



- US housing activity signals a slowdown as tighter financial conditions take toll ([link](#))
- European gas prices drop on EU intervention plans and positive storage news ([link](#))
- ECB's chief economist suggests a steady pace of policy rate increases is needed ([link](#))
- PBC sets RMB fixing much lower than expected to manage depreciation ([link](#))
- Polish central bank governor suggests possibility of smaller policy rate hikes ahead ([link](#))
- Chile faces challenging environment as referendum on new constitution approaches ([link](#))

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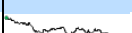



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Risk sentiment stabilizes as investors weigh rate hikes and energy worries

Core sovereign bond yields are pulling back, and global equities are recovering this morning as markets continue to digest the signals from Jackson Hole. After starting the week with a risk-off tone in the aftermath of the Jackson Hole policy forum late last week, equities are rebounding this morning with European indices and US futures up about 1%. Chinese equities underperformed on tech sector declines while the PBC continued to step up efforts to stem RMB depreciation with a much stronger than expected reference fixing. While core sovereign bond yields are trading lower, they remain near local highs and are viewed by some analysts as a potential headwind for risk assets as markets price in the prospect of policy being tighter for longer following recent communications from policymakers. Ten-year US Treasury and German bund yields are now back to late-June levels and two-year yields are hovering near decade highs. On the energy front, European natural gas prices have posted a steep decline to start the week in reaction to news that the EU's fuel storage is filling up faster than planned and the region is preparing emergency measures to help curb soaring energy prices. The news brought some relief across Euro area assets and boosted the euro which is now trading slightly back above parity to the US dollar.

Key Global Financial Indicators

Last updated: 8/30/22 8:20 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		4031	-0.7	-3	-2	-11	-15	-5
Eurostoxx 50		3623	1.5	-1	-2	-14	-16	-9
Nikkei 225		28196	1.1	-1	1	0	-2	7
MSCI EM		40	-0.6	1	-1	-23	-19	-16
Yields and Spreads			bps					
US 10y Yield		3.07	-3.5	2	42	179	156	108
Germany 10y Yield		1.48	-2.4	16	66	192	166	125
EMBIG Sovereign Spread		493	3	-8	-40	147	126	80
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.5	0.4	1	0	-11	-4	-5
Dollar index, (+) = \$ appreciation		108.5	-0.3	0	2	17	13	13
Brent Crude Oil (\$/barrel)		101.4	-3.6	1	-8	38	30	5
VIX Index (% change in pp)		25.3	-0.9	1	4	9	8	-6

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

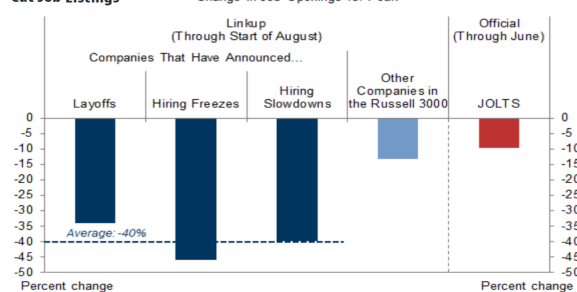
Mature Markets

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United States

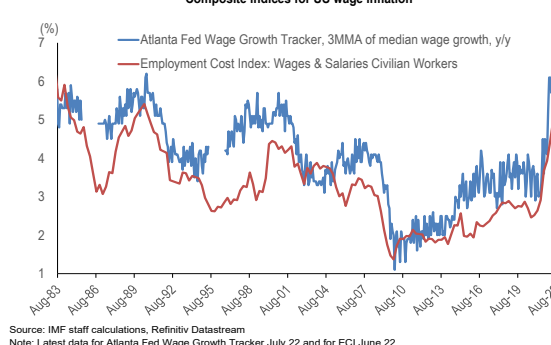
High-frequency data points to a slowing labor market, although wage inflation remains high. In his Jackson Hole keynote address last Friday, Fed Chair Powell repeatedly referred to the US labor markets, which he characterized as ‘*particularly strong, but (...) is clearly out of balance, with demand for workers substantially exceeding the supply of available workers*’. High-frequency jobs data indicate that the Fed's interest rate hikes have been accompanied by falling job listings. More specifically, Goldman Sachs analysts estimate that US companies have cut their job listings by 40%, which corresponds to a decline of 1 million job openings, largely on the back of announced layoffs, hirings freezes and hiring slowdowns (left chart below). Still, a look at time series for US wage inflation suggests that further reductions in labor demand may be needed to restore balance to the labor market, slow wage growth and push inflation back towards the FOMC inflation target of 2% (right chart below). Accordingly, market contacts are attentive to today's JOLTS job openings and the August labor market data released on Friday to gauge the health of the labor market.

