



- The Fed signaled fewer rate cuts in the updated economic projections ([link](#))
- 2-year Treasury yields reached the highest level since 2006 ([link](#))
- Canada's inflation rate re-accelerates on higher gasoline prices ([link](#))
- The pound weakens after BoE leaves policy rate unchanged ([link](#))
- Swedish Riksbank hikes rates as expected and announces FX hedging ([link](#))
- Brazil's central bank cut benchmark interest rate by 0.5% to 12.75% as expected ([link](#))
- Chinese authorities signal more policy measures to come ([link](#))
- **Special Feature: Corporate Earnings Monitor Second Quarter 2023** (attached)

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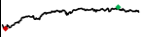








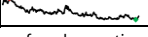
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Treasuries extend drop following a hawkish Fed

Hawkish Fed, higher yields, a number of central bank actions in Europe. Treasuries continued to trade weaker following a hawkish Fed meeting that conveyed a higher for longer message for yields. The Fed's latest economic projections took two rate cuts for next year off the table, on the back of stronger economic momentum, lower unemployment, and only gradually receding inflation. This prompted 2-year Treasury yields to reach their highest levels since 2006. In Europe, a number of central banks made decisions today: the Bank of England kept its policy rates unchanged, leading to a weaker pound. The Swedish Riksbank, as expected, raised its rates, and delivered a surprise by announcing plans to hedge parts of its foreign currency reserves, strengthening the Swedish Krona. Meanwhile, the Norges Bank delivered an expected rate hike, which had negligible impact on the Norwegian Krona. The Swiss franc depreciated after the Swiss National Bank unexpectedly held its policy rate at 1.75%, contrary to market expectations of a 0.25% hike. The central bank of Türkiye hiked rates by 500bps, as expected with a weaker Lira following the decision. Later today, the South African and Egypt Central Banks will meet with both expected to keep rates on hold.

Key Global Financial Indicators

Last updated: 9/21/23 8:41 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4402	-0.9	-1	0	16	15
Eurostoxx 50		4205	-1.7	-2	0	20	11
Nikkei 225		32571	-1.4	0	2	20	25
MSCI EM		39	-0.4	-1	1	4	2
Yields and Spreads			bps				
US 10y Yield		4.48	7.1	19	14	95	60
Germany 10y Yield		2.77	6.7	18	7	88	20
EMBIG Sovereign Spread		412	-5	-12	-13	-94	-40
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.3	-0.5	0	-1	-4	-5
Dollar index, (+) = \$ appreciation		105.7	0.4	0	2	-4	2
Brent Crude Oil (\$/barrel)		93.2	-0.4	-1	10	4	8
VIX Index (% change in pp)		16.3	1.1	3	-1	-12	-5

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

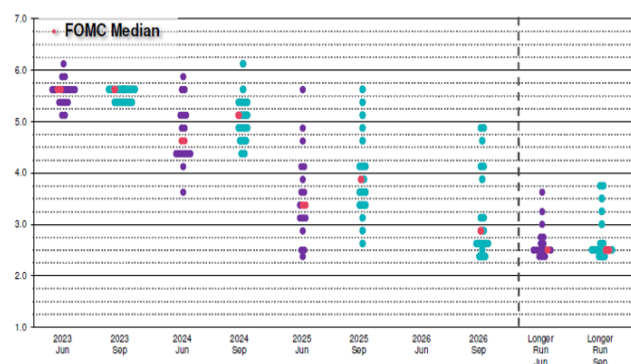
Initial jobless claims fell to 201K, below expectations, the lowest level since January, as the labor softening is taking longer than expected. S&P 500 futures fell (-0.9%), Nasdaq futures underperformed, while bond yields rose (10-year at 4.48%) alongside the dollar (+0.4%).

	Period	Consensus	Actual	Prior	Revised
Initial Claims	Sept. 16	225K	201	220K	221K

Source: Bloomberg L.P.

