



- **US analysts focus on potential revisions to R\*** ([link](#))
- **Disappointing German Ifo confidence data reinforces economic outlook concerns** ([link](#))
- **Analyst attribute August EM FX weakness to China growth woes and US yield moves** ([link](#))
- **Foreign investors have been selling Chinese equities at a high speed** ([link](#))
- **Mexico's central bank meeting minutes revealed reluctance to discuss policy easing** ([link](#))

[Mature Markets](#)










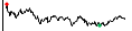

| [Emerging Markets](#)

| [Market Tables](#)

## The waiting for Jackson Hole is nearly over

**As markets have been anticipating all week to see what comes out of the Jackson Hole speeches, the day has finally arrived.** Markets continue to struggle for direction as investors wait for signals from speeches by Fed Chair Powell and ECB President Lagarde. Returns on the S&P 500 have jumped from positive to negative throughout the week. While yesterday seemed poised for a rally following Nvidia's strong earnings forecast, a shift higher in the yield curve caused equity markets to undo their gains and fall into negative territory. Today's speeches at Jackson Hole will be key for determining the market's direction in coming days. While analysts mostly expect Powell to focus on data dependency for future Fed policy, there is increased thought that he could address possible changes to the real neutral rate (R\*). Even while equities have been without direction this week, the dollar has mostly continued its appreciation and is edging higher again this morning. Emerging market currencies are mixed, with the Turkish lira leading losers, losing 2.5% on the day. That only partially unwinds yesterday's massive 5% rally after the central bank's 750 bp interest rate hike.

Key Global Financial Indicators

Last updated: 8/25/23 8:26 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		4376	-1.3	0	-4	4	14	4
Eurostoxx 50		4256	0.6	1	-3	16	12	7
Nikkei 225		31624	-2.1	1	-3	10	21	20
MSCI EM		39	-0.4	1	-6	-4	3	-18
<b>Yields and Spreads</b>			bps					
US 10y Yield		4.23	-0.6	-2	35	121	36	224
Germany 10y Yield		2.55	3.9	-7	13	124	-2	232
EMBIG Sovereign Spread		415	-7	-6	4	-70	-36	3
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		48.3	0.1	1	-2	-4	-3	-9
Dollar index, (+) = \$ appreciation		104.0	0.0	1	3	-4	0	8
Brent Crude Oil (\$/barrel)		84.4	1.3	0	1	-15	-2	-13
VIX Index (% change in pp)		17.0	-0.2	0	3	-5	-5	-14

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

## Mature Markets

[back to top](#)

### United States

Yesterday, the S&P 500 fell by 1.3%, with all sectors declining, while the largest losses were in Information Technology sector (-2.2%). US Treasury nominal yields rose by 4–5 bp across the yield curve, driven predominantly by real yields. Correspondingly, the dollar appreciated 0.6% against major currencies.

**Bloomberg reports that many analysts and trading desks recently became focused on the value of the real neutral rate ( $R^*$ ) and potential changes in the Fed's communication about  $R^*$ .** Even though  $R^*$  has been mostly dismissed by trading desks in previous years as an abstract theoretical concept, some analysts attribute a recent increase in the long-term yield to a market revision in  $R^*$  and expect that Fed Chair Powell may discuss changes in  $R^*$  at Friday's Jackson Hole symposium. A consequence of an upward revision in  $R^*$  is a tighter required monetary stance in this hiking cycle. Reasons for raising the neutral rate include the economy's recent resilience, a rising budget deficit, a potential rundown in savings, spending more on the shift from carbon, and the chance technological gains such as artificial intelligence will boost productivity. Other analysts point out that it's unlikely that revisions in  $R^*$  would affect the Fed's decision-making during this hiking cycle: even though individual submissions of long-term Fed dots were revised upward in response to higher  $R^*$  (seen as increase in average dots vs median dots on the left chart), a significant revision may take at least a decade and in the short run can't be compared in importance with the data-driven decision-making approach implemented by the Fed right now. Nevertheless, the priced-in long-term real yields recently became higher than the popular Laubach-Williams estimate of  $R^*$  (right chart).

