



- Treasury curve flattened after Chair Powell affirmed near-term tightening bias ([link](#))
- US swap spreads steady despite surging yields as banks reduce duration risks ([link](#))
- Lagarde's Jackson Hole speech spurs subtle hawkish market reaction ([link](#))
- Lower fiscal supply in H2 could narrow longer-dated Italian swap spreads ([link](#))
- Chinese equities gained on new measures to boost stock market sentiment ([link](#))

[Mature Markets](#)





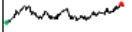

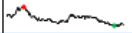




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Equities rise as Chinese authorities act to support markets

The much-anticipated speeches at the Jackson Hole symposium last week failed to deliver any groundbreaking new messages, but mostly reinforced existing stances. Fed chair Powell largely repeated what he had said after the last FOMC meeting—that the Fed is data dependent and prepared to tighten further. Despite expectations that he might discuss changes to the real neutral rate, he instead highlighted that the variable itself is very hard to know. The treasury curve flattened on his speech, with short-dated yields rising but medium-term yields little changed. ECB president Lagarde was seen as modestly more hawkish in her Jackson Hole speech, highlighting that rates much be set at sufficiently restrictive levels. Beyond advanced economy central banks, developments out of China continue to be the major source of policy focus. Authorities there introduced new measures to support the stock market, helping boost global equities this morning.

Key Global Financial Indicators

Last updated: 8/28/23 8:18 AM	Level	Change from Market Close					YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4406	0.7	1	-4	9	15	4
Eurostoxx 50		4269	0.8	1	-4	18	13	7
Nikkei 225		32170	1.7	2	-2	15	23	22
MSCI EM		39	0.1	1	-7	-3	3	-18
Yields and Spreads			bps					
US 10y Yield		4.22	-1.2	-11	27	118	35	223
Germany 10y Yield		2.57	0.9	-13	8	118	0	234
EMBIG Sovereign Spread		418	3	-6	4	-69	-34	5
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.2	0.0	1	-2	-4	-3	-9
Dollar index, (+) = \$ appreciation		104.1	0.0	1	2	-4	1	8
Brent Crude Oil (\$/barrel)		84.3	-0.2	0	-1	-17	-2	-13
VIX Index (% change in pp)		16.0	0.3	-1	3	-10	-6	-15

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

The coming week is packed with critical data release that could shape the policy decision of the **September FOMC**. The PCE and non-farm payroll reports will take center stage, along with APD employment, consumer confidence, second reading of Q2 GDP, and several housing data. The consensus is looking for 0.2% m/m for both headline and core PCE deflator, a slowdown in payroll increases to 168K and the unemployment rate holding at 3.5%. Elsewhere, investors will focus on CPI and PMI in the euro area, PMI in China, job report in Japan and export data in Korea. Hungary will hold its monetary policy meeting on Tuesday (expectations for a hold).

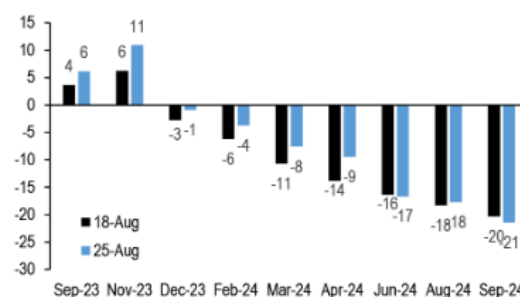
Mature Markets

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United States

The Treasury curve flattened last week, as Chair Powell's Jackson Hole speech affirmed a tightening bias in the near term. The 2-year yield rose 12 bp to 5.08%, and the market-implied probability of another rate hike by November has increased to 65% from 40% the previous week. The belly of the curve was little changed, as Chair Powell noted the uncertainty about neutral rate and the importance of risk management considerations, reinforcing the latest consensus expectation for an on-hold period till around 3Q-24. The long end of the curve dropped by about 8 bp, reflecting the mixed economic data showing still strong labor market but softening activities.

