



- US August CPI print comes in higher than expected in advance of central bank meetings ([link](#))
- Markets scale up ECB hiking expectations ahead of the ECB meeting ([link](#))
- Brent crosses \$92 per barrel mark spiking inflation fears ([link](#))
- Pound touches 3-month low after softer than expected UK GDP data ([link](#))
- Economists believe Chile will cut interest rates by 75 bps in October ([link](#))
- “Long and variable lags” might be around the corner according to the Fed paper ([link](#))
- **Special Feature: EM & Frontier Markets Issuance Monitor** (attached)

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US CPI inflation for August comes in slightly higher than expected

US CPI inflation for August came in slightly higher than expected at 3.7% y/y versus 3.6% surveyed. While a rate hike for next week’s FOMC meetings is close to priced out (7%), the higher reading is seen to increase the odds of a rate hike later this year. A Bloomberg article suggests that upward inflation surprises could threaten the relatively high-duration technology stocks in particular. **Technology stocks have seen relatively strong gyrations over the past weeks, and have been driving volatility in equity markets.** Yesterday, the NASDAQ 100 index lost 1.4% after disappointing earnings results from Oracle, in addition to a not-so-well received product presentation by Apple. Last week, technology stocks underperformed on the back of concerns about the semiconductor woes between the US and China, followed by a short-lived rebound on Monday driven by investor enthusiasm about Tesla’s development of a supercomputer. While the technology sector has boosted US and global equity markets this year, more recently it is also a source of volatility. The sector’s weight—and thereby impact—in the broad S&P 500 index, has grown to 30%.

Key Global Financial Indicators

Last updated: 9/13/23 8:53 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4462	-0.6	-1	0	13	16
Eurostoxx 50		4201	-1.0	-1	-3	17	11
Nikkei 225		32707	-0.2	-2	2	18	25
MSCI EM		39	-0.3	-1	-1	2	3
Yields and Spreads			bps				
US 10y Yield		4.30	2.2	2	15	89	43
Germany 10y Yield		2.68	3.8	3	6	95	11
EMBIG Sovereign Spread		422	3	5	23	-58	-30
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.5	0.0	1	-1	-5	-5
Dollar index, (+) = \$ appreciation		104.8	0.1	0	2	-5	1
Brent Crude Oil (\$/barrel)		92.7	0.7	2	7	-1	8
VIX Index (% change in pp)		14.6	0.4	0	0	-13	-7

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

Mature Markets

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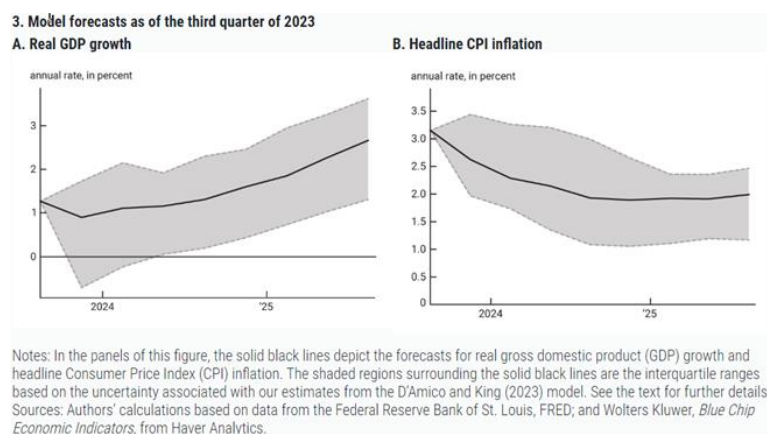
United States

US CPI inflation for August came in slightly higher than expected. As markets await a string of central bank meetings, including the FOMC meeting next week, the inflation print came in at 3.7% y/y versus 3.6% surveyed, up from 3.2% in July. Treasury yields showed some volatility after the release in the thin early morning market, and the S&P 500 is set to open lower, with futures trading at -0.3%.

Event	Month	Survey	Actual	Prior (July)
CPI m/m	Aug	0.60%	0.6%	0.20%
CPI Ex Food and Energy m/m	Aug	0.20%	0.3%	0.20%
CPI y/y	Aug	3.60%	3.7%	3.20%
CPI Ex Food and Energy y/y	Aug	4.30%	4.3%	4.70%

Source: Bloomberg L.P.

