



- **Markets take Fed's hawkish pivot in stride** ([link](#))
- **Bank of England delivers surprise rate hike** ([link](#))
- **ECB stays on hold while increasing asset purchase program** ([link](#))
- **Creditors sue Evergrande for \$13.2 billion in overdue payments** ([link](#))
- **Norway hikes 25 bps as expected but second hike in March more uncertain** ([link](#))

[Mature Markets](#)


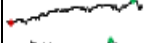

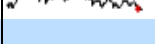


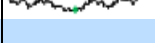



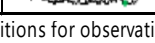
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Global markets rally as Fed risk recedes

Risk assets are rallying across much of the globe as investors take the view that the Fed will be able to keep inflation in check without derailing the recovery. The Fed appeared to take enough of a hawkish tilt to seem credible on inflation without signaling an aggressive tightening of financial conditions. Future events could put this view of Fed policy to the test, but for now markets are optimistic. Meanwhile, it was the Bank of England which surprised markets by becoming the first G-7 central bank to deliver a rate hike, with an unexpected 15 bps move in response to rising inflation. Norway delivered an expected 25 bps hike while acknowledging that the next expected rate hike in March has become more uncertain. Turkey remained the outlier as the central bank cut rates by 100 bps, while signaling that the current unorthodox easing cycle could be at its end.

Key Global Financial Indicators

Last updated: 12/7/21 8:20 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4592	1.2	-1	-2	24	22
Eurostoxx 50		4238	2.4	4	-3	20	19
Nikkei 225		28456	1.9	2	-4	8	4
MSCI EM		49	0.8	1	-3	-3	-5
Yields and Spreads			bps				
US 10y Yield		1.45	1.5	0	-1	52	53
Germany 10y Yield		-0.38	1.4	-3	-10	21	19
EMBIG Sovereign Spread		376	-9	-10	17	19	26
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.1	0.2	-1	-5	-9	-10
Dollar index, (+) = \$ appreciation		96.4	0.1	0	2	6	7
Brent Crude Oil (\$/barrel)		74.7	2.2	6	-10	53	44
VIX Index (% change in pp)		23.8	-3.3	-3	7	3	1

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

The latest US economic data were generally stronger than expected, with continuing jobless claims and housing data doing better than expected although initial jobless claims were fractionally higher than forecasts. Markets were little changed in response, with both Treasuries and equity index futures slightly higher and the dollar flat.

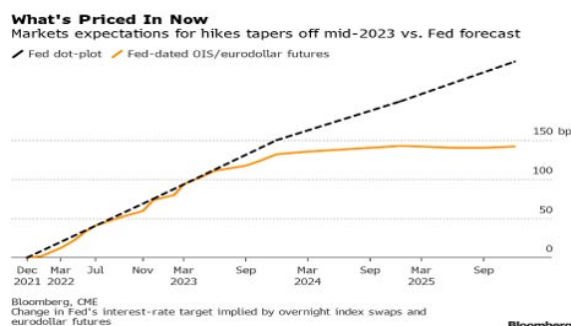
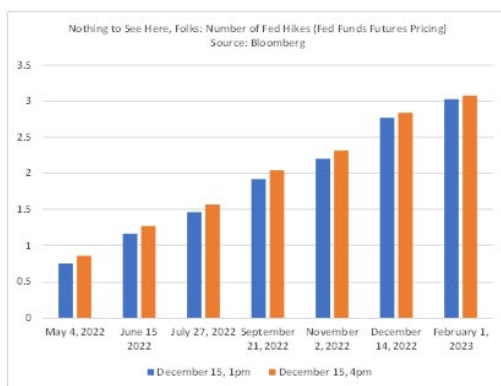
Markets took the expected hawkish pivot from the Fed in their stride. The Fed doubled the pace of the tapering schedule to \$30 bn per month, with the dot plot accelerating to three rate hikes in 2022 from less than one at the September meeting. The new dot plot also calls for three rate hikes in 2023, up from just one in September. The faster pace of bond purchases means that the bond buying program will terminate in mid-March, making the March 2022 the first “live” FOMC meeting for a potential rate hike. In the press conference, Chair Powell noted that the gap between ending bond purchases and the first rate hike would be much shorter in this cycle because the economy is much stronger this time. Treasuries sold off, the yield curve flattened and the dollar rallied immediately following the release of the statement at 2pm, but most of these moves were unwound by the end of the session. Stocks staged a strong rally into the market close and the VIX fell below 20. Markets are betting that the Fed can do enough to counter inflation while still keeping the recovery going.

