GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 9, 2022

- **Prevalence of fixed rate mortgages protects US households as interest rates rise** (link)
- **Crypto assets under heavy pressure following liquidity stress at large exchange** (link)
- **Analysts expect sizeable repayments of ECB's targeted lending programs** (link)
- **China's interbank association restarts bond issuance program for private sector** (link)
- **National Bank of Romania slows pace of tightening with 50 bps policy rate hike** (link)
- **Chilean assets rally on lower-than-expected October inflation results** (link)

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Caution prevails across markets

Markets are trading with a cautious tone with both bond yields and equity markets mixed to slightly lower as focus remains on election outcomes and tomorrow's update on US inflation. Yesterday, global equity markets finished with gains for the third consecutive day as investors awaited the outcome of the US midterm elections and further clarity on the implications for future policy proposals. While still too close to call in some races, the projected outcome is leaning towards a divided government between the House and Senate that is expected to deliver more legislative gridlock but have minimal effects on financial markets in the short-term. Although stabilizing this morning, core sovereign bond yields have drifted lower over the past day alongside general US dollar weakness with the broad dollar index down about 3% since last Friday. Risk asset performance has been somewhat overshadowed by a bout of outsized volatility in crypto assets over the last day as Bitcoin and other crypto assets have declined over 15% following news that market leader Binance is on the verge of taking over the FTX crypto exchange amid liquidity strains after the latter had paused some customer activity following a surge of withdrawals.

Key Global Financial Indicators

Last updated: 11/9/22 8:04 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		3828	0.6	-1	5	-18	-20	-9
Eurostoxx 50		3723	-0.4	3	10	-14	-13	-6
Nikkei 225		27716	-0.6	0	2	-5	-4	5
MSCI EM		36	0.7	5	2	-29	-25	-23
Yields and Spreads				bps				
US 10y Yield		4.13	0.9	3	25	270	262	214
Germany 10y Yield		2.23	-4.8	9	4	253	241	201
EMBIG Sovereign Spread		508	1	-26	-38	160	141	95
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		49.6	-0.1	1	2	-10	-6	-7
Dollar index, (+) = $ appreciation		109.9	0.3	-1	-3	17	15	14
Brent Crude Oil ($/barrel)		93.9	-1.5	-2	-4	11	21	-3
VIX Index (%, change in pp)		25.5	0.0	0	-6	8	8	-6

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

Mature Markets

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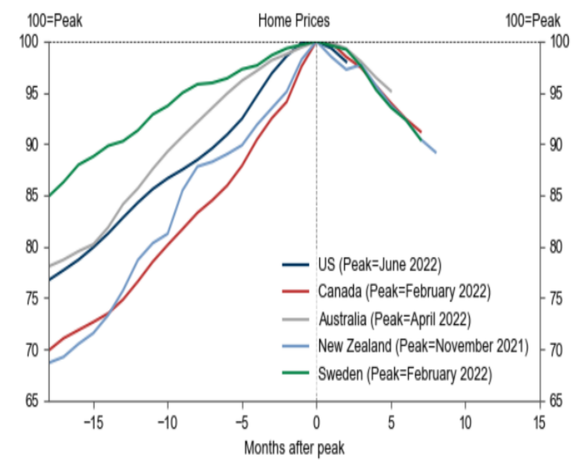
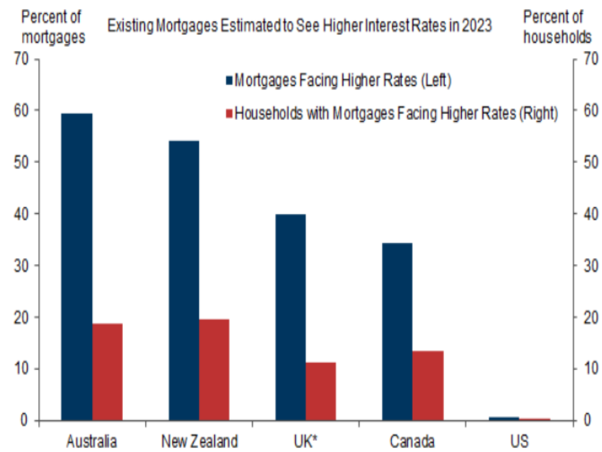
United States

US equities closed 0.6% higher in a volatile session yesterday. Treasuries rallied, with yields declining 7–9 bps. The dollar index depreciated 0.3% to drop 4% below its recent highs, though it remains 15% higher year-to-date.

