



- Markets rally on dovish Fed ([link](#))
- Smaller than expected US Treasury funding announcements brings relief ([link](#))
- Bank of England votes 6–3 to stay on hold at 5.25% ([link](#))
- Japan announces \$113 bn stimulus package ([link](#))
- Recession worries gain ground in euro area ([link](#))
- Rising real yields create challenges for US equity market ([link](#))

[Mature Markets](#)


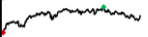









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## Markets rally on hopes that rate hikes could be ending

Markets were in an ebullient mood in the wake of a Fed meeting viewed widely as dovish and after the US Treasury announced that its funding needs would be smaller than expected. US equity index futures were higher, European stocks rallied sharply, government bond yields were down across the board and the dollar depreciated. However, worries about recession are growing in the euro area as unemployment increased more than expected in Germany and PMI data across several countries continued to weaken. In other news, Japan announced a large stimulus package to jumpstart its economy, while Norway stayed on hold at 4.25% for the first time since January, with analysts predicting a final rate hike of 25 bps in December. Attention now switches to tomorrow's all important US jobs report, with the consensus forecast predicting another strong gain of 180K jobs.

Key Global Financial Indicators

Last updated: 11/2/23 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4238	1.1	1	-1	13	10
Eurostoxx 50		4171	1.9	3	1	15	10
Nikkei 225		31950	1.1	4	2	15	22
MSCI EM		37	0.9	1	-2	7	-2
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.70	-2.9	-14	3	60	83
Germany 10y Yield		2.70	-6.7	-16	-23	56	13
EMBIG Sovereign Spread		442	7	3	12	-92	-10
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.3	0.2	1	2	-3	-5
Dollar index, (+) = \$ appreciation		106.1	-0.7	0	-1	-5	2
Brent Crude Oil (\$/barrel)		85.7	1.2	-3	-6	-11	0
VIX Index (% change in pp)		16.4	-0.5	-4	-1	-9	-5

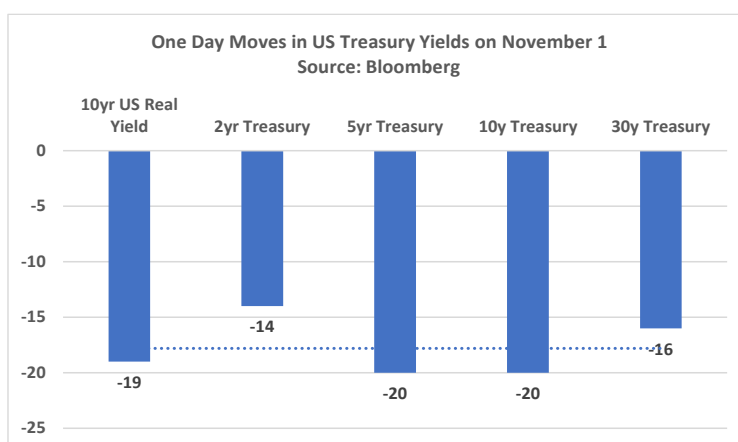
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

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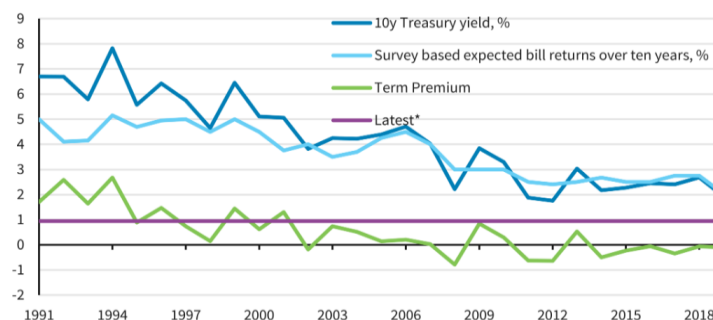
### United States

**Markets viewed the FOMC statement and Fed Chair Powell's press conference as dovish, strengthening the Treasury rally that began in the morning.** Equities also staged a rally into the close. The moves in the Treasury market ended up being very large for the day, although most of the move occurred in the morning after the Treasury refunding announcement (see below). Most contacts think the Fed will stay on hold at the last FOMC meeting of the year on December 15, and the Fed Funds futures markets assigns just a 26% probability of a rate hike on that day. The market's prediction of the number of rate cuts for 2024 has gone up to three from 2.5 earlier in the week, although its forecast for the terminal rate held steady around 5.40%.



