



- Stocks pulled back sharply on concerns about rate hikes and Omicron ([link](#))
- France announces further energy price caps ([link](#))
- UK's GDP exceeds expectations, surpasses pre-pandemic levels ([link](#))
- China's trade surplus hit a new record high last month, mainly on lower imports ([link](#))
- Bank of Korea raised the policy rate by 25 bps to 1.25% as expected ([link](#))
- Ukrainian interest rates rise sharply ([link](#))
- US retail sales fall sharply for December, surprising to the downside ([link](#))

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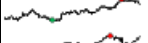

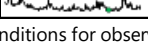
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Equities slip as rate hike angst weighs

Markets are extending a sharp pullback that began in the US yesterday, as interest rate angst weighs on tech shares. US equity futures point to additional losses beyond yesterday's 1.4 percent decline, while stocks elsewhere are about 0.8% lower over the last 24 hours. Government bond yields are mostly little changed, largely just off their recent highs, while the dollar and EM currencies are also roughly flat. This most recent fluctuation in risk sentiment appears linked to interest rate concerns, with equity declines led by rate-sensitive tech shares around the globe on the back of Fed officials' increasingly loud drumbeat of hawkish comments. As earnings season kicks off, investors will turn their attention to parsing corporate guidance for anecdotes about inflationary pressures. This morning, mega-bank JP Morgan's disclosure that its cost jumped 11% yoy in the last quarter is providing grist for those anticipating broader price pressures.

Key Global Financial Indicators

Last updated: 1/14/22 8:06 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4659	-1.4	-1	1	23	-2
Eurostoxx 50		4267	-1.1	-1	3	17	-1
Nikkei 225		28124	-1.3	-1	-1	-1	-2
MSCI EM		50	-1.4	3	3	-9	3
Yields and Spreads			bps				
US 10y Yield		1.73	2.2	-4	28	60	22
Germany 10y Yield		-0.07	1.8	-3	30	48	11
EMBIG Sovereign Spread		381	7	13	11	24	14
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.2	-0.1	1	3	-8	1
Dollar index, (+) = \$ appreciation		94.9	0.1	-1	-2	5	-1
Brent Crude Oil (\$/barrel)		85.0	0.7	4	15	51	9
VIX Index (% change in pp)		20.9	0.6	2	-1	-2	4

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

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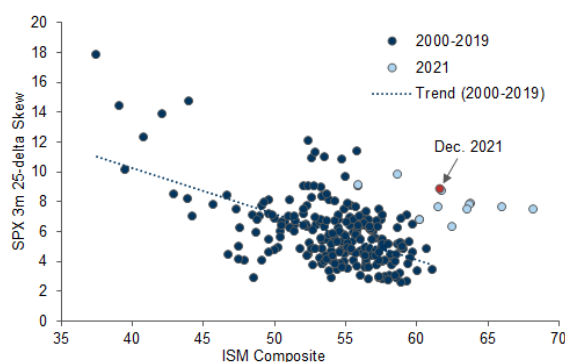
United States

This morning, retail sales for December surprised sharply to the downside. Headline retail sales fell 1.9% mom, worse than the -0.1% expected, and the most since February 2021. Sales ex-autos fell even more sharply, -2.3% vs 0.1% expected. Analysts noted a wide dispersion of forecasts going into the month, reflecting uncertainty around consumer reactions to inflation and supply chain concerns around the holiday season.

Stocks pulled back sharply on rate hike and omicron concerns. On the day, the Nasdaq tumbled 2.5% and the S&P 500 was down 1.5%. Stocks initially moved higher at the open following the modestly positive PPI report indicating potential turning point in inflation, as well as a strong earnings report from the world's largest chip maker, but these gave way to concerns about Omicron from the unexpected increase in jobless claims. The selling in the tech sector accelerated after hawkish comments from several Fed officials (including Brainard, Evans and Harker) reinforced the prospect of a March lift-off and 4 rate hikes in 2022. The last straw of the day was the Supreme Court decision to block President Biden's Covid shot-or-test rule for large private employers, with the selling quickly broadening out to other sectors. Treasuries rallied during the risk-off session, with the 10-year yield down 4 bps to 1.7%, flattening the curve by another 3 bps.

