GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JANUARY 17, 2025

LEAD EDITOR: PATRICK SCHNEIDER

- **The Bank of England delayed the implementation of Basel III endgame to 2027** (link)
- **Argentina's central bank leaves rates on hold, encourages the use of dollar transactions** (link)
- **Market impact of CA fires has been limited, but some municipal bonds under pressure** (link)
- **Investor positioning in tech stocks remains elevated despite slowing earnings growth** (link)
- **Chinese property developer Vanke under pressure again** (link)

Mature Markets | Emerging Markets | Market Tables

Global bond yields retreat from recent highs, but all eyes are on Washington

Treasury yields declined for a third consecutive day this morning, with 10y yields down close to 20 bps from recent highs. While the broader discussion about higher interest rates remains intact, comments by Fed Governor Waller suggesting the possibility of rate cuts in the first half of 2025, the recent CPI report, and some consolidation ahead of the inauguration provided some relief to markets. UK Gilt yields also declined today and have retraced about 25 bps since Monday. Most analysts are expecting the incoming Trump Administration to announce a barrage of executive orders on Monday and Tuesday, with tariffs firmly in the spotlight. Global equity markets were mixed today, with Europe trading higher, China posting modest gains, and Japan closing lower. US equity futures rose following reports of a phone call between President Xi and President Trump. China reported higher than expected Q4 GDP growth, with full year 2024 growth exactly matching its target of 5%. In Japan, a majority of analysts expect the BoJ to hike the policy rate to 0.5% next week. Despite edging lower today, the yen gained over 1% against the dollar this week.

Key Global Financial Indicators

Last updated: 1/17/25 8:27 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5937	-0.2	0	-2	25	1
Eurostoxx 50		5147	0.8	3	4	17	5
Nikkei 225		38451	-0.3	-3	-1	7	-4
MSCI EM		42	-0.1	0	-3	11	0
Yields and Spreads					bps		
US 10y Yield		4.57	-4.4	-19	17	47	0
Germany 10y Yield		2.51	-3.6	-8	28	20	14
EMBIG Sovereign Spread		323	1	4	-2	-72	-2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		42.9	0.0	0	-2	-9	0
Dollar index, (+) = $ appreciation		109.1	0.1	0	2	5	1
Brent Crude Oil ($/barrel)		80.7	-0.7	1	10	4	8
VIX Index (%, change in pp)		15.9	-0.7	-4	0	1	-1

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

Mature Markets

back to top

United States

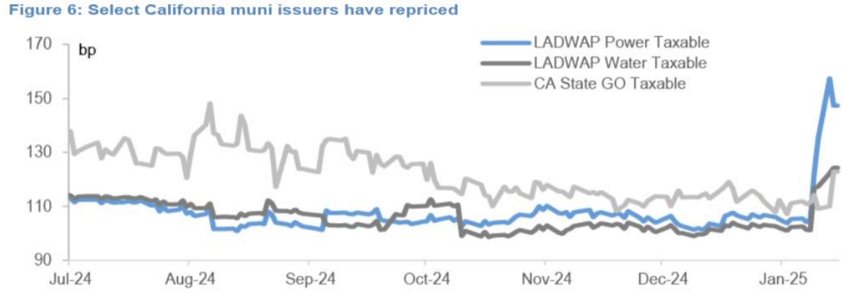
Treasury yields fell by 3–5 bps across the curve on Thursday, largely driven by real yields, after Fed Governor Waller reinforced the possibility of a rate cut in the first half of 2025. 10y yields were trading around 4.57% this morning, down over 20 bps from recent highs. The S&P500 declined 0.2% yesterday, with tech stocks underperforming and interest rate sensitive REITs and Utilities rallying (+2.2% and +2.6%). This morning, State Street Bank reported net income in line with analyst expectations. Revenues were about 2% above consensus, with strong fee and net interest income, while provision charges were low.

Investor positioning in tech stocks remains aggressive, increasing the chances of a significant correction, **according to analysts** (Bloomberg and Deutsche Bank). The bullish positioning has continued despite uncertainty around weaker revenue growth, tougher competition, and the possibility of stricter regulation. This has led to an emerging gap between earnings and positioning (chart below), while the demand for hedging derivatives is shrinking after a spike in December. A meaningful correction in tech stocks may weigh on the overall equity market due to their outsized weights in equity indices. Share prices have been more volatile recently, with some (Microsoft, Apple) trending lower in recent weeks.

