Global Markets Monitor

WEDNESDAY, OCTOBER 5, 2022

- **Softer US job openings data reinforces hopes for less hawkish Fed** (link)
- **Lower TIPS yields prompt relief rally in US equities** (link)
- **Reserve Bank of New Zealand raise cash rate by 50 bps to 3.5%, as expected** (link)
- **ECB non-monetary meeting in Cyprus could give cues about QT** (link)
- **UK long-term gilt yields increase sharply as BoE scales down gilt purchases** (link)

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Markets in retreat as hopes for dovish pivot diminish

US futures are indicating a lower open and European equity markets opened in the red after a two-day risk-asset rally, fueled by hopes that central banks could ease the pace of monetary policy tightening. This morning, however, the rally sputtered with analysts cautioning that hopes are exaggerated amid limited signs of a moderation in inflation. Sovereign yields increased and the dollar resumed its strengthening trend. On the commodity front, oil prices were little changed this morning after a 2-day rally ahead of the OPEC+ meeting, with the group reportedly set to discuss cutting output by up to 2 mn barrels per day. Elsewhere, the Reserve Bank of New Zealand hiked their policy rate by 50bps, as expected. In EMEA the National Bank of Poland is expected to hike by 25bps later today.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close					Since
10/5/22 12:12 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	
S&P 500		3791	3.1	4	-3	-13	-20	-10
Eurostoxx 50		3455	-0.9	4	-1	-15	-20	-13
Nikkei 225		27121	0.5	4	-2	-3	-6	3
MSCI EM		37	3.3	3	-6	-27	-25	-23
Yields and Spreads					bps			
US 10y Yield		3.68	5.0	-5	49	216	217	169
Germany 10y Yield		1.92	5.1	-20	36	211	210	169
EMBIG Sovereign Spread		543	-24	8	32	181	176	130
FX / Commodities / Volatility					%			
EM FX vs. USD, (+) = appreciation		49.2	-0.3	1	-2	-11	-6	-7
Dollar index, (+) = $ appreciation		110.8	0.7	-2	1	18	16	15
Brent Crude Oil ($/barrel)		92.4	0.6	3	-3	12	19	-5
VIX Index (%, change in pp)		29.4	0.3	-1	4	8	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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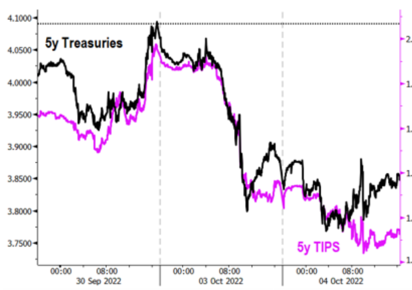
United States

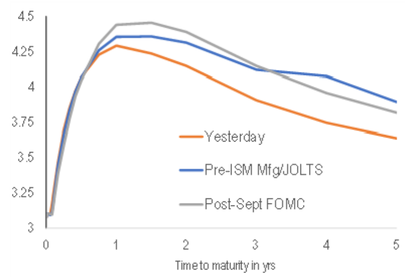
Lower job openings confirm belief that the Fed is becoming more cautious about tightening. The JOLTS labor market data release yesterday came in materially below consensus expectations at 10053k (vs. 11088k exp), which reflects a 14-month low. The quits rate fell to 2.7%, still above the pre-Covid trend, but below the 3% highs last year. This follows the disappointing release of the September ISM Manufacturing PMI earlier this week. In reaction to these two consecutive weaker releases in economic activity, the *bad news bulls* have woken up, with some contacts seeing the disappointing releases are as a sign the Federal Reserve will practice caution around tightening and not act too aggressively. Accordingly, Treasuries have rallied, for example in yields at the 5y maturity point, which declined markedly by 24 bps from 4.09% observed last Friday. Notably, while 5y Treasuries lingered at a level of 3.85% yesterday, 5y TIPS continued the rally, declining by 10bps to 1.56% (left chart). OIS forwards based on the SOFR curve illustrate that **the disappointing releases have coincided with a moderating pricing of the Fed Funds terminal interest rate,** which fell from 4.5% after the September FOMC meeting to 4.4% last Friday and to 4.3% as of yesterday (right chart).

