



- Markets are pricing a lower Fed terminal rate and more rate cuts ([link](#))
- Market volatility has eased across most asset classes ([link](#))
- ECB officials continue to signal multiple hikes of 50 bps ahead ([link](#))
- Norges Bank left policy rate unchanged but signals hike in March ([link](#))
- New Zealand PM Ardern resigns and is set to officially step down on February 7 ([link](#))
- Frontier Eurobond spreads have nearly halved since mid-2022 ([link](#))
- Malaysia's central bank unexpectedly left its benchmark rate unchanged at 2.75% ([link](#))

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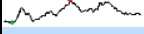


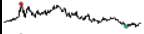

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Recession fears interrupt risk rally

European stocks and US equity futures were trading lower as disappointing US data together with hawkish rhetoric from the Fed and the ECB weighed on risk sentiment. This follows yesterday's risk-off moves, where weaker-than-expected US data pushed recession concerns back into focus and saw US equities slumping the most in a month. 10-y Treasury yields yesterday also fell to levels last seen in September amid expectations that the Fed would be less aggressive than previously anticipated, despite generally ongoing hawkish rhetoric by Fed officials. This morning, however, core sovereign yields were mostly higher, with ECB officials continuing to point to multiple hikes of 50bps ahead. In Asia, equity markets were mixed while the Japanese yen continued to appreciate as investors continue to digest the implications of yesterday's BoJ meeting. Elsewhere on the central bank front, Norway left its key rate unchanged at 2.75%, but noted that the policy rate would likely be raised in March. Türkiye left its key rate unchanged at 9% as expected, while Malaysia surprised markets and also stayed pat (+25 bps hike expected). Bank of Indonesia hiked policy rates by 25 bps, in line with expectations.

Key Global Financial Indicators

Last updated: 1/19/23 12:43 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3929	-1.6	0	3	-13	2
Eurostoxx 50		4103	-1.7	-1	8	-4	8
Nikkei 225		26405	-1.4	0	-1	-5	1
MSCI EM		41	-0.7	0	8	-17	8
Yields and Spreads			bps				
US 10y Yield		3.39	2.2	-5	-19	153	-48
Germany 10y Yield		2.07	4.9	-9	-13	208	-50
EMBIG Sovereign Spread		447	0	-15	-17	60	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.8	-0.4	0	2	-5	2
Dollar index, (+) = \$ appreciation		102.1	-0.2	-1	-2	7	-1
Brent Crude Oil (\$/barrel)		84.5	-0.6	1	6	-4	-2
VIX Index (% change in pp)		21.4	1.1	0	-1	-2	0

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

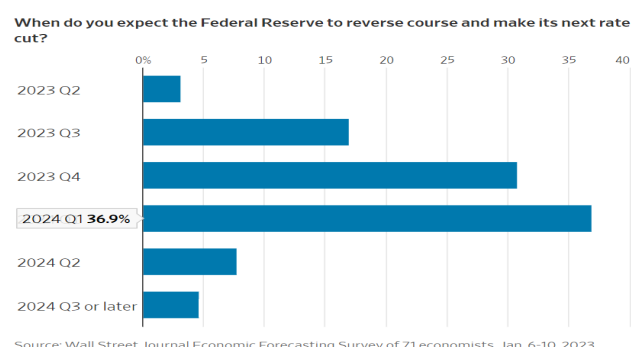
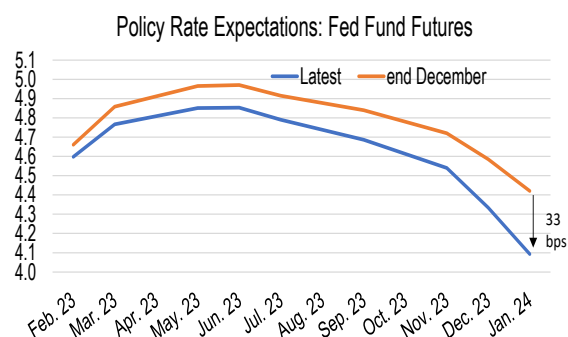
Mature Markets

