



- Markets experience a roller coaster ride post US jobs data on Friday ([link](#))
- US firms with lower ratings see more defaults ([link](#))
- ECB officials speak in favor of a 50 bps December hike ([link](#))
- EU reaches agreement to impose \$60 price cap on Russian oil exports ([link](#))
- UK mortgage rate eases back below 6% ([link](#))
- Chinese markets rally on further easing of COVID controls ([link](#))
- EM bond funds reverted to small inflows last week ([link](#))

[Mature Markets](#)



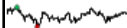

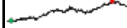






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Markets cautious to start the week

Despite news of further easing of COVID controls in China, euro-area equities were moderately lower and US equity futures signaled a negative opening this morning. Investors continued to fret about inflation risks and the future part of monetary policy, with US Treasury yields trading higher and the VIX gaining 1 ppts, its first increase after 4 consecutive trading sessions of decreases. Across the pond, euro-area sovereign bond yields edged lower as ECB members reinforced expectations for a 50 bps ECB hike later this month. Markets are currently pricing 54 bps of ECB tightening for the December meeting. In emerging markets, the Turkish lira was little changed after data showed inflation easing in November for the first time since mid-2021.

Key Global Financial Indicators

Last updated: 12/5/22 8:05 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		4072	-0.1	1	8	-10	-15	-4
Eurostoxx 50		3961	-0.4	1	7	-3	-8	0
Nikkei 225		27820	0.2	-1	2	0	-3	5
MSCI EM		40	0.4	5	9	-19	-19	-17
Yields and Spreads			bps					
US 10y Yield		3.52	3.3	-16	-64	218	201	153
Germany 10y Yield		1.85	-0.8	-14	-45	224	203	162
EMBIG Sovereign Spread		462	-2	-17	-72	82	95	49
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.2	0.2	1	2	-4	-4	-5
Dollar index, (+) = \$ appreciation		104.3	-0.2	-2	-6	9	9	8
Brent Crude Oil (\$/barrel)		87.8	2.6	6	-11	26	13	-9
VIX Index (% change in pp)		20.3	1.2	-2	-4	-10	3	-11

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

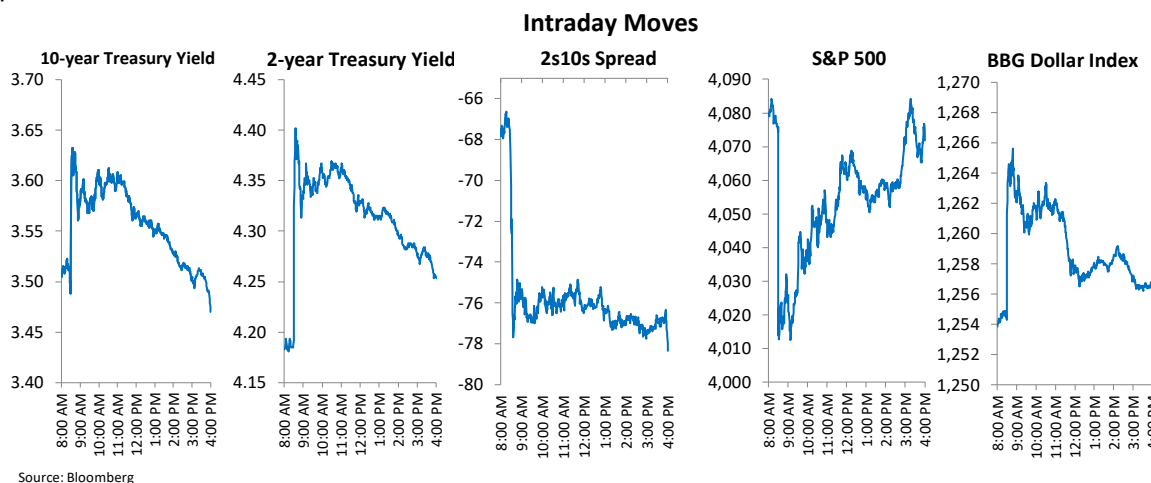
In the week ahead, market participants expect US PPI (Friday) to show further evidence that goods prices are decelerating, while the price index in the ISM services (Monday) likely shows the inflationary impulse in service sectors remains strong. On the monetary policy front, rate announcements are expected in Chile, India (Tuesday), Poland, Canada, Brazil, Peru (Wednesday), and Ukraine (Thursday).

