



- **US adds higher-than-expected 261k jobs in October as labor market shows resilience** ([link](#))
- **US Treasury yield curve slope inverts further as markets price higher peak policy rate** ([link](#))
- **Bank of England sees risk of deeper recession** ([link](#))
- **US auditors reportedly complete first on-site inspections of US-listed Chinese firms** ([link](#))
- **Emerging market bond issuance picks up in October; yearly pace well below last year** ([link](#))
- **Czech National Bank holds policy stance but revises up market interest rate forecast** ([link](#))

[Mature Markets](#)








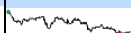



[Emerging Markets](#)

[Market Tables](#)

## Risk appetite returns on Chinese reopening optimism

Global equity markets are rebounding, and core sovereign bond yields continue to inch higher across major markets as investors digest the implications of recent central bank decisions and try to gauge China reopening speculation. Market sentiment towards risk assets has improved overnight as Asian and European equities are posting gains of over 1%, alongside more modest increases for US stock futures. Chinese stocks have performed particularly strongly as investors continue to speculate on the possibility that China will exit its zero-Covid policy, while Hong Kong SAR equities closed up over 5% on reports of progress in efforts to prevent the delisting of Chinese stocks from US bourses. Bond yields have continued the move higher over the past day and have been concentrated in short-dated maturities, driving further curve inversion with two-year Treasury yields hitting their highest level since 2007 as investors position for a higher peak in the Fed's policy rate. German bund and UK gilt yields are also rising across maturities. Given the Fed's emphasis on labor market conditions, this morning's US jobs report was a core focus for investors and showed a better-than-expected gain of 261k jobs and still solid growth in wages. Market-implied pricing for the terminal FOMC policy rate moved closer to 5.2% by mid-next year in the initial response to the data release.

Key Global Financial Indicators

Last updated: 11/4/22 8:08 AM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
Equities			%					%
S&P 500		3720	-1.1	-2	-2	-21	-22	-12
Eurostoxx 50		3663	1.9	1	5	-15	-15	-8
Nikkei 225		27200	-1.7	-1	0	-8	-6	3
MSCI EM		35	0.6	1	-5	-32	-29	-27
Yields and Spreads			bps					
US 10y Yield		4.16	0.9	14	52	263	265	217
Germany 10y Yield		2.29	4.5	19	42	251	247	206
EMBIG Sovereign Spread		537	3	-17	-30	181	170	124
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		49.1	0.5	1	0	-10	-7	-8
Dollar index, (+) = \$ appreciation		112.3	-0.5	1	2	19	17	17
Brent Crude Oil (\$/barrel)		97.9	3.4	2	7	22	26	1
VIX Index (%, change in pp)		25.4	0.1	0	-4	10	8	-6

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

## Mature Markets

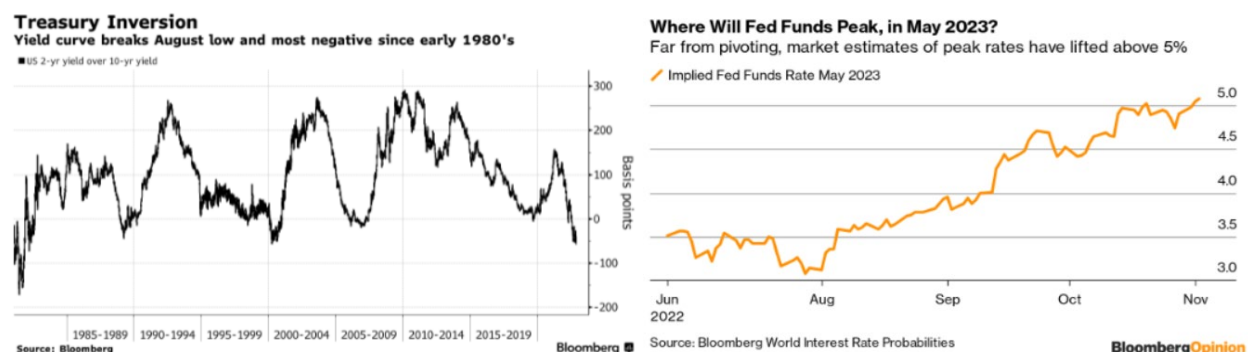
[back to top](#)

### United States

**Yesterday, the S&P 500 dropped 1.1%**, with a stark heterogeneity across sectors, which was explained mostly by the difference in 3Q results of individual companies/sectors as well as the communication about the prospects for 2023. US Treasury yields rose by 4–9 bps along the curve, driven by a large move in real yields (14–19 bps), which was counterbalanced by a 10 bps drop in breakeven inflation. The US dollar appreciated 1.5% versus a basket of advanced economy currencies, mostly due to GBP depreciation.

