GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, FEBRUARY 6, 2023

- **Markets remain optimistic about dovish Fed despite strong jobs report** (link)
- **Asian markets decline on US-China tensions** (link)
- **Türkiye grapples with impact of major earthquake** (link)
- **Chinese property companies warn of further losses** (link)
- **Corporate bond credit spreads sharply lower in US** (link)
- **Lower oil prices and resilient copper prices boost Chilean peso** (link)

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Markets uneasy as risks multiply

Global markets were lower almost everywhere as investors confronted multiple sources of risk. The blowout US jobs report on Friday has challenged the optimistic consensus of a policy rate peak early this year followed by a dovish pivot to lower rates in the second half of the year. The risk that the Fed's policy rate could stay higher for longer has rattled confidence. Rising US-China political tensions following last week's spy balloon incident pushed Asian markets lower, while worries about China's property companies remained front and center. The impact of the earthquake in Türkiye is still being evaluated, but local stocks are in the midst of a major decline. Markets are also watching for developments in the Adani situation in India, where the conglomerate is still under severe pressure.

Key Global Financial Indicators

Last updated: 2/6/23 7:57 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		4136	-1.0	2	6	-8	8	-2
Eurostoxx 50		4204	-1.3	1	5	3	11	6
Nikkei 225		27694	0.7	1	7	2	6	5
MSCI EM		41	-1.8	-3	2	-16	8	-14
Yields and Spreads			bps					
US 10y Yield		3.60	7.1	6	4	169	-28	160
Germany 10y Yield		2.28	8.9	-4	7	208	-29	205
EMBIG Sovereign Spread		426	-1	-13	-30	49	-26	13
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.8	-0.3	-1	1	-5	2	-4
Dollar index, (+) = $ appreciation		103.1	0.2	1	-1	8	0	7
Brent Crude Oil ($/barrel)		80.7	1.0	-5	3	-13	-6	-17
VIX Index (%, change in pp)		19.5	1.1	0	-2	-4	-2	-12

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

It will be a relatively quiet week for US data after last week's FOMC meeting, and the blowout US jobs report last Friday which reported the lowest unemployment rate since 1969. Markets are being forced to reconsider the optimistic consensus view that the Fed's policy rate will peak near 5% and that rate cuts will follow in the second half of the year. Friday's University of Michigan consumer sentiment survey is the only major data release in the US. In the euro area, today's retail sales data will be followed by German industrial production tomorrow and German CPI on Thursday. China is also due to release inflation data later this week. The Reserve Bank of India will hold its policy meeting tomorrow.

Mature Markets

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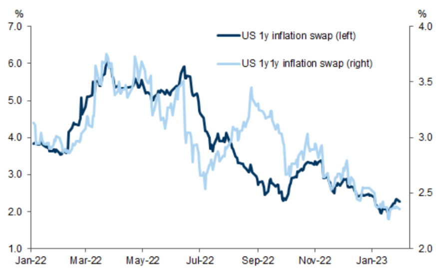
United States

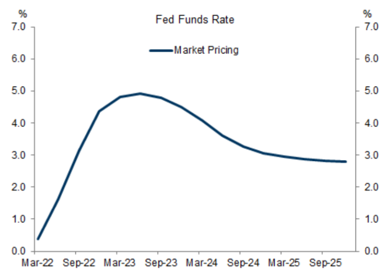
Markets retain their optimistic view of inflation and future Fed policy, despite the very strong jobs report. The inflation swap market predicts a rapid decline in inflation, while the interest rate futures market is predicting approximately 200 bps of Fed rate cuts between 2023 and 2025. Some analysts are worried that markets are too sanguine about US markets, as such a rapid pace of rate cuts could only be justified by an economic recession, and that risk assets will do poorly if such a recession does come to pass. In particular, credit spreads and equities could be vulnerable to another major selloff if US GDP growth falls into negative territory.

