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- Upside surprises to euro area inflation data lifts yields ([link](#))
- China's official PMI turned contractionary, weaker than expected ([link](#))
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Euro area inflation reports nudge yields higher

Higher than consensus inflation from the euro area pushed sovereign yields higher this morning. The German 10-year yield is up 4 bps, while the Italian 10-year is up 7 bps. European equity markets are slightly lower this morning, with US equity futures little changed. After setting another record yesterday, the S&P 500 is set to post its seventh straight monthly gain. Asian markets generally rallied overnight, with China a notable exception after disappointing PMI data. Most emerging market currencies are stronger so far today as dollar weakness continues. The Polish zloty is leading today's move in EM after inflation there reached a two-decade high, pushing up interest rate expectations.

Key Global Financial Indicators

Last updated: 8/31/21 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4529	0.4	1	3	29	21
Eurostoxx 50		4191	-0.2	0	2	28	18
Nikkei 225		28090	1.1	1	3	21	2
MSCI EM		52	0.2	3	0	16	0
Yields and Spreads			bps				
US 10y Yield		1.29	1.2	0	7	59	38
Germany 10y Yield		-0.40	4.0	8	6	0	17
EMBIG Sovereign Spread		345	-1	-8	-9	-74	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.9	0.3	1	0	3	-2
Dollar index, (+) = \$ appreciation		92.4	-0.3	-1	0	0	3
Brent Crude Oil (\$/barrel)		72.9	-0.7	3	-4	61	41
VIX Index (% change in pp)		16.5	0.3	-1	-2	-10	-6

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

Mature Markets

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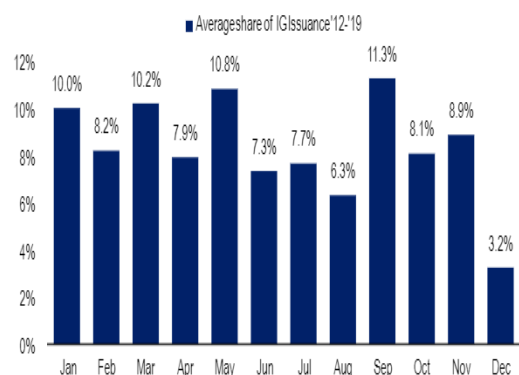
United States

Markets edged higher during a relatively quiet session, with the Nasdaq (+0.9%) reaching a new record high. The S&P500 gained 0.4%, with most tech stocks outperforming, while airlines underperformed following reports the EU would recommend new travel restrictions. Treasuries posted a modest rally, with the 10-year yield slipping to 1.28%, down 3 bps.

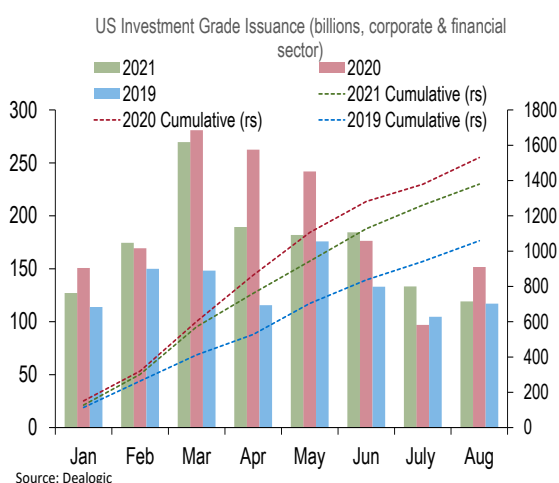
Credit markets gear up for September issuance season. Following the late August lull, US investment grade corporates normally launch a flurry of new supply in September, which traditionally sees the highest volume of the year for investment grade companies (averaging 11.3% of annual totals). Large corporate cash stockpiles after strong Q2 earnings, heavy issuance in June and July, and record issuance in 2020 could potentially dampen the traditional September issuance boom. However, Bank of America analysts believe the prospect of higher Treasury yields amid easing Delta pressures and Fed tapering in coming quarters will prompt companies to use September to prefund as much as possible. BofA is projecting \$140-160 bn of IG issuance in September, about \$10 bn higher than the 2015-2019 average (based on their sample). Investment grade fund flows have been solid in 2021, at just under \$300 bn, equivalent to 7.1% of assets under management. Corporate issuance hit \$119 bn in August for \$1.38 tn YTD, down about \$150 bn from 2020.

