



- Consumer confidence metrics have slumped lower in August ([link](#))
- Q2 GSIB scores were stable for most US banks ([link](#))
- ECB expected to reduce pace of QE purchases in Q4 ([link](#))
- Euro area natural gas and carbon prices increase on supply concerns ([link](#))
- Central Bank of Chile hiked by 75 bps, above survey expectations ([link](#))

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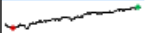


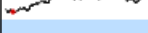
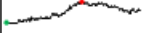


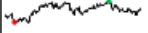


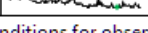
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Market rallies into a new month

Despite continuing concerns of potential virus disruptions, markets are rallying this morning. Euro area equities are up about 1% on the day and US equity index futures are also pointing toward gains when the market opens. Even with indications that the ECB may soon reduce purchases and the Fed may begin a taper, investors remain confident that general accommodative policies are likely to remain in place for some time. Emerging market currencies are mixed on the day, with Asian currencies generally lower and those in EMEA stronger. It is expected that the Chilean peso will rally substantially once the market opens after yesterday evening's 75bps hike by the central bank.

Key Global Financial Indicators

Last updated: 9/1/21 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4523	-0.1	1	3	28	20
Eurostoxx 50		4241	1.1	1	4	29	19
Nikkei 225		28451	1.3	3	2	22	4
MSCI EM		52	1.4	2	2	16	1
Yields and Spreads			bps				
US 10y Yield		1.32	0.8	-2	9	65	40
Germany 10y Yield		-0.36	2.3	6	10	6	21
EMBIG Sovereign Spread		342	-3	-6	-12	-80	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.1	0.3	1	1	3	-1
Dollar index, (+) = \$ appreciation		92.7	0.0	0	1	0	3
Brent Crude Oil (\$/barrel)		71.9	0.3	-1	-6	58	39
VIX Index (% change in pp)		16.1	-0.4	-1	-2	-10	-7

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

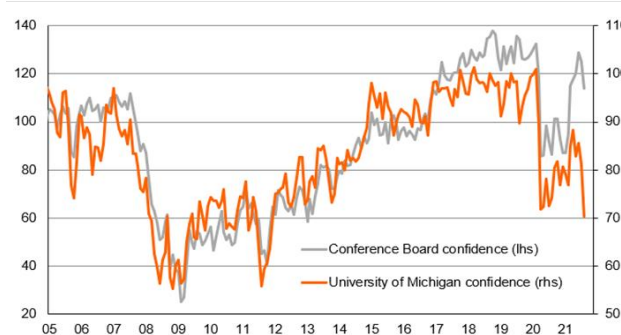
Mature Markets

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US equities edged lower with the S&P500 down 0.1%, while Treasuries sold off, with 10-year and 30-year yields up 3 bps. Despite the modest loss, the S&P500 has hit 53 new all-time highs in 2021 through August, the highest tally ever, with the benchmark index up 20.4% YTD, slightly trailing the Nasdaq

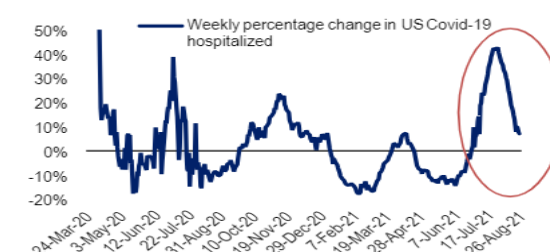
(+20.9%). In August, financials and telecoms led the way with 5% gains, though tech has outperformed this week. Wells Fargo dropped over 6% on Tuesday after reports that regulators are considering imposing penalties over the slow pace of restitution and reform efforts related to the bank's bogus accounts scandal.

