GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 29, 2022

- **Investors worry about Treasury market liquidity** (link)
- **Major US banks sharply reduce balance sheet risk** (link)
- **Euro area rates fall as Spanish inflation decelerates more than expected** (link)
- **Oil prices higher on Chinese reopening hopes and OPEC+ speculation** (link)
- **China's securities regulator lifted ban on local share sales by listed property developers** (link)
- **Central bank of Ghana surprises with 250 bp hike** (link)

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Hopes of China loosening and easing European inflation

Optimism over loosening of restrictions in China is helping to drive risk appetite higher. Asian equities rose over 2% overnight, with mainland China stocks up 3%. European stocks and US equity futures are modestly higher, and oil prices are rebounding on the news as well. Lower than expected inflation data out of Spain is pushing European sovereign bond yields lower. Combined with preliminary regional German data, it suggests to markets that tomorrow's euro area inflation data release may come in lower than anticipated. With few exceptions, emerging market currencies are higher this morning as the recent trend of a weakening dollar resumes.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close					Since
11/29/22 8:06 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		3964	-1.5	0	2	-15	-17	-6
Eurostoxx 50		3945	0.2	0	9	-4	-8	-1
Nikkei 225		28028	-0.5	0	2	1	-3	6
MSCI EM		38	-0.5	-1	10	-23	-23	-21
Yields and Spreads					bps			
US 10y Yield		3.67	-0.9	-8	-34	217	216	168
Germany 10y Yield		1.90	-9.0	-8	-20	222	208	167
EMBIG Sovereign Spread		475	-4	-14	-65	85	108	62
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.0	0.3	1	2	-4	-5	-6
Dollar index, (+) = $ appreciation		106.3	-0.3	-1	-4	10	11	11
Brent Crude Oil ($/barrel)		85.6	2.8	-3	-11	17	10	-12
VIX Index (%, change in pp)		22.1	-0.1	0	-4	-1	5	-9

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

Mature Markets

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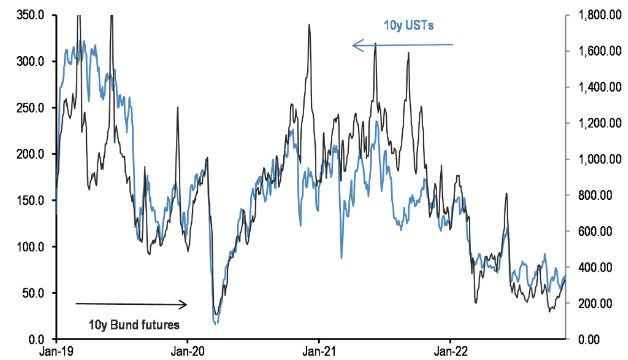
United States

Liquidity in the US Treasury market is a continued concern for market participants. Market depth for Treasury and bund futures is extremely shallow compared to recent history, approaching pandemic levels. There is less worry about the bund market where the ECB is playing a dominant role, but with the Fed unwinding its pandemic-era bond purchases the pressure on the Treasury market could intensify if liquidity remains sparse. Investors are also keeping a nervous eye on the December 16 deadline for funding the US government, and the prospect of another debt ceiling crisis when the Republicans take control of Congress next year is another worry for the market. Even a technical default in the all-important US Treasury market could be a major shock for global financial markets. In 2011, the US came dangerously close to a default when budget negotiations broke down and S&P withdrew the nation's AAA credit rating.

Figure 14: Market depth in 10y USTs and 10y Bund futures

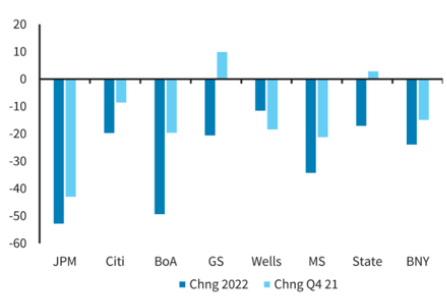
In $mn for USTs, # of contracts for 10y Bund futures



Source: J.P. Morgan, Bloomberg Finance L.P.

