



- US dollar gains as markets expect Fed to hike by 75 bps tomorrow ([link](#))
- US T-Bills remain relatively expensive, challenging the QT process ([link](#))
- European gas prices jump on warning of lower gas flows ([link](#))
- EU reaches agreement to limit gas demand ([link](#))
- Chinese equities boosted by Alibaba plan to seek Hong Kong primary listing ([link](#))
- Ghana reduces budget deficit target ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Growth Concerns Persist ahead of Earnings and FOMC Meeting

The US dollar traded higher as growth worries resurfaced on news of lower gas supply from Russia to Europe and Walmart's cut to its profit outlook ahead of tomorrow's FOMC meeting. EU countries reached an agreement to voluntarily cut their gas usage through next winter, but this plan may become mandatory depending on supply. Market participants generally expect the Fed to hike 75 bps rate tomorrow, followed by hike of 50 bps in September, with investors uneasy over the ability of the Fed to simultaneously tame inflation and avoid a recession. **Earnings of major tech and non-tech companies later today will provide further insights in developments in the corporate and household sectors.**

Key Global Financial Indicators

Last updated: 7/26/22 1:11 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3967	0.1	4	1	-10	-17
Eurostoxx 50		3588	-0.4	0	2	-13	-17
Nikkei 225		27655	-0.2	3	3	-1	-4
MSCI EM		40	0.4	2	-3	-23	-19
Yields and Spreads			bps				
US 10y Yield		2.75	-4.9	-27	-38	146	124
Germany 10y Yield		0.92	-9.4	-35	-52	134	110
EMBIG Sovereign Spread		552	-10	-29	46	199	185
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.0	-0.5	-1	-3	-11	-5
Dollar index, (+) = \$ appreciation		107.2	0.6	0	3	16	12
Brent Crude Oil (\$/barrel)		106.9	1.7	0	-5	44	37
VIX Index (% change in pp)		23.9	0.6	-1	-3	6	7

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

Mature Markets

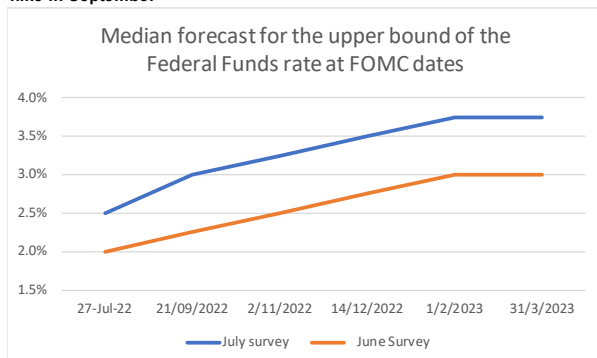
[back to top](#)

United States

Markets expect the Fed to hike by 75 bps hike amid recession fears. According to a Bloomberg survey market consensus is for a 75 bps rate hike in the July FOMC, followed by a 50 bps rate hike in September.

The result is in line with current market pricing. **Almost all participants expect the FOMC to repeat its guidance regarding ongoing rate increases being appropriate, with the FOMC focusing attention to the consumer price index and to the Michigan survey of medium-term inflation expectations as a second more important indicator.** Looking forward, the majority (around 45%) of survey respondents expects inflation to peak at 3.6–4.0% before the first rate cut in the second half of 2023, on the back of a considerable drag in growth over the next 2 years. Half participants expect an official recession, with almost all the rest expecting zero or negative growth, but not a formal recession. **Similarly, another investor survey in Bloomberg shows market uneasiness over the ability of the Federal Reserve to tame inflation without driving the economy into recession.**

Median expectation is for a 75bps rate hike in July, followed by a 50bps rate hike in September



Source: Bloomberg, Bloomberg survey

What are the chances that the Fed can control inflation and avoid recession?



