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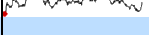







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Rally in rates stalls as US and euro area sovereign yields show upticks

October's spectacular increase in term premia has unwound in the equally impressive November rally in Treasury yields, which now seems to have stalled. Euro area sovereign yields increased earlier today, especially in the long-end of the curve. The 30-year German government bond yield increased by 6 bps to 2.87%. In the early (US) morning, the 30-year US Treasury yield seems to follow suit, trading 8 bps higher at 4.70%. Whilst equity market momentum may have fizzled out somewhat after the S&P 500 index rallied by 4.5% month-to-date, futures pricing suggest that the index is set to open higher today, following a fairly strong day for stock markets in Europe, where the Stoxx 600 index increased by 0.8%. After the last round of monetary policy meetings among major mature market central banks, market pricing has solidified on a "Fed/ECB/BoE is done" narrative, with market implied probabilities of any additional hikes priced at only 24%, 2.5% and 18% respectively. In parallel, term premia had retraced especially in light of the US Treasury's lighter-than-expected funding plans; but with today's price action however, momentum seems to have turned for longer-term yields. This morning, initial jobless claims came in close to expectations at 217k, with slightly higher-than-expected continuing claims.

Key Global Financial Indicators

Last updated: 11/9/23 8:36 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		4383	0.1	3	1	17	14
Eurostoxx 50		4216	0.9	1	3	13	11
Nikkei 225		32646	1.5	3	3	19	25
MSCI EM		38	-0.7	4	2	7	1
Yields and Spreads							
US 10y Yield		4.55	5.5	-11	-26	45	67
Germany 10y Yield		2.66	4.0	-6	-12	48	9
EMBIG Sovereign Spread		432	2	-10	-20	-76	-20
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		47.4	-0.1	0	2	-4	-5
Dollar index, (+) = \$ appreciation		105.7	0.1	0	0	-4	2
Brent Crude Oil (\$/barrel)		80.3	0.9	-8	-9	-13	-7
VIX Index (% change in pp)		14.5	0.0	-1	-3	-12	-7

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

Mature Markets

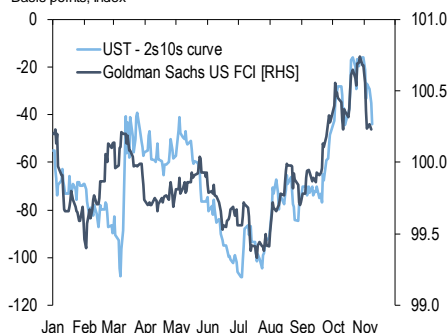
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United States

This morning, initial jobless claims came in at 217k versus 218k expected. Continuing claims were slightly higher-than-expected at 1834k (versus 1820k expected). Continuing claims have seen an upward path since mid-September, and today's print might be seen by markets as further solidifying the "Fed is done" narrative. The initial market reaction to the print seems to be muted; Treasury yields increased across the board earlier this morning, and showed some volatility after the release.

The Treasury curve continued to invert more strongly after last week's FOMC meeting. The spread between the 10-year and the 2-year yields currently stands at -41bps. The slope of the curve had turned negative by as much as -108bps by the end of June, until retracing to -17bps by late-October as term premia increased considerably. Since then, the steepening of curve has been unwinding, with investor focus turning towards policy officials' views on financial conditions. Chair Powell will be speaking as part of a panel at the IMF's Annual Research Conference this afternoon—the session will be web streamed live from the conference's [page](#).

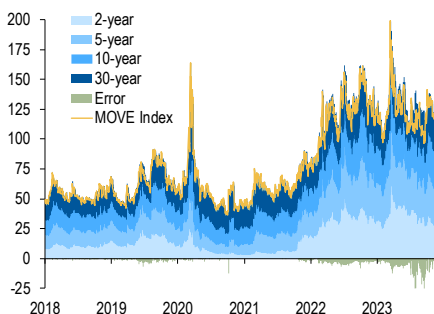
Steepening of the yield curve has driven financial conditions tighter
Basis points, Index



Source: Bloomberg, Goldman Sachs Global Investment Research, IMF Staff Analysis.

