GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 4, 2023

LEAD EDITOR: JEFF WILLIAMS

- **Markets are pricing in a more hawkish ECB than a month ago** (link)
- **Markets speculate whether Japanese authorities intervened to support yen** (link)
- **Sustained higher oil prices could lead to higher inflation expectations** (link)
- **Reserve Bank of New Zealand kept the policy rate unchanged at 5.50% as expected** (link)

Mature Markets | Emerging Markets | Market Tables

Bonds, equities stabilize after large drops

Sovereign bond yields for most major economies are modestly lower today after reaching multi year highs. The US 10-year treasury and German 10-year bund yields are each about 3 bp lower this morning following yesterday's large gains. Overnight, the US 30-year briefly exceeded the 5% level for the first time since 2007, before quickly declining and is now back below 4.9%. This morning's US ADP employment data came in lower than expected but did not have a significant impact on yields. Overall, global equity prices—as well as US equity futures—are slightly positive following broad declines of more than 1% yesterday. The dollar index is slightly weaker, giving up some gains from earlier in the week. Notably the Japanese yen has strengthened beyond 149 per dollar, after momentarily surpassing 150 yesterday. While many in the market believe the sharp rebound from that level was driven by official intervention, there has still been no confirmation that is the case. Emerging market currencies are broadly mixed, with the Hungarian forint outperforming. Later this morning, Poland's central bank is expected to cut its policy rate by 25 bp, though some analysts believe a 50 bp cut is possible. The zloty is up 0.6% ahead of the announcement.

Key Global Financial Indicators

Last updated: 10/4/23 8:17 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4229	-1.4	-1	-6	12	10
Eurostoxx 50		4114	0.4	0	-4	18	8
Nikkei 225		30527	-2.3	-6	-8	13	17
MSCI EM		37	-1.3	-1	-6	2	-2
Yields and Spreads					bps		
US 10y Yield		4.74	-5.6	13	56	111	86
Germany 10y Yield		2.94	-3.1	9	36	107	37
EMBIG Sovereign Spread		441	7	18	24	-125	-11
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.4	0.4	-1	-3	-6	-7
Dollar index, (+) = $ appreciation		106.8	-0.2	0	2	-3	3
Brent Crude Oil ($/barrel)		89.4	-1.6	-7	0	-3	4
VIX Index (%, change in pp)		19.8	0.0	2	7	-9	-2

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

Mature Markets

back to top

United States

The JOLTS job opening print shook markets yesterday morning (+9610k, exp. +8815k). The main driver of higher yields continued to come from the sell-off in the TIPS market (+10bp) as the yield curve continued to steepen. The tremors were felt in equity markets as the S&P 500 closed the day lower again (-1.4%) hitting a four-month low. The slump of the index was visible on the VIX (+2.2 points). The dollar index edged higher (+0.2%). The House voted to remove Rep. McCarthy as speaker following the avoidance of a government shutdown. Some analysts now see a government shutdown lasting for a couple of weeks as their base case in Q4.

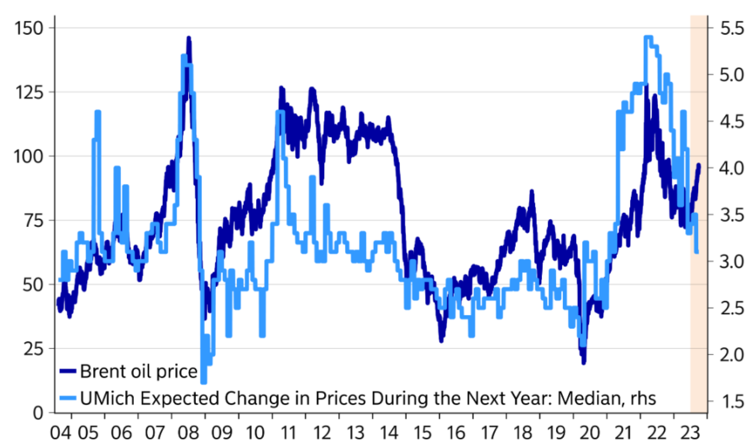
ADP employment change came in lower than expected (+89k vs150k expected.) this morning. The data print allowed some assets that had been facing losses to make some gains in early trading. The euro and the British pound gained against the dollar (+0.2%, +0.3) as Bloomberg's dollar index slipped by as much as 0.3%. 10-year treasury yields did not overall change on the data despite rallying by as much as 3bp immediately after the release.

