



- China warns against yuan speculation; credit demand beat expectations in August ([link](#))
- Bank of Japan's hawkish signal helped fueled market expectations for a policy shift ([link](#))
- Euro net long positions continue to decline ahead of the ECB rate decision ([link](#))
- Hedge fund's positioning show strong surge in risk appetite ([link](#))
- Policy rates in CEEMEA expected to diverge in the coming year ([link](#))
- EM bond and equity fund outflows eased from the week prior ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

China credit growth and central bank communication boost equities and renminbi

Stronger than expected credit origination in China and a rebound of in inflation in August are seen as signs of stabilization. This weekend, the August inflation number came in at 0.1% y/y, as expected, confirming that July's deflationary excursion (-0.3% y/y) was a one-off. Nonetheless, Bloomberg expects that the People's Bank of China (PBoC) will cut its 1-year Medium-Term Lending Facility Rate by 10 bps this week to 2.4%, in an effort to boost the economy. Chinese stocks rallied with the CSI 300 index advancing by 0.7%, while the Hong Kong based Hang Seng index was dragged down by its real estate sector. **Monetary policy communications from China and Japan also boosted the yuan and yen, respectively, reversing some of the recent US dollar's appreciation pressures.** The PBoC warned speculators against destabilizing the yuan, and the renminbi strengthened versus the US dollar (offshore +0.9%, onshore +0.7%). This weekend, Bank of Japan (BoJ) Governor Ueda stated in an interview that ending the BoJ's negative interest rate policy is among the options available. Today, the yen appreciated by 0.7% versus the US dollar.

Key Global Financial Indicators

Last updated: 9/11/23 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4457	0.1	-1	0	10	16
Eurostoxx 50		4258	0.5	-1	-1	19	12
Nikkei 225		32468	-0.4	-1	0	15	24
MSCI EM		39	0.2	-1	-2	-1	2
Yields and Spreads			bps				
US 10y Yield		4.29	2.8	11	14	98	42
Germany 10y Yield		2.63	2.4	6	1	94	6
EMBIG Sovereign Spread		419	-5	2	9	-79	-33
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.3	0.4	-1	-1	-6	-5
Dollar index, (+) = \$ appreciation		104.7	-0.4	0	2	-4	1
Brent Crude Oil (\$/barrel)		90.4	-0.3	2	4	-3	5
VIX Index (% change in pp)		14.2	0.3	1	-1	-9	-7

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

The week ahead, markets will focus on the US CPI release on Wednesday and the ECB's monetary policy decisions on Thursday. The US CPI print for August is in focus, together with retail sales data and the initial jobless claims later this week, as the FOMC will meet for its policy decisions next week, even though a rate hike is currently largely priced out. Analysts are split on the policy path for the ECB (hold or 25bps hike). The PBoC will announce its 1-year Medium-Term Lending Facility Rate on Thursday as well. Central Banks of Russia, Peru and Pakistan will also publish reference rates. India, Sweden, Argentina and Brazil will publish inflation data during the week. Lastly, investors will be keeping an eye out for the unemployment data in the UK (Tuesday) and economic data from China (aggregate financing, industrial production, retail sales).

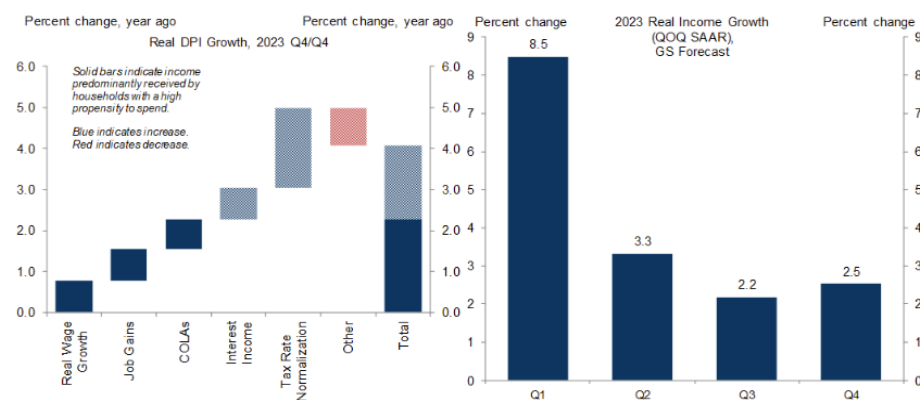
Mature Markets

[back to top](#)

