



- Disconnect building between US equity prices and fundamentals ([link](#))
- Euro area sovereign yields move lower on downside surprise to German inflation ([link](#))
- Riksbank hikes 50 bps and signals further tightening is likely ([link](#))
- MSCI to review the number of freely tradable shares related to Adani group ([link](#))
- Polish central bank holds policy stance and reiterates gradual return to inflation target ([link](#))
- Brazilian assets gain as presidential cabinet member backs central bank autonomy ([link](#))

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Markets continue to grapple with central bank policy outlooks

Amidst another batch of corporate earnings, investors continue to weigh the outlook for future policy moves by major central banks. US equities closed down yesterday as tech sector stocks led indices lower on the back of some mixed earnings results. Communication from Fed officials over the last day reinforced the recent narrative from last week's FOMC meeting that the committee remains data dependent and that a tighter for longer policy stance may be needed to sustain the disinflation process. Since last week, market expectations for the FOMC's terminal policy rate have risen to close to 5.15%, with markets now also leaning toward two more quarter point hikes during the first half of this year. In the euro area, ECB officials are also exhibiting a hawkish tone by signaling 50 bp hikes could continue beyond the March meeting. Despite the movement in policy rate projections, core sovereign bond yields are trading lower across maturities this morning following a downside surprise to German inflation data, while S&P 500 futures and European stocks are gaining close to 1%. In emerging markets, after suspending trading yesterday amid further sharp declines in local equities, Türkiye's stock exchange will now remain closed till next Wednesday as investor uncertainty has spiked following the earthquakes in the region. The slide in Adani Group stocks resumed overnight after news MSCI is reviewing the amount of the group's shares that are freely tradable in public markets.

Key Global Financial Indicators

Last updated: 2/9/23 8:04 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		4118	-1.1	0	6	-10	7	-3
Eurostoxx 50		4266	1.4	1	5	1	12	7
Nikkei 225		27584	-0.1	1	5	0	6	4
MSCI EM		40	-0.1	-4	0	-19	7	-15
Yields and Spreads			bps					
US 10y Yield		3.59	-2.2	20	6	165	-29	160
Germany 10y Yield		2.28	-8.5	20	5	207	-29	205
EMBIG Sovereign Spread		440	7	-3	-29	59	-12	27
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.7	0.2	-2	0	-5	2	-4
Dollar index, (+) = \$ appreciation		102.9	-0.5	1	0	8	-1	7
Brent Crude Oil (\$/barrel)		84.8	-0.4	3	6	-7	-1	-12
VIX Index (% change in pp)		19.3	-0.3	1	-3	-1	-2	-12

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

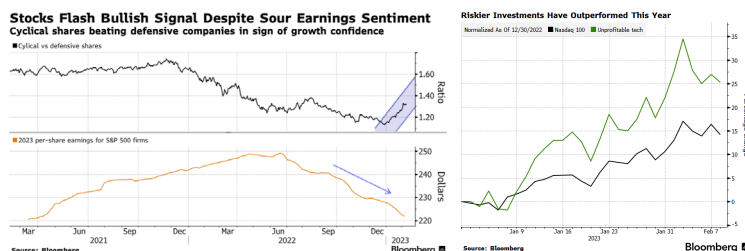
Mature Markets

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United States

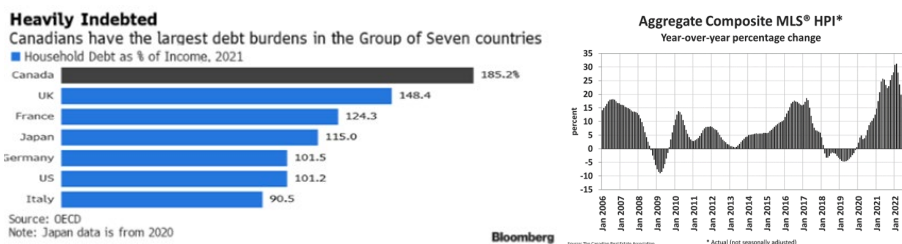
Yesterday, the S&P 500 fell by 1.1%, with communication services stocks significantly underperforming (-4.1%; including a 7.5% drop in Alphabet/Google on concerns re AI Chatbot). US Treasury nominal yields declined only moderately (3–6 bps across the yield curve), despite a significant drop in real yields (9–11 bps) that was counterbalanced by an increase in breakeven inflation.

