



- **Hawkish Federal Reserve pivots seen as less likely** ([link](#))
- **Second quarter earnings so far point to weaker US earnings growth** ([link](#))
- **European gas prices increase as Russia reduces supply** ([link](#))
- **Italian spreads widen after S&P downgrades outlook** ([link](#))
- **Analysts now see euro area recession later in 2022** ([link](#))
- **Central bank of Hungary hikes 100 bps and signals further tightening** ([link](#))









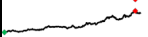


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Investors debate how Fed will respond to recent data

Global equities were mixed and the US dollar traded lower as market participants debate to what extent the Fed will respond to weaker data. The FOMC is widely expected to hike 75 bps today but recent data have prompted markets to price in Fed rate cuts in the first half of 2023. Nevertheless, growth concerns remain more prevalent in the euro area as Russia reduced gas supply. Several analysts now explicitly call for a recession in the euro area later this year. Italian spreads are wider after S&P revised its outlook on Italy to stable from positive ahead of elections in September.

Last updated: 7/27/22 12:24 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3921	-1.2	0	1	-11	-18
Eurostoxx 50		3589	0.4	0	1	-12	-17
Nikkei 225		27716	0.2	0	2	0	-4
MSCI EM		39	-0.8	-1	-4	-22	-20
Yields and Spreads			bps				
US 10y Yield		2.79	-1.3	-23	-41	155	128
Germany 10y Yield		0.96	3.6	-30	-59	140	114
EMBIG Sovereign Spread		553	1	-20	47	199	186
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.0	0.0	-1	-3	-11	-5
Dollar index, (+) = \$ appreciation		106.8	-0.4	0	3	16	12
Brent Crude Oil (\$/barrel)		105.4	0.9	-1	-8	41	35
VIX Index (% change in pp)		24.3	-0.4	0	-3	5	7

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

Mature Markets

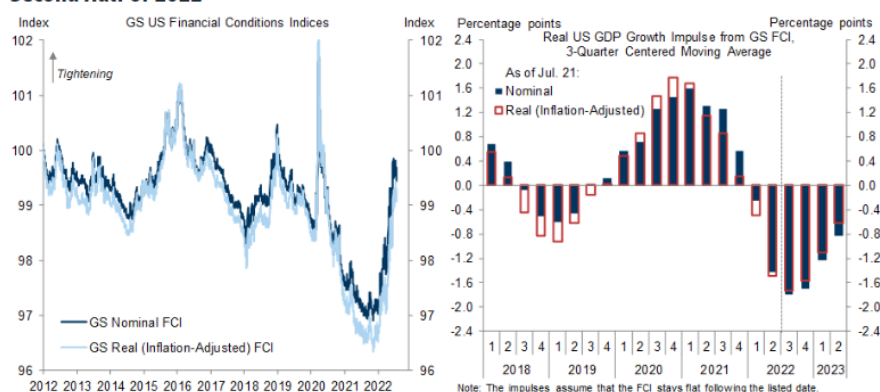
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United States

Federal Reserve hawkish pivots appear unlikely as contacts diverge on the likelihood of dovish pivots. With recession fears rising and tentative signs of a pull-back in longer term inflation expectations, investors quickly brushed away the chances of a hike of 100bps in July (and beyond) that appeared as a possibility after firm CPI data. **Instead, market analysts are debating the possibility of a dovish pivot.**

While some consider that sticky inflation would require the Federal Reserve to maintain a hawkish stance, others are optimistic that monetary policy will dovishly change course. Focusing on the July FOMC meeting, however, markets are well aligned on a 75bps hike. **Goldman Sachs analysts consider that financial conditions have already tightened enough to drag GDP growth by roughly 2 percentage points in the second half of 2022, making a 75bps increase an appropriate policy outcome in view of ongoing inflation pressures.**

Exhibit 2: FCI Tightening Already Looks Sufficient and Will Have Its Peak Impact in the Second Half of 2022

