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- ECB reportedly to start discussions on reducing excess liquidity ([link](#))
- Investors brace for earlier rate hikes in Japan ([link](#))
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Markets cautious as oil hits 10-month high ahead of key central bank meetings

The price of Brent crude hit \$95/barrel, the highest price since November, as the Saudi and Russian production cuts continue to squeeze markets. Oil prices are up almost 25% since their lows in June. This move has introduced a note of caution ahead of this week's key central bank meetings as investors worry that inflation could make an unwelcome return to the spotlight and push central banks towards a more hawkish stance. Markets are already beginning to price in tighter policy from the Fed and Bank of Japan. Nevertheless, equities in Europe posted modest gains and US equity index futures were also slightly higher this morning. Treasury and bund yields were up a few basis points and the major currencies were little changed although the euro posted modest gains versus the dollar. Volatility for both stocks and bonds remains low.

Key Global Financial Indicators

Last updated: 9/19/23 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4454	0.1	-1	2	14	16
Eurostoxx 50		4252	0.1	0	1	21	12
Nikkei 225		33243	-0.9	2	6	20	27
MSCI EM		39	-0.1	0	2	3	3
Yields and Spreads			bps				
US 10y Yield		4.32	2.0	4	7	83	45
Germany 10y Yield		2.71	0.4	7	9	91	14
EMBIG Sovereign Spread		420	5	1	-4	-85	-32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.6	0.2	0	0	-4	-5
Dollar index, (+) = \$ appreciation		104.9	-0.3	0	1	-4	1
Brent Crude Oil (\$/barrel)		94.7	0.3	3	12	3	10
VIX Index (% change in pp)		14.0	0.0	0	-3	-12	-8

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

Mature Markets

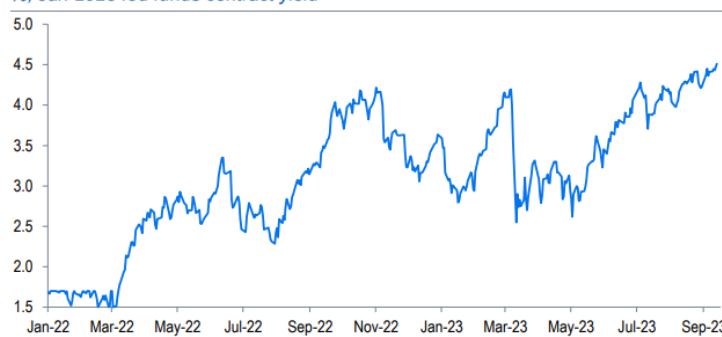
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United States

Markets are growing more bearish on Fed policy. Although the probability of another 25 bps rate hike in 2023 is almost priced out of the market, investors are beginning to position for a situation where rates remain high for longer than originally expected. For example, the predicted yield for the January 2025 Fed Funds contract has risen steadily. Earlier in the year, markets expected rate cuts by the end of the year and as many as five rate cuts in 2024. Currently, the futures market predicts three rate cuts next year. Some analysts expect that the new Fed dot plot due to be announced tomorrow will remove one of its predicted rate cuts for 2024. Overall, the forecast for tomorrow's FOMC meeting is for a hawkish hold. After this week, there are two remaining FOMC meetings for this year on November 1 and December 13.

Figure 1: Distant fed funds contracts hitting new rate peaks

% Jan 2025 fed funds contract yield

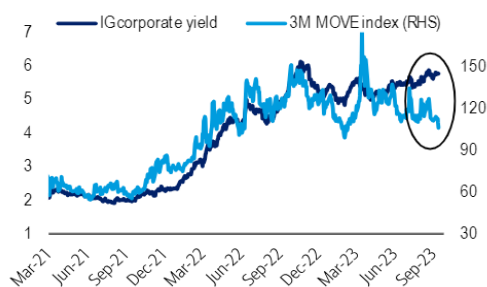


Source: Bloomberg, Standard Chartered Research

The US investment grade (IG) corporate bond markets is seeing strong demand, with many more buyers than sellers. Money has been flowing into the cash bond market as well as bond funds and exchange traded funds (ETFs). IG yields remain attractively high while interest rate volatility remains low by historical standards. Demand is expected to be bolstered by the usual seasonal slowdown in issuance as the year draws to a close. Expectations that Fed rate hikes may be close to an end are further boosting demand as investors strive to lock the high yields currently on offer in the IG bond market in the expectation that future yields will be lower.

