



- US Treasury long-dated bond yields rose further after Powell speech ([link](#))
- No policy changes expected at the ECB meeting next week ([link](#))
- UK retail sales and consumer confidence disappoints ([link](#))
- Bank of Japan offers five-year loans to banks to help curb yields ([link](#))
- Analysts expect Israel to keep rates unchanged at upcoming policy meeting ([link](#))
- People's Bank of China inject record amount of liquidity to keep funding costs low ([link](#))
- Venezuelan bonds see some revival post relief from US sanctions ([link](#))

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## Markets cautious as tensions spread in the Middle East

Market sentiment deteriorated with global equities falling in Europe and Asia on concerns the war between Israel and Hamas may spread to a wider conflict in the Middle East. Israel's military said it struck Hamas targets in Gaza overnight and hit Hezbollah assets in response to fire from Lebanon. US authorities also noted that they are seeing an increase in drone attacks to its military bases in Iraq and Syria. The rising risk aversion was reflected in higher oil and gold prices this morning. Treasury yields fell modestly, reversing some of yesterday's gains after chair Powell's speech. Across the pond, euro-area sovereign bond yields were little changed, with investors focused on the ECB meeting next week. In credit markets, spreads continued to widen, with the iTraxx Crossover CDS index trading 9 bps wider this morning. In emerging markets, China's central bank injected a record amount of liquidity via reverse repos to keep funding costs low.

Key Global Financial Indicators

Last updated: 10/20/23 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4278	-0.8	-2	-3	17	11
Eurostoxx 50		4049	-1.0	-2	-5	16	7
Nikkei 225		31259	-0.5	-3	-4	16	20
MSCI EM		37	-0.6	-2	-4	7	-2
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.97	-2.1	36	56	74	109
Germany 10y Yield		2.94	0.8	20	24	54	37
EMBIG Sovereign Spread		448	2	5	31	-118	-4
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.4	0.1	0	-2	-4	-7
Dollar index, (+) = \$ appreciation		106.2	-0.1	0	1	-6	3
Brent Crude Oil (\$/barrel)		93.5	1.2	3	0	1	9
VIX Index (% change in pp)		20.7	-0.7	1	6	-9	-1

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

**The 30-year Treasury yield rose to 5.1% yesterday as chair Powell speech left door open for additional rate hikes.** Chair Powell's speech suggested the FOMC will stay on hold in November, but further signs of resilient economy may merit additional rate hikes, though the recent run-up in long-term rates, if persist, could lessen the need at the margin. The Treasury curve steepened in response, with short-term rates down 6 bps as investors priced out the near-term rate hike, while the 30-year bond yield rose 11 bps to 5.1%. As a result, the spread between 2 and 30-year Treasury yields was close to un-inverting at 5 bps.

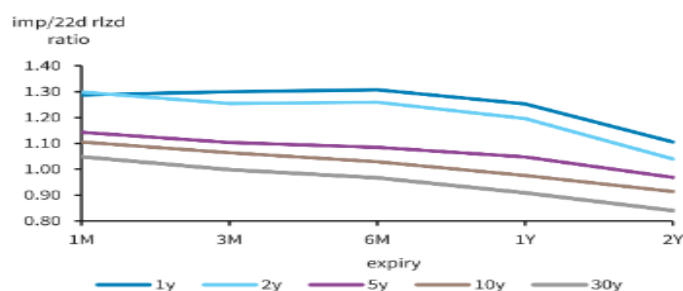
**Figure 1: The broad curve is trading at the least inverted levels since May**



Source : J.P. Morgan

**The ratio of implied to realized volatility has fallen below 1 for the longer-term rates,** in contrast to short-term rates where there's still reasonably high volatility risk premium.

