GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 28, 2022

- **Investor sentiment turns highly negative** (link)
- **US credit card delinquencies rising at fastest rate since 2009** (link)
- **Consensus sees decline from peak in annual euro area headline inflation** (link)
- **Oil prices slide further as discussions on Russian oil cap continue** (link)
- **China's central bank announced -25 bp reserve requirement ratio cuts for most banks** (link)
- **South Africa hikes policy rate by 75 bp, further tightening expected** (link)

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China protests weigh on sentiment

Protests in China over COVID restrictions are weighing on global risk sentiment as the unrest clouds the outlook on reopening. The anticipated reopening of the Chinese economy had recently provided a positive tailwind to global markets**.** Oil prices are 3% lower this morning as the uncertainty in China is combining with complications in discussions on Russian oil price caps. Equity markets fell around 1% in Asian markets overnight and are down a similar amount in Europe to start the week. Sovereign yields in Europe are around 4–9 bp higher on the day as ECB speakers have maintained a hawkish tone ahead of this week's inflation print. US rates meanwhile are little changed as investors return after last week's Thanksgiving holidays. Markets will be paying close attention to Fed chair Powell's speech on Wednesday ahead of Friday's nonfarm payroll data release.

Key Global Financial Indicators

Last updated: 11/28/22 8:20 AM	Level Last 12m	Level Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	
S&P 500		4026	0.0	2	3	-12	-16	-5
Eurostoxx 50		3930	-0.8	1	9	-4	-9	-1
Nikkei 225		28163	-0.4	1	4	0	-2	6
MSCI EM		38	-0.5	-1	10	-22	-23	-20
Yields and Spreads					bps			
US 10y Yield		3.68	0.0	-15	-33	220	217	169
Germany 10y Yield		1.99	1.6	0	-11	233	217	176
EMBIG Sovereign Spread		479	-7	-8	-84	112	112	66
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		49.7	0.1	0	2	-5	-5	-6
Dollar index, (+) = $ appreciation		105.6	-0.4	-1	-5	10	10	10
Brent Crude Oil ($/barrel)		81.2	-2.9	-7	-15	12	4	-16
VIX Index (%, change in pp)		22.3	1.8	-1	-4	-6	5	-9

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

One of the most important events this week is Fed Chair Powell's speech on monetary policy on Wednesday. The US has a busy data calendar, with the all-important jobs report and GDP the highlights. In the euro area, markets will be watching for the economic and industrial confidence survey reports, along with inflation data from Germany. China reports PMI data this week, a key focus as the woes of the Chinese economy continue. Japan will report industrial production and housing data.

Mature Markets

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United States

The Fed will have to take account of two key data releases before its final FOMC meeting of the year on December 14. The first is this week's jobs report, and the second is the CPI report due on the day before the FOMC meeting on December 13. Based on the options on interest rate futures, the market still expects a 50 bp hike, and the FOMC minutes appeared to endorse this view. However, two very strong numbers could force them to hike by 75 bp, which could prove destabilizing for markets, especially if CPI is much higher than expected.

December 2 US Jobs Report Consensus Forecasts

Source: Bloomberg

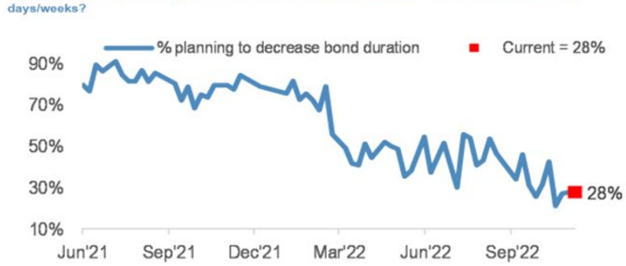
Data Release	Consensus Forecast
Nonfarm Payrolls	+200K
Unemployment Rate	3.7%
Average Hourly Earnings mom	0.3%
Average Hourly Earnings yoy	4.6%

The latest JP Morgan investor survey finds that sentiment is now highly negative. Investors are bearish on both stocks and bonds, with risk appetite at multi-year lows. Just 19% of investors are 60% or higher in terms of their historical percentiles of positive sentiment. There is also no consensus on whether the surprisingly low CPI print this month signals a turning point for inflation, with opinion split evenly on the question. However, 74% believed that the dollar peak is in the rear view mirror, a positive for global markets, as the extreme depreciation of most currencies versus the dollar in 2023 was a big weight on risk sentiment. They also think that US markets will resume their outperformance against other markets in 2023.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

Source: J.P. Morgan.

