GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, SEPTEMBER 5, 2023

LEAD EDITOR: JOHANNES S. KRAMER

- **US August job report bet reduced the likelihood of an additional rate hike** (link)
- **Heavy corporate supply pressure is looming, sending US long term rates higher** (link)
- **Canada's below-expectation GDP cements the case for the central bank to hold steady** (link)
- **The RBA kept its policy rate unchanged, validating expectations** (link)
- **China's Country Garden avoided default with last-minute coupon payments** (link)
- **While surprising to the upside, Peru's inflation was further decelerating in August** (link)
- **Analysts see higher 2024 policy rate after upside inflation surprise in Türkiye** (link)

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Investor Confidence Wanes on Softer PMIs

Investor confidence in Beijing's support for domestic home buying is waning amid weak PMI data. The service sector in China experienced its slowest growth this year in August, leading to a risk-off market sentiment characterized by a stronger dollar, lower Chinese stock markets, and a decline in Euro Area PMIs. The softening of Italian and Spanish PMIs, combined with French and German PMIs remaining in contraction, signals a convergence toward a slowdown in economic momentum. This coincided with a repricing of Euro Area sovereign peripheral spreads and a three-month low for the euro against the dollar. In Türkiye, yesterday's inflation data exceeded expectations, prompting analysts to revise their forecasts for the Central Bank of the Republic of Türkiye's policy rate trajectory. Additionally, the Hungarian forint weakened today given souring broader sentiment whereas Moody's affirmation of Hungary's credit rating boosted the currency on Monday. In Asia, higher-than-expected inflation is reinforcing the expectation that central banks in the region will maintain higher policy rates for an extended period. As anticipated, the Reserve Bank of Australia (RBA) maintained its policy rate in Governor Lowe's final meeting before Deputy Bullock takes over.

Key Global Financial Indicators

Last updated: 9/5/23 8:36 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4516	0.2	2	1	15	18
Eurostoxx 50		4278	0.0	-1	-1	23	13
Nikkei 225		33037	0.3	3	3	20	27
MSCI EM		40	1.2	2	-2	2	5
Yields and Spreads					bps		
US 10y Yield		4.23	5.3	11	20	104	36
Germany 10y Yield		2.60	2.4	9	4	104	3
EMBIG Sovereign Spread		417	-4	-1	18	-92	-35
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.4	-0.5	-2	-1	-5	-5
Dollar index, (+) = $ appreciation		104.8	0.6	1	3	-4	1
Brent Crude Oil ($/barrel)		88.4	-0.7	3	2	-8	3
VIX Index (%, change in pp)		14.2	0.4	-1	-3	-11	-7

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

In the week ahead, key macro data releases include trade reports from the US and China. In Europe, industrial production for Germany and France are essential datapoints to validate the growth trajectory. Important data releases in Japan include household spending and labor cash earnings. On the monetary policy front, the Bank of Canada and the National Bank of Poland will meet on Wednesday, Banco Central de Chile on Tuesday, and Bank Negara Malaysia on Thursday. Analysts expect the central banks to stay put for the September meeting, except for Chile, where the expectation is that the central bank cuts rates by another 100bps to 9.25%. Investors will also focus on the ECB's consumer expectations survey and inflation expectations on Tuesday, and the Fed's Beige Book on Wednesday.

Mature Markets

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United States

The August job report released on Friday has reduced the likelihood of an additional rate hike. The market-implied probability of a rate hike within this year dropped from 63% a week ago to 38%. Meanwhile, a 25bps cut by mid-next year is now fully discounted. Equities have been swayed by headlines: Early gains in the morning following the job report, which consistently indicated a gradual slowdown over the past 18 months, built the case for the Fed to hold in September. Those hopes were quickly reversed as Fed Cleveland President Mester stated that inflation remains too high, despite recent improvement. Still, the S&P500 managed to close the day up +0.2% and finish the week up +2.5%. The VIX went lower by -2.6 points for the week to a level of 13.1%. The dollar recouped the mid-week losses to end the week almost unchanged.

