



- Strong US jobs market data weighs on expectations for milder tightening path ([link](#))
- Bundesbank president says ECB should start QT in beginning of 2023 ([link](#))
- Euro area governments seen to issue close to pandemic bond supply in 2023 ([link](#))
- UK mortgage rates relatively high as swap yields trade lower ([link](#))
- Hungarian assets under pressure following PMI outperformance ([link](#))
- Colombian peso falls to a record low amid policy concerns ([link](#))

[Mature Markets](#)




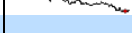






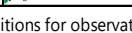
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## Focus on the future path of US policy tightening

**Core yields were little changed while equity markets were mixed ahead of today's FOMC meeting.** With the fourth consecutive 75 bps hike fully priced in and widely expected for the FOMC meeting today, markets are focused on possible signals for a potential slowdown in the pace of future hikes. Yesterday's US macroeconomic data saw hopes for such a pivot diminish, however, and the terminal Fed funds rate is again priced above 5%. In Europe sovereign yields edged higher this morning as policy makers spoke in support of further ECB tightening and Bundesbank president Nagel said that the ECB could start "quantitative tightening" from the beginning of 2023. In the UK, 10y gilts closed lower yesterday after the BoE sold gilts worth £750mn in its first gilt auction. On the commodity front, wheat prices fell sharply this morning after Russia reportedly agreed to rejoin the Black Sea grain deal.

Key Global Financial Indicators

Last updated: 11/2/22 11:22 AM	Level Last 12m Latest	Change from Market Close				YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days	12 M		
<b>Equities</b>		%				%	
S&P 500	 3856	-0.4	0	8	-17	-19	-9
Eurostoxx 50	 3645	-0.2	1	10	-15	-15	-8
Nikkei 225	 27663	-0.1	1	6	-6	-4	5
MSCI EM	 35	1.8	2	0	-32	-29	-27
<b>Yields and Spreads</b>		bps					
US 10y Yield	 4.04	-0.4	4	21	249	253	205
Germany 10y Yield	 2.14	0.6	3	3	230	231	191
EMBIG Sovereign Spread	 535	-8	-28	-25	178	168	122
<b>FX / Commodities / Volatility</b>		%					
EM FX vs. USD, (+) = appreciation	 48.9	-0.2	0	1	-10	-7	-8
Dollar index, (+) = \$ appreciation	 111.2	-0.3	1	-1	18	16	16
Brent Crude Oil (\$/barrel)	 94.7	0.0	-1	8	12	22	-2
VIX Index (% change in pp)	 26.2	0.4	-1	-5	10	9	-5

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

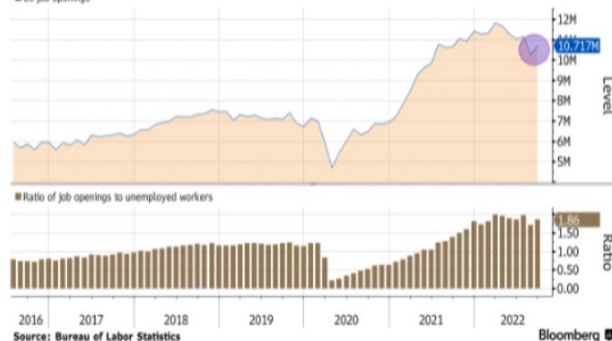
**Yesterday, the S&P 500 rallied (+1.0%) at the opening, but retraced gains to close lower (-0.4%)** after data showing a solid US labor market—which may fuel wage gains—bolstered speculation that US Federal Reserve policy could remain aggressively tight even with the threat of a recession. 2Y UST nominal yields rose by 6 bps (entirely attributed to breakeven inflation), while the 10Y UST yield and USD FX rate remained virtually unchanged. Credit spreads compressed significantly across both Investment Grade and High Yield instruments.

