GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

**TUESDAY, OCTOBER 19, 2021**

- **Investors ramped up rate hike expectations across major AEs** (link)
- **Demand for Treasuries from foreign private investors was strong in August** (link)
- **MMF repo allocation surpassed Treasuries for the first time** (link)
- **European gas prices remain elevated as Russia is only gradually increasing supply** (link)
- **ECB announces climate stress test for lenders** (link)
- **Bank Indonesia keeps policy rate unchanged, extends policies to boost lending** (link)
- **Special Feature: Fed repo facility (attached)**

Mature Markets | Emerging Markets | Market Tables

## Stocks rally despite growing expectations of higher rates

**Equity markets are moving higher so far today even as rate hikes by major advanced economies continue to be priced sooner.** One full hike by the Fed is priced in over the next year, while a 10bps hike by the ECB is priced by end-2022. Oil prices have resumed their increase so far today after losing steam following yesterday's weak US industrial production. Reports that Russia will not offer extra natural gas to Europe without approval to use the Nord Stream 2 pipeline has pushed crude prices up 1 percent this morning. Despite energy price concerns and expectations of hikes, market optimism has been boosted by strong corporate earnings. Emerging market currencies are higher today on broad dollar weakness. Bitcoin is only a little more than 1 percent off its all-time high from April, after rising 3 percent yesterday. Investors will be watching the launch of the first Bitcoin futures ETF today by ProShares.

**Key Global Financial Indicators**

| Last updated: 10/19/21 8:09 AM | Level | | Change from Market Close | | | | |
|---|---|---|---|---|---|---|---|
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| **Equities** | | | | | % | | % |
| S&P 500 | | 4486 | 0.3 | 3 | 1 | 31 | 19 |
| Eurostoxx 50 | | 4162 | 0.3 | 3 | 1 | 28 | 17 |
| Nikkei 225 | | 29216 | 0.7 | 3 | -4 | 24 | 6 |
| MSCI EM | | 52 | -0.3 | 2 | 1 | 14 | 0 |
| **Yields and Spreads** | | | | | bps | | |
| US 10y Yield | | 1.59 | -0.9 | 1 | 23 | 82 | 68 |
| Germany 10y Yield | | -0.13 | 2.3 | -4 | 16 | 50 | 44 |
| EMBIG Sovereign Spread | | 359 | 4 | 1 | 18 | -50 | 9 |
| **FX / Commodities / Volatility** | | | | | % | | |
| EM FX vs. USD, (+) = appreciation | | 55.4 | 0.2 | 1 | -2 | 1 | -4 |
| Dollar index, (+) = $ appreciation | | 93.6 | -0.4 | -1 | 0 | 0 | 4 |
| Brent Crude Oil ($/barrel) | | 84.9 | 0.7 | 2 | 13 | 99 | 64 |
| VIX Index (%, change in pp) | | 16.0 | -0.3 | -4 | -5 | -13 | -7 |

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

## Mature Markets

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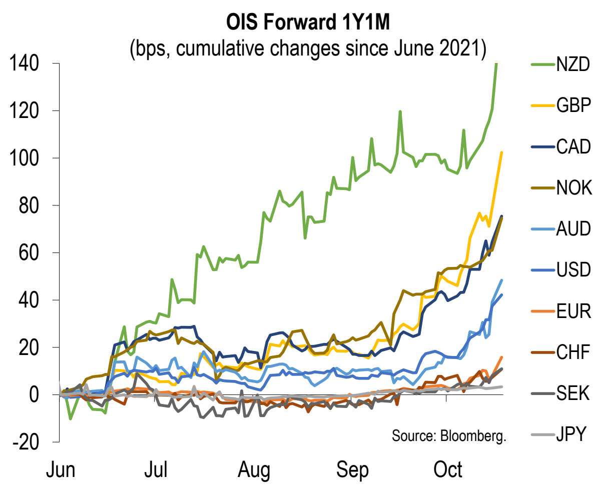
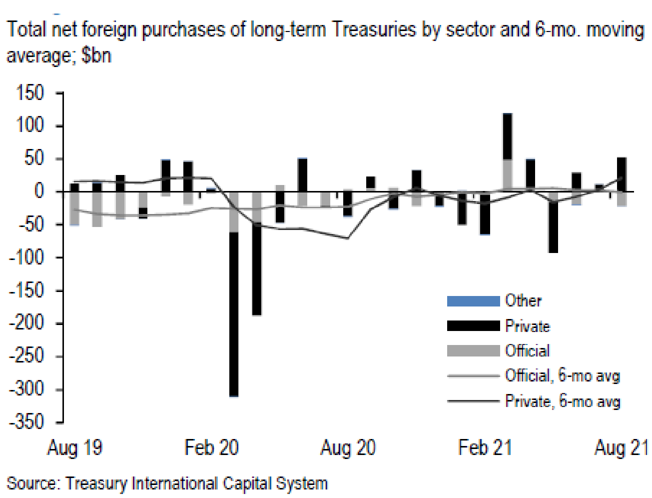
### United States

