



- Long-end UK gilt yields soar following BoE communication ([link](#))
- US investigates whether Credit Suisse continues aiding tax evasion ([link](#))
- ECB's Villeroy outlines plan for cautious and flexible tightening ([link](#))
- Japanese yen falls to level that triggered last FX intervention ([link](#))
- Bank of Korea raised its policy rate by 50 bps to 3.0% as expected ([link](#))
- Measures of term premia higher in Hungary and Poland ([link](#))
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## UK bond markets in focus ahead of US inflation data

Investors are waiting for US inflation tomorrow as developments in the UK continue to dominate headlines in Europe. Yields on long-dated UK bonds are sharply higher—with 30-yr gilt yields trading above 5%—after the Bank of England (BoE) denied that it could extend the deadline on its emergency bond-buying program. Yesterday, BOE governor Bailey said that the BOE temporary bond-buying program would not be extended past Friday. Meanwhile, UK activity decelerated more than anticipated in August. Banque de France governor Villeroy outlined a plan for cautious and flexible tightening, and shared views on QT. In currency markets, the Japanese yen fell to the level that triggered the last FX intervention. The Chinese renminbi was little changed as the People's Bank of China continued to set the daily fixing stronger than expected and downplayed FX interventions.

Key Global Financial Indicators

Last updated: 10/12/22 1:07 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3589	-0.7	-5	-13	-18	-25
Eurostoxx 50		3344	0.1	-3	-8	-18	-22
Nikkei 225		26397	0.0	-2	-8	-6	-8
MSCI EM		35	-1.6	-6	-13	-31	-29
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.96	1.7	21	61	239	245
Germany 10y Yield		2.38	8.6	35	73	247	256
EMBIG Sovereign Spread		558	12	15	67	200	191
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		48.3	-0.1	-2	-4	-12	-8
Dollar index, (+) = \$ appreciation		113.2	0.0	2	5	20	18
Brent Crude Oil (\$/barrel)		94.7	0.5	1	1	14	22
VIX Index (% change in pp)		33.4	-0.2	5	10	14	16

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

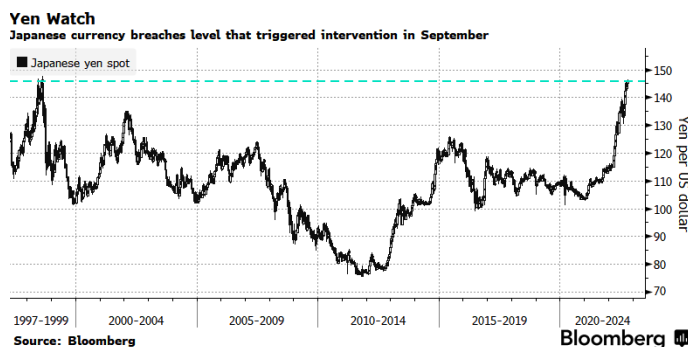
This morning, September headline PPI data were hotter than expected: **+0.4%mom (vs. +0.2% consensus) or +8.5%yoy (vs. +8.4% consensus)**. Core PPI was marginally lower than expected, +0.3%mom (+0.3% consensus) corresponding to +7.2%yoy (vs. +7.3% consensus). Treasury yields rose 3 bps across the tenors on the data, and the dollar firmed 0.2% against the euro.

**Yesterday, equities (-0.7%) closed lower after a volatile session. VIX rose by 1.2% to 33.7, the highest since mid-June.** Corporate bond spreads are also wider. Treasury 10-year yields rose 5 bps, and the dollar little changed. September NFIB small business optimism index improves for a third straight month, although it remains weak by historical standards.

**The US Justice Department is investigating whether Credit Suisse Group helped US account holders, particularly with South American passports, hiding assets from authorities.** The bank paid a \$2.6 bn tax-evasion settlement eight years ago and pledged to address the issue. The Senate Finance Committee is also preparing a report discussing how the bank vetted dual citizens in the coming weeks. The bank's share price was 4.5% lower for the day, and the 5-yr CDS spread widened by 17bps to 322 bps.