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United States

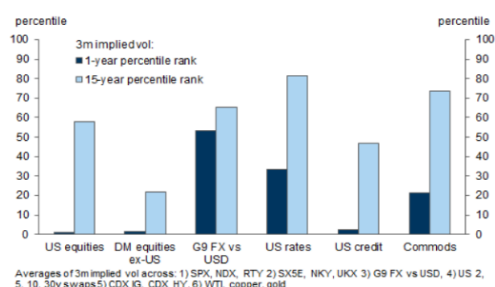
US equities fell 1.6% on Wednesday. Economic data pointed towards easing inflation and slowing growth, with PPI inflation (-0.5% m/m vs -0.1% expected) and retail sales (-1.1% vs -0.9%) coming in below expectations. Hawkish rhetoric by Fed officials generally continued, though two regional presidents (Harker, Logan) supported downshifting hikes to 25 bps increments. **Treasuries rallied sharply, with 2y and 10yr yields down 13 bps and 17 bps respectively.** Some contacts partially attributed the size of the move to short covering following the BoJ's move to leave YCC unchanged. This morning Treasury yields rose 3–4 bps after initial jobless claims were lower than expected (190k vs 214k expected), while continuing claims were marginally above expectations at 1.65 mn. Housing starts continued to slow but were slightly better than expected.

Market have priced a lower terminal rate and more rate cuts since the start of the year. Since late December, investors have reduced their terminal rate expectations by 12 bps to 4.85%. Moreover, futures markets are pricing about 17 bps of cuts in the third quarter and a full 75 bps by January 2024 (vs 55 bps previously). **Survey based expectations remain somewhat more hawkish** however, with a plurality of Wall Street Journal survey respondents not expecting cuts until Q1 of 2024.

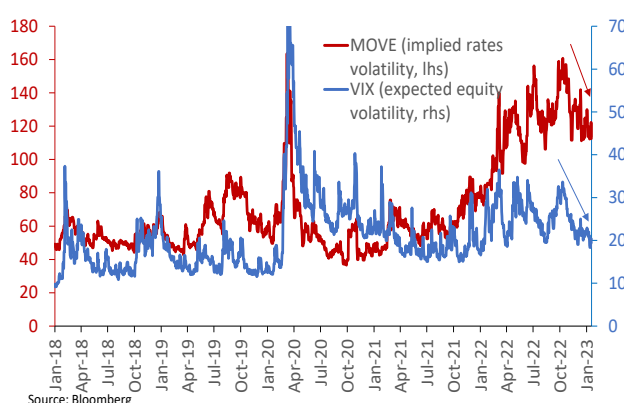


Market volatility has eased across most asset classes to start the year, particularly equities and US credit. Implied volatility has declined to the bottom of 1-year ranges across several asset classes, though it remains somewhat higher when compared with a longer time horizon. Analysts note that the decline in implied volatility could reflect markets pricing lower tail risks for negative economic outcomes, as well as more certainty around the terminal rate by the Federal Reserve. However, relative to labor market measures (such as non-farm payrolls) equity volatility remains broadly in line with historical trends, suggesting that a deterioration in the economic landscape could see a pick-up in volatility. Volatility in G10 exchange rates and Treasury markets stand out as remaining fairly high among asset classes.

Exhibit 1 : Implied volatility in equities and credit is at one-year lows



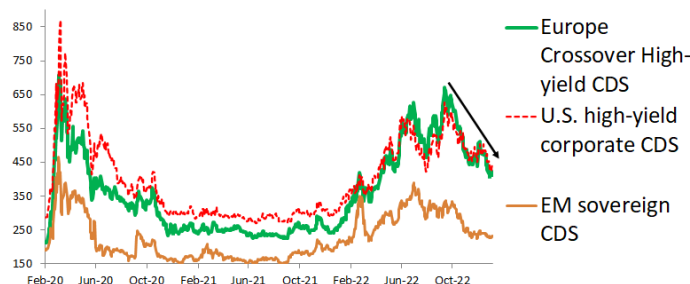
Source: Goldman Sachs, Goldman Sachs Global Investment Research



Euro area

Equities (-1.2%) fell as risk sentiment deteriorated on a combination of disappointing US data with continued hawkish rhetoric by the Fed and ECB. The euro (+0.3%) gained. Credit spreads have sharply tightened in Europe, US, and emerging markets, but some contacts believe that a US recession could lead to a reversal across regions.

