



- Markets price in shallower FOMC rate hike cycle ([link](#))
- US high yield bond issuance sets new annual record amid easy financial conditions ([link](#))
- China's inflation numbers come in stronger-than-expected for October ([link](#))
- Bank of Thailand leaves policy rate unchanged as recovery still viewed as fragile ([link](#))
- Inflation surprises to the upside in Central and Eastern Europe ([link](#))
- Romanian central bank raises policy rate less-than-expected; signals more hikes ahead ([link](#))
- Chilean assets rally after the senate rejects pension withdrawal bill ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

Risk sentiment wavers amid inflation concerns

Global equities are giving up their winning streak and retreating slightly from record highs as inflation prints stoke worries about price pressures. US equities pulled back yesterday with the S&P 500 posting a modest loss after 8 days of consecutive gains. Asian bourses, along with European stocks and US equity futures, are also declining slightly this morning as focus has shifted back to inflation numbers. US Treasury yields were down another 3 to 6 bps across the curve yesterday in the wake of media reports that upcoming nominations for positions on the Fed Board could result in a more dovish tilt among the committee. Real yields drove the move lower with 10-year Treasury real rates hitting a record low of -1.21%, with signs of spillovers to other major bond markets as real rates in Germany and the UK also touched new lows. However, rates are reversing higher this morning amid China's October inflation numbers surprising to the upside and US CPI showing headline inflation accelerated to over 6% y/y last month. In response, the US dollar is strengthening against major currencies and emerging market currencies are weaker across most regions with the Turkish lira and South African rand depreciating over 1%. Incoming inflation data has also continued to surprise to the upside in Central and Eastern Europe even as central banks have started hiking policy rates.

Key Global Financial Indicators

Last updated: 11/10/21 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4685	-0.3	1	7	32	25
Eurostoxx 50		4337	-0.2	1	6	26	22
Nikkei 225		29107	-0.6	-1	2	15	6
MSCI EM		51	-0.4	1	1	7	-1
Yields and Spreads			bps				
US 10y Yield		1.47	3.5	-13	-14	51	56
Germany 10y Yield		-0.29	0.9	-12	-14	20	28
EMBIG Sovereign Spread		352	4	-8	-6	-22	2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	-0.2	1	0	-1	-5
Dollar index, (+) = \$ appreciation		94.3	0.3	0	0	2	5
Brent Crude Oil (\$/barrel)		84.6	-0.2	3	3	94	63
VIX Index (% change in pp)		18.2	0.4	3	-1	-7	-5

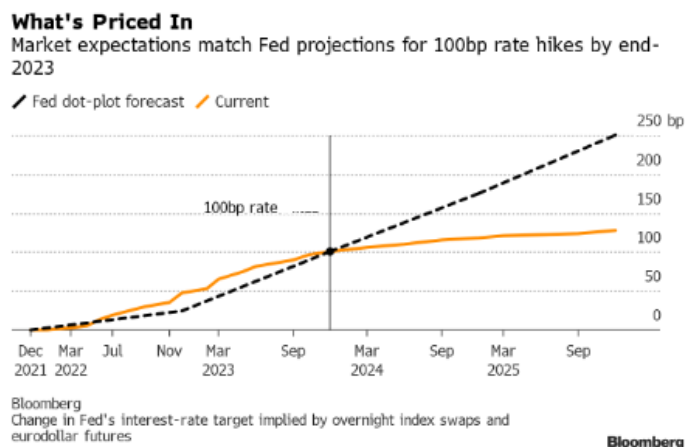
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

[back to top](#)