Housing prices are declining at a similar rate across AEs, but US households are less impacted by rate hikes due to the structure of household mortgage debt. Mortgage rates have jumped across advanced economies, with benchmark rates up about 400 bps (30-year) in the US and 300 bps in the UK (2yr) over the last year. Housing prices have been declining at roughly a 15% annualized rate across AEs, according to Goldman Sachs (GS). However, despite a relatively high share of households with a mortgage in the US compared to Europe (ex. Scandinavia), the use of long-term fixed rate mortgages is likely to limit the effect on households. GS analysis found that while around 20% of households in Australia and New Zealand and 10% in UK and Canada will face higher interest payments in 2023, US homeowners will be largely unaffected.



Source: Haver, CoreLogic, REINZ, Haver Analytics, Goldman Sachs Global Investment Research



*We show the BoE estimate of mortgage contracts that are due to reset in the next 12 months.

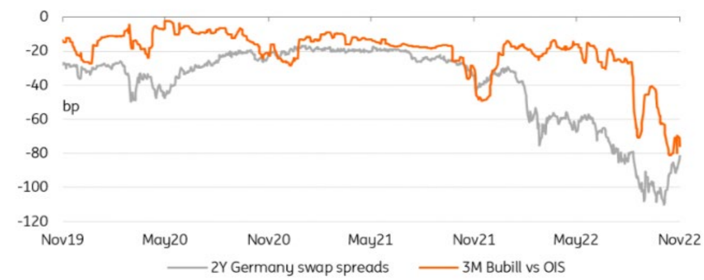
Source: RBA, RBNZ, BoE, BoC, Goldman Sachs Global Investment Research

Crypto assets came under heavy pressure following news that market leader Binance would take over FTX following a strange saga in recent days that saw a liquidity problem threaten to become a solvency problem as withdrawals from the FTX exchange accelerated and crypto asset prices fell. In recent days, Binance had begun liquidating its holdings of FTT, the native token of FTX, after reports that Alameda Research's (a trading firm owned by FTX founder Sam Bankman-Fried) balance sheet was primarily filled with FTT. FTT had also reportedly been used as collateral for various loans. FTT's price fell around 75% on Tuesday. Analysts noted that while FTX is a systemically important exchange in the crypto ecosystem, and the potential contagion may be large for certain crypto assets, the general decline in leverage in crypto could help contain the selloff somewhat. Nevertheless, spillovers to other crypto assets saw the **total market capitalization of crypto fell over 10% to below $1tn**.

Euro area

Cautious investor sentiment saw european equity markets trading lower (Stoxx 600 index -0.5%), while sovereign yields fell (10y bund -5 bps) and the euro weakened (-0.2%). The ECB consumer expectation survey showed a slight increase in inflation expectations one year ahead to 5.1% (from 5.0%), while 3 year ahead inflation expectations remained unchanged at 3%.

