



- Russia surprises with a 75 bps rate hike, signals further tightening ([link](#))
- Brazilian markets sell off sharply on fiscal concerns ([link](#))
- Eurozone PMI estimates show momentum loss ([link](#))
- Australian central bank steps in to bring 3-year yield down closer to target ([link](#))
- Evergrande's surprise coupon payment averts bond default, for now ([link](#))
- Investors penalize US firms' earnings misses by the most in recent years ([link](#))
- Supply disruption is expected to deteriorate and last longer, according to survey ([link](#))

[Mature Markets](#)

[Emerging Markets](#)


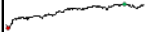
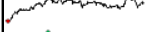
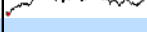







[Market Tables](#)

Inflation measures break higher

Risk assets remain steady even as inflation expectations break higher across advanced economies.

Equities and bond yields have edged higher in the last 24 hours, with the dollar little changed and commodities retreating on the day. Investor spirits were boosted by positive corporate earnings results in the US yesterday and, in overnight trading, on news that Evergrande would unexpectedly make a coupon payment on a USD bond just in time to avert triggering formal default. Risk sentiment has been remarkably steady however amid sharp moves higher in policy rate hike expectations, particularly in the US but also Europe, in sync with moves to multi-year highs in market-implied measures of expected inflation. US 5-year breakevens have jumped 22 bps in the last two days, but European 5y-5y inflation swaps are also up to 2 percent, the highest since 2014. In EMs, currencies are weakening led by Turkey and Brazil. Brazilian assets are slumping on concerns over a new spending plan and expectations of faster rate hikes.

Key Global Financial Indicators

Last updated: 10/22/21 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4550	0.3	3	4	32	21
Eurostoxx 50		4199	1.0	0	1	32	18
Nikkei 225		28805	0.3	-1	-5	22	5
MSCI EM		52	-0.6	2	2	13	1
Yields and Spreads			bps				
US 10y Yield		1.69	-1.2	12	39	83	78
Germany 10y Yield		-0.08	2.3	9	25	49	49
EMBIG Sovereign Spread		354	-1	-7	4	-57	4
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.0	0.0	-1	-2	0	-5
Dollar index, (+) = \$ appreciation		93.7	-0.1	0	0	1	4
Brent Crude Oil (\$/barrel)		85.4	1.0	1	12	101	65
VIX Index (% change in pp)		14.9	-0.1	-1	-6	-13	-8

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

Mature Markets

[back to top](#)

United States

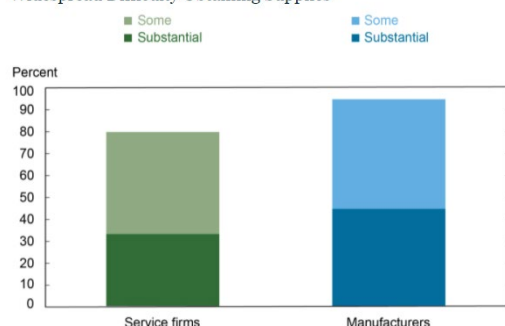
Inflation expectations rose following positive datapoints on the US economy. Jobless claims unexpectedly fell to the lowest since Mar 2020, while existing home sales rose in September by the most in over a year. The upbeat macro data combined with better-than-expected corporate earnings fueled inflation expectations, with 5-year breakevens 10 bps higher to 2.91 percent, a record high, and 10-year breakeven 6 bps higher to 2.65 percent, a post-GFC high. The Treasury curve flattened, as investors added back some rate hike premia, with 2-year yield up 5 bps. **The S&P 500 rose 0.3 percent to new record high, as corporate earnings have so far kept inflationary concerns in check.**

The negative stock reaction to earnings misses has been the largest in recent years, underscoring investor anxiety. Among the S&P 500 firms that have disclosed results so far, over 80 percent have topped earnings expectations, above the long-term average. However, the reaction of stock prices to positive earnings surprises was fairly limited. In contrast, the reaction to earnings misses has been substantially worse than before, underperforming the S&P500 by 4.4 percent on average a day after the report. Though some headwind to earnings growth was widely expected, the large price reaction indicates underlying nervousness about the strength of corporate earnings against ongoing supply chain disruptions, monetary policy normalization, and slower growth going forward.