Source: MLIV Pulse Survey running July 18-July 22. Respondents were asked: 'Rate the chances that the Fed can control inflation and avoid tipping the economy into a recession'

Bloomberg

T-Bills remain relatively expensive, challenging the quantitative tightening (QT) process. Conditions in the T-Bill market remain challenged despite the recent increases in offering sizes. A combination of depressed T-Bill supply, increased risk aversion and market volatility (pushing money temporarily into the front-end) and continued uncertainty about the pace of monetary policy rate hikes is likely to maintain the premium of T-Bills over respective overnight rates. **At the same time, the richness in T-Bills has pushed eligible money market investors—notably MMFs—to park their cash with the Federal Reserve, into the Overnight Reverse Repo Facility (RRP).** Surging RRP balances are pushing reserves balance lower more rapidly, creating concerns about a potentially premature end to the QT.

T-bills remain expensive relative to overnight index swaps despite the supply bump



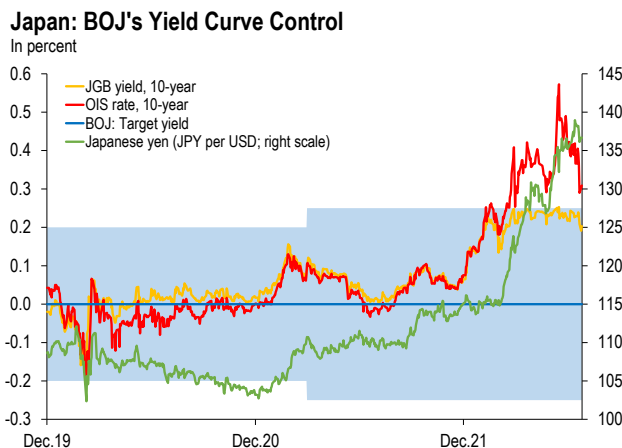
Source: Bloomberg

Bloomberg

Japan

Equities declined (NIKKEI: -0.2%), while Japanese yen was little changed. The 10-year JGB yield edged up 0.204% (+1.3 bps) after falling as low as 0.18% yesterday, a level not seen since March. Longer-end JGB yields dropped (30-year: -3.7 bps; 40-year: -5.8 bps) after a solid 40-year debt auction. The Bank

of Japan (BOJ) managed to quell speculations against its yield curve control. The 10-year OIS rate continued falling. **Analysts note that it looks less likely for the BOJ to be forced into policy normalization when the global economy is entering a slowdown.** Hajime Takata, a new BOJ Board member, also said that yield curve control can be sustained while underscoring his neutral stance on policy going forward.



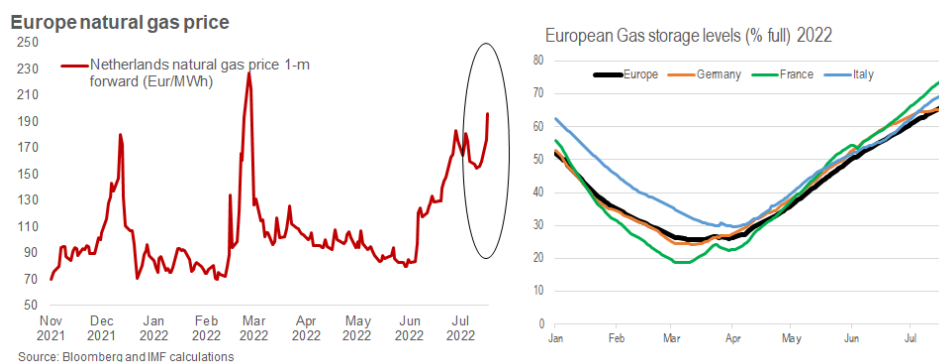
New Zealand

The Reserve Bank of New Zealand (RBNZ) will conduct a review of its monetary policy response to the pandemic. Governor Orr announced the review amid criticism that the RBNZ over-stimulated the economy, fueling a housing boom and high inflation. New Zealand dollar was little changed; the 10-year government bond yield rose (+1.8 bps), underperforming regional peers.

Euro area

The euro (-0.7%) depreciated and sovereign yields (10-yr bund -7 bps) fell as concerns over a reduction in gas flows from Russia clouded the economic outlook. Italian spreads increased (10y spread +4 bps to 322 bps). **European equities were mixed with the Stoxx 600 Europe index edging lower (-0.2%) in cautious trade ahead of the Federal Reserve's meeting tomorrow.** The banking sector was trading 0.8% lower with UBS shares down 6% after a disappointing Q2 earnings report.

