



- The FOMC signals to start raising interest rates in March, as expected ([link](#))
- Markets pull forward rate hike expectations following Powell's press conference ([link](#))
- The Bank of Canada keeps its policy rate but signals that a rate hike is imminent ([link](#))
- Switzerland activates sectoral countercyclical capital buffer ([link](#))
- Chinese authorities are considering a proposal to break up Evergrande ([link](#))
- Chile raises key rate to 5.5% from 4%, the biggest rate hike in 20 years ([link](#))
- South Africa raises benchmark rate by 25 bps to 4%, as expected ([link](#))

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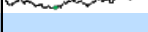
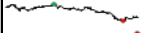
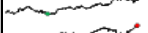

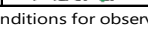
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## Markets mixed post hawkish FOMC

European bourses were modestly lower and Asian equities underperformed this morning following yesterday's FOMC. After several days of volatile market conditions, with the VIX rising for seven consecutive days, the FOMC statement—and particularly the subsequent press conference—led Treasury yields sharply higher while US equity markets sold off yesterday. This morning, US Treasury yields stabilized, the dollar strengthened and the yield curve continued to flatten as markets pulled forward their rate hike expectations and are pricing more than four rate hikes this year. The press conference was seen as hawkish, with Powell noting that the future path of policy was uncertain and that policy would need to remain flexible. Earlier on, the FOMC statement sent a clear signal for a March rate-hike lift-off, underlining concerns over inflation which was viewed to be “well above” the Fed’s 2% target. The Fed also doubled the pace of the tapering and, as a result, the asset purchase program will end at early March, instead of mid-March. Elsewhere, bond yields in the euro-area and the UK rose this morning and the trade-weighted euro fell back to 2020 levels. In emerging markets, South Africa raised rates -as expected- this morning, Chile increased its key rate by more than expected yesterday and China is reportedly considering a proposal to break up Evergrande.

Key Global Financial Indicators

Last updated: 1/27/22 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
S&P 500		4350	-0.1	-4	-9	16	-9
Eurostoxx 50		4159	-0.1	-3	-3	18	-3
Nikkei 225		26170	-3.1	-6	-10	-7	-9
MSCI EM		48	-1.3	-4	-3	-12	-3
<b>Yields and Spreads</b>							
US 10y Yield		1.84	-2.5	3	36	82	33
Germany 10y Yield		-0.04	3.8	-1	21	51	14
EMBIG Sovereign Spread		381	-8	-5	10	24	14
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		53.0	0.4	-1	0	-7	1
Dollar index, (+) = \$ appreciation		97.1	0.6	1	1	7	1
Brent Crude Oil (\$/barrel)		90.9	1.0	3	16	63	17
VIX Index (% change in pp)		30.5	-1.5	5	13	-7	13

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

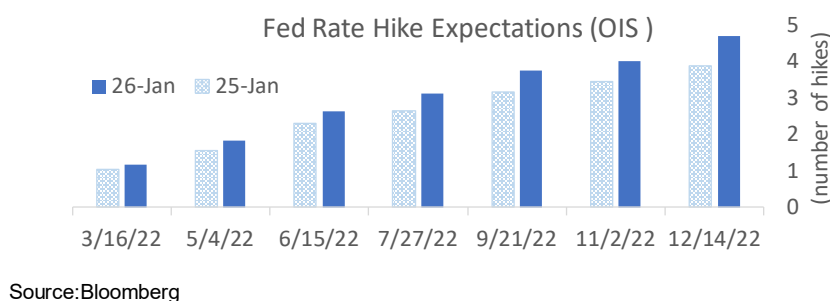
## Mature Markets

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### United States

**US stocks were down, yields were up, and the US dollar appreciated after the Fed signaled that it would start raising interest rates soon.** As broadly expected by markets, the Fed statement sent a clear signal for a March rate-hike lift-off, noting that it “will soon be appropriate” to raise rates, with inflation “well-above 2% and a strong labor market”. Moreover, the Fed doubled the pace of the tapering and, as a result, the asset purchase program will end at early March, instead of mid-March. In the press conference, Chair Powell indicated that the committee is set to increase rates at the March meeting, assuming that conditions are appropriate for doing so. He noted that the future path of policy was uncertain, that policy would need to remain flexible, and that the Fed would communicate clearly and move policy “steadily and transparently”.

