



- Softer US manufacturing PMIs rekindle hopes for a dovish Fed pivot ([link](#))
- Tighter financial conditions weigh on US investment grade corporate bonds ([link](#))
- Reserve Bank of Australia hikes by 25 bps, compared to 50 bps expected ([link](#))
- Eurozone and UK rate hike expectations pared down ([link](#))
- UK assets rally on expectations of an earlier medium-term fiscal plan ([link](#))
- Brazilian markets rally after first round of the presidential election ([link](#))

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Markets rally amid hopes of less hawkish central banks

Markets are rallying amid hopes that central banks could slow the pace of monetary tightening. Yesterday weaker US manufacturing data revived expectations of a dovish pivot by the US Federal Reserve, and saw US equities rally by 2.6% and 10y yields fall by 19bps. European equities followed suit this morning with most indices up over 2% as ECB and UK hiking expectations were pared back, while the dollar weakened for the second day. Sentiment was also supported by reports that the UK government would bring forward the Office of Budget Responsibility's fiscal assessment publication date. On the central bank front, the Reserve Bank of Australia surprised markets with a smaller than expected 25bps hike to take the cash rate to 2.6%. Some contacts see the decision as another signal that expected policy rates have peaked in several countries and that global economic growth will slow further.

Key Global Financial Indicators

Last updated: 10/4/22 12:22 PM	Level Last 12m Latest	Change from Market Close				12 M	YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days				
Equities		%					%	
S&P 500	3678	2.6	1	-6	-14		-23	-13
Eurostoxx 50	3452	3.3	4	-3	-14		-20	-13
Nikkei 225	26992	3.0	2	-2	-3		-6	2
MSCI EM	35	1.6	0	-9	-29		-27	-25
Yields and Spreads		bps						
US 10y Yield	3.59	-4.9	-36	40	211		208	160
Germany 10y Yield	1.83	-9.0	-40	30	204		200	160
EMBIG Sovereign Spread	566	7	40	56	205		199	153
FX / Commodities / Volatility		%						
EM FX vs. USD, (+) = appreciation	49.2	0.0	2	-2	-11		-6	-7
Dollar index, (+) = \$ appreciation	111.2	-0.5	-3	2	19		16	16
Brent Crude Oil (\$/barrel)	89.5	0.7	4	-4	10		15	-8
VIX Index (% change in pp)	29.2	-0.9	-3	4	6		12	-2

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

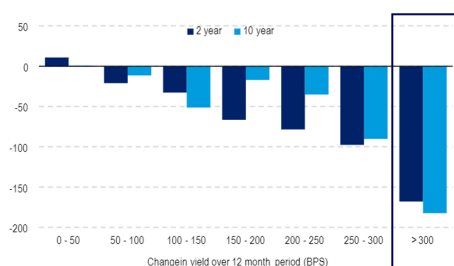
Mature Markets

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United States

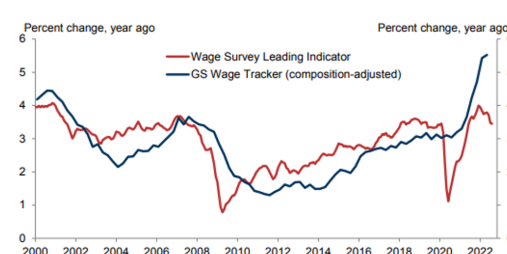
Yesterday's weaker-than-expected PMI releases prompted investors to rekindle hopes for a dovish Fed pivot. Printing at 50.9 (vs. 52.1 expected from 52.8), the ISM Manufacturing surprised to the downside. Market contacts have been attentive to the prices paid subcomponent dropping to 51.7, which is a level that was seen the last time in June 2020. Accordingly, the release sparked a rally in both Treasuries and US equities, suggesting investors were taking comfort that softer PMI data could increase the possibility of a dovish turn by the Fed. However, in view of Fed communication clarifying that inflation will be brought back to target by primarily rebalancing the labor market, Bank of America analysts caution that job market rebalancing will take time. When 2y Treasury yields rise by over 300bps (as they did last year), payrolls fall by an average of 170,000 only in the following year, suggesting that it will take time for higher yields to translate to an increase in the unemployment rate (left chart). Conversely, Goldman Sachs analysts identify some green shoots in the labor market rebalancing and, aggregating survey information, identify early signs of softening wage pressures (right chart).

