Global Markets Monitor

THURSDAY, OCTOBER 27, 2022

- ECB hikes 75 bps and adjusts TLTRO terms (<u>link</u>)
- Inversion of US Treasury yield curve viewed as early sign of recession (link)
- Bank of Canada raises policy rate by a less-than-expected 50 bps (link)
- BoE expected to hike 75 bps despite postponement of fiscal assessment (link)
- Korea announces measures to stabilize money and corporate bond markets (link)
- Egypt reaches IMF staff-level agreement as central bank hikes 200 bps and devalues currency (link)
- South Africa expects stronger fiscal consolidation (<u>link</u>)
- Brazil's central bank leaves policy rate unchanged (link)

Mature Markets | Emerging Markets | Market Tables

One more jumbo hike of the ECB

European rates fell and the euro briefly dipped below parity after the ECB hiked its depo rate 75 bps and changed terms of its TLTRO loans to banks, but also pointed to substantial progress in withdrawing monetary policy accommodation. The broad US dollar firmed again even as the US yield curve continues to flatten, with a negative spread between 3-m and 10-yr yields seen as an early sign of recession. The Chinese yuan also weakened. Yesterday, the central bank of Canada raised its policy rate by a less-than-expected 50 bps while the central bank of Brazil left rates unchanged. Meanwhile, the Bank of Korea announced measures to stabilize money and corporate bond markets.

Key Global Financial Indicators

Last updated:	Leve		(
10/27/22 1:07 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				•	%		%
S&P 500		3831	-0.7	4	5	-16	-20
Eurostoxx 50	and the same of th	3572	-0.9	2	7	-15	-17
Nikkei 225	my my man	27345	-0.3	1	4	-5	-5
MSCI EM	and the same	35	1.6	1	-2	-33	-29
Yields and Spreads							
US 10y Yield		4.07	6.7	-16	12	253	256
Germany 10y Yield		2.20	8.6	-21	-3	238	237
EMBIG Sovereign Spread	~~~~~	551	-11	-15	25	195	184
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation	and more	48.7	-0.3	0	1	-12	-7
Dollar index, (+) = \$ appreciation		110.1	0.4	-2	-4	17	15
Brent Crude Oil (\$/barrel)	- Marine	96.0	0.3	4	11	13	23
VIX Index (%, change in pp)	manning	27.6	0.3	-2	-5	11	10

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

Mature Markets

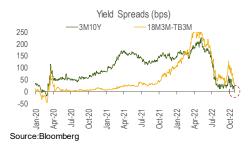
back to top

United States

In data released this morning, Q3 GDP increased 2.6% q/q annualized, higher than expected of 2.4% following the decrease of 0.6% in Q2. Personal consumption increased 1.4% (consensus:1.0%). Weekly initial jobless claims slightly increased to 217k from 214k and were slightly better than expected (consensus 220k); continuing claims recorded 1438k versus expected 1390k. Durable goods orders (0.4% m/m vs. 0.6% expected) and durable goods ex-transportation (-0.5% m/m vs. 0.2% expected) came in weaker than expected. US bonds had rallied after ECB announcement and reversed some of the moves after data release.

Yesterday, the S&P 500 (-0.7%) fell after a three-day winning as tech shares drove the losses. Meta declined in after-hours trading as Q3 revenue beat the average analyst estimate while the forecast was softer. US Treasury yields dropped 6–10 bps across tenors, mainly attributed to lower break-even rates, after soft economic data and BoC's surprise smaller hike bolstering the narrative that the Fed can soften the pace of hikes later this year. A strong 5-year Treasury auction supported the rally.

The US yield curve continues to flatten, and the spread between 3-month and 10-year yields declined to negative territory, which is seen as an early sign of recession. US new home sales decreased 10.9% to 603k annualized pace as high mortgage rates weigh on markets. Meanwhile, the 30-year mortgage rate rose to 7.16%, the highest level since 2001.



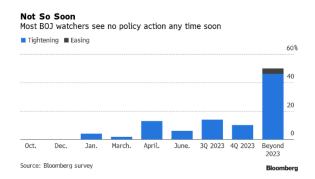
Canada

Bank of Canada (BoC) raised its policy rate by a less-than-expected 50 bps to 3.75% (consensus: 75 bps hike) and signaled the policy rate would need to rise further given elevated inflation and inflation expectations as well as ongoing demand pressures in the economy. BoC revised down its GDP forecast and expected economic growth in the next several quarters to slow to near 0%. BoC also expects inflation will fall from 7% in Q4 2022 to below 3% by the end of 2023. In the press conference, the governor reiterated the need for further increases while he also said that BoC is getting closer to the end of the tightening phase. BoC decided to dial back the pace of tightening pace due to a considerably high policy rate after the previous two large hikes—100 bps in July and 75 bps in September—combined with clear signs of economic slowdown. Markets are pricing an additional 50 bps increase by early next year. The Canadian dollar depreciated, government bond yields fell, and stock prices increased after the decision.

