GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JANUARY 23, 2023

- **Hawkish ECB talk continue ahead of ECB meeting** (link)
- **US credit spreads tighten due to volatility decline and resilient corporate fundamentals** (link)
- **US housing sales slide, but mortgage loan market shows signs of recovery** (link)
- **Survey shows Eurozone now forecast to avoid recession in 2023** (link)
- **Japanese yen lower as Bank of Japan sees strong demand for 5-yr loan operation** (link)
- **Ghana cedi weakens on concerning debt developments** (link)

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Dollar slide continues

Prospects of a slowing of the pace of Fed hikes is helping push the dollar weaker, especially as ECB officials continue to push a hawkish message. Most recently, Fed governor Waller, generally considered a hawkish member, said on Friday that he favors a 25 bp increase at the next meeting. Markets are fully priced for a 25 bp increase for next week, with very little implied odds for a larger hike. Meanwhile, with the market pricing in further 50 bp increases for the ECB at each of the next two meetings, the euro has risen to its strongest level versus the dollar since April. Bloomberg's dollar index is now more than 10% below its September peak. Most emerging Asian markets are closed for the New Year holiday, but other emerging market currencies are mostly appreciating versus the dollar this morning. The Hungarian forint is a notable exception, following Fitch's action to lower the country's outlook from stable to negative while leaving the rating at BBB.

Key Global Financial Indicators

Last updated: 1/23/23 8:09 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		3973	1.9	0	3	-10	3	-6
Eurostoxx 50		4134	0.3	-1	8	-2	9	4
Nikkei 225		26906	1.3	4	3	-2	3	2
MSCI EM		42	1.5	2	10	-15	10	-12
Yields and Spreads					bps			
US 10y Yield		3.50	2.4	0	-24	174	-37	151
Germany 10y Yield		2.19	0.8	1	-22	225	-39	196
EMBIG Sovereign Spread		442	-4	-9	-23	60	-10	29
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		51.1	0.0	0	2	-4	2	-4
Dollar index, (+) = $ appreciation		102.0	0.0	0	-2	7	-1	6
Brent Crude Oil ($/barrel)		88.5	0.9	5	5	1	3	-9
VIX Index (%, change in pp)		20.1	0.3	2	-1	-9	-2	-11

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

In the week ahead, markets will be focused on key economic data releases from the US, including the first estimate of 4Q GDP (consensus: 2.7% q/q, saar) on Thursday and PCE deflator (5.0% y/y) on Friday. PMI in the US, Euro area, and the UK will be closely watched. On the monetary policy front, central banks in Canada (25 bp hike), Nigeria (50 bp), Thailand (25 bp), South Africa (50bp), and Colombia (100 bp) are expected to hike, while the central banks in Ukraine (hold), Chile (hold), and Hungary (hold), are likely to hold. There will be ECB speakers throughout the week. Elsewhere, it will be another busy week of earnings release. The Chinese market will be closed due to the New Year holiday.

Mature Markets

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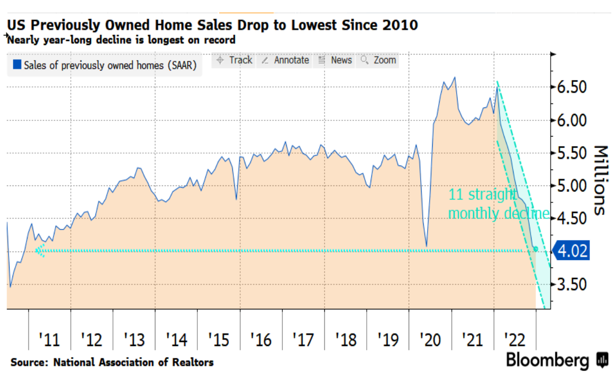
United States

On Friday, US stocks rose 1.9%, bringing YTD gains up to 3.5% amid positive risk sentiment, supported by comments from Fed officials. **US Treasury yields rose 8–9 bp across the curve**. On the last day before entering the blackout period, Fed officials reaffirmed that there is nothing to change the market's expectation that the Fed might slow the pace of rate hikes at the next meeting. Governor Waller, seen as one of the hawkish members, also backed slowing the pace of rate hikes to 25 bp at the next meeting, but he also emphasized that the Fed needs to maintain high rates for some time, which is in contrast to what markets currently price.

