



- **US asset real yields are back at pre-GFC levels** ([link](#))
- **Markets grapple with fallout from ICBC cyberattack in New York** ([link](#))
- **Liquidity in the US Treasury market is getting worse** ([link](#))
- **Poll shows economists expect EU inflation to decline faster than current forecasts** ([link](#))
- **Chinese equities could outperform if geopolitical risks subside** ([link](#))
- **Markets in Brazil price further rate cuts** ([link](#))
- **Special Feature: What if the ECB Raises the Minimum Reserve Requirement** (attached)

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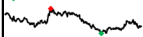



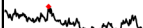
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Markets are cautious ahead of an eventful week

Caution prevails in global markets ahead of a potentially eventful week. Stocks in Europe are higher, but US equity index futures are down. Government bond yields are slightly lower in early trading, but the dollar is mixed. A US government shutdown looms if a deal is not reached before midnight on Friday. President Biden and President Xi will meet later this week under the auspices of the APEC summit in San Francisco. Meanwhile, all eyes are on the US CPI and PPI inflation data due this week. Markets have priced out more rate hikes from the Fed, but strong inflation data could overturn these expectations. Renewed weakness in the yen has led to further speculation about government intervention. In other news, a Bloomberg poll showed that economists expect ECB rate cuts to begin sooner than expected.

Key Global Financial Indicators

Last updated: 11/13/23 7:46 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4415	1.6	1	2	11	15
Eurostoxx 50		4213	0.4	1	2	9	11
Nikkei 225		32585	0.1	0	1	17	25
MSCI EM		38	0.7	0	1	0	1
Yields and Spreads			bps				
US 10y Yield		4.64	-1.4	-1	3	83	76
Germany 10y Yield		2.70	-2.0	-4	-4	54	13
EMBIG Sovereign Spread		430	4	7	-20	-81	-22
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.2	-0.1	-1	2	-5	-5
Dollar index, (+) = \$ appreciation		105.9	0.0	1	-1	0	2
Brent Crude Oil (\$/barrel)		81.6	0.2	-4	-10	-15	-5
VIX Index (% change in pp)		15.1	0.9	0	-4	-7	-7

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

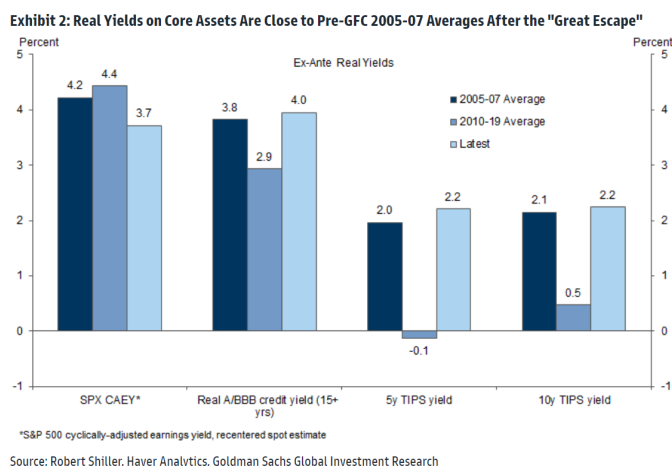
This could be an eventful week, with the prospect of a US government shutdown at midnight on Friday and key US inflation reports due tomorrow and Wednesday. Meanwhile, market participants are nervous following the hacking of the Industrial and Commercial Bank of China's (ICBC) New York Office, which resulted in a very large number of failed trades and severely disrupted the market. In the euro area, the widely followed ZEW business confidence survey is due on Tuesday, while inflation data will be released in France, Germany, and Italy. Euro area industrial production is also on the agenda. China is scheduled to release industrial production data as well, while India will deliver its latest CPI report. The UK will report on inflation and employment and Japan will publish its latest GDP data. The People's Bank of China will meet on Wednesday and is expected to stay on hold. President Biden and President Xi are due to make remarks at the APEC summit in San Francisco on Thursday.