Companies That Have Announced Scaled-Back Hiring Plans Have Disproportionately Cut Job Listings
Change in Job Openings vs. Peak



Source: LinkUp, Goldman Sachs Global Investment Research

Composite indices for US wage inflation

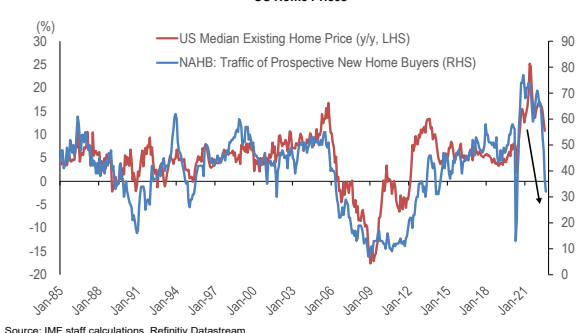


Source: IMF staff calculations, Refinitiv Datastream

Note: Latest data for Atlanta Fed Wage Growth Tracker July 22 and for ECI June 22

Tighter financial conditions are also affecting housing markets. Fueled by the Fed's tightening cycle, 30-year mortgage rates have risen from 3% in January this year to levels of over 5% since June. Recently, the traffic of potential new home buyers (surveyed by the National Association of Home Builders) has stalled significantly, which can be seen as a sign of significant weakening in existing home prices (see left chart below). As a result, the time it takes to sell a home is also increasing: while it took an average of 6 months to sell a new home in January this year, by June it increased to an average of 11 months. Despite apparently still brisk monthly supply, it is to be expected that the turnover rate for existing homes will also slow down significantly in the months to come (see right chart below). This is due to the way in which sales transactions are recorded in the statistics. While new home sales immediately enter the statistics as soon as the sale is being signed, existing home sales are recorded with a delay up until the time the home purchase is closed.

US Home Prices



Source: IMF staff calculations, Refinitiv Datastream

US Home Supply in Months



Source: IMF staff calculations, Refinitiv Datastream

Note: Months' supply refers to no. of months it takes for inventory of homes on the market to sell given current sales pace.

Euro area

European markets are stabilizing after two days of losses, as the region is focused on energy developments, eurozone inflation, which will be released tomorrow (9% y/y expected), and ECB council members views. Equity markets are up across the board, with the EuroStoxx 600 up 0.7%, and the German Dax index overperforming and gaining 1.7%. The Euro is slightly up against the dollar (+0.4% to parity). 10-year bund yields are down 4 bps to 1.46%, and Italian spreads are down 2 bp to 228 bps.

Gas and energy market developments remain front and center in Europe and gas prices are extremely volatile, on a news-heavy day. European gas prices plunged 20% yesterday following the announcement that the European union is on course to meet its gas storage filling goal two months ahead of target. Gas reserves were just short of 80% this weekend, when the EU target is at least 80% by November 1. Tensions remain high however in the gas market as Gazprom announced that it would shut the Nord Stream pipeline to Germany for three days starting tomorrow for maintenance. French utility Engie also announced this morning that Gazprom will decrease its deliveries due a disagreement between the two parties on the application of some contracts.

In this context, the European Union is preparing to intervene in the short-term to dampen energy costs and reform the European power market. Further details are expected later today along with an outline on power market reform in Europe. Statements yesterday highlighted that the EU wants to limit prices in the short term and is seeking to develop an instrument to break the link between gas and electricity prices in the long term so that the gas prices no longer dominate electricity prices. Bloomberg reports that EU diplomats said that the commission could offer a detailed plan as soon as this week. Spanish newspaper El Pais reported that the Spanish government will propose at a meeting with EU energy ministers on September 9th that the EU apply the same price cap system that it is using.

In contrast to more hawkish statements from other ECB council members following the Jackson Hole conference, Philip Lane, the ECB's chief economist urged a “steady pace that is neither too slow nor too fast” of interest rate increases in fighting inflation in the eurozone. He said that the same overall rate increase is less likely to generate adverse effects. He added that a “multi-step adjustment path towards the terminal rate also makes it easier to undertake mid-course corrections if circumstances change.”