Japan

Japanese yen appreciated (+0.4%) amid a broad-based weakening of US dollar. Markets are focusing on the Bank of Japan (BOJ)'s policy meeting tomorrow, with expectations of no changes in the BOJ's policy setting. The government's economic stimulus package may also be revealed tomorrow; reportedly, the spending will increase to 29 tn yen (\$199 bn) from the 25 tn yen (\$171 bn) previously planned.

The 10-yr JGB yield was trading near the 0.25% limit, closing at 0.251%. Today, the BOJ conducted fixed-rate bond purchases in an amount of 576 bn yen (\$4 bn). The BOJ's yield curve control appears to be broken, with yields surrounding the 10-year tenor exceeding the 10-year yield. The demand for the OBJ's securities lending facility remained strong as the cheapest-to-deliver gross basis was still large at 23.3 bps. Japanese equities declined (NIKKEI: -0.3%).



Euro area

Sovereign yields fell (10y bunds -4ps) while the euro extended losses (-0.7%) after the ECB hiked its policy rates by 75 bps and indicated that further tightening is expected. The rate hike was in line with expectations. The statement also noted that the Governing Council decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III)—adjusting the interest rates applicable to TLTRO III from November 23 onwards and also offering banks further voluntary early repayment rates. The remuneration minimum reserves held by credit institutions is now set at the ECB's deposit rate. Further details around changes to TLTRO III will be published separately later today. Banking shares reversed opening gains and traded 0.4% lower. Principal reinvestments from securities under the Asset purchase programme (APP) will continue for an extended period of time, while those under the pandemic emergency purchase programme (PEPP) will be reinvested until at least the end of 2024.

Equities were mixed (Stoxx 600 Europe index -0.5%) ahead of the ECB meeting where most analysts and traders expect the ECB to hike by 75 bps. The euro weakened (-0.4% to 1.003 against the dollar) after edging over parity yesterday. Sovereign yields increased with the 10y bund yield up 7 bps to 2.18%. Southern spreads were little changed this morning, with the Italian 10y spread 3 bps higher at 224 bps. In Italy PM Meloni won the Senate confidence vote yesterday, and her government is now fully operational.

On the data front, consumer confidence data out of Germany surprised marginally on the upside but remains at historically low levels, while consumer confidence in Italy declined by more than expected and manufacturing confidence continued to deteriorate. Spain's Q3 unemployment rate increased marginally to 12.7% from 12.5%, and ING analysts see further increases ahead against a bleak economic outlook.

United Kingdom

Muted gilt market reaction to the postponement of the long-awaited fiscal assessment until after the upcoming BoE meeting is seen as evidence of fiscal credibility of the new PM and Chancellor. Yesterday the government announced a delay in the Office for Budget Responsibility's (OBR) fiscal assessment to November 17, from October 31, to enable a more comprehensive assessment. According to media reports analysis set to be published today would show that the postponement could save the Treasury £15bn as the OBR would be able to take into consideration the sharp decline in gilt yields since

mid-October. Media articles also note that PM Sunak could be reconsidering tax rises and public spending cuts. The gilt market reaction yesterday was seen as relatively contained, with shorter term gilt yields lower (2y gilts -14bps; 10y gilts -6bps) while 30y gilt yields were little changed, despite concerns that a postponement could trigger renewed stress. This morning gilt yields increased across all maturities, but at a smaller magnitude than the increase seen in European sovereign yields.

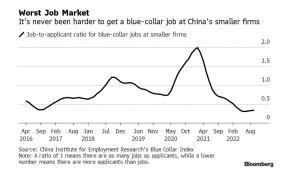
Analysts argue that the postponement of the OBR's assessment could add a hawkish tilt to the BoE meeting next week as the BoE will not be able to fully incorporate the fiscal tightening outlined by Chancellor Hunt last week, and thus expect a 75 bps hike but note that the odds of a 50 bps hike has increased. Markets are fully pricing in a 75 bps hike, with expectations now broadly similar to prior to the mini-budget announcement under the former PM in September.

