



- **Strength in US bank earnings continues in Q3** ([link](#))
- **Markets now price first Fed hike in September 2022** ([link](#))
- **ECB considering a larger share of supranational bonds in QE purchases** ([link](#))
- **UK gilt yields trade higher as BoE governor warns about inflation** ([link](#))
- **China's economy weakens more than expected in Q3** ([link](#))

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Inflation worries weigh on sentiment

Concerns over rising inflation continue to push bond yields higher today. The persistent rise in energy prices is helping fuel concerns, with Brent crude's first future up another 1 percent today to 85.7, its highest level in 3 years. The flattening trend of the US yield curve is continuing, with the 2-year rate rising 4bps while the 30-year is slightly lower. Markets have pulled forward their pricing of the first Fed hike to September of next year, and UK yields are higher today after hawkish comments by BoE governor Bailey. Expectations of further hikes in a number of emerging markets are gaining pace as well, with Hungary and Russia both expected to raise rates at their meetings this week. Risk appetite is lower on the day, with equities declining in Europe and most emerging market currencies weaker versus the dollar.

Key Global Financial Indicators

Last updated: 10/18/21 8:23 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4471	0.7	2	1	28	19
Eurostoxx 50		4143	-1.0	2	0	28	17
Nikkei 225		29025	-0.1	2	-5	23	6
MSCI EM		52	1.2	2	1	14	1
Yields and Spreads			bps				
US 10y Yield		1.60	2.6	-2	24	85	68
Germany 10y Yield		-0.15	1.6	-3	13	47	42
EMBIG Sovereign Spread		355	-5	-3	14	-56	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	-0.3	0	-2	1	-5
Dollar index, (+) = \$ appreciation		94.0	0.0	0	1	0	4
Brent Crude Oil (\$/barrel)		85.7	1.0	2	14	100	65
VIX Index (% change in pp)		17.5	1.2	-2	-3	-10	-5

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

This will be one of the busiest weeks of the earnings season. In economic data, China Q3 GDP, retail sales and property price will be the highlight. These numbers should review the impact of Evergrande's debt crisis, high commodity prices, and continuing crackdown on several industries. In the US, housing data will

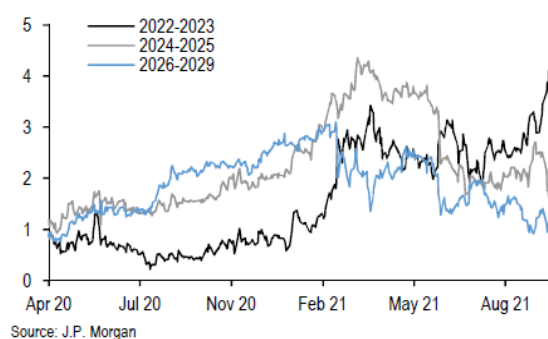
offer insights into the residential housing market. CPI and PMI are due in euro area and UK. Rate decisions are scheduled in Indonesia (market expectation of no change), Hungary (hike), Turkey (cut), Ukraine (hold), and Russia (hike).

Mature Markets

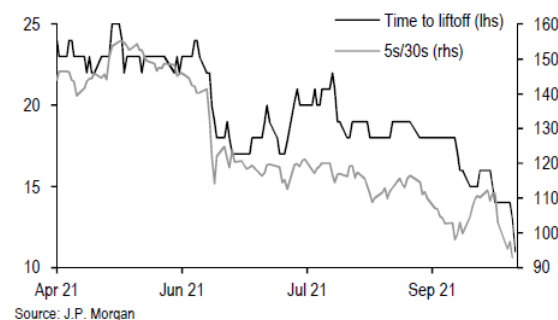
United States

Equities rallied for a third session on Friday on strong corporate earnings and a rebound in retail sales, with cyclicals gaining over 1.5 percent. Despite a 6 bps increase in 10-year yield on Friday, the Treasury curve flattened with long rates 10 bps lower on the week after being buffeted by ongoing growth concerns, supply constraints, and rising energy prices. **Markets have pulled forward the timeline for rate hikes**, currently pricing the first hike for the Sep 2022 FOMC meeting and 4 total rate hikes by 2023, **but maintained expectations for a shallow path afterwards.** The continuing flattening in the Treasury curve is in line with past experience when markets adjusted for a more aggressive pace of tightening.