United States

The US consumer remains strong, boosting GDP growth. Consumer spending has provided a strong tailwind to GDP growth throughout 2023. Goldman Sachs analysts forecast this trend to continue on the back of robust real income growth. The main drivers are solid job gains, real wage growth and positive effects from tax rate normalization as lower capital gains reduce effective tax rates compared to 2021. Importantly, the analysts expect this trend to continue in 2024 forecasting 1.9% real spending growth compared to Bloomberg Consensus at 0.9%. This provides support for GS's estimate of only a 15% probability for a US recession in the next twelve months. The "soft landing" camp seems to dominate the news but the Bloomberg median forecasted probability of a US recession in one year's time has not budged significantly since early July and remains at 60%. In contrast to GS's analysis, 75% of the respondents to the Bloomberg Markets Live Pulse Survey this morning estimated that US consumption growth will turn negative before early 2024 increasing the options of a sharp correction in risky assets.

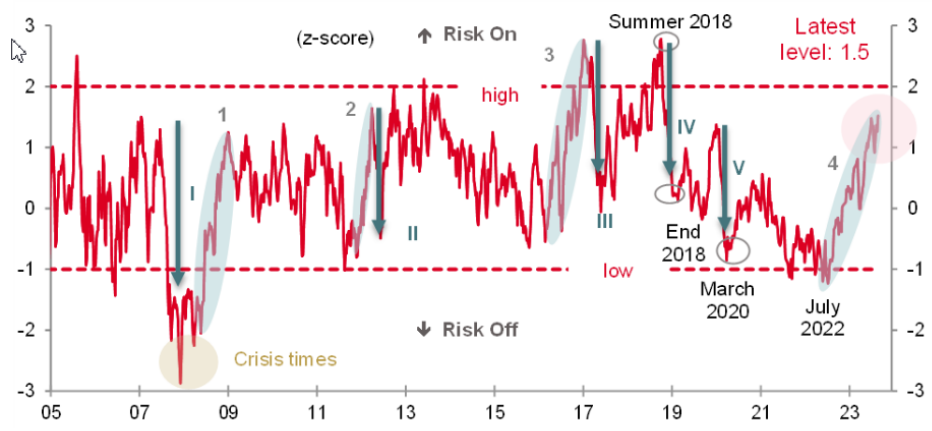
Exhibit 2: The Spending Outperformance in 2023 Reflects Robust Real Income Growth, Particularly at the Start of the Year



Source: Goldman Sachs Global Investment Research

Hedge fund positioning shows strong in risk appetite. Société Générale's multi asset risk indicator (SG MARI) has reached its highest level since 2018 and posted the fourth-strongest surge since 2005. MARI is the weighted average of hedge fund positioning indicators across equities, rates, currencies and commodities. While the indicator is still far from the "investor exuberance" zone, currently at a level of 1.5 compared to the indicator's risk zone of 2 and above, strong surges in the indicator have historically been followed by significant reversals consistent with sharp corrections across asset classes. Net shorts on equities have been largely reduced while hedges against rising bond yields have seen an increase.

