



- 10-year US Treasury yields fall to one-month low on policy and positioning factors ([link](#))
- European house price appreciation reaches multi-year high ([link](#))
- EM ESG issuance expected to increase but remain small compared to funding needs ([link](#))
- China's exports increase more than expected in October ([link](#))
- EM debt funds see moderate inflows for second consecutive week ([link](#))
- **QUIZ: What is the average credit rating for EMDs? See our EM Ratings Monitor (attached)**

[Mature Markets](#)

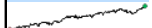

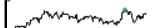






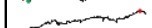

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## Global markets mixed as focus turns to clues on inflation this week

Global equities are trading mixed this morning as the market narrative switches back to inflation prints and central bank reaction functions in the week ahead. US stocks closed up on Friday with the S&P 500 posting its strongest one-week gain (+2%) since July. The advance in global risk assets comes amidst signs that so far global economic activity continues to recover despite ongoing supply chain issues. European equities are trading in a tight range and most Asian stock indices closed flat to slightly lower, while Chinese equities posted modest gains following an upside surprise in export numbers for October. Elsewhere, developed market sovereign bond yields are edging slightly higher this morning after falling sharply over the last week in the wake of pushback against near-term policy rate hikes by key central banks. Ten-year US Treasury and German bund yields are down to one-month lows with declining real rates the main contributor as markets mull the outlook for monetary policy. Energy prices are also attracting attention with news the US could consider releasing oil from its strategic reserve after OPEC held steady on raising supplies last week, and natural gas prices are moving higher again in Europe due to uncertainty around an expected supply increase from Russia.

Key Global Financial Indicators

Last updated: 11/8/21 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4698	0.4	2	7	34	25
Eurostoxx 50		4360	-0.1	2	7	36	23
Nikkei 225		29507	-0.4	2	5	19	8
MSCI EM		51	-0.1	0	0	6	-1
Yields and Spreads			bps				
US 10y Yield		1.48	3.0	-7	-13	66	57
Germany 10y Yield		-0.26	2.4	-15	-11	37	31
EMBIG Sovereign Spread		359	1	3	-1	-37	9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.0	-0.1	1	0	-1	-5
Dollar index, (+) = \$ appreciation		94.2	-0.2	0	0	2	5
Brent Crude Oil (\$/barrel)		83.4	0.8	-2	1	111	61
VIX Index (% change in pp)		16.7	0.2	0	-2	-8	-6

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

**In the week ahead, the focus will turn back to key data releases**, in particular US CPI (Wednesday) and PPI (Tuesday) inflation on the back of signs of continued improvement in labor markets. CPI data cross the Euro area, GDP data in UK (Thursday), employment data in Australia (Wednesday) will also be reported. In emerging markets, the main focus will be on monetary policy meetings in Mexico, Peru, Romania (where consensus expects rate hikes for all 3) and Thailand (expected to hold), as well as CPI and PPI data (Tuesday) in China.

## Mature Markets

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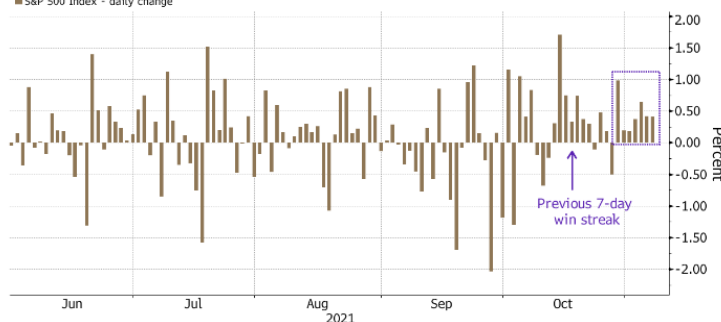
### United States

**Equities advanced on strong jobs data, while Treasuries yields fell.** Equity markets advanced on Friday following the stronger-than-expected jobs report, while 10-year U.S. Treasury yields sank below 1.5% for the first time in six weeks, with the drop mostly driven by real yields. Some analysts found the move confounding, given that the robust payrolls number and strong hourly wage growth could stoke inflation concerns. Some contacts pointed towards technical factors, such as short covering by fixed income mutual funds and macro hedge funds. In addition, a reassessment towards less fiscal policy support going forward and reduced supply of bonds by the Treasury may have also argued for somewhat lower real rates. Finally, a reassessment of the policy tightening speed across G10 central banks, following the surprise hold from the Bank of England, may have added to the downward pressure on shorter-dated Treasury yields.

