



- US Treasury market liquidity improved in recent months despite surging rates ([link](#))
- UK gilts underperform following the latest UK inflation data ([link](#))
- Bank of Korea stands pat, as expected ([link](#))
- Chinese investors offload most US securities in four years ([link](#))
- Bank Indonesia surprises with a rate hike ([link](#))
- EM bond issuance weakened last week ([link](#))

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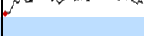






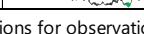
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## Treasury 10-year yields close to 5%

Market sentiment remains fragile as US Treasury yields continued their ascent amid more corporate earnings releases and continued diplomatic efforts to contain the Israel-Hamas war. Treasury 10-year yields rose for the fourth consecutive day, mostly on the back of higher real rates, pushing closer to 5% for the first time since 2007. US equity futures treaded water amid mixed earnings results. Shares in Tesla dropped in premarket trading on disappointing earnings but shares in Netflix surged after posting its best quarter for subscriber growth in years. Across the pond, gilt yields continued to rise while euro-area sovereign bond yields were little changed after reaching fresh multi-year highs in France and Italy yesterday. In emerging markets, Chinese equities underperformed and the Bank of Indonesia surprised with a 25 bps rate hike. Elsewhere, oil prices slipped from a 2-week high on news the US eased crude sanctions against Venezuela, offsetting some of the price gains driven by the conflict in the Middle East.

Key Global Financial Indicators

Last updated: 10/19/23 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4315	-1.3	-1	-3	17	12
Eurostoxx 50		4099	-0.2	-2	-3	18	8
Nikkei 225		31431	-1.9	-3	-5	16	20
MSCI EM		37	-1.5	-3	-4	9	-1
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.97	6.0	28	62	84	110
Germany 10y Yield		2.93	0.8	15	19	56	36
EMBIG Sovereign Spread		446	4	-2	26	-120	-6
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.3	-0.1	0	-3	-4	-7
Dollar index, (+) = \$ appreciation		106.5	-0.1	0	1	-6	3
Brent Crude Oil (\$/barrel)		90.7	-0.9	5	-4	-2	6
VIX Index (% change in pp)		19.7	0.4	3	6	-11	-2

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

## Mature Markets

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### United States

**US markets came under pressure yesterday as geopolitical risk intensified.** Concerns of an escalation were rekindled after Arab leaders reportedly pulled out of planned meeting with President Biden. Oil and gold prices gained, along with a modest strengthening in the dollar, while stocks lost ground amid a rise in VIX to near 20 ppts. Treasury yields continue to march higher in a steepening move, with short-term rates little changed and 10-year bond yields up over 7 bps on the back of higher real rates, and the 30-year bond yield briefly surpassing 5%. Contacts are keeping an eye on Fed Chair Jerome Powell's speech later today, noting that remarks could impact fixed-income markets in the coming days.

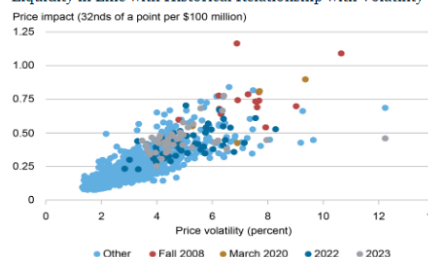
**Treasury market liquidity conditions have improved and are generally in line with the level of interest rate volatility.** According to a Federal Reserve study, liquidity measures such as bid-ask spreads, order book depth, price-volatility and price-impact have all improved in recent months since the significant dry-up during the regional US banking crisis, with some measures even improving beyond the 2022 levels. Moreover, liquidity conditions are in line with the level associated with the historical relationship of both realized and implied interest rate volatility.

Order Book Depth Plunged in March 2023



Source: Author's calculations, based on data from BrokerTec.  
Notes: This chart plots five-day moving averages of average daily depth for the on-the-run two-, five-, and ten-year notes in the interdealer market from September 1, 2019 to September 30, 2023. Data are for order book depth at the inside tier, averaged across the bid and offer sides. Depth is measured in millions of U.S. dollars per and plotted on a logarithmic scale.

