



- Markets are set on consecutive 25 bps Fed hikes in the next 2 meetings ([link](#))
- ECB TLTRO repayments below expectations ([link](#))
- BOJ conducts daily record bond purchases to defend yield curve control ([link](#))
- Bank of Korea raises its policy rate by 25 bps to 3.5%, as expected ([link](#))
- Peru's central bank raises interest rates by 25 basis points to 7.75%, as expected ([link](#))
- CEE yields drop as December inflation undershoots expectations ([link](#))

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Markets cautious to end the week

European stocks lost momentum and US equity futures signaled an opening in the red on concerns about the weaker outlook for corporate earnings. JP Morgan shares fell 3% in pre-market trading after the bank's net interest income estimate missed analyst expectations. Shares in Citi, Bank of America and Wells Fargo also dropped after their earnings reports. In other sectors, the shares of Tesla and Delta Air Lines also fell after the former cut prices and the latter missed its earnings forecast. Meanwhile, investors continued to digest the latest US inflation numbers. While yesterday's CPI print was bang on expectations on both its headline and core measures, markets reacted positively with futures pricing smaller rate hikes in the next 2 FOMC meetings. Some contacts believe that core measures ex housing indicate that that the Fed will not have to tighten much more to adequately respond to inflation pressures. Elsewhere, the BOJ conducted daily record bond purchases to defend their yield curve control policy and central banks in Korea and Peru raised rates as expected.

Key Global Financial Indicators

Last updated: 1/13/23 8:15 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		3983	0.3	5	-1	-15	4	-6
Eurostoxx 50		4131	0.1	3	4	-4	9	4
Nikkei 225		26120	-1.2	1	-5	-7	0	-1
MSCI EM		41	0.5	5	6	-18	8	-14
Yields and Spreads			bps					
US 10y Yield		3.48	3.8	-8	-2	177	-40	149
Germany 10y Yield		2.13	-2.7	-8	21	222	-44	190
EMBIG Sovereign Spread		462	0	-3	7	88	10	50
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.1	-0.4	2	2	-4	2	-4
Dollar index, (+) = \$ appreciation		102.4	0.2	-1	-1	8	-1	7
Brent Crude Oil (\$/barrel)		84.0	-0.1	7	4	-1	-2	-13
VIX Index (% change in pp)		19.3	0.5	-2	-3	-1	-2	-12

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

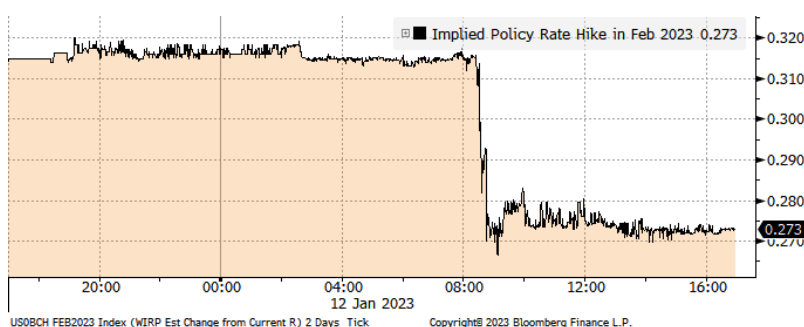
Mature Markets

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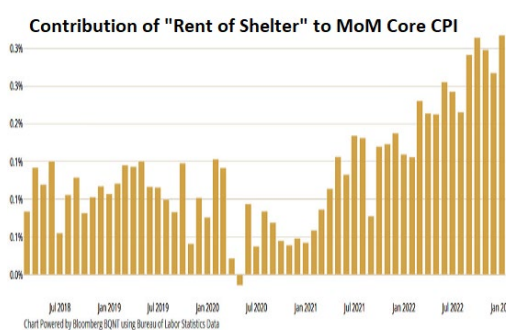
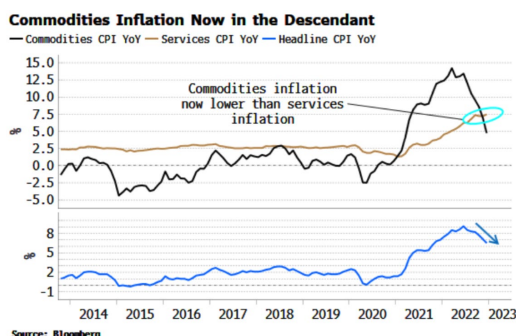
United States

The S&P 500 index gained 0.3% yesterday. Following the release of the December CPI print, 10-year US Treasury nominal yields dropped by 10 bps, driven entirely by real yields. Correspondingly, the US Dollar depreciated versus major (0.9%) and emerging market (0.7%) currencies. The VIX fell 2.3 ppts to 18.83, its lowest level this year.