European natural gas prices jumped a further 10% this morning with Russia's state-owned Gazprom warning that gas supplies via Nord Stream 1 would be reduced to 20% of its capacity, starting tomorrow. Gas flows via the Nord Stream 1 (NS1) pipeline are set to halve from the current 40% of pipeline capacity, with Russia pointing to a required turbine that reportedly remains stuck in transit, while EU's energy chief argued that lower gas flows from Russia were politically motivated. **1-m ahead Dutch natural gas prices have gained 21% so far this week and is now trading at around €196/MWh.**



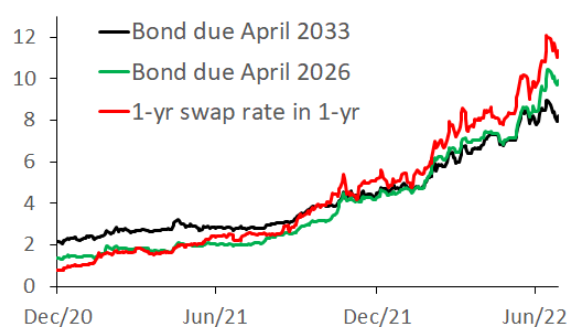
EU energy ministers reportedly reached an agreement to voluntarily curb their gas demand by 15% from August to March, 20%. An emergency meeting took place this morning to discuss proposals shared by the European Commission last week. The agreed plan reportedly also allows for targets to become binding in an emergency situation, but with certain exemptions and compulsory targets taking into account country-specific circumstances. **A reduction in Russian gas flows brings into question the ability of EU countries to reach the 80% gas storage target by November. Currently European gas storage is at 67%.**

Emerging Markets

[back to top](#)

Asian markets were mixed. Share prices rose in Hong Kong SAR (+1.8%) and China (+0.8%), while Taiwanese (-0.9%) and Malaysian (-0.7%) equities declined. **Most Asian currencies fluctuated in a tight range with the exception of Philippine peso which appreciated (+1.0%) on the news that President Marcon Jr. pledged to adopt measures to boost economic growth to 8%.** Long-end government bond yields generally declined, with 10-year yields falling in Philippines (-2.9 bps). In Korea, the economy grew 0.7% q/q in 2022Q2, stronger than expected (consensus: 0.4%), with a strong rebound in private consumption together with fiscal stimulus. Equities gained (+0.4%), while Korean won appreciated (+0.4%). **Equities and currencies traded with a cautious tone in Hungary and Poland.** Hungarian swap rates are higher ahead of an expected hike of 100 bps to 10.75% by the central bank after local bond yields had been trading about 50–70 bps lower in the past week. **Latin American assets closed higher yesterday.** Equities registered gains in Argentina (+5%), Colombia (+2.4%), and Brazil (+1.4%). The Brazilian real (+2.6%) and the Chilean peso (+2%) rallied, while the Argentine peso depreciated by 0.5%. Higher commodity prices (corn +3.5%, soybeans +2.3%, wheat +1.4%, copper +1.8%, oil +2.1%, and natural gas +5%) supported the local rallies. **The Chilean peso benefited from FX interventions by the Chilean central bank.** A mixed print in Mexican economic activity did not appear to generate sizeable reactions in asset markets: activity expanded in May 2.1% y/y, 40 bps more than expected, but declined 0.2% m/m, as retail, transport, entertainment, mining, and construction offset the monthly growth observed for other sectors. **Yields generally fell in Latin America, except for the Colombian local currency curve which shifted higher and steepened, with 10-year yields up 7 bps to 12.9%.**

