



- Investors expect ECB medium-term inflation outlook to remain well below target ([link](#))
- U.S. Treasury curve flattens sharply on strong 30-yr bond auction ([link](#))
- Flows into short-term U.S. Treasury Inflation-Protected Securities slow ([link](#))
- U.K. monthly GDP growth slows sharply ([link](#))
- Russia delivered a smaller than expected 25 bps hike ([link](#))
- Brazil assets rise as Bolsonaro signals truce with top court ([link](#))
- China to accelerate development of multi-tiered social security system ([link](#))

[Mature Markets](#)




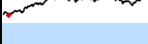

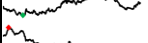


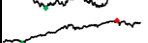

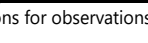
| [Emerging Markets](#)

| [Market Tables](#)

## Risk sentiment improves as tapering concerns fade

**Equities traded higher after the ECB convinced investors that major decision on its QE programs have been postponed to December.** The relatively small revision in the ECB's inflation forecast also reassured markets that the ECB will remain cautious in December. Reports of a constructive call between U.S. President Biden and President Xi also supported sentiment in Asia. Yesterday, the U.S. yield curve flattened sharply as an auction of 30-yr bonds met with strong demand. Central banks in Peru and Ukraine both hiked 50 bps in response to inflationary pressures whereas Russia hiked a less-than-expected 25 bps. Analysts are now calling for a hike of 150 bps in Brazil later this month after inflation accelerated more than expected in August.

Key Global Financial Indicators

Last updated: 9/10/21 1:24 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4493	-0.5	-1	1	35	20
Eurostoxx 50		4195	0.4	0	0	27	18
Nikkei 225		30382	1.2	4	9	30	11
MSCI EM		53	-0.2	-1	1	21	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.32	2.2	0	-3	64	41
Germany 10y Yield		-0.34	1.9	2	12	9	23
EMBIG Sovereign Spread		342	3	1	-5	-74	-8
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.0	0.5	0	1	3	-2
Dollar index, (+) = \$ appreciation		92.4	-0.1	0	-1	-1	3
Brent Crude Oil (\$/barrel)		72.8	1.9	0	3	82	41
VIX Index (% change in pp)		17.4	-1.4	1	1	-12	-5

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

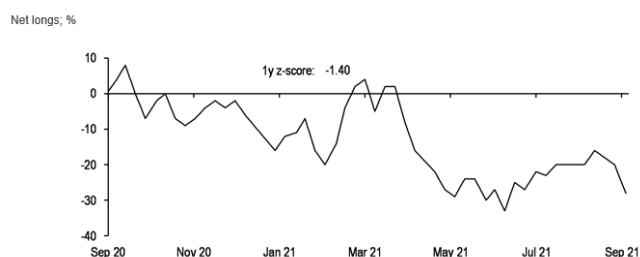
## Mature Markets

[back to top](#)

### United States

**Treasury yields fell sharply following a 30-yr bond auction with record investor demand.** The \$24bn 30-yr auction was very well bid across several demand metrics. 30-yr rates dropped over 5 bps, leading to a sizable flattening in the curve. Most of the move was in real rates while 10-yr breakeven widened 1 bps. Analysts noted that **the very strong demand metrics could be a result of short-covering, given that bearish duration positioning has increased in recent weeks.**

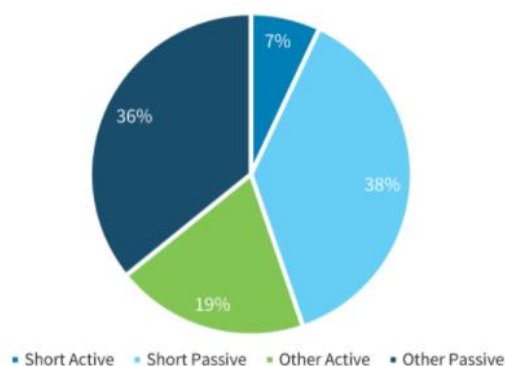
Exhibit A1: J.P. Morgan Treasury Client Survey



**Stocks (-0.5%) fell for a 4<sup>th</sup> day amid growth and tapering concerns.** The initial reaction to the lower-than-expected jobless claims was favorable, with S&P500 up by 0.4% in the morning. But the index quickly reversed on news that more US firms are delaying return to office. Another bout of selling occurred after the bond auction triggered a rapid decline in Treasury yields. Contacts reported that algo or other high frequency trading were at play, with price action exacerbated by low liquidity in futures market due to contract rollover.

