



- Markets pricing a faster than expected pace of disinflation for the US ([link](#))
- European sovereign yields increase as markets price higher ECB terminal rate ([link](#))
- Yen strengthens as reports suggest Kazuo Ueda will be nominated for BOJ governor ([link](#))
- South African assets decline as electricity crisis spurs state of disaster declaration ([link](#))
- Mexican central bank surprises with larger than expected 50 bp hike ([link](#))
- Brazilian assets decline as economic team considers early review of inflation targets ([link](#))

[Mature Markets](#)




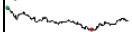





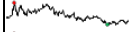

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## Risk appetite ebbs as markets reassess prospects of higher interest rates

**Rising core sovereign bond yields are keeping a lid on risk appetite as investors continue to interpret recent central bank guidance.** Yesterday, US stocks posted losses for the second consecutive day. Amidst another slew of earnings reports that triggered an early day rally, investor concerns over the outlook for interest rates eventually came to the forefront and ultimately dampened risk sentiment. Treasury yields have moved higher across the curve as 10-year yields are back up to 3.7%, and policy-sensitive 2-year yields are now above 4.5% for the first time since November. The rise in yields continued overnight and this morning with core euro area yields up 5 to 10 bps across maturities, while most major Asian and European equity indices are declining alongside S&P 500 futures pointing to a weak opening. The yen has sustained its strengthening trend this morning following surprise news that Kazuo Ueda is expected to be nominated to become the next BOJ governor. Emerging market focus has been in the Latin American region over the last day as the Mexican central bank delivered a hawkish surprise with a larger than expected 50 bp policy rate hike, while Brazilian assets underperformed on news the country's inflation targets could come under review earlier than expected.

Key Global Financial Indicators

Last updated: 2/10/23 8:02 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
<b>Equities</b>			%				%	
S&P 500		4082	-0.9	-2	4	-9	6	-3
Eurostoxx 50		4182	-1.6	-2	3	0	10	5
Nikkei 225		27671	0.3	1	6	0	6	5
MSCI EM		41	0.5	-2	0	-18	7	-15
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.70	4.4	18	8	167	-17	171
Germany 10y Yield		2.35	4.9	16	4	207	-22	212
EMBIG Sovereign Spread		436	-4	9	-28	60	-16	23
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.5	-0.2	-1	0	-6	1	-5
Dollar index, (+) = \$ appreciation		103.5	0.3	1	0	8	0	8
Brent Crude Oil (\$/barrel)		86.4	2.2	8	8	-6	1	-11
VIX Index (%, change in pp)		21.8	1.1	3	1	-2	0	-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

**Yesterday, the S&P 500 closed down 0.9%, after opening up almost 1%.** The intraday drop happened amid hawkish Fed rhetoric and the 2-yr vs. 10-yr inversion of the yield curve temporarily tapping levels not seen since the early 1980s. US Treasury nominal yields rose by 5–7 bps, driven entirely by real yields.

**The current expected path of disinflation in the US is much faster compared to historical episodes,** according to new research by JPMorgan. Currently, one-year ahead inflation expectations are significantly lower than observed inflation—the width of the gap is at historical records (left chart below). The right chart depicts the priced-in trajectory of inflation—it shows the fastest decline since 1983, with the market-implied inflation for 2023 being about 100 bps lower than the median FOMC participant's expectation.

Figure 5: SPF year-ahead inflation expectations

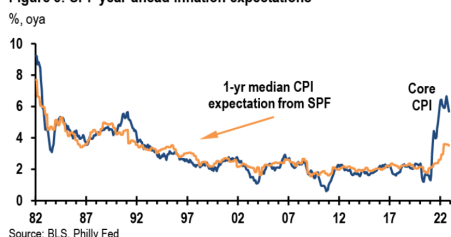
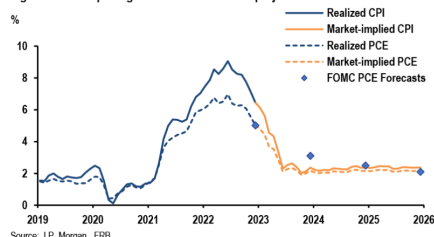


