GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 28, 2021

- **Tech sector equities decline as sovereign bond yields march higher** (link)
- **US money market funds shorten average asset maturity amid debt ceiling worries** (link)
- **Euro area breakeven inflation rates reach multi-year highs** (link)
- **Oil prices expected to keep rising as demand outpaces supply** (link)
- **People's Bank of China vows to protect homebuyers and health of property market** (link)
- **Turkish CDS spreads widen as lira weakens to new low** (link)

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Investors caught between rising bond yields and energy prices

Upward momentum in global equity markets has waned as sovereign bond yields are marching higher. The trend of higher developed market sovereign bond yields has continued with 10-year Treasury yields breaking above 1.50% alongside a steepening in sovereign yield curves. Bond yields are at multi-month highs in the aftermath of last week's central bank communications that were interpreted as having a hawkish tilt. The higher rates have spilled over to equity markets this week as major indices have struggled to advance. European bourses are down 1.5% this morning and S&P 500 futures point to declines at the open. Most Asian equity indices closed lower with the exception of Hong Kong and Chinese shares following the PBC's pledge to ensure a healthy property market. While higher rates have boosted financial sector shares and rising oil prices have supported the energy sector, the gains have been offset by weakness in large-cap tech stocks where elevated valuations have remained a concern among some investors. In addition, the rise in commodity prices, especially energy prices, has reinforced concerns about inflationary pressures growing stronger with oil prices approaching three-year highs, the ongoing natural gas shortages experienced across Europe, and the power crunch occurring in China as shrinking supplies are met by rising demand expectations.

Key Global Financial Indicators

Last updated: 9/28/21 8:08 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4443	-0.3	2	-1	33	18
Eurostoxx 50		4101	-1.5	0	-2	27	15
Nikkei 225		30184	-0.2	-1	9	28	10
MSCI EM		51	0.6	2	-1	18	-1
Yields and Spreads			bps				
US 10y Yield		1.53	4.2	21	22	88	62
Germany 10y Yield		-0.19	3.1	13	23	34	38
EMBIG Sovereign Spread		353	3	1	8	-83	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.6	-0.4	-1	-2	3	-4
Dollar index, (+) = $ appreciation		93.6	0.2	0	1	-1	4
Brent Crude Oil ($/barrel)		80.1	0.7	8	10	89	55
VIX Index (%, change in pp)		20.5	1.8	-4	4	-6	-2

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

Mature Markets

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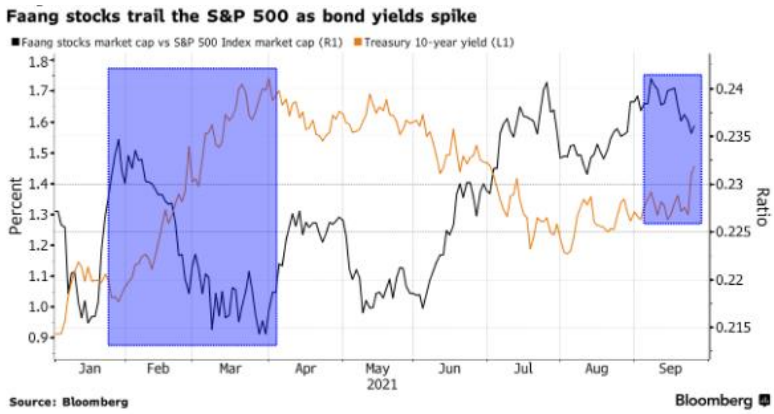
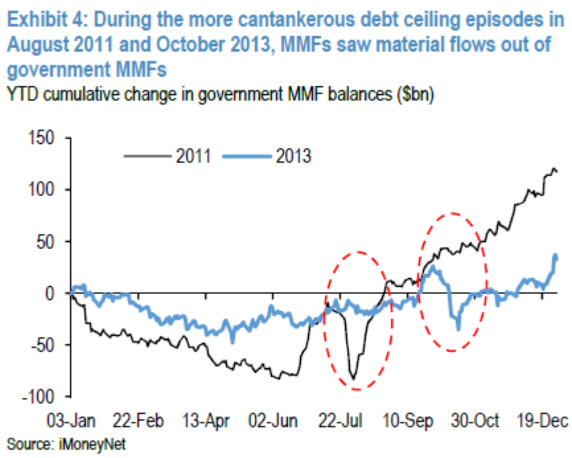
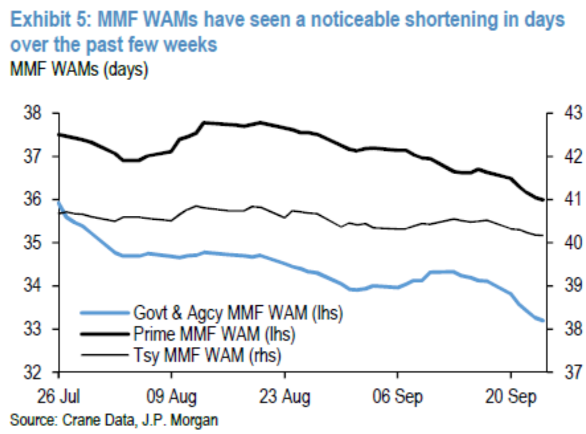
United States

