



- US Treasury investors are the most net long in two years ([link](#))
- US corporate stock buybacks are on pace for an annual record ([link](#))
- Euro area lenders question potential changes to terms of TLTRO program ([link](#))
- UK government delays fiscal statement to 17 November ([link](#))
- EM FX reserves have shrunk by 8% in 2022 according to Bloomberg ([link](#))
- Analysts remain unconvinced by Hungary's unorthodox monetary policy ([link](#))

[Mature Markets](#)


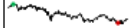

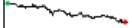
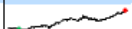






[Emerging Markets](#)

[Market Tables](#)

European yields rise ahead of ECB, while Fed expectations are scaled back

Markets are mixed today with a good deal of regional variation. Stocks in Asia rose, led by China shares, while those in Europe are modestly lower. Meanwhile US equity futures are pointing to a weak trading session especially in the technology sector, as large tech firms including Microsoft and Alphabet Inc. gave disappointing updates in their earnings releases. For tomorrow's ECB meeting, markets have nearly fully priced a 75 bp hike, but focus may be more on what the bank decides to do on TLTRO lending. With talk surrounding potentially changing the terms of the facility, banks have begun openly questioning the legal risks of such a move. Unlike sovereign bond yields in Europe, US yields are lower for a second straight day as weak data releases increase the market's view that the Fed will begin scaling back the pace of rate increases after the November meeting. Chinese authorities affirmed that they would ensure the development of financial markets, boosting domestic equities as well as the currency, with the yuan rallying over 1% versus the dollar for its largest one day gain in two years.

Key Global Financial Indicators

Last updated: 10/26/22 8:06 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3859	1.6	4	6	-16	-19	-9
Eurostoxx 50		3571	-0.4	3	7	-15	-17	-10
Nikkei 225		27432	0.7	1	3	-6	-5	4
MSCI EM		34	0.8	-3	-4	-34	-30	-28
Yields and Spreads			bps					
US 10y Yield		4.06	-3.9	-7	14	246	255	207
Germany 10y Yield		2.20	2.9	-18	8	232	238	197
EMBIG Sovereign Spread		563	-6	-3	46	207	196	150
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.9	0.7	1	1	-12	-7	-8
Dollar index, (+) = \$ appreciation		110.3	-0.6	-2	-3	17	15	15
Brent Crude Oil (\$/barrel)		94.1	0.6	2	12	9	21	-3
VIX Index (% change in pp)		28.5	0.0	-2	-4	13	11	-3

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

Mature Markets

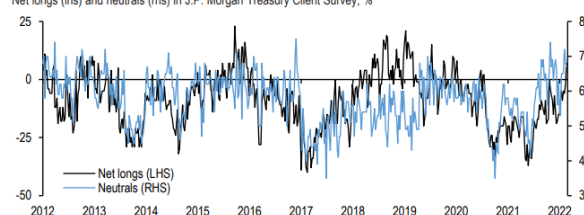
[back to top](#)

United States

On Tuesday, the S&P 500 rose 1.6% as traders continued to digest generally solid corporate earnings. US Treasury yields declined 3–14 bp across tenors, and the curve flattened on the back of weak economic data. US home prices fell faster than expected, and consumer confidence came in weaker than expected as concerns about inflation picked up again. The data encouraged the market view that the Fed may be approaching the end of aggressive tightening and slowing down the pace of rate increases. Meanwhile, the JP Morgan Treasury client survey turned net long for the first time since March 2021, showing the most net long since September 2020. However, analysts have a cautious view of the market, saying that the share of neutrals remains historically high, reflecting increasing uncertainty contributing to weak risk appetite.

Figure 1: Our clients are now the most net long in more than two year, but the share of neutrals remain historically elevated.