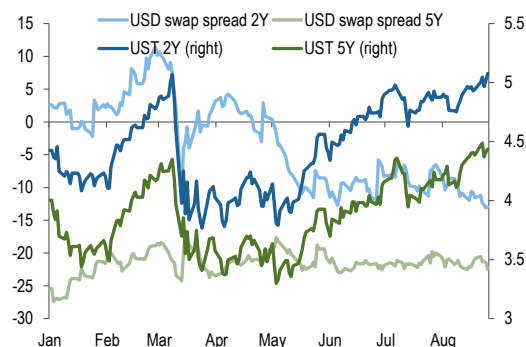
Expected change in Fed funds effective rate by FOMC meeting implied by OIS forwards, 8/18/23 vs 8/25/23; bp



Source : J.P. Morgan.

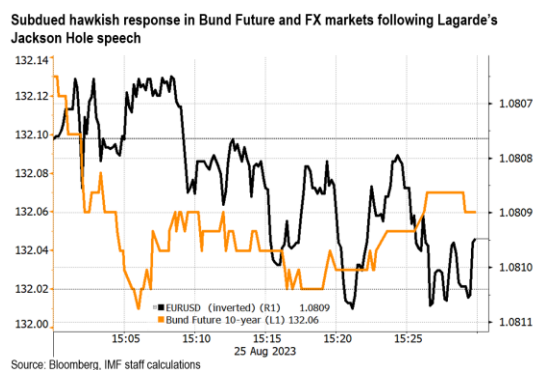
Despite surging yields, US interest rate swap spreads have held steady helped by banks reducing duration risks. In contrast to significantly higher interest rates amid still elevated rate volatility, interest rate swap spreads have been largely unchanged since June. JPM analysts noted that dealer banks in the swap market have increased offering of fixed-rate payments over floating-rate payments, thus reducing the interest rate sensitivity of their portfolio. This likely reflects banks' heightened sensitivity to report large mark-to-market losses (reported as a drawdown in accumulated other comprehensive income) after the regional bank crisis in March.

Treasury yields and swap spreads (left scale bps, right scale %)



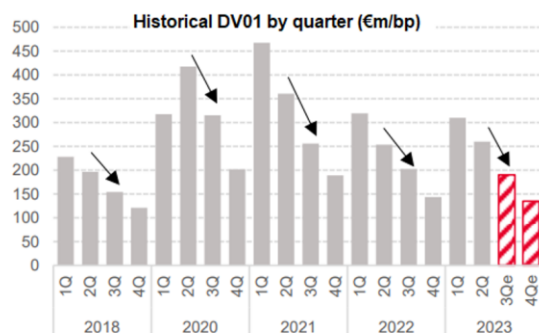
Euro Area

Markets showed a subtly hawkish response to President Lagarde's Jackson Hole speech. The remarks of ECB President Lagarde at the Jackson Hole Symposium indicated that the ECB must set rates at sufficiently restrictive levels for as long as is needed to achieve the inflation target. While her speech occurred outside European trading hours, the bund future saw a slight drop, and the Euro gained marginally (chart below). Meanwhile, Croatian GC member Governor Vujcic stated that core inflation has likely peaked, so the ECB needs to be cautious at its next meeting. Conversely, Latvian GC member Kazaks qualified that a rate pause at the ECB's next meeting would not necessarily mean that they are stopping. He also stated that he would err on the side of raising rates more given the bank could always cut them if needed.

