



- Fed seen as more dovish than other major central banks ([link](#))
- German Q2 GDP print confirms economy contracted ([link](#))
- Rate differentials favor euro area government bond markets over US ([link](#))
- Yen appreciation could reduce Japanese megabank overseas profits ([link](#))
- China corporate bond issuance dries up amidst market volatility ([link](#))
- Mexican peso continues to underperform ([link](#))

[Mature Markets](#)



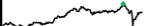








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Markets hold steady ahead of key events

Markets are little changed, with stocks in Europe eking out small gains while US equity index futures are slightly lower. Government bond yields are up slightly in early trading. Market participants are keeping a wary eye on the Nvidia earnings report due after the market close tomorrow. The company has been the standard bearer of the recent US tech rally and its results could have a major impact on US markets and global equity markets more broadly. The other major focus is the US PCE inflation report, a key measure for the Fed and one of the last important data points the FOMC will receive before its September meeting when it is expected to announce its first rate cut. Meanwhile, sentiment continues to sour on China as its local corporate bond market faces disruptions and Canada became the latest country to impose tariffs on Chinese imports. Problems in China are among the many factors being cited for the negative outlook on oil prices, which are expected to decline as global demand weakens.

Key Global Financial Indicators

Last updated: 8/27/24 7:54 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5617	-0.3	0	3	27	17.76
Eurostoxx 50		4907	0.2	1	1	16	9
Nikkei 225		38289	0.5	1	2	19	14
MSCI EM		43	-0.8	-1	3	12	8
Yields and Spreads			bps				
US 10y Yield		3.85	3.0	4	-35	-39	-3
Germany 10y Yield		2.29	4.0	7	-12	-27	26
EMBIG Sovereign Spread		394	-3	-2	-1	-24	10
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.1	0.0	0	1	-4	-4
Dollar index, (+) = \$ appreciation		100.8	0.0	-1	-3	-3	-1
Brent Crude Oil (\$/barrel)		81.1	-0.4	5	0	-4	5
VIX Index (% change in pp)		16.3	0.1	0	0	1	4

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

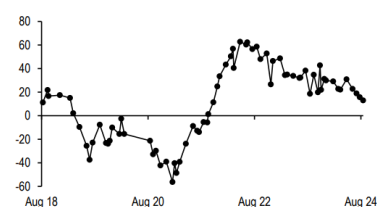
Mature Markets

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United States

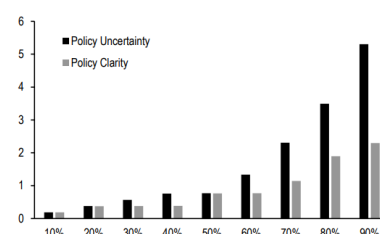
The US Fed is seen as highly dovish, with short term interest rate markets repricing to predict more aggressive central bank rate cuts than before. A month ago, the Fed Funds futures market was pricing just over 2 ½ rate cuts by the end of the year, but this has shifted to more than four rate cuts as of yesterday's trading. JP Morgan's large language model finds that Friday's Jackson Hole speech from Fed Chair Powell was his most dovish in nearly 3 years. Now that the market feels much more certain about the Fed's policy stance, rhetoric from Fed officials is expected to have a much smaller impact on Treasury yields. Many analysts expect a weak jobs report on September 6 to trigger a 50 bps rate cut at the next Fed meeting on September 18. However, this is still a minority view, with most calling for a 25 bps move.

Figure 1: Chair Powell's 2024 Jackson Hole speech scored as his most dovish in nearly 3 years
Jerome Powell Hawk-Dove history, using speeches, testimonies, and press conferences



Source: J.P. Morgan
* For methodology, see [Listen up: Unraveling J.P. Morgan's central bank NLP machine](#), Joseph Lupton and Dan Weitzenfeld, 7/2/24