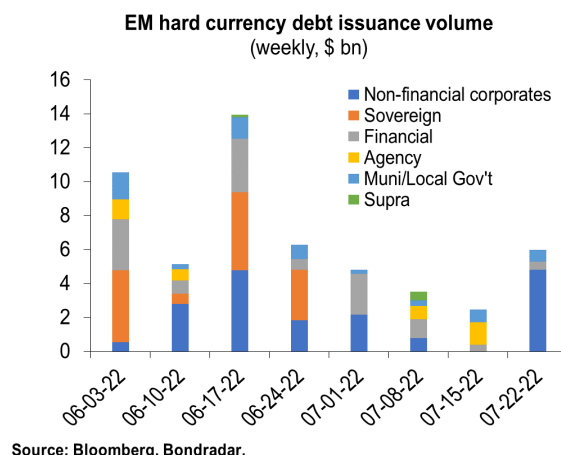
Hungary: Local currency bond yields (%)



Source: Bloomberg and IMF staff

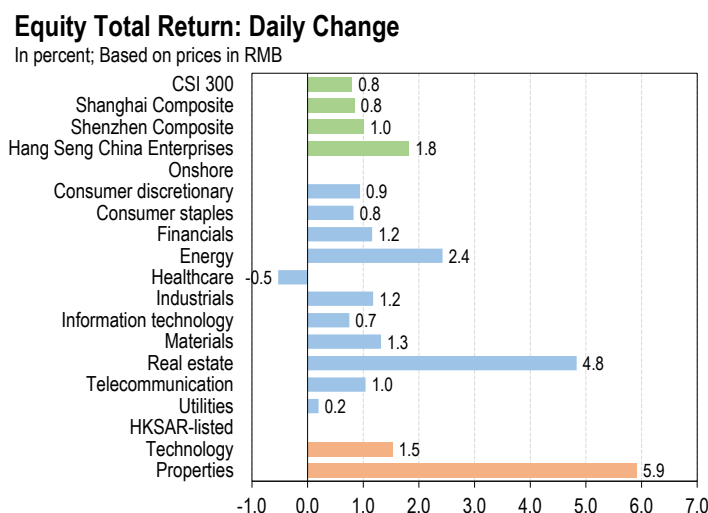
EM Hard Currency Bond Issuance

Hard currency debt issuance in EMs saw some revival last week. Total issuance stood at \$6 bn, up from \$2.5 bn the week before. Non-financial Chinese corporates tapped the market, raising \$3.3 bn (including \$1 bn from Taiwan POC and \$0.1 bn from Hong Kong SAR), while their Korean and Mexican peers offered \$0.75 bn and \$0.7 bn. An Israeli bank and Chinese local public entities issued \$0.7 bn and \$0.5 bn respectively.



China

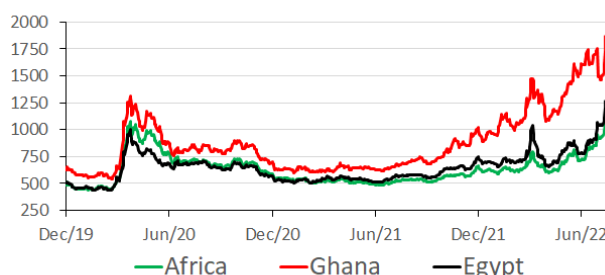
Equities gained (CSI 300: +0.8%; HKSAR-listed: +1.8%), with sentiment boosted by news that Alibaba seeks a Hong Kong primary listing. This will pave the way for Alibaba shares to be included in the Stock Connect, which would enable mainland investors to directly invest in them. Furthermore, the move also helps hedge against the risk of being de-listed from the U.S. market. Reportedly, other Chinese tech firms may follow Alibaba to apply for a Hong Kong primary listing. **Equities of real estate firms continued their rebound (onshore: +4.8%; HKSAR-listed: +5.9%) even as many analysts remain pessimistic, noting that the size of the envisaged fund insufficient to resolve problems in the real estate sector.** Improving market sentiment continued after Beijing's green light to set up a fund to support distressed property developers. However, RMB was little changed.