Variable	Consensus Forecast	Actual Data
ADP Employment Change	-+150k	+89k

Source: Bloomberg

Sustained higher oil prices could lead to higher inflation expectations. Oil prices recovered some of its losses from the start of the week in yesterday's trading (+0.4%). Crude prices increased by as much as 7.5% throughout September. During the last FOMC meeting, Chairman Powell noted that higher energy prices could affect spending and consumer inflation expectations. Even though the oil forwards curve remains inverted—possibly implying that the recent rise in oil prices may be temporary—Nordea analysts think a sustained increase in oil prices could put pressure on household inflation expectations especially in the US. Their base case remains one more hike from the Fed in December whereas markets see a 50% chance of a hike for the December meeting.

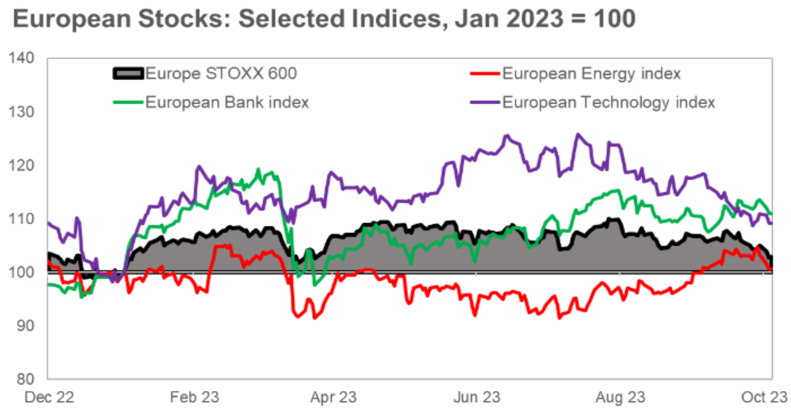
Chart 3: Higher oil prices will likely lead to higher inflation expectations



Source: Nordea Markets and Macrobond

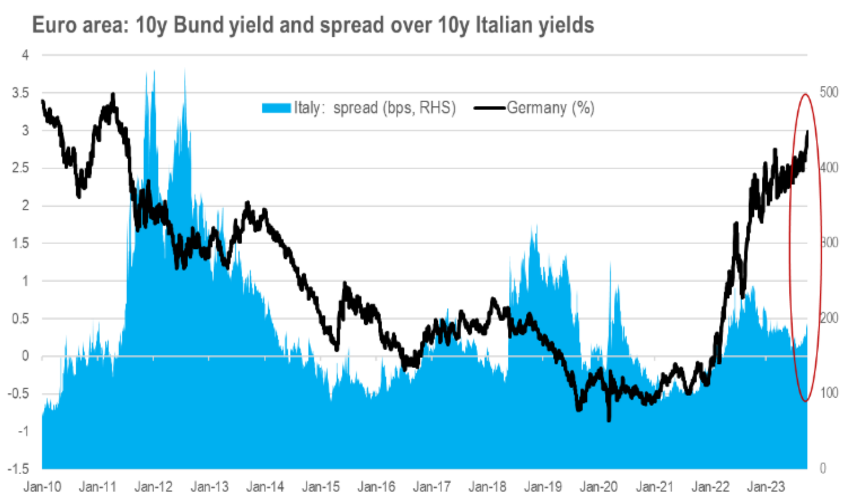
Europe

European equities were trading marginally higher, retracing early morning losses as risk assets declined against a backdrop of higher core yields. The Stoxx 600 Europe index was trading higher (+0.2%) with the banking sector down -0.1%. The Stoxx 600 is now roughly 6.2% lower than its peak in late-July, and while the index is still up roughly 3.9% so far this year—yesterday the index was trading at around levels that it had first reached this year in early January. On the data front euro area retail sales disappointed in August, while PPI declined in line with expectations and the final euro area composite PMI data for September was slightly higher than previous estimates. A separate data release showed Italy's composite PMI surprised on the upside, increasing to 49.2 in September (versus expected 48.7 from 48.2), while Italy's services PMI improved by less than expected (to 49.9 versus expected 50.2 from 49.8), with contacts noting that data still indicates a broad stagnation in services activity. **The euro strengthened against the dollar** (+0.3%), trading at around 1.05.



