



- Further scope for dollar strength is seen as limited ([link](#))
- Euro area rates sharply higher after hawkish ECB meeting ([link](#))
- Euro area composite PMI improves as price pressures ease ([link](#))
- Vietnam becomes the third EM to sign a deal under JETP ([link](#))
- Central bank of Mexico hikes policy rate by 50bps ([link](#))
- China considers new measures to support its property sector ([link](#))
- Hong Kong prepares to open border with the Mainland in early 2023 ([link](#))
- Special Feature: Global Outlook 2023—Key takeaways from Market Analyst Reports (attached)

The GMM is going on its holiday break and will return on January 9<sup>th</sup>

[Mature Markets](#)












[Emerging Markets](#)

[Market Tables](#)

## Markets set to end the week on the backfoot amid hawkish rhetoric

**Market sentiment remains fragile as hawkish messages by the ECB and the Fed reignite recession concerns.** Global equities are extending their losses this morning with Asian equities falling and European equities opening in the red after closing more than 3% lower yesterday in the aftermath of the ECB meeting. Investors have moved to price in more aggressive ECB tightening—with another 50bps hike now fully priced in for the February ECB meeting. Against this backdrop core sovereign yields marched higher, with 10y bund yields up another 8bps this morning, and the Italian spread another 7bps wider. Elsewhere on the central bank front, Mexico hiked its key rate by 50bps yesterday while Russia left its key rate unchanged. Looking ahead there are several central bank meetings taking place next week before the festive season gets underway. In CEE respective key rates are expected to remain unchanged in Hungary, the Czech Republic and Turkey, while a rate hike is expected in Egypt.

Key Global Financial Indicators

Last updated: 12/16/22 1:08 PM	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		3896	-2.5	-2	-2	-17	-18	-8
Eurostoxx 50		3805	-0.8	-4	-2	-9	-11	-4
Nikkei 225		27527	-1.9	-1	-1	-4	-4	4
MSCI EM		38	-2.3	-4	-1	-22	-23	-21
Yields and Spreads			bps					
US 10y Yield		3.49	4.1	-9	-20	208	198	150
Germany 10y Yield		2.16	7.8	23	17	251	234	193
EMBIG Sovereign Spread		459	4	-3	-23	91	92	47
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.8	-0.2	-1	0	-3	-5	-6
Dollar index, (+) = \$ appreciation		104.6	0.0	0	-2	9	9	9
Brent Crude Oil (\$/barrel)		79.5	-2.1	4	-14	6	2	-18
VIX Index (% change in pp)		23.4	0.6	1	-1	3	6	-8

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

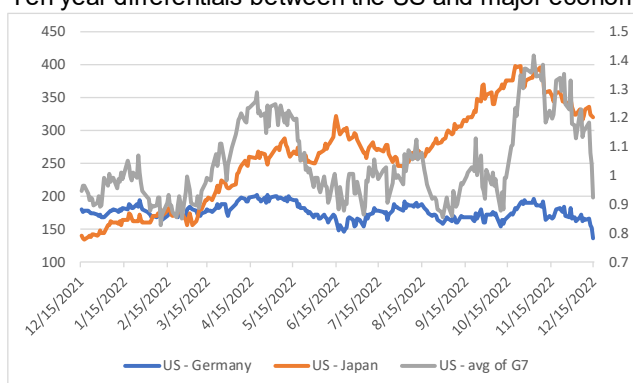
## Mature Markets

[back to top](#)

### United States

**Despite the ongoing dollar rally due to investors seeking a haven from tumbling stocks, investors believe that further scope for USD strength is limited.** The inflation trajectory amid soft global growth expectations has been key to the USD outlook and investors expect further USD strength to halt by year-end as inflation moderates, and the bulk of the Fed hikes are now visibly in the rear view. At the same time, yield-curve differentials between the US and other major currencies dropped dramatically yesterday, amid a slate of global central bank hikes, undercutting fundamentals behind the strength of the dollar so far. Nevertheless, in a recent Bank of America survey, investors remain skeptical about a sustained decline anytime soon and rather see the dollar range-bound in 2023, in line with ongoing concerns that US inflation levels are likely to remain elevated and growth will remain lethargic globally.