The major US global systemically important banks (G-SIBS) have significantly reduced the risk level of their balance sheets. The eight biggest banks reduced their risk scores for the second straight quarter in Q3 2022. The overall risk reduction included a large pullback from the derivatives business, which takes up a significant amount of balance sheet space. Banks typically reduce risk further in Q4 when the balance sheet buffer is calculated, which is a key determinant of the size of the capital buffers that banks are required to maintain. The recent runup in bank equity prices is also likely to result in further curtailment of risk, as a higher equity price increases a bank's risk scores. Analysis from Barclays predicts that banks will also reduce their activity in the foreign exchange market with foreign counterparties, as such trades increase capital requirements.

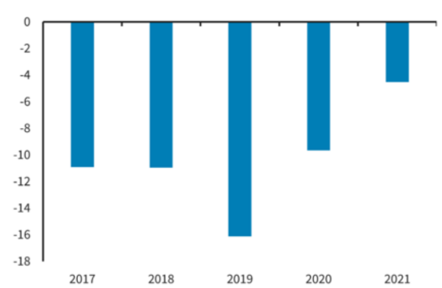
Figure 2. Risk reduction (bp)



Note: Decline in banks' scores from Q1 to Q3 2022 compared with the Q4 2021 decline.

Source: Federal Reserve, Barclays Research

Figure 5. OTC derivatives (% change, Q4/Q3)

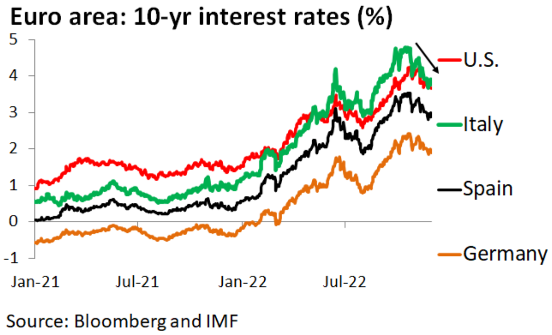


Note: Cumulatively across all eight US GSIBs.

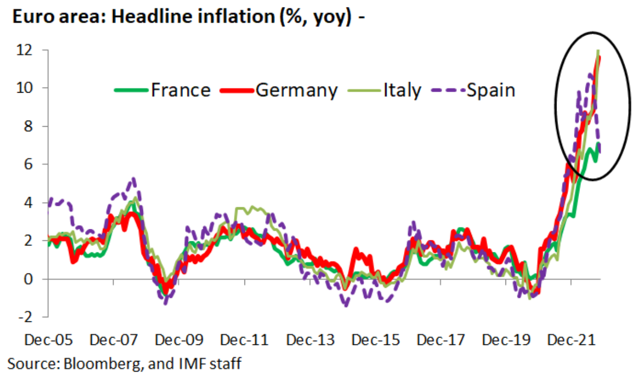
Source: Federal Reserve, Barclays Research

Euro area

European rates traded 7–10 bp lower and the euro (+0.3%) firmed after Spanish inflation data and preliminary regional German inflation data suggest downside risks to euro area wide inflation (to be released tomorrow). European equities are little changed.

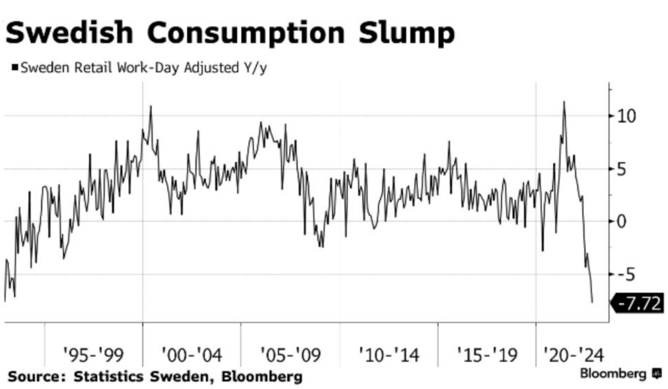


Spanish headline prices fell 0.5% m/m in November (compared to positive inflation of +0.1% m/m expected), leaving inflation at 6.6% y/y compared to expectations of 7.1% y/y. Preliminary regional CPI data in Germany also showed m/m contractions in prices. German headline HICP inflation could be noticeably lower than the 11.3% y/y expected by consensus.



