GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, AUGUST 29, 2024

LEAD EDITOR: FABIO CORTES

- **US interest rate volatility could rise heading into the rate cutting cycle** (link)
- **Euro weakens after some preliminary August inflation readings are softer than expected** (link)
- **Sweden's Q2 GDP contracts by less than expected** (link)
- **Japanese corporates' strategic shareholding unwinding accelerates** (link)
- **Analysts expect China to miss its growth target for 2024** (link)
- **Gabriel Galipolo selected as the next Brazilian central bank chief** (link)

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Markets march on despite disappointing Nvidia earnings

European bourses gained and US equity futures signaled a positive opening despite the highly anticipated Nvidia earnings release disappointing. Nvidia shares tumbled as much as 5% in premarket trading this morning despite beating estimates after markets closed yesterday, with investors disappointed about the smaller beat compared to the blow-out reports in previous quarters. An underwhelming sales forecast and news of production issues with its much-awaited Blackwell chips also weighed on the company's stock price. In fixed income markets, most advanced economy sovereign bond yields were little changed ahead of the release of the US core PCE price index tomorrow. The dollar was also marginally stronger, with the euro weakening after some preliminary August inflation readings came in softer than expected. In emerging markets, Chinese bank stocks underperformed amid speculation that China will miss its growth target this year. In Brazil, the real weakened and the term structure of one-day bank deposit futures steepened after the appointment of Gabriel Galipolo as the next Brazilian central bank chief yesterday.

Key Global Financial Indicators

Last updated: 8/29/24 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5592	-0.6	-1	2	24	17.24
Eurostoxx 50		4954	0.8	1	3	15	10
Nikkei 225		38363	0.0	0	0	19	15
MSCI EM		43	-0.6	-1	2	9	8
Yields and Spreads					bps		
US 10y Yield		3.83	-0.6	-2	-35	-29	-5
Germany 10y Yield		2.25	-1.1	1	-11	-26	23
EMBIG Sovereign Spread		394	-1	-3	-1	-24	10
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.0	0.1	0	1	-5	-5
Dollar index, (+) = $ appreciation		101.2	0.1	0	-3	-2	0
Brent Crude Oil ($/barrel)		78.8	0.2	2	-1	-8	2
VIX Index (%, change in pp)		16.1	-1.0	-1	0	2	4

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

Mature Markets

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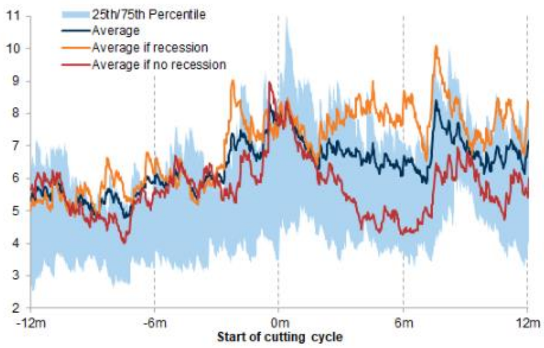
United States

US stocks retreated in a volatile session ahead of the highly anticipated Nvidia earnings report. On a relatively quiet day, the stock market grappled with a bout of volatility, with a 20% drop in a leading mid-cap chip maker—on suspicion of accounting fraud—triggering a broad-based sell-off and a spike in equity volatility. The NASDAQ fell as much as 1.8% with the VIX index up to 17.8, before reversing half of the moves in the afternoon. Meanwhile, the Treasury market remained steady with yields across tenors little changed for the day.

Nvidia shares tumbled as much as 5% in premarket trading this morning despite beating estimates after markets closed yesterday, with investors disappointed about the smaller beat compared to the blow-out reports in previous quarters. An underwhelming earnings forecast and news of production issues with its much-awaited Blackwell chips also weighed on the company's stock price.

Interest rate volatility remains relatively elevated and could increase again heading into the rate cut cycle. According to Goldman Sachs analysis, interest rates volatility tends to increase before the start of a rate cut cycle and reset in the following 6 months if the economy avoids entering a recession. For this year though, the reset after the first rate cut may be slower due to the US presidential election and higher macro uncertainty.

