



- Core yields open year sharply lower ([link](#))
- Euro area headline inflation prints below expectations in December ([link](#))
- ECB officials stick to hawkish tone so far in 2023 ([link](#))
- Brazilian real weakens on turmoil in Brasilia ([link](#))
- Ghana suspends payments on most of external debt ([link](#))
- Egyptian pound falls to record low as state banks offer high-yield deposits ([link](#))
- Chinese regulators may ease borrowing restrictions for property developers ([link](#))
- EM bond issuance fell sharply to \$339 bn in 2022 ([link](#))
- **Special Feature: 3Q22 GSIB Monitor (attached)**

[Mature Markets](#)





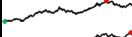






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## An eventful start to the year

**Core yields have traded sharply lower in 2023 as contacts argue that incoming data signal that the US economy is slowing more than expected.** Bond yields had previously risen into year-end after the Bank of Japan adjusted its yield curve control earlier than previously expected. Euro area core inflation printed slightly above expectations in December but euro area headline inflation was lower than expected. On Friday, US yields and the dollar fell as jobs data showed a drop in average hourly earnings and the ISM services report disappointed across components. Equities recorded sharp gains in Europe and emerging markets. **News that China is removing quarantine requirements for inbound travelers further boosted sentiment with the market reaction to the turmoil in Brasilia relatively contained so far.**

Key Global Financial Indicators

Last updated: 1/9/23 12:58 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3895	2.3	1	-1	-17	1
Eurostoxx 50		4044	0.6	5	3	-6	7
Nikkei 225		25974	0.6	-1	-7	-9	0
MSCI EM		40	2.1	4	3	-18	6
Yields and Spreads			bps				
US 10y Yield		3.60	3.9	-28	2	183	-28
Germany 10y Yield		2.27	5.6	-18	33	231	-31
EMBIG Sovereign Spread		469	3	17	2	101	17
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.5	0.4	1	1	-4	1
Dollar index, (+) = \$ appreciation		103.5	-0.4	0	-1	8	0
Brent Crude Oil (\$/barrel)		81.1	3.2	-6	7	-1	-6
VIX Index (% change in pp)		21.7	0.6	0	-1	3	0

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

This week, US CPI on Thursday is a key data release (6.5% yoy on headline inflation expected) in a relatively light week for European data. Japan will publish Tokyo CPI data. Traders will keep an eye on central bank speakers (including Chair Powell tomorrow) in a relatively light week for central bank meetings.

## Mature Markets

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### United States

On Friday, 10-yr treasury yields fell 16 bps in the wake of US jobs report and ISM data. The US dollar depreciated 1.1% versus major currencies, fully retracing its large appreciation on Thursday. **US unemployment unexpectedly fell to a low of 3.5% but traders focused on the bigger than expected drop in average hourly earnings to 4.6% y/y (5% expected) before the release of a very disappointing ISM services report.** The S&P 500 gained 2.3%—the most in more than three weeks.

**Bloomberg survey shows 65% median reported probability of US recession in 2023, while labor market remains tight.** JPMorgan analysts point out that a variety of macro-indicators—e.g., weakening in PMIs, consumer confidence, and housing data—as well as market-based indicators—e.g., the slope between 3-month T-bills and 18-month forward 3-month T-bill yields (left chart below)—indicate an increased probability of recession. On the other hand, the Fed's intense focus on labor markets indicates a risk the FOMC may need to tighten for longer, adding to the recessionary pressure: initial jobless claims continue to hover near historic lows, showing very little change in labor market momentum (right chart).

