



- US economic data point to modest improvement ([link](#))
- Demand for US corporate bonds expected to remain strong in 2022 ([link](#))
- Survey finds investors relatively sanguine on US interest rates ([link](#))
- Euro area peripheral spreads trade wider after hawkish ECB rhetoric ([link](#))
- Reserve Bank of New Zealand delivers dovish surprise ([link](#))

[Mature Markets](#)

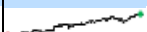

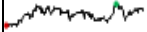
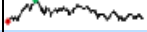
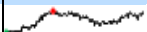
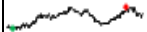



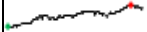

| [Emerging Markets](#)

| [Market Tables](#)

Markets quiet ahead of US holiday

Global markets held steady ahead of the US Thanksgiving holiday, in contrast to earlier in the week when markets saw considerable volatility. However, uncertainty prevails going forward as central banks confront higher than expected global inflation around the world. The problem of how central banks set about taming inflation without harming the global economic recovery is the main question for the new year. Meanwhile, mixed messages from the ECB pushed credit spreads in Italy in Greece wider on fears of greater hawkishness at the December ECB meeting. In contrast, the Reserve Bank of New Zealand delivered a widely predicted 25 bps rate hike but tempered it with unexpectedly dovish rhetoric. The release of oil supplies from the Strategic Petroleum Reserve in the US and from several Asian countries has had a negligible impact on oil prices so far. Meanwhile, survey data show that bond market investors remain optimistic for next year.

Key Global Financial Indicators

Last updated: 11/24/21 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4691	0.2	0	3	29	25
Eurostoxx 50		4270	-0.3	-3	2	22	20
Nikkei 225		29303	-1.6	-2	2	11	7
MSCI EM		50	-0.1	-3	-3	1	-2
Yields and Spreads			bps				
US 10y Yield		1.66	-0.7	7	3	78	75
Germany 10y Yield		-0.23	-0.9	2	-12	33	34
EMBIG Sovereign Spread		364	7	14	8	-15	13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.1	0.7	-2	-4	-6	-8
Dollar index, (+) = \$ appreciation		96.7	0.2	1	3	5	8
Brent Crude Oil (\$/barrel)		82.2	-0.2	2	-4	72	59
VIX Index (% change in pp)		19.8	0.4	3	4	-2	-3

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

Mature Markets

[back to top](#)

United States

The latest US economic data pointed to modest improvements in the economic situation. Markets were little changed on the news. New jobless claims were much lower than expected and the critical durable goods ex-transportation met consensus forecasts. However, the main event of the day is the core PCE inflation report due to be released later this morning. This could have a major impact on markets as it is the Fed's preferred measure of inflation. The consensus forecast is that the annualized PCE core deflator will be 4.1% and the monthly number will be 0.4% mom. In addition, the FOMC minutes are due this afternoon.

Selected US Economic Data 8.30 am

Data Release	Consensus Forecast	Actual Data
Q3 GDP Annualized	2.2%	2.1%
Core PCE qoq	4.5%	4.5%
Durable Goods	0.2%	-0.5%
Durable Goods ex-exports	0.5%	0.5%
Jobless Claims	260K	199K
Continuing Claims	2032K	2049K
Source: Bloomberg		

Investor demand for US investment grade (IG) corporate bonds is expected to remain strong in 2022. This demand is expected despite the tight spreads prevailing in the current market. The latest Bank of America investor survey found that 78% of investors think the IG bond market is overvalued but they continue to report strong demand. This is because interest rates still remain extremely low by historical standards, and real yields remain stubbornly negative. Moreover, forward curves are predicting that interest rate increases next year will be relatively modest. Furthermore, the US economy is expected to do well next year, which ought to be good for businesses and profits. Finally, IG companies have strong fundamentals and balance sheets, giving them protection against any potential downturn. As for default rates, even high yield default rates are not expected to go much higher than 2% next year.

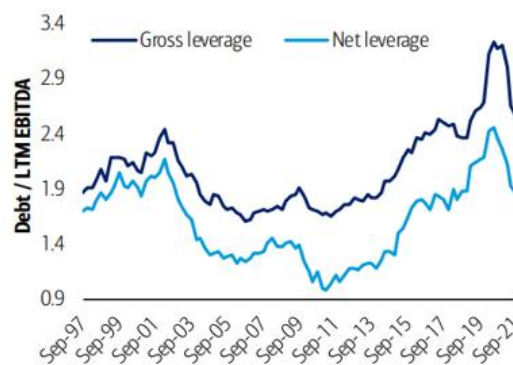
Figure 4: Persistent negative 10yr interest rates in the US
10-year US real rate has been negative since April of last year.



