



- U.S. corporate default rates continue to fall ([link](#))
- Spain issues first green bond with EU to follow in October ([link](#))
- EM bond inflows accelerated last week ([link](#))
- PBOC rules out strong monetary policy easing in the coming months ([link](#))
- Evergrande dollar bonds fall to new lows ([link](#))
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## Cautious sentiment in quiet trading

**Sentiment turned more cautious in quiet trading ahead of tomorrow's ECB meeting.** Yesterday, the U.S. Treasury curve steepened while stocks slipped from near record highs as investors believe that the U.S. labor market is sufficiently strong for the Federal Reserve to announce a tapering of its asset purchases in Q4. In emerging markets, the emphasis of the central bank of Turkey on core inflation is raising concerns about early policy easing whereas the PBOC has ruled out strong monetary policy easing in the coming months. China's Evergrande Group's dollar bonds fell to new lows below 25 cents as the firm is reportedly planning to suspend loan interest payments, but the contagion into broader market has remained limited so far. Crypto assets slumped yesterday amplified by liquidation of derivatives positions.

Key Global Financial Indicators

Last updated: 9/8/21 1:25 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4520	-0.3	0	2	36	20
Eurostoxx 50		4202	-0.5	-1	1	29	18
Nikkei 225		30181	0.9	6	8	31	10
MSCI EM		53	0.6	3	3	23	3
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.35	-2.7	5	5	67	43
Germany 10y Yield		-0.33	-1.2	4	12	16	24
EMBIG Sovereign Spread		336	-2	-5	-12	-72	-14
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.8	-0.3	0	1	3	-2
Dollar index, (+) = \$ appreciation		92.6	0.1	0	0	-1	3
Brent Crude Oil (\$/barrel)		72.4	0.9	1	2	82	40
VIX Index (% change in pp)		18.5	0.4	2	2	-13	-4

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

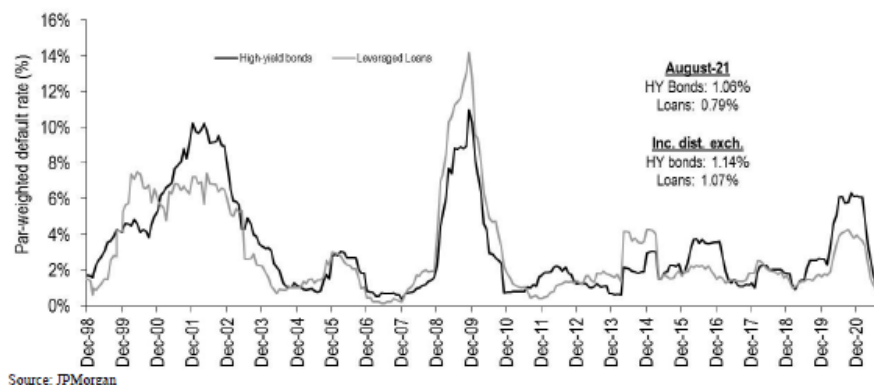
## Mature Markets

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### United States

**The U.S. Treasury curve steepened while stocks slipped from near record highs as investors continue to digest Friday's payroll numbers.** The rise in yields were partly driven by a deluge of supply from government and corporate as markets return from holiday. Treasury yields rose + 4 bps across the 5 to 30-yr tenors, with equal contributions from real rates and breakevens. The S&P500 fell 0.3%, with gains in large cap firms more than offset by broader weakness in smaller firms, as concerns about slowing momentum in economic recovery is gathering steam.

**Default rates for high-yield bond and leverage loans continue to fall.** In August, there was only one default impacting \$565mn loan from CIBT Holdings (a travel service company), following one default of \$290mn in July. Year-to-date, ten companies defaulted totaling \$4.1bn in bonds and \$3.5bn in loans, and five companies completed distressed transactions of \$1.8bn. **Notably, this year's default volume (\$9.3bn in total) is on pace to be the lowest in a calendar year since 2007.** The par-weighted default rate fell to 1.14% for high yield bond and 1.07% for leveraged loan. JPMorgan analysts expect further declines in default rate in 2021 given economic recovery and abundant access to market funding, and modest increase in 2022 to around 1.25%, which is still low by historical standards.