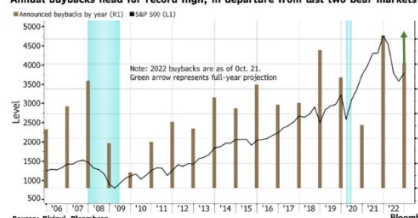
Net longs (lhs) and neutrals (rhs) in J.P. Morgan Treasury Client Survey, %



Source: J.P. Morgan

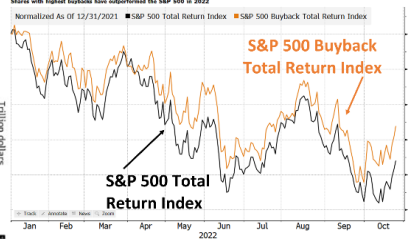
US corporates have announced repurchases of their stocks totaling \$ 1 tn this year, increasing 8% from a year ago and on course for an annual record (left chart), according to Bloomberg. As stocks were broadly sold off, with the S&P 500 declining nearly 20% year to date, and uncertainty about the economy remains high, companies have been willing to use discretionary cash for buybacks. According to Goldman Sachs analysts, over the last seven years, net corporate buybacks made up the largest source of equity demand compared with other investor categories. As more firms get out from the earnings-release blackout period, corporate demand could return as a reliable source of support for the markets. The S&P 500 Buyback index, tracking the 100 stocks with the highest repurchases, is outperforming the broader benchmark by 5 ppt this year (right chart).

Bucking Trend
Annual buybacks head for record high, in departure from last two bear markets



Source: Biviny, Bloomberg

Source of Support
Shares with higher buybacks have outperformed the S&P 500 in 2022



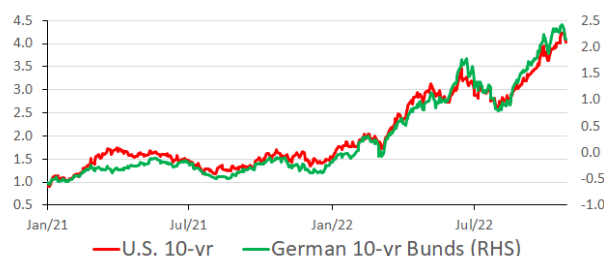
Source: Bloomberg

Euro Area

Equities (-0.2%) traded with a cautious tone ahead of tomorrow's ECB meeting. Bank stocks are little changed as euro area adjusted loan growth stood at +6.3% y/y in September. Analysts point out that lending growth increased in Germany and France, with weaker readings in Southern Europe. Household lending growth shows signs of cooling but remains relatively high.

German yields opened the session lower but have been trading higher, unlike US bond markets. Traders report relatively strong demand for core bonds in the past days following disappointing data in the euro area (PMI, IFO survey) and the US.

Core rates: 10-yr German and U.S. yields (%)

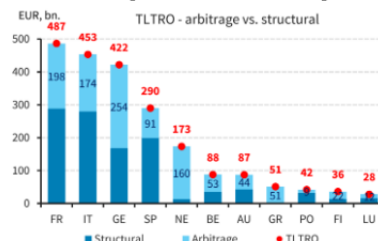


Source: Bloomberg and IMF staff

Italian 10-yr spreads are 4 bp higher. Yesterday, Italian PM Meloni said that “many consider the ECB to have taken a risky decision by hiking this summer” in addition to ending its net QE purchases, adding that this leaves member states with high debt levels especially vulnerable.

Some banks are openly questioning the ECB’s reported intention to change the terms of its TLTRO program pointing to “high legal risks” for the ECB. The European Savings and Retail Banking Group, a lobbying group, commented that the introduction of a reverse tiering system would be less harmful than changing TLTRO terms. Barclays estimates that euro area banks are using around €1.1tn (out of around €2.1tn of TLTRO-III borrowing) for arbitrage (rather than structural funding). TLTRO loan pricing sets the borrowing cost each year as the average depo rate over the life of the operation, creating a gap between the depo rate (which banks earn) and the TLTRO rate (which banks pay).

Euro area: Barclays estimates €1.1 tn of liquidity associated with TLTRO ECB lending to banks is held for arbitrage



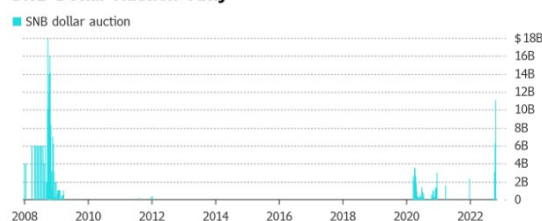
To compute structural funding, we take the amount of ECB funding in each country before the pandemic. We then add the increase in TLTRO eligible loans and government bonds since the start of the pandemic.

