



- Markets expect a short and limited Fed rate hike cycle ([link](#))
- Low US two-year Treasury yield flags curve flattening risk ([link](#))
- US companies to deploy \$7 trillion cash pile ([link](#))
- Lower inflation in China boosts local markets ([link](#))
- Euro area bond market on track for week of record high issuance ([link](#))
- Germany to triple speed of emission cuts ([link](#))

[Mature Markets](#)


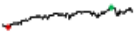






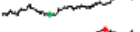

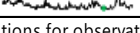
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## Cautious optimism prevails in global markets

**Stocks were higher across most global markets as the volatility of recent days gave way to a slightly more optimistic mood.** US equity futures clung to fractional gains after the slightly higher than expected US CPI data. The omicron variant of the virus is believed to be less deadly than prior variants, so the current high infection rates are expected to have less impact on economic activity. Corporate bond markets are in full swing around the world as companies race to lock in low borrowing costs, with euro area markets on pace for a record week of issuance. Better than expected economic data in China and Japan also lifted sentiment. The market seems adjusted to the prospect of at least four Fed rate hikes this year and interest rates remain within recent ranges this morning, although the bias towards higher rates remains in place. Oil prices are higher again as the energy sector continues its strong start to the year.

Key Global Financial Indicators

Last updated: 1/12/22 8:16 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>							
			%				%
S&P 500		4713	0.9	-2	0	24	-1
Eurostoxx 50		4306	0.6	-2	3	19	0
Nikkei 225		28766	1.9	-2	0	1	0
MSCI EM		50	2.3	2	0	-8	2
<b>Yields and Spreads</b>							
			bps				
US 10y Yield		1.73	-0.2	3	25	60	22
Germany 10y Yield		-0.05	-2.1	4	30	42	13
EMBIG Sovereign Spread		376	2	17	11	29	9
<b>FX / Commodities / Volatility</b>							
			%				
EM FX vs. USD, (+) = appreciation		53.0	0.0	1	1	-8	1
Dollar index, (+) = \$ appreciation		95.6	0.0	-1	-1	6	0
Brent Crude Oil (\$/barrel)		84.0	0.3	4	12	48	8
VIX Index (% change in pp)		18.2	-0.2	-2	-1	-5	1

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

## Mature Markets

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### United States

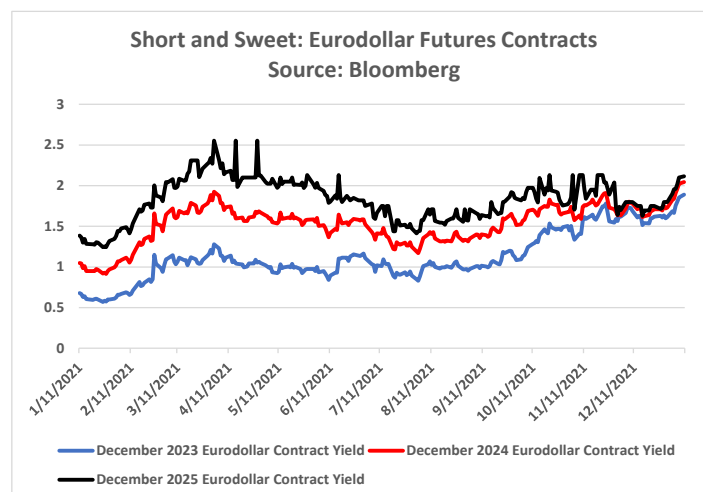
**The December CPI data was slightly higher than the already high consensus forecasts.** Treasury yields ticked immediately following the data along with the dollar, but the moves were limited.

