Global Markets Monitor

THURSDAY, OCTOBER 20, 2022

- **UK PM Truss resigns** (link)
- **Market-implied peak policy rate in the US reaches 5%** (link)
- **UK gilt market balancing political uncertainty and dovish BOE comments** (link)
- **BoJ launches bond buying after benchmark yield moves beyond policy limit** (link)
- **Central bank of Türkiye cuts rates by more than expected** (link)
- **China banks holds interest rates steady in line with expectations** (link)

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Markets stable following large moves in rates

Markets are little changed after falling yesterday on increased fears of a more hawkish Fed. Following yesterday's large move in US interest rates, which saw the 10-year treasury yield rise 13 bp to its highest level since 2008, yields are little changed on net this morning. Fears of inflationary pressures remaining persistent pushed the market-implied terminal Fed funds rate to 5% on Wednesday. In the UK, PM Truss resigned this morning. The pound initially rallied on the news but gave up much of those gains. Nonetheless, the currency is 0.5% stronger on the day. The BoE's deputy governor delivered a more dovish than expected statement, saying that rates may not need to rise as much as markets are pricing, pushing gilt yields lower despite continued political uncertainty. In emerging markets central banks, the central bank of Türkiye cut its policy rate by 150 bp compared to 100 bp expected. Despite the surprise, the lira was little changed. Meanwhile, Indonesia's central bank hiked its rate by 50 bp. While most economists forecast the move, expectations were mixed, with several anticipating a smaller increase.

Key Global Financial Indicators

Last updated: 10/20/22 8:06 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
Equities					%		%	
S&P 500		3695	-0.7	3	-4	-19	-22	-13
Eurostoxx 50		3468	-0.1	3	0	-17	-19	-13
Nikkei 225		27007	-0.9	3	-1	-6	-6	2
MSCI EM		35	-1.8	0	-8	-34	-29	-27
Yields and Spreads					bps			
US 10y Yield		4.13	-0.6	18	56	247	262	214
Germany 10y Yield		2.40	2.0	11	47	252	257	217
EMBIG Sovereign Spread		566	0	-1	64	213	199	154
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		48.5	0.4	0	-2	-13	-8	-9
Dollar index, (+) = $ appreciation		112.5	-0.4	0	2	20	18	17
Brent Crude Oil ($/barrel)		93.8	1.5	-1	4	9	21	-3
VIX Index (%, change in pp)		30.8	0.0	-1	4	15	14	0

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

Mature Markets

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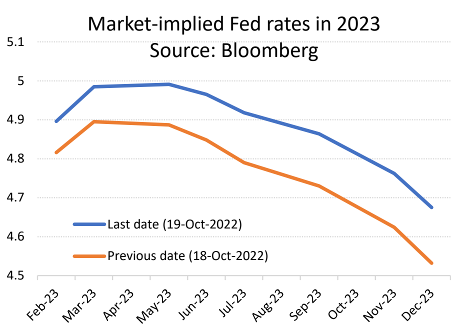
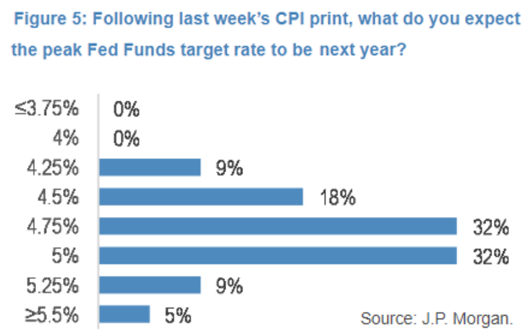
United States

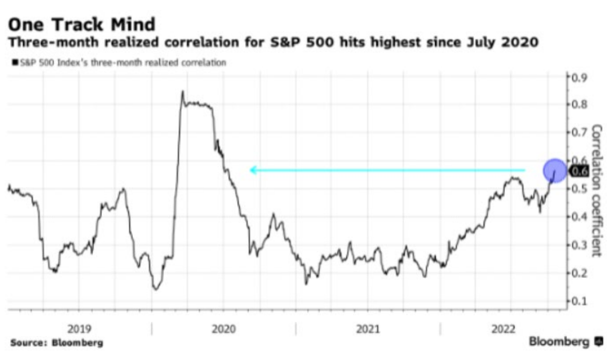
Yesterday, the S&P 500 lost 0.7% amid the fears of a more hawkish Fed and a consequent hard landing. All sectors declined, except Energy (+2.9%); the Real Estate sector substantially underperformed other sectors (-2.6%). UST nominal yields rose by 12–13 bp across the curve (mostly driven by real yields; 8–10 bp) as traders elevated expectations for the peak policy rate closer to 5%. The US dollar appreciated against advanced (+0.7%) and emerging (+0.5%) economies.

