



- Higher interest rates may have a smaller impact on US consumers vs. the past ([link](#))
- Bank of England to temporarily buy long-dated UK gilts ([link](#))
- UK Liability-Driven Investors face margin calls ([link](#))
- South Korea announces measures to stabilize financial markets ([link](#))
- China's central bank reportedly revived a counter-cyclical factor for yuan fixing ([link](#))
- Bank of Thailand hikes its policy rate by +25 bps to 1%, as expected ([link](#))
- Nigeria surprises with a 150 bps policy rate hike ([link](#))
- Hungary signals the end of its hiking cycle after 125 bps hike ([link](#))
- Annual inflation eases in Brazil in September on lower gasoline prices ([link](#))

[Mature Markets](#)


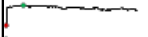

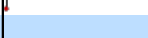
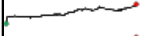


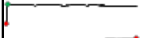
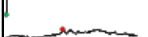

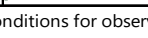
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UK gilts rally after Bank of England news but risk sentiment remains fragile

Gilt yields dropped sharply after the Bank of England announced it will temporarily purchase long-dated gilts in whatever quantities were needed to restore orderly market conditions. 10-year gilt yields fell as much as 45 bps but reversed course and were 25 bps lower in later trading. Market contacts noted that gilt markets have been unusually volatile, with liquidity conditions very challenging. The Old Lady also postponed the beginning of gilt sales that were due to start next week. Global risk sentiment, however, remains fragile. The dollar strengthened, European and Asian bourses fell and credit spreads widened. The VIX rose and remains well above the 30 percentage point mark, reflecting the prevailing market uncertainty. In emerging markets, central banks in Hungary, Thailand, Nigeria, and Morocco announced monetary policy decisions in the past 24 hours.

Key Global Financial Indicators

Last updated: 9/28/22 8:03 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
S&P 500		3647	-0.2	-5	-10	-16	-23
Eurostoxx 50		3281	-1.4	-6	-9	-19	-24
Nikkei 225		26174	-1.5	-5	-6	-11	-9
MSCI EM		36	-0.1	-6	-11	-30	-27
Yields and Spreads				bps			
US 10y Yield		3.93	-2.0	40	88	239	241
Germany 10y Yield		2.27	4.0	38	88	247	245
EMBIG Sovereign Spread		535	8	29	45	181	168
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		48.2	-0.2	-2	-4	-13	-8
Dollar index, (+) = \$ appreciation		114.6	0.5	4	5	22	20
Brent Crude Oil (\$/barrel)		86.4	0.1	-4	-14	9	11
VIX Index (% change in pp)		34.0	1.4	6	8	11	17

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

Mature Markets

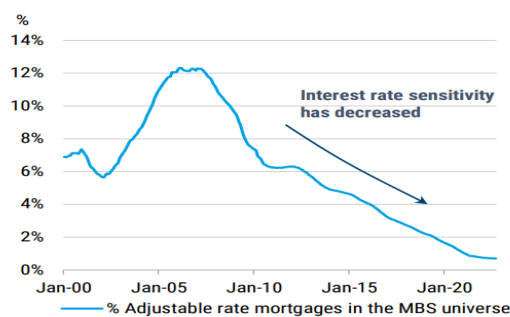
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United States

On Tuesday, US equities extended their losses, with the S&P 500 down for six consecutive days, after fluctuating between gains and losses, struggling to find direction. US Treasury yields were mixed: yields on short to medium tenors declined while longer tenors rose, with 10-year yields rising 2 bps. Risk appetite remains light as volatility remains elevated, and a 5-year Treasury auction showed weak results following a 2-year auction on the previous day.

