



- US speculative grade default rate expected to decline further as economy recovers ([link](#))
- Euro area yields move sharply higher ([link](#))
- Chinese tech shares fall further amid weak earnings and regulatory uncertainty ([link](#))
- Bank of Korea raises policy rate 25 bps in a bid to correct financial imbalances ([link](#))
- Foreign flows to Russian assets pick up pace as inflation seen as slowing ([link](#))

[Mature Markets](#)











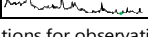
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Markets trade cautiously ahead of Jackson Hole meeting

While risk assets had been reversing last week's delta variant-related selloff so far this week, most major equity indices are slightly lower this morning alongside bond yields near two-week highs. Yesterday's modest risk-on momentum failed to carry overnight to Asia with markets in the region continuing to struggle as concerns over China's ongoing regulatory crackdown came back into focus. European bourses are also trading moderately lower. In the US, stocks advanced for the fifth consecutive trading session yesterday, lifting the S&P 500 to a new record. Cyclical strength has led the latest phase of the rally, with the energy sector driving gains as oil prices continued to recover. Although trimming gains this morning, Brent crude prices are up 8% over the past week and are leading the broader commodity complex higher. Reports of Congressional progress on a new US fiscal package has also boosted the pro-cyclical shift. In addition, financial stocks have outperformed as advanced economy government bond yields have continued to rise as markets consider the potential pace of Fed and ECB tapering over the coming months. Yields are approaching local highs from early-August with 10-year US Treasury yields at 1.35% and German bund yields back up to -0.41%. Investors are looking to the start of the Fed's Jackson Hole symposium and awaiting any further guidance on the outlook for the economy and monetary policy.

Key Global Financial Indicators

Last updated: 8/26/21 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4496	0.2	2	2	29	20
Eurostoxx 50		4164	-0.4	1	1	24	17
Nikkei 225		27742	0.1	2	-1	20	1
MSCI EM		51	0.1	2	0	13	0
Yields and Spreads			bps				
US 10y Yield		1.35	1.5	11	6	67	44
Germany 10y Yield		-0.41	1.4	8	1	1	16
EMBIG Sovereign Spread		343	-5	-10	-10	-76	-8
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.3	0.0	1	0	3	-3
Dollar index, (+) = \$ appreciation		92.9	0.1	-1	0	0	3
Brent Crude Oil (\$/barrel)		71.6	-0.9	8	-4	57	38
VIX Index (% change in pp)		17.3	0.5	-4	0	-6	-5

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

Mature Markets

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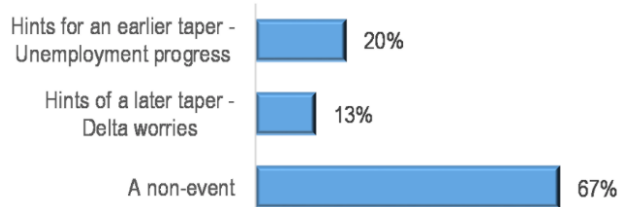
United States

Yesterday, US equity indices posted modest gains and remained at record-high levels amid low trading volumes. The financial and energy sectors led the gains. US Treasury 10-year yields rose by 5 bps, mostly due to increasing breakeven inflation. The US Treasury 2s10s yield curve steepened to its highest level in almost two weeks. Data releases this morning were slightly worse than expected. Initial jobless claims rose to 353k from 349k the previous week and came in slightly higher than forecast (consensus 350k); continuing claims recorded 2862k versus expected 2772k. The second read on Q2 US GDP was revised up from 6.5% to 6.6%, coming in just below expectations of 6.7%. Markets were little changed following the data releases with S&P 500 futures pointing to a small decline at the open.

The interim results of a JPMorgan survey show that most analysts expect the speech by Fed Chair Powell at Jackson Hole this Friday to not include additional specificity on the timing of tapering. JPMorgan analysts point out that the decision about when to begin tapering rests with the FOMC, not the Fed Chair. However, as the speech will be delivered during an academic conference “Macroeconomic Policy in an Uneven Economy”, the format of the conference gives Powell an opportunity to elaborate on the Fed’s broad-based and inclusive employment objective and explicitly address the distinction between tapering and raising policy rates.