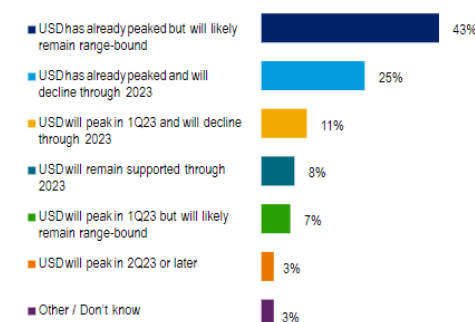
Ten year differentials between the US and major economies



Source: Bloomberg and author calculations

Exhibit 2: My view on broad USD:

The peak is in

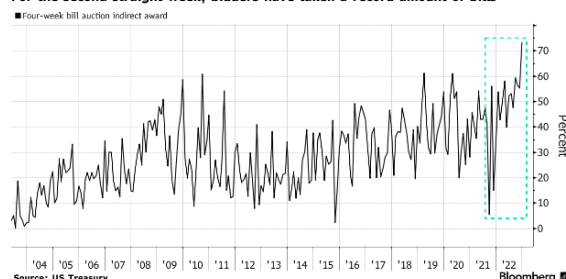


Source: BofA Global Research FX and Rates Sentiment Survey

BofA GLOBAL RESEARCH

**Record demand for short-term US paper after the Fed signals higher for longer.** Primary market demand for one-month Treasury bills rose to historic levels for the second straight week, with indirect bidders—which include investment funds, foreign governments and central banks—being awarded a record 73.4% of the offering, up from the previous all-time high of 70.4% reached at last week's sale. These short-dated bills are offered at a much higher premium compared to the RRP, suggesting that demand mainly comes from funds without RRP access. The auction outcome coincides with the Fed's resolution to stay higher for longer, even though the Fed's decision had little lasting impact on markets' expectations about the policy rate dynamics. The outcome also comes as investors may want to park cash over the year-end and seems to counter the nascent demand for duration observed over the last month, which led MMFs to reduce their weighted average maturities. Some market contacts attribute the high demand to a fast growing new Fund whose sole investor is USDC, a major stablecoin. If that is the case, it would be a first example of stablecoins impacting the functioning of traditional markets.

**Treasury's Four-Week Bill Auction Draws Record Indirects**  
For the second straight week, bidders have taken a record amount of bills



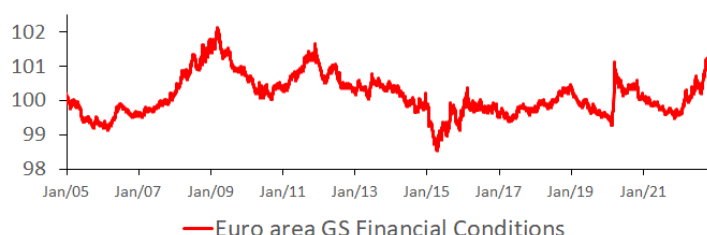
Source: US Treasury

Bloomberg

## Euro area

**Equities (-0.8%) and the euro (-0.3%) are lower as measures for financial conditions remain tight across the euro area.** The EU reached a deal on a ninth package of sanctions on Russia over its invasion of Ukraine, targeting Moscow's access to drones, additional banks and more than 100 individuals and entities.

