



- Turkey cuts its policy rate by 200 bps, double analyst forecasts ([link](#))
- Chinese authorities to maintain curbs on real estate sector ([link](#))
- Evergrande shares tumble after resumption of trading ([link](#))
- Euro high yield corporate bonds see near-record issuance amid low defaults ([link](#))
- U.K. sees high demand for second green bond issuance ([link](#))

[Mature Markets](#)





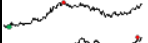
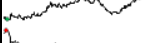



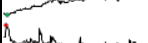
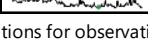
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Inflation jitters temper recent market gains

Investors' inflation and supply chain angst continues to set the tone for markets. Stocks remain close to record highs in many large jurisdictions, with shares overnight largely reversing small gains from yesterday on the back of solid US corporate earnings reports. Yields on core government bond markets are slightly higher overnight and remain up about 5-10 bps on the week. The key story animating investors in bonds and other assets remains inflation and supply chain concerns, reinforced on the day by new anecdotal evidence. Unilever said it would push rising input prices to consumers in announcing its largest price increases in almost a decade; Tesla called out cost pressures from rising commodity prices; and Volvo warned various supply shortages would cap its truckmaking. Treasury market-implied measures of expected inflation reached fresh multi-year highs in the US yesterday, while crude oil and industrial metals prices softened following rapid gains in recent weeks.

Key Global Financial Indicators

Last updated: 10/21/21 8:26 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4536	0.4	4	4	32	21
Eurostoxx 50		4159	-0.3	0	1	31	17
Nikkei 225		28709	-1.9	1	-3	22	5
MSCI EM		52	0.0	3	4	14	2
Yields and Spreads			bps				
US 10y Yield		1.67	1.1	16	34	84	75
Germany 10y Yield		-0.11	1.9	8	21	48	46
EMBIG Sovereign Spread		355	1	-8	3	-55	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.1	-0.7	0	-2	0	-5
Dollar index, (+) = \$ appreciation		93.7	0.2	0	1	1	4
Brent Crude Oil (\$/barrel)		85.0	-1.0	1	14	104	64
VIX Index (% change in pp)		16.1	0.6	-1	-8	-13	-7

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

Mature Markets

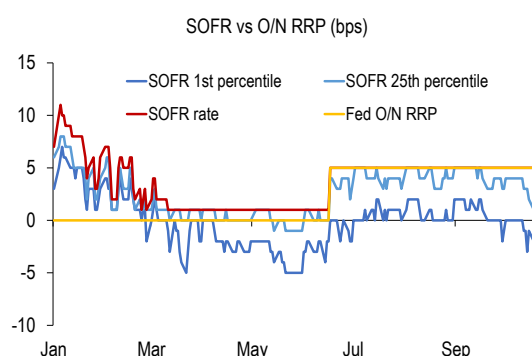
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United States

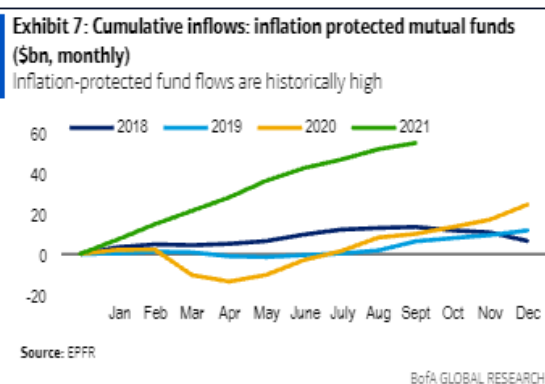
The Treasury curve steepened again. The short rates dropped 3 bps as rate hike premia continued to fade, while the long rates closed marginally higher, in part driven by the weak 20-year note auction which saw the largest tail on record (2.5 bps), indicating a lack of demand for longer duration bonds. Markets continued to focus on the stagnation narrative, with the 10-year Treasury inflation breakeven rising 5 bps while real rates fell 3 bps.