Market-implied *peak* policy rate in the US approached 5% (left chart below), temporarily reaching this level during intraday trading**.** The recent increase was a response to last week's CPI release (and the mounting concerns that core inflation is much stickier than expected) and today's rumors that the Fed will continue delivering hawkish surprises, despite the consequent elevated probability of recession. The market-implied figures are in line with the survey made by JPM, with about a third of respondents suggesting that the peak rate should be around 5% (right chart).





The correlation of components of the S&P 500 achieved its highest level since the beginning of the pandemic (chart below), meaning that the pricing of individual stocks is driven predominantly by common themes (e.g., related to the Fed frontloading of policy rates) rather than by idiosyncratic news flow for each individual equity. Analysts point out that the earnings season and individual earnings releases may lower the correlation; however, for the time being, the elevated correlation makes the index more vulnerable to a tail risk event, with most stocks moving synchronously in the same direction.



Europe

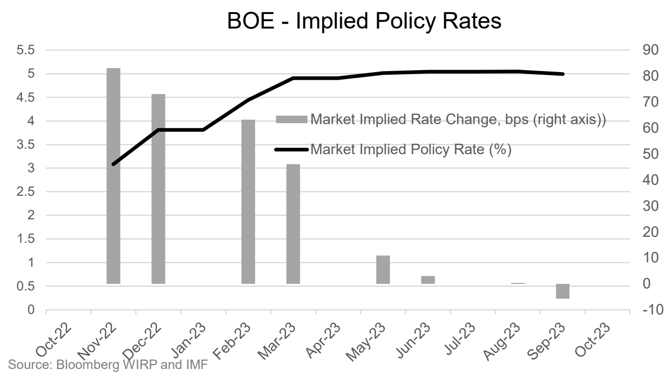
European markets are mixed this morning, with equities falling, fairly stable currencies and limited moves in bond yields. Equity markets are down, with the Stoxx Europe 600 losing 0.5%, including Germany going down 0.7%, and the UK's FTSE100 down 0.2%. Currencies are broadly stable vs. the dollar, with the euro gaining 0.1% to 0.98 euro/$, and the pound losing 0.1% to 1.12 £/$. Bond yields are up slightly. Yields on German 10y bunds are up 3 bp to 2.4% and Italian spreads are down 3 bp to 237 bp.

There was few notable news or moves in the Eurozone today, as all eyes are now turning to the upcoming ECB meeting, which will take place a week from today. In the UK, yields on 10y gilts initially increased, but quickly retraced when Bank of England deputy governor Broadbent said that interest rates might not have to rise by as much as priced by the markets. 10y gilt yields were up marginally by 1bp at 3.88%, while yields on 30y bonds continue to drop (by 4 bp to 3.94%) in a continuation of yesterday's moves.

United Kingdom

UK PM Liz Truss resigned today at mid-day after just 45 days in office. She also announced in her resignation speech that there will be a leadership election in the conservative party, to choose the head of the party and the next Prime Minister in the next week. She will remain Prime Minister until a successor has been chosen.

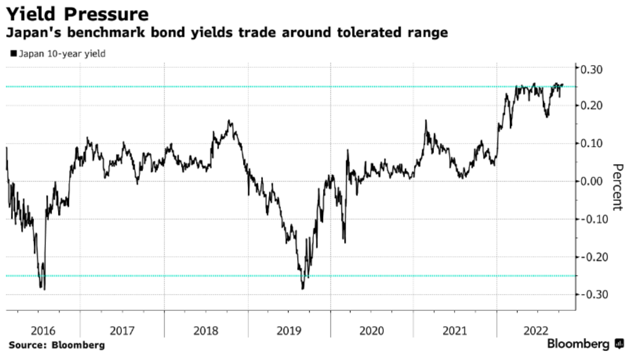
UK bond markets are balancing mounting political uncertainty with a more dovish statement than expected from the Bank of England deputy governor this morning. Bond yields were under pressure this morning, as markets were pricing additional political uncertainty. Yesterday was seen as a difficult day for PM Liz Truss, leading market participants to wonder whether her premiership could last much longer. She faced the resignation of her Home secretary, a rebellion of her own MPs over pension indexation and party lack of discipline over a vote on resuming shale gas fracking. However, gilt yields rallied after Bank of England deputy governor Ben Broadbent said it's not clear that UK interest rates need to rise as much as markets are betting at the moment (5% by May 2023). He added that while the justification for tighter policy is clear in the face of soaring inflation, demand will slow to some extent anyway, as a result of higher prices. In addition, he remarked that If interest rates really were to reach 5%, given reasonable policy multipliers, the cumulative impact on GDP of the entire hiking cycle would be just under 5%—of which only around one quarter has already come through. Importantly, deputy governor Broadbent clarified that the BOE will incorporate the government's medium term fiscal plan, which will be presented on October 31st in its November forecast round, ahead of the MOPC rate decision on November 3rd. Markets are currently pricing in a 75 bp hike at that meeting.

