



- Markets scale back expectations for the peak FOMC policy rate following softer CPI ([link](#))
- Large crypto asset exchange Binance continues to experience outflows ([link](#))
- EU postpones decision on natural gas price cap to next week ([link](#))
- UK November inflation comes in lower than expected ([link](#))
- Chinese assets continue to underperform as concerns about COVID impact grow ([link](#))
- South African bond yields fall as inflation surprises to the downside ([link](#))

[Mature Markets](#)




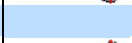

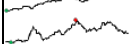




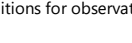
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Risk asset rally pauses as markets await central bank updates

Markets are in somewhat of a holding pattern this morning as investors await an update on the Fed's policy stance and projections this afternoon, as well as on the set of central bank decisions due tomorrow in Europe. With November US inflation surprising to the downside, US stocks initially surged yesterday, but would pare gains before closing off of session highs. The positive sentiment mostly carried over to major Asian equity indices overnight, while European bourses are little changed this morning. The softer data fueled the peak inflation narrative as well as the expectation of a slowing in the Fed's aggressive hiking path. Markets reduced Fed policy rate expectations for the second half of 2023 and into 2024, alongside a shift lower in terminal rate pricing to closer to 4.8%. Core sovereign bond yields also fell following the report, sending benchmark 10-year US Treasury yields lower by about 10 bps, while moves at the front-end of the curve were even more pronounced as 2-year yields declined 15 bps in the US and 6 bps in Germany. Bond yields are stabilizing this morning, while front-end UK gilt yields are trading lower as November inflation data also came in lower than expected. With the inflation updates now in the rearview, all eyes now turn to the Fed this afternoon ahead of its highly anticipated policy rate decision where a step down to a 50 bp hike is widely expected by investors.

Key Global Financial Indicators

Last updated: 12/14/22 8:04 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4020	0.7	2	2	-13	-16	-5
Eurostoxx 50		3971	-0.4	1	2	-4	-8	0
Nikkei 225		28156	0.7	2	1	-1	-2	6
MSCI EM		39	0.7	-1	2	-20	-21	-19
Yields and Spreads			bps					
US 10y Yield		3.50	0.2	9	-35	206	199	151
Germany 10y Yield		1.97	4.6	19	-18	234	215	174
EMBIG Sovereign Spread		452	-3	-15	-59	82	85	39
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.2	0.0	0	0	-3	-5	-6
Dollar index, (+) = \$ appreciation		103.9	0.0	-1	-3	8	9	8
Brent Crude Oil (\$/barrel)		81.1	0.5	5	-13	10	4	-16
VIX Index (% change in pp)		22.7	0.2	0	-1	1	6	-8

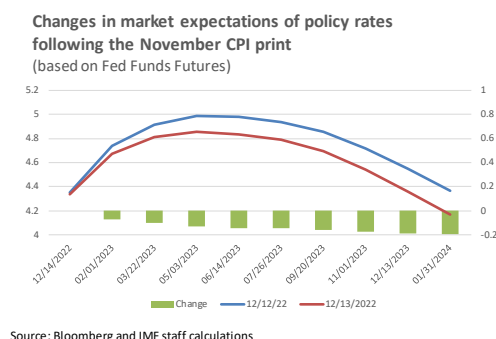
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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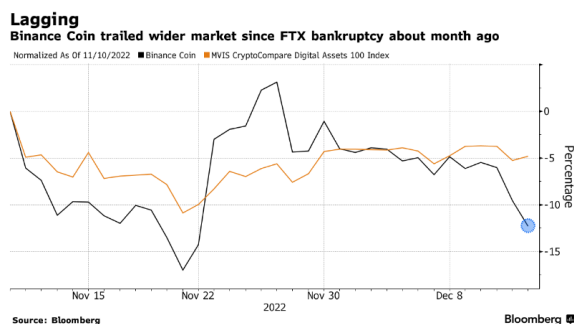
United States

Markets scaled back expectations for the terminal policy rate following the softer CPI print. While the inflation report is in line with the Fed slowing the pace of rate hikes to 50 bp at the December meeting it also introduced some downside risks to the market implied policy rate path. Markets now see the terminal rate for 2023 being a closer call between 4.75% and 5%. At the margin, the report also reduced the risk of a 50 bp hike in February. Further out the curve, an additional rate cut by end 2024 is now almost fully priced in.



