



- US high yield bond fundamentals continue to improve ([link](#))
- European power price rises sparks talk of government intervention ([link](#))
- Chinese equities underperform on weaker-than-expected data ([link](#))
- Brazilian rates drop sharply as central bank president Campos Neto cools down expectations of faster rate hikes ([link](#))
- Hungarian central bank offers euro liquidity to reverse drop in FX-implied yields ([link](#))
- **SPECIAL FEATURE: China Monitor (PDF attached)**

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## Market sentiment worsens on weak Chinese data

Asian and European bourses fell as weaker-than-expected data in China fueled concerns about a slower global recovery from the pandemic. Chinese and Hong Kong stocks underperformed and disappointing core machine orders in Japan also weighed on market sentiment. In Europe, retail stocks led the decline, with H&M shares slumping after missing sales estimates. In commodities, oil prices continued their ascent and a sharp increase in European gas and energy prices raised speculation that governments are looking to mitigate its impact through consumer subsidies. Across the pond, US Treasury yields extended their decline after 10-year Treasury yields dropped 4.5 bps yesterday following a weaker-than-expected US CPI print. In emerging markets, Brazilian rates fell sharply as central bank president Campos Neto cooled down expectations of faster rate hikes.

Key Global Financial Indicators

Last updated: 9/15/21 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4443	-0.6	-2	-1	31	18
Eurostoxx 50		4171	-0.5	0	-1	25	17
Nikkei 225		30512	-0.5	1	11	30	11
MSCI EM		52	-0.8	-2	1	16	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.27	-1.0	-6	0	59	36
Germany 10y Yield		-0.34	0.1	-2	13	14	23
EMBIG Sovereign Spread		345	4	8	-7	-58	-6
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.9	0.2	0	1	2	-2
Dollar index, (+) = \$ appreciation		92.5	-0.1	0	0	-1	3
Brent Crude Oil (\$/barrel)		74.5	1.2	3	6	84	44
VIX Index (% change in pp)		19.4	0.0	1	4	-6	-3

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

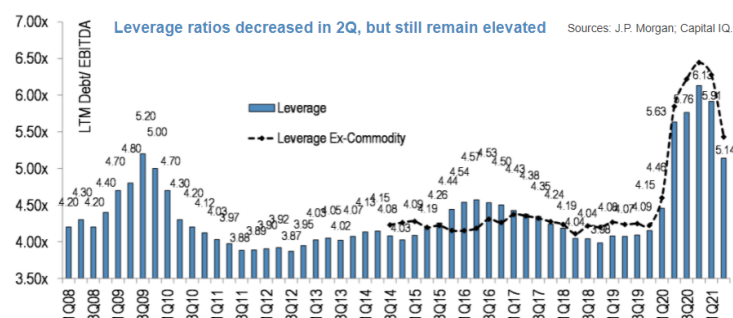
## Mature Markets

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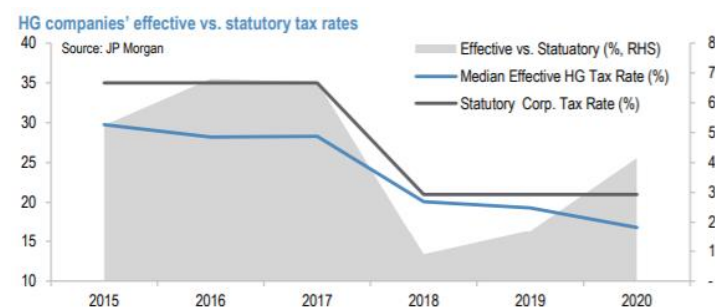
### United States

On Tuesday, the released headline and core inflation figures for August were below expectations and translated into lower 10-year breakeven inflation (-3.5 bps) and US Treasury yields (-4.5 bps). US equities fell (S&P 500 -0.6%), led by the financial, industrial and energy sectors.

**High-yield credit metrics continued to improve during the Q2 2021.** The most noticeable recovery was experienced by the lowest-rated companies. Leverage decreased significantly (chart below), with the largest y/y improvements in the retail, metals/mining, and auto sectors. Other metrics also improved: coverage metrics rose, capital expenditures expanded, revenue and EBITDA margins increased. The improvement in credit metrics is expected to continue in Q3 and beyond as the global economic reopening extends.

