



- Flows to inflation-protected funds persist as investors hedge transitory narrative ([link](#))
- US high yield default rates expected to remain near record lows ([link](#))
- Natural gas prices ease on reports Russian supply starting to gradually pickup ([link](#))
- Selloff in offshore Chinese USD bonds widens ([link](#))
- Hungarian inflation accelerates by more than expected ([link](#))
- Annual inflation jumps to 12-year high in Chile, reinforcing rate hike expectations ([link](#))

[Mature Markets](#)

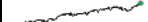
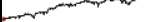


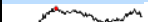


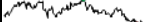


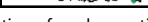
| [Emerging Markets](#)

| [Market Tables](#)

Global risk assets steady as lower real yields provide support

Global risk-on sentiment is holding up this morning as declining real yields continue to provide support. US equities continued to grind higher yesterday with commodity sectors and financials outperforming on the back of higher oil prices and bond yields. US Treasury yields were showing some signs of stabilization yesterday with rising breakeven inflation rates driving the most recent move higher as markets expressed some concerns around upcoming inflation prints. However, yields are moving lower again this morning across most core sovereign bond markets, led by another decline in real yields, with some attention now shifting to news around potential nominations for Fed positions. While Asian equities closed mixed to slightly lower overnight, European equities continue to trade at record highs amid patches of strong corporate earnings reports. Signs of inflation pressures are persisting across emerging markets with the most recent evidence coming from Chile and Hungary, where CPI prints came in higher than forecasted and have reinforced expectations for further policy rate hikes.

Key Global Financial Indicators

Last updated: 11/9/21 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4702	0.1	2	7	32	25
Eurostoxx 50		4357	0.1	1	7	28	23
Nikkei 225		29285	-0.8	-1	4	18	7
MSCI EM		51	0.9	0	1	6	-1
Yields and Spreads			bps				
US 10y Yield		1.46	-3.0	-9	-15	54	55
Germany 10y Yield		-0.27	-2.9	-11	-12	24	30
EMBIG Sovereign Spread		348	-12	-9	-10	-48	-2
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.1	0.0	1	0	-1	-5
Dollar index, (+) = \$ appreciation		94.1	0.0	0	0	1	5
Brent Crude Oil (\$/barrel)		83.6	0.3	-1	2	97	61
VIX Index (% change in pp)		17.6	0.3	2	-1	-8	-5

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

Mature Markets

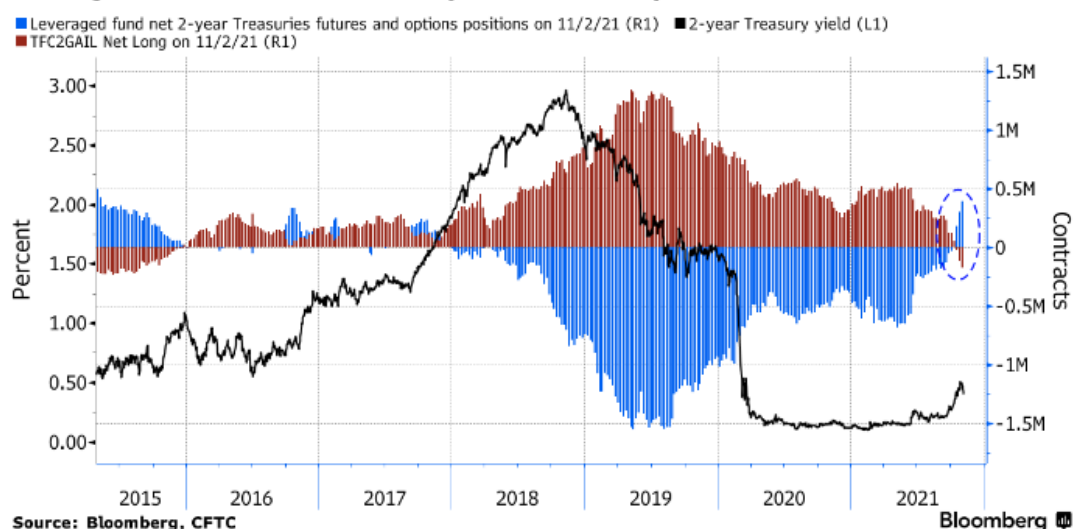
[back to top](#)

