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- Bank of Japan announces an unscheduled bond purchase operation ([link](#))
- US pension and mutual funds increase their exposure to bonds ([link](#))
- Major EM local rates relatively resilient to recent rise in UST yields ([link](#))
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Markets Take a Break from September's Higher-for-Longer Theme

Euro area inflation for September (preliminary) came in lower than expected, and sovereign yields fell across the board. Equity indices advanced, recouping some of September's losses. The overall picture for September—up to Thursday—was one of higher rates and downside pressure on equities. While market pricing for the Fed's and ECB's terminal rates did not change significantly this week, yield increases were more pronounced in the longer end of the respective yield curves, even in the 30-year segment. In line with today's price action in euro area sovereign bond markets, yield-declines were also seen for US Treasuries in Thursday's trading session, while US equity markets advanced and are also set to open higher today, with the S&P 500 futures up 0.6%. The US dollar reversed some of September's appreciation pressures, with the US dollar index falling by 0.9% since Thursday morning. All-in-all, despite the looming US government shutdown, the end of September seems to have come with a positive twist of an otherwise gloomy month dominated by the higher-for-longer theme and higher oil prices.

Key Global Financial Indicators

Last updated: 9/29/23 8:20 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4300	0.6	-1	-4	18	12
Eurostoxx 50		4208	1.1	0	-3	28	11
Nikkei 225		31858	0.0	-2	-3	23	22
MSCI EM		38	0.3	0	-5	8	0
Yields and Spreads			bps				
US 10y Yield		4.56	-1.6	13	44	77	68
Germany 10y Yield		2.87	-6.4	13	36	69	30
EMBIG Sovereign Spread		438	15	21	20	-126	-14
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.0	0.1	-1	-3	-4	-6
Dollar index, (+) = \$ appreciation		105.8	-0.4	0	2	-6	2
Brent Crude Oil (\$/barrel)		96.0	0.6	3	12	8	12
VIX Index (% change in pp)		16.6	-0.7	-1	2	-15	-5

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

Mature Markets

United States

On Thursday, the S&P 500 index rose by 0.6%, with almost all sectors advancing, and utilities being the only notable exception at -2.2%. Large tech companies—including Nvidia Corp., Meta Platforms Inc. and Tesla Inc.—drove indices higher. The index performance remains clearly negative for September (MTD) at -4.6%, but futures pricing suggests that the market will open higher today. This morning's data releases did not substantially deviate from expectations: the monthly increase in Personal Income and Personal Spending for the month of August came in line with expectations: 0.4% (vs expected 0.4%) and 0.4% (vs exp. 0.5%) correspondingly. PCE inflation for August came in slightly lower than expected at 0.4% m/m (0.5% expected), driven by the lower-than-expected core component. S&P 500 futures showed a slight upward bump (an additional 0.1ppt) after the release.

Active US bond mutual funds increased their beta-exposure to the bond market. According to JP Morgan (JPM) analysts, the increased exposure has been achieved through overweighted allocation to credit risk and/or to US Treasuries, complemented by persistently positive bond fund flows. At the same time, the banking sector continues to shed duration. Given the still-elevated share of bonds on US banks' balance sheets relative to their pre-pandemic norms, the selling pressure for banks is likely to continue in coming quarters.

Figure 2: 21-day rolling beta of 20 biggest active US bond mutual fund managers with respect to the US Agg bond index

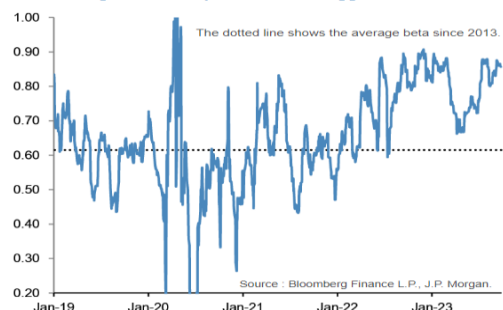
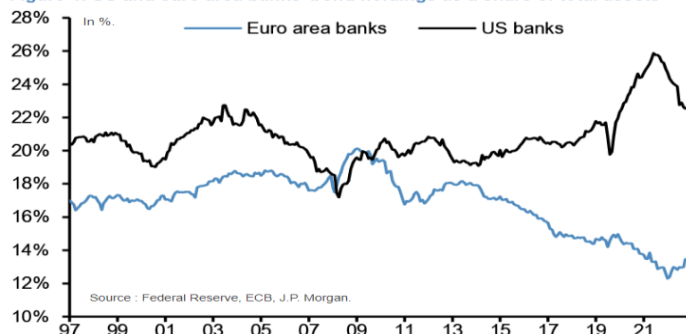


