



- Industrial commodity prices increase amid investors' expectation of a further rise ([link](#))
- Euro area flash PMI surprises on the upside, reinforced rate hike expectations ([link](#))
- UK flash PMI disappoints but rate hike expectations unchanged ([link](#))
- Japanese equities have now recouped all losses since yield curve control was adjusted ([link](#))
- National Bank of Hungary leaves policy rate at 13% as expected ([link](#))

[Mature Markets](#)



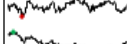
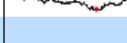






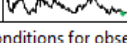
| [Emerging Markets](#)

| [Market Tables](#)

Tech earnings set to take center stage

With expectations for the Fed and ECB mostly set for next week's meetings with hikes of 25 bp and 50 bp respectively, earnings reports are likely to be a primary market driver in the coming days. This morning's PMI data out of the Euro area did not upset expectations, surprising modestly on the upside. In the UK, PMI disappointed, but markets continue to price in a high chance of a 50 bp hike by the BoE next week as well. In the US, the focus is shifting to corporate earnings with the Fed having entered its quiet period ahead of next week's FOMC meeting. Large tech firms will likely draw the most attention, with Microsoft and Texas Instruments set to release later today. As expected, the National Bank of Hungary left its policy rate at 13% as markets expected. The forint is down 0.5% on the day, while EM currencies overall are mixed.

Key Global Financial Indicators

Last updated: 1/24/23 8:01 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4020	1.2	1	5	-9	5	-5
Eurostoxx 50		4146	-0.1	-1	9	2	9	4
Nikkei 225		27299	1.5	4	4	1	5	3
MSCI EM		42	0.7	2	11	-13	11	-11
Yields and Spreads			bps					
US 10y Yield		3.51	0.2	-4	-24	174	-36	152
Germany 10y Yield		2.20	-0.3	11	-20	231	-37	198
EMBIG Sovereign Spread		437	-5	-14	-17	52	-15	24
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.0	-0.1	0	2	-4	2	-4
Dollar index, (+) = \$ appreciation		102.1	-0.1	0	-2	6	-1	6
Brent Crude Oil (\$/barrel)		88.6	0.5	3	6	3	3	-8
VIX Index (% change in pp)		20.0	0.2	1	-1	-10	-2	-11

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

Mature Markets

[back to top](#)

United States

US equities continue their rise Monday amid little macroeconomic news. All eleven major sectors except energy closed in the green, with tech shares driving the gains ahead of earnings releases later this week. US Treasury yields rose 4–7 bps across the curve, mainly attributed to higher breakeven yields.

With 14% of S&P 500 companies having reported earnings last week, 4Q earnings per share (EPS) continued to decline, driven mainly by the financial sector, according to BoA analysts. Although nearly half of the companies beat 4Q sales and EPS, future perspectives look less favorable. As for the technology sector, BoA analysts expect that significant layoffs are equivalent to 1.7% of current sales, but waning tech demand is more harmful, suggesting that forward sales are likely to be lower. The consensus 2023 EPS forecast was cut 1% YTD to \$227 (+4% y/y), but BoA analysts have more pessimistic views and expect a further decline to \$200 (-9% y/y) as forward EPS estimates were revised down nearly 20% on average in the past four recession episode.

Exhibit 4: % of S&P 500 companies beating consensus expectations on 4Q22 EPS and sales

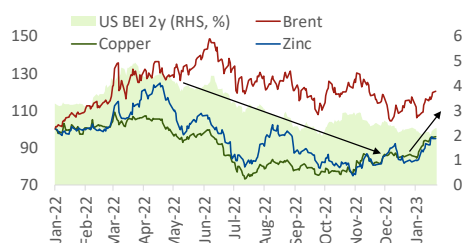
Results from companies that have reported 4Q earnings

Sector	Total companies	Number Reported	% with EPS beat	% with Sales beat	% EPS & Sales beat
Cons. Disc.	56	6	67%	67%	50%
Cons. Staples	33	7	71%	86%	71%
Energy	23	1	0%	0%	0%
Financials	67	23	30%	96%	26%
Health Care	63	1	100%	100%	100%
Industrials	70	6	83%	67%	67%
Tech	76	5	80%	60%	60%
Materials	29	1	100%	100%	100%
Real Estate	31	1	100%	100%	100%
Comm. Svcs.	22	1	0%	100%	0%
Utilities	30	0	N.A.	N.A.	N.A.
S&P 500	500	52	54%	83%	46%
S&P ex. Financials	433	29	72%	72%	62%