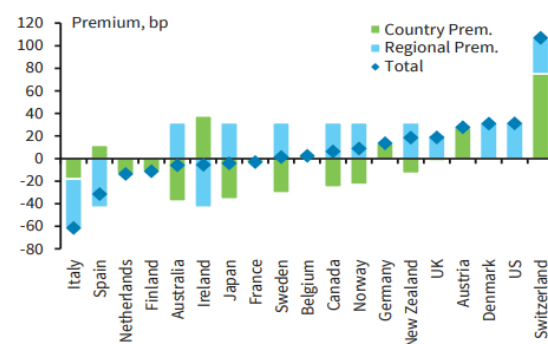
Global CDS Credit spreads (Corporate and EM, bps)



Note: Europe Crossover high-yield index comprises 75 equally weighted credit default swaps on the most liquid sub-investment grade European corporate entities.
U.S. high-yield is composed of 100 non-investment grade corporates (B and BB).
EM CDS covers 18 sovereign issuers.
Source: Bloomberg, and IMF staff

European bank shares (-1.3%) also fell. Analysts have generally been optimistic on the prospects of European banks, citing strong levels of capital and low NPLs, as well as an income boost from higher interest rates. **Nevertheless, analysts at Barclays warn that spreads on Italian banks do not appear to compensate for wider political or country-specific risks.**

Minimal Italy premium in model



Based on a cross-sectional regression of senior bonds in the Euro Aggregate Corporate Index, ex non-fins and real estate. Combined premiums for senior preferred and T3 bonds.
Source: Bloomberg, Barclays Research

European rates are 3–5 bps higher as ECB GC members continue to make the case for multiple hikes of 50 bps. Dutch central bank governor Knot, for example, sees no signs of underlying inflation abating and noted the possibility of multiple 50 bps hikes in future.

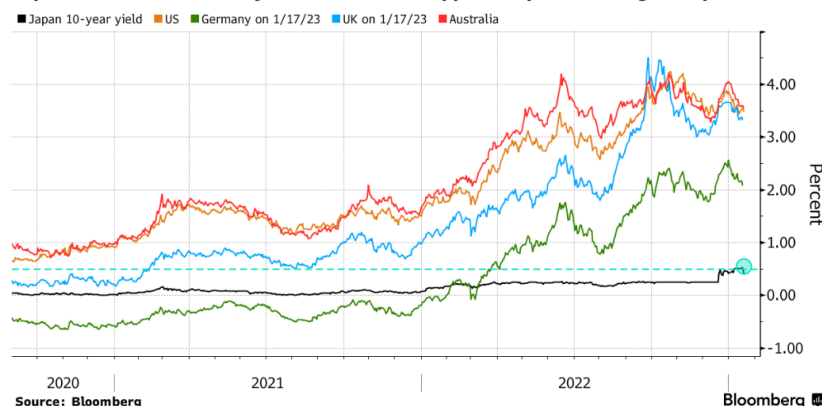
Norway

The krone (-0.7%) fell after the Norges Bank left its policy rate unchanged at 2.75%, as expected, but signaled that it will most likely hike in March. Norges Bank is the first developed market central bank to go on hold (outside of the Bank of Japan), since central banks started a synchronized tightening cycle. **The Committee acknowledged that activity and core inflation had been higher than anticipated.**

Japan

Equities retreated -1%. Japan's trade deficit narrowed to -¥1.4 tn in December (previous: -¥2 tn), amid a partial yen recovery and cheaper energy import prices. However, Japan's annual trade deficit reached a record -¥20 tn (\$155 bn) in 2022. **10-year yields fell marginally.** Foreigners turned net buyers of Japanese stocks (+¥0.5 tn, previous: -¥0.3 tn) and intensified Japanese bond selloffs (-¥3.9 tn, previous: -¥0.3 tn) over the week ended January 13. **The Japanese yen strengthened a further +0.5%.**