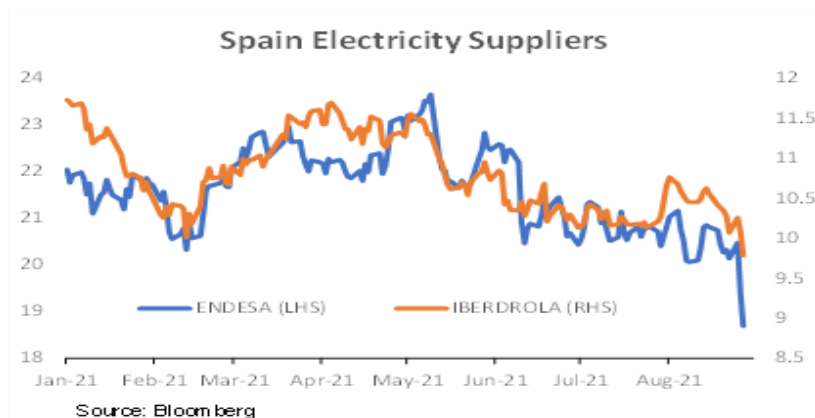


**The tax rates implied by the second stimulus bill are not expected to impair the creditworthiness and impact the spreads of US investment grade (HG) credit,** according to JP Morgan analysts. Tax cuts and the Jobs Act of 2017 largely brought the statutory tax rate down to the approximate rate which the median HG company was already paying (chart below). The new proposed rate of 26.5% is slightly below the median HG rate paid prior to TCJA – thus, it should not lead to a profound adjustment of borrowers' business models. While the proposals to introduce taxes on book income may be highly detrimental to some HG borrowers (e.g., tech sector), so far there is no mention of such provisions in the current bill.



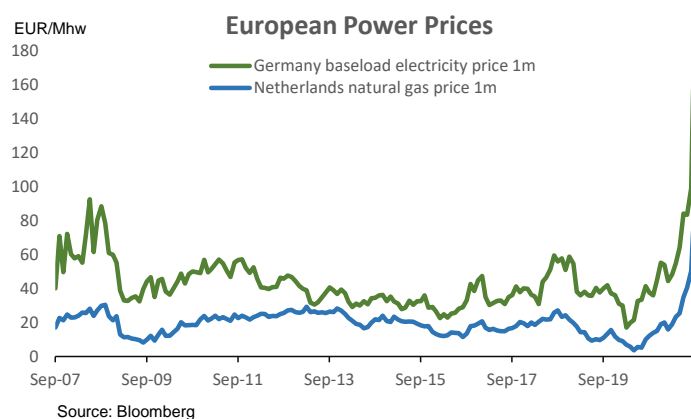
### Euro-area

European equities mostly traded in narrow ranges with Spain's IBEX (-0.6%) underperforming this morning. Energy shares (+1.3%) once again outperformed, while luxury retailers (-2.5%) extended their decline on China's demand concerns. **Electricity supplier shares (-2.3%) also declined due to regulatory fears, in particularly in Spain,** where Endesa stocks dropped by close to 10% in two days due to governments' plans to cap windfall profits.



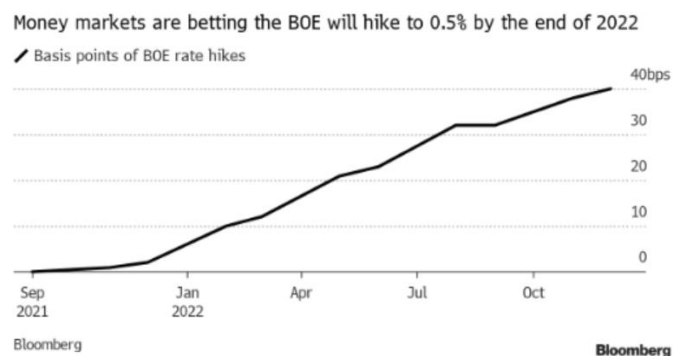
**European bond markets** were steady with 10-year bunds trading 4 bps below pre-US-CPI levels. European corporate credit benchmark spreads were trading at the tightest levels since the start of the pandemic. On the data front, **Eurozone industrial production recovered in July**, growing 1.5% mom in July (0.6% consensus).

