



- Markets bet that Fed will pivot to a dovish stance in H2 2023 ([link](#))
- ECB hikes policy rate by 50 bps to 2.5% ([link](#))
- BOE hikes policy rate by 50 bps to 4% ([link](#))
- Survey shows investors are cautiously optimistic about markets ([link](#))
- Hong Kong hikes by 25 bps in line with the Fed ([link](#))
- Zambia tightens to address FX volatility ([link](#))

[Mature Markets](#)









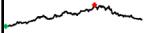
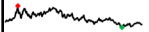

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Markets rally on dovish Fed

Global markets were higher after yesterday's dovish FOMC meeting and press conference. The market has concluded that the Fed is close to the end of its rate hike cycle and that the policy rate will peak near 5%. Market participants are positioning for rate cuts in the second half of the year. The dollar continued its depreciation and Treasury yields extended their decline in early trading today. There is a lot of debate about what will happen if the Fed stays on hold close to 5% despite market expectations of a dovish Fed pivot in the second half of the year. Many are worried that a persistently high policy rate could trigger a major market selloff. Meanwhile, the ECB and BOE both hiked by 50 bps to 2.5% and 4% respectively as expected. The ECB signaled that another 50 bps hike can be expected in March, although the statement stressed that the central bank remains data dependent.

Key Global Financial Indicators

Last updated: 2/2/23 8:34 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4119	1.0	3	7	-10	7
Eurostoxx 50		4210	0.9	1	9	0	11
Nikkei 225		27402	0.2	0	5	1	5
MSCI EM		42	1.2	-1	10	-15	10
Yields and Spreads			bps				
US 10y Yield		3.36	-6.0	-14	-52	158	-52
Germany 10y Yield		2.15	-13.8	-7	-30	211	-43
EMBIG Sovereign Spread		443	0	-1	-9	62	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		51.8	0.4	1	4	-3	4
Dollar index, (+) = \$ appreciation		101.1	-0.1	-1	-2	5	-2
Brent Crude Oil (\$/barrel)		82.5	-0.4	-6	-4	-8	-4
VIX Index (% change in pp)		17.5	-0.3	-1	-4	-5	-4

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

Markets have reinforced their earlier expectations for a dovish Fed pivot in the second half of the year, with the Fed Funds rate seen at 4.16% by the January 31, 2024 Fed meeting. The FOMC press conference was viewed as dovish, with stocks rallying and Treasury yields significantly lower at the front end of the yield curve as the press conference progressed, resulting in a steeper yield curve.

Table 1: Cross-Asset Market Reaction

	Level			Change	
	13:55	14:25	15:45	13:55 ~ 14:25	14:25 ~ 15:45
UST 2-year (%)	4.21	4.22	4.08	0.8	-14.0
2s10s (bp)	-75.4	-74.7	-69.5	0.7	5.2
TIPS 2-year (%)	2.02	2.02	1.87	0.5	-15.3
S&P 500	4060.4	4060.3	4124.2	0.0	1.6
VIX	19.5	19.4	18.0	-0.1	-1.4
HY CDX (bp)	432.8	431.1	416.6	-1.8	-14.5
EM CDX (bp)	221.9	223.1	212.0	1.2	-11.1
Dollar index	101.8	101.8	101.1	0.1	-0.7
EM index	51.4	51.4	51.7	0.0	-0.5
EUR/USD	1.0918	1.0912	1.0990	0.1	-0.7
USD/JPY	129.4	129.6	128.8	0.2	-0.6
GBP/USD	1.2302	1.2296	1.2376	0.0	-0.6