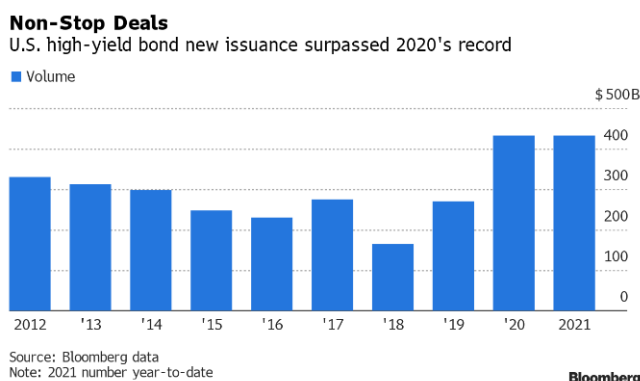
United States

Markets are pricing in fewer FOMC rate hikes beyond 2023. Eurodollar futures traders currently match the Fed dot-plot up to the end of 2023, for a Fed Funds rate at 1%. They then turn dovish, pricing in only one more hike until the end of 2025 (to 1.25%) compared to a median of 2.5% in the longer-term dot-plot. The re-pricing towards a shallower rate hiking cycle is seen by some market analysts as also driving the recent global bond rally, alongside evidence of more technical shifts in positioning.



US CPI printed above expectations for October, underscoring the persistence of inflationary pressures in the economy. The consumer price index in October increased 0.9% m/m (expectations for 0.6%) and 6.2% y/y (expectations for 5.9%). The annualized figure is the highest since 1982. Core CPI increased by 0.6% m/m (0.4% expectation), three times its September advance, reaching 4.6% year-on-year. Treasury yields extended earlier morning increase, while the US dollar index strengthened, and equity futures edged lower. Initial jobless claims dropped to 267k from a previous 269k. The drop was lower than consensus (at 260k), but claims are again hitting a fresh post-pandemic low, showing accelerating labor market improvements.

US high-yield bond issuance reached an annual record of \$430 bn as companies have rushed to lock in low funding costs. With support from strong demand for higher-yielding assets and robust economic growth, issuance in 2021 has already risen above the high-mark in 2020 and is set to continue rising towards year end. Looking further ahead, analysts expect issuance to slow next year as Bank of America and Goldman Sachs forecast issuance to be lower by 15% and 25%, respectively, compared to issuance for this year.

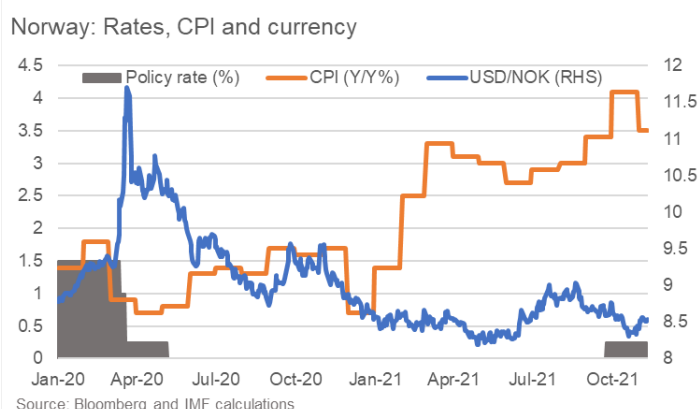


Euro area

European equities were trading mixed with the Stoxx 600 index (-0.08%) little changed in early trade. The energy sector (+1.2%) was outperforming while the technology sector was underperforming (-1.2%). Bond yields increased (German 10yr bund +2 bps to -2.8), with Italian 10yr bond yields (+5 bps) seeing the largest increase. **ECB executive board member Schnabel noted yesterday that inequality could be exacerbated if the ECB hiked interest rates prior to stopping asset purchases**, highlighting that higher interest rates could disproportionately benefit the wealthy given the assets that they hold. **The euro (-0.4%) was trading weaker against the dollar.**

