GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 8, 2023
LEAD EDITOR: JEFF WILLIAMS

- **TIPS continue to be a primary driver of US yields** (link)
- **Softening growth data weighs as much as policy developments for US yields** (link)
- **European government bond markets face balancing act to navigate supply, demand** (link)
- **Oil prices slide to the lowest levels in 3 months on weak demand outlook** (link)
- **Bank of Israel provided $8.2bn of liquidity in the spot market in October** (link)
- **China central bank pledged to provide funding to local governments, if necessary** (link)

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Policymakers push back against drop in yields

Following the recent sharp decline in bond yields, officials from both the ECB and UK have spoken out against the likelihood of rate cuts in the near future. The ECB's chief economist, Philip Lane, said that there is not much comfort from the recent decline in euro-area inflation to 2.9%. Bundesbank president Nagel, as well as Belgian central bank chief Wunsch, made similar comments, arguing that returning to the 2% target is still a way off. Similarly, Bank of England governor Bailey said it is too early to discuss rate cuts, pushing against recent shifts in market pricing. In the US, markets will be watching for a similar message from various Fed officials, including chair Powell, in speeches today. Compared to the large recent moves, sovereign bond yields are little changed on net so far today. The US 10-year is 1bp lower, while the German 10-year is 3 bp lower. Equity markets are little changed. Oil prices meanwhile are falling further after reaching a 3-month low yesterday on concerns of global demand. Brent is down another 1.5% this morning to 80.3, after falling over 4% yesterday.

Key Global Financial Indicators

Last updated: 11/8/23 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4378	0.3	4	2	14	14
Eurostoxx 50		4163	0.2	2	0	11	10
Nikkei 225		32166	-0.3	4	4	16	23
MSCI EM		39	-0.2	5	2	6	2
Yields and Spreads				bps			
US 10y Yield		4.56	-0.4	-17	-24	44	69
Germany 10y Yield		2.63	-2.8	-13	-25	35	6
EMBIG Sovereign Spread		430	7	-6	-22	-78	-22
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.5	-0.2	1	3	-4	-5
Dollar index, (+) = $ appreciation		105.8	0.2	-1	0	-4	2
Brent Crude Oil ($/barrel)		80.3	-1.6	-5	-5	-16	-7
VIX Index (%, change in pp)		14.7	-0.1	-2	-3	-11	-7

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

Mature Markets

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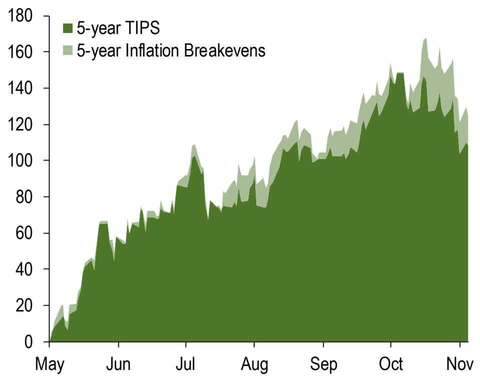
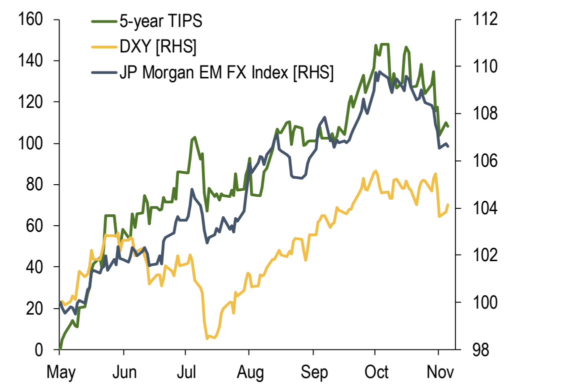
United States

The TIPS market continues to be a primary driver of financial markets. Nominal yields have increased by as much as +160bp since the Federal Reserve's May meeting. Nearly half of the rates sell-off (+72bp) was a recovery from the rally in yields following the collapse of SVB back in March as markets were pricing the possibility of a cut as soon as the June meeting. This bounce back in yields has been disproportionately driven by an increase in real yields (+140bp). The movement in inflation breakevens has been relatively restrained considering the large swings in oil markets due to production cuts and geopolitical risk. This upwards shift of the TIPS yield curve compared to breakevens has broadly favored the US dollar, where the greenback has gained against its G10 and emerging market peers (+4.2% and +6.2% respectively). While the recent decline in real yields has provided breathing room for risk assets to recover from their recent losses, a significant rally could come at the cost of easing financial conditions. Commentary from several Federal Reserve officials suggested yesterday that it is yet to be seen whether the rise in long-term yields will be enough to tighten financial conditions sufficiently to return to the central bank's inflation target.

