



- US dollar funding market becomes volatile due to funding squeeze ([link](#))
- Markets price in close to 150bps of ECB easing in 2024 ([link](#))
- People's Bank of China stepped efforts to support RMB ([link](#))
- Hungarian forint expected to end the year stronger against the euro ([link](#))
- Chilean assets have rallied compared to peers as year-end approaches ([link](#))

[Mature Markets](#)




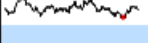
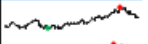
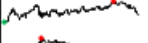




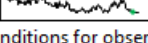
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Bond yields fluctuate ahead of jobs data

Yields on US and European government bonds are little changed today, even after data this morning showed further weakness in the US job market, as markets continue to alter views on when the first policy cuts could materialize. Yesterday saw US treasury yields resume their rally after JOLTS job data showed a weakening labor market. Further indicators of the job market due later this week, most notably Friday's non-farm payroll report, will be a key determinant whether the rally can continue. This morning's ADP employment report showed November gains of 103k, lower than the expected 130k. The release did cause US yields to fall from their morning highs but remain slightly positive on the day. US equity futures, along with European equity markets are higher. Following Moody's decision to change the outlook for China to negative (from stable), the People's Bank of China increased support for the renminbi, with the daily fixing set stronger than the market consensus by 346 pips, the largest deviation in two weeks. Emerging market currencies are mostly negative for a second straight day as the dollar continues to strengthen against major currencies.

Key Global Financial Indicators

Last updated: 12/6/23 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4567	-0.1	0	5	16	19
Eurostoxx 50		4475	0.5	2	8	14	18
Nikkei 225		33446	2.0	0	4	21	28
MSCI EM		39	-0.6	-2	1	0	3
Yields and Spreads			bps				
US 10y Yield		4.18	1.7	-7	-46	65	31
Germany 10y Yield		2.24	-0.7	-19	-50	44	-33
EMBIG Sovereign Spread		404	0	-16	-19	-49	-48
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.6	0.0	-1	0	-5	-5
Dollar index, (+) = \$ appreciation		104.0	0.0	1	-1	-1	1
Brent Crude Oil (\$/barrel)		76.6	-0.8	-8	-10	-3	-11
VIX Index (% change in pp)		12.8	0.0	0	-2	-9	-9

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

Mature Markets

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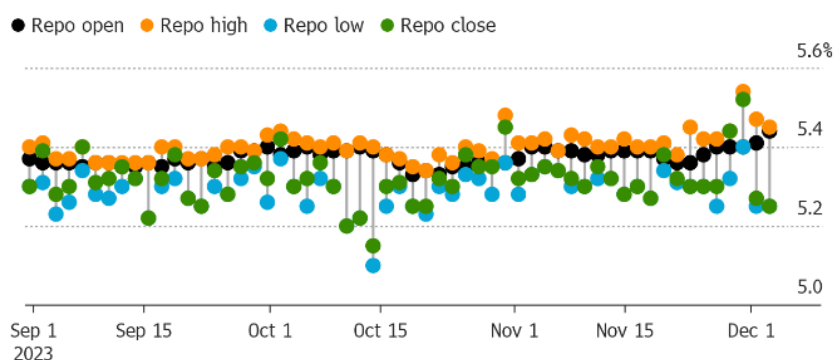
United States

Treasury markets resumed rallying Tuesday, and the yield curve bull-flattened, with 10-year yields down 9bp. Traders appear to be sensitive to labor-related data ahead of the November job report on Friday; 2-year yields plummeted by 8bp following weaker-than-expected job openings and ISM services employment released Tuesday morning. October job openings slumped to the lowest level since March 2021, and the ratio of job openings to unemployment fell to 1.3 from 2.0 one year ago, underlining an important degree of progress in easing labor market conditions. The market implied Dec 2024 forward FF rate declined by 5bp to 4.04%. US equities were little changed with the VIX down to 12.9. The energy sector underperformed as oil prices decreased by 1.2%. The dollar strengthened marginally against major currencies. **ADP employment for November this morning failed to show a rebound** and was weaker than expected: 103k versus 130k consensus. Treasury yields fell 1–2 bp across tenors. The dollar weakened marginally against major currencies.

