- **US CPI weaker than expected** (link)
- **Markets are interpreting the Fed communication as increasingly hawkish, per JP Morgan model** (link)
- **Sweden inflation surprise sparks policy shift expectations** (link)
- **RBA Governor Lowe pushes back against early rate hikes** (link)
- **Chinese equities decline on souring risk sentiment** (link)
- **Argentina's ruling party midterm primaries defeat fuels market optimism** (link)

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Markets mixed just ahead of US CPI; little reaction on its release

Global equities were mixed this morning while market participants waited for the release of US CPI. Japanese stocks outperformed, closing at the highest level since 1990, while Chinese stocks dropped on concerns about indebted developer Evergrande, regulatory tightening and a virus flareup. In Europe, stocks were also mixed, trading in relatively narrow ranges. Advanced economy sovereign bond yields traded higher earlier this morning and oil prices continued their ascent for the third consecutive day. At 8:30 EST, US CPI was released for the month of August and came in weaker than expected. Immediately after the release, the market reaction was relatively muted, with 10-year Treasury yields treading water, the US Dollar depreciating slightly (-0.2%), and US equity futures gaining some ground (+0.4%).

Key Global Financial Indicators

Last updated: 9/14/21 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4469	0.2	-1	0	32	19
Eurostoxx 50		4178	-0.3	-1	-1	26	18
Nikkei 225		30670	0.7	3	10	31	12
MSCI EM		53	0.3	-1	2	18	2
Yields and Spreads					bps		
US 10y Yield		1.34	1.5	-3	6	67	43
Germany 10y Yield		-0.31	2.4	2	16	17	26
EMBIG Sovereign Spread		341	2	2	-11	-60	-9
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.8	-0.1	0	1	2	-2
Dollar index, (+) = $ appreciation		92.6	0.0	0	0	0	3
Brent Crude Oil ($/barrel)		73.9	0.5	3	5	86	43
VIX Index (%, change in pp)		19.7	0.3	2	4	-6	-3

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

Mature Markets

United States

On Monday, US stock indices were little changed (S&P500 +0.2%). COVID vaccine-producers' stocks dropped 3% to 7% after an article in the Lancet medical journal suggested that a booster shot would not be necessary for most people. Energy companies rose along with oil on expected supply disruptions by another heavy storm heading to the U.S. Gulf of Mexico. US Treasury 10-year yields dropped 2 bps.

This morning, **US CPI increased less than surveyed expectations for the month of August:** CPI MoM 0.3% (survey: 0.4%) and CPI YoY 5.3% (survey: 5.3%); CPI Ex Food&Energy MoM 0.1% (survey: 0.3%) and CPI Ex Food&Energy YoY 4.0% (survey: 4.2%). The 0.1% increase in core CPI was the smallest MoM increase since February, with services and airfares in particular surprising on the downside.

JP Morgan's "Fed Speak index" shows that markets may be interpreting FOMC members' communication as increasingly hawkish. The index uses a machine learning-based algorithm to understand how the headlines published while an FOMC member is speaking align to subsequent intra-day moves in Treasury markets. So far this year, the trend continues to be more hawkish showing that, in aggregate, the market perceived sentiment of Fed Speak is to higher yields. Specifically over the last month, the model estimated that the latest round of statements has had a net hawkish interpretation by the market.

Source: J.P. Morgan
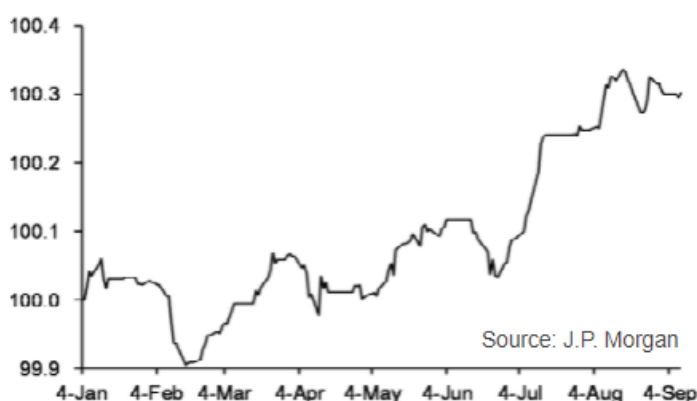
Euro-area

European equity benchmarks were mixed and traded in relatively narrow ranges, with France's CAC 40 (-0.6%) underperforming. This reflected the decline in luxury good producers (-2%) while energy shares (+0.7%) outperformed the broader index. **German bund yields rose by another 2 bps** as contacts pointed to sovereign bond supply ahead of the US CPI release. Among others, the EU issued another €9 bn of 7-year bonds under the NGEU program amid €85 bn of investor orders. Southern European spreads continued to tighten with Italy 10-year spread over Germany now trading below 100 bps, the first time since April.

