



- Short positions in US 10-year note futures hit record high ([link](#))
- China stays on hold as expected ([link](#))
- EU rates growing more sensitive to growth surprises than inflation ([link](#))
- Markets see growing expectations for rate hikes in Brazil ([link](#))
- Turkish lira continues to attract carry traders despite continuing depreciation ([link](#))
- US corporate bond market remains resilient ([link](#))






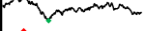




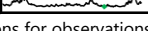
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Markets are little changed as investors seek direction

Stocks in Europe are little changed and US equity index futures are eking out marginal gains as investors seek direction for the crucial month of September, when the Fed is expected to finally join the other major central banks with rate cuts. Markets took comfort from Fed Chair Powell's dovish speech at Jackson Hole on Friday, propelling the S&P 500 to within 1% of its all-time record set back on July 16 and extending the rally to other global markets as well. The MSCI All World Equity Index set its own new record on Friday. This morning, government bond yields in the euro area and the US are mixed but not far from their Friday closes. Investor scrutiny of China remains intense as the central bank struggles to balance support of the economy with financial stability risks as the demand for credit weakens but government bond yields remain stubbornly low due to fears about a weakening economy.

Last updated: 8/26/24 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5635	1.1	1	3	28	18.13
Eurostoxx 50		4905	-0.1	1	1	16	8
Nikkei 225		38110	-0.7	2	1	21	14
MSCI EM		44	1.7	1	3	13	9
Yields and Spreads			bps				
US 10y Yield		3.81	0.8	-6	-39	-43	-7
Germany 10y Yield		2.26	3.5	1	-15	-30	24
EMBIG Sovereign Spread		396	1	-3	9	-26	13
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.1	-0.2	0	1	-4	-4
Dollar index, (+) = \$ appreciation		100.9	0.1	-1	-3	-3	0
Brent Crude Oil (\$/barrel)		81.3	2.9	5	0	-4	6
VIX Index (% change in pp)		16.2	0.4	2	0	1	4

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

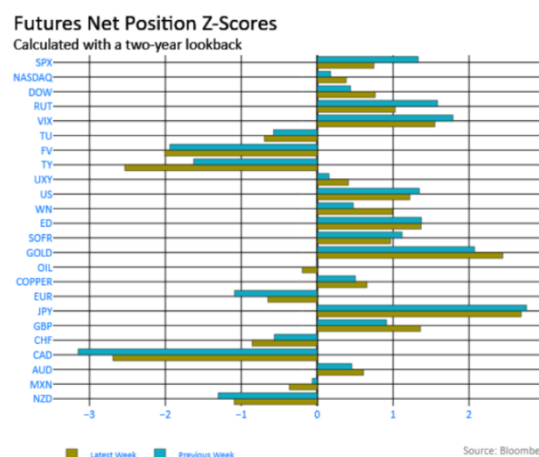
Markets are digesting Fed Chair Powell's dovish remarks at Jackson Hole ahead of the US Labor Day weekend. Friday's all-important PCE inflation report is the main focus in the US. In the euro area, the German IFO business sentiment survey and the German inflation report are among the key reports of the week. Japan reports inflation and unemployment data and India reports on GDP. Brazil is scheduled to report on inflation and employment. The central bank of Hungary meets tomorrow.