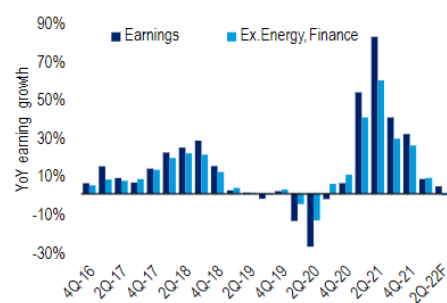


Source: Goldman Sachs Global Investment Research

Second quarter earnings point to weaker earnings growth. Almost 35% of public investment grade issuers had announced their second quarter results by early this week, ahead of a peak week for earnings. So far earnings grew just 0.6% ahead of expectations, notably below the +3.7% pre-Covid average surprise. **Earnings growth (based on actual results and latest consensus estimates) also appears to have declined significantly compared to 2021.** Looking at sectors, the weakest 2Q year-on-year earnings growth were recorded for Insurance (-28.6%), Banks / Brokers (-28.0%), and Retail (-26.0%). Despite weak growth, Banks/Brokers were the top sector in terms of earnings in dollar amounts in this reporting season. On the flip side the strongest YoY earnings growth in 2Q were recorded in the Energy (+233%), Transportation (+90%) and Basic Materials (+26%) sectors.

Figure 3: Earnings growth for US IG issuers

2Q-22 earnings growth declined significantly from 2021.

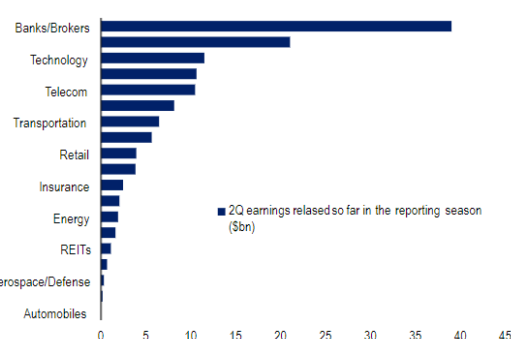


Note: 2Q-22 based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

Figure 5: Banks, Health Care and Tech have contributed the most to 2Q earnings so far in the season

Top sectors in terms of 2Q-22 earnings dollar amount released so far in the reporting season.



Source: BofA Global Research, FactSet

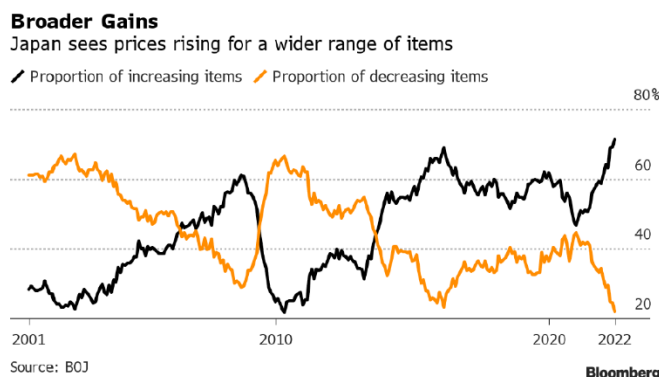
Australia

Traders scaled back bets on a super-sized rate hike by the Reserve Bank of Australia on lower-than-expected CPI inflation. CPI inflation moderated to 1.8% q/q in 2022Q2 from 2.1% (consensus: 1.9%). The

2-year OIS rate dropped (-14.1 bps). Government bond yields fell (1-year: -10.5bps; 10-year: -9.1 bps; 30-year: -8.0 bps), while Australian dollar was little changed.

Japan

Japanese equities gained (NIKKEI: +0.2%), while Japanese yen was little changed. Long-end JGB yields edged down (10-year: -0.9 bp; 30-year: -1.4 bp). **Analysts noted that upward price pressures are building in Japan.** While headline CPI inflation remained broadly stable at 2.4% y/y in June, other gauges pointed to more broad-based price increases—e.g., the rising share of items with higher prices at about 70%, the highest in two decades; a change in mindset that consumers became more receptive to price increases; and the biggest increase in service prices (excluding the impact of sale tax hikes) since 1992.



