GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 16, 2021

- **Investors remain heavily overweight stocks despite growing pessimism** (link)
- **Worries about potential Evergrande default weigh on China's markets** (link)
- **Corporate bond valuations in US at historically rich levels** (link)
- **Commodity prices soar as demand patterns shift** (link)
- **UK rate hike expectations brought forward after strong CPI number** (link)
- **Central bank of Chile turns hawkish** (link)

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Markets grapple with multiple challenges

Markets are off to a mixed start to the day as the lingering Covid crisis and worries about a slowing global economy weigh on sentiment and talk of stagflation gains ground. US equity futures are slightly lower this morning after yesterday's rally, but stocks in Europe are enjoying a positive session. Asia was lower across the board. Interest rates and currencies were little changed, and oil prices finally pulled back after several days of gains. However, rising energy prices are becoming a major worry as changing demand patterns reverberate through the global economy. Markets in China were under pressure amidst concerns about the potential default of the country's largest property developer, Evergrande. The widening regulatory crackdown in China has also been a major source of concern for markets.

Key Global Financial Indicators

Last updated: 9/16/21 7:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4481	0.8	-1	0	32	19
Eurostoxx 50		4182	0.9	0	0	25	18
Nikkei 225		30323	-0.6	1	11	30	10
MSCI EM		52	0.0	-1	2	16	1
Yields and Spreads			bps				
US 10y Yield		1.31	1.5	2	5	62	40
Germany 10y Yield		-0.30	0.5	6	17	18	27
EMBIG Sovereign Spread		342	-3	2	-10	-58	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.8	-0.2	0	1	2	-2
Dollar index, (+) = $ appreciation		92.7	0.2	0	0	-1	3
Brent Crude Oil ($/barrel)		75.3	-0.3	5	8	78	45
VIX Index (%, change in pp)		18.9	0.7	0	3	-7	-4

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

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United States

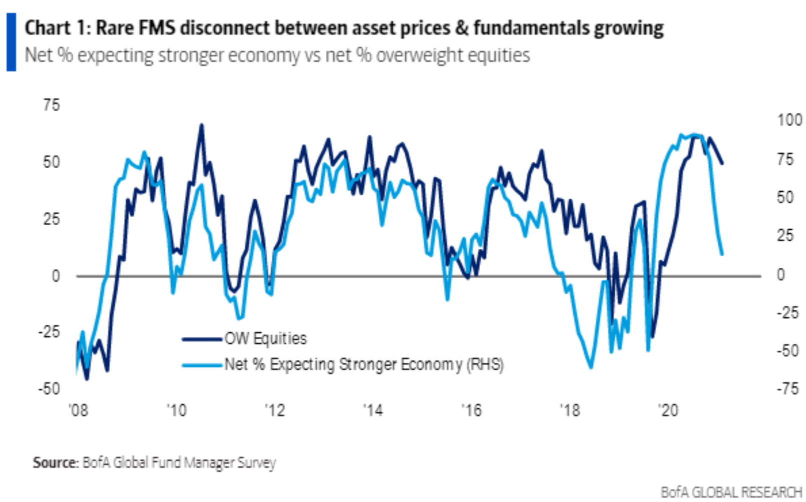
This morning's US economic data were much stronger than expected. Retail sales were comfortably ahead of forecasts and the Philadelphia Fed's business outlook indicator blew past the forecast. Jobless claims were mixed. US Treasuries sold off in response and the dollar was stronger immediately following the data.

