



- Easing in US financial conditions complicates policy rate dynamics ([link](#))
- US funding market pressures remain contained ahead of year end ([link](#))
- Markets price higher BOE rate hike probability after positive UK GDP surprise ([link](#))
- Chinese credit growth weaker than expected in November ([link](#))
- Hungarian local currency yields rise amid uncertainty on access to EU funding ([link](#))
- November inflation surprises to the downside in Brazil ([link](#))

[Mature Markets](#)









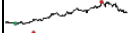


[Emerging Markets](#)

[Market Tables](#)

## Risk sentiment remains challenged ahead of inflation and central bank updates

**Risk appetite remains weak this morning as investors look forward to fresh inflation readings and central bank decisions later this week.** Some stronger than expected economic data releases to end last week led to a downturn in equity markets as fear of higher rates were exacerbated. The S&P 500 closed down 3.4% for the week, capping off the worst weekly performance since September. A risk-off mood prevailed in Asian markets to start the week as healthcare concerns reversed some of the recent gains in Chinese stocks and European bourses are trading modestly lower. Core sovereign bond yields were slightly higher over the week but are edging lower this morning as 10-year US Treasury yields remain near 3.5%. All eyes are turning to key events later this week starting with tomorrow's US CPI print, which is expected to factor heavily into the Fed's rate decision on Wednesday of whether to hike by 50 bps, the largely anticipated result, or maintain its more aggressive stance, which has been an overhang on markets over the last few weeks. Other major central bank decisions this week from the ECB and BOE are also likely to see further policy tightening but at a moderating pace with a downshift from 75 to 50 bp hikes.

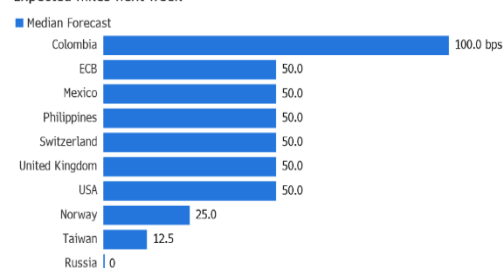
Key Global Financial Indicators

Last updated: 12/12/22 8:13 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
<b>Equities</b>								
			%				%	
S&P 500		3934	-0.7	-3	-1	-17	-17	-7
Eurostoxx 50		3921	-0.5	-1	1	-7	-9	-1
Nikkei 225		27842	-0.2	0	-1	-3	-3	5
MSCI EM		39	-0.7	-1	2	-22	-20	-18
<b>Yields and Spreads</b>								
			bps					
US 10y Yield		3.54	-4.0	-4	-27	205	203	155
Germany 10y Yield		1.89	-3.9	1	-27	224	207	167
EMBIG Sovereign Spread		454	-8	-7	-61	92	87	42
<b>FX / Commodities / Volatility</b>								
			%					
EM FX vs. USD, (+) = appreciation		50.0	-0.1	0	0	-4	-5	-6
Dollar index, (+) = \$ appreciation		104.8	0.0	0	-1	9	10	9
Brent Crude Oil (\$/barrel)		75.8	-0.4	-8	-21	1	-3	-22
VIX Index (% change in pp)		24.3	1.5	4	2	6	7	-7

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

**This week is very busy with major central banks meetings**, as the Fed, ECB, and BoE will update their policy stances this week. US CPI data will also be center stage. Central banks are expected to slow the pace of hikes, with most, including the Fed, the ECB and the BoE, expected to hike 50 bps (see chart below). A new dot plot and macroeconomic projections will be released from the Fed, while the ECB is expected to provide some guidance on a starting date for QT. Further, PMI indicators in France, Germany and the UK will provide information on the extent of economic slowdown in the euro area and the UK.

**Fifty Is the New Seventy-Five: Central Bank Smackdown**  
Expected hikes next week



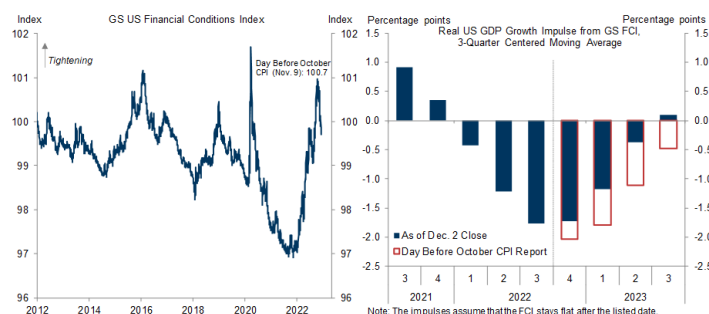
Source: Bloomberg economist surveys

## Mature Markets

[back to top](#)

