



- Measure of euro area inflation expectations returns to long-term averages ([link](#))
- US asset managers warn about any underestimation of inflation ([link](#))
- Australian inflation unexpectedly returns to September high ([link](#))
- Egyptian pound records another sharp drop ([link](#))
- Saudi Arabia raises \$10 bn in Eurobond sale ([link](#))
- Brazil inflation higher than expected ([link](#))
- Colombia's state oil company returns to global bond market ([link](#))

[Mature Markets](#)





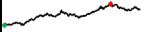



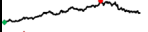

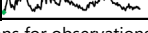
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Risk assets gain ahead of US inflation tomorrow

US equities closed higher yesterday, underpinned by a narrative that tomorrow's CPI print could help Fed officials to adjust their baseline on the path of policy rates lower. In contrast, some of the world's largest asset managers are warning that markets are underestimating both inflation and the ultimate peak of US rates. European assets also gained as measures for euro area inflation expectations are returning to long-term averages and ECB GC member Holzmann advocated for caution in moving too fast with quantitative tightening. Turning to emerging markets, Egypt was in focus after the pound fell to a new record low in the largest drop since October. Meanwhile, issuers are taking advantage of the improvement in risk sentiment. Saudi Arabia, for example, raised \$10 bn in a Eurobond sale, and Colombia's state oil company returned to global bond markets.

Key Global Financial Indicators

Last updated: 1/11/23 1:36 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3919	0.7	2	0	-17	2
Eurostoxx 50		4102	1.1	3	4	-4	8
Nikkei 225		26446	1.0	1	-5	-8	1
MSCI EM		41	0.7	6	4	-19	7
Yields and Spreads			bps				
US 10y Yield		3.59	-3.0	-9	1	185	-29
Germany 10y Yield		2.26	-5.3	-2	32	228	-32
EMBIG Sovereign Spread		463	-1	7	9	89	11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.8	0.2	2	1	-4	2
Dollar index, (+) = \$ appreciation		103.3	0.1	-1	-1	8	0
Brent Crude Oil (\$/barrel)		81.1	1.3	4	7	-3	-6
VIX Index (% change in pp)		20.7	0.1	-1	-2	2	-1

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

Mature Markets

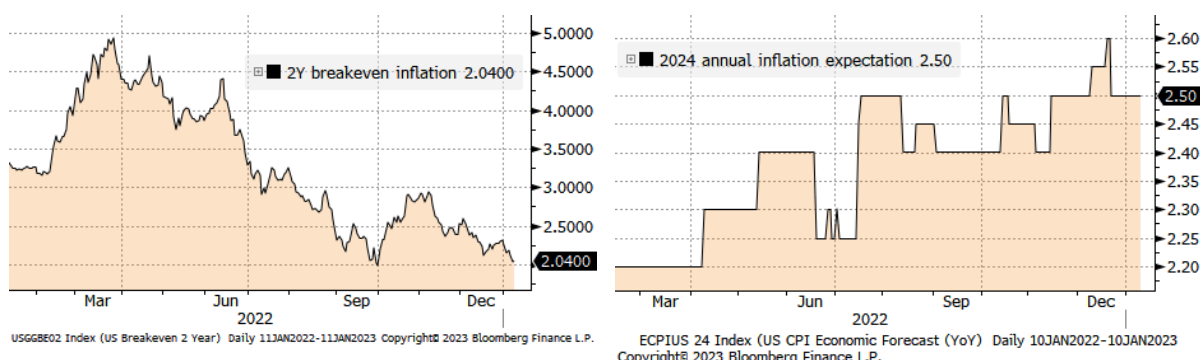
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United States

