GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JANUARY 27, 2023

- **US inflation data meet forecasts** (link)
- **Forward curves in US predict declining interest rates** (link)
- **Banks in US optimistic about business conditions** (link)
- **Global ESG debt issuance expected to rebound this year** (link)
- **Japanese regulator reportedly urged banks to prepare for higher interest rates** (link)
- **Equity selloff around Adani Group accelerates in India** (link)
- **South African Reserve Bank tightens less than expected** (link)
- **Eurobond markets may be opening for sub-Saharan Africa** (link)
- **Chile's central bank keeps policy rate unchanged** (link)

Mature Markets | Emerging Markets | Market Tables

US inflation data meet forecasts ahead of major central bank meetings

US yields edged lower after the Fed's favored measure of inflation, the PCE deflator, met market consensus forecasts for both headline and core numbers. US forward rate curves are predicting that the peak in the current interest rate cycle has been reached. In contrast, Japanese 10-yr swap rates shifted higher after inflation in Tokyo surprised to the upside. European equities traded with a cautious tone ahead of next week's ECB meeting. Just over half of economists surveyed see the ECB as still behind the curve, while roughly a third is concerned that the ECB will overtighten. The South African Reserve Bank tightened less than expected in what several contacts see as the end of the tightening cycle. Some analysts believe that sub-Saharan countries will start issuing Eurobonds again as global demand for bonds will remain strong. **Focus will be on central bank meetings in the US (+25 bps expected) , euro area (+50 bps) and UK (+50 bps) next week.**

Key Global Financial Indicators

Last updated: 1/27/23 12:56 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4060	1.1	4	6	-6	6
Eurostoxx 50		4169	-0.1	1	9	0	10
Nikkei 225		27383	0.1	3	5	2	5
MSCI EM		43	1.0	3	11	-10	12
Yields and Spreads					bps		
US 10y Yield		3.54	4.9	7	-30	174	-33
Germany 10y Yield		2.26	4.0	8	-27	232	-32
EMBIG Sovereign Spread		439	-5	-7	-15	58	-12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		51.4	0.1	1	3	-3	3
Dollar index, (+) = $ appreciation		101.9	0.1	0	-2	5	-2
Brent Crude Oil ($/barrel)		88.5	1.2	1	5	-1	3
VIX Index (%, change in pp)		18.9	0.2	-1	-3	-12	-3

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

Mature Markets

back to top

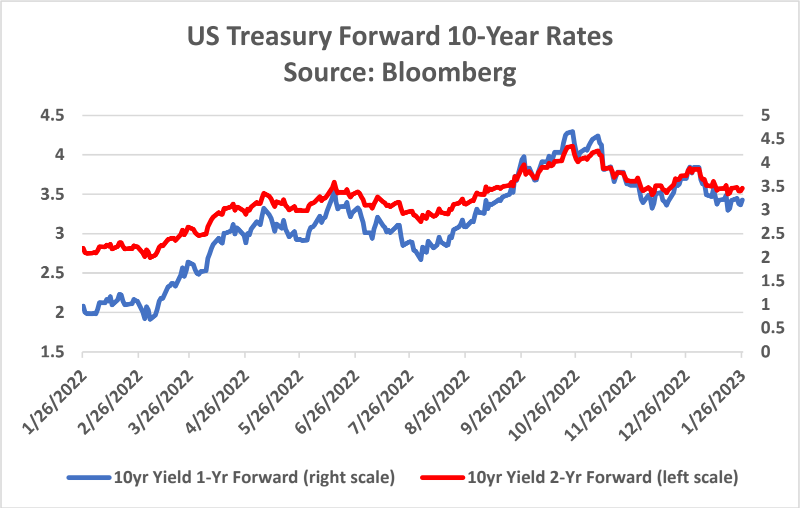
United States

The latest US economic inflation data came in exactly as expected. The PCE deflator, the Fed's favored measure of inflation, met the market consensus forecasts for both headline and core numbers. The immediate market response was for Treasury prices to tick upwards and the dollar to appreciate, although the moves were small. Equity index futures were little changed.

