GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, SEPTEMBER 22, 2021

- **US markets pricing a very slow pace for Fed rate hikes** (link)
- **Evergrande is able to reschedule local debt payment** (link)
- **Deadline for US debt ceiling estimated to be in early November** (link)
- **Emerging market high yield corporate default rates seen rising in 2021** (link)
- **UK sees record demand for inaugural green bond** (link)
- **Momentum building for another leg up in the energy rally** (link)

Mature Markets | Emerging Markets | Market Tables

Markets cautiously optimistic ahead of FOMC

Global markets are higher following news that Chinese property developer Evergrande made a deal to reschedule payments on local debt, although the details are unclear and the company has $84 mn due on dollar bonds tomorrow. US equity futures are posting modest gains in early morning trading and European stocks are also higher. Nevertheless, the tone remains cautious after yesterday's disappointing US session, when promising early gains following a rally in Europe gave way to losses. In any case, markets are unlikely to make significant moves ahead of today's FOMC meeting. There is a lot of focus on negotiations in the US Congress, where President Biden's spending plans seem to be running into difficulties. The Bank of Japan meeting ended with few surprises, except for Governor Kuroda emphasizing that it is too early to consider reducing ETF purchases. US Treasury yields and oil prices are trading slightly higher.

Key Global Financial Indicators

Last updated: 9/22/21 8:00 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4354	-0.1	-2	-2	31	16
Eurostoxx 50		4134	0.9	0	0	31	16
Nikkei 225		29639	-0.7	-3	8	27	8
MSCI EM		50	0.7	-4	2	15	-3
Yields and Spreads					bps		
US 10y Yield		1.33	1.2	4	8	66	42
Germany 10y Yield		-0.32	0.0	-1	18	19	25
EMBIG Sovereign Spread		351	-2	6	-3	-70	0
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.2	0.0	-1	1	3	-3
Dollar index, (+) = $ appreciation		93.2	0.0	1	0	-1	4
Brent Crude Oil ($/barrel)		75.4	1.4	0	16	81	46
VIX Index (%, change in pp)		22.9	-1.5	5	4	-4	0

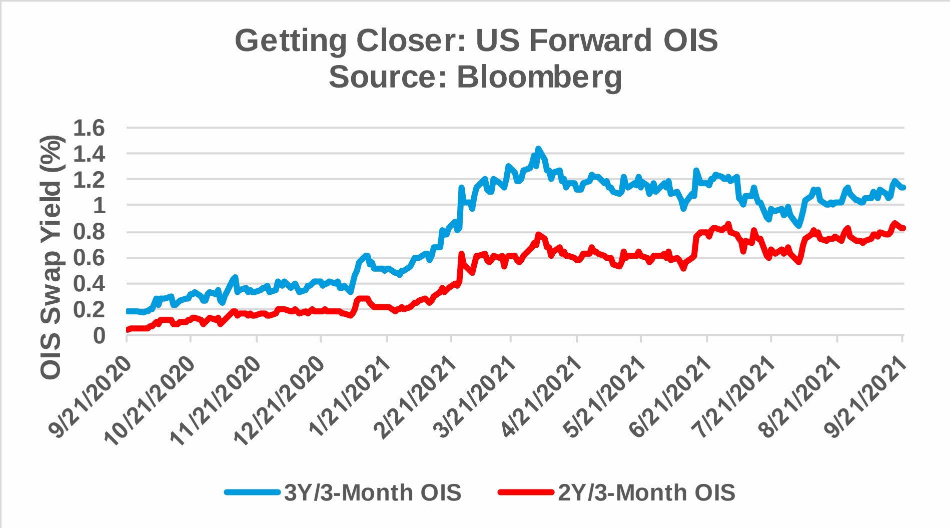
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

back to top

United States

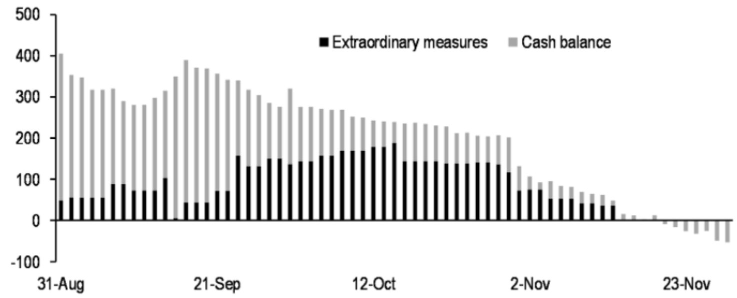
The bond markets are pricing a very gentle pace for Fed rate hikes. In the overnight index swap (OIS) market, the spread between the three-month OIS swap starting three years forward and the equivalent swap starting two years forward has narrowed to just 31 bps, down from 67 bps in March. This implies just over one rate hike over the period from September 2022 to September 2023. Some contacts are worried this is too complacent and that a hawkish Fed announcement could trigger a Treasury selloff, so they have reduced their Treasury exposure prior to the FOMC.



