GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 30, 2021

- **Eurozone estimated inflation surprises on upside** (link)
- **Spreads on African countries' external bonds continue to widen** (link)
- **Polish inflation higher than expected** (link)
- **China's official PMIs surpass expectations in November** (link)
- **Greece makes vaccinations mandatory for people over 60** (link)
- **Special Feature: ESG Monitor COP 26 Update** (attached)

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Investor anxiety returns on vaccine doubts

Concerns about vaccine efficacy against the Omicron variant are weighing on risk sentiment this morning, reversing Monday's tentative gains. Major European and Asian stock indices are down by more than one percent, with risk bellwether US small cap stocks slumping in pre-market trading and oil prices taking another leg lower. Advanced economy government bond yields are down 4-8 bps as rate hike expectations for next year slip further, while haven currencies like JPY and CHF are seeing a strong bid. The spark for the slump in risk sentiment came from comments from Moderna's CEO suggesting that new vaccines will be needed to cope with the Omicron strain's many mutations. The rapid shift in markets' tone from yesterday's tentative optimism underscores the information vacuum facing markets, which promises to generate volatility until a more complete picture of risks from the new variant emerges.

Key Global Financial Indicators

Last updated: 11/30/21 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4655	1.3	-1	1	29	24
Eurostoxx 50		4063	-1.1	-5	-4	16	14
Nikkei 225		27822	-1.6	-7	-6	4	1
MSCI EM		49	0.4	-4	-4	0	-5
Yields and Spreads				bps			
US 10y Yield		1.44	-5.8	-22	-11	60	53
Germany 10y Yield		-0.34	-2.7	-12	-24	23	23
EMBIG Sovereign Spread		386	-4	30	30	9	36
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		52.3	-0.1	-2	-5	-7	-10
Dollar index, (+) = $ appreciation		95.8	-0.6	-1	2	4	7
Brent Crude Oil ($/barrel)		71.1	-3.2	-14	-16	49	37
VIX Index (%, change in pp)		26.5	3.6	7	10	6	4

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

Mature Markets

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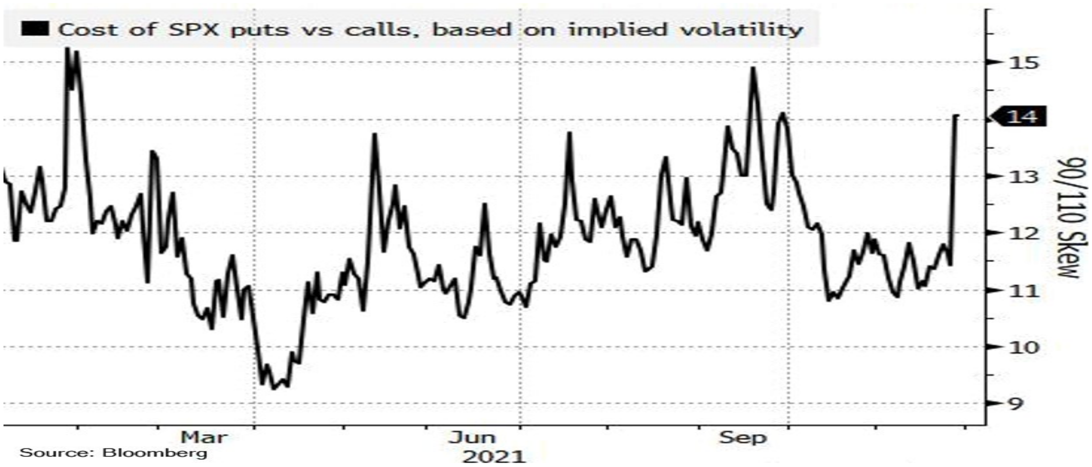
United States

US markets joined the global recovery on Monday, with the S&P 500 gaining 1.3%, led by tech stocks as the Nasdaq outperformed up 2.3%**.** The VIX receded back down to 23 from 28. Treasury yields reversed only a small part of Friday's move, with 2- and 10-year yields up 1 and 4 bps respectively on the day. **Market expectations of Fed policy action stabilized on Monday following Friday's repricing**, with just over 2 rate hikes priced in through December 2022. Despite the stabilized sentiment, **bearish fears lingered in options markets, with the implied cost of puts on the S&P500 versus call options remaining elevated** on Monday, based on 3-month contracts.



