



- US yields and US dollar at multi-year highs ahead of FOMC ([link](#))
- Improved pension fund status supports demand for US long-term debt ([link](#))
- Canadian inflation shows sign of stabilization ([link](#))
- Japan raises bond purchases to protect yield target ([link](#))
- Germany nationalizes gas importer Uniper ([link](#))
- S&P downgrades four major China state-owned bad debt managers ([link](#))
- South African inflation eases but expectations for further tightening remain ([link](#))
- Ghana reportedly set to start debt restructuring negotiations ([link](#))
- Ecuador negotiates debt service relief of \$1.4 bn ([link](#))

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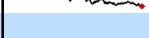


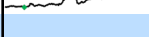



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Looking for FOMC guidance

Core yields fell and equities were mixed ahead of today's FOMC meeting. Global yields have risen sharply with US yields after US core inflation accelerated to 6.3% yoy in August. Market participants everywhere will study today's FOMC meeting closely for guidance on the likely path of policy rates and the response of the US economy. The FOMC will also show forecasts for 2025 the first time today. European equities fell after President Putin announced a *partial mobilization* to call up more troops but shares reversed losses later. The euro weakened against the dollar as volatility in the currency increased to the highest level since 2020. Brazil's central bank is expected to keep its policy rate unchanged at 13.75% today.

Key Global Financial Indicators

Last updated: 9/21/22 11:45 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3856	-1.1	-2	-9	-11	-19
Eurostoxx 50		3469	0.1	-3	-7	-15	-19
Nikkei 225		27313	-1.4	-5	-6	-8	-5
MSCI EM		38	-0.6	-2	-6	-25	-23
Yields and Spreads			bps				
US 10y Yield		3.54	-2.3	14	57	222	203
Germany 10y Yield		1.89	-3.9	17	66	220	206
EMBIG Sovereign Spread		506	4	19	16	154	139
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		49.5	-0.2	-1	-1	-12	-6
Dollar index, (+) = \$ appreciation		110.6	0.4	1	2	19	16
Brent Crude Oil (\$/barrel)		92.8	2.4	-1	-4	25	19
VIX Index (% change in pp)		27.1	0.0	1	7	3	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

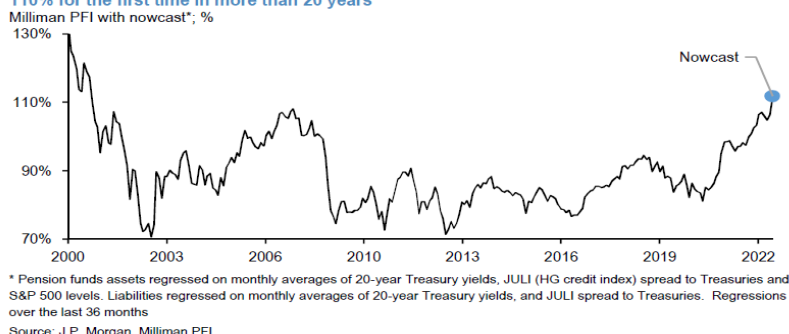
US Treasury yields continued to test new post-GFC highs as all eyes are on today's FOMC meeting.

The 2-10-year yield curve steepened Tuesday with 10-yr rates 7 bps higher at 3.56% and 2-years up 1 bps at 3.95%. **The dollar also strengthened, and the DXY index approached 20-yr highs.** Money market have fully priced in a 75 bps hike with a 18% probability of a 100bps hike.

US equities closed 1.1% lower yesterday, led by the rate-sensitive real estate sector. The headline of August housing starts released in the morning was stronger than expected (+12.2%mom, sa vs. 0.3% consensus), but there were significant downward revisions to the prior two months, resulting in July-August starts being below the Q2 average. **The Atlanta Fed's GDP Now estimate of Q3 fell to +0.3%q/q, saar.**

Robust ALM demand from pension funds is expected to support long bonds. Discount rates for defined benefit (DB) pension funds have continued to rise, improving their funded status. According to JP Morgan, their estimated funded ratio is approaching 110% for the first time in more than 20 years, driving asset allocation into long-term bonds as these funds are more incentivized to hedge the duration of their long-dated liabilities.