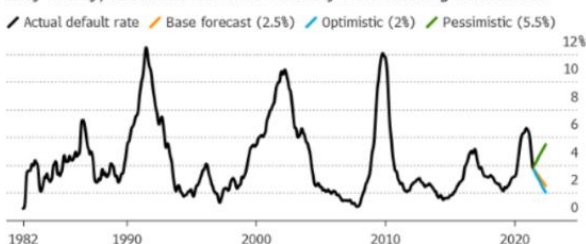
Figure 4: What do you expect for Jackson Hole?

Source: J.P. Morgan.



S&P Global Ratings expects the U.S. speculative-grade corporate default rate to fall to 2.5% by the middle of next year (on a trailing 12-month basis). In the optimistic scenario, the default rate will fall to 2%, which would be the lowest level of defaults since 2015. Most borrowers are now able to cover debt payments amid favorable financing conditions as well as better operating conditions in the recovering economy. However, S&P analysts expect the recovery in speculative-grade issuer credit quality to lag the overall economic recovery. It also notes that companies are not paying down enough debt accumulated through the pandemic, with some instead favoring shareholders payouts with dividends and buybacks.

Easy money, continued economic recovery seen crushing default rate



Source: S&P Global Ratings Research, S&P Global Market Intelligence CreditPro
Note: Series is trailing-12-month defaults for U.S. speculative-grade companies

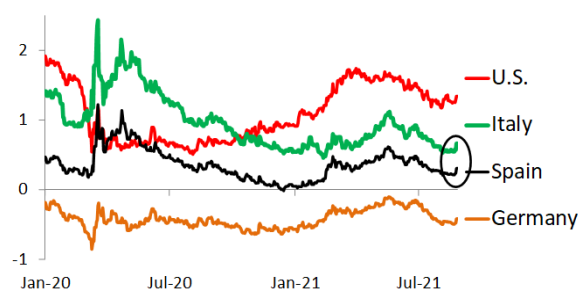
Bloomberg

Euro area

Equities (-0.7%) traded lower whereas core rates and the euro were little changed today.

European yields are little changed this morning after closing sharply higher yesterday. 10-yr Italian yields closed 9 bps higher compared to 7 bps for 10-yr Spanish yield and 6 bps for 10-yr German bunds. 10-yr Greek bond yields are 5 bps higher today.

Euro area: 10-yr interest rates (%)



Source: Bloomberg and IMF

Contacts attribute yesterday's sell-off in euro area bonds to several factors such as the unwind of carry trades ahead of Chair Powell's speech at Jackson Hole, increased concerns about higher-than-expected issuance in 2022-23, less liquid markets in summer trading and comments by ECB officials. Contacts argue that the ECB chief economist Lane sounded more hawkish than expected when he said that the economic impact of the delta variant has been quite limited so far. Nevertheless, analysts also believe that Lane will support an increase in the ECB's regular APP QE purchases from March 2022 onwards, albeit not with the flexibility of the pandemic PEPP QE program. **The ECB chief economist also emphasized that the ECB is not a passive bystander and will respond if there are spillovers to euro-area financing conditions from Fed tapering.**

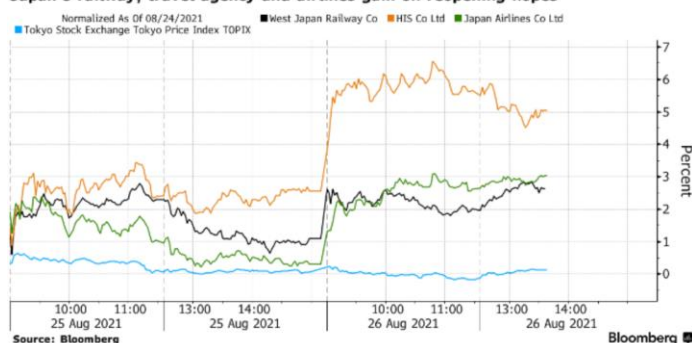
A Spiegel poll shows that the German SPD party has gained 3 ppt and is now tied with CDU/CSU (-1pp) at 22% (with the Green Party at 18% (-2pp), FDP 12% (unchanged), and AfD 12% (+1ppt)).

