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- Funding costs for US banks continue to increase ([link](#))
- US yield curve steepens significantly from July low ([link](#))
- Inflation rises in Japan ([link](#))
- Türkiye surprises with a 500 bps rate hike but hiking cycle could be near its end ([link](#))
- Markets expect Canada's policy rate has peaked despite robust economic data ([link](#))

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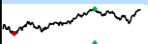


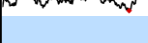

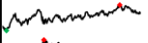





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## Markets open week on a cautious note

European markets are lower and US equity index futures are down in early morning trading, while Treasuries and the dollar are holding steady. News that industrial profits declined in China added to worries that the world's second largest economy could be facing severe challenges. Oil prices were also down as sentiment weakened, although OPEC+ is expected to announce an extension of production cuts later this week. Markets await key data from many countries later this week, ranging from PMIs in China and the euro area to core PCE inflation in the US, the Fed's preferred inflation gauge. News of strong Black Friday sales in the US provided some grounds for optimism.

Key Global Financial Indicators

Last updated: 11/27/23 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4559	0.1	1	11	13	19
Eurostoxx 50		4368	-0.1	1	9	10	15
Nikkei 225		33448	-0.5	0	8	19	28
MSCI EM		40	0.1	1	8	5	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.46	-1.0	4	-38	78	58
Germany 10y Yield		2.58	-6.0	-3	-25	61	1
EMBIG Sovereign Spread		410	-4	-15	-37	-75	-42
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		48.1	0.2	0	3	-3	-4
Dollar index, (+) = \$ appreciation		103.2	-0.2	-1	-3	-3	0
Brent Crude Oil (\$/barrel)		79.9	-0.8	-3	-12	-4	-7
VIX Index (% change in pp)		13.1	0.7	-1	-8	-7	-9

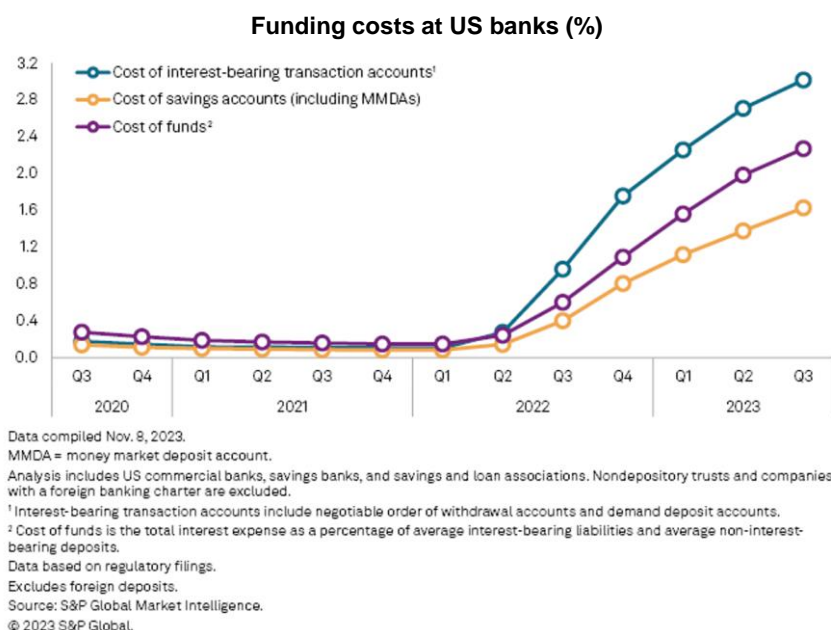
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

The week ahead could reinforce market sentiment that the Fed is done with rate hikes, although much will depend on key data prints such as the PCE deflator measure of inflation, Q3 GDP, personal income, and personal consumption. The Fed will also issue its Beige Book of economic conditions across the country on Wednesday. In the eurozone, Eurostat will release the preliminary estimate for euro-area inflation for November, which, if in line with forecasts (exp. 2.7%, prior 2.9%), could prompt the ECB to keep rates steady at its December 14 meeting. Data are also due from Sweden, India, and Turkey for 3Q GDP, from Poland, Australia, Mexico, and Peru for CPI, as well as from China for November PMI. Central bank decisions are expected from South Korea, New Zealand, and Thailand, where interest rates are mostly expected to remain on hold. An OPEC+ meeting starts on Thursday.

