



- Bank of England rate hike expectations scaled back after downside surprise in inflation ([link](#))
- Japan warns of currency intervention if yen depreciation continues ([link](#))
- Oil trading near 10-month high ([link](#))
- Local government issuance surges in China ([link](#))
- Mood remains optimistic in latest investor survey ([link](#))
- High yields attract foreign buyers to US corporate bond market ([link](#))

[Mature Markets](#)

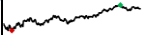

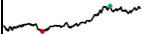







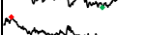
[Emerging Markets](#)

[Market Tables](#)

Markets face day of reckoning as Fed decision looms

The market mood was upbeat in early trading due to a lower than expected inflation print in the UK, which boosted hopes that the Bank of England might end its rate hike cycle. Euro area stocks were higher and US equity index futures posted small gains. However, all eyes remain on the Fed meeting to be held later today. Markets expect a hawkish hold from the Fed, with the updated dot plot being the main focus of attention. June's dot plot predicted another rate hike in 2023 and four rate cuts in 2024. Markets currently forecast that there will be three rate cuts in next year. A lot will depend on how the market interprets the latest FOMC statement and how investors react to Fed Chair Powell's press conference this afternoon. The situation is especially tense because US Treasury yields hit their highest level since 2007 yesterday, while bund yields were at their highest since 2011 and UK gilt yields were at their highest since 2009 on worries that high oil prices could reignite inflation. Market participants are worried that an unexpected result from the Fed could lead to renewed selloffs in stocks and bonds.

Key Global Financial Indicators

Last updated: 9/20/23 7:54 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4444	-0.2	0	2	15	16
Eurostoxx 50		4270	0.6	1	1	23	13
Nikkei 225		33024	-0.7	1	5	21	27
MSCI EM		39	-0.6	-1	1	3	3
Yields and Spreads			bps				
US 10y Yield		4.34	-1.6	9	9	78	47
Germany 10y Yield		2.72	-1.8	7	10	79	15
EMBIG Sovereign Spread		416	-4	-5	-8	-86	-35
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.6	0.1	0	0	-4	-5
Dollar index, (+) = \$ appreciation		105.0	-0.1	0	2	-5	1
Brent Crude Oil (\$/barrel)		93.7	-0.7	2	10	3	9
VIX Index (% change in pp)		14.1	0.0	1	-3	-13	-8

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

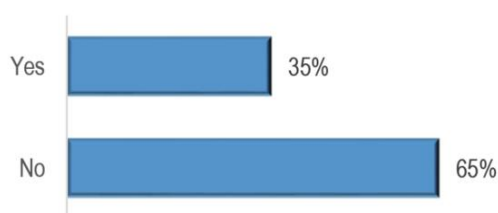
Mature Markets

[back to top](#)

United States

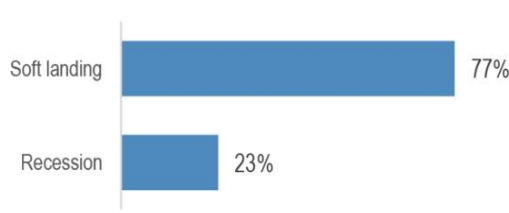
Investors remain optimistic despite the recent surge in oil prices and interest rates, according to the latest survey by JP Morgan. A solid majority think there will be no surprises from the Fed later today and an even larger majority thinks that the latest US jobs report is more indicative of a soft landing rather than a recession. However, less than 40% of investors have equity allocations of 50% or above. In addition, just 32% say they are ready to increase their exposures to equities. On the other hand, just 26% said they were more inclined to reduce their exposure to interest rate risk, suggesting that the majority are not worried about the recent increase in bond yields. The benchmark US 10-year Treasury yield at its highest level since 2007, along with the two-year and the five-year Treasury yields. The higher yields have attracted large inflows into the Treasury market in recent weeks.

Figure 4: Will the Fed change its median estimate of the long-run rate in the September FOMC meeting dots?



Source: J.P. Morgan

Figure 6: Was the August US payroll report more consistent with the soft landing or recession narrative?

