GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, SEPTEMBER 6, 2023

LEAD EDITOR: JOHANNES S. KRAMER

- **Oil prices rally to a ten-month high** (link)
- **US student loan payments are expected to weigh on spending** (link)
- **Japanese officials warned against prolonged yen speculation** (link)
- **Speculation on an acceleration of ECB quantitative tightening resurfaces** (link)
- **The Central Bank of Chile cut rates by 75 bps** (link)
- **The People's Bank of China reiterated a strong supportive guidance for the currency** (link)

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Oil Prices Surge as largest OPEC+ producers extended supply cuts

Bond issuance supply is weighing on yields. Oil prices exceeded $90/barrel for the first time since November 2022 as major OPEC+ producers extended supply cuts through end-2023. In the US, Treasury yields rose across the curve due to heavy corporate bond issuance, with over 40 global firms tapping the Investment Grade corporate bond markets. A continuation of weak economic data in the Euro Area led to reduced expectations of further ECB rate hikes while hawkish ECB commentary and speculation about accelerated quantitative tightening is weighing on European government bond yields amid resumed sovereign bond issuance. In Asia, Japanese officials warned against prolonged yen speculation, and the People's Bank of China boosted the yuan's fixing rate while supporting its value. Lastly, in an anticipated and unanimous decision, Chile's Central Bank has cut its policy rate by 75 bps.

Erratum: Yesterday, the GMM stated that Peru's Central Bank maintained its policy rate since October 2022, whereas it did so since January this year (when it kept policy rates at 7.75%). We regret the error.

Key Global Financial Indicators

Last updated: 9/6/23 9:19 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4497	-0.4	1	0	15	17
Eurostoxx 50		4242	-0.6	-2	-2	21	12
Nikkei 225		33241	0.6	3	3	21	27
MSCI EM		39	-0.8	0	-3	3	4
Yields and Spreads				bps			
US 10y Yield		4.26	-0.4	14	22	91	38
Germany 10y Yield		2.62	0.3	7	5	98	5
EMBIG Sovereign Spread		417	0	-3	4	-94	-35
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		47.2	-0.2	-2	-2	-5	-5
Dollar index, (+) = $ appreciation		104.7	-0.1	1	3	-5	1
Brent Crude Oil ($/barrel)		89.6	-0.5	4	4	-4	4
VIX Index (%, change in pp)		14.3	0.2	0	-3	-13	-7

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

Mature Markets

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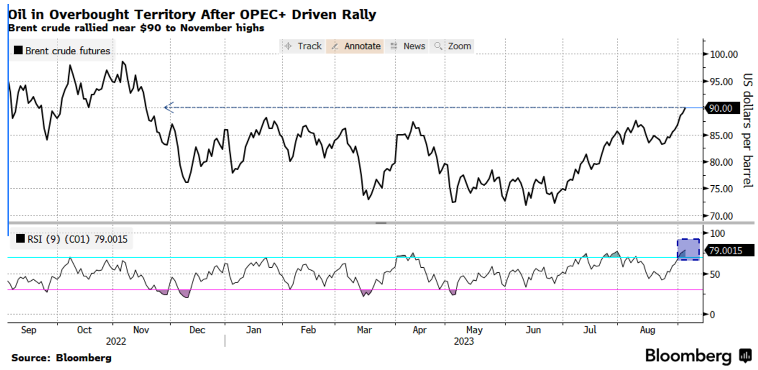
Commodity markets

For the first time since November 2022, oil prices surpassed the watermark of $90/barrel. Oil prices yesterday increased to levels last seen last November after the largest OPEC+ producers extended supply cuts to end-2023. This morning, Saudi Arabia and Russia jointly announced an extension of their voluntary oil production cuts until the year's end. Previously, Saudi Arabia had been renewing its monthly reductions, initially through August and then September, leaving analysts expecting an extension into October. The move to extend the cuts through December was unexpected and has generated significant market interest. Analysts see its implication to CPI inflation as mixed: Rising energy costs put upward pressure on CPI, but to the extent that increasing energy costs serve as a headwind to broader economic growth, they can create downward pressure on core CPI unless pricing pressure came from surging end-use demand. Oil prices eased slightly this morning, with Brent crude declining by -0.4%, stabilizing at around $89.6/barrel.

