



- US policy rate expectations shift higher following hawkish signals at Jackson Hole ([link](#))
- European markets extend global bond and equity market selloff ([link](#))
- Chances for a 75 bps ECB rate hike rise as council members reiterate inflation fight ([link](#))
- Emerging market bond fund flows revert to outflows after 3-week reprieve ([link](#))
- PBOC sets RMB reference rate stronger than expected in effort to stem FX weakness ([link](#))

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## Hawkish hints at Jackson Hole keep markets on edge

Global bond and equity markets are pulling back to start the week, as investors look to be reassessing the summer rally in risk assets amidst continued uncertainty on the path of inflation, growth, and policy rates. Fed Chair Powell's highly anticipated speech at Jackson Hole on Friday was viewed as hawkish with an emphasis on restoring price stability while cautioning that doing so would likely require a restrictive policy stance for some time. The S&P 500 declined sharply closing down over 3%, its worst daily loss since June. Both global bond and equity markets are under pressure this morning with risk aversion following through from a continuation of hawkish remarks over the weekend. Most Asian equity indices closed down in the -2% range and European bourses and US equity futures are declining over 1%. Core sovereign bond yields are moving higher with rates in the US and Germany up 6 to 12 bps across maturities and is being led mostly by higher real rates. Post Jackson Hole, investors are expected to revert back to watching key data releases, with Friday's US jobs report in the spotlight as markets try to calibrate for a 50 or 75 bps hike at the September FOMC meeting. The energy crisis in Europe remains a focal point for investors as natural gas and electricity prices hover near record highs and attention shifts to headlines around the maintenance shutdown of the Nord Stream 1 pipeline scheduled for later this week, amid concerns about additional curtailment of gas flows to the region. US dollar strength remains as a headwind to emerging markets with the broad JPM EM FX index about 2% weaker since the middle of August.

Key Global Financial Indicators

Last updated: 8/29/22 8:03 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		4058	-3.4	-4	-2	-10	-15	-4
Eurostoxx 50		3546	-1.6	-3	-4	-15	-18	-11
Nikkei 225		27879	-2.7	-3	0	0	-3	5
MSCI EM		40	-1.5	0	0	-22	-18	-16
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.10	5.8	8	45	179	159	111
Germany 10y Yield		1.48	9.1	18	66	190	166	125
EMBIG Sovereign Spread		490	3	0	-63	145	123	77
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.2	-0.1	0	0	-11	-5	-6
Dollar index, (+) = \$ appreciation		108.8	0.0	0	3	17	14	13
Brent Crude Oil (\$/barrel)		101.2	0.2	5	-8	39	30	4
VIX Index (% change in pp)		27.3	1.8	4	6	11	10	-4

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

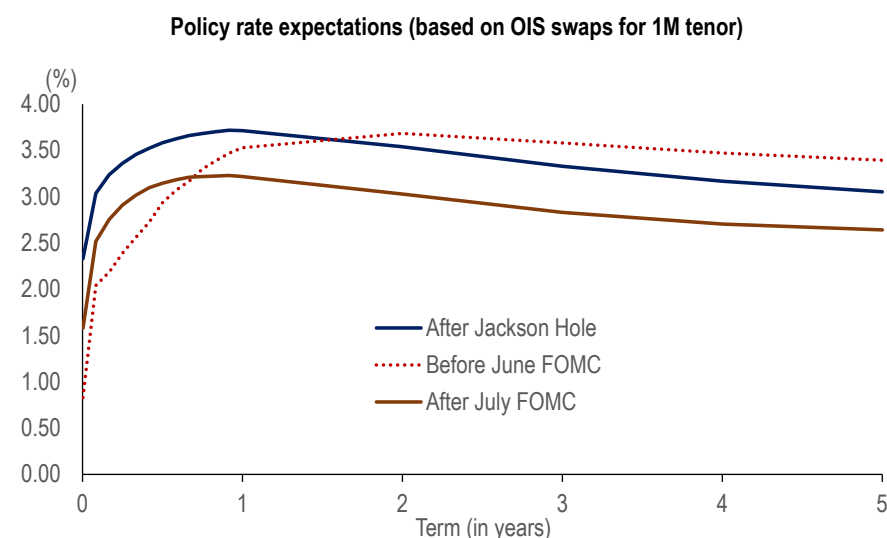
**With the Jackson Hole economic symposium in the rearview and no major central bank meetings this week, investors will be focused on Friday's US jobs report for August.** In the euro area, August CPI data will be released on Wednesday. For Japan, July labor market data are due on Monday, industrial production on Tuesday, and PMIs on Wednesday. For China, the state's purchasing managers' indices for August will be released Tuesday. Other releases across Asia-Pacific markets include Indian Q2 GDP on Wednesday while South Korea and Indonesia update CPI for August on Thursday. In EMEA, the Hungarian central bank will hold its policy meeting and Q2 Turkish GDP will be reported on Wednesday. Finally, in Latin America, Peru's August CPI is due to be released on Thursday.

