GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 9, 2022

- **US SEC presses public firms to disclose material exposures to crypto markets** (link)
- **European banks' voluntary TLTRO repayment larger than expected** (link)
- **British consumers' expectations for future inflation drift higher** (link)
- **China's consumer inflation moderates further in November** (link)
- **Mexican inflation eased more than expected in November** (link)
- **Acceleration in Egypt's inflation reinforces expectations for December policy rate hike** (link)

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Risk sentiment remains hesitant as markets weigh inflation data

Risk sentiment initially turned modestly positive this morning as investors are looking to next week's key central bank meetings and trying to discern the path forward for inflation and interest rates. Global stock markets looked to have been able to end the recent bout of underperformance this week, with US equities closing the trading session higher yesterday and major Asian and European bourses mostly posting gains this morning. The positive tone that has permeated throughout markets over the last day has in part been driven by recent data releases that showed Chinese inflation remains subdued and jobs-related data in the US that suggested the labor market could be starting to cool. The latter point on US data has been encouraging news for some investors as it may be perceived as evidence that the Fed's aggressive rate hike path is taking hold. However, US equity futures are falling and core sovereign bond yields are reversing higher this morning following a slightly stronger than expected US PPI print that has driven 10-year US Treasury yields back up near 3.5%. In Europe, the main news was the second voluntary TLTRO repayment from banks came in higher than expected, which will continue to shrink the ECB balance sheet even as policymaker debate QT. Oil prices remain weak amid concerns of lower demand as a result of slowing economic growth with both WTI and Brent crude hitting new lows for the year at $72 and $77/barrel, respectively.

Key Global Financial Indicators

Last updated: 12/9/22 8:46 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		3964	0.8	-3	6	-15	-17	-6
Eurostoxx 50		3925	0.1	-1	5	-7	-9	-1
Nikkei 225		27901	1.2	0	-1	-2	-3	5
MSCI EM		39	1.2	0	10	-22	-20	-17
Yields and Spreads					bps			
US 10y Yield		3.50	2.0	2	-59	200	199	151
Germany 10y Yield		1.89	7.0	3	-28	224	207	166
EMBIG Sovereign Spread		463	-12	-1	-46	101	96	50
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		50.1	-0.2	0	1	-4	-5	-6
Dollar index, (+) = $ appreciation		104.9	0.2	0	-5	9	10	9
Brent Crude Oil ($/barrel)		77.1	1.3	-10	-17	4	-1	-20
VIX Index (%, change in pp)		23.2	0.9	4	-3	2	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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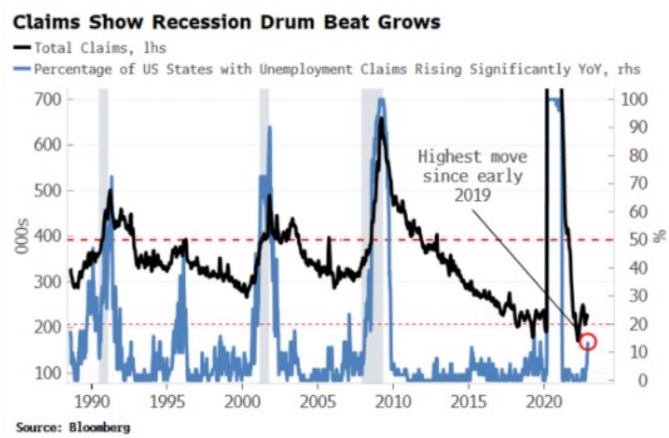
United States

Equity markets rebounded on Thursday as investors awaited the PPI data print this morning. The S&P 500 gained 0.7%, and the Nasdaq was up +1.1% for the day. The energy sector has kept underperforming on lower oil prices. US Treasury 10-year yields rose 6.5 bps to 3.48%.

This morning, November headline PPI came in higher than expected (+0.3% m/m vs. +0.2% consensus; +7.4% y/y vs. +7.2% consensus). Core PPI, ex-food and energy, was also stronger (+0.4% m/m vs. +0.2% consensus; or +6.2% y/y vs. +5.9% consensus), which was a step up from the softer reading reported for October. The Treasury market initially reacted sharply, with both 10-year and 2-year yields up 6 bps, and the dollar strengthened by 0.3% against major currencies. S&P 500 futures are down -0.2%.

