



- Markets price higher FOMC terminal rate amid resilient US data and recent Fed signals ([link](#))
- Economists forecast ECB terminal rate at 3.25% with first rate cut in Q2 2024 ([link](#))
- China tightens risk management requirements for commercial banks ([link](#))
- Zambia's debt restructuring delayed as China calls for involvement from multilaterals ([link](#))
- Inflows to emerging market funds slow significantly following strong start in January ([link](#))
- Peruvian central bank unexpectedly pauses policy rate hikes amid political uncertainty ([link](#))

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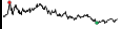

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Investors remain wary ahead of US inflation update

Core sovereign bond yields have stabilized, and global equity markets are mixed to start the week as investors are looking to tomorrow's update on US inflation to help guide the debate on the outlook for central bank policy tightening. Most major equity indices declined to close out last week as investors continue to mull the most recent interest rate hikes across major central banks alongside economic data and corporate earnings. US, European, and EM equities were down over 1% for the week, with the S&P 500 in particular notching its biggest weekly loss since December. In bond markets, sovereign yields continue to trend higher across most advanced economies with real rates driving the recent increase as investors recalibrate their central bank policy rate trajectories. Inflationary pressures also remain top of mind as oil prices rallied 8% last week on the back of Russia announcing plans to cut output by 500k barrels a day starting next month. This morning, equity markets are mixed with most Asian bourses closing moderately lower, whereas European stocks and S&P 500 futures are edging higher. Looking to the week ahead, investor attention is now turning to tomorrow's highly anticipated January US CPI release to see if inflation continues to moderate. Any upside surprise to the data could signal the Fed's fight with inflation still has room to run, and potentially trigger a further upward move in terminal rate expectations.

Key Global Financial Indicators

Last updated: 2/13/23 8:05 AM	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		4090	0.2	-1	2	-7	7	-3
Eurostoxx 50		4228	0.7	1	2	2	11	6
Nikkei 225		27427	-0.9	-1	5	1	5	4
MSCI EM		40	-1.0	-2	-3	-18	6	-15
Yields and Spreads			bps					
US 10y Yield		3.73	0.0	9	23	179	-14	174
Germany 10y Yield		2.38	1.6	8	21	208	-19	215
EMBIG Sovereign Spread		445	9	19	-18	75	-7	32
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.7	0.1	0	-1	-5	2	-5
Dollar index, (+) = \$ appreciation		103.5	-0.1	0	1	8	0	8
Brent Crude Oil (\$/barrel)		86.3	-0.1	7	1	-9	0	-11
VIX Index (% change in pp)		21.3	0.8	2	3	-6	0	-10

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

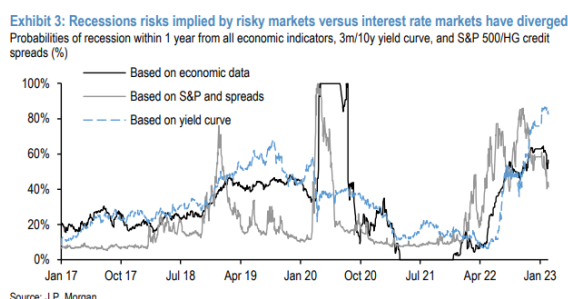
The week ahead is full of macro-economic data news. In the US, the January CPI data will be released tomorrow and is the main event, with industrial production and retail sales later in the week. The releases will feed the ongoing discussion on the resilience of the US economy and the disinflation process. The UK will also provide data on inflation, retail sales and the labor market. Finally, after on-going speculation about the BoJ's new governor, the official announcement is expected this week.

Mature Markets

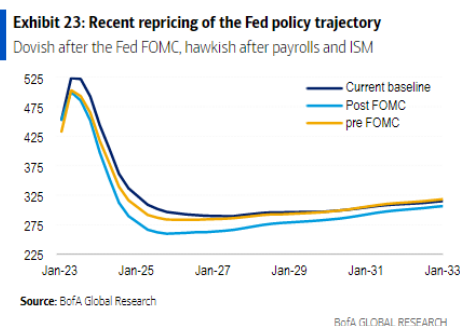
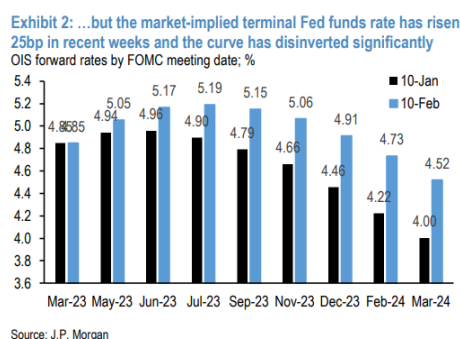
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United States

