GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JANUARY 26, 2022

- **Cross asset volatility remains elevated amid recent selloff in risk assets** (link)
- **Italian presidential election remains undecided** (link)
- **Rising electricity costs push Swedish PPI to 30-year high** (link)
- **Chinese LGFVs purchase land to help stabilize property markets** (link)
- **Hungarian National Bank delivers larger-than-expected 50 bp policy rate hike** (link)
- **Special Feature: Sustainable Finance Markets in Emerging Markets** (attached)

Mature Markets | Emerging Markets | Market Tables

Markets take a breather ahead of FOMC decision

Risk appetite is stabilizing this morning following another day of aggressive swings in stock markets, with the Fed and geopolitical tensions still driving the market narrative. US stocks came under pressure once again yesterday and experienced further large intraday swings only to fade any rebound and close down over 1% by the end of the trading session. Markets continued to express fears around some softer macro data, tighter monetary policy and border escalations in Ukraine that have been highlighted as the key sources of market volatility. In the lead-up to key monetary policy decisions later today, major sovereign bond yield curves flattened with the US Treasury 2-year, 10-year yield spread closing in on one-year lows. Overnight and this morning, investors have taken a pause from the recent risk-off sentiment with European indices and US equity futures trading 1.5 to 2% higher, while Asian equities were mixed across the region. With focus shifting to the conclusion of the FOMC meeting this afternoon, all eyes will be on whether the committee will deviate much from market pricing and analysts' expectations, which have remained steady around 4 policy rate hikes for this year. Investors will be looking for further guidance on the path of policy normalization including any signals related to a potential March policy rate liftoff and any further update on asset purchases and the balance sheet.

Key Global Financial Indicators

Last updated: 1/26/22 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4356	-1.2	-5	-8	13	-9
Eurostoxx 50		4176	2.4	-2	-2	16	-3
Nikkei 225		27011	-0.4	-2	-6	-6	-6
MSCI EM		48	-0.2	-2	-1	-14	-1
Yields and Spreads			bps				
US 10y Yield		1.78	1.4	-8	29	75	27
Germany 10y Yield		-0.07	0.9	-6	18	46	11
EMBIG Sovereign Spread		390	-2	2	18	32	23
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.1	0.0	0	0	-7	1
Dollar index, (+) = $ appreciation		96.1	0.2	1	0	7	0
Brent Crude Oil ($/barrel)		89.2	1.1	1	17	60	15
VIX Index (%, change in pp)		28.8	-2.4	5	11	6	12

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

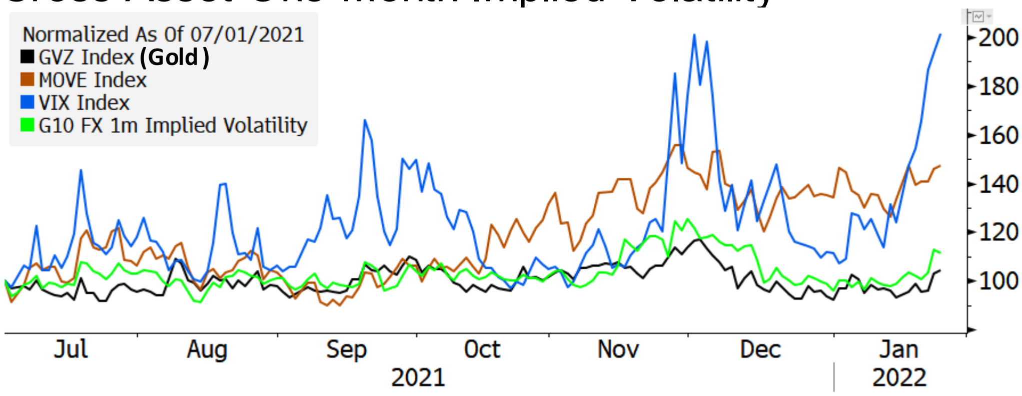
Mature Markets

back to top

United States

US equities resumed their decline yesterday, amid elevated volatility, as risk-off sentiment continued to weigh on markets. The S&P 500 closed down by 1.2% after erasing some of the earlier losses as dip buyers emerged after falling nearly 3%. The VIX index rose to 31 pts, extending its surge into a sixth consecutive day. Across other asset classes, rates volatility has been hovering at an elevated level since the broader move higher in yields to start of this year. G10 FX and gold volatility have edged higher but have also remained on more stable ground.

