



- European gas prices rise further, prompting response from EU energy czar ([link](#))
- German factory orders disappoint ([link](#))
- New Zealand central bank hikes rate, warns about house price risks ([link](#))
- Australia tightens regulation on housing loans ([link](#))
- Surveys and markets expect Mexico's central bank to continue rate hikes ([link](#))
- Supply chain issues may pose underpriced risk to US firms' Q3 earnings ([link](#))

[Mature Markets](#)







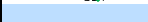



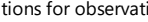
| [Emerging Markets](#)

| [Market Tables](#)

Energy-driven inflation anxiety spreads

Risk sentiment is weaker this morning as surging energy prices spill over to bond yields. Benchmark government bond yields are broadly higher, up 4-10 bps across developed markets and reaching post-June highs in many countries. One driver has been the rebound in market-implied measures of inflation expectations, particularly in the US, following another rapid climb in energy prices yesterday. Continued dramatic moves higher in European gas prices yesterday prompted the EU energy commissioner to pledge swift action to limit the impact on the economy. Global share prices saw modest gains yesterday but are down 1-2 percent in today's session so far, led by the interest-rate sensitive technology sector and some cyclical sectors. The dollar is moving higher against major peers, adding to weakness in EM currencies and hard-currency bonds.

Key Global Financial Indicators

Last updated: 10/6/21 8:13 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 4346	1.1	0	-4	29	16
Eurostoxx 50	 3988	-1.9	-2	-6	23	12
Nikkei 225	 27529	-1.1	-7	-8	18	0
MSCI EM	 50	0.7	-1	-6	12	-3
Yields and Spreads		bps				
US 10y Yield	 1.54	1.2	2	22	80	62
Germany 10y Yield	 -0.18	1.0	4	19	33	39
EMBIG Sovereign Spread	 361	-2	6	22	-60	10
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 55.0	-0.5	0	-4	1	-5
Dollar index, (+) = \$ appreciation	 94.3	0.4	0	3	1	5
Brent Crude Oil (\$/barrel)	 81.8	-0.9	4	13	92	58
VIX Index (% change in pp)	 23.4	2.1	1	7	-6	1

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

Mature Markets

[back to top](#)

United States

US Treasury yields rose across the curve, mainly driven by a rise in inflation expectations. On Monday, the 10-year Treasury yield rose 4.6 bps to 1.53 % as 10-year breakeven yields rose 7 bps to 2.46%. The rise in energy prices have impacted the front end, where breakevens are up by 20 bps so far this month and approaching the upper end of the range they have held since early spring. However, JPM's measure of long-term forward breakevens (seasonally adjusted 5y5y TIPS breakevens) have also moved notably higher in recent days.

Exhibit 1: 5Yx5Y TIPS breakevens are now back to the levels seen in early June

Seasonally-adjusted 5Yx5Y TIPS breakevens, bp

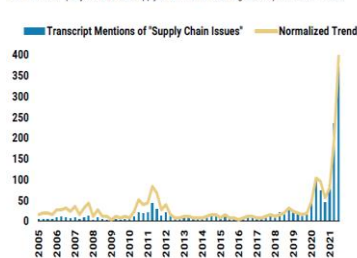


Source: J.P. Morgan

Supply chain issues may pose a risk to Q3 earnings that is not yet captured in consensus estimates.

A growing number of companies are mentioning "supply chain issues" as a risk to their sales and profits in their corporate transcripts and conference presentations, while ISM data has been showing longer lead times and slower supplier deliveries in both manufacturing and services. Despite this backdrop, analysts from Morgan Stanley found that the supply chain constraints were not likely priced in to consensus earning numbers, which have been relatively resilient for Q3 and Q4 so far. According to the firm's research, the companies that have discussed supply chain issues have seen lower EPS and sales surprises than those that didn't. In addition, stocks of these companies that mentioned supply chain issues underperformed after their report (-2.7% average return the day after reporting vs. +0.9% for companies that did not discuss).

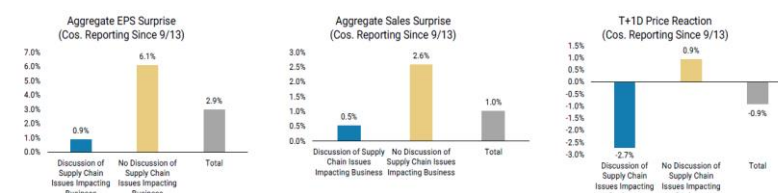
Exhibit 7: Company Mentions of 'Supply Chain Issues' Has Surged to Unprecedented Levels



Source: AlphaSense, Morgan Stanley Research. Pulled from earnings transcripts, sales updates, guidance updates, conference presentations, analyst/investor/investor meetings. The normalized trend is calculated as a function of the number of documents containing the keyword and the total documents that would be included in the same search without the keyword. Limited to US public companies with market caps >\$1B.