Exhibit 3 : Inflation swap markets are reflecting a faster decline in inflation than our (quite benign) view



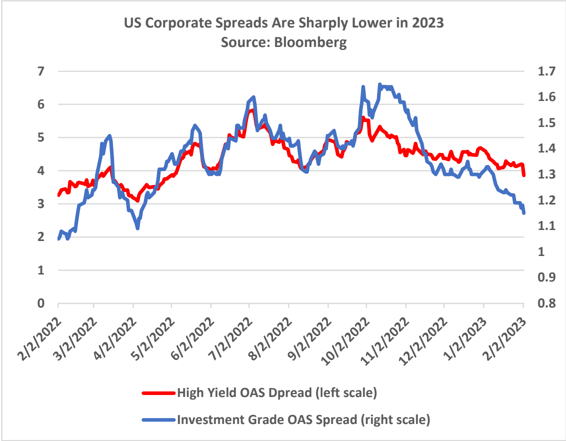
Source: Goldman Sachs, Goldman Sachs Global Investment Research

Exhibit 4 : The US rate curve is already pricing around 200bp of rate cuts between mid-23 and end-25

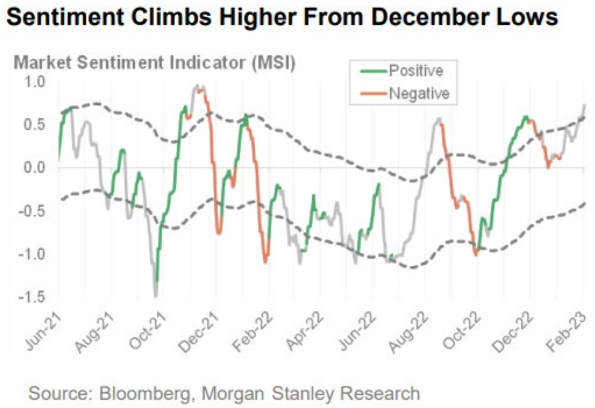


Source: Goldman Sachs, Goldman Sachs Global Investment Research

Corporate bond credit spreads in the US have fallen significantly this year. This is true not just for investment grade (IG) bonds but for high yield (HY) bonds as well. January was a very strong month for issuance and contacts report strong demand from non-US investors. The recent depreciation of the dollar and the rise in Treasury yields have made US corporate bonds much more attractive for foreign investors, both due to the yield pickup but also due to cheaper hedging costs.



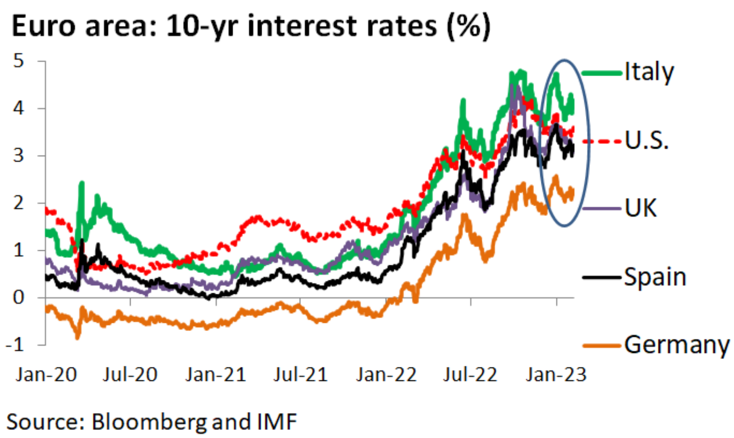
The US HY rally in January was part of a broader trend, with global HY returning a very strong 4.2% for the month. Another major factor for corporate bonds and risk assets more broadly is that investor sentiment has rebounded strongly from the doldrums of 2022, when nearly every major asset class suffered heavy losses. Morgan Stanley's Market Sentiment Indicator has staged a major recovery from the lows back in December. US HY bonds delivered an outperformance of 240 bps, according to Morgan Stanley data, as investors bet on a soft landing for the US economy.