**Figure 1. Implied to realized ratios are closest to 1 in long tenors**

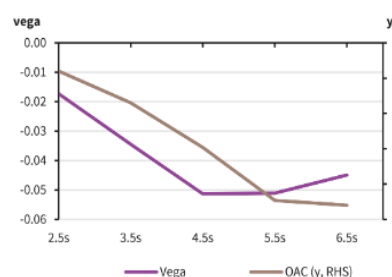


Source: Barclays Research

**Convexity hedging may be a more significant driver of the volatility in long bond yields.** According to Barclays, while the aggregate negative convexity of the MBS universe is low, the recently issued MBS with higher coupon rates, which are subject to higher refinancing incentives than the older vintage with low

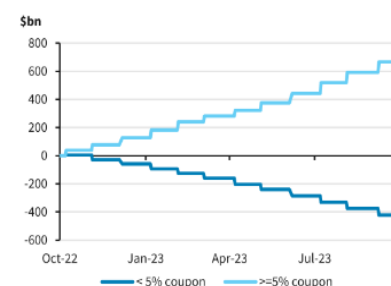
coupon rates, are said to be held by investors who are more likely to hedge such as money managers. As rates move higher along with higher volatility, the duration of the underlying MBS lengthens and these investors need to hedge the duration risk, which could exacerbate upward moves in yields.

**Figure 1. Newly issued mortgages with higher coupons are quite negatively convex**



Source: Bloomberg OAS model

**Figure 2. The higher-coupon MBS universe has grown, while lower coupons have fallen**



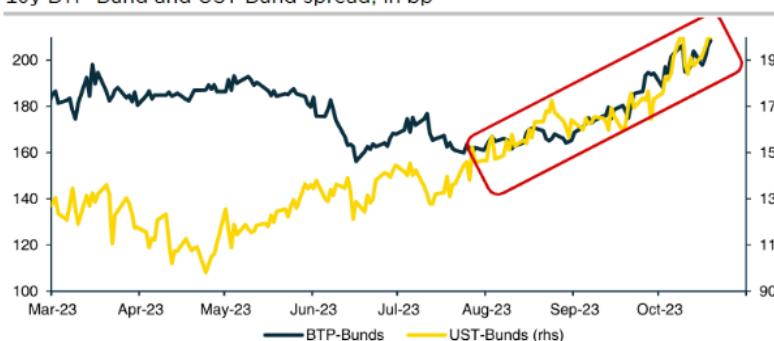
Source: Barclays Research, Bloomberg

## Euro area

European equities were weaker with the Stoxx 600 equity index down 1% and all sectors trading in the red. The basic resources sector underperformed (-2.5%). The euro was little changed against the dollar (trading at around 1.06). ING analysts think that markets are likely awaiting signals from the ECB policy meeting next week, with the euro likely to be driven by the dollar until then. On the data front, German's September PPI eased to -14.7% y/y (versus expected -14.1% from -12.6%). Sovereign yields were little changed this morning, with 10-year bund yields trading at around 2.92%.

Ahead of Italy's rating review by S&P later today, the spread between 10-year bunds and Italian BTPs was trading at around 201bps. Contacts expect that S&P will confirm Italy's current rating (BBB with stable outlook). Ahead of the ECB meeting next week, Commerzbank analysts noted that the strong correlation between Italian sovereign debt- and US Treasury-spreads could merit a change in the ECB's GC member's tone—which analysts read as largely unfazed by market developments with some ECB speakers, for example, attributing wider spreads to Italy's deficit trajectory. In the meantime, some contacts expect that S&P would upgrade Greece's sovereign credit rating to investment grade, which analysts noted would allow the country to be included in IG indices again.

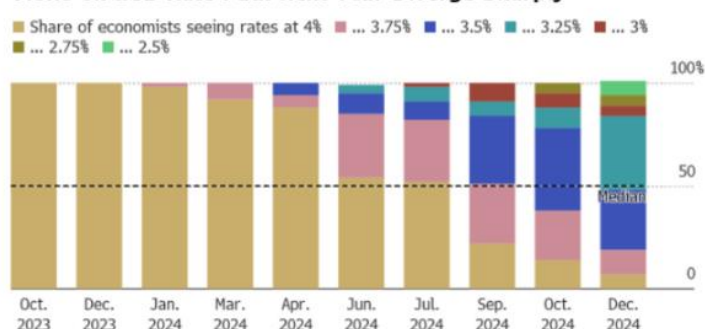
**Adverse spillovers from USTs to BTPs?**  
10y BTP-Bund and UST-Bund spread, in bp