**Data released yesterday showed US job openings recovered in September amid low unemployment—against most analyst forecasts.** The surprise pick-up in vacancies shows that strong demand for workers persists, despite various indicators showing signs of an approaching recession: the right chart shows that US manufacturing was close to stagnation in October (a drop in orders for the fourth time in five months), meaning that companies prepare for significantly lower demand going forward. Correspondingly, the index of prices paid has declined to a two-year low. **The latest data are seen as increasing the risk of further wage gains, which will add pressure on the Federal Reserve to remain aggressively tightening for a prolonged period of time.**

#### Job Openings Rise

US vacancies unexpectedly increased in September to 10.7 million

■ US job openings



#### Manufacturing Nears Stagnation

US gauge drops for fourth time in five months

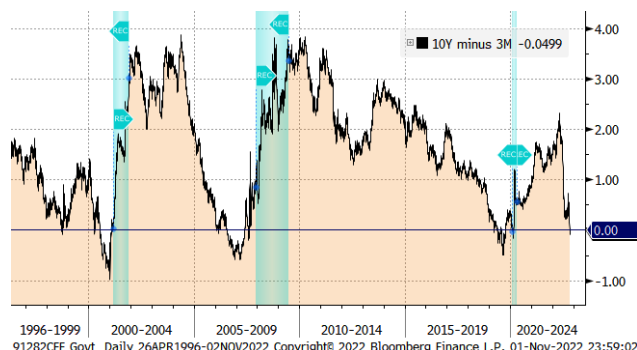
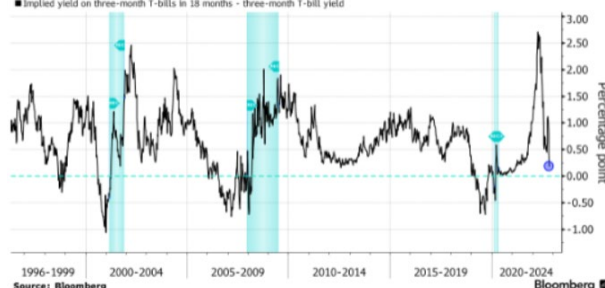
■ Purchasing Managers Index



**The US Fed's inverted-curve indicator suggests growing odds of a recession in the US.** Fed Chair Jerome Powell has previously expressed that among all inverted-curve indicators, he prefers the difference between a 3-month rate expected 18 months ahead and the current 3-month rate. This indicator, as well as other curve-inversion spreads, has turned negative several months before each recession (left chart below; green areas represent US recessions). Despite other indicators becoming negative in recent months or weeks (e.g., 10-year minus 3-month yield spread on the right chart), Powell's preferred spread has remained positive so far. However, in recent days this indicator approached zero, intensifying investors' concerns about the possibility of a recession and, consequently, the possibility that the Fed's policy rate normalization planned for 2023–2024 may actually turn into an accommodative policy with very low rates. Some investors are willing to increase duration of their portfolios, expecting that a drop in priced-in policy rates for 2023–2024 will translate into capital gains for bond holders.

