



- US credit spreads have widened in the last month along with yields ([link](#))
- Bund yield curve flattens ([link](#))
- Pound little changed after modest UK GDP recovery matches expectations ([link](#))
- Chinese equities gain after state wealth fund steps in to support the stock market ([link](#))
- Ruble strengthens after government imposes some capital controls ([link](#))

[Mature Markets](#)


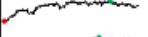

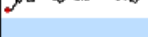

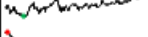




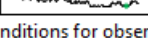
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Yields rise as US inflation pressures continue

This morning, US inflation data came in somewhat higher than expected driving treasury yields higher. While the measure of core inflation was in line with expectations (4.1% y/y) and headline was only slightly higher (3.7% vs. 3.6% expected), treasury yields shot higher on the release with the 10-year treasury yield rising 5 bp. Prior to the release, the past week had seen a sharp drop in longer-dated US yields driven by dovish comments from Fed officials, reducing expectations of further hikes in the near term. Going into today, the 10-year yield had fallen over 30 bp from its recent high. Despite this morning's move higher in yields, US equity futures did not move much on the data release, and European equities remain higher on the day. The move has pushed the dollar stronger, but, despite that, emerging market currencies are broadly mixed on the day.

Key Global Financial Indicators

Last updated: 10/12/23 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4377	0.4	3	-2	22	14
Eurostoxx 50		4225	0.6	3	0	27	11
Nikkei 225		32495	1.7	6	-1	24	25
MSCI EM		38	0.6	3	-2	11	1
Yields and Spreads			bps				
US 10y Yield		4.55	-0.8	-17	27	65	68
Germany 10y Yield		2.73	0.8	-15	8	41	16
EMBIG Sovereign Spread		448	-2	-5	29	-109	-4
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.8	0.3	1	-2	-3	-6
Dollar index, (+) = \$ appreciation		105.7	-0.1	-1	1	-7	2
Brent Crude Oil (\$/barrel)		87.2	1.6	4	-5	-6	1
VIX Index (% change in pp)		16.0	-0.1	-3	2	-18	-6

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

Mature Markets

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US CPI y/y came slightly above expectations at 3.7% (consensus 3.6%). CPI m/m was also slightly above consensus at 0.4% (consensus 0.3%, prior 0.6%). Core CPI was in line with consensus at 4.1% y/y and 0.3% m/m. The UST 2-yr spiked to 5.06% (+7bp, 4.99% pre-release) while the 10-yr moved by 5bp to 5.59% (4.54% pre-release). S&P futures were up slightly to 4,427 from 4,410 by 8:40am and the dollar index was mostly unchanged.

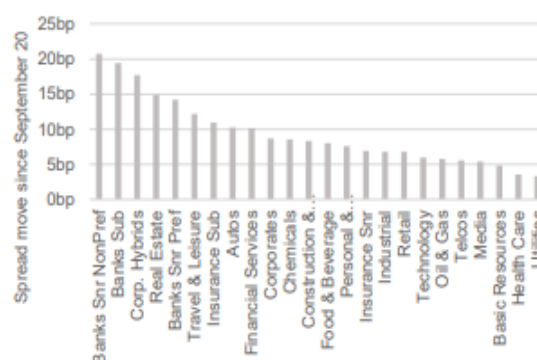
We have moved from a rising yield and tightening spreads phase to a rising yields and widening spreads environment. Société Generale analysts highlight that this has been led by spreads on bank debt. Looking forward, spread behavior should yields fall will be key. The SocGen analysts believe falling rates equate to weaker growth, falling cash flows and rising defaults, all of which are negative for spreads and could pose a threat to financial stability even if government rates and overall yields are falling.

Chart 1: Spreads back to mid-August widened...



