



- PBC cuts policy rates for first time since March 2020 as GDP growth declines ([link](#))
- Poland inflation reinforces further rate-hike expectations ([link](#))
- UK's labor market remains robust amid omicron spread ([link](#))
- Inflation expectations edge up in Colombia and Brazil ([link](#))
- Ukrainian and Russian asset sell-off continues ([link](#))
- Bank of Japan stays pat, upgrades inflation outlook marginally ([link](#))
- Q4 earnings season remains in focus as analysts expect robust earnings ([link](#))

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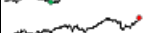

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## Bonds slump as expectations for hawkish Fed sink in

Equities are faltering this morning as investors rapidly re-price rate hike expectations in the US, sending global bond yields higher. Equities outside the US are down about 1%, while US futures point to similar losses at the open and larger losses in the tech-heavy Nasdaq (-1.5%). The key story in recent days has been the abrupt moves in US rate hike pricing, with investors adding another 13 bps in 2022 hikes since last Friday. The move has sent advanced economy 10-year bond yields up 7-12 bps over that time frame, with short-end yields rising by even more in the US. Continued moves higher in oil (WTI up +5% over five days) have also garnered investor focus, and are linked to a mix of abating concerns about Omicron-related demand destruction and supply outages. The PBC has cut rates for the first time since the start of the pandemic, reflecting concerns about Omicron's spread and re-intensifying financing stress among property developers. Elsewhere in EMs, currencies are sinking this morning as the dollar index pushes higher, ending a stretch of notable resilience in the face of rising US real yields.

Key Global Financial Indicators

Last updated: 1/18/22 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4663	0.1	0	1	24	-2
Eurostoxx 50		4268	-0.8	0	3	18	-1
Nikkei 225		28257	-0.3	0	-1	-1	-2
MSCI EM		50	0.0	2	4	-8	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.81	2.9	8	41	73	30
Germany 10y Yield		-0.03	-0.4	0	35	50	15
EMBIG Sovereign Spread		382	1	15	12	30	15
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		53.0	-0.2	1	3	-8	1
Dollar index, (+) = \$ appreciation		95.4	0.1	-1	-1	5	0
Brent Crude Oil (\$/barrel)		87.2	0.8	4	19	59	12
VIX Index (% change in pp)		21.4	2.2	2	0	-3	4

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

In the week ahead, monetary policy rates are expected to be kept on hold by Japan (Tuesday), Indonesia, Malaysia, Hungary, Turkey and Norway (Thursday). Inflation remains a key focus area with CPI prints scheduled for Japan (Thursday; 0.9% yoy vs 0.6% last month), United Kingdom (Wednesday; 5.2% yoy vs 5.1% last month), Malaysia (Thursday; 3.1% yoy vs 3.3% last month), South Africa (Tuesday; 5.7% yoy vs 5.5% last time) and Poland (Friday; at 13.5% yoy vs 13.2% yoy last month). Initial jobless claims in the US (Thursday) are expected to be reported at 220k vs 230k in the last week. Markets will also be focused on the Q4 earnings season underway.

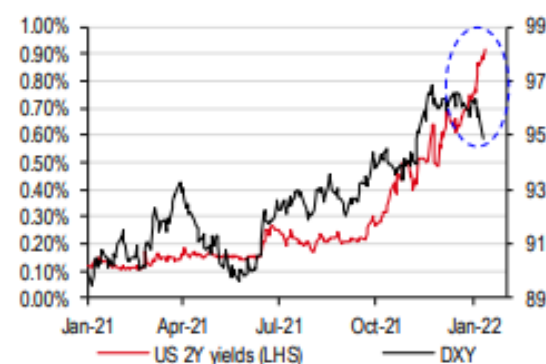
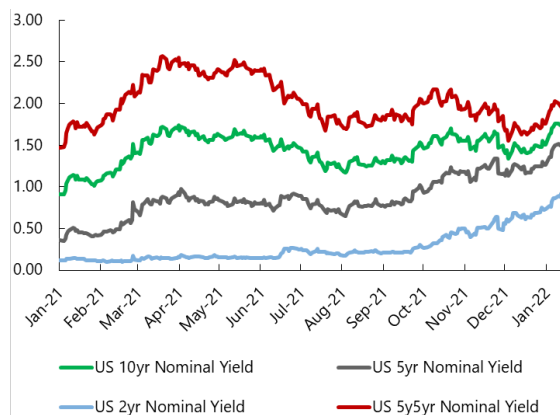
## Mature Markets

