



- US interest rate volatility trends higher amid decline in US Treasury yields ([link](#))
- UK house prices unexpectedly contract ([link](#))
- China's stock selloff halts as state media calls for calm ([link](#))
- Hungarian central bank hikes rates more than expected amid elevated inflation ([link](#))
- Better-than-expected economic activity data supports Mexican assets ([link](#))

[Mature Markets](#)











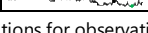
| [Emerging Markets](#)

| [Market Tables](#)

Market focus shifts to FOMC meeting

Global markets are mostly steady ahead of today's FOMC decision and alongside signs market volatility in China is calming down. The pullback in risk assets that looked to have broadened beyond China yesterday has lost momentum this morning with Asian equity markets closing only marginally lower and European bourses and S&P 500 futures holding onto modest gains. US equities pulled back yesterday ending its 5-day streak of record-setting gains as lingering virus concerns outweighed Q2 corporate earnings reports, which remained largely better than expected. The risk-off tone initially benefitted advanced economy sovereign yields as 10-year US Treasury yields declined to 1.23%, with real yields hitting new record lows, but core yields have stabilized this morning amid the more rangebound market moves. All eyes will be on the conclusion of FOMC meeting later this afternoon where the focus will be on any discussion around a plan for tapering asset purchases and whether Chairman Powell's press conference provides any further guidance on the economy getting closer to passing the "substantial further progress" threshold.

Key Global Financial Indicators

Last updated: 7/28/21 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4401	-0.5	2	3	37	17
Eurostoxx 50		4088	0.6	2	0	24	15
Nikkei 225		27582	-1.4	0	-4	23	1
MSCI EM		50	-2.0	-5	-9	16	-2
Yields and Spreads			bps				
US 10y Yield		1.26	2.0	-3	-22	68	35
Germany 10y Yield		-0.45	-0.9	-6	-26	6	12
EMBIG Sovereign Spread		358	5	2	27	-84	8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.4	0.1	0	-2	1	-3
Dollar index, (+) = \$ appreciation		92.5	0.1	0	1	-1	3
Brent Crude Oil (\$/barrel)		74.7	0.3	3	0	73	44
VIX Index (% change in pp)		18.8	-0.5	1	3	-7	-4

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

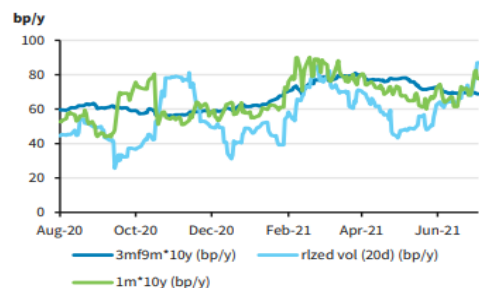
Mature Markets

[back to top](#)

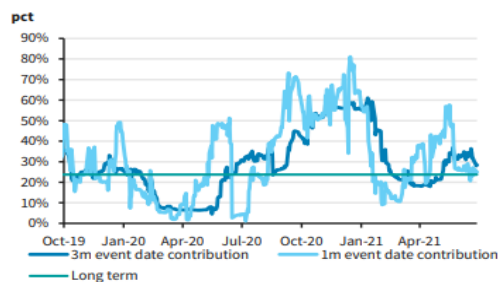
United States

U.S. equities ended a five-day winning streak yesterday as big-tech stocks tumbled ahead of their earnings reports. S&P 500 closed down 0.5%, recovering from the intra-day lows of close to a 1% decline. Big tech stocks declined by 1.5% following upon the 1.2% decline yesterday. China-tech stocks listed in the US declined by another 5% yesterday (extending the decline to more than 20% in the last three days) amidst speculation that U.S. funds are offloading China and Hong Kong assets – on regulatory fears. The global risk-off tone led to a sharp rally in safe haven assets with US 10-year Treasury yields declining by 5 bps, and the yen appreciating by 0.6% vs the US dollar. A strong 5-year Treasury auction also contributed to yields ending near the day's lows, despite stocks partially recovering early sharp losses. Within the components, 10-year real yields declined by another 3 bps, as investors remain concerned about the impact of the Delta variant.