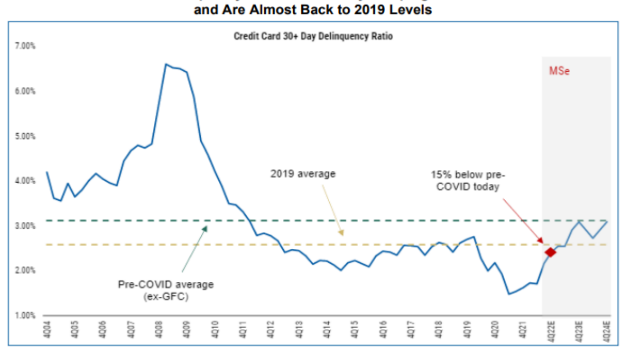
Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



Source: J.P. Morgan.

Credit card delinquencies in the US have risen back to pre-Covid levels. In fact, delinquencies are rising at the highest rate since 2009. High inflation and the depletion of consumer savings are the main causes, according to Morgan Stanley. As unemployment rises in reaction to Fed rate hikes, delinquencies are likely to rise further. Morgan Stanley expects US unemployment to rise to 4.3% by the end of 2023 compared to 3.7% today. During the pandemic, generous financial support for consumers from the federal government drove delinquencies to low levels, but this was not sustainable once financial support ended.

Credit Card Delinquency Rates Are Quickly Ramping from Covid Lows and Are Almost Back to 2019 Levels



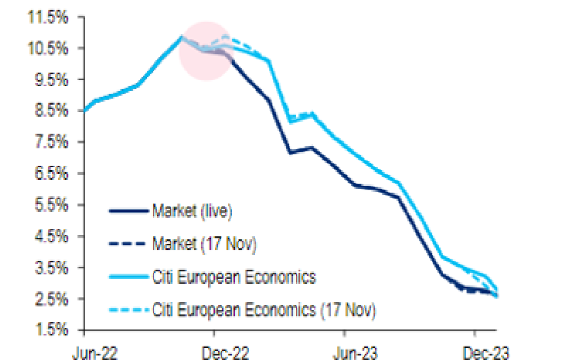
Source: Company data, Morgan Stanley Research estimates

Euro area

European equities (-0.8%) fell in line with a global risk-off tone. Final manufacturing PMI readings will be published on Thursday and will be closely watched given better-than-expected economic data recently.

The euro (+0.9%) gained and euro area rates opened the week 4–9 bp higher as ECB speakers have maintained a hawkish tone ahead of ahead of the publication of euro area inflation on Wednesday. Headline inflation is expected to fall to 10.4% y/y in November (from 10.6%) while core inflation is expected to remain at 5.0% y/y. Italian inflation is expected to fall to 12.1% after the noticeable upside surprise to 12.6% in October. Citi points out that November's print would mark the first deceleration in headline since June 2021, but some contacts expect euro area inflation to only peak in December or early 2023. Money markets are pricing in a peak ECB policy rate around 3.0%, compared to 3.5–3.75% or so in October.

Euro area inflation projections (headline ex tobacco)



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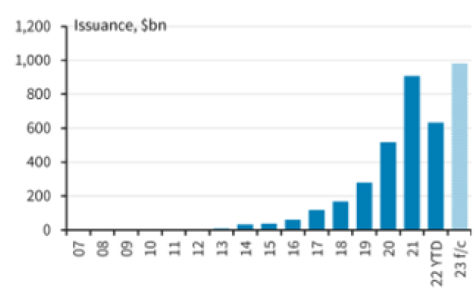
Source: Citi Research, as of 23 Nov 3pm CET

Climate

Barclays expects close to $1trn of ESG bond issuance in 2023. Corporate ESG bond issuance fell sharply in 2022, but Barclays expects corporate ESG bond issuance to rebound back to 2021's record of around $463 bn with DM sovereign bond supply steady. EM sovereign hard-currency bond supply will be marginally higher than in 2022 at $15 bn, but well below the record levels of 2020–21.

Barclays: Expected ESG bond issuance in 2023 (bn $)

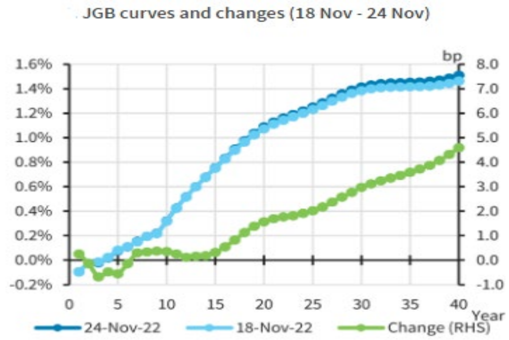


DM hard currency only. We do not forecast local government bonds and therefore apply an average forecast 2022-23 growth rate to 2022 issuance to provide an estimate. YTD as of 17 November.

