



- **Cautious Investors Eye Vulnerability in both Treasuries and US Stocks** ([link](#))
- **Statements by ECB officials Reiterate That Rates Likely Remain High** ([link](#))
- **The Bank of Japan Maintains Dovish Policies for the Time Being** ([link](#))
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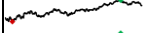

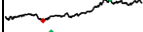








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Treasury Yields: Scaling New Heights

Treasury markets continue to break to new multi-year highs in yields. This is coming from both an ongoing decompression of the term premium and the higher for longer message by policymakers. Today, Federal Reserve officials, including Cook, Daly, and Kashkari, are speaking, although the domestic economic calendar remains quiet aside from the release of the S&P PMIs. The Bank of Japan has maintained its rates and yield curve control parameters, resulting in Japanese Government Bonds closing the day with minimal changes. The European market, on the other hand, reacted notably to flash PMIs. French manufacturing and services PMIs missed expectations, while the German services print exceeded expectations, albeit remaining in contractionary territory. However, the aggregate PMI offered a slightly optimistic outlook, leading some market contacts to suggest that the Euro Area may have mitigated deeper recession risks. In the UK, PMI numbers presented a mixed picture, with manufacturing surprising on the upside but services disappointing. As a response, Bund yields experienced a slight decline for the day, while Gilts rallied. In other parts of the world, central banks in Taiwan, South Africa, and Egypt have opted to leave their policy rates unchanged.

Key Global Financial Indicators

Last updated: 9/22/23 8:35 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4330	-1.6	-4	-1	15	13
Eurostoxx 50		4211	0.0	-2	-1	23	11
Nikkei 225		32402	-0.5	-2	2	19	24
MSCI EM		38	-1.7	-3	-1	3	0
Yields and Spreads			bps				
US 10y Yield		4.47	-2.4	14	15	76	60
Germany 10y Yield		2.75	0.9	7	10	78	18
EMBIG Sovereign Spread		417	5	0	-7	-90	-35
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.5	0.2	0	-1	-4	-5
Dollar index, (+) = \$ appreciation		105.5	0.1	0	2	-5	2
Brent Crude Oil (\$/barrel)		94.2	0.9	0	12	4	10
VIX Index (% change in pp)		16.9	-0.6	3	0	-10	-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

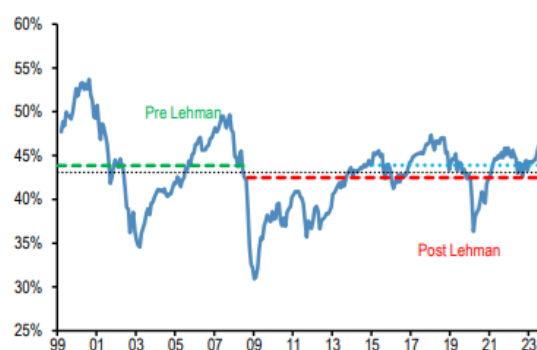
Both Treasuries and US stock returns appear vulnerable to a larger correction. A positive correlation emerged between longer-dated Treasury bonds and US stock returns for the first time in two decades, as highlighted by Bloomberg analysts (left chart). This development has eroded the traditional diversification advantage of Treasuries over US equities. With elevated positions in both asset classes, heightened vulnerability to a significant correction becomes apparent. JP Morgan analysts note that non-bank investors still maintain a comparatively large allocation to equities (right chart). Meanwhile, market participants report increasing unease among these investors, driving a shift away from both long-dated Treasuries and US equities towards cash and Treasury bills. This shift is motivated by earning higher yields while allowing to efficiently de-risk. As leveraged and mark-to-market holders of US Treasuries, including hedge funds and banks, potentially follow suit, the risk of a larger correction looms. Bloomberg analysts report that while US banks' holdings of Treasuries have declined from their peak, they remain historically elevated.

US stocks and Treasuries move in tandem for the first time in two decades



Source: Bloomberg L.P.

