



- China's Evergrande crisis weighs on sentiment ([link](#))
- Survey predicts gradual rate path for the Fed ([link](#))
- Cheap hedging costs make US corporate bonds attractive to foreign investors ([link](#))
- US equity funds see largest inflows since March ([link](#))
- Markets in Brazil grapple with inflation pressures ([link](#))

[Mature Markets](#)


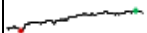
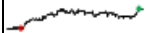


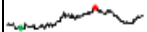
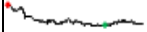


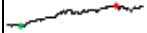

[Emerging Markets](#)

[Market Tables](#)

## Markets retreat as risk-off sentiment dominates

Global markets are facing a sea of red this morning as investors contend with multiple risks. With markets in China closed for a holiday, worries about property developer Evergrande which has large repayments due this week but heavy pressure on stocks in Hong Kong SAR, with spillovers to global markets. US equity futures are down sharply, while stocks in Europe have fallen to their lowest level in two months and are on course for their biggest one day decline since July. Treasuries and bunds are rallying on safe haven flows. Central bank meetings in as many as 13 countries this week confront markets with further uncertainty. Local markets are on tenterhooks ahead of next weekend's election in Germany. Meanwhile, the ruling United Russia party retained the constitutional majority after 80% of the votes were counted in the latest parliamentary elections, but its 48.5% margin was lower than the 54.2% garnered in 2016.

Key Global Financial Indicators

Last updated: 9/20/21 7:40 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4433	-0.9	-1	0	34	18
Eurostoxx 50		4035	-2.3	-4	-3	23	14
Nikkei 225		30500	0.6	0	13	31	11
MSCI EM		51	-0.4	-2	4	15	-1
Yields and Spreads			bps				
US 10y Yield		1.32	-3.9	0	7	63	41
Germany 10y Yield		-0.32	-4.1	1	17	16	25
EMBIG Sovereign Spread		341	0	2	-12	-64	-9
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.1	-0.3	-1	1	1	-3
Dollar index, (+) = \$ appreciation		93.4	0.2	1	0	0	4
Brent Crude Oil (\$/barrel)		74.2	-1.5	1	14	72	43
VIX Index (% change in pp)		25.5	4.7	6	7	0	3

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

## Mature Markets

[back to top](#)

This is going to be a very busy week with a wide variety of potentially market moving events. Following today's election in Canada and the opening of the UN 76<sup>th</sup> General Assembly meetings tomorrow, there are key central bank meetings from the Fed, the Bank of England, and the Bank of Japan. Norway's central bank could be the first G-10 central bank to raise interest rates since the pandemic began. Central banks in Brazil, Turkey and Indonesia also have meetings. While the Fed meeting will attract the most interest as usual, the Bank of England will also be in the spotlight because its Monetary Policy Committee is tied four against four on whether conditions for tapering have been met. The data calendar is relatively light, with PMI and housing data in the US and PMI data from the euro area and the IFO business survey in Germany. The UK will also report PMI data.

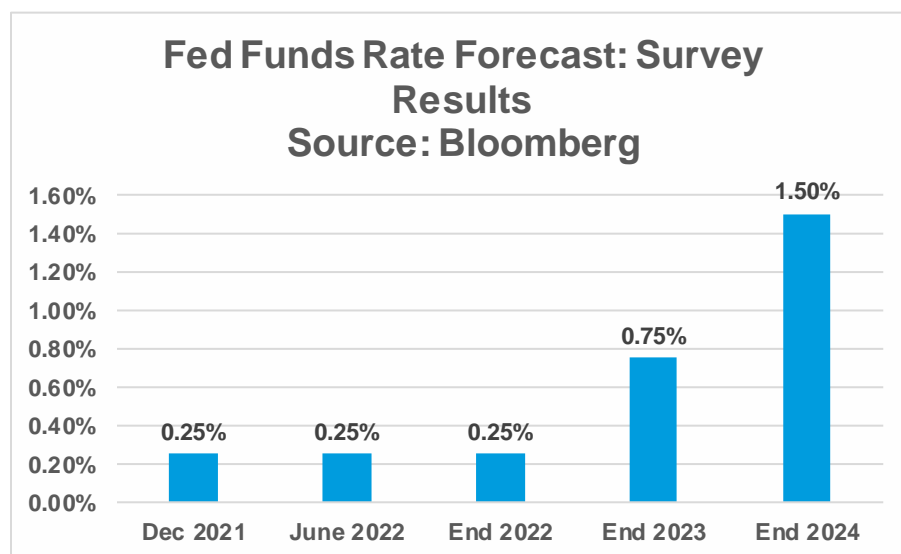
### Central bank meetings in week of 20-24 Sep

