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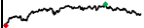

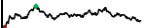

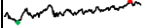
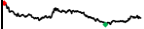

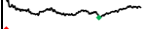


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## The BOJ Moves from a Strict Cap to an Upper Bound

The Bank of Japan (BOJ) cautiously adjusted its yield curve control policy, allowing 10-year Japanese government bond yields to rise above 1%—now considered an '*upper bound*' rather than a *strict cap*. This led to a modest yen depreciation beyond 150 per dollar as markets anticipated more significant BOJ policy changes. The Nikkei responded positively due to yen weakness. Crude oil rebounded after recent declines, while gold continued its upward trend, reflecting a demand for safe-haven assets. Conversely, Israeli stocks continue to be most down globally since the Middle East conflict renewed. Economic data from the Euro Area and the UK signal slowing momentum and softer inflation, affirming the ECB's recent rate decision and setting the stage for the Bank of England meets on Thursday. Conversely, a stronger-than-expected employment cost index today, combined with recent strong economic releases, could make it more challenging for the Fed to remain on hold tomorrow. In regulatory news, South Korea's Financial Supervisory Service plans to investigate global investment banks with frequent short-selling trades. The UK government aims to formalize cryptocurrency regulation by 2024, confirming its commitment to the sector's oversight.

Key Global Financial Indicators

Last updated: 10/31/23 8:37 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4167	1.2	-1	-3	8	9
Eurostoxx 50		4073	1.1	0	-2	13	7
Nikkei 225		30859	0.5	-1	-3	11	18
MSCI EM		37	1.0	0	-3	8	-3
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.83	-6.3	1	26	78	96
Germany 10y Yield		2.77	-5.3	-6	-7	63	20
EMBIG Sovereign Spread		442	-5	-17	12	-98	-10
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.0	0.3	1	0	-4	-6
Dollar index, (+) = \$ appreciation		106.0	-0.1	0	0	-5	2
Brent Crude Oil (\$/barrel)		88.1	0.7	0	-8	-7	3
VIX Index (% change in pp)		19.2	-0.5	0	2	-7	-2

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

## Mature Markets

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### United States

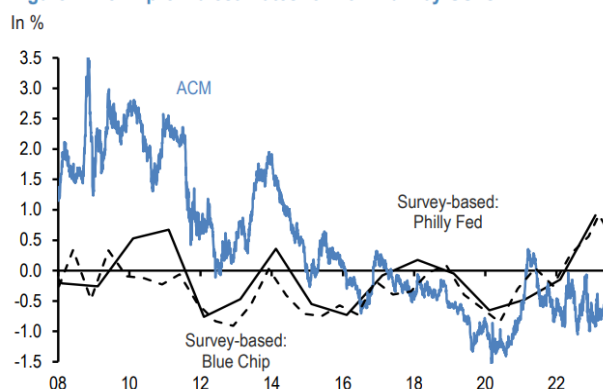
**Equities rebounded in a quiet Monday trading session, with oil prices and commodity indexes sliding lower.** The Israeli ground forces entered Gaza over the weekend, but the operation has not been as extensive as initially anticipated. Implied equity volatility as captured by the VIX declined to below 20%. Treasury yields rose, while corporate bond spreads were little changed. The dollar against major currencies weakened by -0.4%. This morning, employment cost index for 3Q was stronger than expected at 1.1% (exp. 1.0% from 1.0%), pushing Treasury 2-year yields higher by 3bps.

**The US Treasury Department announced its net federal borrowing for the current quarter**, cutting its estimate to \$776 bn, down from the \$852 bn it had predicted in late July. The net borrowing amount for the current quarter was slightly smaller than what analysts predicted. The reason for the decrease was a projection of higher receipts partly owing to the magnitude of deferred tax receipts coming from California and other states that had been granted extensions due to natural disasters, according to the Treasury. Yet, the new estimate is still significant by historical standards, as the federal deficit doubled in the fiscal year through September relative to the year before, reaching \$2tn. On Wednesday, the Treasury will announce its plan for the refunding of Treasury securities in the fourth quarter. Analysts expect coupon-bearing Treasury issuance sizes to increase for a second consecutive time.