Continuing jobless claims point to a recession. Based on the latest figures released Thursday morning, continuing claims have trended higher and are above their one-year low by a margin consistent with a pattern of more job losses but fewer jobseekers quickly finding new employment. Historically, these dynamics preceded an economic slump. Analysts pointed out that jobless claims are the best near-term cyclical indicator, and their coming rise would be a key factor in tracking the onset of a recession in 2023.



SEC asks publicly traded companies for more disclosure about exposures to the crypto market. Under the new SEC guidance, the disclosures would likely apply to companies that incorporate digital assets into their businesses. But the guidance indicated that it could apply to any firm with material exposure to the troubled crypto market. The guidance is one of the SEC's first public steps to address crypto-market uncertainty after the FTX exchange filed for bankruptcy last month.

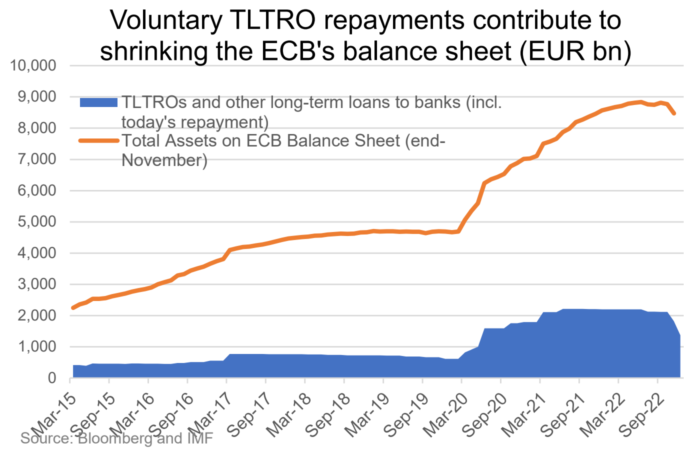
Canada

The Bank of Canada reinforced its pivot to a more data-dependent stance. One day after the BOC's policy rate hike, Deputy Governor Sharon Kozicki said the bank is moving from how much to raise rates to whether to raise rates. According to Kozicki, the council sees a mixed picture of consumer prices, though they are still too high. Governor Tiff Macklem is expected to shed more light on the trajectory of monetary policy in a year-end speech on Monday in Vancouver.

Euro area

Euro area markets are fairly muted today, before the busy week ahead. Equity markets are up, with the Stoxx Europe 600 gaining 0.6%. The euro is broadly flat vs. the dollar at 1.06/$ and bund yields are up 6 bps in Germany (1.87%), and Italian spreads are increasing by 2 bps to 190 bps.

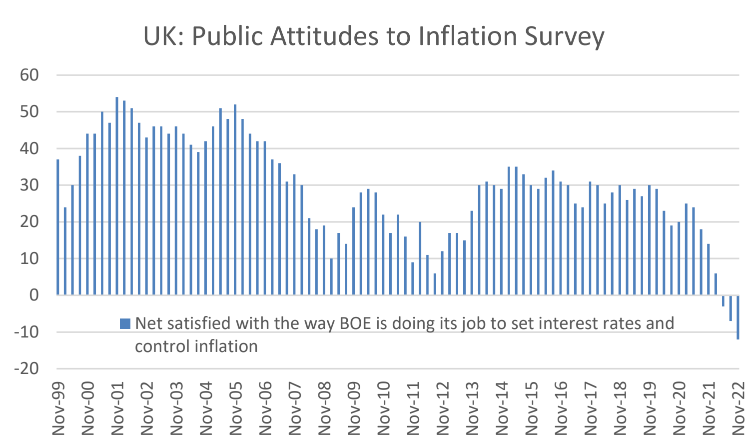
The ECB announced that the second voluntary repayment amount of the targeted longer-term refinancing operations (TLTROs), amounted to €447 bn, higher than the €333 bn that were expected according to a Bloomberg survey of economists. This is also higher than the €296 bn that were repaid in the first voluntary repayment in November, and which were at the time much lower than expected. This amounts to about a quarter of the €1.8 trillion of TLTROs that were outstanding. This repayment will contribute to marginally shrinking the ECB balance sheet and help somewhat ease the collateral shortage in the Euro Area. It might also influence the debate on the start date and pace of QT, which will be discussed at the ECB meeting next Thursday. The next date for voluntary TLTRO repayments is in January.



