GLOBAL MARKETS ANALYSIS

Monetary and Capital Markets

Global Markets Monitor

MONDAY, AUGUST 19, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Global investors turn more positive on US soft landing** (link)
- **August VIX spike may have been a false signal** (link)
- **Speculators turn bullish on Yen for first time since 2021** (link)
- **Strong Brazilian data prompts speculation about rate hikes** (link)
- **Asset managers retreat from Mexican peso** (link)
- **Markets in Thailand stabilize after appointment of new PM** (link)

Mature Markets | Emerging Markets | Market Tables

Markets hold steady ahead of key Fed Jackson Hole conference

The market mood appears to be cautiously optimistic this morning, with equities in Europe mostly higher and US equity index futures little changed in early trading. Most of the turbulence associated with the unwinding of the Yen carry trade appears to have subsided, with the S&P 500 back within 2% of its all-time high. All eyes now turn to on Fed Chair Powell's speech on Friday at the Fed's annual Jackson Hole conference, where market participants will look for clues about future Fed policy. Goldman reduced its odds on a US recession to 20% from 25% after last week's positive US economic data. Meanwhile, oil prices are lower along with Treasury and bund yields and the euro added to its gains against the dollar. There are other signs of stabilization, with markets in Thailand getting a boost from the appointment of a new PM after days of political upheaval, and a more positive outlook for the Japanese Yen. Stronger economic data in Brazil briefly pushed the Bovespa equity index into record territory on Friday before it fell back slightly. The Swedish Riksbank is expected to cut by 25 bps to 3.5% tomorrow.

Key Global Financial Indicators

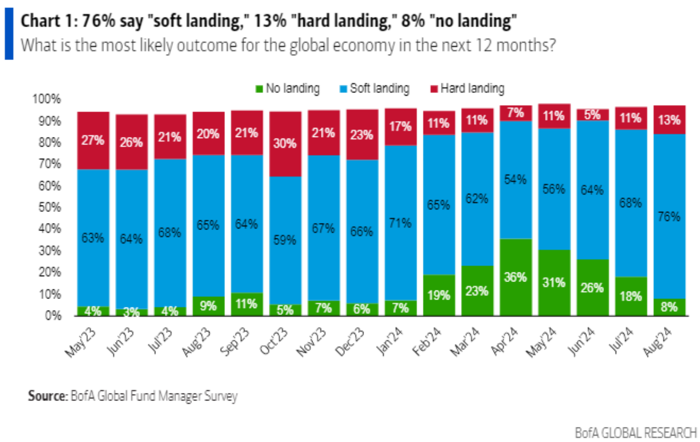
Last updated: 8/19/24 7:47 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5554	0.2	4	1	27	16.45
Eurostoxx 50		4863	0.5	4	1	15	8
Nikkei 225		37389	-1.8	7	-7	19	12
MSCI EM		43	1.2	3	2	13	8
Yields and Spreads				bps			
US 10y Yield		3.87	-0.8	-3	-36	-38	0
Germany 10y Yield		2.23	-1.4	1	-23	-39	21
EMBIG Sovereign Spread		399	0	-9	9	-16	16
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.1	0.1	1	0	-3	-4
Dollar index, (+) = $ appreciation		102.2	-0.2	-1	-2	-1	1
Brent Crude Oil ($/barrel)		79.2	-0.6	-4	-4	-7	3
VIX Index (%, change in pp)		15.7	0.9	-5	-1	-2	3