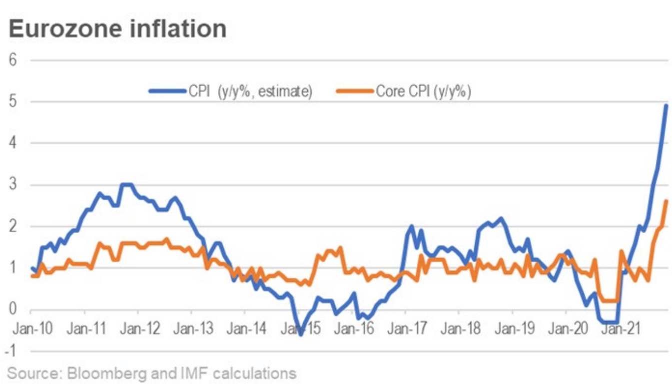
The rapid rebound in many risk asset prices in US trading points to investor hopes that the economic impact of the omicron variant may be more limited than past waves. Many analyst have sounded an optimistic tone (or at least a wait-and-see attitude) despite large uncertainty on the virus itself, anticipating vaccines will provide at least some protection while the economic impact will be smaller. Several central bank officials (the Fed's Bostic and the ECB's Villeroy) echoed similar themes on Monday, effectively noting that each variant or infection wave has had less of an economic impact than the last, and periodic variants may just be part of the economic equation for the time being. However, Chair Powell (in written testimony) struck a more cautious tone, noting "…the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation", while highlighting the risks to supply chain challenges in particular.

Euro area

European equities were about 1.3% lower on average this morning, reversing tentative increases seen yesterday. With markets still uncertain about what direction to take in the aftermath of the Omicron announcement last week, a number of defensive pandemic stocks rebounded while stocks that performed best during the lockdown did not manage to rebound from 2021 losses. **With relatively lower trading volumes seen yesterday than on Friday, overall investors appear unwilling to de-risk aggressively or to buy stocks now that the prices have dropped.** The STOXX 600 index is now trading close to levels seen in August, down -3.2% in the month-to-date, with losses on the sector level led by the travel and leisure sector (-20.7% month-to-date).

The euro was trading stronger against the dollar (+0.5%) this morning, while contacts remain bearish on euro performance going forward. **10-year bund yields were down -3 bps** at -0.10%, while Southern European spreads were little changed.

Eurozone preliminary November inflation surprised to the upside, with headline CPI reaching a record high 4.9% y/y (+4.5% consensus from +4.1%) mainly driven by higher energy and goods prices. Core price growth increased to 2.6% y/y (+2.3% consensus from +2%), signaling stronger than expected price pressures in both services and non-energy goods categories. **ING analysts see price pressures increasing in the medium-term with wage growth rebounding in 2022,** but note limited concerns currently about second-round effects with the ECB indicator for wage growth falling to a record-low in 3Q2021. On the country level, German (+6.0%y/y) and French (+3.4%y/y) inflation both came in above consensus (5.5% and 3.3% respectively). Economists generally see higher inflation reversing in 2022. **ECB Vice President Luis de Guindos flagged that inflation may not go down as much as predicted as supply-chain bottlenecks might last longer than anticipated**, according to Bloomberg reports. He also noted that the ECB will wait to decide on the renewal of its targeted longer-term refinancing operations (TLTROs), but said that the announcement will not be part of the ECB's December decisions. The ECB is still seen as announcing the end of its PEPP emergency program for March, with analysts seeing the first rate hike seen towards the start of 2023.