Mature Markets

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United States

Real yields in key US markets are back to the levels seen in 2005–7 before the Global Financial Crisis (GFC). Treasury Inflation Protected Security (TIPS) real yields and real yields in the credit markets are now at very attractive levels for investors. Equity dividend yields in real terms are also back at more favorable levels, especially if the large technology stocks that led the recent rally are excluded. In its forecasts for 2024, Goldman analysts predict that investors can earn good returns in the year ahead. They think the global economy will continue to improve, that central banks are done with rate hikes, and that inflation will continue to decline.



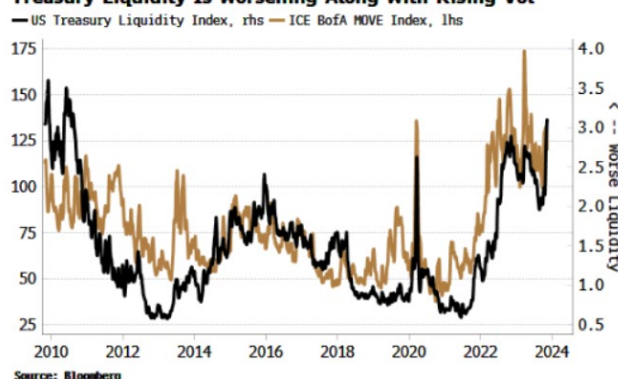
Markets are still dealing with the repercussions of a cyberattack on ICBC's New York office last Thursday, which led to a surge in failures of Treasury and repo trades. The repo market, which usually closes at 3pm, was kept open until 7pm, while the Fedwire settlement system was also kept open to deal with the situation. The volume of failed trades shot up to more than \$62 bn, the highest level since March and up from \$25.5 bn the day before, according to data from the Depository Trust Clearing Corporation (DTCC). As news of the cyberattack spread, other market participants cut off their computer systems from ICBC, forcing the Chinese bank to use USB sticks to send trade data to its counterparties, according to news reports from Bloomberg. While large volumes of Treasury fails are not uncommon, this event highlights the vulnerability of the market's trading infrastructure to cyberattacks and the prospect of more damaging disruptions in the future.

Non-Delivery of Treasuries Surged Thursday A hack at ICBC stymied settlements for the US debt market



Liquidity in the US Treasury market is deteriorating even as interest rate volatility is on the rise. Contacts are growing more nervous about future liquidity, especially after last week's very poorly received 30-year bond auction. They worry that the large supply of new Treasury issuance will be difficult for the market to absorb and make liquidity conditions worse. There has been widespread discussion of a potential failure of a future Treasury auction, in which weak demand results in the Treasury being unable to sell all the notes or bonds it has on offer. In an environment where US economic growth is improving, there is also the risk that the Fed may have keep rates on hold for longer than the market expects. The Fed Funds futures market predicts that the first rate cut will come in June or July of 2024.

Treasury Liquidity Is Worsening Along With Rising Vol

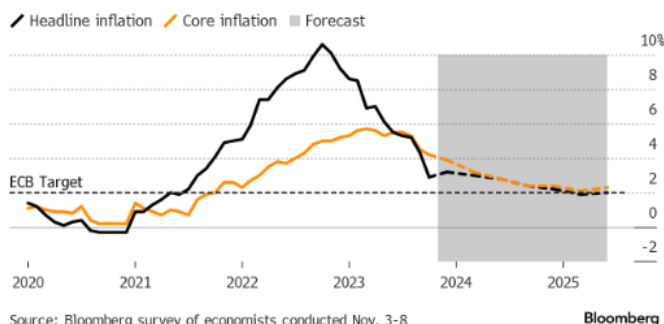


Euro Area

European equities were trading higher with the Stoxx 600 equity index up 0.6% and most sectors trading in the green. The euro was little changed against the dollar (+0.1% to \$1.069/€) and 10y sovereign bond yields were mostly lower (10y bund -2bps to 2.7%).