**Zero Bound**  
Jerome Powell's preferred yield curve is close to inverting

■ Implied yield on three-month T-bills in 18 months - three-month T-bill yield

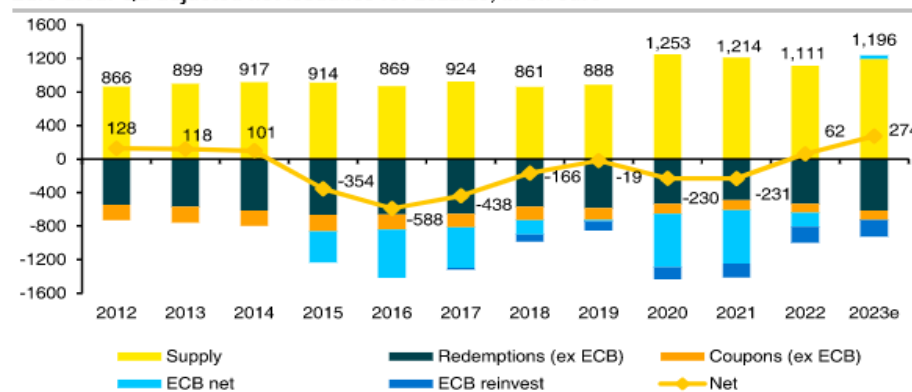


## Euro area

Equities and the euro (+0.2%) were little changed ahead of the FOMC meeting later today. **Euro area yields are higher as Bundesbank president Nagel said that the ECB could start “quantitative tightening” (QT) from the beginning of 2023 while also adding that the ECB still has a “long way to go” on rate hikes.** Contacts are divided on the timeline and likelihood of QT. Some are expecting the ECB to start QT in spring 2023, after policy rates enter a restrictive territory.

**Commerzbank estimates that gross supply of euro area government bonds will re-visit the Covid-highs around €1.2 tn next year amid record high net issuance ex ECB purchases.**

Euro area: QE-adjusted net issuance for 2022/23, in bn euro



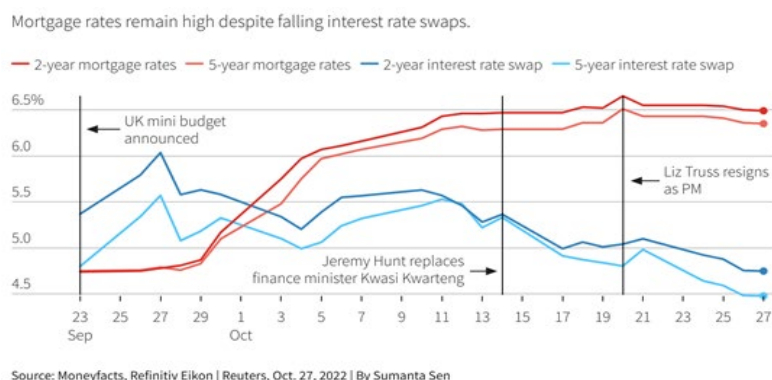
Source: Debt agencies, Bloomberg, Commerzbank Research

**Germany reportedly plans to collect windfall profits of electricity companies to subsidize households.** According to Bloomberg, one government proposal is to collect windfall profits retroactively from September with a 90% cap.

## United Kingdom

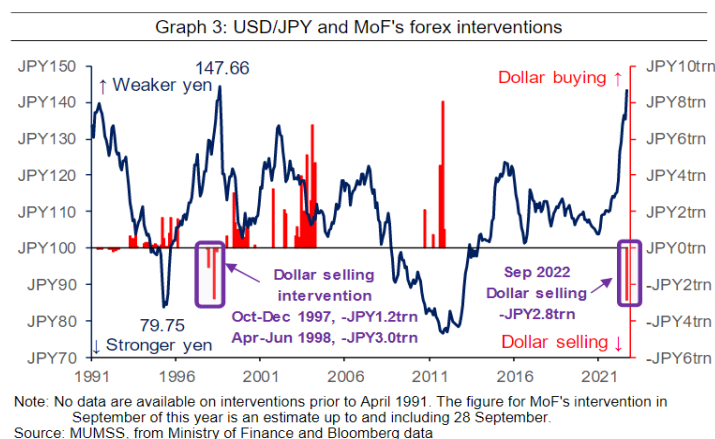
**2-yr gilt yields fell 13 bps to 3.05% today but longer-dated gilt yields are little changed ahead of tomorrow's BoE meeting, when most analysts and traders still expect the BoE to hike 75 bps.** Yesterday, 10-yr gilt yields closed lower after the BoE sold gilts worth £750 mn in 3–7y tenors in its first QT auction.

**Nationwide house prices unexpectedly fell 0.9% m/m (drop of 0.3% m/m expected) in October as lower swap yields have not led to sharp drops in mortgage rates.** One contact believes that the margin of mortgage rates above swap rates is *very exaggerated* at present and believes that lenders are hesitant to be the first to cut mortgage rates too aggressively—and see large volumes—even though lenders have been gradually reducing rates.



