



- China's central bank signals more easing ahead ([link](#))
- Russia calls off weekly bond auction amid market volatility ([link](#))
- Oil prices continue to push to new cycle highs ([link](#))
- Chinese developer assets rebound on proposed easing of presale rules ([link](#))
- ECB increases weekly asset purchases as trading resumes ([link](#))
- U.K. gilt yields rise after inflation surprises to upside ([link](#))

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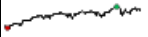





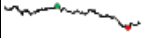


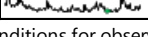
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Bond yields extend gains

Bonds are blitzed for another day, dragging equities down sharply, but are showing signs of stabilization this morning. Global stocks sold off again yesterday, with most large bourses down 1.5-3%, but are rebounding so far this morning in the European session. The proximate cause for declines has been the extension of recent losses in government bonds yesterday and overnight, with advanced economy 10-year yields up another 2-8 bps from the start of yesterday's trading, underpinned by investors adding further to bets on rate hikes across 2022 and beyond. These moves appear to be calming this morning as investors shift focus to earnings, with European shares rebounding on some positive earnings news from large retailers. The dollar has faded its early gains yesterday, and notably continues to lag the move higher in US real rates, consistent with some analysts' shift to a more neutral stance on the greenback's outlook. EM currencies are also holding their ground, in part thanks to their historically depreciated levels.

Key Global Financial Indicators

Last updated: 1/19/22 8:15 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4577	-1.8	-2	-1	20	-4
Eurostoxx 50		4285	0.6	-1	3	19	0
Nikkei 225		27467	-2.8	-5	-2	-4	-5
MSCI EM		49	-1.8	1	2	-11	1
Yields and Spreads			bps				
US 10y Yield		1.86	-0.9	12	46	78	35
Germany 10y Yield		0.00	1.4	6	37	52	17
EMBIG Sovereign Spread		387	5	12	12	30	20
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.1	0.5	0	4	-8	1
Dollar index, (+) = \$ appreciation		95.6	-0.1	0	-1	6	0
Brent Crude Oil (\$/barrel)		88.0	0.6	4	20	57	13
VIX Index (% change in pp)		22.2	-0.6	4	1	-1	5

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

Stocks slumped and volatility rose alongside Treasury yields. The S&P 500 declined by 1.8% yesterday, with 10 out of major 11 sectors registering losses and the tech-heavy Nasdaq 100 down 2.6%, dragged lower by mega-cap stocks like Apple and Meta. Goldman Sachs' worse-than-expected 4Q trading revenue weighed on banks, while higher oil prices helped underpin gains in energy stocks. US treasury yields rose across the curve with US 10-yr nominal yields rising by 9 bps (driven predominantly by a rise in real rates). The US yield curve (5s30s) flattened by 4 bps yesterday, bringing total yield curve flattening to 60 bps over the last 6 months. Volatility rose across asset classes with implied equity volatility (VIX) up 4 pts (to 22.8 pts) and interest rate volatility up by 7.4 ppts to 88.4 ppts. Risk-off sentiment and higher expected short term rates led to dollar appreciating by 0.5%. US HY and IG credit spreads widened marginally.

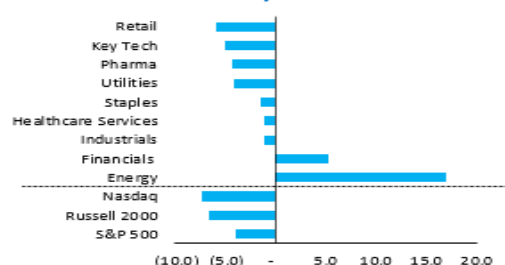
Market indicators show that the market is pricing in a full probability of a hike in the March FOMC, along with a total of four hikes by the end of the year. Some market analysts have also talked about the potential of a 50-bps hike in March. Bloomberg notes that CME open interest continues to build in June 2022 puts, hedging a more aggressive path of Fed hikes than currently priced in. This is also reflected in the latest positioning data, where hedge funds have extended net eurodollar short positions to the most since December 2018, while further out on the curve speculators' bets on further increases in 10-year yields are at the highest since February 2020.

