



- **Weak US Treasury auction of 30-year bonds boosts sell-off in long-end Treasuries** ([link](#))
- **Powell doesn't close the door on rate hikes** ([link](#))
- **Mexico's central bank holds policy rate at 11.25%, but opts for a dovish tone** ([link](#))
- **Peru's central bank cuts policy rate by 25 bps to 7%** ([link](#))
- **Anticipation of ECB rate cuts grows** ([link](#))
- **Chinese banks ramped up borrowing of short-term funds after a cash crunch last week** ([link](#))

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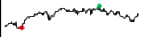



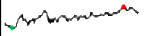





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Financial markets continue to move to the beat of bond markets

On Thursday, a weak US Treasury auction of 30-year bonds and remarks by Fed Chair Powell boosted a selloff in Treasuries. Weakened demand for the US Treasury's new issue of a 30-year bond resulted in a sharp surge in (real) yields (+10bps) across longer-end tenors. As the bond market changed its tune, the tremors were felt in other asset classes, notably equity markets, where sentiment turned sour. The headwind against risk assets was sustained by Chair Powell's remarks—leaving the door open for further rate hikes. S&P 500 index was unable to recover from its decline following the bond auction (-0.8%). The upward shift in real yields benefitted the US dollar. Today, euro area markets followed suit with sovereign yields increasing across the board and equity indices declining. Oil prices have rebounded somewhat today but continue to trade significantly below levels seen last week (around 5% lower). According to Bloomberg, WTI's positive prompt spread's contango (second futures contracts trading above the first) indicates softness at the front part of the curve. Later today, the University of Michigan Sentiment Indicator will be released (preliminary for November).

Key Global Financial Indicators

Last updated: 11/10/23 8:16 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 4347	-0.8	1	0	10	13
Eurostoxx 50	 4199	-0.7	1	0	9	11
Nikkei 225	 32568	-0.2	2	1	15	25
MSCI EM	 38	-0.9	1	0	3	0
Yields and Spreads		bps				
US 10y Yield	 4.59	-3.4	2	-6	78	72
Germany 10y Yield	 2.71	6.2	6	-7	70	14
EMBIG Sovereign Spread	 426	-6	-2	-26	-89	-26
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 47.2	0.0	-1	1	-5	-5
Dollar index, (+) = \$ appreciation	 105.8	-0.1	1	0	-2	2
Brent Crude Oil (\$/barrel)	 80.8	1.0	-5	-8	-14	-6
VIX Index (% change in pp)	 15.1	-0.2	0	-2	-8	-7

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

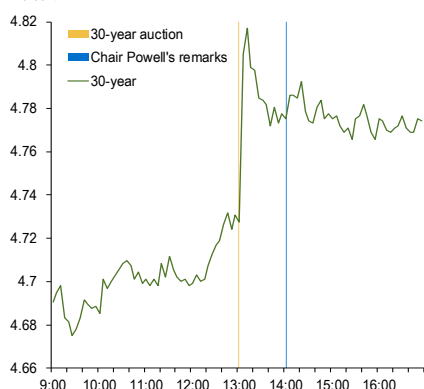
Mature Markets

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United States

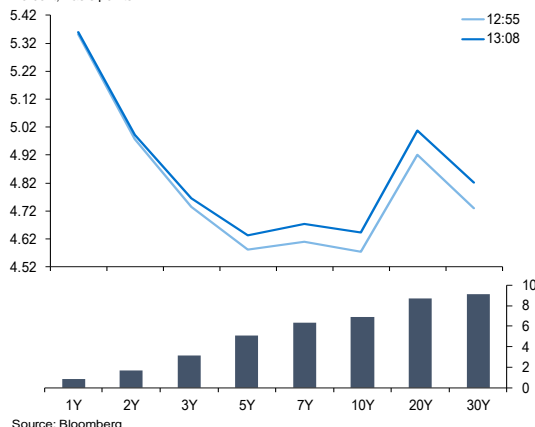
The US Treasury's actions remain in focus after the past months' large swings in term premia. Long-end real yields spiked higher (+10bps) in the afternoon following the Treasury's 30-year bond auction (see chart below). The bid-to-cover ratio was lower than in recent auctions at 2.24 versus the 6-month average of 2.44. The lower demand was felt across the curve. The spike in yields was sustained following remarks made by Chair Powell an hour later. In comparison, the market reaction to Wednesday's 10-year bond auction was relatively muted where the bid-to-cover ratio was marginally lower than the recent average. Some analysts think that the recent rise in term premia could be one reason why the US Treasury decided to issue more short maturity debt than expected in its latest announcement of refunding.

