



- US Treasury yields fluctuate as CPI broadly in line with expectations for January ([link](#))
- Crypto asset volatility picks up amid looming regulatory efforts ([link](#))
- UK wage data supports market expectations for a March BoE policy rate hike ([link](#))
- Kazuo Ueda officially nominated for BOJ governor by Japan's government ([link](#))
- Ghana achieves 80% subscription rate target for domestic debt exchange ([link](#))
- Brazilian currency volatility rises amid uncertainty around central bank outlook ([link](#))

[Mature Markets](#)




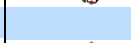

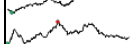
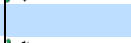



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## Global risk sentiment remains volatile amid mixed disinflation signals

A mostly inline US January CPI print has partially reinforced the disinflation narrative this morning and is also driving markets to maintain their near-term outlook for more gradual policy tightening. Global equity markets rebounded yesterday in the lead-up to this morning's US CPI print. Helping fuel the positive mood was an optimistic view from investors that the report would show inflation continuing to moderate, which could lead to a slowing in the pace of policy rate hikes. However, the US January inflation data printed broadly in line with expectations this morning and only marginally missed on year-over-year estimates. Core sovereign bond yields are fluctuating in response, particularly at the front-end of the yield curve, with 2-year US Treasury yields initially falling as much as 8 bps before reversing to trade flat and long-end yields are little changed. Terminal policy rate expectations have also maintained the pre-CPI levels with the peak fed funds rate still trading near 5.2% and the amount of cuts priced for this year still around 30 bps in Q4. The focus on inflation was also evident in the UK this morning after stronger than expected job gains and wage growth data suggested the BoE may not be done with its tightening cycle. In the commodity space, oil prices are retracing some of the recent gains on the back of news of a release from the US strategic petroleum reserve.

Key Global Financial Indicators

Last updated: 2/14/23 8:02 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		4137	1.1	1	3	-6	8	-2
Eurostoxx 50		4259	0.4	1	3	5	12	7
Nikkei 225		27603	0.6	0	6	3	6	4
MSCI EM		41	0.8	1	-2	-16	7	-15
Yields and Spreads			bps					
US 10y Yield		3.68	-2.3	1	18	169	-20	169
Germany 10y Yield		2.38	0.9	3	21	209	-19	215
EMBIG Sovereign Spread		448	3	18	-3	60	-4	35
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.8	0.1	0	-1	-5	2	-4
Dollar index, (+) = \$ appreciation		102.9	-0.4	-1	1	7	-1	7
Brent Crude Oil (\$/barrel)		85.7	-1.0	2	1	-11	0	-11
VIX Index (% change in pp)		20.5	0.1	2	2	-8	-1	-11

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

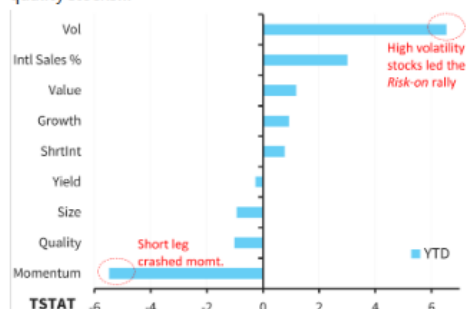
## Mature Markets

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### United States

**US equities are trading near last summer's highs, despite weakening earnings and the recent sharp move higher in interest rates.** In addition, gains have been fueled by a demand for high-volatility stocks and a rotation away from quality. This is raising concerns among market analysts that markets are optimistic about the ongoing resilience of economic activity and complacent about the disinflation process and the implications of a strong labor market on both monetary policy and corporate margins. A growing number of market analysts see the equity risk/reward as skewed to the downside, with the upside potential for markets likely limited given stretched valuations and high rates, while the downside could be meaningful in case of a further weakening of activity, persisting inflation and higher terminal rates.

Figure 6. The YTD rally has been led by high-beta and low-quality stocks...



