GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, OCTOBER 11, 2022

- **US Treasury yields higher on solid jobs report** (link)
- **US credit investors brace for downgrade and default wave** (link)
- **Japanese yen trades in a tight range** (link)
- **Bank of England announces further measures to support Gilt market** (link)
- **Reports of joint EU bond issuance for energy crisis emerges** (link)
- **Hungarian headline inflation unexpectedly rises to 20% yoy** (link)
- **Czech headline inflation unexpectedly rises to 18% yoy** (link)
- **GMM special feature: Emerging and Frontiers Markets Issuance**

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Bond Markets Remain in Focus

Global equities are trading with a cautious tone as several yield curves remain unusually volatile. Contacts believe that the US jobs report for September sets the stage for another Fed hike of 75 bps in November. Yesterday, UK gilt yields spiked after policy announcements failed to reassure traders. This morning, UK gilt yields fell after the Bank of England announced additional measures to restore orderly market conditions. Italian spreads are wider as investors await more clarity on reports that Germany is ready to support issuance of joint EU bonds to cushion the impact of the energy crisis in EU member states. Headline inflation prints were higher than expected in the Czech Republic and Hungary.

Key Global Financial Indicators

Last updated: 10/11/22 1:37 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3612	-0.7	-2	-11	-17	-24
Eurostoxx 50		3346	-0.3	-4	-6	-18	-22
Nikkei 225		26401	-2.6	1	-8	-6	-8
MSCI EM		35	-1.4	-1	-10	-31	-28
Yields and Spreads					bps		
US 10y Yield		3.90	1.5	26	59	228	239
Germany 10y Yield		2.30	-4.1	43	60	242	248
EMBIG Sovereign Spread		546	4	-13	36	189	179
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		48.4	0.0	-2	-3	-12	-8
Dollar index, (+) = $ appreciation		112.9	-0.2	3	4	20	18
Brent Crude Oil ($/barrel)		95.0	-1.2	4	2	14	22
VIX Index (%, change in pp)		33.1	0.7	4	10	13	16

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

This week, all eyes will be on US inflation prints, September PPI (Wednesday) and CPI (Thursday), after August's higher-than-expected reading dashed hopes of a nascent slowdown. Q3 corporate earnings will kick off this week, starting with the banking sector. Market participants will focus on outlooks from large-cap banks and FX headwinds. On the monetary policy front, the Bank of Korea will likely raise its rates by 25bps Wednesday, continuing its fight to rein inflation. The Banco Central de Chile will probably hike the rate by 25bps to 11% on the same day. Analysts see the end of Chile's tightening cycle is near, with already high-interest rates and declining activity. In the US, the minutes from the September FOMC meeting will be released on Wednesday, and there are several speaking engagements from Fed officials. Investors will be looking for a discussion regarding the bar for slower rate hikes to less than 75bps per meeting, whether in November or later.

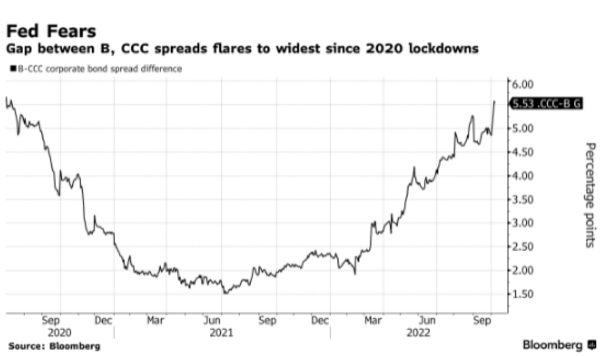
Mature Markets back to top

United States

Following the stronger-than-expected job report Friday, Treasury yields rose by 5 bps for their 10th consecutive weekly gain, the longest since 1984. The September report showed some signs of moderation in the hours worked and wages, but not enough for the Fed to want to come across as dovish at the November meeting, according to contacts. **Investors see a 75 bps hike in November as a *done deal*, with another increase of that size in December becoming a *real possibility*.** September CPI Thursday will likely show moderation in goods prices that may lead to a broader slowing in core inflation. But a contact sees the Fed is unlikely to respond to a sign of inflation moderation as long as labor markets remain tight. According to the Fed, US banks decreased their treasury and agency securities holdings to 19.83% of total assets as of September 28 from 20% the week before. **The bond market was closed Monday for Columbus Day, while Eurodollar 2024 futures implied rates rose 4-6 bps for the day.**