Cumulative change in 5-year TIPS and inflation breakevens since the May Fed Meeting
Basis points



Cumulative change in 5-year TIPS, DXY and EM FX since the May Fed Meeting
Basis points, Indexed to 100 on May 3rd



Source: Bloomberg, J.P. Morgan, IMF Staff Analysis.
Note: JP Morgan EM FX Index has been inverted for consistency with DXY.

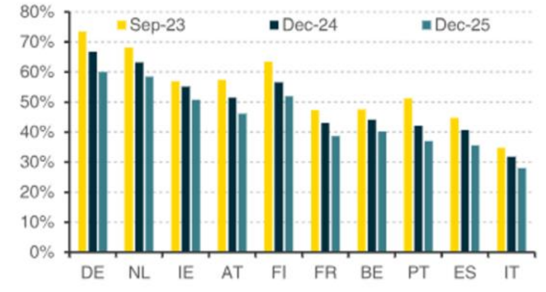
Softening growth data weighs on US yields as they erase their October sell-off. Since reaching recent highs, yields have reversed much of their rise after last week's sharp rally. While we have highlighted the importance of the recent monetary and fiscal policy developments as the main catalysts for the rally, Goldman Sachs analysts think a significant portion of the rally has to do with the softening growth data. The lower-than-expected ISM and jobs report might have contributed as much as -25bp on the 10-year yield since reaching its peak on October 19th according to their estimates. In addition to the growth factor, the policy factor might have contributed around -15bp to the rally. The remaining part of the move lower in yields is likely due to changes in inflation and the positioning of investors.

Euro Area

Euro area rates briefly rose on hawkish remarks from ECB officials. The ECB's chief economist Lane warned that one "*shouldn't take a lot of comfort from inflation at 2.9%*." The Belgium governing council member Wunsch struck a similar tone, stating that "*getting to 2% inflation in 2025 is still a long way*." 10-year bund yields peaked at 2.66% on the hawkish remarks while stabilizing at 2.65% in the first half of today's trading session, down 1bp. The euro is stable at while the Stoxx 600 is flat on the day.

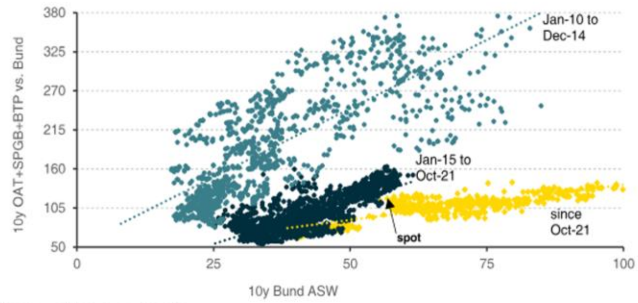
Euro area bond markets need to balance supply and demand balance as the ECB reduces its footprint while foreign reserve managers shortened duration. The upcoming soaring Italian and French sovereign bond issuance in 2024 raises questions about supply, though supply reductions in coming weeks offer near-term support for bond spreads as outlined in yesterday's GMM. In the longer-term, market contacts ponder how the European government bond (EGB) market finds an equilibrium between bond supply and demand as the ECB reduces its presence in the EGB market, prompting the share of bonds held by price-insensitive official investors to decrease. Commerzbank analysts anticipate official sector bond holdings to decline by up to 10 pp. for EGB core issuers while the decline appears more muted for non-core issuers (left chart). This is likely to lead to wider EGB spreads and term premia. On a positive note, foreign reserve managers, who hold up to 30% of outstanding German and Dutch sovereign bonds, have shortened their duration in recent years as a recent World Bank survey from last week confirms. This could allow foreign reserve managers to extend duration once yields become attractive enough, tempering broader yield increases among EGB core issuers.

Projected official sector footprint within EGB markets



Source: Commerzbank
Note: Public investor share captures holdings by the Eurosystem, foreign reserve managers, and debt management offices (DMOs).