### Term premium based on surveys appear larger than model-based measures suggest.

A model-free method for estimating term premiums involves subtracting from long-term interest rates the survey-based policy rate expectations over the same long-term horizon to derive term premium estimates. Two survey-based measures using the Philly Fed survey and the BlueChip Financial forecasts survey indicate that the term premium estimates had increased earlier this year, reaching around 0.9% in February and March, respectively. A model-based ACM term premium suggests much lower levels, while in the more recent sell-off, estimates increased. JPMorgan analysts assign greater importance to survey-based estimates, despite their limitations such as infrequent updates and potential bias in respondents' expectations compared to market participants. This preference is driven by the Fed's own estimate of neutral rates, which corresponds to the long-term median Fed Funds dot stand stands at 2.5%. Thus, JPMorgan analysts assess the term premium on 10-year Treasuries as elevated by historical standards in the face of elevated inflation and macroeconomic uncertainty.

Figure 4: Term premia estimates for nominal 10y USTs



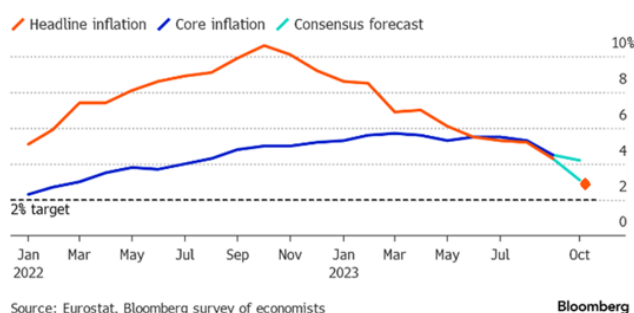
Source: Federal Reserve, Blue Chip Economic Indicators, J.P. Morgan. See Adrian, Crump and Moench (2013), 'Pricing the Term Structure with Linear Regressions'.

### Euro Area

**Today's October inflation data softened, and money markets continue to price unchanged short-term rates through year-end.** Euro area CPI estimates fell from 4.3% in September to 2.9% in October (exp. 3.1%), marking the weakest annual price increase for over two years. Based on the European Commission's weekly pump price statistics, October has seen a decrease in the cost of both petrol and diesel. This comes after ECB President Lagarde cautioned on Thursday about the risks of inflation remaining "too high for too long" and that "strong" domestic pricing pressures would persist, leading the institution to leave interest rates on hold for the first time in over a year. Netherlands' preliminary October HCPI fell to -1.0% y/y (exp. -0.7% from -0.3%). French HCPI inflation reached 4.5% y/y (exp. 4.5% from

5.7%). Portugal's preliminary October HCPI rose 3.3% y/y (from 4.8%). Stoxx Europe 600 futures climbed +0.2%, while Euro Stoxx 50 advanced +0.35%.

### Softer October inflation gives ECB reasons to hold rates

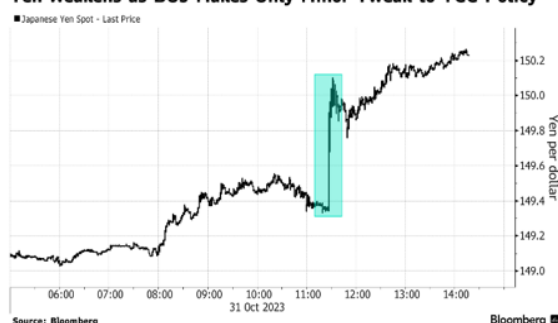


**Third quarter Euro Area GDP data points at slowing economic momentum.** Euro Area aggregate GDP slowed to 0.7% y/y (exp. 0.6% from revised 1.1%). France's GDP similarly came in at 0.7% y/y (exp. 0.6% from revised 1.1%). Italy's GDP printed at 0% y/y (exp. 0.1% from revised 0.3%). Portugal's GDP grew at 1.9% y/y (from revised 2.6%). These readings came after Germany reported a small drop in GDP yesterday. After the releases, the euro rose to session highs (1.064) and 10y and 30y yields in Germany France, Italy and Spain stayed lower, trimming between 2.5 and 5bps, led by the long end.