Note: Data as of 02/10/2023

Source: Refinitiv, Barclays Research

Figure 7. ...which tend to do very badly during recessions



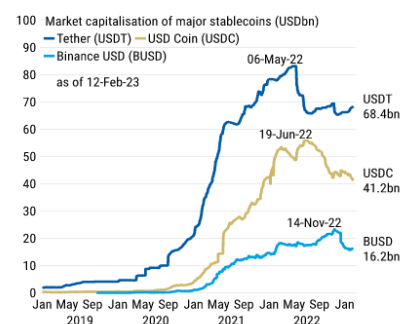
Note: The chart shows the cumulative performance of stocks taken from Russell 3000 subject to liquidity constraints, and weighted by leverage and market-cap. The basket is long the top 200 stocks, and short the bottom 200. Leverage composite has been made from D/A, D/NetCFO, & D/EBITDA.

Source: Refinitiv, Barclays Research

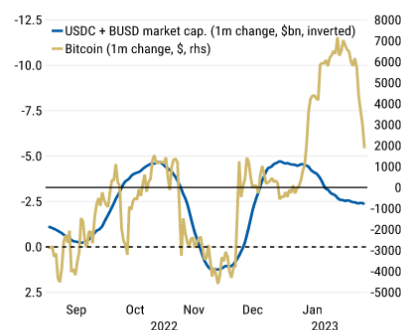
**In data releases this morning, consumer inflation printed broadly in line with expectations.** Monthly readings were in line with expectations—inflation accelerated in January by 0.5%, the most in three months and core inflation rose by 0.4%. The annual rate of consumer inflation, however, rose more than expected. Year on year figures were 6.4% (vs consensus for 6.2%) and 5.6% for the core (vs consensus for 5.5%). The data encompasses recently updated weightings for categories as well as methodology changes with mixed impact on inflation. On impact, US stock futures dropped and the 10-year yield spiked, but losses were soon reversed. Stock futures and Treasury yields were volatile, but little changed in immediate response to the release.

### Crypto Assets

**Crypto assets have declined recently amid looming regulatory efforts.** Bitcoin lost ground so far in February with markets focusing on the risks of further downfall given recent enforcement actions on crypto staking activities. Staking is a blockchain incentive system that rewards users for locking up tokens and is widely seen as a vital part of the crypto ecosystem. Market analysts express concerns that additional efforts to clamp down on staking could result in migration of staking to offshore companies, or to decentralized services. While such concerns dominate short-term price developments, market analysts also focus on US regulatory efforts on stablecoin regulation which can further impact prices. Morgan Stanley analysts argue that falling stablecoin market capitalization means falling crypto liquidity and leverage, which has influenced crypto prices with varying lags so far.

**Exhibit 2:** Market capitalisation of the three largest stablecoins

Source: Macrobond, Morgan Stanley Research

**Exhibit 3:** Changes in USDC + BUSD market cap tracked bitcoin's price at the end of 2022

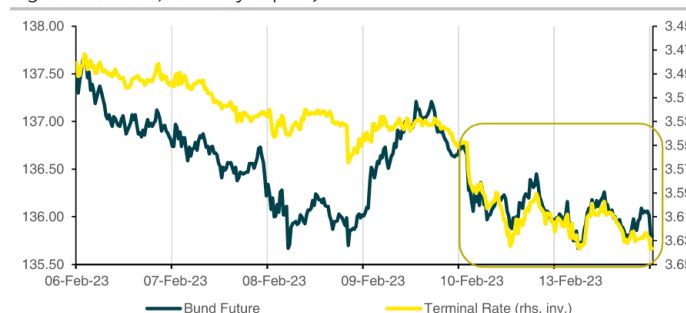
Source: Macrobond, Morgan Stanley Research

## Euro area

**European equities were trading higher (Stoxx 600 +0.5%) while sovereign bond yields were little changed and the euro appreciated against the dollar (+0.4%) ahead of the US CPI data print.** In the latest ECB commentary ECB Governing Council (GC) member Centeno emphasized the importance of new economic projections for rate path after March, with projections expected to signal slowing inflation. He also noted that "we're much closer to that terminal rate than before." As markets have priced in a higher ECB terminal rate, Commerzbank analysts highlight the sensitivity of long-end Bunds to terminal pricing – with ESTR-forwards correlated to intraday bund swings. On the data front the second Q4 euro area GDP estimate was in line with the flash release (+0.1%q/q).

