



- US economic data beat forecasts ([link](#))
- Equity revival in US led by laggards of 2022 ([link](#))
- Bank of Canada signals pause to rate hike cycle ([link](#))
- Some analysts call for hike of 25 bps by Bank of England ([link](#))
- CEE carry trades generate best returns among EMs ([link](#))
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- Contraction in Mexico's economic activity accelerates in Nov 2022 ([link](#))

[Mature Markets](#)

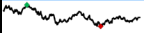


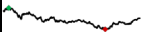




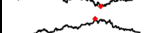


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## Core rates higher as U.S. economic data beat forecasts

Core rates settled higher as U.S. economic data were better than expected and equities benefited from better-than-expected earnings. Japanese interest rates rose close to levels seen before the Bank of Japan's January meeting after the Summary of Opinions of that meeting pointed to increasing confidence that the inflation target will be reached. Yesterday, the Bank of Canada hiked by 25 bps but signaled a pause in its rate hike cycle. A hike of 50 bps by the ECB seems set in stone for next week but some analysts believe that disappointing growth data may prompt the Bank of England to shift to a hike of 25 bps. Turning to emerging markets, the carry trade seems back, as most countries except China generate positive total returns.

Key Global Financial Indicators

Last updated: 1/26/23 12:20 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4016	0.0	2	4	-8	5
Eurostoxx 50		4164	0.4	2	9	0	10
Nikkei 225		27363	-0.1	4	4	1	5
MSCI EM		42	0.1	3	11	-12	11
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.48	3.8	9	-27	162	-39
Germany 10y Yield		2.18	2.6	12	-22	226	-39
EMBIG Sovereign Spread		444	2	-3	-10	55	-7
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		51.4	0.0	1	3	-3	3
Dollar index, (+) = \$ appreciation		101.8	0.2	0	-2	6	-2
Brent Crude Oil (\$/barrel)		86.9	0.9	1	4	-3	1
VIX Index (% change in pp)		19.2	0.2	-1	-2	-13	-2

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

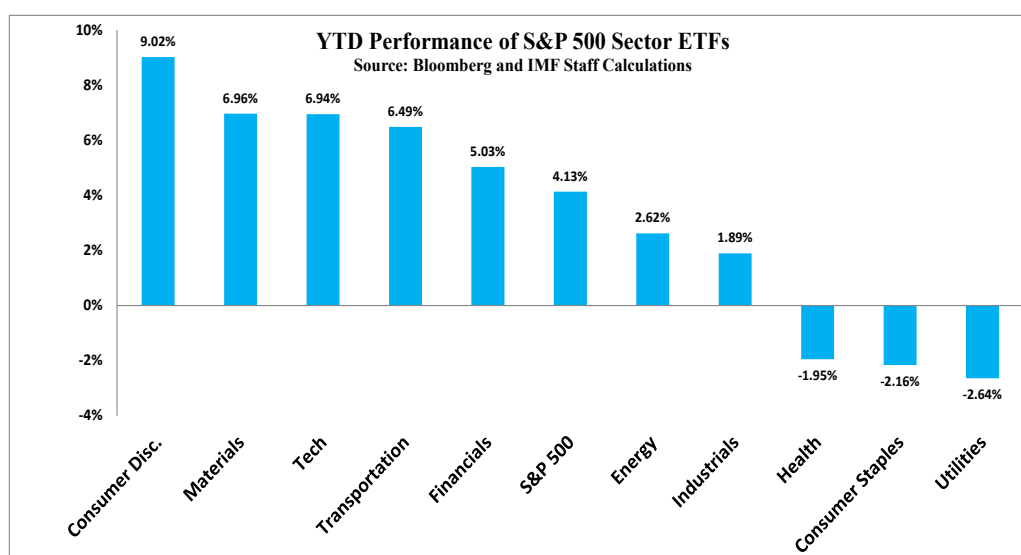
**The latest US economic data were stronger than expected.** GDP was ahead of forecasts and retail sales were robust, pushing interest rates higher and the boosting the dollar. The latest data will complicate investor expectations of an end to Fed rate hikes in spring and rate cuts by the end of the year.