Euro Area

European equities were trending higher (Stoxx 600 Europe index +0.4%) in cautious trading ahead of the Federal Reserve's meeting. The banking sector was trading 0.6% higher, with Unicredit shares up 6.5% after reporting higher-than-expected Q2 profit. **The euro appreciated (+0.2%), retracing some of yesterday's losses. Sovereign yields increased (10yr bund +2bps),** while the 10y bund yield remains below 1%, a level last seen in May, following yesterday's declines amid gas supply concerns. **On the data front Germany's August GfK consumer confidence index disappointed (-30.6 vs expected -28.9 from -27.7), while consumer confidence indices in France and Italy also declined.**

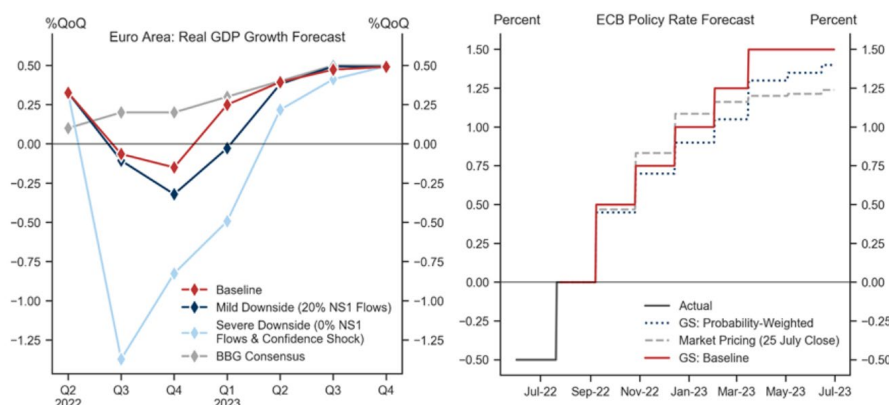
Italian bonds underperformed after S&P Global Ratings yesterday in an ad hoc review revised Italy's outlook downward to *stable* from *positive*. Italian 10yr yields were up 10bps this morning with 10y spreads increasing +8bps to 241bps, while Spanish 10y spreads increased by +2bps. The rating agency argue that political developments could take focus away from key reforms—including reforms required to unlock funding from the EU Recovery and Resilience facility, erode confidence and undermine economic growth.

European natural gas prices were volatile but edging higher this morning following reports that gas supplies via Nord Stream 1 fell to 20% of its capacity. 1-m ahead Dutch natural gas prices have gained 27% so far this week and are now trading at around €202/MwH, after approaching the peak reached when Russia invaded Ukraine (227€/MwH) in early trade this morning. The 1-y ahead German power prices have gained 10% this week with analysts highlighting that the power prices have been driven by uncertainty in the gas market.

Analysts have revised euro area growth expectations downward and now see a recession later this year. Goldman Sachs expects the euro area to enter a recession in H2 against a backdrop of weakening data, lower gas supplies from Russia and political uncertainty in Italy. Analysts expect Germany and Italy to enter recession in H2, while Spain and France are expected to continue showing

growth. **JPMorgan analysts now expect a mild economic contraction in Q4 2022–Q1 2023 against a backdrop of higher inflation and gas supply uncertainty**, Growth is now seen at +2.8%yoy in 2022 and +0.6%yoy in 2023 (compared to +3.2% and +2.1% respectively seen previously).

As regards the hiking cycle, while still expecting a 50bps hike in September, Goldman Sachs analysts now see the magnitude of hikes at 25bps from October, with a terminal rate of 1.5% expected in March 2023. In case of a full gas supply stop or a sovereign stress scenario, the ECB is expected to pause the hiking cycle in Q4. **JP Morgan analysts now only expect an additional 50bps of ECB tightening by the end of 2022** (compared to 75bps seen previously). **Markets are pricing in roughly 108bps of tightening by the end of the year**, compared to around +120 bps seen at the end of last week.



Source: Goldman Sachs Global Investment Research, Bloomberg

Bank Results

UBS Group missed analyst expectations for earnings per share in 2Q2022 (\$0.40 vs. \$0.54) driven by lower revenue from its investment banking, asset management, and global wealth management businesses. UBS Group's stock closed 9.4% lower after the earnings release announcement. Profits increased to \$2.1bn (5% YoY) driven higher net interest income and a net gain from the sale of a real estate joint venture in Japan, offsetting lower non-interest revenues and higher non-interest expenses from regulatory compliance related matters. UBS Group plans to continue with share buyback plans in 2022. The CET1 ratio declined to 14.2% in 2Q2022 from 14.5% a year ago driven by higher RWA.

