



- US dollar weakened the most since May after in-line CPI report ([link](#))
- US banks' loan growth accelerated in Q4 ([link](#))
- US real estate M&A activity surged in 2021, to near 2006 level ([link](#))
- Chinese equities declined on COVID-related concerns ([link](#))
- The Turkish lira remains volatile even as credit spreads fall ([link](#))
- **Special Feature: EM Local Currency Bond Holdings Monitor** ([attached](#))

[Mature Markets](#)

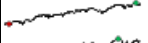


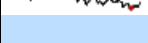


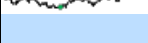



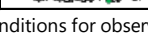
| [Emerging Markets](#)

| [Market Tables](#)

## Markets hold on to optimistic tone

**The dollar falls in the largest move since May, amid new multi-decade highs in inflation and hawkish chatter from Fed officials.** Stocks across advanced and emerging economies are largely holding on to the large gains seen in Wednesday's session, which came amidst optimism that the Omicron variant's surge is abating in the UK and proving milder than feared across Europe. Strong risk sentiment was supported by relatively muted moves in Treasury yields despite increasingly hawkish rhetoric from Fed officials, including more open contemplation of a fourth quarter-point rate hike in 2022 and rapid balance sheet run-off. The key market development on the day was the 0.75% drop in the US dollar, which unwound much of a sharp move higher from November, when US yields ripped higher on inflation concerns. Analysts have not coalesced around a clear narrative for the move, but pointed to improving risk sentiment, crowded long dollar positioning, and the perception that the US rate hike cycle may be fully priced.

Key Global Financial Indicators

Last updated: 1/13/22 8:22 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4726	0.3	1	1	24	-1
Eurostoxx 50		4311	-0.1	0	3	19	0
Nikkei 225		28489	-1.0	-3	0	-1	-1
MSCI EM		51	1.7	5	5	-7	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.74	-0.5	2	32	65	23
Germany 10y Yield		-0.07	-0.8	-1	32	46	11
EMBIG Sovereign Spread		374	-1	16	10	19	7
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		53.1	-0.4	1	2	-8	1
Dollar index, (+) = \$ appreciation		94.8	-0.1	-2	-2	5	-1
Brent Crude Oil (\$/barrel)		84.4	-0.3	3	13	51	9
VIX Index (% change in pp)		18.0	0.3	-2	-2	-4	1

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

## Mature Markets

[back to top](#)