Liquidity in Line with Historical Relationship with Volatility

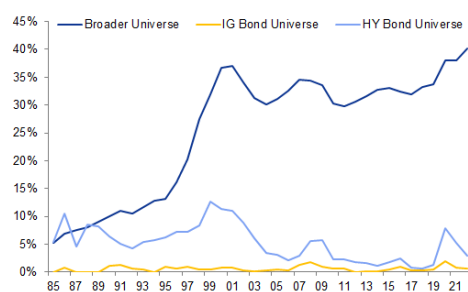


Source: Author's calculations, based on data from BrokerTec.  
Notes: This chart plots price impact against price volatility by week for the on-the-run five-year note from January 1, 2005, to September 30, 2023. The weekly measures for both series are averages of the daily measures plotted in the preceding two charts. Fall 2008 points are for September 21, 2008–January 3, 2009, March 2020 points are for March 1, 2020–March 28, 2020, 2022 points are for January 1, 2022–December 31, 2022, and 2023 points are for January 1, 2023–September 30, 2023.

**Some analysts are downplaying the risk from a record high level of unprofitable firms.** The all-time high share of unprofitable firms in the US is largely skewed towards small and often growth-oriented firms in tech and healthcare sectors. The median total assets of unprofitable firms in the US are at \$50 mn vs \$23 bn for investment-grade issuers and \$5 bn for high-yield bond issuers. These smaller firms reportedly have low leverage and high cash buffers and rely much less on public debt financing. That said, investor appetite for equity and debt financing, especially for M&A and leveraged buyouts will likely be weaker, which could pose challenges for firms in the lower end of the credit spectrum.

**Exhibit 18: The fraction of US listed firms with negative EBITDA (measured on a 12-month trailing basis) is at a record-high level of 42% but is hardly visible in the corporate bond market**

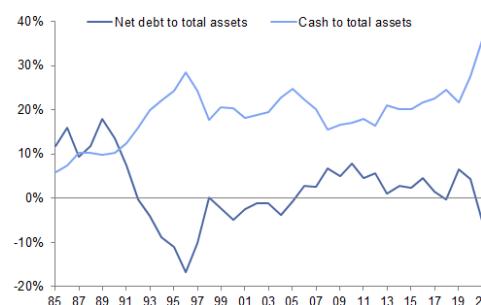
Share of unprofitable firms listed in the US



Source: FactSet, Goldman Sachs Global Investment Research

**Exhibit 19: Unprofitable firms in the US are under-leveraged and cash-rich**

Ratios of net debt to total assets and cash to total assets for the median unprofitable US listed firm

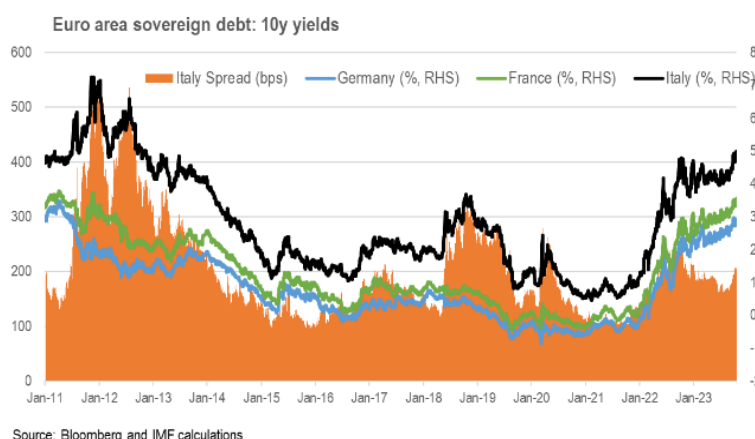


Source: FactSet, Goldman Sachs Global Investment Research

## Euro-area

European equities were weaker with the Stoxx 600 equity index 0.7% lower against a backdrop of higher global sovereign bond yields. The majority of sectors were trading in the red, with the technology sector outperforming (+1.9%). The euro was little changed against the dollar. On the data front, business confidence data in France disappointed. The INSEE's business confidence dropped by 2 pts over the month to 98, with analysts highlighting that the drop across all sectors indicates a widespread momentum loss. ING analysts see the data as confirming a further slowdown in the French economy in Q4.

Sovereign yields were little changed this morning, with 10-year yields in Italy and France trading at fresh multi-year highs, as bearish steepening in yield curves resumed. French 10-year yields closed 5 bps higher yesterday, the highest level since 2011. Yesterday, Italian 10-year yields closed 9 bps higher at 4.98% yesterday and in early trading this morning increased 3 bps to 5%—the highest level since 2012. 10-year bund yields closed 4bps higher yesterday and continued to edge higher this morning. Against this backdrop, 10-year Italian spreads widened by 5bps yesterday to 206bps yesterday and were little changed this morning. Contacts see fixed income markets as vulnerable, highlighting that bearish steepening has resumed even with the prospect of further escalation of conflict in the Middle East—with moves led by long-end US Treasuries.