**In data releases this morning, US jobs data came in higher than expected** with 261k new jobs added in October (versus expected 193k), while the previous month's figure was revised upward as well (from 263k to 315k). The survey of households showed that the unemployment rate was somewhat higher than expected (3.7% vs exp. 3.5%), amid a smaller than expected participation rate (62.2% vs exp. 62.3%). Average hourly earnings came in higher than expected m/m, at 0.4% vs exp. 0.3%. The market reaction immediately upon the release was initially volatile, but US equity futures have held onto gains of about 0.6% and US Treasury yields are up marginally across the curve.

**The 2-year, 10-year US Treasury yield curve is inverted the most in four decades** (left chart below). The inversion arises from the short-term priced-in policy rate continuing to move higher (right chart), substantially exceeding the priced-in policy rates for longer horizons. The inverted curve is considered a harbinger of a recession, which is typically lagged 12–18 after the moment of inversion. While there is no direct, rigid link between inversion and recession, the conventional wisdom suggests that such a wide gap between short-term and longer-term forward rates usually emerges only amid significant macroeconomic imbalances, that tend to result in a recession.

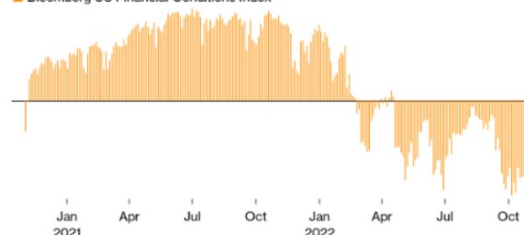


**Analysts are looking for indicators that could quantitatively complement and underpin Powell's hawkish guidance provided on Wednesday.** First, Powell noted the importance of the tightening of financial conditions for the transmission of the central bank's decisions into the real sector. Correspondingly, analysts noticed that various Financial Conditions Indices (e.g., Bloomberg's index in the chart below) have been showing an easing of financial conditions in recent weeks—which may require a more hawkish Fed to avoid the consequent entrenchment of inflation. Second, Powell noted that the fight against inflation is not over. Correspondingly, analysts noted that medium-term and long-term breakeven inflation ascended at a rapid pace during the last few weeks (right chart)—potentially calling for a more hawkish stance by the Fed. On the other hand, medium-to-long term tenors of breakeven inflation are driven predominantly by the changes in inflation risk premium, while the expected values of longer-term inflation may remain intact. Besides, an excessive tightening may be disruptive enough to increase risk premia for all instruments, including the inflation risk premium—resulting in even higher levels of long-term breakeven inflation.