Declines in US tech sector equities pushed the S&P 500 lower (-0.3%) amid concerns about inflation pressures and tighter monetary policy. US Treasury yields continued the sharp rise since last week's FOMC meeting with 10-year yields breaking above 1.50% intraday and supported by higher break-even inflation rates in contrast to higher real yields last week. The spike gave rise to concerns over elevated equity valuations of growth stocks in the low-yield-dividend tech-sector, leaving tech-heavy sectors and indices out of favor with investors. This morning, Treasury yields are higher across the curve with the 10-year up to 1.52% and S&P 500 futures pointing to declines of 0.8% at the open.



US money markets funds (MMFs) focus on short-term liquidity likely in anticipation of debt-ceiling related outflows. MMFs are looking to build more liquidity ahead of the looming debt ceiling deadline, JP Morgan research shows. US MMFs are seen shortening the Weighted Average Maturities (WAMs) of their assets and prime MMFs have been allocating more towards time deposits over the past few weeks. The risk of increased shareholder redemptions due to fears of a possible US government technical default is also rising. Adding to such risks, government MMFs have risen significantly in size following the 2015 SEC reforms, so redemptions in absolute numbers could be high. Nevertheless, the limited alternatives to store cash outside the MMF sector may well moderate outflows this time, according to JPMorgan.



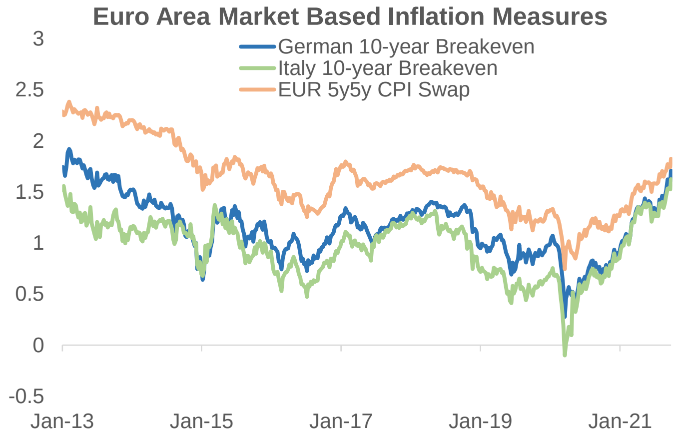


Euro Area

European equities are under pressure this morning with STOXX 600 benchmark falling 1.5%. The decline was driven by interest rate sensitive sectors with tech stocks dropping 4%. Energy shares (+1.8%)

continued to gain with Brent crude futures now trading above $80 per barrel.

