GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, SEPTEMBER 23, 2021

- **A slightly more hawkish FOMC has limited impact on markets** (link)
- **BoE leaves policy unchanged but sees case for modest tightening** (link)
- **Norges Bank starts rate tightening cycle** (link)
- **China regulators urged Evergrande to avoid near-term dollar default** (link)
- **The People's Bank of China continues to pump liquidity into the financial system** (link)
- **Brazil's central bank hikes policy rates by 100 bps** (link)
- **Central Bank of Turkey unexpectedly cuts 100 bps** (link)

Mature Markets | Emerging Markets | Market Tables

Market sentiment improves post FOMC

Amid a flurry of central bank rate decisions, European bourses and Asian stocks gained as concerns about the systemic nature of a debt default by Chinese property developer Evergrande appeared to fade. News that the People's Bank of China continued to pump liquidity into the financial system also helped boost market sentiment. Markets were little changed by the FOMC yesterday, with the US Treasury yield curve experiencing a modest flattening. This morning, 10-year US Treasury yields more than reversed yesterday's modest drop and the dollar weakened. In its statement, the Fed signaled that tapering is near, in line with market expectations, while the updated dot-plot revealed a hawkish shift with a growing number of FOMC members expecting at least one policy rate hike in 2022. Meanwhile, central banks in the UK, Norway, Brazil, Turkey, Philippines and Taiwan POC also announced interest rate decisions over the past 24 hours.

Key Global Financial Indicators

Last updated: 9/23/21 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4396	1.0	-2	-2	36	17
Eurostoxx 50		4185	0.8	0	0	32	18
Nikkei 225		29639	-0.7	-3	8	27	8
MSCI EM		51	1.3	-2	1	18	-1
Yields and Spreads					bps		
US 10y Yield		1.34	3.7	0	9	67	42
Germany 10y Yield		-0.29	3.3	1	19	21	28
EMBIG Sovereign Spread		352	1	10	-2	-75	2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.3	0.3	0	1	4	-3
Dollar index, (+) = $ appreciation		93.2	-0.3	0	0	-1	4
Brent Crude Oil ($/barrel)		75.9	-0.4	0	10	82	46
VIX Index (%, change in pp)		19.7	-1.1	1	3	-9	-3

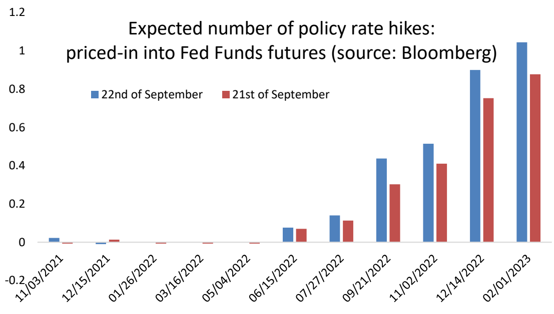
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