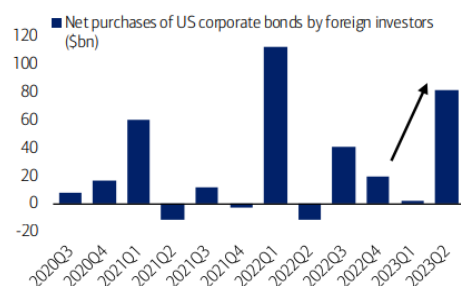


Source: J.P. Morgan

Higher yields are also attracting more foreign investors to the US investment grade (IG) corporate bond market. According to a recent study by the Fed, demand from foreign investors is near the strongest level in two years. Expectations that the Fed is about to end rate hikes and will begin rate cuts in 2023 make these bonds even more attractive, as lower rates in the future would result in substantial short term mark-to-market gains for investors who buy bonds at current yield levels. Both domestic and foreign investors have been enthusiastically buying the flood of new IG issuance, with demand so strong that issuers are able to launch deals with low new issue concessions (issuers traditionally a slight premium or concession to attract buyers so that they will buy the new deal rather than buy bonds from the secondary market). Demand has remained high despite the IG corporate bond index having done poorly this year, down 1% YTD according to Bank of America.

Figure 4: Stronger foreign demand

Foreign demand for US corporate bonds picked up in 2Q to some of the highest levels in two years, according to a Fed estimate.

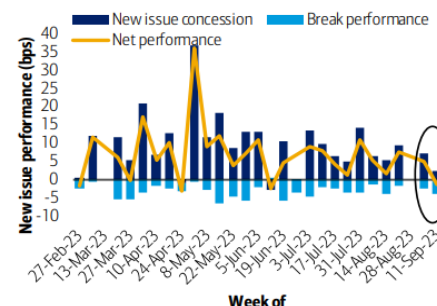


Source: Federal Reserve

BoFA GLOBAL RESEARCH

Figure 5: Strong new issue performance in September

The performance of new issues improved over the past two weeks despite a surge in new issue volumes.



Source: BofA Global Research

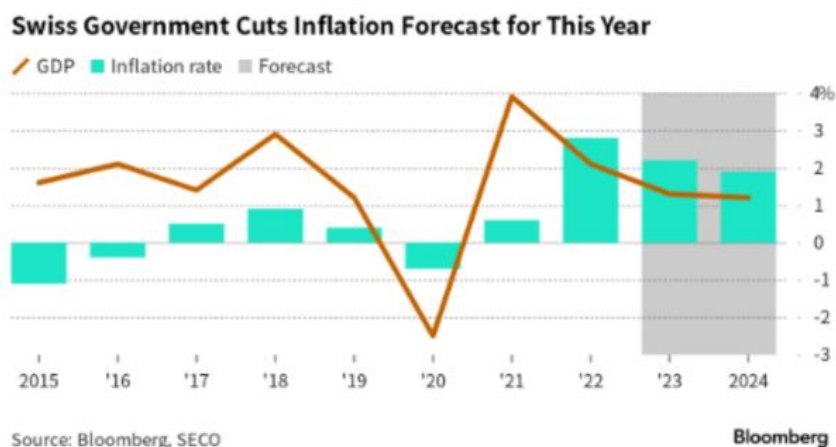
BoFA GLOBAL RESEARCH

Euro Area

European equities were trading in the green ahead of the FOMC meeting. The Stoxx 600 Europe index was up +0.5%, with most sectors trading in the green, and the real estate sector (+1.8%) outperforming. Sovereign yields were marginally lower, and the euro was slightly stronger against the dollar (+0.2% to 1.07). On the data front German PPI fell to -12.6%/y/y in August (versus expected -12.5% from -6.0%).

