GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, OCTOBER 31, 2022

- **US pending home sales fall to almost record levels** (link)
- **Euro area flash headline inflation surprises to upside with core at 5%** (link)
- **China official PMIs slumped in October, indicating contracted activity** (link)
- **Lula da Silva wins Brazil's presidency by a narrow margin** (link)
- **Polish yields increase on October inflation data** (link)
- **Egyptian pound continues to depreciate** (link)
- **GMM special feature: EM Local Currency Bond Monitor (attached)**

Mature Markets | Emerging Markets | Market Tables

Markets remain volatile while inflation surprises on the upside

Sovereign yields edged higher this morning while the dollar strengthened as markets continue to evaluate the odds of the US Fed signaling a slowdown in future tightening at Wednesday's FOMC meeting. Equity markets were mixed with US futures indicating a lower open after a two-week rally. This morning data showed both preliminary Q3 euro area growth and October euro area inflation surprising on the upside. This follows last week's upside inflation surprises in Germany, France and Italy. Polish inflation was also marginally higher than expected. Concerns over food security is back in focus with wheat prices roughly 6% higher after Russia announced over the weekend that it would exit from the Black Sea grain-export deal. Vessels are, however, reportedly continuing to depart from Ukraine today, in line with the UN's announcement yesterday. In Brazil, former president Lula won the presidential election, in line with polls.

Key Global Financial Indicators

Last updated: 10/31/22 10:56 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		3901	2.5	4	9	-15	-18	-8
Eurostoxx 50		3616	0.1	2	9	-15	-16	-9
Nikkei 225		27587	1.8	2	6	-5	-4	4
MSCI EM		34	-0.6	-3	-2	-33	-30	-28
Yields and Spreads				bps				
US 10y Yield		4.05	3.8	-19	22	250	254	206
Germany 10y Yield		2.14	3.8	-19	3	225	232	191
EMBIG Sovereign Spread		540	-14	-38	-24	184	173	127
FX / Commodities / Volatility				%				
EM FX vs. USD, (+) = appreciation		48.5	-0.7	0	0	-12	-8	-9
Dollar index, (+) = $ appreciation		111.2	0.4	-1	-1	18	16	16
Brent Crude Oil ($/barrel)		94.5	-1.3	1	7	12	21	-2
VIX Index (%, change in pp)		26.9	1.2	-3	-5	11	10	-4

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

The week ahead will be dominated by Wednesday's FOMC meeting, with a rate hike of 75 bps rate priced in with virtually 100% probability. A 75 bps hike is also expected for the UK's BoE policy decision on Thursday. Other policy rate decisions scheduled for this week include (surveyed policy rate changes are shown in brackets): on Tuesday, Australia (+25 bps); on Thursday, Malaysia (+25 bps), Norway (+25 bps), and the Czech Republic (unchanged).

Mature Markets

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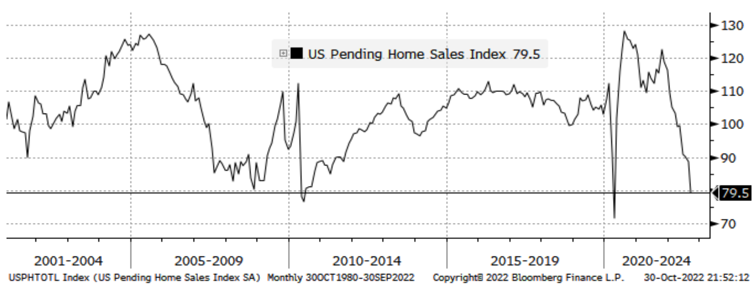
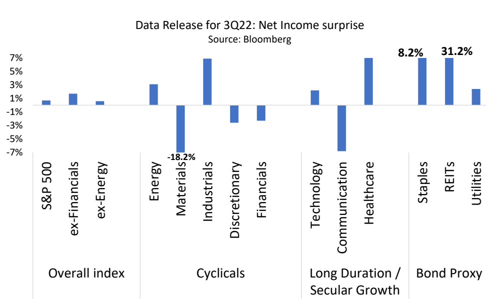
United States

