



- Markets remain bullish on the US dollar ([link](#))
- Analysts see US earnings falling in 2023 ([link](#))
- Debate on size of ECB hikes reportedly continues ([link](#))
- Euro area swap spreads widen as energy firms warn of large margin calls ([link](#))
- Japan government warns of government actions as the yen slide continues ([link](#))
- Chile's central bank hikes policy rate by 100 bp, more than the expected 75 bp ([link](#))

[Mature Markets](#)


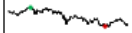





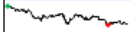
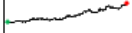
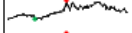

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Dollar continues to shine

Even with reports that some ECB Governing Council members are continuing to consider a 50 bp hike at tomorrow's meeting, markets continue to price a high likelihood of a 75 bp move. As of this morning about 65 bp is priced in for tomorrow. Beyond that, many expect the ECB to get to 1.50% by the end of the year regardless of the size of the hike tomorrow. Nonetheless, the possibility of a smaller hike tomorrow, combined with Europe's ongoing energy problems, is pushing the dollar higher for a third straight day. Bloomberg's DXY dollar index, which is heavily weighted to the euro, is at its highest level in 20 years. Similarly, as the yen continues to fall to a 24-year low versus the dollar, Japanese officials have warned of a potential response if the decline continues. Emerging market currencies meanwhile are mostly weaker versus the dollar as well, with the Hungarian forint a notable exception as it outperformed after industrial production was reported stronger than expected.

Key Global Financial Indicators

Last updated: 9/7/22 8:01 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3908	-0.4	-3	-6	-14	-18	-8
Eurostoxx 50		3483	-0.5	-1	-7	-18	-19	-12
Nikkei 225		27430	-0.7	-2	-3	-9	-5	4
MSCI EM		38	-1.2	-4	-4	-28	-22	-19
Yields and Spreads			bps					
US 10y Yield		3.33	-2.3	13	50	195	182	134
Germany 10y Yield		1.58	-6.1	4	62	190	175	135
EMBIG Sovereign Spread		505	-5	5	2	166	138	92
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.8	0.1	-1	-1	-13	-5	-6
Dollar index, (+) = \$ appreciation		110.7	0.4	2	4	20	16	15
Brent Crude Oil (\$/barrel)		92.7	-0.1	-4	-2	29	19	-4
VIX Index (% change in pp)		26.9	-0.1	1	6	9	10	-4

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

Mature Markets

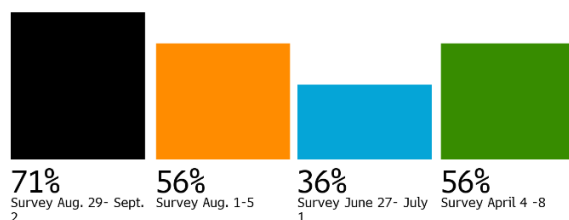
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United States

Analysts see more dollar strength ahead. The dollar index surged to a new two-decade high this week against major advanced economies. The continued dollar strength reflects on the one hand the resilience of the US economy and market's revised expectations about US policy rates. On the other hand, the latest moves are accentuated by the renewed energy supply shock in Europe and the UK, which point to a more difficult trade-off for policy markers across the Atlantic. And with major economies hiking aggressively, the Japanese yen weakened to a multi-decade low. Albeit forecasting exchange rates is notoriously difficult, a growing number of market analysis foresee a more persistent period of dollar strength ahead.

A Lot of Dollar Bulls

Percentage of survey respondents that expect dollar to gain



Source: MLIV Pulse survey. Investors were asked if they expect the Bloomberg Dollar Spot Index to rise or fall. August surveys had a monthly horizon, while the earlier ones asked for the quarterly outlook.

