



- Analysts assess the odds that disinflation has already started in the US ([link](#))
- Bank of England set to start active bond sales today ([link](#))
- Australia's central bank expectedly hiked cash rate by +25 bps to 2.85% ([link](#))
- Japan spent a record ¥6.3 tn (\$42.4 bn) to support the yen in October ([link](#))
- Mexico's Q3 growth surprises on the upside ([link](#))
- Ghanaian cedi appreciates after President downplays bond haircut ([link](#))

[Mature Markets](#)


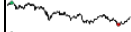









| [Emerging Markets](#)

| [Market Tables](#)

Markets rally as hope of less hawkish central banks persists

Equity markets are starting the month in the green and sovereign yields are lower as markets continue to assess the possibility of smaller future central bank hikes given growth risks. While some markets were closed for a public holiday, equities in Europe opened in positive territory. This follows a strong performance in Asia as equities in China rallied amid unconfirmed reports that China's Covid-zero policies could ease. Focus remains on the US Fed's policy meeting tomorrow, as some strategists anticipate that the aggressive hiking cycle could soon peak with analysts arguing that the US disinflation phase is already underway. European and US sovereign yields already started decreasing after the Reserve Bank of Australia (RBA) hiked its cash rate by 25 bps earlier today, as expected, and made modest downward adjustments to its growth forecasts. While the RBA indicated further tightening ahead, the RBA governor said that a slower hiking pace is appropriate as interest rates return to normal levels. In the UK, the Bank of England is set to start active bond sales today.

Key Global Financial Indicators

Last updated: 11/1/22 11:12 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3872	-0.7	2	8	-16	-19	-8
Eurostoxx 50		3677	1.6	3	11	-14	-14	-7
Nikkei 225		27679	0.3	2	7	-7	-4	5
MSCI EM		34	-0.3	1	-2	-33	-30	-28
Yields and Spreads			bps					
US 10y Yield		3.95	-10.1	-16	12	239	244	196
Germany 10y Yield		2.05	-8.8	-12	-5	216	223	183
EMBIG Sovereign Spread		543	3	-26	-17	186	176	130
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.9	0.3	1	1	-10	-7	-8
Dollar index, (+) = \$ appreciation		110.9	-0.6	0	-1	18	16	15
Brent Crude Oil (\$/barrel)		94.4	1.7	1	7	11	21	-3
VIX Index (% change in pp)		25.8	-0.1	-3	-6	9	9	-5

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

Mature Markets

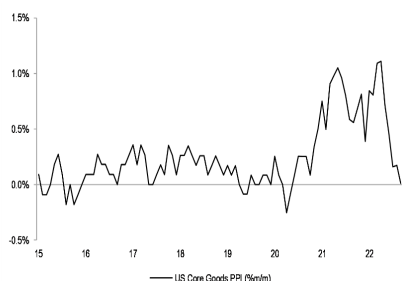
[back to top](#)

United States

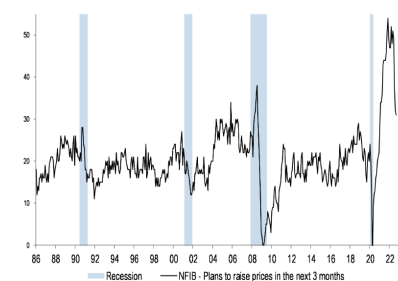
Yesterday, the S&P 500 fell by 0.7%, with only the energy sector posting gains (+0.6%). While intraday gains of energy reached +2.0%, it whipsawed as a White House official said President Joe Biden will call on Congress to consider tax penalties for oil and gas companies accruing record profits. The US dollar appreciated 0.8% versus major currencies, supported by the depreciation of the euro amid weakness in European bonds prompted by disappointing EA inflation data. 10Y UST yields rose by 4 bps, mostly due to real yields.

