



- Potential short-term US debt limit increase eases concerns about US fiscal stalemate ([link](#))
- European natural gas prices stabilize on news that Russia could increase supply ([link](#))
- Italian spreads tighten on reports the ECB is studying a new bond buying program ([link](#))
- Chinese high-yield offshore USD bonds remain under pressure ([link](#))
- National Bank of Poland surprises with rate hike citing deteriorating inflation outlook ([link](#))
- Central Bank of Uruguay raises policy rate and signals more hikes to anchor inflation ([link](#))

[Mature Markets](#)




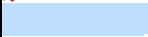


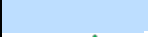
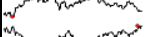
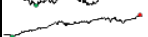

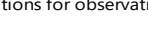
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Risk appetite reemerges as US fiscal and energy price worries ease

Risk assets are trending higher on positive developments around the US debt ceiling and a retrenchment in the recent energy price surge. After a volatile trading session, US stocks closed modestly higher yesterday after a late-day rally spurred by news of a potential stopgap measure to address the US federal debt deadline. News reports suggest the US debt ceiling could see a bipartisan temporary increase to December. Market sentiment remained constructive overnight as Asian equities closed broadly higher led by strong gains in Hong Kong and Chinese tech stocks, while European equities are up over 1.5%. Energy prices have pulled back over the last day as crude oil prices snapped 3-days of consecutive gains and have declined close to 2% in reaction to rising US inventories and a potential draw on strategic reserves, and European natural gas prices have eased in response to reports Russia would look to stabilize markets by increasing supply to Europe. Core sovereign bond yields are little changed, but the extraordinary jump in European gas prices has kept market-implied inflation rates near multi-year highs with Euro area 5-year, 5-year inflation swap rates at 1.80%. Although off its highs this morning amid the improving risk sentiment, the US dollar has remained in favor, appreciating against most G10 and emerging market peers, with the euro trading close to its weakest level in over a year.

Key Global Financial Indicators

Last updated: 10/7/21 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4364	0.4	0	-3	28	16
Eurostoxx 50		4082	1.7	1	-3	26	15
Nikkei 225		27678	0.5	-6	-8	17	1
MSCI EM		50	-0.6	-1	-7	10	-4
Yields and Spreads			bps				
US 10y Yield		1.52	0.2	4	15	74	61
Germany 10y Yield		-0.20	-2.0	0	12	29	37
EMBIG Sovereign Spread		365	5	12	27	-55	15
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.4	0.3	0	-3	1	-4
Dollar index, (+) = \$ appreciation		94.1	-0.1	0	2	1	5
Brent Crude Oil (\$/barrel)		80.0	-1.3	2	12	91	55
VIX Index (% change in pp)		20.1	-0.9	-3	2	-8	-3

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

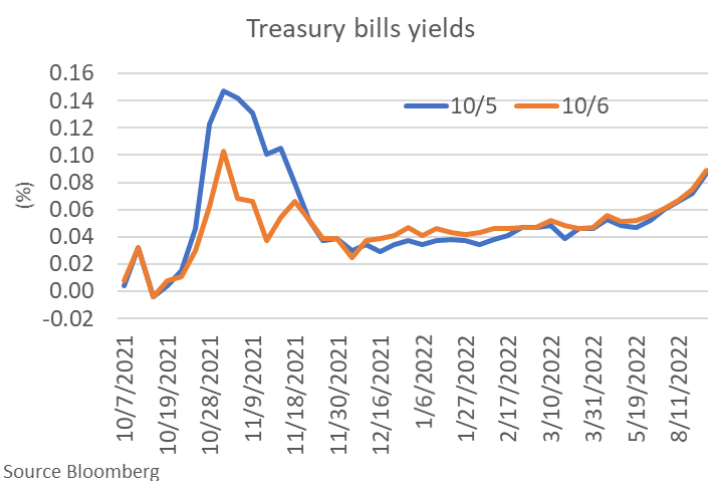
Mature Markets

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United States

US equities were stronger yesterday, with the S&P 500 closing up 0.4%. US Treasury yields were little changed with the 10-year at 1.52%. WTI oil prices fell over 2% as data showed higher than expected US inventories and reports stated US authorities would consider releasing supply from strategic reserves. In data releases this morning, initial jobless claims declined to 326k from 364k the previous week and came in lower than forecast (consensus 348k); continuing claims recorded 2714k versus expectations for 2766k. There was limited market reaction to the release.