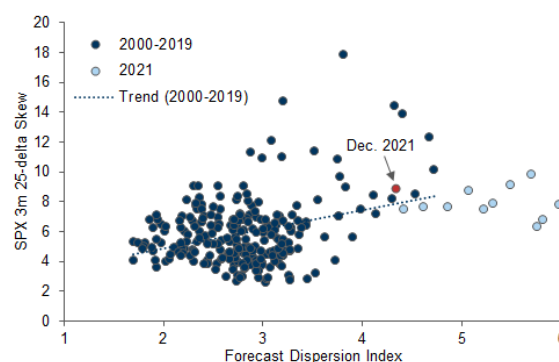
Demand for downside protection against stock markets declines remains high amid elevated macro uncertainty. The implied volatility of the S&P500 (VIX) spiked in December when the economic outlook was challenged by the Omicron shock and the Fed's hawkish pivot. Since then, VIX has come down as investors appear to be anchoring on confidence in the overall recovery. However, the skew – the relative price of option bets on stock declines versus gains – remains high relative to the strength of the underlying economy, but more in line with the still elevated uncertainties around economic outlook.

Monthly average difference between 3m25d SPX put IV and 3m25d SPX call IV vs. ISM Composite (SA, >50 = Increasing)



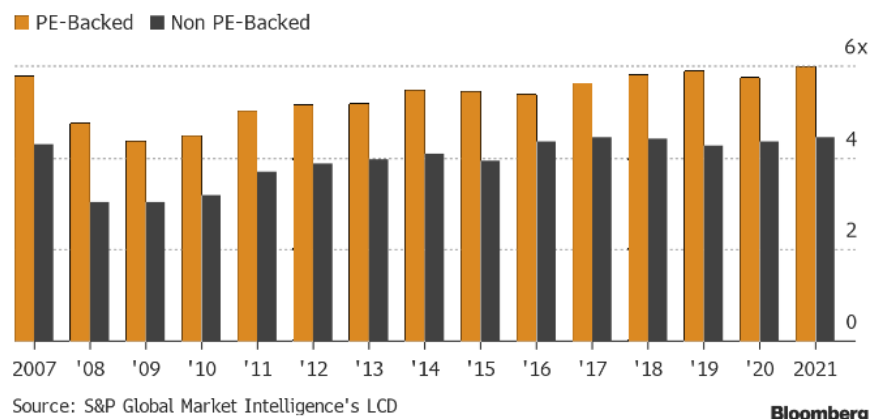
Source: Haver Analytics, Goldman Sachs, Goldman Sachs Global Investment Research

Monthly average difference between 3m25d SPX put IV and 3m25d SPX call IV vs. forecast dispersion around economic data releases



Source: Bloomberg, Goldman Sachs, Goldman Sachs Global Investment Research

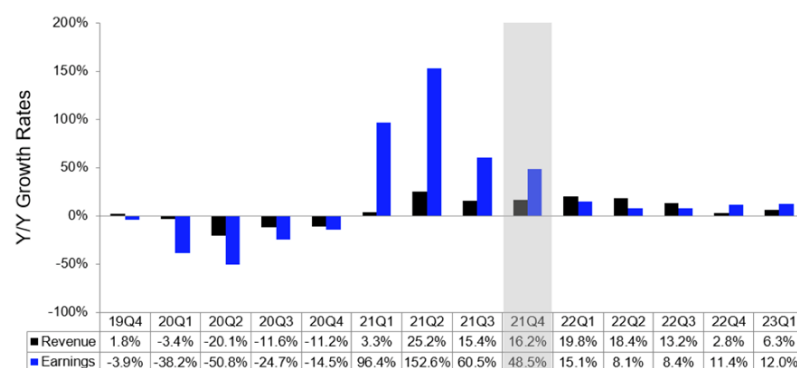
Leverage for private equity-backed deals reached a record high in 2021. Companies backed by private equity firms took on debt equal to an average of 6 times of earnings, surpassing the previous record high in 2019. For firms not backed by PE, the average leverage was at a more modest level of 4.4x. The wave of deals has propelled issuance of junk-rated loans for M&A to a record \$330bn last year. Even with rising interest rate, debt sales are expected to remain strong as private equity firms still have around \$960bn of cash to deploy.



