



- Another US government shutdown looms ([link](#))
- China's Evergrande cancels creditor meeting as pressure builds ([link](#))
- Dovish rhetoric from Bank of Japan governor boosts local markets ([link](#))
- US Treasury yields near highest level since 2007 ([link](#))
- Rise in US yields driven by real yields and not inflation fears ([link](#))
- Italian spreads rise on talk of larger budget deficits ([link](#))

[Mature Markets](#)



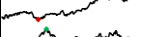






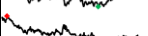
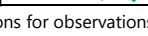
| [Emerging Markets](#)

| [Market Tables](#)

## Markets retreat as interest rates rise

European equities are down in the face of a renewed rise in government bond yields. US equity index futures are also in the red. The benchmark US 10-year Treasury note is once again testing the 4.5% level it crossed last week, the highest since 2007. The 10-year German bund yield is at 2.8%, the highest since 2011. Worries about China's property sector and the woes of Chinese property giant Evergrande were a major drag on sentiment in early trading. Meanwhile, the US is confronting the threat of a government shutdown due to disputes over the budget, yet another threat to the US economy in addition to a widening autoworkers strike, surging oil prices and a resumption of student loan payments. The shutdown will begin on October 1 if no deal is reached. On a more positive note, Hollywood screenwriters announced they were close to a deal to end their strike.

Key Global Financial Indicators

Last updated: 9/25/23 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4320	-0.2	-3	-2	17	13
Eurostoxx 50		4171	-0.8	-2	-2	25	10
Nikkei 225		32679	0.9	-3	3	24	25
MSCI EM		38	1.2	-2	-1	7	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.50	6.7	20	27	82	63
Germany 10y Yield		2.79	5.5	9	23	77	22
EMBIG Sovereign Spread		422	5	6	0	-80	-30
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.3	-0.2	-1	-2	-3	-5
Dollar index, (+) = \$ appreciation		105.7	0.1	0	2	-7	2
Brent Crude Oil (\$/barrel)		93.3	0.0	-1	10	8	9
VIX Index (% change in pp)		18.1	0.9	4	2	-12	-4

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

**This will be a busy week, with many notable economic data reports due to be released. In the US, all eyes will be on the PCE inflation report, the Fed's preferred measure for inflation.** Other closely watched releases include US GDP and retail sales. China's PMI reports will be another major focus as markets look for insight into the state of the Chinese economy. Inflation data will also take center stage in the euro area and Japan as they publish their latest CPI reports. Germany reports unemployment and retail sales data. Thailand is expected to hike by 25 bps to 2.50% after 175 bps of hikes since August 2022. Mexico is expected to stay on hold at 11.25% for a fourth consecutive meeting. Colombia is also expected to stay on hold at 13.25%. In the US, auto workers are set to expand their strikes against GM and Stellantis, although Ford escaped the expansion with the strike there remaining at current levels. The impact on the economy is yet to be seen.

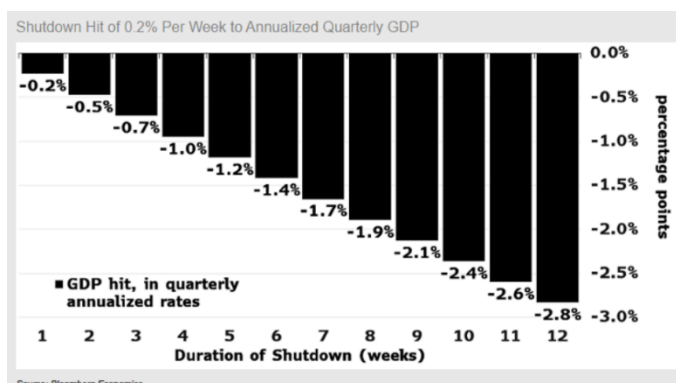
## Mature Markets

[back to top](#)

### United States

**Last week, betting markets assigned a 69% probability for a US government shutdown starting on October 1.** The latest effort to make a budget deal failed on Thursday in a narrow 212–216 House of Representatives vote. Bloomberg analysts expect the shutdown to have a mild negative impact on GDP due to “foregone economic activity and uncertainty.”