US 10-year yields were down 5 bps yesterday, extending the decline this month to almost 25 bps. Barclays analysts note that the rally has become more disorderly recently. **20-day realized volatility of 10-year rates is at the highest level it has been since the immediate aftermath of COVID in March 2020**, and above the volatility in the selloff earlier this year (left chart). But measures of future volatility are still falling. Barclays analysts also note that the rise in volatility was not expected by the market - the realized skew in 3m*10y has been considerably more negative than what the market has priced in. The analysis also shows that event dates are contributing less to volatility than was the case earlier in the year – which potentially suggests that adverse positioning and un-hedged convexity in the rates market may have contributed to the rise in volatility (right chart).

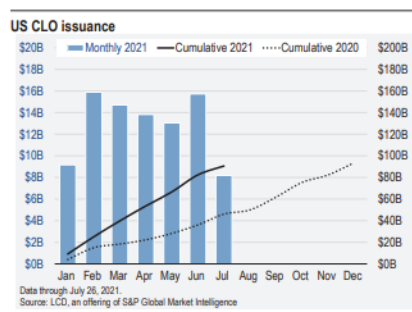


Source: Barclays Research



Source: Barclays Research

S&P LCD data shows that CLO issuance has slowed notably in July but remains on track to hit a new annual record. Without a surge of new CLO deals in the final week of July, primary issuance could end up at its lowest monthly total since January. Only 18 deals totaling \$8.2 bn have priced till now, slightly more than 50% of the volume in June (\$15.7 bn), according to LCD data. Despite this slowdown, it remains on track to smash previous records for the full year, with S&P the latest firm to upwardly revise its new issue forecast last week. Year-to-date new CLO issuance is now \$90.5 bn, among 187 deals, compared to \$43.9 bn among 100 deals at this time last year.



Euro area

Equities (+0.5%) are higher in quiet trading. Bank stocks (+0.4%) also traded higher. Shares in Deutsche Bank (+0.9%) traded higher but erased earlier gains posted after the bank raised its revenue guidance with revenues from fixed income slumping less than expected.

Against expectations, German GfK consumer confidence for August did not improve (staying at -0.3 compared to 1 expected). German consumer expectations for the economy and personal incomes declined moderately in July. Price expectations fell from the post-financial crisis record high they reached in June. **In contrast, Italian consumer and manufacturing confidence was better than expected in July.**

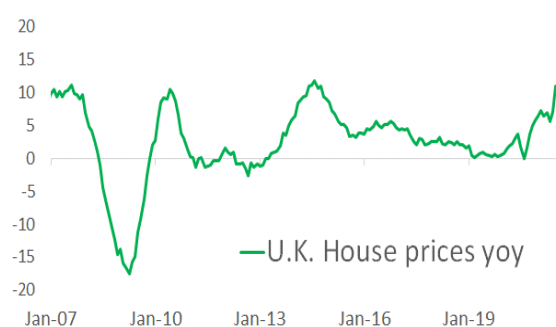
10-yr bund yields (-1 bps at -0.45%) edged lower as comments by ECB Governing Council members continue to signal a divergence in policy views. The Spanish central bank governor de Cos said that the new forward guidance signals the ECB's resolve to act and that the pandemic PEPP QE program should last as long as the pandemic weighs on the economy. Governor de Cos also wants to keep ECB QE flexible after the pandemic. In contrast, Austrian central bank governor Holzmann confirmed he had reservations about the new interest rate guidance and notes that policy stance discussions will take place in September with new forecasts.

United Kingdom

The British pound is little changed after the EU paused its legal action against the UK over alleged breaches of the Northern Ireland protocol to create the “necessary space” to consider new UK proposals. In separate news, the government is expected to allow fully vaccinated EU and U.S. travelers to enter the UK without having to quarantine.

UK house prices unexpectedly contracted 0.5% m/m (+0.3% m/m expected). Starting July, the UK government is phasing out a stamp-duty holiday announced in response to the pandemic.

