GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, OCTOBER 13, 2022

- **US CPI exceeds forecasts** (link)
- **Long end gilts rally as BOE increases bond purchases** (link)
- **China property developers back in focus** (link)
- **Nigeria discusses debt restructuring** (link)
- **Investor sentiment turns more bullish** (link)
- **Higher funding costs push tech stocks lower** (link)

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Markets focus on US CPI

Global markets were rattled by higher than expected US CPI data, with interest rates sharply higher. Earlier, stocks in Europe posted modest gains and yields were little changed. US equity futures were higher this morning after the S&P 500 marked six consecutive days of losses. The index has fallen in 17 of the last 21 trading sessions and is now deep in bear market territory, with yesterday's close marking the low point for the year. Meanwhile, the FOMC minutes confirmed that the Fed intends to stay on course with its rate hikes. In the UK, the gilt market showed tentative signs of recovery after the BOE increased its bond purchases, but uncertainty remains high as the central bank is due to end its support of the gilt market tomorrow. ECB officials discussed future policy options relating to winding down its various support programs. China's property developers are back in focus as an important state aided company missed a coupon payment. Nigeria became the latest country to discuss debt restructuring as the dollar continues to surge and interest rates push higher.

Key Global Financial Indicators

Last updated: 10/13/22 8:02 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities				%			%	
S&P 500		3577	-0.3	-5	-9	-18	-25	-15
Eurostoxx 50		3360	0.9	-2	-6	-18	-22	-15
Nikkei 225		26237	-0.6	-3	-6	-8	-9	-1
MSCI EM		35	0.1	-5	-10	-32	-29	-27
Yields and Spreads				bps				
US 10y Yield		3.85	-3.2	4	46	233	235	186
Germany 10y Yield		2.24	-6.8	16	52	237	242	201
EMBIG Sovereign Spread		567	9	19	87	203	200	154
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		48.3	0.2	-2	-3	-12	-8	-9
Dollar index, (+) = $ appreciation		112.7	-0.5	0	3	20	18	17
Brent Crude Oil ($/barrel)		92.8	0.3	-2	0	12	19	-4
VIX Index (%, change in pp)		33.6	-0.1	3	6	15	16	3

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

US CPI data for September came in higher across the board, confirming the negative trend set by yesterday's PPI data. The market reaction was immediate and dramatic, with Treasury yields shooting upwards and pushing the benchmark 10-year yield close to the psychologically important 4% level. The impact on the two-year yield was especially significant as it went from 4.25% to 4.45% after the data.

US CPI Report, 8.30 am
Source: Bloomberg

Variable	Consensus Forecast	Actual Data Print
CPI month-on-month	0.2%	0.4%
Core CPI mom	0.4%	0.6%
Annualized CPI	8.1%	8.2%
Annualized Core CPI	6.5%	6.6%

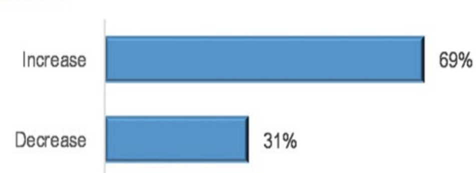
The FOMC minutes showed that the Fed intends to stay on course with its program of rate hikes, ending any last hopes for a dovish pivot. *Many participants emphasized that the cost of taking too little action to bring down inflation likely outweighed the cost of taking too much action. Several participants underlined the need to maintain a restrictive stance for as long as necessary, with a couple of these participants stressing that historical experience demonstrated the danger of prematurely ending periods of tight monetary policy designed to bring down inflation.* The minutes appeared to hold no surprises for markets, with equities and Treasuries rallying and the dollar weakening immediately following the news, although they gave back the gains by the end of the session. The markets expect a 75 bs hike at the November 2 FOMC meeting and a 50 bps hike at the December 14 meeting, with a final 25 bps hike at the February 2 meeting. The market also expects the Fed to deliver the first rate cut some time in H2 2023.

The latest JP Morgan survey shows that risk sentiment among investors is starting to turn more bullish. A small majority now say that they are likely to increase their equity exposure in the near future, a much higher proportion than previous surveys. This is despite the fact that 67% of investors report that their equity allocations are below the 50th percentile compared to their previous history. As US markets have fallen into bear market territory, buyers may start to reemerge. Recent data shows that equity buying by corporate insiders has significantly increased in volume, which many view as a very positive development. On the fixed income front, the picture is even brighter as a large majority is bullish on interest rate risk, finding that 69% intend to increase their exposure. With the 10-year yield within striking distance of 4% and the two-year yield close to 4.30%, investors are seeing value return to the fixed income space. The forward Treasury curve shows that markets expect the 10-year yield to hold fairly steady over the next three to six months.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

Source: J.P. Morgan.