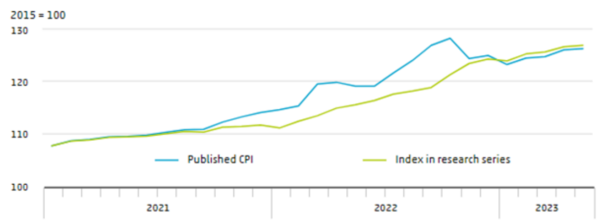
Bund swap spreads vs. EGB spreads over Bunds



Source: Commerzbank
Note: y-Axis shows GDP-weighted spread of French, Italian and Spanish sovereign bonds over German sovereign bonds at the 10-year tenor. x-Axis shows the spread of EUR swaps over German sovereign bonds at the same tenor.

Netherland's negative CPI inflation print for October is impacted by a methodological change. Yesterday, the final harmonized CPI inflation print for October in the Netherlands printed at -1.0% y/y, validating the preliminary estimates from last week that printed at -1.0% y/y (exp. -0.7% from -0.3%). A recent change in the Statistical Bureau's methodology affects the negative y/y CPI inflation in the Netherlands for October. This change, implemented in June 2023, involves how energy prices are calculated for the CPI. The old approach relied on new energy contracts, while the new approach includes existing contracts. Importantly, the statistical office did not retrospectively adjust CPI data prior to June 2023, which would have led to lower consumer prices in the last year and particularly from August-October 2022 (left chart). As a result, a base-effect arising from the methodological shift influences y/y headline inflation, and had it been applied retroactively, it would have resulted in lower headline inflation at that time (right chart) and higher headline inflation now.

Netherlands Consumer Prices: Published vs. Re-stated



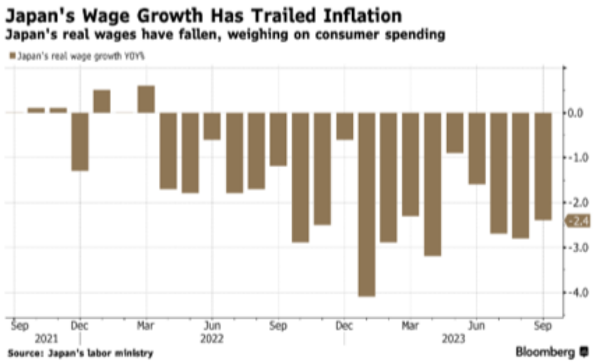
Source: Statistics Netherlands
Note: Research series captures the retroactive application of the new methodology for energy prices in headline consumer prices. From June, there is no separate figure for the research series.

Netherlands y/y Headline Inflation: Published vs. Re-stated

Source: Statistics Netherlands
Note: Research series captures the retroactive application of the new methodology for energy prices in headline consumer inflation. From June, there is no separate figure for the research series.

Japan

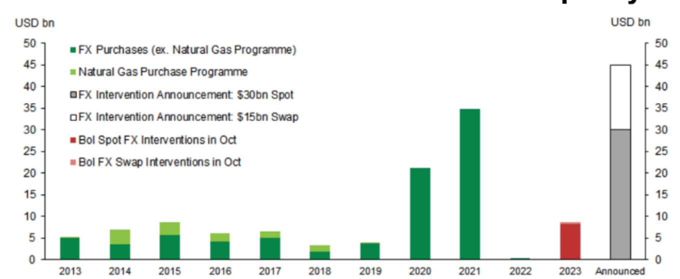
Equities declined 1.2%. Japan is allegedly set to allocate almost ¥2 tn ($13 bn) in an extra budget to boost its capacity to make and secure semiconductors at home, Bloomberg reported. The money will be split between a few funds to support the mass production of chips, to finance research of cutting-edge chips, and to enhance the stable supply of chips to Japan. **Bank of Japan (BOJ) said that policy normalization is possible even before real wage growth turns positive.** In a parliamentary response on Wednesday Governor Ueda reiterates, however, he is determined to continue with easing until his target is in sight in a virtuous wage-inflation cycle. Meanwhile, ex BOJ Governor candidate Tsutomu Watanabe said BOJ is likely to end its negative interest rate policy in early 2024 and leave it at zero without further hikes. There is a need to monitor new equilibrium between higher prices and wages, as Japan transits from a long period of deflation to sustained inflation, he added. **10Y yields declined 2.5 bp. The yen weakened 0.3%.**