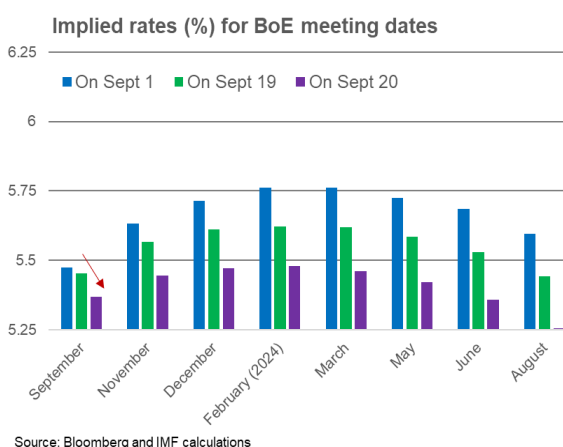
Switzerland

Expectations for a 25bps hike by the Swiss National Bank (SNB) tomorrow were reinforced by the government's new inflation forecasts. The State Secretariat for Economic Affairs (SECO) forecast 2023 inflation at 2.2%, marginally lower than the previous forecast in June (2.3%), but still outside of the SNB's inflation target range. SECO also cautioned that economic risks are substantial, arguing that the transmission of higher rates to the real economy could end up being stronger than currently assumed. Consensus forecasts are for the SNB to hike its policy rate by 25bps to 2%.



United Kingdom

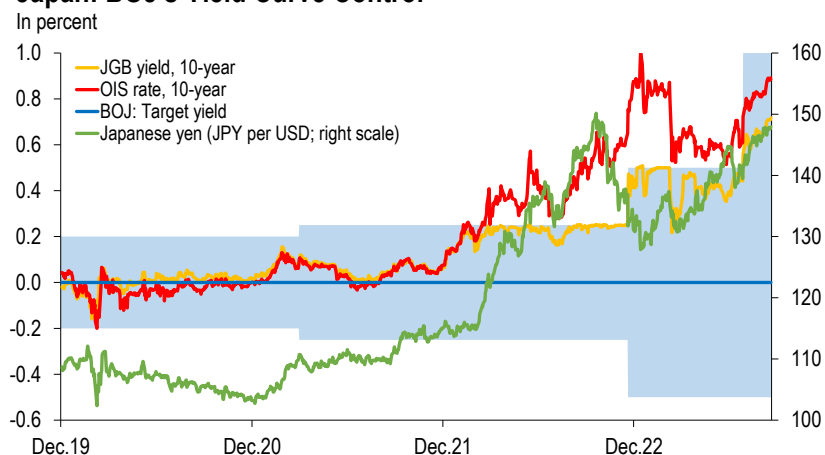
Gilt yields were sharply lower and the pound weakened as markets scaled back BoE hiking expectations following a major downside inflation surprise. Despite higher petrol prices, headline inflation unexpectedly eased to 6.7% y/y in August, while consensus had expected an increase to 7.0% from 6.8%. Moreover, core inflation eased more than expected to 6.2% y/y (versus expected 6.8% from 6.9%). Markets scaled back BoE hiking expectations—with roughly 14bps of tightening priced in for the BoE meeting tomorrow (compared to roughly 20bps priced in yesterday). Gilt yields fell sharply (10y yield -10bps; 2y yield -16bps) and the pound weakened against the dollar to levels last seen in May (-0.2% to 1.24). The FTSE 100 is up +0.8%, with the real-estate sector outperforming. Market forecasts for a 25 bps rate hike tomorrow are down to 40% from 80% yesterday.



Japan

Traders got fresh reminders that Japanese authorities may intervene in the FX market. Masato Kanda, Japan's top currency official, said that Japanese officials are keeping in close contact with US counterparts. Both sides agreed that excessive Japanese yen movements are unwelcome. Furthermore, US Treasury Secretary Yellen said that any intervention by Japanese authorities to support Japanese yen would be understandable if it aims at smoothing out volatility. These two remarks came ahead of the FOMC meeting (today) whose decisions may result in a large swing in Japanese amid expectations that the Bank of Japan will maintain its monetary policy setting at the policy meeting this Friday. Analysts noted that Yellen's comments gave Japanese authorities more leeway to intervene in the FX market. The Japanese yen depreciated to 147.9 yen per dollar. Japanese equities declined (NIKKEI: -0.8%).

Japan: BOJ's Yield Curve Control



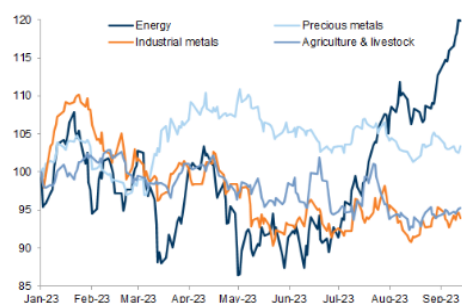
Sources: Bloomberg; and IMF staff calculations.

