



- **US payrolls rise more than expected** ([link](#))
- **Global money markets more correlated as G10 central banks in hiking mode** ([link](#))
- **Repricing of terminal Fed Funds likely to further weigh on US equities** ([link](#))
- **Survey shows that economists think ECB is behind the curve** ([link](#))
- **British pound at pandemic-lows as race for new PM closes** ([link](#))
- **European gas prices drop as maintenance on Nord Stream pipeline is set to end** ([link](#))
- **Zambian kwacha at pre-pandemic levels after IMF program announcement** ([link](#))
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Payrolls paint positive picture

This morning's US nonfarm payroll data for August came in slightly higher than expected at 315k (298k consensus). Despite that, the unemployment rate rose to 3.7% from 3.5% as the participation rate rose by 0.3 pp to a post-pandemic high of 62.4%. Combined with lower than expected wage growth at 0.3% (0.4% consensus), the release indicates some easing of labor shortages. Markets are not pricing any significant change in expectations for this month's FOMC meeting, with a 75 bps hike still seen as the most likely outcome. Ahead of payrolls, risk assets were already on the rise, with European equities up 1%. European gas prices are sharply lower this morning as supply from Russia is expected to resume tomorrow after maintenance work on the Nord Stream pipeline is expected to end. In the UK, the sterling is hovering near its post-pandemic lows as the race to select the next Prime Minister comes to a close today. In emerging markets, the Zambian kwacha rose 3% yesterday after the IMF approved a 38 month ECF.

Key Global Financial Indicators

Last updated: 9/2/22 8:33 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3967	0.3	-6	-3	-13	-17	-6
Eurostoxx 50		3479	0.7	-3	-6	-18	-19	-12
Nikkei 225		27651	0.0	-3	-2	-5	-4	5
MSCI EM		39	-0.8	-4	-1	-26	-20	-18
Yields and Spreads			bps					
US 10y Yield		3.23	-2.0	19	48	195	172	124
Germany 10y Yield		1.57	0.9	18	75	196	175	134
EMBIG Sovereign Spread		509	8	22	-22	168	142	96
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.0	0.1	0	-1	-12	-5	-6
Dollar index, (+) = \$ appreciation		109.4	-0.3	1	3	19	14	14
Brent Crude Oil (\$/barrel)		93.8	1.6	-7	-7	28	21	-3
VIX Index (% change in pp)		25.4	-0.2	0	1	9	8	-6

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

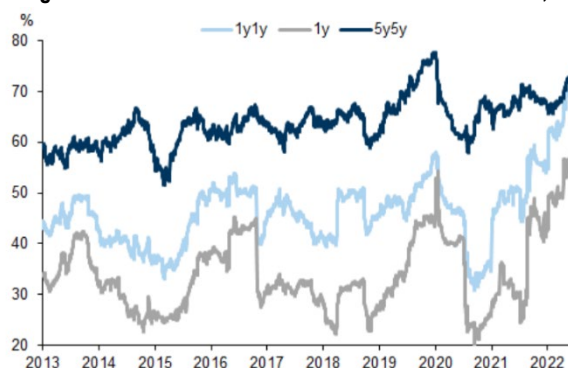
Mature Markets

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G10 central banks in hike mode prompt global short-term interest rates to be more correlated.

Historically, a strong international correlation of longer-term yields is a well-known empirical observation. It has been driven by term premia, whereby the co-movement reflected free flow of capital and investors' hunt for yield. As G10 central banks increasingly synchronize monetary policy tightening amid persistent inflation, Goldman Sachs analysts are noting that shorter-term yields have become increasingly correlated (see left chart below). (see right chart below).

Rising co-movement of G10 rates at short maturities,...

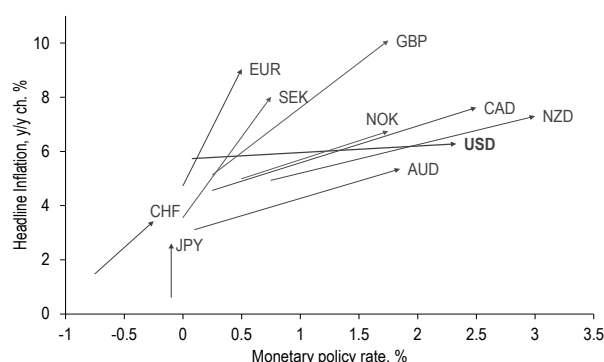


*AUD and NZD changes lagged 1 day

Note: Portion of variance in G10 ex-Japan daily swap rate changes* explained by the first common factor; 6m rolling

Source: Goldman Sachs

...mirroring G10 central banks' transition into hiking mode.



