



- **Divergence between Fed and market growing more extreme** ([link](#))
- **US CDS spreads move higher as debt ceiling looms** ([link](#))
- **Stocks in Turkey suffer second day of major losses after earthquake** ([link](#))
- **Reserve Bank of Australia delivers hawkish hike** ([link](#))
- **Ghana's voluntary debt exchange faces deadline** ([link](#))
- **Mexican peso outperforms on fundamentals and trade links to US** ([link](#))
- **Special Feature: EM and Frontier Markets Issuance Monitor** (Attached)

[Mature Markets](#)




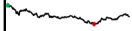




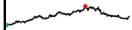


| [Emerging Markets](#)

| [Market Tables](#)

Markets seek direction amid multiple uncertainties

Markets are mixed after several days of losses. Conditions appear to have stabilized somewhat after the surprisingly strong US jobs report, but the fundamental uncertainties remain. The divergence between the Fed's expectations of policy rates that will remain higher for longer and the market's expectations of a dovish turn later this year remains the central question for global markets. Meanwhile, economic data in Europe have taken a negative turn as German industrial production weakened more than expected, complicating the picture for the ECB. Markets were also surprised by the hawkish hike from the Reserve Bank of Australia. Meanwhile, Turkey continues to struggle with the impact of the region's major earthquake and the subsequent aftershock. The true impact of the economic destruction is only gradually becoming apparent. In frontier markets, Ghana is in the spotlight as it confronts a key deadline in its efforts to restructure its debt.

Key Global Financial Indicators

Last updated: 2/7/23 7:58 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		4111	-0.6	2	6	-8	7	-3
Eurostoxx 50		4211	0.1	1	5	2	11	6
Nikkei 225		27685	0.0	1	7	1	6	5
MSCI EM		40	-1.5	-3	1	-17	6	-15
Yields and Spreads			bps					
US 10y Yield		3.63	-1.3	12	7	171	-25	164
Germany 10y Yield		2.32	2.4	3	11	209	-25	209
EMBIG Sovereign Spread		430	4	-14	-39	54	-22	17
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.7	0.1	-1	1	-5	2	-5
Dollar index, (+) = \$ appreciation		103.7	0.1	2	0	9	0	8
Brent Crude Oil (\$/barrel)		82.2	1.5	-3	5	-11	-4	-15
VIX Index (% change in pp)		19.4	0.0	0	-2	-3	-2	-12

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

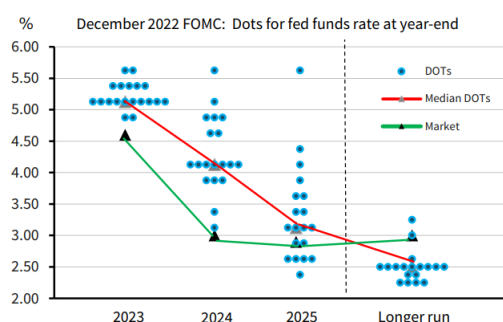
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[back to top](#)

United States

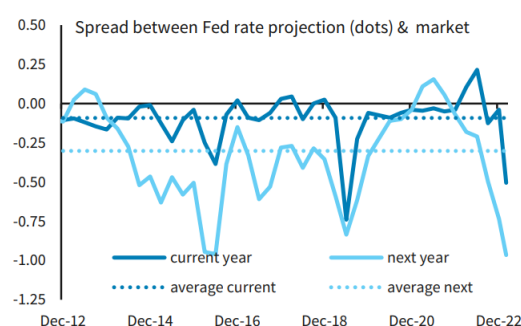
The divergence between the Fed's dot plot and the market's forecasts for the future path of the Fed's policy rate is growing more extreme. Despite Friday's unexpectedly strong US jobs report, markets continue to trade below the Fed's median dots. Inflation markets predict that CPI will be in the 2.3%–2.5% range in coming years, not far from the Fed's target of 2%. The five-year forward starting five-year inflation swap is trading at 2.5%. Fed Fund futures are pricing a policy rate of 4.8% by the end of 2023 (versus the dot plot estimate of 5.1%), and 3.20% by the end of 2023 (versus the dot plot estimate of 4.1%). The data flow in the months ahead will determine whether the Fed or the markets are right. Higher than expected inflation data will probably push the market closer to the Fed's dot plot. However, weakness in the economic data could widen the divergence further, eventually forcing the Fed to change its forecasts and move closer to the market.

