GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, NOVEMBER 3, 2022

- **FOMC delivers fourth consecutive 75 bps hike and signals higher terminal policy rate** (link)
- **Bank of England hikes 75 bps and pushes back against peak rate expectations** (link)
- **ECB President Lagarde warns that mild recession will not tame inflation** (link)
- **Malaysia's central bank raises policy rate 25 bps to 2.75%, as expected** (link)
- **China's National Health Commission reiterates adherence to COVID zero stance** (link)
- **Local sovereign yields in Central and Eastern Europe increase sharply** (link)

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Sovereign bond yields rise as central bank pivot hopes are tempered

Central bank actions have taken center stage over the last day as hopes for a peak in hawkishness have been toned down by signals that policy tightening still has a way to go. In line with market expectations, the FOMC delivered a fourth consecutive 75 bps policy rate hike yesterday, and while the statement and Chair Powell's press conference indicated a potential step down in the pace of tightening at future meetings, commentary suggesting a higher peak policy rate was interpreted as hawkish. US Treasury yields are up 8 to 10 bps across the curve in response, and though market pricing for the December meeting has shifted closer to a 50 bps hike, expectations for the terminal rate have moved higher to about 5.2% by mid-next year. In the UK, the Bank of England hiked its policy rate 75 bps as expected and signaled the peak rate would likely be lower than markets currently anticipate. Core yields are also 8 to 12 bps higher in the UK and Euro area, while the euro and pound are both weaker against the US dollar. Elsewhere on the central bank front, both the HKMA and Malaysian central bank raised their policy rates as expected. Global equities are declining amidst the hawkish mood reverberating through markets, with tech sector stocks taking the brunt of the hit from the expectations for higher interest rates, while Asian indices underperformed as Chinese authorities dampened reopening hopes after reiterating adherence to the COVID zero stance.

Key Global Financial Indicators

Last updated: 11/3/22 8:18 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities			%				%	
S&P 500		3760	-2.5	-2	2	-19	-21	-11
Eurostoxx 50		3579	-1.2	-1	7	-17	-17	-10
Nikkei 225		27663	-0.1	1	6	-6	-4	5
MSCI EM		35	-0.8	-1	-3	-32	-29	-27
Yields and Spreads			bps					
US 10y Yield		4.18	8.0	26	54	258	267	219
Germany 10y Yield		2.26	11.5	29	34	242	243	203
EMBIG Sovereign Spread		533	-1	-18	-26	173	166	121
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.6	-0.6	-1	-1	-11	-8	-9
Dollar index, (+) = $ appreciation		112.9	1.4	2	1	20	18	17
Brent Crude Oil ($/barrel)		95.5	-0.7	-2	7	16	23	-1
VIX Index (%, change in pp)		26.4	0.6	-1	-4	11	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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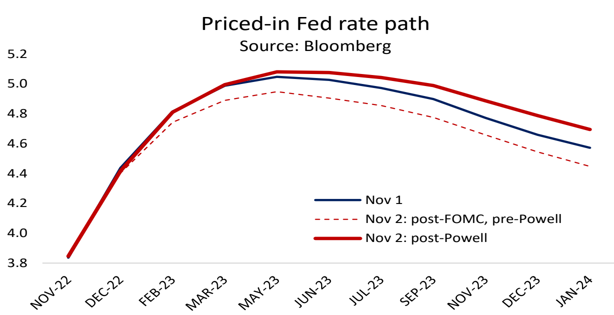
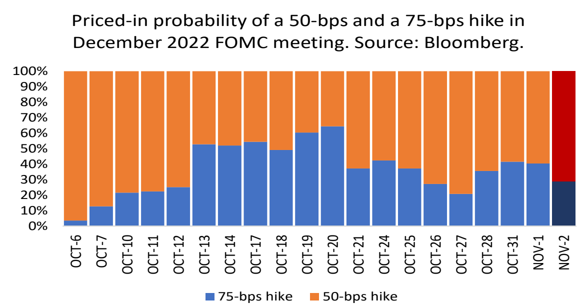
United States

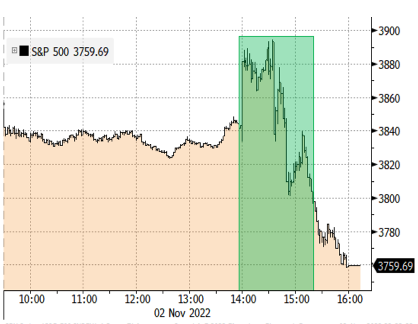
Yesterday, markets experienced significant volatility during and after the announcement of the FOMC's policy decision. The S&P 500 closed -2.5%. 2Y and 10Y yields rose by 7 bps and 6 bps (driven by real yields). The US dollar appreciated versus major (0.5%) and emerging market (0.3%) currencies.

