



- US adds a weaker-than-expected 194k jobs in September ([link](#))
- US equities gain amid progress on raising US debt ceiling ([link](#))
- ECB pushes back against fears of accelerating inflation ([link](#))
- Energy drives broad commodity price indices to new post-pandemic highs ([link](#))
- Japan to introduce ESG considerations for foreign reserves ([link](#))
- Reserve Bank of India suspends bond-buying program; policy rate unchanged ([link](#))
- Peruvian central bank hikes policy rate 50 bps; assets rally after prime minister change ([link](#))

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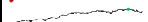
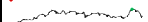








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Cautious markets prevail as US job gains underwhelm expectations

Global markets are mixed this morning as investors focused on the US employment report that showed a weaker-than-expected gain of 194k jobs last month. Risk assets rebounded yesterday as US lawmakers signaled a break in the debt ceiling impasse. US equities welcomed the news, lifting the S&P 500 close to 1% yesterday and the VIX sliding back below 20. Global risk sentiment remained constructive overnight with most Asian stock indices closing in positive territory, while European and US equity futures are trading more mixed in response to the US jobs data that came in well below expectations. Analysts suggest the second consecutive month of underwhelming US jobs data should stoke the debate over the next month on whether the Fed will make an announcement on tapering asset purchases at its next meeting in early November. Elsewhere, commodity prices steadied after the dip over the last day and was led by crude oil prices rising back above \$80/bbl after US authorities downplayed the possibility of deploying strategic reserves. In response, core sovereign bond yields initially resumed their rise with breakeven inflation rates moving higher and yield curves steepening. Although upward momentum has stalled this morning following the US jobs data, nominal 10-year US Treasury and German bund yields are now at levels last seen in early-June.

Key Global Financial Indicators

Last updated: 10/8/21 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4400	0.8	2	-3	28	17
Eurostoxx 50		4093	-0.1	1	-2	26	15
Nikkei 225		28049	1.3	-3	-8	19	2
MSCI EM		51	2.0	0	-4	11	-2
Yields and Spreads			bps				
US 10y Yield		1.58	0.7	12	24	80	67
Germany 10y Yield		-0.16	2.2	6	16	36	41
EMBIG Sovereign Spread		357	-8	2	21	-57	7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	0.0	-1	-2	1	-5
Dollar index, (+) = \$ appreciation		94.2	-0.1	0	2	1	5
Brent Crude Oil (\$/barrel)		82.4	0.5	4	13	90	59
VIX Index (% change in pp)		19.3	-0.2	-2	1	-7	-3

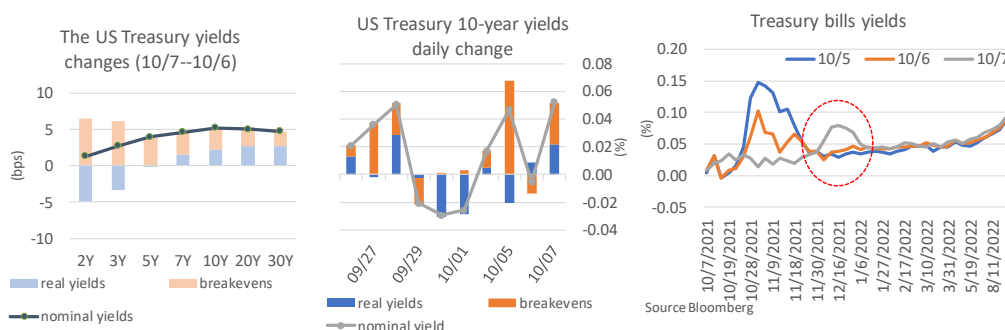
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

Progress on US debt-ceiling negotiations bolstered market sentiment and pushed major stock indices higher. Yesterday, the S&P 500 gained close to 1% as the US Senate reached an agreement to extend the debt ceiling through early December. The borrowing limit would be raised by \$480 bn, which would be sufficient to meet Treasury's financing needs through December 3rd. Treasury yields rose across the curve, with 10-year yields up 5 bps to 1.57%, the highest level since June. The curve steepened further. Breakevens widened, especially on the front end of the curve, while real yields drove longer-maturity tenors higher. This week, 10-year nominal yields have risen 11 bps, mainly due to breakevens (+9.5 bps) as energy prices have also been a focus for investors. Long-dated forward breakevens maintained their wider levels, with 5y5y breakevens hovering around 2.5%. In the US Treasury bill market, yields on early December T-bills rose 4-8 bps following news of the debt ceiling agreement, while those maturing around mid-October declined further. Market analysts now expect the new x-date to come sometime between mid-December to January.