**Recent shift in funds of Treasury Inflation-Protected Securities (TIPS) could indicate an inflection point for short-term inflation expectations.** Strong inflows into TIPS funds since early 2020 have supported inflation expectations (breakeven rates). In particular, TIPS funds that track short-term TIPS indices (less than 5 year) have captured the bulk of these inflows, helping to richen the front-end of the breakeven curve. In recent weeks, there is a meaningful deceleration in flows to short-term TIPS funds, while flows into long-term TIPS funds have accelerated, with July and August seeing the highest inflows in recent years. **The shift from short-term to long-term TIPS funds could indicate that investors are positioning for the peak of the inflationary impulse.**

Figure 2. Share of TIPS funds inflows by type



Period: January 2021-August 2021.

Source: Bloomberg, Barclays Research

Figure 3. TIPS funds inflows by type m/m



Source: Bloomberg, Barclays Research

## Japan

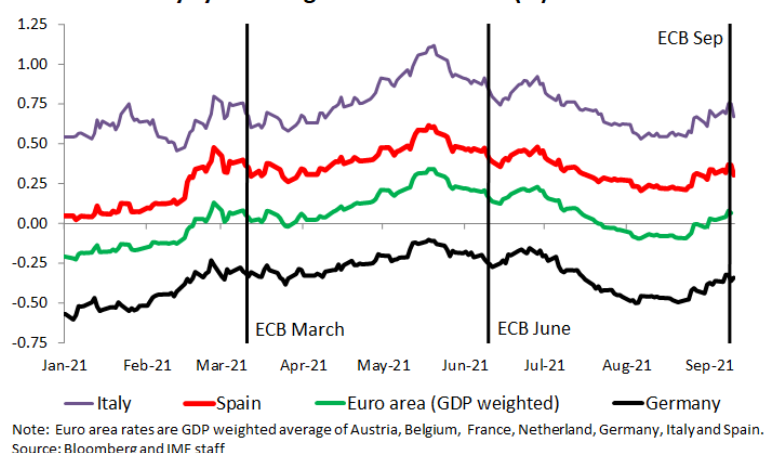
**Japanese stocks (+1.3%) rallied while 10-yr yields and the yen were little changed.** Taro Kono became the third lawmaker to officially stand in the September 29 leadership vote for the ruling Liberal Democratic Party. Kono is in charge of the vaccination campaign and served as Minister for Administrative Reform and Regulatory Reform since 2020. Rivals to replace outgoing PM Suga have pledged to launch stimulus packages over the short term and to defeat deflation over the longer term.

## Euro area

**Equities (+0.3%) traded higher while 10-yr bund yields (+ 2 bps to -0.34%) rose in line with U.S. rates. The euro is little changed.**

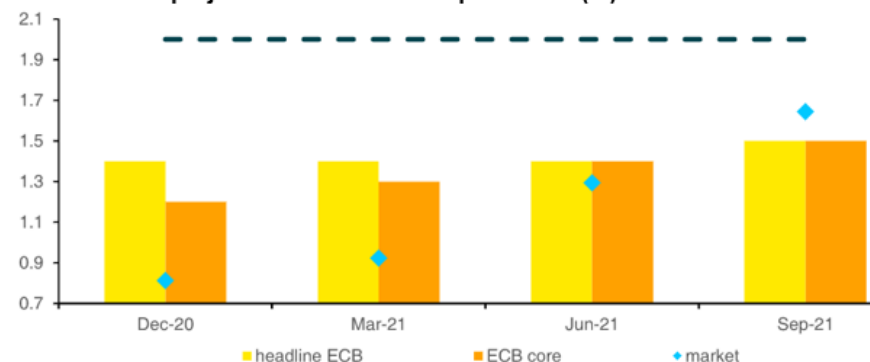
**Southern European spreads are little changed today after the ECB removed the” significantly higher” PEPP purchase from its policy statement yesterday.** News reports are that the ECB Governing Council agreed on a monthly PEPP target of between €60-70bn with flexibility in Q4. ECB hawks have also not challenged the outcome of yesterday’s meeting.

