	-34	35	54
Chile		4077	0.7	1	7	-14	-13		155	0	6	-11	3	22
Colombia		1240	0.7	2	5	-23	-25		218	1	11	-23	35	55
Mexico		41905	0.1	4	8	-4	-4		433	0	6	-42	112	141
Peru		18810	1.4	4	4	-5	-8		142	0	-3	-7	14	35
Hungary		38210	0.0	2	14	-13	-17		108	0	7	3	7	22
Poland		53105	1.5	2	11	-8	-8		10	0	0	-4	-15	-8
Romania		9147	0.9	3	4	-6	-8		212	4	6	-21	9	38
Russia		3074	0.6	0	9	4	1		184	-2	9	-10	22	53
South Africa		57296	1.2	0	4	1	0		426	0	14	-49	80	106
Turkey		1330	0.4	3	12	25	16		505	6	4	-103	79	104
Ukraine		501	0.0	0	0	-3	-2		557	-12	-11	-160	75	137
EM total		49	1.5	2	6	15	9		421	0	17	-10	97	128

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