GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 15, 2022

- **U.S. treasury 2s30s term spread at lowest levels in two decades** (link)
- **U.S. corporate bonds relatively resilient to recent sell off in equities** (link)
- **Japanese trade deficit widens to new record in August** (link)
- **Analysts expect the BoE to proceed with QT** (link)
- **Ethereum completes software upgrade** (link)
- **China's central bank keeps 1-yr MLF rate unchanged** (link)
- **Chinese banks reportedly cut deposit rates** (link)
- **Bulgaria returns to international markets after 2-yr absence** (link)

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U.S. yields and dollar shift higher again

U.S. yields and dollar are higher as focus turns to next week's FOMC meeting. The Philly Fed Business Outlook disappointed in September while jobless claims were broadly in line with expectations and retail sales were mixed. The Japanese yen weakened as data show that the Japanese trade deficit widened to a new record in August. The off-shore Chinese renminbi fell below the widely watched level of 7 per U.S. dollar as major banks reportedly cut deposit rates for the first time since 2015. Shares in Chinese property developers outperformed on news that +120 cities have relaxed fund rules for home purchases. Cryptocurrencies were little changed after the "Ethereum Merge" was completed, a process expected to sharply cut crypto carbon emissions.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
9/15/22 1:07 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3946	0.3	-1	-8	-12	-17
Eurostoxx 50		3566	-0.1	2	-6	-14	-17
Nikkei 225		27876	0.2	-1	-3	-8	-3
MSCI EM		39	0.5	0	-6	-26	-21
Yields and Spreads					bps		
US 10y Yield		3.46	5.4	14	67	216	195
Germany 10y Yield		1.75	3.7	4	85	206	193
EMBIG Sovereign Spread		494	7	-16	16	150	127
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		49.7	-0.3	-1	-2	-13	-5
Dollar index, (+) = $ appreciation		109.7	0.0	0	3	19	15
Brent Crude Oil ($/barrel)		92.8	-1.4	4	-2	23	19
VIX Index (%, change in pp)		26.1	-0.1	2	6	8	9

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

Mature Markets

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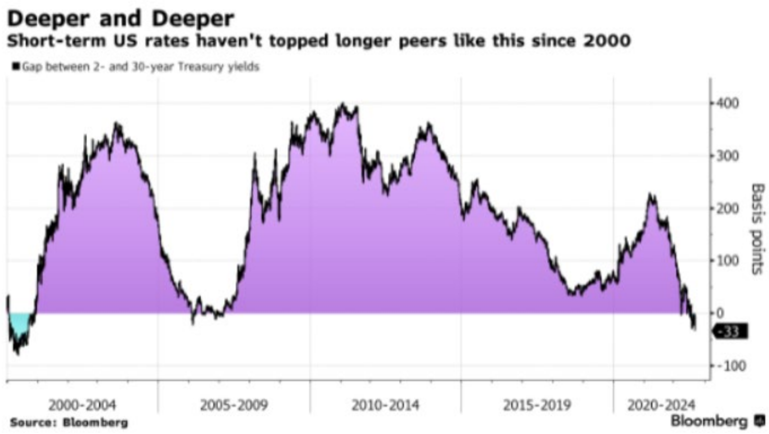
United States