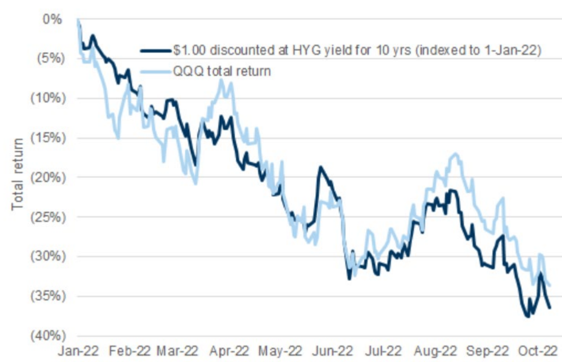
Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



Source: J.P. Morgan.

Higher funding cost is a key driver of the sharp decline in the valuations of large technology stocks. Analysis by Goldman finds that the sharp selloff in the big technology stocks is highly correlated with the rising cost of capital. As a cost of capital measure, the analysts used the average yield of the US high yield corporate bond index, proxied by the very widely traded iShares iBoxx High Yield Corporate ETF with the ticker HYG and compared it to the Nasdaq 100 index of the largest technology stocks. Recent history shows that the two variables have moved very closely together. They conclude that the poor performance of these stocks is largely driven by the rise in interest rates and credit spreads rather than the fundamentals of their business models. Consensus forecasts for corporate earnings are down by 6% over the past six months, building in a lot of the bad news and potentially setting the stage for positive earnings surprises. With interest rates seen as close to the peak for the current cycle, technology stocks may be in for a bit of a rebound. However, if investors are wrong and there is decisive break higher in interest rates, markets could be in for a great deal more pain.

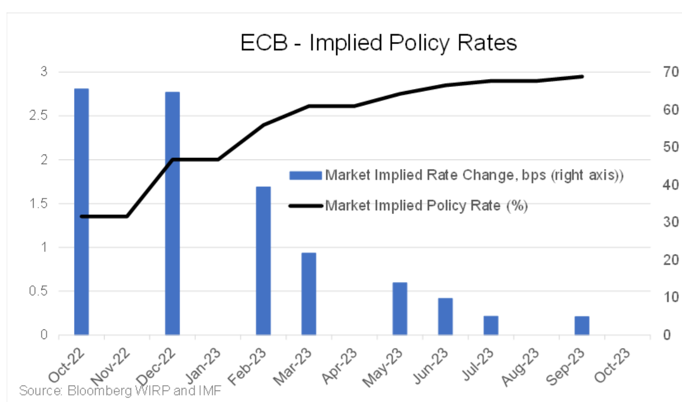
Exhibit 4 : Tech stocks and HY borrowing costs remain highly correlated
NASDAQ 100 vs $1 cashflow discounted at HYG yield



Source: Goldman Sachs Global Investment Research, Bloomberg

Euro Area

Austrian governor Holzmann and Dutch governor Klaas Knot both said that the ECB needs at least two more significant interest rates hikes to reach a neutral level. Holzmann specified that the ECB can get there by the end the year if it hikes by a total of 125 basis points at its next two meetings, with an increase of 75 bps in October, and either 75 or 50 bps in December. He remarked that market pricing for ECB rate hikes was *spot on*.

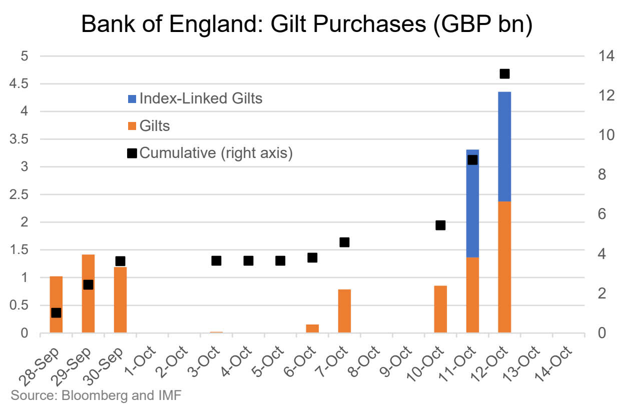


Yesterday, French Governor and ECB Governing council member Villeroy de Galhau gave four principles that could guide the ECB quantitative tightening (QT): 1) Interest rates would remain the primary instrument for monetary policy, with balance sheet adjustments used as a complementary tool. 2) A gradual wind down of other policy programs, starting with the TLTROs, and followed by the Asset Purchase Program (APP) and the Pandemic Emergency Purchase Program (PEPP). 3) The phasing out of the asset portfolio should be orderly and announced well in advance. 4) Balance sheet reduction should not be on automatic pilot. It should start slowly, the market's reaction should be assessed, and the program accelerated only gradually.