Crypto Assets

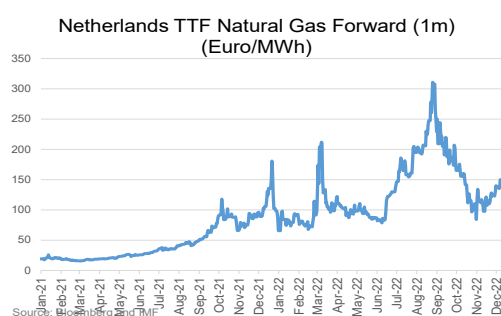
Binance, the dominant crypto asset exchange, has been hit by large outflows. Net outflows of tokens amounted to about \$3.7 bn in the past week, including almost \$2 bn within 24-hours on Tuesday morning. The outflows relate to broader crypto outflows following the FTX collapse last month but are much larger compared to other crypto exchanges. Concerns over Binance rose further following last week's release of a "proof of reserve" report, which, instead raised concerns about the stability of the exchange. In addition, a Reuters report this week alluded to the possibility of a criminal investigation from the US government related to anti money laundering compliance of the exchange. Binance's native token, Binance Coin, declined as much as 7.1% yesterday. The token has been trailing the wider crypto market since FTX's bankruptcy.



Euro area

Euro area markets are mixed with little news and data releases ahead of major central bank decisions in advanced economies in the next 36 hours, starting with the Fed this afternoon (+50 bps expected to 4%). Equity markets are down, with the Stoxx Europe 600 losing 0.6% while the euro is appreciating 0.3% vs. the dollar at 1.07/\$ as the dollar has generally weakened after the release of lower-than-expected US CPI data for November yesterday. German 10y yields are up 5 bps to 1.98%, and Italian spreads increased 3 bps to 191 bps, even though Euro area industrial production fell more than expected in October (-2% mom, vs. -1.5% expected), bringing its annual growth rate to 3.4% y/y, down from 4.9% in September. Tomorrow, four central banks will announce their policy rate decisions in Europe: the ECB (+50 bps expected to 2%), the Bank of England (+50 bps expected to 3.5%), the Swiss National Bank (+50 bps expected to 1%), and the Central Bank of Norway (+25 bps expected to 2.75%).

The EU postponed a decision to December 19 on details of a price cap for natural gas after a group of countries led by Germany called for more scrutiny of the measure. German economy minister Robert Habeck said that countries agreed on 90–95% of the proposal, but that the big decisions will be left for next Monday. The aim of the cap is to help prevent costs from spiking out of control as happened in the summer when prices jumped to a record €345 per megawatt-hour. Jozef Sikela, the industry minister for the Czech Republic (who holds the EU rotating presidency) said that the price level will be the only open issue for discussion on Monday. The EU Commission's original proposal set the cap at €275 per megawatt hour, but the Czech government's latest proposal suggested lowering it to €220, still above current benchmark levels of about €137 a megawatt-hour. Germany, Austria and the Netherlands have reportedly warned that a gas price cap could divert gas cargoes away from Europe and disrupt further the functioning of energy markets. Bloomberg reports that the deadlock has been holding back other key emergency measures that have been agreed upon in principle—like faster permitting and joint gas purchases. European natural gas prices continue to decline as temperatures are forecast to return to more normal levels within the next few days.



United Kingdom

The British pound is slightly up (+0.3% to 1.24 £/\$) and 10y gilt yields are broadly unchanged at 3.3%, as November inflation was lower than anticipated at 10.7% y/y in November (10.9% expected). Even though inflation remains at a 41-year high, markets participants think that inflation has peaked and that the BOE will hike rates by 50 bps to 3.5% tomorrow, with talk of a 75 bp hike fading further after this release. While the decline in y/y headline inflation was primarily driven by a drop in the transport component, core inflation declined to 6.3% y/y (6.5% expected), down from 6.5% in October. In particular, services inflation remained steady at 6.3% y/y suggesting that domestically generated inflation may be peaking, even though it is still significantly above its long-term average.