US Economic Data 8.30 am

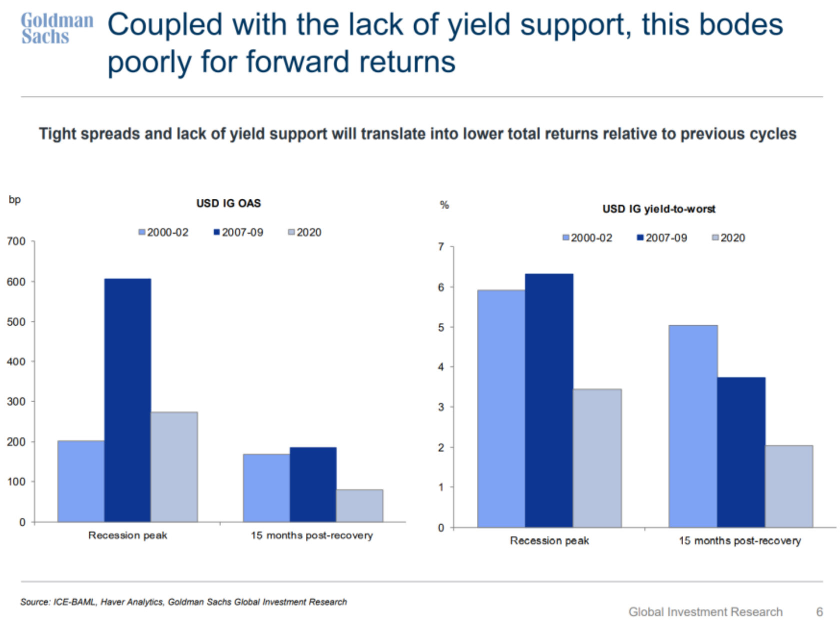
Source: Bloomberg

Data Release	Consensus Forecast	Actual Data
Retail Sales mom	-0.7%	0.7%
Retail Sales Ex Auto mom	0.0%	1.8%
Initial Jobless Claims	322K	332K
Continuing Claims	2740K	2665K
Philadelphia Fed Outlook	19.0	30.7

The latest Bank of America investor survey finds an unusual disconnect between investor positioning and sentiment. Although they remain heavily invested in equities with 75% overweight their equity allocations, their views on the economy have become much more pessimistic. This is very rare as growth expectations usually lead equity allocations. Growth expectations for the global economy have fallen to 13%, the lowest since April 2020 and way down from March 2021 peak of 91%. In addition, expectations for corporate profits have also fallen sharply to 13%, the lowest since May 2020 and down from 89% in March 2021. This raises questions about the sustainability of the current market rally, and suggests that a change in sentiment could spark a major selloff.



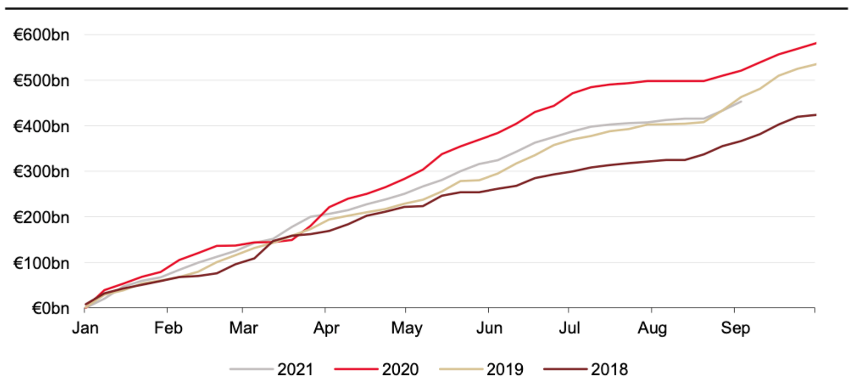
The US corporate investment grade (IG) market could face significant headwinds in the months ahead with valuations at historically rich levels. Goldman finds that current IG valuations are at the 99th percentile over the period from 2016 to the present. History shows that IG returns are much lower in the 15 months following peak recession periods when spreads and yields are high. Massive new supply could cause headaches in the future, with $1.7 tn of new bonds already sold this year. The risk of higher interest rates is another issue, while a slowdown in the economy and worsening business conditions could lead to credit downgrades that further challenge valuations. However, investors have been undeterred, snapping up the new bonds in the face of heavy oversubscription in the primary market.