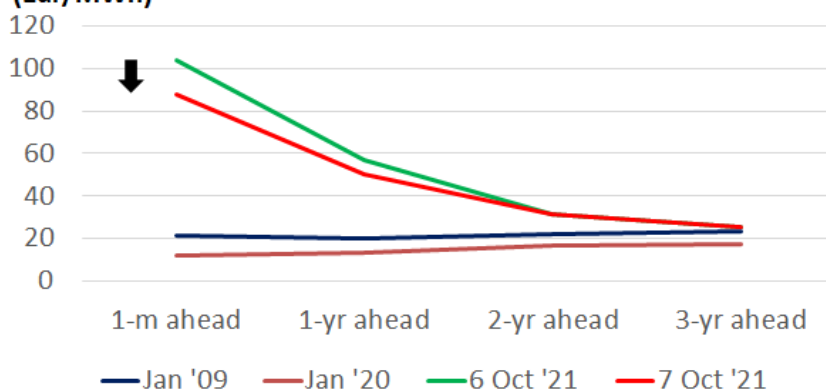
Yields on mid-October US Treasury bills declined after positive headlines eased market concerns about the debt ceiling stalemate. Senator McConnell has reportedly offered Democrats a short-term debt ceiling extension through the end of November to alleviate the near-term risk of a US government default. Following the announcement, yields on Treasury bills maturing around mid-October fell 4-7 bps, while those on other securities stabilized. Although this proposal would be a short-term solution that would shift the x-date from mid-October into early December, there has so far not been any notable reaction from yields on T-bills maturing in early December. Ahead of today's headlines, Moody's commented that their stable outlook on the Aaa rating for the US reflected their view that the debt limit would ultimately be raised, and that the US will continue to meet its debt-service obligations on time and in full. They also believe the Democratic Party was most likely to use the budgetary reconciliation process to raise the debt limit in time.



Euro area

Equities (+1%) are higher on hopes that tensions in energy markets will alleviate. Yesterday, Russian president Putin said that Russia could export record volumes to Europe this year, with Russia's Deputy PM pointing out that quicker North Stream 2 certification would help. Some contacts believe that gas supply from Russia to the EU is unlikely to return to normal until early 2022. **Dutch natural gas prices 1-m ahead (-2%) fell today after closing 13% lower yesterday but continue to trade at elevated levels.**

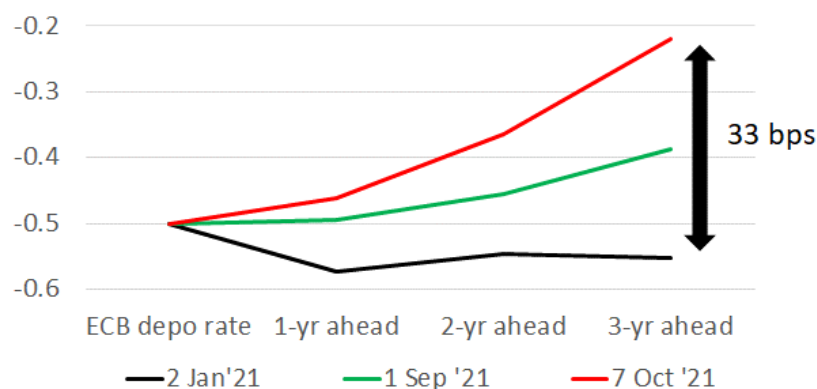
Dutch gas prices: Forward curve
(Eur/MWh)



Source: Bloomberg and IMF staff

The euro is little changed (at €1.156) and German 10-yr bund yields (-1 bps to -0.19%) fell after German industrial production disappointed. Forward markets are continuing to price in a first hike by the ECB in 2023. The Bank of Greece governor said market expectations for interest rate hikes “are not in accordance with our new forward guidance.”

