



- Pound weakens on reports that fiscal plan could be postponed ([link](#))
- Two-decades-high mortgage rates depress existing-home sales in the US ([link](#))
- Economists expect steeper ECB hikes and a higher terminal rate ([link](#))
- Japanese yen depreciated past the symbolic mark of 150 yen per dollar ([link](#))
- RMB depreciates close to current implicit cap ([link](#))
- Polish yields increase sharply ([link](#))

[Mature Markets](#)






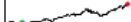





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Yields continue their march higher

Further worries that policy rates in advanced economies will stay elevated for an extended period sent sovereign bond yields higher and equity markets lower. Philadelphia Fed president Harker said the FOMC is likely to raise the benchmark rate to well above 4% this year and hold the rate at restrictive levels. The 10-year treasury yield is up a further 9 bp today to 4.32%, marking more than an a 30 bp increase in just 3 days. European yields are also moving higher with the 10-year bund up 10 bp on the day. European equities are down over 1% on the day while US futures are pointing to a more modest decline. Investors continue to watch for developments in the UK, following yesterday's resignation of PM Truss. The pound is over 1% weaker on reports that the fiscal plan could be postponed. The Japanese yen continues to hit new lows versus the dollar, breaching the 150 level this morning, while the 10-year JGB yield hovers at the yield control threshold.

Key Global Financial Indicators

Last updated: 10/21/22 8:14 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		3666	-0.8	0	-3	-19	-23	-13
Eurostoxx 50		3438	-1.6	2	-2	-17	-20	-13
Nikkei 225		26891	-0.4	-1	-1	-7	-7	2
MSCI EM		35	0.6	0	-6	-33	-29	-27
Yields and Spreads			bps					
US 10y Yield		4.31	7.7	29	78	260	280	231
Germany 10y Yield		2.51	10.6	16	62	261	269	228
EMBIG Sovereign Spread		567	1	-6	61	212	200	154
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.2	-0.4	0	-2	-12	-8	-9
Dollar index, (+) = \$ appreciation		113.5	0.6	0	3	21	19	18
Brent Crude Oil (\$/barrel)		92.9	0.5	1	3	10	19	-4
VIX Index (% change in pp)		30.1	0.2	-2	2	15	13	-1

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

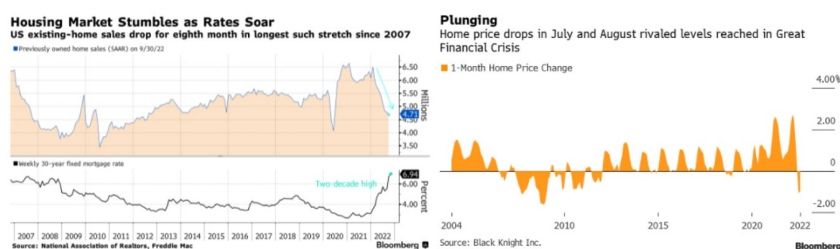
Mature Markets

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United States

Yesterday, the S&P 500 fell 0.8%, despite a short-lived rally in the morning. Among other factors, the decline was prompted by the statement by Philadelphia Fed chief Patrick Harker that policymakers are likely to raise rates to *well above* 4% this year and hold them at restrictive level—while leaving the door open to doing more if needed. UST nominal yields rose by 6-10 bp, mostly driven by breakeven inflation.

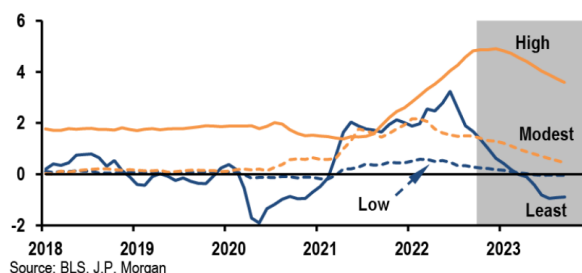
Sales of previously owned homes declined for an eighth straight month in September, as reported by the National Association of Realtors on Thursday (left chart below, upper panel). It's the longest sequence of monthly declines since 2007, which is driven by mortgage rates being the highest since 2002 (left chart, lower panel). Analysts expect this trend to continue. Despite the limited inventories, house prices declined at the highest pace since 2010 (right chart). However, the drop in prices doesn't fully offset the increase in mortgage rates, and overall mortgage payments remain higher than in the beginning of 2022.