**Average Estimate of Fed Long-Term Dot Rises**

■ Average of FOMC estimate of long-run interest rate ■ Median



Source: Federal Reserve

**US Real Yields Have Split With Fed's Model**

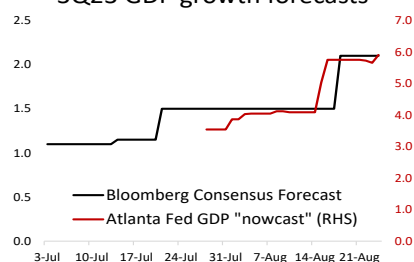
■ US 5y Real Rate - Last Price ■ Laubach Williams Natural Rate of Interest United States - Mid Price on 3/31/23



Source: Bloomberg, Federal Reserve

**Various analysts have significantly revised their projected 3Q23 GDP growth figures.** For example, Bloomberg consensus forecast doubled in the last two months (from 1.1% to 2.1%), while Atlanta Fed GDP "nowcast" figures rose from 3.5% to 5.9% in just one month (left chart below). Atlanta Fed's revisions were driven mostly by stronger consumer spending and a rapid recovery in residential investment. Some analysts argue that such high growth may reflect a necessity for tighter monetary policy stance. Others, like SMBC Nikko, point out that the high growth may be a precursor of a recession: the right table shows episodes when an abnormally high growth was followed by a drop in GDP.

**3Q23 GDP growth forecasts**



Boom Before the Bust				
Boom	Growth (%)		Bust	Drop (%)
Q1 1960	9.3	→	Q2 1960	-2.1
Q4 1973	3.9	→	Q1 1974	-3.4
Q3 1981	4.9	→	Q4 1981	-4.3
Q4 2000	2.4	→	Q1 2001	-1.3
Q4 2007	2.5	→	Q1 2008	-1.6
Q3 2023	3.5*	→	Q4 2023	?

\*= SMBC Forecast

Sources: Philadelphia FRB, SMBC Nikko

## Euro Area

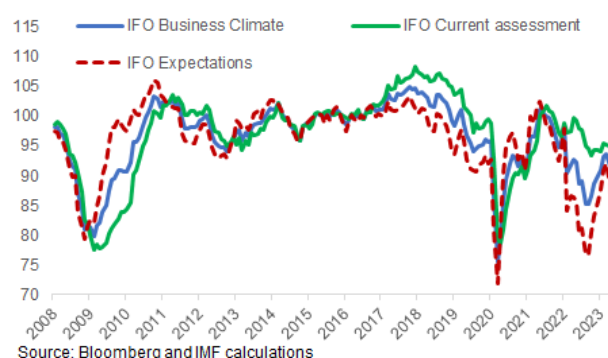
**Ahead of Fed Chair Powell's and ECB President Lagarde's speeches at the Jackson Hole Symposium the euro continued to weaken against the dollar (-0.1%).** European equities were mostly trading higher (Stoxx 600 Europe index +0.2%), with the majority of sectors trading in the green.

**Sovereign yields were edging higher following hawkish commentary from ECB General Council (GC) members.** Ahead of President Lagarde's speech at Jackson Hole Symposium later today, ECB GC member Nagel argued that it is "much too early" to think about pausing rate hikes, with GC member Vujcic noting that further data is required to determine if rates have increased enough. On a more dovish tone, GC member Centeno, encouraged officials to be cautious in decisions on the next steps, noting that previously identified risks for the economy have materialized. Sovereign yields were increasing this morning (10y bund +4bp at 2.55%), after ending the day little changed yesterday. Contacts note that uncertainty remains around the ECB's rate decision in September, with next week's inflation data print seen as a key input in the ECB's decision.

**Germany's Ifo index disappointed, with both the business expectations and current conditions declining in August.** The German Ifo business climate index fell to 85.7 (versus expected 86.8 from 87.4), declining for the fourth consecutive month, with the current component falling to levels last seen during the pandemic and the 2008 financial crisis. This morning's data release echoes disappointing PMI data released earlier this week, and reinforced concerns over Germany's economic outlook. Some analysts have now revised their economic growth forecasts downward for the euro area and Germany, with

Morgan Stanley analysts, for example, forecasting Germany's GDP growth at -0.3%q/q in Q3 and 0.0% in Q4. Other analysts have left forecasts unchanged noting uncertainty about the reasons for weak PMI data. Elsewhere on the data front, the final Q2 economic growth data from Germany were largely in line with earlier estimates (0.0%q/q).

