



- US Treasury yields fall sharply as CPI decelerates further in November ([link](#))
- Survey shows market pricing for FOMC rate cuts next year seen as too aggressive ([link](#))
- Bank of England announces first stress test of the nonbank financial sector ([link](#))
- Hungarian assets gain after EU member states approve pandemic-era recovery plan ([link](#))
- Chinese equities decline as COVID-induced disruptions start to emerge ([link](#))
- Peruvian markets remain volatile as calls for early elections continue to build ([link](#))

[Mature Markets](#)









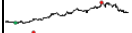

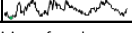
[Emerging Markets](#)

[Market Tables](#)

## Core sovereign bond yields fall amid deceleration trend in US inflation

The pullback in global equities has halted so far this week as investors continue to debate whether the Fed can engineer a soft landing alongside further signs of disinflation beginning to take hold. US equities rebounded to open the week as the S&P 500 closed up 1.4% yesterday with broad-based gains, though energy sector stocks outperformed and gained ground on a snapback in oil prices amid hopes of increased demand following the gradual reopening of the Chinese economy. Other regional equity markets have maintained the positive momentum overnight and this morning with major Asian and European stock indices broadly advancing. Risk sentiment was also boosted by some recent survey data that showed investor sentiment in the Euro area improved and consumers have grown more optimistic about near-term inflation in the US. Moreover, on the inflation front, this morning's US CPI print for November showed further signs that inflation continues to cool, printing below expectations. US equity futures jumped 3% and core sovereign bond yields have moved lower in response, particularly at the front end, placing the policy-sensitive 2-year yields at 4.18%, down 18 bps since the release. The moves initially spilled over to other major bond markets with 2-year German bund yields also falling 8 bps. So far, the updated US inflation data has triggered little reaction in market-implied policy rate pricing with a 50 bp hike still mainly priced in for the FOMC tomorrow, and the terminal rate moving down slightly to 4.85%.

Key Global Financial Indicators

Last updated: 12/13/22 8:38 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		3991	1.4	0	0	-15	-16	-6
Eurostoxx 50		3952	0.8	0	2	-6	-8	-1
Nikkei 225		27955	0.4	0	0	-2	-3	6
MSCI EM		39	-0.3	0	2	-20	-20	-18
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.48	-12.7	-5	-33	207	197	149
Germany 10y Yield		1.89	-5.4	9	-28	227	206	166
EMBIG Sovereign Spread		455	1	2	-55	91	88	43
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.2	0.7	1	1	-4	-5	-6
Dollar index, (+) = \$ appreciation		104.8	-0.3	-1	-1	9	10	9
Brent Crude Oil (\$/barrel)		78.8	1.1	-1	-18	6	1	-19
VIX Index (% change in pp)		25.4	0.4	3	3	5	8	-6

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

## Mature Markets

[back to top](#)

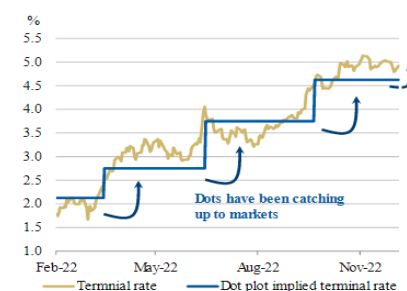
### United States

**In data releases this morning, November US consumer inflation decelerated more than anticipated for a second straight month, to 7.1% y/y (consensus 7.3%) from 7.7% in October.** The core inflation print also eased to 6.0% y/y (consensus 6.1%) from a previous reading of 6.3%. On a monthly basis core prices have risen 0.2%, lower than October. Markets hailed the outcome with S&P 500 futures up 3%, US Treasury yields dropping sharply across tenors and the US dollar depreciating.

**With a 50 bp policy rate hike fully priced in for the December FOMC meeting, market focus has shifted to the level and the timing to reach the terminal rate and the extent of rate cuts.** The dot plot at the upcoming meeting will specify better the Fed's expectations and will provide eagerly awaited guidance.