Euro area

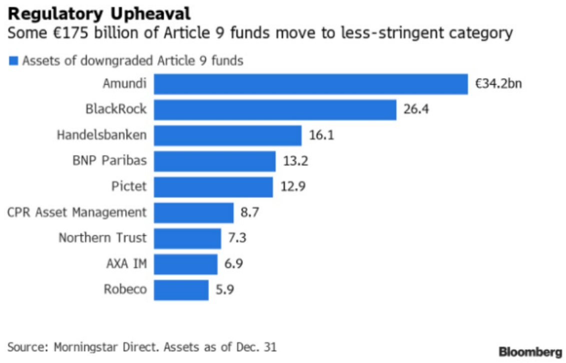
Stocks (-1.3%) fell as core rates traded higher and US-China tensions weighed on sentiment. EU leaders will hold a special summit on Thursday/Friday to discuss the European Commission's proposed response to the US Inflation Reduction Act. The ultimate outcome is expected to rely on state aid relaxation and the reshuffling of existing EU funds.

German 10-yr bund yields are 10 bps higher and Italian 10-yr yields 13 bps higher as ECB hawks signal that the ECB intends to hike beyond March. Governor Holzmann of the Austrian central bank said that the "risk of overtightening seems dwarfed by the risk of doing too little" and that the ECB must continue to show its teeth until there is a credible decline in inflation. Bank of Italy governor Visco said that ECB hikes are broadly manageable for Italy's public finances at present.



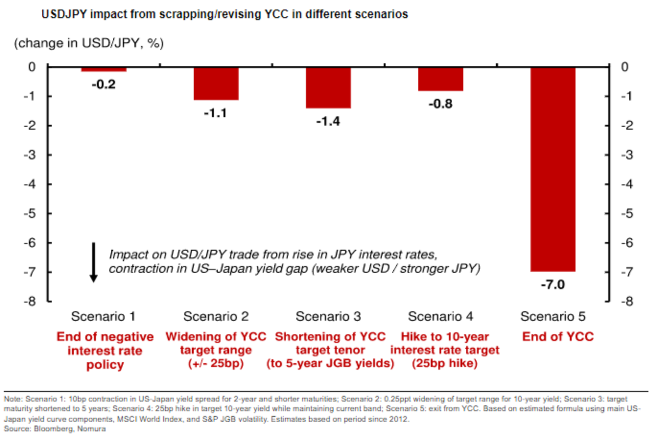
Following delays, Germany is expected to publish preliminary inflation numbers for January on Thursday February 9. The HIPC number is expected to show inflation of 1.3% mom (from -1.2% in December) or 10% yoy (from 9.6% in December). Contacts are divided to what extent the numbers will support the disinflation seen across the euro area. Some believe that it could take a couple of months to get a better sense on inflation developments in the euro area.

The European Commission will reportedly start closely monitoring capital flows in response to criticism that the EU's ESG regulations are not working as intended. In Q4 of 2022, the final quarter, asset managers removed Article 9, the EU's top ESG designation, from $190 bn of funds. Analysts suggest that the $4 tn market for less stringent Article 8 products may also be facing downgrades.



Japan

Equities gained +0.5% and the yen weakened -0.6%. The Japanese government has reportedly approached Bank of Japan (BOJ) Deputy Governor Amamiya about succeeding Governor Kuroda, according to press reports. However, Deputy Chief Cabinet Secretary Isozaki denied approaching Amamiya, according to Bloomberg. Nomura noted that compared with other candidates such as ex-Deputy Governors Nakaso and Yamaguchi, the promotion of Mr. Amamiya is likely to be associated with a greater sense of continuity in monetary policy, leading to lower expectations for major policy changes in the near future.



Emerging Markets

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In EMEA, the earthquake in Türkiye triggered large losses and led to precautionary measures including a ban on short selling. Other local markets were also lower. **Equities and currencies in Asia were generally weaker on rising US-China tensions. In India**, the beleaguered Adani group prepaid $1.1 bn of loans to try and restore investor confidence. **Latam markets** followed the US lower after the strong US jobs report.

