GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, JULY 14, 2022

- **Faster Fed tightening priced after US inflation comes in above expectations** (link)
- **Bank of Canada hikes policy rate 100 bps, more than expected** (link)
- **Italian spread widens on political uncertainty** (link)
- **More aggressive tightening seen in Sweden after upside inflation surprise** (link)
- **Bango Sentral ng Pilipinas unexpectedly hikes in an unscheduled meeting** (link)
- **Monetary Authority of Singapore unexpectedly tightens monetary policy setting** (link)
- **Hungarian forint gains after declaration of "energy state of emergency"** (link)
- **Egypt raises fuel prices while analysts call for weaker, more flexible currency** (link)
- **Chile hikes 75 bps and signals more hikes ahead** (link)

Mature Markets | Emerging Markets | Market Tables

Digesting more central bank tightening

Markets have priced in more Fed hikes following yesterday's upside surprise in inflation as several central banks tightened more than expected. The federal funds rate is now expected to peak at 3.6–3.7% followed by about 85 bps of rate cuts in 2023. In Europe, Italian spreads rose sharply after the 5-star party announced that it would abstain from a key confidence vote in the Senate. Analysts see the risk of an early election as limited but caution that political developments in Italy could make ECB discussions around the anti-fragmentation tool ahead of next week's meeting more difficult. EM currencies remained under pressure this morning but the Hungarian forint gained after Hungary declared an *energy state of emergency.*

Key Global Financial Indicators

Last updated: 7/14/22 1:21 PM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3802	-0.4	-1	2	-13	-20
Eurostoxx 50		3408	-1.3	-2	-2	-17	-21
Nikkei 225		26643	0.6	1	1	-6	-7
MSCI EM		39	-0.2	-1	-4	-28	-21
Yields and Spreads					bps		
US 10y Yield		2.95	1.7	-4	-52	160	144
Germany 10y Yield		1.21	6.3	-11	-55	153	139
EMBIG Sovereign Spread		583	19	41	99	240	216
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		49.1	-0.9	-2	-5	-14	-7
Dollar index, (+) = $ appreciation		108.8	0.7	2	3	18	14
Brent Crude Oil ($/barrel)		97.6	-2.0	-7	-19	30	25
VIX Index (%, change in pp)		28.1	1.3	2	-5	12	11

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

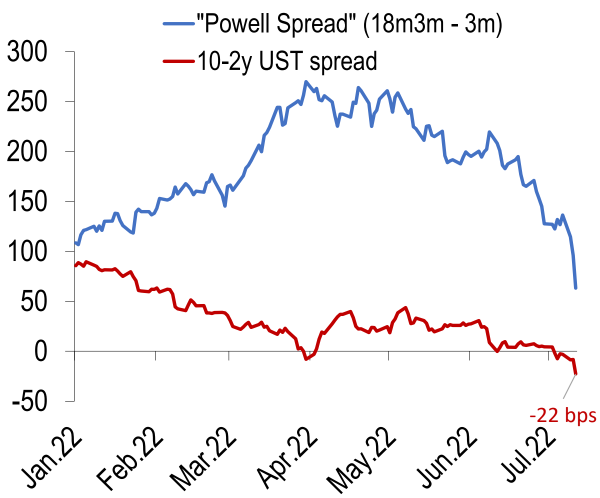
Mature Markets

back to top

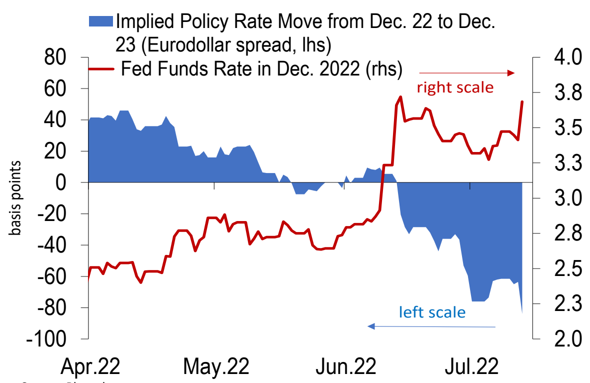
United States

Early morning data continued to point to a slowing economy and high inflation, with initial jobless claims coming in above expectations at 244k (vs 235k expected). June PPI was higher than expected at 1.1% m/m (vs 0.8%).

