Global Markets Monitor

TUESDAY, SEPTEMBER 6, 2022

- **US Treasury yields have more room to rise, as policymakers keep hiking rates** (link)
- **Issuance in IG corporate bonds remains robust despite rising spreads** (link)
- **Wholesale gas prices edge lower after NS1 pipeline remains closed** (link)
- **Analysts expect growth in net interest income of European banks** (link)
- **Australia's central bank raises policy rate by 50 bp to 2.35%, as expected** (link)
- **China central bank cut FX deposit reserve requirement ratio by 200 bp** (link)
- **Chilean assets rallied, as voters rejected the draft for a new constitution** (link)
- **Kenyan Eurobond yields fall as court confirms presidential election results** (link)

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Equities higher as policymakers respond to energy troubles

Markets are higher as European policymakers react to handle the repercussions of the shutdown of gas supply through Nord Stream 1. European equity markets are modestly higher and US equity are pointing to a stronger opening despite the energy concerns. European governments have already made several announcements following the shutdown of the pipeline. That includes plans by the new UK prime minister to reduce energy bills for households and businesses. Gilt yields are lower, and the pound is strengthening on the day. Aside from the energy crisis, investor attention continues to be focused on this week's ECB meeting, where most analysts continue to expect a 75 bp hike. In Chile, the rejection on Sunday of a new constitution has helped to boost assets. While the rejection was largely expected going into the weekend, equities continued to rally on Monday, although the peso lost some of its Friday gains.

Key Global Financial Indicators

Last updated: 9/6/22 8:11 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		3924	-1.1	-3	-5	-13	-18	-7
Eurostoxx 50		3502	0.4	-2	-6	-18	-19	-12
Nikkei 225		27627	0.0	-2	-2	-8	-4	4
MSCI EM		39	-0.9	-3	-3	-27	-21	-18
Yields and Spreads			bps					
US 10y Yield		3.25	5.7	14	42	192	174	126
Germany 10y Yield		1.53	-3.0	2	58	190	171	131
EMBIG Sovereign Spread		511	2	21	-9	170	144	98
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.0	-0.2	-1	-1	-12	-5	-6
Dollar index, (+) = $ appreciation		109.9	0.3	1	3	19	15	14
Brent Crude Oil ($/barrel)		92.9	-2.9	-6	-2	29	19	-4
VIX Index (%, change in pp)		25.7	-0.3	-1	5	9	8	-5

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

In the week ahead markets will focus on the ECB interest rate decision on Thursday, where an increase of 50 bp is fully priced in and the expectation of 75 bp has gained ground. Elsewhere, on the monetary policy front, Canada, Australia and Chile also announce decisions this week (the expectation is for 75 bp, 50 bp and 75 bp hike respectively). In economic data, US services PMI will add to recently released UK and European Union PMIs. Industrial production figures in Germany, France, and Spain will provide clues on whether the euro area economy is likely to contract in Q3. China's exports, CPI and PPI releases will also be closely watched for signs of weakening demand. Price reports are expected from Thailand, the Philippines, Turkey, Hungary, Russia, Egypt, Mexico, Chile, and Norway.

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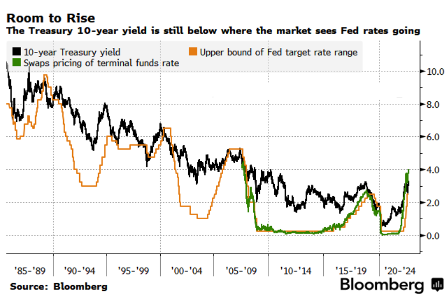
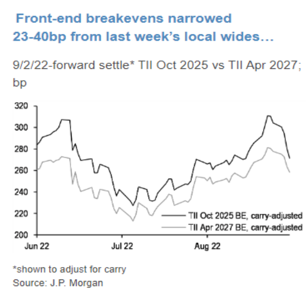
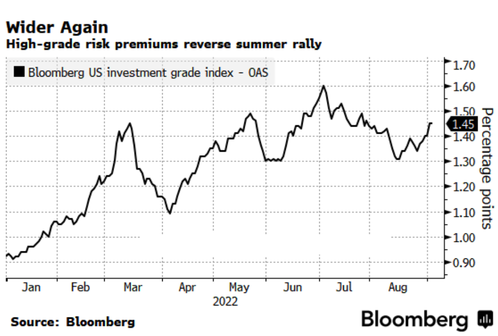
United States

