



- US 10-year real yields climb to the highest since 2010 ([link](#))
- British pound touches historic low against the dollar as gilt yields spike ([link](#))
- German leading IFO indicator falls sharply ([link](#))
- Fratelli d'Italia leader Meloni expected to form new government ([link](#))
- BOJ's Governor Kuroda voices support for government's yen intervention ([link](#))
- EM fund outflows accelerate ([link](#))
- China reinstates 20% risk reserve requirement on bank FX forward sales ([link](#))
- Fitch downgrades Ghana amid increased likelihood of debt restructuring ([link](#))

[Mature Markets](#)







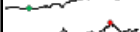
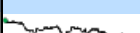
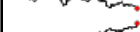

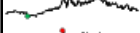
[Emerging Markets](#)

[Market Tables](#)

Global risk sentiment sours; pressure on UK mounts

Global risk assets extended their sell-off this morning on rising concerns about elevated inflation and global recession. UK markets were in focus as the pound weakened to an all-time low to the dollar and bond yields spiked to the highest level in more than a decade amidst fiscal worries and speculation of emergency action by the Bank of England. Elsewhere, the dollar continued to strengthen while US and European sovereign bond yields rose. The VIX gained another 2 percentage points reflecting the deteriorating risk sentiment. Italian sovereign bond spreads were 7 bps wider this morning, after the right-wing coalition obtained a majority in the general elections. Particular attention will be paid to the appointment of the finance minister and the drafting of the 2023 budget ahead of discussions at the EU level. In emerging markets, equities traded lower while currencies weakened against the dollar.

Key Global Financial Indicators

Last updated: 9/26/22 8:07 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		3693	-1.7	-5	-9	-17	-23
Eurostoxx 50		3353	0.1	-4	-7	-19	-22
Nikkei 225		26432	-2.7	-5	-8	-13	-8
MSCI EM		36	-2.5	-5	-10	-29	-26
Yields and Spreads							
US 10y Yield		3.78	9.2	29	74	233	227
Germany 10y Yield		2.11	8.6	31	72	234	229
EMBIG Sovereign Spread		517	15	12	23	169	150
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		48.6	-0.7	-2	-3	-13	-8
Dollar index, (+) = \$ appreciation		113.7	0.4	4	4	22	19
Brent Crude Oil (\$/barrel)		85.5	-0.8	-7	-15	9	10
VIX Index (% change in pp)		32.3	2.4	7	7	15	15

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

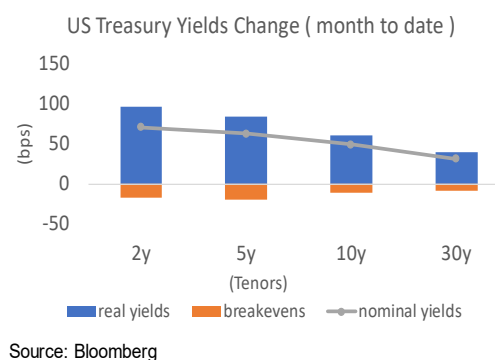
This will be another busy week for central bank policy meetings. Central banks in Hungary (100 bps hike expected), Nigeria (50 bps hike), Thailand (25 bps hike), Mexico (75 bps hike), Colombia (150 bps hike), Kenya (13 bps hike), and India (50 bps hike) are all expected to raise rates, while the Czech Republic is expected to be on hold. There will be speakers from the Fed, ECB, and BoE throughout the week. On the economic data front, the US will release Q2 GDP (third estimate), PCE deflator, and housing data. Outside of the US, CPI data in European countries (Eurozone, Germany, France, Italy, among others) will be closely watched. 2Q GDP (Final estimate) will come in the UK, and China will release PMI.