Mature Markets

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United States

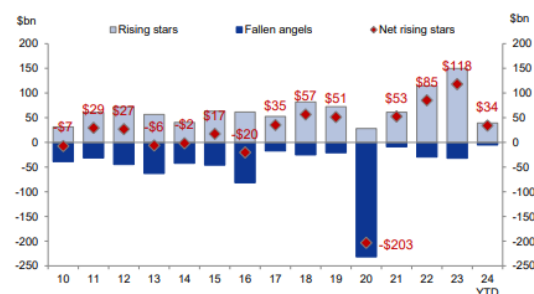
The latest data from the US Commodity Futures Trading Commission (CFTC) data show that short positions in 10-year note futures have reached a record high. The data are based on z-scores with a two-year lookback window. Some analysts believe that these data are a reasonable proxy for how investors are positioned in the underlying instrument, suggesting that investors are net short ten-year Treasuries. If so, investors may have taken enormous losses over the past few weeks as the 10-year Treasury staged a major rally, with the yield falling from 4.71% in April to 3.80% as of this morning. However, most analysts think the data need to be taken with a grain of salt. First of all, they could include basis trades, in which hedge funds or other market participants buy (or sell) the cash bond and sell (or buy) the equivalent Treasury futures contract to exploit differences in pricing between the cash and the futures instruments. In addition, many investors sell Treasury futures short to offset long positions in other fixed income instruments.



The US corporate bond market has remained resilient despite the recent market volatility.

The number of rising stars (speculative grade bonds upgraded to investment grade) has exceeded the number of fallen angels (investment grade bonds downgraded to speculative grade) by a ratio of seven to one. Credit spreads that widened significantly during the period of volatility in early August are now back to where they were before the selloff began. In addition, the recent decline in Treasury yields has led to lower funding costs for companies seeking to issue new debt, making the environment even more favorable. This trend extends even to speculative grade bonds, where Goldman estimates that BB and B rated companies are already seeing lower funding costs. However, CCC funding costs are yet to improve. Meanwhile, issuance and trading volumes for US corporate bonds have been robust.

Exhibit 7: Contrary to our expectations, rising stars have continued to outpace fallen angels this year
Annual notional amounts upgraded/downgraded between IG and HY in the USD market



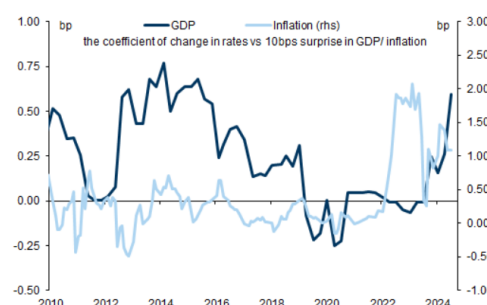
Euro Area and UK

The broader euro area equity indexes were slightly lower, but there were flashes of green in a few non-euro markets such as the UK and Switzerland. Euro area government bond yields were slightly higher despite a weak German IFO business sentiment survey that registered its third decline in a row and came in at its weakest level since February.

Euro area rates are becoming more reactive to growth surprises than in previous months when inflation data had a greater impact on the level of interest rates. There is a growing consensus among market participants that inflation is getting closer to the ECB target, especially in light of the slowdown in wage growth from 4.7% in Q1 to 3.6% in Q2. Markets are pricing almost three cuts by the December 12 ECB meeting. Meanwhile, in the UK, moves in US Treasury yields are expected to have more a significant impact on gilt yields in the weeks ahead, as stronger economic data and progress on inflation put a floor on local short term rates. The correlation between UK and US rates has returned to the high levels seen earlier in the year.

Exhibit 3: Sensitivity of EU rates to inflation is cresting while sensitivity to growth is rising

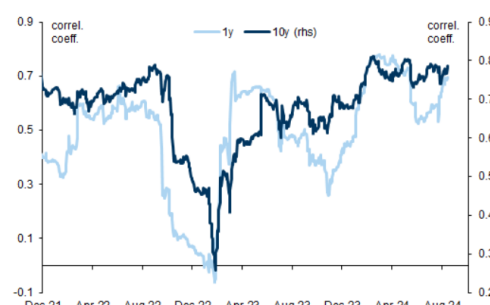
One-year-rolling regression of one-day moves in the EU OIS 2y on the GDP/ Inflation surprise



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities, Bloomberg

Exhibit 4: US duration spillovers are back at all time-highs

Correlation GBP and USD OIS, 1 day change



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Emerging Markets

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On Friday, Latin American currencies appreciated against the dollar while equity performances were mixed across the region. The Mexican peso (+2.2%) led the regional currency advance.