Consumer confidence rose for a second month to the highest since April, despite the Fed's aggressive monetary policy tightening. Morgan Stanley analysts pointed out that higher interest rates might have a smaller impact on consumers nowadays, especially through the mortgage channel. Compared to the past, adjustable rate products are a tiny fraction of mortgage loans today. In addition, students' loans and auto loans, most of which are fixed rate loans, are now a bigger portion of total consumer debt. Lower contribution of mortgaged debt on consumer balance sheets, as well as less adjustable rate mortgages, means consumers may be less vulnerable to higher policy rates compared to the past.

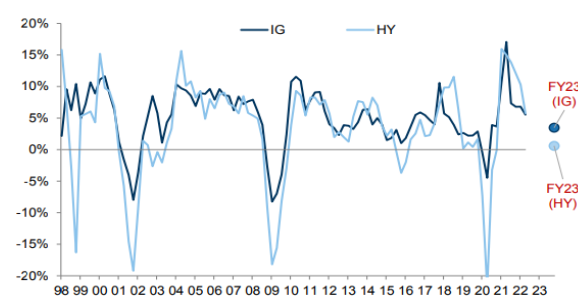
Exhibit 20: % of adjustable rate mortgages in the MBS universe since 2000



Source: Bloomberg, Morgan Stanley Research

Profit consensus estimates for the median investment-grade (IG) and high-yield (HY) issuers have declined only modestly, by 0.5% and 1%, respectively. Goldman Sachs analysts say that the decline in 2023 EBITDA growth is not consistent with increasing expectations of a soft landing, leaving a room for further downward revisions. They pointed out that a higher cost of capital environment could exacerbate increasing margin pressures, particularly for interest-vulnerable leveraged loan issuers. Higher funding costs could also impact debt servicing capacity for HY issuers. Analysts also note liquidity conditions have started to worsen as cash

Year-over-year EBITDA growth for the median Investment Grade and High Yield issuer and full-year 2023 implied forecasts

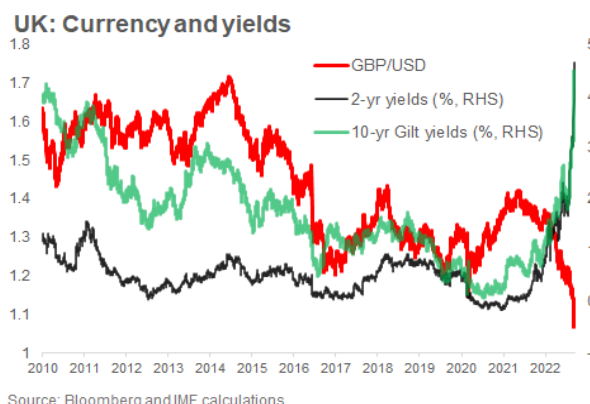
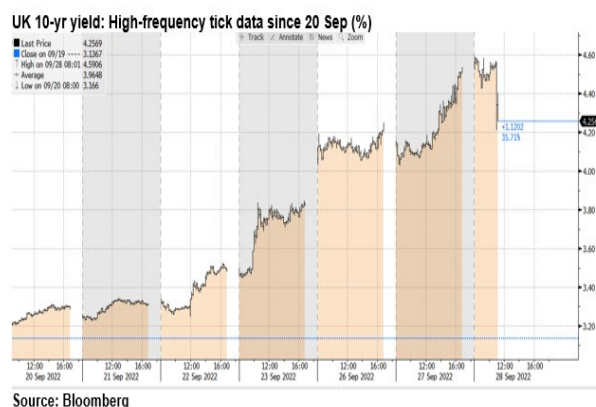


Source: Factset, Goldman Sachs Global Investment Research

United Kingdom

Gilt yields fell sharply (2-year yields 14 bps lower and 10-year yields 27 bps lower) after the Bank of England said that it would carry out temporary purchases of long-dated UK government bonds to restore orderly market conditions. The purchases will be carried out on whatever scale is necessary and the operation will be fully indemnified by HM Treasury. These purchases will be strictly time limited. Auctions will take place from today until October 14. The purchases will be unwound in a smooth and orderly fashion once risks to market functioning are judged to have subsided. Considering current market conditions, the Bank of England has also postponed the beginning of gilt sale operations—quantitative tightening—that were due to commence next week. The first gilt sale operations will take place on October 31 and proceed thereafter. The MPC's annual target of an £80 bn stock reduction is unaffected and unchanged. The pound (-1.4%) traded weaker to the dollar on the day.