Futures markets are set on a 25 bps hike for each of the Fed meetings in February and March. While yesterday's CPI print was bang on expectations on both its headline and core measures markets reacted positively with futures pricing smaller rate hikes in the next 2 FOMC meetings- see Chart. However, various sell-side analysts continue to insist that a 50 bps hike in February and/or March could be consistent with the Fed's intentions. Markets tend to react with a rally to every positive news about inflation—thus, easing the financial conditions and undermining the disinflationary trend, which may have to be reinforced with larger hikes for longer. To balance the two opposing views—25 bps vs 50 bps—a compromise alternative is discussed among analysts: a 25 bps hike with a very hawkish forward guidance, underscoring the Fed's intentions to keep the policy rate elevated for longer.



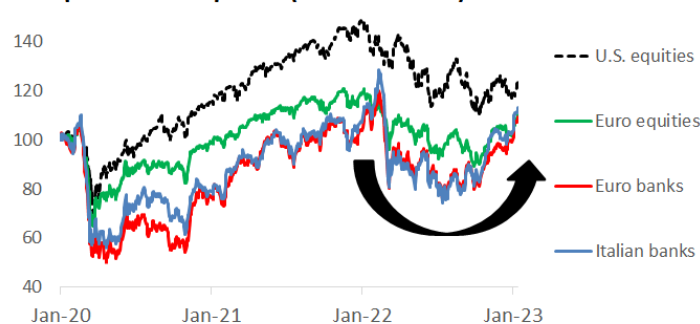
Thursday's CPI print was perfectly in line with expectations but was driven by starkly heterogeneous forces. The recent decline in y/y *headline* inflation is largely driven by the drop in commodities inflation, while the services inflation rate is still rising (left chart below). For *core* inflation, the “rent of shelter” component remains elevated, with no tendency to decline (right chart). Market analysts and Fed officials are discussing whether the decision making should be based on core CPI-*excluding-rent*, because the lagging rent components are arguably distorting core CPI higher, while private-sector measures of new-lease inflation may be considered more reliable. Overall, the inflation print does not provide sufficient clarity with respect to the current state of disinflation and to what extent it will be sustained.



Euro area

European equities were flat this morning. Euro-area stocks have gained 9% ytd—and bank stocks 10% ytd higher—as the year opened with a significant downward correction in euro area headline inflation and economic data have been better than expected.

European bank equities (Jan 2020: 100)



Source: Bloomberg and IMF

German real GDP grew by a slightly better-than-expected 1.9% y/y in 2022 and was probably flat in Q4. Analysts at Citi point out that the data show that GDP is only 0.3% above where it was in 2019 Q4.

Euro area 10-year rates continued to head lower as market contacts reported strong demand for European bonds even ahead of substantial issuance. German 10-year bund yields were 4 bps lower at 2.11%, for a drop of 45 bps ytd whereas Italian 10-year yields were 11 bps lower for a spectacular drop of 82 bps in 2023. **The downside surprises in inflation have been key factors in the strong demand for bonds but contacts also point out that some ECB hawks are stressing the need for a cautious approach on quantitative tightening.** Contacts also commented that the sell-off in bonds in December has provided an attractive entry point.

Euro-zone banks returned €63 bn in TLTRO funding to the ECB, compared to €213 bn expected, signaling a preference for higher liquidity buffers. Banks prepaid almost €800 bn of TLTRO loans in November and December, which left around €1.3 tn of TLTROs outstanding, of which about 50% will mature by June 2023. **European financial institutions also sold a record volume of €43 bn of bonds in just four days.**

Financials Sold Record Volume of Bonds in Europe This Week
Primary issuance has topped €43 billion in just four days



