



- Retail sales in US much stronger than expected ([link](#))
- Rise in Covid cases pressure markets in China ([link](#))
- Fed data show US banks getting more vulnerable to risk ([link](#))
- Energy crisis in Europe remains key market focus ([link](#))
- US corporate bond market showing signs of strain ([link](#))
- Housing affordability in US worse than global financial crisis ([link](#))

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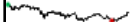


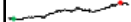
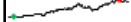

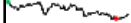
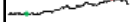


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Markets lower on geopolitical worries

Markets are off to an uncertain start this morning as investors grapple with a variety of challenges.

Press reports indicated that the rocket explosion in Poland yesterday was not deliberate and may have been accidentally caused by Ukraine's air defenses, but sentiment remains mixed amidst fears of an escalation of the Ukraine conflict. The dollar reversed recent gains sparked by safe haven buying overnight. Stocks in Europe were lower and US equity index futures were down. News of rising Covid cases in China was another major concern as stocks in China and Hong Kong SAR lost ground, pushing most bourses in Asia lower although India and Japan bucked the trend. Inflation in the UK surged to 11.1%, much higher than forecasts, a warning to market participants that the lower than expected US CPI and PPI for one month does not mean that the global problem of inflation has been overcome. Meanwhile, the fallout from the bankruptcy of the crypto exchange FTX continued, as Singapore's Temasek announced losses of \$200–300 mn on investments in the exchange.

Key Global Financial Indicators

Last updated: 11/16/22 8:01 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		3992	0.9	4	11	-15	-16	-6
Eurostoxx 50		3894	-0.5	4	15	-12	-9	-2
Nikkei 225		28028	0.1	1	5	-6	-3	6
MSCI EM		39	2.3	6	13	-25	-21	-18
Yields and Spreads			bps					
US 10y Yield		3.76	-0.6	-33	-25	213	225	177
Germany 10y Yield		2.06	-4.6	-11	-28	230	224	183
EMBIG Sovereign Spread		483	-3	-26	-87	135	116	70
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.1	0.4	1	4	-7	-5	-6
Dollar index, (+) = \$ appreciation		106.1	-0.3	-4	-6	11	11	10
Brent Crude Oil (\$/barrel)		94.0	0.2	2	3	14	21	-3
VIX Index (% change in pp)		24.4	-0.2	-2	-8	8	7	-7

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

Retail sales for October were much stronger than expected. Treasury yields moved higher in response and the dollar appreciated. The data complicate the picture for the US economy, after weaker than expected inflation data raised hopes that the Fed could moderate the pace of its rate hikes. Signs of economic strength could force the Fed to tighten more than markets are currently expecting.

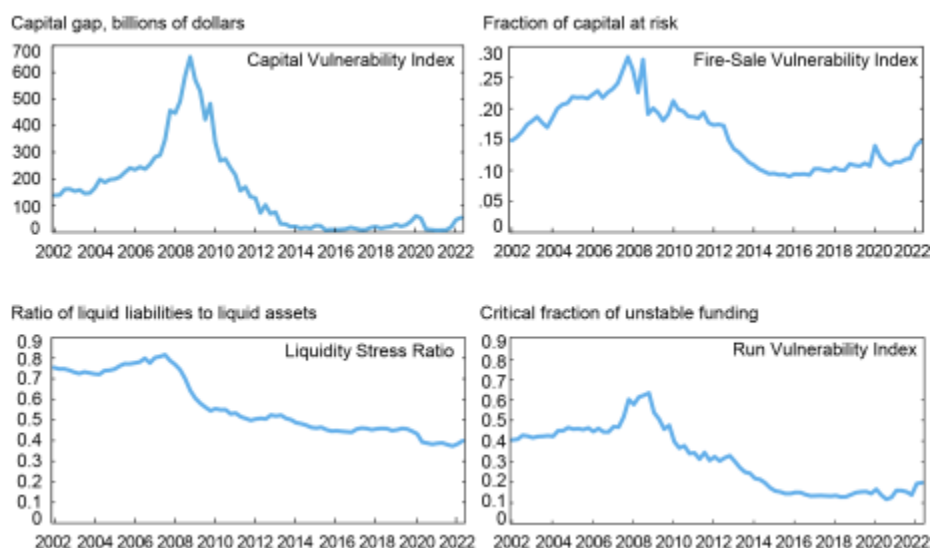
US OCTOBER RETAIL SALES

Source: Bloomberg

Data Release	Consensus Forecast	Actual Data
Retail sales month-on-month	1%	1.3%
Retail sales ex-transportation PPI mom	0.5%	1.3%