Mature Markets

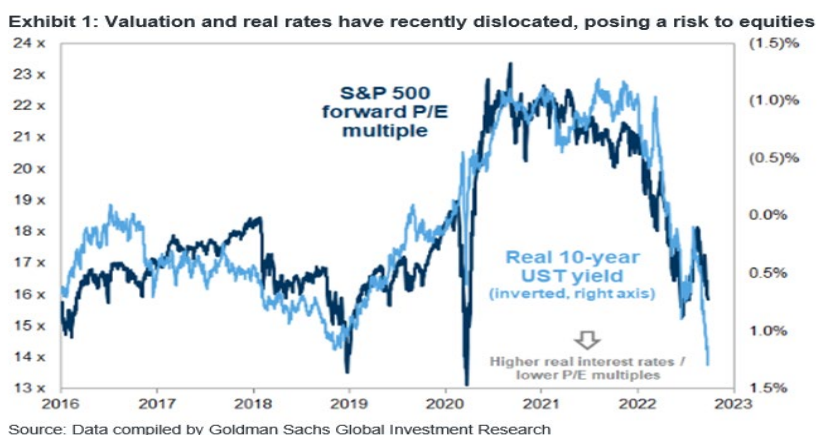
[back to top](#)

United States

On Friday, US 10-year real yields climbed to 1.31%, the highest level since 2010. Since the beginning of this month, US real yields have increased across the curve, with 10-year real yields surging by 60 bps as nominal yields have risen about 50 bps and break-even inflation declined by 10 bps amid increasing bets of tighter monetary policy. **Higher real yields have hit risk assets from stocks to commodities.** US equities broadly sold off, most metals on LME closed lower, and WTI oil prices dropped nearly 5% on Friday.

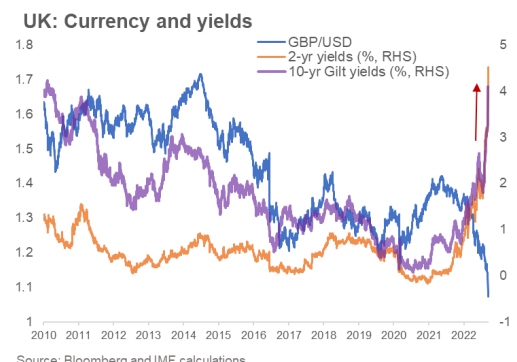


The S&P 500 (-1.7%) declined on Friday, with all major sectors in the red. Volatility surged, with the VIX topping 30 pts during the day. The S&P 500 lost nearly 5% last week, taking the index to 1.5% shy of June's intraday low. Meanwhile, Goldman Sachs analysts lowered their year-end S&P 500 target from 4,300 to 3,600 on the back of higher real yields. According to their analysis, equity valuations have closely tracked real interest rates until recently, but lately, real rates have risen more sharply than the stock markets have fallen, indicating more room for lower valuations.



United Kingdom

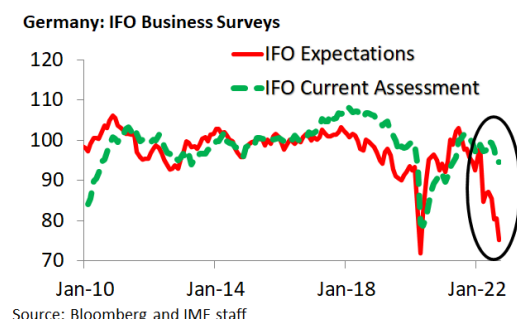
Gilt yields traded sharply higher, with 2-year yields 54 bps higher at 4.43%, as concerns pointed out that comments by UK Chancellor Kwarteng over the weekend on more tax cuts to come did not calm concerns about the mini-budget announced on Friday. The British pound (-1.3% to 1.07) recovered from sharper losses, after reaching a historic low against the U.S. dollar in earlier trading.



Euro area

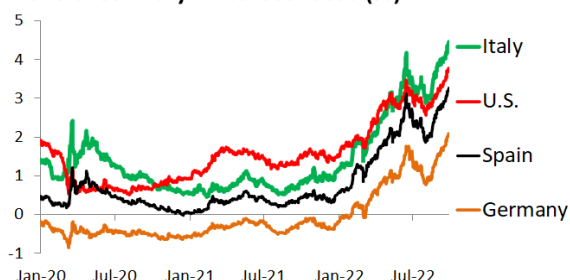
Equities fell as much as -0.7% earlier this morning and the euro (-0.4%) weakened as 10-year German bund yields rose 9 bps to 2.11%. Bank equities (-1.9%) underperformed.

Analysts warn that the euro area could be quickly entering recession as the IFO leading indicator for Germany disappointed in September. Indexes for current assessment and expectations showed a significant fall (with expectations at 75 compared to 79 expected).