Implied equity allocations by non-banks investors globally

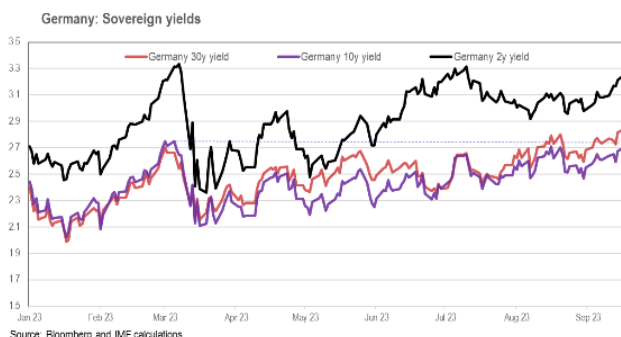


Source: J.P. Morgan

Euro Area

European equities were trading lower, and the euro weakened. The Stoxx 600 Europe index inched lower (-0.2%), after partially retracing early morning losses in later trade. The euro traded weaker against the dollar (-0.2% to \$1.06/€).

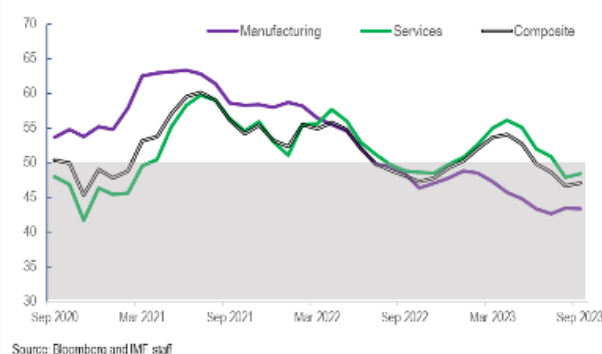
Statements by ECB officials reiterate that rates are likely to stay high. ECB chief economist Lane stated that rates "will be set at sufficiently restrictive levels for as long as necessary", and ECB governing council (GC) member Knot stated that he does not expect further changes "in the very short term", while noting another hike cannot be ruled out. GC member Vujčić expects that there would not be another hike, while GC member Stournaras deliberated that the next rate decision might be a cut, while caveating that "we are talking about a few months" from now. Sovereign yields increased yesterday, with 10y bund yields at one point reaching their highest level since 2011. At the same time 2y yields remain little changed. This morning, 10y bund yields trading at around 2.73%, close to levels seen in March 2023.



Slightly upbeat Preliminary PMI data for September remains in contractionary territory.

Preliminary data released this morning showed composite PMI increasing to 47.1 (exp. 46.5 from 46.7). Some market contacts highlight that the upbeat print does not alleviate worries about a possible GDP contraction in H2. On the positive side, HSBC analysts argue that today's PMI print heralds the Euro Area dodged deeper recession risk. The services component increased to 48.4 (exp. 47.6 from 47.9) while the manufacturing component eased to 43.4 (exp. 44.0 from 43.5). PMIs in Germany surprised on the upside, while PMIs from France were lower than expected.

Eurozone: PMI data (>50 is expansion)



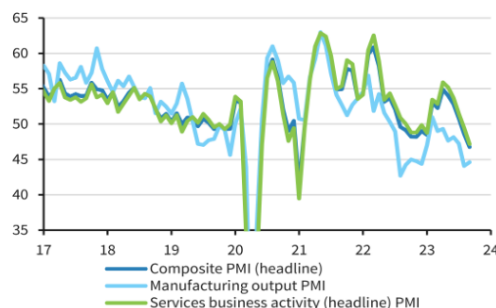
Source: Bloomberg and IMF staff

United Kingdom

Today's weak PMI points to a stagnant economy and increases the risk of a GDP contraction.

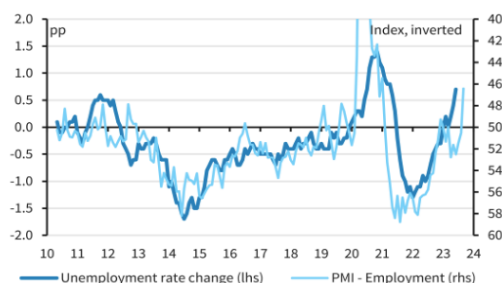
Preliminary UK composite PMI from S&P/CIPS disappointed in September, falling to 46.8 (exp. 48.7 from 48.6). The manufacturing PMI surprised on the upside with a 44.2 print (exp. 43.2 from 43.0) while the services PMI disappointed at 47.2 (exp. 49.4 from 49.5). Separate data releases showed the GfK consumer confidence unexpectedly increased in September to highest level since January 2022, while August retail sales disappointed. The pound weakened against the dollar (-0.5% to 1.22) while gilt yields eased (10y gilt yields -2bps 4.27%).