**Euro area: 10-yr yields on government bonds (%)**



**The ECB upgraded its expectations for headline and core inflation in 2023 to 1.5% (from 1.4% in June).** The modest upgrade from June reinforces the view that the ECB will tighten policy but only very gradually. **Expectations are that the projections for 2024 to be released in December will remain well below target and will help make the case for "especially forceful or persistent monetary policy measures", as stressed in the ECB’s strategy review.**

**ECB: Inflation projections and market expectations (%)**



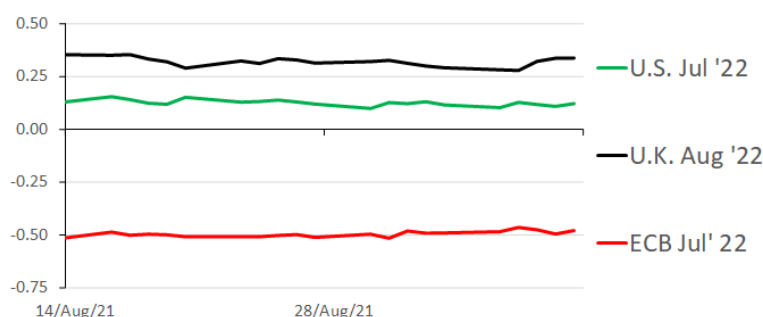
Source: Commerzbank

ECB President Lagarde also said that the ECB will discuss possible changes to the capital key and issuer limits in its regular QE program in December, as well as the possibility of implementing more Targeted Longer-Term Refinancing Operations.

### United Kingdom

The British pound and 10-yr gilt yields edged higher despite an unexpectedly sharp slowdown in monthly GDP growth to 0.1% mom (0.5% mom expected). Growth on a 3m/3m basis was 3.6% (compared to 3.8% expected). Analysts estimate that U.K. GDP remains about 3% below its pre-pandemic level, with the largest shortfall in services. This week, BoE governor Bailey said that he believes that minimum criteria for tighter U.K. monetary policy have been met. **Markets are continuing to price in a first hike by the BoE in May 2022 (from 10 bps to 25 bps), but some contacts believe that tax hikes and data disappointment will delay that timeline.**

G-3 Policy Rates at mid 2022 (from swaps, %)



Source: Bloomberg WIRP and IMF staff

### Emerging Markets

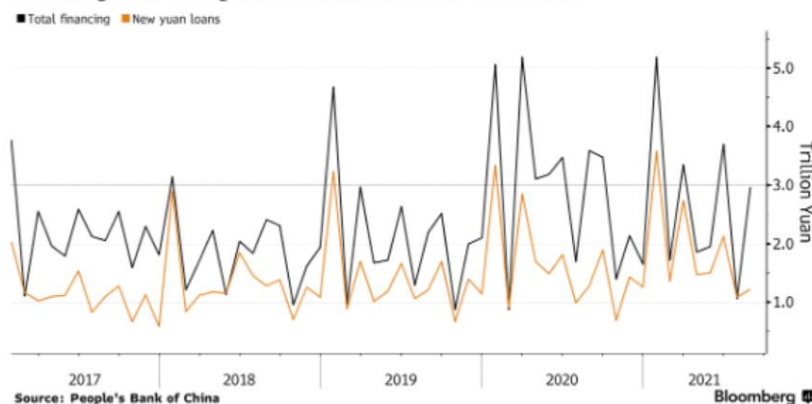
[back to top](#)