Mature Markets

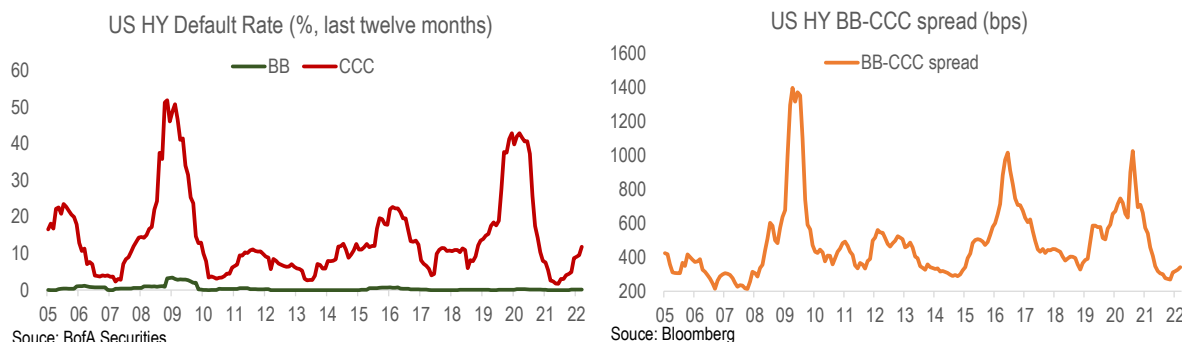
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United States

Last Friday, US markets experienced a roller coaster ride following the stronger-than-expected payroll report in the morning as investors digested the mixed batch of economic data last week. First, while the headline payroll numbers exceeded expectations, the household survey was more mixed (138k drop in household employment and the participation rate down for a 3rd month to 62.1%), showing a more subdued labor growth and ebbing labor supply. The accumulated difference between these two surveys is now running at about 2.2 mn jobs. Second, despite the ISM index slipping into contraction territory below 50, payroll is still growing at a solid pace, suggesting that turning sentiment has yet to translate into a meaningful slowdown in hiring activities. In response, markets appeared to conclude that the payroll report was not strong enough to deter FOMC from slowing down to a 50-bps hike in December, but rates would need to stay restrictive for longer. Chicago Fed President Evans effectively endorsed this view saying that rates would need to be raised to a higher peak even as the Fed slows the pace of increases. At the close, the 2-year Treasury yield, initially up more than 20 bps, was up only by 4 bps while rates beyond the 3-year tenor finished lower for the day. Expectations for the December meeting were little changed, though the market-implied terminal rate (May 2023) increased by 5 bps to 4.9% with a steepening bias at the very front end of the yield curve. The S&P 500 closed 0.1% lower on the day and the VIX finished the week below 20 pts.