Figure 1: September is seasonally the busiest month of the year in terms of IG issuance

On average historically 11.3% of IG issuance takes place in September, the most of any calendar month

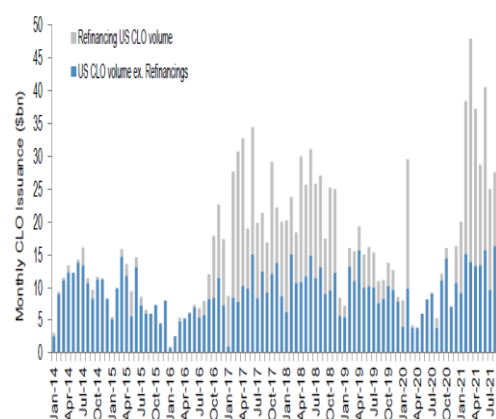


Source: BofA Global Research



Demand for leveraged loans remains high with fund flows and CLO supply continuing to rally. Loan funds posted another strong week with inflows worth 0.85% of AUM and have outperformed the high yield bond segment in 2021. YTD fund flows have reached \$31.4 bn, equivalent to 38.2% of AUM, compared to outflows of \$9.8 bn for high yield bond funds. Moreover, new CLO supply (ex. refinancings), a measure of institutional demand for loans, hit a new record in August at \$16.3 bn, according to JPM data. The supply of new loans has slowed in the traditional August lull, but total loan issuance (institutional and pro rata) is up 111% y/y to \$529 bn, according to S&P LCD data.

Figure 3: August CLO new supply a new record



Source: J.P. Morgan.

Figure 3: Fund flows summary

YTD fund flows summary by asset class

Asset class	Last week (% of AUM for weekly reporting funds/ETFs)	YTD (% of AUM for all funds/ETFs)	YTD (\$bn)
High grade: total	0.17%	7.1%	288.7
High grade: ex short-term	0.04%	6.4%	197.3
High yield: total	0.22%	-2.4%	-9.8
High yield: ETFs only	1.02%	-2.8%	-2.2
Loans	0.85%	38.2%	31.4
EM	-0.04%	3.1%	25.2
Munis	0.26%	7.6%	76.8
All fixed income	0.21%	7.3%	470.2
Money markets	0.19%	4.8%	226.3
Equities	0.09%	1.9%	329.1

Note: Last week flow as % of AUM is based on AUM for weekly reporting funds / ETFs only. YTD flow as % of AUM is based on AUM for the full fund/ETF universe as of December 31 2020.

Global EM funds, US-domiciled funds only for other fund types.

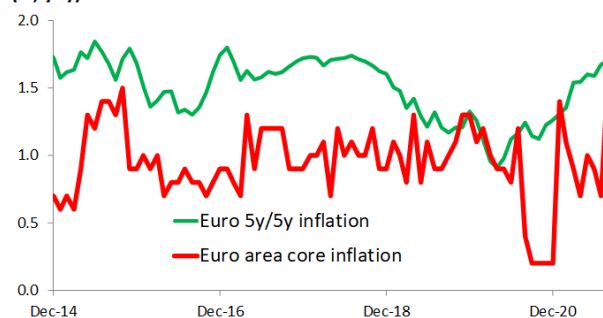
Source: EPFR Global, BofA Global Research

Euro area

Equities are little changed while bank stocks (+0.4%) gained as core rates rose.

