



- Credit spreads widen in US corporate bond market as interest rates rise ([link](#))
- US 10-year real yield hits 20 month high ([link](#))
- Euro area carbon permit prices hit all time high ([link](#))
- Russia to recognize crypto assets ([link](#))
- Poland hikes by 50 bps with more tightening expected ([link](#))
- Bank of Thailand stays on hold to support recovery ([link](#))

[Mature Markets](#)


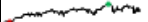

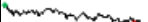
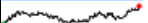

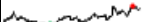
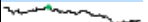



[Emerging Markets](#)

[Market Tables](#)

Markets rally as risk sentiment recovers

Most global markets are up as risk sentiment improved after a period of angst following last week's bearish surprises from the ECB and BOE and strong US payrolls data that raised fears of faster Fed rate hikes. US equity index futures are posting decent gains and European stocks are up strongly after a series of optimistic corporate earnings reports. The US earnings season has also been strong, with 76% of firms in the S&P 500 beating expectations, but the margin of outperformance has been lower than historical standards. Meanwhile, tomorrow's crucial US CPI report remains top of mind, with investors nervous that another blowout print could unleash an even more hawkish Fed. Japanese markets got a boost when the Bank of Japan elected to continue its bond purchases even though the benchmark 10-year government bond yield is close to the central bank's 0.25% target.

Key Global Financial Indicators

Last updated: 2/9/22 8:04 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4484	0.8	-1	-3	16	-5
Eurostoxx 50		4196	1.6	-1	-3	15	-2
Nikkei 225		27580	1.1	0	-3	-7	-4
MSCI EM		49	1.0	0	0	-14	0
Yields and Spreads			bps				
US 10y Yield		1.94	-3.4	15	17	77	42
Germany 10y Yield		0.23	-4.1	18	27	67	40
EMBIG Sovereign Spread		381	0	0	14	41	14
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.4	0.0	0	1	-8	2
Dollar index, (+) = \$ appreciation		95.5	-0.2	0	0	6	0
Brent Crude Oil (\$/barrel)		90.6	-0.2	1	11	48	17
VIX Index (% change in pp)		23.2	-0.8	-1	2	-1	3

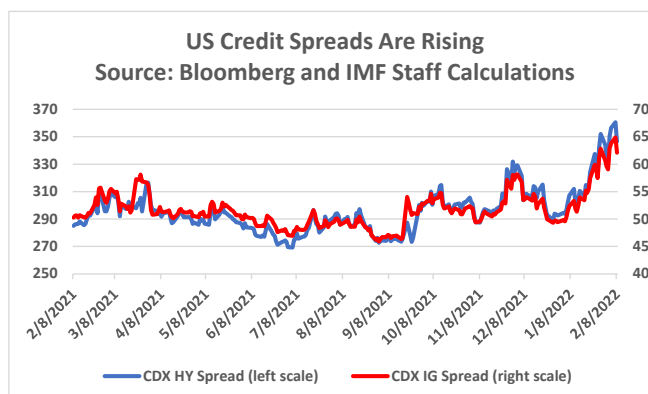
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

United States

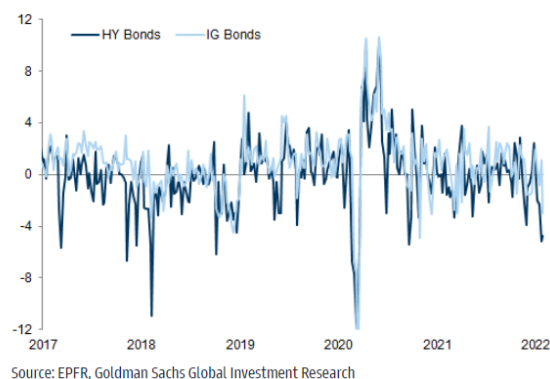
The US corporate bond market is feeling the impact of rising rates as credit spreads have risen sharply in the new year. High Yield (HY) bond spreads actually declined in December when the Treasury selloff began but the continued push towards higher interest rates is finally having an impact. Investment grade (IG) spreads are also beginning to feel the pain. The CDX HY and IG credit default swap spreads have both risen significantly as investors seek protection against weakness in the corporate bond market. Higher rates mean that the era of ultra-cheap funding costs could be coming to an end, exposing companies with weaker balance sheets to potential refinancing risks when their bonds mature.



