



- Fed watchers now forecast more than four hikes in 2022 ([link](#))
- Record number of SPAC deals aborted in January ([link](#))
- Italian spreads narrow after president was re-elected ([link](#))
- Reserve Bank of Australia expected to end QE ([link](#))
- Colombia's central bank lifts rates by 100 bps to 4%, its largest hike since 2003 ([link](#))
- **SPECIAL FEATURE: EM Local Currency Bond Holdings Monitor** (attached)

[Mature Markets](#)

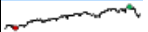
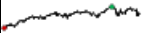


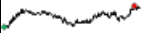


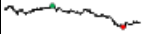
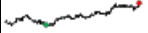
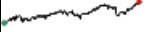
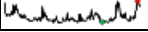
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Markets cautious amid persistent volatility

European bourses rose modestly and US equity futures were mixed in pre-market trading this morning, with prospects for monetary tightening and geopolitical risks continuing to stoke volatility. The VIX rose 1.2 pts and measures of rate volatility remained elevated. The dollar retreated slightly, however, after five consecutive days when its DXY index strengthened. Credit spreads widened, with the European iTraxx Crossover CDS index 7 bps wider this morning. In rates markets, US Treasury yields rose and the yield curve continued to flatten, with the spread between 2 and 10-year maturities narrowing to 58 bps, its flattest level since October 2020. Euro-area sovereign bond yields increased but Italian sovereign spreads narrowed after President Sergio Mattarella was elected for a second term on Saturday with a large majority, leaving prime minister Mario Draghi in his current role. Elsewhere, Colombia's central bank raised rates by 100 bps on Friday, its largest hike since 2003.

Key Global Financial Indicators

Last updated: 1/31/22 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4432	2.4	1	-7	19	-7
Eurostoxx 50		4149	0.3	2	-3	19	-3
Nikkei 225		27002	1.1	-2	-6	-4	-6
MSCI EM		47	0.5	-3	-3	-11	-3
Yields and Spreads			bps				
US 10y Yield		1.79	2.5	2	28	73	28
Germany 10y Yield		0.02	6.1	12	19	53	19
EMBIG Sovereign Spread		387	5	2	17	30	20
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		53.0	0.3	0	1	-7	1
Dollar index, (+) = \$ appreciation		97.1	-0.1	1	2	7	2
Brent Crude Oil (\$/barrel)		91.1	1.2	6	17	63	17
VIX Index (% change in pp)		28.9	1.2	-1	12	-4	12

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

In the week ahead, the ECB and BoE will announce their rate call on Thursday. The ECB is unlikely to move but is expected to provide some guidance for the timing of future rate hikes. Analysts expect the BoE to increase their policy rate by 25 bps to 0.5% in response to the unexpected surge in inflation in December. Other rate decisions planned include Zimbabwe, Ghana (Mon), Australia (Tue), Brazil (Wed), Hungary, Czech Republic and Egypt (Thu). On the macro data front, the US labor market report will be released on Friday. The consensus forecast of nonfarm payrolls is 150k. On the corporate earnings front, large tech firms in the US, including Alphabet (Tue) and Amazon (Fri), as well as megabanks in Europe and Japan will report their earnings. The winter Olympics in Beijing starts on Friday.