**Asian equities (+0.9%) moved higher while currencies gained. Malaysia's industrial production fell sharply in July (-5.2% y/y) owing to the impact of the nationwide lockdowns. Taiwan POC's long-term sovereign credit rating was upgraded by Fitch to AA from AA- to reflect the island's economic outperformance amid the pandemic. EMEA equities showed modest gains with stocks up in South Africa (+0.5%) and Poland (+0.4%).** EMEA currencies were mostly stable except for the South African rand (+0.8%) and the Czech koruna (+0.6%). **In the Czech Republic, inflation jumped to 4.1% yoy in August (3.6% expected).** Contacts note that a rate hike of 50 bps to 1.25% is now being priced for the September meeting with markets projecting another 100 bps of tightening over the next 12 months. **The National Bank of Ukraine hiked its policy rate by 50 bps in line with market consensus. In Chile, 10-yr swaps have risen 42 bps since Sept. 7 to 5.24% as traders are pricing in the possibility of a fourth round of pension withdrawals. The Peruvian sol (+2.4%) appreciated after the central bank of Peru raised its policy rate by 50 bps to 1.0%, following an increase of 25 bps in August.**

### China

**China's credit growth rebounded in August.** Aggregate financing was just below 3.0tn yuan (\$460bn), that compares to 1.1tn yuan in July and 3.6tn yuan in the same month last year. Separately, **China's top regulator reportedly signed off on a plan for Evergrande to renegotiate payment deadlines with banks and other creditors.** The group's dollar bonds due 2025 climbed 4 cents to 30 cents on Friday, Bloomberg reports. Talks between U.S. President Joe Biden and Chinese leader Xi Jinping added to positive market sentiment, **China equity markets closed higher (+0.3%), the renminbi strengthened (+0.3%), and bond yields were little changed.**

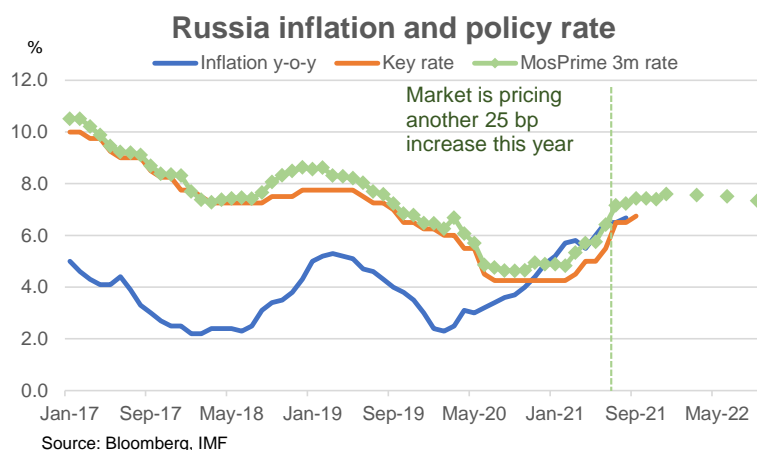
But loan growth in August is minimal and below 2020 level



**China to accelerate development of multi-tiered social security system.** According to “Human Rights Action Plan of China (2021-2025)” released by the State Council Information Office on Thursday, China’s government will provide more support to people struggling financially as part of a plan to develop a comprehensive social security system, Bloomberg reports. The government will pay the premium for pension funds for residents facing financial difficulties and provide them aid in medical services, education, housing and employment. The authorities plan to raise the retirement age in stages and create a new state-owned pension firm to tackle the funding shortage in its main national pension fund. Private pension plans will be encouraged. The plan comes against the backdrop of President Xi Jinping’s push to drive down inequality in the country in order to achieve “common prosperity.”

