



- US CPI worse than expected ([link](#))
- Synchronous tightening by central banks could slow global economy ([link](#))
- Markets turn bearish on US interest rates ahead of heavy new supply and QT ([link](#))
- Improving US consumer sentiment may boost risk assets ([link](#))
- German business confidence remains weak ([link](#))
- African Eurobonds rally after weeks of pressure ([link](#))

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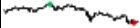


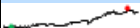






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Cautious optimism prevails in global markets

Stocks posted a fourth consecutive day of gains as the dollar weakened and global interest rates were generally lower. Markets are grappling with the question of whether hawkish Fed rhetoric will translate into a 75 bps rate hike next week, and how this morning's worse than expected CPI data will play into the calculations of the members of the FOMC. Investors are also trying to analyze the most recent developments in the Ukraine war, while worrying about the Fosun Group in China, the latest Chinese conglomerate whose creditworthiness has been called into question. The German ZEW business confidence survey was weaker than expected as pessimism about euro area economic prospects continues to grow. Meanwhile, Eurobonds issued by African countries rallied after weeks of pressure.

Key Global Financial Indicators

Last updated: 9/13/22 8:05 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4110	1.1	5	-4	-8	-14
Eurostoxx 50		3671	0.7	5	-3	-12	-15
Nikkei 225		28615	0.3	4	0	-7	-1
MSCI EM		40	1.5	2	-4	-25	-19
Yields and Spreads			bps				
US 10y Yield		3.31	-5.2	-4	47	198	180
Germany 10y Yield		1.66	0.6	2	67	199	184
EMBIG Sovereign Spread		479	-11	-31	1	141	112
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		50.5	0.2	2	-1	-11	-4
Dollar index, (+) = \$ appreciation		107.8	-0.5	-2	2	16	13
Brent Crude Oil (\$/barrel)		95.3	1.4	3	-3	30	22
VIX Index (% change in pp)		23.7	-0.2	-3	4	4	6

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

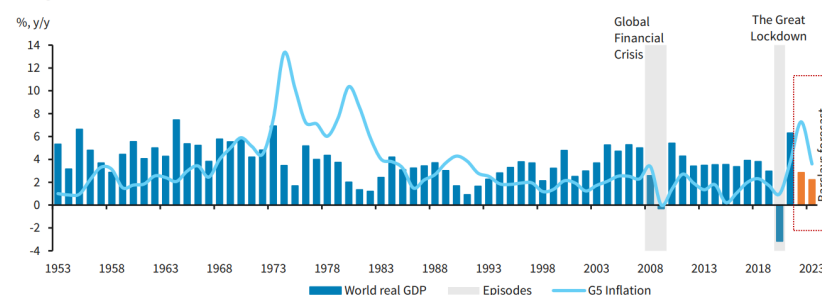
Mature Markets

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Global Central Banks

Synchronous action by the world's largest central banks could cause a global economic slowdown in 2023. Markets are pricing terminal rates for the Fed at 4% next year, while the ECB is expected to hike to 2.25% and the BOE is expected to reach 4.25%. These levels are much higher than the current levels of 2.25%, 1.25% and 1.75%. Barclays expects the result to be a global slowdown. Their analysts expected a recovery in China to partially offset the slowdown in developed markets, but this is looking less likely as China's economic struggles continue. In addition, the deceleration in Europe is turning out to be worse than expected. For advanced economies, the Goldilocks period after the global financial crisis when their central banks flooded the system with liquidity has come to an end. A new era of policy tradeoffs has begun.

FIGURE 3. Global growth in 2023 could be among the lowest annual rates in the post-war period, as high inflation introduces policy trade-offs, ending the Goldilocks environment



Note: G5 includes US, UK, Germany, France and Japan
Source: Maddison Project database (2018), Macroeconomic database, Barclays Research

United States

This morning's CPI data was worse than expected, with both headline and core CPI coming in above consensus forecasts. The market response was immediate, with Treasuries abruptly reversing earlier gains and the dollar remaining weak. Equity index futures fell sharply.

US August CPI Data

Source: Bloomberg

	Consensus Forecast	Actual Data
CPI month on month	-0.1%	+0.1%
Core CPI mom	+0.3%	+0.6%
Annualized CPI	8.1%	9.3%
Core yoy CPI	6.1%	6.3%

Stronger than expected economic data are a factor behind the recent surge in US treasury yields.

