



- Fed Chair Powell embraces a slowdown in the pace of US rate hikes, though the bar for an outright pivot remains high ([link](#))
- German retail sales disappoint ([link](#))
- BOJ's Noguchi sees signs of inflation taking hold in Japan ([link](#))
- China signals softer COVID stance, eased measures in Beijing ([link](#))
- South African bond yields increase sharply amid political uncertainty ([link](#))
- Mexico's central bank increases its growth forecasts for 2022 and 2023 ([link](#))

[Mature Markets](#)



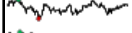

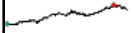



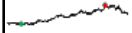


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Risk sentiment improves post Powell comments

European bourses rose following yesterday's strong rally in US equities driven by comments from Fed Chair Powell. Powell embraced a slowdown in the pace of rate hikes, though the bar for an outright pivot appears to remain high. Markets had a dovish reaction to Powell's public comments at the Brookings Institution, with Treasury yields falling and the dollar weakening, and are now pricing in about 51 bps of hikes at the December FOMC meeting. Euro-area sovereign bond yields fell this morning, with 10-year bund yields 12 bps lower. Credit spreads continued to tighten, with the European Itraxx Crossover 5-year CDS Index 18 bps narrower at 441 bps, its lowest level since May. Risk sentiment was also boosted by China signaling a softer COVID stance, easing measures in Beijing, with Asian equities up (+1.1% net). Elsewhere, South African bond yields jumped, and the rand weakened, as speculation intensified that President Ramaphosa could be impeached.

Key Global Financial Indicators

Last updated: 12/1/22 8:12 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		4080	3.1	2	6	-10	-14	-3
Eurostoxx 50		3993	0.7	1	9	-4	-7	0
Nikkei 225		28226	0.9	-1	2	2	-2	7
MSCI EM		40	2.9	5	13	-19	-19	-17
Yields and Spreads			bps					
US 10y Yield		3.60	-0.9	-10	-45	219	209	160
Germany 10y Yield		1.81	-11.7	-4	-32	216	199	159
EMBIG Sovereign Spread		468	2	-18	-72	77	101	55
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.1	-0.4	0	2	-4	-5	-6
Dollar index, (+) = \$ appreciation		105.5	-0.4	-1	-5	10	10	10
Brent Crude Oil (\$/barrel)		87.8	1.0	3	-7	28	13	-9
VIX Index (% change in pp)		20.6	0.0	0	-5	-11	3	-10

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

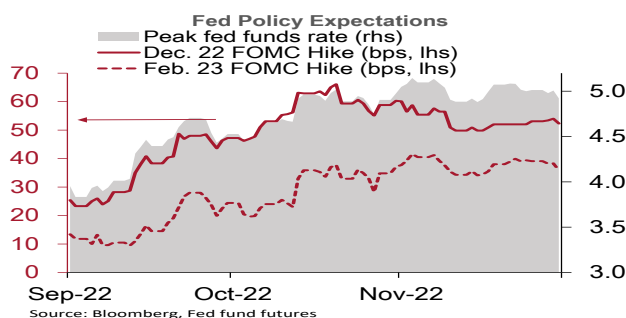
Mature Markets

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United States

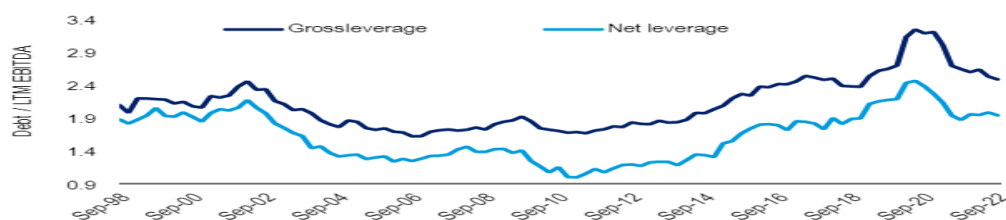
US equities gained strongly (+3.1%) following Powell comments. The relief rally likely reflected fears that Fed Chair Powell would deliver a very hawkish pushback to recent easing of financial conditions. US Treasury bond yields fell in response, with 2 and 10-year yields down 14–16 bps, though the 30-year yield fell only 7 bps. A flurry of data provided a mixed picture of the economy on Wednesday. Third-quarter GDP was revised up to 2.9% q/q saar (from 2.6%) in contrast to a dismal Chicago PMI print for November (37.2 vs 47 expected). A weak ADP print may also raise the stakes for Friday's nonfarm payrolls report. Markets continue to fluctuate on whether 'bad news is good news', as a weaker labor market could reinvigorate hopes for the long-prophesized Fed pivot next year.

