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- With interest rates on the rise new credit issuance falters ([link](#))
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- Bank of Israel leaves policy rate unchanged as expected ([link](#))
- Bank of Japan announced unscheduled bond-buying operation ([link](#))

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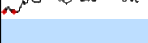



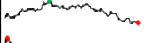


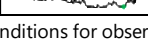
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Ten-year US Treasury yield makes U-turn after hitting 5%

On Monday morning, Treasury yields initially seemed on course to extent recent increases, but after the 10-year yield crossed the 5% level a volatile trading session ensued. By the end of the day, the morning's 10 bps increase had turned into a 7 bps decline. On Tuesday, sovereign bond yields in the euro area followed suit, declining moderately. Volatility was not limited to Treasury markets; on Monday, Treasury fluctuations weighed on equities causing a volatile session with the S&P 500 testing resistance levels and closing negative (-0.6%) for a fifth consecutive session. The index is set to open higher today, however, following equity gains in Europe. A number of big US technology firms will present their earnings results today, including Microsoft and Alphabet, which will release its results after the close of trading. In anticipation of today's trading, S&P 500 and Nasdaq futures are up by 0.6% and 0.7% respectively.

Key Global Financial Indicators

Last updated: 10/24/23 8:13 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4217	-0.2	-4	-2	11	10
Eurostoxx 50		4057	0.4	-2	-4	15	7
Nikkei 225		31062	0.2	-3	-5	14	19
MSCI EM		37	-0.1	-4	-4	8	-3
Yields and Spreads				bps			
US 10y Yield		4.87	2.4	4	44	63	100
Germany 10y Yield		2.84	-3.2	-4	10	51	27
EMBIG Sovereign Spread		459	5	14	37	-119	7
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.8	-0.1	0	-1	-3	-6
Dollar index, (+) = \$ appreciation		105.8	0.3	0	0	-6	2
Brent Crude Oil (\$/barrel)		90.0	0.1	0	-4	-4	5
VIX Index (% change in pp)		19.7	-0.6	2	3	-10	-2

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

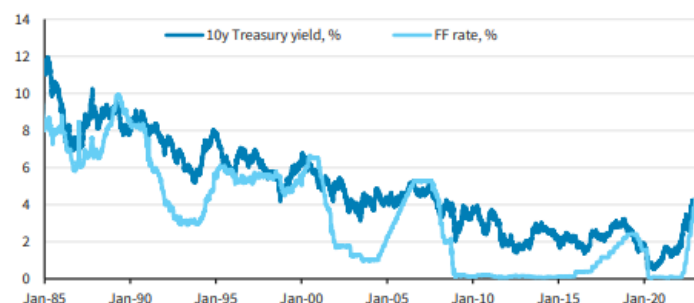
The bullish turn in yields could be just a breather.

On Monday the US 10-year Treasury yield took a dive after briefly surging past the psychological 5% mark. According to feedback, the turn is most likely due to a handful of big-name investors closing out short positions and expressing optimism about the asset class. The market actions spurred a discussion amongst market analysts as to whether current yield levels are stretched.

According to Barclays, this is not the case based on historical patterns. In previous

hiking cycles 10-year yields reached above the federal funds rate, on average by around 10 bps (in the cycles since 1984). In the current cycle they are still well below the expected terminal rate.

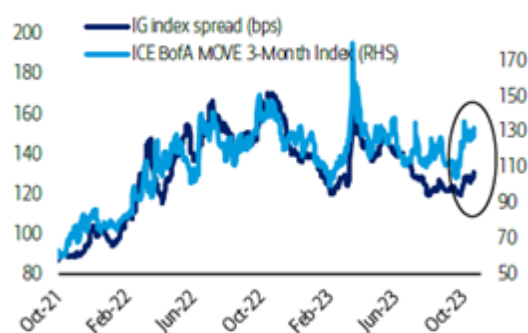
FIGURE 2. Hiking cycles have typically ended with the 10y yields at or above the policy rate



Source: Haver Analytics, Barclays Research

With interest rates on the rise, new credit issuance falters. While investment-grade (IG) corporate bond spreads weathered the rise in interest rates so far, high-yield (HY) corporate spreads felt mounting pressure, according to Bank of America. With the prospect of persistently elevated funding costs for corporates looming large and new coupons now routinely printing at 20-year highs, issuers across all credit quality levels, especially in the high-yield (HY) sector, are actively trimming their debt exposure. Additionally, the maturities of newly issued HY bonds have shrunk to 6.3 years in the past year, below the long-term average of 7.3 years. This trend is expected to persist through 2024, according to the analysts. They anticipate 2024 to mark the third consecutive year of net negative HY issuance (excluding coupon payments), meaning companies will pay more in principal and interest payments than they receive from new bond issuances. The cumulative shortfall would be \$275bn, the highest on record.