In addition, Fed rate hikes raise the risk of recession, which could reduce corporate earnings and profitability and even raise default rates, especially for the most vulnerable HY issuers. Higher rates also cause mark-to-market losses for investors such as index funds and exchange traded funds (ETFs) that do not hedge interest rate risk. Due to the very low level of interest rates, the current generation of corporate bonds have very low coupons, which makes them highly susceptible to interest risks. Bonds with higher coupons have lower interest rate risk. As a result, outflows from both IG and HY bond funds have sped up over the past few weeks.

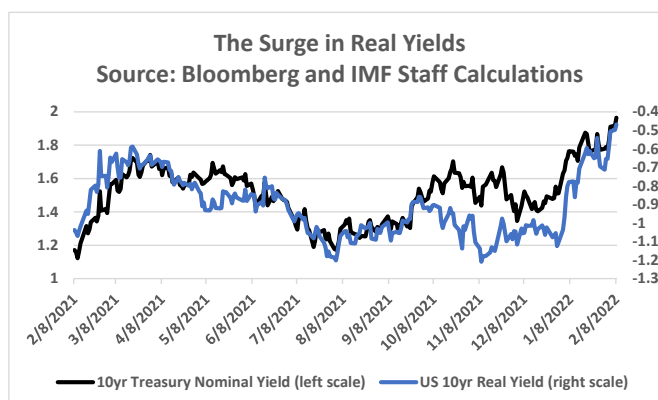
Exhibit 5 : Large credit outflows over the past weeks

Global aggregate, \$bn



The US 10-year Treasury Inflation Protected Security (TIPS) yield hit a 20-month high, extending a surge that threatens to end a long period of negative real yields. The 10-year real yield has risen from -1.20% in the middle of December to -0.47% as of yesterday's close. In theory, rising real yields are a sign of economic strength, and the move in the TIPS yield may have influenced the Fed's decision to turn hawkish. However, contacts warn that the TIPS market is highly illiquid and heavily influenced by Fed

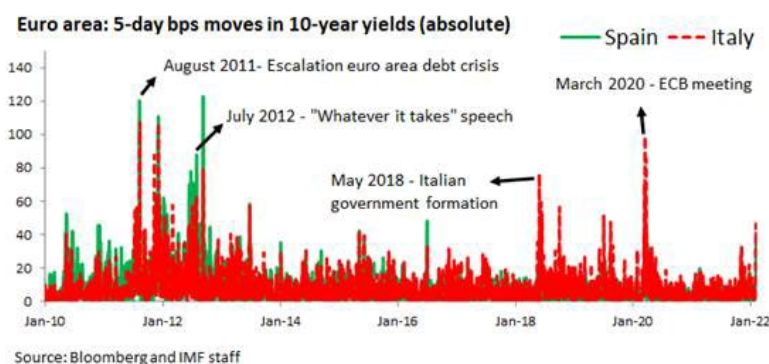
purchases, so any conclusions must be drawn with care. There is speculation that with the Fed preparing to withdraw from the TIPS market as part of its program of quantitative tightening, a number of hedge funds have been shorting TIPS in order to benefit from real yields rising further as heavy new TIPS supply has to be absorbed by a market that no longer has the Fed around to provide a floor on bond prices. Others disagree, taking the view that the US economy is on the rebound and that the rise in real yields is justified.



Euro area

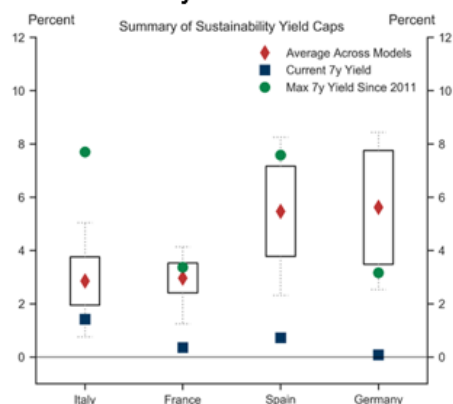
Government 10-yr bond yields fell around 4 bps across countries as Banque de France governor Villeroy sent dovish signals. The governor indicated that the negative market response to the ECB meeting was probably an overreaction to what was perceived by officials as relatively dovish guidance. On the other hand, Bundesbank president Nagel said there were very clear risks associated with waiting too long to normalize. He also said that inflation in Germany is likely to significantly exceed 4% this year, more than twice the ECB's 2% target and well above the Bundesbank's own projection of 3.6%. He added that interest rates could be raised before the end of 2022 after net asset purchases are discontinued. Markets continue to price an ECB policy rate close to -10 bps at end 2022 (from -50 bps currently).

