



- US PPI data keep focus on inflation risks ([link](#))
- Treasury yields in US rise on negative inflation surprise ([link](#))
- Analysts predict another 75 bps ECB rate hike in October ([link](#))
- UK gilt yields at highest since 2011 ([link](#))
- Japan moves closer to FX intervention ([link](#))
- Corporate bond market in US remains strong despite higher rates ([link](#))

[Mature Markets](#)







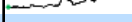



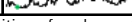
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Markets in retreat as US inflation surprise triggers global selloff

Yesterday's CPI shock triggered the largest US one-day equity collapse since June 2020, spilling over to risk assets around the world. Interest rates are up and volatility is elevated while equities and corporate bonds are under pressure across the board. With a 75 basis point Fed rate hike for September 21 baked in the cake, some investors are speculating that a 100 basis point move could be possible. Multiple analysts are predicting another 75 bps rate hike at the October 27 ECB meeting. Markets are also marking up their estimates for the terminal rates of all the major central banks. Authorities in Japan appeared to move closer to FX intervention. Meanwhile, in China, worries about the creditworthiness of the Fosun conglomerate persist, adding a new dimension of risk after the travails of the Evergrande property company earlier this year.

Key Global Financial Indicators

Last updated: 9/14/22 7:57 AM	Level	Change from Market Close					YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	%	
Equities								
S&P 500		3933	-4.3	1	-8	-11	-17	-7
Eurostoxx 50		3564	-0.6	2	-6	-15	-17	-10
Nikkei 225		27819	-2.8	1	-4	-9	-3	5
MSCI EM		38	-3.1	0	-7	-26	-21	-19
Yields and Spreads								
			bps					
US 10y Yield		3.46	5.6	20	63	218	195	147
Germany 10y Yield		1.77	4.2	20	79	211	195	154
EMBIG Sovereign Spread		487	8	-18	9	146	120	75
FX / Commodities / Volatility								
			%					
EM FX vs. USD, (+) = appreciation		49.9	-0.1	0	-3	-12	-5	-6
Dollar index, (+) = \$ appreciation		109.6	-0.2	0	4	18	15	14
Brent Crude Oil (\$/barrel)		92.8	-0.4	5	-5	26	19	-4
VIX Index (% change in pp)		27.0	-0.2	2	8	8	10	-4

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

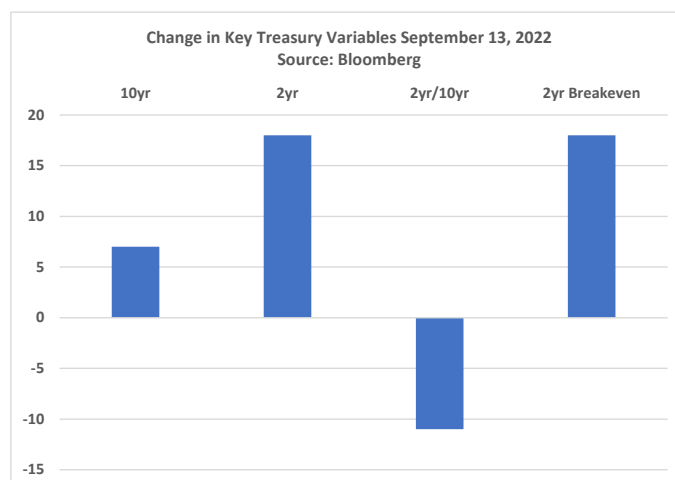
This morning's PPI data did little to assuage worries about inflation triggered by yesterday's shock CPI data print. Treasury yields moved higher on the news, with the 10-year at 3.47% as it threatens to break through the 2022 high seen back in June.