Bloomberg CFTC 3-m Eurodollars Net Non-Commercial Futures Positions



S&P 500 is down 4% year to date but with a notable sectoral differentiation. Financials (+5%) and energy (+17%) sub-sectors have outperformed peers this year driven by higher rates as well as a surge in the oil prices. The decline is even more stark for smaller domestic companies (Russell 2000; -6.6%) and the tech stocks (Nasdaq; -7.3%). This reflects the impact of higher real rates as well as global growth and shutdown concerns for the smaller firms.

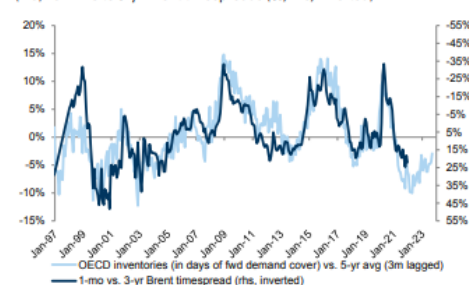
YTD Performance of key S&P 500 sub-sectors



Source: Bloomberg

Oil has reversed last year's price melt-down and continues to spike up. Oil prices were up 2% on Tuesday extending the rise to 13% this year (and 20% in the last six months). Analysts note that the market has remained in a surprisingly large deficit as the Omicron demand hit is so far smaller (and likely briefer) than that of Delta exc. China. Goldman analysts expect that by the summer, this is likely to bring OECD inventories to their lowest level since 2000 alongside a decline in OPEC+ spare capacity to historically low levels of c.1.2 mb/d.

Exhibit 20: We expect OECD stocks to reach their tightest levels in days of demand before higher prices finally force builds
OECD commercial stocks in days of OECD demand coverage vs. 5-yr avg (lhs) vs. 1-mo to 3-yr Brent timespreads (%), rhs, inverted

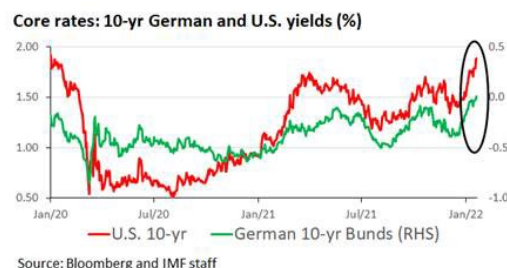


Source: IEA, Goldman Sachs Global Investment Research

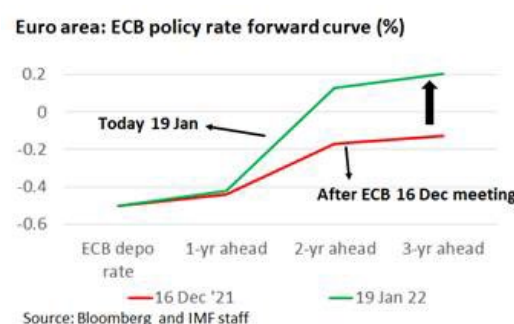
Euro area

Equities (+0.3%) traded higher with bank stocks (-0.2%) little changed.

German 10-yr bund yields (+2 bps to 0.01%) turned positive for the first time since May 2019 as Bank of France governor Villeroy warned that the current inflation hump is higher and longer than expected and that ECB officials are keeping their eyes “wide open” on incoming data even though he still expects euro area inflation to normalize around 2% in the next two years. Contacts point that energy price pressures are persisting longer than expected with Brent oil prices up 13% so far in 2022 on stronger-than-expected demand and outages in OPEC+ producers. Oil prices rose another 0.8% to \$88.2/bbl today.

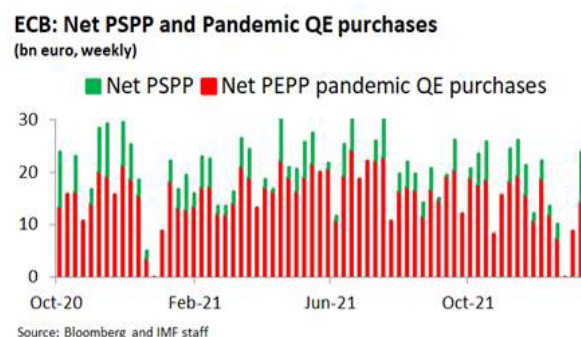


Money markets are pricing in an ECB rate hike of 10 bps in 2022 but have shifted up rate hike expectations for 2023 by 30 bps. Markets are now pricing a depo rate around +13 bps by end 2023 (compared to -17 bps after the ECB meeting in December).



