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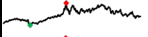
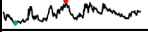
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Global yields march higher as Fed starts two-day meeting

Global yields traded materially higher as the Fed starts its two-day FOMC meeting. US 10-yr rates are testing new post-2008 highs as most market participants expect the Fed to hike 75 bps tomorrow but some believe that a hike of 100 bps cannot be excluded. In this morning batch of US data, housing starts were stronger than expected but building permits disappointed. Some contacts argue that relatively robust US data are increasing the chance of a soft-landing scenario but also increase the likelihood of US rates staying higher for longer. The Riksbank surprised with a hike of 100 bps but the large hike failed to boost the krona. Italian 10-yr yields rose to a new multi-year high ahead of national elections taking place on September 25.

Key Global Financial Indicators

Last updated: 9/20/22 12:08 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		3900	0.7	-5	-8	-11	-18
Eurostoxx 50		3480	-0.6	-3	-7	-14	-19
Nikkei 225		27688	0.4	-3	-4	-9	-4
MSCI EM		38	0.3	-4	-5	-24	-22
Yields and Spreads				bps			
US 10y Yield		3.53	4.3	13	56	222	202
Germany 10y Yield		1.89	8.3	16	66	221	207
EMBIG Sovereign Spread		502	-3	23	12	161	135
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		49.8	-0.1	0	0	-11	-5
Dollar index, (+) = \$ appreciation		109.8	0.0	0	1	18	15
Brent Crude Oil (\$/barrel)		92.0	0.0	-1	-5	24	18
VIX Index (% change in pp)		26.3	0.5	-1	6	1	9

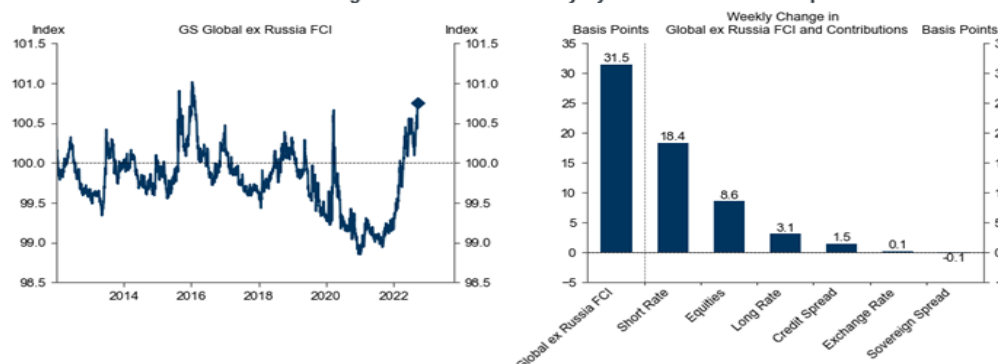
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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Global rates traded higher, led by the front end as investors brace for a “super week” of central bank meetings. Goldman Sachs’ high-frequency Global Financial Conditions Index has tightened recently, primarily reflecting higher short rates and lower equity prices.

Exhibit 2: The Global ex Russia FCI Tightened Driven Primarily by the Short Rate and Equities



Source: Goldman Sachs Global Investment Research

United States

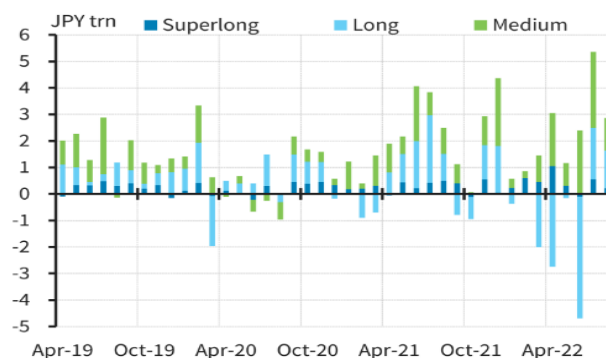
US treasury yields rose to new post-GFC highs on Monday. 10-yr yields finished the day at 3.49% and 2-years at 3.94%, up 4 bps and 7 bps for the day, respectively. Short-term rates are now pricing a 75 bps hike for the upcoming FOMC meeting Wednesday. **US equities rebounded by 0.7% for the day**, following the worst week since mid-June, but far from recovering from recent losses.