Exhibit 1: Headline and Core Inflation Moderate in November

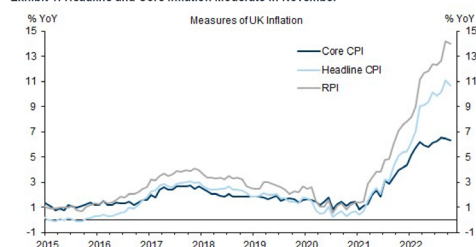
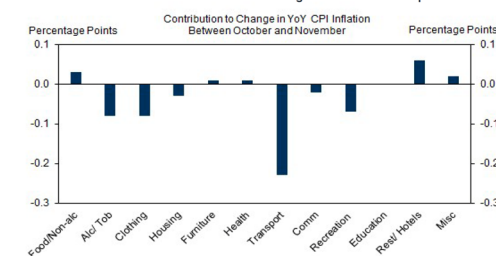


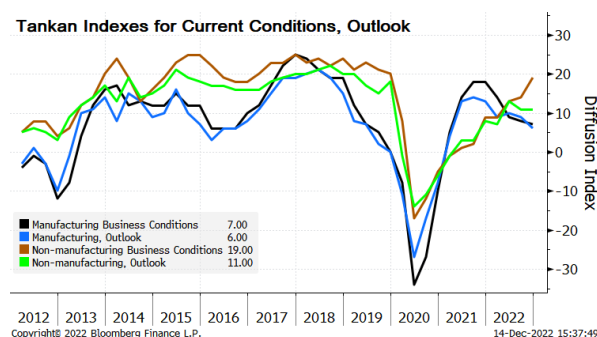
Exhibit 2: Broad Downside Pressures Across Categories With Few Exceptions



Japan

The latest quarterly Bank of Japan's Tankan report showed that confidence weakened in the manufacturing sector potentially due to global slowdown risks. Meanwhile, non-manufacturers had a more positive view amid Japan's reopening. The report also showed that businesses are now more willing to pass their costs on to customers. **Core machine orders increased 5.4% m/m in October** (consensus:

+1.8%). Core machine order is a leading indicator for business investment; the October increase reversed a 4.6% decline in September. Japanese equities gained (NIKKEI: +0.7%), similar to regional trends, amid risk-on sentiment after relatively benign US CPI inflation data. Japanese yen also appreciated (+0.2%). Long-end JGB yields dropped (10-year: -0.3 bp; 30-year: -0.4 bp), with 10-year yields falling to 0.247%.



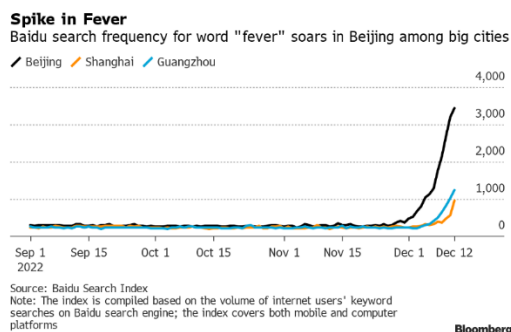
Emerging Markets

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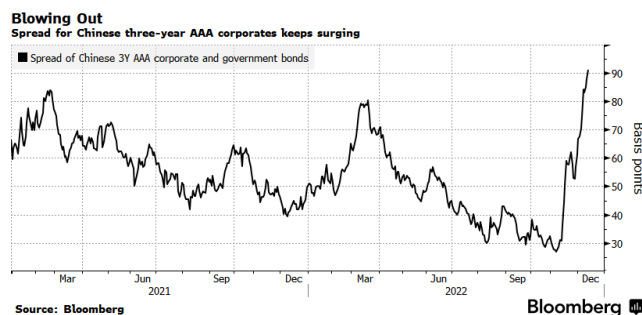
Latin American markets were mixed. While equity markets slid further, major regional currencies rebounded. Local news flow also affected the market sentiment. **In Brazil**, notes of caution were sounded in the central bank's meeting minutes on expansionary fiscal policy and caused equity markets to decline by another 1.7%, while the IR swap curve shifted up (25 bps for 2-year tenor). **In Peru**, where protests have persisted, equities were down 0.6% while the currency recovered marginally. Currencies in Colombia (+1.8%), Mexico (+1.7%) and Chile (+1%) posted strong gains against the USD. **Asian markets rallied amid risk-on sentiment supported by the relatively benign US CPI inflation data.** Asian equities gained, up 1.3% on net, led by Taiwan (+1.5%) and Korean (+1.1%) equities. Asian currencies appreciated, led by Malaysian ringgit (+0.8%), Korean won (+0.7%), Thai baht (+0.6%) and Taiwan dollar (+0.6%). Long-end government bond yields dropped, with 10-year yields falling in the Philippines (-9.0 bps) and Thailand (-6.0 bps), following the decline in US treasury yields. **In Korea**, the unemployment rate increased to 2.9% in November as expected, up from 2.8% in October. **In India**, whole prices increased 5.9% y/y in November, moderating from an 8.4% increase in October (consensus: +6.3%). Indian rupee appreciated (+0.4%); 10-year government bond yield declined (-5.3 bps). **Equity markets in EMEA were mixed while currencies were mostly stronger against the dollar ahead of the Fed's policy rate decision later today.** The Hungarian forint outperformed (+0.8% against the euro), while the Polish zloty was little changed following news yesterday that a preliminary agreement was reached between Poland and the European Union regarding legislation that could potentially see the release of roughly €34 bn in post-pandemic funding.

