



- US markets are down ahead of the FOCM rate decision Wednesday ([link](#))
- Increase in funding ratio of US corporate pension funds could see reallocation to bonds ([link](#))
- Commodity prices set to close January lower ([link](#))
- Eurozone avoids recession in Q4 ([link](#))
- ECB lending survey shows tightening of credit conditions ([link](#))
- China official PMIs rebounded to expansionary territory in January ([link](#))
- Ghana hikes less than expected ahead of domestic debt-exchange deadline ([link](#))
- Central bank of Kenya unexpectedly leaves policy rate unchanged ([link](#))
- Mexico's government decides to maintain Pemex tax rate at 40% ([link](#))

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









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Markets set to close month on uncertain note

Caution prevailed while market volatility picked up slightly as markets digest the latest economic data ahead of key central bank meetings later this week. Global equity and bond markets have retraced some of the moves seen this month. While on track to end the month higher, global equities have retreated during the past few trading sessions amid concerns over the sustainability of the current rally. Moreover, core sovereign yields are on track to end the month lower despite edging higher over the past several sessions. Preliminary data releases this show the euro area expanding in Q4, defying expectations of a contraction, while preliminary January inflation for France met expectations and showed prices edging higher. In the meantime the latest ECB bank lending survey showed credit conditions tightening significantly. In China official PMI bounced into expansionary territory in January amid China's continued reopening. Turning to the US, US equity futures retraced early morning losses after quarterly employment cost index was weaker than expected. While markets are focused on the upcoming Fed, ECB, and BoE meetings later this week, Kenya unexpectedly left its benchmark rate unchanged (25 bps of tightening expected), and Ghana hiked rates by a smaller-than-expected 100 bps yesterday, ahead of the domestic debt-exchange deadline today.

Key Global Financial Indicators

Key Global Financial Indicators								
Last updated: 1/31/23 11:40 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4018	-1.3	0	5	-11	5	-5
Eurostoxx 50		4127	-0.8	-1	9	-1	9	4
Nikkei 225		27327	-0.4	0	5	1	5	3
MSCI EM		41	-2.0	-1	9	-15	9	-13
Yields and Spreads			bps					
US 10y Yield		3.54	0.0	8	-34	176	-34	155
Germany 10y Yield		2.31	-1.0	15	-26	230	-26	208
EMBIG Sovereign Spread		444	5	7	-8	57	-8	31
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.0	-0.2	0	2	-4	2	-4
Dollar index, (+) = \$ appreciation		102.5	0.2	1	-1	6	-1	7
Brent Crude Oil (\$/barrel)		83.8	-1.3	-3	-2	-8	-2	-13
VIX Index (% change in pp)		20.6	0.7	1	-1	-4	-1	-10

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

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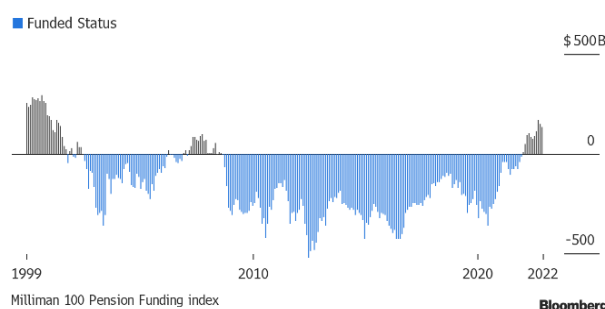
United States

Markets started the week on a weaker footing ahead of the FOMC rate decision Wednesday. Treasury yields increased as European yields marched higher following a higher-than-expected inflation print in Spain released during the overnight session. US equities sold off, erasing all gains made during the last two trading sessions. The dollar strengthened against major currencies: the DXY index was up by 0.3%. In commodity markets, Brent oil futures went down by 2%. Copper futures were also down 0.9% today but gained 24% over the last three months. Some analysts argue that an upward trend in copper prices points to a possible upside surprise for US January CPI, due to be released on February 14. **This morning data showed the quarterly employment cost index easing more than expected in Q4** (+1%q/q versus expected 1.1% from 1.2%). Treasury 2-year yields declined by 3 bps, the dollar weakened by 0.1% against euro, and US equity futures retraced early morning losses following the headline.