US August PPI Data

Source: Bloomberg

	Consensus Forecast	Actual Data
PPI month on month	-0.1%	-0.1%
Core PPI mom	0.3%	0.4%
Annualized PPI	8.8%	8.7%
Core yoy PPI	7%	5.6%

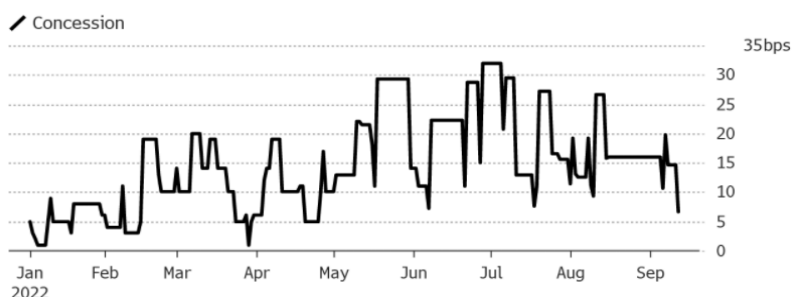
Treasury yields have risen due to the recent inflation surprises. The yield curve grew more inverted, while both the level of Treasury yields and Treasury Inflation Protected Securities (TIPS) breakeven yields moved higher, especially at the short end. The interest rate futures market fully priced in a 75 bps move for the September 21 FOMC meeting and is moving towards pricing a 75 bps move for the November 2 FOMC meeting, although the latter still has room to go. Analysts agree that the Fed will see no reason for caution on the inflation front, and it is likely to continue with aggressive rate hikes. The market estimate of the terminal Fed Funds rate moved up from 4% to 4.19%.



The US corporate bond market remains strong despite the recent surge in interest rates. Monday saw \$11.7 bn of new investment grade (IG) supply easily absorbed by investors. As an example, T-Mobile's \$3 bn deal saw \$24 bn of bids. The new issue concession offered to attract buyers to new deals is now at its lowest since April. Tuesday's CPI shock led to the cancellation of some deals, but analysts expect buyers to be back in force in the days ahead. Corporate treasurers are looking to lock in funding costs that are still low by historical standards before costs go up even further in the future.

Carpe Diem

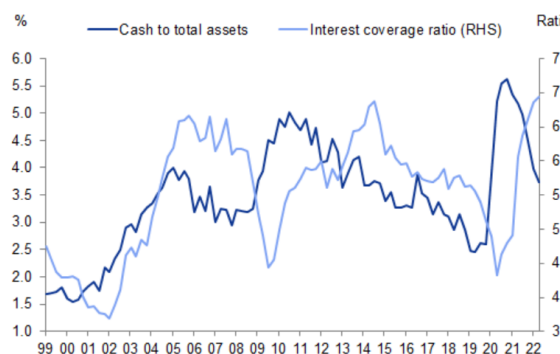
US high-grade new issue concession fell to lowest since April



Corporate bond issuers could face a more challenging environment in the coming months if there is a pronounced economic downturn. Although interest coverage ratios for both IG and high yield (HY) issuers remain strong, their cash balances are back to pre-pandemic levels. As interest rates rise, companies that issued debt at very low coupons will have to roll over their debts at much more expensive levels. This could erode their creditworthiness, especially at the lower end of the credit spectrum. Investors will be keeping a close eye on both IG and HY debt sustainability and liquidity. On the brighter side, both IG and HY companies have kept their leverage in check so far this year.

Exhibit 3: Interest coverage ratios and quick ratios show solid debt servicing capacity, but decreasing liquidity for IG US firms...

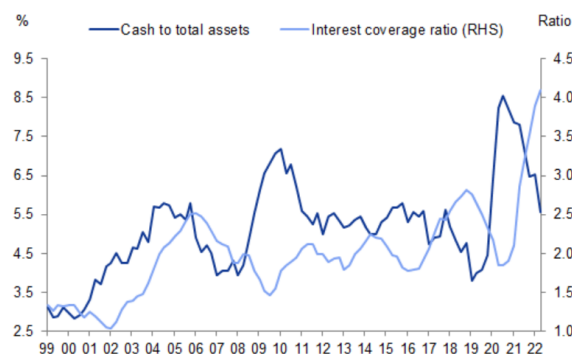
Median interest coverage ratio and median cash to total assets for US IG companies



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 4: ...as well as for HY

Median interest coverage ratio and median cash to total assets for US HY companies