ECB's Villeroy de Galhau echoed the central bank's stance on the temporary nature of the inflation increase, noting the central bank was "vigilant without being worried". Separately, **the Governor of the Bank of France called for labor market reforms as French companies report increasing recruitment difficulties**. This comes despite persistently low employment rates among the youngest and the oldest workers. Labor market shortages are also affecting other major economies as the latest ManpowerGroup survey suggest that among 45k employers surveyed across 43 countries, 69% reported hiring difficulties, a 15-year-high.

United Kingdom

The UK labor market report continued to point to tight conditions, even as wage growth slowed marginally. Analysts noted that the number of vacancies hit a record 1 mn people as about 1.6 mn are still estimated to remain in furlough, which is proportionally higher than in the Euro area. Sterling appreciated (+0.2%) while **5-year gilts yields rose (+4 bps) to the highest level since the start of the pandemic, ahead of the a UK Treasury bond auction**.

Scandinavia

Swedish August inflation came with a significant upside surprise, accelerating to 2.1% yoy against a 1.6% consensus expectation. Contacts now expect a large revision to Riksbank inflation forecast, potentially accompanied by a hawkish shift at the 21 September meeting. **The 10-year bond yield increased by 4 bps as contacts noted that a quicker balance sheet normalization looks more plausible than earlier interest rate hikes.**

In Norway, the parliamentary election resulted in a power shift to the opposition Labor Party. According to press reports, coalition talks will priorities a center-left government composed of the Labor Party, Centre Party and the Socialist left. Despite the power-shift from conservatives to center-left, **analysts do not expect a major shift in the economic or climate policy**.

Japan

Japanese equities continued their ascent for the third consecutive day, reaching a new height since August 1990. Share prices gained 0.7% today and cumulatively 2.5% over the past week (based on NIKKEI). According to analysts, positive market sentiment has been supported by reduced political uncertainty and the acceleration in vaccination. As of today, Japan overtook the U.S. in the proportion of those who have received a first shot, while more than half of Japanese population are now fully vaccinated. The decision of Prime Minister Suga to step down also increases the chance for the Liberal Democratic Party (LDP) to retain a majority in the House of Representatives in the upcoming election. The Japanese yen depreciated slightly (-0.1%).

Bubble Bound
Nikkei 225 closes at highest level since August 1990


Source: Bloomberg

Australia

Governor Lowe of the Reserve Bank of Australia (RBA) pushed back against early rate hikes. In a speech today, Governor Lowe reiterated that a rate hike is not expected before 2024, noting that Australia's wage and inflation dynamics are different from other countries. Meanwhile, markets appear to doubt the RBA's guidance, with the OIS 2-year 1-day forward rates having increased above 0.5%. Last week, the RBA decided to push ahead with a tapering of weekly bond purchases to AUD 4 bn ($2.9 bn) from AUD 5

bn while extending the duration by three months to mid-February next year. The AUD depreciated (-0.5%); equities gained (+0.2%); long-end government bond yields dropped (10-year: -2.0 bps; 30-year: -2.7 bps)

Not Low Enough?
Futures persist in pricing rate hikes the RBA doesn't see a case for