Israel

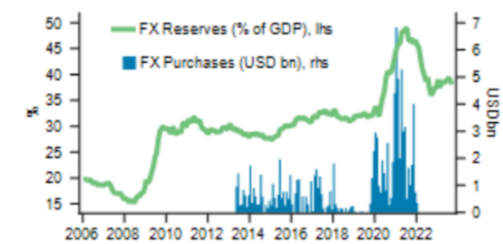
Bank of Israel (BoI) used less than a third of its intervention capacity. Latest data published by the BoI yesterday reveals that, in October, the central bank conducted foreign currency sales totaling $8.2bn in the FX spot market to safeguard against Shekel depreciation (left chart). Additionally, it engaged in $0.4bn worth of FX swap market interventions. As official sector transfers from abroad amounted to US$2.4bn, the FX interventions and adverse valuation effects led to an overall net decline of $7.3bn of Israel's FX reserves. These interventions were part of the measures that the BoI announced on October 9, aiming to provide up to $30bn of FX liquidity in the spot market and $15bn in the FX swap market following the October 7 attacks. Ahead of the data release, BNP Paribas analysts pointed out that a substantial utilization of the Bank of Israel's intervention capacity could have jeopardized the recent Shekel rally, which had returned to pre-October 7 levels following an initial decline. With data confirming that the BoI made limited use of its intervention capacity, Goldman Sachs analysts highlight Israel's robust balance of payments position, which bolster the resilience to external shock while foreign currency reserves amounting to close to 40% of Israel's GDP (right chart).

Past BoI FX purchases and actual FX interventions in October vs. announced intervention capacity



Source: Goldman Sachs

BoI FX reserves as a share of Israel GDP and BoI FX purchases in USD bn

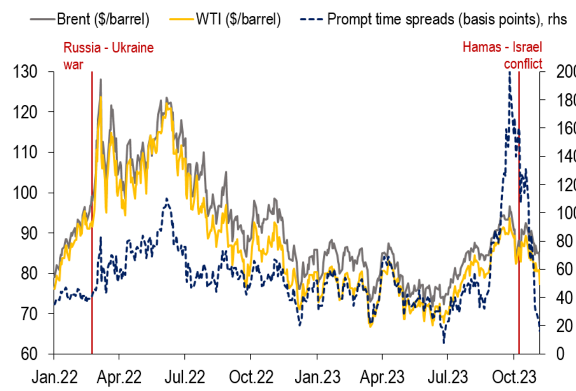


Source: BNP Paribas

Commodities

The price of spot Brent oil declined to $81.61/barrel yesterday, its lowest since late July**,** as markets price in sluggish demand outlook on a possible global economic slowdown, and at the same time discounting the possibility of an escalation of the conflict in the Middle East. Consequently, the rally in oil prices post Oct 7th has been smaller and short-lived in comparison to the one after Russia's war on Ukraine, when oil prices had touched $127/barrel. Further, the persistent decline in prompt time spreads of WTI futures are also indicative of the shift in the narrative on future demand-supply dynamics. However, analysts acknowledge, oil prices falling below $80/barrel could trigger additional production cuts from OPEC+.

Oil prices decline on concerns over demand outlook



Sources: Bloomberg

Emerging Markets

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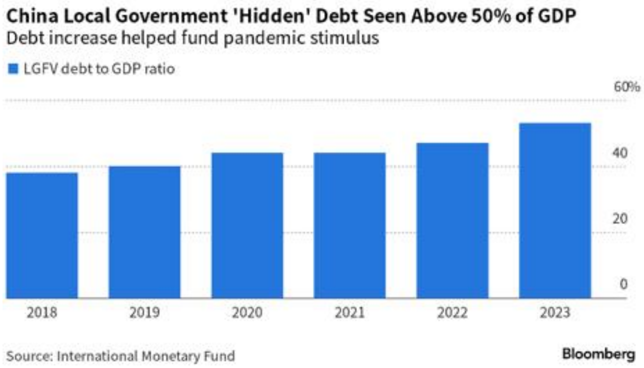
Asian equities were mixed, down 0.3%. Vietnam equities outperformed (+3.1%), amid gains across all sectors. Singapore stocks fell 1.6%, followed by South Korea (-0.9%). **Most Asian currencies weakened,** led by the Malaysian ringgit (-0.3%). The Philippine peso bucked the trend (+0.2%). **10Y bond yields broadly declined.** Meanwhile, **Indonesia** yields added 10bp. **Indonesia sold US dollar sukuks for the first time in 18 months**. It reportedly issued $1 bn of 5Y Sharia-compliant notes for general financing with a yield of 5.4% and launched $1bn worth of 10Y green notes for expenditure as outlined under its sustainable securities framework with a yield of 5.6%. **EMEA currencies are broadly weaker while equity markets post mixed results.** Among currencies, only the Russian ruble is fractionally gaining (+0.2%) while the Hungarian forint (-0.7%), South African rand (-0.7%) and Polish zloty (-0.4%) are leading the declines. In equity markets, South Africa's (+0.4%) and Türkiye's (+0.3%) markets are outperforming while Poland's is lagging behind (-1.0%). Later this afternoon, Poland's and Romania's central banks are publishing their latest interest rate decisions. **Markets in LatAm mostly traded lower Tuesday** as equities reversed some of the gains from the last few sessions, and currencies depreciated. Mexico and Brazil, however, bucked this trend. The Mexican peso and Brazilian real were up 0.4% and 0.2%, respectively. In El Salvador, S&P upgraded the country's sovereign rating to B- with stable outlook from CCC+, citing "the government's efforts" to refinance its short-term local currency debt.