**Why the Fed Still Sounds so Hawkish**

Financial conditions were easing again - and it's too soon for that

■ Bloomberg US Financial Conditions Index



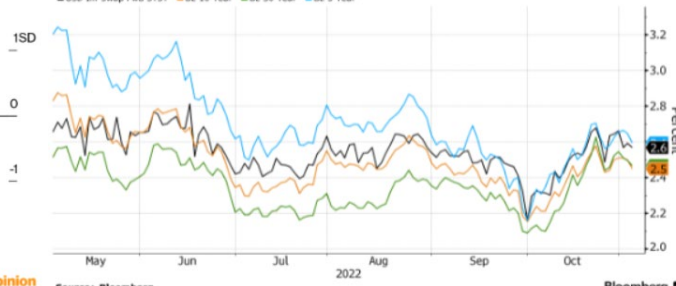
Source: Bloomberg

BloombergOpinion

**October's Rise Was the Steepest in Years**

Market indicators of inflation expectations

■ USD Inf Swap Fed SYS ■ BE 10 Year ■ BE 30 Year ■ BE 5 Year



Source: Bloomberg

Bloomberg

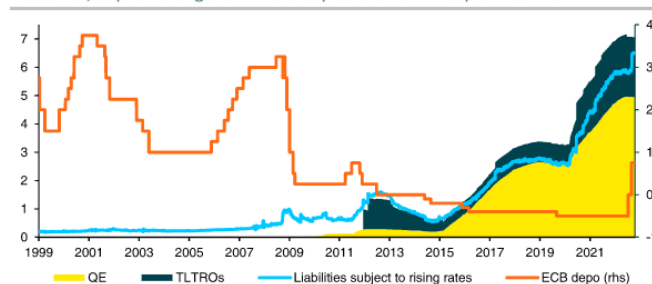
**Euro area**

**Sentiment improved as hopes that China may re-open sooner rather than later persist and Chinese president Xi Jinping opposed the use of nuclear force in Europe.** The euro (+0.5%) gained and equities (+1.5%) are higher. Euro area yields have traded sharply higher this week (moves of +10–20 bps) following hawkish rhetoric of ECB officials and Fed chair Powell. Yields are little changed today as ECB President Lagarde reiterated that the ECB's job of returning inflation to target in a timely manner is far from completed. **Italian 10-yr spreads tightened 2 bps after Italian government leader Meloni told EU leaders that Italy will play by the rules but called for immediate action on energy and inflation by joining forces.**

**Analysts at Commerzbank point out that that central bank losses are accumulating, exposing QE as a potentially costly fixed-to-floating swap.** This dynamic could undermine the independence of central banks and add to calls that central banks should pay commercial banks less. **Commerzbank estimates that the ECB's break-even depo rate stands at 0.7%.** As the current depo rate now stands at 1.5%, this means that the interest rate expenses (mainly on bank deposits) exceed the interest income (mainly on QE portfolios). Under plausible assumptions this break-even rate will rise above 1% next year, still below any depo rate estimates or forwards. In the US, the Fed will accumulate a *deferred asset* equal to its cumulative losses and transfers look set to be suspended for at least three years.

The last time ECB rates were at these levels, the ECB only had to pay interest on a tiny fraction of today's amount!

ECB balance sheet items, in € trn, and ECB depo rate, in %. Liabilities subject to rising rates include all liabilities except for banknotes, revaluation accounts, capital and government deposits until 14 September 2022.



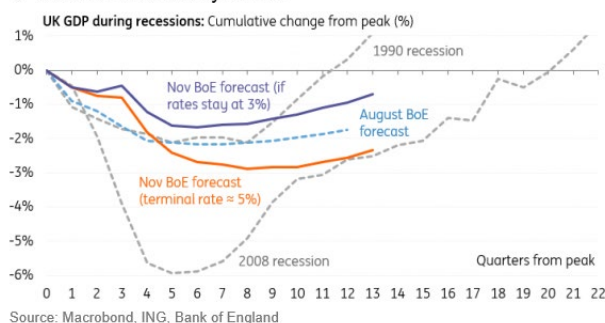
Source: Bloomberg, Commerzbank Research

**United Kingdom**

**Short-dated yields are little changed but 30-yr yields are up 10 bps today after the Bank of England hiked 75 bps in a 7–2 vote and pushed back against market rate expectations yesterday.** Analysts at JP Morgan argue that the BoE appears to be hinting at 4% or below rather than nearer to 5% as the *resting point*. The pound (+0.5%) gained in line with broader US dollar weakness.

