



- **Risk Assets Closed Lower on Friday Amid Renewed Worries Over the Middle East** ([link](#))
- **Favorable supply-demand dynamics supportive for the US corporate bond market** ([link](#))
- **Middle Eastern Markets Show Little Signs of Extra Volatility** ([link](#))
- **China-Focused Bond Funds Face Ongoing Struggle Amid a 41-Week Streak of Outflows** ([link](#))
- **Brazilian Real Weakened on Doubts About the Country's Ability to Meet Fiscal Targets** ([link](#))
- **China's Central Bank Reports Higher Yuan Usage Globally** ([link](#))
- **Special Feature: EM Local Currency Bond Holdings Monitor** (attached)

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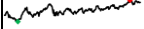

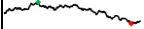
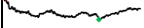


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Softened inflation in Germany and Spain lifts European bond demand

Market activity this morning reflected a familiar pattern observed in the previous week. Heightened tensions in the Middle East briefly impacted the bond market. These tensions, while initially concerning, later eased as events did not surpass the risk market's broadly expected boundaries. This was evident in the positive performance of Israeli and Saudi markets on Sunday. Equities faced downward pressure while gold temporarily surpassed the \$2,000 mark. Softened inflation data in Germany and Spain increased demand for European government bonds. In China, markets continued to perform well, notably during a significant financial policy gathering led by Chinese President Xi Jinping, where the government is expected to draw a line in the sand on further downside of the property sector crisis. Meanwhile, reports suggested potential Yield Curve Control (YCC) adjustments in the Bank of Japan meeting, as 2-year Japanese Government Bond yields reached their highest level since 2013 due to a weak 2-year auction. Singapore's central bank chief Ravi Menon stated that Singapore's monetary policy "*remains appropriately tight*" and signaled that the authorities are not pressured to do more despite recent hawkish tilt by regional peers.

Key Global Financial Indicators

Last updated: 10/30/23 8:48 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4117	-0.5	-3	-4	6	7
Eurostoxx 50		4041	0.7	0	-3	12	7
Nikkei 225		30697	-1.0	-1	-4	11	18
MSCI EM		37	-0.1	-1	-4	7	-4
Yields and Spreads			bps				
US 10y Yield		4.91	7.2	6	34	89	103
Germany 10y Yield		2.85	1.6	-3	1	75	28
EMBIG Sovereign Spread		447	-3	-7	23	-107	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.9	0.2	0	0	-4	-6
Dollar index, (+) = \$ appreciation		106.4	-0.1	1	0	-4	3
Brent Crude Oil (\$/barrel)		89.0	-1.6	-1	-7	-7	4
VIX Index (% change in pp)		20.7	-0.5	0	3	-5	-1

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

In the week ahead, market focus will be on central bank decisions, including the US (Wed), UK (Thu), Japan (Tue), Norway (Thu), Brazil (Wed), Colombia (Tue), Malaysia (Thu), and Nigeria (Tue). These central banks, except for Brazil and Nigeria, are expected to keep rates on hold. Analysts expect Brazil to cut 50bps and Nigeria to hike by 75bps. On the macroeconomics front, important data releases include the jobs report and ISM in the US, CPI and GDP in Europe, PMIs in China, and labor market indicators in Japan. Elsewhere, notable corporate earnings include Apple while the US Department of Treasury will update its issuance projections at the November refunding meeting on Wednesday.