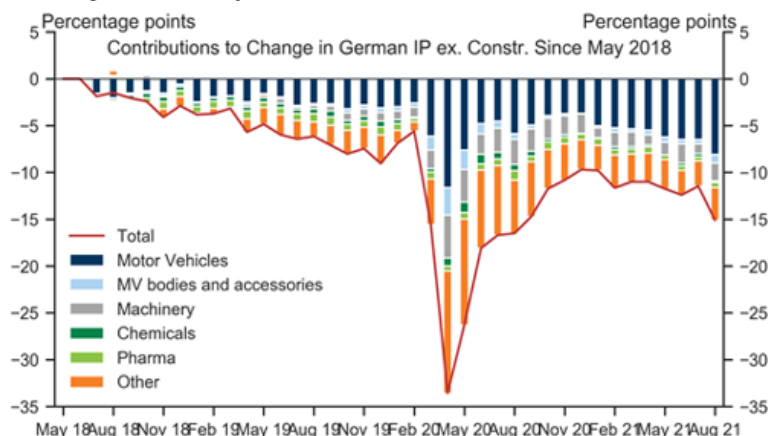
Euro area: ECB policy rate forward curve (%)



Source: Bloomberg and IMF staff

Italian 10-yr spreads (-4 bps at 104 bps) tightened on media reports that the ECB is working on a new QE program to prevent “any market turmoil” when pandemic QE purchases are expected to end. In the new program, purchases could be conducted “selectively” to prevent widening of spreads with purchases not tied to capital keys. Spanish 10-yr spreads are little changed but 10-yr Greek spreads also fell 3 bps. ECB data also show that total QE purchases were €95 bn in September versus €82 bn in August.

German industrial production unexpectedly contracted 4.0% m/m in August (compared to a drop of 0.5% m/m in August). Supply bottlenecks, such as a shortage of intermediate products, reportedly held back production in August.

Germany: Industrial production

Source: Haver, Goldman Sachs

Japan

Finance Minister Suzuki said that Japan aims to reach a balanced budget by 2025. He emphasized that fiscal discipline is needed to maintain market trust while indicating that the government will stick with the 2025 target of reaching a balanced budget (based on the primary balance). He also noted that the government will seek tax revisions in the next fiscal year to promote a virtuous cycle of growth and income distribution. **The Bank of Japan (BOJ) downgraded its economic assessment for five of the country's nine regions.** The downgrade, which was the broadest in more than a year, was due to a summer surge in infection cases and production cuts from supply shortages. Equities gained (NIKKEI: +0.5%); Japanese yen was little changed; long-end JGB yields dropped (10-year: -1.2 bps; -0.8 bp).

Emerging Markets

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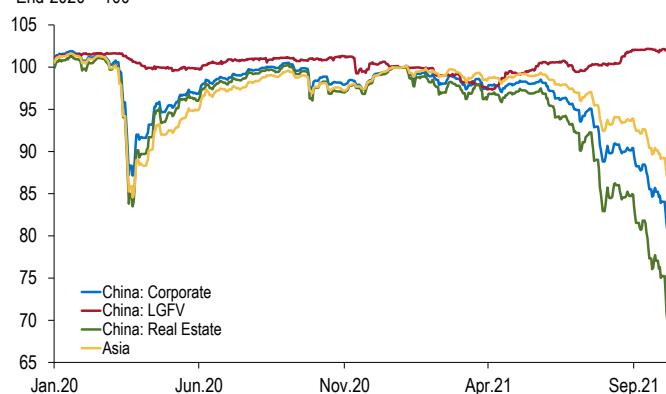
In Latin America, regional currencies were little changed but the performance of local rates was more mixed. Swap rates in Chile continued their climb higher, led by the long end. The 10y swap rate is +107 bps higher over the last 10 trading days amid concerns about the potential approval of a fourth pension withdrawal bill. **Most Asian equities gained, +2.6% on net,** led by Hong Kong (+3.1%), Taiwan (+2.0%) and Korean (+1.8%) equities, on the back of improving global risk appetite. In Hong Kong SAR, the stock market rally was partly supported by optimism around the new northern metropolis plan close to the mainland border. Markets were also relieved that the Chief Executive's policy address did not envisage an immediate increase in housing supply. **EMEA equity markets were trading mostly higher** with indices in Turkey (+1.6%) and Hungary (+1.3%) outperforming. Markets expect the National bank of Serbia to keep its policy rate unchanged at 1% in its meeting today. Yields on Ghana's Eurobonds have increased by 50 bps this month amid persistent concerns over Ghana's debt sustainability.

