



- US Treasury 2-years surpass 5% on solid service sector indicator ([link](#))
- Markets scale back Bank of England tightening bets after dovish BoE commentary ([link](#))
- US securitization underwriting standards tighten ([link](#))
- The Bank of Canada holds rates at 5% ([link](#))
- Malaysia's central bank kept policy rate unchanged at 3% as expected ([link](#))
- Polish zloty depreciates sharply after larger-than-expected rate cut ([link](#))

[Mature Markets](#)



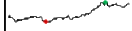





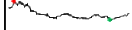
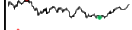

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US and Chinese equities fall as tensions around trade and technology intensify

Equities fell on news of US lawmakers calling for a Huawei chip probe and reports of a partial ban on the use of iPhones in China. US equities also reacted to the relatively strong ISM PMI services index; this was seen to increase the chances of one additional Fed rate hike this year. Adding to the strong services PMI, initial jobless claims for September came in lower than expected this morning, at 216k versus 233k surveyed. Yesterday's equity declines were led by the technology sector, with Apple Inc. stock sliding by 3.6% on Wednesday, and falling a further 3% in premarket trading today. Even though China's exports in August declined less than expected, the yuan continued to depreciate versus the US dollar. US equities are set to open lower today with S&P 500 futures trading at -0.6%. Sovereign bond yields declined in most European jurisdictions, led by the UK. Bank of England governor Bailey was reported to have made dovish remarks, and a survey suggests that UK firms' inflation expectations have declined more than expected. In the euro area, the final Q2 GDP growth number came in lower than expected. The ECB will meet next week for its monetary policy decisions; for this meeting, the probability of a rate hike is priced out (34%), but an additional rate hike by the end of the year is still priced in at 68%.

Key Global Financial Indicators

Last updated: 9/7/23 8:21 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4465	-0.7	-1	-1	12	16
Eurostoxx 50		4237	0.0	-1	-2	21	12
Nikkei 225		32991	-0.8	1	2	20	26
MSCI EM		39	-0.6	-2	-3	1	3
Yields and Spreads			bps				
US 10y Yield		4.27	-1.2	16	18	100	39
Germany 10y Yield		2.63	-2.1	17	3	106	6
EMBIG Sovereign Spread		421	5	4	9	-84	-31
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.2	0.0	-2	-2	-6	-5
Dollar index, (+) = \$ appreciation		105.0	0.1	2	3	-4	1
Brent Crude Oil (\$/barrel)		90.2	-0.5	4	6	2	5
VIX Index (% change in pp)		14.9	0.4	1	-1	-10	-7

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

Mature Markets

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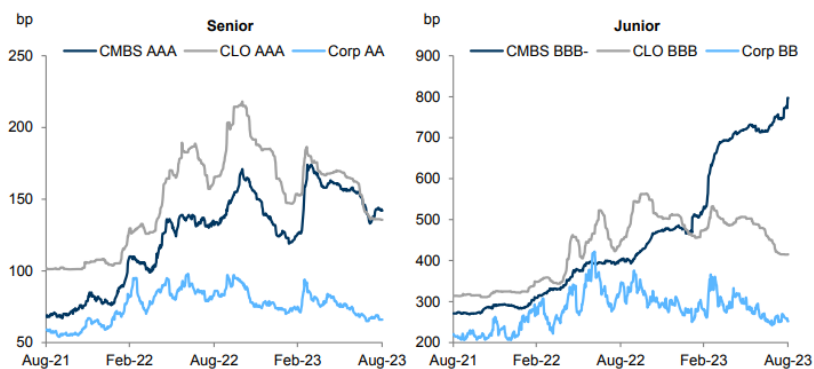
This morning, initial jobless claims came in lower than expected (216k versus 233k consensus), with lower continuing claims (1679k versus 1719k consensus). S&P 500 futures were down 0.6%, and Treasury yields moved marginally higher in early trading across the curve. The dollar was little changed.