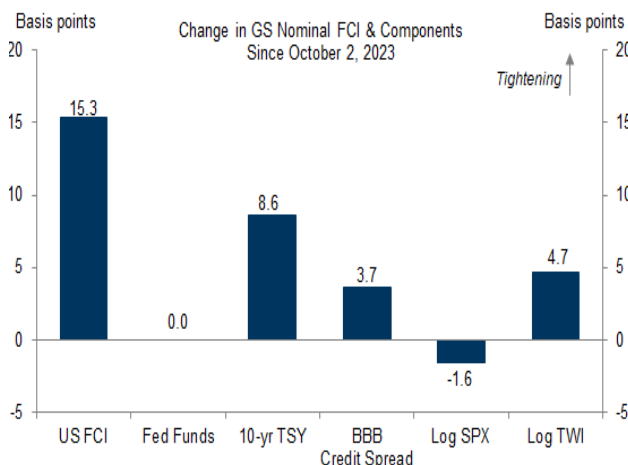
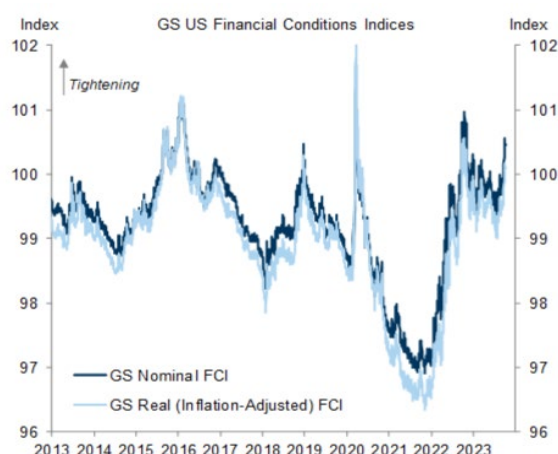
Source: iboxx, Bloomberg, SG Cross Asset Research/Credit

Chart 2: ...led by banks



Source: iboxx, SG Cross Asset Research/Credit

GS Financial Conditions Index sees sharp tightening. Goldman Sachs US Financial Conditions Index experienced a sharp tightening last week on the back of a significantly higher 10-year US treasury yield and a stronger dollar. The increase of the BBB credit spread also contributed to the tightening while continued resiliency in the equity markets since the beginning of October partially offset the impact. Inflation adjusted FCI also tightened by almost 20bp. The GS Index topped 100.4 this month for the first time since November 2022, highlighting a strong tightening in financial conditions as the market re-prices the probability of higher for longer monetary policy across the different asset classes.

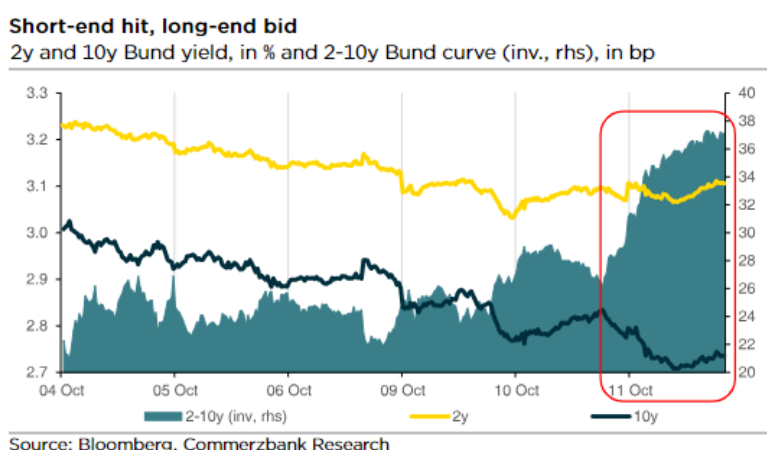


Europe

European equities were trading higher while the euro was little changed against the dollar and sovereign yields were little changed ahead of the US CPI data release. The Stoxx 600 index was 0.6% higher, with most sectors trading in the green and the energy sector (+1.5%) seeing the largest gains.

Contacts see limited downside risks to the euro from the ECB September meeting minutes, due to be released later today. While the minutes are expected to reflect a more divided governing council with some members expected to have preferred to keep rates unchanged, contacts see limited downside risks to the euro as the market has already priced out expectations for further tightening. The euro was trading in a tight range against the dollar this morning (at above 1.06).