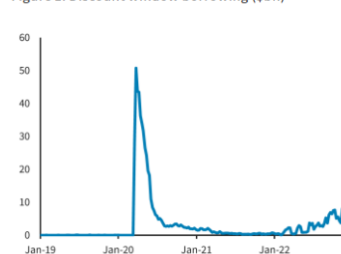
### United States

**The recent easing in US financial conditions could prolong higher levels of policy rates.** Financial conditions (FCI) eased considerably over the past few weeks on expectations that the Federal Reserve would slow the pace of tightening. Based on the current FCI level, analysts estimate that the drag from financial conditions is estimated to diminish sharply over the next year. However, a negative impulse from financial conditions is viewed as still needed to keep growth below potential. Otherwise, a potentially longer sustained peak in the policy rates than currently anticipated by markets may be needed.



**US funding markets are expected to remain resilient ahead of year-end, despite early signs of pressure.** As the Federal Reserve continues to gradually absorb overall liquidity with QT, analysts noted early signs of potential funding stresses. Demand for funding by banks has increased in the past month (higher FHLB advances and discount window lending) and more recently the secured overnight funding rate (SOFR) climbed just above the minimum effective policy rate for the first time in the year. The small spike may be temporary for now and unsecured funding rates have remained stable. Repo rates for funding over the turn of the year so far also remain relatively contained. Overall, US funding rates remain well behaved, despite elevated volumes. Some market participants do not have systemic liquidity concerns ahead of year-end but expect rates to become more volatile closer to the turn of the year.

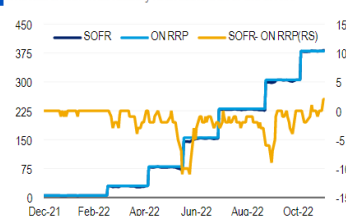
Figure 1. Discount window borrowing (\$bn)



Source: Federal Reserve, Barclays Research

Exhibit 22: SOFR vs ON RRP (bps)

The rate on SOFR has recently risen above that of the ON RRP

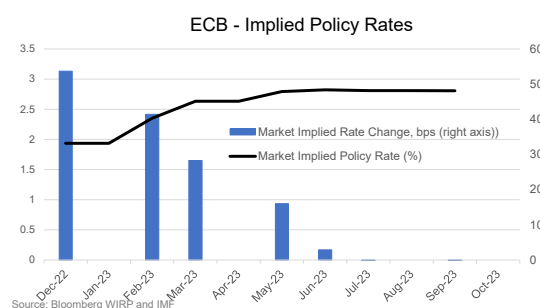


Source: Bloomberg, FRBNY

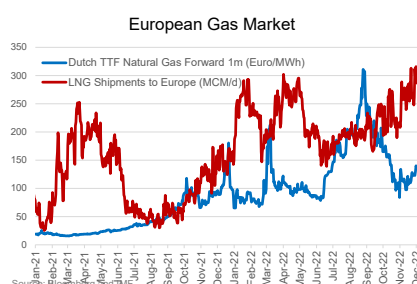
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## Euro area

**European markets are mixed at the start of an eventful week, with the Fed meeting on Wednesday and ECB and BOE meetings on Thursday.** Equity markets are down, with the Stoxx Europe 600 losing 0.4% and the euro slightly strengthening vs. the dollar at 1.06/\$. Bond yields are down by 3 bps in Germany (to 1.9%), and Italian spreads are broadly stable at 189 bps. There are no major data releases in the Eurozone today, and ECB officials are in blackout period. Markets are continuing to price in about 54 bps in hikes for Thursday's ECB meeting, which should bring the deposit rate to 2%. Focus will also be on the ECB's plans for implementing QT.



