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- The Bank of Canada set to publish summary of monetary policy deliberations ([link](#))
- Long-term gilt yields sharply lower on Bank of England actions ([link](#))
- Spanish inflation lower than expected in September ([link](#))
- People's Bank of China warns against currency speculation ([link](#))
- PEMEX is seeking \$1 bn in financing linked to carbon emission reduction goals ([link](#))

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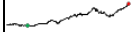





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## Risk-off sentiment returns after brief reprieve

**Global risk sentiment is under pressure again after yesterday's reprieve as concerns over the economic outlook came back into focus.** The S&P500 had its biggest single day gain yesterday since early August, as sentiment was lifted by the BoE bond-purchase announcement. This morning however, markets traded with more caution and the dollar resumed its strengthening trend. Sovereign yields increased with shorter-term Gilt yields around 14–20 bps higher after PM Truss defended the government's fiscal plans. 30-yr Gilt yields yesterday saw a marked decline (-106 bps to 3.93%) and initially fell this morning, but increased again (+3 bps) in later trade. Currency markets also remain volatile, with the pound and euro trading weaker against the dollar. On the data front, euro area September economic sentiment declined by more than expected, adding to expectations of an economic contraction in Q3.

Key Global Financial Indicators

Last updated: 9/29/22 1:31 PM	Level		Change from Market Close					Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	
<b>Equities</b>			%				%	
S&P 500		3719	2.0	-2	-8	-15	-22	-12
Eurostoxx 50		3283	-1.6	-4	-8	-20	-24	-17
Nikkei 225		26422	0.9	-3	-6	-10	-8	0
MSCI EM		36	0.9	-3	-10	-28	-27	-25
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.80	7.3	9	70	229	229	181
Germany 10y Yield		2.26	13.8	29	75	247	244	203
EMBIG Sovereign Spread		564	29	57	74	209	197	151
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		48.6	-0.2	-2	-3	-12	-7	-8
Dollar index, (+) = \$ appreciation		113.1	0.5	2	4	20	18	18
Brent Crude Oil (\$/barrel)		89.5	0.2	-1	-15	14	15	-8
VIX Index (% change in pp)		31.8	1.7	4	6	9	15	1

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

## Mature Markets

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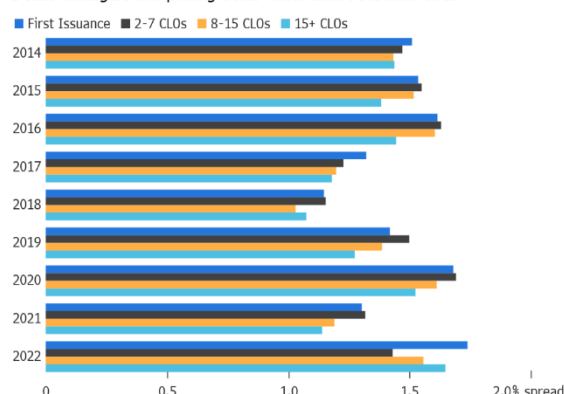
### United States

**US Treasury yields declined sharply yesterday across the curve, with 10-y yields down 21 bps.** The 7-year Treasury auction passed more smoothly than the 2 and 5-year auctions earlier this week, clearing 0.5 bps below the pre-auction level. **Volatility in rate markets remains high**, while volatility in stock eased somewhat. **US equities ended their 6-day losing streak**, with the S&P 500 increasing by 2%, the best daily performance since early August. The US dollar depreciated against most of the major currencies, with the dollar index down more than 1%. **Market reaction was limited to this morning's data releases:** the third estimate for Q2 US GDP confirmed earlier estimates (-0.6% q/q saar), while US jobless claims showed initial claims at 193k (vs 215k expected) and continuing claims at 1347k (vs 1385k expected).