U.K Nationwide House prices (yoy)



Source: Nationwide Building Society, Bloomberg and IMF

Australia

Long-end government bond yields declined (10-year: -5.5 bps; 30-year: -6.0 bps) **despite slightly higher-than-expected CPI inflation in Q2.** The decline in Australian bond yields followed the overnight drop in U.S. Treasury yields. CPI inflation accelerated to 3.8% y/y in Q2 (consensus forecast: 3.7%) from 1.1% in Q1, the sharpest rise since 2008. Analysts noted that underlying inflation remains stable (CPI trimmed measure at 1.6% y/y) and below the central bank's target. **Equities declined (-0.7%) and the Australian dollar depreciated (-0.2%),** as Sydney extended the lockdown by at least another four weeks.

No Worries

Australian bonds unfussed by strongest inflation since 2008

**Japan**

Equities declined (NIKKEI: -1.4%) on concerns about rising COVID-19 infections, with Tokyo reporting record-high new cases amid hosting the Olympics. **Long-end JGB yields were mixed** (10-year: +0.2 bp; 30-year: -0.6 bp). **Japanese yen depreciated (-0.1%)**.

Emerging Markets[back to top](#)

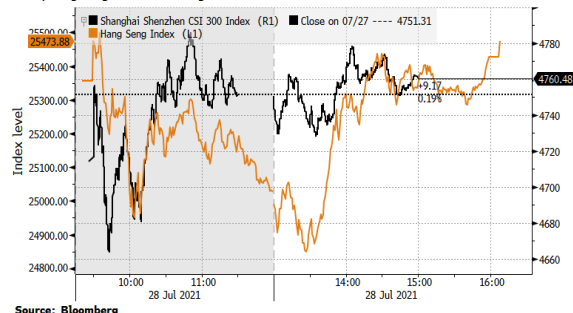
Most Latin American assets closed lower yesterday amid the broader risk-off tone. Stocks retreated in Brazil (-1.1%) and Colombia (-0.5%). Currencies depreciated in Chile (-1%), Peru (-0.4%) and Colombia (-0.3%), while the Mexican peso firmed (+0.3%). Hard currency sovereign yield curves steepened for Brazil, Mexico, and Peru; the Chilean curve moved down, and the Colombian curve shifted higher. **Asian equities were mixed, gaining 0.9% on net.** Chinese (CSI 300: +0.2%) and Hong Kong (+1.5%) equities gained after significant losses earlier this week. Asian currencies were also mixed. Korean won depreciated (-0.4%) after the country reported a record high number of new COVID-19 cases. In the Philippines, the stock market declined on news that the government may impose a lockdown to contain the virus, while the Financial Stability Coordination Council warned about debt-servicing risk. **EMEA markets traded mixed as investors were cautious ahead of the FOMC meeting.** There were gains in Poland (+0.8%), Russia (+0.7%), South Africa (+0.7%) and Hungary (+0.5%), while the largest losses were in Romania (-0.5%), UAE (-0.4%), and Bahrain (-0.2%). Stocks in Tunisia (+0.2%) posted another day of advances, adding to the +0.3% gains of yesterday. Currencies traded flat to the US dollar.

China and Hong Kong SAR

Chinese equities rebounded after significant losses earlier this week (CSI 300: +0.2%; Hang Seng China Enterprises: +2.2%) after the state media sought to reassure domestic investors. There were signs that Chinese investors led the recent selloff. The Southbound Stock Connect scheme saw large outflows from Hong Kong into the mainland. Meanwhile, U.S. ETFs tracking Chinese stocks saw sizeable fund outflows, but the magnitude was still smaller than the outflow in February 2021 after Beijing took a hard line on monopoly practices in the tech sector. RMB appreciated (+0.1%).