Euro area sovereign yield curves flattened yesterday. 10y bund yields ended the day 6bp lower at 2.72% while 2y yields were 4bp higher at around 3.11%. This morning sovereign yields were marginally higher, while Italian spreads continued to narrow and is now trading at round 192bp. The Italian parliament yesterday approved the government's macroeconomic and fiscal forecasts detailed in the Update to the Economic and Financial Document 2023. ECB governing council (GC) member Vujcic said that the post-budget Italian spread increase was predictable, while GC member Makhoul said that Italian spreads are something that the ECB will be very focused on, adding that the ECB has the tools to deal with any situation. There were several ECB speakers over the past few days, with most voices seeing no further rate hikes, while there were diverse views on the duration of PEPP reinvestments and bank reserve requirements.



United Kingdom

The pound was little changed after data showed UK GDP rose +0.2%m/m in August (from a downwardly revised -0.6%), in line with expectations, as the services sector recovered. A separate data release showed the RICS house price balance reaching the lowest level since 2009 (to -69 versus expected -63 from -68), but 12 months sales expectations turned positive in September for the first time since May. In the meantime, Bloomberg analysts note that the BoE's credit conditions survey for Q3 suggests that the overall credit flow to the economy could decrease further in the coming months.

BoE policy maker Dingra argued that the economy has already flatlined, even though only roughly a quarter of the impact of higher rates have fed through to the economy. Dingra also noted that in a scenario where growth falls more than forecasts, a rate cut could happen sooner. Separately, **BoE chief economist Pill said that he thinks rate decisions have become more finely balanced,** stressing that returning inflation to the 2% target remains key. **Market expectations for another hike this year remain below 50%.** The pound was trading marginally weaker against the dollar this morning (-0.1% at 1.23) while 10y gilt yields were little changed.

Japan

Long-end JGB yields fell following the decline in US treasury yields. The 10-year JGB yield dropped to 0.753% (-0.9 bp), and the 30-year JGB yield fell to 1.659% (-3.8 bps). Meanwhile, Japanese equities gained (NIKKEI: +1.7%) as global sentiment continued improving on the back of reduced expectations for additional Fed rate hikes. The yen was little changed at 149.1 yen per dollar. PPI inflation moderated to 2.2% y/y in September. On a m/m basis, PPI declined 0.3%, weaker than expected (consensus: +0.1%). Markets will closely watch the next round of wage talks, which will begin on October 19 when the trade union federation Rengo unveils its strategy for spring wage negotiations. The Bank of Japan wants to see more evidence of lasting wage growth before starting its monetary policy normalization.

Emerging Markets

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Asian markets extended gains on improving global sentiment. Asian equities gained 1.4% on net, led by Hong Kong (+1.9%), Korean (+1.2%), Chinese (CSI 300: +0.9%) equities. Asian currencies were mixed, with most in tight trading ranges. One exception was the Thai baht, which appreciated notably (+0.7%) on the back of foreign bond inflows. Long-end government bond yields declined, with 10-year yields falling in Korea (-6 bp) and Thailand (-3 bp). In Korea, Bank of Korea Governor Chang-yong Rhee said that authorities have managed to achieve a soft-landing in the property market. **EMEA financial markets were mixed ahead of the US CPI print later today** Equities in Egypt (+1.6%) and Türkiye (+1.5%) were outperforming, while those in Russia (-1.3%) and Saudi Arabia (-0.9%) underperformed. Currencies were mixed against reference currencies. The Romanian leu was little changed against the euro (trading at around 4.96/€) after data showed inflation easing slightly less than expected in September (+8.8%y/y versus expected 8.7% from 9.4%), while final Q2 GDP was slightly lower than previous estimates (1.0%y/y versus 1.1% to 1.0%), while the quarter on quarter data were revised higher (+1.7%q/q versus +0.9%). Industrial output remained negative in August. **Latin American equities and currencies mostly gained.** Argentina's Merval Index (+2.7%) led the equity gains, followed by Brazil (+0.3%) and Mexico (+0.1%), while Colombia (-0.5%) closed marginally lower. The Mexican peso (+0.6%) outperformed the region following comments from the president supporting Banxico's decision to reduce its FX hedge program. The Peruvian sol (-0.4%) was the worst performing EM currency following their central bank chief's cautious message on fighting inflation.

