



- Markets are pricing more aggressive Fed rate hikes ([link](#))
- Another major Chinese property developer seeks payment delays ([link](#))
- Ruling party retains decisive majority in Japan ([link](#))
- US real yields and eurodollar futures yields diverge ([link](#))
- ESG issuance in US corporate bond market sets new record ([link](#))

[Mature Markets](#)



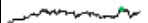








| [Emerging Markets](#)

| [Market Tables](#)

Markets in US and Europe at record highs

All three large cap US equity indexes set new records to end the month of October, and US equity futures are pointing to further gains this morning. The Euro Stoxx 50 index is also trading in record territory, although emerging markets are trading mixed. Stocks in Japan posted solid gains after PM Kishida's Liberal Democratic party beat expectations by winning an outright majority in parliament. However, despite today's upbeat mood, markets are facing a challenging environment where central banks are getting more hawkish. Colombia was the latest to hike its policy rate last Friday, following Brazil's 150 bps hike earlier last week. The Reserve Bank of New Zealand is also in hiking mode, while the Bank of Canada surprised markets by ending its asset purchases and signaling that it could hike rates as early as April next year. The Czech yield curve has inverted on expectations of aggressive rate hikes from the central bank.

Key Global Financial Indicators

Last updated: 11/1/21 8:29 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4605	0.2	1	6	41	23
Eurostoxx 50		4273	0.5	2	6	44	20
Nikkei 225		29647	2.6	4	3	27	8
MSCI EM		51	-1.5	-2	1	14	-1
Yields and Spreads			bps				
US 10y Yield		1.58	2.8	-5	12	71	67
Germany 10y Yield		-0.08	2.6	3	14	55	49
EMBIG Sovereign Spread		357	1	1	4	-65	6
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		54.8	0.0	-1	-2	1	-5
Dollar index, (+) = \$ appreciation		94.1	-0.1	0	0	0	5
Brent Crude Oil (\$/barrel)		84.6	1.0	-2	7	126	63
VIX Index (% change in pp)		16.7	0.4	1	-4	-21	-6

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

Mature Markets

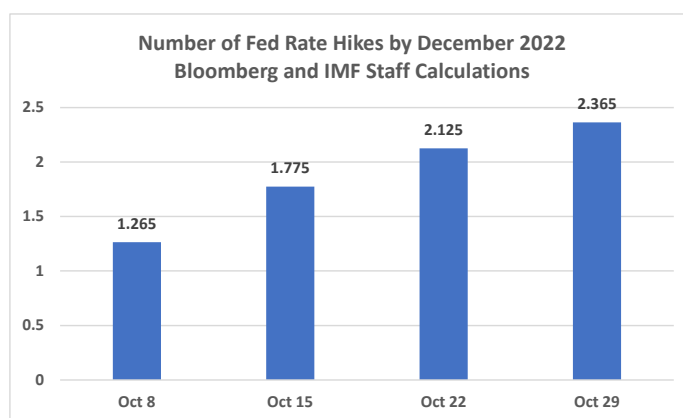
[back to top](#)

The FOMC statement and press conference on Wednesday is likely to dominate markets this week, with the Fed expected to announce the beginning of tapering. However, the Bank of England could also move markets on Thursday in an environment where interest rates have been volatile and where recent messaging has been hawkish. Markets are predicting a non-trivial chance of a rate hike after Governor Bailey's warnings that the bank needs to tackle inflation, with a full hike priced in for December. Tomorrow's Reserve Bank of Australia meeting will also draw scrutiny after the RBA decided not to defend its bond yield target last week, allowing benchmark interest rates to rise sharply. The Czech central bank is expected to hike its policy rate by 50 bps to 2% on Thursday. Meanwhile, earnings season continues.

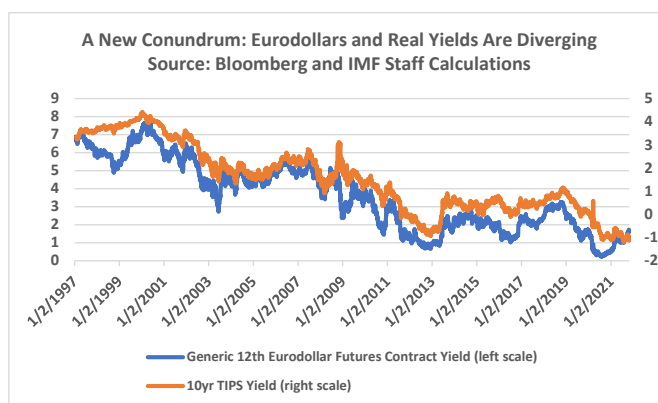
It will be a busy week on the data front, with the US jobs report on Friday being the highlight. The consensus forecast is that 400K jobs were added in October. The outcome will be especially important because the last two reports were quite disappointing. The euro area jobs report and Markit services PMI are coming out on Wednesday, and Japan and India report PMIs on the same day. Euro area PPI is due on Thursday. China reports balance of payments data on Friday.