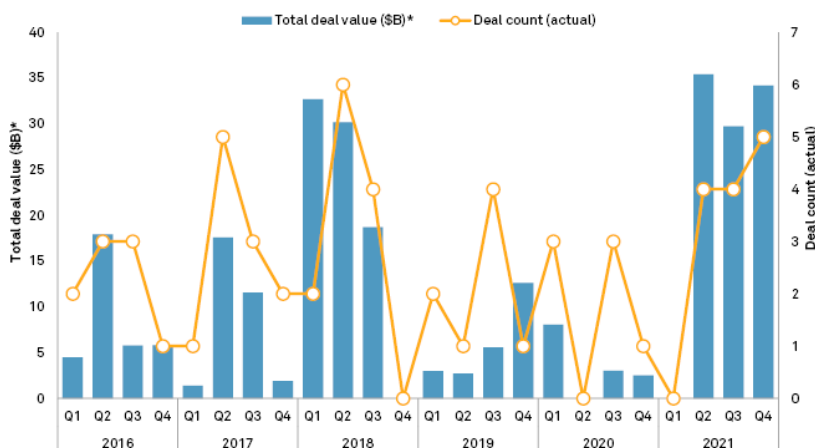
### United States

**Stocks marched higher while the dollar weakened the most since May following the in-line CPI report.** Headline inflation hit a 39-year high of 7% yoy, as expected, led by continuing strength in shelter, used car and food prices, while energy prices turned lower last month. Core inflation rose to 5.5% yoy, the highest since 1991 and marginally above expectations. **The DXY index weakened 0.7%, marking the largest 1-day decline since last May**, and the index is now back to the mid-November level. The Treasury curve flattened slightly, with 2 bps rise in 2-year yield, while the early rally in 10-year rate unwound somewhat after the tepid 10-year note auction. In contrast to the muted reaction in the nominals, 10-year real rate jumped 8 bps as breakevens dropped 8 bps, completely reversing yesterday's move, partly driven by low liquidity. The Fed's Beige Book survey showed modest growth in the final weeks of 2021, but business optimism has cooled in some places as 10 of the Fed's 12 regional banks reported the latest COVID surge's impact on economic activity and labor shortages.

**Bank loan growth accelerated in Q4.** Total loans across US banks rose 2.8% qoq or \$296bn in Q4. Both C&I (+3.9% qoq) and consumer loans (+3% qoq) were stronger than expected, and loan growth at large banks recoded the highest Q4 rate since the GFC. Deposit inflows continued to be robust, up 2.3% qoq or \$398bn, outstripping loan growth. Lastly, banks started to deploy excess liquidity with security holdings up 4.8% while cash holdings down 1.1%, the first decline since 2020Q3. Banks are scheduled to report Q4 earnings starting this week, with consensus expecting a modest decline in quarterly EPS after a string of strong results. NIM is expected to decline on both qoq and yoy basis, as excess liquidity continues to weigh on margins while higher rates and a steeper yield curve will take time to work through the loan book.

**Real estate M&A activity surged in 2021 on low interest rates and consolidation efforts.** M&A activity involving publicly traded equity real estate investment trusts (REIT) totaled \$99bn, just shy of the all-time record of \$105bn in 2006. Two-thirds of the completed transactions in 2021 involved publicly traded REITs buying other listed REITs, demonstrating the sector's growing interest in economies of scale. REIT share prices soared in 2021, with the Dow Jones REIT index up 41%, compared to a 27% increase in the S&P500.

Real estate M&A deals involving publicly traded equity REITs announced by quarter



Data compiled Jan. 4, 2022.

### Euro area

**European equity benchmarks** have traded in a tight range. **European bond yields** and the euro are also little changed. The primary market for government bonds remained busy amid robust demand with Portugal placing €3 bn of 20-year bonds, collecting €21 bn of orders, while books for Ireland 10-year note exceed

€30 bn. On the policy front, ECB's Guindos admitted that inflation may not be as transitory as anticipated although he remained convinced in price growth normalization.

**The Italian government is readying a new €2 bn targeted pandemic support package while fending off intra coalition calls for larger stimulus.** According to media reports, League's **Salvini is asking for an increase of deficits of about €30 bn.** The discussion comes just days from the 24<sup>th</sup> January Presidential vote, with analysts now seeing Draghi's move to President's seat as too close to call. That said, contacts note that early election remains a tail-risk and may be underpriced by the market even when considering the relative underperformance of Italian bonds during the Q4 sell-off.

Figure 2: 10yr GDP-weighted spread to Bund

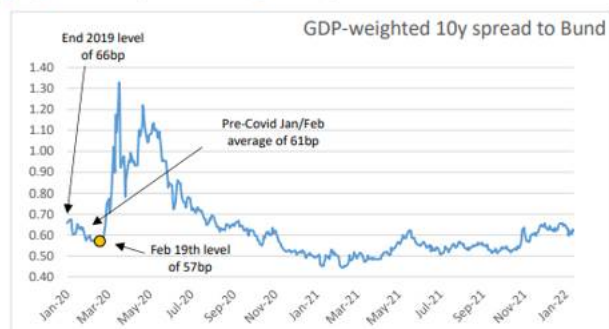


Figure 4: Beta comparison - recent widening vs Q2 2021



## United Kingdom

**The sterling has recouped Q4 losses and is trading at the strongest level against the euro since the start of the pandemic.** Since turnaround in mid-December, the pound has appreciated by 4% against the dollar and 3% against the euro. Cable's performance also stands out when compared to past rate hiking cycles. **Contacts attribute the performance to a short-position squeeze, triggered by unwinds following the Bank of England surprise hike as well as strong equity inflows on the back of a commodities rally (FTSE 100 up 3.4% YTD).** However, some analysts are skeptical in the sustainability of sterling's gains as markets are already pricing four hikes this year against a backdrop of early signs of easing labor market and prospects of government intervention in the energy market to offset or cap rising prices.