**Expectations about the terminal rate have not changed materially since the last FOMC and the dots are not expected to provide surprises.** In the current hiking cycle, the Federal Reserve has generally delivered a terminal rate right in line with market expectations. Analysts expect a repeat, with the terminal rate implied by the dots to be close to current market projections. Markets currently see the terminal target rate reaching a peak at around 5% by March 2023, only slightly lower compared to early November, when the terminal rate stood close to 5.1%.

**Exhibit 6:** Market-implied terminal rate versus dot plot-implied terminal rate

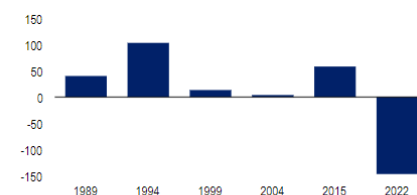


Source: Bloomberg, Morgan Stanley Research

**However, the expectation for the rate level two years out has declined considerably.** The end-2024 fed funds implied rate has fallen more than 100 bps since early November suggesting additional rate cuts between mid-2023 and end 2024 have been priced in since the last FOMC. Such large rate cuts have not been observed in previous policy rate cycles. BofA analysts observed that in the past five hiking cycles, when 4 months away from terminal rate, the market averaged nearly 50bps of additional rate hikes over the next 2Y. Given these developments, there will be a strong focus on the implied rate cut of the dot plot.

**Exhibit 9:** Slope of 3m2y ED curve when Fed is 4m from last hike (bp)

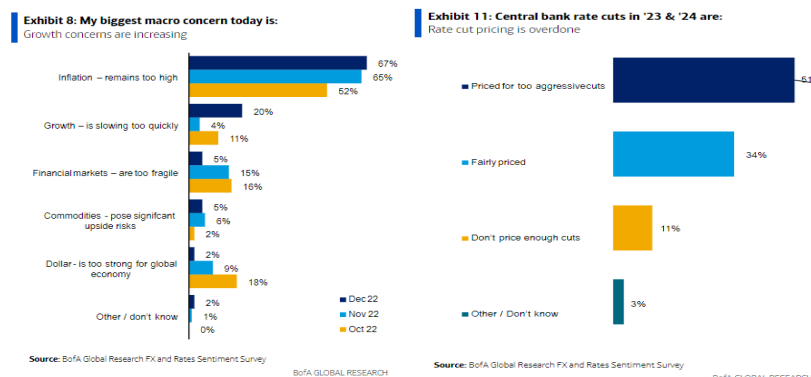
When Fed is 4m away from terminal, market typically prices hikes for next 2y



Source: BofA Global Research, Bloomberg

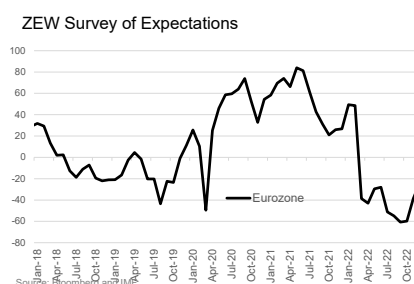
BofA GLOBAL RESEARCH

**Some analysts are beginning to doubt the extent of rate cuts currently priced in markets.** According to the latest BofA fund manager survey, inflation remains a top concern for investors while growth concerns increased sharply. Investors believe that inflation remains too high and challenge the transitory inflation view, expecting high inflation to last for longer. Three in four respondents expect inflation to persist above 3% throughout 2023. As a result, few believe that markets should be pricing in additional cuts in the next couple of years, compared to the current expectations, while half of the respondents consider the current rate cut pricing overdone.