1m volatility (exp. weighted) of US 10y rates around the start of Fed cutting cycles (data since 1966)



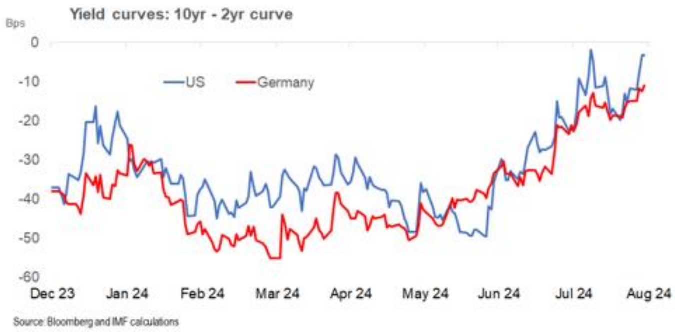
Source: Haver Analytics, Goldman Sachs Global Investment Research

Euro area

European equity markets opened higher despite Nvidia's disappointing earnings as markets shift their focus back to the prospect of interest rate cuts ahead of key inflation data tomorrow. The Stoxx 600 index was higher (+0.7%) in early morning trade, led by gains in the information technology (+2.0%) and consumer discretionary (+1.0%) sectors, with the index up over 1.5% over the past week. Elsewhere, spreads of 10-year Italian BTPs over equivalent tenor Bunds were broadly unchanged to trade at around 138 bps, while 10-year French OAT spreads were also stable at 72 bps. According to Bloomberg, Italy sold €4.5 bn of 5-year bonds with a yield of 3.08%.

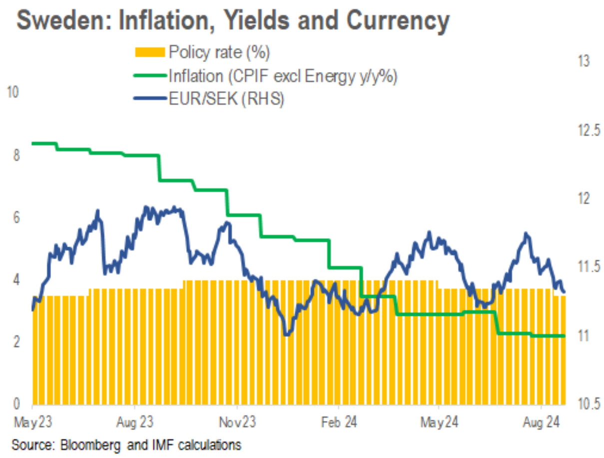
The Euro weakened (-0.2%) after some preliminary August inflation readings came in softer than expected. In Spain, preliminary August headline inflation eased to the lowest level in a year. Consumer prices rose by 2.4% y/y, slightly less than consensus expectations of 2.5% y/y and down from 2.9% y/y in July. Regional data for Germany showed inflation across the country's main regions declining substantially with analysts at Morgan Stanley estimating headline CPI to track 1.8% y/y when national data is released later today, driven largely by weaker energy prices. Immediately following the data release, **the euro was 0.2% weaker at 1.1090, its weakest level in a week and market pricing for ECB rate cuts edged up**

by around 3 bps, pricing in around 69 bps of easing by year-end versus 66 bps expected yesterday. Meanwhile, German bund yields were lower across all tenors with the 10-year bund yield around 2 bps lower to trade at 2.24% and the 2-year bund yield almost 5 bps lower to trade at 2.33%. Analysts at Commerzbank note that the trend towards steeper yield curves is likely to continue. In part, this is mechanical as when central banks cut policy rates, the front-end of the curve is affected, while government bond supply will impact the longer end of the curve, pushing yields higher.



Sweden

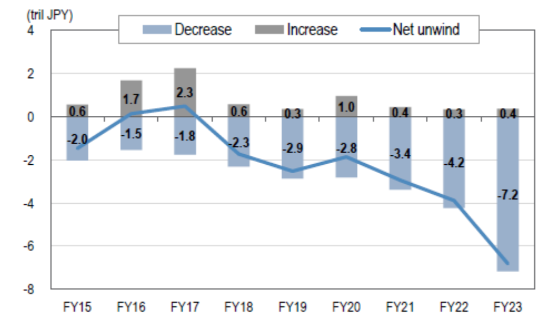
Q2 GDP contracted by less than expected. Sweden's quarter-on-quarter GDP growth declined by -0.3% in Q2 (vs -0.8% q/q expected), helped in large part by exports. Last week, the Riksbank cut its benchmark rate by 25 bps to 3.5% from 3.75% and policymakers suggested that rates could be cut by up to a further 75 bps before the end of the year. Analysts noted that today's data suggest the Swedish economy could be on track to exit a period of stagnation. Furthermore, while mortgage rates currently remain elevated, the impact of rate cuts from the Riksbank could be felt relatively quickly as most homeowners have interest rates fixed on a three-month basis. That said, analysts at JP Morgan noted that despite today's better than expected data, the Riksbank will likely remain concerned about growth, and as a result expect policymakers to deliver 25 bps cuts at every policy meeting until Q2 2025. Meanwhile, analysts at ING noted that market pricing which expects more than 80bps of rate cuts over the last three meetings of this year might be overly dovish, particularly if the ECB eases policy slower than currently expected. This morning, the Swedish krona was relatively unchanged against the euro at 11.33/€.



