GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, AUGUST 28, 2024
LEAD EDITOR: SANJAY HAZARIKA

- **Key US technology earnings report could have major impact on markets** (link)
- **Harris trade replaces Trump trade for investors** (link)
- **Spillover from JPY volatility to China is limited** (link)
- **Flash euro area inflation expected to decline further** (link)
- **Markets in Mexico sink after Congress approves judicial overhaul** (link)
- **Markets expect rate cuts to continue in Hungary despite yesterday's pause** (link)

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Waiting for Nvidia and US inflation

Markets are in the peculiar position of being reliant on the earnings report of a single company—the US tech giant Nvidia, which is due after the market close this evening. The company is so large and influential in the hitherto all-conquering AI-related technology sector, that its performance could have a major impact on markets both at home and abroad. Friday's US PCE inflation is almost playing second fiddle in comparison. Meanwhile, stocks in Europe are up by small amounts and US equity index futures are holding steady. Government bond yields in the US and the euro area are continuing their downward path after a pause yesterday. Oil prices fell again on worries about excess supply and weakness in global demand. Metal prices were also down, as rising inventories in China raised similar concerns about demand. China remains a key focus as global investors continue to fret about the continued problems with local markets and the economy. A sudden, unexplained depreciation of the lira temporarily disrupted market functioning but conditions have returned to normal.

Key Global Financial Indicators

Last updated: 8/28/24 7:53 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5626	0.2	1	3	27	17.95
Eurostoxx 50		4931	0.7	1	1	15	9
Nikkei 225		38372	0.2	1	0	19	15
MSCI EM		44	0.1	0	3	11	8
Yields and Spreads				bps			
US 10y Yield		3.81	-1.3	1	-39	-39	-7
Germany 10y Yield		2.24	-4.8	5	-17	-32	22
EMBIG Sovereign Spread		395	1	-2	0	-23	11
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.0	0.0	0	0	-5	-4
Dollar index, (+) = $ appreciation		101.0	0.4	0	-3	-3	0
Brent Crude Oil ($/barrel)		78.3	-1.6	3	-4	-7	2
VIX Index (%, change in pp)		15.7	0.2	-1	-1	1	3

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

Mature Markets

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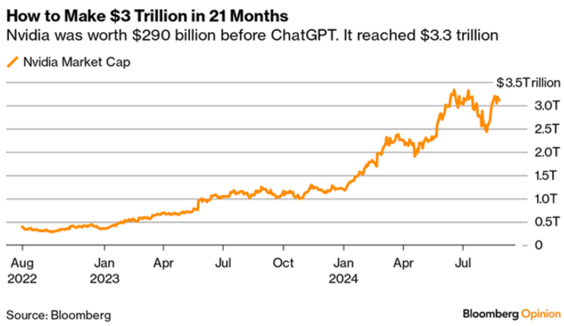
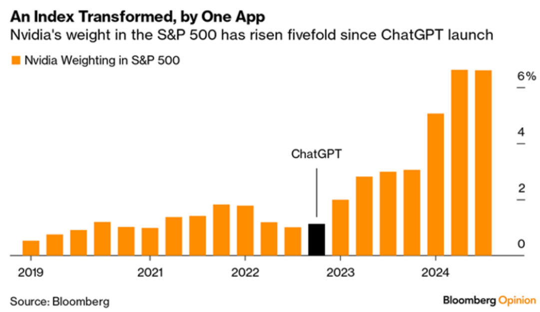
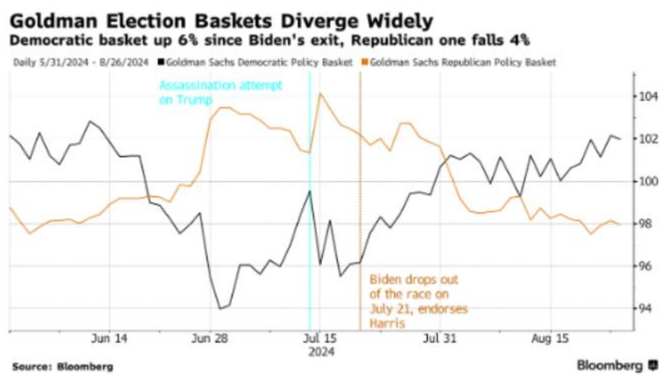
United States