Norway

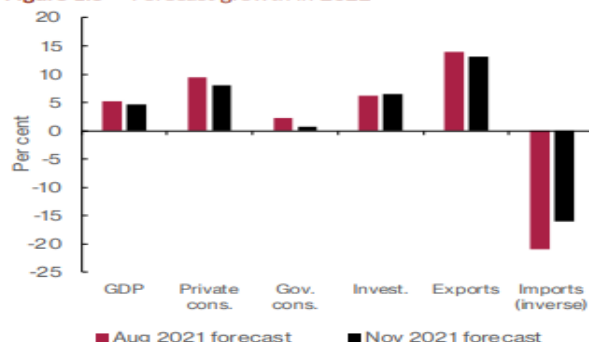
Inflation in October (+3.5% y/y) showed a larger-than-expected slowdown (consensus +3.8% y/y from 4.1%). Underlying CPI increased by 0.9%, falling short of the expected (+1.2%). Norges central bank increased the policy rate by 25 bps in September and indicated at the November meeting that another increase is likely in December. Analysts generally remain convinced of **an additional 25 bp increase at the December meeting, with further tightening in 2022.**



United Kingdom

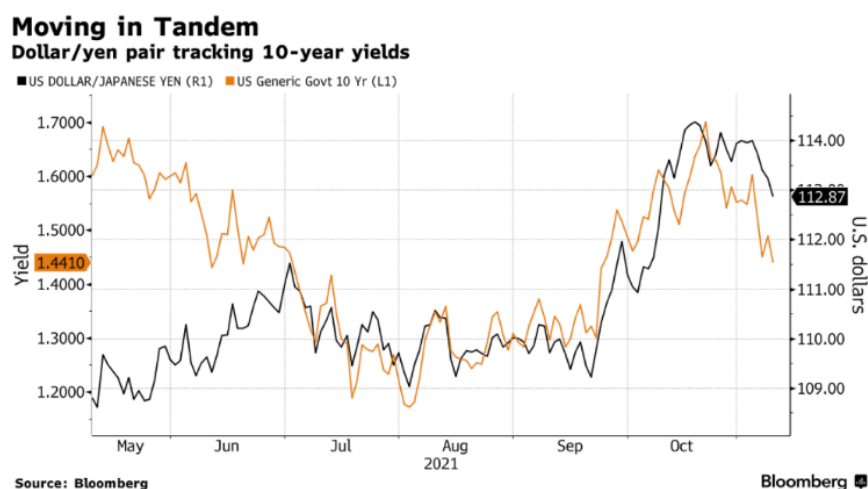
The national institute of economic and social research expects lower economic growth, higher inflation and widening income inequalities in the coming months. The Autumn economic outlook highlights that earnings growth will lag inflation, amid higher interest rates and tighter fiscal policy. Unemployment is not expected to rise noticeably as the Coronavirus Job Retention Scheme comes to an end, as people remaining on furlough largely return to jobs. **The GDP forecast for 2021 is little changed at 6.9%, while economic growth for 2022 has been revised downward to 4.7%** (from 5.3% in the summer forecast), with less fiscal support and household consumption in the second half of 2021. Preliminary third-quarter GDP data due are due tomorrow, with consensus expectations at 6.8% y/y.

Figure 1.6 Forecast growth in 2022



Japan

Japanese equities declined (NIKKEI: -0.6%), similar to the regional trend, on concerns about stronger-than-expected inflation in China. **Japanese yen depreciated** (-0.3%) similar to other currencies in the region after appreciating around 1.0% in the past week. Analysts noted that the recent strength of the Japanese yen (except today) closely followed the decline in US Treasury yields. Traders initially expected the yen to underperform given that the Bank of Japan will be behind other major central banks in exiting from monetary easing. However, the recent decline in US Treasury yields has made JGBs more attractive, supporting a strong yen. **Long-end JGB yields declined** (30-year: -1.1 bps).



Emerging Markets

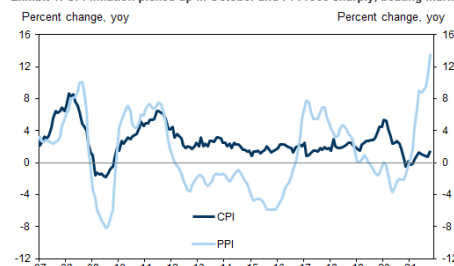
[back to top](#)

In Latin America, regional currencies were little changed yesterday apart from the Chilean peso and Brazilian real that appreciated on the back of domestic developments. Chilean assets rallied after the senate rejected a proposal for a fourth round of pension withdrawals. The Brazilian real appreciated by 1% while local swap rates declined sharply led by medium term maturities as the lower house was set to vote favorably on a controversial fiscal bill after market close. **Asian equities declined and currencies depreciated across most markets.** Market sentiment was affected by general concerns about inflation following stronger-than-expected inflation data in China, while in India, markets became concerned about the impact of rising oil prices on the country's imports and the implication for the currency. In EMEA, equities traded with a cautious tone. The South African rand and Turkish lira depreciated over 1%.

