



- Real yields may have to overshoot long-run growth levels to impact credit markets ([link](#))
- Swiss franc underperforms following softer-than-expected inflation data ([link](#))
- UK shop-price inflation slows in September ([link](#))
- The Reserve Bank of Australia kept the policy rate unchanged as expected ([link](#))
- 10-year JGB yields drop after a strong debt auction ([link](#))
- Analysts continue to expect further rate hikes in Türkiye ([link](#))

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Prospect of higher rates continues to weigh on risk appetite

Treasury yields are continuing their move higher this morning, reaching new recent highs. The 10-year yield is 5 bp higher on the day and is now above 4.7% for the first time since before the global financial crisis. Later this morning, JOLTS job opening data will be released, often seen as a key piece of data on the state of the US labor market. European bond yields are also reaching multi-year highs as policymakers continue to caution against ongoing inflation risk. Meanwhile, oil prices are continuing their pullback with the price of Brent down to just over \$90 per barrel, a drop of over 5% since Friday. Emerging market currencies are broadly negative on the day on continued dollar strength, with the Hungarian forint (+0.5%) a key exception on reports that the European Commission is set to release nearly €13bn in development funds. JP Morgan's index of EM currencies is now more than 1% lower just since Friday.

Key Global Financial Indicators

Last updated: 10/3/23 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4288	0.0	-1	-5	17	12
Eurostoxx 50		4105	-0.8	-1	-4	23	8
Nikkei 225		31238	-1.6	-3	-5	16	20
MSCI EM		38	-0.5	-1	-5	7	0
Yields and Spreads			bps				
US 10y Yield		4.74	6.1	20	56	110	86
Germany 10y Yield		2.96	3.3	15	41	104	38
EMBIG Sovereign Spread		433	3	14	16	-126	-18
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.5	-0.2	-1	-3	-5	-7
Dollar index, (+) = \$ appreciation		107.2	0.3	1	3	-4	4
Brent Crude Oil (\$/barrel)		90.1	-0.6	-4	2	1	5
VIX Index (% change in pp)		18.4	0.8	-1	5	-12	-3

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

Mature Markets

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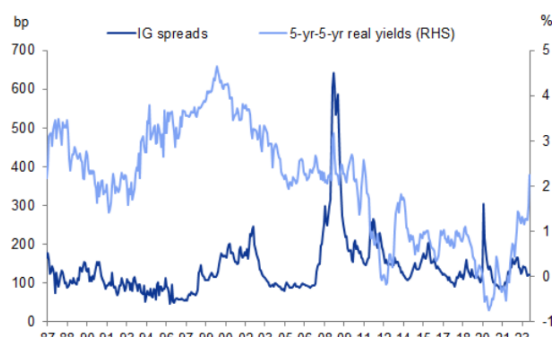
United States

Sell-off in major bond markets continued yesterday—driven higher by increases in real yields. 10-year Treasuries have touched their highest levels since 2007 (+11bp). The rise in yields was broad based across the Treasuries curve. With real rates continuing to push higher levels, the US dollar added to its strength against G10 (+0.7%) and emerging market currencies (-0.9%).

Credit spreads are more interlinked to fundamentals than real yields for now. The sell-off in the TIPS market has been the main driver behind higher sovereign yields since the summer (+90bp). Despite the surge in real yields, US IG corporate spreads have been relatively stable. Real yields have risen to pre-GFC levels despite lower average growth. It is more likely that corporate spreads will feel the impact of real yields if they stay above the long-run average growth rate of the US economy for an extended period.