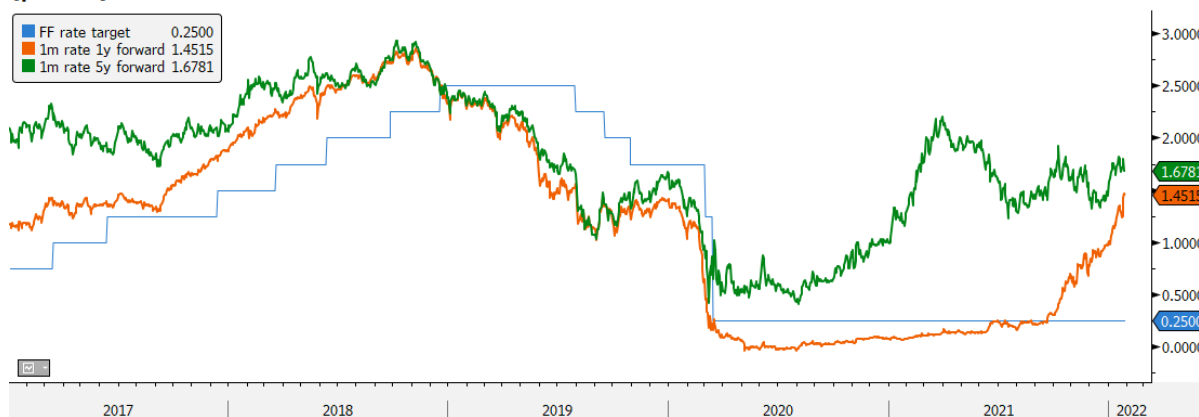
Mature Markets

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United States

Multiple investment banks are revising their Fed forecast, increasing odds of more than four hikes this year. In an extreme case, Bank of America predicts a move at every meeting, totaling seven hikes in 2022. Overnight Index Swap (OIS) 1-month rate 1-year forward has risen more than 100 bps since late last year, currently pricing five hikes this year. Meanwhile, the OIS 1-month rate 5-year forward, which is thought to correspond to the Fed's "Longer-run" dots, is little changed relative to its 2021 average, implying that market now prices a more aggressive pace of Fed hikes in the coming year rather than later.

USD OIS 1m Rate 1y Forward vs. 5y Forward (percent)

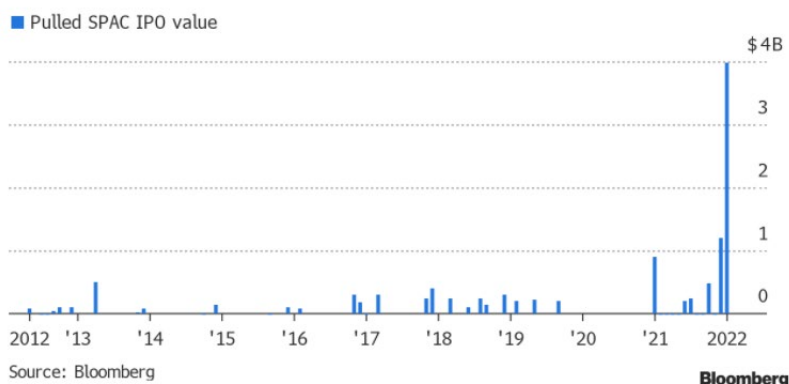


US equities rebounded on Friday, recouping the post-FOMC losses and managing to finish the week higher. Global risk sentiment somewhat stabilized on Friday and the VIX went down by 2.8 ppts to 27.7. The Nasdaq rallied by 3.1% on record revenue reported by Apple. Overall, more than 30% of S&P 500 companies have reported their results for Q4 2021 to date, and the results have been mixed despite solid Q4 GDP reports supported by inventory restocking. According to Factset, reported earnings are 4% above estimates in aggregate, which is below their five-year average of 8.6%. Contacts commented that earnings guidance signaled growing anxiety about a shift in monetary policy and economic expansion peaking for the cycle.

Dealmakers called off a record number of so-called blank-check company deals as the SPAC craze is over. According to Bloomberg, at least 14 planned listings for special-purpose acquisition companies (SPACs) that planned to raise \$4 bn in total were aborted in January amid miserable returns for the sector.

On the Rise

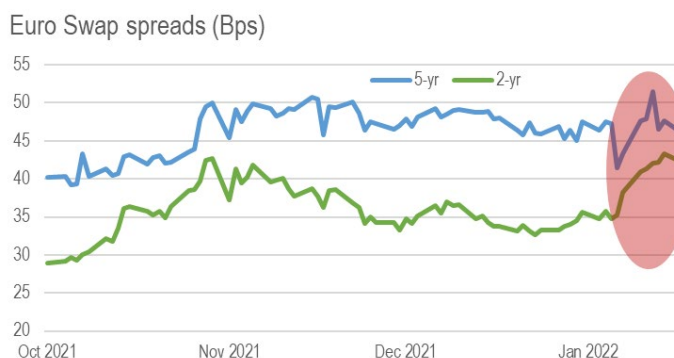
SPAC sponsors are pulling planned IPOs at a record rate

**Euro-area**

European equities were about 0.5% higher on average this morning. That said, the STOXX 600 was down close to 4.1% month-to-date with losses led by the technology sector (-13.3%). The energy sector (+9.1%) and banking sector (+7.3%) outperformed. **European bond markets saw higher yields, with 10-year bund yields (+4 bps) trading back at -0.01%.**

Southern European spreads narrowed with Italian spreads (-5 bps) **outperforming after President Sergio Mattarella was elected for a second term with a large majority, leaving the prime minister Mario Draghi in his current role.** Analysts warn that the election exposed increasing tensions among the parties backing the government, which could affect the future pace of reforms.

