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Market sentiment improves on earnings results

European and Japanese shares rose and US equity futures signaled a positive opening as corporate earnings helped boost market sentiment. Despite lingering concerns about inflation risks and setbacks on the virus front, the S&P 500 hit another all-time record high yesterday and the Eurostoxx 50 rose 0.8 percent this morning, edging close to a record high reached in September. UBS posted a surprise jump in profits and Reckitt Benckiser released an improved sales forecast. Across the pond, shares in Facebook rose in pre-market trading on strong user growth and plans to buy back \$50 bn more in stock. Twitter, Alphabet and Microsoft are reporting earnings after market close later today. In fixed income, US treasury and bund yields were slightly lower this morning and credit spreads remained tight. However, market-implied measures of inflation continued their ascent, with the EUR 5y5y forward swap rate increasing another 4 bps today to reach a 7-year high of 2.07 percent. Elsewhere, the National Bank of Kazakhstan joined the group of central banks hiking rates recently in emerging markets. Central banks in Romania, Poland, Peru, Chile, Hungary, Paraguay and Russia have also raised rates so far this month. Further hikes are expected in Brazil and Colombia later this week.

Key Global Financial Indicators

Last updated: 10/26/21 8:11 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4566	0.5	2	2	34	22
Eurostoxx 50		4221	0.8	1	2	36	19
Nikkei 225		29106	1.8	0	-4	24	6
MSCI EM		52	0.5	1	3	14	1
Yields and Spreads			bps				
US 10y Yield		1.61	-1.8	-2	16	81	70
Germany 10y Yield		-0.13	-1.7	-3	10	45	44
EMBIG Sovereign Spread		356	0	-3	5	-59	6
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.4	0.3	0	-1	1	-4
Dollar index, (+) = \$ appreciation		93.7	-0.1	0	0	1	4
Brent Crude Oil (\$/barrel)		86.2	0.2	1	10	113	66
VIX Index (% change in pp)		14.9	-0.3	-1	-3	-18	-8

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

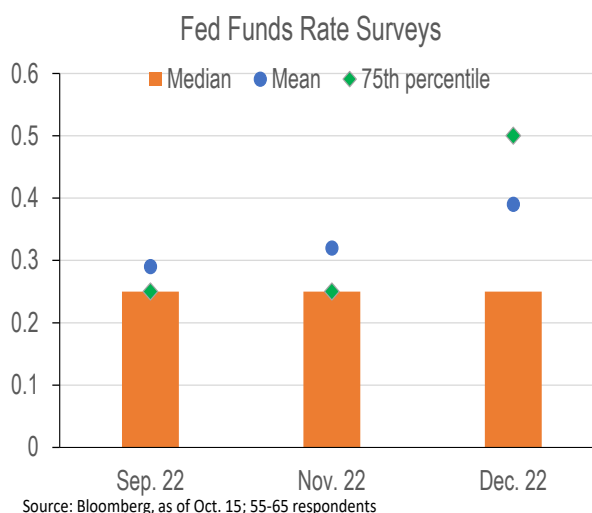
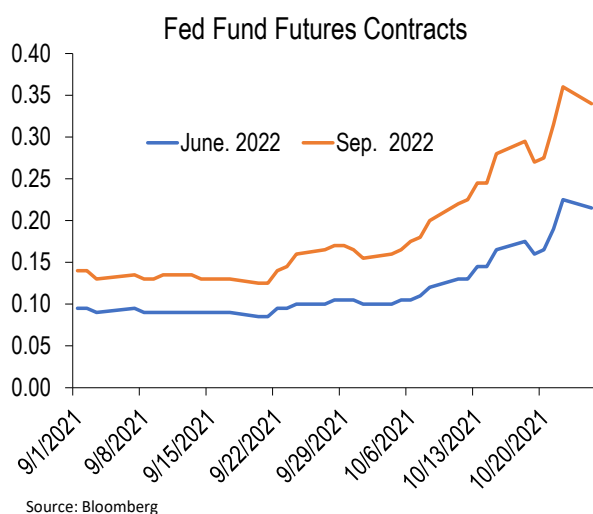
Mature Markets

