



- US house prices continue to increase amid supply crunch ([link](#))
- ADP employment falls more than expected in August ([link](#))
- TIPS funds continue to see outflows ([link](#))
- Euro area sovereign yields increase following regional inflation prints in Germany ([link](#))
- Chinese large state-owned banks plan to cut deposit rates ([link](#))
- Central bank of Hungary continues with one-day deposit rate cuts as expected ([link](#))

[Mature Markets](#)


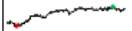
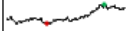






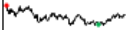

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## Data disappointments dampen markets

Markets are swinging into negative territory for the first time this week after data signaled continued price pressure in parts of the euro area. Data released this morning showed rising regional inflation in Germany, as well as headline inflation in Germany and core inflation in Spain declining less than expected. The reports come ahead of euro-wide inflation data tomorrow, increasing expectations for an upside surprise. Rates in the region rose (German 2-yr +6bp), and equities fell. US equity futures are also pointing somewhat lower. This comes a day after an unexpected fall in JOLTS job openings, combined with lower than expected consumer confidence, sent treasury yields lower and US stocks higher. Following last week's Jackson Hole speeches, markets will continue to follow data releases for clues to upcoming monetary policy decisions. In China, the equity rally has lost further steam following Sunday's measures to boost market confidence Domestic equities were little changed today after advancing the past two days.

Key Global Financial Indicators

Last updated: 8/30/23 8:21 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		4498	1.5	3	-2	13	17	6
Eurostoxx 50		4314	-0.3	1	-3	21	14	9
Nikkei 225		32333	0.3	1	-3	15	24	22
MSCI EM		40	1.3	4	-5	1	5	-16
<b>Yields and Spreads</b>			bps					
US 10y Yield		4.13	1.0	-6	18	103	25	214
Germany 10y Yield		2.57	5.5	5	7	105	-1	234
EMBIG Sovereign Spread		419	1	-3	16	-73	-33	7
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		48.2	-0.1	0	-2	-4	-3	-9
Dollar index, (+) = \$ appreciation		103.5	-0.1	0	2	-5	0	8
Brent Crude Oil (\$/barrel)		85.9	0.5	3	1	-13	0	-11
VIX Index (% change in pp)		14.5	0.1	-1	1	-12	-7	-16

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

## Mature Markets

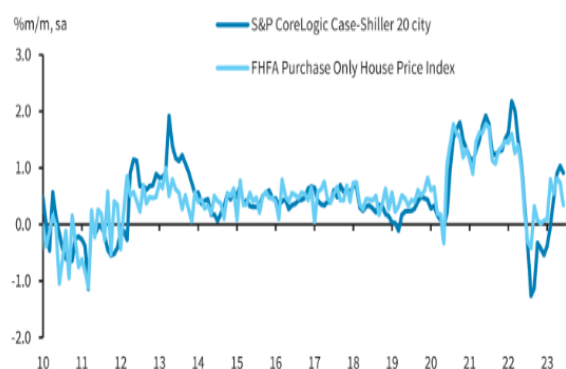
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### United States

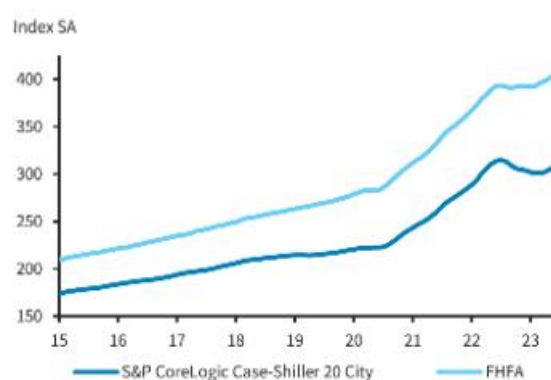
**This morning, ADP data showed employment fell more than expected to 177K in August.** The prior month was revised up by 47K. The second reading of Q2 GDP came in at 2.1% y/y, lower than the expected 2.4% y/y, with price index down to 2% from 2.2% previously. The 10-year Treasury yields dropped 5bp following the report, more than giving up an earlier rise following the German regional inflation data.

### Home prices continue to increase amid supply crunch, presenting upside risk to shelter inflation.

The FHFA house price index and the S&P 20-city index continued to rise in tandem in June, with the latter showing a reacceleration of prices in major US cities. The steady increase since February has erased the losses in H2 last year, with FHFA now surpassing the pandemic-era highs. While the above 7% mortgage rate should further weigh on demand, the impact on price is ambiguous as high rates also discourage existing homeowners from selling.