**Following the press conference, markets pulled forward their rate hike expectations and are pricing more than four rate hikes this year.** The Fed also released updated principles for reducing the size of the balance sheet, not adding much new information to what was already mentioned in the December FOMC minutes. It also kept its statement on longer-run goals and monetary policy strategy unchanged, reaffirming its flexible average inflation target policy.



**Overall, the press conference was viewed as hawkish.** Specifically, Chair Powell reiterated that the labor market was stronger, and inflation was higher compared to that of the last hiking cycle. The S&P 500 turned negative during the press conference after erasing the earlier gains of more than 2%, with the VIX index rising 0.8 percentage points to 32 pts, the seventh consecutive day of increases. US Treasury yields rose sharply, driven by higher real yields, and the yield curve flattened. The 5y5y forward inflation swap rate was almost flat at 2.46%. The US dollar index appreciated 0.6% while mortgage-backed securities underperformed against US Treasuries.

This morning, the **first estimate for Q4 GDP came in much stronger than consensus** and increased an annualized 6.9% in Q4. Durable goods came in weaker than expected, while durable goods export-transportation was better than forecasts. Jobless claims decreased from the week before, with a downward revision of the previous week. Markets were little changed on the data release.

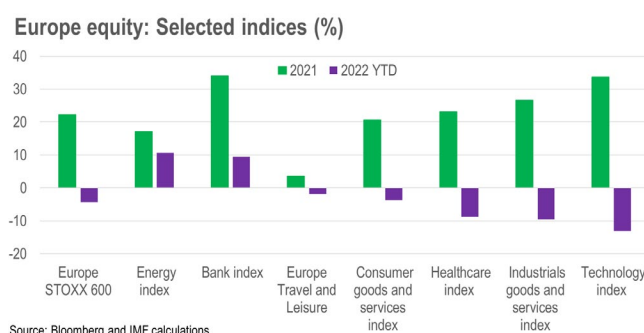
### Canada

**The Bank of Canada maintained its policy rate at 0.25% but signaled that a rate hike is imminent.** In the policy statement, the bank of Canada (BoC) said that the governing council judges that overall slack in the economy is absorbed and decided to end its commitment to hold its policy rate at the effective lower bound, expecting that interest rates will need to increase going forward. At the press conference, the governor mentioned that Omicron was one of the factors for not raising rates today. Analysts commented that today's policy decision to hold rates was more dovish than expected, reflecting worries the timing is not right to increase rates amid the Omicron outbreak. **The BoC decided that it would keep its holdings roughly constant at least until it began to raise the policy rate.** The BoC revised down their economic forecast of 2022 (from 4.3% to 4.0%) and 2023 (from 3.7% to 3.5%). As for the inflation outlook, they revised up their inflation forecast for 2022 (from 3.4% to 4.2%) and remained at the same level for 2023 (2.3%),

saying that longer-run expectations remain anchored at the 2% target. After the statement was released, the Canadian dollar depreciated (-0.5%), stocks rose (0.3%), and domestic government bond yields declined by 2-3 bps right after the meeting before some of the moves were erased after the Fed meeting. Markets are pricing in about a 90% probability of a rate hike in the March meeting.