Italian 10-yr spreads to Germany held steady today at 157 bps after rising 28 bps so far in February. Some contacts pointed to stronger demand for Italian debt from local banks and asset managers after recent spread widening. **Yields on Southern European bonds rose sharply after last week's ECB meeting, but moves remain below those observed at the peak of the euro area debt crisis in August 2011, the Italian government formation of May 2018, or around the ECB meeting of March 2020.**



Analysts are concerned that Italy is most exposed to a further rise in interest rates among the large four euro area countries. Goldman Sachs, for example, calculates that the viable level of nominal yields that does not require strong policy adjustments is lowest in Italy (with an average across models of 2.75% at the 7-yr segment) and France (3%), followed by Spain (5.50%) and Germany (5.75%).

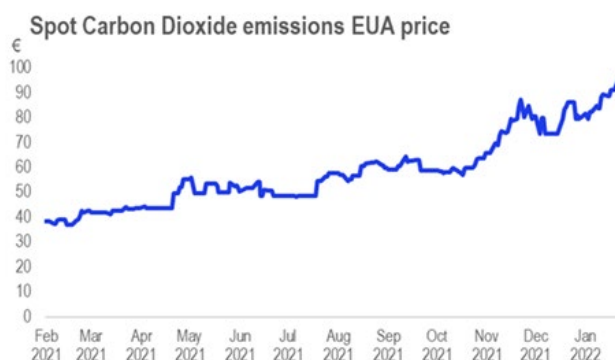
Euro area: Analyst estimates on sustainability yield caps



Source: Goldman Sachs

ESG

The price of permits in the European Union's carbon market increased to an all-time high of €96.20 amid higher gas prices. The EU emissions trading system (ETS) compels factories, power plants and airlines to pay for each ton of Carbon Dioxide (CO₂) that they emit. Prices more than doubled since the start of 2021—as higher gas prices contributed to utilities switching to carbon-heavy coal, which resulted in higher emissions and increased demand for permits.



Source: Bloomberg and IMF calculations

Emerging Markets

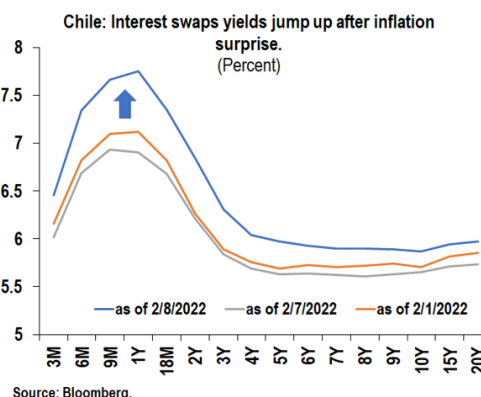
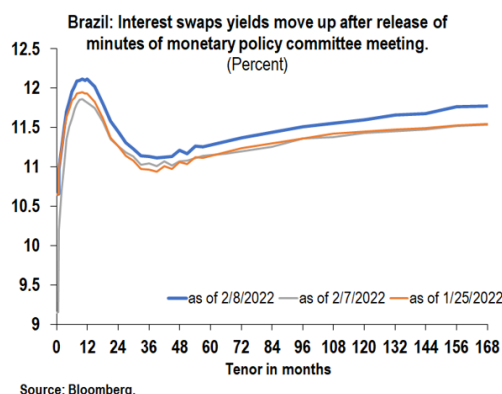
[back to top](#)

Postive risk sentient pushed emerging markets higher today. Most EMEA equity indices were in positive territory, while local currencies were stronger. Asia was up, although local government bond yields were a touch higher. Sri Lanka's central bank announced that the country has taken measures to secure alternative FX inflows from bilateral and multilateral funding arrangements to meet its upcoming debt obligations. Russian assets did well on hopes that the Ukraine crisis is de-escalating. The Romanian central bank is expected to hike rates by 25 bps to 2.25% later today. Latin American stocks were also mostly higher yesterday, led by Mexico and Peru, while currencies were mixed.

Brazil and Chile

Local monetary policy continues to be dominated by worries about inflation. The latest Brazilian central bank minutes (the COPOM minutes) were seen as hawkish, leading several analysts to raise their estimates of the terminal rate for the current cycle by 50 bps to 12.25%. Yields on local currency interest swaps rose, despite yesterday's slightly lower than expected inflation data. Meanwhile, Chilean inflation came in at 7.7% yoy in January, exceeding both expectations and the previous month's print once again,

this time by 70 and 50 bps, respectively. Interest rate swaps yields surged in response, highlighting expectations for additional monetary tightening, with some analysts even calling for an emergency monetary policy meeting of Chile's central bank.