Greek spreads (+1 bps to 166) edged higher after Greece announced the issuance of a new 10-yr bond via syndication. Greek 10-yr spreads are up 15 bps so far in 2022. In contrast, 10-yr Italian yields have been little changed at 134 bps this year.

Analysts point out that ECB asset purchases have remained material as euro area rates traded higher last week. The increase of weekly purchases in the pandemic PEPP QE program and European government bonds in the PSPP (regular APP QE program) follows a week with less redemptions but also signals a still strong role for central bank purchases in fixed income trading. Commerzbank, for example, expects that total ECB net purchases could reach €80 bn in January, but analysts then expect the pace to slow towards the end of Q1 in line with the tapering of asset purchases announced by the ECB at its December meeting.

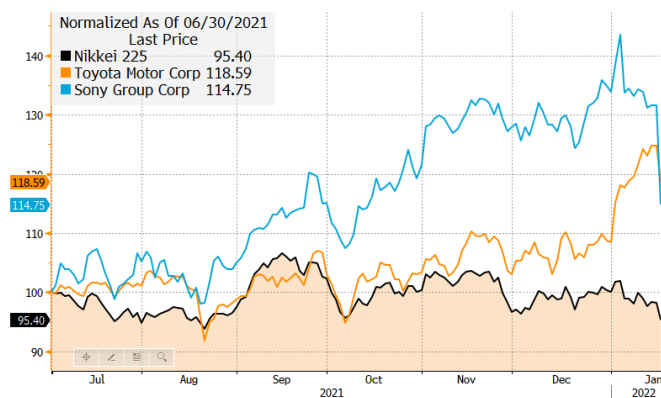


United Kingdom

10-yr gilt yields (+5 bps to 1.27%) and the pound (+0.3% to 1.36) rose after inflation surprised to the upside. Headline inflation rose to 5.4% yoy (5.2% expected) and core inflation to 4.2% yoy (+3.9% yoy expected). The rise was driven mostly by goods prices, and in particular household goods and clothing. JP Morgan warns that gas and electricity bills could rise by around 45% in April depending on how the government responds to the rise in energy prices. Money markets expect the BoE to hike its policy rate 25 bps to 0.50% in February, followed by another hike of 25 bps in May and 25 bps in August.

Japan

Japanese equities dived -2.9%, with significant declines in Sony Group (-12.8%) and Toyota Motor Corp (-5%). **Tokyo and 12 other prefectures will be under virus curbs from Friday until February 13.** The move aims to ease a surge in COVID cases. Under the state of quasi-emergency prefectural governors will have powers to request reduced opening hours and suspended alcohol sales for bars and restaurants, according to Nikkei. **Japanese yen appreciated +0.1%, renminbi and 10-year yields were unchanged.**



Emerging Markets

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Asian stocks continued to decline, -0.6% on net. Most markets closed lower; India lost -0.8%, China's CSI 300 was down -0.7%, Vietnam outperformed (+0.3%). **Asian currencies were mixed.** Malaysian ringgit (-0.3%) and Indonesian rupiah (-0.2%) weakened, Chinese renminbi was up (offshore +0.1%, onshore 0.05%). **10-year yields mostly firmed**, with Malaysia (+6.3 bps) and Hong Kong SAR (+4.1 bps).

EMEA equity indices were trading mixed this morning with Russia (+5%) and South Africa (+1.1%) outperforming, while equities in Czech Republic (-0.5%) underperformed. **EMEA currencies were mostly trading stronger against the dollar** led by the Russian ruble (+1.4%) and Hungarian forint (+1%). The Turkish lira (-0.5%) and Ukrainian hryvnia (-0.4%) were trading lower.

In **Latin America**, regional currencies were generally weaker amid broad dollar strength. **The Chilean peso** outperformed appreciating by 0.5% without any major headlines as market awaits President Boric's upcoming cabinet announcement. **The Brazilian real** and the **Colombian peso** both depreciated by 0.8%. The local rates markets in these two countries are among the worst performers in EM year to date on the back of higher US rates, elevated inflationary pressures, and market concerns about their upcoming elections. The 10y swap rate in **Colombia** closed 28bp higher, at 7.59%, almost 120 bps higher year to date.