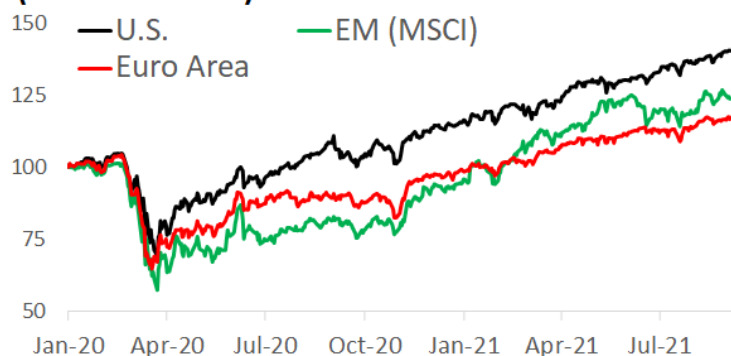


### Euro area

**Equities (-0.6%) and bank stocks (-1%) fell as sentiment turned more cautious after core rates traded higher yesterday.**

### Equities: U.S. Outperformance persists

(1 Jan 2020: 100)



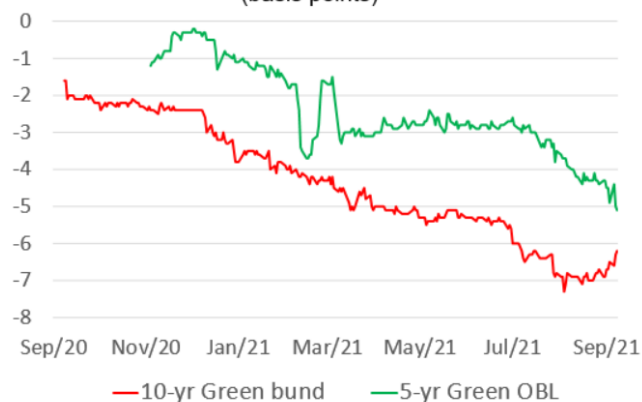
**The euro (-0.2%) edged lower as did 10-yr bund yields (-1 bps to 0.33%).** The ECB slowed its PEPP QE purchases down to €65 bn in August, in line with expectations of lower market liquidity and issuance in quiet summer trading.

**10-yr Italian spreads were little changed at 108 bps as the Italian Treasury reportedly expects the budget deficit for 2021 to be below 10% of GDP** (compared to 11.8% expected in April). Better GDP growth (at 6% from 4.5% expected in April), a lower take-up of Covid support measures and earlier re-opening is expected to reduce borrowing needs in Q4 .

**The EU launched its green bond framework and expects to issue its first NGEU green bond in October.** The EU also confirmed that it targets NGEU bond issuance of €80 bn in 2021, leaving about €35 bn of additional issuance in 2021. **The EU will target about 30% of NGEU (about €250 bn) to be issued in green format over the coming years.** Green NGEU will align as much as feasible with the upcoming Standard for European Green Bonds but will initially be based on the ICMA green bond principles.

**Green issuance has resumed after summer. Spain issued its first green bond yesterday**, raising €5 bn euros in bonds due 2042 with demand of €60 bn. **Germany will launch a new 10-yr green bund today.** Germany issues green bonds in a twin concept with regular bonds. **Yields on green bunds have generally traded below yields on comparable brown bunds, which contacts see as an indication of strong demand for green bunds.**

