



- US inflation data meet consensus forecasts ([link](#))
- China PMI data show signs of stabilization ([link](#))
- Markets scale back ECB rate hike expectations ([link](#))
- Fed increases scrutiny of regional banks ([link](#))
- Markets expect US interest rates to stay higher for longer ([link](#))

[Mature Markets](#)

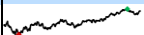










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Markets cautious ahead of key US data

Markets were trading in narrow ranges ahead of tomorrow's key US jobs report. European stocks have a mild positive bias, while US equity index futures are slightly higher. Government bond yields in the US and the euro area were lower ahead of the widely anticipated US PCE inflation report, which came in exactly as predicted by the consensus forecasts. Stronger than expected PMI data in China were a positive for markets, and sentiment in Europe was also positive as markets scaled back their expectations for ECB rate hikes. Investors are keeping a wary eye on regional US banks, which are back in the news as the Federal Reserve intensified its scrutiny of their operations. The share prices of some of these banks remain under severe pressure. Meanwhile, markets are beginning to revise their expectations for US interest rates, predicting higher levels in the months ahead.

Key Global Financial Indicators

Last updated: 8/31/23 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4515	0.4	2	-2	14	18
Eurostoxx 50		4332	0.4	2	-3	23	14
Nikkei 225		32619	0.9	1	-3	18	25
MSCI EM		40	-0.3	2	-5	1	5
Yields and Spreads			bps				
US 10y Yield		4.09	-2.3	-15	13	90	22
Germany 10y Yield		2.49	-6.0	-3	-1	94	-9
EMBIG Sovereign Spread		417	-2	-5	13	-83	-35
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		48.1	-0.1	0	-2	-4	-4
Dollar index, (+) = \$ appreciation		103.5	0.4	0	2	-5	0
Brent Crude Oil (\$/barrel)		86.6	0.8	4	1	-10	1
VIX Index (% change in pp)		13.8	-0.1	-3	0	-12	-8

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

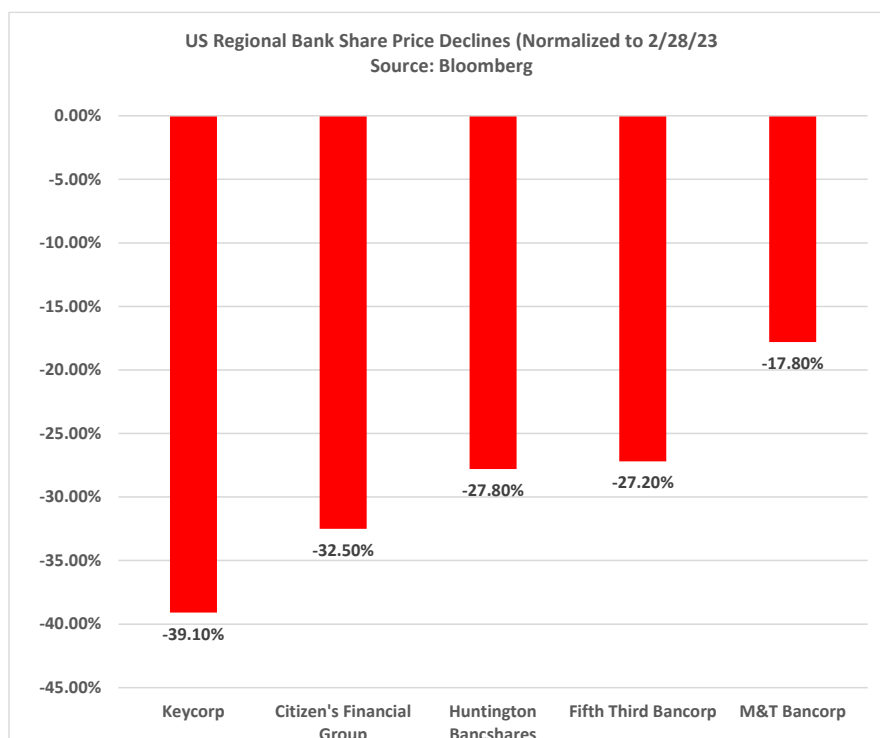
The latest US PCE inflation data came in exactly in line with consensus forecasts. The softening trend in inflation gave Treasuries a slight bid and weakened the dollar. Personal income was slightly higher than expected while personal spending was slightly lower.