Figure 3: Market pricing for inflation and FOMC projections



**The yield curve inversion in the US can be partly attributed to the expected rapid pace of disinflation but does not necessarily imply any meaningful probability of recession,** according to the abovementioned JPMorgan research. To assess the priced-in recession risks, the analysts derive the trajectory of future unemployment that is consistent with the market-implied trajectory of nominal policy rates and inflation. The implied unemployment trajectory shows only a modest increase (left chart below), suggesting that the markets are pricing in a soft-landing scenario with a fast non-recessionary policy rate normalization. While it's an open question whether markets are reasonable in pricing in the rapid disinflation, the authors highlight that the market information alone is insufficient to argue for a meaningful priced-in probability of recession. In particular, they refute the simplistic “yield-curve inversion” recession model that yields an almost-100% probability of a recession (middle chart). They emphasize that other markets imply a much lower probability of recession (e.g., less than 20% probability from corporate credit markets, in the right chart).

Figure 4: Market-implied unemployment expectations

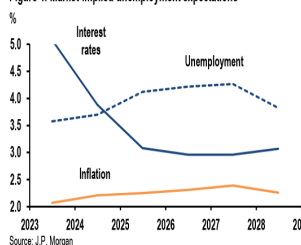


Figure 2: Near term forward spread recession risk over 12 mo.

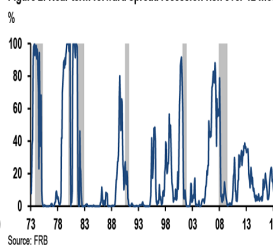
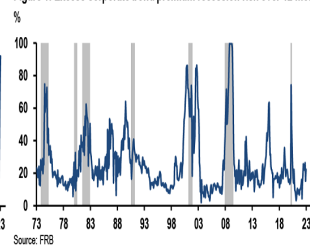


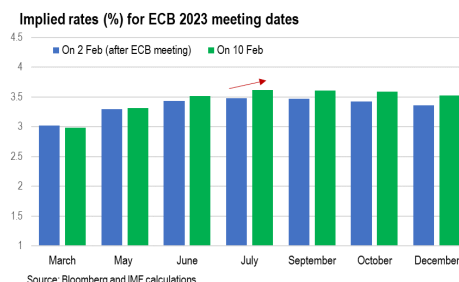
Figure 1: Excess corporate bond premium recession risk over 12 mo.



### Euro area

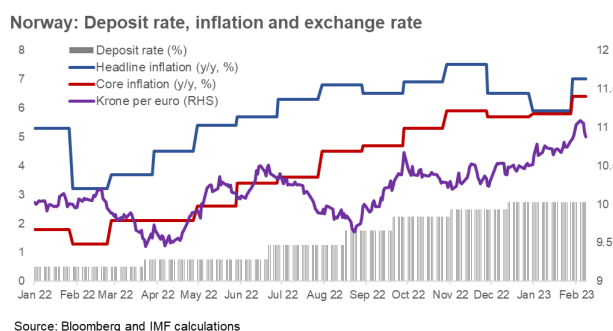
**European equities were trading in the red (Stoxx 600 -1.4%) and sovereign bond yields increased (10-yr bund +7 bps) as markets scaled up ECB tightening expectations.** ECB Governing Council (GC) member Nagel said that core inflation is the decisive gauge for monetary policy and spoke in favour of further tightening to avoid long-term inflation expectations becoming unanchored. ECB vice president de Guindos said he was ‘relatively optimistic about the evolution of inflation’ but added that inflation remains significantly above target. **Markets are now pricing interest rates peaking at around 3.6%, roughly 14**

bps higher than after the most recent ECB meeting. Southern European spreads widened, with 10-yr Italian spreads rising 3 bps to 185 bps **while the euro weakened (-0.4%)**.



## Norway

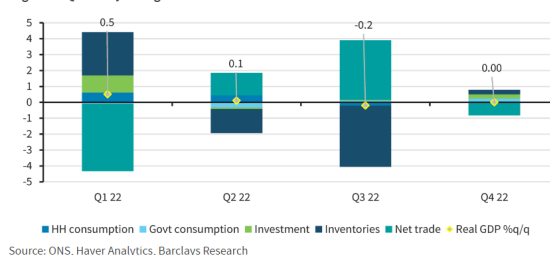
**The Norwegian krone appreciated against the euro (+0.2%) after an upside inflation surprise saw analysts question if rates would be hiked beyond the expected 3%.** January headline inflation surprised on the upside (7.0% y/y vs expected 6.5% from 5.9%), and core inflation accelerated to 6.4% y/y (vs expected 6.0% from 5.8%). Analysts highlight that seasonality from, for example rent indexation and winter sales, renders the January inflation print difficult to interpret. While expectations are for a 25 bp hike to take the deposit rate to 3% at the upcoming March meeting remains unchanged, some analysts argue that the upside surprise in inflation could see another 25 bp hike in June. Others highlight that lower oil prices could see less aggressive tightening by the central bank.



