



- US equities maintain gains before weaker tech earnings dampens mood overnight ([link](#))
- ECB holds policy stance and reconfirms gradual slowdown in asset purchases ([link](#))
- Bank of England raises policy rate 25 bps and will start balance sheet unwind ([link](#))
- BOJ reaffirms accommodative stance as markets start to price policy normalization ([link](#))
- Headline inflation accelerates to a 20-year high of 49% y/y in Turkey ([link](#))
- Brazilian central bank hikes by 150 bps but signals future pace of tightening to slow ([link](#))

[Mature Markets](#)









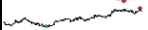
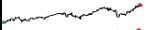
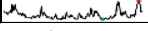
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## Stock market rebound stalls as investors weigh mixed earnings and tighter policy

The march higher in global equity markets has stalled overnight and this morning as weaker-than-expected earnings from some large-cap US tech companies, alongside further hawkish pivots by key central banks, soured the risk-on momentum. US equities closed higher yesterday for the fourth consecutive day as better-than-expected Q4 earnings prints initially boosted investor risk appetite and drove a continued decline in the VIX that was approaching 20. However, after the trading session closed, some mixed earnings reports and weaker forward guidance from a few US tech companies has again clouded the outlook for investors that are also wrestling with concerns over tighter monetary policy. Overnight, major Asian bourses were mixed while European and US stock futures, in particular the tech sector (Nasdaq futures -2%), are trading in negative territory. Core sovereign bonds yields are moving higher with Europe leading the way in response to recent inflation prints and monetary policy decisions this morning. The Bank of England raised its policy rate as expected by 25 bps and will also start to rundown its balance sheet. Gilt yields have moved up 8 to 10 bps across the curve as markets were surprised by 4 committee members that voted for a larger 50 bp hike. The ECB held its policy stance and reconfirmed the gradual slowdown in asset purchases. Markets are focused on President Lagarde's press conference this morning and whether there will be any pushback against the current market expectations for rate hikes this year. The hawkish central bank pivot has also persisted in EMs where the Brazilian central bank hiked by 150 bps but signaled readiness to moderate the pace of tightening going forward.

Key Global Financial Indicators

Last updated: 2/3/22 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
S&P 500		4589	0.9	6	-4	20	-4
Eurostoxx 50		4200	-0.5	0	-3	16	-2
Nikkei 225		27241	-1.1	4	-7	-4	-5
MSCI EM		49	-0.2	3	0	-12	0
<b>Yields and Spreads</b>							
US 10y Yield		1.80	2.2	0	17	66	29
Germany 10y Yield		0.06	2.0	12	18	52	24
EMBIG Sovereign Spread		378	-3	-3	11	31	11
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		53.3	-0.1	1	1	-7	1
Dollar index, (+) = \$ appreciation		96.1	0.2	-1	0	5	0
Brent Crude Oil (\$/barrel)		88.6	-0.9	-1	12	52	14
VIX Index (% change in pp)		22.7	0.6	-8	6	0	6

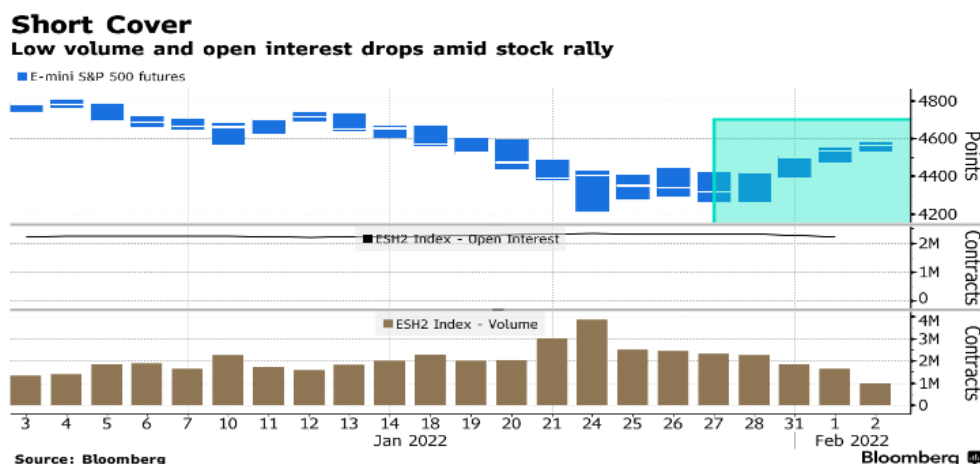
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

