



- Markets continue to scale up ECB rate cut expectations ([link](#))
- Reserve Bank of Australia kept its policy rate unchanged at 4.35% as expected ([link](#))
- UK rates underperform in the aftermath of Autumn budget statement ([link](#))
- Private credit CLO issuance is on the rise ([link](#))
- Bitcoin price nears \$42,000, the highest since April last year ([link](#))
- Chinese equities declined despite stronger-than-expected Caixin PMI data ([link](#))

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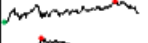




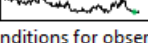
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Market's month-long rally stalls as soft-landing optimism weakens

Asian equities sank overnight as markets unwind some earlier optimism that major central banks will successfully navigate a soft-landing. While European equities are overall trading water in early trading, US equity futures are pointing to a negative open, following on yesterday's losses. European sovereign bond yields are lower on the day as markets increase their bets that the ECB will cut rates in the not-too distant future. Following comments from the ECB's Schnabel that further hikes are unlikely, markets are becoming more optimistic that a cut could come as soon as Q1 next year. German 2-year yields are 5 bp lower this morning. The US 2-year is just 1 bp lower. Upcoming job data will be a key driver of expectations for the Fed in the near term, especially given the current blackout period ahead of next week's FOMC decision. JOLTS job data, to be released later today, could help drive expectations before the non-farm payroll data coming at the end of the week. Most emerging market currencies are lower versus the dollar this morning on the negative risk appetite and overall dollar appreciation. The dollar index is about 1% higher over the last week.

Key Global Financial Indicators

Last updated: 12/5/23 8:07 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 4570	-0.5	0	5	14	19
Eurostoxx 50	 4430	0.3	2	6	12	17
Nikkei 225	 32776	-1.4	-2	0	18	26
MSCI EM	 39	-1.1	0	2	0	4
Yields and Spreads		bps				
US 10y Yield	 4.22	-2.9	-10	-35	65	35
Germany 10y Yield	 2.29	-6.5	-21	-36	41	-28
EMBIG Sovereign Spread	 404	-8	-12	-19	-58	-48
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 47.6	-0.2	-1	0	-4	-5
Dollar index, (+) = \$ appreciation	 103.8	0.1	1	-1	-1	0
Brent Crude Oil (\$/barrel)	 78.0	-0.1	-5	-8	-6	-9
VIX Index (% change in pp)	 13.4	0.3	1	-2	-7	-8

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

Mature Markets

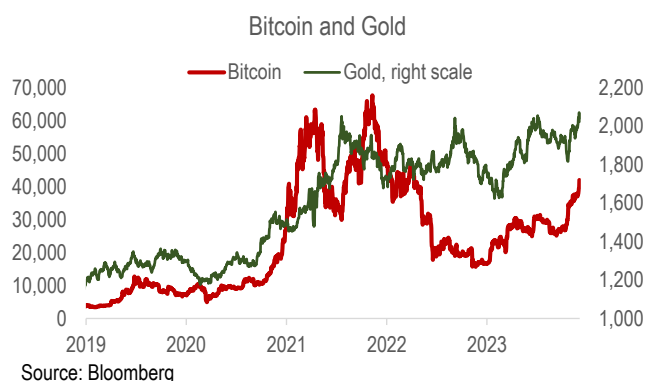
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United States

After the strong rally over the last five weeks, markets started Monday on a weaker footing. US equities were down, VIX edged higher, and credit spreads wider. The Treasury yield curve bear steepened. The dollar strengthened against major currencies.

Bitcoin surged Monday and traded above \$42,000 temporarily for the first time since April last year.

On a year-to-date basis, Bitcoin's price has increased by 153%, fueled by optimism around SEC approval for an ETF. Another support for sentiment is the Bitcoin halving due next year, which will cut in half the tokens that Bitcoin miners receive as a reward for their work. In contrast, gold prices dropped 2% for the day. Some contacts noted that gold strength in the Asia session was corrected with positions being swapped into Bitcoins. Bitcoin and gold rallied last month after the Hamas attacks of October 7 as a geopolitical risk hedge and a dollar alternative.