German swap spreads have tightened but T-bills remain stretched against OIS swaps



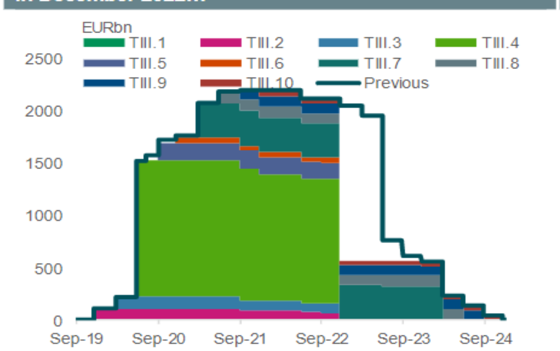
Source: Refinitiv, ING

Collateral scarcity is easing, as reflected in tighter swap spreads, in the aftermath of Germany's decision to increase the amount of bonds lent in the repo market in late October. Moreover Germany is reportedly planning to increase 2023 net debt to €45bn, compared to the previous plan of roughly €17bn published in June, according to Bloomberg. The budget plan is still being negotiated by the German government. ING analysts note that these developments have likely contributed to swap spreads tightening, while other factors such as speculation of ECB intervention and anticipation of early targeted lending operation repayments are seen as secondary drivers. Analysts are also focused on the impact of near-term debt issuance and expect investors to remain cautious when it comes to purchasing bonds, as it is not clear when the tightening cycle will come to an end. Relatedly, ECB General council member Wunch yesterday said that if the euro area economy only sees a modest downturn and a futher increase in inflation, interest rates would likely be increased above market consensus. **The spread between the 2y swap and bund yield has narrowed from roughly -110 bps in early October to roughly -80 bps.**

Analysts estimate that banks' decision to to repay TLTROs early or not, is financially neutral and thus argue that banks' decisions will likely depend on collateral considerations or the need for funding. At the most recent ECB meeting the modalities of the targeted longer-term refinancing operations III (TLTRO III) were changed, with the rate of the TLTRO set at the average deposit rate over the period from 23 November onwards. Credit Agricole CIB analysts find that keeping TLTROs or repaying them after this date is finanically neutral for banks, with the gain from the deposit facility equal to the cost of the TLTRO. As such analysts see the use of collateral, the size of banks' balance sheets and required funding as the most likely factors to determine banks' decision to repay loans early or not. **Analysts expect the shortest operations to be repaid first, and estimate that in a scenario where banks keep operations maturing after December 2023, total TLTRO repayments could amount to €1.5 tn in December 2022.**

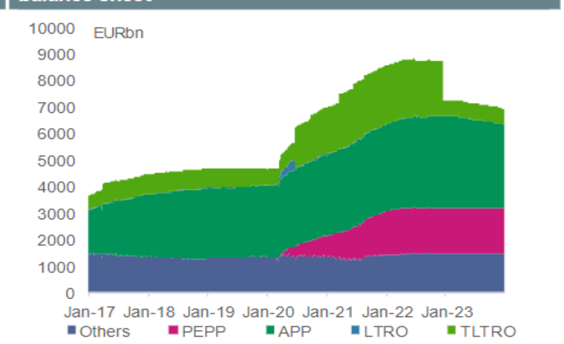
On the ECB balance sheet more generally, Morgan Stanley analysts also expect the largest reduction in the ECB balance sheet to be as a result of banks repaying TLTROs. Analysts note that €500 bn TLTRO's could be repaid in November with a total of €1.5 bn TLTROs repaid over the next nine months. In regards to quantitative tightening, analysts expect a gradual passive balance sheet runoff to start in Q1 2023, estimated to amount to roughly €400 bn by end-2024.

We expect TLTRO III.2 to TLTRO III.6 to be repaid in full in December 2022…



Source: ECB, Crédit Agricole CIB

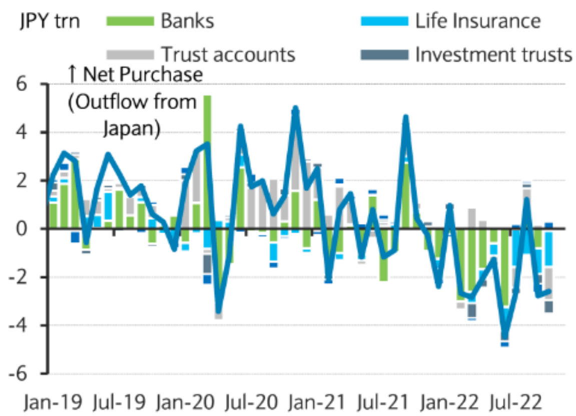
…which would have a sizeable impact on the ECB's balance sheet