The **S&P 500 equity index rose 0.4 percent**, supported by solid corporate earnings results, closing a half percentage point shy of its all time high. **Bitcoin rose to record highs** following the launch of the first futures exchange traded fund in the US.

In money markets, **SOFR dropped below the Fed's overnight reverse repurchase (ON RRP) rate for the first time**, raising questions among some investors about the appropriateness of SOFR as a reference rate. The move followed a trend lower in the 1st and 25th percentiles of the SOFR distribution over recent days. Analysts cite several factors at play. The first is higher short Treasury positions as markets adjust for policy normalization. These short positions need to be financed in repo markets which drives demand for specific issues of Treasury securities. Second is government-sponsored enterprises' (GSE) cash investments in the repo market, which regularly push rates lower during this point in the month. Lastly, this happened in the broader context of imbalance between liquidity and collateral in the short-term funding markets. **This event is largely seen as idiosyncratic**, and SOFR is expected to drift back above RRP in the coming days.



Demand for inflation protected funds remain very strong. Flows into TIPS funds remain historically elevated, while the recent surge in energy prices have likely driven significant inflows over the last few weeks.

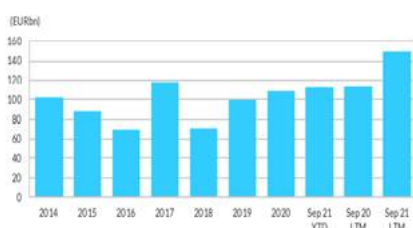


Euro Area

European stocks are trading lower with STOXX 600 down 0.2 percent with Austria (-1.2 percent) underperforming. Most sectors were trading in red, with those with greater exposure to China—notably the mining sector (-3.2 percent)—showing the largest losses. Heads of state and government will meet today to take stock of the short and long-term measures to address higher energy prices that were presented by the Commission last week. European bond market yields generally increased in tandem with bunds (+1 bps).

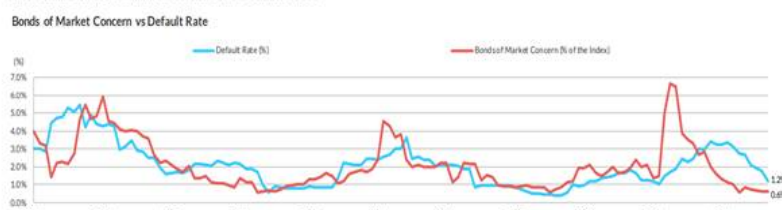
The European high-yield corporate bond market is nearing record issuance and historically low default rates according to Fitch Ratings. European high-yield issuance in reached €149.1 bn in the twelve months to September 2021, driven by issuance in Italy (€24.7 bn), the UK (€22.7 bn) and Germany (€17.8 bn). BB-rated firms' average yields rose marginally to 1.92 percent in September after reaching a record low (1.88 percent) in August 2021. The 12-month trailing default rate decreased to 1.2 percent in September from a peak of 3.4 percent in February 2021.

European Bond Issuance



Source: Fitch Ratings European High-Yield Insight Index

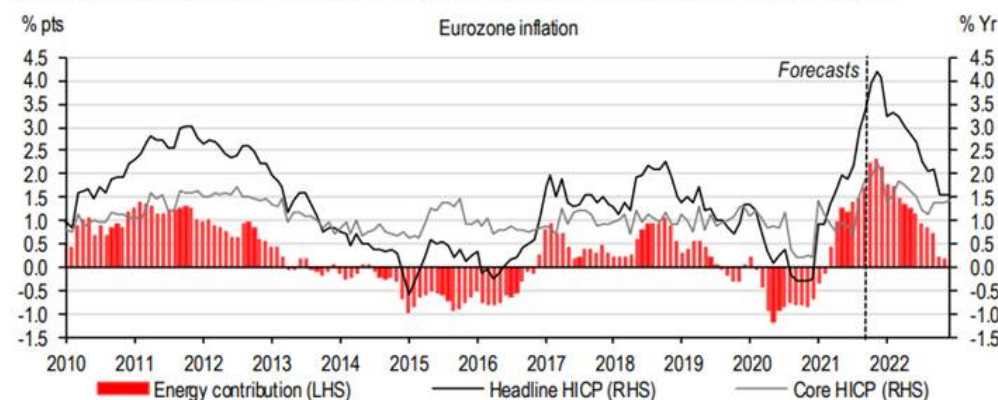
Historical Bonds of Market Concern and Default Rates