Source: Bloomberg, RBA
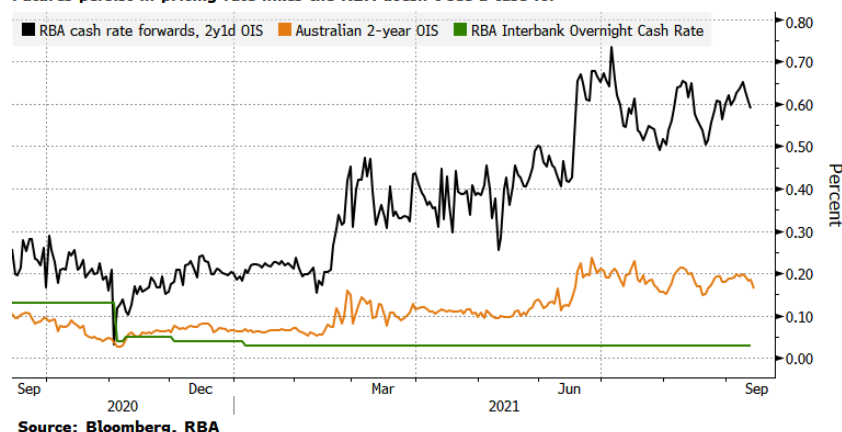
Cryptocurrencies

A temporary surge in prices of Litecoin and other cryptocurrencies occurred upon a false press-release claiming that Walmart had agreed to partner with Litecoin and accept the crypto-currency as payment. The false statement was quickly refuted; however, it was initially perceived as credible due to Walmart's previously expressed interest in cryptocurrencies and blockchain. Litecoin's (XLC) price temporarily spiked up to +35% and returned to its original value. Bitcoin and Ethereum's spike was 5%. Analysts noted that cryptocurrencies are more prone to hoaxes than other risky assets because cryptocurrency trading is mostly untraceable and scammers leave few tracks for regulators and the their prices are overly sensitive to news.

XLCUSD Curncy (XLC-USD Cross Rate) 2 Days Tick   Copyright© 2021 Bloomberg Finance L.P.

Emerging Markets   **back to top**

Asian equities were mixed, declining 0.4% on net. Chinese (CSI 300: -1.5%) and Hong Kong (-1.2%) equities led the decline, while share prices rose in Korea (+0.7%) and Indonesia (+0.7%). **Asian currencies were also mixed**. The Korea won appreciated (+0.4%), while Malaysian ringgit depreciated (-0.3%). Long-end government bond yields were similarly mixed, with 10-year yields rising in Malaysia (+5.1 bps) while falling in Thailand (-1.2 bps) and Indonesia (-1.1 bps). In ASEAN, Malaysian and Thai authorities agreed on rules for banks to operate across markets under the Qualified ASEAN bank framework. The Indian rupee was little changed after CPI inflation moderated to a weaker-than-expected to 5.3% y/y in August

(consensus: 5.6%), reflecting lower food inflation. Analysts noted that core inflation pressures remained broad-based. In Singapore, Temasek plans to invest in local and regional mid-cap stocks, including IPOs, in an effort to bolster Singapore's stock exchange which has struggled with tepid listings and low liquidity. Equities rose (+0.2%). **In EMEA**, **currencies mostly depreciated this morning.** The Russian ruble (-0.4%) depreciated even as oil prices (+0.7%) gained. The Turkish lira (-0.3%) and South African rand (-0.6%) were also weaker. Hungary is issuing 10-year dollar bonds at an initial spread of 130 bps above US treasuries and 30-year dollar bonds at a spread of 180 bps in its first USD bond sales since 2014. **Latin American equities were mixed while most currencies appreciated moderately yesterday.** Stocks outperformed in Argentina (+5.5%), rallied in Brazil (+1.9%), but fell in Chile (-1.4%). Meanwhile, most currencies in the region appreciated, with the Brazilian real (+0.6%) outperforming.

China

Chinese equities declined on souring risk sentiment due to continued regulatory uncertainty, growing concerns around Evergrande, and a new virus flare-up in China (CSI 300: -1.5%; Hang Seng China Enterprises: (-2.0%). Evergrande's share price declined 11.9% today, with its offshore USD bonds continuing to be traded at distressed levels. Evergrande hired two financial advisers for restructuring while denying rumors that it would file for bankruptcy. Meanwhile, Evergrande's delayed payments on its wealth management products already sparked some demonstrations. Separately, the Guangdong government reportedly set up a taskforce, including external advisers, to assess Evergrande's situation. **Chinese banks are offloading their excess US dollar in swap markets, driving up 1-year dollar-yuan swap rates.** Chinese banks have seen a rapid increase in dollar deposits, partly driven by China's strong exports. However, they lack a good channel to invest these dollars and have to swap them for yuan. The **RMB slightly appreciated (+0.1%). Interbank repo rates increased (DR001: +10.2 bps; DR007: +6.9 bps);** some analysts expect that the People's Bank of China will fully roll over the Medium-term Lending Facility (MLF) funds maturing this month.