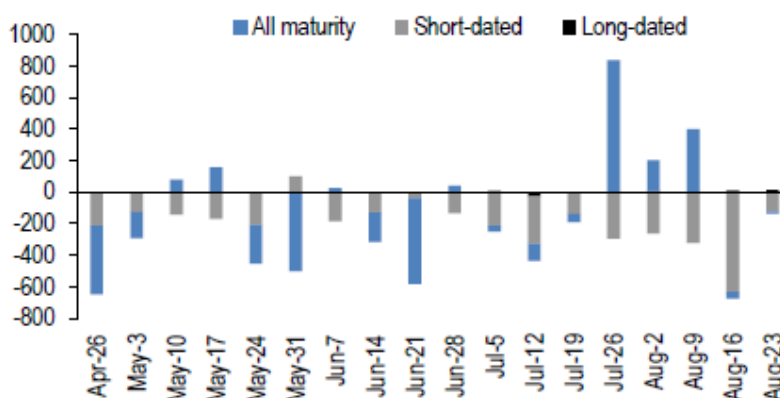
Source: FHFA, S&P/Case-Shiller, Haver Analytics



Source: FHFA, S&P/Case-Shiller, Haver Analytics

**Outflow from TIPS funds accelerated in August.** TIPS-focused ETFs recorded \$123mn outflow last week concentrating in short-dated funds, likely reflecting expectations of near-term disinflation. But interest in TIPS funds has waned significantly in the past year as they are found to be an ineffective inflation hedge. For example, the largest TIPS ETF in the US lost 5.6% over the last year after accounting for interest payments.

Estimated weekly inflows into the top 10 TIPS-related ETFs; \$mn



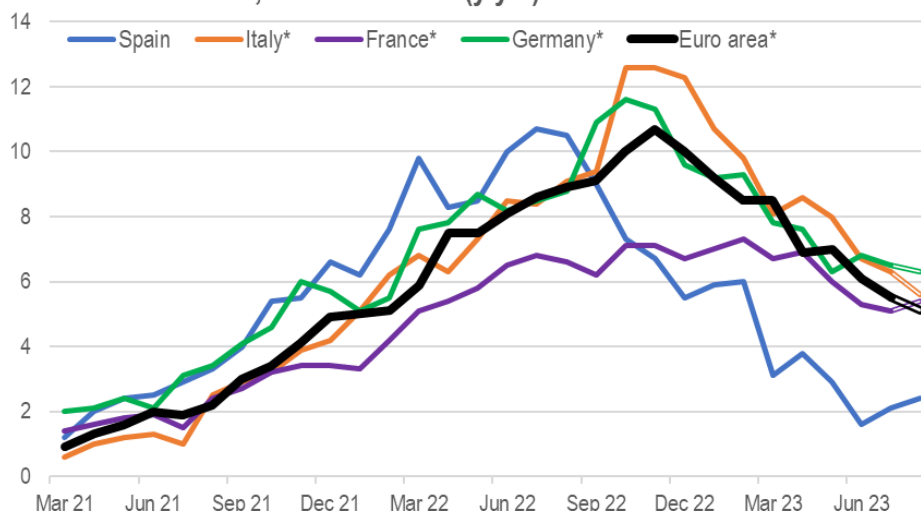
Source: Bloomberg Finance L.P., J.P. Morgan

## Euro Area

**Sovereign yields increased (10y bund + 7bp to 2.57%) following regional inflation prints from Germany and preliminary Spanish inflation data for August.** European equities retraced opening gains (Stoxx 600 Europe index -0.2%), after closing roughly 1% higher yesterday. Separate data releases showed economic confidence in the euro area deteriorating in August (to 93.3 versus expected 93.5 from 94.5), and also softer confidence data in Italy in August. The euro was little changed against the dollar, trading at around 1.09/\$.

**Ahead of the euro area inflation print due tomorrow, regional inflation prints in Germany were mixed.** Analysts noted that regional data point to an upside surprise to consensus expectations (consensus expects the EU harmonized measure headline inflation easing to 6.3%/y from 6.5%). Germany's headline inflation also eased less than expected (to 6.4%/y versus expected 6.3% from 6.5%). Also this morning, the preliminary EU harmonized measure of Spanish inflation accelerated in line with expectations in August (+2.4%/y from 2.1%/y), while core inflation eased less than expected (to 6.1%/y versus expected 6.0% from 6.2%). Markets remain focused on the euro-area wide inflation print tomorrow, where markets expect core inflation to slow to 5.3%/y in August (from 5.5%). Bund yields rose across the curve, with the 2y yield up 6 bp to 3.08% and the 10y yield up 7bp to 2.58%. Market pricing show that the odds of a 25bp hike in September increased to roughly 53%, up from 46% yesterday.