JPMorgan analysts believe that the disinflation phase has already begun in the US, and that inflation prints, both the headline and core, will be meaningfully lower in 3–6 months' time. Their stylized framework assumes four stages to inflationary pressures: the first is the surge in commodity prices, then the spike in goods, followed by services prices, and finally wages growth. As of now, commodity prices have moderated significantly, and goods inflation is softening (left chart below). While services inflation remains sticky (predominantly because of the sticky rental prices inflation), the intention of companies to raise prices and wages seems to have peaked (middle and rights charts, correspondingly). These developments underpin a recent series of comments by key analysts stating that the pace of central bank tightening has likely peaked.

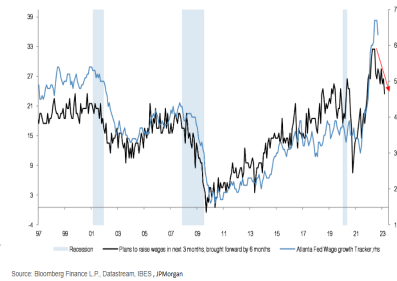
Following the earlier rollover in commodities, Goods inflation is now softening...



...corporate intentions to raise prices have peaked...



...crucially, the intentions to increase wages also appear to have peaked

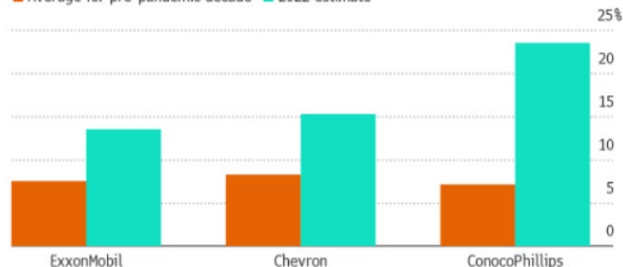


Joe Biden announced his intention to impose higher taxes on those oil companies that experience record profits without sufficient reinvestments in production. He called the industry's profits "a windfall of war." The statement is backed by the current plans of the largest oil producers to distribute to their shareholders a larger amount than that dedicated to reinvestments. Despite various countries around the world considering similar measures, analysts expect that Biden will not achieve any meaningful success in Congress as the initiative is expected to be blocked by Republicans and moderate Democrats. Critics of the initiative argue that such higher taxes will lead to suboptimal investment decisions within oil companies, which in turn would delay the increase of production that is needed to bring oil prices down.