Source: Eurostat, ECB, Barclays Research

Switzerland

Swiss banks have not taken up any US dollars from the emergency dollar swap facility provided by the Federal Reserve to the Swiss National Bank (SNB) this week. Last week, 17 banks took up \$11 bn, a level not seen since the financial crisis of 2007-08. Contacts have pointed out that the tap of the US dollar swap line in recent weeks could have reflected liquidity management following new tiering whereby banks try to optimize their holdings in Swiss franc. The SNB has brought interest rates back into positive territory following a hike of 75 bp in September, but the SNB introduced reverse tiering: not all the sight deposits at the SNB will be remunerated at a positive rate.

SNB Dollar Auction Tally



Source: Swiss National Bank

Note: Duration in 2022 typically one week, in prior years durations went as long as 12 weeks

Bloomberg

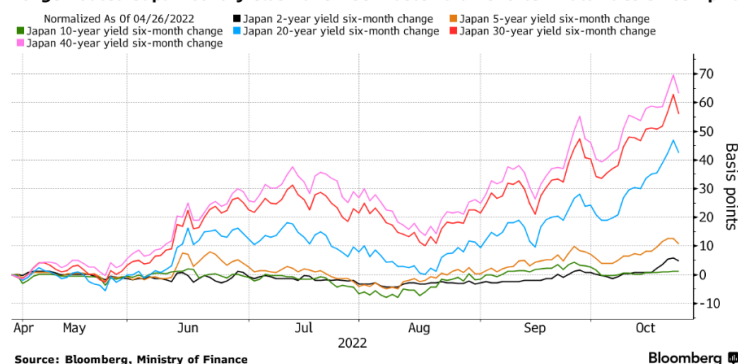
United Kingdom

The pound (+0.8%) outperformed and gilt yields remain volatile as the government has decided to delay its fiscal statement to 17 November. The BoE is expected to start Quantitative Tightening on 1 November and hike 75 bp on 3 November. The gilt curve steepened today, with 2-yr yields 8 bp lower and 30-yr yields 9 bp higher.

Japan

Japan's upcoming government stimulus package will reportedly be worth ¥25.1 tn (\$170 bn). Total stimulus, including local government and private sector spending, will amount to ¥67.1 tn (\$454 bn), Bloomberg reports. Also, Japan's government will reportedly gradually wind down gasoline subsidies from June 2023. Separately, the Bank of Japan (BOJ) boosted government bond purchases at its regular operations today, by ¥100 bn (\$674 mn) for 3–25-year bonds and by ¥50 bn (\$337 mn) for bonds of maturity exceeding 25 years. On data releases, services producer inflation mildly accelerated to 2.1% y/y in September (previous: 2%), while the final August leading index was revised upwards to 101.3, from 100.9. Equities gained 0.6%, the yen appreciated 0.6%, 10-year yields were little changed.

Longer-dated Japan bond yields have risen faster than shorter maturities since April



Emerging Markets

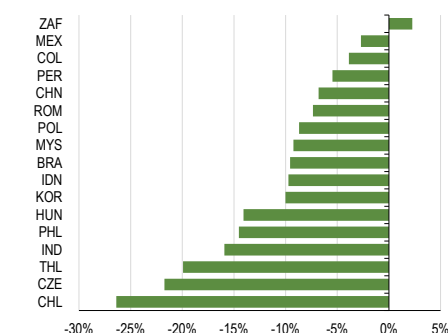
[back to top](#)