**European energy prices made fresh record highs, triggering talk of government intervention.** Natural gas futures price growth has reached double digits this week, dragging up electricity prices across the continent. Prices of coal and other heating fuels have also jumped. According to the latest data, European storage facilities are only 71% full, with gas storage levels about 25% below last two-year average levels. **Media reports point to growing concern among European governments as Italy, France and Spain are reportedly looking to reduce the effect of power price increase through consumer subsidies.**



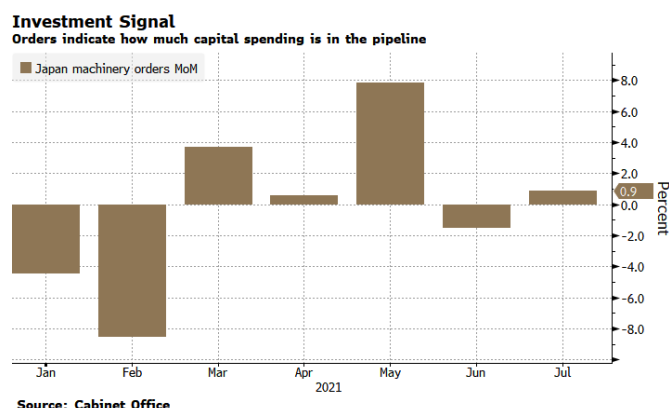
## United Kingdom

**Inflation jumped by more than expected in August, to 3.1% yoy (2.9% expected).** While the annualized price increase was dominated by base effects from hospitality and restaurant support schemes, analysts also noted larger than expected monthly price growth in a range of goods. Contacts point out that **supply chain disruptions, labor market shortages and the latest energy price surge all add to inflation risks over the next months, even if transitory in nature.** Opinions among analysts regarding the implication for the Bank of England policy continue to diverge with some now more confident in the Q2 rate increase next year while others arguing for unchanged rates for next year, given the transitory nature of the shock amid signs of slowing economy. **Markets are currently pricing around 40 bps of tightening by the end of 2022.**



## Japan

**Core Machine orders grew weaker-than-expected in July.** Core machine orders, a leading indicator for capital investment, increased 0.9% m/m (consensus: +2.5%). Another round of the state of emergency to contain the virus weighed on orders from service companies. Equities declined (NIKKEI: -0.5%); the Japanese yen appreciated (+0.2%); long-end JGB yields dropped (10-year: -1.4 bps).



## Emerging Markets

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**Asian equities declined on net.** Hong Kong (-1.8%) and Chinese (CSI 300: -1.0%) led the decline as market sentiment weakened on disappointing China activity data. Meanwhile, share prices rose in India (+0.8%). **Asian currencies generally appreciated**, led by Philippine peso (+0.3%) and Thai baht (+0.2%). **Long-end government bond yields declined**, with 10-year yields falling in Hong Kong SAR (-4.3 bps) and Korea (-3.9 bps), following the decline in U.S. treasury yields. **In Korea**, the unemployment rate unexpectedly dropped to 2.8% in August (consensus: 3.5%) from 3.3% in July. While retail and manufacturing sectors cut jobs amid rising COVID-19 infection, government programs helped increase employment in healthcare and social welfare. Equities gained (+0.1%); the Korean won was little changed. **In Thailand**, demand for the government bond auction fell amid concerns over a potential increase in the public debt ceiling. **In Sri Lanka**, newly appointed Governor Ajith Nivard Cabraal said that the central bank will soon unveil a roadmap to ensure economic and financial stability as the country faces depleted foreign reserves and looming debt payments. The Sri Lankan rupee depreciated (-0.2%); equities gained (+3.0%). **In EMEA**, equities were mixed whereas currencies generally traded with a positive tone in line with broader dollar weakness. **The Turkish lira** (+0.1%) was little changed after the **central bank raised its FX deposit reserve requirements by 200 bps**, to 23% for funds with a 1-yr maturity and to 17% for funds with a longer maturity. The central bank required reserves in FX and gold are expected to increase by an equivalent of approximately \$3.4 bn. Changes will go into effect on 17 September. **Polish** equities (-0.4%) and the zloty (-0.1%) are lower after the final CPI inflation for August was 5.5% yoy (above the flash reading). **Romania** is reportedly considering issuing up to €3 bn in Eurobonds later this year, after raising