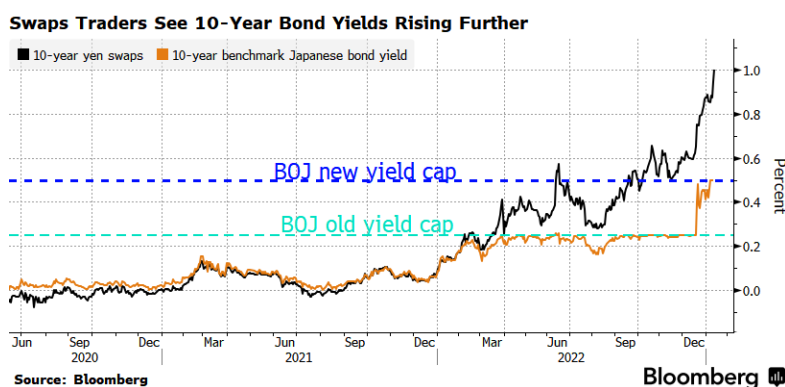
Source: Bloomberg

Note: Data includes top five sales weeks of publicly syndicated FIG bonds denominated in €, £ and Reg S only \$ sold in Europe

Bloomberg

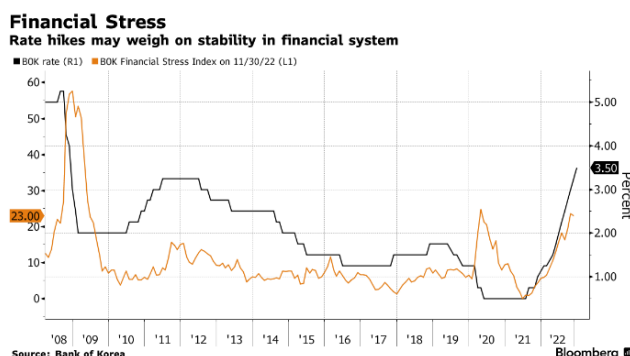
Japan

The Bank of Japan (BOJ) conducted daily record bond purchases to defend their yield curve control policy. The 10-year JGB yield rose as high as 0.549% during the first trading hour today before falling back to 0.504%, little changed from yesterday, as the BOJ conducted record bond purchases. The purchases included 1.8 tn yen (\$13.9 bn) of 1-to-25-year JGBs at market yields, and 3.21 tn yen (\$24.9 bn) of 10-year JGBs at a fixed yield of 0.5%. The BOJ announced that it will conduct additional bond purchases on January 16, with operation details to be announced later based on market conditions. Separately, and while a survey of 43 economists showed all but one predict the central bank will leave policy unchanged next week, some 38% of respondents now forecast moves either in April, when a new governor takes the helm, or in June. The Japanese yen appreciated (+0.8%). Equities declined (NIKKEI: -1.3%).



Korea

The Bank of Korea (BOK) raised its policy rate by 25 bps to 3.5% as expected. The rate hike decision was not unanimous, with two dissents out of six members. The BOK viewed that a restrictive policy stance is still needed to ensure price stability while acknowledging that growth has slowed. Governor Rhee noted that the policy committee has a split opinion on the terminal policy rate; three members see a terminal rate at 3.5% while three others were open to a terminal rate at 3.75%. Going forward, the BOK indicated that it would take account of the pace of inflation, downside growth risks, and financial stability concerns in deciding whether to tighten monetary policy further. The Korea won appreciated (+0.4%), while long-end government bond yields declined (10-year: -4 bps) following the decline in US Treasury yields. Equities gained (+0.9%).



Emerging Markets

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Asian equities generally gained, with share prices rising in the Philippines (+1.7%), China (CSI 300: +1.4%) and Hong Kong SAR (+1.0%). Meanwhile, Thai equities fell (-0.4%). **Asian currencies appreciated**, led by Thai baht (+1.3%) and Indonesian rupiah (+1.2%). **Long-end government bond yields declined**, with 10-year yields falling in Indonesia (-10 bps) and Malaysia (-5 bps). **In India**, CPI inflation moderated to 5.7% in December from 5.9% in November, lower than expected (consensus: 5.9%). The Indian rupee appreciated (+0.3%). **EMEA markets were mixed**. Equity markets were broadly up, with the exception of the Czech Republic (-0.7%). All CEE currencies appreciated slightly vs. the euro, the Turkish lira was flat to the dollar (at 18.78/\$) while the South African rand weakened (-0.6% to 16.8/\$). **LATAM markets performance was mixed yesterday**, equity markets were down in Brazil and Colombia, most currencies appreciated against the US dollar, and CDS spreads narrowed. **Brazil's** FM announced fiscal measures to turn the country's budget deficit into a surplus this year, and set a target of a deficit of less than 1% of GDP. **Argentina's central bank kept its benchmark interest rate unchanged at 75%**. Argentina's consumer prices rose 5.1% m/m in December, below consensus estimates of 5.2%. Consumer prices rose 94.8% y/y, below consensus estimates of 94.9%. Annual inflation is expected to surpass 100% this year.