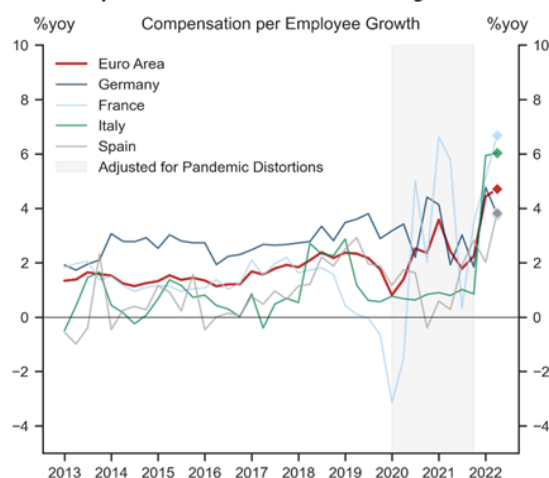
Source: FactSet, Goldman Sachs Global Investment Research

Euro Area

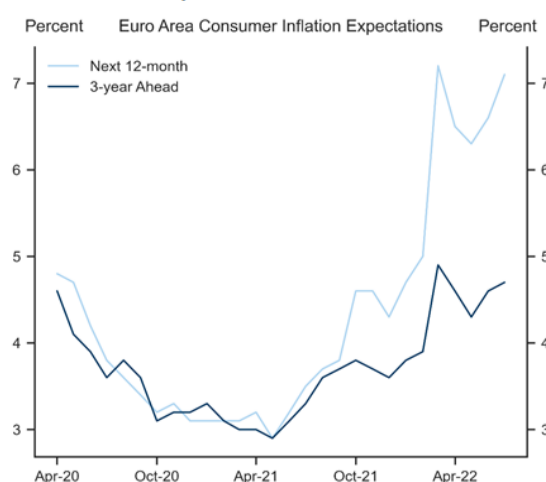
European equities were trading lower this morning (Stoxx 600 Europe index -0.2%) adding to yesterday's declines after an upside surprise the August US CPI print. Sovereign yields edged higher this morning after increasing sharply yesterday (10y bund + 8 bps to 1.73%). On the data front, **Eurozone July industrial production was weaker than expected**, falling to -2.4%yoy (vs expected 0% from +2.2% in June). **The euro appreciated (+0.4%) this morning, retracing some of yesterday's losses following the higher-than-expected US CPI print.**

European natural gas prices increased (Dutch one month ahead +5% to at €208/MwH) after the European Commission shared its energy intervention plans. In the 2022 State of Union Address EC President von der Leyen shared proposals that include a revenue cap on companies that are producing electricity at a low cost, which is expected to raise in excess of €140 bn. Separately, **Germany is reportedly considering nationalizing its largest gas importer Uniper.**

Analysts see signs of second-round euro area inflation effects, reinforcing views of another 75 bps ECB hike in October. Goldman Sachs analysts note that wage pressures in the euro area have continued to increase while survey-based measures, including the ECB's consumer expectations survey and survey of professional forecasters has indicated that long-run inflation expectations have been on an upward trend. Analysts expect another 75 bps hike in October, with the terminal rate of 2.25% seen to be reached in February 2023. HSBC analysts have also revised their ECB hiking expectations upward against a backdrop of expectations for further upward inflation momentum, the risk of second-round effects on wages and a weaker euro. Their analysts also see a 75 bps hike in October, followed by a 50 bps hike in December to take the deposit rate to 2%. **Markets are pricing in roughly +70 bps of tightening in October** (compared to +65 bps at the start of the week).

Broader Compensation Measures Are Also Running at an Elevated Pace

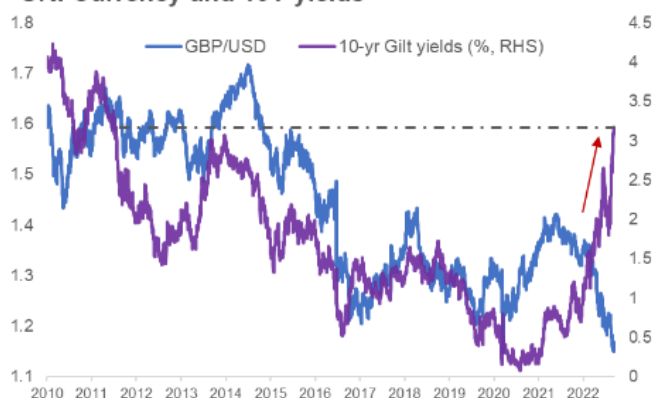
Source: Goldman Sachs Global Investment Research, Haver Analytics

