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- US equities erase all gains post Fed Powell's speech last Wednesday ([link](#))
- Analysts cut US share-price targets ([link](#))
- China's trade data disappoints ([link](#))
- China's December Politburo meeting indicated a pro-growth stance ([link](#))
- Reserve Bank of India raised the policy rate by 35 bps to 6.25% as expected ([link](#))
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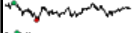

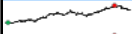
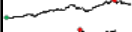


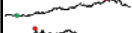


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Markets cautious on disappointing Chinese trade data

Global equities failed to gain traction this morning on mixed news from China. The politburo meeting indicated a pro-growth stance and the authorities announced new easing measures for dealing with COVID. However, trade data disappointed with the biggest contraction since February 2020 when the first COVID lockdown was imposed, sparking economic growth fears. European bourses fell and the VIX rose for its third consecutive trading day. Advanced economy sovereign bond yields were moderately higher. Weaker growth prospects are also weighing on oil prices, with Brent crude now close to where it started the year. Markets are currently set on a 50 bps hike by the Fed, ECB and Bank of England next week. In emerging markets, the Reserve Bank of India raised rates by 35 bps and Chile's central bank kept rates unchanged, both as expected. Poland's central bank is expected to leave rates unchanged later today.

Key Global Financial Indicators

Last updated: 12/7/22 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3941	-1.4	0	4	-16	-17
Eurostoxx 50		3919	-0.5	-1	6	-8	-9
Nikkei 225		27686	-0.7	-1	-1	-4	-4
MSCI EM		39	-0.1	2	8	-22	-20
Yields and Spreads			bps				
US 10y Yield		3.55	2.2	-5	-66	208	204
Germany 10y Yield		1.83	3.2	-10	-51	221	201
EMBIG Sovereign Spread		467	13	1	-58	91	100
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.0	0.2	-1	1	-4	-5
Dollar index, (+) = \$ appreciation		105.1	-0.5	-1	-5	9	10
Brent Crude Oil (\$/barrel)		79.5	0.2	-7	-19	5	2
VIX Index (% change in pp)		22.9	0.7	2	-1	1	6

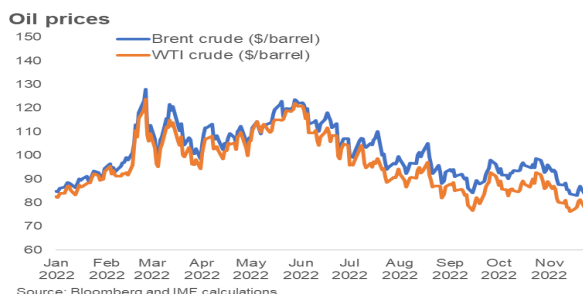
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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Energy Markets

Oil prices were volatile this morning after closing 4% lower yesterday amid concerns over weakening global growth prospects. Oil prices declined over the previous three trading sessions and Brent crude is now trading at roughly 2% higher than at the start of the year, while WTI is about -1% ytd.



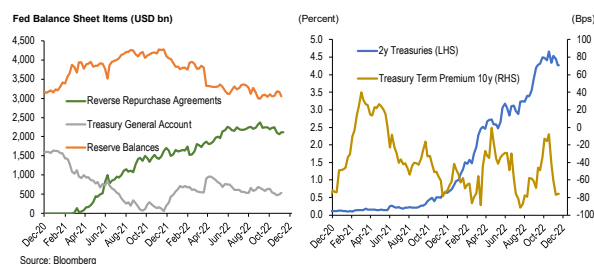
United States

Equities extended losses, erasing all gains post Fed Chair Powell's comment last Wednesday -that was consistent with a view that the pace of rate hikes will slow starting in December. The S&P 500 index was down -1.4% on the day, led by the energy sector. The CDX high yield CDS spread widened by 13 bps and the Treasury yield curve inverted further. The latest update of the Atlanta Fed's GDP nowcast for Q4 was at 3.4% saar, up from 2.8% as of Dec 1. The recent economic data show that the US economy appears to be reaccelerating, fueling speculation of a higher terminal rate and a longer plateau before the Fed pivots. The VIX increased by 1.2 pts to 22.0.