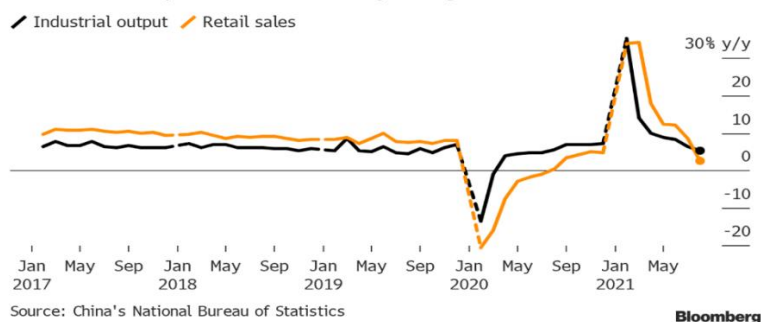
€7 bn of Eurobonds so far in 2021. **Latin American equities printed mixed while currencies saw little movements yesterday.** Stocks rallied in Mexico (0.6%) and Chile (0.2%) but fell in Argentina (-1.3%). Meanwhile, currencies appreciated slightly in Chile (0.2%) and depreciated in Brazil (-0.4%).

## China

**Chinese equities declined on weaker-than-expected data** (CSI 300: -1.0%; Hang Seng Chinese Enterprises: -1.8%). Retail sales increased 2.5% y/y in August (consensus: +7.0%), moderating from an 8.5% growth in July. Industrial production grew 5.3% y/y (consensus: +5.8%), while fixed assets investment grew 1.1% y/y broadly in line with expectations. Analysts noted that the recent COVID-19 outbreaks significantly hit domestic consumption. Looking ahead, key headwinds to China's economy include COVID-19 and its strict zero-tolerance policy, tightening measures on the property sector, and aggressive measures to curb carbon emissions. **New home price growth also moderated in August.** Analysts noted that some property developers faced a margin squeeze on declining home sales volume and rising land costs. **The People's Bank of China (PBC) rolled over maturing Medium-term Lending Facility (MLF) funds, with no change in the interest rate.** The maturing 600 bn yuan (\$93.2 bn) was fully renewed. The PBC also rolled over maturing 7-day reverse repos. Interbank repo rates were mixed (DR007: -6.9 bps; R007: +10.7 bps). **Evergrande will not make interest payments to banks this month.** The Ministry of Housing and Urban-Rural Development notified major banks that Evergrande will not be able to make interest payments due September 20. Evergrande's share price dropped (today: -5.3%; past week: -21.6%). **The RMB was little changed.**