Figure 4: US and euro area banks' bond holdings as a share of total assets



Pension funds' demand for Investment Grade bonds will likely stay strong as it's supported by technical and fundamental factors. On the one hand, equity markets have recently been perceived as weak and volatile, while the tight monetary policy stance keeps long-term yields elevated—thus, making an allocation into bonds relatively more attractive than stocks. On the other hand, increasing yields result in a downward revaluation of pension funds' discounted liabilities, boosting the pension funded ratio close to record-high levels, and supporting further demand for risky assets. This strong demand for investment grade bonds contributes to the tightening of credit spreads.

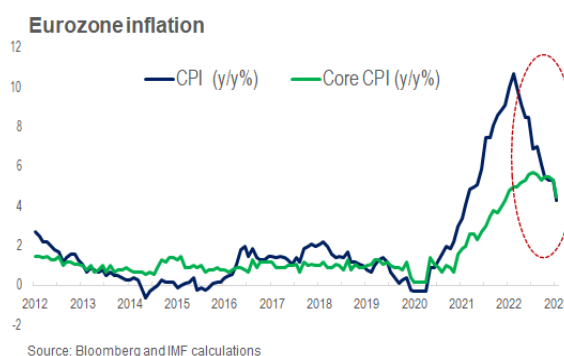
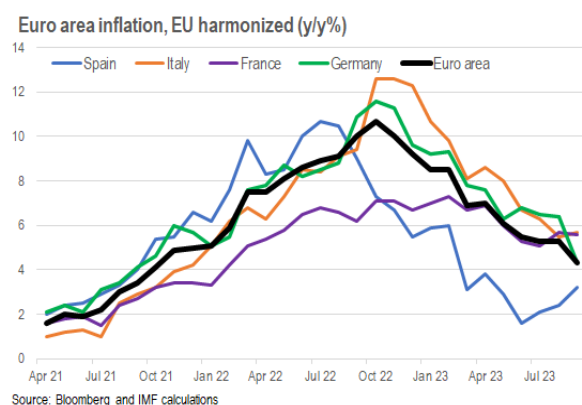
Figure 1: Pension funding levels are at 105.5% which is near the highest they've been since October 2022, and the near the peak in over a decade



Euro Area

European equities gained while sovereign yields eased, with moves reinforced after downside surprise in euro area inflation. The Stoxx 600 Europe index was trading higher (+1.2%) with most sectors trading in the green. The banking sector was roughly 0.9% higher, with Commerzbank shares up 11% after announcing commitments to return a higher share of profits to shareholders. Sovereign yields fell sharply (10-year bund -8bps to 2.85%), and sovereign spreads narrowed. The 10-year Italian-Bund spread is back at around 191bps, after reaching 200bps intra-day yesterday. The euro was stronger against the dollar (+0.4% at around 1.06/\$).

Euro area preliminary September inflation data surprised to the downside. Core inflation slowed to the lowest level in a year at 4.5%/y (versus expected 4.8% from 5.3%), and headline inflation eased to 4.3%/y (versus expected 4.5% from 5.2%). This follows Germany's preliminary September inflation data released yesterday, that showed inflation had slowed by more than expected. Data released this morning showed the EU harmonized measure of preliminary inflation in France easing unexpectedly to 5.6%/y (versus expected 5.9% from 5.7%), while the Italian print showed an unexpected acceleration to 5.7%/y (versus expected 5.4% from 5.5%). Several contacts see the inflation data as reinforcing views that the ECB would leave rates on hold, while some analysts highlight wage costs and higher energy prices as concerning factors for the inflation outlook.