Ghana

The cedi (-1.6%) closed lower yesterday as the central bank unexpectedly left its policy rate unchanged at 19% and the government announced a change in the forecast of the fiscal deficit to 6.6%GDP (from 7.4% GDP previously). The government expects the deficits to be mainly financed via domestic markets while Ghana works on regaining external market access. The ministry of finance also cut its growth forecast for 2022 to 3.7% (from 5.8%) and expects inflation to end the year at 28.5% yoy. **Spreads on Ghana's U.S. dollar bonds have continued to rise in the past week.**

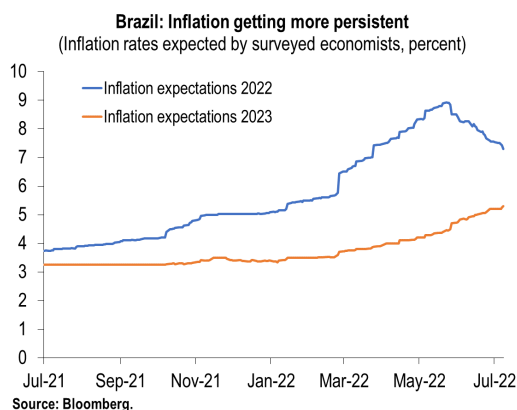
Africa: EMBIG spreads on U.S. dollar bonds (bps)



Source: Bloomberg and IMF staff

Brazil

Brazil's weekly published inflation surprised yesterday on the downside, coming in at -0.4% m/m vs. -0.2% expected and 0.2% the month before. The decline was mainly owed to transportation prices which fell by 2.9%. **But analysts surveyed by the central bank continued to see inflation getting more persistent, raising expectations for year-end 2023 inflation by 10 bps to 5.3% y/y, while lowering them for 2022 by 24 bps to 7.3%, after the oil company Petrobras announced last week a gasoline price cut of close to 5%.** To re-anchor inflation expectations some analysts now already call for additional 25 bps in rate hikes beyond the current consensus for a 13.75% peak interest rate in the ongoing tightening cycle. **Separately, Brazil's current account remained in March with \$ -2.8 bn in deficit, despite expectations for a modest \$0.4 bn surplus.** \$5 bn in profits and dividends paid were the main driver and more than offset, together with \$2 bn in interest payments, a \$3.9 bn trade account surplus.



Source: Bloomberg.

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (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), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior 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), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). 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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.









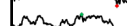


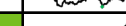

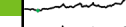

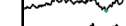



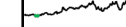




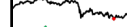
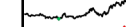
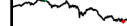







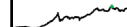



Global Financial Indicators

Last updated: 7/26/22 1:11 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3958	0.1	1	1	-11	-17
Europe		3588	-0.4	0	2	-13	-17
Japan		27655	-0.2	3	3	-1	-4
China		3277	0.8	0	-3	-3	-10
Asia Ex Japan		68	0.4	1	-3	-22	-18
Emerging Markets		40	0.4	2	-3	-23	-19
Interest Rates			basis points				
US 10y Yield		2.75	-4.9	-27	-38	146	124
Germany 10y Yield		0.92	-9.4	-35	-52	134	110
Japan 10y Yield		0.21	1.5	-3	-2	20	14
UK 10y Yield		1.90	-3.9	-28	-40	133	93
Credit Spreads			basis points				
US Investment Grade		173	0.5	2	4	82	61
US High Yield		524	3.4	-8	-5	194	186
Europe IG		109	4.4	-3	0	62	61
Europe HY		555	24.9	4	19	321	314
Exchange Rates			%				
USD/Majors		107.17	0.6	0	3	16	12
EUR/USD		1.01	-0.9	-1	-4	-14	-11
USD/JPY		136.6	0.0	-1	1	24	19
EM/USD		50.0	-0.5	-1	-3	-11	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		107	1.7	0	-5	44	37
Industrials Metals (index)		150	1.5	4	-5	-7	-13
Agriculture (index)		64	1.8	-1	-8	10	5
Implied Volatility			%				
VIX Index (% change in pp)		23.9	0.6	-0.6	-3.3	6.4	6.7
US 10y Swaption Volatility		122.6	-0.2	2.8	-3.7	39.7	43.6
Global FX Volatility		11.0	0.0	-0.7	0.0	4.2	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		205	-1.4	-14	-28	98	54
Italy		231	4.1	26	29	127	96
Portugal		111	-2.4	-1	3	49	47
Spain		118	-2.2	-2	7	49	44