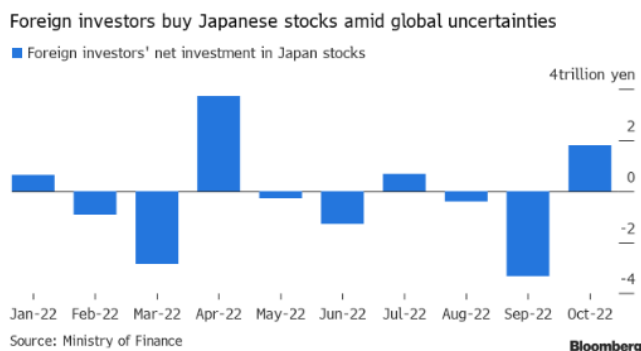
**BoE's forecast changes were weaker than expected, with downgrades to both 2023 and 2024 GDP growth that leave a two-year recession in place and a cumulative 2.9% output loss.**

The Bank of England is forecasting a deep recession regardless of whether it hikes any further



## Japan

**Equities declined -1.3%**, dragged down by healthcare (-2.4%) and information technology (-2.1%) shares. **Foreign investors bought ¥1.6 tn (\$12 bn) of Japanese stocks in October**, the most in six months. Separately, **Japan's Government Pension Investment Fund (GPIF) lost -0.9% in Q3**. The fund logged losses on its domestic equity and debt (-0.8%), foreign equity (-0.5%), and foreign bond (-1.5%) holdings, despite the dollar's near-7% gain against the yen over the period. **Japanese yen strengthened +0.4%**. Japan FM Suzuki said government intervention does not target any specific FX level. **10-year yields were little changed**.



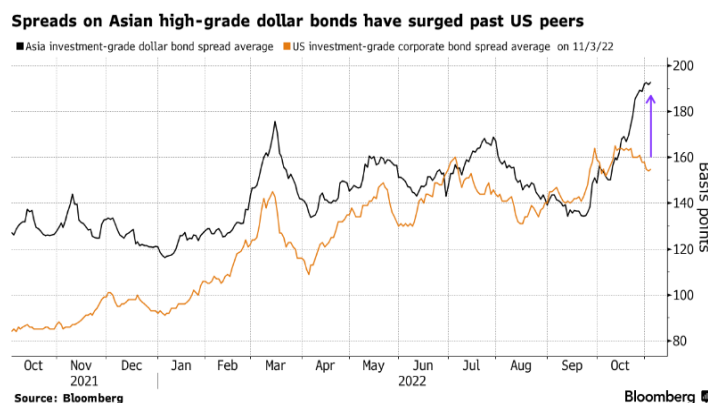
## Emerging Markets

[back to top](#)

**Latin American markets performance was mixed, while Andean currencies weakened against the US dollar.** The Colombian peso depreciated for the fifth consecutive day, reaching a new record of COP 5,075 per US dollar. **Chile unveiled a proposal to overhaul its pension system** by gradually increasing the pension contribution by 6%, to be paid by the employer, in addition to the 10% contribution paid by individuals. The current government does not have a majority in congress and will have to negotiate to reach the majority required for approval. Petrobras' board approved a dividend payment of \$8.5 bn to shareholders amid controversy over payouts.

**Asian equities rallied +1.9% net.** Hong Kong SAR jumped +5.4%, Mainland China rallied (CSI 300: +3.3%) on news of progress made by the US auditors and resurgent of reopening hopes. Vietnam lost -2.2%. **Asian currencies mostly strengthened.** Thai baht appreciated +1.4%. **10-year yields mostly rose.** Thailand slipped -12.1 bps. Spreads of **Asian high-grade US dollar bonds** have moved above those of US peers amid continuing China property woes and bond selloffs in South Korea, Bloomberg reports. In **South Korea**, nine brokerages will inject 450 bn won (\$320 mn) into a facility to buy project financing asset-backed commercial paper rated at least A2- that is guaranteed by smaller brokerages, the Financial Services Commission said in a statement on Friday; yields on 3-month commercial paper extended their

climb, rising 4 bps to 4.85%. In the **Philippines**, inflation surged to 7.7% y/y in October (previous: 6.9%), driven mainly by food prices amid typhoons. National Statistician Mapa sees *substantial probability* of further-accelerated inflation in November. Central bank Governor Medalla signaled more Fed-matching rate hikes if high inflation persists.



**EMEA markets opened strongly as equity markets are recording notable gains**, with South Africa up 2.2%, the Czech Republic and Poland up 1.8% each, and Hungary up 1.3%. Currencies are also generally strengthening, with the South African rand gaining 0.9% (to 18.2/\$) and the Hungarian forint 0.7% stronger (to 403/euro). Local currency bond yields are declining significantly in Hungary (-23 bps to 10.3%) and Poland (-14 bps to 8.16%), while remaining stable in the Czech Republic (at 5.68%).

