



- **Rising TIPS Yields Weigh on Equity Markets** ([link](#))
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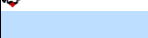

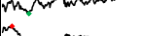
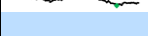
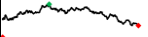

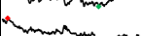
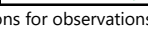
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## Asia Property Concerns Back in the Limelight

**US Markets rebounded while inflation concerns, and property sector worries persist.** The S&P 500 rebounded following the worst selloff since March. Treasury yields continued to rise, driven by higher real rates. Chicago Fed President Goolsbee expressed concern about persistently high inflation as a greater risk than rising rates, suggesting that rates may stay elevated longer than expected by markets. The dollar strengthened for the fourth consecutive day. The oil rally cooled as catalysts for further buying are starting to face. Nevertheless, concerns about oil price increases impacting energy and transportation costs prompted the Philippines central bank to contemplate an off-cycle interest rate hike, while Hungary and Ghana maintained their policy rates. Ongoing worries in Asia's property sector persist as China's Evergrande missed a bond payment and Vietnam's Novaland discussed a debt restructuring following the payment default in July. In terms of economic data, South Korea's consumer confidence dropped to a four-month low due to weak exports and rising prices, while Singapore's industrial production fell well short of expectations, primarily due to a sharp decline in the electronics sector.

**Key Global Financial Indicators**

Last updated: 9/26/23 8:33 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4337	0.4	-3	-2	19	13
Eurostoxx 50		4133	-0.8	-3	-2	24	9
Nikkei 225		32315	-1.1	-3	2	22	24
MSCI EM		38	-0.4	-2	-2	8	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.50	-3.5	14	26	57	62
Germany 10y Yield		2.77	-2.6	3	21	66	20
EMBIG Sovereign Spread		419	-3	-1	1	-98	-33
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.1	0.0	-1	-2	-3	-6
Dollar index, (+) = \$ appreciation		105.9	-0.1	1	2	-7	2
Brent Crude Oil (\$/barrel)		92.7	-0.6	-2	10	10	8
VIX Index (% change in pp)		17.2	0.3	3	2	-15	-4

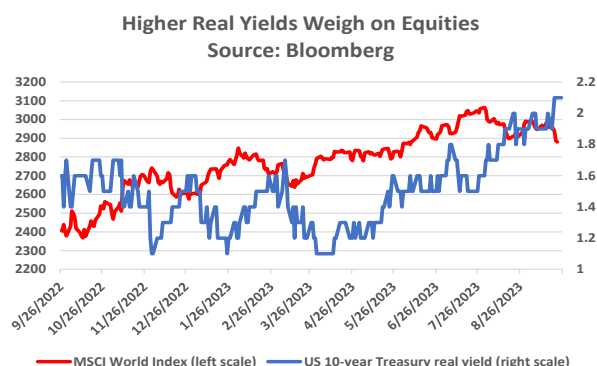
Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

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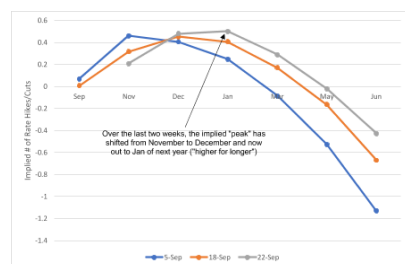
### United States

**Rising real interest rates are pushing equities lower.** Real yields and not inflation expectations drove the recent breakout of the benchmark 10-year US above 4.5% for the first time since 2007. The yield on the 10-year Treasury Inflation Protected Security (TIPS) hit 2.15% yesterday, marking the highest level since 2008. With clear messages from the Fed and the ECB that rates will stay higher for longer, markets are adjusting to a new regime of more restrictive interest rates. Apart from fixed income investors, equities are among the primary casualties of this new trend as stock markets around the world fell back over the past week. The S&P 500 was down for a fifth consecutive day yesterday. However, market conditions remain orderly, and volatility remained relatively low, albeit the VIX showed in recent days nascent signs of increasing from 14% to 17.6%.