**Conventional versus Green German sovereign bond**  
(basis points)



Source: Bloomberg and IMF

## Japan

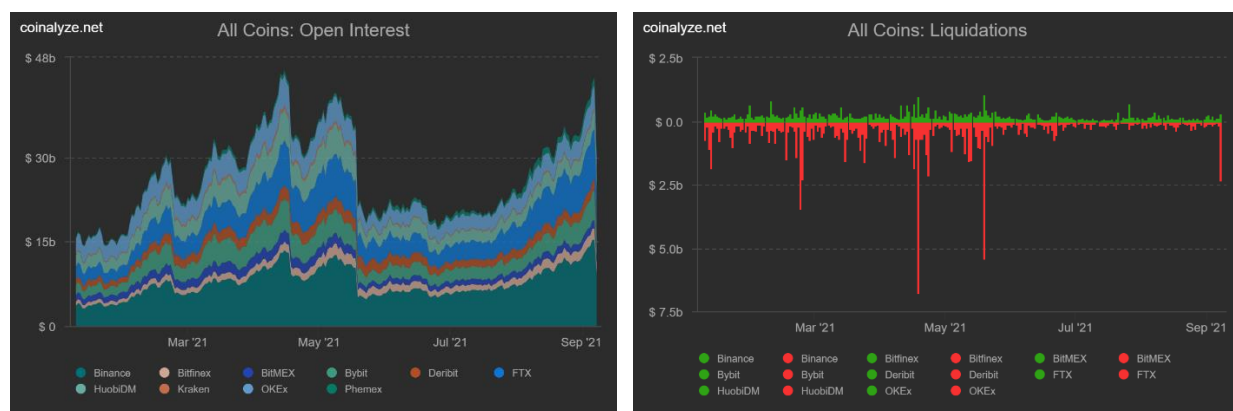
**Equities (+0.8%) rose while yields and the yen were little changed.** Tokyo may host the biggest initial public offering (IPO) in Asia since 2018. Medical device maker PHC and shareholders are looking to raise as much as ¥172bn (\$1.6bn) through an IPO, adding to around \$3.44bn raised in Japan so far this year. On data release, **real GDP growth in Q2 was revised up to +0.5% q/q and 1.9% q/q annualized.** This compares to a preliminary print of +0.3% and +1.3% accordingly. The new figures by the Cabinet Office showed extra government spending, business investment and private consumption buoyed growth. In July, Japan's current account surplus stood at ¥1.9tn (\$17.3bn) increasing 24.5% y/y as exports jumped 37.5% y/y to ¥7.2tn and imports increased 29.3% to ¥6.6tn driven by energy imports. **In the meantime, the survey of Japanese merchants plunged in August to 34.7 sliding 13.7 points, the largest deterioration in 18 months.**

## Crypto Assets

**Crypto assets slumped on Tuesday amplified by liquidation of derivatives positions.** Bitcoin is little

changed today at around \$47k after trading 9% lower yesterday, with even larger declines in other smaller crypto assets. **According to Coinalyze, \$2.3 bn in crypto derivatives positions were liquidated yesterday, with other sources reporting up to \$3.7 bn. Contacts noted that the full scale of**

**liquidation could be much larger given lags in aggregation.** Over the last 7 weeks, bitcoin price increased over 70%, and Ethereum more than doubled to reach its previous record price over \$4000. **During this period, investors have once again built up significant derivative positions. During the April and May episodes where similar dynamics happened, bitcoin price dropped 25% and 50% respectively.** Amid the selloff, El Salvador's first day of bitcoin adoption ran into technical glitches on the government's Chivo digital wallet. President Bukele said the country added 150 bitcoins during the morning crash, boosting their total holding to 550 bitcoins (~\$26mn).



## Emerging Markets

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**Asian stocks fell (-0.5%) after several days of gains.** Indonesia (-1.4%) and Singapore (-1.3%) closed in losses, China was broadly flat (Shanghai +0.1%, Shenzhen -0.2%). Equities sold off sharply in **Sri Lanka (-3%)** as FM Basil Rajapaksa said that the country is facing a severe foreign exchange crisis after the pandemic hit country's earnings from tourism and remittances. **Most regional currencies weakened.** The Korean won lost -0.75%, Indonesian rupiah depreciated -0.4%. The Philippines peso weakened for the fourth day (-0.2%) as Philippine authorities have deferred easing restrictions on public movement in the capital region, keeping the current curbs potentially through September 15. **EMEA equities were tracking global indices lower** with stocks down in Poland (-1%), South Africa (-0.8%) and Turkey (-0.6%). EMEA currencies were mostly stable, except for the Turkish lira (-1.2%) and the Hungarian forint (-0.3%). Hungary's August inflation surprise (4.9% vs 4.7% expected) had little impact on the market as contacts expect a slowdown in the hiking cycle while 50 bps of tightening is already priced until the end of 2021. **On Tuesday, equities gained in Argentina (+3.95%), while the markets were quiet in other Latam countries.** Pemex's eurobonds maturing in 2031 climbed 1.4 cents on the dollar to 99.26, the highest since June 14. Meanwhile, the company's senior credit default swaps tightened 18 bps, the most in six months after Mexico's president pledged further support for the deeply indebted company.