Contacts noted that gilt markets have been unusually volatile, with liquidity conditions very challenging. For example, 10-year gilts fell almost 20 bps earlier in yesterday's session to then close 26 bps higher on the day. Today, the UK DMO sold £4.5 bn of green gilts due 2053 but analysts point out that demand was 5x the size issued, compared to 8–11x in comparable recent syndications.



UK-based Liability-Driven Investors (LDI) reportedly face significant margin calls after the sharp rise in gilt yields pushed mark-to-market valuations on derivatives and leveraged positions against them. Some estimates are that a £1 bn pension scheme would have a DV01, the sensitivity to a one basis point movement in underlying interest rates, of about £2 mn. Assuming the scheme wanted to maintain a collateral balance of 150 bps of the mark-to-market value of its portfolio with dealers, an upward shift in gilt yields of nearly 100 bps would force it to hand over around £200 mn in additional collateral, according to estimates by Aon.

Euro area

Equities (-1.4%) and the euro (-0.3%) remained under pressure as confidence data out of Germany, France, and Italy disappointed. Italian 10-year yields opened higher but then fell in the wake of the announcement by the Bank of England. According to Reuters, updated budget projections by Italy's ministry of finance show a 2023 budget deficit at 5.0% of GDP (up from 3.9% previously) with the budget deficit staying at 5% of GDP in 2023 and potentially widening to 6% in a "gas shortage scenario". **Natural gas prices in Europe were 4% lower.** Officials in Germany, Denmark, Poland, and the US have said the suspicious Nord Stream leaks point to sabotage.

Japan

Equities slipped -1%, amid regional-wide selloffs. The Bank of Japan (BOJ) reiterated dovishness in its July meeting minutes. The BOJ said it was appropriate to persistently continue with monetary easing to support Japan's economy and will ease further if needed. One member said tweaking yield curve control would drag on the economy. Also, the bank attributed yen weakness against the dollar to its policy divergence from the Fed and to dollar-buying by Japanese importers. **The Japanese yen and 10-year yields were little changed.**

Emerging Markets [back to top](#)

Asian equities plunged -2.5% on net. Hong Kong SAR dived -3.4% followed by Taiwan POC (-2.6%), South Korea (-2.5%), the Philippines (-2.3%). **Asian currencies weakened against renewed dollar strength.** The South Korean won depreciated -1.2% and the Thai baht weakened -1%. **10-year yields mostly climbed.** South Korea jumped +64.4 bps. **South Korea announced measures to stabilize its financial markets,** including central bank bond purchases of up to 3 tn won (\$2.1 bn), government bond

buybacks of 2 tn won (\$1.4 bn), a possible stock short-selling ban, and the preparation of a stock stabilization fund. **Spreads on investment-grade dollar corporate bonds in Asia outside Japan have widened the most since July (+5 bps).** CDS spreads also increased (+20 bps). Rising USD rates, sovereign CDS spreads underscore the need to enhance fiscal credibility going forward for EM Asia, DBS thinks. **EMEA equities were trading mostly lower, and currencies weakened against the dollar amid broad-based risk-off sentiment. Hungarian and Polish assets underperformed** with equities declining by roughly 2%, currencies weakening and sovereign local yields increasing by over 10 bps amid concerns of further gas supply reductions from Russia. Risk sentiment was also dented by fears of further escalation of the war in Ukraine after results from Russia's widely-condemned referendum were reportedly in favor of Russian annexation, spurring worries Russia would move soon to annex the four Ukrainian territories. Equities in Russia (+1.4%) outperformed while those in Czech Republic were closed for a public holiday. On the monetary policy front, the central bank of **Morocco yesterday increased its policy rate for the first time since 2008** with a 50 bps hike taking the policy rate to 2%. **In Latam, equity markets rebounded across most countries on Tuesday but continued to decline in Brazil for a third consecutive trading day.** The Brazilian real and the Chilean peso appreciated against the dollar. Credit default swap spreads continued to widen across countries, reaching March 2020 highs for Chile, Colombia, and Peru.

