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- A number of large US banks reported earnings this morning ([link](#))
- Default activity has stabilized in the US ([link](#))
- ECB September meeting minutes show vast majority in favor of rate hike ([link](#))
- EBA proposes that banks include ESG risks in Pillar 1 capital ([link](#))
- In China, reported state-backed market stabilization fund fails to shore up confidence ([link](#))

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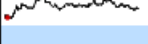






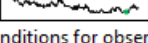
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Rising geopolitical fears spook markets

This morning markets are experiencing a classic flight to quality move as treasury yields and equities are both lower. With tensions continuing to rise in the Middle East and worries about what might unfold over the weekend, investors are reducing risk. With today's drop in yields spurred more by declining risk sentiment rather than a recalibration of expectations for near term monetary policy, yield curves are inverting further (US 10-year down 9 bp compared to 3 bp for the 2-year). European equity markets are lower across sectors, aside from energy which is being boosted by rising oil prices. Several large US banks reported 3Q results this morning. Both JP Morgan and Wells Fargo posted strong revenues and earnings, but the market reaction has been muted. In China, there are reports that authorities are considering a new state-backed market stabilization fund. Despite that, equities fell this morning in line with global sentiments.

Key Global Financial Indicators

Last updated: 10/13/23 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4350	-0.6	2	-3	19	13
Eurostoxx 50		4165	-0.8	0	-1	24	10
Nikkei 225		32316	-0.5	4	-4	19	24
MSCI EM		38	-1.1	2	-3	9	0
Yields and Spreads			bps				
US 10y Yield		4.61	-8.2	-19	37	67	74
Germany 10y Yield		2.72	-6.3	-16	7	44	15
EMBIG Sovereign Spread		443	-6	-11	21	-124	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.5	0.0	0	-2	-4	-7
Dollar index, (+) = \$ appreciation		106.5	-0.1	0	2	-5	3
Brent Crude Oil (\$/barrel)		89.5	4.1	6	-3	-5	4
VIX Index (% change in pp)		17.3	0.6	0	4	-15	-4

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

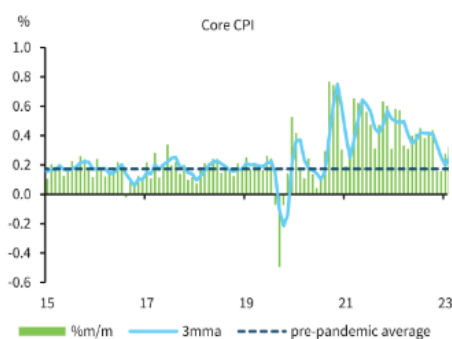
Mature Markets

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United States

CPI details highlight a sticky core and accelerating super-core. The CPI print yesterday came above market expectations pushing the 2-year UST comfortably above 5% and the dollar index back to 106.5 levels. Unpacking the different components seems to provide a stronger case for hawks as core CPI of 0.32% was 4bp higher m/m. The most popular measure this cycle “supercore” inflation (measures services excluding energy and housing) accelerated to 0.6% from 0.4% reversing its downward trend. Positively, core goods remained in deflationary territory even excluding used cars. Barclays analysts maintain their call for one more 25bp hike by the end of year but now see a higher probability of it occurring in December.

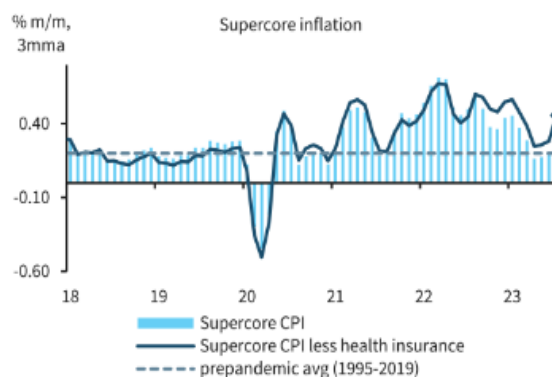
Figure 3. Core inflation accelerated in September, pulling the 3mma slightly higher



Pre-pandemic average: 1995-2019.

Source: BLS, Haver Analytics, Barclays Research

Figure 7. The rapid easing in the 3mma measures of supercore CPI reversed in September...