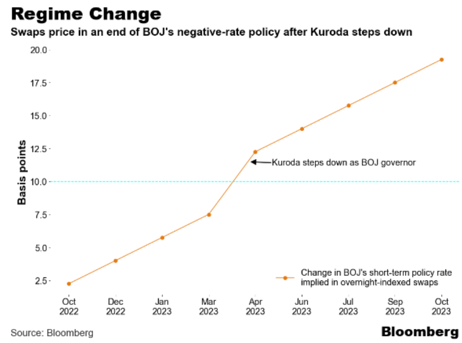


Source: Bloomberg WIRP and IMF

Japan

The Bank of Japan announced unscheduled bond purchases after yields on the 10y bond increased beyond the BoJ's 0.25% upper yield target. Yesterday the yield on 10y bonds briefly increased to 0.255% as the BoJ conduced its first unscheduled bond purchases this month. **The yen stabilized after it reached 150 against the dollar for the first time since 1990** prompting speculation that authorities might intervene. Moreover, the spread between implied and realized volatility of the dollar-yen exchange rate is has widened to levels last seen in 2011, which suggests that option traders are bracing for increased volatility, according to Bloomberg. Traders seemingly remain unconvinced that the Bank of Japan will keep its easy monetary policy unchanged: yen swaps and 10y corporate bond average coupons are increasing while overnight-indexed swaps are pricing in that the negative-policy rate will end by April 2023.



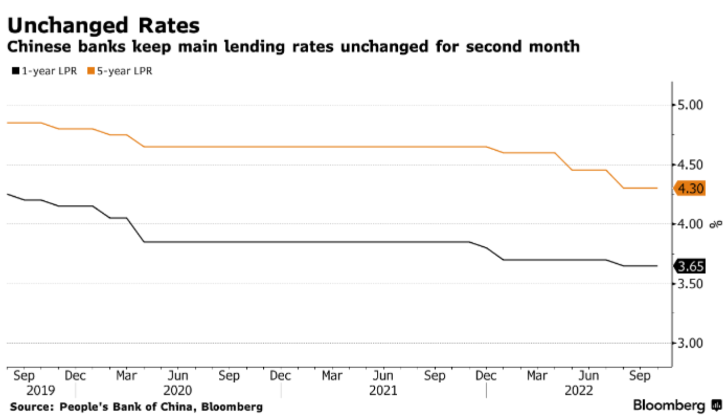


Emerging Markets [back to top]

Asian equities were mixed on net while bond yields increased amid global growth concerns against a backdrop of hawkish central banks**.** Equities in Sri Lanka (-1.7%) and the Philippines (-1.5%) underperformed while those in Indonesia (+1.8%) and Malaysia (+1.6%) outperformed. Asian currencies mostly strengthened against the dollar. The central bank of Indonesia hiked its key rate by 50bp to 4.75%, in line with expectations. **EMEA equities were mostly trading higher, and currencies strengthened against the dollar.** Equities in Russia (+1.3%) outperformed while equities in Czech Republic rebounded this morning (+1%) after closing 2.5% lower yesterday amid uncertainty over when the new windfall tax on energy companies would be implemented. In Ukraine the national energy company warned of electricity restrictions after power plants were damaged by Russian missiles, according to Bloomberg. **In Latin America Wednesday**, local currencies closed modestly weaker on dollar strength and stocks closed mixed in limited range. In Colombia, government bonds and the peso dropped to a record low despite President Petro's speech urging investors to keep cash in Colombia.

