GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 15, 2022

- **US PPI much lower than expected** (link)
- **Japan unexpectedly contracts in Q3** (link)
- **Longer dated US Treasury may have peaked** (link)
- **Markets tend to rally after the final Fed hike** (link)
- **Bank of England expected to move 50 bps after mixed jobs data** (link)
- **Latin American currencies have strongest appreciation against dollar** (link)

Mature Markets | Emerging Markets | Market Tables

Stocks rally after positive US-China talks

Rising optimism about China pushed many global markets higher in early trading today. The meeting between President Biden and President Xi in Jakarta yesterday appears to have boosted confidence, with both sides issuing conciliatory remarks. The positive surprise on US CPI was another plus for the day. The Chinese central bank stayed on hold as expected, while government measures to support the real estate sector and alleviate the impact of Covid lockdown measures were viewed as very positive. Chinese technology stocks have made solid gains, while the Hang Seng has surged by nearly 6% over the past two days and 25% month-to-date. US technology stocks are also doing well this morning, with Nasdaq futures pointing to a strong start. German stocks stand out in Europe, with the DAX up 17% over the past two months. Dovish comments from Fed Vice Chair Brainard also helped risk sentiment, with her suggestion that 75 bps moves by the Fed could be a thing of the past.

Key Global Financial Indicators

Last updated: 11/15/22 8:01 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		3957	-0.9	4	10	-15	-17	-6
Eurostoxx 50		3904	0.4	4	15	-11	-9	-2
Nikkei 225		27990	0.1	0	3	-6	-3	6
MSCI EM		38	-0.6	5	11	-27	-22	-20
Yields and Spreads			bps					
US 10y Yield		3.81	-4.9	-32	-21	219	229	181
Germany 10y Yield		2.09	-5.7	-19	-26	232	227	186
EMBIG Sovereign Spread		485	-26	-22	-84	135	118	72
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.2	0.3	1	4	-8	-4	-6
Dollar index, (+) = $ appreciation		106.1	-0.5	-3	-6	11	11	10
Brent Crude Oil ($/barrel)		92.6	-0.6	-3	1	13	19	-4
VIX Index (%, change in pp)		23.5	-0.3	-2	-9	7	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

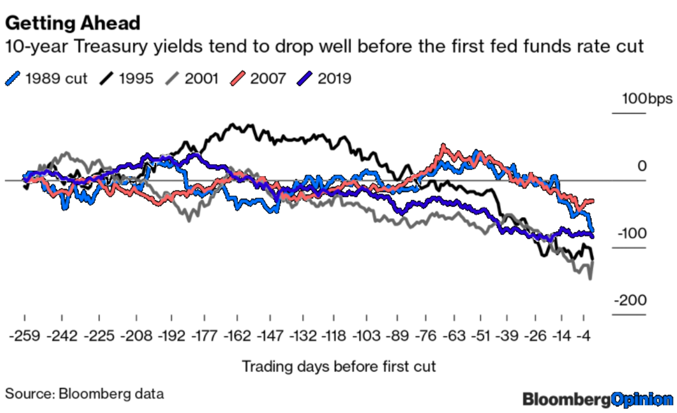
PPI for October was much lower than expected, reinforcing the positive surprise from CPI last week. The market response was immediate, with Treasury yields falling, the dollar depreciating and equity index futures rallying.

US OCTOBER PPI

Source: Bloomberg

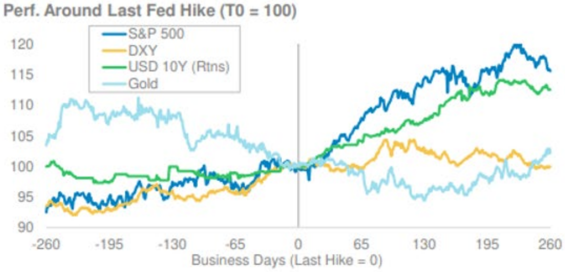
Data Release	Consensus Forecast	Actual Data
PPI month-on-month	0.4%	0.2%
Core PPI mom	0.3%	0%
PPI annualized	8.3%	8%
Core PPI annualized	7.2%	6.7%

