GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, AUGUST 27, 2021

- **US markets steady as investors look to Fed Chair Powell's speech at Jackson Hole** (link)
- **Inflation expectations spike to record high at Canadian businesses** (link)
- **ECB meeting minutes reiterates new forward guidance but gives no taper signals** (link)
- **China's central bank signals potential targeted cut to reserve requirement ratio** (link)
- **Mexican central bank meeting minutes suggest further hikes are data dependent** (link)

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Markets in holding pattern as investors await news from Jackson Hole

Global markets are largely range bound as investors await a readout from the Fed's Jackson Hole symposium. Broad de-risking ended the recent streak of gains for US equities yesterday as investors digested ongoing geopolitical tensions and took a more cautious stance heading into the start of the Jackson Hole summit this morning. Commentary from Fed committee members struck a relatively hawkish tone ahead of the event, but US Treasury yields have held broadly stable with the 10-year hovering around 1.35%. European equities and sovereign bond yields are trading little changed against a similar wait-and-see backdrop. Overnight in Asia, markets had a better session with most regional equity indices closing higher and Chinese stocks getting support from a statement by the PBOC that it may use monetary policy tools to support the rural sector. Markets are focused on Fed Chairman Powell's speech at Jackson Hole, scheduled to occur later this morning, for any signals suggesting the timing around a decision to taper asset purchases and any assessment of how the outlook could be affected by the current pandemic situation.

Key Global Financial Indicators

Last updated: 8/27/21 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4470	-0.6	1	2	28	19
Eurostoxx 50		4166	-0.1	0	2	25	17
Nikkei 225		27641	-0.4	2	1	21	1
MSCI EM		51	-1.0	3	1	13	-1
Yields and Spreads					bps		
US 10y Yield		1.34	-0.8	9	10	59	43
Germany 10y Yield		-0.41	-0.1	9	3	0	16
EMBIG Sovereign Spread		345	2	-10	-9	-75	-5
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.2	0.0	1	0	2	-3
Dollar index, (+) = $ appreciation		93.0	0.0	-1	1	0	3
Brent Crude Oil ($/barrel)		72.1	1.4	11	-3	60	39
VIX Index (%, change in pp)		18.0	-0.9	-1	-1	-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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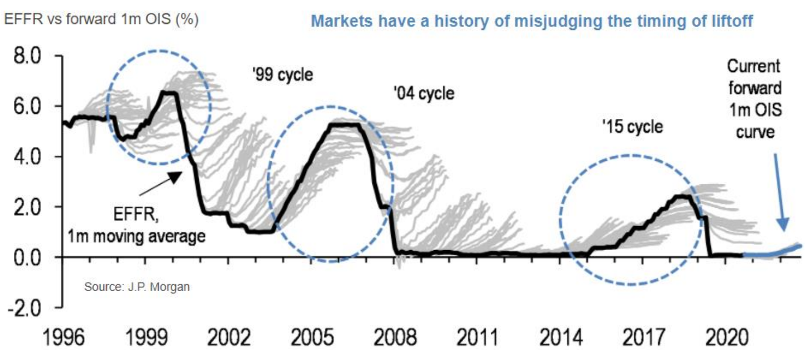
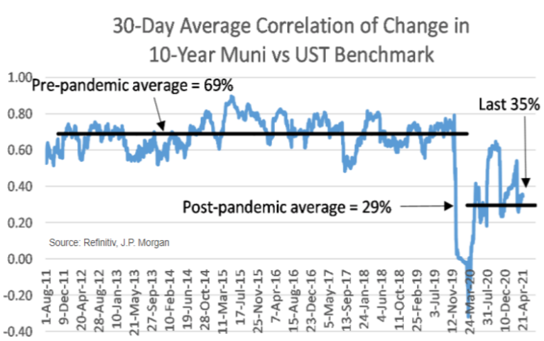
United States

