



- US equities buoyed by solid corporate earnings ([link](#))
- US rates volatility higher on diverse views on tightening path ([link](#))
- Euro-area inflation increases to record high in January ([link](#))
- ECB bank lending survey shows slightly tighter corporate loan credit standards ([link](#))
- Raiffeisen bank sees operations in Ukraine and Russia running normally ([link](#))
- CDS credit spreads narrow in Ukraine and Russia ([link](#))
- Latam equities outperformed in January ([link](#))
- **Special Feature: EM and Frontier Market Issuance Monitor** (attached)

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## Market sentiment improves on corporate earnings

Better than expected corporate earnings contributed to improve market sentiment this morning, with global stocks heading for the largest four-day rally since November 2020. Futures on the tech-heavy Nasdaq outperformed, with shares in Alphabet and Advanced Micro Devices jumping at least 10% in pre-market trading after posting strong earnings. Across the pond, European bank stocks performed strongly, with Santander reporting its most profitable quarter in 12 years. The dollar weakened for the third consecutive day and the VIX was lower this morning. Oil markets rose following reports that OPEC+ agreed to make another modest output increase in March. In fixed income, sovereign bond yields were little changed this morning. However, implied volatility in rates markets remained elevated as market participants continue to digest mixed signals from the Fed and await the ECB and Bank of England's monetary policy announcements tomorrow. Higher-than-expected inflation in the euro-area this morning increased expectations of future rate hikes, with markets now pricing +28 bps of hikes by year-end. Elsewhere, CDS spreads traded lower in Ukraine and Russia while shares of Austria-based Raiffeisen bank gained (+5%) after the CEO said that the bank's operations in Russia and Ukraine are running normally.

Key Global Financial Indicators

Last updated: 2/2/22 8:07 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	4547	0.7	4	-5	19	-5
Eurostoxx 50	4246	0.5	2	-1	18	-1
Nikkei 225	27534	1.7	2	-4	-4	-4
MSCI EM	49	0.6	2	1	-11	1
<b>Yields and Spreads</b>		bps				
US 10y Yield	1.77	-1.4	-9	26	68	26
Germany 10y Yield	0.04	-0.2	11	21	52	21
EMBIG Sovereign Spread	381	-2	-8	14	30	14
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	53.5	0.2	1	2	-7	2
Dollar index, (+) = \$ appreciation	95.9	-0.5	-1	0	5	0
Brent Crude Oil (\$/barrel)	89.9	0.8	0	16	56	16
VIX Index (% change in pp)	21.3	-0.7	-11	4	-4	4

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

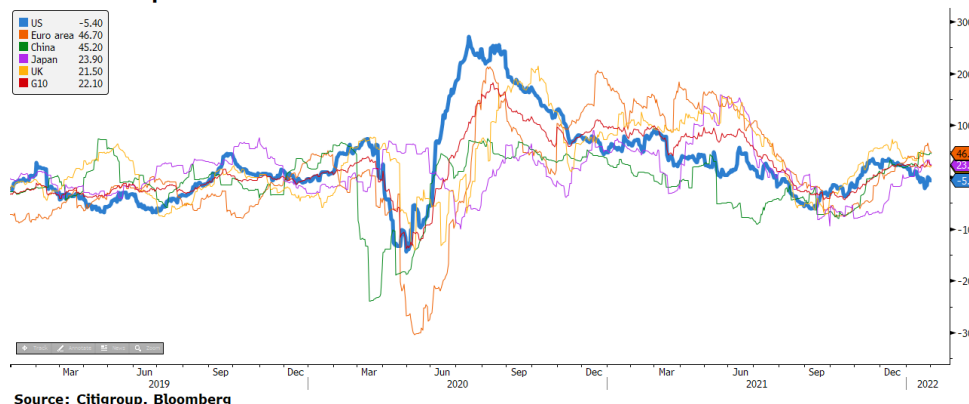
## Mature Markets

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### United States

**Equities extended gains on Tuesday.** The energy sector outperformed, up 3.7%, supported by the highest earnings in eight years by Exxon Mobil. In aftermarket hours, Alphabet reported better-than-expected earnings and announced a 20-for-1 stock split. Its share price surged by more than 7% following the headline. **Meanwhile, recent macro data has been weaker than expected.** The US Economic Surprise Index, which tracks whether data comes in ahead or behind analysts' forecasts and by how much, is now in negative territory, indicating more surprises to the downside than the upside.