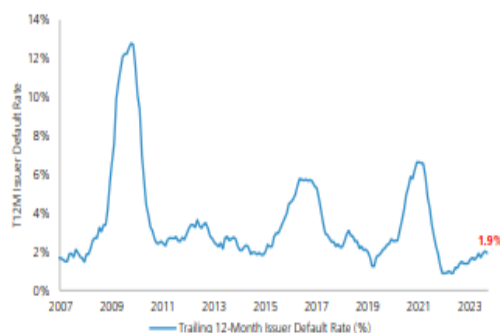
Source: BLS, Haver Analytics, Barclays Research

This morning, several major US banks have released 3Q earning results. JPM posted good results with revenues and EPS beat despite muted pre-market price reaction. JPM reported strong revenues and increased the net interest income guidance for the full year (ex-corporate and investment banking) to \$89 bn (from \$87 bn). Loan growth was strong (17% y/y) despite deposits falling slightly (1% y/y, 2% q/q). Investment Banking fees beat by 10% suggesting pick-up in activity. ROTCE fell to 22% from 25%. **WFC had strong revenue and EPS beat as its turn-around story begins to pay off.** WFC reported a strong set of results with revenue above consensus and improved efficiency which allowed for large EPS beat. ROTCE increased sequentially by 200bp to 15.9%. WFC balance sheet growth is still capped by regulation. Dividend increased by 17% while stock repurchases topped 1% of shares outstanding. Non-performing loans increased by close to \$1 bn. **PNC missed revenues and deposits fell from 2Q23.** PNC revenue declined by 1% driven by a fall in net interest income. Deposits declined by \$4 bn sequentially highlighting the tough competitive environment for US regional bank. Management highlighted that growth in commercial deposits could not offset lower consumer deposits. Despite this, diluted EPS beat estimates as the company significantly improved operating leverage. **Citibank beat in part due to strong IB and FICC sales and trading.** FICC sales and trading revenues came in at \$3.56 bn vs. \$3.25bn while Investment Banking was reported at \$844bn vs. consensus \$657 bn. On the downside, deposits fell significantly; \$25 bn in the US due to a shift of deposits from Wealth Management into higher yielding investments and reduction in certificate of deposits.

Default activity has stabilized in the U.S. Default activity in the US increased during 2023 as corporates started to feel the impact of higher rates. More recently, UBS shows that for September, defaults have moderated both in the high-yield space as well as in leveraged loans. The trailing 12-month issuer default rate for high yield loans plateaued at 1.9% with September being the first month without a default in two

years. On the leveraged loans front, the default rate fell month on month to 2.7%. Default data will be extremely relevant for the Fed to determine the impact of “long and variable lags” on the real economy in order to decide to hike/hold in the upcoming FOMC meetings.