J.P. Morgan analysts expect the inflation outlook to improve, supported by declines in energy prices and moderating food and core inflation. Their analysis splits CPI into persistence categories (four lines on the chart below). So far, the post-Covid inflation outbreak was largely driven by the most persistent component, which is the hardest to combat (solid orange line). It is expected to remain elevated throughout 2023 but gradually decline. However, overall CPI inflation is expected to be brought down by a sharp drop into negative territory by the least persistent component (solid blue line), which will be offset the most persistent component. While the core goods components are expected to slow (due to the strong US dollar, unclogging supply chains, and a rotation in demand away from goods), the rotation toward services (along with the risk that labor markets will remain tight), creates uncertainty around how quickly more persistent core services components will begin to roll over.

Figure 2: US CPI inflation by persistence category

%yoy. Projected values from model starting Oct 2022



Euro Area

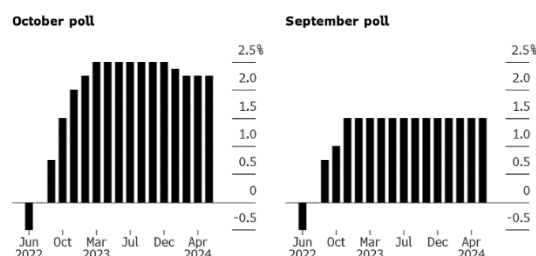
European equities were trading lower (Stoxx 600 Europe index -1.5%) with losses broad-based across sectors, while the euro weakened against the dollar (-0.5%). Sovereign yields continued to increase with the 10y bund yield up 10bp to 2.5%—a level last seen in 2011.

Economists now see steeper ECB hikes and a higher terminal rate, with the majority of survey participants seeing the ECB as behind the curve.

Economists see the deposit rate at 2.5% in March 2023 (compared to 1.5% expected in the September poll), with an economic downturn generally not expected to interrupt rate hikes according to a Bloomberg survey of economists. However, some economists warn that the ECB could overshoot and be forced to reverse course, and while most economists see the first rate cut in 2024 one respondent flagged that interest rates could be cut already in July 2023. More than half of the respondents expect the ECB to activate the Transmission Protection Instrument (TPI) some time in the next year. For the ECB meeting next week, economists see a 75bp hike (which is also close to fully priced in by markets) but markets are focused on ECB announcements regarding the targeted longer-term refinancing operations (TLTROs) program and quantitative tightening (QT) guidance.

Deposit-Rate Path

Economists expect steeper hikes and higher terminal rate



Source: Bloomberg survey of economists conducted Oct. 14 - 19

Bloomberg

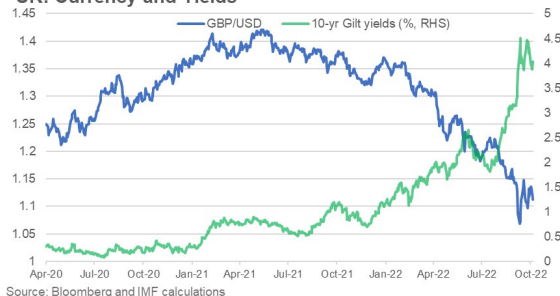
United Kingdom

UK equities were trading lower (FTSE 100 -0.8%) while the pound underperformed (-1.2% against the dollar and -0.6% against the euro) and gilt yields increased (10y gilt +10bp) on reports that UK Chancellor Hunt's fiscal plan could be delayed to after October 31. On the data front September retail sales disappointed (-6.9% yoy vs expected -5% from -5.6%), and JPMorgan analysts highlight that the weakening momentum even ahead of the mini-budget reaffirms that the economy is already in recession. A separate data release showed a marginal increase in consumer confidence in October, while still remaining low (-47 vs expected -52 from -49).

Markets remain focused on political developments after PM Liz Truss resigned, with the next PM set to be announced by the end of next week, at the latest. PM Truss resigned yesterday after her agenda stumbled and conservative MPs withdrew their support from her over the past few days. A leadership race will now take place in the conservative party, and candidates will need nominations from 100 MPs by Monday to enter the ballot—which implies that there can only be a maximum of three candidates. The new PM is expected to be chosen by Friday October 28 at the latest. Rishi Sunak, Penny Mordaunt, and Boris Johnson appears to be the main candidates with Sunak seen as a favorite candidate. Strategists from Jefferies argue that markets would react positively if Sunak were elected, with gilts and the pound expected to rally in the short-term.

