



- **US Treasury yields at highest level since 2007** ([link](#))
- **Investors who poured money into bonds at risk of major losses as rates rise** ([link](#))
- **Survey shows investors are optimistic that higher oil prices will not trigger inflation** ([link](#))
- **China acts to support currency** ([link](#))
- **10-year Japanese government bond yields hits 9-year high** ([link](#))
- **Emerging markets under pressure as US rates rise** ([link](#))

[Mature Markets](#)


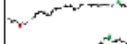
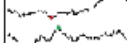
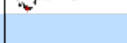


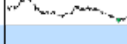

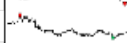
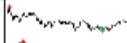

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Global markets rally as US tech stocks lead the way

US technology stocks are leading a global rebound for equities ahead of tonight's earnings report for Nvidia, the exemplar of the recent craze for artificial intelligence driven stocks. Nvidia shares gained 8% yesterday and are up another 1.5% in pre-market trading in anticipation of another strong earnings report. US equity index futures are higher and the euro area Stoxx 600 index is poised to deliver its largest 1-day gain in almost a month. Sentiment was supported by a pause in the apparently relentless rise in US Treasury yields, as the benchmark 10-year Treasury yield was lower for just the second of the past 10 trading days. Oil prices fell for a second day, another source of relief for markets worried about inflation. Nevertheless, the focus on potential problems in China remains acute, while Fed Chair Powell's speech on Friday remains a major risk factor for markets. Any sign that the Fed will remain hawkish into next year could send markets into reverse.

Key Global Financial Indicators

Last updated: 8/22/23 1:03 PM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		4400	0.7	-2	-3	6	15	4
Eurostoxx 50		4286	1.5	0	-2	17	13	8
Nikkei 225		31857	0.9	-1	-1	12	22	20
MSCI EM		38	0.2	-2	-5	-3	2	-19
Yields and Spreads			bps					
US 10y Yield		4.30	-3.4	9	47	129	43	231
Germany 10y Yield		2.66	-4.7	-2	19	135	9	243
EMBIG Sovereign Spread		424	-1	17	8	-67	-28	11
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		47.8	0.1	1	-2	-4	-4	-10
Dollar index, (+) = \$ appreciation		103.3	0.0	0	2	-5	0	7
Brent Crude Oil (\$/barrel)		84.0	-0.6	-1	4	-13	-2	-13
VIX Index (% change in pp)		16.7	-0.4	0	3	-7	-5	-14

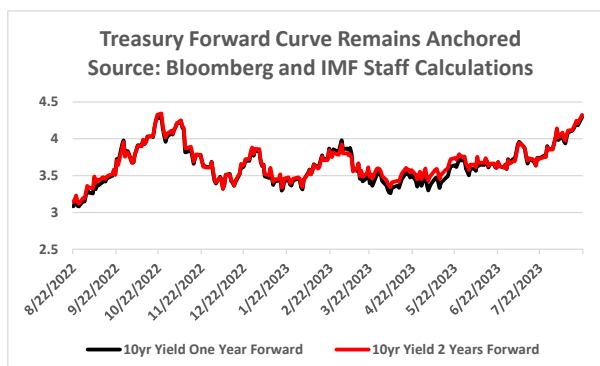
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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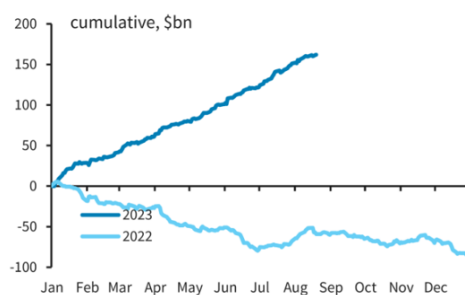
United States

The US Treasury market extended last week's selloff, pushing the benchmark 10-year yield to its highest level since 2007. The 10-year yield has increased by 100 bps since its 2023 low back in April, and the long bond yield is up more than 100 bps. The 2-year yield is up nearly 125 bps from the April low, and the 10-year US Inflation Protected Security (TIPS) real yield crossed 2% yesterday for the first time since 2009. Investors are looking ahead to Friday's Jackson Hole speech from Fed Chair Powell for clues on how hawkish Fed policy is likely to be. Markets no longer expect any rate cuts in 2023 and assign a 45% probability to another rate hike this year. However, the market still expects the first rate cut to come in the first half of 2024. The gradual realization that the Fed could stay on hold beyond May or June has led many investors to reassess their views on how high interest rates could eventually go. However, the forward curve indicates that markets think rates will not move much higher. The 10-year yields 1-year and 2-years forward remain higher but remain anchored within recent ranges despite the surge in the spot market 10-year yield.