## Mature Markets

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**US banks' funding cost continue to increase.** The total cost of funds across US banks grew 29 bps sequentially to 2.27% in the third quarter of the year, a slight deceleration from rises of 42 to 49 bps in the three previous quarters, according to data from S&P Global Market Intelligence. The trend appears to be driven largely by regional US banks which continue to see elevated funding costs relative to their larger peers, according to a note recently released by Apollo Management. The challenges posed by holdings of commercial real estate, underwater held-to-maturity bond portfolios, and regulatory uncertainty have been compounded by tighter lending conditions brought on by higher interest rates.



**The 2s–10s curve has steepened sharply from its July low.** The 2s–10s yield spread has steepened more than 60 bps in six months, which is quite an exceptional move in historical context. The curve inversion reached 110 bps in July and has reversed to -48 bps today. Last week, following volatility in European bonds after Germany's suspension of its constitutional "debt brake" limit on net new borrowing, the yield on the 10-year Treasury note increased by 5 bps points to 4.47%. Holiday-thinned participation combined with a quarterly Treasury option expiration on Friday have kept Treasury prices contained within a narrow range towards the end of the week.

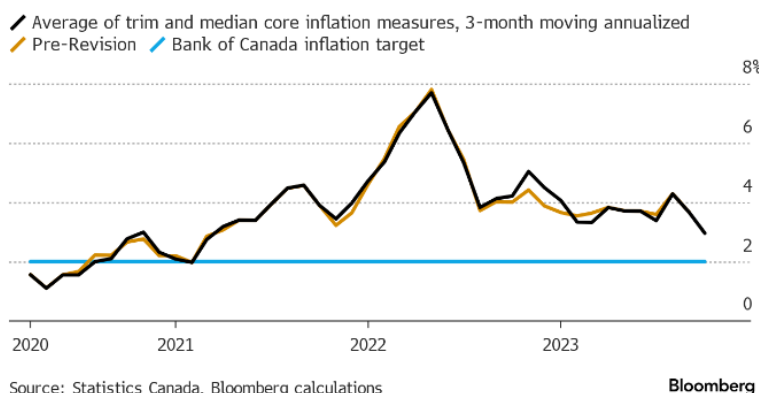


## Canada

### Markets expect the Canadian policy rate to have peaked despite the October jump in retail sales.

Following last week's Statistics Canada release of a 0.8% increase in retail sales for October, Canadian two-year government bond yields increased by 5 bps before retreating to 4.45%. Analysts expect that the surge in consumer spending will be temporary, with many Canadian households still due to reset their mortgages at higher rates in 2024, and that any upside consumption surprise will be unlikely to sway the Bank of Canada at its next rate decision on December 6. Markets currently expect a 25 bps cut by June next year with 90% probability, with an additional cut fully priced-in by September 2024, after Governor Macklem indicated last week that short-term rates might be "restrictive enough" as the latest data print showed core inflation to be less sticky.

### Canadian core inflation proves less sticky



## Euro Area

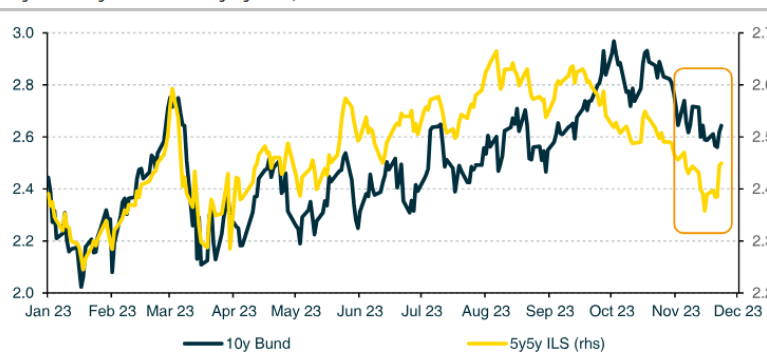
European equities were lower today after the Stoxx 600 equity index reached a two-month high last week. The euro was marginally stronger against the dollar this morning while sovereign yields were lower (10y bund yield -6bps trading at around 2.58%). On the data front, last week data showed November flash PMIs came in stronger than expected in the eurozone. Separately, contacts highlight that the account of the ECB's October meeting showed more concern over the economic growth outlook but also explicitly held open the option of further rate hikes, if needed.