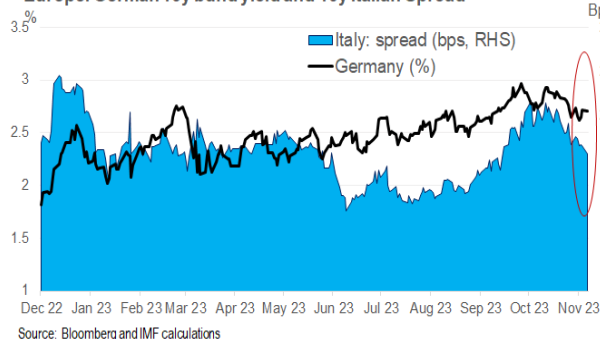
Economists see euro area inflation easing to under 2% in early 2025, and expect a rate cut in June 2024. A recent Bloomberg survey showed that economist expect headline inflation to ease to an average of 1.9% in Q1 2025 (from 2.2% previously) and core inflation to reach 2.1% in Q1 2025 and increase to 2.3% in Q2. This follows after preliminary October euro area inflation data showed headline inflation easing to 2.9% y/y (versus expected +3.1% from 4.3% the month before). The latest ECB forecasts, released in September, saw inflation easing to below the 2% target only in H2 2025. The survey also showed that economists now expect the first ECB rate cut in June 2024, compared to September previously. Markets are also pricing in a full 25bps rate cut by June. In the meantime, the FT reports that ECB President Lagarde on Friday said that the ECB would not start cutting rates for at least “the next couple of quarters,” cautioning that inflation could rebound especially as a result of an energy sector shock. ECB vice president de Guindos also warned this morning that inflation could temporarily pick up again.

Euro-Area Inflation Seen Just Below Target in Early 2025

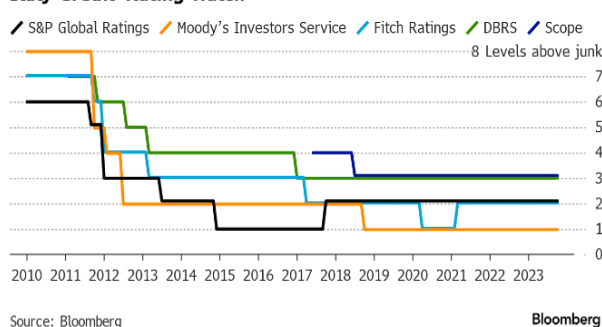


The spread between 10y Italian and German sovereign bonds narrowed after Fitch affirmed Italy's credit rating at BBB with a stable outlook, ahead of Moody's scheduled review of Italy's rating on Friday. Fitch's decision, announced on Friday, kept Italy's rating two notches above high-yield territory. This follows after S&P Global Ratings last month also affirmed Italy's rating, with a stable outlook. Moody's currently rates Italy one notch above high-yield territory with a negative outlook. Contacts note that the recent narrowing in the spread between 10y Italian sovereign bonds and German bunds, which has narrowed by a further 3bps this morning to 183bps, reflects that an adverse rating action by Moody's in the scheduled review this coming Friday is seen as unlikely. Barclays analysts caution, however, that spreads could widen to 250bps in the event of a downgrade to sub-investment grade.

Europe: German 10y bund yield and 10y Italian Spread



Italy Credit-Rating Watch



Emerging Markets

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In EMEA, stocks in the Czech Republic and Poland were higher but Turkey was down. Currencies were little changed. Turkish banking stocks were roughly 1.6% lower with Bloomberg pointing to a downgrade in Citi's recommendation for Turkish bank stocks. **Markets Asia were mixed.** China was higher but India and South Korea lost ground. **In Latin America, regional currencies, equities, and bonds were also mixed as markets await US inflation data this week.** Stocks in Mexico and Brazil did well but markets in Chile and Colombia declined. Local currencies saw minor moves.

Emerging Market Fund Flows

EM bond funds received inflows while EM equities outflows moderated for the week ending November 8. EM bond funds received inflows (+\$118mn) following 14 consecutive weeks of outflows, led by EM local currency funds inflows (+\$173mn) while hard currency outflows eased (-\$55mn). Bond flows were primarily driven by ETF inflows, which accelerated to largest level in 41 weeks (+\$752mn). EM equity fund outflows also eased (-\$680mn), driven by ETF inflows (+\$391mn), which offset some of non-ETF outflows (-\$1.1bn).