#### US Decmber CPI Data

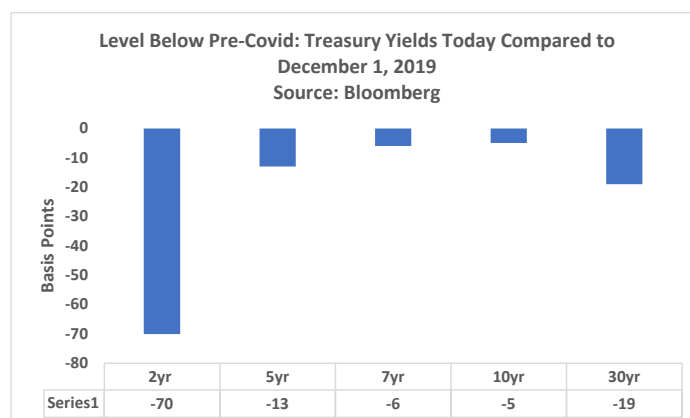
Source: Bloomberg

Indicator	Consensus Forecast	Actual Result
CPI month-on-month (mom)	0.4%	0.5%
CPI ex-food and energy	0.5%	0.6%
CPI year-on-year (yoy)	7%	7%
CPI ex-food and energy (yoy)	5.4%	5.5%

**Interest rate futures markets are pricing in a short and limited Fed rate hike cycle.** The eurodollar futures market predicts that the Fed's policy rate will reach around 2% by the end of 2024 and then stay at that level with no rate further hikes in 2025. That means just eight 25 bps rate hikes over the next three years. The underlying assumption is that inflation will be brought under control in the latter part of this year or early in 2023, and that more aggressive action will not be required. Many market participants are worried that these predictions are too optimistic. Four hikes are already being priced for 2022, and there is a high degree of uncertainty about what will happen to inflation. Market projections for future interest rates are well below the Fed's dot plot projections. The concern is that the market may be underestimating the Fed's determination to fight inflation. If this turns out to be the case, markets could be hit hard and enter a period of much higher volatility, with negative implications for financial stability.



**Most of the US yield curve is almost back to where it was before the pandemic hit, but two-year yields are still well below their pre-pandemic level.** This worries some contacts because it implies that there is significant scope for the yield curve to flatten significantly from current levels, which is contrary to market expectations. With four rate hikes nearly fully priced in for 2022 and the prospect of a faster pace than that, the two-year yield could shoot up to catch up with the rest of the curve. Commodities and Futures Trading Commission data show that investors are positioned for higher longer term rates and a steeper yield curve. A significant flattening could lead to disorderly trade unwinds and higher volatility in the bond market. Alternatively, if the Fed proceeds with a significant amount of quantitative tightening, it might turn out that fewer rate hikes will be needed, in which case the two-year Treasury valuation could be justified.



**US corporations are sitting on a cash pile of \$7tn and managers are likely to deploy much of this cash during the coming year, according to research by Bank of America.** How they do so could have a significant impact on growth prospects for the US economy. US corporate cash balances swelled over the course of the pandemic due to lower spending, money from the government and a reduction in dividends, stock buybacks and other corporate actions. Bank of America points out that corporate actions fell 10% during the 2000 dotcom bust, 34% during the Global Financial Crisis and 20% during the pandemic, and that corporate actions increase significantly when the crisis passes. If corporate managers are bullish on the economy, they are likely to spend their cash on capital expenditure which is more likely to boost economic growth. They could also use their cash for mergers and acquisitions, whose impact on the economy is more ambiguous. However, if they are neutral, they are more likely to spend the cash on corporate actions, which will do little to spur the economy.

#### Exhibit 2: The corporate cash pile continues to grow

Total liquid assets of US nonfinancial corporates, \$tn

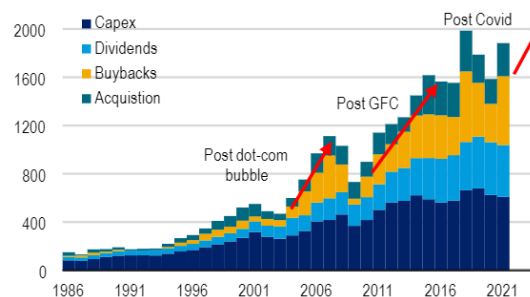


Source: BofA Research Investment Committee, St. Louis Federal Reserve.