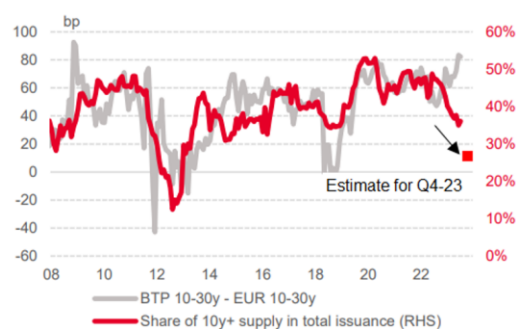


Anticipated lower fiscal supply could narrow longer-dated Italian swap spreads. Currently, around 75% of the 2023 Euro Area fiscal supply projection is in circulation. After the August lull, the September supply window emerges, with Société Générale estimating €70–90bn in net supply absorption—outpacing the prior year due to reduced redemptions from the ECB's Pandemic Emergency Purchase Programme (PEPP) and increased quantitative tightening (QT) flows from the ECB's Asset Purchase Programme. Yet, the final four months of the year typically see a small portion of EGB duration supply, especially in longer maturities (right chart). Italy is poised to issue just 25% of its gross issuance in bonds with a maturity larger than 10 years. To that effect, Société Générale analysts highlight that as Italy's long-end issuance dwindles and the ratio of longer-dated supply to total issuance drops, the 10–30-year BTP curve tends to flatten against the 10–30-year Euro swap curve (right chart). This relationship would suggest that the 10–30-year BTP swap spread might be too steep and could potentially adjust toward a flatter trajectory. This view is at odds with that of Goldman Sachs analysts, who see an acceleration of QT. For example, through an earlier end of PEPP reinvestments, as a significant and underpriced risk scenario for investors, which—all else equal—would lead to wider and steeper sovereign swap spreads.

EGB duration supply shows a seasonal slow-down during the last four months of the year...



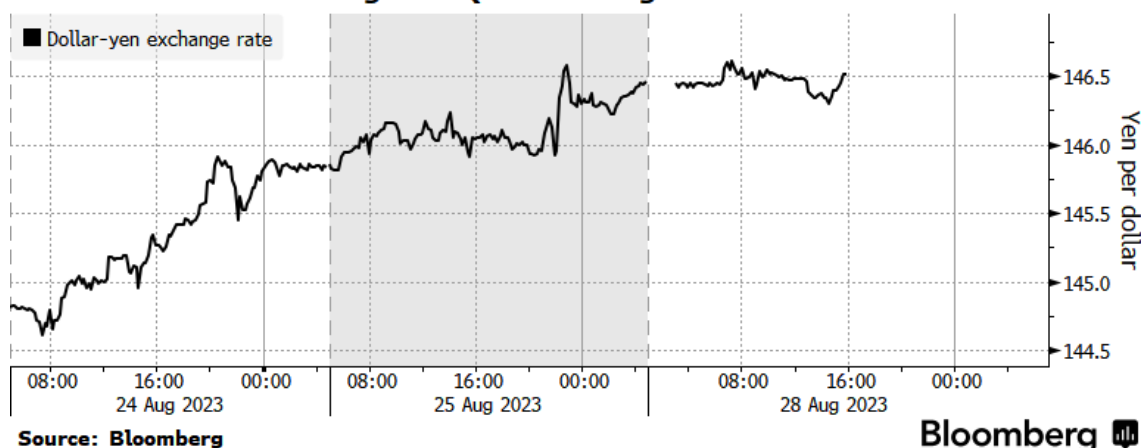
... whereas 10-30y BTP swap spread appear too wide as long-dated Italian bond supply is declining.



Japan

Japanese equities gained (NIKKEI: +1.7%), joining a rally of Asian stock markets after Chinese authorities' measures to boost stock market sentiment drove up Chinese equities. However, some Japanese stocks that rely on Chinese demand (e.g., cosmetics firms) plunged as Chinese netizens called for a boycott in response to the release of treated wastewater from the Fukushima nuclear plant. **At Jackson Hole, Governor Ueda indicated that the continued monetary policy easing is justified** as underlying inflation is still below the Bank of Japan's target of 2%. Long-end JGB yields edged up (10-year: +0.4 bp; 30-year: +0.4 bp), with 10-year yield touching 0.658%. The yen was little changed at around 146.5 yen per dollar. Markets continued to focus on potential comments from currency officials as the yen remains in a zone that saw interventions last year.