Source: Bloomberg, Commerzbank Research

No policy changes are expected at ECB meeting next week, with contacts focused on how the ECB would balance the risk from higher energy prices, an acknowledgment of disinflationary progress, and higher real yields. A recent Bloomberg survey showed respondents expect the central bank to keep rates unchanged—a view also reflected in market pricing, with markets pricing in 1 bps of tightening for the meeting next week and a further 3 bps for the December ECB meeting. Survey participants see the first rate cut in September 2024. Contacts are also focused on any discussion around PEPP reinvestments. ECB Governing Council members have over the past few weeks expressed diverse views on how long PEPP reinvestments should continue, and analysts do not expect a decision on this topic next week. Instead, it is anticipated that preliminary discussions would start, with a decision possibly announced in December. A Bloomberg survey showed 43% of respondents expect an early end to PEPP reinvestments, while 67% expect the ECB to make use of PEPP flexibility in the coming 12 months, and 55% expect that the ECB would raise its minimum reserve requirements within the next 12 months.

**Views on ECB Rate Path Next Year Diverge Sharply**



Source: Bloomberg survey of economists conducted Oct. 13-18

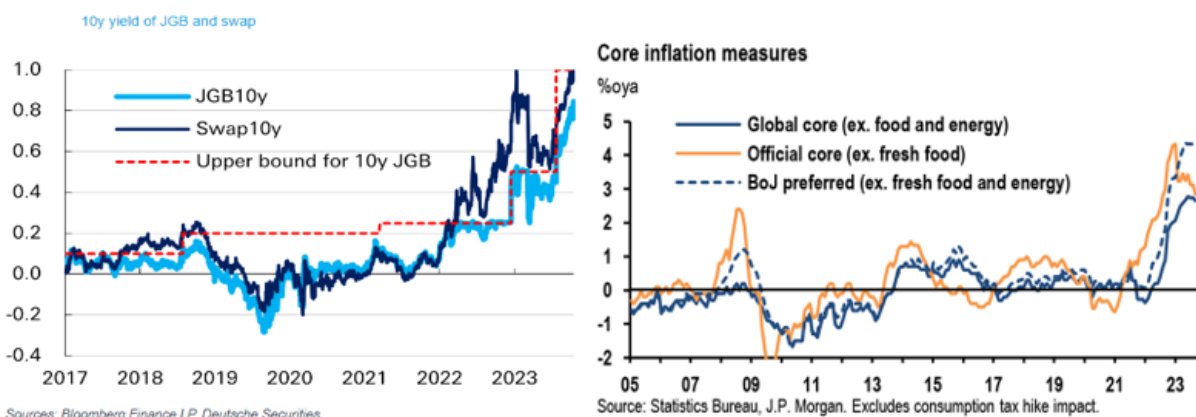
Bloomberg

## United Kingdom

The pound weakened (-0.2% to 1.21/\$) after September retail sales disappointed, while GfK consumer confidence fell sharply in October (-30 versus expected -20 from -21). The fall in confidence is the sharpest drop since the onset of the pandemic, with consumers facing pressure against a backdrop of higher interest rates and elevated inflation. UK 10-year gilts yields continue to increase (+2 bps to 4.69%) while 2-year gilt yields eased (-4 bps to 4.92%).