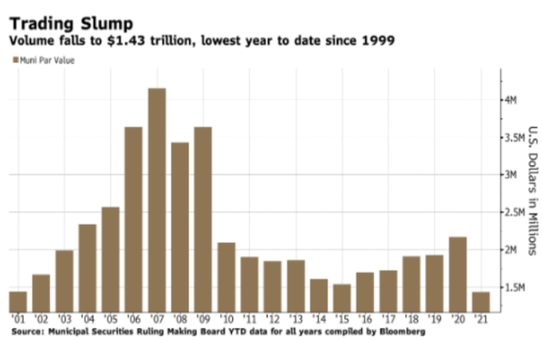
Yesterday, the S&P 500 fell 0.6% amid cautious sentiment fueled by hawkish statements of non-voting FOMC members and in reaction to building geopolitical tensions. However, benchmark 10-year US Treasury yields remained unchanged, while the US dollar appreciated slightly against AE and EM currencies.

Markets remain attentive to Fed Chair Powell's speech this morning and whether it will include any material information about the outlook on monetary policy. One issue in focus is the distinction between the criteria for tapering and for tightening. JPMorgan analysts note that markets price-in the liftoff in policy rates to begin in early 2023 (chart), which is just over a year after the expected start of tapering. However, in the past the lag between tapering and tightening took 2 years – hence, markets may be pricing-in premature hikes.



US municipal tax-exempt bonds remain disconnected from the broader taxable fixed-income universe. The correlation between benchmark 10-year municipal bonds and the 30-year US Treasury benchmark has stood at historically low levels since mid-2020. The situation may be attributed to unprecedently low trading volumes in the muni market as a side effect of the massive influx of cash into the muni market. As money managers compete for new bond deals, not many are willing to sell. JPMorgan analysts point out that the situation may improve if muni supply picks up enough to offsets record inflows, or US Treasury rates rise enough to interrupt the unprecedented flow of capital into municipal funds.



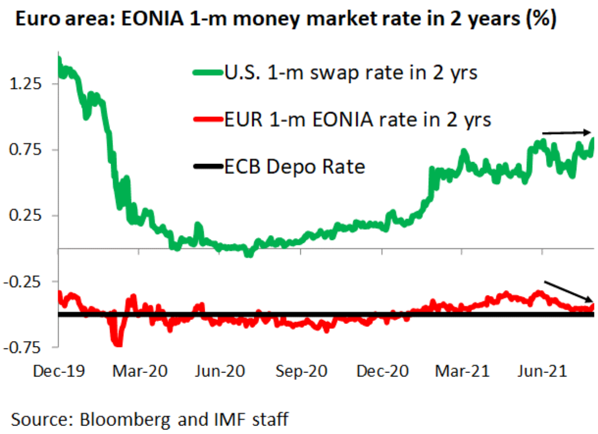


Canada

Canadian SME firms expect prices to rise by an average of 3.8% over the next year, according to the August survey of members by the Canadian Federation of Independent Business. It's the highest value in history. While the figure is likely a result of the observed inflation (which stood at 3.7% in July), the survey data may raise concerns about elevated inflation in 2022. The survey also show that tight supply constraints are widespread, with 43% of respondents reporting that product input costs are a problem.

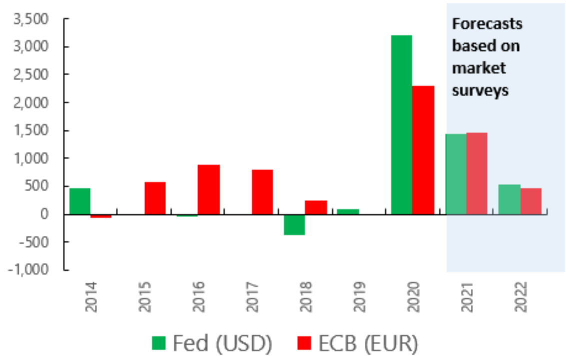
Euro area
Equities, bund yields, and the euro are little changed ahead of Fed Chair Powell's speech at Jackson Hole. 10-yr Italian yields fell 2 bps to 0.65%.