Dollar-Yen Is Little Changed in Quiet Trading



Emerging Markets

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Asian equities gained (+0.8%) led by Chinese (CSI 300: +1.2%), Hong Kong (+1.0%), Korean (+1.0%) and Singaporean (+1.0%) equities. The rally was supported by improving market sentiment in China after Chinese authorities introduced measures to boost stock market sentiment. Most Asian currencies depreciated, led by the Thai baht (-0.5%), Malaysian ringgit (-0.3%) and Taiwan dollar (-0.2%). Long-end government bond yields generally declined, with 10-year yields falling in Korea (-6.7 bp), Indonesia (-4.4 bp) and India (-3.1 bp). **Latam markets anticipated comments from the Jackson Hole symposium on Friday.** The Brazilian Real and Mexican Peso rose as Fed Chairman Jerome Powell confirmed they will “proceed carefully” on deciding to raise interest rates in the US further. Chile’s peso reversed early gains by the end of Friday but is still one of the best performing currencies this year. Equities had a mixed reaction at the markets’ close.

EM Fund Flows

For the week ending August 25, bond fund outflows continued. EM bond fund outflows (-\$3bn) were primarily driven by outflows from hard currency funds (-\$2.1bn). EM local currency funds also recorded outflows (-\$846mn), led by outflows from EM ex-China bond funds (-\$682mn). EM equity fund flows also recorded outflows (-\$3bn), driven by both ETF and non-ETF outflows (-\$1.4bn and -\$1.6bn, respectively). Among regional equity funds, outflows were driven by Asia ex-Japan, recording outflows of -\$1.7bn, while EMEA ended neutral and Latam recorded inflows (+\$63mn). Overall YTD flows are -\$11.4bn for EM bonds and +33.9bn for EM equities.

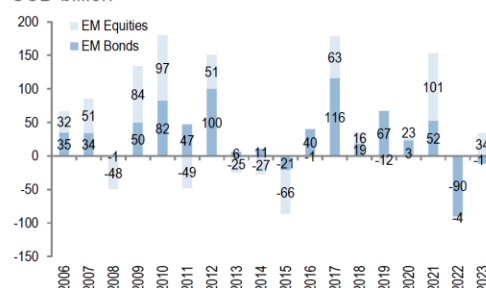
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-6.0	22.5
EM Bonds		-3.0	-11.4
Hard Ccy		-2.1	-10.1
Local Ccy ^a		-0.8	-1.3
o.w. EM ex-China		-0.7	1.8
o.w. China		-0.2	-4.2
EM Equities		-3.0	33.9
US HG		2.8	218.1
US HY		-0.9	-2.7
Global Equities		-8.7	-49.0
EM Bond and Equity ETFs		-1.9	36.9
EM Bond ETFs		-0.4	0.5
EM Equity ETFs		-1.4	36.4
Non-resident EM flows*		-2.1	34.6

