GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 7, 2021

- **U.S. Non-farm payrolls disappoints but wage pressures persist** (link)
- **German industrial production better than expected but survey data disappoints** (link)
- **Australian central bank to maintain debt purchases until February 2022** (link)
- **Romania's political rift adds pressure to financial markets** (link)
- **Mexico considering to refinance Pemex debt** (link)
- **El Salvador becomes first country to adopt crypto currency** (link)

Mature Markets | Emerging Markets | Market Tables

Core rates higher ahead of ECB meeting and after U.S. jobs data

Core yields traded higher as contacts believe that higher-than-expected U.S. labor earnings set the stage for a Fed taper in November even if non-farm payrolls disappointed in August. On Thursday, the ECB is expected to upgrade its inflation and growth outlook for 2021 and announce a quarterly reduction in the pace of its pandemic QE purchases but delay any decision on its pandemic QE portfolio. Central banks are also expected to meet in Canada (unchanged), Malaysia (unchanged), Peru (+25 bps), Poland (unchanged), Russia (+50 bps) and Ukraine (+50 bps). In currency markets, the Australian dollar depreciated after the central bank said that it would continue asset purchases until "at least mid-February 2022." The Romanian leu fell to a record low as political tensions worsened. El Salvador's will adopt Bitcoin as its national currency today.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
9/7/21 12:34 PM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4535	0.0	1	2	32	21
Eurostoxx 50		4238	-0.2	1	2	28	19
Nikkei 225		29916	0.9	7	8	29	9
MSCI EM		53	0.5	3	2	20	3
Yields and Spreads			bps				
US 10y Yield		1.36	4.2	6	7	65	45
Germany 10y Yield		-0.33	4.1	6	13	14	24
EMBIG Sovereign Spread		339	-2	-7	-17	-74	-12
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.0	-0.3	1	1	3	-2
Dollar index, (+) = $ appreciation		92.3	0.3	0	-1	0	3
Brent Crude Oil ($/barrel)		71.9	-0.4	-1	2	71	39
VIX Index (%, change in pp)		17.1	0.7	1	1	-14	-6

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

Mature Markets

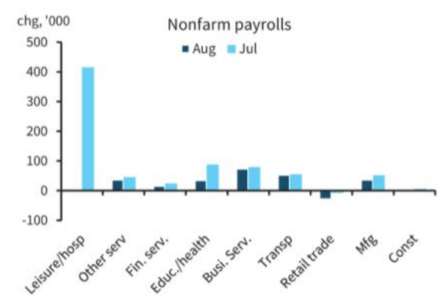
back to top

United States

Market pricing following August's payroll report indicate that investors think that any labor market weakness will be transitory in light of persistent wage pressure and falling unemployment rates. The Treasury curve steepened with long-rates up 4 bps, with similar but smaller response in TIPS yields, leaving breakevens 1 to 2 bps wider across the curve. The S&P500 futures dropped 0.5% after the report but pared losses later on to close marginally lower on the day. That being said, contacts cautioned that market liquidity was very low on Friday ahead of the labor day holiday, so price actions might not fully reflect the consensus views. **Most market participants adjusted their policy normalization outlook to "later but faster" as the August headline miss is seen as large enough to shift the consensus of a taper announcement to November.**

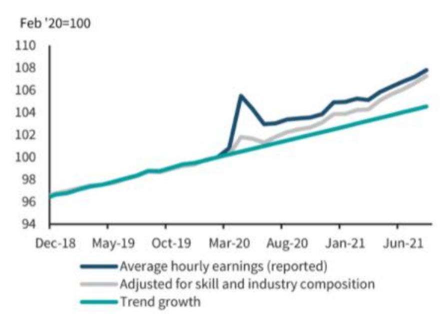
The nonfarm payroll showed a sharp deceleration in service sectors as strong wage increases persisted. The nonfarm payroll added 235K in August, significantly below 733K expected and the 6-month average of 580K, while July's figure was revised up to 1.05 mn. **Details showed a clear impact from the delta variant, as leisure and hospitality sectors registered zero new job in August on labor shortages (after five straight months of gains averaging 350K), as well as weakness in government payrolls in education.** The household survey showed a less pronounced slowdown, with household employment rose 509K after 1.04mn in July. The labor force participation rate was unchanged at 61.7%, still considerably lower than the pre-pandemic level. Unemployment rate dropped 0.2ppts to 5.2%, and the broad U6 measure fell from 9.2% to 8.8%. Average hourly earnings rose more than expected by 0.6% m/m (4.3%yoy), partly due to composition (fewer lower wage workers hired) as well as very strong wage increase in leisure and hospitability (1.3%mom).