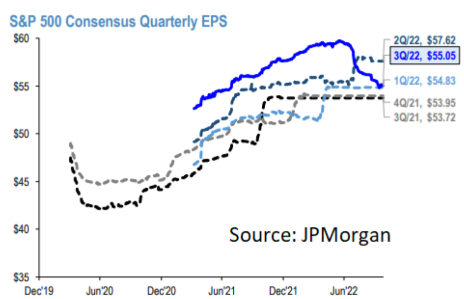
On Friday, the S&P 500 gained 2.5% and posted the best two-week performance since November 2020—supported by an improved expectations regarding the impact of the Fed's tightening. Technology stocks saw the biggest increase, supported by Apple Inc.'s 8% increase following a strong quarterly earnings report, despite a 7% drop in Amazon stocks following its forecast for the slowest holiday-quarter growth in company history. US Treasury 10Y nominal yields rose by 8 bps, mostly due to breakeven inflation. The US dollar index was little changed.

US pending home sales approaches record-low levels. The National Association of Realtors' index of contract signings to purchase previously owned homes (chart below) dropped by 10%, significantly exceeding the worst expectations for September data release. The index value stood at 79.5, close to a record-low for the last 20 years, except for two short periods in 2010 and 2020. As analysts expect mortgage rates to stay elevated for some time, the index may fall even further, reflecting accumulating strains in the housing market.



The released US corporate report figures remain close to expectations on average, while having significant variation of surprises across industries (left chart below). During the current reporting season, the average surprise (across reporting S&P 500 companies) to Net Income figures has been oscillating around zero. The figures were so close because the main impact of the Fed's tightening has already been reflected in the last months' trend of downward revisions to the expected 3Q22 figures (solid blue line on the right chart). The stark heterogeneity of the surprise values across different sectors (left chart) shows that the impact of tightening is not uniform across industries. Overall, the number of companies missing estimates is high by the historical standards—some analysts hope that the Fed will consider it as a sign of a cooling-down economy and, hence, will reduce the pace of expected policy rate hikes.

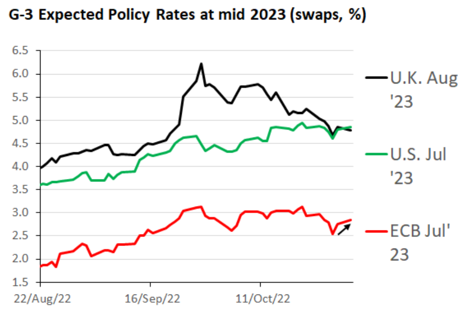




Euro area

Equities were little changed with the euro (-0.4%) settling back below parity against the US dollar. **Euro area yields are 4–5 bps higher as flash euro area headline inflation was higher than expected at 10.7% y/y in October (10.3% y/y expected).** Flash core inflation was 5.0% y/y (in line with expectations) with the monthly growth rate at 0.5% mom. Services inflation rose to 4.4% y/y, while energy inflation rose to 41.9% y/y, while food, alcohol and tobacco inflation was 13.1% y/y.

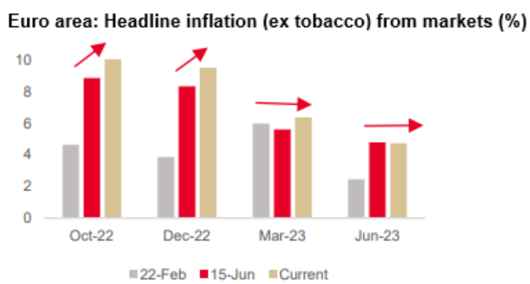
Money markets have priced in some additional rates tightening in the past two sessions as ECB President Lagarde renewed her pledge to tame consumer-price growth over the weekend, saying that "defeating inflation is our mantra, our mission, our mandate".



Source: Bloomberg WIRP and IMF staff

Some contacts are expecting the ECB to start "Quantitative Tightening" (QT) in spring 2023, once rates enter a restrictive territory, as it will be politically difficult for the ECB to not start unwinding quantitative easing. The QT pace is expected to be gradual and consistent with the capital key, with an annual reduction of about €150 to €200 bn expected in the APP portfolio. Other contacts believe that it will be harder (or almost impossible) for the ECB to actively sell bonds as they expect a recession and a material rise in sovereign financing needs in the first half of 2023.