Interest rate volatility dips below its year-to-date average, although it remains elevated for historical standards. Last week's decline in the MOVE index is likely to have been related to markets' perception that the Federal Reserve is done with its hiking cycle. 1-month implied volatility of the 2-year swap has been trading lower than options for longer-dated tenors since the second half of October. With a light economic calendar for the rest of the week, market moves are likely to be focused on the commentary from policy officials until the release of the CPI print next week. The market continues to expect the Federal Reserve's first cut in its June meeting. The recent shift lower in volatility is also apparent in equity markets where the S&P 500 is up in double digits (+14%) for the year. Relative to recent history, the VIX continues to move near the lower end of its range.

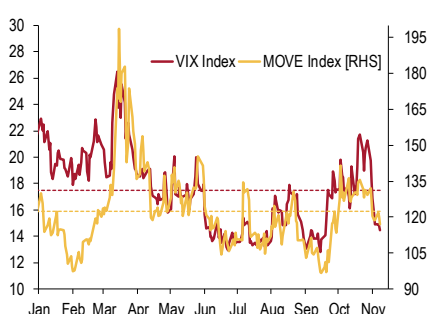
As markets view the Fed as done with its tightening cycle, front-end rate volatility has traded lower relative to longer dated tenors
Basis points



Note: We try to approximate for the MOVE Index by taking the average of the 1m implied volatility of 2, 5, 10 and 30-year OIS swaps. BofA calculates the MOVE with a weighted average.

Source: Bloomberg, ICE BofA, IMF Staff Analysis.

Rates volatility is below year-to-date average but still remains at elevated levels compared to recent history
Index, basis points



Source: Bloomberg, ICE BofA, IMF Staff Analysis.

Euro Area

Among advanced economies, money market pricing suggests that markets consider the ECB to be the most likely central bank to start the cutting cycle. Traders now price in a 68% chance it lowers rates at its April meeting. This is at odds with a recent pushback from ECB officials; French Governing Council

member de Galhau today stated today that it appears premature to contemplate on rate cuts, adding that this will come when “everyone is convinced that inflation will come back to 2%.” The ECB Consumer Expectations Survey that was released yesterday saw a notable uptick of 1-year ahead inflation expectations that are expected at 4.0% y/y (up from 3.5% in the August survey). Germany’s preliminary harmonized CPI inflation for October validated expectations at 3.0% y/y (exp. 3.0% from 3.0%). This morning, 10y Bund yields increased +3bps to 2.65%. The Stoxx 600 gained +0.6%.

A return of fragmentation concerns could see a weaker euro. Arguably, individual European government bond (EGB) markets have behaved similarly in this ECB tightening cycle, as exemplified by 10-year Italian government bond yields whose rise Barclays analysts primarily attribute to a common European government bond (EGB) factor that represents a broad reassessment of the interest rate outlook. A more idiosyncratic credit-driven widening of Italian spreads could lead to a weaker Euro. Barclays analysts illustrate that when 10-year Italy-Germany spreads exceed 200bps, it elicits a statistically significant impact on the euro (right chart). Specifically, the analysis suggests that for every 10bps of spread increase, the Euro could potentially weaken by 0.3–0.4%.

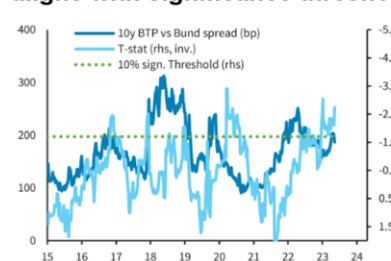
Repricing higher in 10y Italian yields prompted by common rate path repricing across EGBs



Source: Barclays

Note: Based on a PCA on weekly changes on 10y Germany, France, Italy and Spain government bond yields, excluding one country at a time. Subsequently, a regression of weekly changes in yields of country A versus the PC1 where country A was excluded is calibrated to identify the common factor. The residual is interpreted as an idiosyncratic country-specific factor.

The 200bps level of Italy-Germany spread aligns with significance threshold to the euro



Source: Barclays

Note: T-stats from a rolling regression of weekly returns in EURUSD on changes in the Italian bond spread to Bunds (6-month window).