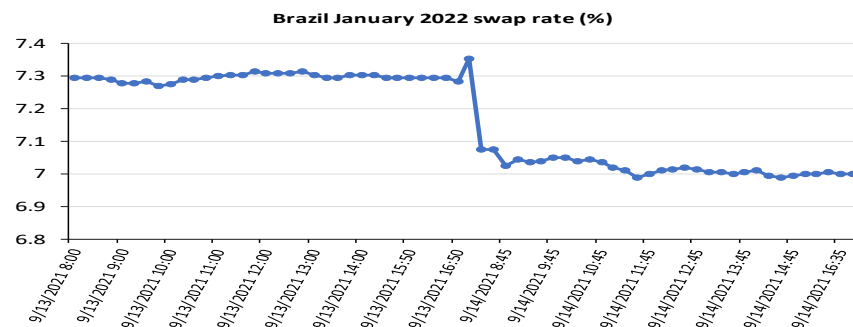
### Retail Rout

Private consumption slows drastically in August after Covid outbreak



## Brazil

**Central bank president Campos Neto comments on rate hikes sent rates plunging.** On Tuesday, Campos Neto dampened investors' expectations of seeing faster rate hikes by stating that the central bank will not "react to every high-frequency data point that comes out". The comment comes at a point when investors were expecting faster rate hikes as the central bank's aggressive tightening measures have so far failed to slow down the almost 2-digit annualized inflation rate. Following the comment, the ODF swap contract due in January 2022 was the most traded in Sao Paulo, and its rate plunged by almost 29 bps.

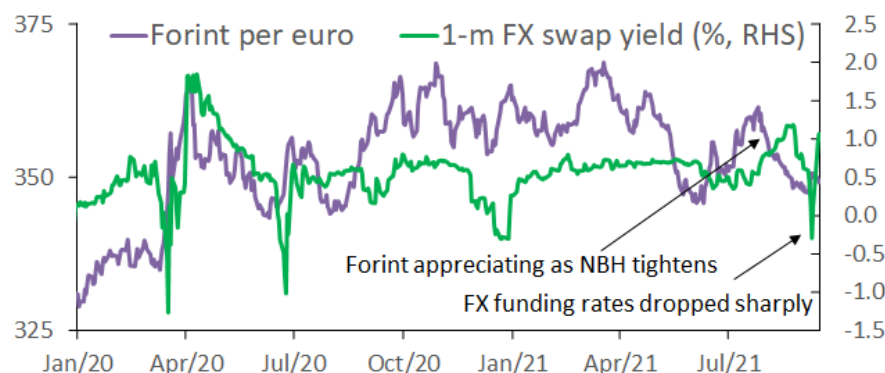




## Hungary

**FX implied yields are up 94 bps this week (at 0.95%) after the National Bank of Hungary (NBH) provided euro liquidity to the banking system.** Today, the NBH provided €920 mn at its extraordinary FX swap tender, accepting all bids. The central bank has provided euros to the banking system after a liquidity squeeze drove FX implied yields sharply lower last week. FX swap market funding rates have been trading below the policy rate since June, mainly due to a build-up in long forint exposure among international investors who positioned for the hiking cycle. **Hungary is also expected to sell 7-year or 20-year euro-denominated bonds later this week, after selling \$4.25 bn of U.S. dollar bonds yesterday.** The funding is reportedly in response to a potential delay of the €7.2 bn of funds Hungary has requested from the EU recovery fund.

**Hungary: Forint per euro and FX implied yield**












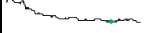

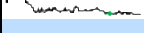



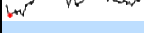









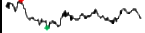


Source: Bloomberg and IMF staff

*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.*

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## Global Financial Indicators

Last updated: 9/15/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4447	-0.6	-1	0	31	18
Europe		4171	-0.5	0	-1	25	17
Japan		30512	-0.5	1	11	30	11
China		3656	-0.2	-1	4	11	5
Asia Ex Japan		88	-1.0	-3	1	13	-1
Emerging Markets		52	-0.8	-2	1	16	1
<b>Interest Rates</b>			basis points				
US 10y Yield		1.27	-1.0	-6	0	59	36
Germany 10y Yield		-0.34	0.1	-2	13	14	23
Japan 10y Yield		0.04	-1.5	-1	1	2	2
UK 10y Yield		0.74	0.6	0	17	53	55
<b>Credit Spreads</b>			basis points				
US Investment Grade		89	0.1	-3	-5	-41	-6
US High Yield		315	-0.1	-2	-26	-205	-65
Europe IG		45	0.2	0	-2	-9	-3
Europe HY		226	0.0	-4	-8	-87	-17
<b>Exchange Rates</b>			%				
USD/Majors		92.51	-0.1	0	0	-1	3
EUR/USD		1.18	0.2	0	0	0	-3
USD/JPY		109.2	-0.4	-1	0	4	6
EM/USD		56.9	0.2	0	1	2	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		74	1.2	3	6	84	44
Industrials Metals (index)		166	1.1	2	3	40	25
Agriculture (index)		56	0.8	0	-6	46	17
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.4	0.0	1.5	4.0	-6.2	-3.3
US 10y Swaption Volatility		64.3	0.0	-6.1	-8.7	13.0	4.2
Global FX Volatility		6.4	0.0	-0.2	-0.1	-3.0	-1.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		113	1.1	-8	10	-44	-7
Italy		101	2.0	-7	-1	-47	-11
Portugal		56	1.3	-2	-2	-22	-4
Spain		65	0.5	-4	-3	-10	4