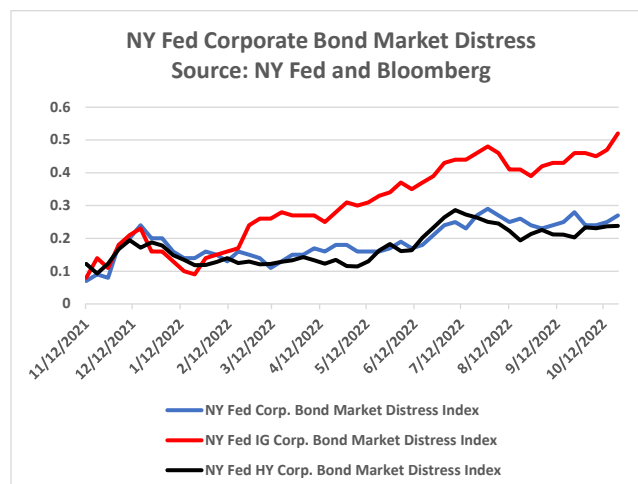
US banking system vulnerability increased in Q2 from historically low levels. The Fed's banking system vulnerability index is based on the 50 largest U.S. bank holding companies. The four underlying indices are all on an uptrend but still around historically low levels. Notably, the Fire-Sale Vulnerability Index has surpassed the COVID level, driven by larger banks' size, higher aggregate leverage, and increased interconnectedness. On the other hand, capital and liquidity vulnerability measures appear largely contained.

Banking system vulnerability over time



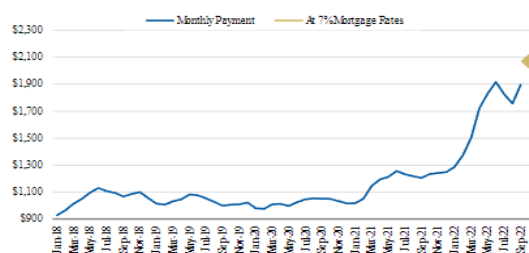
Source: The New York Fed, based on FR Y-9C reports.

US corporate bond markets are showing signs of strain. The New York Fed's Corporate Bond Market Distress Index is up sharply over the past year. This is true for the market as a whole as well as for the investment grade (IG) and high yield (HY) sectors. Rising interest rates are the main culprit, as the long period of low rates has resulted in a market where most of the bonds have very low coupons, making them much more sensitive to higher rates. Investors have taken large mark-to-market losses. Fears of recession and an associated rise in default rates is another factor. Credit spreads have blown out in the midst of the equity market selloff as investors rushed for the exits. Many are worried that conditions may deteriorate further in the months ahead, especially if defaults pick up.



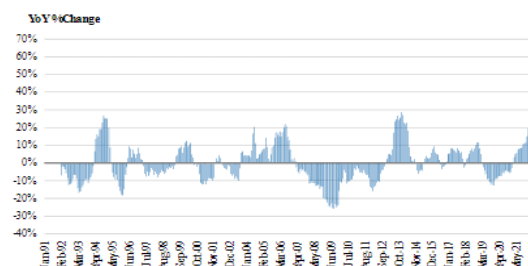
The housing market in the US faces severe challenges, with affordability 59% worse than it was during the global financial crisis (GFC). Fed rate hikes and surging interest rates have led to a doubling of mortgage rates within the space of a year to 7%. With house prices still up 38% since March 2020, many consumers are being priced out of the market. The resulting decline in home sales is the worst in 30 years and double that seen during the GFC, according to analysis by Morgan Stanley. In addition, many homeowners are locked into their current mortgages at lower interest rates, so the supply of existing homes to the market is severely reduced. Morgan Stanley forecasts that home sales will continue to decline in 2023, and that home prices will fall just 4% in aggregate. With interest rates likely to stay at these elevated levels next year, the affordability crisis is likely to drag on.