In the euro area markets are focused on the November preliminary inflation print, set to be released on Thursday. Consensus expect euro area headline inflation to ease to 2.7% y/y (from 2.9%) and core inflation to ease to 3.9% y/y (from 4.2%). Inflation prints are also set to be released in Spain and Germany on Wednesday. Commerzbank analysts expect that lower inflation and lower oil prices to initially limit a

rebound in break-evens and longer-term market-based inflation expectations and also afford some respite to long-end bunds. Analysts, however, see inflation bottoming up for the time being with headline HICP forecast to increase beyond 3% again in December.

#### Inflation expectations bottoming out

10y Bund yield and 5y5y ILS, in %

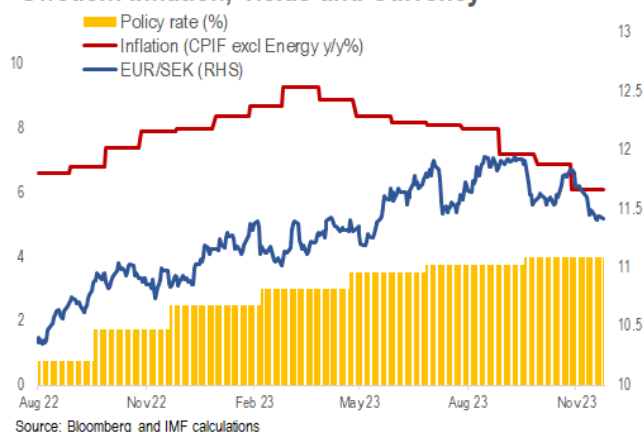


Source: Bloomberg, Commerzbank Research

### Sweden

The Riksbank left its benchmark interest rate unchanged at 4% last Thursday, and while the statement remained hawkish some analysts think the tightening cycle has come to an end. A small majority of economists had expected a 25bps hike. The statement noted that the executive board “assesses that monetary policy needs to be contractionary and is prepared to raise the policy rate further if inflation prospects deteriorate.” ING analysts think that the recent recovery in the Swedish krona played an important part in the central bank’s decision to keep rates unchanged, noting that the currency has strengthened by roughly 4% on a trade-weighted basis since the September meeting as it benefitted from the central bank conducting FX hedging operations. ING analysts do not anticipate any further interest rate hikes. The currency closed weaker against the euro on the day of the policy decision (-0.3%) but has retraced some losses since then. The krone remains roughly 2.3% weaker than at the start of the year.