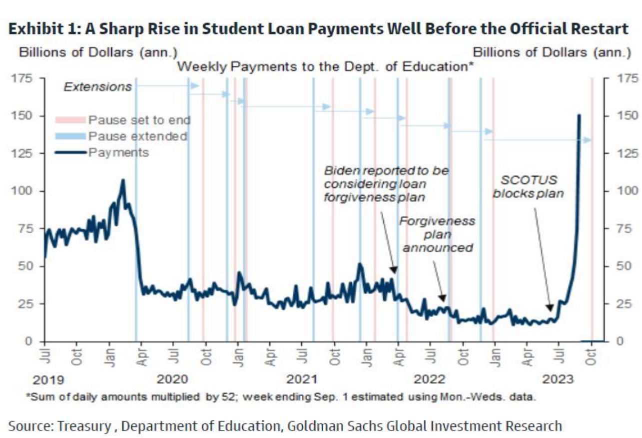


United States

This morning, the July trade balance printed in line with expectations. The trade deficit rose by 2% to $-65bn (expected $-68bn from a revised $-63.7bn). Market reactions have been muted.

Equity markets closed slightly lower amid a quiet trading session. Airline companies underperformed, while crude oil surged above $90/bbl. Implied volatility as measured by the VIX inched marginally higher to 14%. Breakeven inflation in the 5-year maturity point rose by 6bps to 2.27%, and the dollar strengthened against most currencies. **Treasury yields increased by 8bps across the yield curve amid heavy corporate bond issuance**. Reportedly, at least 40 firms are globally tapping the Investment Grade corporate bond markets today, as corporate treasurers expect market to become volatile ahead of the August CPI prints on September 13 and the upcoming Fed Meeting on September 20. Markets shrugged off the comment by Fed Governor Waller, who stated that policymakers could afford to tread carefully with rate increases given that recent data indicated slower inflation.

Student loan payments are expected to weigh on consumer spending. The federal student loan payment suspension that began in March 2020 will end in October. Remittances to the Department of Education have already exceeded pre-pandemic levels weeks before payments resume. Goldman Sachs analysts point out that the interest on these loans will start accruing on September 1, motivating borrowers who can pay off their principal before the restart. The expectation is that a resumption of payments could amount to $70 billion annually,



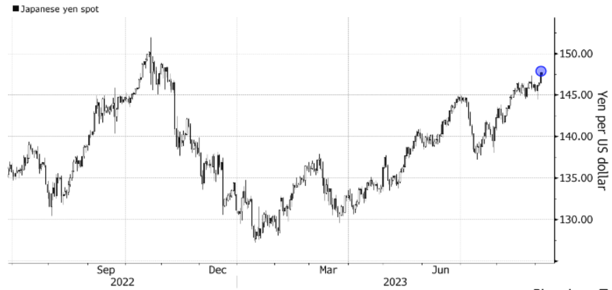
equivalent to 0.3% of disposable income, potentially dragging on Q4 PCE growth by up to 0.8 percentage points. Though, some borrowers may qualify for lower payments through the recent income-based repayment plan introduced by the Biden administration, potentially moderating the impact on PCE growth.

Japan

Bank of Japan board member Hajime Takata noted advancements in achieving sustainable inflation. He emphasized the strengthening of monetary easing due to rising price expectations while underscoring the ongoing necessity of maintaining a very accommodative monetary policy. Japanese stocks gained +0.6%, while the 10-year yield remained range-bound at 0.66%.

Japanese officials have issued a warning against prolonged speculative pressure on the yen. This comes as the yen touched its lowest level since November last year, reaching up to ¥147.72/$. Vice Finance Minister Kanda emphasized the need for stable currency movements in line with economic fundamentals. Following this verbal intervention, the yen promptly appreciated, appreciating +0.2% to ¥147.36/$.