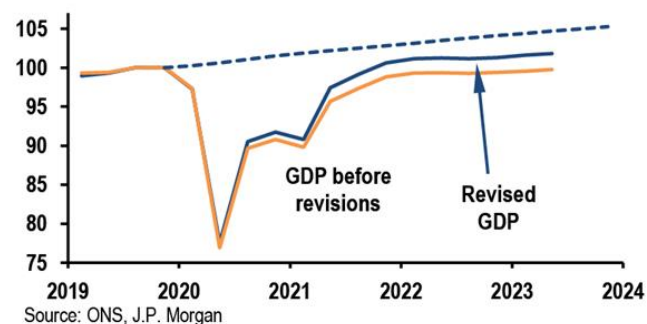


United Kingdom

The pound extended gains versus the US dollar (+0.5% to 1.23) following upward revisions to GDP. Data released this morning by the Office for National Statistics confirmed that UK's Q2 GDP growth was 0.2%q/q, while the year-on-year number was revised higher to 0.6%/y (versus previously estimated 0.4%) as a result of significant upward revisions to Q1 2023 (to 0.3%q/q versus previously estimated 0.1%q/q). Moreover, new data released this morning show that the UK economy has bounced back from the pandemic much faster than previously estimated. Elsewhere on the data front, mortgage approvals for August were lower than expected. Gilt yields eased (10y gilt yields -4bps to 4.45%), in line with trends in global markets, after ending yesterday roughly 13bps higher.

GDP before and after revisions

4Q19=100, dotted line is trend line



Japan

The Bank of Japan (BOJ) announced an unscheduled bond purchase operation and bought 300bn yen (\$2bn) of 5- to 10-year JGBs. This was the third time that the BOJ stepped into the bond market since the relaxation of the yield curve control in July. The announcement came when the 10-year JGB yield touched 0.77% and helped bring down the yield to 0.76%; nevertheless, the 10-year JGB yield still increased from yesterday (+0.7 bp). Longer-end JGB yields also rose (30-year: +1.0 bps). Analysts noted that the bond purchase operation was too small to have any meaningful market impact. The Japanese yen appreciated to 148.7 yen per dollar (+0.4%) amid the broad-based US dollar weakening. Japanese equities were little changed (based on NIKKEI). Retail sales increased 0.1% m/m in August, weaker than expected (consensus: +0.4%). Industrial production stayed flat m/m, stronger than expected (consensus: -0.8%). The unemployment rate remained at 2.7% (consensus: 2.6%). Tokyo CPI inflation decelerated less than expected to 2.8% y/y in September (consensus: +2.7%).

BOJ Steps Into Bond Market for Third Time



Emerging Markets

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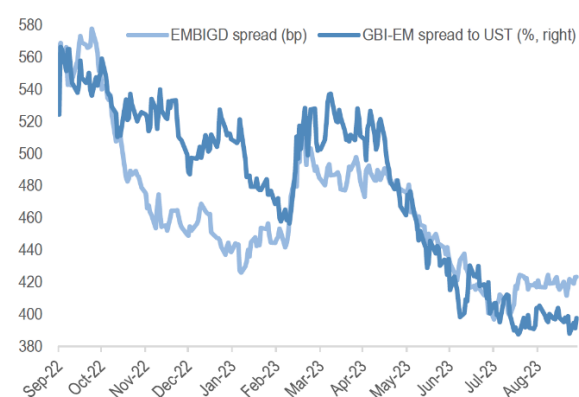
EMEA equities were mostly trading higher, currencies appreciated, and local currency bond yields eased. Equities in Poland (+1.8%) and Romania were outperforming (+1.2%). Currencies were mostly trading stronger against the dollar with the South African rand (+1% to 18.79/\$) outperforming, but some analysts attribute most of the move to the dollar's weakening. On the data front, South Africa private sector credit extension continued to decelerate in August, reinforcing views that interest rates have peaked. CEE currencies were mixed against the euro, with the Hungarian forint (+0.4% to 390.39/€) outperforming. **Asian equities were mixed but up +1.9% on net, led by Hong Kong SAR stocks (+2.9%).** Meanwhile, share prices fell in the Philippines (-1.0%) and Thailand (-0.4%). Many major markets (i.e., China, Korea and Taiwan POC) were closed. **Asian currencies appreciated, led by Thai baht (+0.9%) and Philippine peso (+0.7%) on the broad-based US dollar weakening.** Long-end government bond yields were mixed, with 10-year yields falling in India (-4.7 bps) while rising in Indonesia (+2.1 bps). FTSE Russell continued keeping Korea and India on the watch list for inclusion to its global bond indices—Korea for the main global bond index and India for the emerging market equivalent. Last week, JP Morgan decided to include India to its emerging market bond index, which is estimated to trigger an inflow of over \$40bn. **LATAM regional currencies, bonds and equities rebounded from the recent sell-offs as risk aversion eased.** Mexico's peso led gains (+0.7%) as its central bank maintained its hawkish stance. Colombia's BanRep is expected to hold its policy rate steady at 13.25% later today, and markets are focusing on potential guidance to its monetary policy trajectory.