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### United States

**US equities closed higher for the fourth consecutive day, but stalled during overnight trading.** Stocks continued to gain yesterday as a decent Q4 earnings season has so far helped offset Fed tightening concerns. About 80% of S&P 500 companies have either met or beat analysts' estimates. Nevertheless, investors may not be as confident as markets currently signal. Open interest has on stock futures has decreased markedly even as futures prices have risen, suggesting that the current rally is led by a covering of short positions rather than opening new longs. Trading volumes of E-mini S&P 500 futures is the lowest since the beginning of the year, according to Bloomberg. After the regular trading session, Nasdaq futures fell by 1% as Facebook parent Meta Platforms Inc reported a disappointing forecast for the current period, casting doubt over the firm's future growth, and casting broader pessimism on tech sector stocks.



### Treasury yields edged lower, finishing the day at 1.77%, following weak ADP employment numbers.

The muted reaction in markets was partly due to comments by White House officials and Philadelphia Fed President Harker earlier this week, lowering expectations for jobs data saying Covid illnesses are counted as job losses. According to analysts, the details of the ADP report indicated a significant and likely temporary drag from Omicron. The next question for investors is whether payroll numbers on Friday could be weak enough to prompt the Fed to reconsider an aggressive tightening path. Six Fed officials spoke so far this week, somewhat playing down elevated rate hike expectations as the most aggressive, St. Louis Fed Bullard (voter), said five hikes, one more than every quarter, is "not too bad a bet."

### Euro area

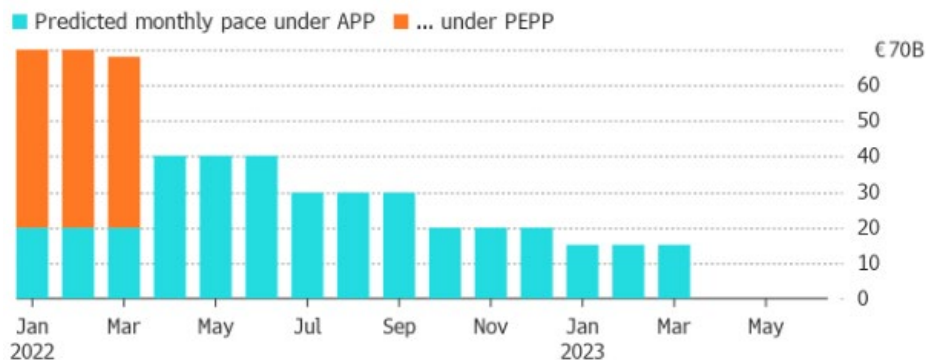
**European equities are trading in the red this morning**, with the STOXX 600 index down by 0.8%. Losses were broad based across sectors with technology sector (-1.9%) underperforming. The banking sector traded lower (-1%), with ING Groep NV (-4.8%) missing estimates for fourth-quarter profits after reporting higher-than-expected provisions. The telecommunications sector (+0.4%) outperformed. **European bond yields were slightly higher**, with the 10-yr bund yield remaining in positive territory for the 4<sup>th</sup> consecutive day. Southern yields were little changed with Greece underperforming.

**The ECB stayed on hold with no changes to the asset purchase program decisions taken in December.** The Governing Council confirmed the December monetary policy decisions in today's press release. Specifically, it confirmed that net asset purchases under the pandemic emergency purchase program (PEPP) will end in March 2022, with reinvestments envisaged until at least the end of 2024. The ECB also confirmed that the asset purchase program (APP) pace will increase to €40 bn in Q2 2022, from the current €20 bn, to €30 bn in Q3 2022 and €20 bn thereafter for as long as necessary to reinforce the

accommodative impact of its policy rates. Net purchases are expected to end shortly before key ECB interest rates are raised. The euro was trading weaker (-0.2%) this morning, with 10-year bunds yields +3 bps while Italy's spread widened by 2 bps. The press conference takes place later this morning.