## United Kingdom

**The pound was little changed after data this morning showed that the UK avoided a technical recession in Q4 while December GDP disappointed.** Preliminary Q4 GDP growth came in at 0.0% q/q, in line with expectations, from -0.3% in Q3. Analysts highlight that Q4 weakness was concentrated in December, with monthly GDP data surprising on the downside (-0.5% m/m vs expected -0.3% from +0.1%) and thus expect a contraction in Q1. **Separately, according to media reports the UK government is in talks to accelerate the Solvency II overhaul.** This morning, 10-yr gilt yields increased (+10bps) alongside the broader move higher in core sovereign yields.

Figure 9. Quarterly GDP growth and contributions



## Japan

**Kazuo Ueda was reportedly picked for the Bank of Japan's (BOJ) top job, surprising markets.** Prime Minister Kishida plans to nominate Ueda, a professor and former BOJ board member (during 1998–2005), to be the next BOJ governor. Based on news reports, current Deputy Governor Amamiya refused to take the post. Analysts interpreted that Prime Minister Kishida may not be seeking a drastic change at the BOJ given that he wanted Amamiya to take the BOJ's top job. Markets were surprised by Prime Minister Kishida's decision and markets tried to gauge on how hawkish Ueda would be. Ueda is known for voting against pulling away from the zero-interest rate policy in August 2000, but he also expressed a view that the Federal Reserve had acted a bit late than desirable at a conference in 2022. Japanese yen appreciated (+0.3%). Long-end JGB yields rose (10-year: +0.3 bp; 30-year: +5.7 bps), with the 10-year yield touching 0.496%. Equities gained (NIKKEI: +0.3%).

## Emerging Markets

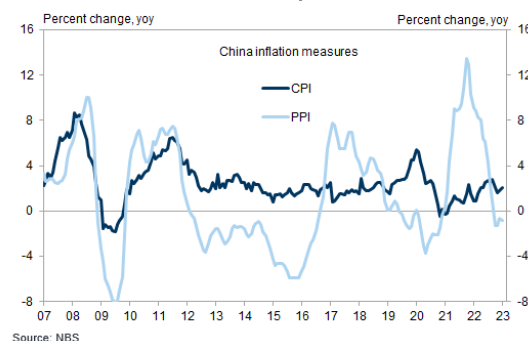
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**It was a busy day of central bank meetings in Latin America yesterday.** Mexico hiked 50 bps (25 bps expected) though the Mexican peso was the only asset that benefited from the hawkish surprise (+0.9%). Peru held interest rates steady (+25 bps expected) as protests across the country continue. Volatility in Brazilian assets persisted as “the new government is considering an early review of the country's inflation targets” according to Bloomberg. **Most Asian equities declined, falling 1.5% on net,** led by Hong Kong (-2.0%), Chinese (CSI 300: -0.6%) and Korea: -0.5%) equities. Meanwhile, share prices rose in Malaysia (0.7%). Most Asian currencies also depreciated, led by Thai baht (-0.7%), Korean won (-0.4%) and Malaysian ringgit (-0.4%). **Long-end government bond yields increased in the region,** with 10-year yields rising in India (+5.0 bps), following the rise in U.S. Treasury yields. **In EMEA, equities and currencies weakened, and local rates rose in line with the deterioration in global risk sentiment.** Shares sold off sharpest in Poland (-2.6%) and South Africa (-1.5%).