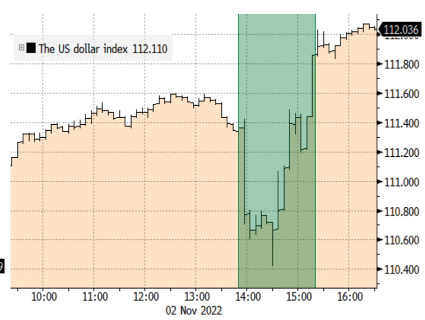
Fed Chair Powell exhibited a hawkish tone following a 75 bps hike. He reiterated that the Fed still faces various sticky components of inflation, and that "it is very premature" to think about pausing rate hikes. The terminal rate may go even higher than initially expected, while the timing of the peak rate is still uncertain. The hope is that the tightening of financial conditions would expedite the transmission from rate hikes and forward guidance into the real sector, leading to a quicker disinflationary phase. The return to smaller-than-75-bps hikes may come "as soon as the next meeting, or the one after that". Powell noted that potential overtightening may be addressed with the tools available to the Fed and is less damaging for the economy than under-tightening leading to entrenched inflation. In his view, a soft landing is still possible, though less probable than was previously thought. By the end of Wednesday, markets priced in a 10 bps increase in the terminal rate (up to 5.08%) and a slightly slower pace of policy rate normalization (left chart below). The priced-in probability of a 75 bps hike at the December FOMC meeting remained low (~30%; right chart).

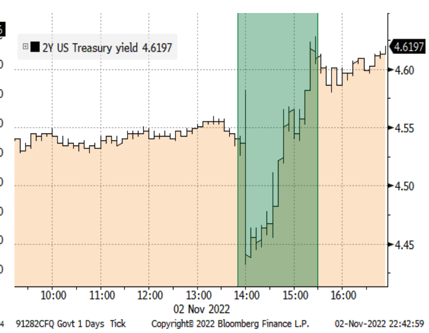




Investors are still struggling to correctly process the Fed's communication. The release of the FOMC statement was initially interpreted by markets and some analysts as a clear dovish sign that the Fed is going to slow down its hiking path and assess the overall impact of "*the cumulative tightening of monetary policy*". The inferred dovish tone led to an immediate rally across most assets. However, the consequent hawkish tone of Powell's press conference reverted the gains (charts below) and left some market participants questioning the purpose of adding a new passage and what specific forward guidance it was supposed to provide. The interpretation that the Fed's decision will remain predominantly data-dependent has provided little help, as recent data releases have sent conflicting messages: some components of inflation remain stubbornly sticky amid significant disinflation in some other components, while the signs of declining economic activity in some sectors are counterbalanced by the labor market being *"out of balance"*.







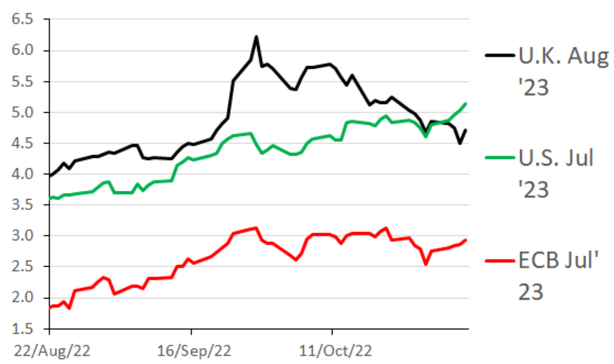
Euro area

The euro (-0.8%) traded sharply lower as equities (-1%) also declined. European bank equities outperformed as rates traded higher.

Euro area yields are sharply higher following Chair Powell's hawkish message as ECB President Lagarde warns that a "mild recession" is possible but that it will not be able to tame inflation. Bundesbank president Nagel said that political pressures might increase in response to ECB tightening but added that such pressures should not refrain the ECB from further rate hikes.