Analysts are slashing their share-price targets. According to Bloomberg, the number of price-target downgrades among S&P 500 firms by analysts has increased more than upgrades, sending their spread to the lowest level since January this year. Investors see earnings have not yet adapted to a recessionary environment, and the potential lack of earnings growth in 2023 may be a limiting factor to the performance of risky assets.



Reverse repo (RRP) balances at the Fed have started to decline as the policy rate approaches the terminal rate. Until October, RRP outstanding had increased gradually since the Fed began the rate hike cycle early this year. At that time, investors minimized duration risk-taking and piled up their cash positions on the view that Fed would hike the rate further. But since the beginning of November, RRP balances have peaked and started to decline, reflecting investors' view that the Fed funds rate got closer to the terminal rate of this hiking cycle. Indeed, the market-implied terminal rate has reached 5%, roughly equivalent to Treasury 2-years at 4.4%. These dynamics could lead to lesser domestic dollar funding strains in the future, as decreasing RRP balances mean a slower pace of shrinking bank reserves at the Fed, all else equal.

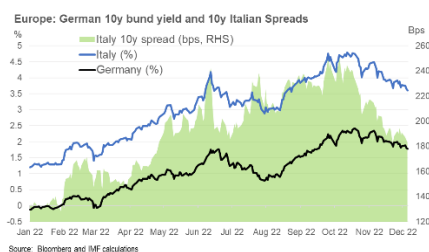


Euro-area

European equities were lower (Stoxx 600 -0.6%) while the euro appreciated to dollar (+0.3%) this morning. On the data front eurozone final Q3 growth was higher than previously estimated (+0.3% q/q vs preliminary estimated +0.2%). A separate release showed an upside surprise, but still a contraction, in Germany's industrial production data for October (-0.1% m/m vs expected -0.6% from +1.1%). Italy's October retail sales were also marginally better than expected (-0.4% m/m vs expected -0.5% from +0.5%).

The ECB's October consumer expectations survey showed median consumer expectations for inflation over the next 12 months increasing to 5.4% (from 5.1%), while expectations for inflation in 3 years was unchanged at 3%. Economic growth expectations for the next 12 months deteriorated to -2.6% from -2.4%.

Sovereign bond yields were edging higher after closing roughly 8bps lower yesterday as market pricing creeps towards expectations for a 50 bps ECB hike in the meeting next week. Markets are pricing in 53 bps of tightening for the meeting next week (compared to 56 bps one week ago), with the terminal rate priced to peak at around 2.9%. ECB Governing Council member Herodotou yesterday hinted that further ECB rate hikes are in the pipeline, adding that the ECB is close to the neutral range. 10-year bund yields are now trading at around 1.8%, similar to levels seen in mid-September, while Italian 10-year yields are trading around 3.6%, back at levels seen at end-August, with the spread (184 bps) at levels last seen in April.



United Kingdom

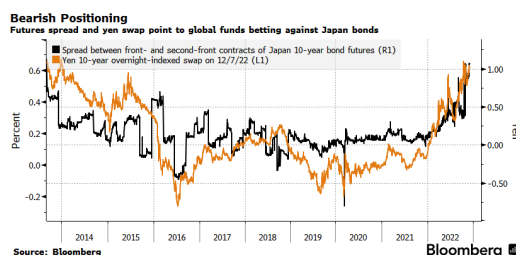
For the BoE meeting next week, analysts mostly expect a 50 bps hike. Markets have scaled back tightening expectations over the past few weeks with a 50 bps fully priced in for next week's BoE meeting, and the terminal rate priced at around 4.6%. Terminal rate expectations are generally lower than market pricing, for example Morgan Stanley analysts expect a terminal rate of 4% to be reached in March 2023. The BoE has increased rates at the past eight consecutive meetings to take the key rate from 0.1% to 3%. BoE MPC member Dhingra recently cautioned that the BoE risks prolonging and deepening the recession if rate increases were to continue at the current pace. On the data front, ahead of the RICS November house price data due tomorrow, data from Halifax released this morning showed house prices falling at the fastest pace since 2008 in November (-2.3% m/m). On an annual basis growth slowed to +4.7% in November (from 8.2%).