Banner Year for Oil Profits

Net profit margin at three biggest US oil companies

■ Average for pre-pandemic decade ■ 2022 estimate

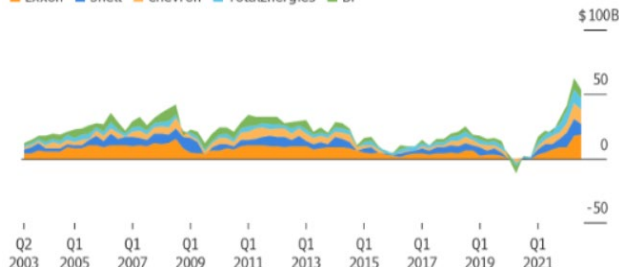


Source: Bloomberg

Windfall Profits

Big Oil is making record profits after Russia's invasion of Ukraine

■ Exxon ■ Shell ■ Chevron ■ TotalEnergies ■ BP



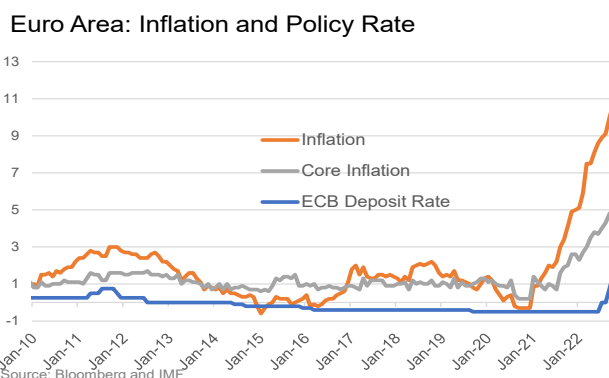
Source: Bloomberg

Bloomberg

Euro area

European markets opened strongly this morning with focus remaining on the Fed meeting tomorrow, and to a lesser extent on the Bank of England meeting on Thursday. Equity markets are decisively up with the (Stoxx Europe 600) gaining 1.4%, and the UK's FTSE100 1.5%. Currencies are appreciating vs. the dollar, with the euro strengthening 0.6% (to 0.99 euro/\$), and the British pound appreciating 0.7% to 1.15 £/\$. Bond yields are clearly easing, with yields on 10y gilts and 10y bunds down by about 10 bps each to 3.4% and 2% respectively. Italian spreads are also down 5 bps to 211 bps.

German bund yields decreased by 10 bps to 2.04%, even though ECB President Lagarde told Latvian website Delfi Bizness that rates have to increase further in the Euro Area to bring back inflation to the 2% medium term target. While she did not specify a level for the terminal rate, president Lagarde said that “the destination is clear, and we have not reached it yet”. She acknowledged that the probability of a recession has increased but emphasized that the longer inflation remains at this high level (10.7% y/y in October), the greater the risk that it will spread throughout the economy. She also outlined that while banks are in a stronger position than they were in the runup to the 2008 crisis, no complacency should be allowed regarding the impact of higher interest rates on mortgage and corporate borrowers.



United Kingdom

The Bank of England (BoE) will be the first major central bank to start actively its quantitative tightening program (QT) today. It will auction £750 mn of short-dated bonds (residual maturity of 3–7 years) with results expected at 3 pm London time (11 am DC). The BoE started paring back its asset purchase facility in February when it agreed to allow bonds held in the fund that mature to roll off the balance sheet instead of being replaced. The start of active sales was delayed from early October, due to the turmoil in bond markets caused by the previous government's “mini budget”. The BoE plans to sell £6bn in 8 auctions of £750 mn each between today and December 8. To avoid putting renewed pressures on long term bonds, the BoE decided to limit sales to short (remaining maturity of 3–7 years) and medium term maturity bonds (remaining maturity of 7–20 years). The amounts and maturities scheduled for Q1 2023, will be announced on December 16.

Japan

Japan spent a record ¥6.3 tn (\$42.4 bn) to support the yen in October. Central bank figures and market estimates of money flows with the government had suggested that a suspected intervention on October 21, when yen reached its 32-year low of 151.95, cost around ¥5.5 tn, according to Bloomberg. FM Suzuki said Japan's FX interventions were having an impact and that the government may not always disclose intervention moves. Separately, Tokyo Chamber of Commerce's leader, Kobayashi, called on the Bank of Japan to review its monetary policy, Kyodo reports. **Equities firmed +0.5%.** Japan semiconductor-related stocks jumped +14% in October to outperform US peers, amid concerns of the US' tightened export rules to China. **The yen appreciated +0.7%. 10-year yields were up +1 bps.**

Japanese chip stocks outperform US peers amid China curbs



Australia

Reserve Bank of Australia (RBA) expectedly hiked the cash rate by +25 bps to 2.85% following its November meeting and signaled more hikes ahead. The bank now sees inflation peaking at about 8% in 2022 before cooling in 2023 (4.75%) and in 2024 (just above 3%). The RBA also downgraded its 2022 GDP forecast slightly to 3% from 3.3% previously. RBA Governor Lowe said later in a speech that the bank is *resolute* in returning inflation to target and that a slower hiking pace is appropriate as interest rates returned to normal levels. **Equities rallied (+1.7%) to a seven-week high, while the Australian dollar strengthened +0.4%, 10-year yields were little changed.** Earlier this week, the spread between US and Australia 10-year yields hit +29 bps, its widest since March 2020, Bloomberg reports.