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

The broader market impact of California wildfires has been limited thus far, though bond prices of several municipal issuers have come under some pressure. Overall, investment grade credit spreads have been little changed, but bond spreads from a handful of municipal issuers have increased modestly in recent days (chart below). According to JPMorgan (JPM) analysis, the three most exposed segments are property & casualty (P&C) insurance, municipal bonds, and utilities. JPM analysts highlighted that P&C issuers are well capitalized and catastrophe reinsurance coverages will offset most tail scenarios if insured losses grow further. Second order effects on the corporate bond market, such as P&C insurers selling their holding of corporate bonds to pay claims, have been and are likely to remain limited. The analysts anticipate a full recovery in municipal credits given their taxation power. Utilities' liabilities also showed moderate and contained risk as of now, but the outcome in utility credits is more open-ended and difficult to predict.

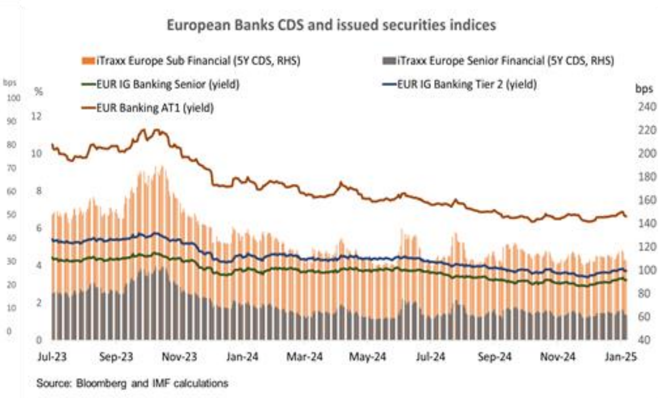
Figure 6: Select California muni issuers have repriced



Source: J.P. Morgan.

Europe

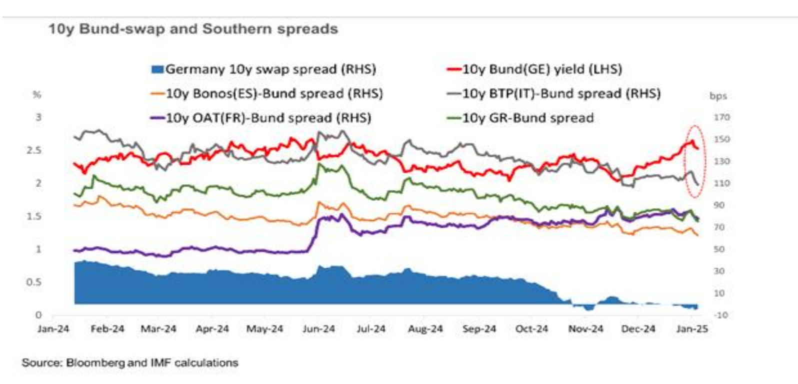
European equities climbed higher this morning, with sentiment fueled by renewed hopes for rate cuts by the Fed and strong Q4 earnings from US banks. The Stoxx 600 index was up 0.7% today and nearly 2.3% since Monday, its best weekly performance since September, led by gains in the industrial, utilities, materials, and banking sectors. Glencore and Rio Tinto Group, two major players in the mining sector, are reportedly holding merger talks. All major European bourses were trading in the green, with Italy (FTSE MIB +1.1%), Germany (DAX +1%) and France (CAC 40 +1%) outperforming. **European bank equities gained 0.6% today and have outperformed the market with a 4.3% gain this week**. Despite investor optimism ahead of Q4 earnings season in Europe next week, analysts point to possible downward revisions of 2025 guidance by European banks given expectations for lower rates and higher credit risk.`

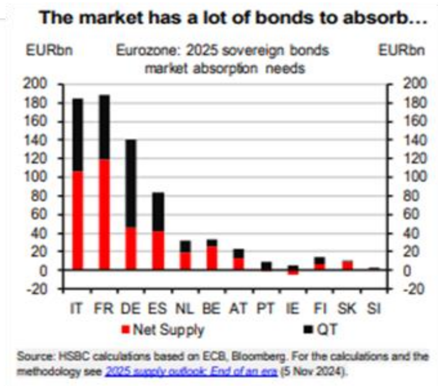


The Bank of England delayed the implementation of the Basel III endgame package to January 2027, citing uncertainty over the US implementation timeline and competitiveness concerns. According to JP Morgan, Barclays and Natwest should benefit the most, given the larger expected impact from the final Basel III rules (50 bps of CET1 for Natwest, 40 bps for CET1 Barclays).

