



- Shorter-dated U.S. yields trade at post-pandemic highs ([link](#))
- U.S. high-yield issuance on track for record year ([link](#))
- ECB's Villeroy signals post-pandemic asset purchase flexibility ([link](#))
- Market-based measures for expected inflation at multi-year high in Canada ([link](#))
- Chinese exports grow more than expected but credit growth disappoints ([link](#))
- Romania yields at 2021 high after inflation accelerates more than expected ([link](#))
- **SPECIAL FEATURE: G-SIB monitor (Attached)**

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

## U.S. short rates at post-pandemic highs

**U.S. short rates trade at post-pandemic highs after Fed officials warned that risks to inflation are to the upside.** This morning, U.S. 10-yr yields also rose after headline CPI was higher than expected. In contrast, U.S. core inflation was in line with expectations. Euro area yields fell after the Bank of France governor said that the ECB remains some distance from its target, even with upside risk to the 2023 inflation forecasts and signaled that some flexibility of the ECB's pandemic QE program will be maintained in other programs. Chinese exports were better than expected but credit growth disappointed as analysts believe that lending to property developers and mortgage borrowers likely slowed.

Key Global Financial Indicators

Last updated: 10/13/21 12:08 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4351	-0.2	0	-3	24	16
Eurostoxx 50		4076	0.5	2	-3	24	15
Nikkei 225		28140	-0.3	2	-8	19	3
MSCI EM		50	-0.5	1	-4	10	-2
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.56	-1.4	4	24	84	65
Germany 10y Yield		-0.13	-4.0	6	21	43	44
EMBIG Sovereign Spread		364	6	3	25	-40	14
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		55.1	0.1	0	-3	1	-5
Dollar index, (+) = \$ appreciation		94.3	-0.2	0	2	1	5
Brent Crude Oil (\$/barrel)		82.9	-0.6	2	13	95	60
VIX Index (% change in pp)		19.4	-0.5	-2	0	-7	-3

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

## Mature Markets

[back to top](#)

### United States

**This morning, headline CPI for September came out stronger than expected at +0.4% mom (+0.3% expected).** The core CPI was in line with expectation at +0.2% mom (excluding food and energy). In financial markets, 10-yr Treasury yields rose by 2bps. Inflation breakeven 5-year also rose by 2bps while 10-years by 1bp. Eurodollar futures implied yields rose 0.5-to-1bp across the tenors and the dollar index strengthened by 0.1%.

**Short-dated 2-to-5-yr Treasury yields rose to post-pandemic highs as the U.S. yield curve flattened as Fed officials warned that risks to inflation are to the upside.** The 2-yr Treasury yield rose by 2 bps to 0.34% while 10-year yields fell 4 bps after a 3-year note auction of \$58 bn saw relatively weak demand. **Fed Vice Chair Clarida said that the ‘substantial further progress’ standard has more than been met with regard to the Fed’s price-stability mandate and has all but been met with regard to its employment mandate.** Atlanta Fed President Bostic said, “transitory is a dirty word” as the ongoing inflation surge is lasting longer than policymakers expected, so it is inappropriate to refer to such price increases as transitory. **Bostic, who votes this year, also said the intense and widespread supply-chain disruptions would not be brief.** The NFIB small business survey showed hiring difficulties and wage pressure continuing to build, which could also undermine the transitory inflation argument. The share of small businesses planning to raise compensation in the coming months hit a new high. **The 5-year forward 5-year inflation swap hits 2.6% intraday before declining to 2.53%.** Market participants see 2.5% breakeven would be compatible with 2% core PCE if there is no inflation risk premium, as breakevens are on total CPI, which is roughly 0.5%pt higher than core PCE, the target by the Fed.

**Equities were down by -0.2% and VIX slid lower to below 20.**

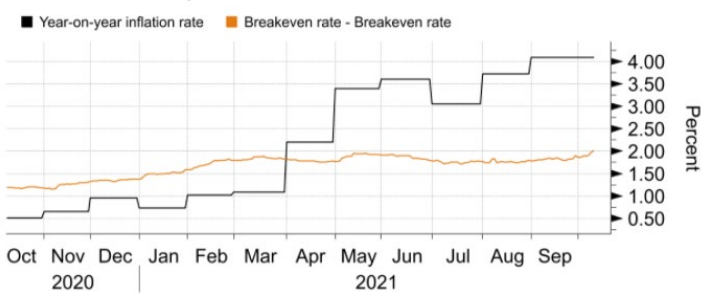
**Primary corporate bond markets remain active.** U.S. dollar high-yield (HY) new issue volume remains on track for the largest year on record. Investment grade (IG) new issue volume is also on track for the second largest year on record after 2020, according to Goldman Sachs. The robust pace of issuance continues to be met with strong demand, given improved credit fundamentals, despite the elevated levels of rates volatility. **Both IG and HY corporate bond spreads have been trading below pre-pandemic levels this year.**