China and Hong Kong SAR

Equities gained today (CSI 300: +0.9%), following gains in other regional markets. However, there were press reports that state-backed funds intervened on Tuesday to arrest a major selloff in the market. Analysts noted that previous interventions only slowed losses without arresting them. Separately, Chinese tech firms listed in Hong Kong SAR bought back \$321 mn worth of their own shares in January, the largest since September 2021. China's restrictions on overseas listings have boosted fund-raising in private capital markets. JP Morgan estimated that over \$240 bn of private equity financing was raised last year in Asia (up from \$100 bn in 2017), driven by Chinese firms. Some analysts noted that the availability of private equity has grown rapidly, now drawing interest from private equity funds, corporate investors, and family offices rather than just venture capital.

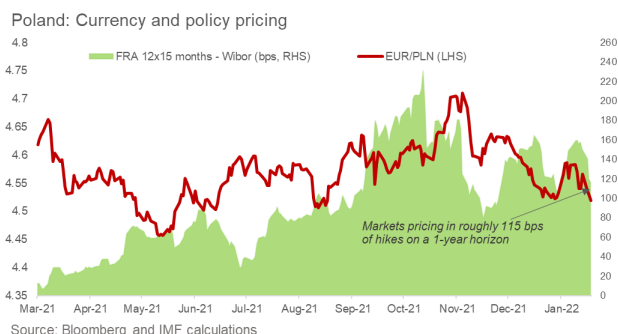
Intervention Helps

China stocks have made a bottom a few months after state-related funds buy



Poland

The National Bank of Poland increased its policy rate by 50 bps to 2.75% yesterday. The fifth consecutive monthly hike was in line with the median economist consensus, although markets were bracing for a larger move. The zloty weakened somewhat against the euro after the decision but appreciated (+0.2%) in later trade. The zloty has appreciated by 1.5% since the start of the year, and the central bank statement noted that the appreciation would be consistent with the direction of monetary policy. The statement also highlighted the central bank's concern over inflation—which increased to +8.6% yoy in December—and suggested that further tightening will be data dependent. Analysts expect another 50 bps rate hike in March, and markets continue to price in more hikes in the current cycle, with roughly 115 bps of hikes priced in over the next 12 months according to forward rate agreements.

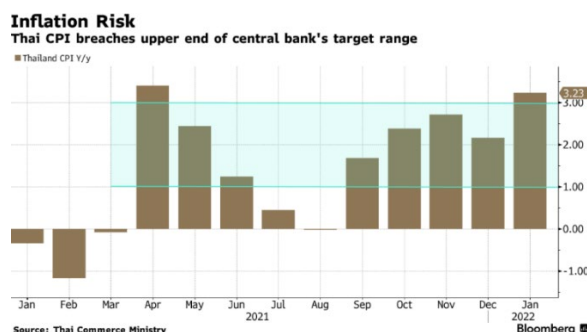


Russia

Russia is set to recognize crypto assets as currencies, according to media reports. After calls for a nationwide crypto-ban by the central bank of Russia in January were met by opposition from the Russian Ministry of Finance, the government and central bank reached an agreement on future cryptocurrency regulation. Draft legislation is expected by February 18, in which crypto assets will be recognized as currencies, not digital financial assets, with circulation only possible with full holder identification through the banking system or licensed intermediaries.

Thailand

The Bank of Thailand (BOT) kept its policy rate at 0.5% as expected but cautioned that upside risks to inflation remain acute. However, it reiterated the importance of maintaining an accommodative monetary policy stance alongside targeted fiscal and financial measures to support the economic recovery. Headline inflation accelerated to 3.2% yoy in January although the BOT forecasted that the average for the whole year will still be within the 1%–3% target range. Given the economy's dependence on tourism, markets expect the BOT to be among the last central banks in the region to raise the policy rates.