### Japan

**The yen (-0.3%) fell to the level that triggered the last FX intervention, touching 146.4 yen per dollar.** Market participants debated whether this was extreme enough for Japanese authorities to intervene again. **The rise in U.S. treasury yields this week further widened the interest rate differentials, putting pressure on Japanese yen.** Some analysts noted that the case for FX interventions looks less compelling at the moment as one-week historical volatility of Japanese yen is at the lowest level since March. **The 10-year JGB yield edged up to 0.25% (+0.1 bp), while longer-end JGB yields rose (30-year: +3.9 bps).** Market functioning is a key concern as benchmark 10-year JGBs failed to trade for four straight days. Market participants noted that it is difficult for investors to hold 10-year JGBs as the yield curve control makes it expensive relative to other parts of the curve. Bloomberg's gauge of Japan's bond market liquidity indicated the worst liquidity situation since 2011. **Core machine orders declined 5.8% m/m in August, larger than expected (consensus: -2.8%).** Equities were little changed.



### New Zealand

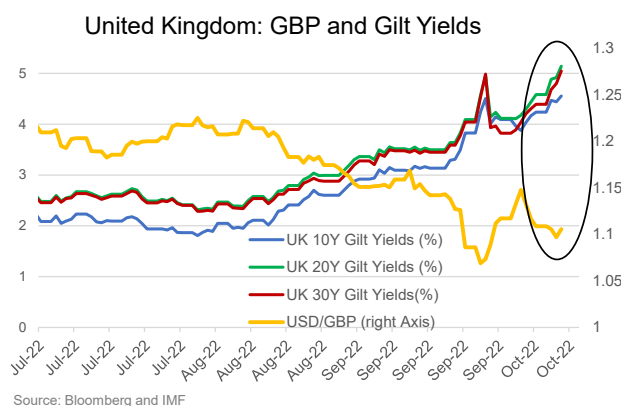
**The Reserve Bank of New Zealand (RBNZ) sees little need to amend its 1–3% inflation target.** In a report to Finance Minister, the RBNZ said that there are arguments for and against lifting or lowering the inflation target. However, it does not see a strong case for change. The key consideration is around the interaction of the inflation target with the effective lower bound, which a higher target would help avoid the risk of policy reaching the effective lower bound. The RBNZ intends to consult on the issue ahead of a

review of its monetary policy remit. Furthermore, the RBNZ is considering whether house price sustainability should be retained in the remit. New Zealand dollar appreciated (+0.2%) as traders bought New Zealand dollar against Australian dollar; 10-year government bond yield increased (+5.7 bps).

## United Kingdom

**UK bond markets remain volatile as traders struggle to digest the BOE's readiness to extend support to the pension industry and gilt market.** Last night in Washington DC, BOE governor Bailey ruled out an extension to the emergency bond-buying program saying *My message to the funds involved and all the firms is you've got three days left now,—You've got to get this done*. This came after several market participants had voiced doubt that markets will be stabilized enough for the BOE to stop its temporary purchase program on Friday. **In particular, the Pensions and Lifetime Savings Association published a [statement](#) saying that the BOE's bond-buying interventions should be extended until the end of October and even beyond.** As result, the pound immediately lost more than 1% to the dollar (gilts markets were closed). The pound rallied back this morning as the FT reported that BOE officials had privately indicated to bankers, before BOE governor Bailey's speech, that the temporary bond buying program could be extended past this Friday's deadline. Bloomberg then reported that a BOE spokesperson indicated this morning that the BOE will indeed end the bond buying program on Friday. The market has not reacted strongly to this denial, suggesting that it is now very weary of BOE's communication. BOE MPC members Haskel, Mann and Pill are expected to speak later today.

**In this context, gilt yields continue to increase sharply.** Yields on 10y gilts are up 9 bps to 4.5%, just shy of Italian yields (4.8%). Pressure continues on long term yields, with yields on 30y gilt yields up 25 bps to 5.05%, above the 5% level which prompted BOE intervention on September 28. Real yields on 30y index-linked bonds are up 6 bps to 1.61%, a level not seen in a decade.