Yen Trading at Lowest Since November Versus Dollar



Source: Bloomberg

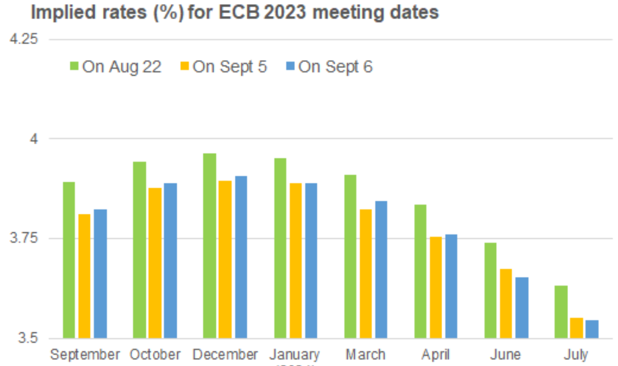
Euro Area

European equities traded lower on disappointing data from Germany and higher oil prices. German factory orders data for July substantially slowed and missed expectations, printing at -10.5%y/y (expected -4.5% from +3.3%). A separate data release showed that euro area retail sales dropped by -1%y/y in July (expected -1.2% from a revised -1%). The Stoxx 600 Europe index corrected by -0.6% following the data release. Following the soft PMI data yesterday, the continuation of weak economic data releases has resulted in markets pricing out ECB rate hikes—with only 15bps of tightening priced in for this year compared to 20bps two weeks ago.

Euro net long positions have decreased during last week. Market contacts noted that short positions increased on the back of weakening euro area economic data as market pricing scaled back ECB hiking expectations. Analysts at ING argue that speculative positioning and concerns about a supply-driven increase in energy prices leaves the euro in a vulnerable position. This is at odds with a recent survey by Bloomberg, according to which the median expectation remains for the euro to strengthen to 1.10/$ by the end of 2023. After the depreciation yesterday to levels last seen at the start of June, the euro was trading marginally stronger against the dollar this morning (+0.2% to 1.07/$).

Hawkish ECB commentary weighs on Bund yields. This morning, Dutch ECB Governing Council (GC) member Mr. Knot stated that markets may be underestimating the odds of another ECB hike in September, describing the ECB's decision as a "*close call*". Some market contacts see this as a catalyst for higher yields, while others argue that market pricing is taking time to digest the September fiscal supply. In separate remarks, the German GC member Mr. Nagel cautioned against speculation that rate cuts would be quick to follow an interest rate peak, while French GC member Villeroy de Galhau stated that the duration of high ECB hikes is more important than raising rates

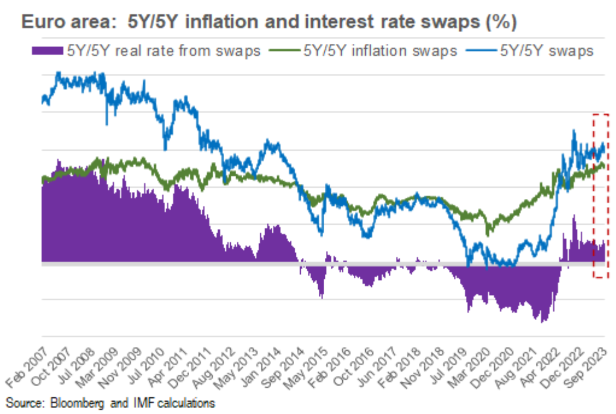
Implied rates (%) for ECB 2023 meeting dates

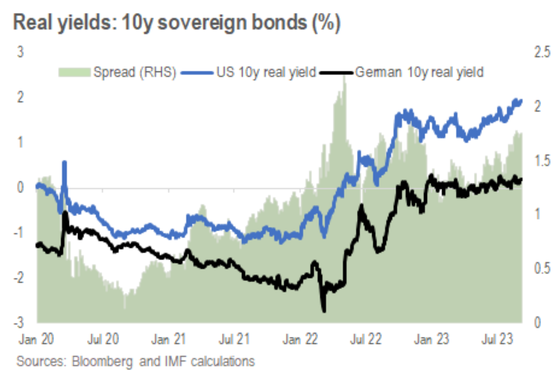


Source: Bloomberg and IMF calculations

"*significantly*" again. Markets are pricing in slightly higher odds for an ECB September rate hike, with EURIBOR futures now pricing a 30% probability, up from a 25% probability yesterday. The 10-year bund yield edged +3 bps higher in early trade but retraced later in the session to stabilize at around 2.61%.

