INSIDE DEBT

WEDNESDAY, SEPTEMBER 1, 2021

Supply chain constraints weaken global factory activity in August; U.S. posts surprise growth

TOP NEWS

U.S. manufacturing activity rises; shortages linger

U.S. manufacturing activity unexpectedly picked up in August amid strong order growth, but a measure of factory employment dropped to a nine-month low, likely as workers remained scarce. The ISM said its index of national factory activity inched up to 59.9 last month, beating expectations of the index falling to 58.6. The ISM survey's new orders sub-index rebounded to a reading of 66.7 last month. The survey's measure of prices paid by manufacturers fell to an eight-month low of 79.4. Together with the ADP National Employment Report, which showed that private payrolls increased by 374,000 jobs last month, the ISM factory index poses a downside risk to job growth in August. Economists had forecast the ADP report would show private payrolls increased by 613,000 jobs.

GLOBAL ECONOMY-Factories hit by pandemic-related supply disruptions

Global factory activity lost momentum in August as the ongoing coronavirus pandemic-disrupted supply chains, raising concerns faltering manufacturing would add to economic woes caused by slumping consumption, surveys showed. While factory activity remained strong in the euro zone, IHS Markit's final manufacturing PMI fell to 61.4 in August, below an initial 61.5 "flash" estimate. In Britain, manufacturing output grew in August at the weakest rate for six months. Factory activity also shrunk in Vietnam, Indonesia and Malaysia. China's Caixin/Markit Manufacturing PMI fell to 49.2 in August, its first contraction in nearly 1-1/2 years. Japan, South Korea and Taiwan also saw manufacturing activity grow at a slower pace in August. Growth in India's factory sector activity slowed too, forcing firms to cut jobs again following a brief recovery in July.

Inflation at risk of overshooting ECB expectations: Weidmann

Euro zone inflation is at risk of overshooting the ECB’s projections as the temporary factors behind its recent spike could seep into underlying price growth, Bundesbank President Jens Weidmann said. If these temporary factors lead to higher inflation expectations and accelerated wage growth, the inflation rate can rise noticeably in the longer term," Weidmann said. He said that an expansionary monetary policy is still appropriate but the ECB should also prepare for the end of its 1.85 trillion euro PEPP. As the buys should not be ended abruptly, the ECB should gradually wind them down even before signalling their ends, Weidmann added. Separately, Euro zone **unemployment** fell to 7.6% of the workforce, in line with economists' consensus in a Reuters poll, Eurostat said.

BOJ's deputy governor warns against premature monetary tightening

The Bank of Japan must avoid reducing stimulus prematurely and instead stand ready to ramp up monetary support if the economy worsens, deputy governor Masazumi Wakatabe said, warning of heightening uncertainty caused by the coronavirus pandemic. But he added the timing of the recovery would be delayed, as a spike in Delta variant cases threatens his earlier forecast that steady vaccinations will prop up growth. "What tools to deploy will depend on economic conditions at the time. We must and will have the means ready to act," Wakatabe said. Wakatabe said the BOJ must avoid reducing stimulus even if rising raw material costs push up inflation or the U.S. Fed shifts to a tightening cycle. Separately, Ministry of Finance data showed **capex** rose 5.3% in the second quarter from the same period last year, its first increase in five quarters.

