GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 23, 2021

- **Powell pick sends US rates higher** (link)
- **Yen at weakest in four years** (link)
- **Markets price first ECB hike in December 2022** (link)
- **Survey finds investors still bullish on stocks** (link)
- **Turkish lira plunges 9%** (link)
- **Ghana unexpectedly hikes policy rate as currency weakens to record low** (link)

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Stock markets weaken as interest rates move higher

Stocks are down in most advanced economies as government bond yields moved higher following the nomination of Fed Chair Powell for a second term. The worsening Covid situation in Europe also played a role in pushing markets lower. The rally in the dollar is drawing increased scrutiny as currencies such as the Yen hit multi-year lows and emerging market currencies in such as the Turkish lira and the Ghanaian cedi also depreciated to all-time lows. Meanwhile, the US announced that it would release 50 million barrels of oil from its Strategic Petroleum Reserve to counter rising oil prices. Other countries such as India, China and South Korea are to take similar steps. All eyes are on OPEC+ to see how the bloc responds. The US oil benchmark West Texas Intermediate (WTI) declined following the news, but the European benchmark Brent crude price was slightly higher.

Key Global Financial Indicators

Last updated: 11/23/21 7:53 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4683	-0.3	0	3	31	25
Eurostoxx 50		4311	-0.6	-2	3	24	21
Nikkei 225		29774	0.1	0	3	17	8
MSCI EM		51	-0.8	-3	-3	3	-2
Yields and Spreads					bps		
US 10y Yield		1.66	3.3	2	2	80	74
Germany 10y Yield		-0.24	6.2	0	-13	34	33
EMBIG Sovereign Spread		356	-3	9	1	-24	6
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.6	-1.2	-3	-4	-6	-9
Dollar index, (+) = $ appreciation		96.6	0.0	1	3	4	7
Brent Crude Oil ($/barrel)		79.8	0.1	-3	-7	73	54
VIX Index (%, change in pp)		19.7	0.5	3	4	-3	-3

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

Mature Markets

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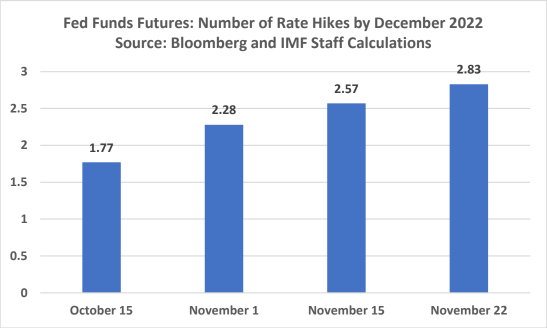
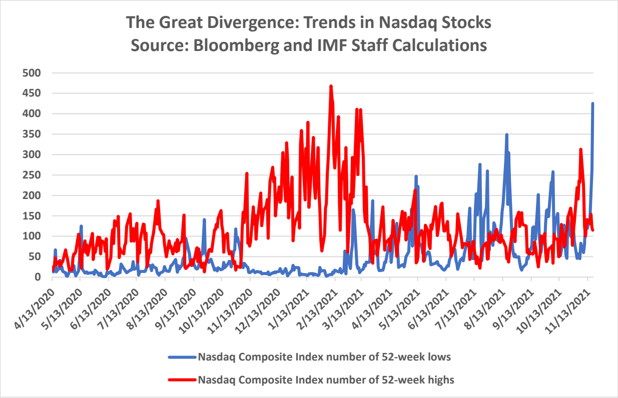
United States

The news that President Biden will nominate Fed Chair Powell for a second term pushed US rates higher. Treasury yields rose across the yield curve and the Fed Funds futures market is now pricing the first rate hike in June 2022. In addition, markets are now pricing nearly three full rate hikes by the end of next year. Back on October 15, the market was pricing less than two rate hikes by December 2022. The dollar extended gains against most currencies. There had been some speculation that current Vice Chair Brainard might be elevated to the top spot instead, which would have been viewed as a more dovish choice. JP Morgan thinks the Powell pick will benefit markets by reducing uncertainty. New Fed chairs often run into difficulties early in their terms. Weak two-year and five-year auctions also weighed on Treasury prices.

