GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 29, 2021

- **European stock indices retrace some losses following Omicron fears** (link)
- **US Treasury yields fall by most since March 2020 in thin post-holiday trading** (link)
- **Japan joins countries closing borders to African countries on new variant** (link)
- **China urges local governments to increase bond issuance to reach annual quota** (link)
- **Crypto mining migration favors Russia, US, Kazakhstan after China crackdown** (link)

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Omicron fears slam global markets

Markets are mostly stable this morning after the emergence of COVID variant "Omicron" sent global markets tumbling on Friday. The selloff, the most severe by many measures since the initial market stresses of March 2020, came after announcements of multiple travel closures and appeared to be exacerbated by poor post-holiday liquidity. Global stocks fell roughly 3%, with losses led by travel, leisure, and energy shares, while implied equity volatility surged. Bond yields in advanced economies fell 10-20 bps as rate hike bets were trimmed or pushed out. Some of the most dramatic declines were in commodity prices as oil fell as much as 13%, exacerbated by algorithmic trading and options hedging. Weakening commodities and new variant fears also sent emerging market assets reeling, with lower-rated countries' external spreads widening by the most in a year. Risk sentiment is recovering this morning on anecdotal reports that symptoms of the new virus are mostly mild, with many asset classes seeing partial retracing of losses.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
11/29/21 8:12 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4595	-2.3	-2	0	26	22
Eurostoxx 50		4137	1.2	-5	-3	17	16
Nikkei 225		28284	-1.6	-5	-2	7	3
MSCI EM		49	-3.4	-5	-4	-3	-6
Yields and Spreads				bps			
US 10y Yield		1.54	7.2	-8	-1	71	63
Germany 10y Yield		-0.30	3.6	0	-19	29	27
EMBIG Sovereign Spread		390	23	31	34	16	40
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		52.3	0.0	-2	-5	-7	-10
Dollar index, (+) = $ appreciation		96.3	0.2	0	2	5	7
Brent Crude Oil ($/barrel)		76.0	4.5	-5	-10	58	47
VIX Index (%, change in pp)		24.8	-3.9	7	8	4	2

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

In the week ahead, market participants will be focused on the US nonfarm payrolls release on Friday, with surveys expecting 500k new jobs in November. ISM and IHS Markit PMIs will be released this week for the

US and much of Europe as well. In a relatively quiet week for EMs, Poland, Indonesia, Thailand, Turkey, and Colombia will release inflation data for November. Brazil will also see Q3 GDP data on Thursday.

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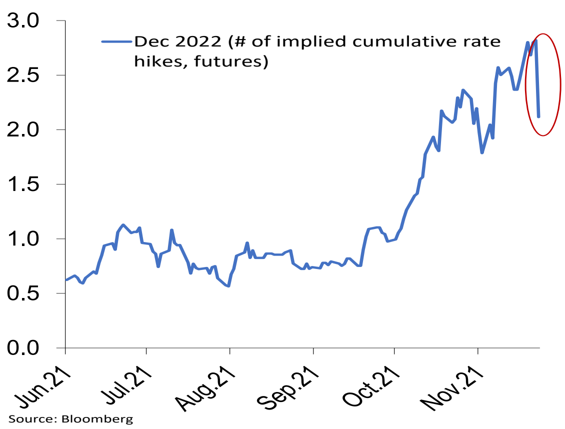
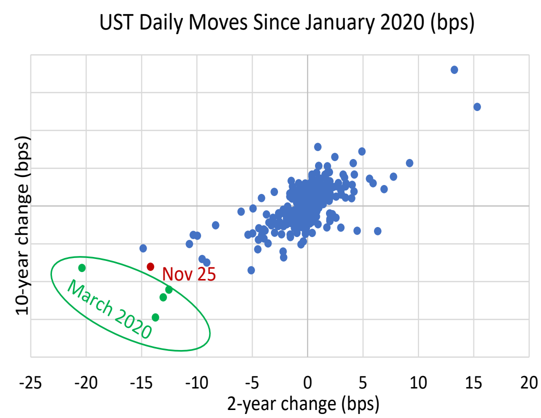
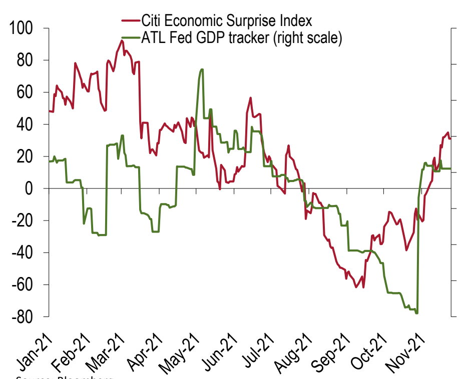
United States