Japan

Japanese corporates' strategic shareholding unwinding accelerates. JP Morgan analysts noted that the reduction of strategic shareholding amounted to ¥7.2 tn ($50 bn) in FY 2023, up 70% from the prior year. The strategic shareholding unwinding is expected to gather pace further due to a new rule set to be unveiled soon, requiring companies to disclose reasons and consent for changing the accounting treatment of equity holdings from strategic shareholdings to pure investments. According to their estimates, a 90% reduction in strategic shareholding will increase Japanese corporates' RoE by 1.6 ppt, as it fuels share buybacks. However, Nomura analysts raised concerns that the reduction in cross-shareholdings could make companies more vulnerable to takeovers, especially from foreign investors. Today, **a 2-year JGB auction met strong demand**, as domestic investors sought shorter durations due to anticipated rate hikes in Japan. The average bid-to-cover ratio rose to 5.54, the highest since 2019, with the gap between average and lowest-accepted prices narrowing. 2-year JGB yields declined (-1.4 bps).

Figure 1: Strategic shareholding unwinding results of TOPIX companies



Source: QUICK, Company filings, J.P. Morgan estimates
Note: Estimates based on TOPIX names' book value change from previous fiscal year adjusted for stock price held by other TOPIX names. Reductions include sales and recategorization as pure investments

Emerging Markets

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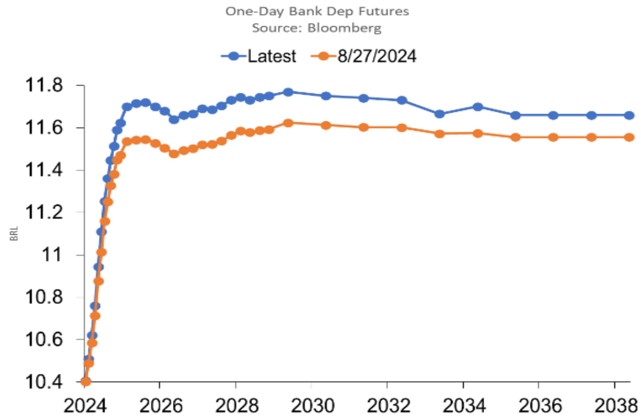
Asian equities were mostly down (EM Asia: -0.4%), as tech stocks lost ground after Nvidia's disappointing earnings outlook. **Most Asian currencies appreciated**, led by Malaysian ringgit (+0.4%). Reportedly, **Malaysia is considering reintroducing a broad-based consumption tax instead of cutting petrol subsidies to strengthen its finances. EMEA equities were modestly higher while currencies were mostly stronger. The South African rand** outperformed (+0.7%), while CEE currencies were marginally stronger against the euro**.** On the monetary policy front, **Kazakhstan** left its key rate unchanged at 14.25% earlier today, as expected. **Latin American currencies were mostly weaker while equities gained** yesterday**.** The Mexican peso (+0.6%) appreciated after underperforming most of the week. Other Latin American currencies depreciated against the dollar with the Colombian peso (-1.4%) leading the way. Equities closed in the green with Brazil (+0.4%) outperforming. On the monetary policy front, **Guatemala** held its lending interest rate at 5%.

China

Analysts expect China to miss its growth target for 2024. UBS analysts cut their growth forecasts for China, expecting GDP to expand by 4.6% this year (down from 4.9%) and 4% next year (down from 4.6%), citing subdued growth momentum amid the real estate downturn and a tighter fiscal policy stance. The move followed JPMorgan and Nomura economists lowering their 2024 growth projections for China, with forecasts of 4.6% and 4.5%, respectively. The latest Bloomberg survey indicates that 51 out of 74 surveyed economists expect China will miss its annual growth target of 5% this year, with median forecasts at 4.8%. Today**, a notable decline in bank stocks (-3.3%) led Chinese equities lower (CSI 300: -0.3%)**. The fifth largest commercial bank, Bocom, reported a decline in H1 net income, raising concerns about other major lenders' earnings. This led to profit-taking from banking stocks that have outperformed the market this year. **RMB appreciated (+0.5%) to the strongest level in the year**.