Figure 5. Employment gains slowed sharply in consumer-facing services



Source: Bureau of Labor Statistics, Haver Analytics

Figure 6. Tight labor markets appear to be pressuring wages



Note: Adjustments by Barclays research for compositional changes since February 2020

Japan

Expectations of fresh stimulus after PM Suga surprisingly announced his resignation, supported equities. The Nikkei 225 was up +0.9% touching 30,000 as new technology companies were added to the index. On data releases, Japanese households spending increased 0.7% yoy in July missing expectations. On a seasonally adjusted basis, household spending declined -0.9% mom for a third consecutive month. Yields declined -0.4 bps, the yen weakened (-0.1%).

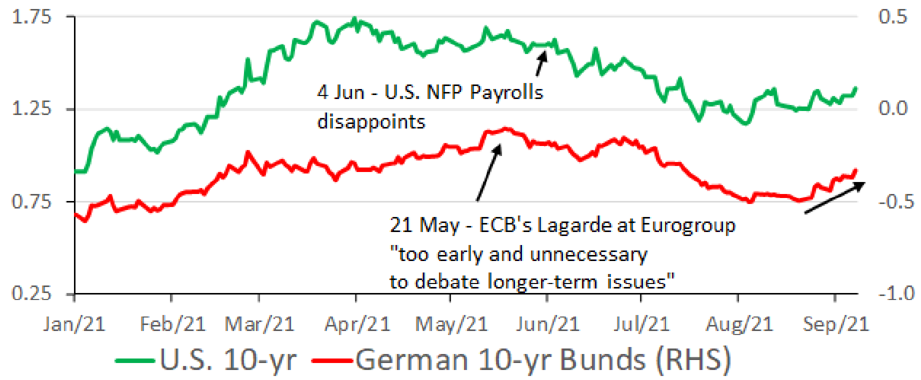
Euro area

Equities (-0.1%) were little changed while bank stocks (+0.3%) outperformed.

German industrial data was better than expected but survey data disappointed. German industrial production rose 1%mom in July (0.8% mom expected), with manufacturing gaining 1.3% mom and construction 1.1%mom. Analysts at JP Morgan point out that the data still point to severe supply disruptions with the level of manufacturing output in July was still 5.5% below the pre-pandemic level in July, while the level of orders (excl. bulk items) was almost 10% above it. **In contrast, ZEW survey data for analyst expectations of economic growth and current data both disappointed.**

10-yr German bund yields (+ 4 bps to -0.33 bps) are higher ahead of the ECB meeting on Thursday. Contacts expect the ECB reduce the current pace of its PEPP purchases from €80 bn/m to around 60-70 bn/m in 2021Q4 (what the ECB's Chief Economist has referred to as a "local adjustment') but delay the decision on the portfolio of pandemic QE PEPP purchases until December. The ECB is also expected to revise its growth and inflation outlook for 2021 slightly up. Italian 10-yr spreads traded 2 bps higher to 107 bps while Greek 10-yr spreads are up 1 bps at 120 bps.

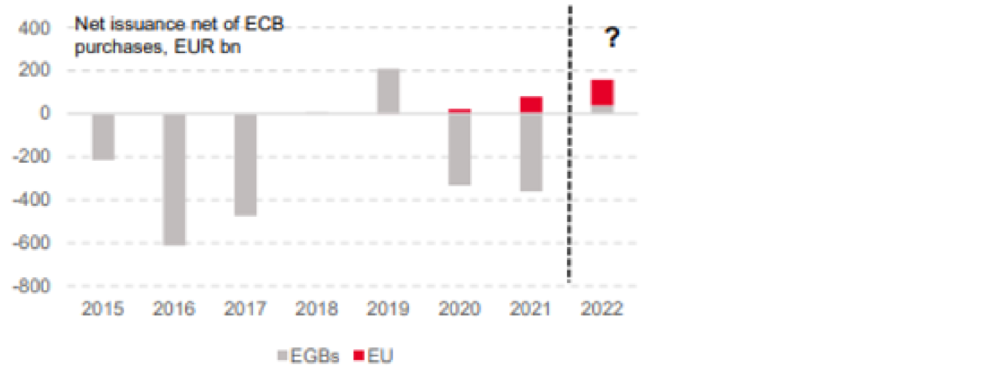
Core rates: 10-yr German and U.S. yields (%)



Source: Bloomberg and IMF staff

Analysts point out that the ECB has been buying more than the net supply of euro area government bonds (EGB) and EU bonds in 2020 and 2021 but this is likely to change in 2022. SocGen calculates that issuance net of redemptions and ECB purchases is likely to turn positive in 2022.