Increasingly risk-on. 4th-strongest surge in our Multi Asset Risk Indicator (SG MARI) since 2005



SG MARI = Multi Asset Risk Indicator, qualifying hedge fund positioning as risk-on (high) or risk-off (low). Dotted lines: 5y z-score of 2 and -1. Shaded areas (1-4): periods with major surges in SG MARI. Arrows (I-V): periods with major drops in SG MARI. Source: CFTC, Datastream, SG Cross Asset Research/Global Asset Allocation

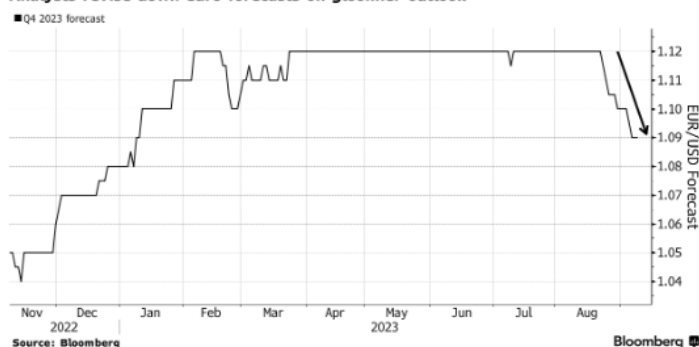
Euro Area

European equities were trading in the green (Stoxx 600 Europe index +0.4%), amid cautious optimism. The euro was stronger against the dollar (+0.3%), trading at around 1.07. The banking sector was up (+1.1%) with Italian banks outperforming on reports that bank's windfall taxes are being evaluated. Separately, the ECB is set to remove a capital surcharge on some banks that have addressed weaknesses in their leveraged finance business, according to the ECB Supervisory Board Chair Andrea Enria. Enria did not specify the names of any banks that could be involved, according to Bloomberg. Sovereign yields were mostly edging higher (10y bund +2bps to 2.63%), with analysts pointing to hawkish signals from Bank of Japan Governor. Southern spreads were little changed, with some analysts expecting a limited tailwind from Greece's rating upgrade to Investment Grade by DBRS Morningstar.

The European Commission (EC) now sees lower 2023 growth. The EC presented their Summer 2023 Economic Forecast today, which showed a lower 2023 growth forecasts for the euro area (0.8%, from an earlier forecast of 1.1%). Inflation forecasts were revised lower, with the 2023 inflation now forecast at 5.6% in 2023 (from previously estimated 5.8%) and at 2.9% in 2024 (from previously estimated 2.8%). A separate data release this morning showed **Italy's industrial production in July declining more than expected** (-2.1%/y/y versus expected -1.8% from -0.7%).

Euro net long positions decreased for the third consecutive week. Hedge funds have reportedly reduced their net euro long positions by 90% over the past month as speculation mounted that the ECB would not hike rates at their meeting on Thursday, according to Bloomberg. Analysts comment that hedge funds have turned more bearish on the euro and generally bullish on the US dollar on the back of weakening euro area survey data, while inflation remains persistent, together with concerns over energy prices and China's economic growth outlook. The euro has depreciated by roughly 5% since mid-July. **The ECB's meeting this week continues to be seen as a close call.**

Euro Optimism Is Fading Fast Analysts revise down euro forecasts on gloomier outlook



Japan

Bank of Japan (BoJ)'s hawkish signals fueled market expectations for a policy shift. Over the weekend, Governor Ueda stated in an interview that ending the BoJ's negative interest rate policy is among the options available if the BoJ is confident that prices and wages will keep going up sustainably. He added that BoJ may have enough information by the year-end. Analysts interpreted Ueda's comments as an attempt to support the yen. **The yen appreciated +0.7% and the 10-year bond yield rose by +5 bps to 70 bps. Japanese stocks were little changed on the net;** Japanese bank stocks rallied with the nation's biggest lenders gaining more than 4% on expectation that rising interest rates will boost profits, but this was offset by declines in real estate stocks.