Treasury yields continued to increase on Wednesday, with the 2-year yield reaching 5%. The yield curve bear-flattened in the morning after the August ISM PMI services index rose to a 6-month high of 54.5 versus 52.5 expected and 52.7 prior. The market-implied probability of an additional rate hike this year now stands around 50% (+4pp), and the US dollar appreciated. The market reaction to the Fed's Beige Book release in the afternoon was muted. According to the publication, growth in the US economy and employment slowed in July and August, and many businesses expect wage increases to ease. **US equities were lower, led by the technology sector**; Apple was down 3.6% on a report that Chinese government agencies barred employees from using the iPhone and other foreign-branded devices at work.



New issuance in structured products has decreased this year, down 30% relative to last year, as the pipeline has dried up—except for auto ABS. Analysts attribute this to weak investor risk appetite and high risk-free rates. Weak investor demand has been pronounced in CMBS, reflected in the divergence between credit spreads in structured products relative to corporate bonds across the credit rating spectrum. In addition to solid corporate balance sheets, analysts see that the gap in credit spreads has driven the stark contrast in issuance volumes. More broadly, the tightening in securitization underwriting standards mirrors the tighter bank lending standards reported in the Fed's Senior Loan Officer Opinion Survey.

Exhibit 2: Structured products spreads remain wide vs. corporate bonds across rating buckets
AAA-rated CMBS/CLO index vs. AA-rated corporate index spread (left panel), and BBB-rated CMBS/CLO index vs. BB-rated corporate index spread (right panel)



Source: Bloomberg, Palmer Square, Goldman Sachs Global Investment Research

Canada

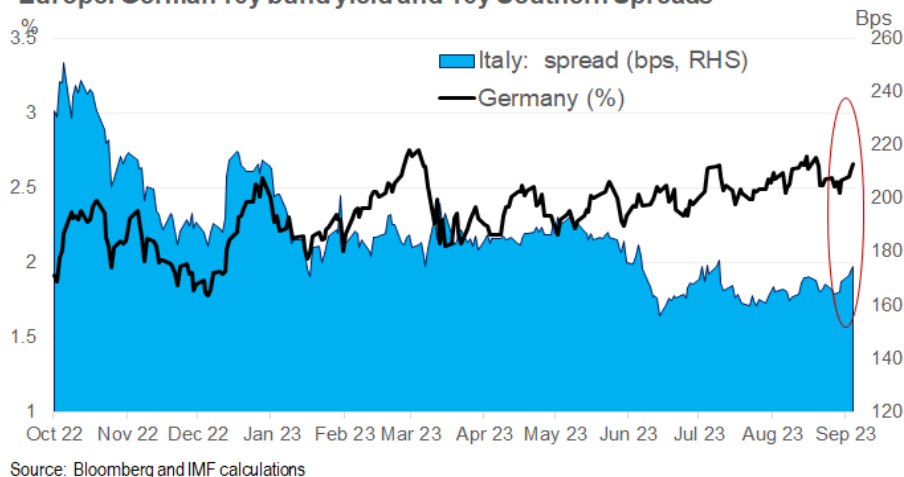
As widely expected, the Bank of Canada held its policy rate at 5%. However, the bank remains concerned about the persistence of underlying inflationary pressures and is prepared to increase the policy rate further if needed. The 10-year government bond yield was down 0.6bps.

Euro Area

European sovereign yields were mostly edging lower, with the 10-year Bund yield declining by -2bps to 2.63%. The final euro area GDP print for Q2 was weaker than previously estimated at +0.1% q/q versus previously estimated +0.3%. A separate data release showed German industrial production declining by -2.1% y/y in July, as expected. Contacts note that this is the third consecutive monthly decline and provides more evidence of recession risk in Germany. Overnight index swaps are now pricing in a 34% chance of a 25bps ECB hike next week, up from roughly 26% at the start of the week.

Italian spreads have widened on news suggesting an upward revision to Italy's 2023 government deficit. Media articles, citing unidentified sources, said that Italy may raise its 2023 budget deficit as a result of weakening growth and also a larger-than-expected drawdown of fiscal incentives for 'green' home improvements. The spread between German and Italian 10-year government bond yields increased to roughly 175bps yesterday, from 165bps a week ago, but eased slightly this morning.