Key US Inflation Data 8.30 am

Source: Bloomberg

Indicator	Consensus Forecast	Actual Data Print
PCE Deflator Month-on-Month	0.3%	0.3%
PCE Deflator Year-on-Year	3.3%	3.3%
Core PCE Deflator MoM	0.2%	0.2%
Core PCE Deflator YoY	4.2%	4.2%

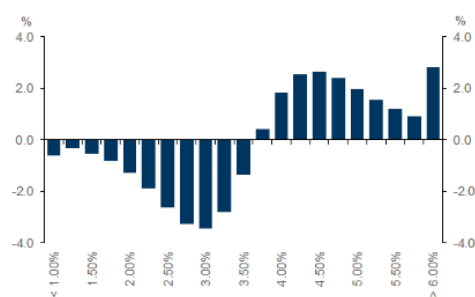
The Federal Reserve has tightened its scrutiny of a number of regional banks, according to Bloomberg. The news service cited banks such as Keycorp, Citizens' Financial Group, Huntington Bancshares, Fifth Third Bancorp, and M&T Bancorp as having received Matters Requiring Immediate Attention (MRIA) and Matters Requiring Attention (MRA) notices from the regulators. These notices cover areas such as liquidity, technology, compliance, and capital adequacy, among others. With interest rates remaining high bank examiners are on the lookout for stresses akin to those experienced by Silicon Valley Bank, Signature Bank and First Republic before their collapses or takeovers. Following the banking crisis this spring, Fed Vice Chair Barr, in charge of bank supervision, had promised to "improve the speed, force and agility," of the regulation of the banking industry.



Markets now expect US interest rates to stay higher for longer as the soft landing rhetoric fades into the background. Based on the market for swaptions on one year forward-starting 10-year maturity swaps, expectations for long term interest rates have moved significantly higher. The benchmark 10-year Treasury yield is not far from its highest levels since 2007, and markets are no longer expecting any rate cuts in 2023. Goldman analysts think there has been an upward shift in the equilibrium level of rates that the economy can withstand (known as R^* among economists). However, the demand for Treasuries has remained strong, with foreign asset managers among the biggest buyers as higher Treasury yields make the asset class more attractive.

Exhibit 1: Markets appear to have moved away from recession fears toward structurally higher rate views in a space of two months

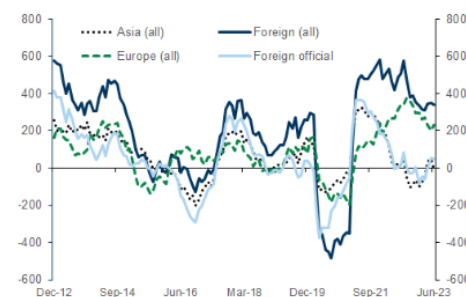
Changes in option-implied probabilities of 1y-ahead 10y US swap rates from end-June; in %



Source: Goldman Sachs Global Investment Research

Exhibit 2: Foreign purchases of USTs appears to have come largely from non-official sector accounts, and from Europe

Rolling 1y average of valuation-adjusted net UST purchases by foreigners; in \$bn