### Bunds driven by ECB peak pricing

Bund future and terminal rate expectation (ECB-dated €ESTR-forward pricing highest ECB rate, currently Sep-23)

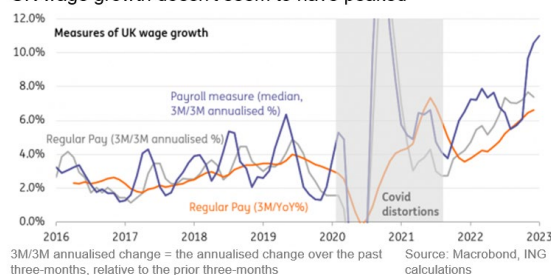


Source: Bloomberg, Commerzbank Research

## United Kingdom

**The upside surprise to UK wage growth data has reinforced market expectations for a 25 bp BoE policy rate hike in March.** Growth in average regular pay, excluding bonuses, increased to 6.7% (vs expected 6.5%) in the final three months of 2022 compared with the previous year, but analysts highlight that the upside surprise was driven mainly by backward revisions. The unemployment rate remained unchanged at 3.7% in the 3 months to December, in line with expectations. Several analysts continue to see a 25 bp BoE hike in March, with some analysts also noting a chance of rates remaining unchanged. Views also remain divergent on whether more tightening would follow after the BoE March meeting. **Markets are now fully pricing in a 25 bp hike for the March BoE meeting, compared to 23 bps priced in yesterday, with the terminal rate seen at around 4.5%.** Focus now turns to the UK CPI data print due tomorrow with consensus expecting headline CPI to ease to 10.3% y/y. **The pound was trading stronger against the dollar (+0.4%) this morning while 10-year gilt yields were little changed.**

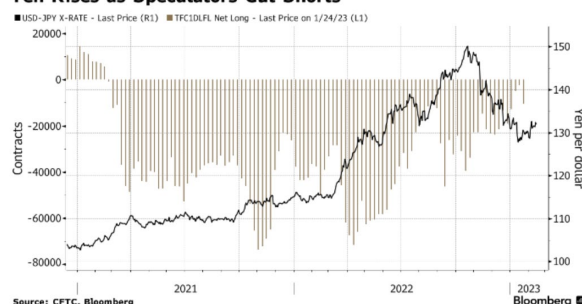
## UK wage growth doesn't seem to have peaked



## Japan

**Kazuo Ueda was officially nominated for governor of the Bank of Japan (BOJ).** Shinichi Uchida, BOJ's Executive director, and Ryoza Himino, a former MoF official and Financial Services Agency commissioner, were nominated as BOJ Deputy Governors. A hearing with the Lower House steering committee is expected on 24 February. The new deputies will assume their roles from March 20 once they are approved by the parliament. Separately, **Japan Q4 2022 GDP expanded +0.6% y/y on annualized basis, significantly below expectations (+2%).** Private consumption accelerated (+0.5% y/y; previous: +0.1%), but capital expenditure fell (-0.5%; previous: +1.5%). **Equities gained +0.8%, yen appreciated 0.3%, 10-year bond yields were little changed.**

## Yen Rises as Speculators Cut Shorts



## Emerging Markets

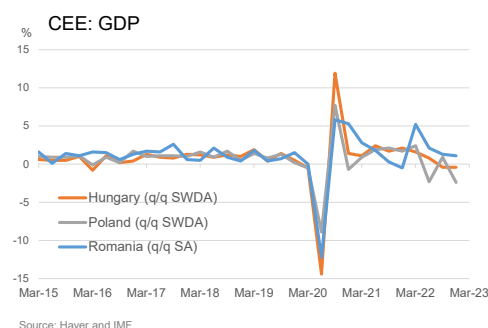
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**Latin American assets were broadly positive yesterday.** Stocks gained in Peru (+1.5%), Mexico (+1.1%) and Brazil (+0.6%), while Chilean and Colombian stocks fell by 0.5% and 0.4%, respectively. Currencies appreciated in Brazil (+0.9%), Chile (0.5%), Mexico (0.5%) and Colombia (0.2%). **Asian equities were mixed, up +0.3% on net.** India gained +0.9% and Taiwan, Province of China rose +0.7%. **Asian currencies broadly strengthened.** South Korean won rebounded (+0.6%). **Hong Kong** intervened in the FX market for the first time since November last year and purchased 4.5 bn Hong Kong dollars (\$538mn) amid increased carry trade flows. **Indonesian** rupiah gained (+0.2%) on news that the government plans to ask exporters to keep 30% of earnings onshore for three months. **10-year yields were mixed** and little changed. **India's headline consumer price inflation accelerated to +6.5% y/y** (previous: +5.7% y/y) in January and breached the top-end of the central bank's target. Core inflation rose marginally to +6.2% y/y (previous: +6.1%). Some analysts noted this increases chances of an additional +25 bp RBI policy rate hike in April, though consensus still suggests the central bank will pause. **EMEA markets are mixed but fairly subdued ahead of the US inflation data release.** Equity markets are up in the Czech Republic (1.3%) and to a lesser extent in Hungary, Poland and South Africa (about 0.3% each). Currencies are trading in a narrow range, with the Hungarian forint and Polish zloty registering the largest moves, gaining about 0.3% vs. the euro (to 381.8/euro and 4.77/euro respectively). Yields on local bonds in Central and Eastern Europe are slightly down (-3bps in Hungary and Poland to 7.99% and 6.09% respectively). Bloomberg reports that Türkiye is planning to restart equity trading at Borsa Istanbul tomorrow, as expected. **Ghana announced**