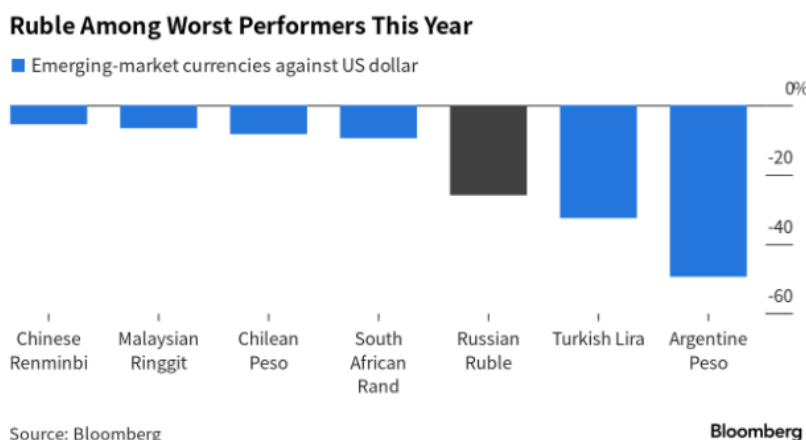
China

Chinese equities gained after the state wealth fund stepped in to support the stock market. After market closing yesterday, Central Huijin (state wealth fund) said that it bought \$65 mn worth of shares in four state-owned banks. Both onshore (CSI 300: +0.9%) and Hong Kong-listed (+2.2%) share prices rose today. Market participants saw Central Huijin's stock purchase, which was modest in size, as a clear signal for Chinese authorities' willingness to support the stock market. Central Huijin holds stakes in 19 financial institutions, including banks and brokerages. The last time it bought shares was in July 2015. Data suggests that previous stock purchases of Central Huijin may not necessarily lead to a durable market rally.

Russia

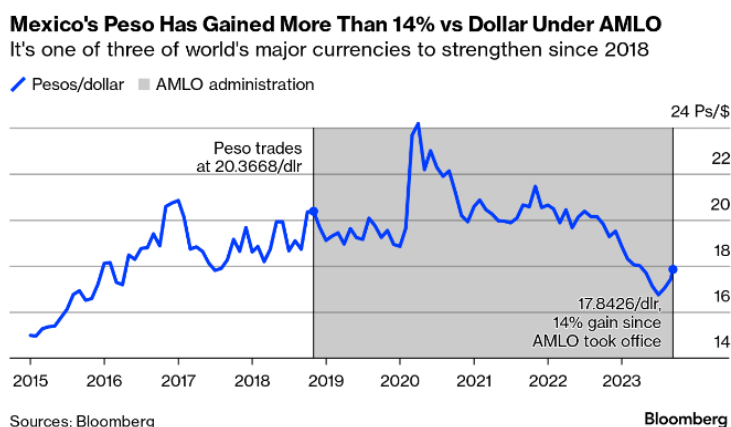
The ruble strengthened this morning after the government announced that some exporter capital controls would be reimposed. Bloomberg reports that the government said 43 groups of exporter companies would be required to sell foreign sales earnings on the domestic market for rubles. In the meantime, data released yesterday showed headline inflation surprising marginally on the upside in September, increasing to 6.0%y/y (versus expected 5.9% from 5.2%). Core inflation also increased to 4.6%y/y from 4%. Goldman Sachs analysts see inflationary pressure largely as the result of loose fiscal policy. Moreover, despite the central bank of Russia hiking its policy rate by 550bp since July to take it to 13%, analysts see inflationary pressures as remaining elevated and argue that the country is running significantly above potential. Goldman Sachs analysts expect the central bank to hike the key rate by 100bp

to 14% at the upcoming meeting in October. The ruble opened sharply stronger against the dollar this morning, with Bloomberg noting that the currency gained 2.6%. Nevertheless, the ruble remains roughly 24% weaker than at the start of the year.