Figure 1: US HY Trailing 12-Month Issuer Default Rate



Source: Credit Suisse Indices, UBS

Figure 6: US LL Trailing 12-Month Issuer Default Rate



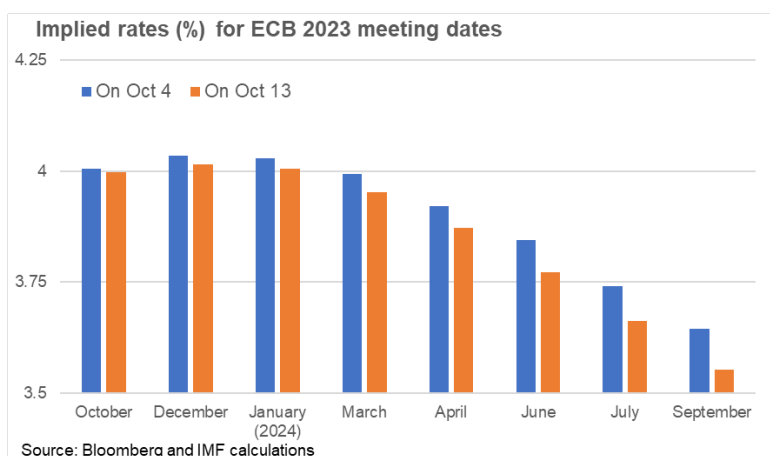
Source: Credit Suisse Indices, UBS

Europe

European equities are trading in the red, while the euro was trading in a tight range against the dollar and sovereign yields eased. The Stoxx 600 index was 0.9% lower, with the majority of sectors trading in the red, with only the energy sector (+1.1%) posting gains against a backdrop of higher oil and gas prices. Brent crude oil is 4% higher at 89.3\$/barrel while European natural gas prices futures are roughly 2% higher at €54.MwH, after closing 15% higher yesterday at the highest closing level since February. **The euro was slightly weaker against the dollar (-0.1%). On the data front eurozone industrial production rebounded in August (+0.6%m/m versus expected +0.2% from a downwardly revised -1.3%).** ING analysts highlight that industrial production remains down on the quarter, which analysts see as increasing the probability of another negative growth surprise in Q3.

Sovereign yields were sharply lower this morning (10y bund -7bps to 2.72%) after closing 7bp higher yesterday in the aftermath of an upside surprise in the latest US CPI print. Southern spreads continued to widen this morning with the 10y Italian spread up 3 bp to 201bp. This morning ECB governing council (GC) member Visco said that the levels of spreads are not concerning and would not require ECB intervention.

ECB September meeting minutes showed that the vast majority of ECB Governing Council (GC) members were in favor of hiking, but the decision was “generally seen as a close call”. The minutes also indicated that there was not a discussion about bringing PEPP reinvestments to an end earlier. Some contacts highlight that the minutes revealed growth concerns and a more divergent governing council, while others point out that there is a clear shift in the ECB narrative from peak to duration. HSBC analysts expect that the next subject of debate would be around policies regarding the ECB’s balance sheet, but only expect a decision in December. ING analysts note that decent developments have made a pause at the upcoming ECB meeting in November more certain but see a rate hike in December as a possibility. In the meantime, ECB GC member Knot recently argued that markets pricing in a rate cut by the middle of next year is “too early”. While he did not rule out an additional rate hike, he noted the likelihood that the ECB would keep rates at the current levels for at least a year.



The European Banking Authority (EBA) recommends enhancements to accelerate the integration of environmental and social risks across the Pillar 1. In a report published yesterday, the EBA put forward recommendations for short-term actions to be taken over the next three years as part of the implementation of the revised Capital Requirements Regulation and Capital Requirements Directive (CRR3/CRD6). It also presents possible revisions of the Pillar 1 framework reflecting the growing importance of environmental and social risks. Bloomberg notes that the European Banking Federation had previously said that it was against using Pillar 1 to address climate risks, while BNP Paribas SA has separately cautioned previously that higher capital requirements could weigh on banks' ability to provide transition finance.

Japan

Japanese equities declined (NIKKEI: -0.5%) as bond yields rose globally. US treasury yields increased after stronger-than-expected US inflation data. The yen appreciated slightly to 149.7 (+0.1%). Market participants were cautious about potential FX interventions as the yen approached the 150 yen per dollar level. Long-end JGB yields increased, with the 10-year rising to 0.755 (+0.2 bp) and 30-year rising to 1.675% (+1.6 bp). Analysts noted that Japanese life insurers are expected to continue selling foreign bonds when they start outlining their investment plans next week. A key driver of such investment decisions is expensive hedging costs.