Figure 7. UK September PMIs sharply disappointed expectations



Source: S&P Global, Haver Analytics, Barclays Research

Figure 8. Employment index plunged in September, now in line with the deterioration seen in official labour market data



Source: S&P Global, Haver Analytics, Barclays Research

Japan

Incoming data came in largely aligned with expectations. August inflation was slightly above market expectations with Headline CPI inflation slowing to 3.2% y/y (exp. 3% from 3.3%); core inflation remained stable at 3.1% (expected 3.0% from 3.1%). The September Jibun Bank PMI weakened marginally, with declines in the services (53.3 from 54.3) and manufacturing (48.6 from 49.6) components.

The Bank of Japan (BOJ) maintained its dovish policies and offered no clues of a shifting stance.

The BOJ's statement on monetary policy noted that "Inflation expectations have shown some upward movements again." Market contacts widely expect the BOJ to revise its inflation outlook higher in October. Governor Ueda, however, reiterated that the bank needs more time to confirm the positive cycle of wage hikes feeding into consumption. He also added that the BOJ will watch forex moves carefully as they can affect prices. The yen weakened -0.5%, touching 148 level following the BOJ announcement. 10Y bond yields declined -1.1bps. Japanese equities fell -0.5%.

Yen Dropped After BOJ's Decision

Source: Bloomberg

Emerging Markets[back to top](#)

Asian currencies appreciated while equities traded without clear direction. Thai baht and Indian rupee led the gains (+0.3%). Stock markets in Hong Kong SAR (+2.3%) and China (+1.8%) gained amid expectations of more policy support by the Chinese authorities. Vietnam equities underperformed (-1.6%). Taiwan's central bank kept its policy rate at 1.875% on Thursday as widely expected. Malaysia's core inflation continued to moderate in August, down to 2.5% y/y (from 2.8%), headline inflation remained steady at 2% y/y.

EMEA markets lacked clear direction. Equities in Hungary were outperforming (+1%) while those in Serbia slumped (-1.25%). Currencies posted mixed results against the dollar with the South African rand outperforming (+0.7% to 18.81/\$) while CEE currencies were mostly stronger against the euro. Local currency bond yields were easing. On the monetary policy front South Africa and Egypt left rates unchanged at their respective policy meetings, as expected.

Latin American assets all slumped on Thursday. Stocks lost in Brazil (-2.15%), Mexico (-1.05%), Colombia (-1.20%), Chile (-1.27%) and Peru (-0.06%). Currencies depreciated in Brazil (-1.11%), Mexico (-0.81%), Colombia (-0.97), Chile (-0.87) and Peru (-0.46%). Colombian Finance Minister Ricardo Bonilla said he will argue for a rate cut at the Sept. 29 monetary policy meeting, but the short end of IBR curve prices in only a mild chance.

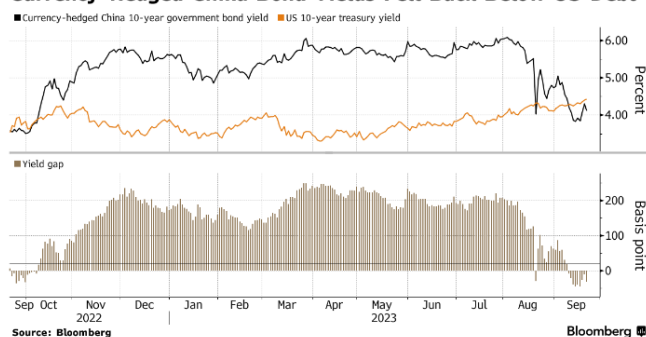
China

Stronger yuan fixing and heavy onshore dollar selling by state banks supported the Renminbi. It appreciated by +0.1% in onshore and by +0.2% in offshore markets. The People's Bank of China continued to set strong yuan fixing. Conversely, market contacts report that state banks were heavy dollar sellers in onshore markets, while also reducing offshore yuan offering, tightening the renminbi funding conditions.

Chinese stocks rose 1.8% bolstered by expectations of more policy support. Speculations mount that China could be easing foreign ownership restrictions in domestic publicly traded firms. Authorities are allegedly pondering policy tweaks to boost overseas ownership in stocks listed in Shanghai, Shenzhen, and Beijing. Current total foreign ownership in locally listed firms is at 30%, and a single foreign shareholder is subject to a 10% limit. Beijing and Shanghai also eased capital controls for foreign investors. To encourage business investment from overseas companies, Shanghai's pilot free-trade zone has allowed foreign investors to freely transfer their investment-related funds in or out of China without any delay starting from early September. Beijing has proposed similar regulations for the whole city and is exploring exempting overseas firms from foreign-exchange registration for their reinvestments.