The euro was little changed against the dollar at $1.03/€, with investors seeking more clarity on US tariffs and any repricing of policy expectations. ING analysts believe that the minutes from ECB December meeting suggest the monetary policy divergence between the US and Europe could continue to weigh on the euro in the coming weeks. Meanwhile, ECB Governing Council member Nagel said today that the ECB is right to be cautious in cutting interest rates considering heightened uncertainty and still elevated inflation. Services inflation accelerated to 4% y/y in December, from 3.9% y/y in November, and has been around that level since May 2024.

European government bond yields declined by 2-4 bps this morning, with the 10y OAT-Bund spread narrowing to 78 bps (-2 bps), and the 10y BTP-Bund spread tightening to 109 bps (-2 bps). The motion of no confidence submitted by the far-left party LFI against the newly appointed French Prime Minister François Bayrou was decisively rejected by the National Assembly yesterday. However, HSBC analysts highlighted that the combination of ECB QT and high fiscal deficits in some Eurozone countries implies a large amount of sovereign bonds need to be absorbed by the market in 2025. For France and Italy, the net funding needs could near €200bn, which could drive bond yields higher and renew concerns about debt sustainability amid low growth.





Japan

A January rate hike by the Bank of Japan (BOJ) has become the base case for most analysts. The latest Bloomberg survey indicates that nearly three-quarters of surveyed analysts predict a rate increase by the BOJ next week following recent communications by BOJ officials, with the remainder anticipating the hike will come in March. The local media also reported that a majority of the policy board favors a rate hike. In markets, the probability of a January rate hike implied by overnight index swaps (OIS) briefly surged to 99% before easing somewhat. HSBC analysts noted that a delay in hiking could risk exacerbating import price pressures from a weaker yen, which are weighing down on consumption and sentiment. However, Nomura analysts expect a relatively dovish tone from BOJ Governor Ueda in post-meeting communications. **The yen advanced by 1.3% this week, despite a loss on Friday (-0.3%)**. Japanese equities declined (Nikkei 225: -0.3%), as a stronger yen weighed on the share prices of exporters.

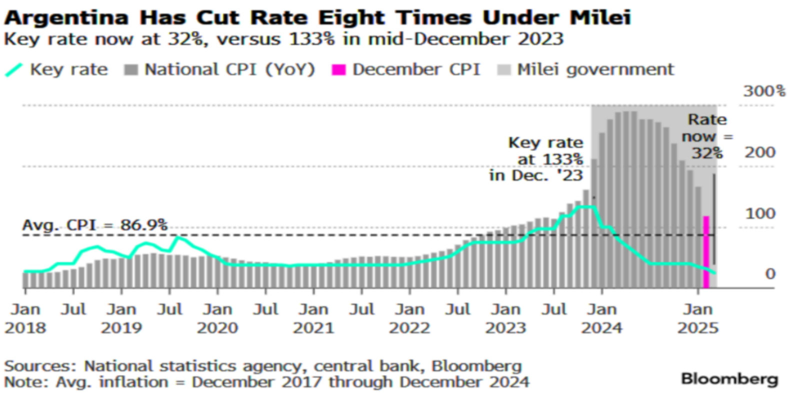
Emerging Markets

back to top

EMEA equities were mostly higher while currencies were mixed. The South African rand strengthened (+0.5%), with the currency set for its best weekly performance since August. The Turkish lira weakened this morning (-0.4%), while CEE currencies were lower against the euro. **Asian equities were mixed (EM Asia: +0.2%) on Friday**. Equities in Indonesia extended a rally to a third straight session (+0.7%) following an unexpected interest rate cut by Bank Indonesia on Wednesday. Indian equities fell (-0.5%) as weak earnings reports weighed on bank shares. Most Asian currencies traded in a narrow range, as traders were cautious ahead of President Trump's inauguration early next week. One exception was the Thai baht (+0.4%), which has gained for three consecutive sessions. **In Latin America, regional assets mostly declined on Thursday**. The Mexican peso underperformed (-1.9%), as investors pulled back ahead of potential tariff announcements next week. Other major currencies depreciated in the range of -0.6 to -0.9%. LATAM equity markets also closed lower, with Argentine (-2.8%) and Brazil (-1.1%) leading the way.