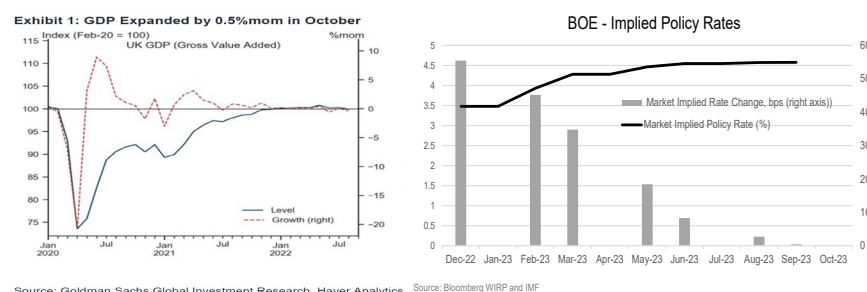
**Despite the cold snap hitting Northern Europe over the last few days, European natural gas prices are at their lowest since November 30, at 133 euro/MWh, as LNG imports have hit record levels, highlighting Europe's resiliency to the energy crisis.** Storage capacity is also about 88% full, and 94% full in Germany according to Bloomberg. The focus is now on how quickly the gas buffer will be used throughout the winter with weather forecasts show that temperatures should warm up from next week. Deutsche Bank analysts said that Germany would probably not face gas rationing this year or next, but that winter weather and the impact of China reopening are key sources of uncertainty. Other factors that have helped relieve pressure on European gas markets include higher gas pipeline flows from Algeria to Italy, expectations that wind power in Germany and the UK will pick up, and French nuclear output at its highest level since March, with two additional reactors expected to resume production by the end of next week according to Bloomberg.



## United Kingdom

**Rate hike expectations are on the rise in the UK ahead of Thursday's BOE decision.** Markets are pricing in 55 bps in hikes for Thursday's BOE meeting, a marked increase from 47 bps on Friday, after October GDP data surprised on the upside today. GDP growth in October was 0.5% m/m (0.4% expected), rebounding from the -0.6% m/m recorded for September. Over the last three months, activity has contracted by 0.3% compared with the three months to July. JP Morgan analysts point out that this suggests that underlying growth is stronger than expected and is more consistent with the limited decline in the PMI survey and the ongoing resilience in the labor market. They have revised their 2023 growth forecast to -0.2% y/y from -0.6% previously. Goldman Sachs analysts have also revised up their 2023 growth forecasts.

Some are mentioning that a 75 bp hike could become a possibility again if labor market data (to be released tomorrow) and November inflation data (due on Wednesday, one day before the BOE meeting) turn out to be stronger than expected.



## Japan

**PPI inflation accelerated to 9.3% y/y in November, beating expectations (consensus: +8.8%).**

Masayoshi Amamiya and Hiroshi Makaso are among possible candidates for next Bank of Japan (BOJ) governor according to an aide of Prime Minister Kishida. Some analysts noted that with these two candidates, any change in the BOJ's policy would likely take place at a measured pace. Japanese yen depreciated (-0.2%) on the back of a broad-based strengthening of US dollar. Equities declined (NIKKEI: -0.2%). The 10-year JGB yield was little changed at 0.248%, while longer-end JGB yields rose (30-year: +1.6 bps) following the rise in US treasury yields last Friday following stronger-than-expected US PPI data.

## Emerging Markets

[back to top](#)

**Latin American markets were mixed on Friday.** Equity indices in Brazil and Colombia closed higher, and those in Mexico were down 1.2%. The Mexican peso and the Brazilian real depreciated against the USD, while the currencies of Chile and Colombia were up. In **Peru**, the new president, Dina Boluarte has appointed Alex Contreras as the finance minister and is expected to propose bringing forward general elections to April 2024. Markets in Peru were closed on Friday. **Asian markets retreated** amid risk-off sentiment following stronger-than-expected US PPI data on Friday. Asian equities declined, falling 1.9% on net, led by Hong Kong (-2.2%) and Chinese (CSI 300: -1.1%) equities. Asian currencies depreciated on a stronger US dollar, led by Philippine peso (-0.5%), Korean won (-0.4%), and Indian rupee (-0.5%). Long-end government bond yields were mixed, with 10-year yields rising in Singapore (+2.5 bps) while falling in Taiwan Province of China (-5.5 bps). **Equity markets in EMEA were mixed while currencies were little changed against the dollar** ahead of the series of core central bank decisions as well as regional inflation prints this week. **Turkish equities rallied** (+4%), while the Turkish lira was little changed against the dollar this morning after the banking regulator on Friday published a new rule that net foreign currency position cannot exceed 5% of equity, in a change to the previous 20% limit. On the data front, the October current account balance showed a lower than expected external deficit. **The South African rand underperformed (-0.6%),** weakening for the third consecutive day ahead of the ruling party's elective conference on Friday. Nominations favor President Ramaphosa for a second term. CEE currencies were little changed against the euro, with the Hungarian forint outperforming (+0.3%).