10-yr German bunds (+ 4 bps to -0.41 bps), the euro (+0.3%) and 10-yr Italian spreads (+3 bps to 108 bps) moved higher after euro area inflation readings were higher than expected. Euro area headline inflation rose to 3% y/y (2.7% expected) and core inflation to 1.6% yoy (1.5% expected) in August. Analysts point out that inflation data may overstate underlying inflation pressures as the change in last year's sales period and German VAT increase are the main drivers behind the jump in non-energy industrial goods prices. Nevertheless, contacts point out that euro area inflation readings have generally surprised to the upside in recent months. **German inflation data came in as expected while France, Italy and Spain drove upside surprises.**

Euro area: Core inflation and 5-yr forward 5-yr inflation swaps (% yoy)



Source: Bloomberg, and IMF staff

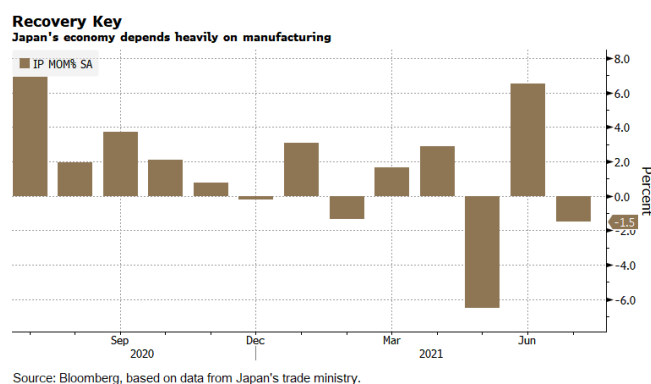
Most contacts expect the ECB to discuss tapering of its asset purchases at next week's meeting but not formally announce a tapering till later in 2021. Some contacts believe that the ECB may not continue its pandemic QE purchases at an accelerated pace beyond September. They point out that some officials such as Bank of France governor Villeroy have sounded less dovish. Mr. Villeroy said yesterday that the ECB should consider more favorable financing conditions in the eurozone (compared to June) in deciding on the pace of PEPP next week.

Polls ahead of the German elections on 26 September continue to turn in favor of the SPD. The Socialist SPD rallied to 25% in a Forsa poll closed after a TV debate, while the CDU hits new record low of 20%, Greens 16.5%, FDP 13.5%, AfD 11%, Left 7%.

Shares in Deutsche Bank (+0.5%) rose in line with peers after its stocks had underperformed since Thursday following regulatory concerns related to the DWS asset manager. Shares in DB closed 2.3% lower on Thursday following news that U.S. and German regulators would examine claims that its majority-owned asset manager DWS had overestimated the environmental or social credentials of some ESG-labelled investments products.

Japan

The unemployment rate edged down slightly in July, better than expected. The unemployment rate declined to 2.8% (consensus: 2.9%) from 2.9% in June, driven by demand for manufacturing workers and the Olympic-related temporary need. **Industrial production declined 1.5% m/m in July** (consensus: -2.5%) on the back of the wide spread of the Delta variant that has affected the global recovery and exacerbated the global supply chain crunch. Some analysts noted that Japanese exports showed signs of peaking in July and that the shortage of semiconductors continues weighing on the automobile production. **Equities gained (NIKKEI: +1.1%); the Japanese yen was little changed.**



Emerging Markets

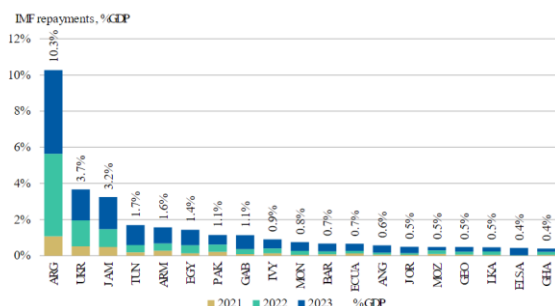
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Asian markets continue benefiting from the positive effects of Fed Chair Powell's dovish tapering cues. **Most Asian equities gained**, +2.3% on net, led by Korean (+1.8%), Hong Kong (+1.3%) and Philippine (+1.0%) equities. Meanwhile, share prices dropped in China (CSI 300: -0.2%) on weaker-than-expected PMI data. **Asian currencies appreciated**, led by the Indonesian rupiah (+0.7%), Korean won (+0.6%) and Thai baht (+0.6%). Long-end government bond yields generally declined, with the 10-year yield falling in Indonesia (-5 bps) and 20-year yield dropping in Philippines (-5 bps). In Indonesia, the government further relaxed movement restrictions, supporting Indonesian rupiah. In Korea, industrial production increased 7.9% y/y, stronger than expected. Strong foreign funds into the local stock market underpinned Korean won appreciation. **EMEA equities are mostly trading higher** with stocks up in Turkey (+0.6%) and South Africa (+0.5%). EMEA currencies were trading stronger against the dollar with the Turkish lira, the South African rand, and the Polish zloty all up 0.9%. In **Latin America**, regional currencies were little changed with the Colombian and Chilean pesos marginally outperforming (+0.3%) as commodities extended recent gains.