Euro Area

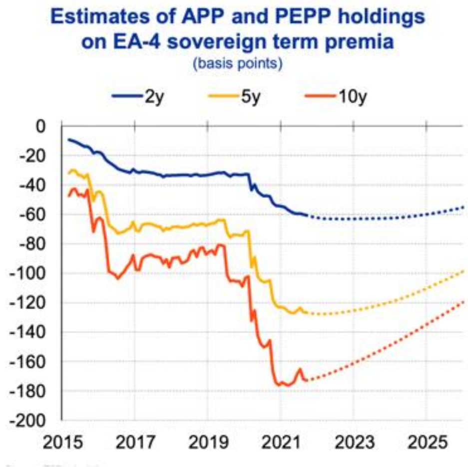
After hitting a 7-week low yesterday, European stocks managed a partial recovery with the STOXX 600 index up 0.7% with France (+1.1%) and Italy (+1.1%) outperforming. Most sectors were trading in the green, except for energy generating companies which remained affected by policy uncertainty arising from power price rises. **European bond markets** were relatively quiet with 10-year bund hovering around the -0.3% mark. Southern European spreads were steady while corporate credit benchmarks tightened by 1-2 bps. With corporate credit spreads making new lows, analyst note a strong pick-up in primary market activity across most debt categories. The issuance in the high-yield sector has already exceeded the total for 2020 (€95 bn).

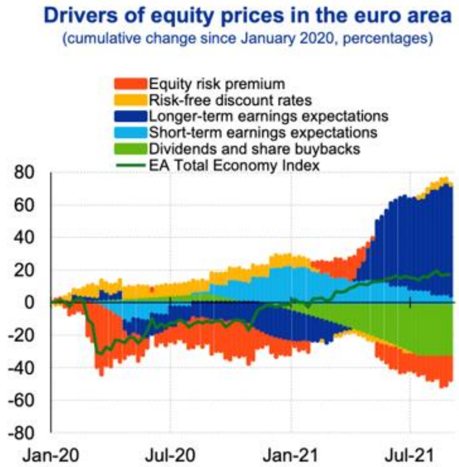
Volumes almost in line with 2019



Source: Bloomberg, SG Cross Asset Research/Credit

ECB board member Isabel Schnabel delivered a speech focusing on "exceptionally" low sovereign bond yields. She noted that the market may be overestimating the risk to the global outlook and misunderstanding the central bank reaction function, which requires stronger evidence of underlying inflation to tighten policy. Schnabel dismissed the secular stagnation hypothesis, noting that the equity markets growth has been driven by long-term earnings revision.

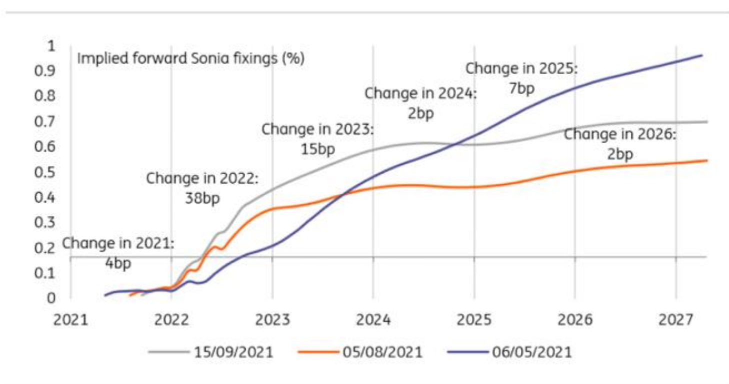




United Kingdom

Rate hike expectations continued to build after yesterday's inflation surprise with multiple analysts bringing forward the first-rate hike to May 2022 while noting that February meeting is also likely to be live (now pricing 50% chance of a rate hike). The 1y1y swap rate rose by another 3 bps, now trading back at 2019 levels. The total amount of tightening expected beyond 2022, however, has remained relatively stable. Analysts at ING note that this is probably linked to the expectations about the Bank of England's balance sheet reduction, which the central bank could start after the policy rate hits 0.5%.