Source: ECB, Crédit Agricole CIB

Japan

Equities slipped -0.4%. Japan is not considering a third extra budget for FY 2023, according to new economic minister Goto, Bloomberg reported**.** Instead, Goto pointed to ¥4.7 tn ($32.2 bn) of reserve funds to tackle crises. Also, Goto retained the government's goal of a balanced primary budget by FY 2025. Goto assumed office on October 25, 2022, and replaced Yamagiwa, who stepped down due to controversy surrounding his ties to the Unification Church. **Japan investors continued heavy foreign bond selling in October**, led by life insurers, amid a further-increased yields abroad, Barclays notes. **Japanese yen and 10-year yields were little changed.** 30-year government bonds rallied after a strong auction (bid-cover: 3.3x, previous: 2.9x).



Source: MoF, Barclays Research

Emerging Markets

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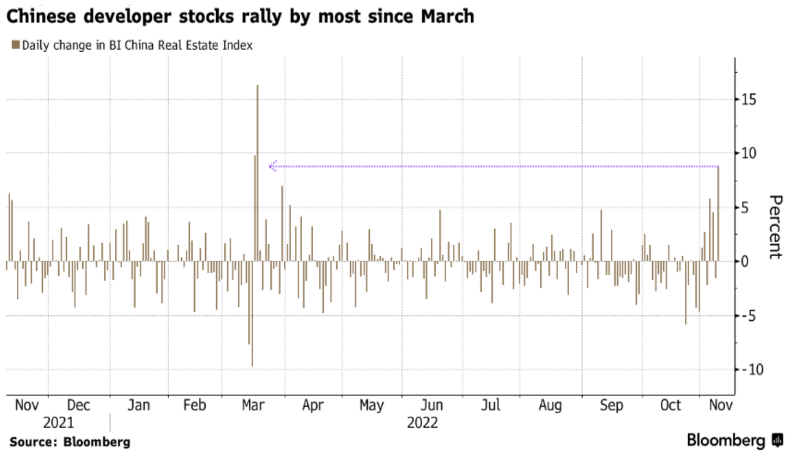
Latin American stocks gained, and currencies were mixed. Equity gains were led by Chile (+2.2%), Brazil (+0.7%), Colombia (+0.7%), and Mexico (+0.3%). Currencies in Colombia (+2%) and Chile (+1.3%) outperformed after both countries released October inflation numbers. October CPI was 12.22% y/y (estimated 12.17%) for Colombia and 12.8% y/y (estimated 13.3%) for Chile. **Asian equities were mixed, and little changed on net.** Taiwan, Province of China gained +2.2%, South Korea firmed +1.1%, Hong Kong SAR fell -1.2%. **Asian currencies mostly appreciated.** Thai baht (+1.4%), South Korean won (+1.5%), and Malaysia ringgit (+0.9%) appreciated. **10-year yields mostly fell alongside US Treasury yields**, Vietnam slipped -25 bps, Thailand fell -9.1 bps. **Equity markets in EMEA traded with a cautious tone** for a second day in a row, with currencies weaker against the U.S. dollar. In contrast to last week's rally, the Hungarian forint (-0.7%) remains under pressure after headline inflation was higher than expected at 2% m/m (1.6% expected) or 21.1% y/y (21% expected). **Ukraine's Economy Minister Svyrydenko believes that the US will maintain financial support for Ukraine even if Republicans take control of the US House of Representatives following the midterm elections.**