The pound weakened and gilt yields increased following reports this morning that the long-awaited fiscal plan due on October 31 (i.e., ahead of the BoE's 3 November meeting) could be postponed. According to media reports the timing of the fiscal plan is dependent on the new PM. Moreover, the new PM will also decide who will serve as Chancellor. ING analysts expect limited fiscal implications if Hunt remains as Chancellor while some analysts argue that a delay in the fiscal plan is unlikely to radically change the BoE's November decision—with the central bank seen then to base its decision on key points announced earlier this week by Chancellor Hunt. Public sector borrowing data released this morning showed September government borrowing increasing by more than expected with the deficit amounting to £20bn (vs expected £17.5bn). JPMorgan analysts expect borrowing for the current fiscal year

UK: Currency and Yields

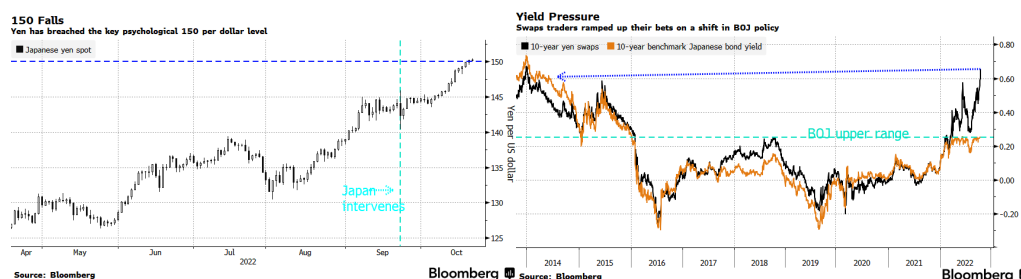


Source: Bloomberg and IMF calculations

to increase to roughly £170bn as a result of the energy price guarantee, the announced tax cuts that have not been reversed and the weaker economic backdrop.

Japan

The Japanese yen depreciated past the symbolic mark of 150 yen per dollar (-0.4%). Traders were guessing when Japanese authorities will intervene to halt a further depreciation. Meanwhile, Finance Minister Suzuki reiterated that authorities were ready to act in response to a sudden, one-sided yen depreciation. **The 10-year JGB yield edged up 0.251% (+0.1 bp)**, surpassing the yield curve control threshold at 0.25%. The Bank of Japan increased bond purchase at its regular purchase operations today, while its fixed-rate bond purchases (to defend the yield curve control) amounted to 372 billion yen (\$2.5 billion). The spread between the 10-year OIS rate and JGB yield widened to 40.8 bp, surpassing the levels seen in June this year, a sign that traders stepped up their bets that the BOJ could be forced to capitulate on its yield curve control. Longer-end JGB yields rose (30-year: +7.7 bp). **Headline CPI inflation stayed unchanged at 3.0% y/y in September**, higher than expected (consensus: +2.9%). Core CPI inflation (excluding food and energy prices) edged up to 1.8%, in line with expectations. Japanese equities declined (NIKKEI: -0.4%), similar to regional trends.



Emerging Markets

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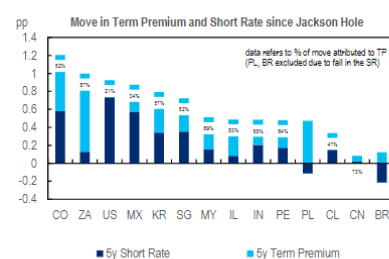
Asian market retreated today amid global risk-off sentiment driven by major central banks' hawkish remarks. Asian equities generally declined, down 0.8% on net, with share prices falling in Vietnam (-3.6%), Singapore (-1.7%), and Taiwan Province of China (-1.0%). Meanwhile, Indonesian equities gained (+0.5%). Asian currencies depreciated, led by the Thai baht (-0.5%), and Chinese yuan (-0.5%). The Philippine peso was an exception, appreciating (+0.3%), after the finance minister vowed to act aggressively to prevent the peso from depreciating to 60 pesos per dollar. Long-end bond yields increased, with 10-year yields rising in Indonesia (+10 bp) and Malaysia (+6 bp). In Indonesia, government bond yields rose notably amid speculation that Bank Indonesia may push interest rates up further. In Malaysia, CPI inflation moderated to 4.5% y/y in September (consensus: +4.6%). In Korea, PPI inflation decelerated to 8.0% in September. **EMEA markets are closing the week on a negative tone.** Equity markets are down, with South Africa losing 1.5% and Hungary and Poland down about 1% each. Currencies are weakening vs. their reference currencies, with the Hungarian forint depreciating 0.9% (to 412.4/euro), the Polish zloty weakening 0.3% (to 4.8/euro) and the South African rand losing 0.5% to the dollar (to 18.4/\$). Local bond yields continue to increase sharply in Poland, and are up 40 bp today, to 9%, while yields are broadly flat elsewhere. Next week, the National Bank of Hungary is expected to keep rates unchanged at 13% on Tuesday. In **Latin America**, equities and currencies closed stronger supported by rebounding oil prices, though prices remain largely range bound with limited local news flow.