Consumer confidence metrics have slumped lower in August. The Conference Board's consumer confidence index fell well below expectations to 113.8 (vs 123 expected) from 125.1 in July, for the worst reading since February. The Conference Board cited the impact of the Delta variant and rising food and gas prices as the main drivers. The future expectations component led the decline, dropping from 103.8 to 91.4 in August, while present situation fell to 147.3 from 157.2 previously. The release mirrored the sharp fall in the University of Michigan's consumer sentiment index in August, which fell to 70.3 from 81.2. The rising wave of COVID-19 infections and hospitalizations driven by the Delta variant shows some tentative signs of slowing, but daily infections remain elevated at ~145k (vs 250k at the pandemic peak in January), with new daily hospitalizations at ~12k (vs ~16k at the January peak).



Source: Macrobond, ING

Figure 5: Weekly change in US COVID-19 hospitalized
Weekly increase dropped from 43% to 8% in three weeks.



Source: U.S. Department of Health and Human Services.

Q2 GSIB scores were stable for most US banks, except Goldman Sachs which moved to a higher capital bucket. The method II GSIB scores rose for Goldman Sachs (GS) and Bank of America (BAC) in Q2 on increases in short-term wholesale funding and securities outstanding, which were likely driven by higher equity financing activity, issuance of senior unsecured debt and lastly an increase in market cap. For Goldman Sachs, the higher GSIB score leads to an increase in their GSIB capital surcharge by 50 bps to 3.5%. The stability of the GSIB scores is reassuring to investors that dealer balance sheet is unlikely to be restrictive into year end. Overall funding conditions remains extremely easy in the US, and investors are currently pricing in a modest 20 bps year-end funding premia.

Exhibit 1: Method 2 GSIB score and surcharge update

Goldman Sachs has moved into a higher surcharge bucket

Score	JPM	C	WFC	BAC	GS	MS	BK	STT
4Q19	705	604	369	512	518	580	279	191
1Q20	804	638	354	537	557	571	304	211
2Q20	794	647	335	548	553	566	306	228
3Q20	797	646	323	552	553	566	315	235
4Q20	815	666	316	520	555	603	344	245
1Q21	896	684	325	592	607	617	358	248
2Q21	893	681	328	620	636	618	351	243
1Q to 2Q Change	-2	-2	3	28	29	2	-7	-4
Surcharge								
4Q19	3.5%	3.0%	2.0%	2.5%	2.5%	3.0%	1.5%	1.0%
1Q20	4.0%	3.5%	2.0%	3.0%	3.0%	3.0%	1.5%	1.0%
2Q20	4.0%	3.5%	2.0%	3.0%	3.0%	3.0%	1.5%	1.0%
3Q20	4.0%	3.5%	1.5%	3.0%	3.0%	3.0%	1.5%	1.5%
4Q20	4.0%	3.5%	1.5%	2.5%	3.0%	3.0%	2.0%	1.5%
1Q21	4.5%	3.5%	1.5%	3.0%	3.0%	3.0%	2.0%	1.5%
2Q21	4.5%	3.5%	1.5%	3.0%	3.5%	3.0%	2.0%	1.5%
1Q to 2Q Change	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%

Reference: GSIB score to surcharge

Score bucket	130 - 229	230 - 329	330 - 429	430 - 529	530 - 629	630 - 729	730 - 829	830 - 929
Surcharge	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%

Source: BofA Global Research, FFIEC, Bloomberg

BofA GLOBAL RESEARCH

Euro area

Equities (+0.7%) traded higher while bank stocks (+1.4%) gained as core rates stabilized at higher levels.