Exhibit 9: At 7% mortgage rates, the monthly payment on median priced home is 66% higher than start of the year



Source: US Census Bureau, NAR, Freddie Mac, Morgan Stanley Research

Exhibit 10: Affordability is 59% worse YoY, more than twice the affordability deterioration during the GFC



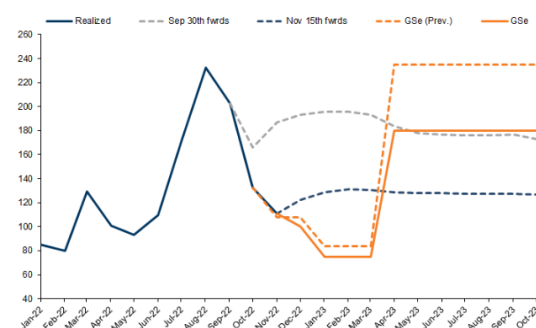
Source: US Census Bureau, NAR, Freddie Mac, Morgan Stanley Research

Euro Area

European equities were mostly in the red with the Stoxx 600 index -0.7% lower while sovereign bond yields fell (10y bund -3 bps). ECB General Council (GC) members continued to note the need for further tightening, with caution on the pace. GC member Holzmann said the ECB would increase rates further but also cautioned that too much tightening could cause not just stagnation, but a recession. ECB GC member Stournaras similarly spoke in support of further hikes but cautioned that the pace of interest rate hikes should be prudent. On the data front Italy's final October CPI data was slightly lower than earlier estimates (+12.6% vs preliminary estimate of 12.8%/y/y). **The euro continued to strengthen against the dollar (+0.7%).**

Analysts have revised forecasts for European natural gas prices lower over the next 12 months, but warn that risks remain significant. Goldman Sachs analysts highlight that European gas storage withdrawals has been delayed thanks to exceptionally mild weather, consumer savings and weaker gas imports from China. Analysts nevertheless see weather as a key risk going forward, together with China's reopening. European gas prices remain volatile, with one month ahead prices now around €120/MWh, roughly 70% higher than at the start of the year. Barclays analysts warn that high energy prices could damage Europe's competitiveness as industrial production and GDP gaps could persist. Relatedly, the European Commission reportedly shared a proposal with member states for an EU level gas price cap for Dutch TTF natural gas, set to be discussed today.

Exhibit 10: We lower our TTF forecasts, as a larger storage buffer reduces the need for price-driven demand destruction for the next 12 months
TTF realized vs forwards and GSe, EUR/MWh

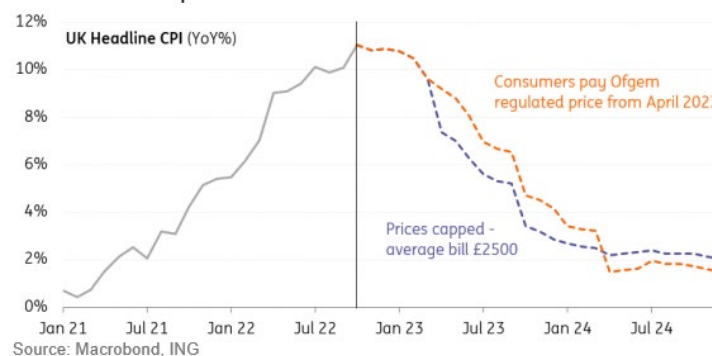


Source: Bloomberg, ICE, Goldman Sachs Global Investment Research

United Kingdom

The British pound and gilt yields were little changed after October headline and core inflation surprised on the upside. Headline inflation increased to a 41-year high of +11.1% yoy in October (vs expected 10.7% from 10.1% in September) driven higher by energy and food costs, while core inflation remained unchanged at +6.5% yoy, (vs expected 6.4%). ING analysts argue that inflation is close to peaking, with electricity/gas prices fixed until April 2023 and wage growth expected to reach a peak soon. Inflation is nevertheless expected to remain in double-digits until at least February 2023. **Government energy support measures beyond April 2023 is noted as key for next year's inflation outlook, and an announcement on energy support is expected tomorrow as part of the much anticipated fiscal statement.** Contacts attribute today's muted market reaction to less willingness to take risk ahead of tomorrow's fiscal statement: this morning the pound appreciated (+0.3% to 1.18 £/\$) and 10-year yields increased (+4 bps to 3.3%) after the CPI release, but some of the moves were retraced in later trade. A separate data release **showed a larger than expected slowdown in house price growth.** Analysts continue to expect a 50 bps BoE hike at the next MPC meeting on December 15.