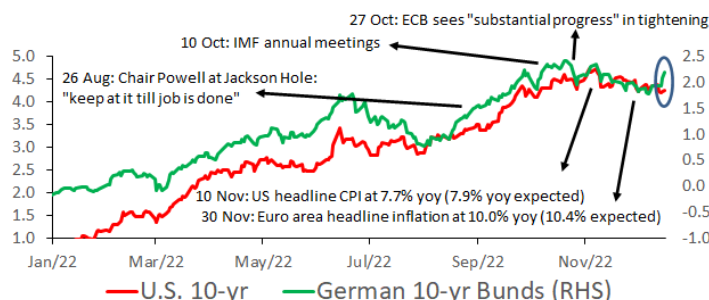
**Euro area financial conditions index (FCI)**



Note: FCI is defined as a weighted average of riskless interest rates, the exchange rate, equity valuations, and credit spreads, with weights that correspond to the direct impact of each variable on GDP.

**Euro area rates rose further after yesterday's hawkish ECB meeting.** Yesterday, the ECB hiked interest rates by 50 bps, in line with expectations, but told investors to expect further 50 bps rate hikes given a substantial upward revision to inflation. The ECB also said that from March 2023 onwards, the asset purchase program portfolio will decline at a measured and predictable pace. **The rise in Italian yields has been eye-catching.** Yesterday, 2-yr Italian yields rose 39 bps in the 2-yr segment and 30 bps in the 10-yr segment. **This morning, 2-yr Italian yields are another 20 bps higher and 10-yr Italian yields 25 bps.**

**Core rates: 10-yr German and U.S. yields (%)**



Source: Bloomberg and IMF staff

**Money markets expect the ECB depo rate to rise to +3% by May 2023** (from around 2.75% on Thursday December 14). This is below the 3.5% that some contacts see as the minimum level desired by the ECB President based on yesterday's press conference. **According to ECB sources, President Lagarde had to offer dissenters a pledge of potentially three back-to-back 50bp hikes if the inflation outlook fails to improve, and more than a third of the ECB Governing Council members asked for a hike of 75 bps.**

**Contacts are divided on the ECB meeting.** One group compliments the ECB for its hawkish tone and promise to raise interest rates at a pace of 50 bps "for a period of time" with underlying inflation pressures leaving no alternative to markedly tighter financial conditions. **Others point to an unsettling shift in tone compared to the October press conference and see a policy mistake with the ECB underestimating the growth impact of its hawkish shift.** Some see an increased likelihood of tensions with euro area governments in 2023 as the ECB President warned that fiscal policy could necessitate a stronger monetary policy response.

The euro area composite PMI improved from 47.8 to 48.8 in December (47.9 expected) with PMIs better in both the manufacturing and services survey. Businesses reported a significant improvement in input cost inflation rising at the slowest pace since May 2021.

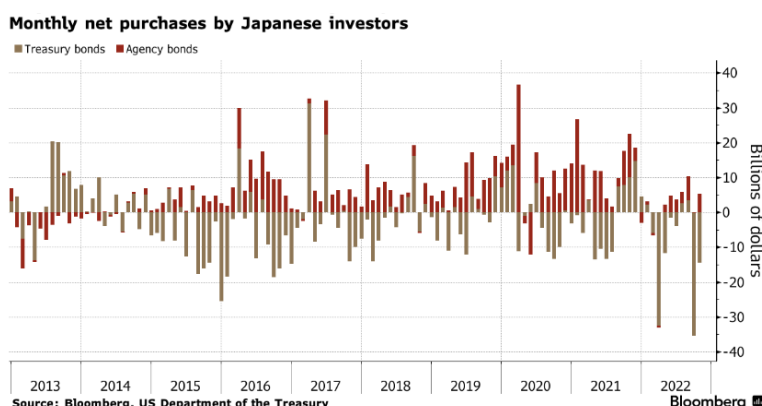
### United Kingdom

**10-yr gilt yields (+14 bps) rose in line with euro area rates this morning after gilt yields closed 7 bps lower yesterday.** Yesterday, the Bank of England hiked its policy rate by 50 bps to 3.5% with two members calling for a pause. **Analysts have mixed views on the terminal rate, but further tightening is expected starting with another 50 bps hike in February.** Deutsche Bank and Morgan Stanley expects a 50 bps hike in February and a downward shift to 25 bps in both March and May taking the Bank rate to 4.5%. Barclays forecast sees the terminal Bank Rate of this tightening cycle to 4.25%.