Day	Country	Expectations
Tue 21/9	Hungary	25 bps hike to 1.75%
	Indonesia	Rate unchanged at 3.50%
	Sweden	Rate unchanged at 0%
Wed 22/9	Japan	Policy unchanged
	Brazil	100 bps hike to 6.25%
	Taiwan POC	Policy rate unchanged at 1.125%
	U.S.	Fed to announce tapering in November
Thu 23/9	Philippines	Rates unchanged
	Norway	25 bps hike to 0.25%
	South Africa	Rate unchanged at 3.5%
	Switzerland	Policy unchanged
	Turkey	Repo rate unchanged at 19%
	U.K.	Bank Rate and QE target unchanged

Source: Bloomberg and IMF staff

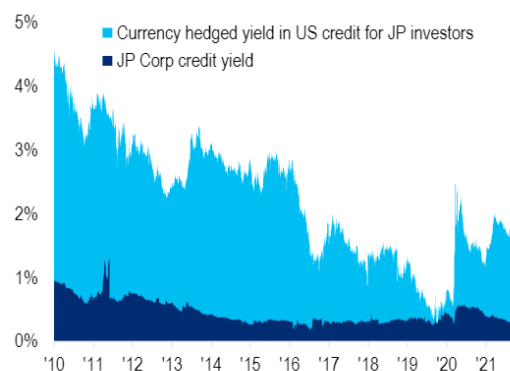
## United States

**The Fed is likely to follow a gradual rate path for the policy rate, according to a survey of economists by Bloomberg.** The key driver of this optimistic view is a consensus that the current period of inflation will be transitory, with core and headline PCE inflation expected to fall to 2.2% next year and remain stable thereafter. GDP growth, which the consensus puts at 6% in 2021, is forecasted to slow down to 3.5% next year and 2.4% in 2023. In terms of tapering, the survey found that 67% expect tapering to be announced in November and 21% expect it to be announced in December. For the actual reduction in bond purchases, 52% expect it to begin in December, while 29% expect it to begin in January.



**A sharp decline in hedging costs has made US corporate bonds very attractive for Japanese and other foreign investors.** Even on a nominal, unhedged basis, the US bond market has the highest yields among most developed markets, with the 10-year Treasury offering a pickup of 133 bps over the 10-year JGB yield (as of Friday's close). However, with USD hedging costs having fallen the most in recent weeks, Citi estimates that yen-based corporate bond investors can pick up 200 bps over comparable yen denominated investment grade corporate bonds using rolling three-month maturity forward foreign exchange contracts. These are the cheapest hedging levels since the pandemic began. Citi also estimates that on a one year horizon there is a 23 bps breakeven cushion on eight-year duration US corporate bonds, meaning that credit spreads will have to widen by that amount for the yen based investor to take a loss. As the bond gets older, the cushion increases further.

Figure 3. US credit offers attractive yield pickups for JP investors even after hedging 3m FX risk ...



Source: Citi Research, Bloomberg

Figure 4. ... with the differential standing just shy of ~2% currently



Source: Citi Research, Bloomberg

**Inflows into equity funds hit the highest level since March, rising to \$51 bn according to data from Goldman.** The week before saw just \$13 bn in inflows. Most of the inflows were into US equity funds, with other developed markets holding steady and emerging markets seeing small outflows. The largest US inflows were into the industrials sector. Meanwhile, bond funds also saw higher inflows, while in the FX space the yen and renminbi saw the largest inflows. Money market funds (MMFs) saw a very large outflow of \$62 bn, likely due to the very low level of MMF returns caused by the lack of US T-Bill issuance and very low US money market rates.