Mature Markets

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United States

Despite upbeat earnings reports from four tech giants US equities closed last week lower. Although firms are currently relatively profitable, the profit outlook for 2024 is worsening: The Citigroup index for US earnings revision momentum—which is defined as the number of upgrades to estimates minus the number of downgrades—has the most negative reading since December last year. Traders' flight to quality behavior may also have played a role amid renewed worries over the

US Profit Estimates See Most Downgrades Since December
Economic uncertainty has dulled CEOs' confidence about 2024



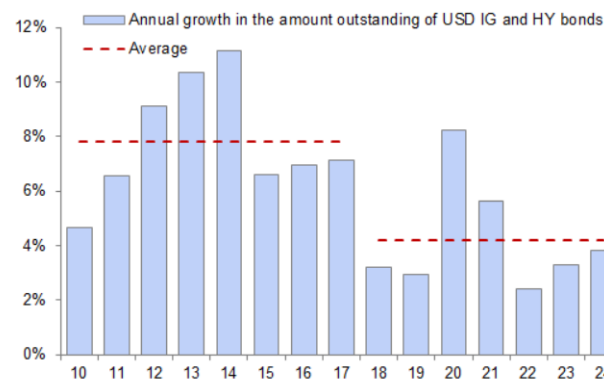
Middle East as the Israeli army stated ground forces were "expanding their activity" in Gaza. **Treasury yields declined last week, with lower option implied volatility.** Oil prices and the commodity index rose on Friday, while the dollar index inched marginally lower. Bitcoin fractionally weakened on Friday but managed to finish the week roughly +13% higher on the increasing possibility of Bitcoin ETF approval by the SEC. Markets shrugged off the near-term inflation expectations from the University of Michigan, which reached a five-month high at 4.2%.

The current risk of U.S. Treasury supply crowding out corporate bonds seems low.

Concerns have emerged regarding a potential imbalance in the Treasury market affecting demand for corporate bonds. The U.S. budget deficit is expected to remain substantial next year, and the Federal Reserve's market presence is declining due to its quantitative tightening policy. However, some market observers view supply and demand dynamics favorably for corporate bonds. They argue that the ample supply of Treasury securities does not significantly impede corporate refinancing yet given the relative scarcity of corporate bonds and the limited allocation towards corporate bonds among major institutional investors. Yet, some analysts warn of potential margin pressure. As inflation recedes, businesses may struggle to pass on price hikes while grappling with rising energy and labor costs, especially for lower-rated corporate issuers. These concerns could eventually overshadow positive supply-demand dynamics, prompting wider credit spreads.

Exhibit 1: Corporate borrowers can (and likely will) respond to higher funding costs reducing net supply

Annual percentage growth in the notional amount outstanding of USD IG and HY corporate bonds



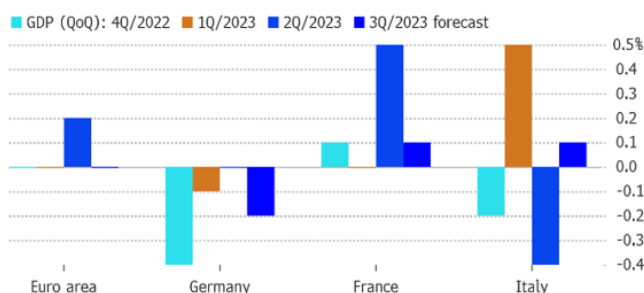
Euro Area

In Q3 2023, the German economy contracted by less than expected. The economy stagnated by -0.1% q/q (expected -0.2% from 0%), and working day adjusted annualized GDP fell y/y -0.3% (expected -0.7% from -0.2%). Positive German GDP news briefly boosted the EUR/USD by 0.14% to 1.057. European equities opened positively (Stoxx 600 +0.6%). Eurozone 10-year sovereign yields retreated, with German and Italian 10-year yields falling by -1.5bps and -6bps, respectively.

While rising US bond yields and geopolitical concerns affect global markets, European stocks and bonds remain confident due to strong cyclical indicators, particularly for services.

Spanish inflation came in lower than expected at a 3.5% y/y pace (expected 3.8% from 3.3%) and preliminary October inflation data for Germany (expected 3.3% y/y, down from 4.3%) may provide further insights. Financial markets currently anticipate unchanged rates through year-end, with an 80% likelihood of a -25bps cut by April and at least one more cut priced in by September 2024. Economists surveyed by Bloomberg, however, predict a stalled or contracting euro-region economy in Q3 2023 due to recent rate hikes.

