GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, OCTOBER 28, 2022

- **Euro area yields higher as inflation was higher than expected in France, Germany and Italy** (link)
- **Analysts outline potential implications of US midterm elections** (link)
- **Foreign exchange daily turnover rises to all-time high of $7.5 tn** (link)
- **Bank of Japan keeps monetary policy unchanged as government announces stimulus package** (link)
- **BoE confirm 1 November as start date for Quantitative Tightening** (link)
- **EM bond issuance volumes improve in October** (link)
- **Turkey provides cost of FX-linked lira deposits** (link)

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Digesting ECB and euro area inflation surprises

Focus remains on the euro area after the ECB meeting yesterday and upside surprises in preliminary inflation data in France, Germany, and Italy today. On Monday, the euro area will publish aggregate data (headline inflation of +9.8% yoy expected). More hawkish commentary from ECB officials also drove sovereign yields higher. Contacts generally expect the ECB to hike 50 bps in December, but views on tightening thereafter are mixed. Turning to the US, the PCE deflator was slightly lower than expected with the quarterly employment cost index in line with consensus. The Bank of Japan kept monetary policy unchanged as the government announced a new stimulus package. **Investors active in emerging markets will closely follow the final round of the Brazilian elections this weekend.**

Key Global Financial Indicators

Last updated: 10/28/22 12:38 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3807	-0.6	4	2	-17	-20
Eurostoxx 50		3585	-0.6	3	7	-15	-17
Nikkei 225		27105	-0.9	1	5	-6	-6
MSCI EM		35	-0.8	-1	-4	-33	-29
Yields and Spreads			bps				
US 10y Yield		3.99	7.5	-22	26	241	248
Germany 10y Yield		2.11	14.9	-31	-1	225	229
EMBIG Sovereign Spread		554	3	-13	19	196	187
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		48.7	-0.3	0	0	-12	-7
Dollar index, (+) = $ appreciation		110.7	0.1	-1	-2	19	16
Brent Crude Oil ($/barrel)		96.5	-0.5	3	8	14	24
VIX Index (%, change in pp)		27.2	-0.2	-2	-3	11	10

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

Mature Markets

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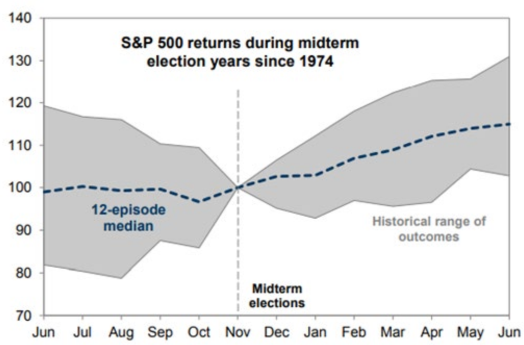
United States

In data released this morning, US inflation data came in slightly lower than expected, with the PCE deflator, the Fed's favored price gauge, rising 6.2% y/y in September (vs. 6.3% expected) from a 6.2% in August, and increasing 0.3% mom (vs. 0.3%). The core deflator was up 5.1% y/y (vs. 5.2%) and 0.5% m/m (vs.0.5%). Personal spending was stronger than expected (0.6% vs. 0.4% expected). **The quarterly employment cost index rose 1.2% in Q3, in line with the consensus.** Market impact was fairly muted with Treasury yields moving down about 3 basis points immediately after the release.

Yesterday, the S&P 500 (-0.6%) fell with tech shares driving losses. Amazon shares plunged in after-hours trading as sales forecast missed analysts' expectations. US 10-yr yield fell 8 bps to 3.9%, in line with European bond markets. **Volatility remains high; 10-yr yields declined more than 30 bps this week.**

Polling implies that a split government (Republican Party controlling either or both of House and Senate) is the most likely outcome at the US midterm elections on November 8. When it comes to the impacts on markets, **BoA analysts expect that a split government is unlikely to materially affect equity or bond markets as it is likely to mean gridlock for fiscal policy. However, they expect that a surprise outcome in which the Democratic Party retains control of both House and Senate could be a catalyst for pushing Treasury yield notably higher**. Morgan Stanley analysts have similar views: the surprise outcome of a Democrat *sweep* would likely boost the US dollar as investors anticipate a higher likelihood of further fiscal expansion leading to higher interest rate and growth expectations in the US. According to Goldman Sachs analysts, US equities typically rally following midterm elections as political uncertainty declines. **In the past episodes, the S&P 500 has generated a median return of 3% through year-end following midterm elections.**