## Mature Markets

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### United States

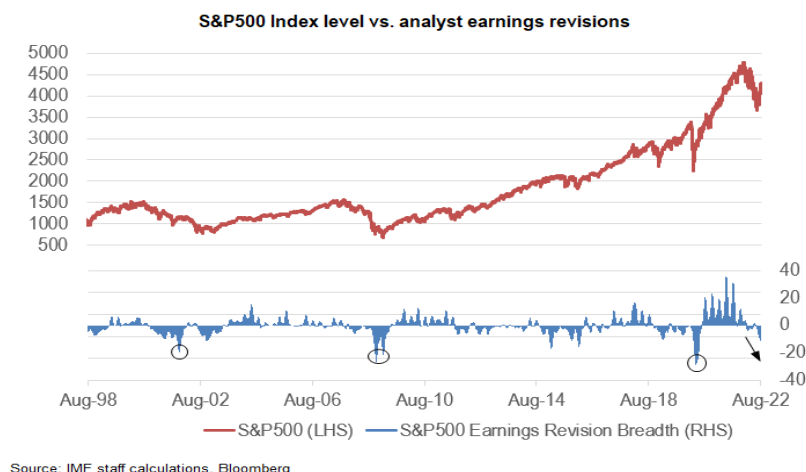
**Fed Chair Powell's comments at the Jackson Hole symposium were viewed as hawkish.** The key takeaway from Chairman Powell's keynote address is that further monetary tightening is inevitable to bring down inflation and thus avoid even greater economic fallout. The trajectory of near-term market pricing of the expected Fed Funds rate shifted higher on Friday and is now the highest since the start of this rate hiking cycle, with a peak Fed Funds rate between 3.75–4% by next year. However, judging by Chair Powell's statement that tighter policy may be needed for '*some time*', market contacts note that risks to longer-term Fed Fund pricing—which currently prices rate cuts later in 2023—appear skewed to the upside.



Source: IMF staff calculations, Bloomberg

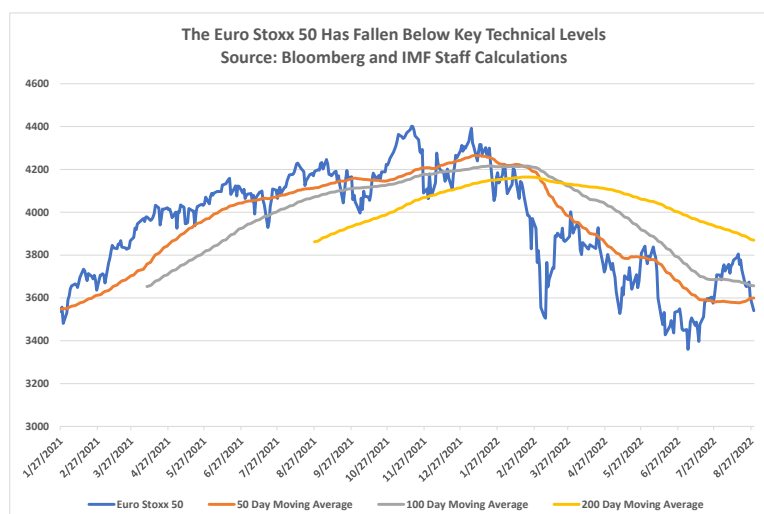
**Although earnings estimates have drifted lower, US stock valuations are still viewed as sanguine.**

In response to Chairman Powell's keynote address in Jackson Hole, the shaky recovery in stocks has weakened. As market contacts noted, the recovery rally from mid-June to mid-August was prompted mostly by falling real interest rates, rather than so far resilient corporate earnings. In contrast, since mid-June, when corporate earnings revisions stood flat month-on-month, one in ten equity analysts have now lowered earnings estimates for S&P 500 constituents. While a downward revision of corporate earnings seems consistent given amid recession worries, a comparison to previous recessions shows that analysts' expectations nonetheless remain complacent. Historically, bottoming in US stock markets has coincided with one in five equity analysts lowering their earnings estimates, which has not been reached yet.

