



- Momentum in US residential construction is decelerating ([link](#))
- Fund managers turned more cautious on rising concerns about stagflation ([link](#))
- Pricing of UK interest rate expectations little changed after softer inflation ([link](#))
- China's home prices decline for the first time in six years ([link](#))
- Hungary hikes 15 bps as expected, adopts a more hawkish forward guidance ([link](#))
- Brazil markets fall on potential aid program ([link](#))
- **Special Feature: Foreign holdings of EM local currency bonds (Attached)**

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## Equity markets continue to gain as expectations for hikes ease

The S&P 500 rose for 5<sup>th</sup> straight day yesterday as market pricing for Fed hikes has eased slightly in recent days. Reversing some of the recent trend, the Treasury curve has steepened some, with the 2-year yield down 4 bps since peaking on Monday and the 10-year yield up 4 bps in that time. This morning, market moves are modest, with European equities little changed. Earnings reports will be a key driver of markets, with today being among the busiest days of the earnings season. Strong earnings have helped take some of the investor focus away from fears of high inflation and potentially lower growth. Concerns over China's real estate sector continue to linger, with home prices there falling for the first time in six years and a default by another real estate firm.

Key Global Financial Indicators

Last updated: 10/20/21 8:12 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4520	0.7	4	4	31	20
Eurostoxx 50		4169	0.0	2	3	29	17
Nikkei 225		29256	0.1	4	-2	24	7
MSCI EM		53	1.3	4	5	14	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.63	-1.2	9	31	84	71
Germany 10y Yield		-0.13	-2.6	-1	19	47	44
EMBIG Sovereign Spread		354	-5	-10	13	-55	3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		55.4	0.0	0	-1	1	-4
Dollar index, (+) = \$ appreciation		93.9	0.1	0	1	1	4
Brent Crude Oil (\$/barrel)		84.3	-0.9	1	14	95	63
VIX Index (% change in pp)		15.7	0.0	-3	-10	-14	-7

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

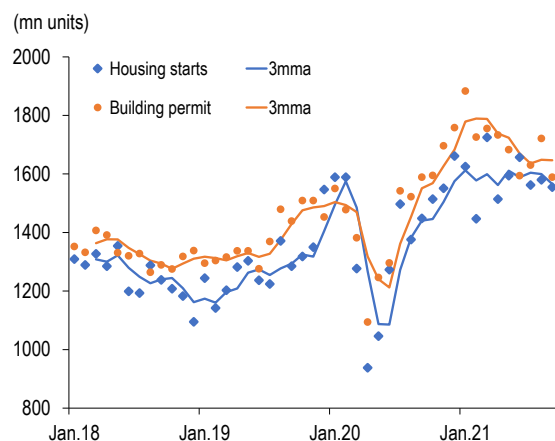
## Mature Markets

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### United States

Stocks marched higher on solid corporate earnings. The Treasury curve steepened as the short rate reversed Monday's sell-off while the long rate rose 4 bps, entirely driven by higher real rates. Treasury futures and options markets are very active, with volume running at twice the usual level. Investors pared back somewhat the rate hike expectations for 2022 and bought more downside protections against higher yields for the mid-curve.

**Momentum in residential construction is decelerating after a boom in the COVID period.** Housing starts (-1.6%/m/m) and building permits (-7.7%/m/m) both came in weaker than expected in September, while August data were revised down as well. The trend in overall starts and permits has softened somewhat in recent months, though activity is still up significantly on an annual basis. Analysts generally maintain a positive outlook for the housing market with continuing strong housing demand, but supply bottlenecks remain the downside risks.



**Sentiment among fund managers have turned more cautious.** According to a BofA fund manager survey, overall sentiment deteriorated to the least bullish since Oct 2020. Global growth expectations turned negative for the first time since April 2020 with a drastic decline in corporate earnings outlook, while concerns about stagflation have picked up steam. Average cash balances rose to the highest in over a year, and exposures are now favoring inflation assets (commodities, banks) and underweight assets that are vulnerable to higher interest rates (bonds, EM, utilities). Global bond allocation dropped to a record low.