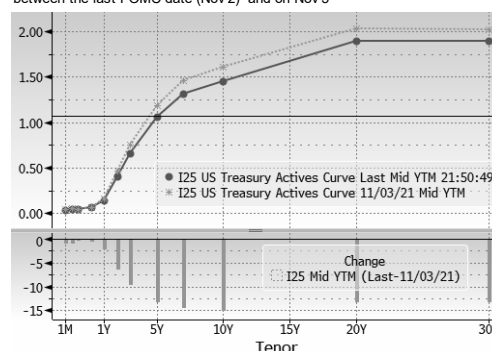
#### Up Again

**S&P 500 is advancing for a seventh consecutive trading session**

■ S&P 500 Index - daily change

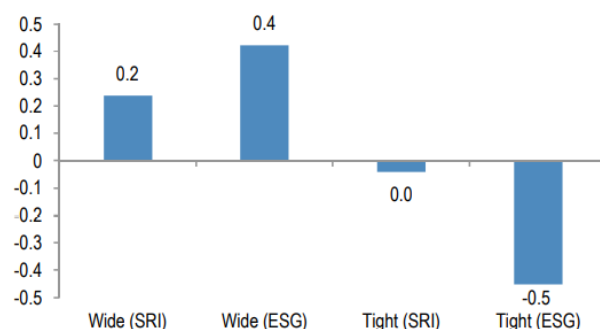


**US Treasury yield curve and changes**  
between the last FOMC date (Nov 2) and on Nov 5



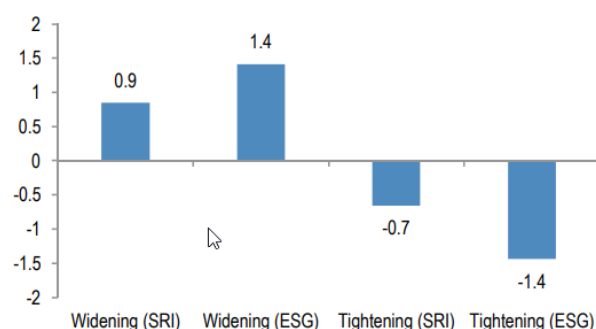
**ESG scores can be inconsistent and unreliable across rating agencies, but ESG indices act as good hedges.** According to JPMorgan, the rating system to evaluate bonds on ESG criteria in the rapidly growing sustainable finance markets can be unreliable. While traditional credit grades for rating agencies overlap almost 78% of the time, the grades provided by three ESG score providers overlap only 18% of the times. They also show that the choice of ESG methodologies (tilts, exclusions, weights) can result in significantly different allocations and exposures (including in the energy sector). Despite that, ESG indices are considered useful products, especially as they tend to outperform their non-ESG parents (labeled SRI in below charts) in periods of wide or widening spreads. The authors suggest that a uniform set of consistent disclosures, and active management of ESG matters by both investors and issuers can help the broader adoption of the ESG approach.

Figure 8: Cumulative Excess Return Differential Since 2013 – Periods of tight or wide spreads



Source: J.P. Morgan; Bloomberg Finance L.P.; 'Tight' determined to be JULI spreads less than 160bp.

Figure 9: Cumulative Excess Return Differential Since 2013 – Periods of tightening or widening spreads



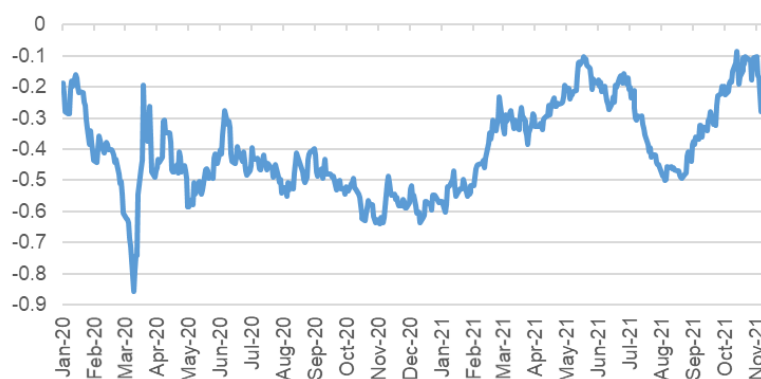
Source: J.P. Morgan; Bloomberg Finance L.P.; Periods where month over month spreads are widening or tightening.