Selected Market Moves December 15, 2021, Pre and Post-FOMC

Source: Bloomberg

Market	1.55 pm	4pm
10-year Treasury	1.45%	1.46%
5-year Treasury	1.24%	1.25%
2-year Treasury	0.67%	0.66%
S&P 500	4623	4709.84 (+1.9%)
VIX	22.86	19.09
EUR	1.1256	1.1289 (dollar slightly stronger)
JPY	113.93	114.06 (dollar slightly stronger)

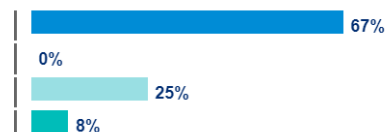
Market estimates of the probability of Fed rate hikes at future FOMC meetings based on options on Fed Funds futures went up slightly, but much less than some contacts had been expecting. Although the Fed’s dot plot took a hawkish turn, the three hikes penciled in for 2022 was already close to what the market was expecting. Overall, there were few surprises from the Fed, giving risk assets momentum on Wednesday. However, some contacts remain concerned that the Fed is “behind the curve” on inflation and that they will act to act much more aggressively than the markets expect, raising the risk of a major market collapse in 2022. They also point out that the markets are still falling below the Fed’s long term dot plot.



Looking ahead to 2022, investors remain very bullish on risk assets while being cautious about rising interest rates, according to the latest poll from Citi. A strong majority reported that they would add risk to their portfolios while hedging against interest rate risk.

In your overall portfolio allocations, the positioning into 2022 is:

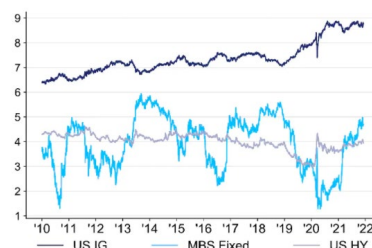
Risk-on, but hedged for rates
Risk-on, unhedged
Neutral
Risk-off across the board



Source: Citi

Interest rate risk is a key focus for markets, especially for US investment grade (IG) bonds. Historically low interest rates and tight spreads mean that IG companies have issued bonds with very low coupons, and low coupon bonds have much higher interest rate risk than bonds with higher coupons. With the Fed moving to reduce accommodation, the risk is that rising interest rates and steeper yield curves could lead to high mark-to-market losses for the myriad of investors who have been buying very large volumes of bonds amidst the ongoing search for yield.

Figure 4. Duration of US IG, US HY and MBS



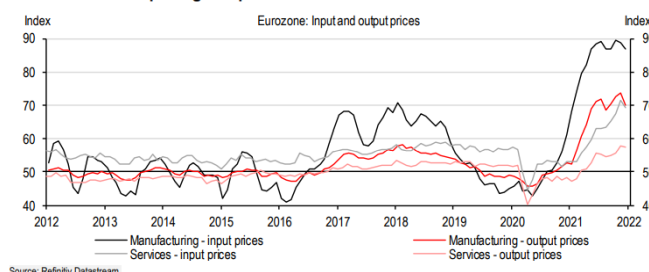
Source: Citi Research, Bloomberg

Euro Area

The ECB stayed on hold while announcing changes to its asset purchases programs. The ECB confirmed that the pandemic emergency purchase program (PEPP) will continue until March 2022, at a slower pace, and will be terminated thereafter. At the same time, the reinvestment horizon for PEPP was extended at least until the end of 2024 while maintaining its flexibility, including further purchases of Greek bonds. The asset purchase program (APP) pace was increased from the current €20 bn to €40 bn in Q2 2022, €30 bn in Q3 2022 and €20 bn thereafter, which was broadly in line with economist surveys. The euro strengthened by 0.25%, 10-year bunds rose 2 bps while Italy's spread widened by 6 bps following the decision.

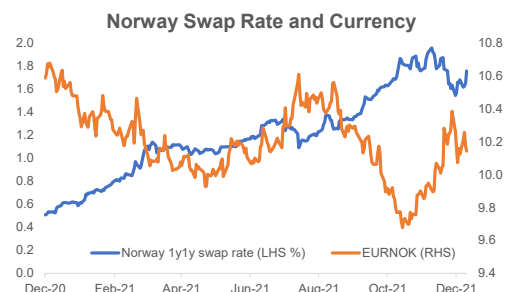
Eurozone preliminary composite PMIs were weaker than expected in December. The gauge fell by 2 points to 53.4 against the 54.4 economist consensus. The loss of momentum was driven by Germany's service sector, which fell into contraction territory at a 48.4 reading against the 51 consensus estimate. That said, business expectations in the service sector actually improved, with analysts pointing to the short-term nature of the current dip in activity. The German manufacturing and French service sectors surprised on the upside, maintaining a strong momentum. Manufacturing delivery times and price indices eased marginally.

