GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, NOVEMBER 11, 2022

- **Positive US CPI data sparks major rally** (link)
- **China gains on easing of Covid measures** (link)
- **European Commission raises inflation projections** (link)
- **Markets in Brazil spooked by Lula's ambitious spending plans** (link)
- **UK entered recession in Q3** (link)
- **Crash in FTX endangers broader crypto market** (link)
- **Special Feature: Expanding Central Clearing to the US Treasury Market**

Mature Markets | Emerging Markets | Market Tables

Markets take stock after major rally

With the US bond market closed for Veterans Day, market participants are taking the time to ponder the implications of yesterday's massive rally sparked by the weaker than expected US CPI data. The hope is that the report signals the beginning of the end of surging inflation, allowing the Fed to slow the pace of its rate hikes. Markets think a 75 bps hike at the next FOMC meeting is now off the table, and forecasts of the Fed's terminal rates have been trimmed. News that China may relax Covid measures was another major boost for sentiment overnight, although European stocks and US equity index futures are posting relatively modest gains this morning after yesterday's pyrotechnics. Brazil bucked the global trend as local markets sold off sharply on worries about Lula's proposed spending plans. Meanwhile, the UK entered a recession that is expected to be protracted and severe amidst tighter fiscal policy, high inflation, and the continued fallout from Brexit. Sentiment in Europe is more downbeat today on hawkish comments from ECB members and more pessimistic economic forecasts from the European Commission.

Key Global Financial Indicators

Last updated: 11/11/22 7:51 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities				%			%	
S&P 500		3956	5.5	6	10	-15	-17	-6
Eurostoxx 50		3872	0.6	5	16	-11	-10	-3
Nikkei 225		28264	3.0	4	4	-5	-2	7
MSCI EM		37	3.6	7	7	-28	-24	-22
Yields and Spreads				bps				
US 10y Yield		3.81	0.0	-35	-13	226	230	182
Germany 10y Yield		2.11	10.3	-18	-19	234	229	188
EMBIG Sovereign Spread		511	-4	-26	-35	164	144	98
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		50.0	0.3	1	3	-9	-5	-6
Dollar index, (+) = $ appreciation		107.1	-1.0	-3	-5	13	12	11
Brent Crude Oil ($/barrel)		96.4	2.9	-2	2	16	24	0
VIX Index (%, change in pp)		23.5	0.0	-1	-10	6	6	-8

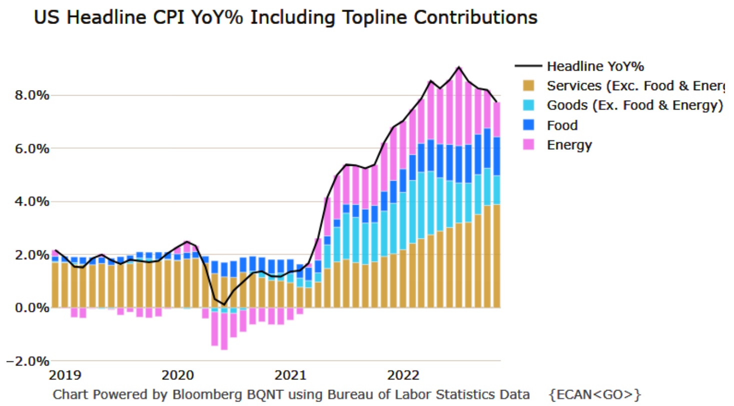
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

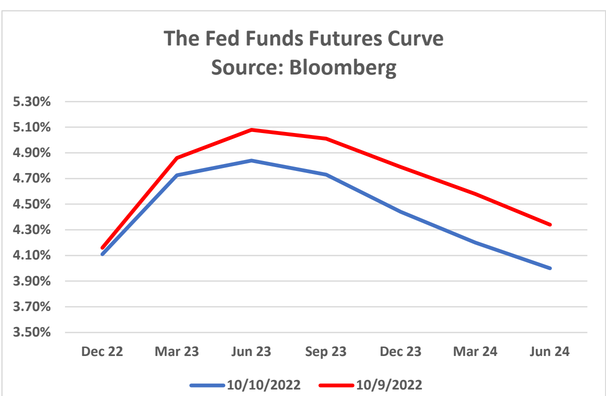
back to top

United States

The positive surprise from the lower than expected CPI report yesterday sparked a major rally in US markets on hopes that the pace of Fed rate hikes might moderate as inflation comes down. The 10-year yield fell by 28 bps and the two-year yield fell by 27 bps, both extremely large moves for one day. Stocks surged. Analysts pointed to energy and food costs as key drivers of the decline. However, services inflation continued to rise, although even here the rate of increase is slowing.



