



- Sharp rise in sovereign bond yields hits global equity markets ([link](#))
- Yields on mid-October Treasury bills price higher risks around hitting US debt limit ([link](#))
- UK sterling depreciates on rising inflation and supply chain concerns ([link](#))
- Kishida set to become Japan's next PM; continuation of current policies expected ([link](#))
- Bank of Thailand maintains policy stance; looks to recovery as pandemic eases ([link](#))
- Romanian sovereign yields trend higher ahead of no-confidence vote in parliament ([link](#))

[Mature Markets](#)





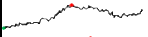






[Emerging Markets](#)

[Market Tables](#)

Risk aversion loses steam as bond sell-off stalls

The nervousness in markets that has prevailed to start the week has slightly vanished this morning as the rapid rise in core sovereign yields has stabilized. Yesterday, global equities fell sharply on concerns about the rapid rise in rates, potential inflation pressures, and ongoing political uncertainty. The S&P 500 fell 2%, the largest decline since May, and the tech-heavy Nasdaq declined close to 3% as risk sentiment weakened amid the bond sell-off. Monetary policy and inflation concerns have remained evident with advanced economy sovereign yields still at multi-month highs as 10-year US Treasury yields hover near 1.50%. The US fiscal impasse has also lingered as Congressional lawmakers look increasingly split over the debt ceiling with the deadline looming. The risk-off moves continued overnight with most major Asian bourses closing lower, but European stocks and US equity futures are trading higher as core bond yields retreat from highs. The fallout from yesterday's decline in equities and spike in bond volatility has kept the VIX above 20, while the safe haven bid has been mostly seen in a broad strengthening of the US dollar with the US dollar index approaching a one-year high. The EM currency complex has trended lower in response with the EM FX index weakening to close to year-to-date lows.

Key Global Financial Indicators

Last updated: 9/29/21 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
S&P 500		4353	-2.0	0	-3	30	16
Eurostoxx 50		4097	1.0	-1	-2	27	15
Nikkei 225		29544	-2.1	-1	5	27	8
MSCI EM		50	-1.3	0	-2	16	-2
Yields and Spreads							
			bps				
US 10y Yield		1.50	-3.3	20	20	86	59
Germany 10y Yield		-0.22	-2.1	10	20	33	35
EMBIG Sovereign Spread		355	1	4	9	-80	4
FX / Commodities / Volatility							
			%				
EM FX vs. USD, (+) = appreciation		55.5	0.1	-1	-2	3	-4
Dollar index, (+) = \$ appreciation		94.0	0.2	1	1	0	4
Brent Crude Oil (\$/barrel)		78.5	-0.7	3	8	91	52
VIX Index (% change in pp)		22.5	-0.8	2	6	-4	0

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

Mature Markets

[back to top](#)

United States

US equities closed sharply lower yesterday (S&P 500 -5%; Nasdaq -3%), as US Treasury yields continued to march higher amid mounting concerns over the debt-ceiling impasse in the US and expectations around the possible start of monetary policy normalization over the next year. The US Treasury yield curve steepened with 30-year yields climbing 10 basis points (at 2.1%), and 10-year yields rising by 6 bps to 1.55%. **This morning, core sovereign yields have steadied** with 10-year Treasury yields back down to 1.50% and S&P 500 futures pointing to modest gains (+0.5%) at the open.

Equities have struggled to digest the rise in real interest rates amid a weary economy backdrop. 10-year Treasury yields have moved sharply higher during the past two weeks, driven primarily by real rates. JP Morgan's analysts argue that the composition and speed of interest rate rises matters for equity returns more than the level or rates. S&P 500 returns have historically fared poorly when interest rates rise sharply. In addition, the S&P 500 is particularly sensitive to rate shocks given the growing weight of the technology sector in the index. This is because rising interest rates pose a greater risk to the valuations of long-duration stocks, which have a high share of cash flows expected to be generated in the more distant future. Finally, while increases in real rates have worked well for equities when heralding improved economic prospects, this is not the case currently, when real rates are rising while the global economic recovery risks losing momentum.