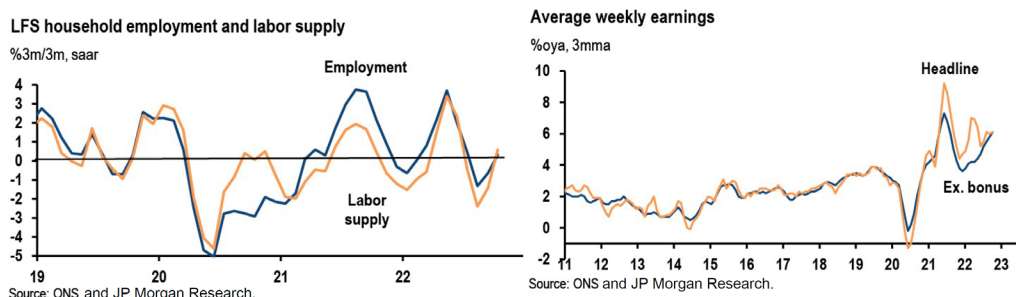
## Euro area

**Euro area markets were muted this morning ahead of the ECB meeting on Thursday.** Equity markets are up with the Stoxx Europe 600 gaining 0.6% as the **ZEW survey of expectations for the Eurozone improved to -23.6 in December from -38.7 in November, reaching its highest level since the start of the war in Ukraine.** The German ZEW survey of expectations improved to -23.3, better than expected (-26.4), up from -36.7 in November. While still very low, this reading indicates that concerns over a deep crisis are receding in Germany and Europe. **Markets are continuing to price in about 54 bps of 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.



## United Kingdom

**10-year gilt yields jumped 6 bps to 3.26% this morning after UK wage data continued to surprise to the upside.** The October labor market report showed a very slight pickup (0.1%) in the unemployment rate to 3.7%, but regular wage growth surprised to the upside again. The number of people on payrolls rose by a strong 107k in November, a 0.4% m/m increase and roughly double the expected pace. In addition, the ratio of vacancies to unemployed continues to look extraordinarily high, signaling that the labor market is still very tight. Going forward, Goldman Sachs analysts expect the labor market to remain tight and for wage growth to remain elevated in the UK despite a contraction in GDP. While most analysts think that the BOE will opt for a 50 bps hike on Thursday (to 3.5%), Bloomberg quotes analysts saying the main risk of a hawkish surprise would be if the BOE removes the explicit reference to market expectations for the terminal rate being too high.



In its **Financial Stability Report** released earlier today, the **BOE** announced that it will carry out a **stress test of vulnerabilities in the nonbank financial sector next year**, the first of its kind, after the crisis in UK pension funds following the mini-budget announcement in September exposed gaps in the understanding of systemic risks. The BOE plans a deep dive into hedge funds, mutual funds and pension funds, so that policy makers can assess risks and propose solutions, as the non-bank financial sector share of the global financial services market has more than doubled since the 2007–08 financial crisis. Further details will be set out in the first half of 2023.

## Japan

**Japanese markets traded with caution ahead of US CPI data.** Equities gained (NIKKEI: +0.4%), while Japanese yen was little changed. The 10-year JGB yield edged up to 2.5% (+0.2 bp), while longer-end JGB yields dropped (30-year: -2.0 bps). **The government reportedly plans to modify the personal income tax system** to boost middle-class financial investment and raise taxes on ultra-wealthy individuals. Analysts noted that the change could lead Japanese households to shift their assets from cash and deposits (54% of their assets) to capital markets, potentially supporting local equities; only 10% of households' assets are in stocks, below peers in the United States and the euro area. **Japan, as well as the Netherlands, reportedly agreed in principle to join the United States in tightening control over the export of advanced chipmaking machinery to China.** The three-country alliance would represent a near-total blockage of China's ability to buy the equipment necessary to make cutting-edge chips.

## Emerging Markets [back to top](#)

**Latin American markets closed lower.** Most major regional equity markets were down except Chile which saw modest gains, while the currencies depreciated in the range of 0.5-0.9%. In **Peru**, S&P changed its outlook from stable to negative while maintaining the credit rating at BBB. The rating agency cited the ongoing political upheaval to potentially have an adverse effect on the country's economic outlook. On the political front, **protests continue despite the proposal by the Peruvian president to move the general elections forward** from 2026 to 2024. Analysts acknowledge this move will instill stability in the markets for the year ahead, however, local markets were down as the equities corrected 2.3%, and the currency depreciated 0.5% against the USD. In Chile, lawmakers have agreed to start drafting a new constitution in January 2023. **Asian equities generally gained**, led by Indonesian (+1.1%), Indian (+0.7%), and Hong Kong (+0.7%) equities. Hong Kong equities rose as the government further relaxed COVID control for inbound travelers. **Asian currencies were mixed.** Philippine peso (-0.5%) and Indian rupee (-0.3%) depreciated, while Korean won appreciated (+0.2%). **Long-end government bond yields increased in most markets**, with 10-year yields rising in the Philippines (+4.5 bps) and Thailand (+3.4 bps). **Markets were mixed in Eastern Europe** as EU member states reached a preliminary agreement on a €18 bn support package for Ukraine. Hungarian assets outperformed after EU member states froze funds of the regular budget but approved €5.8 bn in recovery-related grants to Hungary. Equities in Budapest gained 2% and the currency (+1.2%) firmed. Local interest rates shot up in Romania after inflation surprised to the upside.