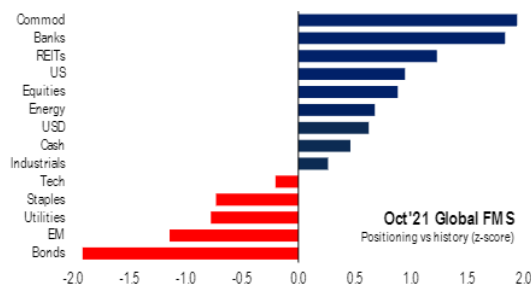
Chart 6: Peak "boom" and growing "stagflation" concerns  
Above/Below-trend growth and above-trend inflation



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Chart 16: FMS investors are long inflation assets and short taper assets  
Positioning vs history (z-score)



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

## Euro Area

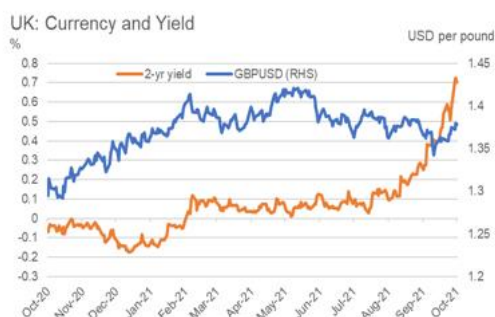
**Equities were trading in a tight range (+0.1%),** with consumer staples outperforming (+1.5%) and real estate underperforming (-0.7%).

**10-yr bund yields (-1bps to -0.12%)** are lower and the euro depreciated marginally (-0.1%) after **ECB chief economist Lane questioned the market views despite the ECB's forward guidance.** Bank of France governor Francois Villeroy also stated that there is no reason for the European Central Bank to hike until the end of 2022 as inflation is expected to fall back below the ECB's 2% target. Markets are continuing to price in a first ECB hike of 10 bps by end 2022.

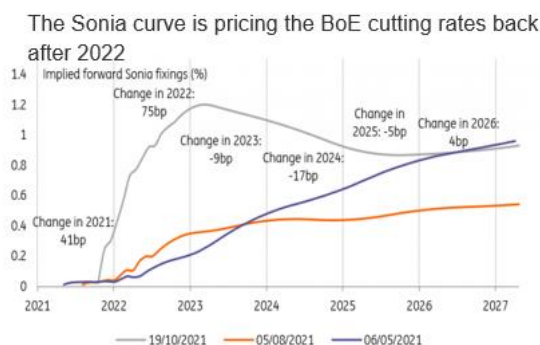
**Financial market participants piloted a digital currency issued by the Banque de France as part of the 10-month experiment in the country's debt market.** The trial was part of an arrangement to explore how central bank-issued digital currencies would exchange and settle if they had been turned into tokens, with deals recorded on a digital ledger. The experiment was commissioned by the Banque de France in 2020, and ran almost 500 instructions in both primary and secondary markets. The value of the trades were not disclosed.

## United Kingdom

**The pound depreciated (-0.3%) after inflation moderated to 3.1% y/y in September** (consensus: 3.2%) from 3.2% in August. Price increases, led by higher costs of transportation, were offset by restaurant prices rising less than in 2020 when the Eat Out to Help Out scheme ended. Core CPI also moderated slightly to an annual rate of 2.9% from 3.0% in August. **The retail price index (+4.9%) surprised on the upside in September (consensus 4.7%), while output PPI increased to 6.7% y/y in September** (expected 6.8% from 6.0%). This was the last CPI numbers before the central bank policy meeting in November, with **markets currently pricing in more than 100 bps in hikes by the end of 2022. Contacts caution that the increasing number of new COVID cases and the jump in bond yields in recent weeks could become a headwind to growth next year and give the BoE reasons to delay policy normalisation until 2022.** The sterling overnight index swaps curve is inverted, signaling that the central bank might start lowering interest rates in 18 months to bring the benchmark back below 1% by 2025.



Source: Bloomberg, ING, IMF calculations

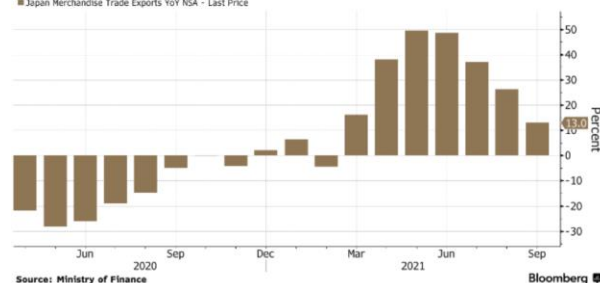


**The U.K. shared its net-zero strategy, with the estimated cost of the transition to be 1-2% of GDP by 2050.** The government expects the plan to create 440 000 jobs leveraging off 90 billion pounds of [private investment](#) by 2030. The measures include a partnership with Bill Gates to boost green investment across the U.K. and an aim to be carbon-free by 2035. **The debt management office postponed a second sale of green bonds yesterday** to give investors time to digest the government's plans to reduce the cost of low-carbon home heating systems and a statement on the use of carbon capture. The sale is expected to take place later this week.