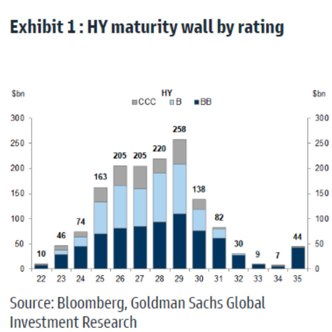
US Treasury yields have more room to rise, as the Federal Reserve keeps hiking. The US Treasury market has lost over 10% in 2022, putting it on pace for its deepest annual loss since at least the early 1970s, according to Bloomberg metrics. While some market analysis point to limited room for yields to continue higher, more downside potential for bond prices is likely. As in previous hiking episodes, the 10-year Treasury yield has reached a peak at or above the Federal Reserve terminal rate. Currently the terminal rate for this cycle lies around 3.9%. At the same time, breakevens have narrowed decisively since last week, as the increasingly hawkish monetary policy stance has exerted downward pressure on inflation expectations. After the recent moves, front-end breakevens are now 40 bp tighter from last week's peak, suggesting that the rise in Treasury yields is driven by real rates.





US investment grade spreads are rising, but issuance remains robust. The premium that US investment grade bonds command reversed its down trend since last week, suggesting rising borrowing costs for corporates. However, issuance is expected to be robust in the coming weeks, as issuers try to go ahead of the inflation print in mid-September and the Federal Reserve policy meeting later in the month. Looking further ahead, while corporate cash positions at a high level remain strong, maturity walls continue to drive corporate dependence on capital markets, especially for the high-yield sector. Issuers so far have taken a variety of actions, including debt extensions, asset sales and equity issuance, while those with stronger positions remained focused on deleveraging. Elsewhere, funds that buy high-yield debt saw their second-biggest weekly outflow this year, of about $5 bn, at the end of August.





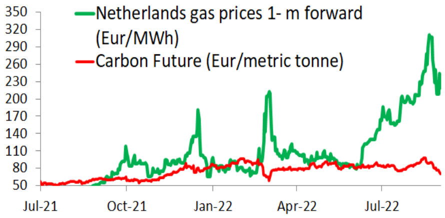
Euro area

Most analysts still expect the ECB to hike 75 bp on Thursday, but investors are also paying close attention to developments in energy markets ahead of the EU energy summit on Friday, September 9.

Equities (+0.6%) are higher and bond yields are lower as natural gas prices remain high but wholesale prices fell after supply from Nord Stream 1 (NS1) ended indefinitely. The German government agreed on a third relief package worth €65 bn as President Macron has urged the French to seek a 10% drop in the use of energy. Germany's gas storage sites are almost 86% full, just ahead of its intermediate target of 85% by October 1, 2022. Nevertheless, expectations are that Germany may not meet its target for filling natural gas storage sites to 95% by the start of November. Germany plans to keep two nuclear power plants on standby as backup for emergency situations until April 2023.

EC President von der Leyen announced that the EU will take action to reduce electricity demand at peaks, help vulnerable consumers and businesses with revenue from the energy sector, and enable support to electricity producers facing liquidity challenges linked to volatility. Internal market commissioner Breton said that there should be no taboos in the fiscal rules debate and suggests accounting for defense spending and "carbon debt" ahead of Eurogroup/Ecofin meetings on Friday.