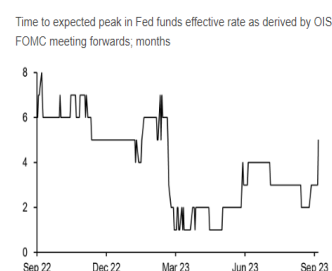
**Markets are re-pricing interest rates to remain higher for longer.** The peak in policy rates in the Fed Funds (left chart) and overnight index swap (OIS) market (middle chart) has shifted from November to early 2024 in the last two weeks. Analysts at JP Morgan speculate that the shift higher in rate expectations could lead to a further selloff in the Treasury market as the overall fixed income complex adjusts to the higher for longer rate environment. Historically, Treasury yields reach their peaks 1–3 months before the last rate hike of the cycle. Meanwhile, the continued appreciation of the dollar could put further pressure on rates, as a stronger dollar is usually associated with weaker foreign demand. The inverse relationship between the dollar and Fed custody holdings for foreign investors, a proxy for foreign demand, illustrates this. However, the latest JP Morgan Treasury client survey finds that investor positioning in the Treasury market has been slowly getting longer after being neutral during the summer, suggesting that higher yields are making the Treasury market more attractive. A surge of buying help keeping further rate increases in check.

### Fed Fund Futures Shifting Peak Hike Expectations



Source: Susquehanna

### Expected peak in Fed Funds drifted to February



Source: J.P. Morgan

### Impact of stronger dollar on demand for Treasuries unclear



Source: J.P. Morgan

## Euro Area

**European equities were trading lower while the euro stabilized at its lowest level since March 2023.**

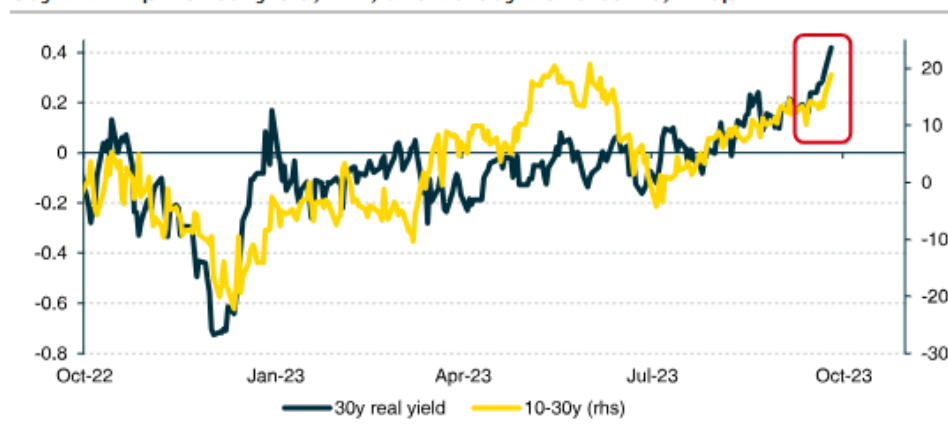
The Stoxx 600 Europe index fell by -0.5% while the euro stabilized at around 1.059/\$. While the dollar has strengthened, ING analysts also note that speculation that the ECB is considering increasing the minimum reserve requirement for banks is further weighing on the euro as market participants expect such a measure to tighten conditions and weigh on the euro area economic outlook.

**European Government Bond yields rise sharply due to aversion to longer durations, reaching multi-year highs.**

In recent months, 30-year bund yields surged by +60bps since July to 2.97%, outpacing the +36bps increase in 10-year bund yields to 2.77%, while 2-year yields remained steady around 3.2%. The lack of demand for longer-dated debt, coupled with increased fiscal supply, creates a macroeconomic backdrop for the repricing longer-dated bonds which private investors need to absorb, prompting the bear-steepening. Commerzbank analysts highlight that real yields are driving the recent moves, with 30-year real Bund yields hitting a record high of 0.4%. This morning, 10-year bund yields eased by -2bps to 2.77% after closing yesterday at 2.79%, the highest since 2011. Analysts at Commerzbank suggest that energy price increases, expectations of a soft landing in the US, and the potential for a mild euro area recession are unfavorable for longer-duration bonds. A larger-than-expected drop in euro area inflation data on Friday could stabilize markets but is unlikely to alter the overall trend.

### Duration aversion visible in ultralong curve

30y DBR Apr46 real yield, in %, and 10-30y Bund curve, in bp



Source: Bloomberg, Commerzbank Research

## Japan

**Prime Minister Kishida introduced a new economic plan.** The economic plan aims to boost wages and address rising prices through a supplementary budget. The exact funding amount is pending. Additionally, the government's September report maintained its outlook for a moderate economic recovery and upgraded its assessment of corporate earnings for the first time since March 2022, reflecting a strong earnings season.

**Finance Minister Suzuki issued multiple warnings on Tuesday regarding excessive currency movements.** The first statement had minimal impact, but after the second warning, the yen corrected by +0.2%, stabilizing at approximately ¥148.90/\$.