Germany, Greece see lower demand for debt sales in nervous market

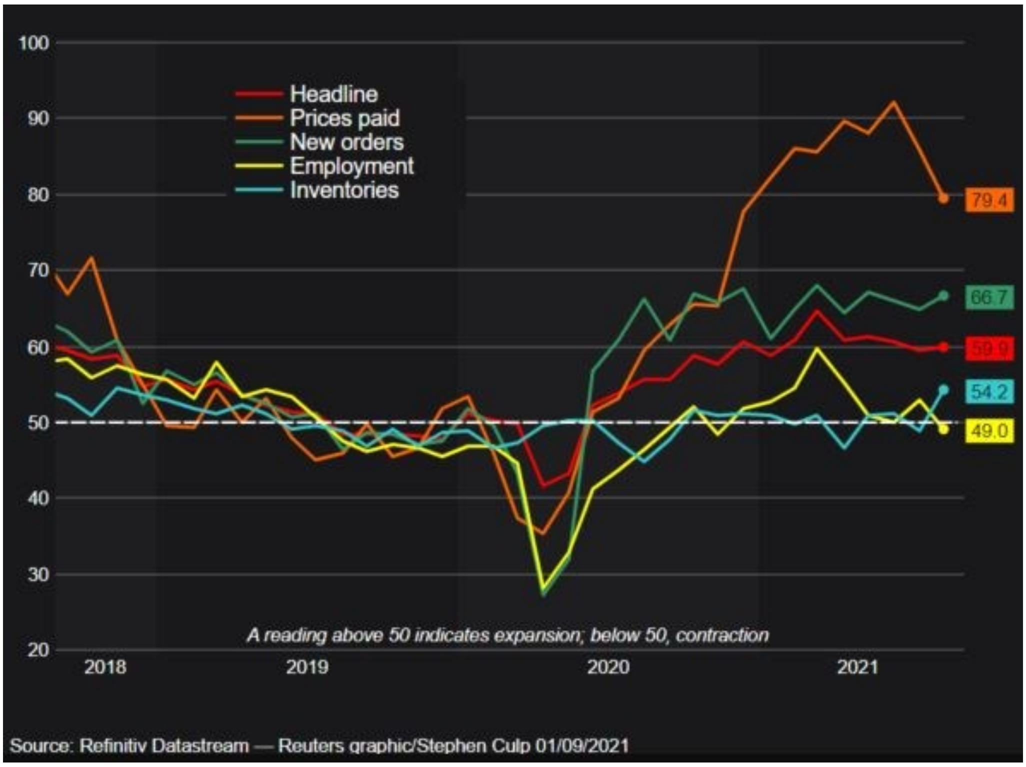
Germany and Greece launched syndicated debt sales in a nervous market and saw lower demand than for their previous issuances. Germany received more than 18 billion euros of demand for the sale of the 5.5 billion euro bond, which priced for a yield of 0.159%, according to lead manager memos seen by Reuters. Its finance agency will retain 500 million euros of the bond, the memos showed. The deal received less than half the 39 billion euros of demand Germany saw for a 30-year green bond syndication in May. Greece, which tapped outstanding five- and 30-year bonds to raise 2.5 billion euros, received 18.9 billion euros of investor demand, lead managers said, with demand split roughly equally between the two bonds, which raised 1.5 and 1 billion euros respectively.

COLUMN

Fed fascination may miss extent of ECB overspill :Mike Dolan

Investors who obsessively monitor every twist and turn of U.S. Federal Reserve policy as the only key to how world markets play out may risk missing crucial signals from across the Atlantic.

CHART OF THE DAY - U.S. ISM Manufacturing PMI: a breakdown



MARKETS TODAY

TREASURIES: Yields hovered around the unchanged mark in low-volume afternoon trading as the market focused on the government's jobs report due out on Friday. Benchmark 10-year notes were trading flat, with a yield of 1.302%. 5-year notes slipped 1/32, yielding 0.777%. 30-year bonds rose 6/32, to yield 1.919%.

FOREX: The dollar fell against a basket of major currencies after a report on the U.S. labor market missed expectations by a wide margin, while the euro climbed to a one-month high on inflation worries. The dollar index slipped 0.14% to 92.498. The euro hit a fresh one-month high at $1.1857, and was last up 0.26% at $1.1838. Against the Japanese yen, the greenback lost 0.02% to 110.00 yen. Versus the Swiss franc, the dollar gained 0.05% to 0.91455 franc. The British pound was up 0.09% at $1.3767.