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

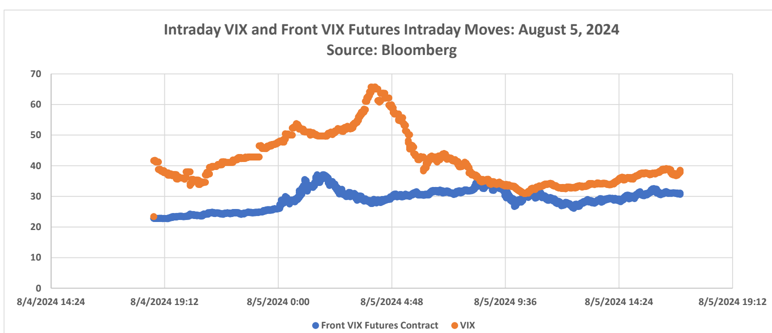
This week, the latest FOMC minutes will be released on Wednesday, although they could be overshadowed by Fed Chair Powell's Jackson Hole speech on Friday. The euro area will report CPI tomorrow and PMI data and consumer confidence on Thursday. India also reports PMI data on Thursday. The Swedish Riksbank is expected to cut by 25 bps to 3.50%, with most analysts expecting two more cuts later this year. The Bank of Korea is expected to stay on hold at 3.5% and Indonesia is expected to stay on hold at 6.25%. The Bank of Thailand is expected to hold steady at 2.50% despite pressure from the government to cut. The Turkish central bank is expected to stay on hold this week at 50% before embarking on a rate cutting cycle starting later this year. The US election moves into the next phase with the Democratic party convention starting this evening.

Mature Markets back to top

United States



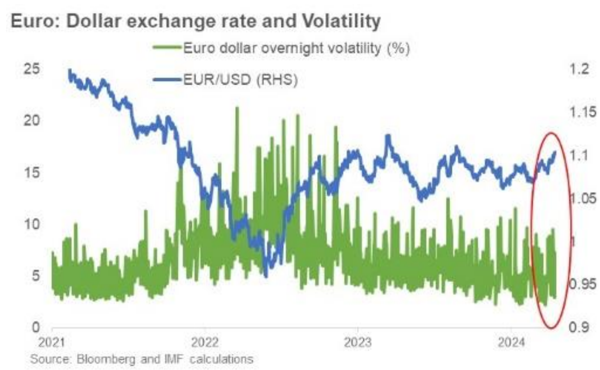
Global investors are becoming more positive about a soft landing in the US, according to the latest Fund Manager Survey from Bank of America. 76% now expect a soft landing to be the most likely outcome, the highest proportion in two years. Confidence remained strong despite the early August equity selloff triggered by the Yen carry trade unwind and the 12% plunge in the Nikkei on August 5. Friday's price action appeared to validate this optimism, as the S&P 500 is back within 2% of July 16's record close of 5667, up from the drawdown of over 7% from the high in early August. Strong US retail sales data and better than expected jobless claims have revived investor sentiment. In contrast, optimism about China is at its lowest level since May 2022.



The VIX spike on August 5 may have been a false signal, according to some market analysts. That day, the VIX surged from 23 the day before to almost 66 intraday, before subsiding to 38 by the end of the day. The move was triggered by a massive 12% selloff in the Nikkei overnight. The surge to 66 was higher than previous periods of extreme volatility, such as the Chinese devaluation of 2018 or the "Volmageddon" flareup of 2018, although it was lower than the Covid surge. However, those prior episodes saw significant turmoil in US stocks in subsequent days. The August 2024 episode had a much more limited impact, with a 3% selloff rapidly reversed a few days later. Some analysts believe that the latest VIX surge was a technical event caused by changes in the index's construction, rather than a fundamental market move caused by panicked investors. As proof, they point out that VIX futures saw much smaller moves that day as traders decided that the intra-day VIX surge was unsustainable. The prior VIX surges saw VIX futures spike up in step with the VIX itself. The analysts think the current VIX index is much more influenced by deep out of the money options than in previous years, due to the growing popularity of highly leveraged strategies such as zero day to expiration (ODTE) options among both retail and professional investors.