Euro area private sector credit growth came in at 3% y/y, as credit to households accelerated (from 4% to 4.2% y/y), while credit to non-financial corporations eased (from 1.8% to 1.7% y/y). Analysts at Citi argue that slowing credit growth to corporates reflects base effects and the withdrawal of government-supported measures, rather than slowing demand for new loans. Euro area banks are still reporting increasing credit demand from businesses and households. M3 money growth slowed to 7.6% y/y (as expected) vs. 8.3% in June.

Japan

Equities were broadly flat while travel stocks posted gains on a possible vaccine certificate plan. On Wednesday, Japan expanded its state of emergency, scheduled to expire on September 12, to cover more than 70% of the population and about 80% of the economy. Public officials, however, floated the use of vaccine certificates to support the economy once the emergency is lifted. Yields were unchanged, **the yen weakened -0.2%.**

Japan's railway, travel agency and airlines gain on reopening hopes



Source: Bloomberg

Bloomberg

Emerging Markets

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Latin American equities advanced, except for Peruvian stocks which fell 0.4% after rallying over the last two days. Brazil's real strengthened (+0.6%), while the Mexican and Chilean pesos depreciated by 0.2% each. An acceleration in Brazil's mid-month inflation rate prints (August 9.3% y/y vs. 8.6% in July) corroborated the inflationary trend reported on earlier this week. The Bolivian parliament approved yesterday a law allowing citizens to withdraw up to 15% from private pension funds. **Asian stocks dropped -0.7% on net.** China (Shanghai -1.1%, Shenzhen -1.5%) followed by Hong Kong (-1.3%) were leading the losses as Chinese technology shares fell sharply, followed by Indonesia (-1.1%). **Regional currencies were mixed.** Malaysian ringgit outperformed (+0.3%), Korean won weakened (-0.3) after initial gains in reaction to a policy rate hike by the central bank. **EMEA equity were mostly trading lower** with indices down in Russia (-0.9%) and South Africa (-0.6%) while the Turkish benchmark outperformed (+0.5%). EMEA currencies were unchanged, apart from the South African rand (+0.3%) and Hungarian forint (-0.2%).

China

China will strive to complete major economic and social development targets set for this year. In a front-page article in the People's Daily Thursday, President Xi Jinping said China should push for high-quality development and better coordinated policies around development and safety. Local governments should strengthen the construction of rural infrastructure and public service systems, fill the gaps in public health services, and promote a healthy and environmentally friendly lifestyle, he said according to Bloomberg. The comments come amid signs that China's V-shaped economic recovery is slowing as sentiment is weighed by a broader regulatory overhaul of key sectors including education, technology, and property. Separately, **China's bond futures slid the most in two weeks amid concerns over wealth management rules**, Bloomberg reported. Chinese authorities recently summoned banks and outlined more specific requirement on methods for valuing banks' wealth management products, in addition the deadline for disposing of certain nonstandard credit and equity assets was shortened to 3Q 2022, according to Caixin Global. **China stock market closed lower (Shanghai -1.1%, Shenzhen -1.5%) amid a selloff in tech stocks as earnings from a number of firms failed to meet targets and regulatory uncertainty lingers.** The yield curve shifted marginally higher, and the renminbi weakened -0.1%.

China Slows More Than Expected



Korea

Bank of Korea (BOK) raised its interest rate by 25 bps to 0.75%. The central bank indicated that financial risks pose a bigger threat to the economy than the latest virus outbreak. Governor Lee Ju-yeol said the hike to 0.75% still left rates in an accommodative position that supports the economy, Bloomberg quotes. He also said that policy adjustments over the coming months would be gradual, with the timing of the next move considering virus developments, financial imbalances and moves by other central banks. The BOK raised its 2021 CPI inflation forecast to 2.1% from 1.8% (above 2% inflation target) and 2022 inflation forecast to 1.5% from 1.4% earlier. Growth outlook remained unchanged at 4.0% for 2021 and at 3% for 2022. Market expectations point to further rate hikes later this year. **Korean won weakened -0.3% after**

initial gains, equity market lost -0.6%, 10-year bond yield was unchanged.