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### United States

Equity market were closed on Monday but ended marginally positive on Friday, amidst a volatile trading session. Treasury markets were also closed but with the Fed in media blackout over the coming week, the market's focus will shift to supply and continued pricing of rate hikes. Hawkish Fed speak ahead of the blackout has reinforced odds of a March hike, with the market now pricing in nearly 4 full hikes in 2022. Treasury yields were up around 8 basis points on Friday driven in part by hawkish comments from market participants including JP Morgan's CEO who said that the Fed could lift rates by up to 7 times, and the tightening won't be "sweet and gentle". The dollar recouped some of the earlier losses, up 0.4% while oil prices rose over 2% to \$84.4/barrel, \$0.2 away from erasing the entire omicron impact.

US rate volatility remains elevated with a rise in the nominal yields a market concern. US 10-year nominal yields rose by 8 basis points on Friday extending the increase this year to 27 basis points. Early trends show that yields are expected to rise again on Tuesday. While yields have risen across the curve, the rise is the sharpest at the short-end reflecting market expectations of a faster rate hike cycle.



Source: Bloomberg, HSBC

The sharp rise in the short-term rates and market expectations of a faster taper and larger rate hikes has also led to a sharp rise in the US dollar. Dollar index (DXY) appreciated by 5% (2.8%) in the last 12 (6) months. However, this relationship has been less pronounced lately with dollar depreciating by 0.4% so far this year. HSBC analysts noted that DXY tends to strengthen before the first lift-off (RHS) chart, followed by a weakness thereafter.

### Q4 earnings season also started and remains a key focus for this week.

Earnings report from JPM and Citi topped earnings estimates on Friday, but investors focused on the weaker than expected trading revenues and higher expenses, pushing the shares down 6% and 1.3%, respectively. JP Morgan analysts note that Consensus EPS growth projection for Q4 stands at 19% yoy for the US, and at 12% yoy for Eurozone, significantly below the 38% and 43% delivered in Q3. Ex-energy, expectations are even lower, at 11% for S&P 500 and 16% for Stoxx600. Analysts also note that a key focus area would be passthrough potential from the higher inflationary concerns. **JPM analysts**

**expect the S&P's earnings profile to be revised up, in line with the trend during the last few earnings season – that could potentially provide a support to the equities.**

Table 3: Q4 '21 EPS growth estimates, yoy%

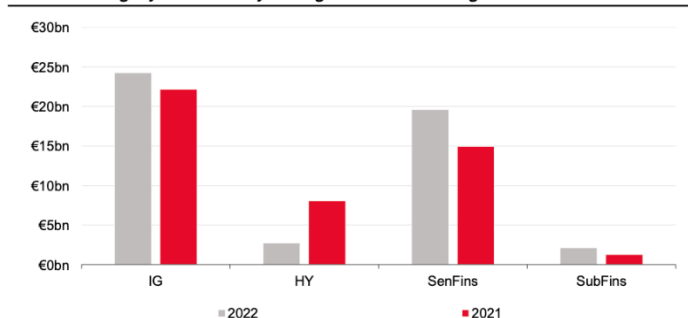
	Q4 '21e EPS growth, %y/y			
	US	Europe	Eurozone	Japan
Energy	-	205%	55%	31%
Materials	60%	47%	38%	27%
Industrials	43%	34%	18%	84%
Discretionary	2%	-8%	-10%	-15%
Staples	1%	13%	-11%	20%
Financials	-1%	36%	39%	-9%
Health Care	17%	12%	-2%	-2%
IT	14%	4%	6%	20%
Com. Services	8%	-28%	-25%	14%
Utilities	3%	7%	0%	11%
Real Estate	3%	-32%	-58%	-15%
<b>Market</b>	<b>19%</b>	<b>27%</b>	<b>12%</b>	<b>13%</b>
<b>Market Ex-Financials</b>	<b>24%</b>	<b>26%</b>	<b>5%</b>	<b>19%</b>
<b>Market Ex-Energy</b>	<b>11%</b>	<b>16%</b>	<b>10%</b>	<b>12%</b>
<b>Cyclicals</b>	<b>19%</b>	<b>16%</b>	<b>6%</b>	<b>24%</b>
<b>Defensives</b>	<b>10%</b>	<b>5%</b>	<b>-6%</b>	<b>8%</b>
<b>Value</b>	<b>39%</b>	<b>72%</b>	<b>42%</b>	<b>-6%</b>
<b>Growth</b>	<b>13%</b>	<b>9%</b>	<b>-1%</b>	<b>12%</b>

### Europe

**European equity benchmarks** fell around 1% this morning with the energy sector (+1.1%) continuing to outperform as crude oil prices hit a 7-year high. Technology shares (-2%) were once again underperforming through rising bond yields.