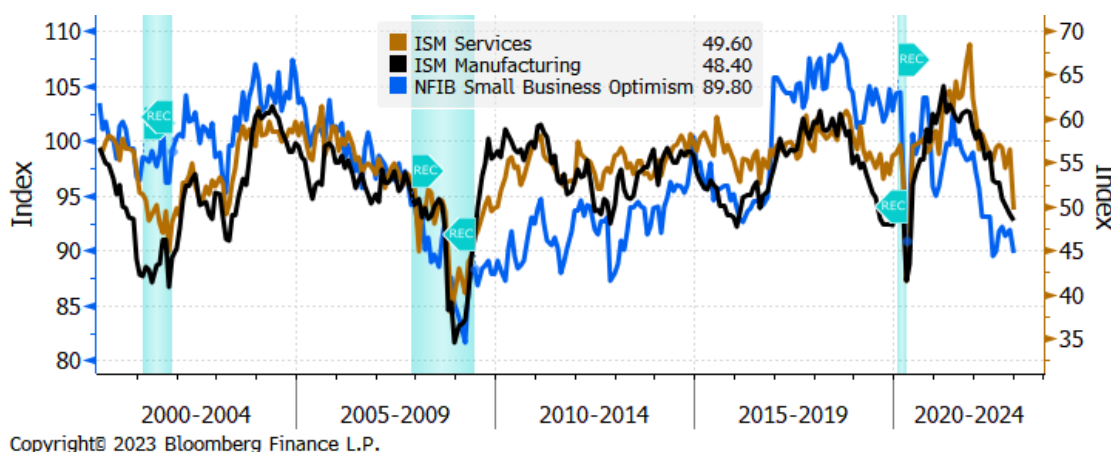
US equities (+0.7%) gained, underpinned by a narrative that the upcoming CPI print could be lower than expected and prompt Fed officials to adjust their baseline on rate hikes lower.

Longer-term US Treasury yields increased in the anticipation of significant bond supply this week. 10Y Treasury nominal yields rose by 7 bps, attributed entirely to real yields.

Bloomberg reports that some of the world's largest asset managers—including BlackRock Inc. and Fidelity Investments—are warning that markets are underestimating both inflation and the ultimate peak of US rates. Analysts criticize that markets price in too quick disinflation: be it the expectation that 2024 annual inflation will be as low as 2.5% (left chart below) or the convergence of breakeven inflation closer to 2% (right chart with 2-year breakeven inflation rate)—correspondingly, markets price in a rapid policy rate normalization after 2Q2023. **First, the asset managers believe that the upside risk to inflation remains significant and inflation is much stickier. Second, they assume that central banks are unlikely to implement rapid rate cuts even in a recessionary environment.** For example, the Fed has repeatedly made it clear that it wants to see the measure come down all the way to the 2% target, not just a slowdown in price growth.

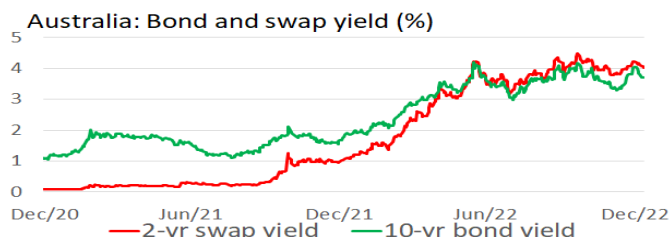


NFIB Small Business Optimism Index declined 2.1 points to 89.8 in December, lower than analysts' expectations. Bloomberg reports that deteriorating sentiment among small-business owners, along with contractions in ISM services and manufacturing gauges, create unfavorable conditions for spending and investments in coming months, with hiring potentially at risk. Companies reported that they expect sales and business conditions to deteriorate going forward, with inflation remaining the single most important business problem.



Australia

The Australian dollar was little changed and 2-yr swap yields traded 6 bps lower (to 4.02%) after headline inflation unexpectedly returned to September's high of 7.3% yoy (7.2% expected). Trimmed mean was also a bit higher than expected at 5.6% yoy (5.5% expected).



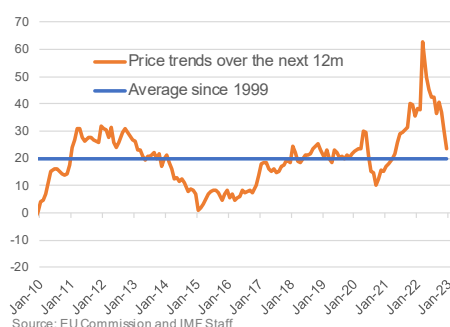
Europe

European markets are in the green in a session marked by little news or data releases, with the Stoxx Europe 600 gaining 0.5%, and the UK FTSE 100 up 0.6%. Currencies are broadly unchanged, with the euro up 0.1% (to 1.07/\$) and the British pound down 0.2% (at 1.21 £/\$). Bond yields are down, with German 10y yields down 4 bps to 2.26%, and Italian spreads plunging 7 bps to 184 bps, their lowest level since early December. 10y gilt yields are even more sharply down, losing 8 bps to 3.47%.