Germany: IFO Business surveys



## United Kingdom

**Gilt yields are set for the largest weekly decline since March as markets have scaled back BoE hiking expectations, following disappointing flash PMI data released earlier this week.** 10y gilt yields are now trading at around 4.44%, roughly 23 bp lower than at the start of the week, with markets now pricing in a terminal rate at around 5.9% compared to around 6% at the start of the week. For comparison, 10y bund yields are roughly 8bp lower than at the start of the week. Contacts argue that a worsening UK economic outlook could see the BoE hiking rates by less than what markets are currently pricing, which could then lead to a further decline in gilt yields. **The GfK consumer confidence index surprised on the upside in August, rising by 5 points to -25 (versus expected -29).** While confidence remains at low levels, data showed an improvement in the personal financial situation of households as well as a more optimistic view on the general economic outlook

UK: Currency and 10y Gilt yield



for the next 12 months. This morning gilt yields edged higher (10y gilts +2bp to 4.44%) while the pound was slightly weaker against the dollar (-0.1%). Contacts are focused on speakers at the Jackson Hole Symposium, where BoE Deputy Governor Broadbent is set to speak.

## Japan

**Prime Minister Kishida plans to increase government spending even as government funding costs are set to rise.** With his low approval ratings, his government is under pressure to deliver more. He has decided to continue with subsidies that cap gasoline prices and pledged to consider fresh economic measures to help households and businesses deal with inflation. Reportedly, the Ministry of Finance plans to raise the assumed interest rate for debt-servicing to the highest level in years for the next year budget. August PMI data pointed to improving activity. Manufacturing PMI edged up slightly to 49.7 from 49.6, though still in a contractionary territory. Meanwhile, services PMI improved to 54.3 from 53.8. Long-end JGB yields increased (10-year: +1.0 bp; 30-year: +1.4 bps), with the 10-year yield touching 0.67%, after the Bank of Japan (BOJ)'s bond purchase operation results indicated stronger appetite to sell JGBs to the BOJ. Market participants generally expected the BOJ to intervene again if the 10-year JGB yield reaches 0.7%. The yen appreciated (+0.3%). Equities gained (NIKKEI: +0.5%).

## Emerging Markets

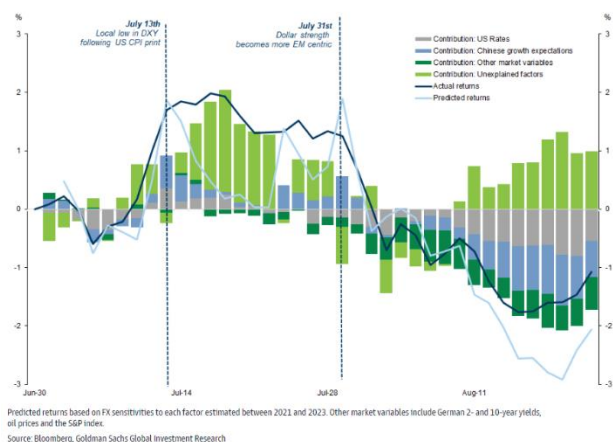
[back to top](#)

**Asian equities were mixed, gaining 0.5% on net.** Taiwanese equities (+0.8%) led the gain, while share prices dropped in China (CSI 300: -1.6%). Most Asian currencies depreciated, led by the Philippine peso (-0.5%) and Korean won (-0.3%). Meanwhile, long-term government bond yields declined. In Singapore, inflation moderated in July, with headline CPI inflation easing to 4.1% y/y from 4.5% (consensus: +4.2%) and core CPI inflation easing to 3.8% from 4.2%. The Singaporean dollar was little changed; long-term government bond yields dipped (10-year: -1 bp). **Equity markets in EMEA were mixed while currencies were mostly trading weaker against the dollar.** Equities in Bulgaria (+0.8%) and Türkiye (+0.5%) outperformed while equities in Poland (-0.3%) were trading in the red. With the exception of the South African rand (+0.9%) most currencies were trading weaker against the dollar, with the Turkish lira (-2.7%) leading declines. Local currency bond yields were mostly higher. **LatAm equities broadly declined Thursday.** Currencies and local bonds were mixed. Following two consecutive sessions of leading the rally, the Brazilian real trimmed gains, depreciating by 0.5% while the Chilean peso continued its rally, appreciating by 1.4%. 10-yr Colombia bonds outperformed, with yields lower by -8bp while 10-yr Mexico bond yields marginally rose +3bp.