USD/JPY Drops After Ueda Comments



Emerging Markets

[back to top](#)

Equity markets in EMEA were mixed with currencies mostly trading stronger against the dollar. Equities in Egypt (-1.5%) were underperforming while those in Serbia (+1.9%) gained. CEE currencies were mostly trading weaker against the euro, with losses led by the Polish zloty (-0.6% to 4.64/€). **Asian equities were mixed, up +0.3%** on the net. Chinese stocks led the gains (+0.7%), bolstered by stronger than expected credit demand release. India continued to rally (+0.6%), Vietnam lost -1.4%. **Asian currencies appreciated.** The renminbi strengthened (offshore +0.8%, onshore +0.7%), followed by the Singapore dollar (+0.4%). 10-year bond yields increased moderately, with Taiwan POC buckling the trend (-11bps). **Thailand's** new PM Srettha Thavisin announced a \$16bn cash handout plan to spur domestic demand and investment, and stated that the government will soon cut energy prices and offer a debt moratorium to farmers and small businesses battling loan burden as well. **Malaysia's** Prime Minister Anwar announced that Malaysia will broaden its tax base, a hint that additional taxes may be on the horizon. **ASEAN** nations attracted a record-high 17% of the world's foreign direct investments in 2022, HSBC found. The funding went mainly into tech in Singapore, Malaysia and Vietnam, and the electric-vehicle sector in Indonesia and Thailand. In a separate study, the analysts showed Malaysia and Indonesia are the top destinations of companies seeking to enter a new market in Southeast Asia. Meanwhile, ASEAN (\$354.7bn) overtook the US (\$330.8bn) to become China's top export market in January-August this year, Maybank estimated. The new pecking order reflects structural shifts in global supply chains, with Vietnam rising in importance as a processing node for China-based manufacturers and now holding 25% share. **Latin American stocks and currencies ended last week mixed.** Equities in Colombia (+0.55%) gained on Friday, while equities in Argentina (-2.82%), Brazil (-0.52%), and Chile (-0.28%) experienced losses. The Colombian peso (+0.38%) was the only currency in the region to appreciate, while the Chilean peso (-1.3%) notably depreciated following lower than expected August CPI print.

EM Fund Flows

EM bond and equity fund outflows eased from the week prior. EM bond funds experienced outflows of -\$1.1 bn, down from -\$1.6 bn the week prior. The decline in bond outflows can be attributed to the fall in hard currency fund outflows (-\$484 mn from -\$1.4 bn) partially offset by an increase in local currency outflows (-\$597 mn from -\$197 mn). Regionally, both EM ex China (-\$194 mn) and China focused funds (-\$404 mn) saw local currency outflows, while both Asia ex-Japan (-\$151 mn) and general EM funds (-\$333 mn) witnessed hard currency outflows. The decline in equity fund outflows could be seen by ETFs (-\$8mn from -\$479 mn) and non ETFs (-\$476mn from -\$1.1 bn). At the regional level, Latam (-\$240 mn) and Asia ex-Japan (-\$108 mn) saw outflows while EMEA (+\$12 mn) had marginal inflows.

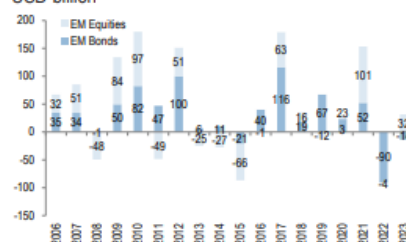
Figure 1: Weekly cross-asset flows

USD billion

Asset	Sur flows (8 w ago - current)	This wk	YTD
EM Bonds and Equities		-1.6	17.7
EM Bonds		-1.1	-16.1
Hard Ccy		-0.5	-12.8
Local Ccy*		-0.6	-3.3
o/w EM ex China		-0.2	-1.5
o/w China		-0.4	-4.7
EM Equities		-0.5	-31.8
US HC		1.5	228.1
US HY		0.3	-1.2
Global Equities		-1.3	-66.7
EM Bond and Equity ETFs		-0.2	36.8
EM Bond ETFs		-0.2	8.1
EM Equity ETFs		0.0	38.9
Non-resident EM flows ¹		0.0	30.3

Figure 2: EM bond and equity fund flows

USD billion



¹High frequency non-resident EM portfolio flow data where available. ²Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