Chart 3: ...and the pricing components fell back



Norway

The Norges Bank raised its policy rate by 25 bps to 0.5% as expected. The central bank signaled that another rate hike in March remained on the table but was less certain, while projecting a terminal rate of 1.75%. Interest forwards shifted up by about 10 bps in the one-year sector in response. The market had expected the central bank to stay on hold due to the rapid spread of omicron. That said, the terminal rate pricing still remains about 15 bps below central bank projections. The Norwegian krone strengthened by 0.7% following the rate hike. The central bank noted that it was looking through the increase in infection rates and resulting containment measures, while expecting a continuation of the economic upswing once the virus wave subsides. However, Governor Olsen admitted that a March hike has become more uncertain due to virus concerns. The central bank also raised its countercyclical capital buffer from 1% to 2% effective from December 2022.

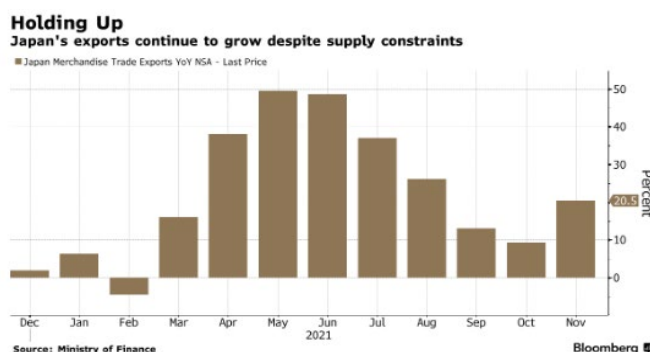


United Kingdom

The Bank of England hiked its policy rate by 15 bps to 0.25% in an 8 to 1 decision. A majority of the economists polled expected no policy change at the current meeting, although markets priced assigned a hike probability of more than 50%. The central bank saw two-sided risks to the economy but indicated that a further modest policy tightening is likely. Interest rate forwards jumped by about 15 bps with markets moving to pricing another rate hike in February. Sterling strengthened by 0.75% after the hike. **The rate decision came amid a bigger than expected slowdown in the service sector** as December flash PMI eased to 53.2 or around 4 points below the consensus estimate, as UK's daily Covid cases hit a new record high of 78k, doubling the November average.

Japan

Equities rallied +1.5%. Japan exports surged in November. Exports accelerated to 20.5% y/y from 9.4% y/y in October underpinned by steel and semiconductor equipment. Imports spiked 43.8% y/y from 26.7% in October, with import values inflated by higher commodity prices. **Japanese yen and 10-year yields were unchanged.**



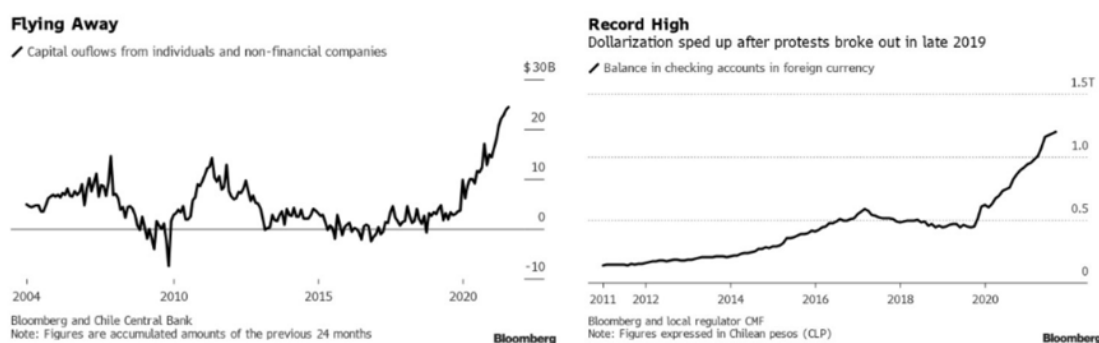
Emerging Markets

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Most Asian markets followed US stocks higher overnight. In the Philippines, the central bank stayed on hold at 2% as expected but raised its inflation forecast. Indonesia's central bank also stayed on hold at 3.5% in keeping with forecasts. Both central banks stressed that they did not feel compelled to match any potential US rate hikes. EMEA stocks were also higher. The Hungarian forint (-0.1%) reversed early gains despite the central increasing the 1-week deposit by 30 bps to 3.6% at its weekly tender, in line with expectations following Tuesday's rate decision. Latin American markets lagged other regions with more mixed results.