Euro area

European equity benchmarks were down around 0.5% with the energy sector the only one to outperform (+1%) as crude prices rose above \$85 per barrel of Brent. Notably, technology shares (-1.5%) continued to underperform even as software giant SAP pre-announced stronger than expected results through a jump in cloud sales. More broadly, **Q4 earnings season will gain momentum next week with the consensus expecting around 48% yoy increase in earnings**, with notable outperformance by the energy and basic material sectors. Analysts mostly expect European stocks to hit a new record this year with forecast average seeing STOXX 600 close around 511 points or 5% increase from current levels.

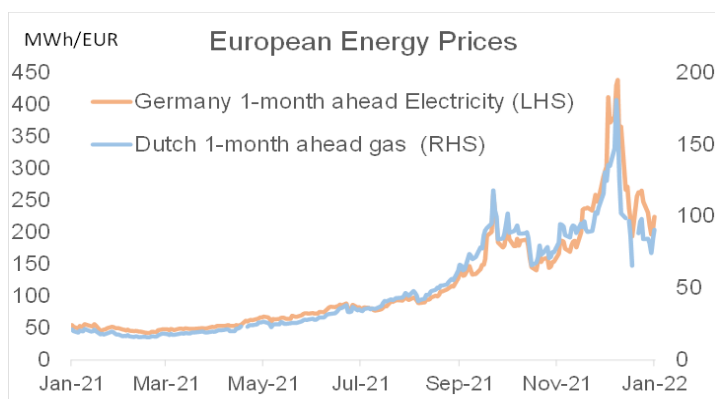
Exhibit 3A. STOXX 600 YoY Growth Rates



Source: Refinitiv I/B/E/S data

European bond yields rose 3 bps with Southern European spreads mostly stable. The euro was also little changed.

In France, President Macron announced that the state-controlled energy firm EDF will sell more power at a deep discount to limit energy price passthrough to consumers. The move is estimated to cost the firm around €8 bn with company noting that overall financial consequences remain unclear. EDF shares dropped as much as 20%. The government noted that without the current 4% cap, electricity prices would have risen by estimated 35% this year. **European wholesale energy prices increased by about 20% after the failure of talks between the U.S. and Russia yesterday**, although remain significantly below their December peak.



United Kingdom

UK's GDP exceeds pre-pandemic levels as output grows 0.9% mom in November, double the consensus estimate (0.4%). Notably, manufacturing activity expanded strongly (1.1% mom vs 0.2%) with some tentative signs of easing of supply shortages. Retail trade, construction, and NHS booster jab rollout also boosted output. **With markets pricing almost a full hike for the February meeting, forwards shifted only marginally higher (+2 bps)** as contacts note that both labor market data and inflation releases next week are likely to be more important for the Bank of England.

Japan

JGB yields rose on speculation that the Bank of Japan (BOJ) may raise rates before meeting the 2% inflation target (5-year: +1.6 bps; 10-year: +0.9 bps). The 5-year JGB rose to its highest level since the BOJ introduced the negative interest-rate policy in January 2016. Japanese yen appreciated (+0.4%).