EM Local Currency Bonds

Major EM local rates have been relatively resilient to the recent rise in US Treasury yields. Instead, FX is seen to bear the brunt of the market impact. Local rates for major EMs, as proxied by their respective 10-year government bond yields, have broadly tracked the move in 10-year UST yields, albeit at a lower sensitivity (beta) compared to the past and departing from the norm of high beta to UST yields. This phenomenon could be partly attributed to the idiosyncratic rate and inflation trajectories. EM currencies have depreciated over the past week as market participants reassess implications of higher-for-longer advanced economy rates onto carry trades, which has been driving EM FX performance this year. It should be noted that the recent US dollar strength came to a halt on Thursday, as mentioned above.

Not bothered... EM risk premia remain low despite US yields rising

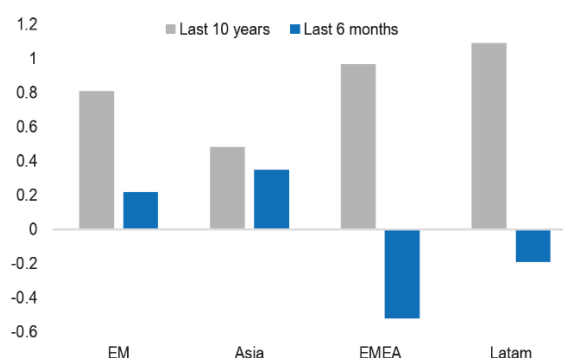
EMBIGD spread (bp, left), GBI-EM minus UST yields (% , right)



Source: J.P. Morgan

Beta of EM rates to US real yields has fallen significantly over the last 6 months driven by EMEA and Latam

Vertical axis: Median beta of EM 10y rates to UST 10y real yields controlling for US 10y breakevens. Grey bars show model estimate using weekly data over the last 10 years and blue bars over the last 6 months.



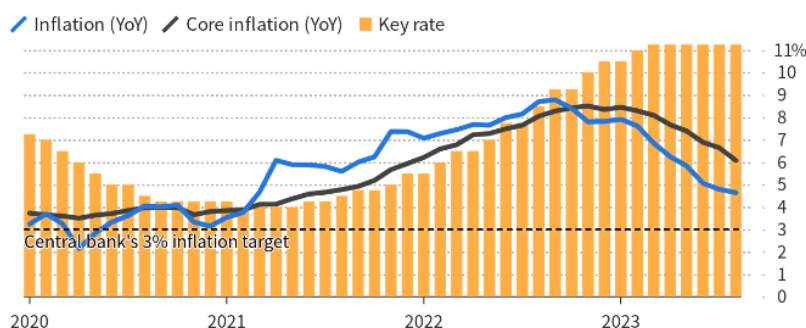
Source: J.P. Morgan, Bloomberg Finance L.P.

Mexico

The central bank's monetary policy committee (MPC) maintained policy rates at 11.25% but was seen to provide a hawkish tilt. The MPC's unanimous decision was widely anticipated. The MPC revised its inflation forecast upwards, and market participants took this as a sign that the policy rate could stay high(er)-for-longer. The committee noted that the balance of risks with regard to the inflation outlook remains biased to the upside, citing economic resilience as a contributing factor. The committee reiterated other upside risk factors, including the persistency of core inflation, depreciation in FX, higher cost-related pressures, and energy/agricultural/livestock price pressures.