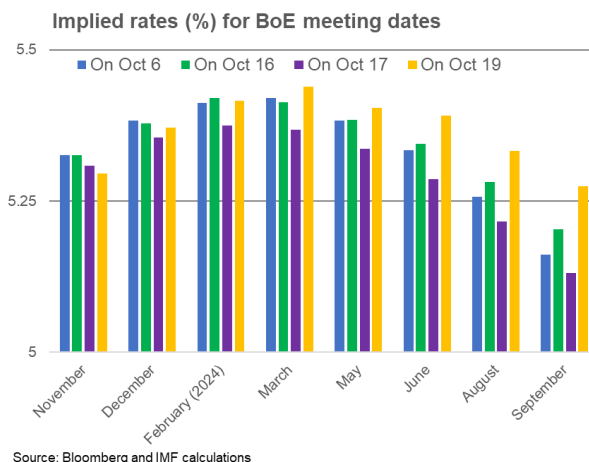


The ECB Governing Council (GC) earlier this week announced that the digital euro preparation phase will start in November. This phase of the digital euro project follows the conclusion of the 2-year investigation phase on the possible design and distributions of a digital euro, and will lay the foundations for a potential digital euro. This phase will involve finalizing a rulebook as well as selecting providers that could develop a platform and infrastructure. The preparation phase will start on November 1, and will initially last for two years. The GC would then make a decision about moving ahead to the next stage of preparations.

## United Kingdom

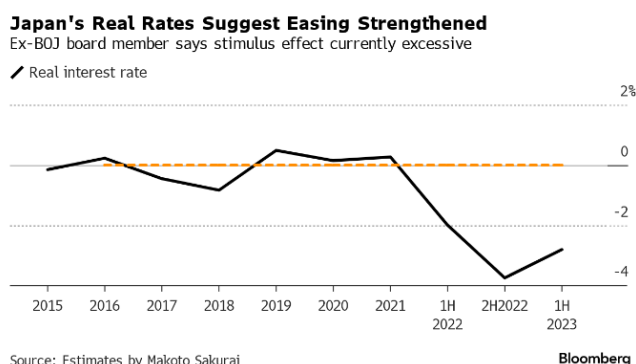
UK gilts yields continue to increase after gilts underperformed yesterday (10-year gilt yield +15 bps) following a marginal upside surprise in the latest UK CPI data print. Data released yesterday showed headline inflation remaining unchanged at 6.7% y/y in September, while consensus had expected a marginal decrease to 6.6%, and core inflation easing by less than expected to 6.1% y/y (versus expected to drop to 6.0% from 6.2%). Markets have scaled up BoE tightening expectations and now see rates remaining higher for longer—with the probability of another hike by February up to 70% by the close of markets yesterday, compared to around 55% the day before. Analysts continue to expect the BoE to

**remain on hold at the upcoming policy meeting in November**, and some analysts—for example HSBC—do not see any rate cuts until 2025.



## Japan

**Japanese equities declined by -1.4%.** Meanwhile, Japan's exports hit a record level of ¥9.2 tn (\$61 bn) in September, up +4.3% y/y (consensus: +3%, previous: -0.8%). The first expansion since June was led by cars and medical supplies. Imports slumped -16.3% y/y (consensus: -12.7%, previous: -17.7%). Separately, **former Bank of Japan (BOJ) board member Sakurai said the BOJ could scrap negative interest rates by the end 2024**, according to Bloomberg. He stated that real interest rates have fallen significantly, and excessive monetary easing needs to be reversed back to an appropriate level. **10-year JGB yields rose +2.5 bps to 0.83%, the yen strengthened marginally.**



## Republic of Korea

**Bank of Korea (BoK) kept its policy rate unchanged, as expected.** The bank admitted that uncertainties to growth have increased due to rising geopolitical risks amid ongoing restrictive monetary policies by major central banks. However, the BoK's tone remained hawkish, and some analysts delayed rate cut calls further out in 2024. The south Korean won underperformed (-0.6%) other Asian currencies and equities fell (-1.9%).

