



- US Treasury 30-year yields rise the most since March 2020 ([link](#))
- JP Morgan warns of affordability crisis in the US housing market ([link](#))
- BoE signals hike could be appropriate before end of asset purchase program ([link](#))
- ECB to consider hiking if inflation hits 2% midway till end of projection period ([link](#))
- China's central bank calls all cryptocurrency-related transactions illegal ([link](#))
- South African Reserve Bank leaves its policy rate unchanged, as expected ([link](#))
- Mexico's inflation rises more-than-expected in early September ([link](#))

[Mature Markets](#)




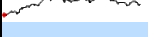






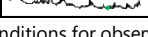
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## Sovereign bond yields fluctuate after yesterday's sell-off

The sovereign bond yields of major advanced economies were mixed this morning after yesterday's sell-off that saw major moves, with 30-year US Treasury yields increasing the most since March 2020. 10-year US Treasury yields fell 1 bp while German bunds rose 3 bps this morning. There was no clear driver for yesterday's move, which seemed to kick off in the UK gilt market after the BoE signaled that a hike could even be appropriate before the end of its QE program. Elsewhere, global equities were down as uncertainties about Evergrande and US fiscal developments persist. Consumer and retail shares led the declines both in US pre-market trading and in Europe this morning, with Nike shares (-5%) underperforming after lowering its sales outlook amid factory closures. In cryptocurrencies, bitcoin (-6%) dropped after China's central bank called all cryptocurrency-related transactions illegal.

Key Global Financial Indicators

Last updated: 9/24/21 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4449	1.2	-1	-1	37	18
Eurostoxx 50		4161	-0.8	1	0	32	17
Nikkei 225		30249	2.1	-1	9	30	10
MSCI EM		51	0.8	0	0	20	-1
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.42	-0.8	6	13	76	51
Germany 10y Yield		-0.23	2.7	5	25	27	34
EMBIG Sovereign Spread		347	-5	6	-6	-86	-3
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		55.9	-0.4	-1	-1	3	-3
Dollar index, (+) = \$ appreciation		93.3	0.2	0	0	-1	4
Brent Crude Oil (\$/barrel)		77.3	0.1	3	9	84	49
VIX Index (% change in pp)		19.9	1.3	-1	3	-9	-3

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

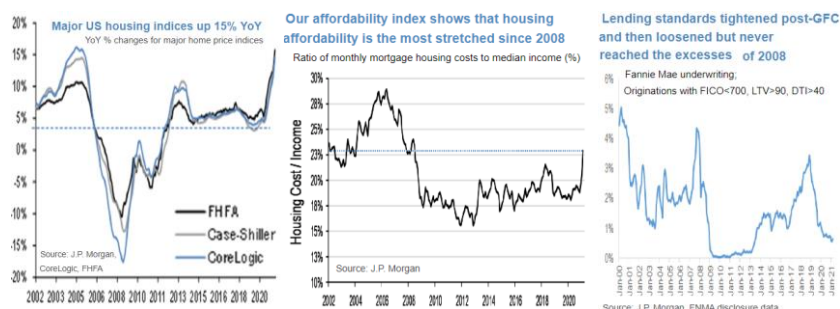
## Mature Markets

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### United States

**US Treasury yields rose sharply and the yield curve steepened yesterday.** Both 10-year and 30-year yields rose 13 bps on the day, their biggest 1-day increase since February 2021 and March 2020, respectively. Meanwhile, 2-year yields gained 2.5 bps on the day. Contacts speculated that the move was partly driven by a spillover from the Bank of England's tightening stance, which originally drove UK gilt yields higher and was followed by other major advanced economy government bonds. Capitulation trades of quant investors such as CTAs, which were reportedly long US Treasury futures, may have also contributed to the sell-off in long-dated US Treasuries. The S&P 500 gained 1.2%, supported by the bullish growth outlook in yesterday's press conference of Fed Chair Powell and by the fading of concerns regarding Evergrande. The US Dollar depreciated 0.4% versus major currencies.