### Canada

**Market-based measures for inflation expectations rose to their highest levels since 2014.** The breakeven inflation rate for the 10-yr inflation-linked bonds rose to 1.91%, the highest since 2014. The breakevens increased more than 50bps year to date. August CPI inflation was 4.1% y/y.

#### Canada Breakevens vs. CPI

Breakevens compared to the annual inflation rate



Source: Bloomberg

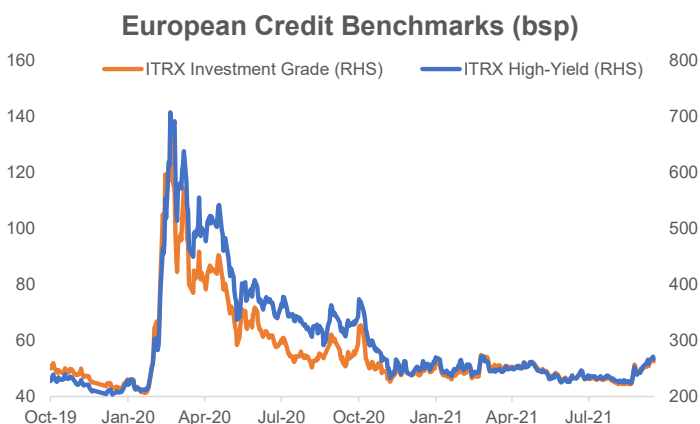
## Japan

**Core machine orders declined in August, weaker than expected.** Core machine orders fell 2.4% m/m (consensus: +1.4%), with the slump more pronounced in orders from manufacturers. Analysts commented that the decline partly resulted from supply-chain problems due to shortages of semiconductors and other key devices. Equities declined (-0.3%) while the yen and yields were little changed.

## Euro area

**European equity indices** were trading around 0.5% higher, except for Spain's IBEX (-0.3%). Technology shares (+2.5%) were outperforming as European software giant SAP (+4.5%) raised its full year revenue outlook. Luxury goods segment also benefitted from better sales from LVMH.

**European sovereign bond yields** fell by 3-4 bps after the 10-yr bund yield hit -0.08% yesterday. Southern European spreads were mostly steady. Corporate credit spread stabilized but are trading at the widest level since March. On the ECB front, **the Governor of Bank of France Villeroy showed his support for transferring some of the Pandemic Emergency Purchase Program (PEPP) to ECB's post-pandemic asset purchases.** Contacts noted this a signal that the current Asset Purchase Program will not only be expanded but also modified to acquire some of the PEPP's flexibility.



**Analysts see upside risks to Spain's deficit projections with a structural budget gap increase.** Following last week's government budget plan publication, analysts at HSBC note only marginal fiscal consolidation measures amid somewhat optimistic growth projections, which could lead to about 1.5pp higher deficits against governments own forecast. The large increase in public sector employment is also seen to carry structural deficit implications. **Moreover, analysts also highlight the challenging political landscape due to the minority government which may result in budget approval delays as well as rollback of past structural reforms.** An early election is considered unlikely at this stage.

On the data front, **Eurozone's industrial production dipped touch less than expected** in August. Output contracted 1.6% mom (against -1.7% consensus). Chip shortages remain the main driver for output overhang with auto production 24% below last year's November levels with Germany affected the most.

## United Kingdom

**Economic activity picked up slightly in August** with GDP expanding 0.4% mom (0.5% consensus). Manufacturing activity grew by 0.5% mom as effects of supply-chain bottlenecks eased somewhat for car producers. However, lower healthcare activity shaved off service sector growth. **GDP is now estimated to be just 0.8% below pre-Covid levels, but analysts note a clear slowdown in the recover momentum.** Rate hike expectations were unchanged, but 10-year gilts fell by 5 bps to 1.10%.