China

Offshore USD bonds of Chinese high-yield issuers declined on renewed market pressures. Some low-rated bonds saw a sharp decline in prices as market concerns around financially weak property developers deepened. A default of Fantasia—a property developer with total assets of \$17 bn (vs. \$370 bn of Evergrande) and still with enough cash to make the payment—earlier this week raised concern that more Chinese issuers may choose to default even though they still have the capacity to repay. Separately, a bond issued by Jumbo Fortune Enterprises and guaranteed by Evergrande missed a principal payment on October 3. Markets have become increasingly concerned about opaque debt among property developers. USD bonds issued by Chinese entities fell (high-yield real estate: -1.0%; high-yield corporate: -0.7%; based on Markit iBoxx indices). Onshore markets remained closed.

Price of USD Bonds: Speculative-Grade

End-2020 = 100



Sources: Bloomberg; and IMF staff calculations.

Poland

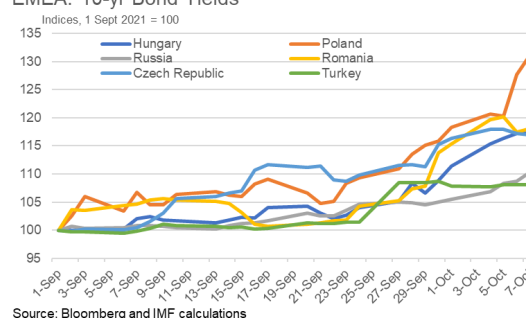
The National Bank of Poland unexpectedly increased its policy rate by 40 bps to 0.5% in response to inflationary pressures. Markets expected no change. In its press release, the central bank flagged that inflation is driven up by both supply- and demand-side factors and noted supply-shocks could be more long-lasting, therefore inflation could take longer to return to lower levels. The polish zloty appreciated (+1.2%) against the euro and yields increased (+20 bps) yesterday following the announcement.

Change in benchmark interest rates from Sept 2021



Source: Bloomberg and IMF calculations

EMEA: 10-yr Bond Yields



Source: Bloomberg and IMF calculations

Russia

Inflation surprised to the upside in September, accelerating to 7.4% y/y (7.3% consensus) from 6.7% in August. Analysts note that higher food inflation was the main driver, although core inflation is also now estimated at 7.6% y/y (7.1% in August). **Markets expect another 50 bp interest rate increase at the central bank meeting on 22 October.** 10-yr bond yields (7.7%) reached their highest level since March 2020.

Uruguay

After market close on Tuesday, the central bank hiked its policy rate by 25 bps to 5.25%. Although the sample of economists is small, most economists were expecting a 50 bp hike. The Uruguayan peso underperformed depreciating by 0.5% on Wednesday. The Board signaled additional hikes in 2021 and reiterated that as long as there are no setbacks associated with the pandemic, the monetary policy priority will focus on driving inflation expectations to the center of the target range of 3% to 6% over the monetary policy horizon. The 24-month ahead inflation expectations have eased to 6.3%, which is still well above the mid-point of the range.