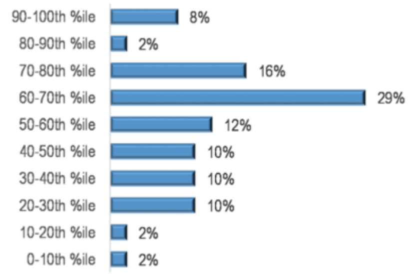


The tech-heavy Nasdaq index is showing signs of strain despite hitting multiple new records in recent days. The number of stocks hitting 52-week lows has soared, while those hitting 52-week highs has declined sharply. Analysts consider this trend to be worrisome because the index is being led higher by a dwindling number of market leaders, mainly the mega-tech giants such as Apple, Google, Microsoft, and their like. If these stocks run into headwinds, the overall index is at risk of a sharp selloff. The S&P 500 is experiencing a similar trend, although it is less pronounced. With the Fed edging closer to tightening financial conditions, investors are getting increasingly nervous about current market valuations.



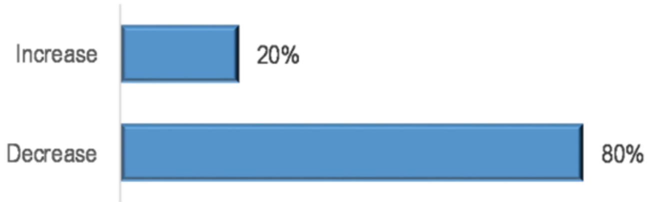
The latest JP Morgan investor survey finds that investors remain positive about stocks despite the major indexes trading at or near record levels. Two-thirds of those surveyed are above the 50th percentile and 26% are above the 70th percentile. 54% of investors intend to add more exposure to their equity portfolios. In contrast, investors are very bearish with regard to interest rates, with just 20% looking to add duration exposure. 76% of investors expected Fed Chair Powell to be renominated. Finally, 61% expected core US CPI to fall back to 2% by 2023. Most are bullish on the dollar versus other major currencies, with the exception of the yuan.

Figure 1: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?



Source: J.P. Morgan.

Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?

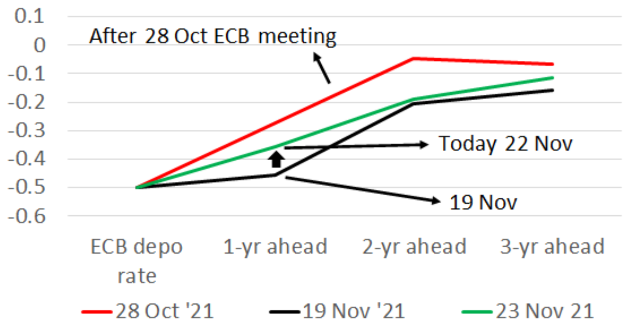


Source: J.P. Morgan.

Euro Area

Euro area money markets are once more pricing in a first ECB hike in Dec 2022 following comments by several ECB officials. Banque de France governor Villeroy de Galhau commented that the ECB is "serious" about ending its emergency QE program in March 2022 and may not expand regular asset purchases to cover the shortfall. **ECB Governing Council member Schnabel said that risks to euro area inflation are skewed to the upside, adding that the rise in covid-19 infections is likely to have a moderating effect on activity but will not derail the overall recovery.**