Argentina

Argentina's bonds and stocks rallied as the ruling party lost midterm primaries. The midterm primaries, the best predictor for the midterm elections, delivered a heavy defeat for president Fernández's party. If these results were to be confirmed in November, the leftist party could lose its Senate majority. Analysts expect these results, triggered by the inability of the government to "deliver on its promises of curbing inflation, improving salaries and boosting the economy," to help support demand for hard-currency bonds and stocks. Indeed, stocks gained 5.5% yesterday, the largest single-day rally since August 2020. In addition, prices for the most traded dollar-denominated government bond rose by almost 4% to the highest level since January.
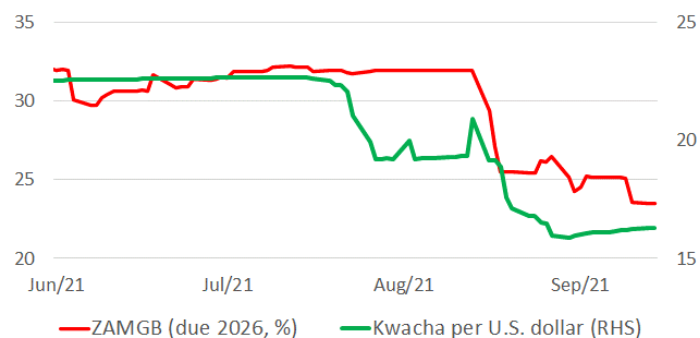
Fresh Optimism
After punishing losses since restructuring, Argentina's bonds have clawed back

Source: Bloomberg
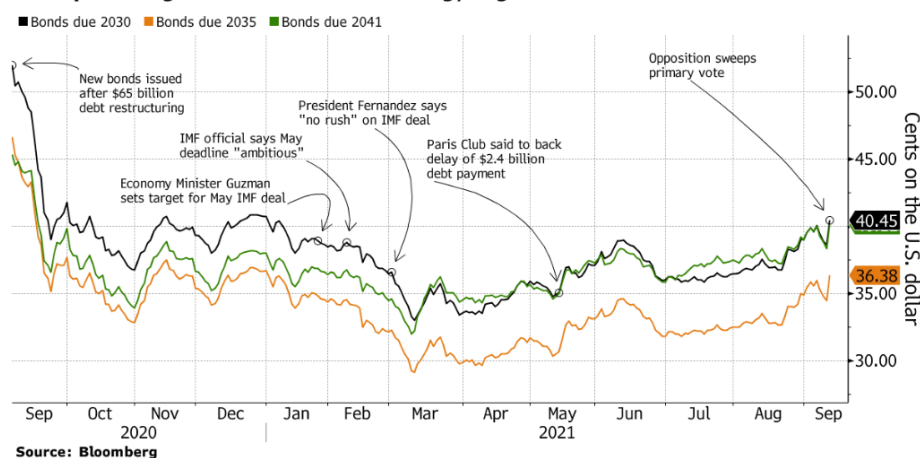
Zambia
The finance ministry reported that arrears for external debt increased to $1.48 bn by June 30 from $841 million at the end of December (including principal and interest payments). The unexpected election victory of President Hichilema and his UPND party in August has led to sharp gains in Zambian assets as analysts expect the new government to implement fiscal forms and re-establish monetary policy credibility. JP Morgan argues that a combination of a stronger kwacha, favorable base effects, and increased domestic food supply will lower inflation to 20% yoy by end-2021 and 13% by end-2022. Gross FX reserves are expected to remain at $2.8bn at the end of 2022 (from $2.9 bn currently), according to JP Morgan.

Zambia: Local currency rates and exchange rate
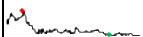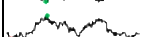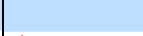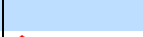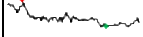
Source: Bloomberg and IMF staff

Global Financial Indicators

Last updated: 9/14/21 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4467	0.2	-1	0	32	19
Europe		4178	-0.3	-1	-1	26	18
Japan		30670	0.7	3	10	31	12
China		3663	-1.4	0	4	11	5
Asia Ex Japan		89	0.1	-1	2	15	0
Emerging Markets		53	0.3	-1	2	18	2
Interest Rates			basis points				
US 10y Yield		1.34	1.5	-3	6	67	43
Germany 10y Yield		-0.31	2.4	2	16	17	26
Japan 10y Yield		0.05	0.2	1	2	3	3
UK 10y Yield		0.79	4.2	5	21	59	59
Credit Spreads			basis points				
US Investment Grade		89	0.2	-3	-5	-41	-6
US High Yield		313	-1.9	-4	-28	-207	-66
Europe IG		45	-0.1	0	-1	-10	-3
Europe HY		227	-0.6	-2	-7	-91	-15
Exchange Rates			%				
USD/Majors		92.64	0.0	0	0	0	3
EUR/USD		1.18	0.0	0	0	0	-3
USD/JPY		110.1	0.1	0	1	4	7
EM/USD		56.8	-0.1	0	1	2	-2
Commodities			%				
Brent Crude Oil ($/barrel)		74	0.5	3	5	86	43
Industrials Metals (index)		165	-1.4	1	2	38	24
Agriculture (index)		56	0.3	-1	-7	44	16
Implied Volatility			%				
VIX Index (%, change in pp)		19.7	0.3	1.5	4.2	-6.2	-3.1
US 10y Swaption Volatility		65.4	-0.4	-4.4	-7.6	13.1	5.3
Global FX Volatility		6.5	0.0	0.0	0.0	-2.9	-1.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		111	-0.5	-11	9	-46	-9
Italy		100	-2.0	-8	-2	-50	-12
Portugal		55	-0.9	-3	-3	-24	-5
Spain		65	-0.9	-4	-3	-11	4