The overnight repo rate spiked to 5.54% at the end of November and has been slow to normalize. According to Bloomberg analysts, a combination of factors caused the spike: First, the Treasury market rally and strong demand for financing long positions in the market for repurchase agreements, where traders engage in short-term lending or borrowing collateralized by Treasury securities. Second, on the supply side, primary dealers typically pare back their repo lending activities at month-end for regulatory reasons. Third, the balance sheet usage of primary dealers had already been high, along with the Fed's efforts to reduce its balance sheet and increased government borrowing, hindering dealers from providing financing. The extent of the latest spike is not that significant, and current funding strains are expected to settle down later this week, as bank reserves at the Fed remain abundant at \$3.4 tn and more than \$800 bn is held at the reverse repo (RRP) facility. Still, analysts cite the September 2019 funding turmoil episode and see risks are mounting as QT progresses and the RRP balance declines.

Getting Volatile

Overnight repo touched 5.54% on Nov. 30 and has been slow to normalize



Source: Curvature Securities

Bloomberg

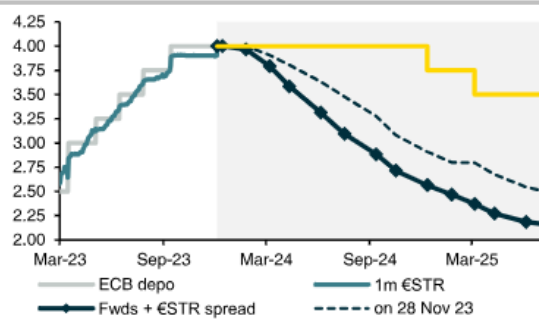
Euro Area

European equities are mostly higher with the Stoxx 600 equity index up 0.3%. The index remains close to its highest level in four months. The euro was marginally weaker against the dollar this morning (-0.2%). Euro area sovereign yields edged higher this morning (10y bund +2bp to 2.26%). On the data front German October factory orders fell sharply (-3.7% m/m versus expected +0.2% from +0.7%) but analysts note that the move can largely be attributed to big ticket orders. Euro area October retail sales was slightly weaker than expected (-1.2%/y versus expected -1.1% from -2.9%).

Markets are now pricing in close to 150bp of ECB rate cuts in 2024. Markets have stepped up expectations regarding the extent of ECB rate cuts for 2024 over the past few weeks and even more so in the past few days following euro area inflation data and after ECB's Schnabel commentary that was seen to be dovish. Moreover, markets are also pricing in a larger probability for rate cuts to start earlier; 19bp of easing is priced in for the ECB's meeting in March (compared to roughly 6 bp priced in two weeks ago). The repricing has also seen a decline in the 1y1y €STR to its lowest level since September 2022, after declining a further 11bp yesterday. Some analysts have brought forward expectations for ECB rate cuts. For example, Deutsche Bank now expect the first rate cut in April 2024 and also see a significant risk of a cut in March (previously expected in June), and also expect 150bp of easing in 2024 (100bp previously). Other analysts see market pricing as too optimistic, with some contacts arguing that they do not view Schnabel's comments as 'that dovish', and others expecting the ECB at their policy meeting next week to forcefully push back against market expectations for rate cuts early in 2024. CACIB analysts for example are still only expecting 75bp of ECB rate cuts in 2024, with cuts expected to start in September. This morning, ECB governing council member Kazaks opined that the ECB would likely not need to cut rates in H1 2024.

Forwards price aggressive ECB cuts

ECB depo rate, Commerzbank forecast and forwards, in %



Too far too fast?