**JP Morgan warned that housing affordability could be the next post-pandemic crisis.** With strong house price appreciation during the pandemic (left chart), the affordability of houses is the worst in the last decade (middle chart). Additionally, the situation is worsened by the unequal impact of the pandemic on potential buyers: a disproportionately higher share of renters worked in the industries that were hit the most by the pandemic. Yet, the elevated house prices relative to people's income does not yet raise concerns about a housing bubble, mostly due to tightened lending standards during the pandemic (right chart). Going forward, structural factors support the housing market with inventory still lower than a year ago and demographics supportive of sustaining higher housing starts.



**The debt outstanding of investment grade companies has continued to decline, with a significant shift in its composition.** As the economy recovers, companies have gradually unwound most of the precautionary debt that they accumulated in 2020 to serve as a cushion against COVID-related uncertainties (left chart). For non-Financial corporate borrowers, the overall debt level has slightly increased due to a strong increase in issued bonds (right chart), which compensates for the decline in other forms of debt (paying back bank lines, reducing commercial borrowing, etc.).

Figure 2: The growth rate of overall debt has turned negative, while non-Financial corporate debt has grown, as the share of debt shifts more to the corporate bond market

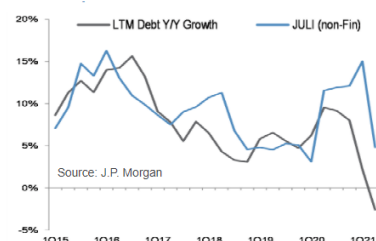
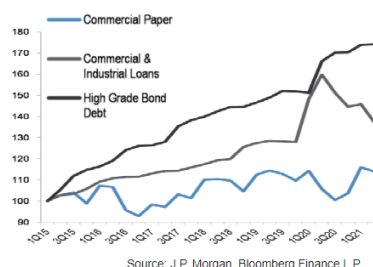
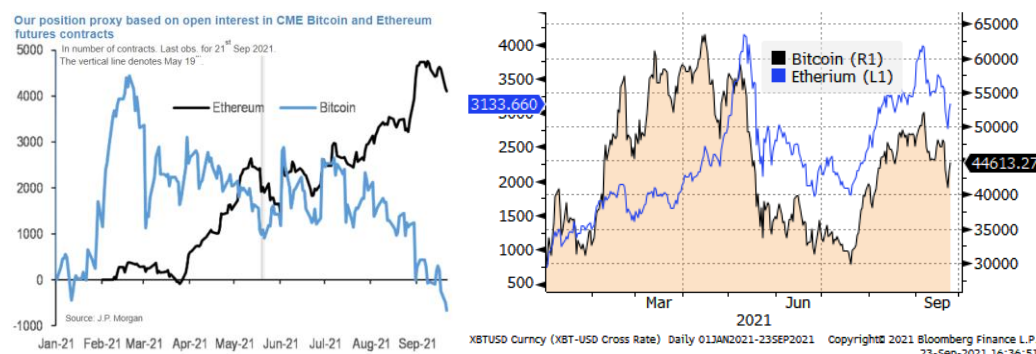


Figure 3: Corporate bond growth has exceeded other funding sources, especially in recent years (amount outstanding normalized to 2015)



## Cryptocurrencies

**A JP Morgan report showed that institutional investors prefer Ethereum versus Bitcoin.** Institutional investors tend to use regulated CME futures contracts to gain exposure to cryptocurrencies. Open interest in CME Bitcoin futures gradually went to zero, compensated by the growth in Ethereum's open interest (left chart). Additionally, the futures curves suggest a more bearish outlook on Bitcoin, despite recent synchronous price movements for the two cryptocurrencies (right chart).



## United Kingdom

The pound and gilts were little changed this morning after GfK consumer confidence fell to a 5-month low with consumers becoming more concerned about the near-term economic situation. The British pound and gilt yields closed higher yesterday after the BoE signaled that a hike could be appropriate before the end of the QE program. More specifically, the MPC statement stated that "any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase program." Money markets are now pricing a hike of 15 bps in Feb 2022 as equities (-0.2%) edged lower.