Italian sovereign bond spreads were 7 bps wider at 239 bps this morning, after the right-wing coalition obtained a majority of 44%, with the center-left at 26%. The result translates into a comfortable majority for the right-wing coalition of 232–252 MPs in the 400-seat lower house and 114–126 in the 200-seat Senate (but no two-third majority). The Five-Star Movement, has come third (15%), followed by the centrists of Azione/IV (7.7%). Broad consensus is that Fratelli d'Italia leader Meloni will now form a new government with coalition partners Lega and Forza Italia. **Particular attention will be paid to the appointment of the finance minister and the drafting of the 2023 budget ahead of discussions at the EU level in coming months.**

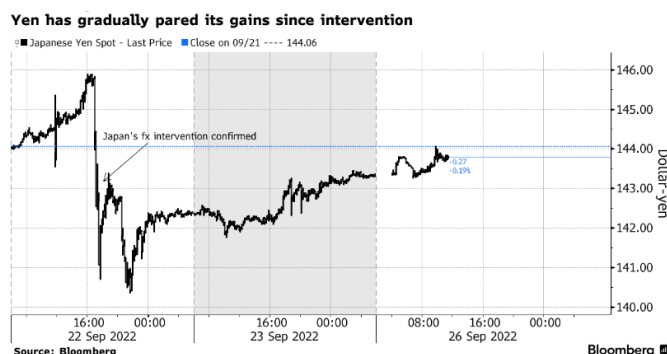
Euro area: 10-yr interest rates (%)



Source: Bloomberg and IMF

Japan

Equities fell -2.7% amid broader selloffs in Asia. **Bank of Japan (BOJ) Governor Kuroda voiced support for government's yen intervention.** Kuroda said the intervention last Thursday was needed to tackle excessive yen moves and did not contradict BOJ monetary stimulus, which is required for economic support. Relatedly, FM Suzuki indicated readiness to act further on speculative yen moves if necessary. Separately, **Japan preliminary composite PMI entered expansionary territory in September** (50.9, previous: 49.4), aided by services (51.9, previous: 49.5) but mildly dragged by manufacturing (48.9, previous: 49.2). The data's publisher Jibun bank attributed the PMI lift to further-loosened COVID restrictions but warned of still-subdued overall growth amid inflationary pressures, deteriorating global growth. The **Japanese yen depreciated -0.4%. 10-year yields firmed marginally (+1.4 bps).** The BOJ boosted its 5-10-year note purchases (¥550 bn, planned: ¥500 bn) during regular operations today as yields once again climbed towards the bank's 0.25% upper policy limit.



Emerging Markets

[back to top](#)

Asian equities fell -1.6%. South Korea fell -3% while Vietnam and Taiwan POC lost -2.7% each. **Asian currencies depreciated.** The South Korean won and the Thai baht weakened -1.5% and -0.9%, respectively. **10-year yields mostly rose**, particularly in Taiwan POC (+27 bps), Vietnam (+11.5 bps), Malaysia (+10.2 bps), and Indonesia (+9.8 bps). **Bank Indonesia** revealed it intervened in FX markets today to smooth rupiah volatility but affirmed rupiah depreciation remains manageable. **Bank of Korea** Governor Rhee said offshore capital repatriation is won-supportive and should be encouraged, as it would ease pressure for added rate hikes. Rhee also warned of worsened inflation risks from persistent won depreciation. **In EMEA, equities were trading mostly lower while currencies weakened against the dollar amid weakened risk sentiment this morning.** Equities in Russia (-9.7%) saw the largest declines as Russia's escalation of the war in Ukraine saw protests and a Russian exodus from the country, according to Bloomberg. Poland's equities underperformed (-1.7%) amidst news that the country is reportedly seeking to raise 13.5 bn zloty (\$2.8 bn) from a windfall tax on utilities. The South African rand weakened against the dollar (-0.6% to 18.04) to the weakest level since May 2020 following warnings that electricity outages are unlikely to be resolved in the near future. **In Latam, equity markets fell and currencies depreciated on Friday, driven by fears of continued interest rate hikes in developed economies and concerns of a global recession.** Argentina's equity market had the largest daily decline (-4.4%). Credit default swaps also widened across countries. This week, Colombia and Mexico's central banks will announce interest rate policy decisions on Thursday. Bloomberg analysts expects Mexico's central bank to increase rates by 75 bps to 9.25%, and Colombia's central bank to increase rates by 150 bps to 10.5%.

