

Research @ Citi Markets Edition: One Week in Bangkok — IMF Takeaways

Recorded: October 16, 2026

Published: October 20, 2026

Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Johanna Chua, Chief Asia Economist, Head of Emerging Markets
Economics, Citi

Opening Teaser: (00:00)

Research @ Citi, Markets Edition

Dirk Willer (00:03)

Welcome to Research @ Citi, Markets Edition, where we break down global macro in 10 minutes or less.

I'm your host Dirk Willer, Citi's Global Head of Macro, and with me today for an IMF Special is Johanna Chua, Citi's Head of Emerging Market Economics and Head of Asia.

Johanna Chua (00:18)

Hi. Hi, Dirk.

Dirk Willer (00:19)

Great to have you on Johanna. We're recording this on October 16th around eight o'clock Bangkok time.

Let me just get started with a few observations of what we learned here. We had two days of very heavy meetings that Citi organized, a lot of policymakers, a lot of interesting color, and we are keen to share our insights with you.

And from the global macro side, I think there were four big topics. One was yields and fiscal issues. One was central bank reaction functions. One was the midterm election. And then AI, of course, was also looming large. And I think as the meetings progressed, we moved from a focus on yields to a focus on AI.

But just a few quick takeaways before handing it over to Johanna for the EM angle and that is I think on the fiscal/yield story of course it was initially important discussion with respect to France and one strong takeaway is that European policymakers are unlikely to come to the rescue, partly because they think that market pressures are actually part of the solution to the problem and so it would be counterproductive to act too early, or to act at this stage at the very least.

And they also were not that negative on the situation in the sense that the policymakers see signs that the French political system will in the end be able to make changes.

Now, of course, it was very unclear what happens between now and the election. But certainly the ECB is quite unlikely to use TPI, quite unlikely to change QT. There was a debate among investors, certainly whether it's plausible that the hiking cycle can be somewhat slowed down. And that is, of course, not impossible, but certainly depends more on the data than on France.

But then the fiscal story also related to the U.S., of course. Again, I think some of the very basic features of the U.S. economy were stressed. Again, there is a lot of fiscal capacity. It's really just about political will. And also there is, of course, a hope that productivity will be higher, maybe by half a percentage point or more for a meaningful stretch of time, and that that would also be on the margin somewhat helpful. So clearly no one is expecting any improvement in the short term, but it helps to see that with a background of a maybe somewhat better structural situation, that if the political will should exist, it's maybe not as difficult to fix.

Moving to central banks, I should say, Warsh has not spoken yet. We are waiting there this morning. He's obviously seen as hawkish by the market. Though there again was a little bit of hope in that this boom, because it hasn't really spilled over into wages, might not be that inflationary that a lot of hikes, a big hiking cycle is really needed.

A lot of cut out of the ECB as well, where essentially, it's clearly open to risk management hikes, even though there are no second-round effects from the supply shocks to be seen at this stage. Also focus on wages.

One interesting nuance is that, of course, by early next year, base effects will improve tremendously. And therefore, if there should not be any second-round effects, any wage pressures by then, the situation will certainly improve.

Very quickly on the midterms, I think it's mostly seen through the lens that the risk of a renewed kinetic warfare in the Middle East is rising potentially after midterms. The market is a little bit saying, so what? In a sense, it's not clear that it makes a big difference to the situation on the ground. It's also not that clear that it makes a difference to markets unless, of course, really the major hits to oil infrastructure outside of Iran occur, which we have to see how it goes.

The second angle is there is an expectation of more fiscal because the Democrats, of course, keen to restore some health care payments. And the Republicans might be willing to go along with that in exchange for defense payments.

And that's a change from the normal behavior, because usually, actually, if one party loses power in the midterms, it's a positive for bonds. meaning bonds tend to fall on optimism on the fiscal side. So that might be different this time.

And then lastly, and quickly to AI, obviously a very important topic as well, more from the macroeconomic view rather than from the AI bottom-up point of view. But again, three issues really. One is that we are on the J-curve still with respect to the productivity gains in AI and the J-curve where exactly we are, depends a little bit by industry. But certainly, at this stage, we still see a very limited negative impact on the job market, maybe even a slight positive impact in some areas. And that will change as we move along the J-curve.

Of course, increasingly with the stress and markets, the equity market impact of AI became sort of more important. And that's, of course, seen as a key risk that somehow our eyes might disappoint and that funding flows dry up due to some of the large companies requiring those funding needs. That would be an important change in how the market will trade the AI theme and certainly risks were stressed.

And the third AI risk, really to AI security. We have, of course, many headlines over the last month and the policymakers are very, very concerned. Markets not that concerned just because it's so hard to trade. You don't know what will happen. You don't know when it will happen. It's certainly a risk on everyone's mind, but without any definition around it, very hard for the market to position anything along those lines. And so it's more a policymaker concern at this stage rather than a market factor, but certainly important.

