GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 27, 2022

- **Sharp market moves push volatility higher across sectors** (link)
- **US investment-grade bond yields rise to the highest level since 2009** (link)
- **UK gilt yields fall as Chancellor will set out medium-term fiscal plan in November** (link)
- **ECB to debate Quantitative Tightening after rate normalization** (link)
- **Japan government's September 22 yen intervention estimated at ¥3.6 tn ($21 bn)** (link)
- **EM bond issuance much weaker MTD than September last year** (link)
- **EM bond fund outflows expected to continue** (link)
- **Hungary's central bank raises base interest rate 125 bps to 13% (est. 12.75%)** (link)

Mature Markets | Emerging Markets | Market Tables

Markets cautious as global selloff pauses

Global stocks traded moderately higher this morning as the selloff in risky assets took a pause. Advanced economy sovereign bonds also rallied with yields reversing some of yesterday's hefty increases. 10-year US Treasury yields fell 11 bps, following yesterday's 24 bps jump. In the UK, gilt yields also fell, with the 10-year yield trading 12 bps lower to 4.12% on news Chancellor Kwarteng plans to set out the government's medium-term fiscal plan on November 23. Despite this morning's rally, 10-year gilt yields remain almost 100 bps higher than on September 19 when Queen Elizabeth's funeral was held. Elsewhere, credit spreads took a breather from the recent sell-off while the dollar retreated (DXY index, -0.5% lower). As a result, measures of option-implied volatility fell although they remain elevated, with the VIX trading above the 30 ppts mark. Emerging markets also took a respite, with most local stock markets in the green today.

Key Global Financial Indicators

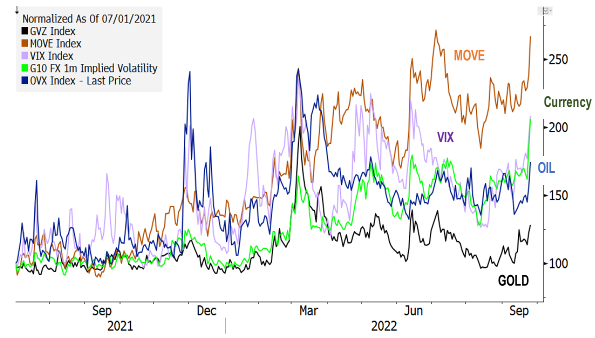
Last updated: 9/27/22 8:05 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3655	-1.0	-6	-10	-18	-23
Eurostoxx 50		3373	0.9	-3	-6	-19	-22
Nikkei 225		26572	0.5	-4	-7	-12	-8
MSCI EM		36	-1.2	-6	-11	-30	-27
Yields and Spreads					bps		
US 10y Yield		3.82	-10.5	26	78	233	231
Germany 10y Yield		2.07	-4.1	15	68	230	225
EMBIG Sovereign Spread		526	9	24	36	176	159
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		48.6	0.2	-2	-3	-13	-8
Dollar index, (+) = $ appreciation		113.6	-0.5	3	4	22	19
Brent Crude Oil ($/barrel)		85.4	1.6	-6	-15	7	10
VIX Index (%, change in pp)		30.8	-1.5	4	5	12	14

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

Mature Markets back to top

United States

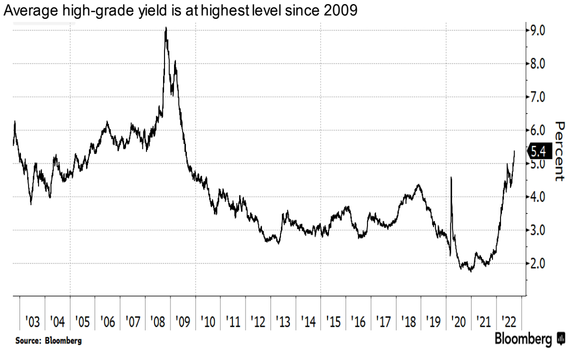
On Monday, US Treasury yields rose by 10–20 bps across the curve, with the 10-year yield reaching 3.9%. The front end of the curve came under pressure after the weak 2-year Treasury auction. US equities declined on the back of another spike in Treasury yields, with the S&P 500 down to the lowest level since December 2020. The US dollar continued to appreciate against major currencies, with the dollar index (DXY) increasing by 0.8%, reaching another high since 2002. **Recent sharp market moves have pushed volatility higher across sectors.**