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#### Exhibit 3: Cash deployment has rebounded strongly after recessions

Annual breakdown of different corporate actions (\$bn)

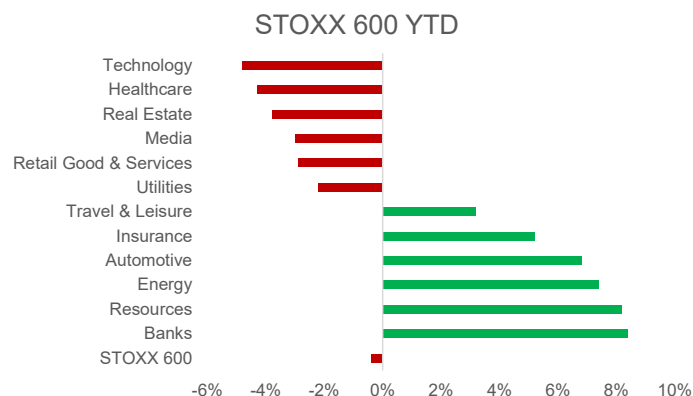


Source: BofA Research Investment Committee, BofA Equity & Quant Strategy, Factset, St. Louis Federal Reserve. Note: 2021 corporate action data is annualized.

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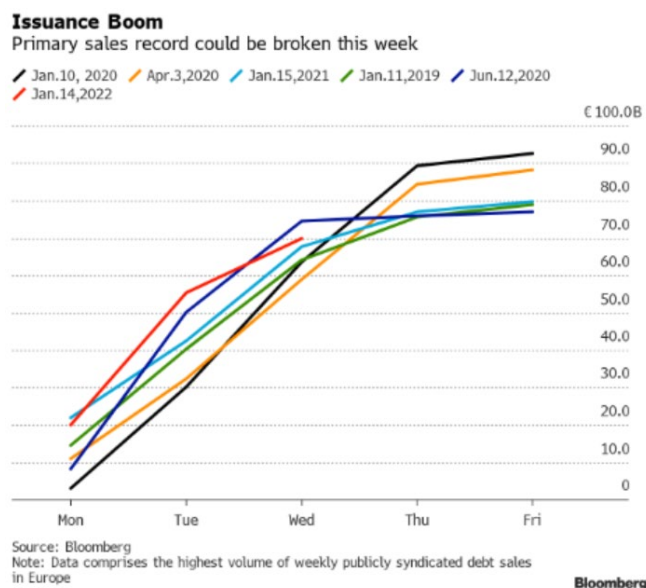
## Euro Area

**European equity benchmarks** continued to recover with the STOXX 600 trading just 0.5% below 2021 closing levels. However, on a sector basis the performance gap remains substantial, with interest rate sensitive and stay-at-home shares notably underperforming banks and commodity producers. Aside from oil producers, contacts note that electric vehicle metal miners have seen the biggest boost as prices of nickel, aluminum and rare earth materials have all jumped since the start of the year.



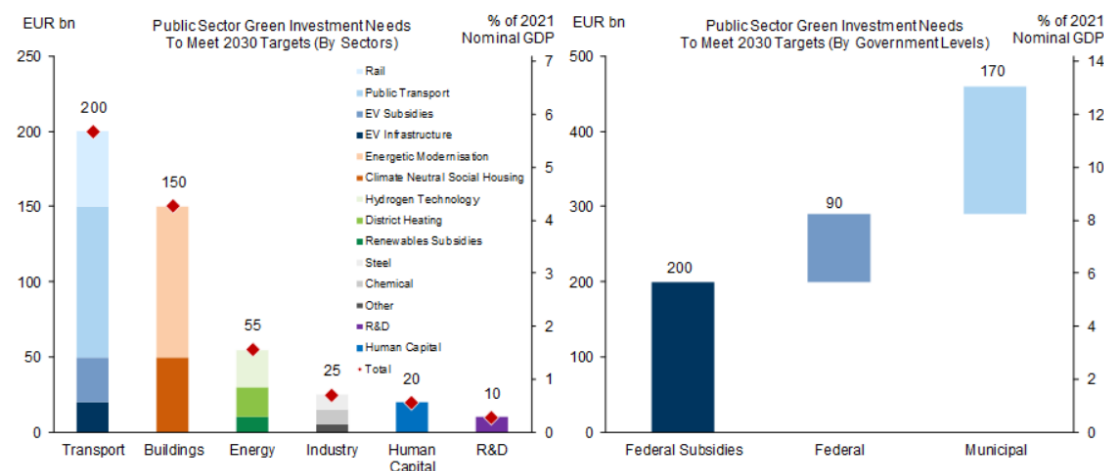
**European bond yields** fell by 2-3 bps while the euro (-0.2%) gave up earlier gains after mixed industrial sector data. Eurozone industrial production expanded 2.3% mom in November, much stronger than the 0.2% consensus forecast. However, the data release was distorted by volatile data out of Ireland, which has also resulted in a 2.4% downward revision for the October print. Production in both Germany and France disappointed.