UK: 10-yr yields in past 3 days  
(%, tick data)



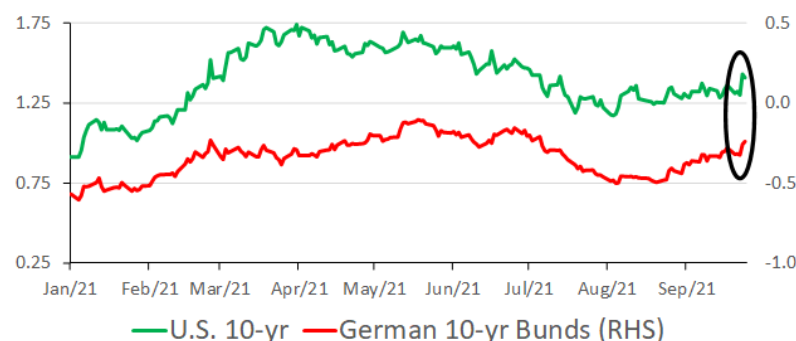
## Euro area

Equities (-0.8%) traded lower but bank stocks (+0.3%) gained as 10-year German bund yields rose (+3 bps to -0.23%). Consumer and retail shares led the decline, with Nike shares (-5%) underperforming after lowering its sales outlook amid factory closures.

ECB President Lagarde clarified that the ECB would think about hiking if inflation reaches 2% midway during the projection period all the way to the end of the horizon. She also said that energy prices will likely stay a concern as the economy is transitioning from fossil-industry-driven sources. German

**bund yields jumped yesterday alongside US Treasuries** in a move that seemed to kick off in the UK gilt market after the BoE signaled that a hike could even be appropriate before the end of its QE program.

#### Core rates: 10-yr German and U.S. yields (%)



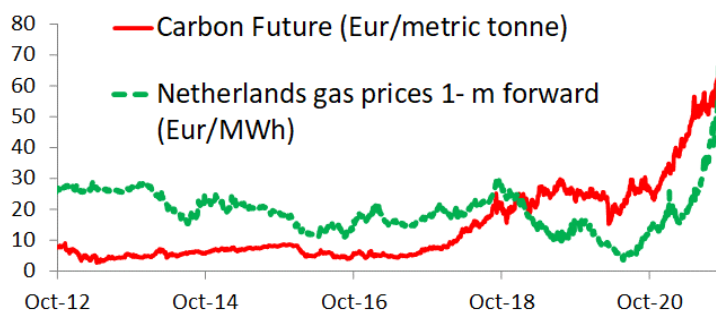
Source: Bloomberg and IMF staff

**Italian 10-year spreads over bunds rose 3 bps to 101 bps after Italy approved a packaged of €3.5 bn to offset an increase in energy bills.** The new measures include cuts to VAT on energy and will apply to the end of Q4.

**German IFO expectations edged lower in September, in line with expectations.** In contrast, German composite PMI data fell sharply this month but JP Morgan argues that differences may reflect noise given that the IFO had already fallen sharply in July and August.

**EU energy ministers met to discuss the persistent rise in electricity prices, which have already led to emergency measures in several countries.** Ministers reportedly discussed the implications of the reform of the EU's carbon pricing system as part of the "Fit for 55" package and how regulations could put pressure on consumers. **Natural gas and carbon prices have stabilized at elevated levels this week.**

#### Europe: Price of natural gas and carbon futures



Source: Bloomberg and IMF staff

#### Japan

**Japan equities gained +2.3% led by electric appliances stocks.** The nationwide core consumer price index (CPI) returned to no change in August. Core CPI inflation recovered to 0.0% y/y after negative 0.2% y/y in July. Tokyo department store sales fell 9.1% y/y in August. Manufacturing activity moderated measured by Jibun Bank's purchasing managers index of activity fell 1.5 points to 51.2 in September, the weakest reading in eight months. **The yen weakened -0.1%, the 10-year JGB yield was up +2 bps.**

