GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 11, 2023

LEAD EDITOR: FABIO CORTES

- **Long US duration trades gain popularity** (link)
- **BoE leaves countercyclical capital buffer unchanged at 2%** (link)
- **Chinese equities tread water despite news of potential stimulus measures** (link)
- **Polish zloty outperforms ahead of the parliamentary elections** (link)
- **Chilean peso underperforms EM currencies as copper futures fall** (link)
- **Special Features: EM Issuance and Local Currency Bond Holding Monitors (attached)**

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Bond rally continues amid hopes the Fed may be done and safe-haven flows

Advanced economy sovereign bond yields fell, with the 10-year US Treasury yield another 8 bps lower this morning on hopes the Fed may be done and as rising tensions in the Middle East appear to have pushed investors towards safe-haven assets. A raft of dovish comments by Fed officials earlier this week (including Jefferson, Logan, Bostic and Waller) seemed to push more investors to believe that the hiking cycle could be done. Fed funds futures are pricing a lower than 20% probability of a rate hike by year-end, compared to almost 50% last week. Contacts noted that Treasury yields fell even after Fed governor Bowman said higher rates may be needed to curb inflation earlier this morning. Markets will be watching for any dovish hints in the FOMC minutes released later today. Across the pond, European stocks failed to gain traction on disappointing corporate earnings, with shares in the luxury-goods sector underperforming. In emerging markets, Chinese equities stalled despite the announcement of potential stimulus measures.

Key Global Financial Indicators

Last updated: 10/11/23 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4358	0.5	3	-3	21	14
Eurostoxx 50		4203	-0.1	3	-1	26	11
Nikkei 225		31937	0.6	2	-3	21	22
MSCI EM		38	1.4	2	-3	10	1
Yields and Spreads					bps		
US 10y Yield		4.57	-8.0	-16	28	63	70
Germany 10y Yield		2.73	-5.0	-19	9	43	15
EMBIG Sovereign Spread		450	-2	9	31	-96	-2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.6	0.2	1	-2	-4	-7
Dollar index, (+) = $ appreciation		105.8	0.0	-1	1	-7	2
Brent Crude Oil ($/barrel)		86.9	-0.8	1	-4	-8	1
VIX Index (%, change in pp)		16.7	-0.3	-2	3	-17	-5

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

Mature Markets

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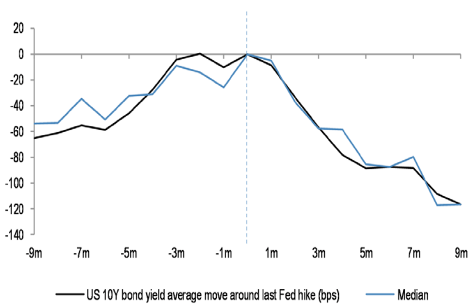
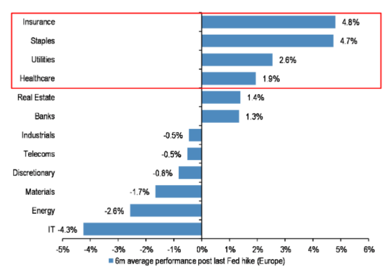
United States

More dovish comments by regional Fed presidents yesterday (Bostic and Waller in particular) alongside geopolitical uncertainty appeared to push more investors to believe that the Fed may be done. The S&P 500 gained over 0.5% while Treasury yields saw a sharp reversal yesterday, with 10-year and 2-year yields dropping by around 15 bps and 11 bps, respectively.