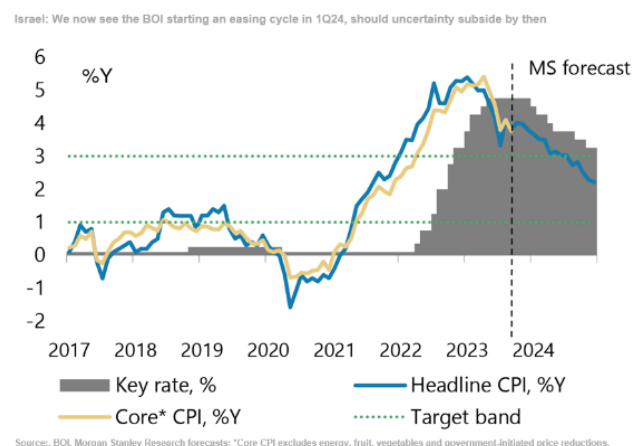
## Japan

The Bank of Japan (BOJ) announced a funds-supplying operation to curb yields. The BOJ will offer five-year loans to banks next Tuesday, providing cheap funding for banks to buy bonds. Separately, Japan's core CPI inflation (excluding fresh food) decelerated to 2.8% y/y in September (consensus: 2.7%, previous: 3.1%), the lowest rate since August 2022. Headline inflation was in line with expectations, down to 3% y/y (consensus: 3%, previous: 3.2%). Deutsche Bank stated that the short-term inflation momentum remains robust, while JP Morgan expects core inflation to be firm again in October due to factors such as a reduction of electricity and gas subsidies. Japanese equities declined by -0.4% amid rising risk aversion. 10-year bond yields were little changed after climbing to a new record of 0.845% before the BoJ announcement. The yen depreciated -0.1% getting back to just below the critical 150 level. Some analysts, however, noted that the BOJ is unlikely to intervene this time as one-week realized volatility in the yen remains low.



## Israel

Israeli equities were 1.9% lower this morning while the Israeli Shekel continued to weaken (-0.3%) as concerns intensify that the conflict in the Middle East could escalate. On the monetary policy front, consensus expects the central bank to leave its base rate unchanged at 4.75%. Morgan Stanley analysts share this view, despite a deteriorating economic growth and inflation outlook. Analysts highlight that even though the Israeli Shekel has weakened since October 6, volatility has not been extreme partly as a result of the central bank's commitment to supply dollars to the market. Analysts think that a commitment from



the central bank to keep rates on hold until January 2024 would likely further support the currency. Markets are pricing 15 bps of rate cuts by the end of this year. Moody's placed Israel on watch negative from stable.

## Emerging Markets

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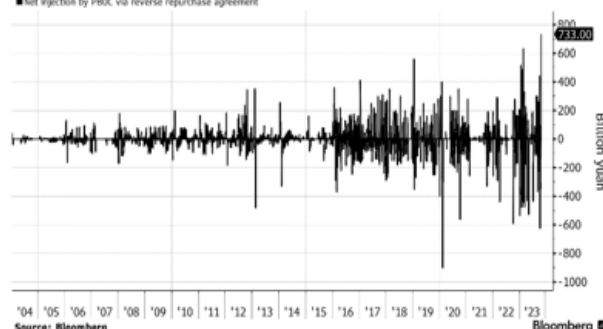
**Asian equities fell**, with Thailand (-1.6%) and the Philippines (-1.2%) underperforming. Vietnam equities bucked the trend (+1.8%), with broad gains across all sectors. **Asian currencies and 10-year bond yields were mixed.** Indonesian yields rose +22 bps, still reeling from the surprise rate hike by Bank Indonesia on Thursday. In contrast, Singapore (-4bps) yields fell. **Malaysia's** GDP growth accelerated to 3.3% y/y in Q3 (previous: 2.9%) supported by the services sector, based on their inaugural advanced estimates. Meanwhile CPI inflation surprised on the downside falling to 1.9% in September (consensus: 2.1%, previous: 2%). **EMEA equities mostly traded lower while currencies weakened as risk sentiment deteriorated.** Equities in Türkiye (-2.1%) extended losses for the third day, with analysts pointing to concerns that the conflict in the Middle East could escalate. The South African rand was roughly 0.3% weaker to the dollar, and among CEE currencies, the Polish zloty (-0.3% to 4.46/€) underperformed. **Most LATAM markets also traded lower yesterday.** Argentine equities fell (-4.4%). According to media reports, investors have withdrawn \$6.6 mn. from an ETF tracking Argentine equities over the last week. In Chile, where the rating agency S&P changed the rating outlook from stable to negative (rating affirmed at A), equities were down 1.4%, however the currency was +0.3% stronger. In Mexico, the peso depreciated for a third straight session (-0.4%) taking cumulative losses to 2.4%.