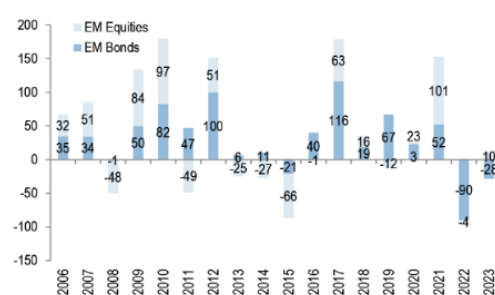
Weekly Cross-asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	-0.6	-18.4	-18.4
EM Bonds	0.1	-28.4	-28.4
Hard Ccy	-0.1	-21.3	-21.3
Local Ccy*	0.2	-7.1	-7.1
o.w. EM ex-China	0.4	-2.4	-2.4
o.w. China	-0.3	-5.9	-5.9
EM Equities	-0.7	10.1	10.1
US HG	3.3	244.1	244.1
US HY	0.0	-9.8	-9.8
Global Equities	0.0	-65.0	-65.0
EM Bond and Equity ETFs	1.1	28.1	28.1
EM Bond ETFs	0.8	-3.4	-3.4
EM Equity ETFs	0.4	32.6	32.6
Non-resident EM flows*	4.2	12.7	12.7

EM bond and equity fund flows

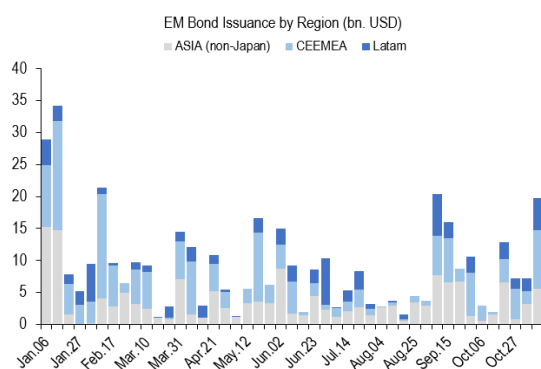
USD billion



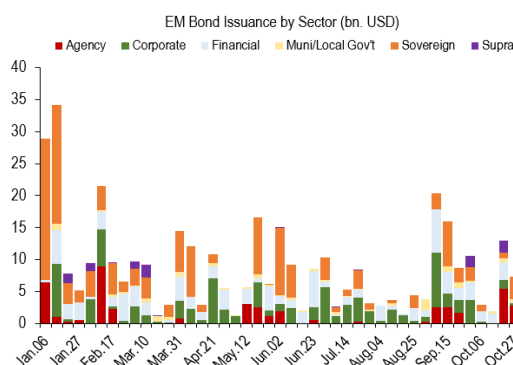
*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Emerging Market Bond Issuance

EM issuances accelerated for the week ending Nov. 10, as global yields moderate. EMs sold \$19.8bn of bonds last week (\$13.5 bn were USD-denominated issuances), **nearly thrice the volume of the prior week**. \$12.4bn were sovereign/supra bonds, \$5.9bn were corporate/financial bonds, \$1.2bn were agency bond and \$0.2bn were local government bonds. Government issuances include Bulgaria, Colombia, Costa Rica, Indonesia, and Turkey. Notably, Colombia's \$2.5 bn sale of its ethically labeled bonds received more than \$11bn of orders, over four times the deal size, despite the long maturity (12 and 30 years). According to a regulatory filing, proceeds of the bonds will be used for "general budgetary purposes" although the government intends to allocate part of the funds to eligible social expenditures under its green, social, and sustainable bond framework.



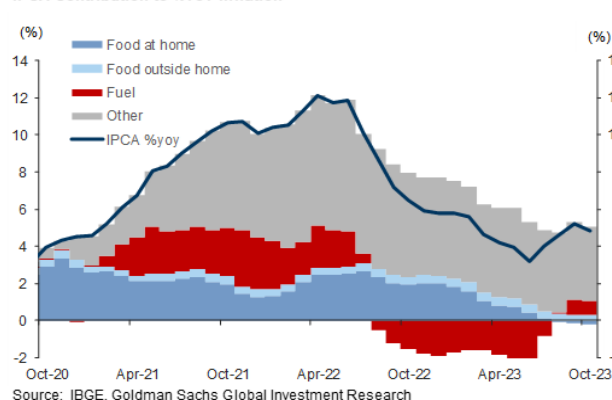
Sources: Bond Radar and IMF staff calculations



