GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 17, 2023

- **US Treasury Department to begin taking measures to avoid breaching debt limit** (link)
- **German ZEW expectations improve markedly** (link)
- **EM bond issuance rose in the first half of January compared to 2022 but is still below 2021 levels** (link)
- **China GDP growth slowed by less than expected in Q4** (link)
- **Ghana pushes back the deadline for its domestic debt exchange** (link)

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Markets cautious to start the week

Risk sentiment deteriorated this morning, with euro-area bourses lower and US equity futures signaling a negative opening, as investors worried about central banks turning more hawkish and waited for more corporate earnings data releases. In the euro-area, comments from ECB chief economist Lane contributed to dampen hopes for less aggressive tightening, saying that interest rates will have to move into "restrictive territory" to bring inflation back to target. Advanced economy sovereign bond yields rose across the board, driven partly by profit taking on successful long fixed income exposures. To put it into perspective, 10-year US Treasury and bund yields are 31 bps and 38 bps lower ytd, respectively, with returns on global bond ETFs exceeding 3% so far this year. Elsewhere, Chinese equities were little changed after the release of better than expected GDP Q4 data.

Key Global Financial Indicators

Last updated: 1/17/23 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3999	0.4	3	4	-14	4
Eurostoxx 50		4154	-0.1	2	9	-3	10
Nikkei 225		26139	1.2	0	-5	-7	0
MSCI EM		41	0.7	3	9	-18	9
Yields and Spreads					bps		
US 10y Yield		3.57	6.3	-5	8	178	-31
Germany 10y Yield		2.19	1.9	-11	4	222	-38
EMBIG Sovereign Spread		451	-12	-18	-1	70	-1
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		51.0	-0.1	1	3	-4	2
Dollar index, (+) = $ appreciation		102.2	0.0	-1	-2	7	-1
Brent Crude Oil ($/barrel)		85.8	1.5	7	9	-1	0
VIX Index (%, change in pp)		20.1	0.6	-2	-3	1	-2

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

In **the week ahead**, US retail sales and industrial production releases on Wednesday will provide further clarity on the resilience of the US economy. PPI data for December will also be released. The second half of the week will deliver several releases (housing starts, home sales, home builder index) on the state of housing market. Investors will be closely watching the Bank of Japan's policy meeting on Tuesday and Wednesday for any shifts in yield curve control or policy tightening. Several ECB officials will speak at the World Economic Forum in Davos. Elsewhere, central banks in Indonesia and Malaysia are expected to hike rates by 25 bps to 5.75% and 3% respectively. Central banks in Norway and Turkey are also meeting next week.

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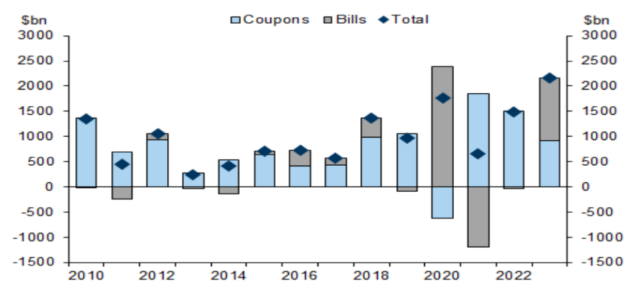
United States

US equities edged higher on Friday (+0.4%) ahead of Monday's market holiday. The Treasury curve flattened, with 2-year yields up 9 bps (+6 bps at 10-years) on Friday, providing a break from the market trend that have dominated the year so far. On the week, 10-year yields fell 6 bps and are down 37 bps ytd. The University of Michigan release showed near term consumer inflation expectations dropped to 4% (from 4.4%) for the year ahead, while the longer-term measure inched up to 3%.