United States

Shifting investment positions seen following sharp swings in short-term Treasuries. The sharp swing in short-term Treasury yields since September led to a contemporaneous shift in positions towards Treasury futures by different investors. At the aggregate level, positions of leveraged funds in two-year futures (blue bars) turned net long and hit a six-year high. Some market analysts assign the shift to hedge funds piling back into basis trades (buy 2-year futures and sell the cash note). Asset managers turned bearish to about the same degree (red bars), as two-year Treasury yields have increased by almost 30 bps since October (black line). According to Bloomberg analysts, individual investors of both types shift between bullish and bearish bets, adding to the recent volatility in Treasury markets.

Difference of Opinion

Leveraged funds boost bullish two-year Treasuries positions as institutions short

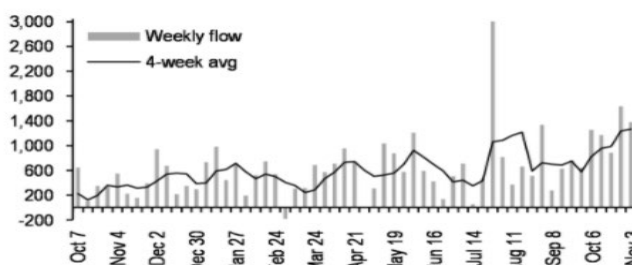


October headline PPI advanced 0.6%, in line with expectations, and after a 0.5% prior month gain. It now stands 8.6% higher compared to the previous year. Excluding volatile food and energy components, the core producer prices increased 0.4% m/m, slightly below the consensus of 0.5%, resulting in a 6.8% y/y increase. The October producer price index shows upward pressures are still in the pipeline. Producer prices have accelerated significantly for much of the year as unrelenting supply bottlenecks and material shortages added to inflationary pressures. Market reaction following the release was muted with S&P 500 futures and Treasury yields little changed.

Inflows into TIPS ETFs remain strong as investors hedge the transitory inflation narrative. A record month of inflows into inflation-protected bond ETFs is a sign that investors are hedging against “transitory-for-longer” inflation. The weekly flow following the FOMC meeting surpassed \$1 bn, suggesting that investors anticipate higher inflation rather than earlier hikes, according to market analysts. With headline inflation continuing to come in at elevated levels, JP Morgan’s analysts do not expect retail interest on TIPS ETFs to fade anytime soon.

TIPS-focused ETFs inflows remain elevated and the 4-week average broke the series' record for the second week in a row

Estimated weekly inflows into the top 10 TIPS-related ETFs and 4-week moving average; \$mn

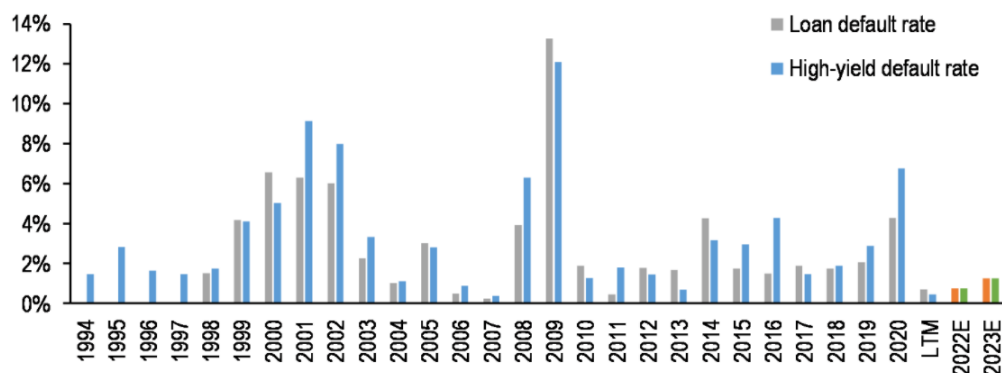


Source: Bloomberg Finance L.P., J.P. Morgan

US high-yield default rates are expected to remain low for longer. According to JP Morgan, US leveraged loan and high yield bond default rates have remained low year-to-date and are expected to remain well below their historical average in the each of the next two years and perhaps longer. Wide open access to capital markets at very low rates, a robust growth outlook, and a rapid improvement in credit fundamentals are the main catalysts for lower default rates, while the distressed universe of bonds and loans has shrunk to a seven-year low.