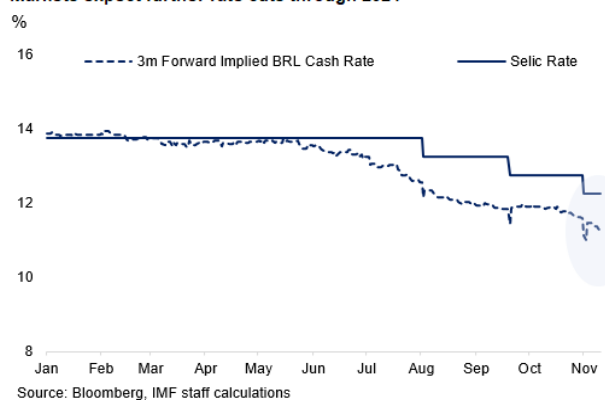
Brazil

Brazil's annual inflation rate moderated more than expectations and came near to the central bank's target. The October print was at 0.24% m/m (exp. 0.29%) or 4.82% y/y (exp. 4.87%), and below analysts' expectations. It was also the first decline following three consecutive months of increases, paving the way for the central bank to continue its rate cuts. Although moderating, the annual inflation rate remains above the 4.5% ceiling and 3% mid-point of the central bank's inflation target range that will be effective in 2024. The moderation in October from the month prior was driven by lower electricity tariffs, the fading impact of earlier fuel prices increases, and lower personal expenses. Swap rates for January 2024, declined following the release of the print to close 6 bps lower at 11.25% (the current policy rate is at 12.25%), suggesting market pricing of a further 100 bps cuts (cumulative) by February next year.

IPCA Contribution to %YoY Inflation



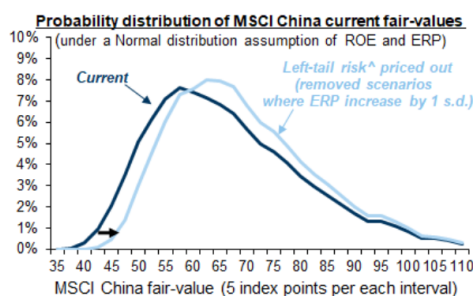
Markets expect further rate cuts through 2024



China

Chinese equities have room to outperform expectations if geopolitical risks subside. As the re-opening effects of the Chinese economy continue to dissipate, developments in the real estate sector in China continue to be a headwind for the economy. According to Goldman Sachs analysts, while slower global growth and higher-for-longer US rates could also constrain the valuation upside for Chinese equities, they see several reasons for the skewness of the valuation distribution to improve. First, Chinese equities are currently trading below the analysts' fair value estimates. Second, any improvements on geopolitical developments would be an opportunity for risk premia to be priced out. Third, any policy surprises to support the domestic economy are likely to benefit risk assets.

Exhibit 22 : China's fair value might have come down, but perhaps with a fatter right tail if policy and geopolitical risks subside



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Global Financial Indicators

11/13/23 7:49 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4415	1.6	1	2	11	15
Europe		4216	0.4	1	2	9	11
Japan		32585	0.1	0	1	17	25
China		3579	-0.2	-1	-2	-6	-8
Asia Ex Japan		64	0.5	-1	0	1	-1
Emerging Markets		38	0.7	0	1	0	1
Interest Rates			basis points				
US 10y Yield		4.64	-1.4	0	3	83	77
Germany 10y Yield		2.69	-2.4	-5	-4	53	12
Japan 10y Yield		0.87	2.1	-1	11	63	45
UK 10y Yield		4.32	-1.9	-6	-7	96	65
Credit Spreads			basis points				
US Investment Grade		155	-1.7	-2	2	-19	-3
US High Yield		429	-6.9	-7	-19	-64	-52
Exchange Rates			%				
USD/Majors		105.88	0.0	1	-1	0	2
EUR/USD		1.07	-0.1	0	2	3	0
USD/JPY		151.8	0.2	1	1	8	16
EM/USD		47.2	-0.1	-1	2	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		81.6	0.2	-4	-9	-3	1
Industrials Metals (index)		137	0.3	-3	1	-16	-17
Agriculture (index)		65	-0.2	-1	1	-4	-5
Implied Volatility			%				
VIX Index (% change in pp)		15.1	0.9	0.2	-4.3	-7.5	-6.6
Global FX Volatility		7.7	0.1	0.0	-0.5	-3.8	-3.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		125	-1.8	-6	-32	-113	-81
Italy		183	-3.0	-8	-21	-22	-31
Portugal		72	-2.0	1	-5	-24	-30
Spain		104	-1.3	-2	-10	0	-5