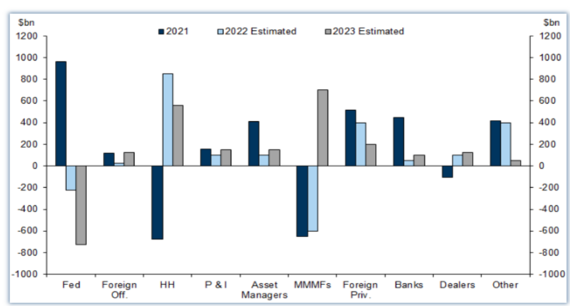
Analysts expect money market funds to absorb additional Treasury supply as Federal Reserve pulls back. Goldman Sachs (GS) expects net Treasury supply to rise substantially from 2022 given the ongoing run off of the Fed's balance sheet, with about $900 bn in net coupon and $1.25 tn in net bill supply that has to be absorbed by non-Fed investors. In particular, supply would increase markedly in Q3 or Q4 once a resolution to the debt ceiling has been reached. The increase in bill supply should help draw in money market funds in a largest reversal compared to 2022. Households (a residual that includes private funds) may continue to absorb large net issuance (though less than 2022) with levered funds playing an increasing role. GS also sees pensions (due to high funding ratios) and foreign official sector (weaker dollar lessens need to sell USTs) as supporting demand. Dealer balance sheets are also likely to remain high as has generally been the case when Fed holdings decline.

Exhibit 1: Treasury net supply ex-Fed is poised to be the highest on record in 2023, though this is driven significantly by bill issuance projection
Treasury net supply ex-Fed



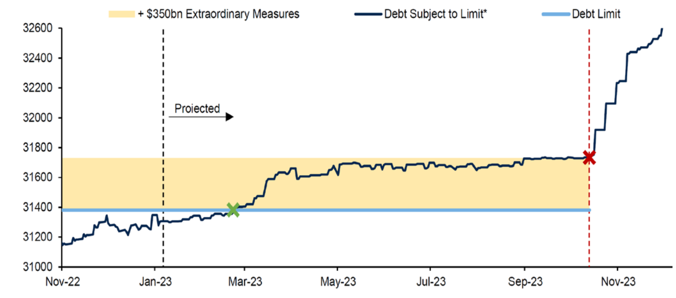
Source: Goldman Sachs Global Investment Research, Treasury, Haver Analytics

Exhibit 5: We expect the Household (HH) category to remain a significant source of net UST temand, while money funds are likely to turn net buyers amid elevated bill supply
UST demand by investor category, 2021 Flow of Funds actual, 2022 and 2023 GS estimates



Source: Goldman Sachs Global Investment Research, Federal Reserve

The Treasury Department is expected to begin taking extraordinary measures on January 19 to avoid breaching the debt limit. Treasury bill rates had generally been grinding higher, with the 1-month yield up 20 bps alone on Friday, though other maturities were more stable. Secretary Yellen sent an open letter to Congress announcing the move, with the government roughly $71 bn away from the statutory debt limit. After reducing bill supply in recent months and running down the TGA cash balance to $310 bn (in part to delay such measures), RBC analysts now expect bill issuance to pick up a bit over the next few months. With roughly $350 bn in extraordinary measures available, on top of April tax flows, Secretary Yellen noted such measures would be unlikely to be exhausted before early June. However, RBC analysts see September to early October as the most likely 'X' date when a default becomes a real possibility.

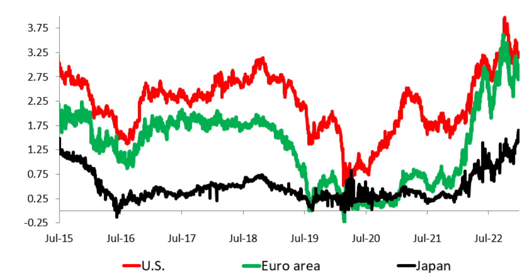


Source: U.S. Treasury, Federal Reserve, RBCCM. *Debt Subject to Limit w/out the use of extraordinary measures

Euro area

Equities (-0.3%) traded with a cautious tone. The euro was little changed. Euro area rates were 3–4 bps higher with ECB Chief Economist Lane saying that interest rates will have to move into "restrictive territory" to bring inflation back to target but did not specify a final level pointing to a "feedback loop from experience." Analyst consensus is that the ECB will increase the depo rate to a peak 3.25% from 2% currently, with some seeing a cut as early as July. **Measures of the terminal rate from swap markets remain elevated at around 2.7% but substantially below levels of around 3.7% reached in later 2022.**

