



- Muted market reaction after hawkish 50 bps Fed hike ([link](#))
- ECB hikes 50 bps, raises inflation forecast and outlines reduction of asset holdings ([link](#))
- Bank of England hikes 50 bps in 6–3 majority ([link](#))
- Swiss National Bank hikes 50 bps and upgrade inflation forecast ([link](#))
- Norges Bank hikes 25 bps and signals potential rate cuts in late 2023 ([link](#))
- EM bond market issuance remains muted in December ([link](#))
- China's government unveiled a new 12-year growth plan ([link](#))

[Mature Markets](#)












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## A wave of central bank hikes with the Fed signaling higher for longer

Global equities were trading in the red this morning as central bank decisions remain center stage today after the Fed policy meeting yesterday. The recent global rally sparked softer US inflation came to a halt with markets continuing their decline in a more resolute way, after the Fed hiked by 50bps yesterday as expected but indicated that policy rates would stay higher for longer. This morning the European Central Bank (ECB), the Bank of England and the Swiss National Bank hiked by 50bps respectively, after 75bps hikes at each of their previous meetings. European sovereign yields increased and Southern spreads widened after the ECB statement was more hawkish than expected, signaling further hikes and a reduction in asset holdings in recessionary conditions. The Norges Bank, the first DM central bank to start tightening post 2020, hiked 25 bps, but signaled potential rate cuts in late 2023. Elsewhere on the central bank front, central banks in Taiwan and the Philippines raised their policy rates as expected. Demand for haven assets sent the dollar higher amid the wave of rate hikes by central banks, while gilts held gains.

Key Global Financial Indicators

Last updated: 12/15/22 1:50 PM	Level		Change from Market Close					YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	23-Feb-22		
Equities			%					%	
S&P 500		3995	-0.6	2	0	-15	-16	-5	
Eurostoxx 50		3899	-1.9	-1	0	-6	-9	-2	
Nikkei 225		28052	-0.4	2	0	-3	-3	6	
MSCI EM		39	0.1	-1	0	-20	-21	-19	
Yields and Spreads			bps						
US 10y Yield		3.46	-1.8	-2	-31	200	195	147	
Germany 10y Yield		2.02	8.3	20	-9	238	220	180	
EMBIG Sovereign Spread		456	4	-19	-29	86	89	43	
FX / Commodities / Volatility			%						
EM FX vs. USD, (+) = appreciation		49.9	-0.3	-1	0	-3	-5	-6	
Dollar index, (+) = \$ appreciation		104.1	0.3	-1	-2	8	9	8	
Brent Crude Oil (\$/barrel)		82.3	-0.5	8	-12	11	6	-15	
VIX Index (% change in pp)		21.6	0.5	-1	-3	2	4	-9	