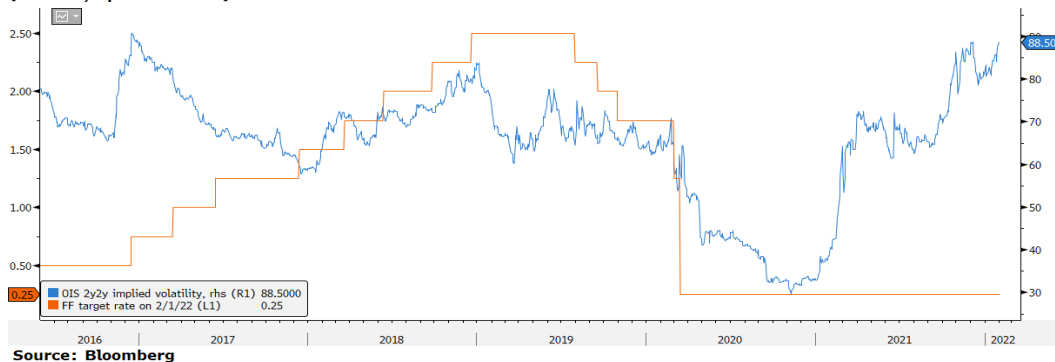
**Economic Surprise Indices**



This morning, **the ADP employment change in January came in much weaker than expected (-301k vs. 180k consensus).** However, the market reaction was limited following the release. Analysts pointed out that recent ADP numbers are not reliable to predict nonfarm payrolls.

**Rates markets volatility increased as market participants digested mixed signals from the Fed.** The OIS 2-years implied volatility over a 2-year horizon is close to its highest level since 2016, reflecting diverse views on the tightening path. The median forecast, for now, is five 25 bps hikes in 2022, with a range from three to seven, and the balance sheet runoff starting July this year.

**USD Swaption 2y2y Implied Volatility**  
(Percent; bps annualized)



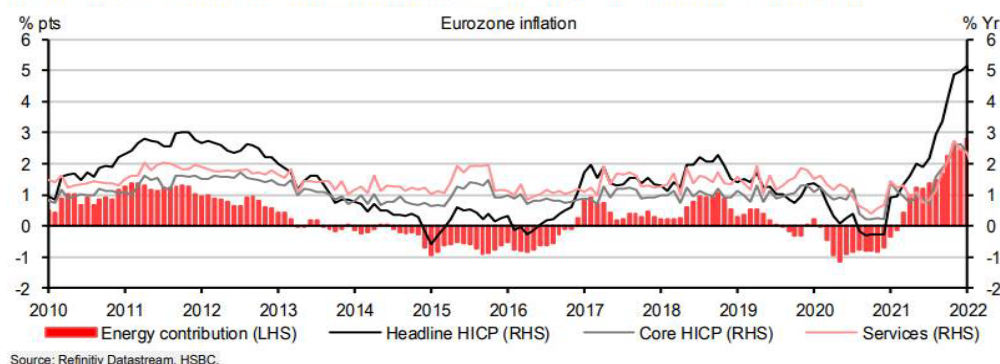
**Markets remain unwilling to reprice the terminal rate higher.** The OIS 5-year rate 5-year forward, which is thought to correspond Fed's "longer-run" dots, traded around 1.7% yesterday, far below the 2.5% suggested by the median longer-run dots. Analysts noted this is consistent with the past two cycles when terminal rates repriced higher later in the rate hike cycle, raising some concerns about the repricing of duration risk in the future. The current flattening bias could reflect aggressive rate hikes and the absence of material developments in terms of balance sheet normalization.

## Euro-area

European equities were roughly 1% higher on average this morning, with the STOXX 600 index up by 0.5%. Gains were broad based across sectors with **travel (+1.75%)** and **financial services (+1.2%, boosted by Santander's better than expected earnings)** the best performing sectors. The energy sector (-0.6%) underperformed. In fixed income, **German bond yields increased marginally, and the euro appreciated (+0.4%)** after eurozone preliminary January inflation data hugely surprised to the upside. Southern spreads were little changed.