#### Selected US Economic Data 8:30am EST

Source: Bloomberg

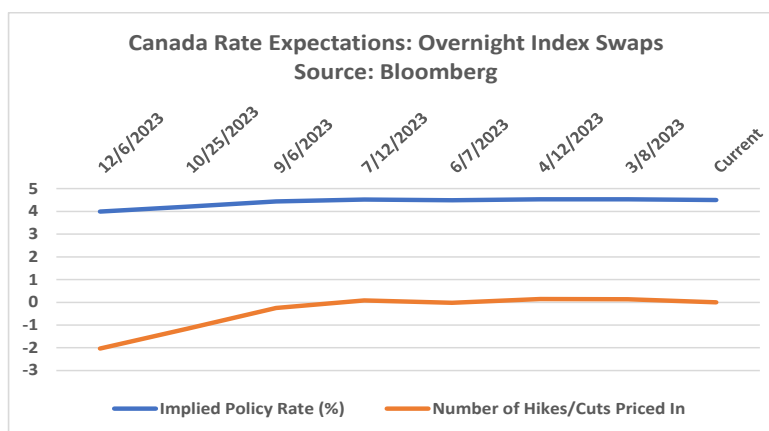
Data Point	Consensus Forecast	Actual Outcome
Q4 GDP	2.6%	2.9%
Q4 Core PCE	3.9%	3.9%
Durable Goods	2.5%	5.6%
Durable Goods ex-Transportation	-0.2%	-0.1%

The US equity market rally in the new year is being led by the worst performing sectors of 2022, especially the consumer discretionary, materials and technology sectors. Part of this is probably due to the usual phenomenon of mean reversion after a year of very large moves, but contacts note that many investors have made active bets along these lines. Yesterday, the positive sentiment in the market was tested in early trading by weaker than expected earnings reports from companies such as Microsoft, which also warned about weaker sales in the months ahead. However, stocks bounced off their lows and reversed most of their losses by the end of the day.



### Canada

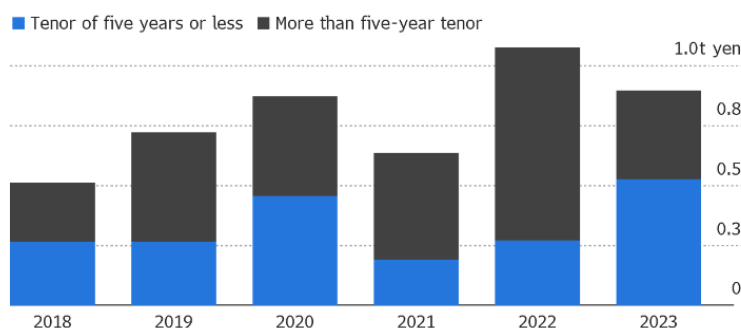
**The Bank of Canada (BOC) hiked by 25 bps to 4.5% as expected and signaled a pause in its rate hike cycle.** Yesterday's move was the eighth in a row and took the Canadian policy rate to a 15-year high. The BOC's statement indicated that it "expects to move to the sidelines," according to Bloomberg in order to assess the impact of the rate hike cycle on the economy. This seemingly explicit pause was a surprise to some analysts. However, Governor Macklem stated that he was "prepared" to move again if necessary to fight inflation. **Markets forecast no more rate hikes and see two 25 bps cuts by the end of the year.**



## Japan

10-yr yields continued their upward trend (+3bps) to 0.48% after the summary of opinions at the BoJ's policy meeting earlier this month was seen to confirm the central bank's increasing confidence that its 2% inflation target would be reached and also showed its preference to continue monetary easing. JPMorgan analysts note that the tone of the opinions showed a preference to continue yield curve control as time is required to evaluate the December decision's impact on market functionality. Analysts argue that this confirms the BoJ's most pressing focus would be on restoring market functionality. In the meantime the FTSE Russell has removed certain Japanese government bonds from the World Government Bond Index, including those expiring in March 2024 and March 2032, as these securities have become too illiquid, according to Bloomberg. Moreover, amid growing anticipation that the BoJ will abandon its yield curve control policy, sales of shorter maturity yen bonds have reportedly increased sharply while sales of Japanese corporate bonds with maturities exceeding five years have halved so far in January. **The Nikkei was marginally lower (-0.1%) this morning while the Japanese yen retraced some earlier gains, to trade at 129.74 against the dollar.**

## Shorter Yen Notes Are Selling Better Now Than Long Debt



Source: Bloomberg  
Note: Figures are for Jan. 1-Jan. 25 period of each year.