Figure 2: EM bond and equity fund flows

USD billion

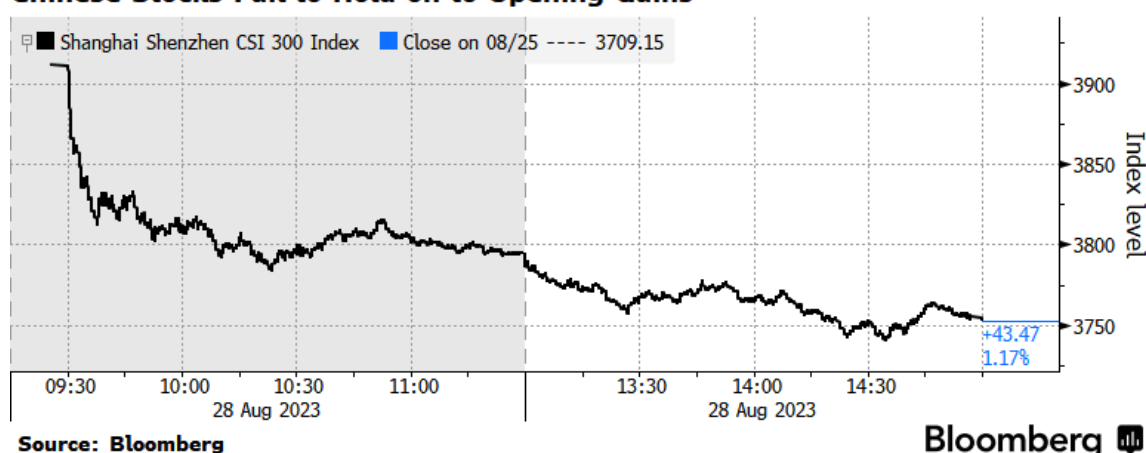


*High frequency non-resident EM portfolio flow data where available. ^aLocal ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

Chinese equities gained after authorities introduced measures to boost stock market sentiment on Sunday. The measures included reducing stamp duty (from 0.1% to 0.05%) for stock trading, temporarily slowing IPOs, tightening restrictions on share sales by major shareholders, limiting refinancing of 'zombie' firms (except real estate firms), and lowering margin requirements for buying stocks (from 100% to 80%). Some analysts described the measures as one of the boldest steps to boost stock market sentiment in recent years. At the market opening, onshore Chinese equities jumped 5.5% but quickly pared the gains. Overall equities rose (CSI 300: +1.6%; Hong Kong SAR-listed: +1.8%). Analysts noted that Beijing's efforts to boost market confidence are falling flat again in the face of growing economic concerns. **The yuan depreciated to 7.29 yuan per dollar (-0.1%).** The People's Bank of China (PBC) continued setting the daily RMB fixing stronger than expected; today's deviation amounted to 989 pips. The PBC injected liquidity in an amount of 298 bn yuan (\$40.9 bn) as the key interbank repo rate (DR007) increased further to 2.08% (+12.5 bp) amid signs of month-end funding pressures. Long-end CGB yields rose (10-year: +2.0 bp).

Chinese Stocks Fail to Hold on to Opening Gains



Brazil

Inflation came in above expectations, although rate cuts are still on the table. Brazil's CPI between July 15 and August 15 came in at 4.24% y/y and 0.28% m/m, both above market expectations of 4.12% and 0.16% respectively. Markets reacted unfavorably after the release with equities down 1.0% and yields rising across the curve. The Brazilian real rose slightly. The surprise comes at a time where inflation is falling across the region and some central banks have begun cutting interest rates. The Brazilian central bank cut the Selic target rate by 50bp earlier this month to 13.25% and are expected to cut by the same amount in late September. Economists surveyed by Bloomberg and project headline inflation at 5.1% by the end of the year.

Figure 4. Core services are generally improving, although they remain historically high