Fig. 1: GBP trade weighted performance into BoE rate hikes since 1994

GBP rallies into and through the start of rate hiking cycles

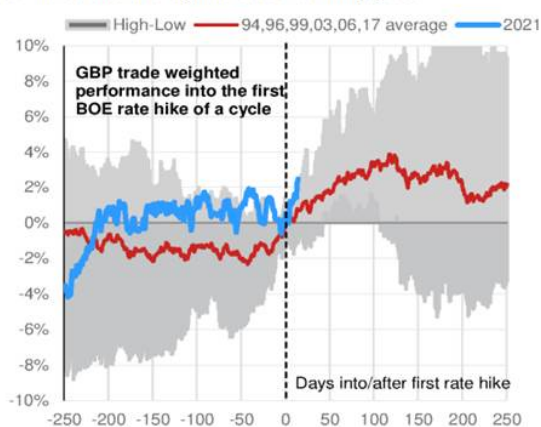
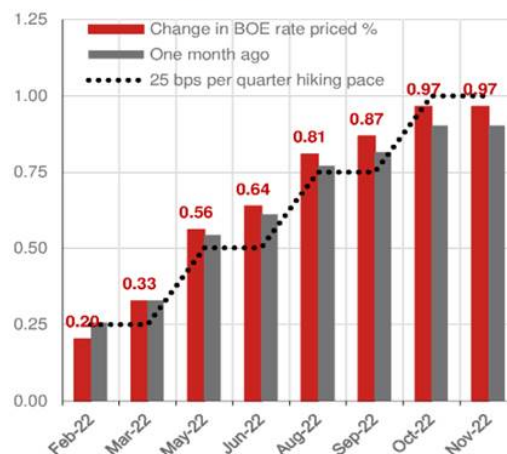


Fig. 2: Front-end BoE meeting pricing

Four rate hikes pretty much priced in



**The UK's development of a digital currency faced headwinds in a House of Lords hearing.** According to media reports, the House of Lords Economic Affairs Committee raised concerns that Bank of England's digital currency could threaten banking sector stability while dragging the central bank into controversial debates on privacy.

## Japan

**Equities declined (NIKKEI: -1.0%).** Market sentiment weakened as COVID cases rose. Reportedly, Tokyo will raise its pandemic alert to the second-highest level, out of a four-tier system. **The Bank of Japan (BOJ) is expected to adjust its view of inflation risks for the first time since 2014** as showed by a Bloomberg survey. Market participants expect the BOJ to move away from its long-held view that price risks are mainly on the downside. At the same time, the survey suggested that the BOJ will keep its main monetary policy tools unchanged this year. The Japanese yen appreciated (+0.1%).

## Emerging Markets

[back to top](#)

**Asian equities were mixed.** Price movements were small in most markets except China (CSI 300: -1.6%) and Philippines (+1.3%). **Most Asian currencies appreciated**, led by Thai baht (+0.5%) and Philippine peso (+0.3%). Analysts noted that both Thai baht and Philippine peso have been supported by foreign fund flows into local equities more recently. **Long-end government bond yields declined**, with 10-year yields falling in Taiwan Province of China (-4.2 bps). In India, CPI inflation increased less than expected to 5.59% y/y in December from 4.91% in November (consensus: 5.8%). Government bond yields declined (1-year: -2.4 bps; 10-year: -3.0 bps). In Thailand, consumer confidence rose for a fourth straight month to a 9-month high in December, supported by economic stimulus measures and an improved COVID situation. Analysts noted that concerns on new Omicron-driven outbreaks may hurt the economic recovery in the near term.