**Euro area primary markets were on track for the busiest week on record.** According to Bloomberg estimates, more than 50 issuers have issued €70 bn as of Wednesday noon local time. **Contacts note that front-loading of issuance has been the general advice by most debt syndication desks given** potential uncertainty around monetary policy and risk sentiment further out. Despite the jump in supply, auction demand has held up well, suggesting that markets have already priced in the extra issuance through the recent yield increase. Spain placed €10 bn of 10-year debt amid strong €63 bn demand.



**Germany seeks to triple the speed of emission cuts to address the deficit on climate neutrality.** According to Germany's new Minister of Economy Habeck, the country is likely to miss its climate targets both this and next year while greenhouse gas emissions are estimated to have risen by 4.5% yoy in 2021. The climate transition will focus on increasing the renewable energy in Germany's power mix to 80% by 2030, from 40% currently, while using natural gas plants as a necessary bridge technology. **Analysts at Goldman Sachs estimate that 2030 climate targets require public funding of around €460 bn (13% of GDP),** translating into a more expansionary fiscal policy in the coming years.

Exhibit 4: Public Investment Needs



See Krebs, Steitz (2021), "Öffentliche Finanzbedarfe für Klimainvestitionen im Zeitraum 2021–2030," Froum New Economy Working Papers No 03 2021.

Source: Forum New Economy, Goldman Sachs Global Investment Research

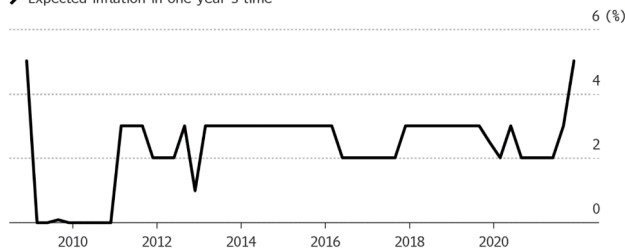
## Japan

**Bank of Japan Governor (BOJ) Kuroda expects underlying inflation to pick up gradually.** While underlying inflation showed a moderate increase recently, led by energy prices, a further pickup will happen over the long term. Separately, the BOJ raised its economic assessment of all the country's regions for the first time since October 2013 in a sign of growing optimism. **Meanwhile, households' inflation expectations jumped to the highest level in 13 years.** The latest BOJ survey showed that households expect to see inflation of 5% by next year and an average inflation of 3% over the next five years.

### High Expectations

Japanese households haven't expected this much inflation in years

Expected inflation in one year's time



Source: Bank of Japan household survey

Bloomberg

## Emerging Markets

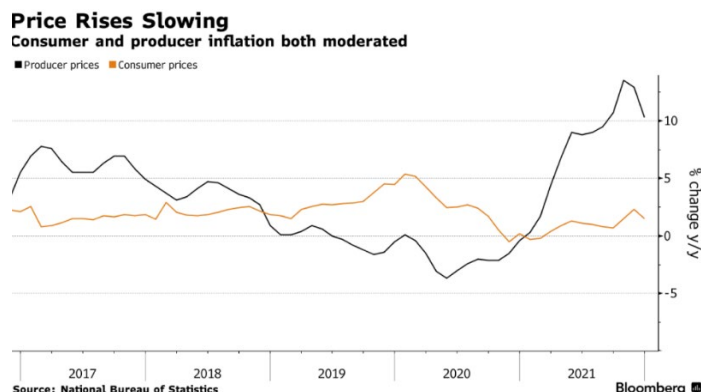
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**EMEA stocks were higher in line with global markets.** Local currencies posted notable gains. In Asia, markets were also generally higher in step with the US rally yesterday. Hong Kong technology stocks attracted particular attention with their strong performance after weeks of disappointing returns. In Korea, the unemployment rate was higher than expected. Latin American stocks also posted gains and currencies appreciated against the dollar. Inflation in Brazil pulled back from an 18-year high but was slightly above forecasts.