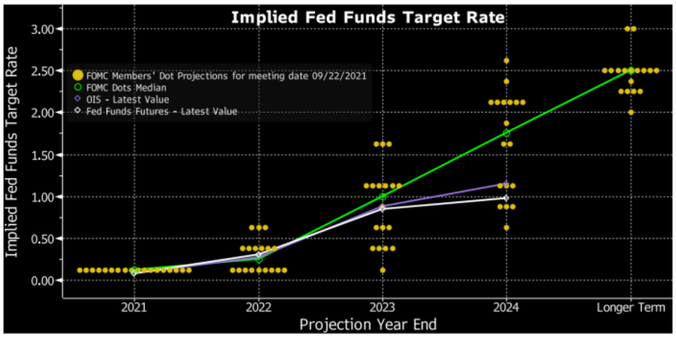
Mature Markets

back to top

United States

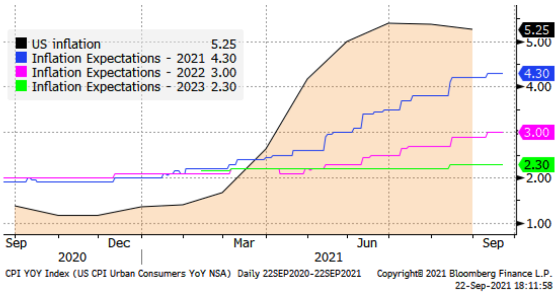
The FOMC had a relatively modest impact on markets on Wednesday despite news that a growing number of FOMC members expecting at least one policy rate hike in 2022. The S&P500 gained 1%, the dollar appreciated 0.3% and the US Treasury yield curve flattened. US Treasury 30-year yields fell by 5 bps while 2-year yields rose by 2 bps. The released Fed's "dot plot" indicated that half of FOMC members expected at least a 25 bps hike next year, with three of them expecting a 50 bps increase (right chart). Previously, only 7 out of 18 members had expectations of a rate lift. Consequently, markets attached a slightly higher probability of earlier rate hikes (left chart). Fed Chair Powell reiterated that a policy rate lift-off is not going to start before the end of the tapering, which he currently expects to be in mid-2022.





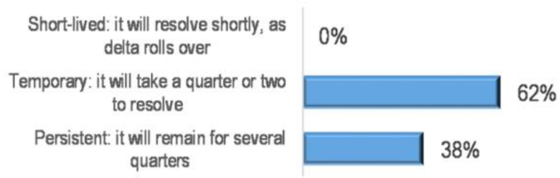
This morning, **US jobless claims stood at 351k, above the expected 320k. Continuing claims** posted at 2845k, also exceeding the expected 2600k. There was limited market reaction to the release.

The Fed will pay specific attention to keep inflation expectations anchored. Fed Chair Powell reiterated that if sustained higher inflation were to become a serious concern, the Fed would respond. Some analysts are concerned that if inflation becomes de-anchored, the Fed will have to raise policy rates prematurely, which could conflict with the employment objective. However, Powell still perceives the elevated current inflation as temporary and due to supply bottlenecks that have not begun to abate yet and may persist for the next few months and into next year. Overall, he assesses that the Fed remains "very much on track" to achieve its inflation target over time and the "very modest overshoots" of 2% inflation in coming years are unlikely to affect households' inflation expectations.



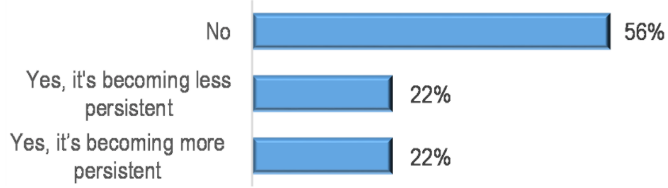
JP Morgan's latest survey shows that investors are mostly in line with Powell's assessment of the nature of current inflation. This week's interim survey results show that a majority of investors believe that the supply constraints will fade away within a few weeks and that the August US CPI print should not affect their view on the persistency of inflation.

Figure 5: What is your view on supply constraints?



Source: J.P. Morgan.

Figure 4: Does the August US CPI print change your view on the persistency of inflation?



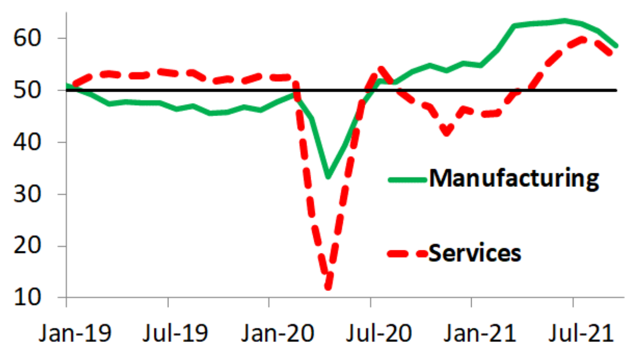
Source: J.P. Morgan.

Euro area

Equities (+1.0%) traded higher with bank stocks (1.3%) outperforming as 10-year bund yields (+2 bps to -0.30%) traded higher. **Italian 10-year spreads European spreads over bunds fell 2 bps to 98 bps after Italy said that will not sell bonds via bank syndications in early fall considering the improvement in its economic outlook.** Syndicated bond sales are more expensive than auctions as borrowers pay a premium to ensure bonds are sold.