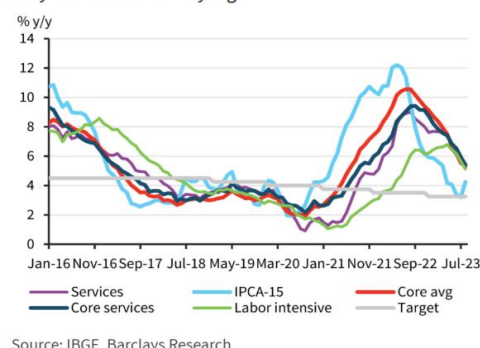
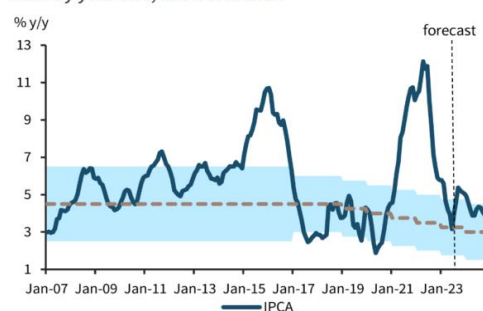
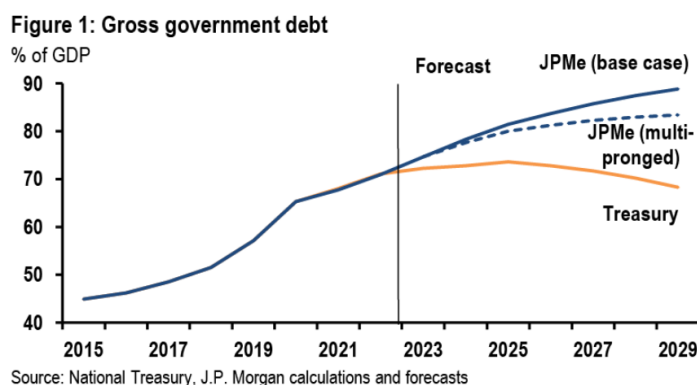


Figure 6. We see headline inflation rebounding in H2 23 to 5.1% by year-end; at 3.7% in 2024



South Africa

Slowing tax revenues and increased wage costs are likely to cause South Africa's fiscal deficit to widen, according to analysis by JP Morgan. The analysts forecast a deficit of 6.3% for fiscal year 2023–24 (or 5.2% excluding support for Eskom, the public electricity utility). They predict that the debt-to-GDP ratio will rise by 10 percentage points to 81% by fiscal year 2025. Government bond yields have been rising steadily along with other markets and the 10-year benchmark yield is close to its highest in many years (excluding an even higher but short-lived spike in yields during the pandemic). This puts even more pressure on the country's fiscal resources as funding costs rise. However, the analysts think that there is sufficient local demand from institutional investors such as pension funds to absorb the government debt. They also predict that stronger growth will eventually lead to a better fiscal position.



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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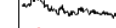

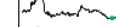








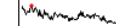








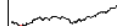
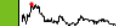


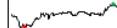
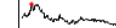








Global Financial Indicators

Last updated: 8/28/23 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4411	0.7	0	-4	9	15
Europe		4269	0.8	1	-4	18	13
Japan		32170	1.7	2	-2	15	23
China		3753	1.2	1	-6	-8	-3
Asia Ex Japan		65	0.2	1	-8	-4	0
Emerging Markets		39	0.1	1	-7	-3	3
Interest Rates			basis points				
US 10y Yield		4.22	-1.2	-11	27	118	35
Germany 10y Yield		2.57	0.9	-13	8	118	0
Japan 10y Yield		0.66	0.3	2	10	44	24
UK 10y Yield		4.44	1.5	-23	17	182	77
Credit Spreads			basis points				
US Investment Grade		145	0.0	-3	5	-13	-14
US High Yield		416	-1.4	-10	7	-67	-64
Exchange Rates			%				
USD/Majors		104.09	0.0	1	2	-4	1
EUR/USD		1.08	0.1	-1	-2	8	1
USD/JPY		146.6	0.1	0	4	5	11
EM/USD		48.2	0.0	1	-2	-4	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		84	-0.2	0	0	-4	2
Industrials Metals (index)		141	0.0	1	-4	-12	-15
Agriculture (index)		68	0.2	2	-3	-3	-2
Implied Volatility			%				
VIX Index (% change in pp)		16.0	0.3	-1.1	2.7	-9.6	-5.7
US 10y Swaption Volatility		110.2	-7.5	-8.9	7.3	-16.9	-15.5
Global FX Volatility		8.5	0.1	-0.1	0.3	-2.2	-2.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		132	-1.0	2	-1	-126	-73
Italy		167	-1.5	-3	4	-65	-48
Portugal		71	-0.9	-3	-2	-39	-31
Spain		102	-0.8	-3	0	-18	-7