They estimate that a shutdown will subtract 0.2% from annualized Q4 growth for every week that the shutdown lasts. The hit to Q4 GDP could reach 2.8% if the shutdown lasts for the entire quarter. Looking back through history, there were eight government shutdowns since 1982, lasting an average of two weeks. The longest shutdown occurred in 2018 and lasted five weeks. The analysts forecast that if the shutdown is resolved within the two week average period, the impact on GDP will be reversed in subsequent weeks as economic activity rebounds. However, other analysts have pointed out that the current impasse is made worse by the fact that the current speaker has a very narrow margin in the House, and that if he is removed there is the prospect of a longer than usual shutdown.



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**US Treasury yields hit their highest level since 2007 after last week's FOMC meeting revealed that the Fed expects interest rates to remain higher for longer.** The Fed's dot plot showed that policymakers predict just two rate cuts in 2024, down from the four rate cuts predicted by the June dot plot. Treasuries continued their steep selloff that began in early May and was subsequently intensified by news that US Treasury issuance in the months ahead will be much higher than expected. The 10-year yield crossed 4.5% on Thursday before pulling back slightly, while the two-year yield peaked at 5.18% last Wednesday before it also fell back slightly. However, market conditions remained orderly and volatility remained low.

### Changes in US Treasury Yields Since May 3, 2023

Source: Bloomberg

Two Year	+130 bps
Five Year	+125 bps
10-Year	+110 bps
30-Year	+84 bps

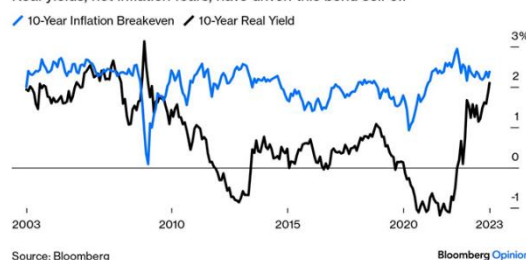
### The rise in yields has been driven by real yields rather than inflation fears.

The nominal 10-year Treasury yield is comprised of an inflation expectations component and a real yield. The former gives an estimate of what markets think about the risk of inflation while the latter represents a genuine tightening of financial conditions. The 10-year Treasury Inflation Protected Inflation Security (TIPS) has traded in a narrow range and generally held steady during the course of the Treasury selloff that began on May 3, while the real yield has risen to 2%.

Interestingly, the S&P 500 has rallied over 6% since May 3 despite the Treasury selloff, although it has pulled back from the 11% rally marked on July 31. Investors usually expect risk assets to decline when the real yield is rising so rapidly. This counterintuitive result could be explained by the fact that the US economy is stronger than expected and corporate earnings are expected to improve next year.

#### This Really Hurts

Real yields, not inflation fears, have driven this bond sell-off



### Euro Area

**European equities were trading lower, with renewed concern about China's property sector weighing on risk sentiment.** The Stoxx 600 Europe index was lower (-0.5%), with most sectors trading in the red.

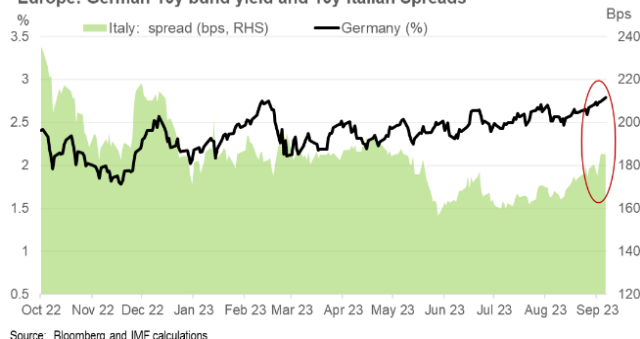
**The euro continued to weaken (-0.2% to 1.0636/\$) with data showing that EUR net long positions decreased for the fifth consecutive week.** ING analysts highlight that in the week to September 19, net EUR/USD long had fallen to below 15% of open interest for the first time since October 2022. Analysts argue that speculators are likely unwinding net-long euro positions as a result of a hawkish Fed and concerns over the euro area growth outlook. **Sovereign yields increased with the 10y bund yield reaching its highest level since 2011 (+6bps to 2.80%).**