Private credit CLO issuance is increasing rapidly. According to BofA, on a year-to-date basis, private credit CLO issuance was a record \$25 bn, and they expect it to increase further to \$35 bn in 2024. A data company, Preqin, estimates the private credit market to be around \$1.6 tn globally, with about \$500 bn in dry powder. US private credit is nearly \$1 tn, including dry powder. As a share of the broader private credit market, private credit CLOs at \$101 bn currently account only for 15% of the lending space in the US. Private credit CLO AAA tranches now offer 230bp, one of the widest spreads among AAA products.

Exhibit 7: Annual Issuance - PC CLO

MM/PC CLO issuance significantly higher in 2023 YTD



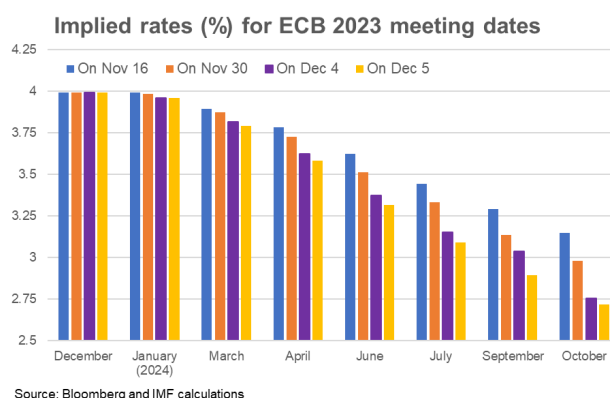
Source: BofA Global Research, Intex

Euro Area

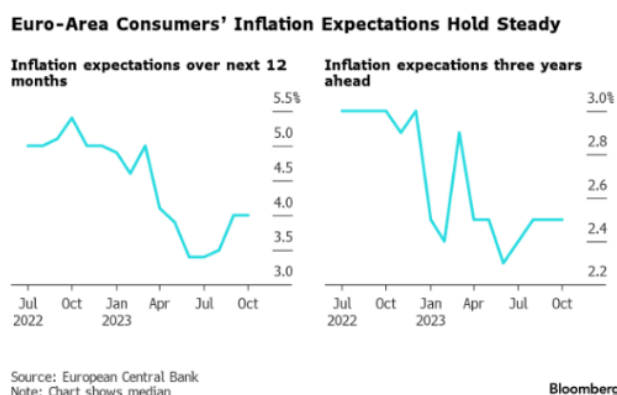
European equities were mixed with the Stoxx 600 equity index little changed. The euro was little changed against the dollar this morning (trading at around €1.082/\$), with contacts noting that the currency is likely weighed down by dovish comments from ECB officials. On the data front, Italy's services PMI surprised on the upside in November (49.5 versus expected 48.3 from 47.7) while Spain's services PMI disappointed (51.0 versus expected 51.5 from 51.1). Final HCOB eurozone composite PMI for November

was higher than initial estimates (47.6 versus earlier estimated 47.1). French industrial production disappointed in October (1.8%/y/y versus expected 2.8% from -0.3%) while industrial output in Spain came in at -1.5% s.a. in October (versus expected -1.7% from -1.2%).

Markets scale up expectations for ECB rate cuts following comments from ECB's Schnabel that another ECB rate hike as "rather unlikely", following the recent inflation data. ECB executive board member Schnabel also noted that she is now more confident that inflation could return to 2% no later than 2025, but cautioned against declaring victory over inflation prematurely, with forecasts indicating that inflation could tick higher in the coming months. As regards PEPP, she echoed comments from ECB President Lagarde that the Governing Council is going to discuss reinvestments under PEPP in the "not-too-distant" future, saying that it is clear that at some point PEPP reinvestments will end fully. However, she noted that the amounts involved are "relatively small" and pointed to factors that "already imply that the balance sheet is going to be around three times as large as before the global financial crisis". 10y bund yields were 6bp lower at around 2.30%, and Italian spreads narrowed 3bp to 175bp. Markets are now pricing in roughly 21bp of rate cuts by March 2024, roughly 90bp of ECB easing by July 2024, and almost 130bp of easing by October 2024.