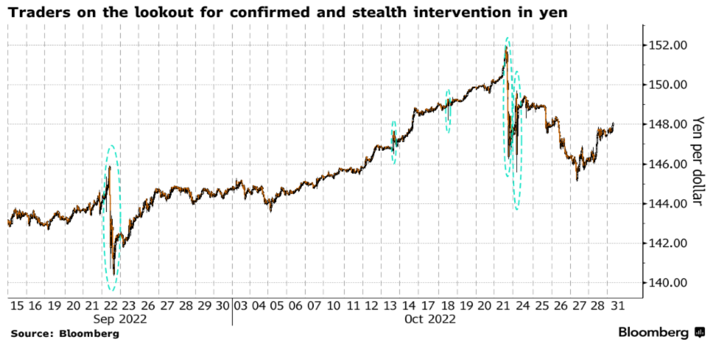
Analysts at SocGen believe that we could have seen a peak in the pace of rate hikes but not in core inflation yet, where they see a peak of 5.2% y/y in Q1 of 2023. Market fixings for headline inflation ex-tobacco point to a peak of 10.1% for October for HICP ex-tobacco, falling towards 9.5% in December and heading noticeably lower in 2023 albeit to still relatively elevated levels by June 2023.



Source: SocGen

Japan

Equities rallied +1.6% on corporate earnings optimism. Separately, **industrial production accelerated to +9.8% y/y in September,** below expectations amid a carmaker slump preliminary readings showed (consensus +10.5%, previous: +5.8%). Also, retail sales grew +4.5% y/y in September (previous: +4.1%). **The yen and 10-year yields were little changed.** Super-long bonds rallied, after the Bank of Japan (BOJ) announced on Friday increased frequency of super-long bond purchases for November. Nomura sees the BOJ's move as aimed at stabilizing bond markets.



Emerging Markets

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Asian equities were little changed on net (+0.2%). Taiwan, Province of China climbed +1.3%, while Mainland China (CSI 300: -0.9%) and Hong Kong SAR (-1.2%) dipped. Asian currencies mostly depreciated. Chinese yuan weakened -0.7% followed by Thai baht and Indonesian rupiah (-0.3%). 10-year yields were mostly little changed. Taiwan, Province of China climbed +5.4 bps. Hong Kong SAR GDP slumped -2.6% q/q in Q3 (previous: +1%), as investments (-14.3%), goods exports (-15.5%), and services exports (-3.5%) dived. Bank of Thailand will cease relaxation of mortgage lending rules and end its corporate bond support fund after 2022. Vietnam inflation accelerated to +4.3% y/y in October (previous: +3.9%). **EMEA markets started the week quietly, as markets are focused on the Fed meeting on Wednesday.** Equity markets are generally up, with Poland up 0.95% and Turkey up 1.4%. Currencies are broadly stable vs reference currencies, except for the South African rand, which is down 0.9% (to 18.3/$), and the Hungarian forint, which is up 0.3% (to 410.6/euro). Local bond yields are broadly stable, with the exception of Polish yields, which are up 15 bps to 8.24%, after October inflation came in at 17.9% y/y, up from 17.2% y/y in September. **LATAM markets were mixed on Friday, while credit default swaps narrowed for the fifth consecutive day for most countries.** In Brazil, equities closed lower, and the Brazil real appreciated in anticipation of the presidential runoff election on October 30.

EM Fund Flows

EM equity and bond fund outflows declined with hard currency bond outflows falling to the lowest level in nine weeks. EM bonds and equities fund outflows totaled -$2.1 bn last week. EM bond outflows were -$1.7 bn (from -$2.3 bn a week ago) driven by local currency outflows and smaller hard currency outflows. Hard currency outflows were the lowest in nine weeks. Outflows were mainly from non-ETFs (-1.6 bn). EM equity flows decreased to -$0.4 bn (from -$1.8 bn a week ago) as non-ETF funds outflows were offset by the largest ETF inflows since mid-June. EM bond and equity outflows now stand at -$82.9bn YTD.