Market participants remain cautious ahead of eurozone inflation data for August, which will be published tomorrow (9% y/y expected, slightly above July at 8.9%), as m/m inflation slowed in August in Spain. Spain was the first eurozone country to publish August inflation data today, which matched expectations at 10.3% y/y, down from 10.7% in July. German nation-wide inflation for August also matched expectations at 8.8% y/y, up from 8.5% in July, and 0.4% m/m, down from 0.8% m/m in July.

Japan

Japanese equities rebounded (NIKKEI: +1.1%), in line with the recovery of share prices in other markets in the region. Japanese yen appreciated (+0.1%), hovering in the range of 138–139 yen per dollar. Long-end JGB yields retreated (10-year: -1.7 bps; 30-year: -0.1 bp). Analysts noted that markets refocused on the interest rate differential between Japan and other major advanced economies again following the hawkish messages from the Jackson Hole symposium. **The Ministry of Finance will set a provisional level for a key rate used to calculate the government's interest payments at 1.3% for the next year's budget,** up from 1.2%, reflecting higher bond yields. In the past five years, the provisional rate has been set at 1.2%, while the final rate approved by the parliament has been at 1.1%.

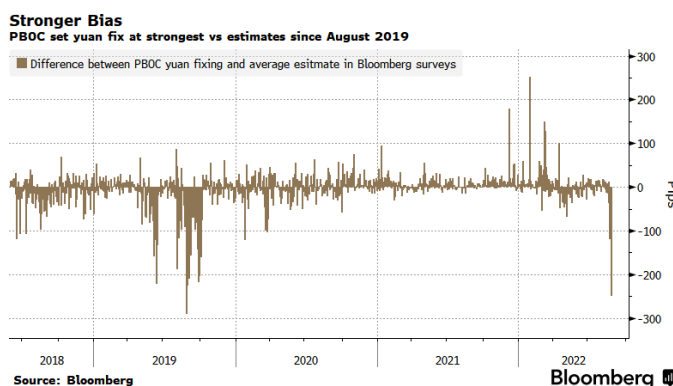
Emerging Markets

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Latin American currencies mostly appreciated against the US dollar, while most equities closed lower on Monday. Brazil reported a slight increase in Credit-to-GDP for June which came in at 53.9% (up 20 bps sequentially), however, this is still below the March peak of 54%. As monetary policy plays out with a lag, analysts expect the credit conditions to tighten going forward. **Asian markets recovered from yesterday's selloff.** Equities rose in most markets and most currencies appreciated, led by Indian rupee (+0.4%). Long-end government bond yields generally declined, with 10-year yields falling in Indonesia (-6.5 bps), Thailand (-5.4 bps) and India (-4.1 bps). In Thailand, the government said that it will continue to provide subsidies to low-income groups to mitigate the impact of higher energy prices and rising interest rates. **In EMEA, equity markets are up across the region and currencies are appreciating.** The Czech equity market is up 2% after revised Q2 GDP data showed that growth momentum in Q2 was higher than in the flash estimate released in July. Central European currencies are up against the Euro, with the Hungarian forint up 0.5% to 406/euro as the Hungarian Central Bank raised its policy rate by 100 bps to 11.75%, as expected.

China

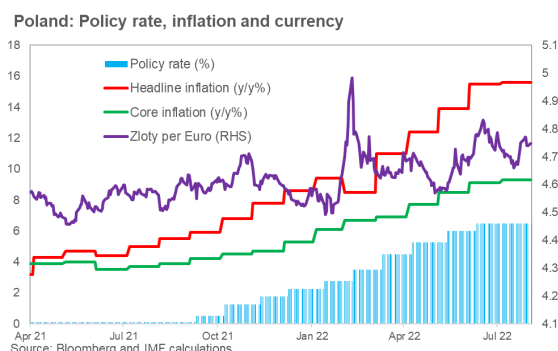
The People's Bank of China (PBC) set the RMB fixing lower than expected by 249 pips, the second largest on record, as it continued to manage depreciation pressure. Analysts noted that the PBC became more cautious about the rapid buildup of speculative positions. The RMB fixing and verbal interventions will likely remain the main tools for now, but it is worth watching out for an increase in the PBC's bill issuance to absorb RMB liquidity in the Hong Kong SAR market. RMB depreciated (-0.1%). Chinese equities declined (CSI 300: -0.3%).