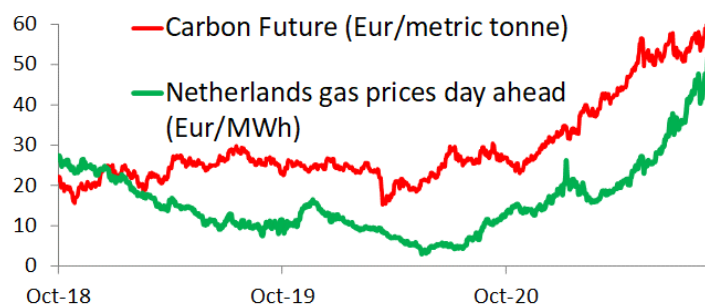
10-yr German bund yields (+ 2 bps to -0.37 bps) held on to yesterday's increases as comments by ECB officials signal a likely reduction in the pace of asset purchases in Q4. This morning, ECB Vice President de Guindos said that the economy is performing better in 2021 than expected, adding that the ECB must decide the volume of asset purchases in Q4. Yesterday, Dutch central bank governor Knot argued against transferring all the flexibility of the pandemic PEPP QE program into the APP. The ECB will enter its blackout period ahead of its meeting of 7 September today. **Italian 10-yr spreads were little changed at 108 bps but Greek 10-yr spreads traded 2 bps higher.**

Following yesterday's higher-than-expected inflation data and ECB commentary, contacts now think that the ECB is more likely than not to announce a reduction in the pace of its PEPP purchases next week. The weekly release of holdings under the ECB's PEPP QE program showed a net increase in PEPP holdings of €11.5 bn, below the pace observed earlier in August of around €16-17 bn/week.

German retail sales unexpectedly contracted 5% mom (-1% expected) in July as euro area activity data is struggling to beat expectations compared to earlier in the year. In contrast, today's final Markit PMI releases for the euro area are in line with preliminary releases.

Concerns about supply shortages following production outages in the North Sea and disruptions caused by hurricane Ida, are pushing up natural gas prices in the euro area. North Sea gas inventories are reportedly at ten-year lows going into winter, while supplies from Russia have also been limited. Gazprom said last month it was overwhelmed with record demand both abroad and in Russia. **Prices of carbon futures have also increased sharply as higher gas prices are expected to push power producers to burn more emissions-intensive coal.**

Europe: Price of natural gas and carbon futures



Source: Bloomberg and IMF staff

United Kingdom

House prices unexpectedly rose 2.1% mom (0.1% mom expected) in August for an annual house price growth of 11% yoy (10.5% yoy expected). U.K. mortgage approvals also remain above pre-pandemic levels, despite the phase-out of a stamp duty holiday in June.

Japan

The Bank of Japan (BOJ) signaled an economic outlook downgrade. Deputy Governor Wakatabe said that the economy was in a severe state, with a delay in the recovery due to the pandemic and the extended

state of emergency. **Manufacturing PMI edged up slightly in August to 52.7** from 52.4 in July. Meanwhile, firms boosted capital spending for two consecutive quarters. Capital spending excluding software increased 3.2% q/q in 2021Q2. Service firms spent the most since the pandemic started, suggesting that businesses start to plan for post-COVID life. **Prime Minister Suga denied that he plans to call for a snap election in September.** The general election is set to be held in October this year. Equities gained (NIKKEI: +1.3%); the Japanese yen depreciated (-0.3%); long-end JGB yields increased (10-year: +0.6 bp).

Emerging Markets

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Asian equities were mixed, gaining 0.1% on net. Share prices rose in China (CSI 300: +1.3%) and Singapore (+1.1%), while Philippine (-1.0%) and Indonesian (-1.0%) equities declined. **Asian currencies were also mixed.** The Korean won (+0.2%) and Malaysian ringgit (+0.2%) appreciated, while the Philippine peso (-0.7%) and Thai baht (-0.4%) depreciated. **Long-end government bond yields generally increased,** with 10-year yields rising in Hong Kong SAR (+3.8 bps), following the increase in U.S. treasury yields. **EMEA equities were mostly trading higher** with indices up in Romania (+1.2%), Russia (+0.5%) and the UAE (+0.5%) while the South African JSE was down 0.8%. EMEA currencies extended their rally with most spot rates up 0.5% against the dollar. In **Latin America,** regional currencies appreciated against the dollar for a third day in row following Chair Powell's remarks in Jackson Hole. The Chilean and Colombian pesos outperformed (+1.1%) all other EM currencies. After market close, the central bank of Chile hiked rates by 75 bps, above survey expectations (50 bps). The Peruvian sol (-0.1%) was an exception to the positive risk sentiment among EM currencies as markets remain concerned about political risks.