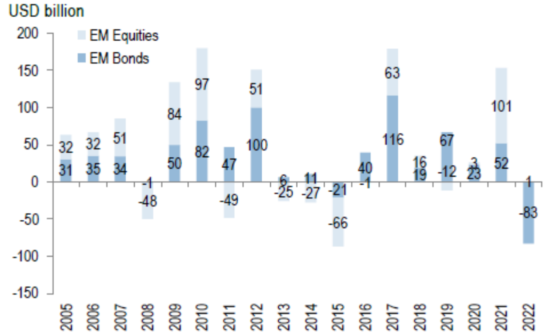
Exhibit 1: Weekly Cross-Asset Flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-2.1	-81.6
	EM Bonds		-1.7	-82.9
	Hard Ccy		-0.5	-42.3
	Local Ccy^		-1.1	-40.6
	o.w. EM ex-China		-0.6	-20.4
	o.w. China		-0.5	-18.9
	EM Equities		-0.4	1.3
	US HG		2.8	-63.8
	US HY		4.0	-46.1
	Global Equities		20.3	104.7
	EM Bond and Equity ETFs		1.6	34.2
	EM Bond ETFs		0.0	-11.7
	EM Equity ETFs		1.6	45.9
	Non-resident EM flows*		1.0	-74.4

Exhibit 2: Annual EM bond and equity fund flows

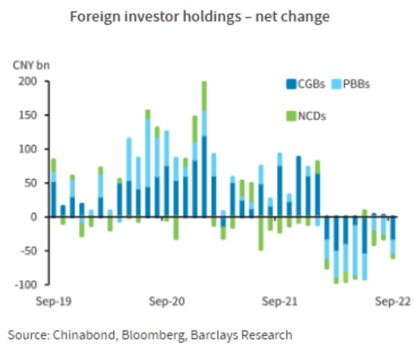
USD billion



*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

China

Equities slipped (CSI 300: -0.9%), weighed by fresh lockdowns and poor economic data. China official PMIs slumped in October, indicating contracted activity, based on both manufacturing (49.2, previous: 50.1) and non-manufacturing (48.7, previous: 50.6) gauges. Separately, **China's major banks saw increased profits in Q3 amid a credit expansion.** Banks such as Industrial & Commercial Bank of China (+6.8% profits), Bank of China (+4.9% net income), and China Construction Bank (+8.6% net income) reported improved results, according to Bloomberg. Aside, **traded assets of property developer Longfor plunged**, following news of Wu Yajun's resignation as chairperson last Friday. **The yuan weakened -0.7%. 10-year yields fell -3.1 bps.** Foreign investor holdings of China fixed income assets fell for the eighth straight month in September, Barclays notes, with non-resident demand expected to stay weak in October. However, analysts argue that China's bond index inclusion and expectations of reserve ratio cuts may partially offset outflows.

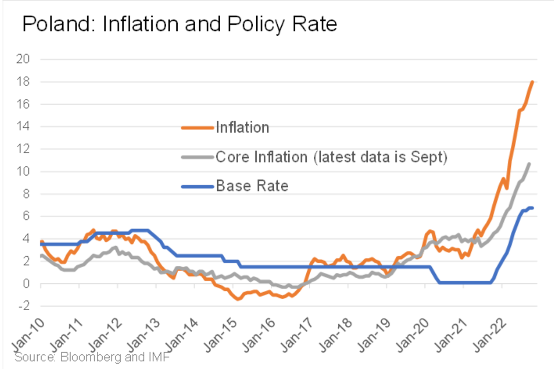


Brazil

Luiz Inacio Lula da Silva won the election as Brazil's president by a narrow margin with 50.9% of the vote, defeating the sitting president, Jair Bolsonaro with 49.1% of the vote. This marked the first time that a sitting president in Brazil lost a re-election bid. President-elect Lula da Silva will start his third term on January 1, 2023. The Japan-listed Next Funds Ibovespa Linked ETF, which follows Brazil's Ibovespa performance, opened higher in Tokyo, climbed as much as 5.2%, before paring gains to 3.3%, according to Bloomberg.