Asian equities rallied +1.3% on net. Mainland China equities jumped (Shanghai: +0.8%, Shenzhen: +1.8%), Hong Kong SAR firmed +1%. Asian currencies mostly strengthened. The Chinese yuan appreciated (onshore: +1.3%, offshore: +1.5%), and the Thai baht strengthened 1.4%. 10-year yields mostly slipped or were unchanged. Malaysia fell -9 bp, Vietnam climbed +7 bp. Separately, the Bank of Thailand, Hong Kong Monetary Authority, and others completed their first pilot project using wholesale central bank digital currencies covering 164 transactions worth \$ 22mn. **EMEA markets opened strongly.** Equity markets are up in most countries, with strong gains in Poland (+1.4%) and the Czech Republic (+1.3%). The South African rand is up 0.9% vs the dollar ahead of the medium term budget presentation later today. Central and European currencies are broadly flat to the euro, with the exception of the Hungarian forint, which is gaining 1% against the euro after the central bank left monetary policy unchanged as expected yesterday. The announcement this morning by the EU funds minister that Hungary was ready to accommodate further EU demands to obtain EU funds also helped support the currency. Central and eastern European bond yields are continuing to stage an impressive rally. Since the start of the week, Hungarian 10y yields have rallied 82 bp to 9.7%, Polish yields have decreased 86 bp to 7.8%, and Czech yields are down 38 bp to 5.7%. **LatAm markets staged a recovery on Tuesday.** Most regional equities were up, while currencies appreciated on broader USD weakness. However, markets in Brazil continued to slide as equities closed 1.2% lower and the real was down 0.3%. Further, Brazil's mid-month inflation data (IPCA-15) came in at 6.85%, higher than the consensus estimate of 6.78%. In Mexico, the Aug economic activity grew at 5.7% (consensus estimates of 3.1%) which is the highest level since July 2021. Local markets reacted positively to the news—equities and the currency were up 1.8% and 0.3%, respectively.

EM FX reserves

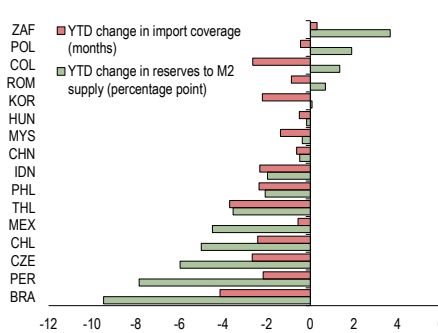
International reserves in EMs have declined by 8.1%, or \$450 bn, in 2022, per a Bloomberg report which analyzes 18 key EMs. The only exception being South Africa, whose reserves increased by 2.3%. Chile, Czech Republic, and Thailand lost more than a fifth of their reserves over the course of the year in nominal terms, China saw the largest nominal fall in reserves of ~\$220 bn. Further the report highlights, the decline in reserves has been more rapid than the overall fall in imports and near money supply (typically reserves to broad money is used to measure the demand for foreign assets domestically, however the report uses narrow money instead due to data availability issues). While coverage of imports by reserves has worsened in all EMs except South Africa, the reserves to money supply have declined in 12 EMs.

Figure 1. Declining EM FX reserves could raise liquidity concerns for EMs



Sources: Bloomberg; and IMF staff calculations

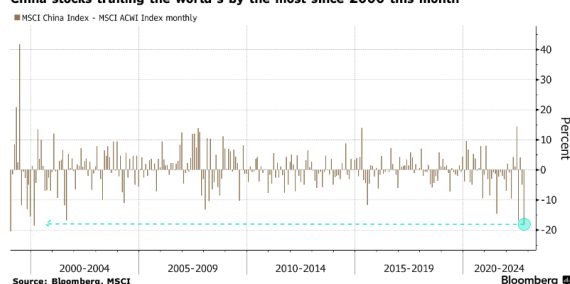
Figure 2. Key reserve adequacy indicators have worsened for most EMs



China

Equities rebounded (Shanghai: +0.8%, Shenzhen: +1.8%), after China's central bank and FX regulator affirmed yesterday that they would ensure healthy development of financial markets. However, China equity performance continues to severely lag that of global peers, Bloomberg notes. Separately, China's budget deficit widened to 7.2 tn yuan YTD (\$980 bn) in September, Bloomberg calculations showed. China's general public revenue fell -6.6% y/y YTD while general public spending climbed +6.2% y/y YTD. Goldman Sachs attributes China's recent fiscal challenges to slumping land sales, large-scale tax rebates and deferrals, and COVID control spending. The yuan appreciated (onshore: +1.3%, offshore: +1.5%). China state banks reportedly sold dollars in onshore and offshore markets late Tuesday to support the yuan, according to Reuters. 10-year yields were little changed.