Note: Arrow shows changes in monetary policy interest rate and headline inflation from December 31st 2021 to the latest available figure as at August 31st 2022 (considering publication lag)

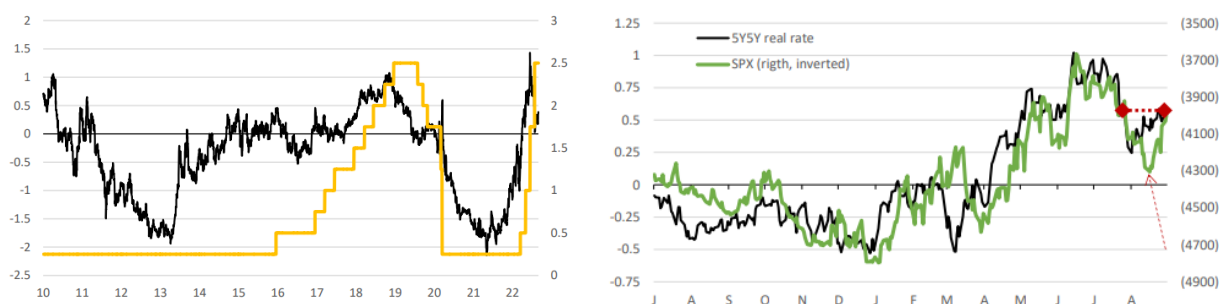
Source: IMF Staff calculations, Bloomberg, JP Morgan

United States

In data releases this morning, the August US employment report showed the unemployment rate rising and the monthly pace of average hourly earnings to decelerate. The monthly pace of average hourly earnings decelerated to 0.3% m/m (vs. 0.4% exp). Nonfarm payroll employment increased by 315k, broadly in line with a consensus estimate for a 298k gain. In reaction, US equity futures increased by +0.7% while the longer end of the Treasury curve reacted with 10yr Treasuries increasing by 2 bps while 2yr Treasury yields fractionally decreased, prompting the 2y10y curve to become less inverted to -21 bps. In anticipation of a less hawkish Fed reaction, foreign currency markets saw the dollar marginally depreciating against majors.

A repricing of the terminal Fed Funds rate likely to further weigh on US stocks. Jackson Hole's hawkish tone underscored the Fed's commitment to higher real interest rates. The memory of the market reaction in June, when rising real interest rates triggered a sell-off in US stocks, is seen by some market participants as a harbinger that investors might need to expect more pain in the coming months. Deutsche Bank analysts take as a proxy for the terminal real rate the 1y real rate 2 years from now (2y1y real forward rate) and compare it to the previous Fed rate hike cycle (see left chart below). Notably, the current 0.66% reading of the real terminal rate proxy is still far from the 1.0% peak that it had reached by the end of 2018 and surpassed in June. As the S&P500 recovered from its June lows of 3700 points, reaching 4000 points by mid-July, the rally in real rates slowed and equities continued to recover, towards 4300, on midsummer momentum. However, as of recent, a turnaround in real rates quickly reestablished its dominance, pulling equities back towards the levels implied by real rates, around 4000 (see right chart below).

Terminal real rates still far from 2018 levels... ... which is a headwind for the S&P 500.



