



- Fund managers see stagflation as likely scenario for global economy ([link](#))
- U.S. yield curve continues to invert as oil prices settle lower ([link](#))
- US IG bonds outperform HY bonds this year, a big shift from the previous year ([link](#))
- ECB officials maintain hawkish tone as market reduces odds of 75 bps hike ([link](#))
- Current account and GDP data weigh on Chilean peso ([link](#))

[Mature Markets](#)



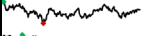



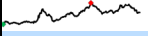

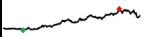


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U.S. dollar recovers as central bankers warn more tightening is needed

The U.S. dollar is stronger following reports of tighter covid controls in China and calls for further tightening by Fed and ECB officials. Growth concerns remain widespread as the US yield curve inverts further and oil prices are settling lower. According to a survey of Bank of America, the vast majority of funds managers see stagflation (below-trend growth, above-trend inflation) as the most likely scenario for the global economy over the next 12 months. **Consensus has shifted to a hike of 50 bps by the Fed and the ECB in December, but traders will closely study FOMC minutes and ECB accounts for upside risks to the baseline.** EC president Von der leyen called COP27 a “small step towards climate justice” as governments agreed on a roadmap to a “loss and damage” fund for poorer countries.

Key Global Financial Indicators

Last updated: 11/21/22 1:10 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3965	0.5	-1	6	-16	-17
Eurostoxx 50		3905	-0.5	0	12	-10	-9
Nikkei 225		27945	0.2	0	4	-6	-3
MSCI EM		38	-0.6	0	8	-25	-22
Yields and Spreads			bps				
US 10y Yield		3.82	-1.1	-4	-40	227	231
Germany 10y Yield		2.02	0.5	-13	-40	236	220
EMBIG Sovereign Spread		487	-3	-24	-79	131	120
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.4	-0.3	-1	1	-8	-6
Dollar index, (+) = \$ appreciation		107.8	0.8	1	-4	12	13
Brent Crude Oil (\$/barrel)		87.0	-0.8	-7	-7	10	12
VIX Index (% change in pp)		23.9	0.8	0	-6	6	7

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

Mature Markets

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The Fed will release November FOMC Meeting minutes (Wednesday) and the ECB the account of its October meeting (Thursday). Money markets are pricing in a baseline of a hike of 50 bps by the Fed on December 14, with a smaller probability of a move of 75 bps. Central banks in Israel (75 bps hike), New

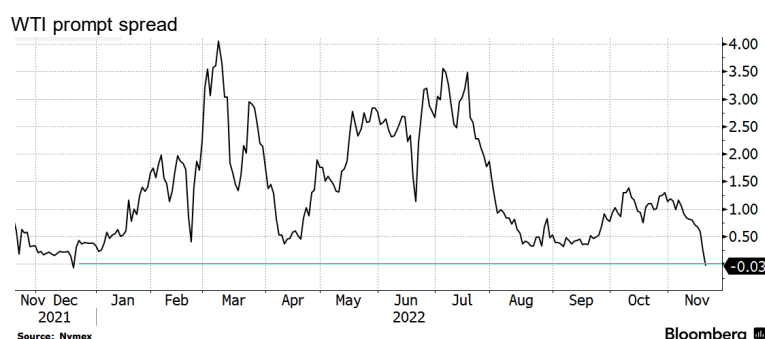
Zealand (75 bps), Nigeria (100 bps), South Korea (25 bps), Kenya (50 bps), Sweden (75 bps), and South Africa (75 bps) are expected to hike. **In contrast, the Hungarian central bank is expected to remain on hold, while Turkey's central bank is expected to cut its policy rate 150 bps.**

Turning to economic data, PMI in the US, Euro area, and the UK will be closely watched. Elsewhere, EU energy ministers will meet in Brussels to discuss measures, including a potential cap on natural-gas prices.