Source: FactSet, BoFA US Equity & Quant. Strategy

BoFA GLOBAL RESEARCH

Various industrial commodity prices have been rising this year after cooling off in the second half of 2022, and a Bloomberg survey shows that investors see higher prices in the future. Brent oil prices rose to \$88/bbl, with the expectation of increasing demand from China and a weaker dollar supporting the markets. Russia's exports dropped last week, and GS analysts, forecasting a \$97.5/bbl 2023 average Brent price, expect Russian production to drop by 0.6 million bbl/day by April after further restrictions on Russian energy kick off early next month. According to Bloomberg, professional and retail investors see higher oil prices over the next six months. They also see copper as the most likely commodity to outperform compared to oil. **Copper has surged to near a seven-month high**, driven by the optimism of China's reopening and persisting global supply risks due to unrest in Peru—the world's second-largest copper producer. **Zinc also increased sharply** due to a historic drawdown in inventories. The LME index of six base metals is now at its highest level since last June.



Source: Bloomberg
Note: Brent, Copper, Zinc : 2022/1/1 = 100

Euro Area

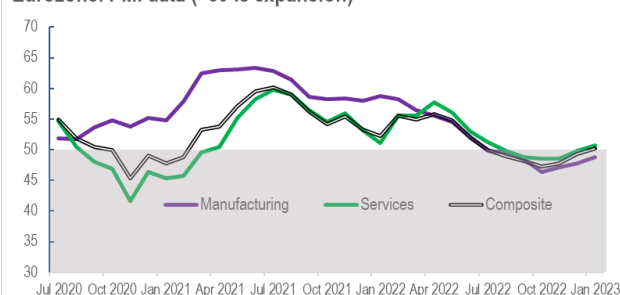
Sovereign yields edged lower while equities traded in the red after flash PMI data for the euro area surprised on the upside while data from France disappointed. 10y bunds fell (-2 bp) while Southern spreads narrowed (Italian 10y spread -2 bp to 180 bps).

The euro ebbed between small gains and losses against the dollar, with analysts noting that the currency is likely still finding support from ECB officials talking in favor of a 50 bp hike at the ECB meeting next week. ECB President Lagarde reiterated that rates must "rise significantly at a steady pace" and ECB Governing Council (GC) member Kazimir said that he is "convinced that we need to deliver two more hikes by 50 bp". While GC member Nagel also spoke in favour of further tightening, other GC members, including Visco and Stournaras, however seemed to be in favour of a more gradual approach. **A 50 bp ECB hike next week remains fully priced in by markets.**

The euro area's January flash PMI data surprised on the upside with composite PMI back in expansionary territory, albeit only marginally, for the first time since June 2022. Preliminary data show composite PMI increasing to 50.2 (versus expected 49.8 from 49.3), boosted by strong services PMI (50.7 versus expected 50.1 from 49.8) while manufacturing PMI also increased (48.8 versus expected 48.5 from 47.8).

The survey also notes a further easing in input cost inflationary pressures amid improving supply chains, while goods and services inflation increased. On the country level, preliminary composite PMI data in Germany surprised on the upside (composite PMI increased to 49.7 versus expected 49.6 from 49.0) while composite PMI data in France disappointed (49.0 vs expected 49.5 from 49.1) weighed down by a decline in services activity. ING analysts note the PMI data further increases the odds of a 50 bp hike by the ECB at their meeting next week.

Eurozone: PMI data (>50 is expansion)

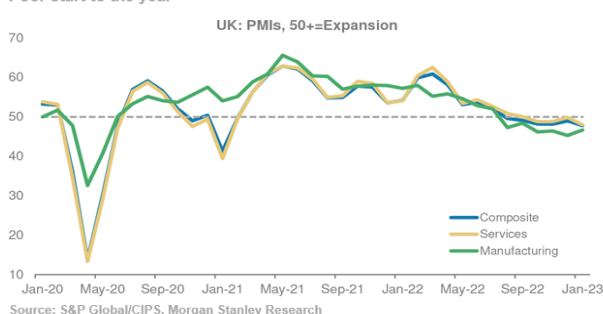


Source: Bloomberg and IMF staff

United Kingdom

The pound weakened against the dollar (-0.5%) and 10y gilt yields fell (-5bp) following disappointing preliminary January PMI data. Flash composite PMI data for January fell deeper into contractionary territory (47.8 versus expected 48.8 from 49.0), with a larger than expected drop in services activity (48.0 versus expected 49.5 from 49.9) outweighing an upside surprise in manufacturing (46.7 versus expected 45.5 from 46.3). The survey, however, also found that optimism around business activity in the 12 months ahead improved to levels last seen in May 2022. JPMorgan analysts continue to expect a 50 bp hike by the BoE next week, arguing that an increase in composite new orders and an uptick in the employment reading pushes against fears of a full recession scenario in the near term. **Market hiking expectations were little changed, with 45 bp of tightening priced in for the BoE meeting next week.**