The 10-year yield is up 45 bps over the past month, while the two-year yield is up 28 bps. Although the move has halted over the past two days, many investors expect Treasury yields to move up further, which accounts for the extensive short positioning in Treasury futures. The interest rate derivatives market now predicts that the terminal Fed Funds rate will reach 4% early next year. Another factor that could push rates higher is the expectation that September will see the heaviest issuance of new bonds since March for Treasuries as well as corporate and municipal bonds. Investors are also keeping a wary eye on the Fed's Quantitative Tightening (QT), which is set to double in size this month to \$95 bn per month, of which \$60 bn will be Treasuries and \$35 bn will be mortgage-backed securities (MBS). Analysts think the prepayments on the Fed's MBS portfolio will be very slow, raising the probability of outright MBS sales, which could also put pressure on the markets. Most were hoping that the majority of QT could be accomplished by not reinvesting coupon payments and allowing bonds to mature rather than by outright sales.

Exhibit 3: Markets are pricing in more tightening than our modal forecast, but we do not think this is a reason to fade the latest move in yields

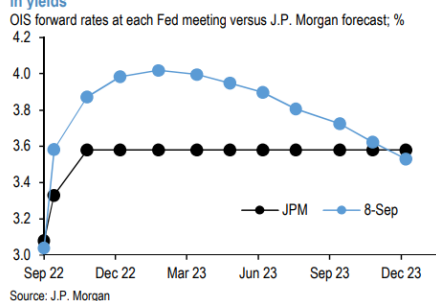
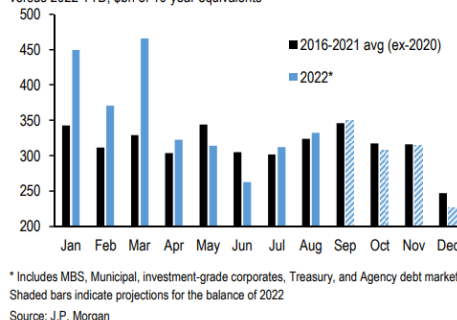


Exhibit 4: September is likely to be the heaviest month of duration supply to markets since March
Gross duration supply* averaged by month, 2016-2021 average (excluding 2020) versus 2022 YTD; \$bn of 10-year equivalents



In contrast, consumer confidence measures in the US are improving, leading some analysts to hope for a boost to risk assets. They view recent developments as positive for equities and credit spreads, as the preoccupation with inflation and recession gradually abate. They point to falling daily story counts on the internet, Bloomberg and other platforms for “inflation” and “recessions” as proof of this more positive trend.

Exhibit 3: Daily story count for the topic “inflation” from Bloomberg, social media, and news sources

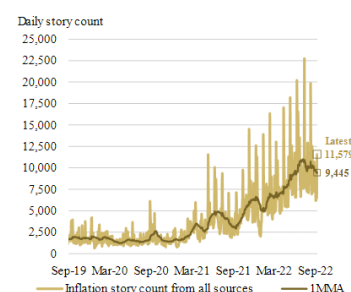
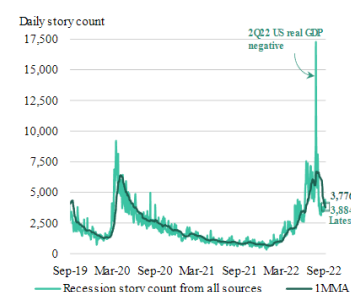
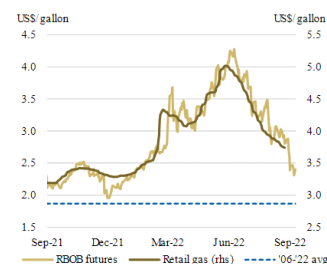


Exhibit 4: Daily story count for the topic “recession” from Bloomberg, social media, and news sources



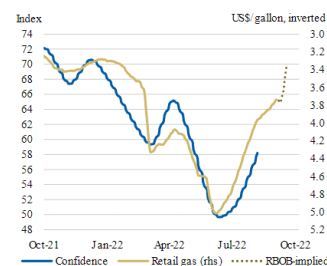
The negative sentiment which peaked earlier this year was driven by higher gasoline prices and the news that the economy had two consecutive quarters of negative growth in Q1 and Q2 of 2022. However, prices for gasoline futures (RBOB) have started to fall back and this has led to lower prices at the pump. The decline coincided with the later parts of the annual summer heavy driving season. Morgan Stanley thinks RBOB price moves will lead to average US gasoline prices falling back to \$3/gallon on average in the near future.