Morgan Stanley analysis shows that there are “massive disconnects” between the equity rally this year and worsening earnings and economic expectations. Cyclical equities—which are the most sensitive to economic fluctuations—have been outperforming defensive stocks in 2023 (left chart, upper panel), despite poor indicators of retail sales, manufacturing and business leaders' confidence as well as declining indicators of corporate earnings (left chart, lower panel). A similar picture is observed in other segments: e.g., the riskiest tech stocks (proxied by a basket of unprofitable companies) have outperformed the overall Nasdaq 100 index (right chart). Analysts point out that even though the disconnects may be driven by technical factors, the deviation of market prices from companies' fundamentals is nevertheless bringing sizeable market stability risks.



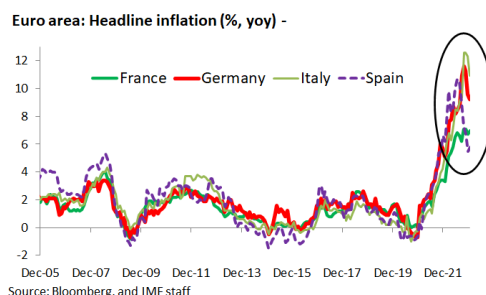
Canada

Bank of Canada Governor Tiff Macklem noted the impact of higher borrowing costs on consumers, and that the Bank needs time to observe the effectiveness of the tightening cycle. High levels of household debt (left chart below) and the ongoing decline in real estate prices (right chart) were considered as sufficient reasons to pause policy rate hikes, despite the US Fed reiterating its intention to continue raising rates. Macklem stressed that it is difficult to predict how exactly the economy will absorb the current cumulative tightening, but the expectation is that the higher indebtedness will mean a much quicker impact to households.



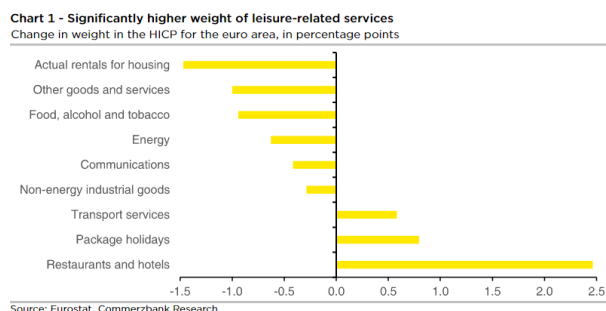
Euro area

Euro area yields fell around 10 bps after the delayed and widely watched release of flash German HICP headline inflation came in much lower than expected at 9.2% y/y (10% expected) or 0.5% m/m (1.3% expected). The press release did not contain any inflation breakdown and there were also no federal state data available. Technical questions remain on the delayed print, but the data supports the view that German headline inflation has peaked. Final inflation data will be published on 22 February and should contain more details. **Equities (+1.2%) and the euro (+0.5%) gained.**

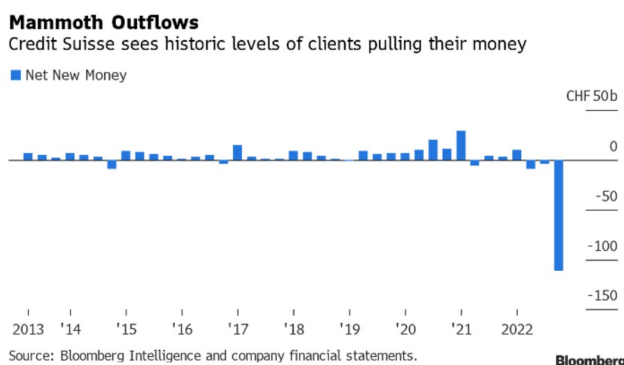


Leading Eurosystem officials continue to signal hikes of 50 bps are likely beyond the ECB's meeting in March. Yesterday, Dutch central bank governor Knot commented that it will be “highly unlikely that the March hike will be our endpoint.” The governor then expects to move to smaller steps only in the case of a clear and decisive turn in underlying inflation dynamics. Earlier this week, Bundesbank President Nagel warned not to underestimate the euro region's consumer-price challenge and said more “significant” interest-rate increases will be required.

