GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 23, 2022

- **EU expected to approve price cap on Russian oil** (link)
- **PMI data for November better than expected in Euro Area** (link)
- **US Mortgage-backed securities recover from lows** (link)
- **Hedge funds continue to reduce their equity market exposure** (link)
- **Reserve Bank of New Zealand hiked 75 bps with hawkish guidance** (link)
- **Singapore's measure of core CPI inflation unexpectedly falls in October** (link)
- **Nigeria surprises with a hike of 100 bps but could pause in January** (link)
- **Ongoing drought could add to pressures in Argentine peso markets** (link)

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Setting the stage for Thanksgiving

European equities are little changed after PMI data for the euro area were better than expected. The PMI reports show that price pressures are easing while suggesting that a shallow contraction is still possible. EU and the G7 are also expected to agree on capping the price of Russian oil with the EU watering down some of the provisions of the cap legislation. Yesterday, US equities closed higher as companies released better-than-expected earnings and mortgage spreads continue to trade lower. The Reserve Bank of New Zealand hiked 75 bps while sounding hawkish. In contrast, Hungary held rates at 13% yesterday while Nigeria surprised with a larger than expected 100 bps.

Key Global Financial Indicators

Last updated: 11/23/22 1:12 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4004	1.4	0	7	-15	-16
Eurostoxx 50		3938	0.2	1	13	-8	-8
Nikkei 225		28116	0.6	0	5	-6	-2
MSCI EM		38	0.2	-3	7	-25	-23
Yields and Spreads				bps			
US 10y Yield		3.77	1.7	8	-44	211	226
Germany 10y Yield		1.99	1.0	-1	-43	221	217
EMBIG Sovereign Spread		487	-3	4	-91	130	120
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		49.6	0.0	0	2	-6	-6
Dollar index, (+) = $ appreciation		107.0	-0.2	1	-4	11	12
Brent Crude Oil ($/barrel)		85.9	-2.8	-7	-8	4	10
VIX Index (%, change in pp)		21.7	0.4	-2	-8	2	4

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

Mature Markets

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Commodity Markets

Brent oil prices are down 1.9% to $86.7/bbl as Bloomberg reports that the EU, in coordination with the G7 is discussing capping the price of Russian crude oil between $65–70 per barrel. EU ambassadors are meeting today and are expected to approve the cap mechanism and a proposed price level in coordination with the G7, that could be announced later today. **Bloomberg also reports that the $65–70 range would be above Russia's cost of production. It adds that as Russia is already selling its crude at discounts, the cap may not have impact on trading.** The price cap would ban companies from providing shipping and services, such as insurance, brokering and financial assistance, needed to transport Russian oil anywhere in the world unless the oil is sold below the agreed threshold. The cap would keep Russian oil flowing in order to avoid global price spikes, while at the same time limiting Russia's revenues.

The EU has watered down some of the provisions of the cap legislation by adding a 45-day transition to the introduction of the cap. The proposed grace period would apply to oil loaded before December 5—the date oil sanctions are due to kick in—and unloaded by January 19 indefinite restrictions on ships. Penalties on ships that carry Russian oil above the price cap would now be limited to a 90-day period instead of being unlimited, and apply only to Russian oil.

United States

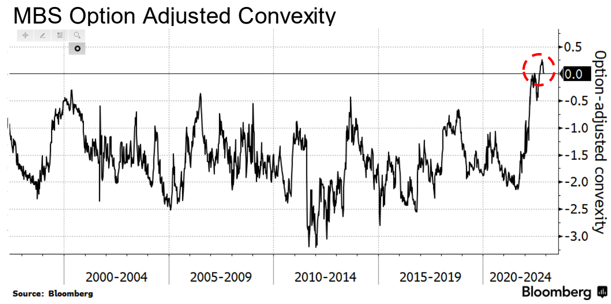
In data released this morning, durable goods orders (1.0% m/m vs. 0.4% expected) and durable goods ex-transportation (0.5% m/m vs. 0% expected) came in stronger than expected with downward revision to the previous month. Weekly initial jobless claims slightly increased to 240k from 223k (revised up from 222k) and were worse than expected (consensus 225k); continuing claims recorded 1551k versus expected 1520k. Market impact was fairly muted immediately after the release.