Notes: left hand side: black line 2y1y forwards (real) right hand side: yellow line Effective Fed Funds (nominal),

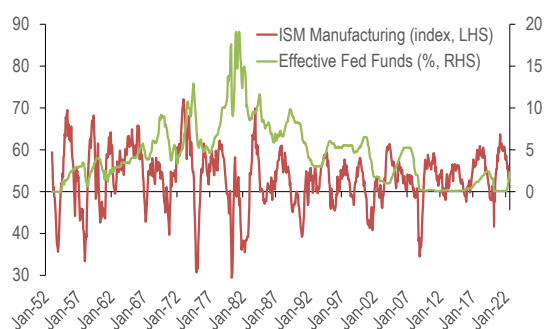
Source: Deutsche Bank

Source: Deutsche Bank

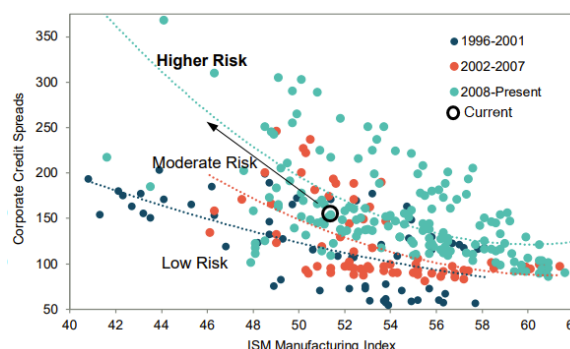
Credit markets to suffer more as resilient PMI data portends Fed to remain restrictive for longer.

Yesterday's upside surprise of the ISM Manufacturing printing 52.8 (vs. 51.9 exp.) left market participants pondering by how much a Fed monetary policy tightening has dragged the ISM manufacturing indicator in past hiking cycles. Since the mid-1950s, hiking cycles have typically coincided with an ISM manufacturing indicator falling below 45, reflecting tightening monetary policy that was appropriately slowing real economic growth (left chart below). Aside from a changing Fed reaction function over time, some analysts see this as a sign that the Fed may need to remain hawkish longer than what has been anticipated so far in market pricing. For example, an ISM Manufacturing reading of less than 45 could imply that aggregate IG credit spreads widen to over 250 bps from a current level of 165 bps (right chart below).

Past Fed rate hike cycles often coincided with an ISM Manufacturing PMI falling below 45... ... which could prompt financial conditions in IG corporate bond markets to further tighten.



Source: IMF Staff Calculations, Bloomberg



Source: Trahan Macro Research

Euro Area

As markets participants are focused on US payrolls later today and the ECB rate decision next week, European markets perked up this morning, after a week dominated by risk-off sentiment. Equities are up, with the Stoxx Europe 600 gaining 0.6%, and Germany registering a strong gain at 1.4%. The euro remains around parity and is up 0.6% against the dollar. Although 10y bund yields are up 4 bps to 1.59%, Italian spreads are down 2 bps to 234 bps. As the leadership contest for the Prime Minister position closes in the UK, the equity market is gaining 0.7% and the pound is broadly flat to the US dollar, after a difficult week. Yields on 10y gilts are up 3 bps to 2.9%. European gas prices, one of the major drivers in markets

this week, are down 14% today as gas supply from Russia is expected to resume tomorrow when maintenance works on the Nord Stream pipeline ends. Next week, focus will be on the ECB rate decision on Thursday, with no major data release expected until then, with the exception of German July industrial production figures, which will provide clues as to whether the German economy will contract in 3Q.

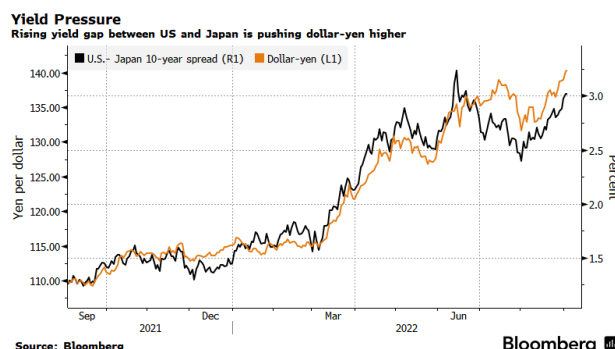
As the ECB meeting approaches, a Bloomberg survey of 31 economists conducted August 26 to September 1 shows that 72% of respondents thought that the ECB is behind the curve in its monetary policy. Median expectations are for a 75 bps rate hike in September, 25 bps in October and 50 bps in December (to 1.5%) and on hold thereafter. While 64% of respondents said that they expect the ECB to use the Transmission Protection Instrument (TPI), its new anti-fragmentation tool, at some point in the future, there was no consensus as to when that might happen. Most respondents expect the ECB to start discussing quantitative tightening in Q4 or Q1.