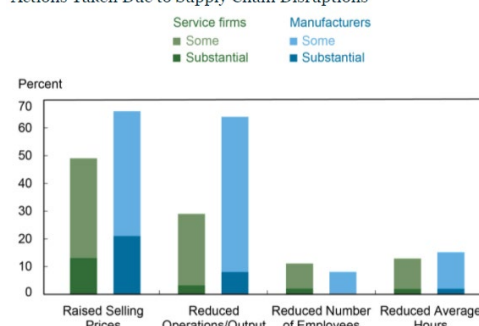


Supply disruptions are expected to deteriorate and last longer. According to the latest Empire State Manufacturing Survey and Business Leader Survey, nearly 80 percent of service sectors firms and almost all of manufacturing firms said they had at least some supply disruptions. The proportion of firms reporting substantial disruption amounted to 30 percent and 50 percent, respectively, for services and manufacturing firms. The availability of supplies is not expected to improve in the near future, with 30 percent of service sector firms and 50 percent of manufacturing firms expecting supply disruptions to get worse in the next month. In coping with the supply shortages, most manufacturing firms reported raising selling prices and reducing output.

Widespread Difficulty Obtaining Supplies



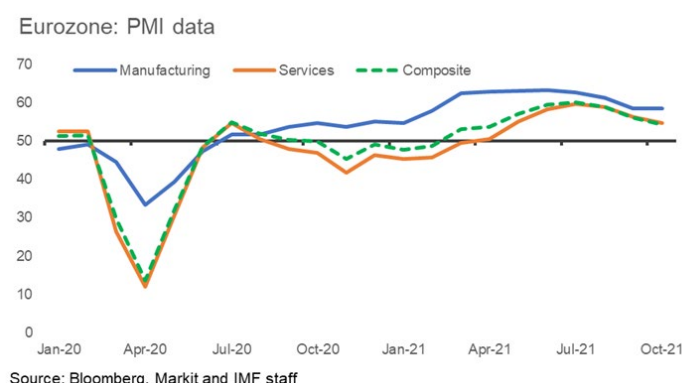
Actions Taken Due to Supply Chain Disruptions



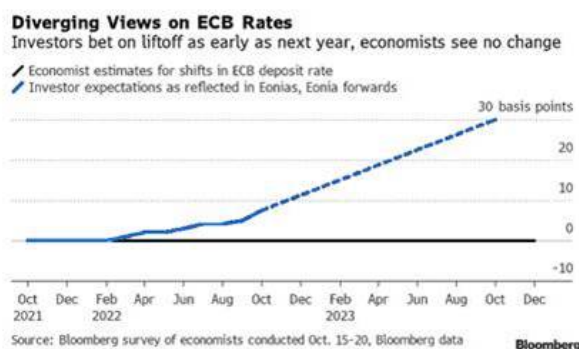
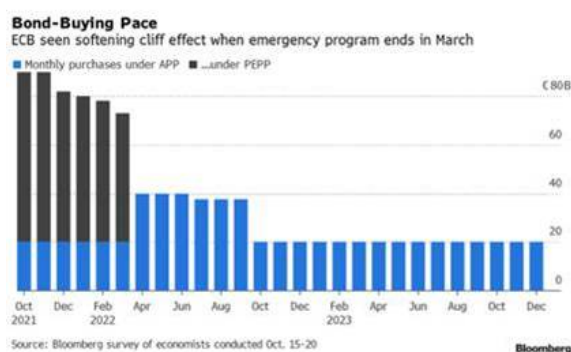
Europe

Equities gained this morning with the STOXX 600 up 0.5 percent. The increase was broad-based with the technology sector (+1.1 percent) outperforming. European bond yields were edging higher with 10-year bund (+1 bps) back at -0.8 percent. The Euro was trading higher against the US dollar (+0.17 percent).