### Euro area

**Equities (+0.05%) traded with a cautious tone after euro area investor confidence improved unexpectedly for the first time since July, but the current situation index fell to 23.5 in November – the lowest level since June 2021.** The investor sentiment index increased to 18.3 in November (15.0 expected) from 16.9 in October. According to Sentix, the burden of supply bottlenecks and high inflation are expected to be temporary and therefore investors are slightly more confident about the next six months. Energy shares (+1.1%) once again outperformed, while the real estate sector (-0.8%) declined.

**German 10-yr bund yields increased (+2 bps to -0.27%) this morning after falling by almost 20 bps last week following pushback from the ECB against interest rate hikes.** In an interview the ECB chief economist reiterated the view that inflation is expected to fall in 2022 as bottlenecks ease and energy prices stabilize. **The euro was trading weaker (-0.01%) against the dollar.**

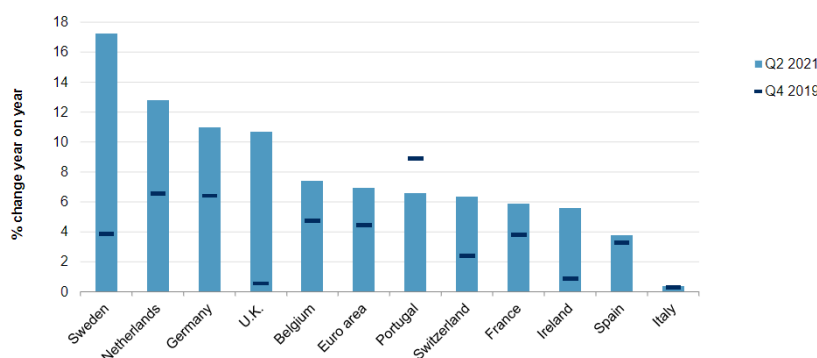
### Germany: 10-yr yields



Source: Bloomberg and IMF staff

**S&P Global expects European house price increases to have peaked in mid-2021, while prices are seen to continue the upward trend over the next four years.** European residential house prices increased by 6.9% y/y on average in the euro area in the 2Q2021 - the fastest pace since 2006. According to S&P, the increase is a result of three main factors: high levels of accumulated savings with a reassessment of housing space needs during lockdowns; lower borrowing costs amid easy monetary policy; and supply constraints. Housing price inflation is seen to start moderating to different degrees depending on country-specific factors as savings are absorbed and central banks start tightening their policy stance.

Housing Prices In Most European Markets Have Risen Steeply Since The Pandemic



Q--Quarter. Sources: OECD, S&P Global Ratings.  
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## United Kingdom

**The British pound was trading lower this morning (-0.1%) as Brexit tensions escalate.** On Sunday Ireland's foreign minister warned that the Brexit trade deal with the EU could collapse if the UK follows through on threats to suspend parts of the withdrawal deal. **Expectations have mounted that the UK will trigger Article 16 of the withdrawal agreement and according to media reports it is seen as likely over the next few days.** The Northern Ireland protocol of the Brexit deal allows free-flowing trade between Northern Ireland and the EU but creates a trade border between Great Britain and Northern Ireland. The UK government has requested changes to the accord saying that it has disrupted trade between Great Britain and Northern Ireland. Concessions from the EU to simplify the custom checks last month were seen by the UK as not going far enough.

## Japan

**Japanese equities declined (NIKKEI: -0.4%; TOPIX: -0.3%) on disappointing earnings results from some major firms.** Equities rose at the market opening on optimism around a broad easing of border control measures, but the early gains were reversed. **One Bank of Japan Board member said that there is no reason to adjust monetary easing as the price stability objective has not been met** according to a summary of opinions of the October policy meeting. Long-end JGB yields rose (30-year: +0.5 bp) as markets were concerned about a potential larger bond supply to support a forthcoming fiscal stimulus. Japanese yen was little changed.