“Long and variable lags” may be around the corner according to a Chicago Fed paper. A recent Chicago Fed Letter by D’Amico and King attempts to estimate the economic effect of the “long and variable lags” from the monetary tightening that has occurred to date. According to their model, a substantial impact has already been felt on GDP and CPI but the full tightening effect on the labor market will take slightly longer to manifest. They forecast that with the current monetary policy stance, inflation will return to target by mid-2024. Their model explicitly accounts for economic expectations and forward guidance and suggests that the effects of monetary policy may have shorter lags than some might think.



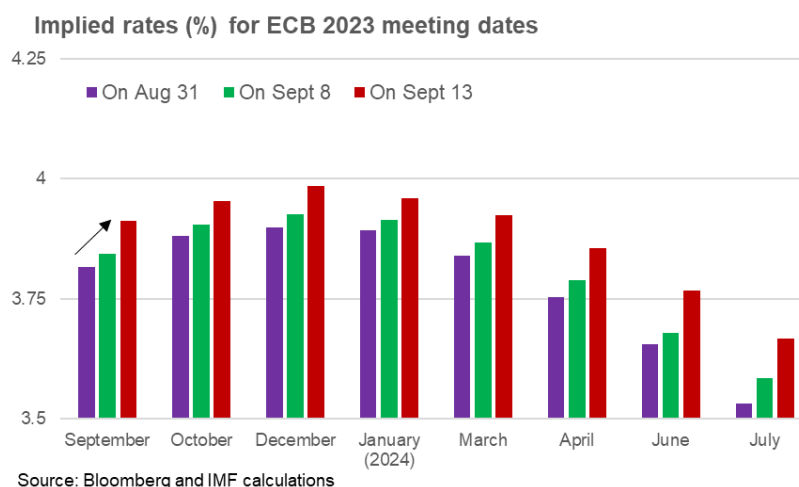
Source: “Past and Future Effects of the Recent Monetary Policy Tightening” by Stefania D’Amico and Thomas King, Chicago Fed Letter, No. 483, September 2023, Federal Reserve Bank of Chicago

Euro Area

European equities were trading in the red with the STOXX 600 Europe index down -0.8%. Most sectors showed declines, but the banking sector (+0.3%) outperformed. Sovereign yields were edging higher (10y bund +4bpt to 2.68%) while the euro weakened against the dollar (-0.2%), trading at around 1.074. On the data front **industrial production data for the euro area disappointed in July** (-2.2% y/y versus expected -0.3% from a revised -1.1%).

Ahead of the ECB meeting tomorrow, markets have scaled up ECB hiking expectations following a media report that the ECB would likely increase its 2024 inflation forecast to above 3%. Markets are now pricing in roughly 17bps of tightening for the upcoming ECB meeting (compared to 10bps at the start of the week) and roughly 24bps of tightening by the end of the year. A Reuters article yesterday, quoting an ECB source, noted that the new ECB staff projections which are set to be released tomorrow, will

reportedly forecast CPI above 3% in 2024, compared to expectations of 2.7%. The ECB source reportedly also said that the decision for tomorrow's meeting remains a "close call" and that "formal proposals for the meeting had not yet been presented". Contacts question the timing of the article.



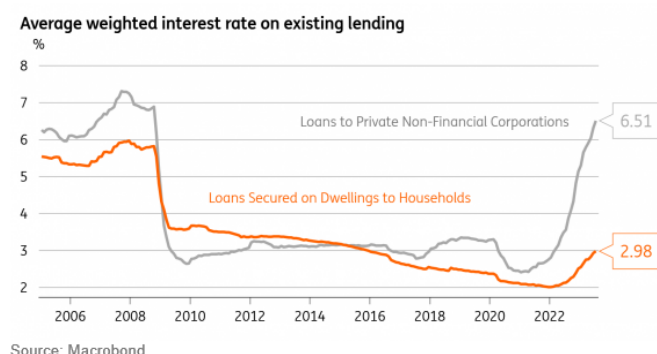
United Kingdom

The pound fell to a three-month low after July GDP came in weaker than expected.

UK GDP contracted by -0.5% m/m in July, a steeper decline than the expected -0.2% contraction, and down from +0.5% in June. Goldman Sachs have revised their 2023 growth forecast downward to +0.3% (from +0.5%), and analysts at Morgan Stanley expect the BoE to downgrade their Q3 2023 projections at the MPC meeting next week. ING analysts see the economy flatlining in the coming quarters, but also see the possibility of a mild recession.