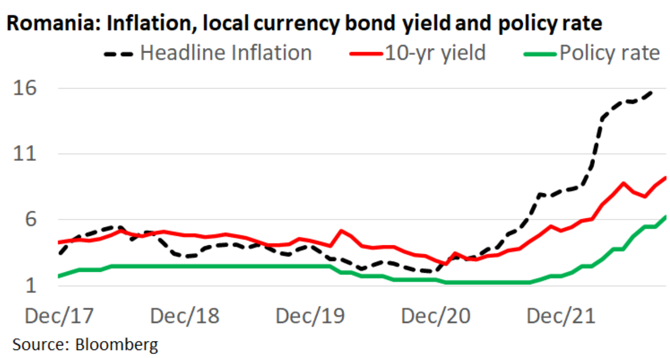
China

China's interbank association restarted a bond issuance program for the private sector. In November 2018, Governor Yi Gang summarized three funding channels, dubbed as *three arrows,* to support financing of the private sector including bank lending, bond issuance, and equity financing. On Tuesday, China's National Association of Financial Market Institutional Investors (NAFMII) restarted the bond financing program of 250 bn yuan ($34.5 bn) for private firms, including property developers. Support measures include credit guarantee, credit enhancement, and direct bond purchases; the first two items are existing policy tools, while bond purchases are a new tool. According to NAFMII, the funding support of the bond issuance program will be financed by the central bank's financing tools. Property developer shares and bonds surged following the news. Analysts assessed the move as positive but insufficient for struggling developers. Separately, **inflation cooled in October.** Consumer inflation slowed to 2.1% y/y (previous: 2.8%) as food inflation moderated (7%, previous: 8.8%). Producer prices fell -1.3% y/y, for the first time since 2020. **Equities declined (CSI 300: -0.9%)**. Onshore Chinese investors have net-bought Hong Kong SAR-listed stocks for 24 straight sessions through November 8, according to Bloomberg. Meanwhile, foreign outflows from China reached -$8.8 bn in October (previous: -$2.1 bn), driven by equities (-$7.6 bn), according to IIF estimates. **The yuan and 10-year yields were little changed.**



Romania

The leu (-0.1%) edged lower after the central bank of Romania slowed the pace of hikes to 50 bps yesterday, raising the policy rate to 6.75%. The hike was in line with expectations. The central bank expects inflation to rise "mildly some more towards end-2022 and then to embark on a gradual downward path, which is seen declining to one-digit levels in 2024 H1." Annual HICP inflation rate rose to 13.4% y/y in September, from 13.0% in June (chart below with the national measure).



Türkiye

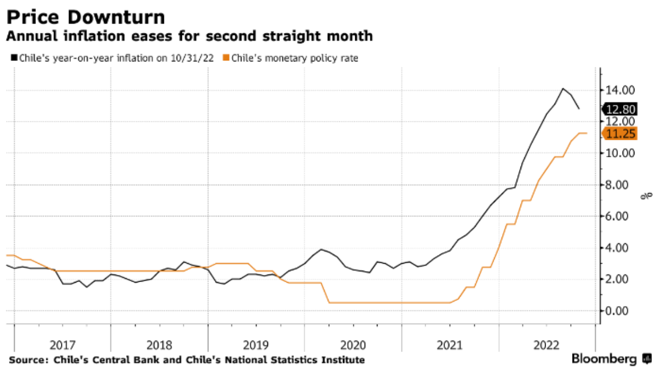
Türkiye's U.S. dollar bonds held on to recent gains after the government extended the FX-protected deposit program to the end of 2023. In late October, Vice President Oktay said in parliament that the FX-protected deposit program, which offer protection against lira weakness and have been introduced to boost lira deposits, have cost the government and central bank almost 150 bn liras ($8.1 bn). Earlier this week, Türkiye's eurobond sale of $1.5 bn due in 2028 attracted bids of more than 3 times the actual issue size from over 150 accounts, in line with recent outperformance of Türkiye's U.S. dollar bonds.

