



- The divergence in asset manager and hedge fund's Treasury positions widens further ([link](#))
- ECB September decision uncertain with focus on preliminary inflation data ([link](#))
- Data show euro area bank lending continues to weaken ([link](#))
- Japan's government highlight progress toward an end of deflation ([link](#))
- Chinese equities rose for a second day ([link](#))

[Mature Markets](#)



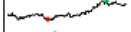
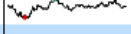
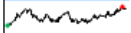




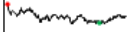

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## With Jackson Hole done, data releases to be key

**Chinese equities are rising for a second straight day following weekend measures to support the system.** While the initial reaction to the moves lost steam quickly on Monday, sentiment continues to turn more positive as markets look for additional measures, including reports that state-owned banks may lower deposit rates. The positive moves in Asia have spilled into European equities, pushing indices higher. US equity futures meanwhile are fluctuating between positive and negative as investors await signals from data releases in order to assess the likely direction of monetary policy. While Friday's non-farm payroll release will be key, data released later this morning—including consumer confidence and JOLTS job openings—could drive today's moves. The yield on the 2-year treasury is 5 bp lower this morning, but that drop largely reflects a roll to a new on-the-run (following yesterday's auction) and the inverted yield curve.

Key Global Financial Indicators

Last updated: 8/29/23 8:19 AM	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		4433	0.6	1	-3	9	15	5
Eurostoxx 50		4294	1.4	2	-4	19	13	8
Nikkei 225		32170	1.7	2	-2	15	23	22
MSCI EM		39	1.0	2	-6	-2	4	-17
Yields and Spreads			bps					
US 10y Yield		4.21	-3.0	-13	26	117	33	221
Germany 10y Yield		2.56	0.3	-14	7	117	-1	234
EMBIG Sovereign Spread		418	3	-6	4	-69	-34	5
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		48.2	-0.1	1	-2	-4	-3	-9
Dollar index, (+) = \$ appreciation		104.0	-0.1	1	2	-4	0	8
Brent Crude Oil (\$/barrel)		84.5	0.0	0	-1	-16	-2	-13
VIX Index (% change in pp)		15.1	-0.6	-2	2	-10	-7	-16

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

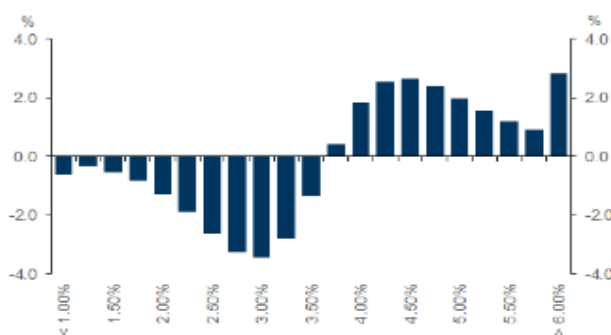
## Mature Markets

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### United States

**Investors have shifted from recession fears to higher for longer in the past 2 months.** In addition to pricing out policy easing in the near term, investors have also raised expectations for medium to long term rates amid the increasing focus on neutral rates. The option-implied probability of 10-year swap rate to stay above 4% in 1-year time has increased notably since June, with the largest increase seen in the right tail of the distribution where the rate could be north of 6%, suggesting increased hedging demand.

Changes in option-implied probabilities of 1y-ahead  
10y US swap rates from end-June; in %



Source: Goldman Sachs Global Investment Research

**The diverging positioning in Treasury futures between real money managers and hedge funds extended to new record.**

Long positions held by asset managers and speculative investors excluding leveraged funds has reached new highs, driven by a build in positions in the longer-dated Treasury futures. In contrast, leveraged funds' short position extended further, in particular by trend—following investors such as CTAs who have added more short positions in the longer rate segment, suggesting they were chasing the bear steepening in the Treasury curve. The large short positions from hedge funds in part reflects basis trades—a strategy based on futures yields being higher than those on comparable cash bonds. These positions could be forced to unwind quickly if there's a reversal in the basis, such as from a spike in cash bond yields due to liquidity shortage or a sudden bout of bond market volatility.

