GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, SEPTEMBER 16, 2022

- **US mortgage rates exceed 6% for the first time since 2008** (link)
- **Lower demand for US diesel may signal slowdown in various industries** (link)
- **European natural gas prices volatile as markets digest policy proposals** (link)
- **Pound weakens to levels last seen in 1985 following disappointing data** (link)
- **Chinese renminbi depreciated past key level as equities sell off** (link)
- **Yields on Egypt's local bonds settle higher** (link)

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A gloomier close to the week

The US dollar firmed as global equities fell ahead of key Fed and Bank of England meetings next week. Analyst consensus is that the Fed will increase its key rate another 75 bps (Wednesday) with analysts expecting a hike of 50 bps by the Bank of England (Thursday). This morning, the British pound fell to a level last seen in 1985 as economic data disappointed. Short-term German yields are higher as ECB President Lagarde reemphasized the need to avoid second-round inflation effects. Italian 10-yr yields have settled above 4% ahead of national elections taking place on September 25 against a backdrop of weaker economic growth and tighter monetary policy. The Chinese renminbi depreciated past the 7 per US dollar level as the Chinese central bank has been setting the fixing much stronger than analysts expected.

Key Global Financial Indicators

Last updated: 9/16/22 1:52 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3901	-1.1	-3	-9	-13	-18
Eurostoxx 50		3491	-1.4	-2	-8	-16	-19
Nikkei 225		27568	-1.1	-2	-5	-10	-4
MSCI EM		38	-1.1	-1	-7	-26	-22
Yields and Spreads					bps		
US 10y Yield		3.47	1.8	16	66	213	196
Germany 10y Yield		1.76	-0.7	7	79	207	194
EMBIG Sovereign Spread		493	-1	-5	11	151	126
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		49.5	-0.1	-1	-2	-12	-6
Dollar index, (+) = $ appreciation		110.1	0.3	1	3	18	15
Brent Crude Oil ($/barrel)		91.5	0.8	-1	-1	21	18
VIX Index (%, change in pp)		27.6	1.3	5	8	9	10

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

Mature Markets

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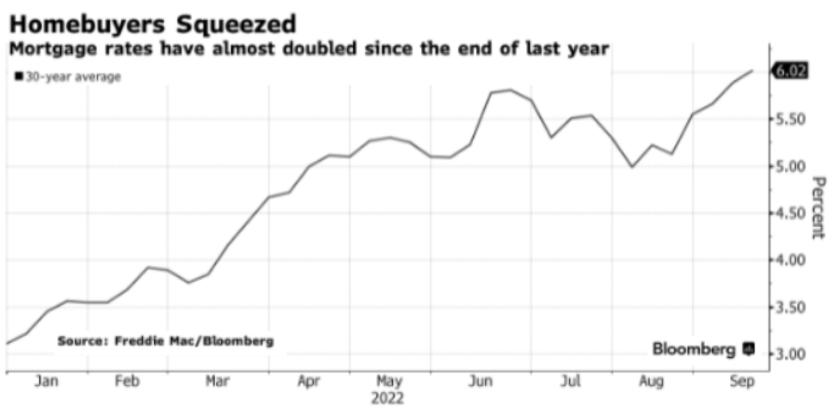
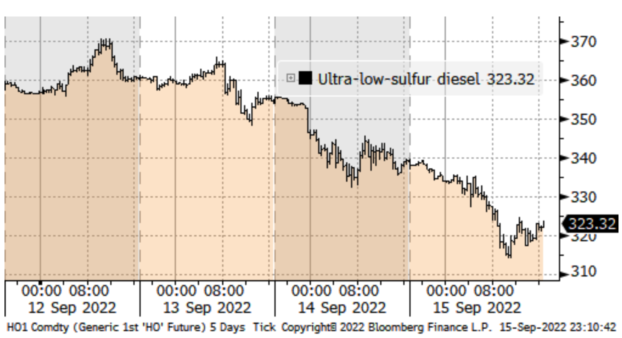
United States