Source: Dealogic, Bloomberg, Barclays Research

Japan

Equities slipped 0.7% amid broader declines in Asia markets. **Former Bank of Japan (BOJ) board member Shirai called for a comprehensive policy review**, to determine Japan's current neutral rate and subsequently the BOJ's bond yield target and allowed yield ranges. Shirai also called for more flexible monetary policy in line with the business cycle and expects the BOJ to keep interest rates low even after outgoing Governor Kuroda steps down in April 2023. Relatedly, Fitch does not expect Kuroda's successor to have a "radical change in thinking" regarding monetary policy. The yen strengthened 1.1% on safe haven demand. 10-year yields were little changed. Barclays continues to believe the Japanese government bond curve will strengthen its bull-flattening bias and sees scope for further declines in medium and long-term forward yields.



Note: Our constant maturity basis.
Source: Barclays Research

Commodities

Spot oil prices are around 3% lower after demonstrations spread across China and talks on a G-7 price cap on Russian oil are proceeding more slowly than expected. Poland and the Baltic states are reportedly objecting to proposals that they see as too generous to Russia. Lower demand for oil by China may also weigh on prices. Chinese oil demand could average 15.1mn bbl/d this quarter, down from 15.8 mn bbl/d a year ago, according to Kpler. Some contacts believe that the EU will not succeed in imposing a restrictive cap on Russian oil given the tightness in global energy markets. They point out that the EU has benefited from mild weather and less-than-expected LNG imports by China so far, but several governments will be hesitant to impose severe sanctions given the outlook of limited global energy supply growth in 2023.

Emerging Markets back to top

Asian equities slumped 1% net, dragged by COVID-related unrest in China. Hong Kong SAR fell 1.6%, Taiwan, Province of China declined 1.5%. Vietnam (+3.5%) outperformed, followed by Sri Lanka (+2%). Asian currencies were mixed. 10-year yields mostly fell. Thailand slipped -9.5 bps. The **Bank of Korea** (BOK) expectedly hiked its 7-day repo rate by +25 bps to 3.25% on Thursday and hinted the rate hiking cycle may peak in Q1 2023. Separately, South Korea's Finance Ministry announced today that local financial firms will inject an additional 5 tn won ($3.7 bn) into a bond stabilization fund between December 2022 and January 2023, and the BOK will provide up to 2.5 tn won of liquidity to the participating firms via repo transactions. In **Malaysia**, Pakatan Harapan (PH) Chairman Anwar Ibrahim was appointed the tenth Prime Minister last Thursday. The news triggered a rally in Malaysia equities and an appreciation of the ringgit. In **Sri Lanka**, central bank Governor Weerasinghe expects inflation to significantly cool to 4–5% y/y by end-2023, after having peaked at nearly 70% in 2022. **EMEA equities were mostly trading lower** with risk sentiment dented by reports of unrest in China over Covid restrictions, while currencies were mostly trading stronger against the dollar. Türkiye was an exception, with equities gaining (+1.6%) and the Turkish lira depreciating (-0.2%) against the dollar. On the monetary policy front, market consensus expects Ghana to raise its policy rate by 175 bp to 26.25% later today, while some analysts expect a 250 bp hike. **LatAm stock markets were mostly down on Friday, while currency performance was mixed.** Brazilian stocks were the worst performing equity market (-2.55%), as the top candidate to head the Finance Ministry fell short of addressing investors' fiscal concerns. Other stock indexes in the region fell in the range of 0.1–0.6%. Most Latin American currencies depreciated against the dollar while both the Mexican peso and Colombian peso strengthened.