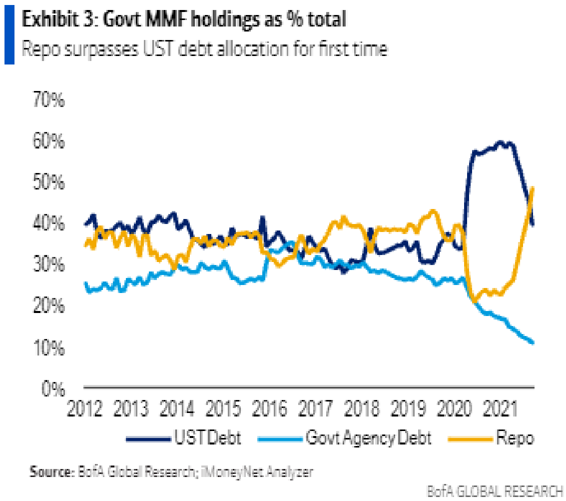
**The rebound in US stocks continued Monday, as the reversal in the rise of energy prices following the weaker than expected US industrial production (-1.3 percent m/m) eased some pressure on the market.** The Treasury curve flattened with short-rates 2-5 bps higher and long rates closed flat. The move followed European rates, as hawkish BoE comments led to a further acceleration in Gilt yields (+13 bps in 2 year; 3 bps in 10-year). **Markets have ramped up rate hike expectations across the major AEs**, with most aggressive tightening expected in New Zealand, UK, Canada and Norway.




**Demand for Treasuries from foreign private investors was strong in August.** The latest TIC data showed net purchase of long-term Treasuries from foreign investors tripled in August to $30.7 bn, with very strong demand from private investors ($52bn net purchase), while official investors offloaded $21bn. After several months of offloading, purchases by Japan rose to the highest in over a year, presumably as private investors took advantage of the modest rise in yields to add duration. Purchase from Cayman Islands was very limited, potentially indicating hedge funds were not as active in August after robust short covering demand earlier in the summer.



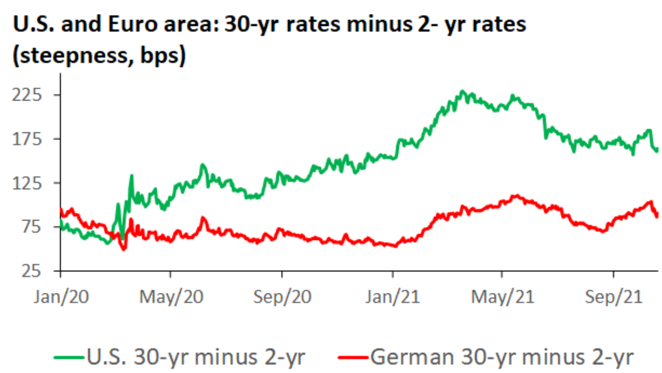
**Money market funds' repo allocation surpassed Treasuries for the first time in history.** Debt limit concerns led government MMFs to increase allocation to repo to record highs, especially the Fed's Overnight Reverse Repo Facility. Meanwhile MMFs' Treasury holdings dropped to 40 percent of AUM, entirely driven by reduction in bill holdings given bill supply cuts and TGA drawdown. On quarter-end, Overnight RRP take-up hit $1.6tn, with nearly 90 percent accounted for by MMFs. All MMFs remain comfortably below the counterparty cap at $160bn, with the largest MMF only reaching $66bn.