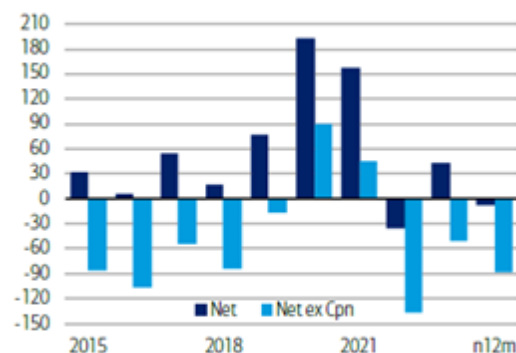
Figure 2: IG spreads have been resilient vs. higher rates vol
IG spreads have outperformed the big increase in interest rate vol since mid-September.



Source: ICE Data Indices, LLC, Bloomberg

BoFA GLOBAL RESEARCH

Exhibit 4: HY net issuance, US\$bn
Net = gross ex calls/maturities; and ex coupon



Source: BoFA Global Research

BoFA GLOBAL RESEARCH

Euro Area

European equities were edging higher with the Stoxx 600 equity index up by 0.2%. The banking sector was underperforming (-0.4%), with losses led by Barclays PLC (-5.7%) after it lowered of its net interest margin guidance for its UK business. **Euro area 10-year sovereign yields eased (10-year bund -4bps to 2.83%) and the euro weakened (-0.4% to 1.06).** Contacts note that US Treasury volatility remains a key

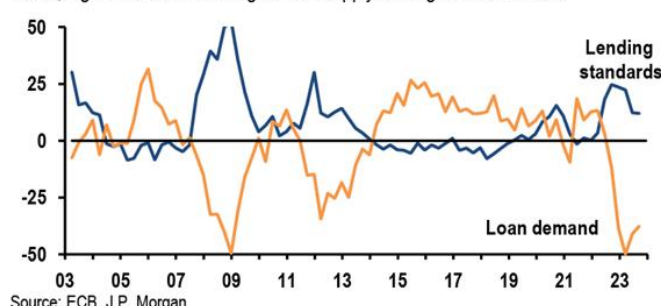
driver for markets. In the meantime, data released in the eurozone this morning were seen to be dovish ahead of the ECB meeting on Thursday—with PMI data disappointing and bank lending declining. A separate data release showed the GfK consumer confidence indicator continuing to decline.

The latest ECB bank lending survey showed a further tightening in lending standards and a decline in loan demand in Q3.

The October 2023 euro area bank lending survey showed a tightening in credit standards. Banks also again reported a substantial net decrease in demand for loans by firms and households, and saw that the ongoing central bank balance sheet reduction contributed to a tightening in market financing conditions as well as the liquidity positions of banks over the past six months. ING analysts argue that the lending survey signals that monetary policy transmission is working strongly at the moment, and expect that this would be seen by the ECB governing council as a reason not to hike rates further.

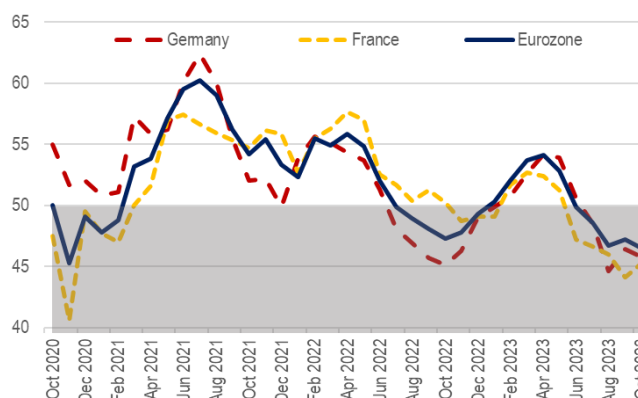
ECB bank lending survey: NFCs and households

Net %, higher values indicate higher loan supply and higher loan demand



Flash eurozone PMI for October disappointed, with manufacturing seeing an unexpected large drop and services PMI also declining. Composite PMI fell to 46.5 (versus expectations to increase to 47.4 from 47.2), the lowest level since November 2020. Manufacturing PMI fell to 43.0 (versus expectations to increase to 43.7 from 43.4) and services PMI fell to 47.8 (versus expected 48.6 from 48.7).