€1y1y €STR swap, in %

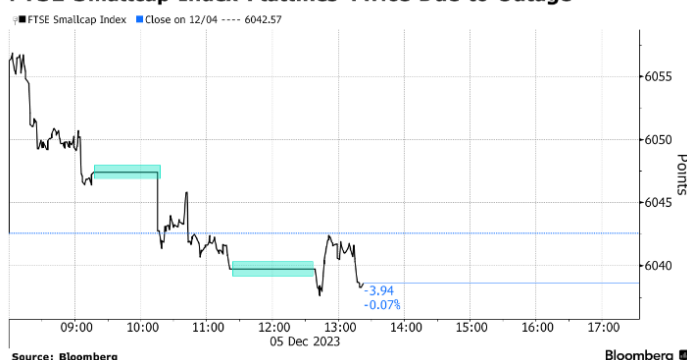


United Kingdom

The London Stock Exchange (LSE) said that two trading halts on Tuesday were caused by the degradation of processing performance of a disk array. In a service announcement the exchange said it experienced two halts to trading yesterday, impacting securities that trade on matching engine Partition 3. Bloomberg notes that trading in about 2,000 smaller shares were halted. All constituents of the FTSE 100 and FTSE 250 indices and International Order Book securities continued to trade as normal.

The exchange said that steps are being taken overnight to replace the impacted hardware and that systems are being prepared to open as normal today. Bloomberg reports that this marks the third outage in three months.