HY loan and bond default rates should continue near multi-decade lows

Actual default rates and JPM forecasts (2022-23), %



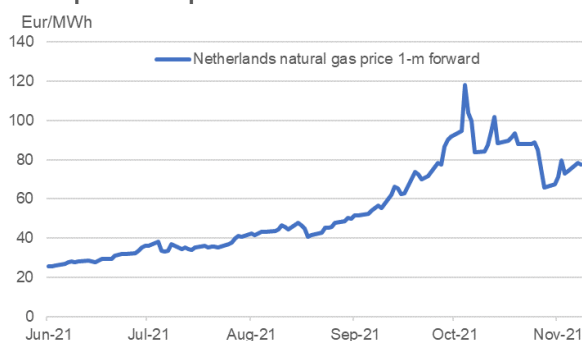
Source: J.P. Morgan

Euro area

European equities (Stoxx +0.2%) continued to trade in a tight range this morning. The majority of sectors gained, while the insurance sector (-0.6%) fell after the German group Munich Re flagged further expected losses related to COVID in its reinsurance business. The media and entertainment sector (+1%) outperformed. **European bond yields were edging lower** with 10-year bunds (-4 bps) back at -0.29%.

Natural gas prices eased on reports that Russia may be starting to gradually increase the supply of natural gas to Europe. Benchmark futures fell by 3.1% to 76.65 euros a megawatt-hour. According to Bloomberg, Gazprom booked 10 million cubic meters a day of pipeline capacity at the Ukraine-Slovenia border at an auction on Monday, and this morning determined reinjection volumes as well as routes to fill its European storage facilities.

European Gas prices



Source: Bloomberg and IMF calculations

In Germany, financial market experts are more optimistic about the six months ahead but assume that supply bottlenecks for raw materials and high inflation weigh on economic development in the current quarter, according to ZEW. The ZEW survey of expectations (31.7) surprised on the upside while the current situation assessment (12.5) disappointed. Trade data also disappointed with German exports (-0.7% m/m, 0% consensus) decreasing for the second consecutive month in September, with imports were little changed (+0.1% m/m, consensus +0.5%). According to market reports, production is being weighed down by supply bottlenecks, and analysts at ING flagging that this points to private consumption and government expenditure being the only drivers of economic growth.

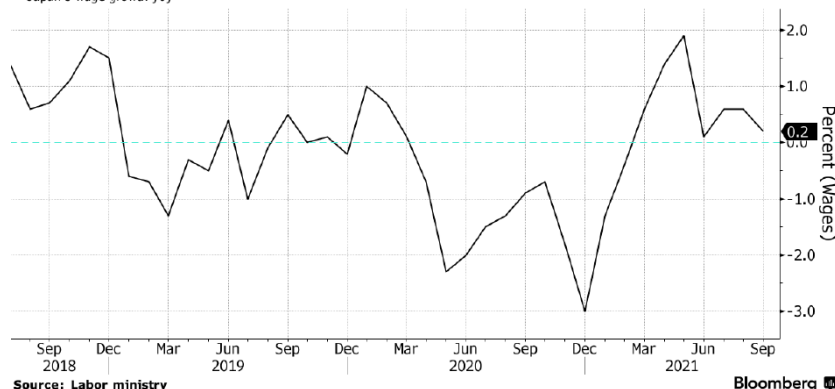
Japan

Labor cash earnings grew weaker than expected in September. Earnings only increased by 0.2% y/y (consensus: +0.6%), moderating from a 0.7% growth in August. Some analysts noted that wage increases will likely remain weak until strong price increases take hold. In response to low the sluggish wage growth over the past decade, the government considers giving tax breaks to firms that raise wages and increasing salary of certain public sector workers. **Meanwhile, business sentiment in October reached highs not seen since early 2014,** following the lifting of state of emergency restrictions. **Reportedly, the government plans to give cash handouts** to all adults at age 18 or above in an amount of 100,000 yen. Individuals last received cash in the early days of the pandemic during the Abe administration. **Equities declined** (NIKKEI: -0.8%) as investors were taking profits in the absence of catalysts for further gains. **Japanese yen appreciated** (+0.3%) as traders wound back bets on higher global interest rates; analysts noted that other major central banks were not as hawkish as markets had anticipated. Long-end JGB yields increased (10-year: +0.4 bp; 30-year: +0.3 bp).