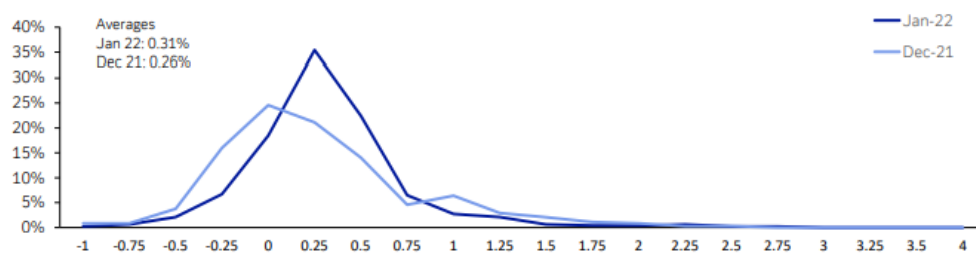
**European bond yields** edged higher this morning with the 10-year bund yield hovering just below 0% mark, before reversing, while Southern European spreads widened by 2-3 bps. Today's data out of Germany was also supportive of higher yields, as ZEW investors expectation survey gauge unexpectedly jumped to the highest level since July 2021 (51.7 vs 32 consensus reading) as Covid fears started to abate. Notably, the latest Deutsche Bank investors survey shows that expectation for year-end 10-year bund level have shifted higher over the last month, to +0.31%.

Volumes are slightly ahead of last year's figures at the same stage



Source: Bloomberg, SG Cross Asset Research/Credit

### Estimates for year-end 10yr bund yields increased 5 basis points



Source: dbDIG Survey, Deutsche Bank Research

**European credit spreads are widening on pressure from high issuance and risk aversion.** Investment and speculative grade credit benchmarks increased by another 2 bps and 7 bps respectively, trading at the widest levels since omicrons fears emerged in early December. That said, analysts attribute the recent

widening primarily to excessive supply with broader risk aversion affecting more the high yield sector, where issuance is below last year's levels.

### United Kingdom

**The labor market continued to recover at the end of Q4, despite the onset of Omicron.** The unemployment rate edged lower to 4.1% in November, while payroll figures rose by above consensus 180k in December and vacancies hit a fresh record. That said, analysts note that overall nominal wage growth slowed down further and is now closer to zero in real terms. As such the wage pressures have remained mostly isolated to sectors that experienced shortages. **Contacts see the data as consistent with a 25 bp hike in February, although some argue that labor market situation might not be as acute to justify 100 bps rate increases this year.**

### Japan

**The Bank of Japan (BOJ) upgraded its inflation outlook slightly.** The bank now sees price risks as "balanced" and no longer "skewed to the downside" as mentioned in October 2021, the BOJ's new Outlook Report revealed. Higher domestic inflation is now expected over the next two fiscal years (FY2022: 1.1%, previous: 0.9%, FY2023 1.1%, previous: 1.0%). Key policy parameters were left unchanged as expected (short-term policy rate: -0.1%, 10-year JGB yield target: 0%). Governor Kuroda said there was no need to adjust policy given the bank's current price outlook and that no debates of interest rate hikes have occurred. Analysts continue to expect the BOJ to stand pat on key policy levers this year. **Equities dipped -0.4%, Japanese yen depreciated -0.2%, and 10-year yields slipped -0.4 bps.**

## Emerging Markets

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**Asian equities were mixed.** The Philippines (+1.6%) clocked gains while Vietnam (-1%), South Korea (-0.9%), and Thailand (-0.7%) saw mild losses. **Asian currencies were mixed too.** South Korean won (+0.2%) and Thai baht (+0.2%) appreciated slightly while the Philippine peso weakened -0.4%. **10-year yields moved divergently.** Yields in Thailand (+5.7 bps) and Hong Kong SAR (+4.1 bps) firmed while those in the Philippines (-5.7 bps) and China (-2.3 bps) dipped.