Euro Area GDP and survey forecast

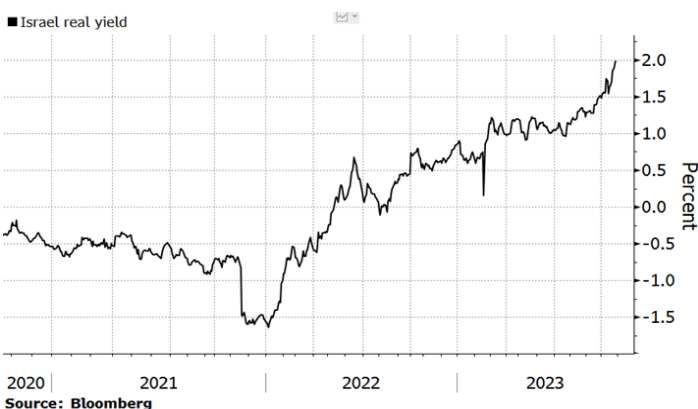


Source: National statistics institutes, Bloomberg survey

Israel

The escalation of conflict in the Middle East has cast a somber mood over the weekend news, but the Middle Eastern markets open on Sunday displayed little additional volatility.

In Israel, shares are trading higher than the previous close, with the Tel Aviv 35 Index gaining +0.6%. However, it remains about -11% below the level observed on October 5. The shekel hit its weakest point since 2012, peaking at 4.079 over the weekend, but it has strengthened by +0.23% on Monday morning. During the weekend, Israel's 10-year real yields climbed +115 points since the beginning of the year, recently surpassing the critical mark of 2% and on course for their sixth consecutive daily climb.



Source: Bloomberg

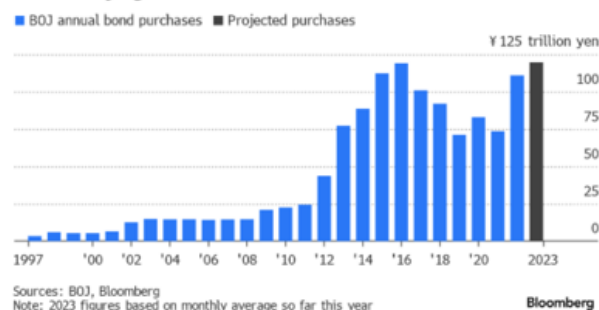
Japan

Japanese equities declined -1% amid earnings misses by major Japanese companies. 10-year JGB bond yields saw a +1.6bps rise, reaching 0.89%, while the yen appreciated by +0.1%.

The Bank of Japan (BOJ) has commenced its two-day monetary policy meeting, with market consensus favoring a continuation of monetary easing. Some analysts, however, have suggested the need for a potential adjustment to the yield curve control framework. Notably, the ten-year overnight indexed swaps have risen above the BOJ's effective 1% yield ceiling, indicating some traders' expectations of higher bond yields. During a recent 2-year Japanese Government Bond (JGB) auction, the bid-to-cover ratio hit its lowest point since 2010, suggesting subdued investor demand. Bloomberg reports suggest that this

could hint at an imminent policy adjustment.

