GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, DECEMBER 8, 2022

- **US Treasury yields fall as recession worries simmer** (link)
- **Bank of Canada raises policy rate 50 bps and signals potential pause in hiking cycle** (link)
- **Bank of Korea indicates readiness to stabilize money markets with further liquidity** (link)
- **Polish central bank holds policy stance and highlights ongoing slowdown in activity** (link)
- **Brazilian central bank keeps policy unchanged and notes uncertainty on fiscal front** (link)
- **Political turmoil triggers price volatility in Peru as president Castillo is impeached** (link)

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Recession worries keep markets on edge

Risk sentiment remains muted across global equity markets with recession concerns now shifting back to front and center. US equities wavered between modest gains and losses yesterday and European and Asian stock indices are mixed to slightly lower this morning as investors are weighing the possibility of an impending economic downturn alongside a potential slowdown in the pace of rate hikes from the Fed starting next week. Hong Kong SAR equities (+3.4%) were a notable outperformer on signs of further zero-COVID easing. Although stabilizing this morning, the recession fears initially spilled over to core sovereign bond markets as US Treasury yields fell more than 10 bps across all maturities over the past day and European yields edged lower. In central bank decisions, the Bank of Canada added to the chorus of policymakers signaling a slowdown in the pace of tightening by raising rates 50 bps but providing a meeting statement that implied a potential pause in the hiking cycle going forward. In emerging markets, there has also been a batch of monetary policy decisions with central banks in Poland and Brazil both keeping their policy stances unchanged, with the latter acknowledging heightened uncertainty on the fiscal front. Political turmoil in Peru led to the impeachment of the president yesterday and triggered some local market turbulence that is expected to remain as uncertainty persists.

Key Global Financial Indicators

Last updated: 12/8/22 8:18 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	
S&P 500		3934	-0.2	-4	3	-16	-17	-7
Eurostoxx 50		3919	0.0	-2	5	-7	-9	-1
Nikkei 225		27574	-0.4	-2	-1	-4	-4	4
MSCI EM		39	-0.6	-2	6	-23	-21	-18
Yields and Spreads					bps			
US 10y Yield		3.47	4.9	-4	-66	194	196	147
Germany 10y Yield		1.80	1.3	-2	-49	211	197	157
EMBIG Sovereign Spread		475	8	7	-33	108	108	62
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.1	0.0	0	1	-5	-5	-6
Dollar index, (+) = $ appreciation		105.1	0.0	0	-4	10	10	9
Brent Crude Oil ($/barrel)		78.6	1.9	-10	-18	4	1	-19
VIX Index (%, change in pp)		22.8	0.1	3	-3	3	6	-8

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

Mature Markets

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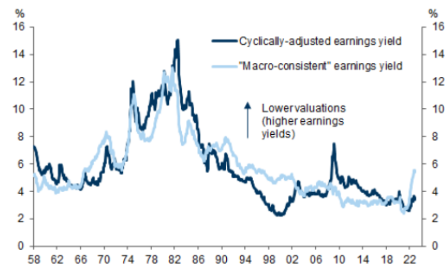
United States

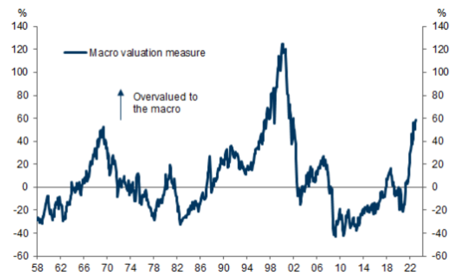
Equities closed lower yesterday, and the US Treasury yield curve flattened for the fifth consecutive day amid growing concerns over slower growth. The S&P 500 was down by 0.2%, and 10-year US Treasury yields fell 11 bps as the 2-to-10-year yield spread flattened to -84 bps. Despite the recent price adjustment, Goldman Sachs analysts see that equity valuations have not compressed nearly as much as the macro backdrop would usually suggest they should. The macro backdrop includes bond yields, the unemployment rate, and core inflation. The valuation limitations make it harder to see deep upside narratives for equities.

Exhibit 3 : A simple macro model captures most of the broad shifts in equity valuations over time...