**The pound weakened marginally (-0.2%) as UK retail sales disappointed in November** (down 0.4% m/m in November compared to a gain of 0.3% m/m expected).

### Japan

**Japan approved the tax reform plan for 2023.** The plan includes tax hikes for corporates, individuals, and tobacco as early as 2024 to fund additional defense spending. The plan also includes higher annual investment limits in 2024 for Japan's tax-exempt NISA accounts, investment accounts aimed at the middle classes. On the data front, **Japan's manufacturing Jibun Bank PMI slipped marginally in December** to 48.8 (previous: 49), while the services gauge firmed to 51.7 (previous: 50.3), preliminary readings showed. Japanese funds divested -\$14.5 bn from US Treasury bonds and bought +\$5.4bn of agency debt in October. **Equities slumped (-1.2%), while the Japanese yen strengthened +0.4% and 10-year yields were little changed.**



## Emerging Markets

[back to top](#)

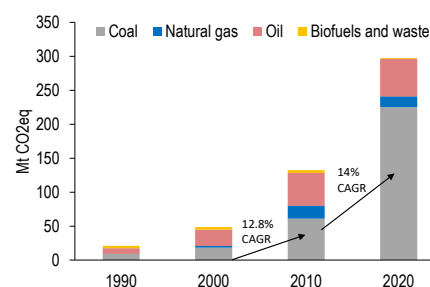
**Latin American markets continued to slide.** Most regional equities were down in the range of 0.6-1.4%, except Brazilian equities, which were little changed. Currencies slumped across the board. **In Peru**, recently impeached president, Pedro Castillo, ordered to remain in custody for 18 months. While the protests are still raging, the congress is expected to start the debate today on calling elections even earlier than 2024. **Argentina** reported 3Q22 GDP growth at 5.9% y/y, which was higher than market expectations. However, analysts believe this consumption driven growth to be unsustainable specially in the face of high inflation, policy uncertainty, and import restrictions. **Asian equities fell slightly on net (-0.5%).** Taiwan, Province of China declined by -1.4% and the Philippines fell -1.1%. Asian currencies were mixed with the South Korean won weakening (-0.3%) and the Philippine peso gaining (+0.2%). 10-year yields mostly fell or were little

changed. In **Malaysia**, ruling political party chiefs have signed an agreement supporting the country's new unity government, ahead of a confidence vote on PM Anwar on December 19. **Equity markets and currencies in EMEA were mostly trading weaker in line with global trends.** Turkish equities outperformed (+0.5%), while South African equities underperformed (-1.8%) and the rand depreciated against the dollar (-1%). **There are several central bank meetings taking place next week in Central and Eastern Europe** with consensus expecting to see respective key rates remaining unchanged in Hungary (on Tuesday), the Czech Republic (on Wednesday) and Turkey (on Thursday). The central bank of Egypt is expected to hike key rates on Thursday, with analyst expectations ranging between 100 and 200 bps of tightening.

## EM Climate Finance

**Vietnam signed a \$15.5 bn deal under Just Energy Transition Partnership (JETP).** JETP is a product of the COP26 summit under which advanced economies design a program to provide funding (debt/grants) to coal-dependent economies to transition away from coal-fired energy. Vietnam is the third country, after South Africa and Indonesia, to have signed this deal. On the funder side, 50% of the funding will be provided by developed countries, while remaining will come from a group of investors called Glasgow Financial Alliance for Net Zero. With this new funding arrangement, the country is aiming to achieve peak emissions by 2030 (earlier 2035).