Analysts warn that the decline in core inflation in the euro area could be smaller than expected as the composition of consumer spending has largely returned to normal. Spending on tourism services, for example, has recovered significantly.



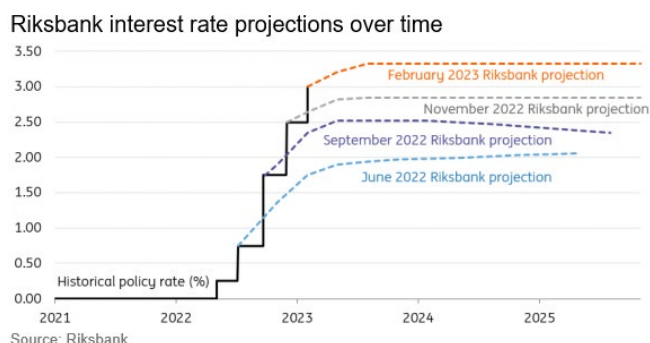
In bank news, clients of Credit Suisse pulled a record amount of funds from the bank, as a fifth-straight quarterly loss capped its worst year since the global financial crisis. Credit Suisse equity prices are down more than 8% this morning.



Sweden

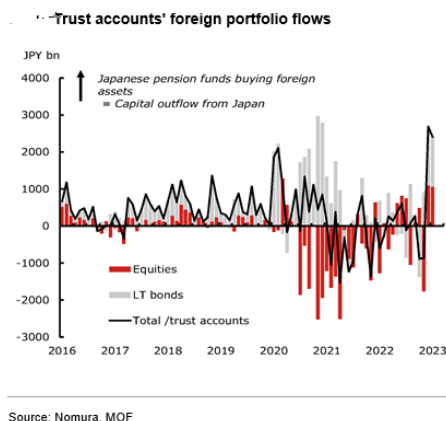
The krona (+1.6%) gained after the Riksbank warned that inflation remains far too high and hiked its policy rate by another 50 bps to 3%. Swedish inflation is high and increased more than expected to just over 10% y/y in December. Even disregarding energy prices, inflation is high and rising. The Riksbank expects to hike further and also decided to reduce its asset holdings at a faster pace, by selling until further

notice nominal and real government bonds with longer maturities at a nominal value of SEK 3 bn and SEK 0.5 bn respectively per month, starting in April. Furthermore, the Executive Board has decided to offer larger volumes of Riksbank Certificates, corresponding to the entire liquidity surplus in the banking system, in the weekly monetary policy operations. With the current monetary policy stance, inflation is expected to fall back this year and to stabilize close to 2% from 2024. **Money markets are not pricing in cuts in the year ahead.**



Japan

Equities were little changed, yen appreciated +0.4%. Both markets fluctuated on rumors there could be opposition within the Liberal Democratic Party if PM Kishida decides to appoint former BOJ Deputy Governor Yamaguchi as the successor to Kuroda. Separately, **in January 2023, Japanese investors net bought foreign securities, equities and bonds**, Nomura estimated. Meanwhile, foreign investors largely net sold Japanese bonds, suggesting they strongly expected the BOJ would change its policy in January. Separately, **10Y bond yields were little changed.**