Pension funds' funding ratio surges to 110%, enabling reallocation to bonds. According to Bloomberg, the largest 100 US corporate pension plans' average funding ratio has increased to around 110%, the highest level in over two decades. Pension funds reach overfunded status when assets exceed the present value of liabilities, and their discount rate is determined based on high-quality bond yields. This rate surged to 5.22% at the end of 2022, up from 2.8% a year earlier. The overfunded status enables pension funds to reallocate to bonds

In Times of Surplus

The surplus at the largest 100 US corporate pension funds is the highest in two decades



from equities to immunize their portfolio, extending asset duration closer to liability. If pension fund managers were to increase their allocation by 3–4%, this could translate into \$1 trillion of bond purchases, and it is a likely inflection point for equities to go lower and bonds higher, according to analysts.

Japan

Equities fell -0.4%. Industrial production fell -2.8% y/y (previous: -0.9%), retail sales accelerated to +3.8% y/y (previous: +2.5%), Japan's jobless rate held steady at 2.5%. **10-year yields firmed +0.7 bps.** Bank of Japan's offer to lend commercial banks ¥1 tn (\$7.7 bn) for five years drew strong demand of 3.26 times the amount available (previous: 3.13). **The yen was little changed.** Nomura believes the next major movement in JGB yields will come around February when the candidate for the next BOJ governor is submitted to the Diet, provided no major surprise by advanced central banks this week.

Yen loses technical support as dollar breaks out of downtrend

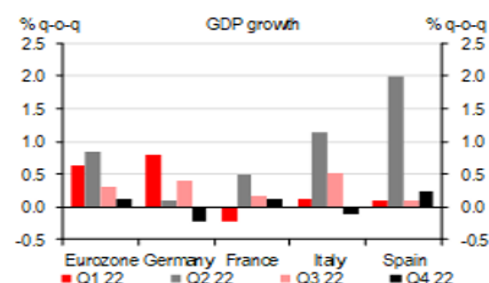


Euro Area

European markets are broadly down this morning, while all eyes are on this week's central bank meetings (Fed tomorrow, and ECB and BOE on Thursday). Equity markets are down, with the Stoxx Europe 600 down 0.9%. The euro weakened (-0.2% to 1.08/\$). Bond yields are broadly unchanged in the Eurozone, with German 10y bund yields at 2.31%, and Italian spreads steady at 187 bps.

Eurozone bond markets are broadly unchanged, as preliminary data showed the region avoided recession in Q4, growing at 0.1% q/q sa, down from Q3 (0.3% q/q), but above expectations (-0.1% q/q). This brings growth to 1.9% y/y in Q4, down from 2.3% in Q3. While German GDP growth for Q4 disappointed yesterday (-0.2% q/q vs 0% expected), French GDP data came in very slightly above expectations today, at 0.1% q/q in Q4 (vs 0% expected), and 0.5% y/y. While Italy did not technically avoid a recession in Q4, Italian growth surprised positively, with a smaller than expected contraction in Q4 (-0.1% q/q versus expected -0.2%), bringing y/y growth to 1.7%.

1. Eurozone GDP grew 0.1% q-o-q in Q4 2022

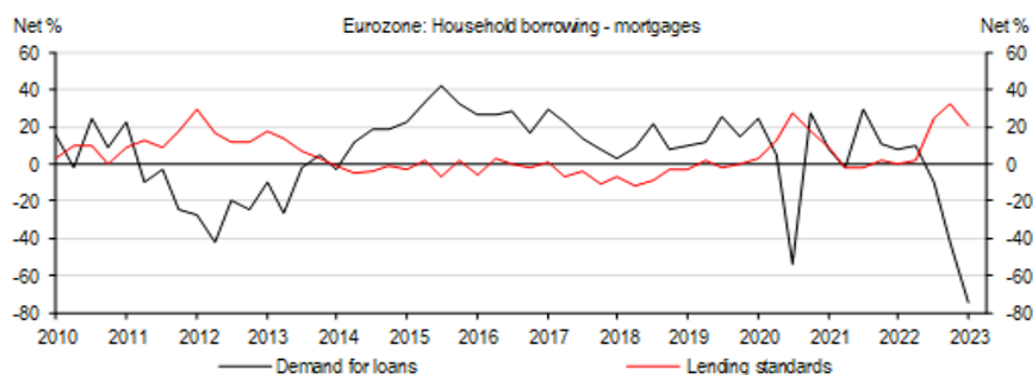


Source: Refinitiv [Datastream](#), HSBC.