Exhibit 1: Interest rates have sharply risen during the last two weeks

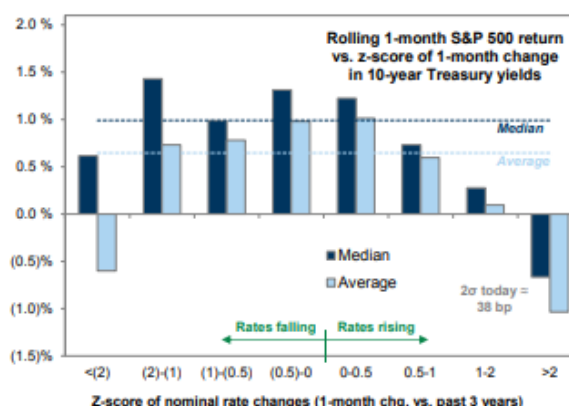
3-year Z-scores of 1-month changes



Source: Goldman Sachs Global Investment Research

Exhibit 2: Equities typically struggle when rates rise by 2+ standard deviations

rolling 1-month changes since 1965

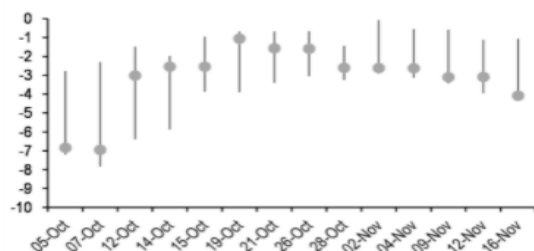


Source: FRB, Goldman Sachs Global Investment Research

Mid-October T-bill yields price higher risks around hitting US debt limit. Treasury Secretary Yellen informed the Congressional leadership ahead of her Senate hearing yesterday that the Treasury would likely exhaust its extraordinary measures to stay under the debt limit by October 18. This is earlier than most analysts expected and have led many to reconsider their estimates, albeit given the belief that Treasury tends to be conservative in its forecasting due the extensive impact of a technical default. The market impact of the news is imprinted in T-bills maturing in the second half of October. The latter are now sitting at the cheaper end of their trading range over the last month. Even though a resolution of the debt ceiling does not appear imminent, the market baseline expects a unilateral rise in the ceiling by the Democrats via the reconciliation process.

Exhibit 3: T-bills maturing in mid- to late-October cheapened today following Yellen's comments

1-month range and current matched-maturity OIS spreads on Treasury bills maturing between early-October and mid-November, bp

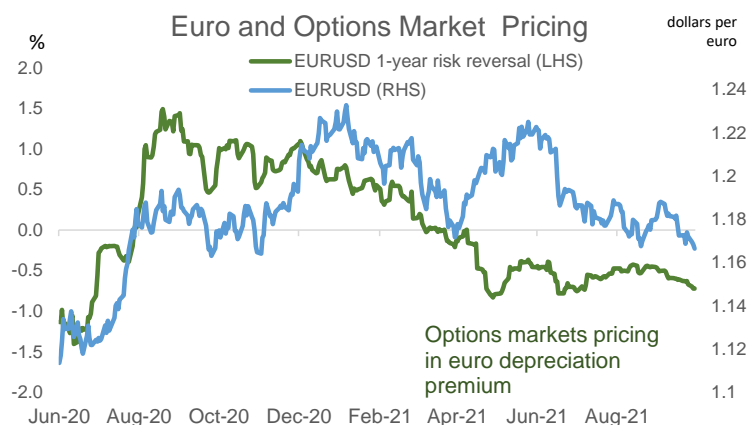


Source: J.P. Morgan

Euro area

European equity indices are recovering this morning with most country benchmarks trading up around 1% after declining by more than 2% yesterday. Consumer discretionary segment (+1.8%) and luxury goods (+2%) were outperforming as concerns around China have eased somewhat the last few days.