US equities closed 0.4% lower on Wednesday following the higher than expected CPI print. May headline inflation came in at 9.1% y/y (vs 8.8% expected), with core CPI at 5.9% y/y (vs 5.7%) and accelerating services inflation. **Treasury curve inversion deepened, with the 10-2y spread falling to -22 bps, the lowest since 2000**, as markets increasingly position for recession. **Fed Chair Powell's preferred near-term forward spread has dropped dramatically in recent weeks**—including 30 bps on Wednesday—but remains positive.



Markets price in more Fed hikes in the near term, with a peak federal funds rate at 3.6–3.7%. Following the elevated inflation print, federal fund futures shifted sharply upwards, with about 90 bps priced in for the July FOMC meeting, compared to +75 bps on Tuesday. Immediate analyst reactions have been more mixed, with many still expecting +75 bps as the baseline, albeit with an upside bias. Market expectations are now for 210 bps of tightening by December—an additional 25 bps compared to before the CPI release. Conversely, about 85 bps of rate cuts are priced in 2023, surpassing the *highs* seen in early July and a sharp turnaround from just 2 months ago.



Source: Bloomberg

Canada

The Bank of Canada (BoC) hiked 100 bps (vs 75 bps expected) yesterday, a larger-than-expected rate hike followed an elevated inflation reading for May 7.3% (vs 7.7%). BoC Governor Macklem noted that *front-loaded tightening cycles tend to be followed by softer landings. This argues for getting our policy rate quickly to the top end or slightly above the neutral range*. Some analysts interpreted the language as an attempt to keep expectations of the terminal rate relatively contained, even if the near-term pace has quickened. The BoC's statement also expressed concern about inflation expectations and a wage price spiral. Markets are pricing around 125 bps of hikes through December. **The Canadian dollar rallied 0.4% but faded somewhat in the afternoon, while 10-yr yields fell 4 bps.**

Japan

The yen depreciated (-1%) on the prospect of further divergence of monetary policy between Japan and the United States after stronger-than-expected U.S. CPI data. Meanwhile, speculation on the Bank of Japan's defending of its yield curve control have subsided. Data showed that foreign buying of Japan's bonds continued for a third straight week after a large sell-off in mid-June. For the week ending July 8, foreign net purchase of Japan's bonds amounted to $15 bn. Long-end JGB yields were mixed (10-year: +0.4 bp; 30-year: -1.5 bps), while equities gained (NIKKEI: +0.6%).

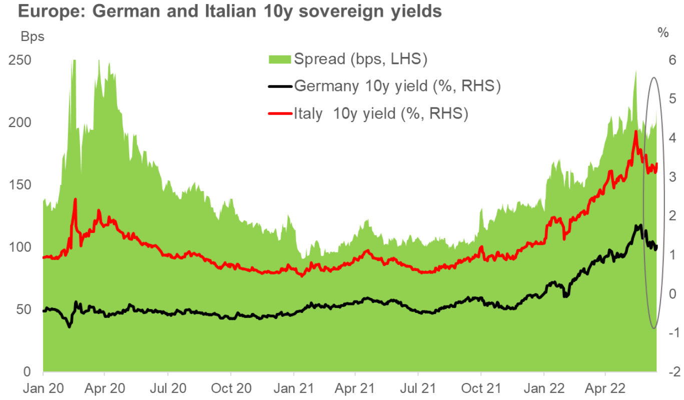
Euro Area

European equities (-0.7%) traded lower on yesterday's US CPI print. The EC released its Summer 2022 forecasts, which showed a downward revision to economic growth and an upward revision to inflation.