European bond yields traded another leg higher with the 10-year bund (+3 bps) now above -0.2%. In contrast to the U.S., the rise in Euro yields remains dominated by the rise in inflation breakeven rates, which made fresh pandemic-era highs this morning**. The price-action is in line with the somewhat diverging policy stance between the Fed and the ECB** with multiple ECB speakers, including Governor Lagarde, stressing the temporary nature of the inflation increase with the overall outlook warranting the continuation of accommodative policy. The accommodative stance is also supporting Southern European spreads, that have remained mostly unchanged in the latest yield increase cycle.



On the data front, the **German and French consumer confidence surprised to the upside this morning**. The surveys saw relatively broad-based improvements, including growing optimism around income and personal finances as well as employment prospects.

United Kingdom

UK 10-year gilt yields increased by 5 bps this morning, trading above the 1% mark. The 10-year yields have risen by 20 bps since the Bank of England meeting last week with markets now starting to price additional policy tightening. The market move comes despite somewhat more neutral stance by Bank of England Governor Bailey speech yesterday, where he pointed out that the central bank cannot remedy pressures from supply-side constraints. The governor also stressed that inflation should be dealt with via the policy rate increase rather than QE adjustments. **Separately, UK gas prices resumed their upward surge with the 1-month contract increasing by 20% since the Friday close**.

Japan

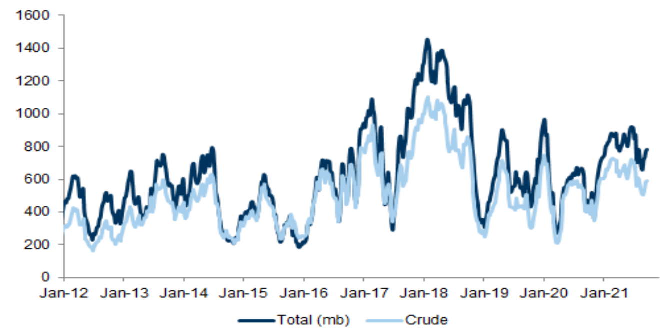
The government plans to lift the state of emergency at end-September. The number of new COVID-19 infection cases has declined to the level seen in mid-July, while almost 60% of population have now been fully vaccinated. For Tokyo, the state of emergency could be lifted for the first time in more than two months. Reportedly, local authorities in some areas are expected to keep their own restrictions in place. Equities declined (NIKKEI: -0.2%); Japanese yen depreciated (-0.2%); long-end JGB yields edged up (10-yeaR: +2.4 bps; 30-year: +0.6 bp).

Commodities

The Brent-oil price rally is expected to continue, on the back of a record high supply-demand deficit. Brent oil prices have been surging to levels not seen since October 2018. The rally has little involvement from bullish speculators, but rather unfolds as the global oil supply-demand deficit remains large, prompting expectations for further oil rises. Global demand recovered relatively fast from the Delta impact, thanks to vaccine efficiency. However, global supply remains constrained as recent storm activity in the US more than offset the ramp-up in OPEC+ production. At the same time, high electricity prices from a rally in natural gas in Europe are also giving the crude market a large boost. Goldman Sachs forecasts that the oil rally will continue, with a year-end Brent forecast of $90/bbl (vs. their previous estimate of $80/bbl).

Exhibit : The recent rally has occured despite minimal investor involvement

Total oil managed money net speculative length (mb)