The latest earnings report from Nvidia due after the market close today is a key focus for global markets. Nvidia is the main beneficiary of the market's fervent embrace of AI related stocks as it is the dominant manufacturer of AI-related computer chips. Since the announcement of ChatGPT in November 2022, the market capitalization of Nvidia has surged by $3 tn and the stock now accounts for 6% of the S&P 500. Fluctuations in Nvidia's share price has a major impact not just on US equity markets but global equity markets more broadly. Nvidia's rapid journey from an important but relatively small company to a dominant stock is unprecedented in financial history. As a result, today's results from Nvidia will be viewed as a macro event by the market, possibly as influential as a major macroeconomic data release. Bank of America finds that there is a 78% correlation between Nvidia's results and the performance of the S&P 500 over the next two weeks.





The so-called Trump Trade is fading in popularity among investors and is being replaced by the so-called Harris Trade as expectations of a Democratic victory in the US Presidential election gain ground. When market expectations that ex-President Trump would win re-election were at their height, equities in selected sectors saw major rallies. Goldman has constructed representative baskets of "Republican" and "Democratic" stocks and the price changes are shown in the chart below. The "Republican" basket included sectors such as financial stocks which were expected to benefit from more limited regulation, and energy stocks which were expected to do well under an administration that promised to roll back much of the climate agenda. In addition, Treasury yields went up and the dollar gained on the assumption that higher tariffs under a Trump administration would be inflationary and lead to higher interest rates. The so-called Harris trade has featured a selloff in the Trump Trade equity sectors and a fall in both Treasury yields and the dollar. Equity sectors that have benefited include renewable energy companies, EV makers and utilities.



Euro Area

European equity markets opened higher as markets await Nvidia's earnings results due later today. The Stoxx 600 index was higher (+0.4%) in early morning trade, led by gains in the information technology (+0.8%) and industrial (+0.5%) sectors. The euro was weaker against the dollar (-0.5%) to trade at 1.1125 this morning. German bund yields were trading lower across all tenors this morning, with the 10Y around 4bps lower to trade at 2.25%, reversing yesterday's move higher. Analysts at Citi and Commerzbank note that significant European government bond supply will likely lead to further steepening of yield curves. Italian and French spreads to bunds held steady. Elsewhere, data released by the ECB showed that bank lending growth remains subdued as banks continue to tighten credit conditions for business lending and demand for loans continues to decline.

August flash eurozone headline inflation is expected to decline further. Analysts at Credit Agricole expect Friday's preliminary headline inflation data for the Eurozone to decline from 2.6% y/y to 2.2% y/y on energy base effects and expect core inflation to remain unchanged at around 2.9% y/y, broadly in line with consensus expectations. In addition, the analysts expect figures for September and October to show that headline inflation will fall slightly below the ECB's 2% target, to around 1.9%, which they believe will "mark the official end of the 2021–24 inflation spike". That said, they do not expect core inflation to decline to 2% until around H2'25 when the strong month-on-month core inflation data from the first quarter of this year would leave the year-on-year calculation. Speaking at an event yesterday, ECB Governing Council member Knot said that "as long as our disinflation path still converges toward the return of 2% inflation before the end of 2023, then of course I'm comfortable with gradually taking our foot off the brake, because then we need less restriction". **Current market pricing expects a second 25bps rate cut from the ECB at its September meeting, with around 66bps of easing expected by year-end**.