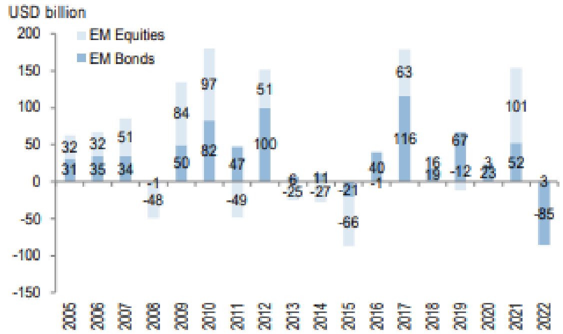
Emerging Market bond funds reverted to outflows last week (-$489mn from +$136mn), due to the substantial increase in local currency outflows (-$1.2bn). The inflows in hard currency investments continued to increase for the second week (+$745mn). Within local currency outflows, China-focused funds saw the largest outflows since mid-May (-$1.4bn). EM equity fund inflows were the largest since early April (+$1.1bn). Year-to-date flows currently stand at -$85.1bn and +$2.5bn for bonds and equities, respectively.

Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		0.6	-82.6
	EM Bonds		-0.5	-85.1
	Hard Ccy		0.7	-42.4
	Local Ccy^		-1.2	-42.7
	o.w. EM ex-China		0.2	-20.3
	o.w. China		-1.4	-21.2
	EM Equities		1.1	2.5
	US HG		-0.4	-69.7
	US HY		1.4	-38.1
	Global Equities		-4.7	114.5
	EM Bond and Equity ETFs		2.0	39.7
	EM Bond ETFs		0.1	-10.9
	EM Equity ETFs		2.0	50.6
	Non-resident EM flows*		-1.0	-56.5

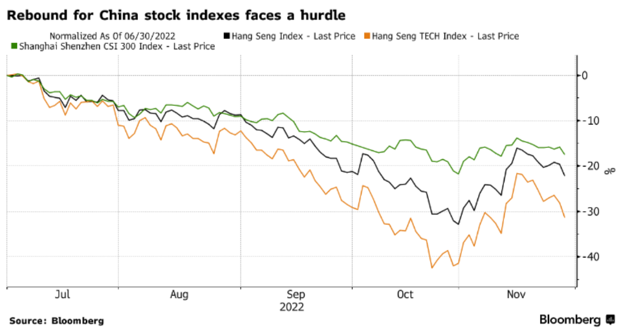
Exhibit 2: Annual EM bond and equity fund flows



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

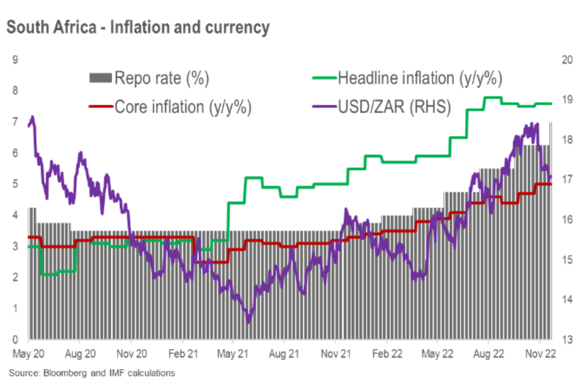
China

Equities dove (CSI 300: -1.1%) amid growing unrest in China over COVID restrictions. On Friday, People's Bank of China (PBOC) announced 25 bp reserve ratio requirement (RRR) cuts for most banks. The cuts are effective December 5 but will not affect banks already subject to a 5% RRR. The cuts will unlock 500 bn yuan ($70 bn) of long-term funding and decrease banks' annual funding costs by 5.6 bn yuan ($778 mn), the PBOC said. Relatedly, former PBOC adviser Yu called for even more stimulus to boost the economy, via increased government bond issuance and additional interest rate cuts. Separately, China will extend tariff waivers on some US goods until end-May 2023. The yuan weakened (onshore: -0.4%, offshore: -0.1%). 10-year yields rose +3.5 bp.



South Africa

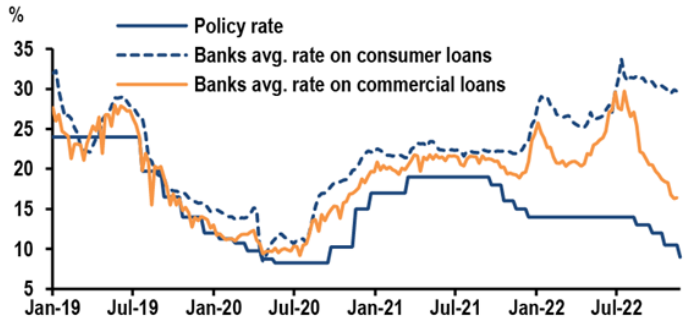
The South African Reserve Bank (SARB) on Thursday last week hiked its key rate by 75 bp to 7%, in line with expectations. Inflation forecasts for 2023 were revised slightly higher, while growth forecasts were revised lower (2023 GDP growth now seen at 1.1% from 1.4% previously). While the MPC vote split was slightly more dovish that the September vote (three MPC members voting for a 75 bp increase and two favored a 50 bp hike), some analysts perceived the communication from SARB as leaning towards the hawkish side following the higher than expected inflation print last week: Data showed October headline inflation increasing to 7.6%y/y (vs expected 7.4%) and core inflation increasing to 5%y/y. Analysts expect further tightening, with several analysts forecasting another 50bp of hikes in Q1 2023 to a 7.5% terminal rate. Goldman Sachs analysts then forecasts rate cuts in Q4 2023 to take the policy rate to 5.5% in 2025.