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

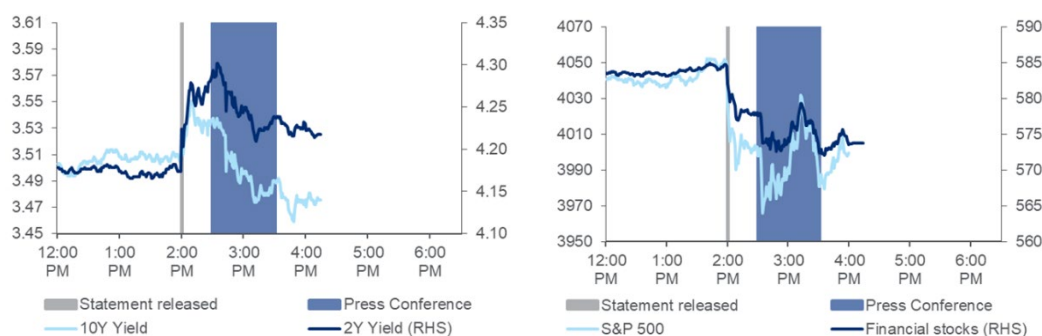
## Mature Markets

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### United States

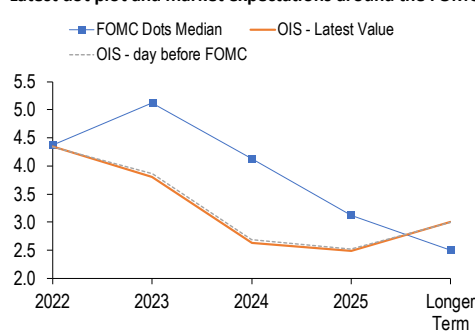
**The US Fed assumed a hawkish tone in its last FOMC meeting of the year.** The Fed raised rates by 50 basis points, to a range of 4.25–4.5%, in a much-anticipated slowdown after four consecutive 75-basis-point moves. However, the updated dot-plot departed from market expectations as the dot-plot foresees no policy rate cuts seen in 2023, despite market pricing of up to 50bps cuts in the second half of the year. Additionally the FOMC revised its median projection for the terminal rate to 5.1% in 2023, higher than most economists' expectations (that were closer to 4.9%, on average, prior to the FOMC). Coupled with a higher profile for inflation and an ongoing focus on rate hikes, the statement had a clear hawkish tone, which was further supported by the press conference. Chairman Powell argued that, while interest rates are getting closer to being sufficiently restrictive, they're not there yet. He also saw risks to inflation on the upside, mainly due to persistent price pressures in the core services sector. Regarding future policy rate dynamics, he did not preclude further increases in the peak terminal rate, and while stressing data dependency guiding the February rate decision he rejected an FOMC focus on rate cuts in 2023 until the FOMC feels confident that inflation is moving towards 2%.

**Market reaction was muted on net.** Yields jumped on the statement, but fell during the press conference, while equities sold off only modestly, retracing post-statement losses. The dollar was down for the day, on net, following a spike post-statement.

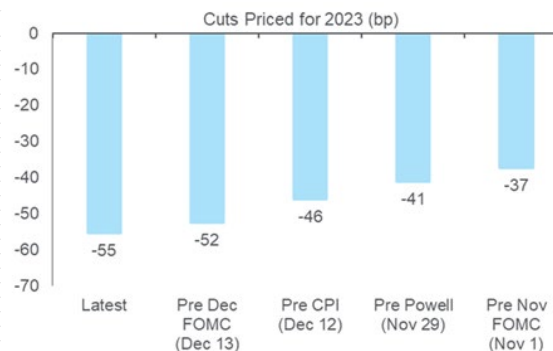


**Markets appeared to largely discount the Fed's hawkish tone on policy rates.** Market policy rate expectations were little changed following the Fed decisions, apparently unfazed by the Fed's new guidance for over 5% rates in 2023 and the FOMC's ongoing focus on rate hikes. At close, markets saw lower risks of a 50bps hike in February, the terminal rate still lay at around 4.9%, and markets still expected the Fed to cut rates in 2023, with similar resoluteness. **Market analysts noted the muted reaction with some skepticism, attributing it to various reasons:** The Chair left open the possibility of a further slowdown in rate hikes in February (25bps), and offered his assessment that a soft landing remains feasible. Also, markets seem still tuned into the cooling inflation data of the past couple of months and some analysts consider that rate cuts towards the end of 2023 could prevent the real policy rate from becoming increasingly elevated in the face of slowing growth and a weakening labor market by that time, even if the Chair pointed to more progress needed on the services sector inflation, due to a still "very, very strong" labor market. Ultimately, a lot will depend on labor market dynamics.

Latest dot plot and market expectations around the FOMC



Sources: Bloomberg and Staff calculations



Source: CitiFX

## Euro area

**Euro area rates jumped, with 2-yr Italian yields a noteworthy 25 bps higher, after the ECB statement was more hawkish than expected, signaling further hikes and a reduction in asset holdings in recessionary conditions.** Italian 10-yr spreads rose 10 bps to 204 bps. The ECB hiked interest rates 50 bps, in line with expectations, but signaled further rate hikes based on the substantial upward revision to its inflation outlook and a baseline view that a recession will be relatively short-lived and shallow. The ECB also said that from March 2023 onwards, the asset purchase program portfolio will decline at a measured and predictable pace. The Eurosystem will not reinvest all of the principal payments from maturing securities, with a decline in asset purchases of about €15 bn per month on average until the end of 2023Q2.