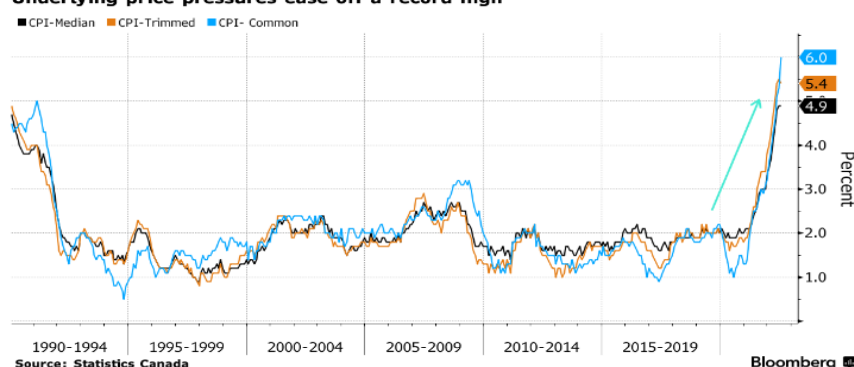
Exhibit 6: Given the move in discount rates, it appears pension funded ratios are approaching 110% for the first time in more than 20 years



Canada

The Canadian dollar fell -0.9% yesterday following CPI data released in the morning. Both headline and core gauges were softer than expected: non-seasonally adjusted CPI was -0.3%mom in August, and the average of three main core inflation fell to +5.23%yoy from a record high at +5.43%. **Analysts note that the data indicate that tighter policy may be working while probably not enough to derail the central bank from further hikes.**

Core Concerns
Underlying price pressures ease off a record high



Japan

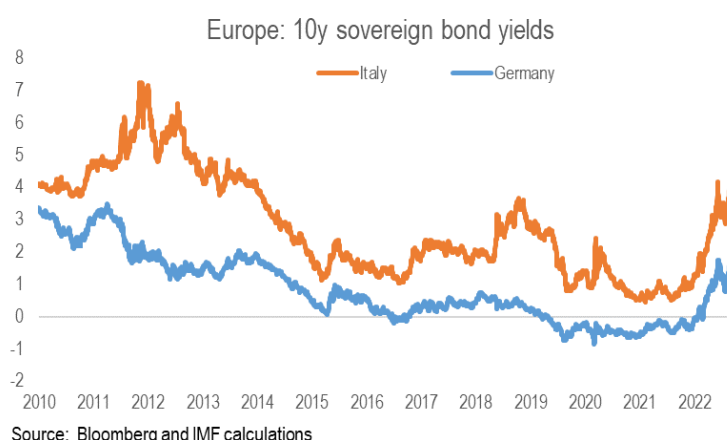
The Bank of Japan (BOJ) stepped up bond market interventions as benchmark 10-yr yields held close to 0.25% ceiling. The BOJ also spent ¥1.3 tn (\$7 bn) on fixed rate bond purchases on Wednesday, the most since June. It also announced unscheduled bond buys, having offered to buy ¥150 bn (\$1.1 bn) of 5-10-year bonds and ¥100 bn (\$0.7 bn) of 10-25-year bonds. Analysts saw the move as the BOJ's way to push against a rise in yields. **Government bond bid-ask spreads reached their widest since March for various tenors, amid dry liquidity conditions ahead of the BOJ's policy decision tomorrow.**

Separately, **Japan's former FX head in the Ministry of Finance Yamasaki warned that yen intervention can occur anytime.** Yamasaki added that if needed, Japan does not need to await the U.S.' approval to support the yen, Bloomberg reports. Separately, **Japan's financial regulator is reportedly intensifying its structured bond crackdown.** The regulator is seeking to eliminate such bond sales to individual investors, with some large financial institutions having already reduced or ceased sales of the products, according to press reports. **Equities dived -1.4%. Japanese yen was little changed. 10-year yields were little changed.**

Euro area

Equities reversed earlier morning losses and traded little changed ahead of today's FOMC meeting. Markets initially fell after President Putin announced a 'partial mobilization' to call up more troops. **The euro weakened against the dollar (-0.5%) and overnight volatility in EUR/USD increased to the highest level since 2020.**