Rate Mismatch

Yen forward points swing in favor of dollar buyers



Bloomberg

Source: Bloomberg

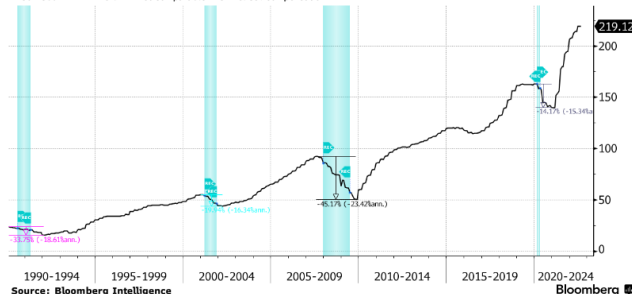
Bloomberg

Analysts cut expectations for earnings growth. US stocks have lost half of their summer gains after peaking in August in the face of a resilient US economy that allows further policy rate hikes as long as inflation remains elevated. Higher rates undermine equity prices either through higher discount rates or through the lower earnings due to high inflation and cooling growth. Typically, earnings per share tend to fall between 14% to 45% during recessions. While earning revisions can be noisy, several equity market analysts cut their expectations for earnings growth for the year. For example, Morgan Stanley expects earnings to fall 3% in 2023 on the back of a more sluggish economy.

What's Priced In?

Decrease in EPS during recessions

■ S&P 500 INDEX - Trail 12M Est Comparable EPS Excl Stk Compensation

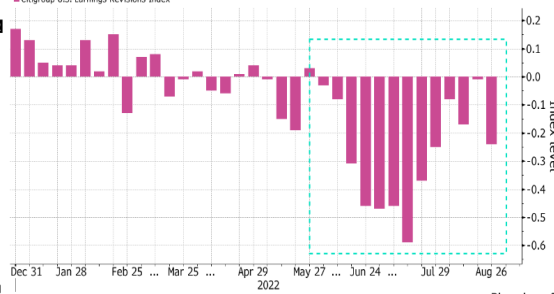


Source: Bloomberg Intelligence

Glum Earnings Outlook

US earnings downgrades have outnumbered upgrades for 13 weeks

■ Citigroup U.S. Earnings Revisions Index



Source: Citigroup, Bloomberg

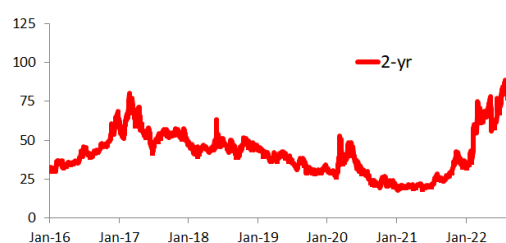
Bloomberg

Euro area

Traders are cautious ahead of tomorrow's ECB meeting, with equities (-0.3%), bond yields and the euro (-0.2%) all lower, as EC President von der Leyen said that the EU is likely to propose a mandatory target for reducing peak electricity. Most analysts still expect the ECB to hike 75 bp on Thursday (65 bp is priced in) but press reports signal that several ECB General Council members are still considering a hike of 50 bps. Some contacts make the point that many ECB GC members likely want the ECB depo rate at 1.50% by December 2022 (current market pricing: 1.61%) so the decision is to signal a hiking path of 75-50-25 bps of hikes in the next three meetings versus 50-50-50. Turning to data releases, final euro area Q2 GDP data was better than expected at 0.8% q/q (0.6% q/q consensus) or 4.1% y/y.

Euro area swap spreads are continuing to widen sharply as demand for high-grade collateral such as German bunds remains very strong. Meanwhile, Norway's energy company Equinor warns that European energy trading is being strained by margin calls of at least \$1.5 tn, putting pressure on governments to provide more liquidity buffers. Germany has reportedly set aside €7 bn in loans for companies facing liquidity issues whereas Finland and Sweden announced a \$33 bn emergency liquidity facility Sunday to backstop utilities through loans and credit guarantees.

Euro area: Swap spreads sharply wider
(difference between a swap rate and German bond yield, bps)

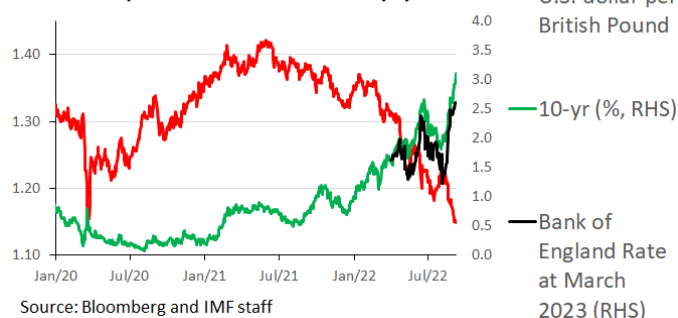


Source: Bloomberg and IMF staff

United Kingdom

The pound fell while 2-yr (-20 bp to 3.00%) and 10-yr gilt yields (-9 bp) both traded around 3% as investors await further details on the new government's plan to cap annual electricity and gas bills of British households, with an announcement expected later this week.