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Figure 7: US IG gross leverage in 3Q-21 was the lowest since 1Q-19
Gross leverage was 2.58x in 3Q-21, compared to 2.53 in 1Q-19.



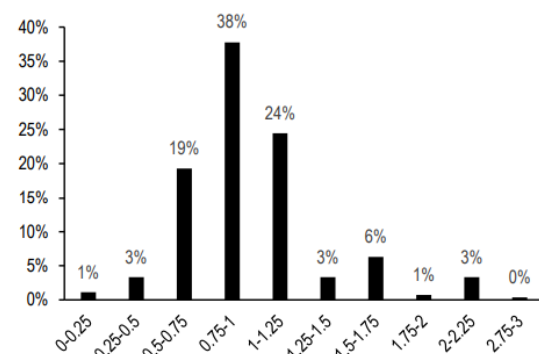
Source: BofA Global Research

BofA GLOBAL RESEARCH

The latest JP Morgan investor survey finds that investors are fairly optimistic about the path of US interest rates next year. Most expect only a moderate rise in interest rates at both the short and the long end of the yield curve. On tapering, 46% expect the Fed to end in June while 34% think the end might come earlier than that. However, despite the relative optimism about the level of rates, most expect the Treasury market to deliver negative returns next year. 2021 is the first year to deliver negative Treasury market returns since 2013, the year of the original taper tantrum. Two consecutive negative years for Treasuries has not occurred since the global financial crisis.

Exhibit 3: 77% of survey respondents expect 2-year UST yields to reach at least 75bp by the end of 2Q22, and 38% expect 2s to be at or above 1.00% by mid-year

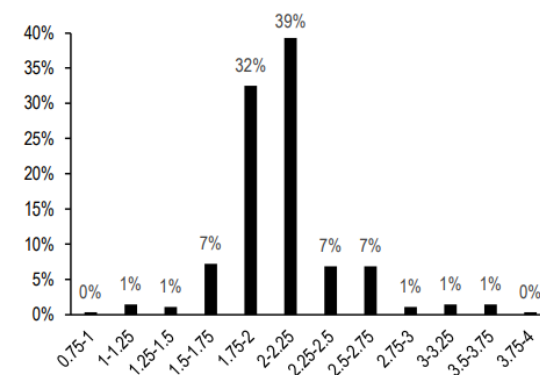
J.P. Morgan 2022 US Fixed Income Outlook Survey, distribution of responses to the question, "Where do you expect 2-year UST yields to be at the end of 2Q 2022?"; %



Source: J.P. Morgan

Exhibit 4: Further out the curve, nearly 60% of respondents expect 10-year UST yields to reach at least 2% by mid-year

J.P. Morgan 2022 US Fixed Income Outlook Survey, distribution of responses to the question, "Where do you expect 10-year UST yields to be at the end of 2Q 2022?"; %