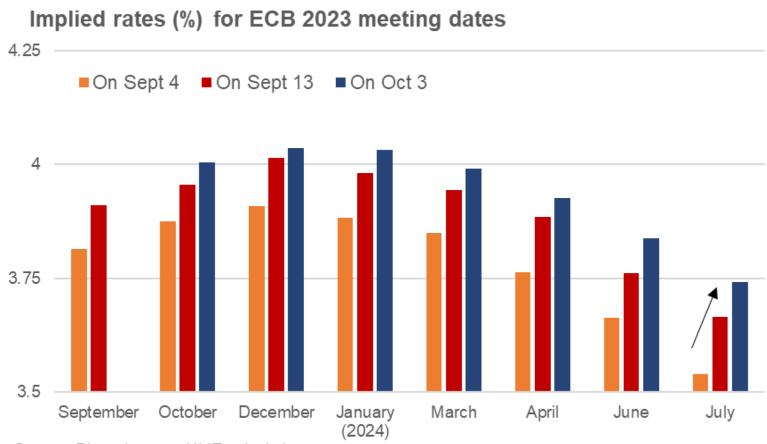
Source: Bloomberg and IMF calculations

Euro area 10y sovereign yields continued to increase, in line with global trends, with the 10y bund yield up 2bp to trade at around 2.98%, the highest level since mid-2011. Italian bonds underperformed yesterday, with the 10y spread to Bunds widening to around 197bp, the highest level since March. This morning the spread widened further to 198bp.



Source: Bloomberg and IMF calculations

Contacts note that markets are pricing in a more hawkish ECB than a month ago, following ECB commentary that it is too early to consider rate cuts. While market pricing for the deposit rate at the end of 2023 is around 4%, markets now see the deposit rate in July 2024 at around 3.75%, roughly 25bp higher than a month ago. Contacts point to hawkish commentary from several ECB officials, that have reiterated the message that it is too early to consider rate cuts. Yesterday the ECB chief economist 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". This morning ECB President Lagarde repeated that future ECB decisions will "ensure that interest rates will be set at sufficiently restrictive levels for as long as necessary".



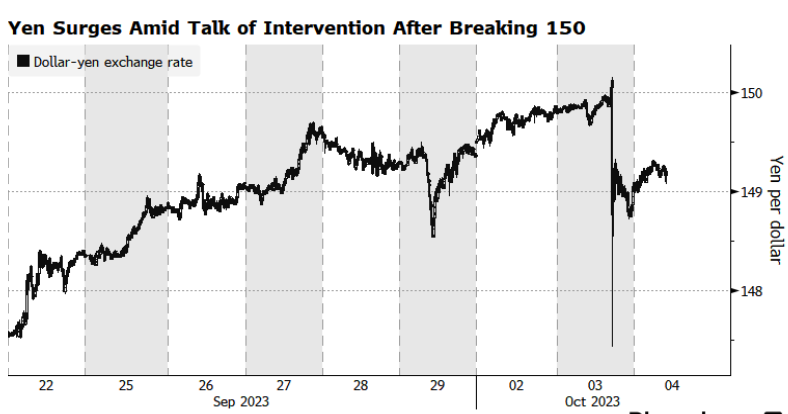
Source: Bloomberg and IMF calculations

United Kingdom

Gilt yields were edging higher, while the pound was stronger against the dollar, in line with global trends. On the data front final PMI prints for September showed services and compositive PMI data stronger than previously estimated, with composite PMI at 48.5 (versus previously estimated 46.8) and services PMI at 49.3 (versus previously estimated 47.2). The 10y gilt yield was trading marginally higher (+2bp to 4.62%) and the 30y gilt yields (+2bp to 5.06%) remain at levels last seen in 2002.