UK: British pound and interest rates (%)



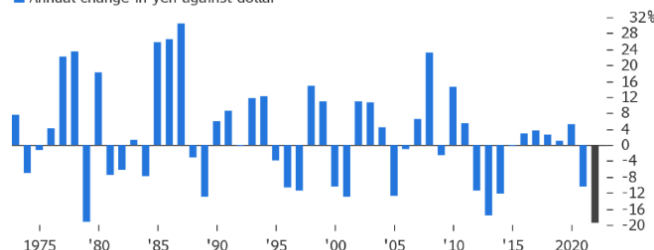
Source: Bloomberg and IMF staff

Japan

The yen weakened a further 0.9% to surpass 144 per US dollar. The currency has slumped 20% this year. Chief Cabinet Secretary Matsuno warned of government actions on the yen if needed, having described recent yen moves as rapid and one-sided, Bloomberg reports. JP Morgan analysts believe persistent yen weakness could be halted if Japan fully reopens its borders or if the Bank of Japan (BOJ) changes its super-easy policy, both of which are unlikely. Equities lost 0.6%. The BOJ boosted purchases of 5 to 10-year bonds (¥550 bn, previous: ¥500 bn), as 10-year yields climbed 0.9 bps to again approach the BOJ's 0.25% policy limit.

Yen is set for worst annual slump since it was floated in 1970s

■ Annual change in yen against dollar



Source: Bloomberg

Bloomberg

Emerging Markets

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Asian equities fell 1.2% on net, dragged by a stronger US dollar and concerns of rising interest rates. Vietnam lost 2.7% followed by the Philippines at -2.3%; mainland China closed with marginal gains (Shanghai +0.1%, Shenzhen +0.5%). Asian currencies depreciated led by the South Korean won (-0.9%). Following an emergency meeting today, the Bank of Korea said that recent won depreciation has been fast compared to economic fundamentals and that it will make active efforts to stabilize the currency market. 10-year yields mostly surged. Vietnam jumped +14 bp; the Philippines climbed +11 bp. Philippines central bank Governor Medalla said there is *much room* for additional rate hikes, citing a strong enough economy and banking sector, Bloomberg reports. **EMEA equities and currencies were mixed this morning**. The Polish zloty appreciated (+0.3%) against the euro ahead of the central bank policy decision due later today, where consensus expects a 25 bp hike that would take the base rate to 6.75%. Polish equities gained (+0.4%). The Hungarian forint continued to outperform (+0.6% against the euro) and equities gained (+0.8%) after July industrial production data surprised on the upside. The Turkish lira was little changed against the dollar as the one-month implied volatility fell to the lowest level in a year. Equities in South Africa underperformed (-1%) while the South African rand weakened (-0.4%) for the second consecutive day as foreign investors sold off South African bonds according to Bloomberg, following negative q/q economic growth data for Q2 released yesterday. **Latin American asset markets saw a day of losses**. Stocks retreated (Chile -3%, Brazil -2.2%, Colombia -0.8%, Argentina -0.7%, and Mexico and Peru both -0.3%), while currencies depreciated (Brazil -1.9%, Chile -1.3%, and Mexico -0.8%).

