



- Markets see increased odds for further Fed policy rate hikes ([link](#))
- Japan's PPI inflation shows the strongest cost pressures in four decades ([link](#))
- Chinese equities outperform on policy easing prospects for the property sector ([link](#))
- Higher-than-expected Brazil's CPI reinforces 200 bps rate hike expectations ([link](#))
- Ethiopia says it will pay Eurobond coupon next month ([link](#))
- National Bank of Romania expects return to inflation target range in 2023Q3 ([link](#))

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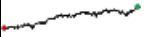
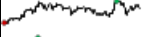

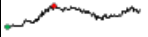





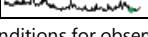
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## Markets cautious after bond sell-off yesterday

US Treasury and core European sovereign bond yields were little changed this morning after yesterday's sell-off following a stronger-than-expected US CPI release. US Treasury yields rose as much as 14 bps yesterday (5-year tenor) as investors assessed the prospects of higher inflation and the impact on the future path of monetary policy. Equity markets traded cautiously this morning, with European equities flat and US equity futures signaling a positive opening. The dollar strengthened and the implied volatility of options in US Treasury markets reached a multi-month high, reflecting higher uncertainty about the impact of inflation pressures on US rates. In contrast, the VIX index, a proxy for the implied volatility of US equities, fell and is trading below its average this year. In emerging markets, Chinese equities outperformed on prospects of some policy easing for the property sector and news that Evergrande paid overdue interest on three US dollar bonds.

Key Global Financial Indicators

Last updated: 11/11/21 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4647	-0.8	0	7	30	24
Eurostoxx 50		4347	0.0	0	7	25	22
Nikkei 225		29278	0.6	-2	4	15	7
MSCI EM		51	-0.4	0	1	6	-1
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.55	0.0	2	-6	57	64
Germany 10y Yield		-0.24	0.6	-2	-12	27	33
EMBIG Sovereign Spread		347	-5	-8	-11	-29	-3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		55.0	0.3	0	0	-2	-5
Dollar index, (+) = \$ appreciation		95.0	0.2	1	1	2	6
Brent Crude Oil (\$/barrel)		82.2	-0.6	2	-2	88	59
VIX Index (% change in pp)		17.9	-0.9	2	-2	-6	-5

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

## Mature Markets

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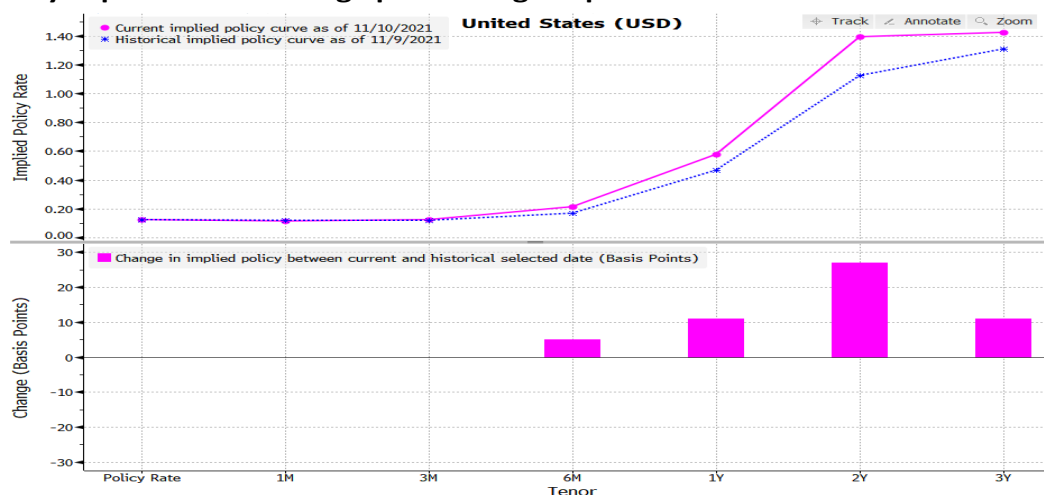
### United States

**While markets are pricing higher inflation expectations for the short-to-medium term, longer term inflation expectations remain broadly anchored.** Following the stronger-than-expected CPI numbers, US Treasury yields rose sharply yesterday, with the peak at the 5-year tenor (up 14 bps). Breakeven rates led the upward move in Treasury yields, notably in the short-to-medium tenors, with 5-year breakevens touching an all-time high of 3.13% (up 13 bps). Breakeven rate increases were more modest at longer maturities, while longer-term inflation expectations such as the 5y5y breakeven rates changed little on the day (+2bps).