Source:

Bloomberg

This morning, US nonfarm payrolls came in weaker than expected for September, rising 194k (vs. 500k consensus) with an upward revision to the previous month. However, the unemployment rate was better than expected, falling to 4.8%. US Treasury yields, S&P 500 futures, and the dollar were slightly lower following the release.

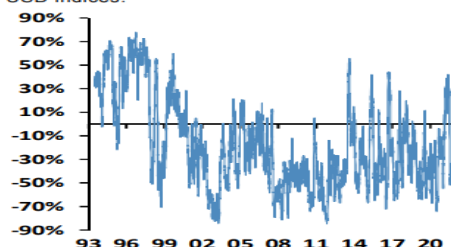
US September Jobs Report 8:30 am

Data Release	Actual	Survey	Prior	Revised
Change in Nonfarm Payrolls (NFP)	194k	500k	235k	366k
Unemployment Rate	4.8%	5.1%	5.2%	-
Average Hourly Earnings (mom)	0.6%	0.4%	0.6%	0.4%
Average Hourly Earnings (yoy)	4.6%	4.6%	4.3%	4.0%
Labor Force Participation Rate	61.6%	61.8%	61.7%	-
Source: Bloomberg				

Correlation between bond and equity prices has been increasing and likely pressured some cross-asset investors reduce exposure, according to the JP Morgan analysts. Those investors (e.g., risk parity funds and balanced mutual funds) usually benefit from negative correlation, which suppresses the volatility of portfolios and allows investors to take higher leverage to boost their return. But once correlations

increase, they are forced to reduce their risk. Analysts expect bond-equity correlation to continue trending towards positive territory into 2022 as long as the inflation surprises persist.

Figure 1: Bond-equity correlation shifted back towards positive territory in September
2-month rolling correlation between daily returns of MSCI World Local vs. GBI Global hedged into USD indices.



Source: Bloomberg Finance L.P., J.P. Morgan

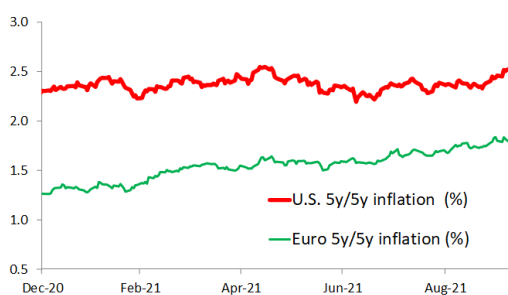
Euro area

Equities (-0.3%) edged lower as commodity prices made new highs ahead of the U.S jobs report.

German exports unexpectedly declined 1.2% m/m in August, serving as a reminder of downside risks to growth. The euro is little changed (at €1.156) and German 10-yr bund yields (+ 3 bps to -0.15%) are higher as analysts are upgrading 2022 inflation forecast to reflect higher energy prices. Italian 10-yr spreads (-1 bps to 103 bps) edged lower.

Yesterday, ECB Chief Economist Lane said that the ECB remains far from a red zone on inflation where it could become persistent “at a number that is immoderately above the inflation target.” Mr. Lane added that there is “very solid evidence” that the current spike in inflation will not last and warned that the current energy price surge is by and large contractionary. Despite the comments, 5-yr/5-yr inflation swaps have traded 5 bps lower so far in October (to 1.79%) even as ECB communication is perceived to have been relatively dovish in the past week (including a news report of work on a new QE program).

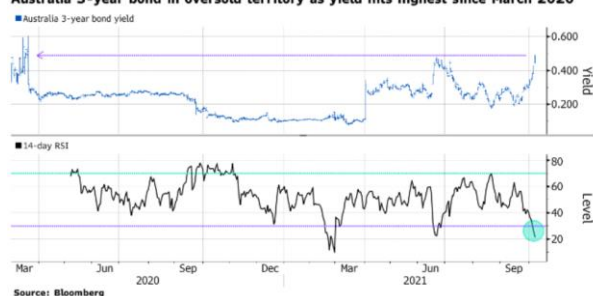
Five-year Forward Five-year Inflation Swaps (%)