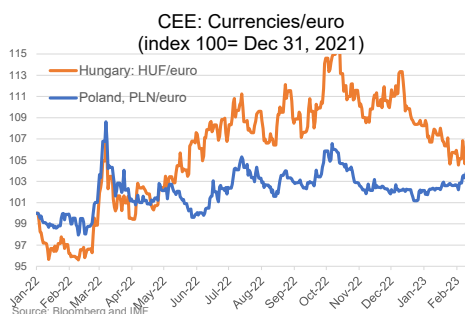
that its plan to restructure its domestic debt reached acceptance of 80% of bondholders, as targeted by the government.

### Central and Eastern Europe

**Central and Eastern European assets are not reacting much to the publication of Q4 GDP data in Hungary, Poland and Romania, possibly because data met the expected trend even if exact expectations were missed.** Romanian data came in broadly in line with expectations (+1.1% q/q vs 1% expected, and 4.6% y/y) showing a slowdown, but still positive growth. In contrast, Hungary and Poland are in recession. In Poland, Q4 GDP growth disappointed at -2.5% q/q, much lower than the -0.5% q/q market expectation, and down from 1% q/q in Q3. This brings growth in Q4 to 2% y/y, down from 3.6% in Q3. There can be debate about whether Poland is technically in recession: Poland has had two quarters of sharply negative growth in 2022, but they were not consecutive (Q2 and Q4). Hungary experienced two consecutive quarter of negative growth in Q3 and Q4, although the contraction in Q4 was less sharp than anticipated.



**The Polish zloty and the Hungarian forint have diverged since the start of the year in a reversal of last year's dynamics.** The Polish zloty has lost 1.7% vs. the euro (to 4.77/euro), while the Hungarian forint has appreciated 4.8% to the euro (to 381.4/euro). While the forint has been helped by tighter monetary policy, with the effective monetary policy rate at 18% vs 6.75% in Poland, the outlook for the Polish zloty is also clouded by other developments. In particular, the European Court of Justice is expected to give a final ruling on foreign currency mortgages (undertaken before 2008), which could pose a systemic risk to Poland's banking sector according to the regulator. In addition, last Friday, Polish president Duda decided to send a key bill reforming the disciplinary regime for judges to the Constitutional Tribunal for an evaluation of its constitutionality before signing it into law, delaying the process. The bill is a key part of the milestones set by the European Commission, and necessary to release the European pandemic recovery funds to Poland (23.9 billion euros in grants and 11.5 billion euros in loans). ING analysts wrote that the likelihood is growing that Poland will not get the EU funds before the October general elections.



### Brazil

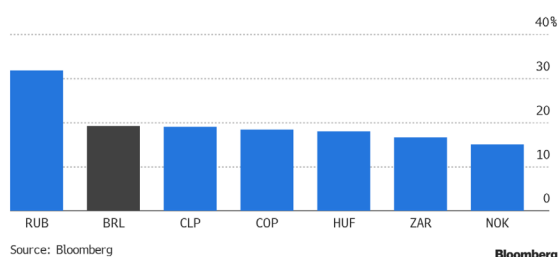
**The implied volatility of the Brazilian real reached the second highest in the world,** after rising in the past two weeks. After briefly hitting a seven-month high on February 2, the Brazilian real is now close to where it was before the new government took office. President Luiz Inacio Lula da Silva and his finance minister have repeatedly questioned the policies of the central bank after policy makers pushed real interest rates to the highest in the world, with the policy rate at 13.75% and inflation coming in at 5.77% in January. In response, the market steepened the swap rate curve and pushed the real's three-month implied volatility



to 19.45%, surpassing the Chilean peso to become the highest in Latin America and lagging only the Russian Ruble among 31 major currencies.