Spike in yields followed a lower bid-to-cover ratio than recent averages
Percent



Source: Bloomberg

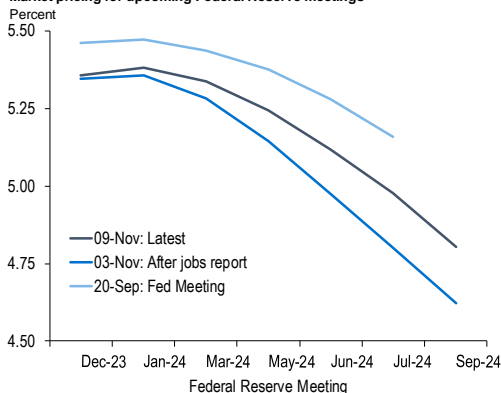
The impact as also visible in the steepening of the Treasury curve
Percent, Basis points



Source: Bloomberg

Powell doesn't close the door on further rate hikes. The Fed would not hesitate to tighten policy further if needed to contain inflation, according to remarks made at the IMF's research conference. The Chair expressed doubt whether the current level of interest rates is high enough to get inflation back to target and that policymakers will continue to move carefully. The commentary pushed back against the recent relief rally in bonds and risk assets. Rates markets were already pricing the first rate cut by the Fed in June following a lower-than-expected jobs report last Friday.

Market pricing for upcoming Federal Reserve meetings
Percent



Source: Bloomberg

Euro Area

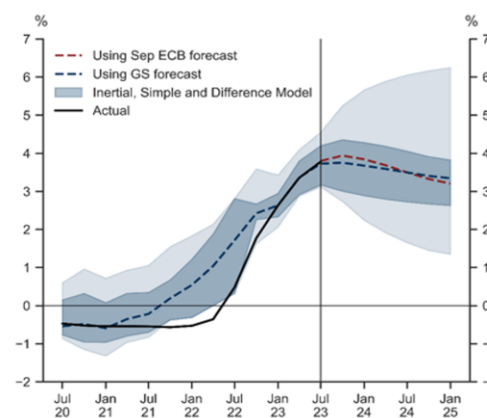
Bund yields track the losses of US Treasuries observed on Thursday and equity markets are weaker. This morning, the 10-year German government bond experienced a notable sell-off, with its yield

rising by +9 basis points to 2.74%. Meanwhile, 10-year Italian spreads over bunds are holding at 187 basis points, and the euro saw a marginal appreciation of +0.1% against the US dollar, trading at \$1.0682/€. The Stoxx 600 sharply corrected, declining by -1.1% and set for their largest one-day drop in three weeks.

Anticipation of ECB rate cuts is growing among market contacts, and is also reflected in pricing.