European bond market pressures eased this morning with 10-year bund yields declining by 2 bps. Southern European spreads tightened 1-2 bps with Italy outperforming (-3 bps) as Prime Minister Draghi presented a new budget plan with a lower deficit projection on stronger growth performance. The euro (-0.2%) traded at the weakest level against since November, reflecting the diverging central bank stance.

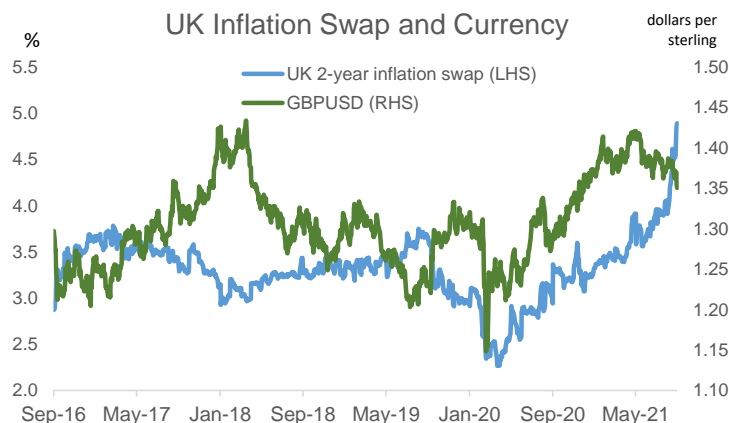


In this regard, **ECB President Lagarde's speech at the Sintra forum mostly repeated her earlier messages on the transitory nature of inflation and the need for further monetary accommodation.** Some analysts have noted that the ECB's messaging over the last few days provides a strong indication that the Asset Purchase Program will be boosted and modified in December to insure a smooth transition from the Pandemic Emergency Purchase Program.

United Kingdom

The UK sterling depreciated on growing inflation and supply chain concerns. The pound saw its biggest one day decline this year, losing 1.2% both against the dollar and the euro. The move occurs against a backdrop of rising short-term rate expectations and hence yield differentials, which should normally support the exchange rate. However, contacts note that **the rapid rise in inflation expectations and broader uncertainty around the supply-chain and energy shock have shifted investor attention**

to real rates, which are now projected to be more negative than expected. Contacts also note that there are some concerns among investors that the Bank of England may underdeliver against the current rate hike projections as the incoming data points to further growth downside. Currency options markets have also seen an increase in activity with investors looking to buy protection against sterling depreciation.



Japan

Fumio Kishida is set to become Japan's next prime minister. Kishida, a former foreign minister, was elected as new leader of the ruling Liberal Democratic Party (LDP). As the LDP is expected to maintain the majority in the parliament in the upcoming general election, Kishida sets to succeed Prime Minister Suga who will step down. Analysts noted that Kishida's win represents the LDP's preference of "stability" over "reform" which is advocated by his key rival Taro Kono. While earlier expressing the need for fiscal consolidation over the medium term, Kishida vowed to introduce a stimulus package of tens of trillions of yen by the end of the year. Equities declined (NIKKEI: -2.1%) on the global risk-off sentiment. Japanese yen appreciated (+0.2%) on the safe-haven demand; long-end JGB yields dropped (10-year: -0.8 bp; 30-year: -1.6 bps).

Emerging Markets

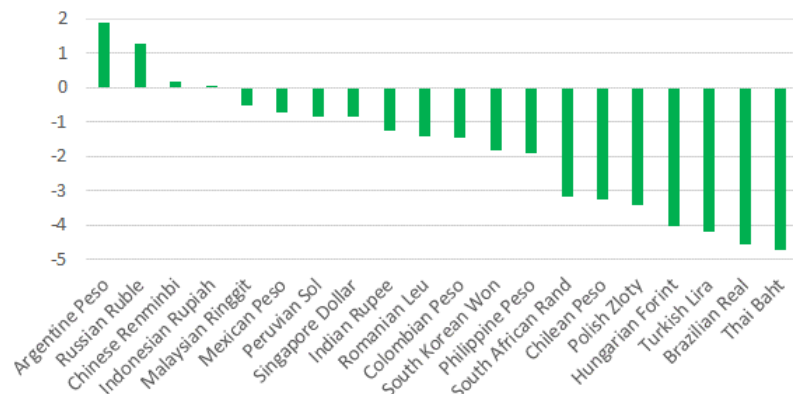
[back to top](#)