China stocks trailing the world's by the most since 2000 this month

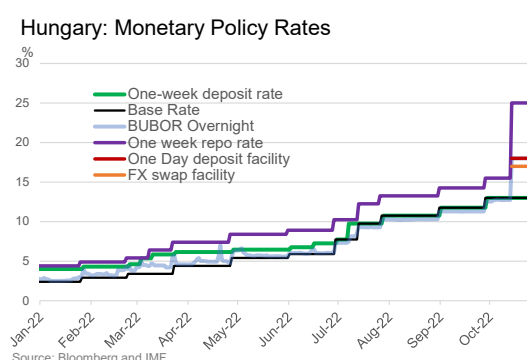


Source: Bloomberg, MSCI

Hungary

The Hungarian forint is appreciating (+1% to 410/euro) and 10y yields are rallying (-24 bp to 9.7%) after the National Bank of Hungary (NBH) left monetary policy unchanged as expected yesterday. The statement said that leaving the base rate at 13% is adequate to manage fundamental inflation risks and consistent with the achievement of the price stability objective over the monetary policy horizon. However, it added that it will continue to use the 1-day deposit facility and the FX swap facility which were introduced






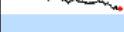
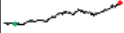



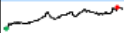

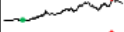
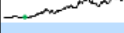

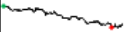





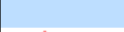

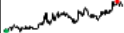

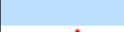

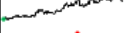
in mid-October, and which pay +18.0% and +17.0%, respectively, “as long as it is warranted” for the maintenance of market stability and developments in risk perceptions. In fact, these rates (in red and orange in the chart below), rather than the base rate (in black) currently anchor short-term market rates. Analysts were skeptical and remain unconvinced by Hungary’s non-orthodox policy. They think that monetary policy will likely have to remain tight for longer. Analysts at Goldman Sachs expect that the fundamental factors that are exerting depreciation pressures on the forint (high inflation, a large current account deficit and uncertainty about EU funds disbursements) are likely to remain in place in the near-term. They therefore think that the forint remains exposed to further bouts of weakness and shifts in market sentiment, which implies continued hawkish pressures on the MNB to keep monetary conditions tight going forward. JP Morgan analysts consider that the message suggests that tightening will be removed prematurely at the first sign of improvement, with the NBH dismantling the complex multi-rate structure, and moving the effective rate lower to the base rate at 13%. They point out that in the past it was actually always the base rate that had to converge higher with the effective rate, not the other way around.



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.

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Global Financial Indicators

10/26/22 8:06 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3824	1.6	3	5	-16	-20	-10
Europe		3571	-0.4	3	7	-15	-17	-10
Japan		27432	0.7	1	3	-6	-5	4
China		3657	0.8	-3	-6	-25	-26	-21
Asia Ex Japan		56	0.9	-4	-8	-37	-33	-30
Emerging Markets		34	0.8	-3	-4	-34	-30	-28
Interest Rates			basis points					
US 10y Yield		4.06	-3.9	-7	14	246	255	207
Germany 10y Yield		2.20	2.9	-18	8	232	238	197
Japan 10y Yield		0.25	-0.2	0	0	15	18	6
UK 10y Yield		3.66	2.6	-22	-58	255	269	218
Credit Spreads			basis points					
US Investment Grade		187	0.4	-5	10	102	75	44
US High Yield		498	3.6	-4	-17	182	160	91
Europe IG		117	0.4	-9	-17	68	69	45
Europe HY		572	6.2	-31	-83	318	330	220
Exchange Rates			%					
USD/Majors		110.29	-0.6	-2	-3	17	15	15
EUR/USD		1.00	0.5	3	4	-14	-12	-11
USD/JPY		147.1	-0.6	-2	2	29	28	28
EM/USD		48.9	0.7	1	1	-12	-7	-8
Commodities			%					
Brent Crude Oil (\$/barrel)		94	0.6	2	14	23	28	8
Industrials Metals (index)		148	1.9	4	4	-14	-14	-21
Agriculture (index)		68	0.1	0	0	16	11	-4
Implied Volatility			%					
VIX Index (% change in pp)		28.5	0.0	-2.3	-3.8	12.5	11.3	-2.5
US 10y Swaption Volatility		149.1	-4.6	-4.6	-9.9	78.1	70.1	54.8
Global FX Volatility		12.1	0.0	-0.4	-0.6	5.1	4.7	4.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		251	-0.6	-19	-9	134	99	11
Italy		224	3.4	-16	-21	113	89	53
Portugal		103	2.0	-4	-3	49	39	11
Spain		110	1.5	-5	-8	46	36	7