On Tuesday, the S&P 500 rose (1.4%), with all eleven major sectors closing in the green as companies releasing better-than-expected earnings and outlooks supported the markets.

US Treasury yields fell 4–8 bps across tenors, with the 10-year yields down to 3.76%. Risk assets were broadly higher, and crypto assets recovered from the previous day's losses.

Mortgage-backed securities (MBS) have shown strong performance recently on the back of attractive valuation, volatility ease, and less prepayment risk, according to Bloomberg. It has been a challenging year for MBS as the Fed has raised the policy rate rapidly, lifting volatility higher. In addition, demands have been weak as the Fed started to run off its balance sheet and US banks and foreign investors—major investors in MBS markets—were quiet. **However, MBS total return index experienced the biggest one-day gain on the day better-than-expected CPI was released, and the index has risen about 5% since late October** as markets have been looking for a sign that inflation, Fed-hikes, and volatility downshift and provide stability. **Another positive story to the market is that issuance continues to slow: BMO analysts expect the net issuance in 2023 to decline around $300 bn from an estimated $550 bn this year.**

Source:Bloomberg



Hedge funds have been reducing equity market exposure sharply this year (left chart) amid high uncertainty in markets and poor returns, according to GS research analyzing 786 hedge funds managing $2.3 trillion of gross equity positions. As this year's typical behaviors, hedge funds have cut leverage, tilted toward Growth from Value stocks, and increased portfolio concentrations in their favorite stocks alongside elevated stock correlations. Overall portfolio holdings picture has not changed much, with portfolio position turnover reaching new record lows. **The average fund return was -5% year-to-date, and macro funds (+9%) performed better than equity funds (-12%).**

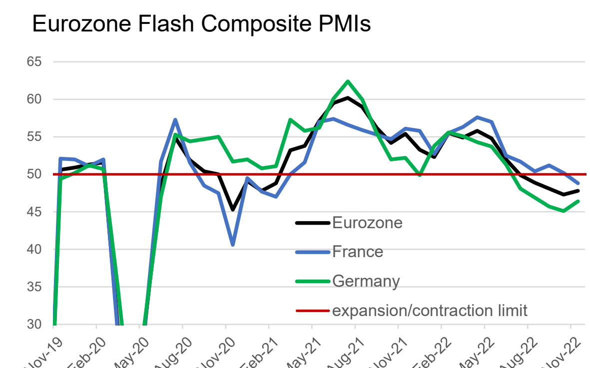
New Zealand

Swap rates traded over 20 bps higher after the central bank (RBNZ) raised its policy rate by 75 bps, as expected, and sounded hawkish on the outlook. The RBNZ commented that core consumer price inflation is too high, employment is beyond its maximum sustainable level and near-term inflation expectations have risen.

Europe

Equity markets are subdued, with the Stoxx Europe 600 up 0.1% and the UK FTSE 100 up 0.3%. The euro and the British pound are appreciating slightly vs. the dollar (+0.1% to 1.03/$ and +0.4% to 1.19 £/$ respectively). Bond yields are broadly flat in Germany (1.98%) after November PMIs indicate a lower than expected contraction, and Italian spreads are narrowing 4 bps at 189 bps. 10y gilt yields are down 4 bp to 3.1% after November PMI data came in better than expected at 48.3 (47.5 expected) but remains in contractionary territory for the fourth consecutive month.

The Euro and bund yields were broadly unchanged as Euro area composite flash PMIs for November surprised to the upside at 47.8, above expectations (47) and up from 47.3 in October. This is the fifth month of contraction in the euro area, with readings below the 50 mark since July. Both services (48.6 vs 48 expected) and manufacturing (47.3 vs 46 expected) surprised on the upside. In contrast with the previous few months, PMI data for Germany also surprised on the upside, marking a smaller contraction than expected (46.4 vs 44.9 expected), and a bounce back from October (45.1). Manufacturing fared better than expected (46.7 vs 45 expected), while services were broadly in line with expectations. PMI data for France disappointed (48.8 vs 49.4 expected), and fell below the 50 mark for the first time since the pandemic as services underperformed (49.4 vs 50.6 expected) even though manufacturing was more resilient than expected (49.1 vs 47 expected).