EM rates

The divergence between EM and US term premia reaches record high. Since Jackson Hole, the rise in EM interest rates has been predominantly driven by term premia, a notable shift from earlier when higher expected short rates were the main factor. The gap between EM and US term premia has reached a record

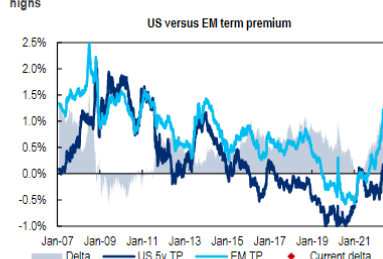
high, according to Citi estimates. This underscores the fragility in EM rates and FX to changes in global risk sentiment, despite differentiated progress in bringing real rates higher.

Figure 7. Move in short rate is largest in US and MX



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Source: Citi Research, Bloomberg

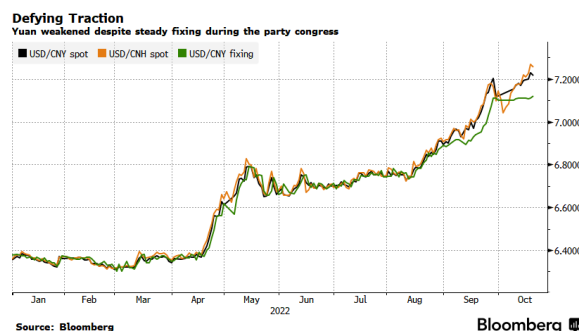
Figure 8. Divergence between EM and US term premia is at historical highs



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Source: Citi Research, Bloomberg

China

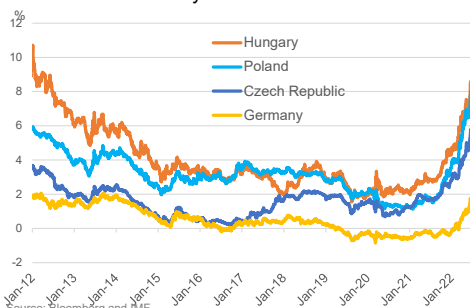
RMB depreciated (-0.5%), touching 7.251 yuan per dollar, in the onshore market. The People's Bank of China (PBC) has set the daily RMB fixing to cap the RMB at around 7.25 yuan per dollar ahead of and during the Party Congress. Today, the PBC continued setting the daily RMB fixing stronger than expected by 891 pips at 7.119. A survey on traders suggested that the PBC will likely ease its tight-ranged daily RMB fixing after the Party Congress. In the offshore market, RMB depreciated to 7.276 (-0.3%). **Chinese equities declined (CSI 300: -0.3%).** Market sentiment remained weak amid concerns about the COVID situation, with some additional lockdowns (including in Xi'an). Markets were also disappointed that the Party Congress did not offer new stimulus measures to support the economy. Share prices of semiconductor-related firms declined on the news that the U.S. administration is exploring the possibility of new export controls that would limit China's access to powerful computing technology. **Liquidity remained ample** as the key interbank repo rate (DR007) was at 1.68%, well below the policy rate at 2.0%. CGB yields increased (1-year: +1 bp; 10-year: +1 bp).