United Kingdom

UK homes for sale hit a seven-year high as the property market gains momentum on falling mortgage costs. According to online property agent Zoopla, the number of UK properties listed for sale is up 14% from a year ago, an indication that confidence is returning to the UK housing market as election related uncertainty has receded and as mortgage costs continue to decline following the Bank of England's recent interest rate cut, with the prospect of further cuts to follow. Indicators from Halifax and Nationwide showed that house prices have also edged up, rising the most since January last month. That said, Zoopla notes that while market conditions have continued to improve, buyers remain price sensitive. Elsewhere, sterling edged slightly lower (-0.3%) against the dollar in early morning trading to 1.3219 ahead of a speech by BoE external MPC member Catherine Mann, who dissented by voting to keep rates unchanged at the last policy meeting. 10Y gilt yields were around 2bps lower at 3.98% while the FTSE 100 was broadly unchanged.

Emerging Markets

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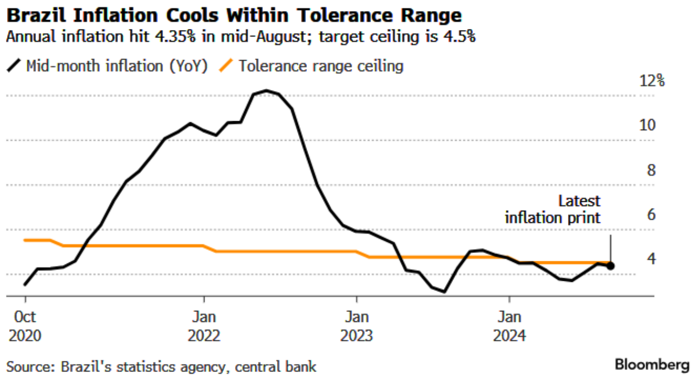
EMEA equities were mixed while currencies were weakening against the dollar. The Turkish lira was little changed against the dollar at around 38.07/$ in later trade after briefly weakening sharply this morning to around 38.49/$, with some traders attributing the move to a lack of liquidity according to Bloomberg. **Markets in Asia did well, with the continued exception of China.** Asian government bond markets were mostly lower in yield. **However, Latin American assets were mostly lower Tuesday.** The Peruvian sol was a rare outperformer in the region.

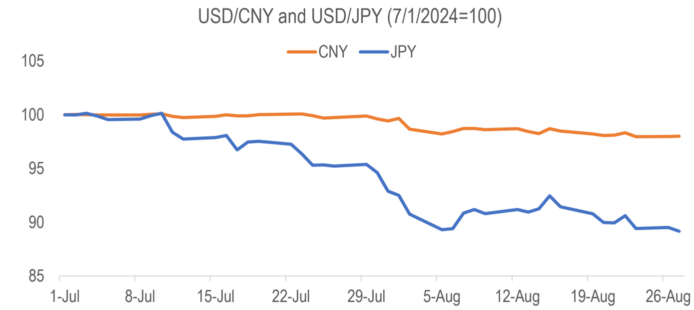
Brazil

Brazil's decline in inflation is still not enough to sway investors. Annual inflation fell within the central bank's tolerance range to 4.35% yoy in the first half of August, slightly above the 4.33% expected. Despite the drop, the yield curve shifted 9–15 bps higher across the curve, and swap markets are still pricing in at least a 25 bp hike at the September meeting. Policymakers are open to all options at their next meeting as economic activity is coming in stronger than expected and a tight labor market remains a challenge for inflation. The real (-0.3%) depreciated and equities fell after the release.



China

Due to domestic factors, the unwinding of the JPY carry trades had little spillover to the Chinese yuan. CNY has gained about 2% against the dollar since July, while JPY strengthened by more than 10%. Analysts argued that the BoJ's hawkish pivot **justifie**s the JPY's strength, as the central bank will keep raising rates to levels deemed neutral to the economy. That is a sharp contrast to China, where domestic challenges from deflationary pressures, weak demand, and housing market turmoil lead to increased expectations for monetary and fiscal policy easing to help the economy meet the growth target. In fact, investors are bidding up Chinese government bonds on waning confidence in economic growth, pushing 10-year yields to record lows so that the rate difference between USD and C**N**Y is unlikely to narrow. Trade tensions have also played a role in hampering the CNY gains. On the geopolitical risk front, Foreign Ministry spokesman Lin Jian said Tuesday China did not intend to breach another nation's airspace after a Chinese aircraft violated Japanese airspace on Monday, trying to calm down the situation. The market reaction to the incident has been muted so far.