China

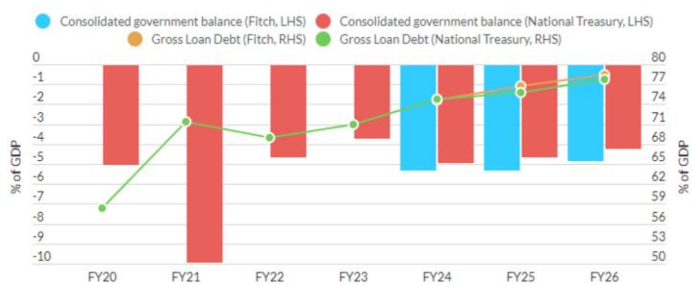
People's Bank of China (PBC) pledged to provide emergency funding to heavily indebted local governments when necessary. PBC Governor Pan said a few provinces with vulnerable smaller banks were drafting plans to resolve the risks and replenish capital via various channels. He stressed that the number of small and medium-sized high-risk banks has halved from the peak, due to reforms introduced in recent years. PBC will also support regional governments to progressively remove the government financing feature of LGFVs by means of M&A and capital injection and transform them into market-oriented firms, Yicai reports. Meanwhile, **executives of China developers reportedly met with the PBC**, the housing ministry and the country's financial and security regulators on Tuesday to discuss liquidity and financing needs. Separately, **China's State Council has reportedly asked Ping An Insurance to take a controlling stake in Country Garden**. According to Reuters, Guangdong Province where both companies are based was instructed to arrange a rescue of China's largest developer. The news was denied by Ping An. Ping An share prices fell 5.5% (H-shares), while Country Garden share price gained 12%. **Chinese equities slipped 0.2%,** developer stocks rallied.



South Africa

Fitch sees South Africa's Fiscal Outlook Clouded by Wage Costs. Fitch analysts perceive that the government's medium-term budget policy statement (MTBPS) may be overly optimistic, pointing to risks of higher government debt. The MTBPS revealed that the National Treasury has budgeted for an overall wage increase of only 5.1% this year and next year, which does not meet the agreed 7.5% wage increase. For 2024 and 2025, the budgeted wage increases amounting to 2.3%, which does not meet the CPI-linked agreement either. Since yesterday, 10-year South African government bonds declined by -3bp to 11.95%

Projection of South Africa's fiscal trajectory



Source: Fitch

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk (Senior Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

11/8/23 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
United States		4380	0.3	3	2	14	14
Europe		4163	0.2	2	0	11	10
Japan		32166	-0.3	4	4	16	23
China		3611	-0.2	1	-2	-3	-7
Asia Ex Japan		65	-0.3	5	1	8	0
Emerging Markets		39	-0.2	5	2	6	2
Interest Rates				basis points			
US 10y Yield		4.56	-0.4	-17	-24	44	69
Germany 10y Yield		2.63	-2.8	-13	-25	35	6
Japan 10y Yield		0.86	-2.7	-10	5	61	44
UK 10y Yield		4.26	-1.3	-24	-32	71	59
Credit Spreads				basis points			
US Investment Grade		159	0.0	-3	4	-19	0
US High Yield		437	0.5	-30	-15	-45	-43
Exchange Rates				%			
USD/Majors		105.79	0.2	-1	0	-4	2
EUR/USD		1.07	-0.3	1	1	6	0
USD/JPY		150.9	0.3	0	2	4	15
EM/USD		47.5	-0.2	1	3	-4	-5
Commodities				%			
Brent Crude Oil ($/barrel)		80.3	-1.6	-5	-3	-5	-1
Industrials Metals (index)		140	0.4	2	1	-9	-15
Agriculture (index)		66	0.9	3	3	-3	-4
Implied Volatility				%			
VIX Index (%, change in pp)		14.7	-0.1	-2.1	-2.7	-10.8	-6.9
Global FX Volatility		7.7	0.0	-0.3	-0.6	-3.8	-3.1
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		129	-1.3	-11	-24	-112	-76
Italy		188	-1.7	-9	-15	-24	-27
Portugal		75	1.3	2	-2	-22	-27
Spain		105	-0.8	-2	-7	2	-4