Cross Asset One-Month Implied Volatility



Source:Bloomberg

The US consumer confidence index declined in January (113.8 vs.115.2 in December) for the first time in four months as consumers' short-term growth prospects weakened. The present situation index (consumer's assessment of current business and labor market conditions) improved from 144.8 to 148.2, likely supported by a tight labor market. The expectations index (based on consumers' short-term outlook for income, business, and labor market conditions) declined from 95.4 in December to 90.8, pointing to a likely moderation in growth during the first quarter of 2022. Meanwhile, the survey's inflation expectation measure has moderated somewhat in recent months.

Focus shifts to the FOMC policy decision later today where most analysts expect the Fed will signal the likelihood of a rate hike at the March meeting. Although most expect the Fed to continue to taper asset purchases at the pace determined at the December meeting, analysts note that there is a risk of a hawkish surprise if the Fed announces an earlier end to asset purchases. On policy rate expectations, the market is pricing in one full rate hike in March and nearly four hikes by the end of the year.

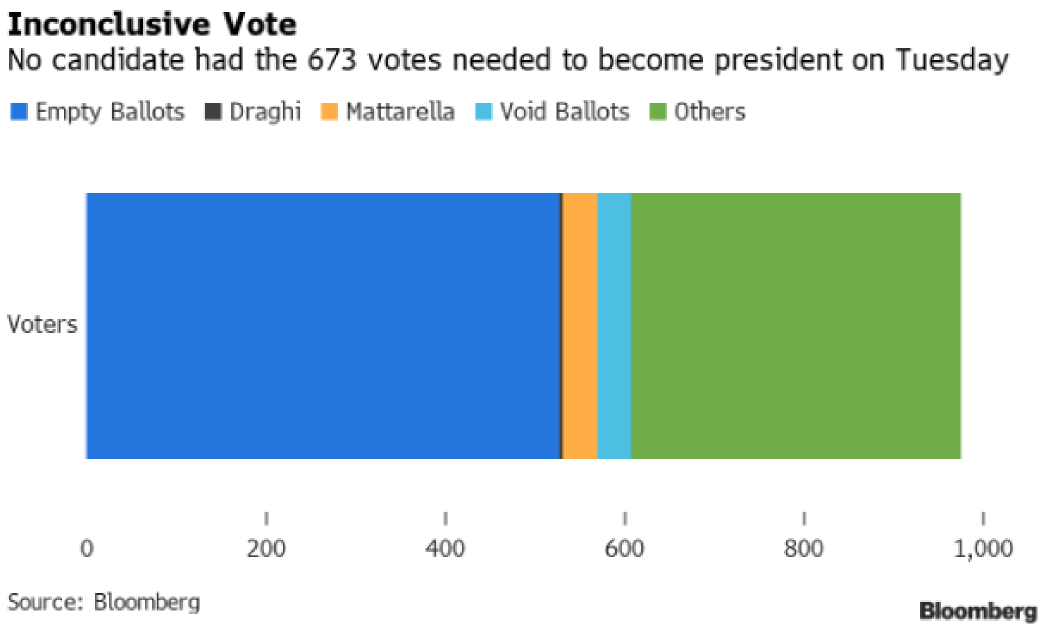
Canada

The Bank of Canada will announce the results of its policy meeting today with most analysts expecting a 25 bp policy rate hike, the first move higher since the pandemic. Some analysts see the prospect of weaker growth from omicron restrictions as a hurdle to tightening now**. Markets are pricing in about a 70% probability of a rate hike.**