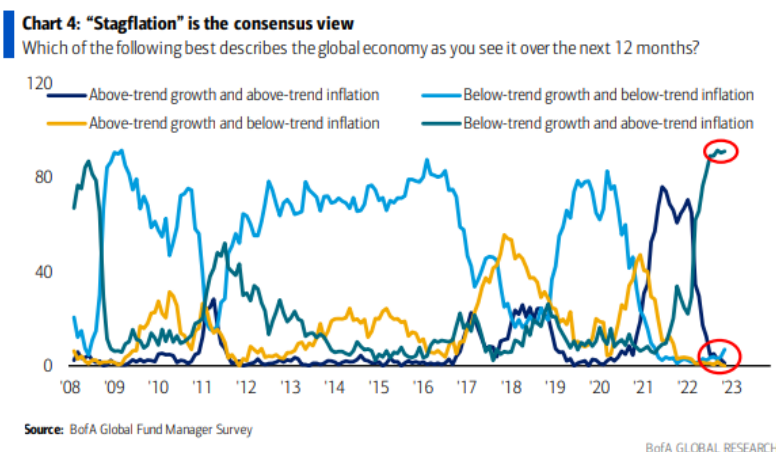
United States

On Friday, US Treasury yields rose 5–8 bps across tenors, with the 10-year yields up by 6 bps to 3.8%. Following the hawkish comment from St. Louis Fed President Bullard the previous day, Boston Fed President Collins reiterated that more hikes are needed as there is still no clear, consistent evidence of overall inflation coming down. She added that a 75 bps hike is still on the table.

The Treasury yield curve continued to invert, with the yield spread between 2-year and 10-year falling to -71 bps, hitting another low since 1982. **Oil prices plunged 10% last week, the largest drop since April**, as demand concerns weighed on the market. On Friday, the US prompt spread flipped into contango, where futures are higher than spot prices, signaling oversupply for the first time since last year.

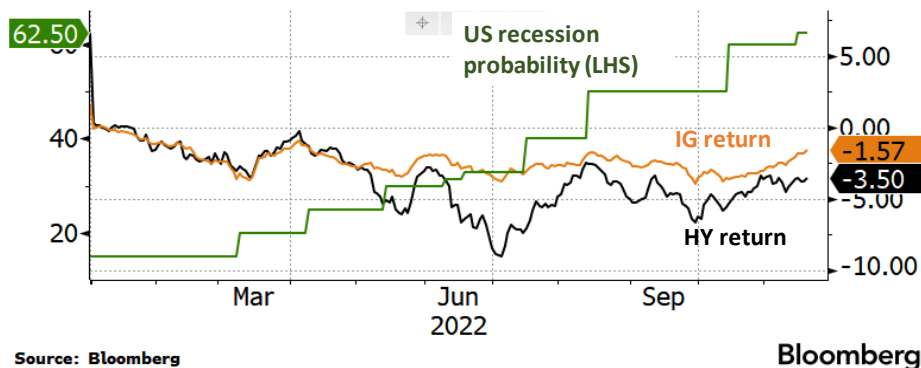


According to the BoA fund manager survey, 92% of respondents see stagflation (below-trend growth, above-trend inflation) as the most likely scenario for the global economy over the next 12 months. Although 85% of respondents expect global inflation to decline in the same period, they increased their concern about persistent inflation as the biggest tail risk. As for the Fed pivot scenario, most participants see lower inflation—PCE deflator drops below 4%—is the most likely reason for the Fed to pause rate hikes, followed by a slowdown in the labor market -initial unemployment claims rise above 300k.



US investment grade (IG) bonds outperformed high yield (HY) bonds this year, a big shift from the previous year when HY constantly performed better. The return of IG bonds lagged behind HY bonds early this year as the longer duration of the IG index (nearly 7 years) compared to that of HY (nearly 4 years) likely explained most of this. Better-than-expected CPI releases earlier this month sparked the best one-day rally of the IG bond index since 1988 as longer duration boosted returns. On the other hand, **Bloomberg analysts highlighted that credit risk explains the poorer return of HY bonds: as recession provability has increased, concern over defaults has been mounting, likely dragging the HY performance this year.**

IG index return YTD looks better than HY index this year

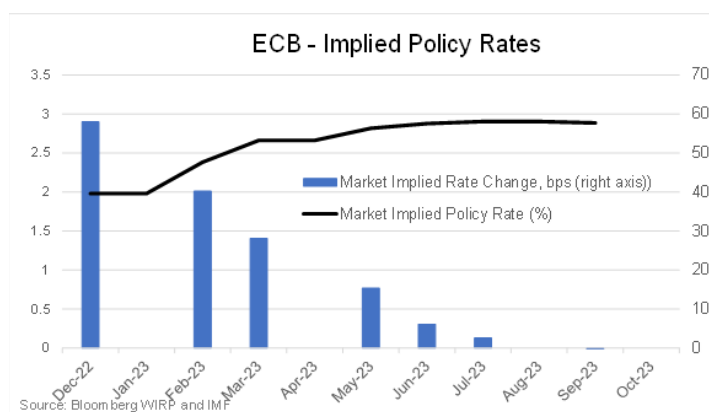


Europe

With new lockdowns imposed in China to curtail a Covid outbreak, equity markets are slightly down, with the Stoxx Europe 600 losing 0.2% and the UK FTSE 100 little changed. The euro is weaker (-0.9% to 1.02/\$) and the British pound is also easing 0.6% (to 1.18 £/\$). Bond yields are broadly flat in Germany (2.01%) and in the UK (to 3.23%). Italian yields are up 3 bps to 191 bps. The Bank of England will conduct the fourth bond sale of its QT program today.