UK inflation in 2023 will depend a lot on how energy support evolves after April



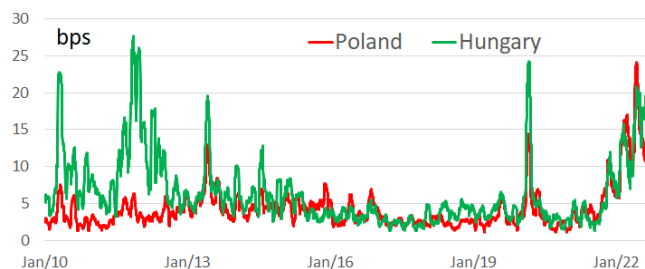
Source: Macrobond, ING

Emerging Markets

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EMEA currencies gained against the euro in Hungary (+0.9%) and Poland (+0.6%) following reports that the missile hitting Poland was not fired from Russia. Nevertheless, equities did not reverse losses in Poland (-1.8%) and remain lower on the day in Hungary (-0.6%). In Asia, stocks were lower as Covid cases in China surged. In Latam, stocks in Brazil and Colombia rallied. Currencies were weaker. An official at Thailand's central bank said that more rate hikes were likely as GDP was expected to be stronger than official forecasts. In Latin America, the Chilean peso and Peruvian sol appreciated against the dollar. Colombia's GDP was stronger than expected (7% vs. the 6.6% consensus forecast).

Local bond yields in Eastern Europe: 20-day standard deviation of daily bps moves



Source: IMF and Bloomberg

China

Equities slipped (CSI 300: -0.8%) amidst a spike in China's COVID cases. China's top economic planning agency pledged to better prioritize growth. The agency's spokesperson said that *arduous efforts* are needed to keep economic growth on track in Q4, amid a *complicated international environment* and China's recent COVID outbreaks. Separately, **China's government has refunded 2.3 tn yuan (\$325 bn) of value-added tax so far in 2022**. The amount is higher than the government's refunds of 1.2 tn yuan for the last three years combined. The greatest beneficiaries are manufacturing (almost 27%), transportation (15%), and retailing and wholesaling (almost 8%). Separately, **China new home prices fell for the fourteenth straight month in October (-0.4%)**. Meanwhile, **property developers are moving to raise funds following recent stock rallies**. Agile Group, the second recent developer to announce capital raising plans, is selling stock at an 18% discount to raise 783 mn Hong Kong dollars (\$100 mn) via a top-up placement. **Chinese yuan weakened -0.6%, 10-year yields rose +1.9 bps**. Local credit yields surged, with the average yield on 3-year AAA onshore notes spiked +27 bps to 2.9%, Bloomberg notes.

Chinese developer stocks have rebounded



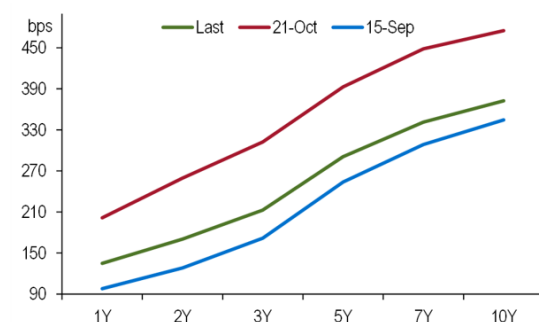
Source: Bloomberg

Colombia

Colombia's credit default swap (CDS) curve has come down by roughly 100 bps in less than a month from the highest levels since the Great Financial Crisis, but it still trades above most other EMs. While Colombia has been facing its highest inflation and policy rate in more than two decades (the policy rate is at 11%), the aggressive higher pricing in its CDS markets last month was mostly driven by policy