The British pound is hovering around its March 2020 lows against the dollar (1.15\$/pound) as the race to choose the UK's next Prime Minister closes today, after 8 weeks of campaigning following the resignation of Boris Johnson in July. The votes of about 170,000 conservative party members will be tallied this weekend, and the name of the new Prime Minister will be announced on Monday. Liz Truss, currently the foreign secretary, is expected to win against Rishi Sunak, the former chancellor of the exchequer. With the BOE forecasting a long recession stretching into 2024 and inflation remaining elevated well into next year, the campaign was focused on how to address the cost of living crisis in the UK, tax policy, sovereign borrowing, the BOE mandate, and Brexit. Liz Truss' plans include tax cuts and has promised to reverse the rise in national insurance tax and scrap the increased in corporate tax from 19% to 25% planned for next April. She has also criticized the Bank of England for its slowness to raise interest rates and its apparent reluctance to promote competitiveness as well as financial stability and has stepped up calls for a review of the central bank's mandate and did mention the possibility of widening the target to include a measure of money supply or nominal gross domestic product.

European gas prices are down 14% today as gas supply from Russia is expected to resume tomorrow when maintenance works on the Nord Stream pipeline ends. Flows are expected to restart from 2 a.m. on Saturday at 20% of normal capacity, the same level as before the maintenance works. However, the market is nervous about more halts in gas supply this winter as Gazprom has said the only functioning turbine at Nord Stream's entry point must undergo technical maintenance every 1,000 hours (about every 42 days, with the next checks due in mid-October). Normally, the pipeline uses six major turbines and two smaller ones, but this summer most of the equipment was put out of service as Gazprom says that international sanctions disrupted maintenance and repairs.

Japan

The yen depreciated (-0.1%), breaching a key psychological level at 140 per dollar. Analysts noted that the recent depreciation was driven by the growing divergence of interest rate differentials. Option traders are increasingly betting for further depreciation of the yen. Meanwhile, Finance Minister Suzuki ramped up verbal interventions, noting that it is important for the exchange rate to remain stable and in line with fundamentals. The government will continue monitoring the situation with a high sense of urgency. Long-end JGB yields were mixed (10-year: -0.2 bp; 30-year: +4.0 bps), with the 10-year yield at 0.235%. Japanese equities were little changed (based on NIKKEI).



Emerging Markets

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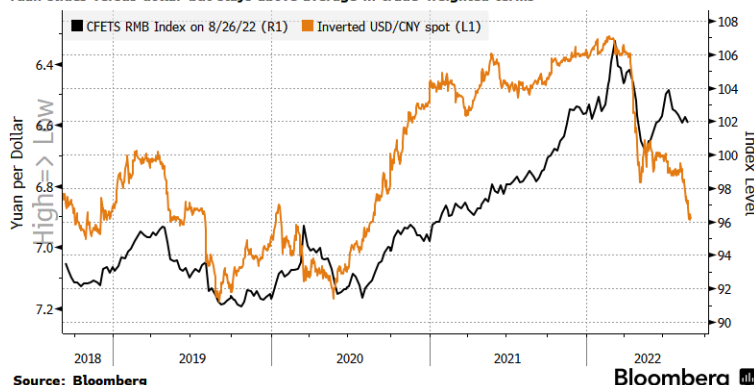
Asian equities were mixed today, falling 0.9% on net. Taiwan (-0.9%), Hong Kong (-0.7%) and Chinese (CSI 300: -0.5%) declined, while share prices rose in the Philippines (+1.6%). Most Asian currencies depreciated, led by the Philippine peso (-0.6%). Analysts noted that depreciation pressure on the Philippine peso will likely force the Philippines' central bank to hike interest rates more aggressively. Long-end government bond yields generally increased, with the 10-year rising in Thailand (+12 bps), Philippines (+5 bps), and Taiwan Province of China (+5 bps), following the rise in U.S. treasury yields. **EMEA equities gained after yesterday's sell-off** and ahead of US jobs data later today. Equities rose in Poland (+1.6%), Hungary (+0.6%) and South Africa (+0.6%). Currencies were mixed with the Hungarian forint (+0.7%) outperforming. Prices of frontier Eurobonds edged higher after some dropped 3–4 points this week. **LatAm currencies saw another day of decline**, with the Brazilian real (-1.1%) and the Colombian peso (-1.3%) depreciating the most against the US dollar, while other major currencies closed marginally weaker. Most regional equity markets were down, with the exception of Mexico (+1%) and Brazil (+0.8%) which saw some recovery from the losses in the last few trading sessions.