Higher than corporate expected tax receipts will probably enable the US Treasury to push out the debt ceiling deadline out to the early days of November. Analysts at J.P. Morgan report that Treasury's holdings of cash went up last week from $133 bn to $344 bn as a result of these receipts. Bank of America also predicts early November as the "X-Date." The Democrats introduced a measure to be voted on yesterday that will suspend the debt ceiling until after the elections in November next year and temporarily fund the government, but the Republicans say they will oppose any debt ceiling measure in the Senate unless the Democrats abandon the reconciliation bill. The standoff has raised fears of a repeat of the crisis of 2011 when the US came close to default and S&P withdrew its AAA rating.

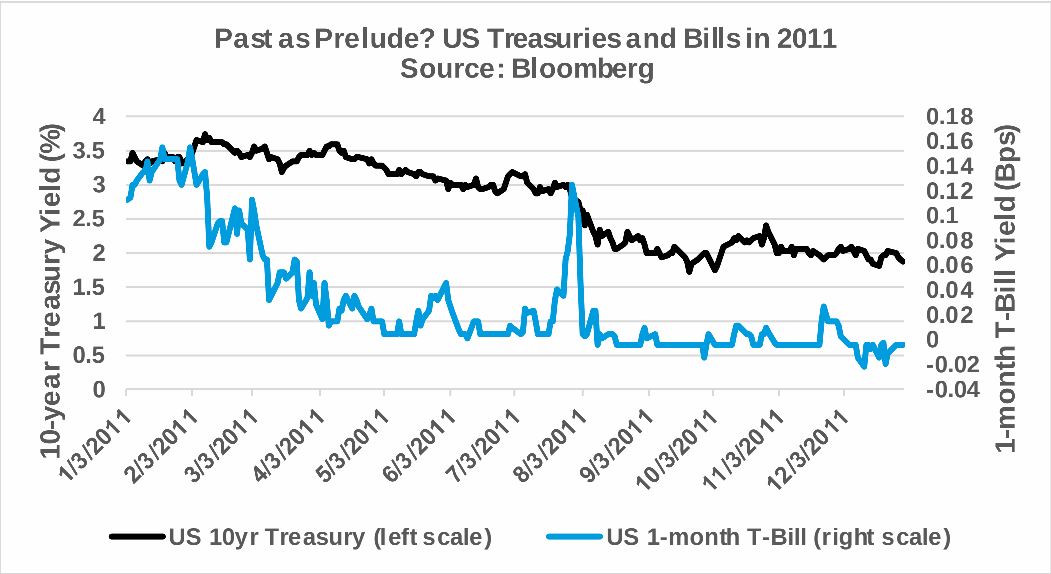
Exhibit 1: We project Treasury will exhaust all available resources to avoid breaching the debt limit around the first week of November

Projected estimates of Treasury's available resources; $bn



Source: US Treasury, J.P. Morgan

Back in 2011, T-Bill yields spiked as the debt ceiling drew nearer, but 10-year yields declined steadily throughout the episode on safe haven buying. Investors speculated that longer maturity notes and bonds were safer bets than very short maturity T-Bills as the latter have to be paid back earlier. In today's market, yields on late October and November T-Bills are slightly higher than T-Bills maturing later in the year, but yields are yet to spike like they did leading up to August 5, 2011 when S&P took the rating action.



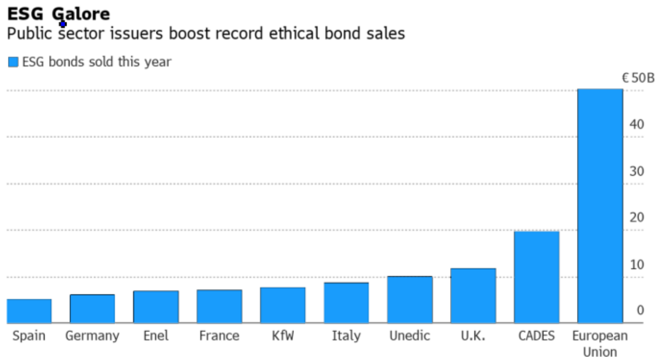
Euro area

Equities (+0.7%) traded higher in a quiet session. 10-yr bund yields (at -0.33%) and euro were little changed.