**Collateralized loan obligation (CLO) prices are declining amid a lack of demand from banks.** US banks are large buyers of CLOs—analysts estimate that US banks bought nearly 70% of AAA-rated CLOs in 2021 and the first half of 2022. US issuance has fallen by over 20% so far in 2022 and is expected to decline further. According to Citi analysts, banks are investing in asset classes that require less regulatory capital charges as they need to increase capital, due to stress tests by the US Federal Reserve and rising interest rates. New issuers have to price at a wider spread compared to seasoned CLO managers due to a lack of reputation and connections to buyers. This dispersion is expected to continue to increase against a backdrop of weaker demand from banks.

#### AAA Dispersion Grows

Debut managers are pricing deals wider than seasoned ones



Source: US Bank  
2022 data is January through August

Bloomberg

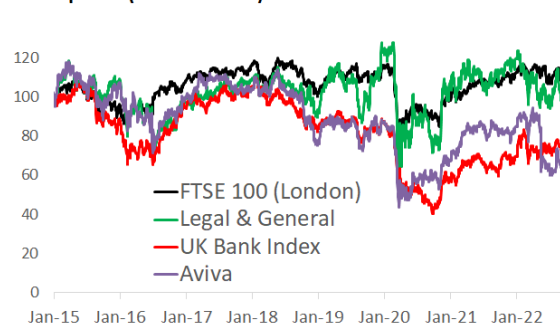
### Canada

**The Bank of Canada (BoC) will start to publish a summary of deliberations after monetary policy meetings**, beginning in January 2023, with a lag of roughly two weeks following each policy decision. **This is one of the BoC's efforts to enhance transparency in response to a review of the central bank's transparency practice by the IMF.** In the review, disclosure of more detailed information on monetary policy deliberations is recommended, as it would strengthen BoC's interaction with key stakeholders in times of heightened uncertainty. Meanwhile, markets are close to fully pricing in a 50 bps hike in the October BoC meeting, that would take the policy rate to 3.75%. Analysts expect the policy rate to then remain unchanged throughout the first half of 2023, with the first rate cut expected in 2023H2.

### United Kingdom

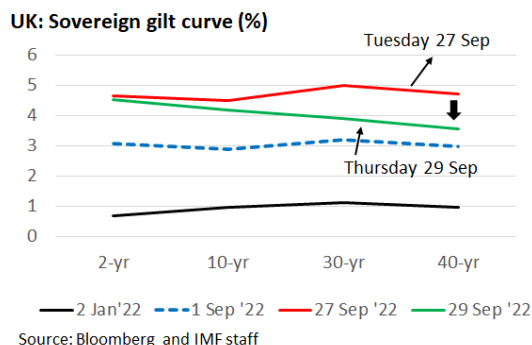
**Gilt yields in the 2-yr and 10-yr segment are around 20 bps higher this morning while 30-yr gilt yields were 3 bps lower at 3.90%.** Earlier today, PM Truss said that the government has the right plan in interviews with local BBC radio stations. Some contacts expect the UK to be downgraded in upcoming rating reviews (S&P on October 21 and Fitch on December 9). **Bank stocks (-1.4%) and shares of pension funds and insurers continue to underperform. The pound (-0.3%) reversed earlier gains.**

#### UK equities (Jan 2015: 100)



Source: Bloomberg and IMF

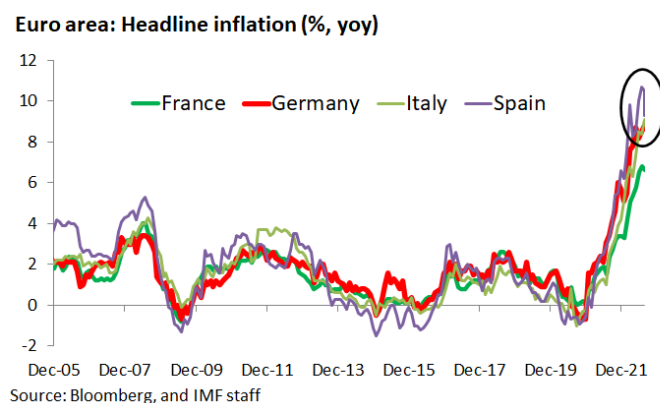
Yesterday, 30-yr gilts posted the biggest rally on record (yields -106 bps to 3.93%) with the yield curve shifting lower after the announcements by the Bank of England (BoE). The 2/30y inverted sharply (the curve has flattened by 70 bps). Despite a strong rally, the short-term yields remain significantly higher than prior to the BoE's mini-budget announcement. All in all, yesterday's rally corrected partially the selloff after the mini-budget announcement with about 50 bps reverse move.