## China

**CPI inflation accelerated in January, in line with expectations.** CPI increased 2.1% y/y, up from 1.8% in December. The pickup in inflation was primarily due to a low base and higher food prices. Analysts generally view that inflation is likely to pick up in the coming months on an economic rebound after the “exit-wave” COVID outbreak. Meanwhile, PPI fell 0.8% y/y, larger than expected (consensus: -0.5%). Aggregate financing amounted to 5.98 tn yuan (\$879 bn) in January, stronger than expected (consensus: 5.4 tn yuan, or \$794 bn), largely driven by record new RMB loans that amounted to 4.9 tn yuan (\$721 bn). The People's Bank of China (PBC) continued injecting liquidity to ease pressures. The liquidity injection amounted to 180 bn yuan (\$26.5 bn) today. The key interbank repo rate (DR007) dropped to 1.94% (-27 bps). Equities declined (CSI 300: -0.6%; Hong Kong SAR-listed: -2.6%), led by tech firms. RMB depreciated (-0.2%).

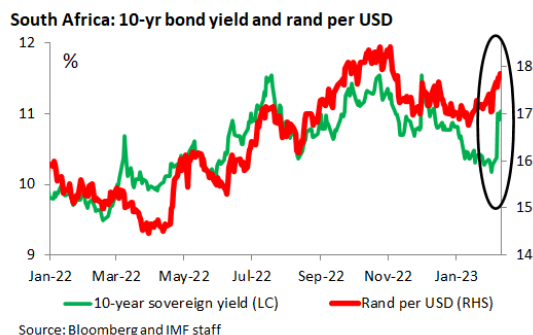
Exhibit 1: China headline CPI rose in January



## South Africa

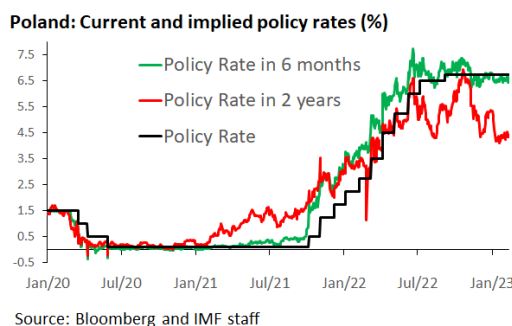
**The rand (-0.8%) depreciated and local yields settled higher after President Ramaphosa declared a “State of Disaster” due to the electricity crisis, only 10 months after the Covid-related “State of Disaster” ended.** The president also appointed a Minister of Electricity to be housed in the office of the president. South Africa has reportedly secured 300MW of power supply via imports from neighboring countries, and the government will support Eskom to secure more funding for diesel “for the rest of the

financial year.” Nevertheless, contacts do not expect that the government will finalize a solution on how to deal with Eskom’s R400 bn debt in the near term.



## Poland

The day after the central bank left its policy rate unchanged at 6.75%, central bank governor Glapinski said that he expects a “soft landing” for Poland. The governor said he expects inflation to slow down “rapidly” this year and reach 6% y/y by the end of 2023 (from 16.6% in December). The governor reiterated that further radical rate hikes would hurt growth but also said it’s too early to discuss rate cuts. Money markets price the policy rate about 1 percentage point lower in a year from now, according to Bloomberg. Contacts think that the central bank will leave rates unchanged throughout 2023 and start a cutting cycle in early 2024.



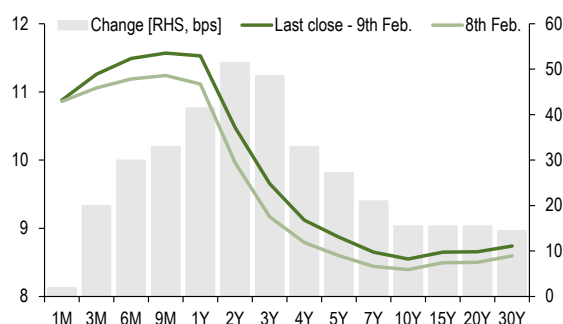
## Russia

Spot Brent oil prices are 2% higher after Russia confirmed that it will cut oil output by 500k bbl/day starting in March. An output reduction had been expected and would reportedly correspond to about 5% of January output. Since hitting a post-war low of 10.1 mn bbl/day, Russian oil production rebounded to around 10.9 mn bbl/day at the end of 2022, despite the imposition of EU import bans and the price cap. In separate news, the central bank of Russia left its policy rate unchanged at 7.50% earlier today. Russia is expected to report headline inflation of 11.6% y/y in January (from 11.9%) later today. The ruble and local equities were little changed.