## EM Fund Flows

**EM bond inflows accelerated last week as hard currency bond fund inflows breached one billion dollars for the first time since early July (+\$1.2bn)**, whereas local currency bond funds had their second week of outflows (-\$170mn). Inflows were concentrated in non-ETFs (+\$988mn), as ETFs were basically flat (+\$9mn). Within local currency bond funds, outflows were roughly split across China-related bond funds (-\$75mn), their first weekly outflow since late June, and EM ex-China bond funds (-\$95mn). Hence, YTD flows total +\$51.2bn including last week's inflows of \$997mn.

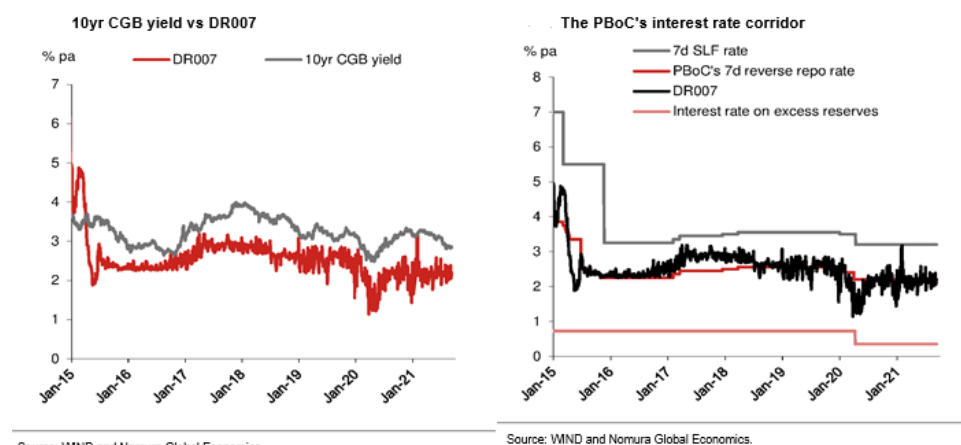
Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		3.0	148.8
<b>EM Bonds</b>		1.0	51.2
Hard Ccy		1.2	26.8
Local Ccy <sup>A</sup>		-0.2	24.5
o.w. EM ex-China		-0.1	3.2
o.w. China		-0.1	18.9
<b>EM Equities</b>		2.0	97.6
US HG		5.4	224.6
US HY		1.5	-7.5
Global Equities		11.7	340.9
<b>EM Bond and Equity ETFs</b>		1.4	61.2
EM Bond ETFs		0.0	11.8
EM Equity ETFs		1.4	49.4
<b>Non-resident EM flows<sup>A</sup></b>		3.8	-62.6

Source: JP Morgan

## China

**The People's Bank of China's (PBOC) has ruled out strong monetary policy easing in the remainder of the year.** Senior PBOC officials said during a press briefing, that China's market liquidity will be balanced, and it will not have a big gap or large fluctuations in the "next few months". The PBOC highlighted the most important indicator for judging liquidity is to observe market interest rates, especially the seven-day repurchase rate. They also stressed that PBOC has adequate tools to smooth out periodic fluctuations in liquidity caused by factors such as fiscal revenue, expenditures, and government bond issuance. Some analysts lowered the probability of a cut in reserve requirement ratio assuming the PBOC could opt to use some alternative low-profile and more targeted tools, as well as various monetary policy tools to support credit extension to SMEs.