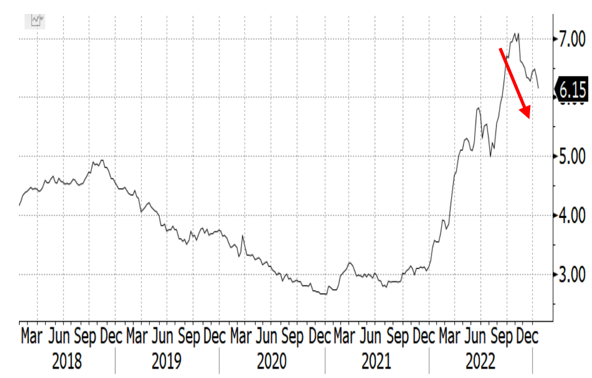
US housing sales data continued to slide, but the mortgage loan market showed signs of recovery. Existing home sales fell 1.5% in December to the slowest pace since 2010. Housing transactions fell for a record 11 months and dropped nearly 18% in 2022 from 2021, the largest annual slide since 2008. However, with mortgage rates gradually coming down, the MBA mortgage applications index soared in the second week of January, and mortgage origination increased notably this week, according to Bloomberg. The mortgage applications index shows increases in both purchases and refinancing. Agency MBS markets have started this year with a positive return, with the spread tightening more than ten bp.

US exsisting home sales



Source:Bloomberg

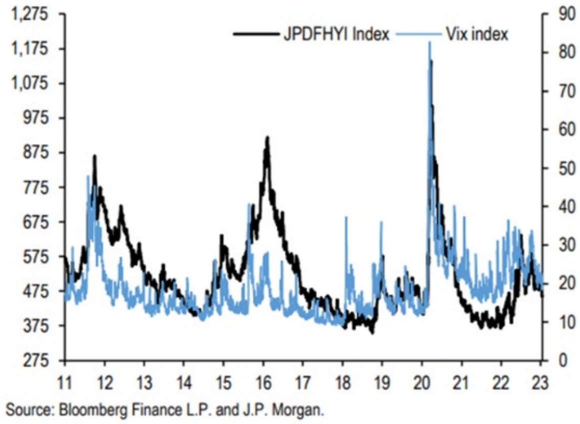
US 30-year Mortgage Rate



Source:Bloomberg

According to JPM analysis, recent credit spread tightening is supported by easing equity market volatility and somewhat resilient corporate fundamentals. US credit markets have performed well so far, with the US IG and HY spread tightening by 7 bp and 45 bp, respectively, this year. The moves look aligned against the decline in equity volatility, which is an important metric for credit markets. In addition, the wave of fallen angels—a bond that was once rated as investment grade but has fallen to junk-bond status—seen in early 2022 was not sustained afterward, partly because inflation has cushioned nominal incomes and debt servicing costs have remained low despite higher interest rates. Fund flows have also been supportive of ETFs and bond funds this year. However, headwinds appear ahead, as earnings growth is expected to weaken, and downgrade trends are on the rise, suggesting that corporate markets may have another challenging year.

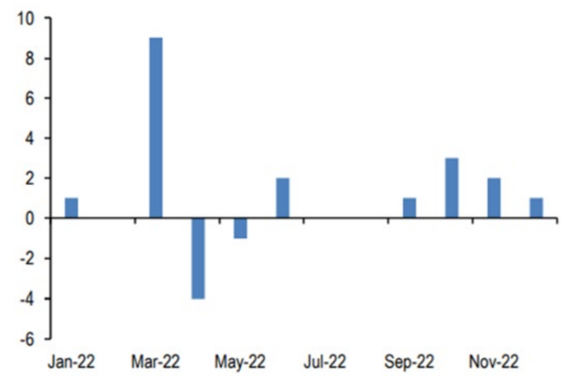
Figure 9: US HY Spread over USTs vs VIX



Source: Bloomberg Finance L.P. and J.P. Morgan.