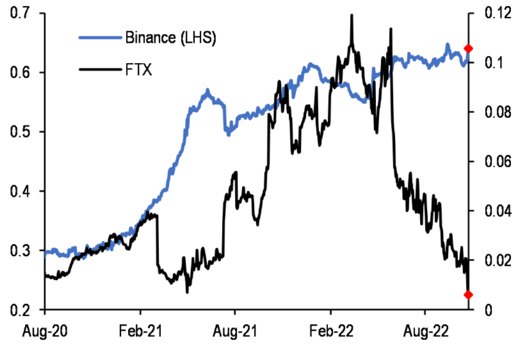
Positive rhetoric from Fed officials also helped markets. Philadelphia Fed President Harker stated that he expected the pace of Fed rate hikes should moderate as the policy rate gets more and more restrictive. Boston Fed President Logan called the report "a welcome relief, but there is still a long way to go," according to Bloomberg. The KC Fed's George echoed this view, but Cleveland's Mester said the risk of doing too little is more than the risk of doing too much. Hopes that the Fed will be more lenient also enabled the euro to break back above parity versus the dollar. The market's estimate of the Fed's terminal rate fell to 4.89% from 5.04% on Wednesday and the Fed Funds futures curve moved sharply lower from the day before.



The collapse of the crypto exchange FTX and the associated Alameda Research crypto trading firm have the potential to endanger the crypto market more broadly. With the prospect of bankruptcy looming over the companies, investors rushed to withdraw their assets from FTX and its Bitcoin balances have plunged, forcing FTX to temporarily halt further withdrawals. FTX Bitcoin holdings are now a fraction of the level of the rival Binance exchange. The broader crypto market is confronted by loss of yet another key player who helped to stabilize the market in prior crises. As a result, there are fewer and fewer companies with balance sheets strong enough to stabilize the market during future crises. During the crypto selloff in May caused by the crash of Luna, it was FTX who stepped in and rescued the crypto lending companies Voyager and BlockFi.

Figure 2: Bitcoin balances at FTX vs. Binance

In BTC mn

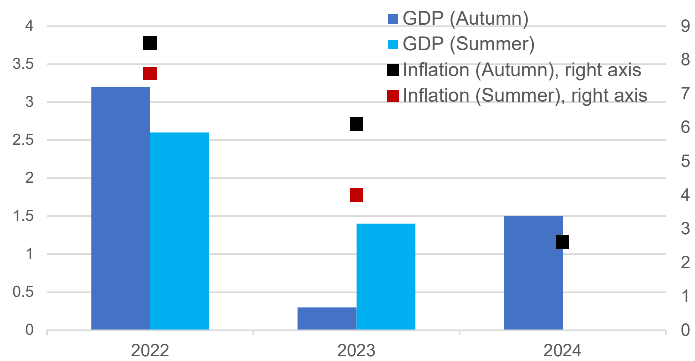


Euro Area

While European markets extended yesterday's gains initially, the rally in rates and equities fizzled somewhat in the late morning. European equity markets (Stoxx Europe 600) are up 0.2% this morning, adding to yesterday's 2.7% gain). Next week, markets are awaiting the data for Q3 GDP in the euro area (0.2% qoq expected) on Tuesday, UK inflation data for October (10.5% expected) on Wednesday, and the presentation of the UK budget on Thursday.