Pandemic Pay

Japan's wages manage to hold on to gains

■ Japan's wage growth yoy



Source: Labor ministry

Bloomberg

Emerging Markets

[back to top](#)

In **Latin America**, regional currencies were mixed. The **Chilean** peso outperformed appreciating by 1.1% following a higher-than-expected inflation print that raised market odds for faster monetary tightening. The **Colombian** peso was little changed with markets adjusting bets for the opposite scenario to that seen in Chile given a weaker CPI print last Friday. The one-year swap rate declined by 15 bps on the day to 4.9%. **Asian equities were mixed, and regional currencies generally appreciated.** In the Philippines, real GDP grew 3.8% q/q in 2021Q3, stronger than expected. In **EMEA**, currencies and equities were mixed. The South African rand and the Turkish lira depreciated slightly but the Russian ruble followed oil prices higher.

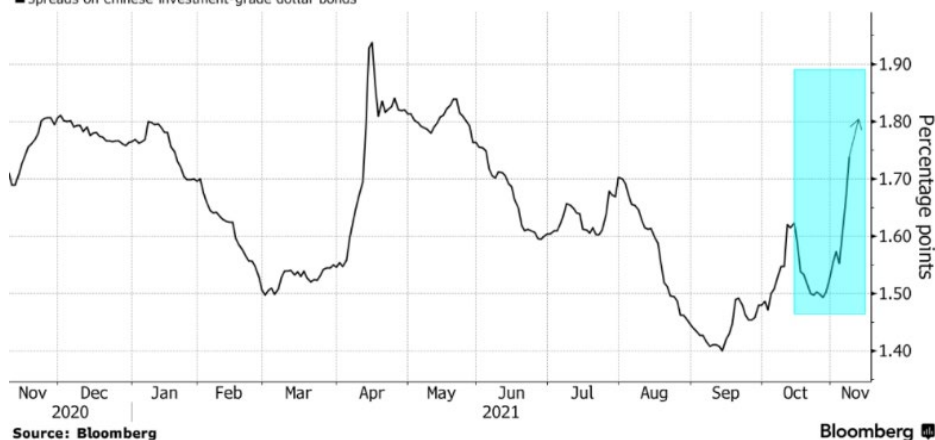
China

The selloff in the offshore USD bond market has widened. According to Bloomberg, spreads on investment-grade bonds widened about 8-10 bps today after a 7 bp increase yesterday. The selloff has moved well beyond high-quality Chinese property names—for example, Tencent bond spreads widened 12 bps. Analysts noted that the contagion to investment-grade offshore bonds is concerning because they account for nearly 70% of Chinese USD bonds. In its financial report released yesterday, the Federal Reserve warned that the fragility in China's real estate sector could spread to the United States. Reportedly, HKMA asked banks to disclose more details about their exposure to China's real estate sector. Equities and RMB were little changed.

Contagion Flares

Higher-rated Chinese dollar bonds suffer worst slump in months

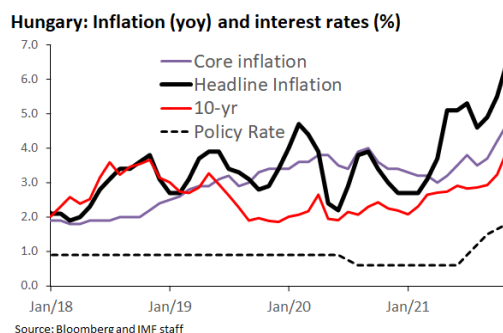
■ Spreads on Chinese investment-grade dollar bonds



The People's Bank of China (PBC) launched a new lending facility to support decarbonization. The facility will provide one-year liquidity support, which can be rolled over twice, at the interest rate of 1.75% to policy banks and nationwide commercial banks. The PBC will fund 60% of each carbon-reduction loan; eligible loans must be issued by banks at an interest rate equivalent to the loan prime rate (LPR). The PBC did not specify the total amount of lending under this new facility. According to official statistics, total new green loans amounted to around 3.2 tn yuan (\$501 bn) during 2020Q4-2021Q3.