Some commentators welcomed yesterday's BoE's actions as they support financial stability, while others highlight that further action might be required as it remains difficult to gauge the impact on specific pension funds and insurers. Some pension funds and insurers have been facing substantial collateral calls on the back of sharp increases in gilt yields. Analysts argue that yesterday's BoE actions will limit sharp rises in long end gilt yields and should at least prevent large illiquidity-driven increases. Some believe that further actions may be required. Nevertheless, an inter-meeting rate hike is still seen as unlikely. One contact would have preferred the BoE to address challenges for Liability-Driven Investors with a repo facility to lend against good collateral.

### Euro area

Equities (-1.3%) and the euro (-0.2%) fell as a drop in the euro area economic sentiment indicator is seen as another indication of a likely contraction in Q3. A separate data release showed Spanish headline inflation was lower than expected in September at 9.3% y/y (10% expected). Core inflation also fell to 6.2% y/y (6.6% expected). But analysts warn about upside risk to Germany's preliminary September inflation due later today (10.2% y/y expected) after regional data releases.

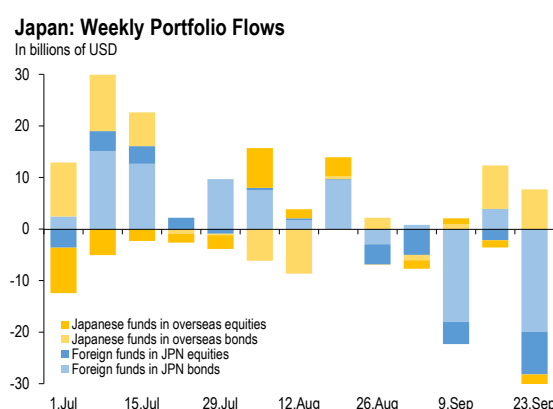


Italian 10-yr yields are 13 bps higher at 4.66% as 10-yr bund yields are 12 bps higher at 2.24%. Reports are that government forecasts for Italian budget deficits could be lower than media reports suggested yesterday (at 3.4% in 2023 from 3.9% previously).

## Japan

Japanese equities rebounded (NIKKEI: +0.9%) as the decline in US Treasury yields helped support global risk sentiment. However, the Japanese yen depreciated (-0.4%). Market participants increasingly voice concerns about liquidity deterioration in the JGB market. Long-end JGB yields were mixed, with 10-year yield edging up to 0.245% (+0.7 bp) while 30-year yield falling (-7.8 bps). The Bank of Japan bought JGBs under the fixed-rate bond purchase operation in the amount of 875 bn yen (\$6.1 bn).

Japan saw significant portfolio outflows last week, driven by foreign investors' withdrawal from both Japanese bond and stock markets. Bank of America analysts estimate that the FX interventions on September 22 amounted to \$25 bn. Analysts note that the bar to conduct FX interventions will increase as the most liquid assets are depleted; about \$136 bn of foreign reserves were held in deposits, which were expected to be sold first during FX interventions.