Japan's benchmark bond yields have been capped despite rise in global peers



New Zealand

PM Ardern unexpectedly announced her resignation, and is set to step down on February 7. The Labour Party will choose Ardern's successor on January 22, with Ardern to officially step down but to remain as a member of parliament through April 2023. **Equities fell marginally (-0.3%), the New Zealand dollar depreciated -0.9% and 10-year yields dived -15.2 bps.**

Emerging Markets

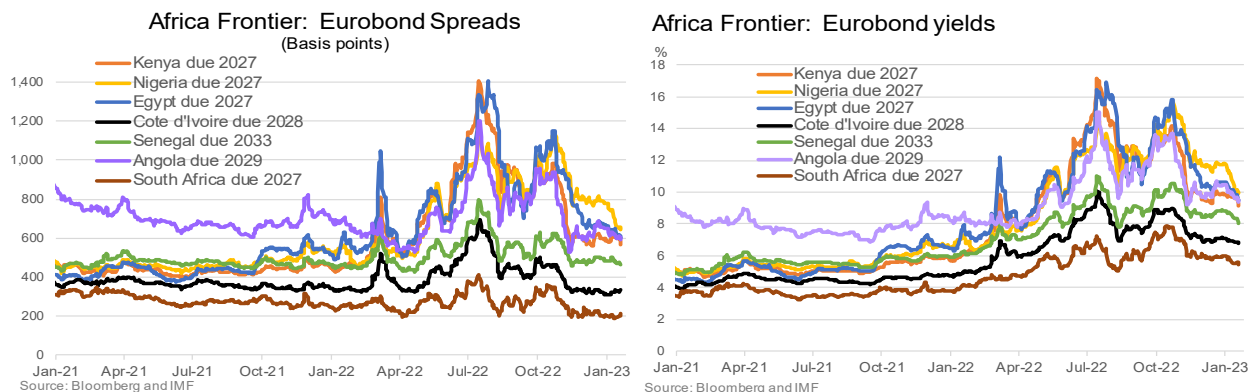
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Asian equities declined -0.3% on net. Vietnam (+0.9%) and Indonesia (+0.8%) outperformed. **Asian currencies were mixed.** South Korea won strengthened +0.4%, followed by Malaysian ringgit (+0.3%), Thai baht weakened -0.6%. **10-year yields mostly fell.** Malaysia declined -21bps after its central bank surprisingly kept rates steady; Singapore fell -8.4 bps. **Bank Indonesia (BI)** expectedly raised the 7-day reverse repo rate +25 bps to 5.75% and said its rate hikes so far are adequate to contain inflation, which has slowed earlier than expected. In **Hong Kong SAR**, chief executive Lee announced an end to mandatory quarantine requirements for COVID-positive cases from January 30. **Equity and bond markets are down in EMEA, while currencies are mixed.** All equity markets are down with the exception of Türkiye (+0.9%). The Polish Zloty and the Romanian Leu are strengthening (+0.27% to 4.7/euro and +0.15% to 4.93/euro respectively), but other currencies are weakening vs. their reference currencies. Yields on local bonds in central and eastern Europe are broadly flat, but Polish yields are up 14 bps to 5.94%. Serbia is coming to markets to issue 5Y and 10Y eurobonds in dollars in benchmark size, after more than a year away from international markets. Bloomberg reports that the bonds may price today. **The Turkish central bank kept rates on hold at 9%,** as expected. **Equity markets in Latam mostly traded higher,** except Argentina, while currencies were mixed on Wednesday. Chile outperformed (1.0%), followed by Brazil (0.7%). The Brazilian real (-1.5%), the Mexican peso (-1.2%), and the Chilean peso (-0.9%) depreciated, while the Colombian peso appreciated (0.7%) against the dollar.