## Mexico

Banxico surprised markets with a 50 bp hike (25 bps expected) yesterday. Forward guidance also did not rule out another hike (albeit a smaller one) at its next meeting. The central bank also extended its inflation forecast to reach its target of 3% by the end of 2024 (from Q2-2024). The peso was the only local asset that reacted notably to the news and appreciated against the dollar (+0.9%). The Mexican swap curve re-priced higher where the biggest move was in the 2-year tenor (+50 bps).

**Mexican swap curve shifted its rate expectations higher following central bank meeting.**

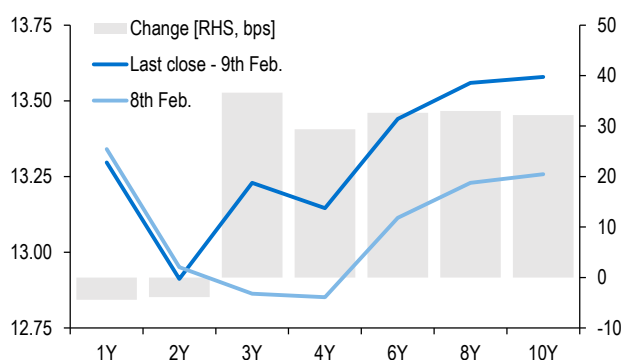


Source: Bloomberg

## Brazil

**Talks of having an early review of the Brazilian central bank's inflation target increased volatility in local assets.** President Lula has been critical of the central bank's current monetary policy stance of high interest rates. The argument for a higher inflation target from its current level of around 3% would allow the central bank to ease policy more quickly. The real was by far the worst performer across the region depreciating 1.4%. As any change of the inflation target is likely not imminent, it was intermediate, and long-end local sovereign debt yields that re-priced higher.

**Local yields at intermediate and long-end maturities sold-off on the possibility of a higher inflation target.**





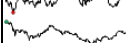




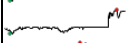












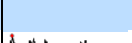


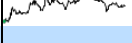




Source: Bloomberg

*This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

Last updated: 2/10/23 8:04 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4068	-0.9	-2	4	-10	6	-4
Europe		4182	-1.6	-2	3	0	10	5
Japan		27671	0.3	1	6	0	6	5
China		4106	-0.6	-1	1	-11	6	-11
Asia Ex Japan		70	0.8	-2	0	-15	8	-12
Emerging Markets		41	0.5	-2	0	-18	7	-15
<b>Interest Rates</b>			basis points					
US 10y Yield		3.70	4.4	18	8	167	-17	171
Germany 10y Yield		2.35	4.9	16	4	207	-22	212
Japan 10y Yield		0.50	0.3	1	-1	27	8	31
UK 10y Yield		3.35	5.4	29	-21	182	-33	187
<b>Credit Spreads</b>			basis points					
US Investment Grade		141	1.3	5	-18	16	-18	-2
US High Yield		431	1.1	16	-22	51	-50	24
Europe IG		79	3.4	7	-4	14	-12	7
Europe HY		412	18.1	32	-13	98	-62	60
<b>Exchange Rates</b>			%					
USD/Majors		103.50	0.3	1	0	8	0	8
EUR/USD		1.07	-0.5	-1	0	-7	0	-6
USD/JPY		130.9	-0.5	0	-1	13	0	14
EM/USD		50.5	-0.2	-1	0	-6	1	-5
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		86.4	2.2	8	8	6	1	1
Industrials Metals (index)		167	-1.6	-2	-1	-12	1	-11
Agriculture (index)		69	0.2	0	4	4	0	-1
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		21.8	1.1	3.4	1.2	-2.2	0.1	-9.3
US 10y Swaption Volatility		105.3	2.7	2.5	-16.3	18.1	-20.4	11.0
Global FX Volatility		10.4	0.0	0.2	-0.3	3.0	-0.3	2.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		185	-0.9	2	-24	-45	-20	-55
Italy		185	3.2	2	-7	24	-30	13
Portugal		86	1.4	2	-9	3	-15	-6
Spain		95	1.5	2	-8	6	-14	-9