Euro area inflation, EU harmonized (y/y%)

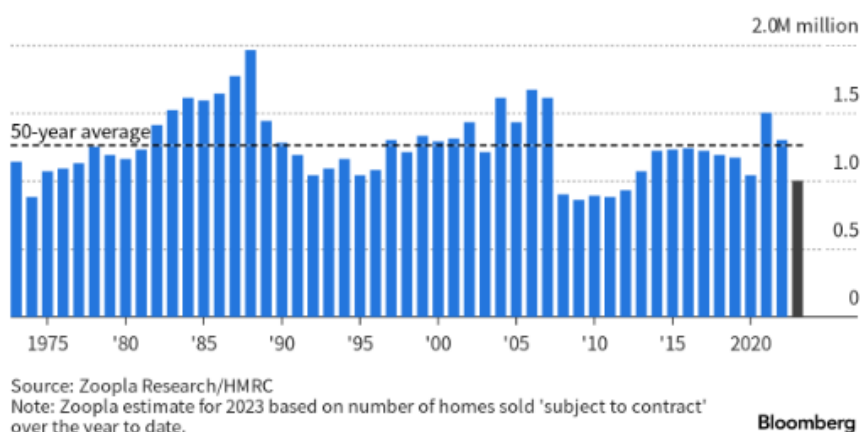


\* Data for August 2023 shows median Bloomberg forecast  
Source: Bloomberg and IMF calculations

## United Kingdom

**Gilt yields were edging higher in line with core global markets, while the focus on housing market fragilities continue.** Zoopla, a property portal, sees residential transactions declining by over 20% in 2023 from last year, and estimates that house prices increased 0.1% in July, the slowest annual pace in over a decade. Zoopla attributes weaker demand to higher interest rates of mortgages but expects mortgage rates to ease to below 5% later this year. Separate data releases this morning showed UK mortgage approvals and net consumer credit declining by more than expected in July. 10y gilt yields increased (+3bp to 4.45%), while the pound was little changed against the dollar (+0.1% at 1.26/\$).

### UK Residential Transactions Set to Drop to 1 Million in 2023



### Japan

**Naoki Tamura, one of Bank of Japan (BOJ) board members, said that the achievement of stable and sustainable 2% inflation is clearly within sight.** He noted that it is still appropriate to maintain monetary policy easing given uncertainties remain for hitting the target. He is hopeful that wage increases will continue and that it will become clearer whether the inflation target will be achieved around January to March next year. He also mentioned that putting an end to the negative interest rate policy would be among the possible policy moves to show that the price stability objective has been met. Long-end JGB yields were mixed (10-year: -0.1 bp; 30-year: +0.2 bp). The yen depreciated (-0.3%). Equities gained (NIKKEI: +0.3%).

### Emerging Markets

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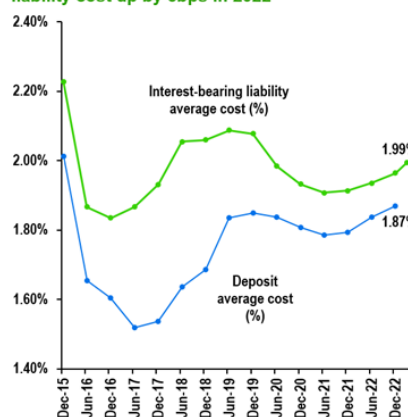
**Asian equities generally gained today**, with share prices rising in the Philippines (+1.1%), Taiwan Province of China (+0.6%) and Thailand (+0.5%). The rally of Chinese equities halted. Asian currencies were mixed, with Malaysian ringgit appreciating (+0.2%) while Singaporean dollar depreciating (-0.2%). Meanwhile, long-end government bond yields declined, with 10-year yields falling in Singapore (-5.5 bp) and the Philippines (-5.5 bp). **EMEA equities were mostly trading higher while currencies and local currency bond yields were mixed.** Equities in Saudi Arabia (+1%) outperformed while those in Türkiye (-0.8%) slumped. Currencies were mixed against the dollar, with the Turkish lira continuing to depreciate (-0.6% to 26.74/\$). CEE currencies were mixed against the euro with the Hungarian forint continuing to outperform (+0.5%). **LatAm equity markets mostly rose Tuesday.** Brazil (+1.1%), Chile, Colombia, and Mexico (+1.5%) all ended Tuesday's trading session positive. The Chilean peso rose slightly against the dollar after falling late last week. In Brazil, JPMorgan announced it is increasing its stake in C6 Bank from 40% to 46%, betting on growth in digital services.