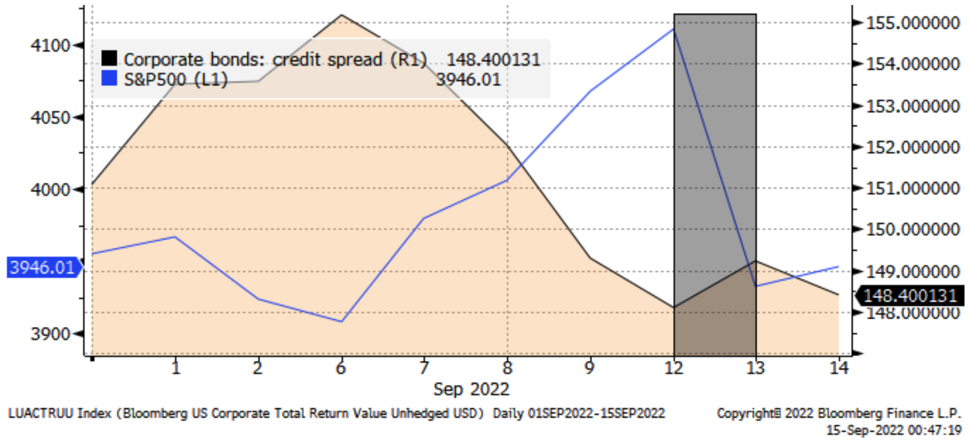
Jobless claims were posted broadly in line with expectations: initial claims posted at 213k (VS 227k expected), continuing claims at 1403k (VS 1478k expected). Philadelphia Fed Business Outlook was reported much worse than expected: -9.9 (VS 2.3 expected). **In contrast, US Empire State Manufacturing Survey General Business Conditions was better than expectations: -1.5 (VS -12.9 expected).** Retail Sales Advance MoM showed mixed performance: the whole index exceeded expectations (0.3% VS -0.1% expected), while its components performed worse—“Ex Auto” -0.3% (VS 0.0% expected), “Ex Auto and Gas” 0.3% (VS 0.5% expected). Import price index stood broadly in line with expectations: -1.0% (VS -1.3% expected).

Yesterday, the S&P 500 closed little changed, with the energy sector substantially outperforming other industries (+2.8%). The market sentiment improved after today’s data showed producer prices fell for a second month. UST real yields fell by 3–4 bps across the curve, while a moderate increase in breakeven inflation rates pushed nominal yields slightly higher.

The 2s30s spread—i.e., the difference between the yields of 30-yr and 2-yr US Treasury bonds—fell to the lowest levels in two decades. The curve is flattening due to two core factors. First, the shorter end increases after this week’s hotter-than-anticipated US consumer-price inflation data and the expected relatively hawkish response of the Fed. Second, the longer end remains almost unchanged due to the priced-in rapid decline in policy rates in 2023. **The negative term spread is frequently associated with the increase likelihood of a recession.**



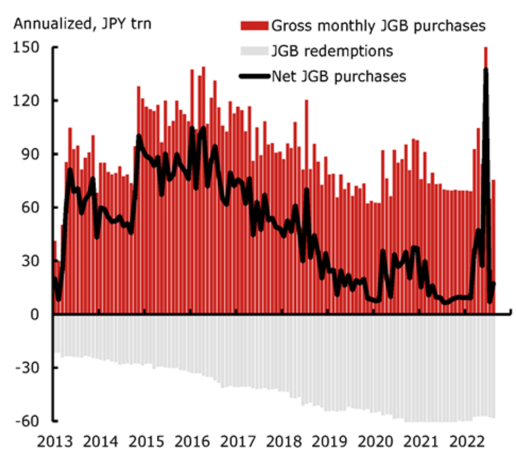
Corporate bond spreads almost did not react to Tuesday’s sales in equities, reflecting strong fundamentals of corporate borrowers. S&P 500 fell ~4% on Tuesday—the largest daily drop in several months—while investment-grade corporate bond yields increased only about 1 bps, i.e., much smaller than the spill overs from equities to corporate spreads that were seen in previous episodes. JPMorgan analysts cite a number of factors. First, conservative balance sheet management leading to improving leverage and interest coverage ratios—debt in investment grade borrowers almost didn’t change in the last year while revenue is up 18%. Second, corporate profit growth demonstrated significant resilience, underpinned by corporate pricing power, which has remained unusually strong at this point in the cycle. Altogether it reassured the market’s comfort with credit risk and corporate performance generally.



Japan

The yen weakened -0.3% as option traders reportedly turned the most bullish on the yen against the US dollar since August but data show that the Japanese trade deficit ballooned to a record -¥2.8 tn (-$195 bn) in August (previous: -¥1.4 tn) and imports spiked +49.9% y/y on increased costs. 10-year yields were little changed. The Bank of Japan could be compelled to accelerate government bond purchases to maintain its Yield Curve Control policy if expectations of a +100 bps US Fed hike increase, Nomura thinks. Separately, foreigners sold net -¥2.6 tn ($18.1 bn) of Japanese bonds last week, the most since mid-June. **Equities firmed +0.2%.** Travel-related stocks rallied on reports that individual tourist visits will soon be allowed. **Japan's financial regulator will reportedly start probing structured bond issuers**. The regulator will check if such issuers, mostly global investment banks, disclosed sufficient information to local financial firms who distribute the bonds to retail investors.