**EMEA equity indices were trading mixed this morning** with Serbia (+4.3%) outperforming, while Russian equities (-4%) continued to decline amid geopolitical tension. **EMEA currencies were trading weaker against the dollar** with the largest declines seen in the Turkish lira (-0.9%), the Ukrainian hryvnia (-0.7%) and Hungarian forint (-0.5%). **Bond yields in EMEA generally rose**, with Ukraine's 10-yr yield +23 bps, Hungary +11 bps and Russia +3 bps.

In **Latin America**, currency markets were little changed on Monday given the US holiday. The Colombian stock index rallied by 6.3% as billionaire Jaime Gilinski made new bids for two major corporates. Shares of Nutresa - the country's leading food company- jumped by 24%.

### Brazil

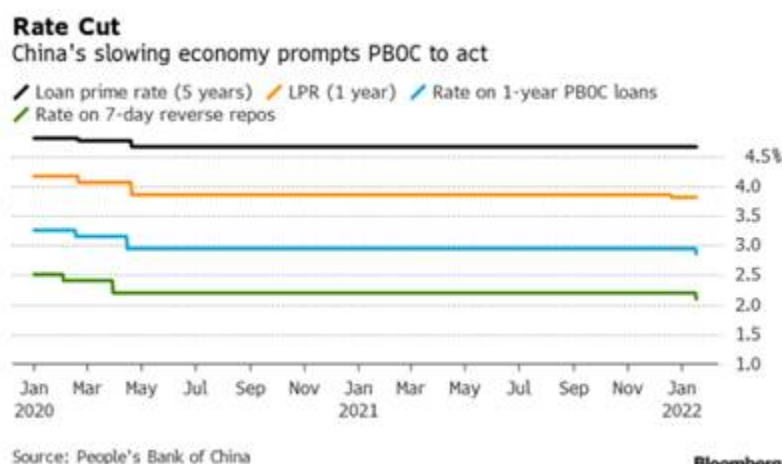
**According to the weekly central bank survey, inflation expectations edged up slightly for 2022/23.** 2022 IPCA expectations increased by 6 bps to 5.09% and 4 bps for 2023 to 3.4%. On monetary policy, the median of year-end Selic rate expectations remained the same at 11.75% for 2022, 8.0% for 2023, and 7.0% for 2024. (Source: Bloomberg)

### China

**China's central bank cut the open market operations rate and the 1-year policy loan rate by 10 bps to 2.1% and 2.85%, respectively.** The 1-year medium-term lending facility (MLF) rate had previously been unchanged since April 2020. Some analysts are now expecting a 10 bps cuts to China's 1-year and 5-year

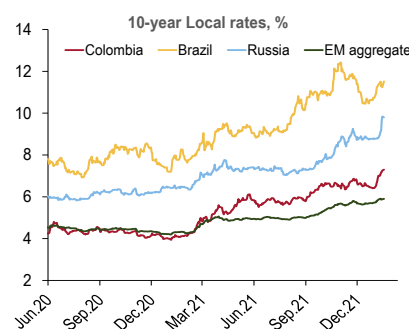
loan prime rates on Thursday, with even more easing moves seen ahead in support of China's slowing economy. **China Q4 GDP growth slows to 4%y/y, lowest since June 2020.** Drags on the better-than-expected reading (consensus: 3.3% y/y, Q3: 4.9% y/y) stemmed from contractions in the construction (-2.1% y/y) and real estate (-2.9%y/y) sectors, while retail sales decelerated to 1.7%y/y and property investments fell in December. Separately, **pressures on Chinese**

**property developer bonds persist.** Bonds of Country Garden, China's largest developer by contracted sales, fell after the company failed to garner enough investor support for a \$300 mn convertible bond, triggering liquidity concerns, Bloomberg reports. Logan Group bonds dived after Debtwire reported the company may have \$812 mn of hidden obligations due through 2023. **Equities were mixed (Shanghai: +0.8%, Shenzhen: -0.3%), RMB was broadly unchanged, and 10-year yields declined -2.3 bps.**



## Colombia

**According to the monthly central bank survey, inflation expectations for 2022 increased sharply, and a larger hiking cycle is now expected.** Expectations for 2022 increased by 62 bps to 4.5% following the large surprise in the monthly inflation print in December. Analysts expect a 75 bps hike later this month (compared to the 50 bps increase expected previously) taking the policy rate to 3.75%. Analysts also revised their terminal rate to 5.50%, 75 bps above last month's survey. Although EM local bond markets have fared relatively well during the recent rise in US yields, Colombia has been one of worst performing markets along with Russia and Brazil. Besides the recent increase in inflation expectations, some analysts highlight the increased uncertainty around the election outcome in May and its potential implications in terms of fiscal credibility.