Equities fell 3.5%, and the US dollar index strengthened by 0.8% after the job report. According to Goldman Sachs analysts, the Fed's FRBUS model implies that a 10% increase in the dollar that decays over time will lower US GDP by 0.7% after two years, while a separate simulation suggests that each 1% hit to foreign GDP generates a 0.3% decline in US GDP. The Fed has sometimes adjusted monetary policy due to foreign spillovers when they have threatened to spill over to economic activity in the US. **Nevertheless, analysts see that recent comments from Fed officials suggest that they remain focused on taming domestic inflation and currently do not see spillovers as significant enough to require an adjustment to monetary policy.**

Investors brace for downgrades and default waves as the Fed stays hawkish. The gap between higher (B) and lower-rated (CCC) bonds widened by 68bps month to date, despite the overall high-yield index spread narrowing by 62bps, reflecting investors' concern over weak tail borrowers as funding costs surge and earnings weaken.



Japan

The yen traded in a tight range amid caution that Japanese authorities may intervene to stem depreciation. Japanese yen was little changed, staying at 145.7 yen per dollar. **PM Kishida indicated his support for the Bank of Japan (BOJ)'s ultra-loose monetary policy, mentioning that the BOJ still needs to maintain policy easing until wages rise.** FM Suzuki said that Japan has secured some understanding with other countries on its FX intervention last month. **Meanwhile, market chatter suggested that traders saw FX interventions as opportunities to buy yen/dollar at better prices.** The 10-year JGB yield edged up to 0.249% (+0.3 bp), while longer-end JGB yields rose (30-year: +7.5 bps). The BOJ's fixed-rate bond purchase amounted to 35 bn yen ($0.24 bn) today. Japanese equities declined (NIKKEI: -2.6%).

Europe

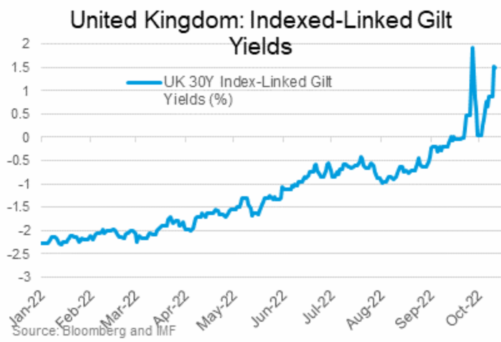
Equity markets are down, with the Stoxx Europe 600 and the FTSE 100 losing 1.2% each. The euro (-0.1% to 0.97) edged lower, while the British pound fell 0.2% (to 1.1 £/$).

United Kingdom

Gilt markets are relatively quiet this morning after the BOE unveiled a series of measures to calm the Gilt market yesterday and this morning. Gilt yields spiked yesterday (+30 bps to 4.68% for 30-yr gilts—the highest level since 2011), after the BOE announced several additional measures to support the market yesterday: 1) the BOE would double the size of its daily purchases in the context of its temporary bond buying program to £10bn until the end of the program on Friday (October 14); 2) the BOE launched a new Temporary Expanded Collateral Repo Facility (TECRF) to enable banks to help to ease liquidity pressures facing their client LDI funds through liquidity insurance operations, which will run on a daily basis until Thursday November 10; 3) The BOE announced that it would also stand ready through its regular Indexed Long Term Repo operations each Tuesday to support further easing of liquidity pressures facing LDI funds. **This morning, the BOE announced that 4) half of the £10bn daily purchase allocation in it temporary bond-buying program would be dedicated to the inflation index linked gilt market. The release said that *Dysfunction in this market, and the prospect of self-reinforcing "fire sale" dynamics pose a material risk to UK financial stability* ; 5) it is suspending its corporate bond sales for this week.** These measures have somewhat stabilized the gilt market this morning, with 10y gilts 5 bps lower at 4.4%, and 30y gilts yields broadly stabilizing at yesterday's closing level (4.66%). **This morning, the UK sold 900mn in March 2051 Index-linked Gilt bonds, at a real yield of 1.55% vs -0.58% on July 27, 2022.**