Sweden

Bond yields fell 8–9 bp and as much as 17 bp in the 10-yr segment following a particularly sharp contraction of retail sales in October. Retail sales in durables, which tend to be interest-rate sensitive, fell 2.5% m/m. Meanwhile, GDP data showed that strong investments and growth in inventories prevented a contraction in domestic demand in Q3. The krona ticked lower.

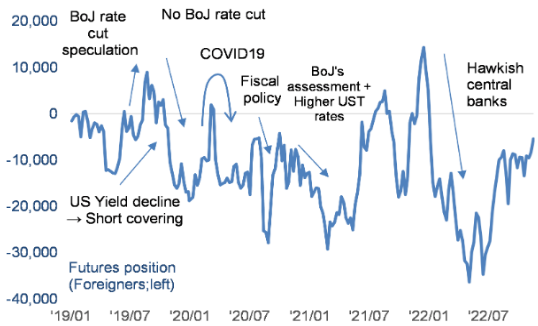


Japan

The Bank of Japan's (BOJ) unrealized bond holding losses hit -¥875 bn ($6.3 bn) in September, the bank's semi-annual financial statement showed. The loss is the largest on record for data starting March 2004, with the BOJ's previous +¥4.4 tn profit having been rapidly eroded over six months as yields rose, Bloomberg notes. Separately, Japan's government has reportedly outlined a plan to introduce carbon pricing, according to Bloomberg. Power utilities will reportedly be required to pay for emissions allowances in the future. The plan's proceeds will repay government debt issued for funding of renewable energy projects, among others. In October data releases, the jobless rate remained unchanged at 2.6%, the jobs-to-applicant ratio firmed to 1.35 (previous: 1.34), while retail sales growth cooled to 4.3% y/y (previous: 4.8%). Equities slipped 0.6%; the yen strengthened 0.5%. 10-year yields were little changed. Foreign investors may have once again sold Japanese government bond futures last Friday, following higher than expected Tokyo inflation, JP Morgan notes.

Foreigners covered their short positions in the week ending November 18, but last Friday's price actions suggest that some players may have shorted JGB futures again

Foreigners' net position (JPM estimate) and 7Y JGB Yield movement (latest data point as of November 18)



Source: J.P. Morgan
Note: We arbitrarily set January 2019 as the base point.

Commodities

Spot oil prices are 2.5% higher on reopening hopes in China and ahead of an OPEC+ meeting later this week. Some contacts have a strong conviction that OPEC+ could announce further supply cuts on December 4. An Iraqi delegate to OPEC+ also commented that the decision in October to reduce production by two mn barrels per day has played an important role in stabilizing global markets.

Spot natural gas prices in Europe (+6%) are higher as countries are turning to gas and coal-fired plants to respond to weak wind power and disappointing nuclear generation. Temperatures are also expected to be "unseasonably cold" starting next week.