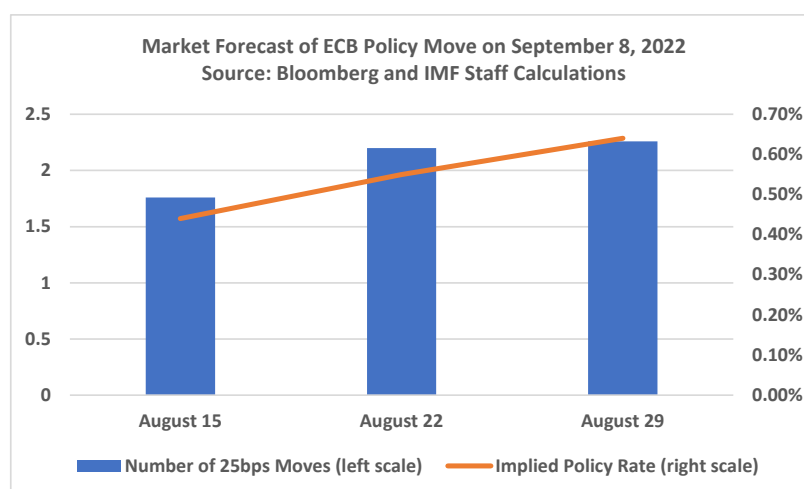


## Euro area

**The fallout from Fed Chair Powell's hawkish comments on Friday has spilled over to Europe, with local stocks extending last week's losses, led by the technology sector.** The situation is being made worse by the surge in interest rates following Powell's Jackson Hole speech as investors recalibrate their expectations of central bank policies, looking for more aggressive rate hikes from central banks all over the world. The Euro Stoxx 50 equity index has fallen below its 50-, 100- and 200-day moving averages, which market participants view as a very bearish sign. The euro weakened again, falling further below parity with the dollar. The impending energy crisis is top of mind for markets, with worries that the coming winter could bring social unrest due to lack of natural gas supplies, as well as a major shock to local economies.



**ECB officials echoed Fed Chair Powell's hawkish tone.** Executive Board member Schnabel, who attended the conference, called on her fellow Board members to "signal their strong determination to bring inflation back to target quickly," as reported by Bloomberg. With CPI data due on Wednesday expected to hit 9%, markets are starting to price in a potential 75 bps move at the next ECB meeting on September 8. Like other central banks, the ECB faces the dilemma of balancing the fight against inflation against the chance of recession. Its task is made harder by the fact that it has no control over disruptions caused by the pandemic or the Ukraine war. Less hawkish ECB officials such as Chief Economist Lane are due to speak later this week. Meanwhile, markets in the UK are closed for the summer Bank Holiday. However, market sentiment in the UK is very bleak, with inflation even higher than the euro area and the market, analysts, and the Bank of England all in agreement that the UK will fall into recession in 2022.



## Japan

**Japanese markets declined amid the global risk-off sentiment following the Fed Chair Powell's Jackson Hole speech.** Japanese equities declined (NIKKEI: -2.7%), underperforming regional peers, while Japanese yen depreciated (-0.8%), touching 138.8 yen per dollar. Signs from the options market suggested a renewed bias toward yen weakness on the part of asset managers who boosted their short positions. Meanwhile, long-end government bond yields rose notably (10-year: +2.5 bps; 30-year: +5.9 bps), with the 10-year yield at 0.242%. At the Jackson Hole, Governor Kuroda said that the Bank of Japan has no choice other than continued monetary policy easing until wages and prices increase in a stable and sustainable manner. He also noted that almost all of Japan's inflation is driven by higher commodity prices.