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

Emerging Market Financial Indicators

Last updated: 11/8/2023 8:10 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.28	0.0	0.5	0	-1	-5		2.7	-2.0	-4	-5	-17	-39
Indonesia		15650	-0.1	1.8	0	0	0		6.8	11.3	-28	-21	-64	-14
India		83	0.0	0.0	0	-2	-1		7.5	0.0	-17	-34	(9.0)	9
Philippines		56	0.2	1.4	2	4	-1		5.9	2.5	2	16	-4	-9
Thailand		36	0.1	1.8	4	4	-3		3.1	-3.0	-24	-33	2	48
Malaysia		4.68	-0.3	1.9	1	1	-6		3.9	-0.1	-19	-20	-62	-16
Argentina		350	0.0	0.0	0	-54	-49		109.4	20.9	145	152	1352	2122
Brazil		4.89	-0.1	1.5	5	5	8		11.4	-6.3	-30	-45	-63	-118
Chile		895	-0.9	0.0	3	1	-5		5.5	-4.7	-50	-23	-34	20
Colombia		4044	-0.8	1.6	7	23	20		8.3	0.0	-63	-137	-302	-147
Mexico		17.52	-0.3	1.4	4	11	11		9.2	0.0	-32	-30	4	46
Peru		3.8	-0.5	1.6	2	5	1		7.2	-1.1	-43	-34	-50	-73
Uruguay		40	0.1	0.3	-1	0	0		9.7	-15.7	-15	-11	-150	-98
Hungary		355	-0.6	2.0	3	12	5		7.2	-2.0	-37	-39	-328	-244
Poland		4.18	-0.5	1.1	3	11	5		4.8	-2.8	-22	-30	-223	-138
Romania		4.7	-0.2	1.0	1	4	-1		6.7	-3.2	-18	-34	-227	-104
Russia		92.0	0.2	0.6	8	-34	-19							
South Africa		18.5	-0.8	0.1	5	-4	-8		9.5	-6.4	-23	-47	21	33
Turkey		28.51	-0.1	-0.7	-3	-35	-34		31.7	0.0	220	506	1942	2187
US (DXY; 5y UST)		106	0.2	-1.0	0	-4	2		4.54	0.7	-11	-21	25	54

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3611	-0.2	1	-2	-3	-7		167	3	-6	-40	-10
Indonesia		6804	-0.6	2	-1	-4	-1		129	6	0	-59	-11
India		64976	0.1	2	-1	6	7		130	-6	-17	-74	-12
Philippines		6155	0.4	3	-2	-1	-6		105	5	-1	-43	8
Thailand		1412	0.2	2	-1	-13	-15		0	0	0	0	0
Malaysia		1458	-0.4	2	3	1	-3		95	0	-3	-22	-5
Argentina		611207	-4.1	3	-3	313	202		2493	-84	-186	-28	288
Brazil		119268	0.7	5	4	3	9		225	11	-2	-42	-49
Chile		5646	1.4	4	0	4	7		148	11	12	-8	16
Colombia		1094	-0.5	1	-1	-13	-15		317	-5	-43	-117	-55
Mexico		51210	-0.8	4	3	1	6		364	-5	-12	-19	-17
Peru		21590	0.1	-1	-3	-2	1		164	8	5	-17	-16
Hungary		57219	-0.1	2	4	31	31		193	2	-15	-65	-29
Poland		71588	-0.9	0	12	34	25		116	11	-18	70	43
Romania		14596	-0.3	3	4	30	25		192	-15	-32	-121	-64
South Africa		71992	0.6	3	0	4	-1		371	-2	-32	-14	4
Turkey		7845	0.0	4	-7	80	42		374	-5	-26	-121	-66
Ukraine		507	0.0	0	0	-2	-2		3459	-89	-256	-923	-620
EM total		39	-0.6	5	2	6	2		397	-4	-18	-25	21

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

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