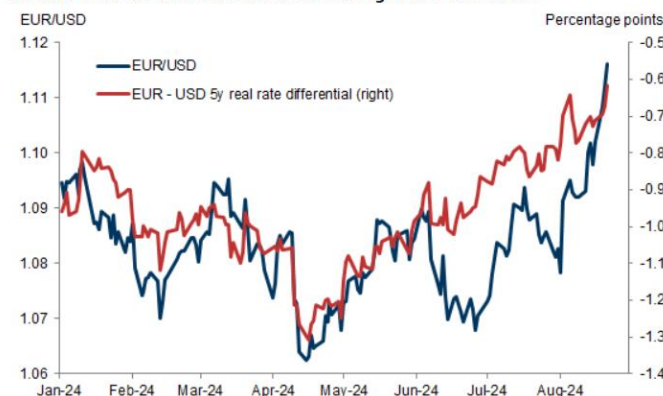
Figure 2: As one might expect, yields have tended to be much more sensitive to Fed-speak in periods of significant policy uncertainty
Size of the Nth percentile absolute change in the Fed sentiment index* on days with one or more Fed-speak events, grouped by policy clarity or uncertainty regime**, for various selected values of N from 10 to 90. Past 6 months; bp



Source: J.P. Morgan, Bloomberg Finance, L.P.
* The Fed sentiment index is computed as the cumulative sum of yield changes in 5-year note Treasury futures in the 15-minute period following the first Fed-speak headline on Bloomberg. Fed-speak is defined as any speech, FOMC meeting or FOMC minutes. ** Days on which the absolute difference between the total weight on deep cut scenarios and shallow cut scenarios was between 0.25 and 0.75 are classified as days characterized by Policy Uncertainty, while all other days are deemed to have Policy Clarity. For more details see Interest Rate Derivatives

Interest rate differentials have moved in favor of euro area bond markets over the US. The US Treasury market has been a key driver of global bond yields for most of the year, with investors piling into the market and driving Treasury yields sharply lower—the benchmark 10-year Treasury yield is down from 4.71% in April to below 3.80% as of early morning trading today. However, the dovish turn in Fed rhetoric, exemplified by Fed Chair Powell's remarks at the July 18 FOMC press conference and most notably last Friday's speech at Jackson Hole has turned the tide. The ECB looks much more hawkish in comparison, with its emphasis on lingering inflation issues. The dollar has weakened as a result, and investors have been buying up bunds at a greater rate. Short term interest rate markets now predict more than four full rate cuts by the December 18 FOMC meeting, compared to just over 2 ½ cuts for the ECB by its last meeting of the year on December 12.

Exhibit 2: Rate differentials have been moving in the Euro's favor

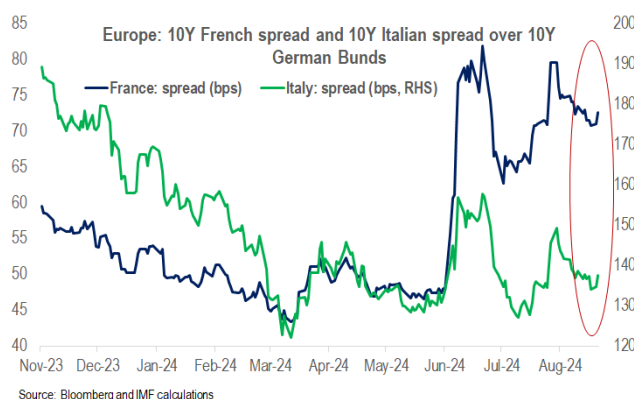


Source: Goldman Sachs Global Investment Research

Euro Area

European equity markets opened cautiously higher on a relatively quiet day on the data front. European equities opened in the green with the Stoxx 600 index higher (+0.3%) in early morning trade, led by gains in the consumer staples (+0.6%) and energy (+0.3%) sectors. The euro was marginally stronger against the dollar. This morning, German bund yields were trading higher across all tenors, with the 10Y up around 3bps to trade at 2.27%. Spreads of 10Y Italian BTPs over equivalent tenor Bunds were 3bps wider to trade at around 138bps, while 10Y French OAT spreads were around 2bps wider to trade at 73bps. Elsewhere, according to Bloomberg, the Italian Treasury sold €2.5bn of a 2026 bond with a bid-to-cover ratio of 1.54 times.