	Global Fund Flows Summary			
	Millions USD		% AUM	
	4wk sum	15-Sep	4wk avg	15-Sep
Equity	95,772	51,165	0.13	0.29
Fixed Income	54,787	16,130	0.18	0.21
of which: EM	4,246	1,401	0.16	0.21
Money Markets	-61,249	-61,780	-0.24	-0.96
FX Flows*	53,756	13,738	0.13	0.13

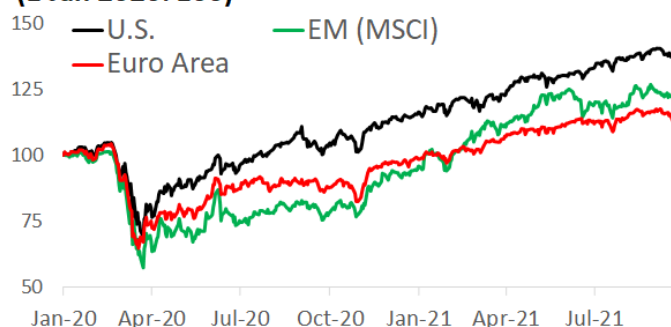
\*Cross-border fund flows, excluding hard currency and FX-hedged funds

Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

## Euro area

**Equities (-2%) are sharply lower, with banks (-4%) underperforming.** 10-yr bund yields (-3 bps to -0.31%) fell in line with 10-yr U.S. yields. The euro (-0.1%) edged lower.

### Global equities (1 Jan 2020: 100)



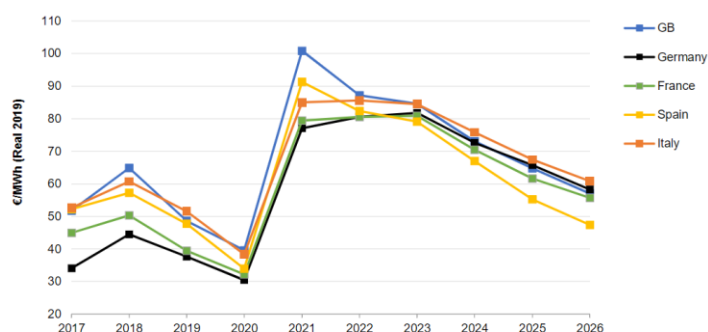
Source: Bloomberg and IMF

**10-yr spreads widened 1-2 bps as investors will continue to pay close attention to ECB communication.** According to media reports, the Italian government will target growth of over 10% in the 2021-22 period in its budget plan. The Italian government is reportedly also working on a back-up plan for Monte Paschi that does not include Unicredit. **Italy reportedly also plans to approve a disbursement of €3.5bn to address higher power bills.**

**The median observation in the ECB's Survey of Monetary Analysts expects the first hike in October 2024 (compared to 24 June in July) with the pandemic QE program to end in March 2022 and regular APP QE purchases to increase to €32 bn/m after Q1 (from €20 bn/m currently).** Survey responses were collected 23-27 August so before the last ECB September meeting.

**Ratings agency S&P expects that European power prices will remain elevated in 2022-2023.** The ratings agency revised power prices among the five main European markets by up to 10% over 2021-23 as more ambitious environmental targets will accelerate closures of thermal and nuclear baseload generation which renewables cannot fully replace over the coming three years. Natural gas prices are expected to remain volatile given the continent's declining production, more uncertain volumes of inflow from Russia, volatile carbon prices, massive storage capacity, well-developed gas infrastructure, and location.

S&P Global Platts' Baseload Power Evolution (€/MWh, Real 2019)



Note: The chart shows S&P Global Platts' forecasted average daily spot prices. These price assumptions are different from S&P Global Ratings' price assumptions and we do not use them in our base-case assumptions, but they provide a good indication of future power prices. Source: S&P Global Platts.

**German FM Scholz promised to put the completion of the European banking union high on the agenda if he wins the election.** Germany has been among the strongest opponents of an early launch of the European Deposit Insurance Scheme (EDIS). FM Scholz also promised a €12/h minimum wage and

stable pensions as condition for a future coalition and wants to raise the top income tax rate by three percent to 45%.

## Emerging Markets

[back to top](#)

**Emerging markets were lower across the board. EMEA equities** fell with stocks trading lower in South Africa (-2.8%), Poland (-2.4%) and Hungary (-2.3%). **EMEA currencies** mostly depreciated against the dollar with the Russian ruble (-0.5%) underperforming given the oil price decline. **North Asian markets are closed for the Mid-Autumn Festival holidays.** Other markets in Asia were down nearly 2%, extending last week's losses. In Thailand, the limit on the debt-to-GDP ratio will be increased to 70% from 60% to allow the government to borrow more if necessary. **Markets in Latin America also lost ground on Friday,** also on falling commodity prices. Equity markets in Brazil (-2.1%), Mexico (-1.7%) and Argentina (-1.5%) closed in the red. Regional currencies depreciated against the US dollar.