LatAm SDR allocation

Following the general SDR allocation from the IMF on August 23 some countries in Latin America are exploring how to utilize these resources. On Monday the [Central Bank of Colombia](#) announced it had sold international reserves to the Government for an amount in USD equivalent to the SDR allocation (\$2.8 bn), receiving TES bonds in exchange. Elsewhere in the region, [Mexico's Finance Ministry](#) on Sunday announced that it wants to pay down more expensive debt with the (equivalent of the) \$12.2 bn SDR allocation and will start a dialogue with the central bank on the legal steps that are required. Bloomberg also reports that Argentina, is considering using the money to repay existing debt with the Fund.

Exhibit 9: Highest IMF repayments in the coming three years

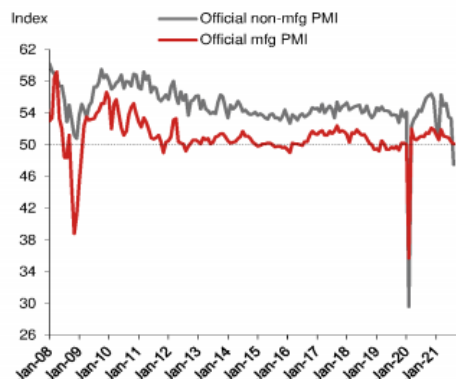


Source: IMF, Morgan Stanley Research.

China

The official PMI composite turned contractionary in August, weaker than expected at 48.9. Manufacturing PMI weakened to 50.1 (consensus: 50.2) down from 50.4 in June, while non-manufacturing PMI declined to 47.5 (consensus: 52.0) from 47.5 in June. The services sector was hit by stringent measures that have been imposed to contain recent localized outbreaks. When chairing a meeting of the Central Committee for Deepening Overall Reform, **President Xi suggested more needs to be done to tackle monopolies.** He said that China should ensure fair competition to create more room for small and medium-sized enterprises and better protect consumers' rights, while promoting high-quality development and common prosperity. Reportedly, China plans to tighten rules to control leverage of local asset management companies. **Equities declined (CSI 300: -0.2%); RMB appreciated (+0.1%).**

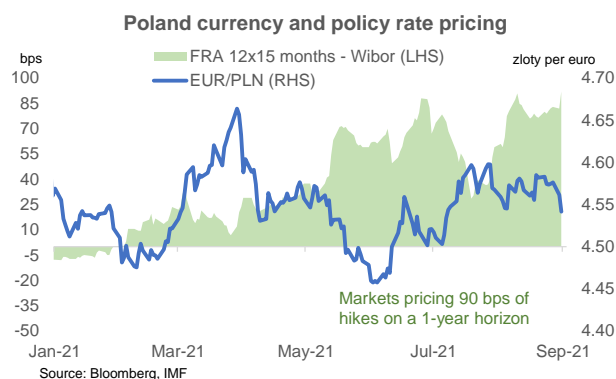
Fig. 2: Official manufacturing and non-manufacturing PMIs



Source: WIND and Nomura Global Economics.