Australia

The economy grew 0.6% q/q in 2022Q3, weaker than expected (consensus: +0.7%). The economic growth moderated from a 0.9% expansion in Q2. Equities declined (-0.8%), similar to regional market trends. The Australian dollar appreciated (+0.1%), while long-end government bond yields dropped (10-year: -4 bps; 30-year: -2 bps).

Japan

The Japanese yen depreciated (-0.3%) as a Bank of Japan (BOJ) board member, Toyoaki Nakamura, indicated the need for the BOJ to continue with monetary easing persistently. His comments echoed Governor Kuroda's remarks yesterday. Mr. Nakamura also mentioned that it is not the time for a policy review yet. The 10-year JGB yield dropped slightly to 0.25% (-0.1 bp); longer-end JGB yields also declined (30-year: -1.5 bps). There was no take-up in the BOJ's fixed-rate bond purchases today. **Foreign investors are positioning for JGB yields to rise** as rising inflation puts pressure on the BOJ to alter its accommodative stance. In particular, the spread between 10-year JGB futures for December delivery and those for March has widened to the level last seen in September 2013. Analysts suggested that the sizeable spread point to a significant size of short positions rolling over into the new contracts. Meanwhile, the spread between the 10-year OIS rate and JGB yield remained elevated at 37 bps. Equities declined (NIKKEI: -0.7%), similar to regional market trends.



Emerging Markets

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Asian equities declined, falling 2.2% on net, led by Hong Kong (-3.2%), Philippines (-2.2%), and Indonesian (-1.1%) equities, similar to the decline in global equities. **Asian currencies were mixed**. The Philippine peso appreciated (+0.9%), while the Hong Kong dollar (-0.2%) and Korean won (-0.2%) depreciated. **Long-end government bond yields were also mixed**, with 10-year yields rising in Indonesia (+3 bps) while falling in Taiwan POC (-11 bps) and the Philippines (-10 bps). **In Thailand**, headline CPI inflation moderated to 5.6% y/y in November from 6.0% in October (consensus: 5.8%). Core CPI inflation edged up slightly. The Thai baht depreciated (-0.1%). **Equity markets in EMEA mostly traded lower while currencies were mixed against the dollar**. **CEE currencies were mostly weaker against the euro**, with the Hungarian forint outperforming (+0.1%). The Polish zloty was -0.2% weaker against the euro ahead of the central bank's monetary policy decision later today, where consensus expects the key rate to remain unchanged at 6.75%. On the data front industrial output in the Czech Republic disappointed in October (+2.9% y/y vs expected +7.2% from +8.4%). **Latam currencies were mixed, while equity markets were mostly up on Tuesday**. The Colombian peso (+1.9%) led the appreciation against the dollar, followed by the Brazilian real (+0.9%) and the Peruvian sol (+0.6%). The Mexican peso continued to weaken (-0.1%) on the third day. Equity markets in Brazil (+0.7%), Colombia (+1.6%), Mexico (+0.4%), and Argentina (+2.2%) were up, while the Chilean and Peruvian stock markets fell on Tuesday. CDS spreads widened in most Latam countries except Argentina.

China

Exports in dollar terms declined 8.7% y/y in November, larger than expected (consensus: -3.9%), reflecting softening global demand conditions and COVID-induced supply-chain disruptions in China.

Imports also declined 10.6% (consensus: -7.1%). The **contraction in trade was the biggest since February 2020 when the first COVID lockdown was imposed**. **Equities declined** (CSI 300: -0.2%; Hong Kong SAR-listed: -3.3%) as market participants started to worry about a likely surge in infection and further economic disruptions next year. The RMB appreciated (+0.2%).