Source:Bloomberg

US investment-grade (IG) bond yields rose to the highest level since 2009. The average yield on BBB bonds, the lowest-rated tier of IG bonds, reached more than 5%, the same yield that BB bonds provided several months ago. **One reason yields surged on BBB-rated bonds is that IG bond investors are worried about the possibility of downgrades**, which typically results in a sharp drop in prices. Higher yields on BBB bonds are attracting high-yield focused bond investors, according to Bloomberg. The yield difference between BB and BBB bonds is about 160 bps, slightly above the 10-year average but lower than in past downturns, with BBB credits providing an attractive yield with fewer credit risks than BB credits in times of growing concerns about recession risks.

Average high-grade yield is at highest level since 2009



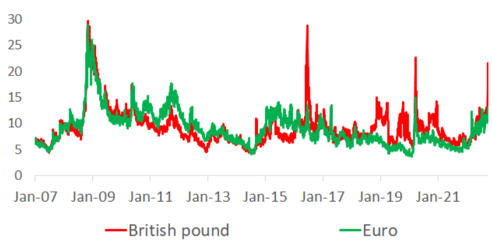
As a strong appreciation of the US dollar has caused a sharp depreciation of other currencies, Japan and other Asian countries such as the Philippines and Indonesia conducted FX intervention to support their currencies. A recent sharp drop of the British pound induced market talk of coordinated FX intervention to smooth market volatility and also **speculation that FX interventions could lead to further Treasury sales and poses the risk of a continued yield rise.** According to the latest data of US Treasury foreign holding from Treasury International Capital (TIC) data, foreign investors held $7.5 tn US Treasuries, of which $3.9 tn were held by foreign officials as of the end of July 2022. The TIC annual report, which was released this April, shows that **foreign officials continue to concentrate on shorter maturities**: 40% of the holdings are concentrated in the 0–3 year sector, and 66% of holdings are occupied by shorter than 5 year maturities. This s**uggests that Treasury sales, if any, are likely to be in the front end.** In addition, **foreign officials could use the Fed's repo facility for foreign and international monetary authorities (FIMA repo facility), suggesting that currency intervention may not even require immediate asset sales.**

United Kingdom

The pound (+1.2% at 1.08 per U.S. dollar) recovered and gilt yields traded lower as Chancellor Kwarteng will set out the medium-term fiscal plan on 23 November. 2-year gilt yields were 25 bps lower (at 4.30%) and 10-year gilt yields traded 12 bps lower (at 4.12%). **Investor focus is on the additional supply of gilts**, with reports of an additional £70 bn of debt sales in the current financial year (so by April of 2023). Last week the Bank of England voted unanimously to start gilt sales in early October at a pace of

£10 bn per quarter. **The UK sold £1.2 bn of inflation-linked bonds due 2031 at a real yield of 0.27% with a bid-to-cover ratio of 2.3.** These bonds were trading at a real yield of -1.50% end of August. **Yesterday, pound option volatility approached levels seen during the 2008 financial crisis, the Brexit referendum, and the start of the pandemic.** In yesterday's session the pound depreciated 2% after a BoE statement signaled that the likelihood of intermeeting hikes is low.

1-m FX volatility against U.S. dollar



Source: Bloomberg and IMF

Euro area

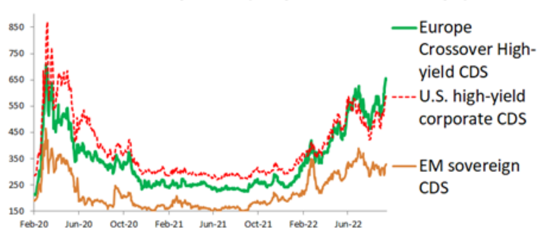
Equities (+0.3%) and the euro (+0.2%) edged higher but sentiment remains cautious with bank stocks (-0.8%) underperforming.