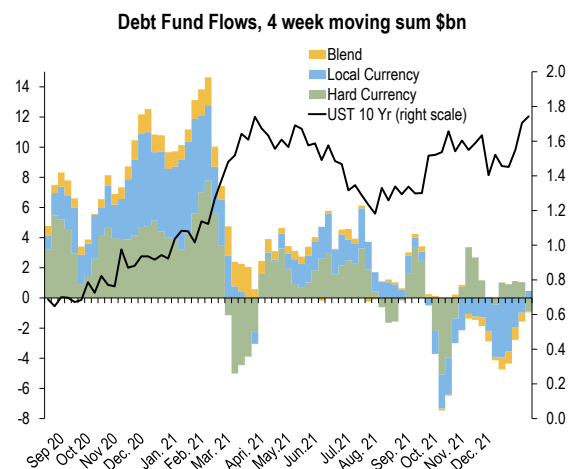


## EM bond fund flow

**Fund flows had a mixed start of the year for the week ending January 12.** EM bond fund flows were -\$0.5 bn as sizeable outflows in EM hard currency (-\$0.8 bn) offset small inflows in local currency.

## Poland

**Markets continue to price in further hikes after core inflation increased to 5.3% yoy in December** (consensus 5.2% yoy, from 4.7%). Analysts expect that the second inflation shield measures announced last week, which includes a VAT rate cut on fuel, gas and food, would result in a lower-than-previously forecast CPI increase in the first half of 2022. However, ING analysts warn that these measures are a temporary solution and sees elevated inflation persisting amid





strong consumer demand and a tight labour market. The central bank increased its policy rate from 0.1% to 2.25% in four consecutive meetings since October. **The central bank is expected to hike again at its next meeting in February, with markets pricing cuts towards the start of 2023.** The Polish zloty has appreciated by almost 3% against the euro since December 2021.

## Ukraine/Russia

**Ukrainian and Russian assets have continued to sell off amid concerns of further escalation after strategic talks last week aimed at defusing tensions were unsuccessful.** Kremlin spokesperson Dmitry Peskov has reportedly described the inconclusive talks as a 'disturbing' outcome, and reiterated Russia's demand for a guarantee from NATO that Ukraine will not be admitted. **Russia's equity market has declined by 11% this year, 10-yr bond yields have increased by roughly 110 bps while the ruble is 2% lower, underperforming other regional currencies.** The risk premium on Ukraine's sovereign dollar bonds increased past 1000 bps on Friday for the first time in nearly two years, according to a Bloomberg index tracking emerging market sovereign debt.

**Ukraine: Yields on forwards and U.S. dollar bonds (%)**

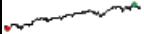

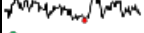


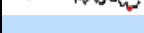



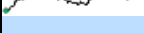
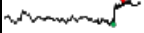

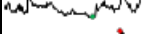
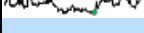



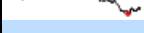

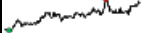
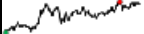




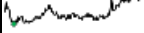




Source: Bloomberg and IMF

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## Global Financial Indicators

