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- Fed dot plot finally moves ahead of market forecasts ([link](#))
- US markets predict higher risk of recession ([link](#))
- UK yields shoot up after “mini budget” ([link](#))
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## Global markets are a sea of red

**Stocks across the world took heavy losses as a surge in US interest rates destabilized global markets.** The benchmark US 10-year Treasury yield is at its highest level since 2010. Investors are coming to grips with the fact that central banks are going to be much more aggressive in raising rates than was originally assumed. The Fed takes center stage in this, with Fed Chair Powell's message finally getting through that the Fed will do what is necessary to tame inflation even at the cost of recession and higher unemployment. All hopes of a dovish “pivot” appear to have been finally dispelled. There is a growing realization that the global economy is likely to suffer a severe blow next years as central banks hike rates to tackle inflation. Meanwhile, the dollar continued its relentless rally, putting more pressure on emerging markets as well as Japan and the euro area. The UK is in the spotlight as the new government unveiled its aggressive new fiscal package. Worries about its fiscal situation have pushed the pound to new lows while sending gilt yields sharply higher.

Key Global Financial Indicators

Last updated: 9/23/22 7:50 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
<b>Equities</b>							%	
S&P 500		3758	-0.8	-4	-9	-16	-21	-11
Eurostoxx 50		3341	-2.5	-5	-9	-20	-22	-16
Nikkei 225		27154	-0.6	-2	-5	-8	-6	3
MSCI EM		37	-0.5	-3	-7	-28	-24	-22
<b>Yields and Spreads</b>							bps	
US 10y Yield		3.77	5.5	32	72	234	226	178
Germany 10y Yield		2.04	7.5	28	72	230	222	181
EMBIG Sovereign Spread		502	-5	9	1	150	135	89
<b>FX / Commodities / Volatility</b>							%	
EM FX vs. USD, (+) = appreciation		49.2	-0.4	-1	-2	-12	-6	-7
Dollar index, (+) = \$ appreciation		112.3	0.9	2	3	21	17	17
Brent Crude Oil (\$/barrel)		87.8	-3.0	-4	-12	14	13	-9
VIX Index (% change in pp)		29.0	1.6	3	5	10	12	-2

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

## Global Central Banks

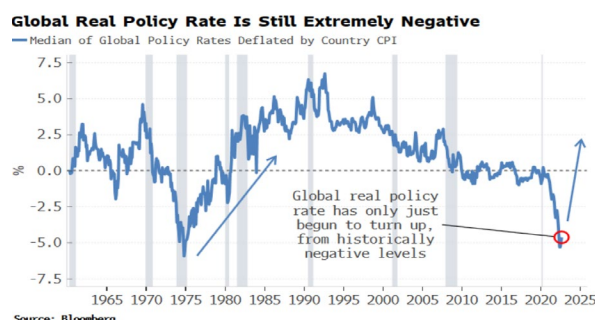
**Most global central banks have moved aggressively to raise their policy rates to tackle inflation.** 75 basis point moves have become routine as inflation continues to exceed expectations. The Swiss National Bank (SNB), among the last holdouts, came through with a 75 bps move of its own. Only Turkey, with its unconventional monetary policy, moved in the other direction. The Bank of Japan is the other major holdout, keeping its policy rate unchanged at -0.1% even as the authorities intervened in the FX market to support the yen for the first time since 1998. The BOJ is also continuing with its yield curve control strategy, intervening in the Japanese Government Bond (JGB) market to keep the benchmark 10-year JGB yield at 0.25%. For the first time in many years, the market has begun to test that level with repeated attempts to break above 0.25%, although the BOJ has managed to keep a lid on the rate so far.

### Selected September Central Bank Moves

Source: Bloomberg

Central Bank	September Move	Current Policy Rate	Change Since January
ECB	75 bps	1.25%	+125 bps
Fed	75 bps	3.0%-3.25%	+300 bps
SNB	75 bps	0.50%	+75 bps
Swedish Riksbank	100 bps	1.75%	175 bps
BOE	50 bps	2.25%	+200 bps
BOJ	Unchanged	-0.1%	None
Central Bank of Turkey	-100 bps	12%	-200 bps

**However, global central banks have a long way to go before financial conditions move into genuinely restrictive territory.** The global inflation adjusted policy rate is still deeply negative and has only just started to move upwards. This indicates that central banks may have to push rates even higher than current market expectations, setting markets up for a period of sustained volatility and possibly steep declines.