China

Both PPI and CPI inflation were stronger than expected in October, dampening market sentiment in the region. PPI inflation increased to 13.5% y/y in October (consensus: +12.3%) from 10.7% in September, reflecting higher global oil prices and domestic inflation in coal mining and upstream sectors (e.g., petroleum and chemicals). CPI inflation also increased to 1.5% y/y in October (consensus: +1.4%) from 0.7% in September. Accelerating headline CPI inflation was driven by higher food prices and fuel costs. Some analysts flagged concerns that strong PPI inflation may soon lead to higher CPI inflation. Equities declined (CSI 300: -0.5%), although share prices of real estate firms increased (+3.4%) on a news that rules for domestic bond issuance could be relaxed for property developers. RMB was little changed.

Exhibit 1: CPI inflation picked up in October and PPI rose sharply, beating market expectations



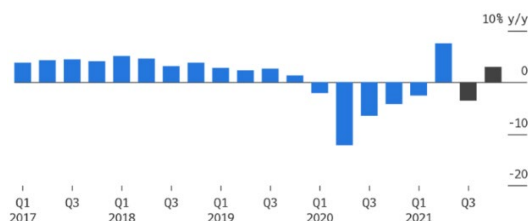
Sources: Goldman Sachs, with data from NBS.

Thailand

The Bank of Thailand (BOT) kept its policy rate unchanged at 0.5% as expected. The BOT said that its growth outlook remained close to its previous projections of 0.7% for 2021 and 3.9% for 2022. While noting that downside risks have declined, the BOT views that the economic recovery remains fragile due to uncertainties around the pandemic, global commodity prices and fiscal policy. The BOT continues emphasizing the need for accommodative monetary policy and targeted fiscal and financial measures. Analysts expected the BOT's policy rate to remain unchanged throughout 2022. Thai baht appreciated (+0.1%); equities declined (-0.1%).

Bottoming Out

Thailand's GDP on track to recover from 3Q pandemic hit

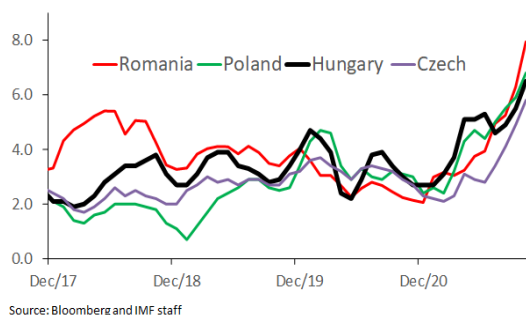
Source: Bloomberg
Note: 3Q and 4Q are estimates released by Finance Ministry on Oct. 28

Bloomberg

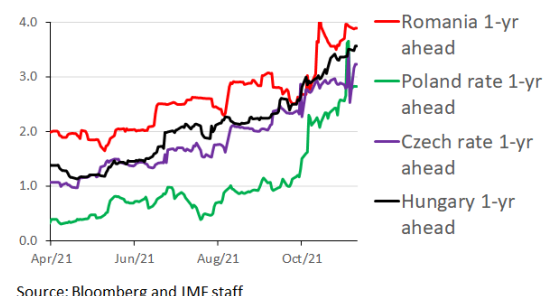
Inflation in Central and Eastern Europe

Incoming inflation data continues to surprise to the upside in several countries. Headline inflation was higher than expected at 5.8% y/y in the Czech Republic (5.0% expected) and 7.9% y/y in Romania (7.1% expected) last month. Yesterday, headline inflation turned out to be also higher than expected at 6.5% y/y in Hungary. **Despite the upside surprise in inflation, money markets in Hungary, Romania, and Poland have not priced in much more policy tightening compared to what was already priced.** In the year ahead, markets are pricing in about 193 bps of hikes in Romania, 185 bps in Hungary, 165 bps in the Poland and 56 bps in the Czech Republic.