Number of 25bp hikes priced in OIS rates for year-end periods;



Time to Fed liftoff as implied by OIS forward rates (lhs, months) versus 5s/30s Treasury curve (rhs, bp)



Large US banks beat Q3 earnings expectations by a large margin. Earnings benefited from reserve release as well as strong performance in investment banking and equity trading. Net interest margins saw modest increase, and management expect more meaningful expansion in 2022 given the expected rise in rates and economic activity. Loan growth remains subdued, but management expects demand to pick up in 2022. Aggregate allowance for banks that reported so far dropped \$6bn over the quarter, and most banks expect to continue releasing reserves if current conditions persist.

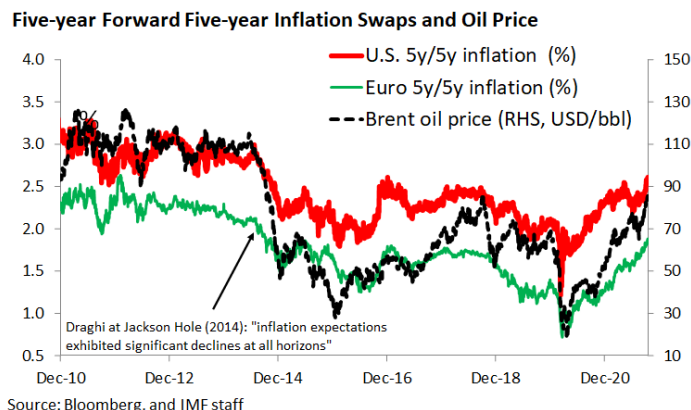
	CET1 ratio		ROE		PPNR	Loan balance	
	Level	ΔQoQ	Level	ΔQoQ		ΔQoQ	ΔQoQ
Bank of America	11.9%	-0.4%	11.7%	1.2%	29%	1%	0.07%
Citigroup	11.7%	-0.1%	12.2%	0.8%	2%	-3%	0.02%
Goldman Sachs	12.9%	0.5%	22.5%	-1.2%	0%	10%	-
JPMorgan	13.1%	-0.2%	19.5%	0.6%	-1%	0%	0%
Morgan Stanley	16.9%	-0.6%	14.5%	0.7%	7%	4%	-
Wells Fargo	11.4%	-0.5%	10.7%	1.9%	13%	1%	0.01%

Source: company filings

Euro area

Equities (-0.8 percent) edged lower as Brent oil prices (+1 percent) and German 10-yr bund yields (+4 bps to -0.13 percent) traded higher. In Germany, the SPD, the Greens, and the FDP will start formal coalition discussions with bond investors waiting for more details on German fiscal policy and views on the EU Stability and Growth Pact. **The euro is little changed (at €1.159).**

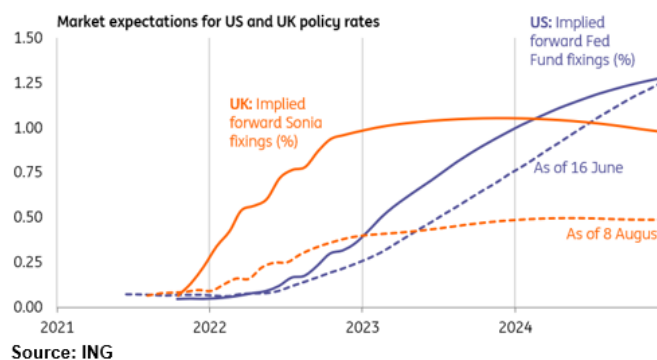
Italian 10-yr spreads (+3 bps to 107 bps) rose as the ECB is expected to lean against current market expectations of hikes at its meeting on Thursday. Forward markets are pricing up to 40 bps of ECB hikes in the next 3 years. The ECB is not presenting new forecasts and is not expected to make any policy announcements. **5-yr/5-yr inflation swaps (+2 bps to 1.89 percent) are trading at a multi-year high of 1.89 percent.**



The ECB may raise its limit on purchases of debt issued by supranational organizations (such as the EU) from the current cap of 10 percent, according to media reports. The idea will reportedly be discussed at two special ECB council meetings starting in November. Four ECB Governing Council members told the FT that the idea could allow the ECB to retain some of the extra flexibility from its pandemic QE program.