Exhibit 1: Higher real yields are not necessarily a driver of wider spreads

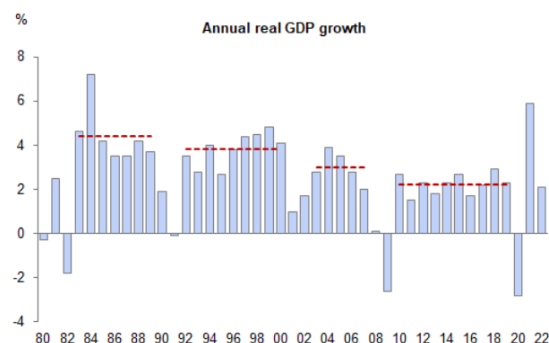
5-year-5-year forward real yields vs. USD IG spreads



Source: ICE-BAML, Goldman Sachs Global Investment Research

Exhibit 2: High real yield regimes corresponded to high growth regimes

Annual US real GDP growth



Source: BEA, Goldman Sachs Global Investment Research

“Regime shifts” of the neutral rate are more related to the Federal Reserve than macro events.

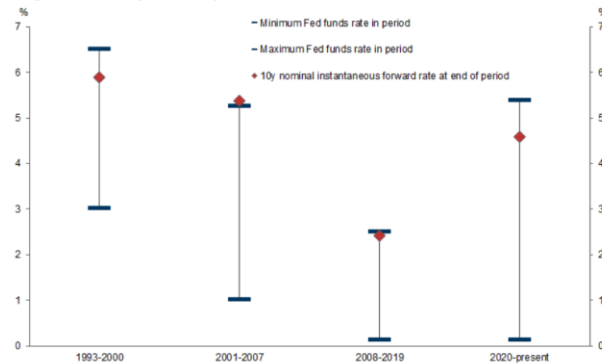
Instantaneous forward rates often spend extended periods of time in a relatively stable range before re-pricing higher in a new regime. The periods during which a shift happens seem to follow a change in the range of Fed funds outcomes rather than any new macro information. If the policy rate is kept steady for an extended period, long-term instantaneous rates may have room to go higher as long as market participants think the economy can withstand it.

Exhibit 2: Three successively lower regimes in forward real rates, and now a break higher



Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 3: Forward rates in the past have tended to price at the top of the recent funds range but are not quite there yet



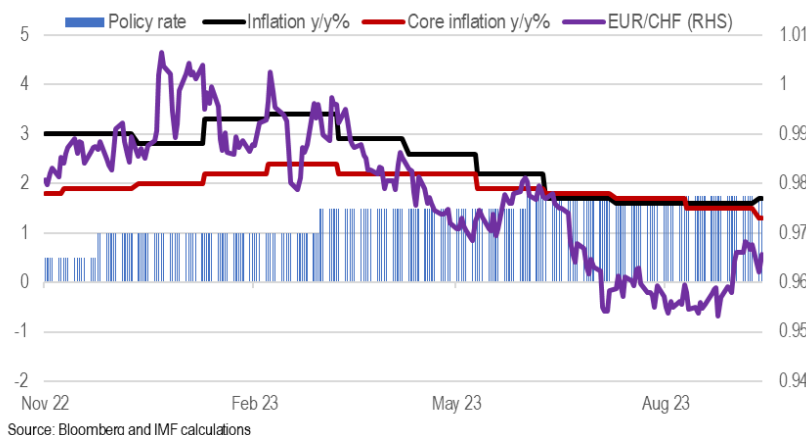
Source: Haver Analytics, Goldman Sachs Global Investment Research

Europe

European equities are trading in the red while sovereign yields were edging higher. The Stoxx 600 Europe index is lower (-0.4%) with the banking sector (+0.2%) outperforming. Sovereign yields were edging higher with the 10y bund yield (+3bp) trading at 2.96%, after closing 8bp higher yesterday, led by real yields. This morning ECB chief economist Lane said that there is more work to be done to bring inflation down to target. He noted that rates have “reached a level that will make a substantial contribution to get inflation to target” and that the “base case is to maintain this level for as long as needed”. **Italian bonds outperformed yesterday, with the 10y spread to Bunds narrowing to below 190bp**, after strong demand from retail investors for the new BTP Valore. This morning, however, Italian spreads were roughly 6bp wider at around 194bp. **The euro was little changed against the dollar, trading at around 1.05.**

The Swiss franc underperforms after inflation data surprises on the downside in September. Data released this morning showed headline inflation increasing by less than expected (to 1.7%/y/y versus expected 1.8% from 1.6%) and core inflation easing by more than expected (to 1.3%/y/y versus expectations to remain unchanged at 1.5%). The Swiss franc weakened against the dollar (-0.3%). The Swiss National Bank left its policy rate unchanged at its September meeting while consensus had expected a 25bp hike.