Source: Fitch Ratings European High-Yield Insight Index

HSBC analysts expect inflation in the euro area to peak at 4.2 percent in November, but flag increased uncertainty around the outlook. Energy is expected to be the main driver of inflation dynamics in the near term while pressures in the services sectors are likely to continue as a result of supply constraints, labor shortages and increased demand. Analysts argue that the medium-term monetary policy outlook has become more uncertain but expect that the ECB President Christine Lagarde will retain her dovish stance at the monetary policy meeting next week. Deutsche Bank revised Europe's growth forecast for 2022 downwards by 0.1 ppt to +4.9 percent, as a result of goods and energy supply shortages.

1. Inflation looks set to rise above 4% y-o-y in November before falling next year



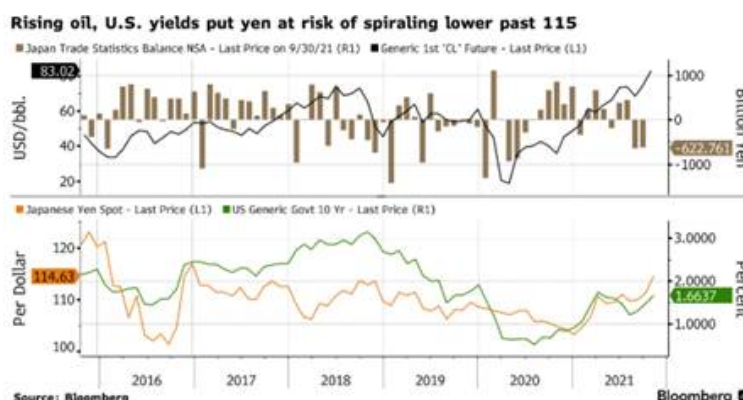
Source: Refinitiv Datastream, HSBC.

United Kingdom

The U.K.'s second green government bond sale attracted more than £74 bn orders for a £6 bn offering. This following its record-breaking first sustainable debt issuance in September. The second green gilt is due to mature in July 2053, as it aims to tap pension fund cash and build a yield curve. It will pay a 1.5 percent coupon. Critics have noted that selling such debt that matures decades away may involve dangers from climate change that are not adequately reflected by sovereign credit ratings.

Japan

Japanese stocks declined -1.3 percent. Bank of Japan's (BoJ) semi-annual financial system report stated the system remains robust. The BoJ said credit risk from overseas loans generally contained but signed of deterioration in some portfolios severely affected by pandemic. Low interest rates and structural factors will continue to exert downward pressure on financial institution profits even after pandemic subsidies. Risks from an increase of credit costs, a deterioration of securities investment or a destabilization of foreign currency funding are three factors that warrant particular attention. Separately, **Japan will announce transition finance plans for several industries before the year end.** Next week, the government will announce a roadmap for the steel industry, which is the country's largest industrial carbon emitter, Bloomberg reports. Before the end of 2021, plans to draw greener finance will also be developed for six more sectors — chemical, power, gas, oil, paper and pulp, and cement. Separately, **analysts see limited gains from weak yen as tourism inflows remain low amid covid restrictions,** Bloomberg reports. The number of foreign visitors remained at minimal levels in September, with entrants down by over 99 percent compared with 2019. The **10-year bond yield was little changed, and the yen strengthened +0.2 percent.**



Emerging Markets

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Most Asian equity markets closed lower, down -0.4 percent on net. The Malaysian equity market lost -0.9 percent, Chinese stocks were mixed (Shanghai +0.2 percent, Shenzhen -0.2 percent), Thai stocks outperformed (+0.4). **Thailand's** central bank suspended home-mortgage lending limits to revive the sluggish property market. Home buyers can now take loans equivalent to 100 percent of the property's value until the end of 2022, up from a loan-to-value range of 70 percent to 90 percent previously. **Regional currencies broadly weakened,** led by the Indonesian rupiah (-0.5 percent).