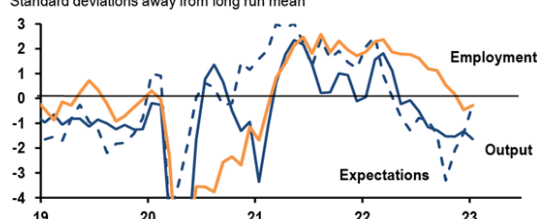
Poor start to the year



Source: S&P Global/CIPS, Morgan Stanley Research

PMI composite

Standard deviations away from long run mean



Source: Markit and JPMorgan

Japan

Equities (+1.5%) recouped all losses seen since the BoJ adjusted its yield curve control on December 20. Contacts have different views on the outlook for BoJ policy in 2023, but BoJ actions last week and yesterday's 5-yr loan operation have firmed convictions that the BoJ may not make any major policy change under Governor Kuroda and is likely to remain committed to yield curve control beyond. **Nevertheless, swap yields are 2–3 bp higher today and the yen (+0.3%) gained against the US dollar.**

Emerging Markets

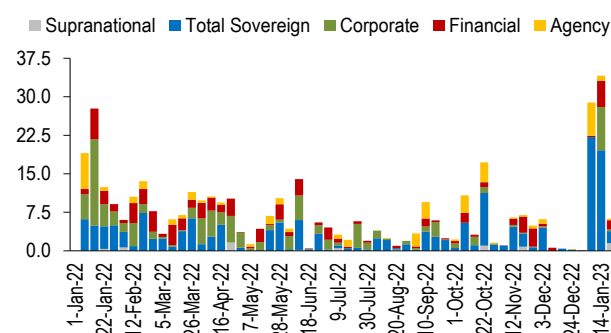
[back to top](#)

Asian markets are quiet, with Lunar New Year celebrations keeping major markets closed. The Indonesian rupiah (+1%) continues to outperform amid reports of inflows. Analysts at Citi believe that monetary tightening is coming to an end for most Asian economies, while warning that policy rates could stay tight for longer. According to Citi, central banks in Taiwan PoC, Korea and Indonesia are done with hiking, and India and Australia should be done soon. Nevertheless, further rates hikes may occur in slow-to-hike central banks in Thailand and Malaysia, and those with very resilient domestic demand (such as the Philippines and Malaysia), and elevated inflation expectations (Philippines). **EMEA markets are fairly muted today.** Equity markets are slightly up, with the exception of Turkey (-0.86%). Currencies are broadly flat, and yields on local bonds in central and eastern Europe are broadly unchanged. Hungary is the exception, with the Hungarian forint losing 0.3% (to 396.7/euro) and yields on 10y local bonds are down 11 bp (to 7.34%) ahead of the National Bank of Hungary rate decision later today. Although no change to the base rate is expected (at 13%), market participants think that the Central Bank could send signals of upcoming easing. Markets expect the Central Bank of Nigeria to hike rates 50 bp to 17% later today. **Most markets in LatAm held ground on Monday.** Equities across the region were up 0.7-1.4% and currencies saw modest appreciation. The Peruvian sol was an exception as it depreciated 0.7% on Monday as protests continue. In Brazil, equities slid (-0.3%) while the currency strengthened (+0.2%) marginally. As per the most recent survey by the central bank of Brazil, analysts have raised their estimates for 2023 inflation to 5.48% (from 5.23% four week ago) and the target policy (Selic) rate to 12.5% (from 12% four weeks ago). As per market reports, Argentina's 2022 primary fiscal deficit printed at 2.4% of GDP which was better than the (revised) target of 2.5% set under the IMF program. However, analysts opine, containing government expenditure could prove to be a challenge during the election year of 2023.