Commodities

The price of Brent oil surged to a 10-month high near \$95/barrel as Saudi and Russian production cuts squeeze the market, before pulling back slightly this morning. Worries are growing about the impact of higher oil prices on global inflation, as well as the global economy. Oil prices have become detached from other commodity prices, which are much more subdued. The options market for oil futures now assigns a higher probability of Brent remaining above \$90/barrel through the end of the year than it did in previous weeks. Risk assets have come under pressure as investor sentiment has weakened, while the two-year US Treasury Inflation Protected Security (TIPS) breakeven yield, a measure of short term inflation expectations, has gone up by 25 bps in September. On a more optimistic note, the 5, 10 and 30-year TIPS breakeven yields are up by lower amounts, suggesting that markets think any inflationary pressures will be short lived. Another positive sign is that the difference between the spot price of oil and later maturity oil futures is increasing, implying that markets think future oil prices will be lower than the current level.

Exhibit 1 : Oil has decoupled from other commodities over the summer

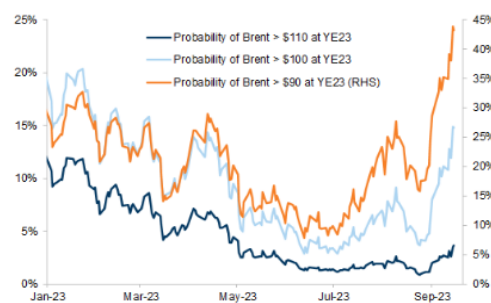
GSCI Total Return



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2 : Option markets are pricing a 45% probability of Brent staying above \$90/hbl by YE23

Probability of Brent > \$90/100/110 at YE23. Based on Jan-24 call spreads



Source: Bloomberg, Goldman Sachs Global Investment Research

Emerging Markets

[back to top](#)

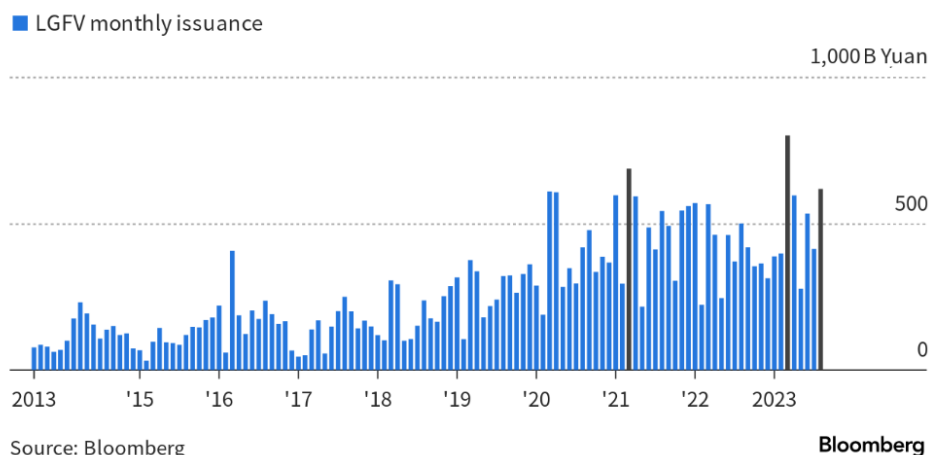
EMEA markets were mixed ahead of the FOMC meeting later today, with currencies mostly stronger against the dollar. Equities in Hungary underperformed (-0.4%) while those in the U.A.E gained (+1.1%). The Polish zloty was trading stronger against the euro (+0.3% to 4.65/€) after central bank governor Glapinski noted that the room for further interest rate cuts has narrowed. **Asia equity markets were trading lower while currencies appreciated against the dollar ahead of the FOMC decision.** Analysts point out that Asian markets have been subdued this week ahead of central bank decisions, while highlighting no further stimulus announcements from China as another possible headwind for markets. **Markets in Latin America were mixed, with stocks in Brazil and Peru down while Colombia and Mexico gained.** Currencies were also mixed. Chile remained closed for a second day.

