



- US formally hit debt limit on Thursday, but markets remain sanguine ([link](#))
- Lagarde “stay the course” monetary policy mantra ([link](#))
- BoE Governor sees UK heading for long but shallow recession ([link](#))
- Japan core inflation reaches 4% for the first time in four decades ([link](#))
- Polish yields fall after wage growth prints below expectations ([link](#))
- Bulgaria and Serbia issue Eurobonds ([link](#))
- Unrest in Peru threatens nearly 2% of the global copper supply ([link](#))
- **Special Feature: Latest Update on EM Capital Flows (attached)**

[Mature Markets](#)





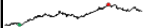




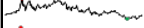

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Core sovereign yields continue to increase amid hawkish talk

Trends that marked the start of 2023 show some signs of unravelling as investors grapple to assess recession risks against a backdrop of hawkish ECB and US Fed talk, incoming economic data releases and corporate earnings results. Core sovereign yields in Europe and the US continue to edge higher following commentary from Fed officials pointing to the need for interest rates to remain high, while ECB President Lagarde yesterday pushed against market expectations that the ECB could slow the pace of rate hikes. In contrast, BoE governor Bailey’s comments hinted that market interest rate expectations are more aligned with that of the BoE. Disappointing UK retail sales and consumer confidence data released this morning seem to confirm Bailey’s message that the UK is heading for a long but shallow recession. Nevertheless, European equities are trading in the green this morning following the Stoxx 600’s worst daily performance yesterday since the ECB meeting in December, while US futures also edged higher. The dollar is trading modestly stronger after recent declines, with the Japanese yen weakening after Japan’s December core inflation increased to 4%.

Key Global Financial Indicators

Last updated: 1/20/23 12:09 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3899	-0.8	-2	2	-13	2
Eurostoxx 50		4111	0.4	-1	8	-4	8
Nikkei 225		26554	0.6	2	0	-4	2
MSCI EM		41	0.8	1	9	-17	8
Yields and Spreads			bps				
US 10y Yield		3.43	4.3	-7	-25	163	-44
Germany 10y Yield		2.14	7.7	-3	-16	217	-43
EMBIG Sovereign Spread		446	-1	-16	-19	60	-6
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.9	0.0	-1	2	-5	2
Dollar index, (+) = \$ appreciation		102.3	0.2	0	-2	7	-1
Brent Crude Oil (\$/barrel)		86.3	0.2	1	8	-2	1
VIX Index (% change in pp)		20.5	0.0	2	-1	-5	-1

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

Mature Markets

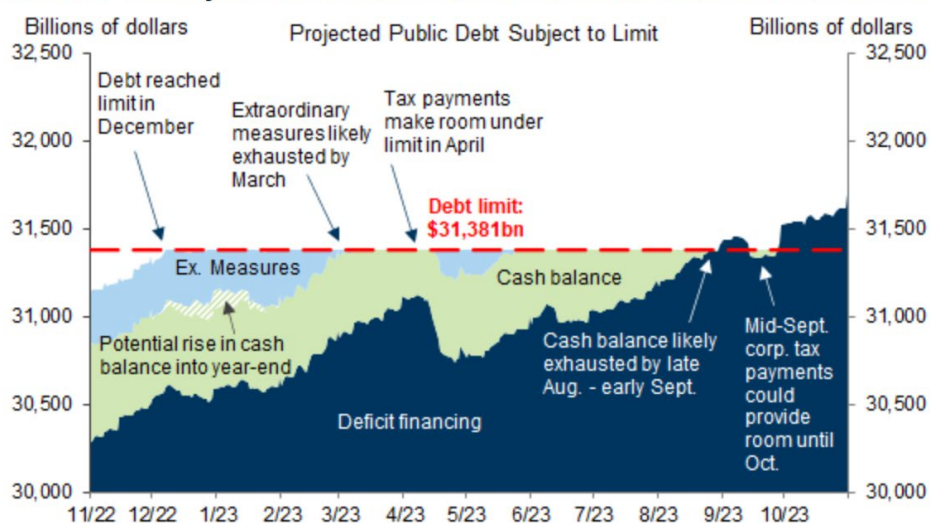
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United States