Exhibit 5: RBOB gasoline front futures and daily US national average gasoline prices*



* RBOB futures lead retail unleaded gas prices by ~2 weeks

Exhibit 6: Daily US national average gasoline prices, RBOB-implied prices, U of Michigan consumer sentiment*

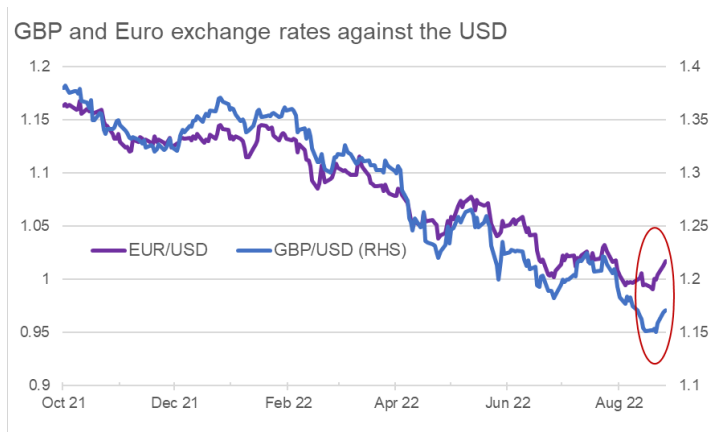


* RBOB futures lead retail unleaded gas prices by ~2 weeks, retail unleaded gas prices lead confidence by ~4 weeks

Euro Area

European equities were trading higher ahead of the US CPI release with the Stoxx 600 Europe index up +0.2%. Performances across sectors were mixed, with the utilities sector (+0.9%) outperforming. Sovereign yields were little changed while southern spreads narrowed. On the data front, investor confidence in Germany continued to deteriorate while Germany's final August CPI was in line with preliminary estimates (+7.9%yoy). Spain's final August CPI was marginally higher (+10.5% vs previously estimated 10.3%).

The euro appreciated (+0.4%) with analysts pointing to geopolitical optimism and lower gas prices as the US dollar continued to weaken ahead of the US CPI release later today. ING analysts expect the dollar to stabilize or even recover later this week, arguing that it is too early to identify recent dollar weakness as a structural downtrend. European natural gas retraced early-morning decline with Dutch one month ahead prices trading at around €190/MWh, roughly 170% higher than at the start of the year.



Investors continue to become more pessimistic over Germany's economic outlook, with the September German ZEW institute's index of expectations and the gauge of current conditions deteriorating by more than expected. The expectations index fell to -61.9 (vs expected -59.5 from -55.3) and the current conditions index fell to -60.5 (vs expected -52.1 from -47.6). The deterioration in expectations reflects energy shortage concerns, according to ZEW commentary.

United Kingdom

The pound appreciated (+0.3% against the dollar) after UK labor market data were seen to provide further support for BoE tightening next week. UK's unemployment rate decreased to the lowest level since 1974 (3.6% in the three months to July from 3.8% earlier) primarily driven by a higher number of people classified as inactive. Wage growth surprised on the upside and continued to accelerate (5.5% in the three months to July). Some contacts note that the labor market data increases the likelihood of a 75 bps BoE hike next week, but several analysts still see a 50 bps hike as their baseline as the fiscal package announced last week is expected to lower inflation in the short-term, thus reducing the need for more aggressive monetary policy tightening. Markets are pricing in roughly +68 bps of tightening for next week's BoE meeting (compared to 66 bps priced in yesterday).

Emerging Markets

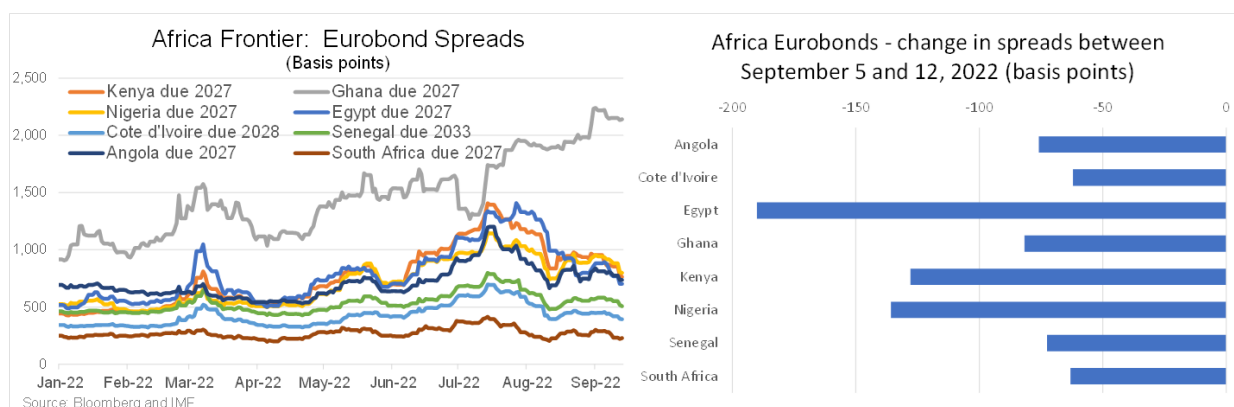
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EMEA stocks added to yesterday's gains. Czech stocks stood out with a 1.7% rally. African Eurobonds have seen a very significant rally over the past week, with spreads compressing markedly. Asian equities were up 0.7% on net. South Korea rallied +2.7% after a holiday break, Indonesia firmed +0.9%, but