This morning, Italian 10-year yields rose to 4.66% but yields fell later in the session to around 4.55%. Yesterday**, ECB president Lagarde's said that the ECB will debate Quantitative Tightening (QT),** the active shrinking of bond holdings, when it has completed rates normalization. ECB president Lagarde described rates as the most appropriate, efficient, and effective tool. **Analysts expect the ECB to discuss reserve remuneration and TLTROs earlier before QT.** According to earlier press reports, the ECB was planning to discuss balance sheet policies at a non-policy meeting in Cyprus on October 5. **The ECB President also added that the OMT program is available if the TPI program fails**.

Natural gas prices in Europe rose 10% after Nord Stream said that damage to its network is unprecedented. Bloomberg reports that the EU Commission's action plan, which included a tax on inframarginal electricity producers and mandatory consumption reduction, will be postponed. Separately, **analysts at Citi warn that current levels of real M1 growth point to GDP contracting sharply in the next months, with composite PMI falling well below 45.** Narrow money M1 growth was stable at 6.8% y/y but contracted by 1.6% y/y when deflated by the HICP inflation. Credit growth remains strong in the euro area but could be a lagging indicator. Euro Area adjusted loan growth was 6.3% y/y in August.

Despite modest tightening this morning, a popular gauge for credit stress in Europe, **the cross-over high-yield CDS index, is trading at post-pandemic highs** as analysts are expecting a recession in the euro area**.**

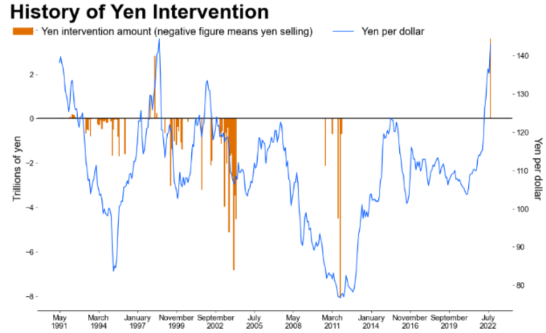
Global CDS Credit spreads (Corporate and EM, bps)



Note: Europe Crossover high-yield index comprises 75 equally weighted credit default swaps on the most liquid sub-investment grade European corporate entities.
U.S. high-yield is composed of 100 non-investment grade corporates (B and BB).
EM CDS covers 18 sovereign issuers.
Source: Bloomberg, and IMF staff

Japan

History of Yen Intervention



Note: Latest intervention figure is Totan's estimate
Sources: Bloomberg, Japan's Ministry of Finance

The Japan government reportedly spent ¥3.6 tn ($21 bn) on its September 22 yen intervention, its largest one-day yen-buying on record, Nikkei reports. Separately, **the Bank of Japan (BOJ) conducted unscheduled bond buying operations today** for ¥150 bn ($1 bn) of 5-10-year bonds and ¥100 bn ($0.7 bn) of 10-25-year bonds. JP Morgan thinks 10-year yields may jump up to +50 bps if the BOJ ends yield curve control. Separately, **Japan's GPIF is reportedly looking to boost its foreign real estate asset investments** by an unspecified few hundred billion yen, Bloomberg reports. Mizuho Trust will monitor the assets and manage associated risks, while LaSalle Investment Management will be the fund-of-funds manager. **Equities firmed +0.5%, the Japanese yen appreciated +0.2%. 10-year yields were little changed while 20-year yields rose above 1%, the highest level since 2015.**