China

Chinese equities gained but underperformed regional peers as concerns about the impact of COVID outbreaks grew (CSI 300: +0.2%). China gave up on reporting asymptomatic cases. Only symptomatic cases will be reported going forward; yesterday, only about two thousand symptomatic cases were reported. Beijing appears to be the hot spot for COVID outbreaks among major Chinese cities as suggested by Baidu search. RMB appreciated (+0.1%), while most Asian currencies appreciated more strongly on relatively benign US inflation data. **The US administration considered adding 31 Chinese firms on the Entity List** that would prevent them from buying certain American products. These Chinese firms have been put on the Unverified List, which set off a 60-day countdown during which the companies would have to prove that their businesses were not involved in activity undermining US national securities (e.g., supporting the Chinese military).

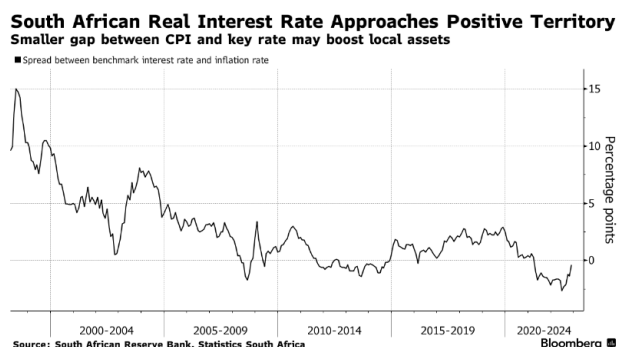


Market participants increased their attention on local government financing vehicles (LGFVs). Concerns are growing about LGFV debt as onshore bond spreads widened sharply following credit bond selloffs amid continued redemptions of wealth management products by retail investors. The spread between AAA rated corporate bond (which capture LGFVs) and CGB has widened at a rapid pace, reaching about 90 bps for the 3-year tenor, the highest level since August 2020. At the same time, bank negotiable certificate of deposit (NCD) rates have increased. The 1-year NCD reached 2.77%, slightly above the medium-term lending facility (MLF) rate at 2.75%. The People's Bank of China (PBC) did not inject liquidity today. Markets focused on the PBC's liquidity provision via the monthly MLF operation tomorrow. CGB yields dropped (1-year: -2.5 bps; 10-year: -3.5 bps), similar to regional trends.