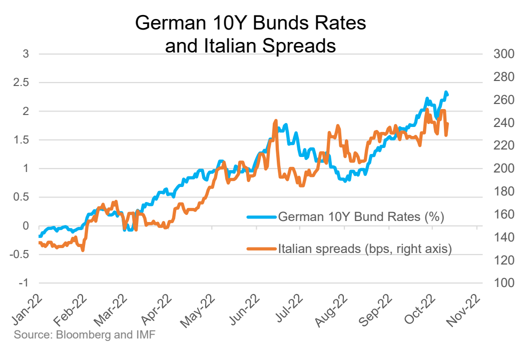
Analysts doubt that these measures can sustainably stabilize the gilt market. JP Morgan analysts said that the disruptive delivery of the *mini budget*, which started the bond sell-off, combined with still lingering uncertainty around the details and long-term sustainability of the longer term fiscal plans will leave a more permanent scar on GBP rate markets. **JP Morgan also added that the current state of the bond market is creating more uncertainty about whether the BoE still plans to end all bond purchases on 14th October. Analysts also point out that the decision to buy index-linked securities is unusual for the central bank, which only bought conventional gilts during previous rounds of quantitative easing.**

Yesterday, the Treasury has brought forward the date for the presentation of fiscal plan and economic forecasts by almost a month to Oct. 31. While analysts would have preferred an even earlier presentation, it could have a material bearing on how far the central bank chooses to raise rates at its next policy announcement on Nov. 3.



Euro Area

While yields on German bunds are broadly stable at 2.34%, Italian spreads rose 13 bps to 240 bps, after falling 21 bps yesterday on reports indicating that Germany was ready to support issuance of joint EU bonds to cushion the impact of the energy crisis in member states as along as the proceeds are disbursed to member states as loans and not as grants. There is conflicting information on the topic, with no clear confirmation or denial yet. **Bloomberg reported that Germany's U-turn on issuing joint bonds was linked to the criticism of Germany's proposed domestic gas price cap and €200 bn national aid plan, which details were announced yesterday, by other EU members, who said it could trigger economic imbalances in the bloc.** HSBC analysts pointed out that if confirmed, this could allow other countries to introduce similar measures without putting too much pressure on sovereign bond issuance and yields while at the same time allowing the ECB to tackle underlying inflationary pressures with more aggressive monetary policy tightening and, possibly, QT.



ECB governing council member and Dutch Central Bank governor, Klaas Knot said that the ECB should take at least two more *significant hikes* at its next two interest-rate meetings. He said that the ECB must finish the *normalization* of borrowing costs before it can turn its attention to discussing quantitative tightening. He doesn't expect QT to start before 2023.

Emerging Markets back to top

Asian equities declined, down 3.7% on net, with share prices falling in Taiwan Province of China (-4.4%), Vietnam (-3.5%), Hong Kong SAR (-2.2%), and Korea (-1.8%). Most Asian currencies depreciated, led by Korean won (-1.6%), Taiwan dollar (-0.7%), and Thai baht (-0.7%). The selloff of chip-related stocks in Asia (particularly, in China, Japan, Korea and Taiwan Province of China) continued following the recent U.S. restrictions on China's access to U.S. semiconductor technology; the equity selloff also put pressure on currencies. Long-end government bond yields increased, with 10-year yields rising in Taiwan Province of China (+13.7 bps) and Indonesia (+7.5 bps). **In Sri Lanka, the government denied that it sought to get a low-income country status (currently, middle-income) to benefit from concessionary financing**