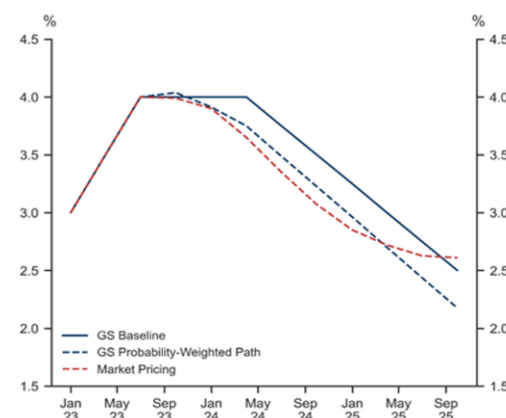
Among these are Goldman Sachs (GS) analysts, who recently updated their euro area economic outlook. In 2024, euro area economic growth is expected to improve due to diminishing headwinds supported by reduced headline inflation. Manufacturing growth is likely to stabilize, offsetting the growth drag from a withdrawal of fiscal support in the context of last year's energy crisis and the Covid-19 pandemic. GS projects inflation to fall to 2.7% y/y by mid-2024, down from their earlier estimate of 2.9%. The projection sees wage growth to continue decelerating to 4.0% y/y by year-end and to 3.0% y/y by the end of 2024. This deceleration is associated with the diminishing influence of prior high headline inflation, which had previously been the principal driver of robust wage growth. Consistent with their updated Taylor rule model, GS analysts now look for two 25 bps rate cuts next year (left chart). In terms of timing, their updated projections advance the expectation of the first deposit rate cut to Q3 2024 (from Q4 2024). In a downside scenario where economic growth significantly contracts, they also see the possibility of the ECB conducting a rate cut in Q2 2024. This aligns their projection with near-term market pricing (right chart).

Taylor-Rule Estimates for ECB Policy Rate



Source: Goldman Sachs

ECB Deposit Rate Scenarios vs. Market Pricing



Source: Goldman Sachs

United Kingdom

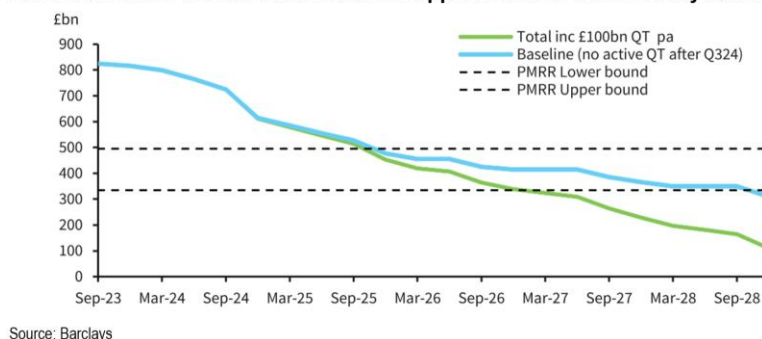
Markets take little solace in GDP data confirming the UK economy's flatlining in the third quarter.

This morning, 10-year Gilt yields increased by 4bps to 4.3%. The FTSE100 is -1.3% down while the pound traded slightly weaker -0.2% at \$1.2208/£, showing little reaction to the slightly higher-than-expected Q3 GDP print of 0.0% q/q (exp. -0.1% from 0.2%) and 0.6% y/y (exp. 0.5% from 0.6%).

The equilibrium level of bank reserves appears decisive for the Bank of England (BoE). During a recent BoE conference, Executive Director for Markets Hauser provided insights into the central bank's evolving strategy to determine this equilibrium. Barclays analysts interpret Hauser's remarks as a signal of the BoE's intent to normalize liquidity conditions and achieve a better match between the supply of central bank reserves and the demand from the banking sector. Currently, bank reserves amount to £965bn, with £805bn stemming from asset purchases, £159bn from the Term Funding Scheme (TFSME), and an additional £1.5bn from open market operations. For 2024, the BoE's announced £100bn runoff of Gilt holdings, coupled with Hauser's projected reduction of £110bn in TFSME, implies a decrease of £210 billion in bank reserves by the end of the next year. The path thereafter hinges on the pace of remaining TFSME repayments and decisions on further active selling of the central bank's Gilt holdings. Key to this is the Preferred Minimum Range of Reserves (PMRR), signifying the level of bank reserves at which the supply

and demand of bank reserves are expected to align. Survey estimates conducted by the BoE suggest the PMRR lies in the range of £335–495 bn, significantly higher than the pre-pandemic estimate of £150–250bn. Accordingly, Barclays analysts foresee no additional active selling of gilts beyond Q3 2024, indicating that bank reserves are approaching the upper bound of the PMRR by September 2025.

