GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, FEBRUARY 10, 2022

- **US inflation rises more than expected in January, sending rates higher** (link)
- **US oil supply to reach record highs next year** (link)
- **Swedish central bank plans no hike before 2024** (link)
- **EM hiking cycle seen to be approaching its peak** (link)
- **Indian bond yields fell on the Reserve Bank of India's dovish policy decision** (link)
- **Romania hikes 50 bps amid inflationary pressure** (link)

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Yields rise and equities dip as US inflation comes in higher than expected

This morning's CPI print in the United State came in higher than anticipated, pushing treasury yields up. Headline inflation increased to 7.5% y/y and core rose to 6%. The 2-year US yield rose as much as 8bps on the release to 1.44%, as speculation increased of a 50 bps hike in March. Euro area sovereign bond yields are slightly higher on continuing hawkish signals from Governing Council members. Meanwhile, BoJ governor Kuroda reiterated the central bank's current easing stance, citing that Japan's recovery is slower than other advanced economies. Both India and Indonesia kept their policy rates unchanged, with India surprising markets on the dovish side by also maintaining the reverse repo rate. Mexico's central bank is expected to hike 50 bps at today's meeting with markets watching for any signals from the new governor, and Russia is expected to hike 100bps at its meeting tomorrow.

Key Global Financial Indicators

Last updated: 2/10/22 8:20 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4587	1.5	0	-2	17	-4
Eurostoxx 50		4220	0.4	2	0	16	-2
Nikkei 225		27696	0.4	2	-2	-6	-4
MSCI EM		50	1.6	2	2	-13	2
Yields and Spreads					bps		
US 10y Yield		1.93	-1.5	10	17	80	42
Germany 10y Yield		0.22	0.3	7	25	65	39
EMBIG Sovereign Spread		376	-5	-2	9	34	9
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		53.7	0.2	1	2	-7	2
Dollar index, (+) = $ appreciation		95.5	0.0	0	-1	6	0
Brent Crude Oil ($/barrel)		92.3	0.8	1	14	50	19
VIX Index (%, change in pp)		20.5	0.5	-4	1	-2	3

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

Mature Markets

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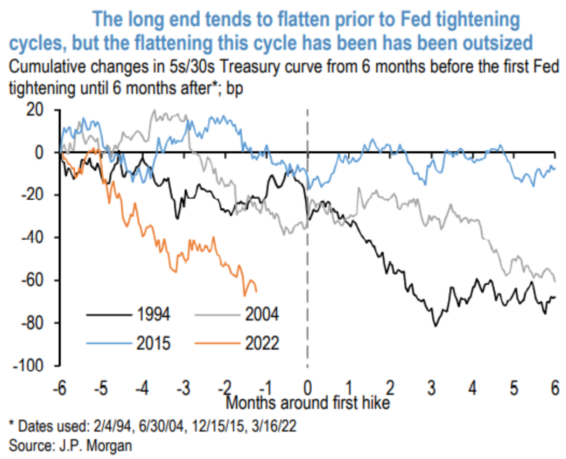
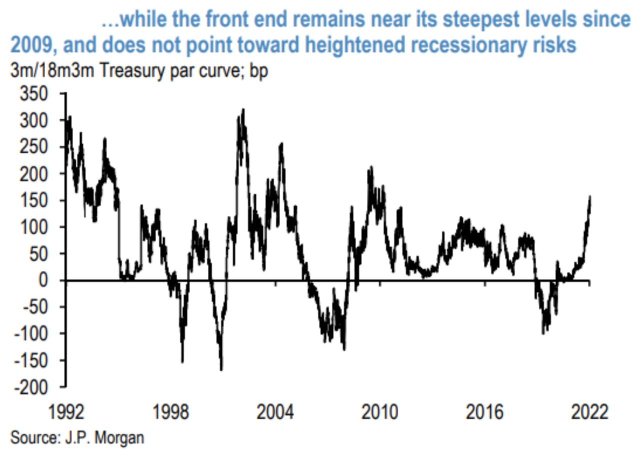
United States