Figure 4: Number of fallen angels by month

Last obs is for Dec'22.

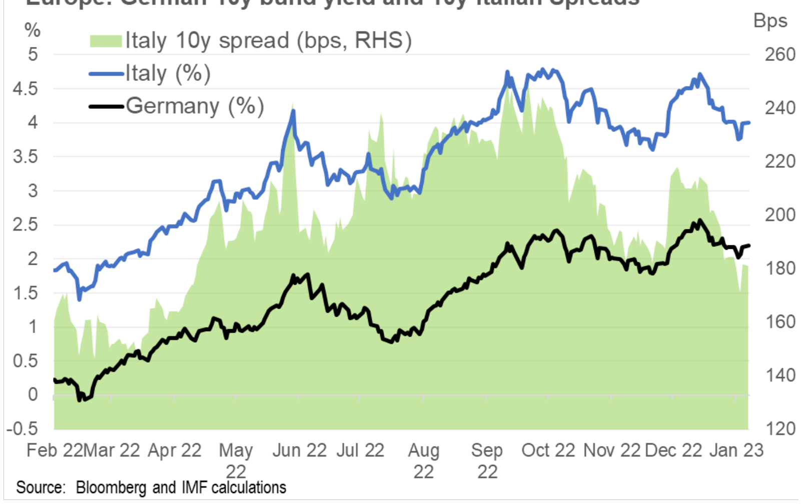


Source: J.P. Morgan.

Europe

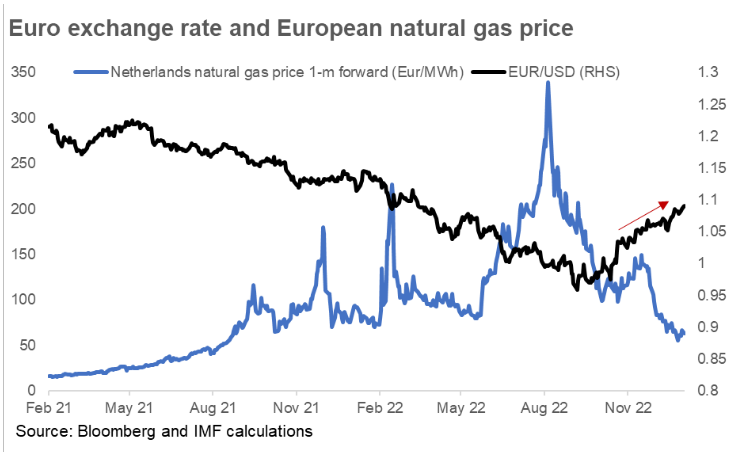
European equities started the week little changed, while sovereign bond yields continue to edge higher amid hawkish ECB talk. After easing since the start of the year, sovereign bond yields have increased since Thursday last week following hawkish comments by ECB officials, notably ECB President Lagarde. Since then hawkish talk have continued, wiith ECB Governing Council member Knot reiterating support for 50 bp hikes in each of the upcoming two ECB meetings, saying over the weekend that the time to step down the pace of tightening is “still far away”. GC member Rehn also noted “grounds for significant increases”. GC members Visco, Panetta and Holzmann, as well as ECB President Lagarde, are set to speak later today. A reuters poll show the vast majority of economists are expecting a 50 bp hike at the ECB meeting next week, followed by another 50 bp hike in March and a 25 bp hike in May to reach the terminal deposit rate of 3.25%. The majority of respondents saw upside risk to their terminal deposit rate forecasts. **This morning 10y bund yields were edging higher, now roughly 17 bp higher than last Wednesday but still almost 40 bp lower ytd**.