Australia's dollar vulnerable as US yield gap hits three-year high



Emerging Markets

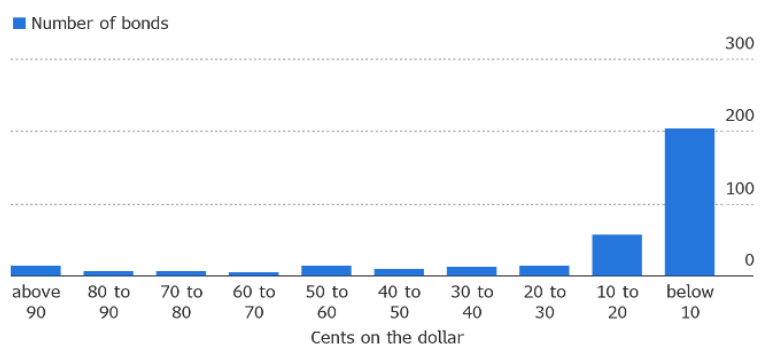
[back to top](#)

Asian equities rebounded +2.5% net, lifted by Chinese shares. Hong Kong SAR surged +5%, while mainland China equities rallied (CSI 300: +3.6%). **Asian currencies were mixed while 10-year yields were mostly little changed.** Regional manufacturing PMIs mostly fell in October, except in China (Caixin: 49.2, previous: 48.1), India (55.3, previous: 55.1), and South Korea (48.2, previous: 47.3). Inflation in Indonesia unexpectedly cooled to 5.7% y/y in October (previous: 6%). Bank Indonesia intervened in FX markets to stem rupiah weakening, Bloomberg reports. **EMEA equities were mostly trading higher, while currencies mostly traded stronger against the dollar.** The Czech Koruna was little changed against the euro after data from the Czech Republic this morning reinforced expectations that the central bank will leave policy rates unchanged on Thursday's meeting: manufacturing PMI surprised notably on the downside (41.7 vs expected 44.1 from 44.7) while preliminary Q3 GDP was weaker than expected, showing output contracting (-0.4%q/q vs expected -0.3% from +0.5%). Separate data releases show October manufacturing PMI continued to decrease in Turkey (46.4 from 46.9), while surprising on the upside in Russia (50.7 vs expected 50.1 from 52.0). Equities in South Africa (+2%) and the South African rand (+1.2%) outperformed with Absa's manufacturing PMI surprising on the upside in October (50.0 vs expected 48.0 from 48.2). **LATAM markets were up, while most currencies depreciated against US dollar strength.** Ecuador's Constitutional court declared unconstitutional parts of a fast-track tax reform and ordered the elimination of articles related to the oil sector, the abolishing of individuals' inheritance tax and a simplification of tax rules for small business.

China

Equities rallied (CSI 300: +3.6%), lifted by technology shares and by unconfirmed reports that a committee has been formed to assess reopening scenarios, according to Bloomberg. Separately, property developer CIFI Holdings said it will suspend offshore financing payments. The company, China's fifteenth largest developer, was unable to raise funds abroad this year. Its shares dived to record lows on the news, having plunged -91% so far this year. On **data releases**, Caixin manufacturing PMI firmed more expected to 49.2 in October (previous: 48.1), while China new home sales slumped -28.4% y/y in October (previous: -25.4%), according to Bloomberg. **The yuan strengthened (onshore: +0.4%, offshore: +0.5%). 10-year yields were little changed.** About 60% of China junk property dollar bonds are trading below 10 cents on the dollar, Bloomberg reports.