Fed Chair Powell embraced a slowdown in the pace of rate hikes, though the bar for an outright pivot appears to remain high. Markets had a dovish reaction to Chair Powell's public comments at the Brookings Institution and are now pricing in about 51 bps of hikes at the December FOMC meeting. The implied peak federal funds rate dropped by 8 bps to just below 5%, from as high as 5.15% in early November. While a slower pace may have reassured some investors, Powell noted that the FOMC would need "substantially more evidence" of inflation falling, and that restoring price stability will require maintaining "restrictive policy for some time". Powell also highlighted the unusually large uncertainty around the natural rate of unemployment and the future path of inflation, noting that ongoing labor shortfalls could continue and wage increases "are probably going to be a very important part of the story going forward" even if aspects of the inflation landscape (i.e., rents) have or are likely to improve.



Corporate leverage declined in Q3 for investment grade issuers even with slower earnings growth. Following near record issuance in 2021, corporate gross debt levels declined 0.8% y/y in Q3, a steeper decline compared to the 0.2% fall seen in Q2. As a result, both gross and net leverage ratios declined (q/q) to 2.48x and 1.94x respectively. Leverage ratios are now well below their pre-COVID levels of 2.69x and 2.18x respectively. Median EBITDA growth among US IG corporates slowed to +3.7% from +6.1% in the previous quarter. Interest coverage ratios declined slightly but remain near record highs at 13.7x (EBITDA/interest).

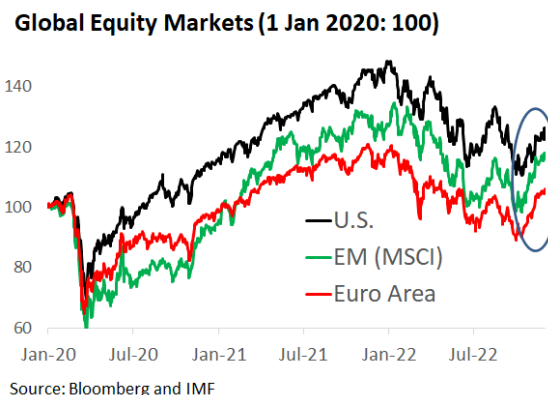
Figure 1: Median leverage: non-financial non-utility US IG issuers
Gross leverage declined to 2.48x, net leverage declined to 1.94 in 3Q-22.



Note: based on medians for US investment grade non-financial non-utility issuers. 3Q22 values are preliminary. Net debt is gross debt minus cash and marketable securities.
Source: BofA Global Research

Euro area

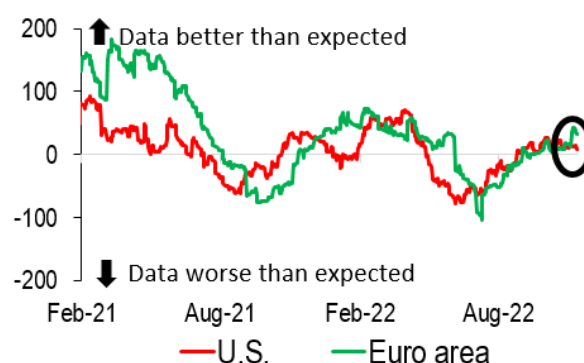
European equities (+0.8%) and the euro (+0.3%) gained in line with the improvement in global risk sentiment following the speech by Chair Powell. Considering the recent gains, the Euro Stoxx 50 index is down 11% year-to-date compared to 14% for US S&P 500 index.



Euro area 10-year rates are 10–15 bps lower as contacts assess if yesterday's downside surprise in euro area inflation, disappointing consumption data and Chair Powell's speech could imply a more cautious tone from ECB officials. In any case, money markets now expected the ECB depo rate to peak under 3% (compared to 3.5% in October).

Germany reported very weak retail sales (down 2.8% m/m in October compared to -0.5% m/m expected). This is particularly noteworthy as euro area data releases have generally been beating expectations. European unemployment fell to a new low of 6.5%. Final euro area PMI was a bit lower than expected at 47.1 (compared to 47.3 for the flash).