Consumer inflation expectations were unchanged in October. The ECB consumer expectations survey results showed that median inflation expectations for the next 12 months and for three years ahead remained the same as in September at 4% and at 2.5% respectively. The survey also showed that expectations for economic growth over the next 12 months became marginally more negative.

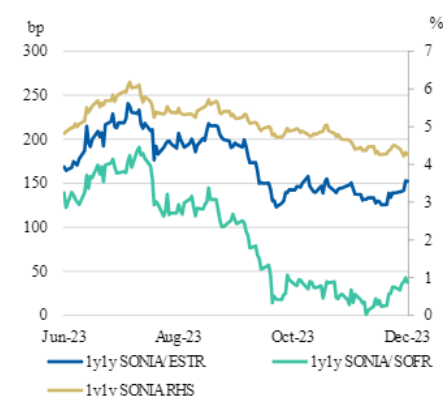


United Kingdom

UK rates underperformed as markets assessed the implication of the Autumn Statement. Morgan Stanley analysts highlight that both front-end rates and gilts have underperformed in the aftermath of the

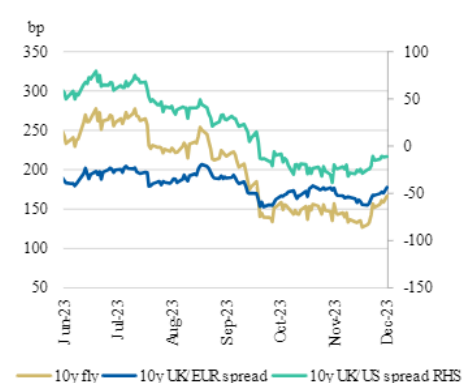
Autumn statement, noting that the gilt remit revision disappointed market expectations while more fiscal easing was announced than was anticipated. Since the Autumn statement on November 22 10y gilt yields have eased by roughly 12bp while those on 10y bunds are 31bp lower and yields on 2y gilts have decreased by roughly 15bp while those for 2y bund are 41bp lower. **On the rating front, last week Fitch affirmed the UK at AA- with a negative outlook**, with the rating agency noting that the negative outlook reflects uncertainty regarding fiscal consolidation against a challenging macroeconomic backdrop. Separately, the FTSE 100 was roughly 0.4% lower this morning, with Barclays down roughly 2% following news that Qatar Holding, a subsidiary of the Qatar Investment Authority, launched a sale that is expected to decrease its stake in Barclays from 5.3% to 2.9%.

Exhibit 37: 1y1y SONIA underperformed on a cross-market basis in recent sessions...



Source: Bloomberg, Morgan Stanley Research

Exhibit 38: ...And to a similar extent 10y gilt with the spread versus Bund and UST widening back



Source: Bloomberg, Morgan Stanley Research

Australia

The Reserve Bank of Australia (RBA) kept its policy rate unchanged at 4.35% as expected. The RBA indicated that the decision to hold the policy rate is to allow time to assess the impact of earlier rate hikes on aggregate demand, inflation, and labor markets. In addition, the RBA reiterated the forward-looking policy guidance that whether further policy tightening is required will be data dependent. Governor Bullock also said that inflation is moderating, and that wage growth is not expected to increase much further. Markets perceived the RBA's communication as dovish. The Australian dollar depreciated (-0.6%), while government bond yields fell (1-year: -4 bp; 100-year: -3 bp). Market participants also determined that the rate hiking cycle was completed, with 1-year OIS rate falling to 4.40% (-5 bp). Australian equities declined (-0.9%).