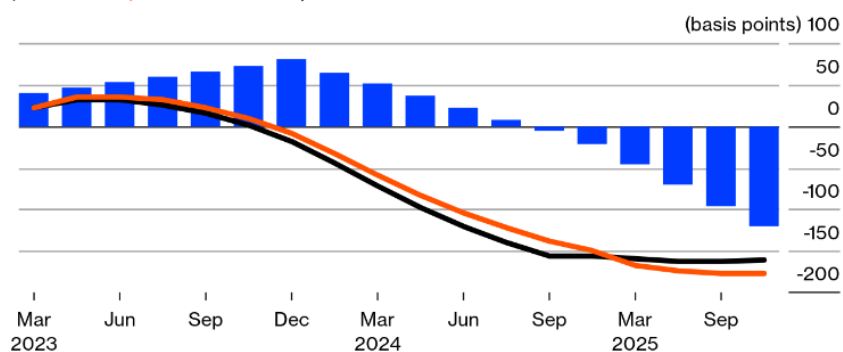
Notes: Changes for rates and spreads in bps and for Equities and FX in %. For FX, +ve change denotes stronger dollar

Markets think the Fed Funds rate will peak close to 5% in the first half of the year and are pricing 50 bps of cuts by the December 13, 2023 FOMC meeting. The expected 25 bps rate hike at the upcoming March 22, 2022 FOMC meeting is no longer fully priced in, with 20 bps expected compared to 25 bps on Tuesday, suggesting an 80% probability of a 25 bps move. The odds of a rate hike at the May 3 FOMC have also declined. Bloomberg reported that large trades went through the market betting on a 2.5% policy rate by year end, suggesting that some investors think the Fed's dovish pivot may be even more aggressive than the current consensus.

What's Priced In Now

Fed swaps price in 50bp of rate cuts for second half of 2023

Post-Fed Pre-Fed Fed f/cast



Source: Bloomberg, CME
Change in Fed's interest-rate target implied by overnight index swaps and SOFR futures. Fed dots use interpolation.

Bloomberg

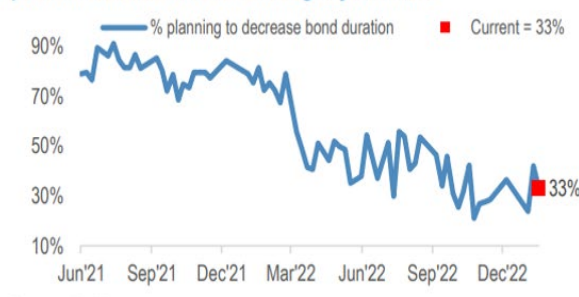
The latest JP Morgan survey shows that investors are cautious on the outlook for equities but more optimistic on the outlook for interest rate risk. About 64% of investors have equity allocations below 50% of their historical records, but a large minority of 45% expect to increase their equity exposures, which is up significantly over previous surveys. Moreover, just 33% expect to decrease duration risk, suggesting that investors expect interest rates to trend lower in the future, a marked increase in optimism. However, looking ahead, a large majority of investors expect forward guidance from companies to be weaker in the months ahead, and most think European equity markets are underestimating the risk of recession.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?



Source: J.P. Morgan.

Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



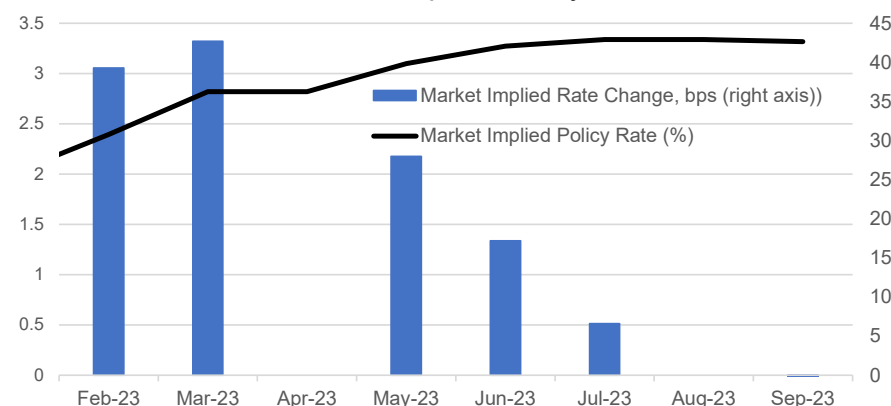
Source: J.P. Morgan.