Last week, the SEC proposed a rule to increase central clearing of US Treasury cash and repo transactions and improve risk management at Central Counterparties (CCPs), which clear these products. The proposal should help increase the safety and efficiency of securities trading and reduce costs, mitigate the potential for a single market participant’s failure to destabilize other market participants or the financial system, and address concerns by substituting the clearinghouse’s liquidity and creditworthiness for each counterparty, according to the SEC. Market participants broadly agree with the SEC’s view. **Still, some market participants noted that the benefits come at the expense of additional costs (fees, margins, etc.), increased concentration and systemic risks, and the exclusion of certain market participants who do not have access to CCPs, thereby hurting market liquidity.** According to JPM analysts, there are also broader considerations: Treasury inventories and repo capacity among dealers could decrease if the increased costs become too prohibitive such that there are fewer Treasury cash and repo transactions and hence less leverage in the system.

Japan

Inflation accelerated to a 31-yr high of 3% yoy in August (previous: 2.6%), spurred by utilities (15.6% yoy) and fresh food (8.1% yoy). Core inflation quickened to 2.8% yoy (previous: 2.4%). Analysts largely expect the Bank of Japan to leave policy rates unchanged on Thursday, September 22 regardless. Separately, **investors bought ¥5.4 tn (\$37.9 bn) of Japanese government bonds (JGBs) in August**, the most in seven months. Foreigners comprised 53% of the purchases, having bought mostly long and superlong JGBs, Bloomberg reports. **Equities firmed +0.5%. Japanese yen depreciated -0.3%, 10-year yields were little changed.**

Figure . Net buying of JGBs by overseas investors



Source: JSDA, Barclays Research

Euro area

European equities were mostly trading lower (Stoxx 600 Europe index -0.6%), while the banking sector gained (+0.5%). The euro (-0.1%) was little changed.

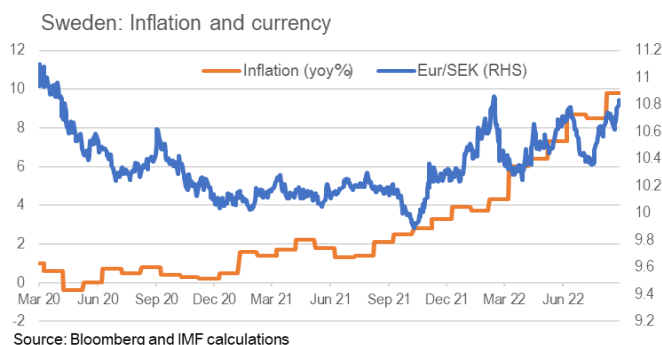
Sovereign yields increased (10-yr bund +9 bps to 1.89%) as hawkish ECB rhetoric continue and PPI data from Germany surprised on the upside. ECB Governing council member Muller said this morning that interest rates are not yet close to restrictive levels and remain relatively low compared to historical levels. This follows on comments from ECB Vice President de Guindos that an economic slowdown alone will not curb inflationary pressures. Moreover, **Germany's PPI data surprised on the upside in August, increasing to +45.8%yoy** (vs expected 36.8% from 37.2%).

Markets are pricing a terminal ECB deposit rate of over 2.7% by July 2023. Analysts highlight that such a level is generally seen as restrictive. Commerzbank analysts caution that this could further cloud the economic outlook and add to curve flattening.