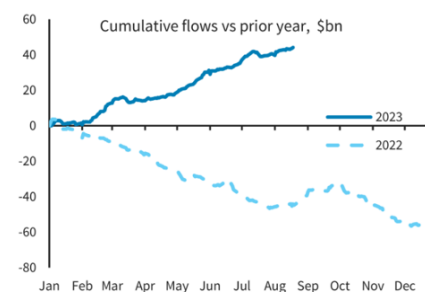
Higher yields threaten investors who poured money into bonds and bond funds over the past few months. Investors were on a buying spree in the US bond market as interest rates moved higher. With the yield curve inverted and the two-year Treasury yield trading in the 4.75%-5% range, demand for shorter maturity Treasuries and T-Bills has been very strong. However, with longer maturity Treasury yields rising at a faster pace subsequently, demand at the longer end of the Treasury curve had also picked up. Now these buyers face significant mark-to-market losses on unhedged bond holdings. This is not necessarily a major problem for bond funds that follow indexes, but faster money players such as hedge funds who try to earn absolute returns could face pressure to sell. The same could be true of volatility driven investors who may be forced to sell their holdings as higher volatility reduces their risk limits.

Figure 5. Cumulative US bond fund flows year to date



Source: EPFR, Barclays Research

Figure 7. Broad-based US bond fund flows, YTD



Fund type includes short, intermediate, and long duration.

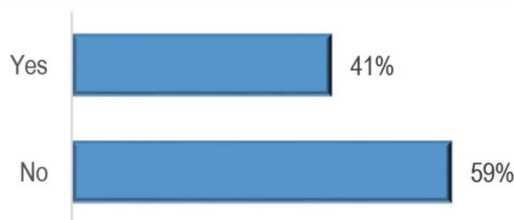
Source: EPFR, Barclays Research

Commodity Markets

Investors do not believe that the recent rise in oil prices will trigger a renewed bout of inflation, according to the latest survey data from JP Morgan. They also believe that the rise in oil prices is temporary, and that Brent will not stay above \$90/barrel for very long. They are also more optimistic on the prospect of recession, with the proportion of investors who expect a recession in the US and euro area

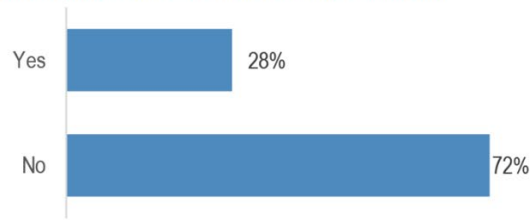
falling sharply. However, a recession is still expected for the UK. The general view is that the global economy excluding the US is weakening, especially in China and other emerging markets. As a result, oil prices will be kept in check by weaker demand going forward. This view appears to be confirmed by the oil futures curve, which has gone further into backwardation as longer maturity oil futures prices fall more sharply than shorter maturity prices.

Figure 4: Is the recent rise in energy prices likely to drive a renewed inflation impulse?



Source: J.P. Morgan.

Figure 5: Do you expect Brent oil will soon move above \$90/bbl for a sustained period?



Source: J.P. Morgan.

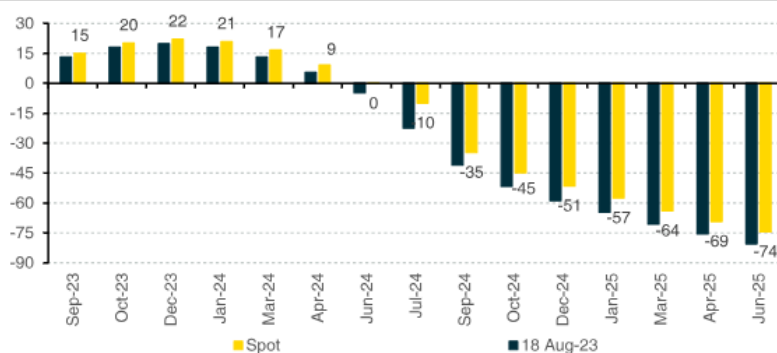
Euro Area

European equities were trading higher (Stoxx 600 Europe index +1.2%), with all sectors in the green and the technology sector (+2.5%) outperforming. Sovereign yields eased (10y bund yield -4 bps to 2.66%), retracing some of the recent increases but remaining close to levels last seen in early March. Italian spreads narrowed (-3 bps to 166 bps), despite Bloomberg articles yesterday noting that Italy could slow its plans to reduce its deficits after an unexpected slowdown in economic activity, according to anonymous sources.