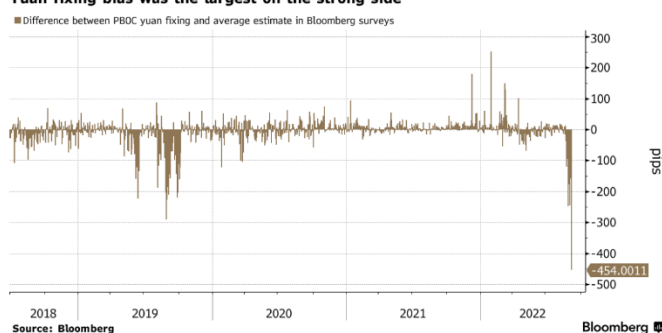
Chile

The Chilean central bank raised its policy rate yesterday by 100 bp to 10.75%, exceeding the 75 bp expected by market consensus. The central bank mentioned reduced global growth prospects, tighter global monetary conditions, a stubbornly high internal inflation rate (13.1% y/y in July) and contractionary macroeconomic dynamics as the context of its decision. The future path of monetary policy will depend on the macroeconomic outlook and its impact on inflation dynamics. Meanwhile president Boric reshuffled his cabinet subsequent to last Sunday's rejection of a new constitution. The president appointed more centrist candidates to the ministries of the interior, energy, health, science, and social development as well as to the position of the secretary general. Analysts expect that uncertainties around the future of the constitutional reform process and the trajectory of social spendings will nevertheless continue to generate risks for the fiscal budget and macroeconomic conditions.

China

President Xi renewed calls for breakthroughs in key technologies. Xi said China should optimize innovation resource allocation based on its strategic needs and improve its ability to tackle key technological problems, Xinhua reported. The government should play a more active role in orchestrating this process, Xi told a Party summit attended by senior policy-makers including Premier Li. Technology shares rallied as much as 1.7% on the news. Separately, exports growth slowed more than expected to +7.1% y/y in August (previous: +18%) as global demand weakened and as local lockdowns disrupted manufacturing exports. The renminbi depreciated (onshore: -0.3%, offshore: -0.2%), even after China's central bank fixed the currency stronger than expected for the 11th straight day. Equities and 10-year yields were little changed.

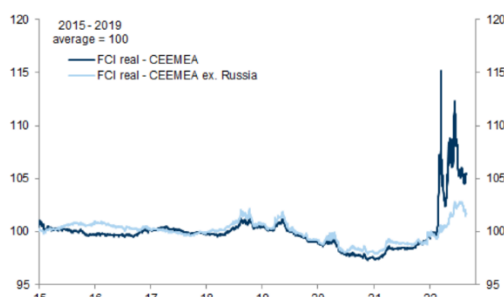
Yuan fixing bias was the largest on the strong side



CEEMEA

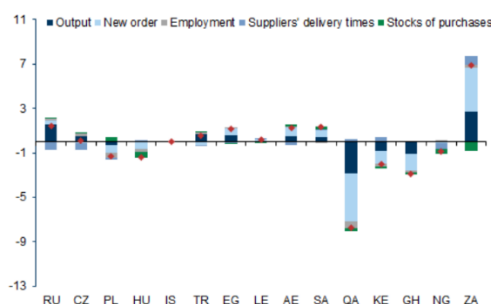
Aggregate financial conditions in Central and Eastern Europe Middle East and Africa (CEEMEA) were little changed in August, according to Goldman Sachs' Financial Conditions Index (FCI). Analysts note that the easing of conditions as a result of Turkey's interest rate cut and South Africa's positive forex movements offset tightening conditions elsewhere in CEEMEA mostly driven by interest rate hikes. On the growth front, aggregate manufacturing PMI for the region increased in August but remained below 50, with indices increasing in South Africa, Turkey, Russia, and several Middle East and North African countries, while indices declined in Central Eastern Europe and most Sub-Saharan African economies (excluding South Africa).