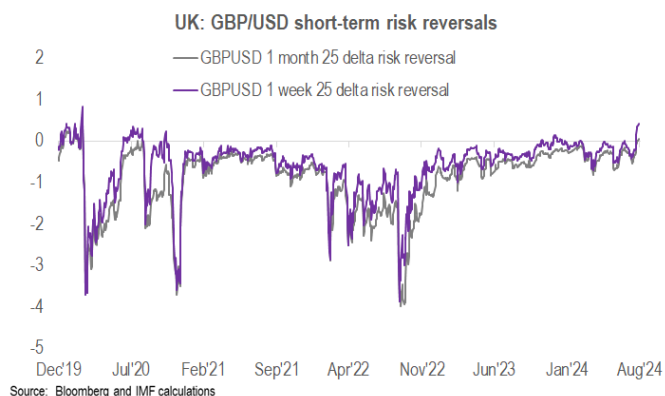
Germany's final Q2 GDP print confirms the economy contracted. According to the data release, private consumption and investments led the decline in output, with analysts at ING noting that "With disappointing second-quarter growth and almost all confidence sentiment indicators pointing south, the German economy is currently back where it was a year ago: stuck in stagnation as the growth laggard of the entire eurozone." That said, the analysts note that there could be some optimism for the second half of the year should German consumers increase their spending on the back of the highest increase in real wages in over a decade. Market pricing for ECB rate cuts was steady with around 65bps of total easing expected by year-end and a second 25bps rate cut expected at the upcoming September policy meeting.



United Kingdom

Foreign exchange options data suggest further upside for sterling. According to Bloomberg, foreign exchange options traders expect sterling to register further gains against the dollar heading into the September round of policy meetings.

Bloomberg data show one month sterling-dollar risk reversals (an options strategy that consists of a simultaneous purchase of a Sterling call option and a sale of a put option with similar characteristics, quoted as the difference between the implied volatilities of the two options) traded at seven basis points, calls over puts, which is the most since March 2020. Elsewhere, analysts at ING note that BoE Governor Bailey's comments from Jackson Hole suggest that there will likely remain "a wedge between US and UK rates" with money markets continuing to price in a shallower and slower easing cycle for the BoE relative to the Fed which would further support sterling appreciation. This morning, sterling held firm to trade higher (+0.3%) at 1.3227 against the dollar, with the currency up almost 4% against the greenback year-to-date. Meanwhile, 10Y gilt yields were around 9bps higher to trade at around 4%.



Japan

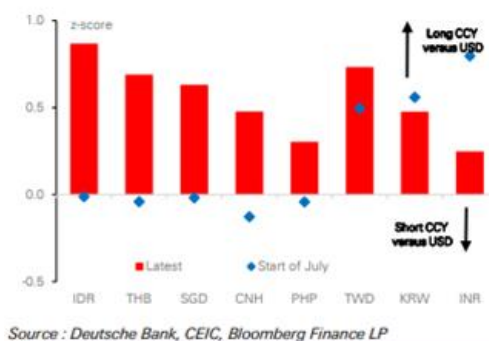
Yen appreciation is expected to reduce Japanese megabanks' overseas earnings. S&P notes that the top three Japanese megabanks have significant exposures to overseas markets, as around 40% of their loans were from outside Japan in Q2. The yen's depreciation had contributed to the strong net income growth earlier this year when reporting overseas earnings in yen. SMFG reported a significant gain of ¥3.7 trn (US\$25.5 bn) from its overseas loan portfolio in Q2, even though its overseas loans increased only by ¥400 bn from a year earlier to ¥38.9 trn, excluding foreign exchange impacts. S&P analysts expect currency gains for the mega banks to diminish due to the yen strengthening amid diverging monetary policy between the US and Japan. **Japanese equities gained** (Nikkei 225: +0.5%) **as the yen depreciated** (-0.4%).