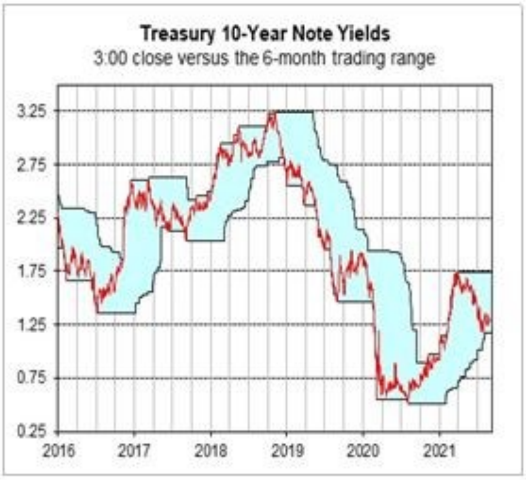
CORPORATES: Corporate bond spreads were unchanged as investors looked beyond weak economic data to focus on a likely continuation of massive stimulus measures from the U.S. Federal Reserve. The CDX-IG.36 index was unchanged at 46 bps.

STOCKS: The Nasdaq closed at a record high, with the S&P 500 ending near its previous peak, as September kicked off with renewed buying of technology stocks and private payrolls data, which supported the case for dovish monetary policy. Shares of PVH Corp surged 14.58% to the top of the S&P 500 after it raised its full-year earnings forecast. Campbell Soup Co rose 1.77% even as it forecast fiscal 2022 profit and sales below market expectations. PBF Energy, whose Chalmette, Louisiana, refinery lost power following the storm, was down 7.36%. The Dow fell 47.51 points, or 0.13%, to 35,313.22, the S&P 500 gained 1.49 points, or 0.03%, to 4,524.17 and the Nasdaq added 50.15 points, or 0.33%, to 15,309.38.

C&E: Oil prices steadied after OPEC and its allies agreed to stick to their existing policy of gradual oil output increases. U.S. crude inventories fell by 7.2 million barrels last week to 425.4 million barrels, the EIA said. Analysts had expected a 3.1 million-barrel drop. Brent was down 0.36% to $71.37 a barrel. U.S. crude lost 0.25% to $68.33 a barrel. Gold added 0.04% to $1814.12 an ounce.

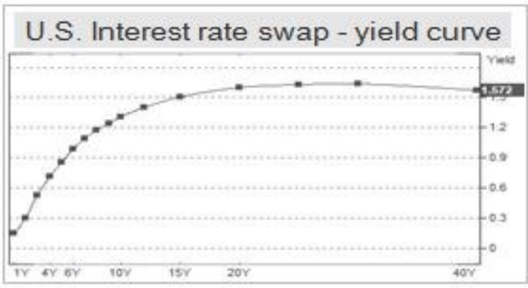
NEX DATA

TREASURIES		(as of 3:20 pm EST)		
	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.045	0.035	0.046	0.000
2-Mo Bill	0.065	0.055	0.066	0
3-Mo Bill	0.055	0.045	0.056	0
6-Mo Bill	0.045	0.035	0.046	0.000
1-Year	0.070	0.060	0.071	0.000
2-Year	99.809	99.848	0.221	-0.006
3-Year	99.891	99.930	0.412	-0.010
5-Year	99.824	99.871	0.786	-0.012
7-Year	100.258	100.305	1.087	0.051
10-Year	99.477	99.539	1.306	0.063
20-Year	98.414	98.477	1.845	0.184
30-Year	101.785	101.848	1.921	0.316



ICAP DATA

IR SWAPS			(as of 3:20 pm EST)	
	SPREAD		RATE	
2-Year	7.25	11.25	0.28	0.32
3-Year	10.25	14.25	0.51	0.54
5-Year	7.00	11.00	0.85	0.88
7-Year	0.00	4.00	1.08	1.11
10-Year	-0.25	3.75	1.30	1.32
30-Year	-28.88	-24.88	1.63	1.65