Alternative market-based recession metrics point to a lower probability of recession, despite signals from the inverted US Treasury yield curve. JP Morgan research points out recession risks based on the S&P 500 and credit spreads are around 45%, sharply lower compared to an almost 80% chance priced in last October. While the yield-curve signals the opposite outcome (the 3m/10-yr yield curve is pricing in an over 80% chance of a recession, up from 50% about a month ago), JP Morgan analysts point out that the inversion of the yield curve is driven by rate cut expectations that are likely due to disinflation rather than due to imminent recession fears.



Market expectations for the fed funds rate have converged closer to the FOMC's projections. Macro data from last week suggested that growth momentum has picked up while the labor market remains surprisingly strong. This raises some concerns about a more persistent inflation process, which have driven investors closer to recent Fed communication that rates could end up higher for longer. As a result, during the last week, markets priced a higher terminal fed funds rate (left chart), a more prolonged tightening cycle (the cycle expanded by approximately a month), and priced a higher convergence point for Fed policy rates at a 2-year horizon (right chart), suggesting a higher neutral rate.

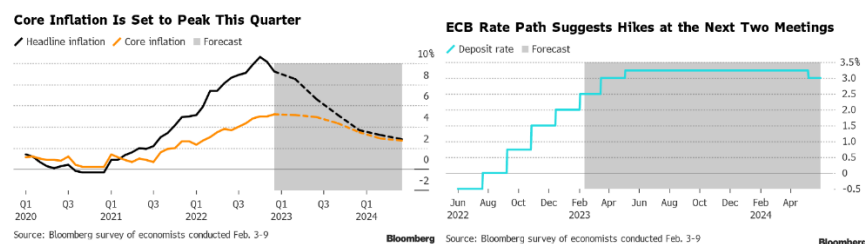


Euro area

European equities were trading modestly higher (Stoxx 600 +0.3%) while sovereign bond yields lacked direction ahead of the US CPI data print tomorrow. In the latest ECB commentary, ECB Governing Council (GC) member Visco noted uncertainty about the monetary policy path after March,

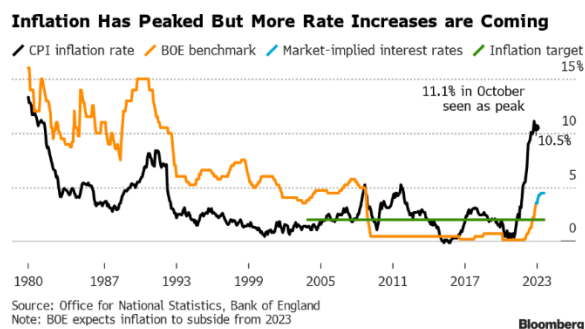
highlighting that at the most recent ECB meeting it was decided that the most likely outcome in March would be a 50 bp hike. He also said that he does not know what the terminal rate could be. ECB Vice President de Guindos this morning again emphasized that policy decisions after March would be data dependent. **The euro was little changed against the dollar this morning with ING analysts highlighting a lack of clear drivers from the eurozone to support the currency this week.**

Economists forecast core inflation peaking at its current level of 5.2% in Q1 and easing to 3.6% in Q4, with the first rate cut expected in Q2 2024. According to a recent Bloomberg poll, economists see both headline and core inflation easing to just above the ECB's 2% target in 2025. The poll also showed expectations for an economic contraction in Q1 2023, followed by a slow rebound from Q2 onwards. Respondents see the ECB terminal rate at 3.25%, with a 50 bps hike expected in March followed by another 25 bp hike. The first rate cut is expected in Q2 2024. In the meantime, **markets are now pricing the policy rate peaking at around 3.6% in September, with roughly 75 bps of tightening priced in by May.** Separately, the EU commission revised its 2023 growth forecasts for the euro area upward while lowering its inflation forecasts.