Following Treasuries

JGB 5-year yield at six-year high as U.S. curve bear flattens

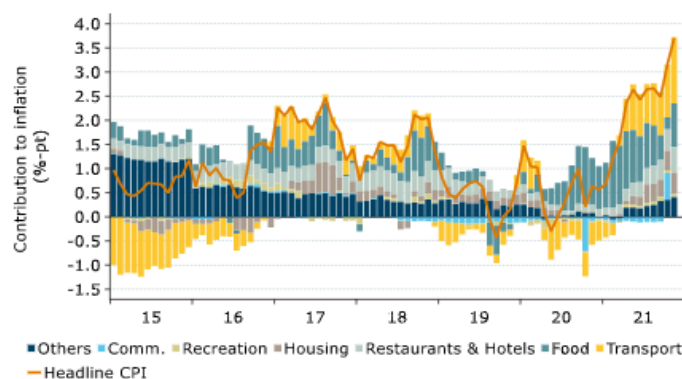


The price shift followed a Reuters report citing a source close to the BOJ which said that the BOJ never committed to keep rates on hold until inflation exceed 2%. The report also noted that a rate hike is not imminent, with the BOJ likely to keep ultra-loose policy for the rest of 2022. **PPI declined 0.2% m/m in December**, in contrast to an expected 0.3% increase. Equities declined (NIKKEI: -1.3%) in line with regional trends.

Korea

The Bank of Korea (BOK) raised the policy rate by 25 bps to 1.25% as expected. The policy rate is now back to the pre-pandemic level. The BOK also adjusted its inflation outlook to mid-2% for 2022 (from 2%) while still seeing growth at around 3%. Governor Lee Ju-yeol indicated that the policy at 1.25% remains accommodative, and a further rise to 1.50% will not constitute tightening. He also noted that the BOK is not concerned about the US monetary policy normalization, and emphasized that its focus is on the domestic economy. Long-end government bond yields increased (10-year: +4.5 bps) after the BOK signaled for additional policy rate hikes. The government announced a supplementary budget of 14tn won (\$11.8 bn) to support growth. Equities declined (-1.4%) in line with regional trends; Korean won was little changed.

Figure 1. Inflation is well above 2% target



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Most Asian equities declined, -0.2% on net, led by Korean (-1.4%), Malaysian (-1.2%) and Chinese (CSI 300: -0.8%) equities. Meanwhile, share prices rose in Singapore (+0.7%) and Indonesia (+0.5%). **Most Asian currencies were mixed**. Chinese yuan appreciated (+0.3%), while the Indian rupee depreciated (-0.3%). **Long-end government bond yields generally declined**, with 10-year yields falling in Philippines (-6.6 bps). In India, market participants saw soaring commodity prices and a widening trade deficit as factors that put downward pressures on the Indian rupee; the 10-year government bond yield increased (+1.4 bps).

In EMEA, equities traded lower for a second day after a strong start to the year. Currencies posted modest gains against the U.S. dollar except for the Russian ruble (-0.4%). The Polish zloty (+0.2%) edged higher but 10-yr yields (+8 bps) crossed the 4% handle as CPI data for January was confirmed at 8.6% yoy in December and after Poland announced cuts to VAT on food, gas, and fertilizers to zero earlier this week.

Latin American equity markets were little changed on Thursday, except for Colombia (+1.1%). Local currencies were mixed but mainly traded in narrow ranges, except for the Chilean peso (+0.7%). 10-year government bond yields dropped 8 bps in Mexico. In economic news, Argentina's consumer prices accelerated in December to an eight-month high at 3.8% m/m, and the 12-month Inflation rate printed at 50.9% y/y.