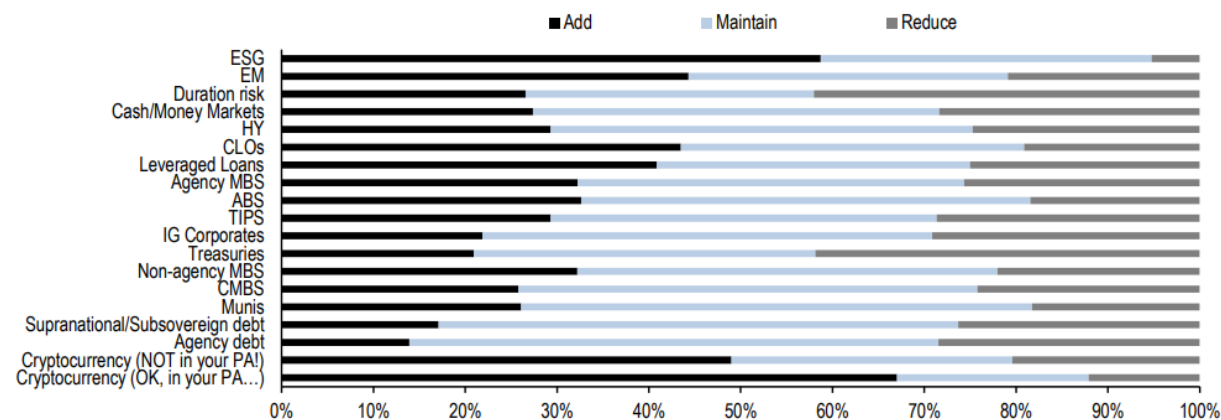


Source: J.P. Morgan

Investor optimism extends to the credit market, with 81% expecting IG spreads to remain below 125 bps in 2022 (compared to 111 bps as of yesterday). Based on the data, investors plan to avoid duration risk and buy into spread products instead. In addition, crypto assets and ESG investments were picked as the most favored sectors for 2022. Structured products such as CLOs, and emerging markets were other key favorites.

Exhibit 6: Investors plan to reduce duration risk, and to add spread products and ESG

J.P. Morgan 2022 US Fixed Income Outlook Survey, distribution of responses to the question, "Are you looking to reduce, maintain, or add exposure to the following asset classes over the next year?"; %



Note: Choices were shown to respondents in a randomized order. Not included in a given total percentage are respondents who explicitly selected the "N/A" option for a particular asset class and respondents who left that particular asset class blank.

Source: J.P. Morgan

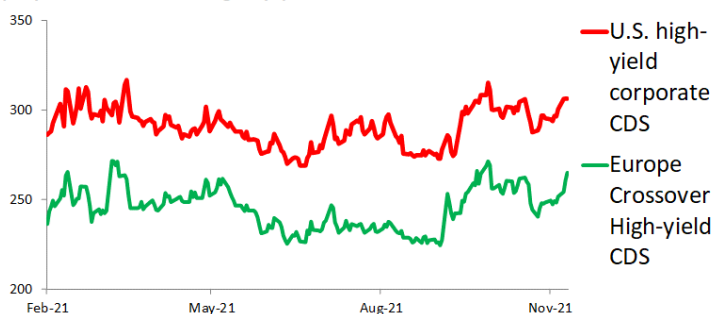
Euro area

Equities (-0.4%) traded lower with German equities (-0.7%) underperforming as Covid fears and the focus of ECB officials on upside risks to inflation continued to weigh on sentiment. ECB Vice President De Guindos, for example, commented that supply factors are becoming structural, leaving inflation higher than the ECB had expected and making forecasts more uncertain. In contrast, ECB Governing Council member Panetta warned that the ECB must not tighten too early in response to an inflation spike driven by purely temporary factors. German IFO expectations data for November also disappointed somewhat, contrasting with the much better-than-expected PMI data yesterday. The new German coalition government may announce a new Bundesbank head by the end of the week.

Southern European and corporate credit spreads widened as contacts fear that comments of several officials suggest that the ECB may be more hawkish than previously expected at its meeting on 16 December. Italian 10-yr spreads over bunds (+3 bps to 131 bps) and 10-yr Greek spreads (+5 bps to 159 bps) widened. **A popular measure to track developments in euro area high-yield corporate credit rose 5 bps today, for a rise of 39 bps since early September.**

Euro area: Corporate CDS Credit spreads

(Corporate and EM sovereign, bps)



Note: Europe Crossover high-yield index comprises 75 equally weighted credit default swaps on the most liquid sub-investment grade European corporate entities.

U.S. high-yield is composed of 100 non-investment grade corporates (B and BB).

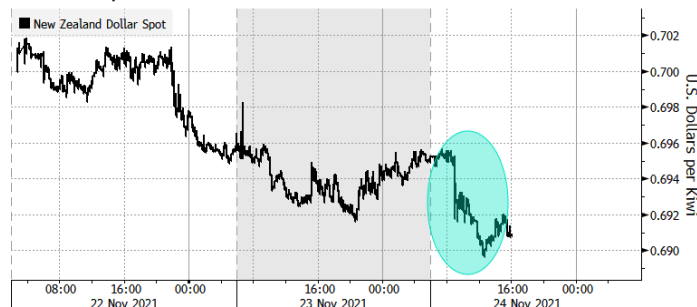
Source: Bloomberg, and IMF staff

New Zealand

The Reserve Bank of New Zealand (RBNZ) made a dovish rate hike. While noting that capacity pressures have continued tightening and that employment is now above its maximum sustainable level, the RBNZ stated that it would take a cautious approach to further tightening, which markets perceived as a dovish message. The RBNZ raised its cash rate by 25 bps to 0.75% in line with market expectations; however, long-end government yields declined (10-year: -5.5 bps). Following the policy decision, traders dialed back some of their expectations for future rate hikes, pricing in an implied rate of 1.8% for the cash rate by July 2022, compared with 2.04% prior to the policy meeting. Equities gained (+0.6%).