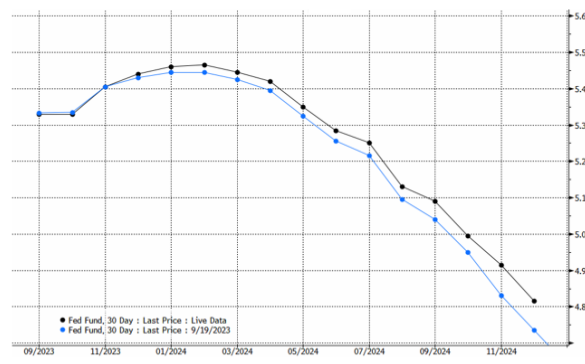
The Fed signaled fewer rate cuts and 2024 Fed Fund forwards came under fire. In yesterday's Fed meeting, the Fed held federal funds at a range of 5.25-5.5% and the updated economic projections took center stage. The Fed marked-up growth for this and next year on the idea that economic momentum is strong while inflation remains elevated, leaving Fed Funds higher for longer. The projections portray significant reductions in the unemployment rate, which some market contacts see at odds with the fairly unchanged inflation forecasts that predict a gradual return to the target. The median Fed Fund dots for 2024 and 2025 both increased by 50 bps (left chart), taking two rate cuts for next year off the table. In the press conference, Chair Powell flagged upside risks and made distinctions in the short versus long run neutral rate, so that market contacts saw the upward shift in the 2024 median dot as far more powerful than the move in the 2025 one. Following the hawkish forward guidance, money markets continue to price out rate cut expectations for next year, with one more rate hike towards terminal (right chart).

In its September economic projections, the Fed moved up by +50 bps the 2024 and 2025 median dots



Source: NatWest, Federal Reserve

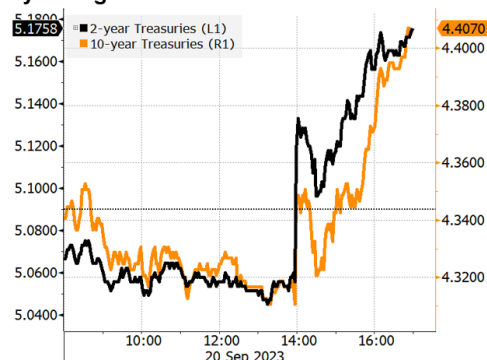
Money markets continued to price out rate cut expectations with one more hike to terminal



Source: Bloomberg, IMF Staff Calculations

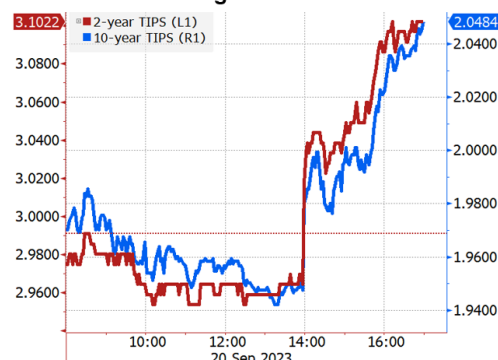
Treasury yields reached cyclical highs following the Fed meeting. 2-year Treasury yields reached surpassed 5.17%, the highest level since 2006 and 10-year Treasuries pulled up further to 3.39% (left chart). The shift upwards was largely driven by real yields (right chart), consistent with the Fed's higher for longer narrative conveyed during yesterday's hawkish meeting. From here, the repricing of 10-year yields might have further legs to run as a Bloomberg survey taken yesterday after the Fed meeting showed that half of the 172 surveyed market participants see the peak in 10-year yields above 4.5%.

Treasury yields sharply corrected, reaching cycle highs...