Europe: Price of natural gas and carbon futures



Source: Bloomberg and IMF staff

According to Reuters, the EC could present a so-called "internal market emergency instrument" for markets on Tuesday, September 13. Via this new instrument the EC will reportedly seek emergency powers giving it the right to re-organize supply chains, sequester corporate assets, re-write commercial contracts with suppliers and customers, order companies to stockpile strategic reserves, and force them to prioritize EU orders over exports.

European bank earnings (+0.8%) are higher as some analysts see further upside in bank earning on expectations of higher net interest income. Nevertheless, some analysts also warn that banks could be vulnerable to regulatory intervention, higher capital buffers, and a deterioration of bank asset quality if the growth outlook deteriorates.

Bloomberg **Bloomberg Intelligence: European Banks' Consensus & YTD Change**

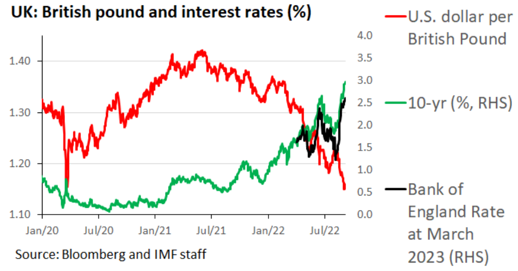
Stoxx 600 Banks Index	2022	YTD Change	%	2023	YTD Change	%
Net Interest Income	276,241	23,666	9.4%	294,688	33,920	13.0%
Total Revenue	**499,377**	**32,248**	**6.9%**	**519,312**	**37,941**	**7.9%**
Operating Expense	289,419	17,714	6.5%	286,504	16,940	6.3%
Pre-Provision Operating Profit	209,958	14,534	6.9%	232,808	21,001	9.0%
Loan Loss Provision	44,540	5,380	13.7%	52,046	8,579	20%
Pre-Tax Profit	**158,908**	**8,608**	**5.7%**	**175,646**	**12,277**	**7.5%**
Net Income	108,876	7,618	7.5%	119,209	9,575	8.7%

Source: Bloomberg MODL

United Kingdom

Today, 2-yr gilt yields fell (-7 bp to 3.14%) and the pound (+0.6%) gained following news that new PM Truss plans to freeze energy bills. 10-yr gilts are little changed, in contrast to sharply lower euro area yields in today's session. Gilt yields have risen sharply, and the pound has remained under pressure in September. PM Truss has reportedly drafted a plan to cap the annual electricity and gas bill of a typical British household at or below current level of £1,971 at a potential cost of as much as £130 bn over the next 18 months. Energy bills in the UK were due to jump 80% from October to £3,548 a year for the average household. Under Truss's plan, energy suppliers will be obliged to charge households a reduced rate and the government will guarantee financing that will cover the difference with what they would have charged under the previous system.

UK: British pound and interest rates (%)

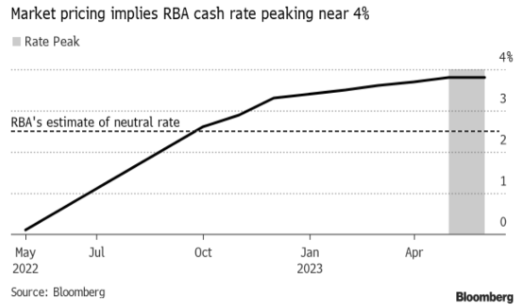


Source: Bloomberg and IMF staff

Incoming PM Truss is reportedly also finalizing plans for a £40 bn ($46 bn) support package to lower energy bills for UK businesses. The new government will reportedly consider two options, one of which is a cap on firms' energy costs like the proposal for households. The other option is a percentage or unit price reduction that all energy suppliers must offer companies, according to Bloomberg. The government would reimburse energy suppliers for their losses.