Reuters reports that the ECB is looking at options to change the TLTRO rules to avoid unintended incentives for banks, with a decision possible as early as the ECB meeting on 27 Oct. Through several TLTRO programs since 2014, euro area banks have borrowed 2.1 tn euros at very low rates from the ECB (sometimes at negative rates) with the goal of supporting bank lending to the real economy. After the ECB hiked its depo by 125 bps since July, banks can earn a sizeable profit by lending to the ECB at the deposit rate will borrowing at the low TLTRO rate.

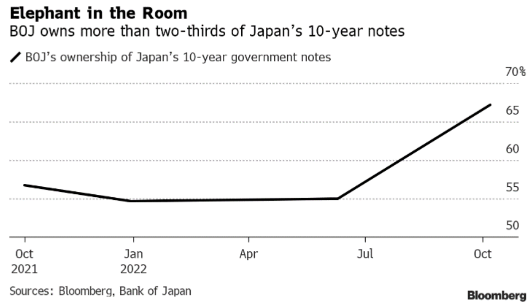
United Kingdom

Gilt markets have staged a sharp rally since yesterday afternoon, with yields on 30y gilts down almost 45 bps from yesterday's highs to 4.6% today. The rally is across the curve, with yields on the 10y gilts also down 11 bps since yesterday to 4.3%. The rally was triggered by the BOE's largest purchase of gilts since the start of the temporary bond buying program yesterday. The BOE bought £4.4 bn of bonds (£2.4bn in bonds, and £2bn in linkers) and for the first time did not reject any offers of conventional gilts. With just two days remaining in the bond buying program, where the BOE can buy up to £10 bn per day, markets participants still wonder whether pension funds will manage to clear their positions in the allocated time frame. Press reports suggest that the UK Prime Minister is under pressure to reverse some of the unfunded tax cuts proposed in the *mini-budget* of September 23 which triggered a major dislocation in UK markets.



Japan

The yen appreciated (+0.1%), trading around 146.8 yen per dollar. Traders remained cautious about potential FX interventions. Finance Minister Suzuki said that if speculators create sudden volatility, the authorities will take bold action. Market participants think that the do not have specific levels that would trigger an intervention but will likely focus on the speed of currency movements. **Long-end JGB yields dropped** (10-year: -0.5 bp; 30-year: -0.1 bp) as benchmark 10-year JGBs were traded for the first time since October 5. Analysts noted that the Bank of Japan now owns 67% of 10-year JGBs, up from 55% in June. **PPI inflation accelerated to 9.7% y/y in September,** from 9.0% in August, higher than expected (consensus: +8.9%). Equities declined (NIKKEI: -0.6%).



Emerging Markets

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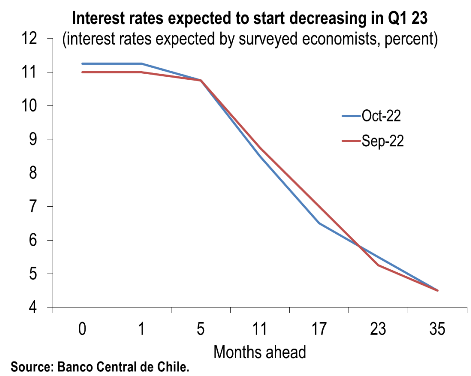
Markets in EMEA were relatively calm ahead of the US CPI data. Currencies were little changed. **Asian markets were lower and their currencies weaker.** In Taiwan POC, the company TSMC, the world's largest maker of semiconductors, cut its capital spending target by 10%, a bad sign for the global technology industry. **Latin American markets were steady in yesterday's trading.** However, Colombia was the exception as local rates were sharply higher. Markets in Mexico rallied on stronger than expected industrial production numbers.

Chile

Chile's central bank hiked yesterday evening its policy rate by 50 bps to 11.25%, in line with market consensus and the bank's survey of economists. Economists now expect an even steeper and quicker easing cycle going forward, consistent with their anticipation for a 1% y/y GDP contraction in 2023. Markets appear to agree: swap rates on maturities of one year or more dropped yesterday further, with the two-year down almost 20 bps to 9.5%. Chile's central bank emphasized that it believes the peak of the hiking cycle is now reached, and that its policy rate will remain at this level as long as is needed to bring inflation back to its target. Markets seem confident that inflation will come down.