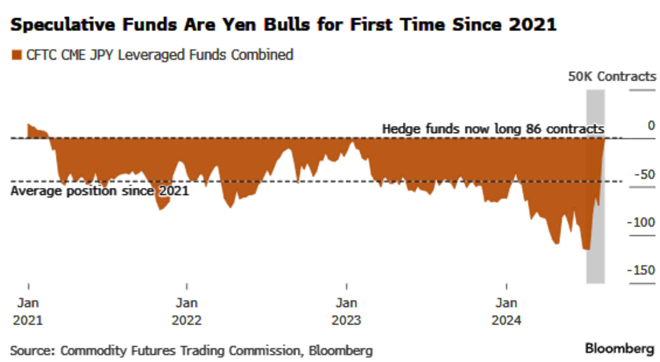
Euro Area

European equities were mostly trading higher this morning, with the Stoxx 600 index up sharply (+1.4%) after closing 2.5% higher last week. Contacts note that equity markets were supported last week by the risk-on mood following the US CPI print that supported the disinflation thesis in addition to US retail sales data that supported a soft-landing narrative. **Euro area sovereign yields were lower this morning (10y bund -2bps to 2.22%; roughly 8bps lower than at the start of the month),** while Southern spreads were marginally narrower as yields also eased on 10y French OATs (-3bps) and Italian BTPs (-4ps). Contacts highlight that euro area core sovereign yields remain at the lower end of their 2024 range, with investors remaining nervous about growth outcomes.



The euro is trading close to is strongest level against the dollar so far this year amid dollar weakness. The euro was trading marginally stronger against the dollar this morning (+0.1%) at around 1.10 against the dollar, roughly 3% stronger than at the start of the quarter, and back at levels seen at the start of the year. ING analysts argue that recent moves have been entirely dollar-led, given the lack of a major re-assessment of the euro's prospects. Contacts are focused on eurozone PMI data as well as the release of Q2 eurozone negotiated wages data, due later this week, and think that sticky wages could see markets scale back ECB rate cut expectations for 2024. The market is currently pricing in roughly 68bps of ECB rate cuts by end-2024, while ING analysts expect only 50bps of easing this year.

Japan



Speculative traders have turned bullish on the Japanese yen for the first time since 2021, after the massive unwinding of yen carry trades earlier this month, according to the latest CFTC data. Moreover, Nomura analysts observe signs of a comeback of the yen carry trade recently, as traders are dialing back their expectations for Fed rate cuts this year. Today**, the yen appreciated 1.0%** amid a broad-based US dollar weakness. Some traders also see stronger yen as reflecting more bets on Bank of Japan (BoJ) rate hikes. Press reports indicated that several prominent investors, including Vanguard, M&G and BlueBay, are betting on additional interest rate hikes by the Bank of Japan (BoJ) in coming months, with Vanguard having doubled down on its short position in JGBs, anticipating a 50bps hike by December. Meanwhile, PM Kishida's decision to step down has added uncertainties on the pace of monetary policy normalization, but the consensus still thinks move towards higher rates will continue. **Japanese equities declined** (Nikkei 225: -1.8%) amidst a stronger yen.

Emerging Markets

back to top

Asian equities generally gained (EM Asia: +0.6%), led by Malaysian equities (+1.6%), as traders await clues about potential Fed rate cuts from Powell's speech at Jackson Hole on 23 August. **Asian currencies appreciated** on eased concerns over US recession risk, with the Bloomberg Asia Dollar Index gaining 0.6% to the strongest in seven months. Markets in Thailand rallied after the appointment of a new PM. **On Friday, markets in Latin America were mixed, largely due to idiosyncratic developments.** The Brazilian Real rallied and local interest rates surged after June economic activity data exceeded analysts' forecast, and increased odds for a rate hike in the coming months. The Chilean Peso underperformed and depreciated -1%, dragged down by a decline in copper prices and dovish central banks' meeting minutes.