### Emerging Market Bond Issuance

**Emerging market bond issuance increased in October** compared to September 2022; however issuance was low compared to a year ago (\$33 bn vs. \$67 bn). Bond issuance for the week ending on November 3 was \$388 mn. Year-to-date issuance was \$311 bn, down 56% from a year ago. Corporates accounted for 30% of total issuance, followed by sovereigns (30%) and financials (21%) year-to-date. The top five issuers were in China, Korea, Singapore, Mexico and Saudi Arabia and accounted for 48% of total issuance year-to-date. Non-investment grade issuance declined significantly year-to-date compared to a year ago, \$40 bn vs. \$119 bn.

Figure 1. EM bond issuance 2022 (bn. USD)

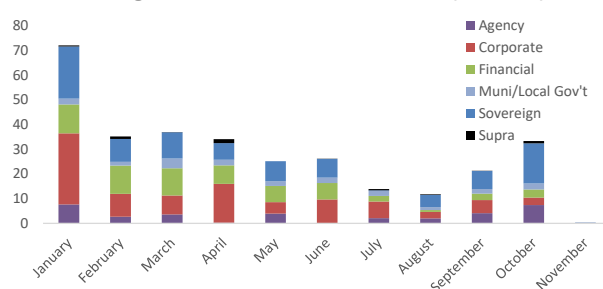
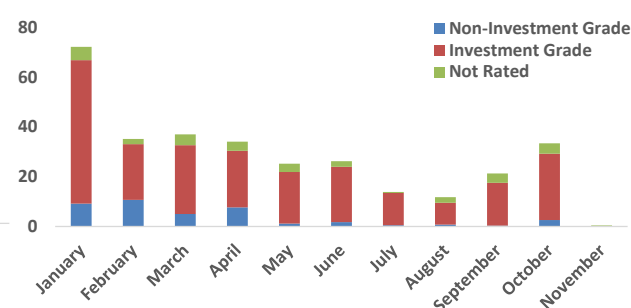


Figure 2. EM bond issuance 2022 (bn. USD)

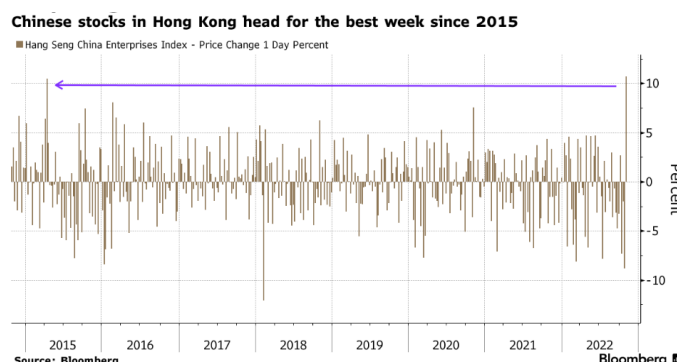


### China, Hong Kong SAR

**Equities surged (CSI 300: +3.3%).** China is reportedly working on plans to end a penalty system on airlines for infected passengers. **US auditors have completed their first on-site inspections of US-listed Chinese firms, according to Bloomberg.** The inspections were completed early and are required for the firms to stay listed on US exchanges. Separately, **Vice Premier Liu said expanding domestic demand can effectively handle external shocks.** Also, Liu said deepening supply-side reform is fundamental for



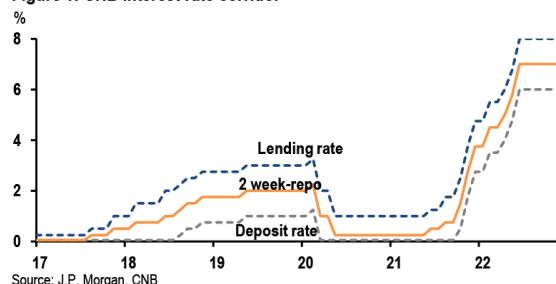
high-quality development. Additionally, Liu called for a strengthened relationship between financial, real estate sectors and the real economy, and warned against stimulus flooding. **Onshore yuan strengthened +0.7%, offshore yuan appreciated +1%. 10-year yields firmed +2.5 bps.**