## China

**Inflation pressures moderated in December, with both CPI and PPI inflation data coming out lower than expected in December.** CPI inflation moderated to 1.5% yoy from 2.3% the month before (consensus: 1.7%), while PPI inflation dropped to 10.3% yoy from 12.9% (consensus: 11.3%). CPI inflation

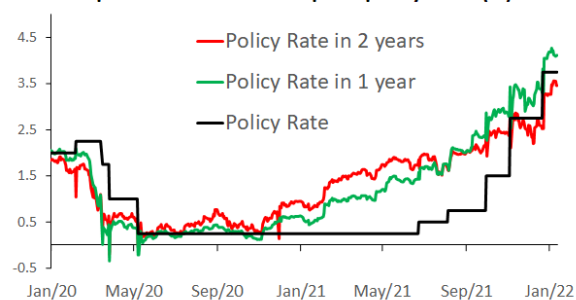
remains subdued largely due to easing food and energy prices; analysts noted that wage-push inflation pressure is not a worry for China. For PPI, upstream sectors saw a larger sequential decline in prices. Analysts think that lower inflation opens room for Beijing to loosen monetary policy further; some expected that the People's Bank of China could cut the Medium-term Lending Facility (MLF) rate as soon as next week. The news lifted local markets (CSI 300: +1.0%); RMB appreciated (+0.2%).



## Czech Republic

**Markets continue to price in further hikes after headline inflation rose to 6.6% yoy in December, as expected.** Yesterday, central bank board member Holub warned that inflation could rise to 10% yoy in early 2022 before slowing in Q2. The central bank hiked its policy rate 100 bps to 3.75% last month and is expected to hike again at its next meeting in February, with markets then pricing cuts later in H2. **The Czech koruna has gained 1.8% against the euro so far in 2022.**

Czech Republic: Current and implied policy rates (%)



Source: Bloomberg and IMF staff

*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.*

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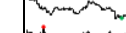
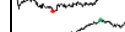

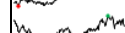


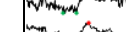
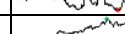
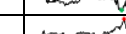








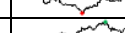
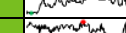




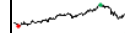















## Global Financial Indicators

Last updated: 1/12/22 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4715	0.9	0	0	24	-1
Europe		4306	0.6	-2	3	19	0
Japan		28766	1.9	-2	0	1	0
China		4846	1.0	0	-5	-13	-2
Asia Ex Japan		84	2.0	2	-1	-11	2
Emerging Markets		50	2.3	2	0	-8	2
Interest Rates							
			basis points				
US 10y Yield		1.73	-0.2	3	25	60	22
Germany 10y Yield		-0.05	-2.1	4	30	42	13
Japan 10y Yield		0.13	-2.3	5	8	9	6
UK 10y Yield		1.15	-1.8	7	41	80	18
Credit Spreads							
			basis points				
US Investment Grade		116	2.1	5	0	21	4
US High Yield		344	-1.1	5	-14	-34	6
Europe IG		50	-0.7	2	-1	0	2
Europe HY		249	-3.8	6	-9	-13	7
Exchange Rates							
			%				
USD/Majors		95.59	0.0	-1	-1	6	0
EUR/USD		1.14	0.0	1	1	-7	0
USD/JPY		115.4	0.1	-1	2	11	0
EM/USD		53.0	0.0	1	1	-8	1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		84	0.3	4	12	48	8
Industrials Metals (index)		180	1.4	3	10	32	4
Agriculture (index)		62	0.1	0	4	24	2
Implied Volatility							
			%				
VIX Index (% change in pp)		18.2	-0.2	-1.6	-0.5	-5.2	1.0
US 10y Swaption Volatility		83.1	-0.3	-1.3	3.7	19.8	4.0
Global FX Volatility		7.2	0.0	-0.1	-0.8	-0.7	-0.2
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		161	-0.4	15	-12	45	9
Italy		133	-0.1	1	2	21	-2
Portugal		63	0.4	3	-2	12	-1
Spain		68	0.0	0	-2	10	-6