#### Sweden: Inflation, Yields and Currency

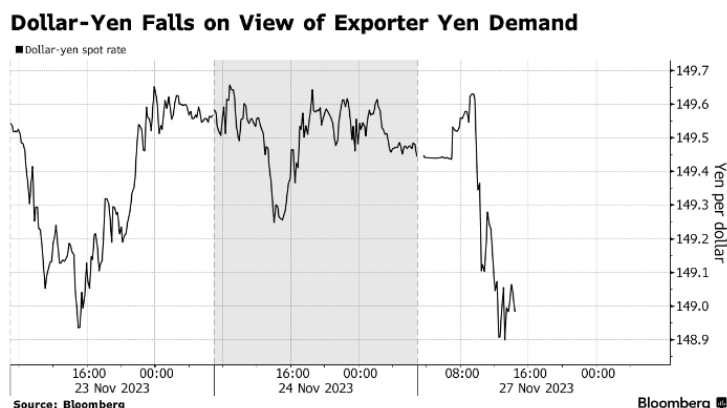


Source: Bloomberg and IMF calculations

### Japan

**Japan’s equities declined -0.4%.** Japan’s manufacturing activity remained weak as manufacturing PMI fell to 48.1, a nine-month low in November (previous: 48.7). Services PMI inched higher to 51.7 (previous: 51.6) in November. **Price pressures rose in October, amid subsidy reductions for electricity and gas bills.** Japan’s CPI inflation rose to +3.3% y/y (previous: +3%), while core inflation (excluding fresh food) rose to +2.9% y/y (previous: +2.8%). PPI services also picked up to +2.3% y/y in October (previous: +2%),

the highest since 1992. Bank of Japan (BOJ) Governor Ueda told parliament on Monday that the BOJ is unable to say with conviction that inflation can hit the 2% target sustainably, Reuters reported.



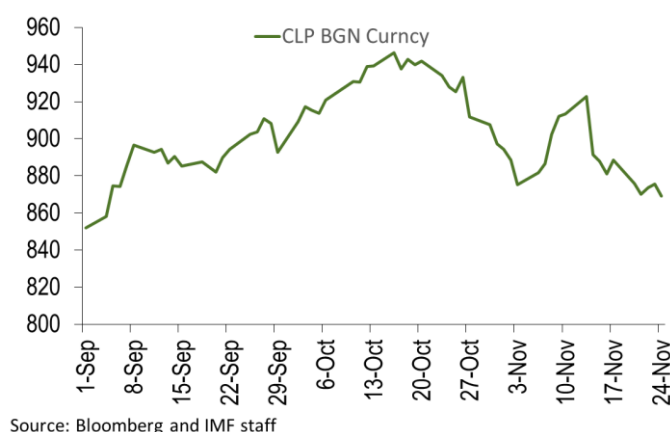
## Emerging Markets

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**EMEA equity markets were mixed while currencies were mostly stronger.** The South African Reserve Bank (SARB) kept the repo rate unchanged at 8.25% at its meeting last week, in line with market expectations. Ghana left its policy rate unchanged at 30%. **Currencies in Asia were generally stronger.** The Bank of Indonesia stayed on hold at 6% on Friday as expected. **Latin American markets were mixed.** Stocks lost in Brazil (-0.8%), Mexico (-0.23%) and Chile (-0.5%), while Colombia and Peru gained 0.7% and 0.2%, respectively. Peru's third-quarter GDP Fell 1% y/y as expected.

### Chile

**The Chilean peso appreciated 1.8% over the last week**, making it the top-performing currency among major emerging markets. On Friday, the Chilean peso experienced a 0.8% rise, reaching 869.07/USD, marking its highest closing value since September 4. The currency has appreciated nearly 5% since November 15. Despite this positive momentum, the Chilean peso remains close to its 100-day moving average, suggesting that bullish investors might be considering profit-taking. Benign economic data in the US prompted traders to increase their exposure to riskier positions.



### China

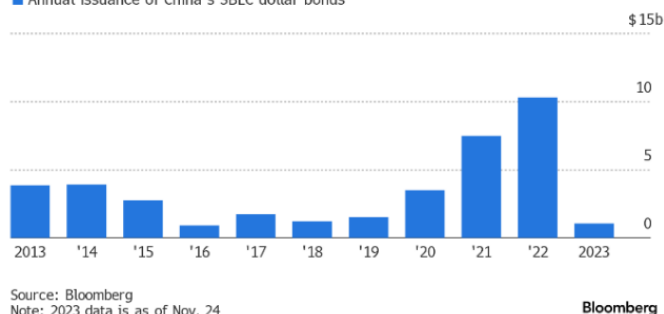
**Chinese equities declined (-0.7%),** as investors sentiment remained fragile. Industrial profits slowed to +2.7% y/y (previous: 11.9%) in October. Separately, Chinese authorities opened criminal investigations into Zhongzhi Enterprise Group, a large shadow banking entity, which declared itself "severely insolvent" with