United States

Markets are pricing in a more aggressive path for Fed rate hikes. Based on the options market for Fed Funds futures, the market estimate of how many rate hikes would occur by December 2022 went up from just over one hike as of October 8 to nearly 2 ½ by the end of the month. Other trends support this view. The yield curve has flattened significantly in recent weeks, with the 2-year/10-year Treasury spread falling from 128 bps on October 21 to 106 bps by month end, and the 5-year-year spread falling from 95 bps to 76 bps. The eurodollar futures June 2022/2023/2024 butterfly (a trade where the investor buys the first and third contract and sells the middle contract) shot up to 51 bps, the highest since the pandemic crisis began. All eyes will be on Fed Chair Powell during the press conference when markets will be looking for clues about future Fed policy. The expectation, based on his earlier remarks, is that the Fed would not begin hiking before tapering is complete in the middle of next year, but the market is assigning a very high probability that June will see the first rate hike.



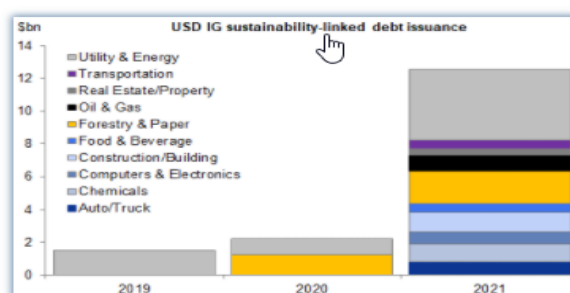
Real yields and eurodollar yields are diverging in a break from a long standing statistical relationship. Since 10-year Treasury Inflation Protected Securities (TIPS) were first launched in 1997, real yields have tended to move in step with the yield on the 12th eurodollar futures contract, according to Bloomberg. In recent weeks, eurodollar yields have moved higher on expectations of more hawkish Fed policy in the future. However, this time real yields have not followed them and have in fact moved in the opposite direction. This highlights an active debate in markets on whether the Fed might make a policy mistake in being too hawkish when the economy may turn out to be weaker than expected. The 10-year TIPS yield is not far from the all-time low set back in August.



US ESG-linked investment grade (IG) corporate bond issuance has hit a new record in 2021. This year, \$70 bn of IG ESG bonds have been issued, eclipsing the previous record of \$52 bn set last year. Contacts report very strong demand for these bonds and predict that demand will grow even larger regardless of what happens to interest rates, and many companies report plans to enter the sector and issue bonds next year. Another positive development is that the universe of bonds issued has become much more diverse from a sector perspective.

Exhibit 1 : The sector mix of USD IG sustainability-linked debt issuance has become much more diverse in 2021...

USD IG sustainability-linked debt issuance by year and sector



Note: 2021 is as of October 24, 2021.

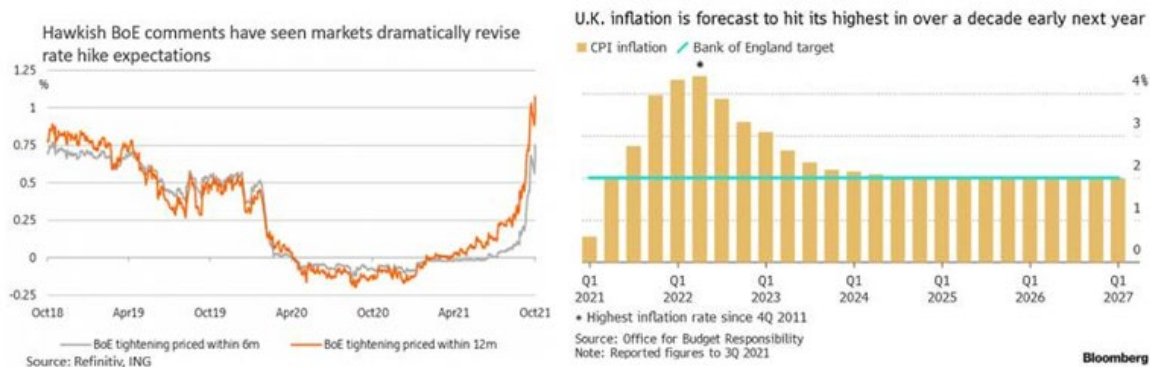
Source: Dealogic, Goldman Sachs Global Investment Research