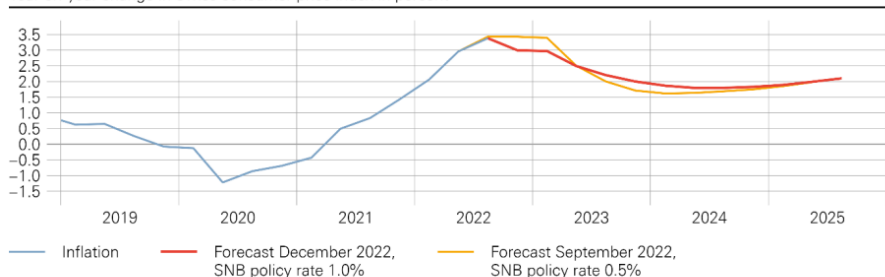
**Eurosystem staff have significantly revised up their inflation projections.** The ECB expects average inflation of 6.3% yoy in 2023, with inflation projected to average 3.4% in 2024 and 2.3% in 2025. Inflation excluding energy and food is projected to be 3.9% on average in 2022 and to rise to 4.2% in 2023, before falling to 2.8% in 2024 and 2.4% in 2025. Inflation excluding energy and food is projected to be 3.9% on average in 2022 and to rise to 4.2% in 2023, before falling to 2.8% in 2024 and 2.4% in 2025. **Staff expects that the euro area economy may contract in the current quarter and the next quarter**, owing to the energy crisis, high uncertainty, weakening global economic activity and tighter financing conditions. The euro (-0.3%) is weaker on the day but gained on the statement.

## Switzerland

**Swap rates rose 4–5 bps (up to the 5-yr tenor) and the franc was little changed after the Swiss National Bank hiked its policy rate 50 bps to 1%, as expected, but also upgraded its long-term inflation outlook.** The SNB maintained its guidance that additional rises “cannot be ruled out”. SNB president Jordan also confirmed that the SNB has been selling FX assets, which Citi estimates at around CHF55 bn in Sep-Nov 2022. **Despite the hike and an expected slowdown in growth to 0.5% in 2023, the SNB upgraded its conditional long-term inflation forecast to 2.1% (from 2%).**

CONDITIONAL INFLATION FORECAST OF DECEMBER 2022

Year-on-year change in Swiss consumer price index in percent

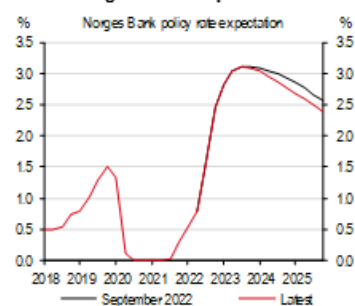


Source(s): SFSO, SNB

## Norway

The krone was little changed after Norges Bank hiked its policy rate 25 bps to 2.75% and signaled potential rate cuts in late 2023 given “signs that the slowdown is more pronounced than expected.” The Norges Bank now sees a larger drop of over 4% in house prices in 2023 (compared to around 2% in September).

1. The Norges Bank expects earlier and faster rate cuts



## United Kingdom

The pound (-0.9%) added to losses and 10-yr gilt yields (-7 bps) were little changed after the Bank of England hiked bank rate 50 bps to 3.5% by a 6–3 majority. Two members wanted to leave rates unchanged, and one member called for a hike of 75 bps. MPC members had sounded hawkish in between meetings but contacts perceived the monetary policy summary as more balanced. Bank staff now expect UK GDP to decline by 0.1% in 2022 Q4, 0.2 percentage points stronger than expected in the November Report. **Household consumption remains weak and most housing market indicators have continued to soften.**

## Japan

Japan's ruling party is reportedly mulling tax hikes to boost defense spending, according to Bloomberg. The hikes, if implemented, will occur as early as 2024 and will generate more than ¥1 tn (\$7.4 bn) for defense spending required by fiscal year 2027. The hikes include increased taxes on corporate income (+50 bps to 4.5%), individual income (+1 ppt), and tobacco (+¥3 per cigarette). Separately, **Japan's trade deficit narrowed in November** (-¥2 tn, previous: -¥2.2 tn). **Equities fell slightly (-0.2%).** SMBC argues that Japan's equities may stage a comeback in H2 2023 as investors price in Fed rate cuts, and as labor market reform, reshoring, and reopening themes gain traction. **The Japanese yen depreciated -0.9%, 10-year yields were up +0.4 bps.**