BOJ Is Buying Bonds at Historic Pace

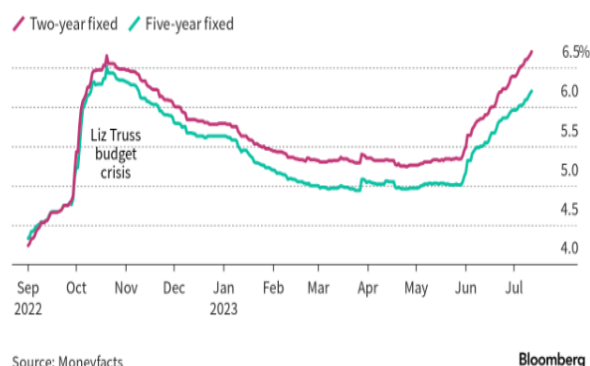
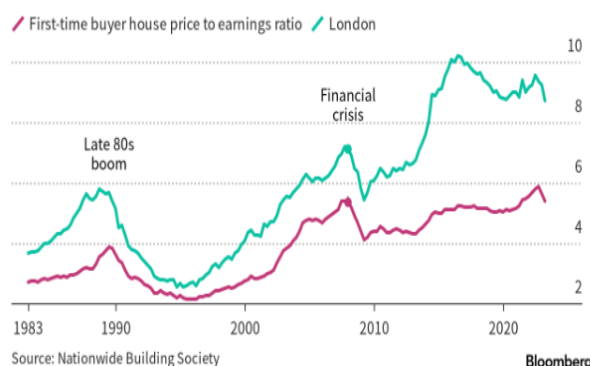


Investors See 10-Year Yield Breaching BOJ's Cap



United Kingdom

Despite mixed economic data, the Monetary Policy Committee (MPC) is expected to keep the key rate at 5.25% for the second consecutive BoE meeting this Thursday. The Bank of England's strategy of maintaining high and flat rates for an extended period faces scrutiny, especially given recent PMI, inflation, employment, and wage data. The UK's reliance on 2-year and 5-year mortgage contracts makes it sensitive to rate changes. An Institute for Fiscal Studies projection suggests an 8.3% reduction in disposable income for the average mortgage holder with rate increases.



The BoE's MPC is also expected to lower GDP projections for H2 2023 and H1 2024 due to signs of cooling in UK activity. Swaps markets indicate a 96% probability of unchanged rates this week and a 29% chance of a 25bps increase in February 2024 (down from 80% in early October). Expectations include two 25bps cuts by the end of 2024. Both 10-year and 30-year gilt rates increased by 3bps as investors anticipated a more cautious BoE.

Emerging Markets [back to top](#)

EMEA equities and currencies broadly gained. Stock markets in Egypt (+1.8%), the U.A.E. (+1.3%) and Saudi Arabia (+1.2%) led the gains.

Asian equities were little changed while currencies gained. Among regional stock markets, China led the gains (+0.6%), followed by India (+0.5%). Vietnam slumped -1.7%, driven by financials, Philippines declined (-0.9%). Within currencies, the Thai baht appreciated +0.5%, followed by the South Korean won (+0.4%) and the Indonesian rupiah (+0.3%).

Latin American markets were mixed on Friday. Currencies mostly appreciated against the dollar led by the Chilean peso (+2.4%) while the Brazilian real and Argentine peso depreciated. Equity markets traded weaker in most Latin American countries except Colombia (+0.9%).

EM Fund Flows

China-focused bond funds have witnessed a remarkable 41-week consecutive outflows. While outflows from emerging market (EM) bond funds have slightly eased, they remain substantial. Hard-currency fund flows showed a decrease, totaling -\$778 million (compared to -\$1.1 billion a week ago), and local currency fund flows were at -\$755 million (from -\$758 million a week ago). Notably, ETF outflows have seen a significant reduction, amounting to -\$218 million (down from -\$627 million a week ago). Within local currency funds, outflows accelerated in EM ex-China bond funds but eased in China-focused funds. EM equity fund flows experienced notable outflows of -\$2.5 billion, primarily driven by non-ETF outflows totaling -\$2.2 billion. Regionally, the largest outflows were observed in Asia ex-Japan (-\$1.6 billion), followed by Latin America (-\$229 million).