Japan

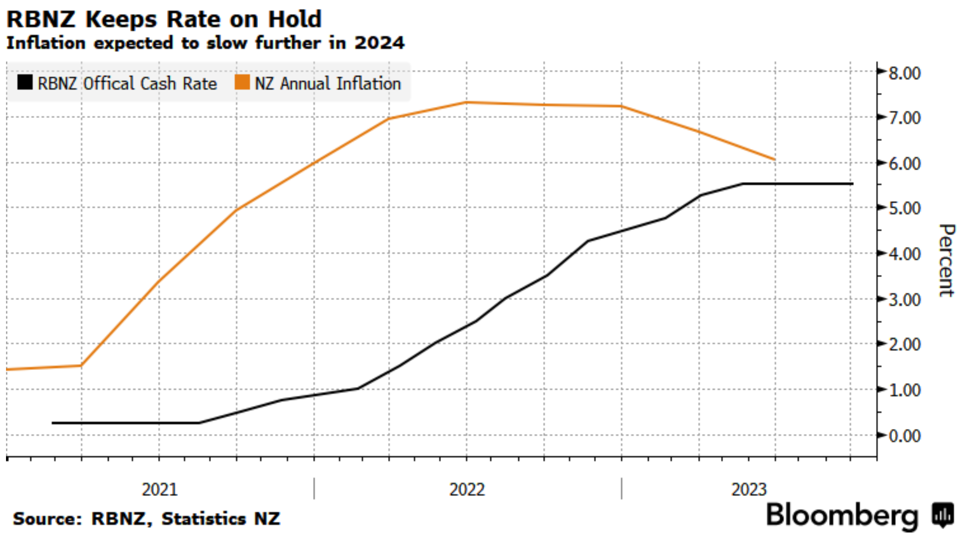
Markets guessed whether Japanese authorities intervened to prop up Japanese yen during the New York trading session yesterday. The yen reached 150.2 yen per dollar, the weakest level since multi-decade lows were set in October 2022, before appreciating nearly 2% in a matter of seconds. Today, the yen traded around 149 yen per dollar, little changed from yesterday. Japanese policymakers, including the currency chief Kanda, did not comment on whether Japan intervened in the FX market yesterday. Since the change in the communication approach to FX interventions last year, Japan only reveals the size of FX interventions at the end of each month. Market participants viewed that a sharp movement in the yen could be due to an intervention, jittery market conditions, or trading algorithms responding to Japanese yen sliding through the 150 yen per dollar threshold. **The 10-year JGB yield reached 0.804% (+4.2 bp)** as the Bank of Japan (BOJ) only bought 675 bn yen ($4.5 bn) of 5- to 10-year JGBs for its unscheduled bond purchase operation today. Longer-end JGB yields also rose (30-year: +3.9 bp) following the increase in US treasury yields. Japanese equities declined (NIKKEI: -2.3%), underperforming regional peers.



Source: Bloomberg

New Zealand

The Reserve Bank of New Zealand (RBNZ) kept the policy rate unchanged at 5.50% as expected. The RBNZ said that the current policy setting is constraining economic activity and reducing inflationary pressure as required. However, interest rates may need to stay high for a more sustained period of time to return inflation to the target. The RBNZ expects inflation to fall back to the 1%–3% target by the second half of 2024. Analysts noted that the lack of an RBNZ comment on additional concerns on the inflation outlook indicated that the hurdle for a rate hike in November would be high. The New Zealand dollar depreciated (-0.2%). Long-end government bond yields rose (10-year: +11 bp; 30-year: +12 bp). The 1-year OIS rate dropped to 5.83% (-4.5 bp).