Europe: German 10y bund yield and 10y Italian Spreads



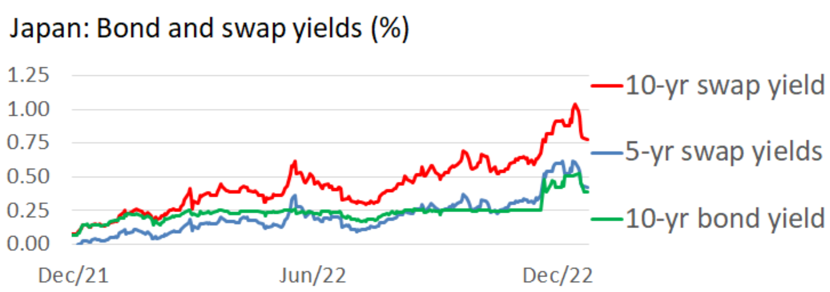
Source: Bloomberg and IMF calculations

Hawkish ECB talk also boosted the euro (+0.2%), with the currency trading around a nine-month high against the dollar. Together with hawkish ECB talk, the euro has also been supported by an improving macroeconomic outlook. **A recent survey by Consensus Economics showed that analysts no longer see the region entering a recession in 2023**, with sentiment boosted by easing energy prices, government support and the reopening of the Chines economy.



Japan

The yen (-0.4%) depreciated and swap yields ticked 1 bp lower after the Bank of Japan (BoJ) saw demand of ¥3 tn on its 5-yr loans to commercial banks, three times the ¥1 tn ($8 bn) offered. The average interest rate for the loans was reportedly 0.145%, compared to the 5-yr swap rate of about 0.38%. Last week, the BoJ announced that it will conduct pooled collateral operations, offering loans with durations of 5 years. **Some contacts believe that the 5-yr operations will be a first step in a likely move of the BoJ to start targeting 5-yr yields later in 2023 (rather than 10-yr yields).** According to minutes of the December BoJ meeting, Japanese government representatives at the Bank of Japan's December policy meeting requested a time-out as members discussed the need to clearly communicate that the tweak to yield curve control was not a step toward normalization. **The Ministry of Finance estimates that every 1-percentage-point rise in interest rates would boost debt service by ¥3.7 tn ($29 bn) to ¥32.5 tn ($251 bn) for the 2025/2026 fiscal year.**



Emerging Markets

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Major Asian equity markets are closed for Lunar New Year. Mainland Chinese markets will remain closed until Monday, January 30. **EMEA markets are fairly muted today.** Equity markets are up across the board, with Poland, Turkey and South Africa gaining more than 1%. Currencies are slightly weakening vs. their reference currencies, with the Hungarian forint losing 0.66% versus the euro after Fitch revised Hungary's outlook from stable to negative on Friday (Fitch rates Hungary as BBB). Yields on local bonds in central and eastern Europe are broadly unchanged. **LatAm markets closed mostly higher on Friday**. In Mexico, Chile, and Colombia equities were up 1.1%, 0.5% and 0.4%, respectively. Regional currencies also strengthened against the USD with the Colombian peso up 1.8%, the Chilean peso up 1.3%, and the Mexican peso appreciating 0.6%. In Brazil, where president Lula removed the country's army chief over failure to contain the protest in the nation's capital on January 8, markets were down as equities and the currency closed 0.8% and 0.6% lower. S&P maintains its ratings for Argentina and Colombia at CCC+ and BB+, respectively.