## Emerging Markets [back to top](#)

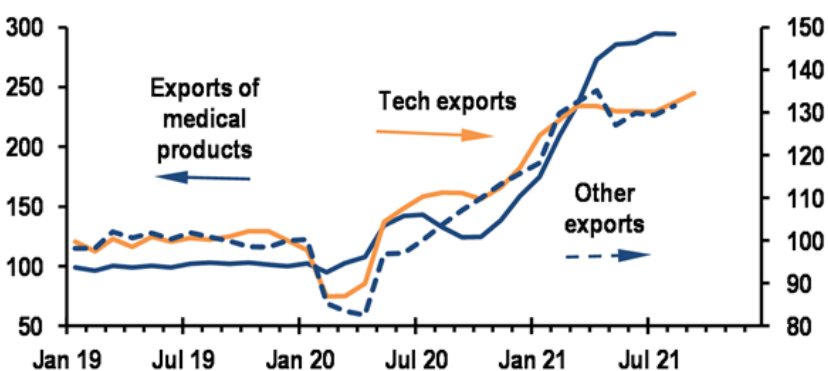
**Asian equities gained, +0.4% on net, led by Singapore (+1.5%) and China (CSI 300: +1.2%).** Share prices dropped in Taiwan POC (-0.7%). **Asian currencies appreciated**, led by Korean won (+0.4%) on the back of a weaker US dollar following the decline in U.S. treasury yields. Long-end government bond yields declined, with 10-years falling in Korea (-4.4 bps) and Singapore (-4.0 bps). Government bond yields rose sharply in Sri Lanka (10-year: +74 bps). In Korea, the unemployment rate edged up to 3% in September as expected. **EMEA equities markets traded tight ranges with markets in Turkey (+0.9%) and Nigeria (+0.5%) outperforming.** Currencies firmed. The South African rand outperformed (+0.7%). **Latin American equities were mixed while most currencies appreciated.** Stocks rallied in Argentina (0.5%) and Mexico (0.4%) and slumped in Brazil (-0.6%) and Chile (-1.0%). Meanwhile, currencies appreciated in Chile (0.2%), Colombia (1.3%), and Mexico (0.5%) and saw little to no movements in Argentina and Brazil.

### China

**Exports expanded strong than expected in September.** Exports (in RMB terms) grew 19.9% y/y (consensus: +13.3%), up from 15.7% in August. Some analysts noted that the strong performance could benefit from a temporary diversion of orders from ASEAN economies that were hit hard by COVID-19 in recent months. Furthermore, exports to the US were particularly strong, potentially pointing to the front-loading of US importers ahead of the holiday season due to concerns about shipping delays. **Credit growth was weaker than expected in September.** Aggregate financing increased 2.9 tn yuan (\$450 bn), weaker than a consensus estimate at 3.05 tn yuan. Analysts suggested that lending to property developers and mortgage borrowers likely slowed due to concerns about the property sector. Shadow credit also continued declining amid the clean-up. **Equities gained (CSI 300: +1.2%); RMB appreciated (+0.1%).**

#### China: Exports by product group

Index, 4Q19=100, sa, 3mma



Source: China Customs, J.P. Morgan

### India

**CPI inflation moderated more than expected in September.** CPI inflation fell to 4.3% y/y (consensus: 4.5%) from 5.3% y/y in August, mainly driven by lower sequential momentum in fresh vegetable prices. Core inflation was unchanged at 5.8% y/y as the decline in transport inflation was offset by an increase in other core components. Some analysts noted that a softer inflation data could keep the Reserve Bank of India dovish in its monetary policy approach. **Industrial production increased 11.9% y/y in August**, strong than an expected 11.6% increase. Indian rupee appreciated (+0.2%), in line with regional peers. Government bond yields declined (1-year: -1.5 bps; 10-year: -0.9 bp); equities gained (+0.8%).

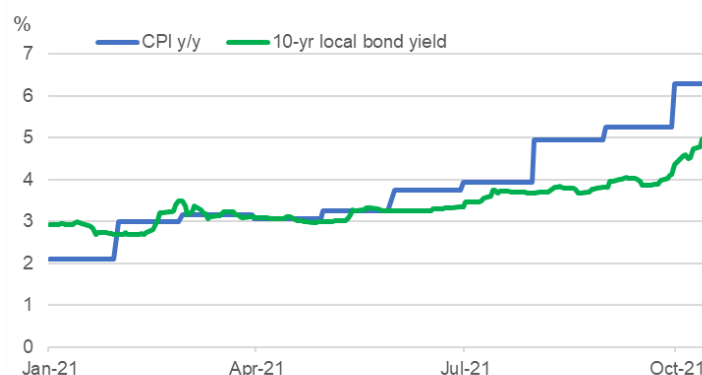
## Russia

The Economic Development ministry warned that inflation is set to reach 7.4% by end-2021, fueling expectations of accelerating interest rate hikes. The CPI forecast was revised upwards from 5.8%, mainly due to higher food prices. Annual inflation jumped to nearly 7.5% in early October, its highest since June 2016. The central bank already increased rates by 250 bps this year to 6.75% and markets expect another 25 bps increase at its meeting on 22 October. **Forward rate agreements point to a 75 bps increase the next three months but are also pricing in 50 bps of easing during the second half of 2022.**