Analysts highlight that while corporates are already experiencing the full effect of higher rates, for households the average rate of paid on outstanding mortgages is still expected to increase to more than 4% in 2024 and act as a drag on consumer spending. While ING analysts generally still expect the BoE to deliver a final hike at the MPC meeting next week, some contacts note that this it is looking somewhat less certain. The pound weakened to a three-month low against the dollar but retraced some losses in later trade to trade roughly -0.2% lower at around 1.246.

Corporates have felt the impact of higher rates more quickly than households



Japan

PM Kishida's revamped cabinet retained core economic team. Out of 19 ministers, Kishida selected 11 new faces. Finance Minister Suzuki, Chief Cabinet Secretary Matsuo and Industry Minister Nishimura kept their positions. More women joined the cabinet. Yoko Kamikawa, former Justice Minister, was named foreign minister. Nomura noted that expectations of early elections in October could increase if the Kishida administration's approval rating were to improve sufficiently. Separately, **producer price inflation decelerated to 3.2% in August** (consensus: +3.3%; previous: +3.6%) despite slightly higher pace in monthly terms +0.3% (previous: +0.1%). **Equities and 10-year government bond yields were little changed, the yen weakened -0.1%.**

Commodities

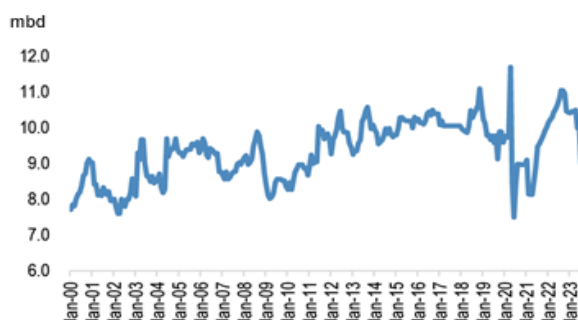
The Brent active futures contract crosses \$92/barrel drawing inflation fears. The extension of Saudi Arabia's 1 million barrel a day (mb/d) cut together with Russia's continued 300k barrel cut has finally moved the needle and driven the price of Brent comfortably over \$90/barrel (\$92/b). JP Morgan (JPM) analysts believe this rally to be short-lived as a weaker demand into 4Q23 and a slight surplus in US supply should soften the impact. **The direct impact of higher oil prices on inflation, through energy bills, may only take a few weeks to take effect.** Morgan Stanley (MS) thinks that in addition to this direct effect, the indirect channel, through input prices for businesses, takes around 6 months to show fully in producers' prices, and another 6 months before it completely translates into higher consumer prices. Subsequently, there may be second round effects. MS estimates that if Brent prices would consistently be \$30 above their \$80 forecast (per barrel), euro area inflation could be around 20bps higher in 2023 and 85bps in 2024.