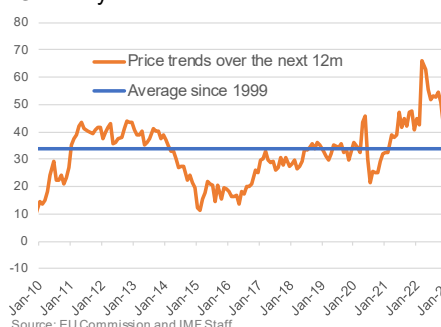
Euro Area

Inflation expectations in the Eurozone are fading, potentially helping the ECB. Ahead of tomorrow's publication of the ECB consumer expectations survey, Bloomberg pointed out that the European Commission data on inflation expectations released last week shows that consumer expectations for prices over the next 12 months have largely receded back to their long-term norm. The data also shows important country-specific differences. In the eurozone and in Germany, inflation over the next year is close to or below the average since the euro was introduced in 1999, while in France, consumers expect prices to remain much above their long-term average, possibly because some government support for energy and gasoline are about to end. Consumers expectations for prices are also above average in Croatia, which joined the euro at the start of 2023. (The data is the percent of respondents reporting an increase minus the percent of respondents reporting a decrease in prices over the next 12 months).

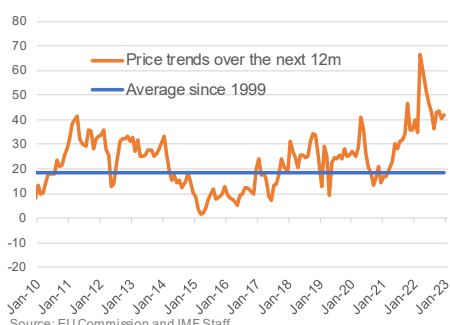
Euro Area



Germany



France



Croatia



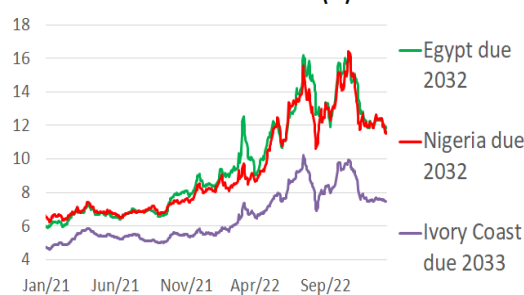
ECB officials continue to hammer the message that rates will have to increase further to tame inflation. French governor Villeroy de Galhau repeated that rates should rise further and need to reach their terminal level in the summer. He added that at the current 2% rates are at a neutral level that neither accelerates nor slows inflation and that the ECB needs to be pragmatic on the speed of hikes. **In contrast, Austrian governor Holzmann said that while rates will have to rise significantly further to reach levels that are sufficiently restrictive to ensure a timely return of inflation to target, it is too early to talk about the level of the terminal rate.** He added that core inflation has not peaked and must be watched closely and that the determination of the ECB will not change until core inflation eases. **The data will determine the course of rates beyond neutral. He also advocated caution in moving too fast with QT.** Yesterday, Portuguese Central Bank governor Mario Centeno said that rate increases must persist until inflation is on a sustainable path to the ECB's 2% target.

Emerging Markets

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Markets were relatively quiet. Turkish equities (-3%) are lower after the stock regulator said it is monitoring transaction in real time to fulfill its duty of inspection against market-disrupting actions. **Egypt was in focus after the pound (-10% to almost 31 per \$) fell to a new record low in the largest drop since October.** Some African U.S. dollar bonds recorded sharp gains in November, including Egypt, but U.S. dollar yields have moved sideways since. **Markets in Latin American were mixed yesterday.** Equities markets were up, most currencies appreciated against the US dollar, while 5YR CDS spreads widened.

Africa: Yields on U.S. dollar bonds (%)



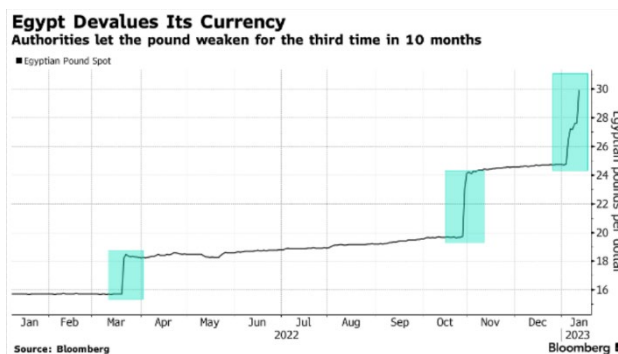
Source: Bloomberg and IMF

Philippines

Policymakers voice different views about whether the central bank should pause this year. Finance secretary Diokno, who is also a member of the MPC, said that the peak rate is probably not far from the current 5.5% (inflation is 8.1% yoy). He said that there could be a pivot towards the middle of the year and that a shift to smaller, 25 bps moves was possible. **Central bank governor Medalla, in contrast, said that it is too early for the Central Bank to pause this year, especially over the next two meetings, as he expects the Fed to continue tightening.** He however mentioned the possibility of shifting to smaller hikes.