Euro area

European equities were trading stronger this morning, with the STOXX 600 up 2%. All sectors were trading in the green, with the largest gains seen in the travel and leisure (+5%) sector after the EU ministers eased covid-related travel restrictions inside the bloc. **European bond markets were generally steady with 10-year bund yields hovering around the -0.8% mark**. The euro (-0.2%) depreciated against the dollar. Southern European spreads widened with Greece (+17 bps) underperforming. Greek 10-yr spreads are up 39 bps so far in 2022.

The second round of Italy's presidential election yielded no winner yesterday. Goldman Sachs analyst are not expecting the required qualified majority of 2/3rds to be reached today, but instead sees the fourth ballot—which will require a simple majority—as most likely to elect the new President. The fourth ballot is expected on 27 January.



Governing council member Gediminas Simkus sees no need for the ECB to change its assessment of the inflation outlook or to accelerate policy tightening. While noting in an interview that uncertainty has increased, he does not see facts to merit an inflation outlook that is beyond the 2% objective. Simkus also warned that an escalation of tensions between Russia and Ukraine would weigh heavily on Europe's economy. **Money markets continue to price in interest rate increases this year, while most analysts still do not expect interest rates being raised before 2023**.

Sweden

Sweden's Producer Price Index (PPI) reached +20.1% y/y in December, up from 18.1%. The main driver for PPI, which reached a 30-year high, was higher electricity costs. Analysts note that the data reinforces the view that consumer inflation will increase this year. **At the November Riksbank meeting**

policymakers left the repo rate unchanged at 0%, but forecast tightening in the latter part of 2024. **Analysts expect the Riskbank to increase interest rates in late 2023, with bond holdings seen to be reduced in the second half of this year.**

United Kingdom

Analysts at Goldman Sachs see wage growth in 2022 sharply higher than the BoE November forecasts, but note that the risk of a real wage-price spiral is unlikely to materialize. Analysts note that labor-market tightness is at a multi-year high and the updated wage growth projection supports continued monetary policy tightening, and caution that risks should be monitored in upcoming quarters. **Markets continue to price in roughly 25 bps of hikes for the February Monetary Policy meeting**. Separately, according to an EY survey **87% of global financial services investors are expecting to set up or expand in the UK this year** – in comparison to previous survey results of 50% in 2021 and 11% in 2019. The survey indicates that a country's success in addressing the pandemic is the most important deciding factor, while highlighting ESG as a top priority. **This morning the pound was trading stronger (+0.1%) and the FTSE 100 (+1.7%).**

Japan

Bank of Japan (BOJ) still looked to continue its policy easing. The summary of opinions of board members from the policy meeting last week revealed that multiple members highlighted the need for clear communication over the BOJ's firm stance on continuing stimulus to achieve its 2% inflation objective. Japanese yen was little changed; equities declined (NIKKEI: -0.4%); long-end JGB yields rose (30-year: +0.7 bp).