Switzerland: Policy rate, Inflation and Currency



United Kingdom

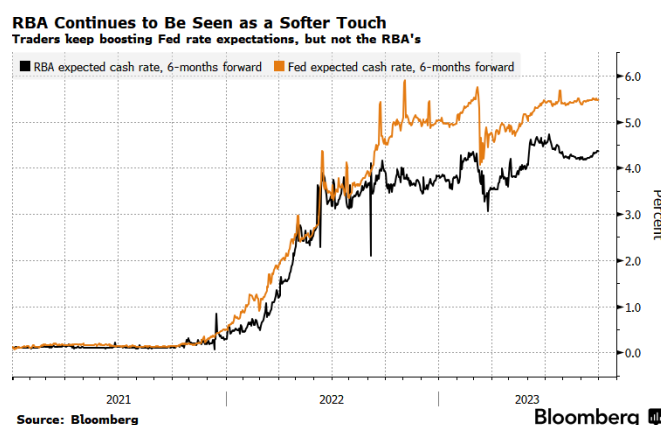
Gilt yields eased somewhat early this morning, with some analysts pointing to a softening in the BRC shop price index. Data released early this morning showed that BRC retail price inflation slowed to 6.2% in September (from 6.9%), its lowest level in a year. In the meantime, BoE MPC member Mann yesterday argued that policymakers are facing a “world where inflation shocks are likely to be more frequent” adding that persistent price pressures imply that rates would need to remain higher permanently. Gilt yields were slightly lower in early trading but later resumed an upward trend, with 10y gilt yields (+1bp) trading at around 4.57%. 30y gilt yields were 2bp higher this morning after closing roughly 11bp higher yesterday, reaching above 5% for the first time since 2002. **The pound was trading weaker against the dollar this morning (-0.2% to 1.206).**

UK: Currency and 10y Gilt yield



Australia

The Reserve Bank of Australia (RBA) kept its policy rate unchanged at 4.10% as expected while retaining a tightening bias. This was new Governor Michele Bullock's first policy meeting. Governor Bullock said that some further monetary policy tightening may be required to ensure that inflation returns to the target in a reasonable timeframe. The RBA envisages a soft landing, viewing that output and employment will continue to grow, albeit at a slower pace, as inflation will fall back to the 2%–3% target in late 2025. The Australian dollar depreciated (-0.8%). Market participants put a dovish spin on the policy outlook as the RBA's policy statement was little changed despite a quickening of inflation in response to rising oil prices. Market participants also assigned a lower probability to a rate hike by the RBA in November. Long-end government bond yields rose (10-year: +5.4 bp; 30-year: +5.4 bp) following the increase in US treasury yields. Equities declined (-1.3%).



Japan

The 10-year JGB yield dropped to 0.762% (-0.9 bp) after a stronger-than-expected 10-year debt auction. The auction drew a higher-than-estimated cut-off price amid continued global debt selloffs. The Bank of Japan's bond purchase plan tomorrow (announced yesterday) was seen to help provide an anchor for the 10-year yield. The amount of bond purchase is to be determined tomorrow. Longer-end JGB yields rose (30-year: +1.4 bp). **The yen was little changed at 149.9 yen per dollar.** Analysts noted that market sentiment is still in favor of a stronger US dollar and that wide interest rate differentials underpin the weakness of Japanese yen. Meanwhile, traders are paying close attention to verbal warnings by Japanese authorities. Japanese equities declined (NIKKEI: -1.6%) amid global risk-off sentiment spurred by hawkish remarks by Fed officials.