China

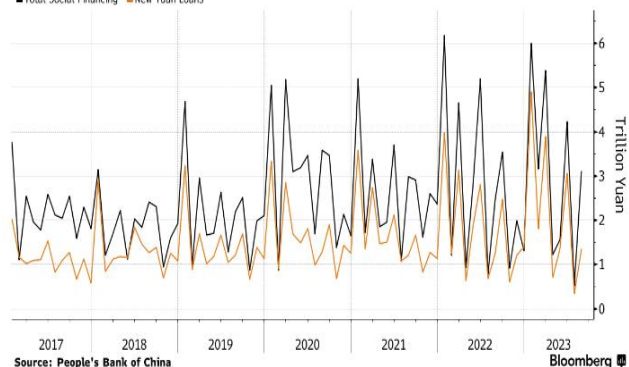
China warned against yuan speculations.

Peoples Bank of China (PBOC) said it will take action to correct one-sided moves in the market, after the onshore Renminbi fell to a 16-year low last week. It also continued to set strong yuan fixing with a negative error at -1294 bps breaking a new record low, while state-owned lenders were reportedly actively selling dollars. **PBoC's incentive to defend 7.3 seems strong**, according to J.P. Morgan. Analysts believe PBoC will use various approaches to pre-emptively defend yuan ahead of holiday period (e.g., counter-cyclical factor in daily fixing, measures to affect offshore liquidity, macro-prudential measure, window guidance or other communication). Separately, **China's credit demand exceeded expectations in August**, and CPI inflation picked up to +0.1%/y (July: -0.3%). The renminbi strengthened (offshore +0.9%, onshore +0.7%), and Chinese stocks rose +0.7%.

China's Credit, New Loans Beat Expectations

Financing activity adds to recent better-than-expected economic data

■ Total Social Financing ■ New Yuan Loans



Source: People's Bank of China

Bloomberg

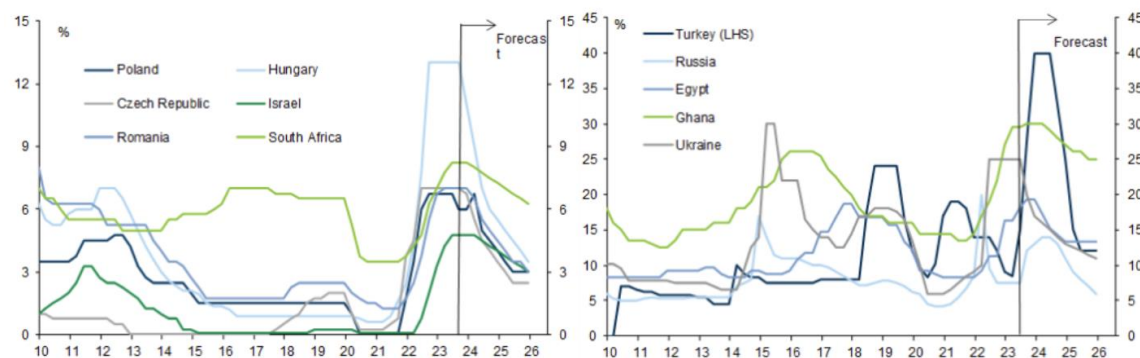
CEEMEA

Policy rates are expected to diverge significantly in Central & Eastern Europe, Middle East and Africa (CEEMEA) in the coming 12 months against a backdrop of mixed inflation dynamics. Goldman Sachs analysts highlight that headline inflation has eased across most of CEEMEA on the back of strong base effects. However, the inflation outlook in the region is not uniform, with exchange rates highlighted as another significant factor. Analysts highlight that in the first half of 2023, FX strength in central and eastern Europe is weighing on inflation, while significant FX weakness in Türkiye, Russia, Nigeria, Egypt and Ghana is pushing up inflation. Analysts now see a sharper easing in CEE-4 policy rates through next year and also

now expect the first rate cut in the Czech Republic in Q4 this year (previously seen in Q1 2024). Analysts, however, argue that the 75bps cut in Poland last week was premature. However, analysts expect further tightening in Türkiye, Russia, Egypt and Ghana.