Frontier markets

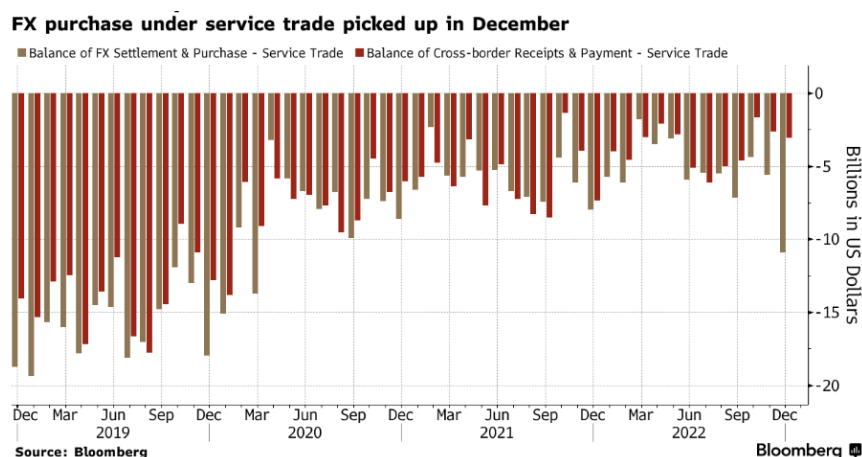
Eurobond spreads for EMEA frontier markets have nearly halved since the summer. Spreads on Egypt and Kenya Eurobonds reached 1400 bps in July and are now at around 600 bps, still higher than their 2021 levels. Spreads on Cote d'Ivoire and Senegal, which held up better during the summer stress

episode are now back at their 2021 level. Of course, after the increase in US rates, yields are above their 2021 levels in all countries. In the context of the large hard currency bond issuance in Central and Eastern Europe since the start of the year, markets are pondering when EMEA Frontier markets will next try to issue another bond, after none were issued last year. In Asia, Mongolia issued a 5Y bond in dollars at 8.95% last week, mostly to repurchase its bonds due in 2023 and 2024.



China

Equities firmed (CSI 300: +0.6%). An increasing number of economists have upgraded their 2023 growth forecasts for China, citing reopening optimism, Bloomberg notes. On **December data releases**, foreign direct investment into China slumped -29% y/y in December (previous: -33%), while net foreign currency purchases for service trade surged to a nine-month high of \$10.9 bn. Separately, Bloomberg estimate that **foreign funds offloaded a record 616 bn yuan (\$91 bn) of China's onshore bonds in 2022**. This was the first annual outflow since 2014 when the nation started reporting holdings and was driven mainly by a wide China-US yield gap. **The yuan weakened slightly (onshore: -0.4%, offshore: -0.2%), while 10-year yields were little changed.**



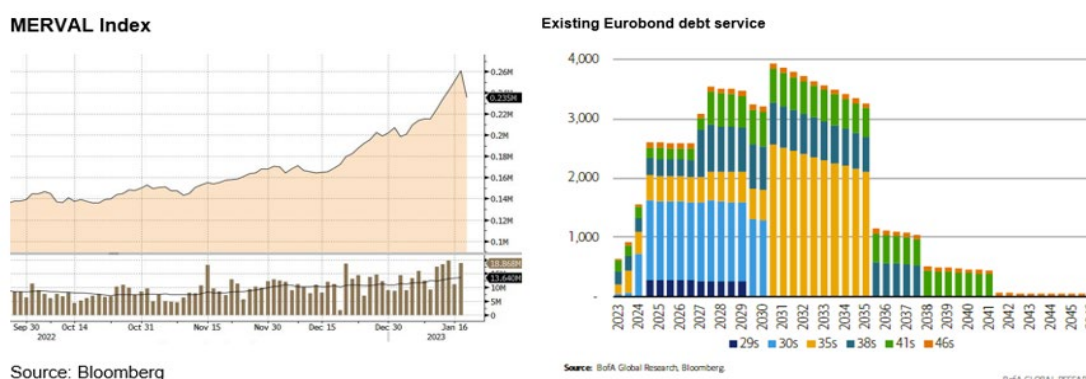
Malaysia

Bank Negara Malaysia (BNM) surprisingly left its benchmark rate unchanged at 2.75% (consensus: +25 bps to 3%). The bank noted that monetary policy remains accommodative and argued that a pause would allow its assessment of impacts from past rate hikes. BNM now expects Malaysia's 2022 growth to exceed its previous 6.5–7% forecast range, but sees moderated growth for 2023 due to a slowing global economy. Further, BNM sees moderated but still-elevated inflation for 2023. **Equities were little changed, the ringgit strengthened +0.3%, and 10-year yields fell -21 bps.**