Expected corporate bond supply pressures are weighing on longer-term rates. Seasonally, the week after Labor Day tends to be a highly active one in primary corporate markets after the issuance hiatus in the summer lull. Market contacts expect $120bn of corporate bonds to be issued in September, 50% more than the $78bn underwritten in the same month last year, according to Bloomberg. With corporate bond spreads recently narrowing, corporate treasurers will aim to finalize issuances before a potential uptick in market volatility ahead of the August CPI data release on September 13 and the FOMC meeting on the September 20. The Treasury 10-year yield was up +8 bps Friday, with the 2y to 10y rate differential steepening by +15bps for the week.

Source: Bloomberg

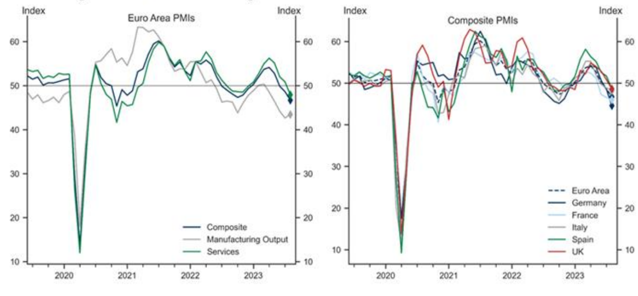
Canada

The second quarter GDP came in weaker than expected. On account of softening consumption and housing, Q2 GDP printed at 1.1% y/y (expected 1.4% from 1.9%), as consumption and housing were soft. Market contacts see dislocations from wildfires to drag recent activity data, making the data appear weaker than the underlying economy. Still, analysts see that the case for the central bank to stay on hold this week is more likely, and the discussion will now shift to when the bank might begin to ease. In financial markets, 2-year government bond yield was down -9bps, equities up +1.2%, and the Canadian dollar weakened by 0.6% for the day.

Euro Area

European equities show signs of weakness in early trade. The Stoxx 600 Europe index corrected by -0.1% with analysts noting a deterioration in risk sentiment following the weak data from China and Europe. Data released this morning showed both final August composite and services PMI numbers for the eurozone were lower than previous estimates. This follows data released yesterday showing that the Sentix Eurozone investor confidence indicator for September disappointed, falling to -21.5 (expected -20.0 from -18.9). Conversely, the ECB Consumer Expectations Survey results for July showed little new information. Consumer inflation expectations for the coming 12 months were unchanged at 3.4% while expectations for inflation 3 years ahead fractionally increased to 2.4% (from 2.3%). The euro weakened against the dollar by -0.5% to 1.07/$ and sovereign yields edged higher with 10y bund yields up +3bps to 2.61%.

Exhibit 1: August Final PMIs—Decelerating Momentum Across the Euro Area



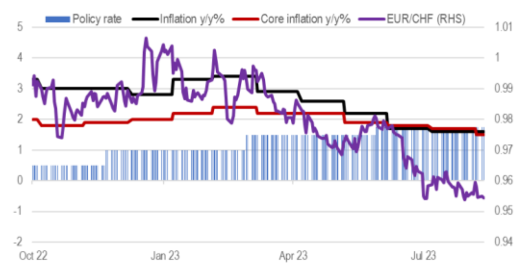
Source: Goldman Sachs Global Investment Research, Haver Analytics, Markit

Belgium raised €21.9bn in a bond sale designed to compete with bank deposits. According to media reports households purchased €21.9bn of the one-year notes with a coupon of 3.3%, while Bloomberg notes an average rate of 3.13% for Belgium deposits of up to one year based on ECB data. Belgian Finance Minister Peteghem said that he expects larger banks to increase rates on related products in the coming weeks, noting that some institutions have already increased their rates since Belgium announced the bond sale.

Switzerland

Analysts see lower odds of another rate hike after recent economic and inflation data. Data released last week showed inflation remaining unchanged in August (+1.6%y/y vs expected +1.5%) and yesterday data releases showed economic growth stalling in Q2 (0.0q/q% vs expected 0.1% from 0.3%). Analysts highlight that inflation has remained below 2% over the past three months, in line with the central bank's target, but notes that higher rent could push inflation marginally higher in early 2024. The SNB has hiked the policy rate by 250bps since 2022, with the policy rate increased by 25bps at the most recent meeting to 1.75%. ING analysts see a final rate hike as a possibility but argue that moderating inflationary pressures and a slowing economy has reduced the likelihood of another rate hike.