Change in average payrolls number from last 12 months to next 12 months by 12months change in UST yields



Source: Bank of America

Wage survey leading indicator versus Wage Tracker



Source: Goldman Sachs

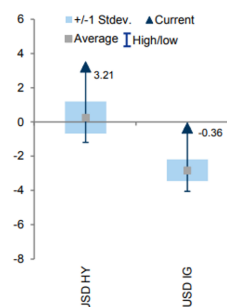
Tighter financial conditions have started to weigh on US investment grade corporate bonds. US investment grade (IG) credit spreads have reached levels that in recent history has coincided with a Fed dovish shift (left chart). Still, analysts at Deutsche Bank note that the Fed remains well away from achieving its dual objective, leaving tolerance for tighter financial conditions appearing greater than in the recent post-global financial crisis period. From a valuation perspective, Goldman Sachs analysts point out that the recent widening of US IG credit spreads has closed the gap to the US equity risk premium whereas US high yield bonds appear to be priced at a steep discount relative to US equities (right chart).

Investment Grade credit spreads since the Global Financial Crisis



Source: Deutsche Bank

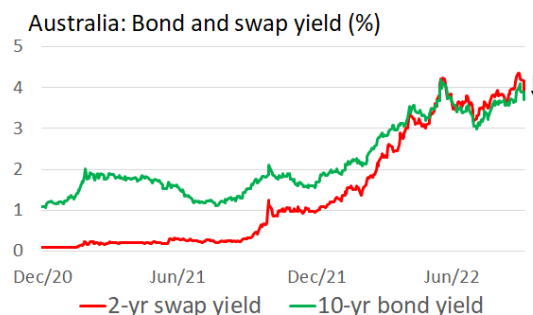
Credit spread less ERP for US IG / HY bonds



Source: Goldman Sachs. Note: ERP using DDM with 10y Treasuries and LT GDP consensus as inputs, showing last 10 years of data.

Australia

The Reserve Bank of Australia (RBA) hiked its policy rate 25 bps to 2.60%, less than the 50 bps expected as it argues that the outlook for the global economy has deteriorated and household budgets are likely to see more stress. The RBA's statement also pointed out that the full effects of higher interest rates are yet to be felt in mortgage payments and that consumer confidence has also fallen and housing prices are declining after the earlier large increases. Equities (+3.75%) jumped whereas the Australian dollar is 0.4% lower. 2-yr swap yields settled 37 bps lower and 10-yr bond yields traded 17 bps lower. **Some contacts see the decision as another signal that expected policy rates have peaked in several countries and global economic growth will slow further.** In contrast, Barclays sees a relief rally in bonds before Australian rates are likely to go higher again later in Q4.

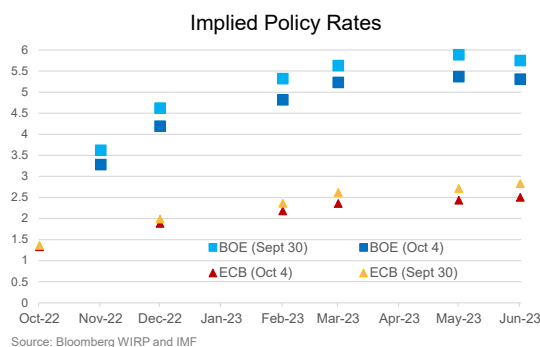


Euro area

European markets rallied this morning, continuing yesterday afternoon's trend, after ISM manufacturing data disappointed in the US. In equities, the Stoxx Europe 600 was up 2.3%, with Germany up 2.7% and France up 3%. The euro is appreciating against the dollar (+0.6% to 0.99 euro/\$), while yields on 10y bunds are down 11 bps to 1.81% and Italian spreads have narrowed 4 bps to 229 bps. ECB governor Christine Lagarde and ECB governing council member Mario Centeno will speak later today.

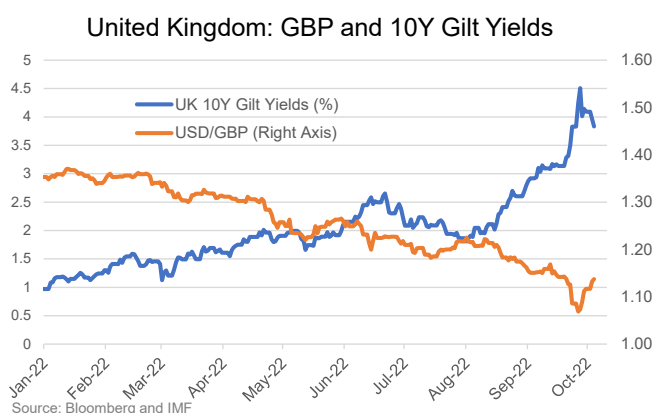
European gas prices are down 3% as mild weather and ample stockpiles ease concerns about shortages. Gas prices have dropped about 50% from their highs in late August.