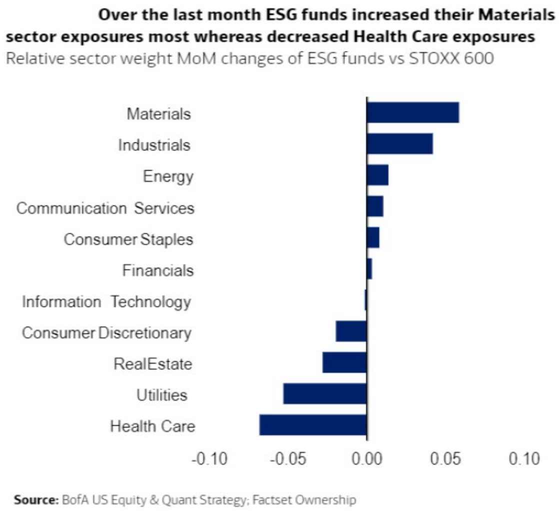
U.S. consumer prices beat expectations yet another time, rising 7.5% year on year (7.3% consensus) in January, further accelerating from December's 7% pace, with consumer inflation accelerating to 0.6% month on month (0.4% consensus). Combined with a surprisingly strong US payrolls report last week, the above-forecast inflation outcome could put pressure on the Fed to tighten by more than 25bps in March, an idea officials have so far resisted, but futures markets seem to increasingly support, with the probability increasing from 30% to 50% on the news. 10 year Treasuries shot up by 4bps on the news, reaching 1.98%, S&P futures were down and the dollar appreciated.

The flattening of the US Treasury curve could reflect structural and idiosyncratic reasons alongside shifting monetary policy expectations rather than increased recessionary concerns. According to research by JP Morgan the yield-curve tends to flatten in advance of hiking cycles, however, there are several reasons which could justify the current, more aggressive tightening of the curve compared to prior expansions. While monetary policy expectations push the short end of yields higher sharply, secular factors leading to a lower neutral rate likely put a lid on longer-term yields. At the same time, the still large share of the Treasury market held in the balance sheet of the Fed, as well as firm demand of Treasuries by Pension Funds expected to continue in 2022 can lead to a flatter yield curve. Instead, the "near-term forward spread", the slope between 3-month T-bills and 18-month forward T-bills can be a better recession gauge according to JP Morgan analysts.

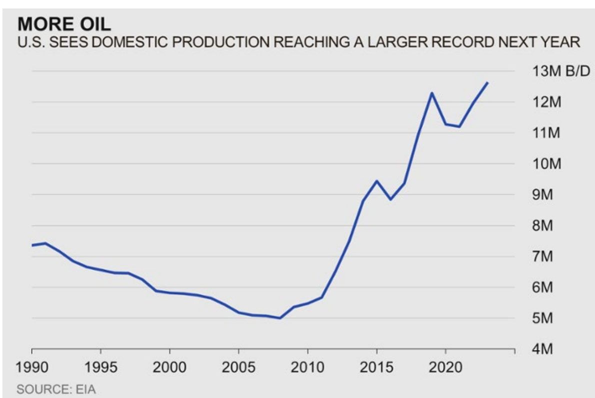


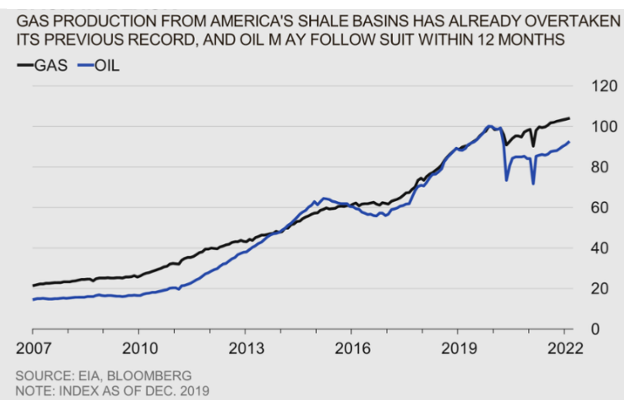


ESG Funds re-think their exclusion criteria on brown energy. Alongside the strong growth of ESG Funds comes an apparent change in investment decisions. Rather than excluding brown-energy sectors, ESG funds appear more open to companies who can show that they are moving towards more sustainable alternatives. This shift could also boost their returns, which are mostly focused towards "expensive" sectors such as technology and health care. According to Bank of America analysis, ESG funds have increased their exposure to materials and energy over the past month, areas they have traditionally shunned.