The central government set up a national rescue fund to complete stalled property projects. The rescue fund, with an initial size of 200 billion RMB, will be funded by two policy banks—China Development Bank and Agriculture Bank of China. The Ministry of Finance will provide some funding subsidy. The rescue fund will lend money to local governments up to three years. **USD bonds of national asset management companies are also under market pressure.** Markets are concerned about their exposure to ailing property developers. China Cinda's net income dropped 33% for 2022H1, while China Huarong posted a loss of 19 billion RMB. Meanwhile, China Great Wall reported an annual loss of 9 billion RMB for 2021 after postponing its reporting in recent months.

Poland

Central Bank governor Glapinski hinted at the possibility of smaller interest rate hikes ahead with the end of the hiking cycle in sight. The Governor said on Monday that while one or two additional 25 bps hikes are probable, interest rate hikes could possibly already end or pause at the next policy meeting, set to take place on September 7. The central bank has increased the policy rate at 10 consecutive meetings since October 2021, from 0.1% to 6.5%. At the most recent meeting the central bank surprised markets with a smaller-than-expected 50 bps hike, while consensus expected the base rate to be increased to 6.75%. August preliminary inflation data are due tomorrow, with consensus expecting headline inflation to decrease slightly to 15.4% y/y from 15.6% reached in July—the highest level in more than two decades.



Chile

Chile opens a \$18.5 bn flexible credit line (FCL) with the IMF under a two-year arrangement. This new facility will suspend the current short-term liquidity line of \$3.5 bn with the institution. As per the IMF press release, this new facility will “augment Chile’s precautionary reserves buffers” and provide support during deteriorating global economic growth, commodity price shocks and tighter global financial conditions. **Further, Chile is also facing a challenging domestic political and economic environment. A referendum on a new constitution is scheduled to be held on September 4,** while on the economic front the current account balance has been worsening (down from -4.4% in 2Q2021 to -9.5% of GDP in 2Q2022) in the face of deteriorating foreign exchange reserves. The Chilean peso too had seen some significant depreciation since June, in line with the decline in copper prices. However, the currency found some support from the \$25 bn FX intervention program announced by the central bank around mid-July. According to market analysts, the new FCL would not only equip the central bank with additional resources to fund the balance of payment commitments but also fend the currency against depreciation due to domestic uncertainties in the short-term.

Figure 1. In the recent quarters both the current account balance the reserves position have worsened (bn USD)


















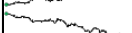

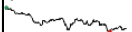
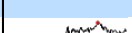




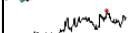

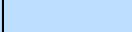


Figure 2. The Chilean peso saw significant corrections



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Global Financial Indicators

Last updated: 8/30/22 8:21 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	%
United States		4043	-0.7	-2	-2	-11	-15	-4
Europe		3623	1.5	-1	-2	-14	-16	-9
Japan		28196	1.1	-1	1	0	-2	7
China		4076	-0.3	-2	-2	-15	-18	-12
Asia Ex Japan		67	-0.7	0	-2	-23	-19	-15
Emerging Markets		40	-0.6	1	-1	-23	-19	-16
Interest Rates			basis points					
US 10y Yield		3.07	-3.5	2	42	179	156	108
Germany 10y Yield		1.48	-2.4	16	66	192	166	125
Japan 10y Yield		0.23	-2.0	1	4	21	16	3
UK 10y Yield		2.73	12.7	15	87	215	176	125
Credit Spreads			basis points					
US Investment Grade		159	-1.2	-1	-7	68	47	16
US High Yield		497	4.7	10	-8	173	159	90
Europe IG		115	1.6	4	14	70	67	43
Europe HY		565	5.6	15	54	336	323	213
Exchange Rates			%					
USD/Majors		108.49	-0.3	0	2	17	13	13
EUR/USD		1.00	0.3	1	-2	-15	-12	-11
USD/JPY		138.3	-0.3	1	5	26	20	20
EM/USD		50.5	0.4	1	0	-11	-4	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		101	-3.6	1	-3	50	36	12
Industrials Metals (index)		155	-2.1	-2	-2	-4	-10	-17
Agriculture (index)		69	-1.1	1	4	20	14	-1
Implied Volatility			%					
VIX Index (% change in pp)		25.3	-0.9	1.2	4.0	9.1	8.1	-5.7
US 10y Swaption Volatility		128.7	-2.0	-3.3	13.1	54.6	49.7	34.4
Global FX Volatility		11.1	0.0	-0.2	0.3	4.5	3.7	3.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		252	-3.5	-10	38	138	100	12
Italy		230	-0.1	-3	9	125	95	59
Portugal		108	-0.2	0	6	49	44	16
Spain		119	-0.4	0	9	47	44	15

