GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, OCTOBER 23, 2023

LEAD EDITOR: BENJAMIN MOSK

- **Risks of further upside in Treasury yields loom despite record highs** (link)
- **Busiest week of earnings cycle set to unveil headwinds for companies** (link)
- **Italian spreads tighten after S&P kept Italy's credit rating and outlook unchanged** (link)
- **Japan's PM Kishida announced subsidies extension and pledged tax cuts** (link)
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- **S&P downgrades Egypt's long-term credit rating, but changed outlook to stable** (link)

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Market-focus returns to rising rates

After a short break in the rise of global yields last Friday, government bond yields resumed their upward trend today in Europe. US Treasury yields seem to follow suit in the early morning trading, with the 10-year yield crossing the 5% mark. Last week, the 10-year US Treasury yield increased by 30 bps, while US stock prices declined by 2.4%. Friday provided a short risk-off intermezzo on concerns that the war between Israel and Hamas could spread into a wider conflict in the Middle East, and Treasuries recouped some losses. This week's US GDP print for Q3 could fuel upward pressure on rates; Bloomberg points out that the Atlanta Fed's GDP nowcast stands well above survey expectations. On Thursday, the ECB will also communicate its monetary policy decisions. No interest rate actions are expected. The end of PEPP re-investments and a possible change to the reserve remuneration system may be discussed, analysts believe, but no decisions are expected at this point. Last Friday, S&P upgraded Greece's credit rating to the investment grade BBB- level with stable outlook. The Bank of Israel is expected to hold its policy rate at 4.75% today as analysts expect it to focus on the stability of its currency.

Key Global Financial Indicators

Last updated: 10/23/23 8:08 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4224	-1.3	-2	-2	13	10
Eurostoxx 50		4019	-0.4	-3	-4	16	6
Nikkei 225		31000	-0.8	-2	-4	15	19
MSCI EM		37	-1.2	-3	-4	4	-3
Yields and Spreads					bps		
US 10y Yield		4.99	7.3	29	56	78	112
Germany 10y Yield		2.95	5.9	16	21	53	37
EMBIG Sovereign Spread		454	6	3	42	-113	2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.5	0.0	0	-2	-5	-7
Dollar index, (+) = $ appreciation		106.1	0.0	0	1	-5	3
Brent Crude Oil ($/barrel)		91.9	-0.3	2	-1	-2	7
VIX Index (%, change in pp)		22.2	0.9	5	5	-8	1

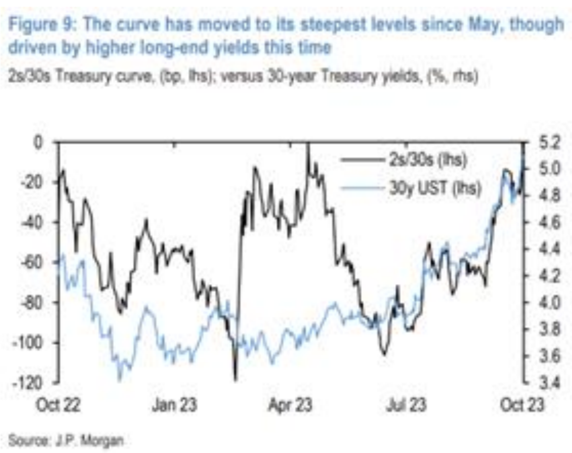
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

This week features a slew of economic data releases across major advanced economies, inflation reports globally, and central bank decisions, notably the European Central Bank (ECB). In the US, markets expect further sings of ongoing resilience with strong 3Q GDP and consumer spending outpacing income growth. Attention in the UK will be on the second installment of labor data for signs of a continued labor market cooling. Within the Eurozone, October PMIs, consumer confidence, and the ECB Bank Lending Survey offer crucial insights for investors to assess growth amid tighter monetary conditions. Nonetheless, the ECB is expected to keep rates unchanged at its upcoming meeting. Rate decisions are also pending in Russia (hike), Turkey (hike), Israel (hold), Canada (hold), Ukraine (drop), and Chile (drop). Investors will also monitor inflation reports from Japan (Tokyo CPI), Australia, Singapore, and Brazil. Additionally, this week marks the busiest US earnings report period (including Meta, Amazon, GM).