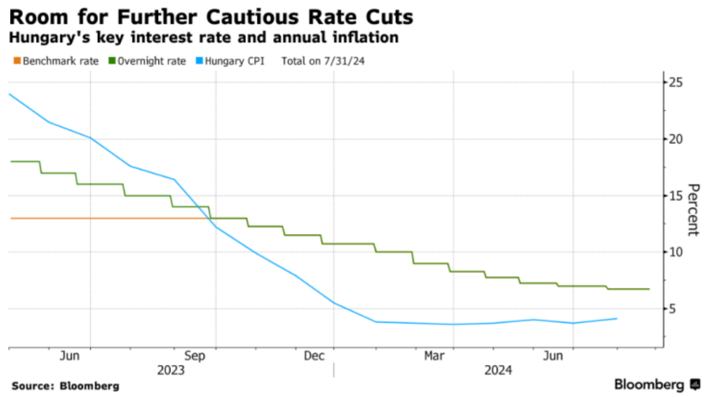


Source: Bloomberg

Hungary

The central bank of Hungary kept rates on hold yesterday, as expected, but the pause in the easing cycle is not anticipated to be lengthy. The central bank of Hungary yesterday left the base rate unchanged at 6.75%, as expected, after a series of consecutive rate cuts. This follows after July inflation surprised on the upside, but Q2 economic growth disappointed. The central bank signaled that further rate cuts are possible but would be dependent on the policy decisions of major central banks, local inflation developments as well as local risk assessments and economic confidence. JP Morgan analysts see stubborn price pressures as the main factor driving the central bank's increased caution, and still expect a further 50bps of rate cuts this year—with a 25bps rate cut expected in both September and December.

Other analysts only expect one additional rate cut this year in September but note that easing by major central banks could provide room for a second rate cut. Goldman Sachs analysts also expect more easing this year but see forint volatility as a constraint on the pace of easing. The Hungarian forint closed 0.3% stronger against the euro yesterday at around 393.3/€ but remains roughly 2.5% weaker than at the start of the year.



Mexico

Mexican markets sold off after a Congressional committee approved AMLO's judicial overhaul plans. Bloomberg reported that investors have already been pricing in the effects of the plan but were negatively surprised by the speed of the approval. The peso (-1.8%) had its worst day since early June and equities (-1.3%) underperformed globally. Implied one-month volatility for the peso spiked to 18.9, levels last seen in June, and currently the highest among Latin American currencies. Bloomberg analysts note the lower house is next to debate, which could be as soon as next week, where the plan must be approved by two-thirds in both chambers.

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

8/28/24 7:55 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5626	0.2	1	3	27	18
Europe		4927	0.6	1	1	15	9
Japan		38372	0.2	1	0	19	15
China		3287	-0.6	-1	-3	-13	-4
Asia Ex Japan		73	0.3	0	3	12	10
Emerging Markets		44	0.1	0	3	11	8
Interest Rates					basis points		
US 10y Yield		3.81	-1.3	1	-39	-40	-7
Germany 10y Yield		2.24	-5.3	4	-17	-33	21
Japan 10y Yield		0.90	1.9	2	-16	24	29
UK 10y Yield		3.97	-3.2	8	-13	-48	43
Credit Spreads					basis points		
US Investment Grade		133	0.5	-3	2	-12	-1
US High Yield		368	0.9	-9	15	-50	-17
Exchange Rates					%		
USD/Majors		100.95	0.4	0	-3	-3	0
EUR/USD		1.11	-0.5	0	3	3	1
USD/JPY		144.4	0.3	-1	-6	-1	2
EM/USD		46.0	0.0	0	0	-5	-4
Commodities					%		
Brent Crude Oil ($/barrel)		78.2	-1.7	3	-3	-2	3
Industrials Metals (index)		146	-1.8	0	5	3	2
Agriculture (index)		54	-0.5	1	-1	-21	-14
Implied Volatility					%		
VIX Index (%, change in pp)		15.6	0.2	-0.6	-0.8	0.6	3.2
Global FX Volatility		8.6	0.0	0.1	1.3	0.4	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		105	-0.1	-2	2	-27	1
Italy		138	0.0	1	2	-28	-30
Portugal		61	0.8	0	-4	-10	-2
Spain		83	1.0	1	0	-19	-14