**Breakeven inflation reached a nine-year high due on an upbeat producer price print.** Services PPI inflation for August surprised to the upside at 2.1% y/y (exp. 1.8% from 1.7%). Rising oil prices and a weakening yen added further fuel to the fire. Accordingly, Japan's market-based inflation expectations,

measured by 10-year breakeven yields, reached 1.24%, a level last seen in November 2014. The Topix declined by -0.6%, and 10Y bond yields rose by +1.3bps to 0.74%.

### Break-Even Rate Hits Level Unseen Since November 2014



## Emerging Markets

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**Asian equities and currencies weaker on further China property sector worries.** Risk aversion heightens following concerns over a potential liquidation of China's Evergrande Group. The Hong Kong SAR equity market lost -1.5%, leading the broader weakness in Chinese equities. Stock markets in South Korea and Vietnam declined by -1.3% whereas the stock market in Philippines bucked the trend (+1.5%) with bank and utilities stocks advancing. Among currencies, the South Korean won declined (-0.9%), followed by the Thai baht and the Indonesian rupiah (-0.6%).

**EMEA equities and currencies mixed as local currency bond yields inched higher.** Equities in Hungary (+0.7%) outperformed while the Hungarian forint retraced opening losses against the euro (+0.4% to 388.57/€) ahead of the central bank policy meeting later today. Consensus expect the Hungarian National Bank to cut the 1-day deposit rate by 100bps to 13%, merging it with the base rate.

**Latin American currencies and equities broadly weakened on Monday.** In addition to the resurfacing property sector worries from Asian, declines in the prices of industrial metals also weighed on the sentiment. The Colombian currency and bonds led the decline, with the Colombian Peso depreciating -1.8% against the US Dollar while its benchmark 10-year local government bond yield increased +20 bps to 11.65%.

### Emerging Markets currencies

**EM currencies face a second consecutive month of losses.** Risk sentiment for EM assets soured more broadly, prompted by Evergrande Group's potential liquidation amid rising correlation of EM currencies with the yuan (left chart). Notwithstanding this, market contacts perceive that yield differentials and monetary policy trajectories will remain key drivers as relative interest rates and central bank policies affect near-term currency performance. Currencies where central banks favor growth over addressing inflation are expected to underperform. Higher oil prices are also expected to drive a wedge within EM currencies, reflecting the differentiated impact onto fiscal space and current account positions.

### Yuan's Growing Influence on Emerging Currencies

Developing currencies' correlation with yuan has risen this month



## Brazil

**Sao Paulo's state government gears up for privatization of its water utility.** part of the state government's 50.3% stake in the entity Sabesp could be put on sale after the water utility publishes its first quarter results next year, following remarks by the CEO Salcedo. This is slated between mid-May to mid-August next year. The CEO added that the potential partial divestment is targeted towards key investors, both domestic and foreign, who have a "long-term vision" and "knowledge of the infrastructure sector's dynamics". Earlier in July, Sao Paulo unveiled the broad guidelines for Sabesp's privatization and since then, its stocks have outperformed the broader Bovespa index. To prepare for the potential privatization, Salcedo has launched a number restructuring measures, including introducing voluntary redundancy program and lowering energy expenses, and attempting to reduce delinquency rates following a post-pandemic surge.

### Sabesp Shares Trounce Brazil Stock Gauge in Past Year

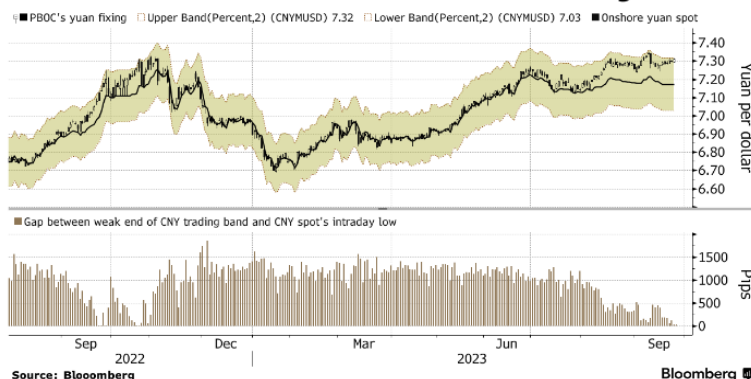


## China

**Chinese stocks extended losses as property sector worries continue to linger.** A unit of China's property giant Evergrande Group missed payment for a 4bn yuan (\$0.6bn) onshore bond, prompting the stocks of the property firm to fall by -8% today. The souring risk sentiment also spilled broader into Chinese stock markets as exemplified by declines in the Hang Seng China Enterprise Index (-1.6%) and CSI (-0.6%). Meanwhile, the rating agency Standard & Poor's cut its 2023 growth forecast for China to 4.8% (from 5.2%), reflecting the ongoing challenges in property market. Meanwhile, the Onshore renminbi has declined to trade more than 1.9% weaker than PBC's daily reference rate and is closest to the 2% limit of the fixed trading band since October 2022, trading range-bound at 7.3095/\$ today.