Exhibit 10: Lower Rates in the CEE in 2024, Further Tightening in Russia, Turkey, Egypt and Ghana

GS policy rate forecasts (%)

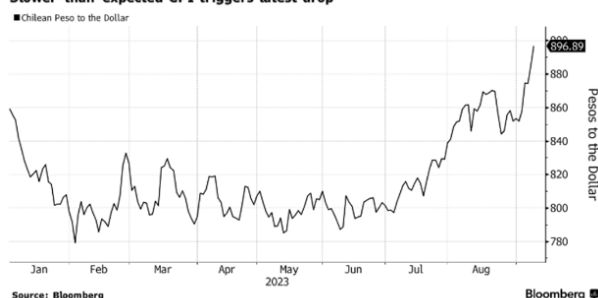


Source: Goldman Sachs Global Investment Research, Haver Analytics

Chile

Chilean peso depreciates after lower than expected August CPI print. August headline CPI declined to 5.3% y/y (expected 5.6% y/y) from 6.5% y/y in July, increasing 0.1% m/m (expected 0.4% m/m). Core CPI continued to fall to 7.4% y/y from 8.5% y/y in July. Chilean stocks dropped (-0.28%) and the peso depreciated (-1.3%) last Friday after the early morning release. Disinflation continues after 175 bps of rate cuts over the last two meetings, opening the door for further rate cuts. Central bankers predict inflation will return to target of 3% in 2H24, although a depreciating peso could offset falling prices, due to import costs becoming more expensive. The peso has been pushing year-to-date lows, with falling copper prices exacerbating the recent depreciation.

Chile's Peso Falls to Another Low for the Year Slower-than-expected CPI triggers latest drop



Source: Bloomberg

Chile's Headline Annual Inflation Hits Lowest Since 2021 Core inflation remains stickier than headline reading













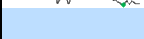



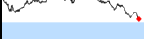
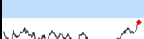






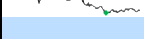
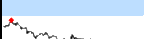


Source: Chile's National Statistics Institute

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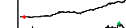


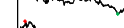



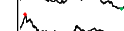


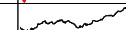

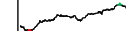

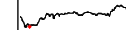











Global Financial Indicators

9/11/23 8:18 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4457	0.1	-1	0	10	16
Europe		4258	0.5	-1	-1	19	12
Japan		32468	-0.4	-1	0	15	24
China		3768	0.7	-2	-3	-8	-3
Asia Ex Japan		65	0.0	-1	-2	-1	1
Emerging Markets		39	0.2	-1	-2	-1	2
Interest Rates			basis points				
US 10y Yield		4.29	2.8	11	14	98	42
Germany 10y Yield		2.63	2.4	6	1	94	6
Japan 10y Yield		0.71	5.4	7	13	46	29
UK 10y Yield		4.47	5.1	1	-5	138	80
Credit Spreads			basis points				
US Investment Grade		146	-1.8	-1	-1	-21	-13
US High Yield		411	-4.4	-1	-18	-75	-69
Exchange Rates			%				
USD/Majors		104.68	-0.4	0	2	-4	1
EUR/USD		1.07	0.3	-1	-2	6	0
USD/JPY		146.9	-0.6	0	1	3	12
EM/USD		47.3	0.4	-1	-1	-6	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		90.4	-0.3	2	5	9	10
Industrials Metals (index)		142	1.0	-2	1	-7	-14
Agriculture (index)		66	0.0	-1	0	-4	-4
Implied Volatility			%				
VIX Index (%, change in pp)		14.2	0.3	1.1	-0.7	-8.6	-7.5
US 10y Swaption Volatility		103.7	0.0	1.8	-7.3	-24.8	-22.0
Global FX Volatility		8.3	0.0	0.2	0.0	-2.9	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		135	-0.5	0	7	-123	-70
Italy		175	1.5	4	12	-57	-39
Portugal		73	-0.3	-1	2	-32	-28
Spain		105	0.8	1	3	-11	-5