United Kingdom

The UK FTSE 100 is up 0.3% and the British pound is broadly flat vs. the dollar at 1.23 £/$. 10y gilt yields are up 3 bp to 3.1%. Yesterday, the BoE conducted the latest bond sale of its QT program for 2023, and sold £750 million in bonds, with a bid to cover ratio of 2.66.

The BOE's quarterly survey of public attitudes to inflation showed that British consumers' expectations of future inflation drifted further above its 2% target, and that more people were dissatisfied with the BOE. In the survey conducted last month, consumers expected inflation to rise about 3.4% within the next two years, up from 3.2% when the survey was last conducted in August. Asked about inflation in five years' time, respondents gave a median answer of 3.3%, up from 3.1% in August. These figures add to market concerns that rising prices are becoming embedded into the UK economy. Market participants expect the BOE to raise rates by 50 bps to 3.5% next Wednesday.



The UK announced a package of more than 30 financial services reforms, aiming to shore-up the sector post-Brexit. The measures include plans for relaxing ring-fencing capital rules to lighten the burden on smaller banks; replacing EU regulation covering areas such as disclosure for financial products; overhauling the prospectus rules to make it easier for companies to list in the UK; looking at replacing the EU rules around the regulation of short-selling; reviewing the provision of investment research in the UK (MiFID II); repealing EU Solvency II rules to allow insurers to invest in UK infrastructure; changing tax rules for investment trusts; and consulting on a new central bank digital currency.

Japan

Japanese yen appreciated (+0.3%), similar to other regional currencies. Takehiko Nakao, one contender to be the next Bank of Japan (BOJ) governor, said that the BOJ should review its policy with gradual adjustments in mind once the new leadership team is formed next spring. He also highlighted the need to consider the side effects, including market functionality, bank profitability, and fiscal discipline. Long-end JGB yields declined (10-year: -0.2 bp; 30-year: -2.9 bps), with the 10-year yield at 0.248%. Equities gained (NIKKEI: +1.2%).

Emerging Markets

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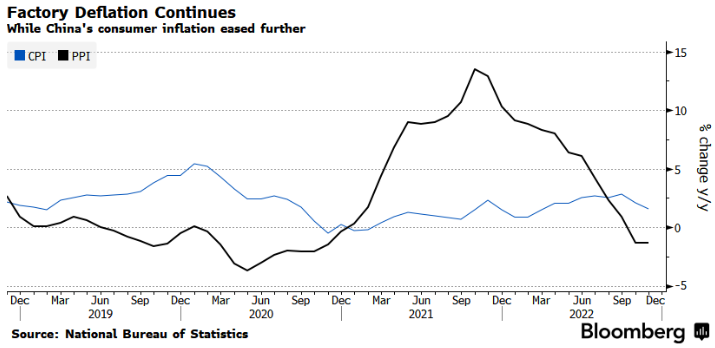
Many Latin American stock markets were closed on Thursday due to holidays. The Mexican peso appreciated by 0.2%, while the Brazilian real depreciated by 0.4%. The stock market in Brazil declined 1.7%, while equities gained in Mexico by 0.7%. CDS spreads narrowed for all countries. **Asian equities gained,** up 2.0% on net, led by Hong Kong (+2.3%), Chinese (CSI 300: +1.0%), and Taiwan (+1.0%) equities. Share prices dropped in Indonesia (-1.3%) and India (-0.8%). **Asian currencies appreciated and long-end government bond yields were mixed.** In **Thailand**, the joint meeting of the Bank of Thailand's monetary policy committee and financial institutions policy committee called for enhanced monitoring of the deterioration in debt servicing ability of households and SMEs, higher volatility of risky assets, and decreasing global liquidity. **In EMEA, equity markets were mostly trading higher while currencies were mixed, and local bond yields were generally steady. Hungarian equities** gained (+1.3%) and the Hungarian forint appreciated against the euro (+0.2%) retracing some of yesterday's losses following an upside surprise in the November inflation print. The **Polish zloty** was little changed this morning after central bank Governor Glapinski was not as dovish as some had expected in yesterday's central bank press conference – he hinted at a preference for rates to remain at current levels but also said that the hiking cycle has not ended yet and persistent inflation could result in further tightening. The **South African rand** underperformed, trading roughly 0.8% weaker against the dollar.