Longer dated US Treasury yields may have peaked, according to analysis by Bloomberg. Longer maturity yields tend to decline before Fed policy rates have peaked, as markets shift their focus to the expected oncoming recession that follows many rate hike cycles. According to Bloomberg data, over the past five cycles the 10-year Treasury yield reached its highest point and subsequently began to rally 206 days on average before the first rate cut. Some analysts think history could repeat itself, especially if peak inflation has really been reached and begins to moderate. Over the last week, the 10-year yield has fallen by a significant amount—35 bps. Another reason for lower long term interest rates in the US is that worldwide recessions see extensive safe haven buying of Treasuries. Other analysts are more pessimistic about US interest rates, saying that the Fed may have to go higher than current market projections if inflation remains a problem. In addition, the Fed may not cut rates next year as the market currently expects.



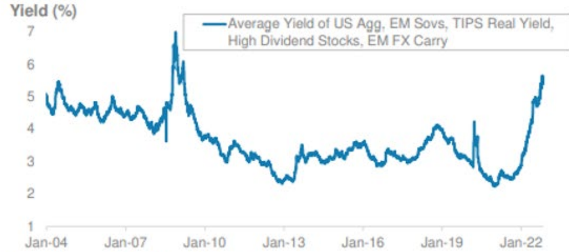
If longer-dated US have in fact peaked, then markets could be in for a rebound. This year has been very difficult for markets, with both stocks and bonds taking heavy losses, a rare occurrence. History shows that both equities and bonds tend to deliver strong results after the Fed stops hiking, and interest rate futures markets currently predict that the Fed will deliver its final rate hike in the first half of 2023. With interest rates moving much higher over the past year, yields in the bond market are at historically attractive levels. Credit spreads are much wider and mortgage-backed securities (MBS) yields are much higher. The volume of new MBS will be much lower and their coupons will be much higher, making them much more attractive. Corporate bonds will also have much higher coupons and over more protection against duration risk, as higher coupons are less sensitive to interest rates.

Exhibit 6: Both stocks and bonds tend to do well after the 'last' Fed hike



Source: Bloomberg, Morgan Stanley Research; Note: Covers last Fed hikes – May 1981, Aug 1984, Feb 1989, Feb 1995, Mar 1997, May 2000, Jun 2006, Dec 2018.

Exhibit 7: Yield on a multi-asset income portfolio has rarely been this attractive



Source: Bloomberg, Morgan Stanley Research

Euro Area

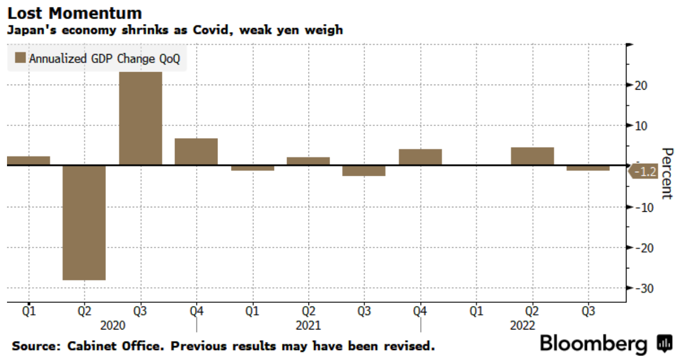
European equities were trading in a tight range with the Stoxx 600 index little changed, while the euro strenghtened against the dollar (+0.9%) against a backdrop of broad-based dollar weakness. Preliminary Q3 euro area GDP was in line with expectations (+0.2% qoq) while November investor confidence in Germany surprised on the upside but remains low. The final October inflation prints for France and Spain were in line with previous estimates of +6.2%yoy and +7.3%yoy respectively. **Sovereign bond yields were trading lower (10y bund yields -5 bps)** while the 10y Italian spread narrowed by 5 bps to 198 bps. In the latest ECB commentary, ECB General Council (GC) member Villeroy reiterated his expectations that the pace of ECB hikes could slow down after the December ECB meeting. Villeroy added that the ECB is likely to focus more on measures of inflation that exclude energy and food as it considers when to halt the hiking cycle.