## China

**China's central bank injected a record amount of liquidity via reverse repos to keep funding costs low.** The People's Bank of China (PBC) offered lenders a net 733 bn yuan (\$100 bn) of cash on Friday. Meanwhile, **1-year and 5-year loan prime rates were unchanged** at 3.45% and 4.2%, respectively, as commercial banks followed the PBC decision from earlier this week to remain on hold. Separately, **China strengthened export controls on some categories of graphite**, a key material in electric vehicle batteries, in a move that would "safeguard national security and interests," Bloomberg reported. China is a major source of the raw material, and also accounts for about 60% of natural graphite production capacity and 90% for the synthetic variety. **Chinese stocks extended losses (-0.7%)** falling back to levels not seen since the gains from last year's reopening rally. **10-year bond yields were little changed.** **The onshore renminbi weakened (-0.1%), and the offshore was little changed.**

**PBOC Boosts Short-term Cash Injection To A Record**

■ Not injection by PBOC via reverse repurchase agreement



**CSI 300 Index Gives Up All Its Reopening Gains**

■ Shanghai Shenzhen CSI 300 Index - Last Price



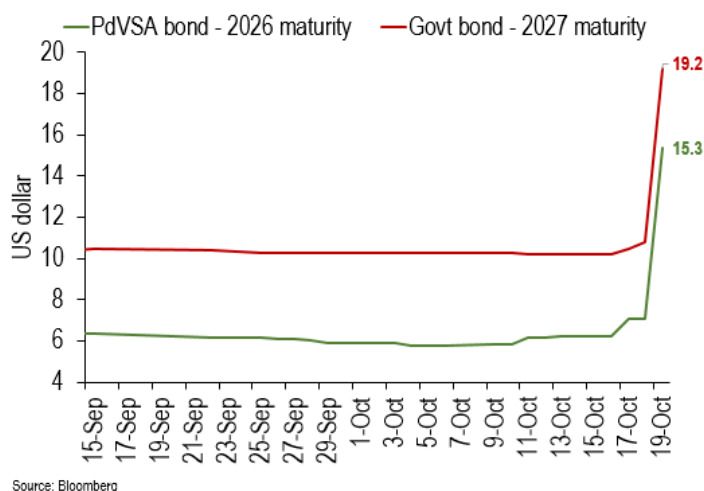
## Venezuela

**Relief in US sanctions brings investor interest back into Venezuelan bonds.** Earlier this week, the US government announced issuing licenses that would allow oil and gas transactions with the country, and secondary market trading of sovereign or PdVSA bonds issued prior to Aug 25, 2017. This announcement



by the US authorities came on the heels of an agreement being reportedly reached between major political parties on an electoral roadmap. Venezuelan bonds have rallied in response to these developments. Both sovereign and PdVSA bond prices almost doubled yesterday, albeit from very depressed levels. However, market reports point that the results of opposition primaries, which will be held on Sunday, are critical as the current front-runner—Maria Corina Machado—has voiced her concerns over the adequacy of the political agreement.













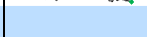



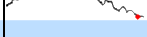



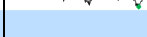


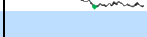

### Venezuelan bond prices rose post the announcement



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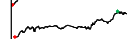



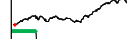





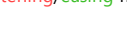
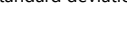


## Global Financial Indicators

10/20/23 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4272	-0.8	-1	-3	17	11
Europe		4049	-1.0	-2	-5	16	7
Japan		31259	-0.5	-3	-4	16	20
China		3511	-0.6	-4	-6	-6	-9
Asia Ex Japan		62	-0.6	-2	-3	10	-3
Emerging Markets		37	-0.6	-2	-4	7	-2
<b>Interest Rates</b>			basis points				
US 10y Yield		4.97	-2.1	36	56	74	109
Germany 10y Yield		2.94	0.8	20	24	54	37
Japan 10y Yield		0.84	0.2	8	12	59	42
UK 10y Yield		4.70	3.1	32	49	79	103
<b>Credit Spreads</b>			basis points				
US Investment Grade		162	0.6	7	19	-28	3
US High Yield		469	2.8	12	67	-31	-11
<b>Exchange Rates</b>			%				
USD/Majors		106.19	-0.1	0	1	-6	3
EUR/USD		1.06	0.1	1	-1	8	-1
USD/JPY		149.9	0.1	0	1	0	14
EM/USD		46.4	0.1	0	-2	-4	-7
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		93.5	1.2	3	1	16	14
Industrials Metals (index)		136	-0.3	0	-5	-7	-18
Agriculture (index)		66	-0.3	2	0	-3	-4
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		20.7	-0.7	1.4	5.6	-9.2	-0.9
Global FX Volatility		8.1	0.0	-0.1	0.1	-4.3	-2.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		145	-3.0	-11	8	-120	-60
Italy		202	0.5	-2	27	-33	-12
Portugal		70	-1.2	-6	-2	-34	-31
Spain		110	-0.3	-4	6	-3	1