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

Emerging Market Financial Indicators

Last updated: 8/28/2023 8:20 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		7.29	-0.1	-0.1	-2	-5	-5		2.6	1.0	6	-15	-11	-45
Indonesia		15292	0.0	0.2	-1	-3	2		6.5	-6.2	-16	17	-60	-48
India		83	0.0	0.6	0	-3	0		7.6	-3.1	-10	9	6	16
Thailand		35	-0.5	-0.2	-3	3	-2		3.0	-0.7	-2	24	31	33
Malaysia		4.66	-0.3	-0.1	-2	-4	-5		3.9	0.0	-1	2	-10	-19
Argentina		350	0.0	0.0	-22	-61	-49		108.5	485.2	64	1884	3172	2034
Brazil		4.87	0.0	2.1	-3	3	8		11.2	-1.8	-27	19	-90	-134
Chile		846	-0.2	2.7	-2	6	1		5.3	0.0	-17	25	-132	-1
Colombia		4128	-0.9	-0.2	-4	6	18		8.2	3.5	-6	42	-113	-158
Mexico		16.71	0.2	1.8	0	20	17		8.7	-5.5	-19	48	16	0
Peru		3.7	0.0	0.5	-2	4	3		7.0	-0.5	-20	19	-97	-99
Uruguay		38	0.0	0.3	0	7	6		9.2	0.0	-2	6	-170	-152
Hungary		354	-0.1	-0.8	-1	15	5		7.0	0.0	-62	7	-234	-264
Poland		4.14	-0.1	-0.8	-3	14	6		4.9	0.5	-17	18	-142	-122
Romania		4.6	0.1	-0.8	-2	7	1		6.6	-0.6	-4	29	-125	-104
Russia		95.6	-0.7	-2.0	-4	-36	-22							
South Africa		18.7	-0.2	1.6	-6	-10	-9		9.4	-6.5	-39	9	50	20
Turkey		26.56	-0.1	2.3	1	-32	-30		21.6	11.0	-49	153	820	1173
US (DXY; 5y UST)		104	0.0	0.8	2	-4	1		4.44	0.6	-2	27	124	44

	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		3753	1.2	1	-6	-8	-3		181	-2	-3	-30	4
Indonesia		6922	0.4	1	0	-3	1		128	-2	-2	-47	-12
India		64997	0.2	0	-2	12	7		137	-2	5	-19	-5
Philippines		6161	0.0	-3	-7	-9	-6		103	-4	-1	-20	6
Thailand		1563	0.2	2	1	-4	-6						
Malaysia		1444	0.0	0	0	-4	-3		97	-1	6	-14	-3
Argentina		631166	2.9	8	38	346	212		2079	-49	102	-250	-126
Brazil		115837	-1.0	0	-4	3	6		230	-9	-2	-79	-44
Chile		6047	0.0	-1	-5	11	15		128	0	9	-49	-4
Colombia		1102	0.0	-3	-5	-15	-14		346	12	13	-56	-26
Mexico		53192	0.2	0	-3	13	10		369	-10	-12	-30	-12
Peru		22937	-0.2	1	-1	18	8		159	0	-3	-27	-21
Hungary		56880	-0.1	0	7	31	30		200	-1	4	-30	-22
Poland		67891	0.3	-1	-6	30	18		119	2	-2	107	46
Romania		13085	0.4	1	-1	6	12		213	1	9	-72	-42
South Africa		74573	1.0	1	-5	6	2		383	-9	10	-37	16
Turkey		7945	3.0	2	12	153	44		383	-30	-44	-247	-57
Ukraine		507	0.0	0	0	-2	-2		3576	110	-118	167	-503
EM total		39	0.1	1	-7	-3	3		378	-7	9	-39	2

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

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