Southern European spreads over bunds were little changed after ECB data showed a net increase in PEPP holdings of €19.1 bn last week. This is in line with expectations that a drop to a "moderately lower" purchase pace will occur only in Q4.

United Kingdom

The U.K. sold £10 bn of green bonds due 2033 in its first such issuance. The sale attracted more than £100 bn of orders, a record high for both U.K. gilts and the global green bond market. The bond priced at a "greenium" of roughly 3 bps. Greenium refers to the slightly lower yield green bonds typically offer versus conventional debt, usually driven by a strong demand from a dedicated investor base. **The U.K.'s debut green bond sale helped push the share of ESG bond sales in total European bond sales over 25% for the first time ever.**



Long-term inflation expectations of U.K. households increased sharply to 3.8% yoy in August. Expectations for the next 12 months also jumped to 4.1% yoy. Both short- and long-run expectations are now well above their pre-pandemic, post-crisis range. **10-yr gilt yields have risen 10 bps so far in Sep (compared to 7 bps for 10-yr bund yields and 3 bps for 10-yr U.S. treasury yields).**

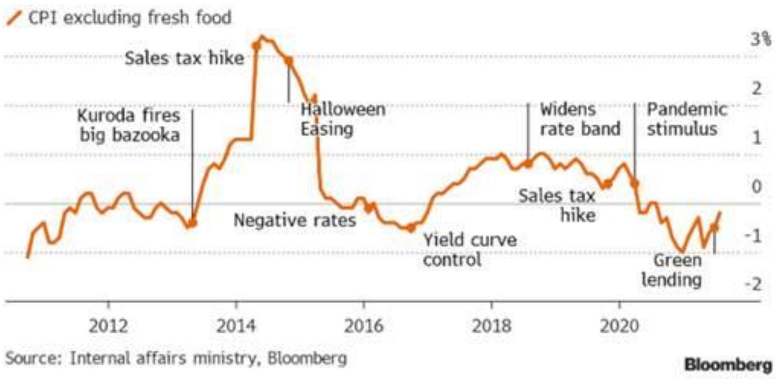
UK: CPI inflation and household inflation expectations

Source: ONS and Citi

Japan

The Bank of Japan (BOJ) kept its negative interest rate and asset-buying targets unchanged while sharing details on its green lending program. BOJ's policy rate remained at -0.1% and the 10-year yield target was kept at 0%. The central bank flagged Covid-linked pressures while reaffirming its readiness to take additional easing measures if needed. The BOJ's Climate Response Financing Operations will start in December with a one-year interest rates set at zero, and then will take place biannually. The program is expected to run through March 2031. At the press conference, Governor Kuroda mentioned the BOJ is sticking to flexible ETF buying and said it was not yet time to exit of the ETF purchase program.

Japan: inflation remains well below 2% target



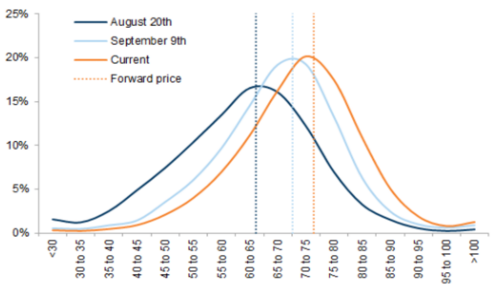
Source: Internal affairs ministry, Bloomberg

Commodities

Oil prices remain strong and are unlikely to sell off significantly this year, according to analysis by Goldman. Based on pricing in the options market for WTI futures, the probability of spot WTI falling to $60 from its current level just below $71 has fallen to just 15% from 40% back in August. While energy related assets such as oil stocks had lagged soaring commodity prices earlier in the year, in recent weeks the correlation between energy related assets and oil prices has risen significantly. Goldman analysts think this is a very positive sign, and they think the commodity complex will see large gains over the next nine months.