About 60% of China junk property dollar bonds are now below 10 cents

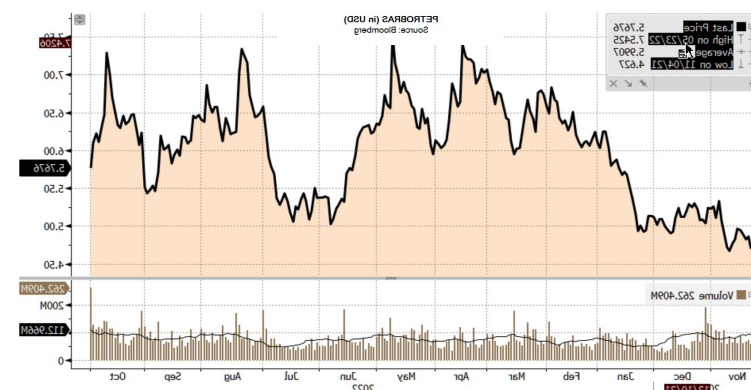


Source: Bloomberg
Note: China junk property notes include local government bonds

Bloomberg

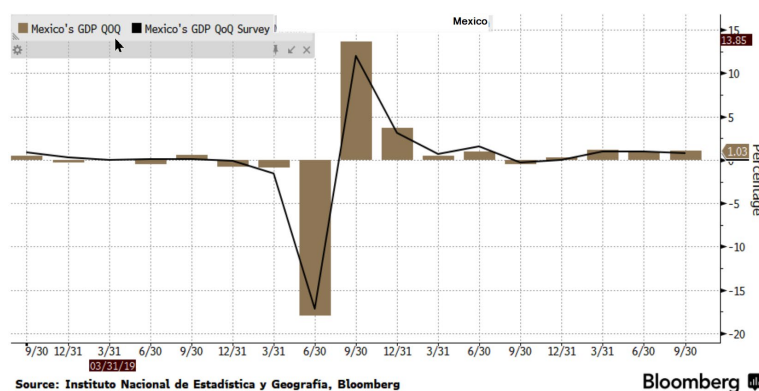
Brazil

The Brazilian real strengthened, and equity markets gained after the results of the presidential runoff election, where former president Lula won defeating the sitting president Bolsonaro by a narrow margin. Voters and investors remained cautious, however, as President Bolsonaro has not made any public comments about the results of the runoff election. Brazil's senate, lower house and supreme court justices accepted the election results on Sunday night. Petrobras shares fell 8.5% and erased \$4 bn of the firm's market capitalization on concerns of how the new administration's policies will change the firm's business strategy.



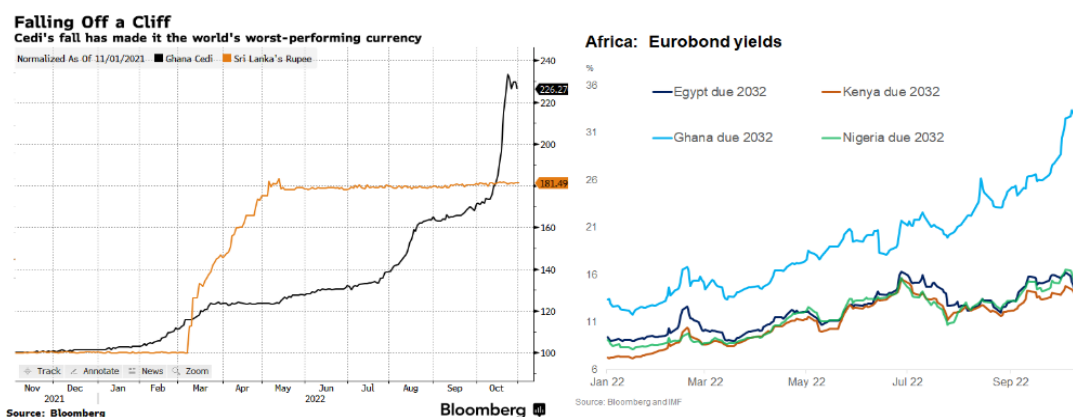
Mexico

Mexico's GDP grew more than expected in the third quarter (+1% q/q vs expected +0.8%). Economic growth was broad based across sectors, especially the services and industrial sectors. Services, accounting for 62% of GDP, grew by 1.2% q/q and industrial production, accounting for 35% of GDP, expanded by 0.9% q/q. Mexico's Deputy Finance Minister Yorio expects GDP growth of 2.4% for 2022.