Emerging Market Bond and Equity Flows

Outflows, on aggregate, continued for the fifth week led by outflows from bonds. For the week ending August 14th, **EM bond outflows accelerated to -$1.4 bn** (prior week -$1.0 bn) while equities outflows moderated to -$0.6 bn (prior week -$4.7bn). Bond outflows came primarily from local currency funds (-$703mn from -$257mn), while hard currency funds outflows moderated (-$697mn from -$760nb). **EM equity fund outflows moderated to -$592mn** (prior week -$4.7bn**),** primarily driven by outflows from non-ETF funds (-$735mn), significantly exceeding the small inflows into ETF funds (+$143mn). Across regional funds, LATAM and EMEA experienced outflows (-$279mn and -$30mn, respectively). Asia ex-Japan was an exception, recording small inflows (+$37mn). **The year-to-date overall flows currently stand at -$15.9bn and -$18.7bn for bonds and equities**, respectively, and exceeded the total aggregate outflows for the full year of 2023 (-$27.3 bn).

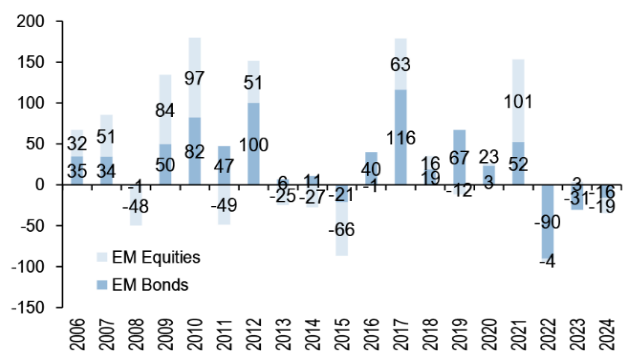
Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-2.0	-34.6
	EM Bonds		-1.4	-15.9
	Hard Ccy		-0.7	-5.7
	Local Ccy^		-0.7	-10.2
	o.w. EM ex-China		-0.6	-9.0
	o.w. China		-0.1	-1.6
	EM Equities		-0.6	-18.7
	US HG		4.3	231.9
	US HY		0.3	16.0
	Global Equities		-0.7	132.9
	EM Bond and Equity ETFs		-0.4	7.3
	EM Bond ETFs		-0.5	-2.2
	EM Equity ETFs		0.1	9.4
	Non-resident EM flows*		0.3	-0.6