Exhibit 1 : Oil markets have faded the left-tail

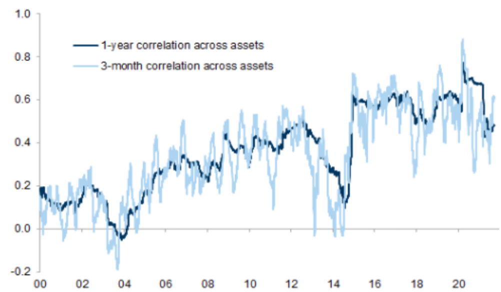
Option-implied WTI distribution for December 2021



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2 : Energy-related trades across assets have recoupled with oil prices

1-year correlation of energy-related trades and WTI. Energy-related trades listed in Exhibit 3



Source: Bloomberg, Datastream, Haver Analytics, Goldman Sachs Global Investment Research

Emerging Markets

back to top

EMEA stocks had a second day of gains. Hungary raised its policy rate by 15 bps yesterday, surprising markets which expected a 25 bps hike. Asian stocks were mixed and currencies were generally weaker. Singapore will offer S$2.6bn ($2bn) of infrastructure debt at an inaugural sale next week. Markets in Latin America were mostly higher. Paraguay's central bank hiked its policy rate by 50bps (hiked 25bps last month) in response to rising inflation. Argentina's 2Q2021 GDP contracted by -1.4% q/q (17.9% y/y), against the market estimates of -1.6% (17.5% y/y).

Emerging Market (EM) bond issuance

EMs registered highest the YTD issuance in the week ending on 18th Sept., which came in at $41.2 bn (2.73x of the average weekly issuances for 2021). A large part of this spike in issuance was on account of the Sovereign and Financial sectors, which issued $14.5 bn and $15.6 bn, vis-à-vis cumulative issuance of $151 bn and $107 bn, respectively, until the week before. Bond issuances accelerated across regions, with Asia ex-China and CEEMA witnessing largest volumes of about $13 bn each, marking a sequential growth of 500% and 76%, respectively. With this, the cumulative 2021 bond issuance in EMs stands at $600 bn.

Figure 1. EM bond issuance, by sector (bn. USD)

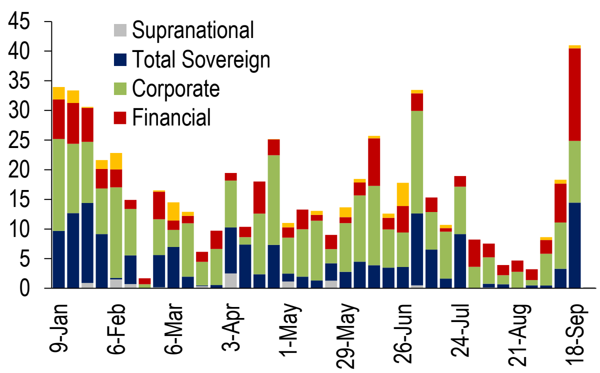
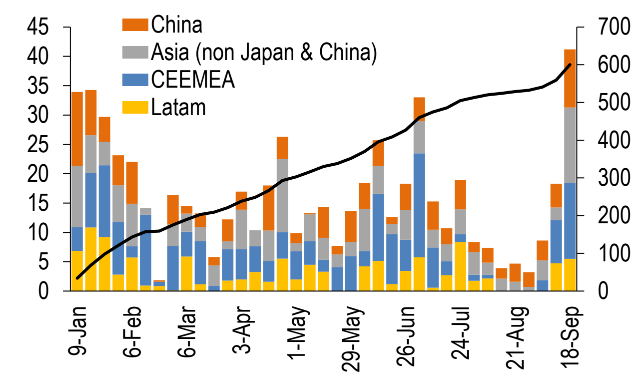


Figure 2. EM bond issuance, by region (bn. USD)



Sources: Bond Radar, and IMF staff calculations.

EM High Yield (HY) corporate default rates

2021 default rate estimates for EM (HY) corporates were revised up significantly. In a recent report, JP Morgan increased its 2021 default rate estimates for EM HY corporates from 2.4% to 5.5%, primarily on account of stress in China's HY corporate markets (estimated default rate of 13%). The report basis its argument on rising distress trades in EM HY bonds, which are at the highest level ($37 bn or 4.8% of EM HY bonds) since June 2020. Asia's HY bonds trades account for over 80% of it, wherein China's HY property market is said to have the lion's share. However, the risk of the stress in China spilling over to other countries/regions is seen as minimal, and hence the default estimates for regions other than Asia have remained unchanged.