Chile

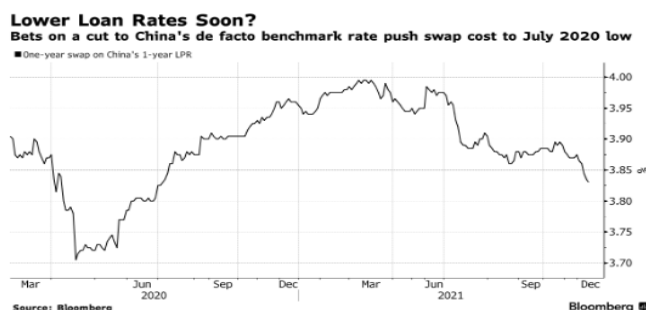
The pace of foreign outflows from individuals and non-financial companies has accelerated sharply. According to the central bank, total foreign outflows reached \$8.8 billion in the six months through August, and \$24.3 billion over the past two years, equivalent to more than 9% of annual GDP. Meanwhile, savers are rapidly converting pesos into dollars, with checking-account balances in foreign currency almost tripling over the past two years to a record \$1.6 billion in September. Surging inflation, plans for a new constitution and the most contentious election in recent memory have undermined faith in the economy. Stocks have slumped by 11% in the two years ago since violent street protests first began, while the Chilean peso has depreciated by 16% in 2021 alone.



China

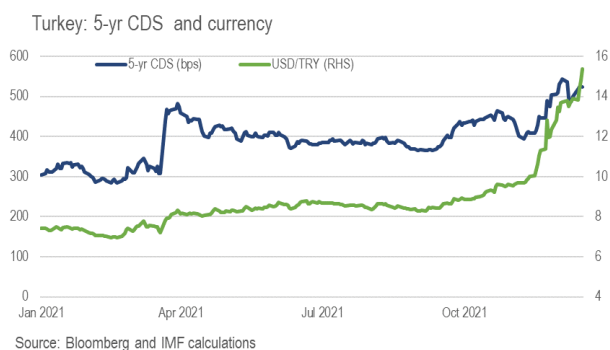
Creditors have sued China Evergrande Group for 84bn yuan (\$13.2bn) in overdue payments. The amount relates to 367 cases submitted to a Chinese civil court between August and December, the Financial Times reports. In related news, Shanghai government agencies have reportedly called two closed-door meetings with property developers under the city's administration over the last few days to demand that companies improve their risk management. They were asked to submit reports on debt on and off the balance sheet and onshore and offshore borrowings. In other news, the **Loan Prime Rate (LPR)**

could be lowered next week, according to analysts. The LPR is a revamped market indicator of the price charged for new loans. Both the one-year and five-year rates were kept unchanged for nineteen months, and are due for review on December 20th. Analysts quoted by major local financial newspapers forecast a five bps cut amid China's attempt to support its economy, Bloomberg reports.



Turkey

The Central Bank of Turkey reduced its policy rate by 100 bps to 14% as expected. The central bank has lowered interest rates by 500 bps since September but hinted in the press release that the easing cycle has come to an end. The press release also noted that the cumulative impact of recent policy decisions will be monitored, and the policy framework reassessed in Q1 2022. **The Turkish lira has depreciated by almost 45% since September and weakened by an additional 4% this morning.** Contacts expect selling pressures to remain in the absence of positive real rates. **Turkey's five-year credit default spread widened by about 15 bps.** By contrast, the equity market was up 2.4%. Bloomberg estimates that lira stabilization will require interest rate increases of between 800-900 bps, some of which analyst expect to be delivered in 2022. Despite the significant lira weakness, offshore lira funding cost have remained contained as compared to previous selloffs.



This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 12/7/21 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4618	1.2	1	-2	25	23
Europe		4238	2.4	4	-3	20	19
Japan		28456	1.9	2	-4	8	4
China		4922	0.6	2	2	-2	-6
Asia Ex Japan		84	1.0	0	-3	-5	-6
Emerging Markets		49	0.8	1	-3	-3	-5
Interest Rates			basis points				
US 10y Yield		1.45	1.5	0	-1	52	53
Germany 10y Yield		-0.38	1.4	-3	-10	21	19
Japan 10y Yield		0.06	1.1	0	0	3	4
UK 10y Yield		0.74	0.1	-7	-11	45	54
Credit Spreads			basis points				
US Investment Grade		115	-4.1	-5	34	14	20
US High Yield		365	-8.5	-22	52	-36	-15
Europe IG		54	-2.6	-3	7	7	6
Europe HY		268	-12.2	-20	28	25	26
Exchange Rates			%				
USD/Majors		96.38	0.1	0	2	6	7
EUR/USD		1.13	-0.3	-1	-3	-7	-8
USD/JPY		113.6	0.1	0	0	9	10
EM/USD		52.1	0.2	-1	-5	-9	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		75	2.2	6	-10	53	44
Industrials Metals (index)		164	1.2	1	2	23	24
Agriculture (index)		61	0.1	4	5	41	27
Implied Volatility			%				
VIX Index (% change in pp)		23.8	-3.3	-3.4	7.3	2.5	1.1
US 10y Swaption Volatility		89.3	0.0	2.4	15.3	29.7	29.2
Global FX Volatility		8.2	0.0	0.0	1.4	0.1	0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		163	-2.7	2	26	41	43
Italy		128	1.5	-4	13	9	17
Portugal		63	-1.7	-5	4	3	3
Spain		71	-1.8	-4	2	7	9