While ECB terminal rate expectations have been little changed, markets have scaled back rate cut expectations. While the peak in the ECB policy rate priced in by markets have drifted slightly higher over the past few weeks, markets have reduced rate cut expectations for 2024. Analysts at Deutsche Bank still see a 3.75% terminal rate with no rate cuts until September 2024, but argue that the ECB would likely keep its hawkish bias. Commerzbank expect the ECB to keep the deposit rate unchanged at 3.75% for the foreseeable future.

Forwards question swift ECB cuts

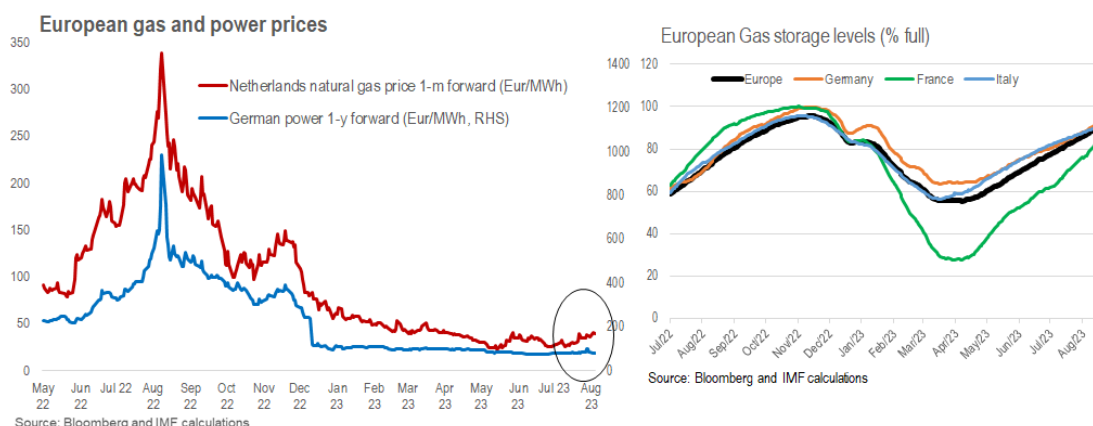
Cumulative rate hikes/cuts priced in by €STR-forwards, in bp



Source: Bloomberg, Commerzbank Research

European natural gas prices reach two-month high on strike concerns in Australia. According to media reports strike action could start in September if an agreement on pay negotiations is not reached. Analysts note that the potential industrial action at a key export facility in Australia could impact roughly 10% of global natural gas exports. European natural gas prices jumped 12% yesterday, closing above €40/MwH for the first time since mid-June. Analysts from Standard Chartered see risks of LNG supply

disruption from Australia as relatively modest but argue that recent price jumps highlight an asymmetry in the forward curve—which they see as tilted towards higher prices. Looking ahead, analysts forecast LNG prices at around €45/MWh over the winter. On a brighter note, gas storage in Europe has already reached around 90% of requirements, well ahead of schedule.



Japan

JGB yields rose to 9-year highs. The 10-year JGB yield reached 0.661% (+1.7 bps) as markets tried to gauge the Bank of Japan (BOJ)'s tolerance for yield increases. The current level of 10-year JGB yield is above the estimated fair value by some analysts (e.g., Credit Agricole: 0.61%). Longer-end JGB yields also made new highs, with the 30-year yield touching 1.663% (+1.3 bps). Interest rate differentials between US dollar and Japanese yen widened further after a sharp rise in US treasury yields yesterday.