**Exhibit 7: Asset manager and leveraged fund positioning (10y equivalent, \$bn)**

Asset manager longs correspond with leveraged fund shorts



Source: BofA Global Research, Bloomberg

### Euro Area

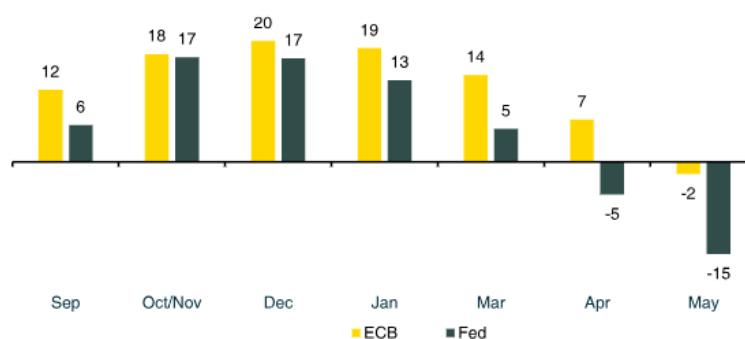
**European equities are mostly trading higher** (Stoxx 600 Europe index +0.7%) adding to yesterday's gains, with the majority of sectors trading in the green. Sovereign yields were little changed, and the euro was little changed against the dollar.

**Markets remain uncertain about the September ECB policy decision with the focus on preliminary inflation data due this later week.** Recent ECB commentary has pointed in the direction of more policy tightening—with the ECB's Holzmann for example recently voicing support for "pushing on with rate increases without taking a pause" in the absence of big surprises. This follows on the

generally hawkish tone struck by ECB President Lagarde during her speech at Jackson Hole Symposium last week. However, analysts highlight that recent data releases point to a slowing of the euro area's economy and against the backdrop market pricing for the September ECB meeting shows the odds of a 25bp hike in September at around 42% currently, up from 34% on Friday. ING analysts argue that markets are clearly embracing the ECB's data-dependent approach and are thus keenly awaiting this week's preliminary inflation releases for August—with inflation data from Germany and Spain due tomorrow, and the prints from France, Italy and the euro area due on Thursday. For the euro area print, markets expect core inflation to slow to 5.3%/y in August (from 5.5%) and contacts note that an upside surprise should be sufficient for another ECB hike in September.

#### Forwards unsure about Sep, still expect rate peak ahead

Cumulative rate hikes discounted for ECB and Fed, in bp

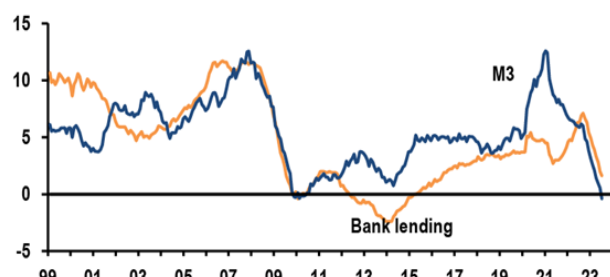


Source: Bloomberg, Commerzbank Research

**Data released yesterday showed eurozone bank lending continued to weaken in July with M3 money supply growth turning negative for the first time since 2010.** Data released by the ECB yesterday showed the annual growth rate of the broad monetary aggregate M3 decreasing to -0.4% in July (from +0.6% in June), with the annual growth rates easing for both the adjusted loans to households (to 1.3% from 1.7%) and non-financial corporates (to 2.2% from 3.0%). Contacts note that the latest data releases reinforce concerns over the growth outlook for the euro area, and while some contacts have now removed their forecast for an ECB September hike, other analysts argue that the data would not necessarily see the ECB pausing. **Separate data releases this morning showed Germany's GfK consumer confidence disappointing in September** (-25.5 versus expected -24.5 from -24.6), while consumer confidence in France remained unchanged in August, as expected.