Source: Bloomberg, IMF Staff Calculations

... which real yields drove, reflective of the restrictive forward guidance

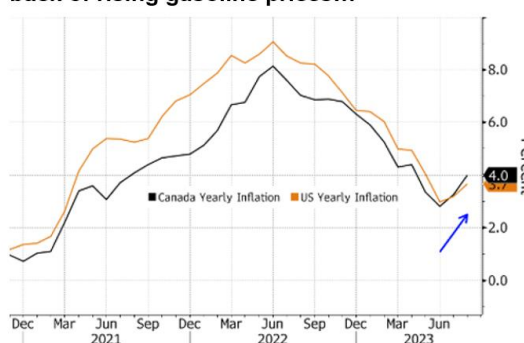


Source: Bloomberg, IMF Staff Calculations

Canada

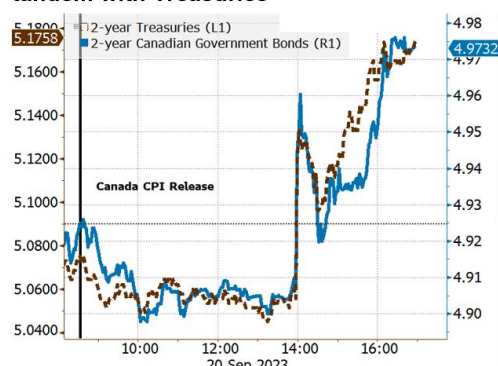
Canada's inflation rate re-accelerates for the second consecutive month. In August, Canada's consumer price index increased by 4% y/y (exp. 3.8% from 3.3%), which was the fastest rate since April. The gains were mostly due to rising gasoline costs (which rose by 0.8% y/y, the first increase since January). While the Bank of Canada might be looking through the surge (with recent GDP and job vacancy rate data weaker-than-expected), overnight swaps traders increased their wagers that the central bank would continue tightening, with the likelihood of another hike in October climbing to over 50% (55% after yesterday's Fed meeting), up from 25% on Tuesday. Canada's 2-year government bond yield initially jumped by 4 bps to 4.89% after the release, but surpassed 4.97% at the end of the trading session as traders took their cue from the surge in Treasury yields.

Canada's headline inflation rises again on the back of rising gasoline prices...



Source: Bloomberg

... and Canada's 2-year yields moved up, in tandem with Treasuries



Source: Bloomberg, IMF Staff Calculations

Euro Area

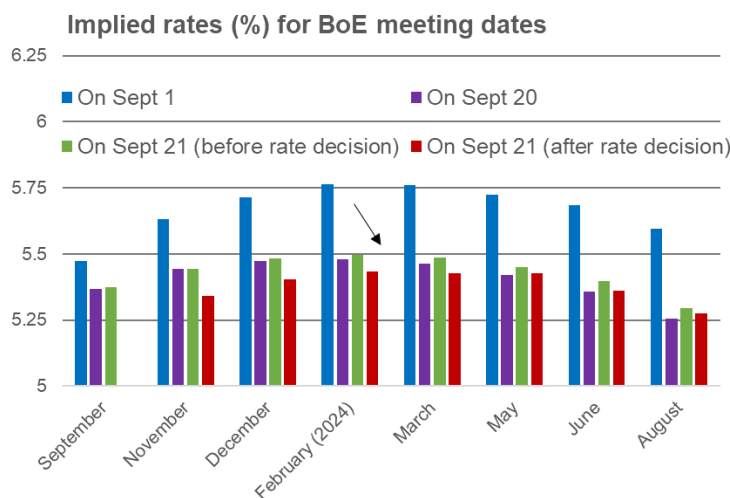
European equities were trading lower, the euro weakened, and sovereign core yields increased in the aftermath of the FOMC meeting. The Stoxx 600 Europe index was lower (-1.1%), with most sectors trading lower. Sovereign yields increased (10y bund +4bps to 2.74%), reversing yesterday's moves. The euro was trading weaker against the dollar (-0.2% to 1.06).

United Kingdom

The pound extended early morning losses after the Bank of England's (BoE) rate decision. The pound extended early morning weakness and was trading -0.5% weaker against the dollar at 1.23 after the

rate announcement. Markets have scaled back BoE tightening expectations and are now pricing the terminal rate at around 5.4%. Gilt yields were higher (10y yield +8bps to 4.29%).

In a split decision, the BoE kept rates on hold. The MPC voted by a majority of 5–4 to maintain Bank Rate at 5.25%, with four members in favor of a 25bps hike. Consensus had expected a 25bps hike, but some analysts had expected the BoE to remain on hold significant downside surprise in August inflation data. Markets had also scaled back hiking expectations recently. The BoE expect CPI inflation to fall significantly further in the near term but said that further monetary policy tightening appears required if there were evidence of more persistent inflationary pressures.

