



- Markets price 50 bps Fed rate hike in March, following US inflation surprise ([link](#))
- Wider euro area swap spreads indicate challenging liquidity conditions ([link](#))
- Bank of Japan finally acted to defend its 10-year JGB yield control ([link](#))
- Central bank of Russia hikes 100 bps and signals further tightening ([link](#))
- Market reactions to Mexico's 50 bps hike in the policy rate remained muted ([link](#))
- Chinese regulators reportedly eased rules on property pre-sale escrow account ([link](#))

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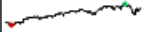







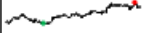

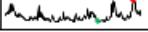
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Equities dip on prospects of faster Fed hiking cycle

The prospect of a faster Fed hiking cycle is causing some nervousness in markets this morning, with advanced market equity indices lower on the day so far. Yesterday's higher than expected US inflation print has led markets to price nearly two full hikes for the Fed's March meeting. There is even some speculation that the Fed may act before March for a rare inter-meeting increase, after comments by St. Louis Fed president Bullard suggesting that he is open to such a move. Sovereign bond yields are generally somewhat lower this morning after yesterday's large move. The 10-year US treasury is down 3 bp, but still hovering at 2%. Meanwhile peripheral European bond spreads are somewhat up on the day, with yields slightly higher, while the 10-year German bund yield is down 3 bp. In emerging markets, both Mexico and Peru hiked their policy rate by 50 bp yesterday as markets expected. The market reactions to the moves were muted. Meanwhile, Russia's central bank hiked 100bp this morning and signaled further tightening ahead.

Key Global Financial Indicators

Last updated: 2/11/22 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4504	-1.8	1	-4	15	-5
Eurostoxx 50		4159	-0.9	2	-3	13	-3
Nikkei 225		27696	0.4	2	-2	-6	-4
MSCI EM		49	-0.7	2	-1	-14	1
Yields and Spreads			bps				
US 10y Yield		2.01	-2.1	10	27	85	50
Germany 10y Yield		0.26	-2.0	6	29	72	44
EMBIG Sovereign Spread		370	-6	-6	-4	26	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.7	0.4	1	1	-7	2
Dollar index, (+) = \$ appreciation		95.7	0.2	0	0	6	0
Brent Crude Oil (\$/barrel)		92.7	1.4	-1	11	52	19
VIX Index (% change in pp)		24.6	0.6	1	6	3	7

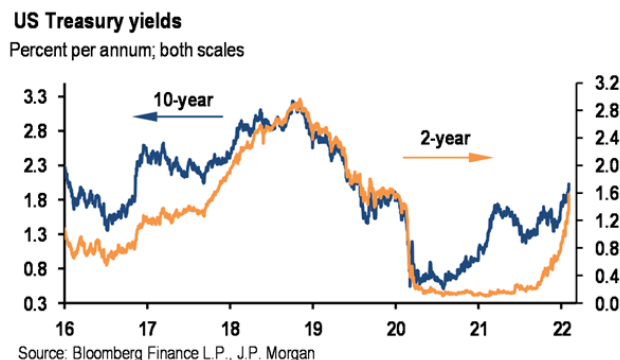
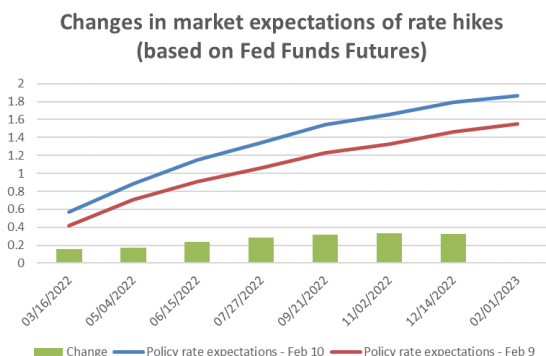
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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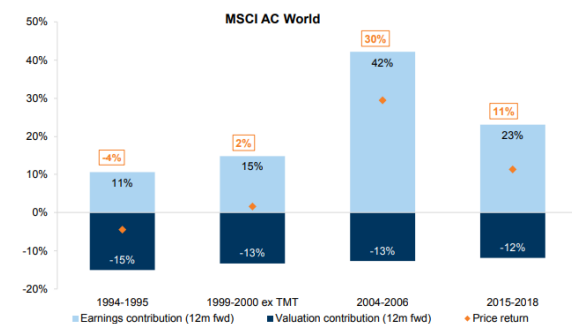
United States