US equities pared larger intraday losses to end Thursday 0.8% lower and bring YTD gains back below 2%. Treasuries sold off, with yields up 2–3 bps across the curve, leaving the 10-yr about 50 bps lower year to date. Markets largely shrugged off somewhat dovish comments from Federal Reserve Bank vice chair Brainard, an indication that comments may have merely confirmed the dovish trend already baked into market pricing this year. In particular, Brainard acknowledged that risks have become more two-sided, policy is already restrictive, the lagged effects of the cumulative tightening, and placed less emphasis on a wage price spiral. In a cautious note however, she highlighted that deflationary core goods prices are likely to flatten out in the absence of new shocks.

US formally hit the debt limit on Thursday, but markets remain sanguine with long road ahead. The Treasury Department began taking extraordinary measures on Thursday, though with the benefit of April and September tax payments, the actual default deadline is unlikely to occur until September or October. Measures include paying down intra-governmental, non-marketable debt, such as postponing reinvestment in certain retirement funds. Most analysts expect the legislative fight to extend right up until the deadline. Market fears have typically been reflected in a 'kink' in the term structure of VIX options, or divergence in Treasury bill pricing around the deadline, though the lack of clarity and the long timeframe has forestalled any major impacts so far. **Analysts at Jefferies expect the first possible impact to be felt in June through lower Treasury bill issuance as the government looks to avoid disruptions to regular coupon issuance.**

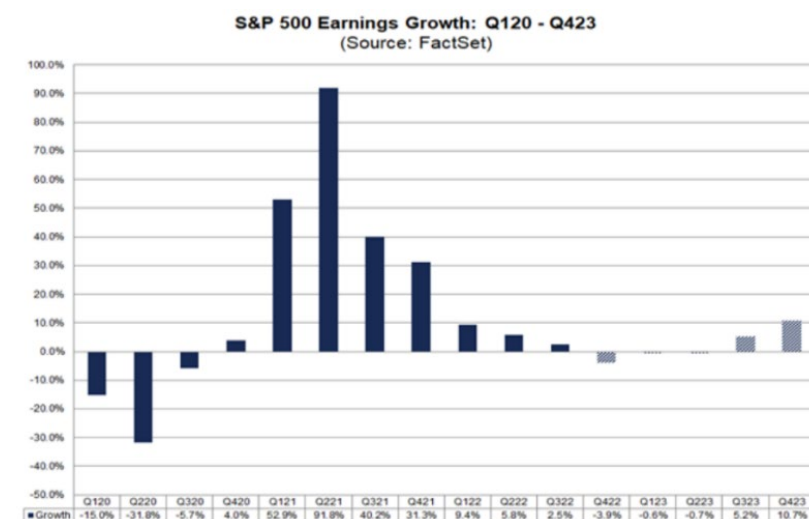
Exhibit 1: Treasury Hits the Debt Limit Soon but Will Have Room to Borrow Until August 2023



Source: Department of the Treasury, Goldman Sachs Global Investment Research

Downward earnings revisions have continued, but the 2023 outlook remains relatively benign.

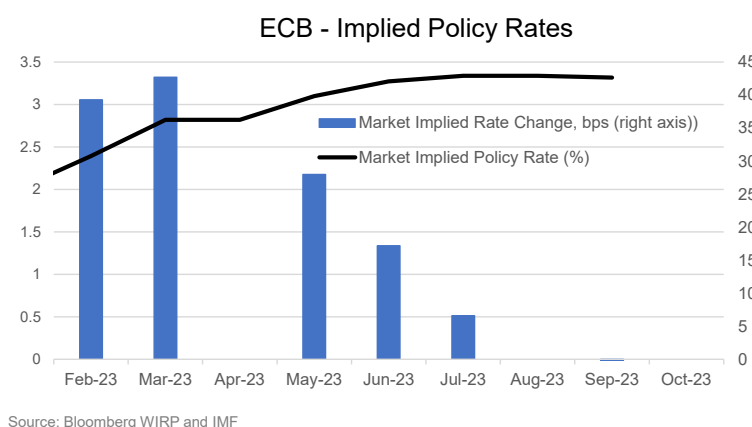
Current estimates see Q4 earnings for the S&P500 falling 3.9% y/y, the first decline since Q32020, with negative growth continuing through Q1 (-0.6%) and Q2 (-0.7%). That would be the fourth three quarter decline since 2015. However, while negative revisions to 2023 have continued (-4% YTD) they remain relatively modest and are tracking within one standard deviation of historical ranges through the first half of January. Downward revisions are largest in communications, consumer discretionary, and materials. Overall, analysts estimate expect the index to return to positive y/y growth by Q3, bringing the full year EPS growth outlook to 4.6%.