LATAM NEWS

Brazil GDP slips as second COVID-19 wave stalls recovery

Brazil's economy contracted slightly in the three months to June, government statistics agency IBGE said, stalling more than expected as a second wave of the pandemic hurt demand. The 0.1% decline in Brazil's GDP from the prior quarter was worse than the median forecast for 0.2% growth in a Reuters poll. Central bank chief Roberto Campos Neto said the latest GDP data could lower the market consensus outlook for growth this year. However, the Economy Ministry's annual forecast is unlikely to change, and Brazil's economy is still expected to grow more than 5% this year, Economic Policy Secretary Adolfo Sachsida said. Vice President Hamilton Mourao said that the drought could lead to energy rationing, contradicting other officials.

POLL-Colombia inflation seen rising in August, making rate hike more likely
Colombia's consumer prices likely increased in August as domestic demand recovered and amid peso depreciation pressures, analysts said in a Reuters poll, reinforcing predictions the central bank will soon raise the interest rate. The country will see inflation of 0.23% in August. Analyst predictions ranged between 0.13% and 0.38% for the month. Inflation expectations for 2022 were up to 3.2%, from 3.13% in the previous poll. Consumer price pressures will push the central bank board to raise borrowing costs from the historic low of 1.75%, likely starting in September, analysts said.

ANALYSIS-Argentina's markets are flying (yes, you read that right)
Argentina's notoriously shaky stock and bond markets, which have been hit by years of economic crises, are rocketing again.

LATAM MARKETS

EQUITY	Close	Pct Change
MSCI Latin American Index	2485.46	-1.16
Brazil's Bovespa Index	119429.6	0.55
Mexico's IPC Index	52132.73	-2.2
Argentina's MERVAL Index	75230.84	-1.60

CURRENCIES	Last	Pct Change
Brazilian Real	5.1855	0.7
Mexican Peso	19.9826	-0.4
Chile Peso	771	-0.21
Colombian Peso	3756.1	-0.28
Argentina Peso	97.78	0.04

EYE ON ASIA

Australia's economy slowed in Q2 ahead of lockdown downturn
Australia's economy was already slowing in the June quarter before wide-spread coronavirus lockdowns slammed everything into reverse, leaving the country in a desperate race to vaccinate in the hope of opening up to recovery by Christmas. Figures from the Australian Bureau of Statistics showed GDP rose 0.7% in the June quarter, topping forecasts of 0.5%. Annual growth was the fastest in modern history at 9.6. Nominal GDP reached a record A$2.07 trillion for the year. Output stood at A$80,432 for every one of Australia's 25.6 million residents. There was some moderation in the household savings ratio to 9.7%, but spending power has been underpinned by a boom in house prices which rose at the fastest annual pace since 1989 in August.

S.Korea Aug exports extend boom but Delta remains a risk
South Korea's exports accelerated in August, towed by solid demand for memory chips, petrochemicals and other major items, with the trade ministry seeing only a limited impact from the coronavirus Delta variant across the region. Exports rose 34.9% in August from a year earlier, but fell short of the 35.7% growth predicted in a Reuters survey. Imports soared 44.0% from a year earlier, the fastest growth since May 2010. That brought the trade balance to a $1.67 billion surplus. By destination, overall exports to China, the United States and European Union rose 26.8%, 38.1% and 41.6%, respectively.

ASIA ECON WATCH (For Sept 2)

Australia Trade Balance Goods & Svcs (AUD) for July: Expected 10,200 mln; Prior 10,496 mln
New Zealand Terms of Trade (QQ) for Q2: Expected 2.5%; Prior 0.1%
New Zealand Terms Export Prices SA for Q2: Expected 3.0%; Prior -0.8%
New Zealand Terms Import Prices SA for Q2: Expected 1.8%; Prior -0.8%
South Korea CPI Growth (YY) for August: Expected 2.30%; Prior 2.60%
South Korea CPI Growth (MM) for August: Expected 0.30%; Prior 0.20%

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INSIDE DEBT is produced by Reuters in partnership with NEX and ICAP.

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