Money markets have shifted expectations of the ECB's terminal rate higher, with the depo rate expected to reach around 3% again by July 2023. Curves generally steepened. For example, 2-yr Italian yields rose 2 bps but 10-yr Italian yields are 11 bps higher at 4.41%.

G-3 Expected Policy Rates at mid 2023 (swaps, %)



Source: Bloomberg WIRP and IMF staff

United Kingdom

The pound (-1.8%) added to earlier losses as did gilts after the BoE hiked its policy rate 75 bps to 3%. As expected, some MPC members called for a smaller hike. Dissenters were Swati Dhingra, who called for 50 bps, and Silvana Tenreyro, who called for 25 bps. **The majority of the MPC judges that, should the economy evolve broadly in line with the latest BoE projections, further increases in Bank Rate may be required for a sustainable return of inflation to target, but to a peak lower than priced into financial markets**. Staying on the market path used in the forecasts, which peaks at around 5.25% next year, would knock 3% off GDP and ultimately push inflation to zero, according to the BOE. An outlook based on rates staying at their current 3% level implies a shorter, shallower recession and sees inflation fall close to target in two years. **Two-year gilt yields are up 3 bps to 3% with 10-yr yields up 12 bps to 3.51% and 30-yr yields 18 bps higher at 3.74%.**

Following the BoE announcement, Chancellor Hunt reportedly said that the UK government wants limited interest rate rises and that "sound money and a stable economy are the best ways to deliver lower mortgage rates, more jobs and long-term growth."

Emerging Markets

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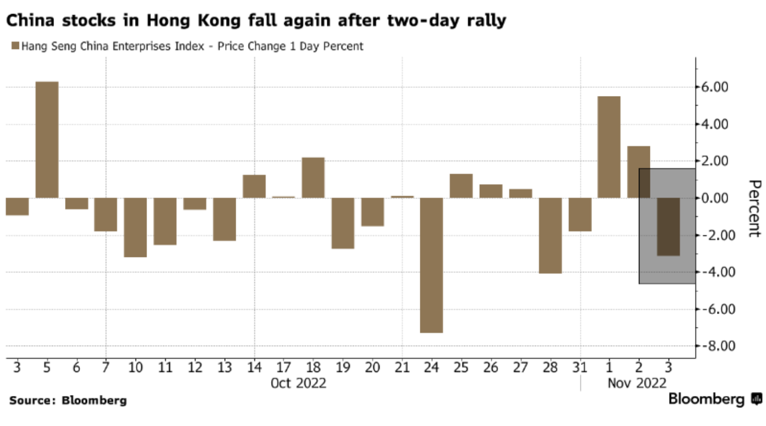
Latin American asset market performance was mixed, with markets closed in Brazil and Mexico on Wednesday. The Colombian peso weakened against the US dollar for the fourth consecutive day. Chile's GDP rose 0.2% from the previous month. Peru may be near the end of its interest rate hiking cycle, according to central bank governor Velarde.

Asian equities slumped -1.4% net, **after the Fed signaled further tightening ahead, while Chinese authorities dashed reopening hopes.** Hong Kong SAR dived -3.1%, Malaysia fell -2%. **Asian currencies mostly weakened.** Thai baht depreciated -1%, followed by Philippine peso (-0.6%). **10-year yields mostly rose.** The Philippines climbed +12.4 bps; India increased 8.5 bps. **South Korea's** financial regulator announced on Thursday it will temporarily ease liquidity rules for insurance companies. The measure aims to help insurers inject money into a bond market stabilization fund. The insurers were also asked to refrain from new bond sales, according to Bloomberg. The **Hong Kong Monetary Authority** (HKMA) hiked its base rate by +75 bps to 4.25%, in lockstep with the US Fed. HSBC, Hong Kong's largest lender, subsequently raised its prime rate by +25 bps. **Bank Negara Malaysia** expectedly hiked its policy rate by +25 bps to 2.75%. The bank said its hike will pre-emptively manage inflation risks from excessive demand and reiterated that monetary policy remains accommodative. **India**'s central bank is expected to write a letter to the government on why it failed to keep inflation within a 2–6% mandated range for three straight quarters. **Bangko Sentral ng Pilipinas** said it will match the Fed's +75 bps hike at its November 17 meeting. **PMIs** for Singapore, Hong Kong SAR, and India services firmed in October.