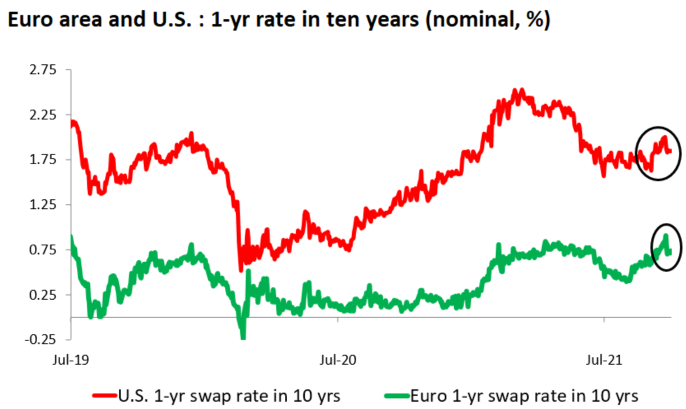

**Euro area**

**Equities (+0.4 percent) edged higher as attention is shifting to earnings.** Today's EC paper about reforming the fiscal rules questions debt reduction provisions and discusses excluding expenses for climate investment or industrial policy

**10-yr bund yields (+2bps to -0.13 percent) and the euro (+0.5 percent) are higher even as U.S. 10-yr yields were little changed.** Markets are continuing to price in a first ECB hike of 10 bps by end 2022. Contacts expect the ECB to push back against current market pricing at next week's meeting. Italian 10-yr spreads are higher (+2 bps to 107 bps). **German 30-yr yields (+4 bps to 28 bps) rose more than the 10-yr segment after some recent flattening.**

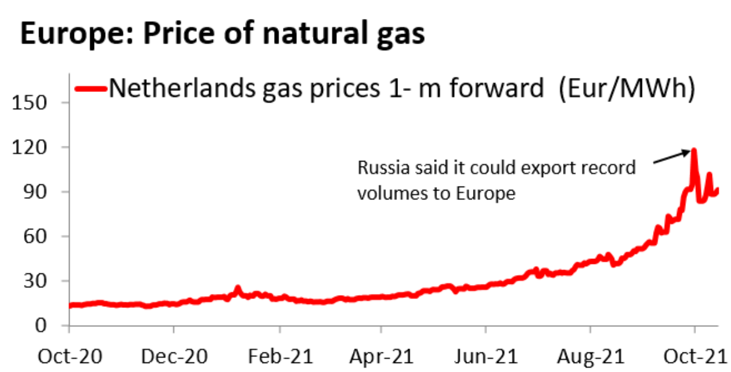



**Forward markets are pricing in about 40 bps of ECB tightening in the next 3 years but measures of the terminal rate such as the 1-yr swap rate in ten years have edged lower recently.** Contacts are divided on the current pace of tightening implied by markets. One group argues that incoming inflation and still decent growth leave central banks with little choice but to tighten sooner. Another group argues that the risk of policy error is real and points to the shift lower in the terminal rates as an indication that central banks should lean against current market pricing.




Source: Bloomberg and IMF staff

**Natural gas prices remain elevated on reports that Russia is only gradually increasing the supply of natural gas to Europe and wants regulatory approval to start using the Nord Stream 2 pipeline before meaningfully increasing supply.** According to news reports, Gazprom's exports to its main markets fell to its lowest level since at least 2014 in the first two weeks of October as domestic demand absorbed most of the production gains.




Source: Bloomberg and IMF staff

**The ECB will ask banks to run a climate stress test between March and July 2022.** Banks will have to estimate the risk they could face from climate change in both their lending and trading operations and predict how their balance sheets will evolve over 30 years as well as any related losses they could face in the transition to a more sustainable economy. **The ECB is also asking banks to assess the impact from a theoretical "sharp increase" in the price of carbon emissions over a 3-yr period.**

**Australia**

**Minutes of the central bank mentioned potential options for additional curbs on lending, include portfolio restrictions on individual lenders' shares of lending at high debt-to-income ratios; and/or limits on lending at high loan-to-valuation ratios.** The central bank reiterated that that conditions for a rate rise "will not be met before 2024", nevertheless markets are now implying rate hiked in mid-2022, Bloomberg reports.