That was a quick run-through of some of the more global macro issues. Johanna, you sat in a lot of emerging market-centric meetings. What did you learn?

Johanna Chua (05:13)

There's a couple of resonant themes that we had. Number one, as you alluded to, this whole global bond yield, there was a lot of debate around a lot of central banks about what's happening with global r^* (r-star), of course, led by the U.S., because I think central banks are realizing there's really a kind of a step up demand for capital on this AI cycle, and that's putting upward pressure on r^* . So, some of these small open economies in EM are starting to grapple with thinking about whether we need to recalibrate how we think about our own domestic r^* because of the global factors that is influencing them. And at the moment, there's really a lot of uncertainty, but clearly there is a risk of the bias on the upward side.

The other kind of big, big theme is maybe relative to DM. I think in EM, this whole Middle East uncertainty is still really looming very, very large. We don't really know what the playbook is. There was a few central banks that also worried a lot about El Nino, kind of a little bit differentiated there.

So, I think the playbook is, you know, again, central banks should not respond to supply side shocks. But I think the nervousness, the kind of hawkish tilt in some of the central banks is just because of the concern of how the supply shock cascades into the pricing of firm level, being passed through and what it means for inflation expectations.

Now, I have to say, despite this concern about this kind of Middle East shock, I think EM is very, very differentiated. So, you know, another kind of resonant thing is you've got a number of EM, obviously, with very high real yields. So, their cycle is still a little bit desynchronized from what we're seeing in terms of the lower real yielders or what's happening in the DM core markets.

So, some of these high real yielders are obviously a little bit more cushioned, and especially to some extent, some of the moves on the path of policy is partly reflecting kind of risk premium. And obviously, there's been a little bit of a repricing in Brazil, for example, post-election. So, there's a little bit of a different cycle there.

I think the other kind of big theme discussion from a lot of the participants is, as you know, we're trying to look at to what extent EM is resilient or being stress tested by what's happening in the core market. And to the extent that so far from a lot of our meetings, when you listen to policymakers in terms of central bank, monetary fiscal policy bias, okay, with a few kind of caveats here and there, in the most part, it's still very much reasserting a lot of the orthodox policy and maintaining a relatively calibrated cautious view.

And so, I guess the question is, if a lot of the volatility we're seeing now is in the DM or we're seeing obviously a lot of concerns about France, trying to assess this. On the one hand, we are a risk asset. So, what's our beta to what's happening globally, on the volatility front? But on the other hand, we're a very small asset class relative to the overall fixed income.

If people do need to diversify a little bit in their bond portfolio in what's happening in DM, I think there's also this kind of alternative diversification flow that's helping EM at the margin. So, this whole EM is DM, DM is EM kind of narrative, I think so far that's still resonant. Obviously, there's some caveats to that, but generally still an ongoing theme based on kind of the quality of the policymaking discussions that we're having.

And lastly, even though, as I mentioned to you in the earlier theme, EM is still relatively resilient with what's been happening, I think there's still a big, big concern about the growth. Like, as you said, you know, AI, we don't really know exactly what the productivity impact is. We don't even know what the distribution of the productivity gains ultimately becomes. There is hope eventually you don't, and right now it's very much bifurcated by, are you part of the AI supply chain? Are you not part of the AI supply chain?

But I think the medium longer-term path is still very, very uncertain. I have to say, though, one thing that's very resonant in terms of thinking about EM growth prospects is obviously for some of the fragile countries with still very high interest burden. We are in a higher for longer environment. So that is a tough challenge in terms of pushing more prudent policies because it's very hard for interest burdens to come down.

And the other theme that I've heard, this is not in our conference, but in my other side meetings, is this growing recognition, given the geopolitical context that we're in right now, which seems very, very fragile, that we're in the world of a geopolitical contest for resources. And in that aspect, in this geopolitical race for contest for resources, and given the uncertainty and people need to stockpile, there is also another bifurcation in EM on whether you are a net commodity exporter or a net commodity importer. And that, I think, is kind of shaking out who are the fragile ones versus the non-fragile.

So, you know, in some aspects, some of the LATAM names are looking quite good because very high real yields. And then you're on the right side of the net commodity balance and you're very far away from all the geopolitical hotspots. So, these are kind of longer-term themes that are kind of resonating as well among EM.

But yeah, but Dirk, I mean, let me ask you, I mean, obviously, there's so many moving parts. And obviously, we've seen AI story, kind of the volatility that we've seen. But I'm curious to see, do you think from your discussions that this hawkish reaction function of the Fed to what's been going, I mean, earlier, there was a lot of expectation of a more hawkish move that is amplifying kind of concerns about the dollar.

Do you get a sense, obviously, by the time this recording comes out, Kevin Warsh would have already spoken. But I'm just wondering, how do you think the attitude is about Fed policy and what you see in terms of it driving kind of real yield further from here?