### Japan: BOJ's Yield Curve Control



## Emerging Markets

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Markets in **Latin America** were mixed on Friday. While equities in Brazil, Mexico, and Peru closed lower in the range of 1.3%–3%, those in Chile and Colombia were up 1.6% and 0.7%, respectively. Most regional currencies held their ground against the USD on Friday, except the Mexican peso and the Colombian peso, which were down 0.6% and 0.2%, respectively. As per a JP Morgan report, in **Brazil, the lead of former president Lula in opinion polls for upcoming presidential elections has narrowed** from 11% to 9%. The report cites increased social spendings, tax cuts, and the recent deceleration in inflation to have aided

current president Bolsonaro, the second most popular candidate in the race. **Asian markets declined as Fed Chair Powell's Jackson Hole speech last Friday spurred risk-off sentiment across the globe.** Asian equities declined, -2.3% on net, led by Taiwan (-2.3%), Korean (-2.2%) and Indian (-1.1%) equities. Share prices also declined in China (CSI 300: -0.4%). Asian currencies depreciated, led by Korean won (-1.4%) and Thai baht (-1.2%), amid a broad-based strong U.S. dollar. Long-end government bond yields increased, with 10-year yields rising in Singapore (+10.4 bps) and Indonesia (+9.8 bps). In Malaysia, CPI inflation accelerated to 4.4% y/y in July from 3.4% in June, in line with expectations. Malaysian ringgit depreciated (-0.5%); 10-year government bond yield rose (+4.3 bps). In **EMEA**, local currencies were relatively resilient on Friday closing only marginally weaker against the US dollar, with the South African rand underperforming in the region (-0.8%). **In the week ahead, the Hungarian central bank is expected to continue its tightening cycle** with a 100 bps policy rate increase and Turkish Q2 GDP growth will be reported.

### Emerging Market Fund Flows

**Fund flows to EMs registered an outflow of \$2.5 bn in the last week.** After witnessing inflows for 3 consecutive weeks, bond fund flows into EMs reversed and saw an outflow of \$877 mn last week. This was driven by both hard (-\$488 mn vs inflow of \$1 bn the week before) and local currency bonds (-\$399 bn vs -\$381 bn the week before). Equity fund outflows intensified and reached \$1.6 bn (from -\$1.1 bn the week before). Within equity funds, EM Asia-ex Japan and Latam both saw an outflow, while EMEA and LATAM registered small inflows. With this, year-to-date EM bond and equity fund flows stand at -\$38 bn.

Exhibit 1: Weekly Cross-Asset Flows

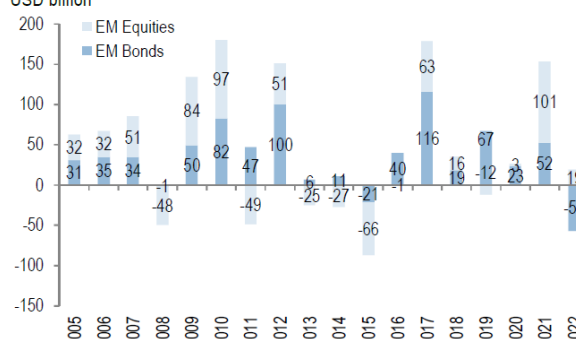
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		-2.5	-37.8
<b>EM Bonds</b>		-0.9	-56.6
Hard Ccy		-0.5	-27.1
Local Ccy*		-0.4	-29.5
o.w. EM ex-China		-0.3	-12.4
o.w. China		-0.1	-15.7
<b>EM Equities</b>		-1.6	18.8
US HG		1.9	-63.0
US HY		-3.8	-36.8
Global Equities		-0.5	112.3
<b>EM Bond and Equity ETFs</b>		-0.6	39.4
EM Bond ETFs		0.0	-5.7
EM Equity ETFs		-0.6	45.0
<b>Non-resident EM flows*</b>		1.4	-57.2

\*High frequency non-resident EM portfolio flow data where available. \*Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