Mature Markets back to top

United States

Risks of further upside in Treasury yields loom despite record high levels. In the past week the US Treasury yields surged, driven by the long end of the curve in particular. These developments were bolstered by robust US economic data and comments from Chair Powell, who attributed the recent shifts to higher term premia. This results in tighter financial conditions and may alleviate the need for additional near-term rate hikes. Some market observers anticipate further growth in term premia over the medium term. Moreover, markets noted that in the past couple of weeks, inflation breakevens have outpaced the movement in real rates, indicating ongoing inflation pressures and limiting the scope for declines in yields.



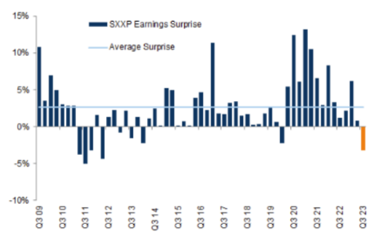
Busiest week of earnings cycle set to potentially unveil headwinds for companies. The Q3 earnings season is now well underway. So far, major US banks boasted robust reports yet accompanied by concerns over heightened capital requirements. According to consensus forecasts, the composite earnings per share of the S&P 500 is expected to remain relatively flat compared to the previous year, showing a 3% increase for the quarter. While the resilience of the US economy should bolster earnings, the surge in interest rates during Q3 and persistent inflation are potential headwinds. As a result, profit margins will be scrutinized as investors seek to assess just how well businesses are coping with rising costs and whether these are driven by labor costs, costs of debt or energy prices. This week, a significant $15 trillion worth of US firms will report, including industry giants such as Microsoft, Alphabet, Meta, GE, and Amazon. It's the busiest week for earnings in the US, with 38% of the Russell 1000 market cap set to disclose their financial performance. Meanwhile, in Europe, the spotlight shifts to the largest banks.

Euro Area

European equities were weaker with the Stoxx 600 equity index down 0.8% while euro area 10-year sovereign yields increased (10-year bund +8bps to 2.96%). On the equity front, most sectors were trading in the red, with sentiment dented in the early morning by disappointing earnings reports. The real estate sector (-2%) was underperforming, with Bloomberg analysts highlighting that real estate stocks are on track to close at the lowest level since early 2012 amid financing concerns. Goldman Sachs analysts highlight that equally-weighted 3Q earnings for the Stoxx 600 index have so far surprised -3% on the downside. While only about 10% of market cap have reported, the proportion of positive surprises has been lower that the historical average. Morgan Stanley analysts expect the trend of softer earnings to continue.

Exhibit 1 : With c.10% of STOXX 600 having reported, earnings have surprised 3% to the downside

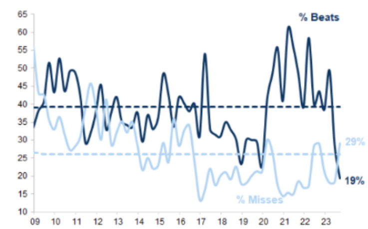
Equal Weighted (%)



Source: Bloomberg, Factset, STOXX, Goldman Sachs Global Investment Research

Exhibit 2 : The share of beats has been lower than on average

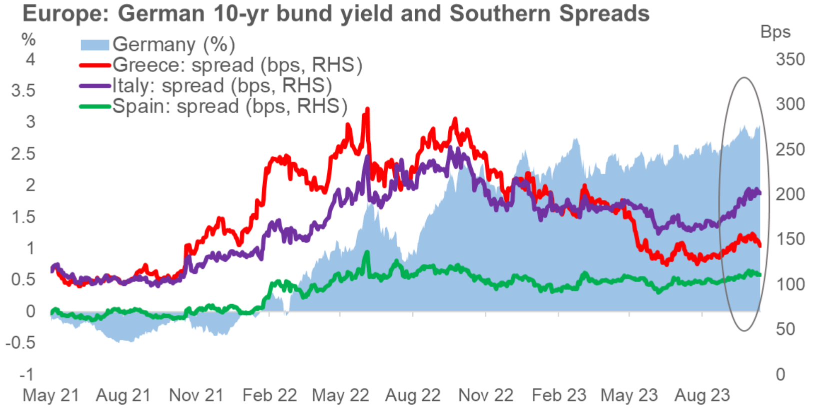
Dashed line: historical average. Beat (miss): earnings surprise > 5% (<-5%)