Sovereign yields declined (10y bund -5 bps to 1.87%) despite further hawkish commentary from the ECB. ECB Vice President de Guindos this morning reiterated that interest rate increases will continue with the size of hike depended on data, as price pressures remain skewed to the upside despite macroeconomic data pointing to a substantial slowdown. President Lagarde yesterday also indicated that ECB tightening is expected to continue over the next several meetings. Markets hiking expectations were little changed. **Yesterday European sovereign yields increased to multi-year highs with the 10yr bund (+12 bps) increasing to 1.92%, the highest level since 2014 while Italian 10-yr yields (+10 bps) increased to 4.19%, the highest level since 2013.**



European natural gas prices remain volatile and elevated, and increased this morning (1-m ahead +7% to €207/MWh). European gas storage has increased significantly over the past several months. **Deutsche Bank analysts estimate that in a scenario of a complete shutdown of Russian gas where demand is reduced by 20%, gas storage will last through this winter.**

Germany will also nationalize gas importer Uniper. The agreement reached between the German government, Uniper and Fortum effectively transforms the stabilization package into a nationalization of Uniper. The package includes a €8 bn capital injection with the government purchasing all of Fortum's shares—which would see roughly 99% of the utility controlled by the government. **Bloomberg reports that losses accumulated by Uniper have increased to €8.5 bn as lower gas supplies from Russia forced to the utility to purchase gas in spot markets at significantly higher prices.**

Emerging Markets

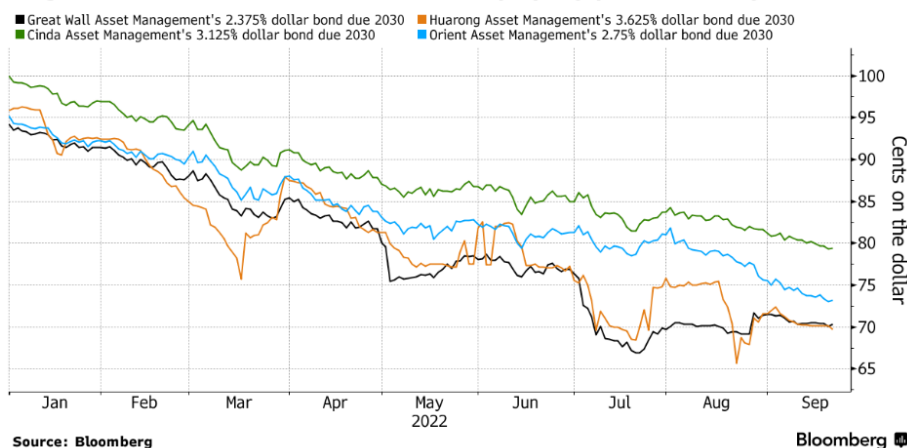
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Asian equities slumped -1.4% on net, ahead of an expected US Fed rate hike. Hong Kong SAR lost -1.8%, the Philippines fell -1.7%. **Asian currencies depreciated.** Philippine peso weakened -0.9%, Malaysian ringgit outperformed +0.1%. **10-year yields were mostly little changed.** Vietnam rose +25 bps, The Philippines rose +13 bps, Sri Lanka fell -11 bps. **Thailand** reportedly plans to a gross 2.2 tn baht (\$60 bn) in the fiscal year starting October 1, about 3% less than its target this year. **EMEA equities were mostly lower while currencies mostly weakened against the dollar.** Equities in Central Eastern Europe saw the largest losses while equities in Namibia were marginally higher (+0.2%). The Russian ruble retraced opening losses to appreciate against the dollar (+0.7%). **LATAM markets were mixed.** While equities were up, regional currencies followed the EM-wide trend and depreciated against the USD. **The Brazilian real, however, continued to strengthen (+0.5%) due to domestic developments.** In Argentina, 2Q2022 GDP came in at 6.9% y/y, beating market expectations. However, analysts expect the economy to contract in 2H2022 due to a worsening trade deficit, spiraling inflation, and political uncertainty.