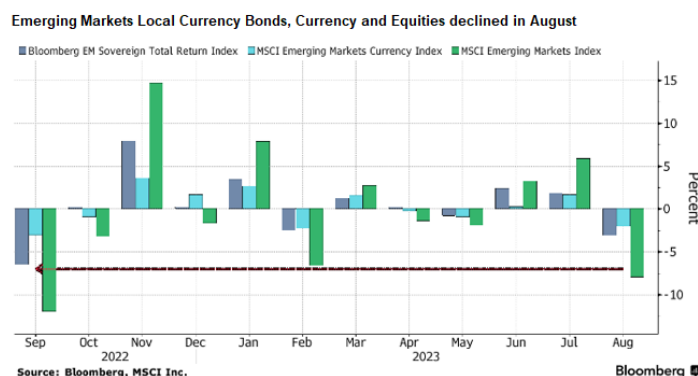
Emerging Markets

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EMEA equity markets were mostly trading higher while currencies and local bond yields were mixed. Equities in Egypt (+1.4%) outperformed while those in Bulgaria (-0.5%) saw the largest losses. The South African rand was outperforming (+0.8% to 18.81/\$) with contacts noting that the currency could be seeing some support from a degree of optimism for investments from the BRICS block, with the BRICS summit starting in Johannesburg today. **Most Asian equities gained, up 1.1% on net, led by Hong Kong SAR (+1.4%) and Thai (+1.0%) equities.** Most Asian currencies appreciated. Long-end government yields increased, with 10-year yields rising in Indonesia (+7.5 bps) and Vietnam (+7.0 bps), following a notable increase in US treasury yields. **LATAM markets broadly declined led by worries about China and higher US Treasury yields.** The Mexican peso continued its outperformance relative to peers.

Emerging Market Assets

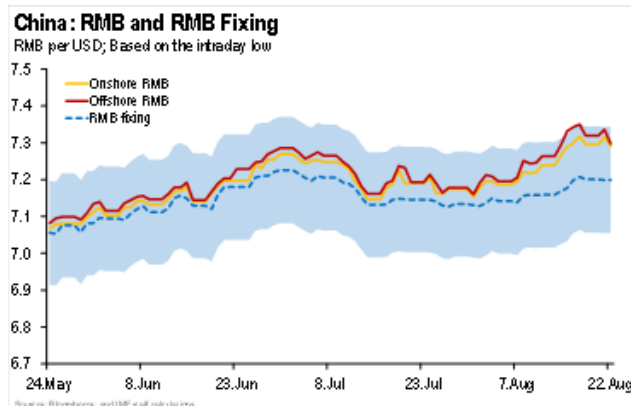
Emerging market (EM) assets are poised for worst monthly performance since September 2022. EM bonds, equities and currencies declined in August, raising questions over the outlook for EM assets. The continued rise in US Treasury yields, increasing pessimism over China's economic growth outlook and political uncertainties have led investors to re-examine the case for investing in EM assets. Volatility in the markets, as indicated by the CBOE EM ETF Volatility Index, have also increased for the second consecutive month in August, potentially triggering more outflows. Renewed US Dollar strength over the past month, alongside dovish EM central banks made the EM carry trade less attractive, resulting in recent weakness in EM currencies.



China

China escalated efforts to support the currency.

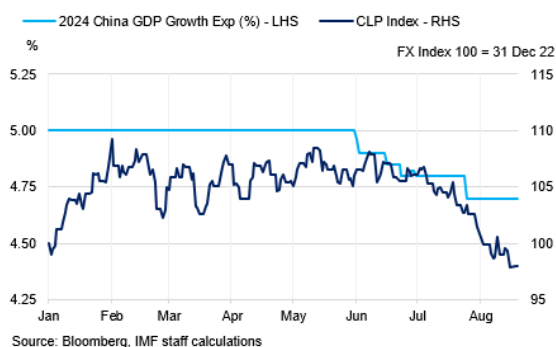
Today, the People's Bank of China (PBOC) continued setting the daily RMB fixing at 7.199 yuan per dollar, stronger than expected by 1,111 pips, the largest deviation from market expectations on record. RMB was little changed at around 7.28 yuan per dollar, underperforming other currencies in the region. Nevertheless, the onshore RMB has not traded close to the band that centers around the daily RMB fixing, in contrast to the September-October 2022 episode when the onshore RMB touched the limit on some days. In addition, the offshore RMB liquidity conditions tightened notably, with spreads between CNH HIBOR and SHIBOR rising to 304 bps for the 1-month tenor (3-month: 189 bps; 1-year: 104 bps). Markets saw the tightening of offshore RMB liquidity as another tactic that Chinese authorities are using to support the currency. **The PBOC started to withdraw liquidity via open market operations**, a sign that liquidity pressures related to the liquidity problem at Zhongzhi (a leading asset manager) may have subsided. Chinese equities gained (CSI 300: +0.8%) amidst speculation about equity buying by state-backed funds.