The GBP curve struggles to imagine the Bank Rate rising above 0.5%



Source: Refinitiv, ING

Commodities

Commodity prices are soaring as demand patterns shift. China's pullback from coal production, combined with a drought induced slowdown in it's hydroelectric power supply and a strong pickup in power demand post-Covid has led to a major shortage in the country's energy complex. The authorities have cut aluminum production because it is highly energy intensive. As a result, liquified natural gas (LNG) and aluminum are being imported from Europe and elsewhere and coal from the seaborne coal market, with prices shooting up across the board. This in turn has led to lower than usual LNG stocks in Europe ahead of the winter, raising the risk of more widespread energy shortages and even higher prices. LNG prices have spiked in the UK after an important gas connection with France went down.

Exhibit 2: Natural gas and coal prices have surged in recent weeks…

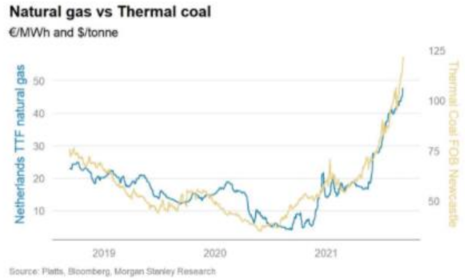
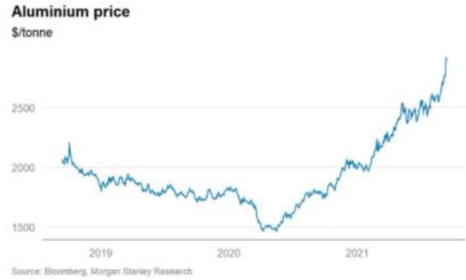


Exhibit 3: …and so have several industrial metals like aluminium



Emerging Markets

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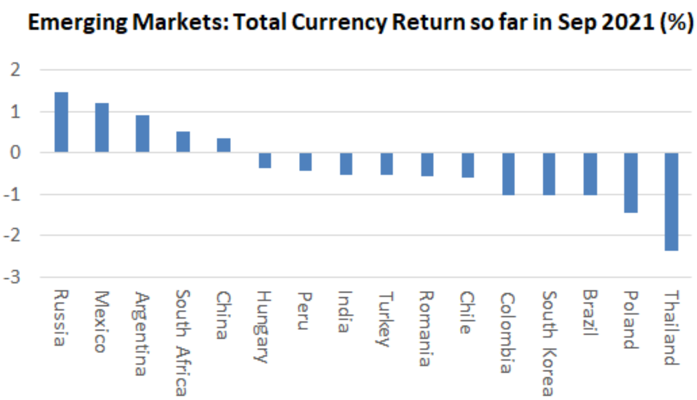
EMEA equities and currencies edged lower. The Czech koruna (+0.1%) gained against the euro after CNB vice governor Mora pointed to upside risks to inflation and said that a rate hike of 50 bps is possible later in September. Hungary issued €1 bn and $4.25 bn of Eurobonds this week, pushing Eastern European hard currency bond sales to a September record of €7.6 bn, with more issuance from Romania and Serbia reportedly in the pipeline. Equity markets in Asia were down 1.2% on net. A pickup in new COVID cases put pressures on Thai baht, while slower remittance flows weighted on Philippine peso. Stocks in Latin America were mixed, while currencies generally appreciated.