**At the same time, activity decelerated more than anticipated in August, further complicating the BOE's task of responding simultaneously to high inflation, decelerating growth and financial stability.** Monthly GDP data for August came in at -0.3% yoy, when consensus expected a flat reading. Industrial and manufacturing production in August were also negative and lower than expected. Industrial production fell to -1.8% mom (-0.1% expected), or -5.2% yoy (0.6% expected) and manufacturing production fell to -1.6% mom (-0.1% expected) or -6.7% yoy (+1.1% expected).

## Euro area

**In the eurozone, the Stoxx Europe 600 is up 0.4%, and the euro is broadly flat to the dollar at 0.97euro/\$.** Bond yields are up, with yields on 10 bunds up 7 bps to 2.36%. Italian spreads are up 3bps to 241 bps.

**ECB's Villeroy outlines a plan for cautious flexible tightening.** He said that the ECB should get rates to near a 2% by year end with sharp increases before taking a more flexible approach and possibly slower pace based on a precise economic assessment. The ECB could potentially be embarking on a cautious shrinking of its balance sheet at a later stage, once rates are above neutral. He said that the ECB must not let fears of recession derail its plans to get rates to a neutral setting, of a bit less than 2%. **ECB president Lagarde will speak later today.**

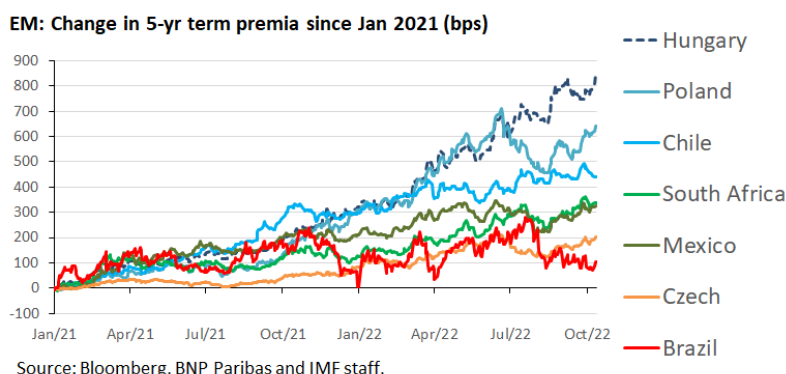
**European Union energy ministers will be looking at ways to cap the price of gas used in electricity generation in the euro area, in order to decouple the electricity and gas prices, possibly by looking at the models used in Spain and Portugal.** Some countries, including Germany are reportedly skeptical, fearing a cap could spur electricity demand at a time when savings are needed. Bloomberg reports that there could also be discussion about regional gas procurement. The proposals could be signed off at the EU summit in Brussels on October 20-21.

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**Asian equities and currencies were mixed.** Share prices rose in China (CSI 300: +1.5%) but dropped in Hong Kong SAR (-0.8%) and Singapore (-0.7%). Korean won appreciated (+.7%), while the Malaysian ringgit depreciated (-0.2%). Long-end government bond yields increased in some markets, with 10-year yields rising in the Philippines (+4.0 bps) and Thailand (+3.4 bps). **In Vietnam, equities rebounded (+2.8%) as a run on a bank appears to have stabilized.** **In EMEA, markets are relatively calm as focus is turning to US inflation data tomorrow.** Romanian equities and the currency were steady as headline inflation unexpectedly rose to 15.9% yoy (15.4% expected) or 1.3% mom (0.9% mom expected). Industrial production disappointed in Turkey, expanding 2.4% mom (3% expected) in August with the current account deficit at \$3.2 bn. **In Latin America, assets followed the global risk-off mood:** equities recorded losses in Argentina (-5.3%), Chile (-1.8%), Colombia (-1.5%), and Brazil (-1%), while currencies depreciated in Brazil (-2%), Argentina (-1%), and Mexico (-0.6%). Mexican stocks (see below) and the Chilean peso bucked the trend, with the latter potentially receiving support from markets positioning for a 40 bps policy rate hike priced for later today. The region's foreign currency treasury yield curves shifted higher, with the Peruvian curve overshooting (+12 bps at 10-yr maturity) while prosecutors continued investigations against several persons with close relations to the president.