## Emerging Markets

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**Asian equity markets were mixed, gaining +1.1 percent on net.** Hong Kong outperformed (+1.5 percent), Chinese stocks were up (Shanghai +0.7 percent, Shenzhen +0.9 percent), Thai stocks closed down (-0.8 percent). **Regional currencies gained,** led by the South Korean won (+0.7 percent) and the Thai baht (+0.55 percent). **Long-term bond yields declined. Bank Indonesia** kept its policy rate unchanged but eased macro-prudential regulation further to support lending. **EMEA equity markets are mostly trading higher** with Turkey (+1.2 percent) outperforming. EMEA currencies appreciated on broader dollar weakness, with the South African rand (+0.7 percent) and the Russian ruble (+0.7 percent) gaining most. **Latin American equity markets** were mixed on Monday. Argentina (+1.1 percent) and Chile (+0.7 percent) led the gains, while Brazil and Mexico saw losses. Local currencies were mixed as well. The Brazilian real was the worst performer, depreciating 0.9 percent against the dollar, followed by the Mexican peso, while the Chilean peso strengthened (+0.7 percent). 10-year government bond yields rose 11 bps in Brazil.

### EM Bond Issuance

**EM corporate issuance last week edged up to $4.8 bn,** from $2.7 bn the week before, and **EM sovereign issuance fell to $1.0 bn last week,** from $6.4 bn the week before. The year-to-date total issuance of $654.0 bn is almost the same as 2020 issuance over the same period ($646.5 bn). From a regional perspective, China was the largest EM corporate debt issuer last week, accounting for 30 percent ($1.4 bn) of the total, followed by Chile (26 percent, $1.24 bn), Mexico (25 percent, $1.2 bn), and Russia (13 percent, $0.7 bn). Last week's lone sovereign issuance was placed by Colombia ($1.0 bn).

| Sector | Last week | The week before | YTD |
|---|---|---|---|
| Corporate | 4.8 | 2.7 | 300.6 |
| Sovereign | 1.0 | 6.4 | 172.1 |
| Agency | 2.5 | 1.2 | 27.8 |
| Financial | 2.4 | 0.7 | 129.4 |
| Muni/Local Gov't | 1.6 | - | 12.9 |
| Supra | 1.7 | - | 11.2 |
| **Total** | **14.0** | **11.0** | **654.0** |