Emerging Markets

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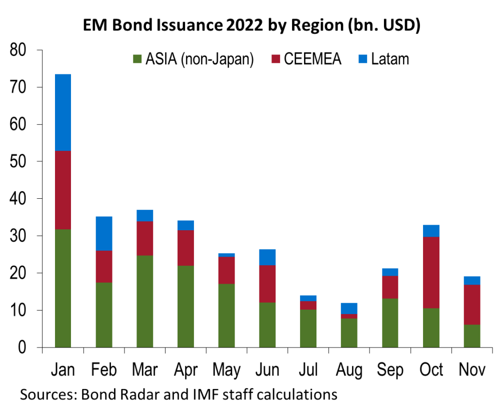
Asian equities surged 2.6%, lifted by shares in Hong Kong SAR (+5.2%) and Mainland China (CSI 300: +3.1%), on reopening hopes and the announcement of property sector measures. Asian currencies mostly mildly appreciated, and 10-year yields were mostly little changed. **EMEA equities were mixed, while currencies were mostly trading stronger against the dollar.** The South African rand (+1.2%) outperformed , while the Turkish lira was marginally weaker against the dollar this morning with Bloomberg noting that the currency is heading for the eleventh consequtive monthly weakening amid loose monetary policy. **LatAm stock markets continued to fall Monday, while most currencies strengthened.** The Chilean peso rose 1.1% as it appreciated the most among all currencies worldwide. The Brazilian real, the Mexican peso and the Colombian peso also appreciated against the dollar. The Brazil IBOVESPA index closed down 0.18%. Colombian and Mexican stocks both fell by 1.2%. Chile's IPSA index declined by 0.8%.

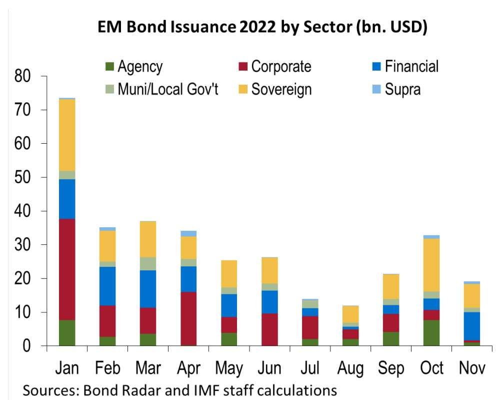
China

Equities surged (CSI 300: +3.1%) on reopening hopes following days of civilian protests. Hong Kong listed equities were up +5.2%. After markets closed today, China's National Health Commission signaled a softer COVID stance and plans to boost elderly vaccinations during a press briefing. Separately, **China's securities regulator lifted a ban on local share sales by listed property developers**, in efforts to support the property market and economy. The regulator also adopted new measures, including allowing the developers to sell shares to purchase property assets and resuming mergers between listed developers, among others. The policy changes apply to both Hong Kong SAR-listed developers and A-share listed builders. Developers' equities and bonds surged on the news, triggering trading halts on several onshore developer bonds, Bloomberg reports. The yuan appreciated (onshore: +0.5%, offshore: +1%).

EM Bond Issuance

Issuance fell compared with the week before as the holiday season approaches. EM bond issuers issued $4.9 bn last week, mainly in the financial sector ($3.6 bn). China dominated the issuance with more than $2.0 bn. Qatar National Bank issued a total of $1.1 bn last Monday. YTD total issuance now stands at $330 bn.