Consumer Expectations on the Rise

Source: Goldman Sachs Global Investment Research, ECB

United Kingdom

10 year Gilt yields eased slightly this morning after inflation data were broadly in line with expectations, but are still up at levels last seen in 2011 at 3.17%. UK's August headline inflation eased, for the first time in almost 12 months, by slightly more than expected (+9.9%yoy vs expected 10.0% from 10.1%) while core inflation was slightly above expectations (+6.3% yoy vs expectations to remain unchanged at 6.2%). Taking the government cap on household energy prices into account, several analysts expect UK inflation to peak next month at just under 11%. **The pound (+0.6%) appreciated against the dollar and markets continue to price in roughly 68 bps of tightening for the BoE meeting next week.**

UK: Currency and 10Y yields

Source: Bloomberg and IMF calculations

Japan

The yen rallied +0.8%, after the Bank of Japan (BOJ) reportedly conducted a rate check with FX market participants. The move is seen by some analysts as a precursor to FX intervention. During the day FM Suzuki stated the government does not rule out any response, including interventions, if current trends on the FX market continue, according to Bloomberg. Separately, the BOJ boosted five and 10-year bond purchases today (¥550 bn, versus the planned ¥500 bn), as 10-year yields again approached its upper 0.25% policy limit. Bond buys of other maturities were kept at planned amounts.



Emerging Markets

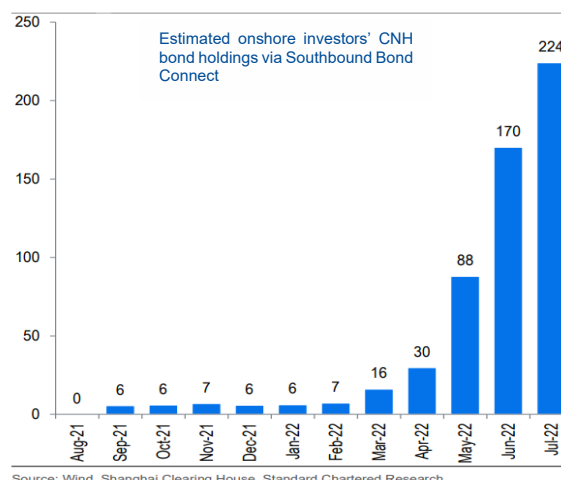
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EMEA markets are not being spared by today's risk-off sentiment. Turkey is leading the way with a 2.8% decline. **Asian markets also joined the US-led global selloff.** Stocks fell, currencies weakened and interest rates went up. Wholesale inflation in India fell to 12.4% in August, from 13.9% previously. In **Latin America**, local assets came under significant pressure with the stronger dollar and sharply higher US rates. The Chilean peso depreciated by over 2%, the real weakened by 1.9% in Brazilian and the Mexican peso by 1.2%. Local rates closed sharply higher, with 1-year swap rate up by 25 bps in Mexico, 16 bps in Colombia, and 11 bps in Brazil.

China

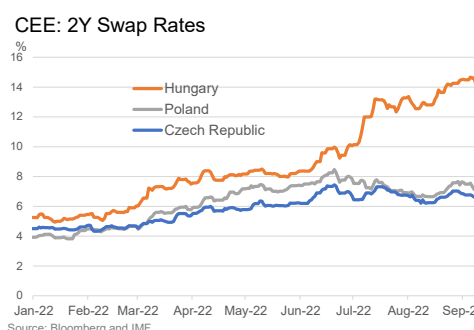
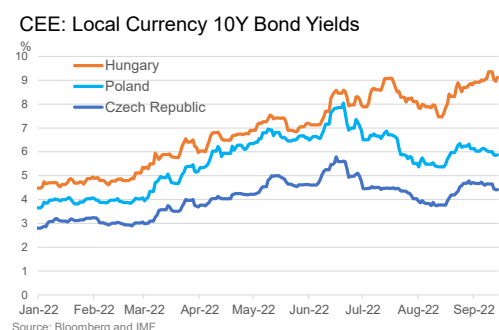
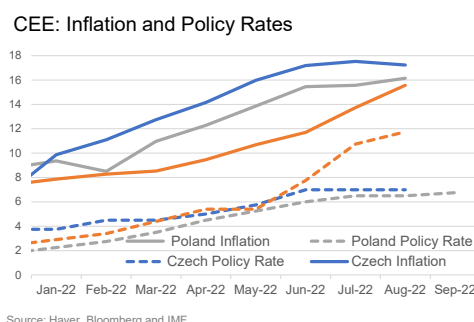
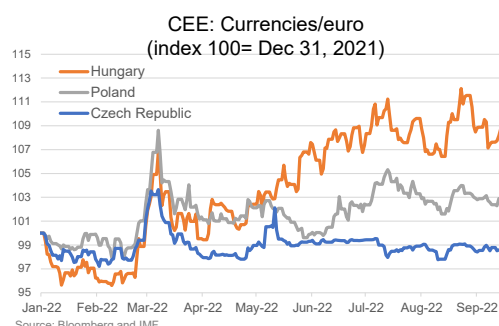
Equities slumped (CSI 300: -1.1%) amid broader selloffs in Asia. Fosun-related assets plunged a second day with Fosun International's equity price falling 8.2% and Shanghai Fosun's 4.8%-yuan bond plunging by 20% to a trading halt. **Onshore renminbi depreciated -0.5%**, even after China's central bank fixed the currency with the strongest bias on record, according to Bloomberg. Standard Chartered warned of a potential tightening of liquidity conditions in offshore markets as authorities step up efforts to stabilize the renminbi ahead of the Party Congress. Meanwhile, onshore investors' bond holdings via the Southbound Bond Connect program had reached 224 bn yuan (\$33 bn) by end-July.