The euro (-0.4% to 1.002) traded briefly below parity against the dollar yesterday after the higher-than-expected US CPI print, but rebounded in later trade with contacts pointing to option-related activity. Sovereign yields increased (10y bund +8 bps to 1.2%) as markets brought forward ECB hiking expectations, with roughly 160 bps of tightening priced in for 2022 compared to 138 bps at the start of the week.

Italian 10-yr yields jumped (+24 bps to 3.4%) amid political uncertainty in Italy, with the Italian 10-yr spread 14 bps higher at 214bps. The Five Star Movement (MS5) announced that it would abstain from a key confidence vote in the Senate today, raising fears of an early election as previous comments from PM Draghi implied that he would step down if M5S leaves his coalition. **Goldman Sachs analysts see the risk of an early election as limited and HSBC analysts caution that the political developments in Italy, in particular the possibility of early elections, could make ECB discussions around the anti-fragmentation tool even more difficult.**

Europe: German and Italian 10y sovereign yields



Source: Bloomberg and IMF calculations

The European Commission reportedly sees a high probability of Russia stopping gas exports to Europe and is preparing recommendations for member states to limit gas consumption, according to Bloomberg.

Sweden

Analysts see the potential for more aggressive tightening by the Riksbank after June inflation surprised on the upside. Headline inflation increased to 8.7%yoy in June (vs expected 8.3% from 7.3%), with core inflation up to 6.1% (vs expected 5.8% from 5.4%). At the June monetary policy meeting, the Riksbank increased the policy rate by 50 bps to 0.75% and forecast further tightening to take the policy rate to around 2% at the start of 2023.

Emerging Markets

back to top

Asian equities (-0.3%) were mixed. Share prices rose in Taiwan Province of China (+0.8%) and Indonesia (+0.7%). Meanwhile, Chinese equities stayed flat (based of CSI 300) and Singaporean equities declined (-1.2%). **Long-end government bond yields generally increased and currencies fell after the U.S. CPI data, with 10-year yields rising in Indonesia (+9.7 bps) and India (+5.3bps)**. The Thai baht (-0.6%), Chinese yuan (-0.4%), and Korean won (-0.4%) traded lower. Singaporean dollar (+0.2%) and Philippine peso (+0.2%) appreciated after unexpected monetary policy tightening, bucking the regional trend. **In Sri Lanka, markets declined on growing political uncertainties; equities dropped (-0.4%); government bond yields rose (10-year: +123 bps). Equities were mostly down in EMEA, with the exception of Hungary (+1.2%) and Russia (+0.4%). Most currencies were losing to the dollar in EMEA, with the exception of the Russian ruble (+1.9% to 59.3/$).** Central and eastern European currencies were generally gaining to the euro, with the Hungarian forint particularly strong (+0.9% to 407.4/euro). Local bond yields have increased sharply yesterday and today, with yields on the Polish and Hungarian 10y bonds up 25 bps (to 6.9% and 9.1% respectively). The South African Rand was also weakening strongly (-1.25% to 17.1/$) and local 10y yields increasing 12bp to 11.3%, as falling commodity prices and the local energy crisis after 25 consecutive days of rolling backouts added to traders concerns about the economic outlook for the country**.** In **Latin America,** local currencies strengthened on dollar weakness, with Colombian peso gaining over 3% after heavy losses in recent weeks. But equities sold off amid broader risk-off sentiment on concerns of growth slowdown.

China

China saw a rapid increase in disgruntled homebuyers who refused to pay mortgages for unfinished properties. The number of projects that homebuyers refused to make payments increased to at least 100 from 28 as of Monday. Banks' share prices declined (onshore: -2.0%; HKSAR-listed: -2.5%). Reportedly, authorities held a meeting with banks to discuss the issue of homebuyers' mortgage payment suspension; some banks publicly responded that their risks related to delayed property projects are relatively limited. Share prices of real estate firms also declined (onshore: -2.0%; HKSAR-listed: -1.4%). Overall Chinese equities remained flat (based on CSI 300), with Chinese tech stocks continuing their rebound similar to the regional trend. RMB depreciated (-0.4%).