**Exhibit 2: The near-term forward spread remains inverted, underscoring increased recessionary risks, though it has steepened modestly in recent weeks...**

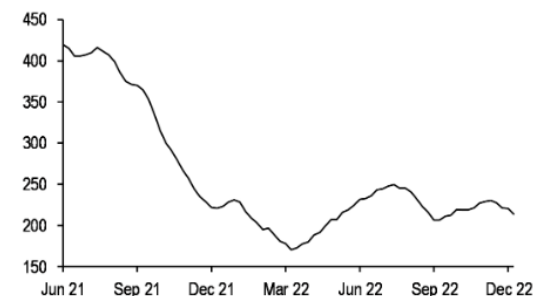
3m/18m3m par Treasury curve; bp



Source: J.P. Morgan

**Exhibit 3: ...and jobless claims continue to hover near historic lows, indicating no loss of momentum in labor markets**

Initial jobless claims, 4-week moving average; '000s



Source: Department of Labor

JPMorgan analysts highlight that advanced economies' large volatility into year end and early this year was driven by liquidity rather than fundamental considerations. Analysts expect that DM bond markets will remain in a tug of war between central banks that continue to deliver a broadly hawkish message of tightening cycle not over yet, while dismissing early expectations of rate cuts, and inflation prints that have started their decline with some downside surprise relative to consensus. Despite high volatility in 10Y yields, the repricing of expectations about terminal rates remained more modest.

### Japan

The new benchmark 10-yr government bond traded at the new 0.5% ceiling on Friday, compared to the previous 10-yr benchmark trading closer to 0.42%. The pressure on yields saw the Bank of Japan buy an additional ¥300 bn (\$2.2 bn) of five- to ten-year notes on top of the scheduled purchases on Friday. Swap markets continue to price a further rise in benchmark JGB yields with 10-year swap rates trading near 90 bps.



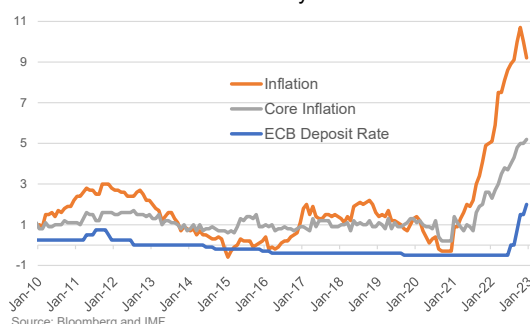
## Europe

European markets are fairly subdued at the start of a week with little data expected in the region this week. Equity markets are slightly up, with the Stoxx Europe 600 gaining 0.4%, and the UK FTSE 100 broadly unchanged. The dollar continues to weaken after US payroll data for December showed slightly lower wage growth than anticipated on Friday. The euro is gaining 0.3% (to 1.07/\$) and the British pound is up 0.3% (at 1.21 £/\$). **Euro area bond yields are higher today, after a strong rally on Friday following softer than expected inflation data in the euro area, and lower than expected wage growth in the US.** German 10y yields are up 6 bps to 2.26%, and Italian spreads are broadly stable at 202 bps. 10y gilt yields in the UK are up 5 bps to 5.2%. Note that Croatia became the 20th member of the Euro Area at the start of the year.

## Euro area

European bond yields rallied strongly, by about 10 bps Friday (10y bunds at 2.2%), after December inflation for the euro area came in softer than expected. December inflation was 9.2% yoy, lower than the 9.5% expectation, and down from 10.1% in November. **This is 1.2% lower than the peak yoy inflation reached in October (10.7%). Core inflation came in slightly above expectations however, at 5.2% yoy (5.1% expected), its highest level on record.** Bond yields pared back some of those gains today, and 10y Bund yields increased 6 bps (to 2.26%) even though unemployment data for November came in as expected in the eurozone, at 6.5%, unchanged from November, while industrial production in German for November was slightly lower than expected, but positive (0.2% mom sa, vs 0.3% expected). Market pricing of ECB rate hikes has not changed dramatically, and markets continue to see ECB rates peaking at about 3.3% in the summer, from 2% today.

Euro Area: Inflation and Policy Rate



Markets continue to pay attention to ECB policy makers' interventions, which have been on the hawkish side since the start of the year, in line with the tone of the latest ECB press conference in December, after the ECB hiked rates 50 bps to 2%. Following Friday's inflation release, ECB Chief Economist Lane said that price pressures in the euro area will remain elevated even if energy costs are starting to ease as the original energy shock resulting from the war in Ukraine and pandemic reopening effects will feed into wages for the next two to three years. He said that with wage increases so far falling

short of these price gains, there's now a gap that will keep pressure on inflation for the next number of years. He also repeated that the decisions will be data-dependent, and will follow a meeting-by-meeting approach.