Source: US Treasury, Haver Analytics, Goldman Sachs Global Investment Research

Euro Area

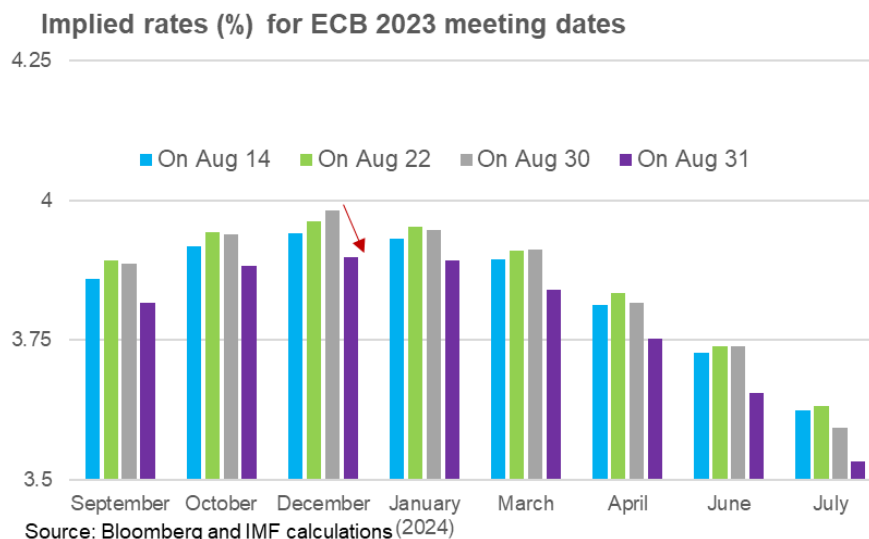
Sovereign yields edged lower (10y bund -5bps to 2.49%) and the euro was trading weaker against the dollar (-0.5% at 1.09/\$) as markets scaled back ECB hiking expectations following the euro area preliminary inflation print for August and recent ECB commentary. Separate data releases showed disappointing German retail sales data for July and unemployment edging higher, in line with expectations.

European equities were slightly higher (Stoxx 600 Europe index +0.1%), with gains led by the financial services (+1.5%) and real-estate (+1.1%) sectors. **UBS shares jumped by as much as 7.2% after posting record-high quarterly profit in Q2**, driven by negative goodwill from acquiring Credit Suisse.

Markets have scaled back ECB hiking expectations following ECB commentary and the preliminary August inflation print. Preliminary euro area inflation data showed core inflation easing to 5.3%/y in August, in line with expectations, while headline inflation surprised on the upside—remaining unchanged at 5.3%. ECB's executive board member Schnabel's remarks at a conference today were seen as dovish by contacts. Schnabel emphasized the weaker macroeconomic outlook, but also said that inflation remains stubbornly high. She noted that under the ECB's data-dependent approach, "we cannot predict where the peak rate is going to be, or for how long rates will have to be held at restrictive levels. We can also not commit to future actions, meaning we cannot trade off a need for a further tightening of monetary policy today against a promise to hold rates at a certain level for longer.

Separately, ECB General Council member Holtzmann said that further rate hikes by the ECB are possible. Describing the stubbornly high August inflation data as a conundrum for the ECB, he also spoke in favor of ending PEPP reinvestments before the end of next year. Markets are now pricing in roughly 7bps

of tightening for the ECB meeting in September (compared to 14bps priced in yesterday) with roughly 16bps of tightening priced in by the end of this year (compared to roughly 23bps priced in yesterday).



Japan

Retail sales were stronger than expected in July, while industrial production housing construction weakened. Toyoaki Nakamura, one of the Bank of Japan (BOJ) board members, said that sustainable and stable inflation for achieving the BOJ's target is not in sight yet, a sharp contrast to views offered by Naoki Tamura (another board member) yesterday. He also indicated that sustainable wage growth and demand-pulled inflation are needed before the BOJ can end the negative interest rate policy. Japanese equities gained (NIKKEI: +0.9%).

Emerging Markets

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EMEA markets were mixed. Eastern European currencies were trading in a tight range against the euro, with the Hungarian forint underperforming. **Most stocks in Asia were lower.** In India, bond and share prices of Adani Group declined after controversial owners of its stock were identified in a new investigation. The share price of Adani Enterprises (the group's flagship) fell (-2.9%). In Thailand, global funds sold government bonds, resulting an outflow in August for the first time since February 2023, amid concerns about populist policies from the new government. **Currencies across Latin America rose on Wednesday after weak US data allayed fears about a bearish Fed.** The Mexican peso is up 0.3% as it remains a primer currency for carry trades, despite the growing threat of US slowdown. Equities in the region ended the day mixed. Guatemala stayed on hold at 5%.