Australia

Reserve Bank of Australia (RBA) expectedly raised its policy rate by 50 bp to 2.35%. The interest rate on Exchange Settlement balances was also increased by +50 bp, to 2.25%. The hikes will help return inflation to target and create a more sustainable demand and supply balance, the bank said. Ahead, the RBA still expects to stage more rate hikes but reiterated it is not on a pre-set path. Equities fell 0.4%, Australian dollar depreciated 0.5%, 10-year yields were little changed.



Japan

The yen depreciated 0.9% to a fresh 24-year low. Japan FM Suzuki noted that recent FX moves have gotten larger and reiterated the importance of stable FX moves, Bloomberg reports. Analysts see more yen weakness ahead amid continued policy divergence between the Bank of Japan and its developed market peers. Separately, on data releases. Japan corporate bond sales hit a new record of ¥1.1 tn ($7.7 bn) in August. Issuances are expected to slow in coming months amid increased borrowing costs. Household spending slipped 1.4% m/m in July (previous: +1.5%), real wages contracted 1.3% y/y (previous: -0.4%). Equities lost 0.1%, 10-year yields were little changed.

Emerging Markets

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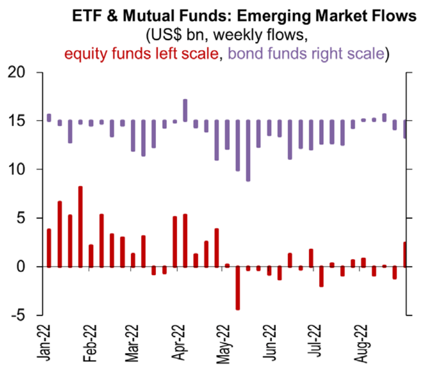
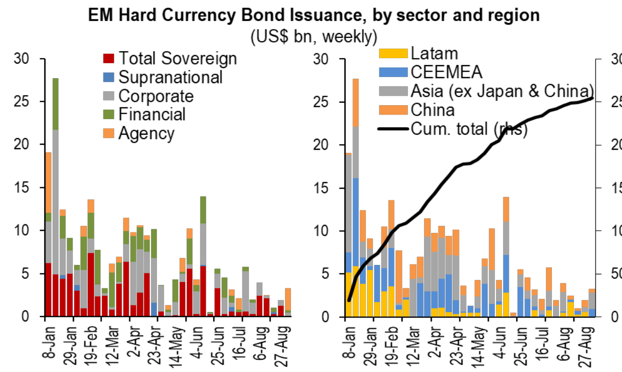
Asian equities were little changed on net. Mainland China (CSI 300: +0.9%) and Thailand (+0.8%) rallied. Asian currencies mostly mildly weakened. The Malaysian ringgit dropped 0.1% to the weakest level since 1998, the Indonesian rupiah and Thai baht outperformed (+0.1%). 10-year yields mostly firmed. Singapore climbed + 5 bp, Sri Lanka fell 10 bp. **EMEA markets are slightly up this morning.** Equity markets are generally gaining, with the exception of Poland (-0.9%). The Czech Republic recorded gains of about 1%, while other markets are 0.2-0.4% higher. Currencies were broadly stable, with the Hungarian Forint gaining 0.4% to the euro (to 402.7/euro), after President Orban signed a decree to establish an independent anti-corruption agency yesterday. The South African rand was broadly stable, as Q2 GDP growth came in negative (-0.7% q/q) but broadly meeting expectations. Local bond yields were broadly unchanged in EMEA. Yields on Kenyan Eurobonds fell, as the Supreme court upheld the results of last month's presidential election results. Turkiye released August inflation data yesterday, but market reaction was fairly muted as the 80.2% y/y reading was broadly in line with expectations. **Latin American equities have rallied since last Thursday,** surging in Chile (+6.9%), Peru (+2.5%), Brazil (+1.6%), Mexico and Argentina (both +1.4%). Currencies have been mixed, appreciating in Brazil (+1.7%), Chile (+1.6%), and Mexico (+1.1%), but weakening in Peru (-0.5%). Brazilian assets may have benefitted from macroeconomic data prints: industrial production grew in July as expected by 0.6% m/m, while the country's composite purchasing managers' index remained at 53.2 in August. Colombian 2-year local currency bond yields rose Monday by 20 bp to 11.4%, after August inflation came in at 10.8% y/y, 47 bps more than expected and 63 bp higher than in July.