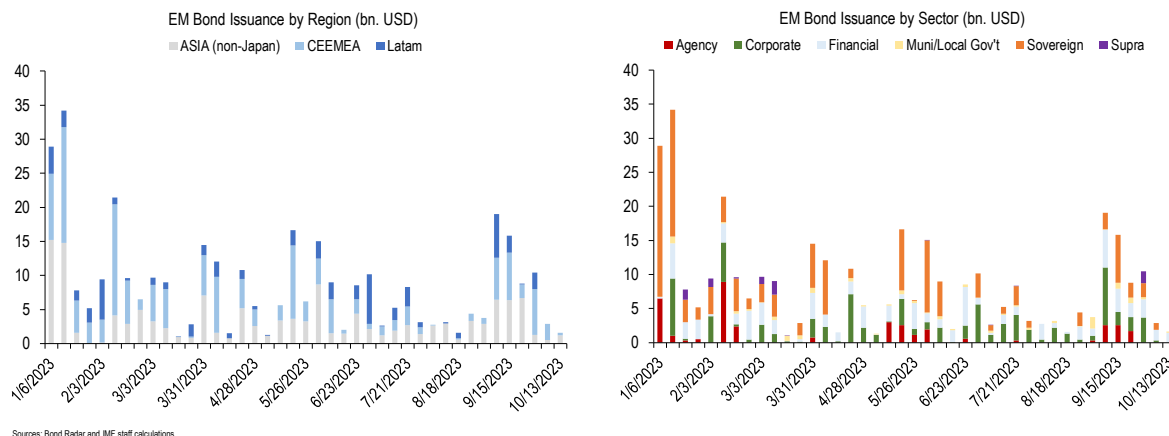
Emerging Markets

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Asian markets declined today following a notable increase in US treasury yields yesterday. Asian equities fell 1.8% overall, led by Hong Kong (-2.3%), Chinese (-1.1%), Singaporean (-1.0%) and Korean (-1.0%) stocks. Asian currencies also depreciated, led by the Korean won (-0.9%), Taiwan dollar (-0.3%) and Malaysian ringgit (-0.3%). Long-end government bond yields increased, with 10-year yields rising in Korea (+8 bp). In Korea, the unemployment rate increased to 2.6% in September from 2.4% in August, in line with expectations. **Latin American equities finished mixed while currencies mostly appreciated against the dollar yesterday.** Stocks closed higher in Argentina (+6.2%), Chile (+0.3%), and Brazil (+0.3%), but lower in Mexico (-1.2%) and Colombia (-0.2%). The Chilean peso (-1.1%) and Mexican peso (-0.8%) underperformed. Argentina hiked their key interest rate by 15% following higher than expected CPI surprise.

EM Bond Issuance

EM weekly bond issuance fell to its lowest level since mid-August. Issuance through Thursday fell to \$1.6bn from \$2.9bn last week. Regionally, 77% of the issuance came from Asia, with 45% coming from China alone. On a sectoral level, 88% of the volume was financial bonds, with the remaining 12% coming from Muni/Local Gov't.



China

There are reports of a possible new state-backed market stabilization fund failed to shore up confidence. China is reportedly considered setting up a new state-backed market stabilization fund to bolster confidence in the stock market. There were at least two rounds of consultation with industry participants in recent months. However, Chinese equities declined today (CSI 300: -1.1%; Hong Kong SAR-listed: -2.4%). **The National People's Congress Standing Committee will discuss an early release of new government debt quotas in late October.** This could pave the way for a front-loaded issuance of local government bonds next year. Meanwhile, RMB was little changed at 7.306 yuan per dollar. The People's Bank (PBC) continued setting the daily RMB fixing stronger than expected; today's deviation from expectations amounted to 1,397 pips. The PBC also said that RMB does not deviate from fundamentals and that external pressure on RMB is weakening. CGB yields declined (1-year: -1.7 bp; 10-year: -2.2 bp).

CPI inflation remained muted, while PPI deflation narrowed, in September. CPI inflation moderated to 0% y/y (from 0.1%), below expectations (consensus: +0.2%), largely driven by a decline in food prices. Core CPI inflation remained unchanged at 0.8% y/y. Meanwhile, PPI deflation narrowed to -2.5% y/y in September from -3.0% in August (consensus: -2.4%). Sequentially, PPI increased on higher energy prices. **Trade data showed smaller-than-expected contractions in exports and imports in September.** Exports declined 6.2% y/y (consensus: -8.0%), while imports fell 6.2% (consensus: -6.3%), both in dollar terms. **Aggregate financing amounted to 4.12 tn yuan (\$564 bn) in September, beating expectations** (consensus: 3.7 tn yuan), supported by strong government bond issuances. New RMB loans amounted to 2.31 tn yuan (\$316 bn), smaller than expected (consensus: 2.5 tn yuan). Total social financing thus grew 9.3% y/y in September, the same pace as August.