China

Bond issuances by local government financing vehicles (LGFVs) surged in August. The onshore issuance of LGFV bonds amounted to 620 bn yuan (\$85 bn), making it the third highest monthly tally on record, as Chinese authorities took efforts to defuse risks from LGFVs. Market participants reportedly became more convinced that an LGFV bond default appears less likely in the coming few years as Beijing would step in to provide necessary support. **Meanwhile, Chinese companies are paying out record dividends in 2023** amid the weak stock market performance. Chinese authorities have encouraged firms to distribute more dividends to boost financial returns for investors, hoping that this could in turn help stem foreign fund outflows. Large firms' dividend payments have amounted to 1.5 tn yuan (\$206 bn) so far this year. **Fund managers rushed to reassure clients that a sharp pullback in the bond market is less likely now,** noting that it is too early to call an end of monetary policy easing in China.

Bond Bonanza

Chinese LGFVs saw strong debt issuance rebound in August



Colombia

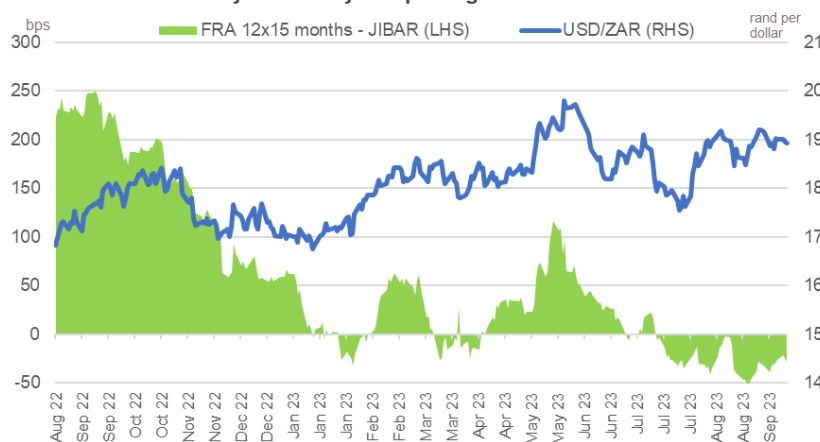
The Colombian peso reached a year-to-date high against the US dollar before pulling back slightly. It is as the world's top-performing major currency this year with 24.5% appreciation, nearly double that of its closest competitor, the Mexican peso. Additionally, the COP stands out by offering the highest one-month implied yield of 15.5% on forwards within the region, with implied volatility as high as 15.6%. The COP overnight index swap (OIS) swap curve also rose, especially around 10-year tenor.



South Africa

The rand and local currency bond yields were little changed after inflation data for August were largely in line with expectations, ahead of the central bank policy meeting tomorrow. Headline inflation increased marginally to 4.8% y/y (from 4.7%), as expected, while core inflation surprised marginally on the upside (4.8% y/y versus expectations to remain unchanged at 4.7%). The South African Reserve Bank is widely expected to keep the repo rate unchanged at 8.25% tomorrow. The South African rand was marginally stronger against the dollar (+0.1% to 18.92/\$).

South Africa - Currency and Policy rate pricing



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), Benjamin Mosk (Senior Financial Sector Expert), and Jeff Williams (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.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