**Yesterday, the US Treasury announced a smaller than expected auction supply for 10 and 10-year securities.** The sales are to be raised by just \$1 bn per quarter, compared to the \$2 bn increased on August 2. At the time, the unexpectedly high volumes of sales announced reinforced the ongoing Treasury selloff, pushing the benchmark 10-year Treasury yield crossing above 5% for the first time in 15 years. Markets were very worried that the Treasury would increase the size of its sales by a larger amount, so the news was met by a relief rally in the Treasury market. The 10-year yield fell below 4.80% for the first time in two weeks. The Treasury Borrowing Advisory Committee (TBAC), a financial industry group that advises the Treasury on its borrowing program, stated that it was comfortable with the Treasury issuing more T-Bills than usual in coming quarters as demand for them is high and large issuance at shorter maturities injects less interest rate risk into the market. Greater supply of longer maturities is viewed as a key reason that term premia have risen back to the levels seen before the global financial crisis.

Figure 2. Term premium has risen to levels prevailing pre GFC

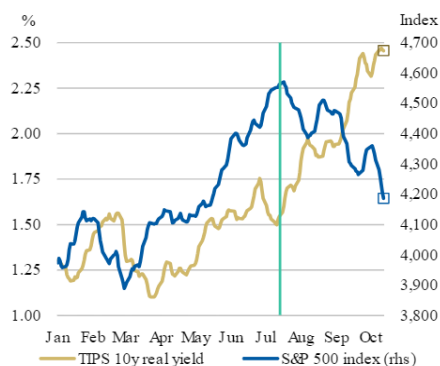


\* Latest is based on our expectation of the average fed funds rate over the next 10y years, which is close to 3.9%

Source: Haver Analytics, Barclays Research

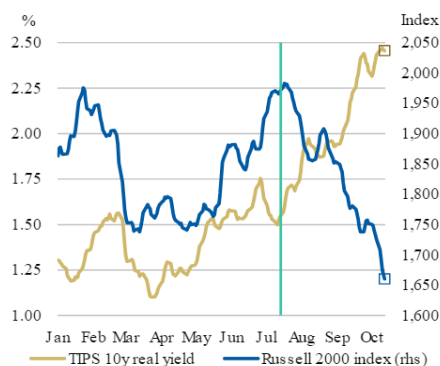
**The relentless rise in US interest rates has put pressure on equities and other risk assets.** The rise has been led almost entirely by real yields, with the 10-year real yield briefly crossing 2.5% for the first time in over 15 years. Since July, the 10 and 30-year real yields have gone up by more than 90 bps, while the S&P 500 has lost 10% and the Russell 2000 index of small cap stocks is down 18%. Morgan Stanley points out that the real dividend yield on the S&P 500 is actually in negative territory at -0.50% based on its forecasts for dividends and inflation expectations in 2024. In these circumstances, investors could switch out of equities and into Treasuries and corporate bonds, potentially creating even stronger headwinds for the stock market.

**Exhibit 1: TIPS 10y real yield vs. S&P 500 index**



Source: Morgan Stanley Research, Federal Reserve, Bloomberg

**Exhibit 2: TIPS 10y real yield vs. Russell 2000 index**



Source: Morgan Stanley Research, Federal Reserve, Bloomberg

## Euro Area

**Local markets joined the global rally and the euro appreciated.** Core Government bond yields were lower in step with US Treasuries, and peripheral bond spreads tightened. The overnight index swap (OIS) market indicated that the odds of a rate cut at the ECB meeting on April 11, 2024, reached 100% from 80% earlier.

**Markets remain wary of recession risks in the euro area.** Weaker than expected PMIs in Germany, Italy, Spain, France, and the euro area aggregate for October marked yet another month in contractionary territory. Today's Germany unemployment change (30K, exp. 14K, prior 10K) further reinforced the view of a rapidly cooling activity in the euro area's largest economy.