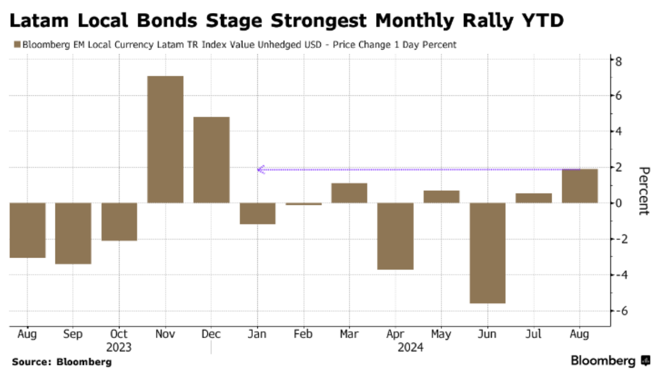
Brazil

Brazilian president Lula selected Gabriel Galipolo as the next central bank chief. Some contacts noted financial markets are concerned the central bank may become more lenient towards inflation once Galipolo and other Lula selected board members begin their roles. Lula has repeatedly demanded the central bank to cut borrowing costs in order stimulate the economy, despite the country currently struggling with bringing down prices. The term structure of one-day bank deposit futures steepened and shifted upwards yesterday. The real (-1%) was modestly weaker earlier in the day but experienced a larger decline following the announcement.



Latam Bond Performance

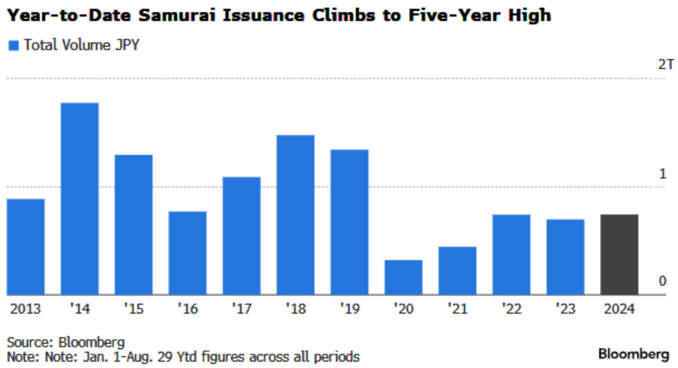
Latin American local currency bonds are experiencing their best monthly performance of the year month-to-date. Bloomberg analysts attribute the August rally to expectations of Fed rate cuts starting next month. As rates start to decline in the US, Latin American countries can continue easing monetary policy without triggering massive cash flows into the US, supporting bond prices. Additionally, analysts highlighted the gains were enough to offset negative impacts from the unwinding of yen carry trades. The Latam local currency bond index is currently up +1% this month, after reaching as high as +1.9% Monday.



Slovenia

Slovenia issued debut yen-denominated Eurobonds. Slovenia sold yen bonds for the first time this week, amounting to 50 bn yen ($346 mn) with maturities of 3 and 5 years. Slovenia's 3-year notes, a country rated AA- by S&P, offered a yield premium similar to that of bonds sold by South Korea in 2023 with the same tenor and similar ratings, according to Bloomberg. The FM said that after this successful debut, Slovenia could return to the yen debt market, and could also consider issuing bonds for Chinese investors. Samurai debt issuance now amounts to 741 bn yen YTD based on Bloomberg data, the highest level for the period seen since 2019, with both Mexico and Indonesia also having issued Samurai bonds this year.

Within Central Eastern and South-Eastern Europe, the Czech Republic, Hungary and Poland already have outstanding yen-denominated Eurobonds, according to Raiffeisen analysts, who note expectations that Romania could debut in the Asian market later this year. **Elsewhere, Bulgaria issued three sovereign Eurobonds yesterday, including its first US-dollar denominated Eurobond in 22 years**.