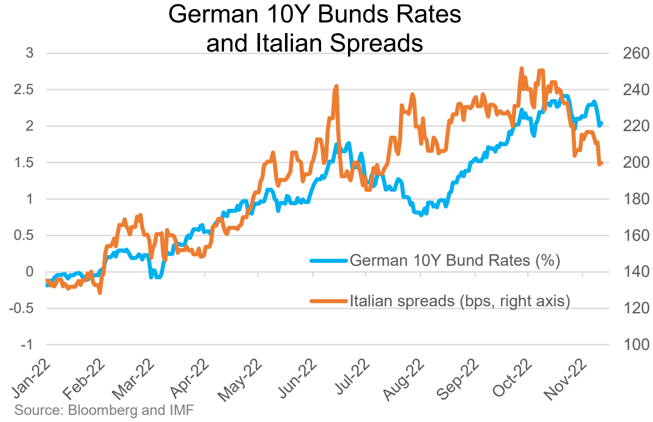
The EU Commission scaled up its inflation projections for the Euro area, and downgraded growth for 2023, compared to its summer forecasts. While the Commission raised its growth forecast for 2022 to 3.2% (from 2.6%), it downgraded the 2023 forecast to 0.3% (from 1.4%), with most member states in recession. Germany is expected to experience the deepest recession and shrink by 0.6%. Inflation forecasts were raised throughout, with 2022 inflation now seen at 8.5% (from 7.6%) and 2023 forecast at 6.1% yoy (from 4%). The inflation forecast for 2024 is 2.6% - still above the ECB's inflation target.

EU Commission Economic Forecasts



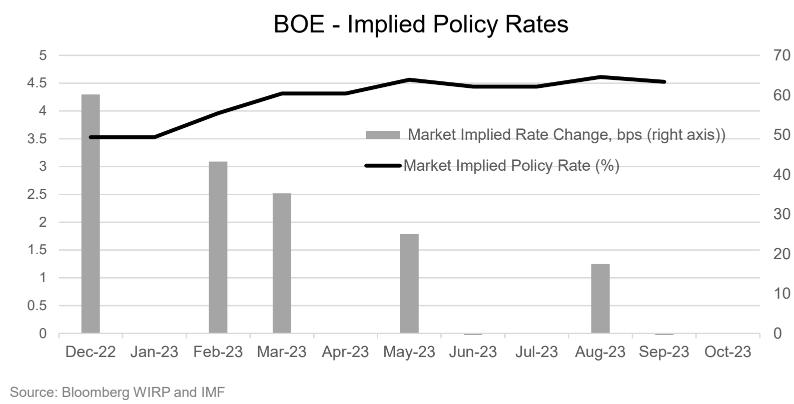
Source: Bloomberg and IMF

Yields on 10-year German bunds are up 6 bps today (to 2.07%) after yesterday's sharp rally, as ECB officials made a number of hawkish speeches. Yesterday, ECB Governing council member and Bundesbank president Nagel said that the ECB must take clear steps to bring down high inflation, including more interest-rate hikes. He also argued in favor of starting quantitative tightening (QT). Executive Board member Isabel Schnabel also said that the ECB may need to increase rates to a level that puts a brake on the economy in order to get prices under control. These hawkish comments were also echoed by Slovenian central bank governor Vasle and Slovak governor Kazimir.



United Kingdom

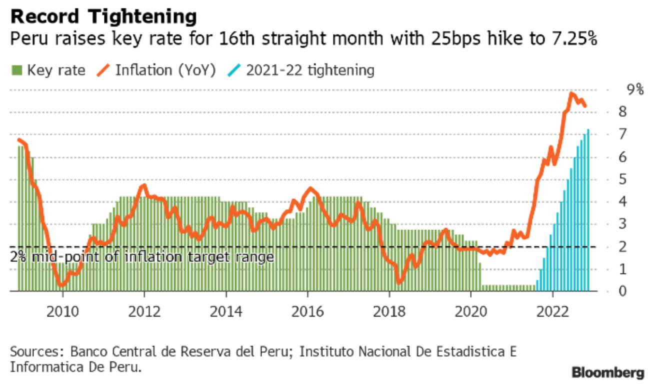
Markets have been pricing in 60 bps hikes for the BOE in December, hesitating between 50 and 75 bps, as Q3 GDP data confirmed that the UK entered what is expected to be a protracted recession in Q3. GDP shrank 0.2% qoq in Q3, albeit less than expected (-0.5%), bringing yoy growth to 2.4% (from 2.4% in Q2). Markets expect the recession to be long lasting, exacerbated by the expected tightening of fiscal policy, details of which will be announced in the budget next week (November 17).