China

S&P downgraded four major China state-owned bad debt managers. Asset managers China Great Wall, China Huarong, China Orient, and China Cinda were affected but remained investment grade. S&P cited China's economic slowdown and property sector slump, which worsened operating conditions and earnings prospects, as ratings downgrade justifications. S&P also noted China's state-owned firms are stuck in a debt trap and will likely need external help. Separately, **China's central bank said the current level of rates provides space for additional government support.** The bank noted in a WeChat statement real interest rates are below China's potential growth rate; this could mitigate concerns over debt sustainability and allow for extra policy space for the government. Separately, **more Chinese property firms are reportedly turning to state-guaranteed bond issuance.** Excellence Commercial, China SCE Group, and a CIFI Holdings unit are reportedly planning to issue such bonds next, according to Bloomberg. **Equities fell (CSI 300: -0.7%). Renminbi weakened -0.4%, 10-year yields were little changed.**

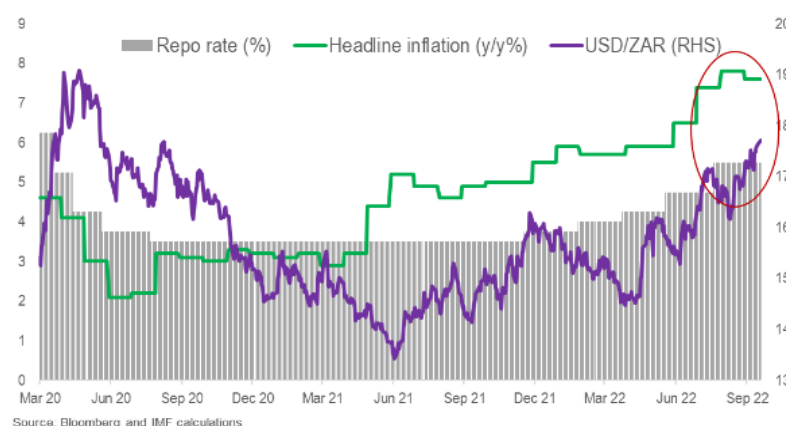
Longer-term bonds of China's AMCs have felt property pressures this year



South Africa

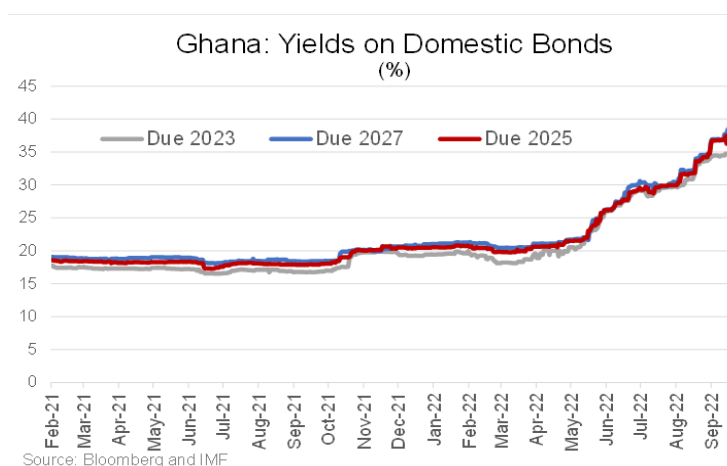
Bond yields edged lower (10y bond -4 bps to 10.9%) after August headline inflation eased for the first time since January and core inflation slowed more than expected, ahead of the central bank monetary policy decision tomorrow. Headline inflation eased to 7.6%yoy (from 7.8%) in line with expectations, while core inflation came in lower than expected (4.4%yoy, vs expectations to remain unchanged at 4.6%) as fuel prices decreased but food inflation continued to increase. The central bank surprised markets with a hike of 75 bps at the previous policy meeting in July to take the repo rate to 5.5%, and **consensus expectations for another 75 bps hike for tomorrow remains.** The rand was little changed against the dollar this morning, after it depreciated to its weakest level in two years earlier this week amid warnings from Eskom, the main provider of electricity in South Africa, that outages could increase to record levels.