Emerging Markets

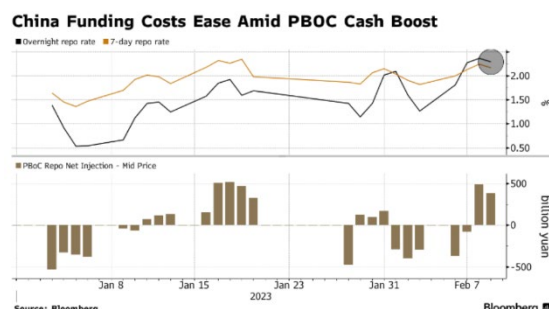
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In Latin America, equity markets were broadly positive yesterday with the exception of Mexico and Peru. Brazil's Bovespa gained the most on the day (+2%). With the exception of the Brazilian real, all other local currencies weakened against the dollar. **Asian equities were mixed, up +0.5% on net.** Mainland China (+1.3%) and Hong Kong SAR (+1.6%) rebounded driven by tech sector. **Indian equities were little changed on net, but Adani Group stocks declined -10% after MSCI Inc. said it was reviewing the number of group-related shares were freely tradable in public markets.** Asian currencies mostly strengthened. Philippine peso gained +0.7%, Chinese renminbi was appreciated +0.2%. Malaysia ringgit weakened -0.4%. **EMEA equities were mostly trading higher while currencies appreciated against the dollar, in line with global trends.** Trading in Türkiye's stock exchange remains suspended. The Romanian leu was trading marginally stronger against the euro (+0.1%) while 10-yr local currency yields

were little changed ahead of the central bank's monetary policy decision later today, where consensus expects the key rate to remain unchanged at 7.0%. The South African rand strengthened against the dollar (+0.5%) ahead of the President's state-of-the-nation address later today.

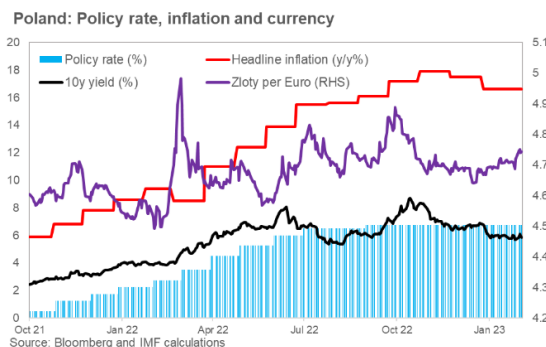
China

Chinese stocks rebounded +1.3%, driven by tech sector gains. Separately, the State-owned Assets Supervision and Administration Commission of the State Council issued a circular stating China's centrally administrated state-owned enterprises (SOEs) should expand effective investment and optimize investment layout in 2023. Expanding effective investment include major national projects, infrastructure, and strengthening and supplementing the industrial chains. Separately, **global investment banks are gauging investor interest in property developer bond sales**, Bloomberg reported. The hope of revitalizing bond issuances came after Dalian Wanda successfully raised funds recently (\$400 mn). Investment banks are reportedly urging the borrowers to seize the issuance window. Some analysts, however, noted that a strong revival is unlikely as funding costs are still very high. **10Y bond yields were little changed**. Short-term borrowing costs fell as the PBOC injected additional cash through its open market operations to boost interbank liquidity. The overnight repo rate declined 7 bps to 2.30% after climbing to the highest level since February 2021; the 7-day repo rate fell 3 bps to 2.21%.



Poland

The polish zloty was little changed against the euro while local yields declined (10y, -12 bps) this morning after the central bank left its policy rate unchanged at 6.75% yesterday, as expected. The policy statement noted slowing economic activity towards the end of last year as well as a gradual decline in inflation driven by lower energy prices. **While markets are pricing rate cuts this year, JPMorgan analysts expect rates to remain unchanged for the remainder of the year.** Analysts caution that cuts before end-2023 could be too early as fiscal stimulus could keep core inflation elevated. Governor Glapinski will hold a press conference later today. **Separately, Poland passed legislation to clear hurdles to unlocking EU post-pandemic aid.** The bill is yet to be signed by President Duda, according to Bloomberg.



Egypt

Analysts see the potential for an unscheduled policy rate hike after food price inflation increased to the highest level on record. Headline inflation increased to 25.8% y/y in January, with food inflation increasing to 47% y/y. Goldman Sach's argues that further monetary policy tightening would be required to contain inflation expectations and improve domestic FX liquidity to alleviate the pressure of the Egyptian pound. The central bank of Egypt kept the deposit rate unchanged at 16.25% at their latest policy meeting

while consensus had expected a 100 bp hike. With the next policy meeting scheduled for March 30, analysts see the potential for the policy committee to hike interest rates at an unscheduled meeting.