### Term Premia in Emerging Markets

**Regional differences in term premia across emerging markets remain stark even as US term premia have been relatively stable, with some countries hiking key rates earlier and more aggressively in response to inflationary pressures.** In recent weeks, term premia have risen noticeably in Hungary and Poland as contacts express concern about upside surprises to regional inflation releases.

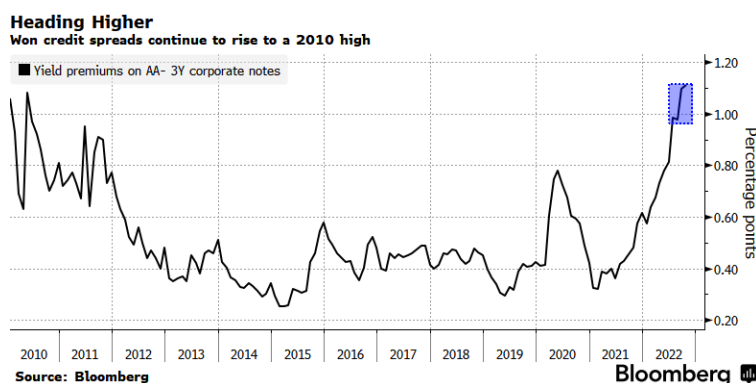


## China

**Equities declined in the Hong Kong SAR market (-0.6%) while rising onshore (CSI 300: +1.5%) amid a volatile trading session.** Market sentiment was dampened as Beijing doubled down on the zero COVID policy; however, bargain hunters helped drive a rebound in the afternoon session. RMB was little changed. The People's Bank of China (PBC) continued to set the daily RMB fixing stronger than expected (today: 647 pips). **The PBC downplayed FX interventions.** The PBC said that China has exited from regular FX interventions. RMB is now largely determined by markets, enabling greater monetary policy independence. **The PBC also indicated that it has kept the RMB fixing mechanism market-oriented, with transparent rules since October 2020; banks no longer use the countercyclical factor which would keep the fixing stronger than the formula amid currency depreciation.** This seems consistent with evidence that the difference between the actual fixing and the consensus estimate remains sizeable. **The PBC continued withdrawing liquidity;** today's withdrawal amounted to 65 bn yuan (\$9.1 bn). The key interbank repo rate (DR007) edged up slightly to 1.52% (+1.9 bps) but remained well below the policy rate at 2.0%. CGB yields were mixed (1-year: +2.3 bps; 10-year: -1.5 bps).

## Korea

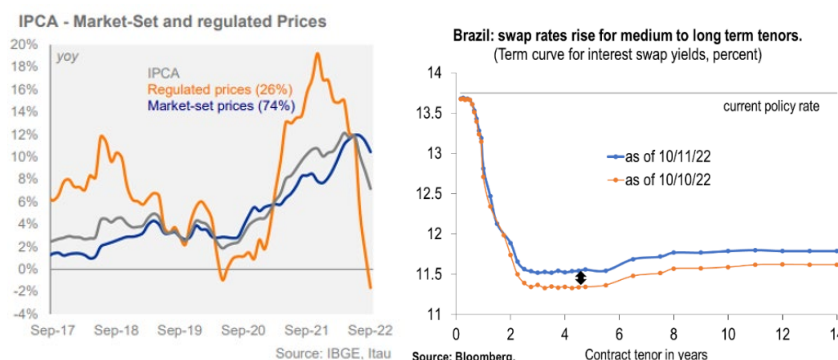
**The Bank of Korea (BOK) raised the 7-day repo rate by 50 bps to 3.0% as expected.** Governor Rhee acknowledged that Korean won depreciation was a major factor in today's policy decision; in particular, the depreciation could delay the timing of inflation stabilization. He highlighted that the BOK does not target Korean won at specific levels but closely monitors currency volatility. **Contacts believe that the policy meeting sent a dovish tone.** There were two dovish dissents among the committee members who voted for a 25-bps rate hike, and Governor Rhee mentioned that the committee broadly sees the terminal rate at 3.5%. The 2-year IRS rate dropped (-15.0 bps), while Korean won appreciated (+0.7%). Korean equities gained (+0.5%) as tech stocks in the region recovered after the selloff earlier this week. **Governor Rhee also noted that a recent surge in domestic credit spreads was driven by tighter liquidity** as a result of higher interest rates rather than increased credit risks. Government agencies have developed contingency plans in the event credit markets become under stress.