The ECB published additional details on plans to gradually decarbonize corporate bond holdings, starting in October. The ECB had announced in July that it would tilt its purchases of corporate bonds to purchase more bonds of companies with a good climate score. The ECB noted that the climate score combines three sub-scores: backward-looking emissions i.e., past emissions of issuers compared to sector peers and all eligible bond issuers; forward-looking targets i.e., issuers' plans to reduce their greenhouse gas (GHG) emissions; and climate disclosure i.e. the quality of issuers' reporting of GHG emissions. ECB executive Board member said that the new plan would impact reinvestments worth roughly €30 bn each year. Climate-related information on the ECB's corporate bond holdings will be published regularly, starting in Q1 2023. Commerzbank analysts highlight that with **GHG emissions judged relative to sector peers leaves the ECB with room to consider bonds from high-carbon sectors.**

Sweden

The krona initially appreciated (+0.3% against the euro) after the Riksbank surprised with a hike of 100 bps (75 bps expected) but fell in later trading (-0.2%). The press release emphasized that inflation is too high, and the central bank's executive board forecast further tightening over the next six months with the terminal rate signaled at 2.5%. The monetary policy report revised growth lower and inflation higher, with inflation expected to peak in Q1 2023. The Riksbank's asset purchases are to continue as previously announced but are expected to cease by end-2022. JPMorgan analysts now expect a 50 bps hike in November and note that the terminal rate of 2.5% remains well below market pricing. While analysts see global risk sentiment as the main driver of the koruna, **Morgan Stanley analysts expect that further Riksbank tightening against a 'stagflation backdrop' will weigh on the currency.**



Emerging Markets

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Asian equities rallied +1.1% on net. India firmed +1.4%, followed by Hong Kong SAR (+1.2%). **Asian currencies and 10-year yields were mostly little changed.** Vietnam yields fell -10 bps; the Philippines' yields rose +3.7 bps. **Thailand** Deputy PM Prawit called on the Finance Ministry to help monitor baht volatility. **Sri Lanka** intends to seek an Indian and Chinese credit line for the purchase of solar panels imported by these countries. According to Bloomberg, India has been the biggest provider of aid in 2022 with total assistance of about \$4 bn so far this year. LATAM markets open the week on a positive note. In Brazil, the markets welcomed the news that former president, Lula, widened his lead to 44% in opinion polls **for the upcoming presidential election.** Both equities (+2.3%) and the currency (+1.5%) were up. Other key regional markets too gained marginally. In Mexico, a strong earthquake (7.5 on Richter scale) hit the southwestern region yesterday afternoon. **EMEA equities were mixed while currencies weakened against the dollar.** Equities in Romania (+1.3%) were outperforming while equities in Poland (-0.7%) after mixed macro data for August released this morning as wages increased at a slower than expected pace and industrial output surprised on the upside. The Russian ruble appreciated against the dollar (+2.5%) as Russian exporters are reportedly selling currency for upcoming tax payments, according to Bloomberg.

Likelihood of hard landing after tightening

A Nomura report assesses a set of 16 conditions to gauge the possibility of a hard landings post hiking cycles. The sample consists of 10 advanced and 20 emerging market countries wherein 101 such cycles are identified during 1985–2019, of which, 41 cycles which ended in a soft-landing. **Based on these 16 conditions, the report identifies Chile and Colombia are most vulnerable to hard-landing among 20 emerging markets while Malaysia and Indonesia are least vulnerable in the group.**

The likelihood of hard or soft landings based on past tightening cycles

	Conditions at the start of the tightening cycle								Conditions during the tightening cycle								Aggregate z-score (Higher = More vulnerable to a hard landing)
	CPI inflation (% y-o-y)	Real GDP growth (% y-o-y)	Real policy rate (%)	Household debt (% of GDP)	Total private non-financial debt (% of GDP)	Current account balance (% of GDP)	Property price index % deviation from past 5 year average	Real effective exchange rate % deviation from past 10 year average	Change in nominal policy rate, percentage points	Change in real policy rate, percentage points	Tightening duration (no. of months)	Degree of front-loading (%)	Change in real GDP growth, percentage points	Change in property price, % cumulative growth	Change in NEER, % cumulative growth	Change in REER, % cumulative growth	
Chile	4.0		-3.3	45.1	147.6	-8.8	27.9	-5.7	10.3	0.9	15.0	34	-13.5		-16.8	-12.2	109.4
Colombia	4.5		-2.8	30.1	62.7	-6.7	15.1	-20.6	7.3	0.9	12.0	31	-1.1		-7.0	-4.9	100.5
Brazil	5.3		-3.2	32.7	89.4	-4.7	14.4	-31.9	11.8	8.2	19.0	28	4.2		13.4	12.1	99.0
Peru	4.1		-3.7	14.3	65.0	-1.8	1.6	-12.3	6.5	1.6	14.0	42	-38.7		9.2	10.1	97.8
Mexico	6.0		-1.9	16.5	41.8	1.8	19.0	-7.1	4.5	1.7	16.0	22	5.9		2.5	3.3	97.6