Euro front-end swap spreads have widened by roughly 7 bps since mid-January, amid revised interest rate expectations and higher leverage. Contacts note higher leverage implies more encumbered bonds and higher bond scarcity, while better liquidity in swaps than bonds could mean that the expectations of ECB rate hikes could have contributed to swap spreads widening. **Markets are pricing +20 bps of ECB hikes in the year ahead.** Looking forward, contacts expect that large TLTRO repayments in June, when the 50 bps subsidy ends, will alleviate bond scarcity and thus could result in narrower spreads.



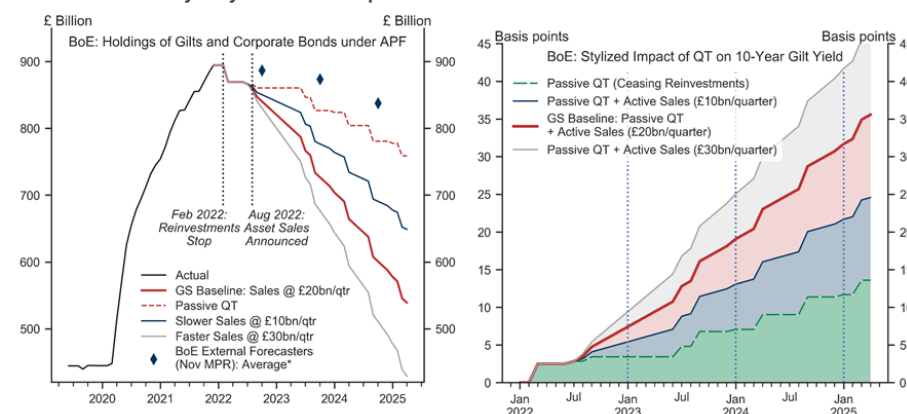
On the data front, Germany's GDP surprised to the downside, contracting -0.7% qoq, while Italy, France and Spain growth numbers delivered upside surprises. In a separate data release, **Spain's preliminary January inflation slowed less than expected**, increasing to 6.1% yoy against 5.5% consensus (from 6.6% in December).

While the euro area labor tightness has increased, it has not yet led to wage pressure. Analysts from Barclays note that the labor force participation rate and employment have improved to pre-crisis levels with unemployment close to historical lows, and that the vacancies to unemployment ratio is at its highest in the series' history. **Analysts note signs of wages trending upwards, but expect that aggregate negotiated wages could take time to rebound** given multi-year contracts.

United Kingdom

A Bloomberg survey ahead of the BoE meeting on Thursday shows that most economists expect the BoE to increase interest rates by 25 bps to 0.5%. In line of previous guidance, the 0.5% rate is the threshold for the end of Asset Purchase Facility (APF) reinvestment, **thus analysts expect the BoE to confirm the end of government bonds reinvestments** starting with £28 bn of government bonds maturing in early March. Taking stronger expected wage growth and inflation into consideration, Goldman Sachs analysts expect the rate reaching 0.75% in March and 1% in May, with the pace of rate hikes to slow thereafter. **Analysts at Goldman Sachs also see the BoE announcing a fixed and gradual schedule of assets sales starting in the summer, with sales likely to have a modest impact on financial conditions.** However, analysts noted an element of uncertainty given no prior history with QT in the UK.