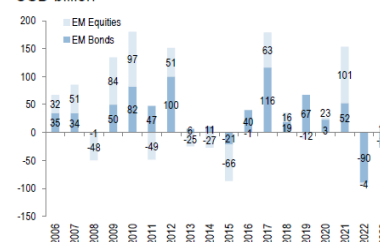
Figure 1: Weekly cross-asset flows

USD billion

Asset	7d flows (the pop - current)	This wk	YTD
EM Bonds and Equities	-4.0	-13.3	-13.3
EM Bonds	-1.5	-27.1	-27.1
Hard Ccy	-0.8	-20.4	-20.4
Local Ccy*	-0.8	-9.7	-9.7
ex-EM ex-China	-0.8	-2.3	-2.3
ex-China	-0.2	-5.5	-5.5
EM Equities	-2.5	13.0	13.0
US HC	-0.4	23.1	23.1
US HV	-0.8	-10.8	-10.8
Global Equities	-1.3	-59.6	-59.6
EM Bond and Equity ETFs	-0.5	28.0	28.0
EM Bond ETFs	-0.2	-4.1	-4.1
EM Equity ETFs	-0.3	32.9	32.9
Non-resident EM flows*	-4.1	11.0	11.0

Figure 2: EM bond and equity fund flows

USD billion

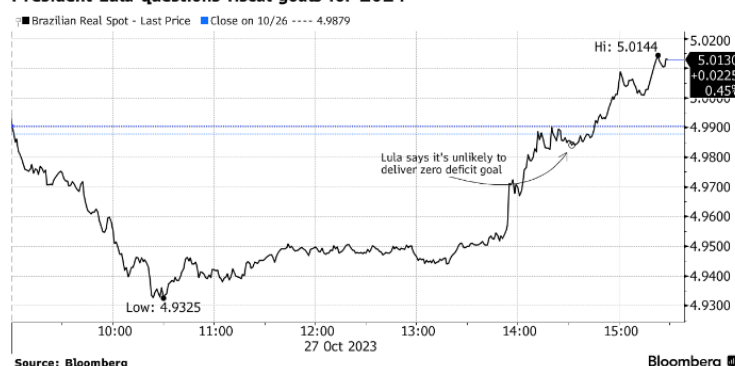


*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Brazil

The Brazilian real weakened on doubts about the country's ability to meet its fiscal targets. On Friday, President Lula mentioned that the government wouldn't trim spending on priority projects to meet the zero-deficit goal in 2024, as he deemed it unnecessary, according to Bloomberg. This marked a reversal of the fiscal strategy previously announced by the finance minister, whose aim was to close the budget gap. According to the finance ministry's projections, Brazil's gross debt is expected to reach about 75% of total GDP by year-end. Lula's remarks triggered a depreciation of the real and a surge in local swap rates as investors grew concerned about Brazil's worsening fiscal condition.

Brazil's Real Weakens After Lula's Comments
President Lula questions fiscal goals for 2024

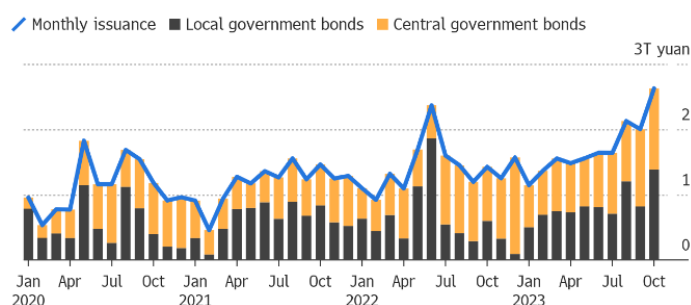


China

Chinese stock markets saw a broad-based +0.6% gain. Today, the Financial Work Conference led by President Xi Jinping began, focusing on financial risk resolution, including property sector issues and local government debt. Meanwhile, China's government debt supply hit a 2023 high at 2.6 trillion yuan (\$360 billion) due to the step up of fiscal stimulus (see chart below). Evergrande's liquidation hearing was

adjourned to December; a winding-up order looms without a restructuring proposal. Renminbi and 10-year bond yields remained stable.