**Earlier last week, ECB governing council member and French governor Villeroy de Galhau said that the ECB should complete its interest-rate increases “by the summer” and then be prepared to hold for a potentially sustained period “as long as necessary” to tame inflation that remains too high.** He added that it is too early to anticipate where rates will peak because hikes in the coming months will depend on incoming data. Last Tuesday, ECB Governing council member and Bundesbank president Nagel said additional monetary policy actions were needed to curb rising expectations of future prices and return inflation to the 2% goal as monthly surveys of firms and households were showing a significant increase in long-term inflation expectations. **Finally, on the last day of 2022, ECB president Lagarde said policy rates must be higher to curb inflation and bring it down to the ECB target of 2%, saying that things would be worse if inflation was allowed to become entrenched in the economy.**

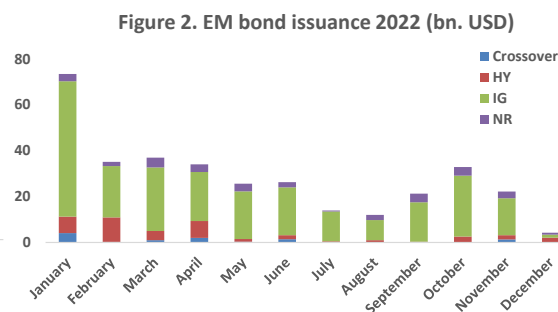
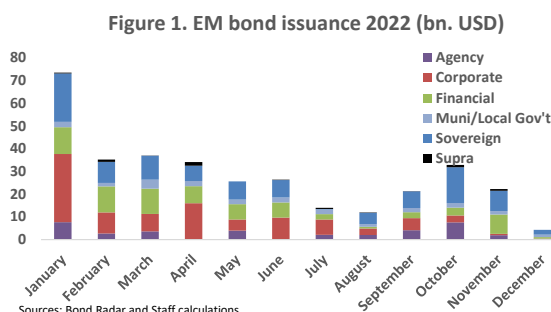
## Emerging Markets [back to top](#)

**Equity markets recorded sharp gains, especially in South Africa, Poland, and Hungary.** Shares in Istanbul opened the week lower President Erdogan signaled that presidential and parliamentary elections are likely to be held in May. **Local rates fell sharply in South Africa and Poland.** The central bank of Poland left its policy rate unchanged at 6.75% last week, as expected, as contacts believe that the bar for further increases is elevated. Hungarian swap rates are around 20 bps higher today but are still 180 bps lower on the year. **On Friday, most currencies in Latam appreciated against the US dollar, CDS spreads widened, and equity prices rose.** In Brazil, investor confidence is challenged by fears of social unrest and political instability as thousands of supporters of former President Bolsonaro invaded the country's government buildings.

**Several interest rate decisions are scheduled for this: on Tuesday, Romania (+25 bps); on Thursday, Peru (+25 bps); on Friday, Korea (+25 bps).**

## EM Bond Issuance

**Bond issuance totaled \$339 bn in 2022, down 55% compared to a year ago.** Sovereigns accounted for 30% of total issuance, followed by corporates (28%) and financials (22%). The top five issuers were in China, Korea, Singapore, Mexico and Saudi Arabia and accounted for 47% of total issuance. High-yield bond issuance declined 81% and investment grade bond issuance declined by 46% compared to 2021.