## Euro-area

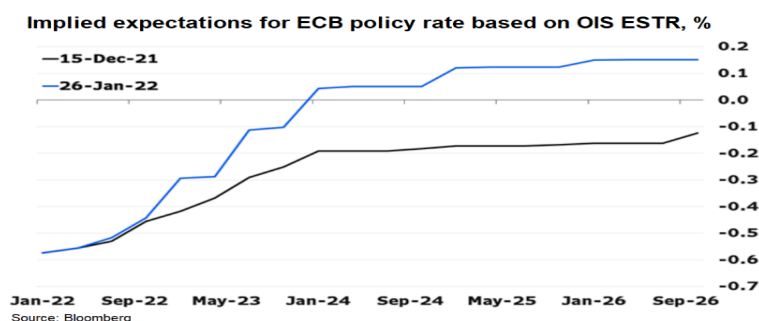
**European equities reversed some opening losses in late morning trade, with the STOXX 600 oscillating between positive and negative territory.** The index is trading roughly 1.5% lower than last week, with analysts noting that markets could be weighed down by trade tensions as the **EU is planning to take China to the World Trade Organisation today over its practices against Lithuania and some exporters from member states.** This morning the technology sector (-2.8%) continued to underperform, while the banking sector (+2.1%) outperformed supported by **strong earnings results from Sabadell and Deutsche Bank.** Contacts continue to expect significant differences across sectoral performance this year and remain optimistic on the outlook for European banks.



**The euro was trading weaker (-0.6%) and the trade-weighted euro dropped to levels last seen in the first half of 2020.** Analysts expect the euro to stay under pressure amid relatively dovish ECB commentary, with contacts also flagging that European currencies are weighed down by geopolitical tensions in Ukraine.

**Bond yields generally increased, with the 10-year bund yields +2 bps to -0.06%. Southern European and spreads narrowed marginally.** The third round Italy's presidential election yielded no winner, and the fourth ballot is expected on 27 January.

**Analysts do not expect any new policy announcements at the ECB meeting next week, while markets are pricing more rate hikes in 2023.** Bloomberg analysts note that with the path of asset purchases in 2022 already clarified in the December 2021 meeting, the upcoming meeting is expected to guide interest rate hike expectations through the risk assessment and comments in the press conference. ING analysts cautioned that market expectations will have to be managed carefully to confirm its more hawkish stance on inflation but avoid speculation on premature hikes. **In December markets were pricing in a roughly 50% chance of a 25 bps increase in 2022, and while this has not changed significantly markets have since then shifted to pricing in two hikes in 2023.**



**The ECB launched a supervisory climate risk stress tests today**, aimed at assessing banks' preparedness for financial and economic shocks as a result of climate risk. The exercise includes a questionnaire on banks' climate stress test capabilities, a peer benchmark analysis and a bottom up stress test. Banks will submit their responses in March and aggregate results are expected in July. The ECB described the test as a learning exercise to gather information and noted that while the test could indirectly impact Pillar 2 requirements, it will not have direct implications for the capital levels of banks through Pillar 2 guidance.

## Switzerland

**The Swiss National Bank is activating the sectoral countercyclical capital buffer to 2.5% of risk-weighted exposures secured by residential property in Switzerland.** The central bank noted that vulnerabilities in the real-estate sector have increased, with the volume of mortgage lending as well as prices for residential property having risen more strongly than can be justified by fundamental factors. The countercyclical capital buffer was in force from February 2013 to March 2020. The new rule will apply from 30 September.

## Asia

**Markets retreated following the FOMC's hawkish policy signals.** In Japan, equities declined (NIKKEI: -3.1%; TOPIX: -2.6%), with technology and electronics stocks being particularly hit hard. Long-end JGB yields rose (10-year: +1.8 bps; 30-year: +1.1 bps). The Japanese yen depreciated (-0.4%). **In Australia and New Zealand**, bonds underperformed regional peers. Government bond yields rose across the curve in Australia (1-year: +4.7 bps; 10-year: +7.7 bps; 30-year: +5.5 bps) but only at the long-end segment in New Zealand (10-year: +5.8 bps). The Australian dollar (-0.3%) and New Zealand dollar (-0.4%) depreciated. Meanwhile, equities declined in Australia (-1.8%) and New Zealand (-1.1%). **In New Zealand**, debt auctions drew strong demand even after CPI inflation further accelerated; CPI rose 1.4% q/q in 2021Q44 (consensus: +1.3%).