PMI data disappointed in August, with the manufacturing PMI at 58.7 (60.3 expected) and the services PMI at 56.3 (58.5 expected). Analysts believe that euro area growth is now slowing, with sustained supply-side constraints weighing on demand.

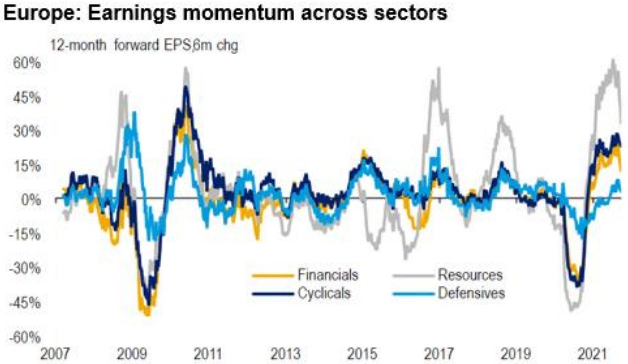
Euro Area: PMI data (>50 is expansion)



Source: Bloomberg, Markit and IMF staff

Equity analysts are also expecting corporate earnings growth to slow in Q3 as positive base effects start to fade. Growth in earnings-per-share (EPS) is expected to continue slowing in Q4 and to turn negative in Q1.

Europe: Earnings momentum across sectors



Source: Bank of America

United Kingdom

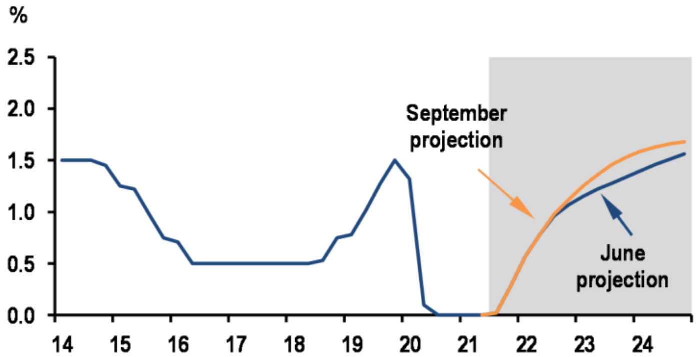
The British pound (+0.6%) appreciated after the BoE left policy unchanged but added that some developments have strengthened the case for modest tightening. The MPC voted unanimously to keep Bank rate unchanged at 0.1% and voted 7-2 to keep the bond buying target unchanged (at £875 bn for government bond purchases). Following the meeting, **money markets brought forward expectations of a first hike of 15 bps to March 2022 from May 2022 earlier.**

PMI data disappointed in September, with manufacturing slowing to 56.3 (59 expected) and services to 54.6 (55 expected).

Norway

The krone (+0.5%) strengthened after the Norges bank hiked its policy rate 25 bps to 0.25%. The governor added that the policy rate will likely be raised further in December, with the rate path suggesting another 75 bps of hikes in 2022. **Analysts at HSBC argue that the tightening is linked to financial stability risks as the Norges Bank is expecting core inflation (CPI-ATE) to undershoot its 2% target for the duration of the forecast horizon.**