## Romania

Bond yields reached their highest level this year after inflation unexpectedly accelerated to 6.3% y/y in September (5.8% consensus, from 5.3%). Price increases were mainly driven by fuel, electricity, and natural gas. The central bank expects inflation to re-enter its 1.5 - 3.5% target band in 2022, but suggested that the forecast might be revised at the next meeting. Yields have increased (+40bps) since the central bank's 25 bps rate hike on 5 October, and bonds due in 2027 were auctioned earlier this week at a yield 75 bps higher than the previous auction in September. Data today showed that industrial production output fell to 0.5% y/y in August (0% consensus, from 5.9% in July).

Romania: Headline CPI and 10-yr local bond yields



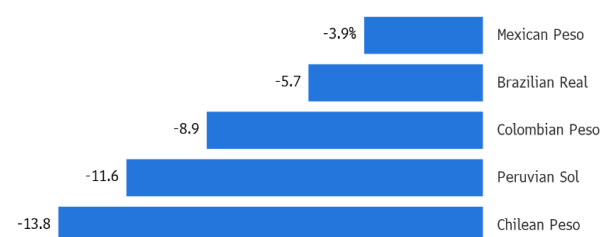
Source: Bloomberg and IMF calculations

## Chile

Local currency bonds saw record loss as uncertainty prevailed. Political uncertainty, elevated inflation, and weakened currency have sent the previously favored Peso-denominated bonds tumbling. **According to Bloomberg, despite a strong recovery, the local currency bonds have lost more than 30% this year, a world record so far.** Moreover, the above-target inflation forecast and an anticipated monetary tightening in the US have cast doubt in investors' eyes. As a result, the latter are now sensing more long-term risks, threatening to worsen the economic outlook.

### Biggest Loser

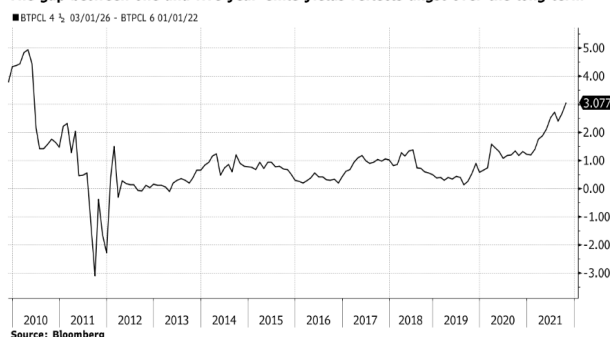
Politics and inflation made Chile's currency into LatAm's worst this year



Source: Bloomberg

### Long Term Risks

The gap between one and five year Chile yields reflects angst over the long term



Source: Bloomberg

*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), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (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), Sonia Meskin (Financial Sector Expert), 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). Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.*

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## Global Financial Indicators

Last updated: 10/13/21 12:09 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4351	-0.2	0	-3	24	16
Europe		4076	0.5	2	-3	24	15
Japan		28140	-0.3	2	-8	19	3
China		3562	0.4	1	-4	6	3
Asia Ex Japan		85	-0.7	1	-5	5	-5
Emerging Markets		50	-0.5	1	-4	10	-2
<b>Interest Rates</b>			basis points				
US 10y Yield		1.56	-1.2	4	24	84	65
Germany 10y Yield		-0.13	-4.0	6	21	43	44
Japan 10y Yield		0.09	0.0	1	4	6	7
UK 10y Yield		1.10	-4.6	3	36	86	91
<b>Credit Spreads</b>			basis points				
US Investment Grade		89	-3.3	-2	1	-37	-6
US High Yield		330	2.6	3	14	-174	-49
Europe IG		53	-0.4	1	8	1	5
Europe HY		268	-3.2	2	40	-49	26
<b>Exchange Rates</b>			%				
USD/Majors		94.29	-0.2	0	2	1	5
EUR/USD		1.16	0.3	0	-2	-2	-5
USD/JPY		113.6	0.0	2	3	8	10
EM/USD		55.1	0.1	0	-3	1	-5
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		83	-0.6	2	13	95	60
Industrials Metals (index)		173	1.8	8	4	46	31
Agriculture (index)		57	0.1	0	3	40	19
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.4	-0.5	-1.6	0.0	-6.7	-3.4
US 10y Swaption Volatility		73.4	-2.3	-0.9	7.6	5.7	10.1
Global FX Volatility		7.0	0.0	0.1	0.5	-1.6	-1.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		105	2.6	-5	-7	-29	-15
Italy		101	0.2	-6	0	-20	-10
Portugal		50	0.1	-5	-6	-20	-10
Spain		62	0.1	-3	-4	-8	0