Chile

The Central Bank raised the policy rate by 75 bps to 1.50%, above market and survey expectations (Bloomberg consensus: 50 bps). Following July's 25 bps hike, markets were initially pricing another a 25 bps hike to follow. Expectations later shifted to 50 bps as activity data and the announced fiscal support surprised on the upside. In its latest press release, the central bank highlighted that growth has been higher than anticipated, led by an "extraordinary dynamism in private" consumption and noted increasing pressures on consumer prices. Surveys of 12-month inflation expectations have moved higher recently while the latest financial trader's survey showed 24-month inflation expectations moving above the 3% target to 3.5%. Finally, the central bank removed forward guidance references and market participants will watch closely the monetary policy report today for more clues on the pace of monetary policy normalization going forward.

Figure 1: Next 12-m inflation expectations

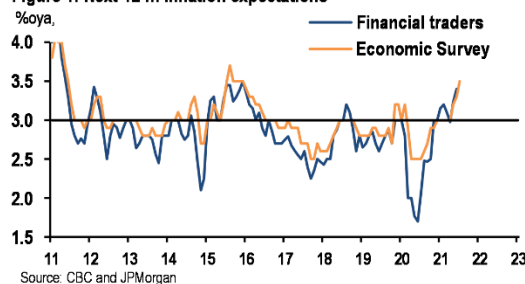
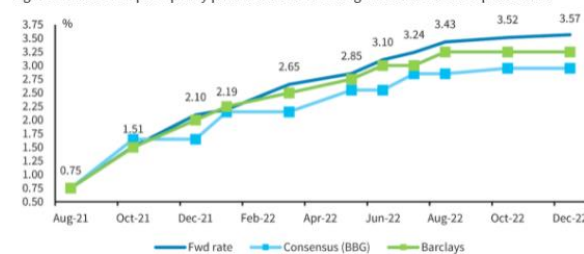


Figure 1. Camara implied policy path before the meeting was close to our expectations



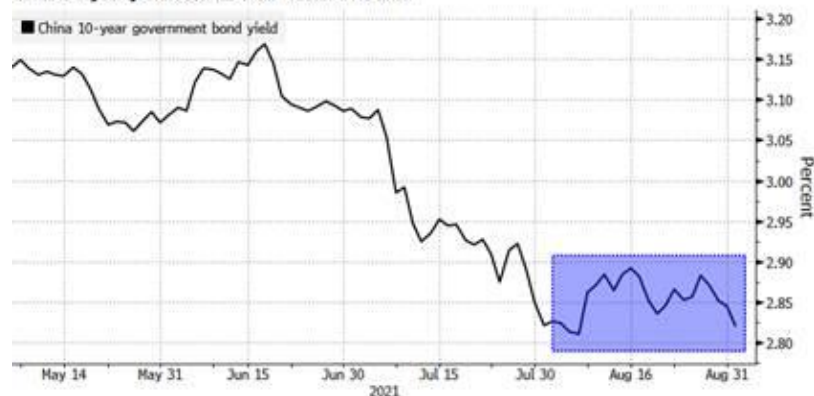
China

Government bond yields declined on speculation of monetary easing. Caixin manufacturing PMI (more oriented to exporters and small firms than official PMI) turned contractionary in August, as it dropped to 49.2 from 50.3 in July, weaker than expected (consensus: 50.1). Official PMIs (both manufacturing and non-manufacturing), released yesterday, also weakened in August. The People's Bank of China drained

interbank liquidity of 40 bn yuan (\$6.2 bn) after injecting some liquidity during the last week of August to help ease month-end liquidity pressures. Government bond yields dropped (10-year: -2.1 bps) as weak economic data prompted traders to speculate on monetary easing. **Reportedly, some large tech firms, including Didi Global, are helping their workers to establish labor unions.** The move came after Beijing imposed rules to curb excessive work and improve workers' protection. **Equities gained (CSI 300: +1.3%); RMB depreciated (-0.1%).**