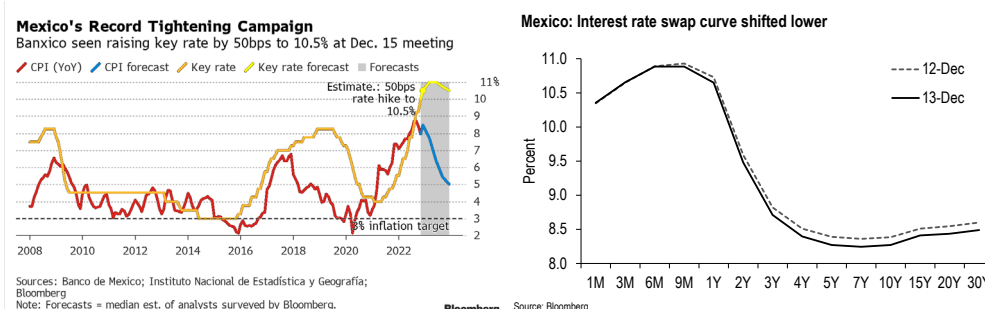
South Africa

South African local bond yields traded 15 bps lower at 10.76% after November inflation eased more than expected. Headline inflation eased to 7.4% y/y vs. expected 7.5% and from 7.6% last month, while core inflation remained unchanged at 5.0% y/y vs. expected 5.1%. At their most recent MPC meeting in November, the South African Reserve Bank (SARB) hiked its policy rate by 75 bps to 7%, in line with expectations. Analysts expect further tightening but anticipate that the pace of hikes could ease. The next MPC decision takes place in January, with markets pricing in a roughly 80% chance of a 50 bp hike.



Mexico





















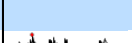

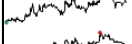





Some analysts expect the softer US inflation print could create scope for the Central Bank of Mexico (Banxico) to adopt a slower pace of rate hikes than the Fed. Owing to domestic inflationary pressures, Banxico embarked on the path of monetary policy tightening in June 2021, and hence, by the time the Fed started its hiking cycle in March 2022, Banxico had already hiked its policy rate by 250 bps to 6.5%. Markets expect Banxico to announce a rate hike of 50 bps at its meeting on Thursday, which is in tandem with the expected US Fed policy action. However, in early 2023, Mexico could “decouple” from US monetary policy and deliver a smaller (25 bps) rate hike than the US. That being said, still rising core inflation (8.51% for Nov. 22) could prove to be the deciding factor on whether to reduce the pace of tightening. Mexico's interest rate swap curve shifted lower yesterday and was more noticeable for tenors over 3 months.



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Global Financial Indicators

Last updated: 12/14/22 8:05 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4019	0.7	2	2	-13	-16	-5
Europe		3971	-0.4	1	2	-4	-8	0
Japan		28156	0.7	2	1	-1	-2	6
China		3955	0.2	0	2	-21	-20	-14
Asia Ex Japan		66	1.0	0	5	-19	-20	-16
Emerging Markets		39	0.7	-1	2	-20	-21	-19
Interest Rates			basis points					
US 10y Yield		3.50	0.2	9	-35	206	199	151
Germany 10y Yield		1.97	4.6	19	-18	234	215	174
Japan 10y Yield		0.25	-0.2	0	1	20	18	6
UK 10y Yield		3.31	0.7	26	-6	258	234	183
Credit Spreads			basis points					
US Investment Grade		154	0.6	-4	-17	36	42	11
US High Yield		453	2.6	-27	-24	89	116	47
Europe IG		85	0.3	-7	-11	33	37	13
Europe HY		445	5.8	-22	-32	185	203	93
Exchange Rates			%					
USD/Majors		103.95	0.0	-1	-3	8	9	8
EUR/USD		1.07	0.2	1	3	-5	-6	-6
USD/JPY		135.0	-0.5	-1	-4	19	17	17
EM/USD		50.2	0.0	0	0	-3	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		81	0.5	5	-12	15	12	-6
Industrials Metals (index)		167	-0.8	-3	0	2	-4	-11
Agriculture (index)		67	-0.5	1	-2	11	10	-5
Implied Volatility			%					
VIX Index (% change in pp)		22.7	0.2	0.1	-1.0	0.9	5.5	-8.3
US 10y Swaption Volatility		132.2	-6.2	-0.3	7.3	52.0	53.2	37.9
Global FX Volatility		10.0	0.0	-1.1	-1.6	2.1	2.6	2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		209	2.3	16	-10	40	57	-31
Italy		193	5.6	11	-10	63	58	22
Portugal		93	1.9	4	-4	30	29	1
Spain		103	1.9	5	-2	33	29	0