Switzerland: Policy rate, Inflation and Currency



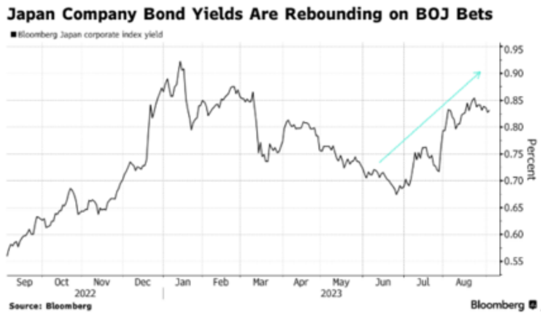
Source: Bloomberg and IMF calculations

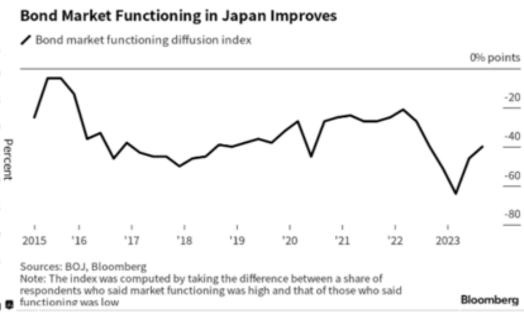
Japan

This morning, Japanese stocks posted nimble gains. The TOPIX inched +0.2% higher. As higher prices are hitting consumption, real household spending missed expectations, declining by -5% y/y (expected -2.5% from -4.2%). Yields on 10Y bonds increased by +1.3 bps to 0.66%, whereas the yen depreciated -0.4% to ¥147.23/$.

The Japanese corporate bond market is witnessing a notable surge in primary market issuance. Up until now, Japanese corporates have issued about ¥8tn ($54bn) in the fiscal year started April 1, which reflects a +36% y/y increase according to Bloomberg estimates. A fear of higher refinancing costs prompted by a potential monetary policy tightening of the Bank of Japan prompted some companies to rush to secure funds before borrowing costs rise further (left chart below).

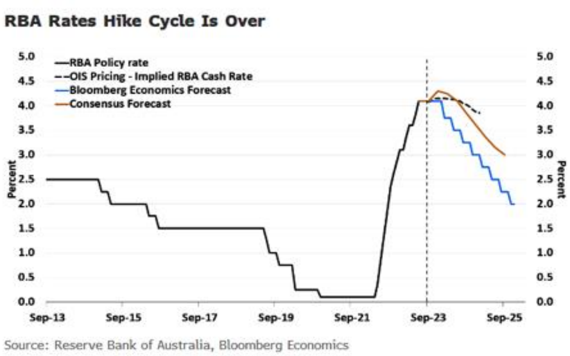
The functioning of Japan's bond markets improved in August. A quarterly survey by the Bank of Japan showed that the bond diffusion index, which captures bid-ask spreads and trading volumes, rose to -40 from -46 (right chart below). The survey respondents expect the 10-year yield at 0.7% at end-September, and at 0.73% at year-end.

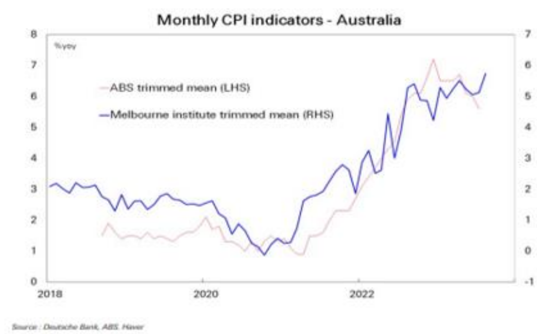




Australia

The Reserve Bank of Australia (RBA) kept its cash rate unchanged at 4.1% as expected. The RBA stated that domestic inflation has passed its peak but reiterated that further tightening of monetary policy may be required to ensure that inflation returns to target (left chart). This was Governor Philip Lowe's final policy meeting, before handing reins over to the current deputy Michele Bullock on September 18. Some analysts continue to expect further rate hikes this year. Deutsche Bank noted that the Melbourne Institute's trimmed mean inflation gauge pointed to a risk of re-acceleration in inflation pressures (right chart). The Australian dollar fractionally changed following the decision but weakened by -1.3% to AUD 1.5707/$ amid dollar strength and weak China data. 10Y yields rose by +4bps to 4.1%. Australian equities were little changed.