The December Politburo meeting indicated a pro-growth stance, saying that authorities will push for an overall improvement of the economy. Policymakers will maintain the proactive fiscal policy stance, while the monetary policy stance would be more targeted and supportive. The meeting statement also mentioned a further improvement in COVID control policy with no mentioning of the zero COVID policy. There was no discussion on the property sector at all. **Reportedly, Chiense authorities are debating an economic target for next year of around 5%**. Setting a target at a relatively high level could help local governments shift their focus away from COVID control to support the economy. **Chinese authorities also announced 10 new measures for dealing with COVID, accelerating its shift away from zero COVID policy**. New measures announced by the National Health Commission included allowing COVID patients to isolate at home (after a pilot in Beijing last week), accelerating vaccination for the elderly, designating high-risk areas (which would result in lockdown-like curbs) with greater precision, and reducing mass testing.

Language Comparison of Recent Politburo Meetings

Topic	December	July
Economic growth	"Push for overall improvement of the economy" and "focus on stabilizing growth, employment and prices"	"Keep the economy running in a reasonable range and strive for the best result possible"
Covid policy	"Optimize Covid control measures" and "better coordinate Covid control and economic growth"	"Insist on putting the people and their lives first, preventing imported cases and a domestic rebound, dynamic Covid Zero"
Monetary policy	"Prudent monetary policy should be targeted and forceful"	"Prudent monetary policy is flexible and appropriate" (from monetary policy report in Nov.)
Fiscal policy	"Active fiscal policy will step up and become more effective"	"Fiscal policy should effectively make up for insufficient demand in society"
Property	N/A	"Support the demand of first-time buyers," "ensure home delivery"
Other priorities	"Significantly boost market confidence," "make a stronger push to attract foreign investment" and "focus on expanding domestic demand"	"Macro policies will be active in expanding demand"
Financial risks	"Effectively prevent and resolve major economic and financial risks"	"Properly resolve the risk of certain rural banks"

Source: official readouts from Xinhua News Agency, CCTV

Bloomberg

India

The Reserve Bank of India (RBI) raised the repurchase rate by 35 bps to 6.25%, as expected. The cash reserve ratio requirement was kept at 4.5%. The RBI retained its inflation forecast at 6.7% for the current fiscal year ending March 2022 while lowering the growth forecast to 6.8% from 7.0%. Market contacts viewed the latest RBI decision as hawkish as Governor Das stated that the RBI remains focused on inflation. The RBI intends to bring inflation down to the midpoint of the 2%-6% target band. Long-end government bond yields rose (10-year: +3 bps), while Indian rupee appreciated slightly (+0.1%). Equities declined (-0.3%).

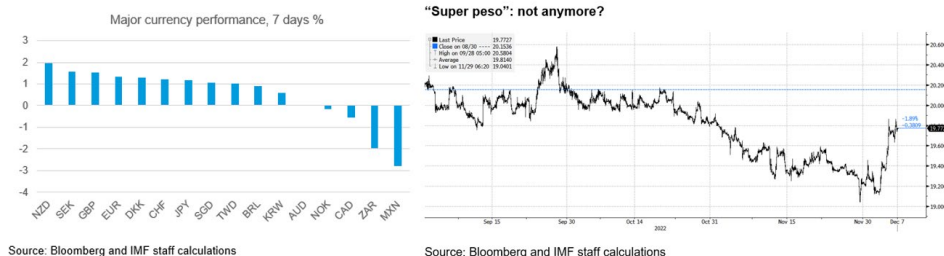
Chile

Chile's central bank (BCCh) held the key policy rate unchanged at 11.25% on Tuesday, in line with market expectations. The Chilean peso had outperformed all currencies ahead of the monetary policy decision on Tuesday afternoon, with a 1.9% appreciation against the dollar. After 11 hikes since mid-July 2021 totaling 10.75 ppts and inflation coming down from its peak in August this year, **the BCCh signaled the end of the tightening cycle**. However, **"the Board will maintain the monetary policy rate at 11.25% until the state of the macroeconomy indicates that this process has been consolidated"**. Markets expect no cuts any time soon.