Source: Haver Analytics, Robert Shiller, Goldman Sachs Global Investment Research

Exhibit 4 : ...and suggests that current valuations are higher than the macro backdrop would normally suggest



Source: Goldman Sachs Global Investment Research

MMF reforms will likely be finalized soon, as early as in December or early 2023. JPMorgan analysts expect the final rule will impose swing pricing for institutional prime funds with a two-year implementation period. The SEC is expected to delink gates and fees from liquidity requirements, although there is a possibility that liquidity requirements could be raised from the current levels. Analysts see the financial impact on broader money markets as likely to be muted, unlike the last MMF reforms in 2016 that had a significant impact.

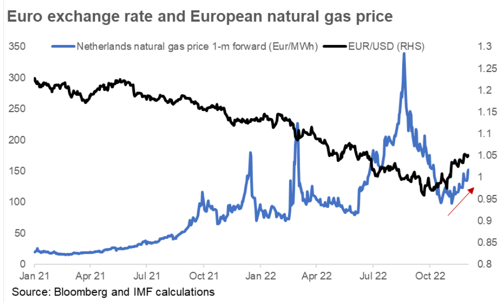
Canada

The Bank of Canada hiked its policy rate by 50 bps to 4.25%, signaling that today's hike could potentially be the last. The last paragraph in the meeting statement did not say that the Governing Council expects that the policy rate will need to rise further for the first time during this tightening cycle. The statement also said early indicators suggest that price pressures might be losing momentum. The move was in line with the market consensus. Equities edged higher, and the 10-year government bond yield declined by 2.2bps for the day. Canadian dollar was little changed.

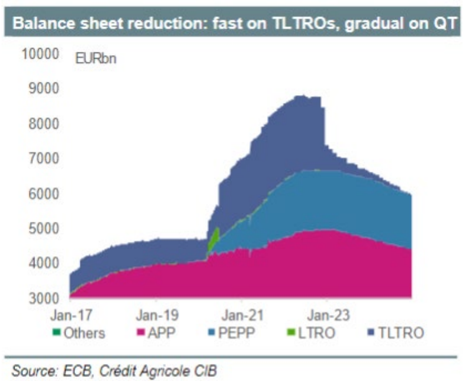
Euro area

European equities continued to edge lower (Stoxx 600 -0.4%) while sovereign bond yields were little changed. Yesterday ECB Governing Council (GC) member Kazimir said it is too early to celebrate an inflation peak and that many reasons remain *to continue in the set pace of policy tightening*. Focus is on ECB speakers today, including ECB President Lagarde, ahead of the ECB blackout period.

The euro was little changed this morning with analysts warning that higher gas prices could weigh on the currency. While the Federal Reserve's and ECB's respective policy meetings next week are seen as key, analysts highlight that higher gas prices could see further euro weakness. European natural gas prices have increased over the past month with 1-month ahead prices now back at around €150/MwH, the highest level since mid-October.



A Bloomberg survey showed expectations that the second voluntary repayment of Targeted longer-term refinancing operations (TLTROs) could amount to €333 bn. The ECB adjusted the interest rate in October. The first voluntary TLTRO repayment took place in November, and amounted to a smaller than anticipated of €296 bn. **The ECB will publish the second voluntary repayment amount for the TLTROs tomorrow.** While a Bloomberg survey of economists showed median expectations for a €333 bn repayment it also showed a wide range of predictions. Based on analyst reports, Morgan Stanley for example expects a repayment of €315 bn while Crédit Agricole CIB see repayments exceeding €1 tn. Analysts highlight that banks could decide not to repay TLTROs and keep the liquidity as a result of an uncertain outlook.