United Kingdom

UK labor market data released this morning showed a marginal increase in unemployment and also a surprise increase in wage growth. The unemployment rate increased to 3.6% in the three months to September (vs. the 3.5% forecast) while excluding bonuses, pay growth increased by 5.7% between July and September (vs. the 5.5% forecast). **Analysts highlight that the supply shortfall remains the main driver in the UK's still tight labor market,** and on balance the underlying inflationary pressures from the labor market are not yet moderating. People registered as out of the workforce due to long-term illness continued to increase while ING analysts also note that shortages are likely being driven by a lower number of EU nationals working in the UK. **Both Morgan Stanley and ING continue to expect a 50 bps BoE hike in December. On the fiscal front, a 40% levy it be imposed on UK electricity generators, according to media reports**. This morning the pound was trading stronger against the dollar (+0.8%) while UK equities were little changed and 10y gilt yields fell (-3 bps).

Japan

The economy unexpectedly contracted by 0.3% q/q in 2022Q3. Analysts noted that the surprise contraction reflected the impact of the rapidly weakening yen on the economy. Firms are facing difficulty as they cannot easily pass rising costs of imported materials to consumers. The weak currency has also amplified the impact of soaring energy prices. Equities gained slightly (NIKKEI: +0.1%). The Japanese yen appreciated (+0.2%), recovering from some earlier losses following the GDP data release. The 10-year JGB yield was little changed, while longer-term yields dropped (30-year: -3.6 bps).



Emerging Markets

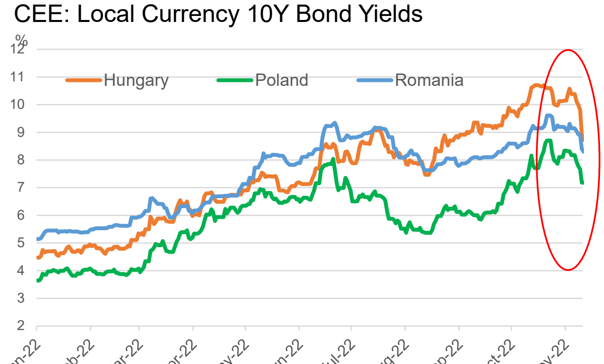
back to top

EMEA markets are relatively quiet. Equity markets are slightly down, with the exception of Turkey (+1.2%), while currencies are generally strengthening. **Asian markets were sharply higher on rising confidence about China.** Stocks in China, Hong Kong SAR and Taiwan POC all made large gains. **Markets in Latin America had a relatively quiet day.** The Mexican peso continued its rally against the dollar, while stocks in the region were mixed.

Central and Eastern European Markets

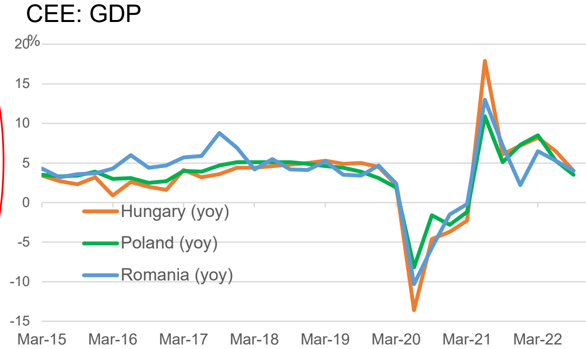
Central and eastern European markets are up after the publication of Q3 GDP data showed that activity is slowing down in the region. Yields on local bonds are down about 20 bps to 8.4%, 7% and 8% respectively. While yoy growth is slowing in all three countries, Poland and Romania performed better than expected in Q3, with Poland growing 0.9% qoq semi-annually (sa) (0% expected), and Romania growing 1.3% qoq (-1.5% expected). Hungary's GDP contracted more than expected in Q3 (-0.4% qoq sa vs -0.1% expected). This brings yoy growth to 4% in Hungary (from 6.5% yoy in Q2), 3.5% in Poland (from 5.8% in Q2) and 4% in Romania (from 5.1% in Q2).