5y Treasuries and TIPS from last Friday until yesterday, intraday



Source: IMF staff calculations, Bloomberg

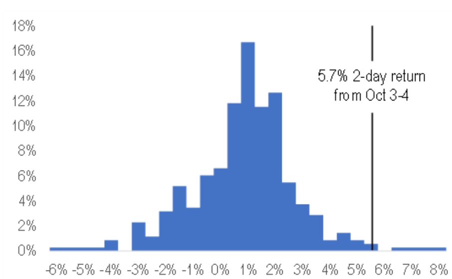
Instantaneous forwards for select days, based on OIS



Source: IMF staff calculations, Bloomberg

Lower real yields sparked a broad relief rally in equities, with returns last seen in early 2020. Yesterday, the S&P500 extended its rally from Monday posting a +5.7% two day return and closing 1 index point above the close after the September FOMC meeting on September 21st. Looking at data since January 2020, a two-day return of such magnitude reflects a 2.7 standard deviation move, and has been only surpassed by positive returns seen in early 2020 before the outbreak of the Covid-19 Pandemic (left chart). **In addition to the belief that the Fed could be becoming more cautious about tightening, market contacts also identify short covering as an important factor in this exceptionally strong return**. Accordingly, those high beta stocks in particular that were previously shorted by hedge funds posted outsized gains in the recovery rally, in many cases outpacing returns from the broader market (right chart).

Histogram of 2-day S&P 500 returns since January 1, 2020



Source: IMF staff calculations, Bloomberg

Note: x-Axes capped at -6%, omitting the -14% return outlier from March 10-12, 2020

2-day return of selected US equity indices/ETFs

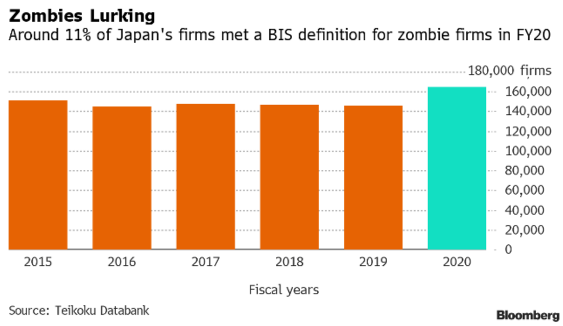
Name	2-Day Return
De-Spac Index	30.5%
Most Short Rolling	16.2%
GS Liquid IPO Basket	8.7%
GS HY Debt Sensitivity	7.6%
High Beta Momentum Short	7.0%
Retail net bought 2019	6.6%
GS Bitcoin Sensitive Eq	6.2%
GS Liquid Most Short	3.9%
ARK INNOVATION ETF	3.1%

Source: IMF staff calculations

Japan

JGB yields rose (10-year: +3.0bps; 30-year: +2.3 bps), with the 10-year JGB yield reaching 0.246%. The Bank of Japan (BOJ) conducted fixed-rate bond purchases in an amount of 24.1 bn yen ($0.2 bn) today. Japanese yen depreciated (-0.1%), with analysts expecting that near-term dynamics of Japanese yen will be driven by market expectations on the Fed's rate hikes. Japanese equities gained (NIKKEI: +0.5%).

Japan's ruling party is mulling new support for heavily indebted firms. As the COIVD-era support will come to an end, the new measure aims to provide support to firms at risk of default and could be included as part of the upcoming government's economic package. Based on reported news, the measure will likely target core local businesses and transportation providers that still suffer from the impact of the pandemic.



New Zealand

The Reserve Bank of New Zealand (RBNZ) raised the cash rate by 50 bps to 3.5% as expected. The RBNZ indicated that it remains appropriate to continue tightening monetary conditions at pace, and projects that the interest rate will peak at 4.0% before falling in 2024Q4. Markets, however, are currently pricing in a terminal rate well above 4.5%. **Market participants generally saw the RBNZ's decision as hawkish**; the RBNZ also acknowledged that it considered raising the policy rate by 75 bps. The New Zealand dollar appreciated right after the decision, but retraced some gains later in the session. Government bond yields declined (1-year: -2.1 bps; 10-year: -15.9 bps). Equities gained (+0.8%), in line with regional trends.