Source: Bloomberg and IMF

Emerging Markets

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Chinese equities (+0.3%) closed higher following reports that developers are issuing more bonds under a state-guarantee program. Equities in EMEA gained, with Hungary up 0.8% and South Africa gaining 0.8%. Currencies were broadly stable. South African local bond yields were little changed after October inflation surprised slightly on the upside (headline inflation +7.6%y/y vs expected 7.4% from 7.5%; core inflation +5.0%y/y vs expected 4.8% from 4.7%). **Latin American assets were mixed yesterday.** Stocks gained in Colombia (+2%), Peru (+1.9%), Argentina (+0.6%), and Mexico (+0.4). Currencies appreciated in Chile (+1.6%), Colombia (+0.8%), and Mexico (+0.5%). **Brazilian assets trended lower (equities -0.6%, real -1%), as the presidential election results were contested and discussions around budget plans continued.** Peru's real GDP expanded in the third quarter of 2022 by 1.7% y/y, as expected, but 1.6 ppt less than in the previous quarter. The central bank of Paraguay kept its policy rate at 8.5%, after inflation fell in October by 120 bps to 8.1% y/y. The region's hard currency treasury yield curves followed the US curve lower.

Singapore

The Monetary Authority of Singapore's measure of core CPI inflation unexpectedly fell to 5.1% y/y in October, compared to 5.3% y/y expected and 5.3% y/y in September.

Singapore: Core inflation (% m/m)

Source: Haver Analytics, Barclays Research

Hungary

The forint was little changed (+0.1% to 405/euro) while bond yields continued to decline after the National Bank of Hungary (NBH) left monetary policy unchanged after the government took steps to cap selected bank deposit rates. PM Orban earlier this week signed a decree limiting the interest rate that banks can pay on commercial deposits of financial institutions and certain retail clients. The limit is set to the interest on the 3-m discount Treasury bill—currently at around 12%, and is to remain in place until the end of March 2023. It was widely anticipated that the central bank would leave rates unchanged, with the regular overnight deposit rate at 12.5%, the base rate at 13% and the overnight repo rate at 25%. **However, some analysts see the government deposit cap as an unorthodox interest rate cut as it limits the transmission of higher interest rates.** 10-yr bond yields have fallen to 7.9%, roughly 27 bps lower than at the end of last week.

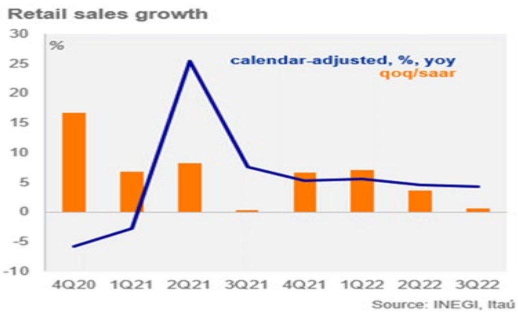
Nigeria

The central bank of Nigeria surprised with a 100 bps hike (75 bps expected) to take the policy rate to 16.5%, but hinted that the pace of future tightening could moderate. The central bank's cumulative rate hikes this year now amounts to 500 bps and the committee indicated that tighter policy was starting to yield the desired results as inflationary pressures has started to ease, while the MPC also acknowledged slowing global and domestic economic growth. Headline inflation reached 21.1%y/y in October. **Absa**

analyst expect inflation to peak in November and see inflation at 20.5%y/y by end-2022 and thus as a baseline expect the MPC to keep interest rates unchanged at the January meeting, but also see the possibility of a smaller rate hike.