For the first time in a year, FX-hedged China government bonds yield less than Treasuries. Dwindling offshore liquidity drove yields of currency-hedged 10-year Chinese government bonds below that of 10-year Treasuries. While the 10-year yield on Chinese government bonds amounts to 2.69%, US based investors can earn additional yield by selling the yuan in forward markets as Bloomberg analysts report. 10Y bond yields increased by +1.7bps.

Currency-Hedged China Bond Yields Fell Back Below US Debt



Moody's put two of the largest Chinese builders on negative watch. The rating agency took similar actions on seven other developers. The downgrade reflects the elevated uncertainty about the builders' ability to recover weakened credit metrics and financials amid uncertain recovery prospects for China's property market.

India

JP Morgan's EM bond indices will include Indian government bonds. The inclusion in the **GBI-EM index family** will begin with a weight of 1% in June 24, before gradually increasing it to a 10% allocation by March 2025. Market contacts see the inclusion medium-term positive for Indian government bonds (IGBs). Standard Chartered analysts see a potential inflow of an additional \$15-20bn if other index providers follow suit. However, they believe that the long lead time for index-related inflows and the global near-term headwinds such as the rise in crude oil prices and high US Treasury yields constrain the rally IGBs for the time being. Citi and Nomura analysts note that within Asia, Thailand's and Malaysia's sovereign bonds will likely bear the brunt of the index composition becoming reallocated in favor for IGBs. China's and Indonesia's sovereign bonds are unlikely to be impacted with their index weights in the GBI-EM global diversified being capped at a 10% weight. Other sovereign bond constituents of the EM index that could be meaningfully affected are those issued by South Africa, Poland, Brazil and the Czech Republic. India's 10-year bond were little changed, after falling as much as -8bps, upon the news; the rupee appreciated +0.3%, stocks declined -0.3%.

Timeline of IGB inclusion in JP Morgan's GBI-EM-GD index



Flow impact from IGBs inclusion in JPM GBI-EM suite of indices

Asia			EMEA			LatAM					
Curr wt.	After IN incl.	Flow Impact	Curr wt.	After IN incl.	Flow Impact	Curr wt.	After IN incl.	Flow Impact			
USD bn			USD bn			USD bn					
IDR	10.00%	10.00%	0.0	PLN	7.57%	6.29%	-3.0	BRL	10.00%	9.00%	-2.4
THB	9.79%	8.14%	-3.9	ZAR	8.11%	6.75%	-3.2	MXN	10.00%	9.99%	-0.01
MYR	10.00%	9.49%	-1.2	EGP	1.04%	0.87%	-0.4	COP	4.50%	3.72%	-1.8
PHP	0.06%	0.00%	-0.1	HUF	3.09%	2.57%	-1.2	PEN	2.39%	1.98%	-1.0
CNY	10.00%	10.00%	0.0	CZK	6.18%	5.14%	-2.6	CLP	2.01%	1.67%	-0.8
INR	0.00%	10.00%	23.6	TRY	0.74%	0.62%	-0.3	DOP	0.17%	0.14%	-0.1
				RON	3.84%	3.20%	-1.5	UYU	0.22%	0.18%	-0.1
				RSD	0.29%	0.0024	-0.1				
Total			18.4	Total			-12.2	Total			-6.2

Note: 1) We note that ~USD236bn are benchmarked to the GBI-EM family of indices with a majority of ~USD213bn being benchmarked to GBI-EM Global Diversified. As the AUM breakdown for the three subindices is not available, we have used ~USD236bn in our estimation of overall flow impact. 2) Only Global bonds from Uruguay, Dominican Republic and Philippines are included in the indices.

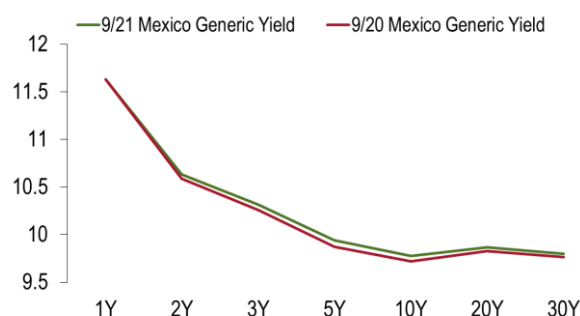
Source: Bloomberg, Nomura.