Exhibit 3: Food And Beverage Prices Rise at Fastest Annual Rate on Record

Food And Non-Alcoholic Beverages, % yoy

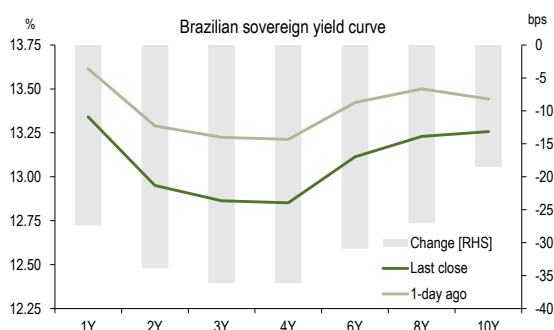


Egypt: Currency and deposit rate



Brazil





















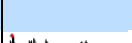






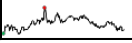
Brazilian assets rallied yesterday following a cabinet minister's comments that the administration will respect the central bank's independence. The comments from the minister came after President Lula's criticism of the tight monetary policy of the Brazilian central bank this week. Local currency bond yields declined, local equity indices gained 2.0%, while the real was little changed.



This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

Last updated: 2/9/23 8:06 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4132	-1.1	-1	6	-10	8	-2
Europe		4266	1.4	1	5	1	12	7
Japan		27584	-0.1	1	5	0	6	4
China		4131	1.3	-1	3	-11	7	-11
Asia Ex Japan		69	-0.2	-4	0	-16	7	-12
Emerging Markets		40	-0.1	-4	0	-19	7	-15
Interest Rates			basis points					
US 10y Yield		3.59	-2.2	20	6	165	-29	160
Germany 10y Yield		2.28	-8.5	20	5	207	-29	205
Japan 10y Yield		0.50	-0.1	0	-1	29	8	30
UK 10y Yield		3.24	-6.9	24	-28	181	-43	177
Credit Spreads			basis points					
US Investment Grade		138	-1.4	2	-21	13	-20	-4
US High Yield		426	-2.1	5	-30	48	-55	19
Europe IG		75	-1.6	2	-5	12	-16	3
Europe HY		390	-9.6	10	-27	87	-84	39
Exchange Rates			%					
USD/Majors		102.88	-0.5	1	0	8	-1	7
EUR/USD		1.08	0.5	-1	0	-6	1	-5
USD/JPY		130.8	-0.4	2	-1	13	0	14
EM/USD		50.7	0.2	-2	0	-5	2	-4
Commodities			%					
Brent Crude Oil (\$/barrel)		84.8	-0.4	3	6	4	-1	-1
Industrials Metals (index)		167	0.4	-4	0	-11	1	-11
Agriculture (index)		69	0.2	0	4	3	1	-1
Implied Volatility			%					
VIX Index (% change in pp)		19.3	-0.3	0.6	-2.7	-0.7	-2.4	-11.7
US 10y Swaption Volatility		101.2	-0.1	0.6	-17.1	19.9	-24.5	6.9
Global FX Volatility		10.3	0.0	0.2	-0.4	3.0	-0.4	2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		188	1.5	-7	-30	-37	-17	-52
Italy		184	-3.0	1	-12	30	-31	12
Portugal		85	-0.3	3	-12	5	-16	-7
Spain		94	-0.3	2	-11	9	-15	-10