Emerging Markets

EM fund flows

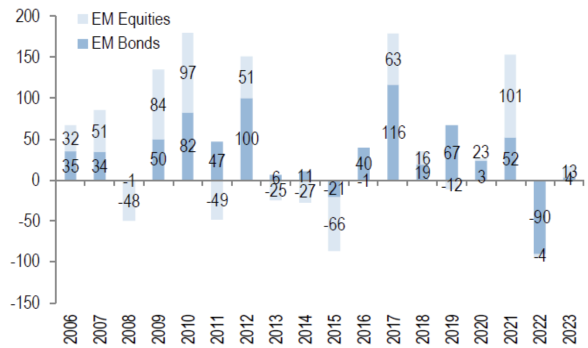
Fund flows into EMs gained momentum last week. While this was largely driven by a massive increase in equity fund flows, bond fund inflows also contributed to the momentum. Equity funds witnessed inflows of $8.1 bn (vs $4.7 bn in the week before), the largest flows seen in the last ten years. Within bond fund flows, hard currency bonds almost doubled to $1.9 bn (from $1 bn in the week before), while local currency bond flows were up 30% sequentially at $705 mn. Overall, EM bond fund flows recorded $2.6 bn, vs. $1.5 bn in the week before. With this, YTD EM fund flows stand at $16.6 bn, in comparison, full month Jan 2022 EM fund flows were recorded at $9.5 bn.

Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		10.7	16.6
	EM Bonds		2.6	3.8
	Hard Ccy		1.9	2.7
	Local Ccy^		0.7	1.1
	o.w. EM ex-China		0.7	1.1
	o.w. China		0.0	-0.1
	EM Equities		8.1	12.9
	US HG		4.8	12.8
	US HY		0.4	1.9
	Global Equities		-1.5	-9.2
	EM Bond and Equity ETFs		5.8	10.3
	EM Bond ETFs		1.4	2.0
	EM Equity ETFs		4.4	8.3
	Non-resident EM flows*		5.0	11.7

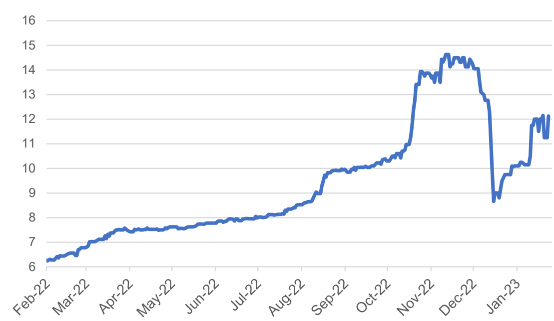
Exhibit 2: Annual EM bond and equity fund flows



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

Ghana

Ghana: Cedi/USD

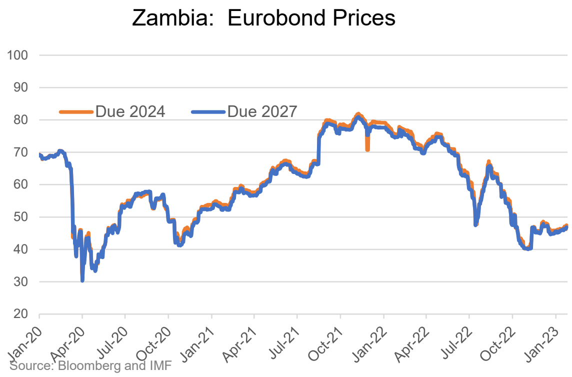


Source: Bloomberg and IMF

Bloomberg screens show a 7% weakening of the Ghana cedi (to 12.1/$) today, after a series of concerning developments regarding external and domestic debt developments. Given the low volumes passing through the FX market and the wide bid/ask offer, this is likely not a precise estimate, but the screens also show that the currency has weakened 24% over the last month, after staging a dramatic rally following Ghana's announcement that it would default on its external debt in mid-December. On Friday, S&P changed Ghana's external and domestic debt ratings to SD (Selective default), after Ghana failed to pay a coupon due on January 18 on its Eurobond due in January 2026. This was Ghana's first non-payment after the country announced it would default. Today, Joy FM, a local radio station, also said that the government will be revising its local debt voluntary exchange offer to propose a 5% coupon for new bonds due in 2023, vs zero previously, and that it would also exempt pensioners and persons above 60 in the debt swap. The domestic debt exchange is an important step to restore debt sustainability, and an essential component of a potential IMF supported program, on which Ghana and IMF staff reached staff level agreement on December 12 (for $3 bn under the Extended Credit Facility). The authorities have pushed the deadline for completing the exchange three times already and are aiming to conclude it by January 31. Last week, authorities failed to roll over the Cocobod bills which matured on Thursday (Cocobod is a public institution that markets Cocoa, one of Ghana's major exports). At a meeting on Friday, institutional investors and the bank of Ghana agreed to roll over their investments (for 6 months, at a yield of 30.8%). The Bank of Ghana and commercial banks have also agreed to allow banks to use Cocobod's deposits or placements held at the various institutions to be used to repay retail customers who may not want to roll over their cocoa bills (those bills were initially rolled over on Friday without seeking investors' consent).