South Africa - Inflation and currency



Ghana

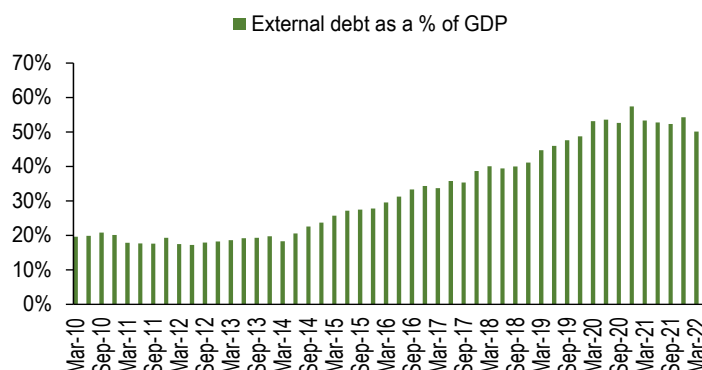
Yields on Ghana's domestic bonds are expected to increase further amid reports that Ghana is about to start restructuring talks with domestic bondholders. Yields on domestic bond yields have increased by 1,500 bps since mid-May to close to 40%. According to Bloomberg reports citing unnamed sources, the largest domestic debt investors—including local banks and pension funds—are preparing to engage in discussion on debt reorganization that could entail extension of maturities and haircuts on principal and interest payments. Ghana requested a Fund-supported program in July.



Ecuador

Ecuador restructured a part of its debt from China. As per media reports, Ecuador has reached an agreement to restructure loans valuing \$3.2 bn from the China Development Bank (CDB) and the Export-Import Bank (EXIM) by extending loan maturities and lowering interest rates and amortization. This effectively reduces its debt servicing obligation by \$1.4 bn through 2025. China has been a key lender and trading partner of Ecuador, as the latter has borrowed \$18 bn since late 2000s and is also negotiating a bilateral free trade agreement. **Analysts believe that this debt restructuring creates space for Ecuador's government to engage in social spending in the immediate future, and hence, meeting one of the key demands of protesters.** The country has been facing protests about rising food and fuel prices, with demands from the government to increase social spending.

Ecuador's external debt has risen considerably in the last decade










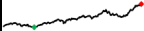

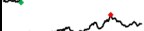


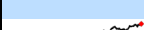


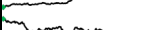



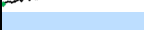








Note: 2022 GDP estimates are based on WEO data.
Sources: Bloomberg, and IMF's WEO

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Global Financial Indicators

Last updated: 9/21/22 11:45 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3856	-1.1	-2	-9	-11	-19
Europe		3469	0.1	-3	-7	-15	-19
Japan		27313	-1.4	-5	-6	-8	-5
China		3117	-0.2	-4	-4	-14	-14
Asia Ex Japan		64	-0.7	-2	-5	-25	-23
Emerging Markets		38	-0.6	-2	-6	-25	-23
Interest Rates			basis points				
US 10y Yield		3.54	-2.3	14	57	222	203
Germany 10y Yield		1.89	-3.9	17	66	220	206
Japan 10y Yield		0.26	0.3	0	6	22	19
UK 10y Yield		3.31	1.9	18	90	250	234
Credit Spreads			basis points				
US Investment Grade		164	1.4	0	3	75	52
US High Yield		489	-0.8	21	20	167	151
Europe IG		123	2.4	16	13	72	75
Europe HY		606	9.7	82	55	358	365
Exchange Rates			%				
USD/Majors		110.61	0.4	1	2	19	16
EUR/USD		0.99	-0.5	-1	0	-15	-13
USD/JPY		143.9	0.1	1	5	32	25
EM/USD		49.5	-0.2	-1	-1	-12	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		93	2.4	-1	-4	25	19
Industrials Metals (index)		153	-0.2	-1	-3	-5	-12
Agriculture (index)		71	0.4	2	7	28	16
Implied Volatility			%				
VIX Index (% change in pp)		27.1	0.0	1.0	6.5	2.8	9.9
US 10y Swaption Volatility		137.1	0.0	9.2	4.1	65.1	58.1
Global FX Volatility		11.3	0.0	0.1	0.2	4.4	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		255	0.5	1	7	145	103
Italy		227	0.4	-2	0	126	92
Portugal		104	0.3	0	-2	48	39
Spain		115	-0.1	0	-1	50	40