The Bank of England announced yesterday that it aims to start selling its portfolio of bond purchases bought to stabilize markets after the *mini budget* in late September and October (£19 bn) before year end, to deliver on its commitment that the purchases were temporary in nature. The BOE will take a *demand-led* approach to sales, that is responsive to market conditions, rather than committing to a fixed pace. It will allow buyers to express interest in purchasing the bonds via a form *reverse enquiry window*. Acceptance of bids will be at the BOE's discretion, allowing it to sell a larger volume of bonds if demand is strong, and few or no bonds if there is insufficient demand. The BOE will publish further operational details in a market notice in the preceding week and will hold a call with market makers next week. The main QT program is continuing apace, with the next auction (3rd overall) scheduled for next Monday (£ 750 million in short term bonds of remaining maturities of 3–7 years).

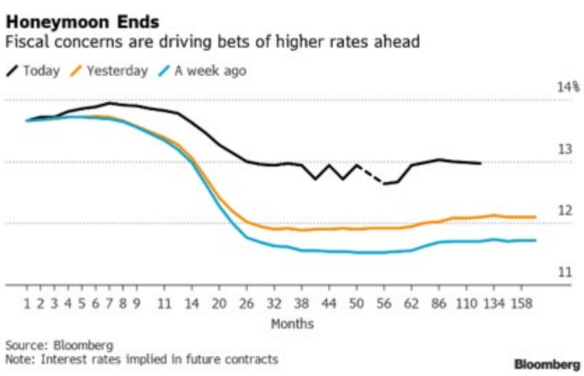
Emerging Markets back to top

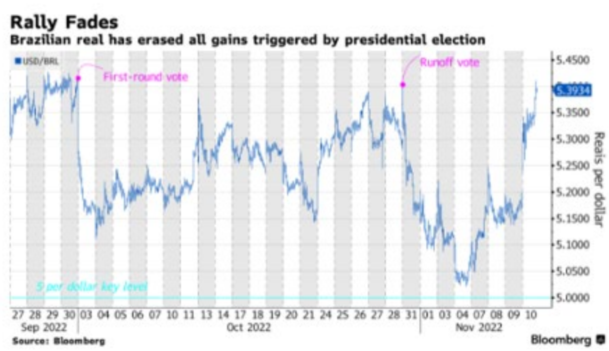
Equities in South Africa made very large gains, while stocks in Eastern Europe also joined the global rally. Stocks in Asia had their best day since March 2020, rising 5.2% in aggregate after yesterday's massive US rally. Authorities in South Korea announced further measures to support local markets. **Latin American stocks and currencies were mixed during the global rally.** Lula's multibillion dollar spending plan spooked Brazilian markets, sending stocks down 3.5%. Mexico and Peru hiked their policy rates to new record highs, as expected, to tackle stubbornly high core inflation. Mexico hiked 75 bps to 10% and Peru hiked 25 bps to 7.25%. For Peru, this was the sixteenth consecutive rate hike.



Brazil

Brazilian markets fell sharply on President-elect Lula's push for a new multibillion-dollar spending plan. The estimated cost to fulfill his campaign pledges would increase public spending by 160 bn to 200 bn reals next year. Brazil's constitutional cap restricts the growth of public expenditures from exceeding the inflation rate from the previous year's spending. Lula is still negotiating with congress, even as inflation expectations are increasing. The real (-3.4%) depreciated to levels last seen before the presidential runoff, the Bovespa Index (-3.4%) slumped, and swap spreads increased over 100 bps, while the rest of the globe rallied on the positive US inflation surprise.