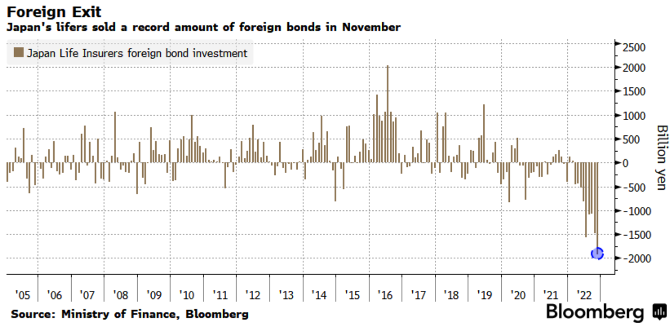


United Kingdom

The pound traded weaker against the dollar (-0.35%) and the euro (-0.3%) while gilt yields were little changed. On the data front, the RICS house price index plummeted -25% in November, a larger than expected decline (expected -10% from -2% last month), with respondents' outlook for UK house prices the most negative since May 2020. JPMorgan analysts highlight that an improvement in the forward-looking new buyer inquiries, even though it remains deeply negative, could be an indication of a moderation in the pace of falling mortgage approvals and sales. Separately, the November REC jobs survey showed on overall weakening. Markets are still fully pricing in a 50 bp hike by the BoE next week. **The Bank of England is set to conduct its final active quantitative tightening bond sale for 2023 today,** while the sales of gilts purchased under its emergency support measures are set to continue.

Japan

The economy contracted 0.2% q/q in 2022Q3 based on the final reading, below the preliminary figure of -0.3%. The revision pointed to a deeper slowdown of private consumption and business investment. **Japanese life insurers offloaded foreign bonds at a record pace,** driven by rising hedging costs and higher JGB yields. In November, the net selloff amounted to $14.1 bn. **Japanese yen depreciated (-0.3%),** underperforming other Asian currencies, as sentiment was weighed down by an unexpected current account deficit in October. Equities declined (NIKKEI: -0.4%), similar to regional trends. The 10-year JGB yield was little changed at 0.25%, while longer-end JGB yields dropped (30-year: -3.2 bps).



Emerging Markets

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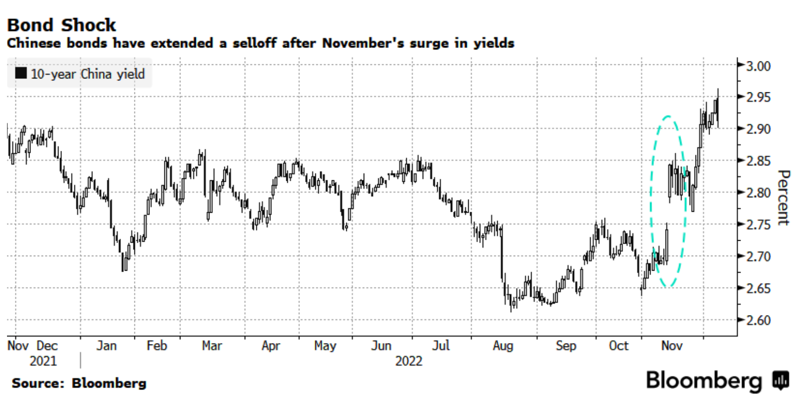
Latin American currencies mostly appreciated against the dollar, while equity markets mostly traded lower on Wednesday. The Chilean peso (+1.5%) led the appreciation against the dollar, followed by the Mexican peso strengthening by 0.5%. Equity markets in Brazil (-1%), Chile (-0.7%), Colombia (-0.6%), and Mexico (-0.6%) were down, with Peru (+0.5%) and Argentina (+1.8%) posting gains. Chilean CPI rose by 1.0% m/m in November, higher than markets expected. **Asian equities were mixed, gaining 1.9% on net.** Hong Kong equities gained (+3.4%) on the news that COVID restrictions would be further relaxed. Most Asian currencies appreciated. Long-end government bond yields generally declined, with 10-year yields falling in Korea (-17.7 bps). **In Hong Kong SAR**, the government furthered relaxed COVID controls, including shortening the isolation period for infected persons and their close contacts. Hong Kong dollar appreciated (+0.1%). **In Indonesia**, the bid to expand Bank Indonesia's mandate to include job creation was dropped in draft the law. Indonesian rupiah appreciated (+0.1%). **In EMEA, equity markets were mostly trading lower while currencies were mixed against the dollar.** CEE currencies were mostly weaker against the euro. **The Hungarian forint weakened** against the euro (-1%) while local currency bond yields increased (10y, +20 bps) after November inflation surprised on the upside. Headline inflation increased to 22.5% y/y (vs expected 22.0% from 21.1%), mainly driven by food price inflation, with core inflation increasing to 23.9% y/y. On the central bank front, Uganda kept the central bank rate unchanged at 10% yesterday.