Mexico Keeps 11.25% Key Rate for Fourth Straight Meeting

Headline, core inflation remain well above central bank's 3% target

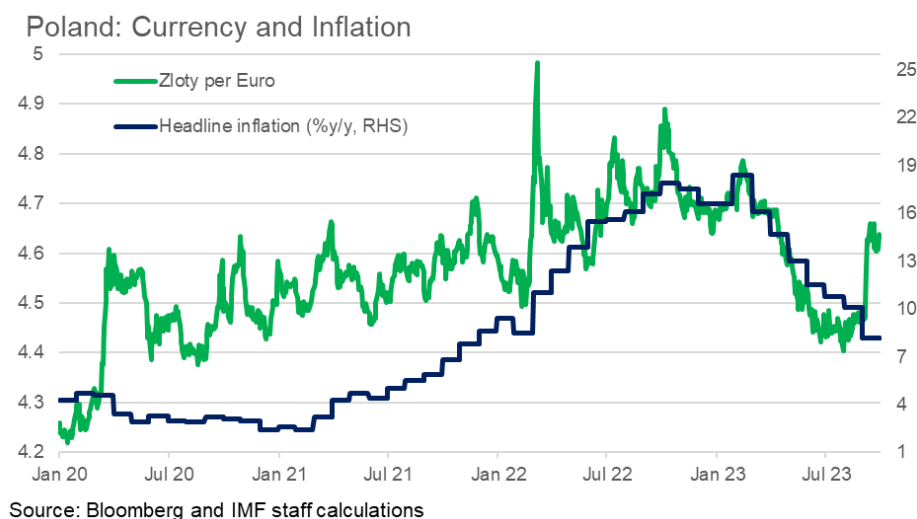


Sources: Central bank,, national statistics agency, Bloomberg.

Bloomberg

Poland

Ahead of the monetary policy meeting next week, Poland's preliminary September inflation data surprised to the downside. Headline inflation eased by more than expected to +8.2%/y/y (versus expected 8.5% from 10.1%), and in monthly terms inflation declined (-0.4%/y/y versus expected +0.1% from 0.0%). Consensus expects the central bank to cut its policy rate by 25bps to 5.75% at the policy meeting next week, after a 75bps rate cut at the policy meeting earlier this month. Contacts highlight a high level of uncertainty about the policy decision, noting that while the central bank could decide to continue with front-loading its easing cycle, the central bank could also remain on hold as a result of lower interest rates and a weaker Polish zloty. This morning local currency bond yields eased (2bps to 5.9% at the 10-year maturity), while the Polish zloty retraced some early morning gains after the release, to trade at around 4.63/€. The zloty is now roughly 4.3% weaker than at the start of June. Polish equities (+1.8%) outperformed.












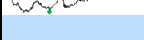















China

Shenzhen became the first top-tier city to lower its mortgage rate floor. The city plans to lower the mortgage rate floor to no less than 10 bps below the 5-year loan prime rate (LPR); the current level is 30 bps above the 5-year LPR. Hong Kong SAR-listed Chinese equities gained (+2.8%) on bets that spending during China's Golden Week holiday would provide a much-needed boost to sentiment. Offshore RMB appreciated (+0.1%). China's onshore markets were closed today for a public holiday, but PMI data will be released over the weekend.

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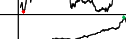
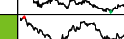






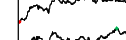

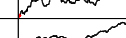

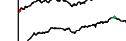

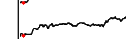







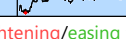





Global Financial Indicators

9/29/23 8:20 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4300	0.6	-1	-4	18	12
Europe		4208	1.1	0	-3	28	11
Japan		31858	0.0	-2	-3	23	22
China		3690	-0.3	0	-3	-4	-5
Asia Ex Japan		63	0.1	0	-5	8	-2
Emerging Markets		38	0.3	0	-5	8	0
Interest Rates			basis points				
US 10y Yield		4.56	-1.6	13	44	77	68
Germany 10y Yield		2.87	-6.4	13	36	69	30
Japan 10y Yield		0.77	0.4	2	11	51	34
UK 10y Yield		4.46	-2.4	21	4	32	79
Credit Spreads			basis points				
US Investment Grade		150	2.4	5	6	-37	-9
US High Yield		432	3.0	17	17	-111	-48
Exchange Rates			%				
USD/Majors		105.84	-0.4	0	2	-6	2
EUR/USD		1.06	0.3	0	-3	8	-1
USD/JPY		149.2	-0.1	1	2	3	14
EM/USD		47.0	0.1	-1	-3	-4	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		96.0	0.6	3	13	25	17
Industrials Metals (index)		145	1.4	2	1	-1	-13
Agriculture (index)		65	-0.2	-1	-4	-5	-6
Implied Volatility			%				
VIX Index (%, change in pp)		16.6	-0.7	-0.6	2.2	-15.2	-5.0
Global FX Volatility		8.4	0.0	0.4	0.2	-4.6	-2.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		151	-4.2	4	20	-122	-55
Italy		193	-0.7	8	29	-54	-21
Portugal		75	-0.5	-1	5	-31	-26
Spain		109	-0.4	1	7	-10	0