United Kingdom

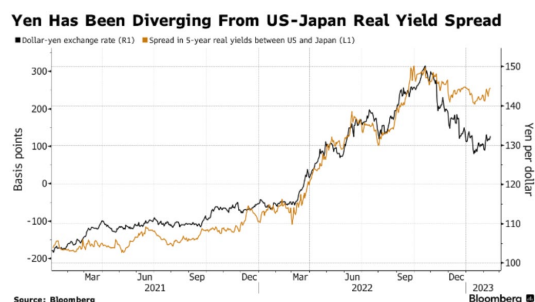
Economists expect the BoE to hike its benchmark rate by 25 bps in March to 4.25%, with the median expectations showing the rate remaining unchanged thereafter with the first cut seen in February 2024, according to a recent Bloomberg poll. At the BoE's February meeting the central bank said that indications of persistent inflationary pressures would be closely monitored, including labor market conditions as well as wage growth and services inflation developments, and that further tightening would be necessary if there were evidence of more persistent pressures. Accordingly, **markets are focused on the inflation and labor market data due later this week, with markets currently pricing in roughly 23 bps of tightening for the March meeting.** Separately, BoE policy maker Haskel said that the **lack of business investment since Brexit has cost the UK economy roughly £29 bn, or roughly £1000 per household.** This morning, the pound weakened against the dollar (-0.2%) while 10-year gilt yields were little changed.



Japan

Equities fell -0.5%, yen depreciated -0.8%. Investors remains cautious ahead of the US inflation release, while the market is also weighing the implications for monetary policy stance from an official nomination of

Kazuo Ueda as a new Bank of Japan Governor, which is expected on February 14. **10Y bond yields were up +0.4 bps.**



Emerging Markets

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Latin American assets were mixed on Friday. Stocks gained in Chile (+0.7%), Argentina (+0.3%), Brazil (+0.2%) and Colombia (+0.2%), while Mexican stocks fell by 0.6%. **Equity markets in Peru closed down 2.7% as protests in the country continued and the central bank's decision to leave the policy rate unchanged surprised investors.** Currencies appreciated in Brazil (+1.2%), Chile (0.6%), Mexico (0.5%) and Peru (0.5%), while the Colombian peso weakened by 1.3%. **Asian equities were mixed, down -0.4% on net.** Mainland China gained (Shanghai +0.7%, Shenzhen +1.2%); Singapore underperformed (-1%). **Singapore** economy grew 3.6% y/y in 2022, while the real estate sector continued double-digit growth from last year (+14.2% y/y; previous:18.4%), manufacturing declined in Q4 (-2.6% y/y). **Asian currencies weakened** led by South Korean won (-1%). **10-year yields** were mixed and little changes. **EMEA markets are mixed, as global markets are waiting for US inflation data tomorrow for direction.** Equity markets are generally up, with the exception of Poland (-0.2%). Currencies are trading in a narrow range, except for the South African rand, which is weakening 0.8% (to 18/\$). Yields on local bonds in Hungary are up 15 bps (to 8.06%), and up 5 bps in Poland (to 6.13%). **Bloomberg reports that Turkish officials are considering extending a closure of the Istanbul stock market past Wednesday (February 15).** On Friday, Moody's cut Ukraine's credit rating to Ca, the second-lowest score of its rating scale.

Emerging Market Bond and Equity Fund Flows

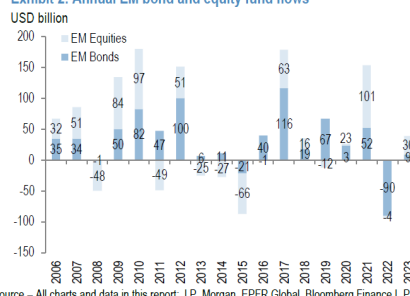
Emerging market bond fund inflows eased for the second consecutive week (+\$426mn from +\$626mn), as hard-currency bond fund inflows more than halved (+\$417mn, from +\$1.1bn). Inflows were observed equally across ETF (+\$221mn) and non-ETF (+\$205mn) funds. Local-currency bond fund flows were close to flat (+\$9mn, from -\$462mn). EM equity funds inflows fell significantly (+\$3.4bn, from +\$6.5bn). Inflows were mainly into ETF (+\$3.0bn). Across regional funds: Asia ex-Japan (+\$1.7bn) and Latam (+\$31mn) had inflows, while EMEA (-\$73mn) had outflows. The year-to-date flows currently stand at +\$8.7bn and +\$30.2bn for bonds and equities, respectively.