U.S. sees record oil output next year, as fracking is back in volumes. Oil prices have been rising because of increasing demand and constrained global supply. In the US, constrained supply is also due to under-investments over the past years, that increased the cost of extraction. With oil prices rising, however, producers are incentivized to boost drilling and the US domestic production is seen to grow more in 2022 and reach a new record in 2023, surpassing previous US government expectations. According to Bloomberg analysis, growth is underpinned by increased shale output, on the back of lower break-even production costs as the industry becomes more efficient in extracting oil.

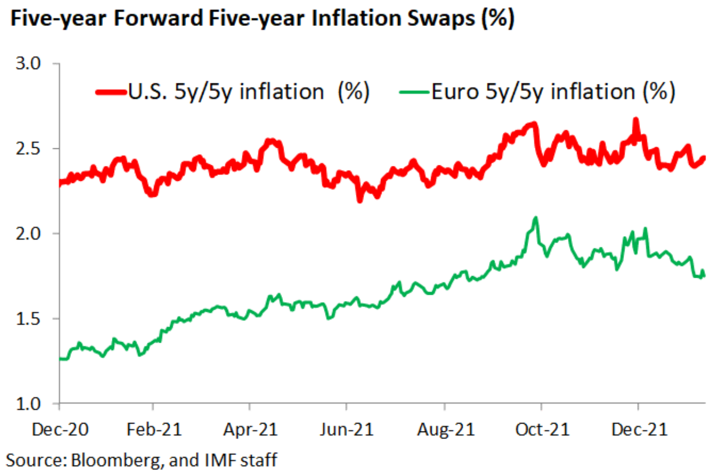




Euro area

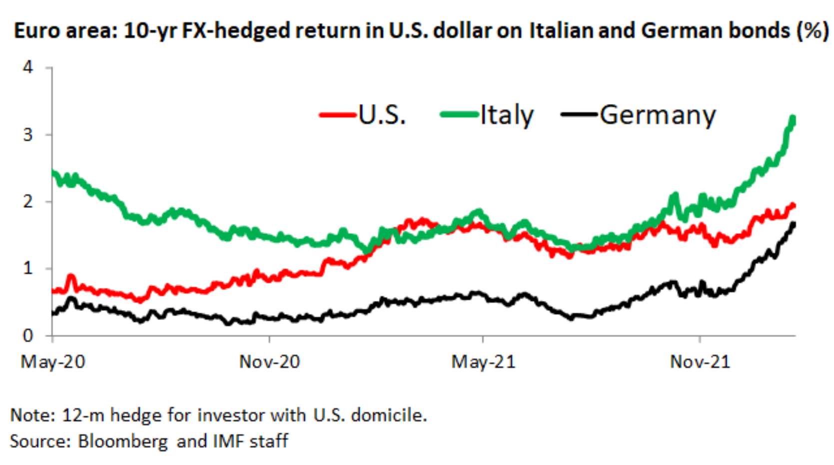
Equities (+0.3%) with the euro little changed ahead of U.S. inflation.

German 10-yr bund yields (+2 bps to 0.23%) rose as communication of Eurosystem officials remains in line with a broader hawkish shift across the Governing Council (GC). According to press reports, a growing number of ECB officials distrust inflation forecasts, with such concerns spreading "well beyond the typical hawks." Yesterday, ECB GC member Schnabel warned that inflationary pressures are broadening, and that inflation will remain high for longer than anticipated. **Euro area 5yr/5yr inflation swaps edged lower following last week's ECB meeting (-10 bps to 1.75% so far in February).**