Source: Bloomberg, Factset, STOXX, Goldman Sachs Global Investment Research

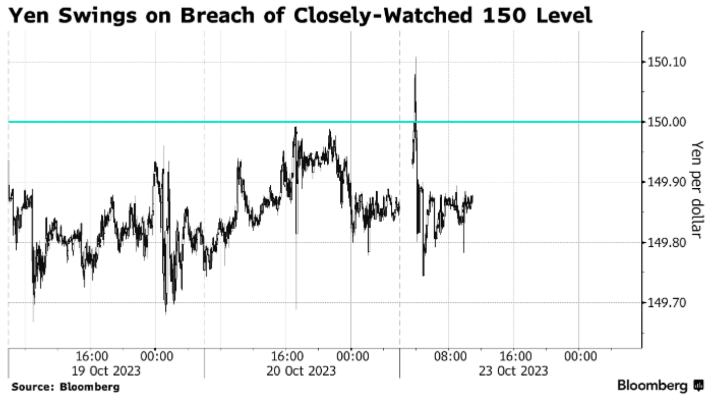
The euro was little changed against the dollar (trading at around 1.06). Rabobank analysts highlight that euro net long positions have increased for the first time in nine weeks, as long positions increased. ING analysts see positioning as the main factor why the euro is not weakening against the dollar.

S&P Global Ratings on Friday confirmed Italy's long- and short-term debt rating at BBB with a stable outlook, and upgraded Greece's sovereign rating back to Investment Grade (BBB-, stable outlook). The rating agency acknowledged slower fiscal consolidation in Italy, but balanced the view with significant stimulus provided by EU funds. S&P also said that it would monitor Italy's commitment to fiscal prudence and the risks related to a "partial implementation of structural economic and budgetary reforms". Morgan Stanley analysts think that the stable outlook could see the 10-year spread tighten in the coming days, but highlight that there could be further widening in the medium term. Analysts note that in the short-term, rating decisions from DBRS, Fitch and Moody's, in addition to any news related to possible PEPP discussions at the upcoming ECB meeting this week, could pose risks to Italian markets. **This morning the 10-year Italian-bund spreads narrowed (-4bps) to 199bps.** As regards Greece, S&P noted expectations for robust economic growth in 2023–2026, supported by additional structural economic and budgetary reforms together with large EU funds.



Japan

The Japanese yen briefly breached the 150 level against the dollar on Monday, before reversing its losses**.** Some market participants attributed the quick recovery to algorithmic transactions, which may have been executed automatically due to intervention concerns, Bloomberg reported. Separately, PM Kishida announced subsidies extension and pledged tax cuts. He told parliament on Monday that subsidies for gasoline, electricity and household gas previously extended to the end of year will now remain until spring, to curb price hikes. He also pledged to return some tax revenues to the public and introduce tax incentives to boost investment and strategic goods production such as semiconductors. The Kishida's ruling party suffered a setback and lost one of the two seats in by-elections over the weekend. Japanese equities declined by -0.8%, extending losses from last week amid continued risk aversion.



Emerging Markets

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EMEA equities and currencies were mixed. Equities in Egypt (+2%) and Türkiye (+0.8%) outperformed, while those in Saudi Arabia (-1.2%) saw the steepest losses. The South African rand was roughly 0.6% weaker against the dollar (at 19.12/$). **The Hungarian forint was marginally stronger against the euro (+0.1% to 381.71) ahead of the monetary policy meeting tomorrow**, where consensus expects the central bank to cut the base rate by 50bps to 12.5%. Elsewhere on the central bank front, Ukraine is expected to cut its key rate by 200bps to 18% on Thursday, while consensus see a 500bps hike in Türkiye to the one-week repo rate to 35%. The central bank of Russia is expected to hike its key rate by 100bps to 14% on Friday. **Asian equities fell -0.8%, as risk-off sentiment persisted due to the conflict in the Middle East.** The decline was led by Thailand (-1.7%), Vietnam and Indonesia fell (-1.3%). Asian currencies depreciated, Malaysian ringgit and Indonesian rupiah (-0.4%) underperformed. 10Y bond yields rose slightly, Singapore yields added +4.7bps, followed by Malaysia and South Korea (+4.4bps). Vietnam's government set a GDP growth target of 6 to 6.5% in 2024. **Stocks fell across Latam last Friday with Chile leading the trend (-1.4%) along Mexico (-1.1%), Brazil (-0.7%), and Colombia (-0.73%).** Currencies were mixed as the Brazilian real rose (+0.6%) and the Chilean peso fell (-0.4%). Peru's finance ministry announced the country was in a recession during the first two quarters of the year. **Sunday's election results in Argentina seem to imply that Economy Minister Sergio Massa will face Javier**

Milei in a runoff election on November 19. Bloomberg expects downward pressure on the country's currency and its already distressed US dollar bonds as a result.