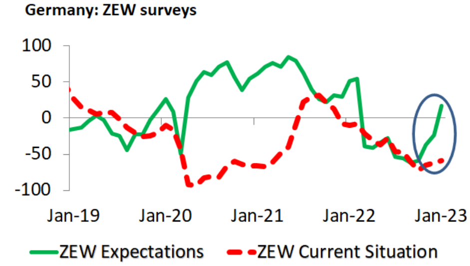
Measures for terminal rate: 1-yr swap rate in ten years (nominal, %)



Source: Bloomberg and IMF staff

The German 6-month ahead ZEW survey index unexpectedly jumped back into positive territory for the first time since Feb 2022. The data point is in line with an improvement in the economic outlook, with the ZEW pointing to "a more favorable situation in the energy markets after the German government introduced energy price caps, an improvement in export conditions, and investors hope that inflation rates will continue to fall." In contrast, the current ZEW index increased less than expected.

Germany: ZEW surveys

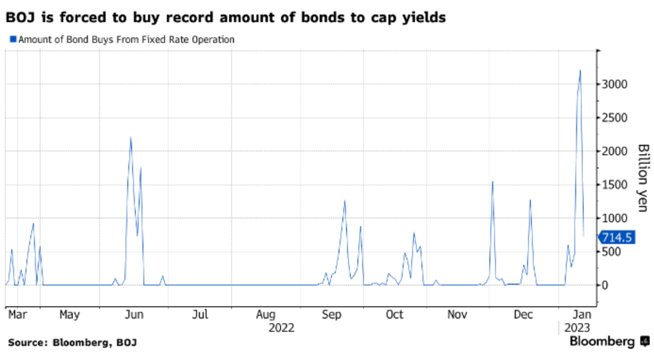


Source: Bloomberg and IMF staff

The Eurogroup of euro area finance ministers said that the introduction of a digital euro as well as its main features and design choices requires political decisions that should be discussed and taken at the political level. In a statement, the Eurogroup emphasized that the creation of a digital euro would require an appropriate legal basis, involving the European Parliament and the Council of the European Union based on a legislative proposal by the European Commission.

Japan

Japan's government is reportedly considering submitting its Bank of Japan (BOJ) Governor nomination on February 10, according to Reuters. Japan FM Suzuki said he expects the new BOJ Governor to conduct appropriate monetary policy and aims to nominate the most suitable person. The **Japanese yen weakened -0.2%.** Near-term dollar-yen option-implied volatility reached a three-year high ahead of the BOJ's policy decision on Wednesday. **10-year yields marginally fell but remained above the BOJ's upper 10-year yield limit of 0.5%.** Open interest on Japanese government bond futures reached its highest since 2007, indicating increased demand for bond-related speculation or hedging.



Emerging Markets

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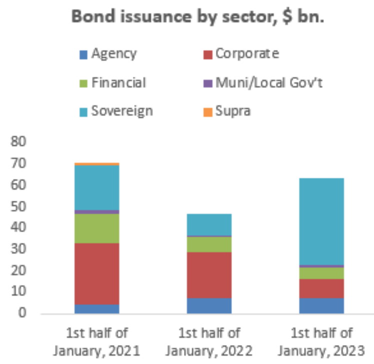
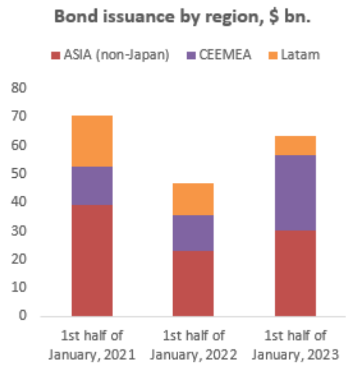
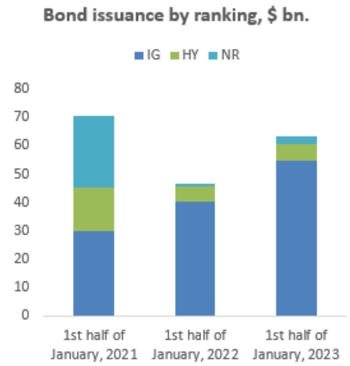
Asian equities fell on net (-0.4%). Vietnam gained +2%, Indonesia climbed +1.2% while Hong Kong SAR fell -0.8%. Thailand travel-related stocks gained for a fourth day following reports that tourist spending is exceeding pre-COVID levels. **Asian currencies weakened,** with the Indonesian rupiah (-0.8%) underperforming. In **Indonesia**, central bank Governor Warjiyo warned of persistent inflationary pressures in early-2023 and said 2022 Q4 GDP growth had likely moderated to +4.8% y/y. In **the Philippines**, Finance Secretary Diokno said GDP likely exceeded the government's target of 6.5%-7.5% in 2022 and is likely to moderate to 6.5% in 2023. **India** has reportedly given its formal support for **Sri Lanka's** debt restructuring plan, clearing a hurdle for Sri Lanka to unlock $2.9 bn of IMF funding, according to Bloomberg. **EMEA markets were on the backfoot this morning.** Equity markets were mixed, up 1.2% in Turkey, but down elsewhere, with Poland registering the bigger losses (-1.2%). Currencies were broadly unchanged compared to their reference currencies, with exception of the South African rand, which was weakening vs. the dollar (-0.8%) and to a lesser extend the Polish zloty depreciating to the euro (-0.3%). After a large rally since the start of the year, yields on local bonds in central and eastern Europe changed direction, in line with global trends. Yields on Polish bonds were up 13 bps to 6.11%, while yields on Hungarian bonds were up 46 bps to 7.6%. **Most Latam currencies depreciated to the dollar except the Colombian peso, while equity markets were mixed on Monday.** The Brazilian real (-1%) underperformed and the Colombian peso (+0.4%) was the only currency that strengthened against the dollar. Similarly, Brazilian equity markets (-1.5%) underperformed.