## Japan

**Japanese FM Suzuki now attributes half of the inflationary pressure to the weaker yen.** Headline inflation increased to 3.5%/y/y in October (vs expected 3.3% from 2.8%). Suzuki also noted continued market caution following the government's FX interventions and reiterated comments against excessive FX moves. Separately, **Bank of Japan (BOJ) governor Kuroda said that monetary easing and FX interventions are not contradictory.** Kuroda also said that the yen's recent rapid slide is undesirable for Japan's economy and does not see yen weakness persisting forever. **Equities and 10-year yields were little changed. The yen appreciated +0.8%. MUFG Morgan Stanley thinks unilateral government interventions to buy yen with dollars will unlikely have lasting impacts, given widening US-Japan yield differentials.**



## Emerging Markets

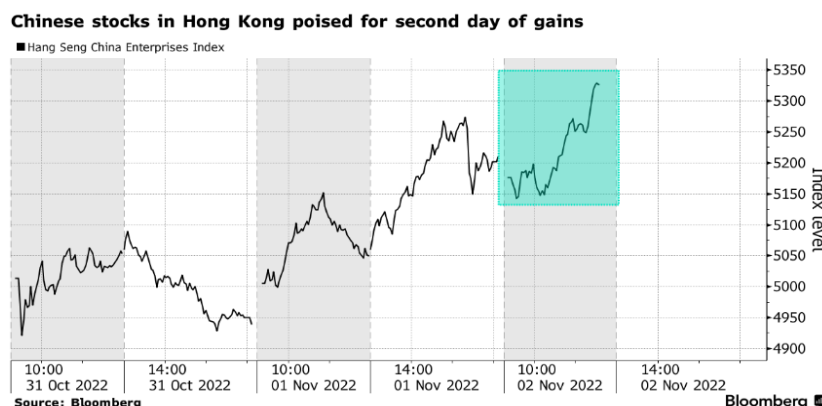
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**Asian equities firmed +0.9% net, lifted by China reopening hopes, while currencies were mostly little changed.** Hong Kong SAR firmed +2.4% to an early market close due to typhoons, Mainland China equities rallied (CSI 300: +1.2%). Philippine peso weakened -0.9%, and Bangko Sentral ng Pilipinas said in a statement on Wednesday that its participation in the currency market limited to tempering the exchange rate's sharp moves. Hong Kong SAR 3-month interbank rates surged to their highest since 2007. In South Korea, perpetual bonds across Korean financials are under pressure following disclosure by Heungkuk Life Insurance that it will not redeem a perpetual on the first call date, November 9. This is the first non-call of a US\$ Korean financial bond since 2009, according to JPMorgan. On the data front, Korean headline inflation increased slightly to 5.7% y/y in October (from 5.6%), while core inflation accelerated to 4.8% y/y (from 4.5%). **EMEA markets are fairly quiet, while the market is fixated on today's Fed meeting.** Equity markets are subdued, with the exception of Poland (+1.5%) and Turkey (+0.9%). While the South African rand is strengthening vs the dollar (+0.6% to 18.1/\$), other currencies

are fairly range-bound vs reference currencies, and local bond yields are fairly flat. Hungary is the exception, with the forint under some pressure (-0.4% to 408/euro) and local yields increasing (+17 bps to 10.3%) after the PMI data for October significantly outperformed expectations. **LATAM markets were mixed, while the Brazilian real and Mexican peso appreciated other regional currencies depreciated against US dollar.** The Mexican peso rose ahead of the Fed decision, and the Brazilian real rose on signs of an orderly transition of power. Colombia's central bank forecast for annual inflation is 11.3% for 2022, and 7.1% for 2023. Mexico's inflation forecast is 8.5% for 2022 and 5.1% in 2023. On an annual basis, Peru's headline inflation fell to 8.3% in October from 8.5% in September while core inflation increased to 5.7% from 5.5%.