**Italian spreads have widened on higher deficit talks.** According to a Reuters article published last Friday, the government sees the 2023 budget deficit at roughly 5.5% of GDP (compared to the current target of 4.5%) and also could revise the 2024 deficit upwards (3.7% currently). Contacts point out that while the continuation of PEPP reinvestments until the end of 2024 is supportive for spreads, recent commentary from ECB general council members regarding an earlier end to reinvestments could see spreads widen. The Italian government is set to publish its updated multi-annual budgetary framework by September 27. Barclays analysts have recently revised their 2023 deficit forecast to 5% (from 4.7% of GDP) and expect upside risks to their 2024 forecast of 4%. The spread between 10y bund and 10y Italian sovereign yields widened to 185bps on Friday (from roughly 170bps at the start of the month) and was little changed this morning. **Separately, Italian banks will reportedly be allowed to avoid paying the windfall tax introduced in August 2023 if the banks set aside additional capital reserves, according to a Bloomberg report.**

### Germany's IFO business climate index stabilized somewhat in September at low levels.

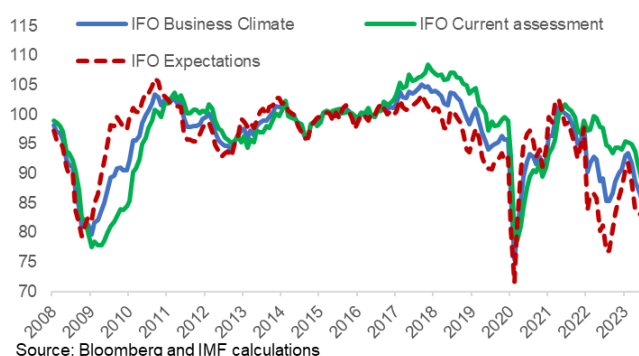
The expectations component increased by slightly less than expected in September (to 82.9 versus expectations of 83.0 from revised 82.7), while the business climate surprised on the upside (85.7 versus expected 85.2 from 85.8) and the current assessment weakened by less than expected (88.7 versus expected 88.0 from 89.0). ING analysts see the data as another reflection of

Europe: German 10y bund yield and 10y Italian Spreads



the country's current stagnation. This follows after data released last week showed September preliminary PMI data surprising on the upside but remaining well in contractionary territory. In the meantime, recent Goldman Sachs analysis show that euro area is facing weak, but positive, growth in H2 2023. The mixed IFO data was another yet another factor for the negative sentiment prevailing in local markets.

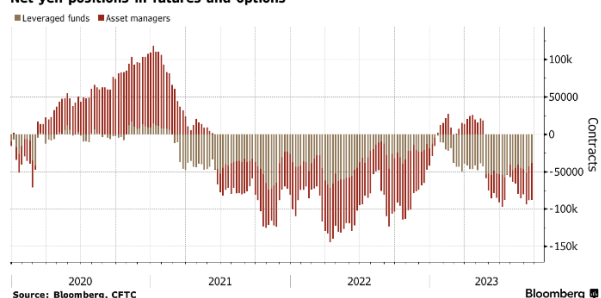
### Germany: IFO Business surveys



## Japan

**Japanese equities recovered after last week's selloff after Bank of Japan (BOJ) Governor Ueda struck a cautious tone on policy.** In an address to business leaders, he reinforced messages from last week's BOJ meeting, indicating that an end to negative interest rates is not happening anytime soon and added that an end to yield curve control will only happen if sustainable and stable achievement of BOJ's 2% price target is in sight, Bloomberg reported. The BOJ is monitoring the impact of yen's weakness on economic activity and inflation but will not conduct policy to directly affect the yen. Investors continue to bet against the yen, according to data on investor positions from Commodity Futures Trading Commission. **The yen weakened -0.1%, 10Y bond yields declined -0.8bps.**