CEE: Local Currency 10Y Bond Yields



Source: Bloomberg and IMF

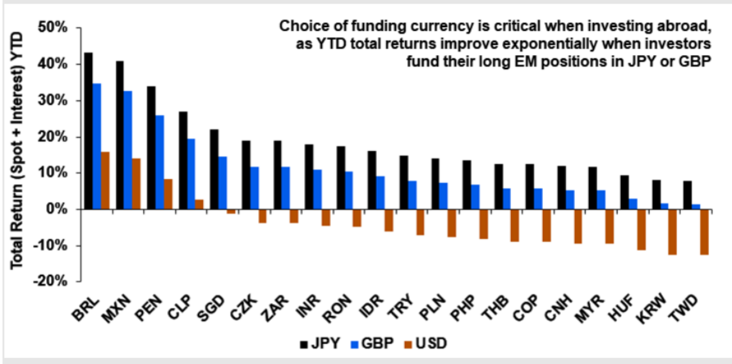
CEE: GDP



Source: Haver and IMF

Latam Currencies

The Brazilian real, the Mexican peso, the Peruvian sol and the Chilean peso have been top performers so far this year in total returns against other major EM currencies. The region has benefitted from its early start to its hiking cycle, starting with Brazil back in March 2021 with a 75 bps hike. While Brazil and Mexico have outperformed the US dollar in spot terms, the Peruvian sol and the Chilean peso have also performed well within the asset class when taking into account interest rate returns. Bloomberg analysts show that these returns could have been boosted even more depending on the choice of the funding currency, given the dollar's strong rally this year. Total returns on investments funded out of the British pound and the Japanese yen would have more than doubled those funded by the dollar.

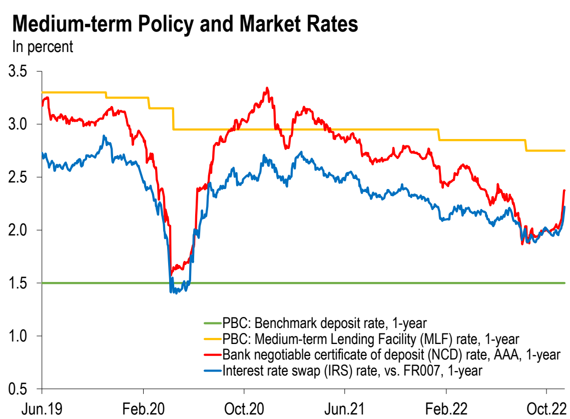


Source: Bloomberg Intelligence

China

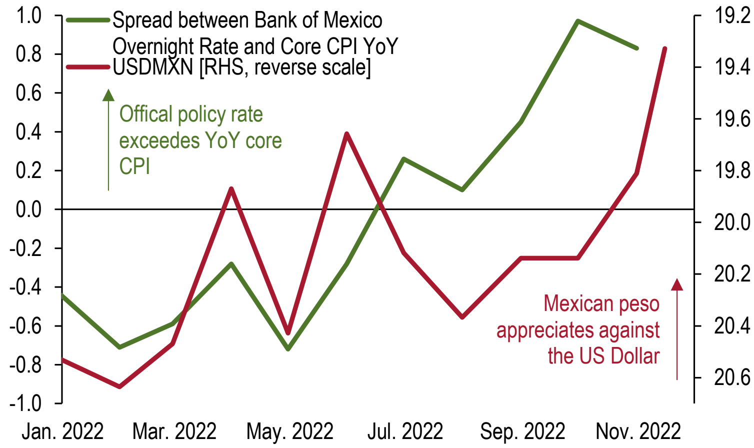
The People's Bank of China (PBOC) kept the medium-term lending facility (MLF) rate unchanged at 2.75% as expected. However, the PBOC only rolled over 850 bn yuan ($121 bn) of maturing MLF funding against a total maturity of 1 tn yuan ($142 bn), noting that liquidity injected via other tools such as Pledged Supplementary Lending (via policy banks) and re-lending would be more than enough to offset the withdrawal of MLF funding. The key interbank repo rate (DR007) increased to 1.94% (+10.2 bps), still below the policy rate at 2%. CGB yields were mixed (1-year: +1.2 bps; 10-year: -2.4 bps). The yuan appreciated (+0.5%).