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

## Emerging Market Financial Indicators

Last updated: 13/10/2021 12:11 PM	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		6.44	0.1	0.0	0	5	1		3.1	7	6	-26	-19	
Indonesia		14218	0.0	0.2	0	4	-1		6.3	7	19	-53	23	
India		75	0.2	-0.5	-2	-3	-3		6.4	8	11	39	50	
Philippines		51	0.3	0.4	-1	-4	-5		4.3	4	2	74	69	
Thailand		33	0.2	1.6	-1	-6	-10		2.0	10	24	49	66	
Malaysia		4.16	0.1	0.6	0	0	-3		3.7	18	39	119	114	
Argentina		99	-0.1	-0.2	-1	-22	-15		48.5	-85	68	674	-767	
Brazil		5.54	-0.5	-1.5	-6	0	-6		10.2	-20	-8	394	461	
Chile		823	0.3	-1.4	-5	-3	-14		6.5	73	116	375	375	
Colombia		3723	1.2	1.7	3	3	-8		7.3	-2	37	215	227	
Mexico		20.72	0.3	-0.8	-4	3	-4		7.4	-4	44	142	184	
Peru		4.0	0.8	2.2	2	-11	-10		5.9	-34	-60	192	233	
Uruguay		44	-0.2	-1.2	-2	-2	-3		8.0	9	6	63	72	
Hungary		312	0.3	-0.4	-5	-1	-5		3.2	11	55	154	166	
Poland		3.96	0.4	-0.6	-3	-3	-6		2.2	51	87	149	154	
Romania		4.3	0.3	0.0	-2	-3	-7		4.4	35	78	113	165	
Russia		71.9	0.0	0.8	1	7	3		7.4	-7	46	174	168	
South Africa		14.9	0.7	0.7	-5	11	-1		10.2	-9	49	-12	51	
Turkey		9.05	-0.1	-1.9	-7	-12	-18		18.4	52	144	521	524	
US (DXY; 5y UST)		94	-0.2	0.0	2	1	5		1.07	9	27	77	71	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4940	1.2	2	-1	2	-5		212	1	-1	-28	-17
Indonesia		6537	0.8	2	7	27	9		194	13	22	-33	-6
India		60737	0.8	3	4	50	27		151	2	7	-58	0
Philippines		7069	-0.5	0	1	19	-1		135	14	30	3	23
Malaysia		1600	1.0	3	2	5	-2		136	4	9	-33	1
Argentina		77928	0.5	0	-3	69	52		1600	26	78	265	244
Brazil		112181	-0.6	2	-2	15	-6		307	-1	17	-4	48
Chile		4103	0.0	-3	-7	12	-2		161	4	17	-15	5
Colombia		1386	-1.4	0	6	18	-4		290	-8	14	46	75
Mexico		51836	0.4	2	1	36	18		352	0	12	-111	-5
Peru		19732	0.7	8	9	11	-5		170	-9	1	14	41
Hungary		54749	0.2	3	3	64	30		120	3	-12	-33	-29
Poland		74463	-0.4	4	4	54	31		30	5	6	7	2
Romania		12733	0.0	1	3	43	30		206	-1	16	-31	3
Russia		4227	-0.9	1	5	49	29		164	-3	3	-50	-15
South Africa		65647	-0.5	3	2	19	11		366	-5	26	-128	-18
Turkey		1430	0.9	4	-1	22	-3		502	2	46	-112	55
Ukraine		526	0.0	0	0	3	5		521	-15	39	-155	28
EM total		50	0.3	1	-4	10	-2		380	3	29	-13	42

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

[back to top](#)