## United Kingdom

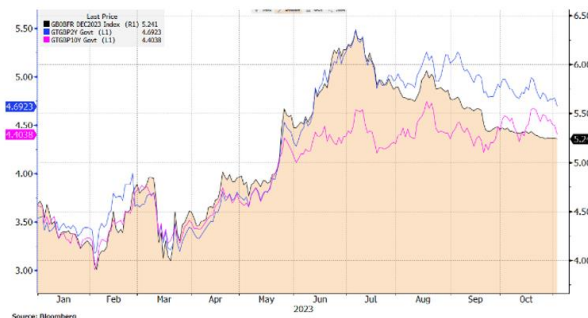
**The Bank of England voted 6–3 to stay on hold at 5.25%.** The dissenters had called for another 25 bps hike to fight stubbornly high inflation. Governor Bailey and the Monetary Policy Committee agreed that the policy rate would have to remain "restrictive" for "an extended period of time" to bring inflation under control. Inflation in the UK is the highest among the G-7 nations, and Governor Bailey stated that "It's much too early to be thinking about rate cuts."

**Markets now foresee just a 22% chance of a 25bps rate rise by December, down from 50% in August, when expectations were that policy rates in the UK would reach 6% by the end of the year.** Markets now expect a 25bp cut by August 2024 with a 70% probability. Ahead of the BoE meeting, 2y gilt yields fell to 4.7% (-6.2bps), and 10y gilt yields fell by 8.3bps to 4.4%.

## Real rates and EUR-GBP



## Gilt yields vs. Bank Rate expectation



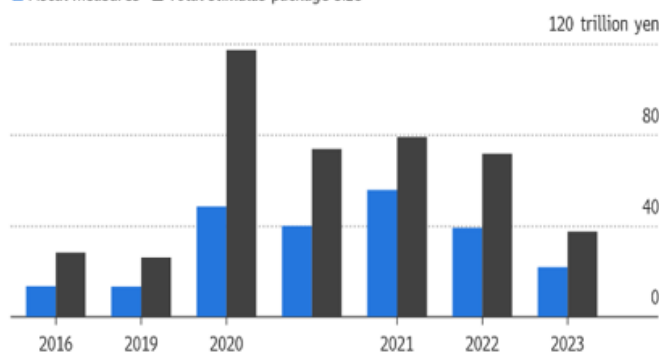
## Japan

PM Kishida announced a ¥17tn (\$113bn) stimulus package to support the economy. The plan includes income and residential tax cuts per person and cash handouts to low-income households. Around ¥13tn (\$87bn) will be funded through an extra budget. Separately, Japan's Government Pension Investment Fund (GPIF) recorded an investment loss of -¥683.2bn (-\$4.5bn) in July-September, the first negative return in three quarters. The BOJ reportedly plans to wait for at least early spring next year to normalize policy given the uncertainty over the economic outlook, according to Reuters. Meanwhile, the repatriation of funds from US bonds to Japanese bonds could continue in 2024, Nomura wrote. Since 2022, Japanese investors have been shifting their funds from foreign bonds to domestic bonds because of elevated currency-hedging costs. They reduced their holdings of US bonds by nearly a quarter during 2022.

## Ongoing Stimulus

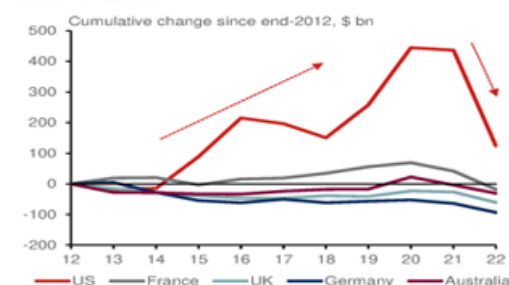
Japan crafts another stimulus package amid fragile recovery