### Bond Buying

ECB seen slowing net purchases this year before halting them next March

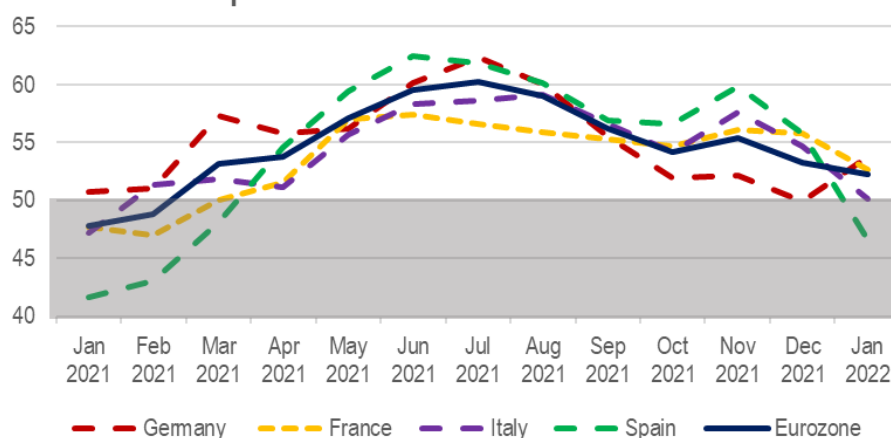


Source: Bloomberg survey of economists conducted Jan. 21-26

Bloomberg

**Final eurozone January PMI data show the weakest increase in business activity since March 2021, with uneven performance across the region.** The final eurozone composite output index (52.3) was slightly below an earlier flash estimate (52.4), weighed down by softer growth among service providers, while manufacturing output increased at a faster pace. **Data across member states varied with Germany moving back into growth territory (53.8 from 49.9), while France lost momentum (52.7 from 55.8). Italian and Spanish composite PMIs slowed more than expected with Italy stagnating (54.7 to 50.1) and Spain falling into contractionary territory (55.8 to 46.6).** IHS economist flagged building inflationary pressures as a key concern and noted that tensions in Ukraine could further dampen business confidence. Analysts generally expect modest GDP growth in the first quarter.

### Eurozone: Composite PMI



Source: Bloomberg and IMF calculations

### United Kingdom

**The Bank of England hiked its policy rate by 25 bps to 0.5% and will cease reinvesting maturing assets, in line with expectations.** Five out of nine MPC members voted in favor of a 25 bp hike, while the minority of members voted for a 50 bp increase. The committee reaffirmed that it would consider starting

the process of active selling of UK government bonds only once the bank rate has reached 1%. The central bank noted that modest tightening is likely in coming months if the economy develops in line with projections. Inflation is seen peaking in April at around 7.25%, roughly 2 ppts higher than the forecast in November. **Markets are pricing another rate hike in March. The sterling strengthened by 0.3% after the hike. The rate decision came amid a stronger than expected rebound in the services sector** as the final January PMI reading reached 54.2 from a previous estimate of 53.3, up from 53.6 in December. Composite PMI for January was stronger than consensus, reaching 54.2 from the previously estimated 53.4. The recovery was accompanied by the steepest rate of prices charged inflation since the survey started in 1996.

## Japan

**Equities declined -0.9%. Two-year overnight indexed swap (OIS) yields rose to zero for the first time in six years.** Some analysts attribute the climbs to speculation of monetary policy normalization in Japan, with key policy shifts anticipated after Kuroda's term ends in April 2023. Meanwhile, Bank of Japan Deputy Governor Wakatabe repeated it is too early to start policy tightening. In a speech to business leaders on Wednesday, Wakatabe said continued easing is appropriate as long-term inflation expectations are not yet anchored at 2%. The comments come after BOJ Governor Kuroda's post-January meeting remarks that rate hikes are "unthinkable". Separately, Japan's final PMIs were revised up but remained in contraction territory in January. Services PMI moved up to 47.6 from preliminary 46.6 and final composite PMI was revised up to 49.9 from preliminary 48.8. **Japanese yen weakened -0.2%, 10-year yields slipped -0.2 bps.**