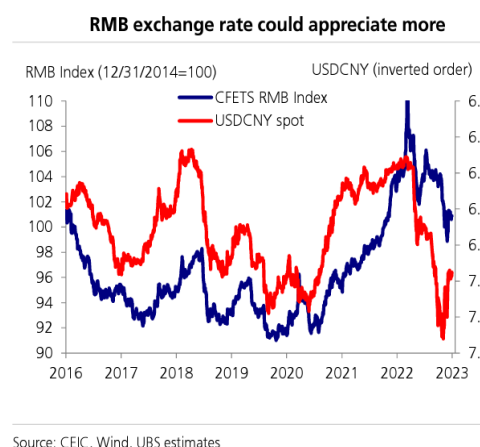
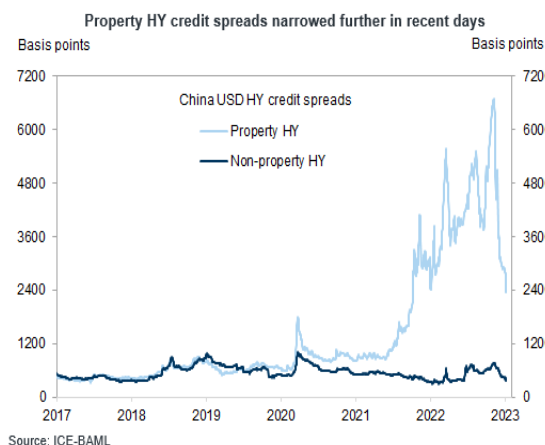
## Brazil

**The financial markets reaction to the turmoil in Brasilia has been relatively contained so far, with the Brazilian real losing 1.3% to the US dollar as the market open, but now paring these losses to 0.75% to 5.26 BRL/\$. Local 10y bond yields are up 10 bps to 12.96%, and yields on 10-yr dollar bonds**

**are up 3 bps to 5.95%.** Bloomberg points out that investors want to have a sense of how long the turmoil will last to gauge the impact on economic activity and how it will affect with the congress agenda. Supporters of ex-president Bolsonaro stormed the country's top government institutions yesterday. Protesters ransacked congress, the presidential palace and the top court in Brasilia on Sunday, hoping to trigger a military intervention one week after President Lula took office. More than 300 protesters were arrested throughout the night. **The congress, which is in recess in January, will hold an extraordinary session today to confirm President Lula's decree of a federal intervention in the security of the capital.**

## China

**Reports suggest regulators in China could roll back existing restrictions on property developers.** Bloomberg reports that China is planning to relax restrictions on developer borrowing, also known as the "three red lines" policy. Regulators would allow some developers to increase their leverage by easing borrowing limits and would also push back the grace period for meeting debt targets that have been set by the government. Most analysts see the news as supportive for the real estate sector, helping to improve liquidity for developers, and should help maintain the tightening trend in high-yield developer credit spreads (left figure). In addition, analysts anticipate fiscal and monetary policy to remain accommodative in the near-term as authorities navigate the COVID policy relaxation and worse-than-expected surge in local virus cases. **The easing of COVID containment measures in China has been much more rapid than expected since November, but the subsequent rise in cases since December has also been sharper than expected. Still-weak growth, low inflation and the post-reopening surge in COVID cases has many analysts projecting that China's monetary policy easing cycle has not yet fully run its course, and that more expansionary fiscal policy could be announced to support a stronger economic recovery from Q2 as COVID impacts are expected to subside.** If further stimulus leads to a quicker rebound in household and business confidence and a stronger growth recovery, many anticipate the RMB could continue its strengthening trend and trade closer to 6.5–6.6 USD/CNY during the second half of the year (right figure). Since the start of the year, the onshore RMB has appreciated (+1.0%) and local equities have trended higher (Shanghai +2.2%, Shenzhen +2.3%).