Norges Bank policy rate path



Source: Norges Bank

Emerging Markets

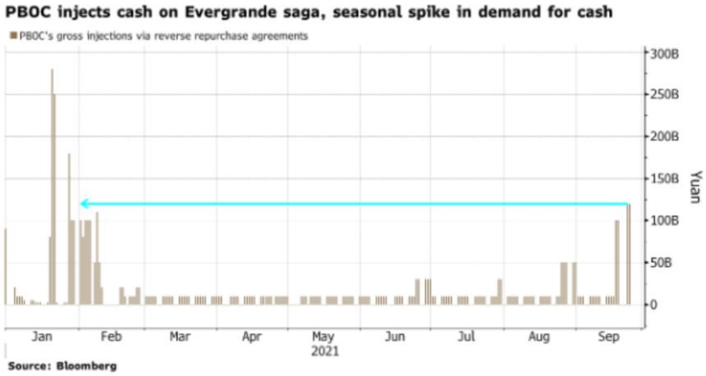
back to top

Asian stocks gained (+1.1%). India outperformed gaining +1.6%, Taiwan Province of China (POC) was up +0.9%, China advanced as well (Shanghai +0.4%, Shenzhen +0.5%). **Regional currencies traded in narrow ranges,** Singapore dollar and Indian rupee strengthened by about +0.2%. **Philippines central bank** kept policy rate unchanged at 2% as expected. **Taiwan POC** applied to join the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is the largest free-trade agreement in the region; its **central bank** kept the rate unchanged at record low 1.125% and raised GDP growth outlook at 5.75% in 2021**. EMEA equity markets** mostly traded higher with indices up in Hungary (+1%), Czech Republic (+0.8%) and South Africa (+0.5%). **EMEA currencies** mostly appreciated with the South African rand (+1%) outperforming. The Turkish lira (-1.2%) underperformed on the unexpected policy rate cut. **Markets in LATAM were mixed yesterday**. Equity markets were up, with Brazil (+1.8%) making the largest gains. Most regional currencies were little changed to the dollar, with the Brazilian real (-0.3%) underperforming.

China/ Hong Kong

Chinese regulators urged Evergrande Group to complete unfinished properties and avoid near-term dollar default. Financial regulators reportedly instructed the developer to communicate proactively with bondholders. Evergrande has an $83.5 mn coupon on its offshore bond due Thursday, with a 30-day grace period to make the payment. There's no indication that regulators offered financial support to Evergrande, and it's unclear whether officials believe the company should eventually impose losses on offshore creditors, according to Bloomberg. Separately, **China's State Council repeated its call for "cross-cyclical" adjustments in guiding economic policy**. In this context, the Council will study measures to further boost consumption, Bloomberg reports. The term "cross-cyclical" approach was used by the officials earlier this year, and analysts interpret it as policy focus on preemptive and moderate actions aiming to smooth out fluctuations in growth.

The People's Bank of China (PBOC) continued to pump liquidity into the financial system, the biggest liquidity boost in eight months. The PBOC added 110bn yuan ($17bn) with seven- and 14-day repo. Separately, Southbound Bond Connect became operational Thursday, adding another channel for Mainland institutions to by buy bonds traded in Hong Kong. **China stocks moved up (Shanghai +0.4%, Shenzhen +0.5%), renminbi and the 10-year yield were little changed.**



Brazil

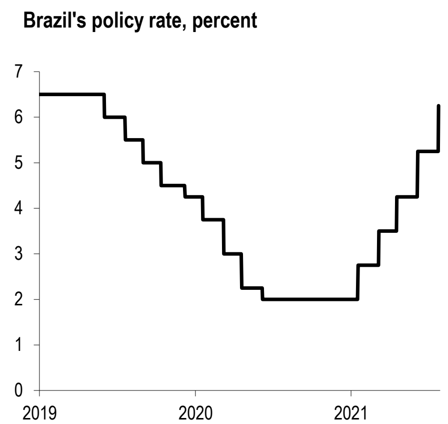
Brazil's central bank (BCB) hiked policy rates (Selic) by 100bps to 6.25%, in line with the market expectations. Further, it indicated another hike of similar magnitude in October, while spelling out that a terminal rate in the ongoing tightening cycle of 8.5% (in 2022) would attain inflation of 8.5% and 3.7% for 2021 and 2022, respectively. However, according to sell-side analysts, given that the BCB's 2022 inflation forecast is higher than its target of 3.5%, the terminal rate for the cycle could end up being higher, and in a range of 9-10%. The country's inflation has risen from 4.19% y/y in Jan 2021 to 9.68% y/y in Aug 2021.