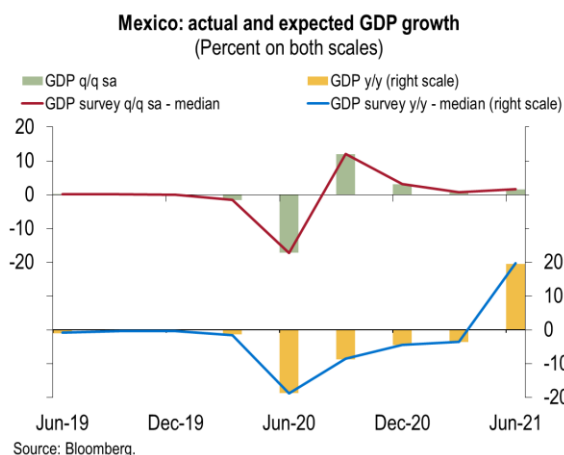
Russia

The local government bond market saw a pick-up in foreign investor inflows in July. Holdings of domestic bonds by foreigners increase by RUB 172bn (\$2.3bn) over the month with contacts noting that positive sentiment among investors has generally prevailed also in August. **Contacts note that the investment case is supported by the perception of slowing inflation but also the credible policy response by Central Bank of Russia, which is supporting the appetite for longer-term bonds.** Higher oil prices, which are expected to translate into lower budget deficits and hence bond issuance, are also a key driver. Finally, after the last round of the US sanctions, new geopolitical escalation is no longer seen as imminent. The Russian Finance Ministry has seen healthy demand in its primary bond auctions even as it has been targeting more longer-dated fixed rate instruments.



Mexico




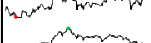


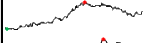


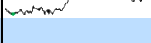


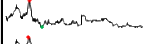








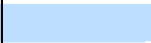



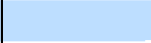


Second quarter GDP growth came in slightly below expectations, raising concerns about downside risks to the growth outlook. Mexico's second quarter 2021 GDP growth print of 19.6% y/y, 10 bps below market consensus, was dominated by base effects due to a rapid contraction in Q2 2020 as strict social distancing kicked in. June's monthly economic activity index indicated a growth of 13.2% y/y, below the 13.8% expected by market consensus and the 25.1% observed in May. Both prints indicate a recovery, but a resurging pandemic and soft growth in manufacturing as supply disruptions continue have led to some worries around the resilience of the economic recovery. J.P. Morgan analysts reduced their growth projection for the year 2021 from 6.9% to 6.5%. The peso weakened over the day and the local currency treasury yield flattened, with yields around 2 bps higher at the short end and 1 bps lower at the long end. Stocks remained undeterred, registering a gain of 0.7%.



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: 8/26/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4495	0.2	2	2	29	20
Europe		4164	-0.4	1	1	24	17
Japan		27742	0.1	2	-1	20	1
China		3502	-1.1	1	4	5	1
Asia Ex Japan		87	0.0	2	-1	10	-3
Emerging Markets		51	0.1	2	0	13	0
Interest Rates			basis points				
US 10y Yield		1.35	1.5	11	6	67	44
Germany 10y Yield		-0.41	1.4	8	1	1	16
Japan 10y Yield		0.03	0.3	1	1	-2	1
UK 10y Yield		0.61	1.5	7	4	31	42
Credit Spreads			basis points				
US Investment Grade		92	-0.1	-3	1	-37	-3
US High Yield		327	-1.7	-21	-2	-184	-53
Europe IG		46	0.5	-1	0	-8	-2
Europe HY		234	2.5	-4	-1	-90	-9
Exchange Rates			%				
USD/Majors		92.91	0.1	-1	0	0	3
EUR/USD		1.18	0.0	1	0	-1	-4
USD/JPY		110.1	0.1	0	0	4	7
EM/USD		56.3	0.0	1	0	3	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		72	-0.9	8	-4	57	38
Industrials Metals (index)		158	-0.7	3	-2	35	19
Agriculture (index)		58	-0.1	0	-1	55	21
Implied Volatility			%				
VIX Index (% change in pp)		17.3	0.5	-4.4	-0.3	-6.0	-5.4
US 10y Swaption Volatility		78.1	0.0	5.3	0.1	21.4	18.0
Global FX Volatility		6.7	0.0	-0.2	-0.1	-2.3	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		111	3.4	5	4	-41	-9
Italy		109	0.4	4	4	-34	-2
Portugal		62	0.0	2	0	-19	2
Spain		72	-0.4	1	2	-7	11