ECB accounts of the 22 July meeting reiterated that the ECB's reformulation of forward guidance could prolong the horizon over which policy rates would remain at their present or lower levels but did not provide guidance on the pace and composition of QE purchases. The minutes also added that the new forward guidance did not necessarily imply "lower for longer" interest rates if successful. Some contacts argue that the accounts signal that the ECB expects its enhanced forward guidance to provide additional stimulus thereby reducing the need for further rate cuts or accelerated asset purchases to help reach its inflation target. **Forward markets do not expect any ECB depo hike in the next two years.**



Regardless of the specific timing, analysts expect the ECB and the Fed to announce tapering in the coming months, with a sizable reduction in QE purchases expected in 2022. The ECB's pandemic PEPP QE program is scheduled to end in March 2022. Contacts expect the ECB to start discussing tapering in September but with a consensus on a tapering timeline and potential retooling of the non-pandemic APP QE program reached only later in the Fall.

Change in central bank balance sheet assets



Note: Forecasts based on the median of analyst expectations of Fed purchases of U.S. Treasury and MBS purchases and ECB QE purchases in APP and pandemice PEPP QE programs.
Source: ECB, NY fed

Japan

Equities were little changed (-0.3%). Former Foreign Minister Fumio Kishida announced he would run against the current Prime Minister Yoshihide Suga in the ruling Liberal Democratic Party leadership elections scheduled for September 29. In Tokyo, the core consumer price inflation, which is on a new 2020 base year, returned to no change (0.0% y/y) in August from a revised 0.3% y/y fall in July. The headline CPI fell 0.4% y/y, resulting in no change from the revised reading for July. **Yields and the yen were little unchanged.**

Headline and Core Consumer Price Indexes

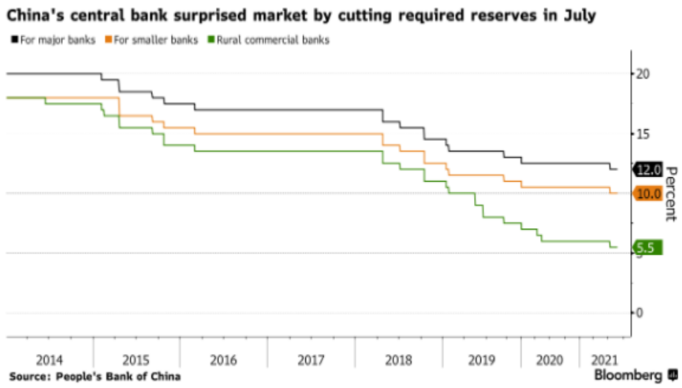
Source: Ministry of Internal Affairs and Communications

Emerging Markets back to top

Latin American markets followed the general risk-off mood yesterday, with stocks retreating in Brazil (-1.7%), Colombia (-1.2%), Argentina (-0.7%), and Peru (-0.6%), and currencies weakening in Brazil (-0.9%), Mexico (-0.6%) and Chile (-0.4%). In Brazil, the supreme court confirmed a law granting the central bank autonomy as constitutional. **Asian stocks increased +0.2% on net.** China rebounded (Shanghai -0.6%, Shenzhen +0.1%), Singapore declined -0.9%. **Regional currencies remained mainly in narrow ranges.** Thai baht gained 0.4% posting its biggest weekly gain since October 2015 as the virus outbreak eases and the country considers easing mobility restrictions. In Malaysia, the newly appointed Prime Minister Ismail Sabri Yaakob has announced his cabinet, retaining mostly the ministers from the previous administration, including Finance Minister Zafrul Abdul Aziz. **EMEA equity markets were trading little changed except for South Africa (+0.4%).** EMEA currencies were trading mixed with the South African rand (+0.3%) and the Russian ruble (+0.3%) stronger against the dollar while the Hungarian forint (-0.4%) depreciated.