### Onshore Yuan Declines Toward Weak End Of Trading Band



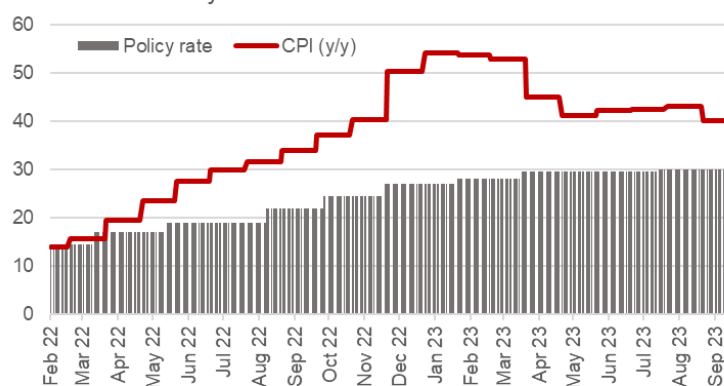
### A former People's Bank of China advisor urges authorities to bolster lending to stem contagion.

The former People's Bank of China advisor, Professor Daokui, recommends boosting lending by providing 100 billion yuan (\$13.7 billion) of additional bank loans to property developers to prevent broader financial contagion risks stemming from property sector concerns. Daokui anticipates that China's property market recovery may last up to a year.

### Ghana

**In an anticipated decision, Central bank of Ghana kept its policy rate unchanged at 30%.** Market contacts expect policy rates to remain at current levels for the remainder of the year. In its policy decision yesterday, the central bank noted that one-year ahead inflation expectations, based on surveys, seem 'well anchored'. This comes after the August inflation data surprised on the downside, with headline inflation easing to 40.1%y/y (exp. 43.7% from 43.1%). Analysts at Absa expect a further deceleration in inflation due to base effects, with inflation forecasts dropping below 30%/y/y by end-2023 while cautioning that higher oil prices could slow down the deceleration.

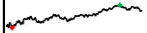
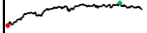
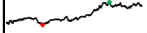

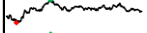



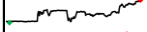
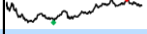



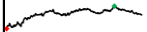

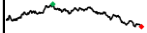



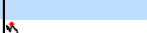

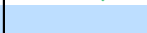


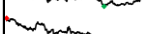
### Ghana: Policy rate and Inflation



*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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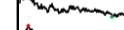

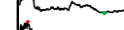
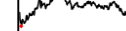
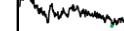




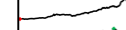



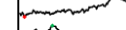





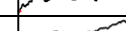
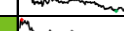













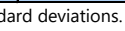
## Global Financial Indicators

9/26/23 8:34 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4331	0.4	-3	-2	18	13
Europe		4133	-0.8	-3	-2	24	9
Japan		32315	-1.1	-3	2	22	24
China		3693	-0.6	-1	0	-5	-5
Asia Ex Japan		64	-0.5	-2	-1	7	-1
Emerging Markets		38	-0.4	-2	-2	8	1
<b>Interest Rates</b>			basis points				
US 10y Yield		4.50	-3.5	14	26	57	62
Germany 10y Yield		2.77	-2.6	3	21	66	20
Japan 10y Yield		0.74	0.5	2	8	49	32
UK 10y Yield		4.28	-4.2	-6	-16	4	61
<b>Credit Spreads</b>			basis points				
US Investment Grade		145	0.8	0	0	-32	-14
US High Yield		425	3.1	17	8	-90	-55
<b>Exchange Rates</b>			%				
USD/Majors		105.88	-0.1	1	2	-7	2
EUR/USD		1.06	0.1	-1	-2	10	-1
USD/JPY		148.9	0.0	1	2	3	14
EM/USD		47.1	0.0	-1	-2	-3	-6
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		92.7	-0.6	-2	10	24	13
Industrials Metals (index)		140	-0.1	-1	-1	-1	-15
Agriculture (index)		65	-0.1	-2	-4	-4	-6
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.2	0.3	3.1	1.5	-15.0	-4.4
Global FX Volatility		8.0	0.0	-0.1	-0.4	-4.8	-2.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		150	3.7	11	16	-111	-56
Italy		191	4.3	13	23	-54	-24
Portugal		76	0.8	2	4	-30	-26
Spain		109	1.4	2	6	-10	-1