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

## Emerging Market Financial Indicators

Last updated: 10/20/2023 8:05 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	-0.1	-0.2	0	-1	-6		2.8	-1.0	4	5	-4	-29
Indonesia		15873	-0.4	-1.2	-3	-2	-2		7.1	22.1	32	35	-41	16
India		83	0.1	0.2	0	0	0		7.8	-1.1	15	-3	10.4	34
Philippines		57	0.1	0.0	0	4	-2		5.8	-1.2	6	-5	1	-19
Thailand		37	-0.4	-0.7	-1	5	-5		3.5	-3.5	15	26	16	85
Malaysia		4.77	0.0	-0.8	-2	-1	-8		4.1	0.3	7	18	-37	7
Argentina		350	0.0	0.0	0	-56	-49		106.0	57.8	97	-850	1900	1781
Brazil		5.06	0.0	0.3	-4	3	4		12.5	49.2	59	106	69	-6
Chile		942	-0.2	-0.3	-6	4	-10		6.1	0.5	51	70	-56	76
Colombia		4240	0.3	0.5	-8	14	14		9.4	0.0	14	84	-238	-39
Mexico		18.36	-0.2	-1.5	-7	9	6		9.7	0.5	23	51	21	93
Peru		3.9	-0.1	-0.9	-4	3	-2		7.8	0.9	12	82	-89	-20
Uruguay		40	0.1	0.0	-4	3	0		9.9	5.3	-4	50	-167	-82
Hungary		362	0.0	2.2	0	15	3		7.6	7.0	39	78	-344	-200
Poland		4.22	-0.2	2.3	3	16	4		5.2	8.5	27	51	-242	-93
Romania		4.7	0.0	0.6	-1	7	-2		6.9	4.3	8	34	-224	-75
Russia		95.5	1.4	2.3	1	-36	-22							
South Africa		19.1	-0.3	-0.4	-1	-4	-11		10.0	-4.0	19	56	27	88
Turkey		28.02	-0.2	-0.8	-4	-34	-33		29.3	0.0	198	311	1856	1942
US (DXY; 5y UST)		106	-0.1	-0.4	1	-6	3		4.93	-3.1	29	34	48	92

	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		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3511	-0.6	-4	-6	-6	-9		167	-6	-14	-39	-10
Indonesia		6849	0.0	-1	-2	-2	0		121	2	-6	-89	-19
India		65398	-0.4	-1	-1	10	7		136	-6	-2	-73	-6
Philippines		6143	-1.2	-2	0	3	-6		100	6	-3	-68	3
Thailand		1399	-1.7	-4	-8	-12	-16		0	0	0	0	0
Malaysia		1441	-0.1	0	-1	0	-4		92	-5	-5	-30	-8
Argentina		764079	-4.4	9	36	461	278		2403	-114	207	-408	198
Brazil		114004	-0.1	-3	-4	-3	4		218	-2	-8	-82	-56
Chile		5713	-1.4	-1	-4	11	9		138	-2	13	-58	6
Colombia		1126	-0.8	1	2	-8	-12		342	-13	15	-161	-30
Mexico		48805	-1.0	-2	-7	5	1		359	-10	-6	-84	-22
Peru		22206	0.0	0	-2	10	4		158	2	1	-73	-22
Hungary		56299	-0.2	1	-2	39	29		192	0	3	-114	-30
Poland		68964	-0.3	3	2	46	20		108	-11	-14	54	35
Romania		14035	-0.9	-2	-3	29	20		210	2	6	-166	-45
South Africa		70231	-1.0	-4	-6	7	-4		389	6	13	-93	22
Turkey		7551	-2.8	-7	-2	94	37		403	13	-1	-184	-37
Ukraine		507	0.0	0	0	-2	-2		3804	196	573	-363	-275
EM total		37	-0.9	-2	-4	7	-2		404	0	26	-67	28

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

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