Argentina

The primary stock market index in Argentina dropped 9.7% on Wednesday following the government's announcement of a bond buyback program earlier in the morning, while Eurobonds rallied. Analysts argue that Argentina's capacity to pay would not be significantly impacted by buyback, as the \$1 bn USD-denominated sovereign debt buyback amount is small compared to the \$112 bn USD bonds outstanding. Moreover, since the bonds are amortizing bonds, debt service would not be relieved very soon, while there are significant jumps in debt service in 2024-2025. Some investors are also worried about the financing of this program due to the low net international reserves and a deterioration of the trade balance.





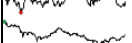

















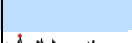







Colombia

Colombian sovereign yields increased across the curve for the second consecutive day. Following the increases of 41 bps at the 10-year tenor and 44 bps at the 30-year tenor on Tuesday, the country's sovereign yields continued to trend up on Wednesday, with the 5-year tenor increasing by 29 bps. Moderation in activity indicators suggesting a continued economic slowdown amid a tightening macro policy mix could be the reason. The coincident activity indicator decreased slightly in November.

This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

1/19/23 12:39 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3929	-1.6	0	3	-13	2	-7
Europe		4102	-1.7	-1	8	-4	8	3
Japan		26405	-1.4	0	-1	-5	1	0
China		4156	0.6	3	9	-14	7	-10
Asia Ex Japan		70	-0.6	0	8	-16	8	-12
Emerging Markets		41	-0.7	0	8	-17	8	-14
Interest Rates			basis points					
US 10y Yield		3.39	1.6	-5	-20	152	-49	139
Germany 10y Yield		2.07	4.2	-9	-14	208	-51	184
Japan 10y Yield		0.44	-1.8	-7	19	30	2	24
UK 10y Yield		3.34	2.2	0	-17	208	-34	186
Credit Spreads			basis points					
US Investment Grade		148	-0.4	-7	-9	31	-11	5
US High Yield		447	9.4	0	-29	106	-33	41
Europe IG		81	3.4	3	-17	28	-9	10
Europe HY		426	15.5	17	-86	164	-48	74
Exchange Rates			%					
USD/Majors		102.21	-0.1	-1	-2	7	-1	6
EUR/USD		1.08	0.2	0	2	-5	1	-4
USD/JPY		128.5	-0.3	-1	-6	12	-2	12
EM/USD		50.8	-0.3	0	2	-5	2	-4
Commodities			%					
Brent Crude Oil (\$/barrel)		84.6	-0.5	1	6	7	-2	0
Industrials Metals (index)		174	-0.9	3	8	-4	5	-7
Agriculture (index)		68	0.2	3	3	8	-1	-3
Implied Volatility			%					
VIX Index (% change in pp)		21.5	1.1	0.4	-1.0	-2.4	-0.2	-9.6
US 10y Swaption Volatility		118.9	1.3	4.6	-2.6	35.5	-6.8	24.6
Global FX Volatility		10.3	0.0	-0.6	0.5	3.1	-0.4	2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		198	0.9	7	-16	23	-8	-42
Italy		176	2.2	-8	-42	41	-38	5
Portugal		86	-0.4	-5	-15	24	-16	-6
Spain		96	1.5	-3	-13	26	-14	-8