Note: The hard landing vulnerability scorecard assesses the conditions at the start and during the latest tightening cycles of the respective economies

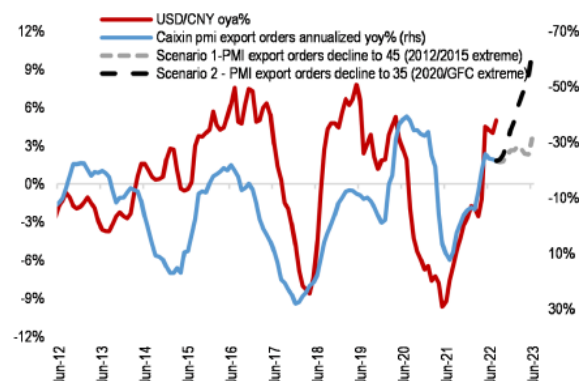
Sources: Bloomberg, CEIC, Bank for International Settlements, Institute of International Finance, International Monetary Fund, St. Louis Fed, WIND and Nomura Global Economics

China

Chinese banks held loan prime rates (LPRs) steady, as expected. Unchanged 1-yr (3.65%) and 5-yr (4.3%) LPRs follow China's central bank decision to hold the 1-yr medium-term lending facility rate at 2.75% last week. Some analysts continue to expect that cuts in the LPR cuts lie ahead. Separately, **China's**

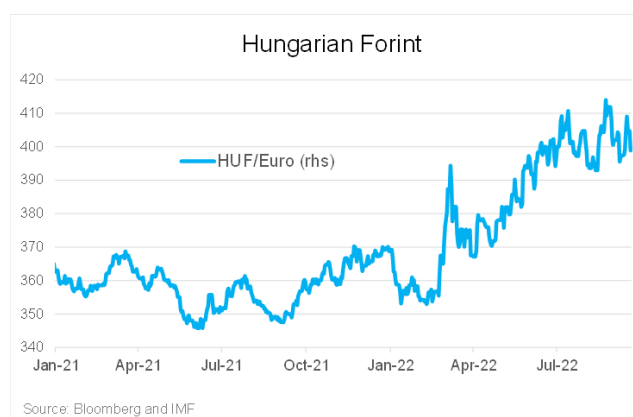
central bank will reportedly expand digital yuan pilots in four major provinces. Guangdong, Jiangsu, Hebei, and Sichuan will undergo province-wide pilots when deemed appropriate, following earlier tests in the provinces' major cities. **Equities rallied (Shanghai: +0.2%, Shenzhen: +1.1%). The renminbi weakened (onshore: -0.1%, offshore: -0.2%).** JP Morgan said a deterioration of China's exports likely spur further yuan weakness. **10-yr yields were little changed.**

Deterioration in China's export performance is negative for CNY FX, and significantly more RMB weakness may be in store if new export orders fall towards previous recession levels



Hungary

The forint (+0.3%) gained following reports that the country will adhere to EU requirements to limit fraud and corruption. Bloomberg reports that the PM filed a bill to Parliament that seeks to improve the cooperation with the EU's anti-fraud office. This follows news that the European Commission proposed suspending €7.5 bn in transfers to Hungary from its budget over accusations of corruption and fraud. **The Hungarian Forint has lost 7.5% to the euro and 18.5% to the dollar year to date, making it one of the worst performing emerging markets currencies.** Investors have cited the uncertain outlook for EU funds as contributing to the disproportionate sell-off in 2022.