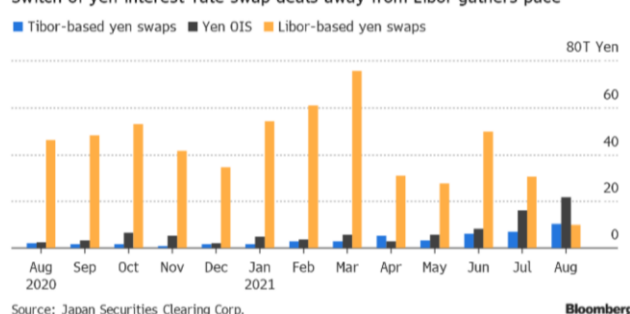
## Japan

**The Japanese stock market was broadly flat (+0.05%).** Real exports fell by 3.9% m/m on a seasonally adjusted basis in September, dragged down by massive production cuts in the auto industry amid input shortages. Annual growth decelerated to 13%/y/y from 26%/y/y in August. Separately, **Japan authorities are conducting a survey of the remaining Libor-linked contracts.** The Bank of Japan and Financial Services Agency are assessing if local financial institutions may have difficulties shifting to alternative interest rates to make sure the transition away from Libor will be orderly, according to Bloomberg. Japan's financial institutions will be allowed to use synthetic Libor rates for one year if they can't meet the end of December deadline. **The 10-year bond yield moved up 0.8bps, the yen was little changed Wednesday trading at levels last seen in October 2018.** The yen has dropped 10.7% YTD vis-à-vis the US dollar, more than twice any other major developed currency, as U.S. yields are climbing far more rapidly than Japan's curve-controlled market.

Japan's export growth has slowed for four months running



Switch of yen interest-rate swap deals away from Libor gathers pace



## Emerging Markets

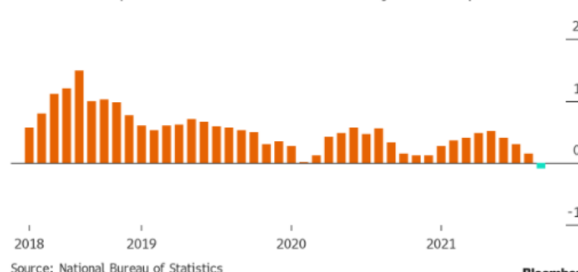
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**Asian equity markets closed higher: +0.5% on net.** Hong Kong markets outperformed (+1.4%) with technology firms leading gains on the Hang Seng China Enterprises Index (+1.5%) in October after a major selloff last quarter. Indian stocks fell 0.9% after a volatile session amid the reporting season. Regional currencies were mixed. The Indian rupee gained (+0.6%), the Thai baht was weaker (-0.3%). **EMEA equity markets were mostly trading in a tight range** except for the UAE (+1%), Hungary (+0.7%) and Saudi Arabia (+0.7%). EMEA currencies were little changed. South African inflation came in line with consensus at 5% yoy in September but interest rate forwards fell by 8-10 bps as traders were fearing a higher print. **Latin American equity markets** were mixed on Tuesday. Argentina led the gains (+1.7%), while Brazil's equity index plunged (-3.3%). Local currencies were mixed as well. The Mexican peso and Chilean peso strengthened (+0.8%), while the Brazilian real depreciated 1.3% against the dollar. 10-year government bond yields rose 38 bps in Brazil and dropped 12 bps in Chile.

## China

**China's home prices fell for the first time in six years.** New-home prices across 70 cities dropped 0.1% in September. Meanwhile, one more real estate firm, Sinic Holdings Group Co., failed to repay interest and principal of its \$250 mn note due Monday, Bloomberg reports. Sinic's credit rating was lowered by S&P Global Ratings to Selective Default from CC. Separately, **China's total debt as a percentage of GDP continues to decline.** The country's overall leverage ratio (the percentage of debt in households, non-financial enterprises and governments to GDP), declined to 263.2% in the third quarter, with the leverage ratio for non-financial sectors declining to 156.0% vs 157.8%, according to data compiled by Bloomberg. China stock markets closed lower (Shanghai -0.2%, Shenzhen -0.1%), while Hong Kong's Hang Seng China Enterprises Index rallied (+1.5). The 10-year bond was little changed, the renminbi weakened -0.2%.