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

Emerging Market Financial Indicators

Last updated: 11/13/2023 7:50 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	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.							
		7.29	-0.1	-0.3	0	-3	-5		2.7	0.1	-2	-8	-42	-41		
China		15701	0.0	-1.0	0	-1	-1		6.9	7.9	-1	-10	-47	-9		
Indonesia		83	0.0	-0.1	0	-2	-1		7.6	0.0	0	-9	5.0	10		
India		56	-0.2	-0.3	1	2	-1		5.9	0.0	0	16	-22	-9		
Philippines		36	0.0	-1.3	1	-1	-4		3.2	1.0	5	-12	44	58		
Thailand		4.71	-0.3	0.4	0	0	-6		3.9	2.1	-11	-16	-53	-17		
Malaysia		350	0.0	0.0	0	-54	-49		110.5	20.4	125	200	1330	2227		
Argentina		4.92	-0.3	-0.7	3	8	7		11.3	-11.8	-18	-45	-173	-127		
Brazil		917	-0.4	-3.9	2	-3	-7		5.5	0.0	-13	-7	15	18		
Chile		4036	-0.5	-1.4	5	19	20		8.4	14.0	-4	-110	-196	-135		
Colombia		17.71	-0.3	-0.9	2	9	10		9.1	-0.5	-16	-31	38	39		
Mexico		3.8	-0.1	-1.5	0	2	0		7.2	-0.5	-11	-48	#VALUE!	-80		
Peru		40	-0.1	-0.1	0	0	0		9.7	-10.3	-19	-25	-143	-99		
Uruguay		353	-0.1	0.2	5	12	6		7.2	5.0	-4	-3	-142	-242		
Hungary		4.15	-0.2	0.2	4	10	5		5.0	5.8	18	4	-133	-116		
Poland		4.7	-0.1	-0.5	1	2	-1		6.7	3.8	3	-22	-155	-99		
Romania		91.9	0.4	0.7	6	-33	-19									
Russia		18.7	-0.1	-2.4	1	-8	-9		9.5	-2.5	-7	-34	38	35		
South Africa		28.59	-0.1	-0.5	-3	-35	-35		31.8	6.0	99	450	1970	2194		
Turkey		106	0.0	0.6	-1	0	2		4.66	-2.0	8	3	73	66		
US (DXY; 5y UST)	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M				
									basis points							
China		3579	-0.2	-1	-2	-6	-8		163	-6	-13	-54	-14			
Indonesia		6838	0.4	-1	-1	-3	0		126	-5	-7	-82	-14			
India		64934	0.0	0	-2	5	7		128	-4	-19	-60	-14			
Philippines		6116	-0.7	1	-2	-4	-7		102	-6	-7	-54	5			
Thailand		1387	-0.2	-2	-4	-15	-17		0	0	0	0	0			
Malaysia		1445	0.0	0	0	-2	-3		92	-4	-6	-35	-8			
Argentina		660275	5.8	1	-13	339	227		2482	-48	-146	-10	277			
Brazil		120568	1.3	2	4	7	10		225	7	0	-79	-49			
Chile		5624	-0.2	1	-3	5	7		146	6	8	-16	14			
Colombia		1103	-0.1	0	-1	-13	-14		315	16	-44	-108	-57			
Mexico		51258	0.4	0	4	-1	6		366	14	-5	-22	-15			
Peru		21819	0.6	2	-1	-2	2		162	9	4	-22	-18			
Hungary		57362	-0.3	0	3	31	31		190	0	-15	-66	-32			
Poland		71840	0.4	-1	7	32	25		115	4	-19	33	42			
Romania		14593	0.4	0	2	27	25		193	6	-26	-112	-63			
South Africa		71878	0.7	-2	-1	-2	-2		375	24	-11	-12	8			
Turkey		7724	-0.6	-2	-5	73	40		382	22	-7	-142	-58			
Ukraine		507	0.0	0	0	-2	-2		3491	74	-57	-674	-588			
EM total		38	0.0	0	1	0	1		397	9	-15	-29	21			

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

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