Last updated: 1/18/22 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4641	0.1	-1	0	23	-3
Europe		4268	-0.8	0	3	18	-1
Japan		28257	-0.3	0	-1	-1	-2
China		4813	1.0	0	-3	-11	-3
Asia Ex Japan		84	-0.1	2	4	-11	2
Emerging Markets		50	0.0	2	4	-8	3
<b>Interest Rates</b>			basis points				
US 10y Yield		1.81	2.9	8	41	73	30
Germany 10y Yield		-0.03	-0.4	0	35	50	15
Japan 10y Yield		0.14	-0.5	-1	9	9	7
UK 10y Yield		1.19	0.2	2	43	90	22
<b>Credit Spreads</b>			basis points				
US Investment Grade		116	0.9	2	-3	22	4
US High Yield		338	-0.8	-7	-26	-35	0
Europe IG		54	1.0	3	2	2	6
Europe HY		264	4.5	13	4	6	22
<b>Exchange Rates</b>			%				
USD/Majors		95.40	0.1	-1	-1	5	0
EUR/USD		1.14	-0.3	0	1	-6	0
USD/JPY		114.7	0.1	-1	1	11	0
EM/USD		53.0	-0.2	1	3	-8	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		87	0.8	4	19	59	12
Industrials Metals (index)		178	0.2	3	7	31	3
Agriculture (index)		61	-0.4	-1	2	20	0
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		21.4	2.2	2.0	-0.2	-2.9	4.2
US 10y Swaption Volatility		85.0	4.0	1.9	5.6	26.7	6.0
Global FX Volatility		7.2	0.0	0.0	-0.4	-0.6	-0.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		166	3.1	4	7	44	14
Italy		133	0.8	-1	5	17	-2
Portugal		62	1.7	-1	-2	7	-3
Spain		69	0.3	1	-3	8	-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: 1/18/2022 8:08 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		6.35	-0.1	0.3	0	2	0		2.8	-6.0	-9	-19	-40	-8
Indonesia		14336	-0.1	-0.2	0	-2	-1		6.4	1.0	-4	-4	19	2
India		75	-0.5	-0.9	2	-2	0		6.8	45.0	45	58	106	45
Philippines		51	-0.4	-0.6	-3	-7	-1		4.5	0.0	0	-5	133	3
Thailand		33	0.0	0.6	1	-9	0		2.2	5.0	14	34	94	34
Malaysia		4.18	-0.1	0.4	1	-3	0		3.6	-3.5	-7	6	97	2
Argentina		104	-0.1	-0.6	-2	-17	-1		48.3	2.4	-78	-213	-367	-224
Brazil		5.52	0.0	1.0	4	-4	1		11.5	-1.3	1	100	358	85
Chile		822	0.1	0.8	6	-11	4		5.9	2.2	-4	32	329	47
Colombia		4016	-0.1	-0.5	0	-14	1		7.3	0.0	21	79	320	89
Mexico		20.35	-0.3	0.1	2	-3	1		7.6	3.5	-18	35	211	10
Peru		3.9	0.4	2.0	5	-6	4		6.1	0.5	7	22	248	23
Uruguay		44	0.0	0.3	0	-5	0		8.7	0.0	0	-5	143	-7
Hungary		314	-0.6	0.0	4	-5	3		4.8	10.6	12	57	305	34
Poland		3.98	-0.4	0.3	3	-6	1		3.9	4.5	-4	55	274	38
Romania		4.3	-0.3	0.1	1	-7	0		5.0	0.1	-5	19	249	19
Russia		76.3	0.0	-2.5	-3	-3	-2		9.9	9.0	76	111	342	112
South Africa		15.4	-0.2	0.7	2	-2	3		7.7	-2.5	-4	49	95	28
Turkey		13.59	-1.1	1.6	-2	-45	-2		23.2	-14.0	-161	38	973	-111
US (DXY; 5y UST)		95	0.2	-0.6	-1	5	0		1.61	4.8	11	43	116	34

	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		4813	1.0	0	-3	-11	-3		198	2	-4	-30	-5
Indonesia		6614	-0.5	-1	0	5	0		172	9	0	-17	7
India		60755	-0.9	0	7	23	4		136	12	4	-21	4
Philippines		7344	1.7	4	1	2	3		104	6	-2	-1	3
Malaysia		1543	0.0	0	3	-4	-2		117	3	1	-18	0
Argentina		85039	-0.5	2	2	69	2		1874	81	183	429	194
Brazil		106374	-0.5	3	-1	-12	1		319	4	-4	52	8
Chile		4470	-0.1	2	3	-3	4		146	8	7	-3	6
Colombia		1522	6.3	7	9	5	8		344	0	5	120	-4
Mexico		53973	0.4	2	3	16	1		342	9	-3	-25	10
Peru		23418	-0.3	5	15	9	11		155	-2	4	29	5
Hungary		52670	-1.6	-2	4	18	4		119	6	-4	-20	-5
Poland		71127	-1.6	-1	6	21	3		15	-4	-29	-13	-17
Romania		13291	-1.4	0	7	31	2		192	7	6	-6	-1
Russia		3404	-4.4	-10	-9	-2	-10		215	40	40	45	38
South Africa		74962	-0.8	1	5	18	2		359	18	-8	-23	4
Turkey		2067	-0.9	1	-1	33	11		559	-17	-8	109	-19
Ukraine		523	0.0	0	0	5	0		966	193	288	479	207
EM total		50	-1.5	2	4	-8	3		409	13	21	63	23

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

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