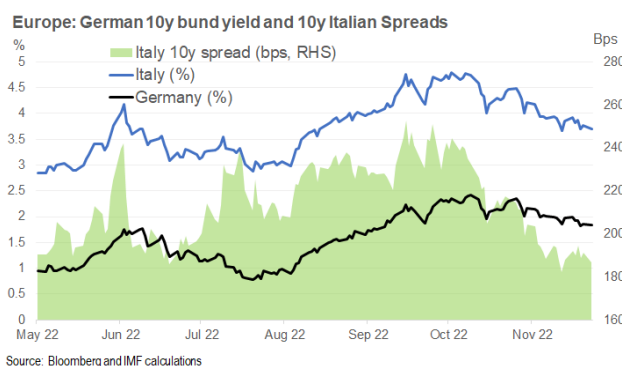
Default rates have increased among weak-tail US corporates. Over the last two months, US high yield corporate spreads have narrowed by more than 100 bps. Nevertheless, corporate fundamentals have steadily deteriorated in the higher-rate environment, especially for lower-graded firms. The default rate of US corporates rated CCC or below has risen by 2.3% mom to 11.8% in November, according to BofA. Corporate bond spreads do not appear to reflect these fundamentals, and the BB-CCC spread remains narrow by historical standards. Within the high-yield sector, November was another month with a net downgrade (\$30bn). Analysts expect elevated net downgrades going forward, and CCCs are expected to be the most downgraded bucket.



Euro Area

European equities were marginally lower while the euro appreciated against the dollar (+0.2%) this morning. ING analysts highlighted that the euro could be impacted by energy related news this week. **S&P Global Rating cut its outlook for France to negative from stable, with the rating agency pointing to higher risk to the country's public finances and the consequent reduction in fiscal space.** France's rating was confirmed at AA.

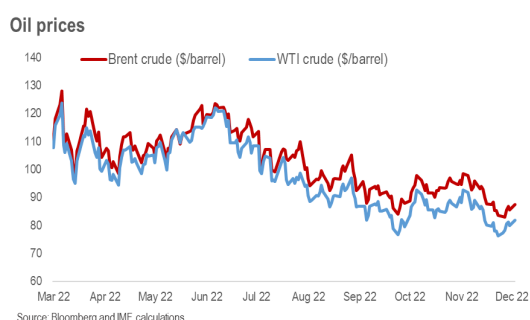
Sovereign bond yields edged lower (10-year bunds -2 bps) as ECB members reinforced expectations for a 50 bps ECB hike later this month. ECB General Council (GC) member Makhoul this morning hinted at expectations for a 50 bps hike, but added that he thinks that this would be the minimum required hike to return inflation to target. This follows comments from GC member Villeroy speaking in favor of a 50 bps hike in December and further rate hikes thereafter. Villeroy sees inflation peaking in H1 2023. **For the ECB meeting on December 15 analysts continue to expect a 50 bps hike, with a focus on signals for the future rate outlook.** HSBC analysts expect the ECB to announce that quantitative tightening (QT) would start in February 2023. The ECB is also set to publish new forecasts, now expected to have a recession in the baseline scenario. Analysts noted that forecasts will be extended to 2025, when inflation could be at target, or even somewhat below. Analysts argue that this could provide extra weight to arguments to slow down the pace of hikes. **Markets are pricing 54 bps of tightening for the December meeting.**



Sentix investor confidence data released this morning surprised on the upside (-21.0 vs expected -27.5 from -30.9). The overall index is now at its highest level since June with the current situation component increasing to -20 (from -29.5) and the expectation component increasing to -22 (from -32.3), the highest level since March. The accompanying press release **highlighted that the simulations increase in both components suggests a correction in exaggerated assessments and caution that it should not be misread as a reversal in general trends.**

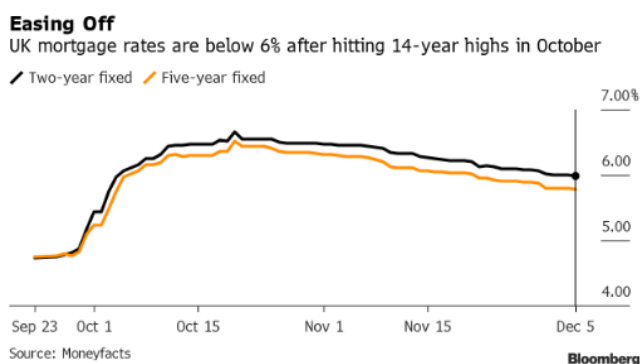
Elsewhere on the data front, **euro area October retail sales came in marginally weaker than expected (-2.7% y/y vs expected -2.6% from -0.6%). Separate data releases showed the final November composite eurozone PMI in line with earlier estimates (47.8) while services PMI was marginally lower (48.5 vs previous 48.6).** Final data for German composite and services PMI, as well as French services PMI, were marginally lower than previous estimates. PMI data for Italy and Spain surprised on the upside in November.