China

Chinese equities declined (CSI 300: -0.5%; Hong Kong SAR-listed: -1.0%) as economic disruptions due to COVID-related restrictions and lockdowns dampened market sentiment. RMB was little changed as the People's Bank of China (PBC) continued to set the daily fixing stronger than expected (today: 245 pips). Analysts viewed that the RMB (currently at 6.91 yuan per dollar) will likely depreciate past the level of 7 per dollar, noting that even at the level, RMB would still remain relatively strong against its peers. Analysts noted that the PBC would aim to moderate the speed of depreciation rather than defend the currency against a certain level. CGB yields were mixed (1-year: -1 bp; 10-year: +1 bp). Interbank liquidity remained flush, with the key interbank repo rate (DR007) at 1.43% well below the policy rate at 2.0%.

Different Measures

Yuan slides versus dollar but stays above average in trade-weighted terms



Brazil

2Q2022 GDP growth beats market expectations at 3.2% y/y (1.2% sequentially) against the consensus estimates of 2.8% y/y. The quarter saw private consumption grow by 5.3% y/y, while government consumption (0.7% y/y) was little changed and exports (-4.8% y/y) declined. The growth in 2Q2022 consumption was driven by withdrawal from pension accounts, expectations of bonuses to retirees and a rebound in the labor market. Analysts believe, these factors in addition to the recent fiscal package will continue to fuel consumption in 3Q2022 before eventually exhausting by the end of the year. Hence, analysts have revised their 2022 GDP growth estimates upwards (30 bps by Morgan Stanley to 2.5%). On the flip side, however, increased demand is also expected to fuel already high inflation. The central bank of Brazil has already hiked its target policy rate by 11.75 percentage points since March 2021.

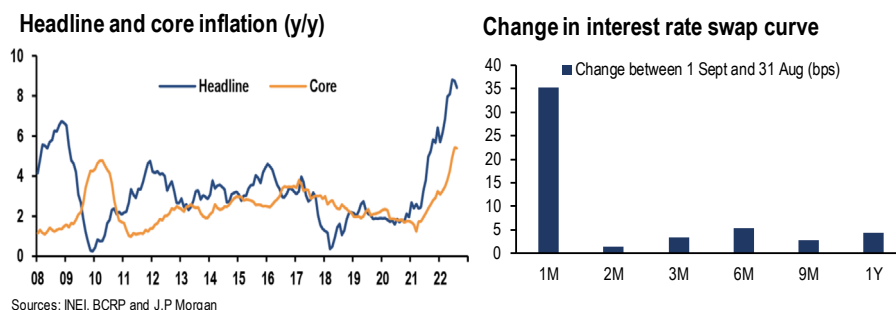
Exhibit 3: Brazil: Old/New MS Forecasts (%)

	2022	
	Old	New
GDP	2.2	2.5
Private Consumption	2.4	3.1
GFCF	-1.3	-1.1
Government Consumption	2.0	1.6
Exports	3.2	2.0
Imports	-3.1	-3.3

Source: Morgan Stanley Latam Economics

Peru

August inflation printed at 8.74% y/y and 0.67% sequentially, which, while showing deceleration from June and July levels, is still higher than street estimates (0.55% m/m). Food prices continued to be the main driver (1.7% m/m), while fuel prices started to cool on a sequential basis (-0.9% m/m). Given the persistence in headline inflation exhibited in the August print, analysts believe, the central bank of Peru could announce a higher than previously expected policy rate hike (25 bps) in its meeting next week.