Japan

Bank of Japan (BoJ) board members discussed policy options with an eye on a potential “exit” according to the summary of opinions for the October policy meeting. Many members saw the adjustment of yield curve control as appropriate, is a need for a continued accommodative policy stance was seen. However, one member indicated that the likelihood of attaining the inflation target has increased and that it would be necessary to gradually adjust the degree of monetary policy easing. Separately, Governor Ueda said that the sequence of the normalization process has not been decided yet (between adjustments of yield curve control and the BoJ’s negative policy rate). He noted that undershooting inflation is more difficult to repair. Long-end JGB yields dropped after a strong 30-year debt auction (10-year: -2.0 bps; 30-year: -6.3 bps), with the 10-year yield at 0.833%. Japanese equities gained (NIKKEI: +1.5%), outperforming regional peers, on improving sentiment following the recent decline in US treasury yields.

Emerging Markets

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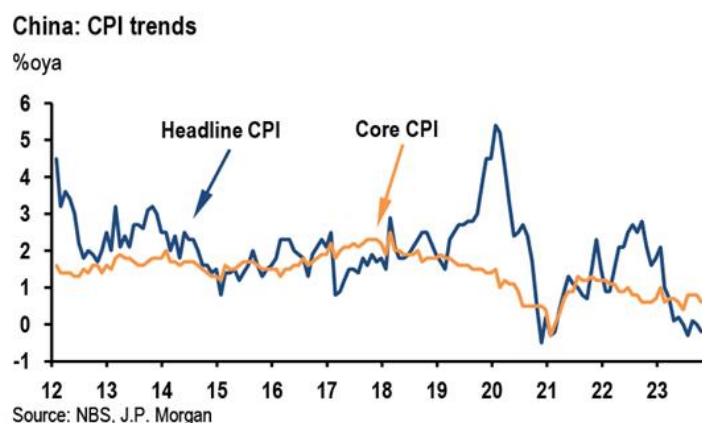
In EMEA markets, currencies trade weaker this morning while equities show no clear trend. Among currencies, the South African rand depreciated the most (-0.8%) while Türkiye’s lira only traded fractionally weaker (-0.1%). Conversely, Türkiye’s stock market underperforms (-0.8%) while Romania’s fractionally gains (+0.1%). **Asian markets did not have a clear direction today.** Asian equities were mixed, staying flat on net. Stock prices rose the Philippines (+0.5%) and the Philippine peso appreciated (+0.3%). The Philippines’ market outperformance was due to stronger-than-expected Q3 GDP data; the economy grew

3.3% q/q in 2023Q3 (consensus: +1.8%). Long-end government bond yields fell, with 10-year yields falling in the Philippines (-11.4 bps) and Korea (-9.6 bps), following the decline in US treasury yields. In India, Governor Das of the Reserve Bank of India said that inflation remains vulnerable to food price shocks. **LATAM equity markets mostly closed lower yesterday.** While the performance of equity markets was mixed, regional currencies corrected across the board: the Chilean peso fell 1.9% versus the US dollar. In Colombia, where October inflation was announced post market-hours, the currency fell 1.6%. Other major regional currencies weakened by 0.3-0.6%. Commodities traded lower. Brent crude slid another 2.5% on Wednesday and closed at \$79.54/barrel, while the broader Bloomberg Commodity Index was down 0.5%. The central banks of Peru and Mexico will announce their policy rate decisions later today (25 bps cut to 7% expected for Peru, and a hold at 11.25% expected for Mexico).

China

CPI inflation turned negative at -0.2% y/y for October. This was lower than expected (consensus: -0.1%), while PPI fell by 2.6% (consensus: -2.7%). The decline in CPI was largely driven by food prices, while core CPI inflation edged down to 0.6% y/y (previously, 0.8%). Market participants saw a return of CPI deflation as an indication that domestic demand remains soft. Onshore Chinese equities were little changed (based on CSI 300). RMB depreciated (-0.1%) to 7.29 yuan per dollar. While the People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected, the deviation has become smaller this week (today: 949 pips; last month average: -1,257 pips).