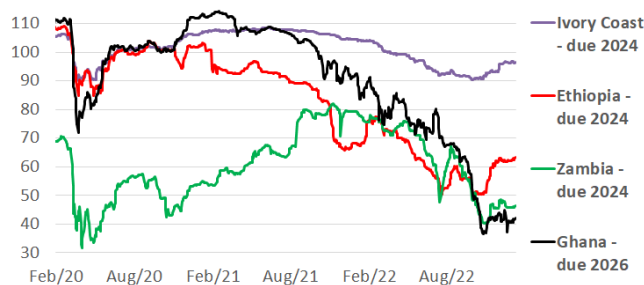
## Egypt

**The Egyptian pound (-1.4%) fell to a new record low after recording losses of almost 9% last week.** The pound fell more than 6% on Wednesday last week. **Contacts believe that the pound could weaken further in 2023 even if multilateral and regional funding will alleviate external pressures.** JP Morgan expects that the central bank to hike its policy rate another 150 bps to 17.75% in early 2023. **Meanwhile, a new 25% yield certificate of deposit offered by the two state banks has helped to withdraw 100 bn of liquidity (US\$3.6 bn).**

## Ghana

**On December 19, Ghana suspended payments on \$13 bn of eurobonds, as well as commercial loans and most bilateral obligations in an “interim emergency measure” as it negotiates an agreement with creditors.** Earlier, Ghana and IMF staff had reached a staff-level agreement on a new 3-yr arrangement under the Extended Credit Facility of about \$3 bn.

**Africa: Price of U.S. dollar bonds**



Source: Bloomberg and IMF

## Türkiye

**Equities (-2%) fell after President Erdogan signaled over the weekend that presidential and parliamentary elections are likely to be held in May.** Candidates will need to win more than 50% in the first round to avoid a second round two weeks later. A group of opposition parties are expected to declare a joint candidate soon. **Contacts had expected President Erdogan to call elections in spring of this year as growth is expected to slow later in 2023.** U.S. dollar yields and CDS credit spreads have traded lower.

**Türkiye: 5-yr U.S. CDS (bps) and yield on U.S. dollar bond (%)**



Source: Bloomberg and IMF staff

*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 Mustafa Oguz Caylan, 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), 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

Last updated: 1/9/23 12:59 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3895	2.3	1	-1	-17	1
Europe		4044	0.6	5	3	-6	7
Japan		25974	0.6	-1	-7	-9	0
China		3176	0.6	3	-1	-12	3
Asia Ex Japan		69	1.8	5	3	-17	6
Emerging Markets		40	2.1	4	3	-18	6
Interest Rates			basis points				
US 10y Yield		3.60	3.9	-28	2	183	-28
Germany 10y Yield		2.27	5.6	-18	33	231	-31
Japan 10y Yield		0.51	0.0	8	25	37	8
UK 10y Yield		3.53	6.1	-14	35	236	-14
Credit Spreads			basis points				
US Investment Grade		160	-1.5	1	6	48	1
US High Yield		460	-7.1	-20	-2	114	-20
Europe IG		81	-1.0	-10	-9	29	-10
Europe HY		420	-6.0	-54	-39	163	-54
Exchange Rates			%				
USD/Majors		103.51	-0.4	0	-1	8	0
EUR/USD		1.07	0.4	0	1	-6	0
USD/JPY		132.3	0.2	1	-3	15	1
EM/USD		50.5	0.4	1	1	-4	1
Commodities			%				
Brent Crude Oil (\$/barrel)		81	3.2	-6	7	-1	-6
Industrials Metals (index)		166	1.8	0	-2	-5	0
Agriculture (index)		67	0.1	-3	1	8	-3
Implied Volatility			%				
VIX Index (% change in pp)		21.7	0.6	0.1	-1.1	3.0	0.1
US 10y Swaption Volatility		119.4	3.1	-7.2	-15.7	36.2	-7.2
Global FX Volatility		10.9	0.1	0.1	0.2	3.7	0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		205	0.0	-18	-2	47	0
Italy		202	0.1	-10	11	66	-13
Portugal		102	0.0	1	9	39	0
Spain		109	0.0	2	7	40	0