Separately, **China Evergrande Group's dollar bonds fell below 25 cents.** The firm is reportedly planning to suspend loan interest payments later this month, while Fitch moved to cut its credit rating deeper into junk, to CC from CCC+ following an earlier move by Moody's. **Chinese 10-year yields were up marginally, stock market closed broadly flat (Shanghai -0.04%, Shenzhen +0.1%), with renminbi little changed.**



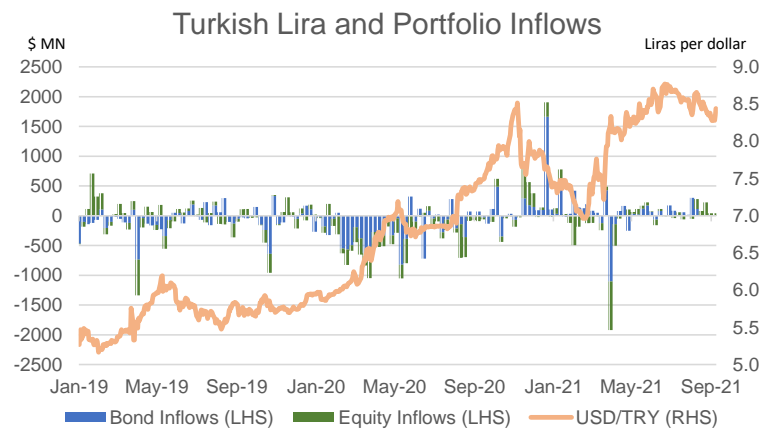
Source: WIND and Nomura Global Economics.

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## Turkey

**The emphasis of the Central Bank of Turkey (CBT) on core inflation is raising concerns about early policy easing.** The Turkish lira (-1.2%) weakened following remarks by Governor Kavcioglu to give more weight to core inflation developments. Headline inflation accelerated to 19.3% yoy in August (18.8% expected) as food price growth reached 29% yoy. However, core inflation eased more than expected to 16.8% yoy from 17.2% in July through recovery of the exchange rate and the recent consumption tax adjustments. **Contacts note that while investor activity has remained depressed, there has been**

**some revival of foreign interest after the CBT pledge to keep monetary policy tight.** An early policy easing at the time of broader dollar strength is seen as a major risk scenario for the lira.





## Global Financial Indicators

Last updated: 9/8/21 1:25 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4520	-0.3	0	2	36	20
Europe		4202	-0.5	-1	1	29	18
Japan		30181	0.9	6	8	31	10
China		3675	0.0	3	5	13	6
Asia Ex Japan		91	0.8	4	3	19	1
Emerging Markets		53	0.6	3	3	23	3
<b>Interest Rates</b>			basis points				
US 10y Yield		1.35	-2.7	5	5	67	43
Germany 10y Yield		-0.33	-1.2	4	12	16	24
Japan 10y Yield		0.05	0.2	1	3	1	2
UK 10y Yield		0.72	-1.4	3	11	54	53
<b>Credit Spreads</b>			basis points				
US Investment Grade		92	0.2	1	0	-39	-3
US High Yield		319	1.9	-1	-17	-201	-61
Europe IG		45	0.0	0	-1	-9	-3
Europe HY		229	0.1	3	-5	-100	-13
<b>Exchange Rates</b>			%				
USD/Majors		92.63	0.1	0	0	-1	3
EUR/USD		1.18	-0.1	0	1	0	-3
USD/JPY		110.2	-0.1	0	0	4	7
EM/USD		56.8	-0.3	0	1	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		72	0.9	1	2	82	40
Industrials Metals (index)		163	0.5	0	3	39	23
Agriculture (index)		57	0.7	-1	-1	48	18
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.5	0.4	2.0	2.4	-12.9	-4.2
US 10y Swaption Volatility		72.3	1.8	0.7	-8.5	12.0	9.0
Global FX Volatility		6.5	0.0	-0.1	-0.3	-3.0	-1.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		121	-1.2	5	19	-46	1
Italy		108	0.1	1	5	-45	-4
Portugal		58	0.7	0	0	-27	-2
Spain		69	-0.3	-2	-1	-13	7