#### Euro area bank lending and M3 growth

%oya



Source: ECB, J.P. Morgan

#### Euro area bank lending to households

€bn, monthly flow of net lending, adj. for securitizations/loan sales



Source: ECB, J.P. Morgan

### United Kingdom

**The pound was marginally stronger against the dollar this morning while sovereign yields were little changed following hawkish comments from the BoE at the Jackson Hole conference.** BoE Deputy Governor Broadbent said that "monetary policy may well have to remain in restrictive territory for some time

yet” at a speech at Jackson Hole over the weekend, noting that inflation is unlikely to ease as quickly as it emerged. In the meantime, data released this morning showed **the BRC shop price index falling to a 10-month low in August—easing to 6.9% (from 7.6% in July)**. The pound was marginally stronger (+0.1% at 1.26/\$) while gilt yields were little changed.

## Japan

**The government highlighted progress toward an end of deflation.** The Cabinet Office issued its annual white paper on the economy, which includes a subtitle of “inflation, wages getting into motion”. The report said that “we should not overlook the fact that a chance to end deflation is approaching” while calling for close coordination with the Bank of Japan (BOJ). Market participants are paying attention to when and if Prime Minister Kishida will declare the official end of deflation, as well as the potential implications on monetary policy. Meanwhile, Tsutomu Watanabe, an economics professor and a candidate for the BOJ’s top job, said that the BOJ should stop trying to mitigate speculation on policy normalization by offering an inflation outlook that does not reflect reality. **The auction of 2-year JGBs showed weak demand**, highlighting uncertainty around the monetary policy outlook. The auction’s bid-to-cover ratio was the lowest since 2010. **The unemployment rate increased to 2.7% in July** from 2.5% in June (consensus: 2.5%). Similar to regional trends, equities gained (NIKKEI: +0.2%), the yen appreciated (+0.1%), and long-end JGB yields fell (10-year: -1.1 bp; 30-year: -0.6 bp).

## Emerging Markets

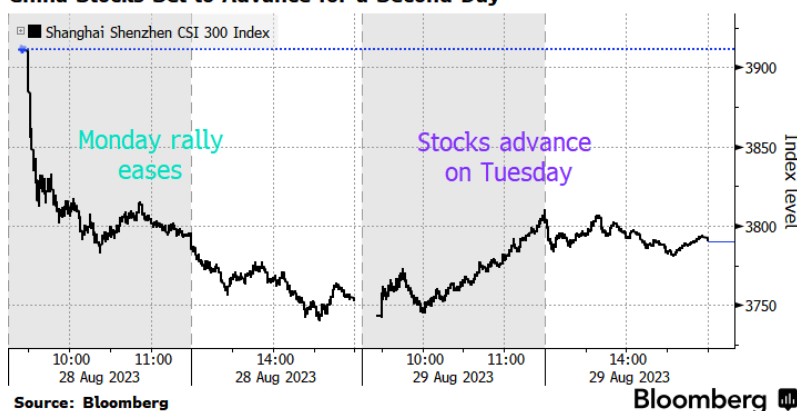
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**Asian markets advanced today, continuing to benefit from improving market sentiment in China.** Asian equities gained, up by 1.1%, led by Hong Kong (+1.9%) and Chinese (CSI 300: +1.0%). Most Asian currencies appreciated, led by the Thai baht (+0.4%). Meanwhile, the Vietnamese dong depreciated (-0.7%). Long-end government bond yields generally declined, with 10-year yields falling in the Philippines (-5.9 bp), Indonesia (-5.8 bp) and Singapore (-4.9 bp). **EMEA markets are mixed today.** Equities in Romania (+0.5%) outperformed while those in South Africa (-0.4%) slumped. The South African rand outperformed (+0.5%) while most other currencies were trading in a tight range with a weakening bias. The Turkish lira depreciated (-0.3%)—now trading roughly 2.2% stronger than before the larger-than-expected interest rate hike last week. CEE currencies were mixed against the euro with the **Hungarian forint outperforming (+0.5% to 381.75/€) ahead of the central bank’s policy decision later today**—where consensus expects a 100bp cut in the one-day deposit rate to 14% while the base rate is expected to remain unchanged. **LatAm markets ended Monday mixed as the Chilean peso continues to slide.** Brazil equities ended the day up (+1.1%) along with Colombia and Mexico while Chile fell slightly. The Chilean peso fell 1.2% against the dollar but is still above its 100- and 200-day moving averages.