Exhibit 4: Equities typically rise following midterm elections

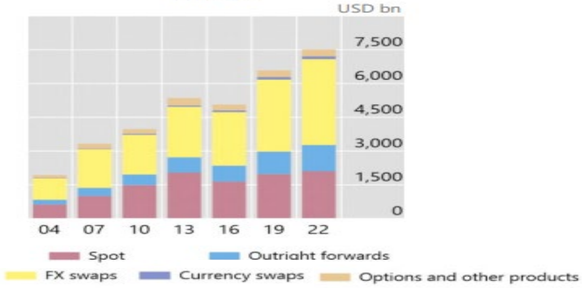


Source: Goldman Sachs Global Investment Research

Global Foreign Exchange Markets

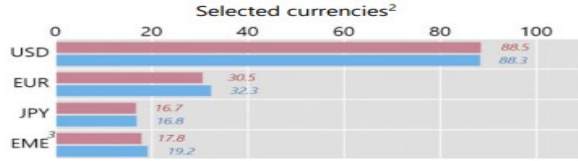
Average daily turnover in over-the-counter (OTC) foreign exchange markets increased to an all-time high of $7.5 tn in April 2022, up 14% from $6.6 tn in April 2019, according to the Bank of International Settlement (BIS)'s triennial survey for foreign exchange turnover. Inter-dealer trading is the main driver of the overall increase, reaching $3.5 tn or 46% of global turnover, which may have reflected the elevated volatility in the markets, according to BIS. FX swaps trading accounted for 51%, up from 49%, while the share of spot trades decreased to 28% from 30% in 2019. **In currency composition, the US dollar made up 88% (no change from 2019), the share for the euro declined to 31% from 32%, and those for the Japanese yen and the UK pound remained unchanged at 17% and 13%, respectively.** The share of the Chinese renminbi rose to 7%, and EM currencies (excluding the Chinese renminbi and Russian ruble) decreased to 17.8% from 19.2%.

FX market turnover by instrument
(daily averages in April 2022)
2004–22



Sourece:BIS

FX market turnover by currency
(daily averages in April 2022, as a percentage of total turnover)



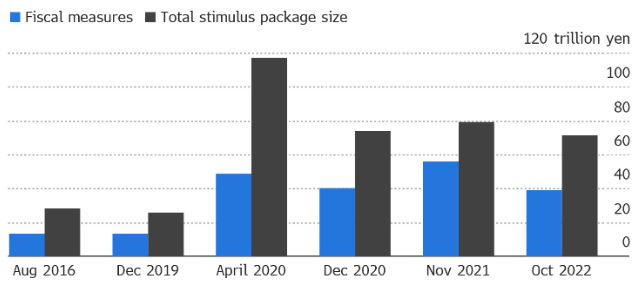
1 Adjusted for local and cross-border inter-dealer double-counting, ie "net-net" basis. 2 As two currencies are involved in each transaction, the sum of shares in individual currencies will total 200%. 3 Emerging market economy currencies excluding the Chinese renminbi and Russian rouble: AED, ARS, BGN, BHD, BRL, CLP, COP, CZK, HKD, HUF, IDR, ILS, INR, KRW, MXN, MYR, PEN, PHP, PLN, RON, SAR, SGD, THB,

Japan

The Bank of Japan (BOJ) kept its monetary policy setting unchanged, as expected. The policy balance rate and the 10-yr JGB yield target remain at -0.1% and 0.25%, respectively. The BOJ revised up its inflation forecasts, expecting CPI inflation at 2.9% (previously, 2.3%) for this fiscal year and 1.6% (1.4%) for the next fiscal year. Meanwhile, economic growth figures were revised lower. **Tokyo CPI inflation, a leading indicator for nationwide inflation, accelerated to 3.5% y/y in October, higher than expected.**