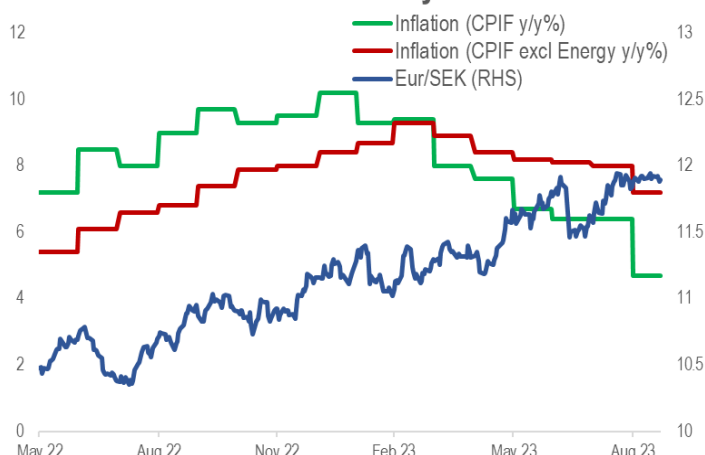


Source: Bloomberg and IMF calculations

Sweden

Swedish Riksbank hiked rates by 25 bps to 4%. The central bank said the policy rate could be increased further, with forward guidance showing a peak of 4.1% (up from 4.05% in June). Market contacts see this interest hike as the final one in this tightening cycle. In this regard, Goldman Sachs analysts expect rates to remain on hold and only see the first rate cut in Q4 2024. ING analysts caution that renewed currency weakness could result in further tightening.

Sweden: Inflation and currency



Source: Bloomberg and IMF calculations

The Swedish Krona strengthened on the Swedish Riksbank's announcement to hedge parts of its FX reserves. Against the backdrop of a -6% depreciation against the euro this year, Riksbank officials stated that the krona was unjustifiably weak. Accordingly, Riksbank decided to hedge a quarter of its foreign currency reserves by selling \$8 bn and €2 bn for Swedish krona. The currency hedging is set to start on 25 September 2023 and will be fully completed within four to six months. While the Swedish krona weakened -0.5% against the euro after the interest rate decision, it strengthened sharply by as much as +0.8% following the currency hedging announcement. Gains were, somewhat retraced in later trade to settle at 11.93/€.

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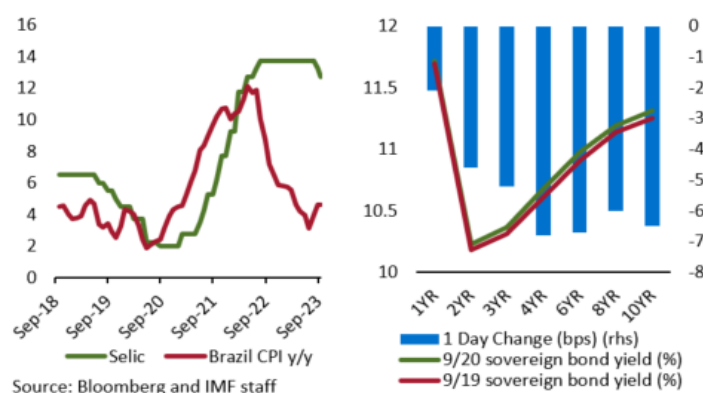
In Asia, equity markets and currencies inched lower. Stock markets only gained in Philippines (+0.9%) and Thailand (+0.4%), while contracting in China (-0.9%), India (-0.9%) and Indonesia (-0.3%). In FX markets, except for the Indonesian Rupiah (+0.1%) most currencies depreciated, led by the Chinese Yuan (-0.3%)

EMEA equity markets were mostly trading lower, with currencies weakening and local currency bond yields edging higher, with risk sentiment dented by concerns of higher-for-longer global interest rates. Equities in Hungary (-2.7%) underperformed and the Hungarian forint seeing the largest losses among CEE peers (-0.7% to 386.93/€) following news after commentary from the central bank governor that market contacts saw in favor of further interest rate easing. Banking stocks were lower after the finance minister indicated that higher taxes on bank profits is a possibility. South African equities were lower (-2.1%) and the rand marginally weaker against the dollar (-0.2% at 18.89/\$).

Latin American assets traded mostly in narrow ranges on Wednesday. Stocks gained in Brazil (0.7%), Mexico (0.6%) and Colombia (0.4%). Chile's equity markets lost after reopening from a long weekend (-1.2%). Currencies depreciated in Brazil (-0.3%), Peru (-0.3%) and Mexico (-0.1%), while the Chilean peso (0.6%) and the Colombian peso appreciated versus the US dollar (0.4%).

