



- U.S. yield curve flattens as investors digest CPI data ([link](#))
- Euro area rates price first ECB rate hike by end 2022 ([link](#))
- Chinese PPI inflation rises to multi-decade high ([link](#))
- Monetary Authority of Singapore unexpectedly tightens policy ([link](#))
- Chile's central bank hikes 125 bps as inflation accelerates ([link](#))
- Turkish lira at record low following monetary policy committee overhaul ([link](#))

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Equities trade higher as markets price in more central bank tightening

Global equities are higher as markets are continuing to price in more central bank tightening in several countries. U.S. short rates traded higher and the U.S. yield curve flattened as measures of the underlying pace of inflation firmed expectations of a Fed taper next month with focus shifting to the timing of the first hike. Money markets are pricing in a first hike by the ECB by the end of next year. Singapore and Chile tightened monetary policy. The Turkish lira fell to a record low as further policy rate cuts are expected following an overhaul in the central bank's Monetary Policy Committee.

Key Global Financial Indicators

Last updated: 10/14/21 12:07 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4364	0.3	0	-2	25	16
Eurostoxx 50		4130	1.2	1	-1	26	16
Nikkei 225		28551	1.5	3	-7	21	4
MSCI EM		51	1.4	3	-2	12	-1
Yields and Spreads			bps				
US 10y Yield		1.52	-1.2	-5	24	80	61
Germany 10y Yield		-0.17	-4.0	2	17	41	40
EMBIG Sovereign Spread		363	-1	-3	22	-44	12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	0.1	0	-3	1	-5
Dollar index, (+) = \$ appreciation		93.8	-0.3	0	1	0	4
Brent Crude Oil (\$/barrel)		84.2	1.3	3	14	94	63
VIX Index (% change in pp)		17.8	-0.9	-2	-2	-9	-5

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



Mature Markets

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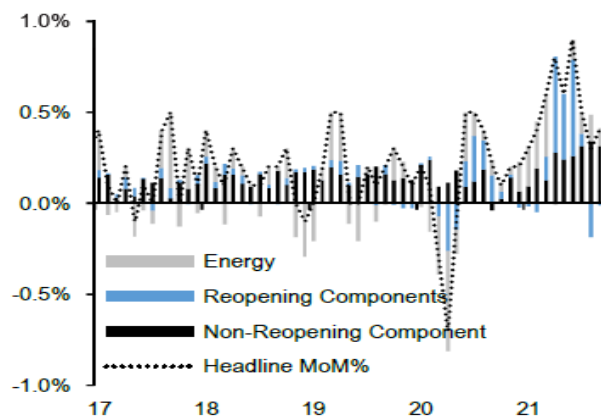
United States

This morning, both headline PPI and core PPI for September came in lower than expected at **+0.5% mom (vs. +0.6% cons.)** and **+0.2% (vs. +0.5%)**, respectively. In contrast, initial jobless claims were stronger than expected at **293k (vs. 320k cons.)**. Market reaction has been limited so far. Treasury 10-year yields rose by 1 bps following headlines with a curve steepening bias. The dollar index was little changed after the data release.

Shorter-dated Treasury yields traded higher and the U.S. yield curve flattened after yesterday's CPI report. According to analysts, CPI data are consistent with an underlying pace of inflation of **0.3%-0.4% per month once re-opening components such as used and rental cars, vehicle insurance, lodging, airfares, and food away from home are excluded**. Most notably, CPI rent measures were strong, with tenants' rent jumping 0.45% and owners' equivalent rent (OER) increasing 0.43%. Expected policy rates in 2023 implied by eurodollar futures rose by 3-5bps. The Cleveland Fed trimmed-mean CPI hit 3.55%, the highest since 1991, barring two months at the top of the oil price spike in 2008. **Market-based expected inflation, breakeven 10-years, rose by 3 bps to 2.53% while nominal 10-years fell by 4 bps, resulting in a fall in real rates of 7 bps.**

Figure 1: US CPI components

MoM % change, SA.



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

September FOMC minutes did not provide much new information but signaled that tapering of \$15 bn/m will start November or December. Chair Powell said the tapering could be completed by mid-2022 in his press conference. Analysts saw the minutes were modestly more hawkish than the prior month. The Fed staff and participants revised up near-term inflation forecasts in response to incoming data but continued to expect inflation to be transitory.