## China

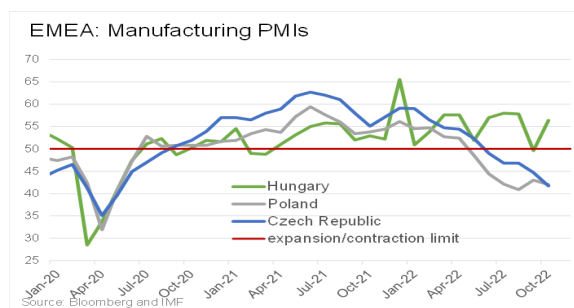
**Equities continued to rally (CSI 300: +1.2%). People's Bank of China (PBOC) Governor Yi said China's economy remains "on track".** In an interview, Yi noted that China's potential growth rate remains in a reasonable range and said Q4 economic data will reflect the PBOC's infrastructure investment support. Further, Yi expressed hopes for a *soft landing* for China's property market, having noted recent improvements in home sales and lending. Relatedly, **banking regulator Vice Chairman Xiao expressed concern about the property sector.** However, Xiao said that risks are manageable, and the property sector is stable. Xiao also revealed that 26% of Chinese bank loans are exposed to the property sector and that the mortgage loan default ratio is less than 0.1%. Separately, **securities regulator Vice Chairman Fang urged investors not to bet against China and Hong Kong SAR.** Fang said China's reopening can only improve and that China will remain a major global growth driver. **The yuan and 10-y yields were little changed.**



## Hungary

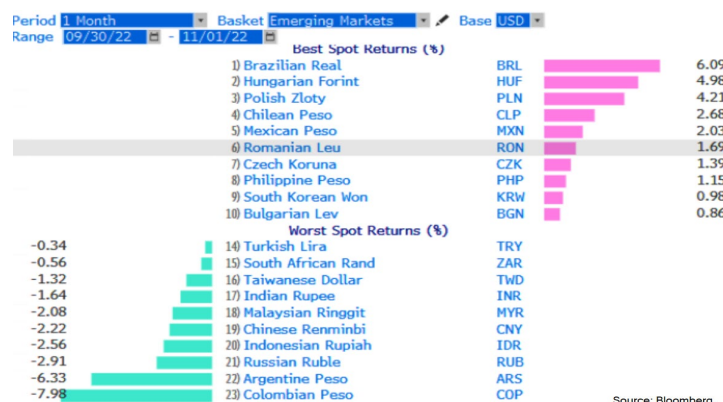
**Hungarian assets are under pressure as Hungarian PMIs significantly outperforms expectations, in sharp contrast with neighboring Poland and the Czech Republic.** The Hungarian forint is weakening (-0.4% to 408/euro) and yields on local 10y bonds are up 17 bps to 10.3%, with similar assets in neighboring Czech Republic and Poland are broadly unchanged. The manufacturing PMI for October for Hungary increased to 56.4 in October, much above expectations (49), up from 49.6 in September (reading above/below 50 indicate expansion/contraction). Overall, the PMI series for Hungary shows resilience and indicates no significant contraction yet. In contrast, PMI readings in Poland and in the Czech Republic indicate further contraction (41.7 and 42 in October, down from 44.7 and 43 in September respectively). **The selloff in Hungarian assets suggests that market participants are worried that policies are not tight enough in Hungary,** as inflation reached 20.1% y/y in September. Comments from deputy governor Barnabas Virag saying that the central bank does not tolerate risks to its inflation goal and that meeting the target remains the goal of policy makers, were not enough to allay those fears.