Source: CFTC, Reuters, Goldman Sachs Global Investment Research

Emerging Markets

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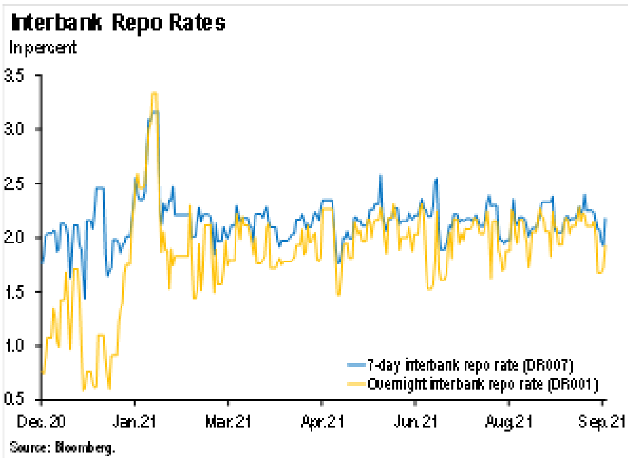
Asian equities were mixed, falling 0.2% on net. Indian (-1.3%), Korean (-1.1%) and Philippine (-1.0%) equities led the decline, while share prices rose in Hong Kong SAR (+1.2%). **Most Asian currencies depreciated**, led by Thai baht (-0.7%) as the government postponed the plan to re-open the border, adding downward pressure on Thai baht. **In EMEA, equities traded with a cautious tone as currencies fell against the U.S dollar.** The Zambian kwacha was little changed after President Hichilema reappointed former central bank governor Denny Kalyalya. **Latin American equity markets saw gains yesterday** in Columbia (+2.8%), Argentina (+2%), Peru (+1.9%), and Brazil (+0.3%), while Chile was slightly down by 0.6%. Currencies were mixed, with Brazilian real down by 1.1% against the USD while Mexican peso appreciated by 0.7%. Preferred shares in Petrobras were up 0.2%, recovering some losses after falling as much as 1.5% immediately after the firm's announcement of no changes to its fuel price policy.

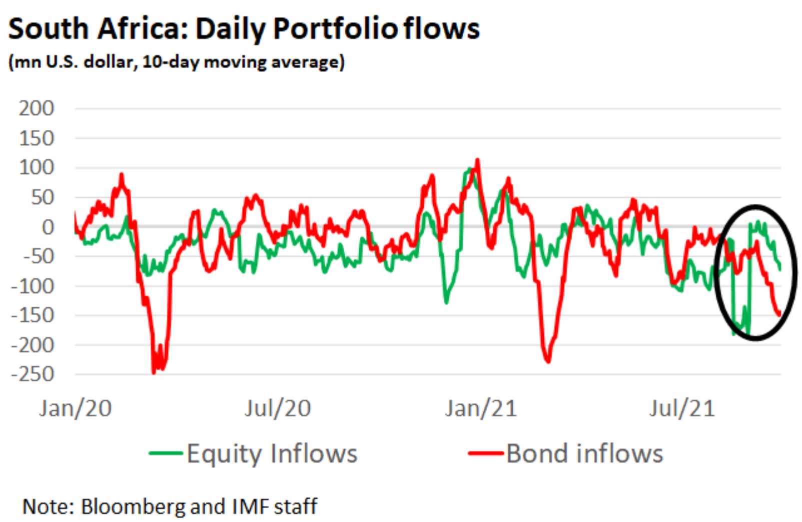
China

The People's Bank of China (PBC) vowed to ensure a healthy property market and protect homebuyers in a statement released by its monetary policy committee (an advisory body) yesterday. Governor Yi Gang also mentioned that the PBC will step up the coordination of monetary policy with fiscal and industrial policies to achieve a balance between supporting growth and preventing risks. **The PBC injected liquidity of 100 bn yuan** ($15.5 bn) into the interbank market in the form of 14-day reverse repos at an interest rate of 2.35% (vs. DR014 at 2.87%) as interbank repo rates rose (DR001: +19.3 bps; DR007: +26.7 bps). The PBC's liquidity injection aims to keep liquidity stable at the end of quarter. **Chinese equities gained** (CSI 300: +0.1%; Hang Seng China Enterprises: +1.7%). Evergrande (+4.8%) and Sunac (+14.9%) gained after the latter denied that it sought local government support. Meanwhile, the Hong Kong Monetary Authority reportedly asked banks to report their exposure to Evergrande.



South Africa

The rand (-1%) and equities (-0.5%) traded lower as bond and equity outflows persist. 10-year local bond yields have traded 47 bps higher so far in September as contacts expect a more cautious environment for South Africa's local bonds given expectations of Fed tapering and rising inflation risks. **The central bank did not hike last week but forward markets have priced in more tightening**, with the 1-year forward rate in 1 year at 7.72% compared to 6.91% at the end of August and the policy rate currently at 3.50%.