Bank shares closed lower after a disappointing start to earnings season. KBW bank index shed more than -2% following the headline JPMorgan's consumer and commercial loan growth remains elusive. However, the Q3 revenue and EPS beat the analyst estimate, with the M&A business being on track to be

a record year. JP Morgan CEO Jamie Dimon said it was good news that neither supply chains nor Covid as a pandemic was likely to be key topics a year from now. The bank said it had no major concern for the housing market from expected Fed tapering. **S&P 500 traded higher toward the end of the day as Treasury real yields went lower. VIX slid lower to 19.0.**

Higher oil revenues were likely related to FX reserve accumulation and a stronger US dollar. JPMorgan estimated that reserve managers accumulated around \$190bn of reserves in 2Q, bringing 2021H1 reserve accumulation to \$290bn. The largest net beneficiary of the accumulation in 2Q was the US dollar, with around \$95bn of inflow.

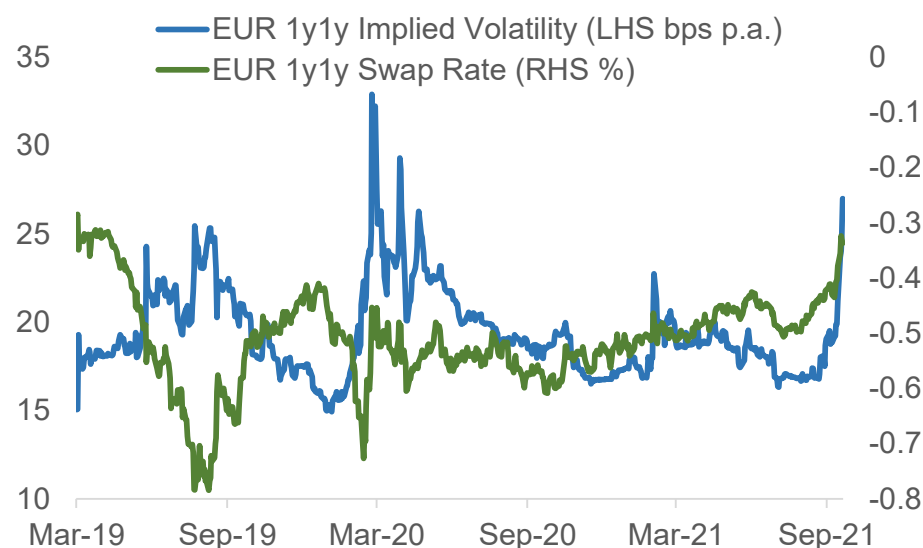
Japan

PM Kishida dissolved the lower house of parliament, a formal step for a general election on October 31. Analysts noted that while the ruling Liberal Democratic Party is expected to maintain the majority in the lower house, any major loss of seats could undermine PM Kishida's leadership. **Analysts also noted that Japanese equities tend to rise before and after general elections, in part due to growing expectations for fresh stimulus during the election campaigns.** Equities gained (NIKKEI: +1.5%); long-end JGB yields dropped (10-year: -1.0 bp; 30-year: -1.2 bps). **Japanese yen depreciated (-0.2%).**

Euro area

European equities (+0.8%) gained. The increase was relatively broad-based with chip manufacturers (+3%) outperforming on stronger earnings expectations. **European bond yields** were edging lower with 10-year bund (-4 bp) back at -0.17%. Southern European spreads were 1-2 bps wider.

Euro short-end rates have seen some notable moves recently. The 1-yr swap rate in 1-yr has increased by 9 bps since the start of October and is currently implying about 16 bps of hikes. Analysts note that while some of the increase might be attributed to TLTRO-related factors, most of the increase represents market rate expectations despite all the dovish remarks by the ECB. **Contacts note that interest rate option markets have also seen a large increase in investor interest to buy protection against interest rate rise in 2-3 years' time.**



Analysts find that investors value green bond labels differently across industrial sectors. By looking at primary market demand as a proxy, analysts at HSBC note that green bond issues from some sectors such as household and industrial durable goods as well telecommunications have shown consistently

higher bid-to-cover ratios. On the other hand, investors have been mostly indifferent to green bond labels for sectors such as energy and construction materials. **Analysts argue that this could be a sign of perceived difference in quality among green projects across industries.** Industries with lower green label demand in the primary market also tend to have somewhat lower greenium in the secondary market.