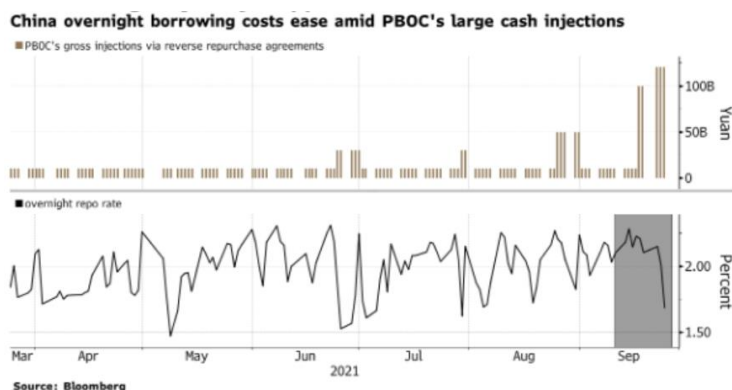
## Emerging Markets

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**Asian equity markets were mixed (-0.5%).** Stocks in China and Hong Kong fluctuated during the day and closed in losses (Hang Seng -1.3%, Shanghai -0.8%, Shenzhen -0.7%) amid continued uncertainty as Evergrande refrained from making an announcement on an interest payment that was due Thursday. **India's Sensex gained +0.3% and crossed 60,000 for the first time ever.** Foreign investors have poured a net \$1.4bn into Indian equities in September, taking net inflow to \$8.8bn in 2021 so far, Bloomberg estimates. **Regional currencies broadly weakened** led by the Philippines peso (-0.2%). **Long-term bond yields moved up following the US markets.** Australian and New Zealand bonds sold-off, with 10-year bond yield increasing by 14 bps and 11 bps. In Asian emerging markets, Philippines bonds underperformed with yields climbing 9bps. **EMEA equity markets were mostly trading lower** with indices down in Turkey (-1.0%) and Hungary (-1.0). **EMEA currencies depreciated** with the South African rand (-1.3%) and the Turkish lira (-0.8%) underperforming. Some analysts have published trade recommendation to short the Turkish lira after yesterday's surprise rate cut. **Most markets in LATAM closed higher yesterday.** Equities continued to rise across the region, with Brazil (+1.4%) in the lead. Regional currencies strengthened too, except for the Brazilian real, which depreciated another 0.3% to the dollar.

### China

**China's central bank calls all cryptocurrency-related transactions illegal.** The People's Bank of China (PBOC) said in a statement that it will bar financial institutions and payment companies from facilitating cryptocurrency trading and will strengthen monitoring of risks from such activities. Online cryptocurrency services to Chinese clients by overseas exchanges are considered illegal as well. Chinese planning authorities will strengthen energy consumption controls on new cryptocurrency mining projects. Separately, **forced cuts to factory production are widening amid power shortages and a push to enforce environmental regulations.** The curbs have expanded to more than 10 provinces, including economic powerhouses Jiangsu, Zhejiang and Guangdong, based on local media. At list 15 listed firms recently reported production disruptions due to power curbs. Local governments are reportedly ordering the power cuts as they try to avoid missing targets for reducing energy and emissions intensity. Meanwhile, record high coal prices are making it unprofitable for many power plants to operate, creating supply gaps in some provinces, according to Bloomberg. Separately, **China's overnight repo rates fall to a two-month low of 1.68% as the PBOC keeps pumping cash.** The central bank has injected a net 460bn yuan (\$71bn) of short-term cash into the banking system in the past five working days, including 70 bn yuan on Friday. **Chinese stocks were down (Shanghai -0.8%, Shenzhen -0.7%), the renminbi and bond yields were little changed.**