US Inflation Data 8.30am EST (Source: Bloomberg)

Data Point	Consensus Forecast	Actual Outcome
PCE Deflator month-on-month	0%	0.1%
PCE Deflator Annualized	5%	5%
Core PCE mom	0.3%	0.3%
Core PCE Annualized	4.4%	4.4%

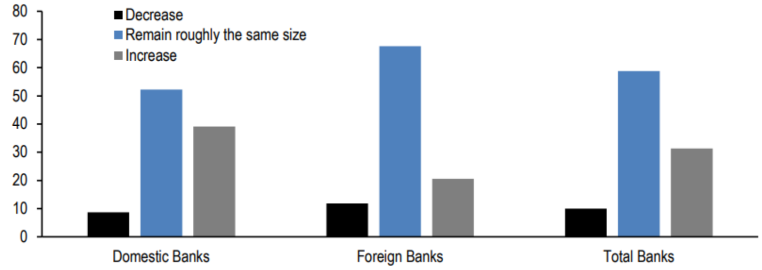
The US forward interest rate curves are predicting that the peak in the current interest rate cycle has been reached, and that the path for future rates is likely to be lower. Contacts point to the forward US Treasury curve, the forward overnight index swap curve as well as the forward Secured Overnight Funding Rate (SOFR) swap curve, which all indicate that futures rates will be lower. **For the benchmark 10-year Treasury yield, the peak came on October 24, 2022, when the 10-year traded just below the 4.25% level.** The Treasury forward curve suggests that the 10-year yield one and two years from now will be in the 3.25–3.5% range. The forward swap curves give a similar indication for 10-year rates. These market indicators are consistent with the optimistic consensus view that inflation will eventually decline and that the Fed may actually end up cutting rates by the end of the year.



The most recent Federal Reserve survey of senior loan officers found that banks are optimistic about business conditions. The survey covers 80 domestic and foreign banks accounting for just under 75% of all reserve balances. Just 10% of banks surveyed said they expected to shrink their balance sheets due to difficult business conditions, while 90% expect to either maintain or increase their balance sheets, according to analysis by JP Morgan. Domestic banks were marginally more optimistic than their foreign counterparts. 50% of the banks surveyed predicted they would grow their assets via their loan books, while 25% predicted they would grow their assets via larger holdings of high-quality liquid assets (HQLA). Just 26% of banks predicted that their reserves would decline, with the rest predicting that reserve levels will hold steady at plus or minus 2%.

Figure 1: Nearly 60% (or 47 banks) noted that they intend to maintain their balance sheet size, and 31% (or 25 banks) noted they inted to increase their balance sheets

Percentage of respondents that noted they would decrease/increase/remain their balance sheet size



Source: Senior Financial Officer Survey

Japan

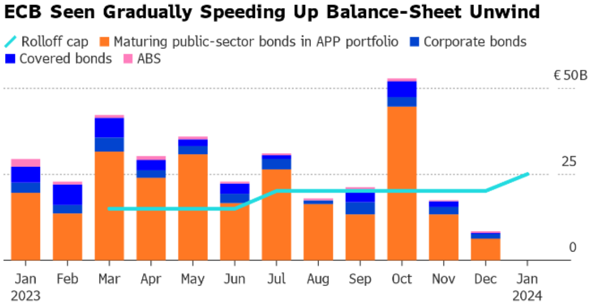
Equities were up +0.2%. Japan's financial regulator reportedly urged banks to prepare for increased interest rates. Financial Services Agency hold a regular meeting with the regional banks last week, according to Bloomberg. The regulator is reportedly studying impacts of increased rates on lenders, especially on their securities portfolios and bad-loan costs. Separately, **Tokyo inflation accelerated above expectation to 4.4% y/y in January** (consensus: 4%, previous: 3.9%). This prompted market speculation of an imminent policy shift by the Bank of Japan. **10-year yields climbed +1.5 bps, yen strengthened +0.4% and 10-yr swap rates rose 7 bps.**

Euro area

The euro was marginally weaker against the dollar while European equities were trading slightly firmer (Stoxx 600 +0.1%). On the data front, French January consumer confidence disappointed (80 versus expected 83 from 81), while Spanish Q4 economic growth data came in slightly higher than expected (+0.2%q/q vs expected +0.1% from +0.2%). **Sovereign yields continue to increase (10y bund +5 bps) adding to yesterday's increase with markets pricing the December 2023 ECB deposit rate roughly 5 bps higher.**

In addition to signals on the size of the March hike, markets are also looking to the ECB to provide more details regading the parameters for reducing APP holdings and more insight on the 0% cap on government deposits held at the ECB. ECB President Lagarde noted at the December meeting that more detailed parameters for reducing APP holdings would be announced next week, and Commerzbank analyst note that such parameters could address the distribtion of volumes over time across portfolios. **As regards the ECB's bond portfolio, a recent Bloomberg survey show that economists forecast that the initial cap of €15 bn per month up to June would be increased by €5 bn both in Q3 and again towards the end of the year**.Roughly a third of respondents see outright sales of bonds as a possibiltiy in the future.