## Russia

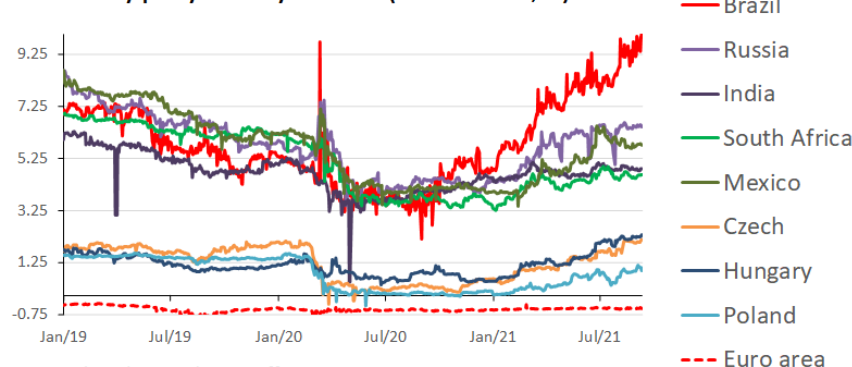
**The Central Bank of Russia increased its policy rate a less-than-expected 25 bps to 6.75%.** At the same time the central bank noted the ongoing inflationary pressures and indicated that further tightening is on the table in the upcoming meetings. The 1-yr interest rate swap declined by 20 bps after the decision as markets were pricing a full 50 bps increase. **Contacts note that effectively 25 bps has been now taken out of this hiking cycle, which is now expected to peak after on more rate increase of 25 bps in December.**



## Brazil

**Brazil swap rates rose as much as 57 bps after ICPA inflation accelerated to 9.7% yoy (9.5% expected) yesterday with analysts calling for a potential hike of 150 bps later in September.**

EM: Monetary policy rates a year ahead (from forwards, %)



Source: Bloomberg and IMF staff

**Brazil assets jumped after President Bolsonaro said that he never intended to attack any branch of government, easing tensions with the Supreme Court.** Stocks reversed losses and jumped sharply by as much as 2.6%, while the Brazilian real rose 2%. Brazilian assets fell on Wednesday after Bolsonaro hurled strong criticism at the Supreme Court and electoral authorities in protests the day before.

*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), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (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.*

**Disclaimer:** This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.



## Global Financial Indicators

Last updated: 9/10/21 1:25 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4500	-0.5	-1	1	35	20
Europe		4195	0.4	0	0	27	18
Japan		30382	1.2	4	9	30	11
China		3703	0.3	3	5	14	7
Asia Ex Japan		89	-0.4	-1	1	18	0
Emerging Markets		53	-0.2	-1	1	21	2
<b>Interest Rates</b>			basis points				
US 10y Yield		1.32	2.2	0	-3	64	41
Germany 10y Yield		-0.34	1.9	2	12	9	23
Japan 10y Yield		0.05	0.5	1	2	2	3
UK 10y Yield		0.74	0.0	2	15	51	54
<b>Credit Spreads</b>			basis points				
US Investment Grade		89	-0.3	-2	-5	-41	-6
US High Yield		316	-2.8	-2	-20	-203	-63
Europe IG		44	0.0	-1	-2	-10	-3
Europe HY		226	0.4	-2	-9	-89	-16
<b>Exchange Rates</b>			%				
USD/Majors		92.37	-0.1	0	-1	-1	3
EUR/USD		1.18	0.1	0	1	0	-3
USD/JPY		109.8	0.1	0	-1	3	6
EM/USD		57.0	0.5	0	1	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		73	1.8	0	3	82	40
Industrials Metals (index)		168	1.6	4	6	44	27
Agriculture (index)		55	0.0	-3	-5	44	15
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.4	-1.4	1.0	0.6	-12.3	-5.3
US 10y Swaption Volatility		64.6	-0.3	-1.4	-17.7	10.8	1.3
Global FX Volatility		6.6	0.0	0.1	-0.2	-2.8	-1.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		114	-0.4	-1	13	-42	-6
Italy		103	0.3	-3	3	-41	-8
Portugal		56	0.0	-3	-1	-24	-4
Spain		66	-0.1	-3	-2	-12	5