EMEA equities were mostly lower with South African shares (-1.1 percent) underperforming. **EMEA currencies** were mostly weaker against the dollar with the Turkish lira (-2.2 percent) underperforming following a larger than expected rate cut (see below).

Latin American equity markets were mostly higher in yesterday's trading. Argentina led the gains (+3.3 percent), followed by Chile (+1.1 percent). Local currencies were mixed but mainly traded in narrow ranges. 10-year government bond rose 18 bps in Brazil and dropped 8 bps in Colombia.

Brazil

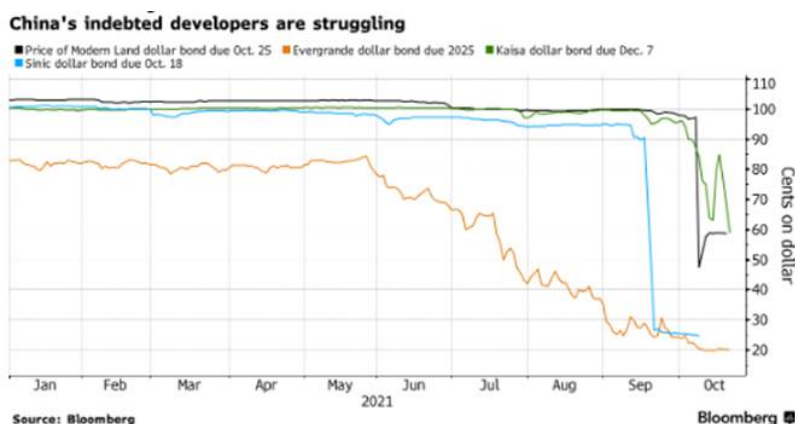
Authorities offer varying accounts on whether a new aid program will comply with the country's spending cap. President Bolsonaro said that the government has the responsibility to make spending for the Auxilio Brasil program come from the federal budget and would not breach the cap. Later, however, Economy Minister Guedes said the administration could ask for a waiver to the spending cap to pay for the program. The waiver would be limited to 2022. Brazilian markets tumbled on Tuesday on fears that the added social aid would hurt the country's fiscal position. Both equity and currency markets slightly recovered on Wednesday.