### China

**Chinese large state-owned banks reportedly plan to cut deposit rates.** Based on news, deposit rates could be lowered by between 5 and 20 bp across tenors, and the cut may come as soon as this Friday. Analysts noted that deposit rate cuts are widely expected under the deposit rate self-disciplinary pricing mechanism (introduced in May 2022) as the 1-year loan prime rate (LPR) and 10-year CGB yield have fallen. Chinese banks' funding costs have increased as depositors shift toward higher-yield time deposits, putting pressure on banks' net interest margins amid falling lending rates. In separate news, **the authorities will guide banks to lower interest rates on existing mortgage loans;** previously, the People's Bank of China just encouraged banks to cut existing mortgage rates. As of now, there is no mechanism for mortgage refinancing in China. As a result, existing mortgage rates—though, able to fall in line with the 5-year LPR—remain notably higher than new mortgage rates.

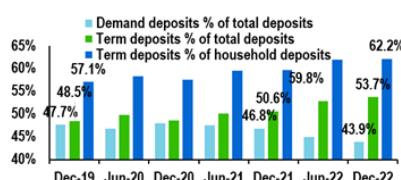
**RMB depreciated (-0.2%). Onshore Chinese equities were little changed** (based on CSI 300), while Hong Kong SAR-listed Chinese equities declined (-0.5%). The rally of Chinese stocks halted after a two-day gain driven by the introduction of measures to boost stock market confidence on Sunday, highlighting continued weak market sentiment due to the weakening economic recovery and the lack of additional policy support. Share prices of Huawei suppliers surged (8%-20%) after Huawei launched a sophisticated smartphone. The rally reflected a hope that Huawei has managed to overcome US sanctions. Reportedly, **Citic Trust and CCB Trust, two of the largest trust companies, were asked to examine Zhongrong International Trust's financial situation**, potentially paving the way for a state-led rescue. Citic Trust is part of Citic Group, which rescued China Huarong (a bad debt manager) in 2021, while CCB Trust is part of China Construction Bank (one of the large state-owned banks).

**Average bank deposit rates up by 8bps and liability cost up by 5bps in 2022\***

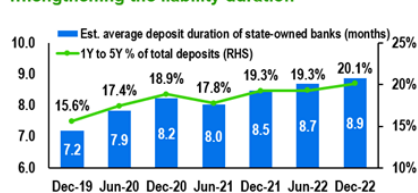


\* Based on semi-annual/annual reports from 42 A-share listed China commercial banks including 6 state-owned banks, 9 joint-stock banks, 17 city banks, and 10 rural banks. They account for c.80% of total assets for China commercial banks.  
 \*\* Data from Rong360, which tracks term/structural deposit rates and large CD rates for China commercial banks  
 Source: Wind, Rong360, Standard Chartered Research

**Share of term deposits is rising...**



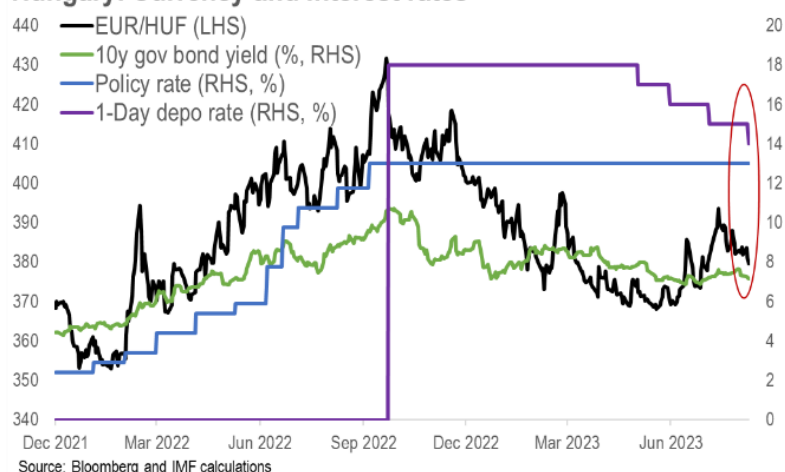
**...lengthening the liability duration**