a shortfall of \$36.4bn last week. Meanwhile, China scrapped entry visa requirement for citizens from France, Germany, Italy, Malaysia, Netherlands, and Spain, with effect from December. In other news, **issuance of China dollar bonds with bank guarantee slumped 90% to \$1bn in 2023**, Bloomberg estimated. Lenders are reluctant to provide pledges as defaults mount. **Zhu Hexin is the new party secretary of China's State Administration of Foreign Exchange (SAFE)**, succeeding People's Bank of China (PBOC) Governor Pan. SAFE oversees China's \$3tn in foreign reserves and regulates the FX market.

#### Sales Plunge

Issuance of China dollar bonds with bank guarantee slumped

■ Annual issuance of China's SBLC dollar bonds



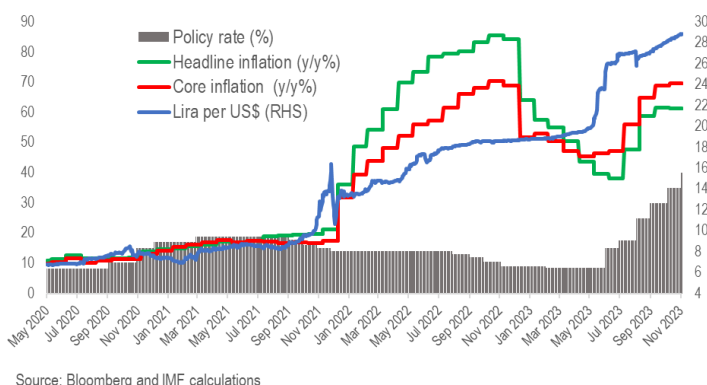
## Türkiye

**The central bank surprised markets with a larger than anticipated increased rate hike, but the rate hike cycle appears close to its end.** Türkiye's central bank raised its one-week repo rate by 500bps to 40% last week, while consensus had expected a 250bps hike.

The central bank noted that the pace of monetary policy tightening is now set to slow down, and the tightening would be completed in a "short period of time," highlighting that "the current level of monetary tightness is significantly close to the level required to establish the disinflation course."

BofA analysts expect a final hike (of 250bps) in December this year, while JPMorgan analysts forecast two more 250bps hikes in December and January and still see the end-2024 policy rate at 45%.

#### Türkiye: Policy rate, Inflation and Currency



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## Global Financial Indicators

11/27/23 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4558	0.1	1	11	13	19
Europe		4368	-0.1	1	9	10	15
Japan		33448	-0.5	0	8	19	28
China		3512	-0.7	-2	-1	-6	-9
Asia Ex Japan		66	0.0	1	7	4	2
Emerging Markets		40	0.1	1	8	5	4
Interest Rates			basis points				
US 10y Yield		4.46	-1.0	4	-38	78	58
Germany 10y Yield		2.58	-6.0	-3	-25	61	1
Japan 10y Yield		0.78	0.1	3	-10	52	36
UK 10y Yield		4.24	-4.4	11	-31	112	57
Credit Spreads			basis points				
US Investment Grade		143	0.6	-3	-19	-14	-16
US High Yield		421	2.7	-5	-56	-39	-59
Exchange Rates			%				
USD/Majors		103.23	-0.2	-1	-3	-3	0
EUR/USD		1.09	0.1	0	4	6	2
USD/JPY		148.8	-0.4	0	-1	7	13
EM/USD		48.1	0.2	0	3	-3	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		79.9	-0.8	-3	-10	0	-2
Industrials Metals (index)		138	-0.4	-1	0	-11	-17
Agriculture (index)		65	0.3	0	0	-3	-6
Implied Volatility			%				
VIX Index (% change in pp)		13.1	0.7	-0.7	-8.1	-7.4	-8.5
Global FX Volatility		7.4	0.1	-0.1	-0.5	-4.0	-3.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		121	1.6	-1	-13	-98	-85
Italy		172	-3.3	-1	-25	-16	-42
Portugal		66	-0.8	2	-7	-26	-36
Spain		98	-0.8	-1	-11	0	-11