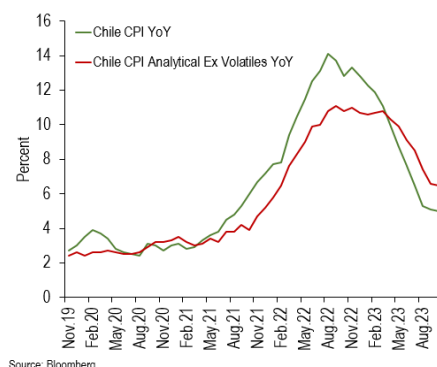
Pingan Insurance said that it does not hold any shares in Country Garden and has no plans to acquire the company in response to the news that the government asked Pingan (a major insurer) to take over Country Garden (a major troubled property developer). As of August, Pingan still held 4.9% of Country Garden's shares. However, Pingan has reportedly sold its stake in Country Garden following authorities' guidance that it should focus on its core business. Both firms' share prices fell (Pingan: -3.0%; Country Garden: -9.6%).



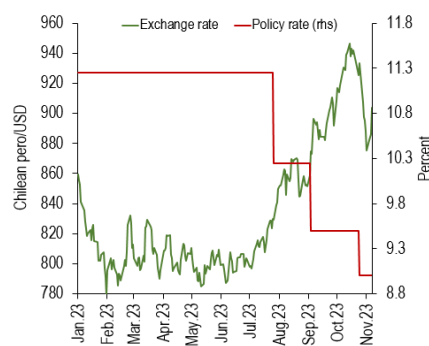
Chile

October inflation prints marginally below expectations and continued to decelerate. The headline inflation came in at 5% y/y, down from 5.1% last month. The Peso depreciated considerably during the first half of October. Even though the transmission of currency depreciation into inflation seems to have been smaller than what was feared, market analysts are expecting the country's central bank to maintain the pace of rate cut at 50bps going forward. In its last policy meeting, the central bank had delivered a 50bps rate cut vis-à-vis the market expectation of 75bps, citing rising geopolitical tensions, higher-for-longer US rates and stronger USD.

Inflation continues on decelerate



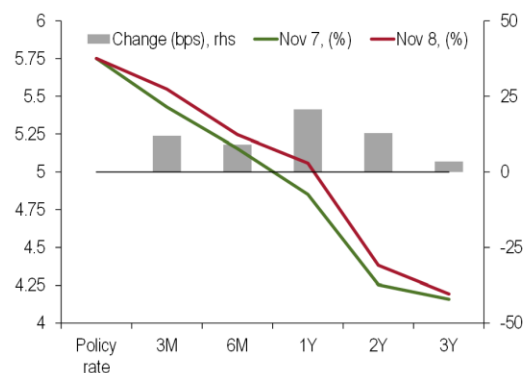
Currency has weakened significantly in 2H2023



Poland

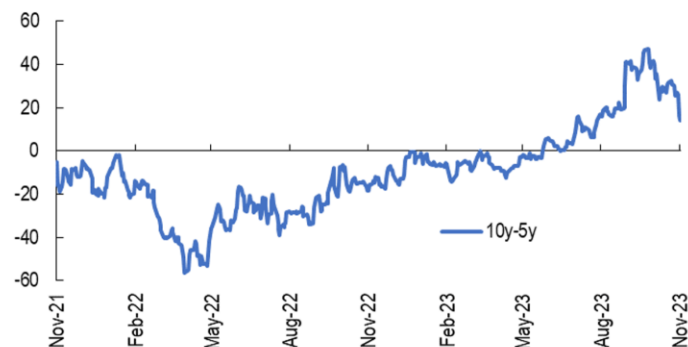
Central Bank of Poland central bank kept interest unchanged at 5.75%. In yesterday's interest rate decision, the central bank surprised consensus expectations that expected a -25bps rate cut. The decision to keep rates on hold after cuts by -75bp and -25bp respectively in September and October underline the changed monetary policy conditions that have prompted monetary policy expectations in money markets to anticipate a higher policy rate path following the meeting (left chart). The central bank, in its press statement, expressed uncertainty about how future fiscal and regulatory policies might affect inflation. Revised inflation forecasts indicate a lower estimate for 2024 and a higher one for 2025 compared to its July projections. This adjustment follows the result of the October Parliamentary elections, which has introduced uncertainty about the new government's stance on inflation-control measures. A more lenient fiscal policy is seen to be a possibility, potentially limiting room for further monetary easing. Analysts from Raiffeisen note a cautious tone in the monetary policy statement, while ING analysts suggest that the central bank's stance indicates reduced conviction about disinflation, possibly signaling the end of the easing cycle.

Money markets reprice a higher policy path for Central Bank of Poland...