In its Winter 2022 economic forecast, the European Commission (EC) inflation in the euro area is forecast to increase from 2.6% in 2021 (2.9% in the EU) to 3.5% (3.9% EU) in 2022, before declining to 1.7% (1.9% EU) in 2023. Inflation in the euro area is projected to peak in the first quarter of 2022 and remain above 3% until the third quarter of the year. As the pressures from supply constraints and energy prices fade, inflation is expected to decline markedly in the final quarter of the year and settle at below 2% in 2023**. In contrast, the ECB expected average inflation of 1.8% for 2023 in its December outlook update and pointed to upside risks to inflation last week.**

Italian 10-yr spreads rose 3 bps to 157 bps as the Italian government is planning significant measures to help households with higher energy bills. A real money contact pointed out that the recent back-up in Italian yields has made Italian bonds relatively attractive for U.S. dollar investors who would hedge currency risk (also reflecting the sharper path of rate tightening in the U.S. compared to euro area).



Sweden

Local 2-yr bond yields fell 7 bps to trade just below zero again after the Riksbank reiterated that it does not plan to hike its repo rate until the second half of 2024 as underlying inflation remains within the 1.5-2% range. The forecasted increase in the repo rate is slightly earlier than what the Riksbank expected in November. In line with its November meeting, the Riksbank expects asset holdings will remain approximately unchanged in 2022 and that the total holdings will gradually decrease thereafter. The koruna has strengthened into the Riksbank meeting but fell 0.8% against the euro following the announcement.

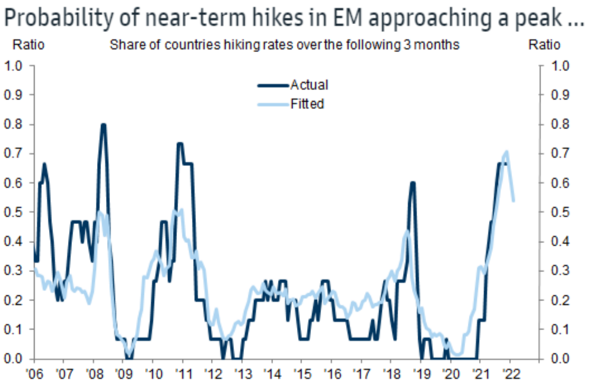
Japan

Governor Kuroda reiterated that the Bank of Japan (BOJ)'s monetary easing will remain unchanged. He said that there is no need and no chance of the BOJ to reduce easing or turn to tightening, citing that Japan's economic recovery is slower than other major advanced economies, with CPI inflation at around 0.5%. Long-end JGB yields further rose (10-year: +2.1 bps; 30-year: +3.6 bps), with the 10-year benchmark yield touching 0.228%, as markets saw no new information in Governor Kuroda's remarks. **PPI inflation accelerated to 8.6% y/y in January** (consensus: +8.2%). Analysts noted that with high PPI inflation, firms will see greater pressures to either raise prices for consumers or cut into their own profit margins. Equities gained (NIKKEI: +0.4%); Japanese yen depreciated (-0.1%).