Türkiye

The Central Bank of the Republic of Türkiye (CBRT) cut its policy rate by 150 bp to 9% last Thursday, as expected, and indicated that the rate cut cycle has now come to an end. Headline inflation accelerated to 85.5%y/y in October, while the CBRT has cut the policy rate by 500 bp since August. The press statement noted that the MPC "decided to end the rate cut cycle that started in August" with the current policy rate deemed adequate. The CBRT also announced new measures to support the effectiveness of the monetary transmission mechanism, to be published in December. JPMorgan analysts highlight that the transmission of lower interest rates to households have been limited, while the spread between corporate lending rates and the policy rate has narrowed as a result of regulations adopted in August. Deutsche Bank analysts expect the policy rate to remain unchanged at 9% until elections, set to take place in June 2023, and also see the possibility of monetary policy tightening in H2 2023.

Figure 1: Transmission mechanism to corporates/households



Source: CBRT, Borsa Istanbul, J.P. Morgan

Brazil

The Ibovespa stock index declined by 2.6% and the Brazilian real weakened by 1.6%. It was the worst performer among emerging market currencies, as Fernando Haddad, a top candidate to head the Finance Ministry, did not address investors' fiscal concerns at a banking-industry event in Sao Paulo. Meanwhile, Brazil's consumer prices rose 0.53% m/m and 6.17% y/y, as President-elect Luiz Ignacio Lula de Silva nears talks with congress over spending plans for the next administration. Investors are forecasting a slower easing cycle next year, as Lula's plans to maintain greater cash handouts in 2023 will cause more inflation.

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Global Financial Indicators

11/28/22 8:20 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		4015	0.0	1	3	-13	-16	-5
Europe		3930	-0.8	1	9	-4	-9	-1
Japan		28163	-0.4	1	4	0	-2	6
China		3733	-1.1	-1	5	-23	-24	-19
Asia Ex Japan		63	-0.5	-2	13	-24	-24	-20
Emerging Markets		38	-0.5	-1	10	-22	-23	-20
Interest Rates					basis points			
US 10y Yield		3.68	0.0	-15	-33	220	217	169
Germany 10y Yield		1.99	1.6	0	-11	233	217	176
Japan 10y Yield		0.25	-0.1	1	1	18	18	6
UK 10y Yield		3.12	-0.5	-7	-36	229	215	164
Credit Spreads					basis points			
US Investment Grade		157	0.1	-3	-27	44	45	14
US High Yield		463	2.5	-8	-4	84	125	56
Europe IG		92	2.7	-3	-20	36	44	21
Europe HY		466	12.4	-10	-82	186	224	114
Exchange Rates					%			
USD/Majors		105.59	-0.4	-1	-5	10	10	10
EUR/USD		1.05	0.6	2	5	-7	-8	-8
USD/JPY		138.7	-0.4	-2	-6	22	20	21
EM/USD		49.7	0.1	0	2	-5	-5	-6
Commodities					%			
Brent Crude Oil ($/barrel)		81	-2.9	-7	-13	20	11	-5
Industrials Metals (index)		155	-0.4	-2	7	-5	-10	-18
Agriculture (index)		67	-0.8	-1	0	9	10	-5
Implied Volatility					%			
VIX Index (%, change in pp)		22.3	1.8	-0.9	-3.5	-6.4	5.0	-8.8
US 10y Swaption Volatility		132.9	-1.7	16.1	-17.7	55.7	53.9	38.6
Global FX Volatility		11.5	0.1	0.1	-0.5	3.0	4.1	4.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		223	3.8	-5	-17	59	71	-17
Italy		193	4.8	-2	-14	62	58	21
Portugal		92	0.9	0	-6	24	28	1
Spain		99	1.2	0	-5	23	25	-4