**Preliminary euro-area headline CPI reached a record high +5.1%/y/y in January, with analysts having expected a decline to 4.5% from 5%.** Higher energy inflation was the main driver – increasing to +28.6% yoy in January. Core price growth fell back to 2.3%/y/y (+1.9% consensus from +2.6%), and **with limited evidence of second-round effects in the eurozone to date, analysts generally expect the ECB to push back against expectations for early interest rate increases. Markets are now pricing in +28 bps of hikes by year-end.** On the country level, **Italian inflation (+5.3%/y/y) surprised on the upside,** with analysts expecting a slowdown to 4.0% from 4.2%.

**1. Energy accounts for over half of eurozone inflation, while core inflation eased slightly in January reflecting the different timing of clothing sales relative to last year**

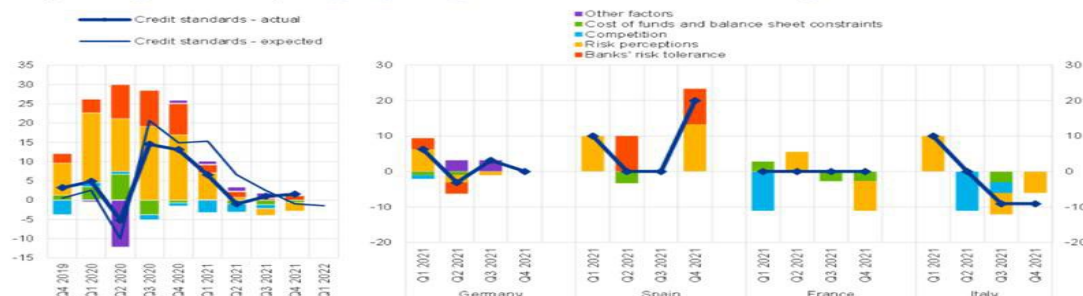


The ECB's Q4 Bank Lending Survey showed that credit conditions tightened slightly for firms and remained unchanged for housing loans, with a broadly benign view of credit risks amid improving loan demand. In France and Italy, risk perceptions had an easing impact on credit standards for corporate loans, while they had a tightening impact in Spain. Corporates' net loan demand increased considerably driven by financing needs for working capital and fixed investment. In 2022 Q1, banks expect lending conditions for corporates to remain broadly unchanged, with a moderate net tightening for housing loans and easing for consumer credit.

**Chart 1**

Changes in credit standards for loans or credit lines to enterprises, and contributing factors

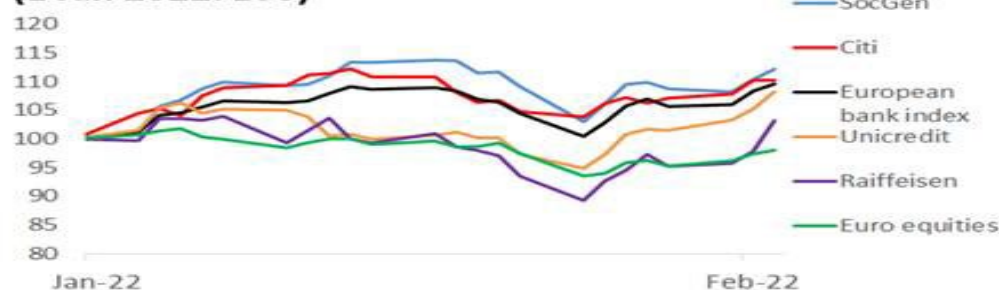
(net percentages of banks reporting a tightening of credit standards, and contributing factors)



### Western Banks with exposure to Russia

Shares of Austria-based Raiffeisen bank gained (+5%) today after the CEO said that the bank's operations in Russia and Ukraine are running normally despite geopolitical tensions. Raiffeisen has €23 bn exposure to Russia, about 9% of which it thinks could face sanctions (4% for the Russian sovereign, 3% for potential sanctions targets and 2% for Russian banks). Raiffeisen made provisions of €25 mn for geopolitical risk in Ukraine and €21 mn for sanctions in Russia. SocGen, Unicredit and Citi are also active in Russia but Raiffeisen had unperformed the European bank index.