Bank reserves in the UK could reach the upper bound of the PMRR by Q3 2025

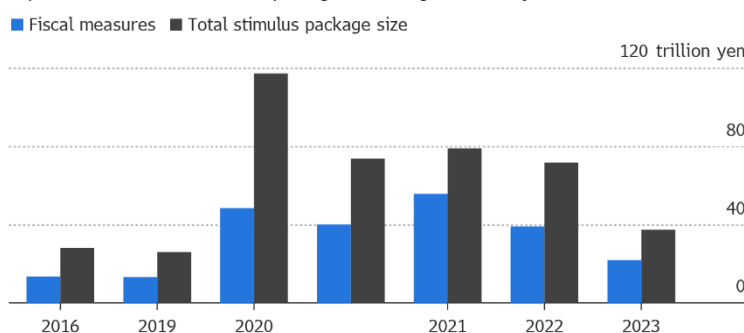


Japan

The cabinet approved an extra 13.2 tn yen budget for an economic package that includes income tax cuts and cash handouts to low-income households. The extra budget amounted to 13.2 tn yen (\$87.2 bn). The government will issue additional bonds in an amount of 8.9 tn yen (\$58.8 bn). The remaining funding sources would be from a surplus from the previous year and some additional tax revenues. Japanese equities declined (NIKKEI: -0.2%), outperforming regional peers which saw a larger retreat. The Japanese yen depreciated slightly to 151.4 yen per dollar as speculation about FX interventions put a break of currency depreciation. Long-end JGB yields increased (10-year: +1.2 bps; 30-year: +1.6 bps), with the 10-year yield edging up to 0.845%.

Ongoing Stimulus

Japan crafts another stimulus package amid fragile recovery



Bloomberg

Emerging Markets

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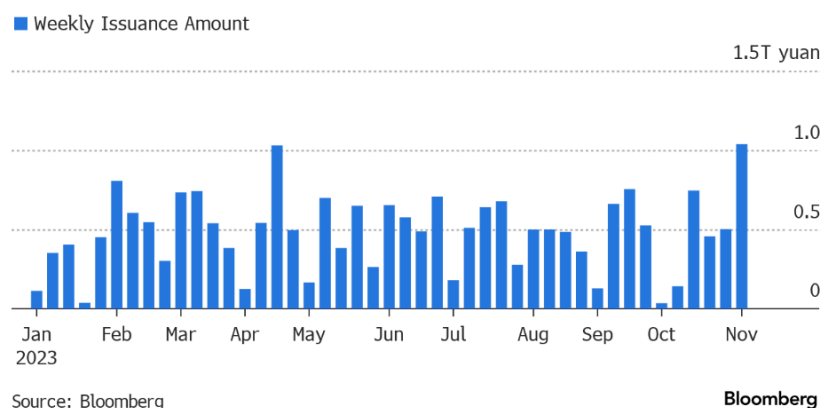
In EMEA, stock markets traded mostly lower while currencies diverged. Currencies in central eastern Europe appreciated, led by the Hungarian forint (+0.7%) and Polish zloty (+0.6%) whereas the South African rand (-0.3%) and Türkiye's lira (-0.3%) traded weaker. Stock markets outperformed in Hungary (+0.7%) while correcting in South Africa (-1.5%) and Poland (-0.7%). Yesterday's press conference of Central Bank of Poland indicated a hawkish hold until at least March next year. After March, uncertainty looms over whether the new government will expand or renew fiscal stimulus amid persistent inflationary pressures. This heightens the challenge for the central bank to consider rate cuts, as market contacts