China's Government Debt Supply Soars in October



Source: Bloomberg, Chinabond

Note: The count of debt issuance in October 2023 includes both notes sold and those scheduled as of October 27

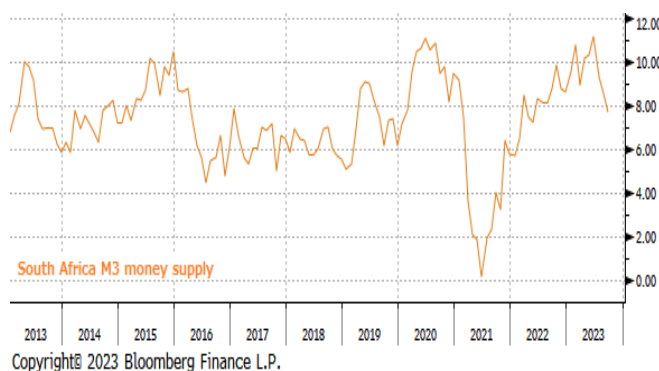
Bloomberg

The People's Bank of China (PBC) has pledged to support the growth of the offshore yuan market.

The 2023 Yuan Internationalization Report, released last Friday, highlighted a significant increase in the global use of the yuan. Renminbi settlements for China's goods trade have surged to 24%, while service trade payments have reached 32% in 2023, compared to 18% and 26% in 2022, respectively. Notably, over 65% of China's cross-border income and transfers are now settled in renminbi, a significant jump from 56.8% in 2022. Since 2022, yuan clearing banks have been established in various countries, including Laos, Kazakhstan, Pakistan, and Brazil, optimizing the overseas clearing network for the yuan. Looking ahead, the PBC is emphasizing its commitment to deepening bilateral currency cooperation and fostering a healthy growth of the offshore yuan market, creating a virtuous cycle that benefits both onshore and offshore yuan markets.

South Africa









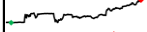






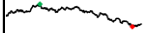





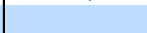



South Africa's M3 money supply slowed more than expected in September (7.67% y/y versus 8% expected), according to the South African Reserve Bank. Private credit remained robust at 4.6% over the year (versus 3.5% expected). At the same time, the South African Department of Mineral Resources and Energy announced today that all grades of gasoline will see a 1.78 rand per liter decrease in retail pricing. The rand continued to strengthen over the last 3 days ahead of the Medium-Term Budget Policy Statement (MTBPS) due on Wednesday.



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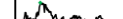













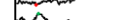

















Global Financial Indicators

10/30/23 8:49 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4127	-0.5	-2	-4	6	7
Europe		4041	0.7	0	-3	12	7
Japan		30697	-1.0	-1	-4	11	18
China		3584	0.6	3	-3	2	-7
Asia Ex Japan		61	0.1	-1	-4	10	-5
Emerging Markets		37	-0.1	-1	-4	7	-4
Interest Rates			basis points				
US 10y Yield		4.91	7.2	6	34	89	103
Germany 10y Yield		2.85	1.6	-3	1	75	28
Japan 10y Yield		0.89	1.1	2	13	64	47
UK 10y Yield		4.60	5.1	0	16	112	92
Credit Spreads			basis points				
US Investment Grade		161	-1.5	-1	10	-24	2
US High Yield		471	-6.3	-4	38	4	-10
Exchange Rates			%				
USD/Majors		106.42	-0.1	1	0	-4	3
EUR/USD		1.06	0.2	-1	1	7	-1
USD/JPY		149.8	0.1	0	0	1	14
EM/USD		46.9	0.2	0	0	-4	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		89.0	-1.6	-1	-3	8	9
Industrials Metals (index)		139	1.0	3	-3	-3	-16
Agriculture (index)		65	-0.5	-1	2	-3	-6
Implied Volatility			%				
VIX Index (%, change in pp)		20.7	-0.5	0.4	3.2	-5.0	-0.9
Global FX Volatility		8.1	0.1	-0.2	-0.1	-3.9	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		133	-1.2	-9	-19	-108	-73
Italy		194	-3.7	-3	-1	-14	-21
Portugal		69	-3.7	-2	-7	-29	-33
Spain		108	-2.0	-2	-2	3	-2