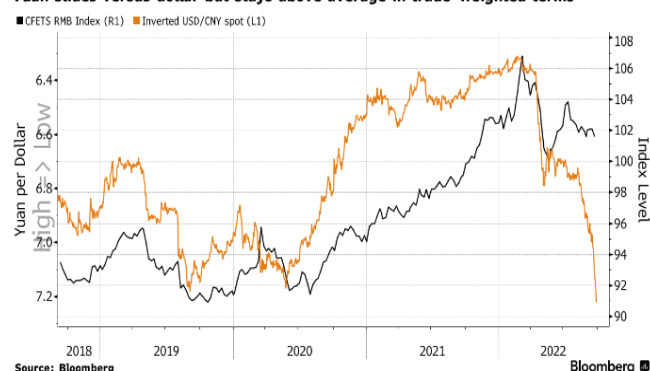
China

The People's Bank of China (PBOC) asked quotation banks to respect the yuan fix and to stick with risk-neutral principles. The central bank also warned against one-way yuan bets and stressed the yuan's solid fundamentals.

The PBOC also reportedly revived a counter-cyclical factor for yuan fixing. This may be implemented in coming days, and could help slow yuan depreciation, according to Reuters. The factor, previously abandoned in 2020, is an adjustment that 14 China banks make to their yuan quotes which the central bank uses for reference rate fixing. Separately, the PBOC has set up a 200 bn yuan (\$27.6 bn) relending tool for businesses to support equipment upgrades in manufacturing and other sectors. Separately, property developer CIFI Holdings securities fell following reported missed payments. CIFI said it is seeking solution with financial institutions. Also, the developer repaid a coupon due today, on a \$555 mn 2024 US dollar bond, according to Bloomberg.

Equities slumped (Shanghai: -1.6%, Shenzhen: -2.6%) alongside broader selloffs in Asia. The yuan depreciated a further -0.8%, 10-year yields were little changed.

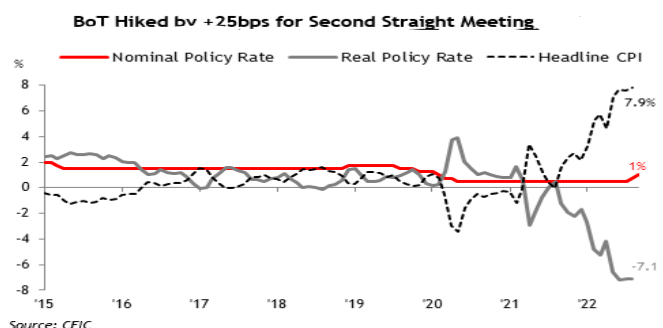
Yuan slides versus dollar but stays above average in trade-weighted terms



Thailand

The Bank of Thailand (BOT) hiked its policy rate by +25 bps to 1%, as expected. The bank said the policy rate should be normalized in a gradual and measured manner, but signaled flexibility should its outlook change. BOT also said the baht's depreciation against the dollar remains in line with regional currencies, and that no aggressive moves are needed to handle the currency. The bank sees headline inflation at 6.3% in 2022 before declining to 2.6% in 2023 and expects continued GDP growth in 2022 (3.3%) and 2023 (3.8%), driven by tourism.

Equities slipped -0.7%, 10-year yields firmed +2.7 bps, the Thai baht depreciated -1%.