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United States

US equities rallied 0.5 percent to a new all-time high after reports that President Biden and Democratic leaders were likely to reach an agreement on the long-delayed reconciliation spending bill by later this week. Finalizing the deal among Democrats, estimated to be between \$1.5tn-\$2 tn, would also clear the way to finally pass the already agreed upon bipartisan \$1.2 tn infrastructure bill. In bond markets, 10-year Treasuries rallied to reverse an early morning sell off, with the 10-year yield dropping from an intraday high of 1.67 percent to 1.63 percent bps. **Inflation breakeven rates continued to climb higher, with the 5-year gaining 5 bps to reach 2.95 percent, a +40 bps move since the beginning of October.**

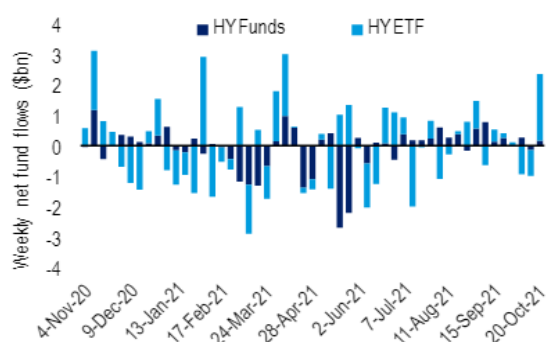
Market pricing and economists diverge on timing of Fed hiking cycle. Financial market pricing of the Federal Reserve's first-rate hike has been pulled forward, with the timeline diverging from economist surveys. Futures' markets imply a roughly 60 percent probability of the first-rate hike at the June 2022 FOMC meeting, and more than a 100 percent probability of a hike by September (overnight swaps show a similar story). In contrast, surveys still show December 2022, or even early 2023 as more likely for liftoff, as analysts have been anticipating the Fed will deviate from previous cycles and stick to its transitory narrative amid the new policy framework. However, on Friday, Fed Chair Powell acknowledged upside inflation risks more directly than previous occasions, saying "The risks are clearly now to longer and more persistent bottlenecks, and thus to higher inflation... Supply constraints and elevated inflation are likely to last longer than previously expected... If we were to see a risk of inflation moving persistently higher, we would certainly use our tools."



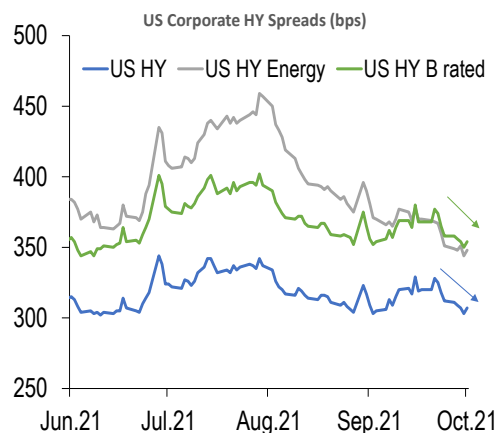
US high yield corporates recovered after September's moderate widening as spreads tightened again and inflows rebounded. Analysts cited improved risk appetite as investors believe the Evergrande crisis and European energy shock have stabilized for now, with the tail risks of cross asset spillovers mitigated in both scenarios. Some contacts also noted that weaker growth expectations and the recent price action may dent further upside in Treasury yields in the near term, making high yield returns look relatively more attractive again. **Flows into high yield funds and ETFs hit \$2.35 bn last week, the best week since April after 2-3 weeks of outflows.** High yield corporate spreads also reversed their late September-early October sell off and have tightened by about 25 bps over the last 2 weeks.

Figure 6: Weekly high yield fund flows, \$bn

HY ETFs +\$2.19bn, HY funds +\$0.16



Source: EFPR Global. Note: data are for US-domiciled funds only.