China

China's central bank signaled it may reduce the reserve requirement ratio (RRR) for banks. The People's Bank of China said in a statement on Thursday, that it will use monetary policy tools including the RRR, and relending and rediscounting measures targeted towards supporting rural development, Bloomberg reports. Earlier this week Governor Yi Gang pledged to boost credit support to the economy and improve efforts to bring down real lending rates for businesses. Separately, **China plans to ban companies with large amounts of sensitive consumer data from going public in the U.S.** The new rules would prohibit internet firms holding a swath of user-related data from listing abroad, according to Bloomberg. The regulators are targeting companies seeking foreign initial public offerings (IPOs) via units incorporated outside China. Once finalized, the new rules could be implemented around the fourth quarter, and the China Securities Regulatory Commission have asked some companies to hold off on overseas IPOs until then, according to Bloomberg sources. **On data releases**, industrial profit decelerated to 16.4% y/y in July from 20% y/y in June. Citi analysis pointed to unbalanced growth as producer price inflation benefits state-owned and upstream firms. **The stock market rebounded (Shanghai +0.6%, Shenzhen +0.1%), the yuan was little changed**.



Mexico

Banxico's current monetary policy stance appears less hawkish than presumed as meeting minutes show further upward inflation surprises may be needed to continue tightening policy. Analysts interpret the minutes of Banco de Mexico's last policy meeting as signaling a moderation in the committee's earlier hawkish tone. While the committee is uncomfortable with the current high level of core inflation, there is also a feeling that markets may have overreacted to past rate hikes and that inflationary momentum might prove transient. With the spectrum of opinions still divergent in the committee, analysts see increasing odds for a pause in the hiking cycle as the committee waits to see how the economic data evolves. Investors appeared to share this view, as market implied policy rates declined yesterday by up to 11 bps over the near-term horizon, despite the July unemployment rate coming in at 4.4%, 36 bps higher than in June and 28 bps above expectations. Two-year local currency treasury yields reacted similarly, sliding down 3 bps.

Nigeria

The Nigerian National Petroleum Company (NNPC) reported its first profit in 44 years amid discussions about a path for a potential initial public offering. The $698 mn profit report (FYI 2020) comes after President Buhari signed the Petroleum Industry Bill (PIB) earlier in August, after more than a decade of legislative debate. Industry analysts have previously noted that a public listing would be positive in terms of improving transparency and allowing for a reduction of the cost of funding for modernization purposes.

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 Antosh in (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.

Global Financial Indicators

Last updated: 8/27/21 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4474	-0.6	1	2	28	19
Europe		4166	-0.1	0	2	25	17
Japan		27641	-0.4	2	1	21	1
China		3522	0.6	3	4	3	1
Asia Ex Japan		86	-1.0	3	1	10	-4
Emerging Markets		51	-1.0	3	1	13	-1
Interest Rates					basis points		
US 10y Yield		1.34	-0.8	9	10	59	43
Germany 10y Yield		-0.41	-0.1	9	3	0	16
Japan 10y Yield		0.03	0.1	2	1	-2	1
UK 10y Yield		0.60	-0.1	8	4	26	40
Credit Spreads					basis points		
US Investment Grade		92	-0.1	-3	1	-38	-3
US High Yield		327	-1.9	-21	-3	-184	-53
Europe IG		46	-0.3	-1	-1	-8	-2
Europe HY		232	-0.9	-5	-7	-89	-11
Exchange Rates					%		
USD/Majors		93.02	0.0	-1	1	0	3
EUR/USD		1.18	0.1	1	0	-1	-4
USD/JPY		110.1	0.0	0	0	3	7
EM/USD		56.2	0.0	1	0	2	-3
Commodities					%		
Brent Crude Oil ($/barrel)		72	1.4	11	-3	60	39
Industrials Metals (index)		159	0.5	3	-1	35	20
Agriculture (index)		58	-0.2	2	0	53	21
Implied Volatility					%		
VIX Index (%, change in pp)		18.0	-0.9	-0.6	-1.4	-6.5	-4.8
US 10y Swaption Volatility		76.8	-0.2	3.3	-8.2	19.0	16.7
Global FX Volatility		6.7	0.0	-0.2	-0.2	-2.2	-1.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		111	0.1	5	4	-40	-9
Italy		106	-1.4	2	0	-36	-5
Portugal		60	-0.8	0	-3	-21	0
Spain		72	-0.4	1	0	-8	10