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

Emerging Market Financial Indicators

Last updated: 8/30/2022 8:23 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		6.90	0.1	-0.9	-2	-6	-8	-8		2.7	-0.4	0	-9	-23	-12	-13
Indonesia		14843	0.4	0.0	0	-3	-4	-3		7.1	-4.9	1	1	101	75	63
India		79	0.6	0.5	-1	-8	-6	-6		7.5	-5.9	0	19	107	118	79
Philippines		56	-0.3	-0.2	-2	-11	-9	-9		5.3	7.5	0	-33	155	85	35
Thailand		36	0.3	-0.7	-1	-11	-8	-11		2.6	-4.5	4	25	104	76	39
Malaysia		4.48	0.3	0.3	-1	-7	-7	-7		4.0	-1.2	0	9	79	40	32
Argentina		138	-0.4	-1.2	-5	-29	-26	-22		77.4	64.3	218	1235	3150	2681	2942
Brazil		5.02	0.2	1.7	3	3	11	0		12.2	7.8	28	-47	191	153	69
Chile		885	0.9	6.4	2	-12	-4	-11		6.7	0.0	-17	25	224	123	74
Colombia		4369	0.8	0.6	-2	-13	-7	-10		9.5	0.0	13	84	368	309	163
Mexico		19.96	0.3	0.1	2	1	3	1		8.7	0.0	16	66	181	120	88
Peru		3.8	0.3	1.3	2	7	4	-2		8.0	3.6	3	-22	191	208	198
Uruguay		41	-0.7	-0.6	1	4	10	4		11.0	3.0	26	6	313	231	288
Hungary		405	0.9	2.6	-3	-27	-20	-21		9.4	12.0	-8	111	662	491	461
Poland		4.72	0.3	1.4	-3	-18	-15	-14		6.1	-25.3	7	88	434	256	219
Romania		4.9	0.3	0.8	-1	-14	-10	-10		7.9	6.0	21	-16	462	310	277
Russia		61.0	1.0	-1.7	1	21	23	34		8.2	-3.5	-3	-3	91	-56	-296
South Africa		16.8	0.1	1.1	-2	-13	-5	-10		8.9	0.5	3	4	174	144	128
Turkey		18.17	0.1	-0.3	-2	-54	-27	-24		13.4	0.0	15	-446	-395	-1096	-906
US (DXY; 5y UST)		109	-0.3	-0.1	2	17	13	13		3.23	-2.2	7	55	246	197	133

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
									basis points							
China		4076	-0.3	-2	-2	-15	-18	-12		207	-4	-17	-10	4	-1	
Indonesia		7159	0.4	0	3	16	9	3		183	-1	-21	0	18	-2	
India		59537	2.7	1	3	3	2	4		158	0	-32	10	26	4	
Philippines		6690	-0.9	0	6	-2	-6	-9		130	-1	-12	17	29	-7	
Thailand		1639	0.8	0	4	0	-1	-3								
Malaysia		1512	0.7	2	1	-6	-4	-5		111	-2	-26	-24	-6	-22	
Argentina		143805	1.7	9	17	88	72	57		2430	-18	26	907	750	693	
Brazil		112323	0.0	2	9	-6	7	0		317	-5	-12	26	6	-14	
Chile		5517	1.0	3	5	22	28	26		184	-1	10	41	44	10	
Colombia		1290	-0.7	0	0	-2	-9	-15		419	5	14	145	71	27	
Mexico		46322	-2.0	-4	-4	-12	-13	-10		415	-2	-5	63	83	45	
Peru		19164	-1.4	-1	-1	10	-9	-18		194	2	6	20	44	4	
Hungary		42676	0.1	-1	2	-17	-16	-11		226	12	11	94	102	73	
Poland		51474	0.4	-4	-6	-27	-26	-18		-38	-43	-50	-74	-70	-54	
Romania		12237	0.4	-1	-2	-2	-6	-7		280	10	-40	95	88	48	
Russia		2312	0.7	2	4	-41	-39	-25		3411	-577	938	3228	3234	2897	
South Africa		69192	0.0	-1	0	3	-6	-8		415	-48	-32	64	60	26	
Turkey		3165	0.0	3	22	117	70	57		629	-58	-108	170	51	66	
Ukraine		519	0.0	0	0	-1	-1	0		3408	79	-3199	2913	2649	1935	
EM total		40	-0.1	1	-1	-23	-19	-16		423	-8	-20	67	37	-35	

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

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