Emerging Markets

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EMEA markets were mixed, as were Asian equities. S&P last Friday downgraded Kenya's sovereign rating to B- from B, with the outlook stable. **Asian currencies mostly depreciated** on potential profit taking, led by Philippine peso (-0.5%) and Indonesian rupiah (-0.4%). Deutsche Bank's FX position gauge shows the market having turned long on Asian FX vs. the USD for the first time since January this year, reflecting an unwind in carry positions funded in low yielding Asian FX, beta to a stronger yen, and pick up in inflows into Asian local bonds. Long-end government bond yields were mostly higher, with 10-year yields rising in Korea (+9.7 bps). **Latin American asset performances varied across the region.** The Mexican peso (-1.5%) was the worst performing EM currency yesterday. Equities in Colombia (+1%) and Brazil (+0.9%) gained but the rest of the region experienced losses. Brazil's weekly central bank survey revealed analysts raised their year-end 2026 Selic rate forecast to 9.5%, up from 9% previously.

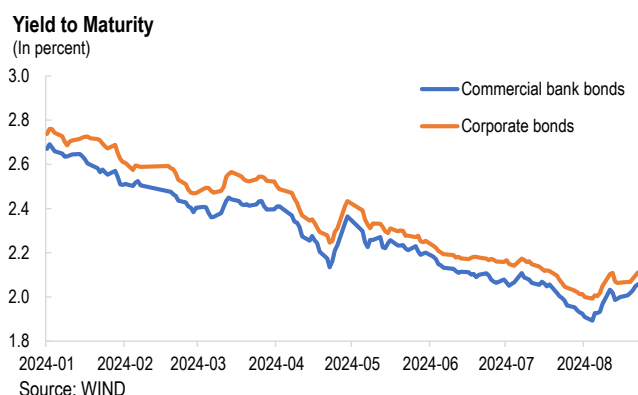
Figure 1: Our DB EPIC+ gauge shows market long Asian FX across the board for the first time since January 2024



China

Corporate bond issuance in China is drying up as funding conditions deteriorate. Bloomberg data indicated that 82 bond deals worth RMB55 bn (US\$7.7 bn) have been canceled so far in August (compared to 57 deals in the full month of July), as yields for AAA-rated corporate bonds and commercial bank bonds are up sharply by more than 10 bps since the end of July. Major issuers such as China Railway Construction and Datang International Power Generation cited market fluctuations for the cancellations. Local media believe redemptions of wealth management products have reduced demand for credit bond investments, while a decline in bond trading volume amid the government's effort to cool the government bond market rally has further amplified the volatility. Yesterday, a major local newspaper revealed that the authorities have started stress tests with financial institutions to ensure they can withstand market volatility if the government bond rally reverses. Separately, **Canada announced a new 100% tariff on Chinese-made**

electric vehicles, and a 25% levy on aluminum and steel, which will start on 1 October and 15 October respectively. The government is also considering tariffs for other sectors such as batteries and semiconductors. On the data front, **July industrial profit grew 4.1% y/y** (prior: +3.6%, YTD: +3.6%), led by the high-tech manufacturing sectors (ytd: +12.8% y/y).

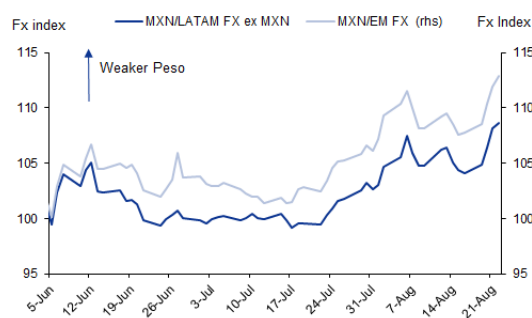


Mexico

The peso's struggle to keep up with Latin American currencies continues. It was the worst performing EM currency Monday, again approaching a key support level of 19.5 per USD. Over the past 6 months the peso (-12%) has underperformed other Latin American currencies, with traders concerned about a judicial overhaul threatening the government's checks and balances, according to Bloomberg analysts. Goldman Sachs analysts highlight that the recent unwinding of the JPY carry trade amplified the currency's weakness over the past few weeks. Yesterday's depreciation can be attributed to a combination of President AMLO's reinforced commitment to his judicial overhaul plans and a flight to safety amid escalating tensions in the Middle East, according to Bloomberg analysts.