EM Bond Issuance

Issuance increased by about 1/3 in the first half of January compared to last year but was still below the 2021 level ($70.4 bn)**.** EM bond issuers issued $63.3 bn since the beginning of 2023, higher than the respective volume observed in the first half of January 2022 ($46.9 bn). Sovereign issuers dominated, with $41 bn ytd, followed by corporate issuance ($8.7 bn). Over 85% of issuance was rated as investment-grade. Saudi Arabia was the largest sovereign issuer this ytd, with an amount of $9.7 bn.







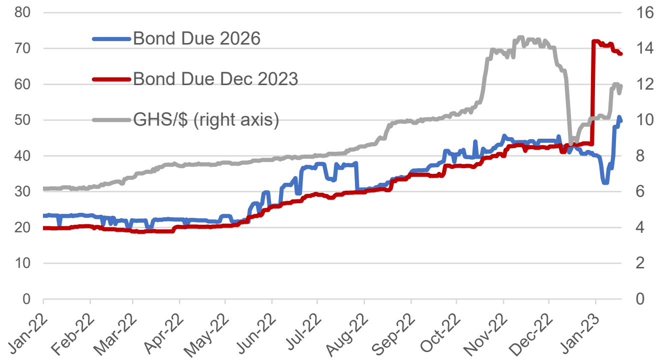
China

China GDP growth slowed by less than expected in 2022 Q4 to +2.9% y/y (consensus: +1.6%, previous: +3.9%). Similarly, economic growth readings for December declined by less than anticipated, namely for industrial production (+1.3% y/y, consensus: +0.1%, previous: +2.2%), retail sales (-1.8% y/y, consensus: -9%, previous: -5.9%), and fixed asset investment (+5.1% YTD y/y, consensus: +5%, previous: +5.3%). Meanwhile, the National Statistics Bureau reported China's population declined in 2022 by about 850k people to 1.41 bn, which was the first contraction in sixty years. Separately, **China's regulators and bad-debt firms reportedly planned to offer refinancing support to high-quality developers in Q1**, of up to 160 bn yuan ($24 bn). As part of the plan, the People's Bank of China will allegedly channel 80 bn yuan of loans through China Huarong Asset Management Co. and its peers to selected developers at an annual rate of 1.75%. Relatedly, analysts foresee China's housing market gradually stabilizing in 2023, as developers' financing conditions improve, the state-owned Financial News reported. **Equities were little changed.** An increasing number of banks foresee significant eventual upside for China equities on China's reopening. The yuan depreciated -0.4%. 10-year yields were little changed. **China's central bank injected a net 504 bn yuan of liquidity via reverse repos, the most in four years.**