Central and Eastern Europe: Headline inflation (yoy, %)



Central and Eastern Europe: Monetary policy rates a year ahead (from forwards, %)

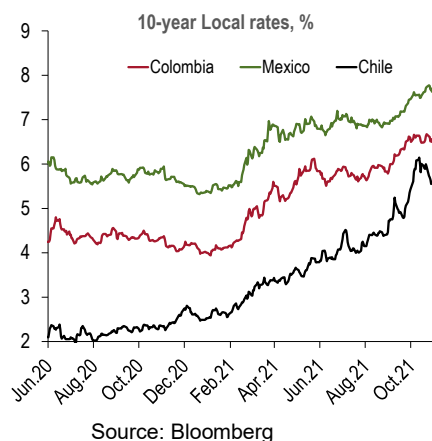


Romania

The National Bank of Romania (NBR) raised its policy rate 25 bps yesterday (compared to 50 bps expected) but contacts expect further hikes and the NBR to materially upgrade its inflation outlook. The NBR also increased its standing facilities corridor to ± 75 bps from ± 50 bps. The NBR commented that the inflation outlook has worsened significantly throughout the projection horizon and will present its new inflation forecasts tomorrow. Analysts at Citi expect headline inflation to end the year at around 8% y/y and remain elevated above 7% in the first five months of 2022.

Chile




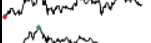
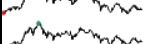





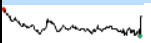





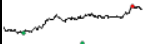




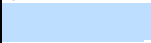



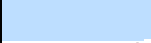


Local assets rallied after the senate rejected a proposal for a fourth round of pension withdrawals. The vote fell one short of the three-fifths majority needed, amid concerns that withdrawals could have important implications for domestic demand and the peso at a time when inflation is already at a 12-year high. The bill will now move to a mixed committee composed of senators and deputies for adjustments before heading back to the floor of both chambers for a new vote. The pension debate has coincided with campaigns for the Nov. 21 presidential election. Recent polls show right wing candidate Kast leading, while the left candidate Boric has stabilized into second place. Analysts highlight that growing support for the conservative candidate (Kast) is also a driver of the recent bond rally (see chart).



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.

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Global Financial Indicators

Last updated: 11/10/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4676	-0.3	0	6	32	25
Europe		4337	-0.2	1	6	26	22
Japan		29107	-0.6	-1	2	15	6
China		3492	-0.4	0	-3	4	1
Asia Ex Japan		86	-0.7	0	1	4	-4
Emerging Markets		51	-0.4	1	1	7	-1
Interest Rates			basis points				
US 10y Yield		1.47	3.5	-13	-14	51	56
Germany 10y Yield		-0.29	0.9	-12	-14	20	28
Japan 10y Yield		0.06	-0.1	-2	-2	2	4
UK 10y Yield		0.86	3.7	-21	-30	46	66
Credit Spreads			basis points				
US Investment Grade		108	1.4	17	15	-5	13
US High Yield		337	-0.5	16	9	-106	-43
Europe IG		49	0.0	-2	-4	-2	1
Europe HY		245	-0.5	-14	-24	-46	2
Exchange Rates			%				
USD/Majors		94.27	0.3	0	0	2	5
EUR/USD		1.16	-0.3	0	0	-2	-5
USD/JPY		113.3	0.4	-1	0	8	10
EM/USD		55.2	-0.2	1	0	-1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		85	-0.2	3	3	94	63
Industrials Metals (index)		163	0.4	0	-2	31	23
Agriculture (index)		59	0.1	-1	2	36	22
Implied Volatility			%				
VIX Index (% change in pp)		18.2	0.4	3.1	-0.6	-6.6	-4.5
US 10y Swaption Volatility		76.2	0.1	4.3	2.8	18.2	16.1
Global FX Volatility		6.9	0.0	-0.1	0.2	-1.1	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		141	2.5	4	35	8	21
Italy		116	2.1	-6	13	-9	5
Portugal		61	2.0	2	8	-2	1
Spain		70	1.8	1	6	3	8