Dirk Willer (09:52)

Yeah, you set me up for a question that I answer right before Warsh speaks. So that would be interesting. But I mean, the sense here certainly was an understanding that Warsh is really quite hawkish. I mean, there always was suspicion by the market that's his true colors. And I think that was confirmed by Jackson Hole in the subsequent meeting. And so, I think investors see it. Yes, we always should have known it. And that's what it is.

Now, just one interesting nuance is, of course, that we constructed a Warsh shadow rate actually, after his Jackson Hole speech, where he put all the indicators in that he's stressed. and they were just extremely hawkish, but a fair number of indicators were linked to financial conditions and equity markets and so forth.

And so, I think the only offset to this Warsh is hawkish type of narrative. And again, we'll learn a lot later, so I should be careful what I say, but I think if there was meaningful pullback in equity markets, he probably would react because that sort of thing is important for him. And then of course it has to be a meaningful one, but that might be a nuance we'll find out about soon.

And now Joanna, let me ask you something. You had a lot of country specific discussions, of course. Anything that surprised you a lot, any country in much better shape than you thought, a much worse shape, or anything with a big marginal delta?

Johanna Chua (10:58)

I mean, look, I think you can really see a spread where from the kind of lower yielder, net commodity importers, clearly Philippines came out relatively vulnerable on a lot of fronts. And I think it was interesting that central banks can be quite forward and upfront in admitting that we need to recalibrate upward where r^* is. So, I think we're all starting to figure that out.

But there's also different, I mean the host country is a differentiated story. In a sea of kind of risks on inflation and hawkish reaction function. Actually, even Thailand, for example, you know, with very low rates, I think BOT seems surprisingly quite relatively relaxed about what this means in terms of inflation. And they seem to still be very comfortable with their accommodative stance in a sea of everyone else kind of recalibrating when you're at that low level.

And then I guess on the more high-yielders side, I think, again, there's a little bit of a varied story. I mean, obviously, you know, Brazil despite the price action that we've seen in the market on this excitement about the election I think the bias is really for central bank not to react to these short-term moves. I think they're really more biased to wait until we actually do see the tailwinds of disinflation from the fiscal response rather than preempting it. But having said that generally they were still relatively hawkish or guarded I would say at the margin.

And then you know some of the other interesting stories like I think Turkey was a very interesting meeting because our meeting just came right after they had tweaked the FX policy towards a faster pace of appreciation. So obviously tons of questions around that. But I have to say, I think the meeting in Turkey was interesting, because I had met him like a month earlier. Clearly, they seemed relatively more dovish leading, obviously. I think it's consistent with our view of a rate cut in October. He definitely sounded a lot more confident that we're seeing some signs that the demand slowed down, the monetary policy transmission is working. So, they see a little bit more room for recalibration. So that was a little bit more of a dovish leaning. But then again, it varies.

So, in a South Africa meeting was a little bit more hawkish leaning. So anyway, the overall EM was, there was quite a lot of mixed view. I think the Philippines was hawkish, the South Africa was slightly hawkish. Hungary was very cautious because we're waiting for the fiscal budget, even though we think there's room to ease. I think they're holding off for now.

But then on the other side, you've got Thailand very comfortable, Pakistan kind of leaning a little bit two-way. I was a little bit surprised Sri Lanka was a little bit more dovish than what I would have expected in a small open context. They seem to be more

confident about anchoring inflation expectations. And like I said, Turkey was kind of leaning a little bit more dovish. And again, it depends probably given where the starting point of real yield.

So, EM is interesting. It's kind of very, very differentiated. But again, do talk to all our analysts if you want to get the idiosyncratic story of how to position. That's where the opportunities are.

Dirk Willer (13:34)

Super. Thank you so much, Johanna.

Thank you to all our clients for joining us today. This episode was recorded on October 16th, 2026, and I'm your host, Dirk Willer. For more details, Citi clients can check out our report on Citi Velocity. Next week's Research @ Citi Markets Edition will be hosted by Scott Chronert, Citi's Head of U.S. Equity Strategy.

And be sure to check out Research @ Citi podcasts, which you can view on the same channel.

The Macro Strategy team will be back in two weeks' time. Stay sharp.

Disclaimer (13:59)

This podcast contains thematic content and is not intended to be investment research, nor does it constitute financial, economic, legal, tax or accounting advice. This podcast is provided for information purposes only and does not constitute an offer or solicitation to purchase or sell any financial instruments. The contents of this podcast are not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product, security or transaction. The information in this podcast is based on generally available information, and although obtained from sources believed by Citi to be reliable, its accuracy and completeness are not guaranteed. Past performance is not a guarantee or indication of future results. This podcast may not be copied or distributed, in whole or in part, without the express written consent of Citi. ©2026 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.