Source: Morgan Stanley

Exhibit 15: S&P 1500 Cos. Discussing Supply Chain Risk Have Seen Much Lower EPS/Sales Surprises and Notably Negative Price Reactions (i.e., This Risk Is Largely Not in the Numbers or the Price)

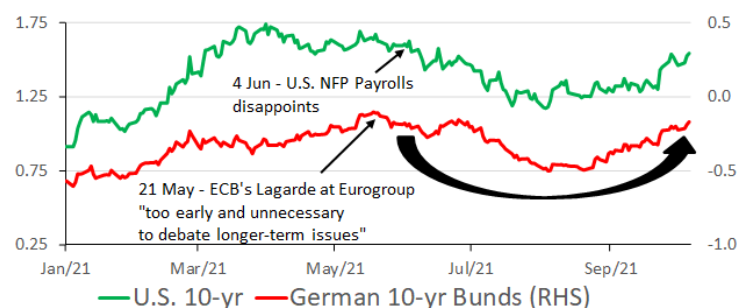


Source: FactSet, Morgan Stanley Research.

Euro area

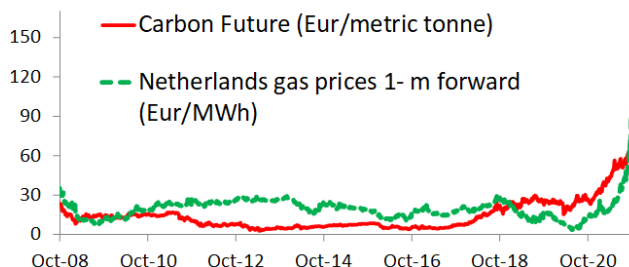
Equities (-2%) and the euro (-0.5%) are lower after Germany factory orders contracted much more than expected in August (drop of 7.7% mom compared to 2.2% mom expected). German factory sales fell 6% mom. JP Morgan points out that high orders relative to output and still decent business surveys suggest that significant gains in output remain possible if supply disruptions ease but warns that problems in the gas market could hit output this winter.

German 10-year bund yields (+ 2 bps to -0.17%) rose in line with U.S. rates. Italian 10-year spreads (+4 bps at 108 bps) widened noticeably. In contrast, 10-year Spanish spreads are just 1 bps higher.

Core rates: 10-yr German and U.S. yields (%)

Source: Bloomberg and IMF staff

Dutch natural gas prices 1-month ahead (+10%) rose to a new record high. Five EU countries including France and Spain have issued a joint statement urging the EU to "immediately react to dramatic price surges" of natural gas. **EU energy commissioner Simson said that gas underground storage is above 75% across Europe, lower than the ten-year average, but she argued adequate to cover the winter season needs.** The EU plans to revise gas-market rules by end 2021 to prevent energy costs from stifling the economic recovery.

Europe: Price of natural gas and carbon futures

Source: Bloomberg and IMF staff

Citi argues that the current surge in energy prices could add an extra 0.6 ppt to headline inflation over the next five prints. The bank estimates that euro area electricity prices will rise by around 8% between September and January 2022 and gas retail prices by over 20% over the same period. Euro area households spend about 6% of their consumption basket on housing energy, of which 3% on electricity and 2% on gas bills, with the EU heavily dependent on energy imports.

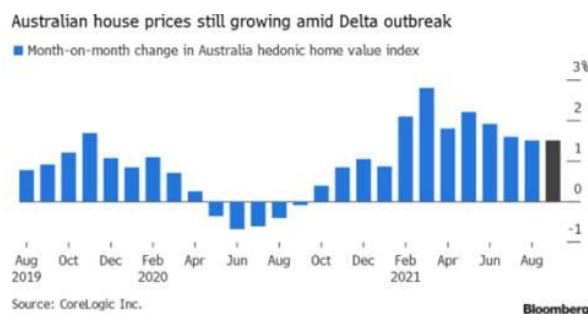
United Kingdom

The pound (-0.4%) is lower and 10-year gilt yields rose 3 bps to 1.11% as the construction PMI unexpectedly fell to 52.6 in September (54 expected), from 55.2 in August. The construction sector's output is still below its pre-Covid level with the input prices index remaining near record highs.