Emerging Markets

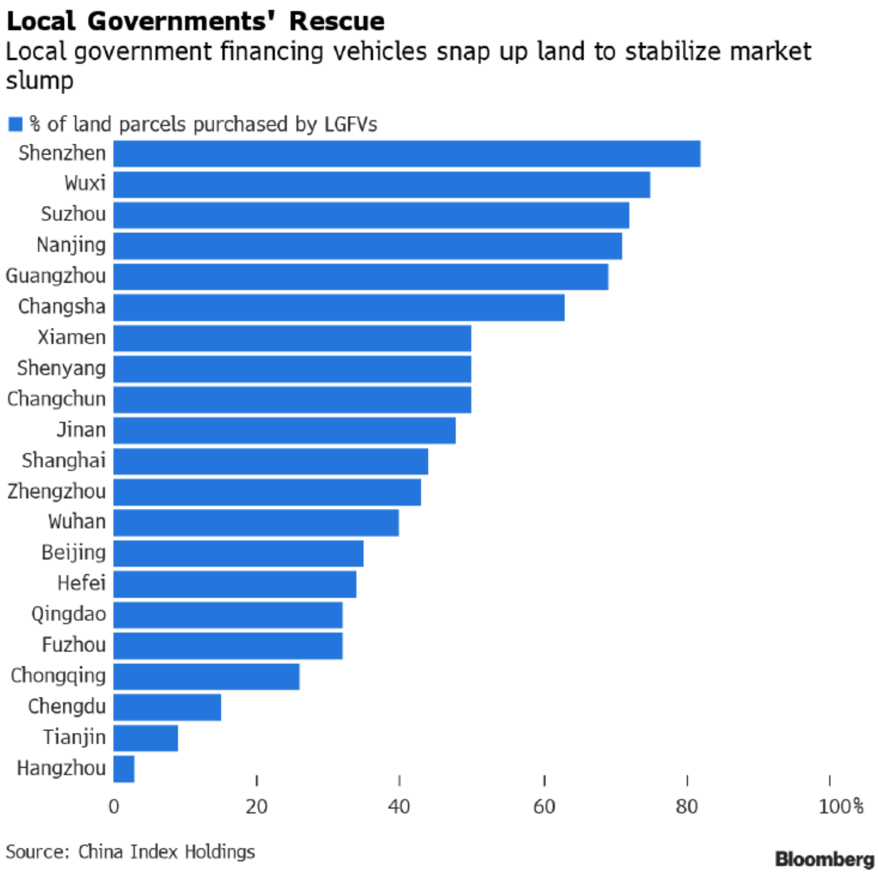
back to top

Stock markets gained on Monday in Latin America, with Argentina (+5.2%) being the top performer, followed by Brazil (+2.1%) and Chile (+0.6%). Currencies were mixed amid the selloff in U.S. equities. **In Chile**, the peso was little changed ahead of the central bank decision later today, where policymakers are expected to announce another rate hike of 125 bps. **Asian equities were mixed, -0.3% on net.** Share prices rose in Singapore (+0.8%), Malaysia (+0.7%) and China (+0.6%), while Korean equities declined (-0.4%). Markets were generally calm ahead of the Federal Reserve's policy meeting. Asian currencies were little changed except for Thai baht (+0.3%) and Sri Lankan rupee (-0.6%). **In Indonesia**, Deputy Governor Waluyo said that Bank Indonesia will conduct a preemptive, ahead-of-the-curve, front-loading monetary policy mix to maintain exchange rate and domestic price stability. **EMEA equities were mostly trading**

higher with indices up in Russia (2.9%) and Romania (2.4%) while Bulgaria's benchmark underperformed (-1.2%). EMEA currencies were mostly trading weaker against the dollar. **In South Africa**, the rand (+0.5%) was trading higher ahead of the central bank interest rate decision tomorrow. Yesterday the central bank of Hungary hiked rates more than expected to 2.90% while the central bank of Nigeria left its policy rate unchanged at 11.50%.