Euro Area

European markets were up following the rally in the US after the dovish Fed press conference. The ECB is raised rates by 50 bps to 2.5% as expected. Bond yields are down in the Eurozone, with German 10y bund yields down 12 bps to 2.16%, and Italian spreads narrowing by 11 bps to 191 bps. In the UK, 10y gilt yields are down to 3.15%.

After today's expected 50 bps hike, markets are also expecting another 50 bps hike in March, and will be looking for a reiteration of this guidance at the press conference later today. Markets are currently pricing in a terminal rate of 3.4% by July. Markets are not expecting many more details on the pace quantitative tightening (QT), which was announced at €15 billion per month in the three months after March. The ECB will not be releasing updated economic forecasts today.

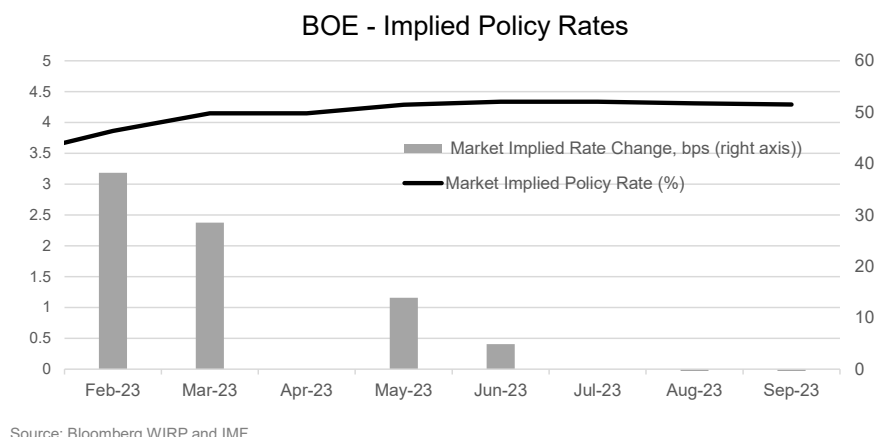
ECB - Implied Policy Rates



Source: Bloomberg WIRP and IMF

United Kingdom

The Bank of England (BOE) hiked the policy rate by 50 bps earlier today (to 4%), even though some analysts expected a smaller 25 bps hike. Markets expect a 25 bps hike in March and predict a terminal policy rate near 4.3% by May. All eyes will be on the BOE's updates on growth projections and inflation.



Emerging Markets

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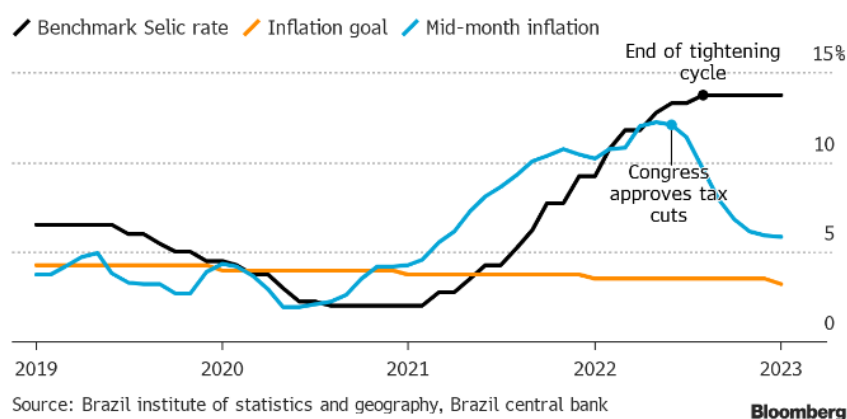
The Adani group in India withdrew a \$2.4 bn share offer as Citigroup joined Credit Suisse in refusing to accept its securities as collateral. Adani shares fell as much as 30%. EMEA equities gained in line with global markets, with shares in Budapest (+1.2%) outperforming. Local rates also traded lower. Currencies were mixed. The central bank of Egypt is expected to hike its policy rate by 100 bps to 17.25% today. Latin American stocks finished down on net while currencies appreciated against the dollar on Wednesday.