EM Fund Flows

Flows to EM bond and equity funds totaled \$6.2 bn this week. EM bonds inflows were \$1.5 bn and totaled \$1.1 bn ytd. Local-currency bonds recorded the largest inflows since February 2022. EM equity flows were \$4.7 bn, totaled \$4.8 bn ytd, and recorded the largest weekly inflow since March 2021.

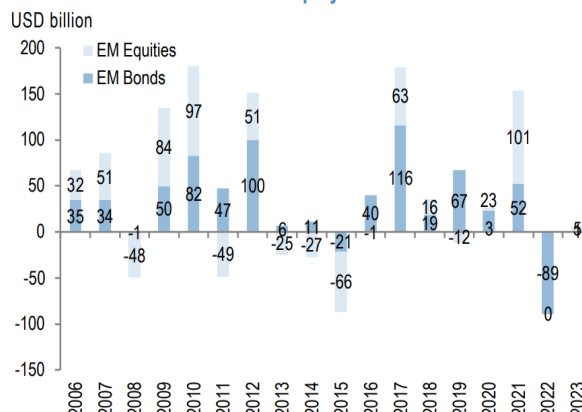
Exhibit 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		6.2	6.0
EM Bonds		1.5	1.1
Hard Ccy		1.0	0.8
Local Ccy ^A		0.5	0.3
o.w. EM ex-China		0.5	0.4
o.w. China		0.0	0.0
EM Equities		4.7	4.8
US HG		5.6	8.0
US HY		1.7	1.5
Global Equities		1.3	-7.7
EM Bond and Equity ETFs		4.1	4.5
EM Bond ETFs		0.9	0.6
EM Equity ETFs		3.2	3.9
Non-resident EM flows*		3.4	6.5

*High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows

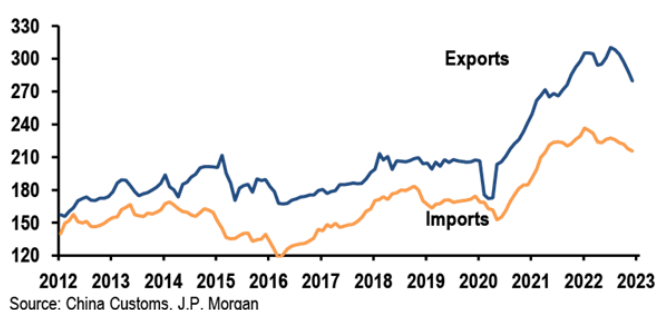


China

December trade data remained soft, though showing smaller sequential contractions in both exports and imports. Exports in USD terms fell 9.9% y/y, while imports contracted 7.5%. China's exports have moderated in recent months, reflecting softening global demand and COVID-driven supply-chain disruptions. Though, it is interesting to note that exports of mobile phones, which were significantly disrupted in November, showed a decent recovery. The RMB appreciated (+0.3%); equities gained (CSI 300: +1.4%; Hong Kong SAR-listed: +1.1%). Long-end CGB yields increased (10-year: +1.0 bp), in contrast to the regional trend of falling bond yields.

China: merchandise exports and imports

US\$ billion, sa, 3mma



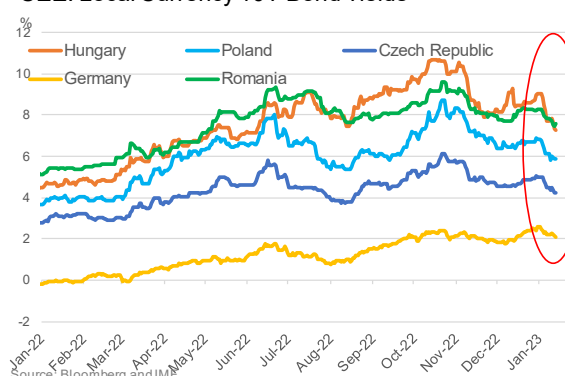
Peru

Peru's central bank increased its benchmark interest rate by 25 basis points to 7.75%, in line with expectations. This is the highest interest rate level in more than two decades and the bank's eighteenth straight rate increase. Central bank officials are aiming to get the biggest inflation surge since the 1990s back under control, but their task is being complicated by protests having disrupted economic activity. Even after slowing slightly from its June peak, annual inflation is still more than four times the midpoint of the bank's target range. In its policy statement the bank said that "the forecast is for annual inflation to start to slow from March, and to return to the target range in the fourth quarter of this year". The Peruvian sol and 10-year local sovereign bond yields were little changed yesterday.