Poland

Polish local bond yields have increased sharply, and are up 40 bp, to 9%, their highest level in a decade. Yields have increased by 346 bp since mid-August and 112 bp this week, more than in other neighboring central and eastern European countries. The selloff in local bonds in Poland accelerated after the Central Bank surprised markets by pausing rate hikes on October 5 (at 6.75%), even though inflation reached 17.2% for September. With elections on the horizon next year, market participants are fearing that the country is prioritizing growth over curbing inflation. Market confidence was further hit this week when the EU said that it could withhold up to 75 billion euros in cohesion funds over

CEE: Local Currency 10Y Bond Yields



concerns about the rule of law in Poland (in addition to 35 billion euro in post-pandemic aid which have already been withheld).

Colombia

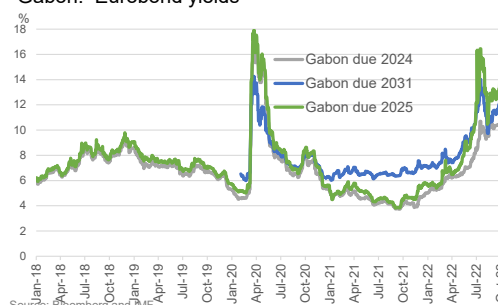
The peso extended weakening after President Petro's comments on energy production failed to assure investors. President Petro said oil, gas and coal producers can continue operating with their existing contracts, but markets took no comfort from this as it remains unclear whether new contracts will be awarded. Oil and coal currently account for about half of Colombia's exports. The peso continued weakening by another 1.3%, fueling speculations that the central bank will either intervene in the FX markets or shift to a more hawkish tone. In the last policy meeting, Banrep hiked the benchmark rate by 1% when markets were expecting a 150bps hike.

Gabon

Bloomberg reports that Gabon is in talks with The Nature Conservancy (TNC) to reorganize as much as \$700 million of its eurobond debt to fund marine conservation.

Gabon's environment minister said this week that TNC would buy the bonds and then sell debt to Gabon at a lower interest rate and with a longer maturity. The differential would be used to fund marine conservation at around \$5 million a year for about 15 years and a fund will be created to finance programs after that date. A final agreement is expected in the first quarter of 2023. TNC announced a \$50 million transaction with Barbados in September, \$364 million with Belize last year and pioneered the concept with the Seychelles in 2016.

Gabon: Eurobond yields



Source: Bloomberg and IMF

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Global Financial Indicators

10/21/22 8:14 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3652	-0.8	2	-4	-20	-23	-14
Europe		3438	-1.6	2	-2	-17	-20	-13
Japan		26891	-0.4	-1	-1	-7	-7	2
China		3743	-0.3	-3	-3	-25	-24	-19
Asia Ex Japan		57	0.6	-1	-9	-35	-31	-28
Emerging Markets		35	0.6	0	-6	-33	-29	-27
Interest Rates			basis points					
US 10y Yield		4.31	7.7	29	78	260	280	231
Germany 10y Yield		2.51	10.6	16	62	261	269	228
Japan 10y Yield		0.26	0.1	1	0	17	19	6
UK 10y Yield		4.10	18.3	-24	79	289	313	262
Credit Spreads			basis points					
US Investment Grade		190	0.5	-4	27	100	78	47
US High Yield		499	-0.8	-25	12	185	162	93
Europe IG		129	4.4	-2	7	79	82	58
Europe HY		624	20.7	-2	23	368	382	272
Exchange Rates			%					
USD/Majors		113.51	0.6	0	3	21	19	18
EUR/USD		0.97	-0.6	0	-1	-16	-14	-14
USD/JPY		151.7	1.0	2	5	33	32	32
EM/USD		48.2	-0.4	0	-2	-12	-8	-9
Commodities			%					
Brent Crude Oil (\$/barrel)		93	0.5	1	5	22	27	7
Industrials Metals (index)		143	-1.7	-2	-6	-17	-17	-24
Agriculture (index)		67	-1.0	-1	-4	17	10	-4
Implied Volatility			%					
VIX Index (% change in pp)		30.1	0.2	-1.9	2.2	15.1	12.9	-0.9
US 10y Swaption Volatility		166.4	4.6	8.4	34.7	90.2	87.4	72.1
Global FX Volatility		12.4	0.0	-0.2	1.1	5.6	5.0	5.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		260	-5.1	0	4	148	109	20
Italy		236	1.3	-8	12	132	101	65
Portugal		104	-0.3	-4	1	53	40	13
Spain		112	-0.5	-5	-1	50	38	9