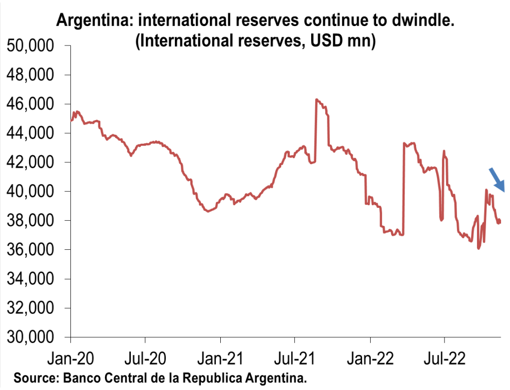
Mexico

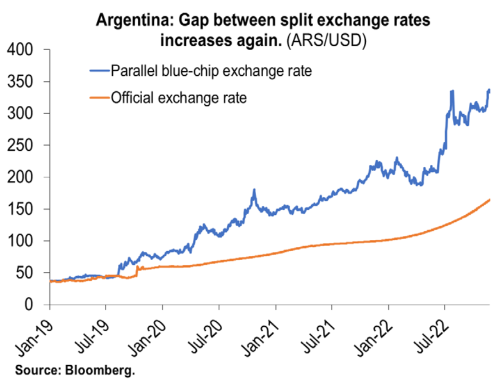
Signs for a softening business cycle did not hurt markets. September's growth in retail sales printed at 3.3% y/y, 60 bps below expectations and down from 4.7% the month before, while changes in leading and coincident economic indicators for the same month came in at -0.4% m/m and 0.2% m/m, respectively. **The prints point to a softening economic cycle: Itau analysts now expect GDP to grow 2.6% y/y in 2022 and 0.5% in 2023.** Neither the Mexican peso nor Mexican equities appeared to show any major reaction.



Argentina

In face of an ongoing drought Argentina's wheat harvests are expected to result in low export levels, hurting foreign currency revenues and potentially the country's FX markets. Current estimates for 2022-23 wheat exports run as low as 6.5 mn metric tons, down from an average 11.7 mn tons over the last 5 years. **The drop in expected exports would imply a loss of more than $2.2 bn in dollar revenues, putting additional pressure on already dwindling international reserves.** Despite a recent acceleration in the depreciation of the ARS (yesterday -0.8%), the gap of Argentina's blue-chip exchange rate to its official rate trends up once again, highlighting the vulnerability of the country's FX markets to risk materialization. Notwithstanding this trend, yesterday's print for October's trade balance ($1.8 bn, up from $0.4 bn in September) delivered support to equity (+0.6%) and blue-chip FX markets (+1.6%).





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Global Financial Indicators

Last updated: 11/23/22 1:12 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4006	1.4	1	7	-15	-16
Europe		3938	0.2	1	13	-8	-8
Japan		28116	0.6	0	5	-6	-2
China		3097	0.3	-1	4	-14	-15
Asia Ex Japan		63	0.2	-3	9	-27	-24
Emerging Markets		38	0.2	-3	7	-25	-23
Interest Rates					basis points		
US 10y Yield		3.77	1.7	8	-44	211	226
Germany 10y Yield		1.99	1.0	-1	-43	221	217
Japan 10y Yield		0.25	0.0	0	-1	17	18
UK 10y Yield		3.10	-3.9	-5	-96	210	213
Credit Spreads					basis points		
US Investment Grade		161	-0.6	-8	-31	48	49
US High Yield		466	-3.2	-15	-40	113	128
Europe IG		91	-1.0	-5	-30	40	44
Europe HY		457	-3.8	-20	-128	196	216
Exchange Rates					%		
USD/Majors		106.97	-0.2	1	-4	11	12
EUR/USD		1.03	0.2	-1	5	-8	-9
USD/JPY		141.2	0.0	1	-5	23	23
EM/USD		49.6	0.0	0	2	-6	-6
Commodities					%		
Brent Crude Oil ($/barrel)		86	-2.8	-7	-8	4	10
Industrials Metals (index)		157	-0.3	-4	7	-6	-9
Agriculture (index)		67	-0.3	-1	-2	8	10
Implied Volatility					%		
VIX Index (%, change in pp)		21.7	0.4	-2.5	-8.0	2.3	4.4
US 10y Swaption Volatility		135.9	0.0	1.8	-24.0	52.7	56.9
Global FX Volatility		11.3	0.0	-0.1	-1.5	3.3	3.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		224	-1.9	-2	-40	70	72
Italy		188	-5.6	-6	-45	60	53
Portugal		91	-1.7	-5	-13	25	27
Spain		97	-2.5	-4	-15	24	23