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

Emerging Market Financial Indicators

Last updated: 8/26/2021 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.48	-0.1	0.2	0	6	1		3.0	-1	-4	-19	-27
Indonesia		14418	-0.1	-0.1	0	2	-3		6.1	-14	-16	-51	6
India		74	0.0	0.0	0	0	-2		6.4	-1	-3	22	48
Philippines		50	-0.2	1.1	1	-3	-4		4.3	1	-4	68	67
Thailand		33	-0.1	1.8	1	-4	-9		1.6	5	-1	18	33
Malaysia		4.20	0.2	1.0	1	-1	-4		3.3	-1	10	90	76
Argentina		97	-0.1	-0.2	-1	-24	-14		45.7	58	109	147	-1049
Brazil		5.23	-0.3	3.6	-1	7	-1		9.6	-49	105	416	400
Chile		784	-0.2	0.6	-3	0	-9		4.7	2	36	217	193
Colombia		3865	0.0	-0.3	1	0	-11		6.9	-1	15	162	182
Mexico		20.31	-0.4	-0.7	-1	8	-2		7.0	-3	-4	100	142
Peru		4.1	0.0	0.1	-4	-12	-12		6.5	4	104	234	293
Uruguay		43	0.3	0.9	2	0	-1		7.9	-10	-2	-38	64
Hungary		297	-0.3	1.3	3	1	0		2.4	13	19	73	90
Poland		3.89	-0.1	0.9	0	-4	-4		1.1	6	10	30	51
Romania		4.2	-0.1	0.8	-1	-2	-5		3.3	9	28	-28	55
Russia		74.0	-0.1	0.3	0	2	1		6.9	7	7	111	118
South Africa		14.9	0.3	2.0	-1	13	-1		9.7	-6	-19	-43	3
Turkey		8.37	0.1	1.9	2	-12	-11		17.2	-12	-36	329	410
US (DXY; 5y UST)		93	0.1	-0.7	0	0	3		0.84	8	12	56	48

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4802	-2.0	-1	1	1	-8		217	-3	6	-13	-12
Indonesia		6058	-0.9	1	-1	13	1		177	-6	-6	-51	-23
India		55949	0.0	1	6	43	17		148	-2	-8	-69	-3
Philippines		6821	0.0	2	5	15	-4		107	-7	-6	-24	-5
Malaysia		1586	1.0	5	5	2	-3		135	-2	-4	-35	0
Argentina		72009	0.9	7	10	57	41		1522	-52	-43	-570	166
Brazil		120818	0.5	4	-4	20	2		291	-4	13	-43	32
Chile		4438	0.0	3	7	15	6		138	-9	-17	-45	-18
Colombia		1330	0.1	0	6	8	-8		276	-8	0	15	61
Mexico		52345	0.7	1	3	39	19		353	-6	-1	-113	-4
Peru		16992	-0.2	7	-9	-7	-18		171	-12	2	11	42
Hungary		50804	-0.5	-3	8	41	21		129	-3	-12	-26	-20
Poland		69740	0.0	3	4	33	22		35	0	-2	4	7
Romania		12291	0.1	2	3	39	25		177	-7	-14	-84	-26
Russia		3852	-0.9	0	3	26	17		163	-8	-17	-50	-16
South Africa		67163	-0.4	2	-1	19	13		345	-8	-2	-149	-39
Turkey		1460	0.4	1	8	33	-1		458	-16	-18	-161	11
Ukraine		526	0.0	0	0	5	5		495	-19	-19	-135	2
EM total		51	-1.0	2	0	13	0		354	-10	-13	-43	16

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

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