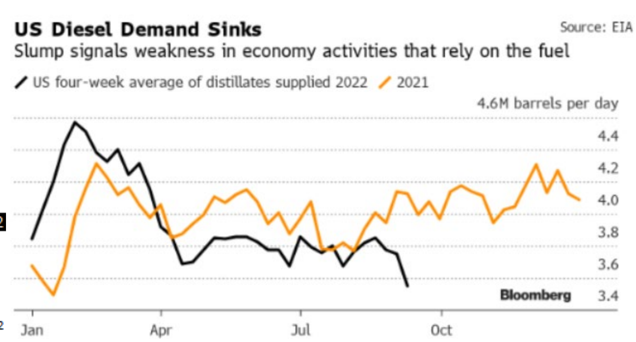
This morning, US nominal yields are little changed after rising 5–7 bps across the curve yesterday, driven by higher real yields. The US dollar edged higher against several currencies. Yesterday, the S&P 500 lost -1.1%, with IT, Real Estate, Utilities, and Energy significantly underperforming other sectors.

US mortgage rates exceeded 6% for the first time since 2008. The impact on the housing market includes reduced demand, dropping sales, and slowing price growth. Total application volume fell for the fifth week in a row, while refinances are off 83% from where they were a year ago. Financial intermediaries prepare for falling revenues from the mortgage business and potential job cuts. The affordability crisis is exacerbated by insufficient inventories, which is a factor supporting the current prices and limiting their potential drop. The increase in rates has the same impact on affordability as a 28% increase in home prices, as reported by Bloomberg.



Prices of NY diesel futures fell more than 10% in the last 3 days, indicating an increased probability of a slowdown in fuel-powered industries, including trucking, farming and rail. Coupled with the price dynamic (left chart below), the volumes of diesel consumption are used as a proxy for economic activity: the current readings show that its *seasonal* levels are lowest in a decade, as reported by Bloomberg (right chart). **An additional factor is China's decision to boost its export of fuel—a decision that is already hurting margins for diesel makers.**





Japan

Equities (-0.6%) declined as the government will support purchases of more liquefied natural gas. The government plans to conduct an auction to procure about 2 terawatt-hours of electricity and may conduct more auctions if needed, trade ministry documents released on Thursday show. Gas was the nation's biggest power source in 2021, generating more than a third of the total or almost 343 terawatt-hours, BloombergNEF estimated. Separately, **a gauge of demand at a sale of 20-year sovereign debt fell to the lowest in a decade**. The weak demand at Thursday's sale also pushed up longer-dated yields, which are not capped by BOJ's policy. Meanwhile, overseas funds sold almost ¥2.6 tn ($18.1 billion) of mostly government bonds last week, the biggest withdrawal since mid-June. **The yen and 10-year yields were little changes.**

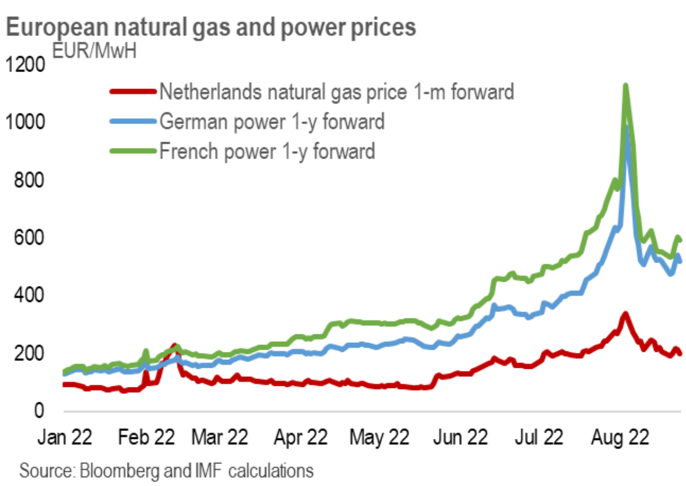
Euro area

Equities (-0.9%) fell, with losses broad-based across sectors. On the data front the final eurozone August inflation print was in line with preliminary estimates (+9.1%yoy). **Sovereign yields edged higher (10-yr bund +1 bps) while the euro depreciated (-0.2%).**

2-yr German bund yields rose 3 bps to 1.54% as ECB President Lagarde reemphasized the need to avoid second-round inflation effects. Markets are pricing in roughly 200 bps of ECB tightening by mid-2023, in comparison to around 175 bps last week, with 71 bps of tightening priced in for the upcoming October ECB meeting.