ECB Seen Gradually Speeding Up Balance-Sheet Unwind



Source: ECB, Bloomberg survey of economists conducted Jan. 20-25
Note: Data on redemptions only available through end of year

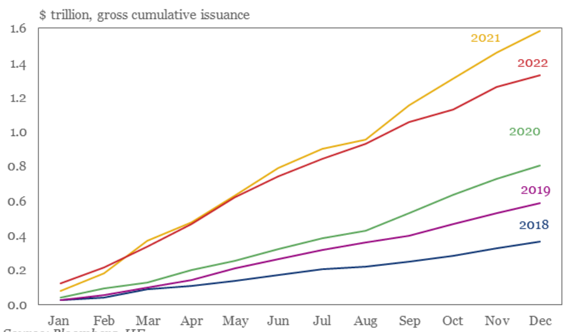
Bloomberg

Just over half of the 47 economists surveyed by Bloomberg recently see the ECB as still behind the curve, while roughly a third is concerned that the ECB would overtighten. Moreover Bloombergs survey of economists showed expectations that the deposit rate would reach 3.25% in May (following a 50 bps hike at each of the upcoming ECB meetings and another 25 bps hike in May), with rate cuts expected to start in June 2024. Contacts note that euro area inflation data due ahead of the ECB meeting on Thursday next week could support views that the ECB will not maintain its hawkish stance for long.

Climate Finance

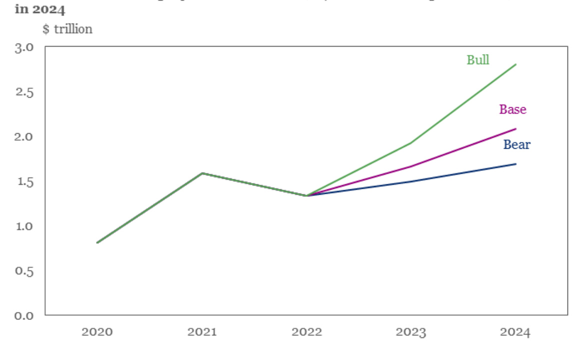
The IIF sees a strong rebound in global ESG debt issuance in 2023 amid increasing demand for ESG debt, after subdued 2022 issuance. Analyst aruge that international funding pressures should contiue to ease as the dollar softens together with an anticipated easing in global financial conditions. IIF analysts forecast global ESG debt issuance reaching a new record high $1.7 trn in their baseline projection.

Global ESG debt issuance amounted to some $1.3 trillion in 2022, down over 15% from 2021



Source: Bloomberg, IIF

ESG debt issuance is projected to climb to $1.7 trillion in 2023 and near $2 trillion in 2024