United Kingdom

Short-end rates edged higher despite weaker growth data yesterday and BoE MPC member Tenreyro warning that increasing interest rates to combat a temporary rise in inflation risks being self-defeating. Contacts note that the BoE's Tenreyro was less dovish than some had expected. The November and December contracts edged up by 2 bps, while the total cycle is now pricing around 90 bps of hikes in 2022. Separately, the **BoE's Deputy Governor Cunliffe urged for regulation of cryptoassets.** The Deputy Governor noted potential technological benefits, but also highlighted growing risks from increasing integration with the mainstream financial world while drawing parallels with the 2008 sub-prime sector. **The sterling (+0.5%) was trading at its strongest level since mid-September.**

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Most Asian equities gained, +0.4% on net, led by Philippine (+1.6%), Korean (+1.5%) and Indonesian (+1.2%) equities. Meanwhile, Chinese equities declined (CSI 300: -0.5%). **Most Asian currencies appreciated.** Both Indonesian rupiah and Thai baht rallied on optimism of border re-opening. In Thailand, the government approved the quarantine-free entry for travelers from selected countries. Long-end government bond yields declined, with 10-year yields falling in Malaysia (-4.1 bps) and Singapore (-4.0 bps). **Equity markets in EMEA traded higher** with South Africa (+1.1%) and Russia (1%) outperforming. Currencies were trading stronger against the US dollar, but the Turkish lira (-1.1%) underperformed. **LATAM equities printed mixed while most currencies appreciated.** Stocks rallied in Argentina (0.6%) and Brazil (1.1%) and slumped in Chile (-2.4%) on the back of an aggressive policy rate hike. Meanwhile, currencies appreciated in Brazil (0.4%), Mexico (1.1%), and Chile (1.0%) and depreciated in Colombia (-0.3%).

Chile

The central bank hikes its policy rate by 125 bps to 2.75%, the largest hike in two decades and above the 100 bps consensus forecast (but traders had expected an upside surprise). Policymakers noted the risks of overheating as the economy is expected to grow at 11.5% in 2021, and the annualized inflation reached 5.3% last month, well above the 3% target rate. Driven by higher commodity prices, strong demand, and weaker currency, the m/m inflation peaked at 1.2% last month, a record since 2008.

Going Up

Chile's annual inflation running well above 3% target

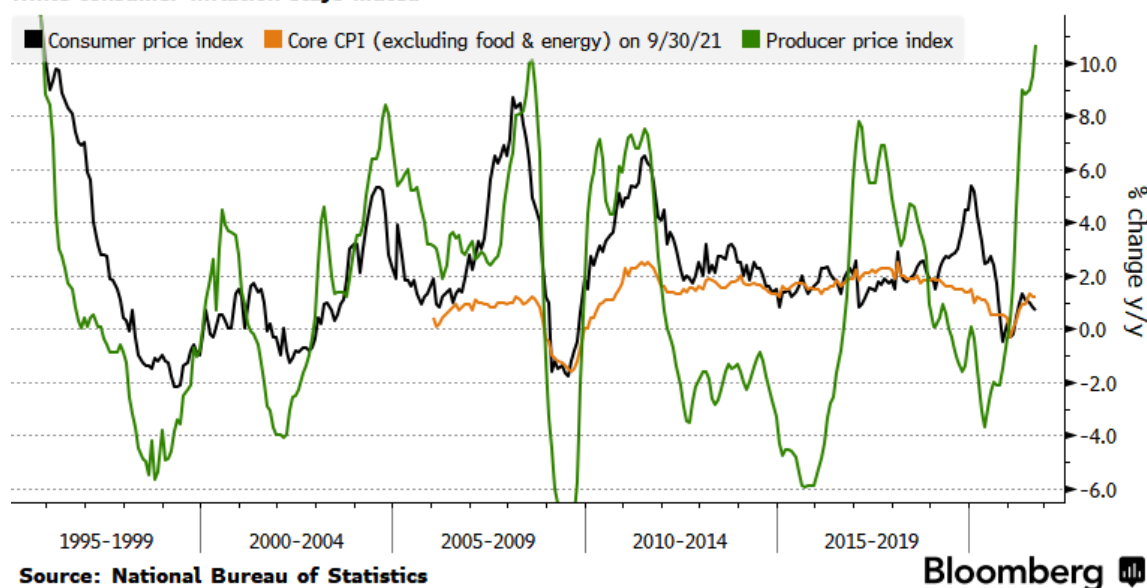


China

Producer price inflation hit a 26-yr high in September. Producer prices increased 10.7% y/y stronger than expected (consensus: +10.5%), up from 9.5% in August. High producer price inflation reflected the impact of a near-term supply shock and policy push for de-carbonization, with the main drivers encompassing soaring prices of coal (+12% m/m), other energy commodities and energy-intensive upstream products that have been severely affected by the power crunch. Meanwhile, **consumer price inflation eased to 0.7% y/y in September**, driven by lower food prices. **Premier Li Keqiang vowed to meet electricity demand** amid the growing energy supply challenge. While noting that China's economic growth levelled off in 2021Q3, he remains confident that China can still achieve full-year economic targets, including the goal of 11 mn new jobs. China still has ample policy space to cope with all challenges. Equities declined (CSI 300: -0.5%); RMB depreciated (-0.1%). **Interbank repo rates remain relatively stable** (DR007: -0.6 bp) as the People's Bank of China continued withdrawing interbank liquidity (today: 90 bn yuan (\$14 bn)) after the massive liquidity injections in late September.