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 9/15/2021 8:04 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		6.43	0.1	0.5	1	5	1		3.0	4	2	-26	-23
Indonesia		14243	0.0	0.1	1	4	-1		6.1	1	-17	-70	4
India		73	0.3	0.1	1	0	-1		6.3	0	-12	15	40
Philippines		50	0.2	0.6	2	-3	-4		4.3	-6	-8	58	60
Thailand		33	0.2	-0.3	2	-5	-9		1.7	2	14	29	41
Malaysia		4.16	0.1	-0.2	2	-1	-3		3.3	3	2	81	78
Argentina		98	0.0	-0.2	-1	-24	-14		47.4	53	251	460	-870
Brazil		5.24	-0.5	-1.3	0	1	-1		10.1	18	57	451	453
Chile		784	0.1	0.4	1	-3	-9		5.3	24	58	269	250
Colombia		3830	0.0	-0.5	1	-4	-10		7.0	11	18	212	196
Mexico		19.88	0.1	0.3	0	6	0		7.0	-1	3	113	144
Peru		4.1	0.0	-0.3	-1	-13	-12		6.5	12	19	238	289
Uruguay		43	0.1	-0.3	1	-1	-1		7.9	0	-2	18	67
Hungary		295	0.4	0.4	1	2	1		2.7	1	36	97	114
Poland		3.85	0.0	-0.7	1	-2	-3		1.3	-2	18	54	70
Romania		4.2	0.1	0.0	0	-2	-5		3.6	0	38	31	85
Russia		72.7	0.3	0.8	1	3	2		6.9	0	7	117	123
South Africa		14.3	0.2	-0.7	4	15	3		9.7	3	-3	-39	5
Turkey		8.44	0.1	0.4	0	-11	-12		16.8	-11	-47	394	372
US (DXY; 5y UST)		92	-0.2	-0.2	0	-1	3		0.79	-2	1	51	42

	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		4867	-1.0	-2	-1	5	-7		212	-2	-8	-26	-17
Indonesia		6110	-0.3	1	0	21	2		180	10	-4	-59	-20
India		58723	0.8	1	6	49	23		143	-2	-6	-77	-8
Philippines		6880	-0.6	-1	6	16	-4		113	8	-5	-29	1
Malaysia		1555	0.0	-3	3	2	-4		129	0	-7	-45	-6
Argentina		78989	-1.3	0	14	77	54		1487	26	-64	372	131
Brazil		116181	-0.2	-1	-4	16	-2		298	13	10	-15	39
Chile		4420	0.2	1	0	19	6		151	12	5	-32	-5
Colombia		1310	-0.2	-1	3	10	-9		284	11	1	24	69
Mexico		51815	0.6	0	1	41	18		343	8	-11	-123	-14
Peru		17896	-0.9	2	7	0	-14		175	8	-9	5	46
Hungary		52255	-0.3	0	4	53	24		145	12	14	-12	-4
Poland		71701	-0.5	1	4	43	26		22	-4	-13	-12	-6
Romania		12376	0.0	0	2	32	26		198	7	15	-56	-5
Russia		4061	0.1	1	5	36	23		165	4	-7	-61	-14
South Africa		64137	-0.3	-2	-8	14	8		349	13	1	-152	-35
Turkey		1433	-0.1	0	-1	29	-3		469	16	-5	-140	22
Ukraine		526	0.0	0	0	5	5		478	3	-32	-174	-15
EM total		52	-0.2	-2	1	16	1		357	11	-6	-28	18

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

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