## China

**Chinese equities declined as the country experienced wider disruptions from the surge in COVID infections.** Onshore share prices dropped (CSI 300: -0.2%), underperforming regional peers. The financial sector was also affected. In particular, currency trading volume dropped to the lowest level since April as traders called in sick. Reportedly, the annual Central Economic Work Conference has been postponed, with no new timetable being set. RMB depreciated (-0.2%). CGB yields rose (1-year: +4.7 bps; 10-year: +0.8 bp). China is working on a support package of more than 1 tn yuan (\$143 bn) for its semiconductor industry. The support will likely be in the form of subsidies and tax credits to boost domestic production and research. On Monday, China also filed a dispute over the US export control with the World Trade Organization.

## India

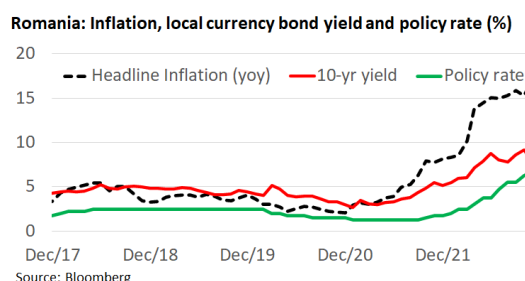
**CPI inflation moderated more than expected in November.** CPI rose 5.9% y/y in November (consensus: +6.4%), slowing from a 6.8% increase in October. **The Reserve Bank of India removed informal restrictions on non-deliverable forward operations by banks.** The measure was imposed in October, with an aim at managing Indian rupee's volatility. **Housing Development Finance Corporation (HDFC) and its unit HDFC bank will be merged to create a financial services giant** with assets of more than \$200 bn. HDFC is known as a major shadow lender and the largest corporate bond issuer in India. After the merger, HDFC will be able to tap bank deposits to grow its business. Analysts noted that while the bond issuance volume may fall, the room left by HDFC could allow new borrowers to raise funding in the bond market. Equities gained (+0.7%); Indian rupee depreciated (-0.3%); 10-year government bond yields dropped (-2.5 bps).

## Hungary

**The forint (+1.2%) gained and local swap rates fell around 50 bps after EU member states agreed to approve Hungary's pandemic-era recovery plan, potentially allowing Hungary to access €5.8 bn in grants.** EU ambassadors reportedly went ahead with the approval after Hungary agreed on EU funding to Ukraine on Monday. Without the approval, Hungary would have lost 70% of the €5.8 bn in grants (€4.1 bn in grants or around 2% of Hungary's GDP). **Hungary can receive these funds if it makes sufficient reforms.**

## Romania

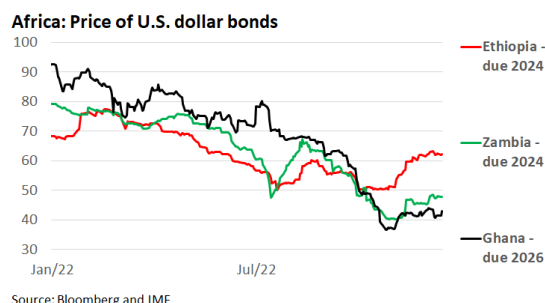
**Local 10-yr bond yields traded 28 bps higher at 8.07% after headline inflation was markedly higher than expected at 16.76% y/y (16.10% expected) or 1.25% m/m in November.** Net wages rose 13% y/y (from 13.8% y/y in September).