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

Emerging Market Financial Indicators

Last updated: 10/30/2023 8:53 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	0	-6		2.7	-0.5	-4	0	-4	-34
Indonesia		15890	0.3	0.3	-2	-2	-2		7.1	-10.9	2	21	-41	18
India		83	0.0	-0.1	0	-1	-1		7.8	-0.3	-2	0	14.2	31
Philippines		57	0.0	-0.2	0	2	-2		5.9	-0.3	8	5	3	-12
Thailand		36	0.7	1.5	3	6	-4		3.3	-1.0	-16	2	16	69
Malaysia		4.76	0.3	0.6	-1	-1	-8		4.1	-3.5	-6	12	-26	5
Argentina		350	0.0	0.0	0	-56	-50		107.4	3.0	120	-948	1670	1920
Brazil		5.00	0.3	0.3	1	4	6		11.8	12.0	-10	-10	16	-74
Chile		913	2.2	2.3	-1	3	-7		6.1	10.5	-3	36	-20	80
Colombia		4108	0.5	2.8	0	17	18		9.2	0.0	-13	-5	-168	-57
Mexico		18.04	0.4	0.6	-2	10	8		9.6	1.0	2	5	30	87
Peru		3.9	0.3	0.6	-1	3	-1		7.7	0.0	-5	23	-80	-28
Uruguay		40	0.1	0.1	-4	2	0		9.9	-0.1	3	43	-153	-78
Hungary		361	0.6	-0.9	3	15	3		7.6	-2.0	-6	12	-313	-203
Poland		4.21	0.5	-0.6	5	13	4		5.0	-1.0	-24	6	-234	-113
Romania		4.7	0.3	-0.6	1	6	-1		6.9	-1.0	-8	14	-212	-83
Russia		93.1	1.4	1.6	7	-33	-20							
South Africa		18.8	0.3	1.0	2	-2	-9		9.9	1.0	-14	-11	33	73
Turkey		28.24	-0.2	-0.5	-3	-34	-34		29.4	-3.0	26	226	1803	1958
US (DXY; 5y UST)		106	-0.1	0.8	0	-4	3		4.83	7.3	4	23	65	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		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3584	0.6	3	-3	2	-7		172	0	-9	-53	-5	
Indonesia		6736	-0.3	0	-3	-5	-2		131	0	8	-90	-9	
India		64113	0.5	-2	-3	6	5		136	-3	-1	-81	-6	
Philippines		5962	0.0	-3	-6	-3	-9		109	1	10	-61	12	
Thailand		1396	0.5	0	-5	-13	-16		0	0	0	0	0	
Malaysia		1439	-0.2	0	1	-1	-4		95	0	-1	-29	-5	
Argentina		655565	-2.6	-18	17	343	224		2562	144	162	-41	357	
Brazil		113301	-1.3	0	-3	-1	3		223	1	-2	-79	-51	
Chile		5567	1.0	-1	-3	7	6		146	4	22	-42	14	
Colombia		1094	0.9	-1	-2	-10	-15		344	-6	11	-103	-28	
Mexico		48974	-0.4	1	-4	0	1		373	8	1	-50	-8	
Peru		21941	-0.5	-1	-3	5	3		162	-1	8	-51	-18	
Hungary		56389	0.1	0	1	37	29		203	0	16	-79	-19	
Poland		70808	0.7	4	8	43	23		116	-2	2	38	43	
Romania		14290	0.2	2	0	32	23		219	-1	22	-123	-37	
South Africa		69911	0.7	0	-3	5	-4		394	2	4	-40	27	
Turkey		7725	0.2	0	-7	99	40		394	-9	18	-170	-46	
Ukraine		507	0.0	0	0	-2	-2		3647	-169	322	-652	-432	
EM total		37	1.3	-1	-4	7	-4		408	-1	20	-45	33	

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

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