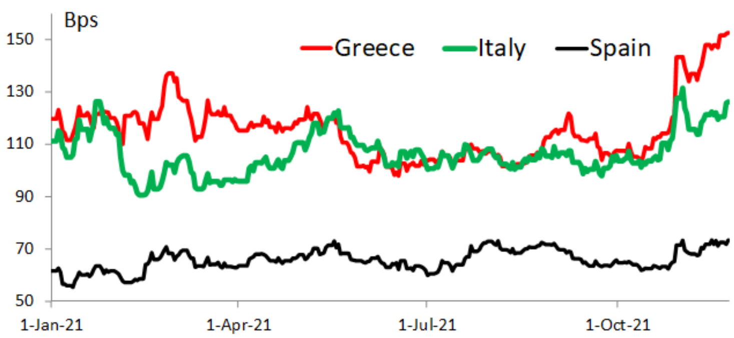
Euro area: ECB policy rate forward curve (%)



Source: Bloomberg and IMF staff

Italian 10-yr spreads and 10-yr Greek spreads over bunds have widened 4-6 bps in the past week as contacts warn that Italian and Greek spreads could widen further if the ECB does not make any changes to its regular QE program if the pandemic QE program ends in March 2022. In the past 3 months, 10-yr Greeks spreads have widened 45 bps compared to 21 bps for Italy and 2 bps for Spain.

Euro area: 10-year spreads over German bunds (bps)



Source: Bloomberg and IMF staff

Euro area confidence data disappointed yesterday but PMI data for November surprised to the upside. The flash manufacturing PMI was 1 point better than expected (at 58.6) and the services PMI was 3 points higher than expectations (at 56.6). Analysts had downgraded their expectations for PMI data pointing to supply restrictions, the pick-up in covid cases and a slowdown in other economic data.

Japan

The yen depreciated (-0.2%), reaching the weakest level in four years. The currency hit 115 against the dollar as the renomination of Jerome Powell as Fed chair fueled speculation that the Fed might tighten policy more quickly. Local markets were closed for a holiday.

Emerging Markets

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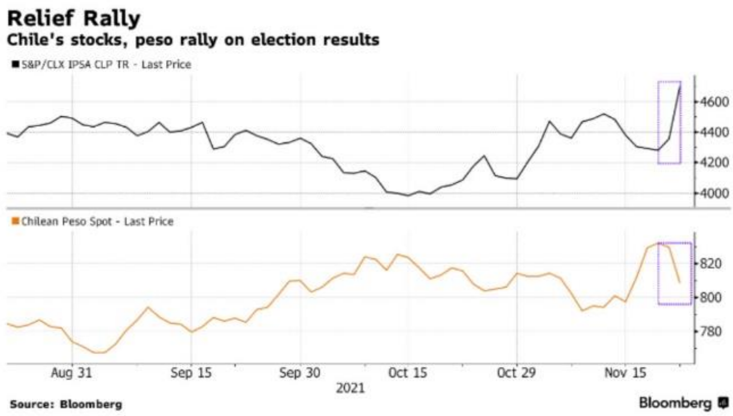
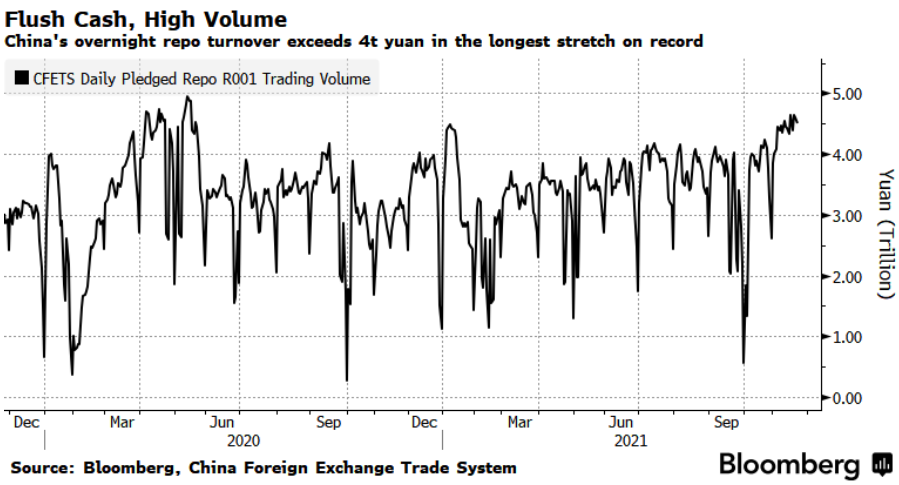
EMEA stocks were mixed. In Asia, most stock markets were lower as the strong dollar dominated trading. Local government bond yields pushed higher. Paraguay's central bank tightened monetary policy by 125 bps for a second consecutive month, lifting its benchmark interest rate to 4%. It also reaffirmed its previously announced guidance of a similar hike in December. In Chile, markets surged as the right wing candidate did better than the left wing candidate in Sunday's election is believed to have an advantage going into next month's runoff.