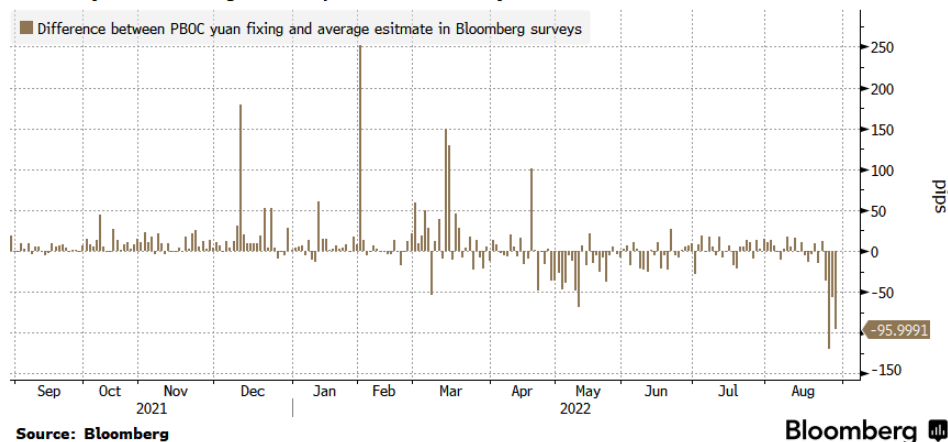
Exhibit 2: Annual EM bond and equity fund flows

USD billion



### China





























**The People's Bank of China (PBC) has tried to stem RMB depreciation by setting stronger-than-expected RMB fixings.** The RMB fixing has been set stronger than expected for four consecutive days (today: 96 pips). RMB depreciated (-0.7%), broadly in line with regional currencies, touching 6.92 yuan per dollar. Reportedly, at least two banks that submit fixing quotations have tweaked their models to lean against the RMB weakness. Analysts generally viewed that the PBC has been more tolerant of RMB volatility this year. **Chinese equities fell** (CSI 300: -0.5%). Long-end CGB yields dropped (10-year: -1.1 bps; 30-year: -1.6 bps), diverging from the regional trend that saw a rise in long-end government bond yields, amid flush liquidity conditions. The key interbank repo rate (DR007) fell to 1.62% (-9.1 bps), well below the policy rate at 2.0%.

**Yuan Guidance****PBOC set yuan fix at stronger-than-expected level for 4th day**

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.

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## Global Financial Indicators

Last updated: 8/29/22 8:04 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4042	-3.4	-2	-2	-10	-15	-4
Europe		3546	-1.6	-3	-4	-15	-18	-11
Japan		27879	-2.7	-3	0	0	-3	5
China		4090	-0.4	-2	-2	-15	-17	-12
Asia Ex Japan		67	-1.6	0	-1	-23	-18	-15
Emerging Markets		40	-1.5	0	0	-22	-18	-16
<b>Interest Rates</b>			basis points					
US 10y Yield		3.10	5.8	8	45	179	159	111
Germany 10y Yield		1.48	9.1	18	66	190	166	125
Japan 10y Yield		0.25	2.5	3	6	22	18	5
UK 10y Yield		2.60	-1.5	19	69	200	163	112
<b>Credit Spreads</b>			basis points					
US Investment Grade		158	1.6	-3	-14	66	46	15
US High Yield		479	-4.6	-3	-26	154	141	72
Europe IG		113	0.0	3	13	68	65	42
Europe HY		559	0.0	8	50	331	318	208
<b>Exchange Rates</b>			%					
USD/Majors		108.79	0.0	0	3	17	14	13
EUR/USD		1.00	0.3	1	-2	-15	-12	-12
USD/JPY		138.5	0.7	1	4	26	20	20
EM/USD		50.2	-0.1	0	0	-11	-5	-6
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		101	0.2	5	-3	51	36	11
Industrials Metals (index)		158	-1.0	0	0	-1	-9	-16
Agriculture (index)		69	-0.7	3	3	19	14	-2
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		27.3	1.8	3.5	6.0	10.9	10.1	-3.7
US 10y Swaption Volatility		131.3	8.5	-1.7	18.8	57.2	52.3	37.0
Global FX Volatility		10.8	0.1	-0.6	0.0	4.2	3.4	3.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		255	-2.9	5	41	143	104	15
Italy		229	-2.2	-4	8	123	94	58
Portugal		109	-1.1	1	6	49	45	17
Spain		119	-1.7	0	9	47	44	15