9/20/23 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4444	-0.2	0	2	15	16
Europe		4270	0.6	1	1	23	13
Japan		33024	-0.7	1	5	21	27
China		3706	-0.4	-1	-1	-5	-4
Asia Ex Japan		65	-0.8	-1	1	2	1
Emerging Markets		39	-0.6	-1	1	3	3
Interest Rates			basis points				
US 10y Yield		4.34	-1.6	9	9	78	47
Germany 10y Yield		2.72	-1.8	7	10	79	15
Japan 10y Yield		0.73	0.9	1	9	47	31
UK 10y Yield		4.25	-8.9	-10	-42	96	58
Credit Spreads			basis points				
US Investment Grade		145	-1.1	-3	-4	-18	-14
US High Yield		408	-0.5	-1	-22	-81	-72
Exchange Rates			%				
USD/Majors		105.02	-0.1	0	2	-5	1
EUR/USD		1.07	0.2	0	-2	7	0
USD/JPY		147.9	0.0	0	1	3	13
EM/USD		47.6	0.1	0	0	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		93.7	-0.7	2	11	17	14
Industrials Metals (index)		143	1.0	0	3	-6	-13
Agriculture (index)		66	0.0	0	0	-6	-4
Implied Volatility			%				
VIX Index (% change in pp)		14.1	0.0	0.6	-3.2	-13.1	-7.6
Global FX Volatility		8.0	0.0	-0.2	-0.6	-3.3	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		139	-0.4	-2	8	-115	-67
Italy		178	-0.1	-2	7	-49	-37
Portugal		73	-0.2	-3	-1	-30	-29
Spain		106	-0.3	-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: 9/20/2023 8:02 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	-0.3	0	-4	-5		2.7	-1.5	5	17	-1	-34	
Indonesia		15382	0.0	-0.1	0	-3	1		6.8	-1.4	10	24	-44	-19	
India		83	0.2	-0.1	0	-4	0		7.8	2.0	5	11	17.3	37	
Philippines		57	-0.1	-0.1	-1	1	-2		5.9	0.0	-5	-22	18	-14	
Thailand		36	0.0	-0.9	-2	3	-4		3.2	-1.3	8	24	23	59	
Malaysia		4.69	0.2	-0.1	-1	-3	-6		3.9	2.0	3	6	-26	-12	
Argentina		350	0.0	0.0	0	-59	-49		114.5	28.9	-683	661	3203	2631	
Brazil		4.86	0.2	1.2	3	6	9		11.5	0.2	17	0	-29	-107	
Chile		887	0.1	0.1	-2	5	-4		5.4	2.0	9	-12	-134	4	
Colombia		3914	-0.5	1.6	5	13	24		8.6	0.0	1	29	-122	-123	
Mexico		17.04	0.3	0.7	0	17	14		9.2	-1.7	13	16	20	42	
Peru		3.7	-0.1	-0.1	0	4	3		6.8	0.1	-1	-13	-140	-112	
Uruguay		38	-0.1	0.2	-1	7	5		9.4	-2.9	1	18	-204	-133	
Hungary		359	0.2	-0.2	-2	12	4		6.8	0.0	-3	-76	-260	-278	
Poland		4.34	0.6	-0.6	-5	9	1		4.7	2.3	4	-40	-133	-144	
Romania		4.6	0.2	-0.3	-2	7	-1		6.6	0.2	6	-8	-140	-108	
Russia		96.6	0.4	-0.4	-3	-36	-23								
South Africa		18.8	0.5	-0.1	1	-6	-10		9.5	-0.9	3	-26	23	33	
Turkey		27.04	-0.1	-0.4	0	-32	-31		26.4	-50.0	49	438	1482	1660	
US (DXY; 5y UST)		105	-0.1	0.2	2	-5	1		4.48	-2.7	10	10	74	48	

	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		3706	-0.4	-1	-1	-5	-4		181	-2	-2	-15	4		
Indonesia		7012	0.4	1	2	-2	2		127	-7	-3	-54	-13		
India		66801	-1.2	-1	2	12	10		138	-1	-1	-21	-4		
Philippines		6041	-0.1	-2	-4	-5	-8		103	-6	-4	-33	6		
Thailand		1508	-1.0	-2	-1	-8	-10		0	0	0	0	0		
Malaysia		1452	-0.4	0	0	0	-3		97	1	-1	-1	-3		
Argentina		576676	-1.5	7	-1	290	185		2196	14	68	-196	-9		
Brazil		117846	-0.4	0	2	5	7		226	-6	-13	-69	-48		
Chile		6003	0.0	2	-2	9	14		125	-4	-3	-53	-7		
Colombia		1105	0.4	2	-2	-8	-14		327	-22	-7	-88	-45		
Mexico		52220	1.0	1	-2	11	8		365	2	-14	-61	-16		
Peru		22738	-0.9	-1	0	16	7		157	-3	-2	-53	-23		
Hungary		57697	0.0	1	3	45	32		189	-8	-12	-70	-33		
Poland		67055	1.4	1	-2	36	17		122	-6	5	128	49		
Romania		14456	0.9	3	14	26	24		204	-13	-9	-89	-52		
South Africa		74216	0.6	1	2	11	2		376	-1	-16	-67	9		
Turkey		7844	0.8	-2	4	139	42		404	9	-9	-219	-36		
Ukraine		507	0.0	0	0	-2	-2		3231	-108	-235	-171	-848		
EM total		39	0.1	-1	1	3	3		378	-5	-7	-52	3		

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

[back to top](#)