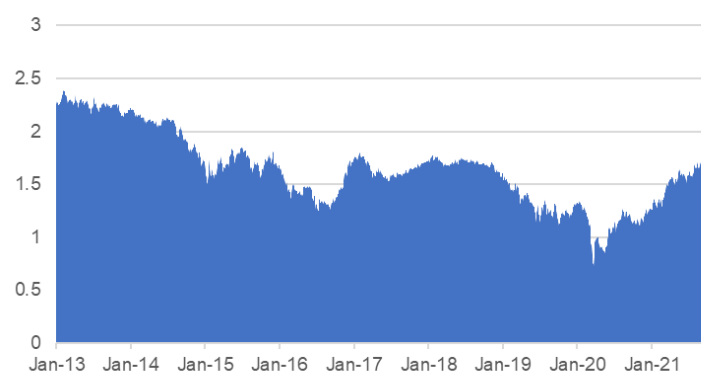


Source: ICE BofA, Bloomberg

Euro-area

Equities (+0.8 percent) rebounded this morning with most sectors gaining. Industrial stocks (+1 percent) outperformed, while the energy sector declined by 0.5 percent. The euro appreciated (+0.1 percent) against the US dollar. German 10-yr bund yields fell (- 2 bps to -0.14 percent) in line with U.S. rates.

Euro area inflation expectations increased while markets continue to anticipate interest rate increases in 2022. The EUR 5y5y forward swap rate rose by another 4 bps today to reach a 7-year high of 2.07 percent and **markets are now pricing in a 10 bps rate increase by end-2022.** This contrasts with views of several economists, that expect no interest rate changes in 2022 and see inflation to returning below the 2 percent target in 2022 in the absence of rapidly rising wages. While no policy changes are expected at the ECB meeting on Thursday, investors and economists alike are waiting for clues on the ECB's inflation and economic outlook, in addition to indications of when policy rates could start increasing and how much asset flexibility will be retained post-PEPP. Some economists are also anticipating a stronger pushback against current market pricing in line with the July forward guidance.

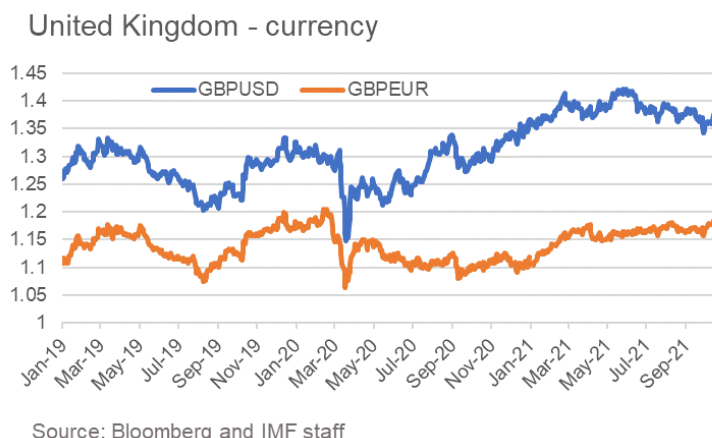
EUR: 5yr 5yr inflation swap rate, %

Source: Bloomberg and IMF staff

United Kingdom

The pound appreciated to its strongest level in 18 months against the euro, amid diverging interest rate expectations for Britain and the euro zone. Contacts noted that pound gains have been limited by spots of disappointing economic data, concerns over potential tax hikes and uncertainty over the trade

negotiations between Britain, Northern Ireland, and Ireland. **On the equity front, EPFR data showed that UK equities are heading for a sixth consecutive year of outflows**, as investors have pulled \$9.4 bn out of UK-equity funds this year. According to analysts, this reflects concerns over post-pandemic supply chain concerns, higher inflation and energy shortages.



Japan

Equities gained on optimism over earnings (NIKKEI: +1.8 percent; TOPIX: +1.1 percent). Japanese stocks reversed their yesterday's losses on the back of technology, consumer and auto manufacturing heavyweights. Investors also looked toward political stability after the general election this weekend. Japanese yen depreciated (-0.2 percent). Long-end JGB yields were mixed (10-year: +0.2 bp; 30-year: -0.9 bp).