**Money markets see increased odds for further Fed policy rate hikes.** Moves in the front end of the curve were also notable following the CPI release. Compared to only a day before, the OIS futures curve steepened considerably. Looking at one year ahead, the prior expectation for two rate hikes still holds, with somewhat increased odds (curve steepened by 12 basis points). Two years from now, the implied curve steepens further, by 27 basis points, suggesting a full additional rate hike. With the implied rate at 1.4% (compared to previous 1.12%), the curve now fully prices in three hikes in between the first and second year from now.

### Policy expectations shifting up following CPI print



## Euro-area

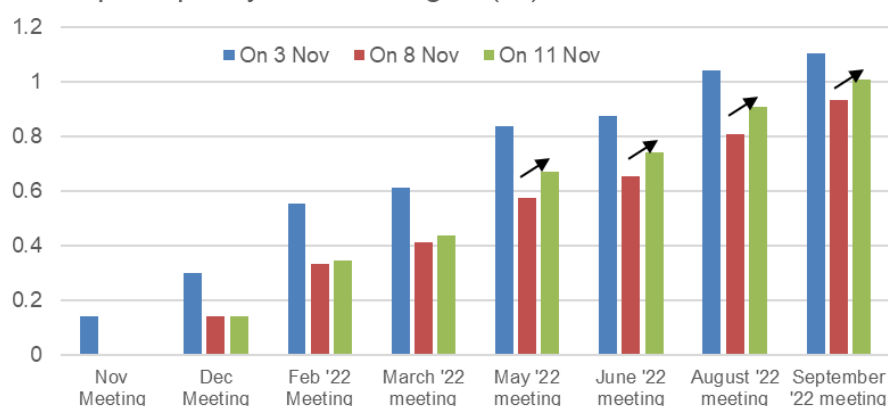
**Equities were flat this morning**, with the materials sector (+1.33%) outperforming while the energy sector (-1.1%) underperformed. 10-year bunds were trading marginally lower at -0.25% and Southern European spreads widened with Greece (+5 bps) underperforming. **Governing Council member Robert Holzmann said that the ECB could stop purchasing bonds as early as September 2022 if inflation looks to have sustainably returned to the official target.**

**The European Commission plans to propose an extension of equivalence for UK clearing houses in early 2022 to avoid a cliff edge for EU market participants.** The temporary permit that allows European banks to access UK clearing houses is set to expire in June 2022. The commission reiterated the view that over-reliance on UK-based central counterparties (CCPs) is a source of medium-term financial stability risk, and that work will continue to reduce this reliance by developing the capacity of EU-based CCPs.

## United Kingdom

**Preliminary economic growth data for Q3 (+1.3% q/q) disappointed** (consensus 1.5 % q/q from 5.5%), with signs of weakening consumer spending. On the trade front, the **trade deficit excluding precious metals widened** after exports fell by more than expected (-1.9%q/q, consensus -1.5%q/q) and imports increased by less-than-expected (+2.5%q/q, consensus +3.4%q/q). In a separate data release **UK house prices continued to increase in October** with the RICS showing that 70% of its members reported house price increases in October (consensus 65%). The trend is expected to continue as limited supply is expected to outweigh the impact of lower economic growth and higher interest rates. **Markets continued to price in roughly 14 bps of tightening in the December policy meeting, with the expected pace of tightening increasing from May 2022 onwards.**

UK Implied policy rates changes (%)