Rising onshore demand for CNH bonds



Hungary

Local markets have seen a disproportionate selloff this year due to worries about governance issues related to the ruling administration. For example, Bloomberg reported today that EU funding to Hungary could be cut because of worries about corruption. This could possibly include EU pandemic recovery funds (5.8 billion euros) and part of Hungary's share of the 2021–27 EU budget (40 billion euros). EU governments are expected to take a final decision on EU funding to Hungary within the next three months. Hungary is the first country to be subjected to a probe under new rules that allow the EU to penalize members that undermine its financial interests.



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), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). 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

9/14/22 7:59 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3933	-4.3	1	-8	-11	-17	-7
Europe		3563	-0.7	2	-6	-15	-17	-10
Japan		27819	-2.8	1	-4	-9	-3	5
China		4065	-1.1	0	-3	-16	-18	-12
Asia Ex Japan		65	-3.0	0	-6	-26	-21	-18
Emerging Markets		38	-3.1	0	-7	-26	-21	-19
Interest Rates			basis points					
US 10y Yield		3.47	6.2	21	64	219	196	148
Germany 10y Yield		1.78	4.7	20	79	212	195	155
Japan 10y Yield		0.26	1.3	1	7	21	19	6
UK 10y Yield		3.22	4.9	19	111	248	225	174
Credit Spreads			basis points					
US Investment Grade		164	0.8	-5	8	75	52	21
US High Yield		468	7.4	-34	18	153	130	61
Europe IG		110	2.4	-5	17	65	62	38
Europe HY		538	15.3	-23	71	312	296	187
Exchange Rates			%					
USD/Majors		109.66	-0.1	0	4	18	15	14
EUR/USD		1.00	0.2	0	-2	-15	-12	-12
USD/JPY		143.4	-0.8	0	8	31	25	25
EM/USD		49.8	-0.1	0	-3	-12	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		93	-0.6	5	-4	36	25	6
Industrials Metals (index)		152	-1.9	3	-5	-8	-12	-19
Agriculture (index)		70	-0.2	3	2	25	15	0
Implied Volatility			%					
VIX Index (% change in pp)		27.1	-0.2	2.4	7.5	7.6	9.9	-4.0
US 10y Swaption Volatility		133.6	-0.7	-0.1	25.8	69.9	54.5	41.0
Global FX Volatility		11.0	0.0	-0.6	1.2	4.6	3.6	3.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		257	5.5	-1	32	146	106	17
Italy		230	3.5	1	22	131	95	59
Portugal		104	0.8	-1	3	50	40	12
Spain		115	1.8	-1	4	50	41	12