Emerging Markets back to top

Most Asian equities gained, up 1.1% on net, but Chinese equities declined (CSI 300: -0.7%). Most Asian currencies also appreciated, led by Korean won (+0.6%), Indian rupee (+0.5%), and Taiwan dollar (+0.5%), on the back of a broad-based weakening of US dollar. The Chinese yuan depreciated (-0.6%). Overall market sentiment in the region improved, supported by expectations for a moderating pace of Fed's policy tightening. Long-end government bond yields declined, with 10-year yields falling in Malaysia (-6.2 bps), Indonesia (-5.4 bps), and Taiwan Province of China -4.7 bps). Markets in EMEA traded with a cautious tone ahead of the ECB meeting. Interest rates were generally a bit higher after the rally in local bonds in past days. Currencies were mixed. LATAM markets were mixed. The Mexican peso, while started the day strong, relented over the course of the day to close 0.3% lower against the USD. Markets in Brazil struggled amid domestic political uncertainties as the currency depreciated 1.2% and equities fell another 1.6%. In Chile, the government announced lowering of the sales tax cap (from 4% to 1%) in a proposed tax bill for copper mining companies after receiving complaints from the industry. However, equities closed 0.3% lower. Equity markets in Mexico (1.4%) and Peru (1.3%) were up.

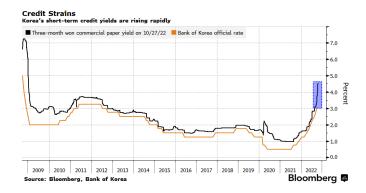
China

Chinese equities fell onshore but rose in the Hong Kong SAR market (CSI 300: -0.7%; Hong Kong SAR-listed: +0.5%). The rally in the Hong Kong SAR market was led by tech stocks, supported by the weakening US dollar and falling US treasury yields. Hiring activities are small firms remained near a record low last month. The blue-collar job index for SMEs, mostly in manufacturing and services, showed little improvement, with the number of applicants about three times more than the number of jobs available, amid zero COVID controls and the property sector crisis. Industrial profits during the first nine months fell 2.3% compared to the same period a year ago. RMB depreciated (-0.6%), touching 7.21 yuan per dollar. The People's Bank of China (PBC) set the daily RMB fixing at 7.157, still stronger than expected, though with a smaller deviation from expectations (59 pips). The PBC injected liquidity in an amount of 238 bn yuan (\$33 bn) to ensure easing liquidity conditions at the end of the month. The key interbank repo rate (DR007) was broadly unchanged at 2.02%, close to the policy rate. CGB yields dropped (10-year: -1.1 bps).



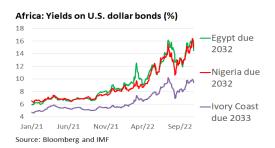
Korea

The Bank of Korea (BOK) announced measures to stabilize money and corporate bond markets. The BOK will temporarily broaden the eligible collateral for open market operations, lending facilities and guaranteeing net settlements. Currently, eligible collateral includes government bonds, monetary stabilization bonds, and government-guaranteed bonds. The measure, which will be in place for 3 months, will include bonds issued by banks and nine state-owned enterprises as eligible collateral. The BOK will also temporarily conduct repo transactions, up to 6 tn won (\$4.2 bn), with securities firms and Korean Securities Finance Corporation. The BOK indicated that such additional liquidity supply will be sterilized. Separately, the Financial Services Commission will ease the loan-to-deposit ratio from 100% to 105% for commercial banks. However, markets remained under stress, with the spread between 3-month commercial paper yield and (1-week) policy rate widening further to 154 bps this week from 125 bps last Friday. The economy grew 0.3% q/q in Q3, in line with expectations, moderating from a 0.7% expansion in Q2. Equities gained (+1.7%); Korean won appreciated (+0.6%).



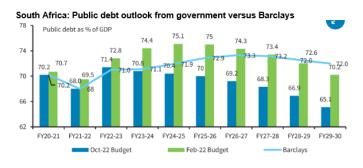
Egypt

IMF staff and Egyptian authorities have reached a staff-level agreement on a 46-m Extended Fund Facility of \$3 bn as Egypt unexpectedly devalued its currency (around 14%to 22.8 per \$) and hiked key interest rates by 200 bps to 13.25%. Contacts had expected Egypt and the IMF to eventually reach an agreement on a program and had been positioning for a weaker currency, but the announcement came earlier than expected. Yields on Egypt's US dollar bond yields edged lower.