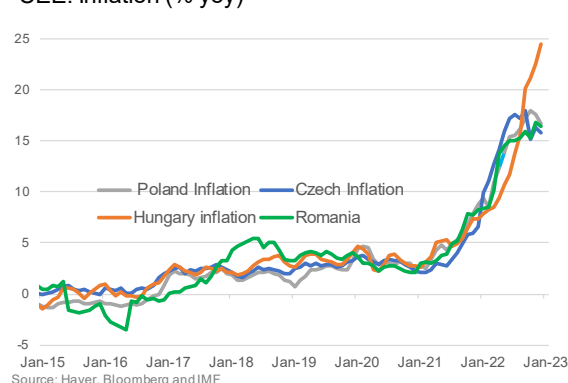
Central and Eastern Europe

Lower than expected inflation for December throughout the region supports the strong ongoing rally in local bond yields in Central and Eastern Europe. Yields on Hungarian 10-year bonds have fallen 185 bps to 7.14% since the start of 2023. Hungarian inflation accelerated further to 24.5 % y/y in December, its highest level in decades and has not reached a peak, but investors seem to find comfort in the fact that it was lower than expected (25.8% y/y). In Romania, local yields have rallied 64 bps (to 7.64%) in 2023. December inflation came in slightly below expectations at 16.4% yoy (16.5% expected), with November probably marking its peak (16.8% y/y). Polish yields have rallied 93 bps in the same period, and December inflation was confirmed at 16.6% y/y today. Czech yields have dropped 75 bps year to date. Earlier this week, Czech inflation for December came in at 15.8% y/y, also lower than the 16.2% consensus expectation.

CEE: Local Currency 10Y Bond Yields








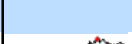

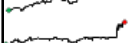

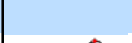
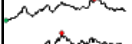
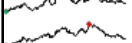

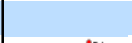



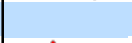

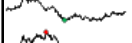




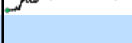



CEE: Inflation (% yoy)



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), Frank Hespeler (Senior Financial Sector Expert), 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

1/13/23 8:14 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3971	0.3	2	-1	-15	3	-6
Europe		4131	0.1	3	4	-4	9	4
Japan		26120	-1.2	1	-5	-7	0	-1
China		4074	1.4	2	3	-14	5	-12
Asia Ex Japan		70	0.5	4	6	-17	8	-11
Emerging Markets		41	0.5	5	6	-18	8	-14
Interest Rates			basis points					
US 10y Yield		3.48	3.8	-8	-2	177	-40	149
Germany 10y Yield		2.13	-2.7	-8	21	222	-44	190
Japan 10y Yield		0.51	0.2	1	26	38	9	32
UK 10y Yield		3.32	-1.7	-16	2	221	-36	184
Credit Spreads			basis points					
US Investment Grade		152	-0.2	-10	-2	36	-7	9
US High Yield		445	0.0	-22	-6	100	-36	38
Europe IG		80	1.9	-2	-5	29	-11	8
Europe HY		417	7.8	-9	-22	163	-57	65
Exchange Rates			%					
USD/Majors		102.45	0.2	-1	-1	8	-1	7
EUR/USD		1.08	-0.4	2	2	-6	1	-4
USD/JPY		128.5	-0.6	-3	-5	13	-2	12
EM/USD		51.1	-0.4	2	2	-4	2	-4
Commodities			%					
Brent Crude Oil (\$/barrel)		84.0	-0.1	7	4	10	-2	-1
Industrials Metals (index)		172	0.0	5	2	-4	4	-9
Agriculture (index)		67	-0.3	0	0	10	-2	-4
Implied Volatility			%					
VIX Index (% change in pp)		19.3	0.5	-1.8	-3.2	-1.0	-2.3	-11.7
US 10y Swaption Volatility		114.7	0.4	-1.6	-23.7	37.4	-11.0	20.4
Global FX Volatility		10.9	0.0	0.2	1.0	3.8	0.2	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		195	4.1	-21	-12	33	-10	-45
Italy		181	-2.8	-20	-6	51	-33	10
Portugal		91	0.1	-9	0	29	-10	-1
Spain		99	0.2	-7	-2	31	-10	-5