Expectations for rate hikes have been scaled back in the Eurozone and the UK following disappointing US ISM manufacturing data. After ISM manufacturing data disappointed in the US in the early afternoon yesterday, traders pared their bets of central bank rates hikes in advanced economies on the assumption of shallower rate hikes in face of recession. In the eurozone, rate expectations have come down by about 10 bps for December (1.88% vs. 1.99%) and by 25 bps from March 2023 onwards (2.35% vs. 2.62%). In the UK, the implied policy rate for November is 34 bps lower than last Friday (3.28% vs 3.62%), and about 50 bps lower from February onwards (4.82% vs 5.32%).



United Kingdom

The British pound continued its appreciating trend (+0.2%) against the dollar while the yields on 10y gilts are down 16 bps to 3.79%, supported by the global context and reports that Chancellor Kwasi Kwarteng will bring forward the publication of his plan medium-term fiscal plan to sometime this month. The government did not publish a medium-term fiscal plan when announcing the tax cut package of its “mini budget”, fueling market concerns about the sustainability of public finances in the UK. The publication of the plan was initially scheduled for November 23. **The plan will be accompanied by official forecasts from the Office for Budget Responsibility and is expected to set out a five-year plan to put debt on a downward path.** The FT reports that one cabinet minister suggested the OBR may publish a range of growth scenarios with their impact on the public finances, including the government’s target of 2.5 per cent annual growth. Equities in the UK are up 1.7%.



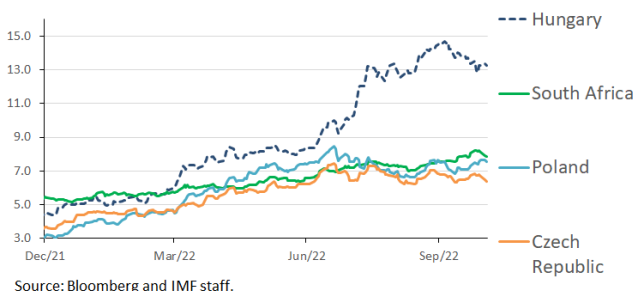
Yields on 30y gilts increased (+6bps) yesterday afternoon as the BOE scaled back its purchases of long-dated gilts in the context of its temporary bond-buying program. The program, which started last Wednesday and runs until October 14, was designed to support market liquidity after the pension industry was squeezed by the sharp fall in long dated bond prices following the presentation of the *mini budget*. Since the start of the program, the BoE has purchased just over £3.6 billion of long-dated debt across four operations, a fraction of its potential £20 billion maximum, suggesting that the total size of the plan will fall short of the total £65 billion committed last week. **Market participants suggest that the BoE is trying to signal that this is a pure liquidity operation and not QE.** Yesterday afternoon, the BoE also published a market notice announcing that it will start asking market makers to identify who is looking to sell gilts to its temporary bond-buying program using unique identifiers, to get a better understanding of the effect of its operations on the broader market and the financial stability objective of these purchases. **Yields on 30y gilts were little changed this morning.**

Emerging Markets

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Emerging market equities generally gained while currencies strengthened against the dollar. In Latam equities outperformed in Brazil (+5.54%), while Argentina (+4.28%), and Colombia (+2.52%) also saw strong gains. Currencies mostly appreciated, while the Argentine peso depreciated (-0.64%). In Asia stocks gained and currencies edger higher against the US dollar in a relatively quiet session with China and Hong Kong still closed for holidays. In EMEA equities recorded particularly sharp gains in the Czech Republic (+3.8%), Philippines (+3.5%), Hungary (+2.9%). India (+2.4%). Swap yields generally fell in line with moves in global markets.

Eastern Europe and South Africa: 2-yr swap rates (local, %)