## Emerging Markets

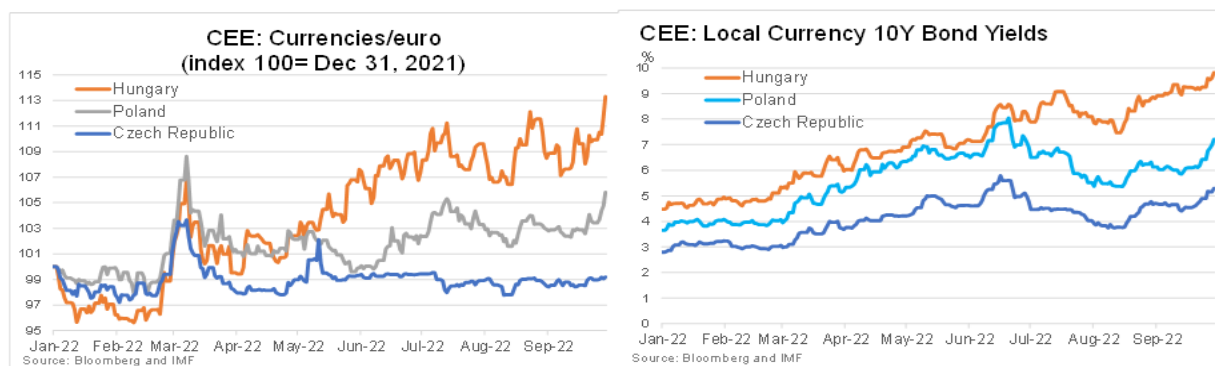
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EMEA markets are deeply in the red this morning, with Polish and Hungarian markets underperforming. Elsewhere in EMEA, the South African rand is weakening 0.6% vs. the dollar (to 18/\$). Despite Turkish president Erdogan calling for additional rate cuts to bring interest rates to single digits by year end (the policy rate is currently 13%, and inflation is 80%), the Turkish lira is holding up fairly well, losing just 0.1% to the dollar (to 18.53/\$). Asian equities were mixed, falling 0.8% on net. Indonesian (-0.6%) and Hong Kong (-0.5%) equities fell, while share prices rose in Philippines (+0.9%) and Taiwan Province of China (+0.5%). Asian currencies were also mixed. Thai baht appreciated (+0.3%), while Singaporean dollar (-0.6%) and Malaysian ringgit (-0.4%) depreciated. Long-end government bond yields generally declined, with 10y yields lower in the Philippines (-12 bps) and Malaysia (-3 bps). In Indonesia, Bank Indonesia seeks to reduce the reliance on US dollar, with plans to allow domestic transactions of non-deliverable forwards in other currencies and to strike more agreements on local-currency settlement. Indonesian ringgit was little changed. In Taiwan Province of China, the central bank chief pledged to not use FX controls, mentioning that the central bank is capable of coping with capital flows. In Latam, equity markets mostly rebounded, and currencies appreciated against the US dollar, as investor sentiment shifted after the Bank of England announcement. Credit default swap spreads narrowed for the first time since September 20. In Brazil, presidential candidate Lula da Silva leads the race, according to polling results released by PoderData.

## Central Eastern Europe

Polish and Hungarian markets underperformed amid global risk off sentiment together with concerns of an escalation of the war in Ukraine. Equities in Poland and Hungary were trading roughly 1% lower this morning while the Hungarian Forint weakened by 1.6% (to 419.5/euro) and the Polish zloty

was 0.9% weaker (to 4.85/euro) bringing year to date depreciation against the euro to 11.9 and 5.5% respectively (and 25 and 19.5 % against the dollar). Local bond rates are also shooting up again in Hungary and Poland, with yields on the 10y local bonds increasing by 17 bps in Hungary (to 9.72%) and 26 bps in Poland (to 7.22%). **While the Czech equity market is down 1.7%, the Czech koruna is holding up better, losing 0.2% (to 24.7/euro) ahead of the MPC rate decision later today**, where markets expect no change at 7%. However, markets expect a confirmation that the Czech National Bank will intervene against an excessive depreciation of the currency.