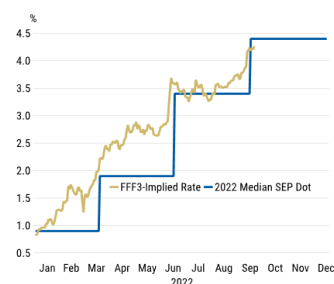


## Mature Markets

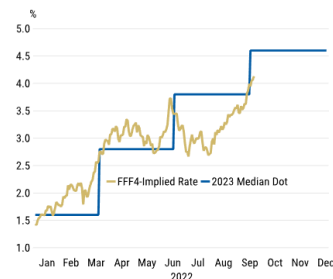
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### United States

**The latest Fed dot plot has finally moved ahead of market forecasts of future interest rates.** Until the latest Fed meeting, the dot plot of FOMC member's forecasts for future interest rates had consistently lagged market forecasts. The dot plot kept getting revised upwards at each Fed meeting to catch up with market forecasts. The September dot plot has finally moved ahead of market forecasts, with FOMC members predicting a more aggressive path for the policy rate in the future than market pricing. The Treasury market took some time to adjust to the new reality, with yields moving up after the rate decision before falling sharply at the end of trading on Wednesday. However, Thursday saw a decisive move higher for yields, with the benchmark 10-year yield shooting up.

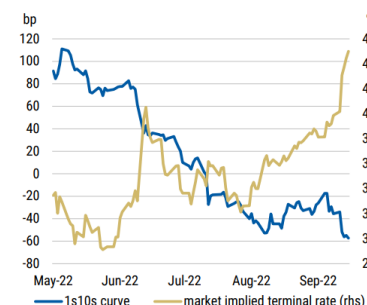
**Exhibit 8:** 2022 pricing is below the new SEP projection...

Source: Bloomberg, Morgan Stanley Research

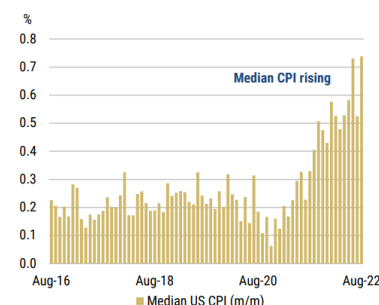
**Exhibit 9:** ...as is the 2023 dot

Source: Bloomberg, Morgan Stanley Research

The US yield curve inversion amidst expectations of a terminal rate around 4.5% for the Fed suggests that the risk of recession is now much higher. Fed Chair Powell made it clear at the FOMC press conference that the Fed is willing to move aggressively to tackle the highest inflation seen in 40 years. He also made it clear that the Fed is willing to tolerate higher unemployment to get the job done. The long end of the curve moving lower relative to short rates is an indication that the markets think that recession risks are getting worse. The two-year/ten-year yield spread plunged during and after the course of the press conference to the most inverted level seen so far in this century, before partially reversing on Thursday.

**Exhibit 17:** Terminal rate alongside 1s10s curve

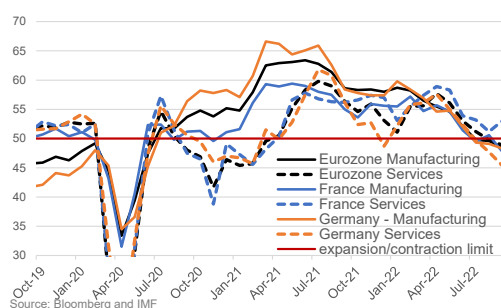
Source: Bloomberg, Morgan Stanley Research

**Exhibit 18:** Trimmed mean CPI in the last seven years

Source: Bloomberg, Morgan Stanley Research

## Euro Area

Europe is in the midst of another severe risk-off morning, with yields reaching levels not seen in at least 8 years. Equity markets are down across the board, with the Stoxx Europe 600 losing 1.6%, and French and German equities losing 1.2 and 1.4% respectively. The Stoxx 600 is now officially in a bear market, with losses of over 20% for the year. The euro is weaker by 0.7% against the dollar (to 0.98/\$), bringing the total depreciation this week to 2.6%. 10-year bund yields went up 5 bps, reaching 2% for the first time since October 2013. Italian spreads were up 6 bps at 226 bps ahead of Italy's parliamentary elections on Sunday. Euro area PMI data are deteriorating at an accelerating pace.