Emerging Markets

back to top

Asian equities firmed +0.3% on net. Mainland China rallied (Shanghai: +1.4%, Shenzhen: +2.1%). Philippine equities fell -3.8% on inflation and peso concerns. **Asian currencies were mixed**, the South Korean won recovered +0.6% but the Philippine peso weakened -0.8%. **10-year yields mostly firmed.** Yields in the Philippines jumped +30 bps. **India's JP Morgan bond index inclusion has been reportedly delayed to early-2023,** as the country needs to address various operational issues, Reuters reports. **Bank Indonesia** revealed it intervened in spot and NDF markets for a second day to support the rupiah, Bloomberg reports. **New Zealand** central bank Governor Orr said the bank's tightening cycle is very mature but revealed more work to be done with interest rates. **EMEA equities were trading mostly higher, and currencies were mixed against the dollar as market sentiment seemed to stabilize somewhat**. The South African rand outperformed (+0.8%) while the Turkish lira continued to depreciate against the dollar (-0.1% to 18.48) to a new record low. **The Hungarian forint strengthened modestly against the euro immediately after the central bank's monetary policy decision later this morning, with the base interest rate increased 125 bps to 13% (vs. 12.75% expected).** Elsewhere on the monetary policy front, a 50 bps hike by the central bank in Nigeria today is largely expected, to take its benchmark interest rate to 14.5%. **Latam equity markets fell and currencies continued to depreciate across countries on Monday as commodity prices declined amid concerns of a global recession.** The Bloomberg Commodity Spot Index declined to its lowest level in eight months. Credit default swaps also continued to widen across countries for the fifth consecutive day. The Central Bank of Chile will end its peso intervention program as scheduled on September 30, and it will reportedly not sell any more US dollars on the spot market.

EM Bond Issuance

Bond issuance rebounded in September compared to August 2022; however volumes were significantly lower compared to a year ago. Bond issuance for the week ending on September 23 was $2.6 bn, and $19.2 bn month-to-date. In September, corporates accounted for 33% of total issuance, followed by sovereigns (27%) and financials (22%). In September, EM bond issuance was $280 bn year-to-date compared to $629 bn a year ago. The share of investment grade bond issuance to total month-to-date issuance was higher (55%) than a year ago (42%).

Figure 1. EM bond issuance 2022 (bn. USD)

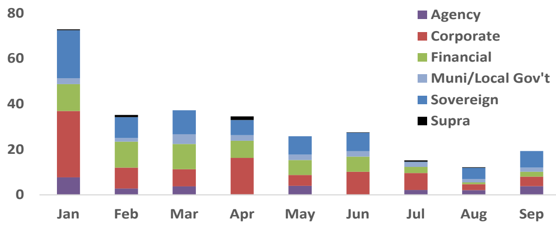
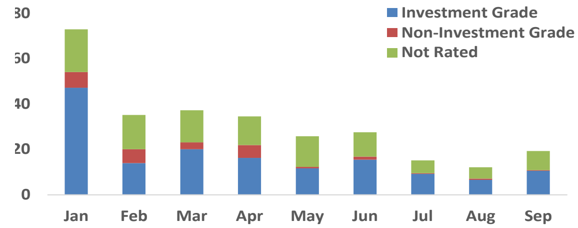


Figure 2. EM bond issuance 2022 (bn. USD)



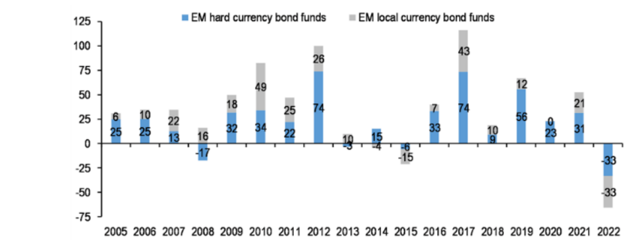
Sources: Bond Radar and Staff calculations.

EM bond fund flows

Emerging market bond funds are set for the largest net annual outflows this year since 2005, amid tighter global financial conditions. After six consecutive annual net inflows into EM bond funds, EM bond outflows have reached $65 bn so far in 2022. Market contacts see a high bar for inflows in the foreseeable future against a backdrop of tightening US and global financial conditions, as higher financing costs is associated with less demand for risky EM assets. JP Morgan analysts now expect EM bond fund outflows by end-2022 to amount to $80 bn, compared to a previous outflows estimate of to $55 bn.

Exhibit 1: 2022 is set to be the largest net annual EM bond fund outflow on our record

$bn, net annual inflows into EM bond funds split between hard and local currency. 2022 is YTD as of 21 September 2022.