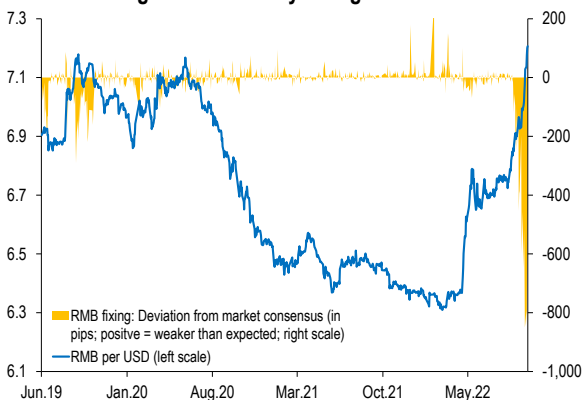


## China

**The People's Bank of China (PBC) warned against currency speculation.** The warning initially led RMB to appreciate notably in the morning trading session, the first appreciation in almost two weeks, before paring the earlier appreciation over the day. The PBC's warning came after the reintroduction of the risk reserve requirement for FX forward sales and the countercyclical factor in the daily RMB fixing (which would make the fixing stronger than what the formula would suggest). Today, the PBC also set the daily RMB fixing at 7.1102 per dollar, 729 pips stronger than expected. RMB ended up appreciating 0.1% onshore while depreciating 0.5% offshore.

**The PBC injected liquidity via reverse repos in an amount of 180 bn RMB (\$25 bn) to ease tight liquidity conditions at the end of the quarter.** The key interbank repo rate (DR007) rose to 2.13% (+46 bps), above the policy rate (at 2.0%) for the first time since end-June. CGB yields were mixed (1-year: -1.7 bps; 10-year: +1.8 bps). **Offshore Chinese equities fell** (HangSeng China Enterprises: -0.8%), driven by the decline of Chinese tech stocks (-1.2%). Risk-off sentiment toward Chinese growth stocks deepened in recent days. Meanwhile, many tech firms' listing status in the US markets remains uncertain as US and Chinese regulators just had a tense start to agree on how to review audit work papers. The teams of US regulators are currently in Hong Kong SAR to conduct an initial inspection to determine whether the terms of the agreement have been met. Meanwhile, onshore Chinese equities were little changed.

RMB: Exchange Rate and Daily Fixing



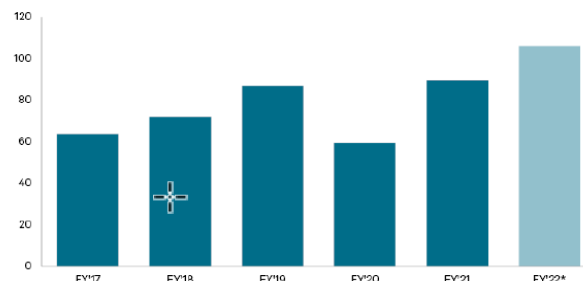
## Brazil

**Bank profitability is expected to remain resilient in 2022 despite election risk.** According to S&P Global Ratings, uncertainty in the run-up to the elections is likely to exert pressure on investment and economic performance, which in turn could lead to lower lending growth and deteriorating asset quality for



banks. However, banks' profitability is high and likely to be resilient to election risk due to "high loan provisioning, diversified revenue mix, and high margins." Average net interest income for Brazilian banks increased to \$2.4 bn in 2Q22 from \$1.3 billion in 1Q22, driven by a shift towards more retail lending, a strategy that contributed to higher margins.