China

Chinese authorities reportedly asked large insurance companies to buy bonds that have been sold off. The bond selloffs arose as retail investors and traders shifted their investments from fixed-income assets into stocks on growing optimism around China's reopening. Retail investors, in particular, withdrew cash from wealth management products, which in turn sold their fixed-income assets. CGB bond yields continued to rise (1-year: +16.9 bps; 10-year: +0.6 bp) although CGB futures (only traded in the morning) gained the most in two weeks. RMB and Chinese equities were little changed.

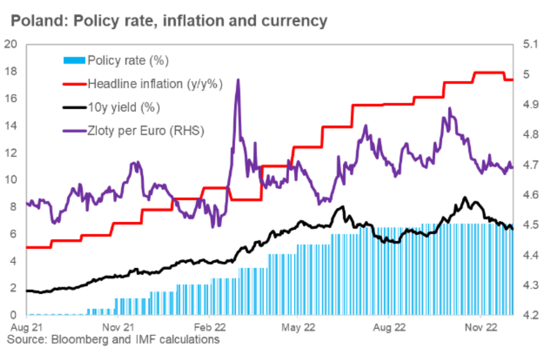


Korea

The Bank of Korea (BOK) is ready to provide more liquidity to stabilize money markets. Deputy Governor Lee Sang-hyeong said that the BOK could conduct repurchase transactions to inject more liquidity if needed; there is already a plan in place to conduct 2 to 3 repo auctions before the year-end. Financial strains showed signs of easing in recent days as commercial paper spreads started to stabilize, though at elevated levels. The spread between 3-month rates on commercial paper and BOK monetary stabilization bonds stood at 215 bps, the widest since the GFC. **The parliament rejected a proposal which would allow state-owned Korea Electric Power (KEPCO) to increase its debt selling limit.** However, the opposition party, which dominates the parliament, suggested that the government should plan to reduce KEPCO's losses by raising regulated power prices. Strong bond issuance by KEPCO has pushed up corporate bond yields on the back of oversupply concerns. Equities declined (-0.5%), while Korean won appreciated (+0.3%). Long-end government bond yields were mixed.

Poland

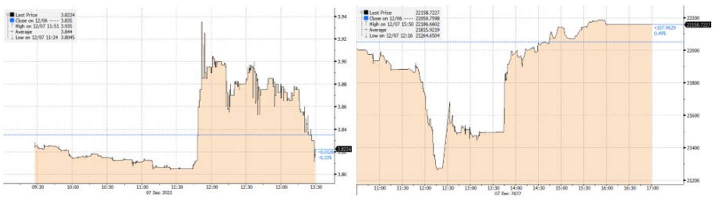
The polish zloty was little changed, and local yields continued to decline (10y, -16bps) this morning after the central bank left its policy rate unchanged at 6.75% yesterday, as expected. The Council also noted the ongoing slowdown in activity abroad and in Poland, as well as falling commodity prices, all of which should help ease inflationary pressures. The central bank has left rates unchanged since a 25 bp hike in September. JPMorgan analysts highlight the absence of an impetus for a reassessment by the central bank, as inflation has eased slightly and there has been no market pressure on the zloty. **ING analysts see core inflation remaining high over the next 24 months, and as such expect either further rate hikes in 2024 or a significant tightening of fiscal policy.** Analysts caution that the cost of bringing down high long-term inflation would exceed the cost of a tighter monetary policy mix today. Governor Glapinski will hold a press conference later today.



Peru

Local Peruvian markets displayed a spike in asset price volatility following political turmoil on Wednesday. Peruvian sol initially declined 3.4% against the dollar after President Castillo's announcement to dissolve congress, triggering the biggest intraday decline since July last year. The local stock market index was down by 3% after the news, reaching the one-month lowest. Later in the afternoon, markets reversed earlier declines and rallied as congress voted to impeach Castillo. Vice president Boluarte was sworn in as the new president and is the first female leader in Peru's history. Peru's primary equity index closed the day in the green and the currency appreciated by 0.3%. Despite the heightened political uncertainty, **the central bank of Peru hiked 25 bps, as expected, and maintained its tightening bias** by leaving the door open for additional hikes if inflation and inflation expectation remain high.