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		3.9	38.9
EM Bonds		0.4	8.7
Hard Coy		0.4	7.3
Local Coy*		0.0	1.4
o.w. EM ex-China		0.1	1.8
o.w. China		-0.1	-0.4
EM Equities		3.4	30.2
US HG		5.2	26.5
US HY		0.0	0.5
Global Equities		-3.9	5.5
EM Bond and Equity ETFs		3.2	23.8
EM Bond ETFs		0.2	4.0
EM Equity ETFs		3.0	19.8
Non-resident EM flows*		2.6	18.2

*High frequency non-resident EM portfolio flow data where available. *Local coy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

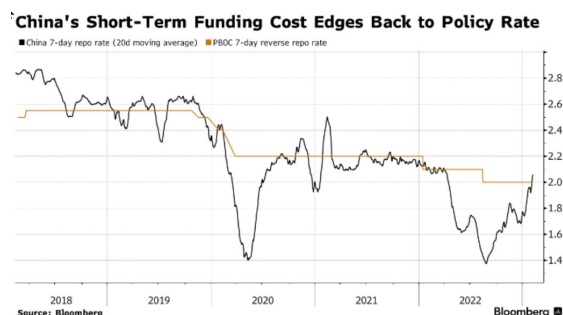
Exhibit 2: Annual EM bond and equity fund flows



China

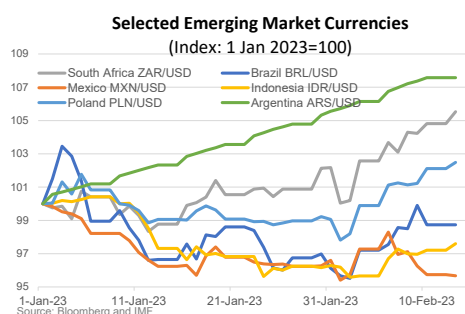
Chinese equities gained (Shanghai +0.7%, Shenzhen +1.2%); defense stocks gained amid news on continued tensions between US and China over unidentified flying objects. **Separately, China has tightened risk management requirements on commercial banks.** The China Banking and Insurance Regulatory Commission and the People's Bank of China jointly issued measures for the classification of commercial banks' financial asset risks on Saturday. Under the new rules, banks must classify assets into five categories according to the degree of risk—"normal," "special attention," "substandard," "doubtful," and "loss." The latter three categories will be considered non-performing assets. The risk classification requirements extend to all financial assets that bear credit risk, not just loans. They include bond investments, interbank assets, receivables, and off-balance-sheet assets—but not derivatives. The new rules will be applied to new assets from 1 July 2023, but banks will have until December 2025 to reclassify their existing financial assets.

Separately, loan prepayments surged recently as homeowners take advantage of falling interest rates, according to Bloomberg. The China Banking and Insurance Regulatory Commission reportedly held a meeting late last week with banks with nationwide operations to discuss the latest wave of home loan prepayments. Local media stated some banks had to impose caps on early repayment, while others shut their online system for submitting such requests. **Chinese renminbi weakened -0.2%, 10Y bond yields were little changed.** The central bank continued to inject funds into the financial system via open market operations.



South Africa

The South African rand is weakening 0.8% (to 18\$), bringing year-to-date depreciation to 5.3%, which is one of the worst performances across emerging market currencies. The currency has been sliding in part because of concerns about the impact of the electricity crisis on the economy. Last week, a National State of Disaster was declared due to the issue. Last Friday, Moody's published a report saying that growth prospects are at risk as the effect of the daily rolling backouts on business, consumer sentiment and investment will weaken the country's already subdued economic growth prospects and threaten social and political stability. They see the government accelerating the delivery of new-power generation licenses and modernizing the electricity distribution system but highlight that implementation risks are significant and that real effects will take time. While investors are not expecting a significant deterioration in fiscal accounts, they are also cautious ahead of the 2023 budget speech due next week, on February 22.