China's Stock Market Has Been Immune to Support Measures
The CSI 300 Index has fallen almost 40% since its 2021 high



Core goods prices continued its modest recovery



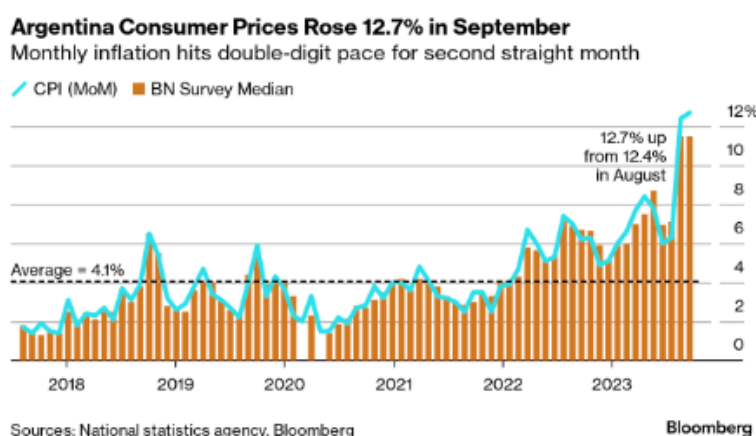
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Source: NBS, Wind, Citi Research

Singapore

The Monetary Authority of Singapore (MAS) kept its monetary policy setting unchanged at the policy meeting today. The MAS maintained the slope, width and center of the currency band. In addition, the MAS is moving to hold a policy meeting quarterly rather than biannually to be nimbler in responding to evolving challenges. The MAS expected headline inflation to be at 3.0–4.0% next year, down from 5.0% this year. The Singaporean dollar appreciated (+0.1%), outperforming other regional currencies. The economy grew 1.0% q/q in 2023Q3, stronger than expected (consensus: +0.6%). Singaporean equities declined (-1.0%), in line with regional trends.

Argentina




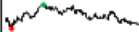

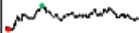










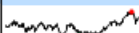


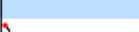

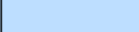
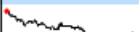


Argentina's central bank hikes interest rates by 15% after higher-than-expected September CPI. September CPI accelerated to 138.3% yoy (135% expected) from 124.4% in August. The central bank hiked their key interest rate by 15% to 133% shortly after the data release. Prices are rising at the fastest pace since Argentina was exiting hyperinflation in the early 1990's. The release comes days after Presidential frontrunner Javier Milei encouraged citizens to stop saving in pesos in a plan to dollarize the country. Bloomberg analysts note that inflation is voters top concern with the upcoming election on Oct 22.



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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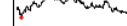


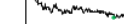

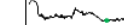






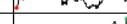
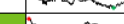
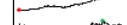

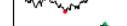

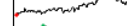


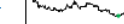






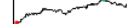
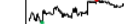
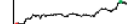







Global Financial Indicators

10/13/23 8:11 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4343	-0.6	1	-3	18	13
Europe		4165	-0.8	0	-1	24	10
Japan		32316	-0.5	4	-4	19	24
China		3663	-1.1	-1	-1	-5	-5
Asia Ex Japan		64	-1.0	2	-2	11	-1
Emerging Markets		38	-1.1	2	-3	9	0
Interest Rates			basis points				
US 10y Yield		4.61	-8.2	-19	37	67	74
Germany 10y Yield		2.72	-6.3	-16	7	44	15
Japan 10y Yield		0.76	0.3	-4	5	51	34
UK 10y Yield		4.36	-6.2	-21	1	16	69
Credit Spreads			basis points				
US Investment Grade		154	0.7	-1	6	-38	-5
US High Yield		457	5.9	4	46	-73	-24
Exchange Rates			%				
USD/Majors		106.53	-0.1	0	2	-5	3
EUR/USD		1.05	0.0	-1	-2	8	-2
USD/JPY		149.6	-0.1	0	1	2	14
EM/USD		46.5	0.0	0	-2	-4	-7
Commodities			%				
Brent Crude Oil (\$/barrel)		89.5	4.1	6	-2	9	10
Industrials Metals (index)		136	-0.4	-2	-5	-8	-18
Agriculture (index)		65	0.9	1	-3	-6	-6
Implied Volatility			%				
VIX Index (% change in pp)		17.3	0.6	-0.2	3.8	-14.7	-4.4
Global FX Volatility		8.1	0.0	-0.2	-0.2	-4.6	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		153	2.0	0	12	-108	-53
Italy		202	4.2	-1	22	-37	-12
Portugal		74	0.8	-3	-1	-33	-27
Spain		113	2.0	1	6	-3	4