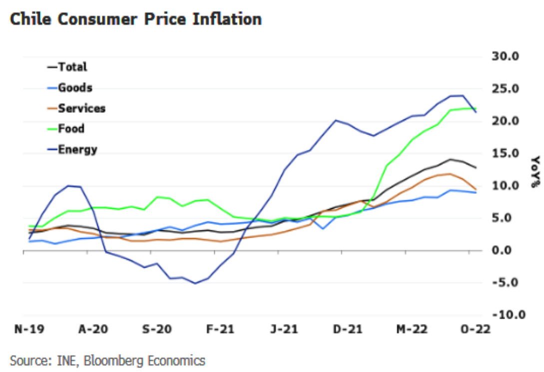
Türkiye: 5-yr U.S. CDS (bps) and yield on U.S. dollar bond (%)

Source: Bloomberg and IMF staff

Chile

Chilean markets rally on lower-than-expected October inflation results. Chile's annual inflation declined for two consecutive months reaching 12.8% y/y in October (Bloomberg median estimate 13.3%), compared to 13.7% in September. Monthly inflation (0.5%) reached its lowest level since February. Equity gains led the region, the peso appreciated past the key 900 per dollar mark momentarily, and two-year swap rates declined 84 bps following the announcement. Bloomberg analysts expect Chile's central bank to hold interest rates constant through the first half of next year.





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Global Financial Indicators

Last updated: 11/9/22 8:06 AM	Level: Last 12m	Level: Latest	Change: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3829	0.6	2	5	-18	-20	-9
Europe		3723	-0.4	3	10	-14	-13	-6
Japan		27716	-0.6	0	2	-5	-4	5
China		3714	-0.9	1	0	-23	-25	-20
Asia Ex Japan		60	0.9	6	1	-30	-27	-24
Emerging Markets		36	0.7	5	2	-29	-25	-23
Interest Rates					basis points			
US 10y Yield		4.13	0.9	3	25	270	262	214
Germany 10y Yield		2.23	-4.8	9	4	253	241	201
Japan 10y Yield		0.25	0.1	0	0	19	18	6
UK 10y Yield		3.53	-2.5	13	-71	270	256	205
Credit Spreads					basis points			
US Investment Grade		178	0.9	-1	-5	70	66	35
US High Yield		484	1.5	20	-24	147	146	77
Europe IG		107	2.1	-3	-27	59	60	36
Europe HY		523	7.4	-19	-125	278	281	171
Exchange Rates					%			
USD/Majors		109.95	0.3	-1	-3	17	15	14
EUR/USD		1.01	-0.2	2	4	-13	-12	-11
USD/JPY		145.9	0.1	-1	0	29	27	27
EM/USD		49.6	-0.1	1	2	-10	-6	-7
Commodities					%			
Brent Crude Oil ($/barrel)		94	-1.5	-2	-2	24	29	8
Industrials Metals (index)		153	-0.7	4	4	-6	-11	-18
Agriculture (index)		68	-0.3	-1	0	16	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		25.5	0.0	-0.4	-5.9	7.7	8.3	-5.5
US 10y Swaption Volatility		131.7	0.0	-15.4	-21.0	55.6	52.7	37.4
Global FX Volatility		11.4	0.0	-0.4	-0.9	4.5	4.0	4.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		245	4.5	1	-19	107	94	5
Italy		211	0.2	-4	-40	98	76	40
Portugal		96	-1.0	-5	-14	36	31	4
Spain		104	0.4	-5	-18	36	30	0