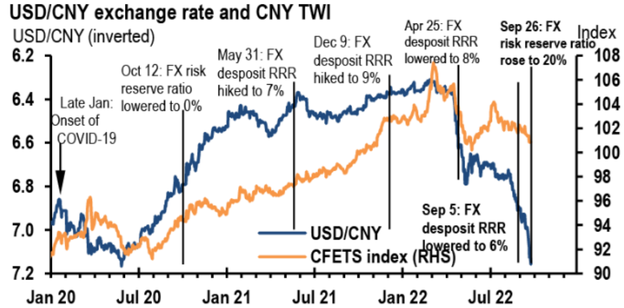


Source: J.P. Morgan, EPFR Global.

China

Equities jumped (Shanghai: +1.4%, Shenzhen: +2.1%). Regulators reportedly asked funds, brokers to steady markets before the 20th Party Congress. The firms were verbally instructed to avoid abnormal trading activities including large sales and purchases, Reuters reported. Separately, **most China smaller banks have cut deposit rates by -5 bps to 0.25%**, among other rate reductions, state-owned Securities Times reports. The moves follow rate cuts enacted by larger banks on September 15. Separately**, industrial profits slipped -**2.1% YTD y/y in August (previous: -1.1%), dragged by foreign and non-mainland firms (-12%), and private enterprises (-8.3%). **10-year yields were little changed.** The **onshore yuan depreciated a further -0.4%**, while the **offshore yuan was little changed.** JP Morgan thinks that policy **options such as further FX deposit reserve requirement cuts, a reintroduced counter-cyclical factor, and offshore CNY liquidity intervention are possible should rapid yuan depreciation persist** beyond the central bank's tolerance level.

USD/CNY exchange rate and CNY TWI

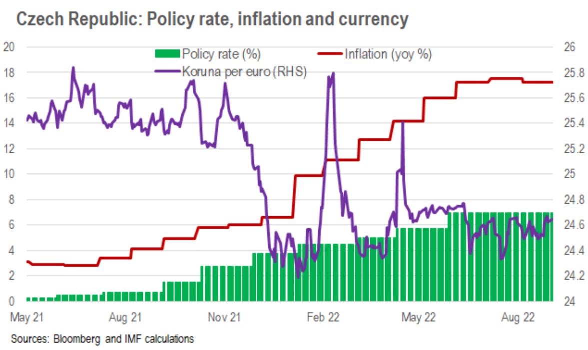


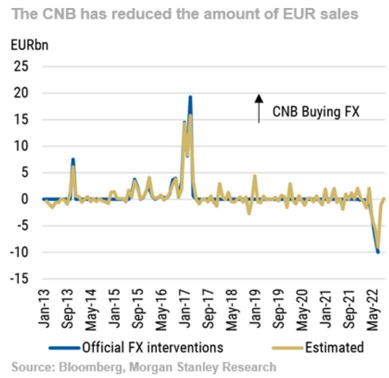
Source: Bloomberg Finance L.P., J.P. Morgan

Czech Republic

Analysts expect the Czech National Bank to keep interest rates unchanged this week. Consensus expectations see the central bank keeping the repurchase rate unchanged at 7% at Thursday's monetary policy meeting, with analysts noting that recent inflation prints were below central bank forecasts. August inflation also came in below consensus expectations, easing to 17.2%yoy (vs expected 17.7% from 17.5%). ING analysts think the rate hiking cycle ended in June, and argue that the central bank might be the first in the region to cut rates, possibly in Q2 of 2023. Morgan Stanley analysts also expect rates to remain unchanged this week, and highlight that **while the central bank continues to support the currency**

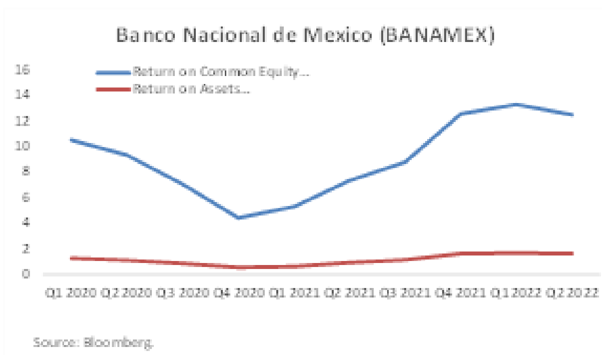
against depreciation pressures, the pace of interventions have likely decreased. Analysts estimate that interventions towards the end of August and September amounted to roughly €1–2 bn in comparison to roughly €10 bn in July. Total interventions since May is estimated at around €23 bn. The Czech koruna was little changed against the euro this morning.