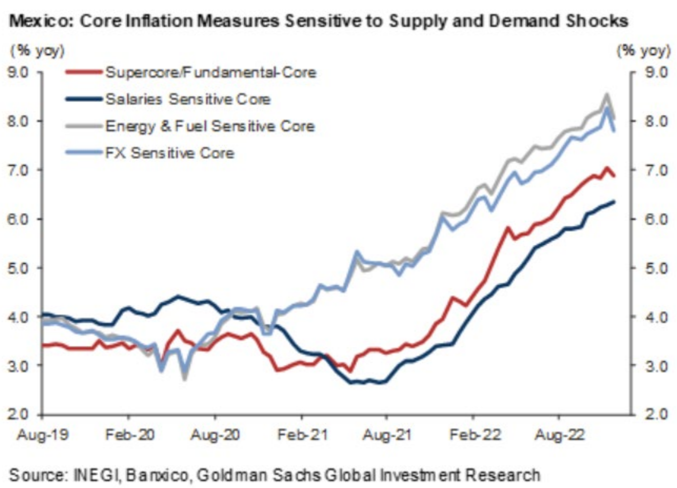
China

CPI inflation moderated to 1.6% y/y in November from 2.1% in October, in line with expectations, with the sequential price declines across goods and services categories. Meanwhile, PPI deflation persisted, with PPI falling 1.3% y/y (consensus: -1.5%), the same as a month ago. With muted inflationary pressure, many analysts expected the People's Bank of China to further ease monetary policy. **President Xi visited Saudi Arabia.** He pledged to upgrade the relationship between China and Saudi Arabia to a comprehensive strategic partnership including by expanding oil trade and holding regular summits. **Markets are speculating that more policy support for the property sector** could be coming at the annual Central Economic Work Conference next week. Reportedly, officials plan to play down the significance of the housing for living not for speculation policy. Short-end CGB yields continued rising (1-year: +2.1 bps), while longer-end yields dropped (10-year: -0.7 bp). Equities gained (CSI 300: +1.0%; Hong Kong SAR-listed: +2.5%). RMB appreciated (+0.3%).



Mexico

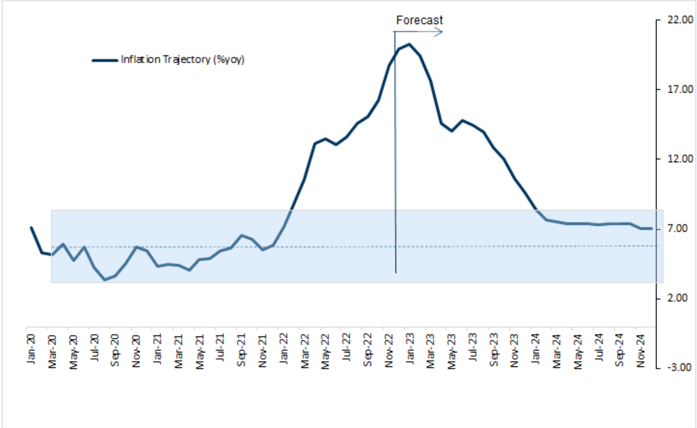
Mexican inflation eased more than markets expected in November, which analysts now suggest could give the central bank space to moderate the pace of rate hikes to 50 bps at the December 15th meeting. Consumer prices rose 7.8% y/y, compared with 8.4% y/y in October, lower than the 7.94% median market estimate according to Bloomberg. It is the second consecutive month in which Mexican inflation slowed significantly, and the decline was driven by non-core prices, including agriculture product prices falling to 8.89% y/y (14.2% y/y in October), and energy prices dropping to 2.29% y/y from 3.1% last month. Goods prices, however, increased to 11.28% y/y from 11.15% in October. Markets reacted positively to the release, with the stock market trading higher by 0.7%, and the currency appreciated by 0.2% on Thursday.