## Japan

**The Bank of Japan (BOJ) increased the flexibility of monetary easing under yield-curve control (YCC).** While the policy balance rate (-0.1%) and 10Y yield target (0%) remained unchanged, the BOJ stated that the 1% upper bound for 10-year JGB yields will now serve as a reference for market operations, as opposed to a strict cap. The central bank also eliminated the soft target of +/- 50bps and adopted instead a soft "*upper target ceiling*" of around 1%. Daily fixed-rate bond buying operations—i.e., unlimited JGB purchases at 1%—will be scrapped, with BOJ citing the "*large side effects*" that they entail. Instead, the BOJ will conduct YCC primarily via large-scale JGB purchases and nimble market operations. Goldman Sachs analysts note that upon careful investigation of the BOJ box/annotation for "*nimbly conduct market operations*" points to both above and below the 1% line, implying that 10y JGBs can move past the 1% bound. Speaking after the decision, **Governor Ueda stated the move in the US interest rates was the biggest factor driving Japanese yields.** Expectations of a policy tweak were growing ahead of the meeting on local media reports. The yen initially appreciated on rumors, the actual YCC adjustment was modest, and **the yen weakened back past 150 (-0.8%) whereas 10Y bond yields breached 0.9% (+5.3bps), reaching a new decade high.** Market contacts expect 10Y yields will test the 1% yield level soon, and some analysts call for a breach of the 1.1% yield levels during November-December auctions.

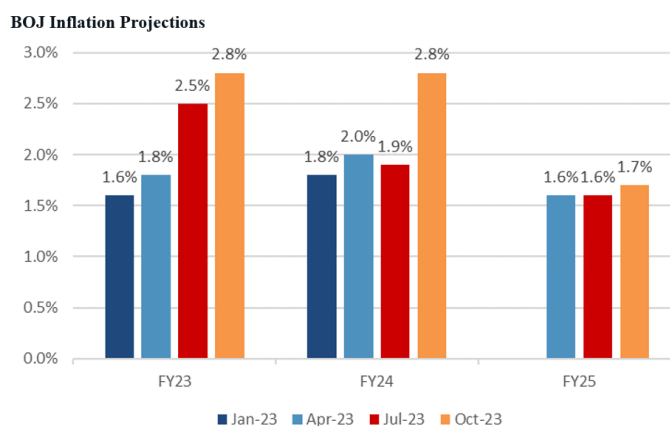
**Yen Weakens as BOJ Makes Only Minor Tweak to YCC Policy**



**Japan: BOJ's Yield Curve Control**



**The BOJ also revised its inflation outlook upwards.** In a widely expected move, the central bank revised up its core CPI forecast inflation projections to 2.8% (from 2.5%) in FY2023, to 2.8% in FY2024 (from 1.9%) and 1.7% in FY2025 (from 1.6%). **Governor Ueda stated that certainty of achieving inflation target has risen slightly.** He highlighted the union's wage discussions next spring a key event and expected "*a certain level*" of wage gains. The BOJ also revised its FY2023 growth outlook up to 2% from 1.3% and lowered the forecast for FY2024 to 1% from 1.2% while keeping the FY2024 growth outlook at 1%.



Source: Goldman Sachs, Bank of Japan

**Japanese equities gained +1% amid a slew of significant economic releases.** In September, retail sales slowed +5.8%/y/y (exp. 5.9% from +7.0%), whereas industrial production printed at -4.6%/y/y (exp. -2.3% from -4.4%) and housing starts printed -6.8%/y/y (exp. -6.4% from -9.4%), remaining in contraction. The jobless rate slip to 2.6% (exp. 2.6% from 2.7%). Consumer confidence climbed to 35.7 in October (exp. 35.0 from 35.2).

## Emerging Markets

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**Asian equities posted mixed results while currencies traded without clear direction.** Overall, Asian stock markets declined by -0.7%, dragged by a weak China PMI release that prompted the Hang Seng Index to correct by -1.5%. The decline in Vietnam's and South Korea's stock markets had a similar magnitude (both down -1.4%). In currencies, the Philippine peso outperformed (+0.3%). In terms of macro releases, Hong Kong SAR's Q3 GDP missed expectations, printing at +4.1% (exp. +5.2% from +1.5%) while Taiwan POC's Q3 GDP surprised to upside, printing at +2.3% (exp. +2%, from +1.4%) amid robust domestic consumption.