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

Emerging Market Financial Indicators

Last updated: 12/14/2022 8:08 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		6.95	0.0	0.3	2	-8	-9	-9		3.1	-6.0	-5	2	15	25	24
Indonesia		15598	0.4	0.3	-1	-8	-9	-8		6.9	-6.5	-11	-18	49	51	39
India		82	0.4	0.0	-1	-8	-10	-10		7.2	-9.0	-6	-31	102	88	
Philippines		56	0.2	-0.6	3	-10	-9	-8		6.0	0.0	0	-13	145	153	103
Thailand		35	0.7	1.5	4	-3	-3	-7		2.4	-9.0	-7	-34	51	59	21
Malaysia		4.39	0.8	0.1	5	-4	-5	-5		4.1	-2.4	2	-32	52	49	42
Argentina		172	-0.2	-1.3	-6	-41	-40	-38		89.2	3.0	15	-1052	3903	3861	4121
Brazil		5.35	-0.8	-2.4	0	6	4	-6		13.5	19.1	74	67	307	281	197
Chile		861	-0.3	0.6	4	-2	-1	-8		5.1	-2.5	-11	-28	-28	-34	-83
Colombia		4756	0.2	1.5	1	-16	-14	-18		9.9	0.0	35	-51	323	347	200
Mexico		19.60	-0.4	0.4	-1	8	5	3		8.3	0.0	-13	-48	100	75	43
Peru		3.8	0.3	0.2	1	6	5	-2		7.7	-0.2	-3	0	182	180	170
Uruguay		39	0.3	1.3	3	14	15	9		10.8	-0.7	0	-31	208	209	266
Hungary		382	1.1	2.4	4	-14	-15	-16		8.5	0.0	18	-15	405	394	364
Poland		4.39	0.3	1.6	4	-6	-8	-8		5.5	-0.8	-10	-88	237	192	155
Romania		4.6	0.2	1.2	3	-5	-6	-5		7.5	4.6	5	-66	256	270	237
Russia		63.7	-1.1	-0.5	-4	16	18	28		10.7	0.0	0	-8	185	196	-45
South Africa		17.1	0.8	0.2	1	-6	-7	-12		9.0	-9.0	-9	-11	158	159	143
Turkey		18.65	-0.1	0.0	0	-23	-29	-26		10.5	-47.0	-45	-142	-1143	-1380	-1190
US (DXY; 5y UST)		104	-0.1	-1.1	-3	8	9	8		3.63	-1.9	1	-36	240	237	173

	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		3955	0.2	0	2	-21	-20	-14		186	1	-31	-17	-17	-22	
Indonesia		6802	-0.1	0	-3	3	3	-2		162	-3	-46	-12	-3	-23	
India		62678	0.2	0	1	8	8	10		144	8	-44	9	12	-10	
Philippines		6615	0.5	-1	3	-7	-7	-10		116	-14	-40	7	15	-21	
Thailand		1633	0.5	0	0	1	-1	-4								
Malaysia		1483	0.9	1	2	0	-5	-6		99	3	-28	-18	-18	-34	
Argentina		165500	-0.6	-2	8	101	98	81		2282	-112	-210	571	602	545	
Brazil		103540	-1.7	-5	-9	-3	-1	-8		265	-7	-39	-58	-46	-66	
Chile		5225	-0.6	0	-1	25	21	19		138	-12	-24	-2	-2	-36	
Colombia		1230	0.1	-1	-3	-10	-13	-19		375	-28	-48	37	27	-17	
Mexico		50333	-0.3	-1	-3	-2	-6	-2		376	-24	-12	29	44	6	
Peru		21516	-0.6	-2	-4	7	2	-8		171	-13	-13	18	21	-19	
Hungary		45047	0.3	1	2	-10	-11	-6		214	-20	-42	88	90	61	
Poland		57272	-0.2	2	3	-16	-17	-9		79	-4	-3	34	47	63	
Romania		11989	-1.0	-2	3	-3	-8	-9		246	-15	-60	58	53	13	
Russia		2159	-0.7	-2	-4	-40	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		74149	-2.2	0	2	4	1	-1		378	-23	-9	10	23	-11	
Turkey		5183	-1.4	7	13	140	179	157		449	-11	-75	-117	-129	-114	
Ukraine		519	0.0	0	0	-1	-1	0		3941	90	-224	3287	3182	2468	
EM total		39	-0.3	-1	2	-20	-21	-19		373	-19	-53	-17	-14	-85	

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

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