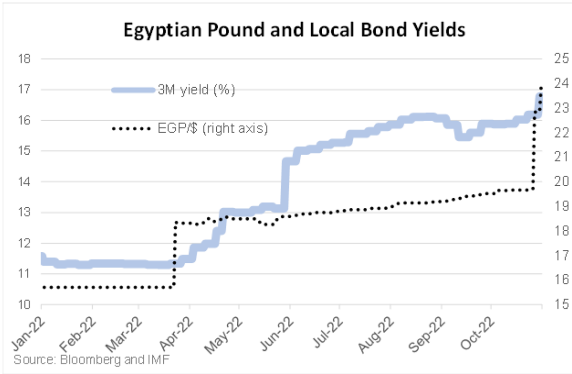
Poland

Polish yields are up 15 bps to 8.24% as inflation increased to 17.9% y/y in October, up from 17.2% y/y in September, and reached its highest level in 26 years. While y/y inflation was close to expectations (17.8%), m/m inflation was 1.8%, higher than expected (1.6%). Market participants are uncomfortable with the decision of the central bank to pause rate hikes at its latest meeting on October 5, even though governor Glapinsky later said that the central bank was merely pausing and that the rate hike cycle was not finished. He also said that the MPC would wait for the inflation projections of the November 9 meeting (next week) to get a clearer picture of whether further hikes are warranted.



Egypt

The Egyptian pound depreciated another 4.9% this morning (to 24/$) after Egypt announced that it moved to a flexible exchange rate regime last Thursday and hiked key interest rates by 200 bps to 13.25%. The pound depreciated by roughly 14% on Thursday (to 22.8/$). Last Thursday, the IMF and Egyptian authorities announced that they had reached a staff-level agreement on a 46-month Extended Fund Facility of $3 bn. Yesterday, yields on 3m local bills increased by 60 bps to 16.8%.



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Global Financial Indicators

10/31/22 10:55 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3901	-2.4	4	9	-15	-18	-8
Europe		3616	0.1	2	9	-15	-16	-9
Japan		27587	1.8	2	6	-5	-4	4
China		3509	-0.9	-3	-8	-29	-29	-24
Asia Ex Japan		56	-0.7	-3	-5	-35	-32	-29
Emerging Markets		34	-0.6	-3	-2	-33	-30	-28
Interest Rates					basis points			
US 10y Yield		4.05	4.0	-19	22	250	254	206
Germany 10y Yield		2.14	4.0	-19	4	225	232	192
Japan 10y Yield		0.25	0.0	-1	0	15	18	5
UK 10y Yield		3.51	2.7	-24	-59	247	253	203
Credit Spreads					basis points			
US Investment Grade		184	-5.7	-7	-2	96	73	42
US High Yield		467	-26.4	-39	-77	151	129	60
Europe IG		111	-0.6	-10	-23	61	64	40
Europe HY		545	-2.9	-41	-97	282	303	193
Exchange Rates					%			
USD/Majors		111.21	0.4	-1	-1	18	16	16
EUR/USD		0.99	-0.3	1	1	-14	-13	-12
USD/JPY		148.7	0.7	0	3	30	29	29
EM/USD		48.5	-0.7	0	0	-12	-8	-9
Commodities					%			
Brent Crude Oil ($/barrel)		94	-1.4	1	11	26	29	9
Industrials Metals (index)		142	-1.7	-2	-1	-15	-18	-24
Agriculture (index)		68	2.1	1	0	16	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		26.9	1.2	-2.9	-4.7	10.7	9.7	-4.1
US 10y Swaption Volatility		162.6	11.9	2.7	12.5	84.6	83.6	68.3
Global FX Volatility		12.0	0.0	-0.6	-0.9	4.9	4.6	4.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		247	6.5	-5	-29	103	95	7
Italy		209	1.8	-17	-32	81	74	38
Portugal		98	-0.3	-2	-9	35	34	6
Spain		106	0.7	-4	-13	34	31	2