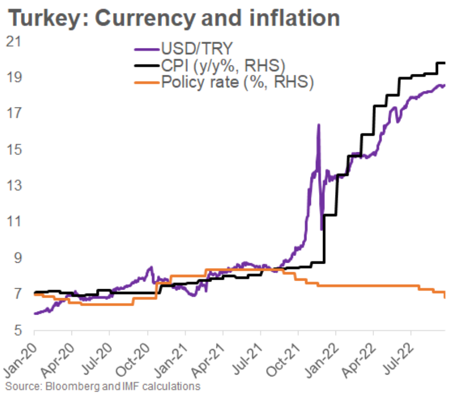
China

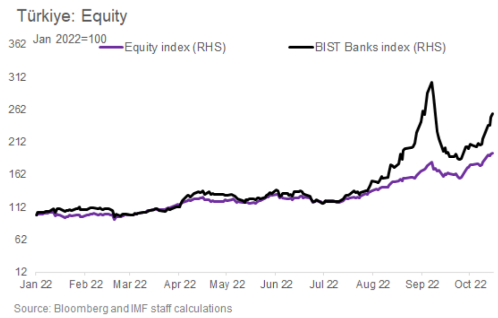
Chinese banks held their benchmark lending rates steady, as expected, after China's central bank left the one-year medium-term lending facility rate at 2.75% earlier this week. Banks left the one-year loan prime rate (LPR) unchanged at 3.65% and maintained the 5-yr LPR at 4.3%. Expectations for further monetary easing has been scaled back over recent weeks as the yuan weakened to its lowest level since 2008.



Türkiye

The Turkish lira was little changed against the dollar (-0.1% to 18.16) after the central bank unexpectedly cut interest rates by 150bp to 10.5%, while consensus had expected a 100bp cut. Equities in Turkey gained (+1%) while a measure for banking stocks outperformed (+2.3%). According to Bloomberg, local investors are reportedly buying bank equities as protection against inflation, which increased to 83.5%y/y in September.





Nigeria

The federal government plans to convert central bank loan advances into bonds amid deepening fiscal challenges. While the timing of the conversion is yet to be revealed, the government is set to convert roughly 20tn Nigerian naira ($45.4bn) worth of loan advances from the central bank into 40-y bonds with a 9% interest rate. This is set to be a one-time restructuring, according to the Debt Management office, and has reportedly already been approved by President Buhari.

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), 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), Harrison Kraus (Research Assistant), 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), and Akihiko Yokoyama (Senior Financial Sector Expert). 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

10/20/22 8:06 AM	Level		Change				YTD	Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		23-Feb-22
Equities					%		%	%
United States		3694	-0.7	1	-4	-19	-23	-13
Europe		3468	-0.1	3	0	-17	-19	-13
Japan		27007	-0.9	3	-1	-6	-6	2
China		3755	-0.6	0	-4	-24	-24	-19
Asia Ex Japan		57	-2.2	-1	-11	-36	-31	-28
Emerging Markets		35	-1.8	0	-8	-34	-29	-27
Interest Rates					basis points			
US 10y Yield		4.13	-0.6	18	56	247	262	214
Germany 10y Yield		2.40	2.0	11	47	252	257	217
Japan 10y Yield		0.26	-0.2	1	0	16	18	6
UK 10y Yield		3.84	-3.5	-36	55	270	287	236
Credit Spreads					basis points			
US Investment Grade		192	0.4	0	29	102	80	49
US High Yield		505	2.5	-25	15	188	167	98
Europe IG		126	0.1	-4	6	77	79	55
Europe HY		607	4.2	-11	10	354	365	255
Exchange Rates					%			
USD/Majors		112.51	-0.4	0	2	20	18	17
EUR/USD		0.98	0.4	0	-2	-16	-14	-13
USD/JPY		149.8	-0.1	2	4	31	30	30
EM/USD		48.5	0.4	0	-2	-13	-8	-9
Commodities					%			
Brent Crude Oil ($/barrel)		94	1.5	-1	5	21	28	8
Industrials Metals (index)		145	1.4	-2	-6	-20	-16	-23
Agriculture (index)		68	0.6	-2	-4	16	11	-4
Implied Volatility					%			
VIX Index (%, change in pp)		30.8	0.0	-1.1	3.6	15.3	13.6	-0.2
US 10y Swaption Volatility		154.2	0.5	-5.8	17.1	80.8	75.2	59.9
Global FX Volatility		12.6	0.0	-0.1	1.2	5.6	5.1	5.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		265	-5.3	4	11	152	113	25
Italy		236	-4.0	-4	9	132	101	64
Portugal		105	-2.1	-3	2	54	41	13
Spain		113	-1.7	-3	-1	50	39	10