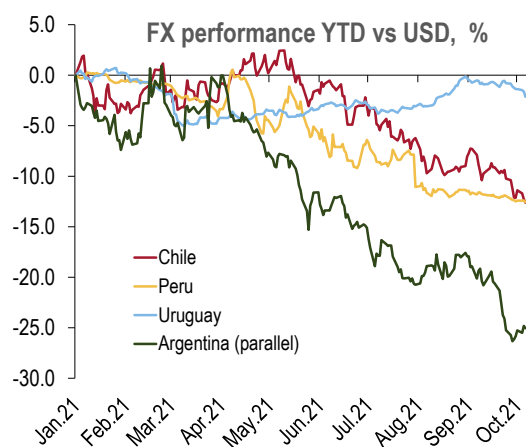


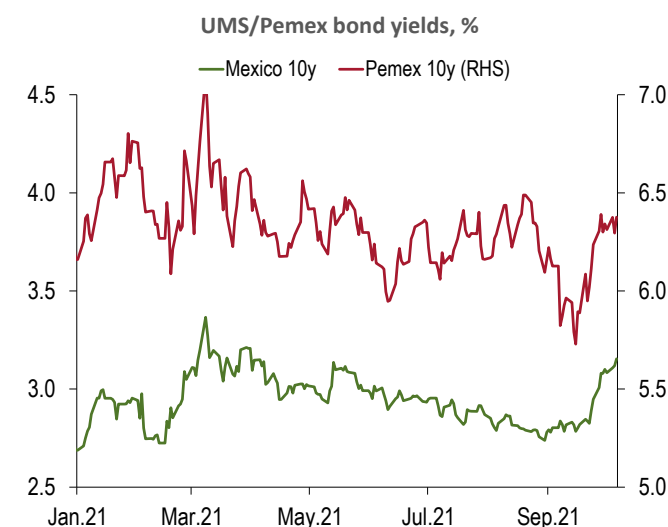
Figure 7: Inflation expectations



Source: Bloomberg

Mexico

The president said on Wednesday that disclosing the plan to prepay Pemex bonds caused the cost of that transaction to rise, suggesting that the operation may be off the table for now. According to Bloomberg, the president said that the plan was to use at least part of the \$12 bn in funds recently transferred to the central bank's reserves from the IMF to reduce Pemex's \$115 bn debt burden. On September 14, it was announced that the government purchased \$7 bn of reserves from the central bank. According to Bloomberg's sources, the \$7 bn may be used to repay upcoming debt or they may be used for other "possibilities under consideration". Spreads (and bond prices) of Pemex have come under pressure since mid-September in line with the broader risk-off sentiment in EM credit.








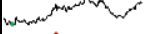
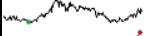
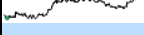


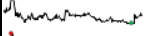





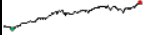






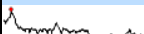




Source: Bloomberg

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Global Financial Indicators

Last updated: 10/7/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4381	0.4	2	-3	28	17
Europe		4082	1.7	1	-3	26	15
Japan		27678	0.5	-6	-8	17	1
China		3568	0.9	-2	0	11	3
Asia Ex Japan		84	-0.4	-1	-8	5	-7
Emerging Markets		50	-0.6	-1	-7	10	-4
Interest Rates			basis points				
US 10y Yield		1.52	0.2	4	15	74	61
Germany 10y Yield		-0.20	-2.0	0	12	29	37
Japan 10y Yield		0.07	-1.3	0	3	3	5
UK 10y Yield		1.07	-0.4	5	33	76	87
Credit Spreads			basis points				
US Investment Grade		90	-1.0	4	-1	-41	-5
US High Yield		330	2.5	16	11	-192	-50
Europe IG		51	-1.1	1	6	-2	3
Europe HY		259	-6.9	6	30	-58	17
Exchange Rates			%				
USD/Majors		94.13	-0.1	0	2	1	5
EUR/USD		1.16	0.1	0	-2	-2	-5
USD/JPY		111.3	-0.1	0	1	5	8
EM/USD		55.4	0.3	0	-3	1	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		80	-1.3	2	12	91	55
Industrials Metals (index)		163	1.2	2	0	40	23
Agriculture (index)		58	0.7	1	2	41	20
Implied Volatility			%				
VIX Index (% change in pp)		20.1	-0.9	-3.0	2.0	-7.9	-2.6
US 10y Swaption Volatility		74.2	-0.1	0.6	4.4	5.5	14.1
Global FX Volatility		6.9	0.0	0.2	0.4	-2.0	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		108	-2.4	0	-14	-35	-12
Italy		104	-3.6	-2	-4	-24	-7
Portugal		55	-0.2	0	-3	-18	-5
Spain		65	0.1	-1	-4	-8	4