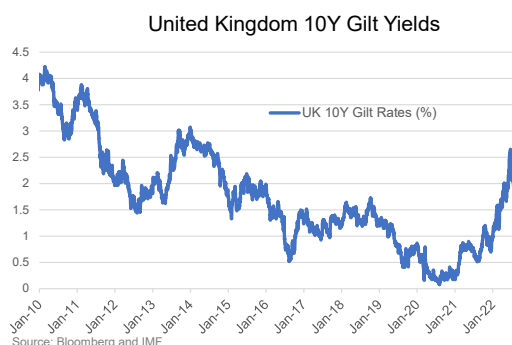
**Eurozone PMIs**

Source: Bloomberg and IMF

**In the aftermath of a multitude of rate hikes in advanced and emerging markets this week, there have been a number of hawkish statements from ECB officials.** Yesterday, ECB executive board member Schnabel said in several interviews and speeches that despite the deteriorating economy, the ECB must push on with rates increases following this month's 75 bps move, despite the souring outlook for the euro. She also said that inflation may not have peaked yet and that the inflationary pressures have become much more broad-based and crept into all parts of the economy. Coming from a very low level of interest rates, she thinks that the eurozone is not in a situation where the normalization of monetary policy harms the economy. It is rather a matter of removing the accommodation that is still in the system. She underlined that as more people expect inflation to exceed the ECB target in the medium term, it is all the more important to send clear signals that people can rely on the ECB to keep prices in check.

### United Kingdom

**UK yields are up 24 bps today, and nearly 60 bps this week to 3.73%, their highest level in more than 10 years.** The pound fell another 1.3% versus the dollar to 1.11. After the BOE hiked rates 50 bps to 2.25% yesterday, in line with consensus, chancellor of the exchequer Kwasi Kwarteng presented the "mini budget" this morning. He announced a package of tax cuts reducing the main income tax rate for workers a year earlier than anticipated, scrapping the 45% top rate of income tax, removing the 1.25% increase in national insurance taxes (introduced in April), ending a planned increase in corporation tax (leaving the headline rate at 19%), cutting stamp duty on property purchases, and confirmed support for households and businesses from spiraling energy bills (£60 bn over the next 6 months). The British pound and gilt yields sold off after the announcement as market participants are concerned that the package will fuel further inflation and borrowing as tax cuts are not compensated by expenditure cuts.



### Emerging Markets

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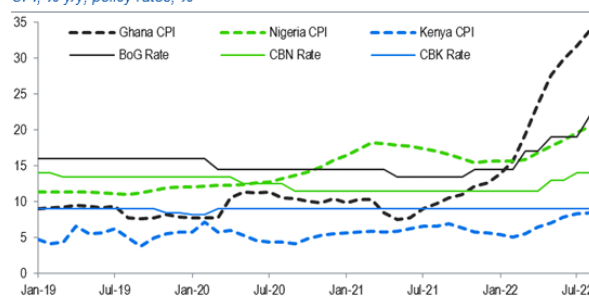
**EMEA equities were fell sharply, and currencies weakened against the dollar** as investors continue to digest a more hawkish US Fed stance. According to media reports, voting is underway in four occupied Ukrainian regions in referenda to become part of Russia. **Asian markets joined the global selloff with heavy losses.** Vietnam surprised with a 100 bps rate hike. The Philippines central bank confirmed that it was intervening in FX markets to support the peso. Thailand will end all Covid restrictions on October 1. **LATAM markets were mixed.** While most equity markets were down in the range of 0.9% - 1.4%, regional currencies staged a comeback against the USD and appreciated in the range of 0.4%-0.8%. Brazil stood out as equities gained 1.9% and the real was up 1.1%. Despite the hawkish tone adopted by the central bank in its policy rate decision statement on September 21, the swap curve shifted lower yesterday with 12-month and 18-month tenors rates declining by 25 bps and 30 bps respectively.