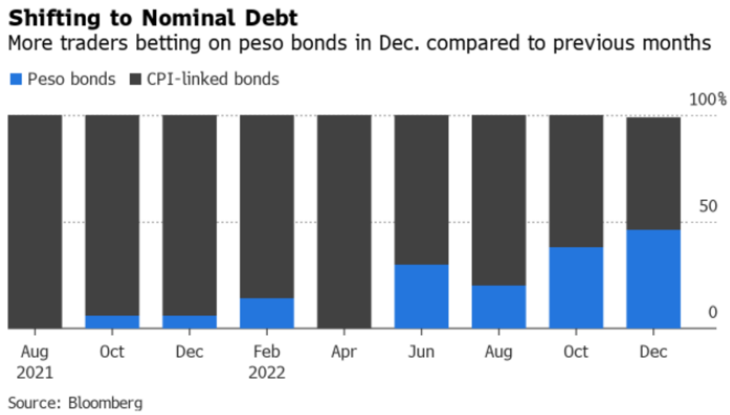


Ghana

The Bank of Ghana hiked its policy rate by 250 bp to 27% yesterday, a larger hike than median expectations, amid broadening price pressures and a moderation of economic growth. Cumulative hikes in the past year now amounts to 13.5 percentage points, with real policy rates remaining in negative territory as headline inflation increased to 40.4% in October, while accelerating core inflation points to broadening price pressures. The committee sees inflation peaking in Q1 2023 and falling back to 25% by end-2023 if tight monetary policy is maintained and tools are deployed to limit excess liquidity. Risks to the forecast include a proposed VAT increase and the exchange rate. According to Bloomberg, the cedi is the worst-performing currency globally this year. Absa analysts see the MPC as more hawkish than before, and highlight that the rate hike took place even as the economic growth outlook deteriorated. **Goldman Sachs analysts expect 150 bp of additional tightening in Q1 2023 with the policy rate peaking at 29%, with risks tilted to a higher terminal rate.**

Chile

Investors in Chilean bonds are shifting attention from politics to inflation. It was the first time since Bloomberg's monthly survey started in April 2021, that no analyst quoted politics as the driving force behind bond market movements. Instead, inflation is expected to weigh the most on performance. Annual inflation continued to slow more than expected in October and has led investors to bet on rate cuts. Chilean interest rate swaps are pricing more than 500 basis points in rate cuts over the next year. 46% of investors prefer to position in nominal rather than inflation-linked bonds next month, up from 21% in mid-year.



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Global Financial Indicators

11/29/22 8:06 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		3969	-1.5	0	2	-15	-17	-6
Europe		3945	0.2	0	9	-4	-8	-1
Japan		28028	-0.5	0	2	1	-3	6
China		3848	3.1	2	10	-20	-22	-17
Asia Ex Japan		63	-0.4	-1	13	-25	-24	-21
Emerging Markets		38	-0.5	-1	10	-23	-23	-21
Interest Rates					basis points			
US 10y Yield		3.67	-0.9	-8	-34	217	216	168
Germany 10y Yield		1.90	-9.0	-8	-20	222	208	167
Japan 10y Yield		0.25	0.0	0	1	18	18	6
UK 10y Yield		3.11	-1.7	-3	-37	225	214	163
Credit Spreads					basis points			
US Investment Grade		161	-0.8	-1	-24	47	49	18
US High Yield		474	0.2	5	7	101	136	67
Europe IG		90	-1.6	-2	-23	34	43	19
Europe HY		457	-6.6	-4	-98	177	215	105
Exchange Rates					%			
USD/Majors		106.34	-0.3	-1	-4	10	11	11
EUR/USD		1.04	0.4	1	5	-8	-9	-8
USD/JPY		138.1	-0.6	-2	-7	22	20	20
EM/USD		50.0	0.3	1	2	-4	-5	-6
Commodities					%			
Brent Crude Oil ($/barrel)		86	2.8	-3	-9	24	17	0
Industrials Metals (index)		158	1.4	2	9	-4	-9	-16
Agriculture (index)		68	0.2	0	1	12	11	-4
Implied Volatility					%			
VIX Index (%, change in pp)		22.1	-0.1	-0.3	-3.6	-0.8	4.9	-8.9
US 10y Swaption Volatility		132.9	-1.7	16.1	-17.7	55.7	53.9	38.6
Global FX Volatility		11.5	0.0	0.1	-0.5	3.4	4.0	4.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		225	1.5	-1	-16	63	73	-16
Italy		188	-4.1	-5	-19	59	53	17
Portugal		92	-1.1	-1	-6	25	27	0
Spain		98	-1.8	-1	-7	24	24	-5