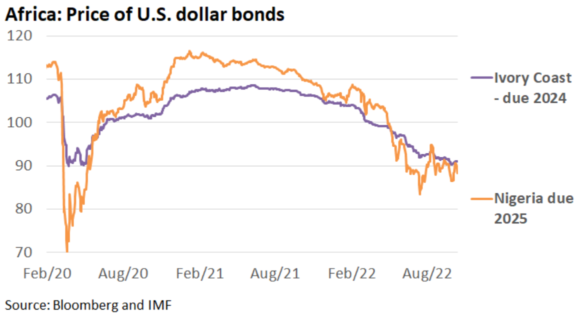
China

Chinese equities declined (CSI 300: -0.8%; Hong Kong SAR-listed: -2.2%). Market sentiment remained bearish. Share prices of real estate firms declined (onshore: -2.2%; Hong Kong SAR-listed: -4.3%) as investors became more concerned about the property sector crisis. CIFI, which is among the few selected property developers that can issue onshore bonds under the state-backed scheme, missed an interest payment on its offshore bond due on October 8 despite having a state guarantee. In its filing, CIFI said that the delayed payment was due to the recent long public holidays in China while warning about a potential default event. RMB depreciated (-0.2%) as the People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected (today: 468 pips). The PBC also continued withdrawing interbank liquidity; today's liquidity withdrawal amounted to 75 bn yuan ($10.4 bn). The key interbank repo rate

(DR007) edged up to 1.57% (+4.6 bps), though still well below the policy rate at 2.0%. Spreads between exchange-traded and interbank repo rates narrowed to levels seen before the quarter end.

Nigeria

Nigeria's US dollar Eurobonds due 2025 fell around 1.5 points after FM Ahmed said that the government is discussing debt restructuring with the IMF and the World Bank, while also considering tapping into the IMF's newly created *Food Shock Window.* FM Ahmed reportedly added that a debt sustainability analysis showed that Nigeria can service its debt in 2022 and 2023, but that the government has been engaging with financial institutions *to look for an opportunity to restructure our debt to further stretch the debt service period to give us more fiscal relief.* Access to the *Food Shock Window* is available for 12 months through September 2023 and is at concessional financing terms for low-income countries.



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Global Financial Indicators

10/13/22 8:03 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		3584	-0.3	-4	-9	-18	-25	-15
Europe		3360	0.9	-2	-6	-18	-22	-15
Japan		26237	-0.6	-3	-6	-8	-9	-1
China		3753	-0.8	-2	-8	-24	-24	-19
Asia Ex Japan		58	0.2	-6	-11	-33	-30	-27
Emerging Markets		35	0.1	-5	-10	-32	-29	-27
Interest Rates					basis points			
US 10y Yield		3.85	-3.2	4	46	233	235	186
Germany 10y Yield		2.24	-6.8	16	52	237	242	201
Japan 10y Yield		0.25	-0.6	0	1	16	18	5
UK 10y Yield		4.19	-24.9	2	102	310	322	271
Credit Spreads					basis points			
US Investment Grade		194	4.9	12	31	104	82	51
US High Yield		534	7.3	28	74	204	197	128
Europe IG		133	-0.7	6	25	80	85	61
Europe HY		628	-8.4	19	106	359	386	277
Exchange Rates					%			
USD/Majors		112.73	-0.5	0	3	20	18	17
EUR/USD		0.97	0.4	-1	-2	-16	-14	-14
USD/JPY		146.7	-0.1	1	1	30	28	28
EM/USD		48.3	0.2	-2	-3	-12	-8	-9
Commodities					%			
Brent Crude Oil ($/barrel)		93	0.3	-2	1	22	26	6
Industrials Metals (index)		148	0.8	-2	-5	-15	-14	-21
Agriculture (index)		68	-0.4	1	-2	21	13	-2
Implied Volatility					%			
VIX Index (%, change in pp)		33.6	-0.1	3.0	6.2	14.8	16.3	2.6
US 10y Swaption Volatility		160.6	0.0	5.5	26.3	88.9	81.5	66.3
Global FX Volatility		12.8	0.0	0.7	1.8	5.9	5.4	5.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		260	-7.6	-9	8	154	108	20
Italy		238	-4.8	-6	11	134	103	66
Portugal		107	-2.3	-1	4	57	43	15
Spain		116	-2.5	-4	3	54	42	12