Euro Area

Equities (+0.6%) rebounded this morning with most sectors gaining. Financial stocks (+1.1%) outperformed, while the technology sector declined by 0.6%. The euro appreciated (+0.1%) against the US dollar, while German 10-yr bund yields rose (+ 2 bps to -0.08%) in line with U.S. rates.

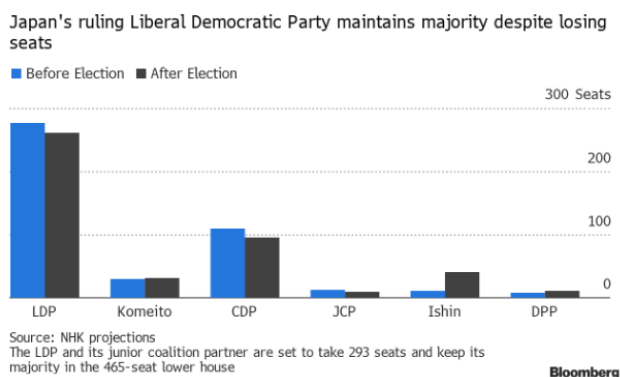
United Kingdom

Yields continue to increase (+2bps) ahead of the monetary policy rate meeting on Thursday. While markets continue to price in a 15bps hike, economist sees the decision as more finely balanced. Even if there is an increase on Thursday, it is not expected to be a unanimous decision. Analysts are also expecting the policymakers to offer modest pushback against the tightening expectations in 2022. Against a backdrop of higher inflation forecasts and hawkish comments by the BoE, some economists have also cautioned that no policy tightening in 2020 could undermine the BoE's credibility. On the data front, UK PMI manufacturing remained in expansionary territory (+57.8) in October. In other regulatory news, the UK has postponed the implementation of the latest Basel III banking standards **to after March 2023.**



Japan

The ruling Liberal Democratic Party (LDP) won Japan's 2021 general elections. The party led by Prime Minister Kishida secured 261 out of 465 seats on Sunday, enough to form a single-party majority in Japan's House of Representatives. The main opposition party, the Constitutional Democratic Party (CDP), which allied it-self with smaller, left-wing parties, lost 13 seats. Ishin, a right-wing party favoring small government also known as the Japan Innovation Party, was the biggest gainer in the 2021 election, climbing to the third place with 41 seats. During the campaign Ishin argued for cutting "wasteful spending" and trimming the size of government. Analysts foresee little impediment now for PM Kishida to implement his pledge for a stimulus worth "ten of trillions of yen" by the end of the year. **Japanese equities gained +2.2%, the yen depreciated -0.4%, 10-year yields declined -0.4bps.**



Emerging Markets

[back to top](#)

EMEA equity markets were trading mostly higher with shares in Romania (+1.1%) and Russia (+1%) outperforming. EMEA currencies were stronger against the US dollar with Turkish lira (+0.6%) showing the largest gains. However, the South African rand depreciated (-0.6%), in holiday-thinned trading ahead of municipal elections today. Manufacturing PMIs were up strongly in Asia, led by Indonesia and India, although South Korea lost ground. Asian bourses were generally down today. Latin American stocks also finished the week lower. The Mexican peso depreciated, while government bond yields were sharply higher in Brazil on expectations of tighter monetary policy going forward. Colombia hiked its policy rate by 50 bps to 2.5%.