EM Fund Flows

EM bond fund outflows continue for their third consecutive month. Last week, EM bond and equity flows were -$1.9bn and -$1.7bn, respectively. YTD EM flows are down -$25.6bn while equities are up +$16.3bn. Within bond funds, outflows occurred for both hard currency funds (-$1.1bn from -$1.2bn) and local currency funds (-$758mn from -$524mn). The largest driver for hard currency outflows was in EM ex-China bond funds (-$533mn), while "broad" EM funds outflows contributed to the trend for local currency funds (-$757mn). Equity fund outflows were mainly driven by non-ETF movement, and regional equity flows were negative for Asia ex-Japan (-724mn) and EMEA (-$121mn), although positive for Latam (+79mn).

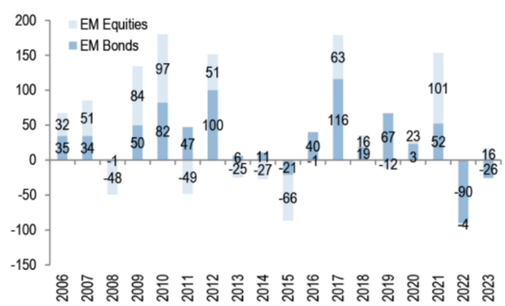
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-3.6	-9.3
EM Bonds		-1.9	-25.6
Hard Ccy		-1.1	-19.7
Local Ccy^		-0.8	-5.9
o.w. EM ex-China		-0.5	-1.7
o.w. China		-0.2	-5.4
EM Equities		-1.7	16.3
US HG		0.0	238.6
US HY		-1.8	-10.2
Global Equities		-1.4	-58.3
EM Bond and Equity ETFs		-0.6	29.2
EM Bond ETFs		-0.6	-3.9
EM Equity ETFs		0.0	33.2
Non-resident EM flows*		-1.6	17.0

Figure 2: EM bond and equity fund flows

USD billion

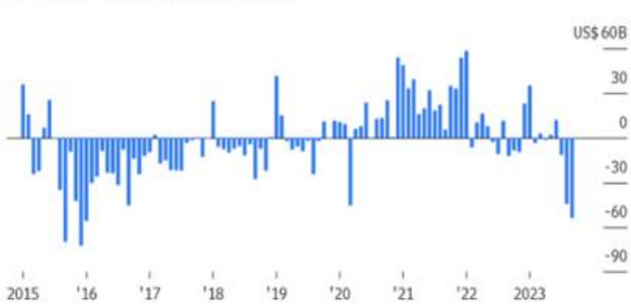


*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

China's equities extended losses today by -1% and declined to lowest level since February 2019. China's gauge of tech equities (Star 50 index) fell to its lowest level and poised for a sixth monthly decline. Capital outflows intensified in September, and demand for foreign currency surged. The State Administration of Foreign Exchange said Friday onshore banks sold a net $19.4 bn of foreign currencies to their clients in September, the most since November 2018, the height of the US-China trade war. Banks also sent a net $53.9 bn overseas on behalf of their customers, the biggest monthly outflow since January 2016. Meanwhile, Nomura found that China's September net trade settlement surplus (goods) fell significantly to an equivalent of about 19% ($15 bn) of the reported trade surplus in the month, and exporter FX remittances fell substantially to 46% of total exports. Analysts thought this reflects ongoing corporate sector concerns around renminbi.