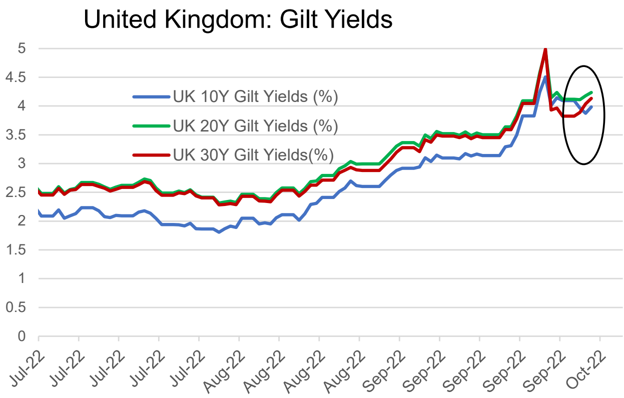
Euro area

After a sharp rally over the last two days, European markets are back in risk-off mode this morning as markets become more skeptical about a possible Fed *pivot* towards a more dovish stance. All main equity markets are down, with the Stoxx Europe 600 losing 1%. The euro depreciated (-0.6% to 0.99 euro/$) and sovereign bond yields increased—with 10y bunds yields up 8 bps to 1.95%. Italian spreads widened by 8 bps to 239 bps, as media reports indicate that Fabio Panetta, currently a member of the ECB's executive Board, will not become Italy's next finance minister.

While ECB officials reiterated their determination to fight inflation yesterday, market participants will be looking for cues on quantitative tightening (QT) at today's ECB's governing council non-monetary policy meeting in Cyprus. Yesterday, ECB President Lagarde said inflation was undesirably high, but that it was difficult to say whether it had peaked. She further emphasized that she wants to bring inflation to target, as *if you let inflation run loose, to bring it back you have to fight really hard. And it hurts. In NRC Dutch newspaper, Bank of France Governor Francois Villeroy de Galhau said that the ECB should continue raising interest rates by large increments at its meetings in October and December before reassessing and possibly shifting to a slower pace, and comprehensively assess the inflation and economic outlook*. Some analyst reports suggest that today's ECB meeting may be used by the Governing Council for initial discussions on QT, while BNP analysts believe that even if discussions are beginning to take place, outright QT remains unlikely for the time being.

United Kingdom

Yields on 30y gilts are up 9 bps today, bringing the total increase to 25 bps in two days (to 4.13%) after the BoE announced yesterday that it did not buy any bonds through its temporary bond-buying program. The BoE rejected £2.2 billion of tenders for gilt purchases yesterday, after accepting only £22m of bonds on Monday versus a daily intervention maximum of £5b. **Market contacts interpret this as a sign that the BoE is emphasizing that the program is about restoring liquidity in the long-dated gilt market, and not about conducting another bout of QE**. The pound was trading weaker (-1.3%) against the dollar this morning.



Source: Bloomberg and IMF

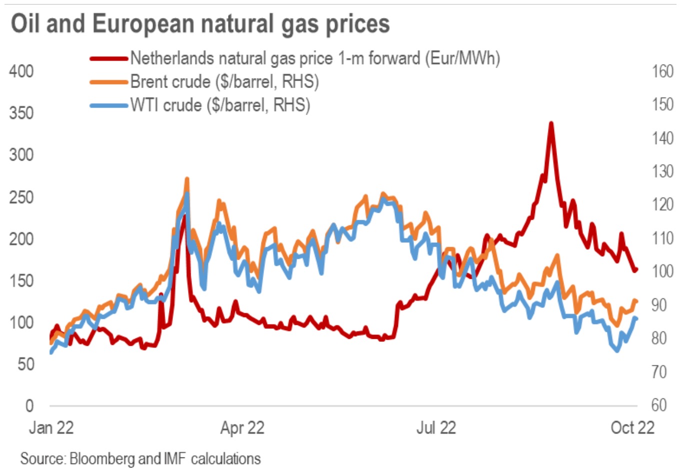
UK Markets are also focused on PM Liz Truss' speech at the Conservative Party conference today for further details about the government's economic strategy. Markets are looking for clarification about expenditure restraint given the debate about possible welfare payment cuts within the conservative party. **There was further confusion about the government's strategy yesterday after Chancellor Kwarteng denied media reports (the FT) that he would bring forward the presentation of its medium term fiscal plan and OBR (office for Budget Responsibility) forecasts to this month.** The Chancellor said that he would stick to the original plan and present it on November 23. Rumors of an earlier presentation had been well received earlier in the day, in particular because it would have taken place before the BOE's interest rate decision on November 3.