Bloomberg

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## Euro area

European equities were trading higher (Stoxx 600 +0.4%), supported by improved sentiment amid a premarket US technology shares rebound and better-than-expected European corporate earnings results. Most sectors were trading in the green, with the retail (+1.5%) and financial services (+1.4%) sectors leading the gains. On the data front Spain's unemployment rate increased marginally in Q4 (to 12.87% from 12.67%).

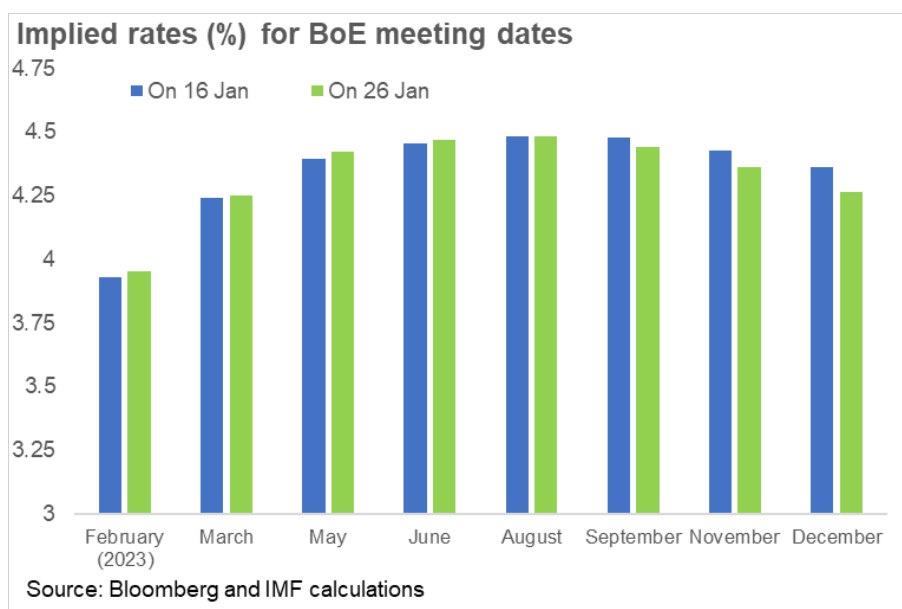
Separately, the German government upgraded their 2023 economic growth forecasts and now sees growth at +0.2% this year, in comparison to a 0.4% decline forecast in October. Economy minister Habeck argued that if a recession occurs it will be shorter and milder. **Sovereign yields are higher this morning (10y bund + 3 bps) after a volatile session yesterday.**

For the ECB meeting next week, a 50 bps hike is widely expected with markets focused on rates guidance for the March meeting. At the December meeting ECB President Lagarde pre-announced a

50bps hike in February. Markets are focused on indications of the rate path beyond next week's meeting, with several Governing Council members speaking in favor of another 50 bps hike in March, while others spoke in favor of a more gradual approach. **Several analysts forecast a terminal rate of 3.25%**, with some contacts expecting that policy will continue to tighten as long as core inflation forecasts remain higher than 2%. **Morgan Stanley analysts also expect general guidance on tapering, but see a detailed announcement on the quantitative tightening path as less likely.**

### United Kingdom

**For the BoE meeting next week analysts are mostly expecting a 50 bps hike** given wage growth developments, stronger services inflation and also improved growth prospects which could pressure prices. **Some analysts, however, note that a 25 bps hike is not off the table as forward looking data has indicated more sluggish growth and easing price pressures.** Deutsche Bank analysts anticipate that the MPC's economic forecasts would be revised upwards and that the MPC will share their intention of a conditional slowdown in the future pace of tightening. On the data front, the ICAEW's business confidence fell to 2009 levels. **The pound was little changed while 10-yr gilt yields rose (+6bps).**