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

Emerging Market Financial Indicators

Last updated: 11/29/2022 8:08 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		7.17	0.6	-0.4	2	-11	-11	-12		3.1	3.0	6	36	16	28	27
Indonesia		15743	-0.1	-0.3	-1	-9	-9	-9		7.0	1.2	-7	-56	87	59	47
India		82	-0.1	-0.1	1	-8	-9	-9		7.3	1.1	-11	-27	94.0	104	
Philippines		57	0.1	1.4	3	-11	-10	-10		6.1	5.0	-3	25	148	163	113
Thailand		35	1.0	2.1	8	-5	-6	-9		2.5	0.0	-25	-66	71	65	28
Malaysia		4.51	-0.7	1.5	5	-6	-8	-7		4.1	-1.3	-27	-25	59	52	44
Argentina		167	-0.2	-1.5	-6	-40	-38	-36		96.0	23.9	320	258	4490	4544	4805
Brazil		5.31	1.0	1.0	-3	6	5	-6		13.2	-6.8	-16	154	172	253	170
Chile		904	1.1	2.6	4	-7	-6	-13		5.3	-4.0	-1	-104	-1	-13	-62
Colombia		4831	0.1	1.6	2	-16	-16	-19		10.2	0.0	-9	-69	337	379	233
Mexico		19.10	1.1	1.8	4	14	7	6		8.6	-0.5	-2	-68	101	111	79
Peru		3.8	0.2	-0.2	3	6	4	-3		7.8	-0.8	0	-71	187	187	177
Uruguay		39	0.2	0.1	3	12	13	8		10.8	0.0	-6	-61	212	210	268
Hungary		391	0.5	0.7	6	-17	-17	-18		8.0	0.0	14	-268	384	351	321
Poland		4.50	0.6	1.4	6	-8	-10	-10		5.9	-10.5	-9	-148	291	235	198
Romania		4.7	0.3	1.0	5	-7	-8	-8		7.8	-2.2	-14	-127	272	295	262
Russia		61.1	0.6	0.1	1	22	23	34		10.8	-6.0	-14	8	199	207	-34
South Africa		17.0	1.1	1.6	8	-5	-6	-11		8.9	-6.0	-15	-71	104	142	126
Turkey		18.64	0.0	-0.1	0	-31	-29	-26		10.8	0.0	-49	-54	-1028	-1348	-1158
US (DXY; 5y UST)		106	-0.3	-1.4	-4	10	11	11		3.86	-1.0	-8	-32	271	260	196

	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		3848	3.1	2	10	-20	-22	-17		204	1	-16	6	1	-4
Indonesia		7012	-0.1	0	-1	7	7	1		164	-15	-40	-15	-1	-21
India		62682	0.3	2	3	10	8	10		144	-3	-67	8	12	-10
Philippines		6781	1.5	5	10	-6	-5	-8		127	-13	-32	8	26	-10
Thailand		1624	0.5	1	1	4	-2	-4		0	0	0	0	0	0
Malaysia		1477	-0.6	2	1	-2	-6	-7		99	-2	-19	-18	-18	-34
Argentina		164278	0.3	4	11	108	97	80		2399	-40	-166	538	719	662
Brazil		108782	-0.2	0	-5	6	4	-3		280	-3	-6	-73	-31	-51
Chile		5213	-0.8	-2	0	16	21	19		154	3	-23	0	14	-20
Colombia		1241	-2.0	-1	2	-8	-12	-18		408	6	-32	56	60	16
Mexico		51081	-1.1	-1	4	3	-4	-1		397	15	-14	22	65	27
Peru		22013	-2.1	1	5	9	4	-6		182	2	-20	0	32	-8
Hungary		45666	0.2	1	11	-11	-10	-4		226	-2	-42	91	102	73
Poland		55548	-0.4	1	12	-17	-20	-12		35	-9	-28	-22	3	19
Romania		11633	0.9	1	7	-5	-11	-12		277	-17	-56	59	84	44
Russia		2183	0.3	-1	1	-44	-42	-29		3411	-577	938	3228	3234	2897
South Africa		73283	-0.1	1	10	5	-1	-2		363	-21	-56	-39	8	-26
Turkey		4950	0.6	4	28	174	166	146		468	-48	-83	-81	-110	-95
Ukraine		519	0.0	0	0	-1	-1	0		3668	-39	-653	2995	2909	2195
EM total		38	2.4	-1	10	-23	-23	-21		394	-12	-45	-21	8	-64

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

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