Citi Economic Surprise Indices: Euro area and U.S.

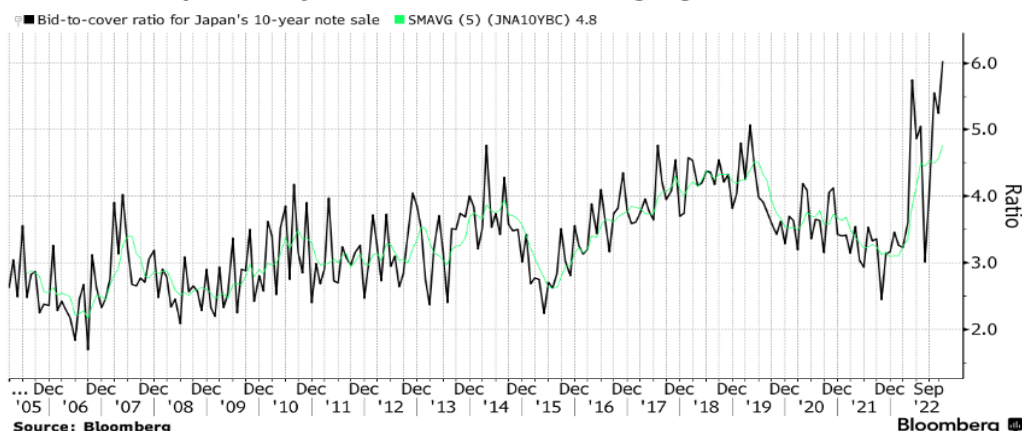


Japan

Bank of Japan (BOJ) board member Noguchi is seeing signs of inflation taking hold, hinting that a policy shift may come sooner than expected. Noguchi said that a shift in Japan's long-held deflationary norm is beginning to materialize, adding that "a recent increase in the number of businesses passing costs onto consumers may reflect a change in corporate behavior that used to assume that prices will not rise". Nevertheless, Noguchi does not see such a pivot now and said 3% wage growth is needed for the BOJ to achieve its 2% inflation target. Separately, **Japan's government reportedly did not intervene in FX markets in November**, according to Bloomberg analysis. On **data releases**, Japan's final manufacturing

PMI was revised down to 49 from 49.4 for November. Business capital expenditure rose +9.8% y/y (previous: +4.6%). **Equities gained and 10-year yields were little changed.** Demand for 10-year Japanese government bonds has been trending higher, with today's auction having drawn a 6.03x bid-cover ratio, the highest since February 2005. The **Japanese yen appreciated +1.2% against a weaker dollar.**