EM bond issuance

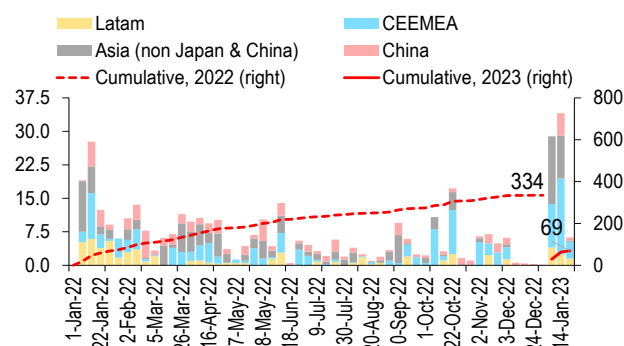
EM bond issuance volumes cooled off in the third week of Jan and came in at \$6.2 bn, vis-à-vis \$34.1 bn in the week before. While sovereigns and financials accounted for 37% and 29%, respectively. Corporate issuance for the period were muted at a mere \$0.3 bn (5% of total). On the regional front, CEEMA saw strongest issuance volumes of \$3.8 bn, while LatAm and China witnessed issuance of \$1.5 bn and \$0.7 bn, respectively. With this, YTD EM bond issuance stands at \$69.2 bn.

Figure 1. EM bond issuance, by sector (bn. USD)



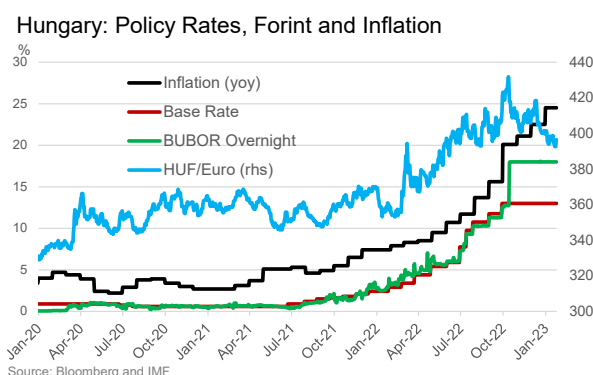
Sources: Bond Radar, and IMF staff calculations.

Figure 2. EM bond issuance, by region (bn. USD)



Hungary

The Hungarian forint is losing 0.5% as the National Bank of Hungary (NBH) left its policy rate unchanged at 13%. In the forthcoming statement, markets will look for cues about when the NBH will start easing. In particular, they will be looking at when it will allow the overnight deposit rate (currently 18%), which was introduced in October as an emergency to stabilize the forint, to start converging towards the base rate (13%). December inflation came in at 25% in December and has not peaked yet, and EU funding for Hungary is still withheld on rule of law concerns. At the same time, JP Morgan analysts point out that the collapse in gas prices represents a sea-change for Hungary's macro-outlook, and expect a narrower current account deficit, smaller budget deficit, higher GDP growth and lower inflationary pressures. They think that NBH could feel comfortable reducing the overnight deposit rate after the March CPI data is released, or even earlier if inflation comes lower than expected in the meantime.