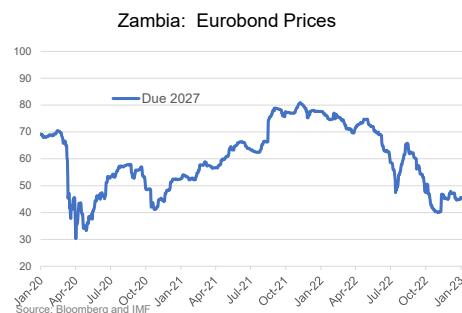


Zambia

Zambia's 2027 bond prices fell to 47.6 as the Financial Times reports that Zambian finance minister Situmbeko Musokotwane has rejected a call by China for multilateral lenders to participate in the country's debt restructuring.

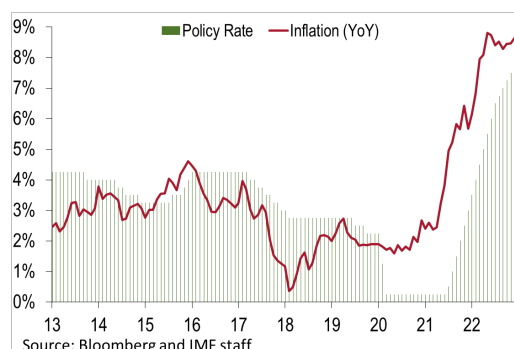
Multilaterals are generally exempt from debt restructurings because of their status of lender of last resort. The Minister warned that delays in the debt restructuring process are holding back economic recovery in Zambia. Zambia defaulted on its external debt in November 2020 and is tackling the restructuring through the Common Framework. About \$6 bn of

Zambia's \$13 bn in external defaulted debt are owed to Chinese lenders. China had agreed in principle, together with other official creditors as per the Common Framework, to provide debt relief to Zambia in July 2022, paving the way for the approval of a Fund-supported ECF program. Zambia cannot progress on the restructuring with bondholders (about \$3 bn) until official creditors agree to specific terms.



Peru

The Peruvian central bank unexpectedly paused its policy tightening cycle. Officials appeared to be more worried about the downside risks to growth than the upside risks to inflation due to the local unrest around the current political situation. The central bank held its benchmark interest rate at 7.75% after 18 straight increases, compared with the consensus forecast of a 25-bp hike. With inflationary pressure still an issue, the rate pause increases the probability the central bank could fall behind the curve and has to hike faster or to a higher terminal rate. Peru's stock market declined 2.7% following the decision.



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: 2/13/23 8:06 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4098	0.2	0	2	-7	7	-3
Europe		4228	0.7	1	2	2	11	6
Japan		27427	-0.9	-1	5	1	5	4
China		4144	0.9	1	2	-9	7	-10
Asia Ex Japan		69	-1.1	-1	-2	-15	7	-13
Emerging Markets		40	-1.0	-2	-3	-18	6	-15
Interest Rates			basis points					
US 10y Yield		3.73	0.0	9	23	179	-14	174
Germany 10y Yield		2.38	1.6	8	21	208	-19	215
Japan 10y Yield		0.51	0.9	1	0	28	9	31
UK 10y Yield		3.43	3.5	19	7	189	-24	195
Credit Spreads			basis points					
US Investment Grade		142	-0.4	4	-8	11	-17	-1
US High Yield		443	0.6	23	7	40	-38	36
Europe IG		79	-0.1	3	-1	11	-12	7
Europe HY		409	-1.6	14	-7	76	-65	57
Exchange Rates			%					
USD/Majors		103.50	-0.1	0	1	8	0	8
EUR/USD		1.07	0.1	0	-1	-5	0	-5
USD/JPY		132.5	0.8	0	4	15	1	15
EM/USD		50.7	0.1	0	-1	-5	2	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		86.3	-0.1	7	1	4	1	0
Industrials Metals (index)		164	-0.5	-2	-5	-11	-1	-13
Agriculture (index)		70	-0.2	2	3	4	2	0
Implied Volatility			%					
VIX Index (% change in pp)		21.3	0.8	1.9	3.0	-6.0	-0.4	-9.7
US 10y Swaption Volatility		109.8	7.2	7.0	-11.8	22.6	-15.9	15.5
Global FX Volatility		10.7	0.1	0.1	-0.3	3.0	-0.1	3.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		183	-0.9	0	-14	-51	-22	-57
Italy		183	-1.1	-3	-1	18	-31	12
Portugal		85	-0.9	1	-6	-2	-16	-6
Spain		94	-0.7	1	-6	2	-15	-9