Nigeria

The central bank of Nigeria yesterday surprised markets with a 150 bps hike to take the policy rate to 15.5%. Consensus expected a 50 bps hike. The governor emphasized the need to curtail inflationary pressures, with headline inflation at multi-decade highs (20.5% y/y in August). The central bank also increased the regulatory cash reserve requirement to 32.5% to reduce banking system liquidity. **JP Morgan analysts note that monetary conditions have remained loose since 2020 and expect another 100 bps policy rate hike in November.** Analysts expect inflation to decelerate to 12.5% by end-2023 and see no policy changes after November through 2023, but caution that currency pressures present further upside risk.

Figure 6: Real rates

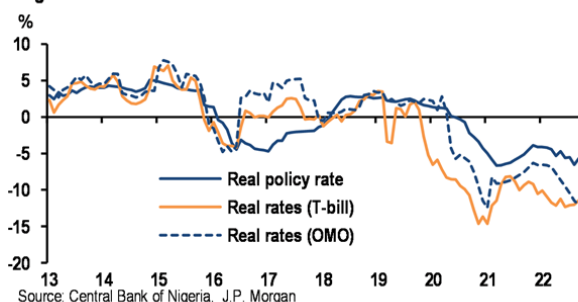
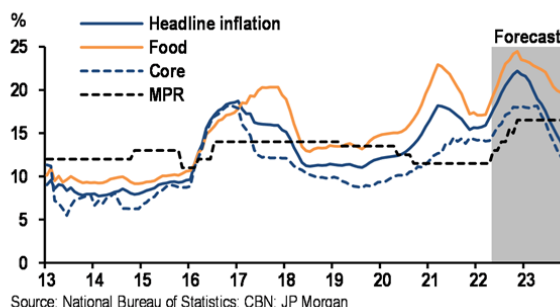


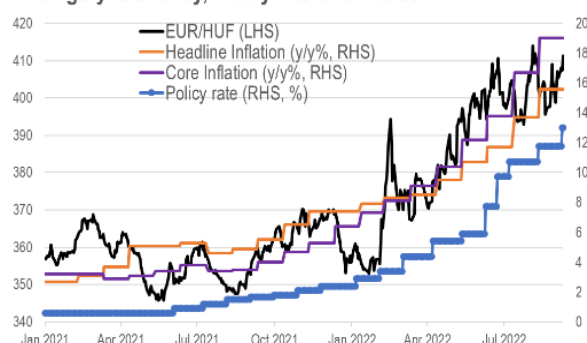
Figure 7: Nigeria inflation and policy rate



Hungary

The central bank of Hungary hiked by a larger-than-expected 125 bps yesterday to take the base rate to 13%, and announced the end of the hiking cycle. The press statement highlighted that the risk of a global recession has increased and that domestic interest rate conditions have become strict enough to achieve the inflation target, with slowing demand expected to weigh on inflationary pressures from early 2023. The statement also said that further monetary tightening would occur through liquidity measures. **Goldman Sachs analysts caution that exchange rate pressures could result in further rate hikes,** flagging that the Hungarian forint could face pressures from a large current account deficit, developments around EU fund disbursements and broader European economic growth concerns. **The Hungarian forint closed marginally stronger against the euro (+0.2%) but weakened this morning (-0.9%) and is now roughly 10% weaker than at the start of 2022.**

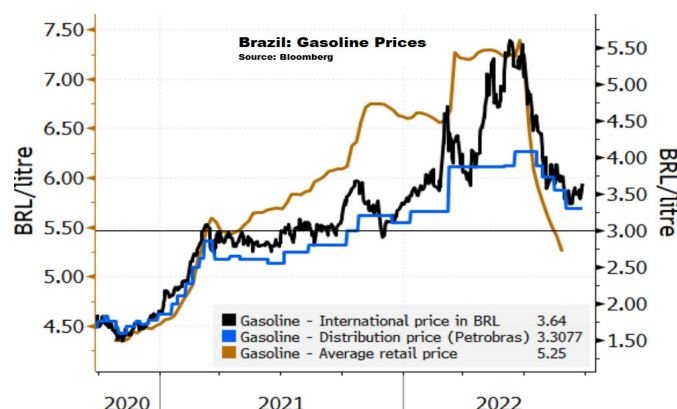
Hungary: Currency, Policy rate and Inflation