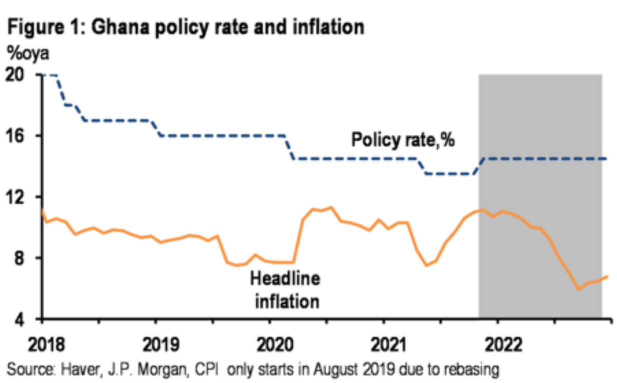
China

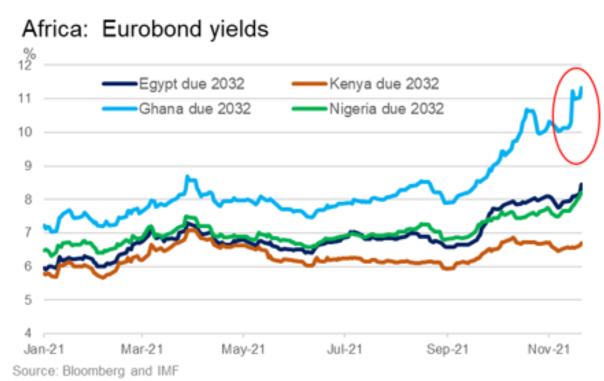
The People's Bank of China (PBOC) injected 50 bn yuan ($7.8 bn) of liquidity via open market operations, keeping net liquidity withdrawal at zero. Some analysts noted an increase in leverage in bond markets, which may discourage the PBOC from deploying easing measures to support growth. The daily overnight repo turnover has exceeded 4 tn yuan ($626 bn) for 15 consecutive days, the longest run ever. The elevated turnover could indicate that financial institutions are taking advantage of ample liquidity to boost their borrowings. In other news, Aoyuan, a mid-sized property developer failed to pay a trust loan in full, reviving market concerns about liquidity stress among Chinese property developers; some of its offshore USD bonds declined sharply. In contrast to other currencies in the region, RMB remains strong given the sizeable trade surplus. Equities were little changed.



Ghana

Ghana unexpectedly increased interest rates by 100 bps to 14.5% (the consensus was for no change), after headline inflation reached 11% yoy in October. The MPC statement flagged concerns over rising global inflation, higher energy prices, uncertainties around food prices and investor behavior. **Analysts think the continued reliance on domestic financing is unsustainable, given high domestic interest costs.** Ghana's Eurobonds and currency have been under pressure in recent months given persistent foreign portfolio outflows: non-resident holdings of Ghana domestic debt declined to US$5.8bn in October from US$6.1bn in August, while gross external reserves declined to US$10.7bn from US$11.4bn in the same period. Eurobond yields were little changed following the announcement while the **Ghanaian cedi is trading at record weak levels at roughly 6.50 cedi per dollar.**