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 10/26/2022 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		7.18	1.3	0.7	-1	-11	-11	-12		2.8	-2.5	1	-1	-28	-4	-4
Indonesia		15563	0.4	-0.4	-3	-9	-8	-8		7.6	-3.3	17	26	163	126	114
India		83	-0.1	-0.4	-1	-9	-10	-10		7.6	0.1	-5	-19	99.5	131	
Philippines		58	0.6	0.9	1	-13	-13	-13		5.8	0.0	3	10	145	135	85
Thailand		38	0.6	1.4	0	-12	-12	-15		3.1	-9.0	-14	-6	129	130	92
Malaysia		4.71	0.5	0.1	-2	-12	-12	-11		4.4	-11.5	-3	1	82	83	75
Argentina		155	-0.2	-1.4	-6	-36	-34	-31		91.1	53.0	424	755	4107	4049	4309
Brazil		5.29	0.5	-0.3	2	5	5	-5		11.5	-48.0	-31	-47	-57	79	-4
Chile		954	1.1	2.2	4	-16	-11	-17		6.5	0.0	-10	-66	83	110	61
Colombia		4970	0.4	-4.1	-9	-24	-18	-21		11.2	0.0	-28	120	455	475	328
Mexico		19.82	0.3	1.4	3	2	4	2		9.4	0.0	-1	-13	161	184	152
Peru		4.0	0.0	-0.6	-2	-1	0	-7		8.6	-0.3	-4	17	269	272	262
Uruguay		41	0.1	0.2	0	6	8	3		11.5	0.0	0	6	344	280	338
Hungary		407	2.1	3.9	4	-23	-20	-21		10.6	-21.0	-43	89	683	611	581
Poland		4.75	0.8	3.4	4	-16	-15	-15		7.3	-4.0	-20	59	447	375	338
Romania		4.9	0.9	3.3	6	-12	-11	-10		9.0	-43.5	-2	76	460	421	388
Russia		61.6	-0.3	0.6	-5	13	22	33		10.9	0.0	160	204	246	217	-24
South Africa		18.0	1.1	1.6	0	-18	-11	-16		9.6	-9.0	-3	-15	178	212	196
Turkey		18.61	0.0	-0.1	-1	-49	-29	-26		11.1	9.0	57	-63	-899	-1321	-1131
US (DXY, 5y UST)		110	-0.6	-2.4	-3	17	15	15		4.23	-2.8	-12	4	306	297	233

	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		3657	0.8	-3	-6	-25	-26	-21		220	12	33	13	17	12
Indonesia		7044	-0.1	3	-1	7	7	2		221	1	34	52	56	36
India		59544	0.0	1	4	-3	2	4		227	17	68	85	95	73
Philippines		6122	0.8	0	2	-15	-14	-17		171	-7	28	63	70	34
Thailand		1596	-0.3	0	-1	-2	-4	-6		0	0	0	0	0	0
Malaysia		1455	0.7	4	3	-8	-7	-8		127	2	30	-1	10	-6
Argentina		143959	3.0	5	4	62	72	58		2512	-300	-26	861	832	775
Brazil		114626	-1.2	-1	5	8	9	2		283	-19	-19	-37	-28	-48
Chile		5164	1.1	2	0	22	20	18		186	-8	4	28	46	12
Colombia		1209	1.1	1	9	-14	-14	-20		479	-7	45	190	131	87
Mexico		48641	1.8	5	9	-7	-9	-5		417	-22	-35	69	85	47
Peru		20735	2.5	3	11	-1	-2	-11		215	-17	3	59	65	25
Hungary		40557	-0.1	1	5	-27	-20	-15		318	5	42	204	194	165
Poland		48217	1.1	4	2	-35	-30	-23		79	22	59	34	47	63
Romania		10885	0.1	1	2	-15	-17	-18		366	-18	38	167	173	134
Russia		2116	-0.7	7	9	-50	-44	-31		3411	-577	938	3228	3234	2897
South Africa		66215	0.6	1	4	-2	-10	-12		452	-37	0	97	97	63
Turkey		3982	0.2	3	22	164	114	98		560	-39	-61	43	-18	-3
Ukraine		519	0.0	0	0	-1	-1	0		4267	138	644	3763	3508	2794
EM total		34	0.6	-3	-4	-34	-30	-28		457	-14	10	83	71	-1

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

[back to top](#)