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

Emerging Market Financial Indicators

Last updated: 2/9/2023 8:08 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	-0.7	0	-6	2	-7		3.2	-0.5	1	11	41	11	32	
Indonesia		15095	0.0	-1.4	3	-5	3	-5		6.6	-3.2	3	-29	13	-32	12	
India		83	0.0	-0.4	0	-9	0	-10		7.4	-0.1	9	4	69	-6		
Philippines		54	0.6	-1.1	1	-6	2	-6		5.9	0.0	0	-15	118	-10	93	
Thailand		33	0.0	-2.0	0	-2	3	-4		2.6	-0.5	12	10	48	1	42	
Malaysia		4.32	-0.4	-1.6	1	-3	2	-3		3.9	12.9	15	-5	22	-12	25	
Argentina		190	0.0	-1.2	-5	-44	-7	-44		86.0	36.7	-102	46	3615	-223	3803	
Brazil		5.21	-0.3	-3.3	1	0	1	-4		13.4	4.6	36	69	183	84	189	
Chile		796	0.6	-2.1	5	2	7	-1		5.3	-5.0	13	21	-60	-1	-59	
Colombia		4741	0.4	-2.6	2	-17	2	-17		9.0	0.0	18	-108	140	-80	110	
Mexico		18.88	0.3	-1.1	1	8	3	7		8.4	-1.0	17	29	81	-34	55	
Peru		3.9	-0.7	-0.5	-2	-1	-2	-3		8.0	0.2	18	28	193	1	198	
Uruguay		39	0.3	-0.4	2	11	2	9		10.0	0.0	-10	-70	149	-70	183	
Hungary		358	0.7	-1.2	3	-14	4	-11		7.7	-17.0	-16	-30	304	-195	284	
Poland		4.40	0.6	-2.4	-1	-11	-1	-8		5.3	-12.0	20	21	135	-86	139	
Romania		4.5	0.6	-1.1	1	-5	2	-4		7.3	-5.7	1	-10	227	-35	219	
Russia		72.9	0.5	-3.2	-5	3	2	12		10.3	0.0	-19	-160	97	-161	-93	
South Africa		17.7	0.6	-3.3	-4	-14	-4	-14		8.8	-12.3	26	15	115	-39	119	
Turkey		18.83	0.0	-0.1	0	-28	-1	-27		11.4	1.0	68	283	-1069	160	-1099	
US (DXY; 5y UST)		103	-0.5	1.1	0	8	-1	7		3.78	-0.7	29	11	196	-22	188	

	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		4131	1.3	-1	3	-11	7	-11		176	-9	-7	-25	-1	-32	
Indonesia		6897	-0.6	0	4	1	1	0		141	-14	-33	-42	1	-44	
India		60806	0.2	1	1	3	0	6		149	-6	3	-2	7	-5	
Philippines		6843	-1.2	-2	1	-8	4	-7		116	-9	-26	-7	19	-21	
Thailand		1669	-0.1	-1	-1	-2	0	-2								
Malaysia		1465	-0.4	-1	-1	-7	-2	-8		99	-6	-5	-25	-1	-34	
Argentina		250125	1.3	0	16	186	24	174		1930	102	-199	165	-275	193	
Brazil		109951	2.0	0	1	-2	0	-2		262	-11	-21	-51	-12	-69	
Chile		5357	1.1	1	4	16	2	22		137	-4	-21	-21	5	-37	
Colombia		1264	-0.5	0	-5	-16	-2	-16		372	-2	-13	15	0	-20	
Mexico		53125	-0.4	-3	2	1	10	3		358	4	-29	13	-23	-12	
Peru		22400	0.4	-1	-1	-6	5	-4		185	-10	-16	12	5	-5	
Hungary		46263	0.8	1	1	-13	6	-3		208	-8	-53	70	-14	55	
Poland		61636	1.1	0	0	-10	7	-2		79	-15	-24	71	6	63	
Romania		12229	-0.1	0	0	-9	5	-7		239	-8	-57	24	-17	7	
Russia		2266	0.6	1	5	-38	5	-27		3411	-577	938	3228	3234	2897	
South Africa		80220	0.3	1	2	5	10	7		362	-7	-8	-12	-5	-27	
Turkey		4186	0.0	-12	-19	105	-24	108		515	2	37	-38	75	-48	
Ukraine		507	0.0	0	-1	-2	-2	-2		4252	58	71	3418	173	2779	
EM total		40	1.7	-4	0	-19	7	-15		378	4	-12	-35	3	-80	

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

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