GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 11, 2022

- **Treasury selloff in US driven by real yields** (link)
- **Inflation markets in US predict inflation risk will decline** (link)
- **US corporate bond markets sees surge of new issuance** (link)
- **Liquidity in euro area money markets gradually recovers** (link)
- **Eurobonds in Ghana under pressure** (link)
- **Special Feature: EM and Frontiers Issuance Monitor** (attached)

Mature Markets | Emerging Markets | Market Tables

Global markets in cautious recovery after five days of declines

Markets are posting modest gains this morning after a string of losses spanning five days. The S&P 500 was down five days in a row and the MSCI All World Equity Index was down for four consecutive days, but today US equity futures are higher and European stocks are also in positive territory. Emerging markets are also doing better. Technology stocks had the biggest gains in early trading after being under severe pressure over the past week. Government bond yields are holding steady, but the spike in interest rates seen in the first trading sessions of the year remains intact. Market moves have been positive today but remain moderate ahead of tomorrow's crucial US December CPI print, which could have a large impact on markets if it deviates significantly from the consensus forecast of a 7% annualized gain. Meanwhile, the Q4 earnings season is underway, with investors focused on the latest reports from the major US banks.

Key Global Financial Indicators

Last updated: 1/11/22 7:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4670	-0.1	-3	-1	23	-2
Eurostoxx 50		4289	1.2	-2	2	18	0
Nikkei 225		28222	-0.9	-2	-1	0	-2
MSCI EM		49	0.0	-1	-2	-9	0
Yields and Spreads					bps		
US 10y Yield		1.76	-0.5	11	27	61	25
Germany 10y Yield		-0.05	-1.1	8	30	45	13
EMBIG Sovereign Spread		374	7	16	9	30	7
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		52.7	0.0	1	1	-8	0
Dollar index, (+) = $ appreciation		95.9	-0.1	0	0	6	0
Brent Crude Oil ($/barrel)		82.0	1.4	3	9	47	5
VIX Index (%, change in pp)		19.2	-0.2	2	0	-5	2

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

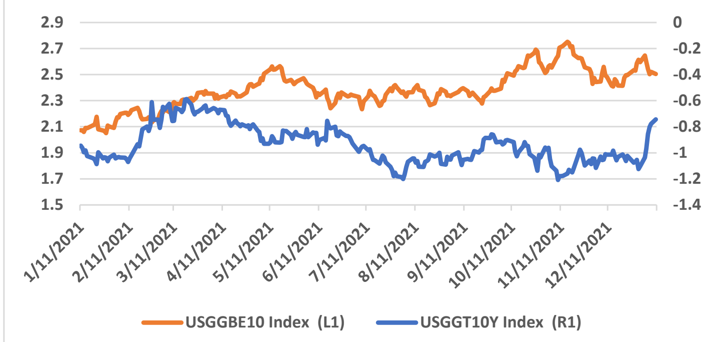
Mature Markets

back to top

United States

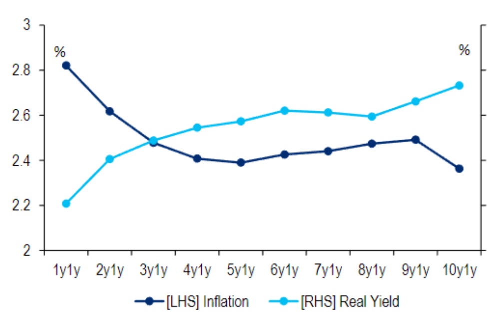
The ongoing spike in US Treasury rates has been driven by a sharp rise in real rates. The yield on the US 10-year Treasury Inflation Protected Securities (TIPS) is up by 33 bps so far this year, while the yield on the nominal 10-year Treasury is up just 25 bps. Similarly, the five-year TIPS yield is up 36 bps while the five-year Treasury yield is up 27 bps. In contrast, the 10-year TIPS breakeven yields, the spread between the real and nominal 10-year Treasuries, a measure on inflation expectations, has actually declined. Another inflation gauge, the yield on five-year maturity/five year forward inflation swaps, has also declined. There is an active debate going on in markets about what is driving real yields. Some attribute the move to the Fed's supposed hawkish tilt towards quantitative tightening, as revealed in last week's FOMC minutes. Others disagree, pointing out that real yields have been on the rise since November. This camp thinks real yields are being pushed up by the belief that the economy will be stronger than expected. A third group is skeptical of both theories, arguing that the TIPS market is highly illiquid and heavily influenced by Fed purchases, and provides unclear guidance on inflation.