Asian equities were mixed, declining 0.8% on net. Taiwan (-1.9%), Korean (-1.2%) and Chinese (CSI 300: -1.0%) stocks led the decline, while share prices rose in Indonesia (+0.8%) and Hong Kong SAR (+0.7%). **Most Asian currencies depreciated**, led by Thai baht (-0.3%). Markets in the region were generally affected by the global risk-off sentiment amid the rise in U.S. Treasury yields and the U.S. equity sell-off. **In Latin America, Brazilian equity markets saw losses of 3.1%, followed by Peru (-0.7%) and Chile (-0.7%),** while Columbia (+0.4%) and Argentina (+0.2%) slightly gained. The Mexican peso fell as much as 1.1% on Tuesday to the lowest since Aug. 27 as a stronger dollar and rising Treasury yields put pressure on emerging-market currencies. Moody's upgraded Petrobras rating to Ba1. **In EMEA, equities and currencies traded higher in line with the improvement in risk sentiment this morning.** The ruble was little changed but equities in Moscow (-1%) underperformed as oil prices (-0.6%) fell.

EM currencies in September

This month, sharp gains in oil and natural gas prices helped make the ruble one of the best performing currencies, both in terms of spot and total returns. In contrast, **EM currencies fell 2.5% against the U.S. dollar as concerns about inflation and expectations of a near-term reversal in global policy easing weighed on risk sentiment.**

EM Currency returns (includes spot return + carry) in September 2021
(%, against U.S. dollar)

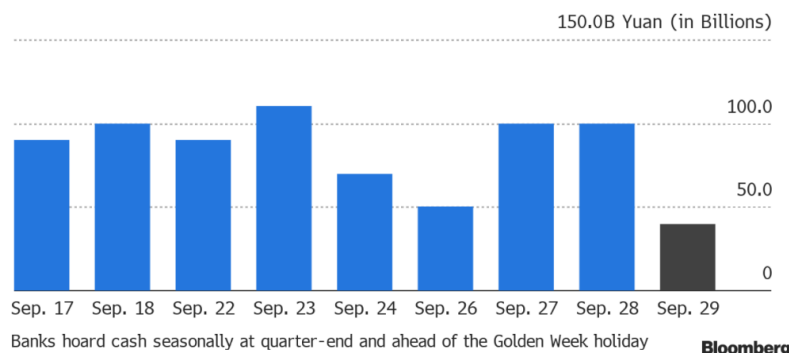


China

The People's Bank of China (PBC) injected liquidity for a ninth day. The PBC injected net liquidity of 40 bn yuan (\$6.2 bn) via 14-day reverse repos with banks. Analysts noted that the liquidity injection aims to ensure amply liquidity ahead of quarter-end and upcoming week-long holidays. Interbank repo rates were mixed, with overnight rates falling (DR001: -42.6 bps) while longer-maturity rates rising (DR007: +35.7 bps; DR014: +16.2 bps). **Evergrande agreed to sell a 20% stake in Shengjing Bank to an entity owned by the local Shenyang government** for 10 bn yuan (\$1.6 bn). Shengjing Bank demanded that all proceeds to settle with debt with the bank. After the sale, Evergrande's stake in the bank will drop to 14.6%. The agreed transaction price is 5.7 yuan per share (market price: 5.9). Evergrande's share price rose (15.1%). **Japan's Government Pension Investment Fund (GPIF) said that it will not include Chinese sovereign debt in its portfolio.** The GPIF, the world's largest pension fund, made the decision ahead of FTSE Russell's addition of Chinese debt to the benchmark global bond index. **Equities declined** (CSI 300: -1.0%); **RMB depreciated (-0.1%).**