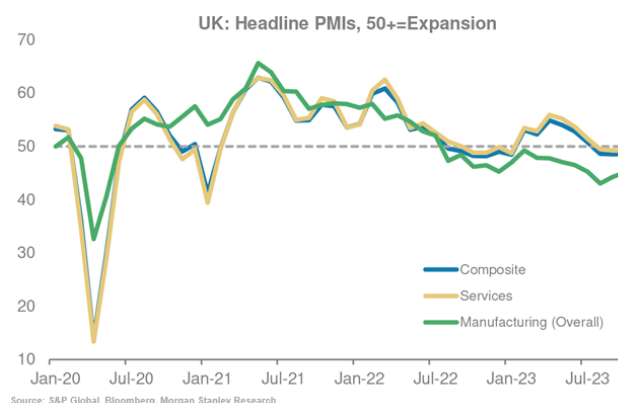
Eurozone: Composite PMI



United Kingdom

UK preliminary PMI data for October were broadly stable, with PMIs remaining in contractionary territory. Composite PMI increased to 48.6 (versus expectations to remain unchanged at 48.5) as manufacturing PMI surprised on the upside (45.2 versus expected 44.7 from 44.3), while services PMI eased to 49.2 (versus expectations to remain unchanged at 49.3). Morgan Stanley analysts see prices charged in the services sector as the most hawkish part of the data release, as the suggested pace of price increases edged higher. While noting that this could be a concern for the BoE, analysts argue that today's data is consistent with the 'higher-for-longer' message. Elsewhere on the data front, the Office for National

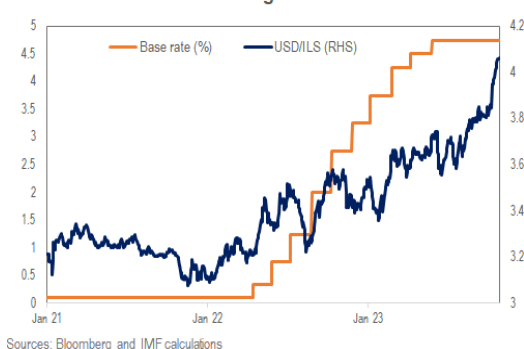
Statistics this morning published new experimental labor data, which showed that unemployment remained unchanged at 4.2% in the three months to August (compared to the three months to July). Separately, a Reuters survey showed that the vast majority of economists expect the BoE to remain on hold at the policy meeting next week, while 16 out of 28 see a high probability for another rate hike this year. Markets are now only pricing in 10 bps of tightening by February 2024, compared to roughly 14 bps last week. Gilt yields declined this morning (10-year gilt -2 bps to 4.57%), in line with euro area markets, while the pound was marginally weaker against the dollar (-0.2% to 1.22).



Israel

The central bank of Israel left its base rate unchanged at 4.75%, as expected, with focus on financial stability. The Bank of Israel (BoI) noted that while the war is impacting real activity and financial markets, the BoI has taken a number of policy measures to address the situation and financial markets are functioning and a large part of economic activity is continuing as usual. The central bank did not share clear guidance on the near-term rate trajectory, but JP Morgan analysts highlight that BoI staff forecasts now see a lower policy rate in 2024. JPMorgan analysts highlight that uncertainty remains high, but now expect the first rate cut in Q1 2024, with a shallow easing cycle and the policy rate seen at around 4% by end 2024. The Israeli Shekel ended the day weaker yesterday and depreciated further this morning (-0.1% to 4.06/\$). The currency has now declined for 11 consecutive days.