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

Emerging Market Financial Indicators

Last updated: 10/31/2022 10:53 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.30	-0.6	-0.5	-2	-12	-13	-13		2.8	-1.5	-5	-10	-30	-9	-10
Indonesia		15598	-0.3	-0.1	-2	-9	-9	-8		7.5	0.5	-10	16	148	116	104
India		83	-0.4	-0.1	-2	-10	-10	-10		7.6	5.8	-3	0	103.4	131	
Philippines		58	0.4	1.4	2	-13	-12	-12		5.9	2.5	5	10	148	138	88
Thailand		38	-0.4	0.8	-1	-12	-12	-15		3.2	4.0	-15	-1	128	131	93
Malaysia		4.73	0.0	0.3	-2	-12	-12	-11		4.4	0.3	-20	-6	76	77	69
Argentina		156	-0.2	-1.4	-6	-36	-34	-31		93.4	271.7	416	566	4310	4286	4547
Brazil		5.30	0.9	-2.5	1	7	5	-5		11.8	-3.0	6	-22	-50	115	32
Chile		942	-0.2	3.1	1	-14	-10	-16		6.3	-11.0	-33	-60	79	91	42
Colombia		4833	-0.2	1.7	-7	-22	-16	-19		10.7	-11.0	-102	86	415	430	283
Mexico		19.88	-0.4	0.3	1	5	3	2		9.3	5.5	-18	5	156	173	141
Peru		4.0	0.0	0.3	-1	0	1	-6		8.5	-1.0	-16	-27	267	259	249
Uruguay		41	0.4	1.7	2	9	10	4		11.4	0.5	-9	-3	320	271	328
Hungary		413	0.1	1.5	4	-25	-21	-23		10.7	21.0	-54	99	692	619	589
Poland		4.75	-0.3	2.1	4	-16	-15	-15		7.4	7.0	-16	52	462	386	349
Romania		4.9	-0.2	0.5	2	-14	-12	-12		9.0	6.6	-51	60	461	422	389
Russia		61.8	-0.4	0.2	-3	16	22	32		11.0	1.0	41	205	226	218	-23
South Africa		18.3	-1.1	0.4	-1	-16	-13	-17		9.6	11.0	-31	-7	169	213	197
Turkey		18.62	-0.1	-0.3	0	-49	-29	-26		11.1	-28.0	-12	-89	-889	-1322	-1132
US (DXY; 5y UST)		111	0.4	-0.7	-1	18	16	16		4.24	6.0	-12	15	306	298	234

	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		3509	-0.9	-3	-8	-29	-29	-24		220	8	28	16	17	12
Indonesia		7099	0.6	1	1	8	8	3		204	-8	-19	30	39	19
India		60747	1.3	2	6	2	4	6		211	-8	17	79	79	57
Philippines		6153	0.0	3	7	-13	-14	-16		159	-19	-9	51	58	22
Thailand		1609	0.2	1	1	-1	-3	-5		0	0	0	0	0	0
Malaysia		1460	0.9	1	5	-7	-7	-8		118	-6	8	-7	1	-15
Argentina		147845	-0.2	6	6	77	77	62		2565	-90	-88	886	885	828
Brazil		114539	-0.1	-4	4	11	9	2		286	3	-33	-34	-25	-45
Chile		5194	0.1	1	2	27	21	19		177	-14	-19	21	37	3
Colombia		1220	0.7	2	8	-13	-14	-19		440	-74	-22	146	92	48
Mexico		49086	0.4	4	10	-4	-8	-4		411	-27	-65	68	79	41
Peru		20968	-0.4	2	8	1	-1	-10		202	-26	-25	34	52	12
Hungary		41054	0.0	2	8	-24	-19	-14		268	-56	-61	150	144	115
Poland		50057	1.0	6	9	-32	-28	-20		63	-24	-25	18	31	47
Romania		10917	0.8	1	3	-13	-16	-17		332	-55	-49	134	140	100
Russia		2169	0.0	5	11	-48	-43	-30		3411	-577	938	3228	3234	2897
South Africa		66640	0.4	3	5	-1	-10	-11		419	-70	-81	63	64	30
Turkey		3937	1.5	-1	24	159	112	95		551	-44	-88	51	-27	-12
Ukraine		519	0.0	0	0	-1	-1	0		4321	115	489	3821	3562	2848
EM total		34	-1.3	-3	-2	-33	-30	-28		439	-38	-41	64	53	-19

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

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