China

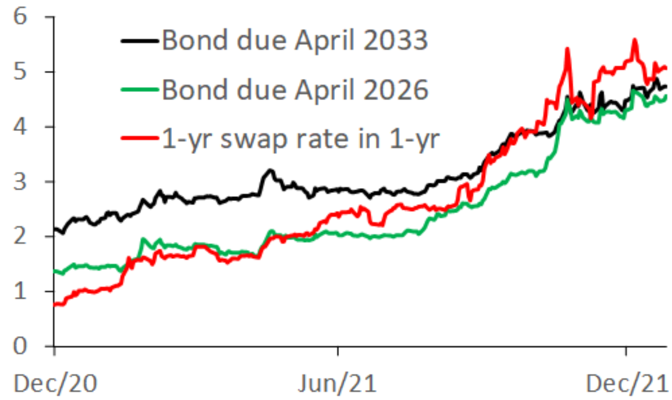
RMB appreciated (+0.1%). RMB remains strong relative to the US dollar, in part owing to the large trade surplus, despite the growing divergence of monetary policy between the two major economies. Reportedly, banks' FX propriety trading volumes dropped in November and December following a clamp-down that aimed to curb currency speculation. Analysts noted that the drop in propriety trading could reduce two-way flows and allow the strong balance of payments to dictate RMB movements. **Local government financing vehicles (LGFVs) have replaced cash-strapped property developers as the mainland buyers.** Analysts noted that while the intervention from LGFVs may help arrest a land sale slump and provide much-needed revenue for local governments, the land purchases could threaten to exacerbate LGFVs' financial vulnerabilities. **The China Banking and Insurance Regulatory Commission's (CBIRC) work meeting focused on cracking down unlicensed financial activities.** The regulator also called for a further increase in new loans to SMEs at lower interest rates while pledging to curb shadow banking activity and fully implement the new asset management rule. **Equities gained (CSI 300: +0.6%).**



Hungary

The Hungarian forint closed 0.6% higher yesterday after the central bank (NBH) unexpectedly hiked its policy rate 50 bps to 2.90% (30 bp hike expected). Strong wage growth of 10% y/y (9% y/y) in November points to second-round effects of higher inflation. **Earlier this week, Governor Matolcsy also warned about the future fiscal burden related to losses generated by the NBH.** Citi points out that the central bank has increased the size of its balance sheet from 26% of GDP in 2019 to 46% by end-2021 as a consequence of asset purchases including corporate and government bonds, lending programs to SMEs and banks, and an increase in FX reserves. NBH assets include zero interest rate SME loans, FX reserves invested in EUR denominated assets, and collateralized 5-year loans issued at a fixed rate of 60-90 bps.

Hungary: Local currency bond yields (%)



Source: Bloomberg and IMF staff

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Global Financial Indicators

Last updated: 1/26/22 8:10 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4397	-1.2	-3	-7	14	-8
Europe		4176	2.4	-2	-2	16	-3
Japan		27011	-0.4	-2	-6	-6	-6
China		4712	0.7	-1	-4	-15	-5
Asia Ex Japan		81	-0.4	-2	-1	-17	-2
Emerging Markets		48	-0.2	-2	-1	-14	-1
Interest Rates					basis points		
US 10y Yield		1.78	1.4	-8	29	75	27
Germany 10y Yield		-0.07	0.9	-6	18	46	11
Japan 10y Yield		0.14	-0.1	0	7	10	7
UK 10y Yield		1.19	2.9	-6	27	93	22
Credit Spreads					basis points		
US Investment Grade		122	-1.1	4	7	27	10
US High Yield		366	-4.9	24	23	-7	29
Europe IG		55	-2.0	2	8	5	7
Europe HY		269	-8.7	6	28	9	27
Exchange Rates					%		
USD/Majors		96.10	0.2	1	0	7	0
EUR/USD		1.13	-0.2	-1	0	-7	-1
USD/JPY		114.2	0.3	0	-1	10	-1
EM/USD		53.1	0.0	0	0	-7	1
Commodities					%		
Brent Crude Oil ($/barrel)		89	1.1	1	17	60	15
Industrials Metals (index)		182	0.9	0	6	34	5
Agriculture (index)		63	-0.4	0	3	26	4
Implied Volatility					%		
VIX Index (%, change in pp)		28.8	-2.4	4.9	10.8	5.8	11.6
US 10y Swaption Volatility		79.9	-2.6	-3.5	-3.1	25.5	0.9
Global FX Volatility		7.5	0.0	0.3	-0.1	0.0	0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		191	17.7	17	32	69	40
Italy		137	0.2	2	1	19	2
Portugal		65	-0.5	3	-1	9	1
Spain		73	-0.2	3	-3	12	-2