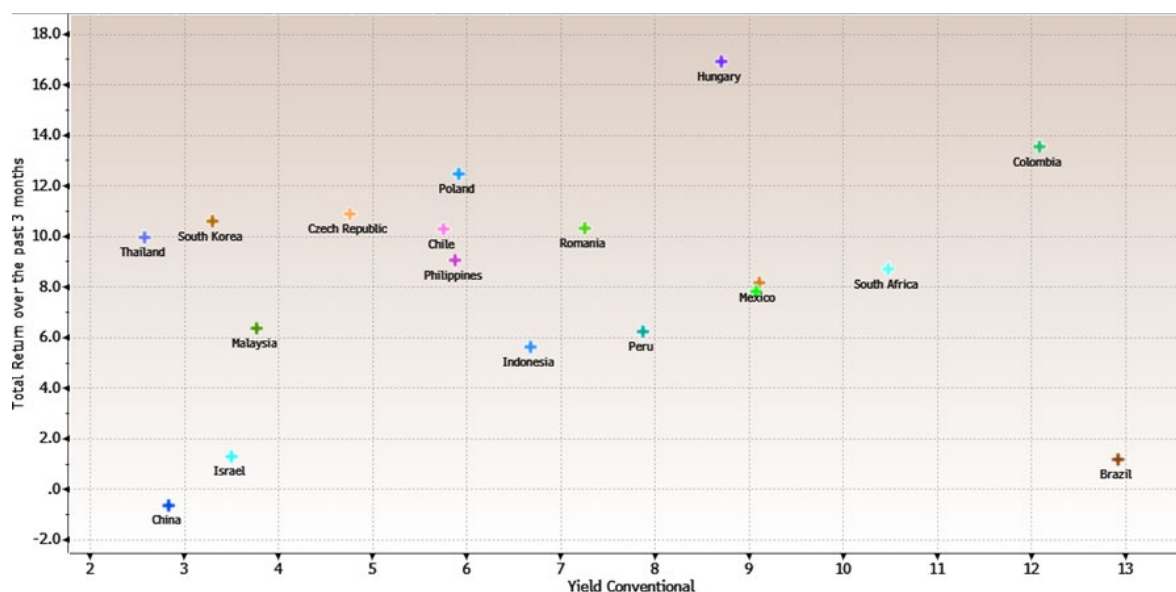


### Emerging Markets [back to top](#)

**Asian equities were mixed, gaining 1.1% on net.** Hong Kong equities gained (+2.4%) as it resumed trading following a holiday, while equities in South Korea also outperformed (+1.7%). Equities in the Philippines are down (-0.6%). On the data front economic growth in South Korea slowed to 1.4%y/y in Q4 (vs expected +1.3% from 3.1%), while economic growth in the Philippines increased to +7.6%y/y in 2022 (vs expected +7.4% from +5.7%). Local currency bond yields were mostly higher. **Equity markets are up in EMEA, while currencies are mixed and bonds are broadly unchanged.** Equity markets are up throughout the region, with the exception of Turkey (-1.1%). The Hungarian equity market is up the most (+1.3%). The Hungarian forint is down 0.7% (to 388.9/euro), while other Central and Eastern European currencies and the Turkish lira are broadly flat. The South African rand is 0.15% stronger vs the dollar (to 17.07/\$) ahead of the central bank rate decision later today (+50 bps expected to 7.5%). Yields on local bonds in central and eastern Europe are broadly unchanged. **Most markets in LATAM closed flat on Wednesday**, with the exception of Brazil where equities gained 1.1% and the currency appreciated another 1.2%. In Mexico, markets reacted negatively to the economic print in the early trading session but recovered.

## Central and Eastern Europe

**Poland, the Czech Republic, Romania and especially Hungary carry trades generated the best dollar returns among emerging markets over the last 3 months (together with Colombia) due to a combination of high yields and appreciating currencies.** The EM carry trade seems to be back, as most EM except China generates positive total returns. This is in sharp contrast to the previous 3 months when most EM carry trade produced negative returns (except China (6.6%), Indonesia (2.7%), South Africa (3.7%) and Turkey (41%)).