Hungary

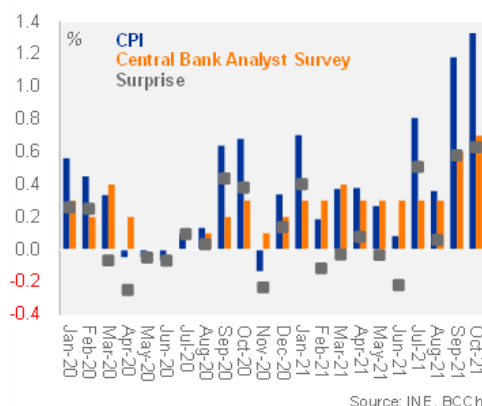
Inflation data surprised to the upside, with core inflation rising 1.1% m/m (0.8% expected) and headline inflation up 6.5% y/y (6.2% y/y expected). This compares with a target band of [2-4%]. Communication from the National Bank of Hungary (NBH) has indicated that the NBH may increase the size of its monthly rate increases again. The NBH hiked 3 times in monthly increments of 30 bps in June-August before hiking rates 15 bps in September and October. **Money markets expect the central bank to hike about 170-180 bps in the year ahead.**



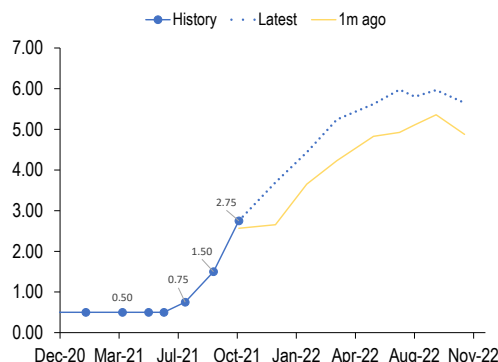
Chile

CPI data for October printed above consensus expectations for a fourth month in row. The headline rate for October came in at 6.03% y/y, the highest rate since 2009, and 1.3% m/m—the highest since 2008. Consensus expectations were significantly lower at 5.6% and 0.9% respectively. JP Morgan highlights that the risks to inflation remain on the upside given the jump in volatile components (e.g., tourism/air travel), higher gasoline prices and additional FX pass-through driven by the recent weakness in the peso. Relatedly, some policymakers and market analysts are warning that a proposal for another round of early pension fund withdrawals, currently under debate in congress, would fuel spending and exacerbate the inflation outlook further. The central bank has so far tried to be “ahead of the curve” increasing the policy rate by 75 bps in August (vs consensus of 50 bps) and 125 bps in October (vs consensus of 100 bps). Both markets and analysts expect roughly a 100 bp hike in December.

Consecutive surprises to the upside



Policy rates and Market implied path, %

















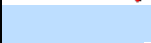

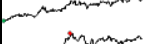
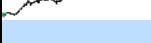



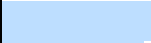

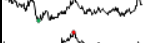

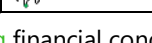


Source: Bloomberg

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Global Financial Indicators

Last updated: 11/9/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4704	0.1	2	7	32	25
Europe		4357	0.1	1	7	28	23
Japan		29285	-0.8	-1	4	18	7
China		3507	0.2	0	-2	4	1
Asia Ex Japan		87	1.0	0	1	3	-3
Emerging Markets		51	0.9	0	1	6	-1
Interest Rates			basis points				
US 10y Yield		1.46	-3.0	-9	-15	54	55
Germany 10y Yield		-0.27	-2.9	-11	-12	24	30
Japan 10y Yield		0.06	0.3	-1	-2	4	4
UK 10y Yield		0.85	-0.2	-19	-30	48	66
Credit Spreads			basis points				
US Investment Grade		107	-0.5	21	15	-6	12
US High Yield		338	0.3	19	10	-104	-42
Europe IG		48	0.7	-2	-5	-2	0
Europe HY		244	4.1	-15	-24	-48	2
Exchange Rates			%				
USD/Majors		94.09	0.0	0	0	1	5
EUR/USD		1.16	-0.1	0	0	-2	-5
USD/JPY		113.1	-0.1	-1	0	7	10
EM/USD		55.1	0.0	1	0	-1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		84	0.3	-1	2	97	61
Industrials Metals (index)		164	0.2	-1	-2	32	24
Agriculture (index)		58	0.3	-3	0	37	21
Implied Volatility			%				
VIX Index (% change in pp)		17.6	0.3	1.5	-1.2	-8.2	-5.2
US 10y Swaption Volatility		74.0	0.0	1.3	0.6	17.4	13.9
Global FX Volatility		6.9	0.0	-0.2	0.2	-1.1	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		136	1.9	-3	31	-2	17
Italy		113	-0.6	-11	10	-14	2
Portugal		59	0.0	-2	6	-7	-1
Spain		67	-0.4	-2	3	-2	6