Australia/New Zealand

The Reserve Bank of New Zealand (RBNZ) hiked its policy rate by 25bps to 0.50% as was widely expected. The RBNZ expects inflation to increase above 4% in the near term before returning toward the 2% midpoint of its band over the medium term. In its statement, the central bank said that "further removal of monetary policy stimulus is expected over time, with future moves contingent on the medium-term outlook for inflation and employment". The RBNZ also warned that "the level of house prices" is currently unsustainable". Last month the RBNZ announced it will tighten Loan-to-Value Ratio restrictions on lending to owner-occupiers to reduce risky mortgage lending from November. Analysts expected RBNZ to raise the

rate further in the coming months. Separately, **the Australian Prudential Regulation Authority tightened requirements for housing loans**. The regulator stated on Wednesday it expected lenders to assess new borrowers' ability to meet loan repayments at an interest rate that is at least 3 percentage points above the loan product rate (up from the 2.5pp commonly used by banks at present). **Stock markets (Australia -0.5%; New Zealand -0.4%;), 10-year bond yield increased (Australia +9.5bps, New Zealand +1.2bps), both dollars weakened.**



Emerging Markets

[back to top](#)

Asian stocks were mixed, down -0.8% on net as a selloff in the heavyweight tech sector deepened. Chinese markets remain closed. Indonesia (+2.1%) Malaysia (+1.6%), and Philippines outperformed. South Korean stocks continued to slide (-1.8%). **Regional currencies weakened** led by the Thai baht and the Indian rupee (both -0.5%). **Long-term bond yields increased.** Malaysia's yields went up +11bps. In **South Korea**, 10-year yield jumped +9.6bps; consumer price inflation in September was reported at 2.5% y/y exceeding expectations and above the central bank 2% target. Analysts believe this increases the odds of another policy rate hike soon. **India's** long-term bonds overperformed, with yields up just +1.2bps. Moody's affirmed India's sovereign ratings at Baa3 while revising the outlook from negative to stable. The agency stated that downside risks from negative feedback between real economy and financial system are receding as higher capital cushions from adequate provisioning for legacy problem assets and ample liquidity in the financial system pose less risks to the sovereign than previously anticipated. Separately, India is reportedly considering tax exemption for foreign investors settling sovereign bond purchases on Euroclear to speed up the inclusion of its debt in global indexes.

EMEA equity markets were trading mostly lower with indices down in South Africa (-1.5%) and Hungary (-1.8). Czech Republic outperformed (+0.9%). EMEA currencies weakened across the board against the dollar with the Hungarian forint (-1%) and Czech koruna (-0.9%) underperforming.

In **Latin America**, regional currencies were little changed. The **Colombian** peso appreciated by 0.3% as oil prices climbed to the highest level in almost seven years, while the **Chilean** peso depreciated by 0.7% amid weakness in copper prices and continued uncertainty around the upcoming crucial vote in the senate regarding the fourth pension withdrawal bill.

Greater China

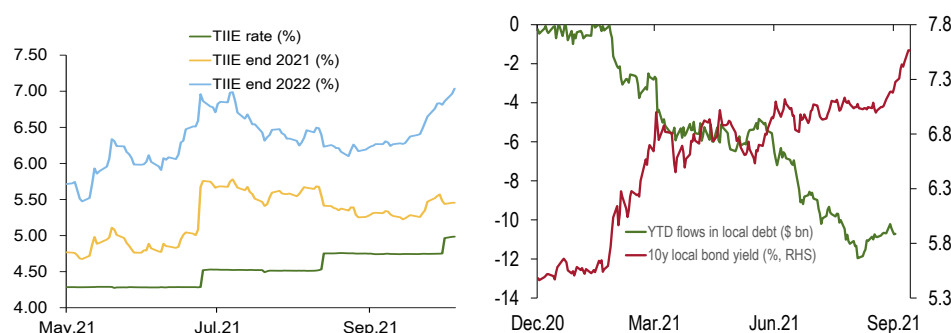
Hong Kong is studying an expansion of trading in stocks denominated in the yuan. In her annual policy address, Chief Executive Carrie Lam, said the city was looking at expanding channels for yuan flows from mainland China, including allowing trading of yuan-denominated stocks via an established link to markets in Shenzhen and Shanghai. Getting more yuan-denominated shares in Hong Kong would eliminate currency risk for mainland investors, and potentially boost trading volumes for Hong Kong Exchanges & Clearing Ltd. Bloomberg reports outflows from Hong Kong have so far dominated in the city's trading link with the mainland. In the first six months of 2021, a daily average of 48bn Hong Kong dollars (\$6.2bn) was traded through the southbound stock link, while the flow in the northbound link was 114.4 bn yuan (\$17.8

bn) a day, on average. **Chinese markets remain closed for holidays, Hong Kong's Hang Seng Index closed lower -0.6%. 10-year bond yields, the renminbi, and the Hong Kong dollar little changed.**