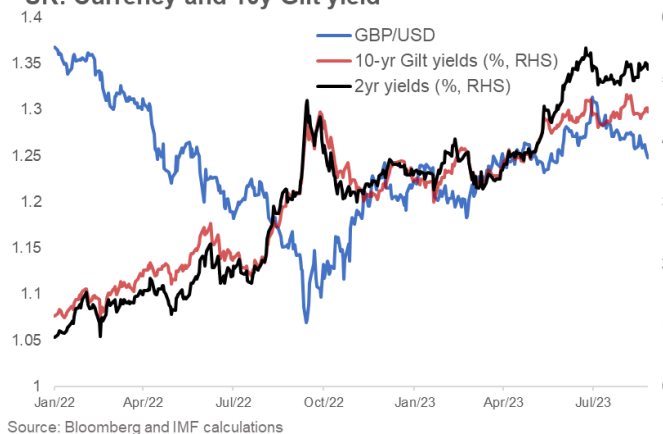
Europe: German 10y bund yield and 10y Southern Spreads



United Kingdom

The pound weakened against the US dollar as markets scaled back BoE hiking expectations following dovish comments from the BoE governor and data showing corporate price expectations easing. Yesterday BoE governor Bailey said that monetary policy in the UK is likely “near the top of the cycle”, and that he expects inflation to fall significantly by the end of this year. Contacts note that the governor struck a more dovish tone than had been expected, with some contacts commenting that the BoE seems to be moving to a higher-for-longer narrative. **Businesses' one-year ahead**

UK: Currency and 10y Gilt yield



inflation expectations eased more than expected in August to 4.8%, compared to 5.1% expected. Markets now see an 83% chance of a 25bps BoE hike in September, compared to 95% on Tuesday. The pound ended yesterday -0.5% weaker against the dollar and continued to depreciate this morning to trade at around 1.24/\$, a level last seen in June 2023. Gilt yields eased with the 2-year gilt yield falling by -9bps to 5.12%.

Japan

Japanese stocks slipped by -0.4%. Japanese PM Kishida is making preparations to reshuffle cabinet and party posts next week, local media reported. Separately, Japan could soon join a wave of semiconductor listings in Asia, according to Bloomberg. Kokusai Electric Corp. could potentially become Japan's second-biggest initial public offering this year. Separately, the **Bank of Japan (BOJ) will closely coordinate with the government to monitor the yen**, BOJ board member Junko Nakagawa stated. Nakagawa also said the BOJ will not directly target any currency levels and that an additional yield curve control (YCC) tweak is not a strong possibility for now. Meanwhile, JP Morgan sees the yen weakening to 152 by the end of 2023, as it will continue to be undermined due to BOJ's difficulty to hike policy rates. **The yen appreciated by 0.2% versus the US dollar, and 10-year yields were little changed.** Weak demand was seen for a 30-year Japanese government bonds auction, as investors held out for higher yields, Bloomberg reported.



Emerging Markets

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Equity markets in EMEA were mixed with currencies mostly weakening. Polish equities underperformed (-1%) after a larger-than-expected rate cut by the central bank yesterday, while equities in Türkiye gained (+1.3%). **Asian equities declined -0.8% on net**, after the strong US ISM services data raised concerns of further Fed tightening yesterday. **Asian currencies broadly depreciated**, and **10-year sovereign bond yields rose slightly**, with South Korea up +5.1bps, and Singapore and Australia each adding +3bps. **India's bond market** outperformed on news that the Reserve Bank of India has reportedly been making informal feedback on the impact of allowing settlement of domestic sovereign debt on the Euroclear platform. **Malaysia's central bank (BNM) kept policy rate unchanged at 3% as expected.** Market consensus is the BNM will remain on hold. **Equity markets in LATAM mostly traded lower**, with markets in Brazil taking the largest losses (-1.1%), followed by Colombia (-0.4%), Chile (-0.4%) and Peru (-0.1%). Mexican equities saw modest gains.