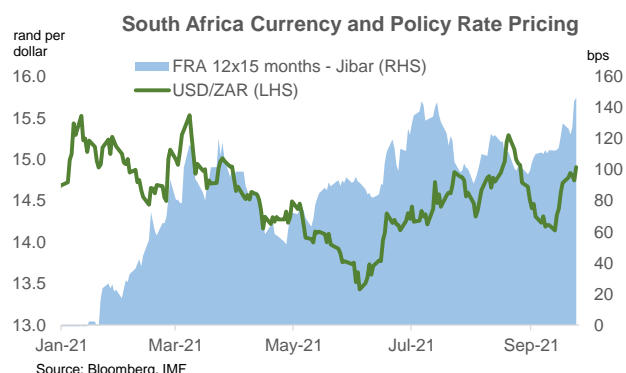


### South Africa

**The South African Reserve Bank left its policy rate unchanged at 3.5% as expected.** Despite the anonymous vote and **mostly** unchanged inflation outlook, market participants perceived the overall stance as more hawkish as compared to the July meeting. This was in large driven by the upward revision of the



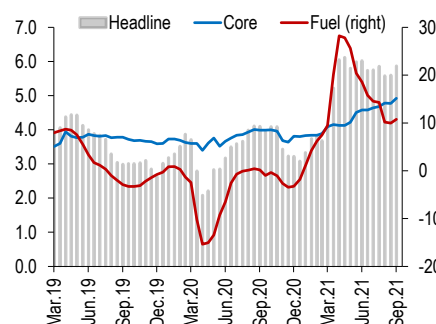
central bank terminal rate forecast from 6.12% to 6.36%. The 2-year interest rate swap gained 10 bps, mostly through offshore investor activity. **On balance, analysts continue to expect the first 25 bps rate hike in November with risk skewed towards a later lift-off.**



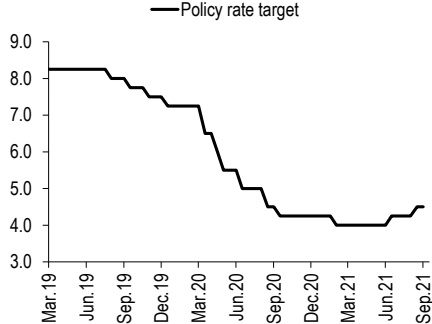
## Mexico

**Inflation increased to 5.87% y/y in early Sept.** up from 5.72% y/y in Aug end, and is higher than the median consensus estimates of 5.6% y/y. This bi-weekly print was driven by persistently rising core inflation and a recent uptick in fuel prices. According to Bloomberg reports, given the inflationary pressures, the markets have already priced in a 25 bps policy rate hike announcement in the central bank's (Banxico) next meeting on Sept 30<sup>th</sup>. Banxico started tightening in end of June and has hiked the policy rates twice by 25 bps. Yields on Mexico's sovereign bonds were up by 4bps-6bps in the short end (3-month to 2-year tenors) of the yield curve, yesterday.

Bi-weekly inflation y/y, percent





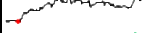





















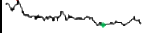



Policy rates hiked twice since June 2021, percent



*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.*

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## Global Financial Indicators