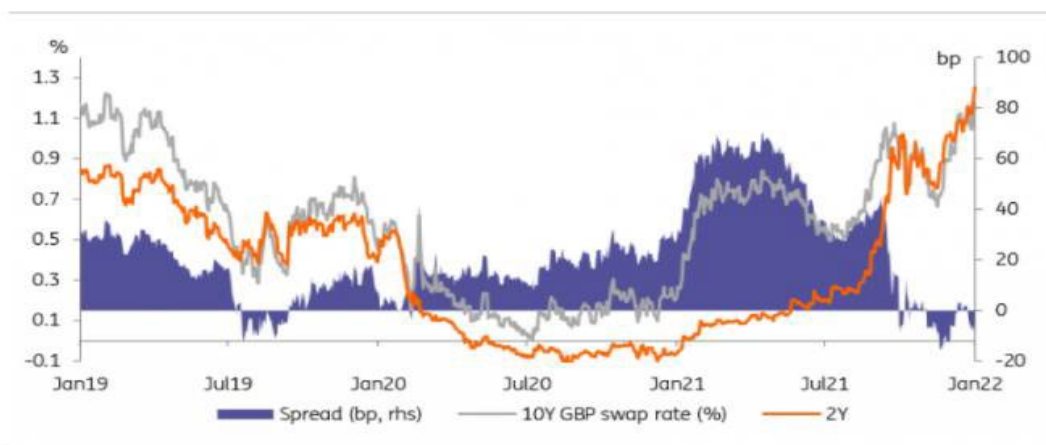
**Equity performance of banks with exposure to Russia  
(1 Jan 2022: 100)**



### United Kingdom

Analysts continue to expect a 25 bps hike by the BoE tomorrow, which could set an end reinvesting proceeds from maturing government bonds. The BoE's own threshold for reducing the size of its balance sheet will be met if rates are hiked to 0.5% tomorrow. ING analysts noted that simply ending reinvestments will result in a more gradual unwind process in the UK, given that the weighted average maturity of the BoE's balance sheet is longer than that of the Fed, and estimates that this amounts to £25 bn of gilts that will not be bought this fiscal year. While it is expected that curve flattening pressure will ease as the BoE stops reinvestments, this has not yet played out. Private sector demand is expected to more than offset the shortfall.

Curve flattening is a logical consequence of QT, but it hasn't played out that way yet



## Australia

**RBA governor Lowe maintained a cautious tone in line with yesterday's RBA meeting but signaled that interest rates could rise this year if faster wages growth returns inflation sustainably to the RBA's 2-3% target.** The RBA is forecasting the quarterly Wage Price Index to rise 2.75% in 2022 and 3% in 2023, which the RBA argues is not enough to conclude that inflation is sustainably in its target range. 2-year swap yields fell 2 bps to 1.23% with the Australian dollar 0.4% stronger. **Markets are pricing about 116 bps of rate hikes in the year ahead.**

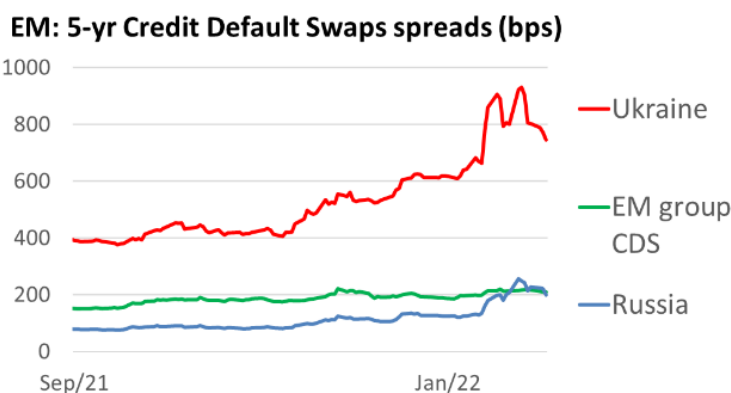
## Emerging Markets

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**EM equities continued to trade higher.** Emerging market currencies also edged higher for a third day in a row. Many markets across **Asia** remained closed for the Lunar New Year holidays. In **India**, **local yields traded higher, but equities gained for a second day in row following yesterday's budget announcement.** Local 10-year bond yields rose another 5 bps to 6.88% as analysts point to higher-than-expected borrowing needs in the budget and lack of measures to include local bonds into global indices. In contrast, equities (+1.2%) gained for a second day in a row as equity investors welcomed a capex and growth push. **The budget also sets the stage for the launch of a sovereign green bond** and included green goals such as the promotion of a battery swapping policy, measures to promote the production of solar modules, and transition measures to a carbon neutral economy. In **EMEA**, the **Russian ruble (+1.1%) outperformed and the Polish zloty (+0.6%) also posted strong gains against the euro after central bank governor Glapinski said that the central bank would welcome a stronger currency.** Yesterday, Egypt's local debt was included in the GBI-EM Global Index, with an initial weight of 0.8% to be increased to 1.6% at end February. Foreign holdings of Egypt's debt are estimated at around 23% of the market (or \$21 bn). **Latin American equities rallied while most currencies appreciated on Tuesday.** Equities outperformed in Brazil (+1.0%) and Chile (+1.1%). Meanwhile, currencies appreciated in Brazil (0.7%), Mexico (0.5%) and Colombia (0.8%) while the Chilean peso depreciated (-0.3%).