China's home prices fell for the first time in six years in September



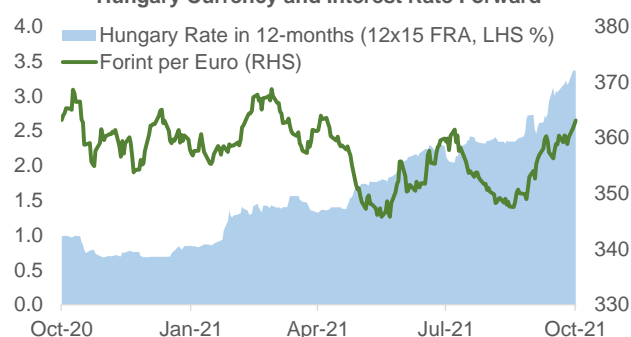
Offshore Chinese stocks have underperformed global peers this year



## Hungary

**The National Bank of Hungary raised its key rate by 15 bps to 1.8% as expected.** At the same time, analyst perceived the central bank's stance as more hawkish due to reference to the more persistent nature of inflation as well as **Deputy Governor Virag's indicating that the tightening will last until the end of 2022.** The short-dated forward rate agreements dropped about 10 bps as markets were pricing in risks of a higher step size for this year's meetings. However, the terminal rate pricing remained unchanged as the hike expectation were effectively spread out into 2022. **The forint weakened by 0.7% against the euro and contacts point to further forint weakness as a potential trigger for a pick-up in the hiking pace.**

Hungary Currency and Interest Rate Forward

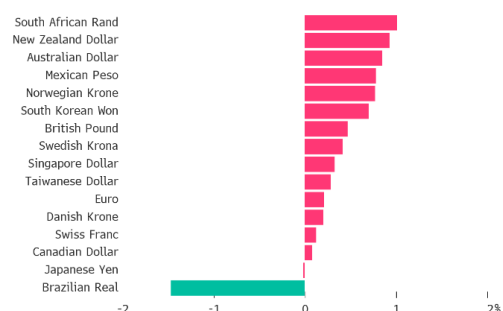


## Brazil

**Brazil's markets tumbled yesterday on reports that the government will finance a new social program, Auxílio Brasil, with extra-cap spending.** According to press reports, the new program will give up to 400 reais (\$72) per individual to the lowest-income group. Currently, the Bolsa Família program pays an average of around 195 reais (\$35). The new program is estimated to breach the country's spending cap this year by about 30 bn reais, which would cause a further deterioration of the nation's fiscal position. The decision requires a constitutional amendment to be authorized. Brazil's benchmark equity index sold off on Tuesday (-3.3%), and the real depreciated 1.3% against the dollar.

### Global Laggard

Brazilian real leads losses among major currencies on fiscal woes



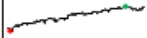





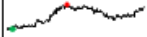


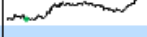
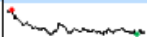





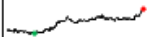




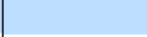



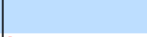


## Russia

**Russia is discussing a project for its oil companies to mine cryptoassets at their oil fields by using associated petroleum gas**, according to press reports. The President of Russia has recently endorsed the use of digital assets, but the Central Bank of Russia has adopted a more cautious stance due to risks to retail investors. Separately, the central bank noted that it is currently surveying crypto investors to gauge the size of their holdings after the recent popularity surge.

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## Global Financial Indicators

Last updated: 10/20/21 8:12 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4520	0.7	4	4	31	20
Europe		4169	0.0	2	3	29	17
Japan		29256	0.1	4	-2	24	7
China		3587	-0.2	1	-1	8	3
Asia Ex Japan		89	1.7	5	5	11	-1
Emerging Markets		53	1.3	4	5	14	2
<b>Interest Rates</b>			basis points				
US 10y Yield		1.63	-1.2	9	31	84	71
Germany 10y Yield		-0.13	-2.6	-1	19	47	44
Japan 10y Yield		0.09	0.6	0	4	7	7
UK 10y Yield		1.12	-5.1	3	32	93	92
<b>Credit Spreads</b>			basis points				
US Investment Grade		88	-1.1	0	-1	-37	-7
US High Yield		316	-1.1	-14	-7	-188	-64
Europe IG		50	-0.1	-3	-2	-5	2
Europe HY		255	0.4	-14	1	-76	12
<b>Exchange Rates</b>			%				
USD/Majors		93.86	0.1	0	1	1	4
EUR/USD		1.16	-0.1	0	-1	-2	-5
USD/JPY		114.2	-0.2	1	4	8	11
EM/USD		55.4	0.0	0	-1	1	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		84	-0.9	1	14	95	63
Industrials Metals (index)		179	-0.3	3	11	47	35
Agriculture (index)		58	0.7	2	5	38	20
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.7	0.0	-2.9	-10.0	-13.6	-7.0
US 10y Swaption Volatility		74.0	-2.2	2.0	1.3	0.2	13.9
Global FX Volatility		7.0	0.0	0.0	0.1	-1.4	-1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		113	1.3	8	-1	-32	-6
Italy		104	-1.0	1	1	-29	-7
Portugal		52	-0.3	1	-5	-25	-8
Spain		64	0.1	1	-2	-15	2