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

Emerging Market Financial Indicators

Last updated: 8/27/2021 8:08 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		6.48	0.1	0.4	1	6	1		3.0	3	0	-20	-25
Indonesia		14418	0.0	0.2	1	2	-3		6.1	-13	-16	-58	5
India		74	0.7	1.0	1	0	-1		6.4	-1	-3	18	47
Philippines		50	0.1	0.9	1	-3	-4		4.3	1	-5	68	67
Thailand		33	0.4	2.3	1	-4	-8		1.7	5	-1	16	34
Malaysia		4.19	0.1	1.1	1	0	-4		3.3	0	10	86	77
Argentina		98	0.0	-0.2	-1	-24	-14		45.9	59	121	162	-1029
Brazil		5.24	0.3	2.6	-1	6	-1		9.6	-26	101	399	399
Chile		787	-0.4	0.0	-3	0	-10		4.7	0	35	222	194
Colombia		3866	0.0	0.1	1	-1	-11		6.9	-2	9	156	181
Mexico		20.39	-0.1	-0.1	-2	9	-2		7.0	-3	-4	94	143
Peru		4.1	0.3	0.6	-4	-12	-11		6.4	-23	96	225	280
Uruguay		43	0.5	1.3	3	0	-1		7.9	-3	-2	-30	64
Hungary		298	-0.5	0.4	2	1	0		2.5	21	26	84	98
Poland		3.90	-0.1	0.6	0	-4	-4		1.2	8	13	31	52
Romania		4.2	0.1	0.6	-1	-2	-5		3.3	13	29	-22	57
Russia		74.1	0.3	0.3	0	1	0		6.9	8	13	115	123
South Africa		14.9	0.2	2.6	-1	14	-1		9.7	-12	-9	-48	1
Turkey		8.40	-0.1	1.1	2	-12	-11		17.2	-20	-40	347	409
US (DXY; 5y UST)		93	-0.1	-0.5	1	0	3		0.84	6	14	53	48

	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		4827	0.5	1	0	0	-7		217	-3	5	-13	-12
Indonesia		6041	-0.3	0	0	13	1		180	-4	-4	-50	-20
India		56125	0.3	1	7	42	18		148	0	-9	-67	-3
Philippines		6787	-0.5	2	8	15	-5		111	-4	-2	-25	-1
Malaysia		1590	0.3	5	6	4	-2		135	-2	-5	-34	0
Argentina		71551	-0.6	7	9	62	40		1527	-62	-44	-573	171
Brazil		118724	-1.7	1	-5	18	0		292	-11	13	-43	33
Chile		4444	0.0	2	7	14	6		141	-8	-15	-43	-15
Colombia		1314	-1.2	-1	5	7	-9		276	-13	-4	13	61
Mexico		52291	-0.1	2	3	39	19		353	-11	-1	-111	-4
Peru		16894	-0.6	9	-10	-8	-19		175	-9	5	14	46
Hungary		50833	0.4	-2	8	43	21		129	-5	-12	-27	-20
Poland		69197	-0.4	2	4	32	21		34	-2	-2	6	6
Romania		12431	0.9	3	5	40	27		183	-3	-9	-81	-20
Russia		3848	-0.1	0	3	28	17		166	-7	-15	-51	-13
South Africa		67304	0.4	2	0	18	13		349	-11	0	-148	-35
Turkey		1455	0.4	1	7	31	-1		458	-22	-19	-159	11
Ukraine		526	0.0	0	0	5	5		494	-26	-25	-143	1
EM total		51	0.5	3	1	13	-1		356	-12	-12	-43	18

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

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