



- US banks beat earnings forecasts on higher interest income ([link](#))
- UK gilts rally on reversal of *mini budget* ([link](#))
- High yield issuers in US face biggest funding shock in three decades ([link](#))
- Yen near 32-year low versus dollar ([link](#))
- Emerging market FX reserves decline as central banks intervene ([link](#))
- Vietnamese dong at new record low versus dollar ([link](#))
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## Global markets take a break

**Markets are up today after a week of significant turmoil.** European stocks are higher and US equity futures are also posting gains in early morning trading. Advanced economy interest rates are significantly lower, with the benchmark US 10-year Treasury yield falling back below the 4% level it reached on Friday. A rally in the UK gilt market is an important driver of sentiment today, with the new Chancellor Jeremy Hunt announcing the reversal of most of the policies of the *mini budget* that triggered the massive gilt selloff of late September and early October. More details are to be announced in Parliament at 10.30 am New York time. However, tensions continue to lurk, with the yen close to a 32-year low versus the dollar and a number of emerging market currencies also under pressure.

Key Global Financial Indicators

Last updated: 10/17/22 8:03 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		3583	-2.4	-2	-7	-20	-25	-15	
Eurostoxx 50		3411	0.9	2	-3	-18	-21	-14	
Nikkei 225		26776	-1.2	-1	-3	-8	-7	1	
MSCI EM		34	-1.5	-4	-9	-34	-30	-28	
Yields and Spreads			bps						
US 10y Yield		3.94	-7.8	6	49	237	243	195	
Germany 10y Yield		2.24	-10.4	-10	49	241	242	201	
EMBIG Sovereign Spread		569	-4	23	75	208	202	156	
FX / Commodities / Volatility			%						
EM FX vs. USD, (+) = appreciation		48.4	0.3	0	-2	-12	-8	-9	
Dollar index, (+) = \$ appreciation		113.0	-0.3	0	3	20	18	17	
Brent Crude Oil (\$/barrel)		91.8	0.2	-5	0	8	18	-5	
VIX Index (% change in pp)		32.2	0.1	0	6	16	15	1	

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

**All eyes this week will be on China and the 20<sup>th</sup> Communist Party Congress that began on Sunday.** Market participants are anxious for clues about how the government plans to tackle covid, property sector woes, and the slowing economy. Changes to the leadership team will be another key focus. Investors are also keeping an eye on Japan to see if further depreciation of the yen could trigger more market

interventions by the Ministry of Finance. Meanwhile, markets will continue to ponder the impact of the dramatic political changes in the UK following the sacking of the Chancellor and the U-turn on fiscal policy announced by PM Liz Truss. The government is still expected to deliver a detailed economic plan by October 31. Key data on inflation on Wednesday and retail sales on Friday could have a big impact on UK markets given the fragility of local sentiment. In the US, the data calendar is relatively light, with housing starts on Wednesday and new home sales on Thursday the main highlights. The euro area will see the release of the German business sentiment survey tomorrow and CPI on Wednesday, along with German PPI on Thursday.

## Mature Markets

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### United States

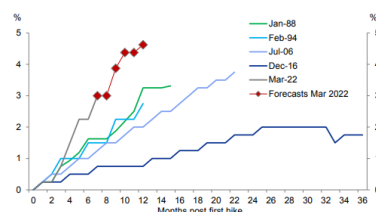
**US banks beat earnings forecasts due to higher interest incomes.** Citigroup, JPMorgan, Morgan Stanley, and Wells Fargo beat analyst expectations for earnings per share, driven by higher net interest income as rising interest rates offsetting lower investment banking revenues in 3Q22. Firms attributed the decline in investment banking revenue to the challenging market environment and lower deal making activity. Firms also increased loan loss reserves in the quarter, reflecting a less favorable economic environment.