## EM fund flows

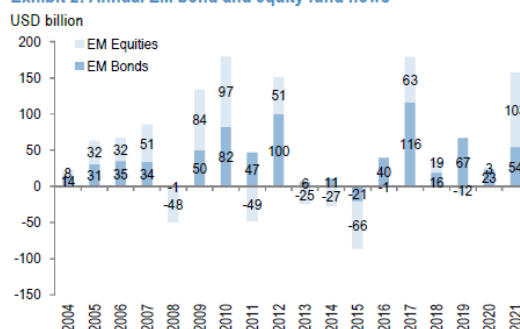
**Flows into hard currency bonds continued, while that into equities dried up.** Last week, EMs saw an inflow of \$2 bn, of which \$1.5 bn were in bonds (\$1.7 bn in the week before) and \$0.56 bn in equities (\$2.2 bn in the week before). Bond flows were driven by hard currency bonds (\$1.3 bn), as they remained positive for the fourth consecutive week. Local currency bond inflows were \$0.2 bn for the week, driven by a net inflow of \$0.3 bn into China's local currency bonds. With this, the YTD fund flow into EMs stands at \$158 bn.

Exhibit 1: Weekly Cross-Asset Flows

USD billion				
Asset	8w flows (8w ago → current)	This wk	YTD	
EM Bonds and Equities		2.0	157.8	
EM Bonds		1.5	54.4	
Hard Ccy		1.3	28.4	
Local Ccy*		0.2	26.0	
o.w. EM ex-China		-0.1	3.6	
o.w. China		0.3	19.7	
EM Equities		0.6	103.5	
US HG		2.4	235.3	
US HY		0.5	-7.4	
Global Equities		47.6	389.5	
EM Bond and Equity ETFs		3.1	66.3	
EM Bond ETFs		1.0	13.7	
EM Equity ETFs		2.1	52.6	
Non-resident EM flows*		0.6	-58.1	

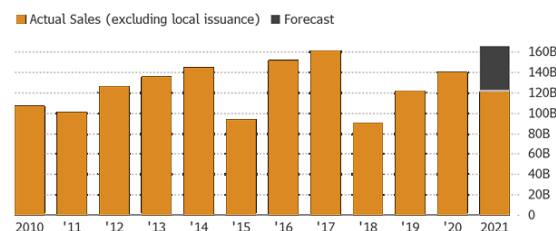
Note: Panel 1 uses high frequency non-resident EM portfolio flow data where available and local currency split is retail only.  
Source: J.P. Morgan, EPFR Global, and Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows



Further, according to Bloomberg reports, analysts expect **the Latin American bond issuance in foreign markets** to hit record levels in 4Q2021, as countries front-load their issuance schedule given favorable financial conditions. The report estimates 4Q2021 bond issuance at \$40-45 bn, which would bring the total issuance for 2021 to nearly \$165 bn.

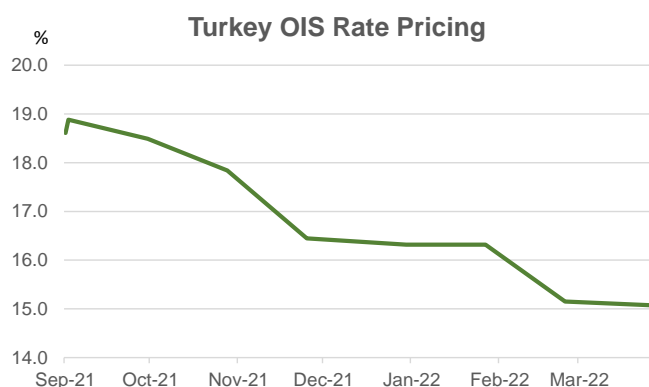
## Latin American bond issuance in foreign markets (USD bn)



Note: 2010-2020 is full year issuance from corporates and governments. 2021 is year-to-date. Forecast is high end of Deutsche Bank's projections for 4Q sales.  
Sources: Bloomberg Finance L.P., and Deutsche Bank.

## EMEA Central Banks

In the coming week, the **National Bank of Hungary is expected to hike its policy rate** by around 25 bps to 1.75% on Tuesday as well as further taper its asset purchase pace. The **South African Reserve Bank and the Central Bank of Turkey are expected to keep their policy stance unchanged** on Thursday. In the case of **Turkey**, rate cut expectations have built further in September with some contacts now considering October as a live meeting. The onshore overnight swap markets are now pricing about 225 bps of cuts by the end of this year as compared to about 150 bps of easing priced at the end of August.