Emerging Market Bond and Equity Fund Flows

Fund inflows continued into EM bond and equity funds for another week albeit at a slower pace. US IG fund flows witnessed the largest inflow since the spring of 2021 (+$5.8bn). EM Equity ETFs, meanwhile, saw the largest inflows since 2013 (+$4.6bn). Local currency bond funds were the only category to see outflows last week (-$0.5bn), yet year-to-date remain numbers remain positive territory (+$1.4bn). Year-to-date flows into EM bonds and equities are +$8.3bn and $26.8bn respectively. Outflows seen in 2022 were mostly out of bonds (-$90bn) relative to equities (-$4bn).

Exhibit 1: Weekly Cross-Asset Flows

USD billion

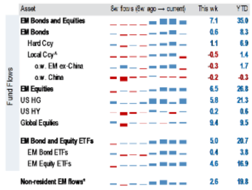
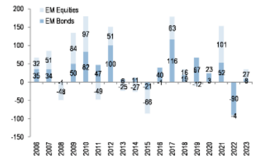


Exhibit 2: Annual EM bond and equity fund flows

USD billion



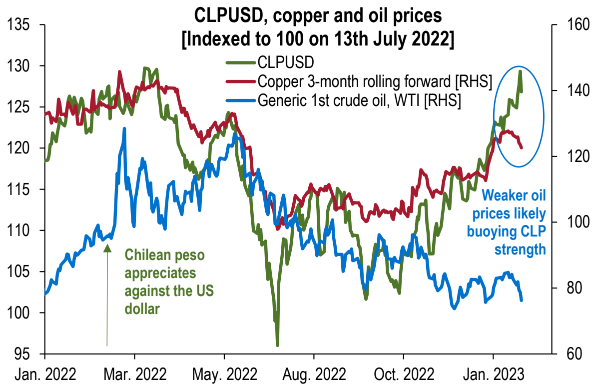
*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

China

Chinese stocks fell -1.3% as US-China tensions fueled risk-off sentiment. Separately, **China's real estate developers projected the worse losses in at least seven years**. According to Bloomberg, among 60 mainland-listed property firms that made profit alerts by the end of January, 60% expected losses for 2022. Some analysts noted that most developers that turned profitable last year relied on one-off events instead of business improvements. **10Y bond yields increased marginally**; the **overnight repo rate surged +54bps to 1.8%;** the **Chinese renminbi gained (+0.2%)** after the People's Bank of China set a stronger-than-expected yuan fixing. OCBC noted the central banks also appears to be supporting the market on liquidity—note the smaller-than-expected open market operations net withdrawals.

Chile

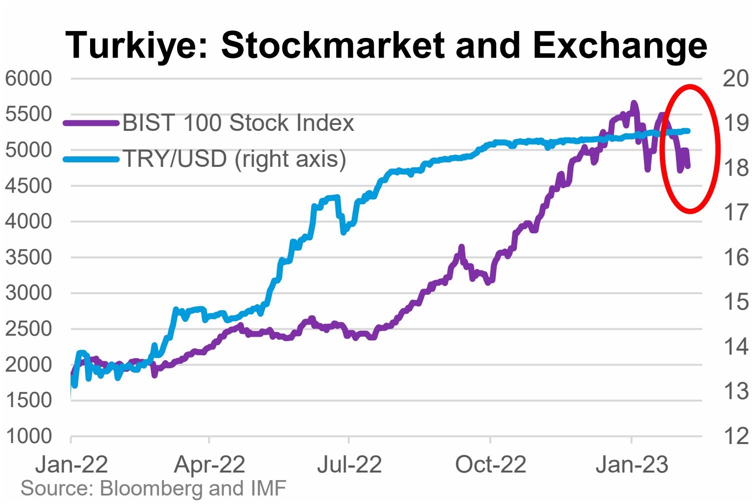
The Chilean peso continues to be the best performing currency in the region despite recent lower move in copper prices. Rising copper prices have been one of the main factors behind the rebound of the Chilean peso last year. While copper prices remain at higher levels than at the start of the new year (+7.3%, year-to-date) they have come down from its 6-months highs two weeks ago (-4%). Against this recent weakness, the Chilean peso has continued to appreciate against the US dollar (+8.0%, year-to-date). A likely factor behind this performance is weaker oil prices, which have come down by 10% over the past two weeks. While Chile's main commodity exports are copper, iron and silver, the country is a net importer of oil.