Vietnam's greenhouse gas emissions from coal have grown at 13-14% annually since 2000



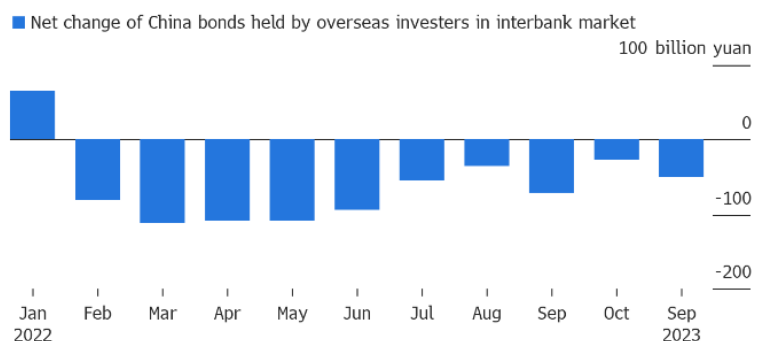
Sources: IEA, staff calculations

## China

**China Premier Liu said fresh property sector support measures are being considered.** Liu deemed the property sector as a pillar of the Chinese economy, and said the new measures are aimed at improving the sector's assets and liabilities and at guiding market expectations. Liu also said policy makers are "very confident" of economic improvement in 2023.

**Separately, Hong Kong Chief Executive Lee said a Mainland border reopening in 2023 is "highly possible".** Hong Kong is reportedly preparing to resume its high-speed rail services with the mainland among other measures. **Equities were mixed** (Shanghai unchanged, Shenzhen -0.75%), chipmaker and satellite navigation shares fell, following news that the US government blacklisted 30 Chinese technology companies. **The yuan and 10-year yields were little changed.** Global bond investors reduced their China bond holdings for a 10<sup>th</sup> straight month in November.

They net sold 49.2 billion yuan bonds in November



Source: Bloomberg, Chinabond, Shanghai Clearing House

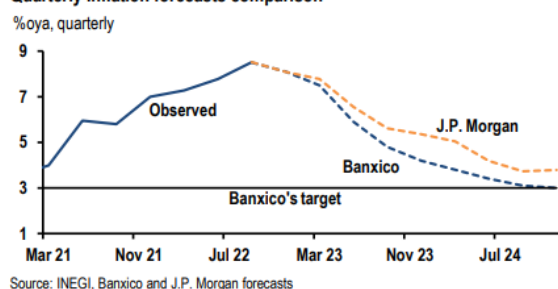
Bloomberg



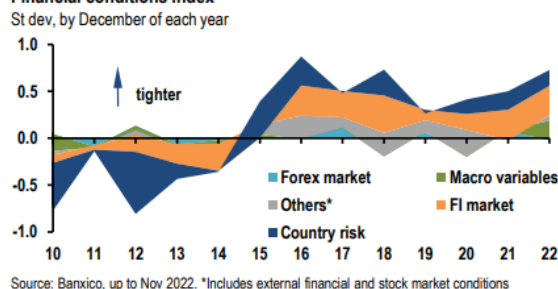
## Mexico

The central bank of Mexico (Banxico) hiked its policy rate by 50 bps to 10.5%, in line with market expectations. This was a majority decision against a backdrop of declining headline inflation, tighter domestic economic conditions, and slower pace of hikes by the US Fed. The only dissenting vote was in favor of a 25 bps hike. The central bank stated that it will continue to “assess the need for further hikes”. Analysts see this as a signal that the central bank is nearing the end of its tightening cycle, while staying data vigilant.