Egypt

The Egyptian pound (-10% to almost 31 per \$) fell to a new record low in the largest drop since October. Bloomberg reports that the pound is now trading close to the parallel exchange rate. **Contacts had expected the pound to devalue further in 2023 as JP Morgan argues that the IMF program has ambitious targets for FX reserves.** Egypt will require substantial support from international and regional partners in coming years to fill external financing gaps. **Contacts are closely tracking the passthrough to inflation of recent devaluations, with some warning that the central bank may have tighten more than previously expected.** Data reported yesterday show that CPI inflation rose to 21.3% yoy or 2.1% mom in December with upside surprises across most categories.



Saudi Arabia

Saudi Arabia raised \$10 bn through in its first Eurobond sale of 2023 yesterday, with the order book a sizable \$35 bn. Investors reportedly paid 110 and 140 bps over U.S. Treasuries and 5.5%, in the 5-yr, 10-yr and 30-yr segment respectively. Year-to-date debt sales from Gulf issuers are down about 27% to \$772 mn compared to a year ago as borrowing costs remain relatively higher according to Bloomberg.

Brazil

CPI surprised on the upside in December as headline CPI rose 0.62% mom in December, above consensus estimates of 0.45%. CPI inflation reached 5.8% in 2022, was above its upper limit target of 5%, and below 2021 CPI inflation of 10.1%. Analysts at Citi still expect inflation to return to the target range this year (at 4.5%) if lower taxation over fuel will be maintained throughout this year. **The real closed 1% firmer yesterday as contacts believe that spillovers of the recent turmoil in Brasilia will be contained.**

Colombia

Colombia's state oil company, Ecopetrol, returned to the global bond market for the first time since 2021. The company issued a \$2 billion, 10-year, US dollar denominated bond with a coupon of 9%, with a spread of 539 bps over similarly dated US Treasury securities. The company is rated below investment grade by two major rating agencies. The company will use the proceeds to fund part of its 2023 investment plan and pay off \$472 million loan balance related to the acquisition of a Colombian utility company it purchased in 2021. According to Bloomberg, Ecopetrol has \$1.8 billion of fixed-rate bonds due in September 2023.



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Global Financial Indicators

Last updated: 1/11/23 1:36 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3922	0.7	2	0	-17	2
Europe		4102	1.1	3	4	-4	8
Japan		26446	1.0	1	-5	-8	1
China		3162	-0.2	1	-1	-12	2
Asia Ex Japan		70	0.6	6	5	-17	8
Emerging Markets		41	0.7	6	4	-19	7
Interest Rates			basis points				
US 10y Yield		3.59	-3.0	-9	1	185	-29
Germany 10y Yield		2.26	-5.3	-2	32	228	-32
Japan 10y Yield		0.51	-0.3	4	25	35	8
UK 10y Yield		3.43	-13.2	-7	24	226	-25
Credit Spreads			basis points				
US Investment Grade		156	-1.8	-5	1	42	-3
US High Yield		454	0.5	-18	-8	109	-27
Europe IG		81	-1.6	-4	-9	30	-10
Europe HY		417	-7.8	-23	-47	166	-57
Exchange Rates			%				
USD/Majors		103.34	0.1	-1	-1	8	0
EUR/USD		1.07	0.1	1	2	-5	0
USD/JPY		132.8	0.4	0	-4	15	1
EM/USD		50.8	0.2	2	1	-4	2
Commodities			%				
Brent Crude Oil (\$/barrel)		81	1.3	4	7	-3	-6
Industrials Metals (index)		170	0.8	5	0	-4	3
Agriculture (index)		67	0.2	0	1	7	-3
Implied Volatility			%				
VIX Index (% change in pp)		20.7	0.1	-1.4	-2.2	2.3	-1.0
US 10y Swaption Volatility		116.2	-5.4	-11.3	-28.6	33.1	-10.4
Global FX Volatility		10.6	0.0	-0.1	0.0	3.5	-0.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		199	-10.5	-25	-9	37	-7
Italy		185	-6.7	-16	-6	51	-30
Portugal		91	-3.8	-8	-2	28	-11
Spain		99	-3.9	-5	-4	31	-10