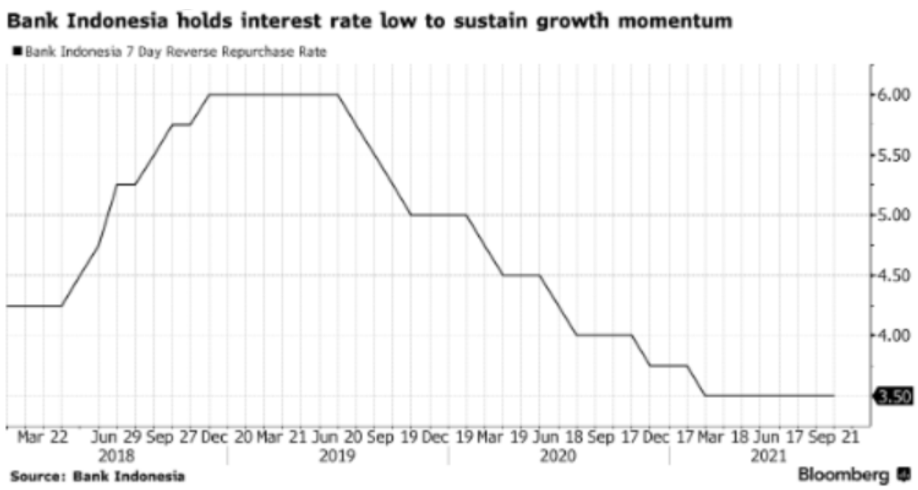
Source: Bond Radar, Bloomberg

### China

**China's property and construction industries contracted in the third quarter**. Output in the real-estate industry shrank 1.6 percent y/y (compared to a 7.1 percent y/y growth in Q2) and the construction industry's output fell by 1.8 percent y/y, according to the National Bureau of Statistics report released Tuesday. The combined sales of China's top 100 developers plummeted 36 percent y/y in September, and the slow government-funded infrastructure construction has also undercut the building sectors, according to Bloomberg. Separately, **China's regulator expanded the investment scope for foreign investors**. Qualified foreign investors will be able to trade commodity futures, commodity options and stock index options, China Securities Regulatory Commission said on its website last week. The changes will take effect on November 1, 2021. Chinese stocks gained (Shanghai +0.7 percent, Shenzhen +0.9 percent), 10-year bond yield fell -3.1bps, the renminbi appreciated +0.5 percent. According to Bloomberg, China's 10-year bond futures rallied, and yields fell by the most in two months on comments by a government adviser that the central bank has room to reduce the reserve requirement ratio.

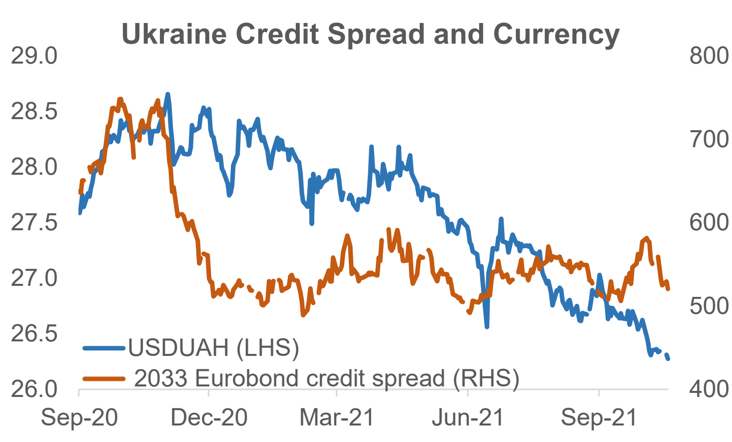
**Indonesia**

**Bank Indonesia (BI) left its benchmark interest rate unchanged and extended policies to boost loan growth and consumption.** Bank Indonesia kept the seven-day reverse repurchase rate at a record-low 3.5 percent as expected, at the same time the central bank relaxed macro-prudential regulations on motor vehicle and real estate financing to ease credit conditions. Governor Perry stated during the briefing that "the decision is consistent with the need to maintain exchange rates and financial system stability amid projected low inflation and efforts to revive economic growth," Bloomberg reports. BI's GDP growth projections of 3.5 percent to 4.3 percent this year remained unchanged. **Equity markets and bond yields were little changed, the rupiah gained 0.2 percent.**




**Ukraine**

**The market reacted positively to the announcement of the Staff-Level agreement with the IMF.** The agreement could potentially unlock the second tranche of $700 mn while extending the program until mid-2022. **The credit spreads on Ukraine Eurobonds have tightened by about 20 bps since the announcement**, reversing the losses triggered by the speculation around the replacement of the central bank governor. Contacts note that bonds are already trading at relatively tight levels and a **further reduction of credit spreads would require clarity on the IMF support beyond 2022**. On the local market side, contacts note that yesterday's news reports on the National Bank of Ukraine Governor resignation added to the unease around the recent currency appreciation as some investors are concerned that there could be now some political pressure to weaken the hryvna.