## Hungary

**The central bank of Hungary cut the overnight deposit rate by 100bp to 14% yesterday, in line with expectations.** The central bank kept the policy rate (base rate) unchanged at 13% and cut the overnight depo rate by 100 bps to 14%, continuing the process of convergence of the two rates. The overnight depo rate was raised to 18% in October to stem the depreciation of the forint. In the press conference Deputy Governor Virag agreed with market expectations for the rates to converge in September

### Hungary: Currency and Interest rates

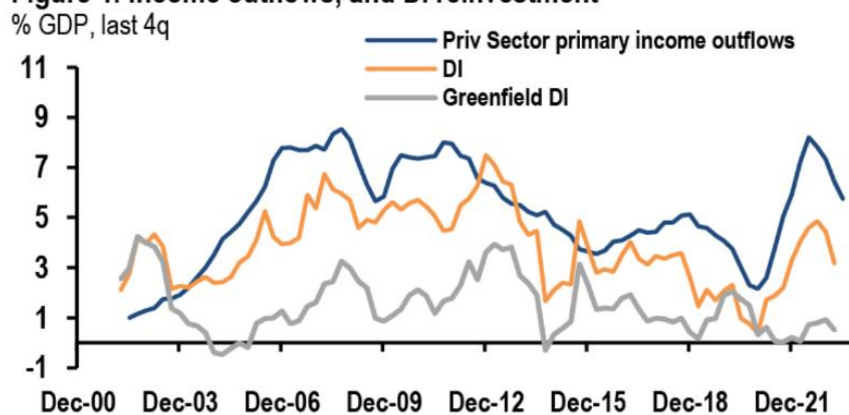


but said that monetary policy is set to enter a new phase of normalization thereafter, with policy decisions set to be made in a step-by-step basis on a data-driven approach. Noting supportive inflation dynamics and weaker domestic growth, Deutsche Bank analysts forecast 300bp of rate cuts to the base rate between October and the end of the year, if the currency remains stable. Analysts are now focused on the August inflation print, set to be released on September 8. **The forint appreciated ahead of the policy decision yesterday and continued strengthening this morning (+0.2% to 380.30/euro), while local currency bond yields are now roughly 15bp lower than at the start of the week.**

## Peru

Peru is having a hard time regaining the fast growth that made it one of the better performers in emerging markets. “The economy’s capacity for growth has fallen in the past 12-13 years, and then came the pandemic which accentuated that trend,” Finance Minister Alex Contreras said on Tuesday after cutting growth forecasts for the end of the year to 1.1% from 2.5%. The El Niño weather pattern has negatively affected agriculture and fishing industries in the region. Flooding this year has destroyed irrigation canals and warmer water tends to drive away anchovies which are crucial for Peru’s fishmeal industries. The government launched a \$7bn spending campaign during the 2017 El Niño session to rebuild flood damages and prevent further damage. Even so, the same areas are being flooded again.



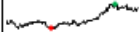





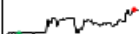

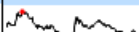


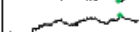


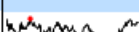


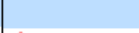
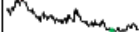

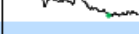
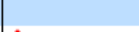
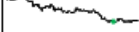
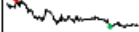
**Figure 4: Income outflows, and DI reinvestment**



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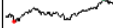










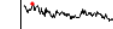
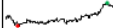