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

Emerging Market Financial Indicators

Last updated: 9/11/2023 8:19 AM	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		7.30	0.7	-0.3	-1	-5	-5		2.7	-1.5	4	4	0	-33
Indonesia		15325	0.0	-0.6	-1	-3	2		6.6	5.3	22	27	-56	-34
India		83	-0.1	-0.3	0	-4	0		7.7	9.0	14	20	26.5	28
Philippines		57	-0.1	-0.1	-1	0	-2		5.9	0.0	2	-21	31	-7
Thailand		36	0.0	-0.8	-1	2	-3		3.1	4.0	14	26	31	44
Malaysia		4.67	0.1	-0.4	-2	-4	-6		3.9	1.4	3	3	-18	-18
Argentina		350	0.0	0.0	-19	-60	-49		122.4	365.8	545	3075	4432	3423
Brazil		4.99	-0.1	-0.7	-2	5	6		11.5	-2.5	20	54	-19	-110
Chile		896	-1.3	-5.0	-4	-2	-5		5.3	0.0	-1	1	-125	-1
Colombia		4024	0.4	1.0	1	9	21		8.5	7.5	25	51	-129	-132
Mexico		17.54	0.3	-2.0	-3	13	11		9.0	1.5	20	44	32	29
Peru		3.7	-0.2	-0.6	0	4	2		6.9	-7.5	12	25	-134	-104
Uruguay		38	-0.3	-1.3	0	7	5		9.3	0.3	9	29	-202	-137
Hungary		358	0.6	-1.1	-2	10	4		6.9	0.0	17	-6	-250	-266
Poland		4.33	-0.3	-4.3	-6	7	1		4.5	-2.5	-17	-24	-121	-160
Romania		4.6	0.3	-0.9	-2	5	0		6.6	-1.3	5	0	-145	-111
Russia		96.4	1.6	0.1	3	-37	-23							
South Africa		18.9	1.1	0.8	0	-9	-10		9.4	-3.5	-4	5	46	24
Turkey		26.87	-0.1	-0.4	1	-32	-30		24.7	86.0	215	403	1328	1482
US (DXY; 5y UST)		105	-0.4	0.4	2	-4	1		4.42	1.4	12	12	98	41

	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	
								basis points					
China		3768	0.7	-2	-3	-8	-3		182	-3	-5	-21	5
Indonesia		6963	0.6	0	1	-4	2		129	5	6	-47	-11
India		67127	0.8	2	3	12	10		140	-1	3	-21	-2
Philippines		6234	0.2	0	-3	-6	-5		104	6	5	-25	7
Thailand		1541	-0.4	0	0	-7	-8		0	0	0	0	0
Malaysia		1455	0.0	-1	0	-3	-3		97	-1	4	0	-3
Argentina		532550	-2.8	-16	11	268	164		2163	67	141	-180	-42
Brazil		115313	-0.6	0	-2	3	5		231	2	-1	-64	-43
Chile		5869	-0.3	-2	-6	5	12		127	6	8	-46	-5
Colombia		1069	0.6	-1	-7	-13	-17		340	17	19	-72	-32
Mexico		52505	0.0	-1	-1	12	8		356	-3	-9	-58	-25
Peru		22751	-0.1	-2	-3	16	7		155	11	7	-36	-25
Hungary		57295	0.8	3	2	40	31		195	3	4	-34	-27
Poland		66741	0.3	-2	-5	32	16		125	8	11	95	52
Romania		13934	1.0	4	7	17	19		215	11	17	-86	-40
South Africa		74213	0.8	-2	-4	8	2		375	-4	9	-57	8
Turkey		8353	0.3	3	8	137	52		390	-1	-12	-226	-50
Ukraine		507	0.0	0	0	-2	-2		3325	-82	-294	-555	-754
EM total		39	0.8	-1	-2	-1	2		378	5	6	-47	3

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

[back to top](#)