Figure 1: Global EM corporate HY 2021 default forecast raised to 5.5%; ex. China we expect 1.8% default rate

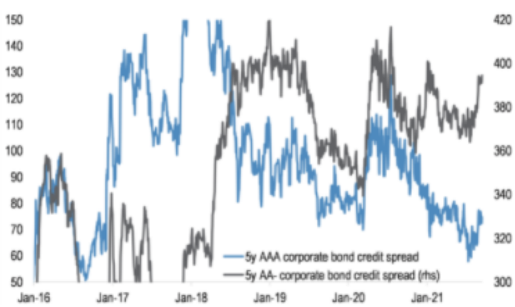
								2021F		
	2015	2016	2017	2018	2019	2020	2021YTD	*New*	*Ex. China*	*Prev.*
Asia	3.1%	1.0%	1.0%	2.5%	1.8%	3.4%	2.4%	9.0%	*0.8%*	2.6%
EM Europe	2.5%	3.6%	3.6%	0.0%	0.0%	3.3%	0.0%	0.5%	0.5%	0.5%
Latin America	5.7%	9.2%	2.0%	2.1%	2.3%	4.4%	2.2%	3.6%	3.6%	3.6%
Middle East & Africa	4.0%	5.7%	3.2%	0.0%	1.8%	2.1%	0.0%	0.8%	0.8%	0.8%
EM Corp HY (ex. 100% quasis)	**3.8%**	**5.1%**	**2.2%**	**1.6%**	**1.7%**	**3.5%**	**1.7%**	**5.5%**	**1.8%**	**2.4%**

Source. J.P. Morgan

China/Hong Kong SAR

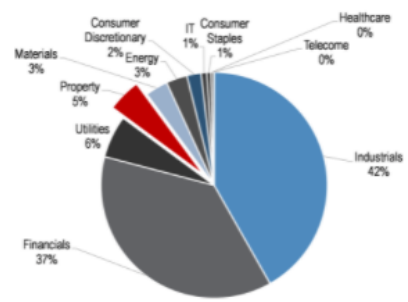
Evergrande made a deal with investors to reschedule interest payments on local-currency bonds due Thursday, although the details are vague. Analysts see limited signs of onshore contagion so far. The news about the payment delays came from a Shenzhen exchange filing, which many analysts considered being rather unusual, according to Bloomberg. On Thursday, the developer is due to pay interest of $35.9mn on its onshore bond maturing in 2025 (in addition to an interest payment of $83.5mn on its foreign-currency bond). Earlier this week media reports suggested Chinese authorities have begun to lay the groundwork for a potential restructuring. Some analysts noted that in contrast to offshore markets, where the China high yield index and bank shares declined, the onshore credit market does not seem to price a stress scenario for Evergrande with credit spreads remaining comfortably below the previous highs. Separately, **The People's Bank of China pumped 120bn yuan ($18.6bn) into the banking system via repos.** The net injection stood at 90bn yuan.

The credit spread onshore remains comfortably below its previous highs, highlighting limited spillover concerns from a possible Evergrande fallout



Source: Wind, J.P. Morgan

Corporate bonds of property developers only account for a small share of the onshore credit market



Source: Wind, J.P. Morgan

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: 9/22/21 8:06 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		4354	-0.1	-2	-2	31	16
Europe		4134	0.9	0	0	31	16
Japan		29639	-0.7	-3	8	27	8
China		3628	0.4	-2	4	11	4
Asia Ex Japan		85	0.7	-4	1	11	-5
Emerging Markets		50	0.7	-4	2	15	-3
Interest Rates					basis points		
US 10y Yield		1.33	1.2	4	8	66	42
Germany 10y Yield		-0.32	0.0	-1	18	19	25
Japan 10y Yield		0.04	-0.2	0	3	2	2
UK 10y Yield		0.82	0.9	4	29	61	62
Credit Spreads					basis points		
US Investment Grade		89	-0.4	0	-6	-42	-6
US High Yield		320	-2.2	5	-25	-216	-59
Europe IG		50	-0.7	5	4	-8	2
Europe HY		244	-3.7	18	11	-85	3
Exchange Rates					%		
USD/Majors		93.19	0.0	1	0	-1	4
EUR/USD		1.17	0.0	-1	0	0	-4
USD/JPY		109.5	0.3	0	0	4	6
EM/USD		56.2	0.0	-1	1	3	-3
Commodities					%		
Brent Crude Oil ($/barrel)		75	1.4	0	16	81	46
Industrials Metals (index)		164	2.1	-2	6	40	24
Agriculture (index)		56	0.8	-2	-2	42	16
Implied Volatility					%		
VIX Index (%, change in pp)		22.9	-1.5	4.7	4.3	-4.0	0.1
US 10y Swaption Volatility		71.7	0.2	6.9	-1.5	25.3	11.6
Global FX Volatility		6.9	0.0	0.4	0.0	-2.8	-1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		108	-1.1	-3	2	-48	-12
Italy		99	-2.5	-2	-5	-38	-12
Portugal		54	-2.1	-2	-6	-23	-6
Spain		64	-0.4	-1	-7	-10	2