## Emerging Markets

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**Asian markets retreated following the Federal Reserve's hawkish policy signals.** Stock markets declined, -2.8% on net, led by Korean (-3.5%), Chinese (CSI 300: -2.0%) and Hong Kong (-2.0%) equities. **Asian currencies depreciated**, led by Thai baht (-0.7%) and Chinese yuan (-0.7%). Analyst noted that Thai baht underperformed as Thailand may have limited room to track the rise in US interest rates. **Long-end government bond yields rose**, with 10-year yields increasing in India (+8.9 bps), Hong Kong SAR (+7.3 bps), and Philippines (+5.9 bps). **GDP data for 2021Q4 were stronger than expectations in Philippines and Taiwan Province of China.** The economy expanded 7.7% y/y in Philippines (consensus: +6.3%) and 4.9% y/y in Taiwan Province of China (consensus: +3.9%). **In Thailand**, banks will be allowed to set up joint ventures with asset management companies to restructure debt and provide relief to pandemic-hit borrowers. **In EMEA, Russian assets gained as Belarus said that Russian forces are expected to leave after the drills.** The Russian ruble (+0.8%) and equities (+2%) traded higher while 10-yr swap yields fell 23 bps. **Regional equities were mixed while local yields traded higher in the wake of yesterday's FOMC meeting.** Polish 10-yr yields (+12 bps) rose above 4%. South African 10-yr yields (+8 bps) are also higher ahead of a central bank meeting later today. Currencies generally gained, except for the Turkish lira. **Stock markets were mixed on Wednesday in Latin America**, with Brazil gaining 1% and Peru down by 1.1%. **Currencies were mixed as well.** The sliding of Mexican peso (-0.1%) slowed down after weakening 0.7% on Monday and Tuesday. Bonds faced downside pressure from a hawkish FOMC, with most yields along the Mexico dollar sovereign yield curve increasing and 3-year bonds (+7.6 bps) moving the most in Wednesday's afternoon trading. In Brazil, annual inflation slowed less than expected in early January with prices rising 10.2% from a year ago, disappointing investors and underscoring the persistent price pressures facing the central bank before the interest rate decision next week.

## China

**The RMB depreciated (-0.7%), underperforming regional peers, partly due to sizeable outflows from the local stock markets.** Foreign investors sold net \$2.3 bn of Chinese shares via the stock connect scheme today, the worst daily outflow since July 2020. Equities declined (CSI 300: -2.0%); government bond yields rose (10-year: +1.4 bps), outperforming regional peers as China sets to employ policy stimulus to support growth. **Beijing is allowing local government financing vehicles (LGFVs) in Guizhou province to negotiate with banks to extend debt repayments.** The State Council's statement indicated that such negotiations are permitted on the condition that local governments take the responsibility of resolving debt risks and that off-balance sheet borrowings do not increase. Analysts noted that local governments in Guizhou, which is one of the poorest provinces, may have no other options to support LGFVs. Meanwhile, rich provinces claimed that they have made a progress in reducing hidden debt. Financial regulators also held a meeting with several asset management companies to discuss their participation in property developers' asset disposal.

**Chinese authorities are considering a proposal to break up Evergrande.** Reportedly, a restructuring proposal was submitted to Beijing by Guangdong officials, calling for Evergrande to sell most of its assets except for its separately listed property management and electric vehicles units. A group led by China Cinda Asset Management (a major Evergrande creditor) would take over any unsold property assets. Proceeds from asset sales would be used to repay creditors, although it remains unclear to what degree creditors would be forced to accept haircuts on their claims. Evergrande's share price dropped (-2.8%).

## Chile

**Chile increased its key rate to 5.5% from 4%, the biggest rate hike in 20 years.** Late on Wednesday, the central bank increased the overnight rate by 1.5 percentage points to 5.5%, while most analysts expected a hike of 125 basis points. The bank signaled borrowing costs will keep rising higher than many investors had expected as inflation has risen more than forecast in the past six months. According to Bloomberg, Wednesday's rate decision points to upward revisions to inflation forecasts in the next quarterly monetary report in March. High demand for labor, strong bank credit and consumption, together with global supply shortages and higher commodity costs, catapulted annual inflation to 7.2% in December.