Italian 10-yr yields (-1 bps to 4.04%) are consolidating at over 4% as contacts see the risk of Italian yields and/or spreads widening against a backdrop of weaker economic growth and tighter monetary policy. Italy's national elections are taking place on September 25 with the centre-right coalition currently leading the polls.

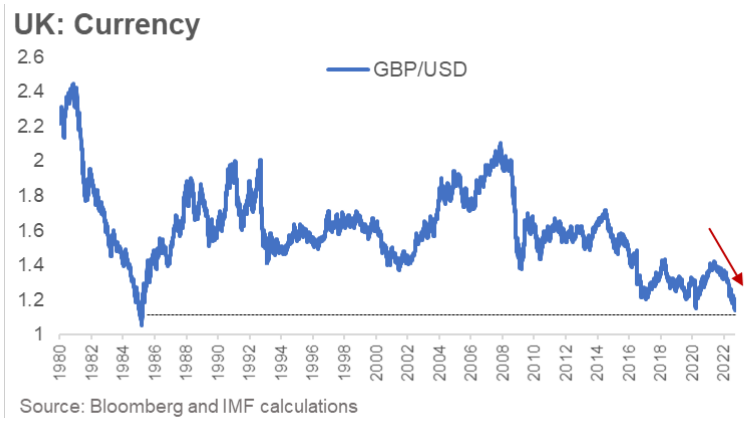
Natural gas prices remain volatile but continue to ease as policy signals appear to calm markets. This week, the European Commission announced proposals to alleviate the impact of high electricity prices. **Proposals include an inframarginal revenue cap of €180/MwH on market revenues from the sale of electricity produced from technologies the marginal costs of which are lower than the cap; a 10% reduction in electricity demand; a levy on fossil-fuel firms and regulatory changes to address liquidity shortages in the energy sector.** A second energy crisis emergency meeting has been set for September 30. **Dutch 1-m ahead natural gas prices were trading roughly 9% lower this morning at €194/MwH (7% lower than last week) but remain extremely volatile and roughly 175% higher than at the start of the year.**



Bloomberg reported that Germany is in advanced stages to take over three of its major gas importers—including Uniper. France urged national authorities, businesses and households to reduce energy consumption by 10% this winter, while Portugal approved an energy-saving plan yesterday and a €1.4 bn package to support businesses.

United Kingdom

The pound depreciated against the dollar (-0.5%) following disappointing UK retail sales data. In August retail sales fell to -1.6%mom (vs expected -0.5% from a revised +0.4%) with all main sectors declining over the month. **Markets have scaled back on BoE hiking expectations for the meeting next week and are now pricing in 55 bps of tightening,** compared to 65 bps yesterday. **The pound has weakened by almost 16% this year and is now trading at around 1.14 against the dollar, a level last seen in 1985.**