Quantitative tightening speculation resurfaces before the ECB's September meeting next week. Despite the rate hikes that the ECB has delivered so far, 5-year, 5-year forward inflation swaps increased above 2.5%. Conversely, analysts note that longer-term real rates have failed to increase this year, prompting the gap between US and German 10y real yields to widen to levels last seen in 2022. This sparks speculation about further policy restraint through accelerated quantitative tightening amid the hawkish commentary from ECB officials. For example, ECB's Executive Board member Ms. Schnabel cautioned last week that the decline in real risk-free rates back to levels seen in February could counteract the ECB's efforts to return inflation to target in a timely manner. Moreover, Austrian GC member Mr. Holtzmann last week spoke in favor of resuming the debate about ending PEPP reinvestments earlier. Against a backdrop of slowing economic momentum, speculation resurfaces that the ECB could start to consider reducing its balance sheet at a faster pace to further normalize monetary policy and to prompt higher long-term real rates. Some analysts speculate that PEPP reinvestments, which the ECB has repeatedly confirmed to continue until at least end-2024, could end earlier.





Emerging Markets

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Equity markets in EMEA were mostly trading lower while currencies were mixed. The Polish zloty weakened against the euro ahead of the monetary policy meeting later today (-0.2% to 4.50/€), where consensus expects the bank to cut the base rate by -25bps to 6.50%. The Turkish lira was trading slightly weaker against the dollar (-0.1% to 28.79/$) with markets focused on the new medium-term economic plan set to be announced later today.

Asian currencies broadly depreciated while stock markets posted mixed results. The renewed advance in the US dollar sent Asian currencies to a multi-month low. Amid plans to diversify its forex-intervention reliance away from dollar-won to yen-won, Bloomberg reports that South Korea plans to launch its first yen-denominated forex-stabilization bond. Within Asian stock markets, South Korea underperformed by -0.7% whereas Vietnam gained +0.9%.

In Latin America, currencies and stock markets closed weaker. Most stock markets declined, with the benchmark indices in Colombia (-2.4%), Peru (-1.2%) and Chile (-1%) seeing the largest losses. The regional currencies declined on US dollar strength. The Chilean peso and Mexican peso depreciated -1.9% and -1.4%, respectively.

EM Bond Issuance

For the week ending on Sep. 2nd, EMs issued a total of $3.7bn bonds. The issuance volume declined from $4.4 bn the week before driven by declines for both sovereign and corporate sectors on a week-on-week basis that amount to $1.7 bn and $1 bn, respectively. In terms of regions, EM Asia ex-China account for a bulk of the volume ($2.8 bn) with some activity in CEEMA ($0.8 bn). The cumulative issuance now stands at $293 bn for the year, compared to $255 bn for the corresponding period of last year.

Figure 1. EM bond issuance, by sector (bn. USD)

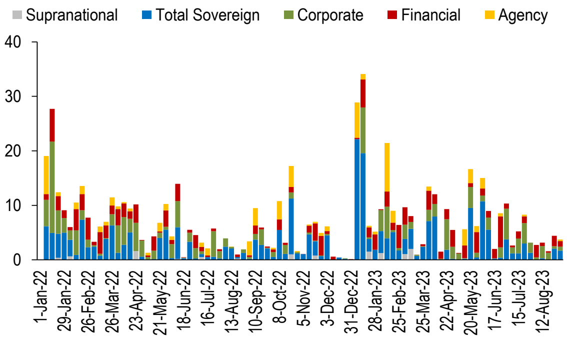
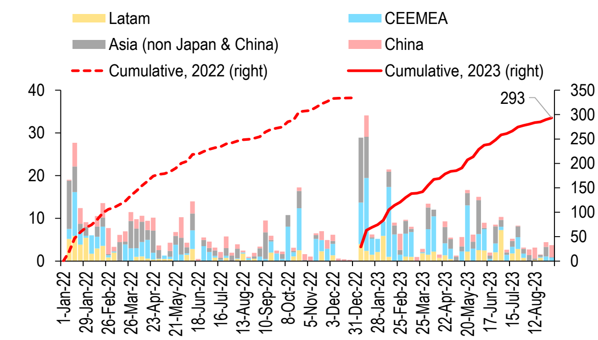


Figure 2. EM bond issuance, by region (bn. USD)

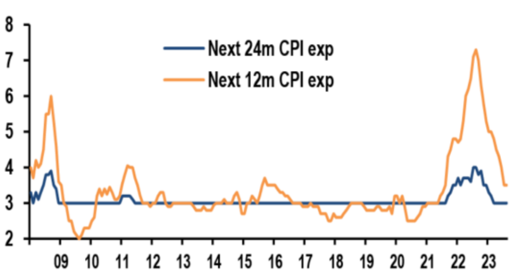


Sources: Bond Radar, and IMF staff calculations.