## South Africa

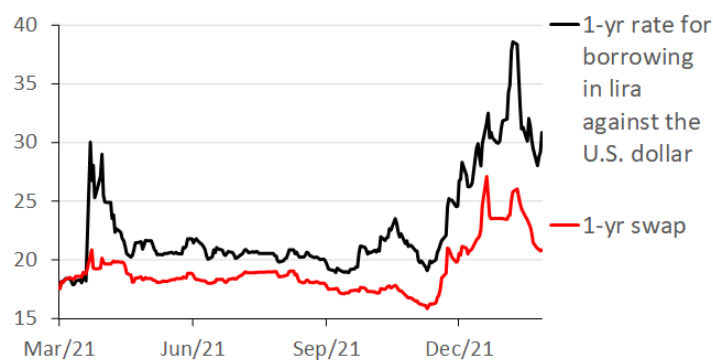
The **Reserve Bank hiked its policy rate 25 bps to 4%, as expected.** Headline inflation reached 4.5% in 2021 and the Reserve revised headline inflation for 2022 to 4.9% from previously forecast 4.3%, noting the risks to the inflation outlook are assessed to the upside. The rand (+0.4%) traded close to levels before the decision. Money markets are pricing another 200 bps of hikes in the year ahead.



## Turkey

The lira (-0.3%) depreciated and 10-year government yields rose 58 bps to 23% after the central bank (CBRT) raised its forecast for CPI inflation at end-2022 to 23% (from 11.8% previously). This compares to a forecast of 27% yoy from banks such as Citi. The CBRT expects inflation to slow to 8.2% yoy by end-2023 and return to the target of 5% in 2024. **Governor Kavcioglu emphasized that the “liraization” of the financial system will help reshape price stability on a sustainable basis.** Turkish 1-year swap yields have traded 260 bps lower in 2022 but remain elevated at 20.9% (compared to a policy rate of 14%).

Turkey: Local swap and FX-implied rates






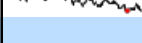




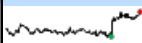





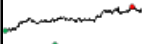



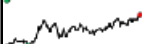
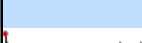
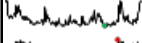


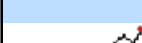
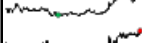



Source: Bloomberg and IMF staff

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## Global Financial Indicators

Last updated: 1/27/22 8:09 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4359	-0.1	-3	-9	16	-9
Europe		4159	-0.1	-3	-3	18	-3
Japan		26170	-3.1	-6	-10	-7	-9
China		4620	-2.0	-4	-7	-14	-6
Asia Ex Japan		80	-1.5	-4	-3	-16	-3
Emerging Markets		48	-1.3	-4	-3	-12	-3
Interest Rates			basis points				
US 10y Yield		1.84	-2.5	3	36	82	33
Germany 10y Yield		-0.04	3.8	-1	21	51	14
Japan 10y Yield		0.16	1.8	1	10	11	9
UK 10y Yield		1.25	5.3	3	33	98	28
Credit Spreads			basis points				
US Investment Grade		122	1.1	2	8	25	10
US High Yield		359	-0.5	8	20	-20	22
Europe IG		57	1.6	4	10	5	10
Europe HY		278	6.9	17	37	8	36
Exchange Rates			%				
USD/Majors		97.10	0.6	1	1	7	1
EUR/USD		1.12	-0.8	-1	-2	-8	-2
USD/JPY		115.4	0.6	1	0	11	0
EM/USD		53.0	0.4	-1	0	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		91	1.0	3	16	63	17
Industrials Metals (index)		182	-0.3	-2	5	36	5
Agriculture (index)		64	-0.3	0	3	27	5
Implied Volatility			%				
VIX Index (% change in pp)		30.5	-1.5	4.9	12.8	-6.7	13.3
US 10y Swaption Volatility		80.2	1.7	-4.0	-2.8	22.8	1.2
Global FX Volatility		7.2	0.0	0.1	-0.3	-0.4	-0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		189	-3.8	16	31	67	38
Italy		136	-4.1	3	0	16	1
Portugal		65	-2.5	3	0	8	1
Spain		72	-2.6	3	-4	10	-2