Trading Places: US Real Yields and TIPS Breakevens
Source: Bloomberg



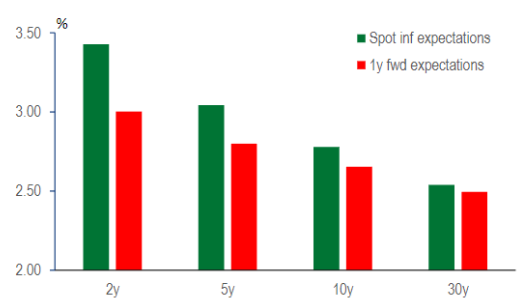
The inflation derivatives markets in the US predict that inflation risk is likely to decline. As mentioned above, inflation swap yields have declined this year. Moreover, the inflation swap yield curve is inverted, suggesting that the market thinks the peak in inflation is very close. In addition, the forward curve for inflation swaps shows that future expectations about inflation are lower than current expectations. Citi predicts that five-year TIPS breakeven yield will end the year at 2.30% from 2.82% and that the 10-year breakeven yield will end the year at 2.25% from 2.51% (pricing as of last night). However, the analysts concede that their prediction is heavily reliant on commodity prices holding steady or declining in 2022. So far this year oil prices have already posted significant gains, along with natural gas, although metals are more mixed. If the commodity rally continues, markets may rethink their optimistic views on inflation risk.

Figure 1. The inversion in the inflation swap term structure implies a peak in yoy inflation in Q1 2022



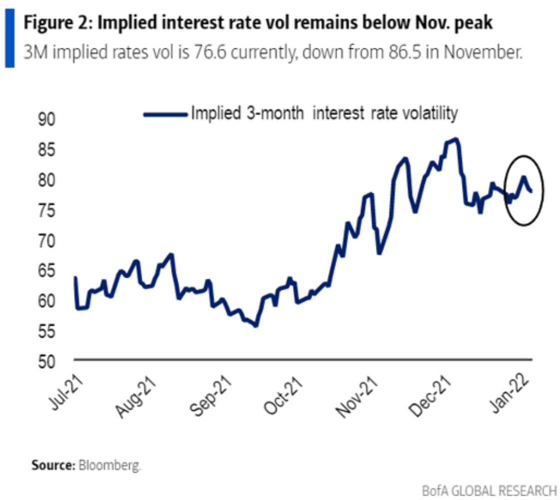
Source: Citi Research

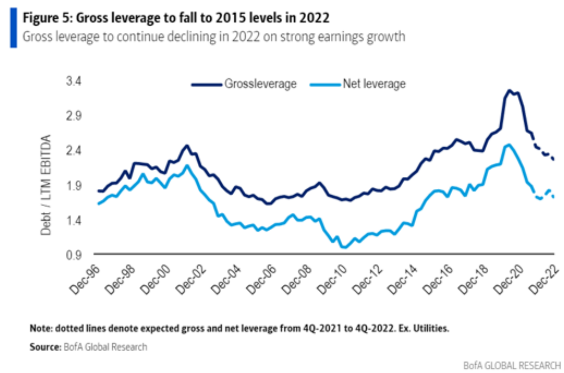
Figure 2. Forward (YE 2022) inflation versus spot; we see risks to breakevens ending even lower than forwards, especially in the 5y sector



Source: Citi Research

The US investment grade (IG) corporate bond market is experiencing a surge of new bond issuance as investors remain undeterred by rising Treasury yields. Last week saw $61 bn of new IG bonds sold and a further $30 bn are due to be sold this week. Demand remains very strong as interest rate volatility has come off its November peak, while gross and net leverage for the IG market have fallen to levels last seen in 2015 due to strong corporate balance sheets and robust sales and earnings in 2022. Hedging costs for non-dollar based investors remain low and contacts report heavy demand from foreign buyers. Credit spreads are expected to remain stable in the 90-105 bps range for the benchmark ICE Bank of America IG bond index. With hawkish interest rate expectations already built into market pricing, higher Treasury yields are unlikely to reduce demand.





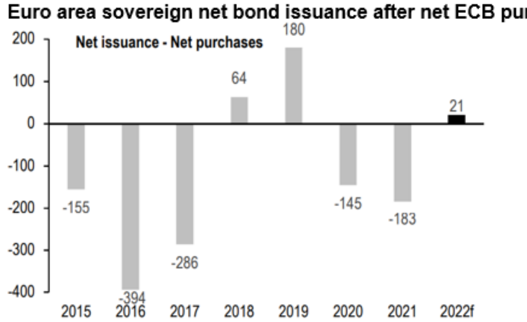
Euro area

Equities (+1%) rose. Bank equities were little changed after gaining +6% so far in 2022.