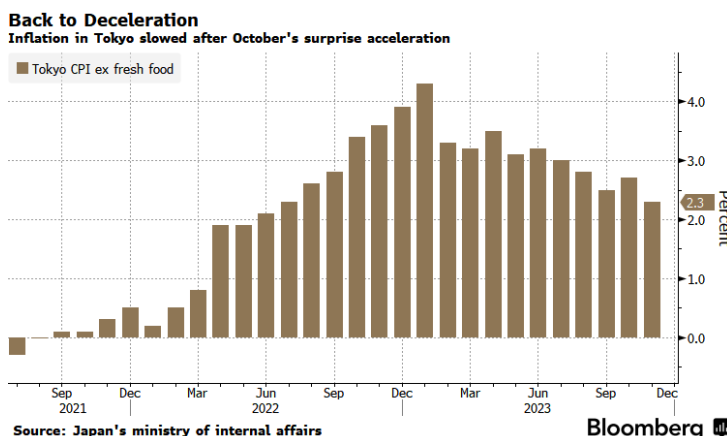


Source: Bloomberg.

Japan

The Bank of Japan (BOJ) did not give any policy hint at the first policy review workshop. Governor Ueda together with all other board members participated in the workshop, which was held yesterday. At the workshop, the discussion covered topics such as financial markets, BOJ's balance sheet, and non-traditional monetary policy. One BOJ study showed that when the BOJ owns more than 70% of specific bonds, market functioning would be reduced due to low trading volume. Meanwhile, there was no discussion about forward-looking policy.

Inflation in Tokyo eased to 2.6% y/y in November from 3.3% in October. The Tokyo inflation figures are perceived as a leading indicator for national trends. The lower-than-expected inflation (consensus: +3.0%) supported the BOJ's caution over a premature exit from monetary policy easing. Japanese equities declined (NIKKEI: -1.4%). The yen appreciated to 146.9 yen per dollar (+0.2%). Long-end JGB yields dropped (10-year: -2.1 bp; 30-year: -0.7 bp).



Emerging Markets

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Asian equities declined, falling 2.1% on net, led by Hong Kong (-2.5%), China (CSI 300: -1.7%) and Korea (-0.8%), as investors dialed back expectations that the Federal Reserve would aggressively cut interest rates next year. Meanwhile, the continued selloff in Chinese stocks hurt sentiment in the region. Asian currencies also depreciated, led by the Korean won (-0.5%), Taiwan dollar (-0.3%) and Indonesian rupiah (-0.3%). Most long-end government bond yields declined, with 10-year yields falling in Malaysia (-2 bp), Singapore (-1 bp) and India (-1 bp). In the Philippines, CPI inflation eased to 4.1% y/y in November from 4.9% in October (consensus: +4.3%). In Korea, the economy expanded 0.6% q/q in 2023Q3, in line with expectations. Meanwhile, CPI inflation eased to 3.3% in November from 3.8% in October (consensus: +3.5%). November PMI improved to 55.8 in Singapore (From 53.7) and to 50.1 in Hong Kong SAR (from 48.9). **EMEA equity markets are mixed.** Equities in South Africa (-1%) underperformed, while those in Poland (+1%) saw the largest gains. On the currency front, the South African rand was underperforming against the dollar (-0.2%). Data released this morning showed disappointing Q3 GDP numbers (-0.7% y/y. versus expected -0.1% from +1.5%), while PMI increased to 50.0 in November (from 48.9). CEE currencies were mostly trading stronger against the euro. **Equities across Latam were mostly down by the end of the day on Monday**, especially in Brazil (-1%) and Chile (-1%), although Colombia (+0.4%) and Mexico (+0.3%) were up slightly. In FX markets, there was a broad risk-off session, with the Chilean peso (-1.3%), Colombian peso (-1.4%), and Brazilian real (-1.3%) making losses. Local swap rates in Chile are feeling the impact from rising US yields and falling equities. US Treasury secretary Janet Yellen will be in Mexico this week to meet with Mexican president AMLO with the focus on international trade, especially for illicit markets involving fentanyl. Over the weekend, voters in Venezuela approved a referendum to claim sovereignty over an oil-rich region known as the Essequibo located in a disputed territory in the country of Guyana.