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

Emerging Market Financial Indicators

Last updated: 9/22/2021 8:08 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		6.47	0.0	-0.5	0	5	1		3.0	-1	3	-23	-24
Indonesia		14243	0.0	0.0	1	4	-1		6.1	4	-11	-62	8
India		74	-0.3	-0.5	0	0	-1		6.3	-7	-15	9	33
Philippines		50	-0.2	-0.9	0	-4	-4		4.3	0	-6	61	60
Thailand		33	-0.2	-1.7	-1	-6	-10		1.8	8	20	35	48
Malaysia		4.19	-0.2	-0.8	1	-1	-4		3.4	4	5	82	82
Argentina		98	0.0	-0.3	-1	-23	-15		48.2	79	268	835	-792
Brazil		5.26	0.2	-0.7	2	4	-1		10.0	-14	30	401	439
Chile		784	0.4	-0.5	0	-1	-9		5.0	-24	32	244	226
Colombia		3838	0.1	-0.2	1	-1	-11		7.3	22	34	219	219
Mexico		20.09	0.2	-1.1	1	8	-1		7.2	12	13	122	156
Peru		4.1	0.2	-0.1	0	-14	-12		6.3	-15	-37	221	275
Uruguay		43	0.2	-0.1	1	-1	-1		7.9	0	-7	44	67
Hungary		303	-0.7	-2.4	-2	2	-2		2.7	6	43	100	120
Poland		3.95	-0.2	-2.2	-1	-3	-5		1.3	-2	25	57	68
Romania		4.2	0.0	-0.8	-1	-2	-6		3.5	-7	34	24	78
Russia		72.8	0.4	-0.8	2	5	2		7.1	11	20	123	134
South Africa		14.8	0.4	-2.5	2	14	-1		9.8	15	9	-31	20
Turkey		8.66	-0.3	-2.6	-3	-11	-14		17.0	19	-42	346	390
US (DXY; 5y UST)		93	0.0	0.7	0	-1	4		0.84	5	6	58	48

	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		4822	-0.7	-3	0	4	-7		211	-1	-7	-29	-18
Indonesia		6108	0.8	0	0	24	2		184	4	1	-62	-16
India		58927	-0.1	0	6	56	23		150	7	5	-73	-1
Philippines		6891	0.1	0	5	17	-3		116	3	3	-29	4
Malaysia		1529	-0.1	-2	0	2	-6		132	3	-4	-48	-3
Argentina		73919	0.4	-6	9	81	44		1581	94	-2	250	225
Brazil		110250	1.3	-5	-7	13	-7		297	-1	-4	-32	38
Chile		4307	0.0	-2	-1	19	3		153	2	6	-38	-3
Colombia		1301	-0.4	-2	-2	10	-9		290	6	1	23	75
Mexico		50828	0.5	-1	-1	42	15		347	4	-17	-147	-10
Peru		17869	0.7	0	15	1	-14		172	-3	-10	-6	43
Hungary		51358	1.1	-2	-1	59	22		137	-8	5	-18	-12
Poland		70622	1.7	-2	4	45	24		26	4	-10	-5	-2
Romania		12300	-0.5	0	2	36	25		194	-4	8	-64	-9
Russia		4015	1.1	-1	5	39	22		159	-6	-12	-70	-20
South Africa		63310	1.5	-2	-4	19	7		358	9	-1	-154	-26
Turkey		1386	0.0	-3	-4	26	-6		482	13	6	-164	35
Ukraine		526	0.0	0	0	5	5		484	6	-31	-203	-9
EM total		50	0.9	-4	2	15	-3		365	8	-1	-47	27

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

back to top