While markets are pricing in 57 bps of rate hikes for the ECB in December, reducing the odds of a jumbo hike of 75 bps but not fully pricing it out yet, a number of ECB officials have made hawkish comments since Friday. On Friday, ECB President Lagarde said that she expected to raise rates further to the levels needed to ensure that inflation returns to the 2% medium term target in a timely manner. She added that while the risk of a recession has increased in her view, experience suggests that a recession is unlikely to bring down inflation significantly, at least in the short run. She further emphasized that displaying commitment to the ECB inflation mandate is vital to ensure that inflation expectations remain anchored and second-round effects do not take hold. Earlier, Bundesbank President Joachim Nagel had said that the ECB must take decisive steps on inflation, and that holding back on interest rates for fear of a recession would be wrong. Governing Council member and Dutch governor Klaas Knot had also said that the ECB must raise interest rates to a level that constrains the economy to ensure record inflation does not persist.

This morning, ECB Chief Economist Philip Lane, considered to be one of the most dovish members of the ECB, said that he expects rates to rise further, and that December is not going to see the last hike. He said that the more relevant argument than whether to pause is to move at the appropriate time to smaller increments adding that the ECB will have to consider lags in policy transmission for future moves. **He added that QT should follow a mechanical approach and should not be interconnected with rate decisions as much.**



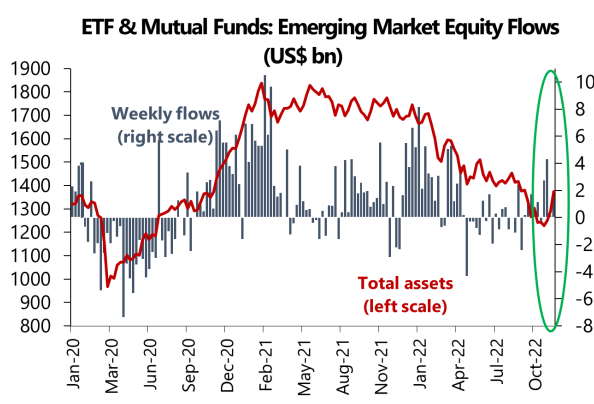
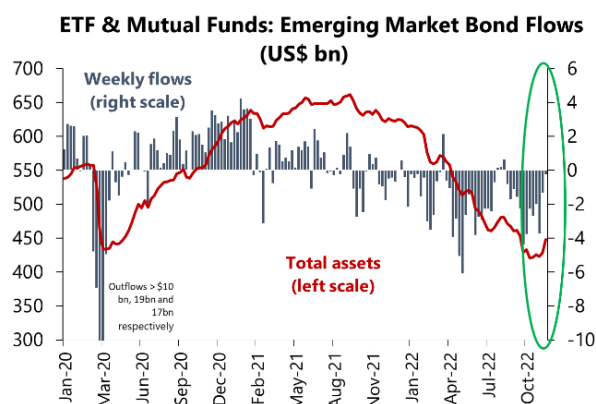
Emerging Markets

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Sentiment was cautious on reports of tighter Covid controls and covid deaths in China. Chinese equities (-0.4%) and the yuan trader lower, with most Asian equities also lower. **EMEA markets opened the week quietly in the absence of major data releases.** Equities were broadly flat, but fell in Poland (-0.6%) and South Africa (-0.7%). **Currencies were mostly weaker, with the South African rand losing 0.9% (to 17.4/\$) and the Hungarian forint losing 0.8% and to 410.2/euro.** Local bond yields were mostly unchanged. **Latin American assets were mixed on Friday.** Lower precious metal and oil prices weighed on Colombian equities (-1%), the Chilean peso depreciated by 2.2% on disappointing macro data. **Brazilian equities declined (-0.8%) following reports that former Sao Paulo mayor Mr. Haddad could be the front-runner for the position of the next finance minister.** Brazil's and Colombia's local currency treasury yield curves shifted higher (+28 bps in Brazil and 15 bps in Colombia, both at the 10-year maturity). Elsewhere, equities gained in Argentina (+1.3%), Chile (+0.5%), and Mexico (+0.4%), while the Brazilian real appreciated (+0.5%). **The gap between Argentina's official and blue-chip exchange rate widened again to more than 100 percent, as Argentine dollar bonds displayed renewed weakness over the last month, while a decline in local real interest rates reduced the attractiveness of local assets.**