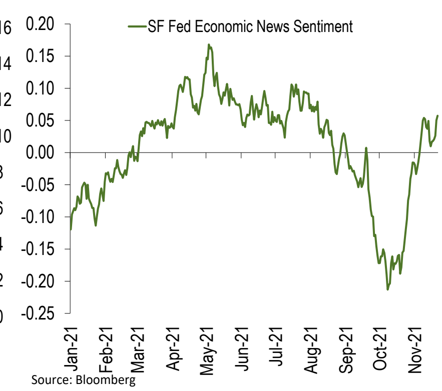
US markets joined the global risk off mood on Friday in what is normally a quiet post-Thanksgiving trading session. The S&P 500 slumped 2.3% led by financials (-3.3%) and energy (-4.0%), with the VIX jumping from 18.8 to 28.6, the highest since March 4th. **Treasury yields fell sharply, with the 2-year (-14 bps) and 10-year (-16 bps) yields down by the most since March 2020**. **Futures markets reduced their expectations for Fed policy hikes from nearly 3 to just over 2 by the end of 2022**.The dollar index fell 0.7%. In a sign of how the Omicron variant fears surprised markets, one day prior on Thursday, Goldman Sachs analysts had announced their expectations of a faster taper and earlier liftoff, with Goldman expecting the Fed to double the pace of the monthly reduction in net purchases, to $30 bn, at the December FOMC and push through 3 hikes in 2022 starting in June (vs 2 previously).





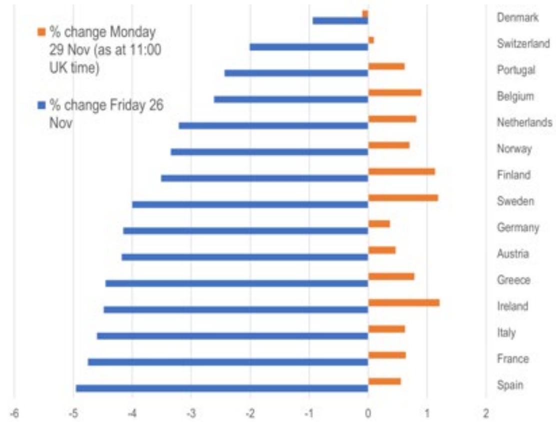
Economic indicators have improved in recent weeks following the September-October downturn. The Atlanta Fed GDP Tracker has moved higher signaling 8.6% Q4 GDP growth, the Citi Surprise Index (data releases versus expectations) is at its highest level since June, and the San Francisco Fed's Daily News Sentiment indicator has returned to positive territory.





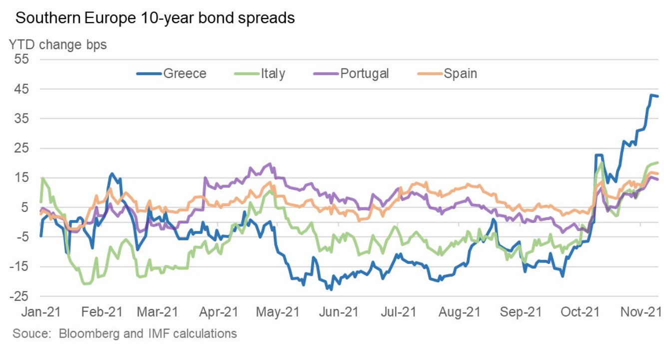
Euro area

European equites were trading higher this morning (+1%), retracing some of the losses on Friday. The Travel and Leisure index outperformed (+3.4%), after leading losses on Friday (-8.8%) following news that the EU and Switzerland imposed restrictions on travel to southern Africa and several other countries where the Omicron variant was detected. On Friday, ECB Vice president Luis de Guindos expressed optimism that the latest wave of infections and discovery of a new variant will not damage economies to the same extent as during the pandemic. This morning Francois Villeroy de Galau also noted that the while the latest Covid developments should be closely monitored, he does not expect significant changes to the economic outlook.