**EMEA stock markets posted mixed results whereas currencies depreciated.** Equities in Nigeria (+1.45%), Saudi Arabia (+1.19%), Poland (+1.38%) led the gains while stock markets in Bulgaria (-0.8%) lagged. Within currencies, Nigeria's Naira depreciated most (-6%) after the government announced yesterday plans to target a 650-750 Naira exchange rate per \$ in a bid to close its more-than-45% cap with the unofficial rate. The Czech Koruna depreciated -0.4% against the euro, more than Poland's Zloty and Hungary Forint ahead of Czech National Bank's interest rate decision on Thursday, with consensus favoring a rate cut, which would mark the first one since 2020. Latest Q3 data shows that the Czech economy continued to contract at a -0.6% y/y pace (exp. -0.3% from -0.6%). In Poland, October CPI inflation came in at 6.5% y/y (exp. 6.6% from 8.2%).

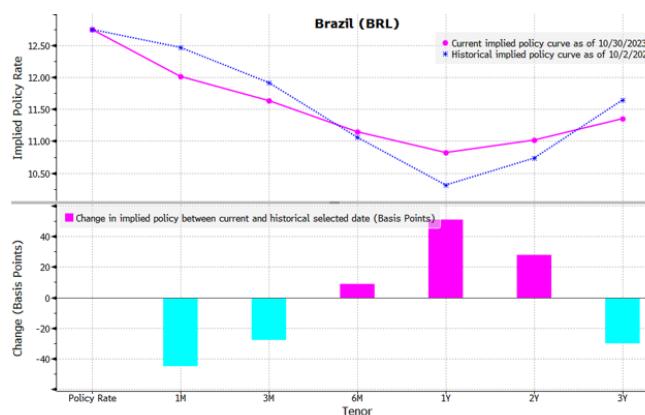
**On Monday, Latin American equity markets mostly declined while currencies largely appreciated.** Stock markets in Argentina (-9.7%) and Chile (-2.4%) led the decline while only stock markets in Mexico

gained (+0.6%), defeating the broader decline. All currencies gained against the dollar except for the Brazilian real that depreciated (-0.6%).

## Brazil

### Concerns over Brazil's fiscal outlook have a substantial impact on the market pricing of rate cuts.

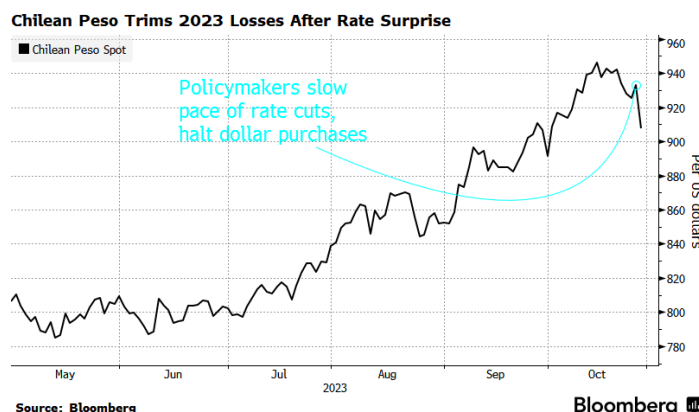
Despite Brazil's Finance Minister Haddad's efforts in Monday's press conference to ease market concerns regarding the fiscal outlook, prompted by President Lula's actions last Friday, he failed to convince investors. Haddad acknowledged the "challenging" situation, as reported by Bloomberg. Traders now expect Central Bank of Brazil's Selic policy rate to end the current monetary-easing cycle at around 11%, which is -175bps below the current level but +44 bps higher than previously expected on October 2<sup>nd</sup>. The central bank's next rate decision is scheduled for this Wednesday.



Source: Bloomberg

## Chile

**The Chilean peso surged after the smaller-than-expected rate cut.** Monday was the first trading day of local markets since last week's central bank announcement and the peso appreciated +2.8% to 907.5/\$ by the end of the day. The central bank slowed the pace of interest rate cuts by an unexpected -50bps cut to 9% due to deteriorated financial conditions worldwide, while most analysts had forecast a -75bps cut. The central bank also suspended its dollar purchases program which aims to build up international reserves. This program has contributed to the underperformance of the Chilean peso in the region according to market analysts.