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

Emerging Market Financial Indicators

Last updated: 11/01/2023 1:38 PM	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		6.77	0.1	1.8	3	-6	2	-7		3.1	0.0	9	-4	26	6	26
Indonesia		15482	0.6	0.7	1	-8	1	-7		6.8	-3.2	-23	-13	37	-13	31
India		82	0.3	1.5	1	-9	1	-9		7.4	3.0	1	10	59.2	-10	
Philippines		55	0.1	2.0	2	-7	2	-7		6.1	0.0	5	5	155	5	108
Thailand		33	0.1	1.5	4	0	3	-4		2.6	-1.0	-6	4	50	-8	33
Malaysia		4.37	0.1	0.6	1	-4	1	-4		4.0	0.2	-4	-12	29	-9	28
Argentina		181	-0.2	-1.1	-5	-43	-2	-41		84.1	-171.5	-347	-489	3496	-415	3610
Brazil		5.21	-0.1	4.3	2	7	1	-4		12.6	5.5	-59	-45	110	5	111
Chile		826	0.2	3.6	5	0	3	-4		5.1	-1.5	-22	-17	-86	-27	-84
Colombia		4760	0.6	3.6	2	-16	2	-18		10.1	0.0	2	1	297	28	218
Mexico		19.07	0.0	1.6	4	7	2	6		8.1	-4.0	-38	-27	40	-61	27
Peru		3.8	0.2	0.6	1	4	0	-2		7.8	0.1	-23	2	169	-21	175
Uruguay		40	0.1	0.2	-2	12	0	6		10.7	0.0	0	-16	202	0	253
Hungary		371	0.0	0.5	6	-15	1	-14		7.9	-20.0	-105	-150	312	-175	304
Poland		4.35	0.4	1.1	2	-8	0	-7		5.2	-7.0	-55	-32	125	-100	129
Romania		4.6	0.1	1.3	2	-5	1	-5		7.4	5.7	-24	-5	236	-27	227
Russia		68.5	1.7	6.2	-8	9	8	19		11.7	-20.0	115	92	252	-21	47
South Africa		17.0	-0.1	-0.8	3	-9	0	-11		8.7	-6.0	-29	-57	94	-48	110
Turkey		18.78	0.0	-0.2	-1	-26	0	-26		9.5	91.0	84	-148	-1531	-32	-1291
US (DXY; 5y UST)		103	0.1	-0.9	-1	8	0	7		3.70	-3.1	-14	-7	220	-30	180

	Equity Markets									Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since		Level		Change (in basis points)			YTD	Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M				Last 12m	Latest	7 Days	30 Days	12 M			
									basis points								
China		4010	-0.2	3	1	-17	4	-13		183	2	1	-12	6	-25		
Indonesia		6584	-0.6	-3	-2	-1	-4	-5		165	9	11	-4	25	-20		
India		60106	0.0	-1	-3	-2	-1	5		154	9	13	31	12	0		
Philippines		6709	-0.7	0	2	-7	2	-9		140	20	19	34	43	3		
Thailand		1686	-0.3	1	4	0	1	-1		0	0	0	0	0	0		
Malaysia		1488	0.2	1	1	-5	-1	-6		100	-3	6	-14	0	-33		
Argentina		215811	0.0	9	26	155	7	136		2056	-108	-298	244	-149	319		
Brazil		111672	0.8	6	4	8	2	0		280	4	21	-37	6	-51		
Chile		5141	-0.1	1	-1	17	-2	17		154	13	18	12	22	-20		
Colombia		1335	0.6	5	8	-6	4	-12		387	16	5	39	15	-5		
Mexico		52344	0.1	7	4	-1	8	2		382	-3	5	44	1	12		
Peru		22747	0.9	6	3	0	7	-3		199	12	34	38	19	9		
Hungary		46117	0.1	3	4	-14	5	-3		251	23	32	133	29	98		
Poland		61777	-0.4	5	11	-14	8	-2		107	34	29	88	34	91		
Romania		12342	0.8	2	1	-7	6	-7		278	19	26	85	22	45		
Russia		2177	0.8	0	0	-42	1	-29		3411	-577	938	3228	3234	2897		
South Africa		78698	1.0	6	6	6	8	5		361	-6	-23	6	-6	-28		
Turkey		4879	-1.9	-12	-3	138	-11	142		484	43	42	-104	44	-79		
Ukraine		514	0.0	-1	-1	-2	-1	-1		4176	65	225	3378	97	2703		
EM total		41	0.1	6	4	-19	7	-14		387	6	11	-17	11	-71		

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