Argentina

The central bank left the policy rate unchanged at 32%, surprising some analysts, while also announcing measures to increase dollar transactions. Annual inflation has eased to 117.8%, down from nearly 300% last year, with monthly inflation rising 2.7% in December in line with expectations. The central bank also introduced measures to allow people to make payments in dollars and "bolster currency competition", in line with promises for dollarization made by President Milei during the campaign. To do so, the authorities directed payment intermediaries to enable debit card transactions in dollars by Feb 28th and announced a program to allow installment payments in US dollar. Local equities closed the day 2.8% lower.



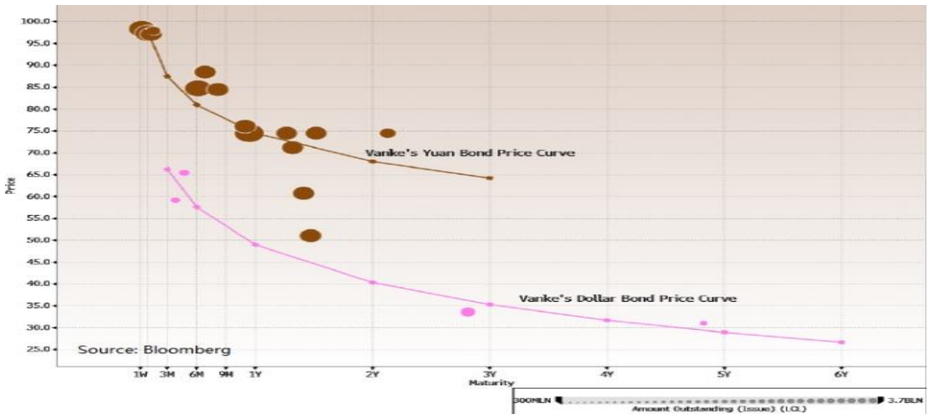
Brazil

Monthly economic activity rose 0.1%, slightly above expectations, as the economy grapples with a renewed monetary tightening cycle. Analysts expect economic growth to slow to 2% in 2025, down from an estimated 3.5% in 2024. Rising inflation expectations and fiscal uncertainty have seen the real fall sharply over the last year, while the central bank hiked the policy rate by 100 bps in December. Markets are close to pricing in two additional 100 bp hikes in January and March. Both equities (-1.1%) and the real (-0.7%) declined yesterday, while swap rates rose 5-10 bps.

China

Chinese equities gained (CSI 300: +0.3%) after GDP growth came in better-than-expected. Q4 GDP growth accelerated to 5.4% y/y (vs +5.0% expected), bringing 2024 growth in line with the government's target of 5%. December industrial production and retail sales data also showed improvement. Liquidity conditions in the interbank market showed signs of easing, with the 7-day repo rate down 22 bps to 2.1%. The People's Bank of China injected RMB100.5 bn ($13.7 bn) on net in its open market operations today.

Chinese property developer Vanke came under pressure again after news that its CEO was detained by authorities. Reports also suggested its operations may be taken over by a task force from the Shenzhen government. With concerns intensifying about Vanke's ability to fulfill imminent debt obligations, its equity and bond prices have witnessed heightened volatility recently. Shares of Vanke listed in Hong Kong SAR slumped by as much as 8.9% today before paring losses to end 3.1% lower, while one onshore bond plummeted by 32% in the morning session, triggering a trading suspension. Onshore bond prices rebounded, however, in the afternoon, after reports about Vanke facing a takeover and restructuring were removed. Bloomberg analysts regard potential government backing as credit positive, which would help break the adverse feedback loop between the liquidity crunch and subdued sales of the developer. Analysts consider an outright cash injection to remain unlikely but believe it crucial to prevent Vanke's default to avoid potential spillover to other state-owned developers.