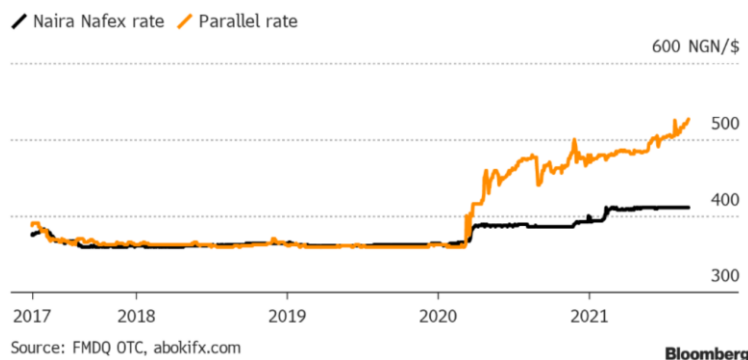
Poland

Inflation surprised to the upsides in August, accelerating to a two decade-high of 5.4% yoy (5.1% consensus). Analysts note that the main driver was higher food inflation, although core cpi is also now estimated at 4.0% yoy (3.7% in July). Following the announcement, Polish interest rate forwards priced another 10 bps of tightening on a 1-year horizon while 10-year government bond yields increased by 5 bps. **A 15-bps rate hike is now firmly priced for the November meeting** with contacts expecting the NBP to pivot to a more hawkish stance at the September meeting.



Nigeria

The Nigerian naira depreciated to a record low in the parallel market. According to media reports, the naira traded at 527 naira per dollar or about 22% below the investors and exporter window rate of 411 naira per dollar. Contacts note that depreciation in the parallel market is driven by increased onshore market segmentation following the Central Bank of Nigeria decision to suspend foreign exchanges sales to bureau de change in July. The offshore and interbank markets have remained calm amid generally low activity.

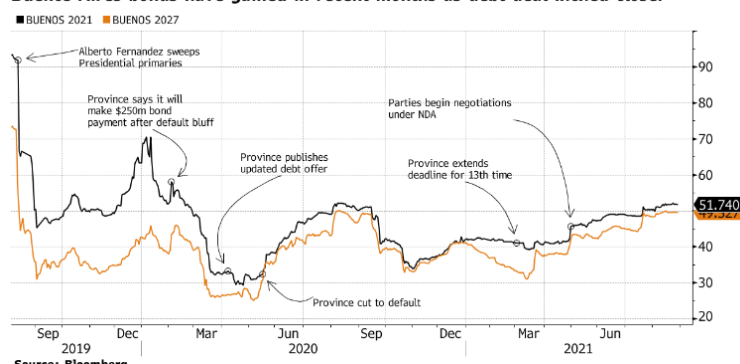


Argentina

Buenos Aires won enough creditor support to restructure 98% of its \$7.1 bn in external debt following a 16 month default. According to a [statement](#) the deal will settle on September 3. The province's new bonds mature in 2037 and the offer is valued around 51 cents on the dollar according to analysts. Analysts also highlight that the new terms are similar to the sovereign's restructuring given that Buenos Aires reduced most of its FX amortizations for the next three years, but amortizations step up again in the second half of the decade.

Slow Climb

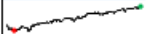

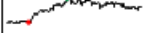








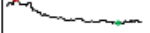
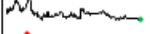
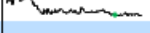



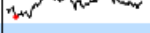
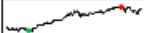





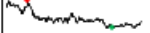



Buenos Aires bonds have gained in recent months as debt deal inched closer



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Global Financial Indicators

Last updated: 8/31/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4528	0.4	1	3	29	21
Europe		4191	-0.2	0	2	28	18
Japan		28090	1.1	1	3	21	2
China		3544	0.4	1	4	4	2
Asia Ex Japan		87	0.2	3	0	12	-2
Emerging Markets		52	0.2	3	0	16	0
Interest Rates							
			basis points				
US 10y Yield		1.29	1.2	0	7	59	38
Germany 10y Yield		-0.40	4.0	8	6	0	17
Japan 10y Yield		0.03	0.3	1	0	-3	0
UK 10y Yield		0.68	9.9	14	11	37	48
Credit Spreads							
			basis points				
US Investment Grade		91	-0.3	-3	2	-37	-4
US High Yield		323	-0.7	-11	-10	-182	-56
Europe IG		45	-0.4	-1	-2	-9	-3
Europe HY		228	-0.8	-4	-7	-96	-15
Exchange Rates							
			%				
USD/Majors		92.42	-0.3	-1	0	0	3
EUR/USD		1.18	0.3	1	0	-1	-3
USD/JPY		109.8	-0.1	0	0	4	6
EM/USD		56.9	0.3	1	0	3	-2
Commodities							
			%				
Brent Crude Oil (\$/barrel)		73	-0.7	3	-4	61	41
Industrials Metals (index)		162	0.8	2	0	36	22
Agriculture (index)		58	-0.6	0	1	51	20
Implied Volatility							
			%				
VIX Index (% change in pp)		16.5	0.3	-0.7	-1.7	-9.9	-6.2
US 10y Swaption Volatility		74.1	-0.1	-3.2	-2.2	17.0	13.9
Global FX Volatility		6.6	0.0	-0.2	-0.1	-2.6	-1.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		115	1.0	9	8	-35	-4
Italy		108	2.7	3	-1	-42	-4
Portugal		60	0.5	-1	-4	-22	0
Spain		72	0.5	1	-1	-9	10