The EU reached an agreement to impose a the price cap of \$60 on Russian oil exports, set to take effect today, together with the start of the EU's embargo on most seaborne Russian imports. Analysts point out that the price cap is comfortably above the Russia's flagship Ural grade's current trading price of \$50. Analysts noted that the size of impact of the sanctions remains uncertain. Separately, **OPEC+ decided over the weekend to keep production unchanged, following the 2 mn barrel/day reduction that was approved at its previous meeting. Oil prices were roughly 2% higher this morning.**



United Kingdom

The two-year fixed rate mortgage rate has declined back to below 6% for the first time since early October, according to Moneyfacts. Average 5-year fixed rates also declined to 5.78%. Relatedly, Bloomberg reports that some UK banks are increasing efforts to help struggling customers, including mortgage relief.



Japan

The Japanese yen depreciated (-0.8%), underperforming regional currencies, as China's COVID pivot dampened demand for safe-haven assets. Japanese equities gained (NIKKEI: +0.2%). The final reading of November PMI composite was similar to the preliminary reading at 48.9, the lowest since February 2022. The 10-year JGB yield was little changed, staying close to 0.25%, while longer-end JGB yields dropped (30-year: -1 bp). Today, the Bank of Japan conducted fixed-rate bond purchases in an amount of 72 bn yen (\$0.5 bn). The spread between the 10-year OIS rate and JGB yield remained elevated at 36 bps.

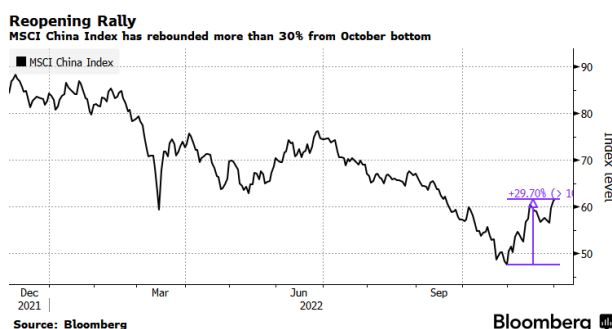
Emerging Markets

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Asian markets lacked a clear direction today. Asian equities were mixed. Share prices rose in Hong Kong SAR (+4.2%) and China (+2.0%), while Philippine (-0.7%), Malaysian (-0.7%) and Korean (-0.6%) equities declined. Asian currencies were also mixed. The Chinese yuan (+1.4%) outperformed but the Indian rupee depreciated (-0.5%). Long-end government bond yields were also mixed, with 10-year yields rising in Indonesia (+3 bps) while falling in the Philippines (-4 bps). **November PMI data were mixed.** PMI weakened in Singapore (56.2 from 57.7) and Hong Kong SAR (48.7 from 49.3). In India, PMI composite improved to 56.7 in November from 55.5 in October. **Equity markets and currencies in EMEA were mixed while local currency yields generally edged lower.** Equities in Hungary (-1.5%) underperformed while equities in Egypt (+1.9%) gained. The South African rand appreciated against the dollar (+1.3%) while local currency yields continued to ease (10-year -22bps), retracing some of the moves seen last week amid political uncertainty. According to media articles President Ramaphosa is set to challenge a report that found grounds for his impeachment. **Latam currencies weakened on Friday, while equity markets were mixed.** The Mexican peso led the depreciation in the area by 1.3%. Equity markets in Brazil (0.9%), Colombia (0.4%), and Chile (0.3%) were up on Friday, but others (e.g. Argentina -0.5%) finished in the red. CDS spreads narrowed. **Brazil's industrial production increased 0.3% mom sa in October, in line with market expectations.** The modest rise partially offset the negative prints in August and September (-0.6% mom sa and -0.7% mom sa, respectively). The release showed widespread weakness in October, as only 27% of the industrial segments recorded output rebounds. Mining production drove the rise with a 0.6% mom sa increase, while manufacturing remained weak (0.0% mom sa).