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



## Emerging Market Financial Indicators

Last updated: 8/29/2022 8:06 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	-0.6	-1.0	-2	-6	-8	-9		2.7	-2.5	1	-10	-23	-12	-13	
Indonesia		14897	-0.5	-0.1	0	-4	-4	-4		7.2	11.2	1	5	101	79	68	
India		80	-0.1	-0.1	-1	-8	-7	-7		7.6	5.0	9	25	113	124	85	
Philippines		56	0.0	-0.2	-1	-11	-9	-9		5.3	7.5	0	-33	155	85	35	
Thailand		36	-1.2	-1.1	1	-11	-8	-12		2.7	10.0	10	22	109	81	43	
Malaysia		4.49	-0.5	-0.1	-1	-7	-7	-7		4.0	5.1	4	11	79	42	34	
Argentina		138	-0.2	-1.1	-5	-29	-25	-22		76.7	-9.5	106	827	3088	2617	2878	
Brazil		5.07	-0.2	1.7	2	2	10	-1		12.1	3.5	-2	-67	181	143	59	
Chile		892	0.5	5.9	4	-12	-5	-11		6.7	-1.5	-18	-15	226	124	75	
Colombia		4404	-0.2	-0.6	1	-12	-7	-11		9.4	11.5	17	-18	352	303	156	
Mexico		20.03	0.1	0.6	2	1	2	1		8.6	2.5	7	10	166	107	75	
Peru		3.8	0.2	0.6	2	6	4	-3		8.0	0.8	0	-24	189	206	196	
Uruguay		40	0.1	0.3	3	6	11	5		11.0	14.5	13	-22	310	228	285	
Hungary		410	0.7	0.3	-3	-28	-21	-22		9.3	8.0	32	96	652	479	449	
Poland		4.75	0.2	0.9	-2	-19	-15	-15		6.3	5.5	43	103	456	278	241	
Romania		4.9	0.2	0.8	-1	-14	-11	-10		7.9	-3.1	18	-50	456	304	271	
Russia		60.8	-0.4	-1.2	2	21	24	34		8.3	0.0	0	-2	89	-52	-293	
South Africa		16.9	-0.1	0.6	-2	-13	-6	-10		8.9	7.0	5	10	176	146	130	
Turkey		18.19	-0.1	-0.6	-1	-54	-27	-24		13.4	0.0	-60	-446	-395	-1096	-906	
US (DXY; 5y UST)		109	0.0	-0.2	3	17	14	13		3.27	6.3	11	59	247	201	137	

	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		4090	-0.4	-2	-2	-15	-17	-12		209	-5	-6	-8	6	1	
Indonesia		7132	0.0	0	3	16	8	3		173	-3	-37	-7	8	-12	
India		57973	-1.5	-1	1	2	0	1		151	-1	-45	3	19	-3	
Philippines		6753	0.0	-2	7	-1	-5	-8		121	-3	-23	10	20	-16	
Thailand		1627	-1.1	1	3	0	-2	-4								
Malaysia		1502	0.1	1	1	-6	-4	-5		107	-4	-37	-28	-10	-26	
Argentina		141460	-0.9	8	15	93	69	55		2404	-61	-435	877	724	667	
Brazil		112299	-1.1	1	9	-7	7	0		310	-7	-39	18	-1	-21	
Chile		5462	0.0	2	4	22	27	25		181	6	-6	40	41	7	
Colombia		1299	-0.4	0	0	-2	-8	-14		406	2	-22	130	58	14	
Mexico		47272	-0.9	-2	-2	-10	-11	-8		406	-3	-34	53	74	36	
Peru		19442	-0.7	-1	1	11	-8	-17		189	4	-17	14	39	-1	
Hungary		42603	-1.7	0	2	-17	-16	-11		240	30	10	111	116	87	
Poland		51214	-2.0	-4	-7	-27	-26	-18		22	13	9	-12	-10	6	
Romania		12233	-0.8	-2	-2	-1	-6	-7		287	24	-39	104	94	55	
Russia		2287	0.8	3	3	-41	-40	-26		3411	-577	938	3228	3234	2897	
South Africa		68800	-2.0	-1	0	2	-7	-8		424	-25	-92	75	69	35	
Turkey		3145	0.0	3	21	116	69	56		640	-33	-140	182	62	77	
Ukraine		519	0.0	0	0	-1	-1	0		3435	138	-3086	2941	2676	1962	
EM total		40	-0.4	0	0	-22	-18	-16		421	-2	-46	65	34	-37	

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

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