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

## Emerging Market Financial Indicators

Last updated: 10/09/2021 1:26 PM	Exchange Rates						YTD	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		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.44	0.3	0.3	1	6	1		3.0	0.3	4	1	-27	-25
Indonesia		14203	0.4	0.4	1	5	-1		6.1	0.0	4	-11	-64	6
India		74	0.1	-0.6	1	0	-1		6.3	-1.0	-2	-14	18	39
Philippines		50	0.1	-0.1	1	-3	-4		4.3	-0.2	0	-5	67	67
Thailand		33	0.2	-0.5	2	-4	-8		1.7	-1.5	7	17	22	42
Malaysia		4.14	0.3	0.3	2	1	-3		3.3	0.1	1	1	85	75
Argentina		98	-0.1	-0.2	-1	-24	-14		47.7	42.0	115	307	344	-842
Brazil		5.18	0.5	0.2	0	3	0		10.1	-2.4	20	81	465	454
Chile		788	0.7	-2.6	-1	-2	-10		5.3	16.9	36	76	278	259
Colombia		3832	-0.3	-0.9	4	-3	-11		7.0	4.7	13	1	200	190
Mexico		19.88	0.3	0.3	1	8	0		7.0	-2.8	0	-12	102	139
Peru		4.1	-0.2	0.0	0	-14	-12		6.5	2.2	13	13	247	289
Uruguay		43	0.0	-0.2	2	0	-1		7.9	0.0	2	0	14	67
Hungary		296	0.2	-1.1	2	2	0		2.6	-2.2	5	37	89	111
Poland		3.84	0.1	-1.2	2	-2	-3		1.3	-5.5	1	13	48	67
Romania		4.2	0.2	-0.3	0	-1	-5		3.6	1.0	6	48	26	88
Russia		72.7	0.2	0.1	2	3	2		7.0	0.2	2	8	116	124
South Africa		14.1	1.0	1.7	5	20	4		9.7	0.7	7	-17	-41	1
Turkey		8.40	0.4	-1.0	2	-11	-11		17.0	-8.4	11	-61	367	388
US (DXY; 5y UST)		92	-0.1	0.2	-1	-1	3		0.80	1.1	2	-3	53	44

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5014	0.9	4	1	8	-4		199	0	-2	-9	30	-9
Indonesia		6095	0.4	-1	-1	21	2		158	0	-9	-25	-5	-29
India		58305	0.0	1	7	50	22		142	-4	-6	-11	-74	-9
Philippines		6971	0.7	1	10	17	-2		83	0	-9	-17	13	-22
Malaysia		1576	-0.2	-1	5	5	-3		113	0	-2	-3	9	3
Argentina		77127	0.0	3	13	65	51		1459	0	19	8	-570	91
Brazil		115361	0.0	-3	-6	17	-3		253	0	0	-16	58	3
Chile		4407	0.0	-1	1	20	6		126	0	-6	-16	-14	-18
Colombia		1323	0.0	0	7	8	-8		207	0	-4	-15	44	2
Mexico		51395	0.0	-1	1	42	17		348	0	-9	-34	55	-12
Peru		17551	0.0	0	3	-3	-16		133	0	-4	-3	22	1
Hungary		52791	-0.4	1	6	51	26		65	0	-6	-15	-42	-31
Poland		71185	0.3	0	4	41	25		-22	0	-4	-11	-54	-21
Romania		12438	0.1	1	3	36	27		198	3	7	15	-52	-5
Russia		4000	0.2	0	4	38	22		159	0	-5	-3	19	-7
South Africa		64478	0.5	-3	-7	15	9		357	0	-4	-35	25	-23
Turkey		1449	-0.2	-1	1	32	-2		421	0	-5	-47	34	-24
Ukraine		526	0.0	0	0	5	5		479	0	12	-21	127	-12
EM total		53	1.1	-1	1	21	2		421	0	17	-10	97	128

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

[back to top](#)