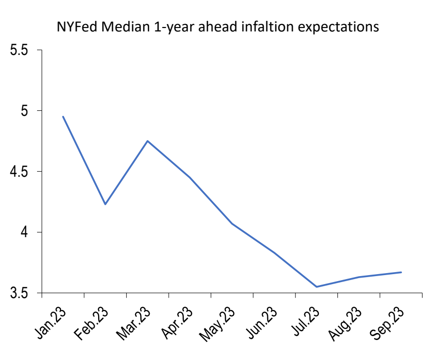
Long duration trades are gaining some popularity amid increasing bets the end hiking cycle could be done. Fed funds futures are pricing a lower than 20% probability of a rate hike by year-end, compared to almost 50% last week. JP Morgan analysts highlighted that over the past eight Fed tightening cycles, bond yields fell by around 100 bps on average after the final hike, irrespective of a hard or soft landing. They believe that the extent of further increases in Treasury yields is limited and recommend shifting into long duration sectors and locking in higher yields. The sharp re-pricing of the term premia, especially in the longer end of the curve since the middle of May, up 130 bps for the US 10-year (even after yesterday's -15 bps correction) has prompted a debate on the timing of portfolio duration repositioning among most bond investors. However, a deteriorating demand-supply balance for US Treasuries and further increases in oil prices present a risk to this long duration investment thesis. Indeed, while asset managers have built sizeable long US Treasury futures exposures, speculators, such as hedge funds, remain very short on net according to the latest CFTC data—although some of this exposure is not devoted to outright short positioning in US Treasury futures but to the so-called US Treasury basis trade.

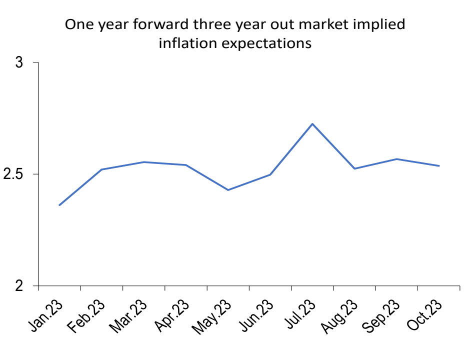




Source: Datastream, J.P. Morgan, Bloomberg Finance L.P.

NY Fed inflation expectations from its survey of consumer expectations showed a slight uptick in September. The latest release of the NY Fed's Survey of Consumer Expectations showed a slight uptick in the median 1- and 3-year ahead inflation expectations to 3.7% and 3.0% respectively (from 3.6% and 2.8%). Recent moves in the oil price do not seem to have weighed on consumer sentiment as median (year-ahead) expected price changes for gas declined. Market implied inflation expectations—proxied by the one-year zero coupon inflation swap three years out—have remained fairly steady and been range-bound between 2.3−2.7% throughout the year (currently in the middle of the range at 2.5%), which should be supportive of recent dovish commentary by Fed officials.





Source: Bloomberg Finance LP

This morning**, PPI final demand for September was stronger-than-expected**, coming at 2.2% y/y compared to consensus forecasts at 1.6% an uptick compared to a revised 2.0% in August (0.5% m/m, compared to consensus at 0.3%, and 0.7% in August). PPI ex food and energy was 2.7% y/y (0.3% m/m) above market expectations of (2.3% y/y and 0.2% m/m) and above the August print (a revised 2.5% y/y and 0.2% m/m). The **price action in markets was mixed immediately after the release**. Equity futures trimmed some of their earlier gains, the dollar strengthened, and the US Treasury yield curve flattened modestly.

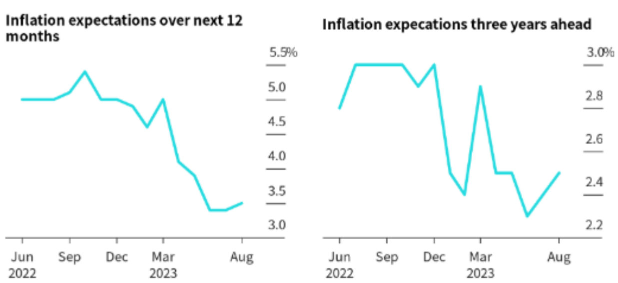
Euro-area

European equities were mixed with the Stoxx 600 index little changed this morning, with the luxury goods sector underperforming, after yesterday posting its largest daily gain so far this year. The consumer products and services sector was sharply lower (-2.7%) with LVMH, considered a bellwether for luxury goods, leading the losses (-6.3%) after it reported softer Q3 sales growth. The banking sector was marginally lower (-0.1%). **The euro was trading in a tight range against the dollar (-0.1% at 1.06).** Data released this morning showed Germany's final September inflation print unchanged from the earlier estimate (+4.3%y/y).