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

Emerging Market Financial Indicators

Last updated: 26/07/2022 1:13 PM	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		6.76	-0.2	-0.3	-1	-4	-6		2.8	-2.0	-5	-14	-17	-2
Indonesia		14993	0.0	-0.1	-1	-3	-5		7.4	3.4	-3	10	112	105
India		80	0.0	0.2	-2	-7	-7		6.3	0.0	0	9	#####	0
Philippines		55	1.4	1.7	-1	-9	-8		5.7	0.0	0	0	168	118
Thailand		37	0.0	-0.3	-4	-10	-10		2.5	-5.5	-15	-40	90	63
Malaysia		4.46	-0.1	-0.2	-1	-5	-7		4.0	-0.8	-8	-23	83	37
Argentina		130	-0.5	-1.2	-4	-26	-21		68.7	-34.7	120	905	2413	1813
Brazil		5.38	-0.4	0.6	-3	-4	4		13.5	13.2	-10	72	413	279
Chile		937	1.9	1.1	-2	-19	-9		6.9	-1.3	7	55	283	145
Colombia		4461	0.0	-3.4	-7	-12	-9		9.8	0.0	-11	76	423	343
Mexico		20.53	-0.3	0.0	-3	-2	0		8.5	-7.5	-40	-42	161	98
Peru		3.9	0.1	-0.5	-3	0	2		8.2	0.0	-34	49	280	231
Uruguay		42	0.1	1.1	-5	5	7		11.4	0.0	0	70	351	270
Hungary		396	-1.3	-1.7	-4	-23	-18		8.5	24.0	-19	31	597	400
Poland		4.68	-1.3	-0.8	-6	-17	-14		5.4	-28.5	-83	-160	385	187
Romania		4.9	-0.9	-0.8	-4	-14	-11		8.4	-28.1	-60	-17	542	361
Russia		59.6	-2.7	-5.8	-9	24	26		8.1	3.8	-34	-10	107	-65
South Africa		16.9	-0.4	1.3	-6	-12	-6		8.9	4.5	-45	3	178	146
Turkey		17.85	-0.3	-1.6	-7	-52	-25		17.4	3.0	-145	-217	-30	-696
US (DXY; 5y UST)		107	0.6	0.4	3	16	12		2.83	-5.3	-33	-36	211	156

	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		4246	0.8	-1	-4	-11	-14		214	5	17	3	11	
Indonesia		6872	0.2	2	-2	13	4		217	-15	18	34	52	
India		55268	-0.9	1	4	5	-5		197	-17	18	41	65	
Philippines		6223	0.2	-1	0	-5	-13		149	-25	9	36	48	
Malaysia		1464	-0.4	2	2	-3	-7		145	-2	16	6	28	
Argentina		119508	5.0	13	45	82	43		2913	138	555	1348	1233	
Brazil		100270	1.4	3	2	-20	-4		346	-28	2	68	35	
Chile		5236	0.0	1	5	26	22		188	-3	19	33	48	
Colombia		1290	2.4	1	-6	3	-9		427	-34	10	151	79	
Mexico		47203	-0.1	1	-1	-7	-11		436	-33	5	82	104	
Peru		19142	-0.5	5	2	2	-9		209	-9	15	40	59	
Hungary		41506	-0.5	2	5	-12	-18		228	-29	5	87	104	
Poland		53133	-1.1	0	0	-21	-23		21	44	-68	-16	-11	
Romania		12294	0.3	2	-1	3	-6		327	-33	9	136	135	
Russia		2174	2.1	5	-9	-42	-43		3411	-577	938	3228	3234	
South Africa		68228	0.7	1	3	0	-7		497	-49	55	150	142	
Turkey		2551	0.1	2	0	89	37		748	-16	118	272	170	
Ukraine		519	0.0	0	0	-1	-1		6334	-207	1794	5820	5575	
EM total		40	-0.1	2	-3	-23	-19		464	-22	32	97	78	

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

[back to top](#)