EM Fund Flows

EM bond fund outflows were the largest since mid-June, and equity fund outflows accelerated this week. EM bonds outflows were -\$2.6 bn (compared to -\$1.5 bn a week ago), largely driven by the largest outflow in hard currency funds in three months (-\$1.6 bn). Within hard currency bond funds, outflows were

driven by *broad* EM bond funds (-\$1.3 bn). EM equity flows were -\$2.5 bn (compared to -\$1.7 bn a week ago) mainly driven by non-ETF funds (-\$1.8 bn). Major EMs recorded outflows this week, Taiwan POC (-\$1.5 bn), Korea (-\$657 mn), and India (-\$237 mn). All EM ASEAN also reported outflows, and the largest were for Indonesia (-\$175 mn) and Thailand (-\$173 mn).

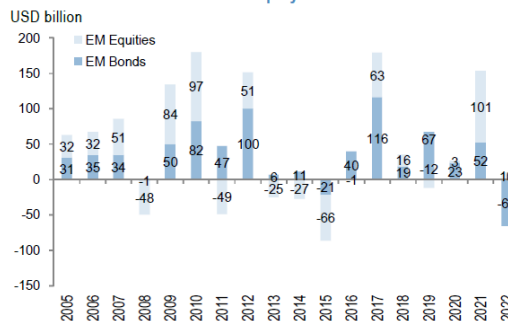
Exhibit 1: Weekly Cross-Asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-5.1	-55.5
EM Bonds		-2.6	-65.7
Hard Ccy		-1.6	-33.2
Local Ccy ^A		-1.0	-32.5
o.w. EM ex-China		-0.5	-14.9
o.w. China		-0.5	-16.4
EM Equities		-2.5	10.2
US HG		0.1	-52.0
US HY		-1.9	-48.3
Global Equities		-6.5	80.0
EM Bond and Equity ETFs		-1.6	34.5
EM Bond ETFs		-0.8	-8.0
EM Equity ETFs		-0.8	42.5
Non-resident EM flows[*]		-3.0	-65.0

^{*}High frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows



China

China's central bank will reinstate a 20% risk reserve requirement on bank FX forward sales, effective September 28. While analysts deem the move as yuan-supportive, they think it will unlikely stem the yuan's broader depreciation trend against the US dollar. Separately, **China Construction Bank will set up a 30 bn yuan (\$4.2 bn) fund to buy properties from developers.** The fund lasts 10 years with a possible extension, with purchased properties to be renovated into rental housing. Analysts, however, think the fund is insufficient to save the property sector. **Equities slumped (Shanghai: -1.2%, Shenzhen: -0.8%). Onshore yuan depreciated -0.4% towards its weakest since 2008,** offshore yuan weakened -0.2%. **10-year yields firmed +2.4 bps.**

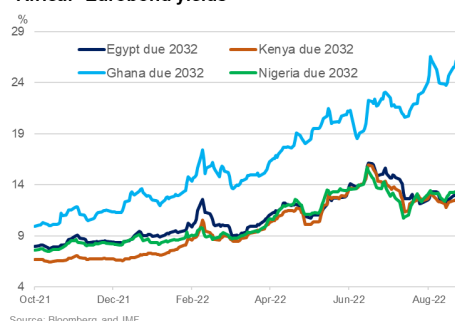
Onshore yuan is sliding toward the weakest level since 2008



Ghana

Fitch Ratings downgraded Ghana's credit rating on Friday, citing a higher likelihood that the country would pursue debt restructuring amid higher financing stress. Fitch Ratings lowered Ghana's long-term local and foreign-currency issuer defaults ratings to 'CC' from 'CCC', noting that interest payments on domestic debt amount to roughly 75% of total interest costs, with total interest costs up to 54% of revenue in the first half of this year. This follows on reports last week from unnamed sources that Ghana is set to start restructuring talks with domestic bondholders. Ghana requested a Fund-supported program in July and Fitch analysts believe that an agreement with the IMF is likely within the next six months, with a support program likely to require a form of debt treatment.