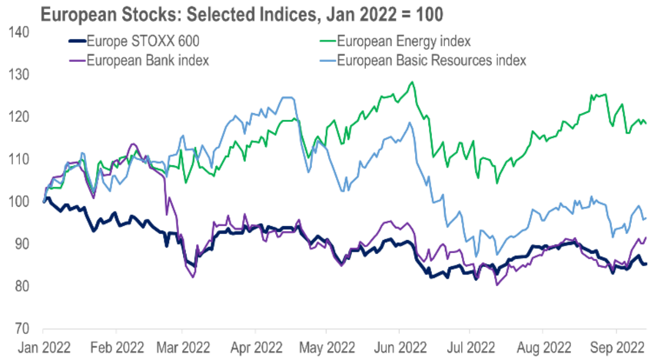
BOJ's net purchase of JGB



Source: Nomura, Bloomberg

Euro area

Equities traded higher this morning (Stoxx 600 Europe index +0.2%), with the banking sector (+1.6%) outperforming. Bloomberg reports that the Spanish government is considering adjustments to planned taxes on Spanish banks, while strategists have been upgrading their views on European banks against a backdrop of rate hikes and fiscal support measures. On the data front the final August inflation print for France was marginally higher than preliminary estimates (+5.9%yoy vs previously estimated 5.8%).



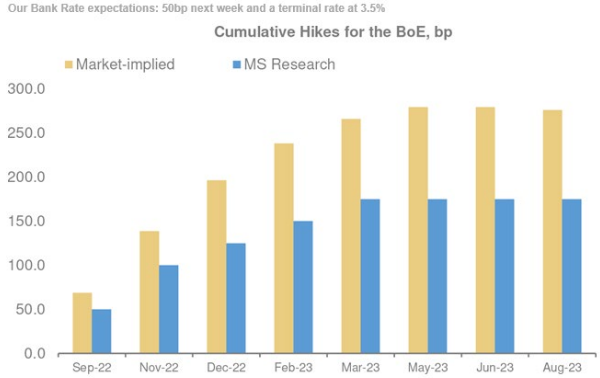
Source: Bloomberg and IMF calculations calculations

Sovereign yields rose, with 10-yr bund yields up +4 bps to 1.75%. The euro was little changed against the dollar. Markets continue to price in roughly +70 bps of ECB tightening in October with recent ECB commentary seen as generally hawkish. This morning ECB Vice President de Guindos said that monetary policy is still accommodative and that "determined action" is required to deliver price stability. ECB Governing Council (GC) member Makhlaouf also voiced support for further interest rate hikes. Yesterday ECB Governing Council member Kazāks, highlighting the risk of second-round inflationary effects, said that rate hikes beyond February 2023 could be needed.

UK

Analysts expect the BoE to confirm the earlier Quantitative Tightening (QT) announcements at next week's BoE meeting. The MPC had previously indicated that it is 'provisionally minded' to start gilt sales shortly after the September meeting at a pace of £10bn per quarter over the first 12 months, subject to economic and market conditions being judged appropriate and a confirmatory vote at the meeting. **While analysts remain divided on whether the BoE will hike by 50 bps or 75 bps hike, markets are pricing in roughly 65 bps of tightening.** Separately, the UK is reportedly considering removing the cap on banker bonuses in order to improve the City of London's global competitiveness. **This morning the pound (-0.3%) depreciated against the dollar while 10y gilt yields (+2 bps) ticked higher.**

Our Bank Rate expectations: 50bp next week and a terminal rate at 3.5%



Source: Bloomberg, Morgan Stanley Research forecasts

Crypto

Cryptocurrencies were little changed after the "Ethereum Merge" was completed, expected to cut crypto-related carbon emissions by more than 99%. The software update involves shifting to a proof-of-stake (PoS) from a proof-of-work mechanism on its new digital ledger network. Deutsche Bank analysts estimate that the change reduces energy use 2000 times while it doubles the cost of attacking the network, thus enhancing the blockchain's security. Bloomberg reports that the update has so far proceeded without major disruptions.