## China

**Chinese equities rose for a second day** (CSI 300: +1.0%; Hong Kong SAR-listed: +2.3%), supported by improving sentiment following the announcement of measures to boost stock market confidence last Sunday. Analysts noted that the absence of runaway gains showed that investors remain cautious. RMB was little changed at 7.29 yuan per dollar. The People’s Bank of China continued to set the daily RMB fixing stronger than expected; today’s

China Stocks Set to Advance for a Second Day

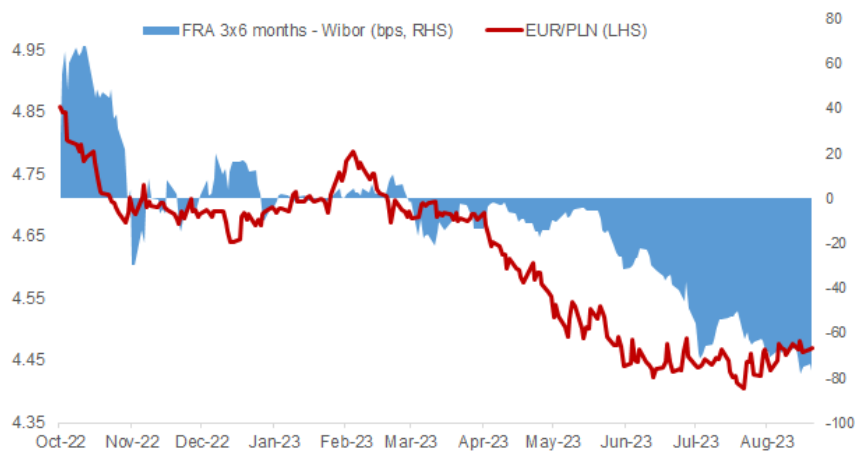


deviation amounted to 913 pips. CNH liquidity conditions remained tight as spreads between CNH HIBOR and SHIBOR widened further (1-month: +60 bp). **Finance Minister Liu Kun said that authorities will ensure proactive fiscal policy and will reasonably accelerate fiscal spending.** Similarly, Zheng Shanjie, the chairman of the National Development and Reform Commission (NDRC) made pledges in reports to the legislature, reiterating the Politburo's policy statement that the government will step up countercyclical measures and strengthen policy coordination. **Country Garden is seeking a grace period of 40 calendar days for a maturing onshore bond due on September 2.** Given some bond creditors' resistance to extend the repayment schedule, Country Garden proposed to add a grace period (which would increase the likelihood of creditors to receive a payment in the near future). Its share price rose (+12.4%). Meanwhile, **USD bonds of China Great Wall, one of the big four asset management companies declined,** with one bond due in 2027 now trading at around 80 cents on the dollar. There is renewed market pressure on the bonds after the company failed to publish financial statements by the deadline.

## Poland

**Markets are keenly waiting the August preliminary inflation data print due later this week for further insight on the future path for the policy rate.** Analysts highlight that the inflation print, due on Thursday, is likely to be a key determinant in whether the central bank of Poland starts to ease policy rates at the upcoming policy meeting in September. Bloomberg consensus expect data to show preliminary headline inflation easing to 10%/y in August (from 10.8%), and ING analysts expect the central bank to cut rates in September even if inflation remains in double digits. In the meantime, forward-rate agreements show markets pricing in roughly 78bp of policy easing in the coming six months.