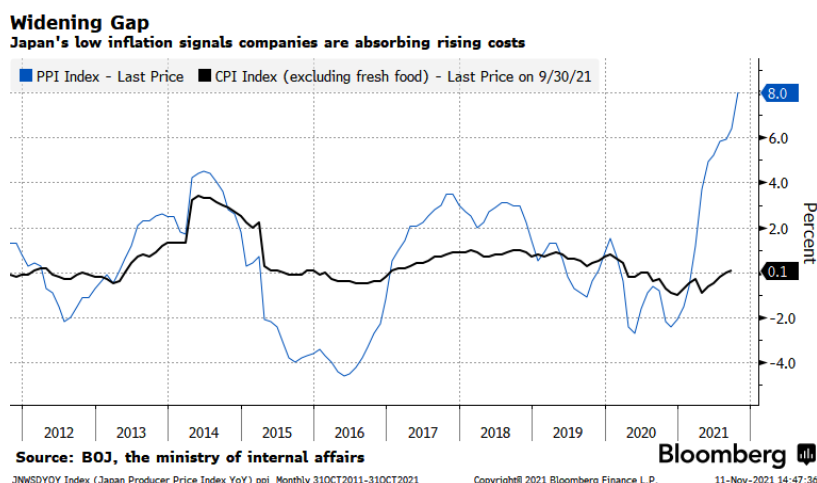
Source: Bloomberg and IMF calculations

## Australia

**The unemployment rate increased more than expected in October.** The unemployment rate rose to 5.2% (consensus: +4.8%) from 4.6% in September. Meanwhile, employment declined for a third month in a row even though a consensus estimate expected for an increase. Consumer inflation expectation increased to 4.6% in November, up from 3.6% in October. While the weaker-than-expected labor market data weakened traders' positioning for rate hikes earlier than the Reserve Bank of Australia's guidance, long-end government bond yields increased (10-year: +8.0 bps; 30-year: +7.8 bps) following a sharp rise in US treasury yields yesterday. The Australian dollar depreciated (-0.3%); equities declined (-0.6%).

## Japan

**PPI inflation showed the strongest cost pressures faced by Japanese firms in four decades.** PPI inflation accelerated to 8.0% y/y in October, from 6.3% in September. Sequentially, PPI increased 1.2% m/m. Analysts noted that CPI inflation pressures remain limited as Japanese firms have been cautious to make their products more expensive for consumers after decades of deflation. **Prime Minister Kishida said that the government is preparing a fiscal stimulus** on the order of tens of trillions of yen. **Long-end JGB yields increased** (10-year: 0.6 bp; 30-year: 0.6 bp), though more limited than regional peers following the sharp rise in US treasury yields yesterday. Equities gained (NIKKEI: +0.6%); the Japanese yen depreciated (-0.1%).



## Emerging Markets

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**Asian equities were mixed, falling 0.1% on net. Chinese (CSI 300: +1.6%) and Hong Kong (+1.1%) equities outperformed**, while share prices dropped in India (-0.8%), Philippines (-0.6%) and Taiwan POC (-0.6%). **Asian currencies depreciated**, led by Thai baht (-0.4%), Taiwan dollar (-0.3%) and Malaysian ringgit (-0.3%). **Long-end government bond yields increased**, with 10-year yields rising in Philippines (+6.2 bps) and Singapore (+5.0 bps), following the sharp rise in US Treasury yields. **In Philippines**, central bank governor Diokno said that the country has sufficient buffers against rising external headwinds. He also reiterated that the central bank has tools to manage undue FX volatility while keeping a market-determined exchange rate. **In EMEA**, equities were mixed today and currencies in Hungary, Poland, and Turkey underperformed. Contacts argue that real rates may have to increase further in several EM for local currencies to remain attractive against the US dollar. 10-year swap rates also rose in Turkey (+50 bps to 18.81%), South Africa (+15 bps to 7.66%), Hungary (+13 bps to 3.83%) and Poland (+4 bps to 2.93%). **In Latin America**, regional currencies depreciated yesterday on the back of broad dollar strength following the US CPI release. The **Mexican** peso (-1.5%) underperformed while local rates followed the US, with the 10-year swap rate increasing by 15 bps. The **Brazilian** real depreciated marginally, likely supported by the overnight news that the lower house passed a controversial fiscal bill as well as a higher than expected inflation print that reinforced rate hike expectations. **Chilean** assets continued to outperform peers following the senate rejection of early pension fund withdrawals on Tuesday. The 10-year swap rate declined by 15 bps to 5.1% following a 32 bps decline on Tuesday.