Table 1: COPOM inflation scenario

%oya

Meeting	2021	2022	2023
August	3	3.4	-
September	2.9	3.3	-
October	3.1	3.3	-
December	3.4	3.4	-
January	3.6	3.4	-
March	5	3.5	-
May	5.1	3.4	-
June	5.8	3.5	-
August	6.5	3.5	3.2
September	8.5	3.7	3.2
September (estimated by JPM)	*7.5-7.8*	*3.6-3.8*	*3.0-3.3*

Sources: BCB, JP Morgan and Bloomberg



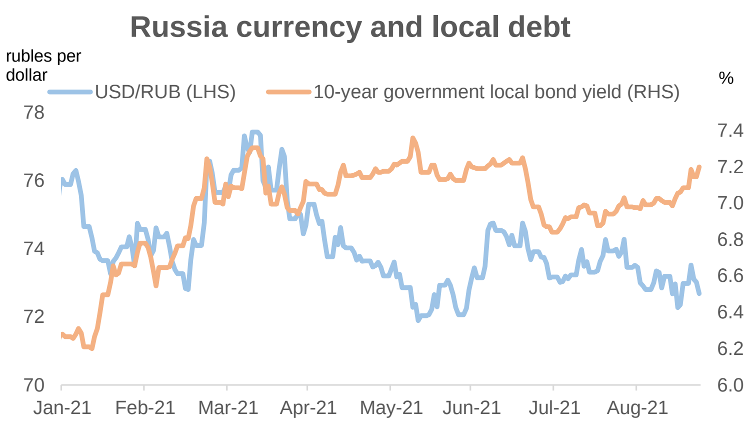
Turkey

The Central Bank of Turkey unexpectedly reduced its policy rate by 100 bps to 18%. Contacts noted that the move comes as a large surprise even when compared to more dovish expectations in the market. The interest rate markets were pricing a 50 bps cut around the October meeting. **The Turkish lira**

depreciated 1.5% after the decision, hitting record low 8.80 liras per dollar. Contacts note that the offshore investor positioning remains light by historical standard and given the still high level of rates, the impact from the early rate cut on the FX market could be contained if further easing remains limited. **However, an easing cycle into Fed's and ECB's tapering could expose the exchange rate to renewed depreciation pressure.**

Russia

Sanction fears returned to the government local bond market. A new US bill aims to extend purchase restrictions to the secondary bond market. The US already banned purchases of government local debt in the primary market back in April. Contacts noted that the local bond market has seen inflows in July and August, with positioning most likely shifting to overweight. However, inflows have stalled in September due to some renewed inflation concerns but also weaker global risk sentiment. **Over the past week, 10-year government bond yields increased by 25 bps despite policy rate expectations remaining anchored and concerns are now rising that the passing of the bill can trigger a larger sell-off**. By contrast, the Russian ruble (+0.5%) has been trading immune to both global and local developments as analyst pointed out benefits from rising energy prices as well as a build-up in corporate FX liquidity onshore.



Source: Bloomberg

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Global Financial Indicators

Last updated: 9/23/21 8:07 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4405	1.0	-2	-2	36	17
Europe		4185	0.8	0	0	32	18
Japan		29639	-0.7	-3	8	27	8
China		3642	0.4	-1	4	13	5
Asia Ex Japan		86	1.4	-2	1	14	-4
Emerging Markets		51	1.3	-2	1	18	-1
Interest Rates					basis points		
US 10y Yield		1.34	3.7	0	9	67	42
Germany 10y Yield		-0.29	3.3	1	19	21	28
Japan 10y Yield		0.04	0.0	-1	2	3	2
UK 10y Yield		0.86	6.2	4	33	64	66
Credit Spreads					basis points		
US Investment Grade		87	0.2	-3	-8	-45	-8
US High Yield		312	-4.3	-1	-30	-240	-68
Europe IG		49	-0.7	4	3	-10	1
Europe HY		241	-1.6	16	8	-93	-2
Exchange Rates					%		
USD/Majors		93.20	-0.3	0	0	-1	4
EUR/USD		1.17	0.3	0	0	0	-4
USD/JPY		110.0	0.2	0	0	4	7
EM/USD		56.3	0.3	0	1	4	-3
Commodities					%		
Brent Crude Oil ($/barrel)		76	-0.4	0	10	82	46
Industrials Metals (index)		165	0.3	0	5	43	25
Agriculture (index)		56	0.4	-1	-1	44	17
Implied Volatility					%		
VIX Index (%, change in pp)		19.7	-1.1	1.0	2.6	-8.9	-3.0
US 10y Swaption Volatility		66.9	0.6	0.4	-9.0	21.7	6.7
Global FX Volatility		6.8	0.0	0.2	0.0	-2.9	-1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		104	-4.6	-7	-3	-49	-16
Italy		98	-0.9	-2	-8	-38	-13
Portugal		53	-0.8	-2	-8	-22	-7
Spain		63	-1.0	-2	-9	-10	1