Ghana

Yesterday, the Ghana government pushed back the deadline for the domestic debt exchange for a third time, to January 31. The domestic debt exchange is an important step to restore debt sustainability, and an essential component of a potential IMF supported program, on which Ghana and IMF staff reached staff level agreement on December 12 (for $3 bn under the Extended Credit Facility). Note that Ghana has also defaulted on most of its external Debt on December 20 and announced last week that it would seek to restructure it under the Common Framework. This is the third time that the deadline of the voluntary debt exchange has been pushed back, after the voluntary debt exchange to restructure GH¢137 billion domestic bonds (about $13.9 billion), mostly held by local banks and institutional investors was announced on December 5. The government aimed for 80% participation, with an initial deadline on December 24. In the initial offer, existing bonds were to be exchanged for new ones maturing in 2027, 2029, 2032 and 2037, with annual coupons set at 0% in 2023, 5% 2024 and 10% from 2025 until maturity. The offer was subsequently altered by adding eight new bonds for a total of 12 bonds, one maturing each year starting January 2027 and ending January 2038. Market contacts suggest that there has been a muted demand to the government's offer—but the government has released no data so far regarding the uptake of the offer. In a short statement yesterday, the ministry of finance announced that it will further engage with stakeholders. At the same time, the Ghana association of Banks called on commercial banks not to participate in the debt exchange program. Earlier this month, the Ghana individual bondholder forum asked the minister of finance to exclude its members from the government's debt exchange program, pointing out that individual bondholders represented only about 11% of the eligible bonds.

Ghana: GHS and Yields on Domestic Bonds



Source: Bloomberg and IMF

Brazil

Analysts expect the benchmark selic will reach 12.5% by year-end 2023. According to a weekly central bank survey published on Monday, analysts raised their forecasts of the key rate from the prior 12.25% estimate. Analysts also lifted inflation forecasts for the fifth time and expected consumer prices above target through 2025. In addition, the central bank's economic activity index published last Friday suggested a deepening slowdown with a decline of 0.6% m/m in November, lower than the market expectation of a 0.3% decline.

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Global Financial Indicators

1/17/23 8:04 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		3999	0.4	3	4	-14	4	-5
Europe		4154	-0.1	2	9	-3	10	5
Japan		26139	1.2	0	-5	-7	0	-1
China		4137	0.0	3	5	-14	7	-11
Asia Ex Japan		71	0.7	3	9	-16	9	-11
Emerging Markets		41	0.7	3	9	-18	9	-13
Interest Rates					basis points			
US 10y Yield		3.57	6.3	-5	8	178	-31	157
Germany 10y Yield		2.19	1.9	-11	4	222	-38	197
Japan 10y Yield		0.52	-0.3	2	27	38	10	33
UK 10y Yield		3.45	6.7	-11	12	227	-22	197
Credit Spreads					basis points			
US Investment Grade		150	-2.1	-12	-4	34	-9	7
US High Yield		436	-9.0	-31	-15	91	-45	29
Europe IG		80	0.6	-2	-18	28	-10	9
Europe HY		419	3.7	-6	-93	160	-55	67
Exchange Rates					%			
USD/Majors		102.22	0.0	-1	-2	7	-1	6
EUR/USD		1.09	0.3	1	2	-5	1	-4
USD/JPY		128.6	0.0	-3	-6	12	-2	12
EM/USD		51.0	-0.1	1	3	-4	2	-4
Commodities					%			
Brent Crude Oil ($/barrel)		85.8	1.5	7	8	10	0	1
Industrials Metals (index)		172	-0.7	3	6	-3	4	-8
Agriculture (index)		67	-0.4	1	1	10	-2	-4
Implied Volatility					%			
VIX Index (%, change in pp)		20.1	0.6	-1.8	-2.5	0.9	-1.5	-10.9
US 10y Swaption Volatility		115.9	0.0	-5.7	-5.6	34.9	-9.8	21.6
Global FX Volatility		10.9	0.0	0.2	1.1	3.7	0.2	3.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		201	2.5	-8	-16	38	-4	-39
Italy		186	1.6	-6	-29	54	-28	15
Portugal		92	1.9	-3	-9	32	-10	0
Spain		100	0.8	-3	-10	31	-10	-4