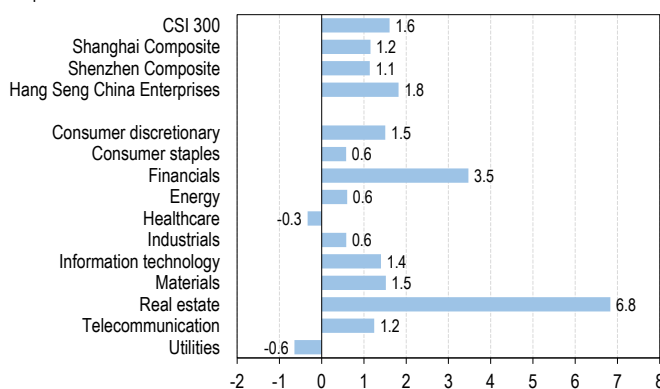
## China

**Chinese equities outperformed on prospects of some policy easing for the property sector** (CSI 300: +1.6%), led by real estate firms (+6.8%). State media outlets signaled that Beijing may ease curbs on the financing to property developers, boosting share and USD bond prices of property developers. Separately, according to Dow Jones, regulators are considering relaxing the three red line policy to facilitate the acquisition of assets from financially strained property developers. The People's Bank of China (PBC) yesterday also took unusual efforts to release mortgage lending data, which are typically reported on a

quarterly basis, prompting markets to interpret as a sign from the authorities to encourage banks to expand their mortgage lending. Yesterday, Evergrande made overdue coupon payments for its three USD bonds just in time to avoid a default. RMB depreciated (-0.2%). **The PBC continued injecting liquidity of 100 bn yuan (\$15.6 bn) via reverse repos every day since November 5**, with net liquidity provision amounting to 50 bn yuan (\$7.8 bn) today. While interbank repo rates for banks have been broadly stable, the PBC's liquidity injections appear to aim at bringing interbank repo rates for nonbanks closer to those transacted between banks.

### Equity Total Return: Daily Change

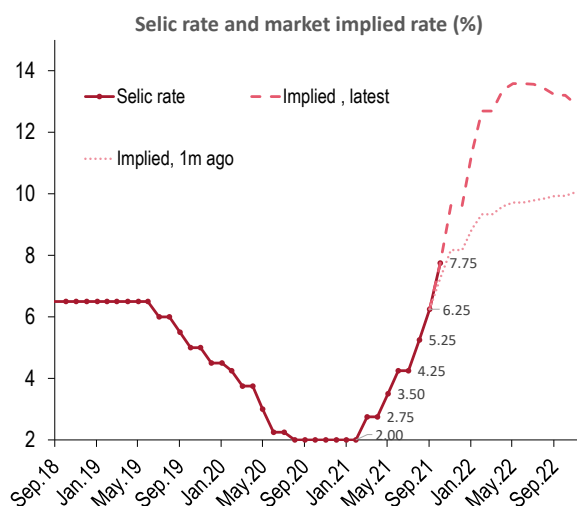
In percent



Sources: Bloomberg; and IMF staff calculations.