Chinese equities gained (CSI 300: +1.9%; Hong Kong SAR-listed: +4.8%). Market optimism continued on the easing of tensions between China and the United States after the Biden-Xi face-to-face meeting yesterday, building on positive news on measures to relax COVID-related restrictions and support the property sector announced last week. **October activity data came out weaker than expected.** Industrial production increased 5.0% yoy (consensus: +5.3%), while retail sales contracted by 0.5% yoy (consensus: +0.7%). Fixed assets investment expanded 5.8% yoy YTD, slightly weaker than expected, dragged down by a larger-than-expected contraction of property investment. The unemployment rate stayed unchanged at 5.5%.



Mexico

The Mexican central bank's Deputy Governor Borja re-iterated that the board's forward guidance would remain data dependent. When asked, at a Bloomberg forum in Mexico, about whether Banxico would match the Fed's pace in upcoming meetings, Borja responded it "is conditional on the types of shocks we face, it's not mechanical". Mexico has been one of the few countries that has positive ex-ante and ex-post one-year real rates across Emerging Markets. Mexico's tight monetary policy has helped buoy the peso against the Fed's strong hiking cycle and subsequent dollar appreciation. Banxico has matched the last five interest rate hikes by the Fed, including a 75bp hike at its meeting last week bringing its policy rate to 10%. Economists expect the terminal rate to be at 10.8% throughout most of 2023. The peso recently overtook the Brazilian real as the best performer in terms of spot returns in year-to-date performance and added to its gains yesterday against the US Dollar by +0.8%.



Source: Bloomberg, IMF Staff Calculations

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.

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.*

Global Financial Indicators

11/15/22 8:03 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		3974	-0.9	4	11	-15	-17	-6
Europe		3904	0.4	4	15	-11	-9	-2
Japan		27990	0.1	0	3	-6	-3	6
China		3866	1.9	3	1	-21	-22	-16
Asia Ex Japan		63	-0.4	6	11	-28	-23	-20
Emerging Markets		38	-0.6	5	11	-27	-22	-20
Interest Rates					basis points			
US 10y Yield		3.81	-3.9	-31	-20	220	230	182
Germany 10y Yield		2.10	-4.6	-18	-25	233	228	187
Japan 10y Yield		0.25	0.1	-1	-1	18	17	5
UK 10y Yield		3.40	3.3	-15	-93	244	243	192
Credit Spreads					basis points			
US Investment Grade		171	-3.1	-6	-23	63	59	28
US High Yield		477	-0.2	-5	-47	136	140	71
Europe IG		95	-1.3	-10	-32	46	47	24
Europe HY		470	-7.8	-46	-139	221	227	119
Exchange Rates					%			
USD/Majors		106.11	-0.5	-3	-6	11	11	10
EUR/USD		1.04	0.8	3	6	-8	-8	-8
USD/JPY		139.3	-0.4	-4	-7	22	21	21
EM/USD		50.2	0.3	1	4	-8	-4	-5
Commodities					%			
Brent Crude Oil ($/barrel)		93	-0.6	-3	3	24	27	8
Industrials Metals (index)		168	0.7	9	15	2	-3	-10
Agriculture (index)		68	-0.3	-1	0	12	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		23.4	-0.3	-2.1	-8.6	7.0	6.2	-7.6
US 10y Swaption Volatility		129.6	5.1	-3.0	-28.0	50.1	50.5	37.0
Global FX Volatility		11.5	0.0	0.1	-1.1	4.4	4.1	4.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		219	-0.2	-22	-41	72	67	-21
Italy		198	-5.5	-13	-47	76	63	27
Portugal		96	-0.8	0	-12	33	32	4
Spain		102	-3.2	-1	-15	29	28	-1