Emerging Markets

back to top

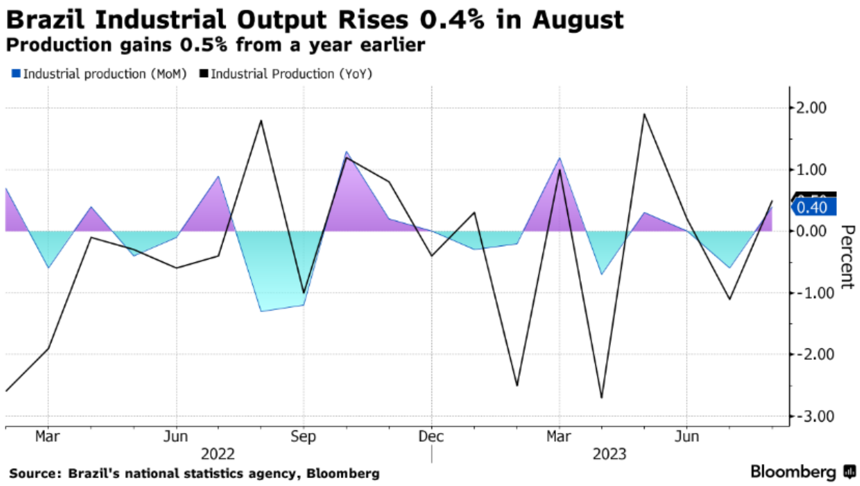
Asian equities declined, down 1.4% on net, led by Korean (-2.4%), Singaporean (-1.6%), and Taiwanese (-1.1%) stocks, amid global risk-off sentiment that saw continued bond selloffs. Asian currencies depreciated, led by the Korean won (-1.0%) and Indonesian rupiah (-0.3%). Long-end government bond yields increased, with 10-year yields rising in Vietnam (+11.0 bp), Singapore (+11.0 bp) and Thailand (+8.6 bp), following the increase in US treasury yields. In Malaysia, Bank Negara Malaysia's governor ruled out a rate cut for now, noting that the current monetary policy stance remains supportive of the economy and is consistent with the inflation outlook. The Malaysian ringgit depreciated (-0.3%). **EMEA equities and currencies were mixed while local currency bond yields increased.** Equities in Poland (+0.6%) and Bulgaria (+0.3%) were outperforming, while those in Türkiye (-0.8%) underperformed. CEE currencies were mixed against the euro, with the Hungarian forint (+0.3%) outperforming. **The polish zloty was marginally weaker against the euro (-0.1%) ahead of the monetary policy decision later today,** where consensus expect the central bank to cut its policy rate by 25bp to 5.75%. Elsewhere on the monetary policy front the Central Bank of Kenya kept its key interest rate unchanged at 10.50% yesterday. On the data front, retail sales in Hungary disappointed in August (-7.1%y/y versus expected -5.7% from -7.6%). **Equities fell in across Latam on Tuesday** in Brazil (-1.4%), Chile (-1.2%), Colombia (-0.9%), and Mexico (-1.7%) as markets in AEs continue to drag stocks down across global markets. Currencies in the region fell as well for Brazil (-2.1%), Chile (-1%), Colombia (-1.8%), and Mexico (-2.2%).

Korea

Korean equities declined (-2.4%) and the Korean won depreciated (-1.0%) as trading resumed after holidays. Long-end government bond yields rose (30-year: +33 bp). The market decline largely reflected the catching-up effect. Manufacturing PMI improved but remained contractionary at 49.9 in September, from 48.9 in August. Meanwhile, industrial production increased 5.5% m/m in August.

Brazil

Industrial production in Brazil fell below expectations in August coming in at 0.4% m/m, somewhat below estimates surveyed by Bloomberg at 0.5%. Brazil's economy has proved resilient in the face of high inflation and high borrowing costs, although an abundant crop harvest, a hot jobs market, and manufacturing tax relief are creating tailwinds.



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Global Financial Indicators

10/4/23 8:17 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
United States		4235	-1.4	-1	-6	12	10
Europe		4114	0.4	0	-4	18	8
Japan		30527	-2.3	-6	-8	13	17
China		3690	-0.3	0	-3	-4	-5
Asia Ex Japan		62	-1.2	-1	-6	3	-3
Emerging Markets		37	-1.3	-1	-6	2	-2
Interest Rates				basis points			
US 10y Yield		4.74	-5.6	13	56	111	86
Germany 10y Yield		2.94	-3.1	9	36	107	37
Japan 10y Yield		0.81	4.2	7	17	59	39
UK 10y Yield		4.59	-1.2	23	12	71	91
Credit Spreads				basis points			
US Investment Grade		155	0.2	8	9	-28	-3
US High Yield		452	-0.1	22	41	-66	-28
Exchange Rates				%			
USD/Majors		106.79	-0.2	0	2	-3	3
EUR/USD		1.05	0.5	0	-3	5	-2
USD/JPY		148.9	-0.1	-1	2	3	14
EM/USD		46.4	0.4	-1	-3	-6	-7
Commodities				%			
Brent Crude Oil ($/barrel)		89.4	-1.6	-5	1	12	10
Industrials Metals (index)		140	0.0	0	-4	-7	-15
Agriculture (index)		64	0.0	-2	-4	-7	-7
Implied Volatility				%			
VIX Index (%, change in pp)		19.8	0.0	1.6	6.7	-9.3	-1.9
Global FX Volatility		8.5	0.0	0.3	0.5	-3.4	-2.2
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		148	-3.8	-6	13	-130	-58
Italy		197	0.1	3	26	-33	-17
Portugal		74	-0.8	-4	0	-31	-28
Spain		111	0.3	1	7	-6	1