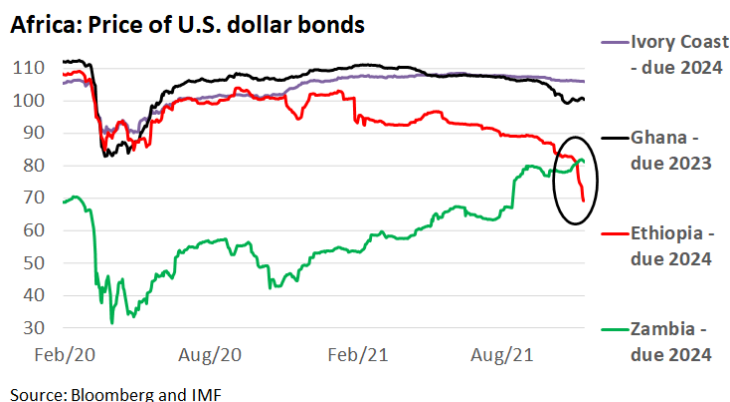
## Brazil

**Inflation in October accelerated above economist expectations, reinforcing market's steep rate hike expectations in the months ahead.** Annual inflation accelerated to 10.67% y/y, above all estimates in the Bloomberg survey (consensus: 10.48%). Policy makers have raised interest rates by 575 bps so far this year amid a sharp increase in actual inflation and expectations. A further complicating factor is that congress is debating legislation that would allow additional cash transfers before next year's election. Investors fear that those efforts will bypass the spending ceiling and might clear the way for even more expenditures down the road. Amid this environment, the central bank pledged for at least a 150 bps rate hike in December, but interest rate futures have been pricing close to 200bps over the last few weeks and a terminal rate close to 13% by mid-2022. Yesterday's CPI release had a relatively small market impact with the January 2023 interest rate future increasing by 6 bps.



## Ethiopia

**Ethiopia said it will pay a Eurobond coupon of \$33 mn due December 11 as ratings agency continue to downgrade its sovereign credit rating.** Yesterday, S&P Global Ratings downgraded Ethiopia for the third time since January to CCC (outlook negative), citing a risk to debt payments as the civil and geopolitical conflict and warning about relatively high external financing needs compared to FX reserves. **Ethiopia's Eurobonds are trading near record lows, and fell 12 points in November.**



## Romania

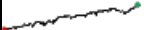

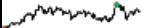

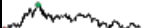
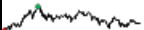
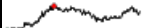


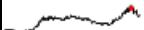






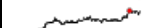




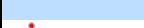


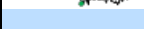
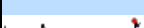


**The National Bank of Romania (NBR) predicts inflation will end 2021 at 7.5% yoy (from 5.6%) as higher energy costs transmit through the economy.** The NBR expects the inflation rate at 5.9% at the end of 2022, **falling to its target of 1.5% to 3.5% in the third quarter of 2023.** The NBR increased its policy rate a less-than-expected 25 bps this week with markets pricing in 184 bps of hikes in the year ahead. The leu was little changed today.

*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: 11/11/21 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4647	-0.8	0	7	30	24
Europe		4347	0.0	0	7	25	22
Japan		29278	0.6	-2	4	15	7
China		3533	1.2	0	0	6	2
Asia Ex Japan		86	-0.2	0	1	3	-4
Emerging Markets		51	-0.4	0	1	6	-1
<b>Interest Rates</b>			basis points				
US 10y Yield		1.55	0.0	2	-6	57	64
Germany 10y Yield		-0.24	0.6	-2	-12	27	33
Japan 10y Yield		0.07	0.6	0	-2	3	5
UK 10y Yield		0.93	0.6	-1	-26	52	73
<b>Credit Spreads</b>			basis points				
US Investment Grade		115	8.4	24	22	2	20
US High Yield		344	7.2	24	17	-98	-35
Europe IG		49	0.0	0	-4	-1	1
Europe HY		247	-0.9	-1	-22	-47	5
<b>Exchange Rates</b>			%				
USD/Majors		95.00	0.2	1	1	2	6
EUR/USD		1.15	-0.1	-1	-1	-3	-6
USD/JPY		113.9	0.0	0	1	8	10
EM/USD		55.0	0.3	0	0	-2	-5
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		82	-0.6	2	-2	88	59
Industrials Metals (index)		165	1.4	3	-3	33	24
Agriculture (index)		59	0.2	1	3	37	23
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.9	-0.9	2.4	-2.2	-5.6	-4.9
US 10y Swaption Volatility		80.3	0.0	11.8	6.9	22.3	20.2
Global FX Volatility		7.0	0.0	0.1	0.1	-0.9	-1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		145	5.0	11	40	12	25
Italy		119	0.8	3	15	-5	8
Portugal		63	1.4	6	11	0	3
Spain		72	0.9	3	8	5	10

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations.