## Colombia

**The Colombian peso fell to record low levels against the dollar amid concerns over policy direction, while the lack of measures to support the currency reportedly disappointed investors.** The peso has lost 8% of its value over the past month and closed at a record low of 5,014 per dollar on Tuesday, a trend that has prompted speculation that the central bank could intervene, according to Bloomberg. Credit default swap spreads for Colombia widened to 357 bps from 338 bps on October 28, as perceived sovereign risk increased amid concerns over policy direction under the government of President Gustavo Petro, who took office on August 2022.






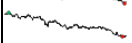



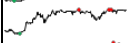















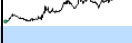



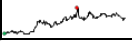
## Brazil

**Consumer and business confidence indicators weakened in October.** Brazil's consumer confidence index declined to 88.6 in October from 89 in September, and broad-based declines saw the composite business confidence indicator fall to 98.2 in October (from 101.5), though mainly led lower by manufacturing. According to the minutes published by the central bank, the monetary policy committee left the policy rate unchanged at 13.75% unanimously, and it is anticipating below-trend economic growth.

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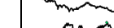







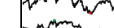

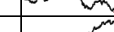
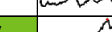

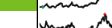
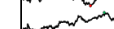

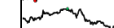



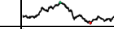



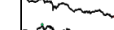




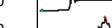


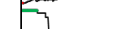



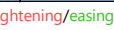
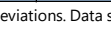


## Global Financial Indicators

11/2/22 11:23 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3856	-0.4	0	8	-17	-19	-9
Europe		3645	-0.2	1	10	-15	-15	-8
Japan		27663	-0.1	1	6	-6	-4	5
China		3678	1.2	1	-3	-24	-26	-20
Asia Ex Japan		57	2.1	2	-3	-34	-31	-28
Emerging Markets		35	1.8	2	0	-32	-29	-27
<b>Interest Rates</b>			basis points					
US 10y Yield		4.04	-0.4	4	21	249	253	205
Germany 10y Yield		2.14	0.7	3	3	230	232	191
Japan 10y Yield		0.25	-0.3	0	1	18	18	6
UK 10y Yield		3.46	-1.1	-12	-63	242	249	198
<b>Credit Spreads</b>			basis points					
US Investment Grade		179	-5.1	-8	-9	92	67	36
US High Yield		465	-6.9	-29	-73	148	128	59
Europe IG		110	-1.3	-4	-23	59	62	38
Europe HY		538	-3.6	-19	-88	278	296	186
<b>Exchange Rates</b>			%					
USD/Majors		111.15	-0.3	1	-1	18	16	16
EUR/USD		0.99	0.2	-2	1	-15	-13	-12
USD/JPY		147.0	-0.9	0	2	29	28	28
EM/USD		48.9	-0.2	0	1	-10	-7	-8
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		95	0.0	1	13	26	30	10
Industrials Metals (index)		148	0.4	-2	3	-11	-15	-21
Agriculture (index)		68	-1.4	1	1	14	12	-3
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		26.2	0.4	-1.1	-5.4	10.2	9.0	-4.8
US 10y Swaption Volatility		157.9	3.6	11.0	2.1	85.2	78.9	63.6
Global FX Volatility		12.0	0.0	0.1	-0.9	4.9	4.6	4.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		246	0.2	-7	-29	106	94	6
Italy		215	2.2	-7	-26	92	80	44
Portugal		101	1.3	-2	-6	40	36	9
Spain		109	0.8	-1	-9	39	35	6