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

Emerging Market Financial Indicators

Last updated: 9/14/2021 8:02 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)					Level		Change (in basis points)			
	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		6.45	0.1	0.3	0	6	1		3.0	4	1	-24	-24
Indonesia		14248	0.0	-0.2	1	4	-1		6.1	1	-17	-73	4
India		74	0.0	-0.4	1	0	-1		6.3	1	-13	14	40
Philippines		50	0.1	0.2	1	-3	-4		4.3	0	-1	69	67
Thailand		33	-0.3	-0.8	1	-5	-9		1.7	5	15	26	41
Malaysia		4.16	-0.3	-0.2	2	0	-3		3.3	2	0	79	76
Argentina		98	-0.1	-0.2	-1	-23	-14		47.3	35	235	437	-886
Brazil		5.23	-0.3	-1.1	1	1	-1		10.2	29	68	457	465
Chile		783	0.3	-0.2	1	-2	-9		5.3	35	64	273	256
Colombia		3831	0.2	-0.9	0	-4	-11		7.0	11	16	203	194
Mexico		19.90	-0.2	0.2	0	6	0		7.0	1	2	108	143
Peru		4.1	-0.1	-0.1	-1	-13	-12		6.5	12	20	236	290
Uruguay		43	-0.1	-0.3	1	-1	-1		7.9	2	-2	16	67
Hungary		297	-0.1	-0.8	1	2	0		2.6	3	33	94	112
Poland		3.86	-0.1	-1.2	0	-3	-3		1.3	4	19	54	71
Romania		4.2	0.0	-0.2	0	-2	-5		3.6	3	39	23	86
Russia		72.9	-0.3	0.6	1	3	2		6.9	1	5	115	121
South Africa		14.2	-0.7	0.5	4	17	3		9.7	7	-2	-44	6
Turkey		8.45	-0.3	-1.2	0	-11	-12		16.9	-4	-44	389	375
US (DXY; 5y UST)		93	-0.1	0.1	0	0	3		0.82	0	5	56	46

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	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		4917	-1.5	-2	-1	5	-6		212	-4	-8	-26	-17
Indonesia		6129	0.7	0	0	20	3		174	0	-10	-65	-26
India		58247	0.1	0	5	49	22		145	-3	-4	-74	-6
Philippines		6920	-0.7	0	9	15	-3		108	1	-10	-35	-4
Malaysia		1556	-0.9	-2	3	2	-4		127	-4	-9	-47	-8
Argentina		80066	5.5	5	15	79	56		1468	-3	-83	365	112
Brazil		116404	1.9	0	-4	16	-2		294	8	6	-20	35
Chile		4401	0.0	-1	0	19	5		146	4	0	-37	-10
Colombia		1312	-0.6	-1	3	9	-9		280	6	-3	20	65
Mexico		51497	0.0	-2	0	40	17		343	-2	-11	-124	-14
Peru		18064	2.0	2	8	-1	-13		171	0	-13	1	42
Hungary		52667	-0.5	0	5	50	25		140	6	9	-16	-9
Poland		71833	0.0	0	4	42	26		23	-3	-12	-9	-5
Romania		12333	0.0	0	2	32	26		194	7	11	-60	-9
Russia		4044	0.1	1	4	38	23		162	-2	-10	-64	-17
South Africa		64224	-0.7	-3	-7	14	8		342	4	-6	-158	-42
Turkey		1434	-0.3	-1	-1	29	-3		464	7	-10	-136	17
Ukraine		526	0.0	0	0	5	5		480	6	-30	-164	-13
EM total		53	-0.8	-1	2	18	2		352	4	-11	-32	13

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

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