US consumer prices surged in January by more than expected, sending year-on-year inflation to 7.5%, a fresh four decade high, following a 0.6% rise from the previous month. Combined with a surprisingly strong US payrolls report last week, the above-forecast inflation outcome led markets to calibrate additional Fed tightening over the next 12 months. A 50bps rate hike in March is now all but priced in and 4 rate hikes are seen by July followed by two or three more before the year end. The rises reverberated across the yield-curve. The 10-year Treasuries broke the psychological level of 2% (up 10bps), but the most notable rise was observed in the 2-year tenor, which rose by a remarkable 24 bps, at 1.61%.



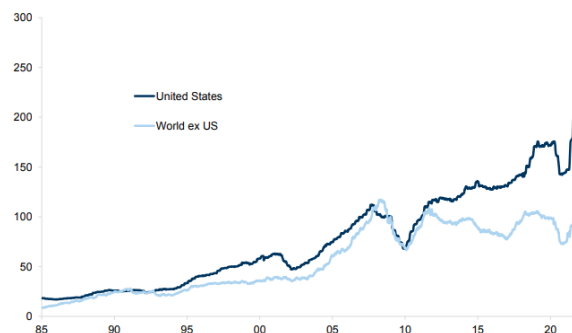
The US equity secular performance is reaching its limits, as earnings and valuation gaps across countries and sector are likely to narrow. Since the global financial crisis, the US has outperformed other markets, supported by stronger earnings growth and a concentration of investors in secular growth stocks, which have been mainly concentrated in the US. However, Goldman Sachs economists see the trend changing. The earnings growth gap between the US and the rest of world is expected to narrow. Moreover, rising rates globally will put pressure on valuations, especially those of growth stocks, which are particularly rate sensitive. Instead, investors globally will likely rotate to value assets. Looking at previous Fed hiking cycles, stock performance globally was mainly driven by earnings, with valuations being a drag. With both earnings and valuation gaps narrowing, sector and country returns should be less bifurcated.

Exhibit : When the Fed has hiked rates, positive performance has been earnings-driven
MSCI AC World performance split between earnings and valuation in previous Fed rate hiking cycles



Source: Datastream, Worldscope, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit : Since the financial crisis the US has experienced better earnings growth than other markets
EPS



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Digital assets are on a structural upwards trend, not necessarily related to continuous price appreciation. The cryptocurrency universe has shrunk by almost a half in the last three months. The unwinding of leveraged positions played a significant role in the correction, but the high correlation of Bitcoin and Ethereum with other asset classes, notably equities, did not go unnoticed. Looking forward, according to JPM analysis, bitcoin suffers from high volatility leading to boom-and-bust cycles that hinder further

institutional adoption and is still trading higher than its fair value despite its recent losses, while Ethereum will likely keep losing market share in the crypto market along with its declining share in DeFi/NFT space. Nevertheless, the universe of digital assets will keep growing. According to JPM, a bloom of other blockchains replicating the functionality of Ethereum is already underway, and NFTs will likely continue to grow and stablecoins, notably algorithmic ones, could grow substantially further as a medium of exchange to make payments, despite potential competition from central bank digital currencies.

Figure 1: Correlation between Bitcoin and other asset classes
3-month rolling correlation of daily returns