The government announced an economic stimulus package, with an aim to ease the impact of rising prices on consumers and companies. The total size of the package amounted to 71.6 tn yen ($500 bn), including fiscal spending of 39 tn yen ($270 bn), with the rest being funded by the private sector. The government is also seeking an extra budget in an amount of 29.1 tn yen ($199 bn), suggesting that part of the stimulus package would be funded by existing funds. Japanese yen depreciated (-0.9%) to 147.6 yen per dollar. Japanese equities declined (NIKKEI: -0.9%), similar to regional trends. The 10-year JGB yield edged down to 0.242% (-0.9 bp). There was no take-up for the BOJ's fixed-rate bond purchases today. Longer-end JGB yields fell (30-year: -3.2 bps). Market pressure on the BOJ's yield curve control remained intense, with the spread between 10-year OIS rate and JGB yield at 28.4 bps.

Stimulus Spree
The latest economic package aims to ease inflation pain



Sources: Cabinet Office, Bloomberg
Bloomberg

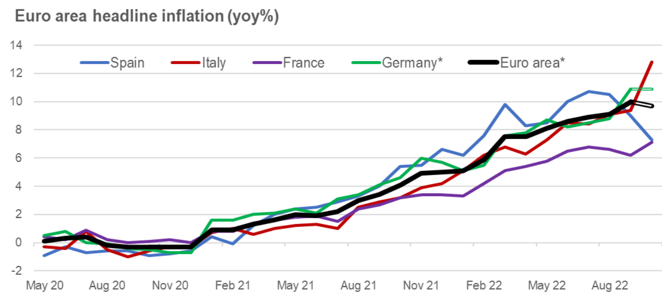
Australia and New Zealand

10-yr yields falling by 9.5 bps in Australia and 8.0 bps in New Zealand, following the decline in U.S. treasury yields. Both Australian dollar (-0.6%) and New Zealand dollar (-0.5%) depreciated amid the strengthening of US dollar. **In Australia,** PPI inflation accelerated to 6.4% y/y in Q3 from 5.6% in Q2, the highest level on record since data began in 1998, amid continued skilled labor shortages, raw materials supply constraints, and rising utilities prices.

Euro area

European equities were trading lower (Stoxx 600 Europe index -0.6%) and the euro weakened (-0.2% to 0.99 against the dollar) following upside inflation surprises. Data prints this morning showing upside surprises to preliminary October inflation in France and Italy, while analysts warn about upside risk to German inflation due later today after regional German prints also showed strong upward momentum. Inflation in Spain, in contrast, eased for the third consecutive month. Markets are focused on the euro area inflation print, due on Monday (+9.7%y/y expected).

Preliminary Q3 economic growth data showed surprise growth in Germany (+0.3%qoq vs expected -0.2%qoq from 0.1%), **and a slowdown in France and Spain**. ING analysts see an economic contraction in France in Q4 and the start of 2023 and see Spain falling into a mild recession this coming winter. Elsewhere on the data front **euro area economic confidence declined**, largely in line with expectations.



* Data for October 2022 are median Bloomberg forecast. For Spain, Italy and France October 2022 are prelimininary data prints.
Source: Bloomberg and IMF calculations

Sovereign yields increased sharply (10-yr bund +14 bps) following upside inflation surprises in and commentary from ECB officials. This follows after sovereign yields fell and traders pared back ECB hiking expectations yesterday in the aftermath of the ECB meeting, that most market participants generally saw as more dovish than expected. While the ECB delivered the second consecutive 75 bps hike, markets saw the delivery as leaning towards the dovish side as the ECB removed from this policy statement reference to tightening in 'several' meetings, that had been included in September policy statement.

Reuters reports that according to sources some ECB policymakers have played down the policy wording change, while the more dovish Governing Council (GC) members reportedly saw the change in wording as a victory, with expectations that the tightening cycle could end already in December or early next year. In separate remarks since the ECB meeting took place, several GC members spoke in support of further tightening but noted that the magnitude of hikes will be data-dependent. **Most analysts expect a 50 bps hike in December, with views on tightening thereafter mixed—as some see the December hike as the final hike before a pause, while others see the policy rate peaking in 2023.**

United Kingdom

The pound was trading weaker (-0.3% against the dollar, -0.2% against the euro) while sovereign yields resumed an upward trend (2y gilt + 15 bps; 10y gilt + 7 bps). According to media reports PM Sunak is considering tax increases and spending cuts that could amount up to £50bn. Bloomberg also reports that lenders are preparing to assist a growing number of customers that struggle to repay mortgages.