Figure 2: OPEC and Russia spare capacity



Source : S&P Platts, J.P. Morgan Commodities Research

Figure 3: Saudi Arabia crude oil production



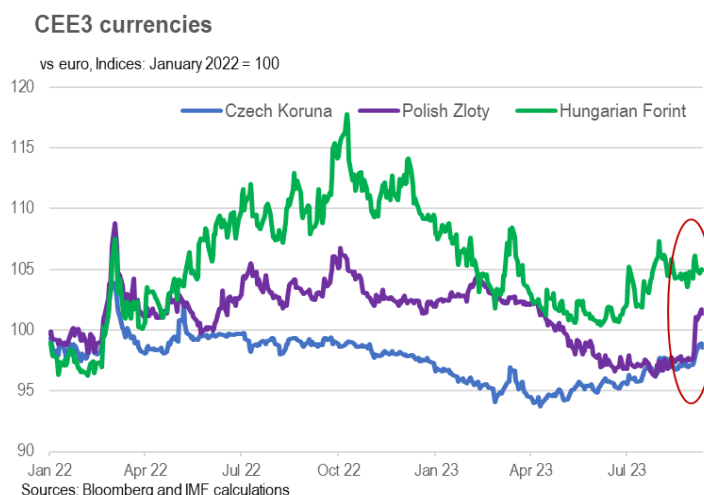
Source : OPEC, various media sources

Emerging Markets

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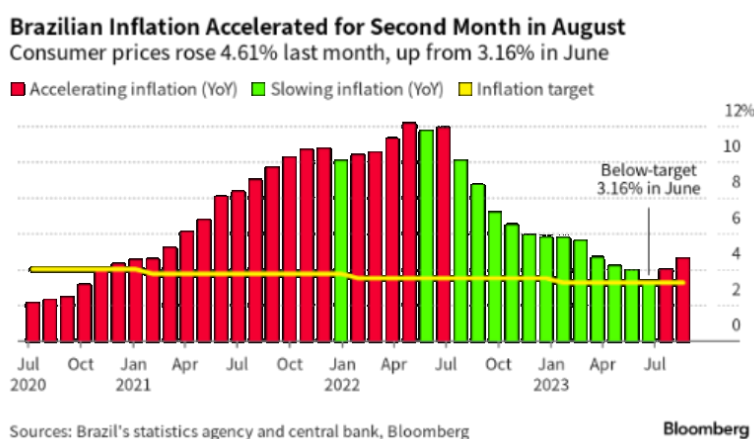
EMEA currencies mostly weakened against the US dollar. Equities in South Africa (-1.6%) were underperforming. CEE currencies were mostly trading stronger against the euro. **Asian equities declined -0.2%** on net, dragged by technology sector. **Asian currencies were mixed.** The renminbi gained +0.1%, the Thai baht depreciated -0.3%. **10-year government bond yields were little changed.** **Sri Lanka's** yields declined -14bps however, with investors remaining focused on debt restructuring negotiations; on Tuesday, the government announced it had accepted 3.2 tn rupees (\$10 bn) of offers from superannuation funds. **South Korea's** Financial Services Commission stated it plans to strengthen oversight of borrowers' ability to repay and to tighten rules related to debt-service ratios to ensure borrowers get a robust review when applying for 50-year maturity mortgage loans. **Chinese stocks declined (Shenzhen -1.1%, Shanghai -0.5%), and the renminbi appreciated +0.1%.** **LATAM currencies closed Tuesday mixed while most equities gained ground.** The Mexican peso (+0.29%) and Colombia peso (+0.15%) appreciated, whilst the Brazilian real (-0.35%) and Chilean peso (-0.21%) depreciated. Equities rallied in most of the region led by Argentina (+3.75%), Colombia (+1.95%), and Brazil (+0.93%).

Weakening CEE currencies could see a slowing in policy easing plans. The Polish zloty has depreciated by roughly 2.9% since the central bank surprised markets with a larger-than-expected interest rate cut last week Wednesday. The Czech koruna has also depreciated since last week (-1.3%) with analysts expecting rate cuts later this year. Bloomberg notes that Hungary, Poland and the Czech Republic (CEE3) have led currency losses across EMs recently and contacts argue such currency losses could see central banks in the region becoming more cautious in the short-term when it comes to plans to ease rates. This morning the Polish zloty appreciated versus the euro (+0.4%), following follows comments from an aide to PM Morawiecki, who said that the currency has weakened beyond the optimal level and argued that the central bank should take the impact of its policy decisions on the exchange rate into consideration.



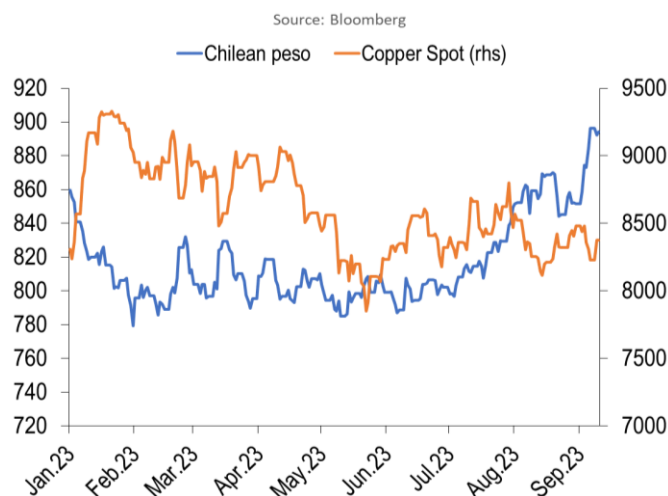
Brazil

Brazil CPI inflation in August came in slightly lower than expected. The inflation rate increased for the second consecutive month in August at 4.61% y/y versus 3.99% in July, but below the expected rate of 4.66% y/y. Equities (+0.9%) rallied and the real (-0.4%) depreciated against the US dollar. Analysts believe that the print will not change the central bank's plan, as it is expected to cut its policy rate by 50 bps at its meeting later this month. The lower-than-expected inflation print provides relief after economists raised their year-end 2023 and 2024 inflation forecasts earlier this week.