Looking across jurisdictions, stock market declines were seen across all major EMEA region equity indices on Friday, with the largest falls in Spain's Ibex (-5%) and France's CAC Index (-4.7%). This morning equity indices in Sweden (+1.5%) and Ireland (+1.3%) were outperforming.

German bond yields were trading higher (+2 bps) this morning after falling (-8 bps) on Friday. Southern spreads increased on Friday with Greece underperforming (+4 bps). Spreads were little changed this morning.



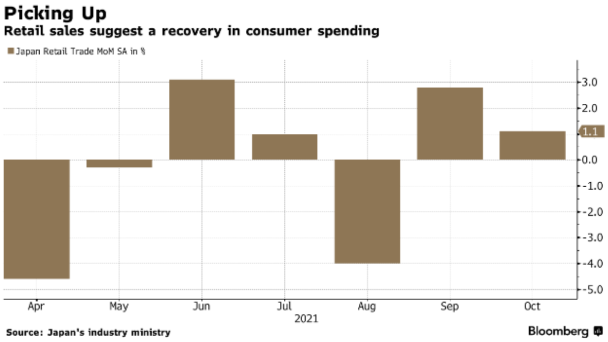
Spanish inflation increased to +5.6%y/y in November (consensus +5.5% from 5.4%), its highest level in almost three-decades, driven mainly by higher fuel and food costs. Core inflation, excluding food and energy prices, increased to 1.7%y/y, its highest level since 2013. **Eurozone inflation data due tomorrow is expected to reach a record high in November, with Bloomberg forecasts seeing +4.5%y/y mainly driven by energy prices.** This morning ECB board member Isabel Schnabel noted expectations that inflation will peak in November, and according to Bloomberg reiterated the view that this is an extraordinary economic situation citing the unusual base effects, higher energy and raw material costs.

United Kingdom

The UK announced measures to curb the spread of Omicron, including a mandatory PCR test for all travelers to the UK within two days of their arrival, and self-isolation until a negative result is obtained. Bloomberg reports that the UK has three confirmed cases of the Omicron variant with expectations of additional cases, with the health minister noting that he does not anticipate tighter restrictions despite the spread of the new strain. **The market is now pricing a 9 bps increase in the December meeting, compared to 14 bps expected last week, with some analysts now seeing a December interest rate hike as less likely. This morning the pound gained against the dollar (+0.1%) and the euro (+0.4%), while 10-yr yields (+4 bps) increased.**

Japan

Japan closes borders to all foreigners on Omicron concerns. PM Kishida said the emergency restrictions, effective 30 November, will persist until the Omicron variant is better understood. The move effectively reversed opening plans for short-term business travelers and foreign students put in place on November 8th. **Retail sales firmed in October** increasing 0.9% y/y (consensus 1.1% previous -0.5%) and 1.1% m/m (consensus 1.0% previous 2.8%) on the back of higher fuel spending and following Japan's lifting of its state of emergency. **Equities dived -1.8%, the yen strengthened +0.3%, 10-year yields were unchanged.**



Crypto Assets

Crypto mining migration favors Russia, US, Kazakhstan after China crackdown. Bitcoin miners shipped roughly 2 million mining machines out of China following the May ban, with the largest share (of 14 major companies that could be tracked) shifting towards Russia, followed by Kazakhstan and the US, according to FT research. Separate data on bitcoin hash rate from Cambridge suggested the US is the overall leader with about a 35% share. Crypto analysts also estimated that about 700k Chinese machines are no longer in active use (likely due to outdated and less efficient technology), though some older machines found their way to cheaper electricity locales in Paraguay and Venezuela. **Bitcoin and Ethereum are off their all-time highs from November 10 by close to 15%.**