Brazil

Weekly capital flows in Brazil were negative in the week ending August 25. Brazilian capital flows registered net outflows of \$1.9bn due to outflows of commercial (\$1.2bn) and financial (\$0.7bn) capital. For the month, commercial inflows are reported at \$3bn, while financial outflows stand at \$1.1bn. For the year, net capital flows are at \$19.4bn, while commercial inflows (\$36.7bn) outpace financial outflows (\$17.3bn). The spread between imports and import trade related flows came in negative from a record high in late 2022. Brazil's general price index that tracks wholesale, consumer, and national construction prices came in at -7.2% y/y on Wednesday, down from its peak in May 2021, and following the downward trend of headline CPI inflation which is at 4.24%.

Figure 1: Net FX flows

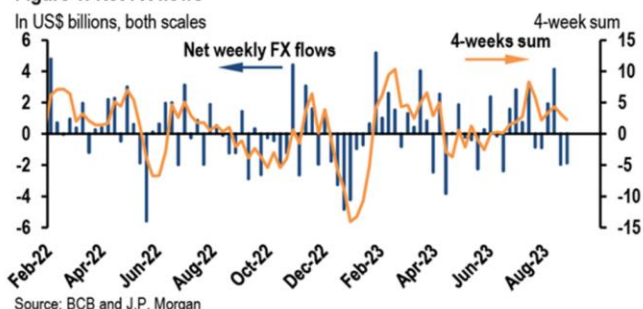
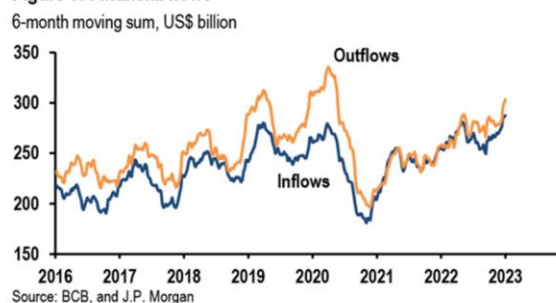


Figure 5: Financial flows

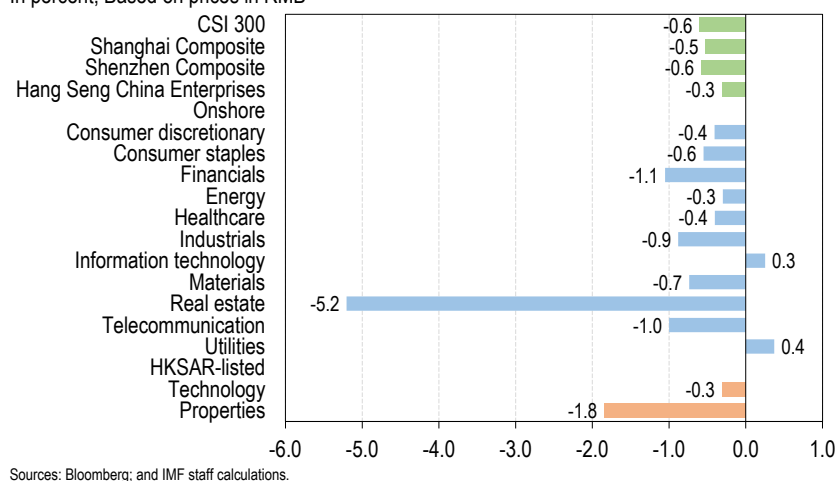


China

Official PMI data showed signs of stabilization in manufacturing activity. Manufacturing PMI, though remaining contractionary, improved to 49.7 in August from 49.3 in July, beating expectations (consensus: 49.2). Non-manufacturing PMI weakened to 51.0 from 51.5 (consensus: 51.2). Analysts noted that property-related activity was the main drag on non-manufacturing activity, while construction PMI improved on stronger infrastructure construction. **Chinese equities declined** (CSI 300: -0.6%; Hong Kong SAR-listed: -0.4%). Chinese tech stocks fell today after enjoying some gains in the morning trading session on the news that China approved the first batch of generative AI services for a public rollout. Stocks of real estate firms declined (onshore: -5.2%; Hong Kong SAR-listed: -1.8%). Market sentiment was dampened by Country Garden's warning of a possible default despite the easing of mortgage policy in Guangzhou and Shenzhen. Meanwhile, spreads between CNH HIBOR (a key offshore financing benchmark) and SHIBOR (the onshore financing benchmark) remained elevated (1-month: 188 bps), pointing to tight CNH liquidity conditions.