Intraday charts of Peru's sol (a) and primary equity index (b)

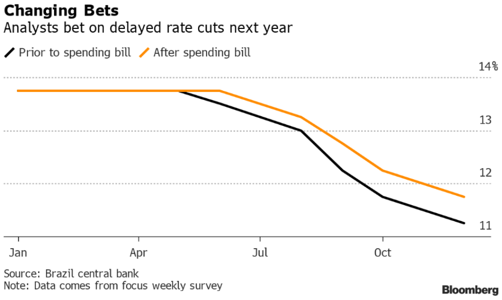


(a) (b)

Source: Bloomberg

Brazil

Brazil's central bank kept the benchmark Selic rate unchanged at 13.75%. Earlier, the Senate Committee approved the constitutional amendment allowing for a R$168 bn fiscal expansion for two years. Markets are concerned about the greater-than-expected public spending plans by the incoming administration stoking inflation and worsening the fiscal outlook. In response, the central bank reiterated its commitment to fighting inflation by stating, "the Committee will closely monitor future developments in fiscal policy and, in particular, its effects on asset prices and inflation expectations, with potential impacts on the dynamics of future inflation." Markets have revised up inflation estimates for 2023 and priced in new rate hikes starting in February, according to Bloomberg.



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Global Financial Indicators

Last updated: 12/8/22 8:19 AM	Level Last 12m	Latest	Change 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3938	-0.2	-3	3	-16	-17	-7
Europe		3919	0.0	-2	5	-7	-9	-1
Japan		27574	-0.4	-2	-1	-4	-4	4
China		3959	0.0	2	7	-22	-20	-14
Asia Ex Japan		66	-0.7	-1	10	-23	-20	-17
Emerging Markets		39	-0.6	-2	6	-23	-21	-18
Interest Rates					basis points			
US 10y Yield		3.47	4.9	-4	-66	194	196	147
Germany 10y Yield		1.80	1.3	-2	-49	211	197	157
Japan 10y Yield		0.26	0.0	0	0	21	18	6
UK 10y Yield		3.06	1.4	-4	-49	228	209	158
Credit Spreads					basis points			
US Investment Grade		157	-1.4	-3	-21	40	45	14
US High Yield		476	-4.3	14	-6	124	139	70
Europe IG		92	0.2	5	-13	38	44	20
Europe HY		470	3.3	28	-45	207	229	119
Exchange Rates					%			
USD/Majors		105.12	0.0	0	-4	10	10	9
EUR/USD		1.05	0.1	0	4	-7	-8	-7
USD/JPY		136.7	0.0	1	-6	20	19	19
EM/USD		50.1	0.0	0	1	-5	-5	-6
Commodities					%			
Brent Crude Oil ($/barrel)		79	1.9	-10	-16	9	9	-8
Industrials Metals (index)		173	0.6	5	12	5	0	-8
Agriculture (index)		66	0.5	-1	-3	10	9	-6
Implied Volatility					%			
VIX Index (%, change in pp)		22.8	0.1	2.9	-2.8	2.9	5.5	-8.3
US 10y Swaption Volatility		131.6	-0.9	10.0	-0.1	49.8	52.6	37.3
Global FX Volatility		11.1	0.0	-0.2	-0.4	2.9	3.6	3.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		195	2.0	-12	-46	25	43	-45
Italy		184	1.6	-5	-27	50	49	13
Portugal		90	1.3	-2	-7	24	26	-2
Spain		99	0.7	-1	-5	26	24	-5