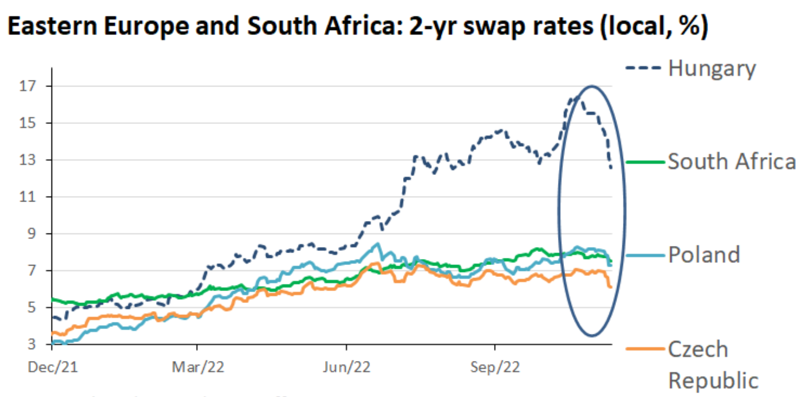


China

Equities rallied (CSI 300: +3%) and the yuan appreciated (onshore: +1.2%, offshore: +0.8%). China's health commission announced easing of COVID measures despite rising cases. Separately, **the People's Bank of China (PBOC) pledged to maintain yuan stability and reasonable credit growth.** Additionally, the PBOC pledged to increase support for major sectors, and industries and groups affected by the pandemic. Separately, **local government revenues from state-owned land transfers plunged by 28.3% between Q1 and Q3 this year**. Experts have called on China for urgent fiscal reform and restructuring, after local governments' reliance on land sales led to a liquidity crunch, state-owned Securities Times reported. Separately, **China's securities regulator plans to expand the scope of its pilot Real Estate Investment Trust (REIT) projects**, to include energy, water conservancy, and new infrastructure, among others, state-owned China Securities Journal reports. **10-year yields rose +5 bps.**

Hungary

Contacts have become more optimistic that Hungary will received EU money in 2023, which supported this week's bond rally. In the past days, Hungarian swap rates fell 235 bps in the 2-yr and 256 bps in the 10-yr bucket. BNP Paribas expects that the European Council will approve the disbursment of cohesion funds to Hungary, but might propose rule-of-law sanctions of up to 30% of funds if not all concessions are made by the end 2022. Hungary and the EU are discussing the release of Cohesion Funds as well as €5.8 bn in grants of the Covid-19 Recovery and Resilience Facility, for a total of around 1.8% of GDP, according to BNP. **Hungary's basic balance, the sum of the current and capital account, has widened to around -6% GDP.**



This monitor is prepared under the guidance of Charles Cohen (Acting Division Chief), Nassira Abbas (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 Mustafa Oguz Caylan, 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), Yiran Li (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), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko 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.

Global Financial Indicators

11/11/22 7:54 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		3956	5.5	6	10	-15	-17	-6
Europe		3873	0.7	5	16	-11	-10	-3
Japan		28264	3.0	4	4	-5	-2	7
China		3788	2.8	1	-1	-23	-23	-18
Asia Ex Japan		62	4.5	9	7	-29	-25	-22
Emerging Markets		37	3.6	7	7	-28	-24	-22
Interest Rates			basis points					
US 10y Yield		3.81	0.0	-35	-13	226	230	182
Germany 10y Yield		2.10	9.5	-19	-19	234	228	188
Japan 10y Yield		0.24	-1.1	-2	-1	17	17	5
UK 10y Yield		3.34	5.2	-19	-110	242	237	187
Credit Spreads			basis points					
US Investment Grade		174	-6.8	-5	-8	59	62	31
US High Yield		493	-10.1	13	-12	149	155	86
Europe IG		96	-4.2	-15	-38	48	49	25
Europe HY		476	-15.9	-60	-169	229	234	125
Exchange Rates			%					
USD/Majors		107.08	-1.0	-3	-5	13	12	11
EUR/USD		1.03	0.9	3	6	-10	-9	-9
USD/JPY		139.6	-1.0	-5	-4	22	21	21
EM/USD		50.0	0.3	1	3	-9	-5	-6
Commodities			%					
Brent Crude Oil ($/barrel)		96	2.9	-2	4	29	32	12
Industrials Metals (index)		162	3.2	6	11	-2	-6	-14
Agriculture (index)		68	0.8	-2	-1	14	12	-3
Implied Volatility			%					
VIX Index (%, change in pp)		23.5	0.0	-1.0	-10.1	5.9	6.3	-7.5
US 10y Swaption Volatility		132.6	0.0	-3.1	-28.7	50.6	53.5	40.0
Global FX Volatility		11.4	0.0	-0.3	-1.3	4.3	4.0	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		248	4.6	5	-16	104	97	8
Italy		205	6.0	-11	-33	86	70	34
Portugal		96	1.4	-2	-12	34	31	4
Spain		103	2.3	-2	-13	33	29	0