Emerging Markets

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In Latin America, equities traded lower on Monday while regional currencies posted mixed results. The Chilean peso and Mexican peso depreciated 0.8% and 0.5%, respectively, while the Brazilian real and the Colombian peso saw marginal gains.

In EMEA, equity markets and currencies weakened. The South African weakened against the dollar by -0.8% to 19.23/$ despite S&P Global PMI numbers for August increased back into expansionary territory. Some losses retraced in later trade after a separate data release showed Q2 growth surprising on the upside. CEE currencies were trading weaker against the euro with the Hungarian forint underperforming (-0.7% to 385.03/€), retracing earlier gains which followed yesterday after Moody's affirmed Hungary's credit rating.

Asian currencies weakened and bond yields broadly increased while equities declined. The South Korean Won and Thai Baht depreciated by -0.8% and -0.6% amid dollar strength. Upbeat inflation released in South Korea, Thailand and Philippines reinforce the view that Asian central banks need to keep policy rates higher for longer. Equity markets corrected on weak China data, with declines led by Hong Kong SAR (Hang Seng -2.1%), along with Mainland China (CSI -0.7%) and Malaysia (KLCI -0.6%).

EM fund flows

EM funds witnessed another week of outflows, amounting to -$3.2 bn. Both equity and bond funds saw outflows of $1.6 bn each. While bond fund withdrawals were driven by hard-currency funds, equity funds outflows came from non-ETF funds. Outflows from equity ETFs reduced significantly. On the regional front, while Asia ex-China equity funds saw outflows, EMEA and Latin American funds saw small inflows. With this, the YTD total EM funds inflows decline to $19.3 bn.

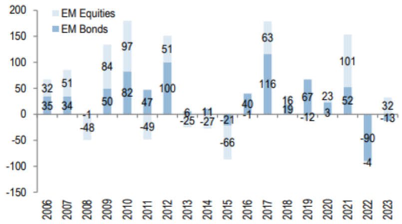
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-3.2	19.3
	EM Bonds		-1.6	-13.0
	Hard Ccy		-1.4	-11.5
	Local Ccy^		-0.2	-1.5
	o.w. EM ex-China		-0.1	1.7
	o.w. China		-0.1	-4.3
	EM Equities		-1.6	32.3
	US HG		0.6	218.7
	US HY		1.2	-1.5
	Global Equities		3.6	-45.4
	EM Bond and Equity ETFs		-0.7	36.2
	EM Bond ETFs		-0.2	0.3
	EM Equity ETFs		-0.5	35.9
	Non-resident EM flows*		0.0	35.0

Figure 2: 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.

China

Optimism on the efforts to support home buying is fading amid a weakening service sector. August data this morning portrays China's service with the slowest growth this year. The Caixin services PMI fell to 51.8 (expected 53.5 from 54.1) in August, the lowest level in eight months. Chinese stocks fell by -0.7% on the news and the Renminbi depreciated (offshore: -0.5%, onshore: -0.4%) while 10y bond yields were little changed.

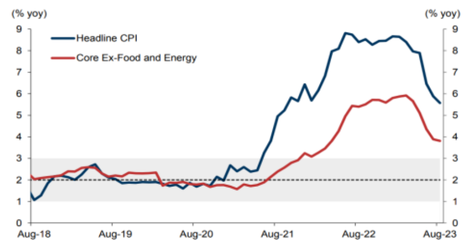
China's property developer Country Garden avoided default with last-minute payments. Country Garden Holdings made two overdue dollar-bond coupon payments before the end of a 30-day grace period, averting an international debt default, according to the Wall Street Journal. Despite recent gains, Country Garden bonds still trade at deeply distressed levels around 9-14 cents on the dollar, suggesting investors anticipate an eventual restructuring or liquidation rather than a state rescue.

Investors are starting to bet on a short-term recovery of the Renminbi. The recent step up in government measures to stimulate China's economy and to support the yuan has spurred bets on a short-term rebound in the currency, Bloomberg reported. An options market gauge of demand for bullish one-month dollar-yuan call options over bearish puts has flipped to favor the latter.