Poland: Currency and policy pricing



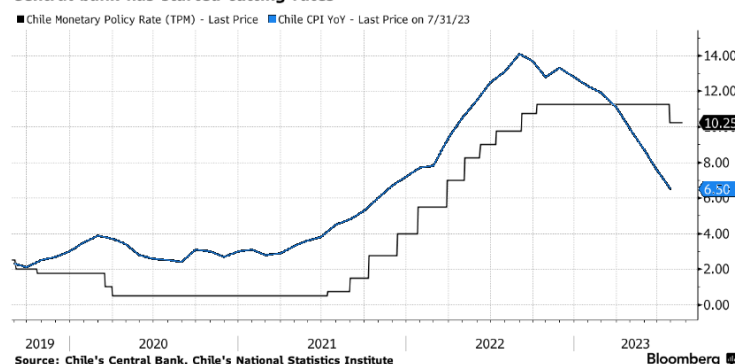
Source: Bloomberg and IMF calculations

## Chile

**Chilean central bank vice president comments on Peso.** In an interview, Pablo Garcia said Chile's policy outlook is still on track despite a recent drop in the peso on Monday. The currency is down from its peak by over 8% this year, and will face further headwinds as trade with China, one of the country's key commodity purchasers, is expected to slow. Chile cut its key interest rate 100bp one month ago. The Finance Ministry reacted to currency movements last week by planning to sell \$2bn USD per month until December to support the peso.



### Chile's Annual Inflation is Heading Toward 3% Target Central bank has started cutting rates



## Brazil

**The current account deficit and foreign direct investment tapered in July, while portfolio flows remained positive.** Brazil's CAD and FDI came in at \$3.6bn and \$4.2bn, lower than analyst expectations at JPMorgan of \$4.6bn and \$6bn, respectively. The main driver of the missed CAD numbers was lower interest payments, dividend outflows, and falling profits. For the second consecutive month, portfolio flows for Brazil were positive—coming in at \$1.2bn in July and \$7.7bn YTD. Equities and external debt saw inflows of \$1.4bn and \$1.5bn respectively while local market debt saw outflows of \$1.7bn.

**Figure 4: CAD and FDI**

US\$ billions, 12-month sum



Source: JPMorgan

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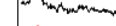

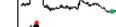




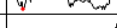
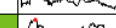



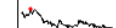

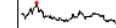


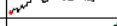
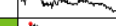

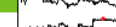
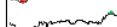









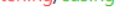
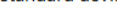