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

Emerging Market Financial Indicators

Last updated: 12/8/2022 8:23 AM	Exchange Rates: Level Last 12m	Level Latest (vs. USD)	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level Last 12m	Level Latest (% p.a.)	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.97	0.0	1.2	4	-9	-9	-9		3.1	0.5	6	31	17	30	29
Indonesia		15621	0.1	-0.4	0	-8	-9	-8		7.0	-3.5	8	-47	71	58	47
India		82	0.1	-1.5	-1	-8	-10	-10		7.2	-5.1	-10	-44	97.4	88	
Philippines		55	0.9	2.0	6	-9	-8	-8		6.0	0.0	-10	13	138	153	103
Thailand		35	0.8	0.4	7	-4	-4	-7		2.5	0.5	-7	-58	64	66	28
Malaysia		4.40	-0.1	0.1	8	-4	-5	-5		4.1	-1.1	0	-44	51	46	38
Argentina		170	-0.2	-1.5	-6	-40	-40	-37		89.0	-7.2	-648	-696	3934	3839	4100
Brazil		5.22	-0.1	-0.6	-1	6	7	-4		12.8	8.0	12	81	207	215	131
Chile		867	1.5	3.2	6	-3	-2	-9		5.2	18.0	-11	-108	0	-23	-72
Colombia		4828	0.1	0.1	6	-19	-15	-19		9.5	0.0	-24	-180	294	312	165
Mexico		19.67	0.0	-2.7	-1	6	4	3		8.4	-4.5	-22	-91	115	87	55
Peru		3.8	0.3	0.9	3	7	5	-2		7.7	6.8	2	0	183	184	174
Uruguay		39	0.2	0.3	3	13	15	8		10.8	0.0	0	-38	205	209	266
Hungary		396	-1.3	-1.1	1	-19	-18	-19		8.7	44.0	52	-173	458	420	390
Poland		4.45	0.3	0.1	4	-9	-9	-9		5.4	-15.3	-19	-160	256	186	149
Romania		4.7	0.2	0.4	4	-7	-7	-6		7.4	-5.2	-27	-149	233	260	227
Russia		62.6	1.2	-1.2	-3	17	20	30		10.8	2.0	-5	1	191	198	-43
South Africa		17.1	0.2	3.1	3	-8	-7	-12		9.0	-7.0	-44	-24	163	161	145
Turkey		18.65	0.0	-0.1	-1	-27	-29	-26		11.0	0.0	-43	-131	-1049	-1335	-1145
US (DXY; 5y UST)		105	0.0	0.3	-4	10	10	9		3.67	4.6	1	-62	240	241	177

	Equity Markets: Level Last 12m	Level Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Level Latest (basis points)	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
										basis points					
China		3959	0.0	2	7	-22	-20	-14		186	-15	-21	-12	-17	-22
Indonesia		6804	-0.2	-3	-4	2	3	-2		178	11	-10	3	13	-7
India		62571	0.3	-1	3	6	7	9		143	-11	-61	5	11	-11
Philippines		6525	0.0	-4	4	-9	-8	-11		136	3	-12	27	35	-1
Thailand		1620	-0.1	-1	0	0	-2	-4							
Malaysia		1466	-0.1	-2	1	-2	-6	-8		99	-6	-18	-18	-18	-34
Argentina		171178	1.8	2	16	92	105	87		2341	81	-180	650	661	604
Brazil		108967	-1.0	-2	-6	1	4	-3		277	9	10	-37	-34	-54
Chile		5203	-0.7	-2	-4	18	21	19		154	6	-2	14	14	-20
Colombia		1230	-0.6	-1	-2	-13	-13	-19		407	-1	-27	80	59	15
Mexico		50726	-0.6	-2	0	-1	-5	-1		399	13	16	58	67	29
Peru		22159	0.5	-1	1	8	5	-5		188	12	7	33	38	-2
Hungary		43805	-1.8	-6	0	-15	-14	-8		246	13	-12	119	122	93
Poland		55716	-0.5	-2	4	-19	-20	-11		93	-1	47	50	61	77
Romania		12252	0.2	4	9	-3	-6	-7		274	6	-38	89	82	42
Russia		2179	-0.6	0	-1	-42	-42	-29		3411	-577	938	3228	3234	2897
South Africa		74246	0.3	-1	8	3	1	-1		402	41	17	39	47	13
Turkey		4840	0.3	-4	11	141	161	140		476	6	-19	-69	-102	-87
Ukraine		519	0.0	0	0	-1	-1	0		3968	255	-414	3334	3209	2495
EM total		39	1.0	-2	6	-23	-21	-18		396	9	-26	12	10	-62

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

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