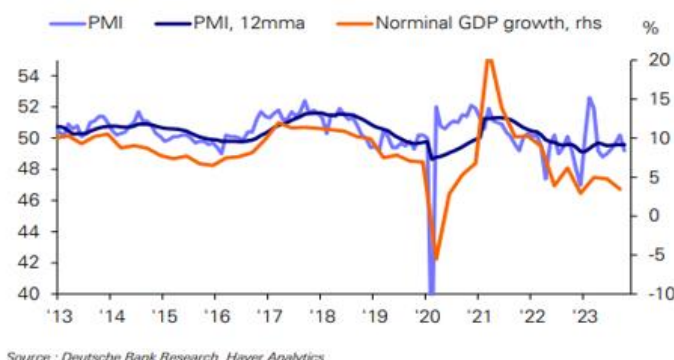


## China

**Equity sentiment sours as PMIs miss in October.** The Shanghai Shenzhen CSI 300 Index fell by -0.3% as the manufacturing PMI fell back into contractionary territory, printing at 49.5 (exp. 50.2 from 50.2), while also the non-manufacturing PMI softened to 50.6 (exp. 52 from 51.7). The Renminbi depreciated -0.1%, 10Y bond yields were little changed. Deutsche Bank analysts note that the readings point to slowing momentum in activities and renewed deflationary pressure, which makes the recent fiscal stimulus timely. Market participants expect more monetary easing, including a reduction of the reserve requirement ratio, to stabilize prices and accommodate fiscal expansion. Meanwhile, the median consensus forecast for 2023 GDP growth increased to 5.1% from 5% previously, according to Bloomberg reports.



## Manufacturing PMI dropped below 50



**China's Ministry of Finance has revised the investment regulations for insurers to facilitate longer-term equity investments.** On Monday, the ministry announced a change in how it evaluates insurers' return on net assets, shifting from a previous one-year timeframe to a combination of a three-year cycle and a one-year period. This would effectively allow insurance companies to make longer-term equity investments as Bloomberg reports. Under current regulations, China's insurance firms are permitted to invest between 10% and 45% of their total assets in equities based on their solvency ratios.

## Insurers' New Rules Come Amid Market Slump



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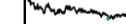





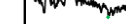
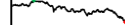



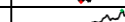
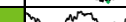












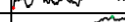
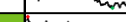








## Global Financial Indicators

10/31/23 8:39 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			<b>%</b>				<b>%</b>
United States		4165	1.2	-2	-3	8	8
Europe		4071	1.1	0	-2	13	7
Japan		30859	0.5	-1	-3	11	18
China		3573	-0.3	2	-3	-2	-8
Asia Ex Japan		62	1.3	1	-2	12	-4
Emerging Markets		37	1.0	0	-3	8	-3
<b>Interest Rates</b>			<b>basis points</b>				
US 10y Yield		4.84	-6.3	2	27	79	96
Germany 10y Yield		2.77	-4.8	-5	-7	63	20
Japan 10y Yield		0.95	5.5	10	18	70	53
UK 10y Yield		4.48	-8.6	-6	4	96	80
<b>Credit Spreads</b>			<b>basis points</b>				
US Investment Grade		162	-0.4	4	11	-21	4
US High Yield		475	1.4	11	42	2	-6
<b>Exchange Rates</b>			<b>%</b>				
USD/Majors		106.02	-0.1	0	0	-5	2
EUR/USD		1.06	0.1	0	1	8	-1
USD/JPY		150.8	1.2	1	1	1	15
EM/USD		47.0	0.2	0	0	-4	-6
<b>Commodities</b>			<b>%</b>				
Brent Crude Oil (\$/barrel)		88.1	0.7	0	-4	7	8
Industrials Metals (index)		138	-0.6	1	-4	-3	-16
Agriculture (index)		64	0.0	-2	2	-6	-6
<b>Implied Volatility</b>			<b>%</b>				
VIX Index (% change in pp)		19.2	-0.5	0.3	1.7	-6.7	-2.5
Global FX Volatility		7.9	0.0	-0.2	-0.3	-4.1	-2.8
<b>EA Sovereign Spreads</b>			<b>10-Year spread vs. Germany (bps)</b>				
Greece		137	4.8	-6	-15	-111	-68
Italy		192	0.3	-8	-2	-24	-22
Portugal		70	-0.6	-2	-7	-31	-32
Spain		107	0.2	-4	-2	-1	-2