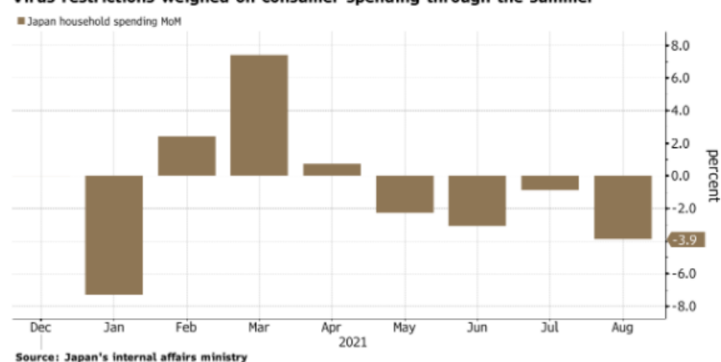
Source: Bloomberg, and IMF staff

Australia

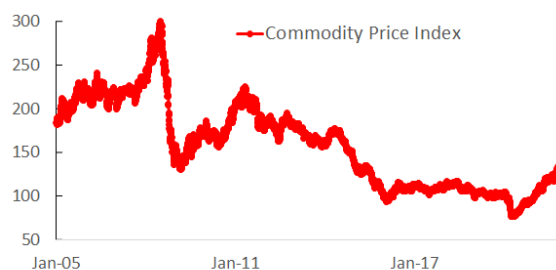
The Reserve Bank of Australia (RBA) warns about excessive borrowing and house price risks. In its Financial Stability Review, RBA said "price falls could be widespread if interest rates were to increase sharply due to unexpected inflation or rising risk premiums." Over the past 12 months, home prices have increased by an average 20.3% across the nation, while the average owner-occupier home loan grew by 15%. Meanwhile, **Australian 3-year bonds have fallen for seven consecutive days.** According to Bloomberg, the surge in yields has been brewing for a while as traditional buyers at home and abroad turned away in recent months. **Australian stocks gained +0.9%, 10-year bond yield was up 5 bps, the Australian dollar weakened -0.1%.**

Australia 3-year bond in oversold territory as yield hits highest since March 2020**Japan**

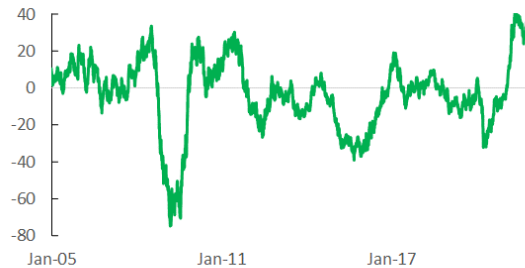
Japan will introduce environmental, social and governance (ESG) considerations for foreign reserves held by the Finance Ministry. The ministry did not disclose the amount of funds that will be affected. In its statement, however, it said that instead of shifting the existing portfolio, ESG will become a new factor to be considered for all new foreign asset investments. Investment into ESG bonds will likely increase as the ESG bond market expands, Bloomberg reports. On data releases, Japanese households spending fell 3% y/y and 3.9% m/m seasonally adjusted in August, sliding at the fastest pace since January. **Equity market recovered +1.2%, 10-year bond yield was up 1.2bps, the yen lost -0.3%.**

Virus restrictions weighed on consumer spending through the summer**Commodity Prices**

Commodity futures rose to a new post-pandemic high. Oil prices gained further even though European natural gas prices have stabilized at record high levels. Commodity price indices have traded at higher levels in past decades, but investors are struggling to digest the extraordinary spike in prices.

Bloomberg commodity price index (Jan 2020:100)

Note: Index reflects price movements of all commodity futures with weights based on trading volumes (2/3) and global production (1/3).
Source: Bloomberg and IMF

Bloomberg commodity price index (% yoy change)

Note: Logarithmic change. The bloomberg index reflects price movements of all commodity futures with weights based on trading volumes (2/3) and global production (1/3).
Source: Bloomberg and IMF