**Across EMEA, currencies and equities traded** with a cautious tone after a strong start to the year.

**Latin American equity markets** marched higher on Wednesday. Chile led the gains (+2.6%), followed by Colombia (+2.0%) and Brazil (+1.8%). Local currencies were broadly stronger. The Brazilian real outperformed (+0.9%), followed by the Chilean peso (+0.6%). 10-year government bond yields dropped 24 bps in Brazil and rose 11 bps in Colombia.

## Chile

**Chile's Lower House of Congress approved a bill to finance a universal pension after including a wealth tax.** The bill called for a guaranteed monthly pension of 185,000 pesos (\$222) to benefit Chileans who are older than 65 and are not the richest 10% of the population. Though rejected by the government, a wealth tax was added by opposition lawmakers to the bill. They proposed to impose a wealth tax of 1.5% for people with capital between \$5 and \$22 mn and a tax of 2.5% for those above that range. The bill has moved to the Senate. The government said it would try to block the bill in the Constitutional Court by arguing tax issues are the prerogative of the president.

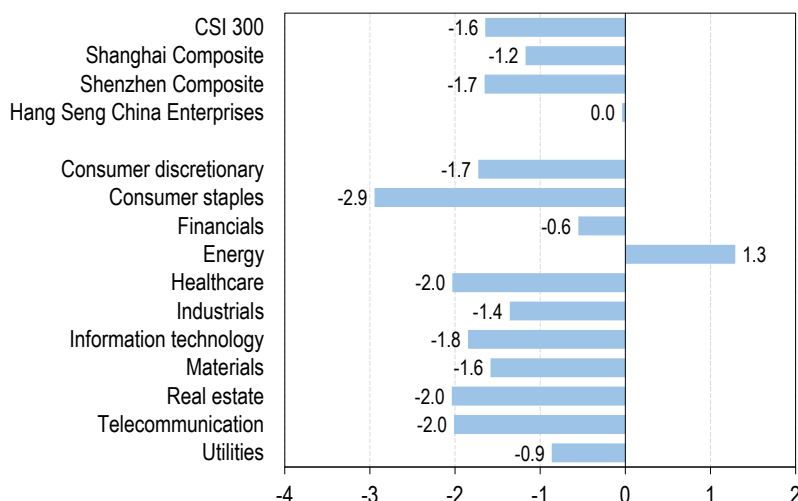
## China

**Equities declined on concerns over a broadening Omicron spread along with a selloff from the property sector** (CSI 300: -1.6%). China detected Omicron in a second major port city, deepening concerns that the virus could spread quickly across the country and upending global supply chains. Shares of property developers were sold off (onshore: -2.0%; Hong Kong SAR: -2.2%). Large state-owned banks reportedly became more selective about funding real estate projects by local government financing vehicles (LGFVs). Banks are increasingly concerned that some LGFVs are taking on too much risk after they recently became the main buyers of land in some local government auctions. At least five state-run banks have imposed new restrictions this year on loans to weaker LGFVs and state-owned firms seeking to buy land and develop new real estate projects. Banks also are reportedly more stringent in assessing the local economy's situation and the sales prospects of the real estate projects. The RMB fixing was 60 pips weaker

than expected, the weakest level in a month. RMB was little changed, while most Asian currencies appreciated. Analysts noted that the unexpectedly weak RMB fixing is typically a signal that Beijing does not want the RMB to appreciate rapidly.

### Equity Total Return: Daily Change

In percent



### Russia

**Russian assets fell after the government said that talks with the U.S. and NATO have been “unsuccessful” for now.** Equities (-1.9%) and the ruble (-0.6%) are weaker and 10-yr swap yields rose 10 bps to 9.23%. **Inflation data released yesterday were below expectations but remain elevated.** Core inflation was 8.9% yoy in December (9.1% expected) with headline inflation at 8.4%.