EMEA markets are sharply down after Fed Chair Powell indicated yesterday that interest rates will go higher than previously expected. Currencies are weakening, local bond yields are increasing sharply, but equity markets are gaining in the Czech Republic (+0.5%), Hungary (+0.3%), and Turkey (+0.9%). The Turkish lira is broadly unchanged (at 18.6/$) even though inflation continued to increase and reached 85.5% y/y in October. The policy rate is 10.5% and in contrast with what is happening in the rest of the world, the market expects the Turkish central bank to continue cutting rates. Bahrain, Oman, Qatar, the UAE and Saudi Arabia, whose currencies are pegged to the US dollar, followed the Fed and hiked rates by 75 bps yesterday. The Czech Central Bank is expected to keep rates on hold at 7% for the third consecutive time later today, on expectations that the incipient recession will help bring about disinflation (inflation was 18% y/y in September).

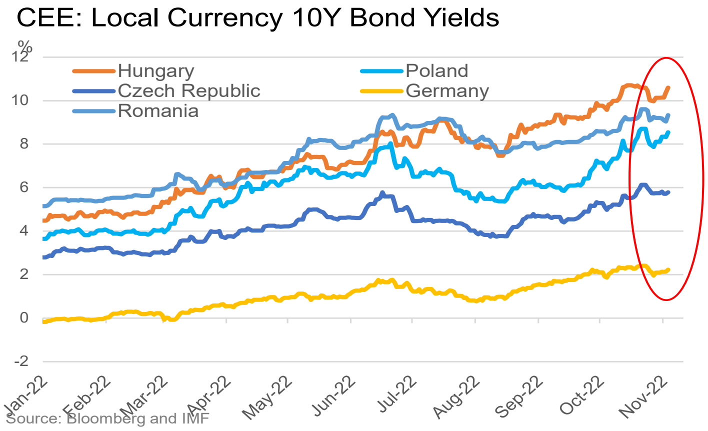
China

Equities declined (CSI 300: -0.8%) and broke a rally driven by reopening expectations after the National Health Commission revealed that it will "resolutely adhere" to COVID zero. **Caixin services PMI slipped more than expected to 48.4 in October** (consensus: 49, previous: 49.3). Separately, **more Chinese firms are going to offer global depository receipts (GDRs) this year**, with 31 A-share companies having already announced GDR sale plans as of November 2, according to Bloomberg. Separately, **China saw its first new domestic bond defaulter since July.** A midsized property developer Jinke missed partial principal and interest payment on its 2023 850 mn yuan ($116 mn) note. Separately, **China's venture capital deals crashed -44% y/y to $62.1 bn in October**, driven by sharply decreased flows into IT and consumer startups, Bloomberg reports. **Onshore yuan weakened -0.4%, offshore yuan was little changed. 10-year yields declined marginally.**



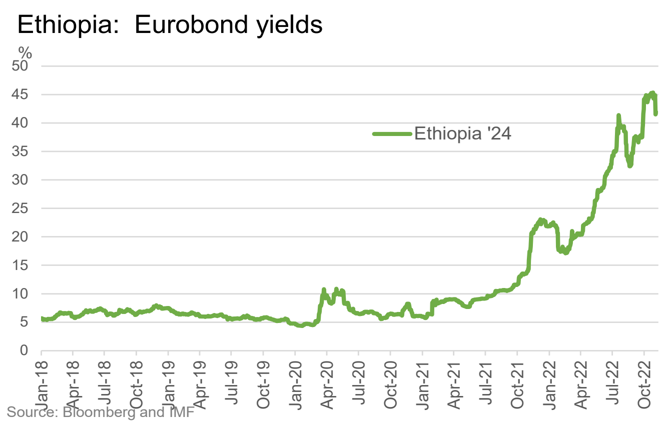
Central and Eastern Europe

Yields on 10-year local bonds in central and eastern Europe are sharply up after Fed Chair Powell said yesterday that interest rates will go higher than previously expected. Polish yields are up 23 bps (to 8.5%), Hungarian yields are up 22 bps (to 10.6%), Romanian yields are up 29 bps (to 9.33%), and Czech yields are up 7 bps (to 5.8%). With the exception of the Czech Republic, the spike in yields is much higher than in the eurozone, where yields on bunds are up 10 bps.