EM Fund Flows

Total outflows in EM funds continued for the sixth consecutive week. Bond funds saw their fifth straight week of outflows, but there was a marked deceleration from the week prior (-\$304mn from -\$1.4bn). Hard and local currency funds contributed to the negative flows, although both also experienced a decline in outflows from the previous week. Equity fund outflows increased (-\$766mn from -\$593mn), driven by non-ETF outflows which were partially offset by ETF inflows. All regions experienced outflows, with the majority from Asia ex-Japan (-\$1bn from +\$38mn).

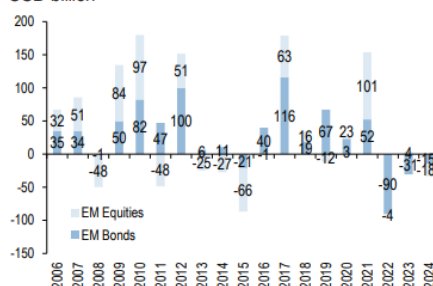
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	-1.1	-32.8	
EM Bonds	-0.3	-15.1	
Hard Ccy	-0.2	-5.1	
Local Ccy*	-0.1	-9.9	
o.w. EM ex-China	-0.1	-8.7	
o.w. China	0.0	-1.6	
EM Equities	-0.8	-17.7	
US HG	2.9	234.8	
US HY	1.9	16.5	
Global Equities	8.7	115.9	
EM Bond and Equity ETFs	0.4	7.9	
EM Bond ETFs	0.0	-2.4	
EM Equity ETFs	0.4	10.3	
Non-resident EM flows*	5.4	6.7	

Figure 2: EM bond and equity fund flows

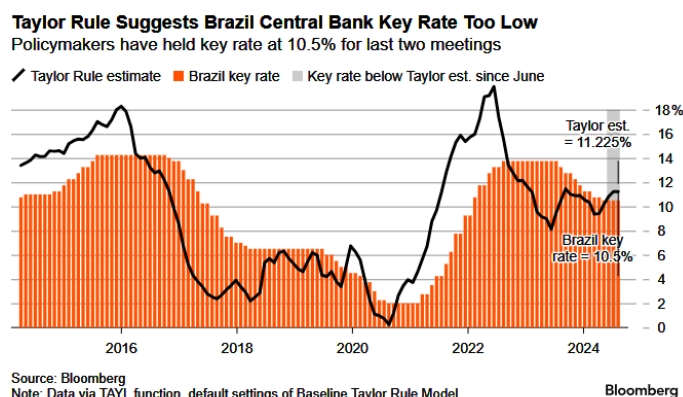
USD billion



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

Brazil

The Taylor rule supports market participants expectations of Brazil rate hikes. According to Bloomberg analysts, the Taylor rule suggests Brazil's key Selic rate is currently too low, which is consistent with swap markets pricing in rate hikes over the next few months. The analysts note that an increasing number of economists are expecting the central bank to reverse course and raise rates as soon as next month. Brazil's August Economic Forecasts reveal the central bank has raised GDP and CPI expectations for 2024, following both metrics recently surprising on the upside. Central bank Governor Neto highlighted that the country's tight labor market presents a challenge to the disinflation process and noted the central bank is willing to raise rates, if necessary, but ultimately will remain data dependent.