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

## Emerging Market Financial Indicators

Last updated: 11/2/2022 11:25 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since	Level		Change (in basis points)				YTD	Since
	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		7.28	0.0	-1.5	-2	-12	-13	-13		2.8	3.9	-1	-6	-24	-5	-6
Indonesia		15648	-0.1	-0.5	-2	-9	-9	-8		7.4	-7.6	-23	4	133	103	91
India		83	-0.1	-0.1	-1	-10	-10	-10		7.6	1.9	-2	-7	105.1	129	
Philippines		58	-0.9	0.0	1	-14	-13	-13		5.9	2.5	5	10	148	138	88
Thailand		38	0.5	0.5	1	-12	-11	-14		3.1	0.5	-5	-9	126	125	87
Malaysia		4.74	0.0	-0.5	-2	-12	-12	-12		4.3	-3.5	-14	-12	67	71	63
Argentina		157	-0.2	-1.4	-6	-37	-35	-32		94.0	71.0	299	921	4272	4348	4609
Brazil		5.15	0.6	3.3	0	10	8	-3		11.6	-5.1	-33	5	-77	94	11
Chile		943	0.0	2.1	-1	-14	-10	-16		6.3	0.0	-12	-39	77	91	42
Colombia		5009	-1.4	-0.6	-10	-25	-19	-22		11.2	0.0	43	128	479	476	330
Mexico		19.70	0.2	1.2	2	6	4	3		9.3	1.5	3	25	152	176	144
Peru		4.0	-0.3	0.4	0	0	0	-6		8.4	-8.0	-26	-35	251	251	241
Uruguay		40	0.6	1.9	2	9	11	5		11.4	8.0	-16	-11	305	264	321
Hungary		412	-0.2	-1.7	3	-25	-21	-22		10.8	11.0	19	96	703	630	600
Poland		4.75	0.2	-1.0	3	-16	-15	-15		7.4	0.3	12	70	456	385	348
Romania		5.0	0.0	-2.7	1	-14	-12	-12		9.0	-8.3	-2	53	447	419	386
Russia		61.7	0.2	-0.2	-4	16	22	32		10.8	1.0	-20	186	198	198	-43
South Africa		18.2	0.4	-1.2	-2	-15	-12	-17		9.4	-4.2	-3	-1	155	198	182
Turkey		18.62	-0.2	-0.1	-1	-48	-29	-26		11.4	0.0	31	-57	-832	-1290	-1100
US (DXY; 5y UST)		111	-0.3	1.3	-1	18	16	16		4.25	-1.9	6	16	310	298	234

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	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	7 Days	30 Days	12 M			
								basis points								
China		3678	1.2	1	-3	-24	-26	-20		204	-16	10	9	1	-4	
Indonesia		7016	-0.5	0	0	7	7	1		200	-21	-10	26	35	15	
India		60906	-0.4	2	7	2	5	6		207	-20	23	75	75	53	
Philippines		6206	0.9	3	7	-14	-13	-16		155	-16	-2	47	54	18	
Thailand		1625	0.0	2	4	1	-2	-4		0	0	0	0	0	0	
Malaysia		1452	0.4	0	4	-5	-7	-8		117	-10	9	-4	0	-16	
Argentina		153002	2.0	6	10	71	83	67		2581	69	-234	867	901	844	
Brazil		116929	0.8	2	6	11	12	4		278	-5	-31	-61	-33	-53	
Chile		5194	0.0	2	2	27	21	19		176	-10	-21	14	36	2	
Colombia		1254	1.9	4	11	-10	-11	-17		455	-24	-6	152	107	63	
Mexico		50865	1.9	5	14	-2	-5	-1		413	-4	-63	61	81	43	
Peru		21095	0.6	2	8	2	0	-10		202	-13	-27	25	52	12	
Hungary		41185	0.3	3	9	-24	-19	-14		267	-51	-51	148	143	114	
Poland		51288	1.7	8	12	-30	-26	-18		50	-29	-13	4	18	34	
Romania		10921	0.8	1	3	-14	-16	-17		331	-35	-47	132	138	99	
Russia		2173	-0.1	2	11	-48	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		67650	0.3	1	6	0	-8	-10		418	-34	-74	57	63	29	
Turkey		4088	0.8	3	29	167	120	103		542	-18	-72	45	-36	-21	
Ukraine		519	0.0	0	0	-1	-1	0		4452	185	620	3936	3693	2979	
EM total		35	0.3	2	0	-32	-29	-27		444	-13	-23	63	58	-14	

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

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