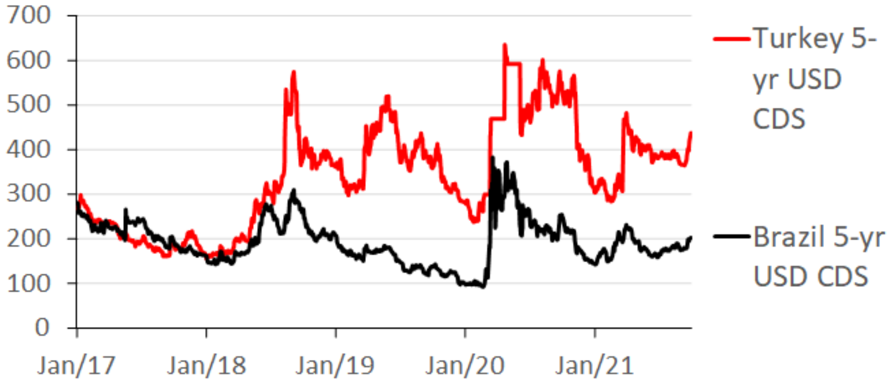


Turkey

The Turkish lira (-0.7%) fell to a new record low even as deputy finance minister Sakir Ercan Gul warned that Turkey needs to limit budget and current account deficits to cut rates further. Contacts expect the central bank of Turkey to keep cutting rates unless lira weakness accelerates to levels closer to 10 lira per U.S. dollar (from 8.89 per U.S. dollar currently). **Turkish 5-yr U.S. dollar CDS spreads have**

widened sharply after the central bank unexpectedly cut its policy rate 100 bps to 18% last week. The finance minister also said that Turkey will take measures to minimize damage caused by cryptocurrencies while the central bank works on a framework for digital money.

Turkey: 5-yr U.S. CDS (bps)



Source: Bloomberg and IMF staff

Peru

Peru's finance minister says foreign investors have shown so much interest in buying Peruvian bonds that the government may consider tapping international markets again this year. According to the FT, although Peru alarmed markets in June when it elected the hard left president Pedro Castillo, the administration has since toned down its radical messaging and welcomed foreign investors to invest in Peru "confidently, without doubt and fear." Although it is generally expected that Peru will issue in the near future, the uncertainty over the current political situation and economic outlook may mean that Peru would have to offer a larger new issue premium to investors than normal for a high-grade sovereign. Generic Peruvian 10-year government bonds are currently traded at a yield of 6.4%, lower than Mexico (7.3%) and Brazil (11.1%).

Yield on Generic 10-year Government Bond for Peru, %

Source: Bloomberg

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Global Financial Indicators

Last updated: 9/28/21 8:08 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4421	-0.3	2	-2	32	18
Europe		4101	-1.5	0	-2	27	15
Japan		30184	-0.2	-1	9	28	10
China		3602	0.5	0	2	12	4
Asia Ex Japan		86	0.7	2	-1	13	-4
Emerging Markets		51	0.6	2	-1	18	-1
Interest Rates			basis points				
US 10y Yield		1.53	4.2	21	22	88	62
Germany 10y Yield		-0.19	3.1	13	23	34	38
Japan 10y Yield		0.09	2.4	4	6	6	6
UK 10y Yield		1.02	7.1	22	45	82	83
Credit Spreads			basis points				
US Investment Grade		85	0.7	-4	-7	-50	-10
US High Yield		307	-1.4	-13	-17	-250	-72
Europe IG		50	0.9	-1	5	-10	2
Europe HY		248	5.5	0	19	-98	5
Exchange Rates			%				
USD/Majors		93.59	0.2	0	1	-1	4
EUR/USD		1.17	-0.1	0	-1	0	-4
USD/JPY		111.5	0.4	2	1	6	8
EM/USD		55.6	-0.4	-1	-2	3	-4
Commodities			%				
Brent Crude Oil ($/barrel)		80	0.7	8	10	89	55
Industrials Metals (index)		164	-0.1	2	3	42	24
Agriculture (index)		57	0.1	3	-2	48	19
Implied Volatility			%				
VIX Index (%, change in pp)		20.5	1.8	-3.8	4.2	-5.7	-2.2
US 10y Swaption Volatility		72.0	-0.4	0.0	-2.1	27.8	11.9
Global FX Volatility		6.6	0.0	-0.3	0.0	-2.9	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	-1.2	-5	-8	-52	-15
Italy		105	2.9	3	-1	-36	-7
Portugal		54	0.2	-2	-6	-25	-6
Spain		64	0.8	0	-8	-13	3