## Credit risk in Ukraine and Russia

**Spreads on 5-year credit default swaps (CDS) have traded lower in Russia and Ukraine as investors have become less concerned about tail risk scenarios.** CDS spreads on Ukraine's US dollar debt are trading 185 bps below the high of 930 bps reached in January, with Russia's CDS spread 57 bps below this year's high of 199 bps. **Russian president Putin said today that talks could help defuse tensions, pointing to "very cautious optimism."**



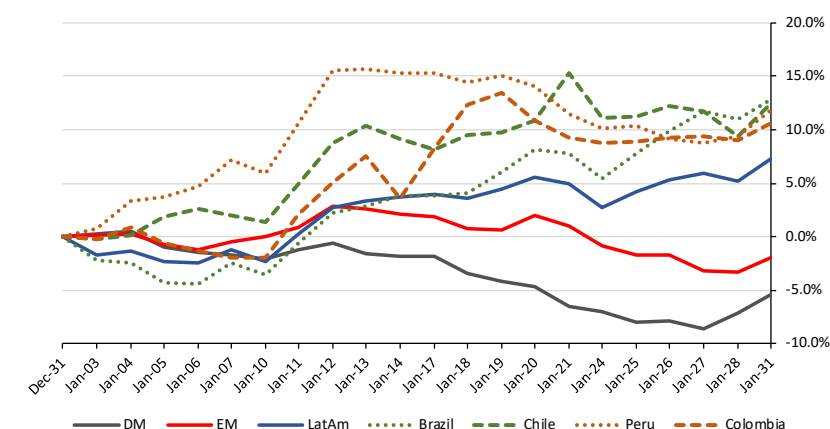
Source: Bloomberg and IMF



## Latin America

**EM equities led by Latin America outperformed advanced economies (AE) in January, despite negative returns.** The MSCI EM index posted a negative return of -1.9% surpassing AE equities (-5.3%) in January. The 25-country index smaller negative return, driven by hawkish monetary policies and higher energy prices, was led by Latin America (+7.3%), EMEA (+2.4%) but offset by EM Asia (-3.5%). Within the Latin America region, Brazil was the best performing market (+12.9%), followed by Chile (+12.5%), Peru (+11.8%), and Colombia (+10.6%).

MSCI Indexes' returns since December 31, 2021





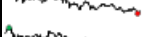
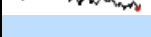




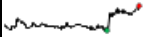



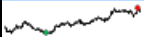
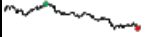
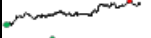

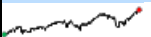
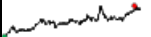
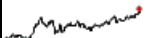
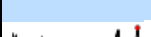


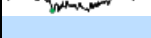
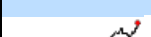

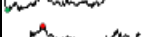


Sources: Bloomberg and IMF Staff

*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: 2/2/22 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4580	0.7	5	-4	20	-4
Europe		4246	0.5	2	-1	18	-1
Japan		27534	1.7	2	-4	-4	-4
China		4564	-1.2	-5	-8	-15	-8
Asia Ex Japan		82	0.5	1	-1	-16	-1
Emerging Markets		49	0.6	2	1	-11	1
<b>Interest Rates</b>			basis points				
US 10y Yield		1.77	-1.4	-9	26	68	26
Germany 10y Yield		0.04	-0.2	11	21	52	21
Japan 10y Yield		0.18	-0.1	4	11	13	11
UK 10y Yield		1.29	-1.0	9	32	94	32
<b>Credit Spreads</b>			basis points				
US Investment Grade		124	-0.3	4	13	30	13
US High Yield		376	-1.6	17	39	8	39
Europe IG		56	-1.4	0	9	6	9
Europe HY		275	-6.1	4	33	18	33
<b>Exchange Rates</b>			%				
USD/Majors		95.89	-0.5	-1	0	5	0
EUR/USD		1.13	0.5	1	0	-6	0
USD/JPY		114.2	-0.4	0	-1	9	-1
EM/USD		53.5	0.2	1	2	-7	2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		90	0.8	0	16	56	16
Industrials Metals (index)		182	0.6	0	5	37	5
Agriculture (index)		66	1.1	3	9	32	9
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		21.3	-0.7	-10.7	4.1	-4.3	4.1
US 10y Swaption Volatility		79.1	0.5	0.6	-8.0	19.8	0.1
Global FX Volatility		7.3	0.0	0.1	-0.1	-0.3	-0.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		188	-0.4	-5	37	72	37
Italy		139	1.4	-1	4	25	4
Portugal		67	1.0	-1	2	12	2
Spain		75	0.7	0	0	14	0