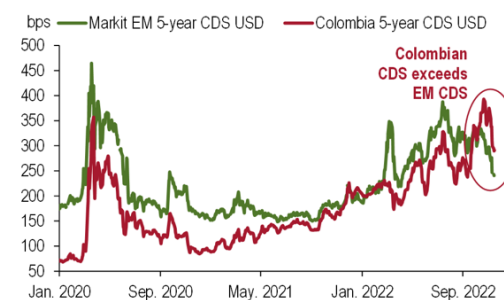
uncertainty following the new administration taking over the government over the summer. This was one of the drivers of the Colombian peso recently hitting all-time worst level versus the dollar—a headwind for a government with high levels of foreign currency denominated debt. UBS analysts expect the currency to depreciate further given the country's reliance on external funding and its current account deficit but think the recent depreciation has been above what could be explained via short-term drivers.

Colombian CDS Curve



Source: Bloomberg

Colombian 5-year CDS has continued to trade above EM 5-year CDS.

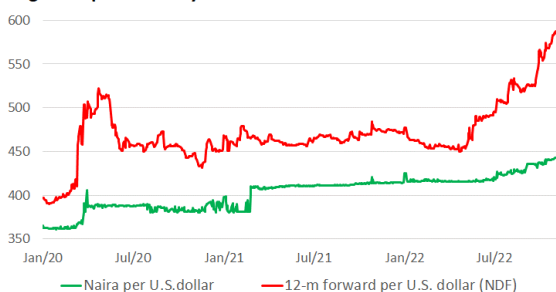


Source: Bloomberg, Markit

Nigeria

President Buhari said that Nigeria lacks funding to finance its energy transition and climate action agenda due to debt distress in the country. Analysts at JP Morgan also warn that recent flooding across most states could pose upward pressure to food prices in the coming months. **Nigeria's inflation rate accelerated to 21.1% yoy in October (from 20.8% yoy), marginally lower than expected amid reports of continued pressures in the parallel currency market.**

Nigeria: Spot currency and forwards













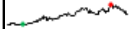

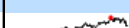


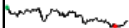



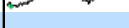








Source: Bloomberg and IMF staff

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.

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Global Financial Indicators

11/16/22 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3989	0.9	6	11	-15	-16	-6
Europe		3894	-0.5	4	15	-12	-9	-2
Japan		28028	0.1	1	5	-6	-3	6
China		3834	-0.8	3	0	-22	-22	-17
Asia Ex Japan		65	3.1	8	14	-26	-21	-18
Emerging Markets		39	2.3	6	13	-25	-21	-18
Interest Rates			basis points					
US 10y Yield		3.76	-0.6	-33	-25	213	225	177
Germany 10y Yield		2.06	-4.6	-11	-28	230	224	183
Japan 10y Yield		0.25	0.3	-1	0	17	18	5
UK 10y Yield		3.25	-4.1	-20	-108	226	228	178
Credit Spreads			basis points					
US Investment Grade		168	-2.9	-10	-26	55	56	25
US High Yield		475	-2.4	-7	-49	134	137	69
Europe IG		94	0.3	-14	-33	45	46	22
Europe HY		470	4.3	-53	-138	223	228	118
Exchange Rates			%					
USD/Majors		106.11	-0.3	-4	-6	11	11	10
EUR/USD		1.04	0.7	4	6	-8	-8	-8
USD/JPY		139.4	0.1	-5	-6	21	21	21
EM/USD		50.1	0.4	1	4	-7	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		94	0.2	2	4	26	29	9
Industrials Metals (index)		166	-1.7	8	13	2	-4	-12
Agriculture (index)		68	-1.0	0	0	12	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		24.4	-0.2	-1.7	-7.7	8.0	7.1	-6.7
US 10y Swaption Volatility		129.1	0.0	-3.5	-28.5	45.3	50.0	34.8
Global FX Volatility		11.4	0.0	0.0	-1.3	4.0	4.0	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		220	4.0	-26	-40	72	69	-20
Italy		192	-3.5	-20	-53	71	57	20
Portugal		94	-0.1	-3	-15	32	30	2
Spain		101	-0.9	-4	-16	29	26	-3