Ghana






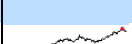
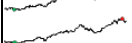




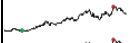















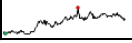
The Ghanaian cedi gained by as much as 2.7% yesterday after the Ghanaian President downplayed the need for haircuts on domestic debt ahead of the IMF-supported agreement currently under negotiation. While low trading volumes could render currency quotes less accurate, as small transactions could see large price reactions, Bloomberg notes that yesterday's appreciation was the largest in three years. The President also outlined medium-term debt targets, noted that revenue measures would be introduced, and reiterated measures set to limit the weakening of the domestic currency, including temporary import restriction measures. The president noted that talks with the IMF are at an advanced stage, with work underway to secure an IMF programme by end-2022. **Yields on Ghana's Eurobonds eased yesterday (-3 bps to 33%) and were little changed this morning.**



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (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), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), and Akihiro 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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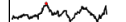





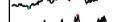






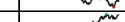
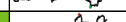




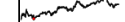







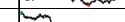
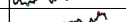



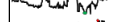






Global Financial Indicators

11/1/22 11:14 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3872	-0.7	2	8	-16	-19	-8
Europe		3676	1.6	3	11	-14	-14	-7
Japan		27679	0.3	2	7	-7	-4	5
China		3634	3.6	0	-4	-26	-26	-21
Asia Ex Japan		56	-0.7	1	-5	-36	-33	-30
Emerging Markets		34	-0.3	1	-2	-33	-30	-28
Interest Rates			basis points					
US 10y Yield		3.95	-10.1	-16	12	239	244	196
Germany 10y Yield		2.06	-8.5	-11	-5	216	223	183
Japan 10y Yield		0.26	0.9	0	1	16	19	6
UK 10y Yield		3.47	-4.6	-17	-62	241	250	199
Credit Spreads			basis points					
US Investment Grade		184	-0.9	-5	-4	98	72	41
US High Yield		472	5.2	-27	-66	156	135	66
Europe IG		110	-3.5	-6	-22	59	63	39
Europe HY		538	-16.7	-27	-88	276	296	186
Exchange Rates			%					
USD/Majors		110.88	-0.6	0	-1	18	16	15
EUR/USD		0.99	0.5	0	1	-14	-13	-12
USD/JPY		147.3	-1.0	0	2	29	28	28
EM/USD		48.9	0.2	1	1	-10	-7	-8
Commodities			%					
Brent Crude Oil (\$/barrel)		94	1.7	3	13	26	29	10
Industrials Metals (index)		145	2.2	0	1	-13	-16	-23
Agriculture (index)		69	0.2	1	1	15	13	-2
Implied Volatility			%					
VIX Index (% change in pp)		25.8	-0.1	-2.7	-5.9	9.4	8.5	-5.3
US 10y Swaption Volatility		153.5	-0.5	-0.2	-2.3	75.5	74.5	59.2
Global FX Volatility		12.0	0.0	-0.1	-0.9	4.9	4.6	4.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		250	2.0	-2	-25	106	98	10
Italy		212	-3.9	-9	-29	80	77	41
Portugal		99	-1.3	-1	-7	34	35	7
Spain		107	-1.5	-2	-11	34	33	3