Dollar-yen trading



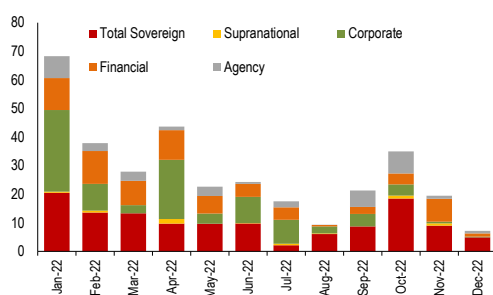
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**LATAM markets closed lower.** Equities across the region were down 0.4-0.6% and the currencies reversed most of the gains they made yesterday. The Chilean peso and the Mexican peso depreciated the most against the USD and were down 1.4% and 0.6%, respectively. Despite the ongoing protests, and imposition of a 30-day nation-wide emergency in Peru, markets were little changed. In **Brazil**, local markets recovered marginally after the recently appointed finance minister, Fernando Haddad, assured investors that he would work towards keeping public debt sustainable. Haddad is scheduled to take office on January 1, 2023. **Asian equities fell -1.6% on net, after the Fed's signaled more rate hikes ahead and following disappointing China data.** South Korea fell -1.6%; Hong Kong SAR declined -1.5%. Asian currencies depreciated. Thai baht weakened -1.1%, Philippine peso outperformed +0.2%. 10-year yields were mostly little changed. Malaysia fell -5.7 bps. **Banco Sentral ng Pilipinas (BSP) expectedly hiked its overnight reverse repo rate by +50 bps to 5.5%.** BSP also raised its 2023 inflation forecast to 4.5% y/y (previous: 4.3%). BSP Governor Medalla signaled more rate hikes ahead, but said cooling inflation now gives scope for “moderate” tightening. Indonesia's parliament passed a law tasking Bank Indonesia to buy long-term government bonds from the primary market during times of crisis. Australia's government passed a law capping domestic natural gas prices to curb energy inflation impacts on households. **New Zealand GDP grew +6.4% y/y in Q3, by more than expected (consensus: +5.5%, previous: +0.3%).** **Equity markets and currencies in EMEA were mostly trading weaker in line with global trends. Turkish equities (+3.2%) outperformed this morning,** retracing yesterday's losses following news that Istanbul's mayor Imamoglu, an opposition political figure that could challenge President Erdogan in the spring's presidential elections, was sentenced to prison on charges of insulting election officials in 2019 speech. **The South African rand underperformed (-0.7% against the dollar)** amid reports that the country's power utility CEO resigned. Yesterday, **Kenya's long-term foreign currency Issuer Default Rating was downgraded to B from B+ by Fitch.**

## Emerging Market Bond Issuance

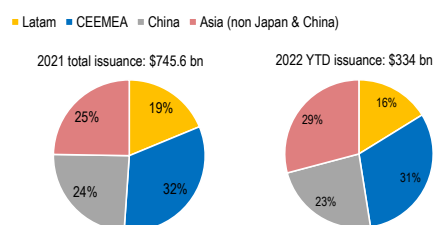
**Bond issuance activity in emerging markets remains muted thus far in December and stands at \$7.2 bn, vis-à-vis \$10.9 bn in the corresponding period of last year.** Sovereigns accounts for roughly 66% of the total December issuance with the largest issuance in China and Turkey at \$2.5 bn and \$2 bn, respectively. As a result, China and CEEMEA were also the regions with highest issuance activity in month. The financial sector was the second largest issuer with \$1.14 bn, while issuances by corporates were a mere \$0.25 bn. With this, the YTD EM bond issuance amounts to \$334 bn (compared to \$745 bn in 2021), of which 31% is accounted by CEEMA, while EM Asia ex-China and China account for 29% and 23%, respectively. While the overall issuance in 2022 have been much lower than last year, the regional composition has remained largely unchanged.

Figure 1. EM bond issuance, by sector (bn. USD)



Sources: Bond Radar, Bloomberg, and staff calculations

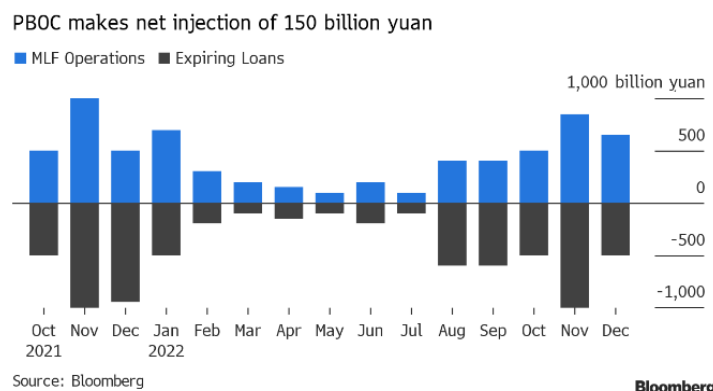
Figure 2. Regional composition of EM bond issuance