Eurozone flash PMI disappointed in October falling to 54.3 from 56.2 in September. While manufacturing surprised on the upside at 58.5 (57.1 expected), growth has been slowing amid input shortages and supply chain disruptions. The survey showed selling price inflation accelerating as firms passed higher costs to consumers, adding to the debate on how temporary price pressures will be. Future sentiment moderated to the lowest level since February.



Economists predict that the ECB will increase the pace of its regular bond-buying programme next year and make it more flexible, before the pandemic emergency purchase program (PEPP) runs out in March. Economist surveyed by Bloomberg anticipate that the ECB will lay out a path on monetary policy accommodation at next week's governing council meeting. While no policy shifts in November are expected by economists, the market is pricing in gradual interest rate increases over the next year.



United Kingdom

BoE rate hike expectations moderate on commentary from a senior official. Market pricing for the November meeting fell from expectations of a 21 bps hike to a 15 bps hike following the Bank of England's chief economist's suggestion yesterday that the decision to rate in November is "finely balanced", signaling that the hike is not a done deal and tightening pace could be less aggressive than the market has been pricing. Moreover, three former Bank of England senior officials noted yesterday that swift policy shifts were unlikely. Data releases have been mixed, with **UK retail sales disappointing (-0.2 percent m/m) in September (versus +0.6 percent m/m consensus),** marking the longest period of consecutive

monthly declines on record, and consumer confidence falling to -17 in October (-16 consensus from -13). **However, PMI data surprised on the upside** with services at 58.0 (54.5 consensus) and manufacturing at 57.7 (56 consensus). Contacts note that the PMI data will favor the hawks' views on the MPC.

Japan

Japan's inflation swings into positive territory. Core CPI inflation excluding fresh food came in at 0.1 percent y/y in September, up from flat in August, headline inflation stood at +0.2 percent y/y, swinging from a deflationary reading of -0.4 percent in August. Both figures were in line with the consensus forecast. This was the first rise in key consumer prices in 18 months, once the impact of slashed mobile phone fees is removed, core inflation is closer to 1.4 percent, according to Bloomberg. Separately, **Bank of Japan is reportedly discussing phasing out a coronavirus loan program if infections keep falling.** Markets have been anticipating a third extension of the scheme, set to expire in March, Reuters reports. **The yen was little changed, 10-year bond yield moved up +0.5bps, Japanese stocks were mixed (Topix +0.1 percent)** with the advance driven by electronics and machinery makers.



Australia

The central bank was forced to defend its yield curve control targets for the first time in eight months. The Reserve Bank of Australia announced an unscheduled operation to buy A\$1bn (\$746mn) of April 2024 government securities in the first such purchases since February. Earlier this week 3-year yields risen above 0.17 percent as markets challenged inflation outlook and forecast that interest rates will remain ultra-low until 2024. The yield dropped more than 5 basis points to 0.12 percent after the announcement, toward the 0.1 percent target set by the RBA.

Emerging Markets

[back to top](#)

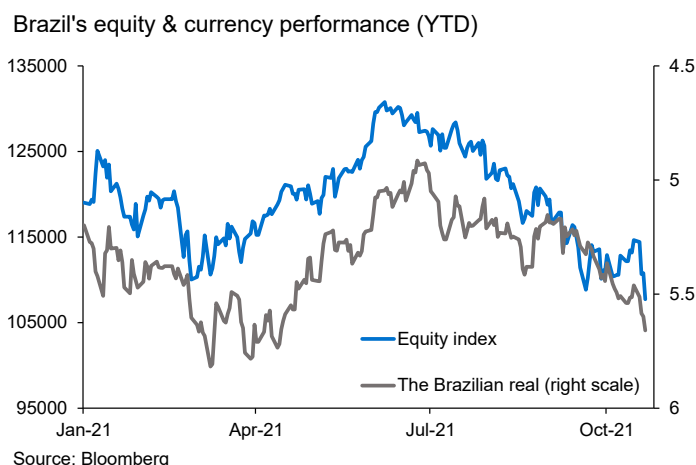
Asian equity markets were up +0.2 percent on net. Hong Kong closed higher (+0.6 percent) driven by the real estate segment and with Hang Seng China Enterprise index gaining +0.9 percent, as Evergrande avoided default with a last-minute payment ahead of a Saturday deadline. Indian stocks underperformed (-0.7 percent). **Regional currencies traded in narrow ranges**, the Singapore dollar gained 0.2 percent, the Indonesian rupiah weakened -0.1 percent. **Long-term bond yields were little changed.**