Malaysia slipped -0.8%. In **Latin America**, risk assets gained across the region amidst the global rally and higher commodity prices. The Chilean peso and Brazilian real were the best performing EM currencies, gaining over 1% against the dollar.

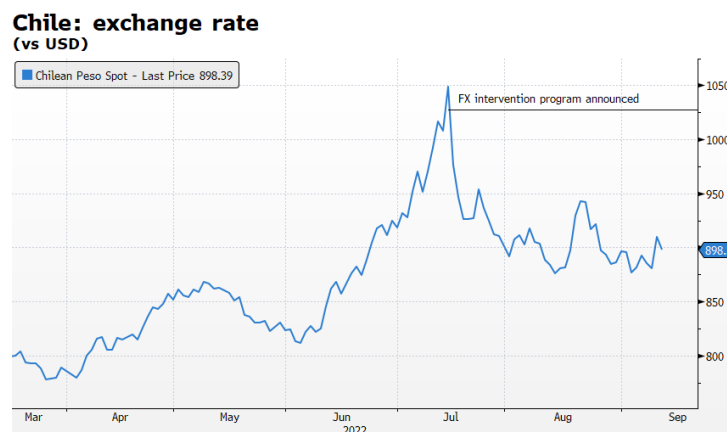
African Eurobonds

The global rally has spilled over to Eurobonds issued by African countries, which had been under severe pressure earlier in the year. Spreads on Egyptian Eurobonds maturing in 2027 have compressed by 190 bps over the last week, and Kenyan Eurobond spreads have fallen by 128 bps, just as William Ruto was inaugurated as President today, after winning the presidential election on August 9. Kenyan spreads are now 640 bps below their mid-July peak. However, investors remain concerned about Ghana, and while spreads have narrowed as well over the last week, they remain much higher than its peers and are significantly higher than in mid-July.



Chile

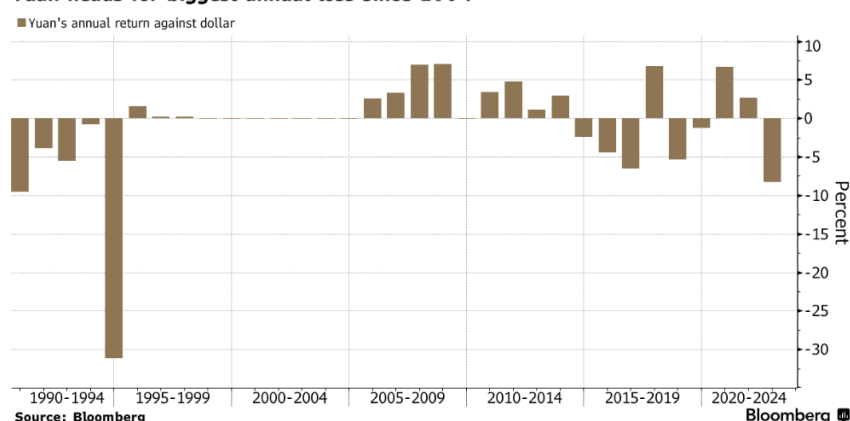
The **Chilean peso remains highly volatile after central bank significantly scaled back FX intervention**. The central bank announced that the FX intervention program has achieved its goals. Accordingly, for this week the central bank will scale down the size of its weekly spot sales to \$50 mn/day vs \$125 mn/day in previous weeks and will not write new forward contracts. Since July 18, the central bank sold \$5.5 bn in spot sales and wrote forward contracts with a current outstanding value of \$9.9 bn. The peso has appreciated by 16% against the dollar since the start of the FX intervention, though the currency remains highly volatile amidst heightened political uncertainty and intense price pressures.