## China

**China's government unveiled a new 12-year growth plan, emphasizing domestic demand,** according to state-owned Xinhua News. The plan aims to stimulate consumption and investment, make core technological breakthroughs, and close the urban-rural income divide, among other goals. Further, the

government pledged to support reasonable housing demand and reiterated that housing is “for living, not for speculating”. Separately, **economic growth deteriorated over November, when COVID controls were still strict**. Industrial production growth slowed to +2.2% y/y (previous: +5%), retail sales slumped -5.9% y/y (previous: -0.5%), while fixed asset investment growth cooled to +5.3% y/y YTD (previous: +5.8%). **The People’s Bank of China injected a net 150 bn yuan (\$21.5 bn) of liquidity**, via its one-year medium-term lending facility. **Equities and 10-year yields were little changed, the yuan depreciated (onshore: -0.4%, offshore: -0.6%).**



## Poland

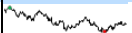

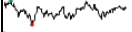







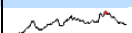














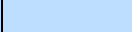

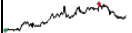
**ING analysts see Poland leaving policy rates unchanged as the most likely scenario in the medium-term, but flag possible rate hikes in 2023–24 as core inflation is expected to remain high.** It was confirmed this morning that the final November CPI print was slightly higher than earlier estimates (17.5%y/y compared to 17.4% previously). Analysts forecast headline inflation to peak at around 21% in early 2023 and slow to roughly 10% by the end of the year, with upside risks including commodity price increases. Core inflation data are due tomorrow, but analysts estimate that core inflation increased to 11.4%y/y in November, and expect it to remain high next year. Against this backdrop analysts see the risk of further rate hikes in 2023–24.

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## Global Financial Indicators

12/15/22 1:05 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3983	-0.6	0	0	-15	-16	-6
Europe		3922	-1.3	0	0	-6	-9	-1
Japan		28052	-0.4	2	0	-3	-3	6
China		3952	-0.1	0	3	-22	-20	-15
Asia Ex Japan		66	0.1	1	2	-19	-19	-16
Emerging Markets		39	0.1	-1	0	-20	-21	-19
<b>Interest Rates</b>			basis points					
US 10y Yield		3.48	-0.2	-1	-29	202	197	148
Germany 10y Yield		1.94	-0.1	12	-17	230	212	171
Japan 10y Yield		0.26	0.4	0	1	20	19	6
UK 10y Yield		3.22	-9.1	14	-7	249	225	175
<b>Credit Spreads</b>			basis points					
US Investment Grade		155	-0.3	-1	-13	37	43	12
US High Yield		457	1.1	-14	-18	97	119	50
Europe IG		85	1.4	-7	-8	33	37	13
Europe HY		448	10.5	-22	-15	190	206	96
<b>Exchange Rates</b>			%					
USD/Majors		104.26	0.5	0	-2	8	9	8
EUR/USD		1.06	-0.6	1	3	-6	-7	-6
USD/JPY		136.6	0.8	0	-2	20	19	19
EM/USD		49.9	-0.3	-1	0	-3	-5	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		82.6	-0.1	8	-11	18	14	-3
Industrials Metals (index)		167	-0.1	-2	-1	4	-3	-11
Agriculture (index)		67	0.2	1	-2	13	10	-4
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		21.4	0.2	-0.9	-3.2	2.1	4.1	-9.7
US 10y Swaption Volatility		119.9	0.0	-13.7	-13.7	46.3	40.9	25.6
Global FX Volatility		9.3	0.0	-1.5	-2.0	1.5	1.9	1.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		202	-6.4	-2	-14	43	50	-38
Italy		196	3.6	9	1	68	61	25
Portugal		96	1.8	4	2	34	32	4
Spain		104	1.2	4	3	33	30	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: 12/15/2022 1:07 PM	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		6.97	-0.3	0.0	1	-9	-9	-9		3.1	2.0	-4	5	18	27	26
Indonesia		15618	-0.1	0.0	-1	-8	-9	-8		6.9	0.5	-7	-16	49	51	39
India		83	-0.4	-0.4	-2	-8	-10	-10		7.2	3.9	3	-22	106.4	91	
Philippines		56	0.2	-0.4	3	-10	-8	-8		6.0	0.0	0	-13	143	153	103
Thailand		35	-1.0	-0.2	2	-4	-4	-8		2.5	7.5	1	-15	54	66	29
Malaysia		4.42	-0.5	-0.3	3	-4	-6	-5		4.0	-8.1	-7	-35	43	40	33
Argentina		172	-0.2	-1.5	-6	-41	-40	-38		88.6	-55.7	-34	-671	3817	3805	4066
Brazil		5.29	-0.1	-1.5	1	7	5	-5		13.5	-5.5	63	64	304	278	195
Chile		876	-0.6	-1.1	1	-3	-3	-10		5.2	5.2	1	-2	-23	-22	-71
Colombia		4781	-0.4	1.0	1	-16	-15	-18		9.9	0.0	38	-21	328	350	203
Mexico		19.73	-0.5	-0.5	-2	7	4	3	#N/A Invalid Se ##### #VALUE! #VALUE! ##### #VALUE!							
Peru		3.8	-0.1	-0.3	0	6	4	-3		7.8	0.4	3	2	186	187	177
Uruguay		39	-0.1	0.8	3	14	15	9		10.8	0.6	0	-30	209	209	267
Hungary		383	-1.0	3.3	3	-15	-15	-17		8.7	5.0	-5	15	421	414	384
Poland		4.42	-0.9	0.4	3	-7	-9	-8		5.6	9.5	17	-41	250	210	173
Romania		4.6	-0.6	0.5	3	-5	-6	-6		7.5	-2.4	8	-66	266	268	235
Russia		64.9	-0.6	-2.6	-6	13	16	26		10.6	-9.0	-11	-11	175	187	-54
South Africa		17.3	-0.7	-0.7	0	-8	-8	-12		9.0	-1.0	-3	-7	161	160	144
Turkey		18.64	-0.1	0.0	0	-21	-29	-26		10.4	-16.0	-58	-153	-1171	-1393	-1203
US (DXY; 5y UST)		104	0.5	-0.5	-2	8	9	8		3.63	1.4	-8	-27	238	236	172