Chinese Banks Sent Biggest Amount of Funds Abroad on Behalf of Clients Since January 2016

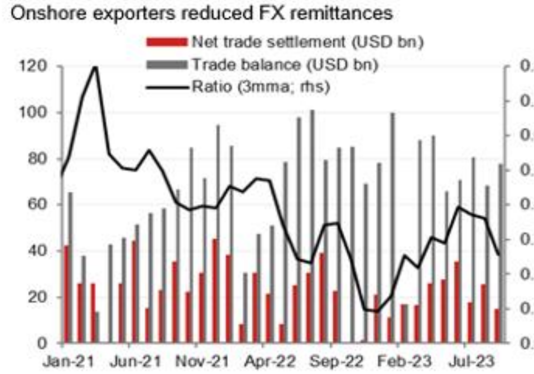


Source: Bloomberg, State Administration of Foreign Exchange

Bloomberg

China's worsening net trade settlement

Onshore exporters reduced FX remittances



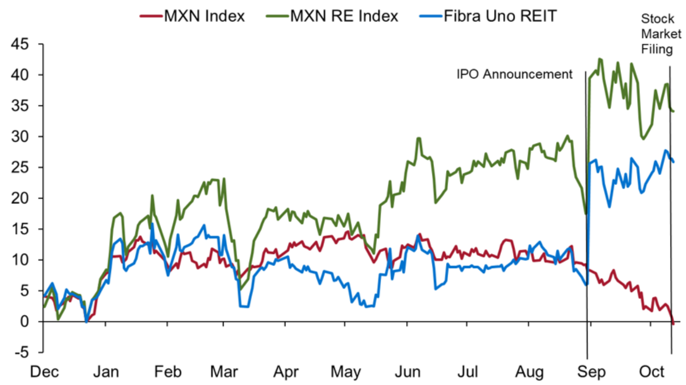
Egypt

S&P downgraded Egypt's long-term credit rating by one notch amid funding pressures, but changed the outlook to stable from negative. The rating agency last week downgraded Egypt's long-term foreign and local currency credit rating to "B-", from "B", citing Egypt's mounting funding pressures. This follows after Moody's earlier this month had downgraded Egypt by a notch, to "Caa1", due to worsening debt affordability. The rating agency said that the stable outlook reflects the balance of a possible acceleration of key monetary and economic reforms that would help to bridge the country's large external financing gap against the risk that authorities may not be able to address Egypt's foreign currency shortage or to finance high external debt redemptions.

Mexico

A highly anticipated Real Estate Investment Trust (REIT) IPO is to be one of Mexico's biggest in the past five years. Fibra Uno, Mexico's largest REIT sent notice documents to the Mexican stock exchange late last week explaining their plan to carve out part of their portfolio and IPO a new company named Fibra Next. Fibra Uno has a market cap of $6bn USD, and although the new document does not show size or date of offer, market participants expect Fibra Next to raise more than $1.5bn. The new group is expected to expand into the growing demand for factories, warehouses, and industrial parks in Mexico as nearshoring with the United States continues. As of this past summer, Mexico is the largest trading partner with the US as trade fragmentation shifts dynamics from China.

Mexican Real Estate Outperforming Total Stock Market
(YTD return)



Source: Bloomberg and IMF staff.

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), 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), Jeff Williams (Senior Financial Sector Expert), and Benjamin Mosk (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert),Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

10/23/23 8:10 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4214	-1.3	-4	-2	12	10
Europe		4019	-0.4	-3	-4	16	6
Japan		31000	-0.8	-2	-4	15	19
China		3474	-1.0	-4	-7	-4	-10
Asia Ex Japan		62	-1.2	-3	-4	7	-4
Emerging Markets		37	-1.2	-3	-4	4	-3
Interest Rates					basis points		
US 10y Yield		4.99	7.3	29	56	78	112
Germany 10y Yield		2.95	5.9	16	21	53	37
Japan 10y Yield		0.88	3.5	12	13	62	46
UK 10y Yield		4.70	5.0	22	46	65	103
Credit Spreads					basis points		
US Investment Grade		162	1.5	7	19	-30	4
US High Yield		474	9.5	21	56	-32	-6
Exchange Rates					%		
USD/Majors		106.11	0.0	0	1	-5	3
EUR/USD		1.06	0.0	0	0	7	-1
USD/JPY		149.9	0.1	0	1	1	14
EM/USD		46.5	0.0	0	-2	-5	-7
Commodities					%		
Brent Crude Oil ($/barrel)		91.9	-0.3	2	0	14	13
Industrials Metals (index)		135	-0.6	-1	-5	-7	-18
Agriculture (index)		65	-0.3	1	0	-4	-5
Implied Volatility					%		
VIX Index (%, change in pp)		22.2	0.9	5.0	5.0	-7.5	0.5
Global FX Volatility		8.4	0.1	0.3	0.4	-4.5	-2.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		143	-5.7	-11	-4	-122	-63
Italy		200	-4.0	2	14	-33	-15
Portugal		70	-2.3	-3	-6	-34	-32
Spain		110	-1.6	-2	2	-2	0