## Emerging Market Fund Flows

**Outflows from emerging markets continued last week and was primarily driven by equity funds,** which accelerated from -\$166 mn in the week before to -\$1 bn in the week ending on 8<sup>th</sup> Dec. Local currency bond funds also saw outflows of -\$0.3 bn (lower than -\$0.5 bn in the week before) as outflows from China-focused funds (-\$529 mn) more than compensated the inflows into EM ex-China funds (\$188 mn). However, **hard currency bond funds saw inflows for the fourth consecutive week** and recorded an inflow of \$0.9

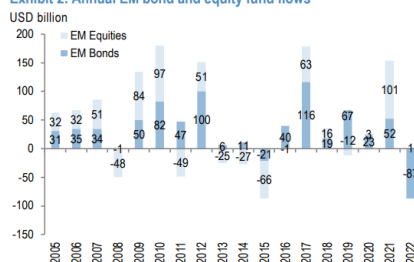
bn. Overall, EM bond fund flows were \$0.6 bn vis-à-vis \$0.1 bn in the week before. With this, YTD EM fund outflows stand at -\$86 bn, against the full year 2021 inflows of \$153 bn.

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	-0.4	-86.0	-86.0
EM Bonds	0.6	-87.4	-87.4
Hard Ccy	9.9	-43.7	-43.7
Local Ccy*	-0.3	-43.8	-43.8
o.w. EM ex-China	0.2	-19.9	-19.9
o.w. China	-0.5	-22.3	-22.3
EM Equities	-1.0	1.4	1.4
US HG	1.2	-71.1	-71.1
US HY	-0.4	-39.0	-39.0
Global Equities	-17.8	78.6	78.6
EM Bond and Equity ETFs	0.5	41.2	41.2
EM Bond ETFs	0.5	-10.0	-10.0
EM Equity ETFs	-0.1	51.3	51.3
Non-resident EM flows*	-0.2	-52.1	-52.1

\*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.

Exhibit 2: Annual EM bond and equity fund flows



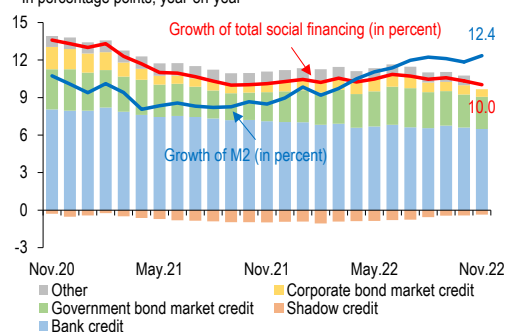
## China

### Credit growth was weaker than expected in November.

Total social financing increased by 1.99 tn yuan (\$285 bn), or 10.0% y/y, compared with an expected increase of 2.1 tn yuan (+\$301 bn), on the back of weaker-than-expected bank lending growth. Analysts noted that weaker COVID-induced growth and the ongoing property sector crisis contributed to softer credit demand. The People's Bank of China bought 750 bn yuan (\$108 bn) of special sovereign bonds in open market operations, coinciding with the issuance of 3-year special sovereign bonds in the same amount in private placement to refinance the expiring bonds issued in 2007. Chinese equities declined (CSI 300: -1.1%), underperforming regional markets. Market participants appeared to turn more cautious as pressure on the healthcare system started emerging following a rapid relaxation of COVID control measures. RMB depreciated (-0.2%). The key interbank repo rate (DR007) dropped to 1.58% (-15.2 bps). CGB yields were mixed (1-year: +0.9 bp; 10-year: -0.3 bp).

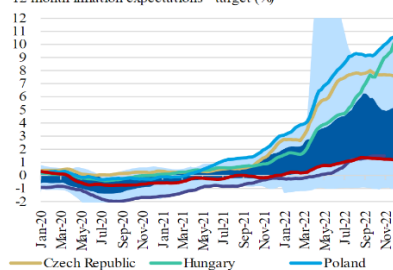
Contribution to Growth of Total Social Financing

In percentage points; year-on-year



## EMEA Inflation

Data released this morning showed Czech Republic inflation accelerating to 16.2% y/y in November (vs expected 15.8% from 15.1%). Looking ahead this week markets are focused on inflation releases from Romania (due tomorrow) South Africa (due on Wednesday), and Israel (due on Thursday), with Poland's second release of November CPI also due on Thursday. On the monetary policy front, the central bank of Russia is expected to leave the key rate unchanged on Friday.