## Brazil

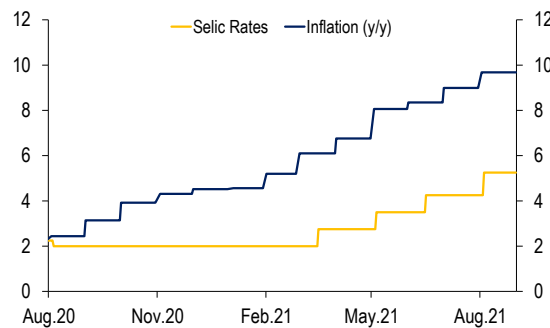
**Two-year breakeven rates continue to climb beyond the Brazil Central Bank's (BCB) 2023 inflation target.** On Friday, the 2-year breakeven rates on Brazil's sovereign bonds reached 5.65%, much higher than the BCB's 2022 and 2023 targets of 5% and 4.75%, respectively. The country reported Aug 2021 inflation at 9.63% yoy and has been facing inflationary pressures for some time. However, dovish remarks from the central bank head have moderated rate hike sentiment. A Bloomberg survey found that the chance of a 125 bps hike at the next BCB meeting fell to 12%, from 70% before the BCB president's statement. BCB's next monetary policy decision meeting is on Wednesday.

Fig. 1. Brazil: Breakeven rates and BCB inflation target



Sources: Bloomberg

Fig. 2. Actual inflation rates and policy rates



## China/ Hong Kong SAR

**Investors are watching China's Evergrande debt payments due this week, while other issuers are affected by market fears.** The Group is scheduled to make interest payments on bank loans, including \$83.5mn of interest on a dollar bond, Bloomberg reports. There is a one-day grace period on banks loans and 30-day period on the dollar bond before a missed payment is considered a default. In total, Evergrande has \$669mn in coupon payments coming due through the end of this year, some \$615mn of which is on dollar bonds. The developer's stock sank by as much as 19% in Hong Kong SAR, its dollar bond due 2022



was indicated down 3.1 cents at 26 cents, according to Bloomberg. Other Hong Kong SAR real estate giants suffered a sell-off as well. The Hang Seng Property Index plunged -6.7%, its biggest drop since May 2020.

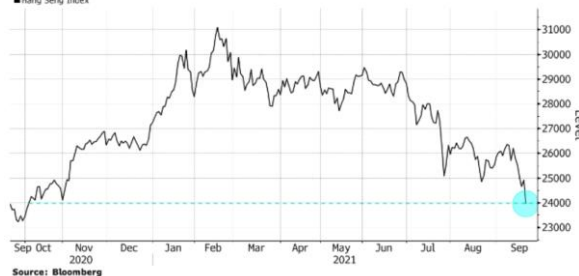
China junk bond yields are at highest in nearly a decade

■ Bloomberg USD Credit China HY Index - yield



Hang Seng falls to lowest in 11 months amid concerns on property, crackdown

■ Hang Seng Index



*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), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Torsten Ehlers (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: 9/20/21 7:43 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4433	-0.9	-1	0	34	18
Europe		4035	-2.3	-4	-3	23	14
Japan		30500	0.6	0	13	31	11
China		3614	0.2	-2	5	8	4
Asia Ex Japan		87	-0.1	-3	3	12	-3
Emerging Markets		51	-0.4	-2	4	15	-1
Interest Rates			basis points				
US 10y Yield		1.32	-3.9	0	7	63	41
Germany 10y Yield		-0.32	-4.1	1	17	16	25
Japan 10y Yield		0.05	0.0	1	4	4	3
UK 10y Yield		0.80	-4.5	6	28	62	60
Credit Spreads			basis points				
US Investment Grade		87	-3.4	-2	-7	-41	-8
US High Yield		310	-3.4	-6	-34	-206	-70
Europe IG		51	6.6	7	4	-6	3
Europe HY		252	25.7	24	14	-70	11
Exchange Rates			%				
USD/Majors		93.38	0.2	1	0	0	4
EUR/USD		1.17	-0.1	-1	0	-1	-4
USD/JPY		109.6	-0.3	0	0	5	6
EM/USD		56.1	-0.3	-1	1	1	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		74	-1.5	1	14	72	43
Industrials Metals (index)		163	-1.3	-3	6	36	23
Agriculture (index)		55	-1.3	0	-2	39	15
Implied Volatility			%				
VIX Index (%, change in pp)		25.5	4.7	6.1	7.0	-0.3	2.8
US 10y Swaption Volatility		68.3	0.6	2.9	-3.8	22.9	8.1
Global FX Volatility		6.7	0.0	0.2	-0.2	-2.7	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		114	1.5	2	8	-43	-6
Italy		102	1.5	0	-2	-43	-9
Portugal		55	1.1	0	-5	-23	-5
Spain		65	1.2	-1	-6	-12	3

