



- U.S. dollar strengthens vis-a-vis broad range of major currencies ([link](#))
- Investors consider Fed facilities ahead of U.S. debt limit deadlines ([link](#))
- European equities head for the worst month in a year ([link](#))
- U.K. GDP revised higher as markets price in 3 hikes by end 2022 ([link](#))
- China's official manufacturing PMI weakens on power crunch ([link](#))
- Brazilian farming boom helps reduce NPLs ([link](#))
- Weekly inflation data firms expectations of more hikes in Russia ([link](#))

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U.S. dollar and yields consolidate at higher levels

The U.S. dollar and U.S. yields are stabilizing at meaningfully higher levels after an eventful month. U.S. lawmakers averted a government shutdown while investor await further developments on U.S. debt ceiling discussions. Weaker PMI data out of China helped maintain a cautious tone in trading as analysts warn that power shortages are likely to persist in coming quarters. European equities have recorded their worst month in almost a year. French and Italy inflation increased in line with expectations.

Key Global Financial Indicators

Last updated: 9/30/21 12:20 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4359	0.2	-1	-4	30	16
Eurostoxx 50		4072	-0.2	-3	-3	27	15
Nikkei 225		29453	-0.3	-1	4	27	7
MSCI EM		50	-0.9	-2	-5	13	-3
Yields and Spreads			bps				
US 10y Yield		1.53	1.2	10	25	84	62
Germany 10y Yield		-0.21	0.4	5	23	31	36
EMBIG Sovereign Spread		353	-2	1	7	-84	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	-0.1	-2	-3	1	-5
Dollar index, (+) = \$ appreciation		94.5	0.1	1	2	1	5
Brent Crude Oil (\$/barrel)		78.4	-0.4	1	7	91	51
VIX Index (% change in pp)		22.1	-0.5	3	6	-4	-1

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

Economic data released this morning were mixed. Initial jobless claims rose above expectations to 362,000 from 351,000, contrary to expectations of a fall to 330,000. **This was the third unpredicted increase in a row, giving signs of lingering pandemic concerns, although claims are still hovering near pandemic lows.** Investors are looking ahead to next week non-farm payroll and employment reports. The third and last release of the second quarter US GDP growth came out at 6.7% (annualized qoq) slightly upgraded compared to the prior release and also from expectations (both at 6.6%).

The U.S. dollar has been rising steadily in past few weeks and, by some measures, it is now at its highest since the November 2020 election. Contacts argue that higher U.S. yields have increased the attractiveness of the dollar in addition to supply chain concerns in the UK, a re-assessment of relative monetary policy cycles in Europe, economic recovery delays in Japan and looming energy supply shortages in China.

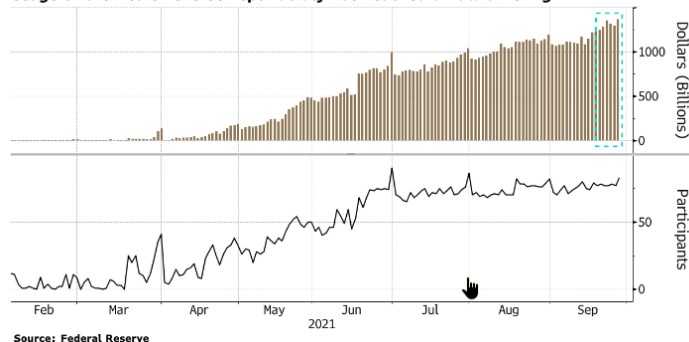
Dollar Surges



Traders are demanding a higher yield for holding T-bills that mature in the period around mid-October to November (associated with a potential debt ceiling breach) and are considering fed facilities as an alternative for t-bills. Recent three- and six-month bill auctions were spurned by the so called “indirect bidders”, a group that includes Money Market Funds (MMFs). Interestingly, MMFs have access to the Fed’s Reverse Repo Facility, which is currently at record high levels of usage. **While the facility usage has been increasing in the past few months due to structural reasons related to the excess liquidity conditions, declining bill supply is also making the facility more attractive.** Analysts suggest that debt ceiling anxiety adds to its allure, as it also provides a safe place to store cash instead of “risky” T-bills. On 1 October, the Fed’s new Standing Repo Facility (SRF) also becomes operational, with the potential to offer a safe place to place less desired Treasuries for cash.