Brazil

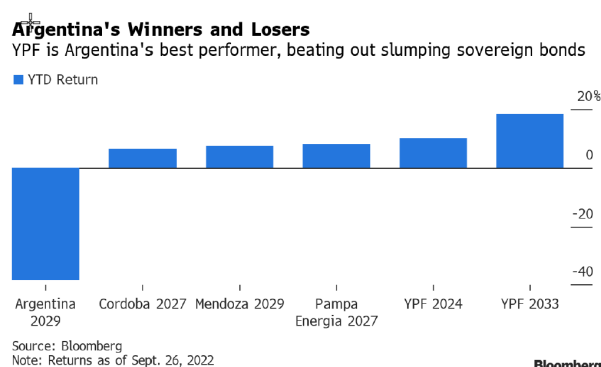
Consumer prices fell and annual inflation eased in September. The Brazilian Institute of Geography and Statistic (IBGE) reported that IPCA-15 inflation fell -0.37%, more than the -0.20% expected by analysts. Annual inflation eased to 7.96%, below the 8.14% expected by economists, driven by lower fuel prices

resulting from tax cuts on gasoline. Prices fell on three of nine groups of products and services, communication, food and beverage, and transportation, and remained high, particularly outside these categories. The Brazilian Central Bank forecasts 2.7% inflation in 2024, below the 3% target for the year, according to the Monetary Policy Committee minutes released today.



Argentina

Investors are selling sovereign bonds to buy corporate and provinces' bonds and notes offering higher returns. According to Bloomberg, bonds issued by YPF SA, the state-controlled oil company, returned as much as 18% year-to-date while notes issued by Mendoza and Cordoba provinces returned about 7%. According to Bloomberg News, investors perceive corporates and provinces as being more able to withstand challenging economic conditions than the federal government.



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.