Energy Markets

Oil prices are little changed today ($91.5/barrel), but up about 4% since the start of the week, ahead OPEC's meeting today in Vienna. Media reports indicate that OPEC may cut output by up to 2 million barrels a day in an attempt to stabilize the market. Oil prices have decreased about 30% since June. While this would be the biggest production cut since 2020, analysts point that the actual impact on global supply would be smaller because several countries are already falling short of their quotas.

The European Union backed a new package of sanctions (8th sanctions package) against Russia. The sanctions, which are due to come into force Thursday, would prohibit maritime transport of Russian oil to third countries above an oil price cap. In June, the EU had agreed to a full ban on insurance and financial services for seaborne oil, while shipping was spared from the restrictions.

European gas prices are down 3.4% as Gazprom confirmed that the flow of natural gas to Italy, which had been stopped on Saturday, has resumed.



Emerging Markets

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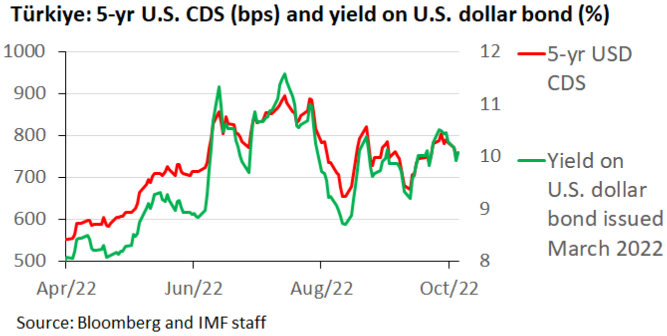
Latam stocks rose, and currencies appreciated across the region Tuesday. Equities in Colombia (+3.5%), Chile (+2.1%), Mexico (+1.4%), and Brazil (+0.08%) increased with yields declining across markets. The Colombian peso (+0.7%) outperformed, while the Argentine peso (-0.2%) depreciated. **Asian markets advanced on the back of improving risk sentiment on the prospect of less hawkish policy tightening by global central banks. Asian equities gained, up 4.2% on net, led by Hong Kong equities (+5.9%).** While China's markets were still closed today, Hong Kong SAR-listed Chinese stock prices rose (+6.3%), catching up other markets' yesterday gains. Most Asian currencies appreciated, led by Korean won (+1.1%), Taiwan dollar (+0.6%), and Thai baht (+0.5%). **In Korea, headline CPI inflation moderated to 5.6% y/y in September** from 5.7% in August (consensus: +5.7%), with core CPI inflation at 4.5% y/y. **In Thailand, headline CPI inflation decelerated to 6.4% y/y** in September from 7.9% in August (consensus: +6.6%), with core CPI inflation at 3.1%; 10-year government bond yield dropped (-13.4 bps). **In the Philippines, CPI inflation rose to 6.9% in September** from 6.3% in August (consensus: +6.9%). **In Singapore, PMI improved to 57.5 in September** from 56.0 in August; though, retails sales contracted 1.3% m/m in August; equities gained (+0.5%). **Markets in EMEA traded with a cautious tone after the rally of the past days, with equities generally weaker.** The South African rand (-0.8%) underperformed as PMI data fell to 49.2 in September versus 51.7 in August. The Czech koruna is little changed today after the government upgraded its deficit target to 4.4% of GDP in 2022 (from 3.8% of GDP) and 3.5% of GDP in 2023 as it takes measures against the energy crisis. **The National Bank of Poland is expected to hike rates by 25 bps to 7% later today after CPI rose to 17.2% y/y in September**.