Emerging Markets

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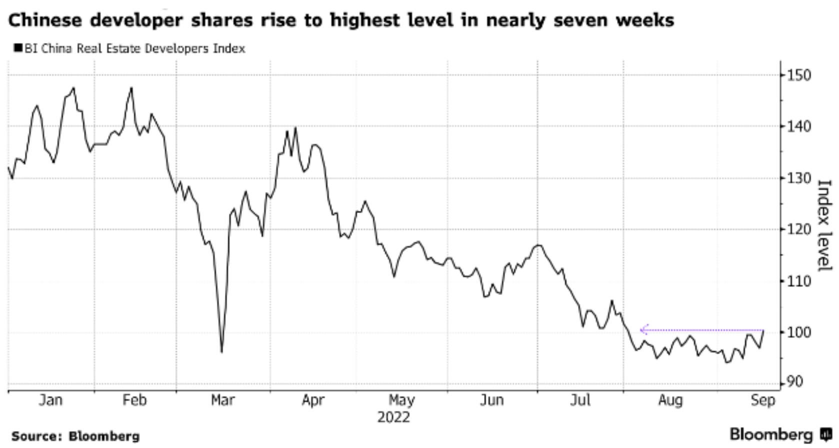
Asian equities were mixed, down -0.4% on net. Mainland China slipped (CSI 300: -0.9%). Asian currencies mildly depreciated. 10-year yields were little changed. **After a rocky start of the week, EMEA markets stabilized this morning.** Equity markets were generally up, with notable gains in the Czech Republic (+1.4%) but down in Hungary (-0.8%). Currencies and local bond yields were broadly flat. With little macro data expected today and tomorrow, markets are fully focused on the Fed's decision next week. **In Latin America, local currencies strengthened against the dollar yesterday, bucking the trend in other emerging markets, with over 0.5% appreciation in Colombia, Mexico, and Brazil.** Volatility in Chilean peso remains elevated, with 1.5% intraday swings before closing 0.2% weaker on the day, as investors bracing for an end of the FX intervention program.

China

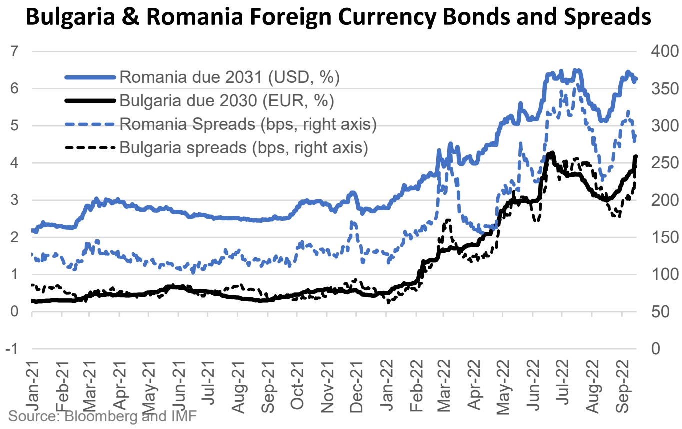
The central bank kept its 1-yr medium-term lending facility (MLF) rate unchanged at 2.75%, as expected. People's Bank of China offered 400 bn yuan ($58 bn) via its MLF that would result in net withdrawal of 200 bn yuan in September. Further, **China's major banks reportedly cut deposit rates for the first time since 2015.** Seven major banks cut rates on a range of products including demand, three-month, and five-year deposits. 3-yr term deposit and large-amount certificate of deposit rates were lowered -15 bps while one-year deposit rates were cut -10 bps to 1.65% for some banks. Separately, **China's YTD corporate US dollar debt issuances dived -46% yoy amid surged US rates**, with $101 bn issued as of mid-September, Bloomberg estimated. **Renminbi depreciated -0.3%. 10-year yields were little changed.**

Equities slipped (CSI 300: -0.9%) despite news of eased lockdowns in megacity Chengdu. Property developer shares rebounded +4.6%, after state-owned Securities Daily reported that 120+ cities have already relaxed provident fund rules for home purchases.