Equity Total Return: Daily Change

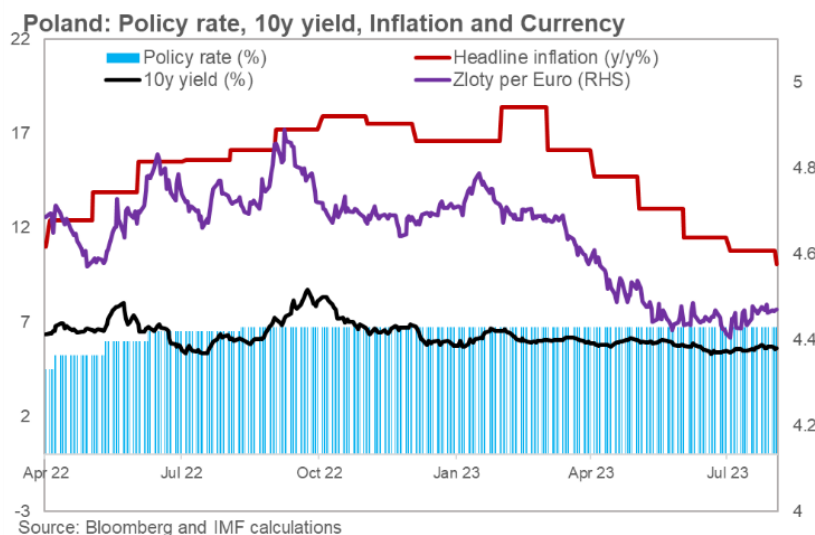
In percent; Based on prices in RMB



Poland

Ahead of the central bank meeting next week, preliminary data for August showed headline inflation easing slightly less than expected. Preliminary headline inflation eased to 10.1% in August (versus expected 10.0% from 10.8%). Analysts have highlighted previously that the inflation print 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. JPMorgan analysts expect the central bank to remain on hold at the September meeting with cuts seen to begin in October, while ING analysts see the easing cycle starting next week, with 50–75bps of cuts expected this year. Earlier this week, media outlets cited Polish Monetary Policy

Council member Kotecki speaking against interest rate cuts, noting uncertainty about slowing inflation amid “looser fiscal policy, a weaker macro situation, but also statistically higher inflation.” A separate data release this morning showed the final print for Q2 GDP slightly weaker than previous estimates (-0.6% y/y versus -0.5%).



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

8/31/23 8:07 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4516	0.4	3	-2	14	18
Europe		4331	0.4	2	-3	23	14
Japan		32619	0.9	1	-3	18	25
China		3765	-0.6	1	-6	-7	-3
Asia Ex Japan		66	-0.4	2	-6	-1	2
Emerging Markets		40	-0.3	2	-5	1	5
Interest Rates			basis points				
US 10y Yield		4.09	-1.8	-14	14	90	22
Germany 10y Yield		2.49	-5.6	-2	0	95	-8
Japan 10y Yield		0.65	-0.1	-1	4	43	23
UK 10y Yield		4.36	-6.0	-7	5	156	69
Credit Spreads			basis points				
US Investment Grade		145	0.6	0	8	-18	-13
US High Yield		415	1.2	-9	10	-96	-66
Exchange Rates			%				
USD/Majors		103.54	0.4	0	2	-5	0
EUR/USD		1.09	-0.5	1	-1	8	2
USD/JPY		145.8	-0.3	0	2	5	11
EM/USD		48.1	-0.1	0	-2	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		86.6	0.8	4	1	1	5
Industrials Metals (index)		142	-0.5	1	-5	-7	-14
Agriculture (index)		67	0.1	0	-1	-3	-2
Implied Volatility			%				
VIX Index (%, change in pp)		13.8	-0.1	-3.4	0.1	-12.1	-7.9
US 10y Swaption Volatility		107.6	0.4	-10.1	3.0	-18.9	-18.1
Global FX Volatility		8.1	0.0	-0.3	-0.1	-2.9	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		129	-2.8	-3	2	-127	-76
Italy		165	-0.3	-2	3	-71	-50
Portugal		70	-0.7	-1	-3	-39	-32
Spain		101	-0.2	-1	-1	-18	-8