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

Emerging Market Financial Indicators

Last updated: 11/11/2022 7:56 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.11	1.1	1.1	1	-10	-11	-11		2.9	4.5	7	8	-10	7	6
Indonesia		15495	1.3	1.6	-1	-8	-8	-7		7.1	-25.6	-40	-30	102	69	57
India		81	1.2	2.0	2	-8	-8	-8		7.5	-14.1	-11	-22	98.4	117	
Philippines		57	1.6	2.3	3	-12	-11	-11		6.1	0.0	25	38	145	165	115
Thailand		36	0.6	3.7	6	-9	-8	-10		2.8	-16.5	-33	-40	100	98	60
Malaysia		4.62	1.6	2.7	1	-10	-10	-9		4.4	-7.7	3	-2	85	81	74
Argentina		160	-0.2	-1.6	-7	-38	-36	-33		97.2	76.3	175	852	4695	4661	4922
Brazil		5.38	0.0	-6.0	-1	0	4	-7		13.0	95.0	133	142	144	235	151
Chile		887	0.9	4.5	5	-10	-4	-11		5.6	0.0	-75	-126	38	15	-35
Colombia		4802	2.0	5.6	-4	-19	-15	-19		10.4	0.0	-122	-13	402	398	251
Mexico		19.46	-0.7	0.3	3	6	5	4		8.7	1.0	-57	-62	131	119	87
Peru		3.9	1.0	2.6	2	4	3	-3		7.6	0.0	-54	-112	172	167	157
Uruguay		40	0.2	0.5	3	9	11	5		11.1	-3.2	-20	-30	254	239	297
Hungary		390	0.5	3.5	13	-18	-17	-18		8.3	-89.0	-269	-215	442	375	345
Poland		4.54	1.2	3.7	10	-11	-11	-11		6.4	0.0	-99	-73	348	287	250
Romania		4.7	0.7	3.4	7	-9	-8	-8		8.3	-51.6	-91	-35	359	343	310
Russia		60.5	0.5	2.5	7	18	24	35		10.7	0.0	-1	150	233	197	-44
South Africa		17.3	0.5	3.6	5	-11	-8	-12		9.1	-5.0	-33	-41	161	170	154
Turkey		18.54	-0.3	0.1	0	-47	-28	-25		12.1	-29.0	56	-54	-748	-1219	-1029
US (DXY; 5y UST)		107	-1.1	-3.4	-5	12	12	11		3.94	0.0	-39	-23	272	267	203

	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		3788	2.8	1	-1	-23	-23	-18		217	13	21	20	14	9
Indonesia		7089	1.8	1	4	7	8	2		208	8	8	43	43	23
India		61795	1.9	2	7	2	6	8		188	-23	-2	53	56	34
Philippines		6287	1.9	2	6	-15	-12	-15		156	-6	-5	57	55	19
Thailand		1637	1.1	1	5	0	-1	-3		0	0	0	0	0	0
Malaysia		1468	1.3	2	6	-4	-6	-7		127	12	16	16	10	-6
Argentina		144879	1.2	-4	6	51	74	59		2492	-111	-319	760	812	755
Brazil		109775	-3.4	-6	-4	2	5	-2		304	24	3	-15	-7	-27
Chile		5350	-0.2	2	7	18	24	22		162	-11	-27	31	22	-12
Colombia		1278	2.3	5	8	-6	-9	-15		423	-44	-38	122	75	31
Mexico		51032	1.0	2	11	-1	-4	-1		388	-25	-59	56	56	18
Peru		22062	1.1	5	11	7	5	-6		184	-18	-39	33	34	-6
Hungary		43450	0.7	2	12	-18	-14	-9		256	-25	-56	147	132	103
Poland		54421	0.0	7	18	-25	-21	-13		82	25	21	36	50	66
Romania		11555	1.4	6	8	-10	-12	-12		305	-37	-46	131	113	73
Russia		2224	0.6	3	14	-47	-41	-28		3411	-577	938	3228	3234	2897
South Africa		72908	3.1	5	13	5	-1	-3		387	-39	-77	51	32	-2
Turkey		4505	0.8	7	26	177	143	123		524	-2	-96	56	-54	-39
Ukraine		519	0.0	0	0	-1	-1	0		4165	-408	296	3659	3406	2692
EM total		37	2.0	7	7	-28	-24	-22		425	-23	-33	57	39	-33

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

back to top