United Kingdom

10-yr gilt yields (+5 bps to 1.16 percent) are sharply higher after Governor Bailey said that the BoE will have to act on inflation. The Governor warned that monetary policy cannot solve supply problems but added that the BoE must act if there is a risk to medium-term inflation and inflation expectations. **Contacts believe that the comments validate market pricing of a first hike of 25 bps in December and a second hike of 25 bps priced in for February next year.**



U.K. house prices tracked by Rightmove rose 1.8 percent mom in October or 6.5 percent yoy, higher than expected.

Emerging Markets

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Asian equity markets were mixed and flat on net (+0.02 percent). Chinese stocks declined (CSI 3001.2%) as a batch of indicators, including GDP, confirmed a weaker economy in Q3. Indian stocks outperformed

(+0.9 percent). **Regional currencies broadly weakened.** The Thai baht lost 0.5 percent, followed by the South Korean won (-0.4 percent). The North Asian currencies and the Indian rupee were little changed. **EMEA equity markets were mixed** with indices up in Poland (+0.4 percent) and the UAE (+0.4 percent) but down in the Czech Republic (-0.4 percent) and Saudi Arabia (-0.4 percent). EMEA currencies mostly declined against the dollar with the South African rand (-1.1 percent) underperforming. In the coming week, the National Bank of Hungary, the Central Bank of Turkey, and the Central Bank of Russia will hold their policy meetings. Analysts expect a 15 bps hike in Hungary as well as 25-50 bps increase in Russia. Turkey is expected to cut its policy rate by 50-100 bps. **Latin American equity markets were mostly higher Friday.** Argentina led the gains as equities rose 2.3 percent, followed by Brazil and Mexico (+1.3 percent). Local currencies were broadly stronger. The Mexican peso outperformed (+1.1 percent), followed by the Brazilian real (+0.9 percent). 10-year government bond yields dropped 10 bps in Chile and were mixed in other countries.

EM Fund Flows

Both EM bond funds (-2.7bn) and EM equity funds (-1.4bn) saw redemptions last week. Of EM bond funds, local currency bond funds saw the largest outflow since May 2020 (-\$971 mn), and the outflows from hard currency bond funds reached the highest level since March (-\$1.7 bn). EM equity funds reverted to outflows last week, after \$1.2 bn of inflows the prior week. From a regional perspective, Asia ex-Japan (-\$704 mn) and Latin America (-\$55 mn) equity funds saw outflows, partially offset by inflows to EMEA equity funds (+\$141 mn). YTD flows to EM bonds and equities are +\$47.2 bn and +\$102.3 bn, respectively.

Exhibit 1: Weekly Cross-Asset Flows

		USD billion			
Fund Flows	Asset	8w flows (8w ago → current)			
			This wk	YTD	
Fund Flows	EM Bonds and Equities		-4.1	149.5	
	EM Bonds		-2.7	47.2	
	Hard Ccy		-1.7	23.2	
	Local Ccy^		-1.0	24.0	
	o.w. EM ex-China		-0.5	2.3	
	o.w. China		-0.5	19.0	
	EM Equities		-1.4	102.3	
	US HG		1.0	242.0	
	US HY		-1.0	-8.5	
	Global Equities		6.6	375.0	
	EM Bond and Equity ETFs		-0.7	65.9	
	EM Bond ETFs		-0.9	11.0	
	EM Equity ETFs		0.2	54.9	
	Non-resident EM flows*		-3.0	-69.6	

*High frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only.

Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P

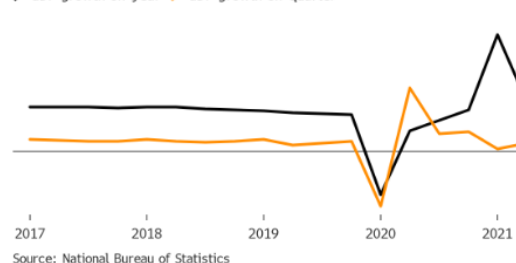
China

China's economy weakened more than expected in Q3 2021. China's GDP growth slowed to 4.9 percent y/y from a previously reported 7.9 percent in the preceding quarter, and marginally below Bloomberg's median forecast. Industrial production eased to 3.1 percent y/y in September from 5.3 percent in August, while retail sales growth picked up to 4.4 percent y/y from 2.5 percent in the previous month. People's Bank of China (PBOC) said Sunday the recovery remains intact even though growth momentum has "moderated somewhat." It forecasts the economy will expand about 8 percent in 2021, exceeding Beijing's official target of above 6 percent. Separately, **PBOC claimed the spillover risks from Evergrande to the financial sector was "controllable."** Governor Yi Gang stated during the Group of 30 meeting that Evergrande's liabilities were spread across "hundreds" of entities in the financial system so that there is "not much

concentration,” Bloomberg reports. Meanwhile, China thermal coal futures extended a rally on Monday. The energy crisis continues as some provinces signaled that they will bring forward the start of the traditional heating season. A nationwide shortage of coal led China’s electricity output to fall in September from the previous month, forcing factories in more than 20 provinces to curb output or shut completely, according to Bloomberg. **Top Chinese stocks declined (CSI 300 -1.2 percent), the 10-year bond yield rose 4.7bps, and the renminbi was little changed.**

China's on-quarter growth momentum weakens to 0.2%

■ GDP growth on-year ■ GDP growth on-quarter



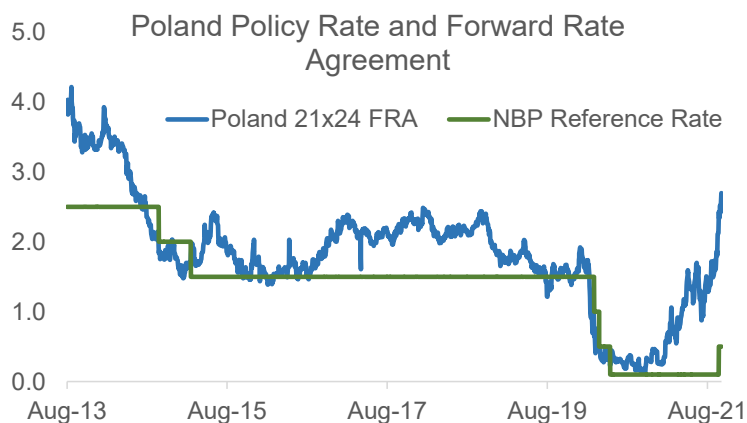
Futures in China extend gains as cold front hits northeast regions

■ Thermal coal futures



Poland

Government bond yields continue to rise as markets price a higher terminal rates in Poland. The 10-year bond yield increase by 10 bps while the 1-year forward swap rate jumped by 20 bps to 2.65 percent. Contacts note that most investors now see the policy rate reaching 2.5 percent in this tightening cycle with inflation exceeding 7 percent. Markets are also pricing another 50 bps hike at the November meeting even as the National Bank of Poland Governor Glapinski and some other MPC members have noted that the surprise 40 bps rate increase in October was not a start of a tightening cycle.



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Global Financial Indicators

Last updated: 10/18/21 8:23 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4470	0.7	2	1	28	19
Europe		4143	-1.0	2	0	28	17
Japan		29025	-0.1	2	-5	23	6
China		3568	-0.1	-1	-1	8	3
Asia Ex Japan		87	1.1	2	0	10	-3
Emerging Markets		52	1.2	2	1	14	1
Interest Rates			basis points				
US 10y Yield		1.60	2.6	-2	24	85	68
Germany 10y Yield		-0.15	1.6	-3	13	47	42
Japan 10y Yield		0.10	1.3	1	4	7	8
UK 10y Yield		1.13	2.0	-6	28	94	93
Credit Spreads			basis points				
US Investment Grade		88	-2.6	-5	1	-38	-7
US High Yield		316	-7.3	-12	6	-192	-64
Europe IG		51	1.0	-2	0	-3	3
Europe HY		262	6.3	-6	9	-67	20
Exchange Rates			%				
USD/Majors		93.98	0.0	0	1	0	4
EUR/USD		1.16	0.0	0	-1	-1	-5
USD/JPY		114.2	0.0	1	4	8	11
EM/USD		55.2	-0.3	0	-2	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		86	1.0	2	14	100	65
Industrials Metals (index)		185	0.4	8	12	54	39
Agriculture (index)		57	-0.2	-1	2	38	19
Implied Volatility			%				
VIX Index (% change in pp)		17.5	1.2	-2.5	-3.3	-9.9	-5.2
US 10y Swaption Volatility		75.4	3.4	2.0	2.7	1.2	15.3
Global FX Volatility		7.0	0.1	0.1	0.3	-1.3	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	3.6	7	0	-29	-8
Italy		106	1.9	2	5	-22	-6
Portugal		53	1.1	1	-1	-21	-7
Spain		64	1.4	1	0	-11	2