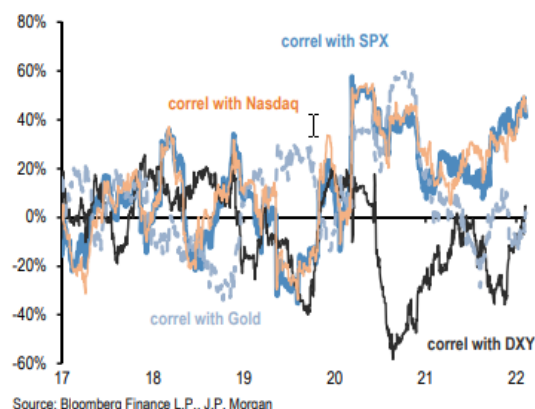


Figure 2 : Stablecoin share in total Crypto Market Cap

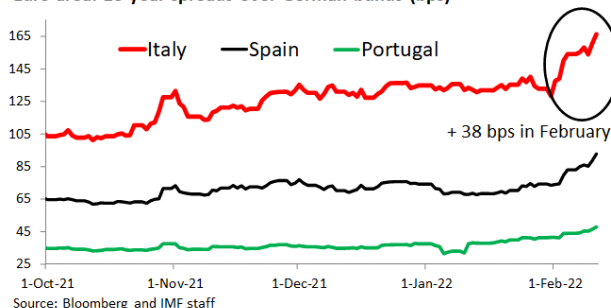


Euro area

Equities (-1%) traded lower as investors gauge implications of yesterday's upside surprise in U.S. inflation. Bank stocks (-2%) underperformed. The euro (-0.3%) edged lower.

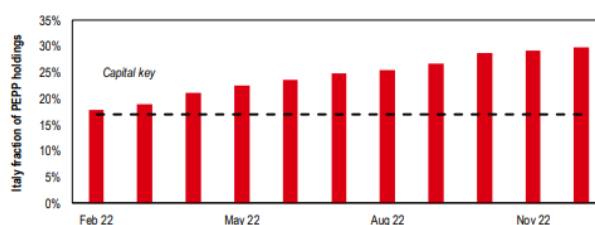
Spreads widened as core yields fell after ECB President Lagarde warned that the ECB acting too fast could choke the economy's recovery. Yesterday, ECB Chief Economist Lane also defended his view that record euro-area inflation is set to ease. German 10-yr bund yields (-2 bps to 0.26%) ticked lower, after closing 7 bps higher yesterday. **Italian 10-yr spreads rose 6 bps to 166 bps with 10-yr Spanish spreads up 4 bps and Greek 10-yr spreads 8 bps higher.**

Euro area: 10-year spreads over German bunds (bps)



Analysts at HSBC argue that Outright Monetary Transactions (OMTs) remain the main available tool for large asymmetric shocks hitting the bond markets of individual countries. HSBC points out that the ECB has specified that the reinvestment flexibility of maturing assets in the PEPP program in the event of renewed market fragmentation must be tied to the pandemic. In addition, exclusively reinvesting PEPP assets in one country could lead to large distortions in the capital key. For example, exclusive reinvestment of PEPP assets in Italian bonds would push Italy's share of PEPP holdings to over 21% in just 3 months (from a 17% capital key share in the total stock of PEPP holdings currently). In addition, contacts believe that PEPP reinvestments are unlikely to extend beyond 2024.

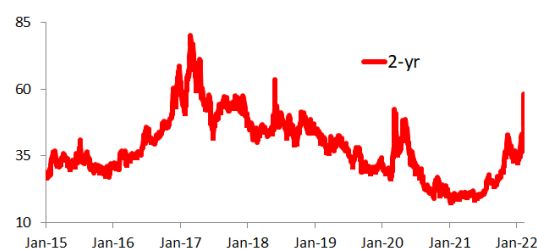
Euro area: HSBC estimates on deviations from capital key in case of exclusive reinvestment into Italian sovereign debt



Source: Bloomberg, central banks, ECB, HSBC

Euro area 2-yr swap spreads widened 10 bps yesterday as contacts pointed to very challenging liquidity conditions even in core bond markets. Swap spreads had already traded higher in 2022 with contacts pointing to increased leverage via repos leading to more scarcity of high-quality collateral such as German bunds. In addition, traders prefer to trade monetary policy moves via swaps rather than bond markets (and expectations of faster tightening have pushed up swap rates compared to bond yields). Some contacts believe that swap spreads will tighten as the ECB tapers asset purchases, but some warn that the shortage of high-quality collateral is likely to persist especially if risk assets remain under pressure.

Euro area: Swap spreads sharply widen
(difference between a swap rate and core bond yield, bps)



Source: Bloomberg and IMF staff

Australia

Governor Lowe reiterated the Reserve Bank of Australia's lower-for-longer stance. In this statement to a parliamentary panel, he said that moving too early to tighten monetary policy could put securing a lower rate of unemployment at risk. Inflationary pressures in Australia are not as threatening as in other major economies, particularly given that it will take time for domestic wage growth to pick up. **Government bond yields rose** (1-year: +9.5 bps; 10-year: +10.5 bps; +7.5 bps) following the rise in U.S. treasury yields. The Australia dollar depreciated (-0.5%) and equities declined (-1.0%).