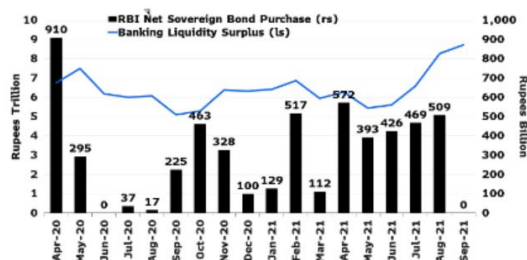
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In Latin America, regional currency performance was mixed with both the Brazilian real and the Mexican peso depreciating by around 0.5%. The Peruvian sol outperformed appreciating by +1.1%. The sell-off in US Treasuries did not push local rates higher, with most curves shifting slightly lower by 4-5 bps. Peru again outperformed with 10-year rates declining by 20 bps. **Asian stocks were up +0.2% on net.** China gained (Shanghai +0.7%, Shenzhen +0.8%) after a week-long break. **Regional currencies weakened, and long-term bond yields increased.** Sri Lanka's bonds continue to fall amid debt sustainability concerns (one-year yields up 24 bps, 10-year yields up 14 bps at 10.4%). **EMEA equity markets continued their upward trend and currencies were trading mostly weaker against the dollar.** The National Bank of Serbia kept policy rate unchanged at 1%, in line with market expectations.

India

The Reserve Bank of India (RBI) unexpectedly suspended its bond-buying program, and left its policy rate unchanged. RBI surprised by announcing it will discontinue the Government Securities Acquisition Program. The benchmark repurchase rate was left at 4% as expected. In addition, Governor Shaktikanta Das stressed that the RBI's policy stance remains accommodative. The central bank lowered its inflation forecast to 5.3% for the current financial year ending March from 5.7% previously; its growth forecast remained 9.5%. **India's stock market gained +0.6%, sovereign yield curve steepened with 10-year bond yields up 4.5 bps, the rupee weakened -0.3%.**

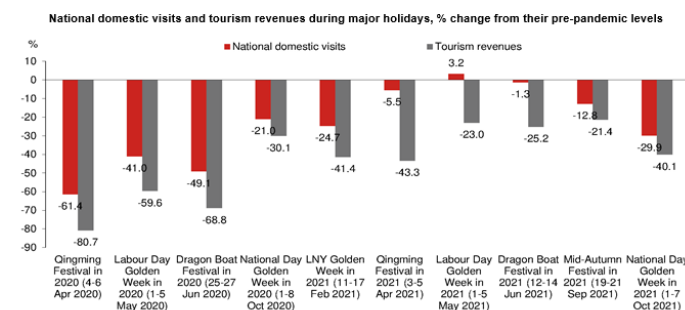
Liquidity Surge Drives RBI to Suspend QE



Source: Bloomberg Economics, RBI

China

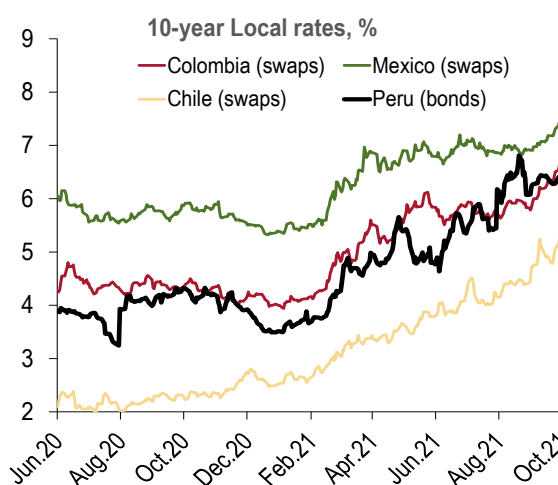
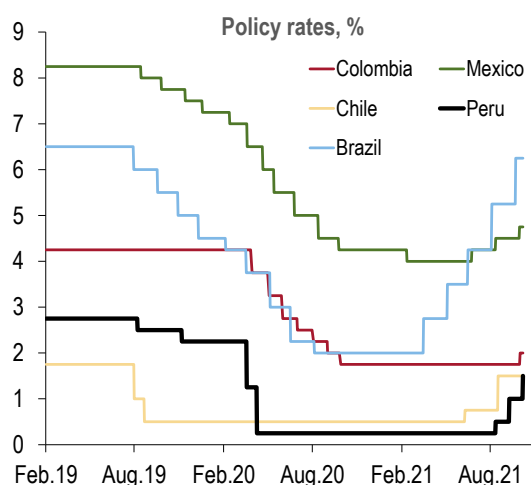
China will deepen its loan prime rate reforms and gradually make deposit rates more market-drive. According to the remarks by vice central bank governor Liu Guoqiang published on Friday, China will improve market-based interest rate formation and transmission mechanism, Bloomberg reports. The People's Bank of China (PBOC) will improve its policy interest rate regime with the seven-day reverse repo rate in open market operations as the short-term policy rate and the medium-term lending facility interest rate as the medium-term policy rate. In June, China reformed the way banks calculate deposit rates, allowing banks to set ceilings on deposit rates by adding basis points to the benchmark rate, a shift from the previous practice of multiplying the benchmark rate. Separately, **PBOC drained the most short-term liquidity from the banking system in a year on a net basis.** The central bank offered 10bn yuan (\$1.6bn) of short-term funds to lenders, resulting in a net liquidity withdrawal of 330bn yuan. Separately, **tourism revenues in China during the Golden Week holiday fell by almost 5% y/y.** Given broad-based weakness in consumption data, analysts point to further downside risks to growth. **Chinese equity markets gained (Shanghai +0.7%, Shenzhen +0.8%), 10-year bond yields were up +3 bps, the renminbi was little changed.**