## Global Financial Indicators

Last updated: 8/29/23 8:19 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4432	0.6	1	-3	9	15
Europe		4294	1.4	2	-4	19	13
Japan		32170	1.7	2	-2	15	23
China		3753	1.2	1	-6	-8	-3
Asia Ex Japan		65	1.0	2	-7	-3	1
Emerging Markets		39	1.0	2	-6	-2	4
<b>Interest Rates</b>			basis points				
US 10y Yield		4.21	-3.0	-13	26	117	33
Germany 10y Yield		2.56	0.3	-14	7	117	-1
Japan 10y Yield		0.66	0.3	2	10	44	24
UK 10y Yield		4.44	1.5	-23	17	182	77
<b>Credit Spreads</b>			basis points				
US Investment Grade		145	-0.3	-4	5	-14	-14
US High Yield		414	-3.7	-12	5	-69	-67
<b>Exchange Rates</b>			%				
USD/Majors		104.02	-0.1	1	2	-4	0
EUR/USD		1.08	0.2	-1	-2	8	1
USD/JPY		146.5	0.0	0	4	5	11
EM/USD		48.2	-0.1	1	-2	-4	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		84	0.0	0	0	-4	2
Industrials Metals (index)		141	0.1	1	-4	-11	-15
Agriculture (index)		68	0.8	3	-2	-2	-1
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.1	-0.6	-2.0	1.8	-10.5	-6.6
US 10y Swaption Volatility		110.6	0.4	-18.4	10.0	-20.1	-15.1
Global FX Volatility		8.3	-0.1	-0.3	0.1	-2.5	-2.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		132	-1.1	2	-1	-126	-73
Italy		166	-1.9	-3	4	-65	-48
Portugal		71	-0.6	-2	-1	-39	-31
Spain		102	-0.7	-3	0	-18	-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: 8/29/2023 8:20 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		7.29	-0.1	0.0	-2	-5	-5		2.6	-0.4	2	-15	-11	-45	
Indonesia		15260	0.2	0.4	-1	-2	2		6.4	-7.9	-29	9	-80	-56	
India		83	-0.1	0.3	-1	-3	0		7.6	-1.6	-12	6	4.4	15	
Philippines		57	0.1	-0.7	-3	-1	-2		5.9	0.4	-14	-14	61	-6	
Thailand		35	0.0	-0.6	-3	3	-2		2.9	-5.3	-10	15	26	28	
Malaysia		4.65	0.2	0.0	-3	-3	-5		3.8	-1.0	-2	1	-15	-20	
Argentina		350	0.0	0.0	-22	-60	-49		109.7	112.3	177	1941	3294	2146	
Brazil		4.89	-0.4	0.9	-3	3	8		11.2	-3.3	-27	18	-99	-143	
Chile		856	-1.1	1.7	-3	3	-1		5.4	0.0	-6	36	-124	8	
Colombia		4112	0.4	-0.1	-5	6	18		8.1	0.0	-27	33	-140	-167	
Mexico		16.82	-0.1	0.6	0	19	16		8.8	-2.0	-24	47	3	3	
Peru		3.7	-0.1	0.9	-3	4	3		6.9	-0.4	-23	15	-105	-103	
Uruguay		38	-0.1	0.3	0	8	6		9.2	1.6	-3	8	-183	-151	
Hungary		354	0.1	-0.4	-1	15	5		6.9	-3.0	-54	0	-237	-267	
Poland		4.14	-0.4	-0.5	-3	14	6		4.9	-7.5	-21	20	-150	-130	
Romania		4.6	-0.3	-0.6	-2	6	1		6.7	0.2	-5	24	-122	-104	
Russia		96.0	-0.6	-1.9	-4	-36	-23								
South Africa		18.6	0.2	1.2	-4	-9	-8		9.4	1.6	-31	4	51	20	
Turkey		26.63	-0.4	2.1	1	-32	-30		21.6	0.0	21	153	820	1173	
US (DXY; 5y UST)		104	0.1	0.6	3	-4	1		4.40	-0.3	-9	22	114	39	

	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		3790	1.0	1	-5	-7	-2		182	1	-1	-27	5
Indonesia		6958	0.5	1	1	-3	2		130	0	7	-43	-10
India		65076	0.1	0	-2	9	7		136	-3	5	-15	-6
Philippines		6225	1.0	-1	-6	-7	-5		106	1	9	-15	9
Thailand		1569	0.4	2	2	-4	-6		0	0	0	0	0
Malaysia		1454	0.7	0	0	-4	-3		97	0	9	-10	-3
Argentina		665524	5.4	14	45	363	229		2063	-58	87	-341	-142
Brazil		117121	1.1	2	-3	4	7		230	-5	9	-80	-44
Chile		6030	-0.3	-2	-5	9	15		127	0	12	-54	-5
Colombia		1104	0.2	-1	-5	-14	-14		344	10	21	-62	-28
Mexico		53443	0.5	1	-3	15	10		367	-10	14	-39	-14
Peru		23122	0.8	1	0	21	8		157	0	3	-32	-23
Hungary		57025	0.4	0	7	34	30		199	1	9	-41	-23
Poland		68736	0.0	1	-4	34	20		119	6	5	97	46
Romania		13155	0.4	2	-1	8	13		212	3	13	-75	-43
South Africa		74665	-0.6	2	-5	8	2		382	-11	27	-42	15
Turkey		7920	-0.3	2	12	150	44		384	-20	-11	-256	-56
Ukraine		507	0.0	0	0	-2	-2		3589	82	260	154	-490
EM total		39	1.3	2	-6	-1	4		377	-6	14	-43	2

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

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