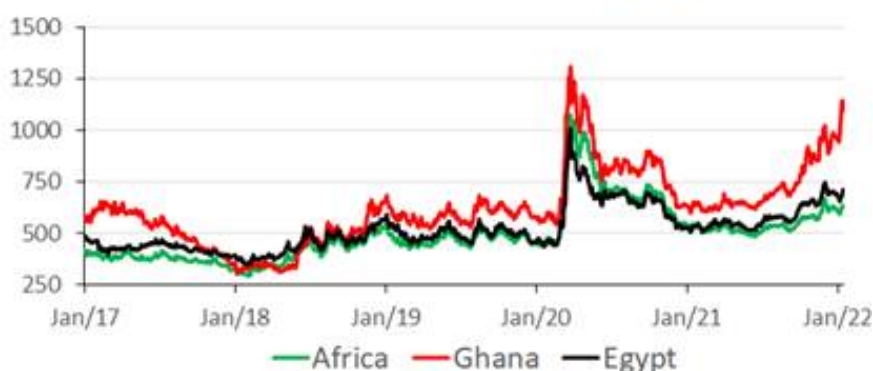
China

The trade surplus hit a record high level in December, mainly on lower imports. Exports grew 20.9% y/y in December, moderating from 22.0% in November (consensus: +20.0%); meanwhile, imports grew 19.5% y/y, down from 31.7% (consensus: +27.8%). By major destinations, only exports to the US accelerated. In terms of products, exports of low-end consumer goods eased, while exports of tech products still showed a solid growth. As exports started to ease sequentially and weak imports reflected weak domestic demand, some analysts noted that Beijing will likely step up measures to stabilize exports, including efforts to keep RMB from appreciating further. Equities declined (CSI 300: -0.8%); RMB appreciated (+0.3%).

Ghana

The country's dollar bonds stabilized after yields rose sharply earlier this week. EMBIG index spreads for Ghana rose above 1100 bps this week, raising concerns that Ghana will struggle to issue new bonds. **Analysts at JP Morgan fear that pushback on fiscal revenue measures implies that Ghana will struggle to meet its fiscal deficit target of 7.4% of GDP.** The bank expects the deficit to rise to +10% GDP.

Africa: EMBIG spreads on U.S. dollar bonds (bps)



Source: Bloomberg and IMF staff

Mexico

Citigroup Inc. planned to exit retail-banking operations in Mexico, known as Citibanamex. Citigroup said the exit could ultimately take the form of a sale or a public-market alternative, and it will be subject to regulatory approval. Citigroup added that the decision was “fully aligned with the principles of our strategy refresh.” President AMLO said on Thursday that he preferred Citi’s consumer-banking business in Mexico to be acquired by local investors. Citibanamex is now the country’s third-largest bank; therefore, whoever buys the bank would accumulate a large share of the banking sector. Mexico’s Finance Minister said the government would ensure the sale would not break antitrust rules in the banking industry.

Ukraine

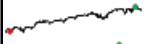




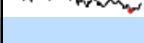




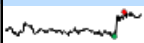










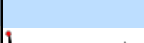
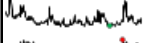
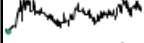

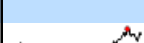
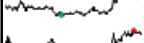

Yields on short-term U.S. dollar bonds rose another 250 bps to 16.8% even as some analysts argue that likely support of the US/EU/IMF would limit downside under realistic scenarios of geopolitical developments with Russia. The Ukrainian government said that a cyberattack brought down the websites of several government agencies for hours. **The hryvnia fell 2.5% against the U.S. dollar so far in 2022 with the 3-month yield implied from non-deliverable FX forwards up 123 bps higher today, at 17.2%.**



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: 1/14/22 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4646	-1.4	-1	0	22	-3
Europe		4267	-1.1	-1	3	17	-1
Japan		28124	-1.3	-1	-1	-1	-2
China		4727	-0.8	-2	-5	-13	-4
Asia Ex Japan		84	-1.3	3	3	-12	2
Emerging Markets		50	-1.4	3	3	-9	3
Interest Rates							
			basis points				
US 10y Yield		1.73	2.2	-4	28	60	22
Germany 10y Yield		-0.07	1.8	-3	30	48	11
Japan 10y Yield		0.14	1.1	0	9	10	7
UK 10y Yield		1.13	2.1	-5	40	84	16
Credit Spreads							
			basis points				
US Investment Grade		116	-0.7	4	2	22	4
US High Yield		343	-1.6	-3	-22	-29	5
Europe IG		52	1.1	2	0	3	4
Europe HY		258	4.8	7	-2	8	17
Exchange Rates							
			%				
USD/Majors		94.86	0.1	-1	-2	5	-1
EUR/USD		1.14	-0.1	1	2	-6	1
USD/JPY		113.7	-0.4	-2	0	10	-1
EM/USD		53.2	-0.1	1	3	-8	1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		85	0.7	4	15	51	9
Industrials Metals (index)		178	-0.5	2	9	30	3
Agriculture (index)		61	0.0	-2	2	19	1
Implied Volatility							
			%				
VIX Index (% change in pp)		20.9	0.6	2.1	-1.0	-2.4	3.6
US 10y Swaption Volatility		77.6	0.3	-1.4	-2.6	19.9	-1.4
Global FX Volatility		7.2	0.0	0.0	-0.7	-0.5	-0.3
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		159	-2.7	1	-10	35	8
Italy		132	1.3	-4	2	13	-3
Portugal		61	-0.8	-1	-3	5	-3
Spain		68	0.4	-1	-2	7	-6