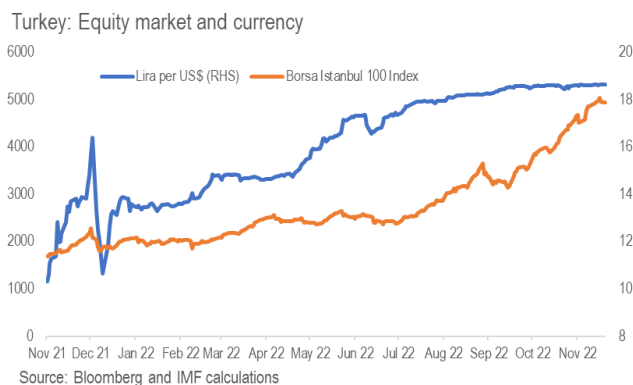
China

Chinese markets rallied on more easing of COVID controls. More major cities, including Shanghai and Hangzhou, eased testing requirements over the weekend. Shanghai was the last to join the other tier-1 cities (Beijing, Guangzhou and Shenzhen) in the relaxation of testing requirements. Chinese equities gained (CSI 300: +2.0%; Hong Kong SAR-listed: +4.8%) and the RMB appreciated (+1.4%). Market participants are now focusing on the re-opening trade and looking through potential disruptions during the re-opening. **Caixin PMI composite weakened in November,** falling to 47.0 from 48.3 in October. Both manufacturing and services components remained contractionary. Manufacturing PMI was 49.4, beating expectations (consensus: 48.9), while services PMI deteriorated more than expected to 46.7 (consensus: 48.0). The People's Bank of China withdrew liquidity in an amount of 53 bn RMB (\$7.6 bn). The key interbank repo rate (DR007) was little changed around 1.6%. CGB yields edged up (10-year: +0.8 bp), continuing their upward trend.



Türkiye

The Turkish lira was little changed after data showed inflation easing in November for the first time since mid-2021. Headline inflation eased to 84.4% y/y in November (vs 84.8% expected) from 85.5% previously. ING analysts had previously highlighted that base effects and a more stable currency would see price pressures moderate, but warn that risks remain to the upside as cost-push pressures prevail. The Turkish lira has weakened by roughly 29% ytd, but has stabilized over the past few months.



EM Fund Flows

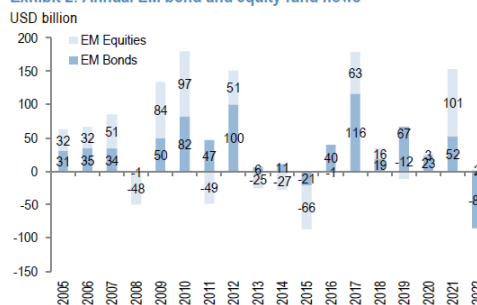
EM bond funds reverted to small inflows last week as the third week of hard-currency inflows (+\$580 mn, from +\$745 mn the previous week) offset local-currency outflows (-\$451 mn, from -\$1.2 bn the previous week). Both hard currency and EM ex-China local currency bond funds attracted inflows for the third consecutive week. However, China-focused funds had outflows (-\$599 mn). Inflows were into ETF EM bond funds, especially hard-currency ETFs (+\$446 mn), offsetting non-ETF outflows (-\$156 mn). EM equity funds experienced small outflows of -\$166 mn, after +\$1.1 bn inflows one week ago. All regional funds suffered outflows, led by Asia ex-Japan (-\$289 mn), and followed by Latam (-\$36 mn) and EMEA (-\$20 mn).