Demand for Japan's 10-year notes has been trending higher



Emerging Markets

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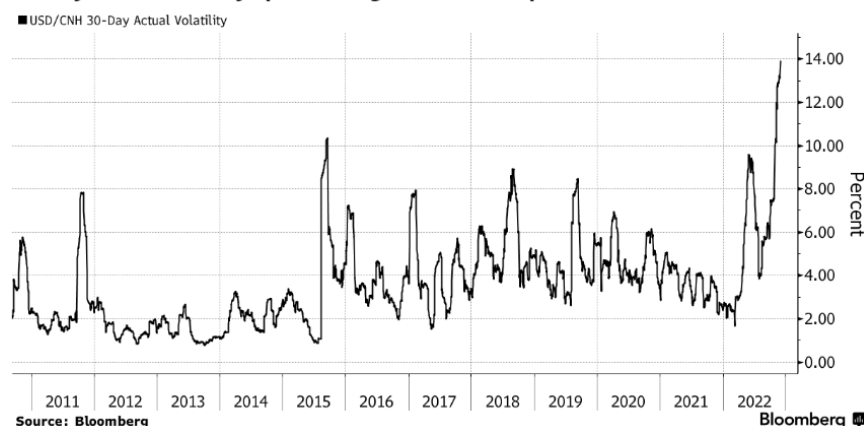
Asian equities firmed +1.1% net, on eased COVID measures in Beijing and following Fed Chair Powell comments. Mainland China equities climbed (CSI 300: +1.1%). **Asian currencies appreciated further to the dollar.** The South Korean won strengthened +1.4% followed by Indonesian rupiah (+1.1%). **10-year yields declined** (Philippines -25 bps and Indonesia -7 bps). **Indonesia** inflation cooled to 5.4% in November (previous: 5.7%). **Regional manufacturing PMIs mostly declined or were little changed in November**, except in South Korea (49, previous: 48.2) and India (55.7, previous: 55.3). **South Korea** GDP grew +3.1% y/y in Q3, unrevised from advanced estimates. **The Philippines'** central bank said it stands ready to adjust monetary policy settings, following non-monetary interventions to address supply-side inflation. The bank's Governor said earlier on Tuesday it may pause rate hikes as early as Q1 2023. **EMEA equities mostly traded higher and local currency bond yields edged lower in line with global trends, while currencies were mixed against the dollar.** Equities in Romania (+1.8%) and Turkey (+1.6%) outperformed. The South African rand underperformed (-1.8%) and local currency bond yields were sharply higher (10-year +50 bps). **CEE currencies were mostly weaker against the euro, with the polish zloty underperforming.** On the data front, Turkey's manufacturing PMI data for November decreased to 45.7 from 46.4. Poland's November Manufacturing PMI was marginally higher than expected (+43.4 vs expected 43.0 from 42) while manufacturing PMI in Czech Republic came in below expectations (41.6 vs expected 42.6 from 41.7). In Hungary November manufacturing PMI surprised on the upside (54.7 vs expected 49.9 from 56.4), while final Q3 economic growth data were in line with previous estimates (+4.0%y/y or -0.4%q/q). In **LATAM, stock markets rose again, while currencies were mixed.** Mexican stocks rallied 3%, as the central bank increased its growth forecasts. Brazil's IBOVESPA index gained 1.4%, as labor market conditions improved. The unemployment rate fell for eight continuous months to 8.3% (the lowest since May 2015), below the consensus forecast (8.5%). The Brazilian real and the Chilean peso appreciated 1.8% and 1.1% against the US dollar, respectively. Other currencies weakened slightly.

China

Equities extended their rally (CSI: +1.1%), after China's top COVID official signaled an eased COVID stance and following news of eased restrictions in Beijing. In November alone, US-listed Chinese shares have jumped +42%, while property stocks surged +61%, according to Bloomberg. Separately,

China's top economic-planning agency reportedly sees vast room for property market demand. Chinese residents retain rather high rigid demand for housing as incomes continue to improve, and that China's leadership is paying "high attention" to the sector. **Caixin manufacturing PMI unexpectedly firmed to 49.4 in November** (consensus: 48.9, previous: 49.2). The **Onshore yuan appreciated +0.3%** to reach its strongest level in two weeks to the dollar. The **Offshore yuan weakened -0.4%**, with its 30-day realized volatility spiking to a record high. **10-year yields were little changed.** High yield dollar bonds, which are dominated by property developer issuance, gained +20% in November, their second-best performance since 2011.

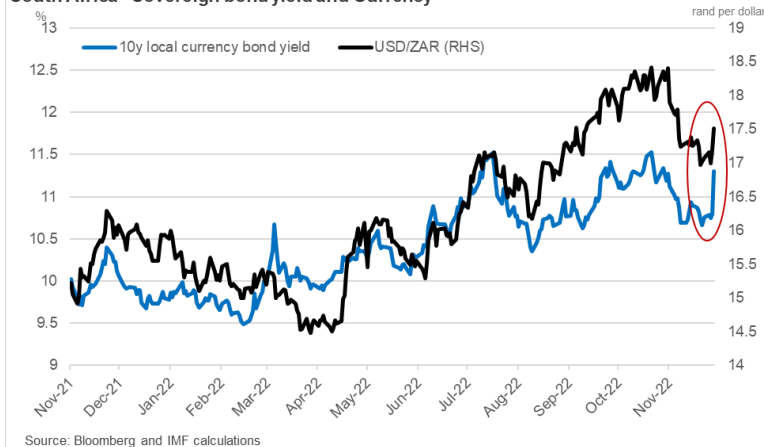
30-day actual volatility spikes to highest since inception