Emerging Markets

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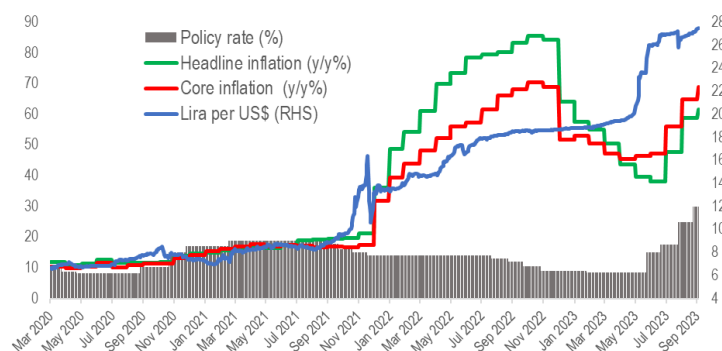
Asian equities declined, down 1.5% on net, led by Hong Kong (-2.7%), Thai (-1.3%) and Taiwanese (-1.3%) equities, amid global risk-off sentiment spurred by hawkish remarks by Fed officials. Markets were closed for public holidays in China and Korea. **Asian currencies also depreciated**, led by the Taiwan dollar (-0.4%) and Indonesian rupiah (-0.3%) amid the broad-based US dollar strengthening. **Long-end government bond yields increased**, with 10-year yields rising in Indonesia (+4 bp), following the increase in US treasury yields. **EMEA equities and currencies were mixed**. Equities in Bulgaria (-0.5%) were underperforming, while those in Türkiye (+0.6%) continued to outperform. CEE currencies were mostly trading weaker against the euro, with the Hungarian forint (+0.6%) a notable exception, with analysts pointing to reports that the European Commission is preparing to unlock some of Hungary's development funds. The Polish zloty was little changed against the euro ahead of the monetary policy decision tomorrow. **Equities across Latam fell on Monday** as markets continue to come to terms with high rates in the US and Latin America. Equities fell in Brazil (-1.3%), Chile (-1.3%), and Colombia (-0.8%) while rising in Mexico (+0.8%). The Chilean peso fell against the USD (-1.8%).

Türkiye

Headline inflation accelerated in September but came in slightly lower below market expectations.

Data released this morning showed headline inflation in Türkiye increasing to 61.53%/y/y (versus expected 61.60% from 58.95%) and core inflation increasing to 68.93%/y/y (versus expected 67.20% from 64.85%). JPMorgan analysts continue to forecast inflation peaking at 73% in May 2024, with inflation expected to ease to 40% by the end of 2024 but note upside risks. Against this backdrop JPMorgan analysts expects further monetary tightening, with the policy rate seen at 35% at the end of 2023, and at 45% at the end of 2024. The lira was marginally weaker this morning (-0.1%).

Türkiye: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

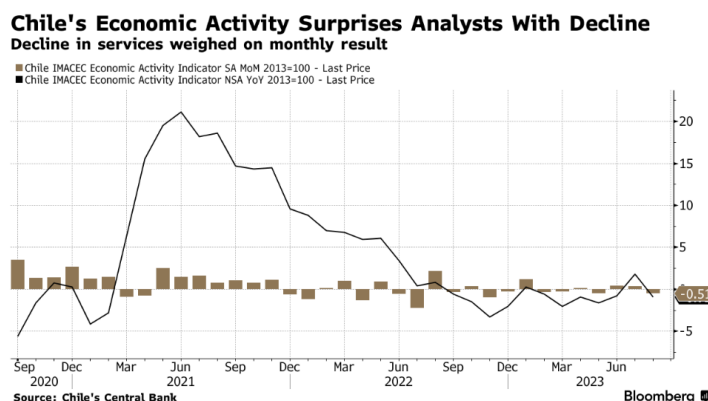
Hong Kong SAR

Hong Kong SAR-listed Chinese equities slumped (-3.2%), hurt by global risk-off sentiment and concerns about China's economic outlook. Analysts noted that movements of Hong Kong SAR-listed equities are more closely linked to foreign fund flows in comparison to onshore equities. The offshore RMB was little changed at around 7.32 yuan per dollar today after having depreciated by 0.3% yesterday.