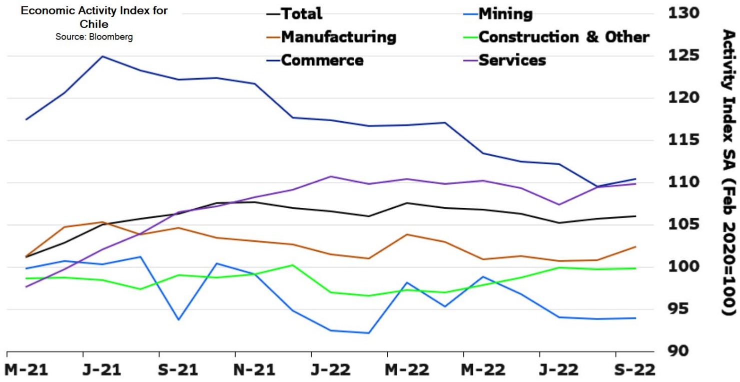
Ethiopia

Ethiopia's Eurobond yields fell more than 337 bps yesterday on news that the government and the leaders of the dissident Tigray region agreed to renew the cease fire, raising hopes that an end to the two-year conflict might be in sight. A previous agreement in March lasted five months before fighting resumed.



Chile

Chile's economic activity was stronger than expected in September. Chile's economic activity index increased 0.2% in September, exceeding the median Bloomberg estimate of -0.4%. The services (+0.4%) and manufacturing sectors (+1.5%) accounted for most of the increase in September. Year-over-year, economic activity fell by less than expected (-0.4% vs. -1.1%). Chile's central bank expects gross domestic product to contract by as much as 1.5% in 2023 as domestic demand and investment decline.



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Global Financial Indicators

	Level		Change					Since
11/3/22 8:18 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		3750	-2.5	-2	2	-20	-21	-11
Europe		3579	-1.2	-1	7	-17	-17	-10
Japan		27663	-0.1	1	6	-6	-4	5
China		3648	-0.8	0	-4	-25	-26	-21
Asia Ex Japan		56	-0.6	-1	-5	-35	-32	-29
Emerging Markets		35	-0.8	-1	-3	-32	-29	-27
Interest Rates					basis points			
US 10y Yield		4.18	8.0	26	54	258	267	219
Germany 10y Yield		2.26	11.5	29	34	242	243	203
Japan 10y Yield		0.25	0.0	0	1	18	18	6
UK 10y Yield		3.51	11.2	11	-45	244	254	203
Credit Spreads					basis points			
US Investment Grade		179	1.8	-11	-6	88	67	36
US High Yield		464	-0.2	-29	-81	144	126	57
Europe IG		113	2.5	0	-19	63	66	42
Europe HY		556	13.6	1	-70	297	314	204
Exchange Rates					%			
USD/Majors		112.85	1.4	2	1	20	18	17
EUR/USD		0.98	-0.6	-2	-1	-16	-14	-14
USD/JPY		148.2	0.2	1	3	30	29	29
EM/USD		48.6	-0.6	-1	-1	-11	-8	-9
Commodities					%			
Brent Crude Oil ($/barrel)		95	-0.7	0	10	30	31	9
Industrials Metals (index)		145	-2.1	-3	0	-11	-16	-23
Agriculture (index)		68	-1.3	1	0	15	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		26.4	0.6	-1.0	-3.7	11.3	9.2	-4.6
US 10y Swaption Volatility		146.0	-1.1	-3.1	-9.8	74.1	67.0	51.7
Global FX Volatility		11.9	0.0	0.1	-0.7	4.8	4.4	4.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		244	-0.1	0	-40	107	93	4
Italy		218	2.8	14	-14	97	83	47
Portugal		98	-2.0	1	-7	39	34	6
Spain		107	-1.7	3	-9	38	33	4