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

Emerging Market Financial Indicators

Last updated: 8/28/2024 7:56 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		7.13	0.0	0.1	2	2	0		2.0	-1.5	1	-4	-63	-54
Indonesia		15422	0.5	0.5	6	-1	0		6.6	-0.1	2	-35	17	15
India		84	0.0	0.0	0	-2	-1		7.0	1.0	2	-10	(61.7)	-22
Philippines		56	0.1	0.5	4	1	-2		5.1	1.2	0	-18	-80	-49
Thailand		34	-0.4	0.6	6	3	1		2.4	0.5	1	-14	-53	-27
Malaysia		4.34	0.1	0.8	7	7	6		3.8	-0.4	1	0	-8	4
Argentina		949	0.1	-0.5	-2	-63	-15		39.8	-0.2	28	-482	-6873	-4656
Brazil		5.51	-0.2	-0.6	2	-12	-12		11.6	5.3	14	-55	37	116
Chile		908	-0.2	1.8	5	-6	-3		4.9	0.0	2	-42	-51	-1
Colombia		4038	-0.3	-0.7	1	2	-4		7.6	0.0	-8	-77	-48	-1
Mexico		19.65	0.5	-1.9	-5	-15	-14		9.0	0.0	14	-30	23	55
Peru		3.7	0.2	0.3	0	-1	-1		6.6	1.9	4	-39	-39	-12
Uruguay		40	0.0	0.0	0	-6	-3		9.5	0.9	7	-7	38	0
Hungary		354	-0.6	-0.4	3	0	-2		6.0	2.0	4	-3	-99	20
Poland		3.86	-0.9	-0.6	3	7	2		4.6	2.0	6	-37	-34	12
Romania		4.5	-0.5	-0.2	3	2	1		6.5	0.5	2	-4	-17	27
Russia		91.2	0.5	0.3	-5	5	-2							
South Africa		17.8	-0.3	0.4	4	5	3		8.6	2.0	5	-25	-73	-49
Türkiye		34.03	0.0	-0.4	-3	-22	-13		28.5	9.0	-3	44	694	175
US (DXY; 5y UST)		101	0.4	-0.1	-3	-3	0		3.64	-1.1	-2	-44	-76	-21

	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		3287	-0.6	-1	-3	-13	-4		151	1	5	-30	-7
Indonesia		7659	0.8	1	5	10	5		101	-11	-10	-27	5
India		81786	0.1	1	1	26	13		111	1	5	-26	-5
Philippines		6958	-0.2	1	5	12	8		89	-10	-7	-14	9
Thailand		1366	0.1	2	4	-13	-4		0	0	0	0	0
Malaysia		1675	1.4	2	3	15	15		90	0	2	-7	5
Argentina		1616134	1.5	-3	5	143	74		1514	19	-54	-565	-399
Brazil		136776	-0.1	1	7	17	2		223	-5	1	-7	8
Chile		6379	-1.0	-2	-1	6	3		121	-4	0	-7	-4
Colombia		1341	-0.2	0	0	21	12		311	-4	3	-35	40
Mexico		52474	-1.3	-3	-1	-2	-9		319	3	4	-50	-15
Peru		28246	-0.5	-1	-5	22	9		141	-4	0	-18	-3
Hungary		72837	-0.7	0	0	28	20		156	-7	-2	-44	7
Poland		83624	-0.6	-1	0	22	7		108	-5	5	-11	11
Romania		18320	-0.1	0	-1	40	19		202	-1	8	-12	1
South Africa		84298	-0.3	0	4	12	10		297	-5	-11	-86	-11
Türkiye		9784	0.4	-1	-10	23	31		298	-2	6	-85	-16
EM total		44	-0.1	0	3	11	8		408	0	2	30	63

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

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