Egypt

An acceleration in headline inflation reinforced expectations for further tightening at the upcoming MPC meeting later this month. Data released yesterday showed headline inflation increasing to +18.7% y/y in November (from 16.2%), and core inflation increasing to 21.5% y/y from 19.0%. Goldman Sachs analysts highlight that inflation was driven by a roughly 25% weakening of the Egyptian pound since October 27, when Egypt devalued its currency and hiked key interest rates by 200 bps in an unscheduled meeting. **Goldman Sachs analysts see headline inflation peaking slightly above 20% in January 2023 and expect the central bank to hike its base rates by 100 bps at the upcoming MPC meeting on December 22, while JPMorgan analysts expect a 200 bp hike.** The central bank's current inflation target of 7% ±2% is expiring by the end of this year.

Exhibit 1: Headline Inflation to Return to Target Band by Q1 2024



Source: Haver Analytics, Goldman Sachs Global Investment Research

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Global Financial Indicators

Last updated: 12/9/22 8:08 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3972	0.8	-2	6	-15	-17	-6
Europe		3940	0.5	-1	6	-6	-8	-1
Japan		27901	1.2	0	-1	-2	-3	5
China		3998	1.0	3	6	-21	-19	-14
Asia Ex Japan		67	1.5	0	13	-22	-19	-16
Emerging Markets		39	1.2	0	10	-22	-20	-17
Interest Rates					basis points			
US 10y Yield		3.46	-1.9	-2	-63	196	195	147
Germany 10y Yield		1.86	4.2	1	-31	222	204	163
Japan 10y Yield		0.26	0.1	0	0	21	19	6
UK 10y Yield		3.10	1.1	-5	-36	235	213	162
Credit Spreads					basis points			
US Investment Grade		156	-2.3	-4	-22	40	44	13
US High Yield		474	2.9	12	-29	115	137	68
Europe IG		90	-1.6	3	-17	38	43	19
Europe HY		460	-10.1	17	-63	198	218	108
Exchange Rates					%			
USD/Majors		104.70	-0.1	0	-5	9	9	9
EUR/USD		1.06	0.0	0	5	-7	-7	-7
USD/JPY		135.7	-0.7	1	-7	20	18	18
EM/USD		50.1	-0.2	0	1	-4	-5	-6
Commodities					%			
Brent Crude Oil ($/barrel)		76	0.3	-11	-16	8	5	-11
Industrials Metals (index)		171	-0.1	1	11	4	-1	-9
Agriculture (index)		66	0.4	1	-2	10	9	-5
Implied Volatility					%			
VIX Index (%, change in pp)		22.6	0.3	3.6	-3.5	1.0	5.4	-8.4
US 10y Swaption Volatility		133.6	0.0	10.0	3.7	52.3	54.6	39.3
Global FX Volatility		10.8	0.0	-0.5	-0.6	2.7	3.4	3.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		209	5.4	5	-37	36	58	-31
Italy		188	0.5	-3	-23	53	53	17
Portugal		92	0.2	0	-5	25	28	0
Spain		101	0.9	0	-3	28	27	-2