South Africa

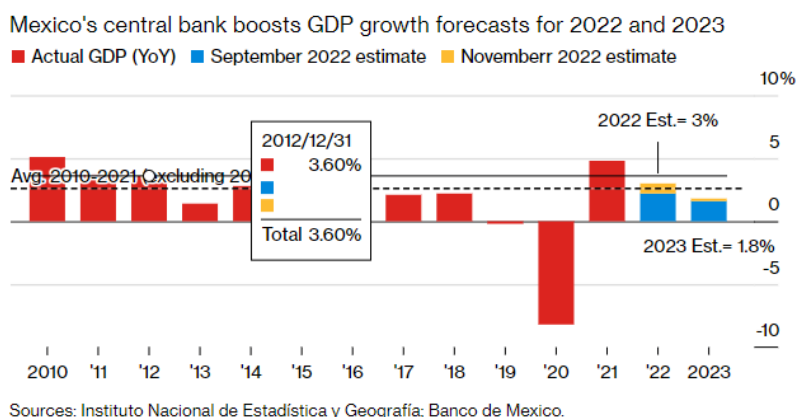
Government bond yields increased sharply (10-years up +50 bps to 11.3%) and the rand weakened against the dollar (-1.8%) on the increasing likelihood that President Ramaphosa could be impeached. An independent panel found that the President may have violated the constitution and anti-corruption laws. This morning media reports alleged that the President is considering resigning. **Barclays analysts see the possible impeachment unlikely, but warn that, in the short term, assets could be weighed down by uncertainty.** Moreover, analysts see a potential early departure of the President as a negative for the country. Separately, in its latest Financial Stability Review the central bank highlighted the country's unreliable and insufficient electricity supply and a sharp repricing in government debt as two key risks to financial stability.

South Africa - Sovereign bond yield and Currency



Mexico



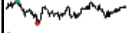



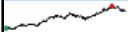
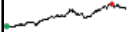
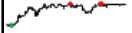















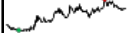
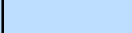

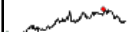
Mexico's central bank increased its growth forecasts for 2022 and 2023. It estimated GDP will expand 1.8% in 2023, compared to the 1.6% expected in its previous report three months ago. For 2022, growth was adjusted to 3%, an improvement from the 2.2% previous estimate, as the services sector recovered in the third quarter. It maintained its fourth-quarter 2022 inflation projection at 8.3%. Mexican equities (+3%) outperformed and both local and sovereign bond yields tightened 4 to 10 bps across the yield curve.



This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (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 Mustafa Oguz Caylan, Yingyuan Chen (Financial Sector Expert), 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), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), 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), Ying Xu (Economist), 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

12/1/22 8:13 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4080	3.1	1	6	-10	-14	-3
Europe		3993	0.7	1	9	-4	-7	0
Japan		28226	0.9	-1	2	2	-2	7
China		3895	1.1	4	6	-20	-21	-16
Asia Ex Japan		67	3.3	6	18	-20	-19	-16
Emerging Markets		40	2.9	5	13	-19	-19	-17
Interest Rates			basis points					
US 10y Yield		3.60	-0.9	-10	-45	219	209	160
Germany 10y Yield		1.81	-11.7	-4	-32	216	199	159
Japan 10y Yield		0.25	0.0	1	0	19	18	6
UK 10y Yield		3.09	-7.6	5	-39	227	211	161
Credit Spreads			basis points					
US Investment Grade		162	-1.5	2	-17	48	50	19
US High Yield		470	-4.2	6	4	93	132	63
Europe IG		87	-4.8	-1	-24	31	39	15
Europe HY		439	-19.9	-3	-102	160	197	87
Exchange Rates			%					
USD/Majors		105.49	-0.4	-1	-5	10	10	10
EUR/USD		1.05	0.4	0	6	-8	-8	-8
USD/JPY		136.3	-1.3	-2	-8	21	18	18
EM/USD		50.1	-0.4	0	2	-4	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		88	1.0	3	-5	34	21	2
Industrials Metals (index)		163	0.3	4	11	0	-6	-13
Agriculture (index)		68	-0.7	0	-2	15	11	-4
Implied Volatility			%					
VIX Index (% change in pp)		20.6	0.0	0.3	-5.2	-10.5	3.4	-10.4
US 10y Swaption Volatility		129.6	0.5	-3.3	-24.7	44.8	50.6	35.3
Global FX Volatility		11.4	0.0	0.0	-0.6	3.2	4.0	4.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		216	-5.9	-7	-29	60	65	-24
Italy		189	-5.2	7	-24	54	54	18
Portugal		93	-1.9	5	-7	23	29	1
Spain		100	-1.5	5	-8	23	26	-3