A Popular Place to Park

Usage of the Fed's reverse repo facility has reached an all-time high



Analysts warn that a strategy to “buy-the-dip” could get riskier as the cycle matures. Equities largely shrugged off negative macro-surprises in the summer despite the global growth/inflation mix has deteriorated in Q3. **Negative macro surprises and rising real yields have recently weighed on equities. Nevertheless, markets strategists still point to somewhat bullish positioning in equities, while buying-the-dip strategies has continued to support risky markets.** Goldman Sachs research shows that buying-the-dip has been a successful strategy since the Global Financial Crisis (GFC). For example, the average subsequent returns (especially shortly afterwards) from simply buying the S&P 500 after a 10%+ dip were higher than the average since 2010.

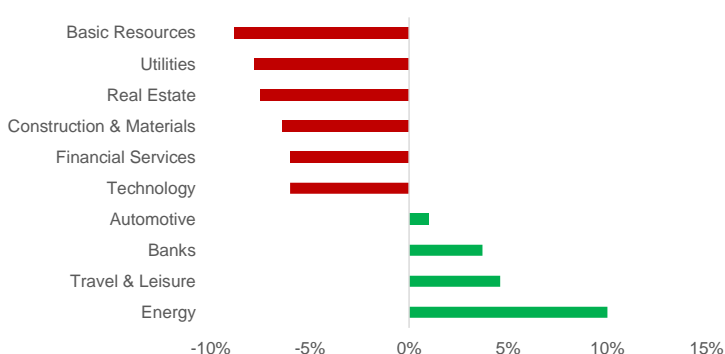
Japan

August activity data pointed to a weaker-than-expected recovery. Industrial production declined 3.2% m/m (consensus: -0.5%), and retail sales fell 4.1% m/m (consensus: -1.7%). Analysts noted that the supply-chain disruption contributed to the drop in industrial production, which was led by auto and electronics manufacturing. Equities declined (NIKKEI: -0.3%); Japanese yen appreciated (+0.1%); long-end JGB yields declined (10-year: -0.6 bp; 30-year: -0.5 bp).

Euro area

European equities lost steam after a strong opening with STOXX 600 benchmark up just 0.1%. Unless the STOXX 600 manages to rally +3% today, the benchmark will see its worst month since October 2020. Only few sectors gained this month such as energy (benefiting from oil and gas price surge), travel and banks (benefiting from reduced Covid risk and the steepening of yield curves).

European Equity Performance By Sector (mtd)



European bond markets were trading unchanged after opening about 2 bps higher. The euro (-0.2%) dipped below 1.16 euros per dollar.

There were no major surprises in today's Euro member inflation releases with the pace of price growth picking up to 2.1% yoy in France and 2.6% in Italy in September. The **Sintra G-4 central bank panel conveyed a consistent message on the transitory nature of the current inflation spike.** That said, there was also an admission that some of the supply bottlenecks could last longer than expected.

European banks are planning at least €22 bn of shareholder payouts in the form of dividends and share buybacks. The ECB payout cap is set to expire today with the head of the supervisory board suggesting that the ECB will intervene only if payouts are imprudent.

United Kingdom

The final reading for Q2 GDP was revised higher to 5.5% qoq growth (4.8% consensus). Government

spending, investments and net trade all saw upward revisions. Analysts note that the sharp fall in the savings ratio (-7 pp) confirms the positive outlook for consumer spending. However, **This week, markets have started to price in a chance of a rate rise already this year with a total of 3 hikes now priced in by the end of 2022.** The sterling (+0.2%) stabilized today after declining by another 0.9% yesterday.