Sovereign yields eased (10-year bund yield -7 bps to 2.71%), with analysts pointing to safe-haven demand amid concerns over conflict escalation in the Middle East. Sovereign bond yields initially increased in yesterday's trading session, but bund yields retraced moves later in the day with the 10-year bund yield ending the day little changed at around 2.77%. **Italian spreads narrowed sharply yesterday (-11 bps to 195 bps) and was little changed this morning.** Yesterday ECB governing council (GC) member Holzmann said that additional shocks could result in one or two further rate hikes by the ECB.

Median consumer expectations for the next 12 months and for three years ahead increased marginally in August, according to the latest ECB consumer expectations survey. Survey results showed marginally higher median expectations for inflation over the next 12 months (3.5% from 3.4% in July), and also for inflation three years ahead (2.5% from 2.4% in July). Economic growth expectations over the next 12 months became slightly more negative (-0.8% from -0.7% in July) while the expected unemployment rate in 12 months edged higher (11.1% from 11.0% in July).

Euro-Area Consumers' Inflation Expectations Inched Up in August



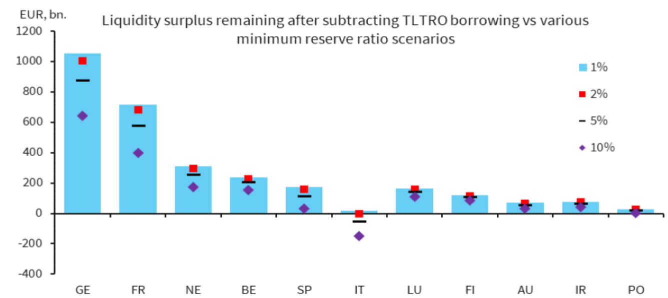
Source: European Central Bank
Note: Chart shows median

Bloomberg

Analysts argue that a higher minimum reserve requirement (MRR) could create a liquidity deficit across some banks, given the fragmented within- and across-country distribution of excess liquidity. Analysts think that banks that do not have sufficient excess liquidity could generate funds either through selling bonds (likely the lowest-yielding bonds), borrowing at the 3m LTRO facility or using repo borrowings. Moreover, analysts argue that a higher MRR could see a stronger dynamic of banks pushing away unsecured deposits over the reporting date to limit their MRR obligations, thus creating more market distortions around reporting dates. **Barclays analysts do not expect amendments to the MRR but see**

a small increase to 2% as a possibility. Yesterday ECB GC member Villeroy de Galhau was cited as staying that there is no monetary justification for higher reserve requirements. He argued that "the stability of the current regime should remain in place".

Aggregate liquidity surplus across countries (excluding TLTRO balances) under different MRR ratios



Source: Haver Analytics, Barclays Research

The ECB has reportedly requested valuers of commercial real-estate (CRE) loans to explain their valuation methodology, according to media articles. This comes amid concern that banks, that often rely on property valuer estimates, have not sufficiently marked down the value of their CRE loans, as a lack of deal has made it difficult to compare property values to actual transactions.

United Kingdom

Gilt yields were sharply lower this morning (10-year gilt -10bps to 4.32%) while the pound was little changed against the dollar. On the data front, the September REC jobs survey on hiring erased the recent steep decline. JP Morgan analysts highlight that the permanent placements reading increased to 45.1, fully retracing the decline seen in August and taking the reading back to its highest level since June. Analysts argue that while the reading remains very weak, it suggests a stagnating economy rather than one that is sliding into recession. The survey also showed a continued moderation in pay increases among new hires.

The BoE's financial policy committee (FPC) left the countercyclical capital buffer unchanged at 2% and flagged a challenging environment as markets price in high-for-long interest rates. The Financial Policy Summary and Record for October 2023, released yesterday, noted that the full impact of higher rates is yet to feed through to households and corporates. While demand for loans have decreased against a backdrop of higher borrowing costs, the FPC noted that banks "do not appear to be cutting their lending to households and business in a way that is out of line with changes in borrower creditworthiness". The FPC also cautioned about the remaining risks related to non-bank finance, noting that certain risky assets, like some types of corporate bonds, could be overvalued. Moreover, the record noted ongoing work to improve the resilience of money market funds (MMFs), with bank staff analysis suggesting that for sterling denominated MMFs, weekly liquid assets of around 50−60% of assets would provide a high level of assurance that such funds would be resilient to severe but plausible stress.