EMEA equity markets were mostly trading higher with shares up in South Africa (+0.9 percent), Turkey (+0.9 percent) but down in Czech Republic (-0.8 percent). **EMEA currencies** were mostly appreciating with the Russian ruble outperforming (+1.3 percent) following the CBR rate hike. The Turkish lira (-1 percent) continued to depreciate on local and external dollar demand. Notably, **Turkey was added to the Financial Action Task Force "grey list" overnight**, further dampening the risk sentiment.

Latin American equity markets were lower on Thursday but mainly traded in narrow ranges, except for Brazil (-2.8 percent). Local currencies were broadly weakened. The Brazilian real led the loss, depreciating 1.1 percent against the dollar. 10-year government bond yields rose 40 bps in Brazil and were mostly higher in other countries.

Brazil

Local markets plunged on Thursday as the government planned to bypass the constitutional cap on public expenditures, fueling concerns over the country's fiscal trajectory. President Bolsonaro pledged to offer monthly payments of 400 reais (\$71) to 750,000 self-employed truckers to offset rising fuel costs. The government will seek to change the spending cap rule by adjusting the spending limit by the previous year's year-end inflation, instead of the 12-month inflation ended in June under current rules. The proposed adjustment would free up about 40 bn reais (\$7 bn) for spending in 2022. Analysts commented that these decisions showed the administration is willing to do whatever it takes to boost President Bolsonaro's reelection chances. According to press reports, four senior Treasury staff resigned on Thursday evening, which was widely interpreted as an indication of the tensions. Brazilian's benchmark equity index fell as much as 4.6 percent intraday and closed at -2.8 percent, bringing its total decline this week past 6 percent. The real weakened 1.1 percent against the dollar, to a six-month low. Expectations for a rate hike in the next three months have jumped by 100 bps since the start of the week. Local and hard currency sovereign bonds extended declines.



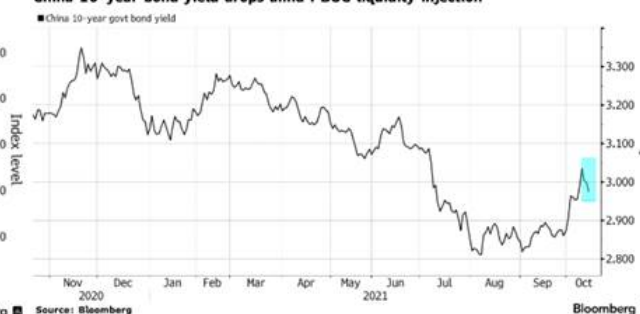
China

Evergrande pulled back from the brink of default by reportedly paying a bond coupon. The company wired the \$83.5mn payment to its dollar bondholders, Bloomberg reports. A 30-day grace period for the bond coupon would have expired on Saturday after the firm missed the original payment date. Evergrande needs to pay interest on another four dollar notes this year. It has a hefty wall of maturing debt next year with some \$7.4bn coming due in onshore and offshore bonds. Earlier this week it was reported talks to sell a stake in a unit for \$2.6bn failed, highlighting the difficulty the company faces raising funds through asset sales. At least three developers defaulted on their dollar debt this month as junk bond yields surged to a decade high. **Separately, liquidity injections by the central bank have driven interbank funding costs to a two-week low.** The central bank injected 100 billion yuan via seven-day repurchase agreements for a second straight day. The overnight repo rate fell as much as 41bps to 1.67 percent while the 7-day repo rate drops 19bps to 2.02 percent. **The stocks of China's top companies gained (CSI +0.6 percent).** Hang Seng China Enterprise index was up +0.9 percent driven by the real estate segment. The Hang Seng Properties Index rallied more than 18 percent from its low in September. The **10-year bond yield and the renminbi were little changed.**