### Investors Continue to Bet Against Yen Net yen positions in futures and options



## Emerging Markets

[back to top](#)

**EMEA equities and currencies were mostly weakening. Equities in Türkiye were outperforming (+2.5%) while Polish equities underperformed (-1%).** On the data front the unemployment rate in Poland remained unchanged at 5% August, in line with expectations. **Asian equities declined -0.7% on net, amid China property sector worries.** Asian currencies broadly depreciated. Sri Lanka has paid off the US\$ 200mn loan obtained from Bangladesh, taken through a currency exchange agreement two years ago to survive a severe dollar shortage, local media reported over the weekend. **Latin Merican currencies, equities and bonds broadly weaken as markets continue to digest higher AE yields.** The Mexican peso was an outlier, strengthening +0.18% against the US Dollar while the Colombian peso depreciated the most, by -1.38% against the US Dollar. Markets expect the central banks of Mexico and Colombia to stay on hold this week.

### Emerging Market (EM) Fund Flows

**EM bond funds and EM equities outflows persisted for the week ending September 20.** EM bond fund outflows (-\$1.3bn) reaccelerated and were primarily driven by outflows from hard currency funds (-\$787mn). EM local currency funds outflows eased marginally (-\$466mn), led by outflows from EM ex-China bond

funds (-\$385mn). EM equity fund flows also eased (-\$838mn), driven by non-ETF outflows (-\$1.36bn), but ETFs reverted to inflows (+\$518mn from -\$45mn a week prior).

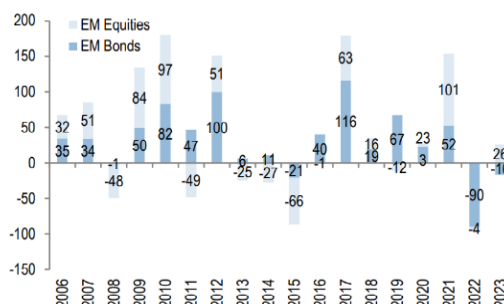
Weekly Cross-asset Flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	-	-2.1	9.6
EM Bonds	-	-1.3	-16.3
Hard Ccy	-	-0.8	-12.8
Local Ccy*	-	-0.5	-3.5
o.w. EM ex-China	-	-0.4	0.2
o.w. China	-	-0.1	-4.9
EM Equities	-	-0.8	25.9
US HG	-	2.1	234.1
US HY	-	-0.2	-0.3
Global Equities	-	-19.0	-58.2
EM Bond and Equity ETFs	-	0.1	35.5
EM Bond ETFs	-	-0.4	-0.3
EM Equity ETFs	-	0.5	35.8
Non-resident EM flows*	-	-2.8	27.8

EM Bond and Equity Fund Flows

USD billion



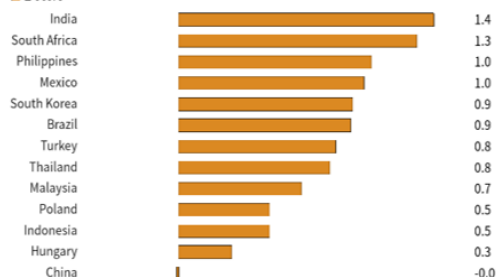
\*High frequency non-resident EM portfolio flow data where available. \*Local ccy split is retail only. All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