Japan

Japanese equities continued rising today (NIKKEI: +0.6%). Long-end JGB yields declined, with the 10-year yield falling to 0.77% (-1.0 bp) and the 30-year yield dropping to 1.70% (-2.8 bps). Meanwhile, the Japanese yen depreciated (-0.1%). **Some Japanese banks warned about delayed money transfers as a widespread system glitch continued for a second day.** The trouble at the Zengin System for domestic interbank remittances has hit 11 banks since Tuesday morning. The operator is unable to say when the problem will be fixed. **Japan started trading of its carbon credit exchange yesterday.** The market is operated by the Tokyo Stock Exchange, and participants can trade so-called J-credits.

Emerging Markets

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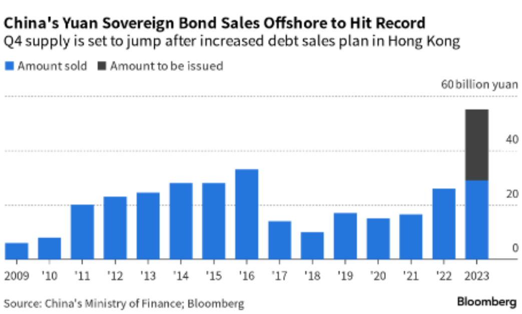
Asian equities gained, rising 1.9% overall, led by Korean (+2.0%), Hong Kong (+1.4%) and Thai (+1.4%) equities. **Asian currencies also appreciated,** led by Thai baht (+0.9%) and Korean won (+0.8%). **Long-end government bond yields declined,** with 10-year yields falling in Indonesia (-7.7 bps) and Korea (-7.3 bps)**. Sri Lanka** reached a tentative debt agreement with China**.** The agreement front-ran separate talks with the Fund and other creditors in Morocco this week. The Sri Lankan rupee appreciated (+0.3%); equities declined (-0.9%). **In the Philippines,** Governor Remolona hinted at a possibility for the Bangko Sentral ng Pilipinas to raise the policy rate by 25 bps after renewed inflationary pressure. The Philippine peso appreciated (+0.2%); long-end government bond yields rose (10-year: +2.2 bps). **EMEA equities and currencies were mixed while local currency bond yields eased.** Equities in South Africa (-0.3%) underperformed while those in Romania (+0.9%) saw the largest gains. Currencies were mixed against the dollar while CEE currencies were mostly trading stronger against euro. The Polish zloty outperformed against the euro (+0.4% to 4.52/€). **Latin American assets rallied on Tuesday.** Equities in Argentina (+7.6%) led the advance, followed by Chile (+2.2%), Mexico (+2.0%), and Brazil (+1.4%), but declined in Colombia (-0.3%). Most currencies appreciated against the dollar, with notable gains in Colombia (+2.1%), Brazil (+1.6%), and Mexico (+1.5%), but the Chilean peso (-1.3%) underperformed as copper futures failed to advance. In Argentina, the **unofficial Argentine peso spot weakened**, depreciating past 1000 per dollar on Tuesday after remarks made by the presidential frontrunner Javier Milei. Milei has pledged to replace Argentina's national currency with the dollar, while encouraging citizens to stop saving in pesos and purchase dollars.

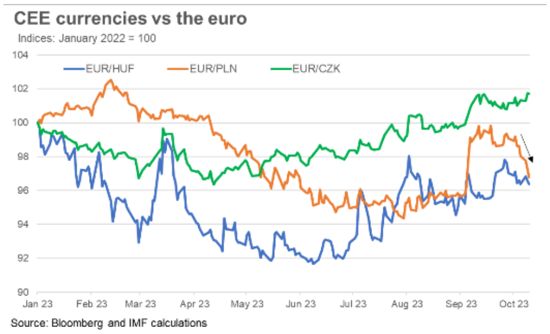
China

Onshore Chinese equities gained marginally, despite news of potential stimulus measures (CSI 300: +0.3%). **While helping improve sentiment in the region, the reported news did not do much to uplift the sentiment onshore.** One potential explanation is that onshore investors do not see high-profile fiscal stimulus measures as likely. This view is shared by some analysts (e.g., Goldman Sachs). Yesterday, it was reported that Chinese authorities considered raising the budget deficit for 2023 and issuing at least 1 tn yuan ($137 bn) of additional central government bond for infrastructure spending. Meanwhile, Hong Kong SAR-listed Chinese equities gained (+1.5%), led by tech stocks. The RMB depreciated to 7.3 yuan per dollar (-0.1%). The People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected; today's deviation amounted to 1,062 pips. **The Ministry of Finance also announced a plan to issue 26 bn yuan ($3.6 bn) of sovereign bonds in Hong Kong SAR in Q4 of this year.** Such bond issuances will take the **annual tally to 55 bn yuan ($7.5 bn), the largest ever.** This was seen as another effort to tighten offshore RMB supply and provide support to the currency.