Source: Bloomberg

Türkiye

The Turkish stock market fell sharply after a massive earthquake (7.8 magnitude) struck the south of the country last night, followed by strong aftershocks. News outlets mention at least 1,300 reported casualties in Turkey and Syria. The stock market fell 4.6% at the open. To limit the market fallout, the Turkish stock exchange suspended short selling on the country's stocks for an indefinite time, and imposed a depository rule for selling shares. It also halted trading in eight companies until they make a statement on how their operations were affected by the earthquake. The lira was little changes after various restrictions introduced over the last few months have made trading the lira difficult.



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Global Financial Indicators

2/6/23 7:58 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		4136	-1.0	2	6	-8	8	-2
Europe		4204	-1.3	1	5	3	11	6
Japan		27694	0.7	1	7	2	6	5
China		4087	-1.3	-3	3	-12	6	-12
Asia Ex Japan		70	-1.8	-4	2	-14	8	-11
Emerging Markets		41	-1.8	-3	2	-16	8	-14
Interest Rates					basis points			
US 10y Yield		3.59	6.9	6	4	168	-28	160
Germany 10y Yield		2.28	8.7	-4	7	208	-29	205
Japan 10y Yield		0.51	0.9	2	0	31	8	31
UK 10y Yield		3.21	15.7	-12	-26	180	-46	173
Credit Spreads					basis points			
US Investment Grade		136	-1.0	-8	-26	9	-23	-7
US High Yield		415	0.2	-32	-52	29	-65	8
Europe IG		75	2.2	-5	-8	8	-16	3
Europe HY		391	10.8	-23	-39	72	-83	40
Exchange Rates					%			
USD/Majors		103.12	0.2	1	-1	8	0	7
EUR/USD		1.08	-0.2	-1	1	-6	1	-5
USD/JPY		132.1	0.7	1	0	15	1	15
EM/USD		50.8	-0.3	-1	1	-5	2	-4
Commodities					%			
Brent Crude Oil ($/barrel)		80.7	1.0	-4	2	-1	-6	-4
Industrials Metals (index)		169	-1.4	-4	3	-7	2	-10
Agriculture (index)		69	-0.2	0	3	6	0	-2
Implied Volatility					%			
VIX Index (%, change in pp)		19.5	1.1	-0.5	-1.7	-3.8	-2.2	-11.6
US 10y Swaption Volatility		103.1	0.3	-4.2	-13.2	23.8	-22.6	8.8
Global FX Volatility		10.3	0.1	-0.1	-0.5	2.8	-0.4	2.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		183	1.0	-16	-33	-23	-22	-57
Italy		187	3.5	-1	-15	33	-28	15
Portugal		84	0.0	-7	-16	8	-17	-8
Spain		93	0.7	-7	-13	10	-16	-10