Euro area: Net issuance of euro area and EU government bonds net of ECB purchases



Source: SocGen.

Australia

The Reserve Bank of Australia (RBA) will maintain QE purchases until February 2022 while leaving its policy rate unchanged at 0.1%. The RBA will purchase government securities at a pace of 4bn of Australian dollars ($3bn) a week, down from 5bn of Australian dollars previously, until at least mid-February.

The central bank had originally planned to review the program in mid-November but said an extension was necessary due to a delay in the economic recovery and increased uncertainty stemming from the outbreak of the delta variant of Covid-19. **Stocks were little changed whereas the Australian dollar (-0.5%) weakened.**

Emerging Markets

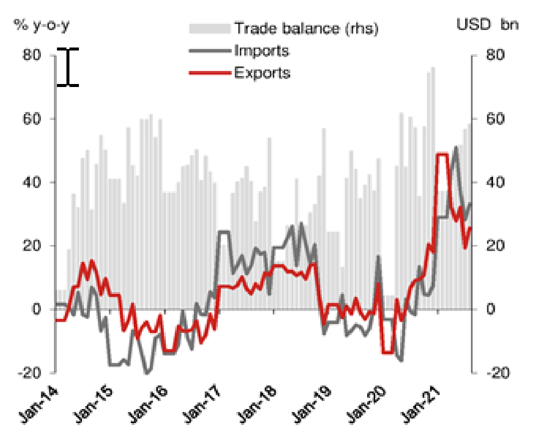
back to top

Asian equities (-0.4%) closed little changed after several days of gains. Chinese stocks outperformed on better-than-expected trade data (Shanghai +1.5%, Shenzhen +1.1%). Hong Kong was up (+0.7%) led by Chinese technology stocks after a new round of share buybacks by Tencent Holdings Ltd boosted market sentiment. Regional currencies remained mainly in narrow ranges. **EMEA equities were trading mixed with main indices up in South Africa (+0.5%) and Czech Republic (+0.3%) but down in Poland (-0.7%) and Russia (-0.5%).** EMEA currencies were depreciating against the dollar with the South African rand (-0.6%) and the Turkish lira (-0.6%) giving up last weeks gains**. On Friday, Latin American equities gained in Argentina (+1.7%), Mexico (+0.9%), and Brazil (+0.8%), while slightly retreated in Chile (-0.2%).** In August, consumer prices rose in Uruguay (0.85% mom) and Columbia (0.45% mom), well above market expectations.

China

Chinese property developers remain under pressure amid concerns over their financial health. Moody's downgraded China Evergrande Group deeper into junk territory to Ca from Caa1 keeping a negative outlook and citing the firm's liquidity and default risks given the developer's amount of maturing debt over the next year. According to Bloomberg, Evergrande's Hong Kong-listed shares plunged 8.8% to HK$3.5 on Tuesday, the stock has plummeted 76% this year, while many of its dollar bonds are hovering below 30 cents. In the meantime, Bloomberg reported the private-banking units of Citigroup Inc. and Credit Suisse Group AG have stopped accepting the bonds of Fantasia Holdings Group Co. as collateral. The developer, who has $752mn in dollar bonds coming due through the end of the year, was assigned a negative outlook by Fitch and Moody's in July. Separately, **China's trade data beat expectations, indicating a rebound in August**. Exports rose +26% yoy in dollar terms to a record $294 bn in August, imports grew 33%yoy to $236 bn reaching the highest level ever. The trade surplus widened slightly to $58 bn. **Stocks gained (Shanghai +1.5%, Shenzhen +1.1%) and the renminbi was little changed.**