**Yen's two-year overnight-indexed swap rises to zero for first time since 2016**



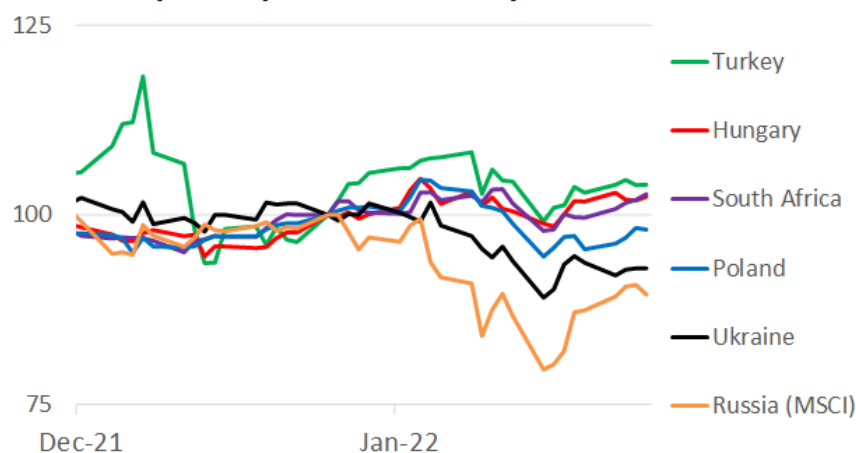
## Emerging Markets

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**Most Latin American equities slumped yesterday, while currencies depreciated.** Equities saw losses Brazil (-1.2%) and Chile (-0.9%) and rallied in Mexico (0.5%). Stocks underperformed in Argentina (-2.0%), ending a six consecutive trading days rally. Meanwhile, currencies depreciated in Mexico (-0.2%), Colombia (-0.3%), and Chile (-1.0%) and remained essentially flat in Argentina and Brazil. **Asian equities were broadly unchanged, +0.1% on net.** A few markets including mainland China remain closed. Currencies were mixed, Chinese renminbi lost -0.2% offshore, Thai baht outperformed (+0.2%) rising to one-week high. **Regional Asian PMI results were mixed in January.** Malaysia's manufacturing gauge (50.5, previous: 52.8) and India's services (51.5, previous: 55.5) and composite (53.0, previous: 56.4) readings slipped, while South Korea's manufacturing gauge (52.8, previous: 51.9) firmed. In **China**, sales of China's top 100 property developers dived -39.6% y/y in January. Total January sales by value was 43% below the

2021 average, with most top developers having clocked weaker monthly sales compared to a year ago. **EMEA equities and currencies were mixed.** Russian equities are still down 8% this year even after recovering some losses in past days. In contrast, equities in Hungary, South Africa, and Turkey are higher in 2022. **The Czech koruna (+0.3%) traded at its highest level in a decade ahead of an expected hike of 75 bps to 4.5% by the central bank later today.**

### EMEA: Equities (1 Jan 2022: 100)

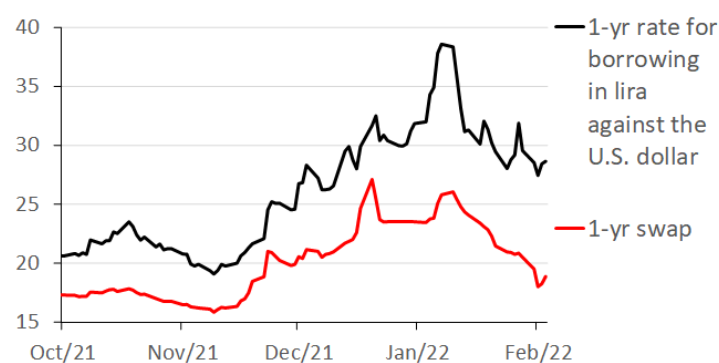


Source: Bloomberg and IMF

### Turkey

**The lira (-0.8%) fell and local rates ticked higher after core inflation rose to 39.5% y/y (38.9% expected) from 32% y/y in December.** Headline inflation rose to 48.7% y/y in December (from 36.1% in December) or 11.1% m/m (13.6% mom in December). **Investors will also keep an eye on headlines related to today's visit of Turkish PM Erdogan to Ukraine.**