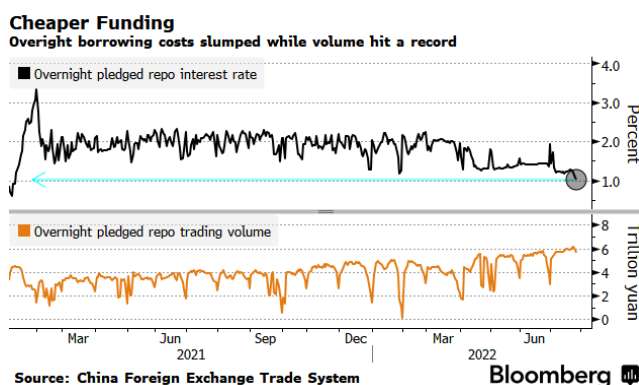
Emerging Markets

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Asian equities were mixed, falling 0.6% on net. Hong Kong (-1.1%) and Chinese (CSI 300: -0.5%) equities declined, while share prices rose in Thailand (+1.3%) and Taiwan Province of China (+0.8%). Trading volume was thin as investors awaited the FOMC decision amid growing concerns about slowing global growth. Most Asian currencies depreciated, led by Philippine peso (-0.7%) and Korean won (-0.4%). Philippine peso unwound some of its outperformance yesterday following the news on an earthquake. Long-end government bond yields declined in many markets, with 10-year yields falling in Korea (-4.4 bps) and Indonesia (-4.2 bps). **Equities and currencies were also mixed in EMEA.** Currencies depreciated in Hungary, Poland, and Russia but the South African rand and Israeli shekel gained. In **Latin America, stocks saw gains in Peru (+0.9%) and Colombia and Argentina (both +0.4%), but retreated in Mexico (-1.1%), Chile (-0.7%), and Brazil (-0.5%).** The Chilean (+1.3%) and the Colombian (+0.5%) pesos appreciated. **An Argentine inflation survey indicated further entrenchment of 12-months ahead inflation expectations, which rose by 4.6 ppt to 62.5% y/y in July, and may therefore have added to yesterday's 1.3% depreciation in the country's blue-chip based parallel exchange rate.**

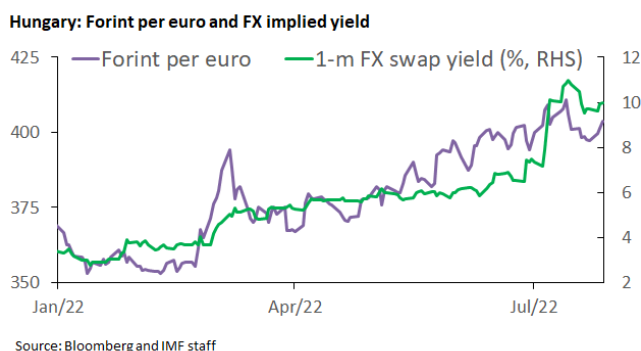
China

Chinese equities declined (CSI 300: -0.5%; HKSAR-listed: -1.3%), while RMB appreciated slightly (+0.1%). **Share prices of property developers fell (onshore: -0.4%; HKSAR-listed: -6.2%) after Country Garden, one of the largest property developers, offered to sell shares at a discount.** Analysts noted that the share placement showed the company's desperation for cash amid growing liquidity stress. **Industrial profits increased 0.8% y/y in June**, reversing a 6.5% contraction in May. Analysts noted that the rebound reflected the further improvement of supply-chain disruptions and gradual resumption of production in manufacturing hubs. **Interbank repo rates remained at low levels** (DR001 at 1.00%; DR007 at 1.55%), reflecting ample liquidity in the banking system. Analysts noted that much of liquidity simply stay at banks as appetite for loans remains limited amid the zero COVID policy and the deepening crisis in the real estate sector.