Greece

The Greek Prime minister said that Covid-19 vaccinations would become mandatory for Greeks over 60 years of age, with a EUR 100 fine to be imposed for unvaccinated over 60-year-olds who have not booked an appointment for their first dose by 16 January 2022. According to Reuters, roughly 520,000 people over 60 are not vaccinated. Greek authorities on Monday reiterated that there will be no additional measures for vaccinated people nor any national lockdowns, despite the emergence of the Omicron variant.

United Kingdom

Survey data show higher services-sector costs, a slight decrease in business confidence, and expectations for wage increases. According to Lloyds Bank, a record 50% of businesses plan to raise the prices of their goods and a quarter of firms expect to raise wages by 3% or more in the next 12 months. **This morning the pound was trading higher (+0.4%) against the dollar and the 10-year yields (+5bps) increased.**

Japan

More Japanese stocked were dropped from MSCI equity index in November. MSCI All-Country World Index (ACWI) removed 15 Japanese companies, with Japan's share falling to 5.65% from 7.35% a year ago, Bloomberg reports. This follows a net removal from of 29 Japanese names in May and 16 in November 2020. Separately, **Kenta Izumi becomes the new leader of Japan's main opposition party**. The previous chief of the Constitutional Democratic Party (CDP), Edano, resigned after the party lost national elections in October. **Equities slipped -1%, the yen strengthened +0.6%, 10-year yields were down -1.9bps.**

Emerging Markets

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Asian equities declined -1.0% on net hit by worries over Omicron variant. China was flat, Hong Kong SAR (-1.6%) and Singapore (-1.6%) closed in losses. South Korea (-2.4%) underperformed. Asian currencies broadly strengthened, with the Malaysian ringgit gaining (+0.6%), followed by the South Korean won (+0.4%). Most 10-year yields fell, South Korea (-7.2 bps), Singapore (-5.1 bps). Singapore will host the headquarters of China's largest crypto exchange, Huobi Group.

Equities traded with a cautious tone across the EMEA region, with shares falling in Hungary (-0.8%) and Poland (-0.3%). Currencies were mixed. The South African rand (+0.6%) gained and the Russian ruble was little changed. **The Turkish lira (-1.5%) fell** with some contacts arguing that the departure of the director for markets at the central bank weighed on sentiment.

While money markets generally see significant central bank tightening continuing next year, they have pared back the amount of tightening expected in response to the Omicron news.

Table: Change in Central Bank Policy Rate Expected 1-yr from now

	South Africa	Turkey	Russia	Poland	Hungary	Czech	Israel	ECB	Mexico	Romania
Rate at Thu 25 Nov (%)	6.18	23.08	8.18	2.96	3.56	3.37	0.40	-0.45	7.50	3.94
Rate at Tue 30 Nov (%)	5.89	22.88	7.79	2.39	3.21	3.09	0.36	-0.46	7.29	3.91
Change (bps)	-0.28	-0.19	-0.39	-0.57	-0.35	-0.28	-0.04	-0.01	-0.21	-0.03

Source: Bloomberg and IMF

Latin American equity markets were mixed on Monday. Colombia (+2.2%) led the gains, while Argentina and Chile saw losses (both -1.6%). Local currencies were mixed as well. The Chilean peso was the worst performer, depreciating 1.3% against the dollar, while the Mexican peso strengthened (+1.1%). 10-year government bond yields dropped 13 bps in Brazil.

EM Bond Issuance

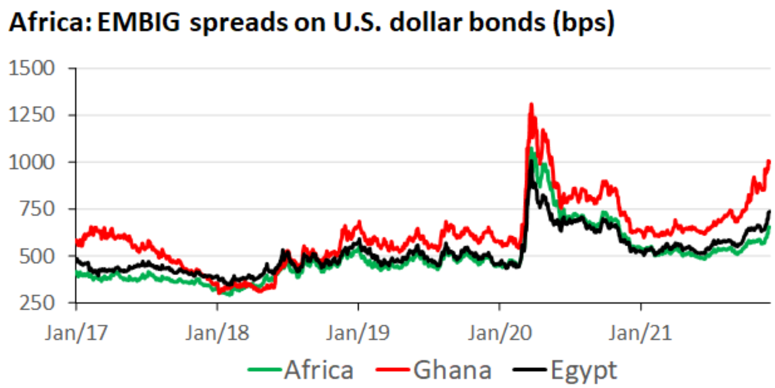
EM corporate issuance last week decreased to $1.6 bn, from $7.3 bn the week before, and **EM sovereign issuance declined to $0.8 bn last week,** from $4.5 bn the week before. The year-to-date total issuance of $747.3 bn was almost the same as the 2020 issuance over the same period ($741.2 bn). From a regional perspective, China was the largest EM corporate debt issuer last week, accounting for 91% ($1.5 bn) of the total, followed by Singapore (9%, $0.1 bn). Last week's sovereign issuance was placed entirely by Hong Kong ($0.8 bn).