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

Emerging Market Financial Indicators

Last updated: 10/23/2023 8:07 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	-1.0	1	1	-5	-30
Indonesia		15935	-0.4	-1.3	-3	-2	-2		7.1	22.1	32	35	-41	16
India		83	-0.1	0.1	0	-1	-1		7.8	-1.1	11	-1	13.0	33
Philippines		57	0.0	-0.1	0	4	-2		5.8	-0.1	2	-3	1	-19
Thailand		37	-0.1	-0.9	-1	4	-5		3.5	-3.5	15	26	16	85
Malaysia		4.79	-0.6	-1.2	-2	-1	-8		4.2	4.8	12	19	-40	12
Argentina		350	0.0	0.0	0	-56	-49		106.2	19.1	116	-860	1749	1800
Brazil		5.03	0.6	0.9	-3	4	5		11.9	-7.7	2	49	12	-63
Chile		947	-0.5	0.0	-5	4	-10		6.1	0.0	35	45	-55	75
Colombia		4225	0.1	0.3	-7	16	15		9.3	-5.5	9	78	-244	-44
Mexico		18.33	-0.5	-2.4	-5	9	6		9.6	0.0	10	22	13	87
Peru		3.9	-0.1	-0.5	-4	3	-2		7.8	-0.4	11	77	-90	-21
Uruguay		40	-0.2	-0.2	-5	3	0		9.9	1.5	8	49	-166	-81
Hungary		360	0.2	1.6	2	16	4		7.6	10.0	42	81	-341	-197
Poland		4.20	0.2	0.4	3	15	4		5.4	16.8	44	54	-219	-79
Romania		4.7	0.2	0.3	0	6	-1		6.9	-0.4	7	33	-236	-75
Russia		94.6	1.2	3.1	1	-35	-22							
South Africa		19.1	-0.4	-1.6	-2	-4	-11		10.1	9.5	15	38	23	93
Turkey		28.05	-0.2	-0.7	-3	-34	-33		29.3	2.0	168	331	1853	1942
US (DXY; 5y UST)		106	0.0	-0.1	1	-5	3		4.92	6.2	20	36	58	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	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3474	-1.0	-4	-7	-4	-10		172	-2	-8	-33	-5
Indonesia		6742	-1.6	-2	-4	-4	-2		131	-3	5	-74	-9
India		64572	-1.3	-2	-2	8	6		139	-3	2	-69	-3
Philippines		6088	-0.9	-2	-1	1	-7		108	-1	6	-55	11
Thailand		1399	0.0	-4	-8	-12	-16		0	0	0	0	0
Malaysia		1438	-0.2	0	-1	-1	-4		95	-2	-2	-26	-5
Argentina		800805	4.8	12	45	476	296		2418	-98	160	-337	213
Brazil		113155	-0.7	-2	-2	-6	3		222	0	-1	-67	-52
Chile		5631	-1.4	-4	-3	9	7		142	-4	19	-50	10
Colombia		1117	-0.7	0	2	-9	-13		350	-2	31	-174	-22
Mexico		48276	-1.1	-2	-7	2	0		365	-7	4	-78	-16
Peru		22180	-0.1	0	-2	8	4		163	1	9	-70	-17
Hungary		56339	0.0	1	2	39	29		203	4	18	-105	-19
Poland		68291	-0.1	-2	3	46	19		118	-8	-1	50	45
Romania		14048	0.4	-1	-3	29	20		220	4	19	-158	-36
South Africa		70046	-0.2	-4	-5	7	-4		392	0	21	-85	25
Turkey		7579	0.9	-4	-6	93	38		403	2	24	-183	-37
Ukraine		507	0.0	0	0	-2	-2		3816	166	589	-381	-263
EM total		37	-0.9	-3	-4	4	-3		409	-1	35	-62	34

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

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