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 12/1/2022 8:11 AM	Exchange Rates							Since 23-Feb-22	Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD		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		7.08	0.2	1.1	3	-10	-10	-11		3.1	-4.0	10	33	12	25	24
Indonesia		15563	1.1	0.7	0	-8	-8	-8		6.9	-5.0	-9	-60	74	51	39
India		81	0.3	0.5	2	-8	-8	-8		7.3	-5.1	-10	-28	95.7	99	
Philippines		56	0.7	1.1	3	-10	-9	-9		6.1	-2.5	-3	23	145	160	110
Thailand		35	0.5	2.4	8	-3	-5	-8		2.6	-3.5	-5	-52	78	73	35
Malaysia		4.41	0.9	2.0	7	-4	-5	-5		4.1	-5.5	-12	-28	52	47	39
Argentina		167	-0.2	-1.5	-6	-40	-39	-36		95.4	-7.3	214	201	4445	4487	4748
Brazil		5.20	-0.3	2.1	-1	9	7	-4		12.6	-22.0	-105	93	130	192	108
Chile		889	0.6	2.4	6	-6	-4	-11		5.2	-8.0	0	-111	-8	-20	-69
Colombia		4831	-0.4	1.1	2	-17	-16	-19		10.1	0.0	-1	-104	352	373	226
Mexico		19.28	-0.1	0.5	2	12	6	5		8.6	0.0	4	-66	119	109	77
Peru		3.9	-0.1	-0.1	3	5	4	-3		7.7	0.0	-16	-68	176	181	172
Uruguay		39	0.0	-0.2	3	12	13	7		10.8	-1.3	-1	-62	189	209	266
Hungary		395	-0.6	0.2	4	-19	-18	-19		8.2	12.0	17	-248	388	371	341
Poland		4.50	-0.2	0.3	6	-9	-10	-10		5.6	-17.0	-28	-179	257	206	169
Romania		4.7	0.4	0.2	5	-7	-8	-7		7.7	1.0	-13	-136	261	287	254
Russia		61.4	-0.2	-1.4	1	21	22	33		10.8	0.0	31	6	194	203	-38
South Africa		17.6	-2.1	-3.2	4	-9	-9	-14		9.5	52.5	68	4	178	206	190
Turkey		18.64	-0.1	-0.1	0	-29	-29	-26		11.4	59.0	59	1	-972	-1289	-1099
US (DXY; 5y UST)		105	-0.6	-0.7	-5	10	10	10		3.75	1.4	-13	-52	262	249	185

	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		3895	1.1	4	6	-20	-21	-16		201	-4	-19	3	-2	-7
Indonesia		7021	-0.9	-1	0	7	7	1		167	-17	-37	-16	2	-18
India		63284	0.3	2	4	8	9	11		154	-4	-57	14	22	0
Philippines		6735	-0.7	3	9	-4	-5	-9		133	-10	-26	12	32	-4
Thailand		1648	0.8	1	1	4	-1	-3		0	0	0	0	0	0
Malaysia		1492	0.2	3	3	-1	-5	-6		105	2	-13	-13	-12	-28
Argentina		168525	0.2	6	10	98	102	84		2260	-160	-305	357	580	523
Brazil		112486	1.4	3	-4	12	7	0		268	-16	-18	-78	-43	-63
Chile		5283	0.7	0	2	22	23	21		148	-10	-29	-2	8	-26
Colombia		1243	-0.5	-2	-1	-12	-12	-18		408	3	-32	55	60	16
Mexico		51685	3.0	-1	2	3	-3	1		386	-9	-25	15	54	16
Peru		22455	1.3	0	6	13	6	-4		176	-10	-26	3	26	-14
Hungary		46126	0.3	2	12	-11	-9	-3		233	-5	-35	92	109	80
Poland		56584	0.9	1	12	-17	-18	-10		94	46	31	28	62	78
Romania		11731	0.0	1	9	-4	-10	-11		269	-26	-64	51	76	36
Russia		2188	0.6	-1	1	-45	-42	-29		3411	-577	938	3228	3234	2897
South Africa		74959	0.2	3	11	5	2	0		361	-10	-58	-33	6	-28
Turkey		5069	1.8	4	25	173	173	151		470	-22	-81	-91	-108	-93
Ukraine		519	0.0	0	0	-1	-1	0		3713	64	-608	3049	2954	2240
EM total		40	-0.3	5	13	-19	-19	-17		386	-17	-53	-28	0	-72

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

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