EM bond and equity fund flows

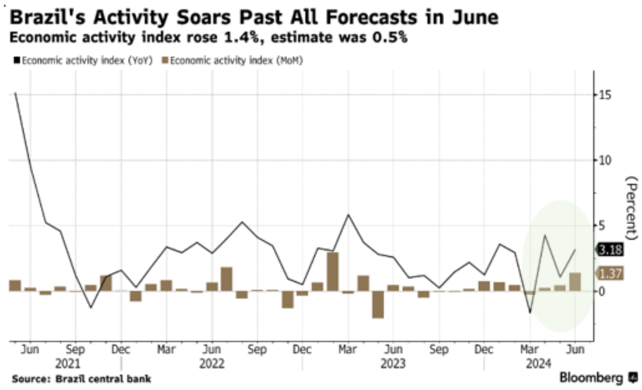
USD billion

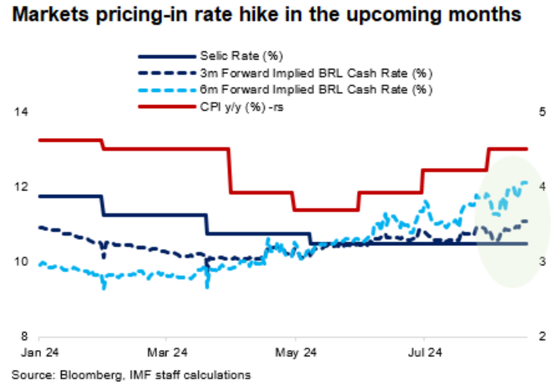


*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Brazil

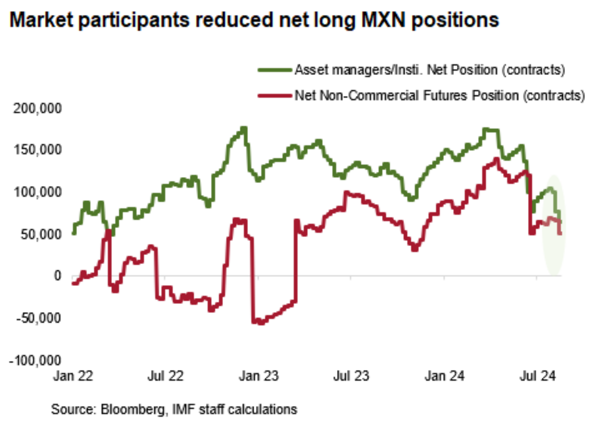
Brazil's economic activity surged unexpectedly in June, sparking speculation about the need for policy rate hikes. The central bank's economic activity index, a proxy for GDP, increased by 1.4% m/m from May, surpassing forecasts (0.5%). The stronger-than-expected performance, coupled with inflation exceeding the 4.5% target ceiling in July, has prompted some market participants to anticipate rate hikes later this year, despite the central bank recently holding the Selic rate at 10.5% (*right chart*). Governor Neto, on Friday, highlighted that economic activity continues to outperform expectations, and noted that some economists are poised to adjust their growth forecasts for Brazil upwards, potentially surpassing 2.5% for the year.

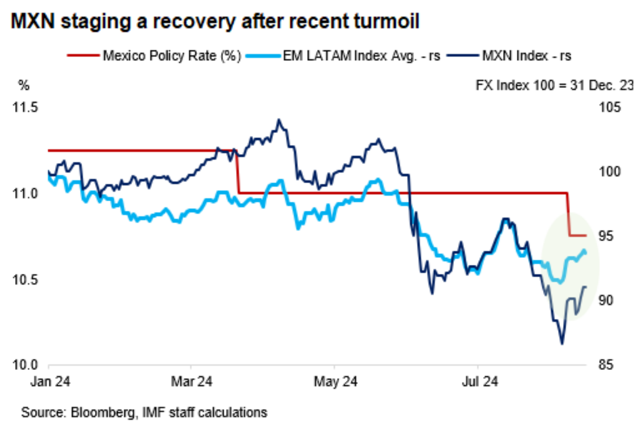




Mexico

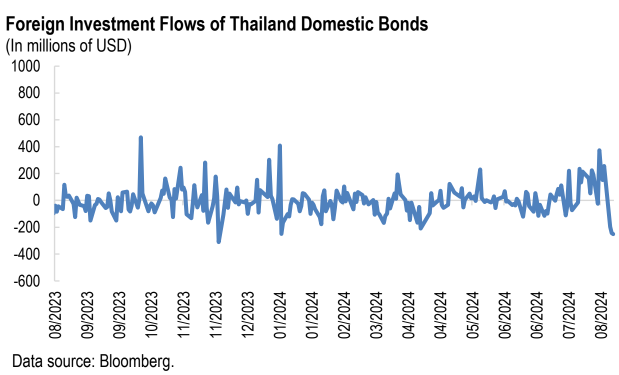
Asset managers significantly reduced their net-long positions on the Mexican peso, bringing the total down to 64,746 contracts for the week ending August 13, according to the Commodity Futures Trading Commission (*left chart*). This marked the lowest level since March 2022 and represented the third consecutive week of reductions, with a decrease of 12,331 contracts. Additionally, leveraged funds also scaled back their net-long positions by 9,373 contracts, the largest position cut observed in around two months. This collective pullback indicates a cautious stance towards the Mexican peso among investors. Despite the reductions in positionings, the Mexican peso is rebounding, and closing the underperformance gap against peers (left chart). Last week, the peso was amongst the outperformers, appreciating 2.3% against the US Dollar, despite Banxico cutting policy rate in the prior week.