Citigroup's CEO expects a mild recession in the U.S. in the second half of 2023. Bloomberg news reported that Morgan Stanley will be issuing \$6.5 bn in subordinated debt this quarter. Wells Fargo noted an increase in operating expenses (+1.6 bn) due to litigation, customer remediation and regulatory matters. Stock prices closed higher for Citigroup, JPMorgan, and Wells Fargo and lower for Morgan Stanley on the day of the earnings release.



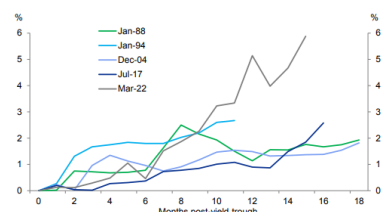
**US corporations face the biggest shock to their cost of capital in three decades, according to analysis by Goldman.** Given the aggressive Fed rate hike cycle and the rapid rise in interest rates, there is a good chance that funding costs will be much higher for high yield (HY) issuers for years to come. While funding needs in the short term are low and interest cost ratios for HY issuers are near all-time highs, the long term business model for HY issuers will have to adjust to the new reality of much higher costs over the next few years. Some companies were only viable because of historically low funding costs, and these companies could face difficulties. In an environment where earnings could also face headwinds as the economy slows down, the challenge is even greater. Goldman estimates that funding costs in the leveraged loan market will increase by \$50 bn in 2023.

**Exhibit 1: On track for the fastest and most aggressive hiking cycle since the onset of the great moderation**  
Cumulative Fed funds rate hikes in the past four cycles



Source: Bloomberg, Goldman Sachs Global Investment Research

**Exhibit 2: This hiking cycle has also fueled the largest back-up in corporate bond yields since the late 80s**  
Cumulative increase in HY bond yields from the trough that preceded the start of the hiking cycle

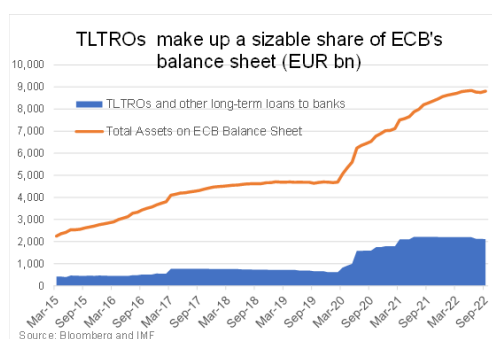


Source: Bloomberg, Goldman Sachs Global Investment Research

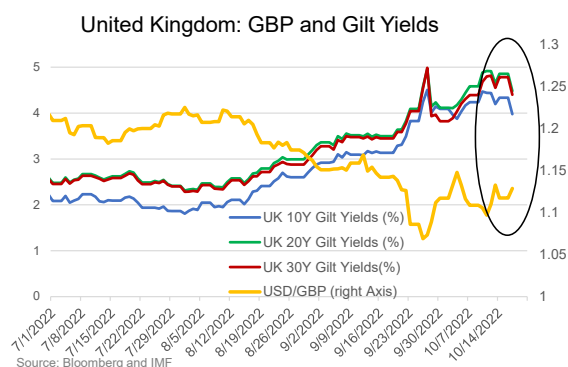
## Euro Area

**In the Eurozone, several ECB officials voiced opinions regarding the size and pace of upcoming rate hikes, and prospects for quantitative tightening (QT).** There were a few hawkish comments on rate hikes, with governing council member Kazaks saying that sizable hikes are needed this year before the pace can slow, and that 75 seems appropriate in October, with 50 or 75 bps in December. He said that the ECB has no reasons to pause rate hikes after December. Chief Economist Philip Lane also said rate hikes are needed at the next several meetings. On QT, governing council member Rehn said that he expects QT to start once the neutral rate is reached in 2023 H1. Kazaks said that all the tools of the ECB should work in the same direction and that the ECB does not need to hold on a big balance sheet. Rehn also said that global financial stability risks are increasing and that the risk of stagflation has also increased.