South Africa

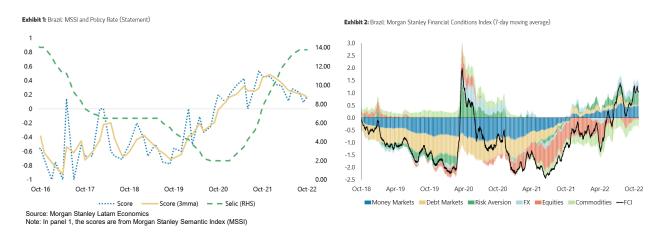
The rand (-0.8%) is weaker after outperforming yesterday on the back of a better-than-expected fiscal trajectory in the Medium-Term Budget Policy Statement. Higher revenue projections leave the government with a budget deficit forecast for the current fiscal year of 4.9% of GDP, compared to 6.0% in February. For next fiscal year, the government expects a fiscal deficit of 4.1% of GDP (4.9% in February). Analysts warn that significant fiscal risks remain. Barclays, for example, only expects gross debt as %GDP to peak at 73.3% of GDP in FY 26/27, compared to the 71.4% in FY 22/23 expected by the government. The bank expects a higher peak if the Treasury decides to migrate between one-third (1.9% of GDP) and two-thirds of Eskom's debt (3.8% of GDP) to the sovereign balance sheet.



Source: National Treasury, Barclays Research

Brazil

The central bank (BCB) left the policy rate unchanged at 13.75% for the second consecutive meeting, and in a unanimous decision. While this was widely anticipated, some analysts believe the tone to be more hawkish than was expected. In its statement the BCB highlighted that the recent declines seen in inflation is driven by volatile factors while consumer inflation is still high, and reiterated its willingness to embark on tightening cycle if inflation expectations fail to *anchor around its targets* of 3.25%. The 2023 inflation expectations have risen to 4.8% (from 4.6%), while the policy rate forecasts remained unchanged at 13.75% and 11.25% for 2022 and 2023, respectively. In addition, the central bank acknowledged "the process of normalization of monetary policy in advanced economies" has caused domestic financial conditions to tighten.



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), Mohamed Diaby (Economist, EP), 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), 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), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). 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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated:	Leve	el					
10/27/22 1:07 PM	Last 12m	Latest	1 Day	7 Days	ange 30 Days	12 M	YTD
Equities					%		%
United States	~~~~~~	3820	-0.7	4	5	-16	-20
Europe	my my	3572	-0.9	2	7	-15	-17
Japan	was a second	27345	-0.3	1	4	-5	-5
China	- Marie Mari	2983	-0.6	-2	-2	-15	-18
Asia Ex Japan	and the same	57	2.1	0	-5	-35	-31
Emerging Markets	- Marie Mari	35	1.6	1	-2	-33	-29
Interest Rates				basis	points		
US 10y Yield		4.07	6.7	-16	12	253	256
Germany 10y Yield		2.20	8.6	-21	-3	238	237
Japan 10y Yield	~~~~~~~	0.26	0.3	0	0	16	19
UK 10y Yield		3.60	2.8	-31	-90	262	263
Credit Spreads					points		
US Investment Grade		187	-0.8	-3	0	104	75
US High Yield		488	-5.6	-12	-44	171	150
Europe IG		116	2.5	-9	-22	67	68
Europe HY		564	6.7	-40	-106	309	322
Exchange Rates		440.40	0.4		%	47	4.5
USD/Majors		110.10	0.4	-2	-4 -	17	15
EUR/USD USD/JPY		1.00 146.7	-0.4	3 -2	5 1	-13 29	-12 27
IEM/USD	2mm	48.7	0.2 -0.3	0	1	-12	-7
Commodities	· V · · · ·	40.7	-0.3		%	-12	-1
Brent Crude Oil (\$/barrel)	Manuel	96	0.3	4	11	13	23
Industrials Metals (index)	- Jan	149	-0.7	2	6	-10	-14
, , ,	man way				•		
Agriculture (index)	mund human	68	0.5	0	0	16	11
Implied Volatility					%		
VIX Index (%, change in pp)	Why My www.	27.6	0.3	-2.4	-5.0	10.6	10.4
US 10y Swaption Volatility	man Manual	150.2	3.3	-12.3	-10.8	77.8	71.2
Global FX Volatility	manum	11.8	0.0	-0.6	-0.7	4.9	4.4
EA Sovereign Spreads			10-Ye				
Greece		251	-2.1	-15	-19	131	99
Italy	amount of the same	223	1.5	-12	-29	111	88
Portugal	monden	102	-0.4	-3	-8	47	38
Spain	mouton	109	-0.9	-4	-12	44	35