Brazil

Brazil left the benchmark Selic policy rate unchanged at 13.75%, as expected, for a fourth consecutive meeting. Although inflation has been falling since June and is currently at 5.87% yoy, the central bank emphasized it will keep the policy rate high until inflation expectations come back to target.

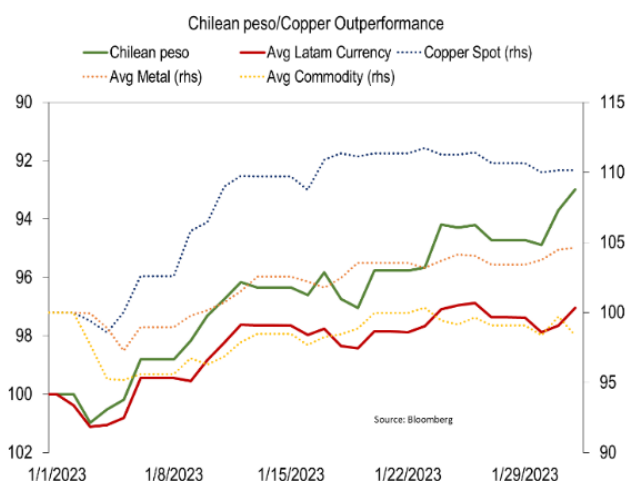
Inflation Slowing Down

Price pressures are easing with rates at a six-year high



Chile

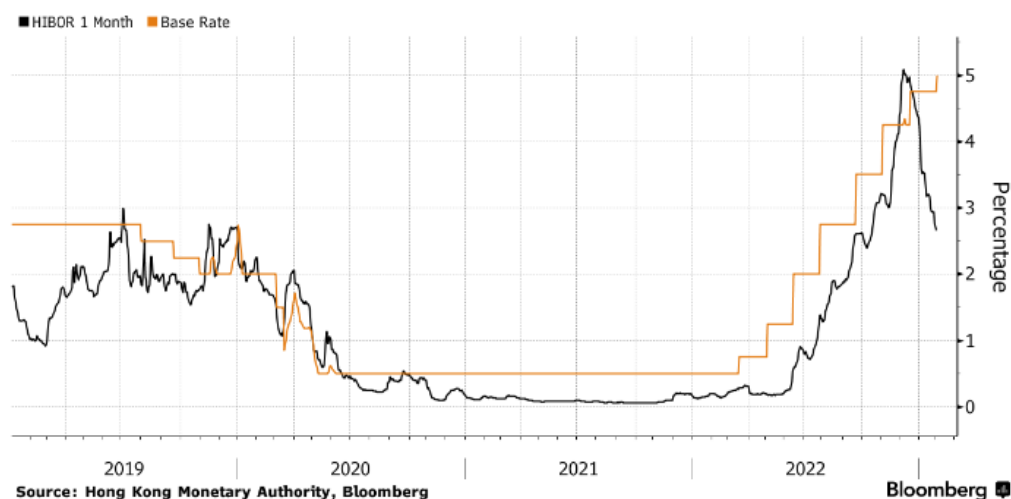
The Chilean peso continued to strengthen to new year highs for a second straight day, coinciding with increases in copper prices, following higher-than-expected December GDP. The peso finished Wednesday at 791.44 per USD, appreciating +7.4% YTD and +19.2% over the past 3 months, outperforming regional peers. Over the same time period, the copper spot price has gained +10.16% and +23.79% respectively. Chile's December GDP grew twice as much as the Bloomberg median estimate (0.4% mom vs expected 0.2% mom), illustrating surprising resilience in the economy despite political unease.



China / Hong Kong SAR

The Hong Kong Monetary Authority (HKMA) raised its benchmark rate by +25 bps, in tandem with the Fed. However the one-month HIBOR money market rate fell further, which Bloomberg notes to be indicative of weak loan demand. Separately, **China's securities regulator published draft rules to reform the initial public offerings (IPOs) process**. The China Securities Regulatory Commission (CSC) unveiled a proposed to expand registration-based listing mechanism to all domestic stock exchanges. This will shorten review periods and expedite funding to smaller companies.