from international organizations. Its 10-year government bond yield rose (+68 bps); Sri Lankan rupee depreciated (-0.5%).**Equities and currencies in EMEA remained under pressure with swap yields higher in several countries after headline inflation was higher than expected in the Czech Republic and Hungary.** The South African rand (-0.4%) is weaker as analysts warn that South Africa's industrial relations are heating up, with BNP expecting that Transnet will likely be forced to up its 4% wage offer (next mediation scheduled for 12 October). **Latin American equities slumped since last Thursday,** from -0.2% in Argentina to -2.2% in Chile and Peru. Currencies appreciated, most pronounced in Mexico (+0.8%), while the Colombian peso's implied volatilities continued to rise, as investor remain sensitive to ambivalent policy statements of president Petro. Following last Thursday's policy rate hike the Peruvian sol initially appreciated by 0.6% but retreated on Monday by 0.2%. Most of the region's local hard currency treasuries yield curves followed the direction of their US peer, climbing last Friday between 10 and 21 bps at the ten-year maturity.

EM Fund Flows and Hard Currency Debt Issuance

EM fund outflows intensified as EM assets underperformed, while weekly EM hard currency debt issuance surged. Outflows from EM bond funds remained sizeable (-$3.8 bn, -0.9% of assets), especially from funds with geographically diversified portfolios (-$3 bn), with local, hard, and blended currency segments all contributing. Equity funds attracted $0.7 bn (0.1% of assets), as institutional investors directed $0.9 bn to the sector, while retail investors continued to retreat in particular from mutual funds not traded on exchanges. Meanwhile hard currency debt issuance surged last week to a robust $10.8 bn, with sovereigns (Türkiye, Philippines, Estonia, and the Saudi Public Investments Fund) offering $8.4 bn, financial corporates $1.9 bn, and agencies an additional $0.5 bn.

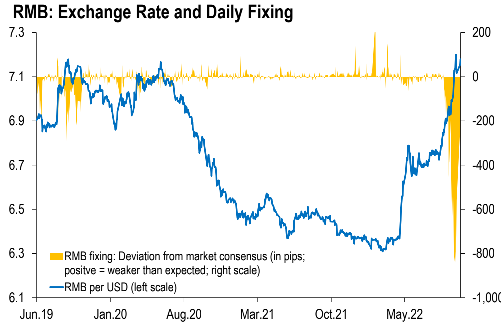
Hong Kong SAR

U.S. officials warned Hong Kong SAR authorities that assisting sanctioned individuals could threaten Hong Kong SAR's status as a financial hub. The warning came after a yatch linked to a Russian oligarch under U.S. sanctions docked in the city's harbor. Chief Executive John Lee said that the Hong Kong SAR would comply with the United Nations' measures but would not act on measures impsoed by individual countries. Separately, some Russian firms reportedly are exploring to move some operations, including fund-raising activity, to Hong Kong SAR. Some law firms have been approached by Russian firms; the key question is whether Hong Kong-based financial institutions would be willing to deal with Russian firms given the threat of financial sanctions. Hong Kong dollar remained at the weak side of the convertibiltiy band as expected, with no change in the Aggregate Balance (i.e, no interventions). Short-selling activity on stocks listed in Hong Kong SAR reached a fresh record, with the turnover in short positions accounting for 25% of total. Hong Kong equities declined (-2.2%), driven by Chinese stocks (-2.6%).

China

Chinese equities gained onshore but declined in the Hong Kong SAR market (CSI 300: +0.2%; Hong Kong SAR-listed: -2.6%), while RMB depreciated (-0.3%). The selloff of tech stocks continued. Market sentiment was dampened by the recent U.S. restrictions on China's access to U.S. semiconductor technology and Beijing's endorsement of zero COVID policy. The People's Bank of China (PBC) continued to set the daily RMB fixing stronger than expected (today: 300 pips). The PBC also withdrew interbank liquidity in an amount of 60 bn yuan ($8.4 bn) as quarter-end liquidity pressure eased. The key interbank repo rate (DR007) was at 1.5%, well below the policy rate at 2.0%. CGB yields rose (1-year: +1.4 bps; 10-year: +2.3 bps).

RMB: Exchange Rate and Daily Fixing



Central Banks in EMEA

With the notable exception of Poland, EMEA central banks continued to hike rates last week, often more than expected. Romania hiked 75 bps to 6.25% (50 bps expected); Serbia hiked 50 bps to 4% (25 bps expected); Ghana hiked 250 bps to 24.5% (150 bps expected), and Uganda hiked 100 bps to 100% (in line with expectations). Last week, Poland left rates at 6.75%, when the market expected a 25-bps hike. The governor later clarified in the press conference that this was a pause rather than an end to the hiking cycle.