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

Emerging Market Financial Indicators

Last updated: 11/15/2022 8:05 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		7.05	0.3	2.6	2	-9	-10	-10		3.1	-1.5	22	26	7	22	21
Indonesia		15538	-0.1	1.0	0	-9	-8	-8		7.1	-1.5	-39	-33	102	67	56
India		81	0.2	1.0	2	-8	-8	-8		7.4	-6.0	-19	-17	93.2	113	
Philippines		57	0.1	1.8	3	-12	-11	-11		6.1	0.0	18	31	135	165	115
Thailand		36	0.5	4.2	7	-8	-6	-9		2.7	-11.0	-43	-56	83	81	44
Malaysia		4.54	1.2	4.3	4	-8	-8	-8		4.3	-6.5	-16	-12	80	75	67
Argentina		162	-0.2	-1.5	-6	-38	-37	-34		95.3	-436.4	-59	871	4512	4476	4737
Brazil		5.33	0.0	-3.1	0	2	5	-6		-999998.1	#######	#######	########	########	#######	-100000965
Chile		887	0.6	2.1	10	-10	-4	-11		5.2	-13.5	-64	-113	-30	-19	-68
Colombia		4785	0.4	4.0	-1	-19	-15	-18		10.4	0.0	-94	-87	390	398	251
Mexico		19.33	0.1	1.0	3	7	6	5		8.7	-1.0	-42	-59	122	121	89
Peru		3.8	0.2	2.7	4	4	4	-3		7.7	0.9	-2	-106	189	181	171
Uruguay		40	0.3	0.1	3	10	12	6		11.1	-0.1	-8	-58	254	239	297
Hungary		390	1.6	2.5	7	-17	-17	-18		8.5	-10.0	-194	-215	472	399	369
Poland		4.53	0.8	2.8	8	-10	-11	-10		6.1	-23.5	-90	-118	315	255	218
Romania		4.7	0.7	3.0	6	-8	-8	-7		8.2	-2.4	-75	-87	337	334	301
Russia		60.4	1.4	0.7	3	20	24	35		10.8	-5.6	1	255	210	198	-43
South Africa		17.2	0.5	2.9	5	-11	-7	-12		9.1	-5.5	-21	-37	145	165	149
Turkey		18.61	-0.1	-0.4	0	-46	-29	-26		11.9	-4.0	-38	-152	-760	-1242	-1052
US (DXY; 5y UST)		106	-0.5	-3.2	-6	11	11	10		3.93	-5.9	-36	-34	268	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		3866	1.9	3	1	-21	-22	-16		209	2	6	11	6	1
Indonesia		7036	0.2	0	3	6	7	2		173	-15	-37	6	8	-12
India		61873	0.4	1	7	3	6	8		158	-46	-43	22	26	4
Philippines		6419	1.0	2	9	-13	-10	-13		138	-10	-33	35	37	1
Thailand		1629	0.4	0	4	-1	-2	-4		0	0	0	0	0	0
Malaysia		1451	-0.9	1	5	-5	-7	-9		107	-10	-13	-6	-10	-26
Argentina		152685	1.5	3	11	64	83	67		2428	-93	-421	705	748	691
Brazil		113161	0.8	-2	1	6	8	1		293	26	-19	-24	-18	-38
Chile		5269	-0.9	-3	6	20	22	20		150	-6	-49	18	10	-24
Colombia		1267	-0.9	2	8	-7	-10	-16		401	-33	-87	98	53	9
Mexico		51785	-0.3	2	14	1	-3	1		379	-4	-77	46	47	9
Peru		22382	0.4	2	13	8	6	-4		174	-7	-64	21	24	-16
Hungary		44218	0.1	1	12	-15	-13	-7		227	-31	-87	116	103	74
Poland		55969	0.3	6	20	-22	-19	-11		60	14	12	15	28	44
Romania		11626	0.0	3	9	-9	-11	-12		274	-38	-106	95	81	42
Russia		2218	-1.2	0	14	-46	-41	-28		3411	-577	938	3228	3234	2897
South Africa		72897	0.1	6	13	4	-1	-3		355	-30	-147	14	0	-34
Turkey		4638	1.5	6	28	172	150	130		485	-10	-133	14	-93	-78
Ukraine		519	0.0	0	0	-1	-1	0		3786	-596	-369	3250	3027	2313
EM total		38	2.2	5	11	-27	-22	-20		405	-17	-73	34	19	-53

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

back to top