#### Brazil Is 2nd Among World's Highest Implied Volatility

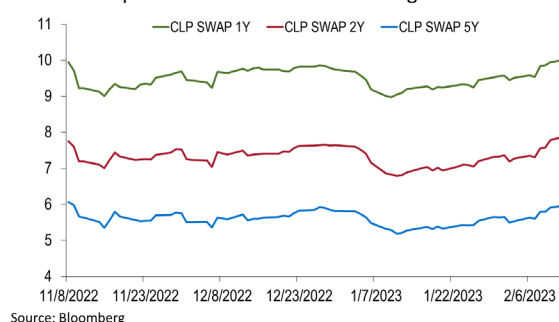
Brazil currency took post from Chilean peso over the last week



## Chile

**Chilean interest rate swap yields hit a three-month high**, with biggest weekly rise since September, as central bank minutes show most policymakers did not want to discuss the possibility of easing monetary policy yet. Chilean swaps traders continued to pare bets on rate cuts. The one-year swap rate climbed to the highest since November 7 and is now pricing 422 bps of cuts in the next 12 months, compared with 484 bps a week ago. Persistent inflation, resilient growth and a hawkish turn by the central bank have now pushed up swap rates for four consecutive weeks, after hitting a near two-year low on January 11.




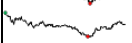



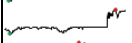



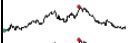








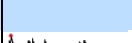




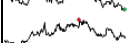
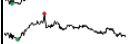

#### Chilean Swap Rates rise to Three-Month High



*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: 2/14/23 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		4141	1.1	-1	4	-6	8	-2
Europe		4259	0.4	1	3	5	12	7
Japan		27603	0.6	0	6	3	6	4
China		4145	0.0	1	2	-10	7	-10
Asia Ex Japan		70	0.7	1	-1	-13	8	-12
Emerging Markets		41	0.8	1	-2	-16	7	-15
<b>Interest Rates</b>			basis points					
US 10y Yield		3.68	-2.3	1	18	169	-20	169
Germany 10y Yield		2.38	0.9	3	21	209	-19	215
Japan 10y Yield		0.51	-0.1	1	0	29	9	31
UK 10y Yield		3.45	4.3	13	8	186	-23	197
<b>Credit Spreads</b>			basis points					
US Investment Grade		143	0.7	5	-7	12	-16	0
US High Yield		444	2.6	26	9	37	-36	38
Europe IG		75	-2.5	-1	-5	7	-16	3
Europe HY		390	-11.5	-8	-25	58	-84	38
<b>Exchange Rates</b>			%					
USD/Majors		102.88	-0.4	-1	1	7	-1	7
EUR/USD		1.08	0.4	0	-1	-5	1	-5
USD/JPY		132.0	-0.3	1	3	14	1	15
EM/USD		50.8	0.1	0	-1	-5	2	-4
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		85.7	-1.0	2	0	2	0	0
Industrials Metals (index)		165	0.3	-2	-5	-11	0	-12
Agriculture (index)		70	0.3	2	4	5	2	0
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		20.5	0.1	1.8	2.1	-7.9	-1.2	-10.5
US 10y Swaption Volatility		111.7	1.4	7.8	-4.2	13.8	-14.0	17.4
Global FX Volatility		10.5	0.0	0.0	-0.5	2.4	-0.2	3.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		181	-2.7	-4	-16	-56	-24	-59
Italy		177	-3.5	-11	-7	8	-37	6
Portugal		83	-1.7	-2	-8	-6	-18	-9
Spain		92	-1.5	-1	-7	-9	-17	-11