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

## Emerging Market Financial Indicators

Last updated: 10/31/2023 8:39 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.32	-0.1	-0.1	0	0	-6		2.7	-1.5	-6	-2	-6	-36
Indonesia		15885	0.0	-0.2	-2	-2	-2		7.1	-1.6	-15	19	-43	17
India		83	0.0	-0.1	0	-1	-1		7.7	-7.0	-9	-7	7.2	24
Philippines		57	0.4	0.1	0	2	-2		5.9	0.0	8	5	3	-12
Thailand		36	0.1	0.6	3	6	-4		3.3	-2.5	-9	-1	14	66
Malaysia		4.76	0.0	0.5	-1	-1	-8		4.1	-3.8	-6	10	-28	3
Argentina		350	0.0	0.0	0	-55	-49		109.2	183.8	284	-941	1582	2104
Brazil		5.04	0.1	-1.0	0	3	5		11.9	-0.6	11	-3	23	-67
Chile		902	0.6	2.9	1	5	-6		6.1	0.5	-11	27	-29	71
Colombia		4066	1.0	3.9	2	21	19		9.2	0.0	-23	-10	-172	-61
Mexico		17.99	0.3	1.5	-2	10	8		9.7	0.0	6	13	37	95
Peru		3.8	0.5	0.7	-1	4	-1		7.7	0.0	-4	21	-72	-29
Uruguay		40	0.0	-0.3	-3	2	0		9.8	-5.1	-3	23	-159	-84
Hungary		359	0.4	0.7	3	15	4		7.5	-4.0	-5	8	-317	-207
Poland		4.18	0.3	0.9	5	14	5		5.0	-3.0	-14	3	-237	-116
Romania		4.7	0.1	0.4	2	6	-1		6.9	-0.4	-10	8	-219	-83
Russia		92.8	-0.2	0.9	7	-33	-20							
South Africa		18.8	0.5	1.5	2	-2	-9		9.8	-7.0	-9	-18	27	66
Turkey		28.29	-0.1	-0.7	-3	-34	-34		29.4	-6.0	28	220	1825	1952
US (DXY; 5y UST)		106	-0.1	-0.2	0	-5	2		4.79	-3.7	-3	18	56	78

	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		3573	-0.3	2	-3	-2	-8		170	-1	-2	-50	-7	
Indonesia		6752	0.2	-1	-3	-4	-1		127	-12	-3	-77	-13	
India		63875	-0.4	-1	-3	5	5		136	-2	-3	-75	-6	
Philippines		5974	0.2	-2	-5	-3	-9		105	-12	-1	-54	8	
Thailand		1382	-1.0	-1	-6	-15	-17		0	0	0	0	0	
Malaysia		1442	0.2	0	1	0	-4		94	-2	-2	-24	-6	
Argentina		591692	-9.7	-16	5	295	193		2584	-31	37	19	379	
Brazil		112532	-0.7	0	-3	-3	3		220	0	-2	-66	-54	
Chile		5433	-2.4	-1	-7	5	3		142	-2	16	-35	10	
Colombia		1089	-0.5	-2	-3	-12	-15		329	-15	-8	-111	-43	
Mexico		49277	0.6	2	-3	-1	2		371	2	0	-40	-10	
Peru		21867	-0.3	0	-3	4	3		160	-4	4	-42	-20	
Hungary		56396	-0.1	1	1	37	29		197	-13	-3	-71	-25	
Poland		72026	1.4	4	10	43	25		111	-17	-14	48	38	
Romania		14233	-0.3	0	-1	32	22		214	-8	7	-118	-41	
South Africa		70226	0.5	0	-3	5	-4		387	-11	-4	-32	20	
Turkey		7669	-0.6	-4	-8	93	39		393	-9	4	-158	-47	
Ukraine		507	0.0	0	0	-2	-2		3611	-213	203	-710	-468	
EM total		37	-0.5	0	-3	8	-3		404	-11	8	-35	29	

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

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