FTSE Smallcap Index Flatlines Twice Due to Outage



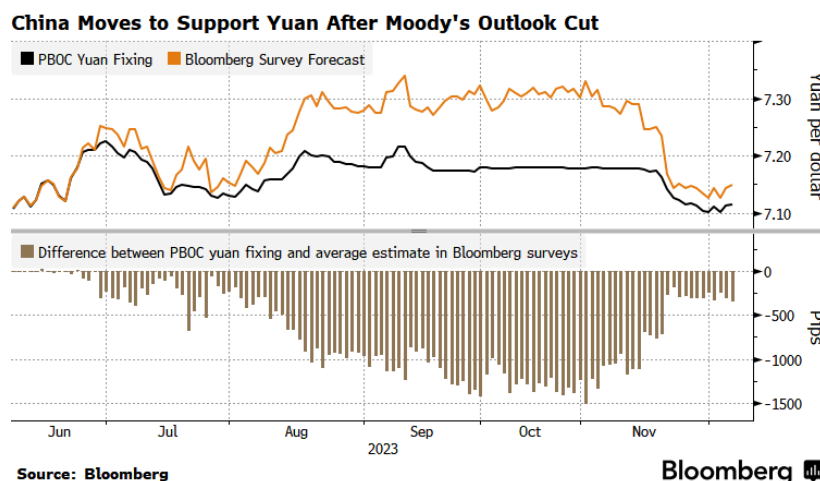
Emerging Markets

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Most Asian equities rallied, gaining 0.4% on net, as weaker-than-expected US labor market data fueled speculation of interest rate cuts by the Federal Reserve next year. Hong Kong (+0.8%) and Indian (+0.6%) equities led the gains. Asian currencies were mixed, with movements in a tight range. One exception was the Thai baht, which depreciated 0.6%, reflecting catch-up effects after the local holiday yesterday. Long-end government bond yields declined, with 10-year yields falling in Thailand (-7 bp), Singapore (-5 bp) and Malaysia (-4 bp), following the decline in US treasury yields. In Malaysia, the 3-month interbank rate rose to the highest level since March 2016 amid tight onshore liquidity conditions and the central bank's efforts to support the currency. **EMEA equity markets are mixed while currencies are mostly trading weaker.** Equities in Türkiye (-1.5%) underperformed, while equities in Namibia (+1.0%) saw the largest gains. CEE currencies were mixed against the euro with the **Polish zloty underperforming (-0.4%) ahead of the central bank policy meeting later today**, where the MPC is expected to leave the base rate unchanged at 5.75%. Elsewhere on the central bank front, **Kenya surprised with a 200bp rate hike yesterday** to take the benchmark rate to 12.5%, while consensus had expected no change. **In LatAm**, Chilean stocks (+1.4%) made their biggest gains in three weeks on Tuesday led by retail industry leader Falabella as investors anticipate further rate cuts. **Equities elsewhere in Latam ended the day mixed** with Brazil (+0.8%), and Mexico (+0.1%) up and Colombia (-0.5%) down. Currencies were up in Mexico (+0.5%), Colombia (+0.4%), and Brazil (+0.4%), although were down for the day in Chile (-1.3%). Brazilian GDP grew more than expected in Q3 at 2% y/y. Swap rates on Jan 2025 contracts rose 5bp following the data print. Brazilian food retailer GPA is facing a short squeeze a day before their investor day and jumped as much as 16% during the day. The Biden administration has not yet made a decision to reimpose sanctions on Venezuela following their vote to annex the Essequibo region in Guyana. Economic sanctions were lifted in October of this year on the condition of election reforms.

China

The People's Bank of China (PBC) stepped up efforts to support RMB, following renewed pressures on the currency after Moody's downgraded China's outlook to 'negative' yesterday. Today, the PBC set the daily RMB fixing at 7.1140 yuan per dollar, stronger than market consensus by 346 pips, the largest in more than two weeks. Relatedly, China's major state-owned banks were seen to shore up RMB by selling USD in the onshore spot market according to Reuters. Despite these measures, onshore and offshore RMB depreciated 0.2%. **Analysts viewed that the impact of Moody's outlook downgrade on China's bond markets would be limited**, as overseas investors' participation has declined over the past two years. The share of foreign holding of CGBs is around 7.5%, down from 11.0% in early 2022. Meanwhile, domestic traders remain positive on China's bonds given the PBC's accommodative monetary policy stance. Some market participants viewed that in the event of a sovereign credit rating downgrade, demand for CGBs (perceived as safer assets) would increase, drawing on experience from Japan. CGB yields were little changed. Chinese equities gained (CSI 300: +0.2%, Hong Kong SAR-listed: +1.0%). Onshore market sentiment improved somewhat following local media/analyst reports that policy efforts to stabilize the economy may exceed expectations next year.



Hungary

The Hungarian forint could be set to end the calendar year stronger against the euro for the first time in six years. The Hungarian forint has underperformed regional peer currencies for the past few years with Commerzbank analysts pointing to a weakening euro, the strength of the Polish zloty and FX market skepticism regarding Hungary's monetary policy, with analysts arguing that rate hikes were seen as capitulation in the face of a weakening currency. However, as inflation eased, the real interest rate has reversed to positive and Commerzbank analysts forecast at least some currency appreciation in the coming quarters. Analysts also note that the Hungarian forint frequently performs like the technical counterpart of the Polish zloty, and thus think that the forint could see some support in a scenario where there are concerns around Polish monetary policy. The forint is roughly 5% stronger against the euro YTD.

Hungary: Currency and Interest rates

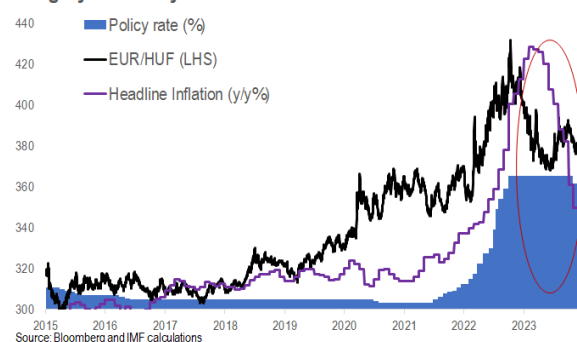
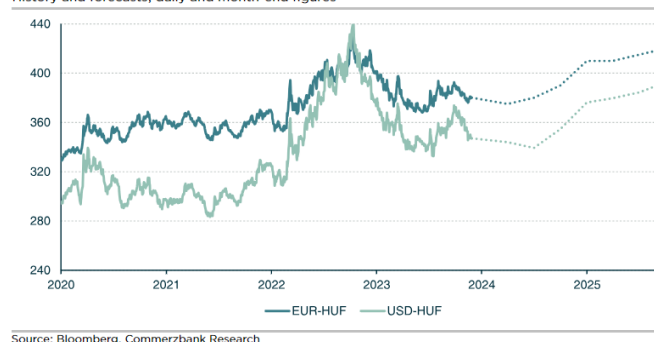