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 2/2/2022 8:10 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.36	0.1	-0.4	0	1	0		2.7	-3.5	-2	-17	-57	-14
Indonesia		14357	-0.2	0.0	-1	-2	-1		6.4	-2.6	2	6	23	6
India		75	-0.1	-0.1	-1	-2	-1		6.3	0.0	0	9	75	0
Philippines		51	0.0	0.5	0	-6	0		4.6	0.0	3	8	140	10
Thailand		33	0.0	-0.2	0	-10	0		2.1	-1.0	-6	24	68	23
Malaysia		4.19	0.0	0.1	0	-3	0		3.7	-1.5	-1	8	97	8
Argentina		105	-0.1	-0.5	-2	-17	-2		49.6	7.8	61	-99	-47	-99
Brazil		5.27	-0.1	3.2	8	2	6		11.3	-3.6	-16	32	344	58
Chile		801	0.2	0.1	6	-9	6		5.6	-3.5	-7	12	296	19
Colombia		3915	0.3	0.5	4	-10	4		7.1	-0.5	-25	54	295	65
Mexico		20.50	0.2	1.2	0	-2	0		7.6	0.5	-1	-5	213	8
Peru		3.9	-1.0	-0.9	2	-6	3		6.1	0.0	5	23	240	23
Uruguay		44	0.0	1.1	2	-4	2		8.7	-12.5	-4	-6	144	-6
Hungary		313	0.7	2.4	4	-6	4		4.9	4.1	27	41	307	41
Poland		4.01	1.1	1.7	1	-7	1		4.0	-2.0	14	46	280	49
Romania		4.4	0.4	0.7	0	-7	0		5.0	0.0	6	21	274	21
Russia		75.7	1.5	4.6	-2	1	-1		9.3	-6.2	-50	55	290	56
South Africa		15.3	-0.2	0.3	4	-2	4		7.6	-7.5	-7	13	93	15
Turkey		13.51	-0.9	0.5	-3	-47	-2		23.3	33.0	53	-102	1028	-102
US (DXY; 5y UST)		96	-0.5	-0.6	0	5	0		1.61	-1.1	-8	34	117	34

	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		4564	0.0	-5	-8	-15	-8		203	2	0	-24	0	
Indonesia		6708	1.2	2	1	10	2		185	5	20	-5	20	
India		59558	1.2	3	1	19	2		141	1	9	-16	9	
Philippines		7459	1.3	2	6	9	5		115	4	14	7	14	
Malaysia		1512	0.0	-1	-4	-3	-4		122	1	5	-18	5	
Argentina		91417	0.6	7	9	84	9		1734	-186	54	311	54	
Brazil		113228	1.0	2	8	-4	8		320	1	9	46	9	
Chile		4613	0.3	1	7	4	7		154	3	14	7	14	
Colombia		1538	0.1	1	9	12	9		366	4	18	140	18	
Mexico		51783	0.9	1	-3	18	-3		339	-4	7	-31	7	
Peru		22695	-1.1	0	7	6	7		171	15	21	44	21	
Hungary		53447	0.9	3	5	21	5		130	3	6	-14	6	
Poland		68988	1.5	1	0	20	0		14	2	-18	-18	-18	
Romania		13494	0.6	4	3	30	3		203	0	10	2	10	
Russia		3569	0.6	6	-6	6	-6		267	-14	90	89	90	
South Africa		75536	0.9	2	2	20	2		364	-11	9	-24	9	
Turkey		2017	0.1	3	9	33	9		556	0	-22	116	-22	
Ukraine		522	0.0	0	0	0	0		878	-150	119	371	119	
EM total		49	0.9	2	1	-11	1		412	-11	26	63	26	

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

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