China

China's central bank signals more easing ahead. Deputy Governor Liu Guoqiang stated during a press briefing on Tuesday that the bank will "avoid a collapse in credit" and "open its monetary toolbox wider", Bloomberg reports. Liu said that there is room for additional policy support, given China's declining macro leverage ratio (2021: 272.5%, 2020: 280.2%) and called for such support to be provided sufficiently and quickly, according to state-run China Daily. He also noted

Analysts see scope for China's benchmark bond yield to drop to 2.6%

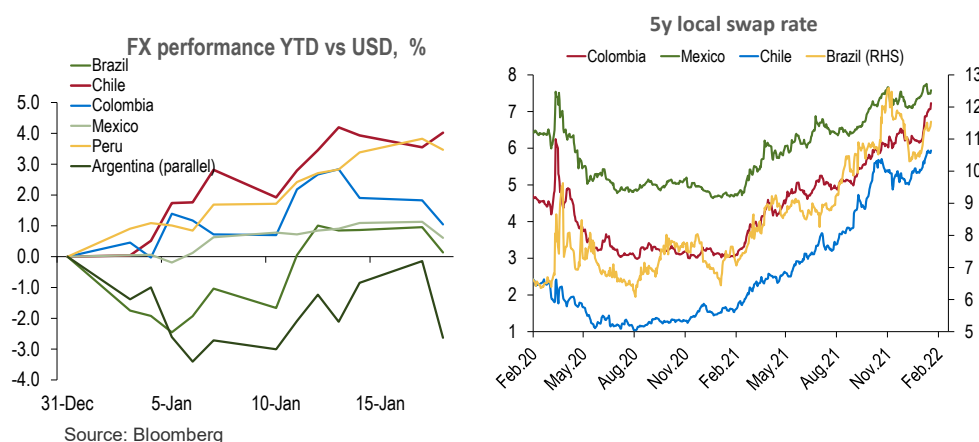


reduced but still-existing room for further bank reserve requirement ratio (RRR) cuts. Analysts took Liu's remarks as an explicit easing signal and continue to eye loan prime rate (LPR) cuts tomorrow. **Property developer bonds and equities surged after central bank's easing pledge and separate reports that the government may ease rules on use of escrowed presale funds**, which have contributed to the

recent liquidity strains. Agile (+12.7%), CIFI (+12.3%), Guangzhou R&F Properties (+9.8%), and Country Garden (+8.3%) led sectoral equity gains, while bonds of Country Garden, Logan, Sunac, and Shanghai Shimao, among others, rebounded, albeit with prices mostly still at distressed levels. Separately, eleven **local governments unveiled 6% or above growth targets in 2022**. Hebei, Hunan and Sichuan aim for 6.5% growth. Beijing and Chongqing aim to expand above 5% and 5.5% accordingly. **Equities slipped (Shanghai: -0.3%, Shenzhen: -0.9%), RMB and 10-year yields were little changed.**

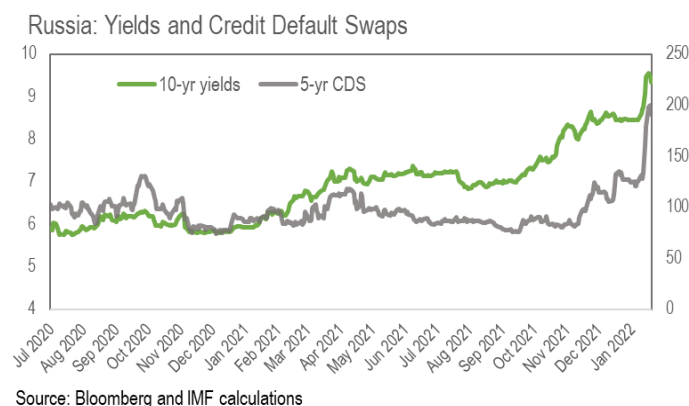
Chile

As the market awaits the announcement of the new cabinet this week, the peso continues to outperform. Following the election outcome in December, the peso has been the best performing EM currency appreciating by almost 7%. Analysts note that the more conciliatory tone from the president-elect over recent weeks, including his commitment to fiscal consolidation, has been a key driver behind this strong performance. Local rates have benefitted less from political developments as high inflation pressures and hawkish central bank communication have kept rates higher. Following the large upside surprise to CPI analysts expect the central bank to maintain its tightening pace at 125bp on the 26th of January.