Sector	Last week	The week before	YTD
Corporate	1.6	7.3	341.4
Sovereign	0.8	4.5	196.2
Financial	0.7	3.8	148.0
Muni/Local Gov't	0.2	0.4	16.7
Supra	0.2	-	12.6
Agency	-	1.1	32.4
Total	**3.5**	**17.0**	**747.3**

Source: Bond Radar, Bloomberg

Africa

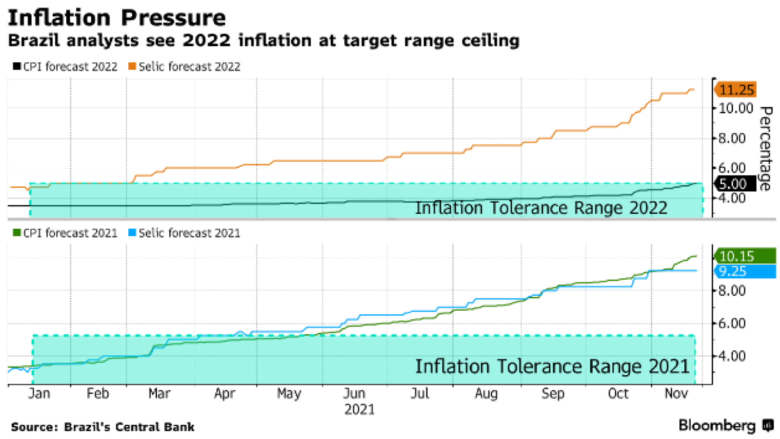
Spreads on U.S. dollar bonds have widened following news of the new Omicron variant. Since Thursday's close, spreads are up about 40 bps in Egypt, Ghana, and Nigeria. Spreads had been widening previously as sentiment turned more cautious on frontier markets with spreads 141 bps higher in Ghana, 80 bps in Nigeria, and 72 bps in Egypt since late October.



Source: Bloomberg and IMF staff

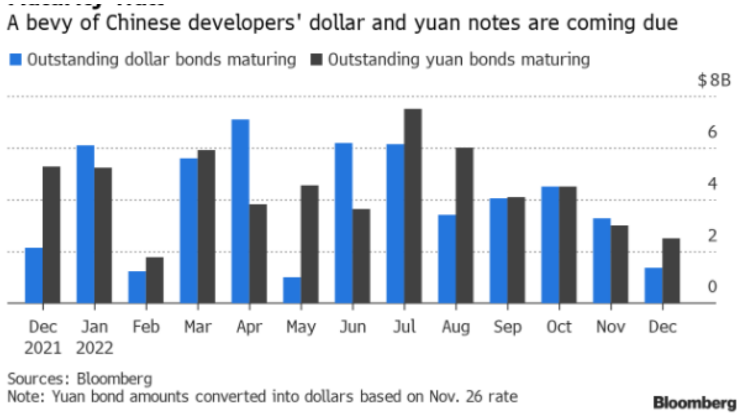
Brazil

Economists revised up their 2022 inflation expectations for the 19th week, reaching the upper limit of the target range. According to a central bank survey published on Monday, analysts expected consumer prices to end 2022 at 5.0% (vs. previous 4.96%) and cut the economic growth forecasts for 2022 to 0.58% (vs. previous 0.7%). The central bank has raised its benchmark rate by 575 bps since March. Analysts expected the central bank to deliver another rate hike next month amid rising inflations. Brazilian equity markets went up yesterday (+0.6%), and the real was little changed.