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

## Emerging Market Financial Indicators

Last updated: 9/26/2023 8:35 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	0.0	-0.2	0	-2	-6		2.7	-4.4	-3	9	-11	-35
Indonesia		15490	-0.6	-0.7	-1	-2	1		6.9	9.5	10	34	-51	-8
India		83	-0.1	0.0	-1	-2	-1		7.7	-5.1	-6	13	(5.9)	29
Philippines		57	-0.3	-0.3	-1	3	-2		5.8	-1.2	-4	-11	10	-18
Thailand		36	-0.6	-1.1	-3	4	-5		3.3	2.5	5	32	8	65
Malaysia		4.69	-0.1	0.1	-1	-2	-6		4.0	2.0	9	14	-42	-5
Argentina		350	0.0	0.0	0	-58	-50		116.3	29.1	206	774	3279	2808
Brazil		4.96	0.0	-1.9	-2	9	6		11.8	5.4	28	61	-16	-79
Chile		907	-0.6	-2.5	-6	9	-6		5.6	-2.0	27	21	-156	29
Colombia		4052	-1.8	-3.1	2	12	20		9.0	0.0	42	86	-100	-82
Mexico		17.43	-0.2	-2.0	-4	17	12		9.4	0.0	21	61	-11	65
Peru		3.8	-0.8	-1.8	-2	4	1		7.1	0.0	24	10	-137	-88
Uruguay		38	-0.3	-0.4	-1	8	4		9.3	1.6	-4	19	-213	-134
Hungary		367	0.4	-2.0	-3	16	2		7.0	1.0	21	7	-270	-257
Poland		4.35	0.0	0.4	-5	14	1		4.9	1.5	16	-8	-185	-130
Romania		4.7	0.0	-0.7	-3	10	-1		6.7	4.7	9	5	-158	-99
Russia		96.1	-0.1	1.0	-1	-39	-23							
South Africa		19.0	-1.2	-0.3	-2	-5	-10		9.9	13.4	35	50	15	69
Turkey		27.27	-0.2	-0.9	-3	-32	-31		26.9	75.0	0	548	1519	1710
US (DXY; 5y UST)		106	-0.1	0.7	2	-7	2		4.59	-2.9	7	15	39	58

	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		3693	-0.6	-1	0	-5	-5		183	0	2	-4	6	
Indonesia		6924	-1.1	-1	0	-3	1		125	-10	-3	-62	-15	
India		65945	-0.1	-2	2	15	8		139	-1	2	-20	-3	
Philippines		6264	1.5	4	2	4	-5		101	-11	-2	-42	4	
Thailand		1494	-0.9	-2	-4	-7	-10		0	0	0	0	0	
Malaysia		1446	0.1	-1	0	2	-3		97	-1	0	0	-3	
Argentina		548545	-0.9	-6	-13	297	171		2382	194	303	-156	177	
Brazil		115925	-0.1	-2	0	6	6		223	-7	-7	-79	-51	
Chile		5786	-0.8	-4	-4	12	10		121	-7	-7	-61	-11	
Colombia		1100	0.9	0	0	-1	-14		321	-12	-25	-113	-51	
Mexico		51367	-0.6	-1	-3	15	6		365	-1	-4	-87	-16	
Peru		22707	0.3	-1	-1	22	6		149	-12	-10	-63	-31	
Hungary		55713	0.6	-3	-2	45	27		185	-8	-15	-91	-37	
Poland		65801	0.0	-1	-3	39	15		116	-11	-3	96	43	
Romania		14281	-1.1	0	10	34	22		198	-11	-15	-130	-58	
South Africa		72598	-1.1	-2	-2	14	-1		380	1	-3	-72	13	
Turkey		8302	0.0	7	8	155	51		378	-33	-5	-243	-62	
Ukraine		507	0.0	0	0	-2	-2		3278	60	-298	-345	-801	
EM total		38	-0.9	-2	-2	8	1		383	1	5	-64	8	

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

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