Hang Seng Properties Index has rallied more than 18% from the bottom

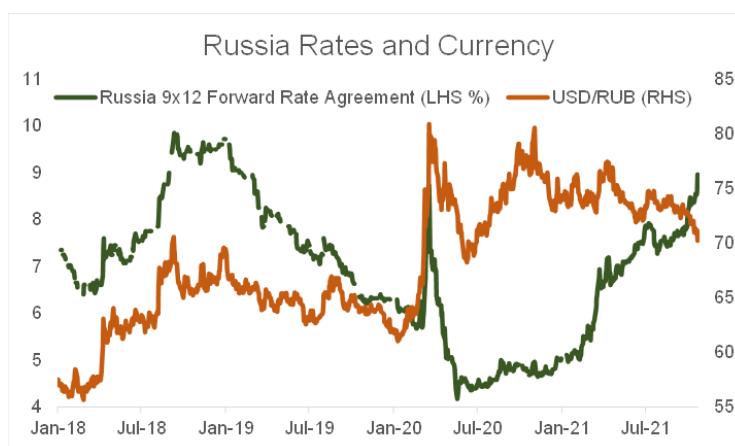


China 10-year bond yield drops amid PBOC liquidity injection



Russia


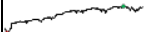

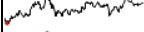
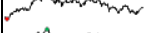
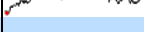



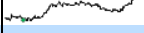
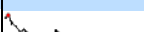


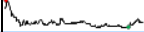


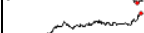

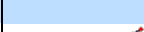






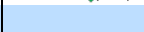


The Central Bank of Russia surprised the market with a 75 bps rate hike, bringing the key rate to 7.5 percent. Analyst expectations were split between a 25 bps and a 50 bps move after the central bank slowed the pace of its tightening at the last meeting. The CBR also signaled further tightening in the coming meeting while shifting its average key rate projection for 2022 from 6-7 percent range to 7.3-8.3 percent. Traders were pricing in somewhat more than 50 bps prior to the meeting, but the large hike coupled with a very hawkish stance took all contacts by surprise. The 1-year interest rate swap increased by about 30 bps after the meeting with market pricing in further hikes in the current cycle but also pushing forward the start of the rate cutting cycle later into 2022. The Russian ruble appreciated by 1 percent after the decision, trading close to 70 rubles per dollar, the strongest level since June 2020.



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: 10/22/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4542	0.3	2	3	32	21
Europe		4199	1.0	0	1	32	18
Japan		28805	0.3	-1	-5	22	5
China		3583	-0.3	0	-1	9	3
Asia Ex Japan		88	-0.4	2	2	10	-1
Emerging Markets		52	-0.6	2	2	13	1
Interest Rates			basis points				
US 10y Yield		1.69	-1.2	12	39	83	78
Germany 10y Yield		-0.08	2.3	9	25	49	49
Japan 10y Yield		0.10	0.6	1	6	6	8
UK 10y Yield		1.19	-1.3	8	39	91	99
Credit Spreads			basis points				
US Investment Grade		88	-2.5	-2	2	-36	-7
US High Yield		309	-4.7	-14	-7	-193	-71
Europe IG		50	-0.2	0	1	-6	2
Europe HY		256	-0.5	0	14	-78	14
Exchange Rates			%				
USD/Majors		93.69	-0.1	0	0	1	4
EUR/USD		1.16	0.1	0	0	-2	-5
USD/JPY		113.9	-0.1	0	4	9	10
EM/USD		55.0	0.0	-1	-2	0	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		85	1.0	1	12	101	65
Industrials Metals (index)		176	1.1	-5	6	43	32
Agriculture (index)		58	0.6	1	3	37	20
Implied Volatility			%				
VIX Index (% change in pp)		14.9	-0.1	-1.4	-5.9	-13.2	-7.8
US 10y Swaption Volatility		77.5	1.3	5.5	11.2	5.3	17.4
Global FX Volatility		6.9	0.0	0.0	0.1	-1.6	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	-0.7	4	3	-38	-8
Italy		111	6.5	7	12	-26	0
Portugal		51	0.2	0	-3	-25	-9
Spain		63	0.5	1	-1	-16	2