## Emerging Markets

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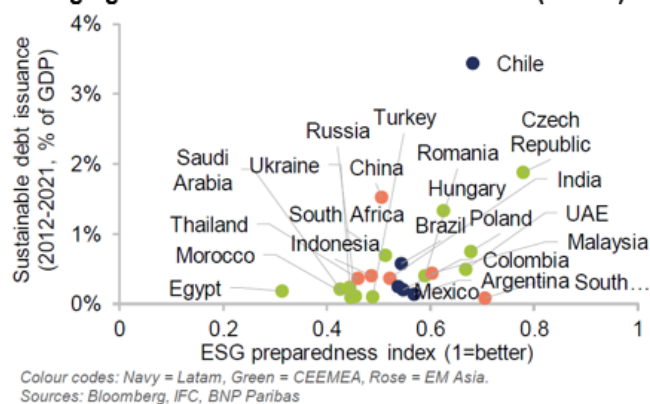
**In Latin America**, the **Mexican** peso appreciated by 1% on Friday amid the risk-on sentiment following the US jobs data release. The **Brazilian** real outperformed appreciating by 1.1%. The real posted its best week since the end of August and the long end of the swap curve moved lower by 50 bps. Markets are closely monitoring the developments over the approval of a bill that limits the number of judicial payments and changes the spending cap. Despite last week's improvement in sentiment, the front end of the swap curve still prices very substantial rate hikes, including an almost 200 bps hike in December 2021 and a terminal rate of over 13% by mid-2022. **Asian equities were mixed, while currencies appreciated**, led by Thai baht (+0.8%), Indian rupee (+0.6%) and Indonesian rupiah (+0.5%). Thai baht benefited from the optimism around the resumption of tourism activity. Long-end government bond yields generally declined, with Indian government bonds rallying on optimism that inflation will moderate after the reduction of fuel duties. **EMEA equities and currencies were mixed in a quiet start to the week.** The Russian ruble and South African rand were little changed but the Turkish lira (-0.4%) edged lower.

## ESG in Emerging Markets

**BNP Paribas expects that ESG bond issuance among EM countries is likely to increase in 2022**, with green bond issuance rising from \$110 bn in 2021 to \$150 bn in 2022. Sovereign green bond issuance has

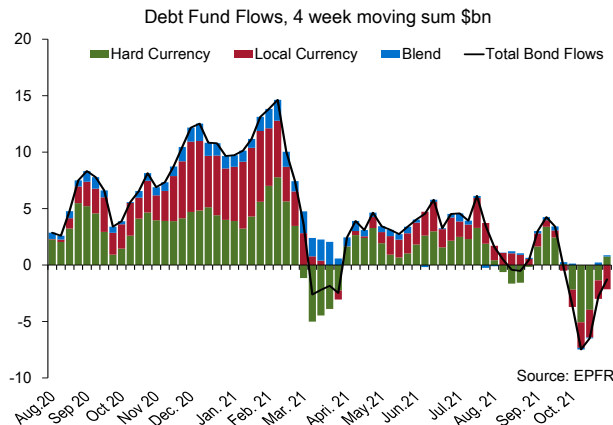
remained smaller at around 5% of total issuance and limited to a relatively small number of countries. The share of green bonds in corporate bond issuance has grown from about 5% in recent years to 17% in 2021. BNP argues that countries in Central and Eastern Europe and Latin America are relatively more prepared to see an increase in ESG funding but expects ESG issuance to remain relatively small compared to EM funding needs.

**Emerging markets: Sustainable debt issuance (%GDP)**



### Emerging Market Fund Flows

**After a period of outflows that started in mid-September, debt funds saw small inflows for a second week in a row.** For the week ending November 3, hard currency funds saw inflows of \$0.7 bn, and local currency funds outflows of \$0.4 bn. YTD flows remain positive at +\$13.2 bn and +\$13.5 bn for hard currency and local currency respectively, while YTD returns remain negative at -1.2% and -7.4%.

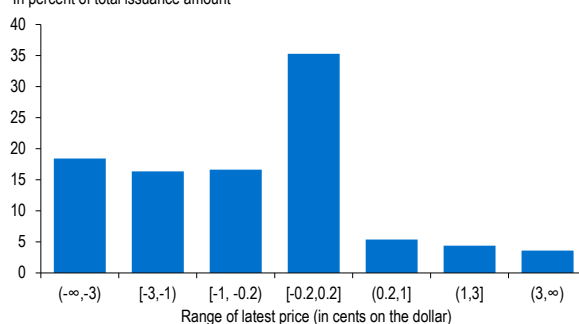


### China

**Exports grew stronger than expected in October.** Exports increased 27.1% (consensus: +22.8%), mainly driven by exports to the EU. While exports of lower-end consumer goods were strong, exports of tech products eased. Meanwhile, imports were weaker than expected, pointing to weak domestic demand. Analysts noted that strong exports performance will unlikely be adequate to offset the ongoing growth slowdown. **Contagion among property developers widened late last week.** Some major property developers also saw their USD bond prices falling (Country Garden: -5.6% on Friday). Evergrande missed coupon payments (\$82.5 mn) on its two USD bonds on Saturday, but still has a 30-day grace period to make payments to avoid a default. In response to market conditions, multiple property developers announced early buybacks of their USD bonds. Property developers with ample liquidity, including Jinmao and Shimao, want to carry out buybacks to boost market confidence. RMB appreciated (+0.1%). **The People's Bank of China provided net liquidity of 90 bn RMB (\$14.1 bn).** Interbank repo rates were stable (7-day DR007: -2.3 bps).