Aggregate net income of large Brazilian banks (Brazilian reais B)

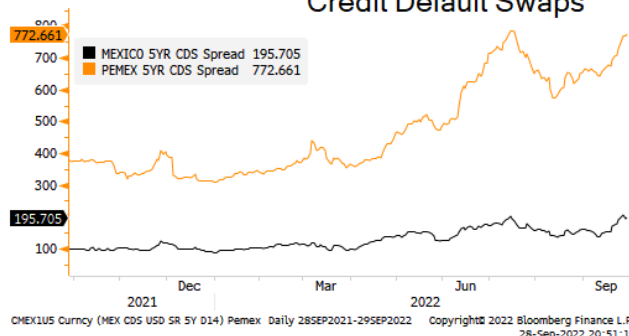


Data compiled Sept. 20, 2022.  
Sample includes listed banks under the coverage of S&P Global Market Intelligence that are headquartered in Brazil that reported total assets of over \$5 billion Brazilian reais as of Dec. 31, 2021.  
\* Represents aggregated capital IQ mean consensus estimates.  
Source: S&P Global Market Intelligence

## Mexico

**Petroleos Mexicanos (PEMEX), the state-owned petroleum company, is seeking \$1 bn in financing linked to carbon emission reduction goals.** PEMEX has reached a preliminary deal with HSBC and Goldman Sachs, according to a Bloomberg report. PEMEX is facing liquidity challenges as a commercial debt swap, in lieu of paying its maturing obligations with cash, failed to raise the funds planned in July. PEMEX's credit default swap spreads widened over the past three days to highs last seen in mid-July.



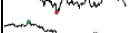


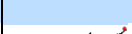
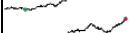






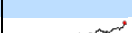



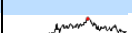


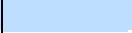




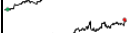


Credit Default Swaps



*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

9/29/22 1:33 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		3702	2.0	-1	-8	-15	-22	-12
Europe		3285	-1.5	-4	-8	-19	-24	-17
Japan		26422	0.9	-3	-6	-10	-8	0
China		3827	0.0	-1	-6	-21	-23	-17
Asia Ex Japan		60	0.5	-4	-10	-28	-27	-24
Emerging Markets		36	0.9	-3	-10	-28	-27	-25
<b>Interest Rates</b>			basis points					
US 10y Yield		3.81	7.5	9	70	229	230	181
Germany 10y Yield		2.26	13.8	29	75	247	244	203
Japan 10y Yield		0.26	0.8	2	1	18	18	6
UK 10y Yield		4.17	16.1	68	157	318	320	269
<b>Credit Spreads</b>			basis points					
US Investment Grade		188	0.9	22	27	101	76	45
US High Yield		541	-2.4	52	49	227	204	135
Europe IG		139	3.7	13	25	89	91	67
Europe HY		665	14.0	46	105	416	423	313
<b>Exchange Rates</b>			%					
USD/Majors		113.05	0.4	2	4	20	18	18
EUR/USD		0.97	-0.3	-1	-3	-16	-15	-14
USD/JPY		144.7	0.4	2	4	29	26	26
EM/USD		48.6	-0.3	-2	-3	-12	-8	-9
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		89	0.1	-1	-13	25	21	2
Industrials Metals (index)		148	4.3	-3	-7	-9	-14	-21
Agriculture (index)		69	0.1	-3	-2	20	13	-2
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		31.8	1.6	4.4	5.6	9.2	14.5	0.7
US 10y Swaption Volatility		156.3	-5.5	22.6	25.6	81.5	77.3	62.0
Global FX Volatility		13.2	0.0	1.8	2.2	6.4	5.8	5.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		269	-4.9	15	13	162	117	29
Italy		244	2.7	23	14	140	109	72
Portugal		107	-0.7	6	-2	51	42	15
Spain		117	-0.9	5	-2	52	43	14