Euro area

European markets are mixed this morning, with equity markets marginally up and bonds down. Equity markets are slightly up throughout the region, with the Stoxx Europe 600 up 0.4%. In currencies, the euro is broadly unchanged at 1.08/\$. Bond yields are up for the second consecutive day, with German 10y bund yields up 7 bps to 2.13%, and Italian spreads are up 5 bps to 177 bps.

ECB president Lagarde continues to push against market expectations that the ECB could slow the pace of rate hikes. Yesterday in Davos, she warned that further big rate hikes still lay ahead, and said that “Headline, core, sticky, inflation, whichever way you look at it, is way too high. We shall stay the course until we have moved into restrictive territory for long enough so that we can return inflation to 2%”. She hinted that the ECB intends to go further than the 100 bps in hikes priced the markets by March and said that markets would be well-advised to revise their position. President Lagarde repeated this morning in Davos that “stay the course” is her policy mantra for monetary-policy purposes.

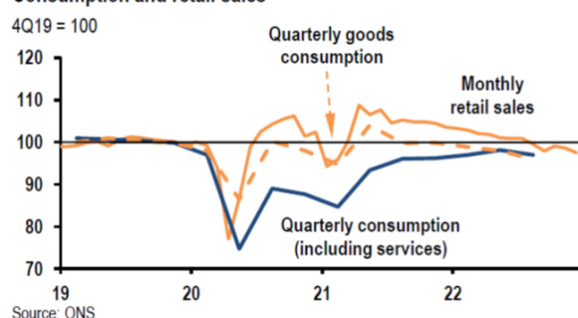


Minutes of the ECB’s December meeting revealed a split but hawkish governing council. The vote for a 50 bps hike in December was split, with a “large number” of members arguing for a 75 bps hike. The compromise was for a 50 bps hike with strong hawkish guidance. There were also some members who wanted a faster move on quantitative tightening. The minutes also show that the upward revision to inflation projections were largely reflecting judgement on the speed and extent of the pass-through of costs to prices, as well as the assumptions made concerning fiscal plans.

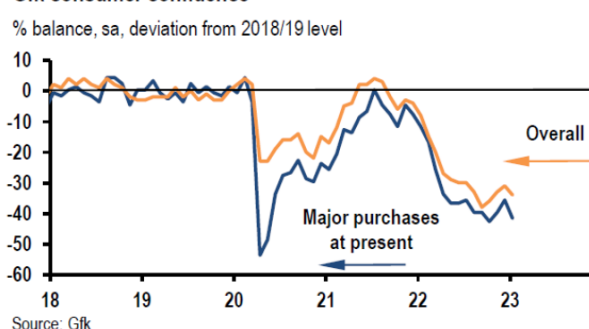
United Kingdom

Disappointing retail sales and consumer confidence data in the UK this morning seem to confirm BoE governor Bailey's message yesterday that the UK is heading for a long but shallow recession. Retail sales ex auto fuel fell 1.1% m/m in December (+0.4% expected), bringing the y/y decline to 6.1% (vs -4.4% y/y expected). Consumer confidence fell to -45 in January (-40 expected) from -42 in December. Yesterday, governor Bailey pondered that the BoE may weigh when to halt its interest rates hike as pressure on prices and labor market and pay may be easing. He said that two months of declines in the UK's headline inflation rate is the beginning of a sign that a corner has been turned, and expect inflation to fall quite rapidly in 2023, probably starting in the late spring, largely due to energy pricing. While the BoE remains concerned about inflationary pressures in the labor market, Bailey noted some signs that rapid wage growth may be about to cool. Governor Bailey also suggested that market interest rate expectations are now more closely aligned with the BoE's thinking on where borrowing costs peak. **Investors are betting on another 100 bps of rate hikes to take the terminal rate to 4.5% by June, including a 50 bps hike in February.**