Chart 4 - HUF exchange rates
History and forecasts, daily and month-end figures



Brazil

Brazilian airliner Gol Linhas Aereas Inteligentes SA is planning to restructure its balance sheet to resolve issues with high debt and operating costs. After they announced hiring Seabury Capital to help review its capital structure, S&P downgraded their bond rating from CCC+ to CCC- with a negative outlook in anticipation of the announcement of a debt restructuring. A preemptive debt restructuring earlier the year, facilitated with Abra Group Ltd., did little to reassure investors as their dollar bonds due in 2025 are down 2.6% so far this year.



Chile

Local Chilean assets have been rallying at the end of the year compared to Latam peers. The peso is up 7% since its October bottom and the Oct 26 monetary policy decision to lower interest rates 50bp to 9%. Foreign exchange interventions such as the resumption of sales of USD by the Treasury has supported the rally. Interest rate swaps have rallied more than EM peers even as monetary policy expectations are more aggressive elsewhere. On the downside, asset swap spreads for 5yr and 10yr local bonds are at the widest levels in the last ten years at 81bp and 68bp, respectively.

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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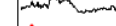
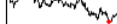




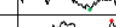
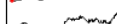

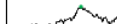





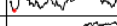
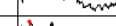




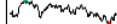

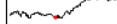
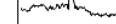


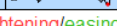
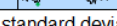




Global Financial Indicators

12/6/23 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4570	-0.1	0	5	16	19
Europe		4475	0.5	2	8	14	18
Japan		33446	2.0	0	4	21	28
China		3400	0.2	-3	-6	-14	-12
Asia Ex Japan		64	-0.6	-2	-1	-3	0
Emerging Markets		39	-0.6	-2	1	0	3
Interest Rates			basis points				
US 10y Yield		4.18	1.7	-7	-46	65	31
Germany 10y Yield		2.24	-0.7	-19	-50	44	-33
Japan 10y Yield		0.64	-3.1	-3	-24	38	22
UK 10y Yield		4.01	-1.5	-9	-37	93	34
Credit Spreads			basis points				
US Investment Grade		141	-0.6	-1	-18	-19	-18
US High Yield		418	-1.9	-3	-10	-54	-62
Exchange Rates			%				
USD/Majors		104.05	0.0	1	-1	-1	1
EUR/USD		1.08	-0.1	-2	1	3	1
USD/JPY		147.2	0.1	0	-2	7	12
EM/USD		47.6	0.0	-1	0	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		76.6	-0.8	-8	-10	-2	-5
Industrials Metals (index)		136	0.6	-2	-4	-19	-18
Agriculture (index)		65	-0.4	-1	-2	-1	-6
Implied Volatility			%				
VIX Index (% change in pp)		12.8	0.0	-0.1	-2.1	-9.3	-8.8
Global FX Volatility		7.7	0.0	0.2	0.0	-3.4	-3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		114	-1.5	-7	-16	-81	-91
Italy		175	0.7	1	-16	-11	-40
Portugal		66	-0.7	2	-5	-26	-36
Spain		101	0.4	1	-5	1	-8