Mexico

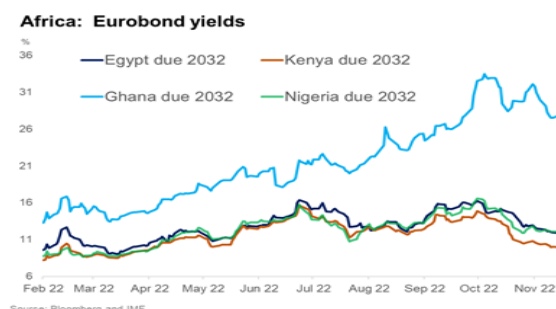
The Mexican peso depreciated on the third day and has underperformed most major EM currencies over the past week. The Mexican peso has weakened by 2.8% in total since last Tuesday, ending the

appreciation trend since September this year. The release of Gross Fixed Investment (GFI) this Tuesday could be one of the explanations for the peso weakening. There was slower internal demand expansion in Q3-2022 in Mexico. GFI fell to 3.3% y/y in September compared with 5.8% y/y in August, below market expectations. The monthly decline of 0.9% was driven by the contraction of investment in machinery and equipment (-1.4% m/m sa) and residential construction (-2.6% m/m sa).



Ghana



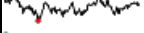


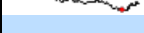
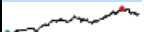
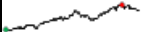
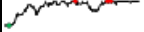

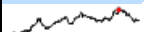










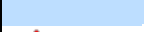


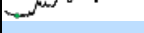



S&P yesterday lowered Ghana's local currency long-term sovereign rating to 'SD' (selective default) and foreign currency long-term sovereign rating to 'CC' with a negative outlook. This follows the offer by Ghana's Ministry of Finance of a domestic debt restructuring. The agency sees the transaction as a distressed exchange offer with the aim of restoring sustainability the government's finances and also secure balance of payments support from the IMF. As regards the lowering of Ghana's foreign currency long-term rating, S&P points to the Ministry of Finance's intention to restructure foreign currency debt. Last week Moody's downgraded Ghana's long-term issuer rating amid expectations that private creditors will likely incur considerable losses in the government's planned debt restructuring. Ghana's Eurobond yields have increased since the start of the month.



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 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), Mustafa Oguz Caylan (Research Officer), 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

12/7/22 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		3929	-1.4	-4	3	-16	-18
Europe		3919	-0.5	-1	6	-8	-9
Japan		27686	-0.7	-1	-1	-4	-4
China		3958	-0.2	3	6	-21	-20
Asia Ex Japan		66	-0.1	3	11	-22	-20
Emerging Markets		39	-0.1	2	8	-22	-20
Interest Rates			basis points				
US 10y Yield		3.55	2.2	-5	-66	208	204
Germany 10y Yield		1.83	3.2	-10	-51	221	201
Japan 10y Yield		0.26	-0.1	0	0	20	18
UK 10y Yield		3.12	4.4	-4	-52	239	215
Credit Spreads			basis points				
US Investment Grade		160	-0.3	-4	-18	44	48
US High Yield		474	1.3	0	0	119	136
Europe IG		92	0.4	0	-15	39	44
Europe HY		473	8.3	14	-47	210	231
Exchange Rates			%				
USD/Majors		105.09	-0.5	-1	-5	9	10
EUR/USD		1.05	0.6	1	5	-7	-7
USD/JPY		137.2	0.1	-1	-6	21	19
EM/USD		50.0	0.2	-1	1	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		79.5	0.2	-9	-17	12	10
Industrials Metals (index)		167	-0.7	3	10	2	-3
Agriculture (index)		66	0.7	-3	-4	9	8
Implied Volatility			%				
VIX Index (% change in pp)		22.9	0.7	2.3	-1.4	1.0	5.7
US 10y Swaption Volatility		126.8	-3.9	-2.3	-7.0	38.6	47.8
Global FX Volatility		11.1	0.0	-0.4	-0.6	3.0	3.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		187	-7.8	-35	-55	24	36
Italy		186	1.1	-8	-28	57	51
Portugal		90	-1.5	-5	-7	27	26
Spain		99	-1.3	-2	-5	28	25