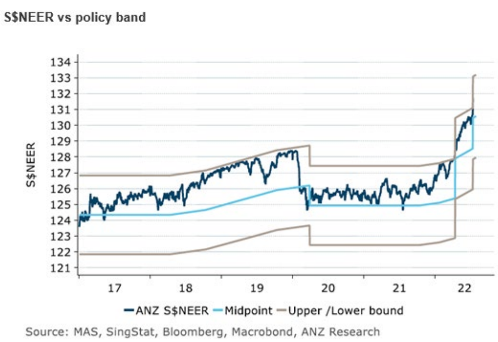
Philippines

Bango Sentral ng Pilipinas (BSP) unexpectedly raised its policy rates in an unscheduled meeting.

BSP increased the overnight borrowing rate by 75 bps to 3.25%; the corresponding deposit facility rate was raised by the same magnitude. Governor Filipe Medalla said that a significant tightening was needed due to signs of sustained, broadening price pressures. He also reiterated BSP's commitment to take necessary actions to steer inflation towards a target-consistent path over the medium term while indicating that the economy can accommodate further monetary policy tightening. Philippine peso appreciated (+0.2%); equities declined (-0.1%); long-end government bond yields increased (10-year: +1.9 bps; 25-year: +6.6 bps); 3-month money market rate increased (+13.5 bps).

Singapore

The Monetary Authority of Singapore (MAS) unexpectedly tightened its monetary policy setting. At an off-cycle policy meeting, a second time this year, the MAS decided to re-center the mid-point higher at the prevailing level of the Singaporean dollar NEER while keeping the slope and width of the policy band unchanged. Effectively, the decision would allow the Singaporean dollar to appreciate. **The MAS noted that the decision aimed to lean against price pressures becoming more persistent. The MAS also raised its inflation forecasts for 2022 by 50 bps for both headline and core inflation, now expecting headline inflation in the range of 5.0%-6.0%.** The policy decision came right after the release of GDP data, which showed that **the economy stayed flat q/q in 2022Q2**. This implied a 4.8% y/y growth, weaker than expectations (consensus: 5.4%). Singaporean dollar appreciated (+0.2%); equities declined (-1.2%); 10-year government bond yield fell (-1.0 bps).



Egypt

Egypt raises fuel prices while analysts call for a weaker and more flexible currency. Yesterday, in line with its automatic adjustment formula review schedule designed to keep fuel subsidies in check, Egypt raised fuel prices by 6.5% (the price change on a quarterly basis cannot exceed 10%). Fares for various transportation services will increase between 5 and 7% as well. Earlier this week, Bank of America analysts argued that the Egyptian pound needs to depreciate by at least 10–20% from its current level (18.9/$) and embrace higher flexibility to correct the existing real exchange rate misalignment.

Hungary

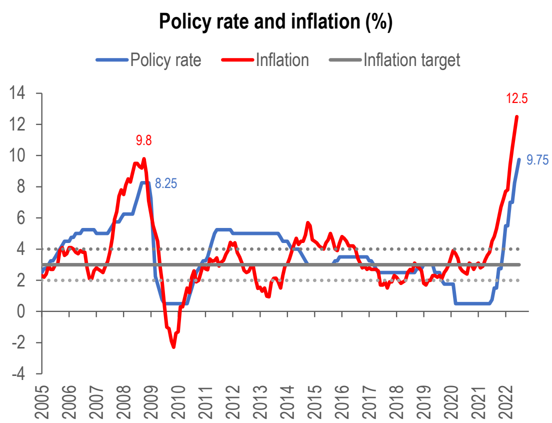
The Hungarian forint reversed initial losses and was gaining 0.9% (to 407.4/euro) while local bond yields remained broadly flat at 9.1% after increasing 25 bps yesterday as Hungary declares an *energy state of emergency*. The Hungarian central bank left the one-week repo rate unchanged at 9.75%, at the same level as the base rate, as widely expected. Yesterday, Hungary announced several measures as part of an *energy state of emergency* to prepare for a potential cut in gas flow from Russia. In addition to banning energy exports, raise gas storage levels, restore a coal power plant and extend the life of its existing nuclear power station, the government also announced it would no longer guarantee unlimited utility price subsidies for households. While this will likely negatively affect inflation, it will also contribute to reducing Hungary's twin deficits and the market's perception of an incoherent policy mix between loose fiscal policy and tightening monetary policy.