Exhibit 1: Weekly Cross-Asset Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	0.0	-82.6	
EM Bonds	0.1	-85.0	
Hard Ccy	0.6	-41.9	
Local Ccy*	-0.5	-43.1	
o.w. EM ex-China	0.1	-20.1	
o.w. China	-0.6	-21.8	
EM Equities	-0.2	2.4	
US HG	-2.6	-72.3	
US HY	-0.5	-38.6	
Global Equities	-18.0	96.5	
EM Bond and Equity ETFs	1.0	40.8	
EM Bond ETFs	0.3	-10.6	
EM Equity ETFs	0.8	51.3	
Non-resident EM flows*	-0.5	-53.2	

*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.



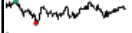

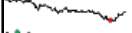





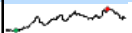





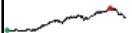




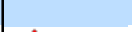


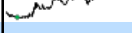



Exhibit 2: Annual EM bond and equity fund flows



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Global Financial Indicators







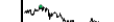



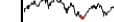









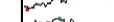



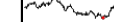












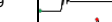
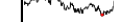

12/5/22 8:06 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		4066	-0.1	3	8	-10	-15	-4
Europe		3961	-0.4	1	7	-3	-8	0
Japan		27820	0.2	-1	2	0	-3	5
China		3947	2.0	6	5	-19	-20	-15
Asia Ex Japan		67	0.4	6	13	-19	-19	-16
Emerging Markets		40	0.4	5	9	-19	-19	-17
Interest Rates			basis points					
US 10y Yield		3.52	3.3	-16	-64	218	201	153
Germany 10y Yield		1.85	-0.8	-14	-45	224	203	162
Japan 10y Yield		0.26	0.0	0	0	20	18	6
UK 10y Yield		3.09	-6.5	-4	-45	234	212	161
Credit Spreads			basis points					
US Investment Grade		159	-1.1	-3	-19	46	47	16
US High Yield		459	-4.0	-15	-19	81	121	52
Europe IG		89	1.1	-3	-18	32	41	17
Europe HY		452	8.3	-12	-68	171	210	100
Exchange Rates			%					
USD/Majors		104.32	-0.2	-2	-6	9	9	8
EUR/USD		1.06	0.5	2	6	-6	-7	-6
USD/JPY		135.0	0.5	-3	-8	19	17	17
EM/USD		50.2	0.2	1	2	-4	-4	-5
Commodities			%					
Brent Crude Oil (\$/barrel)		88	2.6	5	-9	32	21	3
Industrials Metals (index)		168	-0.2	8	9	4	-3	-11
Agriculture (index)		66	0.6	-2	-4	10	9	-6
Implied Volatility			%					
VIX Index (% change in pp)		20.3	1.2	-2.0	-4.3	-10.4	3.0	-10.8
US 10y Swaption Volatility		124.3	0.7	-8.6	-9.5	35.0	45.3	30.0
Global FX Volatility		11.4	0.1	-0.1	-0.3	3.2	4.0	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		203	-1.8	-20	-40	43	51	-37
Italy		186	-5.1	-6	-31	56	51	15
Portugal		92	-0.6	-1	-6	25	28	0
Spain		100	-1.9	0	-6	26	26	-4