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

Emerging Market Financial Indicators

Last updated: 11/1/2022 11:16 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		7.26	0.6	0.1	-2	-12	-12	-13		2.8	0.1	-7	-10	-29	-8	-9
Indonesia		15628	-0.2	0.0	-2	-9	-9	-8		7.5	-5.2	-19	11	139	110	99
India		83	0.1	0.0	-1	-9	-10	-10		7.6	-3.7	-3	-9	99.3	127	
Philippines		58	0.4	1.4	2	-13	-12	-12		5.9	2.5	5	10	148	138	88
Thailand		38	0.8	1.4	1	-11	-12	-15		3.1	-6.5	-15	-10	122	124	87
Malaysia		4.74	-0.2	0.0	-2	-12	-12	-12		4.4	0.2	-18	-7	73	76	69
Argentina		157	-0.6	-1.4	-6	-36	-35	-32		93.3	-9.0	281	850	4294	4277	4538
Brazil		5.18	2.2	2.4	5	10	8	-3		11.7	-16.0	-29	-17	-72	99	16
Chile		943	-0.1	4.5	3	-14	-10	-16		6.3	-11.0	-33	-60	79	91	42
Colombia		4940	-2.2	1.0	-7	-24	-17	-21		10.9	0.0	-27	99	439	448	301
Mexico		19.78	0.1	0.5	1	5	4	2		9.3	5.0	-17	11	154	178	146
Peru		4.0	-0.3	0.4	0	0	0	-6		8.4	-8.9	-27	-36	257	250	240
Uruguay		41	-0.3	1.3	3	9	10	4		11.3	-15.2	-24	-19	297	256	313
Hungary		410	1.0	1.4	4	-24	-21	-22		10.7	21.0	-54	99	692	619	589
Poland		4.74	0.7	1.0	4	-16	-15	-14		7.4	3.0	6	69	461	385	348
Romania		4.9	0.4	-0.6	2	-14	-12	-12		9.1	4.6	-38	62	460	427	394
Russia		61.5	0.7	-0.2	-4	16	22	33		10.7	-2.4	-20	185	205	197	-44
South Africa		18.2	1.0	0.2	-2	-15	-12	-17		9.4	-12.0	-20	3	157	201	185
Turkey		18.62	0.0	-0.1	-1	-49	-29	-26		11.4	32.0	40	-57	-829	-1290	-1100
US (DXY; 5y UST)		111	-0.6	-0.1	-1	18	16	15		4.14	-9.1	-12	5	296	287	223

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		3634	3.6	0	-4	-25	-26	-21		206	-8	12	11	3	-2	
Indonesia		7052	-0.7	0	0	9	7	2		201	-12	-9	23	36	16	
India		61121	0.6	2	6	2	5	7		210	-9	26	79	78	56	
Philippines		6153	0.0	3	7	-13	-14	-16		159	-22	2	47	58	22	
Thailand		1626	1.1	2	2	0	-2	-4		0	0	0	0	0	0	
Malaysia		1446	-1.0	0	4	-6	-8	-9		122	-2	14	-2	5	-11	
Argentina		149938	1.4	7	8	71	80	64		2636	108	-179	938	956	899	
Brazil		116037	1.3	0	5	10	11	4		287	12	-22	-48	-24	-44	
Chile		5194	0.1	1	2	27	21	19		182	-2	-15	20	42	8	
Colombia		1232	1.0	2	9	-12	-13	-18		458	-44	-3	156	110	66	
Mexico		49922	1.7	5	12	-3	-6	-3		419	-4	-57	71	87	49	
Peru		21095	0.6	4	8	2	0	-10		208	-8	-21	31	58	18	
Hungary		41054	0.0	2	8	-24	-19	-14		266	-53	-52	147	142	113	
Poland		50433	0.0	6	10	-31	-27	-20		57	-26	-6	6	25	41	
Romania		10867	0.6	0	2	-15	-17	-18		331	-47	-46	129	138	99	
Russia		2167	0.0	2	11	-49	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		68148	2.2	3	7	1	-8	-9		423	-53	-69	62	68	34	
Turkey		4071	2.3	2	28	165	119	102		544	-27	-70	40	-34	-19	
Ukraine		519	0.0	0	0	-1	-1	0		4406	179	574	3902	3647	2933	
EM total		34	2.5	1	-2	-33	-30	-28		451	-14	-16	70	64	-7	

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

[back to top](#)