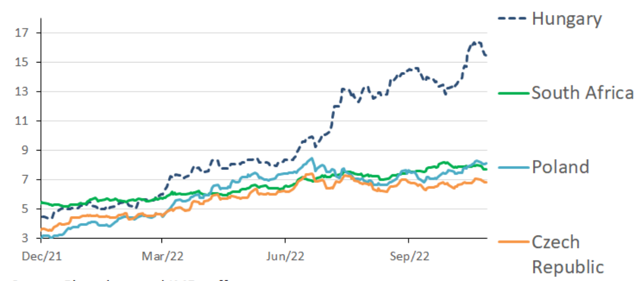
The Bank of England (BoE) confirmed that its first gilt sale would take place on November 1, as planned, while the second planned auction was postponed. The first £750m of gilt sales will take place on November 1, but due to the Chancellor's Autumn statement on November 17 the second auction was postponed to November 24 (originally set for November 17). **The Autumn Statement set to include detailed public finance forecasts and possibly a revised Debt Management Office schedule of sales, according to Bloomberg.**

Emerging Markets back to top

Asian markets retreated today. Asian equities declined, -2.7% on net, led by Hong Kong (-3.7%) and Chinese (CSI 300: -2.5%). Share prices rose in Singapore (+1.6%). Asian currencies depreciated, led by Taiwan dollar (-0.5%) and Chinese yuan (-0.4%). However, long-end government yields declined, with

10-year yields falling in Vietnam (-20.0 bps), Taiwan Province of China (-8.8 bps), and Singapore (-6.9 bps), following the decline in US treasury yields. **Equity markets in EMEA fell and bond yields are generally higher in relatively quiet trading conditions.** The Russian central bank left its policy rate unchanged at 7.5% later today. **LATAM currencies strengthened further yesterday, with those of Colombia (1.4%) and Chili (1.1%) registering highest gains. Media reports indicate former president Lula is widening his lead over the current president Bolsonaro ahead of the final round of presidential elections on Sunday.** While the real closed higher on Thursday, its one-week implied volatility has surged to the levels seen during the early days of COVID-19 pandemic, as per a Bloomberg report.

Eastern Europe and South Africa: 2-yr swap rates (local, %)



Source: Bloomberg and IMF staff.

EM bond issuance

Oct. bond issuance volumes rose 63% sequentially to $34.7 bn. This was driven by strong growth in sovereign issuance, which more than doubled from their September levels to $18.2 bn. **However, the sovereigns in CEEMEA region comprised 2/3 ($11.8 bn) of the month's sovereign issuance volumes, and which was largely concentrated in three countries, Saudi Arabia ($5 bn), Turkey ($2.5 bn) and Lithuania ($1.7 bn).** Outside CEEMEA, sovereign sectors of Philippines ($2 bn), China ($1.9 bn), and Uruguay ($1.4 bn) were the largest issuers. Corporate sector issuance declined to $3.9 bn (-9.8% m/m), while those of financial sector rose 55% m/m to $3.8 bn. **With this, the YTD EM bond issuance volume stands at $307 bn. vis-à-vis $683 bn for the corresponding period of 2021.**

Figure 1. EM bond issuance, by sector (bn. USD)