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

Emerging Market Financial Indicators

Last updated: 10/7/2021 8:06 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)						
	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
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.44	0.4	0.2	0	5	1		3.0	0	2	-26	-26
Indonesia		14217	0.3	0.7	0	3	-1		6.3	4	17	-58	19
India		75	0.3	-0.7	-2	-2	-2		6.4	6	6	23	44
Philippines		51	0.6	0.8	-1	-4	-5		4.3	4	-2	67	65
Thailand		34	0.4	0.1	-3	-8	-11		1.9	3	20	42	56
Malaysia		4.18	0.0	0.1	-1	-1	-4		3.6	10	28	108	102
Argentina		99	0.0	-0.2	-1	-22	-15		49.3	8	236	784	-685
Brazil		5.48	0.3	-0.6	-6	2	-5		10.2	-6	29	389	464
Chile		812	0.3	-0.3	-4	-2	-12		5.9	37	90	314	311
Colombia		3788	-0.1	1.4	0	1	-9		7.3	4	44	206	226
Mexico		20.49	0.3	0.7	-3	5	-3		7.5	10	45	134	187
Peru		4.1	-0.2	-0.2	-1	-13	-13		6.2	-24	-15	206	263
Uruguay		43	-0.5	-0.9	-2	-2	-2		7.9	2	-2	54	63
Hungary		310	0.2	0.2	-5	-1	-4		3.1	29	49	133	157
Poland		3.93	0.1	1.3	-3	-3	-5		1.8	36	52	108	119
Romania		4.3	0.0	-0.1	-2	-3	-7		4.0	31	41	73	125
Russia		71.9	0.7	1.2	2	9	3		7.5	30	56	174	177
South Africa		14.9	0.7	1.4	-4	12	-1		10.2	16	55	-22	54
Turkey		8.88	0.1	0.2	-6	-11	-16		17.9	2	100	521	479
US (DXY; 5y UST)		94	-0.1	-0.1	2	1	5		0.99	2	17	65	63

	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		4866	0.0	0	0	6	-7		211	1	-5	-31	-18	
Indonesia		6416	0.0	2	6	27	7		192	16	18	-42	-8	
India		59678	0.8	1	2	49	25		151	5	3	-72	0	
Philippines		6951	-1.5	0	0	17	-3		136	21	29	-3	24	
Malaysia		1561	0.1	2	-2	3	-4		133	2	2	-50	-2	
Argentina		77443	-1.0	1	-2	73	51		1571	-1	100	206	215	
Brazil		110560	0.1	0	-6	16	-7		309	12	23	-19	50	
Chile		4132	0.0	-5	-7	15	-1		159	10	17	-25	3	
Colombia		1382	-0.1	1	5	18	-4		299	-1	25	38	84	
Mexico		50974	-0.2	0	-2	36	16		356	6	11	-126	-1	
Peru		18356	0.1	-1	4	2	-12		181	10	10	8	52	
Hungary		53889	1.1	2	2	61	28		122	-5	-12	-33	-27	
Poland		72116	0.5	3	0	44	26		25	-1	-1	-2	-3	
Romania		12655	0.2	0	3	43	29		212	21	25	-35	9	
Russia		4217	1.1	3	5	48	28		170	14	6	-51	-9	
South Africa		64602	1.0	0	-3	18	9		375	18	37	-142	-9	
Turkey		1393	1.5	-1	-4	21	-6		503	6	46	-100	56	
Ukraine		526	0.0	0	0	5	5		539	28	65	-183	46	
EM total		50	2.1	-1	-7	10	-4		382	13	34	-23	44	

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

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