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)					
9/28/2021	Level		Change (in %)					Level		Change (in basis points)			
8:11 AM	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	0.0	0.1	0	5	1		3.0	-1	0	-23	-25
Indonesia		14273	-0.1	-0.2	1	4	-2		6.2	11	7	-62	13
India		74	-0.3	-0.6	-1	0	-1		6.3	4	-8	16	38
Philippines		51	0.0	-1.7	-2	-5	-6		4.3	-1	-7	62	60
Thailand		34	-0.7	-1.1	-4	-6	-11		1.8	4	19	39	53
Malaysia		4.18	0.1	0.0	-1	0	-4		3.5	9	15	86	90
Argentina		99	-0.1	-0.2	-1	-23	-15		49.2	102	330	720	-697
Brazil		5.41	-0.3	-2.5	-4	5	-4		10.2	9	70	445	467
Chile		796	-0.2	-1.2	-2	-1	-11		5.3	15	55	253	250
Colombia		3844	-0.2	0.0	0	1	-11		7.3	8	49	220	226
Mexico		20.21	-0.5	-0.4	0	11	-1		7.3	12	27	134	168
Peru		4.1	-0.3	-0.1	-1	-13	-12		6.5	8	29	228	285
Uruguay		43	0.0	0.3	0	-1	-1		7.9	0	2	35	66
Hungary		308	-0.5	-2.3	-4	2	-4		2.8	0	26	99	123
Poland		3.95	-0.5	-0.3	-2	-1	-6		1.4	7	26	66	77
Romania		4.2	-0.2	-0.4	-1	-1	-6		3.6	10	30	29	87
Russia		72.6	0.0	0.7	1	9	3		7.2	14	30	134	149
South Africa		15.1	-0.9	-1.7	-3	13	-3		10.0	15	38	-30	34
Turkey		8.88	-0.6	-2.8	-6	-12	-16		17.9	86	74	529	479
US (DXY; 5y UST)		94	0.2	0.4	1	-1	4		1.02	19	22	76	66

	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		4884	0.1	1	1	6	-6		208	-3	-9	-34	-21
Indonesia		6113	-0.2	1	1	25	2		173	-11	-10	-80	-27
India		59668	-0.7	1	6	57	25		145	-2	-3	-89	-6
Philippines		6885	-1.0	0	1	18	-4		108	-8	-5	-47	-4
Malaysia		1547	0.9	1	-3	3	-5		129	-4	-6	-59	-6
Argentina		75688	2.0	3	3	80	48		1614	53	91	289	258
Brazil		113583	0.3	4	-6	20	-5		298	-2	7	-49	39
Chile		4352	0.0	1	-2	21	4		147	-8	4	-52	-9
Colombia		1345	2.8	3	2	14	-6		294	1	20	16	79
Mexico		51599	1.0	2	-2	39	17		353	1	1	-153	-4
Peru		18653	1.9	5	7	4	-10		168	-6	-6	-19	39
Hungary		51561	0.4	1	1	56	23		128	-11	-4	-33	-21
Poland		69836	-0.3	1	0	40	22		23	1	-13	-12	-5
Romania		12517	0.1	1	1	39	28		192	-5	7	-71	-11
Russia		4098	0.7	3	5	40	25		158	-5	-11	-75	-21
South Africa		64054	-0.2	4	-5	17	8		359	-5	8	-183	-25
Turkey		1380	-0.8	0	-5	23	-7		508	16	49	-125	61
Ukraine		526	0.0	0	0	5	5		506	18	11	-217	13
EM total		51	-0.6	2	-1	18	-1		370	3	14	-50	32

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

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