Chile

Economic activity in Chile falls to contractionary levels. The Imacec index, a proxy for GDP, fell in August to -0.51%, below analyst estimates of a +0.2% gain. Chile has faced multiple headwinds from

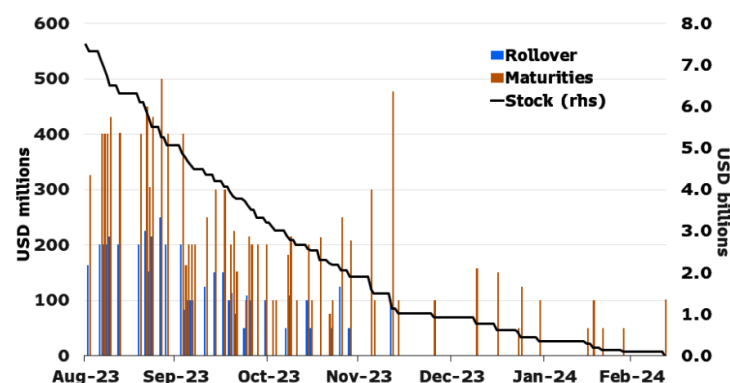
inflation, high interest rates, and trade uncertainty with China. Second quarter GDP was negative at -0.29%, so a recession is on the table. According to analysts at Scotiabank Chile, “a technical recession in the third quarter is very probable, as it only requires a 0.3% month-on-month drop in September.” Following the announcement, two-year swap rates fell 6bp to 6.39.



Mexico

The Mexican peso has underperformed in September. The currency has fallen nearly 4% since the end of August. One possible driver of the decline was the announcement from the country's currency commission announced on Aug. 31 that they will reduce the \$7.49bn in outstanding foreign currency swaps it had been rolling over since 2020. As of this week, the stock of exchange rate swaps is near \$5bn and will continue to decline until March of next year, according to Bloomberg analysis.

Foreign Currency Swaps



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), 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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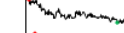
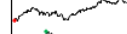
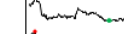

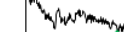



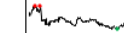
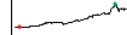



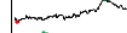
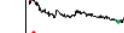

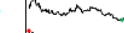



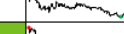

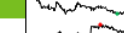
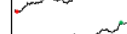


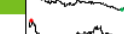






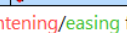
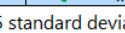
Global Financial Indicators

10/3/23 8:19 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4278	0.0	0	-5	16	11
Europe		4105	-0.8	-1	-4	23	8
Japan		31238	-1.6	-3	-5	16	20
China		3690	-0.3	0	-3	-4	-5
Asia Ex Japan		63	-0.4	-1	-5	7	-2
Emerging Markets		38	-0.5	-1	-5	7	0
Interest Rates			basis points				
US 10y Yield		4.74	6.1	20	56	110	86
Germany 10y Yield		2.96	3.3	15	41	104	38
Japan 10y Yield		0.77	-1.0	3	13	52	35
UK 10y Yield		4.58	1.6	25	15	62	91
Credit Spreads			basis points				
US Investment Grade		152	0.0	6	5	-33	-6
US High Yield		440	2.1	7	28	-105	-40
Exchange Rates			%				
USD/Majors		107.18	0.3	1	3	-4	4
EUR/USD		1.05	-0.1	-1	-3	7	-2
USD/JPY		150.0	0.1	1	2	4	14
EM/USD		46.5	-0.2	-1	-3	-5	-7
Commodities			%				
Brent Crude Oil (\$/barrel)		90.1	-0.6	-2	3	17	10
Industrials Metals (index)		140	-1.1	0	-3	-3	-15
Agriculture (index)		64	-0.5	-2	-4	-6	-7
Implied Volatility			%				
VIX Index (% change in pp)		18.4	0.8	-0.5	5.4	-11.7	-3.2
Global FX Volatility		8.2	0.0	0.1	0.1	-4.3	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		150	1.4	0	20	-134	-56
Italy		194	5.9	1	26	-39	-20
Portugal		75	0.5	-2	2	-30	-26
Spain		110	2.1	0	7	-6	0