FIGURE 2. Markets are trading well below the Fed's median dots



Source: Federal Reserve, Barclays Research

FIGURE 3. The divergence is getting extreme in a historical context



Source: Federal Reserve, Bloomberg, Barclays Research

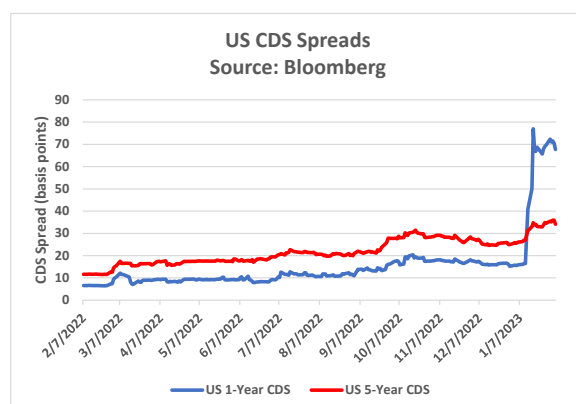
The Fed expects faster growth and higher inflation than the consensus market forecasts. The market thinks tight monetary policy will cause the economy to slow down more than the Fed expects, and that the easing of supply chain constraints will help reduce inflation. The Fed currently takes the view that higher unemployment is needed to cool down the economy enough to reduce inflation. According to Barclays, survey data from portfolio managers and traders shows that market participants think the Fed is wrong, and that the weaker economic data will force the Fed to turn dovish as market pricing currently predicts.

FIGURE 4. Market participants expect lower growth and inflation than the Fed projects

December FOMC		2023	2024	2025
Q4/Q4 real GDP growth	Fed	0.5	1.6	1.8
	Consensus	-0.3	1.7	1.9
Unemployment rate	Fed	4.6	4.6	4.5
	Consensus	4.7	5.0	4.6
Core PCE	Fed	3.5	2.5	2.1
	Consensus	3.0	2.3	2.0

Source: NY Fed, Barclays

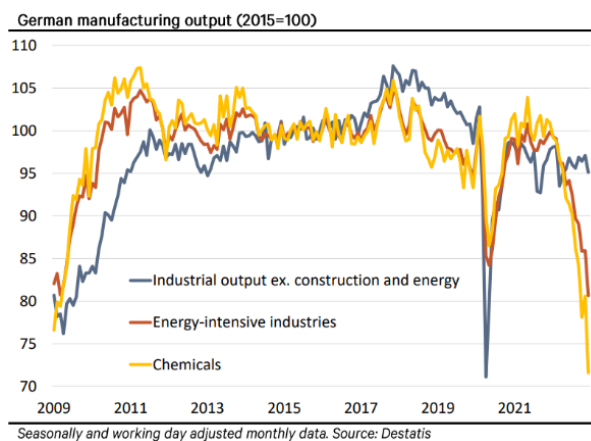
US credit default swap (CDS) spreads have increased significantly ahead of the looming dispute over the debt ceiling. Failure to raise the debt ceiling could result in a default on US sovereign obligations. The one-year CDS spread shot up to 80 bps from around 12 bps at the beginning of the year before dipping slightly in more recent trading. The five-year CDS spread has drifted up from about 20 bps to near 35 bps. Shorter maturity CDS usually rise faster than longer maturity CDS when the market is assessing sovereign credit risk, as it is assumed that shorter maturity CDS are more likely to be triggered if a default occurs. Market contacts indicated they were not yet worried about the prospect of a US debt default, attributing the CDS trends to speculative bets that were closer to buying a lottery ticket rather than a serious view of the market. The T-Bill market is yet to show any major sign of stress, with August yields slightly higher than earlier maturity bills before yields decline in longer maturities. During the last major debt ceiling crisis in 2011, the one-year CDS spread hit 130 bps in early August before subsiding when the crisis was resolved. S&P became the first and only rating agency in history to downgrade the US from AAA status when it imposed a rating of AA+ on August 5, 2011.