### Russia: Core CPI (%yoy) and policy rate (%)

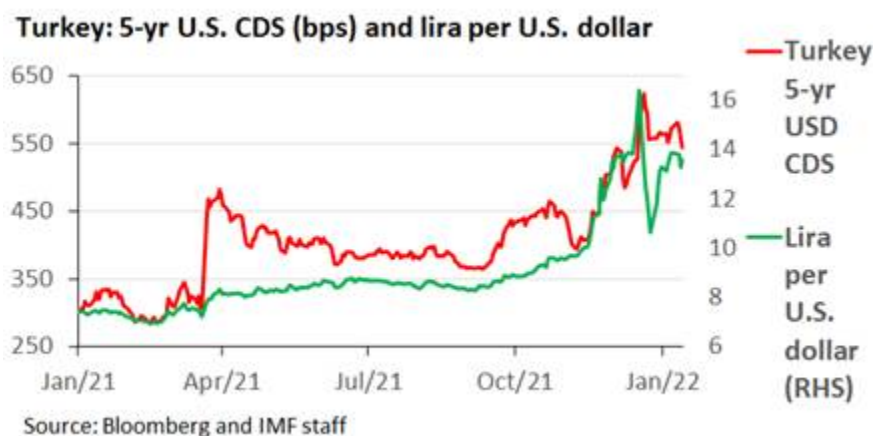


Source: Bloomberg and IMF

### Turkey

**Five-year CDS spreads fell 38 bps to 543 bps this week but the lira weakened (-2.2% to 13.6/\$).** The latest leg weaker for the currency unwound gains made earlier in 2022 and comes as traders gauge local demand for U.S. dollars after the introduction of the new FX-protected lira deposit scheme in late December. Official communication is that about 108 bn lira or \$8 bn of deposits have been transferred to the new FX-linked lira deposit scheme by 7 Jan. Turkey has also included corporate FX and gold deposit accounts converted to lira to the new deposit scheme, according to an official notice. **According to news reports, the government also plans to offer construction companies with state contracts retroactive protection against the decline in the lira's value from July to end of 2021.**











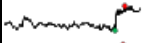







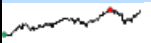
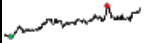
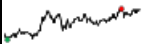
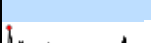
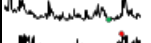

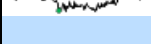
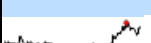






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## Global Financial Indicators

Last updated: 1/13/22 8:23 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4729	0.3	1	1	24	-1
Europe		4311	-0.1	0	3	19	0
Japan		28489	-1.0	-3	0	-1	-1
China		4766	-1.6	-1	-6	-13	-4
Asia Ex Japan		86	1.5	5	4	-10	4
Emerging Markets		51	1.7	5	5	-7	4
<b>Interest Rates</b>			basis points				
US 10y Yield		1.74	-0.5	2	32	65	23
Germany 10y Yield		-0.07	-0.8	-1	32	46	11
Japan 10y Yield		0.13	0.1	1	8	9	6
UK 10y Yield		1.13	-1.3	-3	43	82	16
<b>Credit Spreads</b>			basis points				
US Investment Grade		117	-0.1	5	3	22	5
US High Yield		338	0.5	-3	-21	-39	1
Europe IG		51	0.5	1	-1	1	3
Europe HY		251	1.7	0	-7	1	9
<b>Exchange Rates</b>			%				
USD/Majors		94.81	-0.1	-2	-2	5	-1
EUR/USD		1.15	0.2	1	2	-6	1
USD/JPY		114.3	-0.3	-1	1	10	-1
EM/USD		53.1	-0.4	1	2	-8	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		84	-0.3	3	13	51	9
Industrials Metals (index)		179	-0.3	3	9	31	4
Agriculture (index)		62	-0.7	0	3	23	2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.0	0.3	-1.7	-2.4	-4.3	0.7
US 10y Swaption Volatility		78.2	-1.3	-3.2	-0.5	18.9	-0.8
Global FX Volatility		7.1	0.0	-0.3	-0.8	-0.7	-0.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		160	-0.1	14	-12	41	9
Italy		130	-2.4	-4	1	18	-5
Portugal		62	-0.9	2	-2	9	-3
Spain		68	-0.8	-1	-1	9	-6