EM corporate credit spreads

EM corporate spreads over US credit have widened to 34bps and 251bps for IG and HY credit, respectively. EM IG credit has historically traded at a 20–50bps spread differential over US HG credit, and

therefore, the current differential of 34bps bears little incentive for US crossover investment. However, EM BBB rated instruments' spread differential at 46bps could provide some opportunities, as per street analysts. On the HY front, the high levels of spread differentials are driven by China's HY real estate segment. Net of that, the EM HY spread over its US counterpart reduces to ~70bps.

Market performance and targets

	Spread (bp)						Return				
	Level	1w	1m	3m	YTD	2023F	1w	1m	3m	YTD	2023F
CEMBI Broad	317	-6	15	-15	-3	300	0.6%	-0.2%	0.4%	2.6%	6.9%
IG	170	2	13	-11	-4	155	0.5%	-0.1%	0.0%	2.9%	6.6%
HY	657	-10	30	-5	43	625	0.9%	-0.3%	1.2%	1.9%	7.5%
EMBIG Div	417	-1	9	-47	-35	425	0.6%	0.1%	1.9%	4.3%	8.0%
US HG (JULI)	136	0	-1	-18	-16	150	0.5%	0.6%	-0.4%	2.5%	5.5%
US HY	406	-13	-19	-66	-104	425	1.1%	1.2%	2.6%	7.7%	11.5%

Source: J.P. Morgan. As of September 1, 2023.

China

Chinese stocks fell -1.4%, dragged by underperformance of tech stocks after the US lawmaker called for SMIC's Huawei chip probe. Meanwhile, China plans to expand iPhone ban to state firms and agencies, Bloomberg reported. **China's trade slump persisted** as exports contracted by -8.8%y/y in August (consensus: -9%, previous: -14.5%), albeit slightly better than expected. Separately, **USD liquidity in China's onshore market has turned tighter in 2023, despite China's still elevated monthly trade surplus**, BofA noted. Analysts believed that not all trade surpluses translate to net USD selling, due to the gap between trade surplus and net receipts, rising renminbi usage for trade settlement, and corporates' pro-cyclical behavior. **Renminbi depreciated by -0.1%**, amid central bank's longest run of stronger-than-expected yuan fixings, Bloomberg reported. **10Y bond yields were little changed**.