EM fund flows and hard currency debt issuance

EM equity funds attracted inflows last week and EM hard currency bond issuance ticked up slightly. Investors poured $3.3 bn (0.5% of assets) into EM equity funds focused on Asia but withdrew $0.8 bn focused either on global EM equity portfolios or other regions. Inflows were concentrated in ETFs, with equity mutual funds facing outflows of $0.8 bn. EM bond funds saw $1.7 bn (0.4% of assets) leaving. EM issuers issued $3.3 bn of new hard currency debt, with Korean ($1.9 bn) and Polish ($0.6 bn) agencies dominating, the private sector adding $0.7 bn, and Chinese local authorities contributing $0.1 bn.



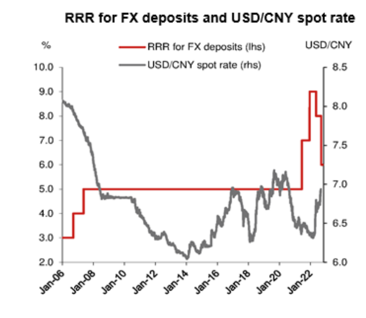
Source: EPFR, retrieved through Haver Analytics.



Source: Bondradar, Bloomberg, IMF staff calculations.

China

China's central bank cut the FX deposit reserve requirements by 200 bp to 6%, effective September 15. Analysts interpret the move as the part of the bank's efforts to slow yuan weakening, with more action expected if yuan depreciation accelerates. Citi estimated this will release $19 bn, which, in addition to increasing USD supply in the domestic market, will also add pressure to lower effective USD funding cost onshore. Meanwhile, China's central bank fixed the yuan at 6.9096 per US dollar and maintained a stronger-than-expected fix for the tenth day, Bloomberg reported. Separately, Caixin services PMI slipped marginally in August (55.0; previous: 55.5). **Equities rallied (CSI 300: +0.9%). Renminbi weakened 0.3%. 10-year yields were little changed.**



Source: Wind, Nomura Global Economics.

Chile

Chilean assets rallied, as voters rejected the draft for a new constitution. Chilean assets soared last Friday (stocks +4.6%, peso +2.2%), with analysts assessing the rally as markets' bet on a rejection of the new constitution. Indeed, 62 percent of voters rejected the draft in Sunday's plebiscite. Subsequently Chilean assets initially continued their rally on Monday but pared some of their intraday gains later in the day, closing with stocks up by 2.2% and the Chilean peso 0.5% weaker.

South Africa

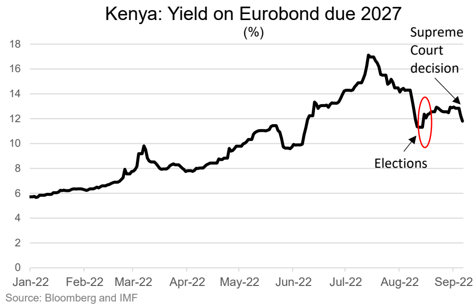
The South African rand was volatile against the dollar but maintained a small appreciation (+0.2% to 17.13/$) after the publication of negative growth for Q2 (-0.7% q/q, seasonally adjusted) met market expectations. The annual GDP growth rate disappointed at 0.2% y/y (vs. 0.6% expected). This is a marked slowdown from Q1, where growth was 2.75% y/y (revised from 3%) and 1.7% q/q. The economy is now smaller than it was before the pandemic in 2019 Q4. The negative performance is partly due to rolling electricity blackouts, which were imposed on more than half of the days in the second quarter according to Bloomberg, and heavy rains in the eastern KwaZulu-Natal province which triggered floods and landslides that washed away roads, bridges and houses, and halted operations at some manufacturing plants.