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

Emerging Market Financial Indicators

Last updated: 10/3/2023 8:20 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.30	0.2	0.1	0	-1	-5		2.7	-0.1	1	3	-14	-34		
Indonesia		15580	-0.3	-0.6	-2	-2	0		7.0	3.6	16	63	-32	8		
India		83	-0.2	0.0	-1	-2	-1		7.8	4.1	6	21	12.8	35		
Philippines		57	0.0	0.3	0	4	-2		5.8	-2.3	-1	-10	6	-19		
Thailand		37	-0.2	-1.7	-5	2	-7		3.4	8.0	10	45	20	75		
Malaysia		4.72	-0.1	-0.7	-1	-2	-7		4.0	2.4	2	17	-43	-4		
Argentina		350	0.0	0.0	0	-58	-49		118.2	-42.0	195	125	3339	3002		
Brazil		5.09	-0.5	-1.9	-3	2	4		12.1	12.9	18	78	49	-51		
Chile		913	-0.5	-1.1	-6	3	-7		5.9	8.0	12	52	-86	52		
Colombia		4141	-1.5	-2.2	-2	10	17		9.3	0.0	16	105	-64	-52		
Mexico		17.76	-0.5	-1.2	-3	13	10		9.6	0.0	2	73	51	82		
Peru		3.8	-0.3	-0.5	-3	4	0		7.3	-0.3	8	53	-137	-63		
Uruguay		39	-0.5	-1.2	-3	7	3		9.6	-5.8	21	33	-192	-113		
Hungary		369	0.5	0.1	-4	15	1		7.5	1.0	35	69	-239	-214		
Poland		4.41	-0.1	-1.2	-6	11	-1		5.0	2.8	14	27	-171	-117		
Romania		4.8	-0.1	-1.0	-4	6	-3		6.8	-0.7	7	24	-171	-92		
Russia		99.4	-0.1	-2.5	-3	-40	-25									
South Africa		19.3	-0.6	-1.3	-1	-8	-12		10.1	10.0	24	66	69	94		
Turkey		27.50	-0.1	-0.9	-3	-33	-32		26.4	-71.0	-49	481	1448	1661		
US (DXY; 5y UST)		107	0.3	0.9	3	-4	4		4.75	3.9	14	45	87	74		

	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		3690	0.0	0	-3	-4	-5		169	-14	-16	-25	-8
Indonesia		6941	-0.3	-1	-1	-2	1		123	-2	-1	-87	-17
India		65512	-0.5	-1	0	13	8		137	-2	-4	-47	-5
Philippines		6306	0.0	1	1	5	-4		99	-2	1	-58	2
Thailand		1447	-1.5	-3	-7	-8	-13		0	0	0	0	0
Malaysia		1420	0.1	-2	-3	1	-5		96	-1	-2	-12	-4
Argentina		556828	-1.0	2	-12	284	176		2598	216	502	-217	393
Brazil		115057	-1.3	-1	-2	-1	5		221	-2	-8	-88	-53
Chile		5756	-1.3	0	-4	12	9		126	5	5	-71	-6
Colombia		1113	-0.8	2	3	-4	-13		340	19	17	-121	-32
Mexico		51260	0.8	0	-4	13	6		372	7	13	-104	-9
Peru		22158	-1.6	-2	-5	12	4		155	6	11	-74	-25
Hungary		56115	0.8	1	1	46	28		208	23	16	-110	-14
Poland		63718	-0.7	-3	-8	38	11		124	8	7	61	51
Romania		14327	-0.3	1	8	33	23		210	12	6	-167	-45
South Africa		71159	-0.1	-2	-5	11	-3		395	15	16	-97	28
Turkey		8499	0.2	3	5	151	54		392	14	1	-222	-48
Ukraine		507	0.0	0	0	-2	-2		3467	189	60	-365	-612
EM total		38	-0.5	-1	-5	7	0		400	17	26	-67	24

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

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