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

Emerging Market Financial Indicators

Last updated: 10/4/2023 8:18 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		7.30	0.2	0.1	0	-1	-5		2.7	0.0	0	3	-14	-34
Indonesia		15634	-0.3	-0.7	-3	-2	0		7.1	8.4	23	73	-17	17
India		83	0.0	0.0	-1	-2	-1		7.8	2.1	11	24	29.4	38
Philippines		57	0.2	0.4	0	3	-2		5.8	0.0	-3	-10	6	-19
Thailand		37	0.3	-0.7	-5	1	-6		3.5	13.0	19	58	46	88
Malaysia		4.73	-0.1	-0.5	-2	-2	-7		4.1	7.0	11	25	-29	4
Argentina		350	0.0	0.0	0	-58	-49		113.3	-489.7	-325	-365	2826	2513
Brazil		5.13	0.8	-1.6	-4	1	3		12.2	2.2	15	90	69	-38
Chile		909	0.9	0.2	-6	2	-6		5.9	-1.0	5	51	-88	51
Colombia		4218	-1.8	-3.5	-4	8	15		9.5	0.0	14	132	-30	-24
Mexico		17.85	1.2	-1.0	-4	12	9		9.6	-1.0	-10	79	58	88
Peru		3.8	-0.6	-0.9	-3	4	0		7.4	0.1	2	59	-125	-53
Uruguay		39	-0.5	-1.5	-3	6	3		9.7	10.2	20	43	-172	-103
Hungary		368	1.3	1.7	-4	14	2		7.5	6.0	31	74	-222	-209
Poland		4.40	0.6	0.3	-6	10	-1		5.1	9.8	22	37	-154	-107
Romania		4.7	0.5	0.2	-3	5	-2		6.8	0.0	5	24	-174	-92
Russia		99.5	0.3	-2.5	-3	-40	-25							
South Africa		19.2	0.9	0.2	-1	-8	-11		10.2	6.6	25	74	85	101
Turkey		27.56	-0.2	-1.3	-3	-33	-32		26.4	-2.0	-91	394	1459	1661
US (DXY; 5y UST)		107	-0.2	0.1	2	-3	3		4.75	-4.8	7	46	90	75

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3690	0.0	0	-3	-4	-5		170	-14	-15	-32	-7
Indonesia		6887	-0.8	-1	-2	-3	1		123	-5	-1	-102	-17
India		65226	-0.4	-1	-1	12	7		140	2	-1	-60	-2
Philippines		6298	-0.1	-1	1	5	-4		99	-6	1	-70	2
Thailand		1451	0.3	-3	-6	-8	-13		0	0	0	0	0
Malaysia		1416	-0.3	-2	-3	0	-5		96	-1	-2	-19	-4
Argentina		561427	0.8	3	-11	287	178		2649	264	553	-73	444
Brazil		113419	-1.4	-1	-4	-2	3		224	-2	-5	-82	-50
Chile		5686	-1.2	-1	-5	8	8		130	6	9	-65	-2
Colombia		1102	-0.9	0	2	-8	-14		352	24	29	-101	-20
Mexico		50366	-1.7	-1	-5	9	4		377	7	18	-90	-4
Peru		22181	0.1	-2	-5	9	4		160	9	16	-65	-20
Hungary		55897	-0.1	0	0	40	28		198	11	6	-137	-24
Poland		64527	1.2	-1	-6	34	12		123	5	6	43	50
Romania		14222	-1.0	1	6	29	22		212	11	7	-178	-44
South Africa		70881	0.2	-2	-6	7	-3		401	12	22	-101	34
Turkey		8436	-0.9	3	4	144	53		399	17	8	-236	-41
Ukraine		507	0.0	0	0	-2	-2		3441	133	34	-446	-638
EM total		37	-0.1	-1	-6	2	-2		407	20	33	-61	32

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

back to top