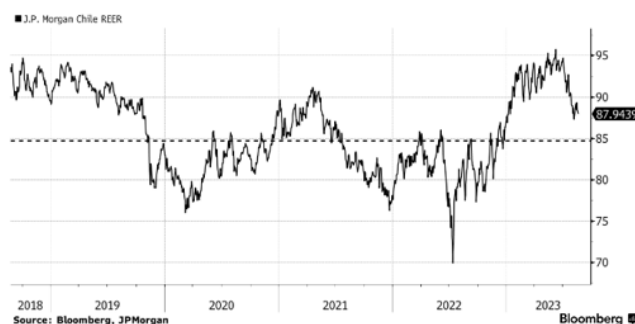
Chile

The Chilean peso depreciated to its weakest level this year against the US Dollar. The currency weakness can be attributed to a confluence of factors, including concerns over China's economic growth, declining copper prices and expectations for steep policy rate cuts. Sentiments were further hampered by two cases of alleged fraud, reported last week, in its largely unregulated shadow banking industry. The contraction in Chile's 2Q GDP strengthened the case for further rate cuts, after the central bank eased monetary policy in July. Despite the recent weakness, the peso remains near its long-term average when compared to its trading partners.

CLP FX Performance and 2024 China's Growth Expectations (consensus est.)



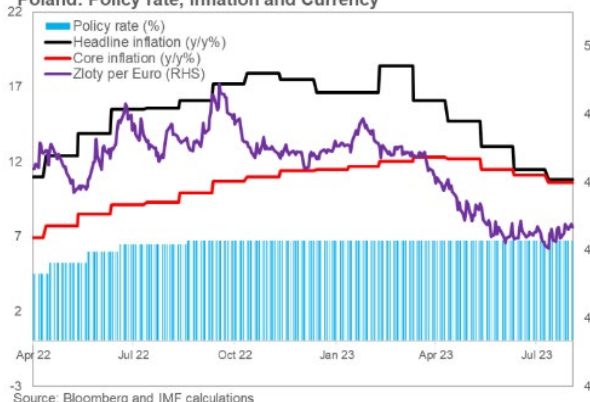
CLP FX Performance against Trading Partners



Poland

Weakening economic data supports expectations for interest rate cuts. Data released this morning showed weaker than expected retail sales in July and disappointing construction output data. This follows yesterday's data that showed a larger than expected decline in July producer prices and a sharp decline in industrial production. Contacts argue that recent weak data could lead to the central bank starting its rate cutting cycle at the upcoming policy meeting in September. After the previous policy meeting in July, Polish Central Bank Governor Glapinski surprised markets during his press conference by saying that a 25 bps cut in September was possible if inflation remained on a downward trajectory.

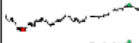

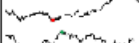
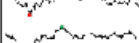

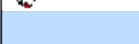
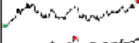
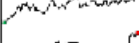
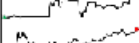
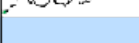


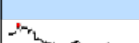
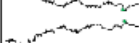


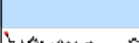

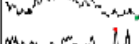



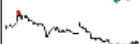



Poland: Policy rate, Inflation and Currency



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Benjamin Mosk (Senior Financial Sector Expert), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