## Brazil

**Local swap rates rose on slightly-higher-than-expected inflation print.** After Monday's upward surprise in urban inflation, September's headline inflation for the entire country came in 5 bps above expectations at 7.17% y/y (-0.29 m/m). Declining prices in the transportation and communication sectors acted as main drivers for the continued softening of inflation, but food items contributed as well, widening price declines beyond the sphere of regulated prices. The country's interest rate swap rates reacted with increases over the medium to long run (up to 20 bps) as traders' bet on more optimistic expectations was disappointed by the print as the labor market is increasingly tight and fuel prices are expected to increase.





## Mexico

**A still expansionary 8.2% y/y September print in sales realized in stores existing since at least one year may have helped Mexican stocks yesterday to outperform their regional peers.** Meanwhile volatilities on Brent oil put contracts with tenors over the next half year rose and the spread between December Brent crude futures for 2022 and 2023 fell, as Mexico reportedly started to place its oil price hedge for the production of the first half of 2023 at a level of \$75 per barrel.








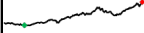




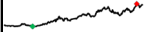





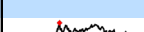


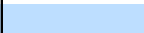



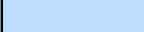


## Argentina

**Equities dropped 5.3% after Monday's market holiday**, digesting the latest cabinet reshuffle, new levies on credit card purchases abroad, and a -3.5% y/y slump in sales of September SME retail stores reported by the industry association CAME. Argentina's 5-year CDS spread widened by 73 bps to 1826 bps, while the country's dollar bond maturing in 2030 fell 0.25 cents to 19.83 cents on the dollar.

*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.*

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## Global Financial Indicators

Last updated: 10/12/22 1:08 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3598	-0.7	-5	-12	-17	-25
Europe		3344	0.1	-3	-8	-18	-22
Japan		26397	0.0	-2	-8	-6	-8
China		3026	1.5	-1	-7	-15	-17
Asia Ex Japan		57	-1.6	-6	-14	-32	-30
Emerging Markets		35	-1.6	-6	-13	-31	-29
Interest Rates			basis points				
US 10y Yield		3.96	1.5	21	60	238	245
Germany 10y Yield		2.39	8.7	35	73	247	256
Japan 10y Yield		0.26	0.2	0	1	16	19
UK 10y Yield		4.54	9.2	50	145	339	356
Credit Spreads			basis points				
US Investment Grade		189	0.3	8	26	100	77
US High Yield		528	0.6	21	67	197	190
Europe IG		135	0.8	8	31	82	87
Europe HY		644	2.1	37	136	373	402
Exchange Rates			%				
USD/Majors		113.23	0.0	2	5	20	18
EUR/USD		0.97	0.0	-2	-4	-16	-15
USD/JPY		146.6	0.5	1	3	29	27
EM/USD		48.3	-0.1	-2	-4	-12	-8
Commodities			%				
Brent Crude Oil (\$/barrel)		95	0.5	1	1	14	22
Industrials Metals (index)		145	-0.6	-4	-7	-15	-16
Agriculture (index)		69	-0.4	0	-3	20	13
Implied Volatility			%				
VIX Index (% change in pp)		33.4	-0.2	4.9	9.5	13.6	16.2
US 10y Swaption Volatility		162.3	1.0	5.9	34.2	86.6	83.3
Global FX Volatility		12.7	0.0	0.5	1.8	5.6	5.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		263	-0.5	-4	9	161	112
Italy		245	7.1	1	14	144	110
Portugal		108	0.7	0	4	58	44
Spain		117	0.6	-3	3	55	43