Zambia

Talks to accelerate Zambia's external debt restructuring featured prominently in separate visits to the country today by US Treasury Secretary Janet Yellen and IMF Managing director Kristalina Georgieva. Zambia defaulted on its external debt in November 2020 and debt restructuring talks through the G-20 Common Framework are ongoing. On the occasion of these visits, Zambian President Hakainde Hichilema urged the country's creditors to agree to a quick debt restructuring to aid economy recovery efforts. Yellen said that it was critically important to restructure Zambia's debt, as it was a drag on the economy, and that she believes progress could be made after she held talks with China, who is Zambia's largest bilateral creditor. Reuters reports that IMF MD Georgieva said she hoped that Zambia will become the second nation after Chad to complete a debt treatment process under the Common Framework.



Pakistan

The central bank raised its policy rate by 100 bps to 17%, compared to inflation of around 24.5% yoy. Major cities suffered from electricity blackouts today as analysts warn about an acceleration in inflation.

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.

Global Financial Indicators

1/23/23 8:09 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3977	1.9	-1	3	-10	4	-6
Europe		4134	0.3	-1	8	-2	9	4
Japan		26906	1.3	4	3	-2	3	2
China		4182	0.6	3	9	-13	8	-10
Asia Ex Japan		72	1.6	2	11	-13	11	-9
Emerging Markets		42	1.5	2	10	-15	10	-12
Interest Rates					basis points			
US 10y Yield		3.50	2.4	0	-24	174	-37	151
Germany 10y Yield		2.19	0.8	1	-22	225	-39	196
Japan 10y Yield		0.39	0.5	-14	1	25	-3	19
UK 10y Yield		3.36	-1.7	-2	-28	219	-31	188
Credit Spreads					basis points			
US Investment Grade		148	-0.5	-2	-8	27	-11	5
US High Yield		452	-0.3	17	-16	92	-28	46
Europe IG		80	-1.6	0	-13	22	-11	8
Europe HY		421	-8.2	5	-54	139	-53	69
Exchange Rates					%			
USD/Majors		102.00	0.0	0	-2	7	-1	6
EUR/USD		1.09	0.2	0	2	-4	2	-4
USD/JPY		130.3	0.5	1	-2	14	-1	13
EM/USD		51.1	0.0	0	2	-4	2	-4
Commodities					%			
Brent Crude Oil ($/barrel)		88.5	0.9	5	5	12	3	3
Industrials Metals (index)		176	0.0	2	7	-4	7	-6
Agriculture (index)		67	-0.5	-1	-2	6	-3	-5
Implied Volatility					%			
VIX Index (%, change in pp)		20.1	0.3	1.8	-0.7	-8.7	-1.5	-10.9
US 10y Swaption Volatility		120.8	2.2	4.9	3.0	35.7	-4.9	26.5
Global FX Volatility		10.4	0.1	-0.4	-0.1	3.1	-0.3	2.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		200	0.8	2	-18	23	-5	-40
Italy		183	1.7	-1	-27	48	-31	12
Portugal		88	0.8	-2	-12	25	-14	-4
Spain		97	1.2	-2	-10	27	-12	-6