Financial Conditions Tightened in CEEMEA ex-Russia



Source: Goldman Sachs Global Investment Research

Component Contribution to PMI Change to Previous Month per Country

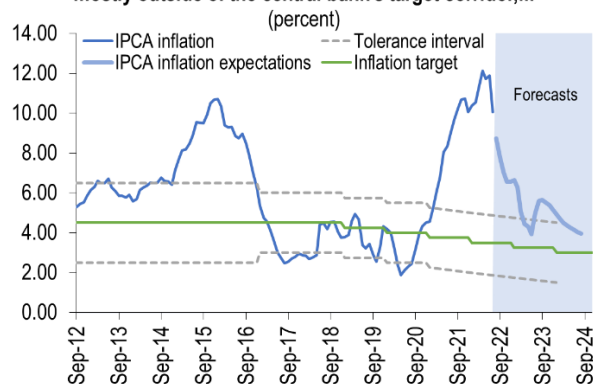


Source: Haver Analytics, Goldman Sachs Global Investment Research

Brazil

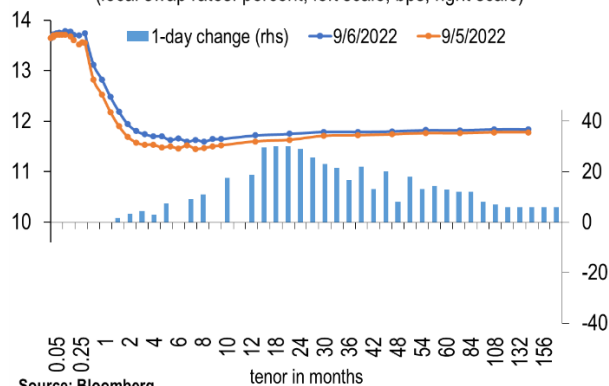
Hawkish central banker comments added to softer asset markets. Subsequent to yesterday's hawkish communication from central bank representatives who hinted at the possibility of an additional rate hike, local currency interest rate swap rates rose close to 30 bp at the 2-year horizon. Stock markets fell and the real depreciated substantively as the central bank expressed concerns over inflation expectations remaining for most of 2022 and 2023 above the target corridor and increasing for 2024 over the last 4 weeks by 13 bp to 3.43% y/y.

Brazilian inflation expectations stay elevated and mostly outside of the central bank's target corridor,...



Source: Banco Central do Brasil.

...exciting upward pressure on medium-term expectations for interest rate levels.
(local swap rates: percent, left scale; bps, right scale)



Source: Bloomberg.

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 (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior 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), 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), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). 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.

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Global Financial Indicators

9/7/22 8:01 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3908	-0.4	-2	-6	-14	-18	-8
Europe		3483	-0.5	-1	-7	-18	-19	-12
Japan		27430	-0.7	-2	-3	-9	-5	4
China		4055	0.1	-1	-2	-18	-18	-12
Asia Ex Japan		65	-1.1	-3	-5	-28	-21	-18
Emerging Markets		38	-1.2	-4	-4	-28	-22	-19
Interest Rates			basis points					
US 10y Yield		3.33	-2.3	13	50	195	182	134
Germany 10y Yield		1.58	-6.1	4	62	190	175	135
Japan 10y Yield		0.25	1.1	3	9	21	18	6
UK 10y Yield		3.01	-9.0	21	96	227	204	153
Credit Spreads			basis points					
US Investment Grade		169	1.4	8	4	77	57	26
US High Yield		502	-7.2	-5	33	183	164	95
Europe IG		116	-1.2	-4	16	71	68	44
Europe HY		568	-4.1	-20	63	339	326	216
Exchange Rates			%					
USD/Majors		110.70	0.4	2	4	20	16	15
EUR/USD		0.99	-0.2	-2	-3	-17	-13	-13
USD/JPY		145.0	1.5	4	7	31	26	26
EM/USD		49.8	0.1	-1	-1	-13	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		93	-0.1	-3	-1	38	26	6
Industrials Metals (index)		147	-0.8	-5	-6	-9	-15	-22
Agriculture (index)		68	0.8	-1	5	21	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		26.9	-0.1	0.7	5.7	8.7	9.6	-4.2
US 10y Swaption Volatility		136.9	0.0	10.4	17.5	67.1	57.9	42.6
Global FX Volatility		11.3	0.0	0.4	0.7	4.8	3.9	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		258	-1.7	2	48	137	107	18
Italy		228	-7.9	-7	21	121	93	57
Portugal		105	-1.5	-3	6	48	41	13
Spain		116	-2.0	-3	9	47	42	13