## Emerging Markets

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**Asian equities declined** led by China (-2.1%) and Vietnam (-1.4%). **Asian currencies weakened**, with the Thai Baht (-0.5%) underperforming. Meanwhile, the Malaysian ringgit slid to a 25-year low. **10-year bond yields followed US Treasury yields higher:** Australia (+13 bps), New Zealand (+10 bps) and

Singapore (+9 bps). **In EMEA, equities traded mostly lower while most currencies were weaker and local currency bond yields increased.** Equities in Türkiye (+1.2%) outperformed after closing sharply lower yesterday. The South African rand was roughly 0.4% weaker to the dollar while most CEE currencies were marginally weaker against the euro. On the data front, industrial output in Poland disappointed in September (-3.1% y/y versus expected -2.7% from -1.9%). **In LATAM, markets corrected on Wednesday.** Equities were down, with Argentina witnessing the largest losses (-3%). After yesterday's brief reprieve regional currencies also weakened. The Mexican peso and Chilean peso depreciated 1.3% and 1.1%, respectively, while other currencies were down about 0.5%. Separately, and according to media reports, **Argentina** has expanded its current currency swap line with the People's Bank of China by \$6.5 bn, taking it to \$11.5 bn. Further, the US has eased some sanctions on **Venezuela**, including those on oil, after an agreement on electoral roadmap was reached between the major political parties.

## China

**Chinese stocks extended losses and declined -2.1%.** China's 70-city new home prices contracted by -0.3% m/m in September, the steepest month-on-month decline since October 2022. JP Morgan analysts noted that despite the intensified housing policy easing since late August, most housing activities have stayed weak in September. **Chinese investors offloaded the most US bonds and stocks (\$21.2 bn) in four years in August**, fueling speculation that authorities are beefing up their war chest to defend the yuan, Bloomberg reported. The **Renminbi and 10-year bond yields were little changed.**

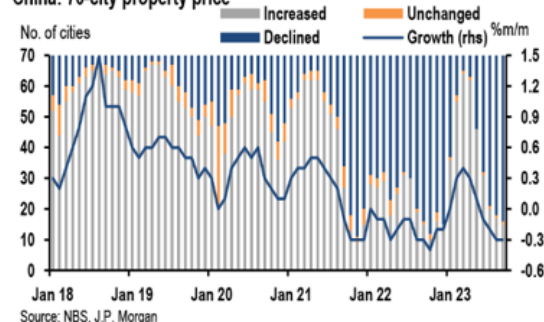
**China Sells Most US Securities in Four Years**  
Net purchases in billions of dollars

■ Total ■ Treasuries ■ Agency bonds ■ Corporate bonds ■ Stocks



Source: US Department of the Treasury, Bloomberg

**China: 70-city property price**



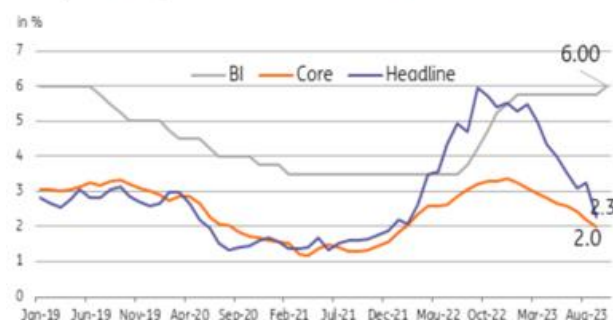
Source: NBS, J.P. Morgan

## Indonesia

**Bank Indonesia (BI) surprised with a 25 bps rate hike, raising its 7-day reverse repo to 6%** (consensus: on hold at 5.75%). This was the first-rate hike since January. BI said that this was a preemptive rate hike against potential imported inflation and to strengthen the stabilization of the rupiah. Meanwhile, looser rules on property and automotive loans will be extended until end of 2024. Separately, **Indonesia kicked off its election season on Thursday**, with registration open for candidates keen to contest in the next February's presidential polls. Candidates need to register with the election commission from 19–25 October. Analysts at Morgan said that political stability and key policy reforms are likely to be maintained, but some investors could move to book in profits and raise cash holdings closer to year-end and stay on the sidelines until the election is over. The **Indonesian rupiah touched a 3-year low before the decision**, depreciating (-0.5%) by the end of the trading day. Market participants thought BI may continue to conduct FX intervention via spot and domestic non deliverable forwards (DNDFs) in the near term, allowing the rupiah to move closer to regional peers. Standard Chartered noted the central bank is likely to continue to strengthen FX reserve management by conducting FX swaps, offering FX term deposits, issuing SRBIs to attract foreign inflows, and implementing the export proceeds policy. **10-year bond yields were little changed**, although 5-year bond yields rose by 9 bps after the decision. **Indonesian stocks lost -1.2%** amid the global sell off.