Figure 2: High yields, declining risks

While IG corporate yields remain high, interest rate implied volatility has declined close to pre-SVB levels.

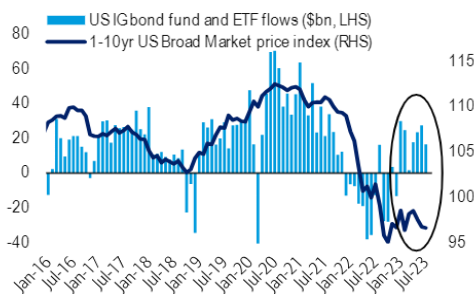


Source: Bloomberg

BofA GLOBAL RESEARCH

Figure 3: Robust inflows to HG bond funds / ETFs

Inflows to HG bond funds / ETFs have averaged \$20bn per month YtD despite flattish bond returns.



Source: BofA Global Research, EPFR Global, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

The US leveraged loan market is experiencing a surge in investor demand. The leveraged loan index is up 10% year-to-date, well ahead of high yield (HY) and investment grade (IG) corporate bonds. On average, tranches are trading at 96 cents to the dollar, the highest since May 2022. Demand is being driven by two factors. Leveraged loans are floating rate instruments, so rising interest rates make them more attractive. Secondly, many investors think the US economy is likely to be stronger than originally anticipated, so that defaults are likely to be lower than initial forecasts. The latest Bank of America investor survey found that almost 75% of all respondents expect that a recession will be avoided. The current situation is in stark contrast with the first half of the year, when lack of demand and worries about the economy brought the leveraged loan market to a halt.

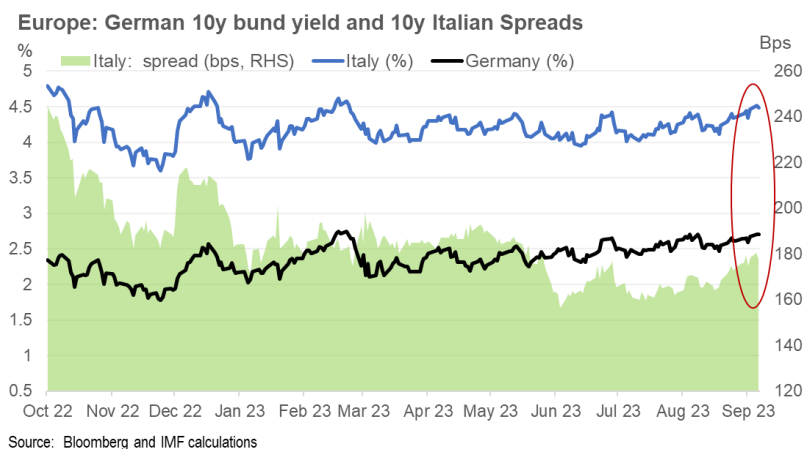
Leveraged Loans Thrash Bonds Amid Rush to Floating Rate US bank debt return exceeds 10%, outpacing corporate bonds



Euro Area

European equities were mostly edging higher ahead of the FOMC meeting tomorrow. The Stoxx 600 Europe index was up +0.2%, with most sectors trading in the green, retracing some of yesterday's losses when the Stoxx 600 index (-1.1%) saw its worse daily performance in over a month. Sovereign yields and the euro were little changed this morning. ECB Governing Council (GC) member Villeroi de Galhary said that the current level of rates is appropriate, adding that he cannot say how long they would remain at 'the plateau'. On the data front final CPI print for August was broadly in line with previous estimates, with core CPI unchanged at 5.3%y/y and final headline CPI marginally lower (5.2% y/y from the previously estimated 5.3%).