Israel: Base rate and Exchange rate



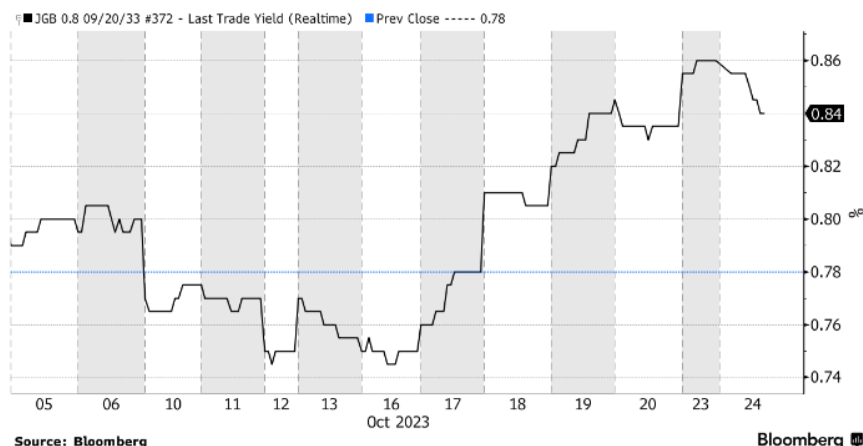
Cost of Hedging Against Losses in Israel's Currency Climbs
Risk reversals show traders are positioning for shekel weakness



Japan

Bank of Japan (BOJ) announced another unscheduled bond-buying operation on Tuesday to curb the rise of bond yields. The purchase was for ¥300bn (\$2bn) of 5Y-10Y bonds and ¥100bn of 10Y-25Y securities, BOJ said. That was the fifth time the central bank has stepped in into the market with such buying since the last adjustment to its yield-curve control program in late July. Separately, flash PMI data showed weakening economic activity in October. Jibun Bank Japan manufacturing PMI was unchanged at 48.5 in October, as factory activity shrank for the fifth consecutive month. Services PMI declined to its lowest level in 2023 to 51.1 (previous: 53.8). 10-year bond yields fell by -4.5 bps towards the end of the day after reaching 0.86% ahead of the BoJ announcement. The yen strengthened +0.2%.

Benchmark Yield



Emerging Markets

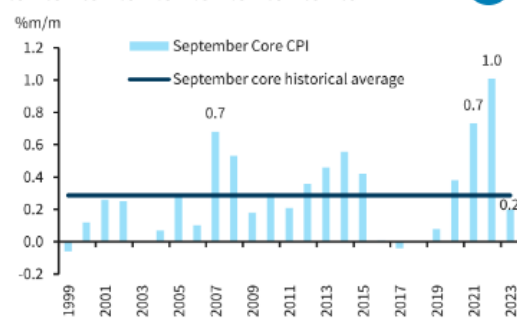
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EMEA equities were mixed while currencies were mostly lower. Equities in Türkiye (+2.1%) and Poland (+1.8%) outperformed, while those in Egypt (-1.1%) declined. **The Hungarian forint was little changed against the euro (-0.1% to 381.97) ahead of the monetary policy meeting later today**, where consensus expects the central bank to cut the base rate by 50bps to 12.5%. **Asian equities were mixed, up +0.4% on net**, amid some recovery from the recent sell off. South Korea, Indonesia and Vietnam rebounded (+1.1%), Philippines (-1.8%) underperformed followed by India (-1.3%), Hong Kong SAR (-1.1%). **Asian currencies rebounded.** Thai baht led the gains (+1%). South Korean won strengthened (+0.8%), Indonesian rupiah pulled back from the psychological level of 16,000 per dollar (+0.5%). **Australia's** Governor Bullock issued a hawkish warning during in her first speech as a central bank's head. She saw risks of inflation returning to target slower than expected and said the board will not hesitate to hike rates if inflation outlook is revised materially. **Thailand** posted a wider than expected trade surplus of \$2.1bn (consensus: \$0.4bn, previous: \$0.4bn) in September as exports rebounded for second consecutive month, amid recovery in Chinese demand for goods, Bloomberg reported. **Stocks fell across Latam on Monday with Chile (-2.3%) leading as shares of the country's leading lithium miner fell.** The mining company Sociedad Química y Minera de Chile (-3.6%) was downgraded to "underperform" by BofA last week and has been a drag on Chile's equity index since. Equities in Brazil (-0.3%), Colombia (-0.8%), and Mexico (-0.2%) were also down. Currencies gained in the region for Chile (+0.8%), Brazil (+0.4%), and Colombia (+0.3%). Stocks in Argentina had their worst trading day this year (-12.4%) as presidential election results trigger a runoff on November 19.