## EM Local Currency Bonds

**With oil higher by +30% since its lowest point in June, market participants are re-examining EM local bond market outlook.** The asset class was largely supported in the first half of the year by an easing inflation and peak US Dollar narrative. Costlier energy prices are now dampening hopes that local rates will fall, while energy importers also face larger burdens on fiscal balances, lower real income and, consequently, moderating growth. Risk sentiment in the past two months were also adversely impacted by higher food prices, a stronger US dollar, higher AE rates and concerns over China's economic growth outlook. Consequently, EM local currency bonds (as reflected by the JPM EMBI Global Diversified Index) posted negative returns in August and MTD September, dragged down by both currency and price losses.

Measures consistency of yield reaction to oil price gains

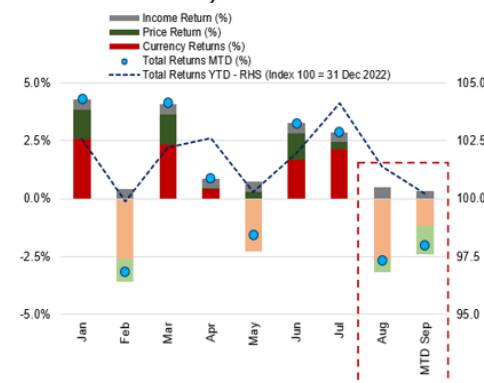
Z-score



Source: Bloomberg

Note: Measures the 5-year yield average move divided over the standard deviation of responses for eight scenarios where oil prices rose rapidly since 2015

JPM EMBI GD Index Monthly Performance



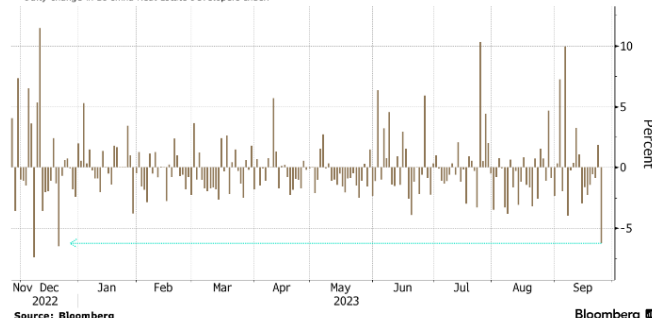
Source: J.P. Morgan, Bloomberg, IMF Staff Calculations

## China

**Chinese stocks fell -0.7%, as property stocks tumbled (-7.1%), the worst decline since December.** China's property giant Evergrande Group stated it must revisit restructuring plans. It's scheduled meeting with key creditors was surprisingly cancelled at the last minute as the firm stated it needed to review restructuring plans as property sales have fallen short of expectations. Evergrande has also failed to meet the regulatory requirement to issue new