The euro appreciated on news that the ECB is reportedly planning to soon start discussions around reducing banks' excess liquidity, according to a Reuters report published yesterday. According to sources, discussions are set to focus on three areas, namely the amount of reserves banks must keep at the ECB; the unwinding of its bond-buying programmes; and a new framework for steering short-term interest rates. The euro ended yesterday +0.3% stronger against the dollar, and added to gains this morning to trade at around 1.07 against the dollar. Southern spreads widened yesterday (Italian 10y spread to 180bps), with analysts pointing to commentary related to the quicker asset run-down, but narrowed again (-3bps) this morning. Relatedly, the ECB's Survey of Monetary Analysts, that was conducted ahead of the ECB meeting last week, showed that the majority of analysts still expect PEPP reinvestments to continue until the end of 2024.

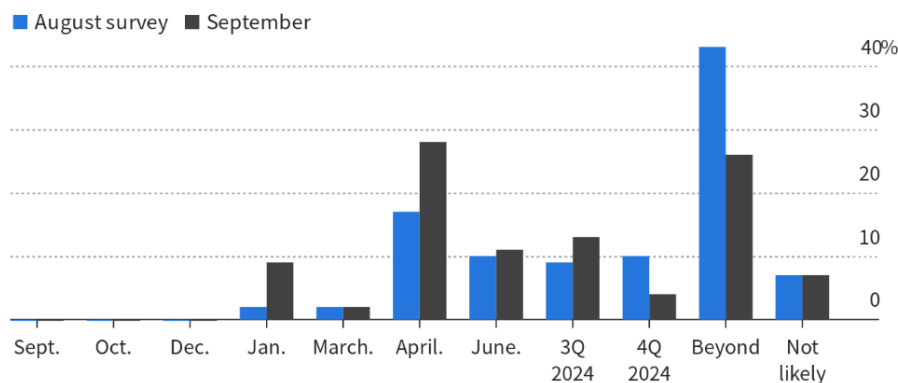


Japan

Market participants saw no monetary policy change this week but brought forward the timing of a rate increase. The Bank of Japan (BOJ) is expected to keep its monetary policy setting unchanged at the policy meeting on September 22. However, Governor Ueda's recent interview prompted market participants to bring their policy change forecasts forward, according to Bloomberg surveys. Some analysts expected that this week's policy meeting could provide some communication groundwork for the eventual scrapping of the negative interest rate policy. Long-end JGB yields were mixed (10-year: -0.2 bp; 30-year: +0.4 bp), with the 10-year yield touching 0.707%. The Japanese yen depreciated again (-0.1%) and is closing in on 148 versus the dollar. Japanese equities declined (NIKKEI: -1.2%), underperforming regional peers, ahead of major central banks' policy decisions which could be hawkish.

BOJ's Rate Hike Is Seen Coming Earlier

BOJ watchers bring forward their forecast for a rate increase



Source: Bloomberg survey

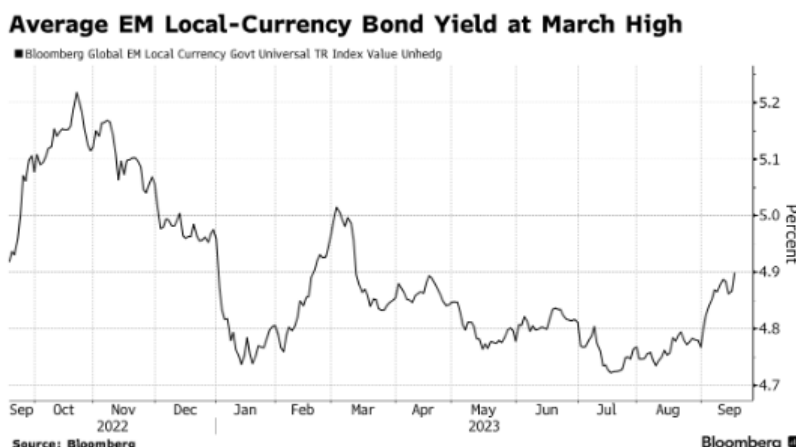
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Emerging Markets