Peru

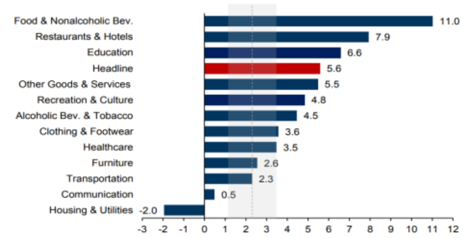
August headline inflation has been decelerating while surprising to the upside. Latest inflation printed at 5.6% y/y (expected 5.4% from 5.9%). Higher food and transport prices drove the upbeat release. Net of food and energy, the core inflation for August declined marginally to 3.8%, inching closer to the upper limit of Banco Central de Reserva del Perú's (BCRP) inflation target band, which amounts to 3%. The BCRP has maintained its policy rate at a two-decade high since Oct 2022. However, owing to deceleration in core inflation and the restrictive monetary policy, some market contacts expect the BCRP to start easing monetary policy soon.

Headline Inflation Continues to Descend; Core Approaches Target Band



Source: INEI, Goldman Sachs Global Investment Research

Inflation Still Above Target in Many CPI Categories

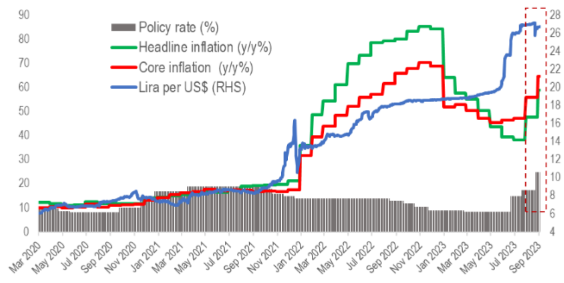


Source: INEI, Goldman Sachs Global Investment Research

Türkiye

Following recent upside surprises on inflation, analysts revise their forecast for policy rates. Inflation data released yesterday showed both headline and core inflation increasing above expectations, with headline inflation accelerating to 58.9%y/y in August (expected 55.9% from 47.8%) and core inflation accelerating to 64.85%y/y (expected 61.7% from 56.1%). Analysts at JPMorgan note broad-based price increases and expects annual inflation to peak at 73% in May 2024. The central bank raised the repo rate by 750 bps to 25% at its last MPC meeting and has noted a deterioration in inflation expectations. Keeping in mind that the central bank is more sensitive to the inflation outlook, JPMorgan analysts note upside risks to their end-2023 policy rate forecast, which is 35%, and have revised their end-2024 policy rate forecast upwards to 45% (from 40% previously). The lira weakened against the dollar this morning (-0.1% to 26.79/$), extending yesterday's decline and is now roughly 30% weaker YTD, while equities inched marginally higher (+0.2%).

Türkiye: 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), 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.

Global Financial Indicators

	Level		Change				
9/5/23 8:37 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4506	0.2	2	1	15	17
Europe		4278	0.0	-1	-1	23	13
Japan		33037	0.3	3	3	20	27
China		3820	-0.7	1	-5	-6	-1
Asia Ex Japan		66	1.3	3	-3	2	3
Emerging Markets		40	1.2	2	-2	2	5
Interest Rates					basis points		
US 10y Yield		4.23	5.3	11	20	104	36
Germany 10y Yield		2.60	2.4	9	4	104	3
Japan 10y Yield		0.66	1.4	1	1	42	24
UK 10y Yield		4.50	3.9	8	12	156	83
Credit Spreads					basis points		
US Investment Grade		147	1.0	3	2	-20	-12
US High Yield		407	-4.0	-8	-23	-102	-74
Exchange Rates					%		
USD/Majors		104.81	0.6	1	3	-4	1
EUR/USD		1.07	-0.7	-1	-3	8	0
USD/JPY		147.5	0.7	1	3	5	12
EM/USD		47.4	-0.5	-2	-1	-5	-5
Commodities					%		
Brent Crude Oil ($/barrel)		88.4	-0.7	4	3	5	8
Industrials Metals (index)		143	-1.1	2	-2	-2	-13
Agriculture (index)		67	-0.3	-2	0	-2	-3
Implied Volatility					%		
VIX Index (%, change in pp)		14.2	0.4	-0.9	-2.9	-11.3	-7.5
Global FX Volatility		8.1	0.0	-0.1	-0.4	-3.1	-2.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		132	-2.7	2	10	-141	-73
Italy		173	1.4	8	7	-65	-42
Portugal		73	-0.8	3	-1	-37	-29
Spain		104	0.4	2	1	-17	-5