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 1/13/2023 8:22 AM	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		6.72	0.1	1.6	3	-5	3	-6		3.2	3.0	10	1	31	10	31
Indonesia		15149	1.3	3.2	3	-6	3	-5		6.7	-6.3	-29	-26	29	-25	19
India		81	0.3	1.7	2	-9	2	-8		7.4	-1.0	-5	10	62.2	-7	
Philippines		55	0.7	1.4	2	-7	2	-7		6.0	-5.0	-5	0	150	0	103
Thailand		33	0.3	2.0	5	1	5	-2		2.5	-5.5	-12	-3	42	-14	27
Malaysia		4.34	0.6	1.6	2	-4	2	-3		3.9	-4.3	-11	-18	29	-12	26
Argentina		181	-0.2	-1.1	-5	-43	-2	-41		84.1	38.0	-236	-499	3530	-406	3619
Brazil		5.13	-0.6	1.8	3	8	3	-2		12.5	22.6	-32	-86	116	-13	92
Chile		825	-0.7	2.1	4	-1	3	-4		5.1	9.5	-14	-2	-85	-24	-82
Colombia		4703	-0.3	3.4	1	-16	3	-17		9.3	0.0	-73	-55	215	-45	146
Mexico		18.90	-0.3	1.3	3	8	3	7		8.1	3.1	-12	-17	52	-63	26
Peru		3.8	0.0	0.7	1	3	1	-1		7.8	0.5	-14	4	170	-22	175
Uruguay		40	-0.1	0.1	-3	12	0	7		10.7	0.0	0	-14	202	0	253
Hungary		367	-0.3	1.0	5	-16	2	-13		7.5	-24.0	-52	-94	296	-209	270
Poland		4.34	-0.2	1.8	2	-9	1	-6		5.2	7.0	-18	-26	147	-95	129
Romania		4.6	-0.3	1.4	1	-6	1	-4		7.2	-3.9	-29	-26	216	-47	207
Russia		68.5	-0.5	5.8	-8	12	8	19		11.8	-1.9	8	107	217	-6	62
South Africa		16.9	-0.8	1.3	2	-9	1	-10		8.6	3.0	-26	-50	94	-56	102
Turkey		18.79	-0.1	-0.4	-1	-28	0	-26		10.3	49.0	175	-67	-1371	49	-1210
US (DXY; 5y UST)		102	0.2	-1.4	-1	8	-1	6		3.56	2.7	-14	-9	209	-44	166

	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		4074	1.4	2	3	-14	5	-12		187	8	4	-11	10	-21
Indonesia		6642	0.2	-1	-3	-1	-3	-4		181	18	23	13	41	-4
India		60261	0.5	1	-2	-2	-1	5		157	13	15	26	15	3
Philippines		6952	1.7	4	7	-4	6	-6		147	16	28	44	50	10
Thailand		1682	-0.3	0	4	1	1	-1		0	0	0	0	0	0
Malaysia		1495	0.4	1	1	-4	0	-6		105	1	9	-9	5	-28
Argentina		234154	4.2	12	41	174	16	156		2009	-123	-283	182	-196	272
Brazil		111844	-0.6	3	8	6	2	0		280	-2	14	-37	6	-51
Chile		5203	0.4	1	0	15	-1	19		153	-4	14	9	21	-21
Colombia		1337	-0.5	1	9	-9	4	-11		379	0	-4	35	7	-13
Mexico		53594	0.7	5	6	-1	11	4		367	-29	-15	32	-14	-3
Peru		23013	2.0	5	7	-3	8	-2		190	-15	18	32	10	0
Hungary		45784	-0.8	1	2	-15	5	-4		251	-11	32	128	29	98
Poland		61588	-0.3	3	7	-16	7	-2		111	28	35	93	38	95
Romania		12273	-0.7	1	1	-9	5	-7		278	-24	27	87	22	46
Russia		2196	0.5	2	1	-40	2	-29		3411	-577	938	3228	3234	2897
South Africa		79140	0.7	3	4	4	8	6		367	-8	-22	16	0	-22
Turkey		4964	-0.1	-7	-6	140	-10	146		508	47	67	-66	68	-55
Ukraine		514	0.0	1	-1	-2	-1	-1		4198	33	241	3422	119	2725
EM total		41	-0.2	5	6	-18	8	-14		387	-3	11	-13	11	-71

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

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