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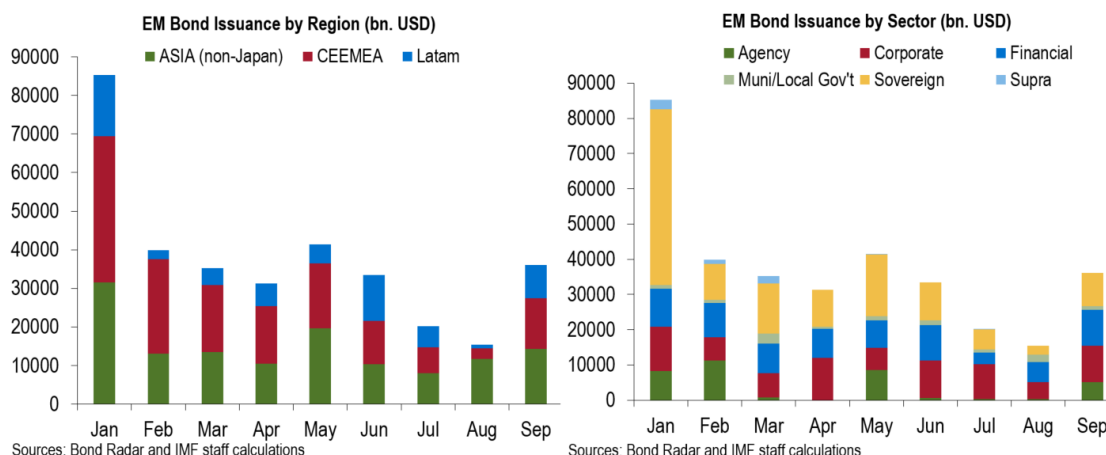
EMEA markets were trading in a narrow range ahead of key central bank meetings this week. The rand appreciated. **Most Asian markets were down overnight.** Local currencies were mixed. **Latin American assets saw small moves at the start of the week.** Chile was closed for a public holiday on Monday. The Brazilian Finance Ministry revised its 2023 economic growth projection upwards to 3.2% from 2.5%, citing a stronger than anticipated performance in the first half of the year and a robust services sector, while maintaining the 2023 Consumer Price Index (CPI) forecast at 4.85%.

Ahead of central bank decisions over the next two days, the yield on Bloomberg's EM local currency government index increased to levels last seen in March. Analysts noting that emerging market local currency bonds are pressured by high rates in the US, commodity price risks as well as EM currency weakness.



EM Bond Issuance

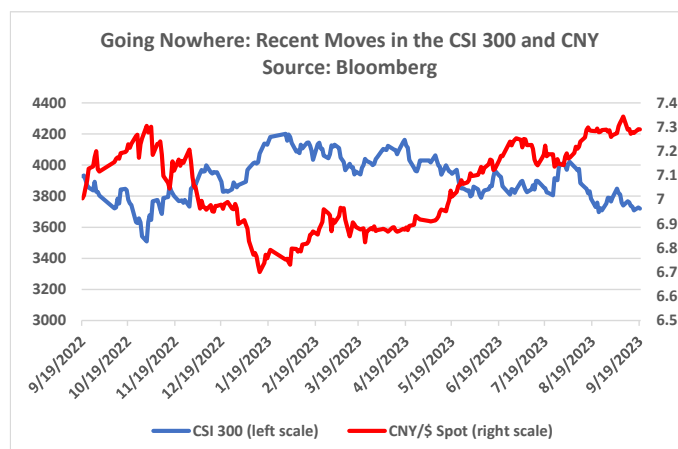
EMs sold \$15.8bn of bonds last week, 22% lower than the week before, of which \$7.0bn were sovereign bonds, \$5.3bn were corporate/financial bonds, \$2.5bn were agency bond and \$0.9bn were local government bonds. Romania, The Export-Import Bank of Korea, The Dominican Republic and Bangkok Bank were among the largest issuers with issuance of \$3.5bn, \$2.5bn, \$1.3bn and \$1.2bn, respectively. Most new issuances are fixed-rate bonds with maturity varies between 1 and 12 years. The weighted average yield is 6.18%. \$10.0bn of the new issuances are investment grade bonds and \$3.0bn are high-yield bonds. YTD total issuance now stands at \$338.0 bn.