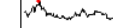





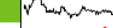

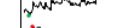








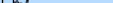

## Global Financial Indicators

Last updated: 8/30/23 8:22 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4497	1.5	1	-2	13	17
Europe		4314	-0.3	1	-3	21	14
Japan		32333	0.3	1	-3	15	24
China		3789	0.0	2	-6	-7	-2
Asia Ex Japan		66	1.5	4	-6	1	3
Emerging Markets		40	1.3	4	-5	1	5
<b>Interest Rates</b>			basis points				
US 10y Yield		4.13	1.0	-6	18	103	25
Germany 10y Yield		2.57	5.5	5	7	105	-1
Japan 10y Yield		0.65	-0.1	-2	8	42	23
UK 10y Yield		4.43	0.6	-4	10	172	76
<b>Credit Spreads</b>			basis points				
US Investment Grade		144	-0.4	-2	4	-17	-15
US High Yield		411	-3.2	-8	2	-95	-69
<b>Exchange Rates</b>			%				
USD/Majors		103.47	-0.1	0	2	-5	0
EUR/USD		1.09	0.2	0	-1	9	2
USD/JPY		146.1	0.1	1	3	5	10
EM/USD		48.2	-0.1	0	-2	-4	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		86	0.5	3	2	-1	4
Industrials Metals (index)		143	0.0	0	-3	-8	-14
Agriculture (index)		68	0.7	1	-2	-2	-2
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		14.5	0.1	-1.5	1.2	-11.7	-7.1
US 10y Swaption Volatility		110.3	0.4	-8.0	5.7	-19.1	-15.4
Global FX Volatility		8.2	0.0	-0.3	0.0	-2.9	-2.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		133	2.4	0	0	-119	-72
Italy		165	1.1	0	3	-67	-49
Portugal		70	-0.3	-1	-2	-39	-31
Spain		102	0.3	-1	0	-17	-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: 8/30/2023 8:23 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	0.9	4	-14	-10	-44
Indonesia		15241	0.1	0.4	-1	-3	2		6.4	-0.7	-23	9	-75	-57
India		83	0.0	0.0	-1	-4	0		7.6	-3.4	-9	2	7.1	11
Philippines		57	0.0	0.0	-3	-1	-2		5.9	-2.9	-17	-17	59	-9
Thailand		35	-0.1	-0.3	-2	4	-1		2.9	-1.5	-12	13	29	27
Malaysia		4.64	0.2	0.4	-3	-3	-5		3.8	-2.0	-3	-1	-17	-22
Argentina		350	0.0	0.0	-21	-60	-49		111.9	222.5	916	2164	3452	2369
Brazil		4.86	0.0	0.0	-3	5	9		11.1	0.4	-16	10	-106	-151
Chile		858	-0.3	1.4	-2	3	-1		5.4	0.5	1	29	-125	1
Colombia		4100	0.3	0.4	-4	7	18		8.1	0.0	-13	32	-148	-169
Mexico		16.76	0.2	0.2	0	20	16		8.7	-5.0	-27	44	0	-1
Peru		3.7	0.2	1.0	-2	4	3		6.9	-2.2	-25	13	-106	-105
Uruguay		38	0.0	0.2	-1	8	6		9.2	5.7	4	13	-180	-145
Hungary		349	0.4	0.9	1	15	7		6.9	-11.0	-36	-4	-246	-271
Poland		4.11	0.0	0.2	-2	15	7		4.8	-2.5	-16	12	-140	-139
Romania		4.5	0.1	0.2	-1	7	2		6.6	-5.0	-13	19	-133	-109
Russia		96.2	-0.8	-2.2	-5	-37	-23							
South Africa		18.6	-0.5	-0.6	-4	-9	-8		9.4	2.5	-17	3	44	19
Turkey		26.75	-0.6	1.7	1	-32	-30		21.6	0.0	25	153	820	1173
US (DXY; 5y UST)		103	-0.1	0.0	2	-5	0		4.30	2.3	-7	12	103	30

	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		3789	0.0	2	-6	-7	-2		184	4	1	-23	7	
Indonesia		6967	0.1	1	1	-3	2		134	4	11	-49	-6	
India		65087	0.0	-1	-2	9	7		139	2	8	-19	-3	
Philippines		6295	1.1	1	-4	-4	-4		110	4	13	-20	13	
Thailand		1577	0.5	2	1	-4	-6		0	0	0	0	0	
Malaysia		1452	-0.2	1	-1	-4	-3		97	1	9	-14	-3	
Argentina		683588	2.7	15	49	384	238		2058	7	82	-372	-147	
Brazil		118404	1.1	2	-1	7	8		232	-2	11	-85	-42	
Chile		6060	0.5	-2	-4	9	15		127	1	12	-57	-5	
Colombia		1111	0.6	1	-4	-13	-14		340	4	17	-79	-32	
Mexico		54261	1.5	2	-1	18	12		361	-13	8	-54	-20	
Peru		23336	0.9	2	1	22	9		154	-3	0	-40	-26	
Hungary		56825	-0.4	0	7	34	30		207	9	17	-19	-15	
Poland		68876	0.1	1	-4	37	20		128	12	14	166	55	
Romania		13252	0.4	2	0	9	14		217	6	18	-64	-39	
South Africa		75086	0.4	1	-4	11	3		382	-15	27	-33	15	
Turkey		7907	0.0	2	12	150	44		380	-25	-15	-249	-60	
Ukraine		507	0.0	0	0	-2	-2		3626	149	297	218	-453	
EM total		40	-0.7	4	-5	1	5		378	-3	14	-45	2	

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

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