China

China's official PMIs surpassed expectations in November. China's manufacturing PMI climbed to 50.1 (consensus: 49.7, previous: 49.2), crossing back to expansionary territory after slipping below 50 in September. Separately, **Kaisa's $400 mn debt swap offer approaches Thursday deadline.** The offer to swap notes maturing on December 7th with new ones due June 2023 will expire if creditor support fails to reach 95%. Kaisa is China's third-largest borrower of dollar bonds among property firms, with some $11.6 billion outstanding, which represents more than 5% of developers' dollar debt, according to Bloomberg. Chinese developers need to repay some $2.1 bn in offshore bonds in December and $6.1 bn in January. **Equities and were 10-year bond yields were little changed, the yuan appreciated (onshore: +0.3%, offshore: +0.2%).**

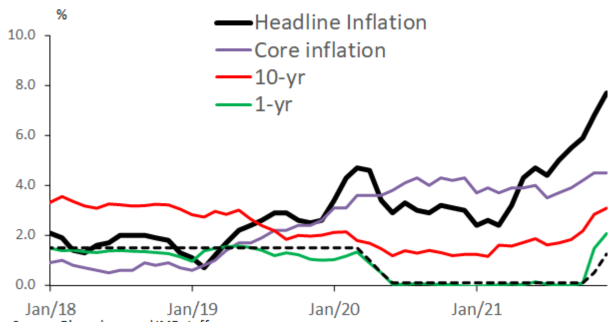


Sources: Bloomberg
Note: Yuan bond amounts converted into dollars based on Nov. 26 rate

Poland

10-yr rates (-18 bps to 3.01%) traded lower and the zloty (+0.2) edged higher after headline inflation accelerated to 7.7% yoy (7.3% expected) in November. Monthly inflaton was 1% mom (0.6% expected). The central bank is meeting next week and the upside surprise to inflation is prompting some analysts to reiterate calls for a rate hike. Governor Glapinski has commented previously that hikes will depend on economic developments.

Poland: Inflation (yoy) and interest rates



Source: Bloomberg and IMF staff

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Global Financial Indicators

Last updated: 11/30/21 8:08 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4646	1.3	-1	1	28	24
Europe		4063	-1.1	-5	-4	16	14
Japan		27822	-1.6	-7	-6	4	1
China		3564	0.0	-1	1	3	3
Asia Ex Japan		84	0.2	-4	-3	-2	-7
Emerging Markets		49	0.4	-4	-4	0	-5
Interest Rates					basis points		
US 10y Yield		1.44	-5.8	-22	-11	60	53
Germany 10y Yield		-0.34	-2.7	-12	-24	23	23
Japan 10y Yield		0.06	-1.9	-2	-4	3	4
UK 10y Yield		0.81	-5.1	-19	-22	51	61
Credit Spreads					basis points		
US Investment Grade		117	4.1	5	31	12	22
US High Yield		383	10.4	31	67	-51	3
Europe IG		57	0.8	5	6	8	9
Europe HY		283	3.6	22	21	18	41
Exchange Rates					%		
USD/Majors		95.79	-0.6	-1	2	4	7
EUR/USD		1.14	0.6	1	-2	-5	-7
USD/JPY		112.9	-0.6	-2	-1	8	9
EM/USD		52.3	-0.1	-2	-5	-7	-10
Commodities					%		
Brent Crude Oil ($/barrel)		71	-3.2	-14	-16	49	37
Industrials Metals (index)		164	0.0	-2	-2	24	23
Agriculture (index)		59	-1.4	-3	1	37	24
Implied Volatility					%		
VIX Index (%, change in pp)		26.5	3.6	7.4	10.3	6.0	3.8
US 10y Swaption Volatility		85.0	-1.9	2.6	7.0	32.3	24.9
Global FX Volatility		8.1	0.0	0.1	1.1	0.4	0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		161	-0.8	8	18	40	41
Italy		130	0.6	2	2	10	19
Portugal		67	0.6	1	5	7	7
Spain		75	0.8	1	3	9	13