Exhibit 4: The pressure on MXN has resumed in recent weeks

Description: Mexican Peso index against a bucket of 21 EM currencies and a LATAM FX index equally weighted that includes COP, BRL, PEN, and CLP, starting in June 2024 with base 100

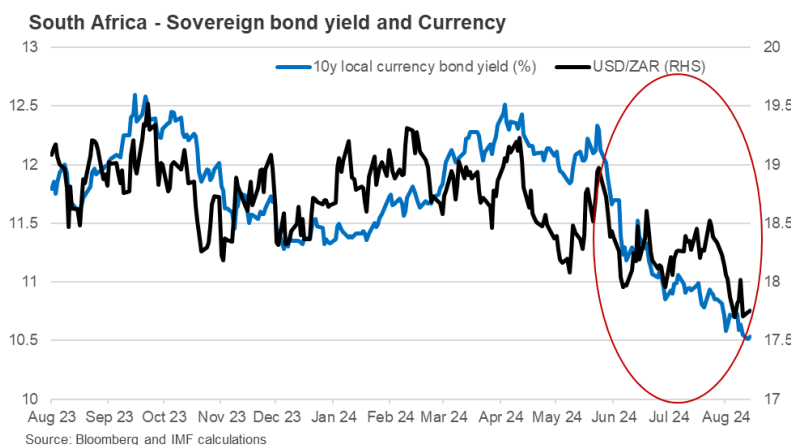


Source: Bloomberg, Goldman Sachs Global Investment Research

South Africa

Contacts generally remain constructive on South African assets. Local markets have rallied since the formation of the government of national unity (GNU) in June—with positive sentiment reflected in the rand (roughly 5.8% stronger against the dollar than at the start of June), local debt markets (10y yields are roughly 170bps lower than at the start of June), and also equity markets (the local equity index has gained roughly 10% since the start of June). Despite this rally, some market analysts remain bullish on domestic








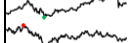
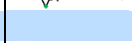
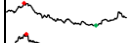







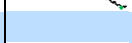
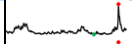

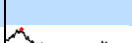



assets amid expectations that South Africa's authorities would continue to restore fiscal credibility—noting that the GNU offers improved accountability and also a strengthening of existing power supply reforms. Moreover, a recent fund manager survey by BofA showed the vast majority of fund managers expecting the equity market to gain in six months, even after the strong rally. For domestic rates, some contacts also argue that the recent fiscal outperformance relative to market expectations is not reflected in market pricing, pointing to a further upside. As regards the currency, contacts also see scope for more rand strengthening, while others remain neutral for now, noting the absence of evidence of progress on structural reforms.



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.

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Global Financial Indicators

8/27/24 7:55 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5617	-0.3	0	3	27	18
Europe		4907	0.2	1	1	16	9
Japan		38289	0.5	1	2	19	14
China		3305	-0.6	-1	-3	-12	-4
Asia Ex Japan		73	-0.9	-1	2	13	10
Emerging Markets		43	-0.8	-1	3	12	8
Interest Rates			basis points				
US 10y Yield		3.85	3.0	4	-35	-39	-3
Germany 10y Yield		2.29	4.0	7	-12	-27	26
Japan 10y Yield		0.88	-0.7	-1	-18	22	27
UK 10y Yield		4.01	9.3	9	-10	-44	47
Credit Spreads			basis points				
US Investment Grade		132	-0.4	-1	2	-13	-2
US High Yield		367	-3.1	-3	14	-51	-18
Exchange Rates			%				
USD/Majors		100.83	0.0	-1	-3	-3	-1
EUR/USD		1.12	0.0	0	3	3	1
USD/JPY		144.5	0.0	0	-6	-1	2
EM/USD		46.1	0.0	0	1	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		81.1	-0.4	5	1	2	7
Industrials Metals (index)		148	0.3	2	7	5	4
Agriculture (index)		53	-0.1	0	-2	-21	-15
Implied Volatility			%				
VIX Index (%, change in pp)		16.3	0.1	0.4	-0.1	0.6	3.8
Global FX Volatility		8.6	0.0	0.2	1.4	0.2	0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		105	1.2	-3	2	-28	2
Italy		138	3.2	0	2	-30	-30
Portugal		60	1.8	-2	-5	-11	-3
Spain		82	1.9	-1	-1	-21	-15