Euro area

European stocks were little changed in a relatively quiet session. Shares in BNP rose 2% after the bank announced a buyback of €5 bn and upgraded 2025 financial targets. BNP missed overall profit targets due to higher costs, but bond trading outperformed.

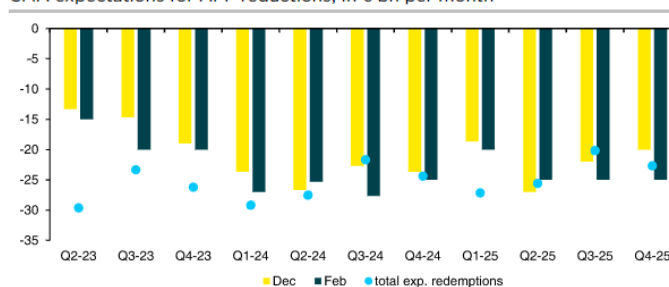
German 10-yr bund yields are little changed after German industrial production fell 3.1% mom in December, compared to a contraction of 0.8% expected. Production of intermediate goods and in energy-intensive industrial branches drove the decline. **Italian 10-yr spreads rose 4 bps to 190 bps.**



The latest ECB Survey of Monetary Analysts shows that, compared to the December survey, analysts now expect the ECB to stop re-investments in full by next year. Last week, the ECB confirmed that the APP portfolio will decline by €15 bn/m on average from the beginning of March until the end of June 2023.

Analysts expect quicker pace of APP reduction

SMA expectations for APP reductions, in € bn per month

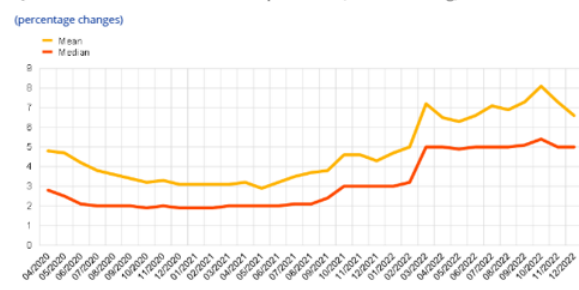


Source: ECB, Commerzbank Research

Median survey expectations for euro area inflation over the next 12 months were unchanged at 5.0%, while median expectations for inflation three years ahead edged up from 2.9% to 3.0%, reversing their previous decline. Inflation perceptions and expectations were closely aligned across income groups, but younger respondents (aged 18–34) continued to report lower inflation perceptions and expectations than older respondents (aged 55–70).

Euro area: Inflation expectations over the next 12 months (pooled)

Quantitative measures of inflation expectations (forward-looking)



Source: CES.

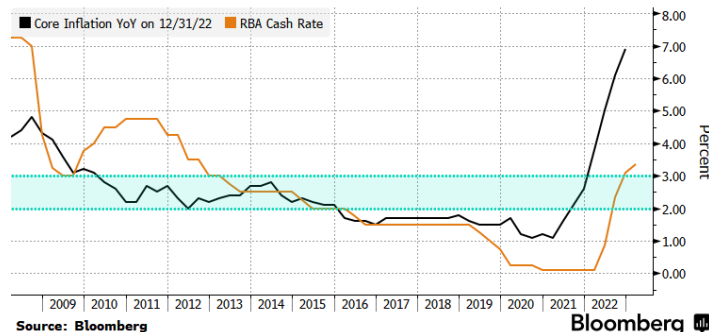
Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. Mean values are winsorised at the 2nd and 98th percentiles of each survey round and country.

Australia

The Reserve Bank of Australia (RBA) raised the policy rate by 25 bps to 3.25% as expected. However, the RBA's hawkish message surprised the markets. Today, Governor Lowe indicated that further monetary policy tightening will be needed to curb high inflation. Back in December, the RBA discussed a possible pause in tightening. Markets repriced for additional policy rate hikes, with the 2-year overnight index swap (OIS) rate rising (+14.8 bps). Bonds and stocks sold off. Long-end government bond yields rose (10-year: +13.5 bps; 30-year: +7.5 bps), partly also driven by the increase in U.S. treasury yields. Equities declined (-0.5%) while the Australian dollar appreciated (+0.8%).