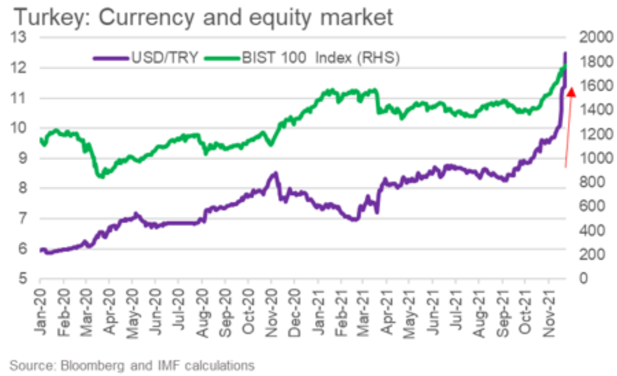


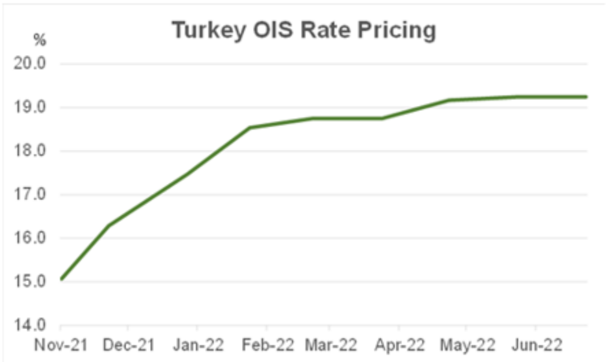


Turkey

The Turkish lira weakened to above 12.50 liras per dollar and 10-yr yields jumped (+6 bps). The lira has depreciated by another 9% this morning, trading around 12.47 liras per dollar, marking a 50% depreciation since the start of September. Yesterday President Erdogan defended lower interest rates to support economic growth and job creation - the central bank has cut interest rates by 400 bps since

September, to 15%. The Borsa Istanbul 100 Index was trading higher this morning, led by companies with hard currency income, according to Bloomberg, who also reports that the bourse extended daily price limits on certain currency futures to 20% from 10%. **The onshore overnight swap markets are now pricing about 400 bps of increases by the end of March, with expectations building of an interest rate increase in January.**





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.