Export growth, import growth and the trade balance

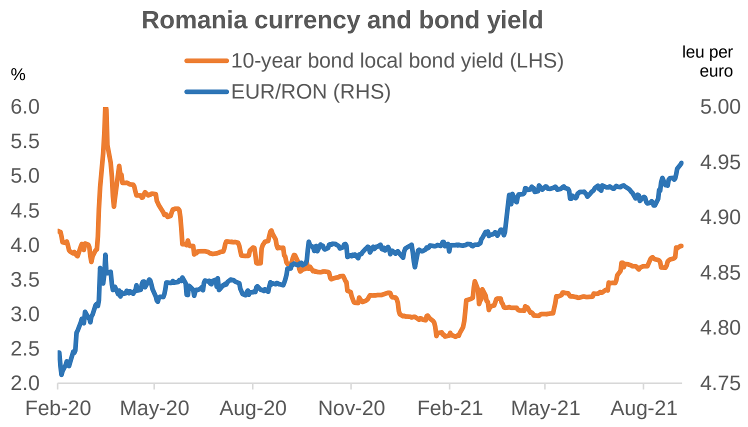


Note: We use the average of January-March data to largely smooth out the LNY distortions.
Source: WIND and Nomura Global Economics.

Romania

Domestic political rift deepens amid ruling alliance break-up. The conflict between the ruling National Liberal Party (PLN) and USR PLUS party arose as a result of the recent dismissal of the Justice Minister

Ion due to regional investment program disagreement. The Prime Minister Citu led government will now face a confidence vote, which would require support from the opposition Social Democrats (PSD) for the minority government to remain in place or Romania could face early elections. **Contacts note that recent political developments increase uncertainty around the fiscal trajectory that in turn may pose risks to Romania's credit rating (S&P BBB-/Moodys' Baa3).** The Romanian leu has depreciated by 0.5%, to a record low against the euro, while government bond yields increased by 30 bps since the start of the political fallout, underperforming CEE peers.



Source: Bloomberg, IMF

Guinea

The military seizure of power raising concern over bauxite mining output and resulting impact on global aluminum supply chain. According to media reports, the military seized power over the weekend while suspending the constitution and closing the national borders. **Guinea economy is dependent on the mining sector while producing about 20% of global bauxite ore output** (primary source of aluminum). According to media reports, the military has allowed for normal operation of the mining industry. Contacts also note that bauxite market has been in oversupply and short-term impact from potential supply disruptions should be minimal with rising energy prices being a more dominant aluminum price driver at this stage.

Mexico

Mexico has taken steps to refinance state-owned Pemex's debt, after the nation received a transfer of about $12 bn from the IMF. Pemex reportedly has $115 bn in debt. Pemex's 2025 and 2047 bonds yield about 8%, the most of any government or quasi-government bond. Industry experts are skeptical about whether the financing will be enough to reduce funding costs for Pemex.

El Salvador

El Salvador will adopt bitcoin as legal tender today. Analysts will study if a significant number of people want to transact with Bitcoin when it circulates alongside the U.S. dollar. According to Bloomberg, the country bought 400 bitcoins ahead of the roll-out, with a market value of about $20 mn at current prices. Its adoption will get an initial boost from the government's Bitcoin wallet Chivo, which comes pre-loaded with $30 worth of bitcoin for users who register with a national ID number.

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), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (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.

Global Financial Indicators

Last updated: 9/7/21 12:33 PM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		**%**
United States		4535	0.0	0	2	32	21
Europe		4237	-0.2	1	1	28	19
Japan		29916	0.9	7	8	29	9
China		3677	1.5	4	6	11	6
Asia Ex Japan		90	0.4	3	2	16	0
Emerging Markets		53	0.5	3	2	20	3
Interest Rates					basis points		
US 10y Yield		1.36	4.2	6	7	65	45
Germany 10y Yield		-0.33	4.1	6	13	14	24
Japan 10y Yield		0.04	-0.8	2	3	0	2
UK 10y Yield		0.73	3.9	2	12	49	54
Credit Spreads					basis points		
US Investment Grade		91	0.2	0	0	-34	-4
US High Yield		319	1.2	-6	-23	-185	-61
Europe IG		45	0.1	0	-2	-8	-3
Europe HY		227	0.9	-1	-7	-96	-16
Exchange Rates					%		
USD/Majors		92.29	0.3	0	-1	0	3
EUR/USD		1.19	0.0	0	1	0	-3
USD/JPY		110.0	0.1	0	0	3	6
EM/USD		57.0	-0.3	1	1	3	-2
Commodities					%		
Brent Crude Oil ($/barrel)		72	-0.4	-1	2	71	39
Industrials Metals (index)		162	-0.1	1	2	37	22
Agriculture (index)		57	0.4	-1	-1	49	19
Implied Volatility					%		
VIX Index (%, change in pp)		17.2	0.8	1.0	1.0	-13.6	-5.6
US 10y Swaption Volatility		69.8	3.8	-3.6	-11.0	13.0	6.5
Global FX Volatility		6.5	0.0	-0.1	-0.3	-2.7	-1.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		121	1.8	6	19	-41	1
Italy		108	1.9	-2	5	-43	-4
Portugal		58	1.0	-2	-1	-26	-2
Spain		69	0.9	-3	0	-12	8