Quarterly inflation forecasts comparison



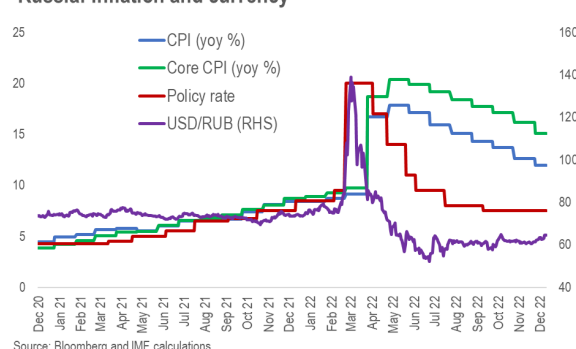
Financial conditions index



## Russia

The Russian ruble weakened (-0.7% against the dollar) after the Central Bank of Russia left its policy rate unchanged at 7.5% and EU sanctions were approved. The policy rate decision was expected, and marks the second consecutive decision to leave rates unchanged. The Russian ruble has weakened for four consecutive weeks with Bloomberg reports pointing to speculative trading amid expectations of new sanctions.



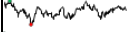

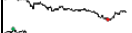

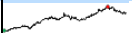


















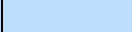

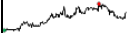
Russia: Inflation and currency



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## Global Financial Indicators

12/16/22 1:09 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3894	-2.5	-1	-2	-17	-18	-8
Europe		3805	-0.8	-4	-2	-9	-11	-4
Japan		27527	-1.9	-1	-1	-4	-4	4
China		3954	0.1	-1	4	-20	-20	-14
Asia Ex Japan		65	-2.4	-3	1	-21	-21	-18
Emerging Markets		38	-2.3	-4	-1	-22	-23	-21
<b>Interest Rates</b>			basis points					
US 10y Yield		3.49	4.5	-9	-20	208	198	150
Germany 10y Yield		2.17	8.2	23	17	251	234	194
Japan 10y Yield		0.25	-0.2	0	1	21	18	6
UK 10y Yield		3.36	11.8	18	21	261	239	188
<b>Credit Spreads</b>			basis points					
US Investment Grade		156	0.3	2	-13	42	44	13
US High Yield		467	1.2	5	-14	109	129	60
Europe IG		93	3.4	4	-3	43	46	22
Europe HY		488	18.1	29	10	238	246	136
<b>Exchange Rates</b>			%					
USD/Majors		104.58	0.0	0	-2	9	9	9
EUR/USD		1.06	-0.1	1	2	-6	-7	-6
USD/JPY		137.1	-0.5	0	-2	21	19	19
EM/USD		49.8	-0.2	-1	0	-3	-5	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		79.6	-2.0	5	-13	13	10	-7
Industrials Metals (index)		165	0.5	-3	1	0	-5	-12
Agriculture (index)		67	0.0	2	-1	11	10	-5
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		23.4	0.6	0.6	-0.7	2.9	6.2	-7.6
US 10y Swaption Volatility		116.6	2.2	-18.5	-17.5	44.9	37.6	22.3
Global FX Volatility		9.5	0.0	-1.1	-2.0	2.0	2.1	2.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		216	6.6	9	-9	60	65	-24
Italy		215	6.7	24	21	83	80	44
Portugal		102	3.3	10	6	37	38	10
Spain		110	2.0	7	8	36	36	6