Rollercoaster Ride

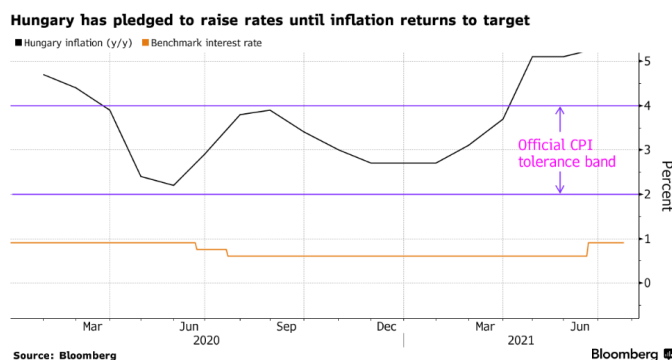
China, Hong Kong shares ended higher after a volatile session



China's top legislative body will take the first steps toward imposing an anti-sanction law on Hong Kong SAR (HKSAR). Reportedly, the legislation could be added to HKSAR's Basic Law next month. The move follows the passage of an anti-sanction law last month that gives Beijing broad powers, including to seize assets from those who formulate or implement sanctions against China. Analysts noted that the introduction of the anti-sanction law in HKSAR could create complications for multinational firms, which will be caught in rising tension between Washington and Beijing. Hong Kong dollar remains close to the strong side of the band, appreciating 0.05% today.

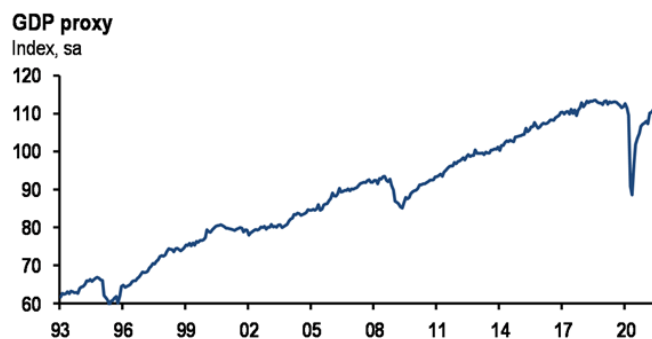
Hungary

The National Bank of Hungary (NBH) delivered a larger-than-expected hike yesterday. It brought its main policy rate to 1.20% from 0.9%—a 30 bp hike, compared to the 15 bp market expectation. Hungary currently has the highest rate of inflation in the EU, running at above 5% y/y. The NBH reiterated in its statement that it plans to “continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target.” The forint strengthened 0.6% to the euro following the announcement but it has weakened 0.1% today.



Mexico

Favorable economic activity data supported Mexican assets. Mexico's economic activity index came in at 0.6% m/m sa for May, almost double the 0.33% expected by markets. Together with the revised April value of 0.2% (up from -0.2%), the print corroborated expectations for a solid second quarter GDP growth figure to be reported on Friday and provided Mexican assets (+0% for equities, -5 bps on 10-year local currency treasuries) with some support during yesterday's decline in global stock markets.


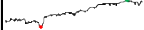








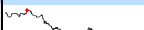


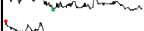


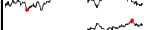



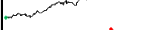
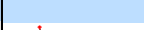



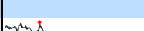




Source: J.P. Morgan

This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.*

Global Financial Indicators

Last updated: 7/28/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4410	-0.5	1	3	37	17
Europe		4088	0.6	2	0	24	15
Japan		27582	-1.4	0	-4	23	1
China		3362	-0.6	-6	-6	2	-3
Asia Ex Japan		86	-2.5	-6	-10	15	-5
Emerging Markets		50	-2.0	-5	-9	16	-2
Interest Rates			basis points				
US 10y Yield		1.26	2.0	-3	-22	68	35
Germany 10y Yield		-0.45	-0.9	-6	-26	6	12
Japan 10y Yield		0.02	0.2	0	-4	0	0
UK 10y Yield		0.57	1.5	-3	-15	46	38
Credit Spreads			basis points				
US Investment Grade		92	0.8	-4	2	-39	-3
US High Yield		334	5.2	-9	20	-212	-45
Europe IG		47	-0.2	0	1	-13	-1
Europe HY		237	-1.1	0	7	-129	-5
Exchange Rates			%				
USD/Majors		92.54	0.1	0	1	-1	3
EUR/USD		1.18	-0.1	0	-1	1	-3
USD/JPY		110.1	0.3	0	-1	5	7
EM/USD		56.4	0.1	0	-2	1	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		75	0.3	3	0	73	44
Industrials Metals (index)		161	0.2	4	4	43	21
Agriculture (index)		58	0.1	0	5	63	21
Implied Volatility			%				
VIX Index (% change in pp)		18.8	-0.5	0.9	3.1	-6.6	-3.9
US 10y Swaption Volatility		83.7	-1.3	4.6	17.6	34.0	23.6
Global FX Volatility		6.9	0.0	0.0	0.3	-1.4	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-0.1	-1	3	-51	-13
Italy		108	1.2	-1	1	-44	-4
Portugal		64	0.7	-1	3	-23	4
Spain		73	1.4	6	10	-14	11