Consumption and retail sales



GfK consumer confidence

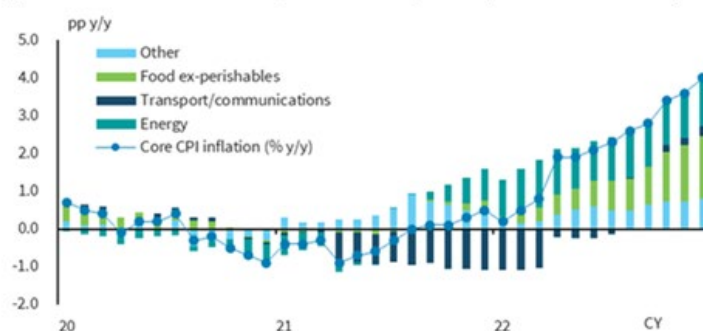


Source: JP Morgan

Japan

Inflation excluding fresh food hit 4%/y/y in December, for the first time in more than four decades. The result matched expectations and was led by further gains in energy and food costs. Core inflation excluding energy rose to 3%/y/y, the highest level since 1991. Upward price pressure is expected to ease as government subsidies help lower energy costs in the coming months. The latest Bank of Japan (BoJ) inflation outlook points to 3% for the current fiscal year and below 2% for the next two years. The Yen weakened against the dollar (-0.8%) while JGB yields eased. Following the monetary policy meeting earlier this month and the BoJ's upwardly revised inflation forecasts, **Goldman Sachs economists now anticipate that the BoJ will in Q2 adjust its yield curve control to target yields with a shorter maturity, such as 5y yields.**

Figure 2: Inflation becoming more widespread (core CPI inflation, factor contributions)



Emerging Markets [back to top](#)

Asian equities gained 0.8% on net. Sri Lanka (+2.75%) and Vietnam (+0.9%) outperformed. **Asian currencies were mostly stronger while 10-year yields were mostly up.** Chinese banks maintained their benchmark lending rates for a 5th straight month, with 1-year and 5-year loan prime rates at 3.65% and 4.3%, respectively. This follows PBOC's decision earlier this week to keep the 1-year policy rate unchanged. **Markets were mixed in EMEA.** The South African rand was little changed against the dollar after a drop of 2.8% this week. The Turkish lira (-0.2%) edged lower after the central bank left its policy rate unchanged at 9% yesterday. The Hungarian forint (-0.3%) and equities (-0.6%) underperformed but swap yields ticked lower after collapsing over 200 bps so far this year. **Latam markets were mixed on Thursday.** Brazil outperformed (+0.6%), followed by Peru (+0.4%) and Mexico (+0.3%), while others closed in the red. On currency markets, the Colombian peso led the appreciation (+0.6%), and the Brazilian real also strengthened (+0.1%), while the Mexican peso (-0.6%), the Peruvian sol (-0.5%), and the Chilean peso (-0.3%) depreciated. CDS spreads widened in all Latam countries. On the data front, Brazil's unemployment printed at 8.1% in November, from 8.3%, in line with market expectations.

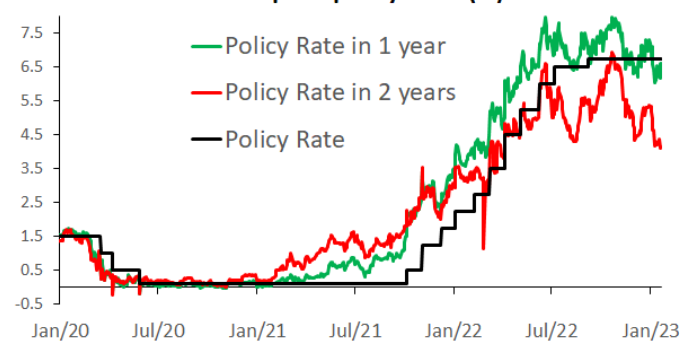
Eurobond Issuance

Sovereign Eurobond issuance rose \$3.4 bn to \$41.9 bn year-to-date this week, up \$29.9 bn versus 2022 and around 44% of 2022's gross sovereign supply. Following the subpar year for issuance in 2022, more issuance is expected in coming weeks. **Morgan Stanley points out that new bonds have generally outperformed.** New investment-grade issues tightened by an average of 21 bps since issuance, with an average new issue concession of 25 bps. **This week, Bulgaria (BBB) issued €1.5bn due 2033 at a spread of 215 bps. Serbia (BB+) issued \$750m due 2028 at a spread of 285 bps and \$1 bn due 2033 at a spread of 340 bps, with spreads pricing below initial guidance.**