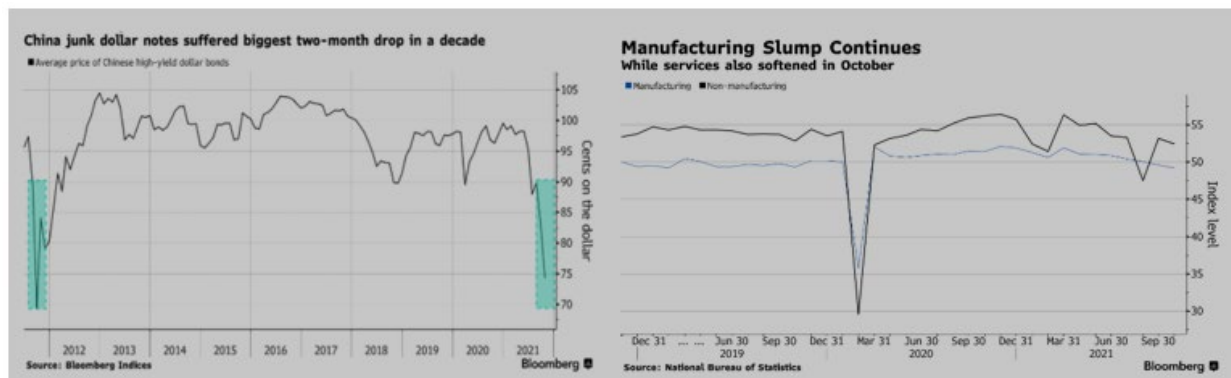
EM fund flows

After five weeks of outflows, EM fixed income flows turned positive this week as hard-currency bond funds had their largest weekly inflow since June (+\$1.5bn). However, local currency bond funds had small outflows (-\$3mn). Inflows were mostly non-ETF driven.

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	EM Bonds and Equities		0.7	152.5
	EM Bonds		1.5	49.5
	Hard Ccy		1.5	25.8
	Local Ccy ^A		0.0	23.6
	o.w. EM ex-China		0.0	2.1
	o.w. China		-0.1	18.8
	EM Equities		-0.7	103.0
	US HG		-0.6	249.8
	US HY		1.0	-4.8
	Global Equities		16.1	389.2
	EM Bond and Equity ETFs		1.1	67.5
	EM Bond ETFs		0.5	11.9
	EM Equity ETFs		0.5	55.6
	Non-resident EM flows*		-1.8	-72.2

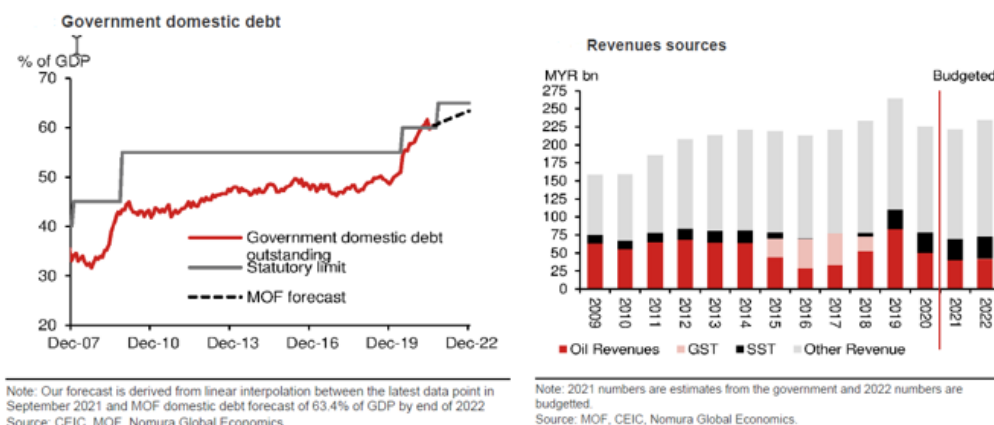
China

Chinese property developer Yango Group is looking for debt payment delays. The company is seeking to extend three of its US dollar notes as “existing internal resources may be insufficient,” Bloomberg reported based on a stock exchange filing. The group was also reportedly asking holders of its asset-backed securities to refrain from asking for repayment for a year. The Shanghai-based builder is ranked 18th by contracted sales in the nation. The company’s shares fell as much as 9% in Shenzhen, and several of its onshore bonds plunged to record lows, prompting trading halts, according to Bloomberg. **Meanwhile, China’s manufacturing PMI weakened.** The official index gauge inched deeper into contractionary territory to 49.2 in October (from 49.6). **The PBOC staged its first sizable net liquidity drainage in three weeks.** The central bank injected 10 bn yuan (\$1.6 bn) of liquidity via 7-day reverse repos, resulting in a net drainage of 190 bn yuan (\$29.7 bn). **China equities were mixed (Shanghai -0.1%, Shenzhen +0.5%), 10-year bond yield and the renminbi were little changed.**