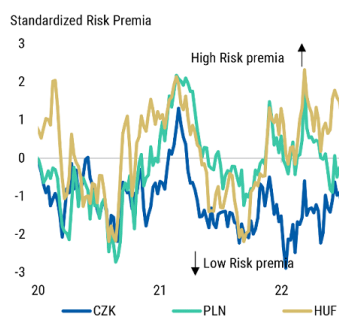
Africa: Eurobond yields



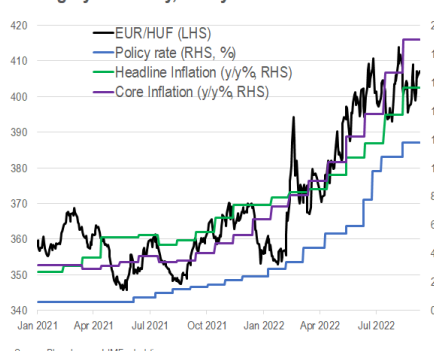
Hungary

Analysts expect the Hungarian National Bank (NBH) to slow the tightening pace after a 100 bps hike at tomorrow's meeting. Morgan Stanley analysts highlight that the risk premia in the Hungarian forint has eased amid some recent positive news on the two main idiosyncratic risks that Hungary has faced over the past few weeks—namely higher gas prices and uncertainty over the rule of law mechanism that unlocks EU funds. However, analysts argue that markets have not yet been reassured that risk has reduced drastically. Against a backdrop of continued rise in inflation expectations and with the EUR/HUF above 400, Morgan Stanley analysts expect a 100 bps NBH hike tomorrow to take the rate to 12.75%, with the pace of tightening expected to slow to 50 bps per month from October but end in December amid recession risk and the additional tightening through the liquidity channel. **However, analysts caution that uncertainty remains high and further currency depreciation amid tighter global financial conditions and uncertainty of EU funding could see the central bank continue with 100 bps hikes in the coming months.**

Risk premia in HUF has fallen as EUR/HUF has remained broadly stable in the past few weeks








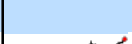
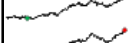


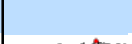


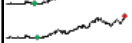
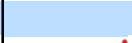


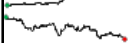
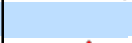

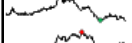








Hungary: Currency, Policy rate and Inflation



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Global Financial Indicators

9/26/22 8:04 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3687	-1.7	-5	-9	-17	-23	-13
Europe		3353	0.1	-4	-7	-19	-22	-16
Japan		26432	-2.7	-5	-8	-13	-8	0
China		3837	-0.5	-2	-7	-21	-22	-17
Asia Ex Japan		61	-2.2	-5	-10	-29	-26	-23
Emerging Markets		36	-2.5	-5	-10	-29	-26	-24
Interest Rates			basis points					
US 10y Yield		3.78	9.2	29	74	233	227	179
Germany 10y Yield		2.11	8.6	31	72	234	229	188
Japan 10y Yield		0.25	1.5	-1	3	19	18	6
UK 10y Yield		4.12	29.1	98	152	319	315	264
Credit Spreads			basis points					
US Investment Grade		170	4.7	6	10	78	58	27
US High Yield		502	-4.0	12	18	190	164	95
Europe IG		135	4.9	23	22	86	88	64
Europe HY		657	19.6	104	97	414	415	305
Exchange Rates			%					
USD/Majors		113.67	0.4	4	4	22	19	18
EUR/USD		0.96	-0.5	-4	-3	-18	-15	-15
USD/JPY		144.2	0.6	1	5	30	25	25
EM/USD		48.6	-0.7	-2	-3	-13	-8	-8
Commodities			%					
Brent Crude Oil (\$/barrel)		85	-0.8	-7	-14	21	16	-2
Industrials Metals (index)		143	-2.0	-6	-10	-14	-17	-24
Agriculture (index)		68	-0.5	-1	-2	20	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		32.3	2.4	6.5	6.7	14.5	15.1	1.3
US 10y Swaption Volatility		153.9	14.2	18.1	31.1	81.5	74.9	59.6
Global FX Volatility		12.1	0.0	0.6	1.4	5.4	4.6	4.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		264	7.1	7	6	157	112	24
Italy		239	7.4	11	8	138	104	68
Portugal		108	3.2	4	-2	53	44	16
Spain		118	2.5	3	-2	54	44	15