German 10-yr bund yields (-1 bps) are little changed at -0.04% in a session with plenty of issuance by governments and companies. Bloomberg calculates that 23 deals came to the primary market today, the most issuers on a single day since Jan 2020 for a total issuance in primary markets of €50 bn just this week. **Italian 10-yr spreads edged 2 bps higher to 134 bps.**

The first quarter of 2022 will be busy for the issuance of European Government Bonds. Euro area governments are expected to issue about €309 bn of bonds this quarter of about €957 bn of total issuance expected for 2022 (so 32% of total supply for 2022). **The ECB is tapering its asset purchases but analysts at JP Morgan calculate that net bond issuance after ECB purchases will be flat or negative for all Euro area sovereigns except France, Spain, and Greece.**

Euro area sovereign net bond issuance after net ECB purchases (bn euro)

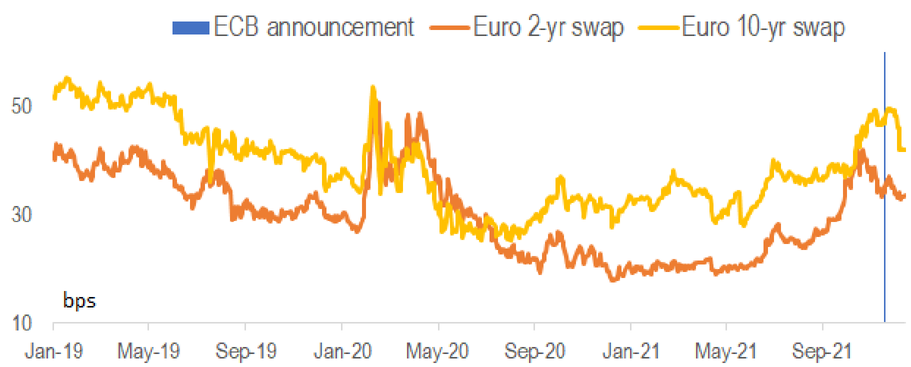


Source: JP Morgan. QE pace assumption: PEPP+APP net purchases of around €80bn/m for 1Q22 and then APP pace of €40bn/m for 2Q22, €30bn/m for 3Q22 and €20bn/m for 4Q22.

Analysts expect Greece and Austria to launch inaugural green bonds in 2022. Last year saw about €49bn of green bond issuance by euro area governments, around 44% of the total Euro area green bond issuance to date (€112bn).

Liquidity conditions in euro area money and bond markets have improved in 2022 but have not returned to levels of Q3 of 2021 yet. Liquidity conditions tightened in euro area money market and sovereign bond markets in Q4 of last year, amid fears that banks would be less willing to provide balance sheet capacity to clients with end-year concerns materializing earlier. To help meet the demand for government bonds, the ECB doubled the limit of cash that counterparties can pledge to national central banks in exchange for securities held on their balance sheets to €150 bn on 15 November 2021. Swap spreads tightened following the ECB collateral announcement, but then widened again towards year-end.

Euro area: Swap spreads (difference between euro swap yield and bund yields)



Source: Bloomberg and IMF

Japan

Long-end JGB yields increased (10-year: +1.2 bps), catching up with the broader rise in government bond yields in the region yesterday when Japan's markets were closed. However, analysts noted that JGBs remain attractive as inflation in Japan has been relatively low among major advanced economies. The currency-hedged bond return in the past 12 months was positive for Japan's debt. Some analysts noted that foreign demand for JGBs will likely increase this year given subdued inflation expectations and the unchanged dovish monetary policy stance.