China

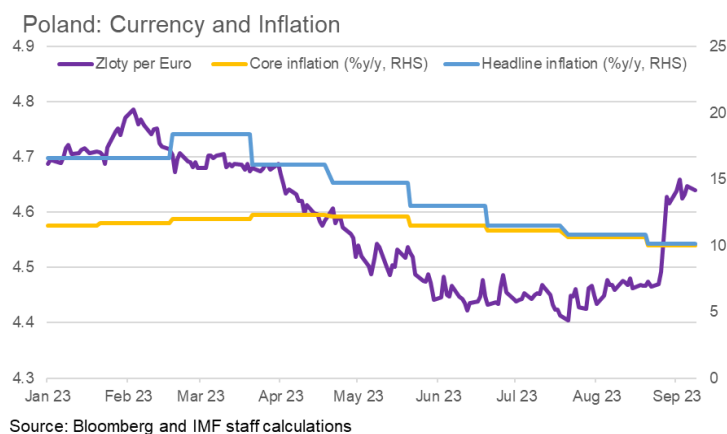
The renminbi depreciated 0.1% to 7.297 yuan per dollar. Today, the People's Bank of China (PBC) set the daily RMB fixing stronger than expected by 1,100 pips. Market participants think the PBC will remain aggressive in its efforts to stabilize the currency and prevent a sharp depreciation. In August, China saw an outflow of \$49 bn from the financial account, the largest amount since December 2015. Chinese equities declined (CSI 300: -0.3%). **Country Garden won creditors' approval to extend the repayment for an onshore bond maturing in October.** Reportedly, Country Garden had to offer some credit enhancements

to secure creditors' support after the voting was postponed few times. The benchmark CSI 300 equity index is among the worst performing major markets this year, while the renminbi is close to its weakest level since before the global financial crisis.



Poland

Analysts see inflation continue to ease up to mid-2024 but think inflation could then stabilize at around 5%. Data released yesterday showed core inflation easing to 10.0% y/y in August (versus the expected 10.1% from 10.6%), following an earlier release showing final headline inflation at 10.1%. ING analysts expect inflation to continue easing to below 9% by end-2023 but stabilize at around 5%, pointing to a number of factors could interrupt the downward trend. These include a higher-than-expected 2024 fiscal imbalance, the larger-than-expected recent cut in rates and the related weakening of the zloty, as well as commodity developments such as higher oil prices.



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), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Benjamin Mosk (Senior Financial Sector Expert), 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 Srjana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

9/19/23 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
United States		4454	0.1	-1	2	14	16
Europe		4252	0.1	0	1	21	12
Japan		33243	-0.9	2	6	20	27
China		3721	-0.2	-1	-2	-5	-4
Asia Ex Japan		65	-0.1	0	2	2	1
Emerging Markets		39	-0.1	0	2	3	3
Interest Rates					basis points		
US 10y Yield		4.32	2.0	4	7	83	45
Germany 10y Yield		2.71	0.4	7	9	91	14
Japan 10y Yield		0.72	0.3	1	8	46	30
UK 10y Yield		4.35	-4.2	-7	-33	121	68
Credit Spreads					basis points		
US Investment Grade		146	-0.6	-1	-3	-18	-13
US High Yield		409	3.1	-1	-21	-85	-71
Exchange Rates					%		
USD/Majors		104.91	-0.3	0	1	-4	1
EUR/USD		1.07	0.2	0	-2	7	0
USD/JPY		147.7	0.1	0	1	3	13
EM/USD		47.6	0.2	0	0	-4	-5
Commodities					%		
Brent Crude Oil (\$/barrel)		94.8	0.3	3	12	17	15
Industrials Metals (index)		142	-0.9	0	2	-7	-14
Agriculture (index)		66	0.0	0	0	-4	-4
Implied Volatility					%		
VIX Index (% change in pp)		14.0	0.0	-0.2	-3.3	-11.8	-7.7
Global FX Volatility		8.1	0.0	0.0	-0.5	-3.3	-2.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		142	-2.4	2	11	-115	-63
Italy		178	-2.5	2	7	-50	-36
Portugal		72	-2.0	-1	-2	-32	-29
Spain		106	-1.0	1	0	-9	-3