Mexico

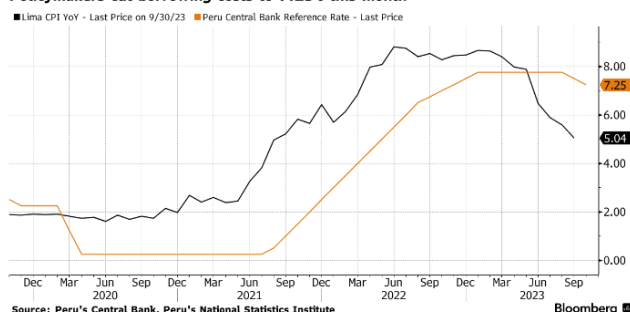
President expresses his support for Banxico's decision to reduce its FX hedge program. President Andres Manuel Lopez Obrador (AMLO) backed the central bank's move from August, and emphasized Mexico has a stable currency. The original FX hedge plan was created in 2017 to control the peso's volatility. Bloomberg analysts note in late August when making the decision to start winding down, the central bank had around \$7.5bn of outstanding positions in the instruments. Although the peso has depreciated since the reduction plan announcement, it appreciated (+0.6%) against the dollar Wednesday, bringing year-to-date gains to +9.4%.



Peru

The Peruvian sol underperforms EM currencies following wary message from central bank chief. Peru's central bank chief, Julio Velarde, emphasized they will need to proceed with caution when handling currently declining inflation. Although Peru has already cut its reference rate by 25 bp at each of the last two meetings, Velarde highlighted the importance of confirming the downtrend in inflation, citing uncertainty of El Nino and oil prices adding upward pressure. The sol (-0.4%) depreciated Wednesday, while most EM currencies experienced gains.

Peru Interest Rate and Annual Inflation Are Trending Down Policymakers cut borrowing costs to 7.25% this month



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.

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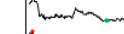

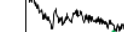








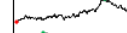






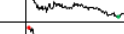

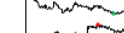

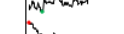

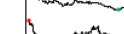






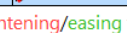
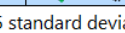
Global Financial Indicators

10/12/23 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4379	0.4	3	-2	22	14
Europe		4225	0.6	3	0	27	11
Japan		32495	1.7	6	-1	24	25
China		3702	0.9	0	-1	-1	-4
Asia Ex Japan		65	0.7	4	-1	13	0
Emerging Markets		38	0.6	3	-2	11	1
Interest Rates			basis points				
US 10y Yield		4.55	-0.8	-17	27	65	68
Germany 10y Yield		2.73	0.8	-15	8	41	16
Japan 10y Yield		0.76	-1.1	-5	5	50	34
UK 10y Yield		4.35	2.0	-19	-7	-9	68
Credit Spreads			basis points				
US Investment Grade		153	-0.7	-3	6	-40	-5
US High Yield		449	-0.9	-14	39	-86	-31
Exchange Rates			%				
USD/Majors		105.68	-0.1	-1	1	-7	2
EUR/USD		1.06	0.0	1	-1	9	-1
USD/JPY		149.2	0.0	0	1	2	14
EM/USD		46.8	0.3	1	-2	-3	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		87.2	1.6	4	-5	9	7
Industrials Metals (index)		137	0.0	0	-3	-6	-17
Agriculture (index)		63	0.5	-1	-4	-8	-8
Implied Volatility			%				
VIX Index (% change in pp)		16.0	-0.1	-2.5	1.7	-17.6	-5.7
Global FX Volatility		8.2	0.0	-0.2	0.0	-4.7	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		148	-2.4	0	7	-120	-58
Italy		193	-2.2	-8	17	-49	-21
Portugal		70	-3.4	-7	-3	-39	-31
Spain		109	-1.2	-4	3	-10	-1