### African Central Banks

**Foreign exchange policy is expected to be the main driver for upcoming monetary policy meetings in Ghana, Nigeria, and Kenya.** Ghana postponed its central bank decision, originally scheduled for

Monday, October 7 to coincide with the end of the IMF mission, but Standard Chartered analysts expect the central bank of **Ghana to keep its policy rate unchanged at 22%** following August's 300 bps inter-meeting hike. Inflation accelerated to 33.9% yoy in August (from 31.7%) and analysts expect further inflationary pressures as talks of potential debt restructuring weighs on the currency. For **Nigeria's meeting on Tuesday analysts from Standard Chartered and JPMorgan expect a 100 bps hike** to take the policy rate to 15%. Nigeria's inflation accelerated to 20.5% yoy in August (from 19.6%), with the statistical agency pointing to a disruption in food supplies, higher import costs due to currency depreciation and higher production costs. Standard Chartered **analysts expect Kenya to hike by at least 50 bps to 8% on Thursday**. Analysts argue that tighter global financial conditions and sustained dollar strength would be a focal point for these meetings.

**Figure 1: FX policy intentions will likely determine the pace of tightening**  
CPI, % y/y; policy rates, %

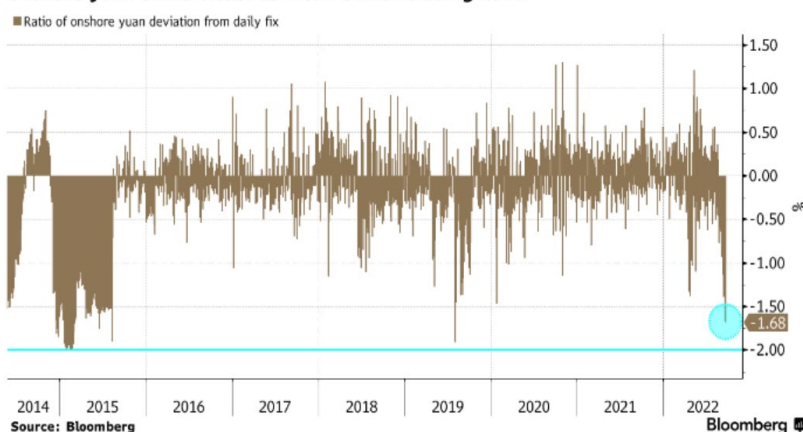


Source: Bloomberg, Standard Chartered Research

## China

**China investors' Bond Connect foreign debt holdings surged to 301 bn yuan (\$42.3 bn) in August.** The holdings have more than tripled since May as overseas yields surged and the yuan weakened, according to Bloomberg. Separately, **analysts have become increasingly negative on China's 2023 growth prospects.** Banks such as Nomura (4.3%, previous: 5.1%), Société Générale SA (4.8%, previous: 5.7%), and Goldman Sachs (4.5%, previous: 5.3%) slashed their China 2023 real GDP forecasts recently amid continued zero COVID measures. **Equities slipped (Shanghai: -0.4%, Shenzhen: -1%).** The **Renminbi depreciated further (offshore: -0.6%; onshore: -0.5%). 10-year yields firmed +2 bps.**