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

## Emerging Market Financial Indicators

Last updated: 9/29/2022 1:36 PM	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		7.14	0.9	-0.8	-3	-9	-11	-11		2.9	2.0	11	14	-12	2	1
Indonesia		15263	0.0	-1.6	-2	-6	-7	-6		7.4	0.0	17	24	118	104	92
India		82	0.1	-1.2	-2	-9	-9	-9		7.7	-0.2	0	13	118.0	137	
Philippines		59	0.0	-0.8	-5	-14	-14	-13		5.8	0.0	3	43	160	128	78
Thailand		38	0.7	-1.9	-4	-11	-12	-15		3.3	1.0	26	66	158	146	109
Malaysia		4.64	-0.1	-1.5	-3	-10	-10	-10		4.4	-3.1	19	43	101	84	76
Argentina		147	-0.2	-1.4	-6	-33	-30	-27		87.8	385.2	452	1103	3826	3720	3981
Brazil		5.40	-0.5	-5.3	-7	0	3	-7		12.0	-4.4	56	-12	91	133	49
Chile		964	-0.8	-2.0	-8	-16	-12	-18		7.0	2.5	2	31	161	154	105
Colombia		4487	1.6	-1.9	-3	-15	-9	-13		9.9	0.0	18	35	325	344	198
Mexico		20.18	-0.3	-1.1	-1	2	2	0		9.2	-21.0	32	49	177	169	137
Peru		4.0	-0.1	-1.1	-3	4	1	-5		8.6	8.3	36	65	221	273	263
Uruguay		41	-0.2	-1.3	-2	4	8	2		11.5	0.0	8	47	365	274	332
Hungary		436	-2.9	-5.6	-6	-29	-26	-27		10.0	29.0	66	70	669	549	519
Poland		5.01	-1.5	-3.7	-6	-20	-20	-19		7.1	26.7	99	70	488	351	314
Romania		5.1	-0.5	-1.6	-5	-16	-15	-14		8.5	7.5	35	58	479	362	329
Russia		58.2	0.4	2.1	6	25	29	40		8.2	-89.9	-49	-5	54	-57	-298
South Africa		18.0	-0.8	-2.2	-7	-16	-11	-16		9.6	-1.0	29	76	206	219	203
Turkey		18.54	-0.2	-1.1	-2	-52	-28	-25		11.9	17.0	32	-143	-676	-1239	-1049
US (DXY; 5y UST)		113	0.4	1.5	4	20	18	17		4.03	8.3	9	78	304	277	213

	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		3827	0.0	-1	-6	-21	-23	-17		192	-2	-17	-16	-11	-16	
Indonesia		7036	-0.6	-3	-2	12	7	2		223	35	50	52	58	38	
India		56410	-0.3	-5	-5	-5	-3	-1		194	32	43	51	62	40	
Philippines		5934	0.9	-6	-10	-15	-17	-19		168	25	47	58	67	31	
Thailand		1592	-0.4	-3	-3	-1	-4	-6		0	0	0	0	0	0	
Malaysia		1398	-0.3	-3	-8	-9	-11	-12		110	9	3	-19	-7	-23	
Argentina		138023	1.9	-6	-4	80	65	51		2653	242	249	1073	973	916	
Brazil		108451	0.1	-3	-3	-2	3	-3		319	21	9	18	8	-12	
Chile		5100	0.0	-4	-8	18	18	17		196	13	15	48	56	22	
Colombia		1130	0.6	-6	-12	-17	-20	-25		462	42	56	163	114	70	
Mexico		45442	1.0	-3	-2	-11	-15	-12		476	37	70	122	144	106	
Peru		19319	2.8	-2	1	5	-8	-17		227	16	38	57	77	37	
Hungary		37382	-0.9	-5	-12	-28	-26	-22		329	67	89	201	205	176	
Poland		46614	-1.8	-6	-9	-33	-33	-26		88	74	66	67	56	72	
Romania		10727	0.5	-4	-12	-15	-18	-19		382	65	95	189	189	150	
Russia		1929	-1.8	-12	-16	-52	-49	-37		3411	-577	938	3228	3234	2897	
South Africa		63643	-0.3	-3	-8	-1	-14	-15		500	59	76	134	145	111	
Turkey		3213	0.5	-2	2	131	73	59		639	33	-1	130	61	76	
Ukraine		519	0.0	0	0	-1	-1	0		3832	250	397	3317	3073	2359	
EM total		36	-2.0	-3	-10	-28	-27	-25		480	45	60	109	94	22	

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

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