Emerging Markets

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Asian equities slipped -0.4% on net. Most of the markets remained in the red, following a steep Omicron-inspired selloff on Friday. Thailand and Philippines lost (-1%) followed by Hong Kong (-0.95%) and South Korea (-0.9%); India (+0.5%) and Indonesia (+0.7%) outperformed. Several Asian countries banned travel from selected African regions. **Asian currencies were mixed**: Thai baht lost -0.5%, Chinese renminbi strengthened (+0.2% offshore, +0.1% onshore). **10-year yields were mixed and little changed.** In **South Korea,** the central bank expectedly hiked its base rate by 25 bps to 1%, with inflation forecast revised up to 2.3% in 2021 and 2% in 2022. Market analyst do not rule out another rate hike in Q1 2022. In **Hong Kong SAR**, ESG bond issuances top charts, with recent €1.41bn ($1.6bn) and $1bn green bonds; last week the Citi-state made yuan green debt debut with 5 bn ($782 million) debt sale.

Equities in Russia (+2.2%), South Africa (+1.4%), and Hungary (+1%) reversed some of Friday's losses. In contrast, Polish equities are little changed as investors await inflation data tomorrow. **In November, equities have traded lower in Poland (-10%), Russia (-6%), and Hungary (-5%) whereas stocks traded higher in South Africa (+3%) and Turkey (+17%). Currencies were mixed.** The South African rand and Russian ruble gained 1% against the U.S. dollar. The Polish zloty (+0.2%) and Hungarian forint (+0.1%) were little changed. **The Turkish lira (-3.5% to 12.8 per $) traded lower after President Erdogan reportedly commented over the weekend that he will never advocate for interest rate increases and expects a slowdown in inflation before elections.**

Latin American equity markets sold off last Friday. Argentina led the losses as the equity index fell 5.4%, followed by Brazil (-3.4%) and Mexico (-2.2%). Local currencies broadly weakened. The Mexican peso underperformed (-1.6%), followed by the Chilean peso (-1.3%). 10-year government bond yields were mostly lower.

EM Fund Flows

Both EM bond funds and EM equity funds saw small outflows last week, respectively -$408 mn and -$255 mn. Of EM bond funds, outflows were across hard currency bond funds (-$243 mn) and local currency bond funds (-$166 mn). EM equity funds reverted to outflows last week, from +$2.0 bn the previous week. From a regional perspective, Asia ex-Japan saw inflows (+$187 mn) offset by outflows from EMEA (-$245 mn) and Latam (-$55 mn). Year-to-date flows to EM bonds and equities were +$50.6 bn and +$107.5 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows

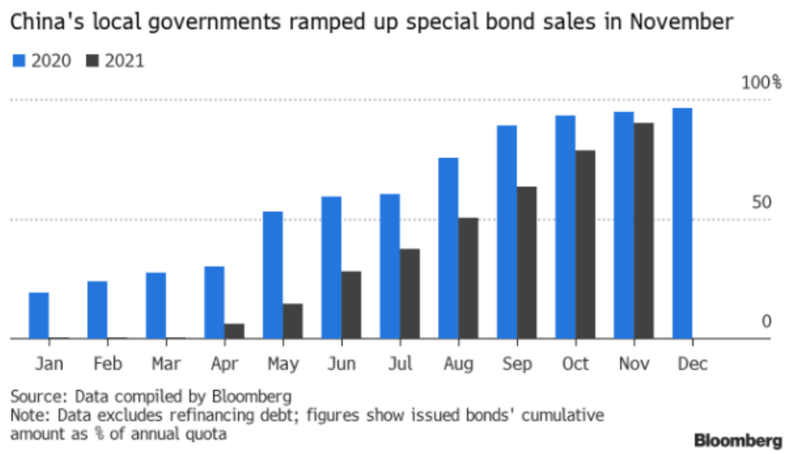
USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-0.7	158.1
Fund Flows	**EM Bonds**		-0.4	50.6
Fund Flows	Hard Ccy		-0.2	27.1
Fund Flows	Local Ccy^		-0.2	23.5
Fund Flows	o.w. EM ex-China		-0.5	-0.4
Fund Flows	o.w. China		0.4	21.1
Fund Flows	**EM Equities**		-0.3	107.5
Fund Flows	US HG		1.7	264.5
Fund Flows	US HY		-2.9	-7.2
Fund Flows	Global Equities		2.5	437.8
Fund Flows	**EM Bond and Equity ETFs**		0.3	73.3
Fund Flows	EM Bond ETFs		-0.4	13.3
Fund Flows	EM Equity ETFs		0.8	59.9
	Non-resident EM flows*		-0.2	-48.5