Chile

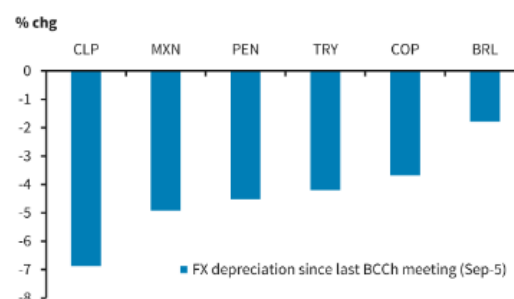
The central bank of Chile may slow down its pace of cuts due to recent depreciation of its currency, according to a report from Barclays. The analysts expect a close call between a 75 and 50 bps for the central bank of Chile's rate decision on Thursday. Previously, Barclays considered the possibility of a re-acceleration to 100 bps cuts, but this view changed due the depreciation of the peso since the September meeting. In addition, while it considers core CPI to be well-behaved, higher oil prices pose upward price pressures.

Figure 3. ...core CPI was well behaved



Source: Bloomberg, Barclays Research

Figure 4. But the CLP has depreciated significantly, and more than other EMs currencies



Source: Bloomberg, Barclays Research

China

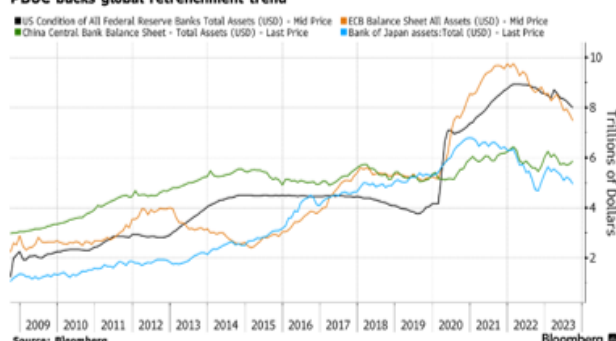
Equity markets in China recovered slightly by +0.4% after falling by over 4% last week. A unit of China's sovereign wealth fund, Central Huijin Investment, reportedly bought an undisclosed amount of ETFs and vowed to increased holdings on Monday. Local media suggested the purchase may be 10bn yuan (\$1.4bn) with focus on technology-stock indices. Separately, President Xi made his first known visit to the People's Bank of China (PBoC) since he became president a decade ago, Bloomberg reported. Xi, along with vice premier He Lifeng, visited the central bank and State Administration of Foreign Exchange. He Lifeng also visited the nation's sovereign wealth fund. Media reported visits by the top leaders underscored the government's growing focus on supporting the economy. Meanwhile, former PBoC director, Sheng Songcheng, said China can reach its 5% growth rate in 2024. He added that the economy may keep improving gradually, citing recovering aggregate financing growth. PBoC's balance sheet expanded to \$5.9tn as of September, a contrast to the shrinking balance sheets trend of other central banks in H2, Bloomberg estimated. Offshore renminbi depreciated -0.1%, with onshore little changed. The yuan was boosted by US dollar sales by state banks, Bloomberg reported.

China Stocks Sink as Efforts Prove Fruitless



Source: Bloomberg

PBOC bucks global retrenchment trend



Source: Bloomberg

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.

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Global Financial Indicators

10/24/23 8:07 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4227	-0.2	-3	-2	11	10
Europe		4057	0.4	-2	-4	15	7
Japan		31062	0.2	-3	-5	14	19
China		3487	0.4	-4	-6	-4	-10
Asia Ex Japan		62	0.1	-4	-4	12	-4
Emerging Markets		37	-0.1	-4	-4	8	-3
Interest Rates			basis points				
US 10y Yield		4.87	2.4	4	44	63	100
Germany 10y Yield		2.84	-3.2	-4	10	51	27
Japan 10y Yield		0.85	-2.6	7	11	60	43
UK 10y Yield		4.58	-1.8	7	33	84	91
Credit Spreads			basis points				
US Investment Grade		161	-1.0	5	17	-28	2
US High Yield		472	-3.5	22	53	-28	-9
Exchange Rates			%				
USD/Majors		105.82	0.3	0	0	-6	2
EUR/USD		1.06	-0.4	1	0	8	-1
USD/JPY		149.8	0.1	0	1	1	14
EM/USD		46.8	-0.1	0	-1	-3	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		90.0	0.1	0	-2	11	10
Industrials Metals (index)		136	-0.1	0	-4	-7	-18
Agriculture (index)		65	0.0	1	0	-3	-5
Implied Volatility			%				
VIX Index (% change in pp)		19.7	-0.6	1.9	2.5	-10.1	-1.9
Global FX Volatility		8.2	0.0	0.2	0.2	-4.4	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		139	-2.9	-9	-7	-113	-66
Italy		198	1.5	-3	13	-28	-16
Portugal		70	-1.2	-3	-7	-31	-32
Spain		110	0.5	-2	2	0	1