### Onshore yuan drifts closer to weak end of trading band



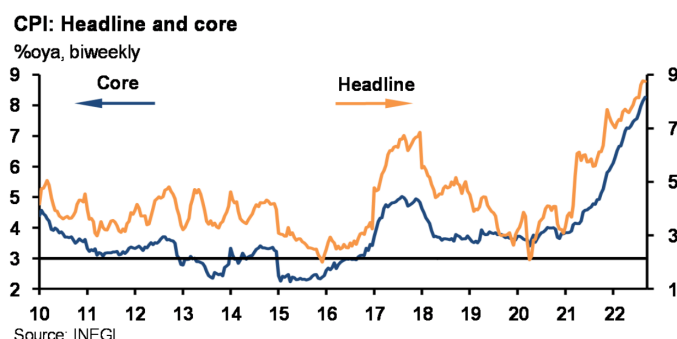
Source: Bloomberg

Bloomberg

## Mexico

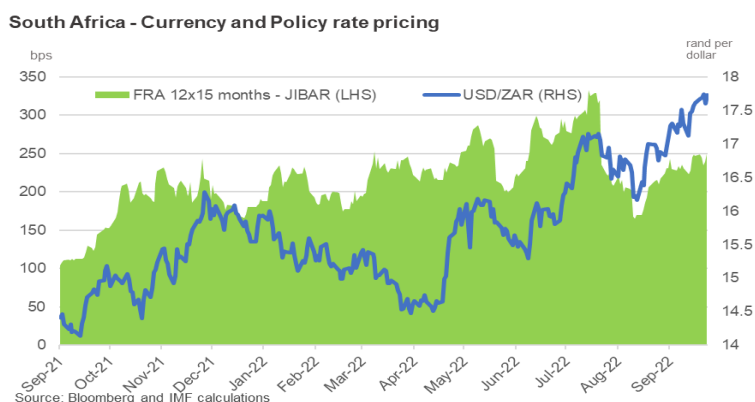
**Inflation continues to trend higher ahead of the central bank's monetary policy meeting next week.** Bi-weekly inflation for the period ending on September 15 was reported at 0.41% on a sequential basis vis-à-vis the consensus estimate of 0.37%, and higher than the August print of 0.32%. This was driven by

an accelerating core inflation which rose from 0.32% in August to 0.44%. On a y/y basis, the biweekly inflation was reported at 8.76%. Given the persistence in inflation, it is widely expected that the central bank will increase the policy rate by 75 bps at its next meeting on September 29 despite the weak economy.



## South Africa

The rand ended yesterday stronger (+0.8% against the dollar) after the central bank hiked the repo rate by 75 bps hike to 6.25%, but weakened (-1.4%) again this morning. The hike was in line with expectations, while the meeting was seen as more hawkish given the support of two MPC members for a 100 bps hike. **The central bank revised inflation forecasts downward**—headline CPI is now seen to peak at 7.4% in Q3 (previously 7%) and slow down to 6.6% in Q4 (previously 7%) with average 2023 inflation expected at 5.3% (previously 5.7%). Economic growth forecasts for 2022 were revised downwards and upwards for 2023. **JPMorgan sees the inflation forecast as too benign and argues that the pressure on the rand as a result of a hawkish US Fed will continue to add to inflationary pressures. Analysts now see another 75 bps hike in the upcoming November policy meeting and expect the policy rate to peak in Q1 2023 at 7.5% (previously seen at 7.25%).** The rand has weakened by roughly 10% against the dollar this year.











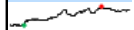





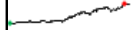

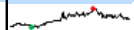







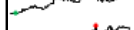



*This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), 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

9/23/22 7:52 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3758	-0.8	-4	-9	-16	-21	-11
Europe		3346	-2.4	-4	-8	-20	-22	-16
Japan		27154	-0.6	-2	-5	-8	-6	3
China		3856	-0.3	-2	-6	-20	-22	-17
Asia Ex Japan		62	-0.9	-4	-7	-28	-25	-22
Emerging Markets		37	-0.5	-3	-7	-28	-24	-22
Interest Rates			basis points					
US 10y Yield		3.76	4.3	31	71	233	225	177
Germany 10y Yield		2.03	6.2	27	71	229	220	180
Japan 10y Yield		0.24	0.0	-2	2	20	17	4
UK 10y Yield		3.79	29.2	65	121	288	282	231
Credit Spreads			basis points					
US Investment Grade		166	2.5	4	3	79	54	23
US High Yield		489	2.0	9	7	173	152	83
Europe IG		131	5.7	19	20	82	83	59
Europe HY		645	27.5	93	96	405	403	294
Exchange Rates			%					
USD/Majors		112.31	0.9	2	3	21	17	17
EUR/USD		0.97	-0.9	-3	-2	-17	-14	-14
USD/JPY		142.8	0.3	0	4	29	24	24
EM/USD		49.2	-0.4	-1	-2	-12	-6	-7
Commodities			%					
Brent Crude Oil (\$/barrel)		88	-3.1	-4	-12	25	19	0
Industrials Metals (index)		146	-3.7	-5	-7	-12	-15	-22
Agriculture (index)		69	-1.3	1	1	23	14	-1
Implied Volatility			%					
VIX Index (% change in pp)		28.9	1.6	2.6	4.8	10.3	11.7	-2.1
US 10y Swaption Volatility		132.6	0.5	5.1	0.9	63.9	53.5	40.0
Global FX Volatility		11.5	0.0	0.1	0.2	4.9	4.1	4.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		260	6.5	8	-2	156	108	20
Italy		226	5.4	-2	-7	128	91	54
Portugal		104	3.5	0	-5	50	40	12
Spain		114	2.0	-2	-5	51	40	11