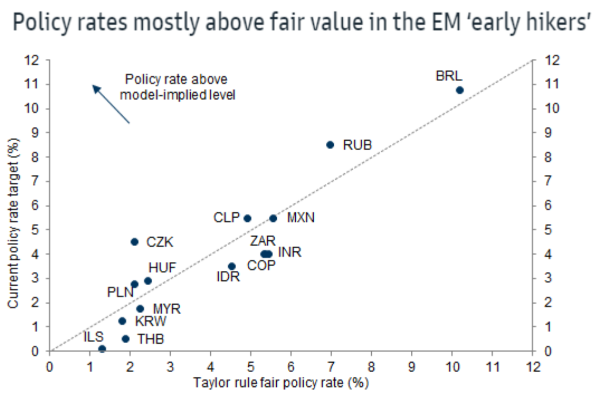
Emerging Markets back to top

Most Asian equities gained, +0.9% on net, led by Taiwan (+1.0%), Malaysia (+0.9%) and India (+0.8%) equities. Share prices fell in China (CSI 300: -0.3%). Asian currencies were mixed. The Thai baht appreciated (+0.3%), while the Indian rupee depreciated (-0.2%). Long-end government bond yields were also mixed, with 10-year yields failing in India (-9.5 bps) while rising in Philippines (+2.9 bps). **EMEA equity indices were trading mixed** with markets up in Romania (+0.7%) and Serbia (+0.2%), while markets in Poland (-0.7%) and Hungary (-0.6%) underperformed. EMEA currencies mostly appreciated with the South African rand (+0.8%) outperforming. The Polish zloty (+0.2%) strengthened following yesterday's comments from National Bank of Poland Governor Adam Glapiński that he supports further hikes. The Hungarian forint (-0.2%) underperformed. **Latin American equities performed mixed, while currencies strengthened.** Equities advanced in Peru (+1.3%), Mexico (+0.9%), and Chile (+0.5%), and slid in Colombia (-1%) and Argentina (-0.9%). Currencies appreciated, most prominently in Chile (+1.8%), where the stronger peso reflected speculation the central bank may hold an emergency meeting to raise rates. Yesterday, Fitch downgraded El Salvador's long-term foreign currency rating from B- to CCC and its short-term rating from B to C, as it sees financing risks elevated due to the growing reliance on short-term debt.

The hiking cycle of Emerging Markets (EM) is seen to be approaching its peak, while differences remain across EMs. Goldman Sachs research shows that the peak of the EM hiking cycle is within sight, with monetary policy models suggesting that the proportion of EM central banks in the process of hiking rates could decrease from the current 70% to roughly 50% in the coming months. Differences within EMs remain, and central banks that have started tightening earlier. Countries that have been slower to start the policy normalization cycle are seen to be among the fastest hikers over the next year.



Source: Goldman Sachs Global Investment Research



Source: Haver Analytics, Goldman Sachs Global Investment Research

China

State-owned asset management companies (AMCs) were asked to support the restructuring of weak property developers, including by acquiring stalled property development projects and bad loans. Reportedly, Huarong is in talks with Shimao, while Cinda is part of Evergrande's restructuring plan; cash injections from AMCs are expected to be prioritized for the completion of unfinished properties. The National

Development and Reform Commission (NDRC) imposed price limits on coal in an effort to prevent a repeat of rising commodity prices that threatened the economic growth last year. Coal prices at the mine and the port are capped at 700 and 900 (1,200 last year) yuan per ton, respectively. The U.S. administration promised to make China accountable for not fulfilling the trade deal. China is more than one-third short on the purchase pledge. Equities declined (CSI 300: -0.3%); RMB appreciated (+0.1%).

India

Indian bond yields fell on the Reserve Bank of India (RBI)'s dovish policy decision. The RBI kept policy rates unchanged, with the repo rate at 4% as expected. The reverse repo rate was also held at 3.35% despite markets expectations of a hike to 3.55%. This is against the backdrop that the effective reverse repo rate has increased to 3.87%, reflecting an effective tightening in recent months, following the RBI's management of systemic surplus liquidity through its variable rate reverse repo (VRRR) operations. The RBI projects growth at 7.8% for the next fiscal year (starting from April), with inflation at 4.5%. Governor Das noted that private consumption remains weak and that rising commodity prices, increased global financial market volatility and elevated global supply bottlenecks can exacerbate risks to India's growth outlook. In response to the RBI's dovish decision, government bond yields dropped (1-year: -11.2 bps; 10-year: -9.5 bps); the Indian rupee depreciated (-0.2%); equities gained (+0.8%).

Romania

The National Bank of Romania (NBR) raised its policy rate by 50 bps to 2.5% yesterday, a mild hawkish surprise with consensus expeciting a 25 bps hike while several analysts called for more aggressive tightening. The central bank statement noted that economic growth is expected to have decelerated in 4Q 2021, while inflation projections show a considerable worsening in the near-term with the annual inflation seen to rise to a double-digit value in 2Q 2022. The NBR will present its new inflation forecasts tomorrow.

Indonesia

Bank Indonesia kept the policy rate unchanged at 3.5% as expected. Bank Indonesia also maintained its growth outlook at 4.7%-5.5% this year, while inflation is expected to remain within the 2%-4% target. Governor Perry said that the decision is consistent with the need to maintain exchange rate and inflation stability while supporting economic growth amid a buildup of external pressures. Bank Indonesia adopted a more hawkish tone since its last meeting in January, signaling it will contain currency volatility and let yields rise to keep local bonds attractive. Government bond yields were little changed.