## Ghana

**The cedi (+8%) rallied against the U.S. dollar and prices on Eurobonds rose 1–1.5 points after Ghana and IMF staff reached a staff-level agreement on a new 3-year arrangement under the Extended Credit Facility (ECF) of about \$3 bn.** The staff-level agreement is subject to IMF Management and Executive Board approval and receipt of the necessary financing assurances by Ghana's partners and

creditors. **Last week, S&P downgraded Ghana from CCC+ to CC following proposals to restructure both local and external debt as announced in the 2023 budget.**



## Brazil

**Latin American equity ETFs witnessed outflows last week on concerns over economic policy of the new regime in Brazil**, as per a Bloomberg report. Investors actively disinvested from Brazil-focused equity ETFs which saw an outflow of -\$34.8 mn in the past week. During this time, investors are reported to have withdrawn \$52 mn from the \$5.2 bn iShare MSCI Brazil ETF, which is the largest ETF tracking Brazilian equities. The report argues, the flight from Brazil ETFs is reflective of the market's concerns about the fiscal policy of the country's new government as EM-wide investments in equity ETFs were positive at \$350 mn for the week.

ETF Flows: Regional summary

Region	Total flow (mn USD)	Equity flow (mn USD)	Bond flow (mn USD)	Total Assets (bn USD)
EM	627.6	350.3	277.2	295.6
Americas	51	-40.9	91.9	37
Asia Pacific	378.5	327.8	50.7	215.8
EMEA	198	63.4	134.6	42.8
















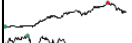











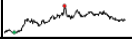
Sources: Bloomberg

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## Global Financial Indicators

Last updated: 12/13/22 8:37 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
<b>Equities</b>			%				%	%
United States		4034	1.4	2	1	-14	-15	-5
Europe		3952	0.8	0	2	-6	-8	-1
Japan		27955	0.4	0	0	-2	-3	6
China		3946	-0.2	-1	4	-22	-20	-15
Asia Ex Japan		67	-0.2	0	5	-19	-19	-16
Emerging Markets		39	-0.3	0	2	-20	-20	-18
<b>Interest Rates</b>			basis points					
US 10y Yield		3.48	-12.7	-5	-33	207	197	149
Germany 10y Yield		1.89	-5.4	9	-28	227	206	166
Japan 10y Yield		0.25	0.1	0	1	20	18	6
UK 10y Yield		3.22	1.9	14	-14	252	225	174
<b>Credit Spreads</b>			basis points					
US Investment Grade		154	-0.2	-6	-20	40	42	11
US High Yield		459	3.7	-13	-34	100	122	53
Europe IG		83	-6.0	-8	-13	32	36	12
Europe HY		437	-27.6	-28	-40	179	195	85
<b>Exchange Rates</b>			%					
USD/Majors		104.84	-0.3	-1	-1	9	10	9
EUR/USD		1.06	0.7	1	3	-6	-7	-6
USD/JPY		135.8	-1.4	-1	-3	20	18	18
EM/USD		50.2	0.7	1	1	-4	-5	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		79	1.1	-1	-17	11	9	-8
Industrials Metals (index)		169	0.6	0	3	3	-2	-10
Agriculture (index)		67	0.8	2	-2	12	10	-5
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		25.4	0.4	3.3	2.9	5.1	8.2	-5.6
US 10y Swaption Volatility		144.8	0.2	14.1	19.9	66.1	65.8	50.5
Global FX Volatility		10.2	0.0	-0.9	-1.3	2.3	2.8	2.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		210	5.0	15	-28	37	58	-31
Italy		186	-2.7	1	-18	57	51	15
Portugal		91	-1.7	-1	-4	27	27	-1
Spain		101	-1.8	0	-3	32	27	-3