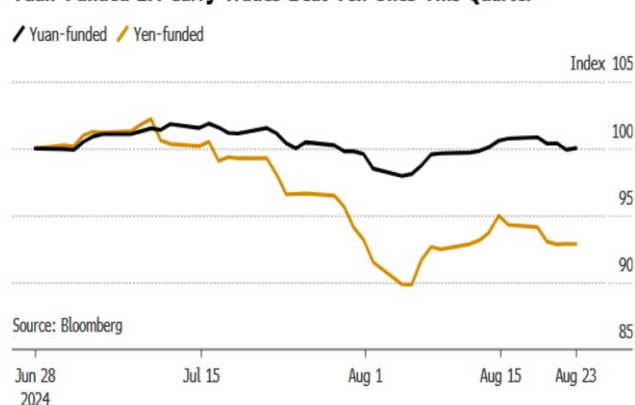
China

The PBOC kept its medium-term lending facility rate unchanged at 2.3%, after decreasing it by 20 bps in July (left chart below). The PBOC remains cautious in its approach to supporting the economy even though bank loans are contracting amidst weak demand, which is rare for China in recent years. The goal of stimulating growth is balanced against financial stability risks potentially arising from the government-bond buying wave seen in recent weeks. As many market participants expect the PBOC to remain dovish, CNY-funded carry trade transactions remain popular despite the Fed's anticipated easing, in contrast to JPY-funded transactions where a relatively hawkish BOJ has forced funding costs higher (right chart).

PBOC Keeps MLF Rate Steady after July's Cut



Yuan-Funded EM Carry Trades Beat Yen Ones This Quarter



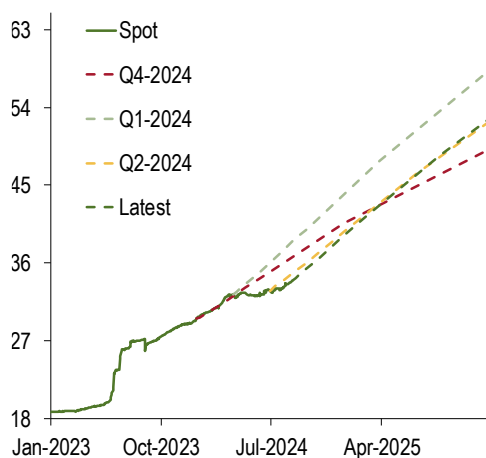
Türkiye

The Turkish lira continues to attract carry trades despite the conspicuous weakening of the currency. The lira has been one of the worst performers (-13% YTD) among major currencies, but it

continues to attract carry trade investors who are estimated to have earned a 20% return YTD. The country's extraordinarily high interest rates more than compensate for the depreciating currency. With the central bank holding the policy rate at 50%, investors appear to be comfortable going long the lira even as the economy's inflation remains well above target (+62% y/y). The hawkish stance of the central bank and the return of foreign investors appeared to have helped the lira outperform its near-dated forwards.

TRY has continued to outperform near-dated forwards despite depreciating against a weaker US dollar.

Turkish lira per US dollar



Source: Bloomberg, IMF Staff Analysis.

Note: Forwards are taken at the end of each listed quarter

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Global Financial Indicators

8/26/24 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5633	1.1	0	3	28	18
Europe		4905	-0.1	1	1	16	8
Japan		38110	-0.7	2	1	21	14
China		3324	-0.1	-1	-2	-10	-3
Asia Ex Japan		74	1.6	1	3	14	11
Emerging Markets		44	1.7	1	3	13	9
Interest Rates			basis points				
US 10y Yield		3.81	0.8	-6	-39	-43	-7
Germany 10y Yield		2.26	3.5	1	-15	-30	24
Japan 10y Yield		0.89	-0.9	0	-18	23	28
UK 10y Yield		3.91	-4.8	-1	-21	-56	38
Credit Spreads			basis points				
US Investment Grade		133	-0.8	-1	4	-14	-1
US High Yield		370	-0.4	-6	25	-49	-15
Exchange Rates			%				
USD/Majors		100.85	0.1	-1	-3	-3	0
EUR/USD		1.12	-0.2	1	3	3	1
USD/JPY		144.2	-0.2	-2	-6	-2	2
EM/USD		46.1	-0.2	0	1	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		81.3	2.9	5	1	2	8
Industrials Metals (index)		147	0.2	3	6	4	3
Agriculture (index)		53	-0.3	-1	-3	-22	-15
Implied Volatility			%				
VIX Index (% change in pp)		16.2	0.4	1.6	-0.2	0.5	3.8
Global FX Volatility		8.5	0.1	0.2	1.2	0.1	0.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	-0.5	-3	0	-30	0
Italy		135	0.7	-2	-1	-33	-33
Portugal		58	0.0	-4	-7	-13	-5
Spain		80	0.2	-3	-3	-23	-17