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
1/26/2022	Level		Change (in %)					Level		Change (in basis points)				
8:13 AM	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		6.32	0.1	0.4	1	2	1		2.7	0.0	-2	-14	-50	-11
Indonesia		14353	0.0	0.1	-1	-2	-1		6.4	0.5	-1	7	16	3
India		75	-0.3	-0.3	0	-2	-1		6.3	0.0	0	9	75	0
Philippines		51	-0.1	0.4	-2	-6	-1		4.6	0.0	5	0	138	8
Thailand		33	0.3	0.2	2	-9	1		2.1	0.0	-5	29	89	29
Malaysia		4.19	0.0	0.1	0	-3	-1		3.7	-2.0	-5	11	97	8
Argentina		105	-0.1	-0.4	-2	-17	-2		49.0	9.6	42	-82	-270	-160
Brazil		5.42	0.3	0.4	4	-1	3		11.5	-4.7	4	83	319	76
Chile		797	0.4	1.6	8	-8	7		5.5	3.5	-28	17	293	12
Colombia		3952	0.5	1.1	1	-9	3		7.3	0.0	-20	92	323	93
Mexico		20.56	0.3	-0.3	1	-3	0		7.5	0.5	-13	4	208	0
Peru		3.8	0.1	0.5	3	-5	4		6.1	0.8	-8	15	232	18
Uruguay		44	0.2	0.3	0	-5	1		8.7	0.0	4	-7	149	-3
Hungary		319	-0.4	-1.6	2	-7	2		4.6	-4.5	-14	23	290	14
Poland		4.07	-0.2	-1.9	0	-8	-1		3.9	2.0	6	43	274	36
Romania		4.4	-0.2	-0.6	0	-9	-1		5.0	0.1	-2	16	263	15
Russia		79.1	-0.6	-3.7	-7	-5	-6		9.9	7.4	23	113	344	113
South Africa		15.2	0.5	1.2	3	-1	5		7.6	-6.5	-5	26	96	21
Turkey		13.55	-0.5	-0.9	-15	-46	-2		22.6	8.0	-44	-135	944	-172
US (DXY; 5y UST)		96	0.1	0.6	0	7	0		1.58	2.2	-7	33	117	31

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4712	0.7	-1	-4	-15	-5		201	4	-3	-24	-2
Indonesia		6601	0.5	0	0	8	0		180	3	14	-13	15
India		57858	0.0	-5	1	20	-1		140	2	9	-15	8
Philippines		7254	-0.5	0	0	6	2		111	4	12	5	10
Malaysia		1516	0.5	-1	-1	-4	-3		121	3	3	-13	4
Argentina		85180	5.2	2	0	72	2		1920	38	166	502	240
Brazil		110204	2.1	2	5	-5	5		319	0	-1	34	8
Chile		4566	0.8	2	6	2	6		151	3	10	-4	11
Colombia		1527	0.4	-3	9	9	8		362	15	12	130	14
Mexico		51104	0.4	-4	-3	13	-4		343	0	8	-33	11
Peru		22808	0.1	-2	10	6	8		156	-1	5	28	6
Hungary		51868	1.4	-2	4	19	2		127	7	2	-20	3
Poland		68141	1.6	-4	0	18	-2		12	-3	-24	-19	-20
Romania		13072	2.7	-2	4	26	0		203	8	11	-3	10
Russia		3388	4.0	-1	-8	0	-11		281	49	103	94	104
South Africa		73611	1.8	-3	3	15	0		375	9	13	-20	20
Turkey		1957	0.6	-4	3	27	5		556	-7	-27	93	-22
Ukraine		523	0.0	0	0	1	0		1028	28	273	532	269
EM total		48	1.1	-2	-1	-14	-1		423	8	29	69	37

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

back to top