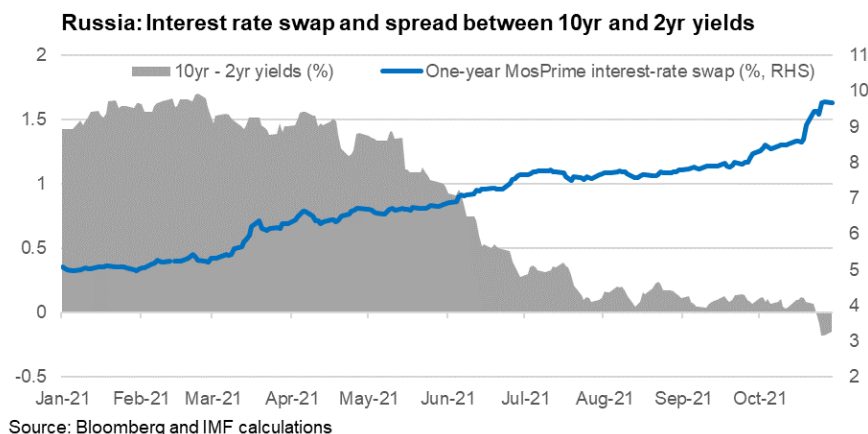
Malaysia

Malaysia announced a record spending plan supported by a one-off windfall tax on large corporates. The 2022 budget revealed on Friday includes a 332.5 bn ringgit (\$80.1 bn) spending package aimed at revitalizing the economy. COVID-19 Fund allocation was set at 23 bn ringgit (\$5.5 bn), with the bulk of the allocation meant for cash and social assistance. The Ministry of Finance projects the fiscal deficit to narrow to 6% of GDP in 2022 from 6.5% this year, with economic growth set to accelerate to 5.5%-6.5% in 2022 from 3%-4% this year. On the revenue side, the budget proposal introduces a one-off “prosperity” tax of 24% on firms with taxable income of up to 100mn ringgit, and 33% on any income above that threshold. Analysts noted that the 2022 budget will be more expansionary than 2021’s, with a more gradual path of fiscal consolidation to be seen in coming years.



Russia

Russian manufacturing PMI surprised to the upside (51.6) in October (consensus 50.5), supported by output growth and new orders. This is the first time since May 2021 that the index entered expansionary territory above 50. However, according to survey results, supply chain disruptions continued to limit production capacity, as suppliers' delivery times lengthened significantly. Input prices continued to increase in October, with companies continuing to pass on the costs to consumers. While keeping economic growth forecasts unchanged at 4.3% in 2021 and 2.2% 2022, analysts at ING have cautioned that growth could be restrained by higher inflation and Covid-related developments, among other factors. Following the larger-than-expected (+75 bps to 7.5%) interest rate increase on 22 October, 10-year yields fell below 2-year yields for the first time since 2017. The market continues to aggressively price in future hikes – the one-year interest rate swap increased by 60bps over the last week, now showing that the key rate could reach 9.7% in 2022.



This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sergei Antoshin (Senior Economist), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Rohit Goel (Financial Sector Expert), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Esti Kemp (London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) and Srujana Sammeta (Staff Assistant) are responsible for word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 11/1/21 8:30 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4612	0.2	1	6	41	23
Europe		4273	0.5	2	6	44	20
Japan		29647	2.6	4	3	27	8
China		3544	-0.1	-2	-1	10	2
Asia Ex Japan		86	-1.3	-2	2	10	-4
Emerging Markets		51	-1.5	-2	1	14	-1
Interest Rates			basis points				
US 10y Yield		1.58	2.8	-5	12	71	67
Germany 10y Yield		-0.08	2.6	3	14	55	49
Japan 10y Yield		0.10	-0.3	-1	3	5	8
UK 10y Yield		1.09	5.2	-5	8	82	89
Credit Spreads			basis points				
US Investment Grade		88	2.2	2	2	-39	-7
US High Yield		315	-1.0	0	-7	-216	-65
Europe IG		51	0.4	1	1	-12	3
Europe HY		263	2.1	3	9	-94	22
Exchange Rates			%				
USD/Majors		94.07	-0.1	0	0	0	5
EUR/USD		1.16	0.1	0	0	-1	-5
USD/JPY		114.2	0.2	0	3	9	11
EM/USD		54.8	0.0	-1	-2	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		85	1.0	-2	7	126	63
Industrials Metals (index)		167	0.1	-4	4	39	26
Agriculture (index)		59	0.7	2	3	44	23
Implied Volatility			%				
VIX Index (% change in pp)		16.7	0.4	1.4	-4.5	-21.3	-6.1
US 10y Swaption Volatility		76.0	-0.2	2.4	7.3	-1.7	15.9
Global FX Volatility		7.1	0.1	0.1	0.4	-1.8	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		143	-0.7	28	35	-15	23
Italy		135	7.2	27	31	-4	24
Portugal		66	3.2	15	11	-7	6
Spain		74	2.8	12	10	-2	13