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 8/31/2021 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.					
China		6.46	0.1	0.2	0	6	1		3.0	0	1	-23	-26
Indonesia		14268	0.7	0.9	1	2	-2		6.1	-16	-10	-68	5
India		73	0.4	1.6	2	1	0		6.4	-4	-8	11	45
Philippines		50	0.2	0.8	0	-3	-3		4.3	0	-5	72	68
Thailand		32	0.9	2.1	2	-4	-7		1.6	2	2	10	33
Malaysia		4.16	0.9	1.7	2	0	-3		3.3	-3	3	79	73
Argentina		98	-0.1	-0.3	-1	-24	-14		46.1	56	112	101	-1005
Brazil		5.19	0.0	1.2	0	6	0		9.5	-31	66	405	395
Chile		782	0.1	0.3	-3	-1	-9		4.7	-1	29	218	194
Colombia		3816	0.5	1.6	2	-2	-10		6.8	-4	4	153	176
Mexico		20.09	0.3	0.6	-1	9	-1		7.0	1	2	96	140
Peru		4.1	-0.1	0.4	0	-13	-11		6.2	-48	10	211	257
Uruguay		42	0.2	1.2	3	0	0		7.9	-1	-2	-27	65
Hungary		295	0.2	0.5	2	1	1		2.5	16	26	79	97
Poland		3.83	1.1	1.7	0	-4	-2		1.1	4	7	27	50
Romania		4.2	0.3	0.6	-1	-3	-5		3.3	14	28	-20	58
Russia		73.3	0.3	0.6	0	1	1		6.9	3	15	118	118
South Africa		14.6	0.8	3.1	-1	16	1		9.6	-14	-14	-56	-9
Turkey		8.31	0.8	1.2	1	-12	-10		17.2	-18	9	377	405
US (DXY; 5y UST)		92	-0.2	-0.5	0	0	3		0.78	-2	9	51	41

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4806	-0.2	-2	0	-1	-8		218	-1	-3	-15	-11
Indonesia		6150	0.1	1	1	16	3		183	-2	-8	-48	-17
India		57552	1.2	3	9	48	21		148	0	-8	-71	-3
Philippines		6855	1.0	4	9	18	-4		112	-2	-11	-31	0
Malaysia		1601	0.0	5	7	5	-2		135	-1	-8	-38	0
Argentina		76329	4.3	11	16	63	49		1494	-63	-81	-597	138
Brazil		119740	-0.8	2	-2	21	1		286	-14	1	-37	27
Chile		4507	0.0	3	6	20	8		143	-3	-9	-41	-13
Colombia		1323	-0.2	0	7	9	-8		273	-16	-7	14	58
Mexico		52602	0.3	1	3	43	19		347	-15	-10	-107	-10
Peru		17444	3.3	8	-1	-6	-16		173	-9	-20	12	44
Hungary		51387	-0.4	0	6	47	22		134	2	-9	-27	-15
Poland		70803	0.4	2	5	37	24		38	2	3	5	10
Romania		12335	-1.0	1	4	37	26		186	-1	-6	-79	-17
Russia		3911	-0.5	1	4	32	19		170	-3	-14	-42	-9
South Africa		67400	0.5	0	-2	21	13		351	-9	3	-146	-33
Turkey		1466	0.5	0	5	33	-1		460	-18	-17	-145	13
Ukraine		526	0.0	0	0	5	5		493	-22	-31	-136	0
EM total		52	1.8	3	0	16	0		354	-12	-15	-42	15

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

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