EM fund flows

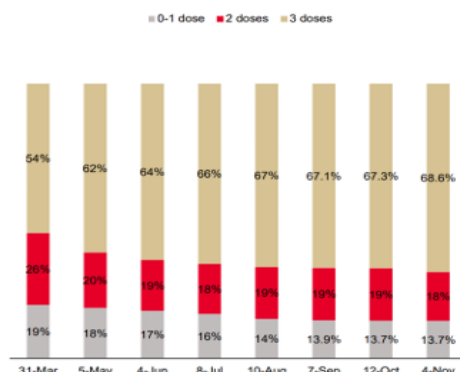
Recent valuation gains helped to shore up flows to EM funds. Equity funds attracted last week \$1.9 bn (+0.15% of assets), while bond funds lost a mere \$0.3 bn (-0.06% of assets), less than in the weeks before, with investors turning their back on local currency bonds funds (-\$0.6 bn), in particular on those invested in Chinese credit markets. In the equity segment EM-focused ETFs remained more attractive than mutual funds, with the latter seeing \$0.7 bn of their assets leaving.



China

The yuan fell and equities (-0.4%) closed lower after Beijing reported new lockdowns in several districts as well as the first covid deaths in months. Analysts at SocGen warn that the booster shot coverage among the elderly is still relatively low in China.

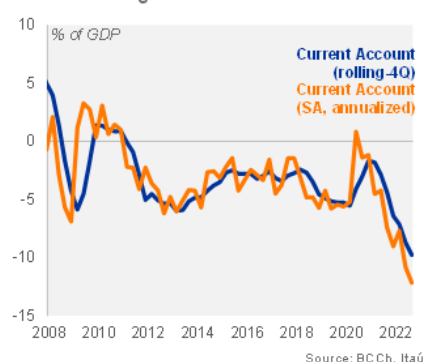
China: Vaccination of 60+ population



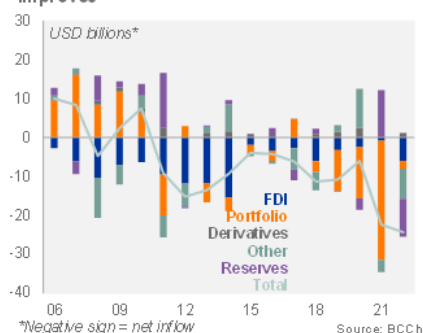
Chile

Weak current account and GDP prints weigh on the peso. An unexpectedly high current account deficit (9.9% of GDP on a four-quarter trailing base), largely driven by a weakened trade surplus, put last Friday pressure on the Chilean peso, in particular as it was financed to a substantive part by a decline in central bank foreign exchange reserves. **Simultaneously, real GDP contracted in the third quarter sharply** (-1.2% q/q), printing y/y at 0.3%, slightly above expectations, but 5.3 ppt down from the previous quarter. Yields reacted modestly, falling up to 15 bps on the longer end of the country's yield curve for interest rate swaps.

Near double-digit CAD



Financial Account: Share of FDI financing improves



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Global Financial Indicators

Last updated: 11/21/22 1:08 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3958	0.5	0	5	-16	-17
Europe		3905	-0.5	0	12	-10	-9
Japan		27945	0.2	0	4	-6	-3
China		3085	-0.4	0	2	-14	-15
Asia Ex Japan		64	-1.0	0	10	-26	-23
Emerging Markets		38	-0.6	0	8	-25	-22
Interest Rates			basis points				
US 10y Yield		3.82	-1.3	-4	-40	227	231
Germany 10y Yield		2.02	0.4	-13	-40	236	220
Japan 10y Yield		0.25	-0.2	0	-1	17	18
UK 10y Yield		3.24	0.3	-13	-81	236	227
Credit Spreads			basis points				
US Investment Grade		162	0.4	-10	-30	47	50
US High Yield		472	1.6	-5	-34	118	135
Europe IG		96	1.4	0	-29	45	48
Europe HY		477	5.2	0	-125	223	235
Exchange Rates			%				
USD/Majors		107.82	0.8	1	-4	12	13
EUR/USD		1.02	-0.8	-1	4	-9	-10
USD/JPY		141.8	1.0	1	-4	23	23
EM/USD		49.4	-0.3	-1	1	-8	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		87	-0.8	-7	-7	10	12
Industrials Metals (index)		155	-1.9	-7	6	-7	-10
Agriculture (index)		67	-0.4	-1	-1	10	10
Implied Volatility			%				
VIX Index (% change in pp)		23.9	0.8	0.2	-5.8	6.0	6.7
US 10y Swaption Volatility		134.4	3.7	9.5	-26.4	52.6	55.4
Global FX Volatility		11.4	0.1	-0.2	-1.5	3.6	4.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		226	0.9	7	-38	74	74
Italy		193	4.1	-11	-41	72	58
Portugal		93	0.8	-4	-11	28	28
Spain		100	0.2	-6	-12	27	25