*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

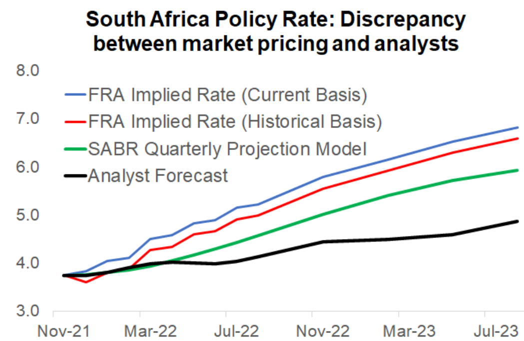
China

China urges local governments to accelerate bond issuance to reach annual quota. Local governments in China issued 6.5 tn yuan ($1.0 tn) worth of bonds in the first 10 months of 2021, including about 4 tn yuan of special bond issuances. As of the end of October, China's local government debt stood at 29. 7 tn yuan, still below the 33.3 tn yuan limit set by the government. During the State Council meeting last week, Premier Li called for higher local government spending in view of "new downward pressures" faced by China and encouraged local governments to spend more to stimulate local demand, Bloomberg reported. Separately, **the State Council issued guidelines calling for the exploration of a digital asset exchange in Beijing.** The consideration is part of the country's broader push for digital yuan (e-CNY) adoption and its crackdown on crypto assets. China has worked on the e-CNY since 2014, with the next major e-CNY rollout to occur during the 2022 Beijing Winter Olympics. Separately, i**ndustrial profits surged in October.** Industrial profits increased 24.6% y/y to RMB 818.74 bn ($131 bn), in line with an expansion of industrial production reported earlier. **Equities were mixed (Shanghai flat, Shenzhen +0.24), the yuan gained +0.2% offshore, +0.1% onshore,10-year yield increased +1.2 bps.**



South Africa

Equities (+1.4%) and the rand (+1%) opened the week higher as analysts await further details on virus developments. On Friday, equities and the rand closed 2.8% and 2% lower respectively on the news of the Omicron variant. **Analysts at Citi argue that news of the variant reinforces their view that the central bank will not hike in January but contacts have pointed out that a sharp discrepancy has emerged between the pricing of rate hikes by money markets and expectations of analysts and the central bank.** Some contacts have linked this gap to month-end/year-end stress. L**ocal 10-yr rates (-10 bps to 10.32%) fell today as contacts argue that South Africa will continue to have a large output gap and relatively benign trends in core inflation.**



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Global Financial Indicators

Last updated: 11/29/21 8:12 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		4612	-2.3	-2	0	27	23
Europe		4137	1.2	-5	-3	17	16
Japan		28284	-1.6	-5	-2	7	3
China		3563	0.0	-1	0	5	3
Asia Ex Japan		83	-3.0	-4	-3	-4	-7
Emerging Markets		49	-3.4	-5	-4	-3	-6
Interest Rates				basis points			
US 10y Yield		1.54	7.2	-8	-1	71	63
Germany 10y Yield		-0.30	3.6	0	-19	29	27
Japan 10y Yield		0.08	0.2	0	-2	5	6
UK 10y Yield		0.87	4.6	-6	-16	59	67
Credit Spreads				basis points			
US Investment Grade		116	3.5	2	31	9	21
US High Yield		378	-1.2	28	62	-55	-1
Europe IG		56	-1.5	6	6	7	8
Europe HY		281	-8.8	27	19	15	38
Exchange Rates				%			
USD/Majors		96.25	0.2	0	2	5	7
EUR/USD		1.13	-0.4	0	-2	-5	-8
USD/JPY		113.7	0.3	-1	0	9	10
EM/USD		52.3	0.0	-2	-5	-7	-10
Commodities				%			
Brent Crude Oil ($/barrel)		76	4.5	-5	-10	58	47
Industrials Metals (index)		164	1.0	-1	-1	25	24
Agriculture (index)		62	0.6	1	5	39	29
Implied Volatility				%			
VIX Index (%, change in pp)		24.8	-3.9	6.8	8.5	3.9	2.0
US 10y Swaption Volatility		93.7	2.5	11.9	17.4	41.0	33.6
Global FX Volatility		8.5	0.1	0.8	1.5	0.9	0.5
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		161	-3.0	9	17	37	41
Italy		131	0.0	5	3	13	20
Portugal		68	-1.2	3	5	8	8
Spain		75	-1.2	3	4	11	14