	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		3952	-0.1	0	3	-22	-20	-15		189	3	-20	-13	-14	-19	
Indonesia		6752	-0.7	-1	-4	2	3	-2		166	-12	-7	-6	1	-19	
India		61799	-1.4	-1	0	7	6	8		143	0	-15	11	11	-11	
Philippines		6567	-0.7	1	3	-9	-8	-11		126	-10	-12	20	25	-11	
Thailand		1620	-0.8	0	0	-2	-2	-4		0	0	0	0	0	0	
Malaysia		1467	-1.1	0	1	-1	-6	-8		101	2	-6	-15	-16	-32	
Argentina		164217	-0.8	0	6	103	97	80		2247	-94	-181	556	567	510	
Brazil		103746	0.2	-3	-8	-3	-1	-7		275	-2	-18	-48	-36	-56	
Chile		5157	-1.0	-1	-2	21	20	18		141	-13	-9	2	1	-33	
Colombia		1230	0.1	0	-4	-11	-13	-19		384	-23	-17	45	36	-8	
Mexico		50048	-0.6	-2	-3	-2	-6	-3		379	-20	0	34	47	9	
Peru		21394	-0.6	-3	-4	8	1	-9		183	-5	9	32	33	-7	
Hungary		44886	-0.4	2	1	-10	-12	-6		217	-29	-10	94	93	64	
Poland		56777	-1.2	2	1	-15	-18	-10		81	-12	21	37	49	65	
Romania		11955	0.2	-2	3	-2	-8	-9		250	-25	-25	64	57	17	
Russia		2116	-2.0	-3	-5	-42	-44	-31		3411	-577	938	3228	3234	2897	
South Africa		73050	-1.7	-2	0	2	-1	-3		387	-15	32	20	32	-2	
Turkey		5082	0.3	5	9	135	174	152		457	-19	-28	-110	-121	-106	
Ukraine		519	0.0	0	0	-1	-1	0		3959	-9	173	3281	3200	2486	
EM total		39	-2.4	-1	0	-20	-21	-19		377	-19	-28	-11	-9	-81	

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

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