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

Emerging Market Financial Indicators

Last updated: 9/14/2022 8:01 AM	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		6.96	-0.4	0.1	-3	-8	-9	-9		2.8	1.5	5	4	-26	-10	-11
Indonesia		14908	-0.4	0.1	-1	-4	-4	-4		7.1	1.4	-8	15	99	75	63
India		79	-0.4	0.6	0	-7	-6	-6		7.6	8.0	6	20	114.4	126	
Philippines		57	-0.5	0.1	-2	-13	-11	-10		5.7	0.0	-3	33	185	118	68
Thailand		37	0.0	-0.6	-3	-10	-9	-12		2.8	7.0	-1	47	118	93	55
Malaysia		4.53	-0.4	-0.5	-2	-8	-8	-8		4.1	5.9	0	14	79	51	43
Argentina		143	-0.2	-1.4	-6	-31	-28	-25		79.7	20.1	71	847	3240	2912	3173
Brazil		5.18	0.1	1.3	-2	1	7	-3		11.6	-16.4	-19	-15	61	94	10
Chile		925	-0.8	-4.3	-5	-15	-8	-15		6.7	2.5	2	14	170	124	75
Colombia		4413	-1.2	1.5	-6	-13	-8	-11		9.8	0.0	6	96	356	335	188
Mexico		20.04	0.2	-0.3	-1	-1	2	1		8.7	0.0	-6	60	166	119	87
Peru		3.9	-0.7	0.4	-1	6	3	-4		8.1	1.3	-13	30	171	222	213
Uruguay		41	-0.3	0.0	-2	5	9	4		11.5	11.7	15	58	353	273	330
Hungary		403	-0.6	-1.9	-3	-26	-20	-21		9.5	11.0	-34	140	650	501	471
Poland		4.72	0.3	-0.2	-2	-18	-15	-14		6.0	19.8	-11	87	405	247	210
Romania		4.9	0.1	-1.6	-3	-15	-12	-11		8.1	14.8	22	59	450	328	295
Russia		59.6	0.0	3.4	3	22	26	37		8.3	1.8	-30	1	91	-52	-293
South Africa		17.5	0.0	-1.1	-6	-18	-9	-13		9.2	15.0	16	70	191	176	160
Turkey		18.26	0.0	-0.2	-2	-54	-27	-24		11.4	0.0	-1	-530	-575	-1290	-1100
US (DXY; 5y UST)		110	-0.2	-0.2	4	18	15	14		3.65	6.9	29	69	286	238	174

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	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	7 Days	30 Days	12 M			
									basis points							
China		4065	-1.1	0	-3	-16	-18	-12		200	-4	-18	-12	-3	-8	
Indonesia		7278	-0.5	1	3	19	11	5		170	-11	-3	-4	5	-15	
India		60347	-0.4	2	1	3	4	5		159	-5	7	14	27	5	
Philippines		6583	-1.8	0	-2	-4	-8	-11		122	-14	0	14	21	-15	
Thailand		1657	-0.3	1	2	2	0	-2		0	0	0	0	0	0	
Malaysia		1468	-1.3	-2	-2	-6	-6	-7		97	-1	-20	-30	-20	-36	
Argentina		142942	-1.2	4	13	81	71	56		2326	-35	-151	858	646	589	
Brazil		110794	-2.3	-1	-2	-5	6	-1		289	-12	-19	-5	-22	-42	
Chile		5581	-0.3	1	3	27	30	28		174	-5	13	28	34	0	
Colombia		1228	-0.6	1	-8	-6	-13	-19		392	-34	11	112	44	0	
Mexico		47040	-1.7	2	-4	-9	-12	-8		418	-4	27	75	86	48	
Peru		19312	0.0	2	-5	8	-9	-17		193	-3	19	22	43	3	
Hungary		41104	-1.1	0	-6	-22	-19	-14		220	-25	31	80	96	67	
Poland		49930	-0.3	2	-11	-31	-28	-21		26	-6	65	3	-6	10	
Romania		11883	-0.4	0	-6	-4	-9	-10		284	-14	28	90	91	52	
Russia		2400	-1.9	0	12	-41	-37	-22		3411	-577	938	3228	3234	2897	
South Africa		67683	-0.9	1	-4	5	-8	-10		417	-24	16	75	62	28	
Turkey		3375	-1.5	-1	18	135	82	67		586	-49	-2	122	8	23	
Ukraine		519	0.0	0	0	-1	-1	0		3463	-363	-3336	2983	2704	1990	
EM total		38	-0.1	0	-7	-26	-21	-19		418	-18	6	66	32	-40	

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

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