Hot Prices

RBA raises rates as core inflation stays above RBA's 2-3% target band



Source: Bloomberg

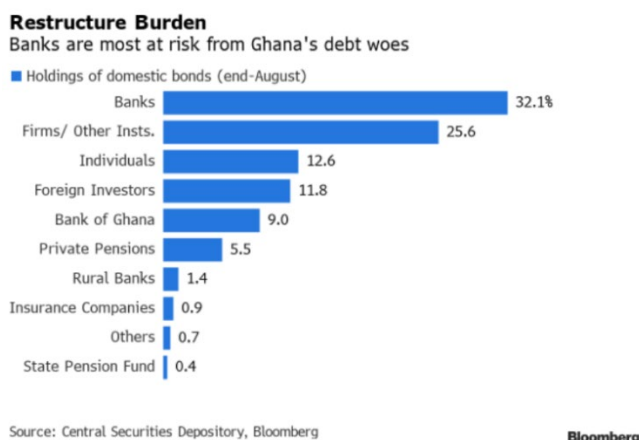
Bloomberg

Emerging Markets [back to top](#)

Stocks in Türkiye fell into a major decline as the true scale of the destruction from the earthquake becomes apparent, down nearly 10% in just two days. A second circuit breaker was triggered this morning and trading temporarily halted after stocks declined by 7%. Bloomberg reports that equities of the state-run insurance company Türkiye Sigorta saw the largest losses today (-7.9%). **In Asia**, markets had no clear direction. **The People's Bank of China (PBOC) continued to drain liquidity**, leading to tighter conditions. Adani stocks in India rebounded after the group prepaid \$1.1 bn debt. **Latin American** currencies depreciated against the dollar, led by the Colombian peso (-1.9%). Hard currency bonds also sold off, but local rates held steady.

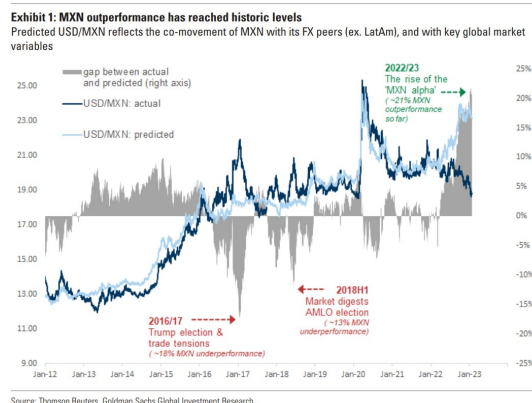
Ghana

Ghana is seeking to restructure 137 billion cedi (\$11.2 billion) domestic bonds under a voluntary debt exchange program, which deadline is today. The domestic debt exchange is an essential component of a potential IMF program, on which Ghana and IMF staff reached staff level agreement on December 12 (for \$3 bn under the Extended Credit Facility), according to press reports. Authorities are aiming for an 80% participation in the domestic debt exchange, but subscriptions rates have been insufficient so far and the deadline for completing the exchange has been pushed back four times already, with a current deadline of today February 7. Bloomberg reports that Ghana is now offering to pay between 8.35% and 15% on the new bonds offered under the exchange, compared to between 5% and 9% offered earlier. Payments on local debt falling due before the new settlement date of the exchange program have been suspended, while the principal and interest of maturing bonds will be paid as part of the principal when the new bonds mature. Holders who do not participate in the program will, however, be paid. Ghana failed to pay a coupon due on January 18 on its January 2026 maturity eurobond. This was Ghana's first non-payment after the country announced in December that it would default on its external debt.