Chile

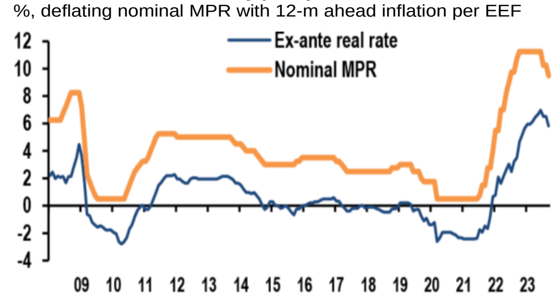
Central Bank of Chile (CBC) slowed the pace of monetary policy easing. In a unanimous decision the CBC yesterday cut its policy rate by 75 bps to 9.5%, validating consensus expectations. Before that, CBC cut interest rates by 100 bps at its July meeting. Analysts see two main drivers for the central bank's decision. For one, the Chilean Peso depreciated -5.5% since the bank's July 28th meeting. Moreover, recent economic data came in stronger than expected. The CBC also reiterated their expectation of inflation cooling to 3% in 2H2024, expecting the policy rate to reach 7.75-8% by 2023-end, an expectation which the market consensus shares.

Inflation expectations
%



Source: CBC and J.P. Morgan

Nominal and real monetary policy rate
%, deflating nominal MPR with 12-m ahead inflation per EEF



Source: INE, CBC and JPMorgan

China

Premier Li Qiang stated that China is on track to realize 5% growth target while China state developers have shown resilience relative to peers. Bigger exposure to developments in larger cities helped state-linked firms weather the downturn better, with majority of them reporting profits in H1. Chinese stocks fell -0.2% while the renminbi and 10Y bond yields were little changed.

The People's Bank of China (PBC) moved up the yuan fixing and reiterated a strong supportive guidance for the currency. The Yuan fixing at 7.1969 per dollar was 1139 pips stronger than Bloomberg consensus expectations, the largest gap since the Bloomberg survey started in 2018. Nomura analysts note that if PBC allows the fixing to move higher in coming sessions, the currency spot price will soon break new highs to levels last seen in 2007. Meanwhile, there are signs that further FX support from the state banks is diminishing. In July 2023, China financial institution FX deposits have fallen to $822bn from a peak of $1tn in February 2022 as compared to FX loans amounting to $702 bn, as Nomura analysts estimate. The fall in FX reverse repo activity could also be an indication that banks have less excess foreign exchange.

Hungary

Hungary issued €1.75bn worth of 10y Eurobonds on Tuesday. The issuance comes after the debt management agency announced a modified 2023 financing plan earlier this week as a result of higher net financing needs. The issuance was three times oversubscribed with a fixed coupon of 5.375% and a 5.52% yield, priced +235 bps above mid-swap rates. The Hungarian foreign currency bonds that are maturing in 10 years were trading at 5.1% yesterday afternoon. Media reports also report that the debt agency stated that it does not plan to issue more Eurobonds this year, while leaving the possibility to issue euro commercial paper if needed.

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

9/6/23 9:20 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4493	-0.4	0	0	15	17
Europe		4242	-0.6	-2	-2	21	12
Japan		33241	0.6	3	3	21	27
China		3812	-0.2	1	-4	-6	-2
Asia Ex Japan		66	-0.7	1	-3	2	2
Emerging Markets		39	-0.8	0	-3	3	4
Interest Rates					basis points		
US 10y Yield		4.26	-0.4	14	22	91	38
Germany 10y Yield		2.62	0.3	7	5	98	5
Japan 10y Yield		0.66	0.2	1	1	42	24
UK 10y Yield		4.52	-0.4	10	14	142	85
Credit Spreads					basis points		
US Investment Grade		148	0.7	4	3	-20	-10
US High Yield		414	1.4	1	-15	-87	-66
Exchange Rates					%		
USD/Majors		104.75	-0.1	1	3	-5	1
EUR/USD		1.07	0.1	-2	-2	8	0
USD/JPY		147.4	-0.2	1	3	3	12
EM/USD		47.2	-0.2	-2	-2	-5	-5
Commodities					%		
Brent Crude Oil ($/barrel)		89.6	-0.5	5	4	7	9
Industrials Metals (index)		143	-0.5	0	-2	-3	-13
Agriculture (index)		67	0.2	0	1	-1	-2
Implied Volatility					%		
VIX Index (%, change in pp)		14.3	0.2	-0.2	-2.9	-12.7	-7.4
Global FX Volatility		8.2	0.0	0.1	-0.2	-3.1	-2.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		132	0.3	0	9	-128	-73
Italy		173	-0.2	8	8	-64	-42
Portugal		74	-0.4	3	0	-33	-28
Spain		105	0.0	3	2	-14	-5