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Global Financial Indicators

1/24/23 8:01 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4014	1.2	1	4	-9	5	-5
Europe		4146	-0.1	-1	9	2	9	4
Japan		27299	1.5	4	4	1	5	3
China		4182	0.6	3	9	-13	8	-10
Asia Ex Japan		72	1.0	2	12	-11	12	-9
Emerging Markets		42	0.7	2	11	-13	11	-11
Interest Rates			basis points					
US 10y Yield		3.51	0.2	-4	-24	174	-36	152
Germany 10y Yield		2.20	-0.3	11	-20	231	-37	198
Japan 10y Yield		0.42	2.8	-11	3	28	0	22
UK 10y Yield		3.34	-2.3	1	-30	221	-34	186
Credit Spreads			basis points					
US Investment Grade		147	-1.3	-3	-8	26	-12	4
US High Yield		448	1.6	10	-21	81	-32	41
Europe IG		79	0.7	1	-14	21	-11	8
Europe HY		418	5.6	7	-57	136	-56	66
Exchange Rates			%					
USD/Majors		102.09	-0.1	0	-2	6	-1	6
EUR/USD		1.09	-0.1	1	2	-4	1	-4
USD/JPY		130.3	-0.3	2	-2	14	-1	13
EM/USD		51.0	-0.1	0	2	-4	2	-4
Commodities			%					
Brent Crude Oil (\$/barrel)		88.6	0.5	3	5	14	3	5
Industrials Metals (index)		176	0.0	1	7	-2	6	-6
Agriculture (index)		67	0.6	-2	-1	7	-2	-4
Implied Volatility			%					
VIX Index (% change in pp)		20.0	0.2	0.6	-0.9	-9.9	-1.7	-11.0
US 10y Swaption Volatility		118.0	0.0	2.1	-0.1	32.9	-7.7	23.7
Global FX Volatility		10.2	0.0	-0.2	-0.3	2.7	-0.5	2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		210	9.6	6	-7	33	5	-30
Italy		179	-2.8	-1	-31	40	-35	8
Portugal		87	-1.3	-2	-13	21	-15	-5
Spain		96	-1.3	-2	-11	22	-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: 1/24/2023 8:03 AM	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	-0.3	-1.4	2	-7	2	-7		3.2	0.1	5	12	47	15	36
Indonesia		14888	1.3	1.9	5	-4	5	-4		6.6	-0.6	-14	-30	21	-32	13
India		82	-0.4	0.1	1	-9	1	-9		7.5	2.1	0	4	114.1	0	
Philippines		54	0.3	0.7	1	-6	2	-6		5.9	-2.5	-8	-8	138	-8	95
Thailand		33	-0.3	0.6	6	1	6	-2		2.4	-7.0	-12	-16	28	-21	20
Malaysia		4.29	0.5	1.2	3	-2	3	-2		3.7	1.1	-20	-32	5	-31	6
Argentina		185	-0.1	-1.1	-5	-43	-4	-42		84.9	-12.3	85	-3	3614	-330	3695
Brazil		5.18	0.2	-1.5	1	6	2	-3		13.3	-1.1	73	41	176	67	172
Chile		809	0.6	0.9	9	0	5	-2		5.2	0.0	2	-19	-31	-17	-75
Colombia		4541	0.1	4.2	4	-12	7	-14		9.9	0.0	41	44	249	11	201
Mexico		18.83	-0.1	-0.9	3	9	4	8		8.3	4.0	13	-21	73	-46	43
Peru		3.9	-0.7	-1.4	-2	-1	-2	-4		8.0	-0.1	-8	-1	189	-1	196
Uruguay		39	-0.1	1.0	1	14	2	8		10.3	-7.7	-20	-24	163	-35	217
Hungary		366	-0.6	0.6	3	-13	2	-13		7.7	-8.0	4	-163	300	-190	289
Poland		4.34	-0.3	0.4	1	-7	1	-7		5.3	1.5	-4	-82	145	-87	137
Romania		4.5	-0.2	1.0	2	-4	2	-3		7.3	5.5	-2	-44	233	-39	215
Russia		68.8	0.1	-0.3	0	14	8	19		10.7	-55.1	-106	-47	81	-112	-44
South Africa		17.3	-0.5	-1.3	-2	-12	-1	-12		8.7	-6.8	-4	-32	107	-43	114
Turkey		18.81	0.0	-0.3	-1	-28	-1	-27		10.1	-3.0	-10	-42	-1227	27	-1232
US (DXY, 5y UST)		102	-0.1	-0.3	-2	6	-1	6		3.61	-0.7	-1	-24	207	-39	171

	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		184	-1	-3	-16	7	-24
Indonesia		6861	-0.2	3	1	4	0	-1		146	-22	-5	-35	6	-39
India		60979	0.1	1	2	5	0	7		144	-6	-3	2	2	-10
Philippines		7042	-0.4	0	8	-3	7	-4		112	-22	3	1	15	-25
Thailand		1683	-0.1	0	4	3	1	-1		0	0	0	0	0	0
Malaysia		1500	0.0	0	2	-2	0	-5		107	4	5	-13	7	-26
Argentina		250362	1.1	0	33	209	24	174		1882	-119	-300	-27	-323	145
Brazil		111737	-0.3	0	2	4	2	0		268	-5	-12	-51	-6	-63
Chile		5315	1.5	3	1	18	1	21		138	-8	5	-15	6	-36
Colombia		1332	-0.4	0	6	-13	4	-12		361	-12	-15	6	-11	-31
Mexico		54341	0.7	1	7	7	12	6		350	-13	-31	7	-31	-20
Peru		23028	0.1	0	9	1	8	-2		195	7	15	35	15	5
Hungary		46763	0.0	1	4	-9	7	-2		221	-20	3	92	-1	68
Poland		61795	0.3	1	8	-7	8	-2		95	-2	15	77	22	79
Romania		12179	0.0	2	0	-5	4	-8		250	-18	-10	52	-5	18
Russia		2182	-0.1	-1	3	-33	1	-29		3411	-577	938	3228	3234	2897
South Africa		80128	0.0	1	9	11	10	7		359	-2	-12	-11	-8	-30
Turkey		5348	-1.0	1	-2	180	-3	165		497	-2	53	-49	57	-66
Ukraine		507	0.0	0	-2	-3	-2	-2		4120	-46	102	3204	41	2647
EM total		42	-1.0	2	11	-13	11	-11		364	-13	-10	-51	-12	-94

[back to top](#)