Exhibit 5: Asset Sales Only Likely to have Modest Impact on Yields



Source: Goldman Sachs Global Investment Research, Bank of England

Australia

The Reserve Bank (RBA) is expected to leave its policy rate unchanged at 0.10% but end its QE program tomorrow as it updates macroeconomic forecasts. Markets are currently pricing 120 bps of hikes in the year ahead, with a first hike expected in the spring of 2022. **Expectations of the likely end of QE did not lead to higher yields in end-of-month trading, with the 3-year yield 10 bps lower at 1.30%, as the Australian dollar (+0.7%) appreciated.** Private sector growth was stronger than expected in December, at 7.2% yoy (6.9% yoy expected).

Japan

The yen (-0.2%) weakened as economic data disappointed. Retail sales (contracting 1.0% mom versus +0.3% expected), industrial production (-1% mom versus -0.6% mom expected), and housing starts (4.2% yoy versus 8% expected) all disappointed in December. Equities (+1%) closed higher in line with broader risk sentiment.

Emerging Markets

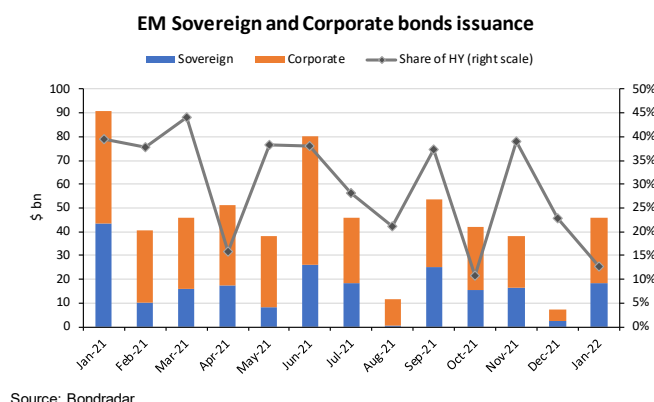
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EM equities and currencies opened the week higher. A number of markets across Asia closed for the Lunar New Year holidays. In EMEA, the Turkish lira (+1%) and South African rand (+0.5%) appreciated.

Hungarian 10-year swap rates were trading 7 bps higher at 4.82% after PPI inflation rose to 22% in December. **The Russian ruble (+0.8%) and equities (+1.6%) were higher** as both the U.S. and U.K. are reportedly working on tougher sanctions against Russia in case of a further escalation of geopolitical tensions ahead of a U.N. Security Council meeting later today. Prices on Ukrainian Eurobonds edged higher. **Latin American equities and currencies were mixed on Friday.** Equities declined in Brazil (-0.6%) and Chile (-0.4%) and rallied in Mexico (+0.4%). In Argentina, stocks outperformed (2.7%), led by banks and energy firms, and bonds jumped on reports the country and the IMF have reached an initial agreement. Meanwhile, currencies depreciated in Chile (-1.0%) and Mexico (-0.2%) and appreciated in Brazil (+0.7%) and Colombia (+0.3%).

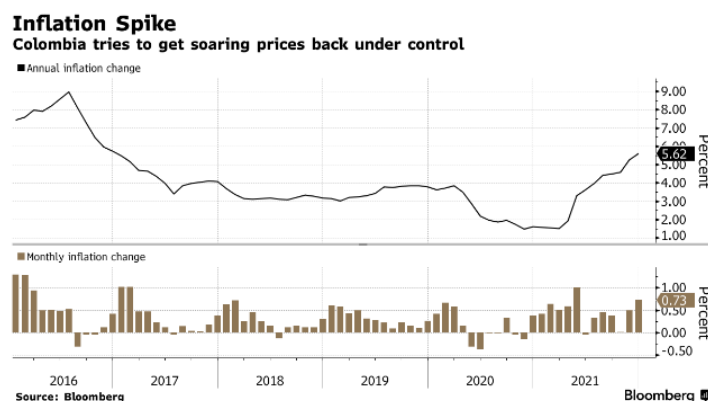
EM Bond Issuance

EM sovereign and corporate bond issuance had a moderate rebound in January following the December break. However, EM sovereign and corporate **bond issuance this January has been only about half of the issuance seen in January 2021.** Overall, EM bonds issuance printed at \$544bn in 2021 for both sovereign and corporates. In addition, the share of high yield bonds fell from 39% a year ago to only 13%, signaling more stringent financing conditions. The momentum of bond issuance has been fading away since last September as the Fed readies its normalization policy.