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

Emerging Market Financial Indicators

Last updated: 10/24/2023 8:06 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		7.31	0.0	0.1	0	-1	-6		2.8	0.5	1	2	-5	-30
Indonesia		15850	0.5	-0.9	-3	-2	-2		7.3	15.8	49	50	-38	32
India		83	-0.1	0.1	0	-1	-1		7.8	0.0	9	-1	13.0	33
Philippines		57	0.1	0.0	0	4	-2		5.8	0.0	2	-3	1	-19
Thailand		36	1.0	0.6	0	6	-4		3.4	-10.0	-1	12	8	75
Malaysia		4.79	0.2	-1.0	-2	-1	-8		4.1	-4.8	5	14	-45	7
Argentina		350	0.0	0.0	0	-56	-49		106.4	19.8	136	-959	1714	1820
Brazil		5.02	-0.1	0.4	-1	6	5		12.0	4.2	5	24	0	-60
Chile		929	0.6	0.9	-3	6	-8		6.2	0.0	29	52	-47	83
Colombia		4225	0.0	0.3	-4	18	15		9.3	0.0	-8	38	-233	-44
Mexico		18.17	-0.1	-0.8	-4	10	7		9.6	0.0	-2	21	11	86
Peru		3.9	0.4	-0.1	-2	4	-2		7.7	0.2	3	76	-93	-22
Uruguay		40	0.4	0.2	-4	3	0		9.9	0.7	8	55	-165	-80
Hungary		360	-0.6	1.0	2	16	4		7.5	-13.0	19	48	-367	-210
Poland		4.20	-0.5	-0.5	4	15	4		5.2	-9.5	18	35	-239	-98
Romania		4.7	-0.3	0.6	0	6	-1		7.0	1.3	8	30	-260	-74
Russia		93.7	1.0	4.6	2	-34	-21							
South Africa		19.1	-0.8	-1.6	-2	-4	-11		10.0	-7.5	1	24	9	79
Turkey		28.10	-0.1	-0.5	-3	-34	-33		29.0	-15.0	134	306	1778	1917
US (DXY; 5y UST)		106	0.3	-0.4	0	-6	2		4.83	3.1	-4	27	47	83

	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		3487	0.4	-4	-6	-4	-10		171	-2	-11	-41	-6
Indonesia		6807	1.0	-2	-3	-3	-1		139	12	4	-73	-1
India		64572	0.0	-2	-2	8	6		138	-2	1	-81	-4
Philippines		6040	-0.8	-4	-2	-1	-8		117	13	6	-61	20
Thailand		1391	-0.6	-3	-8	-13	-17		0	0	0	0	0
Malaysia		1436	-0.2	-1	-1	-1	-4		96	0	-1	-28	-4
Argentina		701205	-12.4	-8	27	402	247		2615	179	245	-40	410
Brazil		112785	-0.3	-3	-3	-3	3		220	-2	-7	-63	-54
Chile		5503	-2.3	-7	-6	8	5		144	1	18	-47	12
Colombia		1109	-0.8	-1	2	-7	-14		344	-3	19	-170	-28
Mexico		48198	-0.2	-3	-7	1	-1		369	1	2	-69	-12
Peru		21954	-1.0	-2	-3	9	3		164	6	10	-64	-16
Hungary		56137	-0.4	0	1	39	28		210	18	20	-114	-12
Poland		69558	2.1	-2	5	47	21		128	13	3	41	55
Romania		14122	0.6	0	-2	30	21		223	15	18	-165	-33
South Africa		70219	0.2	-4	-4	8	-4		398	5	18	-91	31
Turkey		7947	2.5	-2	-1	100	44		402	5	19	-193	-38
Ukraine		507	0.0	0	0	-2	-2		3824	179	546	-382	-255
EM total		37	-0.2	-4	-4	8	-3		416	11	31	-61	40

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

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