Growth Concerns

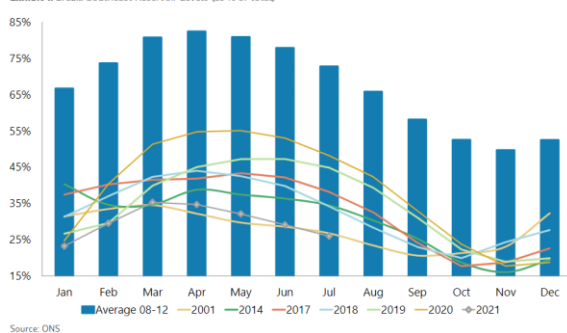
China 10-year yield declines after Caixin PMI miss



Brazil

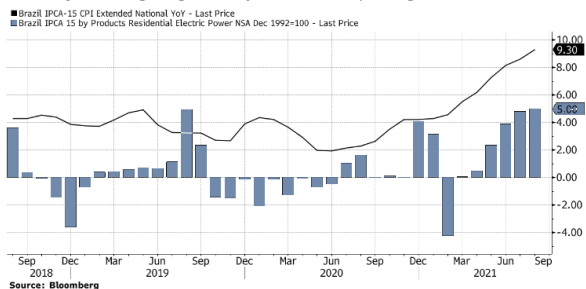
Analysts' 2021 inflation forecasts are rising further as electricity costs rise due to a severe drought that has depleted hydroelectric reservoirs. Given the current situation the national power regulator decided to create a new tariff flag, called "Hydro Scarcity", which will be the most expensive one, 50% above the previous one. On the back of the new tariff Morgan Stanley changed their inflation forecast for 2021 to 7.8% from 6.9%, Bank of America revised to 7.75% from 7% and JP Morgan to 7.5% from 7.1%. **On Tuesday, Bloomberg also reported that the latest 2022 budget proposal did little to dispel investor concerns about growing pressures for more public spending in an election year.** The 10-year DI futures rose by 28 bps on the day to 10.4%.

Exhibit 1: Brazil: Southeast Reservoir Levels (as % of total)