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

Emerging Market Financial Indicators

Last updated: 11/29/2021 8:23 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	-4	-13	-24	-16
Indonesia		14319	0.3	-0.5	-1	-1	-2		6.1	0.4	6	4	-10	21
India		75	-0.3	-0.9	0	-1	-3		6.4	-1.0	-11	-20	109	90
Philippines		50	0.1	0.5	0	-4	-5		4.6	5.0	5	25	175	165
Thailand		34	-0.1	-2.0	-1	-10	-11		1.8	-2.5	-5	-6	39	54
Malaysia		4.24	0.0	-1.2	-2	-4	-5		3.5	-1.1	-4	-9	79	86
Argentina		101	-0.1	-0.5	-1	-19	-17		51.1	23.6	45	107	-224	-504
Brazil		5.60	0.0	-0.1	1	-4	-7		11.6	-10.5	-9	-46	303	420
Chile		837	-0.5	-2.9	-3	-8	-15		5.4	6.0	20	-22	265	285
Colombia		4008	0.2	-2.2	-6	-10	-14		6.8	0.0	1	27	264	277
Mexico		21.84	0.4	-3.9	-6	-8	-9		7.6	-11.5	23	-16	202	222
Peru		4.0	-0.3	-0.9	-1	-11	-11		5.9	-1.6	0	6	199	238
Uruguay		44	0.2	-0.1	0	-3	-4		8.7	4.9	5	61	134	145
Hungary		327	-0.3	0.8	-5	-8	-9		4.2	29.8	-10	38	263	265
Poland		4.16	0.0	0.6	-4	-10	-10		3.0	2.1	-16	19	183	189
Romania		4.4	-0.3	0.4	-2	-7	-9		5.1	-0.2	19	61	216	231
Russia		74.5	1.4	0.6	-5	3	-1		8.9	-6.4	-24	28	268	243
South Africa		16.2	0.7	-1.9	-6	-4	-9		7.8	-7.0	25	-7	90	123
Turkey		12.70	-2.9	-10.4	-24	-38	-41		21.1	2.0	77	115	885	824
US (DXY; 5y UST)		96	0.2	0.3	2	5	7		1.22	6.5	-9	4	86	86

	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		4851	-0.2	-1	-1	-2	-7		198	0	-8	-38	-31
Indonesia		6608	0.7	-2	0	18	11		179	14	6	-25	-21
India		57261	0.3	-2	-3	30	20		136	4	-1	-32	-15
Philippines		7201	-1.1	-1	2	6	1		119	10	9	1	7
Malaysia		1511	-0.1	-1	-3	-3	-7		117	7	-11	-28	-18
Argentina		80369	-5.4	-10	-4	45	57		1861	122	212	494	505
Brazil		103750	1.5	2	0	-6	-13		353	32	34	80	94
Chile		4548	-0.7	-5	11	10	9		154	13	-4	-10	-2
Colombia		1318	-1.5	0	-5	4	-8		352	42	64	122	137
Mexico		49493	-2.2	-3	-4	19	12		375	39	27	-41	18
Peru		19864	-1.9	-1	-4	1	-5		182	25	21	18	53
Hungary		51590	1.2	2	-5	31	23		135	18	19	-5	-14
Poland		66652	0.3	-4	-9	25	17		57	13	9	29	29
Romania		12266	0.7	-3	-3	32	25		218	24	17	11	15
Russia		3916	2.8	1	-6	25	19		186	23	32	-7	7
South Africa		69826	1.8	-1	4	21	18		402	47	48	-20	18
Turkey		1794	1.0	2	18	35	21		549	44	48	36	102
Ukraine		523	0.0	0	-1	4	5		673	106	174	139	180
EM total		49	1.0	-5	-4	-3	-6		415	35	43	54	77

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

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