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

Emerging Market Financial Indicators

Last updated: 1/23/2023 8:10 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.79	-0.3	-1.4	2	-7	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	2.8	0	7	111.9	-2	
Philippines		55	-0.1	0.0	1	-6	2	-6		6.0	0.0	-5	-5	140	-5	98
Thailand		33	-0.2	1.0	6	1	6	-1		2.5	3.0	-3	-8	35	-14	27
Malaysia		4.29	0.5	1.2	3	-2	3	-2		3.7	1.1	-20	-32	5	-31	6
Argentina		183	0.0	-0.7	-5	-43	-3	-41		85.0	-6.8	265	-218	3599	-318	3707
Brazil		5.18	0.5	-0.6	0	6	2	-3		13.1	1.6	45	24	156	47	152
Chile		811	0.6	1.4	8	0	5	-3		5.1	2.5	2	-25	-37	-23	-81
Colombia		4592	0.6	1.7	3	-13	6	-15		9.8	0.0	52	33	238	1	191
Mexico		18.80	0.4	-0.1	3	9	4	8		8.2	8.5	10	-20	60	-50	39
Peru		3.9	0.1	-1.2	-1	-1	-1	-3		8.0	-2.0	-1	1	0	2	199
Uruguay		39	-0.2	1.4	-1	14	2	8		10.4	0.0	-12	-16	166	-28	225
Hungary		364	-0.7	1.2	4	-12	3	-12		7.7	-2.0	4	-161	302	-188	291
Poland		4.33	0.0	0.0	1	-7	1	-6		5.2	10.0	-7	-88	139	-93	131
Romania		4.5	0.0	0.7	2	-4	2	-3		7.2	-0.3	-5	-57	225	-45	209
Russia		68.8	0.4	-0.1	0	14	8	19		11.5	-9.2	-34	31	158	-34	34
South Africa		17.2	-0.2	-0.8	-1	-11	-1	-12		8.8	0.0	4	-29	110	-41	117
Turkey		18.81	-0.2	-0.1	-1	-28	-1	-27		10.1	0.0	-19	-39	-1247	30	-1229
US (DXY; 5y UST)		102	0.0	-0.2	-2	7	-1	6		3.58	2.2	-3	-27	203	-42	168

	Equity Markets								Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Since	Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
									basis points						
China		4182	0.0	3	9	-13	8	-10		186	1	0	-12	9	-22
Indonesia		6875	0.0	4	1	2	0	-1		151	-17	-5	-26	11	-34
India		60942	0.5	1	2	6	0	6		147	-3	6	7	5	-7
Philippines		7070	0.2	0	8	-3	8	-4		118	-16	5	13	21	-19
Thailand		1684	0.4	0	4	3	1	-1		0	0	0	0	0	0
Malaysia		1500	0.0	0	2	-2	0	-5		107	4	6	-11	7	-26
Argentina		247680	5.3	2	32	196	23	171		1884	-117	-248	-15	-321	147
Brazil		112041	-0.8	3	2	3	2	0		271	-2	-18	-40	-3	-60
Chile		5250	0.5	2	0	13	0	20		139	-7	-2	-10	7	-35
Colombia		1337	0.4	0	7	-12	4	-11		364	-9	-35	21	-8	-28
Mexico		53947	1.1	1	7	5	11	5		353	-10	-40	16	-28	-17
Peru		23007	0.1	-1	9	0	8	-2		194	6	-1	39	14	4
Hungary		46668	0.5	0	4	-11	7	-2		233	-8	13	109	11	80
Poland		61668	1.4	0	8	-11	7	-2		101	4	19	85	28	85
Romania		12155	0.7	2	0	-5	4	-8		264	-4	-3	69	8	32
Russia		2186	0.9	-2	3	-36	2	-29		3411	-577	938	3228	3234	2897
South Africa		80220	1.2	1	9	7	10	7		371	10	-22	8	4	-18
Turkey		5551	1.1	7	2	176	1	175		514	15	53	-32	74	-49
Ukraine		507	0.0	0	-2	-3	-2	-2		4157	-9	159	3245	78	2684
EM total		42	0.1	2	10	-15	10	-12		368	-9	-14	-43	-8	-90

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

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