Türkiye

Türkiye reportedly plans to return to global bond markets with a sukuk sale, for the first time since the issuance of $2 bn of 5-yr Eurobonds in March this year. According to Bloomberg, Türkiye has mandated Citi, Dubai Islamic Bank, Emirates NBD Capital, and HSBC to manage the sale of the 3-yr Islamic debt. Last week, S&P lowered Türkiye's sovereign rating to B from B+ (stable outlook), warning that policymakers are prioritizing growth over financial and monetary stability ahead of 2023 parliamentary and presidential elections. **US dollar yields and CDS spreads have edged lower recently, but remain elevated compared to earlier in 2022.**



Colombia

The Colombian peso rallied amid OPEC+ expectations to cut oil supply later this week. Since last Friday's close, WTI crude oil has increased by roughly 9% and the Colombian peso has outperformed regional peers, strengthening by +2.5%**.** Oil prices have declined over the past few months amid looming global recession fears, with WTI last week reaching its lowest level since the start of the year. According to Bloomberg analysts, a price of $90 per barrel could help Colombia's current account deficit, highlighting the relevance of the oil supply cut for the country. Colombian oil exports are up 11.73% YTD.

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Global Financial Indicators

10/5/22 12:13 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities					%		%	%
United States		3791	3.1	4	-3	-13	-20	-10
Europe		3455	-0.8	4	-1	-15	-20	-13
Japan		27121	0.5	4	-2	-3	-6	3
China		3805	-0.6	-1	-5	-22	-23	-18
Asia Ex Japan		61	3.4	2	-7	-27	-26	-23
Emerging Markets		37	3.3	3	-6	-27	-25	-23
Interest Rates					basis points			
US 10y Yield		3.68	4.8	-5	49	216	217	169
Germany 10y Yield		1.92	5.0	-20	36	211	210	169
Japan 10y Yield		0.25	3.0	1	2	19	18	6
UK 10y Yield		3.96	8.4	-5	102	288	299	248
Credit Spreads					basis points			
US Investment Grade		183	-1.9	-5	16	94	71	40
US High Yield		518	-27.5	-15	9	191	180	111
Europe IG		126	2.3	-9	6	75	78	54
Europe HY		599	10.4	-51	13	341	358	248
Exchange Rates					%			
USD/Majors		110.82	0.7	-2	1	18	16	15
EUR/USD		0.99	-0.6	2	0	-14	-13	-12
USD/JPY		144.4	0.2	0	3	30	25	26
EM/USD		49.2	-0.3	1	-2	-11	-6	-7
Commodities					%			
Brent Crude Oil ($/barrel)		92	0.6	5	-2	23	26	7
Industrials Metals (index)		149	-0.6	5	2	-9	-14	-21
Agriculture (index)		68	-0.5	0	0	19	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		29.4	0.3	-0.8	3.9	8.1	12.2	-1.7
US 10y Swaption Volatility		154.0	0.0	-7.8	29.3	77.0	75.0	59.7
Global FX Volatility		12.0	0.0	-1.3	0.8	5.1	4.5	4.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		279	1.5	5	5	172	127	39
Italy		237	6.4	-4	-1	132	102	66
Portugal		107	2.1	0	-3	52	43	15
Spain		118	1.8	0	-3	53	44	14