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

## Emerging Market Financial Indicators

Last updated: 08/09/2021 1:27 PM	Exchange Rates								Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)						Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.46	0.1	0.0	0	6	1		3.0	1.4	0	3	-31	-27	
Indonesia		14253	-0.3	0.2	1	4	-1		6.1	0.1	4	-11	-67	3	
India		74	-0.2	-0.7	1	0	-1		6.3	1.6	-4	-15	22	40	
Philippines		50	-0.2	-0.1	1	-3	-4		4.3	-0.1	0	-5	69	67	
Thailand		33	-0.1	-1.2	2	-4	-8		1.7	2.3	7	15	18	39	
Malaysia		4.15	0.1	0.1	2	0	-3		3.3	0.5	0	2	85	75	
Argentina		98	0.0	-0.2	-1	-24	-14		46.9	-2.3	65	232	220	-924	
Brazil		5.22	-0.9	-0.6	0	3	0		9.9	0.0	27	69	456	435	
Chile		785	-0.6	-1.8	0	-2	-10		5.0	4.5	31	44	248	226	
Colombia		3809	-0.3	-0.8	5	-2	-10		6.9	3.0	11	4	194	185	
Mexico		19.90	0.2	0.5	1	9	0		7.0	3.4	5	-5	107	145	
Peru		4.1	0.2	-0.1	0	-14	-12		6.4	-1.0	25	15	224	277	
Uruguay		43	0.0	-0.3	3	0	-1		7.9	1.9	2	0	-3	67	
Hungary		296	-0.6	-0.8	2	2	0		2.7	4.5	12	38	97	113	
Poland		3.82	-0.3	-0.3	2	-1	-2		1.4	5.2	16	19	51	72	
Romania		4.2	-0.1	-0.4	0	-1	-5		3.6	1.3	19	52	28	85	
Russia		73.2	0.1	-0.3	1	4	1		6.9	2.4	6	11	119	123	
South Africa		14.3	0.3	1.0	4	19	3		9.7	2.9	10	-16	-35	2	
Turkey		8.45	-1.1	-1.8	3	-11	-12		16.9	4.1	-8	-66	368	383	
US (DXY; 5y UST)		93	0.1	0.0	0	-1	3		0.81	-1.4	4	4	54	45	

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		4972	-0.4	2	0	8	-5		199	0	-2	-9	30	-9
Indonesia		6026	-1.4	-1	-2	17	1		158	0	-9	-25	-5	-29
India		58250	-0.1	2	7	53	22		145	-3	-1	-8	-67	-6
Philippines		6949	0.5	2	5	17	-3		83	0	-9	-17	13	-22
Malaysia		1598	0.9	1	7	7	-2		113	0	-2	-3	9	3
Argentina		79005	0.0	3	20	74	54		1459	0	19	8	-570	91
Brazil		117869	0.0	-2	-4	16	-1		253	0	0	-16	58	3
Chile		4433	0.0	0	4	16	6		126	0	-6	-16	-14	-18
Colombia		1321	0.0	0	8	7	-8		207	0	-4	-15	44	2
Mexico		51950	0.0	-3	2	44	18		348	0	-9	-34	55	-12
Peru		17598	0.0	0	2	-3	-15		133	0	-4	-3	22	1
Hungary		52346	-0.5	1	5	49	24		65	0	-6	-15	-42	-31
Poland		71286	-0.7	0	4	44	25		-22	0	-4	-11	-54	-21
Romania		12357	0.1	0	4	36	26		191	4	9	7	-55	-11
Russia		4019	0.2	1	6	39	22		159	0	-5	-3	19	-7
South Africa		65955	-0.9	-2	-4	21	11		357	0	-4	-35	25	-23
Turkey		1448	-0.4	-2	1	33	-2		421	0	-5	-47	34	-24
Ukraine		526	0.0	0	0	5	5		479	0	12	-21	127	-12
EM total		53	-0.6	3	3	23	3		421	0	17	-10	97	128

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

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