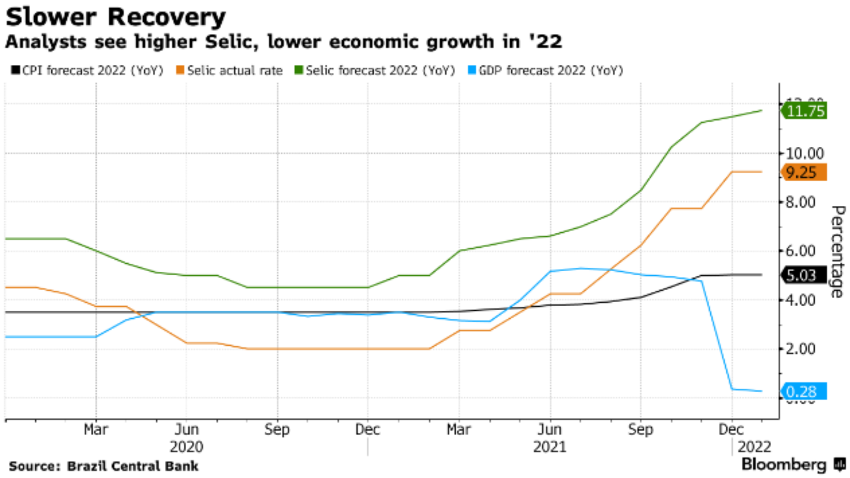
Emerging Markets

back to top

Most emerging markets are doing better today as a cautious global recovery takes hold after five days of selloffs. Stocks in the Middle East and Africa were mostly higher and currencies held steady. Romania hiked by 25 bps to 2% yesterday. Stocks also rallied in India, Taiwan POC, and Korea but fell back in China, and several Asian currencies depreciated against the dollar. In the Philippines, central bank Governor Diokno said that the central bank is unlikely to raise policy rates in the first half of 2022 in order to support a more solid economic recovery. In Latin America, local markets lost ground in step with the US markets yesterday, as both stocks and currencies pulled back.

Brazil

Economists raised their 2022 expectations for its Selic policy rate and lowered their economic growth forecasts. According to a central bank survey, analysts expected the key rate to reach 11.75% in December (vs. 11.5% previously) and cut the 2022 economic growth forecasts to 0.28% (vs. 0.36% previously). The Selic rate currently stands at 9.15%. The central bank has raised its benchmark rate by 725 bps since March 2021 to tackle inflation. Bloomberg reports that the central bank signaled another 150-bps hike in February.

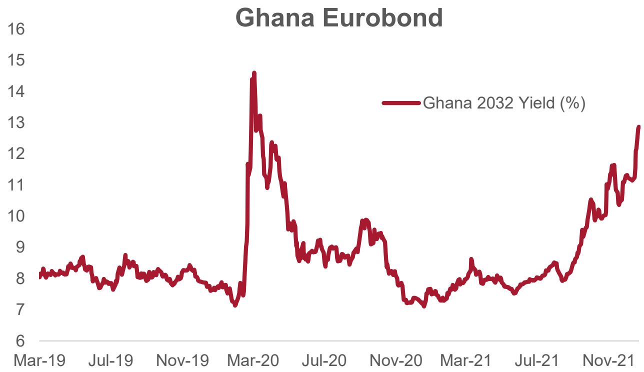


China

The government kept the target for special bond issuance unchanged from the year before. Beijing reportedly will set the quota for special local government issuance in 2022 at 3.65 tn yuan ($573 bn), unchanged from 2021. Special bonds are used to finance local government investment, including infrastructure projects. The quota will be officially approved at the annual meeting of China's parliament in March; however, the Ministry of Finance has allowed local government to sell special bonds of 1.46 tn yuan ($229 bn) since December 2021. Analysts noted that Beijing aims to support growth while ensuring the debt sustainability of local governments. Meanwhile, the share prices of real estate firms increased (onshore: +0.5%) as regulators reportedly asked banks to increase lending to the property sector and to ease restrictions that prevented stronger property developers from acquiring assets from weaker players. Analysts, however, noted that distress in the offshore debt market is likely to continue as property developers face challenges in refinancing their maturing bonds. In other news, the government pledged to increase investment to stabilize growth.

Ghana

Eurobond credit spreads widened to distressed level as investor sentiment weakened. External bond spreads have jumped by another 150 bps since the start of this year. Contacts note the move was spurred by tightening global financial conditions as well as the ongoing loss of credibility around Ghana's fiscal consolidation framework, which has made it more vulnerable to swings in risk sentiment. Some investors also indicated that a credible budget overhaul would be needed to reduce the risk to debt management operations down the line.



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: 1/11/22 7:57 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4670	-0.1	-3	-1	23	-2
Europe		4289	1.2	-2	2	18	0
Japan		28222	-0.9	-2	-1	0	-2
China		4798	-1.0	-2	-5	-14	-3
Asia Ex Japan		83	-0.1	-1	-3	-12	0
Emerging Markets		49	0.0	-1	-2	-9	0
Interest Rates					basis points		
US 10y Yield		1.76	-0.5	11	27	61	25
Germany 10y Yield		-0.05	-1.1	8	30	45	13
Japan 10y Yield		0.15	1.4	7	10	12	8
UK 10y Yield		1.16	-2.7	8	42	85	19
Credit Spreads					basis points		
US Investment Grade		113	0.8	0	-4	18	1
US High Yield		349	3.1	14	-9	-23	11
Europe IG		51	-0.7	3	-1	2	3
Europe HY		252	-4.6	12	-5	0	10
Exchange Rates					%		
USD/Majors		95.92	-0.1	0	0	6	0
EUR/USD		1.13	0.1	0	0	-7	0
USD/JPY		115.5	0.2	-1	2	11	0
EM/USD		52.7	0.0	1	1	-8	0
Commodities					%		
Brent Crude Oil ($/barrel)		82	1.4	3	9	47	5
Industrials Metals (index)		175	1.1	0	7	30	1
Agriculture (index)		62	0.4	-1	3	27	2
Implied Volatility					%		
VIX Index (%, change in pp)		19.2	-0.2	2.3	0.5	-4.9	1.9
US 10y Swaption Volatility		83.0	0.2	-4.5	3.6	22.1	3.9
Global FX Volatility		7.3	0.0	-0.2	-0.7	-0.7	-0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		163	11.1	19	-10	49	11
Italy		134	2.2	1	3	28	-1
Portugal		63	-1.2	0	-2	14	-1
Spain		69	-5.0	-2	-1	14	-5