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

Emerging Market Financial Indicators

Last updated: 11/16/2022 8:03 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		7.08	-0.5	2.3	2	-10	-10	-11		3.1	6.5	27	33	13	28	27
Indonesia		15600	-0.4	0.4	-1	-9	-9	-8		7.0	-2.6	-32	-35	100	65	53
India		81	-0.3	0.2	1	-9	-9	-8		7.4	-2.0	-22	-19	93.3	111	
Philippines		57	-0.2	1.1	3	-12	-11	-11		6.1	0.0	3	31	140	165	115
Thailand		36	-0.2	3.5	7	-8	-7	-9		2.7	3.5	-33	-52	84	85	47
Malaysia		4.54	0.0	3.2	4	-8	-8	-8		4.3	-6.5	-20	-18	72	69	62
Argentina		162	-0.1	-1.4	-6	-38	-37	-34		95.6	22.9	-61	894	4528	4499	4759
Brazil		5.32	0.1	-2.4	-1	3	5	-6		13.0	16.2	90	125	136	230	147
Chile		883	0.4	2.6	10	-8	-4	-11		5.3	7.5	-48	-106	-24	-13	-62
Colombia		4857	-0.2	0.8	-3	-20	-16	-19		10.1	0.0	-84	-114	348	371	224
Mexico		19.32	0.3	1.3	3	7	6	5		8.7	0.0	-36	-61	114	119	87
Peru		3.8	0.5	2.3	4	4	4	-2		7.8	0.1	4	-102	191	185	175
Uruguay		40	0.3	0.5	4	11	12	6		11.1	0.0	-3	-58	254	239	297
Hungary		392	1.2	2.6	7	-18	-17	-18		8.7	20.0	-154	-195	482	419	389
Poland		4.52	1.3	4.2	8	-9	-11	-10		6.1	0.9	-82	-122	313	251	214
Romania		4.7	0.7	3.5	6	-7	-8	-7		8.0	-17.5	-81	-105	319	316	283
Russia		60.2	1.6	1.7	3	21	25	36		10.8	5.9	7	261	198	204	-37
South Africa		17.3	0.2	3.0	5	-10	-8	-12		9.1	4.0	-25	-30	158	171	155
Turkey		18.61	0.0	-0.1	0	-45	-29	-26		11.9	-3.0	-53	-153	-777	-1243	-1053
US (DXY; 5y UST)		106	-0.3	-4.0	-6	11	11	10		3.89	-0.7	-35	-38	262	263	199

	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		3834	-0.8	3	0	-22	-22	-17		211	2	8	14	8	3	
Indonesia		7014	-0.3	-1	3	5	7	1		179	-9	-31	19	14	-6	
India		61981	0.2	2	6	3	6	8		156	-44	-45	19	24	2	
Philippines		6392	-0.4	2	7	-13	-10	-13		138	-9	-33	41	37	1	
Thailand		1620	-0.6	0	3	-1	-2	-5		0	0	0	0	0	0	
Malaysia		1448	-0.1	0	4	-5	-8	-9		101	-18	-19	-10	-16	-32	
Argentina		155159	1.6	5	13	73	86	70		2396	-100	-453	724	716	659	
Brazil		113161	0.8	-3	1	6	8	1		283	4	-29	-31	-28	-48	
Chile		5229	-1.2	-2	5	21	21	19		149	-9	-50	21	9	-25	
Colombia		1285	1.5	3	10	-4	-9	-15		394	-37	-94	94	46	2	
Mexico		51656	-0.2	2	14	1	-3	1		376	-14	-80	45	44	6	
Peru		22303	-0.4	2	13	9	6	-5		173	-11	-65	24	23	-17	
Hungary		44092	-0.5	0	11	-15	-13	-8		231	-29	-83	124	107	78	
Poland		55481	-1.6	4	19	-23	-20	-12		64	-9	16	19	32	48	
Romania		11766	0.9	5	10	-8	-10	-11		278	-39	-102	101	85	46	
Russia		2230	0.3	3	14	-46	-41	-28		3411	-577	938	3228	3234	2897	
South Africa		73232	0.3	5	14	3	-1	-2		351	-39	-151	14	-4	-38	
Turkey		4680	0.5	7	29	178	152	132		490	-11	-128	23	-88	-73	
Ukraine		519	0.0	0	0	-1	-1	0		3636	-703	-519	3085	2877	2163	
EM total		39	-0.9	6	13	-25	-21	-18		402	-22	-77	35	16	-56	

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

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