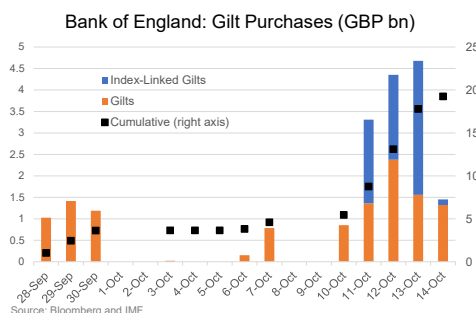
**The debate about whether to change the terms of the ECB Targeted Longer Term Refinancing Operation (TLTRO) continues.** Bloomberg reports that some ECB officials reckon it is legally possible to retroactively change the terms of the TLTROs. Without any action, banks that borrowed through the TLTRO program are able to earn a risk-free return on that money by depositing it in the ECB's deposit facility, where rates are currently 0.75% and will increase further as the ECB hikes rates.



**UK markets are rallying strongly, as the newly appointed chancellor Jeremy Hunt announced this morning a reversal of almost of the tax cuts measures of the *mini budget*.** Yields on all gilt tenors are down almost 34–38 bps, with 10y yields at 4% and 30y yields at 4.4%. A forecast from the independent Office for Budget Responsibility will follow on October 31. Chancellor Hunt said that all measures contained in the *mini budget* on which legislative work has not started will be reversed. In particular, the cut to the basic rate of income tax to 19% (from 20% currently) will be postponed indefinitely until economic conditions allow it to be cut. The Chancellor also announced that the energy price guarantee, which was the largest item in the *mini budget*, will not be changed until April 2023. More details are to be announced at 10.30 am New York time.



The BOE confirmed this morning that its temporary bond-buying program, created on September 28 to stem the panic in the gilt market, ended last Friday as planned. Overall, the BOE bought £19.2 bn in gilts. The BOE statement this morning reiterates that banks exposed to liability driven investment (LDI) funds would still have access to the daily Temporary Expanded Collateral Repo Facility (TECRF) announced on Oct. 10, until its planned closing date of November. 10. Banks also have access to liquidity from the existing Indexed Long Term Repo facility (a weekly six month repo against a very wide range of collateral), the Discount Window Facility, and a weekly US Dollar repo supported by international swap lines. In addition, the BOE makes available reserves via its Short-Term Repo facility each week, designed to ensure short term market rates remain close to Bank Rate. The BOE also announced today that it would resume its sales of corporate bonds on October 24—after suspending those last week.



## Japan

The Japanese yen traded close to its 32-year low at 148.7 yen per dollar. Surging inflation prints in the US have triggered higher US interest rates and weaker currencies around the world. Governor Kuroda said that it is appropriate to continue with monetary easing. Meanwhile, Finance Minister Suzuki said that authorities will take action to suppress speculative moves if required. **Long-end JGB yields edged up** (10-year: +0.5 bp; 30-year: +4.1 bps), with 10-year yield touching 0.25%. The BOJ conducted fixed-rate bond purchases in the amount of 87 bn yen (\$0.6 bn) today. Equities declined (NIKKEI: -1.2%).



## Emerging Markets

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EMEA equities were mixed, and currencies mostly strengthened against the dollar this morning. Asian equities were mixed, falling 0.8% on net. In Latin America, local currencies weakened sharply last Friday amid plunging oil prices and mounting risk aversion in global markets. EM fund outflows moderated.

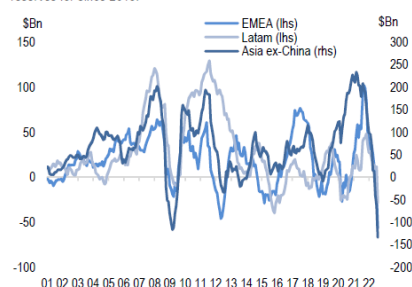
### EM FX Reserves

FX reserves dropped sharply as EM central banks become more proactive in currency markets. Reserve depletion reached its fastest pace in over 20 years, led by Asia ex-China. That said, most EM

countries had adequate FX reserves at the start of the year, which leaves ample scope to use FX reserves to lean against depreciation pressure.