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Global Financial Indicators

8/29/24 7:58 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5592	-0.6	-1	2	24	17
Europe		4954	0.8	1	3	15	10
Japan		38363	0.0	0	0	19	15
China		3278	-0.3	-1	-3	-14	-4
Asia Ex Japan		73	-0.8	-1	2	9	9
Emerging Markets		43	-0.6	-1	2	9	8
Interest Rates					basis points		
US 10y Yield		3.83	-0.6	-2	-35	-29	-5
Germany 10y Yield		2.25	-1.1	1	-11	-26	23
Japan 10y Yield		0.90	-0.4	2	-13	25	29
UK 10y Yield		4.00	-0.5	4	-5	-43	46
Credit Spreads					basis points		
US Investment Grade		133	0.4	-1	3	-11	-1
US High Yield		370	1.9	-5	17	-46	-16
Exchange Rates					%		
USD/Majors		101.16	0.1	0	-3	-2	0
EUR/USD		1.11	-0.2	0	3	2	1
USD/JPY		144.5	-0.1	-1	-6	-1	2
EM/USD		46.0	0.1	0	1	-5	-5
Commodities					%		
Brent Crude Oil ($/barrel)		78.8	0.2	2	0	-2	4
Industrials Metals (index)		145	-0.4	1	6	2	2
Agriculture (index)		54	0.1	3	-1	-20	-14
Implied Volatility					%		
VIX Index (%, change in pp)		16.1	-1.0	-1.4	-0.5	1.7	3.7
Global FX Volatility		8.7	0.0	0.3	1.4	0.5	0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		105	0.1	-2	2	-26	1
Italy		138	-0.4	1	4	-26	-29
Portugal		61	-1.6	1	-4	-10	-3
Spain		83	-0.4	2	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: 8/29/2024 7:53 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		7.09	0.5	0.7	2	3	0		2.0	0.0	1	-4	-62	-54
Indonesia		15424	0.0	1.1	6	-1	0		6.6	-1.0	-3	-33	24	14
India		84	0.1	0.1	0	-1	-1		7.0	1.8	5	-8	(58.3)	-20
Philippines		56	-0.1	0.1	4	1	-2		5.1	-0.2	-5	-18	-80	-50
Thailand		34	0.4	1.8	6	3	1		2.4	-1.5	3	-16	-50	-28
Malaysia		4.31	0.8	1.6	8	8	7		3.8	-2.1	-2	-1	-9	2
Argentina		949	0.0	-0.5	-2	-63	-15		40.8	94.7	-35	-387	-6890	-4561
Brazil		5.57	-1.0	-1.4	1	-12	-13		11.7	10.5	25	-44	47	126
Chile		913	-0.6	0.4	5	-6	-3		4.9	0.0	-3	-41	-43	1
Colombia		4095	-1.4	-1.6	-1	0	-5		7.7	-2.0	-14	-75	-45	1
Mexico		19.68	-0.2	-0.8	-5	-15	-14		9.1	-0.7	4	-25	33	60
Peru		3.7	0.0	0.3	0	-1	-1		6.6	0.3	1	-39	-37	-12
Uruguay		40	-0.1	0.1	0	-6	-3		9.6	2.6	10	-5	39	3
Hungary		354	-0.1	0.1	3	-1	-2		6.0	-1.0	6	-2	-102	21
Poland		3.87	-0.1	-0.4	3	6	2		4.7	0.4	14	-29	-12	20
Romania		4.5	-0.2	-0.2	2	1	0		6.5	0.3	2	-3	-17	28
Russia		91.2	0.4	0.3	-5	5	-2							
South Africa		17.7	0.7	1.8	4	4	4		8.7	-1.5	1	-22	-68	-46
Türkiye		34.09	-0.1	-0.5	-3	-22	-13		28.5	3.0	14	28	694	175
US (DXY; 5y UST)		101	0.1	-0.3	-3	-2	0		3.64	-2.8	-8	-44	-64	-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		3278	-0.3	-1	-3	-14	-4		152	1	6	-30	-6
Indonesia		7628	-0.4	2	5	9	5		102	-6	-9	-28	6
India		82135	0.4	1	1	26	14		111	0	5	-25	-5
Philippines		6892	-1.0	-1	4	9	7		91	-3	-5	-15	11
Thailand		1357	-0.6	1	4	-14	-4		0	0	0	0	0
Malaysia		1654	-1.3	1	3	14	14		90	-1	2	-7	5
Argentina		1617544	0.1	0	9	137	74		1488	-35	-80	-575	-425
Brazil		137344	0.4	1	8	16	2		221	-4	-1	-9	6
Chile		6386	0.1	-2	-2	5	3		121	-2	0	-6	-4
Colombia		1343	0.1	1	0	21	12		317	5	9	-27	46
Mexico		52440	-0.1	-3	0	-3	-9		323	5	8	-44	-11
Peru		28320	0.3	-1	-5	21	9		142	-1	1	-15	-2
Hungary		72953	0.2	0	-1	28	20		154	-8	-4	-45	5
Poland		84098	0.4	0	0	22	7		106	-6	3	-13	9
Romania		18248	-0.1	-1	-1	38	19		200	-2	7	-12	-1
South Africa		84170	0.2	1	4	13	9		296	-3	-12	-86	-12
Türkiye		9749	-0.1	-2	-9	23	31		299	-2	7	-85	-15
EM total		43	0.7	-1	2	9	8		408	-1	1	30	62

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

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