China

Chinese equities declined despite stronger-than-expected Caixin PMI data. Caixin PMI composite improved to 51.6 in November from 50.0 in October, driven by increases in both manufacturing (50.7) and services (51.5). Both components beat expectations. Chinese equities declined (CSI 300: -1.7%; Hong Kong SAR-listed: -2.3%). Analysts noted that market sentiment remains weak due to the uncertainty around

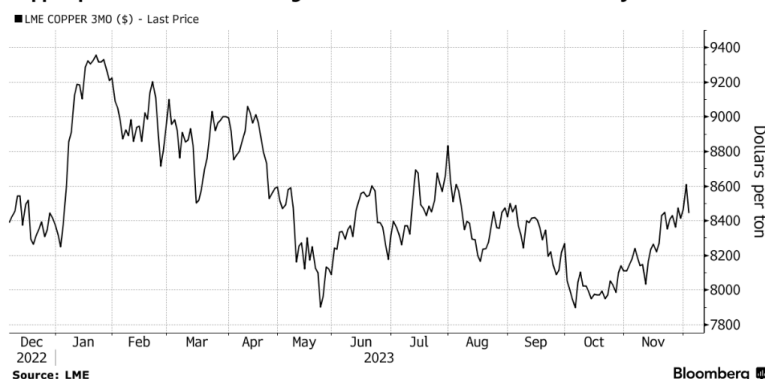
the economic recovery. RMB was little changed at 7.15 yuan per dollar. The People's Bank of China continued setting the daily RMB fixing stronger than expected; today's deviation from market consensus remained within the 300-pips ballpark. **Separately, market analysts generally expect that the growth target will be set at 5% for 2024.** The official growth target is typically announced in March.

Chile

Industrial metals reversed gains made last week. After rallying last week, copper (-2%), zinc (-2.3%), and nickel (-2%) fell on Tuesday to more realistic levels. High interest rates have been a headwind for industrial materials. If rates continue to stay high into next year, demand for metals could further weaken. Eyes are on China since they have been such a big buyer this year, especially from Chile. Smelters in China have been paying lower spot fees for the first time since August 2022, and last week annual contracts between smelters and copper miners fell 9%. At the same time, spot premiums for copper cathodes in Shanghai are only a little below their highest levels of \$100 per ton.

Metals Rally Pauses

Copper prices traded at their highest in almost four months on Friday



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (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), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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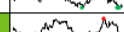








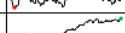
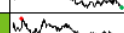



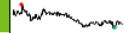
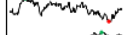



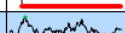

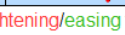
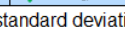




Global Financial Indicators

12/5/23 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4562	-0.5	0	5	14	19
Europe		4430	0.3	2	6	12	17
Japan		32776	-1.4	-2	0	18	26
China		3394	-1.9	-4	-7	-14	-12
Asia Ex Japan		65	-1.3	-1	1	-2	0
Emerging Markets		39	-1.1	0	2	0	4
Interest Rates			basis points				
US 10y Yield		4.22	-2.9	-10	-35	65	35
Germany 10y Yield		2.29	-6.5	-21	-36	41	-28
Japan 10y Yield		0.67	-2.7	-9	-26	42	25
UK 10y Yield		4.12	-7.3	-5	-17	102	45
Credit Spreads			basis points				
US Investment Grade		141	-0.2	-2	-17	-17	-18
US High Yield		421	1.0	-7	-14	-40	-59
Exchange Rates			%				
USD/Majors		103.80	0.1	1	-1	-1	0
EUR/USD		1.08	-0.2	-2	1	3	1
USD/JPY		147.1	-0.1	0	-2	8	12
EM/USD		47.6	-0.2	-1	0	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		78.0	-0.1	-4	-8	-3	-3
Industrials Metals (index)		135	-1.3	-3	-3	-19	-18
Agriculture (index)		65	0.1	0	-1	-1	-6
Implied Volatility			%				
VIX Index (% change in pp)		13.4	0.3	0.7	-1.5	-7.4	-8.3
Global FX Volatility		7.7	0.0	0.3	0.0	-3.4	-3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		119	-1.0	-5	-12	-81	-86
Italy		175	-2.4	-1	-12	-12	-40
Portugal		67	-1.0	-1	0	-24	-35
Spain		100	-1.2	0	-4	1	-9