Poland

The zloty (+0.2%) outperformed and 10-yr bond yields fell around 5 bps after wage growth was substantially below expectations in December. December is a key month for Polish wages as it includes year-end bonuses. Gross wages grew 6.9% m/m (8.8% expected) or 10.3% y/y (13.1% y/y expected), which translates into sharp real wage losses with headline inflation running closed to 17%. **Contacts expect the central bank to leave its policy rate unchanged at 6.75% in the months ahead, with money markets starting to price cuts in a year.**

Poland: Current and implied policy rates (%)



Source: Bloomberg and IMF staff

Peru

Peruvian unrest threatens nearly 2% of the global copper supply. Protestors gathered in Lima on Thursday to demand the resignation of President Boluarte, as the biggest protest since the unrest following the ouster and arrest of former President Castillo. Mines in Peru have halted copper concentrate

transportation due to security concerns. The total production facing restriction is estimated to be almost \$4 bn worth of copper, according to Bloomberg. After China's reopening, copper prices have been on a bull run, while inventories stand at historically low levels. Goldman Sachs predicts a record price of \$11,000 a ton in the next 12 months.

A Strong Start




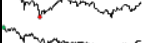

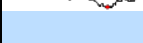



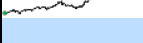









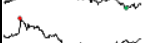

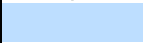



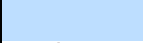

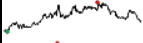
Copper trades above \$9,000 on China reopening optimism, low stocks



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

Last updated: 1/20/23 12:10 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3899	-0.8	-2	2	-13	2
Europe		4110	0.4	-1	8	-4	8
Japan		26554	0.6	2	0	-4	2
China		3265	0.8	2	6	-8	6
Asia Ex Japan		71	0.9	1	9	-16	9
Emerging Markets		41	0.8	1	9	-17	8
Interest Rates			basis points				
US 10y Yield		3.43	4.3	-7	-25	163	-44
Germany 10y Yield		2.14	7.6	-3	-16	217	-43
Japan 10y Yield		0.39	-5.5	-13	-2	24	-4
UK 10y Yield		3.34	6.6	-3	-26	212	-33
Credit Spreads			basis points				
US Investment Grade		149	1.6	-3	-9	32	-9
US High Yield		458	10.8	13	-21	116	-22
Europe IG		82	0.7	3	-16	29	-8
Europe HY		433	5.0	18	-72	171	-41
Exchange Rates			%				
USD/Majors		102.33	0.3	0	-2	7	-1
EUR/USD		1.08	-0.1	0	2	-4	1
USD/JPY		129.9	1.2	2	-1	14	-1
EM/USD		50.9	0.0	-1	2	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		86	0.2	1	8	-2	0
Industrials Metals (index)		176	-0.5	3	8	-5	6
Agriculture (index)		67	-0.1	0	0	6	-2
Implied Volatility			%				
VIX Index (% change in pp)		20.5	0.0	1.7	-1.0	-5.1	-1.2
US 10y Swaption Volatility		118.2	0.7	2.3	-5.4	34.0	-7.5
Global FX Volatility		10.4	0.0	-0.5	0.1	3.2	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		199	0.3	2	-17	26	-7
Italy		176	5.0	-8	-41	43	-38
Portugal		86	3.1	-5	-18	24	-15
Spain		95	2.3	-5	-15	26	-14