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

## Emerging Market Financial Indicators

Last updated: 2/10/2023 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		6.81	-0.4	-0.2	0	-7	1	-7		3.2	-1.0	2	5	39	10	31
Indonesia		15134	-0.3	-1.6	3	-5	3	-5		6.7	5.3	13	-17	17	-27	17
India		83	0.0	-0.8	-1	-9	0	-10		7.4	4.0	20	11	83	-2	
Philippines		54	0.1	-1.4	1	-6	2	-6		5.9	2.5	3	-13	110	-8	95
Thailand		34	-1.0	-2.5	-1	-3	2	-4		2.7	6.0	17	14	52	7	48
Malaysia		4.33	-0.4	-1.7	1	-3	2	-3		3.8	2.9	6	-12	15	-21	16
Argentina		191	-0.2	-1.3	-5	-44	-7	-44		86.5	50.3	-44	71	3654	-172	3853
Brazil		5.26	0.2	-2.5	-1	0	0	-5		13.6	-0.7	24	105	198	104	210
Chile		804	-0.2	-1.0	3	0	6	-2		5.4	8.0	16	33	-56	8	-50
Colombia		4744	-0.2	-1.0	1	-17	2	-18		9.0	0.0	17	-109	125	-81	110
Mexico		18.76	0.0	1.1	2	10	4	8		8.6	4.0	28	43	82	-14	75
Peru		3.9	0.2	-0.8	-2	-1	-1	-3		8.0	0.2	20	24	191	2	199
Uruguay		39	-0.1	0.0	2	10	2	8		9.8	-18.0	-18	-88	131	-88	165
Hungary		365	-1.1	-1.5	2	-15	2	-12		8.0	33.0	9	-8	325	-163	316
Poland		4.48	-1.1	-2.4	-2	-12	-2	-9		5.4	8.0	24	14	143	-75	151
Romania		4.6	-0.8	-1.2	0	-6	1	-5		7.3	-7.4	6	-10	217	-42	212
Russia		73.2	-0.2	-2.9	-5	2	1	12		10.4	5.0	8	-149	98	-150	-82
South Africa		17.9	-0.6	-2.2	-5	-15	-5	-15		8.8	6.0	22	10	124	-32	126
Turkey		18.84	0.0	-0.1	0	-28	-1	-27		11.3	-9.0	46	270	-1057	147	-1112
US (DXY; 5y UST)		104	0.3	0.6	0	8	0	8		3.89	3.4	23	16	194	-11	199

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
								basis points								
China		4106	-0.6	-1	1	-11	6	-11		174	-10	-9	-28	-3	-34	
Indonesia		6880	-0.2	0	4	1	0	-1		137	-5	-34	-39	-3	-48	
India		60683	-0.2	0	1	4	0	6		141	-13	-7	-6	-1	-13	
Philippines		6877	0.5	-2	-1	-5	5	-7		110	1	-31	-7	13	-27	
Thailand		1665	-0.3	-1	-1	-2	0	-2								
Malaysia		1475	0.7	-1	-1	-7	-1	-7		100	-5	-4	-23	0	-33	
Argentina		248239	-0.8	0	15	184	23	172		1946	139	-147	183	-259	209	
Brazil		108008	-1.8	0	-3	-5	-2	-4		264	-2	-21	-43	-10	-67	
Chile		5348	0.5	1	4	15	2	22		135	0	-23	-21	3	-39	
Colombia		1246	-1.5	-1	-7	-16	-3	-18		375	11	-10	25	3	-17	
Mexico		52801	-0.6	-4	1	0	9	3		358	18	-26	15	-23	-12	
Peru		22299	-0.5	0	-2	-5	5	-5		184	-2	-16	12	4	-6	
Hungary		45512	-0.9	0	-1	-13	4	-5		199	2	-54	62	-23	46	
Poland		60048	-2.2	-2	-3	-12	4	-4		70	-9	-32	63	-3	54	
Romania		12258	0.2	0	0	-9	5	-7		230	3	-44	30	-25	-2	
Russia		2259	-0.2	0	5	-38	5	-27		3411	-577	938	3228	3234	2897	
South Africa		78932	-1.4	-2	1	3	8	5		357	14	-4	-12	-10	-32	
Turkey		4186	0.0	-16	-16	105	-24	108		504	15	31	-36	64	-59	
Ukraine		507	0.0	0	-1	-2	-2	-2		4299	122	114	3479	220	2826	
EM total		41	-1.4	-2	0	-18	7	-15		376	20	-12	-29	1	-82	

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

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