Emerging Markets

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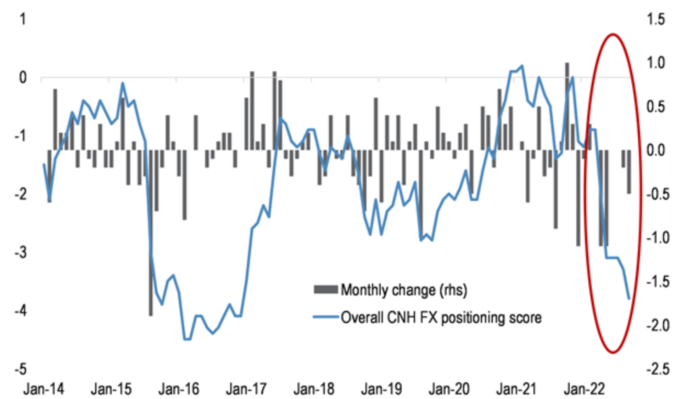
Asian equities lost -1.6%. Mainland China dived -2.4%, followed by Indonesia -1.9%. **Asian currencies mostly depreciated.** Thai baht led the decline -0.8%, **Vietnamese dong** fell to a record low -0.3% prompting speculation the central bank will intervene to curb the decline. **South Korean** won outperformed +0.4%; President Yoon may reportedly discuss currency swap when he meets with US President Biden. **10-year yields mostly increased. In India,** bonds yields were up +3 bps but remain still about 40 bps below June highs as banks and foreign funds rushed to buy India's debt in anticipation on index inclusion. Local lenders raised holdings of sovereign notes to a record 50.7 tn rupees ($637 bn) as of August. **EMEA markets are deeply in the red this morning**. All major equity markets are down by at least 1%, except for Turkey (+0.15%). Local bond yields are up slightly with 10Y Polish bond yields up 6 bps, and South African 10y bonds up 9 bps. **Currencies are mostly weakening, but the Hungarian forint is up 1.1%** (to 405.7/euro) after having depreciated every day this week. **The central bank of Russia cut its policy rate 50 bps to 7.5%, as expected. In Latin America, local currencies led losses in emerging markets yesterday amid a sharp drop in commodity prices**, with the Brazilian real 1.5% weaker. The Chilean peso closed 0.5% weaker, after the central bank rolled over all $550 mn forward contract due on Thursday. **Chile was downgraded by Moody's by one notch to A2 and the outlook was raised to stable from negative, on concerns that the unresolved constitutional reform would lead to structural increase in social spending against the prospect of slowing medium-term growth.**

China

Equities (-2.4%) fell as the US will start the audit of Chinese companies that trade on the New York stock exchange. The People's Bank of China (PBOC) reiterated it has ample monetary policy room and abundant policy tools but also noted that the PBOC would implement prudent policy and would not flood the market with liquidity. Separately, **overseas investors have kept buying Chinese government bonds.** Foreign holdings increased for a second straight month—up by 2.3 bn yuan ($0.3 bn) in August; investors were selling policy bank and municipal debt, Bloomberg reported. On **data releases,** decline in new home prices accelerated to -0.3% mom (previous: -.01%). Prices dropped 2.1% yoy, the most in seven years. Residential sales tumbled about 30% in the first eight months of 2022 and property investment shrank more than 7%. On the positive side, retail sales and industrial production both grew faster than in July and above expectations. **The renminbi depreciated (onshore -0.3%, offshore -0.2%) past the 7 per US dollar level.** PBOC has set the fixing much stronger than analysts expected in recent days as the yuan kept slipping.

Investors are seen adding CNY shorts at a more moderate pace after having extended the overall bearish positioning to 2016 extremes

CNH FX positioning score from JPM EM Client Survey

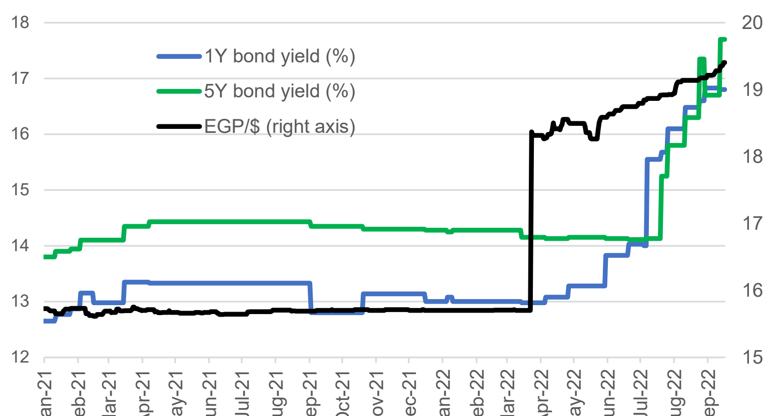


Source: J.P. Morgan

Egypt

Yields on local Egyptian bonds have continued to increase sharply since the spring, as foreign portfolio investors exited the country. In a report following their trip to Egypt earlier this week, Goldman Sachs analysts report cautious optimism regarding the Egyptian economic outlook. They highlight two main issues for the outlook and Egypt's attractive to foreign investors: 1) information about the timing and the size of a potential Fund-supported program; and 2) further depreciation of the Egyptian pound. **The analysts believe that local and foreign investors are expecting an IMF-supported program to be announced program soon (before the IMF-WB Annual Meetings).** They also report that while most of their contacts expect further depreciation of the Egyptian pound, there are disagreements about whether this would come as a one-off devaluation (to 22–24 GGP/$) or as a gradual adjustment.