China Boosts Cash

Longest run of net injections via open market operations since December



Bloomberg

Thailand

The Bank of Thailand (BOT) kept the policy rate unchanged at 0.5% as expected. The BOT noted that the ramp-up of vaccination and faster-than-expected easing of containment measures should support growth, with the economy bottoming out in Q3. The government has promoted a living with COVID-19 strategy and recently decided to shorten the quarantine period for arriving visitors. The BOT kept its 2021 growth forecast at 0.7% and raised the growth projection for 2022 to 3.9% from 3.7%. The BOT also reiterated that it stands ready to use additional tools if needed but fiscal support would be more effective. The government earlier this month raised the public debt limit from 60% of GDP to 70% to allow for higher

state borrowing to simulate the economy. Equities were little changed; Thai baht depreciated (-0.3%). The currency has been recently under depreciation pressure as the prospect for a strong revival of tourism activity remains dim given the global pandemic situation.

Sentiment Shift

Hedging cost against Thai baht is approaching this year's high in July



Source: Bloomberg

USDTHB25R3M Curncy (USD-THB RR 25D 3M) ThaiRR-Sept2021 Daily 30MAY2020-28SEP202

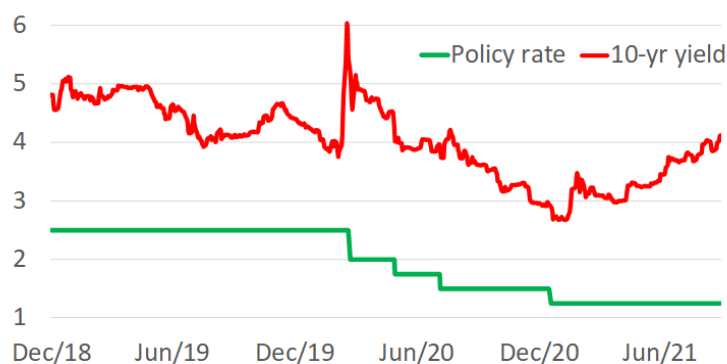
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Romania

Local 10-year yields have traded 30 bps higher, and the leu fell 0.3% against the euro in September amid concerns about fiscal stability and accelerating inflation. The government of PM Ciuță will face the final vote of a no-confidence motion in parliament next week. Meanwhile headline inflation accelerated to 5.25% y/y. The central bank has left its policy rate unchanged at 1.25% but officials have said this week that rates could increase sooner rather than later.

Romania: Local currency bond yield and policy rate (%)







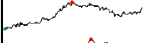


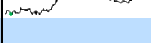










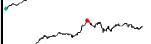




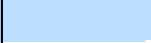




Source: Bloomberg

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: 9/29/21 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4353	-2.0	0	-3	30	16
Europe		4097	1.0	-1	-2	27	15
Japan		29544	-2.1	-1	5	27	8
China		3536	-1.8	-3	0	10	2
Asia Ex Japan		85	-1.2	0	-2	12	-5
Emerging Markets		50	-1.3	0	-2	16	-2
Interest Rates			basis points				
US 10y Yield		1.50	-3.3	20	20	86	59
Germany 10y Yield		-0.22	-2.1	10	20	33	35
Japan 10y Yield		0.08	-0.7	4	5	6	6
UK 10y Yield		0.97	-2.2	17	39	79	78
Credit Spreads			basis points				
US Investment Grade		86	2.0	-3	-5	-49	-9
US High Yield		314	4.6	-7	-11	-244	-66
Europe IG		49	-0.7	0	4	-11	1
Europe HY		247	-2.7	4	18	-103	4
Exchange Rates			%				
USD/Majors		93.95	0.2	1	1	0	4
EUR/USD		1.17	-0.3	0	-1	-1	-5
USD/JPY		111.4	-0.1	1	1	5	8
EM/USD		55.5	0.1	-1	-2	3	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		79	-0.7	3	8	91	52
Industrials Metals (index)		164	-0.4	-1	2	41	24
Agriculture (index)		57	0.5	2	-2	49	19
Implied Volatility			%				
VIX Index (% change in pp)		22.5	-0.8	1.6	6.1	-3.8	-0.3
US 10y Swaption Volatility		76.2	0.0	9.9	2.1	32.7	16.1
Global FX Volatility		6.8	0.0	0.0	0.2	-2.6	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	1.2	-2	-6	-50	-13
Italy		103	-2.3	4	-2	-37	-8
Portugal		54	-0.5	0	-6	-25	-6
Spain		63	-0.7	0	-8	-14	2