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)								
27/10/2022	Level		Change (in %)				Level		Change (in basis points)							
1:08 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		
		vs. USD	(+) = EM appreciation						% p.a.							
China		7.23	-0.8	-0.2	-1	-12	-12	monoran	2.8	-1.0	-1	-1	-30	-5		
Indonesia	~~~~~	15567	0.0	0.0	-3	-9	-8	· · · · · · · · · · · · · · · · · · ·	7.6	-6.4	6	20	155	120		
India	American de la constitución de l	83	0.3	0.3	-1	-9	-10		6.3	0.0	0	9		0		
Philippines		58	0.4	1.2	1	-13	-12	~~~~~~	5.8	0.0	3	10	145	135		
Thailand	~~~~~~	38	0.0	1.1	1	-12	-12	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	3.2	2.5	-15	-3	133	132		
Malaysia	^	4.72	-0.1	0.2	-2	-12	-12	~~~~	4.3	-10.5	-14	-8	76	75		
Argentina		155	-0.2	-1.4	-6	-36	-34		91.6	54.0	457	525	4156	4103		
Brazil	and the same	5.37	0.1	-3.0	0	3	4	and when	11.9	-15.9	5	1	-12	118		
Chile		953	-0.2	2.7	4	-16	-11	year warmen and	6.5	1.0	-19	-69	82	104		
Colombia	man man	4888	1.7	-1.0	-7	-23	-17	^	10.7	-1.0	-104	78	423	433		
Mexico	munde	19.94	0.0	0.5	2	2	3	an which was	9.3	-10.5	-12	-23	150	174		
Peru	- Mary	4.0	0.3	-0.1	-1	0	0		8.6	0.2	-10	6	260	266		
Uruguay	man	41	0.4	0.6	1	6	9		11.4	-9.9	-10	-4	334	270		
Hungary	manne	410	-1.3	1.7	3	-24	-21		10.7	8.0	-34	110	696	619		
Poland	~~~~~~	4.74	-0.7	2.9	5	-16	-15		7.4	16.5	-18	74	473	390		
Romania	Municipal	4.9	-0.8	3.2	6	-12	-11		9.0	-1.5	-17	63	457	419		
Russia		61.7	-0.3	-0.3	-5	15	22		10.9	-1.0	75	260	254	217		
South Africa	munorona	18.1	-0.9	1.2	0	-17	-12	and the second	9.6	12.5	-21	-8	184	214		
Turkey	J	18.61	0.0	-0.1	-1	-49	-29	man and a second	11.2	13.0	55	-52	-876	-1308		
US (DXY; 5y UST)		110	0.4	-2.5	-4	17	15		4.25	6.7	-19	7	310	299		

		Bond Spreads on USD Debt (EMBIG)											
	Level		Change (in %)				Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
						basis points							
China	- Andrew	3631	-0.7	-3	-5	-25	-27	~~~~~~	220	14	39	14	17
Indonesia	www.	7092	0.7	2	0	9	8	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	218	8	34	45	53
India	wwwww	59757	0.4	1	6	0	3	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	222	13	57	85	90
Philippines	sandy Mary	6231	1.8	3	6	-13	-13	~~~	174	6	35	64	73
Malaysia	wammy	1454	-0.1	3	4	-7	-7	why	125	3	29	-3	8
Argentina	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	145029	0.7	6	7	70	74	~~~~	2576	-235	-28	927	896
Brazil	~~~~~~~	112764	-1.6	-3	4	6	8	maynothing	290	-10	-20	-29	-21
Chile	manne	5151	0.0	0	-1	25	20	my my my my	181	-15	-6	23	41
Colombia	many man	1202	-0.6	-2	7	-14	-15	and the second	473	-30	21	185	125
Mexico	~~~~~	49327	1.4	7	10	-5	-7	war war	418	-25	-43	70	86
Peru	~~~~	21002	1.3	4	12	1	-1	Warmy May My	212	-19	-9	51	62
Hungary	my	40824	0.7	1	6	-25	-20		293	-13	14	177	169
Poland		48938	0.0	3	2	-33	-29	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	72	18	42	24	40
Romania	my	10845	0.4	0	1	-15	-17	and when the same of the same	348	-28	10	147	155
Russia		2146	1.2	6	10	-49	-43		3411	-577	938	3228	3234
South Africa	www.www.	66719	-0.6	1	4	-1	-9	marana	430	-52	-28	76	75
Turkey		3945	-0.8	1	21	160	112	mmunum	552	-35	-69	51	-26
Ukraine	<u> </u>	519	0.0	0	0	-1	-1		4266	99	589	3767	3507
EM total	morning	35	-1.4	1	-2	-33	-29	~~~~	449	-21	-4	77	63

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

back to top