USDCNH vs gap between goods trade net receipts and net FX settlement

The gap widens when CNH is under depreciation pressure

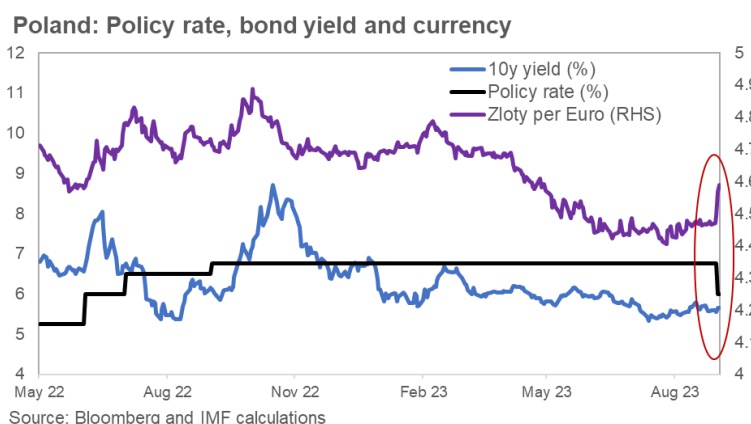


Source: Wind, BofA Global Research

Poland

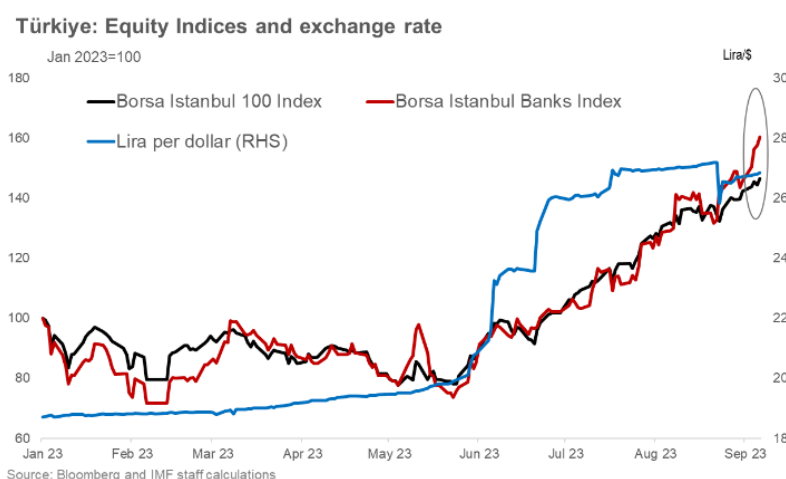
The polish zloty depreciated sharply after the central bank of Poland (NBH) surprised markets with a 75bps interest rate cut to take the benchmark rate to 6%. The NBH is the second central bank in the Central and Eastern European region, after the central bank in Hungary, to cut rates in this cycle. Consensus had expected the NBH to cut the base rate by 25bps. Analysts see Governor Glapinski's press

conference later today as critical in shaping expectations for the future path of policy. The Polish zloty weakened by 1.7% against the euro yesterday and is down a further -0.4% this morning, at around 4.59/€. Polish equities lost 1.6% yesterday, with banking stocks almost 4% lower.



Türkiye

The government revised its year-end projection of inflation upward to 65% and revised growth forecasts downward. This follows after the August inflation print surprised on the upside with headline inflation accelerating to 58.9% y/y in August and core inflation accelerating to 64.85% y/y. As the government shared economic targets for the next three years, President Erdogan spoke in favor of tighter monetary policy to ease inflation. The lira initially appreciated after the President spoke, but gains were retraced in later trade and the currency remains roughly 30% weaker than at the start of the year. This morning Turkish equities gained (+1.5%), with banking stocks up (+1.8%).



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Benjamin Mosk (Senior Financial Sector Expert), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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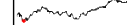
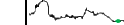






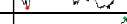
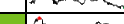



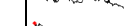



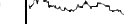








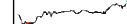



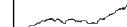


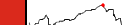
Global Financial Indicators

9/7/23 8:22 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		4465	-0.7	-1	-1	12	16
Europe		4237	0.0	-1	-2	21	12
Japan		32991	-0.8	1	2	20	26
China		3758	-1.4	0	-6	-7	-3
Asia Ex Japan		66	-0.4	-1	-4	1	2
Emerging Markets		39	-0.6	-2	-3	1	3
Interest Rates			basis points				
US 10y Yield		4.27	-1.2	16	18	100	39
Germany 10y Yield		2.63	-2.1	17	3	106	6
Japan 10y Yield		0.66	-0.3	1	3	40	24
UK 10y Yield		4.47	-6.6	11	1	143	79
Credit Spreads			basis points				
US Investment Grade		148	0.5	3	3	-21	-11
US High Yield		414	1.3	1	-15	-88	-66
Exchange Rates			%				
USD/Majors		105.00	0.1	2	3	-4	1
EUR/USD		1.07	-0.2	-1	-3	7	0
USD/JPY		147.4	-0.1	1	3	3	12
EM/USD		47.2	0.0	-2	-2	-6	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		90.2	-0.5	4	6	13	10
Industrials Metals (index)		142	-0.6	-1	-2	-4	-14
Agriculture (index)		67	-0.3	0	1	-1	-3
Implied Volatility			%				
VIX Index (% change in pp)		14.9	0.4	1.0	-0.9	-9.8	-6.8
US 10y Swaption Volatility		123.7	13.7	17.3	5.8	-12.1	-2.0
Global FX Volatility		8.3	0.0	0.1	-0.2	-3.4	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		136	-1.5	4	8	-122	-70
Italy		173	-2.3	7	7	-56	-42
Portugal		74	-2.2	1	-1	-31	-28
Spain		104	-1.3	2	0	-12	-5