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

Emerging Market Financial Indicators

Last updated: 21/11/2022 1:06 PM	Exchange Rates						Local Currency Bond Yields (GBI EM)									
	Level		Change (in %)					Level		Change (in basis points)						
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		YTD
	vs. USD		(+) = EM appreciation					% p.a.								
China		7.17	-0.6	-1.4	1	-11	-11		3.1	-1.5	-2	23	6	22		
Indonesia		15713	-0.2	-1.2	-1	-9	-9		7.1	1.9	1	-58	104	69		
India		82	-0.2	-0.7	1	-9	-9		6.3	0.0	0	9		0		
Philippines		57	-0.2	-0.1	2	-12	-11		6.1	0.0	0	33	153	165		
Thailand		36	-1.1	-1.5	5	-9	-8		2.8	11.0	-1	-42	95	97		
Malaysia		4.58	-0.6	0.3	3	-9	-9		4.4	10.3	-1	-17	85	80		
Argentina		163	-0.2	-1.5	-6	-38	-37		92.8	-138.2	-688	599	4222	4224		
Brazil		5.30	1.4	0.5	-3	6	5		13.1	-33.0	27	131	128	241		
Chile		952	-1.1	-6.3	2	-15	-10		5.4	-4.0	6	-124	25	0		
Colombia		4988	0.0	-3.7	-1	-21	-19		10.3	0.0	-5	-139	358	393		
Mexico		19.46	-0.1	-0.6	2	8	5		8.8	0.5	6	-53	134	126		
Peru		3.8	0.0	0.7	4	5	4		8.0	0.1	32	-63	216	212		
Uruguay		40	-0.2	0.1	3	10	12		10.9	-17.8	-18	-59	228	222		
Hungary		399	-1.4	-0.9	4	-18	-19		8.2	-27.0	-40	-304	391	369		
Poland		4.59	-0.9	-0.7	5	-9	-12		6.3	-1.5	-3	-149	319	279		
Romania		4.8	-0.9	-1.6	3	-9	-10		7.9	-3.5	-25	-113	308	311		
Russia		61.0	-0.5	0.4	1	23	23		10.9	-52.5	9	36	177	213		
South Africa		17.4	-0.6	-0.4	4	-9	-8		9.1	-0.5	-1	-73	155	170		
Turkey		18.63	0.0	-0.2	0	-39	-29		11.6	0.0	-37	85	-867	-1275		
US (DXY; 5y UST)		108	0.8	1.1	-4	12	13		4.00	-0.5	1	-34	278	274		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3769	-0.9	-1	1	-23	-24		205	-12	-3	7	2
Indonesia		7063	-0.3	1	1	5	7		180	-28	-40	20	15
India		61145	-0.8	-1	3	5	5		153	-35	-57	18	21
Philippines		6403	-0.5	1	7	-12	-10		141	-15	-37	37	40
Malaysia		1448	-0.1	-1	0	-5	-8		101	-26	-24	-9	-16
Argentina		157254	1.3	5	13	84	88		2454	-38	-358	726	774
Brazil		108870	-0.8	-3	-9	6	4		287	-17	-15	-32	-24
Chile		5211	0.3	-2	1	20	21		152	-10	-42	15	12
Colombia		1283	-1.0	1	4	-1	-9		407	-16	-79	98	59
Mexico		51570	0.4	-1	9	1	-3		382	-6	-57	49	50
Peru		21897	0.2	-2	7	9	4		182	-2	-50	29	32
Hungary		44535	0.1	1	10	-13	-12		223	-33	-90	112	99
Poland		54290	-1.1	-3	16	-22	-22		40	-42	-17	-7	8
Romania		11743	0.5	1	8	-6	-10		283	-22	-100	96	90
Russia		2173	-1.5	-3	6	-46	-43		3411	-577	938	3228	3234
South Africa		71784	-1.1	-1	10	2	-3		384	-3	-105	34	29
Turkey		4492	-0.8	-2	14	159	142		511	-13	-88	5	-67
Ukraine		519	0.0	0	0	-1	-1		3683	-482	-446	3124	2924
EM total		38	-1.3	0	8	-25	-22		406	-19	-65	28	20

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

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