Hungary

The forint was gaining the most in EMEA this morning after Hungarian prime minister Viktor Orban signed a decree to establish an independent anti-corruption agency. This is seen as a key step to unlocking the EU's pandemic recovery fund (5.8 bn euros). The government will file legislation to parliament by the end of the month and the agency should begin operating on Nov. 21. It will be tasked to intervene in cases where fraud, conflict of interest, corruption and other illegalities might harm the sound financial management of the EU budget.

Kenya

Yields on Kenya's Eurobonds fell 80 bp since yesterday when the Supreme Court upheld William Ruto's victory in last month's presidential election. The Supreme court dismissed Raila Odinga's claims of vote discrepancies and found no credible evidence that the electoral commission's computer systems and transmission network had failed or been breached. The Supreme court also said that allegations that some citizens had been prevented from casting their votes or that ballot boxes were tampered with were unproven. The judgment paves the way for Ruto to be sworn in as President on September 13. Odinga said on Twitter that he respected the court's ruling although he vehemently disagreed with it.



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Global Financial Indicators

9/6/22 8:11 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities					%		%	%
United States		3932	-1.1	-2	-5	-13	-17	-7
Europe		3502	0.4	-2	-6	-18	-19	-12
Japan		27627	0.0	-2	-2	-8	-4	4
China		4052	0.9	-1	-3	-19	-18	-12
Asia Ex Japan		66	-1.2	-3	-4	-27	-21	-17
Emerging Markets		39	-0.9	-3	-3	-27	-21	-18
Interest Rates					basis points			
US 10y Yield		3.25	5.7	14	42	192	174	126
Germany 10y Yield		1.53	-3.0	2	58	190	171	131
Japan 10y Yield		0.24	0.6	1	7	19	17	5
UK 10y Yield		2.97	3.3	27	92	228	200	149
Credit Spreads					basis points			
US Investment Grade		167	-0.6	6	2	75	55	24
US High Yield		504	-4.8	-3	36	185	166	97
Europe IG		115	-4.6	-4	15	70	67	43
Europe HY		564	-22.9	-17	59	338	322	212
Exchange Rates					%			
USD/Majors		109.90	0.3	1	3	19	15	14
EUR/USD		0.99	0.0	-1	-3	-16	-13	-12
USD/JPY		141.9	1.0	2	5	29	23	23
EM/USD		50.0	-0.2	-1	-1	-12	-5	-6
Commodities					%			
Brent Crude Oil ($/barrel)		93	-2.9	-5	0	38	26	7
Industrials Metals (index)		148	1.3	-6	-5	-9	-14	-21
Agriculture (index)		68	-0.6	-3	4	19	12	-3
Implied Volatility					%			
VIX Index (%, change in pp)		25.7	-0.3	-0.5	4.6	9.3	8.5	-5.3
US 10y Swaption Volatility		132.3	7.6	2.9	12.9	66.3	53.3	38.0
Global FX Volatility		11.1	0.0	0.1	0.5	4.6	3.7	3.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)			
Greece		267	-6.6	14	56	148	115	27
Italy		237	-0.9	5	30	131	102	66
Portugal		108	-1.8	0	9	51	44	16
Spain		119	-1.7	0	12	51	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: 9/6/2022 8:12 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		6.96	-0.4	-0.7	-3	-7	-9	-9		2.7	-0.1	-3	-11	-26	-15	-16
Indonesia		14885	0.1	-0.3	0	-4	-4	-4		7.2	1.2	4	1	107	78	67
India		80	0.0	-0.5	0	-8	-7	-7		7.5	-0.3	2	17	102.5	120	
Philippines		57	0.0	-1.4	-3	-12	-11	-10		5.5	17.5	20	23	175	105	55
Thailand		37	0.2	-0.1	-2	-11	-9	-12		2.9	9.0	26	49	128	102	65
Malaysia		4.50	-0.1	-0.5	-1	-8	-7	-7		4.0	0.1	3	9	81	43	35
Argentina		140	-0.7	-1.4	-5	-30	-27	-23		78.1	22.7	75	1128	3144	2756	3017
Brazil		5.17	-0.2	-0.9	-1	0	8	-3		11.2	-60.6	-98	-81	26	47	-37
Chile		882	-0.5	0.4	4	-12	-3	-10		6.6	0.0	-1	1	184	117	68
Colombia		4476	0.2	-2.3	-3	-15	-9	-13		9.6	0.0	-2	63	355	314	167
Mexico		19.99	-0.1	0.8	1	0	3	1		8.7	-9.0	12	43	181	119	87
Peru		3.9	-0.1	-1.4	1	6	3	-4		8.2	0.5	17	19	187	225	216
Uruguay		41	0.3	-0.2	0	5	9	4		11.1	0.0	8	13	320	238	296
Hungary		406	0.4	-0.9	-5	-28	-20	-21		9.6	-6.0	21	135	666	505	475
Poland		4.74	0.4	-0.5	-3	-20	-15	-15		6.2	2.3	6	102	431	268	231
Romania		4.9	-0.4	-0.4	-1	-15	-11	-10		7.8	0.2	-13	-27	424	297	264
Russia		61.2	0.5	-0.5	1	19	23	33		8.6	30.0	33	33	126	-22	-263
South Africa		17.2	-0.3	-1.3	-3	-17	-7	-12		9.1	8.5	15	36	192	164	148
Turkey		18.22	0.0	-0.2	-2	-55	-27	-24		11.9	-96.0	-148	-516	-517	-1244	-1054
US (DXY; 5y UST)		110	0.4	1.1	3	19	15	14		3.37	7.2	10	41	258	210	146