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

Emerging Market Financial Indicators

Last updated: 12/6/2023 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.16	-0.2	-0.4	2	-2	-4		2.6	-5.9	-6	-3	-53	-42
Indonesia		15494	0.1	-0.6	0	1	1		6.6	0.0	-2	-26	-37	-35
India		83	0.1	0.0	0	-1	-1		7.3	-4.0	-12	-21	12.7	-11
Philippines		55	0.0	0.1	1	1	1		5.9	2.4	0	0	-9	-9
Thailand		35	0.2	-1.0	1	0	-2		2.8	-10.5	-11	-35	28	19
Malaysia		4.67	-0.1	-0.3	-1	-6	-6		3.7	-4.9	-10	-18	-33	-31
Argentina		363	0.0	-0.8	-4	-53	-51		100.1	163.6	110	-917	936	1184
Brazil		4.92	0.2	-0.2	-1	7	8		11.0	-0.5	15	-65	-179	-159
Chile		880	0.1	-1.2	0	0	-3		5.0	0.0	-6	-66	-4	-36
Colombia		3991	0.3	0.0	0	21	22		8.0	0.0	-8	-48	-147	-178
Mexico		17.32	0.3	-0.2	1	14	13		8.8	-8.2	-2	-48	36	7
Peru		3.8	-0.2	-0.9	0	3	1		7.0	-2.0	-18	-25	-64	-94
Uruguay		39	-0.1	-0.1	2	0	2		9.6	-0.8	9	-25	-119	-105
Hungary		353	-0.4	-2.4	0	11	6		6.3	2.0	-25	-88	-193	-326
Poland		4.03	-0.6	-1.7	3	11	9		4.5	-4.0	-30	-30	-116	-164
Romania		4.6	-0.2	-1.7	1	2	0		6.5	-6.7	-33	-17	-97	-118
Russia		92.4	-0.1	-4.1	0	-32	-20							
South Africa		19.0	-0.1	-1.1	-4	-9	-10		9.2	-4.1	8	-35	2	6
Turkey		28.94	0.0	0.0	-2	-36	-35		26.8	3.0	-183	-395	1590	1700
US (DXY; 5y UST)		104	0.0	1.3	-1	-1	1		4.16	2.4	-5	-43	41	16

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					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		3400	0.2	-3	-6	-14	-12		154	-11	-15	-33	-23	
Indonesia		7087	-0.2	1	4	4	3		117	-4	-14	-39	-23	
India		69654	0.5	4	7	12	14		120	-5	-12	-19	-22	
Philippines		6306	0.0	1	3	-3	-4		97	-6	-11	-27	0	
Thailand		1390	0.4	-1	-1	-14	-17		0	0	0	0	0	
Malaysia		1446	-0.3	0	-1	-1	-3		87	-1	-9	-8	-13	
Argentina		885270	4.7	14	39	427	338		1938	-124	-592	-372	-267	
Brazil		126903	0.1	1	7	15	16		215	-6	-3	-45	-59	
Chile		5922	1.4	2	6	13	13		127	-4	-13	-18	-5	
Colombia		1150	-0.5	1	5	-7	-11		298	-12	-1	-90	-74	
Mexico		54121	0.1	3	5	6	12		351	-9	-1	-33	-30	
Peru		22363	0.2	1	4	1	5		145	-6	-8	-33	-35	
Hungary		58460	0.0	2	2	29	33		168	-15	-22	-57	-54	
Poland		76933	0.1	3	6	38	34		109	-5	-2	32	36	
Romania		14825	-0.1	1	2	20	27		204	-14	17	-46	-51	
South Africa		75464	0.3	0	3	1	3		347	-10	-4	-36	-20	
Turkey		7960	-1.2	-1	1	59	44		358	-12	-2	-87	-82	
Ukraine		507	0.0	0	0	-2	-2		3809	59	392	21	-270	
EM total		39	0.6	-2	1	0	3		363	-17	-26	-16	-13	

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

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