8/22/23 1:04 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4414	0.7	-1	-3	7	15
Europe		4287	1.5	0	-2	17	13
Japan		31857	0.9	-1	-1	12	22
China		3758	0.8	-2	-2	-10	-3
Asia Ex Japan		64	0.1	-3	-5	-4	-1
Emerging Markets		38	0.2	-2	-5	-3	2
Interest Rates			basis points				
US 10y Yield		4.31	-2.6	10	48	130	44
Germany 10y Yield		2.66	-4.4	-1	19	135	9
Japan 10y Yield		0.67	1.7	3	22	44	24
UK 10y Yield		4.66	-6.5	8	38	215	99
Credit Spreads			basis points				
US Investment Grade		148	-0.7	3	2	-13	-10
US High Yield		425	-0.7	10	10	-56	-55
Exchange Rates			%				
USD/Majors		103.28	0.0	0	2	-5	0
EUR/USD		1.09	-0.1	0	-2	9	2
USD/JPY		145.8	-0.3	0	3	6	11
EM/USD		47.9	0.1	1	-2	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		84.0	-0.6	-1	4	-5	2
Industrials Metals (index)		141	1.5	2	-1	-10	-15
Agriculture (index)		66	0.4	2	-6	-2	-4
Implied Volatility			%				
VIX Index (% change in pp)		16.7	-0.5	0.2	3.1	-7.1	-5.0
US 10y Swaption Volatility		129.0	0.0	9.1	27.7	-4.0	3.3
Global FX Volatility		8.6	0.0	-0.1	0.2	-2.8	-2.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		130	-0.3	0	-3	-120	-75
Italy		166	-3.0	-2	6	-66	-48
Portugal		72	-1.7	-1	1	-37	-30
Spain		103	-1.4	0	3	-15	-6

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

Emerging Market Financial Indicators

Key Emerging Market Financial Indicators							
Last updated: 8/22/23 1:05 PM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		38.49	0.6	-2	-5	-3	2
MSCI Frontier Equities		26.41	0.6	-4	-4	-4	4
EMBIG Sovereign Spread (in bps)		424	-1	17	8	-67	-28
EM FX vs. USD		47.86	0.1	1	-2	-4	-4
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.29	-0.1	0	-1	-6	-5
Indonesian Rupiah		15315	0.1	0	-2	-3	2
Indian Rupee		82.93	0.2	0	-1	-4	0
Argentine Peso		349.90	0.0	-18	-24	-61	-49
Brazil Real		4.95	0.5	1	-5	4	7
Mexican Peso		16.92	0.6	1	-1	19	15
South African Rand		18.75	1.2	2	-5	-9	-9
Turkish Lira		27.20	-0.1	-1	-1	-34	-31
EM FX volatility		9.17	0.0	-0.3	0.5	-3.0	-1.7

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

Last updated: 8/22/2023 1:07 PM	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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.29	-0.1	0.0	-1	-6	-5		2.6	3.0	-2	-11	-13	-47
Indonesia		15315	0.1	0.2	-2	-3	2		6.7	4.8	25	42	-50	-27
India		83	0.2	0.0	-1	-4	0		7.7	1.0	15	37	25.3	27
Philippines		56	-0.4	0.8	-3	0	-1		#N/A	#####	#####	#VALUE!	#VALUE!	#####
Thailand		35	0.6	1.2	-1	3	-1		3.0	2.5	15	26	45	38
Malaysia		4.65	0.0	-0.3	-2	-3	-5		3.9	-1.3	-1	3	-12	-19
Argentina		350	0.0	-17.9	-24	-61	-49		107.9	0.0	1083	1768	3223	1970
Brazil		4.95	0.5	0.6	-5	4	7		11.5	2.5	23	57	-61	-105
Chile		870	-0.1	-1.8	-5	8	-2		5.5	7.5	17	44	-139	16
Colombia		4131	-0.7	-3.9	-3	6	17		8.3	0.0	21	57	-128	-152
Mexico		16.93	0.6	1.3	-1	19	15		9.0	0.0	25	80	42	26
Peru		3.7	-0.4	-0.5	-4	4	2		7.2	-0.4	39	33	-78	-80
Uruguay		38	-0.1	0.2	0	7	5		9.2	2.9	12	-4	-167	-148
Hungary		351	0.0	1.3	-3	17	6		7.5	-6.0	30	71	-178	-208
Poland		4.10	0.2	0.1	-2	17	7		5.0	-6.3	17	43	-86	-112
Romania		4.5	-0.1	-0.2	-2	8	2		6.7	1.0	9	35	-99	-99
Russia		94.1	-0.5	4.2	-4	-36	-21							
South Africa		18.7	1.2	2.2	-5	-9	-9		9.7	-7.0	10	42	84	52
Turkey		27.20	-0.1	-0.5	-1	-34	-31		21.2	-82.0	-87	225	727	1140
US (DXY; 5y UST)		103	0.0	0.1	2	-5	0		4.45	-2.0	7	35	129	44

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