Mexico

The latest survey by Banamex shows that economists expect policy rates to increase by another 50 bps to 5.25% in 2021 and to 5.75% in 2022. Two weeks ago, survey participants were expecting 5% in 2021 and 5.38% in 2022. Inflation expectations for 2021 increased to 6.31% from 6% a month ago. Market implied policy rates (without adjusting for term premium) have also moved sharply over the last two weeks (LHS chart) with markets pricing-in almost 200 bps of hikes in 2022.

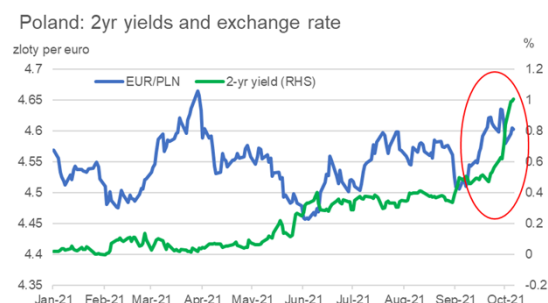
Nonresident flows in local debt have continued to be weak. Outflows this year have been close to \$11 bn (RHS chart). Flows started to improve earlier in September but have likely turned into outflows again over the last few days (data are reported with 10 day lag) as local bonds and the peso have sold off. Domestic pension and mutual funds have been the main support for local bonds with \$21 bn of net inflows in 2021. Local bank ownership has remained flat at 16.5%. Mexico's non-resident flow weakness is also in contrast with some of its peers, as Brazil and Colombia have seen mostly inflows in the months to August.



Source: Bloomberg

Poland

Yields jumped this week (+16 bps) ahead of the monetary policy council decision today. Governor Glapiński remained dovish in comments yesterday noting that the broader scope of challenges facing Poland. Inflation is estimated to have increased to 5.8% y/y in September (expected +5.5%), up from 5.5% in August. **The interest rate is expected to remain unchanged at 0.1%,** with contacts expecting a tightening in November. The zloty appreciated (+0.2%) against the euro.



Source: Bloomberg and IMF calculations






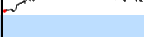



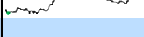


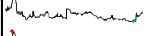
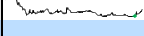







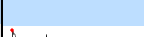


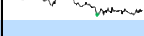
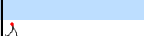


Romania

The central bank unexpectedly increased benchmark interest rates by 25 bps to 1.5%, the first rate hike since May 2018, spurred by concerns over higher inflation. The board noted that while inflation is being driven primarily by exogenous factors, transitory supply- and demand- side factors is expected to last longer. While the Romanian leu initially appreciated (+0.1%) against the euro after the announcement, **gains reversed after a no-confidence vote toppled the PM and his government**. This morning the leu is trading lower (-0.1%) against the euro, while yields are little changed.

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: 10/6/21 8:13 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4332	1.1	-1	-4	29	15
Europe		3988	-1.9	-2	-6	23	12
Japan		27529	-1.1	-7	-8	18	0
China		3568	0.9	-2	0	11	3
Asia Ex Japan		84	0.7	-1	-7	7	-6
Emerging Markets		50	0.7	-1	-6	12	-3
Interest Rates			basis points				
US 10y Yield		1.54	1.2	2	22	80	62
Germany 10y Yield		-0.18	1.0	4	19	33	39
Japan 10y Yield		0.08	2.4	1	3	5	6
UK 10y Yield		1.10	1.7	11	41	81	90
Credit Spreads			basis points				
US Investment Grade		90	-1.2	4	-1	-41	-5
US High Yield		326	-1.0	12	8	-195	-53
Europe IG		52	1.7	3	8	-2	5
Europe HY		267	9.4	19	42	-55	25
Exchange Rates			%				
USD/Majors		94.35	0.4	0	3	1	5
EUR/USD		1.15	-0.5	0	-3	-2	-6
USD/JPY		111.3	-0.1	-1	1	5	8
EM/USD		55.0	-0.5	0	-4	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		82	-0.9	4	13	92	58
Industrials Metals (index)		162	-0.2	0	0	41	22
Agriculture (index)		58	0.6	1	1	43	20
Implied Volatility			%				
VIX Index (%, change in pp)		23.4	2.1	0.8	7.0	-6.1	0.6
US 10y Swaption Volatility		74.7	-2.3	-0.1	8.7	5.8	14.6
Global FX Volatility		6.8	0.0	-0.1	0.3	-2.2	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		110	3.3	3	-9	-38	-9
Italy		107	2.2	3	1	-21	-4
Portugal		56	1.0	0	-1	-18	-4
Spain		66	1.1	1	-3	-9	4