Eurozone inflation data for January, due to be released tomorrow, one day ahead of the ECB's meeting might be less informative than previously thought after Germany's preliminary estimate for January inflation, originally due to be published today, has been postponed due to a technical issue. It will now be released between February 6–10, with the exact date to be confirmed on Friday, February 3. When releasing Eurozone inflation tomorrow, Eurostat is now expected to use estimates for German price growth in the euro-area composite CPI, which may render its data somewhat less informative for ECB policymakers. Markets are expecting that inflation will moderate to 8.9% y/y from 9.2% in December. This morning, French inflation for January matched exactly expectations at 7% y/y in January (0.4% m/m). It is up from 6.7% in December, but inflation excluding energy, food and tobacco moderated to 5% y/y from 5.18% in December. This follows yesterday's data release that showed an upside surprise in Spanish inflation (5.8% y/y vs 4.8% expected).

The ECB lending survey for Q4 shows a significant tightening of credit conditions for firms and a large fall in mortgages. HSBC analysts conclude that the recent significant tightening of monetary policy by the ECB is starting to take its toll on economic activity.

Demand for housing loans by households registered the sharpest drop on record

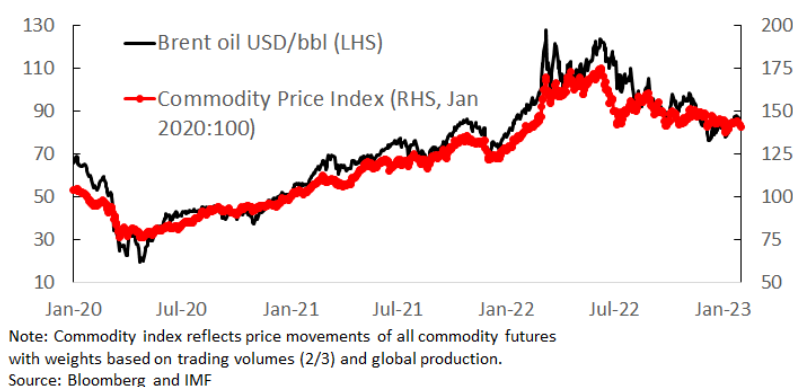


Source: HSBC and ECB BLS.

Commodities

An index of global commodity prices is set to close the month almost 3% lower. January saw a drop of 2.3% in Brent oil prices and a slide of 21% in euro area spot natural gas prices but also a noteworthy gain of 10% in some metals such as copper. Analysts at Goldman Sachs warn that much of last spring's inventory build-up in oil, metals, and grains has already been destocked and see a real risk that inventories, and spare capacity will be fully exhausted in 2023H2 if China further reopens, and EM growth reaccelerates. **The global oil market continues to see remarkable shifts following the war in Ukraine and sanctions.** Russia has been India's top supplier since June, with daily volumes reaching 1.39 mn barrels in January and expected to increase to 1.75 mn barrels a day next month.