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

Emerging Market Financial Indicators

Last updated: 9/6/2023 9:21 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		7.31	0.0	-0.3	-2	-5	-6		2.7	4.0	13	3	5	-32
Indonesia		15293	-0.2	-0.3	-1	-3	2		6.5	9.7	16	19	-63	-40
India		83	-0.1	-0.5	0	-4	0		7.6	-1.0	6	2	11.0	17
Philippines		57	-0.2	-0.3	-2	0	-2		5.9	-2.5	-7	-20	38	-9
Thailand		36	-0.1	-1.2	-2	3	-3		3.0	4.5	15	24	17	41
Malaysia		4.68	-0.2	-0.8	-2	-4	-6		3.9	1.0	2	-1	-16	-18
Argentina		350	0.0	0.0	-19	-60	-50		117.6	-101.9	566	2681	3943	2934
Brazil		4.98	-0.2	-1.9	-2	5	6		11.4	-1.3	32	40	-38	-114
Chile		872	0.3	-2.3	-1	2	-2		5.5	7.0	16	28	-122	13
Colombia		4094	-0.2	0.0	-1	9	19		8.4	0.0	34	33	-144	-140
Mexico		17.56	-0.8	-4.7	-3	15	11		9.0	0.5	19	30	14	24
Peru		3.7	-0.1	-0.3	0	5	3		6.9	0.1	-3	-1	-129	-108
Uruguay		38	-0.1	-0.6	0	8	5		9.4	13.5	13	26	-175	-132
Hungary		364	-0.6	-4.4	-3	12	3		7.1	10.0	28	-16	-249	-253
Poland		4.23	-1.0	-3.3	-5	13	3		4.7	2.0	4	-11	-150	-141
Romania		4.6	0.0	-2.1	-3	6	0		6.6	4.5	2	3	-117	-107
Russia		97.8	-0.2	-1.7	-2	-37	-24							
South Africa		19.3	-0.6	-3.3	-3	-10	-12		9.5	-4.9	15	10	38	32
Turkey		26.82	-0.1	-0.4	1	-32	-30		23.1	47.0	157	317	1137	1330
US (DXY; 5y UST)		105	-0.1	1.2	3	-5	1		4.38	0.4	11	25	93	38

	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		3812	-0.2	1	-4	-6	-2		184	0	-3	-23	7
Indonesia		6996	0.1	0	2	-3	2		123	-11	-7	-65	-17
India		65881	0.2	1	0	12	8		140	1	3	-22	-2
Philippines		6242	0.3	-1	-4	-5	-5		98	-12	-9	-44	1
Thailand		1549	0.1	-2	1	-6	-7		0	0	0	0	0
Malaysia		1461	0.4	0	1	-2	-2		96	-1	3	-1	-4
Argentina		598133	-5.5	-13	32	336	196		2126	68	98	-308	-79
Brazil		117480	-0.4	0	-2	7	7		229	-3	1	-79	-45
Chile		5931	-1.0	-2	-6	6	13		124	-3	5	-65	-8
Colombia		1051	-2.5	-6	-10	-14	-18		326	-14	5	-103	-46
Mexico		52933	-0.2	-2	-2	15	9		357	-4	-5	-66	-24
Peru		22973	-1.2	-2	-3	22	8		146	-8	-5	-51	-34
Hungary		55957	0.4	0	4	37	28		192	-15	-7	-71	-30
Poland		66761	-1.6	-3	-7	38	16		111	-17	-10	77	38
Romania		13321	0.8	0	2	10	14		202	-14	-1	-98	-53
South Africa		74417	-0.8	-1	-3	10	2		378	-4	15	-62	11
Turkey		8210	-0.3	4	11	142	49		387	7	-15	-262	-53
Ukraine		507	0.0	0	0	-2	-2		3438	-188	-193	-392	-641
EM total		39	-0.4	0	-3	3	4		376	-2	2	-66	0

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

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