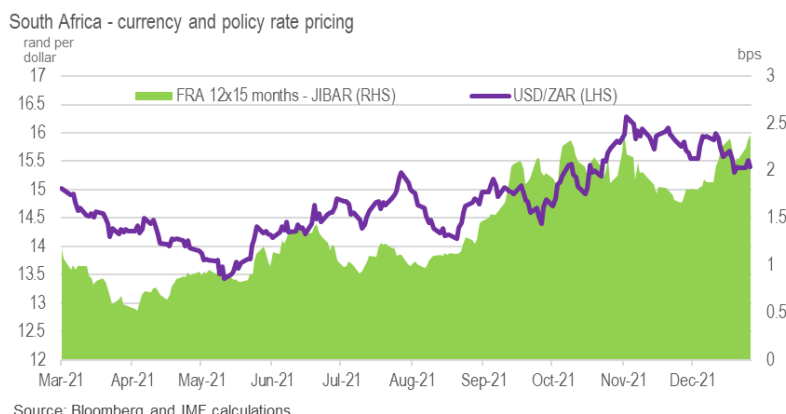
Russia

Russia called off today's weekly treasury bond auctions amid increased financial market volatility, according to the Ministry of Finance. Yesterday, the yields on Russia's 10-year bonds reached the highest level since early 2016 at over 9.5%, five-year credit default swaps (CDS) increased to 211 bps from 81 bps in November, and the Russian ruble slid to a near two-week low past 77 against the dollar. Russia's Foreign Minister Sergei Lavrov and U.S. Secretary of State Antony Blinken are set to discuss on Friday the security guarantees that Moscow is seeking, with Blinken expected to press Russia to de-escalate tensions on the Russian border with Ukraine. Analysts warn of more price action if an agreement is not reached. **This morning the ruble edged higher (+0.6%) and Russian equities (+3.6%) recovered some of the losses. On the data front, preliminary data shows that Russia's current account surplus increased to a record \$120 bln in 2021.**



South Africa

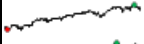


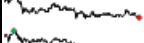
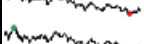
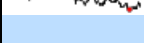




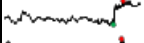



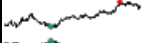


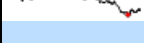

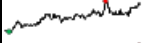

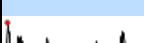
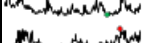

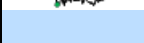



Headline inflation increased to 5.9% yoy in December (consensus 5.7% from 5.5% in November), mainly driven higher by transport inflation. Core inflation increased to 3.4% yoy. The market continues to price in further hikes and analysts expect the SARB to increase the repo rate three times this year, in 25 bps increments, although by less than some EM peers as inflation still remains in the target 3-6% range. Bond yields were little changed following the inflation data release while the rand traded stronger (+1%) against the dollar.



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









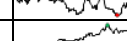







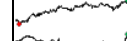


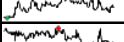




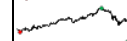

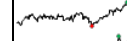


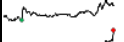

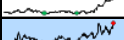

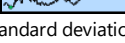




Last updated: 1/19/22 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4585	-1.8	-3	-1	21	-4
Europe		4285	0.6	-1	3	19	0
Japan		27467	-2.8	-5	-2	-4	-5
China		4780	-0.7	-1	-2	-13	-3
Asia Ex Japan		83	-1.6	0	2	-14	0
Emerging Markets		49	-1.8	1	2	-11	1
Interest Rates			basis points				
US 10y Yield		1.86	-0.9	12	46	78	35
Germany 10y Yield		0.00	1.4	6	37	52	17
Japan 10y Yield		0.14	0.1	1	10	9	7
UK 10y Yield		1.26	4.3	12	50	97	29
Credit Spreads			basis points				
US Investment Grade		117	1.1	1	-2	24	5
US High Yield		341	-0.4	3	-23	-30	3
Europe IG		53	-0.7	3	1	3	5
Europe HY		260	-4.3	11	0	3	18
Exchange Rates			%				
USD/Majors		95.62	-0.1	0	-1	6	0
EUR/USD		1.13	0.2	-1	1	-6	0
USD/JPY		114.5	-0.1	0	1	10	-1
EM/USD		53.1	0.5	0	4	-8	1
Commodities			%				
Brent Crude Oil (\$/barrel)		88	0.6	4	20	57	13
Industrials Metals (index)		180	1.3	2	8	33	4
Agriculture (index)		62	1.2	1	4	24	3
Implied Volatility			%				
VIX Index (% change in pp)		22.2	-0.6	3.7	0.6	-1.1	4.9
US 10y Swaption Volatility		84.6	-3.8	5.1	5.2	27.2	5.6
Global FX Volatility		7.2	0.0	0.1	-0.4	-0.4	-0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		167	2.1	6	8	46	15
Italy		133	-0.2	1	6	22	-2
Portugal		61	-0.4	-1	-2	8	-3
Spain		68	-0.5	0	-3	9	-6