Exhibit 3: Asia (ex-China) drives the largest 12-month drawdown in FX reserves across EM in over 20 years

Vertical axis (\$Bn): 12-month rolling changes in foreign reserves ex-gold adjusting for changes in EURUSD. We consider all countries with 10% EUR reserves pre-2010, 15% EUR reserves between 2010-2015, and 20% EUR reserves for since 2015.



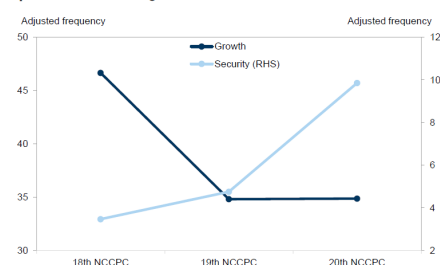
Source: J.P. Morgan, Haver Analytics.

## China

**The People's Bank of China (PBC) kept the 1-year medium-term lending facility (MLF) rate at 2.75% as expected.** The PBC also fully rolled over maturing MLF funding (500 bn yuan, or \$69.4 bn) but withdrew some liquidity via open market operations (19 bn yuan, or \$2.6). Liquidity remained ample, with the key interbank repo rate (DR007) falling to 1.47% (-9.7 bps), a level well below the policy rate (2.0%).

**President Xi reaffirmed that high-quality development is the number one priority.** On Sunday, President Xi delivered his opening speech at the 20<sup>th</sup> National Congress of the Communist Party of China, a major political event that is held once in five years to set the long-term policy direction for the Party and the country. The reaffirmation helped dispel some market concerns that China no longer cares about economic growth. While indicating that China will maintain market-based reforms, the speech put a greater emphasis on national security, especially for key supply chains. He also emphasized the need for technological innovation, a greater focus on the domestic economy (known as the dual circulation strategy), and common prosperity. Market reactions were disappointed to see no change in the zero Covid policy or policies relating to the real estate sector.

Exhibit 1: The emphasis on security increased in Xi's 20<sup>th</sup> NCCPC speech, while that on growth remained stable



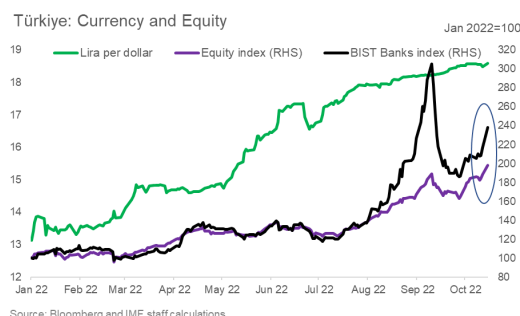
Adjusted frequency refers to the number of select keywords per 1000 words in the reports available.

Source: Government websites, Goldman Sachs Global Investment Research

## Türkiye

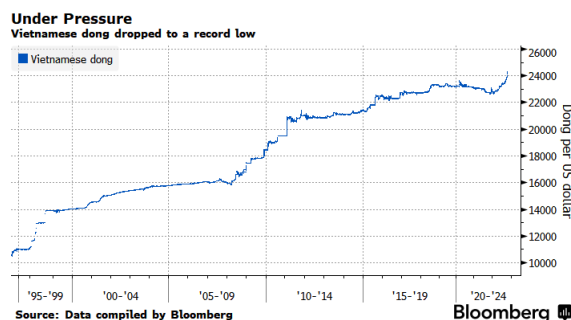
**Turkish equities rallied with the benchmark Borsa Istanbul 100 index reaching a new record high ahead of the central bank rate decision later this week, where consensus expects a 100 bps cut to take the key rate to 11%.** According to Bloomberg, local investors are buying bank equities (a measure for banking stocks were up 9.8% this morning) as protection against inflation, which increased to 83% yoy in September. The central bank had unexpectedly cut its key rate by 100 bps to 12% at its