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Asian equities were mixed, gaining 0.3 percent on net. Share prices rose in Korea (+0.9 percent) and Taiwan POC (+0.8 percent), while Chinese (CSI 300: -0.3 percent) and Hong Kong (-0.4 percent) equities declined. Asian tech stocks generally led the gain on optimism over earnings. **Asian currencies were mixed in tight trading ranges.** Taiwan's dollar appreciated (+0.1 percent), while the Philippine peso depreciated (-0.1 percent). **Long-end government bond yields generally declined**, with 10-year yields falling in Taiwan POC (-6.0 bps) and Indonesia (-3.7 bps). **In Philippines**, the government only sold 19 bn peso (\$0.37 bn) of the 7-year bonds, less than the target of 35 bn peso (\$0.69 bn), as some incoming bid yields were deemed too high. **In Korea**, real GDP grew 0.3 percent q/q in 2021Q3, weaker than an expected 0.6 percent expansion. **In Hong Kong SAR**, the government will tighten the quarantine rules for inbound travelers in a bid to open the border with China. **In EMEA, equity markets mostly traded higher** with shares up in Turkey (+1.1 percent) and South Africa (+1.0 percent). **EMEA currencies were little changed, except for the Turkish lira (+1.6 percent) and the Russian ruble (+0.7 percent).** The Turkish lira recovered following the easing of the diplomatic row and some domestic lira buying interest. **Latin American equities and currencies surged on Monday** with stocks up in Argentina (+2.9 percent), Brazil (+2.3 percent), and Chile (+2.2 percent), and currencies strengthening in Brazil (+1.7 percent) and Chile (+1 percent). Mexican stocks (-0.1 percent) and the peso (0.0 percent) remained flat, as GDP growth printed unexpectedly low. Brazil's hard currency treasury curve moved down (-8 bps on the 4.5 percent ten-year yield), while Mexico's yield curve flattened modestly.

EM bond issuance

Weekly issuance activity almost doubled from the week before, with \$27 bn issued. Corporates nearly tripled their issuance to \$19 bn, of which \$4.6 bn were issued by the Taiwanese semiconductor industry, additional \$4.7 bn by oil and mining corporates, and \$3.5 bn by Chinese financials. China's sovereign placed \$4 bn of new debt. Year-to-date issuance stood at \$680 bn, \$12 bn higher than last year around this time.

Sector	Last week	The week before	YTD
	USD bn	USD bn	USD bn
Corporate	12.7	4.8	313.3
Sovereign	4.0	1.0	176.1
Financial	5.9	2.4	135.3
Agency	2.6	2.5	30.4
Muni/Local Government	0.4	1.6	13.4
Supra	1.0	1.7	12.2
Total	26.7	14.0	680.7

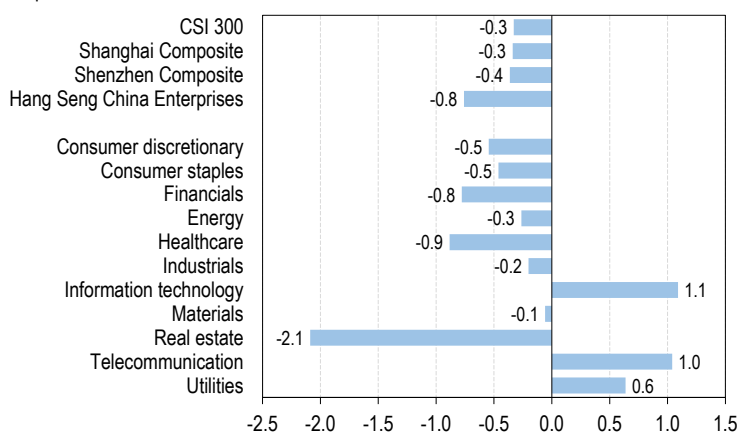
Source: Bond Radar, Bloomberg

China

Equities dropped (CSI 300: -0.3 percent), led by the decline in real estate stocks (-2.1 percent). Meanwhile, IT and telecom stocks gained, in line with the regional trend. Modern Land, a small property developer, missed a principal and interest payment on its \$250 mn USD bond. Markets are closely watching for further signs of stress in the real estate sector. Evergrande will need to make another overdue coupon payment within a 30-day grace period by the end of this week to avoid a default. **The People's Bank of China injected net liquidity of 190 bn yuan (\$29.8 bn).** Interbank repo rates were mixed, with overnight DR001 falling (-6.8 bps) while 7-day DR007 rising (+5.1 bps). RMB appreciated (+0.1 percent).