Mexico

Citigroup is seeking a second round of bids for its Mexican retail arm Banamex by the of October, signaling the end of the sale process, according to Bloomberg News. The units included in the intended sale have about $44 bn in assets and are likely to draw bids of $7 bn to $8 bn. At this size, the sale of BANAMEX would be the second largest bank deal of the year, after Toronto-Dominion Bank's takeover of First Horizon. Banks Grupo Financiero Inbursa and Grupo Financiero Banorte, mining and infrastructure Grupo Mexico, and Grupo Financiero Mifel backed by U.S. buyout group Advent International, are expected to submit bids.



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), and Akihiko Yokoyama (Senior Financial Sector Expert). 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.

Global Financial Indicators

9/27/22 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD	Since 23-Feb-22
Equities				%			%	%
United States		3674	-1.0	-5	-9	-17	-23	-13
Europe		3373	0.9	-3	-6	-19	-22	-15
Japan		26572	0.5	-4	-7	-12	-8	0
China		3892	1.4	-1	-5	-20	-21	-16
Asia Ex Japan		60	-0.7	-6	-11	-30	-27	-24
Emerging Markets		36	-1.2	-6	-11	-30	-27	-25
Interest Rates				basis points				
US 10y Yield		3.82	-10.5	26	78	233	231	183
Germany 10y Yield		2.07	-4.1	15	68	230	225	185
Japan 10y Yield		0.25	0.1	0	3	19	18	6
UK 10y Yield		4.20	-4.3	91	160	325	323	272
Credit Spreads				basis points				
US Investment Grade		177	6.3	14	18	89	65	34
US High Yield		529	13.8	40	46	220	192	123
Europe IG		133	-1.7	12	19	84	85	61
Europe HY		643	-12.2	46	83	400	401	291
Exchange Rates				%				
USD/Majors		113.57	-0.5	3	4	22	19	18
EUR/USD		0.96	0.3	-3	-4	-18	-15	-15
USD/JPY		144.5	-0.2	1	4	30	26	26
EM/USD		48.6	0.2	-2	-3	-13	-8	-8
Commodities				%				
Brent Crude Oil ($/barrel)		85	1.6	-6	-14	19	16	-2
Industrials Metals (index)		143	0.2	-7	-11	-13	-17	-24
Agriculture (index)		68	1.0	-3	-2	20	13	-3
Implied Volatility				%				
VIX Index (%, change in pp)		30.8	-1.5	3.6	5.2	12.0	13.6	-0.2
US 10y Swaption Volatility		155.6	-3.4	18.5	24.9	83.2	76.6	61.3
Global FX Volatility		12.8	0.0	1.4	2.1	6.1	5.3	5.3
EA Sovereign Spreads				10-Year spread vs. Germany (bps)				
Greece		268	7.2	13	9	162	116	27
Italy		247	2.1	20	16	145	112	76
Portugal		110	3.8	7	0	56	46	18
Spain		119	0.9	5	-1	56	45	16