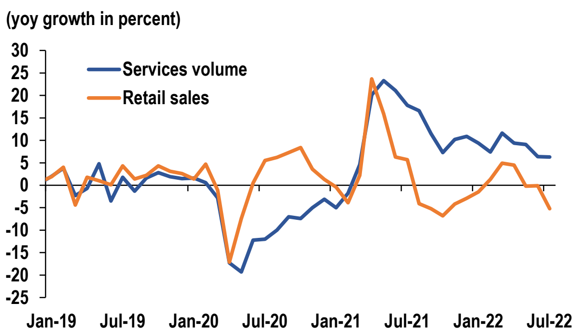
Central and Eastern Europe

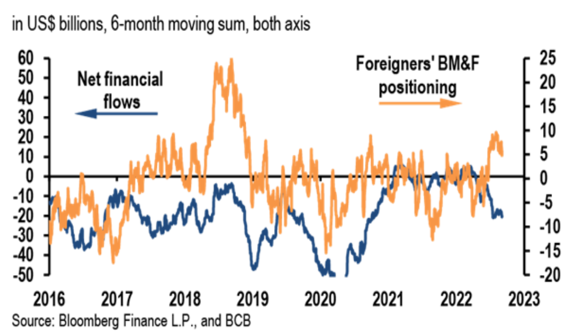
Bulgaria is returning to international bonds markets while Romania plans to start marketing potential bond sales on Asian markets. While yields and spreads on existing bonds are close to recent peaks, Bulgaria is offering a 7-yr and 12-yr bond in euros, after a two-year absence from international markets. Similarly, the Romanian head of treasury said that Romania plans to start marketing potential bond sales on Asian Markets to diversify its funding sources. **Higher yields and market uncertainty have kept foreign currency denominated bond issuance from emerging markets particularly low in 2022 so far.**



Brazil

Retail sales sank for the third straight month in July. Both headline (-0.7% m/m) and core sales (-0.8% m/m) dropped more than expected, with broad-based weakness across sectors, which left retail sales 3.5% below the pre-pandemic level and solidifies the divergence between services consumption and goods consumption. The coming weeks will be key to assess the impact of the renewed fiscal stimulus (tax cut and cash transfer) as part of President Bolsonaro's campaign efforts, before the October 2 general election. Separately, **foreign investors continue to pull out from domestic financial markets, with weekly financial outflow reaching $1.7 bn last week. Equity flows, which remained resilient until August, have also dropped as foreigners reduced their Bovespa exposures.**





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Global Financial Indicators

Last updated: 9/15/22 1:09 PM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3941	0.3	-2	-8	-12	-17
Europe		3566	-0.1	2	-6	-14	-17
Japan		27876	0.2	-1	-3	-8	-3
China		3200	-1.2	-1	-2	-11	-12
Asia Ex Japan		65	0.4	0	-5	-26	-21
Emerging Markets		39	0.5	0	-6	-26	-21
Interest Rates					basis points		
US 10y Yield		3.46	5.4	14	67	216	195
Germany 10y Yield		1.75	3.7	4	85	206	193
Japan 10y Yield		0.26	0.1	1	7	22	19
UK 10y Yield		3.15	2.0	1	114	237	218
Credit Spreads					basis points		
US Investment Grade		161	-0.6	-6	4	72	49
US High Yield		472	-3.0	-14	17	159	134
Europe IG		106	-0.5	-6	14	62	58
Europe HY		525	0.6	-24	61	299	283
Exchange Rates					%		
USD/Majors		109.70	0.0	0	3	19	15
EUR/USD		1.00	0.1	0	-2	-15	-12
USD/JPY		143.6	0.3	0	8	31	25
EM/USD		49.7	-0.3	-1	-2	-13	-5
Commodities					%		
Brent Crude Oil ($/barrel)		93	-1.4	4	-2	23	19
Industrials Metals (index)		152	-1.3	2	-3	-9	-12
Agriculture (index)		69	-0.1	3	3	22	14
Implied Volatility					%		
VIX Index (%, change in pp)		26.1	-0.1	2.5	6.1	7.9	8.9
US 10y Swaption Volatility		125.8	-2.1	-0.9	15.3	59.0	46.8
Global FX Volatility		11.3	0.0	-0.1	1.1	4.7	3.8
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		251	-2.5	-1	22	139	99
Italy		228	-0.8	2	20	127	93
Portugal		104	0.0	2	2	48	39
Spain		114	-0.4	2	4	49	40