### China Developer Shares Slump Most Since December

Daily change in BI China Real Estate Developers Index



Source: Bloomberg

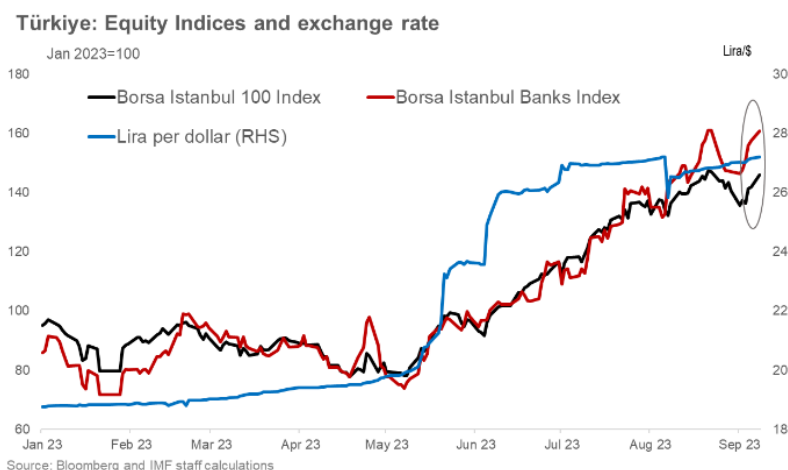
Bloomberg



bonds. Evergrande is under pressure to finalize a blueprint for its offshore debt restructuring as it grapples with an even bigger pile of total liabilities that amount to 2.4tn yuan (\$327 bn)—among the biggest of any property firm in the world, Bloomberg estimated. Cancellation of the new bond issuance is a major setback to its planned restructuring of at least \$30 bn of offshore debt that would have creditors swap defaulted notes for new securities. Evergrande stocks fell as much as 25% on Monday. Separately, **China's central bank advisor called for structural reforms**. Liu Shijin, a member of the People's Bank of China's (PBC) monetary policy committee, stated on Sunday that room for monetary policy easing is limited by widening interest rate differentials with the U.S. He also said that China should pursue structural reforms such as encouraging entrepreneurs rather than counting on macroeconomic policies to revive growth,

## Türkiye








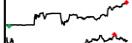




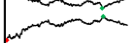





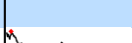



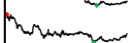


**Turkish equities rallied on news that the minimum interest rate requirement for FX-linked accounts are to be eliminated.** It was reported this morning that the central bank of Türkiye (CBRT) is removing the minimum interest rate requirement for FX-linked deposit accounts converted from regular lira deposits (or KKM accounts). CBRT governor Erkan noted determination to support local and international demand for Turkish assets, and reportedly said that preliminary indicators show that the share of lira assets has started to increase. Turkish equities were up 2.8% with banking stocks roughly 2.1% higher. Meanwhile, after the 500bps hike by the CBRT last week to take the policy rate to 30%, several analysts continue to expect further tightening. For example, Goldman Sachs analysts expect the central bank to continue hiking rates in 500bps increments over the next 3 meetings, while Deutsche bank analysts expect another 500bps hike in October, but then see the central bank leaving rates unchanged likely up to Q1 2024. The Turkish lira was marginally weaker (-0.2% to 27.21/\$).



*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 Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

9/25/23 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4315	-0.2	-3	-2	17	12
Europe		4171	-0.8	-2	-2	25	10
Japan		32679	0.9	-3	3	24	25
China		3715	-0.7	0	0	-3	-4
Asia Ex Japan		64	1.6	-2	-1	6	0
Emerging Markets		38	1.2	-2	-1	7	2
<b>Interest Rates</b>			basis points				
US 10y Yield		4.50	6.7	20	27	82	63
Germany 10y Yield		2.79	5.5	9	23	77	22
Japan 10y Yield		0.74	-1.0	2	8	50	31
UK 10y Yield		4.30	5.3	-9	-14	47	63
<b>Credit Spreads</b>			basis points				
US Investment Grade		144	0.0	-2	-1	-27	-15
US High Yield		419	0.7	10	2	-87	-61
<b>Exchange Rates</b>			%				
USD/Majors		105.69	0.1	0	2	-7	2
EUR/USD		1.06	-0.2	-1	-2	11	-1
USD/JPY		148.7	0.2	1	2	3	13
EM/USD		47.3	-0.2	-1	-2	-3	-5
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		93.3	0.0	-1	11	22	14
Industrials Metals (index)		141	-0.8	-2	0	-4	-15
Agriculture (index)		65	-0.2	-2	-3	-5	-5
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		18.1	0.9	4.1	2.4	-11.8	-3.5
Global FX Volatility		8.1	0.1	-0.1	-0.3	-4.0	-2.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		146	-0.4	1	13	-111	-59
Italy		186	0.9	6	18	-45	-28
Portugal		75	-1.7	0	3	-30	-27
Spain		107	-0.6	0	5	-8	-2