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

## Emerging Market Financial Indicators

Last updated: 09/01/2023 1:06 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		6.78	0.7	1.7	3	-6	2	-7		3.1	0.0	1	-9	21	1	21
Indonesia		15568	0.4	0.0	0	-8	0	-8		6.9	-7.1	-5	-3	45	-4	41
India		82	0.4	0.5	0	-10	0	-9		7.4	-8.2	-9	13	59.2	-10	
Philippines		55	0.9	1.1	0	-7	1	-7		6.1	0.0	5	5	155	5	108
Thailand		33	0.8	3.2	4	1	3	-4		2.5	-7.0	-9	3	47	-9	32
Malaysia		4.37	0.7	0.7	1	-4	1	-4		4.0	-7.7	-8	-11	29	-8	29
Argentina		179	-0.2	-1.2	-5	-42	-1	-40		85.5	-98.1	-268	-350	3640	-268	3757
Brazil		5.29	-1.2	1.4	-1	7	0	-5		12.9	11.3	2	1	142	30	136
Chile		840	0.2	1.3	3	0	1	-6		5.3	2.0	-8	9	-63	-8	-66
Colombia		4860	0.0	-0.3	-1	-16	0	-19		10.1	-18.5	28	60	317	28	218
Peru		3.8	0.5	0.3	1	5	0	-2		7.8	-5.5	-16	10	179	-13	184
Uruguay		40	-0.1	0.1	-2	12	0	7		10.7	0.1	0	-14	195	0	253
Hungary		371	-0.1	1.5	7	-15	1	-14		8.2	17.0	-140	-81	340	-140	339
Poland		4.39	0.5	-0.3	1	-9	0	-8		5.0	-29.5	-115	-34	106	-115	115
Romania		4.6	0.6	0.3	1	-5	0	-5		7.4	-6.1	-25	-3	242	-25	229
Russia		69.8	3.8	2.4	-10	7	6	17		11.7	0.0	0	87	272	-14	54
South Africa		17.0	0.5	-0.2	2	-8	0	-11		8.7	-18.0	-48	-43	85	-48	110
Turkey		18.77	-0.3	-0.3	-1	-26	0	-26		8.6	3.0	0	-239	-1595	-123	-1382
US (DXY: 5y UST)		104	-0.3	0.0	-1	8	0	8		3.72	2.4	-28	-5	222	-28	182

	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		4013	0.8	4	0	-17	4	-13		183	6	-2	-14	6	-25	
Indonesia		6688	0.1	-2	0	0	-2	-3		174	34	9	9	34	-11	
India		60747	1.4	-1	-2	1	0	6		146	4	10	23	4	-8	
Philippines		6790	1.8	3	3	-5	3	-8		142	45	12	38	45	5	
Thailand		1691	1.0	1	4	2	1	0		0	0	0	0	0	0	
Malaysia		1493	0.9	0	1	-4	0	-6		104	4	8	-11	4	-29	
Argentina		213794	2.0	6	25	153	6	134		2129	-76	-265	350	-76	392	
Brazil		108964	1.2	2	1	6	-1	-3		283	9	11	-32	9	-48	
Chile		5142	0.1	-2	-1	20	-2	18		158	26	8	20	26	-16	
Colombia		1327	0.6	3	7	-5	3	-12		385	13	-18	42	13	-7	
Mexico		51731	1.8	7	3	-3	7	1		387	6	-13	54	6	17	
Peru		22262	1.7	4	0	0	4	-5		201	21	17	44	21	11	
Hungary		45864	1.0	5	4	-12	5	-4		261	39	27	147	39	108	
Poland		60730	1.5	6	9	-14	6	-3		103	30	20	84	30	87	
Romania		12250	1.0	5	0	-7	5	-7		295	40	35	106	40	63	
Russia		2166	0.4	1	-1	-43	1	-30		3411	-577	938	3228	3234	2897	
South Africa		78325	1.9	7	5	6	7	4		370	3	-31	28	3	-19	
Turkey		5233	-2.0	-8	5	157	-5	160		478	38	18	-93	38	-85	
Ukraine		514	0.0	-1	-1	-2	-1	-1		4181	102	330	3416	102	2708	
EM total		40	1.3	4	3	-18	6	-16		390	15	-1	-4	15	-68	

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

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