Source: Bloomberg, IMF staff calculations

... prompting a remarkable flattening of the Polish government bond yield curve.



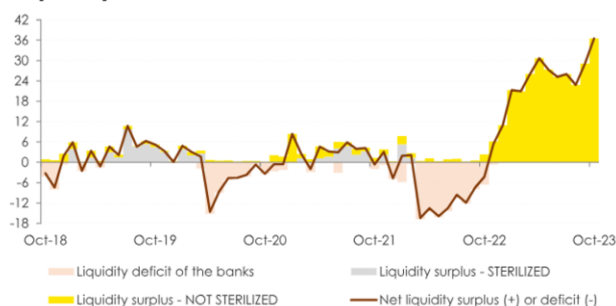
Source: Bloomberg, IMF staff calculations

Romania

The central bank of Romania validated expectations and kept its policy rate at 7%. In the press statement yesterday, the central bank stated that the disinflation process will continue in the next two years while inflation would remain on a higher trajectory next year than it had projected previously in August. In the upcoming quarters, the press statement mentions disinflationary base effects, lower commodity prices, and an expected contraction of excess aggregate demand, all contributing to sustained reduction in inflationary pressures. However, if these pressures are not subsiding or if large pressures for leu

depreciation will emerge, Raiffeisen analysts anticipate that the central bank will rather focus on draining the liquidity surplus instead of hiking rates. They note that the liquidity surplus in money markets reached a very elevated level (left chart), corresponding to a daily average of 36.5bn Romanian leu or \$7.86bn in October, reflecting a 9.7% share of Romania's GDP. Consequentially, money market rates traded at levels below the policy rate with the 3-month ROBOR amounting to 6.34% (left chart).

In Romania's money market, a large liquidity surplus persists...

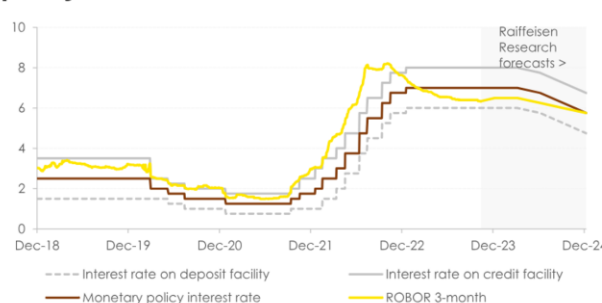


Source: Raiffeisen Bank International

Notes:

- Liquidity surplus sterilized = depo + certificates of deposit + reverse repo;
- Liquidity surplus not-sterilized = NBR deposit facility;
- Liquidity deficit = NBR credit facility + repo;
- daily monthly averages in RON bn.

...so that the 3-month ROBOR trades below the policy rate.







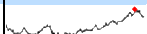





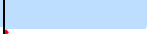



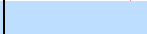



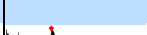


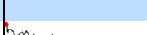



Source: Raiffeisen Bank International

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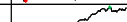
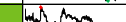