China

Chinese equities were up (CSI 300: +0.4%), while property developer stocks lost -1.3%. **Chinese banks and state-owned firms were reportedly asked to closely examine their exposures to Fosun Group,** one of China's largest non-state conglomerates. While some of the Bloomberg interlocutors said such checks are requested regularly by the regulators, dollar bonds guaranteed by Fosun International Ltd., the group's flagship, dropped as much as 9%, Bloomberg estimated, on pace for their biggest declines since June. Its shares closed down 4.1% in Hong Kong, remaining near their lowest level since 2013. Separately, **China Premier Li pledged more support to boost demand.** Li said that China's economic recovery is facing a "slight fluctuation" and that the country should adopt measures to stabilize growth, employment, and prices. **10-year yields and the renminbi were little changed.** Meanwhile, smaller firms are reportedly facing high FX hedging costs amid increased yuan volatility.

Yuan heads for biggest annual loss since 1994



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Global Financial Indicators

9/13/22 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4110	1.1	5	-4	-8	-14
Europe		3671	0.7	5	-3	-12	-15
Japan		28615	0.3	4	0	-7	-1
China		4111	0.4	2	-2	-16	-17
Asia Ex Japan		67	1.2	2	-3	-25	-19
Emerging Markets		40	1.5	2	-4	-25	-19
Interest Rates			basis points				
US 10y Yield		3.30	-5.4	-5	47	198	179
Germany 10y Yield		1.66	0.3	2	67	199	183
Japan 10y Yield		0.25	-0.5	0	6	20	17
UK 10y Yield		3.07	-1.1	-3	96	233	210
Credit Spreads			basis points				
US Investment Grade		163	-1.4	-4	7	74	51
US High Yield		460	-8.8	-48	11	144	123
Europe IG		102	-2.7	-15	10	58	55
Europe HY		501	-12.4	-73	35	274	259
Exchange Rates			%				
USD/Majors		107.77	-0.5	-2	2	16	13
EUR/USD		1.02	0.6	3	0	-14	-10
USD/JPY		142.0	-0.6	-1	7	29	23
EM/USD		50.5	0.2	2	-1	-11	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		95	1.4	3	-2	40	29
Industrials Metals (index)		159	2.0	7	-1	-5	-8
Agriculture (index)		71	0.6	5	3	28	17
Implied Volatility			%				
VIX Index (%, change in pp)		23.7	-0.2	-3.2	4.2	4.3	6.5
US 10y Swaption Volatility		127.9	-1.6	-9.0	20.1	62.5	48.8
Global FX Volatility		10.9	0.0	-0.4	1.1	4.4	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		253	-0.7	-7	28	142	102
Italy		224	-7.5	-13	15	122	89
Portugal		102	-2.2	-5	2	47	38
Spain		112	-2.5	-6	1	46	38

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

Emerging Market Financial Indicators

Last updated: 9/13/2022 8:19 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	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		6.93	0.0	0.4	-2	-7	-8		2.7	0.5	4	2	-29	-11
Indonesia		14852	-0.1	0.2	-1	-4	-4		7.1	-2.5	-5	13	96	73
India		79	0.5	0.9	0	-7	-6		7.5	3.3	-1	13	105.1	119
Philippines		57	0.1	0.4	-2	-12	-10		5.7	2.5	13	33	185	118
Thailand		36	0.2	1.2	-2	-9	-8		2.7	-5.5	-17	40	110	86
Malaysia		4.51	-0.1	-0.2	-1	-8	-8		4.0	-0.3	3	8	79	45
Argentina		142	-0.6	-1.5	-5	-31	-28		79.5	102.5	136	827	3169	2892
Brazil		5.08	0.2	3.3	0	3	10		10.6	-102.0	-127	-123	-45	-14
Chile		894	0.5	-0.1	-1	-12	-5		6.6	-0.8	-11	5	159	115
Colombia		4359	-0.1	2.7	-4	-12	-7		9.7	0.0	-13	89	350	328
Mexico		19.82	0.1	1.6	0	0	4		8.6	0.0	-20	52	156	111
Peru		3.9	0.7	0.7	0	6	4		8.1	0.3	-10	26	166	218
Uruguay		41	0.2	0.2	-1	5	10		11.3	0.0	23	46	341	261
Hungary		390	0.8	4.5	1	-24	-17		9.4	-5.0	-17	127	641	488
Poland		4.63	0.2	3.2	0	-17	-13		5.8	-1.0	-49	61	376	221
Romania		4.8	0.3	1.1	-1	-13	-10		8.0	-9.8	16	44	435	313
Russia		60.2	0.6	1.8	2	21	25		8.3	3.3	-30	1	92	-52
South Africa		17.0	0.6	1.6	-3	-17	-6		8.9	-4.0	-20	41	163	147
Turkey		18.25	-0.1	-0.1	-2	-54	-27		11.4	2.0	-36	-532	-581	-1292
US (DXY; 5y UST)		108	-0.5	-2.2	2	16	13		3.39	-5.9	-6	43	259	213

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