### Turkey: Local swap and FX-implied rates (%)

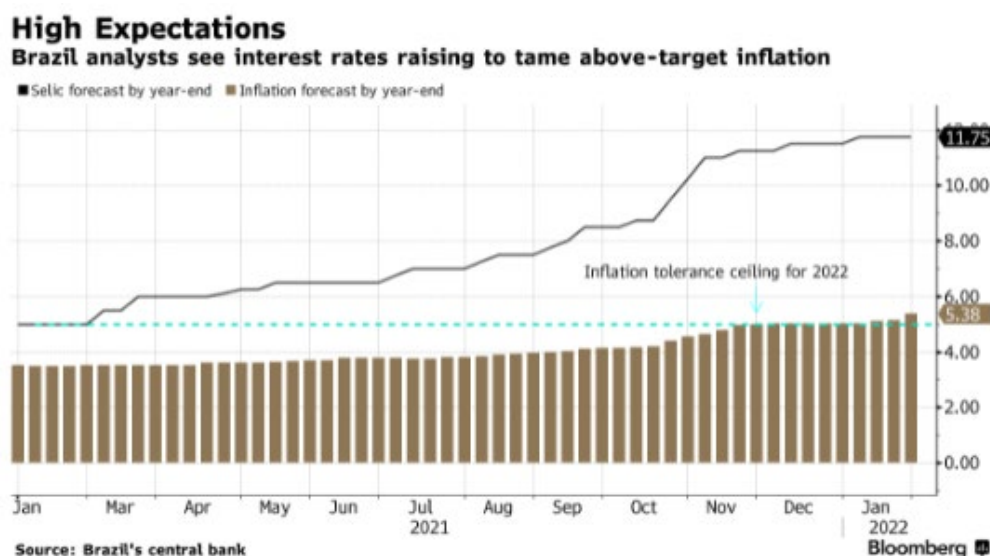


Source: Bloomberg and IMF staff



## Brazil






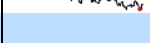




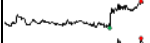












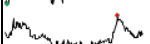

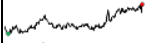


As expected, Brazil's central bank raised its policy rate by 150 bps to 10.75%. As a result, the benchmark rate breached the two-digit threshold for the first time in more than four years. Although 12-month inflation appears to have peaked in November 2021 at 10.74%, the central bank justifies the move by the “increase in its inflation projections and in the risk of a de-anchoring of long-term expectations”. With a cumulative 875 bps of tightening since March 2021, the central bank expects the effects to “manifest themselves over the relevant horizon” and foresees a slowing down of the tightening process. As such, most analysts do not see the Selic rate exceeding 11.75% by December 2022.



*This monitor is prepared under the guidance of 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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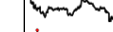









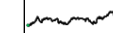





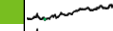



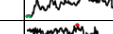




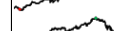











## Global Financial Indicators

Last updated: 2/3/22 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4549	0.9	5	-5	19	-5
Europe		4200	-0.5	0	-3	16	-2
Japan		27241	-1.1	4	-7	-4	-5
China		4564	-1.2	-5	-8	-15	-8
Asia Ex Japan		82	-0.1	2	-2	-16	-1
Emerging Markets		49	-0.2	3	0	-12	0
Interest Rates			basis points				
US 10y Yield		1.80	2.2	0	17	66	29
Germany 10y Yield		0.06	2.0	12	18	52	24
Japan 10y Yield		0.18	-0.3	2	11	12	11
UK 10y Yield		1.33	7.3	10	36	96	36
Credit Spreads			basis points				
US Investment Grade		125	0.4	1	12	32	13
US High Yield		374	-1.0	-3	39	12	36
Europe IG		59	1.2	1	11	10	11
Europe HY		287	6.3	8	46	39	46
Exchange Rates			%				
USD/Majors		96.11	0.2	-1	0	5	0
EUR/USD		1.13	-0.1	1	0	-6	-1
USD/JPY		114.9	0.4	0	0	9	0
EM/USD		53.3	-0.1	1	1	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		89	-0.9	-1	12	52	14
Industrials Metals (index)		181	0.0	0	5	36	4
Agriculture (index)		65	-0.6	2	6	28	6
Implied Volatility			%				
VIX Index (% change in pp)		22.7	0.6	-7.8	6.1	-0.2	5.5
US 10y Swaption Volatility		77.5	0.5	-0.3	-9.6	16.6	-1.5
Global FX Volatility		7.4	0.0	-0.1	-0.1	-0.1	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		188	-0.1	-3	44	78	37
Italy		142	2.8	7	9	37	7
Portugal		69	1.3	3	6	17	4
Spain		76	1.4	3	4	17	2