### Real Estate Issuers: Distribution of Daily Change in Offshore USD Bond Prices, November 5, 2021

In percent of total issuance amount



Sources: Bloomberg; IMF staff calculations.

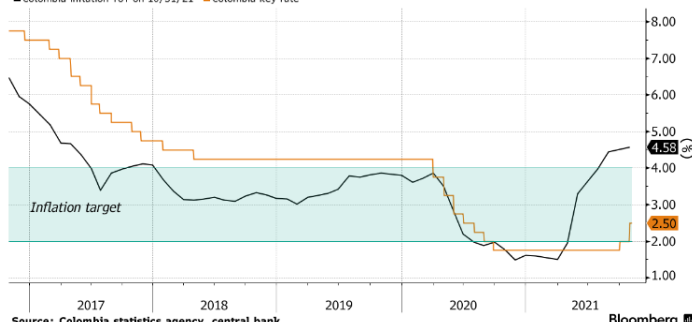
## Colombia

**CPI data for October came in below consensus and raises questions on the future pace of rate hikes.** After the market close on Friday, October CPI data came in weaker than expected (4.58% y/y vs. 4.81%). Core CPI slowed down to 2.86% y/y from 3.03% a month earlier. Although the data surprise was likely affected by a temporary one-day suspension of the VAT in October, analysts highlight that this release will raise questions on the pace of monetary tightening going forward. Last month, Colombia's central bank joined the chorus of EM central banks by stepping up the pace of tightening by raising its policy rate by 50 bps to 2.5%. Before the data release, markets were pricing-in another 50 bp hike at the next central bank meeting and a very steep hiking cycle in 2022.

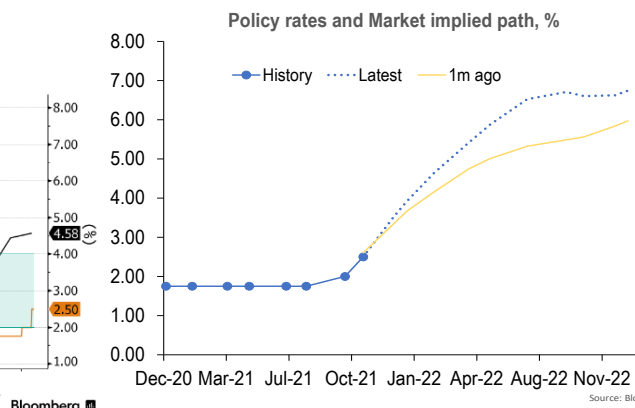
### Surprise Moderation

Colombia annual inflation accelerated less than expected in October

■ Colombia inflation YoY on 10/31/21 ■ Colombia key rate



Source: Colombia statistics agency, central bank








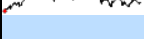



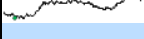




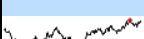



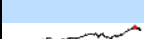
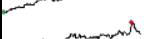





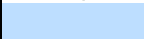


Source: Bloomberg

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## Global Financial Indicators