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

Emerging Market Financial Indicators

Last updated: 8/27/2024 7:57 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		7.13	-0.1	0.0	2	2	0		2.0	2.0	2	-3	-61	-52	
Indonesia		15495	-0.4	-0.4	5	-1	-1		6.6	1.3	-1	-35	11	15	
India		84	0.0	-0.2	0	-2	-1		7.0	3.9	-1	-11	(62.8)	-23	
Philippines		56	-0.5	0.5	4	1	-2		5.1	-1.3	-9	-19	-81	-51	
Thailand		34	-0.2	0.3	6	3	1		2.4	6.5	1	-15	-54	-27	
Malaysia		4.35	0.0	0.8	7	7	6		3.8	0.4	0	0	-8	5	
Argentina		949	-0.4	-0.6	-2	-63	-15		39.8	62.9	-78	-481	-6873	-4656	
Brazil		5.50	-0.1	-1.5	3	-11	-12		11.5	-0.9	20	-57	32	111	
Chile		906	0.4	2.0	5	-5	-3		4.9	0.3	-1	-41	-50	1	
Colombia		4026	0.1	0.1	0	2	-4		7.7	0.0	3	-73	-44	4	
Mexico		19.44	-0.2	-2.3	-4	-14	-13		8.9	-1.0	2	-41	13	45	
Peru		3.7	0.1	-0.2	0	-1	-1		6.5	-0.2	0	-41	-45	-14	
Uruguay		40	0.1	0.1	0	-6	-3		9.5	0.7	3	-8	37	0	
Hungary		353	0.2	0.2	3	1	-2		5.9	0.0	-7	-9	-105	14	
Poland		3.83	0.1	0.3	4	8	3		4.6	6.4	7	-39	-36	10	
Romania		4.5	0.0	0.3	3	2	1		6.5	-0.1	2	-4	-18	27	
Russia		91.5	0.6	-0.3	-6	4	-2								
South Africa		17.7	0.1	0.5	4	5	4		8.6	4.5	-11	-27	-75	-51	
Türkiye		34.03	-0.1	-0.4	-3	-22	-13		28.4	10.0	-25	34	695	165	
US (DXY; 5y UST)		101	0.0	-0.6	-3	-3	-1		3.69	2.1	0	-39	-75	-16	

	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		3305	-0.6	-1	-3	-12	-4		152	2	6	-29	-6		
Indonesia		7598	-0.1	1	4	10	4		101	-9	-10	-27	5		
India		81712	0.0	1	0	26	13		111	1	5	-26	-5		
Philippines		6973	0.2	2	4	13	8		87	-7	-9	-16	7		
Thailand		1364	0.0	3	4	-13	-4		0	0	0	0	0		
Malaysia		1652	0.8	1	2	14	14		91	1	3	-6	6		
Argentina		1593003	-0.9	-4	3	152	71		1516	38	-52	-563	-397		
Brazil		136889	0.9	1	7	18	2		222	-2	0	-8	7		
Chile		6442	-0.3	-1	0	7	4		121	-2	0	-7	-4		
Colombia		1344	1.0	0	0	22	12		311	-4	3	-35	40		
Mexico		53171	-0.6	-2	1	0	-7		315	2	0	-54	-19		
Peru		28387	-0.1	-1	-4	24	9		141	-3	0	-18	-3		
Hungary		73208	-0.4	1	0	29	21		157	-3	-1	-43	8		
Poland		83510	-0.6	0	0	23	6		108	-3	5	-11	11		
Romania		18397	-0.3	0	-1	41	20		200	0	6	-14	-1		
South Africa		84281	0.1	1	4	14	10		300	-1	-8	-83	-8		
Türkiye		9674	1.1	-3	-11	25	29		295	-3	3	-88	-19		
EM total		43	-0.5	-1	3	12	8		407	-1	0	29	61		

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

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