Brent oil and bloomberg commodity price index

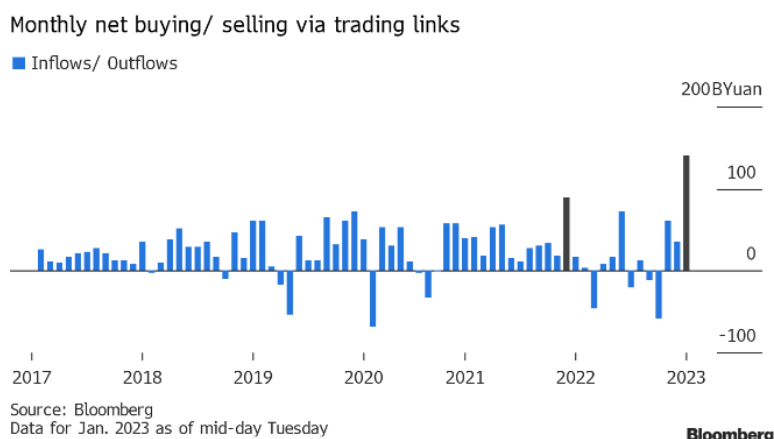


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Asian equities fell -1.3% on net. The Philippines slumped -2.5% with property firms leading the decline. Hong Kong SAR fell -1%, with Mainland China investors having sold \$0.8 bn of Hong Kong shares via the stock connect program today. India gained marginally (+0.1%). **Subscriptions to Adani's \$2.5 bn share sale was fully subscribed last minute on Tuesday.** **Asian currencies mostly depreciated.** Thai baht underperformed (-0.9%), followed by Indian rupee (-0.6). 10-year yields were broadly little changed. On the Philippines, its central bank said it will continue to adjust monetary policy to prevent a further broadening of price pressures. Separately, the World Bank approved a \$600 mn loan to support the Philippines' recovery and to build financial sector resilience. **Equities in EMEA generally traded with a cautious tone with local rates higher in several economies.** **Latin American stocks followed the broad-based equity retreat, and currencies depreciated against the dollar on Monday.** Equities in Argentina had substantial declines (-3.3%), followed by Mexico (-0.5%), Colombia (-0.4%), and Chile (-0.3%). The Colombian peso continued its decline against the dollar, depreciating another -1.6%, totaling -2.6% since January 26, the largest depreciation in the region.

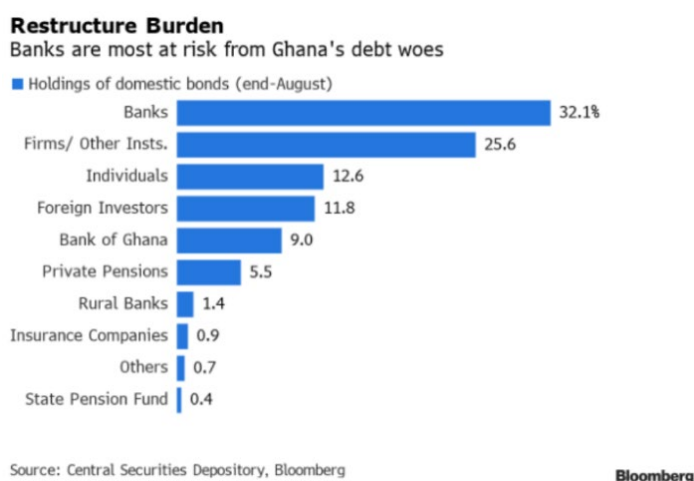
China

Equities fell (CSI 300: -1.1%) amid broader sell-off. Offshore funds net bought a record +\$20.6 bn of Mainland China shares via Hong Kong SAR trading links in January. Separately, **China official PMIs surged into expansionary territory in January**, with both manufacturing (50.1, previous 47) and non-manufacturing (54.4, previous: 41.6) gauges crossed above 50 amid China's continued reopening. Aside, **China's augmented fiscal deficit widened to a record 9tn yuan (\$1.3tn) in 2022**, as the government increased spending to support the economy, Bloomberg notes. Also, local governments paid a record \$160 bn of bond coupons in 2022, as they increased borrowing to fund infrastructure investment and fill budget gaps. Aside, China industrial profits declined to -4% YTD y/y in December (-3.6%). **10-year yields fell -1.7 bps, yuan was little changed.**



Ghana

US dollar denominated bonds due 2026 are little changed at a price of 40 after the central bank hiked rates 100 bps to 28% yesterday (compared to 200 bps expected) and contacts await further updates on the domestic debt exchange. The governor also commented that Ghana expected the IMF program to be approved by the end of the first quarter. Ghana has \$13 bn equivalent of cedi-denominated government debt, according to Bloomberg. Ghana needs 80% of bondholders to sign up for the domestic debt exchange program. Registration has already been extended three times, with a current deadline of today (January 31).