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

## Emerging Market Financial Indicators

Last updated: 11/27/2023 8:08 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		7.15	-0.1	0.2	2	1	-4		2.7	1.0	9	2	-35	-32		
Indonesia		15494	0.5	-0.3	3	1	1		6.7	7.5	7	-50	-23	-21		
India		83	0.0	-0.1	0	-2	-1		7.6	0.0	2	-18	24.3	13		
Philippines		55	-0.1	0.1	3	2	1		5.9	0.0	0	4	-13	-8		
Thailand		35	0.9	0.4	3	2	-1		3.1	-1.5	6	-27	56	43		
Malaysia		4.68	0.1	-0.3	2	-4	-6		3.9	1.2	1	-26	-25	-17		
Argentina		359	-0.4	-1.4	-2	-54	-51		100.6	-464.7	-961	-604	474	1236		
Brazil		4.89	0.3	-0.7	3	10	8		11.0	-9.3	-3	-68	-225	-154		
Chile		871	-0.2	0.6	5	5	-2		5.2	-1.0	-1	-79	-10	-10		
Colombia		4026	0.3	0.2	2	20	20		8.3	0.0	5	-97	-196	-153		
Mexico		17.05	0.4	0.4	6	13	14		9.1	10.5	21	-52	53	38		
Peru		3.7	0.1	0.8	4	3	2		7.2	0.7	8	-52	-63	-80		
Uruguay		39	-0.3	0.4	1	0	1		9.6	1.6	6	-32	-126	-111		
Hungary		347	0.2	0.1	5	13	8		6.9	-5.0	27	-68	-111	-269		
Poland		3.98	0.4	-0.1	6	14	10		5.0	1.3	19	-4	-100	-116		
Romania		4.5	0.2	0.1	4	5	2		6.9	4.2	8	0	-79	-81		
Russia		88.7	0.4	-0.2	6	-31	-16									
South Africa		18.6	0.8	-1.6	1	-8	-9		9.4	-2.9	17	-49	48	23		
Turkey		28.91	-0.1	-0.5	-2	-36	-35		29.5	-5.0	-55	8	1868	1969		
US (DXY; 5y UST)		103	-0.1	-0.6	-3	-3	0		4.46	-2.3	2	-30	60	46		

	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		3512	-0.7	-2	-1	-6	-9		163	-2	-6	-42	-14			
Indonesia		7013	0.1	0	4	0	2		116	-8	-14	-68	-24			
India		65970	0.0	0	3	6	8		124	-2	-13	-34	-18			
Philippines		6270	0.0	1	5	-5	-5		96	-4	-11	-47	-1			
Thailand		1393	-0.3	-2	0	-14	-16		0	0	0	0	0			
Malaysia		1448	-0.4	-1	0	-3	-3		87	-2	-8	-16	-13			
Argentina		917599	4.4	52	40	460	354		1963	-460	-539	-457	-242			
Brazil		125517	-0.8	0	11	15	14		218	-8	0	-66	-56			
Chile		5757	-0.5	-1	3	10	9		129	-12	-14	-29	-3			
Colombia		1135	0.7	1	4	-10	-12		310	-14	-32	-95	-62			
Mexico		52938	-0.2	1	8	2	9		354	-12	-13	-41	-27			
Peru		22177	0.2	0	1	-1	4		148	-10	-15	-38	-32			
Hungary		55923	-0.3	-2	-1	22	28		180	-14	-25	-58	-42			
Poland		73720	-1.0	-1	5	31	28		106	-9	-18	58	33			
Romania		14734	0.3	0	3	27	26		208	-8	-12	-87	-48			
South Africa		75543	-0.2	2	9	3	3		355	8	-38	-16	-12			
Turkey		8046	1.1	1	4	65	46		351	-10	-39	-141	-89			
Ukraine		507	0.0	0	0	-2	-2		3658	28	-107	9	-421			
EM total		40	-0.2	1	8	5	4		370	-23	-36	-34	-6			

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

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