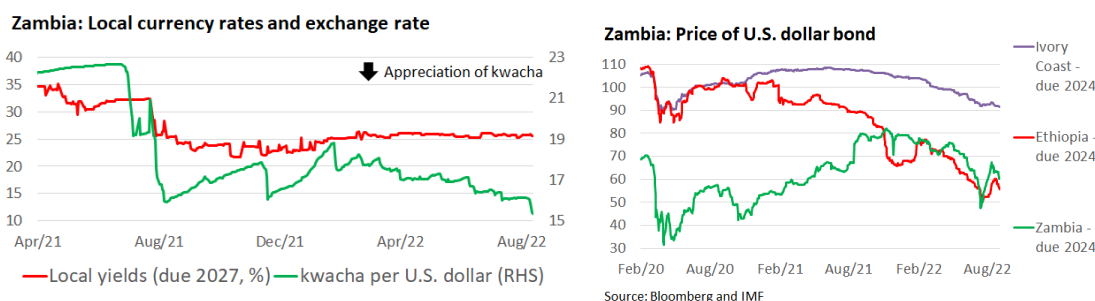


South Africa

US federal prosecutors have charged Neil Phillips, a hedge fund manager, with conspiracy to commit commodities and wire fraud over a plan to manipulate the South African rand in 2017 to trigger a \$20 mn payment on an option. The option was reportedly bought in late October 2017 and would pay out a notional value of \$20 mn if the rand strengthened to 12.50 rand per U.S. dollar before the option expired in early 2018.

Zambia

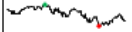














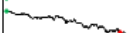

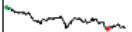
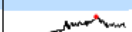


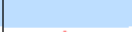



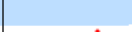
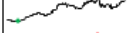

The kwacha gained 3% yesterday as the IMF Board approves the SDR 978.2 mn (about US\$1.3 bn) 38-month ECF arrangement. Eurobond prices have edged a couple of points lower in recent days as frontier investors are closely following the restructuring in Zambia with some contacts arguing that the restructuring could have wider implications for the asset class.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Senior Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Senior Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the 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

9/2/22 8:33 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3977	0.3	-2	-3	-12	-17	-6
Europe		3479	0.7	-3	-6	-18	-19	-12
Japan		27651	0.0	-3	-2	-5	-4	5
China		4024	-0.5	-2	-3	-17	-19	-13
Asia Ex Japan		66	-0.8	-3	-1	-26	-20	-16
Emerging Markets		39	-0.8	-4	-1	-26	-20	-18
Interest Rates			basis points					
US 10y Yield		3.23	-2.0	19	48	195	172	124
Germany 10y Yield		1.57	0.9	18	75	196	175	134
Japan 10y Yield		0.24	-0.1	2	7	21	17	4
UK 10y Yield		2.90	2.2	30	103	222	193	142
Credit Spreads			basis points					
US Investment Grade		165	0.0	7	-1	74	53	22
US High Yield		524	4.7	41	42	207	186	117
Europe IG		117	-3.0	4	12	72	69	45
Europe HY		570	-16.1	10	40	343	328	218
Exchange Rates			%					
USD/Majors		109.38	-0.3	1	3	19	14	14
EUR/USD		1.00	0.7	0	-1	-16	-12	-11
USD/JPY		140.2	0.0	2	5	28	22	22
EM/USD		50.0	0.1	0	-1	-12	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		94	1.6	-5	-5	38	27	8
Industrials Metals (index)		146	-0.8	-8	-5	-9	-16	-22
Agriculture (index)		68	1.0	-2	6	20	12	-3
Implied Volatility			%					
VIX Index (% change in pp)		25.4	-0.2	-0.2	1.4	9.0	8.2	-5.6
US 10y Swaption Volatility		127.7	-0.5	4.9	3.6	58.8	48.7	33.4
Global FX Volatility		11.3	0.0	0.6	0.4	4.8	3.9	3.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		269	4.2	11	53	155	118	29
Italy		236	-0.9	5	11	130	101	64
Portugal		109	-0.5	-1	2	50	45	17
Spain		120	-0.8	-1	5	50	45	16