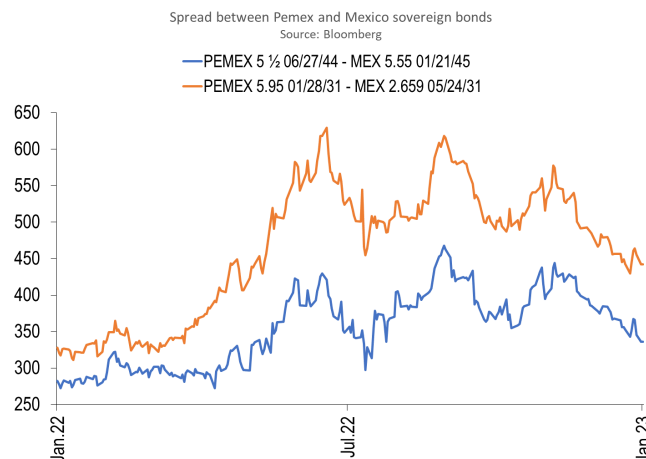
Kenya

The central bank left its policy rate unchanged at 8.75%, whereas consensus expected a hike of 25 bps. Governor Njoroge said that the pause will allow a 50-basis point hike in November to transmit in the economy while measures to allow limited duty-free imports on specific food items are expected to moderate prices and further ease domestic inflationary pressures. **Headline inflation for January is expected to print at 9.3% y/y or 0.5% m/m later today.**

Mexico

Mexico's government decides to maintain Petroleos Mexicanos (Pemex) tax rate at 40%, while still considering alternative support measures to assist paying off maturing debt. The state-owned oil company has over \$100 bn in debt, with about \$8 bn due this year. The government has bailed out Pemex in the past, and has also reduced the profit-sharing tax rate to 40% in 2022 from 54% in 2021. Deputy Finance minister, Gabriel Yorio, expressed the government's commitment to support Pemex, but did not provide


























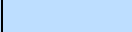


much information in addition to President Andres Manuel Lopez Obrador's statements from last Friday, which indicated that government support could include a transfer of debt to the sovereign. Bloomberg analysts caution that certain tools could risk Mexico's investment grade ratings. Spreads between Pemex bonds and sovereign bonds have been tightening since September and should continue to narrow alongside government support.



This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Aurelie Martin (Senior Economist-London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

1/31/23 11:41 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4018	-1.3	0	5	-11	5	-5
Europe		4127	-0.8	-1	9	-1	9	4
Japan		27327	-0.4	0	5	1	5	3
China		4157	-1.1	0	7	-9	7	-10
Asia Ex Japan		71	-2.1	-1	10	-12	10	-10
Emerging Markets		41	-2.0	-1	9	-15	9	-13
Interest Rates			basis points					
US 10y Yield		3.53	-0.2	8	-34	176	-34	154
Germany 10y Yield		2.31	-1.3	15	-27	229	-27	208
Japan 10y Yield		0.50	1.2	8	7	32	7	30
UK 10y Yield		3.34	0.4	6	-33	204	-33	186
Credit Spreads			basis points					
US Investment Grade		144	0.1	-3	-15	18	-15	1
US High Yield		447	4.9	1	-33	59	-33	40
Europe IG		81	1.3	2	-9	22	-9	10
Europe HY		423	7.2	6	-51	137	-51	71
Exchange Rates			%					
USD/Majors		102.53	0.3	1	-1	6	-1	7
EUR/USD		1.08	-0.2	0	2	-4	1	-4
USD/JPY		130.4	0.0	0	0	13	-1	13
EM/USD		51.0	-0.2	0	2	-4	2	-4
Commodities			%					
Brent Crude Oil (\$/barrel)		83.8	-1.3	-3	-2	5	-2	-1
Industrials Metals (index)		175	-0.9	-1	6	-2	6	-7
Agriculture (index)		69	-0.2	3	1	8	1	-1
Implied Volatility			%					
VIX Index (% change in pp)		20.6	0.7	1.4	-1.0	-4.2	-1.0	-10.4
US 10y Swaption Volatility		110.1	2.8	-6.1	-16.5	29.5	-15.6	15.8
Global FX Volatility		10.4	0.0	0.2	-0.3	3.0	-0.3	2.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		200	0.6	-9	-5	12	-5	-40
Italy		187	-0.7	11	-27	59	-27	16
Portugal		91	0.0	5	-11	26	-11	-1
Spain		100	0.2	6	-9	27	-9	-3