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 11/11/2021 8:03 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.40	-0.1	0.0	1	4	2		3.0	-3	0	-33	-24	
Indonesia		14278	-0.2	0.6	0	-1	-2		6.2	-6	-14	-27	8	
India		75	-0.2	-0.1	1	0	-2		6.4	-4	3	39	49	
Philippines		50	-0.1	0.9	1	-4	-4		4.6	-1	26	94	91	
Thailand		33	-0.1	1.5	3	-8	-9		2.0	-6	0	47	64	
Malaysia		4.17	-0.4	-0.4	0	-1	-4		3.6	-10	-4	112	106	
Argentina		100	0.0	-0.2	-1	-21	-16		50.2	-131	131	-103	-592	
Brazil		5.44	1.0	2.9	2	-1	-5		11.9	-17	177	572	635	
Chile		792	0.4	2.8	4	-5	-10		5.6	-38	-82	284	283	
Colombia		3877	-0.1	-1.1	-3	-6	-12		7.7	-8	38	247	264	
Mexico		20.53	0.5	0.0	2	0	-3		7.4	-20	-4	143	182	
Peru		4.0	-0.3	-0.4	1	-10	-10		6.0	-1	-22	201	241	
Uruguay		43	0.6	0.9	0	-2	-3		8.6	27	68	109	132	
Hungary		318	-0.5	-2.0	-2	-5	-7		3.6	18	48	190	204	
Poland		4.04	-0.6	-1.4	-2	-6	-8		2.9	23	94	223	224	
Romania		4.3	-0.1	-0.8	-1	-4	-8		4.7	12	47	167	192	
Russia		71.1	0.2	0.3	1	8	4		8.0	-23	62	240	225	
South Africa		15.3	1.2	-0.2	-1	3	-4		10.0	-25	-19	27	37	
Turkey		9.91	-0.6	-2.1	-9	-21	-25		18.2	-18	7	476	509	
US (DXY; 5y UST)		95	0.2	0.7	1	2	6		1.22	11	16	76	86	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		4899	1.6	1	0	0	-6		197	2	-14	-31	-32	
Indonesia		6691	0.1	2	3	23	12		165	-10	-19	-35	-35	
India		59920	-0.7	0	-1	38	25		135	2	-15	-37	-16	
Philippines		7332	-0.6	2	3	4	3		99	-7	-27	-13	-13	
Malaysia		1519	-0.1	-1	-4	-5	-7		111	-9	-22	-42	-24	
Argentina		95131	0.8	3	23	85	86		1732	10	148	390	376	
Brazil		105968	0.4	2	-6	1	-11		319	-15	18	44	60	
Chile		4502	0.3	1	9	13	8		131	-26	-25	-28	-25	
Colombia		1366	-1.4	-2	-3	12	-5		301	-5	14	87	86	
Mexico		51704	-0.8	0	0	27	17		332	-19	-17	-81	-25	
Peru		20404	-0.4	-1	4	14	-2		151	-21	-16	-4	22	
Hungary		53058	-0.6	-5	-3	39	26		109	-7	-5	-19	-40	
Poland		72795	0.0	0	-2	42	28		46	-6	22	20	18	
Romania		12797	0.1	-1	0	41	31		174	-20	-27	-35	-29	
Russia		4132	-1.0	-1	-3	37	26		147	-9	-15	-42	-32	
South Africa		69006	1.1	1	4	20	16		336	-19	-24	-87	-48	
Turkey		1639	0.9	4	16	28	11		468	-14	-28	-88	21	
Ukraine		523	0.0	0	-1	5	5		506	-24	-10	-85	13	
EM total		51	0.9	0	1	6	-1		368	-11	-7	10	29	

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

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