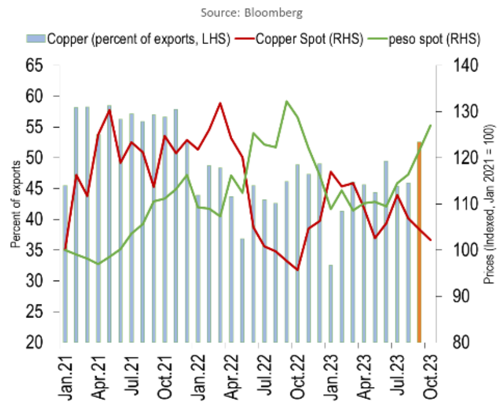
Poland

The Polish zloty continued to strengthen ahead of the Parliamentary election on Sunday. In the election, the 100 seats in the mainly advisory upper house as well as all 460 seats of the lower house are being voted on. Recent polls have showed that while the incumbent United Right coalition continues to see



the most voter support, support has been increasing for the opposition bloc (the Civic Coalition, the Left, and the Third Way). Moreover, Bloomberg reports that according to a United Surveys poll, the possible three-way coalition could jointly obtain 236 seats out of the 460 seats in the lower house of parliament. Contacts note the extremely elevated political uncertainty with a range of possible outcomes. **The Polish zloty has been appreciating against the euro since the central bank last week cut its benchmark rate by 25 bps, while some analysts had expected a larger rate cut.** Now on track for six days of gains, the zloty is now roughly 2.5% stronger than before the policy announcement last week, and Bloomberg notes that this is the longest winning streak for the currency in close to a year. The zloty is roughly 3.7% stronger YTD.

Chile



The Chilean peso underperforms EM currencies as copper futures fall. The peso (-1.3%) was the worst performing EM currency Tuesday as December copper futures failed to advance (-0.3%). The copper spot price and peso are down -4% and -8.5% YTD, respectively. Continued property sector uncertainty in China, a major copper importer, is adding downward pressure to prices. Meanwhile, copper as a percentage of Chile's total exports has increased to above 50%, the highest level since December 2021. The increase highlights the importance of the commodity's prices to Chile and the peso. Bloomberg analysts note that even the better-than-expected trade balance reported Tuesday was not enough to sway investor sentiment.

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk (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), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert),Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

10/11/23 8:01 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4364	0.5	2	-3	22	14
Europe		4203	-0.1	3	-1	26	11
Japan		31937	0.6	2	-3	21	22
China		3668	0.3	-1	-2	-3	-5
Asia Ex Japan		64	1.3	3	-2	12	-1
Emerging Markets		38	1.4	2	-3	10	1
Interest Rates					basis points		
US 10y Yield		4.57	-8.0	-16	28	63	70
Germany 10y Yield		2.73	-5.0	-19	9	43	15
Japan 10y Yield		0.77	-1.4	-4	6	52	35
UK 10y Yield		4.33	-9.2	-25	-14	-11	66
Credit Spreads					basis points		
US Investment Grade		153	-0.9	-2	7	-29	-6
US High Yield		447	-6.9	-4	36	-58	-33
Exchange Rates					%		
USD/Majors		105.81	0.0	-1	1	-7	2
EUR/USD		1.06	0.0	1	-1	9	-1
USD/JPY		148.9	0.1	0	2	2	14
EM/USD		46.6	0.2	1	-2	-4	-7
Commodities					%		
Brent Crude Oil ($/barrel)		86.9	-0.8	1	-3	7	6
Industrials Metals (index)		138	-0.3	-1	-4	-6	-17
Agriculture (index)		63	-0.2	0	-5	-8	-8
Implied Volatility					%		
VIX Index (%, change in pp)		16.7	-0.3	-1.9	2.9	-16.9	-4.9
Global FX Volatility		8.4	0.0	-0.2	0.1	-4.3	-2.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		149	-2.3	2	13	-115	-56
Italy		196	0.7	1	20	-42	-19
Portugal		71	-2.6	-2	-3	-36	-30
Spain		110	-0.9	0	4	-7	0