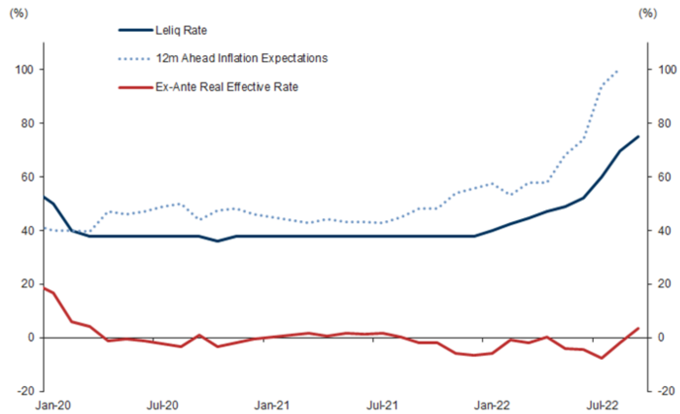
Egyptian Pound and Local Bond Yields



Source: Bloomberg and IMF

Argentina

The BCRA raised policy rate by 550 bps to 75% amid a significant rise in inflation. The floor on 30-day bank deposits and term deposits were also raised to 75% and 66.5%, respectively. **The BCRA highlighted the need to increase policy rate again, after 800 bps in July and 950 bps in August, to bring the ex-ante real rate to positive territory.** The central bank will maintain a data-dependent stance based on "realized and prospective inflation as well as FX market dynamics". **Inflationary pressures remain intense and broad-based; annual inflation is tracking 78.5% y/y, 12-month ahead median inflation expectations now up to 95% in August and the unofficial exchange rate is trading at twice of the official exchange rate.**



Source: BCRA, Goldman Sachs Global Investment Research

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Global Financial Indicators

Last updated:	Level		Change				
9/16/22 12:14 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		3901	-1.1	-3	-9	-13	-18
Europe		3508	-0.9	-2	-8	-16	-18
Japan		27568	-1.1	-2	-5	-9	-4
China		3126	-2.3	-3	-5	-13	-14
Asia Ex Japan		65	-1.0	-1	-6	-26	-22
Emerging Markets		38	-1.1	-1	-7	-26	-22
Interest Rates					basis points		
US 10y Yield		3.47	1.6	16	66	213	195
Germany 10y Yield		1.79	1.6	9	82	209	196
Japan 10y Yield		0.26	-0.2	0	8	20	19
UK 10y Yield		3.16	-0.2	7	104	235	219
Credit Spreads					basis points		
US Investment Grade		161	0.0	-5	4	72	49
US High Yield		480	5.3	-6	26	168	143
Europe IG		111	1.9	4	16	66	63
Europe HY		548	9.9	24	74	324	306
Exchange Rates					%		
USD/Majors		109.88	0.1	1	3	18	15
EUR/USD		1.00	-0.2	-1	-2	-15	-12
USD/JPY		143.2	-0.2	1	7	31	24
EM/USD		49.6	0.0	-1	-2	-12	-6
Commodities					%		
Brent Crude Oil ($/barrel)		91	0.6	-2	-1	21	17
Industrials Metals (index)		150	-1.3	-2	-6	-9	-13
Agriculture (index)		68	-0.8	-1	3	21	13
Implied Volatility					%		
VIX Index (%, change in pp)		27.2	1.0	4.4	7.5	8.5	10.0
US 10y Swaption Volatility		126.7	0.0	0.8	13.3	60.2	47.7
Global FX Volatility		11.3	0.0	0.1	0.9	4.7	3.9
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		251	2.3	-8	14	140	99
Italy		229	0.2	-3	12	129	94
Portugal		105	1.1	-1	3	49	40
Spain		116	0.1	0	3	52	41