■ Fiscal measures ■ Total stimulus package size



## Japanese investors could repatriate their funds from US bonds to domestic bonds further

Japanese investors' holdings of long-term foreign bonds by location of issuers



Source: BOJ, Macrobond, Nomura

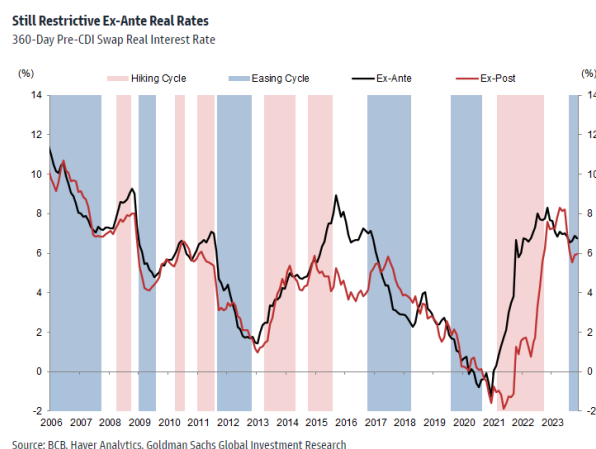
## Emerging Markets

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EMEA equities were all positive with Turkey (+2%) and Hungary (+0.5%) leading the gains. The Czech central bank is expected to cut rates by 25bps today. Asian equities gained +1.6%. Vietnam equities rallied +3.5%, followed by Taiwan POC +2.2% and South Korea +1.8%. Chinese equities bucked the trend (-0.5%). Asian currencies strengthened. Malaysia's central bank (BNM) kept its benchmark interest rate unchanged as expected. The BNM highlighted the strength of the US dollar amid higher-for-longer interest rate expectations but stated it does not expect this to derail Malaysia's growth prospects. Latam markets followed the US higher and currencies appreciated.

## Brazil

**Brazil's central bank cut the key rate by 50bps to 12.25% as expected on Wednesday.** This is the third 50 bps point cut since the beginning of its easing cycle in August. The central bank's post-meeting statement suggested they would continue to ease by 50bp in future meetings. The statement also characterized the global outlook as "adverse" (versus "uncertain" in the previous statement) and repeated twice that caution was required in policymaking. Traders remain concerned about fiscal risks in the country and are expecting the easing cycle to end at around 11% next year.

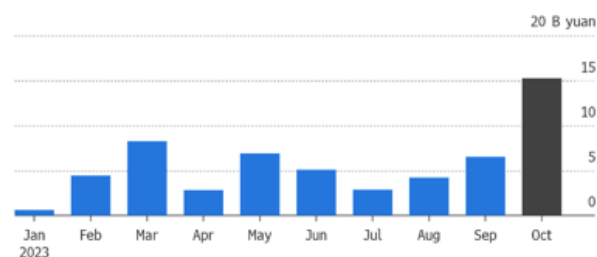


## China

**Chinese equities fell (CSI -0.5%),** and most sectors closed in red, particularly tech stocks (Shenzhen -1%). Separately, **more local governments financing vehicles (LGFV) are offering to redeem their bonds before maturity,** counting on Beijing's support to lower financing costs, Bloomberg reported. 33 LGFVs, worth about 15bn yuan (\$2.1bn), are planning for early payment, as of 27 October, the highest monthly total for 2023. Meanwhile, in October, the net bond issuance for both private and state-owned developers remained in contraction, the second month in a row, highlighting the near-term funding pressures, BofA estimated. **10Y bond yields declined and the renminbi was little changed.**

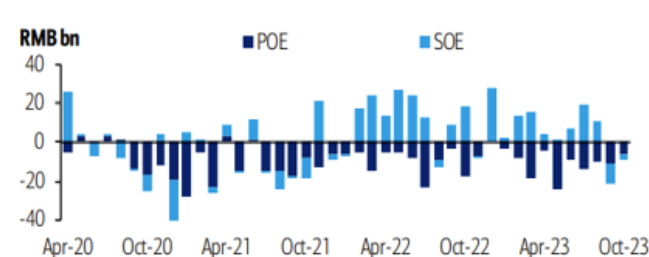
### LGFVs Rush to Repay Debt Early for Lower Costs