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

Emerging Market Financial Indicators

Last updated: 10/13/2022 8:06 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.18	-0.1	-0.9	-3	-10	-11	-12		2.8	-0.8	-5	7	-23	-4	-5
Indonesia		15362	0.0	-1.1	-3	-7	-7	-7		7.4	-1.0	15	24	114	97	86
India		82	0.0	-0.6	-4	-8	-10	-9		7.7	-7.8	-1	17	113.5	136	
Philippines		59	-0.1	-0.6	-4	-14	-14	-13		5.8	0.0	0	10	155	128	78
Thailand		38	0.2	-1.1	-3	-12	-12	-15		3.2	-3.0	10	43	136	134	97
Malaysia		4.69	-0.2	-1.2	-4	-11	-11	-11		4.4	0.1	8	39	84	84	76
Argentina		151	-0.2	-1.4	-6	-34	-32	-29		89.9	169.5	257	1037	4138	3929	4190
Brazil		5.26	0.8	-0.8	-1	5	6	-5		11.5	#######	-14	-29	52	81	-3
Chile		941	0.3	0.3	-2	-13	-9	-16		6.7	-4.0	-16	6	69	127	78
Colombia		4608	0.0	-0.7	-5	-19	-12	-15		10.6	0.0	38	88	404	423	276
Mexico		19.96	0.2	0.8	1	3	3	1		9.3	0.0	9	60	183	179	147
Peru		4.0	-0.2	-0.3	-3	2	0	-6		8.7	0.1	5	62	296	283	273
Uruguay		41	-0.1	-0.4	-1	6	8	3		11.5	11.3	15	15	350	276	333
Hungary		442	0.6	-2.2	-9	-30	-27	-28		10.6	3.0	73	122	694	612	582
Poland		4.96	0.7	0.6	-5	-20	-19	-18		7.1	-19.8	27	133	449	360	323
Romania		5.1	0.4	-0.5	-3	-16	-14	-14		9.1	16.3	57	109	466	422	389
Russia		63.3	1.6	-2.2	-6	14	19	29		9.4	0.0	28	119	153	65	-176
South Africa		18.3	0.2	-1.4	-4	-19	-13	-17		9.5	-12.0	10	41	177	202	186
Turkey		18.59	-0.2	-0.1	-2	-51	-28	-26		13.1	31.0	109	167	-635	-1123	-933
US (DXY; 5y UST)		113	-0.5	0.4	3	20	18	17		4.08	-3.5	2	50	301	282	218

	Equity Markets								Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Since	Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
										basis points					
China		3753	-0.8	-2	-8	-24	-24	-19		202	3	-2	-10	-1	-6
Indonesia		6881	-0.4	-3	-5	4	5	-1		218	12	47	24	53	33
India		57235	-0.7	-2	-5	-7	-2	0		202	10	47	51	70	48
Philippines		5896	0.7	-1	-10	-18	-17	-20		176	9	54	41	75	39
Thailand		1561	0.0	-1	-6	-5	-6	-8		0	0	0	0	0	0
Malaysia		1373	-0.5	-3	-6	-14	-12	-13		117	8	19	-19	0	-16
Argentina		136396	-0.4	-6	-5	74	63	49		2824	57	513	1224	1144	1087
Brazil		114827	-1.0	-1	1	2	10	3		311	14	27	4	0	-20
Chile		4937	-1.1	-5	-12	23	15	13		198	14	33	37	58	24
Colombia		1177	-0.4	-3	-4	-16	-17	-22		484	47	105	194	136	92
Mexico		45680	-0.2	0	-3	-12	-14	-11		454	6	50	102	122	84
Peru		19867	0.2	-2	3	1	-6	-15		235	21	56	65	85	45
Hungary		39056	0.6	-1	-6	-29	-23	-18		326	16	114	206	202	173
Poland		46041	-0.1	-3	-8	-38	-34	-27		69	10	41	39	37	53
Romania		10593	-0.5	-3	-11	-17	-19	-20		378	33	96	171	185	146
Russia		1963	0.6	-3	-20	-54	-48	-36		3411	-577	938	3228	3234	2897
South Africa		64586	0.1	-2	-5	-2	-12	-14		488	10	93	122	133	99
Turkey		3566	1.4	0	4	152	92	77		621	6	53	119	43	58
Ukraine		519	0.0	0	0	-1	-1	0		4084	228	544	3563	3325	2611
EM total		35	-0.2	-5	-10	-32	-29	-27		477	22	69	97	91	19

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

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