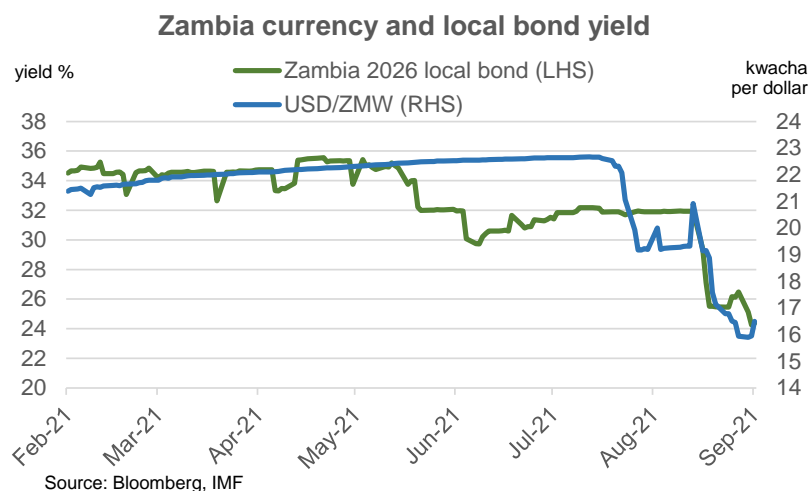
Costlier Energy

Electricity bills are getting more expensive in Brazil, fueling inflation



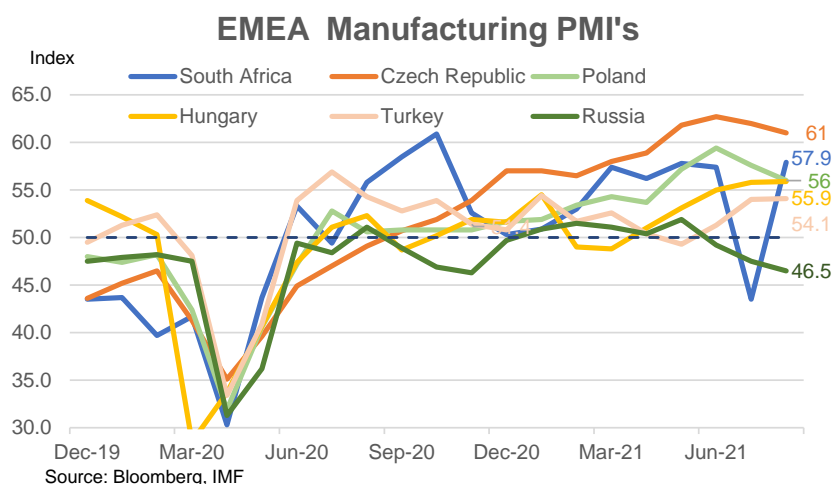
Zambia

The local fixed income market sees strong investor inflows on election results and IMF program expectations. The Zambian kwacha has appreciated 30% since mid-July while government local bond yields fell around 800 bps. Contact estimates for the local bond market inflows vary between \$150-500mn in August with a broader range of offshore investors entering the market since mid-July. Contacts note that the rapid positioning build-up creates some unease, but at this stage market liquidity is good and profit taking is generally matched by new investor interest. International bonds also see some profit taking this week as the new President Hichilema highlighted risk of previously unaccounted public debt.



EEMEA

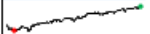

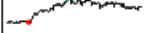








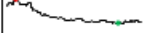
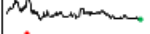




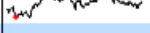
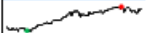

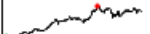



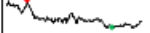



EEMEA manufacturing PMIs remained mostly in expansion territory in August. Russia was an exception with the activity gauge falling further to 46.5. South Africa PMI had a strong rebound to 57.9 from 43.5 in July (48 consensus) as the riot effects faded quicker than expected while some easing of lockdown measures also boosted business activity.



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), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (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.

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Global Financial Indicators

Last updated: 9/1/21 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4528	-0.1	1	3	28	21
Europe		4241	1.1	1	4	29	19
Japan		28451	1.3	3	2	22	4
China		3567	0.7	1	3	5	3
Asia Ex Japan		89	1.5	2	1	12	-1
Emerging Markets		52	1.4	2	2	16	1
Interest Rates							
			basis points				
US 10y Yield		1.32	0.8	-2	9	65	40
Germany 10y Yield		-0.36	2.3	6	10	6	21
Japan 10y Yield		0.03	0.6	1	1	-2	1
UK 10y Yield		0.72	1.0	13	16	43	53
Credit Spreads							
			basis points				
US Investment Grade		91	0.1	-1	2	-35	-4
US High Yield		321	-1.6	-8	-13	-184	-59
Europe IG		45	-0.2	-1	-2	-7	-3
Europe HY		227	-1.3	-5	-8	-85	-16
Exchange Rates							
			%				
USD/Majors		92.65	0.0	0	1	0	3
EUR/USD		1.18	0.1	0	0	-1	-3
USD/JPY		110.3	0.3	0	1	4	7
EM/USD		57.1	0.3	1	1	3	-1
Commodities							
			%				
Brent Crude Oil (\$/barrel)		72	0.3	-1	-6	58	39
Industrials Metals (index)		160	-1.5	1	-1	34	21
Agriculture (index)		57	-0.2	-1	0	49	19
Implied Volatility							
			%				
VIX Index (% change in pp)		16.1	-0.4	-0.7	-2.1	-10.0	-6.6
US 10y Swaption Volatility		73.4	0.0	-4.7	-2.8	18.2	13.3
Global FX Volatility		6.6	0.0	-0.1	-0.1	-2.6	-1.5
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		116	1.3	9	9	-41	-3
Italy		107	-1.9	-1	-1	-38	-4
Portugal		58	-1.0	-3	-5	-25	-2
Spain		71	-0.7	-1	-1	-10	10