Air Pocket

N.Z. dollar drops after RBNZ hike falls short of some hawkish forecasts

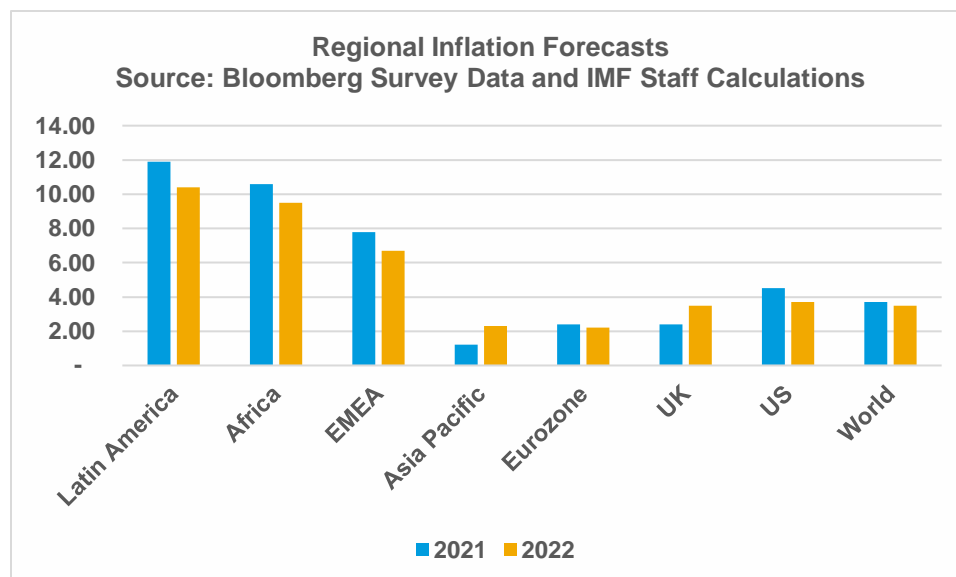


Source: Bloomberg

Bloomberg

Emerging Markets [back to top](#)

EMEA stocks were mostly higher, although currencies were mixed as Covid infection rates continued to rise in Eastern Europe. Asian markets were fairly steady. In Latin America, markets were mixed. Economic data in Argentina were stronger than expected. Latin America and Africa stand out as having the highest inflation forecasts in the world for 2021 and 2022.

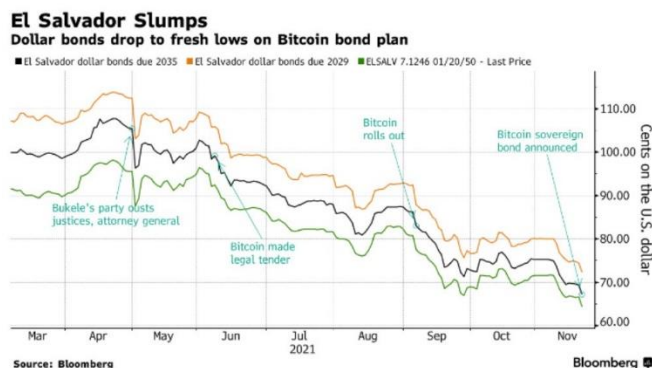


China

Vice Premier Liu He called for stabilizing housing markets. In an article published in the People's Daily, he said that officials should focus on stabilizing land prices, house prices, and expectations in order to solve households' housing problems. At the same time, he vowed to keep curbs on housing markets under the slogan of "houses are for living in, not for speculation", noting that excess housing supply is a threat to economic stability and that investment should be directed to high-tech manufacturing instead of housing. Meanwhile, real estate activity has slowed sharply. Local governments' land sale revenues in 300 cities also declined by 500 bn (\$78 bn) in 2021Q3 from a year ago.