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

Emerging Market Financial Indicators

Last updated: 10/5/2022 12:15 PM	Exchange Rates: Level, Last 12m	Level, Latest (vs. USD)	Change (in %), 1 Day ((+) = EM appreciation)	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Local Currency Bond Yields (GBI EM): Level, Last 12m	Level, Latest (% p.a.)	Change (in basis points), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22
China		7.12	0.1	0.2	-3	-9	-11	-11		2.9	-0.5	8	14	-14	2	0
Indonesia		15193	0.3	0.5	-2	-6	-6	-6		7.2	-6.6	-21	5	101	82	71
India		82	0.4	0.1	-2	-9	-9	-9		7.5	0.1	-14	2	106.1	123	
Philippines		59	0.0	0.6	-3	-14	-13	-13		5.8	0.0	0	40	163	128	78
Thailand		37	0.4	2.6	-2	-10	-11	-14		3.1	4.0	-21	32	132	125	87
Malaysia		4.63	0.3	0.0	-3	-10	-10	-10		4.3	-3.9	-13	31	89	74	66
Argentina		149	-0.2	-1.4	-6	-33	-31	-28		85.6	51.3	167	769	3580	3502	3763
Brazil		5.18	-0.2	3.9	0	5	8	-3		11.5	-7.0	-35	-25	38	82	-1
Chile		932	0.7	6.0	-5	-13	-9	-15		6.7	0.0	-21	14	90	130	81
Colombia		4499	0.7	1.4	-1	-16	-9	-13		9.8	0.0	-2	29	318	342	196
Mexico		20.03	-0.3	0.5	0	3	2	1		9.0	-1.0	-39	32	147	151	119
Peru		3.9	0.3	0.0	-2	5	1	-5		8.7	-2.9	18	53	240	278	268
Uruguay		41	0.4	0.8	-1	5	9	3		11.3	-10.4	-20	16	338	255	312
Hungary		427	-1.8	-0.9	-5	-28	-24	-25		9.9	12.0	14	23	634	534	504
Poland		4.85	-0.6	1.9	-2	-18	-17	-16		6.6	0.8	-15	45	428	310	273
Romania		5.0	-0.6	2.0	-2	-14	-13	-12		8.4	-13.5	0	58	438	355	322
Russia		59.4	0.1	-1.7	3	22	26	37		8.9	-30.8	-21	64	91	12	-229
South Africa		17.8	-0.8	0.5	-3	-16	-10	-15		9.4	6.5	-24	42	168	197	181
Turkey		18.58	0.0	-0.4	-2	-52	-28	-26		11.9	0.0	9	-99	-673	-1247	-1057
US (DXY; 5y UST)		111	0.7	-1.6	1	18	16	15		3.90	4.7	-5	61	293	264	200

	Equity Markets: Level, Last 12m	Level, Latest	Change (in %), 1 Day	7 Days	30 Days	12 M	YTD	Since 23-Feb-22	Bond Spreads on USD Debt (EMBIG): Level, Last 12m	Level, Latest (basis points)	Change (in basis points), 7 Days	30 Days	12 M	YTD	Since 23-Feb-22
China		3805	0.0	-1	-5	-22	-23	-18		203	19	-4	-8	0	-5
Indonesia		7075	0.0	0	-2	10	8	2		211	26	23	30	46	26
India		58065	0.0	2	-2	-3	0	1		196	25	34	50	64	42
Philippines		5989	0.0	2	-11	-15	-16	-19		164	20	22	44	63	27
Thailand		1580	0.1	-1	-3	-2	-5	-7		0	0	0	0	0	0
Malaysia		1421	0.8	1	-5	-9	-9	-10		110	9	13	-21	-7	-23
Argentina		144927	-0.1	7	5	85	74	59		2717	14	283	1122	1037	980
Brazil		116230	0.1	7	4	5	11	4		294	-20	-14	-16	-17	-37
Chile		5249	0.0	3	-9	24	22	20		179	-6	-10	20	39	5
Colombia		1197	3.5	6	-3	-13	-15	-21		423	-39	-6	120	75	31
Mexico		46047	1.4	2	0	-10	-14	-10		442	-27	19	85	110	72
Peru		20268	2.0	8	7	10	-4	-13		208	-15	11	27	58	18
Hungary		39473	-1.1	5	-4	-26	-22	-17		301	19	38	183	177	148
Poland		47850	-0.5	1	-3	-33	-31	-24		67	22	33	39	35	51
Romania		11096	0.9	4	-7	-12	-15	-16		339	-1	39	128	146	107
Russia		2014	-1.6	3	-19	-52	-47	-35		3411	-577	938	3228	3234	2897
South Africa		65837	-0.7	3	-2	2	-11	-12		468	2	28	97	113	79
Turkey		3479	0.6	9	4	150	87	73		608	-1	-41	105	30	45
Ukraine		519	0.0	0	0	-1	-1	0		3868	163	38	3332	3109	2395
EM total		37	-0.7	3	-6	-27	-25	-23		448	-13	6	68	61	-10

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

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