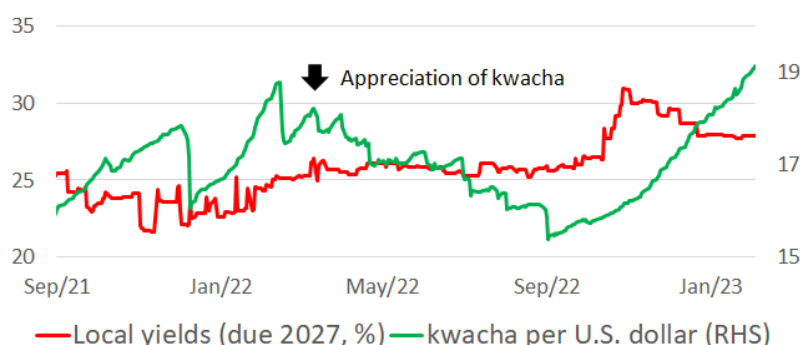
HKMA raises base rate in line with Fed but Hibor is dropping



Zambia

The Bank of Zambia increased the reserve ratios on domestic- and foreign-currency deposits to 11.5% from 9% to “address the increased volatility in the exchange rate, which intensified in December 2022 and has persisted in 2023.” The central bank warned that the current trend, if left unaddressed, has the potential to undermine the macroeconomic environment. **The kwacha has depreciated by around 20% since September 2022.**






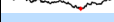











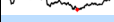
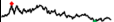


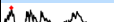
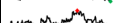


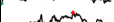


Zambia: Local currency rates and exchange rate



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Global Financial Indicators

Last updated: 2/2/23 8:34 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4147	1.0	2	8	-10	8
Europe		4210	0.9	1	9	0	11
Japan		27402	0.2	0	5	1	5
China		3286	0.0	1	5	-2	6
Asia Ex Japan		72	1.6	0	11	-12	11
Emerging Markets		42	1.2	-1	10	-15	10
Interest Rates			basis points				
US 10y Yield		3.36	-6.0	-14	-52	158	-52
Germany 10y Yield		2.15	-13.8	-7	-30	211	-43
Japan 10y Yield		0.50	0.6	1	8	32	8
UK 10y Yield		3.12	-18.4	-19	-55	187	-55
Credit Spreads			basis points				
US Investment Grade		139	-1.5	-5	-20	14	-20
US High Yield		443	2.3	2	-37	68	-37
Europe IG		75	-3.8	-4	-16	17	-16
Europe HY		391	-18.2	-21	-82	110	-83
Exchange Rates			%				
USD/Majors		101.14	-0.1	-1	-2	5	-2
EUR/USD		1.10	-0.1	1	3	-3	3
USD/JPY		128.1	-0.7	-2	-2	12	-2
EM/USD		51.8	0.4	1	4	-3	4
Commodities			%				
Brent Crude Oil (\$/barrel)		83	-0.4	-6	-4	-8	-4
Industrials Metals (index)		175	0.4	-2	6	-3	6
Agriculture (index)		70	0.9	2	2	8	2
Implied Volatility			%				
VIX Index (% change in pp)		17.5	-0.3	-1.2	-4.1	-4.6	-4.1
US 10y Swaption Volatility		100.8	-0.8	-9.2	-25.8	23.8	-24.9
Global FX Volatility		10.3	0.0	0.0	-0.5	2.9	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		201	-1.3	0	-23	12	-4
Italy		190	-11.0	8	-22	51	-24
Portugal		87	-4.4	-1	-13	19	-15
Spain		95	-4.5	-2	-12	21	-14