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

Emerging Market Financial Indicators

Last updated: 9/29/2021 8:06 AM	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	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.47	-0.1	0.0	0	5	1		3.0	-1	0	-24	-25		
Indonesia		14293	-0.1	-0.3	1	4	-2		6.2	4	5	-65	11		
India		74	-0.1	-0.4	-1	0	-1		6.3	6	-8	13	39		
Philippines		51	0.3	-1.2	-2	-5	-6		4.3	2	-6	63	62		
Thailand		34	-0.3	-1.2	-4	-7	-12		1.8	5	19	39	53		
Malaysia		4.18	0.0	0.2	-1	-1	-4		3.5	13	20	91	95		
Argentina		99	0.0	-0.2	-1	-23	-15		49.5	128	363	788	-664		
Brazil		5.42	0.2	-2.4	-4	4	-4		10.4	38	81	425	477		
Chile		800	0.2	-1.5	-2	-2	-11		5.3	32	63	257	258		
Colombia		3835	0.2	0.1	0	1	-11		7.3	6	48	225	224		
Mexico		20.35	0.0	-1.3	-1	10	-2		7.3	18	34	138	174		
Peru		4.1	-0.1	-0.4	-1	-13	-12		6.5	13	31	231	288		
Uruguay		43	-0.3	-0.2	-1	-1	-1		7.8	-10	-8	41	56		
Hungary		309	-0.3	-1.6	-4	1	-4		2.8	10	32	105	130		
Poland		3.97	-0.1	-0.4	-3	-3	-6		1.4	13	30	71	81		
Romania		4.2	-0.2	-0.2	-1	-2	-6		3.7	14	34	38	91		
Russia		72.7	0.1	0.5	1	9	2		7.2	15	29	130	149		
South Africa		15.0	0.5	-1.5	-2	13	-2		10.1	22	45	-22	41		
Turkey		8.86	0.2	-2.3	-5	-12	-16		17.9	92	77	496	483		
US (DXY; 5y UST)		94	0.2	0.5	1	0	4		1.00	15	20	74	64		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	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
								basis points					
China		4834	-1.0	0	1	5	-7		208	-3	-9	-35	-21
Indonesia		6163	0.8	1	0	27	3		171	-13	-12	-81	-29
India		59413	-0.4	1	3	56	24		143	-7	-5	-90	-8
Philippines		6934	0.7	1	1	18	-3		110	-6	-3	-45	-2
Malaysia		1548	0.1	1	-3	3	-5		129	-3	-6	-60	-6
Argentina		75808	0.2	3	4	80	48		1580	-1	57	247	224
Brazil		110124	-3.0	0	-9	18	-7		301	4	10	-47	42
Chile		4323	0.0	-1	-3	22	3		148	-5	5	-49	-8
Colombia		1351	0.4	3	2	16	-6		299	9	25	25	84
Mexico		50926	-1.3	0	-3	37	16		354	7	2	-145	-3
Peru		18515	-0.7	4	6	4	-11		170	-2	-4	-13	41
Hungary		51659	0.4	1	1	58	23		128	-9	-4	-31	-21
Poland		69823	0.6	-2	0	41	22		21	-5	-15	-12	-7
Romania		12590	0.5	2	2	40	28		192	-2	7	-64	-11
Russia		4066	-1.1	1	5	40	24		159	0	-10	-75	-20
South Africa		64173	0.6	3	-5	18	8		366	8	15	-175	-18
Turkey		1396	0.9	-1	-4	24	-5		509	27	50	-133	62
Ukraine		526	0.0	0	0	5	5		515	31	20	-206	22
EM total		50	0.0	0	-2	16	-2		371	6	15	-49	33

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

[back to top](#)