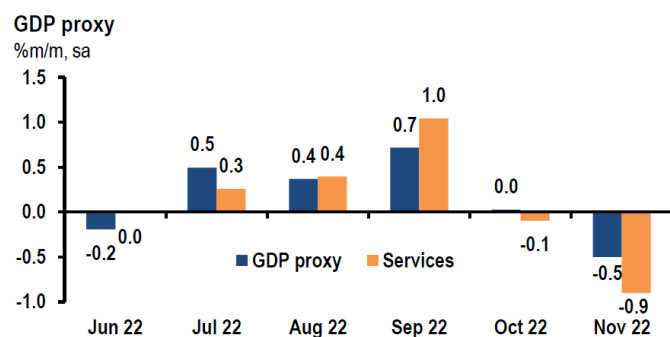


## Turkey

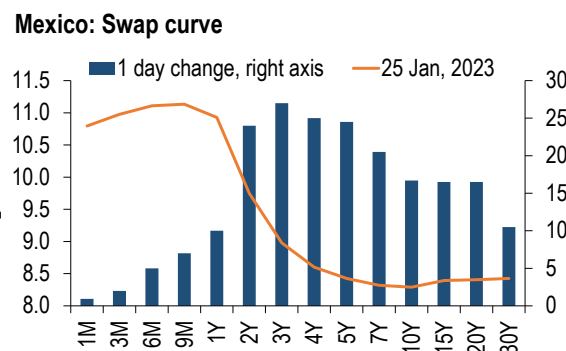
**The lira is flat as the central bank announced further measures to curb dollarization yesterday.** The Central bank lifted the 3% rate cap on the FX-protected lira time deposit accounts, which were one of the schemes introduced in December 2021 to curb dollarization in Turkey. **Banks will now be free to determine their own rates as long as they are not below the central bank policy rate (currently 9%).** The central bank will also offer a 2% premium on the current exchange rate for companies that convert their foreign income into lira and don't use the proceeds to buy hard currency for some time. Bloomberg also reports that the Central Bank is considering further measures to deter banks from selling currency derivatives to their customers, including by requiring banks to hold collateral for forward contracts. Today, the Central Bank presented its Q1 inflation report today and maintained its end 2023 inflation forecast at 22.3% yoy and at 8.8% for end-2024. December 2022 inflation came in at 64% yoy.

## Mexico

**Economic activity declined the most since Aug 2021,** as the November print shows a contraction of 0.45% m/m, vis-à-vis the market expectation of a 0.15% m/m decline. While this was primarily driven by slowdown in services sector which fell by 0.9% m/m, the manufacturing sector, which closely traces that of the US, has also seen deceleration in the recent months. Given this slowdown in economic activity, and re-emerging inflationary pressures, economists widely expect the GDP growth in 2023 to fall to 0.9%, vis-à-vis the 2022 estimate of 3%. Equity markets and currency were little changed yesterday, however the swap curve rose across tenors.



Sources: INEGI; J.P. Morgan; Bloomberg and staff calculations



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## Global Financial Indicators

Last updated: 1/26/23 12:18 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4016	0.0	2	4	-8	5
Europe		4164	0.4	2	9	0	10
Japan		27363	-0.1	4	4	1	5
China		3265	0.8	2	7	-7	6
Asia Ex Japan		72	0.1	3	12	-10	12
Emerging Markets		42	0.1	3	11	-12	11
<b>Interest Rates</b>			basis points				
US 10y Yield		3.48	3.8	9	-27	162	-39
Germany 10y Yield		2.18	2.6	12	-22	226	-39
Japan 10y Yield		0.49	4.7	5	5	35	7
UK 10y Yield		3.29	4.7	2	-35	209	-38
<b>Credit Spreads</b>			basis points				
US Investment Grade		147	-0.1	-1	-8	24	-12
US High Yield		453	2.5	5	-16	82	-27
Europe IG		79	-0.6	-2	-13	24	-11
Europe HY		414	-6.1	-14	-62	143	-60
<b>Exchange Rates</b>			%				
USD/Majors		101.80	0.2	0	-2	6	-2
EUR/USD		1.09	-0.2	1	2	-3	2
USD/JPY		129.9	0.3	1	-2	13	-1
EM/USD		51.4	0.0	1	3	-3	3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		87	0.9	1	4	-3	1
Industrials Metals (index)		178	-0.1	1	8	-2	8
Agriculture (index)		68	0.7	1	0	6	-1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.2	0.2	-1.3	-1.6	-12.7	-2.4
US 10y Swaption Volatility		112.6	0.5	-4.9	-5.2	31.7	-14.0
Global FX Volatility		10.2	0.0	-0.2	-0.4	3.0	-0.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		203	-4.3	4	-15	9	-3
Italy		181	1.6	10	-29	41	-34
Portugal		87	0.2	4	-13	20	-15
Spain		96	0.5	3	-11	21	-13