perceive. **Asian equity markets declined today on global risk-off sentiment.** Investors were concerned that US interest rates may rise further, following remarks from Fed Chair Powell. Asian equities fell, down 1.5% on net, led by Hong Kong (-1.8%) and Thai (-1.1%) stocks. Onshore Chinese equities also declined (CSI 300: -0.7%). Most Asian currencies depreciated, led by Thai baht (-0.8%) and Korean won (-0.5%). Long-end government bond yields increased, with 10-year yields rising in Indonesia (+4.6 bps) and India (+4.2 bps). In Thailand, the government decided to go ahead with its \$14 bn cash handout program to jumpstart the economy despite warnings from the central bank and various prominent local economists. Markets have been concerned about the country's fiscal discipline. In Hong Kong SAR, the government lowered its growth forecast to 3.2% for 2023 (previously, 4%–5%) as the economic recovery has been weaker than expected. **Latin American currencies opened higher on Thursday but weakened after the Fed Chair's statements.** The Mexican peso, which sustained the largest losses by weakening around 1.6% versus the US dollar, was also affected by its central bank's "dovish hold" (see below). In Chile, the currency weakened by 1% versus the US dollar after the finance ministry announced its plan to lower the ceiling for dollar sale from \$2 bn/month to \$1.25 bn/month for the remainder of the year. Other major currencies also depreciated, except the Colombian peso, which was up 1.3%, reversing most of the losses from the last two sessions. Regional equities staged a mixed performance. The central bank of Peru cut its policy rate by 25 bps (see below)

China

Chinese banks ramped up their borrowing of short-term funds after a cash crunch last week. Banks increased their issuance of negotiable certificates of deposits (NCD, a form of debt with maturity from 1 to 12 months) to more than 1 tn yuan (\$137 bn) this week, the largest weekly issuance on record. The rush to raise more short-term funds took place despite borrowing costs at a 6-month high in the NCD

Weekly NCD Issuance by Chinese Banks Surged to a Record



market. For a brief moment last week, there was a dramatic liquidity squeeze, when some small financial institutions reportedly had to borrow short-term cash at a rate of 50%. Analysts noted that a fast pace of government bond issuances was a reason behind liquidity pressure. Today, the People's Bank of China injected liquidity in an amount of 160 bn yuan (\$21.9 bn). The key interbank repo rate (DR007) stayed at 1.85%, slightly above the policy rate 1.80%. However, bank NCD rates remained relatively elevated in comparison with the 1-year medium-term lending facility (MLF) rate. Onshore Chinese equities declined (CSI 300: -0.7%), while Hong Kong SAR-listed equities fell 2.1% amid global risk-off sentiment. RMB depreciated (-0.1%) to 7.29 yuan per dollar. Governor Pan of the People's Bank of China (PBC) said that property sector risks are under control as he pointed to strong demand for better homes. Meanwhile, Country Garden said that it aims to put together a tentative plan to restructure its offshore debt by the end of this year.

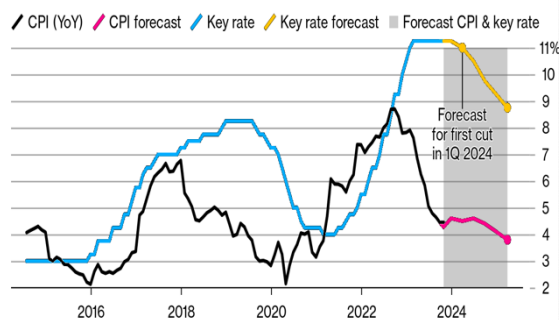
Mexico

The central bank of Mexico (Banxico) left its policy rate unchanged at 11.25% and hinted at a rate cut on the horizon. While the decision was widely anticipated, it was the switch to the dovish tone that took markets by surprise. However, the committee also struck a cautious tone by acknowledging upside risks to inflation expectations. Analysts believe the dovish tilt of Banxico is coming from the downward

trajectory of inflation, while the role of expectations on Fed's policy path is still unclear. Most analysts are now expecting the first rate cut of 25bps to happen in March 2024. Mexico also released the October inflation print yesterday. Both headline and core inflation both slowed by 19bps and 25bps to 4.25% y/y and 5.5% y/y. In local markets, Banxico signaling and the strength of US dollar dragged the Mexican peso down by 1.6% versus the US dollar.