Source: IIF

Emerging Markets

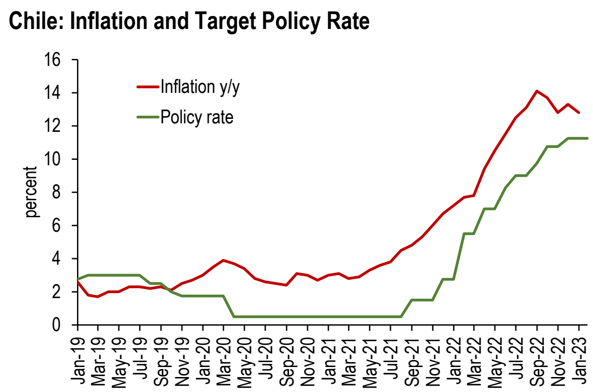
back to top

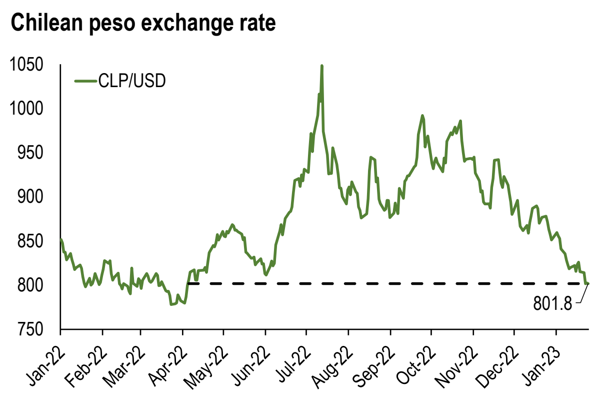
Asian equities were little changes on net. Mainland China markets remained closed. Vietnam climbed +0.8%, Thailand rose +0.7%. Asian currencies were mixed. Thai baht weakened -0.3, followed by Indonesia rupiah (-0.3%). Bank Indonesia Governor Warjiyo signaled end of rate hikes. 10-year yields mostly rose. Singapore climbed +7.5 bps, India firmed +5.4 bps, Indonesia rose +5.1 bps. Thailand's Finance Ministry upgraded its outlook for tourism and the baht for 2023, with tourism revenue now expected at $37 bn (previous: $11 bn) and the baht seen averaging 32.5 per dollar (previous: 36.7). **Equity markets are generally up in EMEA today, while currencies are range-bound.** Equity markets are slightly up in Central and Eastern Europe, while the Turkish equity market is down 1.7% and the South African one is up 0.6%. Currencies are trading in a very narrow range vs. their reference currencies. Yields on local Hungarian bonds are up 11 bps (to 7.6%) ahead of Standard & Poors' rating decision tonight. Standard & Poors' rates Hungary at BBB, but with a negative outlook since August 2022. Last week, Fitch, which also rates Hungary at BBB, changed the outlook to negative. **Markets in LATAM saw little change.** Most currencies registered modest gains against the USD. However, Peru's currency was on a rebound and appreciated 1.4%, while it's the equity markets slid another 0.8%. According to a Bloomberg report, a group of legislators have initiated a motion to impeach Peru's recently appointed president, Dina Boluarte. However, the possibility of the president getting impeached is considered low as she is backed by the majority. Equity markets in Chile (1.5%) and Mexico (0.5%) were up, while that of Brazil closed marginally lower.

Chile

Central bank leaves the target policy rate unchanged at 11.25% in a unanimous decision. While this decision was widely expected, the absence of a dovish statement from the bank took the markets by surprise. **Given the decline in December's inflation print and appreciation in the currency, analysts**

were expecting the central bank to signal for a rate cut starting in April. Instead, the central bank though acknowledged easing inflationary pressures and improvement in the terms of trade, reiterated its cautious message from the dec. meeting on inflation expectations still being higher than the target for the policy horizon. **Despite that, analysts are not completely discounting the possibility of a rate cut in April/May meetings.** The swap curve was down by 5 bps to 8 bps for tenors less than 1 year, yesterday.





Source: Bloomberg

India

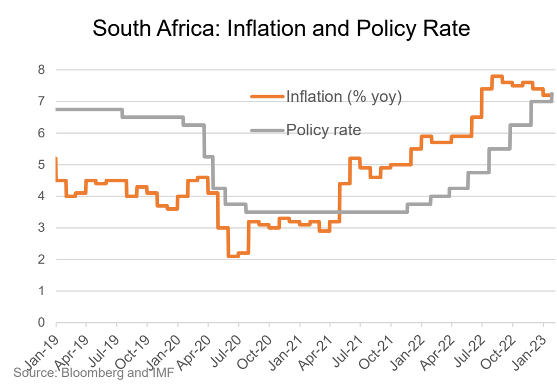
Indian equities fell -2%, shares of Indian financials plunged on Friday amid concerns about their exposure to Andani Group, while Group's flagship company fell as much as -20%.

Pakistan

The rupee was little changed today after closing 8% yesterday after the country abandoned currency exchange rate controls. The central bank had reportedly enforced an unofficial exchange rate to boost the rupee, creating a black market for the currency. 2024 Eurobond prices were little changed.