Turkiye

The Turkish equity market (XU 100) has lost 12.3% over one week (September 12–19), as the banking subcomponent (BIST BANKS) lost 35%. In the month before September 12, the banking subcomponent had gained 95%. The fall started last Tuesday, after the release of higher than expected inflation data in the US triggered a severe global risk-off episode. It spiraled amid some panic selling as some institutions reportedly faced margin calls. **The significant increase in banks' valuations earlier this year was in part due to strong earnings expectations, after a series of non-orthodox measures from the**

authorities to support the currency triggered additional demand for government bonds and therefore gains in banks' bond holdings.

Peru

Real economic activity contracts in July by 0.8% m/m. This was driven by mining and manufacturing sectors, where production declined by 3% and 3.2%, respectively, on a sequential basis. The two sectors have a joint weight of 31% in the headline composite. Analysts opine, political and institutional risks have weighed on capital expenditure post-COVID, which coupled with supply disruptions have affected the manufacturing and mining activities. Recently, media reports indicated that ~30% of the country's copper production capacity is affected by transport-disrupting protests. However, analysts expect "modest" fiscal spending and withdrawal from pension funds will drive growth in economic activity, going forward.

Figure 1. Real economic activity: deviation from pre-COVID levels
Percent, deviation from pre-COVID pandemic activity levels

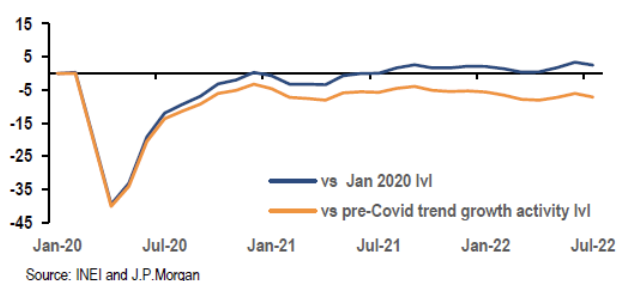
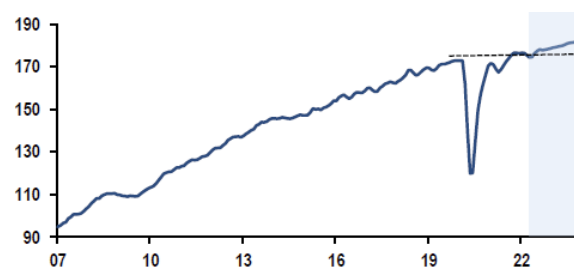