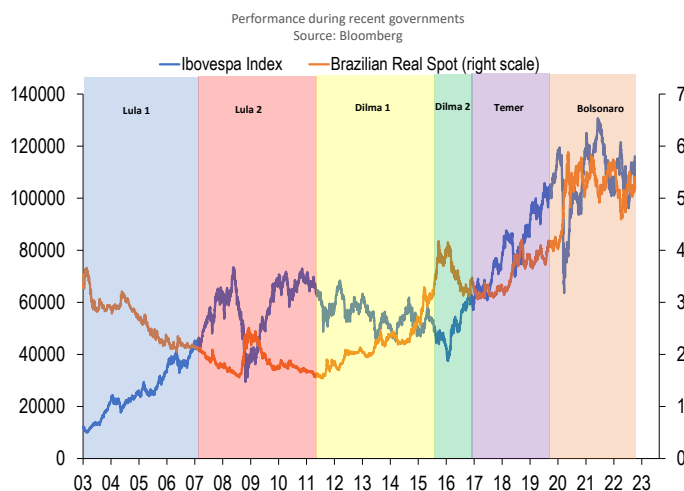


Israel

The Israeli shekel (+0.6%) outperformed after the Bank of Israel increased its policy rate to 2.75% yesterday, as expected. The policy rate is at its highest level since 2011 as Bank of Israel Governor Yaron said that the central bank is front-loading hikes because it is determined to return inflation to the target range.

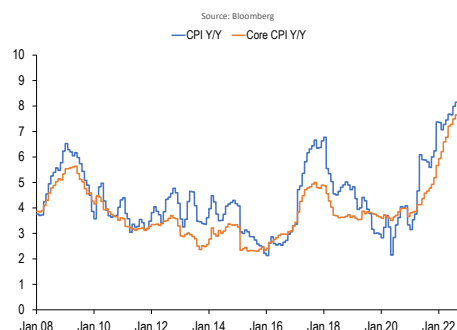
Brazil

Brazilian markets outperformed after a tighter than expected first round of the presidential election. Brazil's electoral court revealed that with almost all votes accounted for, Lula has 48% while Bolsonaro has 43%. Previous polls showed that Lula could win outright, and investors welcomed Bolsonaro's stronger-than-expected showing. The Brazilian real gained as much as 5% yesterday, while swap rates fell across the curve, and the Ibovespa equity index had its biggest single day increase since April 2020, with Petroleo Brasileiro SA rallying 8%. President Jair Bolsonaro and Luiz Inacio Lula da Silva will have a runoff election on October 30.



Mexico






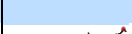
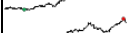






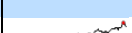



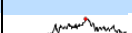


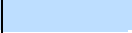

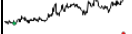





Mexico plans to limit food exports in order to help fight inflation. Mexico has created a pact with several companies to help manage price increases. FM Ramirez aims to cut prices by 8% for 24 key goods on average, from their peak. FM Ramirez emphasizes that the inflation in Mexico is caused by supply, compared to demand in the US. In response, he believes the best way to counter is to produce more food and cut import barriers which include tariffs. Mexico's August inflation reached 8.7%, its highest level in 22 years. FM Ramirez reveals the pause of exports will include beans, sardines, scrap metal, and white corn.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (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), Mohamed Diaby (Economist, EP), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

10/4/22 12:25 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3678	2.6	1	-6	-14	-23	-13
Europe		3453	3.3	4	-3	-14	-20	-13
Japan		26992	3.0	2	-2	-3	-6	2
China		3805	-0.6	-1	-5	-22	-23	-18
Asia Ex Japan		59	1.0	-2	-10	-29	-28	-25
Emerging Markets		35	1.6	0	-9	-29	-27	-25
Interest Rates			basis points					
US 10y Yield		3.59	-4.9	-36	40	211	208	160
Germany 10y Yield		1.83	-8.8	-40	30	204	201	160
Japan 10y Yield		0.22	-2.4	-3	-2	17	15	3
UK 10y Yield		3.82	-14.6	-69	90	281	285	234
Credit Spreads			basis points					
US Investment Grade		185	-2.6	8	18	98	73	42
US High Yield		545	6.3	30	36	223	207	138
Europe IG		125	-8.0	-14	5	73	77	53
Europe HY		590	-35.9	-81	3	331	348	238
Exchange Rates			%					
USD/Majors		111.24	-0.5	-3	2	19	16	16
EUR/USD		0.99	0.5	3	-1	-15	-13	-13
USD/JPY		144.8	0.2	0	3	31	26	26
EM/USD		49.2	-0.1	2	-2	-11	-6	-7
Commodities			%					
Brent Crude Oil (\$/barrel)		89	0.7	5	-3	21	22	3
Industrials Metals (index)		146	1.3	4	0	-10	-15	-22
Agriculture (index)		68	0.5	1	0	19	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		29.2	-0.9	-3.4	3.8	6.3	12.0	-1.8
US 10y Swaption Volatility		159.5	3.7	-1.5	34.8	85.2	80.5	65.2
Global FX Volatility		12.5	0.0	0.0	1.5	5.8	5.1	5.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		277	-7.3	7	9	169	125	37
Italy		228	-4.7	-24	-3	124	93	57
Portugal		104	-1.6	-7	-4	49	39	12
Spain		115	-1.3	-6	-4	50	40	11