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

## Emerging Market Financial Indicators

Last updated: 9/25/2023 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+) = EM appreciation						% p.a.						
		7.31	-0.2	-0.3	0	-2	-6		2.8	3.5	1	15	-7	-31	
China		15403	-0.2	-0.2	-1	-2	1		6.8	0.7	5	25	-52	-17	
Indonesia		83	-0.3	0.1	-1	-2	0		7.8	0.0	-1	15	(0.8)	34	
India		57	0.0	0.1	0	4	-2		5.8	0.0	3	-10	11	-17	
Philippines		36	-0.4	-1.2	-3	5	-4		3.3	3.0	10	29	5	63	
Thailand		4.69	0.1	0.1	-1	-2	-6		4.0	0.0	8	12	-34	-6	
Malaysia		350	0.0	0.0	0	-59	-49		116.0	29.8	45	1326	3245	2779	
Argentina		4.94	-0.1	-1.7	-1	9	7		11.6	3.1	21	36	-33	-96	
Brazil		898	-0.4	-1.2	-6	10	-5		5.5	4.0	17	5	-142	19	
Chile		3986	-1.2	-1.5	3	10	22		8.9	8.5	43	49	-82	-92	
Colombia		17.24	-0.2	-0.6	-3	18	13		9.2	4.5	24	26	26	52	
Mexico		3.7	-0.2	-0.8	-1	4	2		7.0	3.1	17	3	-130	-95	
Peru		38	0.1	-0.1	-1	7	5		9.3	-1.6	0	14	-214	-135	
Uruguay		368	-0.6	-2.5	-4	15	1		7.0	9.0	13	2	-275	-262	
Hungary		4.32	0.2	0.5	-4	15	1		4.8	-2.3	13	-13	-190	-135	
Poland		4.7	-0.2	-0.5	-2	10	-1		6.7	-0.7	8	-8	-152	-104	
Romania		96.3	-0.5	0.2	-1	-39	-23								
Russia		18.8	0.0	1.4	-1	-4	-9		9.7	10.7	21	4	38	55	
South Africa		27.21	-0.2	-0.7	-2	-32	-31		26.0	8.0	-165	457	1441	1619	
Turkey		106	0.1	0.4	2	-7	2		4.59	3.2	14	15	61	59	
US (DXY; 5y UST)															
	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						
		3715	-0.7	0	0	-3	-4		182	-1	2	-6	5		
China		6998	-0.3	1	1	-2	2		135	6	5	-41	-5		
Indonesia		66024	0.0	-3	2	16	9		137	-2	0	-25	-5		
India		6173	0.5	1	0	-1	-6		111	5	5	-23	14		
Philippines		1507	-1.0	-1	-3	-7	-10		0	0	0	0	0		
Thailand		1443	-0.5	-1	0	2	-3		97	1	1	-1	-3		
Malaysia		553392	-0.1	-2	-12	287	174		2370	196	319	-81	165		
Argentina		116009	-0.1	-2	0	4	6		227	0	-7	-63	-47		
Brazil		5832	-0.4	-3	-4	12	11		126	2	0	-49	-6		
Chile		1091	-0.5	-1	-1	-6	-15		325	-7	-11	-93	-47		
Colombia		51677	-0.5	1	-3	14	7		367	9	-7	-69	-14		
Mexico		22637	-0.4	-1	-1	20	6		154	-2	-3	-51	-26		
Peru		55273	-0.2	-4	-3	43	26		190	0	-8	-63	-32		
Hungary		65840	-1.0	-1	-3	37	15		125	1	9	109	52		
Poland		14425	0.1	2	11	32	24		205	-1	-6	-104	-51		
Romania		73399	0.0	-2	-1	16	0		380	7	-17	-50	13		
South Africa		8230	2.4	7	7	151	49		383	-18	-22	-214	-57		
Turkey		507	0.0	0	0	-2	-2		3278	74	-199	-314	-801		
Ukraine		38	-0.8	-2	-1	7	2		385	7	4	-48	9		
EM total															

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

[back to top](#)