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 1/13/2022 8:19 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		6.36	0.0	0.3	0	2	0		2.9	0.0	-4	-11	-23	1
Indonesia		14295	0.2	0.7	0	-2	0		6.4	-0.6	-1	9	22	2
India		74	0.0	0.8	3	-1	1		6.8	45.0	45	58	106	45
Philippines		51	0.3	0.2	-1	-6	0		4.5	0.0	0	-5	133	3
Thailand		33	0.1	1.0	1	-10	0		2.1	1.5	8	18	62	23
Malaysia		4.18	0.2	0.9	1	-3	0		3.6	-0.8	-2	7	99	4
Argentina		104	0.0	-0.4	-2	-17	-1		48.8	-12.4	-75	-122	-332	-172
Brazil		5.54	-0.3	2.7	3	-4	1		11.3	3.8	3	84	316	64
Chile		826	-0.3	1.4	2	-10	3		5.9	3.0	31	63	321	51
Colombia		3976	0.0	1.4	-2	-13	2		7.2	0.0	28	64	303	76
Mexico		20.41	-0.3	0.5	3	-3	1		7.6	0.0	-16	41	211	12
Peru		3.9	0.3	1.7	4	-7	3		6.0	-1.7	4	14	244	13
Uruguay		45	0.2	0.4	-1	-5	0		8.7	0.0	-7	-7	141	-7
Hungary		310	-0.4	2.9	5	-4	5		4.6	-4.5	-16	39	286	8
Poland		3.96	0.0	1.9	4	-6	2		3.7	-6.0	-3	72	260	20
Romania		4.3	0.2	1.5	2	-7	1		5.1	-0.3	7	2	243	23
Russia		75.6	-1.3	0.9	-3	-2	-1		9.3	11.0	46	47	287	50
South Africa		15.4	-0.5	2.3	4	-1	4		7.7	5.0	0	22	101	27
Turkey		13.59	-2.2	2.0	2	-46	-2		24.1	-24.0	-23	244	1083	-22
US (DXY, 5y UST)		95	-0.1	-1.6	-2	5	-1		1.52	-0.3	5	31	105	25

	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		4766	-1.6	-1	-6	-13	-4		198	0	-4	-31	-5
Indonesia		6658	0.2	0	1	4	1		168	14	-1	-26	3
India		61235	0.1	3	5	23	5		131	12	-4	-25	-1
Philippines		7308	1.3	3	1	0	3		103	13	-2	-7	2
Malaysia		1570	0.4	2	6	-4	0		114	1	-3	-28	-3
Argentina		85100	0.5	2	4	67	2		1827	83	121	426	147
Brazil		105686	1.8	4	-2	-13	1		317	10	-2	50	6
Chile		4504	-0.1	4	5	-3	5		144	12	8	-9	4
Colombia		1451	2.0	3	7	0	3		344	7	14	119	-4
Mexico		53951	1.7	2	7	18	1		335	5	-5	-34	3
Peru		23529	3.3	8	16	9	11		158	11	9	25	8
Hungary		53886	-1.0	4	7	21	6		123	13	2	-17	-1
Poland		73331	0.0	4	7	25	6		18	1	-24	-10	-14
Romania		13481	0.3	3	9	31	3		191	9	7	-13	-2
Russia		3753	-2.0	0	4	8	-1		183	13	12	7	6
South Africa		75825	-0.1	2	6	19	3		351	16	-11	-36	-4
Turkey		2080	0.8	4	-1	33	12		574	16	27	117	-4
Ukraine		523	0.0	0	0	5	0		776	27	128	273	17
EM total		51	0.1	5	5	-7	4		400	16	16	51	13

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

[back to top](#)