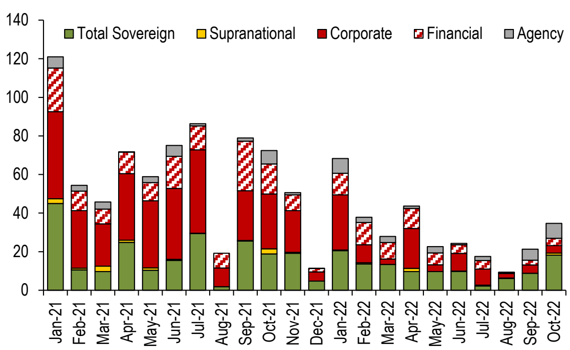
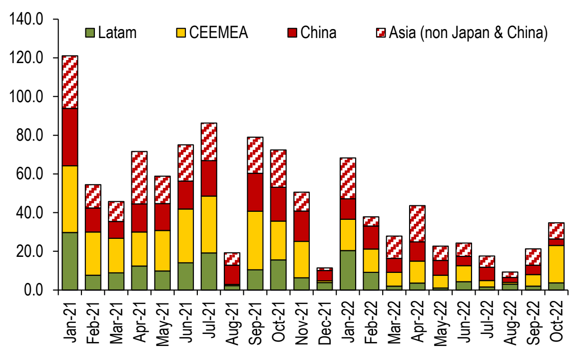


Figure 2. EM bond issuance, by region (bn. USD)



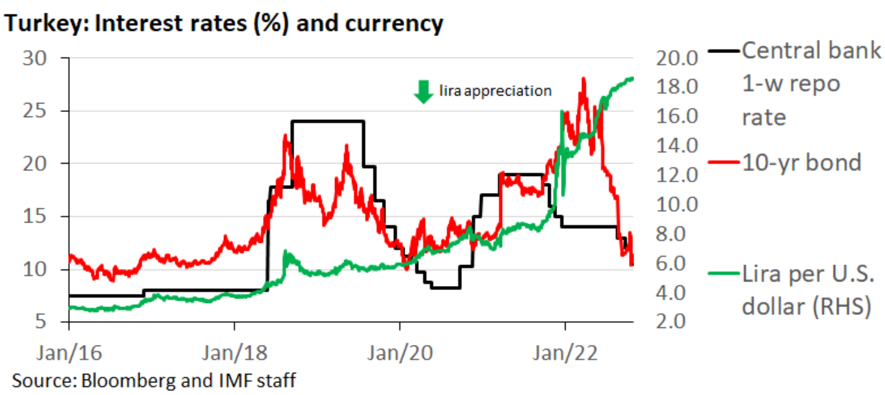
Note: Oct 2022 data are available until the 27th Oct.
Sources: Bond Radar, and IMF staff calculations.

China

Chinese equities declined (CSI 300: -1.3%; Hong Kong SAR-listed: -3.4%). Share prices have fallen substantially after the Party Congress, with cumulative weekly declines amounting to 8.9% for onshore equities and 8.3% for Hong Kong SAR-listed stocks. Investors were struggling to determine how long the latest market rout will persist given the recommitment to the zero COVID strategy and the lack of more supportive policy for the property sector. In recent days, targeted lockdowns and/or restrictions have been ramped up in a number of major cities. **Premier Li Keqiang reiterated pledges to stabilize the economy in Q4.** He voiced support for infrastructure spending and encouraged major projects led by private investors. He also noted that demand will be spurred by increasing welfare through employment, with an expansion of the welfare-to-work initiative to provide jobs and boost income and spending. **RMB depreciated (-0.4%).** The People's Bank of China (PBC) set the daily RMB fixing weaker than yesterday, though still stronger than expected by 392 pips. The PBC also injected liquidity in an amount of 88 bn yuan ($12.1 bn) to ensure ample liquidity at the end of the month. The key interbank repo rate stayed around the policy rate at 2.0%.

Turkey

According to media reports, Vice President Oktay said in parliament that the FX-linked deposits, introduced last year to boost lira deposits, have cost the government and central bank almost 150 bn liras ($8.1 billion). The program has reportedly cost the Treasury 85 bn liras, with the central bank covering the remainder. **In separate news, the central bank revised its inflation forecast by 4.8 points to 65.2% for end-2022, and by 3.1 points to 22.3 % for end-2023.** The governor also pointed out that the Turkish economy grew by 7.6% on an annual basis in Q2, with 2.7 points driven by net exports and 2.2 points by machinery-equipment investments. **According to Bloomberg, bank executives have expressed concerns about regulatory measures supporting government debt.** Local 10-yr yields currently trade around 11.4%.