Brazil's equity & currency performance



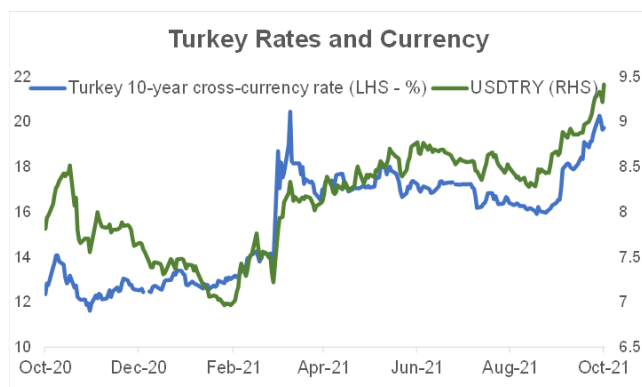
China

China's banking regulator plans to keep its curbs on the nation's property market. China Banking and Insurance Regulatory Commission (CBIRC) said at a briefing on Thursday that the government will refrain from using the real estate sector as a short-term economic stimulus measure. CBIRC said property lending growth at Chinese banks slowed to 8.6 percent this year through September from 12 percent in Q1. The regulator dismissed concerns that the Evergrande Group debt crisis will have any major impact on the credit profile of the sector. Meanwhile, Evergrande shares plunged Thursday after saying it scrapped talks to offload a stake in its property-management arm and that real estate sales slumped during a peak home-buying season, worsening its liquidity crisis, according to Bloomberg. Moody's has downgraded the credit ratings of seven Chinese real estate giants, which would make it difficult for these companies to borrow money to repay their existing debts, local media reports. Separately, **China's southern province of Guangdong is eliminating government-fixed electricity prices for industrial and commercial users.** All coal-fired electricity shall be traded at market prices. The changes are aimed at easing the power crisis and are in line with the new policy issued by China's State Council two weeks ago, which allows supplies to the most energy-intensive sectors to be priced freely. Guangdong is a major global manufacturing center and is home to Huawei Technologies Co. and vehicle manufacturer Guangzhou Automobile Group Co., Bloomberg reports. **Chinese stock markets were mixed (Shanghai +0.2 percent, Shenzhen -0.2 percent), 10-year bond yield and the renminbi were little changed.**



Turkey

The Central Bank of Turkey reduced its policy rate by a more-than-expected 200 bps, to 16 percent. The market was bracing for a 100 bps move, which some contacts already saw as excessive in this environment. The Turkish lira reacted by weakening by 2 percent following the announcement to a record low of 9.45 liras per dollar. **However, the central bank also suggested that there is a limited room for further rate cuts until the end of this year.** Some traders also noted that the widening of credit spreads with the rise in the long-term bond and cross-currency rates is a worrying signal of a substantial risk premia build-up for the Turkish economy.



Ethiopia

Moody's reduced Ethiopia's credit rating to Caa2 while keeping a negative outlook. This is the second downgrade by the rating agency this year and comes due to lack of tangible progress under the Common Framework (CF) as well as heightened social tensions. Moody's notes that Ethiopia formally applied for the CF in February and the creditor committee was only formed in September, which signals a complex and lengthy negotiation with an increased risk that private creditors would be affected. In the last few weeks, **Ethiopia's 2024 bond credit spread has widened above pandemic-peak levels and the bond is now trading at 82 cents on the dollar.** Contacts note that majority of the selling has been done by actively managed accounts while index-tracking funds are not cutting exposures due to large uncertainty and small exposures in the context of the total portfolio.

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), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (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: 10/21/21 8:26 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		4531	0.4	2	4	32	21
Europe		4159	-0.3	0	1	31	17
Japan		28709	-1.9	1	-3	22	5
China		3595	0.2	1	-1	9	4
Asia Ex Japan		89	-0.1	3	4	10	-1
Emerging Markets		52	0.0	3	4	14	2
Interest Rates							
			basis points				
US 10y Yield		1.67	1.1	16	34	84	75
Germany 10y Yield		-0.11	1.9	8	21	48	46
Japan 10y Yield		0.09	-0.3	1	5	6	7
UK 10y Yield		1.20	5.3	16	39	96	100
Credit Spreads							
			basis points				
US Investment Grade		88	-1.6	1	0	-36	-7
US High Yield		313	-3.6	-11	-8	-191	-67
Europe IG		50	0.1	-1	-1	-5	2
Europe HY		254	1.0	-2	6	-74	12
Exchange Rates							
			%				
USD/Majors		93.70	0.2	0	1	1	4
EUR/USD		1.16	-0.1	0	-1	-2	-5
USD/JPY		114.1	-0.2	0	4	9	11
EM/USD		55.1	-0.7	0	-2	0	-5
Commodities							
			%				
Brent Crude Oil (\$/barrel)		85	-1.0	1	14	104	64
Industrials Metals (index)		178	-1.7	0	11	45	34
Agriculture (index)		58	-0.5	2	5	38	21
Implied Volatility							
			%				
VIX Index (% change in pp)		16.1	0.6	-0.8	-8.3	-12.6	-6.7
US 10y Swaption Volatility		73.9	0.5	4.2	1.9	-0.1	13.8
Global FX Volatility		6.9	0.0	0.1	0.0	-1.7	-1.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		112	-0.5	3	3	-38	-7
Italy		104	0.2	2	3	-33	-7
Portugal		51	0.3	0	-4	-26	-9
Spain		63	-0.1	0	-1	-16	1