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

Emerging Market Financial Indicators

Last updated: 10/6/2021 8:07 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		6.44	0.4	0.2	0	5	1		3.0	-1	2	-26	-26		
Indonesia		14253	0.0	0.3	0	3	-1		6.2	5	13	-62	16		
India		75	-0.7	-1.1	-3	-2	-3		6.4	3	3	22	42		
Philippines		51	-0.4	0.0	-2	-5	-6		4.3	3	-2	69	65		
Thailand		34	-0.3	0.1	-4	-8	-12		1.9	3	21	42	56		
Malaysia		4.18	-0.1	0.0	-1	-1	-4		3.5	1	22	100	96		
Argentina		99	0.0	-0.2	-1	-22	-15		49.3	-18	264	808	-682		
Brazil		5.51	-0.7	-1.8	-6	1	-6		10.4	4	43	423	481		
Chile		817	-0.7	-0.9	-5	-2	-13		5.8	44	81	310	302		
Colombia		3786	0.2	1.4	0	1	-9		7.4	5	51	210	229		
Mexico		20.77	-1.0	-1.2	-4	5	-4		7.5	14	47	137	188		
Peru		4.1	0.0	0.0	-1	-13	-12		6.3	-20	-11	210	267		
Uruguay		43	-0.1	-0.4	-1	-1	-2		7.9	7	-2	55	63		
Hungary		312	-1.0	-0.3	-6	-1	-5		3.1	25	46	133	155		
Poland		3.98	-0.2	0.4	-4	-4	-6		1.7	21	31	91	102		
Romania		4.3	-0.5	-0.5	-3	-3	-7		4.0	38	47	78	129		
Russia		72.5	-0.2	0.6	1	8	2		7.5	26	56	167	174		
South Africa		15.1	-0.8	0.4	-6	11	-3		10.2	19	62	-10	60		
Turkey		8.91	-0.4	0.1	-7	-12	-17		17.8	-10	100	515	473		
US (DXY; 5y UST)		94	0.4	0.0	3	1	5		1.00	1	21	69	64		

	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		4866	0.0	0	0	6	-7		211	3	-5	-29	-18
Indonesia		6417	2.1	4	5	28	7		181	10	7	-54	-19
India		59190	-0.9	0	2	48	24		149	6	1	-76	-2
Philippines		7057	1.1	2	2	20	-1		121	11	14	-16	9
Malaysia		1559	1.9	1	-2	5	-4		132	3	1	-50	-3
Argentina		78192	0.8	3	3	76	53		1574	-6	103	232	218
Brazil		110458	0.1	0	-6	16	-7		308	7	22	-24	49
Chile		4226	0.0	-3	-5	17	1		157	9	15	-25	1
Colombia		1383	0.1	2	4	18	-4		298	-1	24	37	83
Mexico		51057	0.4	0	-2	38	16		352	-2	7	-134	-5
Peru		18343	0.8	-1	4	1	-12		179	9	8	8	50
Hungary		52640	-1.4	1	0	56	25		117	-11	-17	-36	-32
Poland		71194	-1.0	2	-1	42	25		25	4	-1	-3	-3
Romania		12630	0.1	0	2	42	29		207	15	20	-37	4
Russia		4193	-0.7	4	4	45	27		167	8	3	-50	-12
South Africa		63711	-1.3	-1	-4	18	7		371	5	33	-153	-13
Turkey		1377	-1.0	-1	-7	19	-7		500	-9	43	-104	53
Ukraine		526	0.0	0	0	5	5		536	21	62	-174	43
EM total		50	-1.6	-1	-6	12	-3		377	6	29	-26	38

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

[back to top](#)