Thailand

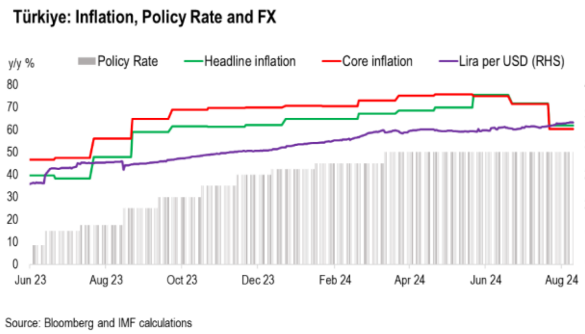
Thai financial markets gained after the appointment of a new PM. Thai equities rose 1.3%, and the Thai baht appreciated by 0.6%. Long-end government yields declined (10-year: -2.2 bps). The rally followed last week's volatility, caused by recent political turmoil, during which foreign investors withdrew US$691 million from its bond market between August 13–15, with last Thursday seeing the largest net outflow since December 2023. While the appointment of Paetongtarn as the new PM has somewhat stabilized the political landscape, investors remain concerned about the future direction of monetary policy, as she advocates for lower interest rates

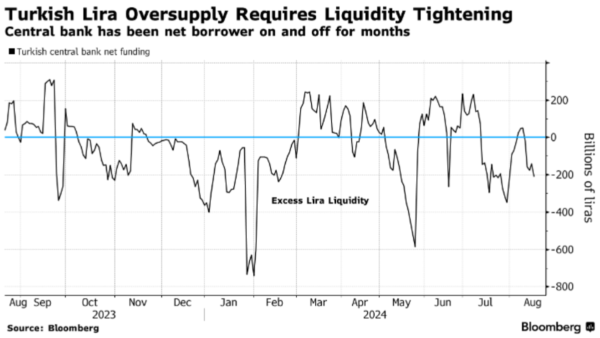


and a more contentious relationship with the Bank of Thailand (BoT). Traders will closely watch the BoT's rate decision later this week, when is expected to stay on hold. On data front, **Thailand Q2 GDP expanded +2.3% y/y**, slight beating the consensus of +2.2% y/y.

Türkiye

The central bank of Türkiye is expected to keep its benchmark repo rate unchanged at 50% at the policy meeting tomorrow. Inflation remains the primary focus. Analysts note that locals have started to dollarize again (so far in August FX deposits have increased by $4.8bn while lira-denominated-deposits declined by TRY 207bn) and that this may delay the start of the easing cycle in Türkiye. JPMorgan sees the central bank keeping rates unchanged until November and maintains expectations for a 250bps rate cut in both November and December to take the policy rate to 45% at year-end.





This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), 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.

Disclaimer: *This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.*

Global Financial Indicators

8/19/24 7:50 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5554	0.2	4	1	27	16
Europe		4863	0.5	4	1	15	8
Japan		37389	-1.8	7	-7	19	12
China		3357	0.3	1	-5	-11	-2
Asia Ex Japan		73	1.3	3	1	14	9
Emerging Markets		43	1.2	3	2	13	8
Interest Rates					basis points		
US 10y Yield		3.87	-0.8	-3	-36	-38	0
Germany 10y Yield		2.23	-1.4	1	-23	-39	21
Japan 10y Yield		0.89	1.4	4	-15	26	28
UK 10y Yield		3.91	-1.2	0	-21	-76	38
Credit Spreads					basis points		
US Investment Grade		134	-0.1	-7	7	-15	0
US High Yield		376	-2.9	-16	24	-41	-10
Exchange Rates					%		
USD/Majors		102.23	-0.2	-1	-2	-1	1
EUR/USD		1.10	0.1	1	1	1	0
USD/JPY		146.2	-1.0	-1	-7	0	4
EM/USD		46.1	0.1	1	0	-3	-4
Commodities					%		
Brent Crude Oil ($/barrel)		79.2	-0.6	-4	-3	-1	5
Industrials Metals (index)		143	1.2	3	0	3	0
Agriculture (index)		53	0.3	-1	-4	-20	-15
Implied Volatility					%		
VIX Index (%, change in pp)		15.7	0.9	-5.0	-0.9	-1.6	3.2
Global FX Volatility		8.1	0.1	-0.5	1.0	-0.5	0.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		107	-1.2	-4	8	-24	3
Italy		137	-1.8	-5	6	-34	-31
Portugal		62	-1.3	-3	1	-12	-1
Spain		83	-1.2	-3	5	-22	-14