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

Emerging Market Financial Indicators

Last updated: 9/19/2023 8:04 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	
	vs. USD		(+) = EM appreciation						% p.a.						
China		7.29	0.0	0.0	0	-4	-5		2.7	0.0	3	18	-2	-32	
Indonesia		15380	-0.1	-0.2	0	-3	1		6.8	4.2	12	26	-44	-17	
India		83	-0.1	-0.3	0	-4	-1		7.8	0.0	1	9	19.3	35	
Philippines		57	0.2	-0.2	-1	1	-2		5.9	5.0	-10	-22	21	-14	
Thailand		36	-0.8	-1.0	-2	3	-4		3.2	7.3	15	25	24	60	
Malaysia		4.70	-0.1	-0.4	-1	-3	-6		3.9	0.1	3	4	-26	-14	
Argentina		350	0.0	0.0	0	-59	-49		114.2	-132.5	-711	632	3277	2602	
Brazil		4.85	0.2	2.1	3	7	9		11.4	1.7	6	-8	-39	-115	
Chile		888	-0.2	0.6	-2	4	-4		5.4	2.5	2	3	-124	2	
Colombia		3895	0.8	2.4	6	13	25		8.4	0.0	-23	16	-131	-136	
Mexico		17.08	0.3	0.9	0	17	14		9.0	0.0	-9	4	17	30	
Peru		3.7	0.2	-0.3	0	4	3		6.8	0.0	-1	-13	-134	-112	
Uruguay		38	0.0	0.0	-1	7	5		9.4	4.8	-5	21	-201	-130	
Hungary		358	0.3	0.1	-2	11	4		6.8	-7.0	-11	-80	-267	-282	
Poland		4.35	-0.2	-0.4	-6	8	1		4.7	-1.8	-4	-46	-135	-150	
Romania		4.6	0.2	-0.3	-2	6	0		6.6	3.6	6	-8	-140	-109	
Russia		96.2	0.4	-1.7	-3	-36	-23								
South Africa		18.9	0.4	-0.1	0	-7	-10		9.5	-4.5	0	-26	30	33	
Turkey		27.03	0.0	-0.4	0	-32	-31		27.2	-45.0	166	517	1561	1739	
US (DXY; 5y UST)		105	-0.3	0.2	1	-4	1		4.47	1.8	4	8	78	46	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)						Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
									basis points						
China		3721	-0.2	-1	-2	-5	-4		183	0	0	-16	6		
Indonesia		6980	0.6	1	2	-3	2		135	6	5	-48	-5		
India		67597	0.0	1	4	14	11		140	0	1	-23	-2		
Philippines		6048	-1.3	-3	-4	-6	-8		112	8	5	-26	15		
Thailand		1523	-0.3	-1	0	-7	-9		0	0	0	0	0		
Malaysia		1458	0.0	0	1	0	-3		98	1	0	-1	-2		
Argentina		585204	3.1	14	0	289	190		2188	13	60	-205	-17		
Brazil		118288	-0.4	0	2	6	8		230	0	-9	-68	-44		
Chile		6003	0.0	2	-2	9	14		128	1	0	-50	-4		
Colombia		1100	0.1	2	-3	-9	-14		333	-11	-1	-82	-39		
Mexico		51685	0.6	-1	-3	10	7		366	9	-13	-58	-15		
Peru		22935	-0.1	1	1	18	8		161	5	2	-49	-19		
Hungary		57714	0.1	1	3	43	32		193	-1	-8	-74	-29		
Poland		66287	-0.2	0	-3	32	15		127	2	10	104	54		
Romania		14287	0.8	1	12	25	22		209	-7	-4	-86	-47		
South Africa		74001	0.1	0	1	11	1		379	9	-13	-66	12		
Turkey		7732	0.7	-5	3	142	40		411	21	-2	-216	-29		
Ukraine		507	0.0	0	0	-2	-2		3218	-107	-248	-184	-861		
EM total		39	0.1	0	2	3	3		382	2	-2	-51	7		

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

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