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

Emerging Market Financial Indicators

Last updated: 11/10/2021 8:10 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		6.39	0.0	0.2	1	4	2		3.0	-3	0	-31	-24
Indonesia		14253	-0.1	0.3	0	-1	-1		6.2	-6	-14	-21	8
India		74	-0.5	0.1	1	0	-2		6.4	-5	1	42	47
Philippines		50	0.1	1.0	1	-4	-4		4.6	3	29	97	94
Thailand		33	0.1	1.7	3	-7	-9		2.0	-7	1	51	64
Malaysia		4.15	-0.1	0.0	0	-1	-3		3.6	-9	-3	118	107
Argentina		100	0.0	-0.2	-1	-21	-16		49.8	-155	93	-109	-630
Brazil		5.46	0.5	1.8	2	-1	-5		12.0	-62	182	582	640
Chile		793	-0.1	2.5	4	-5	-10		6.0	2	-42	323	323
Colombia		3862	0.0	-0.7	-3	-6	-11		7.7	7	39	254	264
Mexico		20.35	-0.2	0.9	3	0	-2		7.3	-30	-11	137	175
Peru		4.0	0.0	-0.2	1	-11	-10		5.9	-11	-31	199	232
Uruguay		44	-0.1	1.4	0	-2	-3		8.6	27	68	107	132
Hungary		313	-0.7	-1.4	-1	-4	-5		3.5	6	41	187	196
Poland		3.99	-0.8	-1.1	0	-5	-6		2.8	33	86	219	216
Romania		4.3	-0.3	-0.4	0	-4	-7		4.6	4	40	169	186
Russia		70.9	-0.2	1.3	1	8	5		8.0	-17	67	248	230
South Africa		15.2	-0.9	0.6	-1	3	-3		9.9	-36	-32	15	24
Turkey		9.83	-1.0	-1.9	-8	-17	-24		18.1	-37	-8	457	495
US (DXY; 5y UST)		94	0.3	0.4	0	2	5		1.11	-7	5	66	75

	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		4821	-0.5	0	-2	-2	-7		200	3	-11	-29	-29
Indonesia		6683	0.2	2	3	21	12		174	-8	-10	-25	-26
India		60353	-0.1	1	0	38	26		140	5	-10	-39	-11
Philippines		7376	-0.9	3	4	5	3		110	-4	-16	2	-2
Malaysia		1521	-0.2	-1	-3	-3	-7		114	-11	-19	-41	-21
Argentina		94381	-1.7	6	22	82	84		1719	-6	135	376	363
Brazil		105535	0.7	0	-6	0	-11		324	-18	23	50	65
Chile		4477	0.1	4	8	13	7		134	-30	-22	-25	-22
Colombia		1385	-0.7	-1	-1	14	-4		301	-7	14	87	86
Mexico		52114	-0.3	1	2	29	18		337	-18	-12	-76	-20
Peru		20489	-0.2	-1	6	16	-2		155	-24	-12	7	26
Hungary		53726	-0.7	-2	0	44	28		119	-1	5	-10	-30
Poland		72806	-1.0	0	-1	42	28		49	-4	25	27	21
Romania		12850	0.0	0	0	42	31		183	-17	-18	-21	-19
Russia		4166	-0.5	-1	-2	39	27		156	-5	-6	-32	-23
South Africa		67818	-0.2	-1	4	18	14		340	-21	-20	-79	-44
Turkey		1616	0.0	4	16	30	9		471	-21	-25	-83	24
Ukraine		523	0.0	0	-1	5	5		514	-15	-2	-71	21
EM total		51	-0.1	1	1	7	-1		373	-12	-2	17	34

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

[back to top](#)