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

Emerging Market Financial Indicators

Last updated: 21/09/2022 11:46 AM	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		7.05	-0.4	-1.2	-3	-8	-10		2.7	-0.3	-2	2	-26	-11		
Indonesia		14997	-0.1	-0.6	-1	-5	-5		7.2	0.6	7	9	104	82		
India		80	-0.3	-0.7	0	-8	-7		6.3	0.0	0	9	#####	0		
Philippines		58	-0.9	-1.6	-3	-14	-12		5.7	0.0	3	35	188	120		
Thailand		37	-0.4	-1.5	-3	-10	-11		3.0	-4.0	18	40	128	110		
Malaysia		4.55	0.1	-0.6	-1	-8	-8		4.2	3.6	14	26	87	63		
Argentina		145	-0.2	-1.4	-6	-32	-29		82.4	-12.2	268	669	3421	3180		
Brazil		5.14	0.5	1.0	0	4	8		11.8	-2.0	1	-34	66	111		
Chile		934	-1.2	-1.7	1	-16	-9		6.7	0.0	14	-17	193	129		
Colombia		4423	-0.4	-0.2	-1	-13	-8		9.8	0.0	0	23	344	335		
Mexico		19.99	0.0	-0.2	1	1	3		9.0	0.0	20	38	177	143		
Peru		3.9	-0.8	-0.5	-1	6	3		8.3	8.5	16	40	199	237		
Uruguay		41	-0.1	-0.5	-1	5	9		11.4	0.0	-6	52	347	267		
Hungary		407	-1.1	-0.1	1	-26	-20		9.5	6.0	-12	18	639	497		
Poland		4.78	-0.6	-1.1	0	-18	-16		6.0	-8.5	3	13	403	245		
Romania		5.0	-0.4	-0.9	-1	-15	-13		8.1	5.6	-4	38	455	324		
Russia		60.9	0.8	-1.1	-1	20	23		8.3	-28.0	0	-3	65	-52		
South Africa		17.7	0.0	-1.1	-4	-16	-10		9.2	-6.5	3	36	184	177		
Turkey		18.32	-0.1	-0.5	-1	-53	-27		11.6	0.0	18	-532	-567	-1271		
US (DXY; 5y UST)		111	0.4	0.9	2	19	16		3.73	-2.1	12	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		3904	-0.7	-4	-6	-20	-21		195	-5	-19	-16	-8		
Indonesia		7188	-0.1	-1	0	19	9		181	11	5	-3	16		
India		59457	-0.4	-1	0	1	2		163	4	11	16	31		
Philippines		6342	-1.7	-4	-8	-8	-11		137	15	13	21	36		
Malaysia		1447	-1.0	-3	-4	-5	-8		99	2	-12	-34	-18		
Argentina		147930	-1.6	3	13	100	77		2404	78	-61	843	724		
Brazil		112517	0.6	2	1	2	7		298	9	-19	-2	-13		
Chile		5341	-3.3	-5	1	24	24		179	5	4	24	39		
Colombia		1195	-0.9	-2	-9	-8	-15		423	31	19	130	75		
Mexico		47069	0.6	-2	-3	-7	-12		432	14	23	80	100		
Peru		19583	0.5	1	0	10	-7		212	19	27	38	62		
Hungary		39611	-0.2	-4	-8	-22	-22		255	35	45	116	131		
Poland		49200	-0.1	-2	-10	-29	-29		18	-8	9	-4	-14		
Romania		11311	-1.4	-4	-11	-8	-13		303	19	40	106	110		
Russia		2124	-4.1	-13	-3	-47	-44		3411	-577	938	3228	3234		
South Africa		66163	-0.7	-3	-5	6	-10		445	28	-4	81	90		
Turkey		3244	-1.0	-6	7	134	75		613	27	-60	121	35		
Ukraine		519	0.0	0	0	-1	-1		3417	-46	120	2929	2658		
EM total		38	-0.6	-2	-6	-25	-23		433	15	11	66	47		

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

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