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

## Emerging Market Financial Indicators

Last updated: 12/16/2022 1:13 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	0.0	-0.2	2	-9	-9	-9		3.1	0.5	-4	-1	18	27	26
Indonesia		15598	0.1	-0.1	0	-8	-9	-8		6.9	-0.2	-5	-14	42	51	39
India		83	-0.1	-0.7	-2	-8	-10	-10		7.2	-1.0	-1	-21	105.5	91	
Philippines		56	0.2	-0.3	3	-10	-8	-8		6.0	0.0	0	-13	143	153	103
Thailand		35	-0.2	-0.5	2	-4	-4	-8		2.5	-1.0	-2	-20	55	65	28
Malaysia		4.42	-0.2	-0.5	3	-5	-6	-5		4.1	4.5	-2	-25	48	46	39
Argentina		173	-0.2	-1.7	-6	-41	-41	-38		88.6	-6.1	-40	-700	3804	3799	4060
Brazil		5.29	0.4	-0.9	2	7	5	-5		13.4	11.3	49	30	284	268	184
Chile		881	-0.3	-2.2	3	-4	-3	-10		5.2	0.7	-1	-25	-31	-26	-75
Colombia		4794	-0.3	0.7	1	-17	-15	-18		9.7	0.0	-11	-33	316	333	186
Mexico		19.84	-0.4	-0.4	-3	5	3	2	#N/A Invalid Se ##### #VALUE! #VALUE! ##### #VALUE!							
Peru		3.8	-0.3	-0.6	0	5	4	-3		7.9	4.6	11	-9	194	195	185
Uruguay		39	-0.5	0.5	2	14	15	9		10.6	-25.1	-26	-55	186	184	242
Hungary		383	-0.2	3.6	3	-15	-15	-17		8.9	12.0	-13	18	459	437	407
Poland		4.42	-0.1	0.6	2	-8	-9	-8		5.9	20.5	49	-16	281	238	201
Romania		4.6	-0.1	0.7	2	-6	-6	-6		7.7	19.8	27	-29	288	288	255
Russia		64.9	-0.7	-3.6	-6	14	16	26		10.6	0.0	-21	-60	178	187	-54
South Africa		17.6	-0.5	-1.3	-2	-9	-9	-14		9.1	2.5	1	-4	165	164	148
Turkey		18.65	0.0	0.0	0	-16	-29	-26		9.9	-53.0	-113	-203	-1251	-1446	-1256
US (DXY; 5y UST)		105	0.0	-0.2	-2	9	9	9		3.65	3.6	-12	-20	249	239	175

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)			YTD	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
									basis points							
China		3954	0.1	-1	4	-20	-20	-14		188	6	-23	-14	-15	-20	
Indonesia		6812	0.9	1	-4	3	4	-2		165	1	-14	-3	0	-20	
India		61338	-0.7	-1	-1	8	5	7		140	3	-16	9	8	-14	
Philippines		6497	-1.1	-1	1	-11	-9	-12		121	-2	-17	20	20	-16	
Thailand		1619	-0.1	0	0	-1	-2	-5		0	0	0	0	0	0	
Malaysia		1479	0.8	0	2	-2	-6	-7		99	1	-2	-15	-18	-34	
Argentina		164733	0.3	-2	7	98	97	80		2211	-130	-185	531	531	474	
Brazil		103738	0.0	-4	-6	-4	-1	-7		283	16	0	-42	-28	-48	
Chile		5112	-0.4	-2	-2	16	19	17		144	-1	-5	8	4	-30	
Colombia		1222	-0.6	-1	-4	-13	-13	-19		388	-6	-6	46	40	-4	
Mexico		49342	-1.4	-3	-4	-4	-7	-4		385	-4	9	43	53	15	
Peru		21113	-1.3	-5	-5	4	0	-10		190	14	17	41	40	0	
Hungary		44332	-1.1	0	0	-13	-13	-7		221	-12	-10	99	97	68	
Poland		55937	-0.9	0	1	-18	-19	-11		80	-1	16	38	48	64	
Romania		11921	0.1	-3	2	-4	-9	-10		259	-4	-19	76	66	26	
Russia		2129	0.1	-2	-4	-43	-44	-31		3411	-577	938	3228	3234	2897	
South Africa		72989	0.0	-2	1	2	-1	-3		394	2	43	29	39	5	
Turkey		5233	0.8	5	12	130	182	160		464	2	-26	-102	-114	-99	
Ukraine		519	0.0	0	0	-1	-1	0		3981	31	345	3295	3222	2508	
EM total		38	0.4	-4	-1	-22	-23	-21		380	-5	-22	-7	-6	-78	

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

[back to top](#)