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 1/19/2022 8:10 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	0.2	0	2	0		2.8	-1.0	-10	-20	-42	-9
Indonesia		14364	-0.2	-0.3	0	-2	-1		6.4	2.2	1	-1	17	4
India		74	0.2	-0.7	2	-2	0		6.8	45.0	45	58	106	45
Philippines		52	-0.1	-0.6	-3	-7	-1		4.5	0.0	0	-5	133	3
Thailand		33	0.2	0.8	2	-9	1		2.2	0.0	13	34	79	34
Malaysia		4.19	-0.3	-0.2	1	-3	-1		3.7	7.9	9	18	110	14
Argentina		104	-0.1	-0.6	-2	-17	-1		48.6	22.7	-42	-191	-351	-202
Brazil		5.52	0.8	0.0	4	-3	1		11.6	-4.6	28	103	358	88
Chile		816	0.4	0.9	7	-10	4		5.9	0.0	3	36	331	51
Colombia		4024	0.3	-1.2	0	-13	1		7.6	0.0	42	107	351	117
Mexico		20.34	0.3	0.1	2	-3	1		7.7	-0.5	5	45	227	17
Peru		3.9	-0.3	1.0	5	-7	3		6.2	0.2	13	26	251	27
Uruguay		45	-0.1	0.2	-1	-5	0		8.7	0.0	0	-5	143	-7
Hungary		314	0.7	-1.7	4	-6	3		4.8	-2.1	21	57	300	33
Poland		3.99	0.4	-0.8	3	-6	1		3.9	-2.0	10	53	273	36
Romania		4.4	0.2	-0.9	1	-8	0		5.0	-2.5	-7	17	248	17
Russia		76.2	1.1	-2.1	-3	-3	-1		9.6	-14.0	46	84	315	85
South Africa		15.3	1.4	0.0	3	-2	4		7.7	-6.0	6	49	104	28
Turkey		13.60	-0.5	-2.3	-2	-45	-2		23.2	6.0	-119	32	970	-117
US (DXY; 5y UST)		96	-0.1	0.0	-1	6	0		1.65	-0.7	13	48	121	39

	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		4780	-0.7	-1	-2	-13	-3		197	1	-7	-32	-6	
Indonesia		6592	-0.3	-1	1	3	0		177	11	3	-16	12	
India		60099	-1.1	-2	8	21	3		138	14	7	-20	6	
Philippines		7262	-1.1	1	0	2	2		107	6	-1	1	6	
Malaysia		1530	-0.8	-2	2	-4	-2		118	3	1	-20	1	
Argentina		83351	-2.0	-2	0	65	0		1882	71	171	446	202	
Brazil		106668	0.3	1	0	-12	2		319	0	-11	45	8	
Chile		4500	0.0	0	3	-4	4		148	3	7	-4	8	
Colombia		1585	4.1	9	14	9	12		347	0	-1	118	-1	
Mexico		53232	-1.4	0	2	17	0		343	5	-1	-32	11	
Peru		23316	-0.4	2	15	8	10		157	-5	4	28	7	
Hungary		53194	1.2	-2	5	19	5		120	-1	-7	-23	-4	
Poland		70839	-0.1	-3	5	22	2		15	-7	-22	-13	-17	
Romania		13173	-0.8	-2	6	29	1		195	2	6	-7	2	
Russia		3470	4.2	-9	-7	1	-8		232	49	51	59	55	
South Africa		75788	1.1	0	6	19	3		366	14	-5	-25	11	
Turkey		2000	1.0	-3	-4	28	8		563	-25	-42	99	-15	
Ukraine		523	0.0	0	0	5	0		1000	214	270	501	241	
EM total		49	0.3	1	2	-11	1		415	13	18	64	29	

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

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