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

Emerging Market Financial Indicators

Last updated: 1/31/2023 11:43 AM	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		6.76	-0.1	0.4	2	-6	2	-7		3.2	-4.0	-3	13	48	13	33
Indonesia		14990	-0.1	-0.7	4	-4	4	-4		6.7	-5.1	8	-23	27	-23	21
India		82	-0.5	-0.2	1	-9	1	-9		7.4	-6.0	-1	0	83.4	-1	
Philippines		55	-0.2	-0.4	2	-7	2	-6		5.9	-2.5	-3	-10	133	-10	93
Thailand		33	-0.9	-0.6	5	1	5	-2		2.6	2.0	14	-7	46	-7	34
Malaysia		4.27	-0.7	0.3	3	-2	3	-2		3.8	1.4	6	-26	11	-26	12
Argentina		187	-0.5	-1.2	-5	-44	-5	-42		87.2	-4.5	225	-106	3815	-106	3920
Brazil		5.12	-0.2	1.5	3	4	3	-2		13.2	-4.0	-9	59	177	59	164
Chile		812	-0.5	-1.2	5	-1	5	-3		5.3	0.0	17	-2	-22	-2	-60
Colombia		4655	-1.7	-2.4	4	-15	4	-16		9.6	0.0	-8	-22	239	-22	169
Mexico		18.83	-0.3	-0.2	3	10	4	8		8.5	8.0	21	-26	91	-26	63
Peru		3.9	-0.5	0.9	-1	0	-1	-3		8.0	7.1	7	7	191	7	204
Uruguay		39	-0.2	1.0	3	14	3	9		10.1	0.5	-26	-61	128	-61	192
Hungary		360	0.0	-0.6	5	-12	4	-11		8.0	-12.0	32	-157	313	-157	322
Poland		4.35	-0.1	-0.4	1	-6	1	-7		5.4	6.5	9	-75	135	-77	148
Romania		4.5	-0.3	-0.6	2	-3	2	-4		7.2	8.1	-6	-45	225	-45	209
Russia		70.6	-0.7	-1.9	1	9	5	16		10.4	0.0	-30	-128	104	-142	-74
South Africa		17.4	-0.3	-1.4	-3	-12	-2	-13		8.7	0.0	-1	-43	104	-43	115
Turkey		18.81	-0.1	0.0	-1	-29	-1	-27		10.7	8.0	58	83	-1308	83	-1176
US (DXY; 5y UST)		103	0.2	0.6	-1	6	-1	7		3.66	-0.5	8	-35	205	-35	175

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
								basis points								
China		4157	-1.1	0	7	-9	7	-10		181	-3	4	-22	4	-27	
Indonesia		6839	-0.5	0	0	3	0	-1		147	1	7	-41	7	-38	
India		59550	0.1	-2	-2	3	-2	4		146	2	4	6	4	-8	
Philippines		6793	-2.5	-4	3	-8	3	-8		117	5	20	-2	20	-20	
Thailand		1671	-0.6	-1	0	1	0	-1		0	0	0	0	0	0	
Malaysia		1486	-0.9	-1	-1	-2	-1	-6		105	-2	5	-17	5	-28	
Argentina		245875	-3.3	-2	22	170	22	169		1825	-57	-380	74	-380	88	
Brazil		112273	0.0	0	2	0	2	0		274	6	0	-50	0	-57	
Chile		5338	0.0	2	1	17	1	22		140	2	8	-19	8	-34	
Colombia		1280	-0.4	-2	0	-17	0	-15		379	18	7	6	7	-13	
Mexico		54521	-0.5	0	12	6	12	6		361	11	-20	13	-20	-9	
Peru		22407	-1.1	-3	5	-2	5	-4		193	-2	13	26	13	3	
Hungary		45338	-0.7	-3	4	-15	4	-5		215	-6	-7	86	-7	62	
Poland		60786	0.3	-1	6	-10	6	-3		77	-18	4	65	4	61	
Romania		12184	0.5	0	4	-8	4	-8		244	-6	-11	36	-11	12	
Russia		2212	0.3	2	3	-37	3	-28		3411	-577	938	3228	3234	2897	
South Africa		79303	-1.3	-1	9	7	9	6		364	5	-3	-6	-3	-25	
Turkey		5041	-1.1	-6	-8	152	-8	150		505	8	65	-52	65	-58	
Ukraine		507	0.0	0	-2	-3	-2	-2		4133	13	54	3219	54	2660	
EM total		41	-1.5	-1	9	-15	9	-13		371	8	-4	-46	-4	-87	

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

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