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 9/26/2022 8:02 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		7.16	-0.5	-2.2	-4	-10	-11	-12		2.8	3.5	6	7	-17	-3	-4		
Indonesia		15130	-0.6	-1.0	-2	-6	-6	-5		7.4	8.8	17	31	122	100	88		
India		82	-0.8	-2.3	-2	-10	-9	-9		7.8	7.2	19	30	132.0	149			
Philippines		59	-0.8	-2.6	-5	-13	-13	-13		5.7	0.0	8	40	193	125	75		
Thailand		38	-0.7	-2.3	-5	-11	-12	-15		3.2	9.5	22	65	152	136	98		
Malaysia		4.60	-0.5	-1.2	-3	-9	-9	-9		4.4	8.2	24	44	99	81	73		
Argentina		145	-0.2	-1.3	-6	-32	-29	-26		83.5	-5.2	204	808	3475	3293	3554		
Brazil		5.26	-2.8	-0.2	-3	1	6	-5		11.5	-17.0	-32	-58	37	81	-3		
Chile		980	-1.0	-5.8	-9	-19	-13	-19		7.0	2.5	44	38	189	161	112		
Colombia		4445	-1.7	-0.2	-2	-14	-9	-12		9.8	7.0	1	38	334	334	187		
Mexico		20.33	-0.6	-2.0	-1	-1	1	0		9.1	9.0	25	52	184	156	124		
Peru		3.9	-0.6	-0.8	-1	5	2	-5		8.3	6.1	14	39	205	243	233		
Uruguay		41	-0.2	0.3	-1	4	9	3		11.5	0.0	8	68	355	275	332		
Hungary		424	-1.3	-6.2	-3	-28	-24	-25		9.7	30.0	28	43	646	522	492		
Poland		4.95	-1.0	-5.1	-4	-21	-18	-18		6.7	35.5	74	47	461	319	282		
Romania		5.1	-0.6	-4.1	-5	-17	-15	-15		8.3	10.3	27	55	477	345	312		
Russia		58.1	-0.4	5.9	4	25	29	41		8.9	-11.0	66	65	122	13	-228		
South Africa		18.1	-0.6	-2.1	-6	-17	-12	-16		9.7	17.5	53	91	222	230	214		
Turkey		18.45	-0.2	-0.9	-2	-52	-28	-25		11.6	0.0	0	-175	-687	-1271	-1081		
US (DXY; 5y UST)		114	0.4	3.5	4	22	19	18		4.08	9.8	39	87	313	281	217		

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
								basis points								
China		3837	-0.5	-2	-7	-21	-22	-17		187	-12	-24	-21	-16	-21	
Indonesia		7128	-0.7	-1	0	16	8	3		187	4	8	13	22	2	
India		57145	-1.6	-3	-3	-5	-2	0		159	-4	-3	13	27	5	
Philippines		6260	0.0	-4	-7	-10	-12	-15		143	5	16	37	42	6	
Thailand		1621	-0.6	-1	-1	0	-2	-4		0	0	0	0	0	0	
Malaysia		1413	-0.8	-3	-6	-8	-10	-11		97	-2	-17	-30	-20	-36	
Argentina		142932	-4.4	-2	1	93	71	56		2538	145	144	955	858	801	
Brazil		111716	-2.1	2	-1	-1	7	0		302	4	-16	7	-9	-29	
Chile		5207	-1.8	-6	-5	19	21	19		182	4	3	36	42	8	
Colombia		1157	-3.7	-4	-11	-12	-18	-23		434	19	23	147	86	42	
Mexico		45396	-2.0	-3	-4	-11	-15	-12		452	28	47	107	120	82	
Peru		18921	-2.8	-2	-3	3	-10	-19		212	2	24	46	62	22	
Hungary		38322	-0.9	-5	-12	-26	-24	-20		276	9	60	147	152	123	
Poland		46792	-2.7	-7	-11	-33	-32	-26		20	-3	4	-2	-12	4	
Romania		10686	-2.0	-7	-13	-14	-18	-19		328	33	54	139	136	96	
Russia		1943	-7.0	-20	-14	-52	-49	-37		3411	-577	938	3228	3234	2897	
South Africa		62790	-1.0	-6	-11	-2	-15	-16		452	7	3	104	97	63	
Turkey		3241	-1.2	1	3	134	74	61		621	-6	-41	127	43	58	
Ukraine		519	0.0	0	0	-1	-1	0		3623	221	246	3139	2864	2150	
EM total		36	0.1	-5	-10	-29	-26	-24		447	13	23	84	60	-11	

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

[back to top](#)