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

Emerging Market Financial Indicators

Last updated: 11/28/2022 8:21 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.20	-0.5	-0.5	1	-11	-12	-12		3.1	4.0	3	32	13	25	24
Indonesia		15722	-0.3	-0.1	-1	-9	-9	-9		7.0	-0.2	-12	-57	87	58	46
India		82	0.0	0.2	1	-8	-9	-9		7.3	-5.2	-13	-23	92.9	103	
Philippines		57	0.1	1.2	2	-11	-10	-10		6.1	-5.0	-8	23	148	158	108
Thailand		36	0.3	1.8	6	-5	-7	-9		2.5	-4.0	-32	-62	71	65	28
Malaysia		4.48	0.1	2.3	5	-5	-7	-7		4.2	-1.9	-13	-20	63	57	49
Argentina		167	-0.6	-2.1	-6	-39	-38	-36		95.8	-6.9	296	471	4490	4520	4781
Brazil		5.39	0.2	-1.4	-2	4	3	-7		13.4	-8.9	17	156	190	271	187
Chile		919	0.4	2.5	3	-8	-7	-14		5.3	-0.5	1	-99	4	-8	-57
Colombia		4859	0.2	1.9	-1	-17	-16	-19		10.2	0.0	-27	-49	339	381	234
Mexico		19.33	0.0	1.1	2	12	6	5		8.6	2.0	-19	-77	88	107	75
Peru		3.9	-0.1	-0.7	4	5	4	-3		7.8	-0.1	-19	-68	190	190	180
Uruguay		39	-0.1	0.7	3	12	13	8		10.8	-0.1	-11	-70	217	210	268
Hungary		391	0.4	2.0	6	-17	-17	-18		8.0	0.0	-25	-275	377	344	314
Poland		4.49	0.4	2.0	5	-8	-10	-10		6.0	-7.0	-21	-132	304	247	210
Romania		4.7	0.4	2.3	5	-7	-8	-7		7.8	11.9	-14	-124	274	297	264
Russia		61.0	-0.9	0.4	1	22	23	34		10.7	10.0	-48	-20	189	197	-44
South Africa		17.2	-0.5	1.0	6	-6	-7	-12		8.9	1.0	-17	-56	108	146	130
Turkey		18.61	-0.1	0.0	0	-31	-29	-26		10.8	0.0	-49	-54	-1028	-1348	-1158
US (DXY; 5y UST)		106	-0.4	-1.3	-5	10	10	10		3.88	2.1	-14	-31	272	262	198

	Equity Markets								Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Since	Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
									basis points						
China		3733	-1.1	-1	5	-23	-24	-19		206	1	-14	12	3	-2
Indonesia		7017	-0.5	-1	-1	6	7	1		169	-11	-52	8	4	-16
India		62505	0.3	2	4	9	7	9		148	-5	-79	17	16	-6
Philippines		6681	1.1	4	9	-7	-6	-9		129	-12	-42	27	28	-8
Thailand		1617	-0.2	0	1	2	-2	-5		0	0	0	0	0	0
Malaysia		1487	0.0	3	3	-2	-5	-6		103	2	-24	-7	-14	-30
Argentina		163717	1.7	5	11	104	96	79		2416	-38	-96	605	736	679
Brazil		108957	-2.6	-1	-5	7	4	-3		286	-1	3	-41	-25	-45
Chile		5243	-0.5	-1	1	14	22	20		160	8	-26	23	20	-14
Colombia		1266	-0.1	3	4	-4	-10	-16		406	-1	-73	82	58	14
Mexico		51669	-0.6	1	5	4	-3	1		396	14	-21	46	64	26
Peru		22487	-0.1	3	7	13	7	-4		186	4	-29	23	36	-4
Hungary		45851	0.3	3	12	-10	-10	-4		229	6	-89	112	105	76
Poland		55989	-0.5	3	13	-16	-19	-11		34	-6	-45	-10	2	18
Romania		11527	-0.4	-1	6	-5	-12	-13		278	-5	-88	77	85	46
Russia		2168	-1.2	0	0	-43	-43	-30		3411	-577	938	3228	3234	2897
South Africa		73165	0.0	2	10	7	-1	-2		363	-21	-89	-4	8	-26
Turkey		4954	1.6	8	28	179	167	146		474	-37	-86	-45	-104	-89
Ukraine		519	0.0	0	0	-1	-1	0		3649	-35	-618	3024	2890	2176
EM total		38	-0.7	-1	10	-22	-23	-20		398	-8	-59	7	12	-60

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

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