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

Last updated: 12/16/2021 8:17 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.37	0.0	0.2	0	3	3		2.9	0.5	-3	-6	-25	-18
Indonesia		14362	-0.2	0.0	-1	-2	-2		6.5	6.7	16	44	38	58
India		76	0.2	-0.8	-2	-3	-4		6.2	0.0	-3	-33	72	65
Philippines		50	0.6	0.6	1	-4	-4		4.6	0.0	-5	-15	163	160
Thailand		33	-0.1	0.5	-2	-10	-10		2.0	-1.5	7	10	71	71
Malaysia		4.21	0.5	0.2	-1	-4	-4		3.6	0.3	3	1	85	92
Argentina		102	-0.1	-0.4	-2	-19	-17		50.5	7.5	90	25	-596	-563
Brazil		5.68	0.1	-1.7	-3	-10	-9		10.4	0.5	-34	-112	272	304
Chile		851	0.0	-0.4	-5	-14	-17		5.5	9.5	35	-1	293	301
Colombia		3991	0.2	-2.2	-2	-14	-14		6.6	0.0	10	-2	245	263
Mexico		20.97	0.2	-0.1	-1	-5	-5		7.2	1.0	-5	-34	181	185
Peru		4.1	0.0	0.6	-1	-12	-11		5.9	-0.1	-2	7	236	240
Uruguay		44	0.0	-0.4	-1	-4	-5		8.7	-2.0	-5	13	135	145
Hungary		326	0.4	-0.6	-1	-11	-9		4.4	-0.8	33	56	287	290
Poland		4.08	0.3	-0.1	1	-11	-9		3.1	-1.0	15	21	192	205
Romania		4.4	0.4	0.4	0	-9	-9		4.8	-2.0	-28	3	198	208
Russia		73.5	0.1	0.2	-1	0	1		8.8	-4.7	12	1	262	239
South Africa		16.0	0.0	-0.2	-3	-7	-8		7.4	-2.5	1	-21	74	83
Turkey		15.53	-4.6	-11.2	-34	-50	-52		22.4	27.0	86	271	914	947
US (DXY; 5y UST)		96	-0.5	-0.2	0	6	7		1.22	-2.5	-5	-4	85	86

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		5035	0.6	-1	3	0	-3		202	1	5	-26	-27
Indonesia		6595	-0.5	-1	-1	8	10		168	0	8	-34	-32
India		57901	0.2	-2	-4	23	21		131	-10	-6	-23	-20
Philippines		7233	1.4	0	-2	-1	1		101	-1	4	-18	-11
Malaysia		1485	0.1	-1	-3	-11	-9		114	-2	3	-23	-21
Argentina		80939	-1.5	-9	-10	52	58		1680	-6	8	304	324
Brazil		107514	0.1	1	3	-9	-10		325	13	11	61	66
Chile		4350	1.8	-2	1	6	4		136	1	8	-24	-20
Colombia		1375	1.2	-2	3	-3	-4		342	17	42	123	127
Mexico		51164	-0.2	0	0	17	16		342	5	11	-45	-15
Peru		19891	-1.1	-3	-3	-4	-4		149	-1	0	-5	20
Hungary		50527	0.8	-1	-2	21	20		122	0	15	-25	-27
Poland		67938	2.1	-1	-6	20	19		42	-3	-3	15	14
Romania		12445	2.0	-1	-3	29	27		183	7	5	-28	-20
Russia		3744	3.4	-2	-9	14	14		173	9	21	-8	-6
South Africa		71467	0.0	-1	1	20	20		365	10	28	-21	-19
Turkey		2240	3.6	10	33	61	52		566	38	99	81	119
Ukraine		523	0.0	0	0	3	5		686	51	135	204	193
EM total		48	1.8	-4	-7	-5	-6		387	9	20	39	48

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

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