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

Emerging Market Financial Indicators

Last updated: 10/12/2023 8:11 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	0.0	0.0	0	-2	-5		2.8	-2.0	4	4	-6	-31
Indonesia		15700	0.0	-0.5	-2	-2	-1		6.8	-0.7	-26	14	-58	-16
India		83	-0.1	0.0	0	-1	-1		7.7	-4.0	-11	-11	(6.1)	23
Philippines		57	0.2	0.0	0	4	-2		5.7	-3.9	0	-21	0	-25
Thailand		36	0.8	2.2	-2	5	-4		3.3	-1.0	-11	25	14	70
Malaysia		4.71	0.1	0.3	-1	-1	-7		4.0	-0.3	-7	16	-40	-1
Argentina		350	0.0	0.0	0	-57	-49		106.2	-226.6	-310	-1513	1805	1800
Brazil		5.05	0.1	2.1	-2	5	5		11.8	3.1	-25	34	-1	-80
Chile		926	0.4	-1.4	-3	2	-8		5.5	1.5	-24	24	-120	20
Colombia		4231	0.0	0.9	-6	9	15		9.3	0.5	-26	65	-134	-48
Mexico		17.78	0.3	2.7	-3	12	10		9.4	0.0	-18	23	4	62
Peru		3.8	-0.2	-0.5	-3	4	-1		7.5	0.0	-2	67	-121	-44
Uruguay		40	0.1	-1.6	-4	3	0		9.9	-7.3	32	44	-150	-81
Hungary		363	0.1	1.1	-1	22	3		7.1	-1.0	-51	22	-349	-249
Poland		4.26	-0.1	2.3	2	17	3		4.8	-1.3	-31	15	-250	-131
Romania		4.7	-0.1	0.8	-1	9	-1		6.9	-6.4	-2	31	-202	-83
Russia		97.4	0.9	2.7	-3	-34	-24							
South Africa		18.8	-0.1	3.6	0	-3	-10		9.8	0.0	-31	26	19	59
Turkey		27.75	-0.1	-0.7	-3	-33	-33		27.2	10.0	53	159	1437	1732
US (DXY; 5y UST)		106	-0.1	-0.6	1	-7	2		4.57	-0.5	-11	14	45	57

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3702	0.9	0	-1	-1	-4		174	3	-9	-26	-3	
Indonesia		6935	0.0	1	0	1	1		134	-6	5	-80	-6	
India		66408	-0.1	1	-2	16	9		146	1	6	-50	4	
Philippines		6263	0.1	1	2	6	-5		109	-9	5	-61	12	
Thailand		1451	-0.4	0	-6	-7	-13		0	0	0	0	0	
Malaysia		1444	0.5	2	-1	5	-3		98	1	1	-14	-2	
Argentina		716544	2.7	21	33	425	255		2531	-175	356	-297	326	
Brazil		117051	0.3	3	-1	2	7		223	-4	-7	-83	-51	
Chile		5781	0.0	1	-2	17	10		142	8	15	-51	10	
Colombia		1114	-0.1	2	3	-5	-13		357	-1	13	-123	-15	
Mexico		50345	0.1	-1	-3	10	4		371	-8	14	-80	-10	
Peru		22250	-0.1	1	-3	12	4		160	-3	4	-69	-20	
Hungary		56410	0.4	2	-2	45	29		205	-5	11	-115	-17	
Poland		67111	0.1	5	1	46	17		136	0	11	72	63	
Romania		14277	0.5	2	1	34	22		220	-2	4	-142	-35	
South Africa		74096	0.3	4	0	15	1		387	-20	17	-88	20	
Turkey		8346	0.2	-2	2	137	52		399	-9	9	-225	-41	
Ukraine		507	0.0	0	0	-2	-2		3530	-101	205	-377	-549	
EM total		38	0.8	3	-2	11	1		409	-8	29	-59	34	

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

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