Chile

Economists believe the central bank will cut interest rates by another 75 bps in October. Chile's central bank survey of economists revealed policy makers are expected to cut rates to 8.75% from 9.5% at their next meeting, the second consecutive month with a 75-bps cut. The peso, down (-10.14%) over the past three months, presents a challenge for central bankers as they to continue to fight inflation, as a weaker currency increases import costs. The peso briefly crossed the 900 per dollar barrier earlier Tuesday morning, before retracing some of its losses. Inflation is forecasted to be 4% by the end of 2023, but the report was made before the peso reached these weaker levels, according to central banker Rosanna Costa.



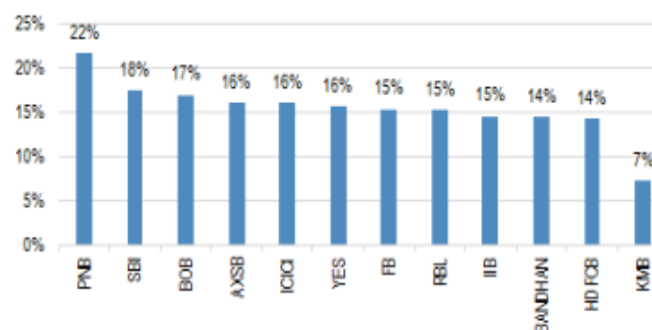
India

Reserve Bank of India (RBI) tweaked investment guidelines to better align them with global regulations.

On Tuesday, the RBI released directives on the classification and valuation of investment portfolios for Indian Banks applicable from April 2024 onwards. The guidelines prescribe the creation of buffers to absorb fluctuations in investment results and from valuation gains on available for sale securities. The revised rules also limit the amount of held-to-maturity assets that can be sold per year and require RBI's approval for reclassification. These

rules could reduce trading volume in longer-term bonds, whilst boosting demand for shorter-term bonds, according to traders surveyed by Bloomberg. 5-year bond yields fell as much as -8 bps to 7.16%, the most since May before paring slightly, on the news about RBI regulation. **Separately, India's headline inflation fell more than expected to +6.8% y/y in August** (consensus: 7.1%; previous: 7.4%). Analysts believed the softer inflation print may ease market concerns about more rate hikes in the short run. However, with inflation still well above the RBI's upper tolerance band of 6%, investors expect the central bank's expected "hold" in October to be a hawkish one.

Indian Banks - HTM to Total Assets



Source : Company Reports, J.P. Morgan. Data as on Mar-23.

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Jeff Williams (Senior Financial Sector Expert), and Benjamin Mosk (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

9/13/23 8:54 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4462	-0.6	-1	0	13	16
Europe		4201	-1.0	-1	-3	17	11
Japan		32707	-0.2	-2	2	18	25
China		3737	-0.6	-2	-3	-8	-3
Asia Ex Japan		65	-0.3	-1	-1	1	1
Emerging Markets		39	-0.3	-1	-1	2	3
Interest Rates			basis points				
US 10y Yield		4.30	2.2	2	15	89	43
Germany 10y Yield		2.68	3.8	3	6	95	11
Japan 10y Yield		0.71	0.2	5	13	47	29
UK 10y Yield		4.41	-0.4	-12	-12	124	74
Credit Spreads			basis points				
US Investment Grade		148	1.2	0	2	-15	-11
US High Yield		409	-0.7	-3	-5	-51	-71
Exchange Rates			%				
USD/Majors		104.79	0.1	0	2	-5	1
EUR/USD		1.07	-0.2	0	-2	8	0
USD/JPY		147.4	0.2	0	1	2	12
EM/USD		47.5	0.0	1	-1	-5	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		92.7	0.7	2	8	11	13
Industrials Metals (index)		142	-0.1	0	1	-9	-14
Agriculture (index)		66	0.2	-1	0	-5	-3
Implied Volatility			%				
VIX Index (%, change in pp)		14.6	0.4	0.2	-0.2	-12.7	-7.1
US 10y Swaption Volatility		121.5	0.0	11.5	2.8	-12.6	-4.2
Global FX Volatility		8.2	0.0	-0.1	-0.1	-2.8	-2.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		139	-1.1	2	11	-112	-66
Italy		179	3.2	4	16	-48	-35
Portugal		75	1.1	-1	3	-29	-27
Spain		107	1.4	2	6	-6	-2