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

Emerging Market Financial Indicators

Last updated: 11/30/2021 8:12 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		6.37	0.3	0.3	0	3	2		3.0	-0.4	-5	-10	-25	-16
Indonesia		14332	-0.1	-0.5	0	-1	-2		6.1	0.7	5	5	-8	22
India		75	-0.1	-1.0	0	-1	-3		6.3	-8.0	-15	-26	101	82
Philippines		50	0.1	0.5	0	-4	-5		4.6	5.0	5	25	175	165
Thailand		34	0.1	-1.7	-1	-10	-11		1.8	-1.5	-9	-10	38	53
Malaysia		4.20	0.8	-0.1	-1	-3	-4		3.6	5.1	0	-3	81	92
Argentina		101	0.0	-0.4	-1	-19	-17		51.0	-8.5	36	62	-249	-513
Brazil		5.61	0.0	-0.3	1	-4	-7		11.5	-15.9	-36	-84	292	407
Chile		842	0.1	-3.4	-4	-9	-16		5.3	0.0	6	-30	258	278
Colombia		4032	0.1	-2.1	-7	-11	-15		6.8	0.0	2	34	270	284
Mexico		21.56	0.5	-1.6	-3	-6	-8		7.6	0.0	-3	-15	207	224
Peru		4.1	-0.4	-1.3	-2	-11	-11		5.9	0.0	-4	8	199	240
Uruguay		44	0.3	0.1	0	-3	-4		8.9	19.5	25	59	147	164
Hungary		322	1.0	2.1	-3	-7	-8		4.0	-13.8	-52	23	248	250
Poland		4.10	1.1	1.9	-3	-9	-9		2.8	-18.0	-38	2	166	172
Romania		4.4	0.6	1.0	-2	-6	-9		5.1	1.7	16	57	216	233
Russia		74.5	0.2	-0.1	-4	3	-1		8.7	-17.3	-58	-2	247	222
South Africa		16.0	0.7	-1.3	-4	-4	-8		7.7	-12.0	3	-18	77	110
Turkey		13.14	-2.5	-2.4	-27	-40	-43		21.2	9.0	11	122	892	831
US (DXY; 5y UST)		96	-0.6	-0.8	2	4	6		1.10	-4.7	-24	-8	74	74

	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		4832	-0.4	-2	-1	-5	-7		200	4	5	-37	-29
Indonesia		6534	-1.1	-2	0	14	9		175	20	-3	-32	-25
India		57065	-0.3	-3	-5	28	20		141	10	10	-23	-10
Philippines		7201	0.0	-1	2	6	1		114	15	2	-8	2
Malaysia		1514	0.2	-1	-1	-6	-7		116	7	-8	-30	-19
Argentina		79095	-1.6	-8	-5	45	54		1866	97	168	499	510
Brazil		102814	0.6	-1	-1	-6	-14		344	26	9	67	85
Chile		4478	-0.6	-5	9	11	7		148	16	-14	-20	-8
Colombia		1347	2.2	2	-3	7	-6		350	42	48	117	135
Mexico		49796	0.6	-1	-3	19	13		368	34	20	-50	11
Peru		20249	1.9	2	-2	2	-3		174	21	-3	6	45
Hungary		51131	-0.9	-1	-6	32	22		132	20	13	-14	-17
Poland		66813	0.2	-4	-9	27	17		58	14	7	30	30
Romania		12196	0.0	-3	-3	31	24		212	25	10	1	9
Russia		3889	0.2	-2	-6	25	18		177	12	18	-19	-2
South Africa		70316	0.4	-1	4	23	18		390	38	29	-33	6
Turkey		1816	0.4	2	19	41	23		551	60	47	45	104
Ukraine		523	0.0	0	-1	3	5		670	66	166	130	177
EM total		49	-0.9	-4	-4	0	-5		411	33	30	48	72

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

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