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

Emerging Market Financial Indicators

Last updated: 10/11/2023 8:03 AM	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		7.30	-0.1	-0.1	0	-2	-6		2.8	3.0	6	5	-6	-29
Indonesia		15700	0.2	-0.4	-2	-2	-1		6.8	-16.1	-31	19	-58	-15
India		83	0.1	0.1	0	-1	-1		7.7	-9.1	-12	-5	2.0	27
Philippines		57	0.2	-0.1	0	4	-2		5.8	-1.3	-3	-15	3	-22
Thailand		36	0.6	1.4	-2	5	-5		3.3	-7.5	-17	28	12	71
Malaysia		4.72	0.3	0.3	-1	-1	-7		4.0	-2.4	-4	18	-38	0
Argentina		350	0.0	0.0	0	-57	-49		108.5	-288.3	-486	-1396	1982	2026
Brazil		5.04	0.2	2.3	-2	5	5		11.6	-12.2	-41	19	-16	-95
Chile		926	0.5	-1.2	-4	0	-8		5.6	-4.5	-22	28	-128	21
Colombia		4231	2.1	-0.3	-6	9	15		9.5	0.0	10	95	-99	-25
Mexico		17.87	0.4	0.5	-3	12	9		9.4	1.5	-9	17	6	65
Peru		3.8	0.3	0.0	-3	4	0		7.5	0.2	5	63	-115	-44
Uruguay		40	-0.6	-2.6	-4	3	0		9.9	13.6	29	63	-147	-74
Hungary		365	0.3	1.1	-2	21	2		7.0	-26.0	-50	13	-339	-258
Poland		4.26	0.5	2.9	1	17	3		4.9	-13.8	-22	33	-228	-129
Romania		4.7	0.0	1.1	-1	9	-1		6.9	-7.0	16	35	-167	-76
Russia		100.0	0.2	0.0	-4	-35	-26							
South Africa		18.9	0.7	2.4	0	-4	-10		9.7	-9.5	-44	32	20	57
Turkey		27.73	-0.1	-0.6	-3	-33	-33		27.0	0.0	54	210	1433	1717
US (DXY; 5y UST)		106	0.0	-0.9	1	-7	2		4.56	-5.2	-16	15	39	56

	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		3668	0.3	-1	-2	-3	-5		176	6	-6	-20	-1
Indonesia		6932	0.1	1	0	0	1		133	10	4	-67	-7
India		66473	0.6	2	-1	15	9		147	7	7	-43	5
Philippines		6254	-0.2	-1	0	7	-5		109	10	5	-52	12
Thailand		1456	1.5	0	-6	-7	-13		0	0	0	0	0
Malaysia		1436	0.1	1	-1	4	-4		98	2	1	-13	-2
Argentina		697834	7.6	24	36	409	245		2628	-21	465	-183	423
Brazil		116737	1.4	3	0	2	6		225	1	-6	-76	-49
Chile		5781	2.2	2	-2	16	10		138	8	11	-51	6
Colombia		1115	-0.3	2	5	-6	-13		359	7	19	-102	-13
Mexico		50290	2.0	0	-4	10	4		371	-6	15	-76	-10
Peru		22268	-0.1	0	-2	12	4		158	-2	3	-65	-22
Hungary		56175	0.4	0	-2	45	28		205	7	10	-107	-17
Poland		66726	0.2	4	0	44	16		134	11	9	73	61
Romania		14214	0.9	1	2	33	22		219	8	4	-132	-36
South Africa		73715	-0.2	4	-1	14	1		386	-15	11	-78	19
Turkey		8382	-0.7	1	3	135	52		389	-10	-1	-231	-51
Ukraine		507	0.0	0	0	-2	-2		3548	107	223	-321	-531
EM total		38	0.1	2	-3	10	1		412	4	33	-47	36

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

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