El Salvador

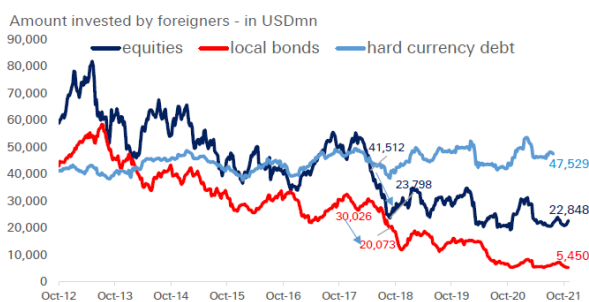
El Salvador's plans to issue a \$1 billion Bitcoin bond sent the nation's dollar bonds to an all-time low on Tuesday, with notes due in 2050 slumping to 63.4 cents on the dollar. El Salvador's debt has been one of the world's worst performers this week, with investors now demanding 1,202 bps over U.S. Treasuries to hold the bonds, according to JPMorgan Chase & Co. data.



Turkey

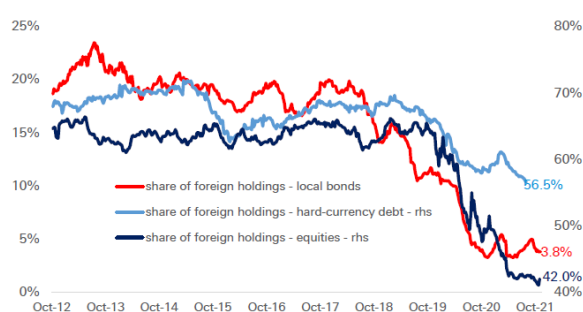
Spillovers from the FX market turmoil yesterday, where the lira depreciated by -12.6%, have been contained so far. The 5yr CDS has increased by 50 bps over a week to around 475 bps, well below the 550 bps seen in Q2-Q3 last year. Contacts report that local banks could be supporting the credit markets, thus limiting spreads. Media reports also flag that banks with large exposures to Turkey have seen lower share prices, with Spanish banks reported having some of the largest exposures. While Turkey's risks are generally seen as idiosyncratic, there are conflicting views on the extent of further spillovers – with some analysts warning of pressure on other EM assets via portfolio adjustments. Others point out that foreign ownership of Turkish assets is at an all-time low, so the impact could be less severe.

Figure 3: Foreigners only own \$5.5bn worth of (outright) local bonds and \$22.85bn of equities



Source : Deutsche Bank, CBT

Figure 4: Foreign ownership in local assets is at historically low levels


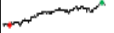

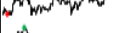

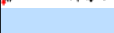







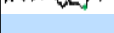










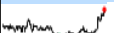





Source : Deutsche Bank, CBT

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Global Financial Indicators

Last updated: 11/24/21 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4683	0.2	0	3	29	25
Europe		4270	-0.3	-3	2	22	20
Japan		29303	-1.6	-2	2	11	7
China		3593	0.1	2	0	7	3
Asia Ex Japan		86	-0.3	-2	-2	-1	-4
Emerging Markets		50	-0.1	-3	-3	1	-2
Interest Rates			basis points				
US 10y Yield		1.66	-0.7	7	3	78	75
Germany 10y Yield		-0.23	-0.9	2	-12	33	34
Japan 10y Yield		0.08	0.8	0	-1	6	6
UK 10y Yield		1.02	2.4	6	-12	69	82
Credit Spreads			basis points				
US Investment Grade		113	-1.5	1	28	3	18
US High Yield		352	1.8	13	40	-93	-28
Europe IG		52	1.1	3	2	4	5
Europe HY		264	4.9	15	4	0	23
Exchange Rates			%				
USD/Majors		96.73	0.2	1	3	5	8
EUR/USD		1.12	-0.4	-1	-3	-6	-8
USD/JPY		115.1	0.0	1	1	10	12
EM/USD		53.1	0.7	-2	-4	-6	-8
Commodities			%				
Brent Crude Oil (\$/barrel)		82	-0.2	2	-4	72	59
Industrials Metals (index)		169	1.4	5	-2	31	28
Agriculture (index)		62	0.2	1	8	41	30
Implied Volatility			%				
VIX Index (% change in pp)		19.8	0.4	2.6	4.3	-1.9	-3.0
US 10y Swaption Volatility		84.1	0.6	5.5	10.5	29.9	24.0
Global FX Volatility		8.0	0.0	0.5	1.1	0.4	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		159	5.6	11	45	36	39
Italy		132	3.7	10	21	14	21
Portugal		68	1.6	4	16	8	8
Spain		75	1.5	1	11	11	13