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 1/27/2022 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	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		6.37	-0.7	-0.4	0	2	0		2.7	0.5	-1	-14	-49	-11
Indonesia		14389	-0.3	-0.3	-1	-2	-1		6.5	4.7	4	11	24	8
India		75	-0.4	-0.8	0	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	-0.1	0.0	-2	-6	-1		4.6	2.5	3	3	140	10
Thailand		33	-0.5	-1.1	1	-10	0		2.2	2.0	-2	31	91	31
Malaysia		4.20	-0.1	-0.2	0	-4	-1		3.7	3.0	2	14	100	11
Argentina		105	0.0	-0.4	-2	-17	-2		49.0	0.7	-20	-82	-143	-159
Brazil		5.39	1.0	0.9	5	0	3		11.4	0.0	11	80	327	74
Chile		798	0.5	0.6	8	-7	7		5.9	23.7	19	55	338	50
Colombia		3932	0.0	1.1	2	-8	3		7.3	0.5	-14	89	320	90
Mexico		20.72	0.1	-0.9	0	-2	-1		7.6	0.0	-2	12	217	9
Peru		3.8	0.2	0.6	3	-5	4		6.1	0.0	-4	19	220	18
Uruguay		44	0.0	0.6	0	-5	1		8.8	8.3	1	1	155	6
Hungary		321	-0.2	-1.8	2	-7	1		4.7	6.5	-1	29	297	20
Poland		4.09	-0.2	-2.1	-1	-8	-1		4.0	9.0	21	51	282	44
Romania		4.4	-0.8	-1.4	-1	-9	-2		5.0	-2.3	-6	13	261	12
Russia		78.0	1.6	-2.0	-6	-3	-4		9.6	-24.6	-6	81	310	81
South Africa		15.3	0.4	-0.4	2	0	4		7.7	8.5	7	35	105	30
Turkey		13.61	-0.2	-1.9	-15	-46	-2		23.4	63.0	77	-78	1022	-92
US (DXY; 5y UST)		97	0.7	1.4	1	7	2		1.69	0.7	10	44	128	43

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		4620	-2.0	-4	-7	-14	-6		199	1	-5	-26	-4	
Indonesia		6611	0.2	0	0	11	0		174	-10	8	-18	9	
India		57277	-1.0	-5	-1	22	-2		136	-6	5	-19	4	
Philippines		7274	0.3	0	0	6	2		107	-7	8	3	6	
Malaysia		1516	0.0	-1	-2	-4	-3		118	-3	0	-19	1	
Argentina		85782	0.7	3	1	72	3		1889	17	135	473	209	
Brazil		111289	1.0	2	5	-4	6		314	-1	-6	30	3	
Chile		4542	-0.2	1	6	3	5		147	-3	6	-9	7	
Colombia		1522	-0.3	-2	8	11	8		357	13	7	126	9	
Mexico		51037	-0.1	-3	-4	15	-4		336	-6	1	-41	4	
Peru		22548	-1.1	-4	7	7	7		154	-4	3	26	4	
Hungary		53010	2.0	1	7	23	5		121	-4	-4	-24	-3	
Poland		68094	0.1	-3	0	21	-2		8	-9	-28	-21	-24	
Romania		12944	-0.6	-1	1	25	-1		197	-5	5	-7	4	
Russia		3494	4.1	-1	-7	4	-8		272	49	94	86	95	
South Africa		73074	-1.0	-4	2	16	-1		362	-5	0	-33	7	
Turkey		1967	0.8	-2	4	34	6		541	-21	-42	80	-37	
Ukraine		522	-0.2	0	0	2	0		1005	96	250	508	246	
EM total		48	-1.5	-4	-3	-12	-3		415	2	21	63	29	

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

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