Economists continue to revise inflation higher in Poland and Hungary  
12-month inflation expectations - target (%)

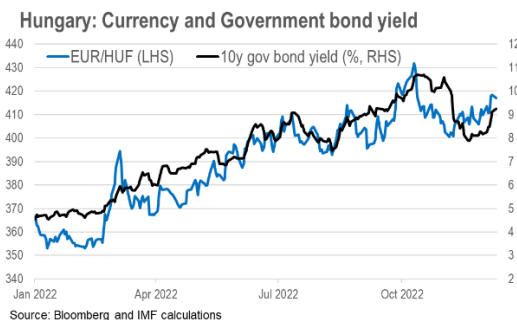
Source: Bloomberg, Morgan Stanley Research

## Hungary

The Hungarian forint was volatile this morning and local currency yields were 14 bps higher, with markets focused on whether Hungary will gain access to EU pandemic recovery funds. On Friday a

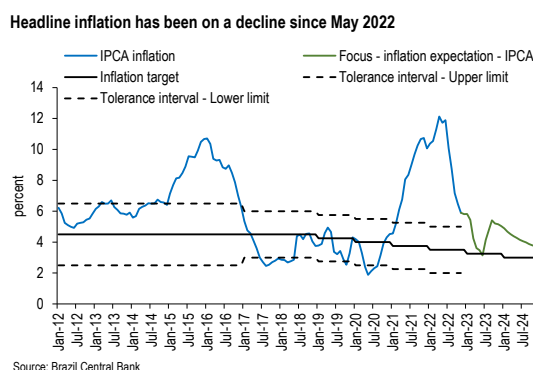


European Commission assessment showed that reforms by Hungary to address rule of law concerns were not sufficient to release the full amount of EU funding. A second assessment is expected to be discussed at the European Council level today. The Hungarian forint weakened in early trade but retraced losses later in the session to trade 0.3% stronger against the euro, while local currency yields continued to increase (10y +14bps to 9.2%).



## Brazil
















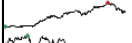











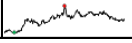
**November inflation surprised on the downside** and was reported at 0.41% m/m vis-à-vis the market expectation of 0.53% m/m, as both food and industrial goods inflation cooled off. Energy prices continued to rise (2.99% m/m), however, due to the recent price cuts announced by state-owned oil companies, fuel prices are expected to start falling as well in the coming months. With this, annual headline inflation stands at 5.9% (vis-à-vis 6.47% in Oct. 22), which is closer to the central bank's target of 5% (upper bound). Hence, some analysts expect the central bank to start cutting policy rates in June 2023.



*This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan, Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

Last updated: 12/12/22 8:14 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3937	-0.7	-2	-1	-16	-17	-7
Europe		3921	-0.5	-1	1	-7	-9	-1
Japan		27842	-0.2	0	-1	-3	-3	5
China		3953	-1.1	0	4	-22	-20	-14
Asia Ex Japan		67	-0.3	0	5	-22	-19	-16
Emerging Markets		39	-0.7	-1	2	-22	-20	-18
<b>Interest Rates</b>			basis points					
US 10y Yield		3.54	-4.0	-4	-27	205	203	155
Germany 10y Yield		1.89	-3.9	1	-27	224	207	167
Japan 10y Yield		0.25	-0.3	0	1	20	18	6
UK 10y Yield		3.14	-4.3	3	-22	240	217	166
<b>Credit Spreads</b>			basis points					
US Investment Grade		154	0.1	-4	-20	38	42	11
US High Yield		466	3.6	5	-28	108	128	59
Europe IG		89	-0.2	-1	-7	38	41	18
Europe HY		461	2.8	4	-15	204	220	110
<b>Exchange Rates</b>			%					
USD/Majors		104.84	0.0	0	-1	9	10	9
EUR/USD		1.06	0.2	1	2	-6	-7	-7
USD/JPY		137.2	0.4	0	-2	21	19	19
EM/USD		50.0	-0.1	0	0	-4	-5	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		76	-0.4	-8	-20	6	5	-12
Industrials Metals (index)		169	-0.3	1	3	4	-2	-10
Agriculture (index)		66	-0.3	1	-4	10	8	-6
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		24.3	1.5	3.5	1.8	5.6	7.1	-6.7
US 10y Swaption Volatility		138.7	3.6	10.4	13.8	60.0	59.7	44.4
Global FX Volatility		10.8	0.2	-0.2	-0.6	2.8	3.4	3.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		207	-0.5	6	-31	34	55	-33
Italy		190	-1.1	2	-15	58	55	18
Portugal		93	-0.3	1	-3	27	28	1
Spain		102	-0.3	3	-2	32	28	-1