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

Emerging Market Financial Indicators

Last updated: 10/4/2022 12:28 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	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		7.12	0.1	0.2	-3	-9	-11	-11		2.9	-0.5	8	14	-14	2	0
Indonesia		15245	0.4	-0.8	-2	-6	-7	-6		7.3	-6.7	-11	13	105	89	77
India		82	0.4	0.1	-2	-9	-9	-9		7.5	-13.0	-15	3	106.5	123	
Philippines		59	0.6	0.5	-3	-14	-13	-13		5.8	0.0	3	40	163	128	78
Thailand		38	1.5	1.1	-3	-10	-11	-14		3.1	-13.0	-15	28	126	121	83
Malaysia		4.64	0.1	-0.7	-3	-10	-10	-10		4.4	-7.3	-5	35	98	77	69
Argentina		148	-0.6	-1.3	-5	-33	-31	-28		85.1	23.2	-127	718	3532	3451	3711
Brazil		5.17	4.8	4.3	0	6	8	-3		11.6	-27.0	-37	-18	45	89	6
Chile		938	3.3	5.7	-6	-14	-9	-16		6.7	0.0	-43	13	111	130	81
Colombia		4530	1.7	0.3	-1	-16	-10	-14		9.9	0.0	-7	35	334	349	202
Mexico		20.01	0.1	1.9	0	2	3	1		9.0	0.0	-38	33	148	152	120
Peru		4.0	0.6	-0.5	-2	4	1	-6		8.7	-6.2	24	58	238	280	270
Uruguay		41	1.5	0.5	-1	5	9	3		11.4	-9.5	-10	27	349	265	322
Hungary		423	0.8	0.5	-4	-27	-23	-24		9.8	-10.0	15	13	618	524	494
Poland		4.88	0.8	2.4	-2	-19	-17	-17		6.6	-8.3	-8	42	427	308	271
Romania		5.0	0.8	3.6	-3	-15	-13	-12		8.5	3.4	12	71	465	369	336
Russia		59.2	-0.1	-0.8	4	22	27	38		8.9	0.0	55	64	102	12	-229
South Africa		17.8	0.3	1.3	-3	-15	-10	-15		9.3	-8.0	-31	36	163	191	175
Turkey		18.58	-0.3	-0.7	-2	-52	-28	-26		11.9	-11.0	9	-99	-662	-1247	-1057
US (DXY; 5y UST)		111	-0.4	-2.5	2	19	16	16		3.80	-7.9	-39	51	285	254	190

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		3805	0.0	-1	-5	-22	-23	-18		202	21	-5	-11	-1	-6	
Indonesia		7072	0.9	-1	-2	12	7	2		225	41	37	44	60	40	
India		58065	2.2	2	-2	-3	0	1		200	35	38	52	68	46	
Philippines		5988	3.5	-1	-10	-14	-16	-19		169	30	27	49	68	32	
Thailand		1578	1.3	-2	-3	-3	-5	-7		0	0	0	0	0	0	
Malaysia		1409	0.8	0	-5	-8	-10	-11		115	19	18	-19	-2	-18	
Argentina		145063	4.3	5	6	87	74	59		2722	118	288	1129	1042	985	
Brazil		116134	5.5	6	5	5	11	4		306	-4	-2	-4	-5	-25	
Chile		5143	0.0	-1	-9	21	19	18		195	8	6	37	55	21	
Colombia		1157	2.5	3	-6	-16	-18	-23		453	1	24	150	105	61	
Mexico		45430	1.8	1	-1	-11	-15	-12		467	6	44	111	135	97	
Peru		19866	2.2	6	6	9	-6	-15		225	4	28	44	75	35	
Hungary		39691	3.3	3	-5	-25	-22	-17		335	56	72	216	211	182	
Poland		47397	2.3	-1	-5	-33	-32	-25		80	50	46	51	48	64	
Romania		10992	1.7	2	-7	-13	-16	-17		389	51	89	182	196	157	
Russia		2039	-0.2	4	-17	-50	-46	-34		3411	-577	938	3228	3234	2897	
South Africa		65861	2.5	3	-2	3	-11	-12		502	44	62	128	147	113	
Turkey		3431	1.1	5	6	146	85	70		635	14	-14	126	57	72	
Ukraine		519	0.0	0	0	-1	-1	0		3887	210	57	3357	3128	2414	
EM total		35	1.8	0	-9	-29	-27	-25		469	15	27	90	82	11	

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

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