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



## Emerging Market Financial Indicators

Last updated: 26/01/2023 12:18 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	-0.3	-1.4	2	-7	2	-7		3.2	0.1	5	12	47	15	36
Indonesia		14948	0.1	1.0	5	-4	4	-4		6.7	1.7	5	-26	27	-26	18
India		82	0.2	-0.4	1	-8	1	-9		7.4	0.9	9	3	79.5	-1	
Philippines		54	0.4	0.4	2	-6	2	-6		5.9	-2.5	-3	-8	138	-8	95
Thailand		33	-0.1	0.4	6	1	6	-1		2.5	0.0	2	-12	32	-17	24
Malaysia		4.25	0.4	1.5	4	-1	4	-1		3.7	0.9	1	-32	6	-31	6
Argentina		185	-0.2	-1.2	-5	-43	-4	-42		86.1	23.6	182	114	3711	-213	3812
Brazil		5.08	0.0	2.0	3	7	4	-1		13.2	9.6	62	39	173	65	170
Chile		805	-0.3	2.6	9	0	6	-2		5.2	0.0	-3	-21	-54	-19	-77
Colombia		4535	-0.3	3.6	4	-13	7	-14		9.6	0.0	-1	18	232	-15	175
Mexico		18.84	-0.3	0.8	3	10	4	7	#N/A Invalid Se ##### #VALUE! #VALUE! ##### #VALUE!							
Peru		3.9	0.1	-1.3	-2	-1	-2	-4		8.1	1.2	4	11	198	9	206
Uruguay		39	0.2	0.5	1	14	2	9		10.2	0.0	-25	-41	146	-52	201
Hungary		357	-0.8	2.0	5	-10	5	-10		7.8	4.0	37	-157	312	-184	295
Poland		4.34	-0.4	0.5	1	-6	1	-6		5.2	1.5	14	-85	135	-95	135
Romania		4.5	0.2	1.5	3	-2	3	-2		7.2	-8.5	-2	-53	224	-48	206
Russia		69.1	0.3	0.4	0	15	7	18		10.3	-16.5	-102	-93	45	-158	-90
South Africa		17.1	0.0	1.0	-1	-10	0	-12		8.7	-1.0	-9	-39	102	-51	107
Turkey		18.81	-0.1	-0.3	-1	-28	-1	-27		10.4	25.0	29	9	-1236	58	-1201
US (DXY; 5y UST)		102	0.2	-0.3	-2	6	-2	6		3.57	2.0	8	-29	188	-44	166

	Equity Markets							Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD		Level		Change (in basis points)			YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M		
									basis points						
China		4182	0.0	3	9	-13	8	-10		186	-2	-1	-15	9	-22
Indonesia		6865	0.5	1	-1	4	0	-1		154	-12	3	-26	14	-31
India		60205	0.0	-1	-1	4	-1	5		148	-5	1	8	6	-6
Philippines		7043	-0.5	0	7	-3	7	-4		115	-14	6	4	18	-22
Thailand		1671	-0.6	-1	2	2	0	-1		0	0	0	0	0	0
Malaysia		1498	-0.1	0	2	-1	0	-6		108	0	6	-13	8	-25
Argentina		260074	3.2	10	35	203	29	185		1844	-1	-338	-76	-361	107
Brazil		114270	1.1	2	5	3	4	2		279	5	-1	-40	5	-52
Chile		5259	0.0	1	1	16	0	20		141	-3	8	-10	9	-33
Colombia		1301	-0.7	-2	4	-15	1	-14		366	-3	-10	4	-6	-26
Mexico		54871	0.0	3	9	8	13	7		362	4	-19	19	-19	-8
Peru		23096	-0.2	1	9	2	8	-1		198	3	18	42	18	8
Hungary		46944	1.5	1	4	-10	7	-2		221	-21	3	94	-1	68
Poland		61023	0.8	1	7	-10	6	-3		98	-18	18	86	25	82
Romania		12231	0.4	1	1	-6	5	-7		251	-17	-9	48	-4	19
Russia		2174	0.2	0	2	-35	1	-30		3411	-577	938	3228	3234	2897
South Africa		80212	0.6	1	9	9	10	7		368	5	-3	-7	1	-21
Turkey		5246	-1.0	-3	-5	169	-5	160		508	-5	64	-48	68	-55
Ukraine		507	0.0	0	-2	-3	-2	-2		4086	-63	68	3058	7	2613
EM total		42	0.6	3	11	-12	11	-11		370	-1	-4	-53	-5	-88

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

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