Hungary

The forint (-0.6%) fell to 403 per euro even as the National Bank of Hungary (NBH) hiked its policy rate 100 bps to 10.75% yesterday and signaled further tightening. The hike was expected. The NBH said that it will keep hiking until inflation has peaked, which it forecasts to happen in fall. The NBH expects a cut in energy subsidies to raise CPI by 3 ppt (in the 12 months from August onwards).



Ghana

The cedi (-1.6%) remains under pressure as analysts at JP Morgan expect Ghana to post a budget deficit of 8.9%GDP in 2022. The bank expects further revenue misses amid slower growth and a slower implementation of some revenue measures. Contacts point out that the government's updated forecast of a 6.6% of GDP budget deficit in 2022 is largely driven by a substantial increase in nominal GDP.

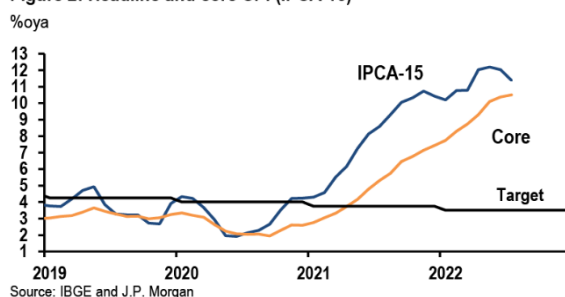
Ukraine

Ukrainian state-run energy company Naftogaz intends to “urgently” present a new plan to delay debt payments after missing a final deadline on a foreign bond. A grace period for Naftogaz to redeem \$335 mn of international bonds expired yesterday as the government reportedly blocked the payment. **The Ukrainian government announced last week that it is seeking to defer payments on its own Eurobonds for 2 years.** Prices of Ukraine’s Eurobonds due 2022 continue to trade above levels of Eurobonds due 2033 since the announcement but some contacts expect the Eurobond curve to flatten eventually.

Brazil

Headline inflation through mid-July printed at 11.4% yoy, just below expectations and 60 bps down from June, corroborating the deceleration seen already the day before. Reduced fuel, electricity, and telecommunication prices acted as main drivers, profiting from sales tax cuts initiated in June. Core inflation proved more stubborn, rising by 10 bps to 10.4% y/y. **Initially local swap rates declined and the real depreciated up to 0.5%, but both trends reverted later in the day, with swap rates closing around 7 bps higher at the one-year horizon and the real appreciating by 0.2% over the day.**

Figure 2: Headline and core CPI (IPCA-15)



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Global Financial Indicators

Last updated: 7/27/22 12:25 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3921	-1.2	0	1	-11	-18
Europe		3589	0.4	0	1	-12	-17
Japan		27716	0.2	0	2	0	-4
China		3276	-0.1	-1	-4	-3	-10
Asia Ex Japan		67	-0.9	-1	-4	-21	-18
Emerging Markets		39	-0.8	-1	-4	-22	-20
Interest Rates			basis points				
US 10y Yield		2.79	-1.3	-23	-41	155	128
Germany 10y Yield		0.96	3.6	-30	-59	140	114
Japan 10y Yield		0.20	-1.1	-5	-5	18	13
UK 10y Yield		1.97	5.3	-17	-42	141	100
Credit Spreads			basis points				
US Investment Grade		172	0.2	2	3	82	61
US High Yield		524	3.7	-8	-5	195	186
Europe IG		112	-2.6	2	3	65	64
Europe HY		560	-16.5	12	24	322	318
Exchange Rates			%				
USD/Majors		106.80	-0.4	0	3	16	12
EUR/USD		1.02	0.4	0	-4	-14	-11
USD/JPY		136.7	-0.2	-1	1	24	19
EM/USD		50.0	0.0	-1	-3	-11	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		105	0.9	-1	-8	41	35
Industrials Metals (index)		149	0.1	1	-7	-7	-14
Agriculture (index)		65	1.0	2	-5	12	7
Implied Volatility			%				
VIX Index (% change in pp)		24.3	-0.4	0.5	-2.6	5.0	7.1
US 10y Swaption Volatility		118.6	-4.3	1.0	-7.7	34.9	39.6
Global FX Volatility		10.9	0.0	-0.3	0.2	4.0	3.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		210	4.9	-10	-21	103	59
Italy		240	7.6	26	43	133	105
Portugal		113	1.4	-1	4	49	48
Spain		120	1.5	-3	9	49	46