Factory Inflation at Near 26-Year High

While consumer inflation stays muted



Singapore

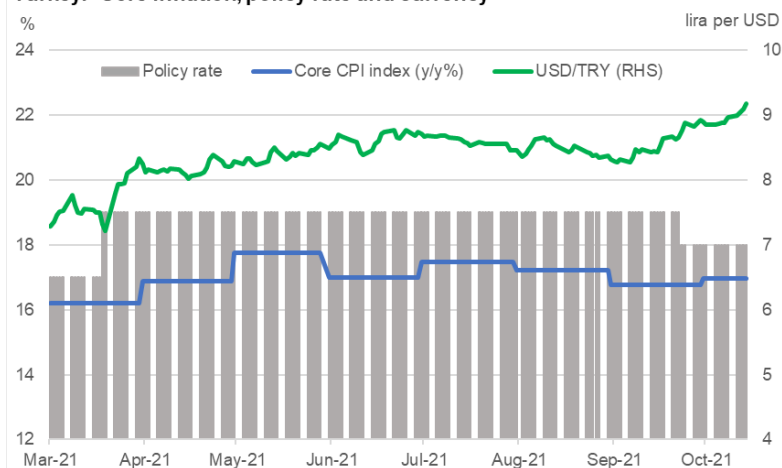
The Monetary Authority of Singapore (MAS) unexpectedly tightened its policy. In today's policy meeting, the MAS steepened the slope of its currency band slightly from a flat slope previously, with no specific target. There was no change to the width of the policy band or the level at which it is centered. The MAS expects to see growth at 6-7% in 2021 with a progress at an above trend pace in 2022. Meanwhile, the MAS expects core CPI inflation to edge up to 1-2% next year from 0-1% this year, noting that accumulating external and domestic cost pressures reflect both normalizing demand and tight supply conditions. The MAS thus viewed that the slight appreciation path of the Singapore dollar will ensure medium-term price stability. **Real GDP grew 6.5% y/y in 2021Q3, slightly weaker than expected** (consensus: +6.6%). Singapore dollar appreciated (+0.2%); equities gained (+0.2%); long-end government bond yields dropped (10-year: -4.1 bps).

Turkey

The Turkish lira fell (-1%) to a record low against the dollar after President Erdogan overhauled the monetary policy committee. According to news reports, three dismissed MPC members disagreed with the continuation of interest rate cuts or the selling of foreign currency reserves to support the lira. Two new

members were appointed. The central bank unexpectedly cut its key rate by 100 bps to 18% in September, despite high inflation readings. **Analysts are expecting a 50bps cut at the upcoming MPC meeting on 21 October.** This morning the lira was trading 1.1% weaker at 9.18 against the dollar, while the five-year CDS increased by 7 bps to 450 bps.

Turkey: Core inflation, policy rate and currency



Source: Bloomberg and IMF

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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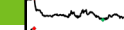




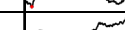
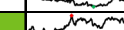



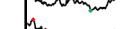



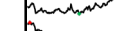

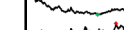
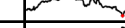

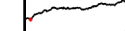

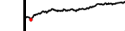

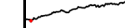
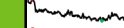
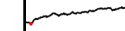
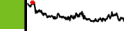