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

Emerging Market Financial Indicators

Last updated: 2/2/2023 8:37 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		6.72	0.3	1.0	3	-5	3	-6		3.2	-2.9	-5	11	46	11	31
Indonesia		14888	0.6	0.4	5	-4	5	-4		6.6	-6.9	-9	-36	16	-35	9
India		82	-0.3	-0.7	1	-9	1	-9		7.3	-6.1	-13	-13	70.3	-14	-10
Philippines		54	1.2	1.0	3	-5	3	-5		5.9	0.0	-3	-10	133	-10	93
Thailand		33	0.2	0.2	5	1	6	-1		2.5	-0.5	7	-11	45	-11	30
Malaysia		4.25	0.5	0.0	4	-1	4	-1		3.8	-2.4	2	-27	10	-27	11
Argentina		188	-0.2	-1.2	-5	-44	-6	-43		87.0	-31.7	92	-121	3742	-121	3904
Brazil		4.95	2.0	2.4	8	6	7	1		13.1	-9.8	3	21	190	49	154
Chile		781	1.4	2.7	9	4	9	1		5.2	-11.0	4	-14	-48	-14	-72
Colombia		4557	1.5	-0.8	6	-14	6	-14		9.2	0.0	-30	-60	199	-60	131
Mexico		18.53	0.4	1.5	5	11	5	9		8.2	-2.5	-15	-53	69	-53	36
Peru		3.9	-0.2	1.0	-1	1	-1	-3		8.0	0.1	2	3	196	5	202
Uruguay		39	0.6	1.3	3	14	4	10		10.1	-1.7	-7	-59	142	-59	193
Hungary		352	0.7	1.2	7	-11	6	-9		7.8	-21.0	4	-180	290	-180	299
Poland		4.28	0.1	1.1	2	-6	2	-5		5.1	-15.3	-12	-101	114	-101	124
Romania		4.5	0.1	0.3	3	-2	3	-2		7.3	2.7	12	-36	230	-36	218
Russia		70.1	-0.4	-0.7	2	9	6	17		10.4	0.0	10	-128	110	-142	-74
South Africa		17.0	0.4	1.3	0	-10	0	-11		8.5	-12.5	-15	-65	92	-65	93
Turkey		18.82	-0.1	-0.1	-1	-28	-1	-27		10.8	0.0	39	215	-1245	92	-1167
US (DXY; 5y UST)		101	0.0	-0.6	-2	5	-2	5		3.45	-6.9	-15	-56	184	-56	154

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
									basis points							
China		4181	-0.4	1	8	-8	8	-10		185	-1	8	-18	8	-23	
Indonesia		6891	0.4	0	0	3	1	0		155	1	15	-30	15	-30	
India		59932	0.4	0	-2	2	-1	5		155	7	13	14	13	1	
Philippines		6986	-0.7	-1	6	-5	6	-5		125	10	28	10	28	-12	
Thailand		1683	-0.2	1	0	1	1	-1		0	0	0	0	0	0	
Malaysia		1490	0.3	-1	1	-2	0	-6		105	-3	5	-17	5	-28	
Argentina		251062	-1.0	-3	21	180	24	175		1828	-16	-377	94	-377	91	
Brazil		111868	-1.2	-2	5	0	2	0		273	-6	-1	-47	-1	-58	
Chile		5331	-0.3	0	1	17	1	22		141	0	9	-13	9	-33	
Colombia		1268	-1.7	-3	-1	-17	-1	-16		374	8	2	8	2	-18	
Mexico		55019	0.8	0	12	6	14	7		354	-8	-27	15	-27	-16	
Peru		22587	0.8	-2	6	0	6	-3		195	-3	15	24	15	5	
Hungary		45760	1.2	-2	5	-14	4	-4		216	-5	-6	86	-6	63	
Poland		61369	1.5	0	6	-11	7	-2		94	-4	21	80	21	78	
Romania		12256	0.7	0	5	-9	5	-7		247	-5	-9	44	-9	14	
Russia		2248	0.8	4	4	-37	4	-27		3411	-577	938	3228	3234	2897	
South Africa		79884	0.1	-1	9	6	9	7		369	1	2	5	2	-20	
Turkey		4529	-3.9	-13	-20	126	-18	125		513	5	73	-43	73	-50	
Ukraine		507	0.0	0	-2	-3	-2	-2		4194	108	115	3316	115	2721	
EM total		42	-0.1	-1	10	-15	10	-12		373	4	-2	-39	-2	-85	

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

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