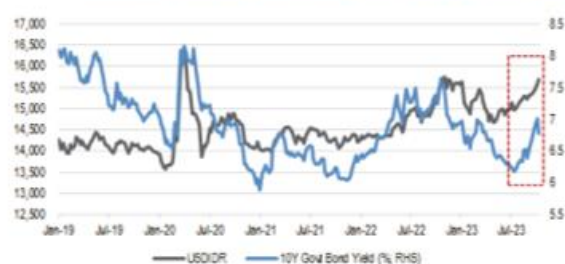


BI whips out "surprise" rate hike after IDR slide



BPS Badan Pusat Statistik and Bank Indonesia Source : Bloomberg Finance L.P.

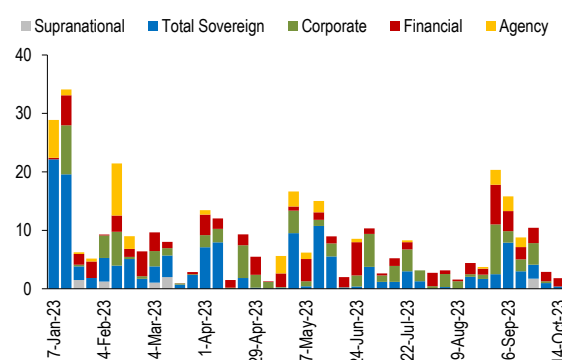
Indonesia 10-year government bond yield vs. USDIDR trend



## EM Bond Issuance

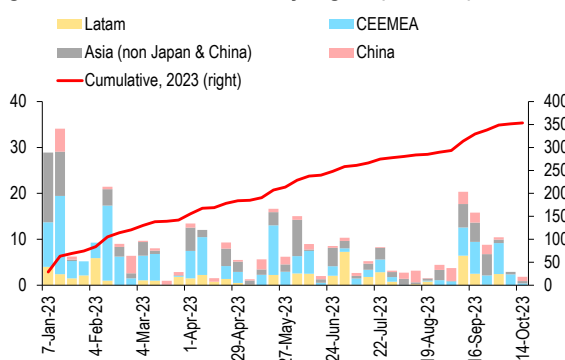
**EM hard currency bond issuance came in at \$1.8 bn for the week ending on Oct. 14<sup>th</sup>**, down from the \$2.9 bn volume seen the week before. Issuance was concentrated in financial and sovereign sectors, accounting for \$1.4 bn and \$0.4 bn, respectively. Issuance in the financial sector were almost equally distributed among China (\$0.5 bn), South Korea (\$0.5 bn) and Hungary (\$0.4), while issuance by sovereign sector was driven solely by China. With this, the cumulative bond issuance in EMs now stands at \$354 bn for the year, vs. \$289 bn for the corresponding period of last year.

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



Sources: Bond Radar, and IMF staff calculations.


























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



*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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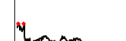
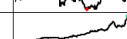
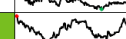

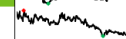



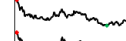


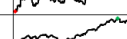
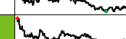
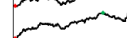
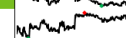
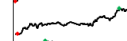



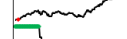



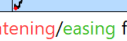





## Global Financial Indicators

10/19/23 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4314	-1.3	-1	-3	17	12
Europe		4099	-0.2	-2	-3	18	8
Japan		31431	-1.9	-3	-5	16	20
China		3534	-2.1	-5	-5	-6	-9
Asia Ex Japan		63	-1.5	-3	-3	11	-3
Emerging Markets		37	-1.5	-3	-4	9	-1
<b>Interest Rates</b>			basis points				
US 10y Yield		4.97	6.0	28	62	84	110
Germany 10y Yield		2.93	0.8	15	19	56	36
Japan 10y Yield		0.84	3.1	8	12	58	42
UK 10y Yield		4.69	3.7	27	35	82	102
<b>Credit Spreads</b>			basis points				
US Investment Grade		158	-0.1	5	13	-34	-1
US High Yield		459	1.5	8	50	-43	-21
<b>Exchange Rates</b>			%				
USD/Majors		106.45	-0.1	0	1	-6	3
EUR/USD		1.06	0.2	0	-1	8	-1
USD/JPY		149.9	0.0	0	1	0	14
EM/USD		46.3	-0.1	0	-3	-4	-7
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		90.7	-0.9	5	-3	12	11
Industrials Metals (index)		137	0.0	0	-4	-4	-17
Agriculture (index)		66	0.0	2	-1	-3	-5
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		19.7	0.4	3.0	5.5	-11.1	-2.0
Global FX Volatility		8.0	0.0	-0.1	0.0	-4.5	-2.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		149	-0.9	-1	10	-121	-56
Italy		205	-0.6	7	27	-35	-9
Portugal		72	-1.6	-2	-1	-35	-30
Spain		112	-1.4	1	6	-3	3