Emerging Markets

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Equities and currencies were mixed in morning trading. Indonesian (+2.0%), Hungarian (+1.3%), and Chinese (+0.7%) equities gained, while share prices fell in Thailand (-0.7%) and Malaysia (-0.6%). Currencies were little changed in Asia but traded 0.4% higher in Turkey and South Africa. **In Indonesia, the parliament approved a \$190 bn state budget for next year, with a projected deficit at 4.9% of GDP.** The parliamentary commission also approved a tax reform proposal that will introduce a carbon tax, overhaul the VAT system, and offer another round of tax amnesty program. **Yesterday, equity markets gained in Argentina (+1%), Brazil (+0.9%), and Columbia (+0.7%), while Peru saw small losses of 0.3%.** In Brazil, formal job creation (Caged) reached 372k in August, stronger than market expectations (300k). Formal employment increased 8.3% yoy in the month, compared to -0.7% measured by the latest PNAD data from June. The improvement of formal employment was widespread within sectors. **On the fiscal front in Brazil, the consolidated public sector posted a primary surplus of BRL 16.7 billion in August, better than market consensus (deficit of BRL 14.0 billion).**

Brazil

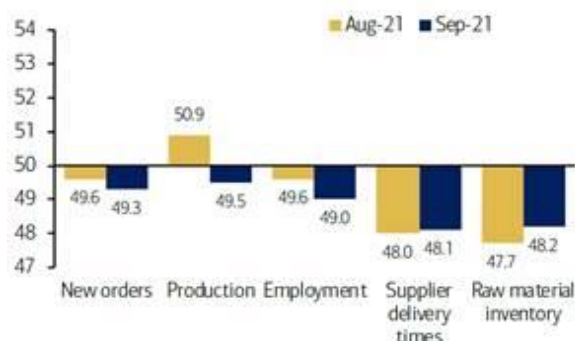
Brazilian farmers flush with cash are taking the opportunity to repay old loans, rewarding investors that took on defaulted debt when times were tougher. Even considering this year's drought, windfall gains have put farmers in a better position to pay back outstanding loans that their suppliers sold to financial firms. In the case of NPL Brasil, the value of repayment deals with farmers almost tripled in the first eight months of 2021 after gaining 150% last year. Driven by Chinese demand, Brazil has become an agricultural powerhouse. Soybean output, for example, is up more than 40% in the past five years. With the international price of the oilseed rising about 30% in the past year, grower profitability will be the highest in least five years even as costs rise, according to consulting firm Agroconsult. **Of the 5.5 billion reais (\$1 billion) in defaulted debt that NPL Brasil manages, about 80% is from agriculture, mostly from portfolios previously held by agro-chemical, seed and machinery companies.**

China

Official manufacturing PMI weakened more than expected in August, reflecting the impact of power shortages. Official manufacturing PMI declined to 49.6 (consensus: 50.0), driven by contraction in energy-intensive sectors. Meanwhile, Caixin PMI (more exports-oriented) was stronger-than-expected at 50.0 (consensus 49.5). Analysts noted that both PMIs pointed to weaker labor markets, lower new export orders and broadening inflationary pressures while suggesting that the difference between the two PMIs could be due to the timing of surveys. **Official non-manufacturing PMI increased to 53.2** (consensus: 49.8), suggesting that the worst impact of the earlier local COVID-19 outbreaks on services activity has eased. Equities gained (CSI 300: +0.7%); RMB appreciated (+0.1%).