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Global Financial Indicators

9/28/22 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities				%			%	%
United States		3674	-0.2	-5	-9	-17	-23	-13
Europe		3281	-1.4	-6	-9	-19	-24	-17
Japan		26174	-1.5	-5	-6	-11	-9	-1
China		3829	-1.6	-2	-6	-21	-23	-17
Asia Ex Japan		60	-0.4	-6	-11	-29	-27	-24
Emerging Markets		36	-0.1	-6	-11	-30	-27	-25
Interest Rates				basis points				
US 10y Yield		3.93	-2.0	40	88	239	241	193
Germany 10y Yield		2.27	4.0	38	88	247	245	204
Japan 10y Yield		0.25	0.1	0	3	19	18	6
UK 10y Yield		4.23	-27.4	92	163	324	326	275
Credit Spreads				basis points				
US Investment Grade		188	11.1	24	29	104	76	45
US High Yield		546	13.1	58	62	232	208	139
Europe IG		133	-1.7	12	19	84	85	61
Europe HY		643	-12.2	46	83	400	401	291
Exchange Rates				%				
USD/Majors		114.64	0.5	4	5	22	20	19
EUR/USD		0.96	0.3	-3	-4	-18	-15	-15
USD/JPY		144.5	-0.2	1	4	30	26	26
EM/USD		48.2	-0.2	-2	-4	-13	-8	-9
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)		34.0	1.4	6.0	8.4	10.8	16.8	3.0
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: 9/28/2022 8:06 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		7.23	-0.8	-2.5	-4	-11	-12	-13		2.8	3.5	11	12	-16	0	-1
Indonesia		15267	-0.9	-1.8	-2	-7	-7	-6		7.4	3.8	22	35	121	104	92
India		82	-0.4	-2.4	-2	-10	-9	-9		7.7	-0.8	3	13	119.3	137	
Philippines		59	0.0	-1.7	-5	-14	-14	-13		5.8	2.5	8	43	168	128	78
Thailand		38	-1.0	-3.1	-5	-12	-13	-16		3.3	10.0	35	65	157	145	108
Malaysia		4.63	-0.4	-1.6	-3	-10	-10	-10		4.4	-1.6	19	44	95	81	73
Argentina		147	-0.2	-1.3	-6	-33	-30	-27		83.9	-242.9	155	718	3474	3335	3596
Brazil		5.42	-0.7	-4.5	-7	0	3	-8		11.1	-74.1	-50	-102	-9	43	-41
Chile		985	0.2	-5.1	-10	-19	-14	-20		7.2	0.0	35	50	192	173	124
Colombia		4558	-0.6	-3.0	-4	-16	-11	-14		10.0	0.0	27	46	335	355	209
Mexico		20.43	-0.2	-2.0	-2	0	0	-1		9.4	-7.0	47	70	205	190	158
Peru		3.9	-0.4	-1.2	-3	4	1	-5		8.5	0.1	26	55	208	260	250
Uruguay		41	0.0	-0.7	-1	3	8	2		11.5	0.0	8	47	355	275	332
Hungary		430	-1.2	-3.8	-5	-28	-25	-26		9.8	18.0	28	48	644	527	497
Poland		5.03	-0.7	-3.4	-6	-21	-20	-19		6.8	12.8	82	48	469	329	292
Romania		5.2	0.1	-2.8	-6	-18	-16	-15		8.4	-1.8	31	51	476	355	322
Russia		58.4	0.7	4.7	6	25	29	40		9.1	75.6	52	85	138	33	-208
South Africa		18.1	-0.4	-1.9	-7	-16	-12	-16		9.7	8.0	51	86	215	229	213
Turkey		18.54	-0.5	-1.1	-2	-52	-28	-25		11.8	0.0	16	-160	-696	-1256	-1066
US (DXY; 5y UST)		115	0.4	3.6	5	22	20	19		4.13	-6.0	36	92	311	286	222

	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		3829	-1.6	-2	-6	-21	-23	-17		184	-11	-25	-24	-19	-24
Indonesia		7077	-0.5	-2	-1	15	8	2		185	4	12	12	20	0
India		56598	-0.9	-5	-2	-5	-3	-1		171	8	20	26	39	17
Philippines		5880	-2.3	-9	-13	-15	-17	-20		144	7	23	36	43	7
Thailand		1599	-0.7	-2	-2	-1	-4	-6		0	0	0	0	0	0
Malaysia		1402	-0.6	-3	-7	-9	-11	-12		101	2	-6	-28	-16	-32
Argentina		135473	-1.9	-8	-4	79	62	48		2703	299	299	1089	1023	966
Brazil		108376	-0.7	-4	-3	-2	3	-3		314	16	4	16	3	-17
Chile		5181	0.0	-4	-5	20	20	18		185	6	4	38	45	11
Colombia		1124	1.0	-6	-13	-17	-20	-26		462	39	56	168	114	70
Mexico		45006	0.4	-4	-5	-12	-16	-12		469	37	63	116	137	99
Peru		18791	0.6	-4	-3	1	-11	-20		223	11	34	55	73	33
Hungary		37664	-2.3	-4	-13	-27	-26	-21		282	27	42	154	158	129
Poland		47021	-1.8	-5	-10	-32	-32	-25		45	27	23	22	13	29
Romania		10666	-1.0	-6	-14	-15	-18	-19		340	37	53	148	147	108
Russia		1976	1.1	-7	-13	-51	-48	-36		3411	-577	938	3228	3234	2897
South Africa		62968	-1.7	-5	-10	-1	-15	-16		466	21	42	107	111	77
Turkey		3251	-0.5	0	3	135	75	61		609	-4	-31	101	31	46
Ukraine		519	0.0	0	0	-1	-1	0		3705	288	270	3199	2946	2232
EM total		36	-1.9	-6	-11	-30	-27	-25		461	27	40	90	75	3

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

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