The amount of planned LGFV early repayment reached the highest this year



### Bond net issuance of property developers

Net issuance for SOE & POE developers remained in contraction in Oct



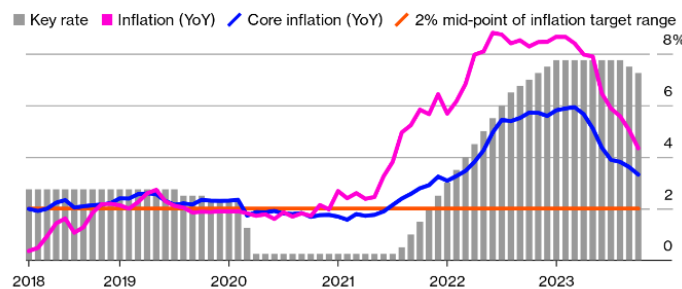
## Peru

**In Peru, markets expected another policy rate cut next week due to lower-than-expected October inflation.** CPI data surprised lower for the second consecutive month in Peru, driven by a -2.0% m/m food price deflation. The headline inflation was -0.3% m/m in October, compared with 0% in September, with core inflation rising 0.2%. Annually, the consumer price index slowed to 4.3% y/y from 5.0% one month ago, below the consensus expectation of 4.9%. Markets expect inflation to continue its downward trend, and this should support further monetary easing by the central bank but add pressure to the currency.



### Peru Inflation Slowed Much More Than Expected Last Month

October CPI sunk to 4.34% from year ago, below all economist estimates



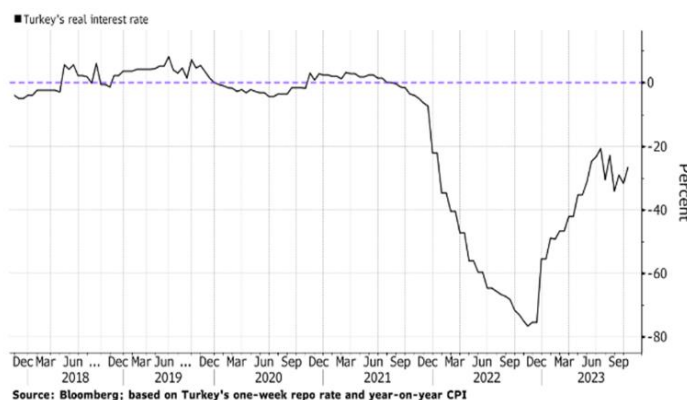
Sources: Statistics agency, central bank, Bloomberg

Bloomberg

## Turkey

The central bank of Turkey raised its projections for inflation over the next two years, with a peak of up to 75% predicted for May. The next official inflation report is scheduled for release on Friday. Consensus estimates indicate that price growth might have increased to 62.5% in October from 61.53% prior. The central bank has previously lifted its benchmark rate to 35% from 30%. Real rates remain well below zero. The yield on the government's 10-year lira bonds increased by 9bps to 28.37%.

### Turkey real interest rates still remain far below zero





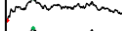


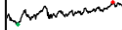
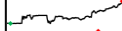






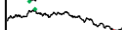
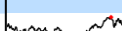
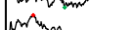

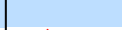


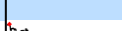




Source: Bloomberg; based on Turkey's one-week repo rate and year-on-year CPI

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## Global Financial Indicators

11/2/23 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4256	1.1	3	-1	13	11
Europe		4171	1.9	3	1	15	10
Japan		31950	1.1	4	2	15	22
China		3554	-0.5	1	-4	-3	-8
Asia Ex Japan		62	0.7	0	-2	10	-4
Emerging Markets		37	0.9	1	-2	7	-2
Interest Rates			basis points				
US 10y Yield		4.70	-2.9	-14	3	60	83
Germany 10y Yield		2.70	-6.7	-16	-23	56	13
Japan 10y Yield		0.93	-3.5	5	15	67	50
UK 10y Yield		4.39	-10.6	-20	-17	99	72
Credit Spreads			basis points				
US Investment Grade		160	-1.6	0	8	-17	1
US High Yield		465	-1.6	-8	28	1	-15
Exchange Rates			%				
USD/Majors		106.10	-0.7	0	-1	-5	2
EUR/USD		1.06	0.7	1	2	8	-1
USD/JPY		150.3	-0.4	0	0	2	15
EM/USD		47.3	0.2	1	2	-3	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		85.7	1.2	-2	-4	1	6
Industrials Metals (index)		138	0.1	2	-2	-7	-16
Agriculture (index)		65	0.6	0	1	-6	-6
Implied Volatility			%				
VIX Index (% change in pp)		16.4	-0.5	-4.3	-1.2	-9.5	-5.3
Global FX Volatility		8.0	0.0	-0.1	-0.2	-3.9	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		138	-2.5	3	-11	-107	-68
Italy		189	-7.3	-12	1	-27	-25
Portugal		67	-5.6	-5	-8	-33	-35
Spain		104	-3.4	-7	-3	-5	-5