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

Emerging Market Financial Indicators

Last updated: 10/13/2023 8:12 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		7.31	0.0	-0.1	0	-2	-6		2.7	-2.0	2	6	-7	-33
Indonesia		15682	0.1	-0.4	-2	-2	-1		6.8	-0.7	-26	14	-58	-16
India		83	0.0	0.0	0	-1	-1		7.6	-4.0	-22	-13	(1.5)	19
Philippines		57	-0.2	-0.3	0	4	-2		5.7	0.1	-4	-16	0	-25
Thailand		36	0.1	1.6	-2	5	-5		3.3	-1.0	-11	25	14	70
Malaysia		4.73	-0.4	-0.3	-1	-1	-7		4.0	0.3	-5	14	-41	-1
Argentina		350	0.0	0.0	0	-57	-49		105.1	-115.7	-308	-1630	1519	1684
Brazil		5.07	-0.4	1.5	-3	4	4		11.9	7.2	-17	51	5	-72
Chile		947	-0.8	-2.7	-6	-1	-10		5.6	-0.3	-20	28	-108	23
Colombia		4262	-0.7	2.1	-7	8	14		9.3	0.0	-35	79	-145	-45
Mexico		17.95	0.2	1.2	-4	11	9		9.5	12.5	-5	36	16	75
Peru		3.8	-0.2	-0.4	-3	4	-1		7.6	1.7	5	77	-111	-34
Uruguay		40	-0.1	-1.5	-4	3	0		9.9	2.4	14	55	-159	-79
Hungary		369	-0.3	-0.9	-3	19	1		7.2	-7.0	-43	33	-338	-242
Poland		4.31	0.0	0.4	0	14	1		5.0	8.8	-19	28	-222	-120
Romania		4.7	-0.1	-0.6	-2	7	-2		6.9	-0.1	-7	31	-219	-83
Russia		97.2	0.5	3.8	-1	-35	-24							
South Africa		19.0	0.2	1.7	-1	-4	-10		9.9	4.9	-11	42	36	72
Turkey		27.80	-0.2	-0.7	-3	-33	-33		27.3	11.0	62	132	1376	1743
US (DXY; 5y UST)		107	-0.1	0.5	2	-5	3		4.63	-6.1	-13	25	43	63

	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		3663	-1.1	-1	-1	-5	-5		173	-1	-10	-29	-4
Indonesia		6927	-0.1	1	-1	2	1		119	-17	-15	-99	-21
India		66283	-0.2	0	-2	14	9		142	-4	3	-60	0
Philippines		6266	0.1	0	2	6	-5		94	-19	-15	-82	-3
Thailand		1451	0.0	0	-6	-7	-13		0	0	0	0	0
Malaysia		1444	0.0	2	-1	4	-3		97	-1	1	-20	-3
Argentina		760674	6.2	24	37	440	276		2517	-215	335	-307	312
Brazil		117051	0.3	3	-1	2	7		220	-10	-12	-91	-54
Chile		5800	0.3	3	-2	17	10		140	-1	11	-58	8
Colombia		1112	-0.2	1	3	-6	-14		355	-8	6	-129	-17
Mexico		49745	-1.2	1	-3	9	3		369	-11	6	-85	-12
Peru		22163	-0.4	1	-3	11	4		156	-6	-4	-79	-24
Hungary		56127	-0.1	2	-2	45	28		192	-15	-5	-134	-30
Poland		67004	0.5	5	1	47	17		119	-14	-9	50	46
Romania		14273	0.1	2	1	35	22		209	-13	-8	-169	-47
South Africa		73057	-0.5	2	0	13	0		383	-22	6	-105	16
Turkey		8117	-1.7	-4	1	128	47		390	-12	-5	-231	-50
Ukraine		507	0.0	0	0	-2	-2		3608	-105	269	-476	-471
EM total		38	-0.2	2	-3	9	0		404	-14	21	-73	28

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

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