Note: Pre-pandemic levels refer to national domestic visits and/or tourism revenues during the same holiday in 2019, on a comparable basis (we use daily average if a same holiday has different number of days in different years).
Source: Ministry of Culture and Tourism and Nomura Global Economics.

Peru

After market close the central bank raised its policy rate by 50 bps to 1.5% in line with market expectations. The central bank tightened policy for the third straight month after annual inflation surged to its highest rate in 12 years last month and the exchange rate has come under pressure over the last few months on the back of higher political uncertainty. The sol is down 12% since President Castillo unexpectedly won the first round of presidential election in April. **Peruvian assets rallied on Thursday after the President replaced the prime minister** with a more moderate choice in a bid to improve his administration's relations with lawmakers. A few days earlier, BCRP president Verlarde was confirmed for another term. JP Morgan noted that the administration "completed a week with political decisions that reduce the likelihood of extreme scenarios, helping the transition to a more constructive path ahead". In response to the news, 10-year bond yields declined by around 50 bps over the last few days to 5.9%.



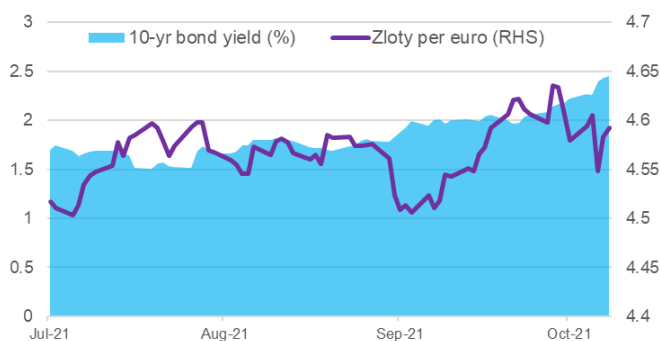
Source: Bloomberg

Poland

The zloty depreciated (0.8%) against the euro after dovish comments from the central bank. At a press conference following an unexpected interest rate increase, Governor Glapiski did not commit to a tightening cycle and said the central bank will observe the effects of the interest rate hike for a long time. **Political uncertainty increased after the constitutional tribunal ruled yesterday that Poland's constitution overrides certain EU laws on judicial matters.** Uncertainty over whether Poland will continue to benefit from EU funds increased, and contacts have cautioned that political instability or

decreased EU funds could reduce Polish stocks in portfolios. The Warsaw Stock Exchange is trading higher today (+1.7%).

Poland: Bond yield and currency





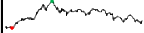





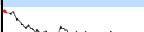







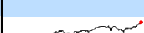


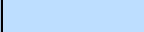



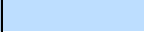




Source: Bloomberg and IMF calculations

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Global Financial Indicators

Last updated: 10/8/21 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4401	0.8	1	-3	28	17
Europe		4093	-0.1	1	-2	26	15
Japan		28049	1.3	-3	-8	19	2
China		3592	0.7	-1	-3	10	3
Asia Ex Japan		85	2.2	1	-5	7	-5
Emerging Markets		51	2.0	0	-4	11	-2
Interest Rates			basis points				
US 10y Yield		1.58	0.7	12	24	80	67
Germany 10y Yield		-0.16	2.2	6	16	36	41
Japan 10y Yield		0.09	1.6	3	4	5	7
UK 10y Yield		1.12	4.4	12	38	83	92
Credit Spreads			basis points				
US Investment Grade		90	-3.1	3	-1	-38	-5
US High Yield		323	-4.1	1	5	-185	-57
Europe IG		51	0.3	1	6	-3	3
Europe HY		260	1.2	6	31	-62	18
Exchange Rates			%				
USD/Majors		94.16	-0.1	0	2	1	5
EUR/USD		1.16	0.1	0	-2	-2	-5
USD/JPY		111.8	0.2	1	1	5	8
EM/USD		55.2	0.0	-1	-2	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		82	0.5	4	13	90	59
Industrials Metals (index)		165	0.6	3	1	41	24
Agriculture (index)		58	0.8	1	4	43	21
Implied Volatility			%				
VIX Index (% change in pp)		19.3	-0.2	-1.8	1.4	-7.0	-3.4
US 10y Swaption Volatility		74.5	-0.2	4.2	4.1	6.5	14.4
Global FX Volatility		6.7	0.0	0.0	0.1	-2.0	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		106	-1.4	-2	-15	-36	-14
Italy		102	-1.7	-1	-5	-26	-9
Portugal		54	-1.1	-1	-5	-19	-6
Spain		64	-0.6	-1	-5	-8	3