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 9/7/2022 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		6.98	-0.3	-1.3	-3	-7	-9	-10		2.7	0.9	-2	-10	-28	-14	-15
Indonesia		14918	-0.2	-0.5	0	-5	-4	-4		7.2	4.3	8	5	110	83	71
India		80	-0.1	-0.6	0	-8	-7	-7		7.5	0.1	2	17	100.3	120	
Philippines		57	-0.3	-1.7	-3	-12	-11	-11		5.7	15.0	20	38	188	120	70
Thailand		37	-0.2	-0.4	-3	-11	-10	-12		2.8	-8.5	8	41	121	94	56
Malaysia		4.50	-0.1	-0.6	-1	-8	-7	-7		4.1	9.9	13	19	90	52	45
Argentina		141	-0.3	-1.4	-5	-30	-27	-24		79.0	85.6	127	1214	3205	2842	3102
Brazil		5.25	-1.8	-2.5	-3	-2	6	-5		11.8	5.0	31	-14	66	87	30
Chile		893	-1.2	-0.7	1	-13	-5	-12		6.7	0.0	17	10	186	126	77
Colombia		4479	-0.1	-1.3	-4	-15	-9	-13		9.8	0.0	30	90	378	340	194
Mexico		20.14	0.0	0.0	1	-1	2	1		8.8	0.0	10	72	179	131	99
Peru		3.9	-0.4	-1.9	1	5	3	-4		8.2	0.1	16	22	190	228	218
Uruguay		41	-0.1	-0.1	-1	4	9	4		11.3	19.5	31	33	340	258	315
Hungary		406	0.3	-1.9	-5	-28	-20	-21		9.6	2.0	25	137	663	507	477
Poland		4.78	-0.2	-1.8	-4	-20	-16	-15		6.2	-6.2	-9	98	420	264	227
Romania		4.9	-0.6	-2.1	-2	-15	-12	-11		7.9	9.1	18	-18	431	307	274
Russia		61.0	0.4	0.0	1	20	23	34		8.2	-30.8	-31	3	91	-53	-294
South Africa		17.4	-0.8	-1.8	-4	-18	-9	-13		9.1	0.0	11	40	186	167	151
Turkey		18.24	-0.1	-0.2	-2	-54	-27	-24		11.5	-27.0	-150	-555	-563	-1283	-1093
US (DXY, 5y UST)		111	0.5	1.9	4	20	16	15		3.43	-2.4	8	47	261	216	152

	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		4055	0.1	-1	-2	-18	-18	-12		204	-1	-13	-12	1	-4
Indonesia		7187	-0.6	0	1	19	9	4		181	2	-3	7	16	-4
India		59029	-0.3	-1	0	1	1	3		164	9	-18	16	32	10
Philippines		6554	-2.3	0	2	-6	-8	-11		136	9	9	29	35	-1
Thailand		1640	0.4	0	2	0	-1	-3		0	0	0	0	0	0
Malaysia		1491	0.2	-1	0	-7	-5	-6		98	-10	-30	-33	-19	-35
Argentina		137309	-0.7	-5	13	74	64	50		2361	-57	-86	890	681	624
Brazil		109764	-2.2	-1	3	-7	5	-2		301	-11	-18	15	-10	-30
Chile		5608	-3.0	3	8	27	30	28		179	-7	12	37	39	5
Colombia		1227	-0.8	0	-6	-7	-13	-19		426	3	24	152	78	34
Mexico		45903	-0.3	0	-2	-12	-14	-11		422	1	21	77	90	52
Peru		18848	-0.3	-2	-3	7	-11	-19		196	1	12	25	46	6
Hungary		41223	0.9	-2	-5	-22	-19	-14		245	-4	43	111	121	92
Poland		48721	0.7	-3	-10	-32	-30	-22		32	12	57	6	0	16
Romania		12000	-0.5	0	-5	-3	-8	-9		298	9	10	111	106	66
Russia		2428	0.1	1	18	-39	-36	-21		3411	-577	938	3228	3234	2897
South Africa		66589	-1.4	-1	-4	0	-10	-11		441	0	19	103	86	52
Turkey		3397	0.2	7	24	134	83	69		635	-15	-6	178	57	72
Ukraine		519	0.0	0	0	-1	-1	0		3826	235	-3355	3352	3067	2353
EM total		38	-0.8	-4	-4	-28	-22	-19		436	8	12	88	50	-22

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

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