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

Emerging Market Financial Indicators

Last updated: 9/27/2022 8:02 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	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	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
		vs. USD	(+) = EM appreciation							% p.a.						
China		7.17	-0.5	-2.1	-4	-10	-11	-12		2.8	-1.0	7	9	-18	-4	-4
Indonesia		15124	0.0	-0.9	-1	-6	-6	-5		7.4	0.2	19	32	118	100	88
India		82	0.1	-2.2	-2	-9	-9	-9		7.7	-11.0	4	14	121.1	138	
Philippines		59	-0.1	-2.5	-5	-14	-14	-13		5.7	0.0	8	40	193	125	75
Thailand		38	0.1	-2.4	-4	-11	-12	-15		3.2	-0.5	21	55	151	135	98
Malaysia		4.61	-0.2	-1.1	-3	-9	-10	-9		4.5	4.3	27	50	102	86	79
Argentina		146	-0.6	-1.3	-6	-33	-30	-27		86.3	284.5	386	961	3724	3578	3839
Brazil		5.39	-2.4	-4.1	-6	0	3	-7		11.7	-23.0	-8	-42	59	103	20
Chile		988	0.4	-5.5	-10	-20	-14	-20		7.2	-0.5	47	53	203	176	127
Colombia		4532	-1.9	-2.7	-3	-15	-10	-14		10.0	21.5	24	53	343	355	209
Mexico		20.31	0.3	-1.5	-1	-1	1	0		9.5	41.0	63	90	212	197	165
Peru		3.9	-0.5	-1.6	-2	5	2	-5		8.5	14.1	27	51	207	256	246
Uruguay		41	-1.1	-0.8	-2	3	8	2		11.5	0.0	8	47	355	275	332
Hungary		423	0.4	-4.9	-3	-28	-23	-24		9.7	-1.0	30	42	645	521	491
Poland		4.94	0.1	-3.9	-4	-20	-18	-18		6.5	-16.6	49	18	441	299	262
Romania		5.1	0.3	-3.3	-5	-17	-15	-15		8.4	11.5	38	52	480	357	324
Russia		58.3	0.2	5.3	6	25	29	40		8.9	-1.0	36	64	121	12	-229
South Africa		17.9	1.2	-1.0	-6	-16	-11	-15		9.6	-12.5	32	72	207	215	199
Turkey		18.48	-0.2	-0.9	-2	-52	-28	-25		11.8	2.0	15	-160	-683	-1256	-1066
US (DXY; 5y UST)		114	-0.5	3.0	4	22	19	18		4.06	-13.2	31	85	307	280	216

	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		3892	1.4	-1	-5	-20	-21	-16		181	-15	-28	-28	-22	-27
Indonesia		7112	-0.2	-1	0	16	8	3		184	3	11	11	19	-1
India		57108	-0.1	-4	-3	-4	-2	0		165	6	14	18	33	11
Philippines		6020	-3.8	-6	-11	-13	-15	-18		139	3	18	31	38	2
Thailand		1611	-0.7	-2	-2	0	-3	-5		0	0	0	0	0	0
Malaysia		1411	-0.2	-3	-6	-9	-10	-11		96	-2	-11	-35	-21	-37
Argentina		138148	-3.3	-8	-2	83	65	51		2604	212	200	1002	924	867
Brazil		109114	-2.3	-2	-3	-4	4	-3		310	15	0	13	-1	-21
Chile		5179	-0.6	-3	-5	19	20	18		187	9	6	41	47	13
Colombia		1113	-3.8	-7	-14	-17	-21	-26		452	37	46	161	104	60
Mexico		44809	-1.3	-4	-5	-13	-16	-13		461	35	55	112	129	91
Peru		18686	-1.2	-4	-4	0	-11	-20		221	11	32	55	71	31
Hungary		38704	0.5	-2	-11	-25	-24	-19		279	20	39	150	155	126
Poland		48007	1.7	-3	-8	-31	-31	-24		30	36	8	6	-2	14
Romania		10799	1.7	-6	-12	-14	-17	-18		338	46	51	148	146	106
Russia		1920	-0.7	-13	-15	-53	-49	-38		3411	-577	938	3228	3234	2897
South Africa		63832	0.3	-4	-9	-1	-13	-15		458	15	34	102	103	69
Turkey		3314	1.7	1	5	138	78	64		621	-2	-19	119	43	58
Ukraine		519	0.0	0	0	-1	-1	0		3677	275	242	3176	2918	2204
EM total		36	0.3	-6	-11	-30	-27	-25		453	23	33	86	67	-5

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

back to top