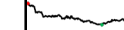


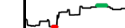

Global Financial Indicators

Last updated: 10/14/21 12:08 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4364	0.3	0	-2	25	16
Europe		4131	1.2	1	-1	26	16
Japan		28551	1.5	3	-7	21	4
China		3558	-0.1	0	-3	7	2
Asia Ex Japan		86	1.6	3	-3	8	-4
Emerging Markets		51	1.4	3	-2	12	-1
Interest Rates			basis points				
US 10y Yield		1.52	-1.2	-5	24	80	61
Germany 10y Yield		-0.17	-4.2	2	17	41	40
Japan 10y Yield		0.08	-1.2	1	3	5	6
UK 10y Yield		1.06	-2.8	-2	32	84	86
Credit Spreads			basis points				
US Investment Grade		88	-1.0	-2	0	-37	-7
US High Yield		330	-0.4	0	15	-172	-50
Europe IG		52	-0.8	1	8	-2	4
Europe HY		264	-5.3	5	38	-65	21
Exchange Rates			%				
USD/Majors		93.84	-0.3	0	1	0	4
EUR/USD		1.16	0.2	1	-2	-1	-5
USD/JPY		113.4	0.1	2	3	8	10
EM/USD		55.2	0.1	0	-3	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		84	1.3	3	14	95	63
Industrials Metals (index)		178	2.3	9	8	50	34
Agriculture (index)		57	0.7	-2	2	39	18
Implied Volatility			%				
VIX Index (% change in pp)		17.8	-0.9	-1.8	-1.7	-8.6	-5.0
US 10y Swaption Volatility		71.2	-0.2	-3.5	6.9	5.7	7.9
Global FX Volatility		6.9	0.0	0.2	0.5	-1.5	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		109	3.3	2	-3	-26	-11
Italy		104	0.7	0	5	-20	-7
Portugal		52	0.8	-3	-3	-20	-8
Spain		63	1.3	-1	-1	-8	2

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
14/10/2021	Level		Change (in %)					Level		Change (in basis points)				
12:10 PM	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	0.1	0	4	1		3.1	8	5	-25	-19	
Indonesia		14118	0.7	0.7	1	4	0		6.3	2	18	-53	21	
India		75	0.2	-0.6	-2	-3	-3		6.4	4	9	38	48	
Philippines		51	0.1	-0.1	-1	-4	-5		4.3	0	-2	71	65	
Thailand		33	-0.1	1.7	-1	-6	-10		2.0	9	24	49	66	
Malaysia		4.15	0.1	0.7	0	0	-3		3.7	10	36	119	113	
Argentina		99	0.0	-0.2	-1	-22	-15		48.6	-74	127	611	-759	
Brazil		5.52	0.4	-0.4	-5	1	-6		10.2	-6	-7	401	458	
Chile		816	0.8	-0.2	-4	-2	-13		6.6	71	126	382	382	
Colombia		3741	-0.5	1.2	2	3	-8		7.3	-1	32	215	225	
Mexico		20.55	0.0	0.5	-3	4	-3		7.4	-8	36	134	179	
Peru		4.0	1.7	4.2	3	-10	-9		5.9	-32	-60	179	231	
Uruguay		44	-0.4	-1.4	-2	-3	-3		8.0	12	8	64	75	
Hungary		309	0.4	0.4	-4	0	-4		3.2	13	58	156	170	
Poland		3.93	0.3	0.8	-2	-2	-5		2.2	35	83	151	154	
Romania		4.3	0.2	0.5	-2	-3	-7		4.4	42	80	116	167	
Russia		71.6	0.6	0.2	2	9	3		7.3	-14	42	170	162	
South Africa		14.8	0.3	1.3	-3	12	0		10.1	-12	36	-20	42	
Turkey		9.17	-0.8	-3.1	-8	-14	-19		18.4	49	153	519	528	
US (DXY; 5y UST)		94	-0.3	-0.4	1	0	4		1.06	3	27	75	70	

	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		4914	-0.5	1	0	2	-6		210	-1	-2	-30	-19	
Indonesia		6626	1.4	3	8	28	11		193	1	19	-35	-7	
India		61306	0.9	3	5	50	28		149	-2	4	-55	-2	
Philippines		7183	1.6	3	4	21	1		129	-7	21	-4	17	
Malaysia		1593	-0.5	2	2	5	-2		134	1	7	-33	-1	
Argentina		78428	0.6	1	-1	66	53		1609	38	141	249	253	
Brazil		113456	1.1	3	-2	14	-5		305	-4	11	-8	46	
Chile		4006	0.0	-3	-9	9	-4		162	3	16	-16	6	
Colombia		1394	0.6	0	6	19	-3		289	-10	9	44	74	
Mexico		51813	0.0	2	0	36	18		354	-2	11	-111	-3	
Peru		19695	-0.2	7	10	10	-5		169	-12	-2	11	40	
Hungary		54988	0.5	2	5	64	31		121	-1	-19	-31	-28	
Poland		74551	0.4	3	3	53	31		26	1	3	-3	-2	
Romania		12769	0.2	0	3	44	30		204	-8	10	-32	1	
Russia		4290	1.1	1	6	50	30		163	-7	1	-54	-16	
South Africa		66678	1.0	2	4	20	12		362	-13	20	-130	-22	
Turkey		1410	-0.2	1	-2	19	-4		500	-3	36	-114	53	
Ukraine		526	0.0	0	0	3	5		511	-28	31	-167	18	
EM total		51	0.4	3	-2	12	-1		378	-4	26	-18	40	

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

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