Equity Total Return: Daily Change

In percent

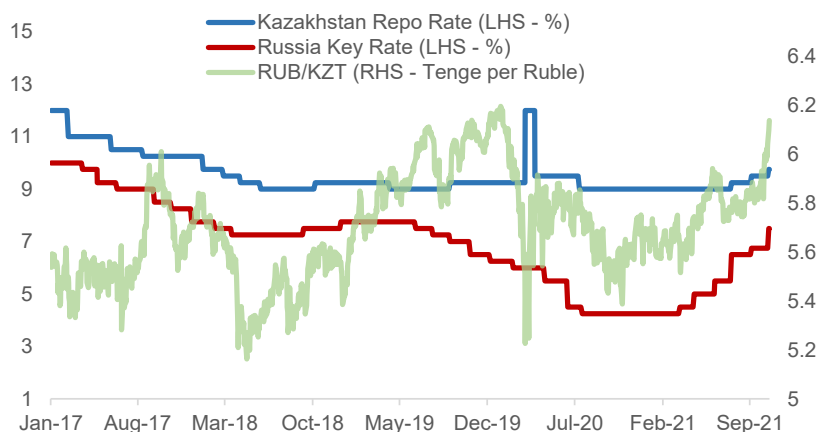


Sources: Bloomberg; and IMF staff calculations.

Kazakhstan

The National Bank of Kazakhstan hiked its policy rate by 25 bps to 9.75 percent. While the central bank has tightened its policy rate by 75 bps overall, contacts note that the compression in the yield differential between Kazakhstan and Russia has reduced investor appetite for local government bonds. After steady inflows in H1 2021, non-residents interest in Kazakhstan local markets has tapered off in the third quarter. Contacts are also concerned that further currency underperformance as compared to the Russia ruble could feed into higher inflation. Kazakhstan inflation reached 8.9 percent in September, above the 4-6 percent target range.

Kazakhstan Policy Rate and Currency





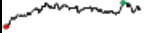

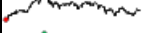




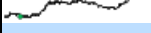
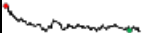

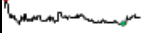



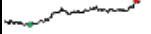





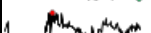





Nigeria

The Central Bank of Nigeria launched its digital currency, the eNaira. According to CBN Governor Emefiele, 33 banks have been integrated with the platform and NGN 500 mn (\$1.2 mn) minted at the CBDC launch. Contacts have noted that the daily transactions limits set for regular users, especially without a verified National Identification Number, are somewhat tight (NGN 20k or \$50) and raise questions around the adoption potential among users who prefer not to share their transaction data.

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: 10/26/21 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4566	0.5	2	2	34	22
Europe		4221	0.8	1	2	36	19
Japan		29106	1.8	0	-4	24	6
China		3598	-0.3	0	0	11	4
Asia Ex Japan		88	0.4	1	3	11	-1
Emerging Markets		52	0.5	1	3	14	1
Interest Rates			basis points				
US 10y Yield		1.61	-1.8	-2	16	81	70
Germany 10y Yield		-0.13	-1.7	-3	10	45	44
Japan 10y Yield		0.11	0.2	2	5	7	9
UK 10y Yield		1.11	-3.1	-6	18	83	91
Credit Spreads			basis points				
US Investment Grade		86	1.5	-2	-2	-37	-9
US High Yield		315	2.3	-2	3	-186	-65
Europe IG		50	-0.6	0	1	-8	2
Europe HY		256	-4.1	2	14	-84	14
Exchange Rates			%				
USD/Majors		93.75	-0.1	0	0	1	4
EUR/USD		1.16	0.1	0	-1	-2	-5
USD/JPY		113.9	0.2	0	3	9	10
EM/USD		55.4	0.3	0	-1	1	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		86	0.2	1	10	113	66
Industrials Metals (index)		172	-0.6	-4	4	43	30
Agriculture (index)		58	-0.2	1	2	37	21
Implied Volatility			%				
VIX Index (% change in pp)		14.9	-0.3	-0.8	-2.8	-17.5	-7.8
US 10y Swaption Volatility		72.4	-1.1	-3.8	0.0	1.1	12.3
Global FX Volatility		7.0	0.0	0.1	0.3	-1.5	-1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		116	1.7	4	10	-34	-4
Italy		110	1.6	4	9	-22	-2
Portugal		52	1.9	0	-2	-22	-8
Spain		63	0.8	0	-1	-13	2