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

Emerging Market Financial Indicators

Last updated: 10/21/2021 8:28 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.38	0.7	1.0	1	5	2		3.2	9	12	-21	-12
Indonesia		14076	0.2	1.0	1	4	0		6.2	-9	12	-50	14
India		75	-0.1	0.0	-2	-3	-3		6.5	2	15	39	51
Philippines		51	0.2	0.2	-1	-4	-5		4.4	5	9	79	70
Thailand		33	0.4	-0.1	0	-6	-10		2.0	1	17	51	67
Malaysia		4.17	-0.3	0.0	1	-1	-4		3.7	-6	30	120	110
Argentina		99	0.0	-0.2	-1	-22	-15		49.1	18	101	383	-705
Brazil		5.58	-1.1	-0.7	-5	1	-7		10.5	27	18	411	488
Chile		812	0.8	1.4	-3	-3	-12		6.3	-13	115	354	353
Colombia		3767	0.0	-1.1	2	2	-9		7.4	7	24	227	234
Mexico		20.24	0.9	2.7	0	5	-2		7.5	1	39	138	188
Peru		3.9	0.1	2.4	4	-9	-8		6.0	-21	-45	191	242
Uruguay		44	0.1	-0.5	-2	-2	-3		8.0	13	11	64	77
Hungary		311	0.0	0.4	-3	0	-5		3.4	26	63	171	186
Poland		3.94	0.3	0.8	0	-1	-5		2.2	17	85	159	160
Romania		4.3	0.2	1.0	-1	-3	-6		4.5	30	100	129	178
Russia		70.9	0.6	1.3	4	10	4		7.4	6	43	174	171
South Africa		14.5	1.1	3.2	2	14	1		10.1	-8	35	-8	49
Turkey		9.30	0.4	-2.7	-7	-15	-20		18.8	62	192	542	567
US (DXY; 5y UST)		94	-0.2	-0.8	1	0	4		1.16	9	30	82	80

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4923	0.4	1	1	3	-6		207	-4	-2	-31	-22
Indonesia		6656	-0.3	3	10	31	11		180	-4	7	-45	-20
India		61716	-0.5	3	6	52	29		144	-6	-2	-64	-7
Philippines		7266	0.2	2	6	19	2		117	-9	10	-11	5
Malaysia		1606	-0.9	2	4	6	-1		130	-3	0	-37	-5
Argentina		84308	1.7	8	7	71	65		1629	45	132	241	273
Brazil		110762	-3.2	-1	-1	12	-7		301	0	11	-9	42
Chile		3995	-0.3	-3	-11	10	-4		163	7	16	-10	7
Colombia		1416	-0.7	1	7	21	-1		291	4	10	53	76
Mexico		52371	-0.6	1	2	39	19		350	1	12	-117	-7
Peru		20680	0.6	5	15	17	-1		169	2	3	16	40
Hungary		54357	0.6	-1	4	62	29		116	2	-17	-34	-33
Poland		74299	-0.6	-1	4	54	30		27	3	7	3	-1
Romania		12669	0.6	-1	3	43	29		201	-1	12	-36	-2
Russia		4276	-0.6	0	6	53	30		156	-6	1	-58	-23
South Africa		66776	-1.1	1	6	21	12		356	-4	6	-143	-28
Turkey		1430	0.6	1	1	19	-3		513	17	32	-108	66
Ukraine		526	0.0	0	0	3	5		499	-17	30	-204	6
EM total		52	-1.1	4	2	16	2		375	0	20	-20	36

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

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