## Emerging markets

**Goldman analysts find that emerging market currency depreciation this month is almost fully explained by a deterioration in China's growth expectations and the steepening of the US yield curve.** Goldman Sachs analysts estimate that 'predicted' EM FX returns based on these two sensitivities—using a market-based proxy of Chinese growth expectations and front- and long-end US yields, shown by the light blue line below—very closely tracks the 'actual' returns, shown by the dark blue line. Analysts also find that unexplained factors contributed positively to the predicted returns, thus highlighting that EM currencies have been relatively resilient and have weakened slightly less than expected as a result of market developments. Goldman Sachs analysts also find that EM currency

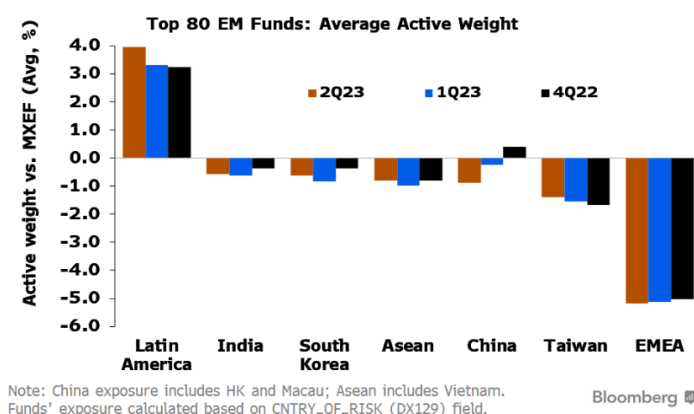
Exhibit 1: Both Chinese growth negativity and the bear steepening of the US yield curve explain a large part of the EM FX sell-off in August... Cumulative EM FX % appreciation vs USD relative to June 30, 2023.



performance depend on the speed as well as the drivers of the US yield moves. With this in mind analysts highlight that EM currencies could recover as the speed of the US yield moves slow down, even if yields remain at elevated levels.

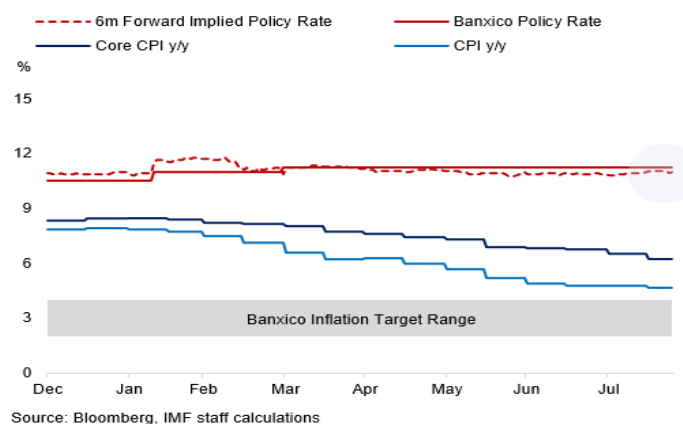
## China

**Foreign investors have been selling Chinese equities at a record speed.** The net outflows from China's onshore equity markets via the Northbound Stock amounted to \$10.8 bn during August 4–23, which is also the longest selling streaking since November 2015. The selloff has been concentrated in China's blue-chip stocks. Emerging market funds have turned underweight on Chinese stocks (chart below). Chinese equities declined (CSI 300: -1.6%), led by IT and telecom stocks. **RMB appreciated slightly to 7.29 yuan per dollar today.** Reportedly, state-owned banks sold dollars in the onshore market around noon to support the currency. The People's Bank of China continued setting the daily RMB fixing at 7.199 yuan per dollar, stronger than expectations by 955 pips. Market participants looked for signals of where Chinese authorities will most likely defend the currency aggressively. The daily RMB fixing, which sets a limit to how much the currency can move within a given day, has been around 7.2 yuan per dollar for about a week already.