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Global Financial Indicators

Last updated: 11/23/21 7:55 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4683	-0.3	0	3	31	25
Europe		4311	-0.6	-2	3	24	21
Japan		29774	0.1	0	3	17	8
China		3589	0.2	2	0	5	3
Asia Ex Japan		86	-0.4	-2	-2	0	-4
Emerging Markets		51	-0.8	-3	-3	3	-2
Interest Rates					basis points		
US 10y Yield		1.66	3.3	2	2	80	74
Germany 10y Yield		-0.24	6.2	0	-13	34	33
Japan 10y Yield		0.08	0.0	0	-2	6	5
UK 10y Yield		0.98	4.3	-2	-17	66	78
Credit Spreads					basis points		
US Investment Grade		114	0.1	1	30	4	19
US High Yield		350	-4.1	9	38	-100	-29
Europe IG		51	1.1	2	1	0	3
Europe HY		259	5.7	11	-1	-17	18
Exchange Rates					%		
USD/Majors		96.58	0.0	1	3	4	7
EUR/USD		1.12	0.0	-1	-3	-5	-8
USD/JPY		115.0	0.1	0	1	10	11
EM/USD		52.6	-1.2	-3	-4	-6	-9
Commodities					%		
Brent Crude Oil ($/barrel)		80	0.1	-3	-7	73	54
Industrials Metals (index)		168	0.1	3	-3	31	26
Agriculture (index)		61	-0.2	1	7	39	28
Implied Volatility					%		
VIX Index (%, change in pp)		19.7	0.5	3.3	4.3	-3.0	-3.0
US 10y Swaption Volatility		80.0	-0.2	-3.8	6.4	24.8	19.9
Global FX Volatility		7.8	0.0	0.3	0.9	0.1	-0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		153	1.2	6	39	28	34
Italy		127	1.5	6	17	7	16
Portugal		66	1.2	4	15	6	6
Spain		73	1.2	1	10	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: 11/23/2021 7:57 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		6.39	-0.1	0.0	0	3	2		3.0	0.6	1	-9	-24	-11
Indonesia		14258	-0.1	-0.3	-1	-1	-1		6.1	1.2	2	-2	-18	16
India		74	0.0	-0.1	1	0	-2		6.5	-4.0	-1	-17	122	97
Philippines		51	0.1	-0.5	0	-5	-5		4.6	0.0	-15	20	173	160
Thailand		33	-0.3	-1.1	0	-8	-10		1.9	2.5	1	-7	62	62
Malaysia		4.20	-0.3	-0.8	-1	-3	-4		3.6	2.8	2	-4	93	93
Argentina		100	-0.1	-0.2	-1	-20	-16		50.7	0.0	39	75	-248	-549
Brazil		5.63	-0.5	-2.3	-1	-3	-8		11.8	11.3	25	-37	306	441
Chile		811	0.1	0.1	0	-5	-12		5.2	0.0	-36	-56	260	266
Colombia		3920	-0.1	-0.8	-4	-7	-13		6.8	0.0	12	14	273	277
Mexico		21.15	-0.7	-1.8	-5	-5	-6		7.5	0.5	-6	-26	191	213
Peru		4.0	0.0	-0.4	-1	-10	-10		5.9	0.5	6	1	193	239
Uruguay		44	0.2	0.1	-1	-3	-4		8.6	-0.6	7	56	123	139
Hungary		331	-0.3	-2.4	-5	-8	-10		4.5	18.3	60	61	294	293
Poland		4.19	-0.1	-1.9	-5	-10	-11		3.2	7.5	28	41	206	213
Romania		4.4	0.0	-0.7	-3	-7	-10		4.9	5.2	12	46	201	217
Russia		75.1	-0.2	-2.8	-7	1	-1		9.3	13.1	43	78	309	280
South Africa		15.9	-0.4	-2.6	-8	-3	-8		7.7	12.7	14	-12	97	111
Turkey		13.12	-13.2	-21.4	-27	-40	-43		21.4	106.0	177	112	923	853
US (DXY; 5y UST)		97	0.1	0.7	3	4	7		1.36	4.2	9	16	97	100

	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		4913	0.0	1	-1	-1	-6		196	-1	-10	-38	-33
Indonesia		6678	-0.7	0	1	17	12		155	-5	-15	-55	-45
India		58664	0.3	-3	-4	32	23		131	-6	-12	-40	-20
Philippines		7401	1.6	0	2	4	4		99	2	-9	-24	-13
Malaysia		1523	-0.3	0	-4	-4	-6		109	-2	-19	-38	-26
Argentina		85695	-4.3	-10	-1	66	67		1769	97	113	401	413
Brazil		102122	-0.9	-4	-4	-5	-14		318	4	-6	40	59
Chile		4759	-0.5	11	17	15	14		132	4	-26	-32	-24
Colombia		1312	1.0	-2	-6	5	-9		308	8	21	84	93
Mexico		50497	-0.6	-2	-3	19	15		334	3	-13	-91	-23
Peru		19832	-1.5	-4	-5	5	-5		153	4	-5	1	24
Hungary		50700	0.4	-2	-8	32	21		112	5	2	-29	-37
Poland		69215	-0.2	-4	-6	31	21		44	-1	6	18	16
Romania		12472	-1.2	-3	-3	36	27		187	10	-11	-25	-16
Russia		3934	1.6	-5	-6	29	20		165	13	13	-33	-14
South Africa		70701	-0.2	0	5	24	19		352	15	-1	-77	-32
Turkey		1774	1.1	5	20	35	20		491	24	-24	-13	44
Ukraine		523	0.0	0	-1	4	5		604	53	106	32	111
EM total		51	-0.8	-3	-3	3	-2		378	11	4	15	39

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

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