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

Emerging Market Financial Indicators

Last updated: 15/09/2022 1:12 PM	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		6.99	-0.4	-0.5	-3	-8	-9		2.8	0.5	5	4	-28	-9
Indonesia		14898	0.1	0.0	-1	-4	-4		7.2	5.3	1	11	106	80
India		80	-0.3	0.0	0	-8	-7		6.3	0.0	0	9	#######	0
Philippines		57	-0.1	0.0	-2	-13	-11		5.7	0.0	-3	33	203	118
Thailand		37	-0.7	-1.0	-4	-11	-10		2.9	11.5	19	59	129	104
Malaysia		4.54	-0.2	-0.7	-2	-8	-8		4.2	6.3	10	19	85	56
Argentina		143	-0.2	-1.5	-6	-31	-28		79.2	-53.1	-2	794	3171	2859
Brazil		5.19	-0.4	0.6	-2	1	7		11.4	-50.9	-29	-40	22	69
Chile		926	-0.7	-4.9	-5	-16	-8		6.6	0.0	-15	5	168	115
Colombia		4386	0.6	0.6	-5	-13	-7		9.8	0.0	1	96	355	335
Mexico		20.02	-0.4	-0.3	-1	-1	3		8.8	0.5	6	65	167	124
Peru		3.9	0.0	0.1	-1	6	3		8.2	0.3	-10	39	172	226
Uruguay		41	0.2	0.4	-1	5	10		11.4	-4.0	11	54	349	269
Hungary		408	-0.4	-2.7	-4	-28	-20		9.6	-5.0	-22	143	649	504
Poland		4.74	-0.2	-0.6	-3	-18	-15		6.0	4.5	-4	88	405	247
Romania		4.9	0.1	-1.0	-3	-15	-12		8.1	-2.0	5	57	449	326
Russia		59.9	0.6	1.4	2	21	25		8.3	0.0	0	1	87	-52
South Africa		17.5	-0.3	-0.1	-6	-18	-9		9.2	7.0	19	75	199	181
Turkey		18.26	-0.1	-0.2	-2	-54	-27		11.5	8.0	14	-539	-565	-1281
US (DXY; 5y UST)		110	0.1	0.0	3	19	15		3.67	6.9	25	77	288	241

	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		4027	-0.9	-1	-4	-16	-18		199	-7	-19	-13	-4
Indonesia		7306	0.4	1	2	20	11		180	-7	7	0	15
India		59934	-0.7	0	0	1	3		161	-3	9	18	29
Philippines		6576	-0.1	0	-4	-6	-8		128	-11	6	15	27
Malaysia		1467	-0.1	-2	-3	-6	-6		98	0	-19	-31	-19
Argentina		146750	2.7	4	16	87	76		2340	-17	-137	853	660
Brazil		110547	-0.2	1	-2	-4	5		293	-9	-15	-5	-18
Chile		5609	0.0	2	4	27	30		182	2	21	31	42
Colombia		1219	-0.8	1	-8	-8	-14		401	-23	20	117	53
Mexico		46745	-0.6	1	-4	-10	-12		420	0	29	77	88
Peru		19267	-0.2	1	-4	7	-9		205	6	31	30	55
Hungary		40818	-0.9	0	-5	-22	-20		228	-23	39	83	104
Poland		50505	0.4	3	-10	-30	-27		16	-26	55	-6	-16
Romania		11873	0.3	0	-6	-3	-9		290	-21	34	92	97
Russia		2442	0.3	2	13	-40	-36		3411	-577	938	3228	3234
South Africa		68104	0.2	1	-4	6	-8		427	-21	26	78	72
Turkey		3427	-0.6	0	20	141	85		592	-49	4	123	14
Ukraine		519	0.0	0	0	-1	-1		3427	-489	-3372	2949	2668
EM total		39	-1.8	0	-6	-26	-21		424	-15	11	67	37

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

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