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

Emerging Market Financial Indicators

Last updated: 16/09/2022 12:16 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		7.01	-0.2	-1.2	-3	-8	-9		2.8	1.5	4	4	-25	-8
Indonesia		14955	-0.4	-0.8	-1	-5	-5		7.2	3.3	5	19	108	83
India		80	-0.1	-0.2	0	-8	-7		6.3	0.0	0	9		0
Philippines		57	-0.4	-1.0	-3	-13	-11		5.7	0.0	3	33	185	118
Thailand		37	-0.1	-1.6	-4	-10	-10		3.0	9.5	28	69	134	114
Malaysia		4.54	0.0	-0.8	-1	-8	-8		4.2	6.3	10	20	85	56
Argentina		143	-0.2	-1.4	-6	-31	-28		80.5	131.1	235	925	3283	2990
Brazil		5.25	-1.5	-0.6	-3	0	6		12.0	11.0	33	22	84	131
Chile		923	-0.4	-4.6	-5	-16	-8		6.6	2.0	-13	7	170	117
Colombia		4417	-0.7	-0.4	-6	-14	-8		9.8	0.0	13	98	353	337
Mexico		20.06	0.0	-0.8	-1	-1	2		8.8	0.0	19	72	173	131
Peru		3.9	0.0	0.0	-1	6	3		8.2	2.8	-7	43	177	228
Uruguay		41	-0.1	0.2	-2	5	9		11.4	0.0	8	54	349	269
Hungary		405	1.0	-2.3	-2	-26	-20		9.4	-6.0	-45	116	633	493
Poland		4.73	-0.1	-1.1	-3	-18	-15		6.1	6.5	15	85	408	255
Romania		4.9	-0.3	-1.2	-3	-15	-12		8.1	-0.4	6	57	452	326
Russia		60.3	-0.2	1.2	1	20	25		8.3	4.0	4	1	87	-48
South Africa		17.7	-0.6	-2.0	-7	-17	-10		9.2	3.0	21	62	193	177
Turkey		18.27	-0.1	-0.3	-2	-53	-27		11.5	-4.0	9	-544	-566	-1286
US (DXY; 5y UST)		110	0.1	0.8	3	18	15		3.68	1.5	25	73	284	242

	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		3933	-2.3	-3	-6	-18	-20		196	-7	-25	-15	-7
Indonesia		7169	-1.9	-1	0	17	9		177	1	3	0	12
India		58841	-1.8	-2	-2	-1	1		158	-3	6	15	26
Philippines		6549	-0.4	-1	-5	-5	-8		127	-2	4	18	26
Malaysia		1467	0.0	-2	-3	-6	-6		96	-1	-16	-34	-21
Argentina		144766	-1.4	2	16	82	73		2346	3	-82	871	666
Brazil		109954	-0.5	0	-3	-3	5		291	-4	-20	-3	-20
Chile		5523	-1.5	0	3	24	28		175	2	15	26	35
Colombia		1214	-0.4	-1	-8	-8	-14		398	-14	16	118	50
Mexico		46770	0.1	1	-4	-10	-12		417	3	22	81	85
Peru		19360	0.5	1	-4	8	-8		205	14	31	34	55
Hungary		40478	-0.5	-1	-7	-23	-20		244	15	48	106	120
Poland		49880	-1.4	-2	-11	-30	-28		12	-18	42	-14	-20
Romania		11770	-0.3	-1	-7	-4	-10		289	-12	29	96	96
Russia		2450	0.2	1	11	-39	-35		3411	-577	938	3228	3234
South Africa		66657	-1.3	-3	-7	5	-10		431	-1	15	83	76
Turkey		3384	0.6	-4	16	139	82		602	-14	-11	133	24
Ukraine		519	0.0	0	0	-1	-1		3346	-534	-3350	2878	2587
EM total		38	-0.6	-1	-7	-26	-22		423	-3	7	70	37

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

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