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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 2/9/22 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4541	0.8	-1	-3	16	-5
Europe		4197	1.6	-1	-3	15	-2
Japan		27580	1.1	0	-3	-7	-4
China		4652	0.9	-1	-4	-20	-6
Asia Ex Japan		82	0.8	0	-1	-18	-1
Emerging Markets		49	1.0	0	0	-14	0
Interest Rates			basis points				
US 10y Yield		1.93	-3.3	16	17	77	42
Germany 10y Yield		0.23	-4.0	19	27	67	40
Japan 10y Yield		0.21	-0.8	3	7	14	14
UK 10y Yield		1.45	-4.4	19	27	98	47
Credit Spreads			basis points				
US Investment Grade		127	-0.9	2	15	39	15
US High Yield		384	1.2	9	38	33	47
Europe IG		62	-1.1	5	11	14	14
Europe HY		302	-6.3	22	45	56	60
Exchange Rates			%				
USD/Majors		95.47	-0.2	0	0	6	0
EUR/USD		1.14	0.2	1	1	-6	1
USD/JPY		115.5	-0.1	1	0	10	0
EM/USD		53.4	0.0	0	1	-8	2
Commodities			%				
Brent Crude Oil (\$/barrel)		91	-0.2	1	11	48	16
Industrials Metals (index)		185	1.2	2	6	34	7
Agriculture (index)		66	0.5	2	7	30	9
Implied Volatility			%				
VIX Index (% change in pp)		20.7	-0.8	-1.4	1.9	-1.0	3.4
US 10y Swaption Volatility		82.1	-3.5	3.7	-0.8	21.0	3.0
Global FX Volatility		7.4	0.0	0.0	0.2	0.2	0.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		224	0.6	36	66	102	72
Italy		159	0.5	20	23	63	24
Portugal		82	2.2	15	20	31	18
Spain		87	1.2	13	18	30	13

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

Last updated: 2/9/2022 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	0.0	0	1	0		2.8	1.0	6	-10	-56	-9
Indonesia		14358	0.3	0.0	0	-3	-1		6.5	-1.6	6	3	27	10
India		75	-0.1	0.0	-1	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	0.3	-0.6	0	-6	-1		4.7	5.0	15	23	154	25
Thailand		33	0.6	1.3	3	-9	2		2.2	-5.0	8	9	91	31
Malaysia		4.18	0.0	0.0	0	-3	0		3.7	-0.1	3	3	90	11
Argentina		106	-0.1	-0.7	-2	-17	-3		49.8	-7.2	26	81	54	-73
Brazil		5.26	-0.1	0.0	8	2	6		11.7	-5.5	52	22	363	100
Chile		827	0.1	-1.8	1	-11	3		5.9	0.0	19	-2	308	45
Colombia		3948	0.1	-0.4	3	-9	3		7.3	0.0	13	32	305	91
Mexico		20.54	0.4	0.2	-1	-2	0		7.6	-0.5	7	-29	200	6
Peru		3.8	0.1	1.2	3	-5	4		6.1	0.1	2	3	233	18
Uruguay		43	0.5	0.9	3	-2	3		8.5	-6.8	-16	-16	138	-23
Hungary		309	0.4	1.5	3	-4	5		4.6	-8.0	-33	-23	265	6
Poland		3.95	0.5	1.7	2	-6	2		3.9	-0.5	-13	-11	251	34
Romania		4.3	0.2	1.2	1	-7	1		5.1	0.5	4	5	280	25
Russia		74.8	0.3	1.9	0	-1	1		9.3	-3.5	-5	30	292	52
South Africa		15.3	0.1	0.0	2	-4	4		7.6	-5.0	4	-22	90	20
Turkey		13.60	-0.3	-1.0	2	-48	-2		22.3	-37.0	-95	-230	923	-207
US (DXY; 5y UST)		95	-0.2	-0.5	0	6	0		1.79	-2.8	18	29	131	53

	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		4652	0.9	-1	-4	-20	-6		201	-2	5	-22	-2	
Indonesia		6835	0.7	2	2	10	4		183	-2	20	2	18	
India		58466	1.1	-2	-3	14	0		151	10	27	-5	19	
Philippines		7502	0.6	1	5	6	5		123	8	25	22	22	
Malaysia		1552	1.4	3	0	-3	-1		124	2	10	-13	7	
Argentina		88149	-1.2	-4	4	69	6		1765	31	-28	347	85	
Brazil		112235	0.2	0	9	-6	7		313	-7	-2	55	2	
Chile		4597	0.3	1	7	1	7		158	4	20	16	18	
Colombia		1524	-0.6	0	9	10	8		357	-9	13	139	9	
Mexico		52295	2.0	2	-2	16	-2		345	6	12	-5	13	
Peru		23474	4.5	3	5	5	11		173	2	16	42	23	
Hungary		53112	0.5	0	2	19	5		138	8	25	-2	14	
Poland		68280	0.3	-1	-4	19	-1		8	-6	-11	-19	-24	
Romania		13418	0.4	0	2	26	3		215	13	30	24	22	
Russia		3612	1.7	2	-4	5	-5		244	-23	69	67	67	
South Africa		76666	0.8	2	4	18	4		374	10	33	10	19	
Turkey		2034	1.4	2	0	32	10		553	-3	-23	127	-25	
Ukraine		519	0.0	-1	-1	0	-1		834	-44	61	365	75	
EM total		49	1.1	0	0	-14	0		413	1	17	72	27	

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

[back to top](#)