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

Emerging Market Financial Indicators

Last updated: 23/11/2022 1:14 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	-0.4	-0.9	1	-11	-11		3.0	-5.5	-12	20	0	17
Indonesia		15687	0.1	-0.6	-1	-9	-9		7.0	-6.9	-5	-68	92	59
India		82	-0.2	-0.7	1	-9	-9		6.3	0.0	0	9		0
Philippines		57	0.7	0.7	3	-11	-11		6.1	-2.5	-3	30	153	163
Thailand		36	-0.3	-1.3	6	-9	-8		2.7	-1.5	4	-57	87	88
Malaysia		4.58	0.1	-0.7	4	-8	-9		4.4	-2.6	5	-21	78	76
Argentina		165	-0.2	-1.4	-6	-39	-38		93.1	24.8	-250	378	4239	4249
Brazil		5.39	-0.4	0.1	-2	4	3		13.4	-1.7	29	139	175	267
Chile		925	0.2	-1.6	7	-12	-8		5.3	0.0	-11	-133	6	-12
Colombia		4880	0.6	1.3	2	-19	-17		10.3	0.0	22	-138	347	388
Mexico		19.38	0.3	-0.2	3	10	6		8.7	0.0	0	-83	100	113
Peru		3.9	-0.3	-0.6	4	4	4		7.9	######	-7	-78	193	198
Uruguay		39	-0.1	0.8	4	12	13		10.9	5.1	-18	-59	229	222
Hungary		393	0.2	0.3	7	-16	-17		7.8	-6.0	-88	-335	326	331
Poland		4.56	0.2	-0.8	6	-8	-11		6.0	-0.5	-5	-158	280	245
Romania		4.8	0.1	-1.0	4	-8	-9		7.8	-8.4	-16	-173	292	300
Russia		60.6	0.8	0.2	2	23	24		10.9	-7.7	-34	36	165	213
South Africa		17.2	0.5	0.7	7	-8	-7		9.0	-3.0	-17	-90	131	154
Turkey		18.63	-0.1	-0.1	0	-31	-29		10.8	-53.0	-109	8	-1030	-1352
US (DXY; 5y UST)		107	-0.2	0.7	-4	11	12		3.97	2.4	12	-37	263	271

	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		3774	0.1	-2	4	-23	-24		203	-8	-9	7	0
Indonesia		7054	0.3	1	0	6	7		182	3	-30	27	17
India		61511	0.1	-1	3	5	6		155	-1	-64	24	23
Philippines		6510	1.3	2	8	-12	-9		137	-1	-41	38	36
Malaysia		1444	0.2	0	0	-5	-8		102	1	-22	-7	-15
Argentina		158169	0.6	4	14	89	89		2431	35	-224	662	751
Brazil		109037	-0.6	-1	-9	5	4		281	-2	-2	-37	-30
Chile		5288	-0.1	1	3	13	23		154	5	-37	22	14
Colombia		1256	2.0	-2	2	-5	-11		401	7	-113	93	53
Mexico		51761	0.4	0	10	1	-3		388	12	-50	54	56
Peru		22302	1.9	0	9	12	6		180	7	-48	27	30
Hungary		45866	1.2	4	13	-11	-10		231	0	-93	119	107
Poland		55408	0.4	0	18	-20	-20		41	-23	-46	-3	9
Romania		11551	-0.1	-1	6	-7	-12		294	16	-93	107	101
Russia		2207	0.5	-1	8	-44	-42		3411	-577	938	3228	3234
South Africa		72841	0.8	0	11	3	-1		378	27	-111	26	23
Turkey		4782	0.0	2	22	168	157		501	11	-94	10	-77
Ukraine		519	0.0	0	0	-1	-1		3665	29	-541	3061	2906
EM total		38	0.2	-3	7	-25	-23		404	2	-73	26	18

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