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

Emerging Market Financial Indicators

Last updated: 10/20/2022 8:07 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		7.22	0.1	-0.7	-3	-11	-12	-13		2.8	0.5	0	7	-29	-4	-4
Indonesia		15572	-0.5	-1.3	-4	-10	-8	-8		7.5	4.0	16	32	143	113	102
India		83	0.3	-0.5	-4	-10	-10	-10		7.7	2.3	3	4	108.6	138	
Philippines		59	0.0	0.1	-2	-14	-13	-13		5.8	0.0	5	13	143	133	83
Thailand		38	0.7	-0.2	-3	-12	-13	-15		3.3	3.5	13	33	143	147	110
Malaysia		4.73	-0.2	-0.8	-4	-12	-12	-11		4.5	2.3	3	28	87	88	80
Argentina		153	-0.2	-1.4	-6	-35	-33	-30		87.0	20.9	-284	454	3786	3646	3906
Brazil		5.23	0.9	0.8	-2	7	7	-4		12.1	26.3	25	26	38	137	53
Chile		965	1.0	-2.7	-3	-16	-12	-18		6.6	1.5	0	-7	75	122	73
Colombia		4840	-1.6	-4.8	-9	-22	-16	-19		11.4	0.0	66	167	490	502	356
Mexico		20.08	0.1	-0.5	0	1	2	1		9.4	0.0	7	43	175	185	153
Peru		4.0	-0.2	-0.1	-3	-1	0	-6		8.7	0.1	-8	41	274	276	266
Uruguay		41	0.1	-0.3	-1	6	8	3		11.5	0.0	5	14	350	280	338
Hungary		419	1.0	4.7	-4	-26	-23	-24		11.1	9.0	58	172	736	663	633
Poland		4.86	0.9	1.0	-2	-19	-17	-17		7.6	9.0	41	154	490	404	367
Romania		5.0	0.4	0.7	-1	-15	-13	-13		9.2	12.5	14	118	466	436	403
Russia		61.5	0.8	3.5	0	15	22	33		10.2	85.0	67	166	215	142	-99
South Africa		18.2	0.3	0.1	-3	-21	-13	-17		9.7	7.0	13	39	193	222	206
Turkey		18.58	0.0	-0.1	-1	-50	-28	-26		10.8	28.0	-268	-79	-916	-1350	-1160
US (DXY; 5y UST)		113	-0.4	0.1	2	20	18	17		4.35	-0.5	15	61	319	309	245

	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		3755	-0.6	0	-4	-24	-24	-19		206	4	10	0	3	-2
Indonesia		6981	1.8	1	-3	5	6	1		210	-8	29	41	45	25
India		59203	0.2	3	0	-3	2	3		209	7	50	67	77	55
Philippines		6056	-1.5	3	-5	-17	-15	-18		168	-8	32	62	67	31
Thailand		1593	0.3	2	-2	-3	-4	-6		0	0	0	0	0	0
Malaysia		1438	1.6	5	-1	-10	-8	-9		122	5	24	-5	5	-11
Argentina		136484	-0.8	0	-8	57	63	49		2811	-13	419	1189	1131	1074
Brazil		116274	0.5	1	3	5	11	4		300	-11	5	-2	-11	-31
Chile		5088	-0.7	3	-5	26	18	16		196	-2	18	37	56	22
Colombia		1197	0.7	2	0	-15	-15	-21		503	19	88	218	155	111
Mexico		46217	-0.2	1	-2	-12	-13	-10		443	-11	17	97	111	73
Peru		20116	-0.4	1	3	-3	-5	-14		231	-4	21	69	81	41
Hungary		40245	0.4	4	1	-26	-21	-16		306	-20	47	195	182	153
Poland		46900	0.8	3	-5	-37	-32	-25		54	-15	60	23	22	38
Romania		10853	0.5	3	-5	-15	-17	-18		377	-1	84	181	184	144
Russia		2032	2.7	4	-8	-53	-46	-34		3411	-577	938	3228	3234	2897
South Africa		65042	-0.9	1	-2	-3	-12	-13		482	-6	39	135	127	93
Turkey		3934	1.4	11	20	175	112	95		587	-34	-36	82	9	24
Ukraine		519	0.0	0	0	-1	-1	0		4167	83	765	3685	3408	2694
EM total		35	0.2	0	-8	-34	-29	-27		471	-6	41	103	84	13

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

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