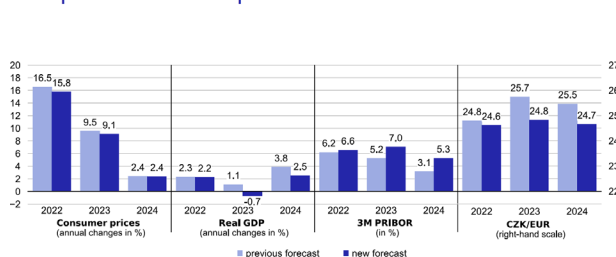
## Czech Republic

**Czech assets are broadly unchanged as the central bank (CNB) left rates unchanged at 7% yesterday as expected.** The main surprise was that while the CNB's model showed the need for a sharp increase in the interest rate trajectory by 2% in 2023 to 7%, a majority of the Board members preferred to keep policy rates unchanged. JP Morgan analysts concluded therefore that the model has lost importance since the CNB board reshuffle before the summer. Besides the change to the interest rate forecast, the CNB's new forecasts show relatively small changes for inflation but the growth forecast for 2023 was downgraded sharply to -0.7% (from +1.1% previously). Even though inflation reached 18% y/y in September, the CNB's statement says that interest rates are at a level that is dampening domestic demand pressures, slowing credit growth. The statement also reaffirmed that the CNB will continue to use FX interventions as it says that it will *prevent excessive fluctuations of the koruna exchange rate*.

Figure 1: CNB interest rate corridor



Comparison with the previous CNB forecast




























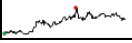


Source: Czech National Bank.

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## Global Financial Indicators

Last updated: 11/4/22 8:08 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
<b>Equities</b>			%				%	%
United States		3729	-1.1	-4	-2	-20	-22	-12
Europe		3663	1.9	1	5	-15	-15	-8
Japan		27200	-1.7	-1	0	-8	-6	3
China		3767	3.3	6	-1	-22	-24	-19
Asia Ex Japan		57	0.6	1	-7	-34	-31	-28
Emerging Markets		35	0.6	1	-5	-32	-29	-27
<b>Interest Rates</b>			basis points					
US 10y Yield		4.16	0.9	14	52	263	265	217
Germany 10y Yield		2.29	4.5	19	42	251	247	206
Japan 10y Yield		0.26	0.3	1	4	18	19	6
UK 10y Yield		3.55	2.8	7	-33	261	258	207
<b>Credit Spreads</b>			basis points					
US Investment Grade		179	0.2	-5	-4	97	67	36
US High Yield		476	-3.8	9	-42	164	138	69
Europe IG		109	-3.9	-3	-14	61	62	38
Europe HY		536	-14.8	-12	-53	288	294	184
<b>Exchange Rates</b>			%					
USD/Majors		112.32	-0.5	1	2	19	17	17
EUR/USD		0.98	0.5	-2	-2	-15	-14	-13
USD/JPY		147.7	-0.4	0	2	30	28	28
EM/USD		49.1	0.5	1	0	-10	-7	-8
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		98	3.4	4	9	34	34	12
Industrials Metals (index)		151	4.1	5	1	-6	-13	-19
Agriculture (index)		69	1.4	4	1	18	14	-1
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		25.4	0.1	-0.4	-3.7	10.0	8.2	-5.6
US 10y Swaption Volatility		143.8	1.4	-6.9	-10.2	75.3	64.8	49.5
Global FX Volatility		11.9	0.0	0.0	0.0	5.0	4.5	4.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		241	-1.8	1	-36	107	90	1
Italy		216	-1.0	9	-14	101	81	45
Portugal		98	-0.2	0	-7	41	34	6
Spain		106	-1.1	1	-10	38	32	3