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

Emerging Market Financial Indicators

Last updated: 8/31/2023 8:07 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	
	vs. USD		(+) = EM appreciation						% p.a.						
China		7.29	0.0	-0.1	-2	-5	-5		2.6	0.5	5	-14	-10	-44	
Indonesia		15230	0.1	0.1	-1	-3	2		6.4	0.5	-15	13	-75	-56	
India		83	-0.1	-0.3	-1	-4	0		7.5	-3.1	-11	-1	4.1	8	
Philippines		57	0.3	0.3	-3	-1	-2		5.9	-7.4	-15	-17	44	-9	
Thailand		35	0.2	0.1	-2	5	-1		2.9	-2.0	-10	11	17	25	
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		114.6	273.6	1160	2437	3692	2642	
Brazil		4.88	0.1	0.0	-3	6	8		11.2	9.1	0	23	-85	-137	
Chile		852	0.7	0.6	-2	4	0		5.3	-3.0	-3	26	-128	-3	
Colombia		4095	0.1	-0.5	-4	8	18		8.0	0.0	-12	27	-148	-174	
Mexico		16.74	0.0	0.6	0	20	17		8.8	5.1	0	49	0	5	
Peru		3.7	-0.1	0.6	-2	4	3		6.8	-9.5	-18	10	-120	-114	
Uruguay		38	0.0	0.0	-1	8	6		9.2	0.1	9	13	-177	-145	
Hungary		350	-0.6	1.5	1	14	7		6.8	3.0	-26	-11	-251	-278	
Poland		4.11	-0.5	0.8	-3	14	6		4.7	1.8	-15	7	-155	-144	
Romania		4.5	-0.5	0.5	-1	6	2		6.6	-2.9	-10	16	-114	-112	
Russia		96.2	-0.1	-1.8	-5	-37	-23								
South Africa		18.8	-0.5	0.2	-5	-9	-9		9.3	-2.2	-15	-2	32	14	
Turkey		26.67	0.2	-3.2	1	-32	-30		21.6	7.0	7	174	864	1180	
US (DXY; 5y UST)		104	0.4	-0.4	2	-5	0		4.25	-1.9	-17	7	90	25	

	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	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points						
China		3765	-0.6	1	-6	-7	-3		185	3	2	-20	8		
Indonesia		6953	-0.2	1	1	-3	1		129	-5	6	-50	-11		
India		64831	-0.4	-1	-2	10	7		139	1	8	-16	-3		
Philippines		6175	-1.9	0	-6	-6	-6		104	-4	7	-23	7		
Thailand		1566	-0.7	1	1	-3	-6		0	0	0	0	0		
Malaysia		1452	0.0	1	-1	-4	-3		97	1	9	-11	-3		
Argentina		675841	-1.1	10	48	396	234		2086	36	110	-332	-119		
Brazil		117535	-0.7	-1	-4	7	7		230	-7	9	-82	-44		
Chile		6028	-0.5	-1	-6	11	15		126	-2	11	-60	-6		
Colombia		1115	0.3	1	-5	-9	-13		328	-7	5	-95	-44		
Mexico		54391	0.2	1	-1	21	12		359	-11	6	-62	-22		
Peru		23336	0.9	1	-1	24	9		149	-9	-5	-46	-31		
Hungary		56380	0.3	-1	6	35	29		201	-4	11	-48	-21		
Poland		68594	-0.6	1	-5	37	19		122	-3	8	102	49		
Romania		13273	0.1	1	0	10	14		212	-6	13	-78	-44		
South Africa		75116	-0.2	1	-5	12	3		375	-17	20	-66	8		
Turkey		7958	0.6	5	13	151	44		378	-30	-17	-272	-62		
Ukraine		507	0.0	0	0	-2	-2		3662	153	333	71	-417		
EM total		40	-0.8	2	-5	1	5		374	-7	11	-54	-1		

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

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