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

Emerging Market Financial Indicators

Last updated: 9/7/2023 8:22 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					YTD	Level		Change (in basis points)					YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	1 Day	7 Days	30 Days	12 M			
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.33	-0.1	-0.9	-2	-5	-6		2.7	-0.5	12	2	4	-32		
Indonesia		15325	-0.2	-0.6	-1	-3	2		6.6	5.0	21	23	-62	-35		
India		83	-0.1	-0.5	-1	-4	-1		7.6	0.0	9	2	10.8	17		
Philippines		57	0.3	-0.3	-1	1	-2		5.9	-2.5	-3	-20	23	-9		
Thailand		36	-0.3	-1.7	-2	3	-3		3.1	2.3	19	26	28	43		
Malaysia		4.68	0.0	-0.8	-3	-4	-6		3.9	-0.2	1	0	-25	-19		
Argentina		350	0.0	0.0	-19	-60	-49		117.9	31.3	323	2712	3889	2966		
Brazil		4.98	-0.2	-1.8	-2	5	6		11.5	5.0	39	46	-32	-108		
Chile		873	0.2	-2.4	-2	2	-3		5.5	0.3	16	27	-119	13		
Colombia		4074	0.2	0.4	0	10	19		8.5	0.0	36	41	-125	-132		
Mexico		17.51	0.4	-2.7	-3	14	11		9.1	0.0	32	42	31	35		
Peru		3.7	-0.3	-0.5	0	5	3		7.1	15.8	13	15	-121	-92		
Uruguay		38	-0.1	-0.6	0	8	5		9.3	-8.0	5	18	-202	-140		
Hungary		363	-0.1	-3.3	-3	9	3		7.0	0.0	22	-20	-283	-257		
Poland		4.28	-0.6	-3.7	-6	10	2		4.7	-11.0	-2	-15	-142	-145		
Romania		4.6	-0.2	-1.7	-3	5	0		6.6	-2.8	3	0	-129	-109		
Russia		98.4	-0.3	-2.7	-3	-37	-25									
South Africa		19.2	0.0	-1.7	-3	-10	-11		9.5	-3.0	17	9	45	31		
Turkey		26.84	-0.1	-0.5	1	-32	-30		23.5	32.0	182	336	1202	1362		
US (DXY; 5y UST)		105	0.1	1.8	3	-4	1		4.40	-1.4	15	24	104	40		

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		3758	-1.4	0	-6	-7	-3		181	-4	-6	-23	4
Indonesia		6955	-0.6	0	1	-3	2		125	-4	-5	-56	-15
India		66266	0.6	2	0	12	9		138	-1	1	-26	-4
Philippines		6183	-0.9	0	-5	-6	-6		102	-2	-5	-34	5
Thailand		1550	0.1	-1	1	-5	-7		0	0	0	0	0
Malaysia		1460	0.0	1	1	-2	-2		97	0	4	-1	-3
Argentina		583983	-2.4	-14	29	314	189		2177	91	149	-184	-28
Brazil		115985	-1.2	-1	-3	6	6		231	1	3	-70	-43
Chile		5906	-0.4	-2	-7	7	12		128	2	9	-51	-4
Colombia		1047	-0.4	-3	-11	-14	-19		337	9	16	-89	-35
Mexico		52971	0.1	-3	-2	15	9		365	6	3	-57	-16
Peru		22950	-0.1	-2	-4	21	8		153	4	2	-43	-27
Hungary		56302	0.7	1	3	36	29		195	-6	-4	-50	-27
Poland		66131	-0.9	-3	-7	35	15		116	-6	-5	84	43
Romania		13669	1.4	3	4	15	17		210	-2	7	-88	-46
South Africa		73742	-0.9	-2	-4	11	1		385	10	22	-56	18
Turkey		8305	1.5	5	11	144	51		392	14	-10	-243	-48
Ukraine		507	0.0	0	0	-2	-2		3453	-209	-178	-373	-626
EM total		39	-0.7	-2	-3	1	3		381	6	7	-55	5

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

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