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

## Emerging Market Financial Indicators

Last updated: 12/10/2022 1:10 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		7.17	0.0	-0.8	-3	-10	-11		2.8	-1.8	-5	9	-24	-3		
Indonesia		15357	0.0	-1.1	-3	-7	-7		7.4	-0.6	16	22	113	98		
India		82	0.0	-1.0	-3	-8	-10		6.3	0.0	0	9		0		
Philippines		59	-0.2	-0.5	-4	-14	-14		5.8	0.0	0	13	155	128		
Thailand		38	0.2	-1.5	-5	-12	-13		3.2	-3.0	10	43	136	134		
Malaysia		4.68	-0.2	-1.1	-4	-11	-11		4.4	-0.5	9	37	81	83		
Argentina		151	-1.0	-1.4	-6	-34	-32		88.2	-49.2	258	970	3925	3760		
Brazil		5.30	-2.1	-2.4	-4	4	5		#####	#####	#####	#####	#####	#####		
Chile		923	0.5	1.8	-3	-11	-8		6.8	0.5	7	25	69	141		
Colombia		4607	0.1	-2.4	-5	-18	-12		10.5	0.0	56	83	388	410		
Mexico		20.05	0.1	0.1	-1	4	2		9.3	0.0	17	70	176	180		
Peru		4.0	-0.3	-0.6	-3	2	1		8.7	1.0	-1	62	291	279		
Uruguay		41	0.2	0.0	-1	6	9		11.4	-4.6	10	4	347	265		
Hungary		443	-0.1	-3.6	-11	-29	-27		10.4	1.0	52	98	677	591		
Poland		4.99	0.1	-2.3	-7	-20	-19		7.3	13.5	43	151	453	372		
Romania		5.1	0.0	-1.9	-5	-16	-14		8.9	28.7	51	83	466	406		
Russia		64.6	0.3	-5.9	-6	11	16		9.4	17.0	52	119	152	64		
South Africa		18.2	-0.2	-2.4	-6	-18	-13		9.6	3.0	15	63	178	214		
Turkey		18.59	-0.1	-0.1	-2	-51	-28		12.7	6.0	74	135	-660	-1159		
US (DXY; 5y UST)		113	0.0	1.8	5	20	18		4.18	0.5	21	73	310	291		

	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		3784	1.5	-1	-8	-23	-23		200	-3	-3	-11	-3		
Indonesia		6909	-0.4	-2	-6	6	5		214	3	38	30	49		
India		57626	0.8	-1	-5	-5	-1		196	0	36	46	64		
Philippines		5854	0.1	-2	-13	-17	-18		170	6	40	44	69		
Malaysia		1381	-0.5	-2	-7	-14	-12		112	2	15	-21	-5		
Argentina		136982	-5.3	-2	-5	76	64		2828	111	502	1244	1148		
Brazil		114827	-1.0	-1	1	2	10		306	12	17	5	-5		
Chile		4989	0.0	-5	-11	22	16		193	14	24	37	53		
Colombia		1181	-1.5	-3	-4	-15	-16		480	57	79	193	132		
Mexico		45793	0.7	-1	-4	-12	-14		451	9	41	102	119		
Peru		19830	-0.5	-2	1	0	-6		229	21	42	62	79		
Hungary		38935	0.6	-1	-6	-29	-23		320	19	98	206	196		
Poland		46013	-0.4	-2	-10	-38	-34		64	-3	38	40	32		
Romania		10656	-0.1	-3	-10	-16	-18		362	23	64	161	170		
Russia		1967	0.9	-3	-20	-54	-48		3411	-577	938	3228	3234		
South Africa		64801	0.3	-1	-7	-2	-12		475	7	64	115	120		
Turkey		3557	-0.4	2	-3	151	91		624	16	19	128	46		
Ukraine		519	0.0	0	0	-1	-1		3907	39	79	3391	3148		
EM total		35	1.4	-6	-13	-31	-29		468	21	50	94	82		

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

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