South Africa

The South African rand weakened 0.8% (to 17.2/$) since the South African Reserve Bank (SARB) tightened monetary policy by less than expected yesterday (25 bps to 7.25% vs. 50 bps expected). Importantly, the MPC revised its growth forecasts much lower (from 1.1% to 0.3% for 2023, from 1.4% to 0.7% for 2024, and from 1.5% to 1.0% for 2025), in large part because of rolling electricity blackouts, from state-owned electricity company Eskom (there were rolling backouts on 205 days last year and every day so far in 2023). **Inflation projections were relatively unchanged, as the MPC maintained its 2023 headline inflation forecast (5.4%), but reduced its core inflation forecast from 5.5% to 5.2%.** Analysts at Goldman Sachs think that this hike marks the end of the tightening cycle in South Africa. They also have a more benign medium term growth outlook than SARB and hence forecast a rate-cutting cycle beginning in Q4 2023 down to a 5.50% terminal policy rate by early 2025. In contrast, some analysts at HSBC and Bank of America expect a last 25 bps hike in March, with Bank of America expecting cuts in 2024. Analysts at JP Morgan think that the bar for further tightening is high, and see a 25 bps cut in 2023 Q4.

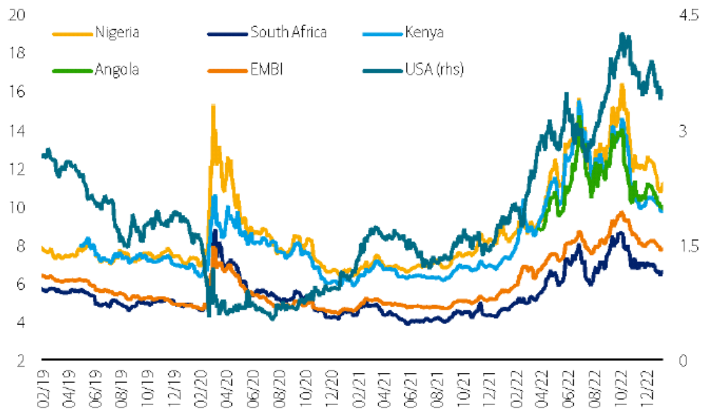


Africa

Some analysts at Bank of America write that Eurobonds markets might be opening up again for sub-Saharan countries as bond yields decline globally. They believe that Angola is the most likely candidate to go first, and is waiting for the right entry opportunity. They also think that Kenya could consider issuing ahead of its $2bn eurobond maturity in June 2024. Even though the Nigerian authorities have said that they would not access international markets this year, Bank of America analysts think that the country will consider issuing once elections are over (in February) and a new government has been formed and market conditions improve further.

Exhibit 1: Historical yields in SSA

Yields are coming down



Source: BofA research, Bloomberg

BofA GLOBAL RESEARCH

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Global Financial Indicators

Last updated: 1/27/23 12:57 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4060	1.1	4	6	-6	6
Europe		4169	-0.1	1	9	0	10
Japan		27383	0.1	3	5	2	5
China		3265	0.8	2	7	-7	6
Asia Ex Japan		73	1.1	4	11	-7	13
Emerging Markets		43	1.0	3	11	-10	12
Interest Rates					basis points		
US 10y Yield		3.54	4.9	7	-30	174	-33
Germany 10y Yield		2.26	4.0	8	-27	232	-32
Japan 10y Yield		0.49	-0.2	11	2	33	7
UK 10y Yield		3.35	3.0	-3	-29	212	-33
Credit Spreads					basis points		
US Investment Grade		144	-3.4	-6	-12	23	-15
US High Yield		441	-11.6	-17	-27	82	-39
Europe IG		79	1.1	-2	-13	22	-11
Europe HY		414	4.9	-15	-61	135	-60
Exchange Rates					%		
USD/Majors		101.91	0.1	0	-2	5	-2
EUR/USD		1.09	-0.2	0	2	-2	2
USD/JPY		129.9	-0.3	0	-3	13	-1
EM/USD		51.4	0.1	1	3	-3	3
Commodities					%		
Brent Crude Oil ($/barrel)		89	1.2	1	5	-1	3
Industrials Metals (index)		179	0.0	1	8	-1	8
Agriculture (index)		69	0.0	2	1	8	0
Implied Volatility					%		
VIX Index (%, change in pp)		18.9	0.2	-0.9	-2.7	-11.6	-2.7
US 10y Swaption Volatility		110.7	0.7	-6.3	-18.0	32.9	-15.9
Global FX Volatility		10.2	0.0	-0.1	-0.3	2.8	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		201	-0.4	2	-7	9	-5
Italy		183	1.5	2	-28	49	-31
Portugal		89	0.8	2	-12	24	-13
Spain		98	1.1	2	-7	25	-11