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

Emerging Market Financial Indicators

Last updated: 11/24/2021 8:08 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	0.0	-0.2	0	3	2		3.0	-3.1	-4	-12	-32	-14	
Indonesia		14265	0.0	-0.1	-1	-1	-2		6.0	-0.1	2	-2	-17	16	
India		74	0.0	-0.2	1	-1	-2		6.5	-1.0	-2	-18	115	96	
Philippines		50	0.5	0.1	1	-4	-5		4.6	0.0	-13	20	170	160	
Thailand		33	-0.7	-2.2	-1	-9	-10		1.9	-1.0	-3	-8	61	61	
Malaysia		4.21	-0.3	-0.7	-1	-3	-5		3.6	1.6	0	-4	92	93	
Argentina		101	-0.1	-0.3	-1	-20	-16		50.7	7.4	38	82	-241	-541	
Brazil		5.60	-0.1	-1.3	-1	-4	-7		11.6	-22.0	-3	-45	286	421	
Chile		810	0.3	2.3	0	-5	-12		5.2	-2.3	-27	-52	262	270	
Colombia		3957	-0.2	-0.9	-5	-8	-13		6.8	0.0	17	20	274	282	
Mexico		21.27	-0.2	-2.9	-5	-6	-6		7.7	0.0	16	-13	207	227	
Peru		4.0	0.0	-0.3	-1	-10	-10		6.0	0.4	11	6	198	244	
Uruguay		44	0.0	0.0	-1	-3	-4		8.7	0.6	8	56	126	140	
Hungary		330	-0.2	-2.3	-4	-8	-10		4.3	-28.5	29	41	272	274	
Poland		4.18	0.1	-1.4	-5	-10	-11		3.2	1.0	16	39	202	210	
Romania		4.4	-0.4	-1.0	-4	-7	-10		5.0	4.3	16	50	207	222	
Russia		74.9	-0.7	-3.1	-7	1	-1		9.1	-13.5	31	64	294	266	
South Africa		15.9	-0.4	-2.4	-7	-4	-8		7.8	11.0	25	-5	104	118	
Turkey		11.85	8.2	-10.3	-19	-32	-37		21.0	-14.0	109	65	871	806	
US (DXY; 5y UST)		97	0.3	1.0	3	5	8		1.34	-0.2	11	14	94	98	

	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		4917	0.1	1	-1	0	-6		196	-2	-10	-38	-33		
Indonesia		6683	0.1	0	1	18	12		155	-8	-15	-52	-45		
India		58341	-0.6	-3	-4	33	22		131	-5	-12	-41	-20		
Philippines		7419	0.2	1	3	6	4		98	-4	-10	-22	-14		
Malaysia		1522	0.0	0	-4	-5	-6		109	-2	-19	-37	-26		
Argentina		83771	-2.2	-10	-4	55	64		1786	91	130	420	430		
Brazil		103654	1.5	1	-2	-6	-13		324	9	0	48	65		
Chile		4694	-0.1	9	15	12	12		133	5	-25	-30	-23		
Colombia		1316	0.3	-1	-6	4	-8		316	13	29	92	101		
Mexico		51116	1.2	0	-1	20	16		339	8	-8	-84	-18		
Peru		19987	0.8	-2	-5	3	-4		156	7	-2	-3	27		
Hungary		52198	1.5	1	-6	34	24		113	4	3	-28	-36		
Poland		69470	-0.1	-3	-6	30	22		44	-5	6	17	16		
Romania		12536	0.5	-2	-2	34	28		195	16	-3	-13	-8		
Russia		3951	-0.2	-5	-6	28	20		171	17	19	-24	-8		
South Africa		70543	-0.7	-1	5	22	19		361	17	8	-65	-23		
Turkey		1813	1.6	6	23	37	23		523	48	8	14	76		
Ukraine		523	0.0	0	-1	4	5		634	64	136	79	141		
EM total		50	-0.2	-3	-3	1	-2		387	16	13	25	48		

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

[back to top](#)