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

Emerging Market Financial Indicators

Last updated: 1/17/2023 8:05 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.78	-0.6	0.0	3	-6	2	-7		3.2	-3.5	6	10	35	12	32
Indonesia		15165	-0.8	2.7	3	-6	3	-5		6.8	0.4	-8	-13	37	-18	26
India		82	-0.2	0.0	1	-9	1	-9		7.5	1.9	13	21	69.1	0	
Philippines		55	-0.4	0.1	1	-7	2	-7		6.0	0.0	-5	0	150	0	103
Thailand		33	0.0	1.2	5	0	5	-2		2.5	2.5	-2	5	41	-9	32
Malaysia		4.33	-0.2	1.1	2	-3	2	-3		4.0	0.9	2	-3	32	-7	30
Argentina		182	-0.5	-1.1	-5	-43	-3	-41		84.1	168.5	-171	-55	3576	-415	3610
Brazil		5.13	0.4	1.4	3	8	3	-2		12.6	-1.7	1	-80	104	1	106
Chile		824	-0.2	0.5	8	0	3	-4		5.1	5.5	6	-5	-72	-20	-77
Colombia		4691	-0.5	2.1	2	-14	3	-17		9.3	0.0	-79	-36	197	-51	139
Mexico		18.81	-0.1	1.4	5	8	4	8		8.1	-1.0	-3	-21	51	-60	29
Peru		3.8	-0.5	-0.7	0	1	-1	-2		8.0	0.0	24	12	187	3	200
Uruguay		40	0.0	0.3	-2	12	0	7		10.5	0.0	-15	-4	187	-15	237
Hungary		368	0.1	0.9	3	-15	1	-13		7.9	23.0	-14	-103	317	-169	310
Poland		4.33	0.2	1.1	2	-8	1	-6		5.4	12.3	14	-53	154	-74	150
Romania		4.5	0.2	1.1	2	-5	2	-4		7.3	1.9	-5	-51	230	-37	216
Russia		69.2	-0.6	0.7	-1	10	7	18		11.7	-21.0	-20	86	185	-21	47
South Africa		17.1	-0.6	-0.6	1	-10	-1	-12		8.8	4.8	2	-20	103	-40	118
Turkey		18.79	0.0	-0.1	-1	-28	0	-26		10.2	-12.0	160	37	-1315	37	-1222
US (DXY; 5y UST)		102	0.0	-0.8	-2	7	-1	6		3.65	4.1	-8	3	209	-35	175

	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		4137	0.0	3	5	-14	7	-11		185	2	-1	-15	8	-23
Indonesia		6767	1.2	2	-1	2	-1	-2		168	-6	6	-7	28	-17
India		60656	0.9	1	-1	0	0	6		150	4	6	14	8	-4
Philippines		7014	-0.4	4	8	-4	7	-5		134	-8	18	26	37	-3
Thailand		1681	-0.2	-1	4	1	1	-1		0	0	0	0	0	0
Malaysia		1499	0.4	1	1	-3	0	-5		103	-1	4	-14	3	-30
Argentina		250556	3.5	16	52	195	24	174		2001	-128	-281	145	-204	264
Brazil		109213	-1.5	-1	6	3	0	-2		273	-10	8	-48	-1	-58
Chile		5157	0.0	0	0	15	-2	18		146	-12	8	-1	14	-28
Colombia		1335	-0.2	0	10	-12	4	-12		373	-12	-2	27	1	-19
Mexico		53632	0.1	3	8	-1	11	4		363	-24	-13	21	-18	-7
Peru		23127	-0.5	3	10	-1	8	-1		188	-13	17	28	8	-2
Hungary		46589	-0.1	1	3	-13	6	-2		241	-20	27	116	19	88
Poland		61053	-1.3	-1	9	-15	6	-3		97	-6	18	77	24	81
Romania		12080	0.9	-1	1	-10	4	-9		268	-28	22	73	12	35
Russia		2213	-0.5	2	4	-38	3	-28		3411	-577	938	3228	3234	2897
South Africa		79248	0.1	2	9	5	8	6		361	-9	-17	2	-6	-28
Turkey		5271	1.2	6	1	153	-4	161		499	21	50	-61	59	-64
Ukraine		507	0.0	-1	-2	-3	-2	-2		4166	-15	225	3288	87	2693
EM total		41	0.1	3	9	-18	9	-13		377	-13	4	-31	1	-81

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