Last updated: 11/8/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4697	0.4	2	7	34	25
Europe		4360	-0.1	2	7	36	23
Japan		29507	-0.4	2	5	19	8
China		3499	0.2	-1	-3	4	1
Asia Ex Japan		86	-0.4	0	0	3	-4
Emerging Markets		51	-0.1	0	0	6	-1
<b>Interest Rates</b>			basis points				
US 10y Yield		1.48	3.0	-7	-13	66	57
Germany 10y Yield		-0.26	2.4	-15	-11	37	31
Japan 10y Yield		0.06	0.1	-4	-3	4	4
UK 10y Yield		0.88	3.0	-19	-28	60	68
<b>Credit Spreads</b>			basis points				
US Investment Grade		108	25.9	21	15	-10	13
US High Yield		337	24.6	20	10	-137	-42
Europe IG		48	-0.6	-3	-4	-2	0
Europe HY		241	-3.4	-21	-23	-52	-2
<b>Exchange Rates</b>			%				
USD/Majors		94.18	-0.2	0	0	2	5
EUR/USD		1.16	0.1	0	0	-2	-5
USD/JPY		113.4	0.0	-1	1	8	10
EM/USD		55.0	-0.1	1	0	-1	-5
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		83	0.8	-2	1	111	61
Industrials Metals (index)		162	0.3	-3	-3	31	22
Agriculture (index)		58	0.1	-3	1	38	21
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		16.7	0.2	0.3	-2.1	-8.2	-6.1
US 10y Swaption Volatility		73.5	2.7	-4.5	0.1	16.9	13.4
Global FX Volatility		6.9	0.1	-0.2	0.2	-1.2	-1.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		135	-1.5	-8	30	-8	16
Italy		115	-0.5	-16	12	-11	4
Portugal		60	0.6	-6	7	-11	0
Spain		69	1.0	-4	5	-3	8

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

## Emerging Market Financial Indicators

Last updated: 11/8/2021 8:14 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	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	-7	2	-28	-24
Indonesia		14258	0.5	-0.1	0	-1	-1		6.2	-1	-4	-37	12
India		74	0.6	1.1	1	0	-1		6.5	0	10	47	53
Philippines		50	0.3	0.5	1	-4	-4		4.6	9	26	94	91
Thailand		33	0.8	1.2	2	-7	-9		2.0	-1	14	55	69
Malaysia		4.15	0.1	-0.1	1	-1	-3		3.7	-3	15	112	110
Argentina		100	-0.1	-0.2	-1	-21	-16		51.7	129	236	77	-446
Brazil		5.59	-0.8	1.8	-1	-4	-7		12.2	-22	178	577	659
Chile		809	0.3	0.6	2	-7	-12		6.0	-1	24	338	326
Colombia		3868	0.3	-2.6	-3	-6	-11		7.8	1	42	253	272
Mexico		20.40	-0.3	2.1	1	0	-2		7.4	-18	-11	138	177
Peru		4.0	0.1	-0.5	3	-10	-10		5.9	-10	-42	200	226
Uruguay		44	0.1	1.3	0	-2	-3		8.5	21	64	89	127
Hungary		311	-0.2	0.0	0	-2	-4		3.5	1	38	185	193
Poland		3.97	0.2	0.2	0	-4	-6		2.7	35	107	216	209
Romania		4.3	0.1	-0.2	0	-4	-7		4.6	13	59	170	188
Russia		71.4	-0.2	0.2	1	7	4		8.2	10	74	258	248
South Africa		15.0	0.3	2.8	-1	2	-2		10.0	-22	-23	8	37
Turkey		9.74	-0.5	-2.1	-8	-17	-24		18.1	-52	28	402	500
US (DXY; 5y UST)		94	-0.2	0.3	0	2	5		1.09	-9	3	73	73

	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		4848	0.1	-1	-2	-3	-7		201	6	-10	-34	-28
Indonesia		6632	0.8	1	2	24	11		183	5	2	-38	-17
India		60546	0.8	2	1	42	27		139	8	-10	-57	-12
Philippines		7396	0.8	5	7	11	4		117	5	-4	-8	5
Malaysia		1535	0.2	-2	-2	1	-6		127	3	-5	-39	-8
Argentina		92896	1.8	11	20	92	81		1711	13	137	318	355
Brazil		104824	1.4	1	-7	4	-12		330	-5	22	37	71
Chile		4382	-0.1	7	6	15	5		162	0	5	-13	6
Colombia		1389	-0.3	0	-1	18	-3		313	11	15	79	98
Mexico		51978	0.2	1	2	35	18		357	9	5	-91	0
Peru		20420	0.8	-2	5	13	-2		178	1	-1	24	49
Hungary		54577	-0.9	1	1	54	30		125	6	8	-16	-24
Poland		74364	-0.6	1	1	52	30		54	3	29	32	26
Romania		12881	0.1	1	0	46	31		199	-2	-8	-27	-4
Russia		4196	0.5	1	-1	45	28		164	5	-3	-44	-15
South Africa		67657	-0.2	0	4	20	14		351	-10	-20	-101	-33
Turkey		1598	0.9	4	14	34	8		473	-31	-27	-143	26
Ukraine		523	0.0	0	-1	5	5		519	15	-17	-99	26
EM total		51	0.6	0	0	6	-1		380	-1	3	-2	42

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

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