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

Emerging Market Financial Indicators

Last updated: 27/07/2022 12:43 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		6.75	0.2	0.1	-1	-4	-6		2.8	0.0	-3	-14	-21	-2
Indonesia		15010	-0.1	-0.1	-1	-3	-5		7.4	-5.9	-10	10	106	99
India		80	-0.2	0.1	-2	-7	-7		6.3	0.0	0	9	#####	0
Philippines		56	-0.7	1.1	-2	-10	-8		5.7	0.0	0	0	168	118
Thailand		37	-0.3	-0.4	-4	-11	-10		2.4	-3.0	-22	-43	86	60
Malaysia		4.46	0.0	-0.1	-1	-5	-7		4.0	1.9	-7	-25	84	40
Argentina		131	-0.2	-1.2	-5	-26	-21		68.5	-23.3	54	881	2381	1790
Brazil		5.35	0.2	1.2	-2	-3	4		13.3	-1.0	-24	58	399	265
Chile		924	1.3	0.2	0	-18	-8		6.8	0.0	-14	49	259	139
Colombia		4447	0.3	-2.9	-7	-12	-9		9.6	0.0	-22	59	387	321
Mexico		20.41	0.2	0.7	-2	-2	1		8.5	0.0	-38	-43	163	97
Peru		3.9	-0.2	-1.2	-4	0	2		8.2	-1.4	-35	45	275	229
Uruguay		42	0.1	0.7	-5	5	7		11.2	-19.8	-38	51	331	250
Hungary		398	-0.3	-1.6	-4	-24	-18		8.3	-1.0	-23	13	574	382
Poland		4.72	-0.3	-0.6	-6	-18	-14		5.4	2.0	-75	-156	391	190
Romania		4.9	0.4	-0.1	-4	-14	-10		8.4	-6.5	-66	-24	536	355
Russia		60.2	0.0	-9.0	-10	22	25		8.3	-0.7	-36	4	123	-51
South Africa		16.9	0.6	1.8	-6	-12	-5		9.0	1.0	-29	11	180	154
Turkey		17.91	-0.3	-1.7	-8	-52	-26		17.4	7.0	-10	-188	-29	-689
US (DXY; 5y UST)		107	-0.4	-0.3	3	16	12		2.88	-2.0	-28	-37	218	162

	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		4225	-0.5	-1	-6	-11	-14		215	6	18	3	12	
Indonesia		6898	0.4	0	-1	13	5		210	-18	11	26	45	
India		55816	1.0	1	5	6	-4		196	-19	17	39	64	
Philippines		6237	0.2	-1	-2	-4	-12		144	-23	4	31	43	
Malaysia		1471	0.5	2	1	-3	-6		144	-2	15	4	27	
Argentina		120038	0.4	12	40	83	44		2839	64	481	1268	1159	
Brazil		99772	-0.5	2	-1	-20	-5		349	-7	5	70	38	
Chile		5200	-0.7	1	4	25	21		187	1	18	31	47	
Colombia		1295	0.4	-1	-5	4	-8		428	-20	11	148	80	
Mexico		46674	-1.1	-1	-3	-8	-12		440	-12	9	86	108	
Peru		19316	0.9	5	3	3	-9		206	-7	12	36	56	
Hungary		41316	0.3	0	5	-12	-19		230	-25	7	89	106	
Poland		52464	-1.0	-2	-3	-21	-24		13	37	-76	-23	-19	
Romania		12421	1.4	3	-1	4	-5		326	-33	8	134	133	
Russia		2196	0.2	6	-9	-41	-42		3411	-577	938	3228	3234	
South Africa		68493	0.1	1	1	2	-7		516	-11	74	167	161	
Turkey		2541	0.1	1	0	87	37		780	31	150	303	202	
Ukraine		519	0.0	0	0	-1	-1		6521	-493	1981	6002	5762	
EM total		39	0.5	-1	-4	-22	-20		467	-8	35	99	81	

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

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