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

Last updated: 1/12/2022 8:20 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	0.1	0.0	0	2	0		2.9	0.0	-2	-11	-25	1
Indonesia		14324	-0.1	0.3	0	-1	0		6.4	-2.7	-2	10	19	3
India		74	0.0	0.6	2	-1	1		6.8	45.0	45	58	106	45
Philippines		51	-0.1	-0.5	-2	-6	0		4.5	0.0	0	-5	139	3
Thailand		33	-0.1	-0.5	0	-10	0		2.1	0.5	12	16	61	21
Malaysia		4.19	0.1	0.2	1	-3	0		3.6	-2.0	2	8	95	5
Argentina		104	-0.1	-0.5	-2	-18	-1		49.0	-13.5	-104	-110	-372	-160
Brazil		5.58	-0.1	2.5	2	-5	0		11.5	-3.4	23	100	345	81
Chile		828	0.2	1.2	2	-12	3		6.0	7.0	32	70	326	58
Colombia		3984	0.3	1.2	-2	-13	2		7.1	0.0	36	57	292	68
Mexico		20.38	0.0	0.9	3	-3	1		7.7	0.0	-8	49	217	20
Peru		3.9	0.7	1.3	4	-8	2		6.1	-0.2	9	16	242	16
Uruguay		45	0.0	0.0	-1	-5	0		8.7	0.0	-7	-7	141	-7
Hungary		313	0.3	2.3	4	-6	4		4.6	-9.5	-8	44	284	13
Poland		3.99	0.1	1.4	3	-7	1		3.8	-11.0	8	81	263	30
Romania		4.3	0.1	0.5	1	-8	0		5.1	-0.1	15	2	246	23
Russia		74.5	-0.1	2.5	-1	-1	1		9.2	2.0	37	35	271	38
South Africa		15.4	0.6	3.0	4	-1	3		7.7	-1.0	12	26	102	31
Turkey		13.80	0.1	-0.9	0	-46	-4		24.6	-27.0	62	314	1132	23
US (DXY; 5y UST)		96	0.0	-0.6	-1	6	0		1.49	-0.5	6	24	99	23

	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		4846	1.0	0	-5	-13	-2		196	-4	-6	-31	-7	
Indonesia		6647	0.0	0	0	3	1		166	9	-3	-24	1	
India		61150	0.9	2	5	24	5		124	-4	-11	-32	-8	
Philippines		7215	1.8	2	0	0	1		101	7	-4	-4	0	
Malaysia		1563	-0.1	1	5	-4	0		115	0	-2	-26	-2	
Argentina		84702	1.1	-1	-1	65	1		1811	90	105	430	131	
Brazil		103825	0.0	3	-4	-16	-1		319	11	0	54	8	
Chile		4418	0.5	2	0	-4	3		145	15	9	-3	5	
Colombia		1423	2.0	0	2	-3	1		347	7	17	129	-1	
Mexico		53062	0.4	0	4	15	0		338	11	-2	-22	6	
Peru		22787	1.9	6	12	5	8		162	18	13	37	12	
Hungary		53930	0.6	4	6	22	6		121	8	0	-16	-3	
Poland		72652	1.3	3	6	23	5		22	1	-20	-2	-10	
Romania		13527	1.9	3	8	33	4		193	8	9	-4	0	
Russia		3834	1.3	0	2	10	1		183	13	12	13	6	
South Africa		75614	2.2	1	5	19	3		352	13	-10	-28	-3	
Turkey		2061	0.7	3	1	33	11		588	26	41	142	10	
Ukraine		523	0.0	0	0	5	0		786	38	138	305	27	
EM total		50	1.2	2	0	-8	2		402	19	19	61	16	

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

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