Exhibit 3: NBS manufacturing PMI breakdown

Production dropped into contraction; new orders and employment fell



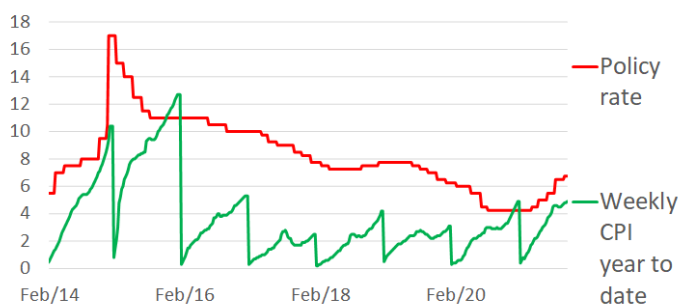
Source: BofA Global Research, NBS, CBIC

The People's Bank of China (PBC) and the China Banking and Insurance Regulatory Commission (CBIRC) reportedly asked banks not to cut funding to property developers all at once. The authorities called a meeting with major banks, asking banks to finance projects under construction and approve mortgages for buyers qualified for pre-sales. They also emphasized the policy goals of stabilizing land and house prices, which was viewed by analysts as a policy signal to manage the rapidly cooling housing market. Land transactions have been weak in recent months, with no bids for offered land supply in multiple locations. **The National Development and Reform Commission (NDRC) announced that it will adopt multiple top-down measures to solve the power crunch problem.** The NDRC hinted at higher non-residential power prices, which would better reflect changes in supply, demand and costs. The NDRC also pledged to increase domestic coal and gas production as well as boost imports. Meanwhile, local governments should ration power according to agreements with businesses, avoiding abrupt blackouts.

Russia

Weekly inflation increased 0.3 mom as analysts await further details to assess the impact of adverse weather on food prices. The central bank of Russia (CBR) warned that weekly inflation data are "very noisy." Consensus is that the CBR will hike its policy rate another 25 bps (to 7%) in October. **Contacts argue that higher than expected inflation and still elevated household inflation expectations could prompt the central bank to hike its policy rate as much as 50 bps in October.**

Russia: Weekly CPI (% ytd) and policy rate (%)



Source: Bloomberg and IMF

Zambia


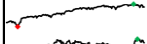
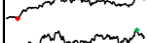


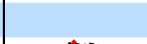



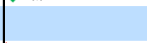
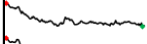
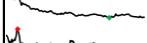

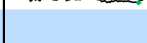







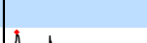



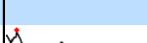


Researchers at the China-Africa Research Institute argue that Zambia's Chinese debt may be nearly twice official estimate. The researchers argue that Zambia have \$6.6 bn in loans owed to China,

compared to \$3.4 bn previously thought but researchers warn that some of the 'extra' Chinese loans may have already been disclosed under existing government debt or debt of state-owned enterprises. **According to contacts, inflows into the local market have notably slowed compared to a month ago when inflows triggered a sharp rally in the kwacha and local bonds post-election.**

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.

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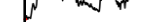

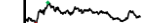


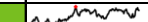



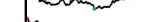


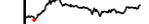

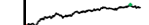



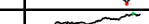
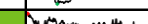


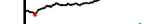



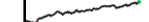



Global Financial Indicators

Last updated: 9/30/21 12:27 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4359	0.2	-1	-4	30	16
Europe		4072	-0.2	-3	-3	27	15
Japan		29453	-0.3	-1	4	27	7
China		3568	0.9	-2	0	11	3
Asia Ex Japan		84	-0.9	-2	-5	9	-6
Emerging Markets		50	-0.9	-2	-5	13	-3
Interest Rates			basis points				
US 10y Yield		1.53	1.2	10	25	84	62
Germany 10y Yield		-0.21	0.4	5	23	31	36
Japan 10y Yield		0.07	-0.6	3	5	6	5
UK 10y Yield		1.01	2.3	11	44	79	82
Credit Spreads			basis points				
US Investment Grade		87	0.4	0	-5	-48	-8
US High Yield		314	0.5	-2	-10	-239	-66
Europe IG		49	-0.2	1	4	-10	1
Europe HY		248	-0.6	9	20	-98	6
Exchange Rates			%				
USD/Majors		94.47	0.1	1	2	1	5
EUR/USD		1.16	-0.2	-1	-2	-1	-5
USD/JPY		112.0	0.1	2	2	6	8
EM/USD		55.2	-0.1	-2	-3	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		78	-0.4	1	7	91	51
Industrials Metals (index)		161	-1.4	-3	-1	38	21
Agriculture (index)		57	0.4	1	0	45	19
Implied Volatility			%				
VIX Index (% change in pp)		22.1	-0.5	3.5	5.6	-4.3	-0.7
US 10y Swaption Volatility		74.5	-0.3	5.0	1.1	27.9	11.2
Global FX Volatility		6.9	0.0	0.3	0.3	-2.2	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		106	-1.3	2	-9	-49	-14
Italy		103	-0.5	5	-6	-36	-8
Portugal		55	-0.8	1	-5	-24	-5
Spain		65	-0.1	2	-7	-12	3