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

## Emerging Market Financial Indicators

Last updated: 2/14/2023 8:06 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	0.1	-0.4	-1	-7	1	-7		3.1	-0.3	-3	-8	29	8	28
Indonesia		15160	0.2	-0.1	-1	-5	3	-5		6.7	-2.1	1	3	21	-22	22
India		83	0.0	-0.1	-1	-9	0	-10		7.5	-0.2	10	2	89	0	
Philippines		55	-0.2	0.4	0	-6	2	-7		5.9	-2.5	0	-10	103	-10	93
Thailand		34	0.3	-0.6	-2	-4	2	-5		2.7	0.5	9	23	54	12	52
Malaysia		4.35	0.3	-1.0	-1	-4	1	-4		3.9	-0.6	6	-5	18	-16	21
Argentina		192	-0.2	-1.3	-5	-45	-8	-44		87.3	57.1	175	495	3690	-89	3937
Brazil		5.16	0.2	0.9	0	1	2	-3		14.5	99.5	109	191	279	193	299
Chile		793	0.0	0.5	4	3	7	0		5.5	-0.5	22	40	-48	15	-43
Colombia		4774	0.3	-1.0	-2	-17	2	-18		9.1	0.0	28	-13	118	-64	126
Mexico		18.57	0.0	1.8	1	10	5	9		8.6	1.1	33	51	75	-9	80
Peru		3.9	-0.4	-0.3	-1	-2	-1	-3		7.9	0.2	0	0	186	-3	194
Uruguay		39	0.0	0.1	2	10	2	9		9.7	-10.1	-28	-82	137	-98	155
Hungary		356	0.5	2.7	4	-11	5	-10		8.0	-2.0	-10	27	317	-165	314
Poland		4.43	0.9	0.1	-2	-9	-1	-8		5.4	-0.4	-10	9	128	-77	148
Romania		4.6	0.3	0.3	0	-4	1	-4		7.4	-2.3	7	6	221	-33	221
Russia		73.4	0.7	-2.4	-6	4	1	11		10.4	0.0	-9	-150	13	-150	-82
South Africa		17.8	0.3	-1.3	-4	-15	-4	-15		8.8	-1.5	1	10	126	-35	123
Turkey		18.85	0.0	-0.2	0	-28	-1	-27		11.6	21.0	-11	125	-1042	174	-1085
US (DXY; 5y UST)		103	-0.4	-0.5	1	7	-1	7		3.88	-3.3	4	27	197	-13	197

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				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	YTD	23-Feb-22	
									basis points							
China		4145	0.0	1	2	-10	7	-10		174	1	-11	-32	-3	-34	
Indonesia		6942	0.6	0	5	2	1	0		153	20	-15	-31	13	-32	
India		61032	1.0	1	1	5	0	7		149	6	-1	-8	7	-5	
Philippines		6791	-0.7	-1	-2	-7	3	-8		126	18	-8	-2	29	-11	
Thailand		1653	-0.7	-2	-2	-3	-1	-3								
Malaysia		1484	0.6	1	-1	-7	-1	-6		101	2	-2	-27	1	-32	
Argentina		257626	3.1	6	6	193	27	182		1985	56	-16	173	-220	248	
Brazil		108836	0.7	1	-2	-4	-1	-3		264	10	-9	-64	-10	-67	
Chile		5379	-0.5	2	4	17	2	23		137	6	-9	-28	5	-37	
Colombia		1240	-0.4	-2	-7	-16	-4	-18		384	18	11	21	12	-8	
Mexico		53051	1.1	-2	-1	1	9	3		362	15	-1	2	-19	-8	
Peru		22010	1.5	-1	-5	-7	3	-6		187	5	-1	2	7	-3	
Hungary		46507	0.6	3	1	-9	6	-3		212	19	-29	62	-10	59	
Poland		60329	0.4	0	-2	-9	5	-4		80	16	-17	64	7	64	
Romania		12326	-0.1	0	1	-6	6	-7		240	14	-28	26	-16	7	
Russia		2229	-1.6	-2	1	-36	3	-28		3411	-577	938	3228	3234	2897	
South Africa		79867	0.1	0	1	5	9	7		369	18	8	-13	2	-20	
Turkey		4186	0.0	-7	-16	109	-24	108		526	20	27	-9	86	-37	
Ukraine		507	0.0	0	0	-2	-2	-2		4427	225	261	3519	348	2954	
EM total		41	-0.1	1	-2	-16	7	-15		385	19	8	-36	10	-73	

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

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