Brazil

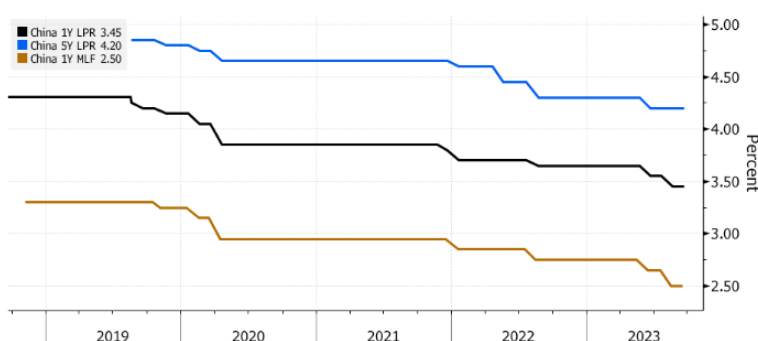
Brazil's central bank cut benchmark interest rates as expected. In yesterday's meeting, the central bank has cut its policy rate by 0.5% to 12.75%, which marks the second consecutive time of a half percent cut. As service inflation slows, Brazil central bank's officials signaled that they plan to maintain this pace in upcoming meetings. They see the GDP growth observed during the first half 2023 as a sign that they have accomplished a soft landing of the economy. Brazil's sovereign bond yields fell across the yield curve before the central bank announcement. Meanwhile, Brazilian Development Bank plans to allocate \$4.1 billion for infrastructure projects, primarily through local debt purchases by infrastructure companies. This move aims to attract private investors and increase the impact of financing.



China

Policymakers hinted at more stimulus measures to come to support the economy, fueling market expectations for policy support. The People's Bank of China (PBC) stated it has sufficient policy room meanwhile government officials pledged to improve local government finances and step up policy action. Analysts expect the central bank to further cut the reserve requirement ratio for banks and lower interest rates in the coming months. As for the yuan, it has hit its weakest level against the dollar since December 2007 two weeks ago on the back of the widening rate difference between China and the US. Against this backdrop, the PBC warned against speculation, stating it would crack down on behaviors that disrupt the market order and firmly prevent risks of excessive yuan adjustments.

China Loan Prime Rates, MLF Rate

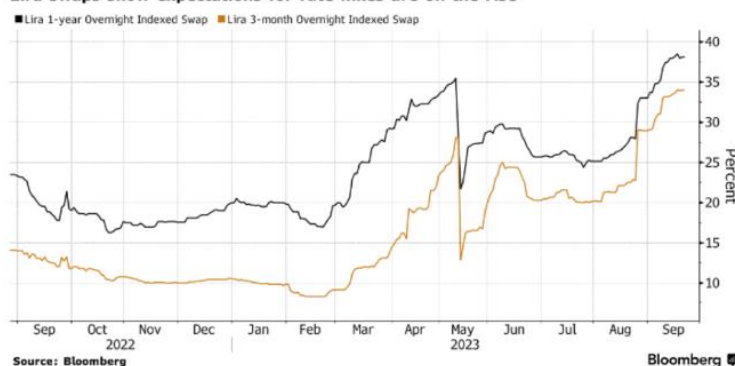


Source: PBOC, CFETS

Türkiye

The central bank of Türkiye (CBT) hiked rates by 500bps, as expected. With the latest decision, the one-week repo rate now stands at 30%. The CBT has hiked rates by 1650bps in the past three meetings. The policy statement said that “*monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved.*” The lira weakened against the dollar after the decision (-0.2% to 27.09).

Traders Ramp Up Bets for Higher Turkish Rates
Lira swaps show expectations for rate hikes are on the rise



Source: Bloomberg

Bloomberg

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.

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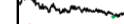
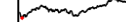







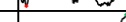
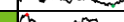






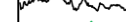









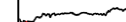



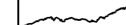



Global Financial Indicators

9/21/23 8:41 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4377	-0.9	-3	-1	15	14
Europe		4205	-1.7	-2	0	20	11
Japan		32571	-1.4	0	2	20	25
China		3672	-0.9	-2	-2	-5	-5
Asia Ex Japan		65	-0.5	-1	1	4	0
Emerging Markets		39	-0.4	-1	1	4	2
Interest Rates			basis points				
US 10y Yield		4.48	7.1	19	14	95	60
Germany 10y Yield		2.77	6.7	18	7	88	20
Japan 10y Yield		0.74	1.6	3	9	48	32
UK 10y Yield		4.35	13.0	6	-38	103	67
Credit Spreads			basis points				
US Investment Grade		144	1.5	-2	-4	-19	-15
US High Yield		406	3.6	1	-21	-82	-75
Exchange Rates			%				
USD/Majors		105.71	0.4	0	2	-4	2
EUR/USD		1.06	-0.2	0	-2	8	-1
USD/JPY		148.0	-0.3	0	1	3	13
EM/USD		47.3	-0.5	0	-1	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		93.2	-0.4	-1	11	18	13
Industrials Metals (index)		139	-2.7	-4	0	-8	-16
Agriculture (index)		66	-1.0	-2	-1	-6	-5
Implied Volatility			%				
VIX Index (% change in pp)		16.3	1.1	3.5	-0.8	-11.7	-5.4
Global FX Volatility		8.0	0.0	-0.1	-0.6	-3.4	-2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		141	3.2	2	10	-116	-65
Italy		180	5.1	5	11	-44	-34
Portugal		73	0.8	-1	0	-30	-28
Spain		106	1.0	1	1	-8	-3