Figure 2. Real economic activity Levels, seasonally adjusted



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Global Financial Indicators

Last updated: 9/20/22 12:08 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3900	0.7	-5	-8	-11	-18
Europe		3480	-0.6	-3	-7	-14	-19
Japan		27688	0.4	-3	-4	-9	-4
China		3122	0.2	-4	-4	-14	-14
Asia Ex Japan		64	0.3	-4	-5	-24	-22
Emerging Markets		38	0.3	-4	-5	-24	-22
Interest Rates							
			basis points				
US 10y Yield		3.53	4.3	13	56	222	202
Germany 10y Yield		1.89	8.3	16	66	221	207
Japan 10y Yield		0.26	-0.1	1	5	20	19
UK 10y Yield		3.26	12.6	9	85	247	229
Credit Spreads							
			basis points				
US Investment Grade		162	-1.8	-1	1	75	50
US High Yield		490	-3.6	30	20	180	152
Europe IG		119	6.3	10	8	67	71
Europe HY		587	34.1	57	35	334	345
Exchange Rates							
			%				
USD/Majors		109.77	0.0	0	1	18	15
EUR/USD		1.00	-0.2	0	1	-15	-12
USD/JPY		143.6	0.3	-1	4	31	25
EM/USD		49.8	-0.1	0	0	-11	-5
Commodities							
			%				
Brent Crude Oil (\$/barrel)		92	0.0	-1	-5	24	18
Industrials Metals (index)		153	0.3	-1	-3	-5	-11
Agriculture (index)		69	0.2	-2	4	25	13
Implied Volatility							
			%				
VIX Index (% change in pp)		26.3	0.5	-1.0	5.7	0.6	9.1
US 10y Swaption Volatility		135.8	0.0	1.7	2.8	63.1	56.8
Global FX Volatility		11.4	0.0	0.5	0.3	4.5	4.0
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		257	0.5	6	10	143	106
Italy		229	0.2	2	1	125	94
Portugal		104	-0.7	0	-2	47	39
Spain		115	0.1	1	-1	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: 20/09/2022 12:09 PM	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		7.01	-0.1	-1.1	-2	-8	-9		2.7	-1.9	0	2	-26	-11
Indonesia		14984	0.0	-0.9	-1	-5	-5		7.2	-1.3	8	9	103	81
India		80	0.0	-0.8	0	-8	-7		6.3	0.0	0	9		0
Philippines		57	-0.1	-1.2	-2	-13	-11		5.7	2.5	3	35	188	120
Thailand		37	-0.1	-0.9	-2	-10	-10		3.0	0.0	29	44	130	114
Malaysia		4.56	-0.2	-1.1	-2	-8	-9		4.2	3.9	16	24	85	61
Argentina		144	-0.6	-1.4	-6	-32	-29		82.5	102.7	300	681	3440	3192
Brazil		5.17	1.6	-1.5	0	3	8		11.8	-10.0	25	-26	68	113
Chile		923	0.0	-2.6	2	-15	-8		6.6	0.0	-5	-29	180	117
Colombia		4408	0.6	-1.1	-1	-13	-8		9.7	0.0	-4	19	338	331
Mexico		19.96	-0.2	0.6	1	1	3		8.9	-0.5	15	29	168	134
Peru		3.9	0.2	-0.4	0	6	3		8.2	-0.2	11	32	189	229
Uruguay		41	0.1	-0.7	-1	5	9		11.4	0.0	6	52	347	267
Hungary		398	0.0	0.6	3	-24	-18		9.4	-10.0	-6	5	617	484
Poland		4.71	-0.3	0.5	2	-17	-14		6.1	5.5	20	20	407	252
Romania		4.9	-0.3	0.1	-1	-14	-12		8.0	0.5	5	32	449	318
Russia		60.1	2.4	-0.8	0	22	25		8.5	28.6	30	25	84	-24
South Africa		17.7	-0.3	-1.5	-4	-17	-10		9.2	2.0	18	38	187	179
Turkey		18.31	-0.1	-0.3	-1	-53	-27		11.6	0.0	19	-532	-572	-1271
US (DXY; 5y UST)		110	0.0	0.0	1	18	15		3.73	4.3	15	63	290	246

	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	0.1	-4	-5	-19	-20		196	-8	-18	-13	-7
Indonesia		7197	0.0	-2	0	18	9		181	10	5	8	16
India		59720	1.0	-1	0	2	3		159	4	7	13	27
Philippines		6448	0.2	-4	-6	-6	-9		136	14	12	29	35
Malaysia		1461	0.7	-2	-3	-4	-7		98	0	-13	-32	-19
Argentina		150262	3.1	4	15	104	80		2392	81	-73	895	712
Brazil		111824	2.3	-1	0	3	7		295	11	-22	5	-16
Chile		5523	0.0	-2	3	24	28		178	13	3	31	38
Colombia		1205	-0.3	-2	-8	-8	-15		415	36	11	134	67
Mexico		46794	0.1	-1	-3	-7	-12		426	22	17	88	94
Peru		19480	0.6	0	-1	10	-8		210	31	25	44	60
Hungary		40386	0.3	-3	-6	-21	-20		259	47	49	126	135
Poland		49741	-0.7	-1	-9	-28	-28		-6	-34	-15	-26	-38
Romania		11605	1.4	-3	-8	-5	-11		293	11	30	104	100
Russia		2329	-4.2	-5	6	-41	-38		3411	-577	938	3228	3234
South Africa		66788	0.5	-2	-4	9	-9		443	48	-6	93	88
Turkey		3239	1.2	-5	7	133	74		623	55	-50	142	45
Ukraine		519	0.0	0	0	-1	-1		3402	-138	105	2933	2643
EM total		38	0.4	-4	-5	-24	-22		430	22	7	76	44

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

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