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

Emerging Market Financial Indicators

Last updated: 12/5/2023 8:09 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		7.14	0.0	-0.1	2	-3	-3		2.7	-1.0	-1	3	-42	-36
Indonesia		15505	-0.3	-0.4	0	0	0		6.6	0.5	-11	-27	-32	-35
India		83	0.0	-0.1	0	-2	-1		7.4	-4.0	-15	-17	12.5	-7
Philippines		55	0.0	0.2	1	1	1		5.9	-2.4	-4	-2	-17	-12
Thailand		35	0.0	-1.4	1	-1	-2		2.9	-2.5	-14	-25	43	29
Malaysia		4.66	-0.1	0.2	-1	-6	-6		3.8	-0.9	-6	-19	-25	-25
Argentina		363	-0.1	-0.9	-4	-53	-51		98.4	-246.8	-269	-1081	482	1021
Brazil		4.96	-0.2	-1.7	-1	7	7		11.0	3.5	11	-59	-163	-153
Chile		872	-0.2	-0.2	1	3	-2		5.0	-1.5	-8	-63	-14	-32
Colombia		4043	-0.6	-2.2	-2	20	20		8.1	0.0	3	-37	-136	-167
Mexico		17.49	-0.2	-2.0	0	13	12		8.9	12.7	-9	-40	44	15
Peru		3.8	-0.5	-0.8	0	3	1		7.1	0.3	-15	-20	-53	-87
Uruguay		39	-0.1	0.1	2	0	2		9.6	-0.9	5	-24	-118	-104
Hungary		351	0.1	-2.1	1	12	6		6.3	-16.0	-42	-88	-181	-326
Poland		4.00	0.0	-1.7	4	12	9		4.6	-10.5	-31	-22	-115	-156
Romania		4.6	-0.1	-1.5	1	2	1		6.6	-14.0	-31	-10	-96	-112
Russia		92.2	-1.1	-3.6	0	-32	-20							
South Africa		18.9	-0.7	-1.7	-3	-8	-10		9.3	10.0	7	-29	9	12
Turkey		28.93	0.0	0.0	-2	-36	-35		26.8	-25.0	-242	-342	1590	1700
US (DXY; 5y UST)		104	0.1	1.0	-1	-1	0		4.19	-1.8	-9	-31	41	19

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	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		3394	-1.9	-4	-7	-14	-12		154	-9	-15	-38	-23
Indonesia		7101	0.1	1	3	3	4		110	-13	-21	-54	-30
India		69296	0.6	5	7	11	14		125	2	-7	-16	-17
Philippines		6309	0.4	0	4	-5	-4		90	-12	-18	-43	-7
Thailand		1384	0.0	-1	-3	-16	-17		0	0	0	0	0
Malaysia		1449	-0.1	0	-1	-2	-3		88	1	-8	-8	-12
Argentina		845384	-2.8	0	33	414	318		1963	-51	-567	-298	-242
Brazil		126803	-1.1	0	7	16	16		215	-7	-3	-50	-59
Chile		5808	-1.1	1	3	10	10		125	-9	-15	-23	-7
Colombia		1156	0.4	3	5	-5	-10		295	-19	-4	-92	-77
Mexico		54054	0.3	4	5	6	12		348	-13	-4	-31	-33
Peru		22317	0.0	2	4	1	5		141	-12	-12	-39	-39
Hungary		58264	-0.4	2	2	30	33		167	-17	-23	-67	-55
Poland		76909	0.7	3	6	36	34		103	-10	-8	6	30
Romania		14847	0.5	1	3	23	27		202	-12	16	-59	-53
South Africa		75130	-1.1	-1	3	1	3		343	-17	-8	-62	-24
Turkey		8079	-0.1	0	5	63	47		356	-5	-4	-100	-84
Ukraine		507	0.0	0	0	-2	-2		3822	139	405	41	-257
EM total		39	-1.0	0	2	0	4		364	-12	-24	-21	-11

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

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