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

Emerging Market Financial Indicators

Last updated: 2/6/2023 8:02 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.78	0.2	-0.4	1	-6	2	-7		3.2	4.3	-4	12	45	13	33
Indonesia		15055	-1.1	-0.6	4	-4	3	-5		6.7	14.0	-7	-29	22	-26	19
India		83	-1.1	-1.5	0	-10	0	-10		7.4	14.4	-12	-6	76.9	-7	
Philippines		54	-1.3	0.3	2	-6	2	-6		5.9	0.0	-3	-10	133	-10	93
Thailand		34	-0.5	-2.5	0	-2	3	-4		2.7	13.0	12	6	49	4	44
Malaysia		4.26	-0.3	-0.3	4	-2	3	-2		3.8	-0.3	1	-26	10	-27	11
Argentina		188	0.0	-0.7	-5	-44	-6	-43		86.5	-46.4	-73	-106	3660	-174	3851
Brazil		5.16	-0.5	-0.7	1	2	2	-3		13.5	11.4	33	72	198	91	197
Chile		804	-1.0	0.5	5	3	6	-2		5.3	6.5	1	9	-38	-2	-59
Colombia		4707	-0.2	-1.1	3	-16	3	-17		8.8	0.0	-76	-126	147	-98	93
Mexico		19.02	-0.3	-1.3	1	8	3	6		8.3	12.5	-9	-33	82	-42	47
Peru		3.8	-0.2	-0.2	-1	1	-1	-3		7.9	10.3	-14	0	181	-7	190
Uruguay		39	0.7	0.1	3	13	3	10		10.0	-0.2	-8	-70	132	-70	183
Hungary		363	-1.0	-1.0	2	-15	3	-12		8.1	22.0	-5	7	339	-150	329
Poland		4.38	-0.3	-0.9	1	-10	0	-7		5.3	10.8	-5	-11	136	-88	137
Romania		4.6	-0.4	-0.6	2	-5	1	-4		7.2	3.2	8	-42	218	-45	209
Russia		70.9	0.3	-1.1	2	6	5	15		10.3	-0.5	-16	-144	92	-158	-90
South Africa		17.6	-0.4	-0.9	-3	-12	-3	-14		8.7	11.0	0	-13	104	-43	115
Turkey		18.83	0.0	-0.2	-1	-28	-1	-27		11.0	18.0	44	245	-1178	119	-1140
US (DXY; 5y UST)		103	0.2	0.9	-1	8	0	7		3.75	9.4	9	6	198	-25	185

	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		4087	-1.3	-3	3	-12	6	-12		179	-4	-2	-21	2	-29
Indonesia		6874	-0.5	0	3	1	0	-1		132	-17	-24	-49	-8	-53
India		60507	-0.6	2	1	5	-1	6		150	5	5	11	8	-4
Philippines		6937	-1.3	0	4	-6	6	-6		106	-12	-14	-6	9	-31
Thailand		1682	-0.4	0	0	0	1	-1		0	0	0	0	0	0
Malaysia		1490	0.0	-1	1	-2	0	-6		102	-3	-1	-20	2	-31
Argentina		239370	-3.8	-6	12	172	18	162		1870	41	-294	117	-335	133
Brazil		108523	-1.5	-3	0	-3	-1	-3		259	-13	-17	-54	-15	-72
Chile		5314	0.0	0	3	20	1	21		131	-4	-10	-22	-1	-43
Colombia		1263	0.3	-1	-5	-17	-2	-16		363	-7	-8	4	-9	-29
Mexico		54049	0.3	-1	4	5	12	5		340	-10	-45	3	-41	-30
Peru		22246	-0.7	-2	0	0	4	-5		182	-6	-5	15	2	-8
Hungary		44934	-1.0	-2	-1	-13	3	-6		189	-22	-39	57	-33	36
Poland		60668	-1.3	0	1	-10	6	-3		69	-16	-4	57	-4	53
Romania		12308	0.3	2	1	-8	6	-7		221	-23	-37	20	-35	-11
Russia		2272	1.1	3	5	-35	5	-26		3411	-577	938	3228	3234	2897
South Africa		79701	-0.7	-1	4	6	9	6		346	-8	-21	-19	-21	-43
Turkey		4793	-4.1	-6	-10	147	-13	138		496	-4	55	-56	56	-67
Ukraine		507	0.0	0	-1	-3	-2	-2		4189	92	78	3332	110	2716
EM total		41	-1.8	-3	2	-16	8	-14		357	-9	-24	-51	-19	-101

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

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