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

Emerging Market Financial Indicators

Last updated: 8/26/2024 8:03 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	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		7.12	0.0	0.2	2	2	0		2.0	0.5	1	-6	-63	-54
Indonesia		15439	0.3	0.7	6	-1	0		6.6	-2.1	-7	-36	10	14
India		84	0.0	0.0	0	-2	-1		6.9	-3.0	-6	-17	(66.6)	-27
Philippines		56	0.7	1.1	4	1	-1		5.1	-0.1	-2	-16	-80	-49
Thailand		34	-0.1	1.3	6	4	1		2.4	-4.5	-2	-21	-60	-34
Malaysia		4.35	0.6	0.8	7	7	6		3.8	-0.1	-1	0	-8	4
Argentina		946	-0.1	-0.5	-2	-63	-15		39.2	-63.4	-172	-502	-6384	-4718
Brazil		5.49	-0.1	-1.5	3	-11	-12		11.5	-12.0	13	-60	28	111
Chile		909	1.2	3.3	4	-6	-3		4.9	0.0	2	-36	-51	0
Colombia		4028	0.9	0.1	0	1	-4		7.7	-9.5	-2	-56	-54	5
Mexico		19.18	-0.3	-2.6	-4	-12	-11		8.9	0.0	3	-45	10	42
Peru		3.7	0.1	-0.3	0	-1	-1		6.5	-1.2	-1	-42	-46	-15
Uruguay		40	0.1	0.0	0	-6	-4		9.5	-0.7	3	-9	38	-1
Hungary		354	-0.6	0.5	2	0	-2		5.9	0.0	-7	-17	-105	14
Poland		3.83	-0.6	0.4	3	8	3		4.5	0.3	-8	-48	-42	4
Romania		4.5	-0.2	0.8	3	2	1		6.5	1.9	6	-5	-20	27
Russia		91.4	0.1	-1.7	-6	4	-2							
South Africa		17.8	-0.3	-0.3	3	5	3		8.6	-2.0	-17	-32	-80	-56
Türkiye		34.02	-0.1	-0.8	-3	-22	-13		28.3	4.0	-48	21	682	152
US (DXY; 5y UST)		101	0.1	-1.0	-3	-3	0		3.65	0.3	-11	-42	-79	-20

	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		3324	-0.1	-1	-2	-10	-3		153	2	10	-29	-5
Indonesia		7606	0.8	2	4	10	5		107	-5	3	-27	11
India		81698	0.8	2	0	26	13		112	1	8	-26	-4
Philippines		6962	0.0	4	3	13	8		93	-3	4	-15	13
Thailand		1365	0.7	3	4	-13	-4		0	0	0	0	0
Malaysia		1639	0.2	-1	2	13	13		92	0	5	-4	7
Argentina		1606967	1.9	-3	4	155	73		1528	47	-31	-522	-385
Brazil		135608	0.3	1	6	17	1		226	-4	5	-11	11
Chile		6463	-0.2	0	0	7	4		123	0	6	-5	-2
Colombia		1331	-0.3	-2	-1	21	11		314	-5	8	-21	43
Mexico		53491	0.3	-1	1	1	-7		319	5	7	-51	-15
Peru		28429	0.2	-1	-4	24	10		143	-4	3	-15	-1
Hungary		73348	0.5	2	0	29	21		159	-4	6	-46	10
Poland		84019	-0.2	-1	0	24	7		110	-5	12	-15	13
Romania		18369	-0.3	1	-1	41	20		203	2	13	-14	2
South Africa		84227	-0.1	1	4	14	10		301	-5	-3	-91	-7
Türkiye		9633	-0.4	-4	-12	25	29		300	-4	15	-108	-14
EM total		44	-0.2	1	3	13	9		409	-3	8	28	64

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