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

Emerging Market Financial Indicators

Last updated: 11/3/2022 8:30 AM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.32	-0.4	-1.2	-3	-12	-13	-14		2.8	0.5	1	-6	-25	-4	-5
Indonesia		15697	-0.3	-0.8	-3	-9	-9	-9		7.4	2.0	-15	9	135	105	93
India		83	-0.1	-0.5	-1	-10	-10	-10		7.7	4.5	3	-2	111	134	
Philippines		59	-0.6	-1.0	0	-14	-13	-13		5.9	0.0	3	10	148	138	88
Thailand		38	-1.2	-0.5	0	-12	-12	-15		3.2	8.0	1	-1	138	133	95
Malaysia		4.74	-0.1	-0.5	-2	-12	-12	-12		4.3	1.6	-5	-11	71	74	66
Argentina		158	-0.2	-1.4	-6	-37	-35	-32		94.3	24.0	269	945	4289	4372	4633
Brazil		5.20	-1.1	2.6	-1	7	7	-4		11.2	-40.0	-63	-34	-71	55	-28
Chile		953	-1.1	-1.3	-2	-15	-11	-17		6.3	6.0	-11	-38	73	92	43
Colombia		5012	-0.1	-2.5	-10	-24	-19	-22		11.4	0.0	59	151	483	499	353
Mexico		19.72	-0.2	0.6	2	4	4	3		9.3	1.5	3	25	152	176	144
Peru		4.0	0.8	0.9	0	1	1	-5		8.2	0.0	-28	-48	234	232	222
Uruguay		40	0.6	1.9	2	9	11	5		11.4	0.1	-7	-11	305	264	321
Hungary		418	-0.8	-1.9	2	-26	-22	-24		11.2	27.0	66	130	738	664	634
Poland		4.83	-0.7	-1.8	2	-18	-16	-16		7.5	16.0	26	79	455	395	358
Romania		5.0	-0.6	-2.2	0	-15	-13	-13		9.0	-1.6	-3	52	443	417	384
Russia		61.9	-1.0	-0.7	-4	16	21	32		10.8	0.0	-19	186	186	198	-43
South Africa		18.5	-1.1	-2.6	-3	-17	-14	-18		9.6	13.5	13	15	166	213	197
Turkey		18.62	0.0	-0.1	-1	-48	-29	-26		11.4	0.0	4	-54	-832	-1290	-1100
US (DXY; 5y UST)		113	1.4	2.1	1	20	18	17		4.41	9.6	34	53	322	314	250

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
									basis points						
China		3648	-0.8	0	-4	-25	-26	-21		206	-14	12	9	3	-2
Indonesia		7035	0.3	-1	-1	7	7	2		197	-21	-13	15	32	12
India		60836	-0.1	2	5	1	4	6		209	-13	25	74	77	55
Philippines		6156	-0.8	1	3	-15	-14	-16		152	-22	-5	38	51	15
Thailand		1626	0.0	1	3	0	-2	-4							
Malaysia		1420	-2.2	-2	1	-7	-9	-10		118	-7	10	-7	1	-15
Argentina		149309	-2.4	3	3	62	79	63		2580	4	-235	855	900	843
Brazil		116929	0.8	2	6	11	12	4		278	-12	-31	-64	-33	-53
Chile		5195	0.0	1	1	21	21	19		174	-7	-23	10	34	0
Colombia		1245	-0.7	3	8	-11	-12	-18		465	-8	4	157	117	73
Mexico		50865	1.9	5	14	-2	-5	-1		411	-7	-65	56	79	41
Peru		20866	-1.1	-1	5	2	-1	-11		201	-11	-28	22	51	11
Hungary		41511	0.2	2	8	-24	-18	-13		270	-23	-48	150	146	117
Poland		50753	-1.1	4	10	-30	-27	-19		55	-17	-8	2	23	39
Romania		10864	-0.1	1	1	-15	-17	-18		333	-15	-44	133	141	101
Russia		2144	-1.4	-1	5	-49	-43	-30		3411	-577	938	3228	3234	2897
South Africa		65969	-1.7	-2	3	-4	-11	-12		415	-15	-77	54	60	26
Turkey		4093	0.5	4	21	165	120	103		533	-19	-81	41	-45	-30
Ukraine		519	0.0	0	0	-1	-1	0		4502	236	670	3973	3743	3029
EM total		35	-1.1	-1	-3	-32	-29	-27		444	-5	-23	59	58	-14

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

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