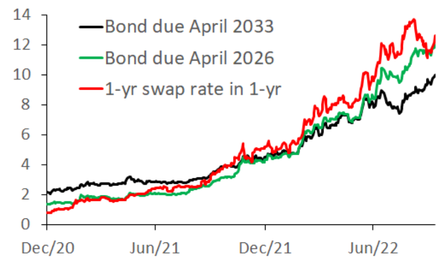
Czech Republic

Swap rates are 12-15 bps higher after headline inflation rose to 18% yoy (17.2% yoy expected) or 0.8% mom (0.2% mom expected). On 29 September, the Czech National Bank left rates unchanged at 7.0% for the second straight meeting. The next meeting is 3 November.

Hungary

Local yields are higher and the forint (-0.4%) underperformed after headline inflation rose to 20.1% yoy (19.8% yoy expected) or 4.1% mom (3.3% mom expected) in September. The National Bank of Hungary (NBH) hiked rates 125 bps to 13% (versus 100 bps expected) in September and said that its 16-m tightening cycle had come to an end, but contact believe that further hikes are likely. **Last week, the central bank of Hungary started draining liquidity from the banking system mainly via 2-m deposits at an average spread of 1.14% over the 1-week base rate of 13%.**

Hungary: Local currency bond yields (%)



Source: Bloomberg and IMF staff

Latin American Inflation

Inflationary dynamics appear to persist despite some softening headline prints. September's inflation printed at 8.7% y/y (0.62 m/m) in Mexico and at 13.7% y/y (0.9% m/m) in Chile. Annual rate prints remained slightly below expectations and were flat (Mexico) or 40 bps lower than in August (Chile). Food price inflation remains a major driver, but core inflation also continued to push headline figures. Meanwhile, September's economist survey of the Argentine central bank pointed to accelerating inflation expectations, with 12-months-ahead-inflation now projected to 94.1%, up from 90.5% in August. On Monday the weekly print for inflation in Brazil's major cities came in at 0.26% m/m, exceeding the 0.12% m/m expected and the 0% seen the week before.

This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (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), Mohamed Diaby (Economist, EP), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

Global Financial Indicators

Last updated: 10/11/22 1:38 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		3612	-0.7	-5	-11	-17	-24
Europe		3346	-0.3	-4	-6	-18	-22
Japan		26401	-2.6	1	-8	-6	-8
China		2980	0.2	-4	-9	-16	-18
Asia Ex Japan		58	-1.6	-1	-12	-31	-29
Emerging Markets		35	-1.4	-1	-10	-31	-28
Interest Rates					basis points		
US 10y Yield		3.90	1.5	26	59	228	239
Germany 10y Yield		2.30	-4.1	43	60	242	248
Japan 10y Yield		0.25	0.2	3	0	16	18
UK 10y Yield		4.42	-5.5	54	132	323	345
Credit Spreads					basis points		
US Investment Grade		186	3.8	3	22	93	74
US High Yield		519	13.2	1	50	191	181
Europe IG		136	0.8	12	32	83	88
Europe HY		652	3.3	63	143	383	410
Exchange Rates					%		
USD/Majors		112.91	-0.2	3	4	20	18
EUR/USD		0.97	0.3	-3	-4	-16	-14
USD/JPY		145.6	-0.1	1	2	28	26
EM/USD		48.4	0.0	-2	-3	-12	-8
Commodities					%		
Brent Crude Oil ($/barrel)		95	-1.2	4	2	14	22
Industrials Metals (index)		146	-0.7	-2	-4	-14	-16
Agriculture (index)		69	-0.3	1	0	20	14
Implied Volatility					%		
VIX Index (%, change in pp)		33.1	0.7	4.1	10.3	13.1	15.9
US 10y Swaption Volatility		158.8	6.1	4.8	30.7	85.4	79.8
Global FX Volatility		12.6	0.0	0.6	1.4	5.7	5.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		264	8.6	-14	5	159	112
Italy		238	7.9	7	6	134	103
Portugal		107	3.5	2	2	55	43
Spain		115	1.2	-1	-1	52	41