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

Emerging Market Financial Indicators

Last updated: 12/9/2022 8:13 AM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		6.96	0.1	1.4	4	-8	-9	-9		3.2	1.0	7	30	20	31	30
Indonesia		15583	0.2	-1.0	1	-8	-9	-8		6.9	-2.7	8	-41	64	56	44
India		82	0.2	-1.2	-1	-8	-10	-9		7.2	2.8	0	-42	103	91	52
Philippines		55	0.2	0.7	5	-9	-8	-8		6.0	0.0	-5	-10	138	153	103
Thailand		35	0.1	-0.1	6	-4	-4	-7		2.5	1.0	3	-51	63	67	29
Malaysia		4.40	-0.1	-0.4	7	-4	-5	-5		4.1	1.1	5	-41	53	48	40
Argentina		170	-0.2	-1.5	-6	-40	-40	-37		89.0	0.0	-812	-721	3934	3839	4100
Brazil		5.24	-0.5	-0.5	-1	6	6	-5		12.8	-0.6	39	74	219	214	131
Chile		863	0.5	2.4	5	-2	-1	-8		5.2	0.0	4	-58	2	-23	-72
Colombia		4833	-0.1	-1.2	1	-19	-16	-19		9.5	0.0	10	-143	300	312	165
Mexico		19.76	-0.7	-1.8	-1	6	4	2		8.4	-2.0	-7	-78	111	85	53
Peru		3.8	0.3	0.9	3	7	5	-2		7.7	6.8	2	2	181	184	174
Uruguay		39	-0.1	0.5	3	13	15	8		10.8	0.7	1	-33	206	210	267
Hungary		396	0.1	-1.5	2	-18	-18	-19		9.0	31.0	100	-123	490	450	420
Poland		4.44	-0.1	0.0	6	-8	-9	-9		5.4	-9.7	-13	-150	240	184	147
Romania		4.7	-0.1	0.3	5	-6	-7	-6		7.4	0.5	-26	-136	232	260	227
Russia		62.6	1.0	-0.8	-2	18	20	30		10.9	10.0	5	11	212	208	-33
South Africa		17.3	-0.6	1.4	3	-8	-8	-12		9.1	4.0	-26	-29	169	167	151
Turkey		18.64	0.0	0.0	0	-26	-29	-26		11.0	3.0	18	-142	-1051	-1332	-1142
US (DXY; 5y UST)		105	-0.1	0.1	-5	9	9	9		3.67	-3.3	2	-57	241	241	177

	Equity Markets Level Last 12m	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	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		3998	1.0	3	6	-21	-19	-14		182	-12	-27	-19	-21	-26
Indonesia		6715	-1.3	-4	-5	1	2	-3		164	5	-24	-4	-1	-21
India		62182	-0.6	-1	1	6	7	9		137	-6	-63	-4	5	-17
Philippines		6580	0.8	-2	5	-9	-8	-11		123	3	-24	21	22	-14
Thailand		1623	0.2	-2	-1	0	-2	-4							
Malaysia		1477	0.8	0	1	-1	-6	-7		98	-2	-21	-18	-19	-35
Argentina		171178	1.8	2	16	92	105	87		2341	116	-155	655	661	604
Brazil		107249	-1.7	-4	-6	1	2	-4		267	-2	-12	-45	-44	-64
Chile		5203	-0.7	-1	-4	18	21	19		145	-5	-13	10	5	-29
Colombia		1230	-0.6	0	-2	-13	-13	-19		394	-3	-37	69	46	2
Mexico		51079	0.7	-1	1	0	-4	-1		389	14	-1	52	57	19
Peru		22159	0.5	-1	2	8	5	-5		176	-4	-8	26	26	-14
Hungary		44198	0.8	-4	1	-14	-13	-7		233	-2	-27	111	109	80
Poland		55853	0.2	-1	5	-18	-19	-11		81	-14	8	36	49	65
Romania		12225	0.6	3	9	-3	-6	-7		263	2	-54	87	70	31
Russia		2173	-0.5	0	0	-43	-43	-30		3411	-577	938	3228	3234	2897
South Africa		74936	0.6	1	8	4	2	0		392	-12	2	37	37	3
Turkey		4954	2.0	0	14	144	167	146		462	-5	-39	-66	-116	-101
Ukraine		519	0.0	0	0	-1	-1	0		3950	147	-389	3315	3191	2477
EM total		39	0.8	0	10	-22	-20	-17		384	0	-40	7	-2	-74

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

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