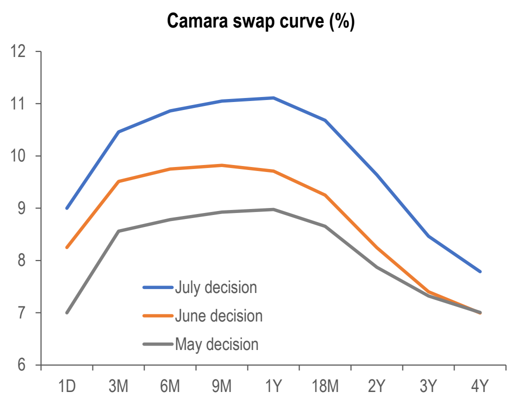
Turkiye

The Turkish lira reached its weakest level ever (-0.4% to 17.5/$), and CDS rose 8bp to their highest level since 2003 at 892. The lira has lost 24% to the dollar in 2022 so far. Today' s data release show that the economy is still strong with industrial production surprising to the upside at 9.1% yoy (8% expected).

Chile

The MPC raised policy rate by 75bps to 9.75% as expected and signaled additional hikes. The MPC stressed that the macroeconomic scenario entails considerable risks against increasingly challenging external conditions, and the sharp depreciation of the peso will add to local price pressures in the near term. As a result, *new policy rate hikes will be necessary* to ensure inflation will converge to 3% in 2 years, and the magnitude of the rate increase will be data dependent. **The MPC confirmed that no FX intervention is planned**, as market function remains intact and the FX volatility has not transmitted to other parts of the financial system. **The Camara swap curve shifted up significantly in recent months as investors expect further rate hikes amid unabated price pressures**.





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: 7/14/22 1:22 PM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		3791	-0.4	-3	1	-13	-20
Europe		3408	-1.3	-2	-2	-17	-21
Japan		26643	0.6	1	1	-6	-7
China		3282	-0.1	-2	-1	-8	-10
Asia Ex Japan		67	-0.1	-1	-3	-27	-19
Emerging Markets		39	-0.2	-1	-4	-28	-21
Interest Rates					basis points		
US 10y Yield		2.95	1.7	-4	-52	160	144
Germany 10y Yield		1.21	6.3	-11	-55	153	139
Japan 10y Yield		0.24	0.6	-1	-1	22	17
UK 10y Yield		2.10	4.0	-3	-49	147	113
Credit Spreads					basis points		
US Investment Grade		175	0.6	0	13	85	63
US High Yield		560	-0.8	-8	68	241	222
Europe IG		126	4.3	9	18	79	78
Europe HY		626	21.6	44	82	392	384
Exchange Rates					%		
USD/Majors		108.76	0.7	2	3	18	14
EUR/USD		1.00	-0.5	-2	-4	-15	-12
USD/JPY		139.1	1.2	2	3	26	21
EM/USD		49.1	-0.9	-2	-5	-14	-7
Commodities					%		
Brent Crude Oil ($/barrel)		98	-2.0	-7	-19	30	25
Industrials Metals (index)		142	-1.8	-6	-17	-9	-18
Agriculture (index)		64	-0.6	-2	-15	13	5
Implied Volatility					%		
VIX Index (%, change in pp)		28.1	1.3	2.0	-4.6	11.8	10.9
US 10y Swaption Volatility		129.2	0.8	-11.4	-8.6	60.7	50.2
Global FX Volatility		11.4	0.0	0.3	-0.4	4.7	4.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		234	3.7	12	-61	131	83
Italy		214	13.8	15	-28	111	79
Portugal		115	3.8	6	-20	55	51
Spain		115	3.9	6	-21	52	40