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

## Emerging Market Financial Indicators

Last updated: 11/4/2022 8:18 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		7.22	1.1	0.4	-2	-11	-12	-13		2.8	3.5	7	-2	-19	-1	-2
Indonesia		15738	-0.3	-1.2	-3	-9	-9	-9		7.5	4.3	-6	20	141	109	97
India		82	0.6	0.0	-1	-10	-10	-10		7.6	-6.2	3	5	105.2	128	
Philippines		59	0.4	-1.0	0	-14	-13	-13		5.9	2.5	3	13	150	140	90
Thailand		38	1.2	0.9	0	-11	-11	-14		3.2	-2.5	4	10	128	130	93
Malaysia		4.75	-0.1	-0.5	-2	-13	-12	-12		4.4	5.6	4	3	77	80	73
Argentina		158	-0.2	-1.4	-6	-37	-35	-32		95.4	114.0	472	1035	4389	4486	4747
Brazil		5.10	0.4	3.9	2	10	9	-2		11.3	-45.1	-58	-25	-86	57	-27
Chile		940	0.6	0.3	-1	-13	-9	-16		6.4	0.0	4	-36	73	95	46
Colombia		5075	-1.3	-5.0	-11	-24	-20	-23		11.6	0.0	86	174	493	516	369
Mexico		19.61	0.2	1.0	2	5	5	3		9.3	-2.0	5	27	172	178	146
Peru		4.0	-0.5	0.1	0	1	1	-6		8.2	0.0	-26	-47	238	233	223
Uruguay		40	0.4	1.1	2	10	11	5		11.3	-4.8	-11	-6	300	259	316
Hungary		412	1.1	0.5	2	-24	-21	-22		11.1	-15.0	36	133	728	655	625
Poland		4.79	0.6	-1.1	1	-17	-16	-15		7.4	-1.0	9	79	447	388	351
Romania		5.0	0.7	-1.1	-1	-14	-13	-12		9.2	16.6	18	65	462	433	401
Russia		62.0	0.4	-0.8	-4	15	21	32		10.8	0.0	-19	155	191	198	-43
South Africa		18.2	1.2	-0.3	-3	-16	-12	-17		9.5	-2.5	4	16	172	206	190
Turkey		18.62	0.0	-0.2	0	-48	-29	-26		11.6	15.0	19	-28	-791	-1275	-1085
US (DXY; 5y UST)		112	-0.5	1.5	2	19	17	17		4.39	2.2	20	54	328	313	249

	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		3767	3.3	6	-1	-22	-24	-19		204	-21	2	9	1	-4	
Indonesia		7046	0.2	0	0	7	7	2		200	-21	-25	25	35	15	
India		60950	0.2	2	5	1	5	6		211	-6	11	78	79	57	
Philippines		6186	0.5	1	4	-16	-13	-16		162	-8	-7	56	61	25	
Thailand		1626	0.0	1	3	0	-2	-4								
Malaysia		1438	1.3	-1	2	-6	-8	-9		115	-9	0	-5	-2	-18	
Argentina		150451	0.8	2	4	65	80	65		2603	0	-119	881	923	866	
Brazil		116896	0.0	4	1	13	12	4		280	-22	-26	-54	-31	-51	
Chile		5180	-0.3	1	-1	16	20	18		173	-15	-22	16	33	-1	
Colombia		1216	-2.4	0	2	-13	-14	-20		467	20	14	161	119	75	
Mexico		50216	-1.3	2	9	-3	-6	-2		413	-10	-54	62	81	43	
Peru		21003	0.7	0	4	4	-1	-10		202	-11	-23	30	52	12	
Hungary		42307	1.3	4	6	-24	-17	-11		281	-1	-54	165	157	128	
Poland		52008	2.1	5	8	-30	-25	-17		57	-21	-23	5	25	41	
Romania		10882	0.5	0	-1	-16	-17	-18		342	0	-47	148	149	110	
Russia		2156	0.0	0	5	-48	-43	-30		3411	-577	938	3228	3234	2897	
South Africa		67799	2.7	2	2	-1	-8	-10		426	-8	-76	71	71	37	
Turkey		4183	1.9	8	21	165	125	107		526	-38	-109	44	-52	-37	
Ukraine		519	0.0	0	0	-1	-1	0		4573	274	686	4043	3814	3100	
EM total		35	2.7	1	-5	-32	-29	-27		448	-4	-20	69	62	-10	

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

[back to top](#)