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

Emerging Market Financial Indicators

Last updated: 11/10/2022 1:40 PM	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		7.16	-0.1	-0.6	-3	-10	-11		2.8	0.3	-3	10	-23	-1
Indonesia		15358	-0.3	-0.7	-3	-7	-7		7.4	7.7	10	20	112	99
India		82	0.0	-1.0	-3	-8	-10		6.3	0.0	0	9		0
Philippines		59	0.2	-0.3	-3	-14	-13		5.8	0.0	0	13	155	128
Thailand		38	-0.3	-1.6	-5	-12	-13		3.2	-1.0	17	46	134	137
Malaysia		4.67	-0.5	-0.6	-4	-11	-11		4.4	6.4	8	41	78	86
Argentina		149	-0.2	-1.4	-6	-34	-31		88.7	0.0	358	1020	3974	3809
Brazil		5.21	-0.3	-0.6	-2	6	7		11.6	-4.5	6	0	51	89
Chile		940	-0.2	-0.9	-4	-12	-9		6.8	0.0	5	19	68	135
Colombia		4611	0.2	-1.7	-5	-18	-12		10.3	0.0	45	60	365	387
Mexico		19.96	0.1	0.0	-1	5	3		9.3	3.5	7	49	172	174
Peru		4.0	-0.1	-0.1	-3	3	1		8.6	0.2	-5	38	269	274
Uruguay		41	-0.3	0.3	-1	6	8		11.4	0.0	4	8	351	269
Hungary		441	-0.3	-4.8	-11	-30	-26		10.4	29.0	70	99	683	592
Poland		5.00	0.2	-3.6	-7	-21	-19		7.1	12.0	46	133	445	353
Romania		5.1	0.2	-2.6	-4	-16	-14		8.6	7.1	9	54	440	377
Russia		64.3	-0.8	-7.4	-6	12	17		9.2	5.0	4	102	139	47
South Africa		18.1	0.0	-2.5	-5	-17	-12		9.5	-1.8	17	56	163	207
Turkey		18.58	-0.1	0.0	-2	-52	-28		12.6	30.0	78	126	-646	-1169
US (DXY; 5y UST)		113	-0.2	2.6	4	20	18		4.13	-1.4	27	69	307	287

	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		3728	0.2	-4	-9	-24	-25		196	2	-10	-16	-7
Indonesia		6939	-0.8	-2	-4	7	5		200	-10	13	17	35
India		57147	-1.5	1	-5	-5	-2		190	6	26	39	58
Philippines		5847	0.3	-2	-13	-18	-18		161	4	22	36	60
Malaysia		1387	-1.4	-1	-7	-12	-12		111	3	13	-22	-6
Argentina		144645	-1.4	5	3	87	73		2811	-4	454	1247	1131
Brazil		115941	-0.4	0	3	3	11		301	-8	-1	-1	-10
Chile		5080	0.0	-1	-9	23	18		189	-8	9	34	49
Colombia		1199	-0.8	0	-2	-15	-15		461	0	37	171	113
Mexico		45457	-0.6	0	-3	-12	-15		447	-29	27	97	115
Peru		19931	-0.9	0	2	2	-6		223	-6	24	54	73
Hungary		38969	-0.3	-2	-5	-28	-23		312	-6	61	196	188
Poland		46561	1.0	-3	-8	-37	-33		61	-2	19	37	29
Romania		10702	-1.5	-3	-10	-16	-18		352	-26	40	150	159
Russia		1939	1.1	-5	-20	-55	-49		3411	-577	938	3228	3234
South Africa		64662	-0.2	-2	-6	-2	-12		464	-28	16	103	109
Turkey		3602	0.6	4	2	154	94		620	6	-21	129	42
Ukraine		519	0.0	0	0	-1	-1		3869	37	-47	3350	3110
EM total		35	-1.0	-1	-10	-31	-28		459	-8	20	85	72

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

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