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

## Emerging Market Financial Indicators

Last updated: 10/19/2023 8:01 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		7.32	0.0	-0.1	0	-1	-6		2.8	0.5	3	4	-3	-28
Indonesia		15815	-0.5	-0.7	-3	-2	-2		6.9	-0.3	10	12	-59	-6
India		83	0.0	0.0	0	0	-1		7.8	4.0	12	0	13.9	35
Philippines		57	-0.3	-0.3	0	4	-2		5.8	2.3	7	-4	2	-18
Thailand		36	-0.3	-0.2	-1	5	-5		3.5	7.5	18	28	23	88
Malaysia		4.77	-0.5	-1.2	-2	-1	-8		4.1	4.3	9	21	-33	8
Argentina		350	0.0	0.0	0	-56	-49		105.4	18.6	-77	-878	1863	1723
Brazil		5.08	-0.4	-0.6	-4	4	4		12.0	15.8	23	51	22	-56
Chile		948	-0.6	-1.0	-6	3	-10		6.1	8.5	51	73	-55	74
Colombia		4254	-1.3	-0.5	-8	12	14		9.5	0.0	15	93	-196	-31
Mexico		18.35	-0.6	-2.0	-7	10	6		9.7	0.0	19	49	29	93
Peru		3.9	-0.4	-1.0	-4	3	-2		7.7	0.0	12	88	-93	-24
Uruguay		40	-0.1	-0.2	-5	3	0		9.8	-1.7	-7	42	-173	-88
Hungary		364	0.2	1.1	-1	16	3		7.6	19.0	35	78	-345	-200
Poland		4.22	0.2	2.2	3	16	4		5.1	9.0	25	43	-237	-103
Romania		4.7	0.2	0.0	-1	7	-2		6.9	1.8	4	30	-216	-79
Russia		97.2	0.8	0.5	0	-36	-24							
South Africa		19.1	-0.7	-0.6	-1	-4	-11		10.1	5.7	31	64	56	98
Turkey		28.00	0.0	-0.9	-4	-34	-33		29.3	0.0	212	234	1873	1944
US (DXY; 5y UST)		106	-0.1	-0.2	1	-6	3		4.98	5.1	29	47	63	98

	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		3534	-2.1	-5	-5	-6	-9		167	-7	-16	-41	-10	
Indonesia		6846	-1.2	-1	-2	-2	0		121	-13	-14	-99	-19	
India		65629	-0.4	-1	-2	11	8		134	-12	-6	-76	-8	
Philippines		6219	-0.8	-1	3	3	-5		99	-10	-13	-79	2	
Thailand		1423	-1.0	-2	-6	-11	-15		0	0	0	0	0	
Malaysia		1443	-0.3	0	-1	0	-4		92	-6	-6	-33	-8	
Argentina		798907	-3.0	23	39	485	295		2395	-136	207	-417	190	
Brazil		114060	-1.6	-2	-3	-2	4		217	-6	-13	-85	-57	
Chile		5796	-1.6	0	-3	14	10		141	-1	13	-53	9	
Colombia		1134	1.4	2	3	-5	-12		345	-12	12	-141	-27	
Mexico		49275	-0.8	-2	-6	7	2		362	-9	-4	-77	-19	
Peru		22209	-0.1	0	-2	10	4		159	-1	-2	-73	-21	
Hungary		56768	-0.6	1	-2	42	30		193	-12	0	-120	-29	
Poland		69282	-1.8	4	5	49	21		111	-25	-16	54	38	
Romania		14238	0.4	0	-1	32	22		212	-8	4	-171	-43	
South Africa		71386	-0.9	-3	-3	9	-2		397	10	18	-92	30	
Turkey		7946	1.3	-4	2	105	44		397	-2	-14	-202	-43	
Ukraine		507	0.0	0	0	-2	-2		3745	215	527	-384	-334	
EM total		37	-0.5	-3	-4	9	-1		404	-6	21	-67	28	

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

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