*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 Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Sonia Meskin (Financial Sector Expert), Kleopatra Nikolaou (Senior 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.*

## Global Financial Indicators

| Last updated: 10/19/21 8:09 AM | Level Last 12m | Level Latest | Change 1 Day | Change 7 Days | Change 30 Days | Change 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % |
| United States | | 4493 | 0.3 | 3 | 1 | 31 | 20 |
| Europe | | 4162 | 0.3 | 3 | 1 | 28 | 17 |
| Japan | | 29216 | 0.7 | 3 | -4 | 24 | 6 |
| China | | 3593 | 0.7 | 1 | -1 | 8 | 3 |
| Asia Ex Japan | | 87 | -0.1 | 2 | 0 | 10 | -3 |
| Emerging Markets | | 52 | -0.3 | 2 | 1 | 14 | 0 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 1.59 | -0.9 | 1 | 23 | 82 | 68 |
| Germany 10y Yield | | -0.13 | 2.3 | -4 | 16 | 50 | 44 |
| Japan 10y Yield | | 0.09 | -0.8 | -1 | 3 | 6 | 7 |
| UK 10y Yield | | 1.15 | 1.1 | 0 | 30 | 98 | 95 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 89 | 1.2 | -1 | 2 | -36 | -6 |
| US High Yield | | 318 | 1.8 | -12 | 9 | -187 | -62 |
| Europe IG | | 50 | -0.4 | -3 | -1 | -4 | 2 |
| Europe HY | | 256 | -2.1 | -15 | 3 | -73 | 14 |
| **Exchange Rates** | | | | | % | | |
| USD/Majors | | 93.59 | -0.4 | -1 | 0 | 0 | 4 |
| EUR/USD | | 1.17 | 0.4 | 1 | -1 | -1 | -5 |
| USD/JPY | | 114.2 | -0.1 | 1 | 4 | 8 | 11 |
| EM/USD | | 55.4 | 0.2 | 1 | -2 | 1 | -4 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 85 | 0.7 | 2 | 13 | 99 | 64 |
| Industrials Metals (index) | | 185 | 0.9 | 8 | 12 | 53 | 39 |
| Agriculture (index) | | 57 | 0.3 | 1 | 2 | 38 | 20 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 16.0 | -0.3 | -3.9 | -4.8 | -13.2 | -6.8 |
| US 10y Swaption Volatility | | 78.4 | 0.0 | 2.7 | 5.7 | 4.2 | 18.3 |
| Global FX Volatility | | 7.0 | 0.0 | -0.1 | 0.3 | -1.3 | -1.1 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 111 | -0.9 | 9 | -1 | -34 | -8 |
| Italy | | 105 | 0.0 | 4 | 4 | -30 | -6 |
| Portugal | | 53 | 0.1 | 3 | -1 | -24 | -7 |
| Spain | | 64 | 0.6 | 2 | 1 | -15 | 3 |

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

# Emerging Market Financial Indicators

| Last updated: 10/19/2021 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 | | 6.39 | 0.6 | 0.9 | 1 | 5 | 2 | | 3.2 | 9 | 12 | -21 | -12 |
| Indonesia | | 14076 | 0.2 | 1.0 | 1 | 4 | 0 | | 6.2 | -9 | 12 | -50 | 14 |
| India | | 75 | -0.1 | 0.0 | -2 | -3 | -3 | | 6.5 | 2 | 15 | 39 | 51 |
| Philippines | | 51 | 0.2 | 0.2 | -1 | -4 | -5 | | 4.4 | 5 | 9 | 79 | 70 |
| Thailand | | 33 | 0.4 | -0.1 | 0 | -6 | -10 | | 2.0 | 1 | 17 | 51 | 67 |
| Malaysia | | 4.17 | -0.3 | 0.0 | 1 | -1 | -4 | | 3.7 | -6 | 30 | 120 | 110 |
| Argentina | | 99 | -0.1 | -0.3 | -1 | -22 | -15 | | 49.1 | 18 | 101 | 383 | -705 |
| Brazil | | 5.56 | -0.8 | -0.3 | -4 | 1 | -7 | | 10.5 | 27 | 18 | 411 | 488 |
| Chile | | 813 | 0.5 | 1.2 | -3 | -3 | -13 | | 6.3 | -13 | 115 | 354 | 353 |
| Colombia | | 3767 | -0.1 | 0.0 | 2 | 2 | -9 | | 7.4 | 7 | 24 | 227 | 234 |
| Mexico | | 20.35 | 0.3 | 2.1 | -1 | 4 | -2 | | 7.5 | 1 | 39 | 138 | 188 |
| Peru | | 3.9 | -0.5 | 3.1 | 4 | -9 | -8 | | 6.0 | -21 | -45 | 191 | 242 |
| Uruguay | | 44 | 0.1 | -0.8 | -2 | -2 | -4 | | 8.0 | 13 | 11 | 64 | 77 |
| Hungary | | 310 | 0.6 | 0.9 | -3 | 0 | -4 | | 3.4 | 26 | 63 | 171 | 186 |
| Poland | | 3.92 | 0.7 | 1.3 | 0 | -1 | -5 | | 2.2 | 17 | 85 | 159 | 160 |
| Romania | | 4.2 | 0.4 | 1.1 | -1 | -2 | -6 | | 4.5 | 30 | 100 | 129 | 178 |
| Russia | | 70.9 | 0.6 | 1.3 | 4 | 10 | 4 | | 7.4 | 6 | 43 | 174 | 171 |
| South Africa | | 14.6 | 0.6 | 2.6 | 1 | 13 | 1 | | 10.1 | -8 | 35 | -8 | 49 |
| Turkey | | 9.31 | 0.2 | -2.9 | -7 | -15 | -20 | | 18.8 | 62 | 192 | 542 | 567 |
| US (DXY; 5y UST) | | 94 | -0.4 | -1.0 | 0 | 0 | 4 | | 1.14 | 6 | 28 | 80 | 77 |