	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		4052	0.9	-1	-3	-19	-18	-12		207	-2	-10	-9	4	-1
Indonesia		7233	0.0	1	2	18	10	5		188	15	2	10	23	3
India		59197	-0.1	2	1	2	2	3		162	11	-30	14	30	8
Philippines		6710	0.5	0	5	-3	-6	-9		142	21	16	33	41	5
Thailand		1634	0.7	0	2	0	-1	-4		0	0	0	0	0	0
Malaysia		1488	-0.1	-1	-1	-6	-5	-6		97	-10	-34	-35	-20	-36
Argentina		138268	1.4	-2	14	82	66	51		2434	30	7	967	754	697
Brazil		112203	1.2	0	5	-5	7	0		308	-2	-21	21	-3	-23
Chile		5779	2.2	4	11	30	34	32		189	8	18	45	49	15
Colombia		1237	0.3	-3	-5	-7	-12	-18		429	23	18	155	81	37
Mexico		46026	0.3	-1	-1	-12	-14	-10		423	17	-1	74	91	53
Peru		18903	0.8	-1	-3	7	-10	-19		197	8	8	23	47	7
Hungary		40979	-0.4	-3	-6	-22	-19	-14		263	23	56	128	139	110
Poland		48858	-1.1	-3	-9	-32	-29	-22		34	12	43	11	2	18
Romania		12123	1.1	-1	-4	-2	-7	-8		300	13	0	109	107	68
Russia		2399	-3.6	4	17	-40	-37	-22		3411	-577	938	3228	3234	2897
South Africa		67687	0.4	0	-3	2	-8	-10		440	16	8	98	85	51
Turkey		3405	1.4	8	24	131	83	69		649	9	-43	191	71	86
Ukraine		519	0.0	0	0	-1	-1	0		3830	395	-2859	3354	3071	2357
EM total		39	-0.2	-3	-3	-27	-21	-18		442	21	7	93	56	-16

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

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