Japan

The Bank of Japan (BOJ) finally acted to defend its 10-year JGB yield control. The BOJ announced yesterday that it will buy an unlimited amount of 10-year JGBs at 0.25% on February 14; this would be the first such operation since July 2018. The announcement came after the benchmark 10-year JGB yield reached 0.228% on Thursday; Japan's markets were closed today on a public holiday. The Japanese yen was little changed after depreciating 0.4% yesterday.

Korea

The finance minister and the central bank governor agreed to enhance policy cooperation amid rising inflation. On managing inflation, the Bank of Korea (BoK) will focus on stabilizing inflation expectations, while the government will utilize measures, including adjusting the fuel tax. On managing bond market volatility, the BoK will seek to purchase government bonds in a timely manner to stabilize yields that have risen rapidly, while the ministry of finance commits to issuing government bonds for an

extra budget as evenly as possible. A proposed 14 tn won (\$11.7 bn) extra budget proposal is pending in parliament, with lawmakers moving to increase its scale to boost support for business hit by the pandemic. Government bond yields were little changed; the won depreciated (-0.2%); equities declined (-0.9%).

Emerging Markets

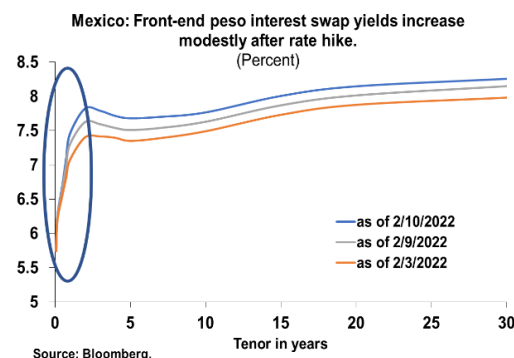
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Asian markets retreated following the rise in U.S. treasury yields. Asian equities declined 0.5% on net, with share prices dropping in Philippines (-2.2%), India (-1.3%), Korea (-0.9%) and China (CSI 300: -0.8%). Asian currencies depreciated, led by the Indian rupee (-0.5%). The rupee continued underperforming regional peers following the Reserve Bank of India's dovish policy decision yesterday. Long-end government bond yields increased, with 10-year yields rising in Singapore (+7.3 bps) and the Philippines (+6.9 bps). In Malaysia, the economy grew 3.1% in 2021, weaker than expected (consensus: +3.4%). Equities gained (+0.6%), outperforming regional peers; The Malaysian ringgit depreciated (-0.2%). **In EMEA,** equities underperformed in Russia (-3%) but also fell 1% in Hungary, Poland, and Turkey. Currencies were little changed. Local rates traded higher, with 2-yr swap rates 40 bps higher in Russia after the central bank hiked and pointed to further upside risks to inflation. **Latin American equities performed mixed on Thursday.** Stocks slumped in Colombia (-2.2%) and Peru (-1%), while gaining 0.8% in both Brazil and Chile. Currencies appreciated in the Andeans (1.8% in Peru, 0.9% in Chile, and 0.5% in Colombia), supported by higher copper prices (+2.8%), but weakened in Mexico (-0.5%) and Brazil (-0.3%). The region's local currency treasury yield curves largely flattened, following the US treasury yield curve.

Mexico

The market reaction to Banxico's 50 bps policy rate hike remained muted.

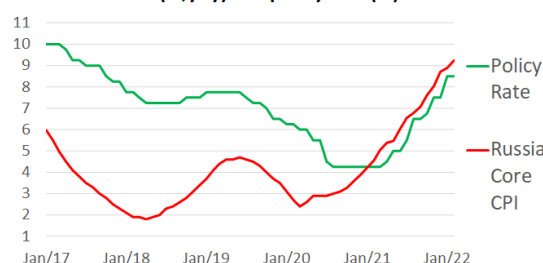
Mexico's central bank hiked yesterday by 50 bps to 6%, as anticipated by market consensus. Banxico's board, which voted 4 to 1 in favor of the move, acknowledged a contraction in economic activity, persisting inflationary pressures, and a continued upward bias in inflation risks. As markets had already priced in additional rate hikes of up to 180 bps over the next year, they updated their expectations after the decision only mildly: 6-month peso interest rate swap yields climbed by 4 bps. J.P. Morgan's analysts, however, highlighted that Banxico currently estimates the neutral interest rate to be 5.6%, hence board debates over additional future hikes may intensify. The 10-year peso treasury yield moved up 7 bps to 7.7%, with most of the move occurring before the decision. Stocks declined 0.2% after the decision.