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

Emerging Market Financial Indicators

Last updated: 30/09/2021 12:32 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	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		6.46	0.1	-0.1	0	5	1		3.0	0	-1	-25	-26	
Indonesia		14313	-0.1	-0.5	0	4	-2		6.2	7	8	-63	15	
India		74	-0.1	-0.8	-2	-1	-2		6.3	5	-8	13	38	
Philippines		51	-0.3	-1.3	-2	-5	-6		4.3	1	-6	62	61	
Thailand		34	0.2	-1.4	-5	-7	-12		1.8	4	19	38	53	
Malaysia		4.19	0.0	-0.1	-1	-1	-4		3.5	11	18	88	93	
Argentina		99	-0.1	-0.2	-1	-23	-15		49.2	91	334	739	-693	
Brazil		5.41	0.3	-2.3	-4	4	-4		10.3	34	73	410	470	
Chile		810	-1.0	-2.7	-3	-3	-12		5.5	48	80	269	275	
Colombia		3838	0.0	-0.1	-1	1	-11		7.3	5	46	221	223	
Mexico		20.52	0.0	-2.3	-2	8	-3		7.4	20	37	132	177	
Peru		4.1	0.0	-0.4	-1	-13	-12		6.5	13	30	227	287	
Uruguay		43	-0.1	-0.5	-1	-1	-1		7.9	-5	-3	42	61	
Hungary		311	-0.3	-2.6	-5	0	-5		2.8	9	30	100	128	
Poland		4.01	-0.3	-1.9	-4	-4	-7		1.5	15	32	73	83	
Romania		4.3	-0.2	-1.3	-2	-3	-7		3.7	16	36	40	93	
Russia		72.8	0.1	-0.1	1	7	2		7.2	13	28	129	147	
South Africa		15.2	0.1	-2.8	-4	10	-3		10.0	18	42	-24	38	
Turkey		8.90	0.2	-1.5	-7	-13	-16		17.9	84	72	475	477	
US (DXY; 5y UST)		94	0.1	1.5	2	1	5		1.00	6	24	73	64	

	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	7 Days	30 Days	12 M		
								basis points						
China		4866	0.7	0	0	6	-7		210	0	-7	-33	-19	
Indonesia		6287	2.0	2	3	26	5		176	-8	-7	-75	-24	
India		59126	-0.5	-1	3	53	24		146	-1	-2	-87	-5	
Philippines		6953	0.3	1	2	17	-3		115	-2	2	-36	3	
Malaysia		1538	-0.6	0	-3	3	-5		131	0	-4	-58	-4	
Argentina		76589	1.0	2	0	86	50		1572	-25	49	246	216	
Brazil		111107	0.9	-1	-6	17	-7		297	0	6	-56	38	
Chile		4335	0.0	-2	-3	19	4		149	-2	6	-49	-7	
Colombia		1360	0.7	4	3	16	-5		300	8	26	23	85	
Mexico		51085	0.3	0	-4	36	16		350	1	-2	-157	-7	
Peru		18459	-0.3	2	5	3	-11		171	-1	-3	-14	42	
Hungary		52232	0.4	1	1	59	24		127	-9	-5	-30	-22	
Poland		70158	0.4	-1	-1	42	23		26	1	-10	-8	-2	
Romania		12625	0.1	2	4	40	29		191	-4	6	-67	-12	
Russia		4075	0.7	1	4	40	24		156	-3	-13	-77	-23	
South Africa		64386	0.0	2	-5	19	8		357	-1	6	-185	-27	
Turkey		1393	0.1	-1	-5	22	-6		497	10	38	-149	50	
Ukraine		526	0.0	0	0	5	5		511	20	16	-220	18	
EM total		50	0.6	-2	-5	13	-3		369	2	13	-51	31	

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

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