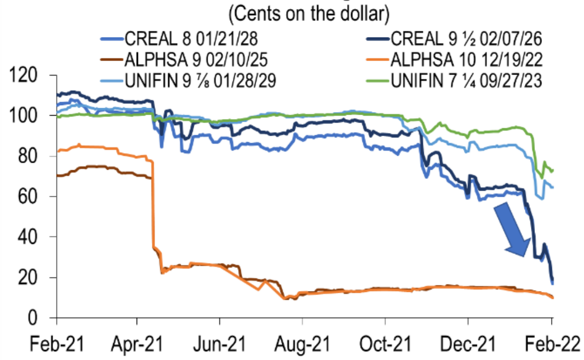
Brazil

Entrenched inflation and weak growth prospects continue to form the context for monetary policy. Inflation increased in January by 22 bps to 10.4% y/y. Despite unbroken inflation dynamics, the fully anticipated print may, together with softer December 2021 retail sales (-2.9% y/y), provide additional decision space for Brazil's central bank, even as markets expect that the current hiking cycle will be continued beyond the first half of 2022. The soft retail sales print, however, also highlights continued weakness in Brazil's growth prospects.

Mexico

Inflation dynamics persist amidst signs for stress in the nonbank lending sector. Mexico's January inflation came in 6 bps above expectations, at 7.07% y/y, 29 bps lower than a month ago. Core inflation, which runs 90 bps below headline inflation, has increased since December by 27 bps. The peso appreciated by 0.6%, as markets continue to expect a 50 bps policy rate hike in today's monetary policy decision. Separately, analysts see contagion threats around the nonbank lender Credito Real, which is poised to default on $184 mn in bonds denominated in Swiss francs. As Credito Real has been unable to refinance the bond at its Wednesday maturity, restructuring options are currently being evaluated. The company's dollar bonds due in 2028 and 2026 slumped to 17 and 18.5 cents on the dollar, and trading in its equity was suspended, while dollar bonds of peers, including AlphaCredit Capital SA which experienced a payment default last year, were adversely affected as well.

Mexican payroll lender Credito Real's possible default on hard currency bond generates contagion in nonbank lending sector
(Cents on the dollar)



Source: Bloomberg.

Russia

Russian inflation increased to a six-year high (+8.73% yoy) in January, slightly below the expected 8.86%, while core price growth surprised on the upside, increasing to +9.24% yoy (consensus 9.18% from 8.89%). Analysts see near-term CPI risks remaining elevated in Russia, with some expecting inflation to peak towards the end of 1Q 2022. **Markets are expecting a 100 bps rate hike in the central bank monetary policy meeting tomorrow.**

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), 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.

Global Financial Indicators

Last updated: 2/10/22 8:20 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4587	1.5	2	-2	17	-4
Europe		4220	0.4	2	0	16	-2
Japan		27696	0.4	2	-2	-6	-4
China		4640	-0.3	0	-3	-20	-6
Asia Ex Japan		83	1.7	2	1	-17	1
Emerging Markets		50	1.6	2	2	-13	2
Interest Rates					basis points		
US 10y Yield		1.93	-1.5	10	17	80	42
Germany 10y Yield		0.22	0.3	7	25	65	39
Japan 10y Yield		0.23	2.1	6	9	15	16
UK 10y Yield		1.43	-0.1	6	24	94	46
Credit Spreads					basis points		
US Investment Grade		126	0.1	0	13	36	14
US High Yield		379	1.5	1	30	26	41
Europe IG		63	0.9	1	12	16	16
Europe HY		306	2.4	6	49	63	64
Exchange Rates					%		
USD/Majors		95.49	0.0	0	-1	6	0
EUR/USD		1.14	0.1	0	1	-6	1
USD/JPY		115.8	0.2	1	1	11	1
EM/USD		53.7	0.2	1	2	-7	2
Commodities					%		
Brent Crude Oil ($/barrel)		92	0.8	1	14	50	19
Industrials Metals (index)		190	1.3	5	10	35	10
Agriculture (index)		68	1.0	4	10	36	12
Implied Volatility					%		
VIX Index (%, change in pp)		20.5	0.5	-3.9	1.1	-1.5	3.2
US 10y Swaption Volatility		81.3	0.0	3.9	-1.9	21.3	2.3
Global FX Volatility		7.3	0.0	-0.1	0.0	0.1	-0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		230	4.7	35	70	107	78
Italy		157	3.4	7	25	63	22
Portugal		81	1.2	8	20	29	17
Spain		87	1.6	7	19	28	13