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

## Emerging Market Financial Indicators

Last updated: 12/12/2022 8:18 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+)= EM appreciation						% p.a.							
China		6.98	-0.2	-0.2	1	-9	-9	-9		3.2	-0.5	3	8	19	31	30
Indonesia		15628	-0.3	-1.0	-1	-8	-9	-8		6.9	1.1	4	-12	64	57	45
India		83	-0.3	-0.9	-2	-8	-10	-10		7.3	3.0	0	-25	107	94	
Philippines		56	-0.5	0.7	3	-10	-8	-8		6.0	0.0	-5	-10	138	153	103
Thailand		35	0.1	-0.1	6	-4	-4	-7		2.5	1.0	3	-51	63	67	29
Malaysia		4.42	-0.3	-1.1	4	-4	-6	-5		4.1	1.4	4	-32	52	49	42
Argentina		170	0.0	-0.4	-5	-40	-40	-37		89.0	0.0	-465	-746	3926	3839	4100
Brazil		5.26	-0.3	0.4	1	8	6	-5		13.0	13.9	34	19	253	233	149
Chile		857	0.6	4.6	4	-2	-1	-8		5.1	-4.5	-4	-25	-18	-30	-79
Colombia		4807	0.1	0.7	0	-19	-15	-19		9.9	0.0	39	-54	332	344	197
Mexico		19.80	-0.2	-0.2	-2	6	4	2		8.4	1.0	6	-69	111	86	54
Peru		3.8	0.3	0.9	3	7	5	-2		7.7	0.1	10	7	184	184	174
Uruguay		39	0.4	0.9	3	14	15	9		10.8	2.0	3	-31	212	212	269
Hungary		395	0.7	-0.1	0	-17	-18	-19		9.3	30.0	116	71	511	480	450
Poland		4.44	0.1	1.1	3	-7	-9	-9		5.5	9.5	-21	-81	250	199	162
Romania		4.7	0.0	0.4	2	-6	-7	-6		7.5	4.4	-6	-130	239	265	232
Russia		62.9	-0.6	-0.6	-3	17	19	30		10.7	-12.0	14	-8	193	196	-45
South Africa		17.5	-0.7	-0.3	-1	-8	-9	-13		9.2	11.5	4	11	176	181	165
Turkey		18.64	0.0	0.0	0	-26	-29	-26		11.0	0.0	6	-108	-1042	-1333	-1143
US (DXY; 5y UST)		105	0.0	-0.4	-1	9	10	9		3.73	-3.6	-5	-21	248	247	183

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		3953	-1.1	0	4	-22	-20	-14		182	-10	-34	-18	-21	-26	
Indonesia		6734	0.3	-4	-5	1	2	-3		154	-10	-38	-15	-11	-31	
India		62131	-0.1	-1	1	7	7	9		141	0	-46	5	9	-13	
Philippines		6585	0.1	1	5	-9	-8	-11		121	-12	-35	16	20	-16	
Thailand		1623	0.0	-2	-1	0	-2	-4								
Malaysia		1474	-0.2	0	0	-1	-6	-7		94	-2	-28	-23	-23	-39	
Argentina		171178	1.8	2	16	92	105	87		2354	93	-195	679	674	617	
Brazil		107511	0.3	-2	-4	0	3	-4		259	-6	-35	-56	-52	-72	
Chile		5199	-0.2	-2	-3	18	21	19		136	-12	-28	2	-4	-38	
Colombia		1236	0.5	0	-2	-11	-12	-18		382	-5	-60	58	34	-10	
Mexico		50466	-1.2	-1	-3	-1	-5	-2		377	-2	-27	39	45	7	
Peru		22159	0.5	-1	-1	9	5	-5		165	-15	-26	17	15	-25	
Hungary		44004	-0.4	-1	1	-14	-13	-8		219	-15	-39	97	95	66	
Poland		56323	0.9	0	3	-18	-19	-10		78	-19	-2	37	46	62	
Romania		12276	0.2	1	7	-2	-6	-7		252	-10	-68	70	59	20	
Russia		2170	-0.3	-2	-2	-42	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		74609	0.1	0	2	4	1	-1		384	-21	-16	24	29	-5	
Turkey		5184	3.6	5	16	155	179	157		442	-14	-66	-93	-136	-121	
Ukraine		519	0.0	0	0	-1	-1	0		3951	170	-296	3301	3192	2478	
EM total		39	-0.6	-1	2	-22	-20	-18		376	-9	-57	-5	-10	-82	

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

[back to top](#)