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

Emerging Market Financial Indicators

Last updated: 9/29/2023 8:21 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	0.2	0.1	0	-1	-5		2.7	0.0	2	11	-13	-34
Indonesia		15455	0.4	-0.5	-1	-1	1		6.9	3.9	15	53	-50	-3
India		83	0.2	-0.1	0	-1	0		7.8	-4.0	-3	17	8.1	31
Philippines		57	0.7	0.4	0	4	-2		5.8	-0.1	0	-11	8	-17
Thailand		36	0.9	-1.1	-4	5	-5		3.3	-11.2	5	36	-4	64
Malaysia		4.70	0.3	-0.1	-1	-1	-6		4.0	0.3	0	14	-46	-6
Argentina		350	0.0	0.0	0	-58	-49		117.6	67.5	187	790	2980	2936
Brazil		5.03	0.2	-1.9	-3	7	5		12.0	-9.2	38	77	-11	-63
Chile		902	0.5	-1.0	-5	7	-6		5.7	-1.3	22	40	-128	40
Colombia		4076	0.4	-3.7	1	10	19		9.3	0.0	41	118	-66	-51
Mexico		17.46	0.4	-1.5	-4	15	12		9.5	0.0	29	81	31	81
Peru		3.8	0.3	-1.6	-3	4	0		7.5	4.5	46	55	-122	-50
Uruguay		39	-0.7	-1.6	-3	7	3		9.6	10.8	23	40	-189	-110
Hungary		367	1.0	-0.4	-5	17	2		7.3	-9.0	40	29	-272	-231
Poland		4.36	0.6	-0.9	-6	13	0		5.0	0.5	19	22	-202	-114
Romania		4.7	0.3	-0.6	-3	7	-2		6.8	9.8	16	17	-163	-87
Russia		97.6	-0.8	-1.9	-2	-41	-24							
South Africa		18.9	0.7	-0.5	-2	-4	-10		9.9	-13.8	20	58	18	75
Turkey		27.43	-0.1	-1.0	-3	-33	-32		27.7	15.0	178	616	1579	1789
US (DXY; 5y UST)		106	-0.4	0.2	2	-6	2		4.60	-2.3	4	32	58	60

	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		3690	0.0	0	-3	-4	-5		183	2	1	-9	6
Indonesia		6940	0.0	-1	-1	-1	1		136	9	6	-87	-4
India		65828	0.5	0	1	15	8		139	2	3	-55	-3
Philippines		6321	-1.0	3	2	10	-4		113	11	7	-55	16
Thailand		1471	-0.7	-3	-6	-7	-12		0	0	0	0	0
Malaysia		1424	-1.1	-2	-3	2	-5		97	1	0	-13	-3
Argentina		581469	4.4	5	-15	321	188		2497	139	434	-156	292
Brazil		115731	1.2	0	-2	7	5		228	3	-2	-91	-46
Chile		5825	1.1	0	-4	16	11		127	5	0	-69	-5
Colombia		1118	0.9	2	1	-2	-13		338	17	-6	-124	-34
Mexico		51555	0.2	-1	-5	14	6		375	9	8	-101	-6
Peru		22619	0.4	0	-3	17	6		158	7	1	-69	-22
Hungary		55447	0.1	0	-3	50	27		204	20	5	-125	-18
Poland		65562	1.8	-1	-5	43	14		131	12	12	43	58
Romania		14366	1.1	0	9	36	23		215	14	2	-167	-41
South Africa		72649	0.2	-1	-3	15	-1		411	31	29	-89	44
Turkey		8297	0.9	3	5	164	51		401	18	17	-238	-39
Ukraine		507	0.0	0	0	-2	-2		3383	135	-206	-449	-696
EM total		38	1.2	0	-5	8	0		402	21	24	-78	26

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

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