Russia

The central bank of Russia (CBR) hiked its policy rate 100 bps to 9.5%, as expected, and signaled that further hikes are likely. The CBR warned that the balance of risks has tilted even more towards higher inflation. Equities (-3%) and the ruble (-0.3%) traded lower. 2-yr swap rates rose 40 bps to 11.25%.

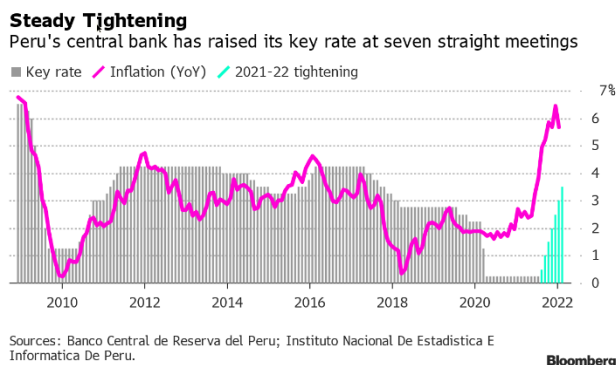
Russia: Core CPI (% yoy) and policy rate (%)



Source: Bloomberg and IMF

Peru

Peru's central bank hiked its policy rate by 50 bps to 3.5%. With the January inflation rate at 5.68% y/y, well above the central bank's target corridor ranging from 1 to 3%, markets fully anticipated the decision. Analysts of J.P. Morgan and Banco Santander see room for additional rate hikes up to a level of 5%, or even slightly higher, in the second quarter of 2022, as the real policy rate remains in negative territory.



China

Regulators reportedly eased rules on property pre-sale escrow accounts. New rules, which will be standardized nationwide as opposed to localized management currently, will allow property developers to withdraw and use pre-sale proceeds after setting aside the amount required for project development. Reportedly, new rules will make it easier for property developers to tap cash from home pre-sales, potentially easing liquidity strains. Share prices of real estate firms outperformed overall Chinese equities (onshore: +0.1%; Hong Kong SAR: +0.5%). Equities declined (CSI 300: -0.8%), led by healthcare, industrial and IT stocks. The People's Bank of China has withdrawn liquidity of 800 bn RMB (\$126 bn) after the Lunar New Year so far, a larger amount than the liquidity injection (600 bn RMB, or \$94 bn) ahead of the holidays. The market rates remain close to the policy rate. RMB depreciated (-0.1%).

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.

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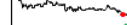


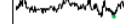






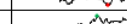






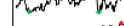
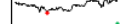




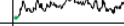


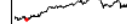
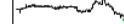


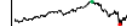







Global Financial Indicators

Last updated: 2/11/22 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4504	-1.8	0	-4	15	-6
Europe		4159	-0.9	2	-3	13	-3
Japan		27696	0.4	2	-2	-6	-4
China		4601	-0.8	1	-3	-21	-7
Asia Ex Japan		83	-0.8	2	-2	-19	0
Emerging Markets		49	-0.7	2	-1	-14	1
Interest Rates							
			basis points				
US 10y Yield		2.01	-2.1	10	27	85	50
Germany 10y Yield		0.26	-2.0	6	29	72	44
Japan 10y Yield		0.23	0.0	3	8	15	16
UK 10y Yield		1.52	0.0	11	35	105	55
Credit Spreads							
			basis points				
US Investment Grade		127	1.1	0	13	38	15
US High Yield		383	2.6	-3	38	32	45
Europe IG		66	1.4	1	15	19	18
Europe HY		319	5.8	5	68	79	77
Exchange Rates							
			%				
USD/Majors		95.75	0.2	0	0	6	0
EUR/USD		1.14	-0.2	0	0	-6	0
USD/JPY		115.9	-0.1	1	1	11	1
EM/USD		53.7	0.4	1	1	-7	2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		93	1.4	-1	11	52	19
Industrials Metals (index)		186	-1.4	2	5	32	8
Agriculture (index)		67	0.8	2	8	33	10
Implied Volatility							
			%				
VIX Index (% change in pp)		24.6	0.6	1.3	6.1	3.3	7.3
US 10y Swaption Volatility		87.3	0.1	6.6	4.2	28.1	8.3
Global FX Volatility		7.4	0.0	-0.1	0.2	0.2	-0.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		237	7.7	30	76	115	85
Italy		165	4.1	11	31	73	30
Portugal		87	3.5	10	24	34	22
Spain		92	3.0	9	24	34	17