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

Emerging Market Financial Indicators

Last updated: 2/10/2022 8:23 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		6.36	0.1	0.1	0	2	0		2.8	1.3	7	-9	-56	-7
Indonesia		14342	0.1	0.3	0	-3	-1		6.5	1.2	6	3	28	12
India		75	-0.2	-0.1	-1	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	0.2	-0.4	0	-6	-1		4.8	10.0	25	33	163	35
Thailand		33	0.2	1.5	3	-8	2		2.2	2.0	10	11	93	33
Malaysia		4.18	0.0	0.0	0	-3	0		3.7	-2.9	2	0	87	8
Argentina		106	-0.1	-0.7	-2	-17	-3		49.9	11.0	28	92	67	-62
Brazil		5.22	0.3	1.3	9	3	7		11.6	1.6	35	13	354	91
Chile		805	0.9	1.6	4	-10	6		6.0	6.0	32	11	324	57
Colombia		3928	0.3	0.6	3	-9	3		7.6	0.5	31	58	331	117
Mexico		20.43	0.2	0.6	0	-2	0		7.6	0.5	15	-23	204	11
Peru		3.8	0.7	1.2	3	-4	5		6.0	0.0	-3	-5	230	14
Uruguay		43	0.5	1.4	3	-2	3		8.5	0.0	-16	-16	136	-23
Hungary		310	-0.3	0.0	2	-5	5		4.7	4.0	-24	-15	272	14
Poland		3.93	0.1	1.1	2	-6	3		3.9	0.5	-6	-4	255	41
Romania		4.3	0.0	0.0	1	-7	1		5.1	2.7	6	8	282	27
Russia		74.4	0.5	2.7	1	-1	1		9.4	8.0	3	37	293	59
South Africa		15.2	0.4	0.7	3	-3	5		7.6	-4.3	-6	-26	90	15
Turkey		13.54	0.0	0.2	2	-48	-2		21.9	-19.0	-110	-298	900	-239
US (DXY; 5y UST)		95	0.0	0.1	-1	6	0		1.80	-1.7	13	28	135	54

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4640	-0.3	0	-3	-20	-6		202	-2	6	-21	-1
Indonesia		6824	-0.2	2	3	10	4		176	-12	13	-4	11
India		58926	0.8	0	-3	14	1		147	6	23	-8	15
Philippines		7433	-0.9	1	5	6	4		117	0	19	18	16
Malaysia		1570	1.2	3	0	-2	0		123	0	9	-12	6
Argentina		87393	-0.9	-3	4	68	5		1763	42	-30	331	83
Brazil		112790	0.3	1	11	-5	8		307	-9	-8	47	-4
Chile		4610	0.1	3	7	2	7		156	2	18	15	16
Colombia		1509	-1.0	0	8	10	7		350	-12	6	132	2
Mexico		52762	0.9	2	0	18	-1		343	7	10	-6	11
Peru		23780	1.3	6	6	6	13		172	2	15	42	22
Hungary		52710	-0.4	1	1	20	4		137	5	24	-2	13
Poland		68215	-0.4	0	-3	20	-2		7	-6	-12	-21	-25
Romania		13500	0.8	1	2	28	3		200	-1	15	10	7
Russia		3643	0.1	5	-3	7	-4		232	-17	57	56	55
South Africa		76793	0.1	2	4	16	4		369	5	28	4	14
Turkey		2051	0.4	5	0	33	10		540	-12	-36	114	-38
Ukraine		519	0.0	-1	-1	0	-1		820	-28	47	343	61
EM total		50	0.5	2	2	-13	2		405	-3	9	64	18

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

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