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 9/1/2021 8:16 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		6.47	-0.1	0.1	0	6	1		3.0	0	0	-23	-26	
Indonesia		14283	-0.1	0.8	1	2	-2		6.1	-16	-17	-70	-2	
India		73	-0.1	1.6	2	0	0		6.4	-4	-9	13	44	
Philippines		50	-0.6	-0.4	0	-3	-4		4.3	0	-6	71	67	
Thailand		32	-0.3	1.5	2	-4	-7		1.6	-1	1	9	31	
Malaysia		4.15	0.0	1.2	2	0	-3		3.3	-1	5	82	75	
Argentina		98	0.0	-0.3	-1	-24	-14		46.3	67	129	112	-988	
Brazil		5.14	0.1	1.4	1	5	1		9.7	-4	79	414	408	
Chile		774	1.0	1.1	-1	0	-8		4.7	0	30	225	195	
Colombia		3777	1.0	2.4	3	-1	-9		6.8	-5	2	161	174	
Mexico		20.00	0.3	1.2	0	9	0		7.0	0	3	98	141	
Peru		4.1	-0.1	0.1	-1	-13	-12		6.1	-34	5	211	252	
Uruguay		42	0.1	1.1	3	0	0		7.9	0	-2	-23	65	
Hungary		294	0.4	0.6	2	2	1		2.5	17	29	83	101	
Poland		3.81	0.5	1.9	1	-3	-2		1.2	8	12	36	56	
Romania		4.2	0.1	0.3	-1	-3	-5		3.4	19	36	-11	66	
Russia		73.0	0.6	1.2	0	1	1		6.9	0	13	119	117	
South Africa		14.4	0.9	3.9	1	16	2		9.6	-10	-13	-54	-8	
Turkey		8.29	0.4	1.1	1	-11	-10		17.0	-25	-5	361	391	
US (DXY; 5y UST)		93	0.0	-0.2	1	0	3		0.78	-4	9	53	42	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		4869	-0.2	-1	-1	1	-7		217	-1	-4	-17	-12	
Indonesia		6091	-0.9	0	0	15	2		178	-3	-13	-56	-22	
India		57338	0.8	2	8	47	20		146	-2	-10	-71	-5	
Philippines		6786	0.0	2	5	18	-5		107	-4	-16	-39	-5	
Malaysia		1587	-0.9	2	6	3	-2		132	-4	-11	-43	-3	
Argentina		76452	0.2	7	16	64	49		1497	-35	-78	-602	141	
Brazil		118781	-0.8	-1	-2	16	0		286	-10	1	-37	27	
Chile		4492	0.0	1	6	20	8		142	0	-10	-44	-14	
Colombia		1320	-0.2	-1	7	5	-8		276	-9	-4	17	61	
Mexico		53305	1.3	3	5	42	21		347	-10	-10	-108	-10	
Peru		17654	1.2	4	0	-5	-15		171	-5	-22	8	42	
Hungary		51875	0.5	2	7	50	23		135	4	-8	-25	-14	
Poland		71202	1.0	2	5	40	25		29	-4	-6	-8	1	
Romania		12341	-1.0	1	4	37	26		183	0	-9	-86	-20	
Russia		3946	0.5	2	5	33	20		167	-1	-17	-48	-12	
South Africa		67067	0.0	-1	-3	20	13		345	-8	-3	-153	-39	
Turkey		1471	0.9	0	6	36	0		453	-13	-24	-157	6	
Ukraine		526	0.0	0	0	5	5		483	-23	-41	-149	-10	
EM total		52	0.7	2	2	16	1		350	-10	-18	-47	11	

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

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