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 12/5/2022 8:08 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		6.95	1.5	3.7	4	-8	-9	-9		3.1	3.5	3	28	17	28	27
Indonesia		15463	-0.2	1.7	2	-7	-8	-7		6.9	5.3	-5	-56	66	53	41
India		82	-0.6	-0.2	0	-8	-9	-9		7.3	3.0	-8	-37	105.7	95	
Philippines		56	-0.4	1.1	5	-10	-9	-9		6.1	-2.5	0	20	143	158	108
Thailand		35	0.3	3.1	8	-2	-4	-7		2.5	-8.5	-5	-61	64	64	27
Malaysia		4.37	0.4	2.5	9	-3	-5	-4		4.0	1.6	-8	-33	52	45	37
Argentina		168	-0.2	-1.1	-5	-40	-39	-36		93.6	-347.2	-217	-69	4308	4303	4564
Brazil		5.25	-0.5	2.3	-2	8	6	-5		12.5	9.4	-76	65	157	184	101
Chile		883	0.1	3.5	4	-4	-4	-11		5.2	0.0	-18	-111	-3	-26	-75
Colombia		4776	-0.1	1.2	7	-18	-15	-18		9.4	0.0	-77	-219	278	302	156
Mexico		19.58	-0.9	-1.4	-1	8	5	3		8.3	-11.5	-27	-96	96	80	48
Peru		3.8	-0.3	0.5	3	6	4	-3		7.6	0.4	-17	-49	164	171	161
Uruguay		39	0.1	0.7	2	13	14	8		10.8	0.0	-1	-55	188	209	266
Hungary		389	0.1	1.0	3	-17	-17	-18		8.2	14.0	13	-255	402	364	334
Poland		4.43	0.2	2.2	5	-8	-9	-9		5.6	13.0	-36	-161	265	210	173
Romania		4.6	0.7	2.4	5	-6	-6	-6		7.5	-15.5	-26	-146	245	271	238
Russia		62.3	-0.4	-1.4	-1	19	21	31		10.8	-0.2	-10	6	196	203	-38
South Africa		17.2	1.8	-0.2	3	-7	-7	-12		9.2	-20.0	25	-18	175	173	157
Turkey		18.64	0.0	0.0	-1	-26	-29	-26		10.9	12.0	10	-63	-1062	-1338	-1148
US (DXY; 5y UST)		104	-0.4	-2.4	-6	8	9	8		3.70	4.8	-18	-63	257	244	180

	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		3947	2.0	6	5	-19	-20	-15		192	-14	-14	-6	-11	-16	
Indonesia		6987	-0.5	0	-1	7	6	1		164	-5	-33	-18	-1	-21	
India		62835	-0.1	1	3	11	8	10		141	-7	-68	3	9	-13	
Philippines		6442	-0.7	-2	4	-10	-10	-13		133	4	-19	13	32	-4	
Thailand		1642	0.0	1	1	3	-1	-3		0	0	0	0	0	0	
Malaysia		1472	-0.7	-1	2	-1	-6	-7		96	-7	-22	-24	-21	-37	
Argentina		169692	-0.5	4	12	96	103	86		2261	-155	-319	453	581	524	
Brazil		111924	0.9	3	-5	7	7	0		265	-21	-13	-63	-46	-66	
Chile		5290	0.3	2	1	21	23	21		148	-12	-26	2	8	-26	
Colombia		1241	0.4	0	0	-13	-12	-18		387	-19	-78	54	39	-5	
Mexico		51234	-0.4	-1	0	1	-4	0		379	-17	-32	19	47	9	
Peru		22419	-0.2	0	2	12	6	-4		180	-6	-21	16	30	-10	
Hungary		44709	-2.4	-2	5	-12	-12	-6		234	5	-36	94	110	81	
Poland		57010	1.4	2	9	-16	-18	-9		97	63	42	35	65	81	
Romania		12119	1.6	5	11	-2	-7	-8		262	-17	-72	56	69	29	
Russia		2202	1.0	1	2	-44	-42	-29		3411	-577	938	3228	3234	2897	
South Africa		74886	0.8	2	8	6	2	0		405	42	-10	35	50	16	
Turkey		5007	0.9	2	19	162	170	148		456	-18	-77	-120	-122	-107	
Ukraine		519	0.0	0	0	-1	-1	0		3781	132	-721	3148	3022	2308	
EM total		40	0.2	5	9	-19	-19	-17		385	-13	-60	-16	-2	-73	

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

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