## Mexico

**Banxico's meeting minutes reflect a cautious stance, emphasized upside bias to inflation risk.** The meetings from the August meeting, where the central bank held the policy rate at 11.25%, revealed that it is "necessary to maintain" its current stance for an "extended period". All members of Banxico's MPC also agreed that the balance of risks to the inflation trajectory remain biased on the upside with some highlighting the persistence of the core component at high levels. Most directors noted that it is premature to discuss or anticipate near-term policy rate cuts. Markets continue to expect Banxico to keep its policy rate high with the 6-month pricing for implied policy rate trading above 11%.

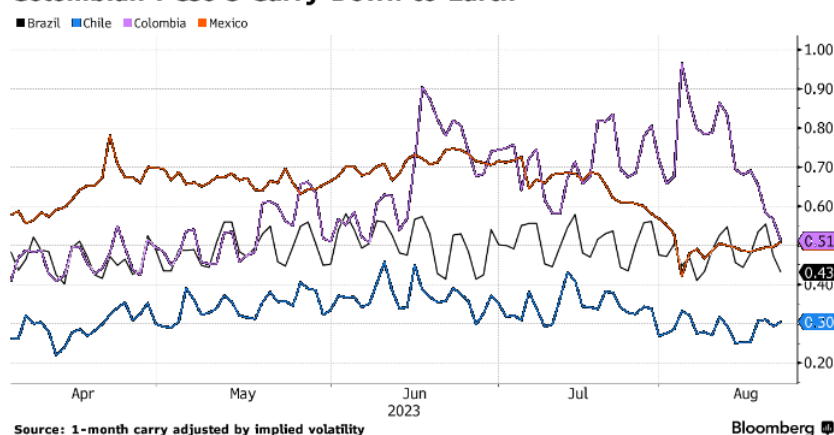




## Colombia

**The Colombian peso carry trade allure is diminishing.** The peso was the third worst performing major EM currency in August (after Argentine Peso and South African Rand) and underperformed its peers as its FX forward implied yields of more than 20% diminished to around 14%. In June, the COP experienced distortion in its forward points, likely due to the large inflows of USD into the spot market, but without efficient arbitrage in the non-deliverable FX forward market. This phenomenon led to a temporary larger-than-warranted implied-forward yield. The COP's 1-month carry, adjusted by implied volatility, is now closer to the more liquid BRL and MXN, making the COP less attractive currency for carry trades.



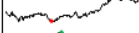





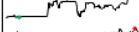
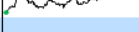


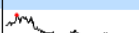



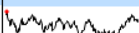


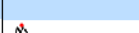






### Colombian Peso's Carry Down to Earth



*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.*

**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.




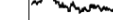


























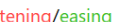
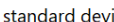






## Global Financial Indicators

Last updated: 8/25/23 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4379	-1.3	0	-4	4	14
Europe		4256	0.6	1	-3	16	12
Japan		31624	-2.1	1	-3	10	21
China		3709	-0.4	-2	-7	-10	-4
Asia Ex Japan		65	-0.3	0	-6	-5	0
Emerging Markets		39	-0.4	1	-6	-4	3
<b>Interest Rates</b>			basis points				
US 10y Yield		4.23	-0.6	-2	35	121	36
Germany 10y Yield		2.55	3.9	-7	13	124	-2
Japan 10y Yield		0.66	0.5	3	20	43	24
UK 10y Yield		4.44	1.8	-23	18	183	77
<b>Credit Spreads</b>			basis points				
US Investment Grade		146	0.7	-3	3	-11	-13
US High Yield		424	0.1	-6	13	-56	-56
<b>Exchange Rates</b>			%				
USD/Majors		104.03	0.0	1	3	-4	0
EUR/USD		1.08	0.0	-1	-2	8	1
USD/JPY		145.9	0.1	0	3	6	10
EM/USD		48.3	0.1	1	-2	-4	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		84	1.3	0	1	-4	2
Industrials Metals (index)		142	0.4	2	-4	-10	-14
Agriculture (index)		67	0.4	1	-7	-1	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.0	-0.2	-0.3	3.1	-4.8	-4.7
US 10y Swaption Volatility		117.7	0.0	-1.4	14.8	-9.4	-8.0
Global FX Volatility		8.4	0.0	-0.2	0.0	-2.6	-2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		132	-0.9	1	-1	-127	-74
Italy		167	0.6	-4	3	-58	-48
Portugal		71	0.3	-3	-2	-36	-31
Spain		103	-0.1	-3	0	-14	-7