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

## Emerging Market Financial Indicators

Last updated: 9/23/2022 7:58 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		7.12	-0.6	-1.9	-4	-9	-11	-11		2.8	2.5	2	7	-18	-6	-7
Indonesia		15038	-0.1	-0.6	-1	-5	-5	-5		7.3	4.0	7	17	117	91	79
India		81	-0.1	-1.5	-1	-9	-8	-8		7.7	5.2	6	24	129.9	142	
Philippines		58	0.0	-1.8	-4	-14	-13	-13		5.7	0.0	8	40	193	125	75
Thailand		38	-0.5	-1.9	-4	-11	-12	-14		3.1	6.0	13	54	144	126	89
Malaysia		4.58	-0.2	-1.0	-2	-9	-9	-9		4.3	9.7	19	35	98	74	67
Argentina		145	-0.2	-1.4	-6	-32	-29	-26		83.6	30.8	309	835	3525	3299	3559
Brazil		5.12	1.1	2.5	1	3	9	-2		11.3	-18.4	-64	-66	32	59	-25
Chile		959	-1.5	-3.8	-4	-18	-11	-18		7.0	2.0	37	15	197	154	105
Colombia		4371	0.8	1.1	1	-12	-7	-10		9.7	0.0	-6	31	327	327	180
Mexico		20.07	-0.6	-0.2	0	0	2	1		9.0	-0.8	15	42	174	146	114
Peru		3.9	0.5	-0.1	0	6	3	-4		8.3	3.7	10	31	200	238	228
Uruguay		41	0.4	0.0	-1	5	9	4		11.5	7.9	6	70	355	275	332
Hungary		417	-1.1	-3.0	0	-27	-22	-23		9.3	-2.0	-13	-18	612	481	451
Poland		4.88	-1.1	-3.4	-2	-19	-17	-17		6.3	23.3	30	26	427	275	238
Romania		5.1	-0.8	-3.0	-3	-17	-14	-14		8.2	7.5	9	46	466	335	302
Russia		57.9	2.6	4.4	4	26	30	41		8.8	15.3	35	59	123	7	-234
South Africa		17.8	-1.3	-1.2	-5	-17	-11	-15		9.6	22.0	43	72	218	213	197
Turkey		18.40	-0.3	-0.8	-2	-52	-28	-25		11.6	0.0	13	-160	-643	-1271	-1081
US (DXY; 5y UST)		112	0.8	2.3	3	21	17	17		4.00	6.4	37	84	305	274	210

	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		3856	-0.3	-2	-6	-20	-22	-17		188	-8	-23	-22	-15	-20	
Indonesia		7179	-0.6	0	1	17	9	4		176	-1	-8	-8	11	-9	
India		58099	-1.7	-1	-1	-3	0	2		162	4	4	15	30	8	
Philippines		6260	-0.7	-4	-7	-10	-12	-15		134	7	3	17	33	-3	
Thailand		1632	-0.8	0	-1	0	-2	-4		0	0	0	0	0	0	
Malaysia		1425	-1.0	-3	-5	-7	-9	-10		98	2	-15	-33	-19	-35	
Argentina		149481	1.7	3	9	100	79	64		2451	105	3	854	771	714	
Brazil		114070	1.9	4	1	0	9	2		290	-1	-32	-7	-21	-41	
Chile		5303	-1.2	-5	-1	20	23	21		175	0	-10	24	35	1	
Colombia		1202	0.3	-1	-7	-8	-15	-20		418	20	4	126	70	26	
Mexico		46325	-1.4	-1	-3	-10	-13	-10		436	19	19	87	104	66	
Peru		19474	-0.9	1	-1	7	-8	-17		205	0	13	33	55	15	
Hungary		38907	-1.6	-3	-10	-25	-23	-19		253	9	39	117	129	100	
Poland		48356	-2.8	-2	-10	-32	-30	-23		16	4	11	-9	-16	0	
Romania		10977	-1.9	-7	-11	-11	-16	-17		309	20	39	113	116	77	
Russia		2094	-4.2	-14	-7	-48	-45	-32		3411	-577	938	3228	3234	2897	
South Africa		63558	-2.8	-5	-9	-1	-14	-15		430	-1	-33	72	75	41	
Turkey		3294	0.1	-2	6	135	77	63		597	-5	-90	110	19	34	
Ukraine		519	0.0	0	0	-1	-1	0		3592	246	263	3101	2833	2119	
EM total		37	-1.6	-3	-7	-28	-24	-22		432	9	1	65	46	-26	

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

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