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 10/21/2022 8:15 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		7.25	-0.4	-0.7	-3	-12	-12	-13		2.8	2.0	4	10	-25	-2	-2
Indonesia		15632	-0.4	-1.3	-4	-10	-9	-8		7.7	13.6	27	45	157	127	115
India		83	0.1	-0.4	-3	-9	-10	-10		7.6	-4.0	-1	-1	101.8	134	
Philippines		59	0.3	0.3	-1	-14	-13	-13		5.8	0.0	-1	13	143	133	83
Thailand		38	-0.5	-0.1	-3	-13	-13	-16		3.3	-2.0	11	35	143	145	108
Malaysia		4.74	-0.2	-0.7	-4	-12	-12	-12		4.6	8.7	11	36	96	98	90
Argentina		153	-0.2	-1.4	-6	-35	-33	-30		88.7	169.9	103	636	3950	3816	4076
Brazil		5.25	-0.7	1.4	-2	8	6	-5		11.7	-10.3	-12	10	-48	103	20
Chile		992	-1.3	-3.0	-6	-18	-14	-20		6.8	12.0	24	-3	78	135	86
Colombia		4904	-1.3	-6.6	-10	-23	-17	-20		11.8	0.0	52	208	515	536	390
Mexico		20.10	-0.3	-0.1	0	1	2	1		9.4	-3.0	4	53	171	190	158
Peru		4.0	0.0	0.0	-2	-1	0	-6		8.7	0.1	-11	42	273	276	266
Uruguay		41	0.1	-0.1	-1	6	8	3		11.5	0.0	-5	14	350	280	338
Hungary		425	-1.8	1.0	-3	-26	-24	-25		11.1	5.0	83	159	727	658	628
Poland		4.92	-1.0	0.3	-1	-20	-18	-18		7.9	25.3	74	189	518	436	399
Romania		5.1	-0.5	0.5	-1	-16	-14	-13		9.3	11.8	18	124	483	448	415
Russia		61.5	0.1	2.2	-1	16	22	33		9.3	-85.1	-25	76	119	57	-184
South Africa		18.5	-1.1	-0.8	-4	-21	-14	-18		9.9	16.0	46	72	215	250	234
Turkey		18.60	0.0	-0.6	-1	-49	-28	-26		10.7	3.0	-270	-88	-957	-1360	-1170
US (DXY, 5y UST)		114	0.6	0.2	3	21	19	18		4.49	4.5	22	72	325	323	259

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)			YTD	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
								basis points								
China		3743	-0.3	-3	-3	-25	-24	-19		205	1	10	-3	2	-3	
Indonesia		7018	0.5	3	-2	6	7	1		205	-6	24	33	40	20	
India		59307	0.2	2	2	-2	2	4		208	9	45	65	76	54	
Philippines		5984	-1.2	1	-4	-18	-16	-19		163	0	26	54	62	26	
Thailand		1591	-0.1	2	-2	-3	-4	-6		0	0	0	0	0	0	
Malaysia		1446	0.6	5	2	-9	-8	-9		121	1	22	-8	4	-12	
Argentina		136139	-0.3	-3	-7	57	63	49		2755	-55	351	1134	1075	1018	
Brazil		117171	0.8	3	5	9	12	5		289	-27	-9	-20	-22	-42	
Chile		5139	1.0	3	-4	27	19	17		192	-8	13	32	52	18	
Colombia		1223	2.1	4	2	-13	-13	-19		524	42	101	239	176	132	
Mexico		46315	0.2	1	-1	-11	-13	-10		443	-16	11	97	111	73	
Peru		20164	0.2	1	3	-3	-4	-14		233	-5	21	74	83	43	
Hungary		40075	-0.9	1	2	-27	-21	-16		308	-20	53	196	184	155	
Poland		46615	-1.4	0	-6	-37	-33	-26		68	15	50	34	36	52	
Romania		10887	0.4	2	-4	-15	-17	-18		377	-12	75	180	184	145	
Russia		2025	0.0	4	-5	-52	-47	-34		3411	-577	938	3228	3234	2897	
South Africa		64974	-1.2	1	-2	-2	-12	-13		477	-37	32	126	122	88	
Turkey		3929	0.7	8	21	170	111	95		586	-44	-27	84	8	23	
Ukraine		519	0.0	0	0	-1	-1	0		4197	9	780	3712	3438	2724	
EM total		35	-1.2	0	-6	-33	-29	-27		471	-11	37	102	84	13	

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

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