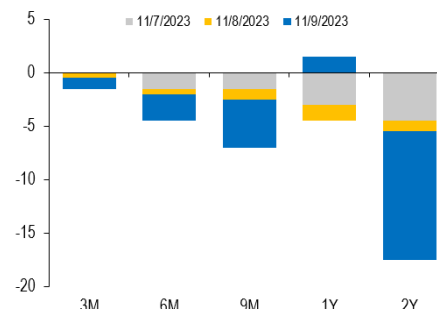
Banxico Seen Keeping Key Rate at 11.25% Through 2023

Economists forecasting a quarter-point reduction in 1Q 2024



Sources: Central bank; national statistics agency, Bloomberg
Note: Forecasts = median est. of analysts surveyed by Bloomberg.

Swap Rate declined after rate - daily change

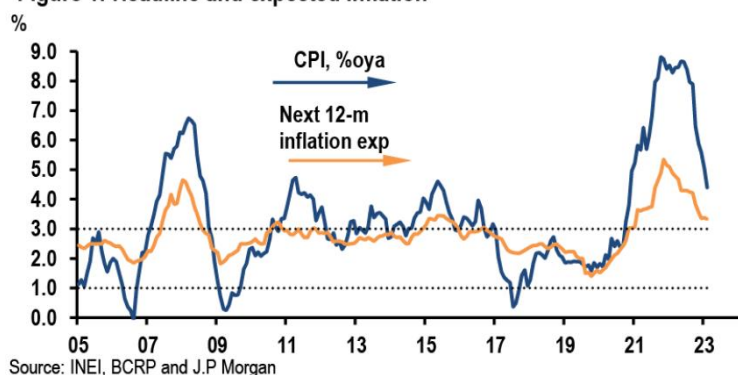


Sources: Bloomberg and IMF staff calculations

Peru

Central bank of Peru delivered another rate cut of 25bps, in line with market expectations. This has brought the policy rate down to 7%. Despite cutting rates for the third consecutive meeting and falling inflation expectations, the central bank has given a cautious forward guidance. Analysts believe this is in view of inflation expectations remaining above target, tighter external financial conditions and domestic political uncertainty.

Figure 1: Headline and expected inflation






















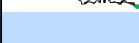





Source: INEI, BCRP and J.P Morgan

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.

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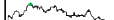











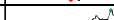
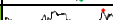













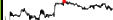





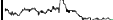

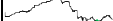

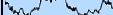
Global Financial Indicators

11/10/23 8:16 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4348	-0.8	0	0	10	13
Europe		4199	-0.7	1	0	9	11
Japan		32568	-0.2	2	1	15	25
China		3586	-0.7	0	-2	-5	-7
Asia Ex Japan		64	-0.9	1	-1	4	-2
Emerging Markets		38	-0.9	1	0	3	0
Interest Rates			basis points				
US 10y Yield		4.59	-3.4	2	-6	78	72
Germany 10y Yield		2.71	6.2	6	-7	70	14
Japan 10y Yield		0.85	1.2	-8	7	60	43
UK 10y Yield		4.31	4.1	3	-11	102	64
Credit Spreads			basis points				
US Investment Grade		158	0.8	0	5	-16	-1
US High Yield		439	3.6	4	-8	-54	-41
Exchange Rates			%				
USD/Majors		105.82	-0.1	1	0	-2	2
EUR/USD		1.07	0.1	0	1	5	0
USD/JPY		151.4	0.1	1	2	7	15
EM/USD		47.2	0.0	-1	1	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		80.8	1.0	-5	-6	-2	0
Industrials Metals (index)		138	-1.2	-1	0	-12	-17
Agriculture (index)		66	-0.3	0	3	-3	-5
Implied Volatility			%				
VIX Index (% change in pp)		15.1	-0.2	0.2	-2.0	-8.5	-6.6
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		127	-0.4	-4	-25	-117	-79
Italy		186	-0.3	0	-9	-13	-28
Portugal		74	0.7	7	0	-20	-27
Spain		105	-0.1	1	-6	4	-4