Mexico

Yields increased across both the Mexico dollar and local currency sovereign bonds yield curves. For dollar bonds, the 2-year yield surged by 12.1 basis points to 5.632%, the 10-year yield jumped by 13.5

basis points to 6.26%, and the 30-year yield increased by 16.2 basis points to 6.71%. For local currency bonds, the 2-year yield rose by 4.3 basis points to 10.63%, the 10-year yield increased by 5.5 basis points to 9.77%, and the 30-year yield went up by 3.4 basis points to 9.80%. The 2-year to 10-year yield spread narrowed slightly to -85.8 basis points from the previous -87 basis points. Market forecasts that the Mexico 2-year to 10-year yield curve will become more inverted, reaching -113 basis points by year-end.

Mexico local currency bond yields



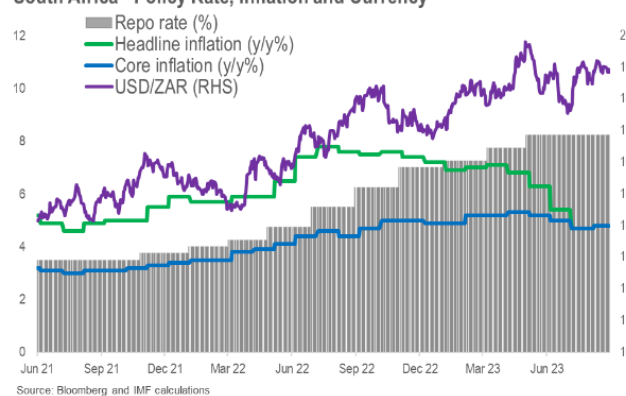
Source: Bloomberg and IMF staff

South Africa

The South African Reserve Bank (SARB) again left the repo rate unchanged at 8.25%, as expected, with a hawkish statement. It was a split vote by MPC as two members preferred a 25bps hike while three members preferred a pause.

While the MPC lowered its core inflation forecasts, the committee noted serious upside risks to the inflation outlook. Market contacts highlight that the communication and vote count was more hawkish than anticipated, but nevertheless see the bar for further tightening as high. JPMorgan analysts, for example, assign a 25% probability to a hike at the upcoming MPC meeting in November, but caution that further downward pressure on the rand could result in the inflation forecast for 1Q24 to become raised above the SARB's 6% upper inflation target band. Goldman Sachs analysts expect the first rate cut in Q1 2024, noting that factors including exchange rate dynamics and supply shocks impact the timing of a cut. This morning, South African equities gained (+0.3%) and the South African rand was trading stronger against the dollar (+0.7% to 18.81/\$).

South Africa - Policy Rate, Inflation and Currency



Source: Bloomberg and IMF calculations

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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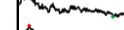

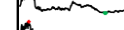
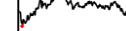
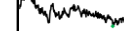




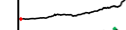




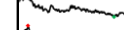




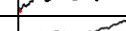
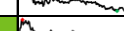



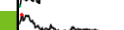






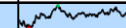


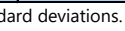
Global Financial Indicators

9/22/23 8:36 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4342	-1.6	-2	-1	16	13
Europe		4211	0.0	-2	-1	23	11
Japan		32402	-0.5	-2	2	19	24
China		3739	1.8	1	1	-3	-3
Asia Ex Japan		63	-1.8	-4	-1	3	-2
Emerging Markets		38	-1.7	-3	-1	3	0
Interest Rates			basis points				
US 10y Yield		4.47	-2.4	14	15	76	60
Germany 10y Yield		2.75	0.9	7	10	78	18
Japan 10y Yield		0.75	0.3	3	8	51	32
UK 10y Yield		4.27	-3.5	-9	-38	78	60
Credit Spreads			basis points				
US Investment Grade		145	-0.2	-2	-3	-21	-14
US High Yield		416	0.7	10	-6	-73	-64
Exchange Rates			%				
USD/Majors		105.47	0.1	0	2	-5	2
EUR/USD		1.07	-0.1	0	-2	8	0
USD/JPY		148.2	0.4	0	2	4	13
EM/USD		47.5	0.2	0	-1	-4	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		94.2	0.9	0	12	18	15
Industrials Metals (index)		142	1.2	0	1	-6	-14
Agriculture (index)		65	0.2	-2	0	-7	-5
Implied Volatility			%				
VIX Index (% change in pp)		16.9	-0.6	3.1	-0.1	-10.4	-4.8
Global FX Volatility		8.1	0.0	0.0	-0.3	-3.3	-2.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		146	3.5	3	16	-108	-60
Italy		181	0.9	3	15	-39	-33
Portugal		74	-0.5	-1	2	-27	-28
Spain		106	0.0	-1	3	-6	-3