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

Emerging Market Financial Indicators

Last updated: 1/19/2023 12:46 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+)= EM appreciation						% p.a.							
China		6.79	-0.4	-0.8	3	-6	2	-7		3.2	-1.0	8	13	46	15	36
Indonesia		15104	-0.1	1.5	3	-5	3	-5		6.6	-8.2	-12	-25	21	-31	14
India		81	-0.1	0.2	2	-9	2	-8		7.4	-7.1	-4	11	104.1	-10	
Philippines		55	-0.1	1.2	1	-6	2	-6		6.0	-5.0	-10	-5	145	-5	98
Thailand		33	-0.6	1.0	5	0	5	-2		2.4	-6.5	-11	-6	26	-19	22
Malaysia		4.31	0.2	1.2	3	-3	2	-3		3.7	-22.8	-26	-29	-1	-34	4
Argentina		183	-0.2	-1.2	-5	-43	-3	-41		84.3	85.7	49	-35	3571	-395	3630
Brazil		5.22	-0.8	-2.3	1	4	1	-4		12.6	12.0	26	-75	102	6	111
Chile		829	-0.6	-1.2	7	-2	3	-5		5.1	1.5	13	-6	-70	-21	-79
Colombia		4697	0.8	0.8	2	-14	3	-17		9.6	0.0	22	-8	201	-23	168
Mexico		19.00	-0.6	-0.8	4	8	3	7		8.1	-12.7	-2	-22	43	-61	28
Peru		3.8	0.1	-1.4	0	1	-1	-3		8.0	-0.5	24	-6	182	2	199
Uruguay		39	0.8	1.4	-1	14	2	8		10.4	0.0	-28	-16	175	-28	225
Hungary		366	-0.2	0.0	4	-14	2	-13		7.4	10.0	-36	-155	261	-221	258
Poland		4.35	0.5	-0.6	2	-8	1	-7		5.1	13.0	-1	-82	128	-103	121
Romania		4.6	0.5	0.0	2	-4	1	-4		7.2	-6.6	-3	-60	224	-46	208
Russia		69.1	0.0	-1.3	-1	10	7	18		11.8	0.0	-2	101	214	-6	62
South Africa		17.3	-0.9	-3.0	0	-11	-1	-12		8.8	10.5	19	-19	108	-40	118
Turkey		18.80	-0.2	-0.1	-1	-29	0	-26		10.1	8.0	30	48	-1291	30	-1229
US (DXY; 5y UST)		102	-0.2	-1.0	-2	7	-1	6		3.45	1.5	-8	-26	181	-55	155

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)			YTD	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
									basis points							
China		4156	0.6	3	9	-14	7	-10		188	3	1	-9	11	-20	
Indonesia		6820	0.8	3	1	3	0	-1		166	-6	0	-11	26	-19	
India		60858	-0.3	2	-1	2	0	6		153	-2	11	15	11	-1	
Philippines		7062	-0.5	3	9	-2	8	-4		129	-16	3	22	32	-8	
Thailand		1688	0.2	0	5	2	1	0		0	0	0	0	0	0	
Malaysia		1496	0.0	1	2	-2	0	-6		108	1	8	-10	8	-25	
Argentina		235372	-9.7	5	39	182	16	158		1845	-172	-338	-37	-360	108	
Brazil		112228	0.7	0	7	4	2	0		274	-5	-14	-45	0	-57	
Chile		5230	0.0	1	0	17	-1	20		144	-10	0	-4	12	-30	
Colombia		1338	0.3	0	10	-15	4	-11		369	-14	-26	22	-3	-23	
Mexico		53219	0.2	0	7	1	10	4		358	-19	-33	15	-23	-12	
Peru		22892	0.4	1	9	-2	7	-2		195	-3	1	38	15	5	
Hungary		46415	-0.9	1	3	-13	6	-3		242	-8	14	122	20	89	
Poland		60231	-1.5	-2	7	-15	5	-4		116	10	29	101	43	100	
Romania		12068	-0.1	-2	0	-8	3	-9		268	-7	-1	73	13	36	
Russia		2168	-1.3	-1	2	-37	1	-30		3411	-577	938	3228	3234	2897	
South Africa		79184	-0.9	1	8	4	8	6		363	10	-39	-3	-4	-26	
Turkey		5417	0.6	9	0	165	-2	169		513	20	50	-50	73	-50	
Ukraine		507	0.0	-1	-2	-3	-2	-2		4149	-27	137	3149	70	2676	
EM total		41	0.0	0	8	-17	8	-14		371	-16	-12	-44	-4	-87	

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

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