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

Emerging Market Financial Indicators

Last updated: 10/22/2021 8:11 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		6.39	0.0	0.7	1	5	2		3.1	3	9	-23	-16
Indonesia		14123	0.0	-0.3	1	4	-1		6.2	0	7	-42	14
India		75	0.0	0.5	-1	-2	-2		6.4	2	17	40	50
Philippines		51	0.0	-0.1	-1	-4	-5		4.5	15	22	91	83
Thailand		33	0.2	0.3	0	-6	-10		2.1	7	26	57	74
Malaysia		4.15	0.2	0.2	1	0	-3		3.7	4	31	122	113
Argentina		99	0.0	-0.2	-1	-22	-15		49.8	145	162	346	-630
Brazil		5.69	-0.6	-4.1	-7	-2	-9		11.5	132	154	539	593
Chile		817	0.0	0.8	-4	-5	-13		6.3	-9	130	361	356
Colombia		3782	-0.4	-0.4	1	0	-9		7.5	14	26	228	245
Mexico		20.24	0.3	0.4	-1	4	-2		7.5	17	39	147	196
Peru		4.0	-0.2	-0.8	4	-9	-8		6.0	18	-32	179	243
Uruguay		44	-0.1	0.1	-3	-3	-4		8.0	-2	11	66	77
Hungary		313	0.3	-0.7	-3	-1	-5		3.3	14	61	160	181
Poland		3.95	0.2	-0.4	0	-2	-6		2.2	16	92	158	160
Romania		4.3	0.1	0.3	0	-3	-6		4.5	-3	93	123	171
Russia		70.3	1.1	0.9	4	9	5		7.5	18	46	187	180
South Africa		14.7	0.1	-0.5	1	10	0		10.2	3	31	-2	51
Turkey		9.62	-1.0	-3.7	-10	-17	-23		18.8	13	177	566	568
US (DXY; 5y UST)		94	-0.1	-0.3	0	1	4		1.25	12	40	87	89

	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		4960	0.6	1	2	5	-5		206	-6	-5	-32	-23
Indonesia		6644	0.2	0	8	30	11		171	-23	-13	-52	-29
India		60822	-0.2	-1	1	49	27		142	-9	-8	-63	-9
Philippines		7290	-0.3	1	5	12	2		108	-20	-8	-21	-4
Malaysia		1588	-0.2	0	4	6	-2		128	-6	-4	-39	-7
Argentina		86795	-0.3	8	16	68	69		1637	24	56	201	281
Brazil		107735	-2.8	-5	-4	6	-9		321	17	24	13	62
Chile		4053	0.0	2	-8	6	-3		158	-4	5	-16	2
Colombia		1410	-0.3	0	8	20	-2		284	-5	-6	40	69
Mexico		52020	-0.5	0	1	35	18		345	-6	-2	-133	-12
Peru		20859	0.2	6	15	15	0		157	-10	-15	0	28
Hungary		55201	0.1	1	8	64	31		110	-13	-27	-36	-39
Poland		73957	0.2	-1	4	54	30		33	6	7	8	5
Romania		12803	0.4	1	4	46	31		194	-11	0	-38	-9
Russia		4243	0.6	0	5	51	29		149	-11	-10	-62	-30
South Africa		66744	1.0	0	5	22	12		348	-11	-10	-136	-36
Turkey		1472	1.1	4	5	23	0		511	1	29	-84	64
Ukraine		526	0.0	0	0	5	5		493	-2	9	-226	0
EM total		52	0.7	2	2	13	1		372	-6	6	-25	33

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

[back to top](#)