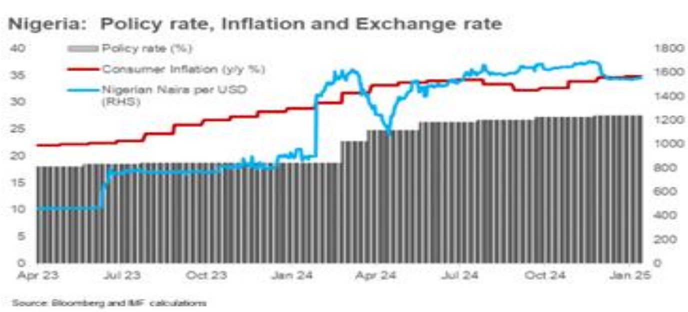


Poland

The National Bank of Poland left rates unchanged at 5.75% as expected, **with a perceived hawkish statemen**t. ING analysts noted that while yesterday's MPC statement was little changed compared to December, the MPC dropped language saying that the strong Polish zloty was helping ease inflation. UBS analysts also see the statement as more hawkish, as it emphasized the forecasted overshoot of the inflation target. Nevertheless, the market had a dovish reaction to the meeting, which could be partly attributed to rally in global bond yields. Poland's 10y local currency yield eased by 10bps yesterday. UBS analysts continue to expect 75 bps of rate cuts this year, starting with a 25bps rate cut in July.

Nigeria

Analysts believe inflation may have peaked in December, with a more stable currency helping ease upward price pressures. Nigeria's headline inflation increased to 34.8% y/y in December (from 34.6%), but JPMorgan analysts believe the print likely marks the peak for Nigeria's inflation. The naira appreciated in late 2024 and has been relatively stable thus far in 2025. Similarly, Absa analysts expect favorable base effects to support disinflation going forward, alongside tight monetary policy. The central bank of Nigeria delivered a cumulative 875 bps of rate hikes in 2024 together with other liquidity tightening measures.



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Global Financial Indicators

	Level		Change				
1/17/25 8:26 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		5,962	-0.2	2.3	-1.5	25.8	1
Europe		5,146	0.8	3.4	4.1	16.9	5
Japan		38,451	-0.3	-2.9	-0.6	6.9	-4
China		3,812	0.3	2.1	-2.9	16.6	-3
Asia Ex Japan		71	0.1	-0.6	-3.3	15.4	-1
Emerging Markets		42	-0.1	-0.1	-2.8	10.8	0
Interest Rates					basis points		
US 10y Yield		4.6	-4	-19	17	47	0
Germany 10y Yield		2.5	-4	-9	28	19	14
Japan 10y Yield		1.2	0	0	12	59	10
UK 10y Yield		4.6	-6	-22	9	63	5
Credit Spreads					basis points		
US Investment Grade		117	-1	-3	1	-13	-3
US High Yield		305	-3	-6	-6	-91	-23
Exchange Rates					%		
USD/Majors		109.1	0.1	-0.5	2.0	5.5	1
EUR/USD		1.03	-0.1	0.4	-1.9	-5.5	-1
USD/JPY		155.6	0.3	-1.3	1.4	5.0	-1
EM/USD		42.9	0.0	0.1	-1.5	-9.4	0
Commodities					%		
Brent Crude Oil ($/barrel)		80.7	-0.7	1.2	10.8	8.6	8
Industrials Metals (index)		146.9	0.2	2.3	3.2	9.4	5
Agriculture (index)		57.4	0.1	-0.4	2.0	-4.2	1
Implied Volatility					%		
VIX Index (%, change in pp)		15.9	-0.7	-3.6	0.0	1.1	-1.4
Global FX Volatility		9.0	0.0	0.0	0.4	1.3	-0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		76	-1	-6	-8	-33	-9
Italy		109	-1	-8	-6	-51	-6
France		78	-1	-6	-3	28	-5
Spain		63	-1	-4	-6	-30	-6