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

Last updated: 11/1/2021 8:34 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	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.40	0.1	-0.2	1	5	2		3.1	-2	8	-21	-17	
Indonesia		14275	-0.7	-0.8	0	3	-2		6.2	-2	-3	-44	12	
India		75	0.0	0.3	-1	-1	-2		6.5	2	15	46	53	
Philippines		51	-0.2	0.3	1	-4	-5		4.5	-1	21	90	82	
Thailand		33	-0.2	-0.9	1	-7	-10		2.0	-4	17	54	70	
Malaysia		4.15	-0.3	0.0	1	0	-3		3.7	0	20	120	113	
Argentina		100	0.0	-0.3	-1	-21	-16		50.4	49	119	37	-575	
Brazil		5.65	-0.3	-1.7	-5	2	-8		12.4	69	212	600	681	
Chile		814	0.1	-0.7	-1	-6	-13		6.0	-28	53	336	328	
Colombia		3767	0.2	0.1	2	2	-9		7.8	15	47	242	270	
Mexico		20.68	-0.6	-2.5	-1	3	-4		7.5	-4	18	138	195	
Peru		4.0	-0.3	-0.7	3	-10	-9		6.0	-4	-51	185	236	
Uruguay		44	-0.3	-0.6	-3	-3	-4		8.3	22	44	75	106	
Hungary		311	0.2	1.3	-1	1	-5		3.5	10	65	175	192	
Poland		3.99	0.0	-0.4	-1	-1	-6		2.4	10	91	181	174	
Romania		4.3	0.1	-0.3	0	-2	-7		4.5	4	82	133	176	
Russia		71.0	-0.2	-1.5	2	14	4		8.1	38	91	233	239	
South Africa		15.3	-0.5	-3.9	-3	6	-4		10.2	-2	21	2	59	
Turkey		9.54	0.7	0.5	-7	-12	-22		18.6	-17	75	436	553	
US (DXY; 5y UST)		94	-0.1	0.3	0	0	5		1.22	5	29	83	86	

	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		4891	-0.4	-2	0	4	-6		195	-11	-15	-42	-34	
Indonesia		6553	-0.6	-1	5	28	10		178	8	2	-52	-22	
India		60138	1.4	-1	2	51	26		131	-12	-15	-78	-20	
Philippines		7055	0.0	-3	2	12	-1		112	4	-3	-19	0	
Malaysia		1531	-2.0	-4	0	4	-6		124	-4	-7	-50	-11	
Argentina		83561	-2.9	-4	8	85	63		1698	42	126	228	342	
Brazil		103501	-2.1	-3	-8	10	-13		335	11	38	16	76	
Chile		4092	-0.1	0	-5	16	-2		162	4	13	-23	6	
Colombia		1394	-1.0	0	2	23	-3		302	15	2	47	87	
Mexico		51310	0.1	-1	0	39	16		348	1	-2	-123	-9	
Peru		20738	-1.1	-1	13	19	0		177	19	6	16	48	
Hungary		54198	0.0	-2	1	68	29		119	9	-8	-24	-30	
Poland		73586	0.0	0	4	67	29		51	13	25	28	23	
Romania		12747	1.1	0	1	50	30		202	4	10	-38	-1	
Russia		4203	1.3	-1	3	56	28		159	7	3	-59	-20	
South Africa		67465	0.0	1	6	31	14		361	8	4	-119	-23	
Turkey		1534	0.8	4	10	36	4		504	-11	7	-135	57	
Ukraine		526	0.0	0	0	5	5		504	6	-7	-202	11	
EM total		51	0.3	-2	1	14	-1		381	7	12	-27	42	

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

[back to top](#)