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

Emerging Market Financial Indicators

Last updated: 9/22/2023 8:36 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	0.1	-0.3	0	-3	-6		2.7	1.0	1	13	-5	-35
Indonesia		15375	0.0	-0.1	0	-2	1		6.8	-2.9	7	10	-49	-18
India		83	0.2	0.3	0	-2	0		7.8	-4.0	2	7	11.6	34
Philippines		57	0.1	0.0	-1	3	-2		5.8	2.8	-7	-25	11	-17
Thailand		36	0.4	-0.5	-3	4	-4		3.2	2.5	11	22	18	60
Malaysia		4.69	0.1	-0.1	-1	-3	-6		4.0	2.1	10	13	-25	-5
Argentina		350	0.0	0.0	0	-59	-50		115.7	88.7	-372	779	3246	2749
Brazil		4.92	0.4	-1.1	0	4	7		11.6	-1.1	14	15	10	-102
Chile		887	0.1	-0.3	-2	6	-4		5.5	0.0	13	1	-146	15
Colombia		3924	-0.2	-0.1	5	12	24		8.8	0.0	35	40	-90	-100
Mexico		17.15	0.5	-0.4	-1	16	14		9.2	0.0	19	21	21	47
Peru		3.7	-0.5	-0.7	0	5	2		7.0	0.7	17	-16	-126	-96
Uruguay		38	-0.3	-0.2	-1	7	5		9.3	-3.1	2	14	-205	-134
Hungary		363	0.3	-0.8	-3	14	3		6.9	-10.0	13	-57	-244	-270
Poland		4.31	0.5	1.1	-4	12	2		4.8	1.8	14	-25	-125	-134
Romania		4.7	0.0	0.0	-2	8	-1		6.7	5.2	8	-4	-144	-103
Russia		96.2	-0.1	0.5	-2	-38	-23							
South Africa		18.8	1.0	1.3	0	-6	-9		9.7	10.9	21	4	38	55
Turkey		27.17	-0.2	-0.6	0	-32	-31		25.9	28.0	-130	459	1433	1611
US (DXY; 5y UST)		105	0.1	0.1	2	-5	2		4.59	-3.2	13	10	65	59

	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		3739	1.8	1	1	-3	-3		181	-3	0	-13	4	
Indonesia		7017	0.4	0	2	-2	2		127	-2	-3	-61	-13	
India		66009	-0.3	-2	2	14	8		137	-4	-2	-25	-5	
Philippines		6143	0.8	0	0	-2	-6		102	-3	-3	-41	5	
Thailand		1523	0.6	-1	-2	-7	-9		0	0	0	0	0	
Malaysia		1450	0.1	-1	0	2	-3		96	-2	-1	-5	-4	
Argentina		553755	-1.5	-3	-7	270	174		2358	186	237	-53	153	
Brazil		116145	-2.2	-3	0	2	6		225	-2	-10	-73	-49	
Chile		5858	-1.3	-1	-5	10	11		122	-4	-5	-61	-10	
Colombia		1096	-1.2	0	-2	-9	-15		321	-12	-13	-99	-51	
Mexico		51954	-1.1	0	-2	12	7		366	10	-11	-73	-15	
Peru		22728	-0.1	-2	-1	17	7		151	-6	-6	-60	-29	
Hungary		56190	1.1	-3	-2	42	28		184	-7	-14	-78	-38	
Poland		66484	-0.1	-1	-2	34	16		119	-6	6	105	46	
Romania		14395	0.1	2	11	29	23		200	-9	-9	-117	-55	
South Africa		73625	0.5	-1	0	13	1		380	7	-13	-61	13	
Turkey		8008	0.1	1	3	143	45		383	-18	-21	-223	-57	
Ukraine		507	0.0	0	0	-2	-2		3248	-35	-259	-334	-831	
EM total		38	1.5	-3	-1	3	0		380	2	-3	-55	5	

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

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