Colombia

Colombia lifted its key rate by 100 bps amid rising inflation. Last Friday, the central bank raised its key interest rate by one full percentage point to 4%, the largest rate hike in almost two decades. Along with several Latin American countries, Colombia is struggling to curb inflation -that reached 5.6% in December y-o-y, its highest level in 5 years. Although the scale of the latest move stunned most analysts, additional hikes are expected this year as the inflation is well above its target, the Andean economy continues to grow, and the Fed steps up its normalization cycle.



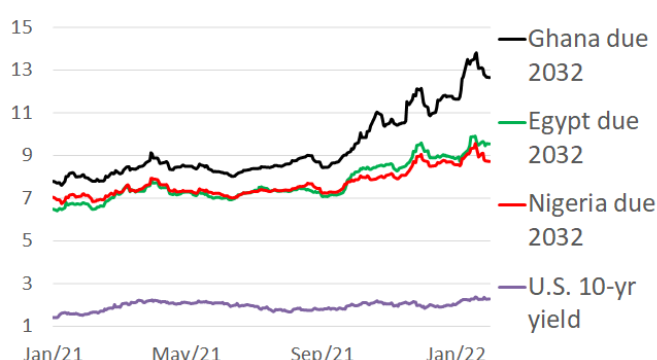
Egypt

Yields on U.S. dollar bonds have stabilized at elevated levels as analysts speculate on scenarios for a potential IMF program. BNP Paribas, for example, expects that Egypt may require a deal with the IMF this year given a growing net foreign liability positions of Egyptian commercial banks and rising gross external financing needs. The bank estimates gross financing needs of \$31.4 bn in FY21/22 (up from \$28 bn in FY20/21). In a separate news, **the tourism ministry reported that tourism revenues exceeded \$13 bn in 2021, similar to 2019 levels and above revenues of \$6-9 bn estimated by the government.** Analysts now wait for full balance of payment data to assess FX implications of better tourism data.

Ghana

Yields on Eurodollar bonds have traded lower since January 19, when FM Ofori-Atta said the government is willing to cut spending as much as 20%, depending on revenue performance. The decision of authorities to charge 1.75% on electronic transactions (E-levy) is expected to raise 1.4% of GDP in revenues and is considered the singular most important revenue measure in the 2022 budget to help the government meet its budget deficit target of 7.4% GDP (from 12% in 2021). Bloomberg consensus is that the central bank will leave rates unchanged later today at 14.50%.

Africa: Yields on U.S. dollar bonds (%)




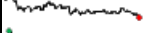
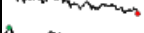





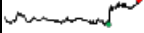


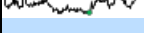
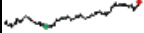


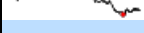


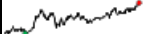



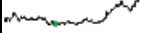
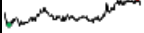
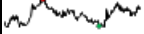



Source: Bloomberg and IMF

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Global Financial Indicators

Last updated: 1/31/22 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4435	2.4	1	-7	19	-7
Europe		4149	0.3	2	-3	19	-3
Japan		27002	1.1	-2	-6	-4	-6
China		4564	-1.2	-5	-8	-15	-8
Asia Ex Japan		79	0.3	-4	-4	-16	-4
Emerging Markets		47	0.5	-3	-3	-11	-3
Interest Rates			basis points				
US 10y Yield		1.79	2.5	2	28	73	28
Germany 10y Yield		0.02	6.1	12	19	53	19
Japan 10y Yield		0.18	0.7	4	11	12	11
UK 10y Yield		1.29	4.1	16	31	96	31
Credit Spreads			basis points				
US Investment Grade		126	2.1	5	13	30	14
US High Yield		386	-1.8	19	48	7	48
Europe IG		60	0.5	2	12	8	12
Europe HY		291	5.4	9	49	24	49
Exchange Rates			%				
USD/Majors		97.14	-0.1	1	2	7	2
EUR/USD		1.12	0.1	-1	-2	-7	-2
USD/JPY		115.4	0.1	1	0	10	0
EM/USD		53.0	0.3	0	1	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		91	1.2	6	17	63	17
Industrials Metals (index)		179	0.1	0	4	35	4
Agriculture (index)		65	0.5	3	7	29	7
Implied Volatility			%				
VIX Index (% change in pp)		28.9	1.2	-1.0	11.7	-4.2	11.7
US 10y Swaption Volatility		80.5	2.4	-4.6	1.5	20.7	1.5
Global FX Volatility		7.6	0.1	0.0	0.2	0.0	0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		187	-4.1	10	36	67	36
Italy		129	-3.9	-10	-6	13	-6
Portugal		65	-1.7	-1	1	9	1
Spain		74	-0.5	1	0	12	0