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

Emerging Market Financial Indicators

Last updated: 1/20/2023 12:12 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		6.78	-0.1	-1.2	3	-6	2	-7		3.2	0.1	5	12	47	15	36
Indonesia		15075	0.2	0.5	4	-5	3	-5		6.6	-0.6	-6	-28	21	-31	13
India		81	0.3	0.3	2	-8	2	-8		7.4	5.1	2	5	109.1	-5	
Philippines		55	0.2	0.7	1	-6	2	-6		6.0	0.0	-5	-5	140	-5	98
Thailand		33	0.7	0.5	6	0	5	-2		2.5	2.0	-3	-13	29	-17	24
Malaysia		4.29	0.5	1.2	3	-2	3	-2		3.7	1.1	-20	-32	4	-31	6
Argentina		183	-0.2	-1.2	-5	-43	-3	-41		85.1	84.2	95	-300	3593	-311	3714
Brazil		5.17	0.2	-1.2	1	5	2	-3		13.9	131.9	170	54	251	134	240
Chile		824	0.3	-0.5	8	-3	3	-4		5.2	3.0	17	-1	-53	-14	-71
Colombia		4670	0.6	0.3	2	-14	4	-16		9.6	0.0	37	8	219	-14	176
Mexico		18.98	0.1	-1.1	4	8	3	7		8.1	2.2	8	-20	50	-59	30
Peru		3.9	-0.5	-1.9	-1	0	-1	-3		8.0	0.7	8	-5	190	5	202
Uruguay		39	0.3	1.3	-1	14	2	8		10.4	0.0	-28	-16	164	-28	225
Hungary		366	-0.5	0.1	3	-14	2	-13		7.7	30.0	21	-155	297	-191	288
Poland		4.35	0.2	-0.4	1	-8	1	-7		5.2	6.5	-8	-80	138	-100	124
Romania		4.6	-0.2	0.3	1	-4	1	-4		7.2	1.6	3	-47	224	-44	209
Russia		68.8	0.8	0.3	2	11	8	19		11.7	39.9	-11	89	206	-17	51
South Africa		17.2	0.2	-2.4	0	-12	-1	-12		8.8	1.7	14	-27	111	-40	118
Turkey		18.80	-0.3	-0.1	-1	-29	-1	-27		10.1	0.0	-20	-31	-1251	29	-1230
US (DXY; 5y UST)		102	0.3	0.1	-2	7	-1	6		3.53	4.6	-8	-26	194	-48	163

	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		4182	0.6	3	9	-13	8	-10		187	0	1	-11	10	-21	
Indonesia		6875	0.8	4	2	4	0	-1		157	-24	0	-27	17	-28	
India		60622	-0.4	1	-2	2	0	6		147	-10	6	5	5	-7	
Philippines		7057	-0.1	2	9	-3	7	-4		122	-25	6	8	25	-15	
Thailand		1677	-0.7	0	5	1	1	-1		0	0	0	0	0	0	
Malaysia		1500	0.3	0	2	-2	0	-5		107	2	6	-14	7	-26	
Argentina		235180	-0.1	0	36	176	16	157		1945	-64	-225	73	-260	208	
Brazil		112922	0.6	1	6	4	3	1		275	-5	-15	-40	1	-56	
Chile		5208	0.0	1	-2	16	-1	19		142	-11	0	-8	10	-32	
Colombia		1333	-0.4	0	9	-14	4	-12		369	-10	-30	25	-3	-23	
Mexico		53383	0.3	0	6	2	10	4		358	-9	-36	16	-23	-12	
Peru		22973	0.4	0	8	-2	8	-2		197	7	2	39	17	7	
Hungary		46383	-0.7	1	2	-11	6	-3		239	-12	15	114	17	86	
Poland		60390	-0.3	-2	7	-14	5	-4		108	-3	26	91	35	92	
Romania		12107	0.1	-1	-1	-8	4	-8		267	-11	-1	65	11	35	
Russia		2163	-0.3	-2	2	-38	0	-30		3411	-577	938	3228	3234	2897	
South Africa		79470	0.0	0	9	4	9	6		369	2	-27	2	2	-20	
Turkey		5482	1.1	10	1	172	0	172		521	13	60	-41	81	-42	
Ukraine		507	0.0	0	-2	-3	-2	-2		4173	-25	145	3264	94	2700	
EM total		41	0.5	1	9	-17	8	-13		372	-15	-10	-41	-4	-86	

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

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