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

Last updated: 1/11/2022 8:00 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		6.37	0.0	0.0	0	2	0		2.9	-0.5	0	-11	-29	1
Indonesia		14304	0.0	0.1	0	-1	0		6.4	-2.9	3	12	24	6
India		74	0.2	0.9	3	-1	1		6.8	45.0	45	58	106	45
Philippines		51	0.3	0.3	-2	-6	0		4.5	0.0	0	-5	141	3
Thailand		33	0.7	-0.4	0	-10	-1		2.1	-1.5	9	16	61	21
Malaysia		4.19	0.2	-0.1	1	-3	-1		3.7	-1.7	3	10	98	7
Argentina		103	-0.2	-0.5	-2	-18	-1		49.1	7.3	-105	-96	-343	-146
Brazil		5.66	0.2	0.4	0	-3	-2		11.5	2.4	29	100	331	80
Chile		835	0.0	1.4	1	-14	2		5.9	0.0	26	58	318	46
Colombia		4056	0.2	0.6	-4	-13	0		7.0	0.5	36	48	294	60
Mexico		20.40	-0.1	0.6	3	-2	1		7.9	-0.5	13	63	232	34
Peru		3.9	0.0	0.8	3	-8	2		6.1	0.3	16	20	241	20
Uruguay		45	-0.2	-0.2	-1	-5	0		8.7	0.0	-7	-7	142	-7
Hungary		315	0.4	1.9	3	-6	3		4.7	-7.0	1	53	296	22
Poland		4.01	0.0	0.9	3	-7	1		3.9	-12.5	20	83	271	32
Romania		4.4	0.0	0.4	0	-8	0		5.1	3.8	23	2	246	24
Russia		74.9	0.1	0.3	-2	0	0		9.0	2.0	23	22	247	25
South Africa		15.7	0.1	2.2	2	-1	2		7.8	-5.5	20	31	105	36
Turkey		13.85	-0.2	-3.2	0	-46	-4		25.0	10.0	56	360	1177	69
US (DXY; 5y UST)		96	-0.1	-0.4	0	6	0		1.53	1.2	17	28	102	27

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4798	-1.0	-2	-5	-14	-3		195	-5	-7	-33	-8
Indonesia		6648	-0.6	-1	0	4	1		169	14	0	-22	4
India		60617	0.4	1	3	22	4		123	-5	-12	-31	-9
Philippines		7086	-0.8	1	-1	-2	-1		106	15	1	0	5
Malaysia		1564	0.9	1	5	-3	0		114	-1	-3	-27	-3
Argentina		83746	-0.8	-2	-2	64	0		1812	120	106	441	132
Brazil		101945	-0.8	-2	-5	-17	-3		317	13	-2	56	6
Chile		4323	0.6	1	-2	-5	0		142	11	6	-4	2
Colombia		1394	0.9	-1	0	-4	-1		348	8	18	133	0
Mexico		52836	-0.7	0	3	14	-1		338	13	-2	-15	6
Peru		22353	0.0	6	10	3	6		161	19	12	40	11
Hungary		52827	0.8	2	3	18	4		118	6	-3	-21	-6
Poland		71711	1.8	2	5	20	3		19	-7	-23	-7	-13
Romania		13281	0.4	1	6	32	2		192	11	9	-5	-1
Russia		3796	1.5	-2	1	9	0		184	19	13	12	7
South Africa		74244	0.6	-1	4	16	1		355	10	-7	-26	0
Turkey		2056	0.5	5	1	34	11		588	22	41	149	10
Ukraine		523	0.0	0	0	5	0		798	56	150	324	39
EM total		49	1.1	-1	-2	-9	0		404	25	20	66	17

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

back to top