meeting in September. Data released this morning showed the central government's budget swinging into a deficit (-78.6 bn lira or \$4.2bn) in September, the largest shortfall so far this year, as spending increased and corporate tax revenues declined. **The lira depreciated against the dollar (-0.4%) this morning and is now trading about 29% weaker than at the start of 2022.**



## Vietnam

**The State Bank of Vietnam (SBV) widened the currency's daily trading band to 5% from 3% as the dong fell to a record low.** The SBV said that the adjustment was made in order to tackle unpredictable developments in the international market and monetary policy tightening by major central banks. The move came after a surprise rate hike of 100 bps three weeks ago. At the same time, Vietnam faced a run on its fifth largest bank following a corruption investigation; authorities spent the last week trying to calm markets and depositors.



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## Global Financial Indicators

10/17/22 8:07 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3597	-2.4	0	-7	-20	-25	-15
Europe		3411	0.9	2	-3	-18	-21	-14
Japan		26776	-1.2	-1	-3	-8	-7	1
China		3846	0.1	3	-2	-21	-22	-17
Asia Ex Japan		57	-1.4	-4	-11	-35	-31	-28
Emerging Markets		34	-1.5	-4	-9	-34	-30	-28
<b>Interest Rates</b>			basis points					
US 10y Yield		3.94	-7.8	6	49	237	243	195
Germany 10y Yield		2.24	-10.4	-10	49	241	242	201
Japan 10y Yield		0.26	0.4	0	0	17	18	6
UK 10y Yield		3.94	-39.2	-53	81	284	297	246
<b>Credit Spreads</b>			basis points					
US Investment Grade		194	1.7	11	33	106	82	51
US High Yield		531	6.7	25	37	208	193	124
Europe IG		128	-3.4	-6	16	77	80	56
Europe HY		614	-10.7	-31	61	356	372	262
<b>Exchange Rates</b>			%					
USD/Majors		112.98	-0.3	0	3	20	18	17
EUR/USD		0.97	0.1	0	-3	-16	-14	-14
USD/JPY		148.9	0.1	2	4	30	29	29
EM/USD		48.4	0.3	0	-2	-12	-8	-9
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		92	0.2	-5	2	20	25	5
Industrials Metals (index)		145	-1.1	-1	-5	-21	-16	-23
Agriculture (index)		68	0.3	-2	-1	19	12	-3
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		32.2	0.1	-0.3	5.9	15.9	14.9	1.1
US 10y Swaption Volatility		158.3	0.0	2.1	22.7	78.9	79.2	64.0
Global FX Volatility		12.7	0.1	0.2	1.3	5.8	5.3	5.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		271	10.6	16	19	162	119	31
Italy		244	-0.1	14	17	141	109	73
Portugal		109	0.1	5	4	57	44	17
Spain		118	0.6	4	2	55	43	14