Last updated: 9/24/21 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4449	1.2	-1	-1	37	18
Europe		4161	-0.8	1	0	32	17
Japan		30249	2.1	-1	9	30	10
China		3613	-0.8	-1	3	12	4
Asia Ex Japan		87	0.6	0	-1	16	-3
Emerging Markets		51	0.8	0	0	20	-1
<b>Interest Rates</b>			basis points				
US 10y Yield		1.42	-0.8	6	13	76	51
Germany 10y Yield		-0.23	2.7	5	25	27	34
Japan 10y Yield		0.06	2.1	1	4	5	4
UK 10y Yield		0.91	0.4	7	37	69	71
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	5.1	2	-3	-40	-3
US High Yield		312	-3.9	-1	-30	-239	-68
Europe IG		49	0.7	4	3	-12	1
Europe HY		242	3.4	15	11	-112	0
<b>Exchange Rates</b>			%				
USD/Majors		93.28	0.2	0	0	-1	4
EUR/USD		1.17	-0.2	0	0	0	-4
USD/JPY		110.5	0.2	1	1	5	7
EM/USD		55.9	-0.4	-1	-1	3	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		77	0.1	3	9	84	49
Industrials Metals (index)		165	-0.5	0	4	44	24
Agriculture (index)		57	0.0	1	-2	47	18
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		19.9	1.3	-0.9	2.7	-8.6	-2.9
US 10y Swaption Volatility		69.3	1.2	0.7	-7.9	24.9	9.2
Global FX Volatility		6.6	0.0	0.0	-0.1	-3.2	-1.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		108	4.1	-4	2	-45	-12
Italy		102	4.3	2	-3	-37	-9
Portugal		56	2.3	2	-5	-22	-4
Spain		64	1.1	1	-7	-11	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: 9/24/2021 8:02 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.47	-0.2	0.0	0	6	1		3.0	-3	-1	-23	-26	
Indonesia		14258	-0.1	-0.2	1	4	-1		6.1	6	-14	-66	7	
India		74	-0.1	-0.3	1	0	-1		6.3	-4	-15	11	33	
Philippines		51	-0.6	-1.3	-1	-4	-5		4.3	-2	-6	62	61	
Thailand		33	-0.2	-0.5	-2	-6	-10		1.8	5	18	34	49	
Malaysia		4.19	-0.2	-0.4	1	0	-4		3.4	5	7	81	83	
Argentina		99	-0.1	-0.2	-1	-23	-15		48.8	94	322	917	-739	
Brazil		5.33	-0.4	-0.7	-1	3	-2		10.1	-8	25	411	451	
Chile		789	-0.4	-0.6	-1	-1	-10		5.1	-9	34	241	229	
Colombia		3835	0.0	-0.5	1	1	-11		7.3	21	43	218	223	
Mexico		20.18	-0.7	-0.8	0	10	-1		7.2	16	20	125	160	
Peru		4.1	0.2	-0.1	0	-13	-12		6.4	-13	-29	212	275	
Uruguay		43	0.2	0.1	1	0	-1		7.9	0	1	26	67	
Hungary		305	-0.5	-1.2	-3	2	-3		2.7	2	38	90	119	
Poland		3.93	-0.1	-0.4	-1	-1	-5		1.4	1	27	58	74	
Romania		4.2	-0.2	-0.1	-1	-1	-6		3.5	-1	33	21	77	
Russia		73.0	-0.3	0.0	1	6	1		7.1	14	24	125	140	
South Africa		15.0	-1.5	-1.7	0	13	-2		9.9	20	22	-34	27	
Turkey		8.85	-1.0	-2.4	-5	-14	-16		17.6	77	21	393	445	
US (DXY; 5y UST)		93	0.2	0.1	0	-1	4		0.93	7	14	66	57	

	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		4849	-0.1	0	0	6	-7		208	-1	-11	-33	-21
Indonesia		6145	0.0	0	2	24	3		174	0	-11	-73	-26
India		60048	0.3	2	7	61	26		146	2	-2	-81	-5
Philippines		6952	0.5	1	2	19	-3		106	-2	-8	-42	-6
Malaysia		1532	-0.5	-1	-4	2	-6		127	-2	-9	-55	-8
Argentina		74743	0.0	-6	5	78	46		1583	102	26	201	227
Brazil		114064	1.6	0	-5	18	-4		295	3	-5	-53	36
Chile		4412	0.0	-1	1	24	6		146	-1	0	-52	-10
Colombia		1312	0.2	-1	-1	11	-9		287	6	-2	6	72
Mexico		51464	0.2	-1	-1	42	17		345	6	-17	-171	-12
Peru		18208	0.6	2	7	2	-13		166	-3	-16	-28	37
Hungary		51482	-0.9	-2	0	61	22		129	-6	-3	-25	-20
Poland		70372	-0.5	-1	2	47	23		22	-1	-14	-13	-6
Romania		12441	0.4	1	2	38	27		189	-2	2	-72	-14
Russia		4025	-0.7	0	3	38	22		154	-3	-19	-74	-25
South Africa		64049	0.0	1	-5	18	8		348	-3	-12	-179	-36
Turkey		1382	-1.4	-3	-6	23	-6		494	18	16	-156	47
Ukraine		526	0.0	0	0	5	5		484	20	-31	-213	-9
EM total		51	-0.6	0	0	20	-1		362	9	-4	-62	24

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

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