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

## Emerging Market Financial Indicators

Last updated: 10/20/2021 8:13 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	-0.2	0.6	1	4	2		3.2	7	12	-20	-12	
Indonesia		14076	0.2	1.0	1	4	0		6.2	-10	12	-48	13	
India		75	0.6	0.7	-2	-2	-2		6.5	1	15	40	51	
Philippines		51	-0.1	-0.2	-1	-4	-5		4.3	1	8	78	69	
Thailand		33	0.0	-0.5	0	-6	-10		2.0	1	17	51	67	
Malaysia		4.16	0.2	0.0	1	0	-3		3.7	-4	30	120	110	
Argentina		99	0.0	-0.2	-1	-22	-15		49.2	68	108	364	-699	
Brazil		5.58	0.1	-1.1	-5	1	-7		10.8	64	55	463	525	
Chile		813	-0.2	0.4	-3	-3	-13		6.3	-23	114	352	352	
Colombia		3767	0.0	-1.1	2	2	-9		7.4	7	25	223	234	
Mexico		20.21	0.2	1.7	0	5	-1		7.5	4	39	137	188	
Peru		3.9	0.1	2.4	4	-9	-8		6.0	6	-48	185	239	
Uruguay		44	0.1	-0.5	-2	-2	-3		8.0	5	11	67	77	
Hungary		311	0.1	-0.2	-3	-1	-5		3.4	18	61	168	184	
Poland		3.94	-0.1	0.0	0	-2	-5		2.2	6	84	158	159	
Romania		4.3	-0.1	0.3	-1	-3	-7		4.5	14	101	129	178	
Russia		71.0	-0.1	1.5	4	9	4		7.4	2	42	176	170	
South Africa		14.5	0.3	2.3	2	14	1		10.1	-10	27	-12	41	
Turkey		9.28	0.3	-2.0	-7	-15	-20		18.7	37	186	551	562	
US (DXY; 5y UST)		94	0.1	-0.2	1	1	4		1.14	7	32	81	78	

	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		4910	-0.3	-1	1	2	-6		206	-6	-3	-32	-23	
Indonesia		6656	0.0	3	10	31	11		169	-25	-4	-54	-31	
India		61260	-0.7	2	4	50	28		142	-9	-4	-66	-9	
Philippines		7297	0.4	3	6	16	2		106	-29	-1	-21	-6	
Malaysia		1606	0.0	1	5	8	-1		127	-9	-3	-39	-8	
Argentina		84308	1.7	8	14	70	65		1622	22	125	200	266	
Brazil		110673	-3.3	-1	2	10	-7		302	-5	12	-7	43	
Chile		3995	0.0	0	-7	9	-4		159	-2	12	-14	3	
Colombia		1416	-0.7	2	8	19	-1		285	-5	4	46	70	
Mexico		52403	-0.5	1	4	37	19		346	-6	8	-125	-11	
Peru		20680	0.6	5	17	16	-1		162	-8	-4	9	33	
Hungary		54636	0.5	0	7	62	30		111	-9	-22	-37	-38	
Poland		74204	-0.1	0	7	53	30		31	1	11	7	3	
Romania		12718	0.4	0	4	44	30		196	-11	7	-37	-7	
Russia		4272	-0.1	1	8	52	30		150	-14	-5	-63	-29	
South Africa		66514	-0.4	1	8	20	12		347	-19	-3	-143	-37	
Turkey		1435	0.4	2	3	19	-3		505	3	24	-107	58	
Ukraine		526	0.0	0	0	5	5		482	-39	13	-219	-11	
EM total		53	0.2	4	5	14	2		368	-13	13	-28	29	

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

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