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

## Emerging Market Financial Indicators

Last updated: 12/13/2022 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.98	-0.1	0.2	1	-9	-9	-10		3.2	0.0	-3	8	19	31	30
Indonesia		15657	-0.2	-0.2	-1	-8	-9	-8		7.0	0.3	-1	-12	63	57	45
India		83	-0.3	-0.2	-2	-9	-10	-10		7.3	2.3	6	-23	109	96	
Philippines		56	-0.5	0.1	2	-10	-9	-9		6.0	0.0	0	-13	145	153	103
Thailand		35	0.0	0.7	3	-4	-4	-7		2.5	1.0	-1	-25	63	68	30
Malaysia		4.43	-0.2	-0.8	4	-5	-6	-6		4.1	2.1	6	-29	55	52	44
Argentina		172	-0.2	-1.3	-6	-41	-40	-38		89.1	18.8	-155	-1055	3908	3858	4118
Brazil		5.29	0.1	-0.9	1	7	5	-5		13.0	-3.7	26	21	255	235	152
Chile		872	-0.5	0.9	2	-3	-2	-9		5.3	2.5	25	-10	-4	-16	-65
Colombia		4821	0.6	0.3	0	-19	-15	-19		10.1	0.0	59	-34	353	364	218
Mexico		19.84	0.1	-0.3	-2	6	3	2		8.4	1.0	6	-69	111	86	54
Peru		3.8	-0.5	0.4	0	6	4	-3		7.7	0.2	7	4	185	184	174
Uruguay		39	0.3	1.3	3	14	15	9		10.8	-2.5	0	-30	209	209	267
Hungary		389	1.4	1.0	2	-16	-16	-18		8.9	-50.0	58	25	465	434	404
Poland		4.45	0.0	0.6	2	-8	-9	-9		5.6	6.0	-10	-76	256	204	167
Romania		4.7	0.1	0.4	2	-6	-7	-6		7.5	0.7	0	-71	244	265	233
Russia		63.4	-0.9	-0.3	-3	16	19	29		10.7	0.0	26	-8	193	196	-45
South Africa		17.7	-0.9	-2.2	-2	-10	-10	-15		9.3	5.5	10	18	183	188	172
Turkey		18.65	0.0	-0.1	0	-26	-29	-26		11.0	0.0	6	-108	-1067	-1333	-1143
US (DXY; 5y UST)		105	-0.3	-0.7	-1	9	10	9		3.76	-3.1	1	-18	255	250	185

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
									basis points							
China		3946	-0.2	-1	4	-22	-20	-15		183	-4	-34	-19	-20	-25	
Indonesia		6810	1.1	-1	-3	3	3	-2		158	2	-50	-11	-7	-27	
India		62533	0.6	0	1	8	7	9		142	3	-46	7	10	-12	
Philippines		6582	0.0	2	4	-9	-8	-11		119	-5	-37	14	18	-18	
Thailand		1626	0.2	-1	0	0	-2	-4								
Malaysia		1470	-0.3	0	0	-1	-6	-7		96	1	-31	-21	-21	-37	
Argentina		166467	-2.8	-2	11	103	99	82		2292	-18	-200	586	612	555	
Brazil		105343	-2.0	-4	-6	-2	0	-6		266	6	-38	-53	-45	-65	
Chile		5261	1.2	0	-2	22	22	20		139	-6	-23	3	-1	-35	
Colombia		1229	-0.6	1	-3	-9	-13	-19		383	-5	-40	53	35	-9	
Mexico		50466	-1.2	-1	-3	-1	-5	-2		382	-2	-6	42	50	12	
Peru		21642	-2.3	-2	-3	7	3	-7		172	-6	-12	23	22	-18	
Hungary		44943	2.3	-1	3	-11	-11	-6		219	-6	-37	98	95	66	
Poland		56448	-0.1	1	4	-17	-19	-10		76	-1	-6	34	44	60	
Romania		12113	-0.8	-2	5	-2	-7	-8		251	1	-54	67	58	19	
Russia		2159	-0.6	-2	-3	-40	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		74956	0.7	1	3	5	2	0		389	6	2	27	34	0	
Turkey		5240	0.9	5	18	149	182	160		441	-4	-83	-106	-137	-122	
Ukraine		519	0.0	0	0	-1	-1	0		3957	169	-208	3309	3198	2484	
EM total		39	0.4	0	2	-20	-20	-18		376	-2	-49	-7	-10	-82	

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

[back to top](#)