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

Emerging Market Financial Indicators

Last updated: 8/19/2024 7:52 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		7.14	0.2	0.5	2	2	-1		2.0	-1.6	-9	-18	-59	-55
Indonesia		15550	0.9	2.6	4	-1	-1		6.7	-3.5	-11	-26	18	21
India		84	0.1	0.1	0	-1	-1		7.0	0.0	3	-14	(70.8)	-21
Philippines		57	1.0	1.2	3	-1	-2		5.2	0.0	-3	-13	-92	-47
Thailand		34	0.4	1.9	5	2	-1		2.4	-0.5	-10	-25	-60	-32
Malaysia		4.38	1.1	1.6	7	6	5		3.8	-0.8	1	-4	-9	4
Argentina		941	0.0	-0.5	-2	-63	-14		40.9	-77.9	-375	-573	-6190	-4547
Brazil		5.47	0.2	0.7	-1	-9	-11		11.4	-4.0	-17	-41	5	99
Chile		939	-1.0	-0.7	-3	-7	-6		4.9	2.0	-16	-30	-47	0
Colombia		4030	-0.5	1.0	-1	2	-4		7.7	5.5	-4	-31	-41	7
Mexico		18.69	-0.3	2.1	-3	-9	-9		8.8	-5.5	2	-29	6	39
Peru		3.7	0.2	0.0	-1	0	-1		6.5	0.3		-38	-44	-13
Uruguay		40	-0.1	-0.1	0	-6	-4		9.5	0.6	-1	-8	31	-4
Hungary		356	0.5	1.3	1	-1	-2		6.0	0.0	1	-13	-160	21
Poland		3.87	0.0	1.8	2	6	2		4.6	3.3	5	-45	-54	10
Romania		4.5	0.1	1.0	1	1	0		6.4	0.2	5	-7	-23	21
Russia		89.9	-0.4	1.1	-2	4	-1							
South Africa		17.8	0.3	2.3	2	6	3		8.7	-3.5	-2	-33	-107	-43
Türkiye		33.73	-0.1	-0.5	-2	-19	-12		28.7	5.0	41	76	669	199
US (DXY; 5y UST)		102	-0.2	-0.9	-2	-1	1		3.76	-0.2	1	-41	-63	-9

	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		3357	0.3	1	-5	-11	-2		151	-3	9	-29	-7
Indonesia		7467	0.5	2	2	9	3		112	-5	3	-7	16
India		80425	0.0	1	0	24	11		111	-6	22	-23	-5
Philippines		6890	0.6	4	1	10	7		96	-3	4	0	16
Thailand		1323	1.6	2	0	-13	-7		0	0	0	0	0
Malaysia		1649	1.5	3	1	14	13		92	-6	8	-1	7
Argentina		1649329	0.3	4	5	182	77		1481	-80	-110	-741	-432
Brazil		133953	-0.2	3	5	16	0		230	-6	8	-2	15
Chile		6458	0.8	3	-2	5	4		123	-9	4	2	-2
Colombia		1361	0.1	4	0	20	14		319	-7	16	-6	48
Mexico		54084	-0.3	2	1	2	-6		314	-9	6	-56	-20
Peru		28657	-1.0	0	-3	26	10		147	-7	4	-5	3
Hungary		72282	0.0	0	-1	29	19		163	0	8	-27	14
Poland		84615	-0.1	6	-1	24	8		115	2	12	5	18
Romania		18258	0.7	2	-2	44	19		201	4	10	1	0
South Africa		83525	0.8	4	5	14	9		306	-14	2	-73	-2
Türkiye		9921	1.0	1	-11	32	33		304	-12	13	-96	-10
EM total		43	0.2	3	2	13	8		412	-11	8	34	67

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

back to top