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

Emerging Market Financial Indicators

Last updated: 11/9/2022 8:08 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		7.25	-0.3	0.5	-1	-12	-12	-13		2.9	1.8	6	3	-12	1	0
Indonesia		15661	0.2	-0.1	-2	-9	-9	-8		7.4	-8.7	-6	10	132	97	85
India		81	0.6	1.7	1	-9	-9	-8		7.6	0.9	3	-9	114	133	
Philippines		58	0.5	0.8	2	-14	-12	-12		6.1	15.0	25	35	163	163	113
Thailand		37	1.3	2.0	3	-11	-9	-12		3.0	-6.0	-7	-21	126	118	80
Malaysia		4.69	0.9	1.0	-1	-12	-11	-11		4.5	-1.6	17	10	96	89	81
Argentina		160	-0.2	-1.5	-7	-37	-36	-33		96.2	24.9	212	751	4567	4560	4821
Brazil		5.17	-0.5	-0.5	0	6	8	-3		12.1	5.6	46	47	43	140	56
Chile		901	0.5	4.6	4	-12	-5	-12		5.8	-12.0	-53	-103	51	33	-17
Colombia		4959	-0.2	1.1	-7	-22	-18	-21		11.3	0.0	-8	105	498	492	345
Mexico		19.56	-0.1	0.6	2	4	5	4		9.2	-15.5	-12	-12	173	163	131
Peru		3.9	1.0	1.8	1	3	2	-5		7.7	0.0	-49	-96	195	183	174
Uruguay		40	-0.4	0.9	3	9	12	5		11.1	-4.5	-21	-27	257	243	300
Hungary		402	-0.5	3.3	10	-23	-19	-20		10.2	-21.0	-65	9	653	572	542
Poland		4.68	-0.5	2.4	7	-15	-14	-13		6.9	-13.3	-46	-12	397	333	296
Romania		4.9	-0.4	2.4	4	-13	-11	-10		8.8	-12.4	-22	27	417	397	364
Russia		61.3	-0.8	0.1	4	16	23	33		10.8	6.0	5	161	228	203	-38
South Africa		17.8	-0.5	2.5	2	-16	-10	-15		9.4	14.0	-1	-10	190	199	183
Turkey		18.60	-0.4	0.1	0	-48	-28	-26		12.4	14.0	100	36	-677	-1190	-1000
US (DXY; 5y UST)		110	0.2	-1.3	-3	17	15	14		4.30	1.1	0	16	322	304	240

	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		3714	-0.9	1	0	-23	-25	-20		209	5	13	11	6	1
Indonesia		7070	0.3	1	1	6	7	2		188	-12	-12	20	23	3
India		61034	-0.2	0	5	1	5	7		200	-7	10	63	68	46
Philippines		6242	-0.8	1	7	-15	-12	-15		147	-8	-14	44	46	10
Thailand		1622	-0.6	0	3	0	-2	-4							
Malaysia		1446	0.3	0	3	-5	-8	-9		119	2	8	7	2	-14
Argentina		147924	0.1	-3	2	57	77	62		2496	-85	-315	793	816	759
Brazil		116160	0.7	-1	0	10	11	4		279	1	-22	-42	-32	-52
Chile		5370	2.2	3	6	20	25	23		158	-18	-31	23	18	-16
Colombia		1253	0.7	0	4	-10	-11	-17		431	-24	-30	137	83	39
Mexico		50888	0.3	2	11	-2	-4	-1		390	-23	-57	56	58	20
Peru		21961	-0.3	4	9	7	4	-6		184	-18	-39	31	34	-6
Hungary		43745	-0.2	6	11	-19	-14	-8		260	-7	-52	144	136	107
Poland		53311	0.0	4	14	-28	-23	-15		73	23	12	24	41	57
Romania		11265	0.3	4	3	-12	-14	-15		317	-14	-35	138	124	85
Russia		2196	-0.5	1	13	-48	-42	-29		3411	-577	938	3228	3234	2897
South Africa		69526	0.7	4	6	2	-6	-7		390	-28	-74	57	35	1
Turkey		4396	0.8	8	23	172	137	118		501	-41	-119	39	-77	-62
Ukraine		519	0.0	0	0	-1	-1	0		4339	-113	470	3836	3580	2866
EM total		36	-0.7	5	2	-29	-25	-23		424	-20	-34	56	38	-34

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

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