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

Emerging Market Financial Indicators

Last updated: 10/8/2021 8:12 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		6.45	0.0	0.0	0	5	1		3.0	0	1	-26	-26
Indonesia		14223	0.0	0.6	0	3	-1		6.3	2	18	-57	20
India		75	-0.3	-1.2	-2	-2	-3		6.4	4	4	23	43
Philippines		51	0.0	0.5	-1	-4	-5		4.3	-4	-2	68	64
Thailand		34	-0.2	-0.7	-3	-8	-12		1.9	2	19	42	57
Malaysia		4.18	0.1	0.0	-1	-1	-4		3.6	15	34	115	108
Argentina		99	0.0	-0.2	-1	-22	-15		48.9	-76	201	747	-723
Brazil		5.50	0.4	-2.4	-3	2	-5		10.3	-5	39	399	474
Chile		815	-0.2	-1.4	-3	-2	-13		6.0	49	102	329	328
Colombia		3775	0.3	0.9	1	2	-9		7.3	-1	38	201	223
Mexico		20.61	0.2	-0.8	-3	4	-3		7.4	8	39	132	185
Peru		4.1	1.1	1.0	0	-13	-12		6.2	-24	-14	211	263
Uruguay		43	-0.1	-0.9	-2	-2	-2		7.9	0	-4	56	63
Hungary		311	-0.3	-1.1	-5	-2	-5		3.1	22	43	130	156
Poland		3.99	-0.6	-1.1	-4	-4	-7		1.9	39	54	117	126
Romania		4.3	0.1	-0.3	-2	-3	-7		4.0	24	43	76	128
Russia		72.0	-0.4	1.1	2	7	3		7.4	16	45	166	167
South Africa		14.9	0.4	-0.1	-5	11	-1		10.1	10	44	-30	46
Turkey		8.91	-0.4	-0.6	-5	-11	-17		18.0	21	102	497	485
US (DXY; 5y UST)		94	-0.1	0.1	2	1	5		1.03	10	22	69	67

	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		4930	1.3	2	-2	5	-5		212	1	-2	-28	-17
Indonesia		6482	1.0	4	6	28	8		183	6	13	-45	-17
India		60059	0.6	2	3	48	26		151	5	6	-66	0
Philippines		6907	-0.6	0	-1	16	-3		125	8	20	-8	13
Malaysia		1564	0.2	3	-1	2	-4		133	1	4	-43	-2
Argentina		77553	0.1	0	0	71	51		1564	-25	103	199	208
Brazil		110585	0.0	0	-2	13	-7		302	-2	17	-19	43
Chile		4130	0.0	-5	-6	13	-1		155	1	16	-24	-1
Colombia		1394	0.8	2	6	17	-3		290	-12	17	35	75
Mexico		50877	-0.2	-1	-1	32	15		350	-4	15	-127	-7
Peru		19376	5.6	6	11	7	-7		169	-7	2	3	40
Hungary		53693	-0.3	0	2	59	28		116	4	-17	-36	-33
Poland		73162	1.4	3	3	47	28		24	-3	-2	-5	-4
Romania		12788	0.4	1	4	44	30		201	5	10	-42	-2
Russia		4244	0.4	4	6	49	29		163	4	2	-53	-16
South Africa		65209	0.1	2	0	20	10		361	1	25	-145	-23
Turkey		1399	0.2	0	-2	22	-5		491	-7	38	-120	44
Ukraine		526	0.0	0	0	5	5		519	5	44	-189	26
EM total		51	-0.1	0	-4	11	-2		373	0	27	-28	35

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

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