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

Emerging Market Financial Indicators

Last updated: 9/13/2023 8:54 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		7.28	0.2	0.5	0	-5	-5		2.7	-4.1	-7	1	-6	-39
Indonesia		15370	-0.2	-0.5	0	-3	1		6.7	0.9	12	32	-46	-29
India		83	-0.1	0.2	0	-5	0		7.8	-2.0	15	20	27.8	32
Philippines		57	-0.1	0.4	0	0	-2		5.9	-5.0	-3	-3	26	-9
Thailand		36	-0.3	-0.7	-2	1	-3		3.1	6.0	11	34	44	52
Malaysia		4.68	0.0	-0.1	-1	-4	-6		3.9	2.0	4	6	-14	-14
Argentina		350	0.0	0.0	0	-59	-49		121.3	0.9	380	2815	4186	3314
Brazil		4.95	-0.3	0.5	0	3	7		11.4	-6.8	-8	14	-20	-121
Chile		889	0.6	-1.8	-4	3	-4		5.3	0.7	-16	-2	-133	-3
Colombia		3984	0.1	2.5	1	9	22		8.7	0.0	19	54	-111	-113
Mexico		17.25	-0.1	1.9	-1	16	13		9.1	0.0	4	44	41	39
Peru		3.7	-0.3	-0.4	0	4	3		6.9	-4.5	-4	18	-126	-111
Uruguay		38	-0.6	-1.2	-1	6	4		9.3	-8.2	-1	33	-199	-134
Hungary		358	0.1	1.5	-2	12	4		6.9	-4.0	-18	-29	-256	-275
Poland		4.30	0.7	-1.0	-5	10	2		4.7	5.7	-6	-12	-106	-140
Romania		4.6	-0.1	0.0	-2	7	0		6.6	0.0	-7	-7	-141	-114
Russia		95.9	-1.5	2.3	5	-38	-23							
South Africa		18.9	-0.1	1.4	1	-8	-10		9.5	2.8	2	5	49	36
Turkey		26.94	-0.1	-0.5	0	-32	-31		25.8	19.0	262	513	1433	1592
US (DXY; 5y UST)		105	0.1	-0.1	2	-5	1		4.45	1.6	3	14	87	44

	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		3737	-0.6	-2	-3	-8	-3		183	-1	1	-21	6	
Indonesia		6935	0.0	-1	0	-5	1		134	11	19	-37	-6	
India		67467	0.4	2	3	12	11		139	-1	5	-16	-3	
Philippines		6149	-1.3	-1	-3	-7	-6		109	11	18	-13	12	
Thailand		1535	-0.7	-1	0	-7	-8		0	0	0	0	0	
Malaysia		1454	0.0	0	0	-1	-3		96	0	4	-2	-4	
Argentina		538085	4.7	-10	12	276	166		2182	56	255	-129	-23	
Brazil		117968	0.9	0	0	6	8		232	3	9	-52	-42	
Chile		5886	0.1	0	-6	5	12		129	5	16	-36	-3	
Colombia		1084	2.0	4	-6	-12	-16		349	23	37	-30	-23	
Mexico		51860	-0.8	-2	-3	10	7		363	6	1	-41	-18	
Peru		22855	0.3	-1	-3	18	7		160	14	16	-19	-20	
Hungary		57284	-0.1	3	2	38	31		197	5	12	-15	-25	
Poland		66301	-0.4	-1	-6	32	15		128	17	21	100	55	
Romania		14107	0.1	5	8	18	21		217	14	26	-65	-39	
South Africa		72960	-1.5	-2	-5	7	0		377	-1	14	-18	10	
Turkey		8200	0.5	0	6	139	49		395	8	8	-173	-45	
Ukraine		507	0.0	0	0	-2	-2		3339	-99	68	-201	-740	
EM total		39	-0.4	-1	-1	2	3		383	8	24	-24	8	

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

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