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

Emerging Market Financial Indicators

Last updated: 11/9/2021 8:08 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		6.39	0.0	0.1	1	4	2		3.0	-6	0	-30	-25	
Indonesia		14243	0.1	0.1	0	-1	-1		6.2	-5	-14	-28	9	
India		74	0.0	0.9	2	0	-1		6.4	-4	4	45	50	
Philippines		50	0.1	0.6	1	-4	-4		4.6	8	26	96	91	
Thailand		33	0.8	1.4	3	-7	-9		2.0	-8	4	54	67	
Malaysia		4.15	0.1	0.0	0	-1	-3		3.6	-9	-3	114	108	
Argentina		100	0.0	-0.2	-1	-21	-16		50.5	-83	158	-42	-565	
Brazil		5.52	0.3	2.9	0	-3	-6		12.2	-43	201	590	659	
Chile		802	0.1	1.3	3	-6	-11		6.0	1	-37	336	328	
Colombia		3871	0.1	-1.9	-3	-6	-11		7.7	-4	41	255	267	
Mexico		20.35	-0.1	2.1	3	0	-2		7.4	-27	-7	141	178	
Peru		4.0	-0.1	-0.6	2	-11	-10		5.9	-10	-37	195	226	
Uruguay		43	0.1	1.6	0	-2	-3		8.6	27	68	101	132	
Hungary		312	-0.1	-0.5	0	-3	-5		3.5	1	37	187	193	
Poland		3.97	-0.1	0.3	0	-4	-6		2.8	44	89	227	219	
Romania		4.3	-0.1	0.0	0	-4	-7		4.6	8	43	172	189	
Russia		71.0	0.4	0.8	1	8	5		8.1	-7	77	252	240	
South Africa		15.0	-0.8	2.7	0	2	-2		9.9	-30	-27	5	29	
Turkey		9.73	-0.5	-1.3	-7	-17	-24		18.1	-31	-4	386	498	
US (DXY; 5y UST)		94	0.0	0.0	0	1	5		1.09	-5	3	67	73	

	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		4847	0.0	0	-2	-2	-7		198	3	-13	-35	-31	
Indonesia		6670	0.6	3	3	22	12		168	-6	-16	-49	-32	
India		60433	-0.2	0	1	40	27		137	5	-13	-52	-14	
Philippines		7442	0.6	5	8	6	4		103	-5	-23	-20	-9	
Malaysia		1524	-0.7	0	-3	-3	-6		112	-9	-21	-53	-23	
Argentina		96045	3.4	10	24	93	87		1703	-11	119	321	347	
Brazil		104781	0.0	-1	-7	1	-12		321	-18	20	30	62	
Chile		4364	0.0	4	5	11	4		135	-27	-21	-37	-21	
Colombia		1394	0.4	0	0	15	-3		294	-9	7	63	79	
Mexico		52251	0.5	2	2	32	19		334	-18	-15	-107	-23	
Peru		20531	0.5	-1	6	9	-1		153	-24	-14	-4	24	
Hungary		54292	0.3	0	1	49	29		116	-3	2	-23	-33	
Poland		73811	-0.8	0	1	45	29		49	3	25	25	21	
Romania		12858	0.0	1	0	41	31		179	-19	-22	-44	-24	
Russia		4215	-0.1	0	-1	41	28		151	-7	-11	-55	-28	
South Africa		68252	0.3	1	5	19	15		333	-28	-27	-118	-51	
Turkey		1625	1.0	6	16	32	10		462	-35	-34	-160	15	
Ukraine		523	0.0	0	-1	5	5		503	-13	-13	-121	10	
EM total		51	-0.1	0	1	6	-1		368	-14	-7	-13	29	

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

[back to top](#)