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Global Financial Indicators

Last updated: 10/28/22 12:39 PM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		3807	-0.6	4	2	-17	-20
Europe		3585	-0.6	3	7	-15	-17
Japan		27105	-0.9	1	5	-6	-6
China		2916	-2.2	-4	-4	-18	-20
Asia Ex Japan		56	-1.1	-1	-7	-35	-32
Emerging Markets		35	-0.8	-1	-4	-33	-29
Interest Rates					basis points		
US 10y Yield		3.99	7.5	-22	26	241	248
Germany 10y Yield		2.11	14.9	-31	-1	225	229
Japan 10y Yield		0.25	-0.8	-1	0	16	18
UK 10y Yield		3.45	4.8	-60	-56	244	248
Credit Spreads					basis points		
US Investment Grade		190	2.2	0	3	107	78
US High Yield		493	-0.3	-7	-39	176	156
Europe IG		115	1.3	-11	-20	65	67
Europe HY		555	-0.2	-48	-96	297	313
Exchange Rates					%		
USD/Majors		110.74	0.1	-1	-2	19	16
EUR/USD		1.00	0.1	1	2	-15	-12
USD/JPY		147.2	0.6	0	2	30	28
EM/USD		48.7	-0.3	0	0	-12	-7
Commodities					%		
Brent Crude Oil ($/barrel)		97	-0.5	3	8	14	24
Industrials Metals (index)		147	-1.3	1	3	-13	-15
Agriculture (index)		67	-0.4	-2	-2	14	10
Implied Volatility					%		
VIX Index (%, change in pp)		27.2	-0.2	-2.5	-3.0	10.7	10.0
US 10y Swaption Volatility		151.2	2.1	-9.6	-7.5	78.0	72.2
Global FX Volatility		11.7	0.0	-1.1	-1.5	4.8	4.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		238	-5.9	-26	-35	118	87
Italy		207	2.3	-26	-34	88	72
Portugal		96	-1.2	-8	-11	40	32
Spain		104	-0.9	-8	-14	38	29

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

Emerging Market Financial Indicators

Last updated: 27/10/2022 1:08 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	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		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		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		5.37	0.1	-3.0	0	3	4		11.9	-15.9	5	1	-12	118
Chile		953	-0.2	2.7	4	-16	-11		6.5	1.0	-19	-69	82	104
Colombia		4888	1.7	-1.0	-7	-23	-17		10.7	-1.0	-104	78	423	433
Mexico		19.94	0.0	0.5	2	2	3		9.3	-10.5	-12	-23	150	174
Peru		4.0	0.3	-0.1	-1	0	0		8.6	0.2	-10	6	260	266
Uruguay		41	0.4	0.6	1	6	9		11.4	-9.9	-10	-4	334	270
Hungary		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		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		18.1	-0.9	1.2	0	-17	-12		9.6	12.5	-21	-8	184	214
Turkey		18.61	0.0	-0.1	-1	-49	-29		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

	Equity Markets							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		3631	-0.7	-3	-5	-25	-27		220	14	39	14	17
Indonesia		7092	0.7	2	0	9	8		218	8	34	45	53
India		59757	0.4	1	6	0	3		222	13	57	85	90
Philippines		6231	1.8	3	6	-13	-13		174	6	35	64	73
Malaysia		1454	-0.1	3	4	-7	-7		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		290	-10	-20	-29	-21
Chile		5151	0.0	0	-1	25	20		181	-15	-6	23	41
Colombia		1202	-0.6	-2	7	-14	-15		473	-30	21	185	125
Mexico		49327	1.4	7	10	-5	-7		418	-25	-43	70	86
Peru		21002	1.3	4	12	1	-1		212	-19	-9	51	62
Hungary		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		10845	0.4	0	1	-15	-17		348	-28	10	147	155
Russia		2146	1.2	6	10	-49	-43		3411	-577	938	3228	3234
South Africa		66719	-0.6	1	4	-1	-9		430	-52	-28	76	75
Turkey		3945	-0.8	1	21	160	112		552	-35	-69	51	-26
Ukraine		519	0.0	0	0	-1	-1		4266	99	589	3767	3507
EM total		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.

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