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

## Emerging Market Financial Indicators

Last updated: 10/17/2022 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		7.20	-0.1	-0.6	-3	-11	-12	-12		2.8	1.0	-3	4	-34	-5	-6
Indonesia		15488	-0.4	-1.1	-3	-9	-8	-7		7.4	6.3	15	23	135	106	94
India		82	0.0	0.0	-3	-9	-10	-9		7.6	-4.1	-11	1	105.5	131	
Philippines		59	-0.1	0.0	-3	-14	-14	-13		5.8	6.3	6	16	156	134	84
Thailand		38	0.4	-0.5	-3	-12	-13	-15		3.2	2.5	-2	23	132	137	99
Malaysia		4.72	-0.3	-1.4	-4	-12	-12	-11		4.5	1.8	9	34	93	89	81
Argentina		152	-0.2	-1.6	-6	-35	-32	-29		86.6	-108.6	-205	746	3822	3605	3865
Brazil		5.29	0.8	-1.8	-2	4	5	-5		11.8	-5.9	17	-3	58	110	26
Chile		959	0.3	-2.2	-4	-15	-11	-18		6.5	0.0	-24	-6	58	112	63
Colombia		4692	-2.4	-1.5	-7	-20	-13	-17		11.3	48.0	97	149	474	484	338
Mexico		20.02	0.3	-0.3	0	2	3	1		9.4	8.0	12	63	189	186	154
Peru		4.0	-0.2	-0.8	-3	-2	0	-6		8.8	0.1	13	58	295	287	277
Uruguay		41	-0.1	-0.5	-1	7	8	2		11.7	12.6	29	29	365	298	355
Hungary		430	0.0	2.4	-7	-27	-24	-26		10.4	14.0	26	95	656	589	559
Poland		4.95	-0.1	1.3	-5	-20	-18	-18		7.3	15.5	33	132	458	378	341
Romania		5.1	0.1	0.4	-3	-16	-14	-14		9.0	-9.2	51	95	456	421	388
Russia		62.3	0.8	2.3	-1	14	21	31		8.8	-80.0	-40	55	82	2	-239
South Africa		18.1	1.2	-0.2	-3	-19	-12	-17		9.5	-1.0	-6	26	167	203	187
Turkey		18.59	-0.5	-0.1	-2	-50	-28	-26		13.2	-19.0	90	175	-673	-1109	-919
US (DXY; 5y UST)		113	-0.3	-0.2	3	20	18	17		4.18	-8.3	4	55	306	292	228

	Equity Markets									Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22		Level		Change (in basis points)			YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M				Last 12m	Latest	7 Days	30 Days	12 M			
								basis points									
China		3846	0.1	3	-2	-21	-22	-17		203	7	4	-9	0	-5		
Indonesia		6831	0.2	-2	-5	3	4	-1		210	10	30	16	45	25		
India		58411	0.8	1	-1	-5	0	2		201	11	40	50	69	47		
Philippines		5970	1.1	2	-9	-17	-16	-19		171	10	43	43	70	34		
Thailand		1571	0.7	-1	-4	-4	-5	-7		0	0	0	0	0	0		
Malaysia		1386	0.3	-1	-6	-14	-12	-13		120	9	22	-14	3	-13		
Argentina		137291	-2.5	-6	-6	67	64	50		2849	38	509	1236	1169	1112		
Brazil		112072	-2.0	-5	3	-2	7	0		312	11	19	8	1	-19		
Chile		4972	0.2	-2	-10	25	15	14		199	10	17	37	59	25		
Colombia		1168	-0.8	-3	-3	-18	-17	-23		488	27	87	199	140	96		
Mexico		45443	-0.7	-1	-3	-14	-15	-12		456	9	36	105	124	86		
Peru		19740	-1.1	-2	2	-4	-6	-16		238	15	33	71	88	48		
Hungary		39602	0.0	1	-1	-28	-22	-17		314	2	86	191	190	161		
Poland		46386	-0.4	1	-6	-38	-33	-26		48	-13	32	21	16	32		
Romania		10833	1.5	0	-8	-15	-17	-18		380	28	90	175	187	148		
Russia		2005	2.8	5	-18	-53	-47	-35		3411	-577	938	3228	3234	2897		
South Africa		65199	1.4	1	-2	-3	-12	-13		502	38	75	143	147	113		
Turkey		3813	5.1	6	13	171	105	89		618	-2	26	108	40	55		
Ukraine		519	0.0	0	0	-1	-1	0		4155	286	728	3660	3396	2682		
EM total		34	1.1	-4	-9	-34	-30	-28		478	20	55	101	92	20		

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

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