| | 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 | | 4923 | 1.0 | 1 | 1 | 3 | -6 | | 207 | -4 | -2 | -31 | -22 |
| Indonesia | | 6656 | 0.0 | 3 | 10 | 31 | 11 | | 180 | -4 | 7 | -45 | -20 |
| India | | 61716 | -0.1 | 3 | 6 | 52 | 29 | | 144 | -6 | -2 | -64 | -7 |
| Philippines | | 7266 | 0.6 | 2 | 6 | 19 | 2 | | 117 | -9 | 10 | -11 | 5 |
| Malaysia | | 1606 | 0.0 | 2 | 4 | 6 | -1 | | 130 | -3 | 0 | -37 | -5 |
| Argentina | | 82860 | 1.1 | 7 | 6 | 69 | 62 | | 1629 | 45 | 132 | 241 | 273 |
| Brazil | | 114428 | -0.2 | 1 | 3 | 16 | -4 | | 301 | 0 | 11 | -9 | 42 |
| Chile | | 4009 | 0.0 | -2 | -10 | 10 | -4 | | 163 | 7 | 16 | -10 | 7 |
| Colombia | | 1426 | 0.7 | 1 | 8 | 22 | -1 | | 291 | 4 | 10 | 53 | 76 |
| Mexico | | 52686 | -0.2 | 2 | 3 | 40 | 20 | | 350 | 1 | 12 | -117 | -7 |
| Peru | | 20559 | 0.3 | 5 | 14 | 17 | -1 | | 169 | 2 | 3 | 16 | 40 |
| Hungary | | 54604 | -0.1 | 0 | 4 | 63 | 30 | | 116 | 2 | -17 | -34 | -33 |
| Poland | | 74643 | 0.0 | 0 | 5 | 55 | 31 | | 27 | 3 | 7 | 3 | -1 |
| Romania | | 12662 | -0.1 | -1 | 3 | 43 | 29 | | 201 | -1 | 12 | -36 | -2 |
| Russia | | 4273 | 0.6 | 0 | 6 | 53 | 30 | | 156 | -6 | 1 | -58 | -23 |
| South Africa | | 67180 | 0.6 | 2 | 7 | 22 | 13 | | 356 | -4 | 6 | -143 | -28 |
| Turkey | | 1434 | 1.1 | 1 | 1 | 19 | -3 | | 513 | 17 | 32 | -108 | 66 |
| Ukraine | | 526 | 0.0 | 0 | 0 | 3 | 5 | | 499 | -17 | 30 | -204 | 6 |
| EM total | | 52 | 1.0 | 2 | 1 | 14 | 0 | | 375 | 0 | 20 | -20 | 36 |

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

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