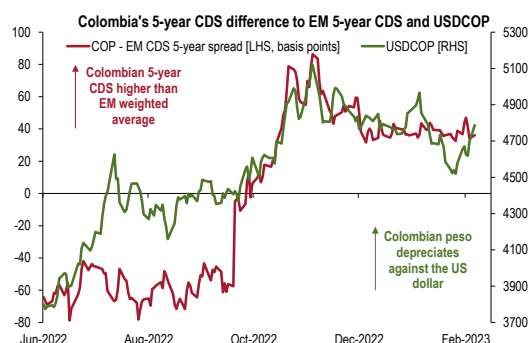
Mexico

The Mexican peso has outperformed on fundamentals and trade links. The currency was one of the best performers against a very dominant US dollar last year (+5.3%) and has continued its appreciation against the dollar in the new year (+1.8%). Goldman Sachs' strategists argue that there are several likely reasons besides fiscal restraint and tight monetary policy. First, the peso's low volatility has helped support carry trades. Second, Mexico's goods export share to the US has increased and captured some of China's market share which has declined since the 2016 US presidential election. This share is likely to be sustained if global supply chains shift towards "near-shoring". Finally, Mexico's strong trade links with the US has been beneficial as the latter's economy has been stronger than investors' expectations.



Colombia

The Colombian peso was one of the worst performers of the day against the US dollar (-1.9%). The currency currently has the highest 3-month implied volatility across major currencies. While the peso has appreciated against the dollar since the start of the year, its recent depreciation seems to be in line with the country's CDS spread to the rest of emerging markets. Although the country's latest inflation print came slightly below expectations over the weekend, it was still the highest print in over two decades. Compared to its neighbors in the region, inflation is yet to peak in Colombia.



Source: Bloomberg, IHS Markit, IMF Staff Calculations

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Global Financial Indicators

2/7/23 8:01 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4118	-0.6	1	6	-8	7	-3
Europe		4211	0.1	1	5	2	11	6
Japan		27685	0.0	1	7	1	6	5
China		4094	0.2	-2	3	-11	6	-11
Asia Ex Japan		69	-1.5	-3	1	-15	7	-13
Emerging Markets		40	-1.5	-3	1	-17	6	-15
Interest Rates			basis points					
US 10y Yield		3.63	-1.1	12	7	171	-25	164
Germany 10y Yield		2.32	2.5	4	11	209	-25	209
Japan 10y Yield		0.50	-0.4	1	0	30	8	30
UK 10y Yield		3.30	5.4	-3	-17	189	-37	182
Credit Spreads			basis points					
US Investment Grade		138	0.8	-6	-24	11	-21	-5
US High Yield		419	4.4	-28	-48	33	-61	13
Europe IG		75	0.0	-5	-5	9	-16	3
Europe HY		394	1.1	-21	-24	75	-80	43
Exchange Rates			%					
USD/Majors		103.73	0.1	2	0	9	0	8
EUR/USD		1.07	-0.2	-1	0	-6	0	-5
USD/JPY		132.0	-0.5	1	0	15	1	15
EM/USD		50.7	0.1	-1	1	-5	2	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		82.1	1.3	-4	4	0	-4	-3
Industrials Metals (index)		166	-0.6	-6	2	-9	1	-11
Agriculture (index)		69	0.3	-1	3	5	0	-2
Implied Volatility			%					
VIX Index (% change in pp)		19.5	0.0	0.1	-1.7	-3.4	-2.2	-11.6
US 10y Swaption Volatility		106.6	0.0	2.0	-11.7	27.3	-19.1	12.3
Global FX Volatility		10.5	0.0	0.0	-0.2	3.0	-0.2	3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		185	1.9	-17	-31	-44	-20	-55
Italy		186	0.0	-1	-15	31	-28	15
Portugal		84	0.4	-6	-16	6	-17	-7
Spain		93	0.1	-6	-13	8	-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: 2/7/2023 8:03 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		6.79	0.1	-0.5	0	-6	2	-7		3.2	-2.0	-2	10	43	11	31
Indonesia		15148	-0.6	-1.0	3	-5	3	-5		6.7	3.1	1	-26	22	-22	22
India		83	0.0	-0.9	0	-10	0	-10		7.4	-2.0	-8	0	74.8	-9	-9
Philippines		55	-1.2	-0.8	0	-7	1	-7		5.9	0.0	0	-15	133	-10	93
Thailand		34	0.5	-2.4	-1	-2	3	-4		2.7	-1.0	9	12	48	3	43
Malaysia		4.30	-1.0	-0.8	2	-3	2	-3		3.8	6.4	3	-20	13	-21	16
Argentina		189	0.0	-1.1	-5	-44	-6	-43		85.6	-88.9	-158	5	3578	-263	3762
Brazil		5.15	0.0	-1.5	2	2	3	-3		13.3	-6.4	23	55	176	69	175
Chile		800	0.6	-0.3	5	3	6	-1		5.3	-2.0	2	18	-41	-4	-62
Colombia		4779	0.2	-2.3	2	-17	2	-18		8.9	0.0	-51	-117	156	-89	102
Mexico		19.10	0.4	-1.4	0	8	2	6		8.3	1.1	-7	22	77	-41	48
Peru		3.8	-0.2	0.1	-1	0	-1	-3		7.9	0.1	-11	4	183	-3	194
Uruguay		39	0.2	-1.1	2	12	2	8		10.0	0.0	-9	-70	139	-70	183
Hungary		368	-0.1	-2.2	0	-16	1	-13		8.1	-5.0	3	10	334	-155	324
Poland		4.44	-0.4	-2.5	-2	-11	-2	-9		5.4	10.5	2	29	146	-78	148
Romania		4.6	-0.3	-1.1	0	-6	1	-4		7.3	4.7	5	-16	222	-40	213
Russia		71.2	0.7	-1.4	-2	6	4	15		10.3	0.0	-16	-157	92	-158	-90
South Africa		17.6	0.2	-1.3	-4	-12	-3	-14		8.8	2.2	7	16	108	-38	120
Turkey		18.83	-0.1	-0.1	0	-28	-1	-27		11.7	70.0	106	315	-1086	189	-1070
US (DXY; 5y UST)		104	0.1	1.6	0	9	0	8		3.79	-3.7	17	9	203	-21	189