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

Emerging Market Financial Indicators

Last updated: 1/17/2025 8:24 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		7.33	0.0	0.1	-0.6	-1.8	-0.4		1.7	1	0	-5	-91	-2
Indonesia		16365	0.0	-1.1	-1.8	-4.4	-1.6		7.1	-6	2	13	51	13
India		87	-0.1	-0.7	-2.0	-4.0	-1.2		7.3	-3	2	7	2	-9
Philippines		59	0.0	-0.4	0.5	-4.6	-1.3		5.1	2	16	17	-50	26
Thailand		34	0.4	0.3	-0.6	3.0	-1.1		2.5	-1	7	10	-31	12
Malaysia		4.51	-0.1	-0.2	-0.9	4.7	-0.8		3.8	-1	0	0	-4	0
Argentina		1042	-0.1	-0.5	-2.1	-21.4	-1.0		24.6	83	-75	-343	-5675	-457
Brazil		6.08	-0.3	0.5	0.6	-18.8	1.7		15.3	18	-6	2	497	-68
Chile		1017	-0.5	-0.5	-2.9	-9.3	-2.2		5.9	5	9	48	46	19
Colombia		4357	-0.3	-0.3	-0.3	-9.0	1.1		11.6	1	8	37	203	-23
Mexico		20.83	0.1	-0.5	-3.1	-17.4	0.0		10.3	0	7	13	103	-8
Peru		3.8	0.1	0.1	-0.6	-1.0	-0.5		6.6	-1	-8	0	-4	-1
Uruguay		44	0.0	0.1	1.5	-10.5	0.0		9.7	-1	2	7	48	3
Hungary		401	-0.2	0.6	-2.7	-12.9	-0.9		6.7	1	7	44	102	25
Poland		4.14	0.1	0.6	-1.7	-2.3	-0.2		5.6	-7	-4	13	57	2
Romania		4.8	-0.1	0.5	-1.9	-5.4	-0.7		7.7	2	30	67	151	48
Russia		102.1	1.5	-0.2	2.3	-13.5	11.2							
South Africa		18.8	0.2	1.7	-3.6	1.4	0.3		10.7	4	7	34	-70	20
Türkiye		35.57	-0.4	-0.4	-1.6	-15.3	-0.6		28.6	-18	-25	-222	83	-112
US (DXY; 5y UST)		109	0.2	-0.5	2.0	5.5	0.6		4.37	-3	-20	11	34	-1

	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		3,812	0.3	2.1	-2.9	16.6	-3.1		95	0	-3	-67	-1
Indonesia		7,155	0.7	0.9	2.4	-1.0	1.1		96	6	4	-9	5
India		76,619	-0.5	-1.0	-1.8	7.3	-1.9		76	-8	-8	-50	-10
Philippines		6,352	1.4	-2.2	-0.8	-2.3	-2.7		88	4	8	-1	9
Thailand		1,341	-0.9	-2.0	-1.8	-3.0	-4.3						
Malaysia		1,567	0.7	-2.2	-1.6	5.4	-4.6		73	-1	3	-19	3
Argentina		2,629,377	-2.8	-7.1	1.4	133.9	3.8		621	61	-52	-1304	-16
Brazil		121,316	-1.2	2.1	-2.7	-5.6	0.9		225	-6	-9	21	-22
Chile		6,962	0.8	2.2	3.4	18.0	3.8		121	3	6	-7	8
Colombia		1,394	-0.2	-0.7	2.0	8.6	1.1		310	-14	-3	19	-16
Mexico		49,948	-0.6	0.3	-0.9	-8.7	0.9		307	6	-1	-27	-5
Peru		29,713	-0.2	0.7	0.8	14.0	2.6		140	0	-1	-7	-1
Hungary		84,988	1.1	3.9	7.8	34.9	7.1		162	12	19	3	7
Poland		83,414	0.9	1.5	4.5	13.4	4.8		116	4	11	18	4
Romania		16,916	-0.6	-0.8	-1.4	8.7	1.2		258	27	45	57	23
South Africa		84,462	1.0	1.2	-1.5	17.8	0.4		296	13	19	-38	3
Türkiye		9,937	0.7	0.3	-0.7	23.8	1.1		271	13	21	-76	12
EM total		42	0.0	-0.1	-2.8	10.8	-0.1		362	7	3	6	-2

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

back to top