Source: Bloomberg and IMF staff

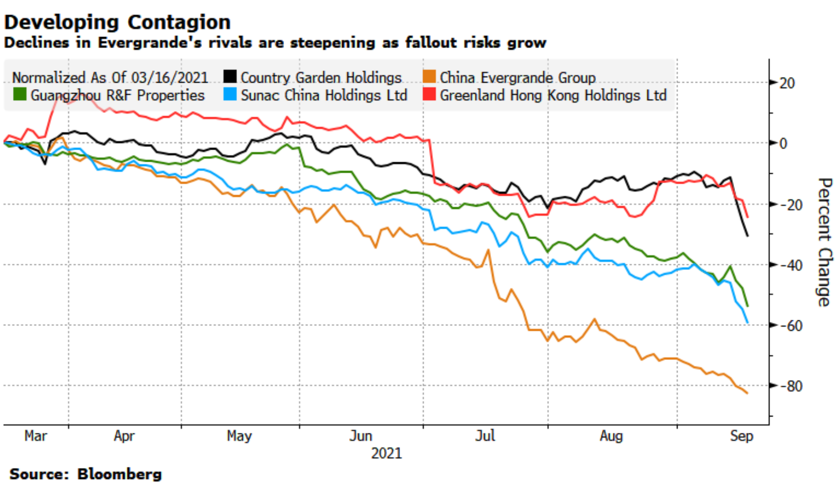
Chile

Chile's central bank foresees additional rate hikes to tackle inflation. On August 31, Chile's central bank raised its reference rate by 75 bps - the largest in two decades - to contain inflation. According to the recently released August meeting's minutes, the inflation rate, well beyond the 3% target, is driven by a weaker currency and a stimulus-driven consumption boost. While the size of the rate hike came as a surprise for financial markets, policymakers stated that the decision was "totally consistent" with the circumstances and that the MPR would need "to be raised by between 50 and 75 bps over several meetings" to be brought "close to its neutral value by the middle of the first half of 2022".

Source: Bloomberg, Chile's Central Bank, Chile's National Statistics Institute

China

Chinese equities declined further on concerns about growth, regulatory tightening and Evergrande (CSI 300: -1.2%; Hang Seng China Enterprises: -1.5%). Investors were concerned about Beijing's tighter grip on the casino sector in Macau SAR, with measures including an appointment of government representatives to supervise casino companies. Evergrande's share price declined further (down 7.1% today and 27.3% on the week), while other property developers have also seen their share prices falling sharply in the past week. Onshore bonds issued by Evergrande's main real estate unit were suspended for trading today following a rating downgrade, a step to ensure fair information disclosure. Trading will resume tomorrow. **Meanwhile, online retail sales growth slowed significantly in August.** Analysts noted that measures to contain the virus are not the only reason for weak consumption. The pandemic has affected self-employed people significantly, weighing on their income and consumption. In other news, **the National Development and Regulatory Commission will tighten control over projects with high pollution emissions.** New projects that consume a large amount of coal face regulatory guidance restrictions, while financial institutions will be deterred from offering loans for unqualified high-emission or high-power-consumption projects.



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Global Financial Indicators

Last updated: 9/16/21 8:34 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4481	0.8	-1	0	32	19
Europe		4182	0.9	0	0	25	18
Japan		30323	-0.6	1	11	30	10
China		3607	-1.3	-2	5	10	4
Asia Ex Japan		88	-0.4	-2	1	12	-2
Emerging Markets		52	0.0	-1	2	16	1
Interest Rates					basis points		
US 10y Yield		1.31	1.5	2	5	62	40
Germany 10y Yield		-0.30	0.5	6	17	18	27
Japan 10y Yield		0.05	1.7	1	3	3	3
UK 10y Yield		0.80	2.6	7	23	59	61
Credit Spreads					basis points		
US Investment Grade		89	0.6	-2	-4	-39	-6
US High Yield		313	-2.5	-5	-29	-205	-67
Europe IG		44	-0.2	0	-2	-9	-3
Europe HY		224	-2.2	-3	-9	-70	-17
Exchange Rates					%		
USD/Majors		92.73	0.2	0	0	-1	3
EUR/USD		1.18	-0.4	0	0	0	-4
USD/JPY		109.4	0.0	0	0	4	6
EM/USD		56.8	-0.2	0	1	2	-2
Commodities					%		
Brent Crude Oil ($/barrel)		75	-0.3	5	8	78	45
Industrials Metals (index)		166	-1.1	0	4	39	25
Agriculture (index)		57	0.0	2	-5	45	18
Implied Volatility					%		
VIX Index (%, change in pp)		18.9	0.7	0.1	2.7	-7.2	-3.9
US 10y Swaption Volatility		65.2	0.4	-0.1	-7.0	15.3	5.1
Global FX Volatility		6.5	0.0	-0.1	-0.1	-2.9	-1.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		111	-0.4	-4	8	-45	-9
Italy		100	-0.6	-3	-3	-45	-11
Portugal		56	0.7	0	-2	-21	-4
Spain		65	-0.4	-2	-5	-10	3