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

Emerging Market Financial Indicators

Last updated: 9/23/2021 8:11 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		6.46	0.1	0.0	0	5	1		3.0	-3	2	-22	-25
Indonesia		14243	0.0	0.1	1	4	-1		6.1	7	-10	-66	8
India		74	0.3	-0.2	1	0	-1		6.3	-5	-15	10	33
Philippines		50	-0.2	-0.8	0	-4	-5		4.3	0	-6	62	61
Thailand		33	0.6	-0.4	0	-5	-10		1.8	10	21	34	49
Malaysia		4.18	0.3	-0.6	1	-1	-4		3.4	4	6	82	82
Argentina		98	0.0	-0.2	-1	-23	-15		48.3	66	275	881	-784
Brazil		5.27	0.5	-0.1	2	6	-1		9.9	-25	26	407	436
Chile		786	0.2	-0.4	0	-1	-10		5.0	-11	32	243	227
Colombia		3834	0.1	-0.5	1	0	-11		7.3	22	33	214	218
Mexico		19.99	0.5	-0.2	2	12	0		7.2	12	13	123	157
Peru		4.1	0.0	-0.1	0	-14	-12		6.3	-20	-39	214	273
Uruguay		43	0.2	0.0	1	-1	-1		7.9	0	-7	35	67
Hungary		304	0.0	-1.9	-2	3	-2		2.7	3	42	96	119
Poland		3.93	0.5	-1.2	-1	-2	-5		1.3	-1	25	56	69
Romania		4.2	0.3	-0.5	-1	-1	-6		3.5	-5	33	17	77
Russia		72.7	0.4	-0.5	2	6	2		7.1	9	20	121	134
South Africa		14.6	1.4	-0.1	4	17	1		9.8	12	10	-37	20
Turkey		8.74	-1.0	-2.3	-4	-12	-15		17.0	25	-38	354	394
US (DXY; 5y UST)		93	-0.3	0.3	0	-1	4		0.88	4	11	61	52

	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		4853	0.7	-1	-1	6	-7		210	-1	-8	-31	-19
Indonesia		6143	0.6	1	1	27	3		184	7	1	-66	-16
India		59885	1.6	1	7	64	25		147	4	2	-80	-4
Philippines		6915	0.4	-1	4	18	-3		117	8	4	-31	5
Malaysia		1539	0.7	-1	-1	3	-5		131	1	-5	-52	-4
Argentina		74750	1.1	-5	8	82	46		1597	122	14	252	241
Brazil		112282	1.8	-2	-4	17	-6		297	3	-4	-36	38
Chile		4384	0.0	-1	0	25	5		151	2	4	-42	-5
Colombia		1310	0.7	-1	-2	11	-9		292	12	3	23	77
Mexico		51338	1.0	-1	-1	43	17		349	13	-15	-150	-8
Peru		18099	1.3	1	12	3	-13		172	1	-10	-13	43
Hungary		51851	1.1	-1	0	59	23		136	-2	4	-22	-13
Poland		70824	-0.2	-1	3	46	24		25	-1	-11	-10	-3
Romania		12384	0.7	1	2	36	26		196	2	10	-65	-7
Russia		4037	0.1	0	4	38	23		159	-2	-12	-70	-20
South Africa		63662	0.5	1	-5	17	7		358	10	-1	-162	-26
Turkey		1402	-0.4	-1	-4	27	-5		487	18	11	-162	40
Ukraine		526	0.0	0	0	5	5		491	23	-24	-199	-2
EM total		51	0.6	-2	1	18	-1		367	14	1	-50	28

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

back to top