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



## Emerging Market Financial Indicators

Last updated: 9/20/2021 7:45 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		6.47	-0.1	-0.3	0	5	1		3.0	1	0	-24	-24	
Indonesia		14243	-0.1	0.1	1	3	-1		6.1	-2	-19	-71	2	
India		74	-0.4	-0.1	1	0	-1		6.3	-3	-14	11	36	
Philippines		50	-0.5	-0.5	0	-4	-4		4.3	-6	-7	61	61	
Thailand		33	-0.2	-1.5	0	-6	-10		1.8	9	22	34	50	
Malaysia		4.19	-0.5	-1.0	1	-2	-4		3.4	5	4	79	80	
Argentina		98	-0.1	-0.3	-1	-23	-14		48.1	29	308	648	-806	
Brazil		5.29	-0.6	-0.8	0	-1	-2		10.3	2	59	461	470	
Chile		789	-0.6	-0.5	0	-2	-10		5.1	-20	49	255	238	
Colombia		3829	-0.3	0.3	1	-3	-10		7.2	19	32	225	210	
Mexico		20.16	-0.7	-1.4	1	6	-1		7.1	9	1	121	149	
Peru		4.1	-0.2	-0.2	-1	-14	-12		6.5	-6	-1	236	287	
Uruguay		43	0.0	0.2	1	0	-1		7.9	0	0	42	67	
Hungary		302	-0.4	-2.0	-1	2	-2		2.8	12	47	105	123	
Poland		3.93	-0.3	-1.9	0	-3	-5		1.4	8	29	60	75	
Romania		4.2	-0.2	-0.9	0	-2	-6		3.5	-9	31	27	78	
Russia		73.5	-0.7	-1.1	1	4	1		7.0	7	18	122	128	
South Africa		14.8	-0.6	-4.5	3	13	-1		9.8	12	6	-21	14	
Turkey		8.67	-0.4	-2.8	-2	-12	-14		16.9	-5	-45	368	375	
US (DXY; 5y UST)		93	0.2	0.8	0	0	4		0.83	3	5	55	47	

	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		4856	0.0	-3	2	3	-7		209	-4	-12	-30	-20	
Indonesia		6076	-0.9	0	1	22	2		173	1	-10	-69	-27	
India		58491	-0.9	1	6	54	22		146	2	-5	-74	-5	
Philippines		6858	-0.8	-2	3	16	-4		107	2	-8	-35	-5	
Malaysia		1528	-1.3	-3	1	2	-6		130	3	-8	-48	-5	
Argentina		78512	-1.5	3	16	89	53		1497	-25	-77	266	141	
Brazil		111439	-2.1	-2	-6	13	-6		290	0	-2	-22	31	
Chile		4465	0.0	0	3	20	7		147	3	-1	-36	-9	
Colombia		1322	-0.1	1	0	10	-8		281	5	-3	26	66	
Mexico		51308	-1.7	0	0	42	16		338	-2	-21	-130	-19	
Peru		17980	0.5	1	16	0	-14		166	-3	-18	-4	37	
Hungary		51174	-2.3	-3	-1	52	22		133	1	0	-20	-16	
Poland		69167	-2.7	-4	2	39	21		20	-4	-15	-14	-8	
Romania		12172	-1.2	-1	1	34	24		189	-2	5	-62	-14	
Russia		3970	-1.6	-2	4	34	21		155	-6	-16	-67	-24	
South Africa		61122	-2.8	-5	-7	12	3		350	10	-2	-147	-34	
Turkey		1394	-1.8	-3	-3	25	-6		481	25	9	-132	34	
Ukraine		526	0.0	0	0	5	5		469	-13	-43	-182	-24	
EM total		51	-2.3	-2	4	15	-1		354	3	-9	-38	16	

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

[back to top](#)