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 1/14/2022 8:09 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		6.35	0.1	0.4	0	2	0		2.9	0.0	-3	-8	-22	1
Indonesia		14296	0.0	0.4	0	-2	0		6.4	-1.8	-7	-1	20	1
India		74	-0.4	0.2	2	-1	0		6.8	45.0	45	58	106	45
Philippines		51	-0.1	0.5	-1	-6	0		4.5	0.0	0	-5	133	3
Thailand		33	0.0	1.1	1	-10	0		2.1	1.0	5	16	84	24
Malaysia		4.18	0.0	0.7	1	-3	0		3.6	0.1	-3	7	101	5
Argentina		104	-0.1	-0.5	-2	-18	-1		48.2	-59.7	-88	-189	-345	-232
Brazil		5.53	0.0	1.8	3	-6	1		11.3	1.3	-8	87	334	61
Chile		813	0.6	2.0	4	-10	5		6.0	1.0	22	59	327	53
Colombia		3968	-0.1	2.1	0	-13	2		7.2	0.0	18	53	307	77
Mexico		20.31	0.2	0.5	5	-3	1		7.6	0.0	-21	31	207	6
Peru		3.9	0.1	2.0	4	-7	3		6.1	1.4	1	18	245	16
Uruguay		45	0.2	0.4	-1	-5	0		8.7	0.0	-7	-7	141	-7
Hungary		311	-0.3	1.5	5	-5	4		4.6	9.0	-10	24	286	13
Poland		3.97	0.0	1.1	4	-6	2		3.8	7.0	-13	72	262	26
Romania		4.3	0.0	0.8	2	-7	1		5.0	-8.2	-5	1	234	15
Russia		76.8	-0.6	-1.6	-4	-5	-2		10.2	58.9	141	134	383	145
South Africa		15.4	0.3	1.4	5	-2	4		7.7	-1.5	-7	21	93	23
Turkey		13.55	0.3	2.4	6	-46	-2		24.0	-6.0	-58	202	1070	-35
US (DXY, 5y UST)		95	0.1	-0.9	-2	5	-1		1.49	2.0	-1	26	101	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		4727	-0.8	-2	-5	-13	-4		200	3	-3	-29	-3
Indonesia		6693	0.5	0	1	5	2		175	10	1	-22	10
India		61223	0.0	2	7	25	5		136	13	1	-22	4
Philippines		7261	-0.6	4	0	0	2		108	4	-1	-4	7
Malaysia		1555	-0.9	1	4	-4	-1		117	2	0	-23	0
Argentina		85371	0.3	2	4	67	2		1856	77	145	421	176
Brazil		105530	-0.1	3	-1	-15	1		321	6	-2	53	10
Chile		4505	-0.2	5	8	-3	5		147	9	7	-5	7
Colombia		1467	1.1	6	8	0	4		346	3	8	119	-2
Mexico		53930	0.0	2	5	17	1		342	9	-5	-28	10
Peru		23654	0.5	7	18	9	12		160	3	7	30	10
Hungary		52886	-1.6	2	5	18	4		125	11	-1	-16	1
Poland		72560	-0.9	2	7	23	5		20	1	-25	-7	-12
Romania		13708	1.9	4	11	33	5		195	6	7	-9	2
Russia		3584	-2.5	-5	-1	3	-5		209	31	33	32	32
South Africa		75168	-1.0	2	5	18	2		359	17	-9	-32	4
Turkey		2061	-0.5	1	-4	33	11		560	-11	-6	106	-18
Ukraine		523	0.0	0	0	5	0		878	113	224	383	119
EM total		50	-0.5	3	3	-9	3		408	13	19	57	22

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

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