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 10/26/2021 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		6.38	0.1	0.0	1	5	2		3.1	-4	11	-20	-15	
Indonesia		14153	0.0	-0.5	1	4	-1		6.2	-2	1	-46	12	
India		75	0.2	0.5	-1	-1	-3		6.5	0	15	45	51	
Philippines		51	-0.1	-0.1	0	-5	-5		4.5	15	23	93	84	
Thailand		33	-0.1	0.7	1	-6	-9		2.0	6	24	56	73	
Malaysia		4.15	0.1	0.6	1	0	-3		3.7	3	25	120	113	
Argentina		99	-0.1	-0.2	-1	-21	-15		50.0	89	88	236	-616	
Brazil		5.56	0.0	0.5	-3	1	-7		11.8	130	163	542	618	
Chile		806	0.3	0.7	-1	-4	-12		6.2	-13	96	350	340	
Colombia		3766	0.2	0.0	2	1	-9		7.6	20	26	238	254	
Mexico		20.14	0.2	0.5	0	4	-1		7.6	10	34	148	198	
Peru		4.0	-0.2	-0.6	4	-9	-9		6.0	-4	-41	184	238	
Uruguay		44	0.2	0.1	-2	-2	-3		8.1	6	17	72	84	
Hungary		314	0.2	-0.9	-3	-2	-6		3.4	1	66	165	187	
Poland		3.96	0.4	-0.5	-1	-2	-6		2.3	11	96	170	171	
Romania		4.3	0.1	-0.1	-1	-3	-7		4.4	-9	84	122	169	
Russia		69.4	0.7	2.1	5	10	7		7.9	46	70	225	217	
South Africa		14.7	-0.2	-1.5	2	10	0		10.2	9	31	7	58	
Turkey		9.44	1.6	-1.5	-7	-14	-21		18.9	10	103	536	577	
US (DXY; 5y UST)		94	0.0	0.1	0	1	4		1.17	1	23	82	81	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	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		4963	-0.3	1	2	6	-5		207	0	-2	-31	-22	
Indonesia		6657	0.5	0	9	30	11		169	-11	-4	-56	-31	
India		61350	0.6	-1	2	51	28		142	-2	-5	-64	-9	
Philippines		7252	0.6	0	4	13	2		108	-9	0	-23	-4	
Malaysia		1584	-0.2	-1	3	6	-3		128	-2	-3	-44	-7	
Argentina		89392	2.9	8	21	80	75		1651	22	49	235	295	
Brazil		108715	2.3	-5	-4	8	-9		320	19	23	9	61	
Chile		4176	0.0	5	-5	13	0		158	-5	12	-19	2	
Colombia		1402	0.2	-1	7	19	-2		289	-2	-2	39	74	
Mexico		51834	-0.1	-2	1	36	18		348	-2	-1	-121	-9	
Peru		21243	1.3	3	16	19	2		156	-13	-10	-4	27	
Hungary		54892	0.0	1	7	66	31		114	-2	-15	-27	-35	
Poland		73986	0.1	0	5	56	30		45	18	21	24	17	
Romania		12779	-0.2	1	3	46	30		199	-2	8	-33	-4	
Russia		4253	0.0	-1	5	53	29		154	-2	-1	-55	-25	
South Africa		67720	1.1	1	6	23	14		355	-1	-1	-125	-29	
Turkey		1509	1.1	6	9	32	2		517	4	15	-93	70	
Ukraine		526	0.0	0	0	5	5		504	5	3	-216	11	
EM total		52	0.3	1	3	14	1		374	-1	7	-25	35	

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

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