Global Financial Indicators

11/9/23 8:36 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4382	0.1	1	1	17	14
Europe		4216	0.9	1	3	13	11
Japan		32646	1.5	3	3	19	25
China		3613	0.0	2	-1	-2	-7
Asia Ex Japan		64	-0.7	4	1	9	-1
Emerging Markets		38	-0.7	4	2	7	1
Interest Rates			basis points				
US 10y Yield		4.55	5.5	-11	-26	45	67
Germany 10y Yield		2.66	4.0	-6	-12	48	9
Japan 10y Yield		0.84	-1.9	-9	3	59	42
UK 10y Yield		4.28	3.5	-11	-20	82	60
Credit Spreads			basis points				
US Investment Grade		159	-0.1	-3	4	-19	0
US High Yield		439	2.2	-28	-14	-44	-42
Exchange Rates			%				
USD/Majors		105.68	0.1	0	0	-4	2
EUR/USD		1.07	-0.2	1	1	7	0
USD/JPY		151.1	0.1	0	2	3	15
EM/USD		47.4	-0.1	0	2	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		80.3	0.9	-8	-7	-2	-1
Industrials Metals (index)		139	-0.6	1	0	-10	-16
Agriculture (index)		66	0.2	2	3	-3	-4
Implied Volatility			%				
VIX Index (% change in pp)		14.5	0.0	-1.2	-3.2	-11.6	-7.2
Global FX Volatility		7.6	0.0	-0.1	-0.8	-3.8	-3.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		126	-2.3	-12	-28	-120	-79
Italy		186	-0.8	-6	-21	-26	-29
Portugal		74	-0.5	5	-6	-23	-28
Spain		105	-0.1	-1	-11	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: 11/9/2023 8:26 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		7.29	-0.1	0.4	0	-1	-5		2.7	-0.5	0	-6	-19	-40
Indonesia		15655	0.0	1.3	0	0	-1		6.8	-2.5	-30	-25	-58	-17
India		83	0.0	0.0	0	-2	-1		7.5	-2.0	-11	-36	(12.0)	7
Philippines		56	0.3	1.5	2	4	0		5.9	2.3	2	16	-19	-9
Thailand		36	0.0	1.0	4	4	-3		3.1	-1.0	-18	-34	7	47
Malaysia		4.69	-0.2	1.2	1	0	-6		3.9	-1.5	-15	-21	-63	-19
Argentina		350	0.0	0.0	0	-54	-49		109.6	19.6	144	171	1346	2142
Brazil		4.90	0.1	1.0	5	6	8		11.4	1.8	-30	-45	-69	-118
Chile		901	0.3	-1.4	2	1	-6		5.6	9.0	-26	-21	-22	22
Colombia		4082	0.0	-0.9	6	20	19		8.2	0.0	-45	-146	-273	-156
Mexico		17.55	-0.1	-0.2	4	12	11		9.1	0.0	-36	-34	8	42
Peru		3.8	-0.5	1.1	1	3	0		7.2	-5.5	-22	-42	-56	-82
Uruguay		40	-0.1	0.3	0	0	0		9.7	2.6	-12	-9	-143	-96
Hungary		354	-0.1	1.6	4	13	5		7.2	-1.0	-7	-38	-307	-243
Poland		4.16	-0.3	0.6	4	13	5		4.9	6.0	1	-22	-202	-129
Romania		4.6	-0.2	0.6	1	5	-1		6.6	-0.5	-15	-35	-215	-105
Russia		92.2	-0.3	1.2	8	-34	-19							
South Africa		18.6	-0.7	-1.0	4	-4	-8		9.5	3.0	-14	-48	10	32
Turkey		28.50	-0.1	-0.5	-3	-35	-34		31.7	0.0	175	470	1928	2187
US (DXY; 5y UST)		106	0.1	-0.4	0	-4	2		4.55	4.7	-8	-20	31	55

	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	
								basis points						
China		3613	0.0	2	-1	-2	-7		165	-2	-8	-44	-12	
Indonesia		6838	0.5	1	-1	-2	0		132	-9	3	-56	-8	
India		64832	-0.2	1	-2	7	7		129	-6	-18	-71	-13	
Philippines		6188	0.5	4	-1	0	-6		109	-10	3	-38	12	
Thailand		1405	-0.5	0	-2	-13	-16		0	0	0	0	0	
Malaysia		1452	-0.4	1	1	0	-3		93	-3	-5	-26	-7	
Argentina		584970	-4.3	1	-10	309	189		2466	-138	-213	-30	261	
Brazil		119177	-0.1	4	3	5	9		229	7	2	-50	-45	
Chile		5674	-0.1	4	0	6	8		151	5	15	-7	19	
Colombia		1099	0.5	1	-2	-12	-15		319	-1	-41	-112	-53	
Mexico		51016	-0.4	4	3	1	5		366	-9	-10	-24	-15	
Peru		21661	0.3	-1	-3	-1	2		168	5	9	-16	-12	
Hungary		57289	0.0	1	4	30	31		198	-1	-10	-62	-24	
Poland		71683	0.2	0	10	35	25		120	5	-14	47	47	
Romania		14557	0.1	2	5	29	25		197	-19	-26	-119	-58	
South Africa		72150	-0.4	1	1	4	-1		375	0	-28	-15	8	
Turkey		7757	-1.3	1	-5	78	41		378	1	-22	-123	-62	
Ukraine		507	0.0	0	0	-2	-2		3487	-27	-228	-852	-592	
EM total		38	-0.3	4	2	7	1		400	-7	-15	-24	24	

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

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