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

Emerging Market Financial Indicators

Last updated: 11/10/2023 8:17 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		7.29	-0.1	-0.2	0	-1	-5		2.7	-1.5	-3	-10	-22	-41
Indonesia		15695	-0.3	0.2	0	0	-1		6.9	7.9	-1	-10	-47	-9
India		83	-0.1	-0.1	0	-2	-1		7.6	3.0	-6	-26	(7.3)	10
Philippines		56	-0.2	0.3	2	4	0		5.9	2.6	0	11	-22	-9
Thailand		36	-0.9	-0.5	2	3	-4		3.2	10.5	-5	-22	21	57
Malaysia		4.71	-0.3	0.4	0	0	-6		3.9	2.1	-11	-19	-60	-17
Argentina		350	0.0	0.0	0	-54	-49		110.3	64.5	126	-109	1386	2206
Brazil		4.92	0.4	-0.4	3	9	7		11.4	-6.7	-13	-40	-168	-122
Chile		916	-0.4	-4.5	2	-2	-7		5.5	0.5	-9	-9	-7	17
Colombia		4036	-0.3	-1.5	5	19	20		8.3	0.0	-18	-124	-210	-149
Mexico		17.85	-0.2	-2.1	1	8	9		9.2	-1.0	-8	-21	46	43
Peru		3.8	-0.2	-0.9	1	3	0		7.2	-0.1	-14	-37	-40	-80
Uruguay		40	0.3	0.3	0	1	0		9.8	7.5	-4	-1	-135	-88
Hungary		353	0.7	0.1	3	11	6		7.1	-1.0	15	-14	-201	-246
Poland		4.14	0.4	0.2	3	11	6		5.0	7.5	22	-5	-146	-120
Romania		4.7	0.1	-0.4	1	3	-1		6.7	2.1	-5	-33	-210	-103
Russia		92.1	-0.3	0.6	9	-34	-19							
South Africa		18.8	-0.6	-2.7	1	-7	-9		9.5	4.2	4	-29	37	38
Turkey		28.57	-0.3	-0.6	-3	-35	-35		31.7	6.0	146	471	1929	2188
US (DXY; 5y UST)		106	-0.1	0.8	0	-2	2		4.61	-2.9	11	0	67	61

	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		3586	-0.7	0	-2	-5	-7		164	-2	-9	-52	-13
Indonesia		6809	-0.4	0	-2	-4	-1		120	-12	-9	-72	-20
India		64905	0.1	1	-2	5	7		129	-2	-18	-58	-13
Philippines		6162	-0.4	3	-2	-2	-6		95	-14	-11	-61	-2
Thailand		1390	-1.1	-2	-4	-15	-17		0	0	0	0	0
Malaysia		1445	-0.5	0	0	-2	-3		93	-2	-5	-29	-7
Argentina		623996	6.7	1	-11	331	209		2472	-80	-207	-77	267
Brazil		119034	-0.1	1	2	8	8		227	10	0	-67	-47
Chile		5628	-0.3	0	-3	5	7		146	2	10	-18	14
Colombia		1104	0.5	1	-1	-14	-14		317	14	-43	-125	-55
Mexico		51071	0.1	3	2	0	5		364	5	-12	-40	-17
Peru		21698	0.2	0	-3	-2	2		162	5	3	-29	-18
Hungary		57769	0.8	1	3	34	32		184	-11	-24	-74	-38
Poland		71902	-0.7	-1	8	32	25		108	-4	-26	28	35
Romania		14520	-0.1	0	3	27	24		186	-13	-38	-134	-70
South Africa		71288	-1.3	-2	-3	1	-2		368	8	-35	-32	1
Turkey		7828	-0.2	2	-7	75	42		372	9	-28	-136	-68
Ukraine		507	0.0	0	0	-2	-2		3472	49	-243	-775	-607
EM total		38	-0.9	1	0	3	0		395	2	-19	-37	20

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

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