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

Emerging Market Financial Indicators

Last updated: 9/16/2021 8:36 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	-0.3	0.1	0	5	1		3.0	3	2	-25	-23
Indonesia		14253	-0.1	0.0	1	4	-1		6.1	-5	-19	-71	1
India		74	0.0	0.0	1	0	-1		6.3	-2	-14	14	38
Philippines		50	-0.3	-0.1	1	-3	-4		4.3	-7	-8	60	60
Thailand		33	-0.7	-1.1	1	-6	-9		1.7	-4	12	26	39
Malaysia		4.16	0.1	-0.2	2	-1	-3		3.3	3	2	81	78
Argentina		98	0.0	-0.3	-1	-23	-14		47.6	33	271	563	-851
Brazil		5.24	-0.3	-0.6	0	0	-1		10.2	5	65	450	461
Chile		779	0.1	2.0	1	-2	-9		5.1	-4	46	256	238
Colombia		3815	0.4	0.1	1	-3	-10		7.0	11	18	218	196
Mexico		19.87	0.0	0.3	0	5	0		7.0	3	3	116	144
Peru		4.1	-0.1	-0.4	-1	-14	-12		6.5	6	22	243	293
Uruguay		43	0.1	0.1	2	0	-1		7.9	0	-2	32	67
Hungary		298	-0.8	-0.4	0	2	0		2.7	2	37	96	115
Poland		3.89	-0.7	-1.2	0	-3	-4		1.3	-2	17	53	70
Romania		4.2	-0.5	-0.7	-1	-2	-5		3.6	-5	35	33	82
Russia		72.4	-0.2	0.6	1	3	2		7.0	2	9	119	125
South Africa		14.5	-0.7	-2.1	2	12	1		9.7	8	0	-31	8
Turkey		8.50	-0.7	-0.7	0	-12	-12		16.8	-27	-49	405	369
US (DXY; 5y UST)		93	0.3	0.4	0	0	3		0.83	4	7	55	47

	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		4808	-1.2	-3	-1	4	-8		211	-3	-9	-29	-18
Indonesia		6110	0.0	1	0	21	2		177	4	-7	-61	-23
India		59141	0.7	2	6	52	24		143	-3	-6	-79	-8
Philippines		6968	1.3	1	6	17	-2		109	0	-9	-31	-3
Malaysia		1555	0.0	-3	3	2	-4		130	2	-6	-48	-5
Argentina		78489	-0.6	1	13	86	53		1475	-14	-76	362	119
Brazil		115063	-1.0	1	-3	15	-3		294	1	6	-16	35
Chile		4434	0.0	1	2	19	6		149	6	3	-33	-7
Colombia		1322	0.9	0	4	11	-8		280	4	-3	26	65
Mexico		52192	0.7	1	2	42	18		336	-1	-18	-125	-21
Peru		18009	0.6	3	8	0	-14		171	1	-13	3	42
Hungary		52365	0.1	-1	4	53	25		138	5	7	-18	-11
Poland		71762	0.1	1	4	44	26		26	0	-9	-10	-2
Romania		12340	0.4	-1	2	34	26		193	-2	10	-57	-10
Russia		4052	-0.3	1	4	36	23		161	-3	-11	-63	-18
South Africa		63282	-1.7	-1	-8	13	7		348	7	0	-148	-36
Turkey		1422	-0.1	-2	-2	28	-4		469	11	-5	-136	22
Ukraine		526	0.0	0	0	5	5		468	-12	-42	-175	-25
EM total		52	-1.4	-1	2	16	1		353	2	-10	-29	14

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

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