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

Emerging Market Financial Indicators

Last updated: 27/01/2023 1:02 PM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 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		14986	-0.3	0.6	5	-4	4	-4		6.7	6.4	12	-19	28	-20	25
India		82	0.1	-0.5	2	-8	1	-9		7.5	5.9	10	11	84.5	5	
Philippines		54	-0.1	0.1	3	-6	2	-6		5.9	0.0	-3	-8	135	-8	95
Thailand		33	-0.1	-0.5	5	1	5	-2		2.5	7.5	7	-5	38	-10	31
Malaysia		4.24	0.0	1.0	4	-1	4	-1		3.8	0.4	3	-31	6	-28	9
Argentina		185	-0.1	-1.2	-5	-43	-4	-42		86.6	55.0	153	159	3766	-158	3867
Brazil		5.07	0.1	2.8	4	7	4	-1		13.2	27.2	53	39	181	65	171
Chile		797	0.7	2.4	9	1	7	-1		5.2	4.0	12	-16	-53	-14	-72
Colombia		4519	0.3	3.4	5	-13	7	-13		9.5	0.0	-30	-12	210	-30	161
Mexico		18.75	0.2	0.7	4	11	4	8		#N/A Invalid Se	######	######	#VALUE!	#VALUE!	######	#VALUE!
Peru		3.8	1.4	0.6	-1	0	-1	-3		8.0	-1.6	-2	6	189	2	199
Uruguay		39	0.1	0.3	1	14	2	9		10.0	-10.9	-36	-52	127	-63	190
Hungary		358	-0.4	1.1	5	-10	4	-11		7.8	5.0	7	-152	309	-179	300
Poland		4.33	-0.1	0.1	2	-6	1	-6		5.3	-0.5	13	-81	132	-91	138
Romania		4.5	-0.6	0.5	3	-1	3	-3		7.1	-7.1	-10	-60	219	-55	199
Russia		69.4	0.2	-0.4	1	12	7	18		10.4	9.9	-117	-79	98	-142	-74
South Africa		17.2	0.0	-0.4	0	-10	-1	-12		8.7	0.0	-10	-39	96	-51	107
Turkey		18.81	0.0	-0.2	-1	-28	-1	-27		10.4	5.0	28	-8	-1316	58	-1201
US (DXY; 5y UST)		102	0.1	-0.1	-2	5	-2	6		3.64	4.3	7	-30	198	-37	173

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
										basis points					
China		4182	0.0	3	9	-13	8	-10		184	-3	-3	-15	7	-24
Indonesia		6899	0.5	1	1	4	1	0		148	-9	-3	-26	8	-37
India		59331	-1.5	-3	-2	4	-2	4		147	0	0	11	5	-7
Philippines		7052	0.1	0	7	-3	7	-4		115	-7	6	8	18	-22
Thailand		1681	0.6	0	1	3	1	-1		0	0	0	0	0	0
Malaysia		1498	-0.1	0	0	-1	0	-6		106	-1	4	-12	6	-27
Argentina		261499	0.5	11	34	204	29	186		1843	-102	-339	-46	-362	106
Brazil		114178	-0.1	1	5	1	4	2		274	-1	-6	-40	0	-57
Chile		5331	-0.1	2	3	17	1	22		137	-5	4	-10	5	-37
Colombia		1302	0.0	-3	3	-14	1	-14		362	-7	-14	5	-10	-30
Mexico		55164	0.5	3	9	9	14	7		357	-1	-24	21	-24	-13
Peru		22902	-0.8	0	7	2	7	-2		190	-7	10	36	10	0
Hungary		46997	0.4	1	6	-11	7	-2		219	-20	1	98	-3	66
Poland		61265	0.0	1	8	-10	7	-2		88	-20	8	80	15	72
Romania		12215	-0.1	1	0	-6	5	-7		248	-19	-12	51	-8	15
Russia		2185	0.8	1	2	-37	1	-29		3411	-577	938	3228	3234	2897
South Africa		80969	0.6	2	10	10	11	8		358	-11	-13	-4	-9	-31
Turkey		5076	-3.0	-8	-7	154	-8	152		501	-20	57	-40	61	-62
Ukraine		507	0.0	0	-2	-3	-2	-2		4075	-98	57	3070	-4	2602
EM total		43	-0.3	3	11	-10	12	-10		366	-6	-8	-49	-9	-92

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

back to top