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 1/31/2022 8:05 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		6.36	0.1	-0.4	0	1	0		2.7	-3.5	-2	-17	-57	-14
Indonesia		14368	0.0	-0.2	-1	-2	-1		6.4	-2.6	2	6	23	6
India		75	0.6	-0.1	0	-2	0		6.3	0.0	0	9	75	0
Philippines		51	0.5	0.6	0	-6	0		4.6	0.0	3	10	140	10
Thailand		33	0.5	-0.8	0	-10	0		2.1	0.5	-4	26	71	26
Malaysia		4.19	0.1	0.1	0	-3	0		3.7	-1.5	-1	8	97	8
Argentina		105	-0.2	-0.5	-2	-17	-2		49.0	-22.5	23	4	-82	-157
Brazil		5.38	0.0	2.1	4	1	4		11.5	-2.0	-1	79	354	79
Chile		806	0.9	0.2	6	-9	6		5.6	0.0	15	21	298	21
Colombia		3945	0.4	0.7	3	-9	3		7.4	8.0	-2	98	323	98
Mexico		20.79	0.1	-1.1	-1	-2	-1		7.6	-3.5	-2	11	211	5
Peru		3.9	-0.3	-0.4	3	-5	4		6.1	0.2	4	21	245	21
Uruguay		44	0.0	1.1	1	-4	1		8.8	0.4	9	1	157	6
Hungary		320	0.4	-0.4	1	-8	1		4.9	10.5	19	38	311	38
Poland		4.11	-0.1	-2.0	-2	-9	-2		4.1	4.5	23	52	286	52
Romania		4.4	0.0	-1.6	-2	-9	-2		5.0	1.9	2	16	268	16
Russia		77.7	0.6	1.4	-3	-2	-3		9.5	-5.3	-47	69	303	69
South Africa		15.6	0.2	-1.9	2	-3	2		7.7	-6.5	4	27	101	27
Turkey		13.36	1.5	0.7	0	-46	0		23.5	4.0	116	-79	1060	-79
US (DXY; 5y UST)		97	-0.1	1.3	2	7	2		1.64	2.8	9	38	122	38

	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		4564	0.0	-5	-8	-15	-8		203	3	-1	-21	0
Indonesia		6631	-0.2	0	1	9	1		188	7	21	-3	23
India		58014	1.4	-2	0	19	0		140	-2	9	-16	8
Philippines		7362	1.5	2	3	8	3		119	8	18	13	18
Malaysia		1512	-0.5	-1	-4	-3	-4		122	2	4	-16	5
Argentina		88270	2.7	6	6	83	6		1751	-158	39	321	71
Brazil		111910	-0.6	4	7	-3	7		324	5	7	44	13
Chile		4554	0.2	1	6	6	6		159	6	19	5	19
Colombia		1530	0.6	1	8	13	8		373	18	23	141	25
Mexico		50662	0.4	-2	-5	18	-5		348	5	14	-30	16
Peru		22650	0.4	-1	7	7	7		167	7	16	40	17
Hungary		53217	0.7	4	5	22	5		129	0	3	-14	5
Poland		67236	0.5	2	-3	18	-3		12	-6	-24	-15	-20
Romania		13271	1.3	3	2	29	2		209	10	17	5	16
Russia		3541	1.5	9	-7	8	-7		274	31	95	93	97
South Africa		74261	1.1	3	1	19	1		370	0	8	-27	15
Turkey		1999	0.8	5	8	36	8		557	11	-32	102	-21
Ukraine		522	0.0	0	0	2	0		914	-2	159	403	155
EM total		47	0.1	-3	-3	-11	-3		417	2	24	64	31

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

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