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 9/2/2022 8:34 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.91	0.0	-0.5	-2	-7	-8	-9		2.7	0.8	-4	-9	-23	-13	-14
Indonesia		14896	-0.1	-0.5	0	-4	-4	-4		7.1	0.9	8	-8	105	76	65
India		80	-0.3	0.1	-1	-8	-7	-7		7.6	-0.8	5	31	104.6	125	
Philippines		57	-0.6	-1.3	-2	-12	-10	-10		5.4	-12.5	3	-8	158	88	38
Thailand		37	0.3	-1.4	-1	-11	-9	-12		2.8	-3.5	24	49	119	94	57
Malaysia		4.49	-0.1	-0.4	-1	-7	-7	-7		4.0	1.5	6	13	82	43	35
Argentina		139	-0.2	-1.2	-5	-30	-26	-23		77.9	63.6	107	1117	3152	2733	2994
Brazil		5.19	0.9	-2.5	2	0	7	-4		11.9	-0.7	-18	-98	111	122	38
Chile		898	-0.3	-0.6	1	-14	-5	-12		6.5	0.0	-13	-3	182	111	62
Colombia		4486	-1.3	-2.1	-5	-16	-9	-13		9.6	0.0	15	88	367	317	171
Mexico		20.06	0.7	-0.1	4	0	2	1		8.8	7.0	23	73	189	128	96
Peru		3.9	-0.4	-0.5	1	6	3	-3		8.1	2.8	19	14	187	223	214
Uruguay		41	-0.1	-1.4	0	4	9	4		11.3	10.3	45	33	340	258	315
Hungary		397	1.7	3.9	-1	-26	-18	-20		9.6	8.0	25	132	663	504	474
Poland		4.69	1.1	1.3	-1	-19	-14	-14		6.2	-5.5	-6	89	432	267	230
Romania		4.8	0.9	1.3	0	-14	-10	-9		7.7	4.8	-16	-36	430	291	258
Russia		60.6	-0.8	-0.1	0	20	24	35		8.3	0.0	0	5	97	-52	-293
South Africa		17.2	0.3	-2.0	-2	-16	-7	-12		9.0	-9.0	22	23	191	160	144
Turkey		18.22	-0.1	-0.3	-1	-55	-27	-24		13.0	0.0	-37	-469	-405	-1133	-943
US (DXY, 5y UST)		109	-0.3	0.5	3	19	14	14		3.37	-2.6	17	52	261	211	147

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
									basis points							
China		4024	-0.5	-2	-3	-17	-19	-13		203	-8	-19	-13	0	-5	
Indonesia		7177	0.3	1	1	17	9	4		180	5	-28	1	15	-5	
India		58803	0.1	0	1	1	1	3		157	1	-35	9	25	3	
Philippines		6693	1.6	0	4	-3	-6	-9		133	10	-13	23	32	-4	
Thailand		1622	0.0	-1	1	-2	-2	-4		0	0	0	0	0	0	
Malaysia		1491	-0.1	0	-1	-6	-5	-6		96	-15	-44	-36	-21	-37	
Argentina		136302	0.0	-5	15	81	63	49		2405	76	-5	927	725	668	
Brazil		110405	0.8	-3	7	-5	5	-1		307	-2	-29	21	-4	-24	
Chile		5408	-0.6	-1	3	22	26	24		190	13	12	47	50	16	
Colombia		1224	-0.4	-6	-4	-8	-13	-19		425	23	10	150	77	33	
Mexico		45384	1.0	-5	-3	-13	-15	-12		424	25	-4	74	92	54	
Peru		18446	-2.2	-6	-5	5	-13	-21		195	9	0	24	45	5	
Hungary		41747	0.7	-4	-1	-19	-18	-13		272	42	57	138	148	119	
Poland		48926	0.9	-6	-11	-32	-29	-22		31	19	30	6	-1	15	
Romania		11818	-0.4	-4	-5	-4	-10	-10		295	10	-20	111	102	63	
Russia		2467	0.9	9	15	-38	-35	-20		3411	-577	938	3228	3234	2897	
South Africa		66277	0.4	-6	-3	-1	-10	-12		457	37	18	115	102	68	
Turkey		3190	1.5	2	20	116	72	58		666	36	-43	211	88	103	
Ukraine		519	0.0	0	0	-1	-1	0		3851	442	-2686	3373	3092	2378	
EM total		39	0.3	-4	-1	-26	-20	-18		441	24	-5	91	54	-17	

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

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