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

Emerging Market Financial Indicators

Last updated: 7/28/2021 8:10 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.50	0.2	-0.5	-1	8	0		3.0	-3	-18	4	-23
Indonesia		14488	0.0	0.4	0	0	-3		6.3	1	-12	-63	22
India		74	0.1	0.3	0	1	-2		6.5	2	4	51	51
Philippines		50	0.0	0.0	-3	-2	-5		4.4	6	12	65	73
Thailand		33	-0.2	-0.5	-3	-4	-9		1.6	-5	-20	23	32
Malaysia		4.23	0.0	0.0	-2	0	-5		3.2	1	-7	76	67
Argentina		97	0.0	-0.2	-1	-25	-13		44.7	54	-28	-65	-1148
Brazil		5.16	0.2	0.6	-4	0	1		8.6	30	31	351	303
Chile		768	-1.0	-1.2	-4	0	-7		4.4	20	5	179	165
Colombia		3919	-0.3	-1.6	-5	-6	-12		6.9	11	4	167	178
Mexico		19.98	0.0	0.9	-1	10	0		7.0	13	6	116	145
Peru		3.9	-0.4	0.6	-1	-11	-8		5.5	-13	-2	151	186
Uruguay		44	0.0	0.2	-1	-3	-3		7.9	5	2	-116	66
Hungary		305	-0.3	0.1	-4	-3	-3		2.2	5	-8	77	71
Poland		3.89	0.0	-0.3	-3	-3	-4		1.0	-2	-33	21	38
Romania		4.2	-0.2	0.2	-1	-1	-5		3.0	-1	22	-67	26
Russia		73.5	0.4	0.7	-2	-1	1		6.8	-19	-11	136	107
South Africa		14.8	-0.2	-1.5	-4	12	-1		9.7	-11	-3	-28	7
Turkey		8.55	0.1	0.2	2	-19	-13		17.6	4	29	623	450
US (DXY; 5y UST)		93	0.1	-0.2	1	-1	3		0.72	-1	-17	46	36

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4760	0.2	-7	-8	2	-9		214	1	12	-19	-15
Indonesia		6089	-0.1	1	2	19	2		190	1	24	-65	-10
India		52444	-0.3	0	0	38	10		159	5	18	-76	8
Philippines		6473	-0.8	0	-7	8	-9		120	0	32	-26	8
Malaysia		1515	0.1	0	-2	-6	-7		144	6	22	-37	9
Argentina		65688	0.2	4	2	34	28		1585	-6	30	-587	229
Brazil		124612	-1.1	-1	-2	20	5		285	1	38	-62	26
Chile		4147	0.0	-3	-5	2	-1		160	6	21	-41	4
Colombia		1250	-0.5	0	-2	7	-13		286	14	39	19	71
Mexico		50911	0.0	3	1	35	16		363	5	29	-133	6
Peru		18775	0.1	2	-1	6	-10		176	10	17	6	47
Hungary		47155	0.3	-2	-2	36	12		143	-6	12	-32	-6
Poland		67229	0.8	0	-1	29	18		38	-2	8	1	10
Romania		11802	-0.7	-1	-1	37	20		198	0	22	-67	-5
Russia		3762	0.8	1	-2	30	14		184	-2	20	-40	5
South Africa		67755	0.6	2	3	20	14		353	3	39	-160	-31
Turkey		1358	-0.1	-1	-1	18	-8		480	-2	26	-109	33
Ukraine		525	0.0	0	-1	5	5		530	13	38	-105	37
EM total		50	1.5	-5	-9	16	-2		374	4	23	-38	36

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

[back to top](#)