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

## Emerging Market Financial Indicators

Last updated: 11/2/2023 8:14 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.						
China		7.32	0.0	0.0	0	0	-6		2.7	-4.4	-10	-6	-14	-40	
Indonesia		15855	0.5	0.4	-2	-1	-2		7.1	-0.3	-12	9	-34	13	
India		83	0.0	0.0	0	-1	-1		7.6	-8.0	-17	-13	2.6	18	
Philippines		57	0.4	0.6	0	3	-2		5.9	0.0	2	5	3	-12	
Thailand		36	0.8	1.1	3	5	-4		3.3	-7.0	-13	-3	18	65	
Malaysia		4.75	0.4	0.8	-1	0	-7		4.0	-9.1	-16	0	-33	-6	
Argentina		350	0.0	0.0	0	-55	-49		108.2	21.0	139	-1046	1415	1998	
Brazil		4.96	1.6	0.8	2	4	7		11.7	-17.7	-10	-25	7	-88	
Chile		888	0.8	5.1	2	6	-4		5.9	-13.5	-13	12	-38	56	
Colombia		4109	0.3	2.3	1	22	18		8.9	-0.5	-38	-34	-248	-85	
Mexico		17.65	0.7	2.9	0	11	11		9.5	-0.5	-14	-5	22	78	
Peru		3.8	0.0	1.0	-1	4	-1		7.7	-1.0	-4	31	-57	-31	
Uruguay		40	-0.1	-0.4	-3	1	0		9.8	-1.2	-4	23	-153	-84	
Hungary		359	1.0	1.0	3	16	4		7.3	-19.0	-38	-11	-354	-226	
Poland		4.18	1.1	0.8	5	15	5		4.9	-11.3	-21	-8	-245	-128	
Romania		4.7	0.7	0.8	2	7	-1		6.8	-3.2	-8	2	-222	-90	
Russia		93.2	-0.7	0.5	6	-34	-20								
South Africa		18.4	0.7	3.1	5	-1	-7		9.6	-10.0	-36	-38	20	46	
Turkey		28.35	-0.1	-0.7	-3	-34	-34		30.0	45.0	96	280	1853	2012	
US (DXY; 5y UST)		106	-0.8	-0.5	-1	-5	2		4.62	-2.7	-17	-8	31	62	

	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		3554	-0.5	1	-4	-3	-8		167	-1	-5	-37	-10		
Indonesia		6751	1.6	1	-3	-4	-1		141	21	11	-59	1		
India		64081	0.8	1	-2	5	5		135	0	-4	-72	-7		
Philippines		5974	0.0	-2	-5	-3	-9		119	23	13	-36	22		
Thailand		1404	1.7	2	-3	-14	-16		0	0	0	0	0		
Malaysia		1440	0.3	0	1	1	-4		96	3	0	-21	-4		
Argentina		616255	6.4	-10	11	313	205		2604	125	57	23	399		
Brazil		115053	1.7	2	0	-2	5		222	9	0	-56	-52		
Chile		5408	-0.5	-3	-7	4	3		146	6	20	-30	14		
Colombia		1088	0.0	0	-2	-13	-15		320	-18	-17	-135	-52		
Mexico		49788	1.5	2	-3	-2	3		375	13	4	-38	-6		
Peru		21817	-0.2	-2	-2	5	2		163	5	7	-39	-17		
Hungary		56369	0.6	-1	1	37	29		199	5	-1	-68	-23		
Poland		71441	-0.2	2	9	42	24		115	3	-10	65	42		
Romania		14298	0.9	1	0	31	23		216	4	9	-115	-39		
South Africa		70747	1.4	1	-1	5	-3		375	-15	-16	-43	8		
Turkey		7694	2.2	0	-9	89	40		377	-10	-12	-165	-63		
Ukraine		507	0.0	0	0	-2	-2		3514	-206	106	-938	-565		
EM total		37	1.7	1	-2	7	-2		407	9	11	-37	32		

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

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