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

Emerging Market Financial Indicators

Last updated: 2/11/2022 8:14 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	0.0	0.1	0	2	0		2.8	5.8	13	-2	-51	-2
Indonesia		14347	0.0	0.2	0	-3	-1		6.5	2.4	6	8	30	14
India		75	-0.6	-0.9	-2	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	-0.2	-0.4	0	-6	-1		4.9	5.0	30	38	170	40
Thailand		33	0.2	1.0	2	-9	2		2.2	4.0	7	17	97	37
Malaysia		4.19	-0.2	-0.2	0	-4	-1		3.7	3.9	5	6	92	13
Argentina		106	-0.1	-0.7	-2	-17	-3		50.4	48.5	56	133	192	-13
Brazil		5.19	1.1	2.6	7	4	7		11.6	-1.2	5	10	352	94
Chile		806	0.0	2.7	3	-10	6		6.0	1.5	23	6	326	57
Colombia		3908	0.3	1.3	2	-10	4		7.6	-9.0	39	55	337	123
Mexico		20.42	0.7	1.3	0	-2	1		7.8	-1.0	22	5	226	24
Peru		3.7	1.8	3.2	5	-3	7		6.1	0.4	-1	2	233	18
Uruguay		43	0.0	1.3	3	-1	3		8.4	-12.8	-29	-29	127	-36
Hungary		310	0.1	-0.1	1	-5	5		4.8	7.0	-4	6	287	28
Poland		3.96	-0.5	0.5	1	-6	2		4.0	3.3	5	6	262	47
Romania		4.3	-0.2	-0.3	0	-7	0		5.1	0.7	5	4	282	28
Russia		75.2	-0.3	0.7	-1	-2	0		9.6	22.0	27	47	316	83
South Africa		15.1	0.3	2.2	3	-3	5		7.6	-1.0	-5	-16	99	17
Turkey		13.50	0.0	0.4	2	-48	-1		22.0	10.0	-83	-285	903	-235
US (DXY, 5y UST)		96	0.2	0.3	0	6	0		1.92	-3.3	15	42	146	65

	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		4601	-0.8	1	-3	-21	-7		195	-5	0	-29	-8
Indonesia		6816	-0.1	1	2	10	4		166	-15	-3	-15	1
India		58153	-1.3	-1	-5	13	0		139	0	16	-18	7
Philippines		7270	-2.2	-2	0	4	2		111	-1	5	9	10
Malaysia		1579	0.6	4	2	-1	1		121	-1	7	-16	4
Argentina		87559	0.2	-1	3	70	5		1774	21	-38	334	94
Brazil		113368	0.8	1	9	-5	8		308	-5	-9	44	-3
Chile		4632	-0.2	5	5	2	8		154	1	12	12	14
Colombia		1475	-2.2	-3	4	8	5		348	-11	0	129	0
Mexico		52600	-0.3	1	-1	19	-1		345	8	7	-4	13
Peru		23548	-1.0	6	3	6	12		171	4	10	40	21
Hungary		52068	-0.9	1	-3	19	3		132	0	14	-9	8
Poland		67185	-1.1	0	-6	16	-3		-2	-14	-21	-30	-34
Romania		13363	-0.6	0	1	27	2		196	-5	4	4	3
Russia		3556	-2.7	2	-6	4	-6		224	-25	40	46	47
South Africa		76448	-0.2	2	3	16	4		364	-1	9	-4	9
Turkey		2018	-1.0	4	-1	31	9		521	-31	-67	91	-57
Ukraine		519	0.0	-1	-1	0	-1		818	-39	20	326	59
EM total		49	-0.2	2	-1	-14	1		400	-7	-3	57	14

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

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