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

Emerging Market Financial Indicators

Last updated: 9/5/2023 8:38 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	-0.4	-0.3	-2	-5	-6		2.7	1.8	9	-2	1	-36
Indonesia		15265	-0.2	0.0	-1	-2	2		6.4	6.0	6	9	-71	-50
India		83	-0.3	-0.4	0	-4	0		7.6	4.0	4	3	11.4	18
Philippines		57	-0.3	-0.1	-1	0	-2		5.9	-0.1	-3	-20	56	-9
Thailand		35	-0.7	-0.9	-2	3	-2		3.0	6.5	9	19	22	37
Malaysia		4.67	-0.2	-0.4	-2	-4	-6		3.8	0.3	0	-3	-18	-20
Argentina		350	0.0	0.0	-20	-60	-50		118.6	159.0	890	2783	4067	3036
Brazil		4.97	-0.6	-2.3	-1	4	6		11.4	9.6	32	35	-37	-119
Chile		867	-1.0	-1.1	-1	2	-2		5.4	0.5	1	16	-124	1
Colombia		4053	0.3	1.4	0	10	20		8.2	0.0	13	17	-133	-156
Mexico		17.27	-0.5	-2.7	-1	16	13		8.8	0.0	10	16	12	10
Peru		3.7	0.0	0.0	0	5	3		6.9	-0.2	-6	-5	-130	-111
Uruguay		38	-0.3	-0.2	1	8	6		9.2	0.0	5	13	-188	-146
Hungary		360	-1.7	-2.8	-2	13	4		6.9	13.0	-10	-33	-272	-270
Poland		4.19	-1.2	-2.1	-4	14	4		4.7	-3.0	-10	-16	-150	-146
Romania		4.6	-0.8	-1.6	-3	5	0		6.6	5.1	-7	-1	-122	-111
Russia		97.5	-1.1	-2.0	-2	-37	-24							
South Africa		19.2	-0.6	-3.7	-3	-11	-11		9.5	6.5	18	12	53	34
Turkey		26.79	-0.1	-0.7	1	-32	-30		22.8	31.0	125	285	997	1298
US (DXY; 5y UST)		105	0.6	0.7	3	-4	1		4.36	6.1	8	22	106	35

	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	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3820	-0.7	1	-5	-6	-1		185	4	3	-18	8
Indonesia		6992	-0.1	0	2	-3	2		124	-4	9	-56	-16
India		65780	0.2	1	0	11	8		141	4	9	-16	-1
Philippines		6225	0.2	0	-4	-7	-5		98	-5	7	-35	1
Thailand		1548	-0.1	-1	1	-5	-7		0	0	0	0	0
Malaysia		1455	-0.5	1	1	-2	-3		98	1	8	2	-2
Argentina		633243	-0.2	-5	40	358	213		2096	17	76	-309	-109
Brazil		117777	-0.1	1	-1	5	7		229	-1	13	-78	-45
Chile		5990	-0.1	-1	-5	4	14		121	-7	11	-69	-11
Colombia		1078	-0.7	-3	-8	-13	-16		323	-23	6	-102	-49
Mexico		53031	-0.2	-1	-2	15	9		359	-10	-2	-65	-22
Peru		23251	-0.2	1	-2	23	9		144	-15	-3	-51	-36
Hungary		55659	0.0	-2	3	35	27		192	-8	5	-80	-30
Poland		68339	0.0	-1	-4	38	19		117	-2	10	86	44
Romania		13208	-1.1	0	1	10	13		204	-9	12	-91	-51
South Africa		74727	-0.9	0	-3	11	2		379	-4	19	-78	12
Turkey		8158	0.2	3	10	143	48		391	8	-6	-275	-49
Ukraine		507	0.0	0	0	-2	-2		3407	-169	-77	-444	-672
EM total		40	-0.9	2	-2	2	5		374	-4	12	-67	-2

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

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