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

Emerging Market Financial Indicators

Last updated: 10/18/2021 8:24 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		6.43	0.1	0.3	1	4	2		3.1	7	6	-26	-17
Indonesia		14110	-0.2	0.7	1	4	0		6.2	-11	10	-55	12
India		75	-0.1	0.0	-2	-3	-3		6.4	2	10	38	48
Philippines		51	-0.3	-0.1	-1	-4	-6		4.4	7	11	80	72
Thailand		33	-0.1	0.7	0	-7	-10		2.0	2	27	50	66
Malaysia		4.17	-0.3	0.0	1	-1	-4		3.6	-2	31	118	109
Argentina		99	0.0	-0.2	-1	-22	-15		49.1	23	150	493	-700
Brazil		5.49	-0.5	0.9	-3	2	-5		10.4	19	17	407	477
Chile		821	0.3	0.4	-4	-4	-14		6.3	-14	114	352	352
Colombia		3764	0.1	0.1	1	2	-9		7.4	9	38	227	234
Mexico		20.44	-0.5	2.1	-1	4	-3		7.4	-3	39	136	183
Peru		3.9	-0.3	4.0	5	-9	-8		5.9	-31	-60	180	232
Uruguay		44	0.2	-0.9	-3	-2	-4		8.0	13	11	63	77
Hungary		311	-0.3	-0.2	-3	0	-5		3.2	16	56	156	171
Poland		3.94	-0.1	0.8	0	-1	-5		2.1	20	80	148	149
Romania		4.3	0.0	0.5	-1	-3	-7		4.5	32	96	130	178
Russia		71.3	-0.4	0.7	3	9	4		7.4	1	39	167	164
South Africa		14.7	-0.9	2.2	0	12	0		10.1	-13	35	-20	43
Turkey		9.28	-0.3	-3.0	-7	-15	-20		18.8	63	196	539	565
US (DXY; 5y UST)		94	0.0	-0.4	1	0	4		1.17	11	31	85	81

	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		4875	-1.2	-1	0	3	-6		209	-2	-2	-29	-20
Indonesia		6659	0.4	3	9	30	11		178	-6	1	-46	-22
India		61766	0.7	3	5	53	29		145	-5	2	-63	-6
Philippines		7220	0.1	1	4	20	1		116	-10	7	-13	4
Malaysia		1606	0.5	2	4	6	-1		131	-2	1	-33	-4
Argentina		81990	2.3	6	4	67	60		1613	29	138	215	257
Brazil		114648	1.3	4	3	17	-4		299	-2	5	-13	40
Chile		3982	0.0	-4	-11	9	-5		160	4	11	-15	4
Colombia		1426	0.7	2	8	22	-1		288	1	8	47	73
Mexico		52798	1.3	3	3	39	20		348	-1	12	-122	-9
Peru		20489	3.8	6	14	16	-2		167	0	-4	14	38
Hungary		54604	-0.3	0	4	64	30		117	3	-21	-33	-32
Poland		74544	0.2	0	5	55	31		23	-1	-3	-4	-5
Romania		12712	0.0	-1	3	43	30		202	0	8	-40	-1
Russia		4241	-0.5	-1	5	51	29		155	-7	-6	-61	-24
South Africa		66943	-0.1	1	6	22	13		353	-7	5	-153	-31
Turkey		1411	0.1	0	-1	18	-4		506	10	37	-120	59
Ukraine		526	0.0	0	0	3	5		484	-32	16	-227	-9
EM total		52	-0.3	2	1	14	1		371	-4	18	-26	32

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

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