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

Emerging Market Financial Indicators

Last updated: 07/09/2021 12:36 PM	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	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		6.46	-0.1	-0.1	0	6	1		3.0	0.1	-2	2	-30	-28
Indonesia		14213	0.1	0.4	1	4	-1		6.1	0.2	-2	-11	-67	3
India		73	-0.4	-0.6	1	0	0		6.3	-0.7	-6	-16	25	38
Philippines		50	-0.1	-0.5	1	-3	-4		4.3	0.0	-1	-5	69	67
Thailand		33	-0.3	-1.1	3	-4	-8		1.7	1.6	3	13	15	36
Malaysia		4.16	-0.2	0.0	2	0	-3		3.3	0.9	1	2	86	74
Argentina		98	-0.1	-0.2	-1	-24	-14		46.9	24.6	84	234	241	-921
Brazil		5.17	0.4	0.3	1	3	0		9.9	-2.7	40	69	456	435
Chile		775	-0.3	-0.1	1	0	-8		5.0	0.0	28	40	244	221
Colombia		3797	0.0	1.0	3	-3	-10		6.9	4.8	6	1	191	182
Mexico		19.93	-0.1	0.7	1	8	0		7.0	0.7	2	-9	103	142
Peru		4.1	-0.2	-0.5	0	-14	-12		6.4	0.0	22	16	225	278
Uruguay		43	0.1	-0.3	2	0	-1		7.9	0.0	0	-2	-5	65
Hungary		294	-0.4	0.6	2	4	1		2.6	-0.3	11	34	92	108
Poland		3.81	0.1	0.6	2	-1	-2		1.3	-5.1	16	14	46	67
Romania		4.2	-0.1	0.2	0	-2	-5		3.6	1.6	26	51	26	84
Russia		73.2	-0.3	0.3	1	3	1		6.9	1.4	2	9	118	120
South Africa		14.3	-0.6	1.4	3	17	3		9.6	1.5	9	-19	-41	-1
Turkey		8.32	-0.5	-0.1	4	-11	-11		16.9	6.2	-26	-70	364	379
US (DXY; 5y UST)		92	0.3	-0.4	-1	0	3		0.81	2.6	3	4	51	45

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		4993	1.2	4	1	6	-4		199	0	-2	-9	30	-9
Indonesia		6112	-0.2	-1	-1	17	2		158	0	-9	-25	-5	-29
India		58279	0.0	1	7	52	22		148	0	0	-9	-66	-3
Philippines		6913	0.5	1	6	15	-3		83	0	-9	-17	13	-22
Malaysia		1583	0.1	-1	6	4	-3		113	0	-2	-3	9	3
Argentina		76003	0.0	0	15	66	48		1459	0	19	8	-570	91
Brazil		117869	0.0	-2	-4	16	-1		253	0	0	-16	58	3
Chile		4456	0.0	-1	4	16	7		126	0	-6	-16	-14	-18
Colombia		1327	0.0	1	8	7	-8		207	0	-4	-15	44	2
Mexico		52283	0.0	-1	2	43	19		348	0	-9	-34	55	-12
Peru		17713	0.0	2	2	-3	-15		133	0	-4	-3	22	1
Hungary		52988	0.5	2	6	51	26		65	0	-6	-15	-42	-31
Poland		71669	-0.7	1	5	41	26		-22	0	-4	-11	-54	-21
Romania		12383	0.2	2	5	37	26		187	-4	2	-6	-73	-16
Russia		4013	-0.4	2	5	37	22		159	0	-5	-3	19	-7
South Africa		66537	0.4	-1	-3	22	12		357	0	-4	-35	25	-23
Turkey		1471	-0.3	0	2	34	0		421	0	-5	-47	34	-24
Ukraine		526	0.0	0	0	5	5		479	0	12	-21	127	-12
EM total		53	-0.5	3	2	20	3		421	0	17	-10	97	128

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

back to top