	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		4094	0.2	-2	3	-11	6	-11		173	-8	-10	-29	-4	-35	
Indonesia		6935	0.9	1	4	2	1	0		133	-14	-41	-43	-7	-52	
India		60286	-0.4	1	1	4	-1	5		143	-3	-3	2	1	-11	
Philippines		6881	-0.8	1	3	-8	5	-7		108	-9	-34	-5	11	-29	
Thailand		1680	-0.1	1	0	0	1	-1		0	0	0	0	0	0	
Malaysia		1476	-0.9	-1	0	-4	-1	-7		99	-6	-5	-24	-1	-34	
Argentina		243608	1.8	-1	14	173	21	167		1929	104	-200	154	-276	192	
Brazil		108722	0.2	-4	0	-3	-1	-3		254	-20	-29	-59	-20	-77	
Chile		5286	-0.5	-1	3	18	0	21		131	-9	-27	-22	-1	-43	
Colombia		1268	0.4	-2	-4	-17	-1	-16		366	-13	-19	6	-6	-26	
Mexico		54049	0.3	-1	4	5	12	5		347	-14	-40	8	-34	-23	
Peru		22255	0.0	-1	0	-1	4	-5		182	-11	-19	14	2	-8	
Hungary		45282	1.1	0	0	-13	3	-5		193	-22	-68	63	-29	40	
Poland		60438	0.2	-1	1	-10	5	-4		64	-13	-39	54	-9	48	
Romania		12370	0.7	2	2	-8	6	-6		225	-19	-70	19	-30	-7	
Russia		2270	-0.1	2	5	-35	5	-26		3411	-577	938	3228	3234	2897	
South Africa		79507	-0.1	0	3	5	9	6		351	-13	-19	-17	-16	-38	
Turkey		4578	-7.1	-8	-14	129	-17	127		506	1	28	-48	66	-57	
Ukraine		507	0.0	0	-1	-3	-2	-2		4202	69	21	3357	123	2729	
EM total		40	0.1	-3	1	-17	6	-15		366	-5	-24	-43	-10	-92	

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

[back to top](#)