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

Emerging Market Financial Indicators

Last updated: 9/21/2023 8:43 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		7.31	-0.3	-0.4	0	-4	-6		2.7	-2.0	3	15	-3	-36
Indonesia		15375	0.1	-0.1	0	-2	1		6.8	4.0	15	17	-41	-15
India		83	0.0	-0.1	0	-4	0		7.8	1.0	12	12	17.5	38
Philippines		57	-0.1	-0.2	-1	2	-2		5.8	-5.3	-9	-28	13	-19
Thailand		36	-0.2	-1.0	-3	3	-4		3.2	-2.0	11	22	25	57
Malaysia		4.69	-0.1	-0.2	-1	-3	-6		4.0	4.4	9	10	-24	-7
Argentina		350	0.0	0.0	0	-59	-50		114.8	29.6	-657	691	3245	2660
Brazil		4.93	-1.0	-1.2	1	5	7		11.6	13.3	25	8	-3	-100
Chile		894	-1.4	-0.6	-3	5	-5		5.5	10.0	17	1	-131	16
Colombia		3917	-0.1	0.9	5	13	24		8.8	24.0	25	54	-90	-98
Mexico		17.24	-0.8	-0.7	-1	16	13		9.2	0.5	15	17	27	43
Peru		3.7	-0.3	-0.5	0	5	2		7.0	0.4	11	-22	-129	-102
Uruguay		38	0.2	0.5	0	7	5		9.4	2.3	4	20	-202	-130
Hungary		365	-1.2	-1.0	-4	13	2		7.0	21.0	21	-55	-247	-257
Poland		4.35	-0.6	0.1	-6	12	1		4.8	6.8	14	-32	-121	-136
Romania		4.7	-0.3	-0.1	-3	8	-1		6.6	0.1	-1	-8	-146	-108
Russia		96.0	0.2	0.4	-2	-36	-23							
South Africa		19.0	-0.9	0.1	0	-7	-10		9.6	10.5	11	-16	38	43
Turkey		27.12	-0.3	-0.6	0	-32	-31		25.8	-39.0	-149	370	1415	1592
US (DXY; 5y UST)		106	0.4	0.3	2	-4	2		4.64	5.4	22	17	87	63

	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		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3672	-0.9	-2	-2	-5	-5		180	-4	-3	-15	3	
Indonesia		6991	-0.3	0	1	-3	2		126	-10	-4	-55	-14	
India		66230	-0.9	-2	2	12	9		137	-3	-2	-26	-5	
Philippines		6095	0.9	-2	-2	-3	-7		102	-10	-5	-35	5	
Thailand		1514	0.4	-2	-2	-8	-9		0	0	0	0	0	
Malaysia		1448	-0.2	0	0	1	-3		97	-1	-1	-2	-3	
Argentina		562033	-2.5	2	-4	282	178		2258	82	130	-146	53	
Brazil		118695	0.7	0	4	6	8		223	-8	-16	-75	-51	
Chile		5933	-1.2	1	-3	10	13		123	-5	-5	-56	-9	
Colombia		1109	0.4	2	-2	-7	-14		319	-26	-15	-104	-53	
Mexico		52507	0.6	2	-1	12	8		361	1	-18	-71	-20	
Peru		22742	0.0	0	-1	16	7		154	-7	-5	-58	-26	
Hungary		55578	-3.1	-4	-2	42	27		185	-13	-16	-70	-37	
Poland		66485	-1.2	-1	-3	34	16		119	-11	2	101	46	
Romania		14396	-0.5	2	12	27	23		200	-18	-12	-102	-55	
South Africa		73049	-2.4	-2	-1	10	0		371	-10	-21	-74	4	
Turkey		7852	1.7	-3	1	142	43		379	-23	-34	-234	-61	
Ukraine		507	0.0	0	0	-2	-2		3227	-79	-239	-190	-852	
EM total		39	-1.9	-1	1	4	2		374	-9	-11	-59	-1	

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

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