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

Emerging Market Financial Indicators

Last updated: 2/13/2023 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		6.82	-0.2	-0.4	-2	-7	1	-7		3.1	-2.3	-5	-2	29	8	28
Indonesia		15195	-0.4	-0.9	0	-6	2	-6		6.7	7.0	6	5	22	-20	24
India		83	-0.3	0.0	-2	-9	0	-10		7.5	2.2	8	7	89	0	
Philippines		55	-0.6	-0.7	0	-6	2	-7		5.9	2.5	3	-13	110	-8	95
Thailand		34	-0.3	-0.6	-3	-4	2	-5		2.7	4.0	8	25	53	11	52
Malaysia		4.36	-0.6	-2.4	-1	-4	1	-4		3.9	3.9	10	-6	16	-17	20
Argentina		190	0.1	-0.7	-5	-44	-7	-44		86.8	26.5	29	269	3632	-146	3879
Brazil		5.20	0.4	-0.9	-2	0	2	-4		13.6	0.3	27	126	188	102	208
Chile		793	0.6	1.4	3	3	7	0		5.5	0.8	15	43	-50	13	-45
Colombia		4786	0.3	0.0	-2	-18	1	-18		9.1	0.0	23	-15	116	-66	124
Mexico		18.62	0.3	2.9	1	10	5	9		8.6	8.0	32	47	86	-10	79
Peru		3.8	0.5	-0.1	-1	-3	-1	-3		7.9	-9.6	-4	-5	183	-7	190
Uruguay		39	0.2	0.3	2	11	2	9		9.8	0.0	-18	-88	143	-88	165
Hungary		361	0.5	2.0	2	-12	4	-11		8.1	12.0	-3	59	329	-153	326
Poland		4.48	-0.3	-1.2	-3	-10	-2	-9		5.5	5.5	18	23	136	-69	156
Romania		4.6	0.1	-0.5	0	-5	1	-5		7.4	11.2	14	-4	228	-31	223
Russia		73.4	0.4	-2.4	-6	4	1	11		10.4	0.0	8	-144	13	-150	-82
South Africa		17.9	-0.4	-1.5	-6	-16	-5	-16		8.9	2.5	9	23	130	-31	127
Turkey		18.84	-0.2	-0.1	0	-28	-1	-27		11.4	9.0	37	107	-1052	156	-1103
US (DXY; 5y UST)		104	-0.1	-0.1	1	8	0	8		3.94	1.8	11	33	209	-6	204

	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		4144	0.9	1	2	-9	7	-10		173	-6	-10	-22	-4	-35	
Indonesia		6900	0.3	0	4	2	1	0		138	6	-27	-28	-2	-47	
India		60432	-0.4	0	0	7	-1	6		145	-5	-9	6	3	-9	
Philippines		6839	-0.6	-1	-2	-7	4	-7		115	9	-25	4	18	-22	
Thailand		1665	0.0	-1	-1	-1	0	-2								
Malaysia		1475	0.0	-1	-1	-7	-1	-7		101	-1	1	-20	1	-32	
Argentina		249898	0.7	4	3	183	24	174		1972	102	-84	198	-233	235	
Brazil		108078	0.1	-1	-3	-5	-2	-4		265	6	-15	-43	-9	-66	
Chile		5390	0.7	2	5	16	2	23		136	5	-18	-18	4	-38	
Colombia		1246	0.0	-2	-7	-17	-3	-18		383	20	-4	35	11	-9	
Mexico		52482	-0.6	-3	-2	-1	8	2		363	23	-19	18	-18	-7	
Peru		21696	-2.7	-2	-7	-9	2	-7		187	5	-12	16	7	-3	
Hungary		46244	0.5	3	0	-11	6	-3		209	20	-42	77	-13	56	
Poland		59998	0.0	-1	-3	-11	4	-5		77	8	-30	79	4	61	
Romania		12302	0.4	0	1	-8	5	-7		239	18	-39	43	-17	7	
Russia		2263	0.1	0	3	-36	5	-27		3411	-577	938	3228	3234	2897	
South Africa		79577	0.7	0	0	4	9	6		367	21	6	3	0	-22	
Turkey		4186	0.0	-15	-16	104	-24	108		508	12	24	-13	68	-55	
Ukraine		507	0.0	0	0	-2	-2	-2		4403	214	227	3585	324	2930	
EM total		40	0.7	-2	-3	-18	6	-15		384	27	-3	-17	8	-74	

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

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