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
14/07/2022	Level		Change (in %)					Level		Change (in basis points)				
1:30 PM	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	-0.6	-0.9	0	-4	-6		2.9	-4.0	-12	0	-14	3
Indonesia		15020	-0.2	-0.1	-2	-4	-5		7.4	11.9	9	-7	93	97
India		80	-0.3	-0.9	-2	-7	-7		6.3	0.0	0	9	75	0
Philippines		56	0.2	-0.1	-5	-10	-9		5.7	0.0	0	20	165	118
Thailand		37	-1.2	-1.6	-4	-11	-9		2.6	6.0	-12	-38	93	73
Malaysia		4.44	-0.2	-0.4	-1	-5	-6		4.1	1.3	-10	-33	81	46
Argentina		128	-0.2	-1.1	-4	-25	-20		67.1	-58.2	-96	686	2220	1654
Brazil		5.45	-1.1	-2.0	-6	-7	2		13.2	-1.1	12	-1	380	246
Chile		1033	-2.4	-7.9	-16	-28	-18		6.8	-1.0	31	18	275	138
Colombia		4507	2.6	-3.8	-12	-15	-10		9.6	0.0	50	31	386	322
Mexico		20.93	-0.9	-2.0	-2	-5	-2		8.9	1.0	9	-39	191	137
Peru		4.0	0.3	-1.5	-5	0	1		8.3	0.7	48	30	250	241
Uruguay		41	-0.6	-2.4	-3	6	8		11.1	0.0	23	16	323	237
Hungary		408	-0.1	-3.0	-6	-26	-21		8.8	-17.0	45	59	603	427
Poland		4.81	-0.2	-2.2	-7	-20	-16		6.3	-3.5	-9	-109	452	277
Romania		4.9	-0.6	-1.5	-4	-16	-12		9.1	12.6	29	78	609	427
Russia		59.1	2.2	8.4	-1	25	27		8.5	36.3	24	10	109	-30
South Africa		17.2	-1.6	-2.7	-7	-16	-7		9.4	17.3	32	36	203	193
Turkey		17.49	-0.4	-1.3	-1	-51	-24		18.9	-6.0	-38	-74	156	-541
US (DXY; 5y UST)		109	0.8	1.5	3	18	14		3.09	6.1	6	-50	229	183

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4322	0.0	-3	1	-16	-13		211	5	21	3	8
Indonesia		6690	0.7	1	-5	11	2		234	12	50	60	69
India		53416	-0.2	-1	2	0	-8		215	12	41	60	83
Philippines		6248	-0.1	-2	-1	-7	-12		181	11	44	74	80
Malaysia		1420	0.6	0	-3	-7	-9		144	8	21	14	27
Argentina		102271	-0.9	8	17	60	22		2737	51	608	1165	1057
Brazil		97881	-0.4	-1	-4	-24	-7		385	21	52	116	74
Chile		5118	0.0	0	0	23	19		193	18	24	46	53
Colombia		1319	-2.1	-2	-12	3	-6		461	27	66	191	113
Mexico		47461	-0.4	-1	-1	-4	-11		471	25	54	129	139
Peru		18283	-1.0	1	-7	-1	-13		218	21	24	62	68
Hungary		39438	1.4	-1	2	-16	-22		237	5	14	99	113
Poland		51826	-1.2	-4	-3	-23	-25		13	-61	-47	-19	-19
Romania		11951	-0.6	-3	-1	-1	-8		350	13	70	170	157
Russia		2059	-0.7	-8	-10	-46	-46		3411	-577	938	3228	3234
South Africa		65532	-0.9	-4	0	-3	-11		568	49	133	236	213
Turkey		2414	0.2	2	-4	77	30		797	67	89	327	219
Ukraine		519	0.0	0	0	-1	-1		7370	2075	3787	6874	6611
EM total		39	-0.4	-1	-4	-28	-21		494	32	76	134	108

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

back to top