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

## Emerging Market Financial Indicators

Last updated: 8/25/2023 8:26 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	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.28	0.2	0.3	-1	-6	-5		2.6	-0.5	-1	-11	-14	-48
Indonesia		15295	0.1	-0.1	-2	-3	2		6.6	-6.0	17	36	-52	-33
India		83	0.3	0.3	-1	-3	0		7.7	-6.9	8	30	16	20
Philippines		57	-0.6	-0.3	-4	-1	-2		#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Thailand		35	0.3	1.6	-1	3	-1		3.0	0.5	16	27	44	38
Malaysia		4.66	-0.2	-0.6	-2	-4	-5		3.9	-0.8	-1	2	-13	-19
Argentina		350	0.0	0.0	-23	-61	-49		102.7	-517.3	375	1251	2753	1452
Brazil		4.85	1.8	2.9	-2	5	9		11.2	-18.6	-10	27	-71	-135
Chile		857	1.5	1.5	-3	7	-1		5.3	-12.9	-4	27	-147	0
Colombia		4076	1.0	1.2	-3	7	19		8.2	-15.5	11	53	-115	-156
Mexico		16.79	0.7	2.1	0	19	16		8.8	-21.0	-1	59	22	5
Peru		3.7	0.3	0.3	-3	4	3		7.2	0.7	37	33	-79	-80
Uruguay		38	0.2	0.5	1	7	6		9.2	-0.8	11	-4	-158	-149
Hungary		352	0.2	1.0	-3	18	6		7.3	-22.0	-1	44	-225	-235
Poland		4.11	0.3	-0.1	-2	16	6		4.9	-13.3	7	33	-110	-123
Romania		4.5	0.1	-0.2	-2	8	2		6.7	3.4	12	38	-98	-96
Russia		94.1	0.1	1.5	-4	-36	-21							
South Africa		18.5	1.7	3.7	-4	-8	-8		9.5	-16.0	0	26	68	36
Turkey		27.20	0.0	-0.5	-1	-33	-31		21.3	-4.0	-62	233	810	1148
US (DXY; 5y UST)		103	-0.2	0.0	2	-5	0		4.37	-11.6	-3	28	121	37

	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		Last 12m	Latest	7 Days	30 Days	12 M		
							YTD	basis points						
China		3697	0.0	-3	-3	-9	-5		180	-1	-4	-31	3	
Indonesia		6921	0.0	0	0	-4	1		130	5	-3	-54	-10	
India		65433	0.0	0	-1	11	8		137	1	6	-21	-5	
Philippines		6180	0.0	-2	-7	-7	-6		106	5	-2	-25	9	
Thailand		1549	0.0	2	2	-5	-7							
Malaysia		1440	0.0	-2	2	-3	-4		96	3	6	-17	-4	
Argentina		615499	3.6	17	30	349	205		2051	-167	30	-397	-154	
Brazil		118135	1.7	2	-2	5	8		234	0	-2	-88	-40	
Chile		6189	0.5	0	-2	15	18		126	7	6	-59	-6	
Colombia		1100	-1.5	-3	-6	-15	-15		336	12	2	-78	-36	
Mexico		53677	1.0	0	0	12	11		374	8	0	-43	-7	
Peru		23113	0.7	1	0	18	8		157	5	-3	-35	-23	
Hungary		56927	0.0	3	7	32	30		198	3	1	-16	-24	
Poland		68153	0.0	-1	-4	27	19		116	2	-4	111	43	
Romania		13013	0.0	0	-2	5	12		211	8	2	-59	-44	
South Africa		74023	0.0	-1	-4	6	1		397	10	22	-66	30	
Turkey		7602	0.0	-1	14	144	38		405	-2	-21	-282	-35	
Ukraine		507	0.0	0	0	-2	-2		3477	13	-151	148	-602	
EM total		39	#N/A	1	-3	-2	3		381	0	9	-51	5	

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

[back to top](#)