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

## Emerging Market Financial Indicators

Last updated: 2/3/2022 8:13 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		6.36	0.1	-0.4	0	1	0		2.7	-3.5	-2	-17	-57	-14
Indonesia		14378	-0.1	0.1	-1	-3	-1		6.4	1.6	-2	5	32	6
India		75	0.0	0.3	-1	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	0.0	0.6	0	-6	0		4.6	0.0	0	8	148	10
Thailand		33	0.1	0.1	1	-9	1		2.1	0.5	-8	24	65	24
Malaysia		4.18	0.0	0.3	0	-3	0		3.7	-2.2	-5	7	93	6
Argentina		105	-0.1	-0.5	-2	-17	-2		49.7	8.3	69	-90	-35	-90
Brazil		5.30	-0.7	2.0	7	1	5		11.2	-2.0	-37	20	329	46
Chile		815	-0.5	-1.1	4	-10	4		5.7	3.5	-2	22	302	29
Colombia		3946	-0.3	0.5	3	-11	3		7.1	-5.5	-25	61	299	73
Mexico		20.60	-0.1	0.8	0	-2	0		7.5	0.0	-9	-14	203	-1
Peru		3.9	0.7	-0.5	3	-6	4		6.1	0.0	-4	15	230	16
Uruguay		44	0.1	1.1	2	-3	2		8.7	0.0	-12	-6	147	-6
Hungary		313	-0.1	2.1	4	-6	4		4.9	-0.4	18	39	305	39
Poland		4.01	0.0	1.9	1	-7	1		4.0	1.0	5	44	277	47
Romania		4.4	-0.2	1.3	0	-8	-1		5.0	0.0	9	21	274	21
Russia		76.3	-0.4	2.2	-2	-1	-2		9.3	-0.5	-13	56	292	57
South Africa		15.3	0.2	1.0	4	-2	4		7.6	-3.0	-14	11	92	14
Turkey		13.56	-0.7	0.4	-3	-47	-2		23.1	-9.0	-46	-156	1001	-121
US (DXY; 5y UST)		96	0.2	-1.1	0	5	0		1.62	1.3	-4	27	116	36

	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		204	5	1	-22	1
Indonesia		6684	-0.4	1	0	9	2		188	14	23	2	23
India		58788	-1.3	3	-2	16	1		141	5	9	-16	9
Philippines		7383	-1.0	2	5	7	4		117	10	16	13	16
Malaysia		1526	0.9	1	-1	-4	-3		123	5	6	-16	6
Argentina		89663	-1.9	5	5	80	7		1721	-168	41	296	41
Brazil		111894	-1.2	-1	8	-7	7		316	2	5	50	5
Chile		4552	-0.1	0	6	3	6		154	7	14	10	14
Colombia		1530	-0.6	1	8	13	8		362	5	14	140	14
Mexico		52035	0.5	2	-2	18	-2		336	0	4	-29	4
Peru		22481	-0.9	0	6	4	6		170	16	20	45	20
Hungary		52704	-0.4	0	2	20	4		132	11	8	-9	8
Poland		68689	-0.3	1	-2	21	-1		13	5	-19	-17	-19
Romania		13423	-0.2	3	3	29	3		201	4	8	4	8
Russia		3480	-1.8	1	-10	4	-8		249	-23	72	73	72
South Africa		75326	0.2	2	2	20	2		364	2	9	-21	9
Turkey		1998	-0.2	0	4	30	8		552	11	-26	115	-26
Ukraine		522	0.0	0	0	0	0		848	-157	89	349	89
EM total		49	-1.2	3	0	-12	0		408	-8	21	61	21

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

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