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 12/7/2022 8:08 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation						% p.a.						
China		6.98	0.2	1.6	4	-9	-9	-10		3.1	-3.5	1	30	17	30
Indonesia		15637	-0.1	0.6	0	-8	-9	-8		7.0	4.1	6	-46	71	62
India		82	0.2	-1.3	-1	-9	-10	-10		7.2	2.9	-10	-38	102.5	93
Philippines		55	0.9	2.0	6	-9	-8	-8		6.0	0.0	-10	13	138	153
Thailand		35	0.2	0.2	7	-4	-5	-8		2.5	-3.5	-11	-60	63	65
Malaysia		4.40	0.0	1.1	8	-4	-5	-5		4.1	0.2	-6	-39	52	46
Argentina		170	-0.2	-1.5	-6	-40	-40	-37		89.0	-166.6	-648	-664	3931	3846
Brazil		5.23	0.1	-0.8	-1	7	7	-4		12.7	-6.0	11	84	182	203
Chile		885	-0.7	1.0	4	-5	-4	-11		5.4	34.5	6	-91	17	-6
Colombia		4837	-0.1	-0.1	6	-19	-16	-19		9.5	0.0	-68	-216	287	305
Mexico		19.72	0.3	-2.3	-1	7	4	3		8.4	0.0	-27	-87	119	92
Peru		3.8	0.6	0.4	3	7	4	-3		7.7	0.8	-4	-26	177	178
Uruguay		39	0.0	0.4	2	13	14	8		10.8	0.0	-1	-38	199	209
Hungary		389	0.7	0.9	3	-16	-17	-18		8.2	-6.0	11	-249	408	370
Poland		4.46	0.4	0.5	4	-9	-10	-9		5.6	-10.8	-20	-167	267	203
Romania		4.7	0.5	1.4	4	-6	-7	-6		7.5	-0.8	-21	-154	239	265
Russia		63.0	0.3	-2.8	-2	18	19	30		10.7	21.8	-11	-5	179	192
South Africa		17.2	0.5	-0.3	3	-8	-8	-12		9.2	-4.0	21	-17	177	174
Turkey		18.64	0.0	-0.1	-1	-28	-29	-26		11.0	4.0	13	-106	-1055	-1335
US (DXY; 5y UST)		105	-0.4	-0.8	-5	9	10	9		3.76	0.9	2	-63	251	250

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M		
								basis points							
China		3958	-0.2	3	6	-21	-20	-14		185	-16	-22	-14	-18	
Indonesia		6819	-1.1	-4	-3	3	4	-1		165	10	-32	-12	0	
India		62411	-0.3	-1	2	6	7	9		136	-8	-75	0	4	
Philippines		6525	-2.2	-4	4	-9	-8	-11		130	9	-24	18	29	
Thailand		1622	-0.7	0	-1	0	-2	-4		0	0	0	0	0	
Malaysia		1467	-0.3	-1	2	-2	-6	-8		96	0	-23	-23	-21	
Argentina		168090	2.2	0	14	88	101	84		2394	62	-184	654	714	
Brazil		110189	0.7	-2	-4	2	5	-2		272	5	-3	-54	-39	
Chile		5234	-0.7	-1	-1	19	21	20		150	4	-16	5	10	
Colombia		1237	1.6	0	-1	-12	-12	-18		403	-4	-50	71	55	
Mexico		51021	0.4	2	1	0	-4	-1		400	13	-2	52	68	
Peru		22051	-0.4	-1	0	7	4	-6		184	9	-9	22	34	
Hungary		44866	-1.0	-2	2	-12	-12	-6		234	11	-34	96	110	
Poland		55758	-0.3	-1	6	-19	-20	-11		83	51	38	33	51	
Romania		12195	-0.9	6	11	-3	-7	-8		260	-5	-65	67	67	
Russia		2180	-0.8	0	-1	-44	-42	-29		3411	-577	938	3228	3234	
South Africa		73853	-0.9	-1	6	1	0	-2		401	49	-2	29	46	
Turkey		4963	-0.7	0	15	151	167	146		460	2	-51	-120	-118	
Ukraine		519	0.0	0	0	-1	-1	0		3851	173	-636	3206	3092	
EM total		39	-0.2	2	8	-22	-20	-18		391	6	-47	-3	5	

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

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